Boulder Urban Renewal Authority (BURA)
Board of Commissioners Special Meeting

Wednesday, September 29, 2010 / 6:00 p.m.
City Council Chambers / Boulder Municipal Building / 1777 Broadway

AGENDA

1. **Roll Call**

2. **Public Participation**

3. **Election of Officers**

4. **Appointment of Executive Director**

5. **New Business**

   - Review and Comment: Consultants' Economic Analysis Report on Diagonal Plaza Redevelopment Options

6. **Report of Executive Director**

   - Review of Possible Next Steps – Diagonal Plaza Redevelopment

7. **Adjourn**

M E M O R A N D U M

September 24, 2010

TO: BURA Board of Commissioners

FROM: Jane S. Brautigam, City Manager
Liz Hanson, Economic Vitality Coordinator

SUBJECT: September 29, 2010 BURA Special Meeting

Included are the following materials for the September 29, 2010 BURA Special Meeting:

- This memorandum with background information on the BURA By-laws, election of officers, and appointment of the Executive Director
- Meeting Agenda
- Memorandum on Diagonal Plaza Redevelopment: Review of Economic Analysis

The meeting will take place in the City Council Chambers in the Boulder Municipal Building (1777 Broadway) and will begin at 6:00 p.m. Please contact Liz Hanson (hansonl@bouldercolorado or 303-441-3287) if you will be unable to attend.

BURA By-Laws

For the BURA Commissioners' reference, the Boulder Urban Renewal Authority (BURA) By-Laws are included in Attachment A.

The By-Laws were amended at the last BURA meeting on October 17, 2007. The 2007 changes included:

- Amendments to reflect BURA's current role, which does not include the active management of an urban renewal plan.
- Do not establish a specific number of commissioners to enable the mayor to adjust the number of Board members based on future work load requirements
- The office of Second Vice Chair was eliminated.
- In the absence of a Board-appointed Executive Director, the Boulder City Manager will serve as Executive Director.
- The Executive Director may enter into contracts on behalf of the Authority.
- The Office of the City Attorney will serve as Counsel to the Authority.

Election of Officers

The BURA By-Laws require an annual election of officers at its first meeting of the year. The last BURA meeting was conducted on October 17, 2007. Therefore, an election of officers will be conducted at the September 29, 2010 meeting. The following positions will be elected:

- Chairperson
- Vice Chairperson

As an annual reminder, the terms of Board members are below (terms end in March):

KC Becker	2015
Chet Winter	2014
John Wyatt	2011
Rich Wobbekind	2012
Jerry Lee	2012

BURA Executive Director

The responsibilities of the BURA Executive Director are specified in the BURA By-laws. It is recommended that the BURA Commissioners appoint City Manager Jane Brautigam as the BURA Executive Director. The City Manager will designate Liz Hanson, Economic Vitality Coordinator, to oversee many of the day to day operations of BURA.

Attachment A

BY-LAWS OF THE BOULDER URBAN RENEWAL AUTHORITY

ARTICLE I
THE AUTHORITY

Section 1. Name of Authority. The name of the Authority shall be the "Boulder Urban Renewal Authority, as established by Ordinance No. 4411 (1979)." The Boulder Urban Renewal Authority shall be referred to in these by-laws as the "Authority."

Section 2. Seal of Authority. The seal of the Authority shall be in the form of a circle and shall bear the name of the Authority.

Section 3. Office of Authority. The office of the Authority shall be at such place in the City of Boulder, Colorado, as the Authority may designate by resolution from time to time.

Section 4. Authority to Enact By-Laws. The Authority is authorized pursuant to C.R.S. § 31-25-105(1)(a) to make and adopt by-laws, orders, rules and regulations in furtherance of its authority under the Colorado Urban Renewal law, C.R.S. § 31-25-101 *et seq*.

ARTICLE II
OFFICERS AND PERSONNEL

Section 1. Board of Commissioners. In accordance with C.R.S. § 31-25-104(2), authority shall consist of any odd number of commissioners which shall be not less than five nor more than eleven, each of whom shall be appointed by the Mayor of the City of Boulder, Colorado.

Section 2. Officers. The Officers of the Authority shall be a Chairperson, a Vice Chairperson, and a Secretary who shall be Executive Director.

Section 3. Chairperson. The Chairperson shall preside at all meetings of the Authority. Except as otherwise authorized by resolution of the Authority, the Chairperson shall sign all contracts, deeds, checks for the payment of money and other instruments made by the Authority.

Section 4. Vice Chairperson. The Vice Chairperson shall perform the duties of the Chairperson in the absence from the City or incapacity of the Chairperson; and in case of a vacancy in the office of the Chairperson, the Vice Chairperson shall perform such duties as are imposed on the Chairperson until such time as the Authority shall select a new Chairperson from among its members.

Section 5. Temporary Chairperson. In absence or incapacity of the Chairperson and the Vice Chairperson, the remaining Commissioners shall select a member among those present to perform the duties of the Chairperson at any meeting of the Authority.

Section 6. Executive Director. The Authority shall appoint an Executive Director who shall serve for such term as the Authority may establish. The Executive Director shall:

a. Have general supervision over the administration of the affairs and business of the Authority, and shall be charged with the management of the projects of the Authority;

b. Have the care and custody of all funds of the Authority and shall deposit the same in the name of the Authority in such bank or banks as the Authority may select;

c. Sign all orders and checks for the payment of money and shall pay out and disburse such moneys under the direction of the Authority;

d. Keep regular books of account of his transactions and also of the financial condition of the Authority:

e. Give such bond for the faithful performance of his duties as the Authority may designate;

f. Designate in writing some person to perform his duties hereunder in his absence; and

g. Have authority to enter into contracts on behalf of the Authority.

In the absence of an appointment of an Executive Director to the contrary, pursuant to C.R.S. § 31-25-112, the Authority hereby appoints the City Manager of the City of Boulder, Colorado to oversee the day to day operations of the Authority with all of the powers provided and delegated to the Executive Director by the Authority.

Section 7. Secretary. The Executive Director shall serve as the Secretary of the Authority as set forth in Section 10 of this Article. The Secretary shall:

a. Keep the records of the Authority,

b. Act as secretary of the meetings of the Authority and record all votes, and shall keep a record of the proceedings of the Authority in a journal of proceedings to be kept for such purposes, and shall perform all duties incident to this office;

c. Keep in safe custody the seal of the Authority and shall have power to affix such seal to all contracts and instruments authorized to be executed by the Authority: and

d. Designate in writing some person to perform his or her duties hereunder in his or her absence.

Section 8. Additional Duties. The Officers of the Authority and the Executive Director shall perform such other duties and functions as may from time to time be required by the Authority or by the by-laws or the rules and regulations of the Authority.

Section 9. Legal Counsel for the Authority. In the absence of an appointment of legal counsel to the contrary, the Authority appoints, pursuant to C.R.S. § 31-25-112, the City Attorney's Office of the City of Boulder the legal counsel to the Authority. The Authority may employ an attorney or attorneys licensed to practice in the state of Colorado to provide legal counsel to the Authority and the Executive Director on issues relating to Colorado Urban Renewal Law and other general and special legal matters of interest to the Commissioners including representation on condemnation proceedings as may be deemed necessary by the Authority.

Section 10. Election of Officers. The Officers of the Authority shall be elected annually by the Authority at its first meeting of each year and shall assume their duties upon election.

The Executive Director shall serve as the Secretary of the Authority. The Authority retains the authority to appoint a different person as the Secretary in a manner that is consistent with these By-Laws. Any person appointed to fill the office of Secretary or any vacancy therein, shall have such term as the Authority may establish, but no Commissioner of the Authority shall be eligible to this office except as a temporary appointee.

Section 11. Vacancies. Should the office of Chairperson, or Vice Chairperson become vacant, the Authority shall select a successor from its membership at the next meeting to serve for the unexpired term of said office. When the office of Secretary becomes vacant, the Authority shall appoint a successor, as provided in Section 10 of this Article.

Section 12. Personnel. The Authority may from time to time employ such personnel as it deems necessary to exercise its powers, duties, and functions as prescribed by the "Urban Renewal Law" of the state of Colorado, and all other laws of the state of Colorado applicable thereto. The selection, qualifications, duties, and compensation of the Executive Director shall be determined by the Authority, which may delegate to such Director the determination of these matters as to other personnel.

ARTICLE III
MEETINGS

Section 1. Regular Meetings. A regular meeting shall be held without notice at such time and place as may be prescribed by Resolution adopted by the Authority from time to time. In the event any day of a regular meeting shall be a legal holiday, said meeting shall be held on the next succeeding regular day. In the absence of a regular meeting time, the Authority shall conduct its business by way of special meetings.

Section 2. Special Meetings. The Chairperson of the Authority may call a special meeting of the Authority for the purpose of transacting any business designated in the notice thereof:

a. When he or she deems it expedient;

b. Upon the written request of two members of the Authority; or

c. Upon the request the Executive Director

The notice for the special meeting must be delivered to the business or home address, either by way of written notice or e-mail, of each member of the Authority at least twenty-four (24) hours prior to the date of such special meeting. Such notice shall designate the time and place of the special meeting. Any member may waive notice of any meeting and a member's presence shall constitute waiver of notice of that meeting unless the member's written objection to the transaction of any business at the meeting is filed with the Secretary on the ground that the meeting is unlawfully called or convened. At such special meeting no business shall be considered other than as designated in the notice, but if all of the members of the Authority are present at a special meeting, any or all business may be transacted at such special meeting. Notice of special meetings shall be accomplished in accordance with the Colorado Open Meetings law and in a manner that is consistent with City of Boulder meeting notices.

Section 3. Quorum. The power of the Authority shall be vested in the Commissioners thereof in office from time to time. A majority of the Commissioners shall constitute a quorum for the purpose of conducting its business and exercising its powers and for all other purposes, but a smaller number may adjourn from time to time until a quorum is obtained. When a quorum is in attendance, action may be taken by the Authority upon an affirmative vote of the majority of the Commissioners present. A majority of the eligible voting members of the Authority would be required to constitute a quorum.

Section 4. Order of Business. At the regular meeting of the Authority the following shall be the order of business:

(a) Roll call

(b) Reading and approval of minutes of the previous meeting

(c) Consideration of resolutions or general business

(d) Report of the Executive Director

(e) Reports of committees

(f) Unfinished business

(g) New business

(h) Adjournment and place and time of next meeting

Section 5. Manner of Voting. The yeas and nays shall be entered upon the minutes of every meeting, except in the case of elections when the vote may be by ballot, and except where there is a unanimous vote.

Section 6. Open Meetings. The Authority shall make no final policy decisions, pass no resolution, adopt no rule or regulation, or take any action approving a contract calling for the payment of money at any meeting which is not open to the general public.

ARTICLE IV
AMENDMENTS AND SUSPENSION OF BY-LAWS

Section 1. Amendment to By-Laws. The By-Laws of the Authority shall be amended only if:

(a) The notice of the proposed amendment is provided to all Commissioners and published in a paper of general circulation at least ten days before the meeting at which action on the amendment is proposed; or

(b) There has been a notice of motion duly seconded in the previous meeting.

Section 2. Suspension of By-Laws. Any requirement of these By-laws may be waived by a written consent signed by all Commissioners or by a motion approved by all Commissioners present.

ARTICLE V
MISCELLANEOUS

Section 1. Authorization of Contracts. A contract with the United States or other public bodies shall be authorized by written resolution, a copy of which resolution and contract shall be kept with the journal of the proceedings of the Authority.

Section 2. Conflict of Interest. No Commissioner, other officer, or employee of the Authority, nor any immediate member of the family of any such Commissioner, officer, or employee shall acquire, nor shall he or she have any interest, direct or indirect, in any contract or proposed contract for materials or services to be furnished or used in connection with any project. If any Commissioner, other officer, or employee of the Authority owns or controls an interest, direct or indirect, in any property included or planned to be included in any project, he or she shall immediately disclose the same in writing to the Authority, and such disclosure shall be entered upon the minutes of the Authority. Upon such disclosure, such Commissioner, officer, or other employee shall not participate in any action by the Authority affecting the carrying out of the project planning or the undertaking of the project unless the Authority determines that, in the light of such personal interest, the participation of such person in any such act would not be contrary to the public interest. Acquisition or retention of any such interest or willful failure to disclose any such interest shall constitute misconduct in office.

APPROVED AND ADOPTED, this 17TH day of OCTOBER, ~~2006~~ 2007 by the Commissioners of the Boulder Urban Renewal Authority.

By: Susan C. Connelly

________________, Chairperson

ATTEST:

By: ________________
Brad Power, BURA Secretary

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CITY OF BOULDER
BOULDER URBAN RENEWAL AUTHORITY AGENDA ITEM
MEETING DATE: September 29, 2010

AGENDA TITLE: Diagonal Plaza Redevelopment: Review of Economic Analysis

REQUESTING DEPARTMENT:
Community Planning and Sustainability:
David Driskell, Executive Director
Liz Hanson, Economic Vitality Coordinator
Sam Assefa, Senior Urban Designer
Trish Jimenez, Senior Financial Manager
Erik Brown, Economic Vitality Assistant
Stefan Baden, Economic Vitality Intern

OBJECTIVE:
Review and provide comments on the economic analysis prepared by the city's consultant team related to three conceptual redevelopment scenarios for the Diagonal Plaza area and potential next steps.

STATISTICS:

Project Name:	Diagonal Plaza Redevelopment: Review of Economic Analysis
Location:	Diagonal Plaza Study Area, between 28th and 30th Streets, Glenwood Avenue and the Diagonal Highway
Zoning:	Primarily Business Community -1 (BC-1); parcel 15 zoned Industrial General – 1 (IG-1)
Comprehensive Plan:	Community Business, General Business, and High Density Residential

SUMMARY OF KEY ISSUES:
The following questions are provided to guide the BURA Commissioners' discussion:

1) What are the BURA Commissioners' comments on the consultants' economic analysis?
2) What do the BURA Commissioners believe is the most viable development scenario for the Diagonal Plaza area?
   - As one of the last viable "big box" retail sites in Boulder?
   - As a mixed use redevelopment district?
   - Another land use option?
3) Do the BURA Commissioners believe that there is a compelling economic reason for the city to pursue a public-private partnership for the redevelopment of the Diagonal Plaza area? If so, what do the BURA Commissioners recommend as the next steps (e.g. blight study, area planning, further economic analysis), if any?

BACKGROUND:

Diagonal Plaza Shopping Center

The Diagonal Plaza is a commercial center in northeast Boulder. The center was first developed in 1965, with a subsequent phase developed in 1995 near 30th Street. The area is comprised of multiple properties, all controlled by separate owners. Several of the properties have long term leases. The area is mainly zoned BC-1 (Business Community – 1) and the center's physical infrastructure does not meet the city's current land use regulation standards, including circulation, landscaping, and lighting.

The Diagonal Plaza center has been aging and the physical appearance of its buildings and improvements have been declining. It is also the city's most underutilized retail center.

- Over the past several years, primary tenants such as Albertson's, Ross, and PetSmart have moved from the site. Other smaller tenant spaces are also vacant throughout the project, including those in the "mini-mall" indoor retail space and the former Lazy Dog Saloon site along the Diagonal Highway.
- 24 Hour Fitness is the newest large tenant and one of the site's major draws, along with the State of Colorado Drivers' License Office.
- Rite Aid and Sports Authority occupy larger tenant spaces along 28th Street.
- There have been no applications to the city for redevelopment of the site, although in recent months the city has received increased inquiries from developers interested in the site.

A draft list of "Preliminary Criteria for Success" has been developed by staff (see Attachment E) with the goal of establishing *"a new paradigm for the design, development and management of community shopping centers in Boulder in a manner that advances our community's goals related to economic, social and environmental sustainability."* Issues related to retail uses, sales tax, connectivity, public space, mixed uses, and environmental sustainability are identified as being key to the center's redevelopment regardless of the specific development scenario chosen.

The Diagonal Plaza Study

The Boulder Valley Comprehensive Plan focuses on infill and redevelopment as a means of avoiding sprawl. Community discussions about how we can best manage our future focus on the revitalization and redevelopment of underperforming and underutilized properties in our existing urban core. The Diagonal Plaza is one of these properties. The City of Boulder has begun the steps to conduct an initial study of the Diagonal Plaza center and the immediate surrounding area, including evaluating the options related to future redevelopment. The City also seeks information about the feasibility of public-private partnerships or financial options such as the use of the Boulder Urban Renewal Authority (BURA), tax increment financing or other public financing tools. For an overview of urban renewal, tax increment financing, and BURA, please see Attachment A.

The City has defined a study area for the purpose of this initial analysis – the commercial properties generally bounded by the Diagonal Highway, Glenwood Drive, 28th and 30th Streets (see map in Attachment B). The study area includes the Diagonal Plaza shopping center as well as several nearby properties that provide context or may benefit from circulation improvements; it includes 15 properties, each with separate owners. Two of the properties near the northeast corner of Glenwood Avenue and 28th Street have considerable vacancies. Attachments C and D show property, building and property ownership information for the 15 properties. Property owners in the study area were contacted by the City by mail and/or by phone to review the status of the 2010 Diagonal Plaza Study.

The table below shows the aggregate city taxes collected for the 15 properties in the Diagonal Plaza Study Area from 2007 to 2009. Tax revenue collections have declined each year. Also, less than half a million dollars in city sales taxes were collected in 2009. In a general comparison of 2009 sales tax revenues, $2,252,679 were collected from Table Mesa Shopping Center (Broadway and Table Mesa), $1,339,146 from Basemar Shopping Center (Baseline and Broadway), and $1,000,594 from Meadows on the Baseline (Foothills Parkway and Baseline).

Diagonal Plaza RFP Study Area
City of Boulder - Aggregate Taxes

	2007	2008	2009	Total
Sales Tax	$673,943	$547,152	$483,792	$1,704,888
Use Tax	$6,225	$10,170	$6,613	$23,008
Food Tax	$6,465	$5,955	$5,589	$18,009
Property Tax	$910,684	$958,441	$1,002,361	$2,871,486
Total	$1,597,317	$1,521,718	$1,498,355	$4,617,391

A Request for Proposal (RFP) was issued by the City on June 18, 2010 to select a consultant to perform a preliminary economic analysis to inform decision making regarding potential redevelopment of the site under alternative scenarios (e.g. retail or mixed use development). On August 11, 2010 the City selected the Denver-based land economics consulting firm of Economic Planning and Systems (EPS), with a Boulder-based team of OZ Architecture, Scott Cox & Associates, and RRC to complete this study. The resulting study report is included in Attachment F for the BURA Commissioners' review.

ECONOMIC ANALYSIS REPORT:

In the RFP, the City requested an economic analysis of three scenarios to determine the feasibility of the following redevelopment options:

1. Retail big box or mid-box development
2. Horizontal mixed use with a mix of retail and residential uses
3. Vertical mixed use containing both retail and residential uses

Over a period of one month, the consultants made a preliminary determination of feasibility for each scenario, including the following tasks:

- Redevelopment Scenarios – three scenarios of uses and density for feasibility testing and the economic analyses. *Conceptual drawings are illustrative only and are not proposed plans (any actual redevelopment plans would be developed through a public process)*; the key purpose of the illustrations is to is to "test fit" for building square footage, building footprints, residential units, etc.
- Economic and Market Assessment – the consultants' assessment of mid and large format national retailer opportunities for the Boulder market and specifically for the Diagonal Plaza site; the economic benefits of specific tenants and uses are estimated based on the potential to generate net new retail sales activity and tax revenues
- Development Feasibility – evaluates the financial feasibility of the three development scenarios by comparing future project costs to future project revenues; *acquisition cost estimates are a rough approximation used for the analysis, since no actual value of the site can be determined without an appraisal* (and would be based on a wide variety of factors)
- Redevelopment Options – identifies the public financing that could be used to address costs associated with redevelopment and outlines city implementation options

A summary of the findings is included on pages 5 through 7 of the consultants' report. Based on the report, each of the three scenarios would require some level of public subsidy or investment. The feasibility of Scenario 1 (commercial only with big box retail) and Scenario 2 (horizontal mixed use) is questionable even with the maximum public financing. The report indicates that Scenario 3 (vertical mixed use) may be feasible with tax increment financing, provided the development plans configure retail in a way that is appealing to the commercial market.

Scenario 1 has the largest “feasibility gap” of $52.2 million, primarily due to the estimated land cost and lower density of the site (e.g. there is a limit to how much “big box” can fit on this site given parking needs and site configuration.) Only a few big box retailers are listed as having “high” potential and these retailers are generally seeking a project land cost that is substantially lower than the report’s rough estimation of the site’s value. The report also raises questions as to the appeal of the Diagonal Plaza as a regional retail site versus a community retail center.

The consultants’ findings raise the following questions for the City, and the Diagonal Plaza site:

Is a new big box store important for Boulder’s economy?

A. If yes, is Diagonal Plaza the only likely place that a big box can be located? (And if not Diagonal Plaza, then where?)
B. If yes, what level of public subsidy or other strategy is appropriate for the city to pursue in achieving this objective?
C. If no, should the City pursue other redevelopment options for Diagonal Plaza at this time?
D. If no, should the City pursue other options for interim improvements to the Diagonal Plaza site to enhance its appearance, function, and tax revenue?

The following questions are provided to guide the BURA Commissioners’ discussion. BURA comments will be forwarded to the Planning Board and City Council for their review.

1) What are the BURA Commissioners’ comments on the consultants’ economic analysis?
2) What do the BURA Commissioners believe is the most viable development scenario for the Diagonal Plaza area?
   - As one of the last viable “big box” retail sites in Boulder?
   - As a mixed use redevelopment district?
   - Another land use option?
3) Do the BURA Commissioners believe that there is a compelling economic reason for the city to pursue a public-private partnership for the redevelopment of the Diagonal Plaza area? If so, what do the BURA Commissioners recommend as the next steps (e.g. blight study, area planning, further economic analysis), if any?

NEXT STEPS:

- November 4 - Brief the Planning Board on the Diagonal Plaza Study and economic analysis report.
- November 16 - City Manager makes a recommendation to the City Council.
- Depending on City Council direction, next steps may include a blight study, area planning efforts, further analysis of redevelopment options, or no immediate action.

ATTACHMENTS:

A. Urban Renewal: An Overview
B. Diagonal Plaza Study Area Map
C. Diagonal Plaza Study Area - Property and Building Data
D. Diagonal Plaza Study Area - Property Ownership
E. Redeveloping Diagonal Plaza - Preliminary Criteria for Success
F. Consultants' Report - Diagonal Plaza Feasibility Study

Attachment A

Urban Renewal: An Overview
September 24, 2010

Prepared by City of Boulder Economic Vitality Staff

Urban Renewal

Urban renewal is a form of land redevelopment usually seen in urban areas. The process of urban renewal involves taking urban land that has deteriorated, either physically or economically, and redeveloping it to renew the property and its surroundings' value.

An "Urban Renewal Project" is defined in State Statute 31-25-102 as:

> *Undertaking activities for the elimination and for the prevention of the development or spread of slums and blight and may involve slum clearance and redevelopment, or rehabilitation, or conservation, or any combination or part thereof in accordance with and urban renewal plan. Such undertakings and activities may include*
>
> a) *Acquisition of slum or blighted area*
> b) *Demolition and removal of buildings and improvements*
> c) *Installation, construction, or reconstruction of streets, utilities, parks, playgrounds, and other necessary improvements need to carry out the "urban renewal plan"*
> d) *Disposition of any property acquired by the Authority including sale, initial leasing, or retention by the authority for fair value of such property as with its use in the urban renewal plan*
> e) *Repair, alteration, and rehabilitation of buildings or other improvements in accordance with the urban renewal plan.*
> f) *Acquisition of any other property where necessary to eliminate unhealthful, unsanitary, or unsafe conditions, lessen density, eliminate obsolete or other uses detrimental to the public welfare, or otherwise remove or prevent the spread of blight or deterioration or to provide land for needed public facilities.*

By Colorado State Statute 31-25-102 an urban authority may only proceed with an urban renewal plan, and designate and urban renewal area, if the area in question is determined to be blighted. The judgment is based on the results of a blight study. Colorado urban renewal law was updated this year with the passing of House Bill 10-1107. The bill limits the use of agriculture lands in urban renewal projects.

Blight Study

A "blighted area" is a term defined in Colorado State Statute 31-25-103. There are 11 factors of blight identified in the law, and four of them must be found for an area to be declared an urban renewal area, unless there is no objection by the property owner(s) and tenants, in which case only one factor of blight must be present. If eminent domain is used, five factors of blight must be found. The following factors are used to determine if an area is blighted:

a) Slum, deteriorated, or deteriorating structures;
b) Predominance of defective or inadequate street layout;
c) Faulty lot layout in relation to size, adequacy, accessibility, or usefulness
d) Unsanitary or unsafe conditions
e) Deterioration of site or other improvements
f) Unusual topography or inadequate public improvements or utilities
g) Defective or unusual conditions of title rendering the title non-marketable
h) The existence of conditions that endanger life or property by fire or other causes
i) Buildings that are unsafe or unhealthy for persons to live or work in because of building code violations, dilapidation, deterioration, defective design, physical construction, or faulty or inadequate facilities
j) Environmental contamination of buildings or property
k) The existence of health, safety, or welfare factors requiring high levels of municipal services or substantial physical underutilization or vacancy of sites, buildings, or other improvements

If the study finds the area in question to be blighted, the urban renewal authority may proceed with redevelopment planning under an urban renewal project. A finding of blight also gives the city the right to condemn property using eminent domain.

Tax Increment Financing (TIF)

Tax Incremental Financing (TIF) is a tool utilized by urban renewal authorities (URAs) to fill the gap between the total cost of a redevelopment project and the level of private financing it can obtain. TIF utilizes the future sales tax and/or property tax revenue gains from redevelopment to fund the redevelopment itself. The URA estimates the expected tax value of the redeveloped site and subtracts the current tax value, known as the "base valuation." The difference between the two is the "tax increment." The city keeps the base valuation, while the tax increment is used to pay off any bonds or other financing used to fund the project. Under Colorado state law, the URA can capture the tax increment for up to 25 years after the approval of the plan to use TIF.

History of the Boulder Urban Renewal Authority

The Boulder Urban Renewal Authority (BURA) was created by the Boulder City Council in March 1979. BURA consists of five commissioners who serve five year terms. BURA Commissioners are appointed by the Mayor of the City of Boulder. BURA is responsible for encouraging the redevelopment of property within City Council-established redevelopment districts. BURA also provides input regarding redevelopment issues and programs to the City Manager. The BURA Board of Commissioners meets as needed, rather than on a regular, monthly basis.

The current BURA commissioners are: KC Becker, John Wyatt, Richard Wobbekind, Jerry Lee, and Chet Winter.

Historically, BURA has only used urban renewal for large commercial projects. BURA has undertaken only two urban renewal projects: the redevelopment of Crossroads Mall in the early 1980's and the Ninth and Canyon redevelopment where the St. Julien Hotel and a public parking structure stand today. In both projects, the City partnered with a private developer. Each urban renewal proposal is evaluated on a project by project basis to ensure compliance with state statutes.

Boulder Valley Regional Center (BVRC) and Crossroads Mall

1979

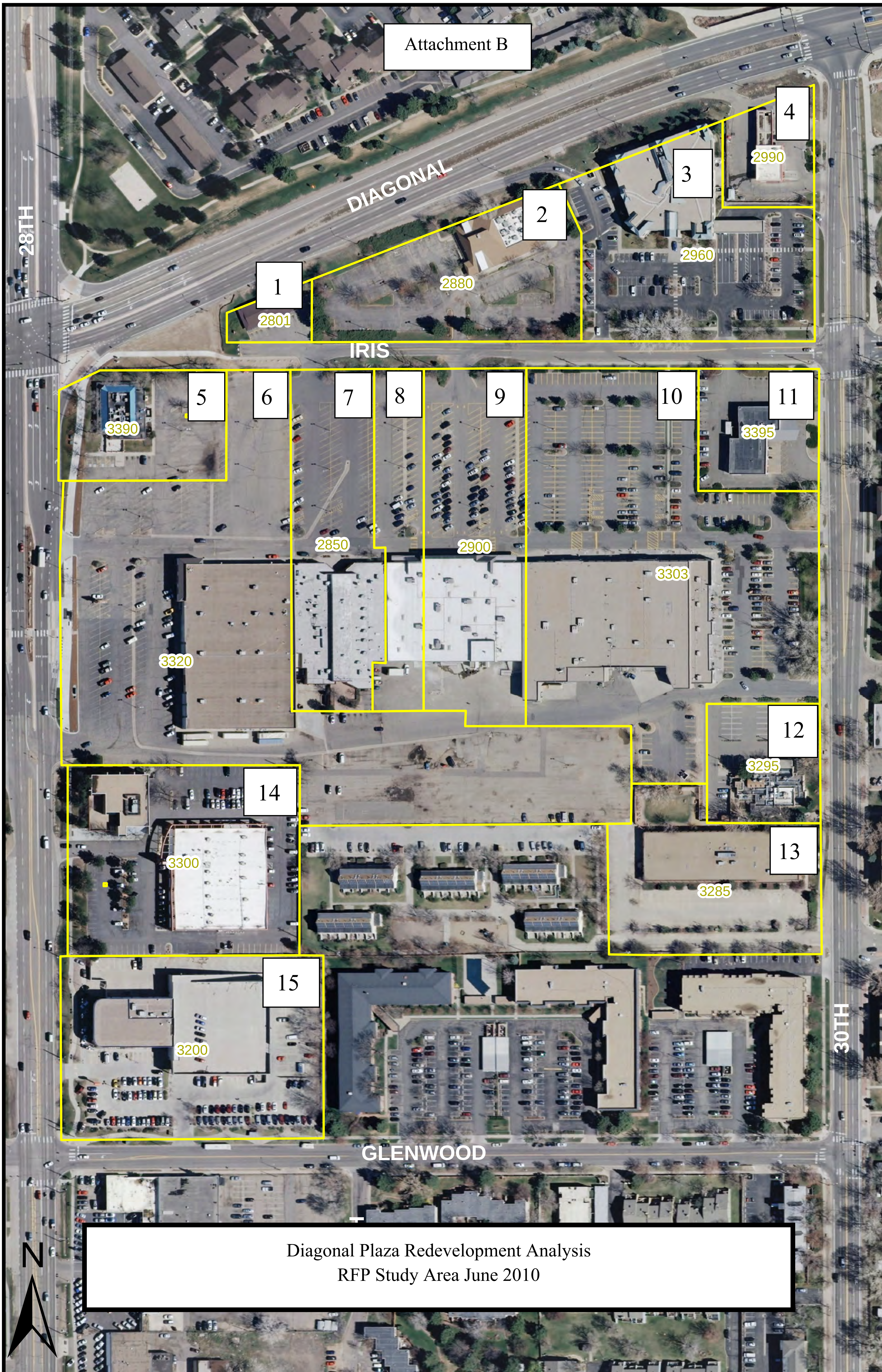
February	Boulder City Council votes unanimously to use "persuasive and legal powers" to expand shopping facilities between 28th and 30th, north of Arapahoe, and to improve transportation in the area.
March	City Council creates the Boulder Urban Renewal Authority.
April	City Council approves the Boulder Valley Regional Center (BVRC) Urban Renewal Plan.
April	The Macerich Company purchases Crossroads Mall for $12 million.
June	Boulder voters approve Tax Increment Financing (TIF) method to finance redevelopment.
December	Macerich selected as developer and May D&F (now Macy's) commits to build a store at Crossroads.
1981	Boulder voters reaffirm support for Crossroads' expansion through a second election brought by a citizen petition.
1982	BURA secures financing for a $20 million bond issue.
1983	The expansion of Crossroads Mall opens in August with May D&F and new retail stores in the enclosed north end of the mall. The mall is approximately 850,000 square feet.
1987	The BVRC Urban Renewal Plan is revised to include more specific planning and development goals for the portion of the BVRC surrounding Crossroads Mall.

9th and Canyon

1994	
December 14	St. Julien Partners purchase parcel at 9th and Canyon
1995	
July 11	City Council approves reviewed Urban Renewal Plan
1996	
March 5	City Council, acting as the Central Area General Improvement District (CAGID) Board of Directors, denies inclusion of CAGID property in the St. Julien concept review for the Urban Renewal Plan
May 7	St. Julien submittal of a hotel project only on Canyon (on St. Julien property only)
December 5	Planning Board denies St. Julien project on Canyon
1997	
January 21	City Council, acting as the CAGID Board of Directors, authorizes CAGID inclusion on the St. Julien concept plan in accordance with the Urban Renewal Plan
1998	
July 21	City Council approval of Letter of Intent with St. Julien Partners
	City Council approval of CAGID Bond election for the garage
November 3	CAGID Election for garage is successful
1999	
September 21	Civic Use Task Force recommendations endorsed by City Council
November 18	BURA meeting and review of site review submittal
2000	
February 17	Planning Board approval of St. Julien/CAGID site (7-1) and VAC use review
May 17	BURA approval of the BURA/City of Boulder Cooperation Agreement
June 6	City Council approval of Civic Users Letter of Intent
	City Council approval of BURA/City of Boulder Cooperation Agreement
2002	
May 21	St. Julien Hotel/ CAGID garage submit for building permit
2003	
January 16	Request to BURA for loan for civic infrastructure
April 2	BURA approval of the Cooperation Agreement

April 7	Building Permit approval
May 6	City Council approves the project agreements including Condominium Declaration, Joint Development Agreement, etc.
	City Council approves the preliminary Official Statement for CAGID bond sale of $12,500,000
May 21	Groundbreaking Ceremony
June 19	CAGID Bond Sale
2004	
November	CAGID garage opens
2005	
February	Hotel opens

Attachment B



Diagonal Plaza Redevelopment Analysis
RFP Study Area June 2010

Attachment C

Diagonal Plaza Study Area
Building and Land Information

Source : Boulder County Assessor Records

Plot #	ADDRESS	BLDGCLASS	BLDGYEAR	BLDGSQFT	AREASQFT	ZONING	LANDUSE	PREVREVIEW	FLOOD	BLDGVALUE	LANDVALUE
1	2801 IRIS AV	MERCHANDISING	1960	2,707.00	10,591.00	BC-1	GB			$ 214,400.00	$ 290,100
2	2880 DIAGONAL HY	RESTAURANTS	1979	10,322.00	81,448.00	BC-1	GB	P-78-39	500Ye	$ 48,400.00	$ 1,192,900
3	2960 DIAGONAL HY	BANKS	1995	44,301.00	108,584.00	BC-1	GB	SI-94-5, UR-94-6	100Ye	$ 4,073,900.00	$ 2,326,100
4	2990 DIAGONAL HY	SERVICE STATION	1969	1,961.00	25,725.00	BC-1	GB	SR, SI-97-7	100Ye	$ 155,000.00	$ 537,000
5	3390 28TH ST	RESTAURANTS	1975	5,902.00	48,749.00	BC-1	CB	PUD		$ 503,200.00	$ 869,600
6	3320 28TH ST	MERCHANDISING	1965	48,968.00	291,900.00	BC-1	CB			$ 1,033,400.00	$ 2,961,100
7	2850 IRIS AV WEST	MERCHANDISING	1983	25,089.00	79,871.00	BC-1	CB			$ 1,562,700.00	$ 1,626,100
8	2850 IRIS AV EAST		0	-	42,408.00	BC-1	CB				$ 924,000
9	2900 IRIS AV	MERCHANDISING	1973	38,226.00	96,912.00	BC-1	CB			$ 2,580,600.00	$ 2,108,800
10	3303 30TH ST	MERCHANDISING	1995	117,596.00	247,771.00	BC-1			100Ye	$ 4,151,600.00	$ 3,948,400
11	3395 30TH ST	MERCHANDISING	1977	7,259.00	39,678.00	BC-1	CB	SR-80-19	100Ye	$ 335,000.00	$ 640,000
12	3295 30TH ST	RESTAURANTS	1969	6,896.00	36,417.00	BC-1	CB		500Ye	$ 600,000.00	$ 822,000
13	3285 30TH ST	TOTAL SCHOOL	1981	54,874.00	83,587.00	BC-1				$ 1,410,300.00	$ 1,639,400
14	3300 28TH ST	OFFICES	1982	16,983.00	119,046.00	BC-1	CB	P-82-1, P-81-4, P-79-58		$ 2,135,300.00	$ 1,706,500
15	3200 28TH ST	AUTO DEALER	1996	39,881.00	129,952.00	IG	HR			$ 2,943,800.00	$ 3,265,900
Total				420,965.00	1,442,639.00					$21,747,600.00	$ 24,857,900

Attachment D

Diagonal Plaza - Owner Info

Plot #	Address	Owner Name	Owner In Care Of	Owner Contact	Owner Address
1	2801 IRIS AV	ACE SELF STORAGE PARTNERSHIP LLP		Jack Lacy	1590 CRESS CT BOULDER, CO 80302
2	2880 DIAGONAL HY	AZTEC CORPORATION	C/O GARDNER CARTON & DOUGLAS L		191 N WACKER DR STE 3700 CHICAGO, IL 60606
3	2960 DIAGONAL HY	ELEVATIONS FEDERAL CREDIT UNION		Gerry Agnes	P.O. Box 9004 BOULDER, CO 80301
4	2990 DIAGONAL HY	FILL N GO COMPANY INC		Prasanna Sfrestfa	1461 MAGPIE CT GOLDEN, CO 80403
5	3390 28TH ST	SMELLAGE ROBERT H JR BOWLIN PROPERTIES LLC	C/O THOMPSON TAX & ACCOUNTING		1735 MARKET ST SUITE A 400 PHILADELPHIA, PA 19103
6	3320 - 3338 28TH ST	CEDAR ENTERPRISES CORP	RITE AID CORP/REAL ESTATE TAX		PO BOX 3165 HARRISBURG, PA 17105-3165
7	2850 IRIS AV East	DIAGONAL LLC	C/O HALBERT & ASSOC	Larry D Burnett	PO BOX 19622 BOULDER, CO 80308
8	2850 IRIS AV West	ABS RM LEASE OWNER LLC			250 E PARK CENTER BLVD BOISE, ID 83726
9	2900 IRIS AV	WAL PROPERTIES LLC			6345 NORTHWEST 23RD CT BOCA RATON, FL 33496
10	3303 30TH ST	R W RINDERKNECHT COMPANY		John Rinderknecht	1777 HARRISON ST STE P2 DENVER, CO 80210
11	3395 30TH ST	PISCIOTTA LARRY F UND 25 PCT & ETAL	C/O BRIDGESTONE/FIRESTONE INC	Larry Pisciotta	5500 E. QUINCY AVE. CHERRY HILLS CO, 80113
12	3295 30TH ST	EVANS CLAUD R TRUSTEE	C/O CORK AND CLEAVER	Doug Evans	1278 S Chambers Rd. AURORA, CO 80017-4046
13	3285 30TH ST	NAROPA UNIVERSITY		Sandy Goldman	2130 ARAPAHOE AVE BOULDER, CO 80302
14	3300 28TH ST	REM INVESTMENT LLC HILGERS FAMILY TRUST ET AL		John Schwartz	2121 S ONEIDA ST STE 635 DENVER, CO 80224
15	3200 28TH ST	3200 LLC		Harris Faberman	6800 N 79TH ST UNIT 200 NIWOT, CO 80503

Attachment E

Redeveloping Diagonal Plaza as a Green Retail District

PRELIMINARY CRITERIA FOR SUCCESS / Working Draft July 2010

Goal: *Establish a new paradigm for the design, development and management of community shopping centers in Boulder in manner that advances our community's goals related to economic, social and environmental sustainability.*

Retail Uses / Sales Tax

- Make the highest and best use of a significant area of commercially zoned land (designated "community business" in the Boulder Valley Comprehensive Plan)
- Prioritize retail uses that meet unmet needs in the existing mix of retail opportunities in Boulder

Connectivity

- Extend the street grid and pedestrian/bicycle connections to and through the site so that it functions as part of an area rather than an island
- Create clear relationships between the shopping area and adjacent uses and neighborhoods

Public Space

- Create a "there" there—a destination civic space where people can congregate and spend time apart from "just shopping"
- Create active, lively street frontages
- Avoid large surface parking lots
- Incorporate public art

Mixed Use Neighborhood District

- Incorporate other uses in the site, particularly housing, potentially in the form of live/work spaces that could contribute toward the district's commercial life, create affordability, and provide a housing type not widely available elsewhere in the city

Environmental Sustainability

- Incorporate comprehensive transportation demand management strategies to provide incentives for use of alternative transportation modes for people traveling to the site, including walking, biking and transit
- Incorporate renewable energy sources to the maximum extent feasible, including active and passive solar and ground source cooling/heating with the goal of creating a net-zero development
- Use low impact development techniques to manage storm water onsite
- Incorporate significant landscaping to reduce heat island effects, manage storm water, and contribute to the district's attractiveness and livability

Attachment F

Final Report

Diagonal Plaza Feasibility Study

The Economics of Land Use

Prepared for:

City of Boulder

Prepared by:

Economic & Planning Systems, Inc.

with:

OZ Architecture | Scott, Cox & Associates | RRC Associates

Economic & Planning Systems, Inc.
730 17th Street, Suite 630
Denver, CO 80202-3511
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303 623 9049 fax

Berkeley
Sacramento
Denver

www.epsys.com

September 23, 2010

EPS #20857

Table of Contents

List of Tables

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1. INTRODUCTION AND SUMMARY OF FINDINGS

This report summarizes the analysis and conclusions of Economic & Planning Systems (EPS) regarding the initial redevelopment feasibility of the Diagonal Plaza Shopping Center and adjacent properties in Boulder, Colorado. The study was performed under a contract dated September 2010 between the City and EPS and including subconsultants OZ Architecture, Scott, Cox & Associates, and RRC Associates.

Background

The City of Boulder is focused on infill and redevelopment of underperforming and underutilized properties such as Diagonal Plaza in the urban core as a means of avoiding sprawl and addressing important community needs. Diagonal Plaza has been previously identified as one of the few remaining sites in the urban core for regional retail commercial uses. The recent loss of the anchor grocer and several other key tenants, the related decline in retail sales, and the for-sale listing of a portion of the shopping center are all indicative that the existing shopping center's value has declined and that redevelopment options may be potentially viable.

The primary Diagonal Plaza property is a 250,000 square foot community level shopping center on 20 acres formerly anchored by Albertson's and Sports Authority. Originally built in the 1960s, the center has been modified and added onto over the years. The most recent addition, built in 1995, included 117,000 square feet comprised of two mass merchandisers (formerly Ross and PetSmart) as well as additional inline retail space facing east towards 30th Street. The primary center is comprised of five separate parcels with three additional pad sites, each under separate ownership.

The City defined an initial study area surrounding the aging center extending from the Diagonal Highway (SH 119) south to Glenwood Street and from 28th Street east to 30th Street as shown on **Figure 1**. The study area contains approximately 657,000 square feet of buildings on 15 parcels of land totaling 33.12 acres as shown in **Table 1**. The study area has experienced increasing vacancies and declining retail sales and sales tax revenues. Total annual sales tax revenues have declined by 28 percent of the last two years, from $674,000 in 2007 to $484,000 in 2009.

Table 1
Existing Parcels
Diagonal Plaza Feasibility Study

Parcel	Address	Description	Size (Acres)	Size (Sq. Ft.)	Bldg Size	Year Built	Zoning
1	2801 IRIS AV	Ace Self Storage	0.24	10,591	2,707	1960	BC-1
2	2880 DIAGONAL HY	Bar and Grill	1.87	81,448	10,322	1979	BC-1
3	2960 DIAGONAL HY	Credit Union	2.49	108,584	44,301	1995	BC-1
4	2990 DIAGONAL HY	Gas Station	0.59	25,725	1,961	1969	BC-1
5	3390 28TH ST	Mexican Restaurant	1.12	48750	5902	1975	BC-1
6	3320 - 3338 28TH ST	Rite Aid/Sports Authority	6.70	291,901	48,968	1965	BC-1
7	2850 IRIS AV	Mall	1.83	79,871	25,089	1983	BC-1
8	2850 IRIS AV		0.97	42,408	0	0	BC-1
9	2900 IRIS AV	Albertsons	2.22	96,912	38,226	1973	BC-1
10	3303 30TH ST	PetSmart/Ross/Vics	5.69	247,772	117,596	1995	BC-1
11	3395 30TH ST	Firestone	0.91	39,679	7,259	1977	BC-1
12	3295 30TH ST	Cork	0.84	36,417	6,896	1969	BC-1
13	3285 30TH ST	Naropa	1.92	83,587	54,874	1981	BC-1
14	3300 28TH ST	Office	2.73	119046.9708	16983	1982	BC-1
15	3200 28TH ST	Dealership	2.98	129,952	39,881	1996	IG
Total			**33.12**	**1,442,646**	**420,965**		
Redevelopment Site Total			**23.48**	**1,022,920**	**310,943**		

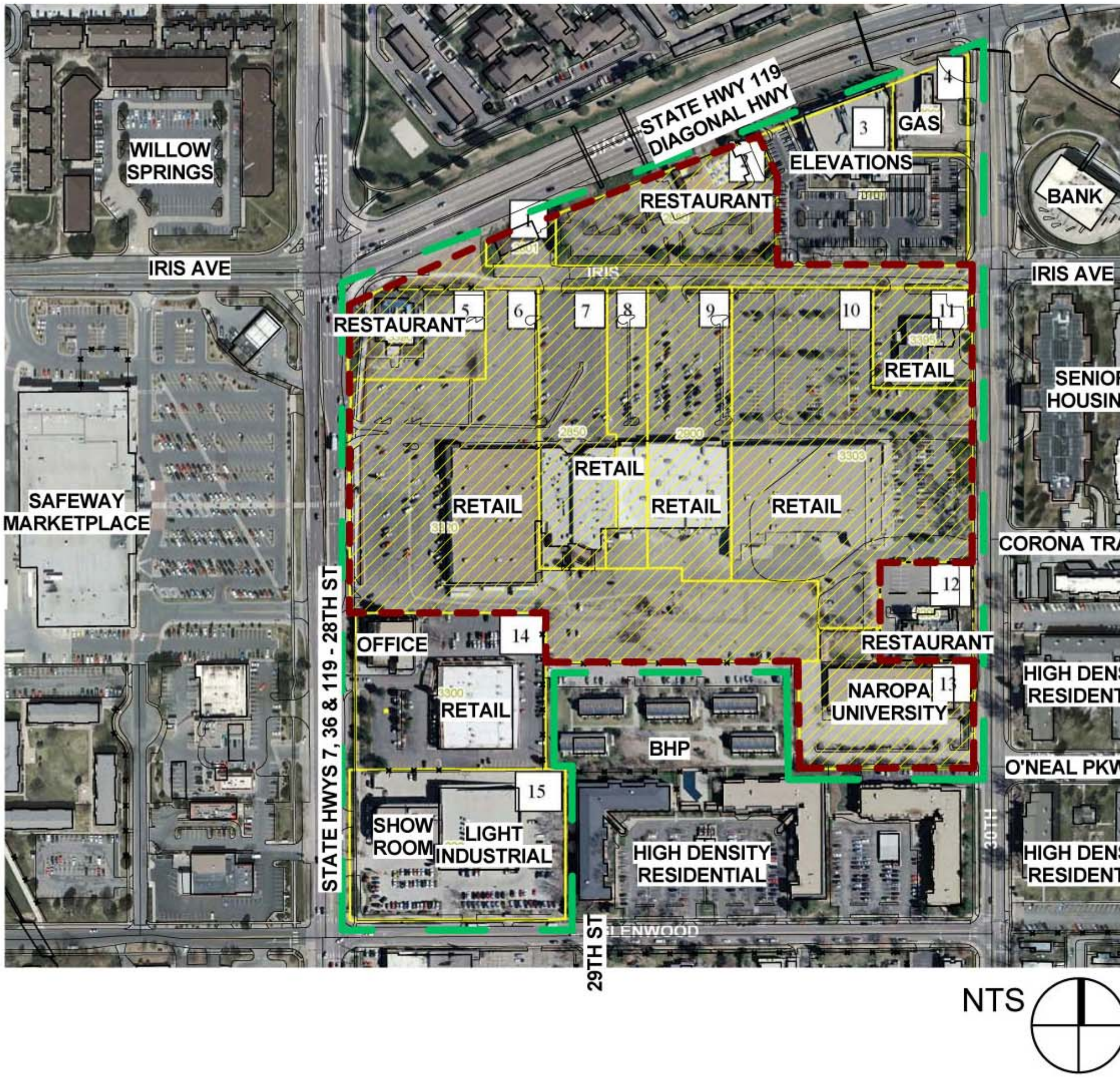
Source: Economic & Planning Systems; City of Boulder

H:\20857-Diagonal Plaza Redevelopment Analysis\Models\[20857-Diagonal Plaza Financial Model.xls]A-Study Area Summary

Based on an analysis of property area conditions, the project team defined a slightly smaller project area that excludes five of the parcels with more stable existing uses. The project area comprised of 10 of the 15 parcels totaling 23.48 acres as shown.

The City requested a focused and discrete feasibility analysis of three scenarios: 1) retail big box or mid box development; 2) horizontal mixed use with a mix of retail and residential uses; and 3) vertical mixed use containing both retail and residential uses for the specific purpose of determining the feasibility of redevelopment options. Given the complexity of the site uses, ownership, and estimated property values, it is expected that urban renewal would be required to assemble the property and to provide public financing assistance to the project. The property could be assembled by the urban renewal authority and sold to a master developer. Alternatively, a developer could assemble the land with City assistance.

In either case, development costs will include site acquisition and assembly; on and off-site infrastructure; and demolition and remediation. The revenue analysis will quantify the supportable land values for parcel sales and value of vertical development based on the net operating income from potential leases in the identified development programs in each scenario. A planning level pro forma is used to estimate project feasibility returns using accepted measures of financial return for purposes of comparison. The financial model also determines if there is a financing gap to achieve an acceptable developer return and identify the amount of public financing needed to close the gap.



LEGEND:

AREA FOR PROPOSED REDEVELOPMENT

STUDY AREA BOUNDARY

OZ ARCHITECTURE

EPS
RRC ASSOCIATES
SCOTT COX & ASSOC

DIAGONAL PLAZA
REDEVELOPMENT
FIGURE 1

Scope of Work

The EPS Team conducted an initial economic and financial analysis of the three development scenarios to make a preliminary determination of feasibility and relative level of benefits under each option. The following major tasks were completed in the course of the one month long study.

- **Redevelopment Scenarios** – OZ Architecture and SCA evaluated site and area conditions as well as identified opportunities and constraints. Based on both physical and economic conditions, the project team then identified the parcels to be included in the three scenarios and created a base map for project. The project team, with input and review from City staff, developed a site plan and building program for the three defined redevelopment scenarios. OZ also provided an urban design concept for each scenario.
- **Economic and Market Assessment** – EPS conducted a limited update of large and mid format retail/commercial development opportunities for Boulder and the Diagonal Plaza site from the Boulder Regional Retail Strategy report completed in 2005. The potential benefits of the major potential tenants were then determined based on estimates of net new retail sales and related sales tax revenues to the City. Market potentials for residential uses were updated from studies completed for the City in 2008 on the Boulder Transit Village Plan.
- **Development Feasibility** – EPS developed a planning level pro forma financial model and evaluated the feasibility of the three scenarios. The analysis estimates related development costs and future development value based on market sales and lease rates of the vertical development program, as well as determines project returns and needed levels of public financing.
- **Redevelopment Options** – Based on the market and feasibility analysis, the project team identified the potential redevelopment options available to the City and provides its analysis of the benefits and risks associated with each course of action. The implementation options available to the City are also summarized.

Limitations

The accuracy of a financial feasibility analysis is dependent on the level of detail in the defined development program inputs related to project costs, revenues, and timing. This study is an initial planning level analysis for the primary purpose of identifying feasible redevelopment options for the Diagonal Plaza property. A limited amount of site analysis and planning was conducted for the purpose of defining the three discernibly different scenarios for evaluation and testing. If the City decides to proceed with establishing an urban renewal area to facilitate the redevelopment of the area, a blight study will be required to document conditions of blight and determine the eligible parcels and the appropriate URA boundary as defined by CRS 31-25-103. The formation of an URA would also require the City to complete an urban renewal plan. This plan would include more comprehensive site analysis and planning, including consideration of a full range of development alternatives and approaches.

Summary of Findings

1. ***The Diagonal Plaza site has the potential to accommodate between 169,000 and 243,000 square feet of retail, 192,000 to 490,000 square feet of residential, and a 52,000 square foot hotel (136 rooms).***

   Based on the redevelopment goals identified by the City, the EPS team developed three redevelopment plans featuring a range of development magnitude. Scenario 1 (Commercial Only) features 243,000 square feet of retail uses and a 52,000 square foot hotel served by surface parking. Scenario 2 (Horizontal Mixed Use) features 180,000 square feet of retail space, 192,000 square feet of residential (160 units) and a 52,000 square foot hotel. Both the retail and hotel are surfaced parked, while the residential includes structured parking. Scenario 3 (Vertical Mixed Use) features a higher density mix of 169,000 square feet of retail, 490,000 square feet of residential (402 units), and a 52,000 square foot hotel. This scenario features a mix of surface, structured, and underground parking. Office uses could be substituted for retail and residential uses in Scenarios 2 and 3 based on changing market conditions and demand.

2. ***The Diagonal Plaza site is currently a community level retail site with limited appeal to more regional retail uses.***

   Regional retail uses in Boulder are concentrated in a ½ mile square area from 28th on the west to 30th on the east and from Arapahoe on the south to Pearl on the north. The Diagonal Plaza study area is located outside this area about one mile to the north. The Diagonal Plaza location currently serves a two to three mile radius, rather than the larger regional trade area, and does not command the same uses or rent levels as are present further south. Despite this fact, due to a limited supply of suitable sites, some prospective tenants and anchors would be willing to consider locating at Diagonal Plaza. These tenants would not, however, be willing to pay a premium for the site, nor would they be willing to invest in extraordinary site costs such as structured parking.

3. ***A redeveloped Diagonal Plaza site would be attractive to a limited number of larger format stores interested in access to the Boulder market.***

   There are three anchor stores, Lowe's, Wal-Mart, and King Soopers Marketplace with an expressed interest in the Boulder market that would consider the Diagonal Plaza location. Based on store criteria as well as broker and tenant input, Sam's Club, Kohl's, and JCPenney are also possible anchor tenants. The larger format stores are a destination anchor use and can therefore attract customers to more peripheral locations, such as the Diagonal Plaza site. These anchor stores range in size from 88,000 to 125,000 square feet and most often purchase vacant property to develop their own store.

4. ***Diagonal Plaza could also potentially attract a number of mid box mass merchandisers given the number of store options and the lack of competitive sites.***

   The dynamics surrounding the development of mid box stores at this location are more complicated. If there is a large format anchor, it increases the potential for the co-location of additional mid box stores. A department store anchor is likely to attract apparel and home furnishings stores as synergistic uses. Wal-Mart is a less attractive anchor for most mid boxes. Absent a large format anchor, the ability to attract the smaller mass merchandisers is primarily a function of critical mass and co-tenancy. In power centers, mass merchandisers can be found in increments of three to five stores. In supermarket anchored community shopping centers, there can be two to three mid box stores similar to the tenant mix previously found at Diagonal Plaza. As a result of co-tenancy, it is difficult to predict with any certainty the future opportunity for retail development at a site with undetermined costs and anchor tenants. Although many of the potential mass merchandisers are already in Boulder, there are nine identified stores with at least a Medium probability ranking. Some will locate in existing spaces; however, there will be other potential tenants that arise and become opportunities for the site that have not been identified at this time.

5. ***The retail anchor stores with highest potential fail to generate the desired levels of economic benefits to the City as measured by net new sales tax revenues.***

   Total retail sales need to be reduced to account for non taxable sales from food and sales transfers (cannibalization) in order to estimate the net new sales tax to the City. The Medium and High potential anchor tenants generate approximately $200,000 to $600,000 in new sales tax revenues per year. Only Costco would exceed these estimates, however Costco is a Low probability option over the next five years at a minimum.

6. ***Scenario 1: Commercial Only Redevelopment is not feasible even with the maximum public investment package applied.***

   The Commercial Only scenario is not feasible as tested. At a targeted 15 percent return over cost, the project has an estimated deficit of $41 million. Even with a maximum public financing investment package, additional sensitivity testing of lower land prices and higher property sales rates are insufficient to address the size of the gap. The land price would need to be significantly lower and the increment of additional development density would need to be greater to overcome the current deficit. Proceeding with Scenario 1 would require substantial investment from other City funds.

7. ***Scenario 2: Horizontal Mixed Use Redevelopment is also not feasible even with a full public financing package.***

   Scenario 2 faces similar financial challenges as Scenario 1 as it does not add enough additional development density to support the estimated acquisition and development costs. The project revenue, including vertical development value, is not sufficient to achieve feasibility at the estimated acquisition prices resulting in a $29 million gap. Financial feasibility would require an acquisition cost of $25 per square foot or lower combined with an aggressive public financing package. Similar to Scenario 1, in order to achieve financial feasibility under base case acquisition costs, the City will likely need to tap into other City funds.

8. ***Scenario 3: Vertical Mixed Use Redevelopment is financially feasible with tax increment financing.***

   Scenario 3, as tested, achieves a positive developer return of $12 million (9 percent over costs) but is shy of the identified required developer return of 15 percent. The addition of public financing results in a financially feasible project. Scenario 3 requires the least level of financial subsidy of all the scenarios. Under the base case land cost assumption ($38 per square foot), only property TIF is required to overcome the feasibility gap. At a land cost assumption of $45 per square foot, feasibility can be achieved using 100 percent of property TIF, a 20 mill Metro District and a 0.5 percent PIF.

9. ***Although Scenario 3 works from a financial perspective, it may not prove to be viable as tested from a market perspective.***

   Scenario 3 is the most feasible as tested on a **static** basis. However, the amount, type, and configuration of retail development are unproven and would require additional planning analysis to refine the development mix. Also, this level of retail development would require an extended period of absorption and lease up, and tested overtime using an annual cash flow model would impact its feasibility. The mixed use village concept meets more of the City's urban design objectives, but may not be able to attract significant regional retail uses, and therefore may sacrifice the City's economic development objectives. The City should carefully evaluate whether the redevelopment of the property for its land use/urban design benefits, rather that economic development benefits, warrants a significant redevelopment investment.

10. ***The City's other implementation options include not pursuing redevelopment or property assembly on an incremental basis.***

    If the City decides to do nothing, it is likely that the major vacant spaces in the shopping center and on the peripheral pad sites will be re-leased to other users due to the limited supply of significant commercial space in the City. The center is an older commercial property in the mature years of the real estate investment cycle. Typically, these older properties are leased to lower rent uses and continue to decline in quality and value until which time significant reinvestment and/or redevelopment are feasible. This pattern of real estate decline and reinvestment is likely to take place slower in Boulder than it would in a less constrained market. However, future tenants are likely to make some level of investment to utilize the property that will extend its useful life, similar to the lease of Albertson's to 24 Hour Fitness. In particular, the newer vacant mid box spaces formerly occupied by PetSmart and Ross will likely get reused within a two to three year time horizon given the overall lack of similar space in the City. It is however hard to determine the quality of future tenants, the level of investment that might be made, and how long the useful life of the center might be extended.

    The City could also decide to take a more incremental approach to the development of the property. Absent an overall development plan, and given the large number of separate property owners, a number of smaller redevelopment projects are likely to take place over time. If these projects met economic development goals, and if they have a documented financial need, the City could consider the use of urban renewal and TIF on a more reactive project by project basis.

    Finally, the City could also consider further planning and analysis of the Scenario 3 option, which demonstrates that a denser mixed use project has the potential to be feasible. The concept as developed, attempts to mix a number of mid box stores with residential and potentially office and live/work vertical uses. If this concept meets the City's objectives, a number of refinements could be tested including a more aggressive acquisition plan that increases density over the gross 0.7 FAR option tested, expands the size of the project area allowing for more development density, and refines the retail development program to create a better balance of mid box and ancillary retail space.

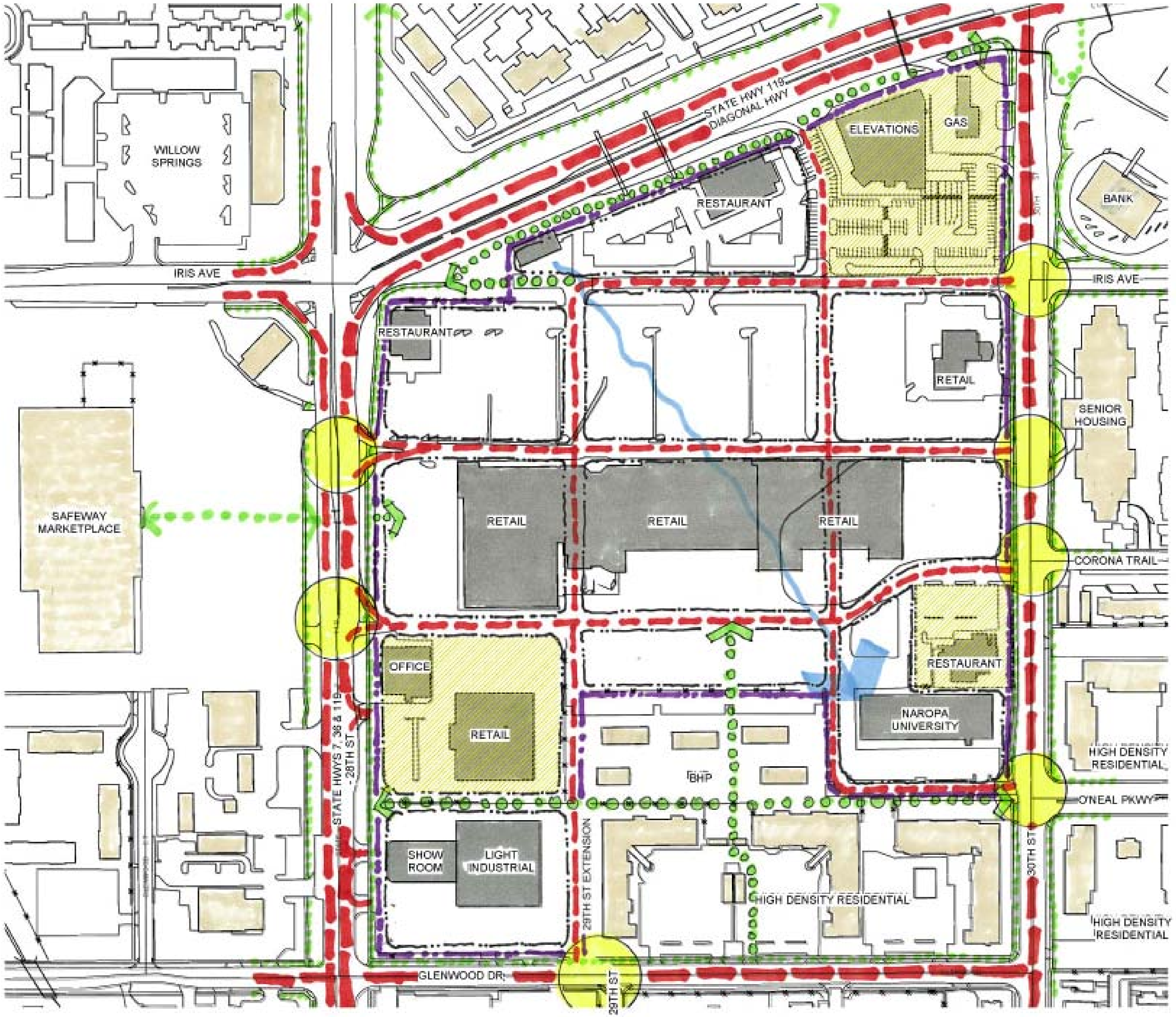
2. REDEVELOPMENT SCENARIOS

This section summarizes the preliminary site analysis and the definition of the three scenarios for feasibility testing. The project team first toured the study area and compared field conditions with the Assessor's parcel data on existing land and building sizes, ownership and estimated market and assessed values. An opportunities and constraints analysis was performed to identify the parcels to be included in the scenarios and to identify access, circulation, and utility conditions and requirements. The three scenarios were then defined based on the market inputs (Section 3), land use conditions, and applicable zoning. All three scenarios were developed with the "criterion for success" outlined by the City regarding the redevelopment of Diagonal Plaza as a Green Retail District. For each scenario, a site plan and urban design concept are provided for illustrative purposes.

Site Reconnaissance

The project team conducted a field survey of the study area to identify opportunities and constraints and to define a project area for analysis as shown in **Figure 2**. In terms of opportunities, the site is one of the last large parcels with the potential for redevelopment for larger scale redevelopment within the City. It has excellent access from 28th, the Diagonal Highway (SH 119) and 30th street. It is however, constrained by existing viable uses on some of the pad sites notably the Elevations (CU) Credit Union on the northeast corner and Cork's Restaurant at the corner of 30th and Corona Trail. The multitenant retail and office buildings on Parcel 14 have had recent improvements and are also assumed to be stable land uses.

The project area for development of the three scenarios was therefore reduced to exclude these three parcels. Because the vacant dealership at 28th and Glenwood Drive (Parcel 15) became an isolated outparcel, it was also excluded from the project area. The actual definition of a potential urban renewal area will be subject to a blight study analysis should the City proceed in that direction. The development area used for all three scenarios includes Parcels 1, 2, 5, 6, 7, 8, 9, 10, 11, and 13 with a total of approximately 23.5 acres of land. It is assumed that the existing 311,000 square feet of older commercial buildings would be demolished.



OPPORTUNITIES
- CREATE "GATEWAY" INTO BOULDER
- CREATE "SENSE OF PLACE"
- CONNECTIVITY – EXTEND STREET GRID AND PEDESTRIAN/BICYCLE CONNECTIONS THROUGH THE SITE (AS INFORMED BY THE N. 28TH STREET TRANSPORTATION NETWORK PLAN)
- GENERATE REVENUES FOR THE CITY OF BOULDER
- INCORPORATE LOW IMPACT DEVELOPMENT FEATURES AND SUSTAINABLE ELEMENTS.
- ONE OF LAST SIGNIFICANT REDEVELOPMENT PARCELS IN CITY OF BOULDER THAT CAN ACCOMMODATE LARGER FORMAT RETAIL STORES
- INTRODUCE MIXED USES (BETTER MEET OVERALL COMMUNITY OBJECTIVES AND SUSTAINABILITY)
- ADDRESS "GAPS"/DEFICIENCIES IN EXISTING RETAIL "MIX"
- DEVELOP SITE TO HIGHEST AND BEST USE.

CONSTRAINTS
- AWKWARD SHAPED SITE.
- LIMITED FRONTAGE/VISIBILITY FROM HIGH VOLUME 28TH STREET.
- LIMITED FULL MOVEMENT ACCESSIBILITY TO SITE FROM 28TH STREET
- LIMITED ACCESS FROM DIAGONAL
- VIABLE USES ON EXISTING PAD SITES
- DISTANCE FROM PRIMARY REGIONAL RETAIL CONCENTRATION SOUTH OF PEARL STREET.
- SIGNIFICANT UTILITIES IN IRIS POTENTIALLY REDUCE REDEVELOPMENT FLEXIBILITY
- POOR SITE IMAGE (LARGE VACUOUS PARKING LOTS, OUT OF DATE BUILDINGS, ETC.).
- NO "SENSE OF PLACE"
- UNDERDEVELOPED SITE – NOT DEVELOPED TO HIGHEST AND BEST USE.
- EXISTING BUILDINGS NOT CONDUCIVE TO PHASING.
- OWNERSHIP PATTERNS NOT CONDUCIVE TO AN INTEGRATED PLAN
- OWNERSHIPS POTENTIALLY DIFFICULT/EXPENSIVE TO ASSEMBLE.

VICINITY MAP

LEGEND:
- EXTENDED STREET GRID (PER N. 28TH ST. TNP)
- BLOCKS CREATED FROM EXTENDED STREET GRID
- EXISTING WALKS
- PROPOSED PEDESTRIAN CONNECTIONS (PER N. 28TH ST. TNP)
- STUDY AREA BOUNDARY
- SLOPE OF SITE (NW TO SE)
- EXISTING BUILDINGS W/IN STUDY AREA BOUNDARY
- STABLE LAND USE

0' 50' 100' 200' 400'

EPS
RRC ASSOCIATES
SCOTT COX & ASSOC

DIAGONAL PLAZA REDEVELOPMENT BOULDER, CO, 80203

09.17.2010 | 110126.00 • CONCEPTUAL PACKAGE•

OPPORTUNITIES AND CONSTRAINTS

PHONE: 303.449.8900
FAX: 303.449.3886
WWW.OZARCH.COM

FIGURE 2

Development Scenarios

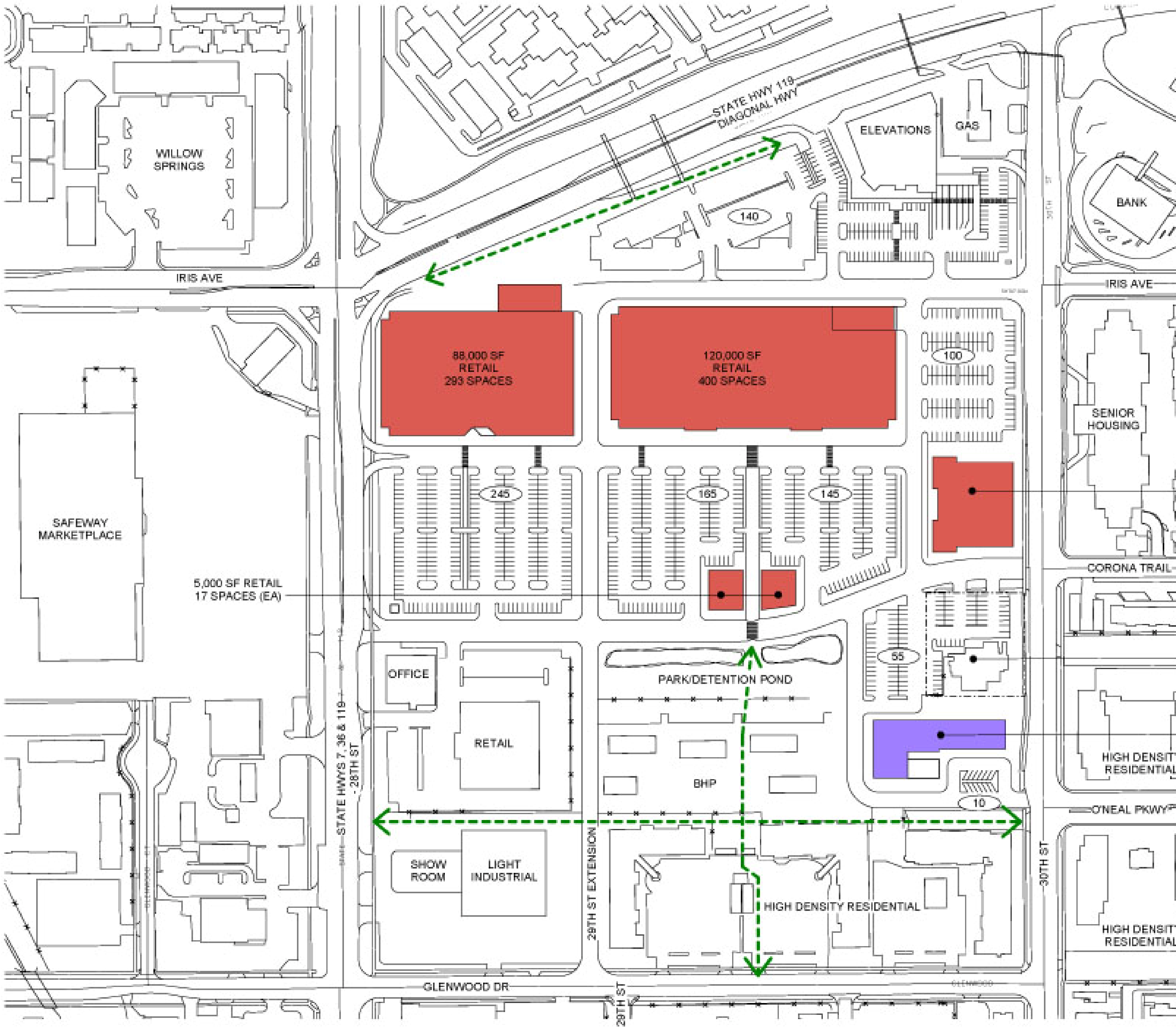
The City requested three scenarios developed for feasibility testing as follows:

- **Scenario 1: Commercial Only Redevelopment** – A primary focus on retail development, including the addition of one or more big box or mid-box retail stores, with other commercial tenants.
- **Scenario 2: Horizontal Mixed Use Redevelopment** – A redevelopment with new commercial development (which may include the addition of one or more box retail stores) and new residential development on the study area property.
- **Scenario 3: Vertical Mixed Use Redevelopment** – A redevelopment with new commercial development (which may include the addition of one or more box retail stores) and new residential development on study area property and/or on upper levels of commercial uses.

Scenario 1: Commercial Only

This scenario includes a total of 243,000 square feet of retail space comprised of two large format stores with 120,000 square feet and 88,000 square feet respectively. It also includes a 25,000 square foot mid box store and two 5,000 square foot pads as shown in the site plan in **Figure 3**. The amount of commercial space is largely limited by the parking requirements which are defined by zoning at 1 space per 300 square feet of use. A 136-room hotel with 52,000 square feet is planned for Parcel 13 (currently the Naropa School building). Additional hotels are an identified market need in the 28th Street corridor and can be developed as a pad use in a shopping center development. The hotel is placed adjacent to the existing Cork Restaurant which is a complementary use. The site development features of the site plan are summarized below and also illustrated on the urban design concept in **Figure 4**.

- Landscape/Gateway element at northwest corner of site.
- Connectivity: Provides limited vehicular and pedestrian connectivity in relation to N. 28th Street Transportation Network Plan (TNP).
- Incorporates 29th Street extension north from Glenwood per the N. 28th Street TNP.
- Promenade located on axis with proposed north-south pedestrian path.
- Assumes hotel will share 100 parking spaces with surface commercial spaces off-setting parking demands.



DIAGONAL PLAZA DATA TABLE

LAND USE	FLOOR AREA	PRKG RQD	TOTAL PRKG PROVIDED	SHARED PRKG (NOT INCLUDED IN TOTALS)
RETAIL	243,000 SF	810	810	N/A
HOTEL	52,000 SF (136 KEYS)	150	50	100
RESIDENTIAL	N/A	N/A	N/A	N/A
TOTALS	295,000 SF	960 SPACES	860 SPACES	100 SPACES

NOTE:
RETAIL @ 1 SP/300 SF
RESIDENTIAL @ 1.25 SP/ MF UNIT (AVG); 1.5 SP/ TH UNIT
HOTEL @ 1 SP/KEY + EMPLOYEES

LEGEND: LAND USE
- RETAIL
- HOTEL
- RESIDENTIAL
- MIXED-USE
- PARKING GARAGE
- PEDESTRIAN PATH

VICINITY MAP

EPS
RRC ASSOCIATES
SCOTT COX & ASSOC

DIAGONAL PLAZA REDEVELOPMENT BOULDER, CO, 80203
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SCENARIO 01 - COMMERCIAL ONLY REDEVELOPMENT
SITE PLAN

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FIGURE 3

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SCENARIO 01 - COMMERCIAL ONLY REDEVELOPMENT
ILLUSTRATIVE SITE PLAN

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FIGURE 4

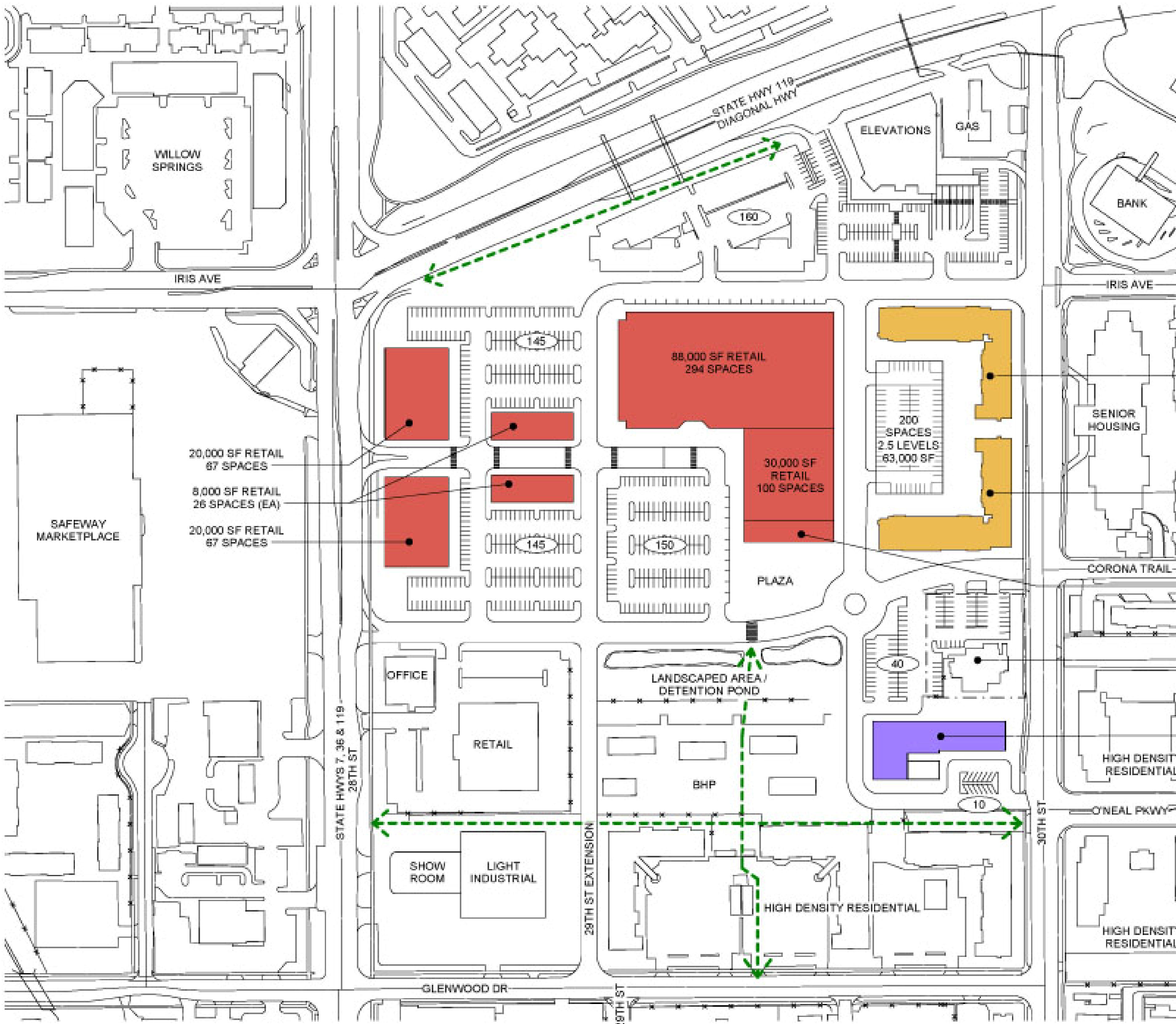
Scenario 2: Horizontal Mixed Use

This scenario includes a total of 424,000 square feet of buildable space comprised of 180,000 square feet of retail space, 160 housing units with 192,000 square feet of space, and a 136 room hotel with 52,000 square feet of space as shown in **Figure 5**.

The retail space includes an 88,000 square foot large format store and adjacent 30,000 square foot junior anchor oriented to the west. The 28th Street frontage contains two smaller 20,000 square foot mid boxes to frame the street front and mitigate the impact of the large required parking fields. There is also 16,000 square feet of in-line retail built as a small “main street” on the front door entry to the retail portion of the site, and 6,000 square feet on the south side of the mid box to activate the adjacent plaza.

The eastern 30th Street frontage is developed with a 160 unit residential building with a freestanding parking garage interior to the site serving the residential uses only. Similar to Scenario1, a 136-room hotel with 52,000 square feet is planned for Parcel 13 adjacent to the existing Cork Restaurant shown to remain in this scenario. The site development features of the site plan are summarized below and also illustrated on the urban design concept in **Figure 6**.

- Landscape/Gateway element at northwest corner of site.
- Provides improved vehicular connectivity by extending 29th Street north to Iris.
- Plaza is aligned with the north-south path per the N. 28th Street TNP.
- In line retail shops face onto plaza and provide pedestrian interest (e.g., coffee, small restaurant, outdoor dining, or farmer’s market) and community gathering space.
- Circle at east end of Corona slows traffic adjacent to plaza.
- High Density residential on east side of site provides a “face” onto 30th Street, responding to the senior housing residential uses to the east.
- Assumes hotel will share 100 parking spaces with surface commercial spaces (off-setting parking demands).
- 600 surface parking spaces provided for retail. High Density residential parking provided in a 2.5 level structure.



DIAGONAL PLAZA DATA TABLE

LAND USE	FLOOR AREA	PRKG RQD	TOTAL PRKG PROVIDED	SHARED PRKG (NOT INCLUDED IN TOTALS)
RETAIL	180,000 SF	600	600	N/A
HOTEL	52,000 SF (136 KEYS)	150	50	100
RESIDENTIAL	192,000 SF (160 MULTI-FAMILY UNITS), 63,000 SF GARAGE	200	200	N/A
TOTALS	424,000 SF	950 SPACES	850 SPACES	100 SPACES

NOTE:
RETAIL @ 1 SP/300 SF
RESIDENTIAL @ 1.25 SP/ MF UNIT (AVG); 1.5 SP/ TH UNIT
HOTEL @ 1 SP/KEY + EMPLOYEES

LEGEND: LAND USE
- RETAIL
- HOTEL
- RESIDENTIAL
- MIXED-USE
- PARKING GARAGE
- PEDESTRIAN PATH

VICINITY MAP

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SCENARIO 02 - HORIZONTAL MIXED USE REDEVELOPMENT
SITE PLAN

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FAX: 303.449.3886
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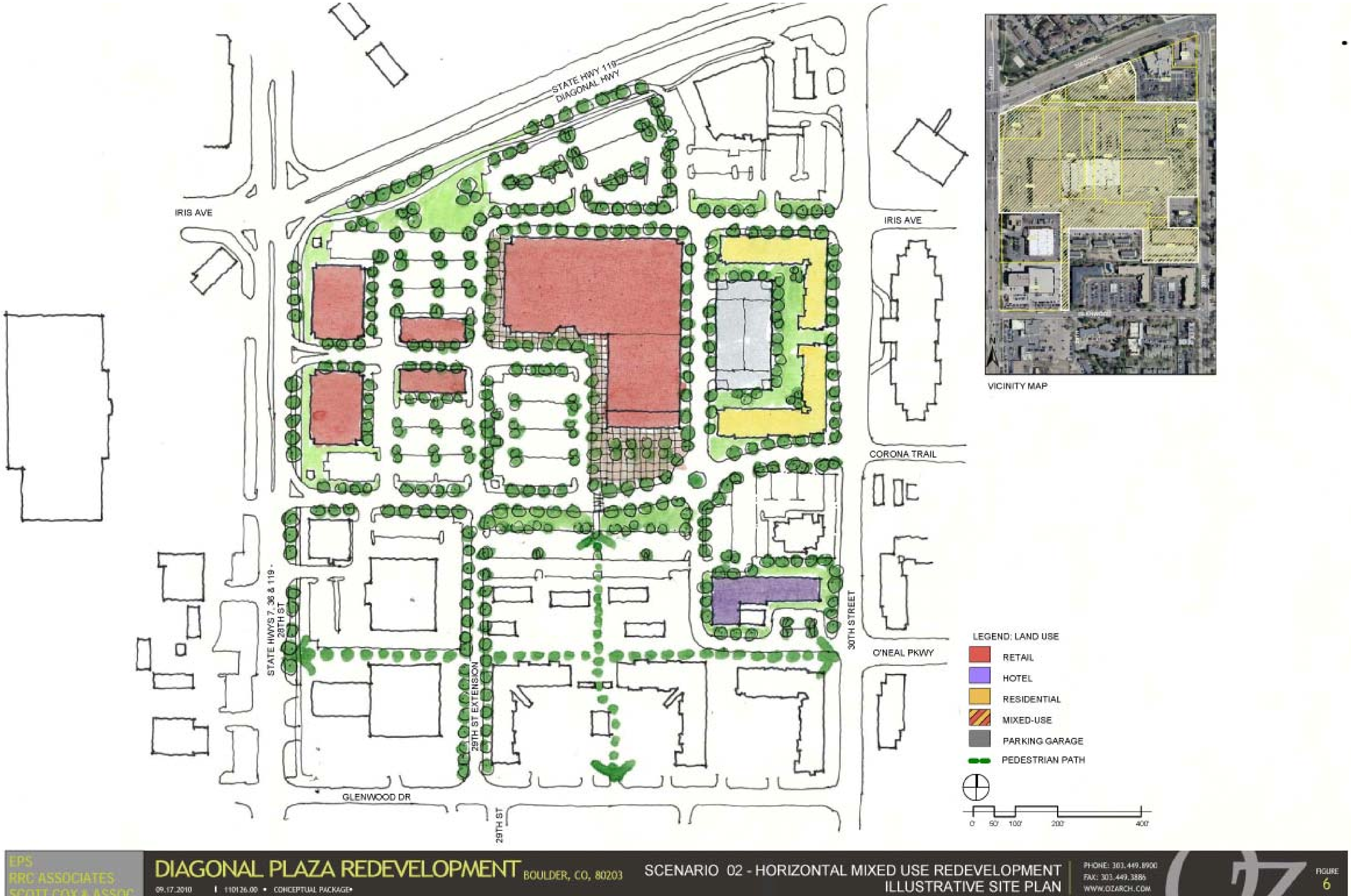
FIGURE 5


STATE HWY 119
DIAGONAL HWY
IRIS AVE
IRIS AVE
CORONA TRAIL
O'NEAL PKWY
GLENWOOD DR
29TH ST
29TH ST EXTENSION
STATE HWYS 7, 36 & 119 - 28TH ST
30TH STREET
VICINITY MAP
LEGEND: LAND USE
RETAIL
HOTEL
RESIDENTIAL
MIXED-USE
PARKING GARAGE
PEDESTRIAN PATH
0' 50' 100' 200' 400'
EPS
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DIAGONAL PLAZA REDEVELOPMENT BOULDER, CO, 80203
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SCENARIO 02 - HORIZONTAL MIXED USE REDEVELOPMENT
ILLUSTRATIVE SITE PLAN
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FIGURE
6

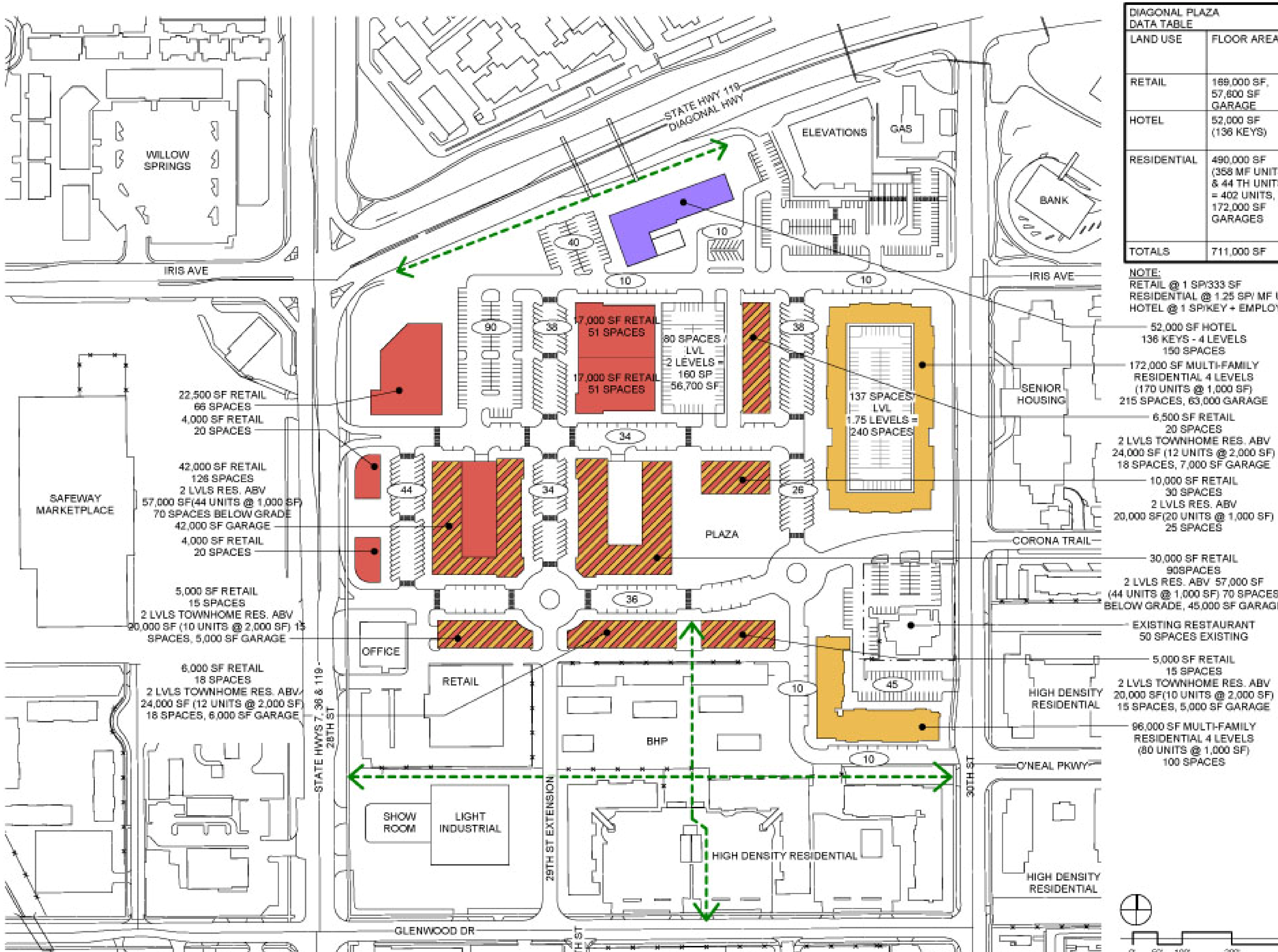
Scenario 3: Vertical Mixed Use

This scenario includes a total of 711,000 square feet of building area comprised of 169,000 square feet of retail space; 358 multifamily and 44 townhouse housing units totaling 490,000 square feet; and a 136 room hotel with 52,000 square feet of space. The primary focus is mixed use development and creating an urban pedestrian oriented street grid as shown in **Figure 7**.

The project includes four mid box retailers totaling 98,500 square feet and ranging in size from 17,000 to 42,000 square feet. The project also includes 70,500 square feet of smaller retail users. The retail frontage includes a 22,500 square foot junior anchor and two 4,000 square foot pads along the 28th Street frontage. The interior is lined with three story mixed use buildings in a main street format along the primary south entryway lining up with Corona Trail. This includes 16,000 square feet of ground floor retail below two-story townhouses facing two larger residential mixed use buildings. The first features a first level junior anchor and the second contains 30,000 square feet of ancillary retail space.

The residential component of the project includes 44 upper level townhouses and 88 multifamily units on upper floors of mixed use buildings. It also includes 250 housing units in two separate higher density projects fronting on 30th Street. The 136 room hotel included in Scenarios 1 and 2 is moved to the Diagonal Highway frontage (Parcels 1 and 2). The urban design characteristics of this scenario are shown in **Figure 8** and summarized below.

- Landscape/Gateway element at northwest corner of site.
- Open space between small retail pads on 28th Street provide opportunity to celebrate 28th Street pedestrian crossing, aligned on axis with east/west Safeway “promenade”.
- Plaza is aligned with north-south pedestrian path (per N. 28th Street TNP).
- In line retail shops face onto plaza and provide pedestrian interest (coffee, small restaurant, outdoor dining, farmers market, etc.) and community gathering space.
- Fine grain internal street system maximizes vehicular and pedestrian connectivity.
- Circles on main entry street (Corona extended) serve to slow vehicle speeds.
- First floor retail uses flank main entry to site from 28th Street (Corona extended).
- Parking for mixed use is accommodated in surface, on street parallel and diagonal spaces and in parking structures, both free standing and under buildings in two of the mixed use blocks.
- Parking for high density residential provided in parking structure (north residential block on 30th Street) and under building parking (south residential block on 30th Street).
- High Density residential on east side of site provides a “face” onto 30th Street, responding to the Senior Housing residential uses to the east.
- Hotel located at north end of site along Diagonal, providing increased visibility.
- Assumes hotel will share 91 spaces in the adjacent parking garage (off-setting parking demands).



DIAGONAL PLAZA
DATA TABLE

LAND USE	FLOOR AREA	PRKG RQD	TOTAL PRKG PROVIDED	SHARED PRKG (NOT INCLUDED IN TOTALS)
RETAIL	169,000 SF, 57,600 SF GARAGE	508	350 SURFACE + 160 GARAGE = 510	N/A
HOTEL	52,000 SF (136 KEYS)	150	50	91
RESIDENTIAL	490,000 SF (358 MF UNITS & 44 TH UNITS) = 402 UNITS, 172,000 SF GARAGES	448 MF + 66 TH = 514	240 GARAGE, 140 BELOW GRADE, 75 SURFACE & 66 TH = 521 SPACES	N/A
TOTALS	711,000 SF	1,172 SPACES	1,081 SPACES	91 SPACES

NOTE:
RETAIL @ 1 SP/333 SF
RESIDENTIAL @ 1.25 SP/ MF UNIT (AVG); 1.5 SP/ TH UNIT
HOTEL @ 1 SP/KEY + EMPLOYEES

LEGEND: LAND USE
- RETAIL
- HOTEL
- RESIDENTIAL
- MIXED-USE
- PARKING GARAGE
- PEDESTRIAN PATH

VICINITY MAP

EPS
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SCENARIO 03 - VERTICAL MIXED USE REDEVELOPMENT
SITE PLAN

PHONE: 303.449.8900
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FIGURE 7


STATE HWY 119
DIAGONAL HWY
IRIS AVE
IRIS AVE
CORONA TRAIL
O'NEAL PKWY
30TH ST
STATE HWYS 7, 36 & 119 - 28TH ST
29TH ST EXTENSION
29TH ST
GLENWOOD DR
VICINITY MAP
LEGEND: LAND USE
RETAIL
HOTEL
RESIDENTIAL
MIXED-USE
PARKING GARAGE
PEDESTRIAN PATH
0' 50' 100' 200' 400'
EPS
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SCENARIO 03 - VERTICAL MIXED USE REDEVELOPMENT
ILLUSTRATIVE SITE PLAN
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FIGURE
8

3. ECONOMIC AND MARKET ASSESSMENT

This section updates EPS' assessment of mid and large format national retailer opportunities for the Boulder market and specifically for the Diagonal Plaza site. This information is based on direct contacts with retailers and tenant brokers to update data contained in the Boulder Regional Retail Strategy Report from 2005. It also includes market and development inputs on the value of residential, office, and hotel uses as input to the development programming for the three scenarios. In addition to the identification of supportable retail uses, the economic benefits of specific tenants and uses are estimated based on the potential to generate net new retail sales activity and related sales tax revenues.

Market Assessment

The primary concentration of regional retail uses in Boulder is located from 28th on the west to 30th on the east and from Arapahoe on the south to Pearl on the north. Within this roughly ½ mile square area are the majority of the City' s existing national regional retail centers and tenants including the recently developed Twenty Ninth Street project and a number of smaller shopping centers and freestanding stores. The Diagonal Plaza study area is located approximately 1 mile north of Pearl Street and not part of this primary shopping area. From the perspective of the retail brokerage community, the Diagonal Plaza location is more of a community level retail site serving a two to three mile trade area and not a regional site serving the entire City and surrounding areas. It currently does not attract the same uses or rent levels as are present further to the south.

Because of the lack of sites to accommodate larger retail uses within the City, some prospective tenants and anchors would be willing to consider locating at Diagonal Plaza as noted in the tenant evaluation below. Although it is premature to talk about specific land and lease rates, a number of the users willing to consider the Diagonal Plaza location/site added the following types of caveats - they would be unwilling to pay a premium for the site, or they would not be willing to invest in extraordinary site costs (e.g. structured parking).

Large Format Stores

EPS contacted retail tenant representatives and brokers for seven large format stores active in the Front Range regarding their interest in the Boulder market and their potential interest in the Diagonal Plaza location should the property be cleared, assembled, and available in the near future (estimated at approximately three years). Because this project is at this point hypothetical and several years into the future, it is only possible to solicit unofficial comments. Based on comments received, including in some cases from multiple sources, EPS has characterized the potential for each anchor as a Low, Medium, or High potential opportunity with Low being a 25 percent +/- probability and Medium as a 50 percent +/- probability. A retailer rated High indicates that it is interested in the market and have indicated it would be willing to locate at Diagonal Plaza if price, terms, and conditions met its criteria.

There are at least nine large format stores active in the Boulder trade area in the Warehouse/ Superstore, Discount Department Store, and Home Improvement Center categories reviewed, as shown in **Table 2**. With a population of approximately 100,000, the City of Boulder, for most of these anchor stores, is a one store market. Home Depot has a new store at Twenty Ninth Street and Target has a recently expanded store so these retailers are not considered prospects. The remaining seven large format stores are reviewed below.

Wal-Mart (High) – Wal-Mart has long been interested in a Boulder store, having proposed as store at 28th and Jay in 2005. They would be interested in building a store in the 90,000 to 120,000 square foot range for a standard one-story discount store (not a supercenter). A supercenter, if adequate land were available, would be in the 160,000 to 180,000 square foot range. They would want to own their own site and would not be willing to do structured parking at this location nor would they be willing to pay a major premium for the land.

Sam's Club (Medium) – This is a membership warehouse owned by Wal-Mart. Based primarily on previous interest in the 28th and Jay site, they are considered a medium prospect for a Boulder store and for the Diagonal Plaza location. The average store is 125,000 square feet.

Costco (Low) – The average Costco store is 150,000 square feet and requires a 14 acre site. Average store sales are approximately $130 million a year ($838 per square foot) making it one of the highest grossing retail stores in the market. The prospects for a Boulder store have not improved since the 2005 market study. At that time, the Superior store captured an estimated 30 percent of its sales from the City of Boulder residents and the store was performing at or above average sales levels. The Larkridge store at I-25 and E-470 in Thornton, which opened in 2007, and the overall economy, has resulted in a modest reduction of sales in the Superior store. A second location in the Boulder market would not be a priority until Superior sales levels increase to a level that could sustain a loss of $30 million or more to the new store. Knowledgeable brokers representing Costco in the Colorado market also noted the retailer has added three new stores in Colorado in the last 18 months and is waiting for these stores to mature before considering future opportunities.

Kohl's (Medium) – This discount department store markets to younger families and teens. They typically locate in outer ring suburbs and avoid inner city locations. They are one of the few national retailers with an aggressive expansion schedule in 2010 planning for 30 new stores. The typical store is 88,000 square feet with smaller 68,000 square foot stores in markets of 100,000 to 150,000 population and 125,000 in metro markets exceeding 500,000. Interest in Boulder has not been confirmed but is considered a Medium prospect given their location criteria and expansion plans.

JCPenney (Medium) – This traditional mall department store anchor has been aggressively seeking off-mall locations to compete head-to-head with Kohl's. Their national expansion plans remain modest over the 2010 to 2012 time period. They indicated they would be willing to look at the Boulder market in the 2013 to 2014 time period if this site were available. Among their caveats were concerns about the remoteness of the Diagonal Plaza location, land costs, and Boulder income levels, which are higher than their target demographic. The typical off-mall store is 85,000 to 95,000 square feet in a one-story building either in a freestanding location or a lifestyle center. JCPenney acquired vacant Alco stores in 2008 and opened stores in Longmont and Fort Collins.

Lowe's (High) – This home improvement center has expressed an interest in the Boulder market and the Diagonal Plaza location and is therefore a High prospect. The typical store is about 117,000 square feet but will build in the 94,000 to 103,000 square foot range if there are site constraints. They are not interested in two-story formats or structured parking in this market. It has no qualms about a location near to Home Depot, which is located in Twenty Ninth Street.

King Soopers Marketplace (High) – King Soopers (a division of Kroger Foods) remains interested in a north Boulder location and would consider the Diagonal Plaza property if available; they are therefore a High prospect. They currently have two Boulder stores that are performing 20 to 25 percent above industry averages and consider the market underserved for traditional grocery stores. They would be interested in building a Marketplace, which is Kroger's version of a supercenter with about 125,000 square feet. This format includes both grocery and dry good items similar to a Target Super center or Wal-Mart Superstore. If the site were not large enough, they would build a full-sized grocery store of 65,000 to 70,000 square feet.

Table 2
Retailer Potential
Diagonal Plaza Feasibility Study

Retailer	In Boulder (# of Stores)	Potential (Low, Med., High)	Comments
Large Format			
Target	1	Low	
Wal-Mart	0	High	
Sam's Club	0	Med	
Kohls	0	Med	
Costco	0	Low	5 years out at minimum
Lowe's	0	High	
Home Depot	1	Low	
King Soopers Marketplace	2	High	Supermarket or Marketplace
JC Penney	0	Med	Not before 2013
Mid-size Format			
Apparel			
TJ Maxx	0	Med	
Ross	1	Low	
Marshalls	1	Low	
Stein Mart	0	Low	
DSW	0	Low	
Off Broadway Shoes	0	Low	
Forever 21	0	Low	Mall or downtown sites
Babys R Us	0	Med	Closest store in Westminster
Old Navy	0	Med	
Appliances/Electronics			
Ultimate Electronics	1	Med	Relocation
Best Buy	1	Low	
Micro Center	0	Low	Typically one store per metro area
Books/Music/Toys			
Barnes & Noble	1	Low	
Borders	1	Low	
Toys-R-Us	0	Med	
Home Furnishings			
HomeGoods (TJ Maxx)	0	Med	
Pier I	1	Low	
Bed, Bath & Beyond	1	Low	
Container Store	0	Med	New store at FlatIron Mall
Cost Plus	1	Low	
Office Supplies			
Office Depot	1	Low	
Office Max	1	Low	
Staples	1	Low	
Sporting Goods			
Sport Authority	1	High	Expanded store
Dick's	0	Low	Too far from CU
REI	1	Med	Relocation and expansion
Pets			
Petsmart	1	Low	
Petco	1	Low	
Arts and Crafts			
Hobby Lobby	0	Med	Typically existing space
Michaels	1	Low	
Jo Ann Fabrics	1	Low	

Source: Economic & Planning Systems

H:\20857-Diagonal Plaza Redevelopment Analysis\Data\[20857-Tenant Survey.xls]2010 Potential

Mass Merchandisers

EPS has also updated the list of potential mid-box mass merchandiser prospects from the 2005 market study to reflect changes in the status of each chain and any changes in Boulder or competitive area locations. The status of each is estimated based on previous contacts, additional broker interviews, and published market data on the location criteria and expansion plans of each chain. No direct tenant contacts have been made to date.

There is a wide array of mass merchandiser stores in the 20,000 to 40,000 square foot range in the apparel, home furnishings, sporting goods, electronics, and book/music store categories. Similar to the big box discounters, these stores focus on high volume and low prices but in narrower product lines. These stores can serve as junior anchors in lifestyle centers like Twenty Ninth Street, locate in groups of three or more like type tenants in power centers, or be sited as freestanding stores within urban downtown areas. **Table 2** lists 30 major national mid box mass merchandisers active in the Boulder regional market. A total of 18 are already present in Boulder and most of the remaining chains are located in nearby in Superior or Broomfield (FlatIron). Only one store, Sports Authority is rated a High prospect because they are already on site and area a candidate for a replacement or larger store. EPS estimates that 7 out of the remaining 12 could be characterized as Medium prospects within a three year time horizon if suitable sites were available, as described by store category below.

- **Apparel** - Two of the most prominent off price apparel stores, Ross and Marshalls, already have Boulder stores and are unlikely candidates. TJ Maxx, Babies R Us, and Old Navy do not currently have Boulder stores and are therefore at reasonable possibilities. Area brokers report that DSW and Off Broadway Shoes do not like the Boulder market due to its casual and less formal dress orientation. Forever 21 is a rapidly expanding teens and twenties oriented apparel store but they prefer mall or urban downtown locations.
- **Appliance and Electronics** – Boulder is relatively well served in this category. Best Buy, the dominant national force in this category has a relatively new store on 30th. Ultimate Electronics, a Denver based regional chain, has an underperforming store on 28th that is expected to vacate its current space. One possibility is Micro Center, a new computer superstore that has its only Denver metro area outlet near the Tech Center. They are considered a Low prospect because, with the exception of Atlanta, they have only opened one store in each metro market.
- **Books, Music, Toys** – Both Barnes and Noble and Borders have relatively new stores in Boulder. The books and music store market is especially challenged by internet competition and changing consumer needs. There may be a potential for a Toys-R-Us as there is currently none in Boulder.
- **Home Furnishings** – A number of stores including Bed Bath & Beyond, Pier 1, and Cost Plus have a Boulder presence. Among the potential candidates not already in the market are HomeGoods (owned by TJ Maxx) and The Container Store, both of which are considered Medium prospects.
- **Office Supplies** – The three major chains Office Depot, Office Max, and Staples are all present and accounted for in the Boulder market.
- **Sporting Goods** – Sports Authority currently has a store at Diagonal Plaza and can be considered a candidate for a new and potentially larger store. Its major competitor, Dick's

Sporting Goods is not present in Boulder, but a tenant broker representative indicated the Diagonal Plaza site is too far from the university market. REI has an undersized Boulder store and may be a prospect for a larger store in the 30,000 square foot range and is therefore rated a Medium prospect.

- **Pets** – PetSmart had a store at Diagonal that relocated on 30th and Walnut next to Ross. Petco also has a Boulder location on Arapahoe and is therefore also a Low prospect.
- **Arts and Crafts** – This category includes Michael's (crafts) and JoAnn's Fabrics, both of which have a Boulder store. Hobby Lobby is craft store without a presence that could be a potential tenant, although they tend to located in older low rent strip centers.

Retail Summary

Based on our current assessment, the prospects for large format stores are somewhat stronger than for mid box stores. There are three High potential and three Medium potential prospects for a store to be built in the next three years. The larger format stores are a destination anchor use and can therefore attract customers to the more peripheral Diagonal Plaza location.

The dynamics surrounding the development of mid box stores at this location are more complicated. If there is a large format anchor, it increases the potential for the co-location of additional mid box stores. A department store anchor is likely to attract apparel and home furnishings stores as synergistic uses. Wal-Mart is a less attractive anchor for most of the big boxes and Costco, given its large market draw, would be attractive to a wide range of other discount tenants if there were adequate site area to fit them.

Absent a large format anchor, the ability to attract the smaller mass merchandisers is primarily a function of critical mass and co-tenancy. In power centers, they can be found in increments of three to five stores. In supermarket anchored community shopping centers, there can be two to three stores similar to the tenant mix previously found at Diagonal Plaza. There area also other retail commercial uses that could potentially be attracted to this location including cinema and other entertainment functions.

It is difficult to predict with any certainty retail development opportunities three years out for a site with undetermined costs and anchor tenants. There will be new tenants looking by then and some of the existing store opportunities will have been met by other sites. There will be two vacant mid boxes on 28th (Circuit City and Ultimate Electronics) available shortly that should be filled in the next three years. However, there will be other potential tenants that arise and become opportunities for the site.

Economic Benefit

A separate but related question is, presuming there is a market for regional retail uses at this location, what are the economic benefits of investing in a redevelopment effort to attract and accommodate them? There are two potential benefits. The first is providing greater local shopping opportunities for local residents and reducing the need for out of town shopping trips. The second is the generation of additional sales tax dollars to the City. The extent of both benefits can be measured through the same metric which is estimating the amount of net new retail sales and related sales taxes that would be generated. This requires an estimate of the total store sales and the percent that would net new resulting from reduction of existing leakage (sales to residents currently shopping out of the City) plus and additional inflow from out of city shoppers. The remaining portion of sales are transfers from other stores, often called retail cannibalization.

There are significant differences in the potential to increase retail sales and sales taxes by store category and specific tenant. A full cannibalization analysis is beyond the scope of this study as it would require a project development program with specific tenants as well as an evaluation of existing store sales and expenditure patterns requiring detailed sales tax data analysis. EPS has provided an order of magnitude comparison between the anchor stores and selected mass merchandisers with Medium or High potential in **Table 3**.

Table 3
Estimated Net New Sales
Diagonal Plaza Feasibility Study

Retailer	Existing Store	Avg. Store Size	Avg. Annual Sales /sq ft.	Annual Sales $	% Taxable	Taxable Sales $	% Net New To City	Net New Sales $	Net New Sales Tax $
Large Format									
Wal-Mart	No	120,000	$400	$48,000,000	85%	$40,800,000	25%	$10,200,000	$347,820
Sam's Club	No	125,000	$500	$62,500,000	60%	$37,500,000	50%	$18,750,000	$639,375
Kohls	No	88,000	$250	$22,000,000	95%	$20,900,000	50%	$10,450,000	$356,345
Costco	No	150,000	$800	$120,000,000	60%	$72,000,000	50%	$36,000,000	$1,227,600
Lowe's	No	100,000	$300	$30,000,000	85%	$25,500,000	25%	$6,375,000	$217,388
King Soopers Marketplace	No	125,000	$400	$50,000,000	50%	$25,000,000	25%	$6,250,000	$213,125
JC Penney	No	90,000	$250	$22,500,000	95%	$21,375,000	50%	$10,687,500	$364,444
Selected Mid Format									
TJ Maxx	No	30,000	$250	$7,500,000	95%	$7,125,000	50%	$3,562,500	$121,481
Babys R Us	No	30,000	$300	$9,000,000	95%	$8,550,000	50%	$4,275,000	$145,778
Old Navy	No	20,000	$300	$6,000,000	95%	$5,700,000	50%	$2,850,000	$97,185
Ultimate Electronics	Yes	30,000	$500	$15,000,000	95%	$14,250,000	25%	$3,562,500	$121,481
HomeGoods (TJ Maxx)	No	30,000	$300	$9,000,000	95%	$8,550,000	50%	$4,275,000	$145,778
Container Store	No	30,000	$450	$13,500,000	95%	$12,825,000	50%	$6,412,500	$218,666
Sport Authority	Yes	50,000	$300	$15,000,000	95%	$14,250,000	25%	$3,562,500	$121,481
REI	Yes	30,000	$500	$15,000,000	95%	$14,250,000	25%	$3,562,500	$121,481
Hobby Lobby	No	30,000	$200	$6,000,000	95%	$5,700,000	50%	$2,850,000	$97,185

Note: Boulder city tax rate 3.41%
Source: Economic & Planning Systems
H:\20857-Diagonal Plaza Redevelopment Analysis\Data\[20857-Tenant Survey.xls]Net New Sales

As shown the estimated annual sales volume of the anchor stores varies dramatically by type of store and specific tenants. In general apparel merchants have the lowest sales starting at $250 per square foot per year and the membership warehouses have the highest at an estimated $500 per square foot for Sam’s and $800 per square foot for Costco. The second factor is the percent of sales that are subject to tax. The supermarkets and membership warehouses are discounted to account for the portion of total sales attributable to food for home consumption which is not subject to sales tax. Finally the portion of taxable sales that is net new to the City is estimated in 25 percent increments. In our opinion, 50 percent net new sales is an optimistic capture rate given the large array of competing stores. Lowe’s, Wal-Mart and King Soopers Marketplace are further reduced to a 25 percent net new estimate given the existence of directly competing stores already in the City. The mid boxes rated the lowest net new at 25 percent, including Ultimate Electronics, Sports Authority, and REI, are the retailers with existing stores for which a new store would be a replacement or expansion.

Residential Market

As a result of the quality of life offered in Boulder, a large student housing market, and geographic, as well as self-imposed constraints on land supply, Boulder has long-enjoyed a healthy and stable residential market. Residential construction has averaged approximately 321 units annually since 2000. In fact, despite a national economic recession, Boulder has already eclipsed this average through July, issuing 336 residential permits in 2010, as shown in **Table 4**.

Table 4
Boulder Housing Unit Permits, 2000-2010
Diagonal Plaza Feasibility Study

Type	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 YTD	2000 - 2009 Total #	% of Total	Avg. #
Single Family Detached	106	71	61	78	83	77	108	105	86	47	31	822	25.6%	82
Single Family Attached [1]	16	55	4	38	33	16	25	18	15	9	10	229	7.1%	23
Duplex	6	5	10	23	34	10	0	4	0	3	0	95	3.0%	10
Multifamily	4	241	185	132	391	98	160	315	408	129	295	2,063	64.2%	206
Mobile Home	0	1	0	0	0	2	0	0	0	0	0	3	0.1%	0
Total Units	**132**	**373**	**260**	**271**	**541**	**203**	**293**	**442**	**509**	**188**	**336**	**3,212**	**100.0%**	**321**

Source: City of Boulder; Economic & Planning Systems

H:\20857-Diagonal Plaza Redevelopment Analysis\Data\Building Permits\[20857-ResBuildingPermits.xls]ResPermits '00-'09

In addition to its long-term stability, the Boulder residential market is unique in that the multifamily segment composes a much larger percent of the overall market than in cities of similar size. Since 2000, the City has issued 206 multifamily units annually, or roughly 64 percent of building permit activity over the last 10 years. Through 2010 YTD, the City has permitted 295 multifamily units, or almost 88 percent of total housing units in 2010. In comparison, since 2000 only 33 percent of residential construction activity in Fort Collins, a city of comparable size in the Front Range, was composed of multifamily units.

Projecting the historical annual average going forward, the City of Boulder is anticipated to add 1,032 units through 2015 and 2,064 units through 2020, as shown in **Table 5**. Several multifamily projects are already under construction or in various planning stages, including the Transit Village, a 160-acre redevelopment area near the proposed multi-modal transit station north of Pearl Parkway, as well as units adjacent 29th Street Mall and Violet Crossing. Factoring planned projects into the future housing forecast, the next four years of residential development are likely over-absorbed. However, beginning in 2015, Diagonal Plaza could capture up to 300 units through 2020, or more optimistically, 450 units through 2020 depending on its ability to compete with new projects outside the Transit Village.

Table 5
Residential Demand Forecast, 2011-2020
Diagonal Plaza Feasibility Study

								2011 - 2015		2015-2020		Total #	
Type	**Capture**	**2011**	**2012**	**2013**	**2014**	**2015**	**2020**	**Total #**	**Avg. #**	**Total #**	**Avg. #**	**Total #**	**Avg. #**
Base		**206**	**206**	**206**	**206**	**206**	**1,032**	**1,032**	**206**	**1,032**	**206**	**2,063**	**413**
Transit Village		183	203	141	129	96	518	752	150	518	104	1,270	254
29th Street		93	0	0	0	0	0	93	19	0	0	93	19
Violet Crossing		45	53	0	0	0	0	98	20	0	0	98	20
Remaining		0	0	0	0	89	514	89	18	514	103	602	120
Other	**50%**	0	0	0	0	44	257	44	9	257	51	301	60
Diagonal Plaza	**50%**	**0**	**0**	**0**	**0**	**44**	**257**	**44**	**9**	**257**	**51**	**301**	**60**
Total		**321**	**256**	**141**	**129**	**185**	**1,032**	**1,032**	**206**	**1,032**	**206**	**2,063**	**413**
Optimistic		**206**	**206**	**206**	**206**	**206**	**1,032**	**1,032**	**206**	**1,032**	**206**	**2,063**	**413**
Transit Village		183	203	141	129	96	518	752	150	518	104	1,270	254
29th Street		93	0	0	0	0	0	93	19	0	0	93	19
Violet Crossing		45	53	0	0	0	0	98	20	0	0	98	20
Remaining		0	0	0	0	89	514	89	18	514	103	602	120
Other	**25%**	0	0	0	0	22	128	22	4	128	26	151	30
Diagonal Plaza	**75%**	**0**	**0**	**0**	**0**	**66**	**385**	**66**	**13**	**385**	**77**	**452**	**90**
Total		**321**	**256**	**141**	**129**	**185**	**1,032**	**1,032**	**206**	**1,032**	**206**	**2,063**	**413**

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4. DEVELOPMENT FEASIBILITY

This section evaluates the financial feasibility of the three development scenarios. The feasibility analysis compares future project costs to future project revenues. In addition to costs, a developer will require some form of return to account for project risk, time, and effort. If estimated project revenues exceed project costs plus return, the project is determined to be feasible. If estimated project revenues are less than project costs plus return, the project is considered to be infeasible.

A negative difference between project revenues and project costs plus return, is known as a feasibility gap. Feasibility gaps are common in complex redevelopment projects, and the City including the Boulder Urban Renewal Authority (BURA) has a number of tools that can be used to address these gaps using various forms of public tax dollars. Should the City choose to pursue an urban renewal plan for the site, it will allow for the use of tax increment financing (TIF) to help address the feasibility gap. There are also additional public financing mechanisms that can be utilized to address project shortfalls as discussed below.

Development Program

The development program for the three scenarios is summarized in **Table 6**. The scenarios increase in density and complexity from Scenario 1 which includes 295,000 square feet of space at a total gross density of 0.29 FAR to Scenario 3 with 711,000 square feet and a gross density of 0.70 FAR on a total site of 23.5 acres as shown.

Table 6
Development Program
Diagonal Plaza Feasibility Study

Program		Scenario 1 Total	Scenario 1 Master Developer	Scenario 1 Project Developer	Scenario 2 Total	Scenario 2 Master Developer	Scenario 2 Project Developer	Scenario 3 Total	Scenario 3 Master Developer	Scenario 3 Project Developer
Commercial (Sq. Ft.)										
Retail										
Large Format		120,000		120,000	0			0		
Large Format (Small)		88,000	88,000		88,000	88,000		0		
Mid Box		25,000	25,000		70,000	70,000		98,500	98,500	
Ancillary		10,000	10,000		22,000	22,000		70,500	70,500	
Office		0			0			0		
Total		**243,000**	**123,000**	**120,000**	**180,000**	**180,000**	**0**	**169,000**	**169,000**	**0**
Hotel (Rooms)		**136**		136	**136**		136	**136**		136
Residential (Units)										
Urban Townhomes		0		0	0		0	44	44	
Condo/Lofts: 3-5 Story		0		0	160		160	278	108	170
Apts/Lofts: 3-5 Story		0		0	0		0	80	0	80
Subtotal		**0**	**0**	**0**	**160**	**0**	**160**	**402**	**152**	**250**
Hotel (Sq. Ft.)		**52,000**		52,000	**52,000**		52,000	**52,000**		52,000
Residential (Sq. Ft.)										
Urban Townhomes		0	0	0	0	0	0	88,000	88,000	0
Condo/Lofts: 3-5 Story		0	0	0	192,000	0	192,000	306,000	134,000	172,000
Apts/Lofts: 3-5 Story		0	0	0	0	0	0	96,000	0	96,000
Subtotal		**0**	**0**	**0**	**192,000**	**0**	**192,000**	**490,000**	**222,000**	**268,000**
Total Development (Sq. Ft.)		**295,000**	**123,000**	**172,000**	**424,000**	**180,000**	**244,000**	**711,000**	**391,000**	**320,000**
Total Site	**23.48 Acres**	**1,022,919**			**1,022,919**			**1,022,919**		
Gross FAR		**0.29**			**0.41**			**0.70**		

Source: Economic & Planning Systems; City of Boulder, Oz Architecture, RRC, Scott Cox & Associates

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Project Costs

Project costs include acquisition costs, site development costs, and vertical development costs. Because acquisition costs will be the same for each scenario, these costs are broken out separately, followed by a description of site and vertical development costs for each scenario. All site development costs were estimated by Scott, Cox & Associates using the site plans produced by OZ Architecture. All vertical costs, including parking, are estimated by EPS based on comparable development projects.

Acquisition Cost Estimate

A rough order of magnitude estimate of the range of land values was developed, for planning purposes only, based on multiple interviews with area brokers regarding their opinion of the value of commercial land in the City, as well as limited available sales comparables for properties of varying sizes. In addition, EPS performed a direct capitalization analysis to approximate the income-based value of the site. Based on this research, EPS established a rough approximate value between $30 and $45 per square foot of land subject to additional verification. As an input to the financial model, a base acquisition price in the middle of the estimate range, or approximately $38 per square foot of land was utilized. It should be noted that this is simply an estimate used for the purposes of this analysis and is not an appraiser's opinion of value.

No actual determination of value for the project area or individual parcels is either offered or implied. The actual value of the site cannot be determined without more extensive appraisal work at the time of development. The exact acquisition price will depend on multiple factors, including but not limited to: the size of the parcel, shape, access, visibility, and the willingness to sell; the occupancy level and NOI of existing uses; and larger economic and market conditions present at the time of sale.

In addition to the price of land, the entity in charge of assembly will also incur a number of additional fees for services rendered during the acquisition process, including legal, consultant, and broker fees. EPS estimates these additional soft costs at 15 percent of acquisition. Based on the above, total acquisition is estimated at approximately $44.7 million as shown in **Table 7**.

Site Development Costs

All three scenarios also incur the same demolition costs estimated at $1.6 million. Additional site development costs including streets, green space, detention, utilities, signage, and various soft costs are estimated at $6.0 million for Scenario 1 as shown in **Table 7**. Total site development costs for Scenario 2 are estimated at $6.2 million and $6.7 million for Scenario 3 as shown.

Vertical Development Costs

As identified earlier, several of the buildings in each of the development scenarios are projected to be constructed by the Master Developer. Vertical development costs are estimated by summing the shell building costs plus tenant improvements for each building, as well as the allocated share of parking. Surface parking is estimated at $900 per space, garage parking at $12,000 per space, and underground parking at $24,000 per space. In addition to hard costs associated with vertical development, an additional set of various soft costs (estimated at 32 percent of hard costs) is included.

- Vertical development costs to be incurred by the Master Developer in Scenario 1 include the 88,000 square foot large format store, the 25,000 square foot mid-box store, and the 10,000 square feet of ancillary retail space, as well as the allocated surface parking for these uses. Total vertical development costs to be incurred by the Master Developer in Scenario 1, including parking, are estimated at $15.5 million.
- Vertical development costs to be incurred by the Master Developer in Scenario 2 include the 88,000 square foot large format store, 70,000 square feet of mid-box retail, and 22,000 square feet of ancillary retail space, as well as the allocated surface parking for these uses. Total vertical development costs to be incurred by the Master Developer in Scenario 2, including parking, are estimated at $23.5 million.
- Vertical development costs to be incurred by the Master Developer in Scenario 3 include 98,500 square feet of mid-box retail (across four buildings), 70,500 square feet of ancillary or groundfloor retail space, and 152 residential units, including 44 townhomes and 108 multifamily units in mixed-use buildings. In addition, the Master Developer is anticipated to construct 716 parking spaces, including 350 surface, 226 structured, and 140 underground spaces. Total vertical development costs to be incurred by the Master Developer in Scenario 3, including parking, are estimated at $79.5 million.

Total Project Costs

Total costs including acquisition, site development, and vertical development costs for Scenario 1 are estimated at $66.2 million, as shown in **Table 7**. Total costs for Scenario 2 are estimated at $74.4 million, and total costs for Scenario 3 are estimated at $130.9 million.

Table 7
Cost Summary
Diagonal Plaza Feasibility Study

Master Developer	Scenario 1	Scenario 2	Scenario 3
Costs			
Acquisition Costs	$44,701,579	$44,701,579	$44,701,579
Site Development Costs	$5,972,967	$6,214,179	$6,674,820
Vertical Development Costs	$15,515,280	$23,456,136	$79,486,440
Total	**$66,189,827**	**$74,371,894**	**$130,862,839**

Source: Economic & Planning Systems; City of Boulder, Oz Architecture, RRC, Scott Cox & Associates

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Project Revenues

Project revenues to the Master Developer include the sale of land parcels for future development and the value of vertical development constructed by the Master Developer. It should be noted that while the value of vertical development is based on operating income, the potential operating income received from operating the buildings is not included in project revenues.

Land Sales

As part of the master development process, the Master Developer would subdivide the larger site into development parcels. While the Master Developer may pursue vertical development on some or many of the parcels, other development parcels will be sold to project developers to develop a specific type of product such as residential or hotel uses. These land sales include the land required for the building pad plus the allocated parking for these uses. Some future uses are willing pay very little for upfront land costs, such as large format retailers which act as an anchor or driver for traffic necessary for other uses. Land parcels purchased at a discount from acquisition costs will likely need to be offset by uses willing to pay a premium over acquisition prices, such as ancillary retail and/or residential uses.

- Scenario 1 features a 120,000 square foot large format retailer. Large format retailers frequently prefer to construct their own store, and as a retail anchor, are expected to acquire the land at a discount compared to the remaining uses. The land sale to the 120,000 square foot large format retailer will include the land required for the building pad, as well as an allocation of the surface parking. Other land sales to project developers include the land required for the 52,000 square foot hotel, which includes the building pad and allocated surface parking. Total land sale revenue under Scenario 1 is estimated at $5.9 million.
- Land sales under Scenario 2 include the building pad for the 160 units of multifamily residential and adjacent 200 structured garage spaces, as well as the building pad for the 52,000 square foot hotel and allocated surface parking. Total land sale revenue under Scenario 2 is estimated at $10.2 million.
- Land sales anticipated under Scenario 3 include the building pad for the 170 multifamily residential units and 240 structured parking spaces, the building pad for the 80 multifamily residential units in the southeast corner of the site and allocated surface parking, and the building pad and allocated surface parking for the 52,000 square foot hotel. Total land sale revenue under Scenario 3 is estimated at $17.8 million.

Vertical Development Value

The value of the vertical development constructed by the Master Developer must also be accounted in the analysis. This value is estimated by EPS using sales comparables for residential development and a direct capitalization approach for commercial values. A direct capitalization approach estimates net operating income for each use based on estimated future market rents, vacancies, and expenses, and then divides this income by a capitalization rate. Capitalization rates are ratios extracted from the market that indicate the rate investors are willing to pay for an income stream. Capitalization rates are inverse ratios. Thus, by dividing net operating income by the capitalization rate, an estimate of market value can be derived.

- Vertical development value in Scenario 1 includes the value of the 88,000 square foot large format retail store, the 25,000 square foot mid-box store and 10,000 square feet of ancillary retail space. Total vertical development value accrued to the Master Developer is estimated to be $18.0 million in Scenario 1.
- Vertical development value under Scenario 2 includes the value of the 88,000 square foot large format retail store, the 70,000 square feet of mid-box retail, and 22,000 square feet of ancillary retail space. Total vertical development value accrued to the Master Developer is estimated to be $32.6 million in Scenario 2.
- Vertical development value under Scenario 3 includes the value of the 98,500 square feet of mid-box retail, 70,500 square feet of ancillary and groundfloor retail, and 152 residential units. Total vertical development value accrued to the Master Developer is estimated to be $125.1 million in Scenario 2.

Total Project Revenue

Total project revenue under Scenario 1, including land sales to other project developers and vertical development value, is estimated at $23.6 million, as shown in **Table 8**. Total project revenue for Scenario 2 is estimated at $43.8 million and total revenue for Scenario 3 is estimated at $142.9 million.

Table 8
Total Project Revenues
Diagonal Plaza Feasibility Study

Master Developer	Scenario 1	Scenario 2	Scenario 3
Revenue/Value			
Land Sales	$5,908,750	$10,192,000	$17,843,500
Vertical Development Value	$18,000,000	$32,640,000	$125,050,000
Total	**$23,908,750**	**$42,832,000**	**$142,893,500**

Source: Economic & Planning Systems; City of Boulder, Oz Architecture, RRC, Scott Cox & Associates
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Development Feasibility

As mentioned earlier, in order to determine development feasibility under each scenario, total project costs must be compared to total project revenue. In addition to costs, the developer will seek a financial return to compensate for investment opportunity cost, risk, time, and effort. The required developer return is different for each individual developer, but is usually in the 10 to 20 percent range, depending on the type of development and level of risk. Because this feasibility analysis is performed on a static basis (vs. annual) and features a mix of for-sale and operating property, the developer return is calculated as the revenue required to achieve a certain level of "profit" over costs. For the purpose of this analysis, a developer return of 15 percent (total project revenue must exceed total project costs by 15 percent) was selected. Netting estimated project costs plus required return against estimated project revenue determines the feasibility of each scenario. If estimated project revenue exceeds costs plus return, the scenario is considered feasible based on the targeted level of return. If estimated project revenue is less than costs plus return, the scenario is infeasible and would require an additional infusion of funds from public financing to address the gap.

Based on the planning level numbers, feasibility is more a relative measure between the scenarios than an absolute number. Netting estimated project costs against estimated project revenue under Scenario 1 results in a feasibility gap of -$52.2 million, as shown in **Table 9**. Netting project costs against project revenue under Scenario 2 results in a feasibility gap of -$42.7 million. Under Scenario 3, project revenue exceeds projects costs by 9 percent, but fails to meet the target return of 15 percent. With a feasibility gap of -$7.6 million, Scenario 3 is therefore the best performing alternative but is still expected to require an infusion of public financing to close the gap.

Table 9
Development Feasibility
Diagonal Plaza Feasibility Study

Master Developer	**Scenario 1**	**Scenario 2**	**Scenario 3**
Costs			
Acquisition Costs	$44,701,579	$44,701,579	$44,701,579
Site Development Costs	$5,972,967	$6,214,179	$6,674,820
Vertical Development Costs	$15,515,280	$23,456,136	$79,486,440
Total	**$66,189,827**	**$74,371,894**	**$130,862,839**
Revenue/Value			
Land Sales	$5,908,750	$10,192,000	$17,843,500
Vertical Development Value	$18,000,000	$32,640,000	$125,050,000
Total	**$23,908,750**	**$42,832,000**	**$142,893,500**
Net	**($42,281,077)**	**($31,539,894)**	**$12,030,661**
Required Return on Cost (Profit)	**15%**	**15%**	**15%**
Actual Return on Cost	**-64%**	**-42%**	**9%**
Feasibility Gap	**($52,209,550)**	**($42,695,679)**	**($7,598,765)**

Source: Economic & Planning Systems; City of Boulder, Oz Architecture, RRC, Scott Cox & Associates

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5. REDEVELOPMENT OPTIONS

This section identifies the additional public financing that could be used to address the extraordinary costs associated with redevelopment of the Diagonal Plaza properties. At a minimum, tax increment financing, as enabled by BURA's designation of an urban renewal area and adoption of an urban renewal plan would be required. Based on the analysis of available public financing and other considerations, the City's implementation options are identified.

Public Financing Mechanisms

A number of public financing tools are available to fund required infrastructure costs. These tools can be used independently or as part of a larger package of pubic financing sources. Each tool provides some distinct advantages and disadvantages and should be evaluated based on the City's redevelopment goals for the site. A brief description of each is outlined below

- **Tax Increment Financing (TIF)** – TIF is the primary financing tool enable by either an urban renewal authority (URA) or a downtown development authority (DDA). TIF earmarks new property taxes from all taxing entities and/or local sales tax revenues generated from new development and funnels this incremental revenue toward various infrastructure costs. After the retirement of revenue bonds, usually 25 years, incremental annual tax revenue is redirected back to the city and other taxing entities.
- **Metro District** – Title 32 Metropolitan Districts are the most widely used special district. A Metro District is a quasi-governmental entity and political subdivision of the state formed to finance, construct, and maintain public facilities. A Metro District is governed by an elected board of directors and functions within the parameters of the city-approved Service Plan and state law. A common use of Metro Districts is to finance public infrastructure as part of new development or redevelopment. Bonds are issued at the onset of a project, capital facilities are constructed, and the debt is serviced by property tax proceeds from future property owners.
- **Public Improvement Fee (PIF)** - Considered a private financing tool, a public improvement fee (PIF) is a fee imposed by a developer on property tenants; who then, in turn, typically pass on the fee to the consumers. A developer uses lease terms and other real estate agreements to impose the PIF. The purpose of a PIF is to finance public improvements. PIFs are collected as a fee charged on sales within a set of negotiated categories and a designated geographic boundary. Depending on the financing body, corporate, general obligation, or revenue bonds may be issued backed by PIF revenues. As stated, a PIF is not a tax but a fee; therefore, it becomes a part of the cost of the sale/service and is subject to sales tax. A local jurisdiction has the ability to reduce the sales tax within the PIF boundary to keep the total charge competitive with other retail outlets. PIFs are frequently becoming common as a financing source in retail-driven redevelopment projects.

Public Financing Revenue Potential

EPS estimated the total revenue generation potential of the identified public financing tools under a specified aggressive financing package. The amount of financing required for a specific project would be determined by the size of the project financing gap as well as the City's willingness to dedicate these revenues. The utilization of these tools or package or tools should be evaluated by the City based on its own redevelopment goals and willingness to participate. A more detailed annual analysis will be required should the City decide to pursue an urban renewal designation.

Tax Increment Financing (TIF)

Property Tax

- Based on County Assessor records, the estimated market value of the existing 23.4 acres totals $28.1 million. This results in an assessed value base of approximately $8.2 million.
- Combining both the vertical development value created by the Master Developer, as well as by future Project Developers, the total development value at buildout under Scenario 1 is anticipated to total approximately $52.4 million. Under Scenario 2, total development value at project buildout is anticipated to be approximately $127.0 million. Under Scenario 3, total development value at project buildout is anticipated to be $228.2.
- After applying an adjustment for appraised value, total assessed value under Scenario 1 is estimated at $13.7 million. Assessed value for Scenarios 2 and 3 is estimated to total $19.5 and $29.4 million, respectively. Netting out the existing assessed value of $8.2 million, total assessed value increment for Scenario 1 is estimated total $5.5 million, $11.4 million under Scenario 2, and $21.2 million under Scenario 3.
- Annual revenue generated from property tax revenue at buildout is estimated to total $415,000 under Scenario 1, $857,000 under Scenario 2, and $1.6 million, as shown in **Table 10**.

Sales Tax

- Based on sales tax records provided by the City, the estimated sales tax base of the existing 23.4 acres totaled $14.2 million.
- Using average sales volumes, EPS estimates total sales tax of revenue at buildout under Scenario 1 at $2.4 million. Total sales tax revenue at buildout under Scenario 2 and 3 is estimated to total $1.7 million and $1.6 million, respectively.
- Annual revenue generated from sales tax revenue at buildout is estimated to total $1.9 million under Scenario 1, $1.3 million under Scenario 2, and $1.2 million under Scenario 3, as shown in **Table 10**.

Metro District

- Using an estimated tax of 20.0 mills, annual property tax revenue generated from a Metro District under Scenario 1 totals $273,000 at buildout, as shown in **Table 10**. Annual property tax revenue generated from a Metro District under Scenarios 2 and 3 totals $391,000 and $587,000, respectively.

Public Improvement Fee (PIF)

- Using a PIF rate of 1.0 percent, annual fee revenue generated on sales is estimated to total $716,000 under Scenario 1 at buildout, as shown in **Table 10**. Annual PIF revenue generated from Scenarios 1 and 2 is estimated at $530,000 and $498,000, respectively.

Table 10
Public Financing Potentials
Diagonal Plaza Feasibility Study

Master Developer		Scenario 1	Scenario 2	Scenario 3
Public Financing	**Max**			
Annual Property TIF @ Buildout	**100.0%**	$415,346	$857,601	$1,599,885
Annual Sales TIF @ Buildout	**100.0%**	$1,877,803	$1,265,538	$1,158,634
Total Annual TIF		**$2,293,149**	**$2,123,138**	**$2,758,519**
Annual Metro District @ Buildout	**20.0 Mills**	$273,319	$390,521	$587,233
Annual Public Improvement Fee (PIF) @ Buildout	**1.0% PIF**	$716,166	$530,493	$498,074
Total Annual Public Financing @ Buildout		**$3,282,635**	**$3,044,152**	**$3,843,827**

[1] Buildout is assumed to occur over 10 years

Source: Economic & Planning Systems; City of Boulder, Oz Architecture, RRC, Scott Cox & Associates

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Redevelopment Financial Feasibility

Adding the potential for public finance revenue generated by each scenario to the feasibility gap enhances each scenario's overall development feasibility. As identified in Chapter 3, sales generated at the redevelopment site from new development may not represent "new" sales dollars in the City, but rather a transfer of dollars from other areas in the City. As a result, the impact of sales TIF should also be considered. For the purposes of the enhanced development feasibility analysis, no sales TIF is used. Under all other base assumptions regarding public financing scenarios, total annual public financing dollars under Scenario 1 are estimated at $1.6 million. Total pubic finance dollars under Scenarios 2 and 3 are estimated to total $1.8 million and $2.7 million, respectively. Public financing dollars represent annual numbers and will occur overtime. Thus, the annual public financing dollars generated over 25 years need to be discounted by some rate (6.5 percent) to derive today's value for these dollars. The value of pubic financing dollars today can be compared to the feasibility gap for each scenario to determine if feasibility can be achieved. Based on the above public financing package, Scenarios 1 and 2 remain financially infeasible, while Scenario 3 becomes financially feasible, as shown in **Table 11**.

Table 11
Project Feasibility with Public Financing
Diagonal Plaza Feasibility Study

Master Developer		**Scenario 1**	**Scenario 2**	**Scenario 3**
Net		**($42,281,077)**	**($31,539,894)**	**$12,030,661**
Required Return on Cost (Profit)	**15.0%**	**15%**	**15%**	**15%**
Actual Return on Cost		**-64%**	**-42%**	**9%**
Feasibility Gap		**($52,209,550)**	**($42,695,679)**	**($7,598,765)**
Public Financing	**Max**			
Annual Property TIF @ Buildout	**100.0%**	$415,346	$857,601	$1,599,885
Annual Sales TIF @ Buildout	**0.0%**	$0	$0	$0
Total Annual TIF		**$415,346**	**$857,601**	**$1,599,885**
Annual Metro District @ Buildout	**20.0 Mills**	$273,319	$390,521	$587,233
Annual Public Improvement Fee (PIF) @ Buildout	**1.0% PIF**	$958,145	$530,493	$498,074
Total Annual Public Financing @ Buildout		**$1,646,811**	**$1,778,615**	**$2,685,192**
Net Present Value over 25 years[1]	**NPV @ 6.5%**	**$13,189,281**	**$13,263,364**	**$20,022,256**
Percent of Project Costs		**20%**	**18%**	**15%**
Net Gap w/Public Financing		**($39,020,270)**	**($29,432,315)**	**$12,423,490**

[1]Buildout is assumed to occur over 10 years

Source: Economic & Planning Systems; City of Boulder, Oz Architecture, RRC, Scott Cox & Associates

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Sensitivity Analysis

Under the base assumptions tested, Scenario 3 remains the only financially viable redevelopment option. However, a number of different variables could impact these results. EPS tested the sensitivity of three key assumptions outlined below and summarized the results.

- **Acquisition Price** - As noted, the acquisition costs of the existing property are unknown at this time. While EPS estimated the property could be acquired for a cost between $30 and $45 per square foot; the determined land price will significantly impact feasibility. EPS tested the feasibility of each scenario using both the low and high end of this range.
- **Potential Large Format Tenant** - Under Scenarios 1 and 2, the potential large format tenant and corresponding sales generation also impact feasibility. Under the base assumption, the large format tenant is projected to generate $300 per square foot in sales annually. However, should a Costco (at an estimated $800 per square foot) locate at the site, sales tax and PIF generation would be significantly higher, improving the public financing potential of Scenario 1. EPS tested the ability for a higher sales generating tenant to impact feasibility in each scenario.
- **Public Financing** - The public financing package identified earlier includes the use of 100 percent of property TIF, zero percent of sales TIF, a 20 mill metro district, and a 1.0 percent PIF. EPS tested the impact on project feasibility of a more aggressive package including 100 percent of the sales tax TIF and raising the Metro District mill levy to 30 mills.

Scenario 1

On a financial basis, Scenario 1 is significantly challenged. As noted, large format retailers generally pay very low land costs. As a result, project revenue from land sales is significantly lower than project costs. Even at an estimated acquisition cost at the low end of the range ($30 per square foot), project revenues are insufficient to cover costs. In addition, the inclusion of Costco as the large format retailer, generating significantly higher sales levels, fails to adequately address the feasibility gap, despite an aggressive public financing package featuring 100 percent property TIF, 100 percent sales TIF, a 30 mill Metro district, and a 1.0 percent PIF. A feasible Scenario 1 would require land acquisition costs below $30 per square foot, while also utilizing an aggressive public finance package. Assuming this acquisition cost might not be achievable, Scenario 1 will likely require the City to tap into other City resources to achieve feasibility.

Scenario 2

Scenario 2 faces similar financial challenges as Scenario 1. The project revenue, including vertical development value, is not sufficient to achieve feasibility at the estimated acquisition prices, even at the low end of the range ($30 per square foot). In addition, the large format and mid box retailers do not generate sufficient property and sales tax dollars to overcome the feasibility gap. Even utilizing the aggressive public financing strategy outlined in Scenario 1, financial feasibility requires acquisition costs of $25 per square foot or lower. Similar to Scenario 1, in order to achieve financial feasibility under base case acquisition costs, the City will likely need to tap into existing City funds.

Scenario 3

Scenario 3 contains the level of development density (and value) required to justify the land acquisition costs on a financial basis. While public participation is likely to be required to support assembly, Scenario 3 requires the least level of financial subsidy of all the scenarios. Under the base land cost assumption ($38 per square foot), only property TIF is required to overcome the feasibility gap. At a land cost assumption of $45 per square foot, feasibility can be achieved using 100 percent of property TIF, a 20 mill Metro District and a 0.5 percent PIF.

Implementation Options

The City's implementation options require consideration of both market and financial feasibility considerations as will as other land use and urban design policy objectives. The implementation options of the three scenarios tested are summarized below:

Scenario 1: Commercial Only – This option is not feasible even with the maximum public financing package applied to the project. Further, the estimated net new sales tax revenues from the supportable anchor tenants, ranging from approximately $200,000 to $600,000 per year, would not appear to justify the investment of additional public investment even if additional funds were available from other sources. Only Costco as an anchor would generate more than $1.2 million in estimated annual net new tax revenue. However, in our opinion, existing market conditions suggests that a Costco store within the City would not be supportable for at least five years and probably longer. (It should be noted that Costco would require a 14 acre site for a 150,000 square foot store, would not pay a premium for the property, and would leave little additional land for other revenue generating uses. Recent Costco deals in the region have been at less than $6 per square foot of land.) It would therefore appear to be extremely risky for the City to proceed with redevelopment for one very uncertain user when the alternative anchor uses result in relatively low levels of economic benefit that do not offset the levels of investment required.

Scenario 2: Horizontal Mixed Use – this option tests a modest increase in overall density including a reduction in commercial square footage and replacement with residential uses to generate greater development and land values. The incremental density and development value is insufficient to make the project financially feasible. This compromised development plan is lacking from both an economic benefit and urban design perspective.

Scenario 3: Vertical Mixed Use – This option, as defined, is the most feasible as tested on a static basis. However, the amount, type, and configuration of retail development are unproven and may not prove feasible as drawn; at a minimum it would take an extended period to lease up which would also impact its feasibility. The mixed use village concept meets more of the City's urban design objectives, but may not be able to attract significant regional retail uses, and therefore may not meet the City's economic development objectives. The City will need to decide if the redevelopment of the property for its land use/urban design benefits, rather that economic development benefits, warrants a significant redevelopment investment.

Other Considerations

The City's other implementation options include not pursuing a redevelopment option at this time or considering a more incremental/opportunistic redevelopment strategy.

It should therefore consider if the implications of doing nothing are acceptable. As a result of the limited supply of significant commercial space in the City, it is likely that the major vacant spaces in the shopping center and on the peripheral pad sites will be re-leased to other users. The center is an older commercial property in the mature years of the real estate investment cycle. Typically, these older properties are leased to lower rent uses and continue to decline in quality and value until which time significant reinvestment and/or redevelopment are feasible. This pattern of real estate decline and reinvestment is likely to take place slower in Boulder than it would in a less constrained market. However, future tenants are likely to make some level of investment to utilize the property that will extend its useful life, similar to the lease of Albertson's to 24 Hour Fitness. In particular, the newer vacant mid box spaces formerly occupied by PetSmart and Ross will likely get reused within a two to three year time horizon given the overall lack of similar space in the City. It is however hard to determine the quality of future tenants, the level of investment that might be made, and how long the useful life of the center might be extended.

The City could also decide to take a more incremental approach to the development of the property. Absent an overall development plan, and given the large number of separate property owners, a number of smaller redevelopment projects are likely to take place over time. If these projects met economic development goals, and if they have a documented financial need, the City could consider the use of urban renewal and TIF on a more reactive project by project basis.

Finally, the City could also consider further planning and analysis of the Scenario 3 option, which demonstrates that a denser mixed use project has the potential to be feasible. The concept as developed, attempts to mix a number of mid box stores with residential and potentially office and live/work vertical uses. If this concept meets the City's objectives, a number of refinements could be tested including a more aggressive acquisition plan that increases in density over the gross 0.7 FAR option tested, expands the size of the project area allowing for more development density, and refinements in the retail development program to create a better balance of mid box and ancillary retail space.