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Project Report

TIF Review: Phoenix Park / Courthouse Signature TIF

Prepared for

Cabinet for Economic Development
Frankfort, Kentucky

Submitted by

Economics Research Associates, an AECOM company (ERA)

August 21, 2009

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I. Introduction

This report evaluates the application by the Lexington-Fayette Urban County Government to the state of Kentucky for tax increment financing for a project known as Courthouse / Phoenix Park. The project would include construction of a new mixed-use tower called CentrePointe, rehabilitation of the county courthouse, a public underground parking garage, reconstruction of Phoenix Park, installation of a permanent public market, and façade improvements to area buildings. The project is located in downtown Lexington, Kentucky.

The state Cabinet for Economic Development has contracted with ERA AECOM to provide an independent economic and fiscal impact analysis of the proposal. The purpose of this report is to gauge, independently, the likely economic and fiscal impact of the project, net of any substitutions that may be made. The conclusions of this report will be presented to the Kentucky Economic Development Finance Authority, which it will consider when determining how much tax increment financing, if any, to award the applicants.

This report is broken into the following sections:

- Overview of Applicable TIF law. The TIF legislation sets out the requirements for the consultant report and form a basis for the analysis.
- Project Description. This section introduces the project, its location, the proposed footprint of the CentrePointe tower, and proposed financing.
- Feasibility and Market Analysis. ERA reviews the applicable commercial and residential real estate markets and determines the feasibility of the project.
- Economic and Fiscal Impact. In this section, ERA evaluates the economic activity likely to take place at the project, estimates the percentage of net new activity, performs an economic and fiscal impact analysis, and estimates the net new revenues to the state.
- Conclusions.

II. Overview of Applicable TIF Law

Relevant Legislation

The purpose of this report is to evaluate the Application made by the Lexington-Fayette Urban County Government, "the County", based on guidelines set out in Chapter 154, Subchapter 30 of the Kentucky Revised Statutes (KRS). The relevant sections to this report are:

- KRS 154.30-030, which sets out the requirements of the independent consultant's report.
- KRS 154.30-050, Signature Project Program, which establishes and sets guidelines for the Signature Project Program TIF.

Program Overview

The programs under consideration here are tax increment financing districts, wherein a taxing jurisdiction, in this case the Commonwealth, provides debt financing for a particular public improvement and retires the debt with the additional tax revenue generated above a given baseline. The additional revenue used to retire the debt is called the increment. When the bond is repaid, the TIF is said to be retired. TIF bonds usually carry 20 to 30 year terms.

Tax increment financing (TIF) is a widely used economic development tool for local and state governments across the U.S. Forty-nine states that have TIF legislation in some form. They allow state and local governments to make improvements to blighted or under-used areas potentially without risking their own credit rating or committing resources from their general funds.

The Signature Project Program, established in KRS 154.30-050, aims to assist in projects representing at least $200 million in total capital investment that will have a "significant impact" on the state and that will improve the surroundings so as to justify "extraordinary public support." The TIF incentive is limited to 30 years under this enabling legislation.

Project Requirements

There are several requirements for a Signature Project:

- The project must represent new activity in the state.
- It must be at least a $200 million total capital investment.
- Only 20 percent of the project—measured in terms of capital investment or finished square footage—is permitted to be devoted to retail.
- The project must generate a net positive economic and fiscal impact to the state, taking into account the potential adverse effects on other businesses, what is termed in this report "substitute spending."

State Participation

The State's three TIF programs, including the Signature Project Program, are designed to operate in concert with a local taxing jurisdiction. A city or county government may apply for state participation after the local jurisdiction has established a development area. The local jurisdiction is required to certify that the development area would not be the site of any development in the future, absent public participation. The State then joins the local jurisdiction in committing future tax revenues (the increment) to retiring debt to cover initial improvements. The program limits the amount of State participation in any given Signature Project: the State incentive can only be used for a limited amount of approved costs. These are:

- All public infrastructure costs, net of sales tax paid on the materials.
- Signature project costs, which often include land acquisition costs.
- Financing (interest) costs associated with the issuance of a TIF bond.

To clarify the last point: In the process of a TIF program, the local development authority would issue bonds to cover the public improvements and the bonds would be retired via the tax increment on the site. Each bond payment includes both principal and interest. The legislation allows the tax increment to be used for both the principal and interest portions of the bond payments.

The state limits its participation to the public infrastructure costs and the signature project costs. Public infrastructure costs are generally interpreted to be utilities (including water and sewer), street construction, parks, landscaping in public places, parking, curbs, sidewalks, and other elements that enhance the public way. Signature costs are other necessary project elements that are not necessarily public infrastructure, but are nonetheless considered by the authority to be worthy of public participation. Land acquisition is the most common type of signature cost.

The state also limits the share of the tax increment that can be applied to retiring TIF bonds. Whereas in many TIF districts in other states the entire tax increment is used to retire bonds, the Signature Project Program proscribes that only 80 percent of the increment can be used to retire the debt. The remaining 20 percent would flow to the taxing jurisdiction.

Process

The Kentucky Economic Development Finance Authority, or KEDFA, is the state agency that supervises the Signature Project Program. A city or county government must apply for State participation in a TIF district. Once that application is filed, the authority reviews it for preliminary approval. Part of this preliminary approval is to establish the approved public infrastructure, signature, and financing costs; in this way, the authority sets the maximum level of state participation in the program.

After a project has been granted preliminary approval, it proceeds to an independent consultant, in this case ERA, for review. As the selected consultant, ERA is charged with ensuring that the proposed project would provide a net positive economic impact to the state, taking into account the potential for economic substitutions. Several executive branch agencies, including the Office of the State Budget Director, the Finance and Administration Cabinet, and the Cabinet for Economic Development, work with the consultant before the final report is issued to ensure that the report meets the requirements. (The full requirements of the report are below.) Once this independent study is complete, the authority meets to review the consultant's report and considers giving its final approval to the project.

Requirements of the Consultant Report

ERA has been chosen as the independent consultant to review the Phoenix Park / Courthouse Signature Project, which is part of an application filed by the Lexington-Fayette Urban County Government in December 2008.

The requirements for this report are set out in KRS 154.30-030. They are summarized below. ERA must:

- Report the development costs approved in advance by the authority during the preliminary review period. This would include public infrastructure, land preparation, demolition, and clearance costs.
- Establish the feasibility of the project to guard against state participation in a project that carries an undue amount of risk.
- Estimate the local and state tax revenues that would be generated inside the development area net of any tax revenue likely to have been displaced from other areas of the state.
- Establish a likely baseline—the amount of tax revenue that would have been generated in the development area absent the proposed project. This includes the tax revenue likely to be generated by the existing users on the site.
- Determine, on the basis of net new fiscal impact, whether the proposed project represents a positive benefit to the state.
- Determine whether the project would occur without the state's participation in the program.

The requirements set out in KRS 154.30-030 form the basis of this report.

III. Project Description

This section introduces the proposed Phoenix Park project, with specifications on its location, development costs, component uses, timeline, and TIF eligibility. The source for data in this section is the application, interviews with the development team, the economic impact study included in the application, and ERA's site visits unless otherwise specified.

Summary

CentrePointe LLC, the Developer, has proposed to redevelop a 14.25-acre site in downtown Lexington, Kentucky. The efforts include building a 35-story mixed use development with office, condominiums, retail, a hotel, and a spa. Additions to public infrastructure would include a pedway, an underground parking garage, refurbished facades, restoration of the Fayette County Courthouse, and rehabilitation of Phoenix Park.

The project represents a total of approximately $300 million investment in downtown, with approximately $48 million funded by local and state TIFs and the remaining $250 million funded in equity by the developer and its partners.

Location

The proposed site is between Mill St. on the east, Limestone St. on the west, Vine St. on the south, and Short St. on the north, though not every parcel bounded by these streets is in the development area. (A detailed map is in the application.)

Current Condition

The site of the CentrePointe tower has been prepared for development. Buildings previously located on this block have been removed and, with limited exceptions, the tenants have relocated elsewhere in downtown.

In addition, the following points speak to the condition of other elements of the TIF besides the CentrePointe site:

- The Fayette County Courthouse is in need of extensive renovations, with some estimates put at $16 million in necessary work. Although the courthouse currently has some functional value, the level of activity is low. Therefore, public engagement with the historic asset is limited. A variety of civic uses could be incorporated into the courthouse once it is renovated. These could include a walkup office of the Convention and Visitors Bureau and space for public meetings, cultural events, and the like.

- Phoenix Park is an under-utilized pocket park near the library. It had been designed as a temporary park.
- There is currently a public market that operates once per week, with vendors driving up and using the public way, which is closed during the market. While that was once adequate, the level of interest in the market and in downtown has greatly expanded, and the setup can no longer adequately accommodate the interest among residents. The proposal would improve public safety, traffic flow, and help manage crowds at the market. It would also enable the market to operate longer hours and accommodate more visitors.
- Community leaders indicate that parking in downtown is limited and a public garage would facilitate the area's business, cultural, and civic communities.
- Other buildings on Main Street are starting to show their age. The façade improvement program would greatly improve the curb appeal of the entire Main Street block of the TIF district. (This part of the project would be undertaken using the local portion of the TIF incentive.)

Extensive documentation of the area's current condition is included in the application.

Development Plan

The anchor of the project would be CentrePointe tower, to be bounded by Vine, Main, Upper, and Limestone Streets.. The components of the tower are as follows:

- 250-room, four-star J.W. Marriott hotel, with a restaurant on the ground floor, a 10,000 square foot ballroom, and other meeting space.
- 12,000 square foot J.W. Marriott spa
- 45,000-square foot "urban garden" of public space, when not used for private events.
- An open-air café.
- 42,000 square feet of Class A office space.
- 30,000 square feet of ground-floor retail space, which the Developer intends to fill with businesses not currently in Lexington.
- 89 luxury condominiums on the upper floors.

The building would be served by the underground parking garage, to be constructed beneath Phoenix Park. It would be accessible to the garage and adjacent building via a pedway. It would be LEED certified and rise 35 stories. The table below summarizes the uses to be included in the project:

Table 1. Development Program by Use

	Total	
Retail	30,000	sf
Spa	12,000	sf
Office	42,000	sf
Commercial Total	84,000	sf
Hotel	250	rooms
Residential	89	units

Source: Application

Other Project Components

In addition to CentrePointe, the project would involve the following:

- Restoration of the Fayette County Courthouse, currently being used as the Lexington History Center, northwest of CentrePointe.
- Phoenix Park, immediately to the east of the CentrePointe tower, will be restored and public space will be added.
- A public parking garage will be constructed underneath Phoenix Park.
- Pedways connecting CentrePointe with Phoenix Park and the building immediately to the west of it.
- Streetscape improvements throughout the district and façade improvements along Main Street.
- Improvements to the Cheapside Farmer's Market, located between Church and Short Streets, just east of Main Street.
- Public art along park land on the east side of Limestone, between Main and Barr Streets.
- Improvement of utilities, including storm and sewer, near the CentrePointe tower.

The table below describes the proposed development timeline:

Table 2. Development Timeline

Construction begins	3/1/2009
TIF Begins	1/1/2010
Demolition of structures	1/1/2010
Property acqusition complete	1/1/2010
Construction ends	1/1/2013
TIF Ends	1/1/2040

Source: Application

Financing

The project is expected to be a $298 million project, with $47 million in TIF funds ($37 million of which would be contributed by the state) and approximately $250 million in private investment. Financing costs will raise the total project to $385 million:

Table 3. Public and Private Financing

Public Infrastructure	$47,680,000
Signature Costs	$1,500,000
Private Capital	$249,500,000
Subtotal	*$298,680,000*
Financing	
Public Infrastructure	$75,000,000
Private Capital	$3,870,144
Subtotal	*$78,870,144*
Total Project Costs	$385,523,500

Source: Application

Public Investment

The public investment of $47,680,000 would be split between the state TIF and the local TIF. The Kentucky Economic Development Finance Authority (KEDFA, the authority) has granted preliminary approval for $36,885,000 in funding, which is approximately 75 percent of the public infrastructure costs. The remaining $12,295,000 would be covered by the Lexington-Fayette urban government.

The table below describes how the $47.7 million would be allocated to the different components of public infrastructure:

Table 4. Approved Public Infrastructure Costs

Public Infrastructure	
Land preparation	
Public buildings / structures	$17,000
Sewers / storm drainage	$800
Curbs, sidewalks, pedways	$8,750
Roads	
Street lighting	
Provision of utilities	$200
Environmental remediation	
Floodwalls and floodgates	
Public spaces or parks	$10,000
Parking	$9,930
Easements / right of way	
Transportation facilities	
Public landings	
Amenities: fountains, benches, etc	$0
River bank modifications	
Other Administrative	$1,000
Subtotal	$47,680
Signature Costs	
Land Acquisition for Market	$1,500
Financing Costs	
Financing Costs	$35,325
Grand Total	$84,505

Source: Application
Note: Figures in thousands.

The costs in Table 4. Approved Public Infrastructure are the costs that are eligible for TIF recovery under the Signature Projects Program.

The total state investment would be $36,885,000 in public infrastructure and $36,325,588 in financing costs, for a total state investment of $72,209,688.

Comment on Public Improvements

By itself, the CentrePointe building would improve downtown with its aesthetics, improved retail space, and added hotel space to accommodate visitors. However, the other elements of the project bring several benefits to all downtown stakeholders—residents, businesspeople, and visitors.

- The county courthouse is currently under-used and faces costly repairs. The TIF would make long-lasting capital improvements to the building. Like many county courthouses in the Midwest, the Fayette County Courthouse is a matter of civic pride and tells a story of the county's history. By making the necessary improvements, the project will allow the building to continue to educate visitors and residents on the county's history. It will also facilitate greater public use of the building. With the improvements, it would be suitable for special events, exhibits, and facility rentals. It is also likely that there would be refurbished office space on the ground floor to accommodate a walkup office for the Lexington CVB or another civic organization that caters to visitors. Rather than being a building you glance at from the exterior, the Courthouse can become a building that many more people use for a variety of reasons.
- Phoenix Park had been designed as a temporary park and is showing its age. A refurbished park would ensure that this area of downtown remains green space for everyone to use and would include upgraded landscapes and public infrastructure.
- The public parking garage would add to the downtown inventory and improve accessibility to non-downtown residents.
- The public market is already a popular amenity that brings people downtown and helps make downtown a livable space. (Many cities hoping to attract residents to downtown struggle to convince people that there is enough fresh food available to them in downtown.) Permanent and indoor / outdoor markets are often among the top things to do for visitors and residents in cities like Cincinnati (Findlay Market), Cleveland (West Side Market), and Milwaukee. What is now a once-weekly event with vendors driving up in trucks can become a permanent indoor / outdoor market that lets people access the amenity on many more days. It will allow for more vendors to participate and the utilities infrastructure will allow a wider variety of products to be on display.
- The facades along Main Street would benefit from the restoration program. This program would be administered by an independent board and would ensure that the historic facades can be kept

in good shape, preserving the architecture of the street. By upgrading the exteriors on this block, the program would help to ensure those buildings remain suitable for retail and office tenants and remain an attractive place to spend time. (This program would be funded by the local portion of the TIF incentive only.)

While the CentrePointe tower is the main economic driver of the product, the other elements contribute to improving the livability and vitality of downtown Lexington.

IV. Feasibility and Market Analysis

This report is required to demonstrate that the CentrePointe / Phoenix Park project is feasible and that the assumptions included in the application are valid. This section details the real estate markets in which the CentrePointe / Phoenix Park project operates:

- Hotel, including spa
- Residential condominiums
- Retail, including restaurant
- Office

The applicants have submitted estimates for sales prices for the condominiums, rent per square foot in the commercial space, and revenue per available room for the hotel properties. This section reviews those assumptions for their validity. What follows is a digest of ERA's market research and a discussion on how it applies to this particular case. (This section does not detail the potential for substitute spending or economic impact.) For more details about the market research on any given sector, please see the appendix.

Condominiums

The condominium market in downtown Lexington is not a mature market. ERA would note several projects and project types that apply in downtown:

- Radisson hotel condominiums. These residential condominiums on the top floor of the old Radisson hotel have had a history of being corporate-owned for traveling employees. They are mostly in private hands now. The properties are considered to be good quality, but are older, have standard floor sizes, and no balconies.
- The Woodlands. Developed by the Webb Companies in the 1980s, this property had once been considered downtown's most desirable condominium property. However, the tower is aging with many long-term owners in place. It is also not in the downtown core, but rather on the edges of downtown.
- Contemporary new lofts. Projects like Main and Rose, the 500's on Main, the Lofts at Gratz Park, and City Courts—among others—share several features: they are contemporary designs, often have a loft or "soft-loft" feel, are in mid-rise buildings, and are priced under $500,000. Many units are priced around $200,000 and target young professionals. These units sell for approximately $175 to $300 per square foot. They are not full service buildings. The target market is a younger professional worker, without children, who works full time in Lexington. However, many of the units have been purchased by investors and have been put on the rental market as luxury rentals, sometimes fetching over $1,000 to $1,500 per month in the rental marketplace. Many of these

units are still being marketed to potential buyers now; however, they target an altogether different market from the proposed CentrePointe project.

There is no prestigious downtown condominium building in Lexington. Many larger cities have signature downtown buildings that carry a significant price premium, that deliver a very high level of furnishings and service, and whose address carries prestige. (ERA notes that Louisville and even Covington have signature downtown residential buildings whose units carry a significant price premium. Signature condominiums attached to hotels are in Dallas, Atlanta, and other similar large cities.) The CentrePointe building would be that property for Lexington. It would distinguish itself from the existing marketplace in several ways:

- It would truly be a high rise tower, the highest residential building in the city. It would be in the center of downtown, rather than at its edges.
- It would be a prestigious address. Residents would live in the city's newest high rise building in the most valuable condominiums in Lexington.
- There would be a very high level of service, with residents able to use the hotel's spa, fitness center, and room service.

Developers expect the condominiums to appeal to several markets:

- Equestrian-related buyers. The equestrian market is an important part of the Lexington tourist and residential market. These condominiums can be second homes for those who live out of state and enjoy events at private horse farms, the Lexington Horse Park, Keeneland, and other attractions.
- Corporate buyers. Corporate buyers can include horse farms that want private residences to accommodate guests as well as law firms or other large companies that need a very upscale residence for guests in downtown. Currently, there is no option for this type of buyer.
- Local residents. There is likely to be some demand from local residents for a very upscale downtown property. Many experienced professionals or retirees would require a certain level of service that would not be present in a mid-rise loft condominium—things like professional property management, 24 hour security, on-site underground private parking, and an attached hotel for visitors. Some people who would prefer to live downtown, but who require this level of service, would be potential buyers. These might include leaders in banking, law, health care, university, and government. (The University of Kentucky is investing substantially in health care and its pharmacy school.)

ERA approaches new luxury condominium projects in 2009 with a healthy degree of skepticism. In many places, condominium properties have declined in value. In others, the true decline in market value has been masked by a lack of sales. Previously, sales of luxury condominiums were the economic engines for dynamic mixed-use, public-private developments; however, this model has fallen out of fashion, as the condominium sales required to make projects feasible have collapsed. Bank financing for new condominium construction has seized up. There is a very high degree of uncertainty in residential markets, especially high-end condominiums, across the U.S. And in recessionary times, introducing a luxury product where it has not been present before represents a considerable risk.

However, there are two reasons for optimism in the CentrePointe Tower. First, the developers have pledged an all-equity transaction. This greatly reduces the risk that loans would have to be re-negotiated in the middle of a deal, that payments would be missed, or that financing would be pulled at the last minute. While it does not eliminate all risks associated with financing, an all equity transaction greatly reduces the risks and complications of development in this difficult market.

The second reason for optimism is that the developers have reservations for 64 units, out of 91. While a reservation is less a commitment than a purchase contract, this is still an impressive level of sales for this stage of the process. With two-thirds of units reserved before construction begins, the developers have demonstrated there is demand for these types of units.

Developers have indicated that they have sold the units to the following:

- 30 corporations, including horse farms in the Bluegrass region.
- 29 out of state individuals, many of them international residents.
- 2 residents of Kentucky.

The marketing is currently in a "silent" phase, where developers are taking reservations based on word of mouth and have not yet actively marketed the project. Active marketing will start after construction begins. Developers expect there to be a waiting list for units by the time they open.

Comparable Project

ERA was able to locate a single comparable project, where a development team is building a signature, prestigious building in a small- to medium-sized city with residences and a hotel—the Westin in Huntsville, Alabama.

Like Lexington, Huntsville does not have a mature downtown condominium market. Much of the available product sells at $200 per square foot or less, or about $150,000 for a 750-square foot one bedroom apartment. No other projects have the full service orientation of the Westin project, which is situated in a high-end shopping district. ERA interviewed representatives from the marketing and sales teams for this project.

The project consists of 74 units that are averaging $400 per square foot, approximately double the value of other downtown Huntsville projects. Like CentrePointe, the Westin residences are available in one-, two-, or three-bedroom floor plans. The developer is currently in a low-profile marketing phase and has already sold just under half the units. Based on the experience of the pre-sales process, the developer expects to be sold out of units about six months before the units are delivered in December.

Like the proposed residences at CentrePointe, the units at the Westin would have a high level of service, with 24 hour security, access to room service, a private elevator, access to the hotel's meeting rooms and function space, the attached spa, a concierge, valet parking, laundry service, housekeeping, and a pool. They represent a leap forward in the condominium marketplace in Huntsville.

The retail complex, called Bridge Street Town Centre, has several iconic retailers that are new to the market, including the Apple Store, Kate Spade, jewelry stores, and specialty designers, as well as familiar lifestyle center tenants. There is a 133,000 square foot Class A office tower included in the project.

Demand for units has been varied. There have been a number of local corporations that have signed contracts, expecting privacy and security for their high-profile guests, which likely include visiting executives and other VIP's. (Huntsville is home to a number of Fortune 500 companies, including aerospace companies and Defense Department contractors.) Professional families, including doctors and others, are also interested in the time-saving lifestyle services. And empty nesters have found the location attractive as a second home if they have adult children in the Huntsville area, or as a place to retire.

Condominiums: Conclusion

In addition to the analysis above, ERA also notes that the Webb companies developed the condominiums at the top of the Lexington Downtown Hotel (formerly the Radisson), which also appealed to corporate buyers in the region. They developed the Woodlands, which was the city's most upscale condominium property at the time it opened. The company has deep relationships with the corporate community, which it has used in its sales process.

The table below summarizes ERA's preliminary research on the sales per square foot of select other Lexington condominium projects, plus the comparable project in Huntsville:

Table 5. Select Condominium Market Data

Property	Price Range (sf)	Highest Unit	Size (sf)
The 500's on Main	$230 to $300	$659,900	1200 to 2300
Main & Rose Lofts	$200 to $215	$424,900	778 to 2012
Nunn Lofts	$175 to $220	$449,900	840 to 2322
Residences at Westin*	$400	$1,750,000	1115 to 4146

Source: Interviews, listing information
*Some data estimated for Residences at the Westin.

The 89 units and 206,000 square feet of residential space in the CentrePointe project, are expected to be offered for an average of $400 per square foot, similar to the Residences at the Westin in Huntsville. The properties are offered in a variety of floor plans, including a penthouse, one-, two-, and three-bedroom condominium apartments.

On the basis of the 64 units already reserved, the success of the Huntsville project, the success of the Webb Companies' condominium development at the Radisson, as well as the established concept of condominiums in luxury hotels that has been established in larger metro areas like Dallas, Atlanta, and New York, ERA concludes the residential condominium portion of the project is feasible. Once the project is under construction, developers will promote the remaining one-third of the property with a targeted marketing effort. ERA believes the project can be fully reserved, or at least close to fully reserved, by the time the building opens and closings take place.

Hotel and Spa

The local hotel market and more specifically full-service, luxury, upper-upscale and upscale hotels in Lexington were examined. By examining related demographic, economic, national and local trends with respect to the proposed development, conclusions about positives and negatives for the Lexington market and potential performance of the upper end hotels development on the project site can be forecast.

Current Market Conditions

ERA performed an evaluation of the hotel market in Lexington to determine its strength and vitality. The analysis considered 15 full-service hotels with a total 2,822 rooms in Lexington defined by Smith Travel Research as Luxury, Upper Upscale, and Upscale – three of which are located downtown. (The Lexington Downtown, formerly the Radisson; the Hyatt Lexington Center; and the Gratz Park Inn.) The majority of hotel rooms in this market are older, with only five new additions since 1998 and three since 2002, although this resulted in a 28 percent increase in market supply. The Hyatt has experienced recent renovations and has seen an attendant increase in its RevPAR; the Lexington Downtown Hotel will soon undergo similar renovations and will be branded with the Hilton flag.

Overall, room supply increased at an average annual rate of 1.00 percent since 2003 with room demand grew at a slightly slower pace, reaching 637,723 in 2008 – a compound annual rate of 0.87 percent. Average annual occupancy rates for these 15 properties peaked in 2008 at 64.0 percent. Occupancy rates have remained fairly stable, falling slightly since 2003 at a rate of 0.13 percent per year.

Table 6. Select Hotel Occupancy

Year	Room Count	Room Night Supply	Room Night Demand	Occupancy Rate
2003	2,822	980,035	610,786	62.3%
2004	2,822	1,030,030	634,607	61.6%
2005	2,822	1,030,030	618,050	60.0%
2006	2,822	1,030,030	629,062	61.1%
2007	2,822	1,030,030	659,084	64.0%
2008	2,822	1,030,030	637,723	61.9%
Compound Annual Growth		**1.00%**	**0.87%**	**-0.13%**

Source: Smith Travel Research, Economics Research Associates

Total room revenue has increased at a compound annual rate of 5.84% per year since 2003 with ADRs surpassing the $100 mark in 2005 and rising further to reach $114.54 in 2008. RevPAR from 2003 to 2008 it showed steady growth, averaging 4.79% per year. Data for the first 2 months of 2009 for these hotels shows a marked decline over year-to-date 2008 numbers. On a year-over-year basis, both occupancy and room rates are down over 3 percent and RevPAR is down 6.57 percent.

Table 7: Select Hotel Revenues

Year	Room Revenue	Room Rate	Rev PAR
2003	$55,010,805	$90.07	$56.13
2004	$60,114,909	$94.73	$58.36
2005	$62,497,898	$101.12	$60.68
2006	$66,036,344	$104.98	$64.11
2007	$73,076,467	$110.88	$70.95
2008	$73,046,863	$114.54	$70.92
Compound Annual Growth	**5.84%**	**4.93%**	**4.79%**

Source: Smith Travel Research, Economics Research Associates

Demographic Perspective

Travel, both businesses related and leisure related are two of the most significant demographic factors affecting the hotel industry. While detailed information on the Lexington travel market is not available, looking at the general health of the hospitality industry and overall employment in the Lexington area can lend a perspective into the relative impact of travel on any hotel development.

Employment in the Accommodation sector has remained stable since 2001, suggesting that there has been no significant increase in the demand for accommodation, which is also confirmed by the afore mentioned demand rates. Sector gains in Finance and Insurance, Professional Services, and Management of Companies might suggest an increased demand for business travel, but in absolute terms these gains have been small. Overall, employment has increased at just one percent per year, on par with numbers from the State of Kentucky.

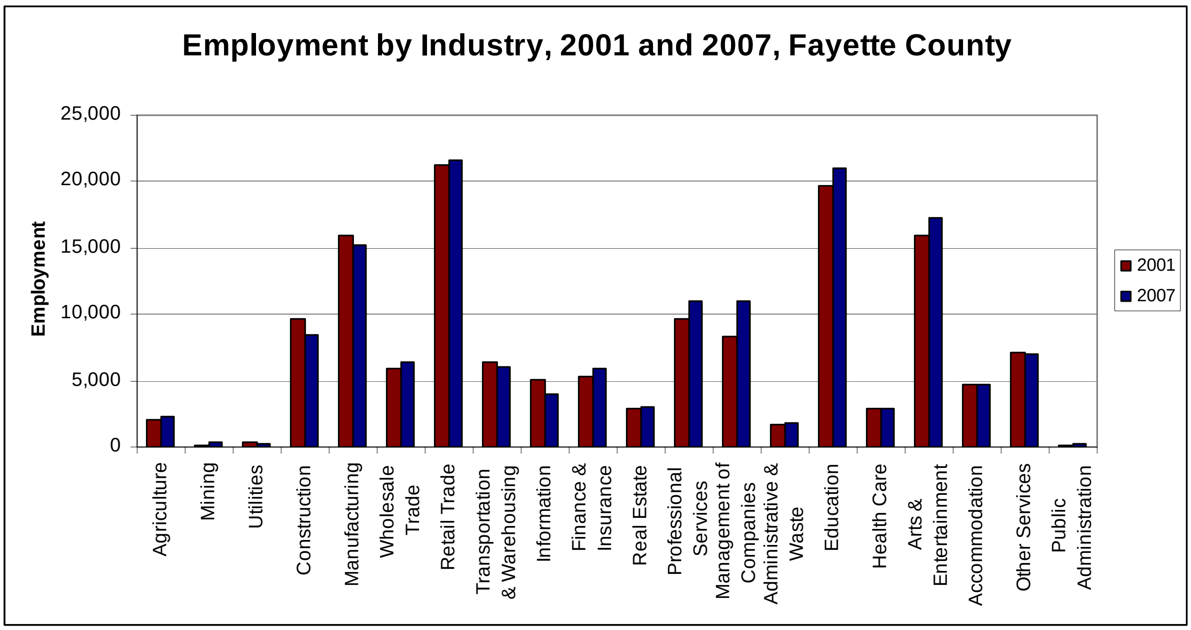


Table 8. Employment by Sector, Fayette County

NAICS	Industry	2001	2002	2003	2004	2005	2006	2007	CAGR
11	Agriculture	2,065	1,941	1,826	1,809	1,904	2,219	2,289	2%
21	Mining	117	133	167	184	206	311	328	19%
22	Utilities	319	300	280	264	242	226	224	-6%
23	Construction	9,641	8,653	8,583	8,506	8,576	8,475	8,476	-2%
31-33	Manufacturing	15,932	14,662	13,996	13,814	14,478	14,641	15,197	-1%
42	Wholesale Trade	5,945	5,593	6,069	6,065	6,040	6,065	6,349	1%
44-45	Retail Trade	21,247	20,804	20,788	20,980	21,208	21,219	21,560	0%
48-49	Transportation & Warehousing	6,441	6,272	6,048	5,861	6,381	5,927	6,006	-1%
51	Information	5,023	4,857	4,645	4,046	4,038	3,964	3,943	-4%
52	Finance & Insurance	5,361	5,394	5,523	6,045	5,854	6,018	5,934	2%
53	Real Estate	2,930	2,816	2,810	2,721	2,878	3,037	2,972	0%
54	Professional Services	9,683	9,815	9,729	9,714	9,849	10,624	11,007	2%
56	Management of Companies	8,321	8,482	8,533	10,029	11,092	10,933	11,024	5%
61	Administrative & Waste	1,650	1,611	1,701	1,769	1,736	1,772	1,822	2%
62	Education	19,703	20,381	20,869	20,985	21,445	21,680	21,009	1%
71	Health Care	2,861	2,872	2,724	2,877	2,885	2,704	2,913	0%
72	Arts & Entertainment	15,951	15,467	15,622	15,839	16,056	16,797	17,251	1%
81	Accommodation	4,752	4,751	4,778	4,790	4,764	4,763	4,714	0%
92	Other Services	7,129	6,907	6,880	6,998	6,712	6,875	6,986	0%
99	Public Administration	74	68	91	189	200	207	268	24%
	Total	167,714	164,639	164,489	165,603	169,126	172,139	175,951	1%

Source: Bureau of Labor Statistics

Development Proposal

The hotel component for the CentrePoint project involves a 247-room, four-star, J.W. Marriott; included as part of the hotel development is 8,500 square feet of meeting space, a 10,000 square foot ballroom, and a 12,000 square foot spa. Key metrics for this project as provided by the developer are:

- First operational year occupancy of 59 percent
- Occupancy rising to a stabilized 71 percent in year 6
- An ADR of $175 in year one
- Year-One RevPAR $103
- Room rates increasing at a compound annual rate of 3.9 through Year 10
- RevPAR increasing at a compound annual rate of 6.1 percent over ten years
- $18.7-million in year one revenues with an NOI of $5M-million

The J.W. Marriott meeting space and spa in the hotel component of the CentrePoint project alone comprise nearly 8 percent of the total commercial development and plays a pivotal role in the success of the development in bringing in new tax dollars to the State of Kentucky.

The addition of a four-star hotel with attached condominiums, retail and office space would be a new product to the downtown Lexington market. This type of high-end luxury development has been mostly seen in major cities like New York, Los Angeles and Chicago but a handful of such developments have been built over the past several years in smaller, affluent cities like Lexington.

Spa

The 12,000 square foot spa would be associated with the hotel, and likely derive much of its revenue from hotel guests, but would also be open for local business. Its footprint is very large for an urban spa, as these tend to be closer to 8,000 square feet and are often in much larger hotels than the proposed hotel. This property is unique, however, because it also has the attached residences, and the condominium owners will be able to use some spa services. ERA's research indicates that urban hotel spas generally achieve about $116 per square foot (in 2006 dollars). The developers anticipate $126 per square foot in the first year, which is reasonable. We remain somewhat concerned about the size of the spa, given the hotel's size and the size of the market. We do note, however, that the next-best hotel spa is at the Griffin Gate resort, and interviews suggest this has been successful since Griffin Gate's renovation in recent years. The large spa may be a drag on the profitability, but we do not believe this makes the hotel or the overall project infeasible.

Conclusions

Since the J.W. Marriott is a new product to the Lexington market, it is difficult to judge its success based on the available market metrics. Statistics for the current market of Luxury, Upper-Upscale, and Upscale hotels show that the ADR for the J.W. Marriott is above and beyond what is currently offered. With a first year ADR of $175 and RevPAR of $103 at 53 and 45 percent higher than any comparable properties in the market at the end of 2008, these metrics may be optimistic. Developers are anticipating that the hotel will serve the very top of the market in the same way as the condominiums have—by appealing to those who enjoy Lexington's business and equestrian climate and who desire the kind of services that are often found in larger cities. Projected hotel occupancy as well, is projected by the developer to be nearly 10 percentage points higher than the 2008 year-end average of 61.9 percent.

However, evidence in other markets suggests that similar properties are commanding upwards of 40% premiums on ADRs over their closest competitors. How this translates into in lower-than-average vacancy is questionable, but if this holds true, RevPAR is also likely to be significantly higher.

ERA would also make the following points:

- The Marriott points program is often rated the most desirable points program among business travelers. In addition, ERA's interviews show that 78 percent of the guests at a J.W. Marriott branded hotel are points members, reflecting the points program's importance to the brand. Currently, there is a Marriott resort, Griffin Gate, in the market but not in downtown. The Spring Hill Suites is a Marriott property near downtown, but it is a mid-scale suite hotel.

- Although the RevPAR may be 45 percent over the market basket of upscale and upper upscale hotels, ERA estimates that it is likely only about 20 percent higher than the top of the downtown market, given the recent renovations to the Hyatt.

RevPAR over $100 is an aggressive target and may take a few years to reach; however, the success of the condominium pre-sales and the market's embrace of higher rack rates at the recently renovated downtown hotel suggest the J.W. Marriott can be successful at these rates.

Office

The market for Class A and Class B office space in the Lexington – Fayette Market was taken into account along with relevant demographic, economic, local and national trends to draw conclusions for the office component of the proposed development.

Current Market Conditions

In 2008, a survey of major office properties included 30 properties covering 2,340,673 square feet in the Lexington Central Business District and 71 properties with 2,680,495 square feet in the Lexington Suburban Market. No new speculative multi-tenant construction (Suburban or CBD) is expected to come online in 2009 as the market continues to absorb space constructed in 2007 and 2008. Notably, there has been no significant new construction in the Central Business District in the past 20 years and no new construction at all in the past six years. The most recently constructed Class A building in downtown is the Lexington Financial Center, the tallest in downtown, also developed by the Webb Companies.

Downtown office inventories have remained fairly constant, declining slightly since 2001 at a compound annual rate of less than one-percent. A similar trend is apparent in the suburban market, with many older properties being replaced by new construction for a negligible increase in supply. From a demand perspective, both the downtown and suburban markets have seen significant declines. At the end of 2008, there were 310,000 square feet of space available in the downtown market and 448,000 square feet of available office space in the suburban market, annual increases of 1.2 percent and 9.3 percent for the downtown and suburban markets respectively.

Quoted rents on a per-square-foot basis rose an average of just 0.77 percent annually in the downtown market to reach $17.80 for Class A and $13.90 for Class B (a negligible annual increase). The suburban office market witnessed slightly higher annual increases of just under 1.1 percent per year for Class A and 0.70 percent for Class B to hit $18.67 and $13.90 for Class A and B respectively.

Table 9: Office Market Trend - 2002 to 2008

	2002	2003	2004	2005	2006	2007	2008	CAGR
Central Business District								
Net Rentable Area	**2,447,975**	**2,448,975**	**2,396,007**	**2,366,126**	**2,341,312**	**2,319,395**	**2,340,673**	**-0.74%**
Total Available	**289,840**	**318,122**	**338,556**	**303,811**	**234,131**	**276,936**	**310,346**	**1.15%**
Vacant Space	268,828	314,985	238,562	303,927	232,564	277,020	302,346	1.98%
Sublet Available	21,053	3,184	55,108	0	1,639	0	8,000	-14.89%
Total Available %	**11.84%**	**12.99%**	**14.13%**	**12.84%**	**10.00%**	**11.94%**	**13.26%**	**1.91%**
Vacancy %	10.98%	12.86%	11.83%	12.84%	9.93%	11.94%	12.92%	2.75%
Sublet %	0.86%	0.13%	2.30%	0.00%	0.07%	0.00%	0.34%	-14.33%
Rent								
Class A	$17.09	$17.09	$18.17	$18.23	$18.38	$18.09	$17.90	0.77%
Class B	$13.68	$12.61	$17.07	$13.20	$13.95	$14.25	$13.71	0.04%
Suburban Markets								
Net Rentable Area	**2,671,539**	**2,738,560**	**2,737,661**	**2,663,338**	**2,564,488**	**2,864,137**	**2,680,495**	**0.06%**
Total Available	**326,996**	**451,315**	**339,470**	**267,932**	**301,327**	**368,098**	**466,735**	**6.11%**
Vacant Space	263,022	401,914	286,916	237,410	281,841	350,372	447,555	9.26%
Sublet Available	63,850	49,294	52,563	30,628	19,490	17,726	19,180	-18.16%
Total Available %	**12.24%**	**16.48%**	**12.40%**	**10.06%**	**11.75%**	**12.85%**	**17.41%**	**6.05%**
Vacancy %	9.85%	14.68%	10.48%	8.91%	10.99%	12.23%	16.70%	9.20%
Sublet %	2.39%	1.80%	1.92%	1.15%	0.76%	0.62%	0.71%	-18.31%
Rent								
Class A	$17.50	$17.52	$17.69	$17.92	$18.05	$18.10	$18.67	1.08%
Class B	$13.34	$14.40	$14.07	$13.62	$14.71	$14.77	$13.90	0.69%

Source: Coleman Group Commercial Real Estate

Demographic Perspective

Population in Lexington – Fayette County is projected to increase at a compound annual rate of just less than one-percent per year from Census 2000 numbers to reach almost 300,000 by 2013. This is a faster pace than similar counties in Kentucky and the overall state average. Income levels are also some of the highest in the state.

However, more important than pure population demographics to the office market is the availability of labor as well as the economic health of the market in general. With the University of Kentucky being located in Lexington, the percentage of the population enrolled in higher education is significantly higher than state averages. It would also appear that the Lexington area is better percentagewise at retaining highly educated individuals with percentages of the population with bachelors and advanced degrees better than double that of the State of Kentucky as a whole.

From an employment perspective, Lexington Fayette County has a high percentage of the employed population working in White Collar jobs, nearly 70 percent, which bodes well for the office market. Afore mentioned employment increases in Finance and Insurance, Professional Services, and Management of Companies business sectors also points to a healthy office market, even under current difficult economic times.

Table 10: Employment by Occupation

	Newport - Campbell	Covington - Kenton	Lexington - Fayette	Louisville - Jefferson	State of Kentucky
Employed Population 16+	44,010	80,562	143,724	340,431	1,922,389
Occupation					
White Collar	62.6%	63.5%	68.0%	63.1%	56.1%
Management/Business/Financial	14.5%	15.0%	14.7%	14.5%	12.4%
Professional	20.0%	20.0%	28.9%	21.7%	19.4%
Sales	10.5%	11.0%	11.5%	11.1%	10.6%
Administrative Support	17.6%	17.6%	12.8%	15.7%	13.7%
Services	15.2%	15.3%	16.0%	15.6%	16.0%
Blue Collar	22.2%	21.1%	16.1%	21.3%	28.0%
Farming/Forestry/Fishing	0.1%	0.0%	0.6%	0.1%	0.6%
Construction/Extraction	6.8%	5.6%	4.2%	5.3%	7.2%
Installation/Maintenance/Repair	3.6%	3.4%	2.4%	3.2%	4.1%
Production	5.5%	5.6%	4.9%	6.1%	8.7%
Transportation/Material Moving	6.2%	6.5%	4.0%	6.7%	7.4%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Development Proposal

The CentrePointe tower would include the addition of 42,000 square feet of commercial, Class A, office space to the downtown market. The key metrics that comprise the cornerstone of this project element are:

- Pre-lease of approximately 50 percent of building GLA
- First year operational occupancy of 50 percent
- Occupancy climbing to 95 percent by year 3
- Average rental rates of $26 per square foot in year one
- Rents rising at a compound rate of 2.7 percent per year for 10 years
- $600,000 in year one revenues with a NOI of $170,000

The office component of the Phoenix Park in the CentrePointe development is slightly over 10 percent of the total commercial space slated to be built. This represents the largest and most significant office development in the downtown area in the past 20 years. While not large in absolute terms, 40,000 square feet of Class A office space would be a significant addition to the downtown market from both a size and image perspective. The additional features of CentrePointe make this modestly sized office development more attractive with on-site retail and dining options, hotel accommodation, and private residences that would be attractive for both potential tenants and their employees.

The office space would be suitable for a regional corporate headquarters, potentially including a bank or a law firm, which would value the high-profile building, the high level of furnishings and amenities, the presence of the hotel, and the presence of a very upscale restaurant suitable for business meetings with executives and traveling VIP's. ERA notes that the current political and economic climate suggest that a bank is unlikely to sign a high profile lease; in addition, there have been bank consolidations recently that will leave local banks with more space than they need.

Development Comments

Even though the Lexington market has experienced growth in several key office-related sectors, employment declines in the Information Sector have led to overall declines in total office employment over the past five years. In comparison with most other major office markets throughout the United States, the Lexington MSA has lagged behind in office employment growth and at the same time seen an increase in area-wide inventory. While losses in employment and increases in inventory have not been as significant in Lexington – Fayette County specifically, this suggests a fundamental weakness in the local office market.

Table 11: Office Employment Growth

Cumulative Growth in Office* Jobs Over the Past 5 Years			
Market	Employment Growth	Inventory Growth	Difference
Atlanta	2.60%	7.30%	-4.70%
Boston	5.00%	3.00%	2.00%
Chicago	3.40%	4.30%	-0.90%
Dallas/Ft Worth	12.00%	7.40%	4.60%
Denver	4.50%	4.90%	-0.40%
Los Angeles	2.10%	2.60%	-0.50%
New York City	4.50%	1.00%	3.50%
Seattle/Puget Sound	12.10%	6.20%	5.90%
Tampa/St. Petersburg	-2.30%	8.60%	-10.90%
Washington	5.10%	9.60%	-4.50%
Louisville	4.20%	4.90%	-0.70%
Lexington/Fayette	-3.30%	6.30%	-9.60%

* Office employment is defined as jobs in Information, Financial Activities, and Professional & Business Services
Source: Department of Labor, Bureau of Labor Statistics, Costar Property

Conclusion

Development of a new property in a market that can be best described as soft, not only from a local perspective but on a national scale as well must be regarded with some degree of skepticism. Employment in office jobs has contracted considerably in the last five years in the Lexington/Fayette market, much more than other major urban markets. However this has been almost exclusively due to losses in the Information sector. The region has actually experienced growth in the Finance, Professional Services, and Management of Companies sectors.

Lexington continues to have a higher percentage of white collar workers in comparison to similar counties and the rest of the state – a sign that bodes well for additional office development. The downtown location as well as the having a variety of on-site amenities that will appeal to both potential employers and employees makes the development more viable. Lack of developable land has been a factor in the lack of office development in the downtown market over the past 20 years and even though the vacancy rate for Class A office in the Central Business District is over 10 percent, a brand new space with an adjoining parking garage would offer a prestige not currently offered in the market.

Estimated rents of $26 per square foot would be about $6 per square foot higher than the current highest quoted rate in the market – a number that may be difficult to achieve given current market conditions and may require some concessions. However, given this property's

position as the pinnacle of the market and its relatively small office footprint, ERA expects firms would value this location, even at a premium rate. ERA believes office occupancy can be achieved at these premium rates.

Retail and Restaurant

In drawing conclusions for the retail component of the proposed development, ERA focused specifically on shopping centers in the Lexington Market. Local and national trends along with market demographics were also used to make conclusions about the viability and sustainability of any potential retail development.

Market Conditions

Approximately 680,000 square feet of retail space has been added to local inventories since 2006. Absorption has been sluggish and available space in the market has climbed to a total of over 910,000 square feet by the end of 2008. Quoted rental rates declined over the course of 2008, but still remain significantly higher since the end of 2006 with quoted rates ranging from a low of $6.00 to a high of $35.00 at the Fayette Mall. ERA's interviews suggest that the market has been greatly affected recently, and that the Fayette Mall is the only property in the region that can reliable sign leases over $20 per square foot, and that in some cases lease rates can be down by as much as 25 percent from a few years ago.

The inventory of retail space in the Lexington market included 100 shopping centers at the end of 2008 with nearly 11-million square feet of space. The total vacancy rate stood at 8.32 percent and has climbed at a compound rate of 14.6 percent annually since 2008.

Table 12: Retail Market Trend - 2006 to 2008

Lexington Retail Market	2006	2007	2008	CAGR
Net Rentable Area	**10,265,665**	**10,919,466**	**10,944,775**	**3.25%**
Total Available	**649,817**	**872,632**	**910,265**	**18.36%**
Vacant Space	567,855	842,598	826,961	**20.68%**
Sublet Available	81,962	30,034	83,304	**0.82%**
Total Available %	**6.33%**	**7.99%**	**8.32%**	**14.62%**
Vacancy %	5.53%	7.72%	7.56%	**16.87%**
Sublet %	0.80%	0.27%	0.76%	**-2.36%**
Rent	**$14.96**	**$19.07**	**$17.61**	**8.50%**

Source: Coleman Group Commercial Real Estate; Costar Group

In general, the Lexington retail market saw a slowdown over the course of 2008. Retailers have scaled back expansion plans, are more selective with sites, are postponing additional units, and in some cases pulling back and consolidating – a trend that has been seen across the United States.

The 800,000 square foot Richmond Centre under construction on I-75 in Richmond is worth taking note of. This open-air center is the largest development under construction and only lies approximately 21 miles south of Lexington with the majority of its stores, dining and entertainment components projected to open by mid-2009.

Demographic Perspective

While tourism plays an important role in retail spending, general population demographics are a better indicator for year-round, sustained retail development. Population in the Lexington area has increased steadily since 2000, and is projected to outpace the growth rates in similar Kentucky counties and that of the state. A similar growth trend is seen in households, which are projected to grow to over 127,000 by 2013.

Table 13: Population

	2000	2008	2013	CAGR
Newport - Campbell County	88,616	87,774	86,842	-0.16%
Covington - Kenton County	151,464	157,863	162,746	0.55%
Lexington - Fayette County	260,512	282,471	295,109	0.96%
Louisville - Jefferson County	693,604	716,009	728,341	0.38%
State of Kentucky	4,041,769	4,295,044	4,470,953	0.78%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Income levels, another key indicator in retail feasibility are income levels of the local population growth in per capita, average household, and median household income levels are projected to outpace the state average and similar markets in Kentucky. Their absolute levels are expected to continue to be higher than state averages, with median household income over $10,000 higher than the state median in 2008.

Some local interviewees expressed reservations about whether the population density in downtown is sufficient to support the type of retail expected at this site. Many residents express a familiar concern for downtown condo buyers—namely, that convenience retail like drug stores and grocery stores are lacking. However, these types of services are not necessarily a natural match for the high profile building proposed. ERA expects that the leasing effort would have to be targeted to retailers that value being in a business district—such as Brooks Brothers or other retailers that would appeal to the upscale, white collar professional as well as local residents. Certainly the very favorable trade area income levels would help the project.

Development Proposal

Retail is an important aspect of any mixed-use development and can be a deciding factor of potential condominium buyers and office tenants. The retail component of CentrePointe and Phoenix Park is slated to include

- An open-air café/specialty restaurant
- 45,000 square feet of public space to be available for private events
- 30,000 square feet of ground-floor retail space
- First operational year rent of $27 per square foot
- Rental rates increasing at a rate of 3 percent per year
- 85% occupancy ramping to 92% in year 4
- Revenue of $554K and $310K in Net Operating Income

Additionally, the development will include a total of 894 parking spaces – a 563-space underground parking garage as part of CentrePointe and an above-ground garage with 331 spaces. The perception of adequate parking is a key element in bringing people outside of the downtown market and people who would not normally frequent the area to the Central Business District.

Like the office market, there has been little shopping center development in the Lexington Central Business District over the past 20 years. The nearly 40,000 square feet of retail that includes an open-air café and specialty restaurant would be a unique offering and with the additional parking that comes as part of the package, is well positioned to take advantage of any potential that the CentrePointe and the Lexington Central Business District brings to the table.

Conclusion

While the retail market in Lexington – Fayette County has softened somewhat under current economic conditions, the downtown market remains in fairly good health as compared to the suburban markets and comprises only about 2.3 of the current market gross leasable area. CentrePointe would represent the second largest downtown shopping center and a 14 percent increase in the size of the market in the Central Business District.

Compared to the larger market, the retail at center point would represent less than one-half of one percent of the market. With the condominium full-time residents, hotel guests, daytime office traffic, and on-site parking retail would be well poised to take advantage of the market. Demographic trends from the area also point to promising population base with above average income levels.

ERA interviews suggest that the only project in the region that can reliably sign new retail tenants over $20 per square foot is the Fayette Mall. The mall is the “city shopping” destination for visitors from outside the region—eastern and southern Kentucky—and already has an impressive base of upscale retail tenants.

Initial rents at a downtown location of $27 per square foot are at the upper end of the market, but are within the limits for specialty and upper-end retail in the local market and nation-wide. The only question that remains is whether upmarket retailers would choose a CentrePointe location rather than the safer bet at Fayette Mall. First year occupancy of 85 percent may be aggressive depending on the levels of pre-leasing. It is likely that they will be influenced by the successful pace of condominium sales.

ERA believes that $27 per square foot is an aggressive ask in this market, especially in downtown. While developers may not reach $27 per square foot initially, we do believe this will be a very attractive location for a prominent retailer, potentially one new to the Lexington market. The retail component is in our opinion feasible.

Conclusions on Overall Feasibility

The CentrePointe tower is an aggressive play into the top of the real estate market in condominiums, hotel, retail, and office at a precarious time in real estate development. The condominiums would be sold for approximately 33 percent higher than the next-highest downtown condominium project on a per square foot basis; the office would be at the top of the market regionally; the retail rents would rival the most prestigious location, the Fayette Mall; and the hotel is of a quality not represented in all of Lexington.

Traditional bank financing would be extremely difficult, if not impossible, to secure for a project of this scale at a time like this. In many instances around the U.S.—and not just in markets like south Florida—condominium and hotel projects remain frozen as unfinished towers, as developers struggle to sell units and as nervous hotel operators back out of deals.

As we have mentioned, there are several reasons for optimism:

- In the strongest possible signal to this point, developers have taken reservations for two-thirds of the condominium units. (Contracts cannot be signed until floor plans are finalized.)

- The building would be at the top of the market—the newest office building, the newest hotel, etc.—and would likely not have difficulty appealing to tenants that want to be in the newest, highest-level-of-service building. The office space is small enough to be a regional headquarters for a single company. It could also be used for a high profile local law firm or real estate firm.
- Its location would be ideal and it would be surrounded by the public improvements included in the TIF: the new Phoenix Park, the public parking, the upgraded court house, the new farmer's market, and improved streetscape.

The table below summarizes our conclusions by use:

Use	**Market Comment**	**ERA Conclusion**
Hotel	Full service hotels are at $70 RevPAR, but none are of the luxury standard as J.W. Marriott. Recent hotel renovations will raise expectations in the city.	Proposed RevPAR of $100 is aggressive, but with other improvements in the market, it would probably represent a 25 percent price premium. For the newest hotel and only luxury hotel, ERA believes this is possible, but the recession may delay its achieving $100 RevPAR.
Condominiums	Most downtown condominiums selling for $200 to $300 per square foot, but have limited service and appeal to younger professionals.	With two-thirds of the units spoken for, Developer has demonstrated the upper end of the market demands residential units downtown with very high levels of service at a premium price point.
Office	Most Class A office downtown is in $17 to $20 range, but no new inventory in 20 years.	The proposed office space would represent a small part of downtown's inventory and ERA anticipates no problems leasing to a tenant that values the prestige of the building. However, the high lease rates may necessitate some concessions.
Retail	Mirroring national trends, lease rates have fallen and retail expansion has	The safe bet for a high quality retailer entering Lexington market is Fayette

	slowed, if not stopped altogether. Fayette Mall represents the top of the market, the only location reliably over $20 per square foot in 2009. Income levels are very favorable, but downtown lacks the population density of larger cities.	Mall. However, the signature location in downtown can present a value proposition to retailers aiming for a white collar professional customer, like Brooks Brothers, Apple, Capital Grille, and the like.

Every project will have some question marks as it goes into development. We believe the question marks are more with the lease concessions necessary to sign retail and office tenants, and the time it may take the hotel to reach its RevPAR forecasts. However, we do not believe any of these is a major barrier to the project's feasibility. **If the project's equity financing remains intact and the investors are satisfied with the projected return, then ERA does not see a market barrier to feasibility of the project.**

ERA's primary concerns are less for the project's feasibility than for its net positive economic impact, the subject of the next section.

V. Economic and Fiscal Impact

This section reviews the economic and fiscal impact of the proposed project.

Economic Impacts defined

The TIF statute requires ERA to estimate the economic impact of the proposed project. The Centrepointe / Phoenix Park project would essentially be a new real estate project, but the tenants—the key drivers of economic activity on the site—would be a mix of brand new economic activity and some business activities displaced from other locations in the state.

Substitutions

The TIF statute specifies that, for the purposes of reviewing the application, the KEDFA may not consider economic activity taking place on the site that has simply been shifted away from another location in the state. Such activity would not be new business to the state, but rather business taking place on this particular site rather than at some other location. It would not represent a net new benefit to the state. For example, if the CentrePointe Tower were to open two retailers and one includes a brand new retailer and another includes a retailer previously operating in the state, ERA would consider the new retailer only in measuring economic impact. Further, ERA would consider the possibility that although the retailer may be new, the dollars spent by area residents may simply be shifting away from other priorities (that is, other retail goods in other stores) in favor of the new store.

These dollars are difficult to measure precisely. It is impossible to know in advance exactly what choices Kentucky residents and visitors will make, in terms of where they spend their money and in what patterns. Even so, ERA's interviews, data collection, analysis, and experience of senior consultants has allowed us to make informed estimates of the new economic activity, net of substitutions, for each property type.

Direct Spending

Direct spending is the driver of the process of economic impact. It is, simply, the total new economic activity that results directly from a given event. For example, if a new company moves to Kentucky and employs 10 people, and by doing so earns $1 million in revenue, one would say that the direct impact of the event is $1 million. This is reported as "total direct output," or the value of goods and services produced. (The value of goods and services is assumed to be revenue.)

There are two common ways of measuring direct spending—through employment (the number of jobs) or through revenue. ERA's preferred economic impact model, IMPLAN, contains data that relates the two figures to each other. For example, in Kentucky, the restaurant industry employs about 25 people for every $1 million in revenue it earns. This is largely because restaurant workers earn less income; they work fewer hours; and the profits margins in the restaurant industry are low. By contrast, the a typical industry in Class A office employs just 17 people per $1 million in revenue, as it requires more highly skilled individuals.

By using this relationship, ERA can measure the total economic impact in terms of jobs or revenue, depending on which figure is more available. Both ways are employed in this report; however, because of the data on the relationship between the two, they can be used interchangeably.

Indirect and Induced Spending

Direct impacts are part of the total economic impact story. The two other components are indirect and induced impacts. These represent other activities in the economy that take place only because the direct impacts are there. If a brand new hotel opens for business, and the hotel's entire business is net new and therefore its revenue is considered a direct impact, then the hotel operator has to make other local purchases in order to produce its product. This can include food for the restaurant, linens, equipment, professional services, and the like—hundreds of different industries are affected. Although some of this would be purchased from out of state, much of it would go to businesses within the state. This extra business in state is the indirect impact, and can be measured with an indirect impact multiplier, which is provided by IMPLAN. If $1 million in revenue for a hotel is new revenue, and the indirect impact multiplier is .2921, then one would say that $292,100 in indirect new business would accrue to other state businesses.

Induced impacts are similar: they represent the new economic activity that takes place as a result of higher wages present in the economy. So, if a hotel opens and makes $1 million in revenue, it pays its employees wages. If the $1 million is, in fact, new revenue to the state, then the wages paid to employees are new as well. These employees will then spend wages on a variety of goods and services and this spending is considered the induced impact. It also carries a multiplier. In the case of hotels, it is .2981.

Therefore, $1 million in new hotel activity generates $292,100 in indirect impacts and $298,100 in induced impacts. In total, that $1 million represents $1,590,200 in total economic activity.

Sources of Economic Impact

The Centrepointe/Phoenix Park project is a proposal to build commercial and residential real estate. The key economic activities will be what takes place in the buildings—that is, the economic activity of the tenants and owners—as well as construction.

The following is a review of the sources of economic impact at this site:

- The hotel
- Visitor spending by hotel guests
- Office tenants
- Retail tenants

ERA would also note here that residential condominiums are a large part of the district's plan. The developers have indicated that they have sold approximately two-thirds of the units. Half the units sold have been to corporations in the region, mainly horse farms, for use by their customers and guests. Approximately half have been purchased by out of state individuals, most of them from out of the country. A small number have been purchased by in-state individuals. These will likely have a positive impact on the region, benefitting the corporate owners by giving them additional accommodations for their customers. However, many of these customers are visitors anyway. The international residents who purchase second homes are likely to spend limited amounts of time in Lexington. And while there is likely to be a positive impact from this activity, there is very little data on which to base this estimate. Therefore, ERA's analysis is confined to the commercial components (listed above), plus construction.

We would also note that other components of the project besides the CentrePointe tower will also have a positive benefit on Lexington's image, including the rehabilitated courthouse, the new Phoenix Park, and the underground garage. These will all beautify downtown and make it more accessible to people doing business or spending leisure time in the state. In this case, as well, ERA believes the tangible economic benefit will be at the margins, so we omit this from our analysis.

Fiscal Impacts defined

The purpose of calculating economic impacts is, ultimately, to estimate the fiscal impact to the state that results from the project. The fiscal impacts will be one of the key metrics upon which the KEDFA makes its funding decision.

ERA considers the direct, indirect, and induced economic activity when calculating fiscal impacts. These economic activities are a base upon which to estimate the main sources of revenue to the state. (Only economic activity determined to be "net new" to the state is used in calculating fiscal impacts.)

The following is a list of revenue sources considered in this report:

- State ad valorem tax on the value of the land. By statute, this is 12.2 cents per $100 in assessed valuation, or 0.122%. Assessed valuation is performed at fair market value in Kentucky. Fair market value can be determined by three methods—the cost to replace the improvements plus cost of the land, sales of comparable buildings, and income capitalization. For the purposes of evaluating fiscal impact, ERA uses the development cost of the project (including land acquisition) as the fair market value. While the other methods may yield slightly different valuations, the replacement cost method is the one for which real data is currently available.
- State sales tax. State sales tax is applied at 6 percent to most retail goods, including restaurant meals. Therefore, any net new retail, restaurant, or entertainment spending on site is subject to 6 percent tax. In addition, ERA estimates that 25 percent of a local employee's compensation will be re-spent in the economy on taxable goods; therefore, a quarter of net new employee compensation is assumed to be spent on retail and will accrue 6 percent sales tax as well. (This is referred to later as the income re-spending effect.)
- State income tax. Although the state has a graduated income tax, ERA is using an effective income tax rate of 4.2 percent on all income earned in the state. This includes all employee compensation from direct or indirect economic activities, provided that it is net new to the state.
- Corporate income tax. A smaller component of fiscal impact is the state corporate income tax. For the purposes of estimating fiscal impact, we look at the economic impact of the project (gross revenues) and apply an effective tax rate of 0.095% per dollar in revenue. This is an effective rate used in the application.

Smaller impacts, such as fees, licenses, and other miscellaneous impacts would flow to the state, but they are not included in this analysis.

Economic and Fiscal Impacts by Property Type

Direct Impacts

Below, ERA reviews the direct impacts by property type. Many of the properties are on a ramp-up schedule, achieving stabilization some time after they open. In this section, we provide insight into the calculation of the direct impact in a stable year. Subsequent sections will show the economic and fiscal impact. The direct impacts presented and derived in this section relate closely to the direct impacts used to calculate economic and fiscal impacts in later sections.

Construction and One-Time Impacts

- Total construction as provided by the developer is projected to cost $253,680,000.
- CentrePoint Tower is estimated to cost $205,000,000 to construct.
- The expansion of Phoenix Park is projected to run $32,930,000.
- Additional improvements and infrastructure upgrades will make up $15,750,000.

Table 14: Direct Impacts, Construction

CentrePoint	$	205,000,000
Phoenix Park	$	32,930,000
Other Improvements	$	15,750,000
Total Construction	$	253,680,000

Numbers may not add due to rounding
Source: Application

Hotel and Spa

- Total revenue is based on a room count of 247 rooms and projected RevPAR as provided by the developer.
- Revenue in additional future years is based on increasing room rates of 3.00 percent per year and RevPAR as a percentage of ADR during stabilized operation.
- Occupancy is provided by the developer and stabilized during year six of operations at 71.4 percent.
- Additional spending by hotel guests is based on the Bluegrass Region Overnight Domestic Leisure Travel Survey conducted by D.K. Shifflet.
- ERA used a cross-section of average party size from this survey based on targeted hotel guest to derive an average number of occupants per room of 1.2.
- An additional spending premium was added to average daily spending per visitor based on the percentage of ADR above typical visitor party spend on accommodation and the likely demographics of a luxury hotel visitor.
- Out-of-State visitation is estimated at 30 percent of all hotel guests and is applied to visitor spending.

Net new spending on hotel guests is a somewhat conservative estimate. There are two ways in which hotel guests can contribute a positive economic impact at a hotel priced so far above the market average:

- Guests who are spending an over-night in Lexington who otherwise would not do so.
- Guests who would otherwise spend an over-night in a Lexington hotel priced at the market average, but instead upgrade and pay the higher rate.

The first instance, guests who spend an over-night in Lexington who otherwise would not do so, includes new convention and group business, equestrian tourists, wedding guests, guests of the building residents, executives from area companies that do not currently use Lexington as a business hub, Marriott points loyalists who seek out urban destinations based on the availability of luxury Marriott accommodations, and the like. We assume that these visitors make up 30 percent of the hotel's business. The largest component of the new business would be new group travelers, including convention-goers and business meetings that would be held in the hotel's meeting room. They have an off-site economic impact as well as an on-site economic impact.

The much larger component is of travelers who currently do stay over-night in Lexington, but stay in the (newly renovated) Hyatt, the Griffin Gate, or other full service hotel. We estimate that general-interest tourists, vacationers, business travelers not associated with a convention or business meeting (such as lawyers or consultants traveling in small groups), visitors associated with the university or sporting events, and similar guests. These are guests who have no specific interest in staying in a luxury hotel, but would do so if presented with the choice.

Is there an economic benefit associated with such visitors? The answer is probably yes—on the margins. These guests have no additional new off-site spending effect, as they have an existing interest in Lexington exclusive of the hotel. They would probably pay a premium over the market rate to stay in a luxury hotel as opposed to other hotels in town. However, these visitors are likely to be more price-sensitive than those with a specific interest in staying in luxury accommodations. Our regional hotel market analysis led us to view this economic impact with skepticism. While some visitors will likely spend more to stay at the Marriott, we feel there is firmer ground for counting the economic impact of new visitors than for visitors who upgrade.

The following tables outline the calculation used to arrive at both hotel revenue and spending by hotel guests. All of the values in the tables are presented in terms of Year 6, the first year of stabilized operations and reflects six years of inflation from the base, Year 0.

Table 15: Direct Impacts, Hotel

Room Count		247	
Occupancy		71.40%	Stabilized Occupancy in Year 6
ADR	$	208.58	Year 6 ADR - $174.67 Inflated at 3% per Year
RevPAR	$	148.93	
Total Revenue	$	13,426,000	RevPAR x Rooms x 365 Days
Percent Net New		30%	
Net New Revenue	$	4,028,000	

Numbers may not add due to rounding
Source: Application; ERA|AECOM

Table 16: Direct Impacts, Visitor Spending

Room Count		247	
Occupancy		71.40%	Stabilized Occupancy in Year 6
Guests per Room		1.2	
Spending Premium		125%	
Transportation	$	54.43	
Food and Beverage	$	50.29	Year 6 per capita Spend -
Shopping	$	46.13	(Per Capita Spend x Spending Premium)
Entertainment	$	24.79	Inflated at 3% per Year
Miscellaneous Retail	$	10.23	
Total Spend	$	14,357,000	
Percent Net New		30%	
Net New Revenue	$	4,307,000	

Numbers may not add due to rounding
Source: Application; ERA|AECOM

Office

- The square feet of gross leasable area is assumed to be a total of 42,000 square feet based on developer projections.
- Office rents are estimated by the developer at an initial $26.40 per square foot, triple net, growing at inflation of 3.00 percent per year.
- Office occupancy is proved by the developer and starts at 50 percent in year one, growing to 90 percent in year two and stabilizing in year three at 95 percent.
- Office employment is based on 325 square feet per worker derived from ERA research on downtown office development.

The calculation for office employment, as an intermediate step to arrive at revenue derived by office space, is as follows:

Table 17: Direct Impacts, Office

Gross Leasable Area		42,000	
Occupancy		95.00%	Year 3 Stabilized
Employment PSF	$	325	
Total Employment		123	
Revenue / Employee	$	67,000	$60K in Year 1; inflated to Year 3
Total Revenue	$	8,240,000	
Percent Net New		10%	
Net New Revenue	$	824,000	

Numbers may not add due to rounding
Source: Application; ERA|AECOM

Retail and Restaurant

- Assessed values are based on developer estimates of construction cost and grown at 3.00 percent inflation per year.
- The restaurant is provided with 20,000 square feet of gross leasable area and the retail component is stated to be 10,000 square feet gross by the developer
- Occupancy is stated by the developer as stabilizing at 100 percent and 92 percent for the restaurant and retail space respectively.
- Year-one rents start at $27 per square foot triple-net for both restaurant and retail and grow at the rate of 3.00 percent yearly
- Sales per square foot is used to drive revenue and employment number and is derived based on average restaurant and retail sales for neighborhood shopping centers from the ULI Dollars and Cents of Shopping Centers.
- A 30 percent premium was added to sales per square foot numbers based on their percentage rent above market averages.
- Sales are calculated at $500.50 per square foot and $455.00 per square foot for restaurant and retail space accordingly.
- We are estimating net new spending for retail at 35 percent. The developers have indicated that they would be recruiting signature retailers that do not operate in Kentucky currently. The types of retailers would be well-known, upscale retailers with specialty stores that serve as destinations for their customers. Without knowing the specific tenants (none have been announced), it is necessary to estimate the percentage of net new spending in general terms. There are several reasons for our estimate at 35 percent. First, Lexington is a fairly well-served retail market. Even if not every retailer is present, most goods, from clothing/apparel to electronics, are available in some form or another. However, stores like Nike, Kenneth Cole, Apple, Burberry, gourmet grocers, and similar stores can add to the product mix of the region. Much of the product mix would be aimed at shoppers who make shopping trips to large cities but can now get some of the goods locally. We expect much of the retail spending to be substitute spending (you can get specialty clothes at regional malls, even if it doesn't have the cachet of some destination retailers), but some will genuinely be net new. Without more information on the specific tenant mix, ERA's estimate is 35 percent.
- We are estimating net new spending at the restaurant to be 25 percent. The developers have indicated a very upscale restaurant on par with McCormick & Schmick or Capital Grille or The Prime Rib. Restaurants like this are destination restaurants that locate in urban areas, resort areas, and other places with business travelers. Such a restaurant would be a necessary amenity for a luxury hotel. We expect the restaurant to do a significant amount of business with hotel

guests, the residents of the condominiums and their visitors, and business and convention travelers who require luxury accommodations for meetings. It would be the must upscale restaurant in Lexington and would be the default option for business lunches and dinners with visiting executives, equestrian tourists, and similar. The restaurant also adds to the appeal of Lexington for general travelers who look for an upscale urban destination. The net new impact of the restaurant (by itself) will be as an added amenity for business customers in Lexington and other destination travelers. We expect it will capture 25 percent of its business from its function as a destination downtown restaurant with regional appeal, a type of destination that currently does not exist in downtown Lexington. In addition to the impact specified here, it will help the hotel attract guests that expect a high level of service.

Calculations to arrive at both retail and restaurant revenues are similar. Values in the individual tables are presented in Year 3 and Year 2 for retail and restaurant space, their first year of stabilized operation respectively.

Table 18: Direct Impacts, Retail

Gross Leasable Area		10,000	
Occupancy		92.00%	Year 3 Stabilized
Sales Premium		30%	
Sales PSF	$	497.19	($350 x Premium) Inflated 3 Years at 3% yearly
Total Sales	$	4,574,000	
Net New Percent		35.00%	
Net New Revenue	$	1,601,000	

Numbers may not add due to rounding
Source: Application; ERA|AECOM

Table 19: Direct Impacts, Restaurant

Gross Leasable Area		20,000	
Occupancy		100.00%	Year 2 Stabilized
Sales Permium		30.00%	
Sales PSF	$	530.99	($385 x Premium) Inflated 2 Years at 3% yearly
Total Sales	$	10,620,000	
Net New Percent		25.00%	
Net New Revenue	$	2,655,000	

Numbers may not add due to rounding
Source: Application; ERA|AEC

Indirect and Induced Impacts and Fiscal Impacts

The above section introduced the direct economic impact in a stable year. This section uses the direct impacts as an input to calculate the indirect impacts and the fiscal impact to the state.

For each property type, we present a thirty-year All figures are quoted in thousands of dollars, except employment, which is quoted in jobs. Total revenue represents all economic activity taking place in a given property type; however, “Net New Revenue” refers only to that which we judge to be net new to the state, according to the assumptions introduced in the previous section. Fiscal impacts for income tax on new wages, sales tax on new wages, and sales tax on merchandise sold on site are included as well. Ad valorem taxes are considered in their own section. **Only impacts determined to be “net new” are used to calculate fiscal impacts.**

Key Assumptions

ERA makes several key assumptions in determining economic and fiscal impact.

Fiscal impacts are based on information from state government regarding tax rates. Although the state has a graduated income tax, a 4.2 percent effective tax rate is used to estimate tax payments when the only information available is total income. Additionally, real property is assessed at 100 percent of fair market value and the state property tax is 12.2 cents per $100 of assessed valuation, or 0.122 percent. We assume that for 25 percent of a Kentucky resident’s income is spent on sales-taxable goods and services in the economy. Indirect effects of business spending also have a fiscal impact. ERA’s economic impact models for Kentucky show that approximately 5 percent of indirect business income goes toward businesses primarily in the retail sales sector—including general merchandise stores, furniture stores, apparel stores, restaurants, hotels, drug stores, and similar. Therefore, about 5 percent of all indirect effects are assumed to be sales-taxable goods. The assumptions are summarized below:

Table 20. Fiscal Impact Assumptions

Effective income tax	4.20%	of all wages earned
Ad valorem tax	0.122%	of property assessed
Income Respending	25.0%	of income assumed to be sales taxable
Sales tax	6.0%	of all retail goods
Transient Hotel	1.0%	of all hotel room revenue
Indirect Retail Sales	5.0%	of indirect spending that is sales taxable

In addition, ERA employs the use of economic impact multipliers to estimate the indirect and induced impacts; the total employment that results from a given level of direct revenue; and the total wages that result thereof. The multipliers are different for each industry. (In some cases, as in visitor spending, the multipliers in use are a weighted blend of several industry multipliers.)

The table below summarizes the percentage of revenues that are net new, by property type. (These have been discussed individually above.)

Table 21. % Net New Spending

Property Type	% New
Hotel	30%
Retail	35%
Restaurant	25%
Office	10%

Finally, please note that all tables below are quoted in thousands of dollars, except employment, which is quoted in number of jobs. In some cases, a ramp-up is applicable and certain property types do not achieve stabilization for several years.

For the purposes of calculating state income tax, we present “employment” and “wages” lines in the economic impact tables. The wages reported represent total wages, including direct wages (those paid on site by the employer) and indirect wages (those paid by suppliers and other businesses as a result of the project).

Note on Inflation

Many of the values used in this report have been derived from current market research. This includes salaries and revenue per employee (for office), sales per square foot (for retail, restaurant), and revenue per available room (for the hotel). In these cases, ERA applies an inflation rate before Year 1 to account for time lapsed between now and the time the facility opens. We have treated the developer estimate of construction costs as the value of the property starting in Year 1, without applying an inflation rate. The reason is, the developer has applied for incentives from the state based on the total investment. ERA expects that the application is in real costs for the development timeline, so that the first year of its assessment, the value would be assessed at replacement cost—which would be the actual cost incurred.

Hotel

Table 22. Summary of Economic Impacts, Hotel

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
ECONOMIC IMPACT						
Total Revenue (Direct)	9,602	10,492	11,357	12,141	12,816	545,932
Indirect Impact	2,805	3,065	3,317	3,546	3,744	159,467
Induced Impact	2,862	3,128	3,386	3,619	3,820	162,742
Total Economic Impact	15,269	16,684	18,060	19,307	20,380	868,141
Employment	184	201	217	232	245	0
Wages	4,201	4,590	4,969	5,312	5,607	238,845
Net New Revenue	2,881	3,148	3,407	3,642	3,845	163,780
Indirect Impact	841	919	995	1,064	1,123	47,840
Induced Impact	859	938	1,016	1,086	1,146	48,823
Total Economic Impact	4,581	5,005	5,418	5,792	6,114	260,442
Employment	55	60	65	70	73	0
Wages	1,260	1,377	1,491	1,594	1,682	71,654
FISCAL IMPACT						
Income tax						
Net new wages	1,260	1,377	1,491	1,594	1,682	71,654
Tax due	53	58	63	67	71	1,688
Hotel Tax	29	31	34	36	38	918
Corporate Income Tax	4	5	5	6	6	139
Sales tax						
Indirect Sales	140	153	166	177	187	7,973
Retail Sales on Site	2,881	3,148	3,407	3,642	3,845	163,780
Income Respending	315	344	373	398	421	17,913
Total Sales Tax Due	200	219	237	253	267	11,380

Visitor Spending

Table 23. Summary of Economic Impacts, Visitor Spending

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
ECONOMIC IMPACT						
Total Revenue (Direct)	10,273	11,220	12,143	12,987	13,703	583,817
Indirect Impact	3,083	3,367	3,644	3,897	4,112	175,203
Induced Impact	3,322	3,629	3,927	4,200	4,432	188,806
Total Economic Impact	16,679	18,216	19,715	21,084	22,247	947,826
Employment	239	262	283	303	319	
Wages	5,061	5,527	5,982	6,397	6,750	287,588
Net New Revenue	3,082	3,366	3,643	3,896	4,111	175,145
Indirect Impact	925	1,010	1,093	1,169	1,234	52,561
Induced Impact	997	1,089	1,178	1,260	1,329	56,642
Total Economic Impact	5,004	5,465	5,914	6,325	6,674	284,348
Employment	72	78	85	91	96	
Wages	1,518	1,658	1,795	1,919	2,025	86,276
FISCAL IMPACT						
Income tax						
Net new wages	1,518	1,658	1,795	1,919	2,025	86,276
Tax due	64	70	75	81	85	2,032
Corporate Income Tax	5	5	6	6	6	151
Sales tax						
Indirect Sales	154	168	182	195	206	8,760
Retail Sales on Site	3,082	3,366	3,643	3,896	4,111	175,145
Income Respending	380	415	449	480	506	21,569
Total Sales Tax Due	217	237	256	274	289	12,328

Note that the line marked "Retail Sales on Site" refers to direct visitor subject to the sales tax. Based on visitor spending figures, ERA estimates 75 percent of visitor spending is sales taxable.

Retail

Table 24. Summary of Economic Impacts, Retail

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
ECONOMIC IMPACT						
Total Revenue (Direct)	3,984	4,344	4,574	4,711	4,853	204,697
Indirect Impact	1,180	1,287	1,355	1,396	1,438	60,652
Induced Impact	1,394	1,520	1,600	1,648	1,698	71,623
Total Economic Impact	6,558	7,151	7,530	7,755	7,989	336,972
Employment	131	143	150	155	159	
Wages	2,149	2,344	2,468	2,542	2,618	110,434
Net New Revenue	1,394	1,520	1,601	1,649	1,699	71,644
Indirect Impact	413	450	474	489	503	21,228
Induced Impact	488	532	560	577	594	25,068
Total Economic Impact	2,295	2,503	2,635	2,714	2,796	117,940
Employment	46	50	53	54	56	
Wages	752	820	864	890	916	38,652
FISCAL IMPACT						
Income tax						
Net new wages	752	820	864	890	916	38,652
Tax due	32	34	36	37	38	915
Corporate Income Tax	2	2	3	3	3	63
Sales tax						
Indirect Sales	59	64	68	70	72	3,033
Retail Sales on Site	1,394	1,520	1,601	1,649	1,699	71,644
Income Respending	188	205	216	222	229	9,663
Total Sales Tax Due	98	107	113	116	120	5,060

Restaurant

Table 25. Summary of Economic Impacts, Restaurant

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
ECONOMIC IMPACT						
Total Revenue (Direct)	9,795	10,620	10,938	11,267	11,605	490,011
Indirect Impact	3,379	3,664	3,774	3,887	4,004	169,054
Induced Impact	4,467	4,843	4,988	5,138	5,292	223,445
Total Economic Impact	17,641	19,127	19,699	20,292	20,901	882,510
Employment	172	186	192	198	204	
Wages	6,837	7,413	7,635	7,864	8,100	342,028
Net New Revenue	2,449	2,655	2,735	2,817	2,901	122,503
Indirect Impact	845	916	943	972	1,001	42,263
Induced Impact	1,117	1,211	1,247	1,284	1,323	55,861
Total Economic Impact	4,410	4,782	4,925	5,073	5,225	220,627
Employment	43	47	48	49	51	
Wages	1,709	1,853	1,909	1,966	2,025	85,507
FISCAL IMPACT						
Income tax						
Net new wages	1,709	1,853	1,909	1,966	2,025	85,507
Tax due	72	78	80	83	85	2,027
Corporate Income Tax	4	5	5	5	5	118
Sales tax						
Indirect Sales	169	183	189	194	200	8,453
Retail Sales on Site	2,449	2,655	2,735	2,817	2,901	122,503
Income Respending	427	463	477	492	506	21,377
Total Sales Tax Due	183	198	204	210	216	9,140

Office

Table 26. Summary of Economic Impacts, Office

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
ECONOMIC IMPACT						
Total Revenue (Direct)	4,209	7,779	8,472	8,726	8,988	375,697
Indirect Impact	1,452	2,684	2,923	3,011	3,101	129,615
Induced Impact	1,920	3,547	3,863	3,979	4,098	171,318
Total Economic Impact	7,581	14,010	15,258	15,716	16,187	676,630
Employment	74	136	149	153		
Wages	2,938	5,430	5,913	6,091	6,274	262,236
Net New Revenue	421	778	847	873	899	37,570
Indirect Impact	145	268	292	301	310	12,962
Induced Impact	192	355	386	398	410	17,132
Total Economic Impact	758	1,401	1,526	1,572	1,619	67,663
Employment	7	14	15	15		
Wages	294	543	591	609	627	26,224
FISCAL IMPACT						
Income tax						
Net new wages	294	543	591	609	627	26,224
Tax due	12	23	25	26	26	617
Corporate Income Tax	1	1	1	1	2	36
Sales tax						
Indirect Sales	73	134	146	151	155	6,481
Retail Sales on Site	0	0	0	0	0	0
Income Respending	73	136	148	152	157	6,556
Total Sales Tax Due	9	16	18	18	19	438

Construction

Table 27. Summary of Economic Impacts, Construction

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
ECONOMIC IMPACT						
Total Revenue (Direct)	253,680					253,680
Indirect Impact	86,048					86,048
Induced Impact	79,782					79,782
Total Economic Impact	419,511					419,511
Employment	3,726					
Wages	110,757					110,757
Net New Revenue	253,680					253,680
Indirect Impact	86,048					86,048
Induced Impact	79,782					79,782
Total Economic Impact	419,511					419,511
Employment	3,726					
Wages	110,757					110,757
FISCAL IMPACT						
Income tax						
Net new wages	110,757					110,757
Tax due	4,652					4,652
Corporate Income Tax	399					399
Sales tax						
Indirect Sales	4,302					4,302
In-State Sales	83,714					83,714
Income Respending	27,689					27,689
Total Sales Tax Due	6,942					6,942

Note in the table above we include the fiscal impact of the state sales tax on construction materials. Based on standard breakdown, we expect one third of the investment to be sales- or use-taxable on construction materials in state. Therefore, we estimate $83,714,000 will be sales- or use-taxable.

Summary of Ad Valorem Taxes

Ad valorem taxes are levied at the rate of 12.2 cents per $100 of assessed valuation, where properties are assessed at their fair market values. As mentioned above, the appraisals can take one of three methodologies—the replacement cost method, the income capitalization method, or the comparable sales method. The most reliable data available today is the replacement cost, which is, at present, the development cost. Therefore, we use total development costs as an estimate of the fair market value of the land and improvements. We assume they appreciate at 3 percent per year. The total ad valorem tax expected to be achieved by the district as a whole is $11.9 million. The investment that would be subject to ad valorem tax is $205,000,000 because park construction and public infrastructure would be located on city land.

Table 28. Summary of Ad Valorem Taxes, All Property Types

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
Construction	205,000					
Appreciated Value	205,000	211,150	217,485	224,009	230,729	
State Property Tax	250	258	265	273	281	11,899
Local Property Tax	740	762	785	808	833	35,198
School District Tax	1,218	1,254	1,292	1,331	1,371	57,933

Summary of Fiscal Impacts

Table 29. Summary of Fiscal Impacts, All Property Types

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
Ad Valorem Tax	250	258	265	273	281	11,899
Hotel Tax	29	31	34	36	38	1,638
Corporate Income Tax						
Hotel	4	5	5	6	6	139
Visitor Spending	5	5	6	6	6	151
Retail	2	2	3	3	3	63
Restaurant	4	5	5	5	5	118
Office	1	1	1	1	2	36
Construction	399	0	0	0	0	399
Sales Tax						
Hotel	200	219	237	253	267	11,380
Visitor Spending	217	237	256	274	289	12,328
Retail	98	107	113	116	120	5,060
Restaurant	183	198	204	210	216	9,140
Office	9	16	18	18	19	782
Construction	6,942					6,942
Income Tax						
Hotel	53	58	63	67	71	3,009
Visitor Spending	64	70	75	81	85	3,624
Retail	32	34	36	37	38	1,623
Restaurant	72	78	80	83	85	3,591
Office	12	23	25	26	26	1,101
Construction	4,652					4,652
Total Fiscal Impact	13,227	1,347	1,426	1,495	1,559	77,677

ERA estimates that the net new fiscal impact of the project would be $77,677,000.

Full estimates for economic and fiscal impact by property type, as well as a table summarizing fiscal impacts only, are in the appendix.

Amenity Value

The economic impact calculations derived in the tables above relate to specific new economic activity taking place on the site and, in the case of visitor spending and indirect impacts, off site. The $76.8 million impact can be attributed to construction, hotel guests, restaurant patrons, and the like.

However, there would also be a positive economic effect of the block being developed. What is currently a vacant block would become downtown Lexington's newest tower; a park would be re-built; a significant new public amenity, the farmer's market, would make downtown more attractive to potential residents; and the parking garage would help residents access local businesses.

A separate REMI model that takes account of the external effects of new public amenities shows a total of $7,611,000 in fiscal impact from sales and income taxes, related to the external effects of the new public infrastructure.

Tax Increment

ERA estimates the fiscal impact of the project would be $77.7 million in direct and indirect economic impact, plus $7,611,000 in amenity value, as derived above. In addition to estimating the fiscal impact of the project, ERA is required to estimate the fiscal baseline of existing economic activity on site. The legislation defines the baseline as the level of taxes collected from firms on the site at the beginning of the project, without considering increases in the tax base.

The following table shows the existing economic activity that takes place on site, and the estimated tax collections from that activity. The taxable amount below is sourced from the application and the collections are calculated based on the assumptions used in this report:

Table 30. Tax Baseline

State Tax Revenues	Rate	Base Taxable Amount	Collections
State Property Tax	$0.122	$ 6,675,000	$ 8,100
State Sales and Use Tax	6.00%	$ 4,745,000	$ 285,000
State Individual Income Tax	4.20%	$ 778,000	$ 32,700
Total State Tax Revenues			$ 325,800

Based on information contained in the application, the estimated tax collections on site (the baseline) total approximately $325,800. This should be considered each year through Year 30, with inflation considered.

Table 31. Tax Increment

	Year 1	Year 2	Year 3	Year 4	Year 5	30-Year Total
Total Fiscal Impact	13,227	1,347	1,426	1,495	1,559	77,677
Amenity Fiscal Impact						7,611
Less Baseline	-326	-336	-346	-356	-367	-15,500
Net Fiscal Impact	12,901	1,012	1,080	1,139	1,192	69,788

ERA's estimate of the fiscal impact of the project is $77,677,000 and the amenity value to the state is $7,611,000. The baseline tax of $325,800, when adjusted for inflation, over thirty years totals $15,500,000. Therefore, the state tax increment is estimated to be $69,788,000.

VI. Conclusion

ERA finds that the Phoenix Park / Courthouse project would generate a tax increment of $69,788,000, over thirty years, after taking into account the potential for economic substitutions and the economic activity on site at today's levels.

The proposed project would involve developing a signature building in downtown Lexington, opening up residential and hotel choices to the high-end market that are not currently available in the region, and provide visitors and convention planners another option for attracting trade groups. Just as important, the project's civic components would help rehabilitate an aging icon of downtown, the courthouse; improve the vitality of downtown with a public market; add to the available parking; refurbish neighborhood facades; and generally make downtown more attractive for all residents and visitors.

The unique financing of the project—proposed for 100 percent equity—answers some reservations ERA would ordinarily have about developing high-end condominiums and a luxury hotel in this uncertain economic environment. The developers have also answered a key concern by taking reservations for two thirds of the condominium units before publicly marketing the project.

The applicants have applied for $36,885,000 in state tax increment financing for the project. Financing costs are estimated at $35,324,688, representing a proposed state investment of $72,209,688. ERA's analysis finds that the project, as proposed, would generate a fiscal impact to the state of $69,788,000, which falls short of the proposed state investment by $2,421,688.

ERA believes that the development program as proposed—including CentrePointe tower, Phoenix Park, the parking amenities, Cheapside farmers' market, and the Courthouse renovation—would not occur without a tax increment financing district. The significant public infrastructure improvements associated with this project would not be economically feasible unless it were associated with this development tool.

VII. Appendix I: Thirty-Year Totals, Economic and Fiscal Impacts

Table 32. Economic and Fiscal Impacts, Hotel

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
ECONOMIC IMPACT																															
Total Revenue (Direct)	9,602	10,492	11,357	12,141	12,816	13,426	13,829	14,245	14,672	15,112	15,565	16,032	16,513	17,009	17,519	18,044	18,586	19,143	19,717	20,309	20,919	21,546	22,192	22,858	23,544	24,250	24,977	25,726	26,498	27,293	545,932
Indirect Impact	2,805	3,065	3,317	3,546	3,744	3,922	4,039	4,161	4,286	4,414	4,547	4,683	4,823	4,968	5,117	5,271	5,429	5,592	5,759	5,932	6,110	6,294	6,482	6,677	6,877	7,083	7,296	7,515	7,740	7,972	159,467
Induced Impact	2,862	3,128	3,386	3,619	3,820	4,002	4,122	4,246	4,374	4,505	4,640	4,779	4,923	5,070	5,222	5,379	5,540	5,707	5,878	6,054	6,236	6,423	6,615	6,814	7,018	7,229	7,446	7,669	7,899	8,136	162,742
Total Economic Impact	15,269	16,684	18,060	19,307	20,380	21,350	21,991	22,652	23,331	24,031	24,751	25,494	26,259	27,048	27,859	28,694	29,555	30,441	31,354	32,295	33,265	34,262	35,290	36,349	37,440	38,562	39,718	40,909	42,137	43,401	868,141
Employment	184	201	217	232	245	257	264	272	280	289	298	306	316	325	335	345	355	366	377	388	400	412	424	437	450	464	477	492	507	522	
Wages	4,201	4,590	4,969	5,312	5,607	5,874	6,050	6,232	6,419	6,612	6,810	7,014	7,224	7,441	7,665	7,894	8,131	8,375	8,626	8,885	9,152	9,426	9,709	10,000	10,301	10,609	10,927	11,255	11,593	11,941	238,845
Net New Revenue	2,881	3,148	3,407	3,642	3,845	4,028	4,149	4,274	4,402	4,534	4,670	4,810	4,954	5,103	5,256	5,413	5,576	5,743	5,915	6,093	6,276	6,464	6,658	6,857	7,063	7,275	7,493	7,718	7,949	8,188	163,780
Indirect Impact	841	919	995	1,064	1,123	1,177	1,212	1,248	1,286	1,324	1,364	1,405	1,447	1,490	1,535	1,581	1,629	1,678	1,728	1,780	1,833	1,888	1,945	2,003	2,063	2,125	2,189	2,254	2,322	2,392	47,840
Induced Impact	859	938	1,016	1,086	1,146	1,201	1,237	1,274	1,312	1,351	1,392	1,434	1,477	1,521	1,567	1,614	1,662	1,712	1,763	1,816	1,871	1,927	1,985	2,044	2,106	2,169	2,234	2,301	2,370	2,441	48,823
Total Economic Impact	4,581	5,005	5,418	5,792	6,114	6,405	6,597	6,796	6,999	7,209	7,425	7,648	7,878	8,114	8,358	8,608	8,867	9,132	9,406	9,689	9,980	10,279	10,587	10,905	11,232	11,569	11,916	12,273	12,641	13,020	260,442
Employment	55	60	65	70	73	77	79	82	84	87	89	92	95	98	100	103	107	110	113	116	120	124	127	131	135	139	143	148	152	157	
Wages	1,260	1,377	1,491	1,594	1,682	1,762	1,815	1,870	1,926	1,983	2,043	2,104	2,167	2,232	2,299	2,368	2,439	2,513	2,588	2,666	2,746	2,828	2,913	3,000	3,090	3,183	3,278	3,377	3,478	3,582	71,654
FISCAL IMPACT																															
Income tax																															
Net new wages	1,260	1,377	1,491	1,594	1,682	1,762	1,815	1,870	1,926	1,983	2,043	2,104	2,167	2,232	2,299	2,368	2,439	2,513	2,588	2,666	2,746	2,828	2,913	3,000	3,090	3,183	3,278	3,377	3,478	3,582	71,654
Tax due	53	58	63	67	71	74	76	79	81	83	86	88	91	94	97	99	102	106	109	112	115	119	122	126	130	134	138	142	146	150	1,688
Hotel Tax	29	31	34	36	38	40	41	43	44	45	47	48	50	51	53	54	56	57	59	61	63	65	67	69	71	73	75	77	79	82	918
Corporate Income Tax	4	5	5	6	6	6	6	6	7	7	7	7	7	8	8	8	8	9	9	9	9	10	10	10	11	11	11	12	12	12	139
Sales tax																															
Indirect Retail Sales	140	153	166	177	187	196	202	208	214	221	227	234	241	248	256	264	271	280	288	297	306	315	324	334	344	354	365	376	387	399	7,973
Retail Sales on Site	2,881	3,148	3,407	3,642	3,845	4,028	4,149	4,274	4,402	4,534	4,670	4,810	4,954	5,103	5,256	5,413	5,576	5,743	5,915	6,093	6,276	6,464	6,658	6,857	7,063	7,275	7,493	7,718	7,949	8,188	163,780
Income Respending	315	344	373	398	421	441	454	467	481	496	511	526	542	558	575	592	610	628	647	666	686	707	728	750	773	796	820	844	869	896	17,913
Total Sales Tax Due	200	219	237	253	267	280	288	297	306	315	324	334	344	355	365	376	387	399	411	423	436	449	463	476	491	505	521	536	552	569	11,380

Table 33. Economic and Fiscal Impacts, Visitor Spending

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
ECONOMIC IMPACT															
Total Revenue (Direct)	10,273	11,220	12,143	12,987	13,703	14,353	14,787	15,230	15,687	16,160	16,643	17,147	17,660	18,190	18,737
Indirect Impact	3,083	3,367	3,644	3,897	4,112	4,307	4,437	4,571	4,708	4,850	4,995	5,146	5,300	5,459	5,623
Induced Impact	3,322	3,629	3,927	4,200	4,432	4,642	4,782	4,925	5,073	5,226	5,382	5,545	5,711	5,883	6,059
Total Economic Impact	16,679	18,216	19,715	21,084	22,247	23,303	24,006	24,726	25,467	26,236	27,020	27,838	28,671	29,531	30,419
Employment	239	262	283	303	319	335	345	355	366	377	388	400	412	424	437
Wages	5,061	5,527	5,982	6,397	6,750	7,070	7,284	7,502	7,727	7,960	8,199	8,446	8,699	8,960	9,230
Net New Revenue	3,082	3,366	3,643	3,896	4,111	4,306	4,436	4,569	4,706	4,848	4,993	5,144	5,298	5,457	5,621
Indirect Impact	925	1,010	1,093	1,169	1,234	1,292	1,331	1,371	1,412	1,455	1,498	1,544	1,590	1,638	1,687
Induced Impact	997	1,089	1,178	1,260	1,329	1,393	1,435	1,478	1,522	1,568	1,615	1,664	1,713	1,765	1,818
Total Economic Impact	5,004	5,465	5,914	6,325	6,674	6,991	7,202	7,418	7,640	7,871	8,106	8,351	8,601	8,859	9,126
Employment	72	78	85	91	96	100	103	106	110	113	116	120	123	127	131
Wages	1,518	1,658	1,795	1,919	2,025	2,121	2,185	2,251	2,318	2,388	2,460	2,534	2,610	2,688	2,769
FISCAL IMPACT															
Income tax															
Net new wages	1,518	1,658	1,795	1,919	2,025	2,121	2,185	2,251	2,318	2,388	2,460	2,534	2,610	2,688	2,769
Tax due	64	70	75	81	85	89	92	95	97	100	103	106	110	113	116
Corporate Income Tax	5	5	6	6	6	7	7	7	7	7	8	8	8	8	9
Sales tax															
Indirect Retail Sales	154	168	182	195	206	215	222	229	235	242	250	257	265	273	281
Retail Sales on Site	3,082	3,366	3,643	3,896	4,111	4,306	4,436	4,569	4,706	4,848	4,993	5,144	5,298	5,457	5,621
Income Respending	380	415	449	480	506	530	546	563	580	597	615	633	652	672	692
Total Sales Tax Due	217	237	256	274	289	303	312	322	331	341	351	362	373	384	396

	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
ECONOMIC IMPACT																
Total Revenue (Direct)	19,297	19,877	20,473	21,090	21,720	22,370	23,040	23,730	24,447	25,177	25,933	26,710	27,510	28,337	29,187	583,817
Indirect Impact	5,791	5,965	6,144	6,329	6,518	6,713	6,914	7,121	7,336	7,556	7,783	8,016	8,256	8,504	8,759	175,203
Induced Impact	6,241	6,428	6,621	6,821	7,024	7,234	7,451	7,674	7,906	8,142	8,387	8,638	8,897	9,164	9,439	188,806
Total Economic Impact	31,328	32,270	33,238	34,240	35,262	36,318	37,405	38,526	39,689	40,874	42,103	43,364	44,662	46,005	47,385	947,826
Employment	450	463	477	492	506	521	537	553	570	587	604	623	641	660	680	
Wages	9,506	9,791	10,085	10,389	10,699	11,019	11,350	11,689	12,042	12,402	12,775	13,157	13,551	13,959	14,377	287,588
Net New Revenue	5,789	5,963	6,142	6,327	6,516	6,711	6,912	7,119	7,334	7,553	7,780	8,013	8,253	8,501	8,756	175,145
Indirect Impact	1,737	1,789	1,843	1,899	1,955	2,014	2,074	2,136	2,201	2,267	2,335	2,405	2,477	2,551	2,628	52,561
Induced Impact	1,872	1,928	1,986	2,046	2,107	2,170	2,235	2,302	2,372	2,443	2,516	2,591	2,669	2,749	2,832	56,642
Total Economic Impact	9,398	9,681	9,972	10,272	10,579	10,895	11,222	11,558	11,907	12,262	12,631	13,009	13,399	13,801	14,215	284,348
Employment	135	139	143	147	152	156	161	166	171	176	181	187	192	198	204	
Wages	2,852	2,937	3,026	3,117	3,210	3,306	3,405	3,507	3,613	3,721	3,832	3,947	4,065	4,188	4,313	86,276
FISCAL IMPACT																
Income tax																
Net new wages	2,852	2,937	3,026	3,117	3,210	3,306	3,405	3,507	3,613	3,721	3,832	3,947	4,065	4,188	4,313	86,276
Tax due	120	123	127	131	135	139	143	147	152	156	161	166	171	176	181	2,032
Corporate Income Tax	9	9	9	10	10	10	11	11	11	12	12	12	13	13	14	151
Sales tax																
Indirect Retail Sales	290	298	307	316	326	336	346	356	367	378	389	401	413	425	438	8,760
Retail Sales on Site	5,789	5,963	6,142	6,327	6,516	6,711	6,912	7,119	7,334	7,553	7,780	8,013	8,253	8,501	8,756	175,145
Income Respending	713	734	756	779	802	826	851	877	903	930	958	987	1,016	1,047	1,078	21,569
Total Sales Tax Due	407	420	432	445	459	472	487	501	516	532	548	564	581	598	616	12,328

Table 34. Economic and Fiscal Impacts, Retail

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
ECONOMIC IMPACT															
Total Revenue (Direct)	3,984	4,344	4,574	4,711	4,853	4,998	5,148	5,303	5,462	5,626	5,794	5,968	6,147	6,332	6,522
Indirect Impact	1,180	1,287	1,355	1,396	1,438	1,481	1,525	1,571	1,618	1,667	1,717	1,768	1,821	1,876	1,932
Induced Impact	1,394	1,520	1,600	1,648	1,698	1,749	1,801	1,856	1,911	1,969	2,027	2,088	2,151	2,216	2,282
Total Economic Impact	6,558	7,151	7,530	7,755	7,989	8,228	8,475	8,730	8,992	9,262	9,538	9,825	10,119	10,424	10,737
Employment	131	143	150	155	159	164	169	174	179	185	190	196	202	208	214
Wages	2,149	2,344	2,468	2,542	2,618	2,696	2,777	2,861	2,947	3,035	3,126	3,220	3,316	3,416	3,519
Net New Revenue	1,394	1,520	1,601	1,649	1,699	1,749	1,802	1,856	1,912	1,969	2,028	2,089	2,151	2,216	2,283
Indirect Impact	413	450	474	489	503	518	534	550	566	583	601	619	637	657	676
Induced Impact	488	532	560	577	594	612	630	649	669	689	710	731	753	775	799
Total Economic Impact	2,295	2,503	2,635	2,714	2,796	2,880	2,966	3,055	3,147	3,242	3,338	3,439	3,542	3,648	3,758
Employment	46	50	53	54	56	57	59	61	63	65	67	69	71	73	75
Wages	752	820	864	890	916	944	972	1,001	1,031	1,062	1,094	1,127	1,161	1,196	1,232
FISCAL IMPACT															
Income tax															
Net new wages	752	820	864	890	916	944	972	1,001	1,031	1,062	1,094	1,127	1,161	1,196	1,232
Tax due	32	34	36	37	38	40	41	42	43	45	46	47	49	50	52
Corporate Income Tax	2	2	3	3	3	3	3	3	3	3	3	3	3	3	4
Sales tax															
Indirect Retail Sales	59	64	68	70	72	74	76	79	81	83	86	88	91	94	97
Retail Sales on Site	1,394	1,520	1,601	1,649	1,699	1,749	1,802	1,856	1,912	1,969	2,028	2,089	2,151	2,216	2,283
Income Respending	188	205	216	222	229	236	243	250	258	266	274	282	290	299	308
Total Sales Tax Due	98	107	113	116	120	124	127	131	135	139	143	148	152	157	161

	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
ECONOMIC IMPACT																
Total Revenue (Direct)	6,717	6,919	7,126	7,340	7,560	7,787	8,021	8,261	8,509	8,764	9,027	9,298	9,577	9,865	10,160	204,697
Indirect Impact	1,990	2,050	2,111	2,175	2,240	2,307	2,377	2,448	2,521	2,597	2,675	2,755	2,838	2,923	3,010	60,652
Induced Impact	2,350	2,421	2,493	2,568	2,645	2,725	2,807	2,891	2,977	3,067	3,159	3,253	3,351	3,452	3,555	71,623
Total Economic Impact	11,058	11,390	11,731	12,083	12,445	12,819	13,204	13,599	14,008	14,427	14,860	15,306	15,766	16,240	16,725	336,972
Employment	220	227	234	241	248	256	263	271	279	288	296	305	314	324	333	
Wages	3,624	3,733	3,844	3,960	4,079	4,201	4,327	4,457	4,591	4,728	4,870	5,016	5,167	5,322	5,481	110,434
Net New Revenue	2,351	2,422	2,494	2,569	2,646	2,725	2,807	2,891	2,978	3,067	3,159	3,254	3,352	3,453	3,556	71,644
Indirect Impact	697	718	739	761	784	808	832	857	882	909	936	964	993	1,023	1,054	21,228
Induced Impact	823	847	873	899	926	954	982	1,012	1,042	1,073	1,105	1,139	1,173	1,208	1,244	25,068
Total Economic Impact	3,870	3,987	4,106	4,229	4,356	4,487	4,621	4,760	4,903	5,050	5,201	5,357	5,518	5,684	5,854	117,940
Employment	77	79	82	84	87	89	92	95	98	101	104	107	110	113	117	
Wages	1,268	1,306	1,346	1,386	1,428	1,470	1,515	1,560	1,607	1,655	1,705	1,756	1,808	1,863	1,918	38,652
FISCAL IMPACT																
Income tax																
Net new wages	1,268	1,306	1,346	1,386	1,428	1,470	1,515	1,560	1,607	1,655	1,705	1,756	1,808	1,863	1,918	38,652
Tax due	53	55	57	58	60	62	64	66	67	70	72	74	76	78	81	915
Corporate Income Tax	4	4	4	4	4	4	4	5	5	5	5	5	5	5	6	63
Sales tax																
Indirect Retail Sales	100	103	106	109	112	115	119	122	126	130	134	138	142	146	151	3,033
Retail Sales on Site	2,351	2,422	2,494	2,569	2,646	2,725	2,807	2,891	2,978	3,067	3,159	3,254	3,352	3,453	3,556	71,644
Income Respending	317	327	336	346	357	368	379	390	402	414	426	439	452	466	480	9,663
Total Sales Tax Due	166	171	176	181	187	193	198	204	210	217	223	230	237	244	251	5,060

Table 35. Economic and Fiscal Impacts, Restaurant

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
ECONOMIC IMPACT															
Total Revenue (Direct)	9,795	10,620	10,938	11,267	11,605	11,953	12,311	12,681	13,061	13,453	13,857	14,272	14,700	15,141	15,596
Indirect Impact	3,379	3,664	3,774	3,887	4,004	4,124	4,247	4,375	4,506	4,641	4,781	4,924	5,072	5,224	5,381
Induced Impact	4,467	4,843	4,988	5,138	5,292	5,451	5,614	5,783	5,956	6,135	6,319	6,508	6,703	6,904	7,112
Total Economic Impact	17,641	19,127	19,699	20,292	20,901	21,527	22,172	22,838	23,523	24,229	24,956	25,704	26,475	27,269	28,088
Employment	172	186	192	198	204	210	216	222	229	236	243	250	258	266	274
Wages	6,837	7,413	7,635	7,864	8,100	8,343	8,593	8,851	9,117	9,390	9,672	9,962	10,261	10,568	10,886
Net New Revenue	2,449	2,655	2,735	2,817	2,901	2,988	3,078	3,170	3,265	3,363	3,464	3,568	3,675	3,785	3,899
Indirect Impact	845	916	943	972	1,001	1,031	1,062	1,094	1,127	1,160	1,195	1,231	1,268	1,306	1,345
Induced Impact	1,117	1,211	1,247	1,284	1,323	1,363	1,403	1,446	1,489	1,534	1,580	1,627	1,676	1,726	1,778
Total Economic Impact	4,410	4,782	4,925	5,073	5,225	5,382	5,543	5,710	5,881	6,057	6,239	6,426	6,619	6,817	7,022
Employment	43	47	48	49	51	52	54	56	57	59	61	63	64	66	68
Wages	1,709	1,853	1,909	1,966	2,025	2,086	2,148	2,213	2,279	2,348	2,418	2,490	2,565	2,642	2,722
FISCAL IMPACT															
Income tax															
Net new wages	1,709	1,853	1,909	1,966	2,025	2,086	2,148	2,213	2,279	2,348	2,418	2,490	2,565	2,642	2,722
Tax due	72	78	80	83	85	88	90	93	96	99	102	105	108	111	114
Corporate Income Tax	4	5	5	5	5	5	5	5	6	6	6	6	6	6	7
Sales tax															
Indirect Retail Sales	169	183	189	194	200	206	212	219	225	232	239	246	254	261	269
Retail Sales on Site	2,449	2,655	2,735	2,817	2,901	2,988	3,078	3,170	3,265	3,363	3,464	3,568	3,675	3,785	3,899
Income Respending	427	463	477	492	506	521	537	553	570	587	605	623	641	661	680
Total Sales Tax Due	183	198	204	210	216	223	230	237	244	251	258	266	274	282	291

	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
ECONOMIC IMPACT																
Total Revenue (Direct)	16,063	16,545	17,042	17,553	18,080	18,622	19,181	19,756	20,349	20,959	21,588	22,235	22,902	23,589	24,297	490,011
Indirect Impact	5,542	5,708	5,879	6,056	6,238	6,425	6,617	6,816	7,020	7,231	7,448	7,671	7,901	8,138	8,382	169,054
Induced Impact	7,325	7,545	7,771	8,004	8,244	8,492	8,747	9,009	9,279	9,557	9,844	10,139	10,443	10,757	11,079	223,445
Total Economic Impact	28,929	29,798	30,693	31,613	32,562	33,538	34,545	35,581	36,649	37,747	38,880	40,045	41,247	42,484	43,759	882,510
Employment	282	290	299	308	317	327	336	347	357	368	379	390	402	414	426	
Wages	11,212	11,548	11,895	12,252	12,620	12,998	13,388	13,790	14,204	14,629	15,068	15,520	15,986	16,465	16,959	342,028
Net New Revenue	4,016	4,136	4,261	4,388	4,520	4,656	4,795	4,939	5,087	5,240	5,397	5,559	5,726	5,897	6,074	122,503
Indirect Impact	1,385	1,427	1,470	1,514	1,559	1,606	1,654	1,704	1,755	1,808	1,862	1,918	1,975	2,035	2,096	42,263
Induced Impact	1,831	1,886	1,943	2,001	2,061	2,123	2,187	2,252	2,320	2,389	2,461	2,535	2,611	2,689	2,770	55,861
Total Economic Impact	7,232	7,449	7,673	7,903	8,141	8,385	8,636	8,895	9,162	9,437	9,720	10,011	10,312	10,621	10,940	220,627
Employment	70	73	75	77	79	82	84	87	89	92	95	98	100	103	107	
Wages	2,803	2,887	2,974	3,063	3,155	3,250	3,347	3,447	3,551	3,657	3,767	3,880	3,996	4,116	4,240	85,507
FISCAL IMPACT																
Income tax																
Net new wages	2,803	2,887	2,974	3,063	3,155	3,250	3,347	3,447	3,551	3,657	3,767	3,880	3,996	4,116	4,240	85,507
Tax due	118	121	125	129	133	136	141	145	149	154	158	163	168	173	178	2,027
Corporate Income Tax	7	7	7	8	8	8	8	8	9	9	9	10	10	10	10	118
Sales tax																
Indirect Retail Sales	277	285	294	303	312	321	331	341	351	362	372	384	395	407	419	8,453
Retail Sales on Site	4,016	4,136	4,261	4,388	4,520	4,656	4,795	4,939	5,087	5,240	5,397	5,559	5,726	5,897	6,074	122,503
Income Respending	701	722	743	766	789	812	837	862	888	914	942	970	999	1,029	1,060	21,377
Total Sales Tax Due	300	309	318	327	337	347	358	368	380	391	403	415	427	440	453	9,140

Table 36. Economic and Fiscal Impacts, Office

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
ECONOMIC IMPACT																															
Total Revenue (Direct)	4,209	7,779	8,472	8,726	8,988	9,258	9,535	9,821	10,116	10,419	10,732	11,054	11,386	11,727	12,079	12,441	12,815	13,199	13,595	14,003	14,423	14,856	15,301	15,760	16,233	16,720	17,222	17,738	18,271	18,819	375,697
Indirect Impact	1,452	2,684	2,923	3,011	3,101	3,194	3,290	3,388	3,490	3,595	3,703	3,814	3,928	4,046	4,167	4,292	4,421	4,554	4,690	4,831	4,976	5,125	5,279	5,437	5,600	5,768	5,941	6,120	6,303	6,492	129,615
Induced Impact	1,920	3,547	3,863	3,979	4,098	4,221	4,348	4,479	4,613	4,751	4,894	5,041	5,192	5,348	5,508	5,673	5,843	6,019	6,199	6,385	6,577	6,774	6,977	7,187	7,402	7,624	7,853	8,089	8,331	8,581	171,318
Total Economic Impact	7,581	14,010	15,258	15,716	16,187	16,673	17,173	17,688	18,219	18,765	19,328	19,908	20,505	21,121	21,754	22,407	23,079	23,771	24,485	25,219	25,976	26,755	27,558	28,384	29,236	30,113	31,016	31,947	32,905	33,892	676,630
Employment	74	136	149	153																											
Wages	2,938	5,430	5,913	6,091	6,274	6,462	6,656	6,855	7,061	7,273	7,491	7,716	7,947	8,186	8,431	8,684	8,945	9,213	9,489	9,774	10,067	10,369	10,680	11,001	11,331	11,671	12,021	12,381	12,753	13,135	262,236
Net New Revenue	421	778	847	873	899	926	954	982	1,012	1,042	1,073	1,105	1,139	1,173	1,208	1,244	1,281	1,320	1,359	1,400	1,442	1,486	1,530	1,576	1,623	1,672	1,722	1,774	1,827	1,882	37,570
Indirect Impact	145	268	292	301	310	319	329	339	349	359	370	381	393	405	417	429	442	455	469	483	498	513	528	544	560	577	594	612	630	649	12,962
Induced Impact	192	355	386	398	410	422	435	448	461	475	489	504	519	535	551	567	584	602	620	639	658	677	698	719	740	762	785	809	833	858	17,132
Total Economic Impact	758	1,401	1,526	1,572	1,619	1,667	1,717	1,769	1,822	1,877	1,933	1,991	2,051	2,112	2,175	2,241	2,308	2,377	2,448	2,522	2,598	2,675	2,756	2,838	2,924	3,011	3,102	3,195	3,291	3,389	67,663
Employment	7	14	15	15																											
Wages	294	543	591	609	627	646	666	686	706	727	749	772	795	819	843	868	894	921	949	977	1,007	1,037	1,068	1,100	1,133	1,167	1,202	1,238	1,275	1,314	26,224
FISCAL IMPACT																															
Income tax																															
Net new wages	294	543	591	609	627	646	666	686	706	727	749	772	795	819	843	868	894	921	949	977	1,007	1,037	1,068	1,100	1,133	1,167	1,202	1,238	1,275	1,314	26,224
Tax due	12	23	25	26	26	27	28	29	30	31	31	32	33	34	35	36	38	39	40	41	42	44	45	46	48	49	50	52	54	55	617
Corporate Income Tax	1	1	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	3	3	3	3	3	3	3	3	36
Sales tax																															
Indirect Retail Sales	73	134	146	151	155	160	164	169	175	180	185	191	196	202	208	215	221	228	235	242	249	256	264	272	280	288	297	306	315	325	6,481
Retail Sales on Site																															
Income Respending	73	136	148	152	157	162	166	171	177	182	187	193	199	205	211	217	224	230	237	244	252	259	267	275	283	292	301	310	319	328	6,556
Total Sales Tax Due	9	16	18	18	19	19	20	20	21	22	22	23	24	24	25	26	27	27	28	29	30	31	32	33	34	35	36	37	38	39	438

Table 37. Economic and Fiscal Impacts, Construction

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Total
ECONOMIC IMPACT							
Total Revenue (Direct)	253,680					0	253,680
Indirect Impact	86,048	0	0	0	0	0	86,048
Induced Impact	79,782	0	0	0	0	0	79,782
Total Economic Impact	419,511	0	0	0	0	0	419,511
Employment	3,726	0	0	0	0	0	
Wages	110,757	0	0	0	0	0	110,757
Net New Revenue	253,680	0	0	0	0	0	253,680
Indirect Impact	86,048	0	0	0	0	0	86,048
Induced Impact	79,782	0	0	0	0	0	79,782
Total Economic Impact	419,511	0	0	0	0	0	419,511
Employment	3,726	0	0	0	0	0	
Wages	110,757	0	0	0	0	0	110,757
FISCAL IMPACT							
Income tax							
Net new wages	110,757	0	0	0	0	0	110,757
Tax due	4,652	0	0	0	0	0	4,652
Corporate Income Tax	399						399
Sales tax							
Indirect Sales	4,302						4,302
In-State Retail Sales	83,714						83,714
Income Respending	27,689	0	0	0	0	0	27,689
Total Sales Tax Due	6,942	0	0	0	0	0	6,942

Table 38. Ad Valorem Taxes, All Property Types

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
Construction	205,000																														
Appreciated Value	205,000	211,150	217,485	224,009	230,729	237,651	244,781	252,124	259,688	267,479	275,503	283,768	292,281	301,049	310,081	319,383	328,965	338,834	348,999	359,469	370,253	381,360	392,801	404,585	416,723	429,224	442,101	455,364	469,025	483,096	
State Ad Valorem Tax	250	258	265	273	281	290	299	308	317	326	336	346	357	367	378	390	401	413	426	439	452	465	479	494	508	524	539	556	572	589	11,899
Local Property Tax	739.845	762.04	784.902	808.449	832.702	857.683	883.414	909.916	937.214	965.33	994.29	1024.12	1054.84	1086.49	1119.08	1152.65	1187.23	1222.85	1259.54	1297.32	1336.24	1376.33	1417.62	1460.15	1503.95	1549.07	1595.54	1643.41	1692.71	1743.49	35,198
School District Property Tax	1217.7	1254.23	1291.86	1330.61	1370.53	1411.65	1454	1497.62	1542.55	1588.82	1636.49	1685.58	1736.15	1788.23	1841.88	1897.14	1954.05	2012.67	2073.05	2135.24	2199.3	2265.28	2333.24	2403.24	2475.33	2549.59	2626.08	2704.86	2786.01	2869.59	57,933

Table 39. Total Fiscal Impacts, All Property Types

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
Ad Valorem Tax	250	258	265	273	281	290	299	308	317	326	336	346	357	367	378	390	401	413	426	439	452	465	479	494	508	524	539	556	572	589	11,899
Hotel Tax	29	31	34	36	38	40	41	43	44	45	47	48	50	51	53	54	56	57	59	61	63	65	67	69	71	73	75	77	79	82	1,638
Corporate Income Tax																															
Hotel	4	5	5	6	6	6	6	6	7	7	7	7	7	8	8	8	8	9	9	9	9	10	10	10	11	11	11	12	12	12	139
Visitor Spending	5	5	6	6	6	7	7	7	7	7	8	8	8	8	9	9	9	9	10	10	10	11	11	11	12	12	12	13	13	14	151
Retail	2	2	3	3	3	3	3	3	3	3	3	3	3	3	4	4	4	4	4	4	4	4	5	5	5	5	5	5	5	6	63
Restaurant	4	5	5	5	5	5	5	5	6	6	6	6	6	6	7	7	7	7	8	8	8	8	8	9	9	9	10	10	10	10	118
Office	1	1	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	3	3	3	3	3	3	3	3	36
Construction	399																														399
Sales Tax																															
Hotel	200	219	237	253	267	280	288	297	306	315	324	334	344	355	365	376	387	399	411	423	436	449	463	476	491	505	521	536	552	569	11,380
Visitor Spending	217	237	256	274	289	303	312	322	331	341	351	362	373	384	396	407	420	432	445	459	472	487	501	516	532	548	564	581	598	616	12,328
Retail	98	107	113	116	120	124	127	131	135	139	143	148	152	157	161	166	171	176	181	187	193	198	204	210	217	223	230	237	244	251	5,060
Restaurant	183	198	204	210	216	223	230	237	244	251	258	266	274	282	291	300	309	318	327	337	347	358	368	380	391	403	415	427	440	453	9,140
Office	9	16	18	18	19	19	20	20	21	22	22	23	24	24	25	26	27	27	28	29	30	31	32	33	34	35	36	37	38	39	782
Construction	6,942	0	0	0	0																										6,942
Income Tax																															
Hotel	53	58	63	67	71	74	76	79	81	83	86	88	91	94	97	99	102	106	109	112	115	119	122	126	130	134	138	142	146	150	3,009
Visitor Spending	64	70	75	81	85	89	92	95	97	100	103	106	110	113	116	120	123	127	131	135	139	143	147	152	156	161	166	171	176	181	3,624
Retail	32	34	36	37	38	40	41	42	43	45	46	47	49	50	52	53	55	57	58	60	62	64	66	67	70	72	74	76	78	81	1,623
Restaurant	72	78	80	83	85	88	90	93	96	99	102	105	108	111	114	118	121	125	129	133	136	141	145	149	154	158	163	168	173	178	3,591
Office	12	23	25	26	26	27	28	29	30	31	31	32	33	34	35	36	38	39	40	41	42	44	45	46	48	49	50	52	54	55	1,101
Construction	4,652	0	0	0	0																										4,652
Total Fiscal Impact																															77,677

Table 40. Fiscal Impacts, Less Baseline

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
Total Fiscal Impact	13,227	1,347	1,426	1,495	1,559	1,619	1,667	1,717	1,769	1,822	1,877	1,933	1,991	2,051	2,112	2,175	2,241	2,308	2,377	2,449	2,522	2,598	2,675	2,756	2,838	2,924	3,011	3,102	3,195	3,291	77,677
Amenity Fiscal Impact																															7,611
Baseline	326	336	346	356	367	378	389	401	413	425	438	451	465	478	493	508	523	538	555	571	588	606	624	643	662	682	703	724	745	768	15,500
Net Fiscal Impact	12,901	1,012	1,080	1,139	1,192	1,241	1,278	1,317	1,356	1,397	1,439	1,482	1,526	1,572	1,619	1,668	1,718	1,770	1,823	1,877	1,934	1,992	2,051	2,113	2,176	2,242	2,309	2,378	2,449	2,523	69,788

VIII. Appendix II: Market Analysis

Demographics

ERA examined the demographic trends of the Lexington – Fayette County study area as well as those in several key comparable markets and the State of Kentucky as a whole. Newport – Campbell and Covington – Kenton counties, on the northern border of Kentucky just to the south of Cincinnati, Ohio, were chosen for their proximity to a major city as well as their up-and-coming status as attractive places to live in close proximity to Cincinnati. Louisville was chosen for its rating and reputation as one of the most desirable places to live and work in the State of Kentucky and a city that holds the closest position to Lexington both geographically and from a cultural perspective.

Population

Lexington currently has an estimated population of over 282,000 residents, which is slightly larger that the combined counties of Newport and Covington. Louisville is over double the size of Lexington with an estimated 716,000 residents in 2008, while the State of Kentucky hit a population of nearly 4.3 million people in the same year. Lexington has the advantage of having the highest projected growth rate from 2000 to 2013, at compound annual rate of nearly one-percent per year. The state as a whole had the next highest growth rate at almost 0.80 percent per year followed by Covington and then Louisville at 0.55 and 0.38 percent respectively. The population of Newport is expected to contract slightly at a modest 0.16 percent per year and lose just about 2,000 residents total.

Table 41: Population

	2000	2008	2013	CAGR
Newport - Campbell County	88,616	87,774	86,842	-0.16%
Covington - Kenton County	151,464	157,863	162,746	0.55%
Lexington - Fayette County	260,512	282,471	295,109	0.96%
Louisville - Jefferson County	693,604	716,009	728,341	0.38%
State of Kentucky	4,041,769	4,295,044	4,470,953	0.78%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Households

The number of households in the Lexington market area has also grown the fastest out of all the areas compared and is projected to reach almost 128,000 by 2013, a compound annual growth rate of close to 1.3 percent per year since 2000. In absolute terms, this is about 1/4 larger than Newport and Covington combined and about 1/3 the number of households in the Louisville market. However, an obvious explanation for this high rate of growth in the number of households is a similar decline in the size of households. While all of the market areas in question are predicted to have declining household sizes, Lexington has consistently had the smallest household size since 2000 and is expected to remain the smallest through 2013, falling to 2.2 people per household. Louisville would have the second smallest household size by this time with 2.3. The number of family households reflect a similar trend with Newport being the only market where the number of family households is expected to decline. Both Lexington and the State of Kentucky as a whole are projected to have growth rates in the number of family households above 0.5 percent.

Table 42: Households

	2000	2008	2013	CAGR
Newport - Campbell County	34,742	35,698	35,743	0.22%
Covington - Kenton County	59,444	63,730	66,382	0.85%
Lexington - Fayette County	108,288	120,974	127,609	1.27%
Louisville - Jefferson County	287,012	301,306	308,608	0.56%
State of Kentucky	1,590,647	1,730,825	1,816,254	1.03%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Table 43: Average Household Size

	2000	2008	2013	CAGR
Newport - Campbell County	2.49	2.40	2.37	-0.38%
Covington - Kenton County	2.52	2.45	2.42	-0.31%
Lexington - Fayette County	2.29	2.23	2.21	-0.27%
Louisville - Jefferson County	2.37	2.33	2.32	-0.16%
State of Kentucky	2.47	2.41	2.40	-0.22%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Table 44: Family Households

	2000	2008	2013	CAGR
Newport - Campbell County	23,093	22,844	22,501	-0.20%
Covington - Kenton County	39,444	40,708	41,702	0.43%
Lexington - Fayette County	62,955	67,087	69,337	0.75%
Louisville - Jefferson County	182,971	184,378	185,525	0.11%
State of Kentucky	1,104,398	1,163,532	1,204,720	0.67%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Income

Per capita income in Lexington – Fayette County is currently estimated at over $32,000 and is projected to grow to nearly $39,000 by 2013, a compound annual rate of 4 percent per year since 2000. While the four market areas have significantly higher per capita incomes than the state average, the per capita income in Lexington is both the highest in absolute terms and in growth rate of all of the comparable markets in question. Trends for average and median household are similar, with the Lexington market having the highest average income next to Covington and third in median household income behind Covington and Newport Counties. Projected growth in both average household and median household incomes from 2000 to 2013 are all well above 3 percent on a compound annual basis.

Table 45: Per Capita Income

	2000	2008	2012	CAGR
Newport - Campbell County	$20,638	$28,461	$33,792	3.87%
Covington - Kenton County	$22,086	$30,425	$36,292	3.89%
Lexington - Fayette County	$23,110	$32,165	$38,501	4.00%
Louisville - Jefferson County	$22,353	$30,436	$36,470	3.84%
State of Kentucky	$18,093	$24,005	$28,316	3.51%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Table 46: Average Household Income

	2000	2008	2012	CAGR
Newport - Campbell County	$51,918	$69,315	$81,351	3.52%
Covington - Kenton County	$55,827	$75,024	$88,605	3.62%
Lexington - Fayette County	$54,340	$73,901	$87,745	3.75%
Louisville - Jefferson County	$53,308	$71,834	$85,527	3.70%
State of Kentucky	$45,246	$58,773	$68,848	3.28%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Table 47: Median Household Income

	2000	2008	2012	CAGR
Newport - Campbell County	$42,035	$56,502	$66,290	3.57%
Covington - Kenton County	$44,018	$60,723	$68,789	3.49%
Lexington - Fayette County	$39,828	$54,624	$64,921	3.83%
Louisville - Jefferson County	$39,448	$53,901	$64,484	3.85%
State of Kentucky	$33,742	$44,142	$52,326	3.43%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Table 48: Median Home Value

	2000	2007	2012	CAGR
Newport - Campbell County	$97,425	$121,173	$131,677	2.34%
Covington - Kenton County	$102,938	$135,133	$145,348	2.69%
Lexington - Fayette County	$109,710	$149,857	$162,013	3.04%
Louisville - Jefferson County	$100,821	$135,769	$147,095	2.95%
State of Kentucky	$79,560	$107,241	$116,798	3.00%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Lexington – Fayette has a similar median disposable income as Louisville – Jefferson at around $44,000. While this is significantly higher than the State average of $36,000 it is lower than both Newport and Covington. Interestingly enough, Lexington also has the second *lowest* median net worth next to the state average. Louisville, Newport, and Covington all have a median net worth greater than $100,000 with Lexington lagging behind at close to $78,000

Table 49: Disposable Income and Net Worth

	Newport - Campbell	Covington - Kenton	Lexington - Fayette	Louisville - Jefferson	State of Kentucky
Median Disposable Income	$45,185	$48,260	$43,573	$43,030	$36,201
Median Net Worth	$118,802	$117,643	$77,899	$105,647	$69,096

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Employment

As of 2008, the estimated employed population in Lexington was 143,724. From and industry perspective, Services and Retail Trade account for over 65.4 percent of employment with c 53.9 and 11.5 percent respectively. The Manufacturing and Finance/Insurance/Real Estate industries were also notable at 8.5 percent and 6.4 percent employment corresponding to each. With regards to occupation, the great majority of employment in Lexington, 68 percent were White Collar with almost 30 percent in Professional positions. Lexington has a lower percentage of Blue Collar workers, 21.3 percent, than Newport, Covington, Louisville and the State as a whole.

Table 50: Employment by Industry

	Newport - Campbell	Covington - Kenton	Lexington - Fayette	Louisville - Jefferson	State of Kentucky
Employed Population 16+	44,010	80,562	143,724	340,431	1,922,389
Industry					
Agriculture/Mining	0.2%	0.2%	1.4%	0.3%	3.1%
Construction	8.7%	7.4%	5.9%	6.7%	8.1%
Manufacturing	9.5%	9.6%	8.5%	9.6%	13.0%
Wholesale Trade	3.7%	3.9%	3.1%	3.8%	3.1%
Retail Trade	11.2%	11.4%	11.5%	11.0%	12.0%
Transportation/Utilities	7.0%	8.2%	3.3%	6.8%	5.9%
Information	2.0%	1.8%	1.9%	1.8%	1.5%
Finance/Insurance/Real Estate	9.3%	9.9%	6.4%	9.3%	6.2%
Services	44.2%	42.7%	53.9%	46.8%	42.3%
Public Administration	4.1%	4.8%	4.0%	3.9%	4.8%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Table 51: Employment by Occupation

	Newport - Campbell	Covington - Kenton	Lexington - Fayette	Louisville - Jefferson	State of Kentucky
Employed Population 16+	44,010	80,562	143,724	340,431	1,922,389
Occupation					
White Collar	62.6%	63.5%	68.0%	63.1%	56.1%
Management/Business/Financial	14.5%	15.0%	14.7%	14.5%	12.4%
Professional	20.0%	20.0%	28.9%	21.7%	19.4%
Sales	10.5%	11.0%	11.5%	11.1%	10.6%
Administrative Support	17.6%	17.6%	12.8%	15.7%	13.7%
Services	15.2%	15.3%	16.0%	15.6%	16.0%
Blue Collar	22.2%	21.1%	16.1%	21.3%	28.0%
Farming/Forestry/Fishing	0.1%	0.0%	0.6%	0.1%	0.6%
Construction/Extraction	6.8%	5.6%	4.2%	5.3%	7.2%
Installation/Maintenance/Repair	3.6%	3.4%	2.4%	3.2%	4.1%
Production	5.5%	5.6%	4.9%	6.1%	8.7%
Transportation/Material Moving	6.2%	6.5%	4.0%	6.7%	7.4%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Enrollment and Education

Numbers relating to enrollment in school and educational attainment for 2008 show a stark contrast for Lexington – Fayette County with respect to Newport, Covington, Louisville and the rest of the State of Kentucky. While the percentage of the population not enrolled in any type of school is lower in the Lexington area than in the other compared areas, enrollment in college, graduate and professional school is significantly higher. Enrollment in college is 9.9 percent of the population aged 3 and above, nearly twice as high as Newport – Campbell County, the next highest and 5.4 percentage points higher than the state average. This is no doubt due to the University of Kentucky being directly located in Lexington with a student population of 27,000 graduate, undergraduate, and non-degree students.

Table 52: School Enrollment

	Newport - Campbell	Covington - Kenton	Lexington - Fayette	Louisville - Jefferson	State of Kentucky
Population 3+	84,915	144,385	250,982	665,762	3,881,731
School Enrollment					
Nursery/Preschool	2.00%	1.90%	1.90%	2.00%	1.60%
Enrolled in Kindergarten	1.60%	1.60%	1.30%	1.40%	1.40%
Enrolled in Grade 1 to 8	12.00%	12.60%	10.20%	11.60%	11.80%
Enrolled in Grade 9 to 12	6.10%	5.70%	4.60%	5.60%	5.80%
Enrolled in College	5.30%	3.90%	9.90%	4.40%	4.50%
Enrolled in Grad/Prof School	0.90%	0.80%	2.70%	1.30%	0.80%
Not Enrolled in School	72.10%	73.50%	69.60%	73.70%	74.00%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

With a large percentage of the population enrolled in higher education, it is only logical to conclude that a large percentage of the population would have higher than average levels of educational attainment when compared to other counties and the state overall. This is indeed the case, with higher percentages of the population having attained associates, bachelors and advanced degrees than in Newport – Campbell, Covington – Kenton, Louisville – Jefferson Counties and the State of Kentucky as a whole. 22.3 percent of the population and 15.6 of the population in Lexington – Fayette County have attained bachelors and advanced degrees respectively compared to the next highest, 16.3 percent and 10.5 percent of the population with bachelors and advanced degrees respectively in Louisville – Jefferson County.

Table 53: Educational Attainment

	Newport - Campbell	Covington - Kenton	Lexington - Fayette	Louisville - Jefferson	State of Kentucky
Population 25+	58,306	104,448	185,531	485,522	2,895,662
Education Level					
Less Than 9th Grade	5.9%	5.0%	4.2%	4.5%	9.9%
9th to 12th, No Diploma	10.6%	10.3%	7.9%	11.2%	12.7%
High School Graduate	35.4%	33.1%	22.4%	29.5%	34.7%
Some College, No Degree	20.2%	21.0%	20.6%	21.9%	18.4%
Associate Degree	5.7%	5.9%	7.1%	6.3%	5.6%
Bachelor's Degree	14.3%	16.0%	22.3%	16.3%	11.1%
Master's/Prof/Doctorate	7.9%	8.7%	15.6%	10.5%	7.6%

Source: ESRI, Inc. 2008 Estimates and Projections; U.S. Census Bureau

Hotel Market

In this section, ERA evaluates the markets in which the proposed hotel in Lexington is planned to compete: the local market and then more specifically full-service, luxury, upper-upscale and upscale hotels in Lexington. The conclusions from the market and performance of the upper end hotels will be used to forecast the potential of any hotel development on the project site.

ERA performed an evaluation of the overall hotel market in Lexington to determine its strength and vitality. In order to receive TIF funding from the State of Kentucky, any hotel development needs to generate new visitors and spending to the state as a result of proposed investment. It is therefore necessary to evaluate the current state of the market, supply, demand and associated revenues.

Competitive Market

The following analysis considers only full-service hotels (defined as those hotels with a restaurant on-site) in Lexington and only those defined by Smith Travel Research as Luxury, Upper Upscale, and Upscale. Three of these hotels are located downtown: the Gratz Park Inn, the Lexington Downtown Hotel and the Hyatt Regency with the rest are located within five miles of downtown. The portfolio of hotels ERA selected to examine as part of the market analysis includes 15 hotels listed in the table below.

Table 54: Select Hotels - Lexington, Kentucky

	Name of Establishment	Open Date	# of Rooms
1	Hilton Suites Of Lexington Green	August-87	174
2	Homewood Suites Lexington	October-03	91
3	Crowne Plaza Lexington The Campbell House	June-51	287
4	Springhill Suites Downtown Lexington @ Red Mile	December-03	108
5	Gratz Park Inn	June-87	44
6	Lexington Downtown Hotel	November-82	367
7	Hyatt Regency Lexington	April-77	366
8	Hilton Garden Inn Lexington	April-99	100
9	Residence Inn Lexington South	April-03	91
10	Doubletree Lexington	April-89	155
11	Courtyard Lexington North	June-88	146
12	Four Points Lexington	June-74	174
13	Residence Inn Lexington North	November-85	80
14	Embassy Suites Lexington	May-99	230
15	Marriott Griffin Gate Resort & Spa	September-81	409
	Total Rooms Included in Analysis		**2,822**

Source: Smith Travel Research

The largest hotel in the market is the Marriot Griffin Gate Resort with 409 rooms. This hotel recently underwent a $30 million renovation, adding a spa, improving the lobby and guest rooms and expanding outdoor pool and function space. The Crowne Plaza – Campbell House also underwent extensive renovation of its guest rooms and public areas. The next largest hotels are The Radisson and Hyatt, with 367 and 365 rooms respectively. These hotels are both more than 25 years old.

The newest hotels in the market are both on the north side and both offer suites – Springhill Suites, opened in December 2003, and Homewood Suites, opened in October 2003. Including the Residence Inn in April, a total of 290 rooms were added to the market in 2003 representing an 11.4 percent increase in total supple. A total of five new properties have opened since 1998 adding an additional 620 rooms and bringing the total hotel count in Lexington from 10 to 15 and supply from 2,202 to 2,822 – a 28.1 percent increase in supply.

Table 55: Newly Opened Properties - 1998 to 2008

Name of Establishment	Open Date	# of Rooms
Homewood Suites Lexington	October-03	91
Springhill Suites Downtown Lexington @ Red Mile	December-03	108
Hilton Garden Inn Lexington	April-99	100
Residence Inn Lexington South	April-03	91
Embassy Suites Lexington	May-99	230
Total		**620**

Source: Smith Travel Research

Market Conditions

The 15 hotels selected to represent the upper-end of the Lexington hotel industry are not necessarily predictors of future performance. However, it is still useful to know the current hotel market conditions so as to provide a context for market potential. The table below shows the change in room supply, demand and occupancy rates. Room supply is the total number of rooms available by the number of days in the year. Room demand is the number of rooms sold and the occupancy rate is the percent of rooms sold from the total supply. Room supply increased at an average annual rate of 1.00 percent since 2003, but there have been no changes in inventory since that year. Room demand grew at a slightly slower pace, reaching 637,723 in 2008 for a compound annual rate of 0.87 percent. Average annual occupancy rates for these 15 properties seem to have peaked in 2008 at 64.0 percent. However, with the increased supply, occupancy rates have remained fairly stable and fell to a slightly lower number than in 2003 of 61.9 percent in 2008, representing a 0.13 percent negative compound growth rate.

Table 56: Select Hotel Occupancy

Year	Room Count	Room Night Supply	Room Night Demand	Occupancy Rate
2003	2,822	980,035	610,786	62.3%
2004	2,822	1,030,030	634,607	61.6%
2005	2,822	1,030,030	618,050	60.0%
2006	2,822	1,030,030	629,062	61.1%
2007	2,822	1,030,030	659,084	64.0%
2008	2,822	1,030,030	637,723	61.9%
Compound Annual Growth		**1.00%**	**0.87%**	**-0.13%**

Source: Smith Travel Research, Economics Research Associates

Rates and revenues generated by hotel sales are shown in the table below. Total room revenue reached over $73 million in 2008 and has increased at a compound annual rate of 5.84% per year since 2003. The average daily room rate (ADR) surpassed the $100 mark in 2005 and rose further to reach $114.54 in 2008. A key measure in the hotel industry is the total room revenue divided by the room supply, also known as revenue per available room or RevPAR. From 2003 to 2008 it showed steady growth, averaging 4.79% per year over this period. RevPAR in 2008 was $70.92, up from $56.13 in 2003. So, although occupancy rates have fluctuated between 60 and 64 percent, average daily rates have shown a decidedly upward trend. Increases in room rates have kept RevPAR on an upward trend even in periods of lower occupancy.

Table 57: Select Hotel Revenues

Year	Room Revenue	Room Rate	Rev PAR
2003	$55,010,805	$90.07	$56.13
2004	$60,114,909	$94.73	$58.36
2005	$62,497,898	$101.12	$60.68
2006	$66,036,344	$104.98	$64.11
2007	$73,076,467	$110.88	$70.95
2008	$73,046,863	$114.54	$70.92
Compound Annual Growth	**5.84%**	**4.93%**	**4.79%**

Source: Smith Travel Research, Economics Research Associates

Monthly data shows a distinct pattern of seasonality with peak months for both volume and ADR coming in April, September and October. In general, occupancies pick up starting in April and continue to be high through October. The winter months, November through March, are the lowest in terms of both occupancy and rates.

Data for the first 2 months of 2009 for these hotels is also available and shows a marked decline year-to-date 2008 numbers. The table below shows this relationship between seasonality, occupancy and rates as well as a comparison for the first two months of 2009. To date, on a year-over-year basis, both occupancy and room rates are down over 3 percent and RevPAR is down 6..57 percent.

Table 58: Monthly Select Hotel Metrics

Month	Occupancy Rate	Room Rate	RevPAR
Jan	44.7%	$102.17	$45.65
Feb	52.7%	$103.95	$54.75
Mar	60.2%	$106.25	$64.01
Apr	73.5%	$133.42	$98.08
May	65.6%	$118.40	$77.62
Jun	67.7%	$106.66	$72.20
Jul	71.3%	$109.21	$77.90
Aug	67.6%	$108.90	$73.62
Sep	72.7%	$137.18	$99.77
Oct	70.9%	$126.31	$89.61
Nov	54.6%	$108.77	$59.41
Dec	41.2%	$93.03	$38.29
Total Year	**61.9%**	**$114.54**	**$70.92**
Jan-Feb 2009	47.2%	$99.44	$46.90
YTD % Change	**-3.10%**	**-3.52%**	**-6.57%**

Source: Smith Travel Research, Economics Research Associates

It must be noted that figures from the end of 2008 and the beginning of 2009 are the result of many factors in the economy that may affect outcomes including inflationary pressures, interest rates and gasoline prices. The negative economic pressures that began to develop towards the end of 2008 have had a continued and lasting effect on all aspects of the economy including the hospitality industry and have certainly had an impact in the year-over-year declines in the beginning of 2009. The extent and duration of the current economic downturn remains a matter of speculation, and any future development based on past trends must viewed with caution.

Office Market

In this section ERA examined the office markets for Class A and Class B office space in the Lexington – Fayette Market. Information for this section was obtained from local brokers Coleman Group in their annual survey of commercial office in Lexington and NAI Isaac in their year-end market report as well as from the Costar Property database.

ERA also examined the growth in Office Employment in Lexington/Fayette Metropolitan Area in comparison to other Metro Markets in the United States. This is in order to gain a perspective on the general health of office employment and its potential impact on the office market.

Office Employment

According to the Costar Group, office employment, which is characterized by employment in the information, finance, and professional and business service industries, has declined 3.30 percent in the past five years. Compare this to other major markets and the Tampa/St. Petersburg metro market is the only other one with a decline in office employment at 2.30 percent over the past five years.

Over the same period, inventories in the Lexington-Fayette Metropolitan Area have grown by 6.3 percent (including Class A, B and C office space) – a negative differential of 9.6 percent. Again Tampa-St. Petersburg is the only market to have a higher negative differential between office employment and inventory growth. Other major markets show either a positive differential or negatives in the range of less than one-percent.

Table 59: Office Employment Growth

Cumulative Growth in Office* Jobs Over the Past 5 Years			
Market	**Employment Growth**	**Inventory Growth**	**Difference**
Atlanta	2.60%	7.30%	-4.70%
Boston	5.00%	3.00%	2.00%
Chicago	3.40%	4.30%	-0.90%
Dallas/Ft Worth	12.00%	7.40%	4.60%
Denver	4.50%	4.90%	-0.40%
Los Angeles	2.10%	2.60%	-0.50%
New York City	4.50%	1.00%	3.50%
Seattle/Puget Sound	12.10%	6.20%	5.90%
Tampa/St. Petersburg	-2.30%	8.60%	-10.90%
Washington	5.10%	9.60%	-4.50%
Lexington/Fayette	-3.30%	6.30%	-9.60%

* Office employment is defined as jobs in Information, Financial Activities, and Professional & Business Services

Source: Department of Labor, Bureau of Labor Statistics, Costar Property

Historic Trend

Central Business District

With no major construction projects in the past 20 years the office inventory of the Central Business District, according to the Coleman Group, has remained largely unchanged since 2002 and has contracted at a compound annual rate of 0.74 percent per year. At the same time inventory has declined, the total available space including space available for sublet, has increased at 1.15 percent per year and remained at over 310,000 square feet at the end of 2008. Excluding sublet space, vacancies have climbed an average of 2.75 percent per year to reach nearly 13 percent by the end of 2008 with over 302,000 square feet of space on the market.

The average quoted rents for both Class A and Class B have increased slightly since 2002, reaching $17.90 per square foot and $13.90 per square foot in 2008 respectively. Rents for Class A have increased at a faster 0.77 percent per year while Class B rents have increased marginally, but remained largely stagnant at just 0.04 percent compounded annually.

Suburban Market

From an inventory perspective, the Suburban Market has remained largely unchanged as well with demolitions largely canceling out any new construction projects. On a compound annual basis from 2002 to 2008, inventory has grown at just 0.06 percent per year. At the same time, available space including sublet has grown at a significant 6.1 percent per year to reach 467,000 square feet – 17.4 percent of the market. Removing the declines in sublet space over this time, vacant space stood at 448,000 square feet at the end of 2008, growing an average of 9.3 percent per year.

Quoted rents for Class A space in the suburban market were higher at the end of 2008 than those in the Central Business District, hitting an average of $18.67 per square foot – a compound increase of 1.08 percent per year. Average rents for Class B were also higher than the CBD, increasing nearly 0.70 percent per year since 2002 to reach $13.90 by 2008.

Table 60: Office Market Trend - 2002 to 2008

	2002	2003	2004	2005	2006	2007	2008	CAGR
Central Business District								
Net Rentable Area	**2,447,975**	**2,448,975**	**2,396,007**	**2,366,126**	**2,341,312**	**2,319,395**	**2,340,673**	**-0.74%**
Total Available	**289,840**	**318,122**	**338,556**	**303,811**	**234,131**	**276,936**	**310,346**	**1.15%**
Vacant Space	268,828	314,985	238,562	303,927	232,564	277,020	302,346	1.98%
Sublet Available	21,053	3,184	55,108	0	1,639	0	8,000	-14.89%
Total Available %	**11.84%**	**12.99%**	**14.13%**	**12.84%**	**10.00%**	**11.94%**	**13.26%**	**1.91%**
Vacancy %	10.98%	12.86%	11.83%	12.84%	9.93%	11.94%	12.92%	2.75%
Sublet %	0.86%	0.13%	2.30%	0.00%	0.07%	0.00%	0.34%	-14.33%
Rent								
Class A	$17.09	$17.09	$18.17	$18.23	$18.38	$18.09	$17.90	0.77%
Class B	$13.68	$12.61	$17.07	$13.20	$13.95	$14.25	$13.71	0.04%
Suburban Markets								
Net Rentable Area	**2,671,539**	**2,738,560**	**2,737,661**	**2,663,338**	**2,564,488**	**2,864,137**	**2,680,495**	**0.06%**
Total Available	**326,996**	**451,315**	**339,470**	**267,932**	**301,327**	**368,098**	**466,735**	**6.11%**
Vacant Space	263,022	401,914	286,916	237,410	281,841	350,372	447,555	9.26%
Sublet Available	63,850	49,294	52,563	30,628	19,490	17,726	19,180	-18.16%
Total Available %	**12.24%**	**16.48%**	**12.40%**	**10.06%**	**11.75%**	**12.85%**	**17.41%**	**6.05%**
Vacancy %	9.85%	14.68%	10.48%	8.91%	10.99%	12.23%	16.70%	9.20%
Sublet %	2.39%	1.80%	1.92%	1.15%	0.76%	0.62%	0.71%	-18.31%
Rent								
Class A	$17.50	$17.52	$17.69	$17.92	$18.05	$18.10	$18.67	1.08%
Class B	$13.34	$14.40	$14.07	$13.62	$14.71	$14.77	$13.90	0.69%

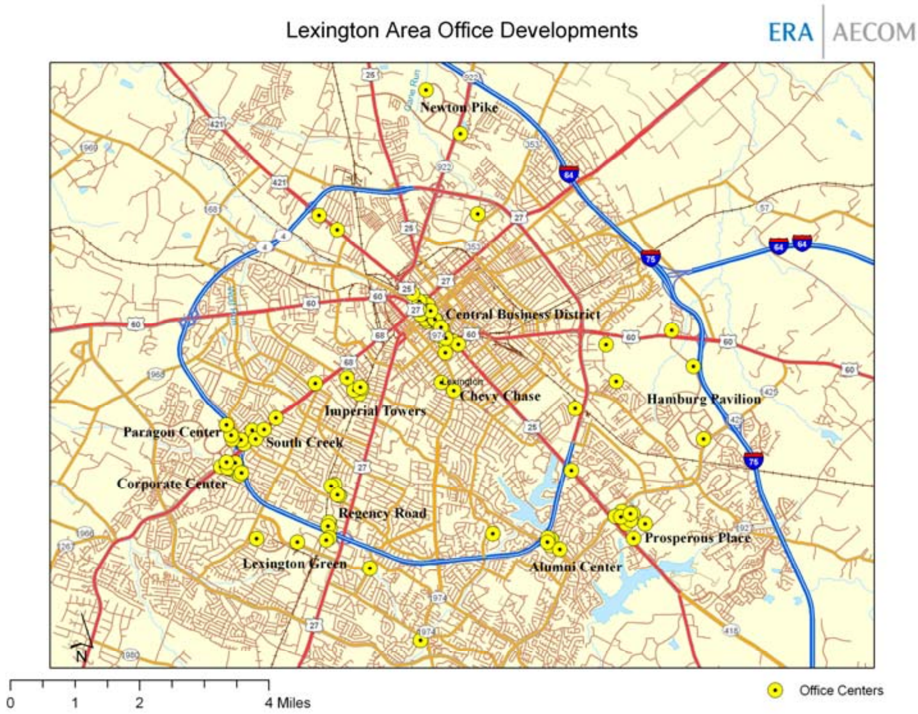
Source: Coleman Group Commercial Real Estate

Current Market

The Lexington Office Market has been broken down into two main markets, the Central Business District and the Lexington Suburban Market as defined by the Coleman Group. The Central Business District will be defined as the boundaries of Third Street to the North, Maxwell Street to the South, Jefferson Street to the West, and Walton Avenue to the East. This area is generally considered the core of the city where major retail, financial, professional services and government offices are located.

The Suburban Market can be broken down into four areas defined by North, South, East and West quadrants. The North Quadrant is located between Leestown Pike and Paris Pike and contains the Newtown Pike submarket. The South Quadrant is located between Richmond Road and Nicholasville Road contains Alumni Center and Chevy Chase as submarkets. The Prosperous Place and Hamburg Pavilion submarkets are located in the East quadrant between Paris Pike and Richmond Road. The final quadrant to the west includes the majority of the suburban office space in seven submarkets: Corporate Center, Regency Center, Imperial Tower, Southcreek, Paragon Center, Beaumont Center, and Lexington Green.

Figure 1: Lexington - Office Market Locations



Source: ERA|AECOM

For 2008, the Coleman Group Office Market Survey included 30 properties covering 2,340,673 square feet in the Lexington Central Business District and 71 properties with 2,680,495 square feet in the Lexington Suburban Market. It must be noted that these properties are not intended to be an all inclusive inventory of the Lexington – Fayette Market and are intended to give an overall view of the competitive office market as it pertains to the proposed development. The Coleman Group survey is also limited to Class A and Class B properties only. According to the Costar Group, there is more than 14-million square feet of A, B, and C Class commercial office space within Lexington – Fayette County.

Central Business District

On a year-over-year basis, the inventory of Class A and Class B space in the Central Business District increased by just less than one-percent by the end of 2008. Class A gained over 37,000 square feet while the inventory of Class B declined by nearly 16,000 square feet for a total gain of just over 21,000 square feet. The majority of these changes are due to changes in the properties surveyed as several former Class B buildings were downgraded to Class C and several properties were upgraded to Class A after renovation in preparation for their sale.

Of the 30 buildings included in the Coleman Group survey, 12 were Class A office buildings with the remaining 18 classified as Class B office buildings. Average quoted rent for Class A office buildings was $17.90 per square foot, ranging from a low of $13.00 to a high of $19.95 per square foot. Average rent for Class B office buildings was $13.71 per square foot, within quoted rates a ranging from $10.00 to $18.00 per square foot.

Overall vacancy increased by a total of more than 25,000 square feet as a large portion of renovated space continues to be empty and actual vacancy rates including space available for sub-lease increased by a total of 1.3 percent leaving over 33,000 square feet unoccupied. Class B was hit harder than Class A, seeing a nearly 2 percent increase in vacancy along with the decline in 16,000 square feet of available space, while Class A vacancies increased less than one percent even with a modest inventory addition.

Table 61: Lexington Central Business District Office Market

Type	2007	2008	Change Year-Over-Year	% Change Year-Over-Year
Available				
Total Square Feet	2,319,395	2,340,673	21,278	0.92%
Vacant Square Feet	277,020	302,346	25,326	9.14%
Vacancy Rate	11.94%	12.92%	0.98%	8.21%
Sublease Available				
Vacant Square Feet	-	8,000	8,000	-
Vacancy Rate	-	0.34%	0.34%	-
Total				
Total Square Feet	**2,319,395**	**2,340,673**	**21,278**	**0.92%**
Vacant Square Feet	**277,020**	**310,346**	**33,326**	**12.03%**
Vacancy Rate	**11.94%**	**13.26%**	**1.3%**	**11.06%**

Source: Coleman Group Commercial Real Estate

Table 62: Lexington Central Business District - Class A vs. Class B Office

Type	2007	2008	Change Year-Over-Year	% Change Year-Over-Year
Class A				
Total Square Feet	1,653,841	1,691,064	37,223	2.25%
Vacant Square Feet	156,126	172,642	16,516	10.58%
Vacancy Rate	9.44%	10.21%	0.8%	8.16%
Class B				
Total Square Feet	665,554	649,609	-15,945	-2.40%
Vacant Square Feet	120,894	129,704	8,810	7.29%
Vacancy Rate	18.16%	19.97%	1.8%	9.97%
Total				
Total Square Feet	2,319,395	2,340,673	**21,278**	**0.92%**
Vacant Square Feet	277,020	302,346	**25,326**	**9.14%**
Vacancy Rate	11.94%	12.92%	**1.0%**	**8.21%**

Source: Coleman Group Commercial Real Estate

Suburban Office Market

On a year-over-year basis, the inventory of Class A and Class B space in Suburban Lexington Markets declined by almost 6.5 percent by the end of 2008. Class A lost over 161,000 square feet, and the inventory of Class B declined by over 22,000 square feet. The Suburban Market as a whole lost almost 184,000 square feet in total inventory.

The Coleman Group surveyed 71 properties in the Suburban Office Market, with 19 Class A buildings and 52 classified as Class B. Average rents for Class A office buildings was $18.67 per square foot, within a range of $17.25 to $19.75 per square foot. Rents for Class B properties averaged $13.90, within a range of $6.00 - $19.50 per square foot.

Overall vacancy increased by a total of more than 97,000 with a marginal increase in the space available for sub-lease resulting in a total 4.6 percent increase in vacancy, leaving close to 184,000 square feet unoccupied. Class A experienced large losses in inventory leading to a slight increase in occupancy. Class B space however, gained almost additional 134,000 square feet of vacant space, with vacancy rates climbing from 9.2 percent to over 18.5 percent. This left the overall market with a 4.5 percent increase in vacancy, or 16.7 percent of the total inventory unoccupied. Including available sub-lease space, 17.4 percent of the market was empty at the end of 2008.

Table 63: Lexington Suburban Office Market

Type	2007	2008	Change Year-Over-Year	% Change Year-Over-Year
Available				
Total Square Feet	2,864,137	2,680,495	-183,642	-6.41%
Vacant Square Feet	350,372	447,555	97,183	27.74%
Vacancy Rate	12.23%	16.70%	4.47%	36.55%
Sublease Available				
Vacant Square Feet	17,726	19,180	1,454	8.20%
Vacancy Rate	0.62%	0.71%	0.09%	14.52%
Total				
Total Square Feet	**2,864,137**	**2,680,495**	**-183,642**	**-6.41%**
Vacant Square Feet	**368,098**	**466,735**	**98,637**	**26.80%**
Vacancy Rate	**12.85%**	**17.41%**	**4.6%**	**35.49%**

Source: Coleman Group Commercial Real Estate

Table 64: Lexington Suburban Market - Class A vs. Class B Office

Type	2007	2008	Change Year-Over-Year	% Change Year-Over-Year
Class A				
Total Square Feet	1,394,153	1,232,956	-161,197	-11.56%
Vacant Square Feet	215,852	179,481	-36,371	-16.85%
Vacancy Rate	15.48%	14.56%	-0.9%	-5.94%
Class B				
Total Square Feet	1,469,984	1,447,539	-22,445	-1.53%
Vacant Square Feet	134,520	268,074	133,554	99.28%
Vacancy Rate	9.15%	18.52%	9.4%	102.40%
Total				
Total Square Feet	**2,864,137**	**2,680,495**	**-183,642**	**-6.41%**
Vacant Square Feet	**350,372**	**447,555**	**97,183**	**27.74%**
Vacancy Rate	**12.23%**	**16.70%**	**4.5%**	**36.55%**

Source: Coleman Group Commercial Real Estate

No new speculative multi-tenant construction (Suburban or CBD) is expected to come online in 2009 as the market continues to absorb space constructed in 2007 and 2008. There has been no significant new construction in the Central Business District in the past 20 years and no new construction at all in the past six years. There have been several projects in the Suburban Market, although the overall inventory of the Suburban Market has remained largely unchanged. While, according to sources, there are several new projects in the planning stages, both in the CBD and suburbs, there is currently only one project under construction in the suburbs at approximately 170,000 square feet.

Table 65: New Construction Activity

	Under Construction Inventory				Average Bldg Size	
Market	# Bldgs.	Total RBA	Preleased	Preleased %	All Existing	U/C
Downtown Lexington	0	0	0	0.0%	17,803	0
Suburban Markets	1	170,000	69,700	41.0%	15,028	170,000
Totals	1	170,000	69,700	41.0%	16,415	170,000

Source: Costar Property

Under Construction Properties	
Lexhold Intl Center- Bldg	
Submarket:	West Lexington/Fayette
RBA:	170,000
# Floors:	5
Class:	A
Preleased:	0.4
Quoted Rate:	16.75
Grnd Brk Date:	Third Quarter 2006
Deliv Date:	Second Quarter 2009
Leasing Co:	Lexhold Institutional Real Estate
Developer:	N/A
Architect:	N/A

Retail Market

In this section ERA examined the retail market for shopping centers in the Lexington – Fayette Market. Information for this section was obtained from local brokers Coleman Group in their annual survey of shopping centers in Lexington, NAI Isaac in their year-end market report, and from the Costar Property database.

Historic Trend

Historical information of the Lexington retail market is limited, with accurate reporting only dating back to the end of 2006. During this period, there has been approximately 680,000 square feet of space added to local inventories. Absorption has lagged behind deliveries and total available space on the market has grown by just over 260,000 square feet to reach a total of over 910,000 square feet by the end of 2008 – a compound annual rate of 18.4 percent. The majority of this vacant space remains directly available, with no significant change in space available for sublet.

Quoted rental rates have declined significantly over the course of 2008, but still remain a good deal higher than at the end of 2006. Rates increased at an annual rate of 8.5 percent, for a weighted average of $17.61. Depending on the age and type of shopping center, rents ranged from a low of $6.00 to a high of $35.00 at the Fayette Mall.

Table 66: Retail Market Trend - 2006 to 2008

Lexington Retail Market	2006	2007	2008	CAGR
Net Rentable Area	**10,265,665**	**10,919,466**	**10,944,775**	**3.25%**
Total Available	**649,817**	**872,632**	**910,265**	**18.36%**
Vacant Space	567,855	842,598	826,961	**20.68%**
Sublet Available	81,962	30,034	83,304	**0.82%**
Total Available %	**6.33%**	**7.99%**	**8.32%**	**14.62%**
Vacancy %	5.53%	7.72%	7.56%	**16.87%**
Sublet %	0.80%	0.27%	0.76%	**-2.36%**
Rent	**$14.96**	**$19.07**	**$17.61**	**8.50%**

Source: Coleman Group Commercial Real Estate; Costar Group

Current Market

Retail in the Lexington market is located along 12 major arteries including downtown:

- Harrodsburg Road
- Clays Mill Road
- Nicholasville Road
- Tates Creek Road
- North Broadway
- Alumni Road
- Richmond Road
- Winchester Road
- Bryan Station Road
- Leestown Road
- Versailles Road
- Downtown

Figure 2: Lexington - Retail Shopping Center Locations

Source: ERA|AECOM

For 2007, the Coleman Group Retail Market Survey included some 98 properties covering 10,919,466 square feet in the Lexington Market. It must be noted that these properties are not intended to be an all inclusive inventory of the Lexington – Fayette Market and are intended to give an overall view of the major shopping centers in the market as they pertain to the proposed development. For 2008, ERA used the Costar Retail Database to update the Coleman survey to include 100 shopping centers covering 10,944,775 square feet for 2008.

On a year-over-year basis, the inventory of major retail space in the Lexington market increased by just 0.23 by the end of 2008 – a gain of 25,000 square feet. Vacancy increased from 7.99 percent to 8.32 percent, the large majority of which was due to space that became available for sub-lease. Actual vacancy excluding sublet space, declined by nearly 16,000, or 2.13 percent resulting in an additional 38,000 square feet becoming available in the market.

Table 67: Lexington Retail Market

Type	2007	2008	Change Year-Over-Year	% Change Year-Over-Year
Available				
Total Square Feet	10,919,466	10,944,775	25,309	0.23%
Vacant Square Feet	842,598	826,961	-15,637	-1.86%
Vacancy Rate	7.72%	7.56%	-0.16%	-2.13%
Sublease Available				
Vacant Square Feet	30,034	83,304	53,270	177.37%
Vacancy Rate	0.27%	0.76%	0.49%	181.90%
Total				
Total Square Feet	**10,919,466**	**10,944,775**	**25,309**	**0.23%**
Vacant Square Feet	**872,632**	**910,265**	**37,633**	**4.31%**
Vacancy Rate	**7.99%**	**8.32%**	**0.3%**	**4.09%**

Source: Coleman Group Commercial Real Estate; Costar Group

In general, the Lexington retail market saw a slowdown over the course of 2008. Retailers have scaled back expansion plans, are more selective with sites, are postponing additional units, and in some cases pulling back and consolidating – a trend that has been seen across the United States. The Winchester Road and Nicholasville Road corridors continue to perform well with little vacancy. However, the current market is catering towards the tenant, with new leases and lease renewals in their favor. No significant new retailers have entered the market partially due to the lack of available sites, although there is an additional 66,000 square feet under construction in two buildings: one along Tates Creek Road and the other along Winchester Road.

Richmond Centre on I-75 in Richmond is worth taking note of, however. This 800,000 square foot open-air center is the largest development under construction and only lies approximately 21 miles south of Lexington. Anchored by Meijer, JC Penny, and Belk, Richmond Centre will also have a 12-screen Cinemark Theater and the majority of its stores are projected to open by mid-2009.

Table 68: New Construction Activity

	Under Construction Inventory				Average Bldg Size	
Market	# Bldgs	Total GLA	Preleased SF	Preleased %	All Existing	U/C
Downtown Lexington	0	0	0	0.0%	11,642	0
Suburban Markets	2	66,400	1,360	2.0%	15,291	33,200
Totals	2	66,400	1,360	2.0%	17,116	33,200

Source: Costar Property

Under Construction Properties			
Tates Creek Heights		**Gateway Plaza**	
Submarket:	Tates Creek Road	Submarket:	Winchester Road
RBA:	34,000	RBA:	32,400
Preleased:	4%	Preleased:	0%
Quoted Rate:	$17.50	Quoted Rate:	$13.37
Grnd Brk Date:	First Quarter 2009	Grnd Brk Date:	First Quarter 2008
Deliv Date:	Third Quarter 2009	Deliv Date:	Second Quarter 2009
Leasing Co:	Silvestri Craig Realtors	Leasing Co:	Nuti Builders
Developer:	Nuti Builders	Developer:	N/A