



Date: January 19, 2007

From: THK Associates, Inc.

Re: Aurora One
Aurora, CO



This memorandum provides an overview of the development potentials and recommend land use plan for the 157-acre Aurora One property in Aurora, Colorado. The Aurora One site sits just southwest of Interstate 70 and Extension 470. The following market study shows a significant demand for residential, office, and commercial/retail uses in the Aurora One trade area and for the subject site.

The Aurora One property is strategically located just south of the intersection of two major highways and lies within a relatively close proximity to Denver International Airport and its aerotropolis influence. This influence will stimulate growth in commercial and residential centers because companies, ever more dependent on air transportation, will locate nearby. More than half of U.S. exports move by air. High-tech companies have a 50% higher demand for air transportation than smokestack industries. This job creation will also bring the need for housing. There are several community centers to the southwest of the site, however, in the immediate vicinity of the property, competition is limited. Commercial and residential potentials for the Aurora One site are considered strong.

The market analysis for the 140-acre Aurora One site has positioned the property within various markets. THK believes that the following represents a realistic and achievable land use program for the property. Proper planning and development of access points will allow this site to capture a high percentage of new development. The development of this highly accessible property will result in a community of superior quality and lifestyle when compared to other communities in the region.

Seven-County Denver CMSA Employment and Population Growth Trends

The Aurora One property is located within the Denver CMSA, which includes Adams County, Arapahoe County, Boulder County, Broomfield County, Denver County, Douglas County, and Jefferson County. Key statistical findings are as follows:

- Current employment totals approximately 1,800,097 persons in the seven-county market area.
- From 1996 to 2006, the seven-county Denver CMSA added an average of 30,463 jobs annually for an annual average growth rate of 1.9%.
- Projected employment for 2017 is estimated at approximately 2,162,056 persons for the Denver CMSA.
- From 2007 to 2017, the Denver CMSA is projected to add an average of 33,420 jobs annually for an annual average growth rate of 1.7%.
- Currently, the Denver CMSA has a population of 2,740,220 persons in 1,082,470 households.
- In 2007, 557,590 persons lived in 221,810 households in Arapahoe County, the second largest county in the Denver CMSA and the location of the subject site.
- Since 1970, Arapahoe County has issued an average of 4,774 residential permits each year, accounting for nearly 24% of the total permits issued annually in the Denver CMSA.
- Projected population for 2017 is estimated at 3,229,180 persons in 1,311,730 households for the Denver CMSA. These projects reflect an annual average addition of 48,900 persons and 22,930 households from 2007 to 2017 for the Denver CMSA.

Residential Market Analysis

The projected population and household statistics for the Denver CMSA and the Aurora One primary trade area will provide the baseline data needed to formulate the demand for new housing units over the next decade. Projected residential demand is as follows:

- Whereas the Denver CMSA's households have been growing by 2.8% annually since 1970, the southeast submarket, in which the Aurora One property is located, has grown by approximately 5.0% each year over the same period of time.
- Over the next decade, the southeast submarket will remain one of the fastest growing submarkets in the Denver CMSA, with households projected to increase by roughly 2.6% each year. Currently, 403,250 people live in 160,070 households in the southeast submarket and by 2017, it is estimated that 501,230 people will live in 206,290 households in this submarket.

- The southeast submarket will have an annual average demand for 4,812 housing units over the next decade. Of that total demand, 2,405 units will be for single-family detached homes, 1,455 units will be for attached (townhomes and condominiums) single-family units, and 941 for multi-family units (rental apartments).
- Within the actual Aurora One primary trade area, an approximate 15 to 20 minute drive of the subject site, current population and household levels of 285,340 and 100,918 respectively will increase by nearly 2.5% annually to roughly 367,000 people residing in 129,760 households by 2017.
- The Aurora One trade area is projected to have an annual demand for 3,068 housing units over the next ten years, or roughly 63.75% of the annual demand in the southeast submarket. This total includes 1,956 single-family detached units, 345 attached single-family units, and 767 rental multi-family units.
- In 2007, the median household income in the Aurora One trade area is \$63,323, which suggests that the median household in the area could afford a \$347,900 home.
- Twenty-six representative apartment communities were surveyed in the Aurora One trade area. Of the apartment communities surveyed, the average rent for a one bedroom is \$547 to \$655 and approximately 666 to 728 square feet in size. A two bedroom apartment has an average rent of \$701 to \$830 and approximately 879 to 997 square feet in size. Overall, the apartment communities within the trade area had an occupancy rate of 90.2%.
- Twenty-six representative attached residential communities were surveyed in the Aurora One trade area. The average attached home in the trade area is priced at approximately \$179,261 to \$213,971 and 1,257 to 1,623 square feet in size. Overall, the 26 attached communities had average monthly sales of 2.13 units, or total sales of 55.31 units monthly.
- THK projects that a residential community at the Aurora One site could absorb approximately 69 attached units, and 102 rental multi-family units annually over the next ten years. These units would be demanded in various price bands, as shown in the residential market potentials section of the market study.

Office/Industrial Market Analysis

This section of the report examines future demand for office/industrial space at the Aurora One site. A summary of key findings include:

- The Denver CMSA currently has just over 114,603,000 square feet of office space and an overall vacancy rate of 15.8%, down considerably from 21.1% at the end of 2002.
- The northeast/east/aurora office submarket, in which the Aurora One site will compete, presently houses 9.2% of the CMSA's office space and has an average vacancy rate of 21.7%.

- Given that office employment is projected to grow by an average of 15,451 workers annually in the Denver CMSA, there will be an average annual demand for just over 3.5 million square feet of new office space over the next decade. In comparison, the Denver CMSA has historically added approximately 3.25 million square feet of office space annually since 1970.
- Of the roughly 3.5 million square feet of average annual demand for new office space in the CMSA, THK estimates that the northeast/east/aurora submarket should experience demand for nearly 6.88% of that total, or approximately 241,400 square feet annually.
- The Denver CMSA currently has just over 181,462,000 square feet of industrial space and an overall vacancy rate of 7.7%.
- The northeast/southeast industrial submarket, in which the Aurora One site will compete, presently houses 54.4% of the CMSA's industrial space and has an average vacancy rate of 9.6%.
- Given that industrial employment is projected to grow by an average of 7,266 workers annually in the Denver CMSA, there will be an average annual demand for just over 3.2 million square feet of new industrial space over the next decade.
- Of the roughly 3.2 million square feet of average annual demand for new industrial space in the CMSA, THK estimates that the northeast/southeast submarket should experience demand for nearly 72.5% of that total, or approximately 2.3 million square feet annually.
- THK projects that the Aurora One site will capture 5.0% of the northeast/east office market and northeast/southeast industrial market. This will garner approximately 128,380 square feet of office/industrial space over the next ten years.

Retail/Commercial Market Analysis

This section of the report examines future demand for retail/commercial space at the Aurora One site. A summary of key findings follows:

- As of the mid-year 2006, the Denver CMSA has approximately 89,025,250 square feet of retail/commercial space and an overall vacancy rate of 5.1%. Large strip centers dominate the amount of retail space in the Denver CMSA, accounting for over 53% of all retail space. Vacancy rates in the large strip centers are 5.4%.
- The northeast/southeast suburban retail submarket, in which the Aurora One site will compete, currently has 18.3 million square feet of retail space, or roughly 20.6% of the CMSA's total retail space and has an average vacancy rate of 4.8%.
- Based on projected growth over the next decade in the Denver CMSA, there will be an average annual demand for approximately 2.3 million square feet of new retail/commercial space.

- Of the roughly 2.3 million square feet of average annual demand for new retail/commercial space in the CMSA, THK estimates that the northeast/southeast suburban submarket should experience demand for nearly 38.0% of that total, or approximately 877,250 square feet annually.
- THK projects that the Aurora One site will capture 5.0% of the northeast/southeast suburban retail/commercial market. This will garner approximately 43,860 square feet of retail/commercial space over the next ten years.

Hotel Market Analysis

This section of the report examines future demand for hotel space at the Aurora One site. A summary of key findings follows:

- As of 2006, the overall occupancy of Denver CMSA first class hotels was approximately 68%, up 5.8% from the year before. More specifically, in the DIA area, where the Aurora one site will compete, the average occupancy in 2006 was 74.0% with an average room rate of \$97.79 compared to a metro area average of \$101.50.
- Within the Denver CMSA annual overnight visitation will grow from 10,905,000 in 2007 to 15,054,000 in 2017, growing by 414,900 overnight visitations annually. Overnight hotel stays will also grow from 6,215,850 to 8,580,780 annually during the same period. This equates to 18,449 nightly hotel rooms demanded in 2007 and will increase to 25,468 in 2017.
- This demand will support the construction of an annual average of 1,080 rooms. The Aurora One PTA is expected to capture 17.5% of this construction or 189 hotel rooms annually. THK believes that the Aurora One site will capture 25% of the PTA demand.

Aurora One Potentials

Based on the findings from the market analysis, the following land uses are recommended for the 140-acre Aurora One property:

- Approximately 460 residential units are projected in two separate product/density categories. Attached (townhome/condominium) units will total 220, and rental multi-family will total 240 units. Average densities for the attached units will be approximately 11 units per acre and rental multi-family will have an average density of 16 units per acre. In total, residential uses will encompass approximately 35 acres for an average density of 13.5 units per acre.
- The office/industrial uses is recommended to include roughly 631,620 square feet of space located on approximately 46 acres of land. Office assumes an average coverage ratio of 25% and industrial/r&d/flex assumes an average of 35%.
- Retail/commercial space shall entail approximately 30 acres, with upwards of 287,500 square feet of retail space. The average coverage ratio for the retail space is approximately 22%.

- Hotel space shall entail approximately 6 acres, with approximately 210 rooms in one to two hotels. The average density for hotel space will be 35 rooms per acre.
- An additional 35 acres would be reserved for right-of-way, common area, and open space.

Recommend Land Use Plan for the Aurora One Property

Use	Square Feet	Units	Rooms	Acres	Percent of Total
Retail					
Strip Center	287,500	--	--	30.0	19.1%
Office					
	174,240	--	--	16.0	10.2%
R&D/Flex					
	457,380	--	--	30.0	19.1%
Lodging					
Hotel	--	--	210	6.0	3.8%
Residential					
Townhome/condo	--	220	--	20.0	12.7%
Rental Apartment	--	240	--	15.0	9.6%
Sub-Total	919,120	460	210	117.0	74.5%
Open Space and Right of Way	--	--	--	40.0	25.5%
Total	919,120	460	210	157.0	100.0%

Source: THK Associates, Inc.
