
Report

Fraser Valley Retail Market Analysis



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Report

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Fraser Valley Retail Market Analysis

Prepared for

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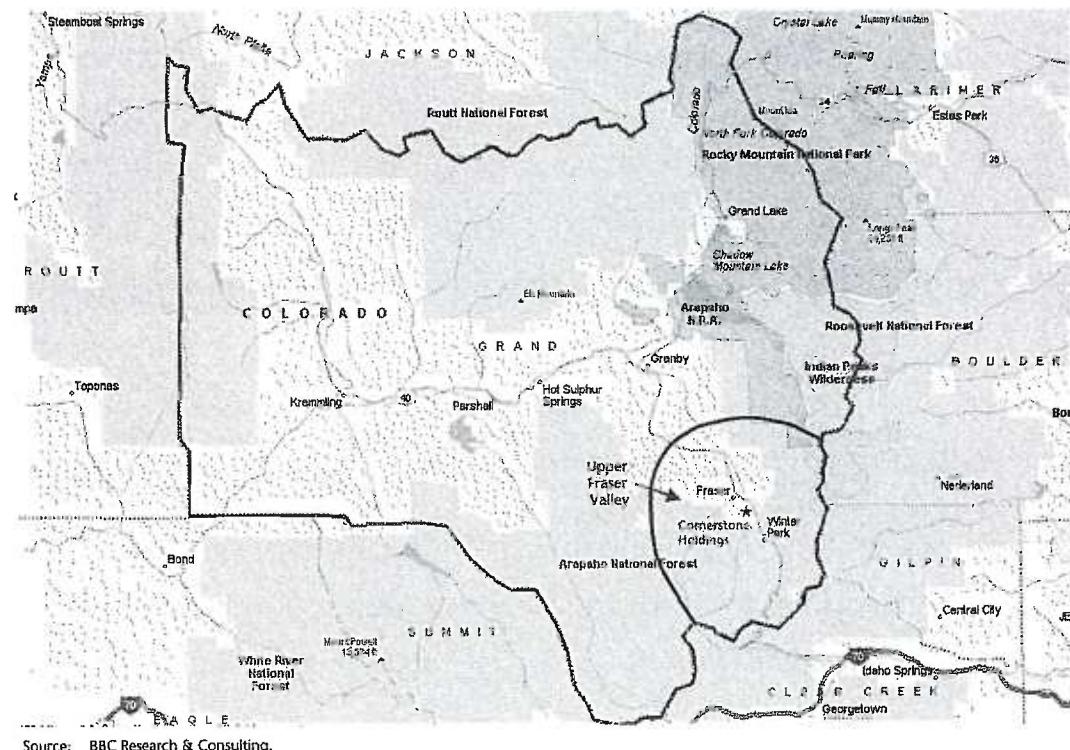
SECTION I. Introduction

This section describes the Cornerstone Holdings' property and the initial site development concept. It also offers an outline of analytical objectives and a brief review of BBC Research & Consulting's (BBC) approach.

The Cornerstone Property

Cornerstone Winter Park Holdings, LLC (Cornerstone) controls a 1,350-acre parcel adjacent to the town of Winter Park, Colorado in southeastern Grand County. The property is within jurisdictional boundaries of the town of Fraser, Colorado. Exhibit I-1 shows Grand County, Winter Park and the subject site.

Exhibit I-1. Grand County



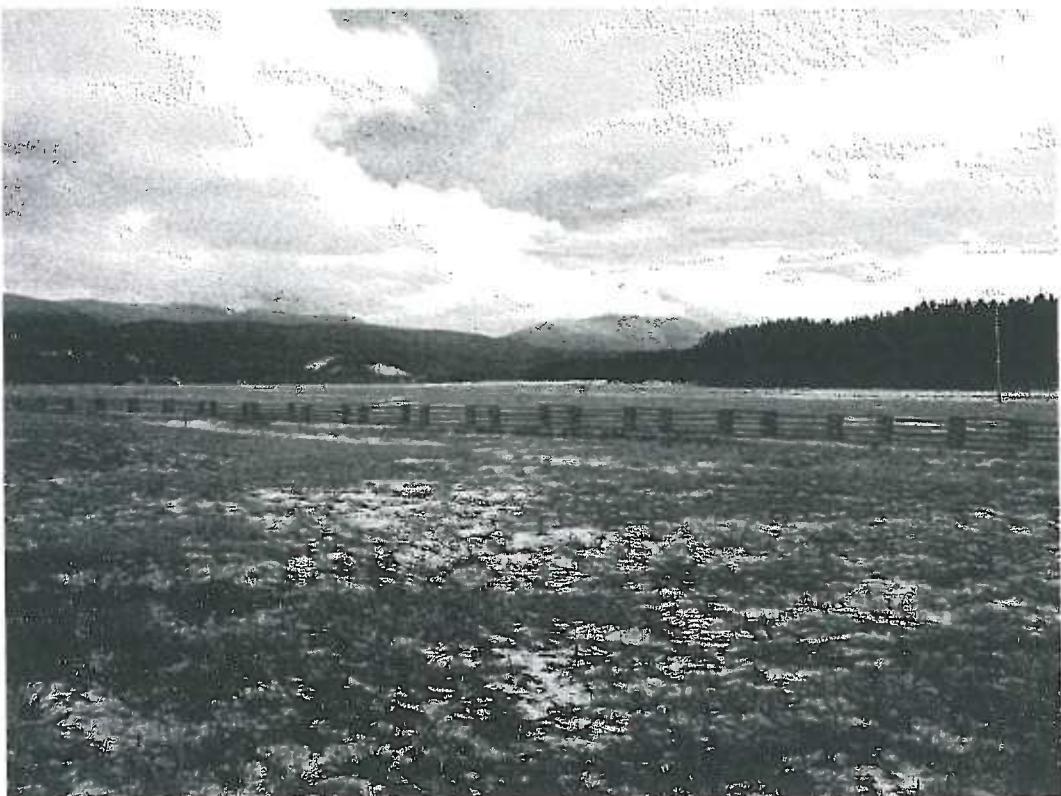
Source: BBC Research & Consulting.

The Cornerstone property has entitlements for over 2,000 residential units and over 150,000 square feet of commercial development. Development plans for the residential component of this project are in the final design phase and scheduled for completion in early 2005.

A portion of the Cornerstone property adjoins Highway 40 (1,200 feet of frontage) and has Planned-Unit Development designation for a mixed-use town center development. The commercial site contains 33.6 acres and abuts Cozens Meadows – a large open space parcel that will be preserved by a conservation easement. The current town site zoning allows 230 attached residential units, 300 lodging units and 150,000 square feet of commercial development (unspecified retail/office space). Approved development standards are appropriate for a mixed-use town center property: open space – 10 percent; height – 55 feet to 75 feet; front yard – 0 feet; side yard – 0 feet; and rear yard – 0 feet.

Exhibit I-1.

Cozen Meadows and the Cornerstone Property



Source: BBC Research & Consulting.

The initial concept plan for the Cozens Meadows town site anticipates a commercial main street accessed by a full movement intersection on US 40. The main street would visually align with the ski hill and would eventually connect with the Fraser Valley Parkway/Kings Crossing Road. The development plan has not been refined beyond the general concept of a mixed-use, pedestrian focused, commercial, residential and lodging center, which would help define and service the accompanying residential project and provide a modern town center site for the entire upper Fraser Valley.

Report and Analysis Objectives

The purpose of this analysis is to provide quantification and characterization of the Grand County retail market and to offer technical support and expert opinion for a decision about developing a mixed-use, commercial project at the Cornerstone Cozens Meadows town site parcel.

Background and Approach

The upper Fraser Valley is economically dependent upon winter skiing, summer tourism, and increasingly, on a growing second home development and related real estate industry. As described later in this report, the Fraser Valley appears to be in a period of economic transition—in part related to the revitalization of the Winter Park Ski Area by new ownership and, in part, the result of larger national trends in recreation and retirement living. These trends are described more fully in Sections II and III of this report.

The transitional nature of the upper Fraser Valley economy makes the process of economic analysis more complicated. As all market analyses employ historical data to project future demand levels, market studies are by their own nature backward looking. Trend extrapolation techniques work reasonably well in urban areas where fundamental market change is unlikely, and a project's market prospects depend largely upon its ability to cannibalize current market share or capture market growth. They are of less value in resort areas where market changes are more dramatic and occur more rapidly.

In transitional economies, traditional analytical techniques should be supplemented by forward looking analyses that acknowledge that historical trends may be subject to change as a result of any number of economic, demographic or technological events—in essence an acknowledgement that the future may not be a straight-line extrapolation from the past.

This analysis employs four approaches to evaluating retail development opportunities:

- **Demand:** growing or underserved demand for retail services based on historical development trends and expected growth levels;
- **Supply:** regulatory or physical constraints that limit commercial/retail supply and thus suggest underserved market opportunities if new supply can be developed;
- **Case studies:** evidence of retail trends or retail configurations that have proven successful in other similar markets and would suggest applicability to this market; and
- **Market transformation:** a reasoned position that historical trends and traditional economic relationships are changing in a manner that will fundamentally alter the local retail economy.

These analytical structures are used later in this analysis to support the conclusions of this study.

Report Organization

Following this Introduction, Section II presents an overview of key economic and demographic trends shaping resort economies throughout the western Rocky Mountain region. Section III offers a review of economic and market trends in Grand County. Section IV describes the opportunities and limitations of the site, in light of Cornerstone's development concept, as well as BBC's conclusions and recommendations regarding the economic and market prospects for a mixed-use, commercial project at the Cornerstone town site.

SECTION II.

Economic Trends in Western Mountain Resorts

This section presents an overview of the Rocky Mountain resort industry, emphasizing emerging economic and market trends that will influence retail and mixed-use commercial prospects in the upper Fraser Valley.

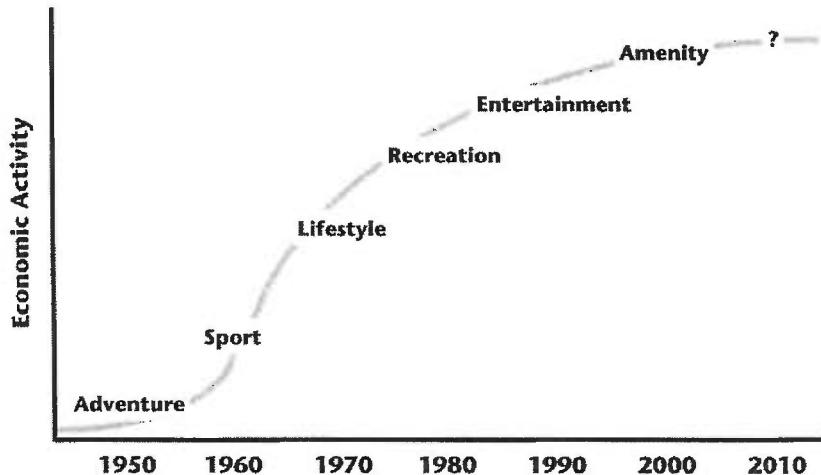
Skiing as an Economic Base Industry

The recent history of western mountain economies was largely shaped by the development of the modern ski industry, which in a relatively brief period transformed the economy of a large portion of the Rocky Mountain west. Over a fifty year period beginning in the mid 1950's, skiing evolved and reinvented itself a number of times; and in the process, spawned a series of affiliated industries including second home real estate, visitor oriented retail, and a variety of hotels and accommodations.

The ski industry grew quickly in its formative years, eventually achieving a point of maturity where the sport became less an esoteric adventure, and more of a common recreational diversion — and just one in a variety of mountain recreation amenities and attractions. Skiing's general maturation process is shown in Exhibit II-1.

Exhibit II-1. Skiing and Recreation Change

The sport of skiing has been in a constant state of change.



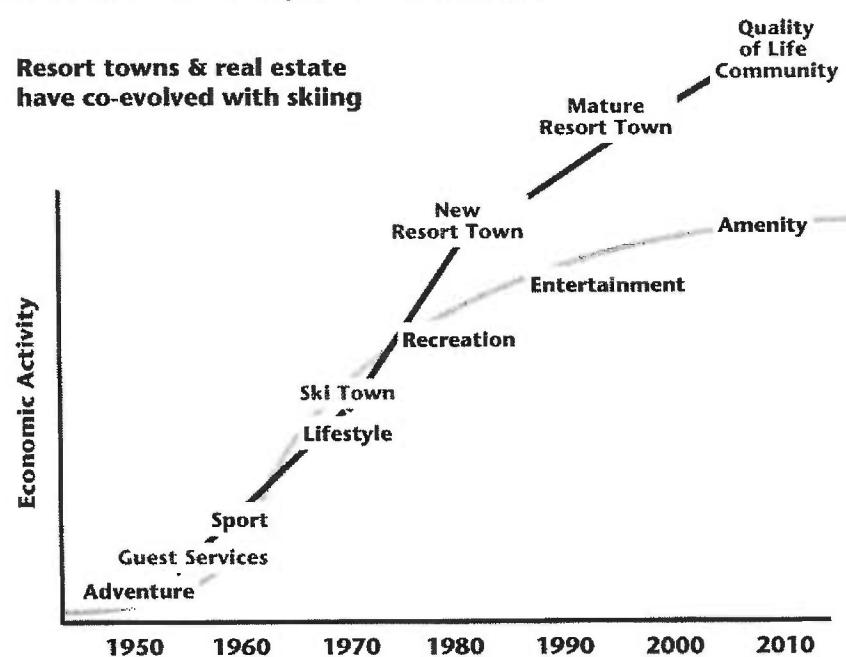
As this industry matured, its pace of growth slowed, but it continued to evolve. Most recently, snowboarding has reinvigorated the industry, particularly the youth market, and aggressive season pass pricing has changed the way frequent skiers make resort choice decisions. Concurrently, new grooming equipment, advances in ski gear, snowmaking deployment and high-speed lifts have all served to keep older skiers engaged even as their physical capacities decline.

In summary, skiing is not a static business and its continued evolution and maturation has far reaching implications for ski area operators as well as the communities and businesses that serve destination guests and day visitors.

Skiing and the Growth of Resort Communities

In the early years, skiing and related visitor services may have been at the core of resort community development, but at some point in the early 1970's resort towns emerged as far more than just a collection of skier services as they leveraged their skier visitor base to become multi-seasonal attractions of their own.

Exhibit II-2.
Ski Towns Become Diverse Quality-of-life Communities



Over a relatively short period, small ski towns became multi-faceted resorts, then multi-seasonal recreation centers and finally what might be termed "quality-of-life" communities, in which the economic base is a complex offering of recreation, culture, arts, public lands and distinctive retail all combining to offer residents, visitors and part-time residents the opportunity for a highly attractive lifestyle.

Throughout this maturation process, real estate and commercial development opportunities rise, fall and evolve in concert with the changing demographics and needs of the community's residents and visitors. The key to finding the next round of resort retail opportunity lies in understanding how the demographics of these communities will change and what kinds of commercial development will be successful in this stage of skiing's evolution.

Quality-of-life Communities

The modern quality-of-life community has a number of characteristics that sets it apart from its resort town predecessor. These are highlighted in Exhibit II-3.

Exhibit II-3.
**Key characteristics
of the emerging
Quality-of-life
Community:**

- Market is driven by attractive environment, community and recreation.
- Immediate proximity to skiing is valuable but not critical to land values.
- Emerging commonality of demography and interests between residents and second home owners.
- Broad and diverse real estate economy, including construction, transactions and remodeling, but not just a second home construction economy.
- Reduced economic reliance on destination guests.
- Economy changes more rapidly than it grows.

In essence, the traditional ski resorts have morphed into a new community where the attractions are many and varied, and range from the immediate draw of the mountain landscape to the specific quality of local restaurants and cultural events. The local population is increasingly diverse; as retirees and independent entrepreneurs join traditional ski bums, long standing residents, second home owners and guests to create an interesting new version of the old ski town.

Economic Diversification

The movement away from skiing as the mainstay of the local economy has far reaching implications for real estate development. The new resort economy is supported by four pillars (Exhibit II-4), the most important being real estate sales, development and residential remodeling.

Exhibit II-4.
Resort Economic Diversification

The old resort economy was based on visitor expenditures.
The new resort economy has four components:

Visitor Expenditures	Real Estate	Resident Generators	Other
Overnight Tourists Second home owners (winter and summer)	Transaction Based Realtors Bankers Construction New Construction Remodel Maintenance Property Management	Outside Investments External Services Architects Legal Retirees	Export Businesses Assembly Manufacturing Government Taxes, fees & charges paid by nonresidents Not for Profits Cultural Conservancy
Day Tourists			

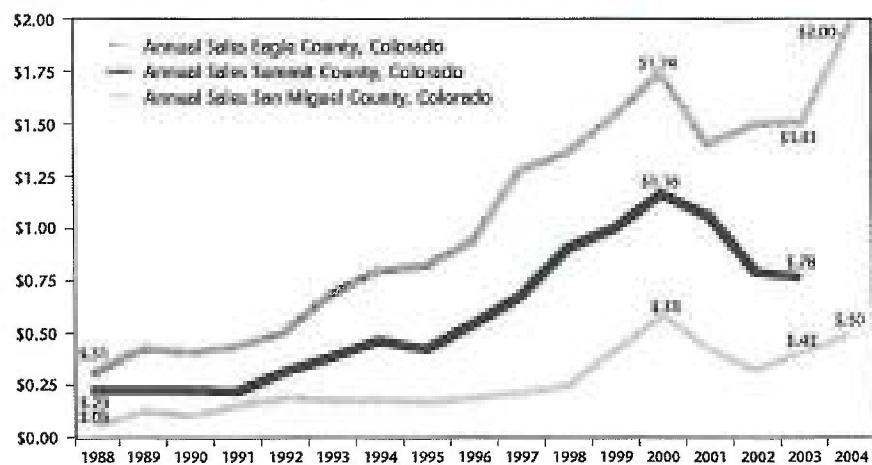
Over the past decade, the resort real estate industry has experienced rapid growth, but contrary to popular perception, mountain real estate is not just about new construction. In practice, the real estate industry includes a large transactional sub-segment (Realtors, lawyers, appraisers, etc.); a residential component (new construction); a remodeling element (construction trades, interior design); and a property management and support component. In addition, retirees who bring outside income and investment returns into the area are also becoming a major force in the local economy. These are the core employment growth centers while traditional skier and guest services remain flat or declining.

Real Estate Growth

The general importance of real estate over the past decade is demonstrated by the growth trends and value appreciation evidenced in most resort areas. Exhibit II-5 portrays these trends for San Miguel, Summit and Eagle Counties, Colorado.

Exhibit II-5.
Annual Residential Real Estate Sales (\$ Value in Billions)

Resort Real Estate growth has been impressive.



Source: Data Research; Breckenridge, Colorado.

After a brief slowdown in 2001-2003, the resort real estate industry rebounded sharply in 2004 (based on eight months of data), which is expected to be a record year in most resort counties.

Geographic Diversification

As resort economies diversified and expanded, their influence grew to encompass nearby communities and “down valley” towns. What were once economically concentrated ski villages, focused primarily around mountain access points, have now expanded to encompass a wide regional area where highway access and geography allows new development while still keeping the core resort amenities in reasonable proximity.

As a rule, towns that are immediately down valley from the core resorts have seen the fastest growth over the past decade, and as shown in Exhibit II-6, have begun to specialize and mature into definable communities of their own — not just low cost alternatives to the original resort town.

Exhibit II-6.
Resort Influence Migration

Resort economic influences are spreading “down valley”:

Core Resort Town	Nearby Alternative	Down-Valley Alternative
<ul style="list-style-type: none"> ▪ Brand Name/Image ▪ Tourist Accommodations ▪ Tourist Retail ▪ Largely Built-Out 	<ul style="list-style-type: none"> ▪ Professionals/Longtime Locals ▪ Local Retail ▪ Golf ▪ Quality-of-Life Migrants 	<ul style="list-style-type: none"> ▪ Worker Housing ▪ Trophy Ranches ▪ Golf Communities ▪ Quality-of-Life Migrants

Examples of secondary towns that have emerged as attractive quality-of-life communities in their own right include Basalt and Carbondale (Pitkin/Garfield County); Frisco (Summit County); Edwards and Eagle (Eagle County); and Ketchum and Hailey (Blaine County, Idaho).

In many resorts around the West, the down valley influence area now extends 50 miles or more, as both full-time and part-time residents are attracted to a warmer climate, lower cost housing and smaller, more authentic communities. As the new market pursues diverse quality-of-life options, and reasonable resort accessibility is an adequate substitute for lift-side proximity, these down valley communities have grown and prospered.

Primary Homes not Just Recreation Homes

Although the popular view of resort development emphasizes the growth of second homes, in actuality the more current story is the transition from second homes to permanent residences, as long-time locals use record low mortgage rates to acquire housing, and long-time second home owners begin to convert their recreational homes into permanent residences.

Exhibit II-7 shows the growth in key residential market segments in the two largest Colorado resort counties between 1990 and 2000. While overall housing has grown by over 40 percent in both counties, owner occupied housing has grown by over twice that rate, and in Eagle County even resident occupied rental housing has gained market share. These same patterns are evidenced throughout the mountain resorts.

Exhibit II-7. Residents, Not Second Homes

Resident occupied units are the major growth sector.

Eagle County, Colorado

Units	1990	2000	Percent Change
Total	15,226	22,111	45%
Renter Occupied	3,552	5,493	55%
Owner Occupied	4,802	9,655	101%
Second Homes	5,040	5,974	19%

Summit County, Colorado

Units	1990	2000	Percent Change
Total	17,091	24,201	42%
Renter Occupied	2,724	3,736	37%
Owner Occupied	2,570	5,382	109%
Second Homes	9,523	13,339	40%

Note: The Census designation for second homes is "held for occasional use."

Source: U.S. Census Bureau.

For many years, mountain resort development has been closely tied to the desires of the Baby Boom, a demographic anomaly that is just now entering retirement age. It is likely that the most prominent trend of the next decade will be the rapid transition of resort areas into resident communities that are increasingly populated by wealthy, active and fit retirees, or semi-retirees. In addition, traditional second home owners will increasingly use their units for broader, multi-seasonal purposes rather than just skiing. This steady trend toward residents and retirees will have enormous consequences for resort residential, retail and commercial development.

Tourism Stagnation

Although the current economies of western resort towns are generally very strong, their prosperity has more to do with growth in real estate activity and resident in-migration, than growth in the traditional skier and tourism markets. As evidenced in Exhibit II-8, Colorado destination winter tourism has been in substantial decline for at least five years.

Exhibit II-8. Colorado Destination Skier Trends

Source:
RRC Associates, 2003.

Note:
States are ranked by size of market.

Origin	Percent Change in Skier-Visits 1996-97 to 2002-03
Colorado	+16.1%
Texas	-17.8%
Florida	-14.8%
Illinois	-10.5%
California	-31.3%
New York	-7.1%
Missouri	0.0%
Michigan	-0.3%
Kansas	-24.8%
Georgia	+13.3%
International	-21.0%

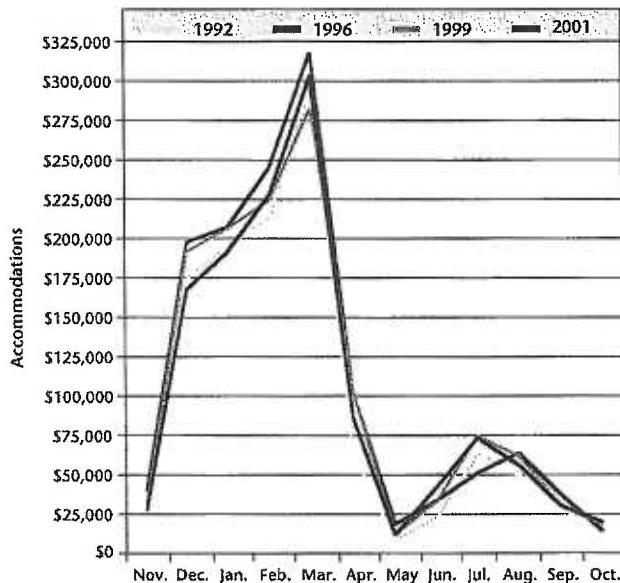
Colorado's ski resorts have prospered largely by increasing the local and Front Range share of the market through discount ski passes. This is an effective strategy for ski areas, but resident skiers do not generate the same economic expenditures and retail value as do out-of-state skiers.

Further evidence of tourism's stagnation is presented in Exhibit II-9, a portrayal of Breckenridge's monthly lodging tax revenues over a period of nine years. The absence of any real growth and any substantive change in seasonality is notable, particularly for a resort that is advantageously located and operated by an aggressive, well funded corporate entity.

Exhibit II-9.
Total Breckenridge
Accommodations Tax
Collections (Constant
Dollars)

Note:
 3.5% inflation assumed.

Source:
 Town of Breckenridge and
 BBC Research & Consulting.



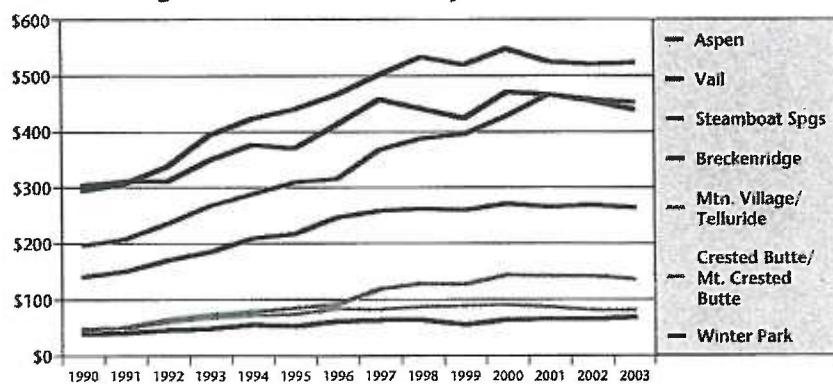
Breckenridge's experience is noteworthy because over this period Breckenridge continued to prosper with strong construction activity, continued skier-visit growth as well as population and employment expansion. Other resorts experienced declines that are even more dramatic.

Retail Trends

The migration of residents, visitors and second home owners down valley, combined with the stagnation in the destination visitor market, has hurt resort retail businesses. As shown in Exhibit II-10, after a long period of steady growth, core resort retail sales began to stagnate and in many instances decline, beginning in about 1997.

Exhibit II-10.
Retail Sales – Colorado Resort Areas

Retail sales growth has stalled everywhere.



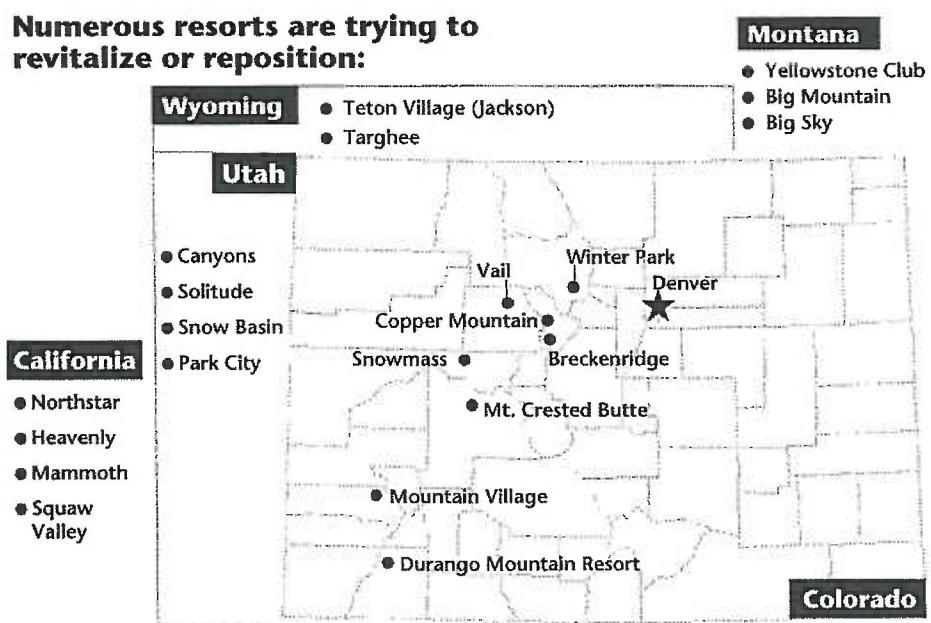
Source: Colorado Department of Revenue, Total Retail Sales.

Exhibit III-10 demonstrates the relative size of Colorado's major resort town economies. Winter Park's very modest scale is notable, as is its near ten-year period of little or no retail growth.

Competing Resort Strategies

The slowdown in core resort visitor business, the stagnation in the key tourist markets and the continued down valley migration is understood by most local policy makers and local business interests. Generally, resort communities have reacted with aggressive redevelopment plans. These strategies range from entirely new villages (Mammoth lakes, Winter Park, Snowmass) to downtown redevelopment districts (Mt. Crested Butte, Vail); in-town gondola and lift systems (South Lake Tahoe); and new resorts (Tamarack and Grand Targhee, Idaho).

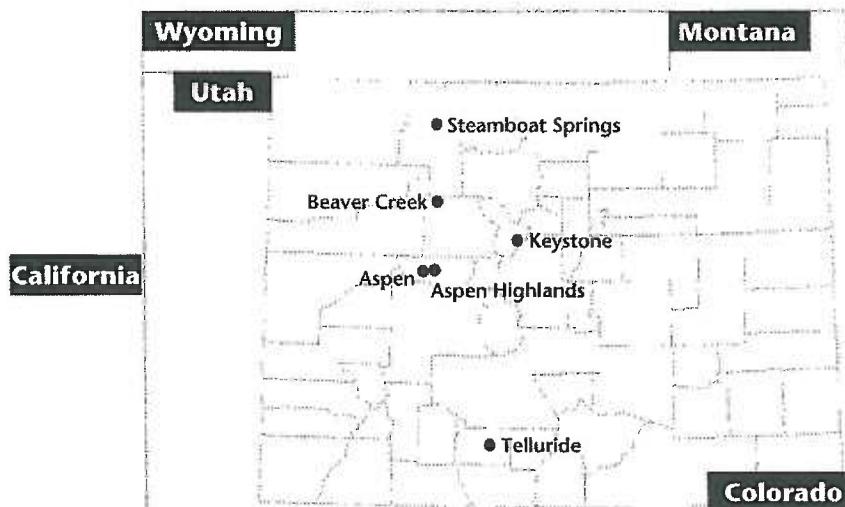
Exhibit II-11. Resorts With Aggressive Redevelopment Projects



In a highly competitive market, building the better mousetrap has become an obsession. Resort communities know that they must compete for guest retention and must meet guest expectation. As shown in Exhibit II-12, only a few resorts are without an aggressive portioning strategy.

Exhibit II-12.
Resorts Without Ambitious Revitalization Plans

Only a few are without a major redevelopment project:



Some resorts are satisfied with what they are (e.g. Deer Valley), others tried and failed (Aspen Highlands), and some are still formulating a plan (Keystone).

Conclusions

The history of western mountain resort development has been marked by rapid growth and dramatic underlying demographic and market changes, as the local economy responded to changes in the underlying ski business and the evolving recreational and real estate desires of the Baby Boom generation. Presently, it appears that the resorts are once again positioned for a significant transition from a recreational/tourism-based economy toward a retiree/quality-of-life economy, with implications for affiliated recreation, commercial, residential and retail business development.

In our view, the future resort economy will see less emphasis on skiing and the development immediately adjacent to skiing, but greater activity down valley where skiing options and core amenities remain in reasonable proximity to new housing, but represent only one element of a diverse recreational lifestyle.

As destination visitor business has stagnated in recent years, mountain resort retailing has followed suit. Retail's bright spots have been primarily in sectors oriented toward second homes and local residents, such as home furnishing and quality restaurants. Real estate sales, home maintenance and interior design services, largely users of office space, have also witnessed considerable recent growth.

The following section examines the Winter Park, upper Fraser Valley experience in light of these broader resort trends.

SECTION III. Grand County Economy

This section documents economic and market trends in Grand County, Colorado with an emphasis on the upper Fraser Valley and the towns of Fraser and Winter Park. Client data on the local housing market is also summarized to the degree this information informs the discussion of town site development prospects.

Population and Household Data

Exhibit III-1 displays the major cities in Grand County and the population growth from 1999 to 2002. Total population in Grand County in 2002 was just over 13,000 people. It is likely that the county's population will near 14,000 persons by mid-year 2004.

Exhibit III-1.
Grand County Population, 1999 to 2002

Town	Population				Percent Change 1999 to 2002
	1999	2000	2001	2002	
Fraser	752	910	947	962	28%
Granby	1,311	1,325	1,377	1,603	22%
Grand Lake	338	447	468	476	41%
Hot Sulphur Springs	461	521	539	549	19%
Kremmling	1,535	1,578	1,631	1,657	8%
Winter Park	739	662	721	827	12%
Unincorporated Area	5,383	6,799	7,026	7,347	36%
Total Grand County	10,619	12,442	12,909	13,421	28%

Source: Colorado Department of Local Affairs, Colorado Demography Section, Estimates of Population and Households for Colorado Counties and Municipalities.

Kremmling was the largest town in the county in 1999 and remained the largest in 2002. However, Granby has grown at a rapid pace from 1999 to 2002 and is now within 60 people of Kremmling's 2002 population. Although Kremmling is the largest town in the county, it has experienced the smallest percent change in population countywide. Grand Lake experienced the highest rate of growth over the four-year period. However, this high rate of growth is mostly attributable to Grand Lake's small size. Grand County itself experienced a 28 percent increase in population from 1999 to 2002.

The upper Fraser Valley, which is the primary focus of this analysis, includes the towns of Winter Park and Fraser and a large share of unincorporated population in the area. Based on county housing data, BBC estimates that approximately 4,500 residents live in the upper Fraser Valley and use commercial services in Fraser and Winter Park as their primary shopping destination.

Exhibit III-2 displays population projections for the next 25 years in Grand County. In 2005, the Colorado Demography Section of the Department of Local Affairs projects that population will reach just over 14,000 in Grand County. By 2030, population is expected to total almost 29,000 persons.

Exhibit III-2.
Population Projections,
Grand County,
2005 to 2030

Source:
 Colorado Department of Local Affairs,
 Colorado Demography Section.

	Population	Percent Change
2005	14,264	
2010	16,740	17%
2015	19,566	17%
2020	22,512	13%
2025	25,678	14%
2030	28,834	13%

The county is expected to experience the fastest rate of growth (17 percent) from 2005 to 2010 and from 2010 to 2015. After 2015, the rate of population growth in Grand County is projected to slow to a low of 12 percent from 2025 to 2030.

Exhibit III-3 tallies household numbers in Grand County from 1999 to 2002. In 2002, there were approximately 5,500 households in the county. The same trend exists with households; Kremmling had the most households in the county in 1999 and 2002, but Granby is growing at a faster rate.

Exhibit III-3.
Grand County Households, 1999 to 2002

Town	Households				Percent Change 1999 to 2002
	1999	2000	2001	2002	
Fraser	460	410	417	434	21%
Granby	501	579	599	609	15%
Grand Lake	152	219	229	233	53%
Hot Sulphur Springs	168	196	203	207	23%
Kremmling	383	395	616	626	7%
Winter Park	313	318	347	399	28%
Unincorporated Area	<u>2,103</u>	<u>2,758</u>	<u>2,854</u>	<u>3,990</u>	42%
Total Grand County	4,311	5,075	5,375	5,498	21%

Source: Colorado Department of Local Affairs, Colorado Demography Section, Estimates of Population and Households for Colorado Counties and Municipalities.

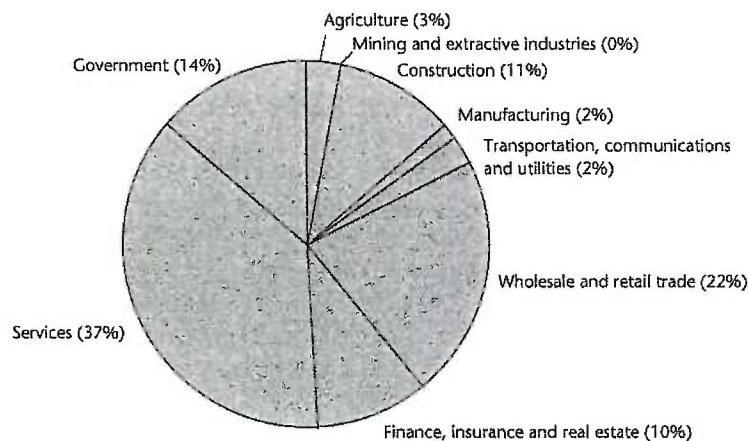
Grand County households are growing at a slightly faster rate than total population. Total households increased by 31 percent from 1999 to 2002, but population numbers only increased by 28 percent.

Employment

Beginning in 1997, the North American Industrial Classification System (NAICS) began replacing the Standard Industrial Classification (SIC) system, used for over 60 years to quantify and analyze the U.S. economy. Full implementation of NAICS did not begin until 2001. Exhibit III-4 below shows employment by industry in Grand County as of 2000, using the SIC system.

Exhibit III-4.
Employment by Industry,
Grand County, 2000

Source:
Colorado Department of Local Affairs,
Colorado Demography Section.



In 2000, the service industry dominated the county with 37 percent of the total industry composition. Amusement and recreation services followed by lodging services – both of which most likely relate to activity in the ski resorts – composed the majority of the service industry.

Since the SIC system has spanned 60 years, time series data is readily available. Although the service industry captures the majority of employment in Grand County, from 1991 to 2000, the construction industry grew most rapidly, a 307 percent increase over the ten-year period. Exhibit III-5 lists the percent changes in industry employment from 1991 to 2000.

Exhibit III-5.
Employment by Industry,
Percent Change 1991 to
2000, Grand County

Source:
Colorado Department of Local Affairs,
Colorado Demography Section.

Industry	Percent Change 1991 to 2000
Agriculture	0%
Mining and extractive industries	0%
Construction	307%
Manufacturing	-19%
Transportation, communications and utilities	9%
Wholesale and retail trade	52%
Finance, insurance and real estate	36%
Services	46%
Government	28%
Total	48%

At 52 percent growth, the wholesale and retail trade industry followed the construction industry with the second highest growth from 1991 to 2000. However, some industries experienced no growth or lost employment; the manufacturing industry lost 19 percent of its employment over the ten-year period.

The most recent available data uses NAICS codes to classify industry employment in Grand County. Comparing the NAICS data in the exhibit below to the 2000 data in prior Exhibit III-4 yields similar results. Some data are withheld for confidentiality reasons.

Exhibit III-6.
Employment by Industry,
NAICS, 2002

Source:
Colorado Department of Local Affairs,
Colorado Demography Section.

	2002	% of Total
Total Employment	8,640	100%
Agriculture	251	3%
Mining	Suppressed	Suppressed
Utilities	57	1%
Construction	1,143	13%
Manufacturing	98	1%
Wholesale trade	59	1%
Retail trade	Suppressed	Suppressed
Transportation and warehousing	109	1%
Information	58	1%
Finance activities	Suppressed	Suppressed
Real estate	624	7%
Professional and business services	206	2%
Administration and waste services	170	2%
Education	3	0%
Health services	217	3%
Arts, entertainment and recreation	1,125	14%
Accommodation and food services	1,793	21%
Other services, except public administration	Suppressed	Suppressed
Government	1,171	14%

In 2002, total employment in Grand County was 8,640, as shown in Exhibit III-6¹. The available data shows that the accommodation and food services industry composed the highest percent of industry employment in 2002 (21 percent), which is similar to the SIC findings in Exhibit III-4. Arts, entertainment and recreation industries followed second capturing 14 percent of the total countywide employment.

Exhibit III-7 displays labor force numbers over a 22-year period from 1980 to 2002.

¹ Employment refers to the number of jobs, which can be full or part-time.

Exhibit III-7.
Labor Force Numbers,
1980 to 2002,
Grand County

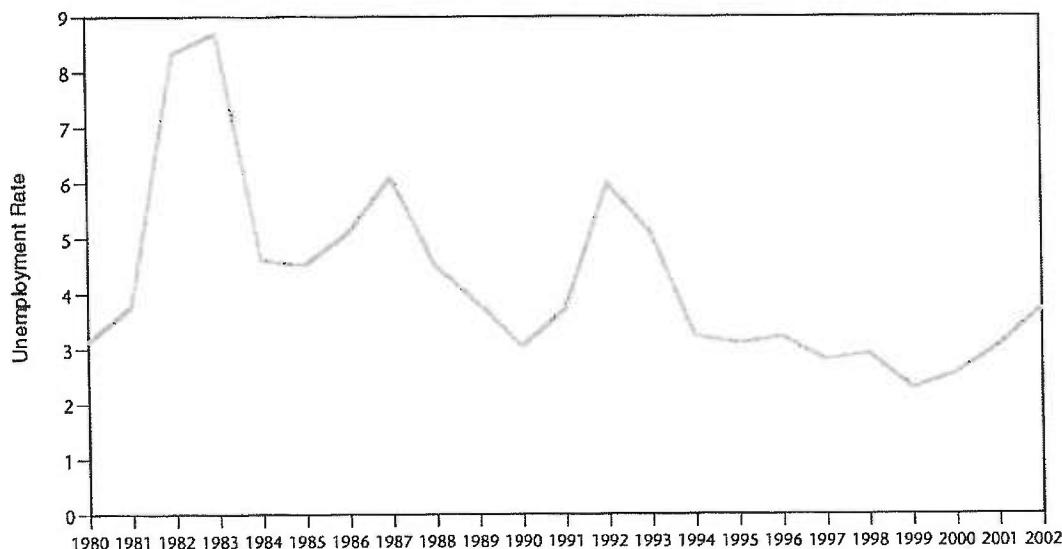
Source: Prepared by CBEF for the Colorado Department of Local Affairs, Colorado Demography Section.

Year	Labor Force	Year	Labor Force
1980	5,626	1992	4,611
1981	6,071	1993	4,856
1982	6,206	1994	5,024
1983	5,168	1995	5,182
1984	5,432	1996	5,493
1985	5,414	1997	5,600
1986	4,979	1998	5,945
1987	5,003	1999	5,944
1988	4,958	2000	6,076
1989	5,086	2001	6,263
1990	4,719	2002	6,462
1991	4,460		

Throughout the 1980s, the labor force in Grand County fluctuated. However, beginning in 1990, labor force numbers slowly increased to 6,462 persons in 2002, which is roughly equal to the 1982 labor force in Grand County.

Exhibit III-8 graphs the unemployment rate from 1980 to 2002 in Grand County.

Exhibit III-8.
Unemployment Rate, Grand County, 1980 to 2002



Source: Prepared by CBEF for the Colorado Department of Local Affairs, Colorado Demography Section.

In 1983, Grand County hit a 22-year high with an unemployment rate of 8.7 percent. In 1999, the county experienced the lowest unemployment rate over the 22-year period, 3.2 percent.

Building Permits

New development in an area is a good indication that market conditions are favorable and that the area is a desirable community, attracting new residents. The number of building permits can be a predictor for favorable market conditions. Exhibit III-9 displays net building permits from 1985 to 2002.

Exhibit III-9.
Net Building Permits,
1985 to 2002,
Grand County

Source:
Colorado Economic and Demographic Information System.

Year	Net Building Permits	Year	Net Building Permits
1985	160	1994	273
1986	96	1995	247
1987	77	1996	281
1988	44	1997	184
1989	38	1998	644
1990	63	1999	485
1991	61	2000	544
1992	89	2001	480
1993	139	2002	358

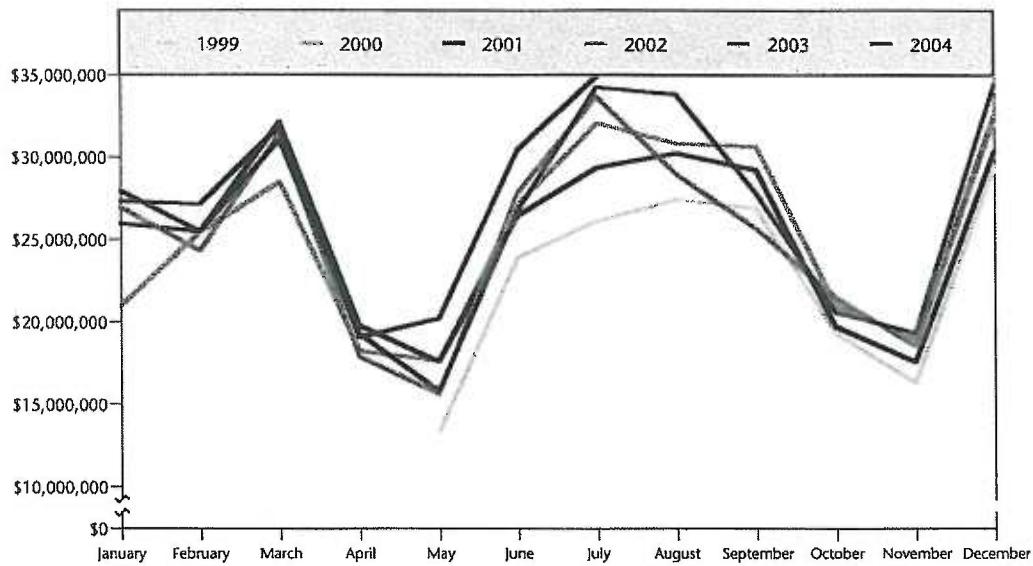
Annual net building permits have fluctuated from a low of only 38 permits in 1989 to a high of 644 in Grand County in 1998.

Data from the Grand County Multi-List Service indicates that the number of built homes and condominiums sold by year from 1997 to 2003 in the Winter Park area has ranged from 262 units (yr. 2000) to 421 units (yr. 2003) with steady volume growth from 2000 to 2003. Sales volumes neared \$40 million in 2003.

County Retail Sales

The Colorado Department of Revenue publishes retail sales for Colorado counties every month. The following graph displays Grand County's retail sales by month from 2Q1999 to 2Q2004.

Exhibit III-10.
Retail Sales, Grand County, May 1999 to July 2004



Source: Colorado Department of Revenue, State Sales Tax Collected in Colorado Counties and Related Statistics.

For the past five years, retail sales in Grand County have followed roughly the same seasonal pattern, peaking three times a year. During ski season, retail sales peaked in December during the holidays and again in March at the end of the ski season. Grand County has experienced an equally lucrative period in the summer months, specifically July. Grand County typically undergoes a sharp decline in retail sales during the spring between March and May.

Exhibit III-11 displays the actual dollar amount associated with the above graph.

Exhibit III-11.
Retail Sales, May 1999 to July 2004, Grand County

	1999	2000	2001	2002	2003	2004
January	n/a	\$20,991,018	\$21,970,997	\$26,951,760	\$27,970,000	\$37,321,000
February	n/a	\$25,485,672	\$26,493,610	\$24,317,000	\$25,504,000	\$37,155,000
March	n/a	\$28,498,736	\$32,139,133	\$31,421,000	\$31,059,000	\$31,887,000
April	n/a	\$18,241,215	\$19,772,462	\$17,889,000	\$19,281,000	\$19,071,000
May	\$11,301,052	\$17,654,530	\$17,595,578	\$15,637,000	\$15,816,000	\$20,222,000
June	\$23,915,166	\$27,130,394	\$26,448,094	\$27,843,000	\$26,724,000	\$30,450,000
July	\$26,113,910	\$32,076,686	\$29,385,243	\$33,709,000	\$34,263,000	\$34,912,000
August	\$27,426,149	\$30,831,084	\$30,262,474	\$38,998,000	\$31,819,000	n/a
September	\$26,910,211	\$30,618,784	\$39,270,632	\$25,688,000	\$37,814,000	n/a
October	\$19,298,438	\$20,995,145	\$19,798,311	\$21,496,000	\$20,624,000	n/a
November	\$16,305,229	\$18,997,200	\$17,396,605	\$18,556,000	\$19,332,000	n/a
December	\$29,490,879	\$32,740,252	\$30,383,887	\$32,854,000	\$34,418,000	n/a
Total	\$182,766,034	\$304,124,720	\$304,017,027	\$304,857,760	\$316,668,000	\$391,018,000

Source: Colorado Department of Revenue, State Sales Tax Collected in Colorado Counties and Related Statistics.

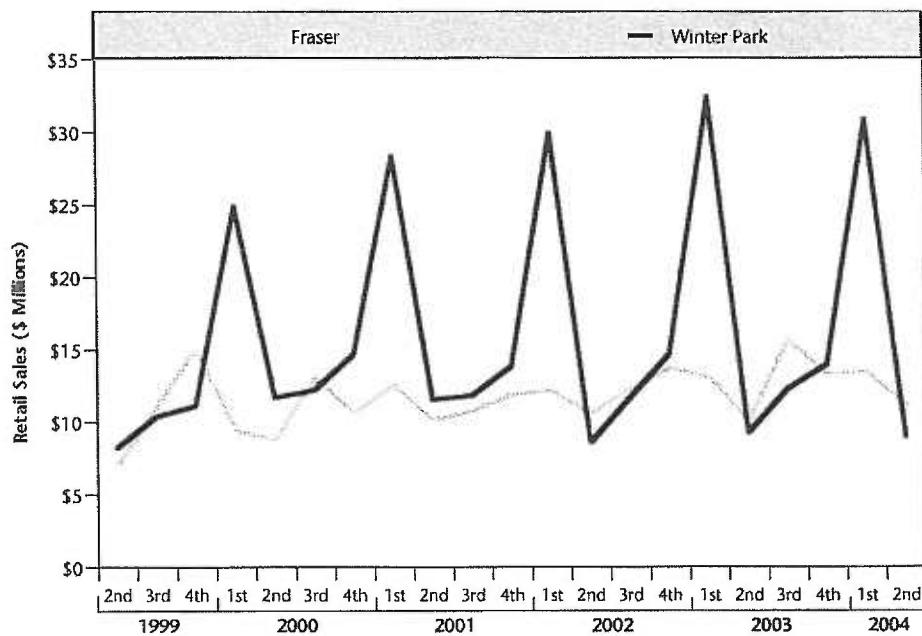
For the years 2000 to 2003, when complete data are available, county retail sales grew very modestly—less than 1 percent per year. This anemic growth was despite rapid construction activity and population growth. Sales data in 2004 show marked improvement, rising about 5 percent over the same period in the prior year.

Municipal Retail Sales

The Colorado Department of Revenue also collects quarterly retail sales data for Colorado cities and towns. Exhibit III-12 to III-15 on the following pages depicts quarterly retail sales for each major town in Grand County from 2Q1999 to 2Q2004. With the exception of Winter Park, which has peak retail sales during the first quarter of each year, all other towns in Grand County have peak sales during the third quarter, reflecting the large summer business associated with Rocky Mountain National Park.

Exhibit III-12 reflects the relative size of the Fraser and Winter Park retail communities and the area's notable seasonality. It should be noted that these data include lodging sales and utility sales and therefore should not be immediately equated with retail store sales.

Exhibit III-12. Retail Sales Fraser and Winter Park

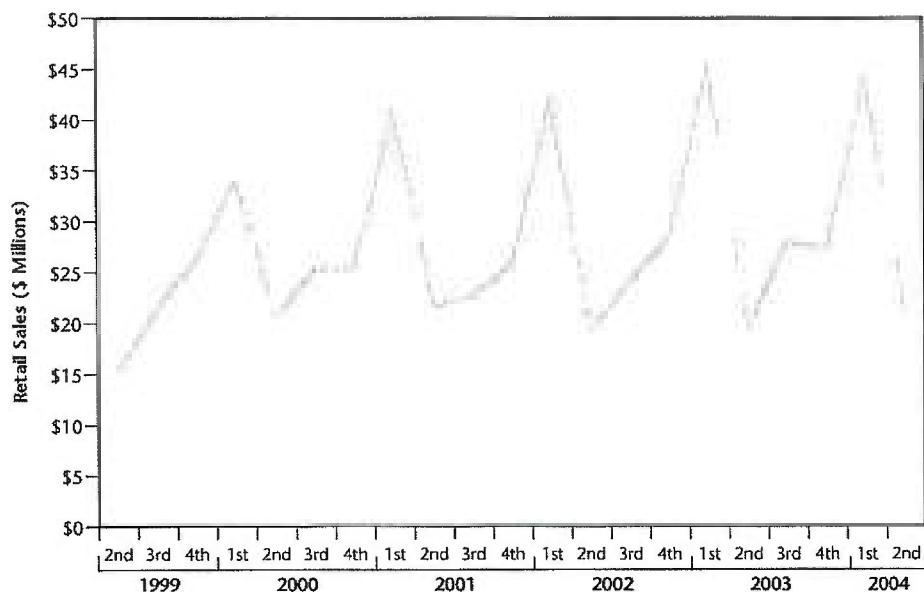


Source: State of Colorado.

The Safeway Store in Fraser contributes over 50 percent of the town's retail sales and accounts for the relative stability of quarterly activity. New competition from a King Soopers store in Granby (September, 2004) will significantly erode Fraser's retail sales.

Exhibit III-13 reflects combined sales in both Fraser and Winter Park.

Exhibit III-13.
Fraser Valley (Combined Fraser & Winter Park) Retail Sales

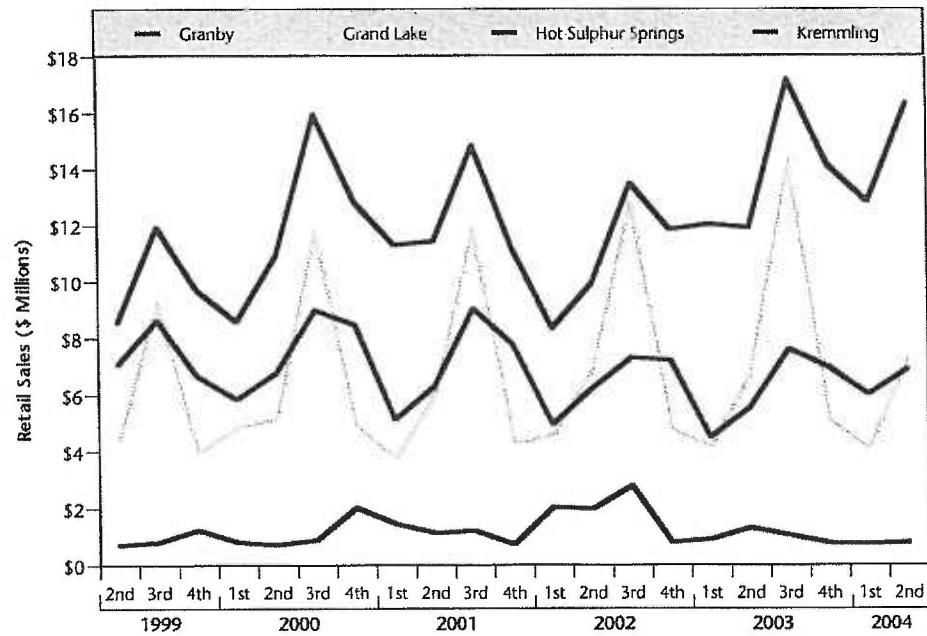


Source: State of Colorado.

Again, it should be noted that the above data include utility sales and short-term lodging.

Exhibit III-14 shows the seasonality of sales for all remaining communities in Grand County.

Exhibit III-14.
Grand County "Other" Municipalities Retail Sales



Source: State of Colorado.

Municipal Sales Tax Collections

Sales tax (as opposed to retail sales) generation is another measure of retail activity and sales tax data can be broken down by business category. It is notable that only about two-thirds of Winter Park's retail sales occur in retail business; the remainder are from lodging rentals and utility taxes.

Exhibit III-15. Sales Tax Industrial Sector Trends, Town of Winter Park

	1999	2000	2001	2002
Retail	\$1,025,010	\$1,045,729	\$1,066,903	\$953,134
Restaurant/Bar	\$930,914	\$995,975	\$1,005,629	\$1,068,294
Lodging/Condos	\$571,571	\$634,140	\$659,349	\$699,282
Accommodation	\$1,41,861	\$1,55,811	\$1,63,165	\$1,76,484
Services & Utilities	\$154,788	\$117,317	\$121,417	\$122,393
Misc.	\$28,056	\$27,057	\$26,616	\$30,106
Total	\$2,952,201	\$3,176,033	\$3,173,518	\$3,242,894

Source: Winston Associates and the town of Winter Park.

The above data shows that retail and restaurant business has been stagnant since 1999. The retail trade economy (i.e. sales in retail establishments) in Winter Park is about \$40 million a year.

Data collected as part of the town's comprehensive planning process indicates that Winter Park contains approximately 325,000 square feet of retail and restaurant space; although these measures are only rough approximations.

Exhibit III-16. Sales Tax and Square Footage for Winter Park Businesses

Source:
Winston Associates and the town of Winter Park.

	2001	2002
Total Square Foot		
Lodging	10,994,663	11,102,802
Retail	159,555	137,561
Restaurants	185,432	185,427
Total Sales Tax Collected		
Lodging	\$858,177	\$862,778
Retail	\$973,073	\$898,637
Restaurants	\$916,179	\$1,036,143
Sales Tax P/SF		
Lodging	\$0.76	\$0.78
Retail	\$6.97	\$6.53
Restaurants	\$5.01	\$5.70

The town maintains a 5 percent sales tax rate, thus restaurant and retail establishments appear to be averaging about \$120/sq.ft. in annual sales. This rate of sales is below what is necessary to support lease revenues that will support new construction. As a general rule of thumb, retail sales of \$250/sq.ft. will support leases of \$25/sq.ft., allowing landlords to build at \$250/sq.ft., which is about the current cost of development (land included) in the Winter Park area.

Winter Park sales seasonality is reflected in Exhibit III-17. Very little change in gross sales or monthly patterns is evidenced from 2001 to 2002.

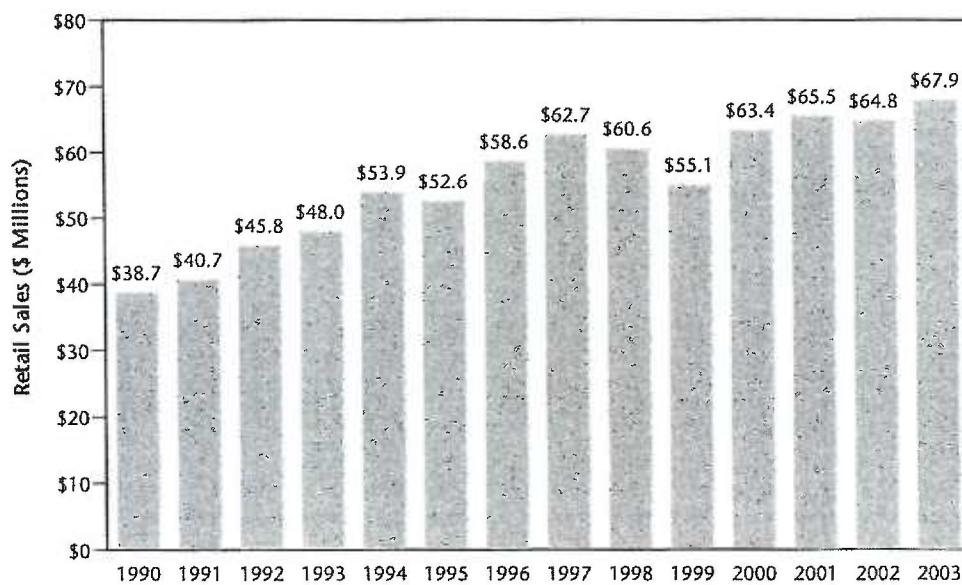
Exhibit III-17.
Sales Tax Summary
(without Lodging and
Accommodations),
Town of Winter Park

Source:
Winston Associates.

	2001	2002
January	\$280,703	\$217,419
February	\$294,127	\$319,253
March	\$396,998	\$410,153
April	\$217,492	\$145,320
May	\$67,173	\$61,378
June	\$113,190	\$114,006
July	\$187,001	\$189,131
August	\$151,738	\$140,811
September	\$119,911	\$113,621
October	\$72,372	\$80,331
November	\$107,399	\$100,000
December	\$332,509	\$300,000
Total	\$2,340,603	\$2,301,122

Exhibit III-18 shows long-term trends in Winter Park retail sales. These data include lodging and utility sales, which accounts for much of the growth in recent years.

Exhibit III-18.
Winter Park Total Retail Sales, by Year



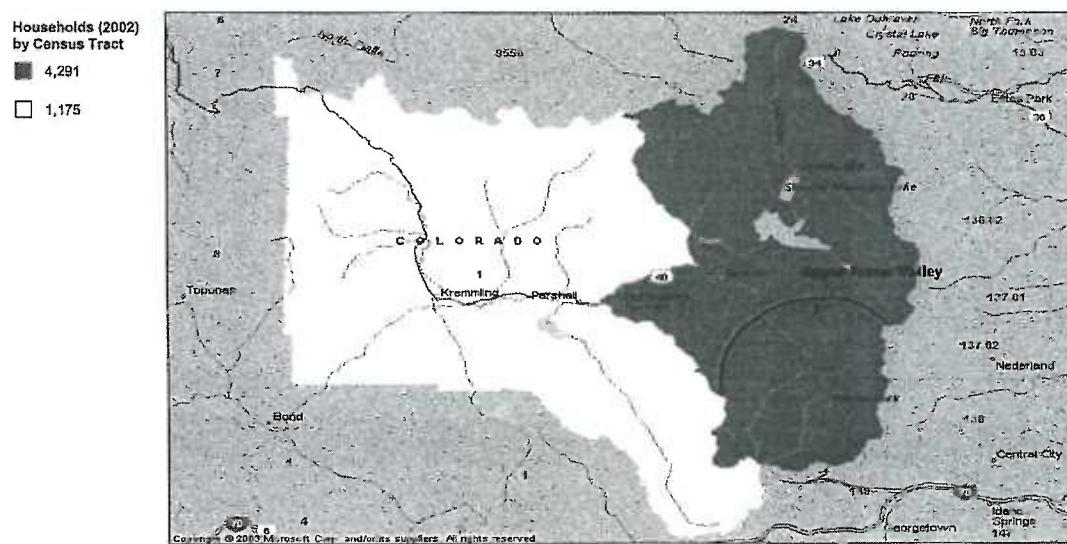
Source: Colorado Department of Revenue.

The Upper Fraser Valley

Grand County has two distinct economic regions. The upper Fraser Valley, which is largely the area encompassing the towns of Fraser, Winter Park and the small enclave at Tabernash, is economically dependent on the Winter Park Ski Area, associated tourism and second home development. The western portion of the county still maintains a viable ranching economy, although summer tourism activity associated with Rocky Mountain National Park and Grand Lake is an important economic factor. In the last few years, recreational and second home communities, particularly large resort projects at Grand Elk and Granby Ranch, have increasingly influenced development in the central county.

Exhibit III-19 shows the Grand County boundaries and relevant market segments.

Exhibit III-19. HH 2002 by Census Tract



Traditionally, these two economic regions have had very little population or economic overlap. In recent years, the growing Winter Park area workforce has sought housing in the less expensive northwestern parts of the county, particularly in and around Granby. Until September of this year, Fraser had the only large, full service grocery store in the county, which drew many down valley residents to Fraser and Winter Park. A Safeway store opened in Granby this year and will likely reduce the amount of cross county commuting for retail purposes.

Residential Development Patterns

In 2004, Cornerstone Holdings commissioned a separate residential survey of Grand County. The full data sets assembled for that study are not replicated here, but observations that are relevant to the town center retail project are summarized below:

- In general, county residential market conditions were termed "stable," with strong sales volume, but with pronounced softness in the higher-end segments, which produced flat average price returns.
- There is no absence of land for development in the Upper Fraser Valley and there are a number of large projects in Grand County that have sizeable development entitlements.
- The study authors anticipated a mid-market price point for the Cornerstone West Mountain project with sales averaging \$200,000 to \$300,000 per lot.
- Absorption projections for Cornerstone's project were 119 whole ownership and fractional units in 2006 (whole-sale to builders) followed by an average annual absorption of 130 to 170 units per year from 2007 to 2015. Developed units were expected to sell at a rate of 70 units per year.
- Historically, Grand County has witnessed between 350 and 650 building permits per year.
- In summary "building activity" has increased moderately in the region over the past year, while real estate volumes increased sharply.

Summary

The following summarizes demographic, employment, retail sales and real estate trends in Grand County relevant to the issue of retail development at the Cozens Meadows Site.

- Grand County houses approximately 14,000 year round residents. Population is expected to grow to almost 29,000 by 2030. The highest growth period during these 25 years will be between 2005 and 2015.
- Kremmling is the largest city in Grand County (1,657 persons). However, Granby may surpass Kremmling's population; Granby's growth rate is more than twice Kremmling's. The upper Fraser Valley, including the towns of Winter Park and Fraser, has a population of approximately 4,500 residents.
- The service sector captures the largest number of employees in Grand County. The sub-sectors employing the most people are accommodations and food services, as well as arts, entertainment and recreation.
- Even though the service sector employs the most people countywide, the construction industry has experienced the highest percent growth from 1991 to 2002 (307 percent).
- The total labor force in Grand County has fluctuated over the past 22 years between 4,500 and 6,500 persons.

- The service industry (more specifically accommodation and food services) has created the most new jobs in 2003 by either expanding existing companies or attracting new businesses.
- Grand County's retail sales vary seasonally. There are three peak periods during the year the holiday months, the end of the ski season, and the month of July.
- The cities in Grand County, with the exception of Winter Park, typically have the highest retail sales during the third quarter annually. Winter Park's retail sales vary more than the other cities in Grand County. Winter Park has an extreme period of peak retail sales in the first quarter of each year, however the town sees a drastic decline in sales for the remaining part of the year.

SECTION IV

Retail Market Assessment

This section offers a closer look at the upper Fraser Valley retail environment and utilizes the data developed in prior sections of this report to develop conclusions and recommendations regarding retail and mixed-use development at the Cornerstone town site.

Retail Performance and Competition in Upper Fraser Valley

Retail Performance. Section III documents retail sales activity in Fraser and Winter Park. Excluding utility and lodging sales, we estimate that the current upper Fraser Valley retail market represents about \$90 to \$100 million dollars a year in sales with very pronounced seasonality. There are only about 4,500 residents who live year-round in the area and use Fraser and Winter Park for their primary commercial hub. New grocery store competition in Granby will diminish Fraser sales by as much \$5 to \$10 million during 2005.

Built environment. Winter Park has compounded its retail problems by allowing the gradual development of a highly disorganized commercial strip without the central pedestrian core that characterizes most other resorts. Exhibit IV-1 shows the core commercial area of Winter Park.

Exhibit IV-1. Downtown Winter Park



Source: BBC Research & Consulting.

The community's commercial core is a collection of disparate structures with very little reference to each other and poor pedestrian access.

Most of the Winter Park and Fraser retail structures are in low cost commercial strip configurations that are indistinguishable from older suburban formats and suggest no particular Grand County image.

Exhibit IV-2.
Downtown Winter Park



Source: BBC Research & Consulting.

The most significant commercial project in town is approximately 15 years old and was originally built as a part of a failed downtown urban renewal and parking structure effort. Cooper Square (Exhibit IV-3) is a well-maintained, mixed-use commercial project and probably the most prominent building in town. First floor leases are reportedly available for \$15 to \$18 per sq.ft NNN.

Exhibit IV-3.
Copper Square



Source: BBC Research & Consulting.

The Pine Tree building is also a relatively modern, multi-use structure, although it is not as prominently located as Copper Square, and it tends to attract more office commercial than retail users.

Exhibit IV-4.
Pine Tree Project



Source: BBC Research & Consulting.

Finally, Winter Park has an abandoned timeshare/hotel project, which will eventually be torn down, but for the last four years has remained a prominent downtown advertisement of Winter Park's long history of unsuccessful ventures.

Exhibit IV-5.
Abandoned James Peak Hotel Project



Source: BBC Research & Consulting.

Over the years, Winter Park's reputation has been shaped by a series of failed projects. A poorly conceived urban renewal effort and bond failure during the mid 1980s, and a series of bank foreclosures shortly thereafter, also contributed to Winter Park's long standing reputation for development and business challenges.

Town of Fraser. Fraser presents retail development patterns similar to Winter Park, but also includes two prominent, locally oriented, commercial developments: the ALCO center and the Safeway project. The Safeway store is the critical anchor for the town of Fraser, but no companion stores or traditional in-line retail have developed around Safeway despite the availability of pad sites. The ALCO Center is noteworthy in that it contains second floor space that has never been leased in the 15 years since its construction.

Exhibit IV-6.
The ALCO Center



Source: BBC Research & Consulting.

Outside of these two project's, Fraser's retail community is a series of very modest convenience stores and local services. Fraser has not witnessed much of the down valley impact that has transformed towns like Basalt and Frisco.

Retail development within the towns of Winter Park and Fraser has never achieved the levels of success, diversity and synergy common in other mountain resorts. Although Winter Park Ski area supports a million skier visits a year, which is comparable to Breckenridge, Snowmass or Steamboat, the majority of these visitors are either day skiers from the Denver area, or less well-to-do second homeowners. Neither of these submarkets supports a high level of off-mountain commercial activity. Additionally, the upper Fraser Valley has only a small resident community (roughly 4,500 persons) and the county is in easy proximity to the Denver Metro area, which ensures a great deal of retail leakage. All of these factors combine to explain the modest scale and limited success of area retail offerings.

Other Resort Comparables

It is a common practice to compare Winter Park with Colorado's other resort communities, often as a basis for documenting the area's lagging economy and its prospects for future growth. As a rule, Winter Park has never "caught-up" to its resort brethren—a source of frustration for many of its residents and investors. This history aside, it is still a valuable exercise to examine trends in other resorts to ascertain the possible direction of Winter Park (See Section II for more complete analysis).

Cornerstone is considering a mixed-use commercial project on an undeveloped site outside of the traditional core resort commercial area. Only a few similar projects represent prospective reasonable comparables. The Willets retail project on the outskirts of Basalt is similar in its relationship to existing commercial development in Aspen and Basalt, but it is more akin to a traditional strip center than a mixed-use development. The Eagle Ranch town site near Eagle, Colorado is also a similar concept, but it is isolated from the resorts of Eagle County and not at a visible location. The Eagle Ranch town site has been very slow to develop, but it is likely to expand in the near future as the core residential project reaches critical mass.

Edwards. Perhaps the best example of a project with some similarity to the Cornerstone town site concept is the Edwards Commercial Center between Avon and Wolcott in unincorporated Eagle County. The Edwards Center consists of a number of different development projects (the largest being Riverwalk) clustered together and developed over time, but without any overarching master Plan. Exhibit IV-7 shows the core Riverwalk project, which represents about 50 percent of the full Edwards development.

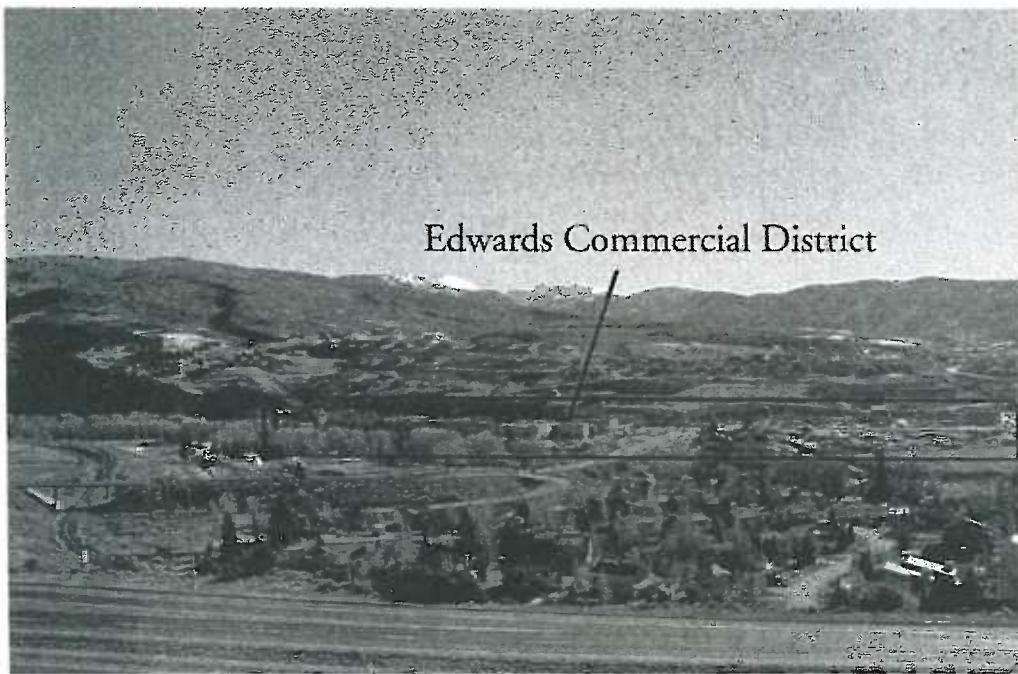
Exhibit IV-7.
The Riverwalk Commercial Area in Eagle County Colorado



Source: BBC Research & Consulting.

As shown in Exhibit IV-8, which was taken from I-70 looking south, Edwards is easily accessed from the interstate and is surrounded by a large amount of residential development.

Exhibit IV-8.
The Edwards Area



Source: BBC Research & Consulting.

Edwards' success can best be explained by the size of the Eagle County economy and the absence of other retail development opportunities. Eagle County has over 28,000 residents and a destination tourism business that is probably ten times the size of Grand County's destination business. Where Grand County will sell roughly \$200 million in gross residential real estate this year, Eagle County will have in excess of \$2.0 billion in residential sales.

Edwards developed and prospered largely because Avon was unable to accommodate additional retail and the Vail/Beaver Creek market needed additional commercial space that could respond to changing retail needs. Specifically, the area needed reasonably priced space that could accommodate locally oriented business and services, not just guest oriented shopping.

Exhibit IV-9 shows interior space at Riverwalk.

Exhibit IV-9.
The Riverwalk Project



Source: BBC Research & Consulting.

Edwards was also well positioned to take advantage of a real estate market that was quickly moving down valley away from Vail and Beaver Creek. Edwards' shops and services are easily accessed by all of Eagle County.

Riverwalk is a combination of uses but the majority of space is leased by businesses that serve local residents, second home owners and guests. Construction trades, Realtors, mortgage brokers and interior designers are well represented, reflecting the economy's move away from visitor oriented retail and toward real estate transaction and home furnishing requirements.

As shown in Exhibit IV-10, Edwards is anchored by a movie theater, a small grocery store and a number of destination restaurants.

Exhibit IV-10.
The Riverwalk Theatre



Source: BBC Research & Consulting.

As noted in Exhibit IV-11, a number of the newer structures at Edwards have tried edgier designs to better differentiate themselves from the somewhat kitschy elements that dominate the early stages of the project.

Exhibit IV-11.
New Buildings in Edwards



Source: BBC Research & Consulting.

In general, Edwards' entrance design, signage, building integration and landscaping are poorly executed, but Edwards is a very successful project. The complex has roughly 500,000 square feet of mixed-use development although the residential uses are largely lower cost condominiums that provide affordable housing for the local residents.

Exhibit IV-12.
Edwards Streetscape



Source: BBC Research & Consulting.

The major entryway to the project has its signage completely obscured by overgrown landscape during much of the year (Exhibit IV-13).

Exhibit IV-13.
Edwards' Entryway



Source: BBC Research & Consulting.

There are a few lessons learned from the Edwards' experience that have bearing on the Cornerstone concept:

- Despite its amazingly poor design, Edwards is a successful retail environment and a successful development project. It meets a need and it is functional—always a good strategy for commercial development. Edwards works because the Eagle County demand is strong enough to overcome the project's shortcomings;
- Edwards' success is mostly a response to the competitive limitation of Avon and the inability of Vail and Beaver Creek to accommodate these kinds of services;
- The mix of businesses in Edwards is also notable. It draws its vitality from the provision of local services and real estate oriented businesses, which keeps it very busy in the off season and helps support the local restaurants;
- Anchor stores were important to Edwards' success. The grocery and movie house were valuable as well as the early destination restaurants that took advantage of the low lease rates in comparison with the core resorts;

- The mixed-use residential element of Edwards is incidental. Most of the upper floors are used for offices and professional services with one small hotel and approximately 30 residential units. The majority of the Edwards project has non-residential uses; and
- Edwards developed incrementally, starting with a small restaurant and adding pieces as the market allowed. The Edwards experience supports the supposition that a mixed-use project can be developed incrementally and adjust as the market evolves.

In our view, the Edwards experience has limited applicability to the market challenges of the Cornerstone project. Edwards was created in response to an overwhelming demand that could not be satisfied elsewhere. Conversely, The upper Fraser Valley has an underwhelming demand, and there remains opportunity to develop or redevelop properties in the existing communities. In fact, both Winter Park and Fraser can accommodate new development in their retail core, and they are not as isolated from the remainder of the county as were Vail and Beaver Creek when Edwards developed. A grocery store, which helped define Edwards, is an unlikely tenant in the near future at the Cornerstone site.

Fraser/Winter Park Retail Demand

As discussed in Section I, retail growth across the mountain resorts has stalled in recent years despite considerable expansion in local employment and second home development. This retail stagnation is largely the result of declines in destination skiers and an aging visitor population that is more selective about its retail needs. The notable success stories in resort area retail have been the down valley communities, such as Basalt, Frisco and Edwards, which have succeeded by capitalizing on their ability to accommodate new markets; serve migrating second home residents; offer lower cost space, and develop a mix of stores that appeals to both visitors and residents.

During the last decade, Winter Park and Fraser's retail maturation has been unimpressive. As demonstrated in Section III of this report, the Winter Park area has witnessed very little retail growth and has been unable to support and present a modern resort retailing experience. With utility sales and lodging removed, there has been virtually no *real* retail growth (above the rate of inflation) in the Fraser Valley since the early 1990s. Accordingly, there has been no retail development or redevelopment in the area since the mid 1980's and retail rents are well below the levels required to support new construction.

The area's market problems stem from the absence of a large destination skier trade, a less wealthy visitor demographic (than other resorts) and a small local population. Growing Granby area population and second home development in the western portions of the county, and now a grocery-anchored retail development in Granby, will present additional competition for Fraser area retailers in the future.

Traditionally, retail sales projections are achieved by forecasting housing growth and correlating visitor and guest spending growth with local retail markets supply. The experience of the last few years suggest that these correlations are not particularly accurate in the mountain resorts, where rapid residential development has not produced significant sales growth because unit occupancy characteristics and the decline in the number of destination guests, has outweighed the overall impact of new development. Winter Park and Fraser's marginalized retail environment, and the area's lack of retail expansion, in the face of continued residential expansion, is local evidence of this same

phenomenon. Further, both Fraser and Winter Park have substantial redevelopment opportunities, and a large amount of underperforming retail establishments. If demand rises to a level where new development is warranted, it is likely that it can be reasonably well served within the existing retail area.

In sum, the available data regarding the area's retail history does not present a compelling argument for new retail development; but having acknowledged that, it is also our opinion that the data might not tell the full story of the Fraser Valley opportunity.

A Second Perspective

Ironically, the anemic performance of the local retail economy and the absence of modern retailing developments, may actually represent Cornerstone's greatest opportunity. Although difficult to demonstrate quantitatively, we believe there is a latent market for a new retail offering that would present a better organized, more attractive and more relevant commercial experience than is presently available in the area. Undoubtedly, the current residential growth, with its upscale mix of retirees, quality-of-life migrants, and traditional recreation homeowners, will eventually demand an improvement in local commercial offerings, although the ultimate retail promise will still have to wait for the additional residential areas to develop. This wait may not take long, and Cornerstone has a valuable opportunity to develop appropriate positioning for this market transition.

Community transition. Although over the years, many investors have looked at Winter Park anticipating emerging transformation, this time they may be right. In our view, a portrayal of a Fraser Valley market in dramatic transition is an accurate perception of current conditions, and the experience of other resorts indicates that demographic change and growth will eventually support additional and better retailing. Intrawest's proposals for mountain and base area improvements, assuming town acceptance, should create an improved core amenity, but also provide much needed investor credibility. Intrawest's modest retail component, roughly 45,000 net new square feet, will be accompanied by over 1,200 new units. For Cornerstone, Intrawest's development presents as much opportunity as competition.

New developments. A second trend also suggesting growth in local retail opportunity is the accelerating scale of area development and the number of large residential projects in the upper Fraser Valley that will significantly alter the character of the local community. It is reasonable to expect 200 to 300 units per year will be added to the upper Fraser Valley in the coming decade. This scale of activity, which should also be accompanied by a change in demography and income levels, will greatly alter the local retail community. At the moment there is no site that is well positioned to capture this market.

Site opportunities. Cornerstone's town site parcel has some advantages that might allow it to differentiate its location from the disorganization and mediocrity that characterizes both Winter Park and Fraser. The Cornerstone property is at the entryway to two large residential developments that will eventually include 3,000 units. This will offer a psychological and physical association with something other than Fraser or Winter Park. Situated between the two towns, the Cornerstone town site can "borrow" customers from both locations. It is close enough to Winter Park to compete for

destination guests yet adequately separated to avoid any winter Park congestion or stigma. Similarly, it is close enough to Fraser to serve a traditional local market. Most importantly, the separation from the two communities would allow the Cornerstone site to develop its own identity—most likely filling the empty niche of a higher quality, better designed retail experience.

Recommendations

Despite the absence of a compelling market demand story, we believe that the Cornerstone town site project has merit and could be successful—we also acknowledge a high degree of uncertainty and risk in this kind undertaking. A conservative strategy would be to wait a few more years, allowing the residential projects to mature, before starting any new retail. The risk in that strategy is that someone else will garner the best position to respond to these changing conditions.

Cornerstone has a superior site and perhaps the best site for a new retail complex. Cornerstone can take a commanding position in the market place by anchoring a retail project with a small mixed-use complex, which could also serve as Cornerstone's headquarters building. In ideal conditions, this site could also accommodate at least two destination restaurants and some service retail, such as home décor. Cornerstone's strategy should be to attract the best businesses in the county and differentiate this location by the quality of its tenants and its design. By making this, admittedly aggressive positioning effort, Cornerstone will create an appropriate statement for its residential project's entryway, and stake out its ground as the emerging upscale retail center. The project should be a valued amenity for Cornerstone residents.

In the current market, lease rates are not likely to produce a reasonable return on investment, but the small losses incurred can be justified by the other benefits. We invasion a three story building, or perhaps a series of buildings of perhaps 15,000 to 25,000 square feet with Cornerstone, and other services taking the second floor space.

This building alone will not create a vibrant mixed-use core, but it can preserve the opportunity for that kind of development to evolve. We believe that it will take a number of years for the Winter Park market to evolve to a point where the Cornerstone retail site can be an active, mixed-use, vital development that creates desirable ambience and supports attached high-value residential or lodging growth. In the interim, the initial residential units will likely be viewed as moderate cost housing that offer an excellent close-in location, but the urban quality of the project will have to mature before its vitality and diversity is viewed as a residential amenity.

