



MEMORANDUM

Date: June 16, 2016

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: **Market Rate Lease for World View**

As you know, there has been considerable discussion regarding whether Pima County provided an unlawful and unconstitutional gift to World View by entering into the lease and lease/purchase agreement where World View repays the County the full cost of the facility plus an additional \$4.2 million over a 20-year lease period.

Attachment 1 to this memorandum is a copy of the First Quarter 2016 Pima County Real Estate Research Council data on the economy. In the case of World View, the County is constructing an industrial facility. In this category, the asking rent in the Fourth Quarter of 2015 was \$6.79 per square foot per year. Rent charged 10 years ago was \$6.50 per square foot per year.

Based on Section 6 of the World View lease, the weighted average rental rate over the 20-year period is \$8.75. When reviewing the existing and historical trends in industrial property rental rates, it is clear the County's lease with World View is a market transaction.

We have also researched the leases previously referenced as similar to World View that occurred in the Phoenix metro area to determine if they were open market transactions; meaning they were publically advertised for any potential bidder to submit a proposal. In the case of Gilbert, Arizona and San Xavier University, it was a direct lease negotiation. In the case of the City of Mesa and Able Engineering, it was a direct lease negotiation; and in the case of the Scottsdale Airport, it was a very targeted Request for Proposals (RFP) that could only be responded to by the successful proposer, which means the RFP was tailored to that firm.

I have also updated the construction status of the project, which is now scheduled to be complete in December 2016. This update is Attachment 2.

CHH/anc
Attachments

c: Dr. John Moffatt, Director, Economic Development Office
Patrick Cavanaugh, Deputy Director, Economic Development Office
Regina Nassen, Deputy County Attorney

Real Estate Market Snapshot
Tucson, Arizona



PIMA COUNTY
**REAL ESTATE
RESEARCH
COUNCIL**



Metropolitan Pima Alliance

FIRST QUARTER 2016

ECONOMY

	Current Indicators	2016 Forecast	2017 Forecast
Population (12/15)	1,009,400	1,014,900	1,024,400
Non-Farm Employment (12/15)	370,400	369,700	375,400
Unemployment Rate (12/15)	5.5%	n/a	n/a
Avg Annual Pay (2014)	\$43,099	n/a	n/a
Retail Sales	\$13,273,000	\$13,810,000	\$14,342,000

POLICY

Courtesy of MPA, Provided by Amber Smith

* On May 17th, Tucson City Council will take a position on increasing water user fees by 7% effective July 5, 2016 and an additional 7% increase July 2017. *
Pima County Regional Wastewater Reclamation Department is considering fee increases after failing to get an increase in 2015.
* The City of Tucson is actively working to create additional infill development incentives including an expansion of the Government Property Lease Excise Tax (GPLET).

RESIDENTIAL

Courtesy of PCRERC, Provided by Lucinda Smedley and Drew Sanderford

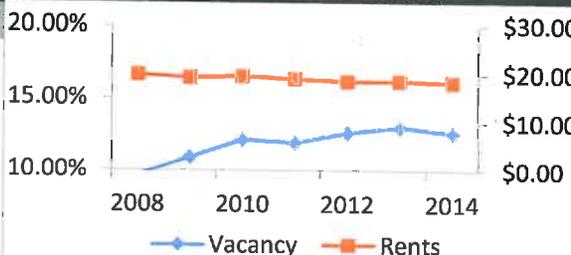
	Q4	Q1	Existing Home Sales	Q4	Q1
New Home Sales					
Permits	540	620	\$ Volume	\$705,764,298	\$741,620,835
Closings	572	476	Closings	3,344	3,500
Average Price	\$300,862	\$290,762	Average Price	\$211,709	\$212,988
Median Price	\$266,878	\$245,000	Median Price	\$176,000	\$177,050

Q1 permits up vs. 15Q4 (14.8%) and 15Q1 (32.8%). NH Closings saw a seasonal drop vs. Q4, but up 22.7% YOY. Existing sales volume up 5% vs. Q4 and 19.9% YOY; closings up 5% vs. Q4 and 16% YOY. NH median price back to 15Q1; existing median price stable.

OFFICE

Courtesy of MPA, Provided by James Hardman and Tom Nieman

	Q4	Q1
Permits (SF)	70,709	17,427
SF Under Construction	108,900	17,000
SF Inventory	25,076,561	25,185,511
Absorption in SF	142,573	172,875
Vacancy	12.70%	12.40%
Asking Rents/SF	\$18.93	\$18.99

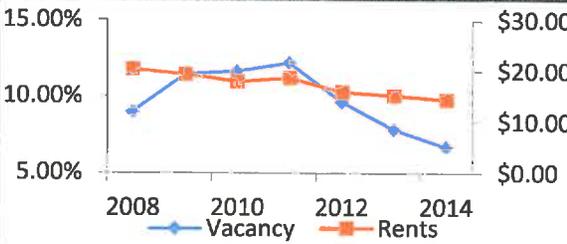


Vacancy and asking rents remained relatively flat. Net absorption during the quarter was influenced by approximately 70,000 SF of lease transactions on existing vacant space and 100,000 SF of occupied new construction.

RETAIL

Courtesy of PCRERC, Provided by Marcel Dabdoub, Paul Kraft and Sara Baker

	Q4	Q1
Permits (SF)	48,661	242,629
SF Under Construction	34,366	370,394
SF Inventory	23,368,270	23,402,270
Absorption in SF	627,452	37,000
Vacancy	6.50%	6.50%
Asking Rents/SF	\$17.06	\$17.06

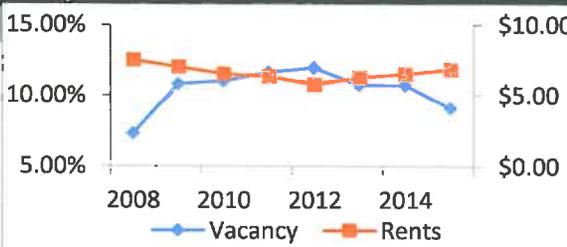


Construction activity was strong for the quarter with 370,394 SF. Most of this activity is in preleased retail product.

INDUSTRIAL

Courtesy of PCRERC, Provided by Jesse Blum and Paul Hooker

	Q4	Q1
Permits (SF)	137,408	22,171
SF Under Construction	805,200	800,000
SF Inventory	40,844,793	40,816,489
Absorption in SF	99,439	-108,038
Vacancy	9.1%	9.6%
Asking Rents/SF	\$6.79	\$6.77



Despite the reported drop in absorption and rise in vacancy, overall leasing activity is at its strongest point since the beginning of the recovery. Build to suit activity is on the rise due to lack of quality inventory.

MULTIFAMILY

Courtesy of PCRERC, Provided by Byron Bridges and Ross McCallister

	Q4	Q1
Permits (Units)	40	0
Units Under Construction	661	531
Unit Inventory	68,296	68,466
Unit Absorption	333	918
Vacancy	7.8%	6.8%
Average Rents	\$657.00	\$669.00



Overall vacancy dropped for the second quarter in a row to its lowest level since 2007, and rents increased an impressive 1.8% quarter to quarter. Both absorption and rent increase were strong primarily due to lease-up in Northwest Tucson Class A projects.

Data sources for the PCRERC Snapshot include: U.S. Census Bureau, Bright Future Real Estate Research LLC, CBRE Market View Reports, CoStar COMPS, Cushman & Wakefield PICOR Marketbeat, Eller Economic Business and Research Center, RealData Apartment Insights, and REIS. The PCRERC Snapshot is published quarterly and produced in collaboration with Metropolitan Pima Alliance, University of Arizona and Tucson Association of Realtors.

→ (weighted average of World View)
 → lease appraisal - if necessary



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June 14, 2016

FOR IMMEDIATE RELEASE

Construction underway on World View lease property, SpacePort Tucson

PIMA COUNTY – Pima County has started construction of SpacePort Tucson and a building it will lease to World View, a local space technology company.

The county signed an economic development agreement with World View in January in an effort to keep the company in Tucson and the expected 400-500 high-paying jobs it will create. World View uses high altitude balloons to launch research, communications and technology payloads to the stratosphere. It also is developing capsules to lift research scientists and eventually tourists to the upper reaches of the atmosphere, or near space.

The company in 2015 had considered moving its Tucson-based operations to another state when Arizona Commerce Authority and Sun Corridor officials asked Pima County to assist in retaining the company in Arizona. Every state in the southern United States has a spaceport and is courting the dozens of new companies, as well as veteran space industry corporations, that are capitalizing on the rapid privatization of space travel, research and technology. Pima County's agreement with World View gives the county and the state a foothold in these fast growing industries.

One of the key tenets of the World View agreement was that the company needed to be operating in a new facility by November 2016 in order to meet deliverables requirements in contracts it was negotiating. New Mexico and Florida were offering move-in ready buildings.

In order to meet the deadline, Pima County chose property it owned and on which it had already completed preliminary site review work that would normally have required six months or more to complete. Additionally, in anticipation of reaching an agreement with Pima County, World View hired an architect and contractor to begin the design program for the building. The county subsequently hired those same firms under an emergency clause allowed by state law in order to ensure the November deadline would be met. Construction of both public facilities is on schedule.

World View will lease the county-owned building for use as a headquarters and manufacturing facility. The county also will own SpacePort Tucson and contract with World View to manage the launchpad facility.

Below is a timeline of site review and development:

- **2012** – Pima County acquired nearly 400 acres south of Raytheon to protect the missile manufacturer from residential encroachment. The World View and SpacePort Tucson sites were part this acquired land.
- **March 2013** – In anticipation of relocating Hughes Access Road a half-mile to the south and the future development of a business park, the county commissioned SWCA Environmental Consultants to conduct a cultural resources review of 1,600 acres owned by the county, the city of Tucson and the Tucson Airport Authority. The review included an examination for areas of archeological and historical significance. No areas of significance were found. The World View and launchpad sites were part of this review.
- **2014** – The U.S. Army Corps of Engineers approved a jurisdictional delineation for the 1,600 acres that determined the area does not have any waters of the United States requiring Corps permits. The World View and SpacePort Tucson sites were part of this delineation.
- **2014** – The county conducted a biological assessment of the planned route for the Hughes Access Road realignment. The World View and Tucson sites were part of this assessment.
- **2015** – Pima County relocated Hughes Access Road and renamed the road Aerospace Parkway. The World View site borders the Parkway.
- **2015** – In order to give Pima County the information it needed to craft an economic development agreement with World View, the aerospace company hired architectural firm Swaim and Associates and construction contractor Barker Morrissey to begin designing the building.
- **January 2016** – Pima County signed a lease agreement with World View and agreed to contract with Swaim and Barker Morrissey as the architect and contractor so that their months of progress designing the building could be maintained. Due to the unique requirements of a November 2016 construction completion deadline set by World View, the Board of Supervisors used an emergency clause allowable under state procurement law.
- **January 2016** – State Land Department issued the county the required notice to begin clearing and salvaging the vegetation at the site.
- **February 2016** – Using the 2013 cultural resources review, the county was able to conduct expedited archeological, historical and biological reviews of the World View site. Using updated 2016 reviews and the 2013 SWCA review, and under the authority of an intergovernmental agreement between the county and the state Historic Preservation Office, the county's Cultural Resources and Historic Preservation Division determined there were no sites of cultural, historical or archeological significance and issued the county the requisite clearances needed for construction.
- **March-May, 2016** – Site clearing and preparation was completed. Architectural design for the building shell was completed.

- **June 2016** – Construction of the outer shell begins and architectural design of the interior continues.
- **December 2016** – Current construction completion estimate.

[Learn more about the World View-Pima County agreement.](#)