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# Board of Supervisors Memorandum

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August 6, 2019

## Accelerate Diagnostics, Inc. Lease Extension

### Background

One of the first economic development actions of the County was to locate Accelerate Diagnostics onto the largely unfinished, 4<sup>th</sup> Floor of the Abrams Public Health Building. At that time, the County offered a structured lease increasing in rent payments to repay the County for its \$1,698,500 investment in tenant improvements.

Accelerate Diagnostics has grown significantly from their initial use of 15,096 square feet of the Abrams facility to now 45,885 square feet, the entire 4<sup>th</sup> floor as well as a 6,207 square foot manufacturing facility immediately adjacent to the building for a total of 52,092 rented square foot space. They have also substantially increased their employment from 8 employees to over 180 employees in the region with average wages of over \$140,000. Last year, the Phoenix Business Journal singled out Accelerate Diagnostics as being an Arizona company with the highest average employee wages.

To accommodate the increase of employment by Accelerate Diagnostics, they have modified the 4<sup>th</sup> Floor, increased employee density and at their own cost, invested \$3,477,132 in tenant improvements to our facilities, including the manufacturing facility. Since the beginning of their lease, \$5.6 million has been paid to Pima County in the form of rent, utilities and taxes.

The proposed lease extension is for a term of 6 years and is designed to provide the bridge period in corporate development from startup to final product production. Accelerate is not yet in the full production phase, which is anticipated to be in the near future. The lease extension is structured to reduce rent payments in the early years while increasing in the latter years, similar to the initial lease the County entered into with Accelerate Diagnostics. It is important to understand that the overall lease payments will be equal to the full appraised value for the total term of the new lease. If they choose to vacate before the end of the term, Accelerate will be required to pay an early termination fee that will fully compensate the County for market rent.

Accelerate Diagnostic has been a huge success story for Pima County and economic development. This company initially located in Denver, Colorado and chose Pima County over many other locations competing for their headquarters. Their bio-medical product has been patented and is in the process of initial production and distribution to hospitals throughout the Country.

Over the term of this lease, or 7 years, Accelerate will pay an additional \$4.6 million in rent, an estimated \$1.65 million in utilities and nearly \$1 million in taxes in addition to the \$5.5 million they have already paid (\$4.1 million on rent, \$625,000 GPLET, \$725,000 utilities). Our tenant improvements of \$1,698,000 have been repaid time and time again, and was a very wise investment by Pima County.

The Honorable Chairman and Members, Pima County Board of Supervisors  
Re: **Accelerate Diagnostics, Inc. Lease Extension**  
August 6, 2019  
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The repayment of rent over the past 6 years of \$4.1 million and the future rent of an additional \$4.6 million confirms the Board of Supervisors made the right decision in providing economic development incentives to Accelerate Diagnostics to locate their headquarters and facilities in Pima County.

Originally, the economic development proposal regarding Accelerate proposed 160 jobs averaging \$71,250 per year over 5 years and \$9.7 million in capital investment, which yielded an economic development impact to the community of \$255 million. The actual Accelerate employment of over 180 employees and wage levels averaging \$140,000 per year, have far exceeded the initial economic development econometric model forecast.

The documented economic benefit to the community since their location and expansion in 2012 can easily be documented in employment wages, taxes paid, and additional capital investment. Their economic benefit to the community through County economic development incentives is double the initial projection.

Accelerate has become one of the major components of a Pima County focused biological diagnostic and testing ecosystem with multiple local companies including Roche, IcoGen, and Accelerate having worldwide impact on advanced healthcare diagnosis and treatment.

Recommendation

I recommend the Board of Supervisors enter into a lease with Accelerate Diagnostics for their continued occupation of the 4<sup>th</sup> Floor of Abrams Public Health Center and adjacent manufacturing facility.

Sincerely,



C.H. Huckelberry  
County Administrator

CHH/mp – 07/29/2019

Attachment

c: Jan Leshar, Chief Deputy County Administrator  
Tom Burke, Deputy County Administrator for Administration  
Dr. John Moffatt, Director, Economic Development Office  
Lisa Josker, Director, Facilities Management

## LEASE AGREEMENT

This Lease Agreement ("**Lease**") is made and entered by and between ACCELERATE DIAGNOSTICS, INC., a Delaware corporation ("**Accelerate**"), and PIMA COUNTY, a political subdivision of the State of Arizona ("**County**").

### RECITALS

- A. County owns a building ("**Abrams Building**") located at 3950 S. Country Club Road in Tucson, Arizona, on the Kino public health campus. The Abrams Building is adjacent to the Banner-University Medical Center South Campus. County also owns a building ("**Annex Building**") and, together with the Abrams Building, the "**Buildings**") located at 2980 E. Ajo Way, Tucson, Arizona, which is adjacent to the Abrams Building. The location of the Buildings is shown on **Exhibit A**.
- B. Accelerate currently occupies (1) the entire 4<sup>th</sup> floor of the Abrams Building, (45,885 square feet) (the "**4<sup>th</sup> Floor**"), under a lease, the term of which expired on January 12, 2019 (the "**Previous Abrams Lease**"), and (2) 6,207 square feet of space in the Annex Building (the "**Annex Space**" and, together with the 4<sup>th</sup> Floor, the "**Premises**"), under a separate lease, the term of which expired November 18, 2018. Accelerate has been a holdover tenant under the prior leases, but wishes to enter into a new lease for the Premises.
- C. Accelerate is a highly innovate bio-technology firm that has, since relocating to Pima County from Colorado in 2012, increased its workforce from 16 employees to 180 employees, with total wages averaging \$140,000. It has invested over \$3,000,000 in tenant improvements to the Premises and has paid \$4,700,000 to Pima County in the form of rent and taxes.
- D. County has authority, pursuant to A.R.S. § 11-254.04, to enter into leases of County-owned property for economic-development purposes without following the auction process in A.R.S. § 11-256.
- E. County staff obtained an appraisal of the fair rental value of the Premises, and Accelerate has agreed to pay the full appraised value for the new lease.
- F. The Board of Supervisors has determined that leasing the Premises to Accelerate under the terms set forth in this agreement will "assist in the creation or retention of jobs" and "otherwise improve or enhance the economic welfare of the inhabitants of the county."

## AGREEMENT

1. **Lease/Premises.** In consideration of rent monies and all terms, conditions, covenants, and agreements contained herein, County hereby leases to Accelerate and Accelerate hereby leases from County, the Premises.
  - 1.1. **Common Areas.** The Buildings have associated with them, outside the Premises, certain interior and exterior areas for the common use of all occupants of the Buildings, including (but not limited to) streets, sidewalks, canopies, driveways, loading platforms, entryways, lobbies, stairways, elevators, hallways, washrooms, shelters, ramps, landscaped areas and related common areas (the "**Common Areas**"). Accelerate may use the Common Areas on a non-exclusive basis together with other occupants of the Buildings.
  - 1.2. **Parking.** Accelerate's employees may park in the unassigned spaces in the employee designated area of the parking lot as shown on **Exhibit B**. Accelerate's visitors may park in the visitor section of the parking lot.
2. **Term.** The term of this Lease (the "**Term**") is a period of 6 years beginning on August 6<sup>th</sup>, 2019 (the "**Commencement Date**"). Accelerate may terminate the Lease early, as of the third, fourth, or fifth anniversary of the Commencement Date, upon payment of the Early Termination Fee as provided in Section 4 below. Accelerate will notify County, in writing, at least 6 months prior to the effective date of the early termination.
3. **Use.**
  - 3.1. **Permitted Uses.** The Premises may be used by Accelerate for all lawful purposes, including laboratory operations and associated use of fluids/flammables and other materials typical to engineering and biological labs, manufacturing of medical and scientific equipment, and any other uses reasonably related thereto, provided that all applicable laws and regulations regarding such uses (including zoning), and the storage and use of such materials, are followed. Accelerate must obtain and maintain all required permits and certifications for its operations at the Premises.
  - 3.2. **Solar Panels.** Accelerate's use of the Premises may result in exhaust particles or condensation landing on the solar panels mounted on the rooftop of the Abrams Building. The impacts of such exhaust particles and condensation will be determined by County's Facilities Management Department. If this exhaust degrades the panels more than the mutually agreed-upon estimated impacts (based on the plans for the original tenant improvements under the Previous Abrams Lease), Accelerate will indemnify County from and against any liability to third parties incurred as a result of the degradation.
  - 3.3. **Prohibited Activities:** Accelerate will not permit any unlawful activities on the Premises or any activities that unduly interfere with activities of the other occupants of the Buildings or neighboring property owners/occupants.

- 3.4. **Hazardous Materials Prohibited; Clean Air Act.** Accelerate will not cause or permit any hazardous or toxic materials or substances to be brought upon, kept, or used in or about the Premises by Accelerate, its agents, employees, contractors or invitees, without the prior written consent of County, other than such hazardous or toxic materials or substances that are necessary or useful to Accelerate's business and will be used, kept and stored in a manner that complies with all laws regulating any such materials or substances. Accelerate's operations on the Premises will comply with all applicable provisions of environmental laws and regulations, including the Clean Air Act, 42 U.S.C. 7401 et seq. and Arizona Revised Statutes, Title 49, Chapter 3. Accelerate will remediate and clean up, at its sole cost and expense, any contamination of the Premises caused by Accelerate occurring during the Term of this Lease.
- 3.5. **Biological Waste & Material Disposal.** Accelerate will properly dispose of any medical or biological waste—including but not limited to syringes, vials, prescriptions and any materials containing blood or other biological material used or generated on the Premises. Accelerate's disposal may include using appropriate medical waste containers and/or contracting with a third party medical waste disposal company. Accelerate will never dispose of any medical or biological supplies or waste outside of the Premises in the Building's Common Areas. Accelerate will indemnify and defend County from and against any liability incurred by County as a result of any disposal of such materials in violation of this Lease or in violation of applicable law.
- 3.6. **Common Areas.** The Common Areas will at all times be subject to the control and management of County and County will have the right from time to time to change the area, level, location, appearance and furnishing or landscaping of the Common Areas provided that such activity does not materially interfere with Accelerate's operations. County will have the right at any time to temporarily close any portion of the Common Areas for the purpose of making repairs, changes or additions thereto and County may enter into agreements with adjacent owners for cross-easements for parking, ingress or egress.
- 3.7. **Rules and Regulations.** Accelerate and its employees, agents, contractors and invitees will abide by rules and regulations for the Buildings that are established from time to time by County concerning, among other things, sanitation, handling of trash and debris, loading and unloading of trucks and other vehicles, safety and security, after hours use and procedures and use of Common Areas. The current rules are attached as **Exhibit C**. Such rules and regulations will be applied in a non-discriminatory manner and will not unduly limit or impair Accelerate's permitted use of the Premises. Notwithstanding the Item 9 in the rules and regulations, Accelerate may use flammable, combustible fluids and materials as set forth in Section 3.1 above.
- 3.8. **Use of Other Areas of the Buildings.** County currently uses the other areas within the Buildings for public health offices and related purposes, but has the right to make any legal

use of the Buildings, and may lease space within the Buildings to other organizations and agencies for any legal use.

4. **Rent.**

4.1. **Rent.** Accelerate will pay annual rent for the Premises as follows:

Year 1:	\$500,000.00
Year 2	\$500,000.00
Year 3	\$750,000.00
Year 4	\$850,000.00
Year 5	\$1,000,000.00
Year 6	\$1,000,000.00

4.2. **Early Termination Fee.** If Accelerate elects to terminate the Lease as of the third, fourth, or fifth anniversary of the Commencement Date, Accelerate will pay to County, on or before the date that the last payment of Rent is due, an additional amount (the “**Early Termination Fee**”) as follows:

Third anniversary:	\$550,000
Fourth anniversary:	\$466,667
Fifth anniversary:	\$233,333

4.3. **Taxes.** Accelerate will also reimburse County for any taxes or assessments that County is required to pay related to this Lease, the Premises, or the rent paid to County under this Lease, and will pay when due all property taxes on its personal property, and all government property lease excise taxes due under Title 42, Chapter 6, Article 5 of the Arizona Revised Statutes. Within 30 days after execution of this Lease, the parties will execute and the County will record a memorandum of this Lease in compliance with A.R.S. § 42-6202(C)(1), and the County will provide the County Treasurer with a copy of this Lease as required by A.R.S. § 42-6202(C)(2).

4.4. **Payment of Rent.** Accelerate will pay Rent in advance, in equal monthly installments of 1/12 the annual Rent amount, on or before the Commencement Date and the first day of each month thereafter during the Term, except that the first month's Rent will be reduced by any rent that Accelerate has already paid for any portion of that month. Rent must be delivered to Pima County Government, Finance-Revenue Management Division, 33 N. Stone, 6<sup>th</sup> Floor, Mail Stop DT-BAB6-404, Tucson, Arizona 85701. Accelerate will pay

interest (simple interest, not compounded) on any late payments of Rent, or any other sum due under this Lease that is not paid when due, at the rate of 8% per annum from the date due until paid.

## 5. **Repairs, Services & Utilities.**

5.1. **Repairs – Abrams Building.** Subject to Section 15 of this Lease concerning damage resulting from a casualty, and subsection 5.7 of this section 5, County will make all repairs in and to the Abrams Building and Premises, except as provided below. This will include the roof, structural portions of the Abrams Building, and major Building systems such as air conditioning motors or compressors, major plumbing requirements (in-wall plumbing), heating units, in-wall electrical connections, and fixtures and systems furniture installed in the 4<sup>th</sup> Floor as part of the original Tenant Improvements constructed by County under the Previous Abrams Lease.

5.2. **Repairs – Annex Building.** Accelerate is responsible for all building systems installed for the operation of its business including the heating, ventilation and air conditioning systems and HEPA filters. Subject to Section 15 of this Lease concerning damage resulting from a casualty, and subsection 5.7 of this section 5, Landlord will make all repairs in and to the remainder of the Annex Building and Premises, including the roof, structural portions of the Annex Building and major Building systems other than those that are the responsibility of Accelerate.

5.3. **Notification to County.** In the event of a breakdown or needed repairs to the Premises or equipment associated therewith, for which County is responsible, Accelerate will notify County by email addressed to FM-TenantRequest@pima.gov, and County will cause such repairs and/or replacements as are necessary to correct such condition to be done within a reasonable period of time.

### 5.4. **Janitorial.**

5.4.1. *Responsibility.* Accelerate will obtain and pay for janitorial services for the Premises. County will provide janitorial services for all other areas of the Buildings, including the Common Areas.

5.4.2. *Insurance.* Accelerate will ensure that its janitorial contractor obtains and maintains, during the entire period that it is performing work in the Premises, general liability and worker's compensation of \$1M each, and will require the contractor to name County as an additional insured on the liability policy. Accelerate will provide proof of this insurance to County prior to the janitorial contractor performing any work in the Premises.

5.4.3. *Janitorial Closet.* The janitorial contractor may only obtain water from, and dispose of water in, the mop sink in the janitorial closet provided in each portion of the Premises, and must use that storage area for storage of janitorial supplies.

5.4.4. *List of Contractor Employees.* Accelerate must provide to County a list of the names of each janitorial contractor employee who will be working in the Premises so a key card can be issued. Accelerate will incur charges as stated in Section 5.5 below for each key card that is lost, damaged or stolen by any janitorial employee.

## 5.5. Security.

5.5.1. *Hours.* County provides security personnel for the Abrams Building, including the front lobby, 6:00 AM to 10:00 PM, Monday through Friday, excluding County holidays, and on Saturday mornings 8:00 AM – 1:00 P.M. when County programs in the Abrams Building are open. The security personnel also conduct periodic perimeter checks that include the Annex Building.

5.5.2. *Additional Security.* County will, if requested by Accelerate, supply security personnel to the Abrams Building or the Annex Building during other times, and/or will assign security personnel exclusively to the Premises, and Accelerate will pay County's security contractor directly for those additional services.

5.5.3. *Key Cards; Security Procedures.* County has issued Accelerate key cards and/or fobs for access to the Premises. Accelerate will pay to County a standard charge (\$25.00) for any key card and standard charge (\$50.00) for any fob that is lost, stolen or damaged and must be replaced by County. Accelerate will comply with County's Abrams Building security system, which may include checking in and out of the Abrams Building after hours.

5.6. **Equipment.** Accelerate will maintain, repair and replace all equipment provided and installed by Accelerate, including but not limited to security cameras, office and medical machines, air conditioners, kitchen appliances, conference room appliances and equipment, and laboratory and scientific equipment.

5.7. **Tenant Damage.** Accelerate will promptly repair any damage done to the Premises, the Common Area, or the Buildings caused by any employee, agent, contractor or invitee of Accelerate.

5.8. **Access to the Premises.** Accelerate will permit County and County's authorized representatives to enter the Premises at times convenient to Accelerate for purposes of inspection, making any repairs and performing any work that is necessary for County to comply with the provisions of this Section 5. County, in the performance of any such work, will cause as little inconvenience, annoyance, disturbance, or damage to Accelerate as reasonably possible under the circumstances, and will comply with restrictions applicable to

certain areas of the Premises, such as clean rooms. Accelerate will provide keys to first responders.

5.9. **Utilities.** County will provide electricity, water, sewer, and trash-and-recycle-collection services to the Premises and will invoice Accelerate on a monthly basis for the cost of those services, except that Accelerate does not pay for water service to the Abrams Building. Accelerate will pay each invoice within twenty days. Accelerate has established and will continue to maintain an account with Southwest Gas and will directly pay for the gas supplied to the Annex portion of the Premises as determined by the Southwest Gas meter.

5.9.1. *Metering.* The normal hours for provision of heating, ventilation and air conditioning services (“HVAC”) in the Abrams Building are 6:00 am to 6:00 pm, Monday through Friday and from 6:00 am to noon on Saturdays. At Accelerate’s request, County supplies HVAC to the Abrams Building 24/7. Sub-meters have been installed to measure the electricity used in or for the 4<sup>th</sup> Floor and the Annex Space, including the electricity used to run the County chiller outside of normal hours in order to provide the 24/7 HVAC service at the Abrams Building.

5.9.2. *Trash and Recycling.* The cost of trash and recycling services for the Premises is currently \$332.26 per month. Accelerate will continue to pay this charge, as well as any future cost increases for this service.

5.9.3. *Chillers.* If, in County’s reasonable judgment, the existing chillers become insufficient to meet the needs of the Abrams Building, County will install an additional stand-alone, self-contained chiller sized to support Accelerate’s HVAC needs. Accelerate will reimburse County for the cost of purchasing and installing the new chiller, including all costs to purchase and install meter.

5.9.4. *Back-Up Generator.* Accelerate may use County's existing generator, located on property adjacent to the Abrams Building, for backup power. In the event Accelerate’s operations potentially would increase the load on the County Generator, Accelerate will notify the County of the potential for increased load and Accelerate will engage an electrical engineer to calculate the capacity available for each and any additional load put on the generator to support Accelerate’s operations. Accelerate will, within three (3) days, notify the County of its findings and provide a copy of the stamped electrical engineer’s report as soon as it is available. Any damage associated with or caused by increased load will be the sole responsibility of Accelerate. If the existing generators cannot accommodate Accelerate’s backup power needs, Accelerate may install a small emergency generator in a location agreed upon by County and Accelerate. Accelerate will purchase, install, obtain permits for, test, maintain and repair any such generator at Accelerate’s expense. The generator’s location and how it is connected to the Building(s) are subject to County’s approval, which will not be unreasonably withheld, conditioned, or delayed.

**5.10. Telephone/Internet.**

5.10.1. Accelerate has installed its own telephone system and will continue to maintain that system and directly pay for telephone and internet service. All equipment installed by Accelerate remains the property of Accelerate and may be removed upon termination or expiration of the Lease.

5.10.2. Accelerate has a network connection from a local ISP, which it will maintain at its own expense, and will continue to utilize its own ISP connection hardware. County will continue to provide the ISP entry point into the building, a location for the ISP's network hardware, and a data connection to move Accelerate internet traffic from the building entry point up to the 4th Floor. County and Accelerate will continue to follow the previously-approved wireless network channel allocation plan, which prevents network interference. Accelerate is responsible for securing Accelerate's networks against intrusion through use of encrypted/password-protected wireless connections.

**6. Licensure and Registration.** Accelerate will apply for and obtain any license, registration or permit that is required during the Term of this Lease and will maintain such license, registration or permit in good standing throughout the Term of this Lease. Accelerate will immediately notify County, in writing, if the license, registration or permit is denied or terminated. In the event of such denial or termination, County may, in its sole discretion, terminate this Lease with no further obligation to Accelerate.

**7. Insurance.** County will obtain and maintain fire and other property insurance for the Buildings, and may self-insure for such losses. Accelerate will insure its personal property brought to the Premises. Accelerate will provide commercial general liability insurance or its equivalent in the amount of \$2,000,000 each occurrence. The policy will be endorsed to include County as an additional insured. Accelerate's Worker's Compensation coverage will contain a waiver of subrogation against County. Accelerate will annually provide County with evidence of insurance. Accelerate's insurance will be primary insurance and non-contributory with respect to all other available sources.

**8. Default.**

**8.1. Tenant Default.** The occurrence of any one or more of the following events will constitute a default and breach of this Lease by Accelerate for which County may terminate this Lease:

8.1.1. *Monetary Obligations.* The failure by Accelerate to make any payment required to be made by Accelerate hereunder, as and when due, where such failure will continue for a period of ten (10) calendar days after notice from County that such payment is due.

8.1.2. *Violation of Law.* Use of the Premises for any unlawful or illegal purpose and such use will continue for a period of three (3) days after written notice from County;

provided that Accelerate will not be entitled to the benefit of more than one (1) such grace period of three (3) days under this subparagraph during the Term of this Lease.

8.1.3. *Health and Safety Violation.* Any action or omission by Accelerate that, in the County's reasonable judgment, causes a threat to the health or safety of the general public or the users of the Building and such use will continue for a period of two (2) days after written notice from County. Accelerate's failure to obtain and maintain any required license and/or registration for its operations at the Premises is considered a violation under this paragraph.

8.1.4. *Other Covenants.* The failure by Accelerate to observe or perform any other of the covenants, conditions or provisions of this Lease to be observed or performed by Accelerate, where such failure will continue for a period of thirty (30) days after written notice thereof by County to Accelerate; provided, however, that if the nature of Accelerate's default is such that more than thirty (30) days are reasonably required for its cure, then Accelerate will not be deemed to be in default if Accelerate commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion provided such cure is completed within one hundred and twenty (120) days of the notice by County.

8.2. **County Default.** County will be deemed to be in default hereunder if County fails to perform any covenant or condition of this Lease to be performed by County and such failure continues for thirty (30) days after written notice and demand from Accelerate (unless the failure is of such a character as to require more than thirty (30) days to cure, in which event County will be in default only if it fails to initiate the cure within thirty days, and thereafter diligently pursue the same to completion).

8.3. **Remedies.** Either party may pursue any remedies provided by law and in equity for the breach of this Lease, including termination of the Lease.

9. **Notices.** All notices to be given under this Lease will be in writing and will be either served personally or sent by certified or registered mail, return receipt requested, to the parties as indicated below or to such other persons, or addressees as either party may designate in writing to the other party:

ACCELERATE: Accelerate Diagnostics, Inc.  
Attn: Lawrence Mehren  
3950 S. Country Club Rd, 4<sup>th</sup> Floor  
Tucson, AZ 85714

COUNTY: Clerk of the Board of Supervisors  
130 W. Congress St.  
Tucson, Arizona 85701

*With a copy to:*

Director, Pima County Facilities Management  
150 W. Congress Street, 3rd Floor  
Tucson, Arizona 85701

10. **Sublease and Assignment.** Accelerate may not assign its interest in this Lease, or sublet any portion of the Premises, without County's prior written consent. Any assignment of this Lease or subletting of the Premises, if permitted, does not release Accelerate from any of its obligations under this Lease. The County agrees that if it decides to sell the Building, it will do so only subject to the terms and conditions of this Lease and further agrees to give Accelerate at least thirty (30) days notice of its intent to sell.
11. **Modifications.** Accelerate will make no modifications to the Premises without County's prior written approval, which will not be unreasonably withheld.
12. **Furnishings.** Accelerate will not remove from the Premises any fixtures, furnishings and equipment provided by the County. Accelerate may remove any furnishings, fixtures, or equipment paid for and installed by Accelerate and will, subject to Section 13, restore the Premises to its condition prior to the installation of said furnishings, fixtures, or equipment. With County's advance approval, Accelerate may leave said items in place and they will become the property of the County. Accelerate will maintain, repair and replace all furnishings provided and installed by Accelerate.
13. **Return of Premises to Original Condition.** Accelerate, upon Lease expiration, will restore the Premises to their condition upon initial occupancy on January 4, 2013, unless this obligation is waived in writing by the County. This obligation may be waived in part or in whole. Accelerate will reimburse County for any costs necessary to restore the fire sprinkler system and densities applicable to office use standards including but not limited to: removal of shower and installing plumbing fixtures and toilets in the south employee restroom, installing a building standard entry door into the break room, all other costs to remove any modifications required or requested by Accelerate, the Fire Marshal or any other governmental entity necessary to convert the Premises back to office use. Accelerate will be responsible for returning all common areas on both the first and fourth floors of the Abrams Building and any exterior areas of the Premises modified for Accelerate use to pre-occupancy condition.
14. **No Liens or Interference.** Accelerate agrees not to incur, or if incurred to promptly remove, any obligations, judgments or other actions which would result in a lien or encumbrance on the Premises or the Buildings.
15. **Destruction of Premises.** If at any time during the Term of the Lease, the Premises becomes partially or totally destroyed by reason of any damage by fire, flood, hurricane, windstorm or other casualty or act of God and the County cannot or does not fully repair the Premises within ninety (90) days through no fault of Accelerate then Accelerate will be relieved of any further

obligation, duty or liability under this Lease. If the Premises can be and are repaired fully in ninety (90) days, then the Lease will continue in full force and effect while the repairs are being made, and Rent will be abated by the percentage of the total space which is unavailable or not reasonably useful to Accelerate.

## 16. Condemnation.

16.1. **Complete Taking.** If the whole of the Premises is taken or condemned for any public or quasi-public use or purpose, by right of eminent domain or by purchase in lieu thereof, or if a substantial portion of the Premises is taken or condemned so that the portion or portions remaining is or are insufficient or unsuitable, in the mutual reasonable judgment of County and Accelerate, for the continued operation of the business contemplated by this Lease, so as to effectively render the Premises untenable, then this Lease will cease and terminate as of the date on which Accelerate is required to vacate the Premises as a result of the condemning authority taking possession and all Rent will be paid by Accelerate to County up to that date or refunded by County to Accelerate if Rent has previously been paid by Accelerate beyond that date.

16.2. **Partial Taking.** If a portion of the Premises is taken, and the portion or portions remaining can, in the mutual reasonable judgment of County and Accelerate, be adapted and used for the conduct of Accelerate's business operation, then the County will promptly restore the remaining portion or portions thereof to a condition comparable to their condition at the time of such taking or condemnation, less the portion or portions lost by the taking, and this Lease will continue in full force and effect except that the Rent payable hereunder will, if necessary, be equitably adjusted to take into account the portion or portions of the Premises lost by the taking.

17. **Damage to Property.** Accelerate covenants that it will permit no waste or damage to the lease property; that it will keep all improvements placed upon the Premises in reasonably good order and reasonably good state of repair, subject to Section 5 with respect to repair obligations.

18. **Quiet Enjoyment.** County warrants that County is seized of the Premises and has the full right to make this Lease. County further covenants that Accelerate will have quiet and peaceful possession of the Premises during the entire Term as against lawful acts of third parties and as against the acts of all parties claiming title to, or a right to possess, the Premises.

19. **Expenses Advanced by Accelerate.** If County fails within thirty days (or such lesser time as is appropriate if there is a threat to health or safety) after requested by Accelerate to make such repairs or perform such other act as may be required of County under this Lease, Accelerate may cause such repairs to be made or such acts to be performed at the expense of County. Accelerate may apply such claims against any subsequent installment of Rent.

20. **Signs.** Accelerate may maintain the existing exterior and interior signage.

21. **Change In Ownership.** If ownership of the Premises or the name or address of the party entitled to Rent will be changed, Accelerate may, until receipt of written notice of such change, continue to pay Rent to the party to whom and in the manner in which the last preceding installment of Rent was paid. Accelerate will not be subject to double liability for any Rent so paid.
22. **Surrender/Holding Over.** On termination of Accelerate's occupancy, Accelerate will surrender the Premises in the condition in which Accelerate is required to maintain them under this Lease. If Accelerate for any reason and with written consent of County remains in possession after the expiration of this Lease (including any optional extension), or after the date specified in any notice of termination given by either party, such possession will be as a month to month tenant, subject to all conditions of this Lease other than the Term hereof, at the current monthly Rent on the Lease expiration date.
23. **Interpretation of Lease.** The parties acknowledge that each has had the opportunity to review this Lease with counsel of their choice. This Lease will not be construed more strongly in favor or against either of the parties but will be interpreted fairly and equitably to effectuate the intent of the parties. All provisions contained in this Lease will bind and inure to the benefit of the parties and their successors and assigns.
24. **Entire Agreement.** This Lease contains the entire agreement between the parties and all previous Leases, amendments, negotiations, or understandings are superseded by and merged in this Lease. This Lease may be modified by the parties only by writing executed with the same formalities as this Lease.
25. **Non-Discrimination.** The parties will comply with all applicable state and federal statutes and regulations governing equal employment opportunity, non-discrimination, and immigration.
26. **Arbitration.** The parties agree that any dispute arising under this Lease involving the sum of FIFTY THOUSAND DOLLARS (\$50,000) or less in money damages only will be resolved by arbitration pursuant to the Arizona Uniform Rules of Procedure for Arbitration. The decision of the arbitrator(s) will be final.
27. **Nonappropriation.** The parties recognize that the performance by County may be dependent upon the appropriation of funds by the Board of Supervisors of the County, or the availability of funding from other sources. Should the Board of Supervisors fail to appropriate the necessary funds, or if funding becomes otherwise not legally available to the County to fund its responsibilities under this Lease, the County may terminate this Lease without further duty or obligation. County agrees to notify Accelerate as soon as reasonably possible after the unavailability of said funds comes to the Board's attention.
28. **Conflict of Interest.** This Lease is subject to cancellation pursuant to the provisions of Arizona Revised Statute § 38-511 regarding Conflict of Interest.

29. **Law to Govern.** This Lease is made under and will be interpreted according to Arizona law.
30. **Americans With Disabilities Act.** Both parties will comply with all applicable provisions of the Americans with Disabilities Act (Public Law 101-336, 42 U.S.C. 12101-12213) and applicable federal regulations under the Act as it pertains to facilities and use of the facilities. This will not obligate County to make any modifications to the Building, as a result of any change in the law or regulations, if such repairs are not otherwise legally required.
31. **Sustainability Plan.** In accordance with the County's Sustainability Plan, Accelerate will use all reasonable efforts to use recycled products or re-use and recycle materials used in the Premises.
32. **Applicable Law.** The parties will comply with all federal, state and local laws, rules, regulations, standards, Executive Orders, and Pima County Board of Supervisors' policies, including Policy Number C. 3.18 entitled "Tobacco-Free Environment," a copy of which is attached as **Exhibit D**, without limitation to those designated within this Lease. The laws and regulations of the State of Arizona will govern the rights of the parties, the performance of this Lease and any disputes hereunder. Any action relating to this Lease will be brought in a court of the State of Arizona in Pima County. Any changes in the governing laws, rules, regulations, and Board of Supervisors' policies during the terms of this Lease will apply but do not require an amendment.

**THE REMAINDER OF THIS PAGE IS INTENTIONALLY BLANK**

IN WITNESS WHEREOF, we have set our hands and seals on the day and date first written above.

**LANDLORD:**

PIMA COUNTY, a political subdivision of  
The State of Arizona

**TENANT:**

ACCELERATE DIAGNOSTICS, INC.  
a Delaware corporation

By: \_\_\_\_\_

Richard Elias  
Chairman, Board of Supervisors

By: \_\_\_\_\_

Steve Reichling  
Chief Financial Officer

Date: \_\_\_\_\_

Date: 7/19/2019

**ATTEST:**

By: \_\_\_\_\_

Julie Castaneda, Clerk of the Board of Supervisors

Date: \_\_\_\_\_

**APPROVED AS TO CONTENT:**

By: \_\_\_\_\_

Lisa Josker, Director, Facilities Management Department

Date: 7/24/19

**APPROVED AS TO FORM:**

By: \_\_\_\_\_

Regina Nassen, Deputy Pima County Attorney

Date: 7.23.2019

Exhibits:

- Exhibit A: Abrams and Annex Buildings
- Exhibit B: Parking Areas
- Exhibit C: Rules and Regulations
- Exhibit D: Tobacco Free Policy C 3.1.18



8476 E. Speedway Blvd., Suite 210  
Tucson, Arizona 85710  
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[www.everyappraisals.com](http://www.everyappraisals.com)

APPRAISAL REPORT  
FOR MARKET RENT

OF THE  
4<sup>TH</sup> FLOOR OF THE ABRAMS BUILDING  
CONTAINING APPROXIMATELY 45,885 SQUARE FEET

LOCATED AT  
3950 S. COUNTRY CLUB ROAD, SUITE 470  
TUCSON, ARIZONA 85714

PREPARED FOR  
MR. JEFFREY TEPLITSKY  
APPRAISAL SUPERVISOR  
PIMA COUNTY PUBLIC WORKS REAL PROPERTY SERVICES

BY

DAVID A. EVERY, MAI, AI-GRS

OWNERSHIP: PIMA COUNTY  
TAX CODE NO.: 132-19-1420 (PORTION OF)  
TOWNSHIP 14 SOUTH, RANGE 14 EAST, SECTION 32

EFFECTIVE DATE OF THE APPRAISAL: JULY 18, 2018  
DATE OF THE REPORT: AUGUST 20, 2018  
OUR FILE NO. 7557-1801



8476 E. Speedway Blvd., Suite 210  
Tucson, Arizona 85710  
Ph: 520.954.4736  
Fax: 520.979.3408  
www.everyappraisals.com

August 20, 2018

Our File No. 7557-1801

Mr. Jeffrey Teplitsky  
Pima County Public Works Real Property Services  
Appraisal Supervisor  
201 N. Stone Avenue, Sixth Floor  
Tucson, Arizona 85701-1215

**RE: Appraisal report addressing the market lease rate of the property known as Suite 470 (4<sup>th</sup> floor) within the Abrams Building located at 3950 S. Country Club Road (Accelerate Diagnostics, Inc.), APN 132-19-1420 (portion of), Tucson, Pima County, Arizona, 85714.**

In accordance with your request, I have appraised the property described above. This document is written in conformance with the Uniform Standards of Professional Appraisal Practice as issued by the Appraisal Foundation (USPAP), Rule 2-2a, specifically pertaining to Appraisal reports; and the appraisal standards and guidelines of Pima County Public Works Real Property Services.

The *effective date of the appraisal* is July 18, 2018, the most recent date of inspection of the subject property. The ownership and identification of this property are set forth in the following report.

The *purpose* of this valuation is to develop an opinion of the current market lease rate for the subject property. The *intended use* of this report is to serve as the basis for potential lease negotiations by Pima County.

Pima County Public Works Real Property Services is the *client*. The *intended users* of this report are Pima County, its designees and the subject tenant. Besides the intended users and appropriate regulatory agencies, parties other than those specified above may not use or rely upon this report. Every Appraisal Service and the appraisers signing this report assume no responsibility to any party, other than the client and the stated *intended users*, who uses or relies on any information in this report.

The *Scope of Work* for this report includes completing an appraisal inspection of the subject, analyzing the local market for trends that impact real estate values, and searching the local market for comparable data. The subject property is comprised of the entire 4<sup>th</sup> floor situated within the Abrams building. The 4<sup>th</sup> floor or Suite 470 has a net rentable area of 45,885 square feet according to the lease. Additional details on scope of work are contained in the body of the report.

The client has requested an analysis of the current market lease rate for the subject property. Based on the data and discussions within this report, my opinion of the current market lease rate of the subject property, as of July 18, 2018, is as follows.

**LEASE RATE .....\$14.50 PSF**  
**EXPENSE STRUCTURE.....NNN**  
**INCREASES.....2.5% PER YEAR**  
**TERM..... 10 YEARS**  
**CONCESSIONS/TI's – OFFICE SPACE..... \$0 TO \$10 PSF**  
**CONCESSIONS/TI's – LABORATORY SPACE .....\$40 to \$50 PSF**  
**OPTIONS ..... 2 x 5-YEAR**

Notably, the current lease is modified gross. However, the opinion of market rent presented above is based on triple net terms, which is consistent with the subject market for larger space leases. Your attention is invited to the data and discussions contained in this document. Please contact us if you have any questions or would like to consult the file.

I hereby certify that I have inspected the subject; that my fee was not contingent upon the value opinion contained herein; and that I have no interest, present or prospective, in the property appraised. Furthermore, I certify that, to the best of my knowledge and belief, all statements, and opinions contained in this report are correct, subject to the assumptions, conditions, special limiting conditions, and certification that are made as part of this report.

Respectfully submitted,



**DAVID A. EVERY, MAI, AI-GRS**

Owner - Every Appraisal Service  
State of Arizona Certified General  
Real Estate Appraiser #31343

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## EXECUTIVE SUMMARY

- PURPOSE/INTENDED USE: The *purpose* of this valuation is to develop an opinion of the current market lease rate for the subject property. The *intended use* of this report is for potential lease negotiations by Pima County.
- CLIENT/INTENDED USERS: Pima County Public Works Real Property Services is the *client*. The *intended users* of this report are Pima County, its designees and the subject tenant. Besides the intended users and appropriate regulatory agencies, parties other than those specified above may not use or rely upon this report. Every Appraisal Service and the appraisers signing this report assume no responsibility to any party, other than the client and the stated *intended users*, who uses or relies on any information in this report.
- EFFECTIVE DATE OF THE APPRAISAL: July 18, 2018, the most recent date of inspection.
- INTERESTS TO BE APPRAISED: Leased Fee
- PROPERTY HISTORY/ OWNERSHIP: According to Pima County records, title to the larger property of which the subject is a part is vested in the name of Pima County. There have been no market transactions involving the larger property in the previous 10 years.
- The subject suite (#470, 4<sup>th</sup> Floor) is currently encumbered by a lease. Details of the current lease are summarized in the following report.
- PROPERTY IDENTIFICATION: The subject property is comprised of the entire 4<sup>th</sup> floor (Suite 470) of the Herbert K. Abrams Public Health Building. The “Abrams Building” is located along the west side of Country Club Road, south of Ajo Way. The suite has a net rentable area of 45,885 square feet according to the lease. The physical address of the property is 3950 S. Country Club Road, Suite 470, Tucson, Pima County, Arizona 85714. The property is further identified by Pima County Assessor parcel number 132-19-1420 (portion of).
- CURRENT ZONING: PAD-18 (Kino Health Campus), City of Tucson.

HIGHEST AND  
BEST USE:

The highest and best use of the subject is for office leasing with limited demand for the laboratory or biotech build out.

VALUATION  
METHODOLOGY:

In order to develop an opinion of the current market rent for the subject, recent leases have been collected and analyzed. Based on the data and discussions within this report, my opinion of the current market lease rate of the subject property, as of July 18, 2018, is as follows.

**LEASE RATE .....\$14.50 PSF**  
**EXPENSE STRUCTURE.....NNN**  
**INCREASES.....2.5% PER YEAR**  
**TERM..... 10 YEARS**  
**CONCESSIONS/TI's – OFFICE..... \$0 TO \$10 PSF**  
**CONCESSIONS/TI's – LAB.....\$40 to \$50 PSF**  
**OPTIONS ..... 2 x 5-YEAR**

## INTRODUCTION

This document is written in conformance with the Uniform Standards of Professional Appraisal Practice as issued by the Appraisal Foundation (USPAP), Rule 2-2a, specifically pertaining to Appraisal reports. As such, it presents only summary discussions of the data, reasoning, and analyses that were utilized by the appraiser to develop an opinion of value. The level of detail and discussion presented in this report is specific to the needs of the intended user and for the intended use, as stated. Additional details and supporting documentation is retained in the appraisers files.

### Property Identification

The subject property is comprised of the entire 4<sup>th</sup> floor (Suite 470) within the Herbert K. Abrams Public Health Building. The “Abrams Building” is located along the west side of Country Club Road, south of Ajo Way. The 4<sup>th</sup> floor has a net rentable area of 45,885 square feet according to the lease. The physical address of the property is 3950 S. Country Club Road, Suite 470, Tucson, Pima County, Arizona 85714. The property is further identified by Pima County Assessor parcel number 132-19-1420 (portion of).

### Legal Description

The legal description of the subject property follows (these are abbreviated descriptions abstracted from public records):

*PTN N2 OF SEC 32 LYG ADJ TO & NELY OF I-10  
180.96 AC SEC 32-14-14*

### Purpose, Intended Use, Intended User

The *purpose* of this valuation is to develop an opinion of the current market lease rate for the subject property. The *intended use* of this report is for potential lease negotiations for Pima County. Pima County Public Works Real Property Services is the *client*. The *intended users* of this report are Pima County, its designees and the subject tenant.

### Interest Appraised

The client has requested an analysis of the current market lease rate for the subject property.

### Effective Date of the Appraisal

The *effective date of the appraisal* is July 18, 2018, the date of the most recent inspection of the subject property. On this date, the physical characteristics of the subject property were documented and photographed.

## Extraordinary Assumptions & Hypothetical Conditions

None.

## Market Value Definition

According to the 6<sup>th</sup> Edition of The Dictionary of Real Estate Appraisal, as published by the Appraisal Institute, **Market Rent** is defined as: The most probable rent that a property should bring in a competitive and open market reflecting the conditions and restrictions of a specified lease agreement, including the rental adjustment and revaluation, permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs).

## Property History/Ownership and Lease Summary

According to Pima County records, title to the larger property of which the subject is a part is vested in the name of Pima County. There have been no market transactions involving the larger property in the previous 10 years. The following summarizes important lease details. This information is based on review of the original lease as well as upon review of 8 separate lease amendments.

Lessee: Accelerate Diagnostics, Inc.

Premises: Entire Fourth Floor of 3950 S. Country Club  
Tucson, Arizona

Rentable Area: Lease Amendment 4 specifies a total useable area of, 45,885 square feet. This figure is relied upon for this analysis. The original lease space was 15,096 square feet on the fourth floor. This was expanded via several options and lease amendments.

Date: August 20, 2012

Term: Originally three years from January 1, 2013 to January 12, 2016. Subsequent options have extended the term to an expiration date of January 12, 2019.

Options: Three 1-year options, each of which have been exercised. All extensions and options are co-terminus with the original lease which as noted above expires in January 12, 2019.

Rent: The original base rent was \$9.25 per square foot applied during the first lease term.

Rent Increases: The rent increased to \$19.80 per square foot which is the current rent and which applied during each of the three option periods. The lease Sixth Amendment appears to have modified the rent. In the Sixth Amendment

rent for 4,163 square feet of the space is noted at \$17.63 per square foot. Rent for the balance of the space is as previously noted here, or \$19.80 per square foot.

Percentage Rent: None.

Expenses: The lease was originally modified gross with the tenant paying only janitorial costs. When the tenant expanded into the entire fourth floor the tenant became responsible for all utility costs.

Repairs: Landlord.

Janitorial: Tenant

Utilities: Originally the landlord. The Fourth Amendment changed this with the tenant paying all utility costs.

Taxes: The larger property is not taxed due to the ownership status. The tenant is responsible for any taxes related to trade equipment and related tenant improvements or leasehold improvements.

Insurance: Landlord.

Other: The landlord provided \$1,400,000 in a tenant improvement allowance at the start of the original lease.

Amendment 1: Dated October 15, 2015. The tenant name was changed to the current name. The tenant expanded into another 4,551 square feet of space. The owner provided \$400,000 in tenant improvements. This was reimbursed by the tenant.

Amendment 2: Dated April 15, 2014. Tenant expanded into another 7,757 square feet of space. Rent for 3,594 square feet was at \$9.25 per square foot. Rent for 4,163 square feet was at \$17.63 per square foot. There were no tenant improvements provided by the owner. The tenant was granted a right of first refusal for an unspecified amount of expansion space.

Amendment 3: Dated June 17, 2014. Minor rewording of lease details.

Amendment 4: Dated December 16, 2014. Further expansion into another 18,481 square feet of space. The initial rent for this space was \$17.63 per square foot which changed going into the first extension. Tenant began paying utility costs at this time. There were no owner provided tenant improvements. The tenant paid for the installation of utility sub meters.

- Amendment 5: Dated January 13, 2015. Minor rewording of lease details.
- Amendment 6: Dated February 16, 2016. Tenant exercised first extension through February 12, 2017. Restated that tenant is to pay all utilities. Rent for 41,722 square feet set at \$19.80 per square foot. Rent for 4,163 square feet set at \$17.63 per square foot.
- Amendment 7: Dated December 31, 2016. Tenant exercised second extension through January 12, 2018.
- Amendment 8: Dated October 3, 2017. Tenant exercised third extension through January 12, 2019.

### **Scope of the Work**

Scope of Work is an integral part of the appraisal process and identifies the type and extent of research and analyses for an appraisal assignment. According to *USPAP*, for each appraisal assignment, an appraiser must:

1. identify the problem to be solved;
2. determine and perform the scope of work necessary to develop credible assignment results; and,
3. disclose the scope of work in the report.

This document is written in conformance with the Uniform Standards of Professional Appraisal Practice as issued by the Appraisal Foundation (*USPAP*), Rule 2-2a, specifically pertaining to Appraisal Reports. As such, it presents only summary discussions of the data, reasoning, and analyses that were utilized by the appraiser to develop an opinion of value. The level of detail and discussion presented in this report is specific to the needs of the intended user and for the intended use, as stated. Additional details and supporting documentation is retained in the appraisers files.

David A. Every, MAI, AI-GRS inspected the subject property, as well as the immediate neighborhood, on July 18, 2018. Comparable data has been researched, verified, and analyzed from reliable sources, with the appraiser's analyses, opinions, and conclusions reported in this Appraisal report.

In order to evaluate the subject property, relevant general and property specific data has been gathered and analyzed. General data includes information on social, economic, governmental, and environmental trends and conditions affecting the subject property. Each of these items has an impact on property value and the study of these forces enables the appraiser to identify the underlying causes of change in property values and what future market expectations might be. The geographic extent of our search for general market information included the larger Tucson metropolitan area. Sources of general market information included government publications, census data, local newspapers, and other public and private organizations. Real estate oriented

market information was abstracted from econometrics publications specific to the Tucson market.

Property specific information includes data about the subject site, development plan, tax information, and zoning classifications. Information was obtained from the City of Tucson, the Pima County Assessor's office, the current owner of the subject property, and from the client. A typical inspection of the property was also performed by the appraiser. Market information is obtained through conversations with brokers, appraisers, property managers, purchasers and owners active locally, as well as commercial data providers.

Highest and best use analysis was undertaken and established the foundation for the valuation process. This analysis considered the physically possible, legally permissible and financially feasible uses of the property and ultimately led to conclusions of a use or class that was considered to be optimal, or most productive, for the subject property.

As discussed, I have been requested to analyze the current market lease rate for the subject property. As such, recent comparable leases have been gathered and analyzed. This methodology is sufficient to develop credible assignment results.

## AREA OVERVIEW

The purpose of this section of the report is to identify and analyze the social, economic, governmental, and environmental forces that can influence property values in the vicinity of the subject. The primary area of influence is the neighborhood, defined as a group of complimentary land uses; a residential neighborhood may contain residential uses along with ancillary commercial uses that provide services for the residents. A district, on the other hand, has one predominate land use such as apartments, commercial, industrial, or agricultural.

### ARIZONA

Arizona is in the southwestern area of the United States within the Sunbelt Region and ranks sixth in the nation in terms of size with 113,417 square miles. The state can be divided into three geographical areas, each with its own distinct topography and climate. The northeastern portion of the state is a high plateau, which tends to be cool and dry. Most of this area is within the boundaries of the Navajo Nation, the largest Native American reservation in the United States. The mountainous region, extending diagonally across the state from northwest to southeast, offers cool summertime temperatures and winter sports opportunities, attracting visitors to this area year round. The remaining half of the state, south and west of the mountainous region, consists of desert valleys divided by low desert mountain ranges and is home to most of the state's population; about 80 percent of the state population resides in the Tucson and Phoenix metropolitan areas.

Between 1980 and 1990, Arizona was the third fastest growing state, with a population increase of almost 35 percent. According to the 2000 census, approximately 5,130,000 people resided in the State, up from 3,665,000 in 1990, reflecting an increase of about 40 percent, or a 4.0 percent annual rate. The latest 2010 census information shows the Arizona population at about 6,392,017, an increase of about 24.6% over the 2000 number or an average of 2.5% per annum. Arizona's projected growth is about 200,000 per year through 2030.

The state also ranked third in job growth for the same period with a gain of 47 percent, twice the national average. Employment is fairly diversified with professional and business services accounting for 14 percent of total non-farm employment, followed by government with 13 percent, retail with 12 percent, health care with 10 percent, construction with 8 percent, and manufacturing with 6 percent. During 2008, job growth in the State and in Tucson was greatly reduced, with a rise in unemployment throughout much of 2008 that persisted throughout 2009 and into 2010. However, by May 2018, Arizona's seasonally adjusted unemployment rate had declined to 4.7% per the Bureau of Labor and Statistics. Arizona's unemployment has lagged the US unemployment rate by approximately 0.5% for the years 2000 through 2010.

According to George W. Hammond, Ph.D., Director and Research Professor, EBRC (Eller Economic and Business Research Center), "Arizona's economy is well positioned to outpace the U.S. during the next 30 years. The outlook calls for the state, the Phoenix metropolitan statistical area (MSA), and the Tucson MSA to grow faster than the nation across most major macroeconomic aggregates. However, as is expected for the nation, the state is not likely to regain the rapid growth

rates posted during the 30 years before the Great Recession. In the end, the aging of the baby boom generation will take a toll on growth at the national, state, and local levels.

Arizona's recent growth continues to be strong, with job gains far outpacing the national average. This is true even for Tucson, where employment increases have accelerated strongly during the past nine months. The outlook calls for growth rates to improve in the near term, with reduced fiscal drag and increased migration flows into the state. This drives further gains in construction and related sectors, which have been slow to rebound from the housing bust. Overall, the state economy is moving forward and its trajectory is positive. “



## Metro Tucson



\*Map data @2018 Google

Tucson is the economic center of southeastern Arizona. While the Tucson area enjoyed economic growth with the rise of the housing boom in the middle of the decade, the overall economy began to decline in late 2007, with a significant decline beginning in late 2008. Since that time the local economy generally mirrored the larger national economic downturn. Some signs of stabilization began to appear in 2011 and 2012, with evidence of a slow recovery through 2014 and forward.

The population of Pima County, which approximates the metropolitan area, increased from 666,954 in 1990 to 843,746 in 2000 and to 980,263 in 2010 (based on the 2010 census), reflecting compounded annual growth rates of 2.38 percent from 1990 to 2000 and 1.51 percent annually from 2000 to 2010.

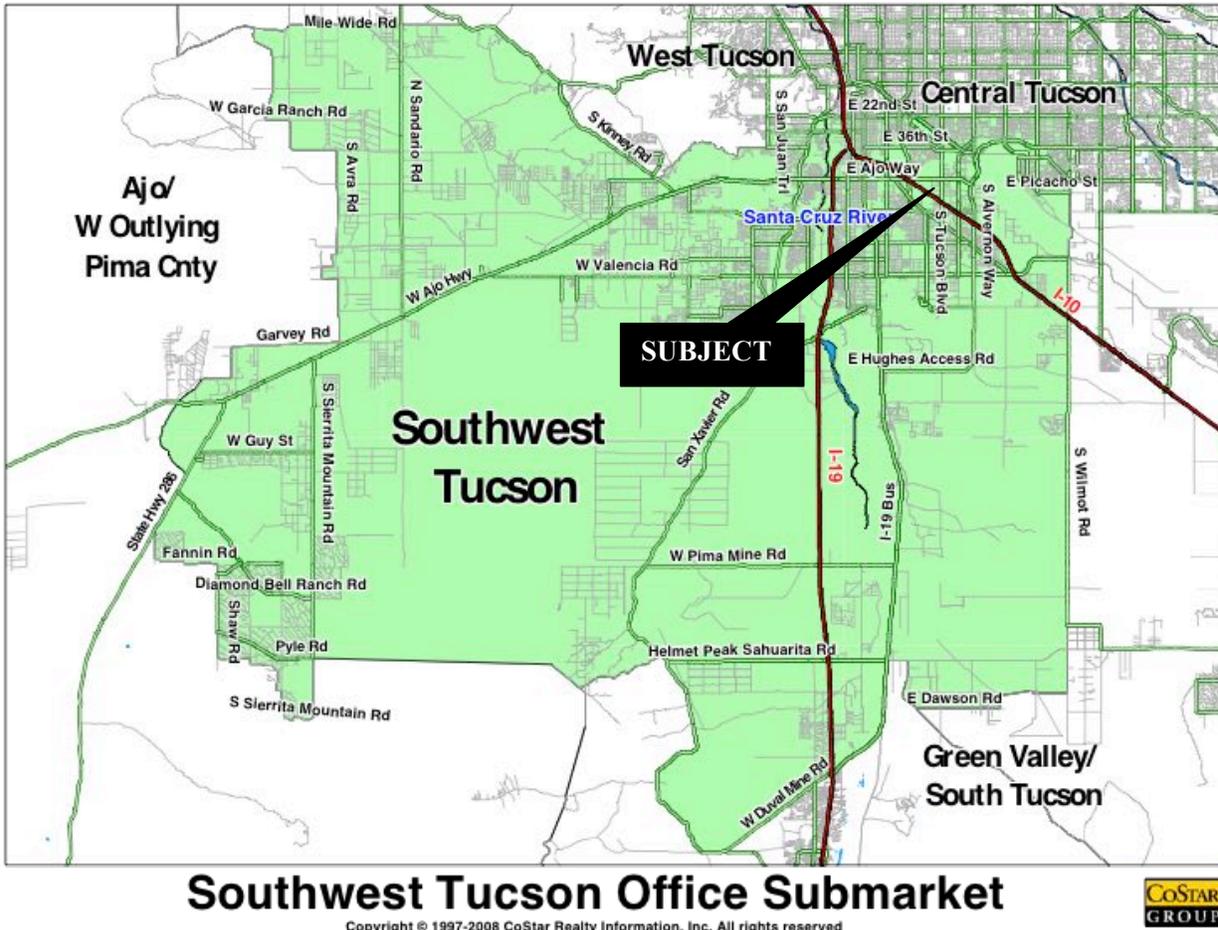
The Pima Association of Governments (PAG), projects that the population of the County will grow by 1.6 to 2.1 percent annually over the next 20 years. The northwest and southeast portions of the

metropolitan area, where ample land is available, are expected to be the focal points for most of the growth.

The long-term outlook for Tucson is positive. Population and employment, though currently down for the first time in nearly a decade, are projected to continue to increase at rates in excess of the nation as a whole as the market recovers over the next one to two years. The cyclical nature of the economy reflected in the population, employment, and development segments is now stabilized from the peak of the previous cycle. Overall, the Tucson Metropolitan area is considered to be in the growth stage of its life cycle and, even with the recent challenges shown by the residential and commercial markets, should have a positive long-term impact upon properties in the area.

## NEIGHBORHOOD DATA

The subject is located in the south portion of the Tucson metropolitan area, about ten miles southeast of the Tucson central business district (CBD). The following discussion summarizes those factors that influence values within the neighborhood.



### Boundaries

General neighborhood boundaries are: Wilmot Road on the east; State Highway 286 & Avra Road on the west; 22<sup>nd</sup> Street and Kinney Road on the north; and Duval Mine Road on the south. This is the southern region of the metropolitan Tucson area.

### Population

The following tabulation summarizes population projections as prepared by the Arizona Department of Economic Security for Pima County and related jurisdictions.

Year	PIMA COUNTY (DES projected)	TOWN OF MARANA	TOWN OF ORO VALLEY	TOWN OF SAHUARITA	CITY OF SO. TUCSON	CITY OF TUCSON	UNINCORP. COUNTY
2006	980,977	29,802	40,576	18,464	5,657	537,677	348,800
2007	1,003,918	32,774	41,662	23,075	5,684	545,273	355,449
2008	1,026,506	36,037	42,852	28,140	5,710	552,715	361,052
2009	1,048,796	39,616	44,111	33,185	5,735	560,018	366,130
<b>2010</b>	<b>1,070,723</b>	<b>43,352</b>	<b>45,199</b>	<b>37,965</b>	<b>5,742</b>	<b>566,237</b>	<b>372,227</b>
2011	1,092,369	46,844	46,204	41,845	5,746	572,503	379,227
2012	1,113,749	50,335	47,209	45,725	5,750	578,769	385,961
2013	1,134,853	53,826	48,213	49,606	5,753	585,036	392,418
2014	1,155,599	57,318	49,218	53,486	5,757	591,302	398,518
<b>2015</b>	<b>1,175,967</b>	<b>60,809</b>	<b>50,222</b>	<b>57,367</b>	<b>5,761</b>	<b>597,568</b>	<b>404,240</b>
2016	1,195,933	63,230	51,005	60,189	5,758	602,988	412,763
2017	1,215,512	65,652	51,787	63,011	5,754	608,409	420,899
2018	1,234,697	68,073	52,569	65,834	5,751	613,830	428,641
2019	1,253,475	70,494	53,352	68,656	5,747	619,250	435,976
<b>2020</b>	<b>1,271,912</b>	<b>72,915</b>	<b>54,134</b>	<b>71,479</b>	<b>5,743</b>	<b>624,671</b>	<b>442,969</b>
2021	1,290,058	74,783	54,806	72,934	5,737	629,503	452,296
2022	1,307,914	76,650	55,478	74,389	5,730	634,335	461,333
2023	1,325,564	78,517	56,150	75,844	5,723	639,167	470,164
2024	1,342,978	80,385	56,821	77,299	5,716	643,998	478,759
<b>2025</b>	<b>1,360,157</b>	<b>82,252</b>	<b>57,493</b>	<b>78,754</b>	<b>5,709</b>	<b>648,830</b>	<b>487,119</b>
2026	1,377,097	83,754	58,063	79,946	5,702	653,309	496,323
2027	1,393,778	85,256	58,633	81,138	5,695	657,788	505,268
2028	1,410,235	86,757	59,204	82,330	5,689	662,267	513,989
2029	1,426,456	88,259	59,774	83,522	5,682	666,746	522,473
<b>2030</b>	<b>1,442,420</b>	<b>89,761</b>	<b>60,344</b>	<b>84,714</b>	<b>5,675</b>	<b>671,225</b>	<b>530,701</b>
2031	1,458,104	91,047	60,844	85,591	5,670	675,350	539,601
2032	1,473,502	92,333	61,344	86,468	5,665	679,476	548,215
2033	1,488,594	93,619	61,844	87,346	5,661	683,602	556,523
2034	1,503,365	94,905	62,345	88,223	5,656	687,728	564,509
<b>2035</b>	<b>1,517,839</b>	<b>96,190</b>	<b>62,845</b>	<b>89,100</b>	<b>5,651</b>	<b>691,854</b>	<b>572,199</b>
2036	1,532,026	97,442	63,416	89,726	5,656	695,835	579,952
2037	1,545,909	98,694	63,986	90,352	5,660	699,816	587,401
2038	1,559,521	99,945	64,557	90,978	5,665	703,797	594,578
2039	1,572,877	101,197	65,128	91,604	5,670	707,778	601,500
<b>2040</b>	<b>1,585,983</b>	<b>102,449</b>	<b>65,699</b>	<b>92,230</b>	<b>5,674</b>	<b>711,759</b>	<b>608,172</b>
2041	1,598,868	103,706	66,354	93,053	5,689	715,711	614,355
2042	1,611,534	104,964	67,008	93,876	5,704	719,662	620,320
2043	1,623,983	106,221	67,663	94,700	5,718	723,614	626,067
2044	1,636,316	107,479	68,317	95,523	5,733	727,565	631,699
<b>2045</b>	<b>1,648,586</b>	<b>108,737</b>	<b>68,972</b>	<b>96,346</b>	<b>5,748</b>	<b>731,517</b>	<b>637,267</b>
2046	1,660,779	109,992	69,677	97,332	5,770	735,551	642,457
2047	1,672,813	111,247	70,383	98,317	5,791	739,585	647,489
2048	1,684,824	112,503	71,089	99,303	5,813	743,619	652,497
2049	1,696,902	113,758	71,794	100,289	5,835	747,653	657,573
<b>2050</b>	<b>1,709,026</b>	<b>115,014</b>	<b>72,500</b>	<b>101,274</b>	<b>5,857</b>	<b>751,687</b>	<b>662,694</b>
2051	1,721,232	116,269	73,302	102,502	5,889	756,125	667,145
2052	1,733,499	117,525	74,105	103,729	5,921	760,562	671,657
2053	1,745,812	118,781	74,907	104,956	5,954	765,000	676,215
2054	1,758,177	120,036	75,710	106,183	5,986	769,437	680,824
<b>2055</b>	<b>1,770,610</b>	<b>121,292</b>	<b>76,513</b>	<b>107,410</b>	<b>6,019</b>	<b>773,874</b>	<b>685,502</b>

## Transportation

Primary access to the neighborhood is provided by Interstate 10, Alvernon Road, Palo Verde Road, the Kino-Campbell Corridor, and the Kolb-Valencia Corridor. I-10, a six-lane freeway, traverses the neighborhood in a northwest to southeast manner and has interchanges at Palo Verde/Alvernon Roads, Campbell/Kino Roads, and Park Avenue. I-19 splits from I-10 in Tucson and provides access to Mexico.

Other major north-south roadways include Country Club Road, Park Avenue, Twelfth Avenue, and Sixth Avenue/Tucson-Nogales Highway. Major east-west arterials include 22<sup>nd</sup> Street, Ajo

Way, Irvington Road, Drexel Road, and Valencia Road. Benson Highway/US 80 traverses the neighborhood one-half mile south of and generally parallel to I-10.

In addition to the above noted roadways, the Aviation Corridor, completed through to Broadway Boulevard and the southeasterly portion of the Central Business District, has greatly improved access to the northeastern portions of the neighborhood. The Aviation Corridor is a limited access thoroughfare extending from Golf Links Road on the south to the CBD, with plans to extend it to St. Mary's Road and I-10 on the north.

The Tucson International Airport facility is located within the subject neighborhood. The main entrance to the airport is located on South Tucson (Kino) Boulevard, south of Valencia Road. The Tucson International Airport is a major asset, not only to the city of Tucson and Pima County, but also the entire region including Sierra Vista, Nogales, and northwestern Mexico. To accommodate the airport's increasing needs, a master plan was prepared for the Tucson Airport Authority in the 1990's. This plan includes the expansion of land area for the facility, as well as adding to and improving existing buildings, runways, and facilities needed to provide services related to the airport service industry. The Tucson Airport Authority has received over \$60 million from bond proceeds to finance the airport extension. Much of the airport renovation has been completed, with additional approved expansion projects in progress.

## **Land Use**

The neighborhood is well established both residentially and commercially and is largely built up. The subject area is considered to be in a stable stage of its life cycle, which is typified by a period of equilibrium without any marked gains or losses in land values. Land uses include a variety of single and multi-family residences, commercial, and a variety of industrial uses that are situated along the southern, eastern and western boundaries of the area.

## **Residential**

The majority of residential development in the area is older single family housing and mobile homes primarily located in the western, central, and northern areas of the neighborhood. Several new single family subdivisions have been developed in the eastern portion of the neighborhood in recent years. Single-family homes range in age from new to over 30 years.

The subject neighborhood contains a number of major apartment complexes, typically situated along major roadways. Occupancy and rental rates have been improving following the effects of the Great Recession.

## **Commercial**

### Office

Office space is rather limited, due to two primary factors. The first is the historical lack of demand for office space in the area; the second being that several office facilities within the

area's business and commerce parks are labeled as industrial buildings. Occupancy in the area is much stronger than the metropolitan Tucson average. Also refer to the below table.

**Tucson Office Market Vacancy Summary**  
Second Quarter 2018

#	Submarket	# of Buildings	Total RBA	Share	Vacant Space	Vacancy Rate	Last Qtr.	% Chg.
1	Ajo/W Outlying Pima Cnty	9	104,583	0.4%	750	0.7%	0.7%	0.0%
2	Central Tucson	1,113	9,937,879	37.7%	1,141,940	11.5%	12.5%	-1.1%
3	Downtown Tucson	325	5,364,065	20.4%	149,305	2.8%	3.5%	-0.7%
5	East Tucson	130	1,261,816	4.8%	161,861	12.8%	12.6%	0.2%
6	Foothills	93	1,340,627	5.1%	88,076	6.6%	6.8%	-0.3%
7	Green Valley/South Tucson	48	359,077	1.4%	43,958	12.2%	15.2%	-2.9%
8	North Tucson, Oro Valley	330	3,607,715	13.7%	310,708	8.6%	8.3%	0.3%
9	Northwest Tucson	52	492,788	1.9%	44,411	9.0%	9.3%	-0.3%
10	Southeast Tucson	38	535,560	2.0%	25,946	4.8%	4.7%	0.2%
<b>11</b>	<b>Southwest Tucson</b>	<b>180</b>	<b>1,785,576</b>	<b>6.8%</b>	<b>75,510</b>	<b>4.2%</b>	<b>4.2%</b>	<b>0.0%</b>
12	West Tucson	225	1,551,779	5.9%	160,731	10.4%	12.4%	-2.1%
	<b>Total</b>	<b>2,543</b>	<b>26,341,465</b>	<b>100.0%</b>	<b>2,203,196</b>	<b>8.4%</b>	<b>9.0%</b>	<b>-0.7%</b>

*Note: Rate based on total physical space*

*Source: CoStar Group, Inc., Quarterly Tucson Office Market Report*

According to CoStar's 2<sup>nd</sup> Quarter 2018 Report, the overall vacancy rate of leasable office space for Tucson is 8.4 percent, while the Southwest Tucson Market, which includes the subject property, is 4.2 percent.

### Industrial

The neighborhood is ideally suited for industrial uses with I-19 providing access for goods to and from Mexico and I-10 allowing direct access to Phoenix and California to the west and Texas and the eastern seaboard to the east. In addition, the neighborhood is well served by the rail system and has proximity to the airport.

Industrial uses dominate the neighborhood, with nearly 30 percent of the total metropolitan inventory. Major business parks include Butterfield Business Park, Tucson International Business Center, Tucson Broadbent Business Center, and the larger business parks at Park and Ajo. Industrial uses west of Alvernon Way, in proximity to the Air Force Base, tend to be heavy industrial uses, ranging from lumber yards to heavy manufacturing uses, automotive recycling facilities, and the like.

The neighborhood and surrounding area has been the focus of major new development. This includes the Rockefeller Group's 2007 purchase of 20 acres of land in the Airport Commerce Center (due east of Tucson International Airport) for development of a 520,000-square foot distribution center. In late 2007, Summit Properties of Scottsdale broke ground on a 250,000-square foot expansion to the existing 140,000-square foot Hemisphere Corporate Center (multi-tenant office/industrial complex) in Tucson International Business Center near Valencia and Palo Verde Road.

Overall, the area is well established industrially and will benefit from the strong, on-going, upswing in industrial and associated development due to its proximity to transportation arterials, including freeway, rail, and air. The industrial identity of the area will also contribute to the anticipated growth of the area.

According to CoStar's 2<sup>nd</sup> Quarter 2018 Industrial Report, the overall vacancy rate of leasable office space for Tucson is 6.6 percent, while the Palo Verde Market, which includes the subject property, is 5.3 percent.

**Tucson Industrial Market Vacancy Summary**  
Second Quarter 2018

#	Submarket	# of Buildings	Total RBA	Share	Vacant Space	Vacancy Rate	Last Qtr.	% Chg.
1	Downtown Tucson	420	4,194,265	9.9%	69,000	1.6%	2.3%	-0.6%
2	E Outlying Pima Cty Ind	2	18,464	0.0%	-	0.0%	0.0%	N/App
3	Northeast Tucson	237	2,685,202	6.3%	264,543	9.9%	8.6%	1.3%
4	NW Tucson/Oro Valley	740	9,804,695	23.0%	276,379	2.8%	2.7%	0.1%
<b>5</b>	<b>Palo Verde</b>	<b>539</b>	<b>6,663,215</b>	<b>15.7%</b>	<b>353,614</b>	<b>5.3%</b>	<b>5.4%</b>	<b>-0.1%</b>
6	Park/Ajo	261	3,792,136	8.9%	311,344	8.2%	7.6%	0.6%
7	Pima/Green Valley	12	187,683	0.4%	1,200	0.6%	0.6%	0.0%
8	Southeast Tucson	96	5,855,459	13.8%	200,366	3.4%	3.9%	-0.5%
9	SW Tucson/Airport	256	9,336,158	21.9%	1,317,707	14.1%	14.7%	-0.6%
10	W Outlying Pima Cty Ind	3	13,892	0.0%	-	0.0%	0.0%	N/App
	<b>Total</b>	<b>2,566</b>	<b>42,551,169</b>	<b>100.0%</b>	<b>2,794,153</b>	<b>6.6%</b>	<b>6.6%</b>	<b>-0.1%</b>

*Note: Rate based on total physical space and does not include self-storage space  
Source: CoStar Group, Inc., Quarterly Tucson Industrial Market Report*

## Retail

The neighborhood includes several large retail developments including two new power centers that are located along the major arterials, Interstate 19, Irvington, Interstate 10 and Kino Parkway.

At the southwest corner of Interstate 19 and Irvington Road is the Tucson Spectrum, a 1,024,816 square foot Regional Shopping Center that is situated on 122.29 acres of land. Target, J.C. Penny, Home Depot, and Sports Authority have opened stores in this development and these stores are serving as anchor tenants for additional development by national retailers. There are numerous restaurants such as Red Lobster and The Olive Garden as well as the Tucson Spectrum 18 Harkins Theater.

Tucson Marketplace at The Bridges is a Regional Power Center and is located at the northwest corner of Interstate 10 and Kino Parkway. It is a 350 acre site which will be a mixed-use project which will include the proposed Arizona Biosciences Park which will be a 3 million square foot facility. Also proposed is an executive hotel, housing for graduate students and visiting scientists,

an innovative high school and a scientific skills training center. Seven hundred distinctive homes are proposed as well which will offer residents a location to live, work, and play closely together within the development. Currently, Costco and Walmart are serving as anchors with a variety of shops and pads available with a 1,000,000 square foot retail center. Cafes, restaurants, banks, and movie theaters will support the master-planned community as well.

The neighborhood also contains a number of neighborhood shopping centers along with VF Factory Outlet, a small discount center, at Palo Verde Road and I-10. Other commercial uses include numerous formal and fast food restaurants, gas stations, convenience stores, and the Tanque Verde Swap Meet.

Overall, the neighborhood is considered to be well served commercially. There are sufficient commercial facilities in the neighborhood to support the population.

**Tucson Retail Market Summary**  
Second Quarter 2018

#	Submarket	# of Buildings	Total GLA	Share	Vacant Space	Vacancy Rate	Last Qtr.	% Chg.
1	Central East	1,163	8,530,719	16.0%	544,504	6.4%	6.6%	-0.2%
2	Central West	763	7,023,305	13.2%	314,727	4.5%	4.1%	0.4%
3	Downtown Tucson	316	1,840,378	3.5%	102,364	5.6%	6.0%	-0.4%
4	E Outlying Pima Cnty Ret	1	4,720	0.0%	-	0.0%	0.0%	0.0%
5	East Tucson	776	9,856,924	18.5%	599,852	6.1%	5.6%	0.5%
6	Foothills	288	5,217,098	9.8%	198,209	3.8%	4.7%	-0.9%
7	North / Oro Valley	181	2,534,794	4.8%	149,654	5.9%	6.1%	-0.2%
8	Northeast Tucson	25	353,098	0.7%	33,439	9.5%	9.7%	-0.2%
9	Northwest Tucson	275	4,214,930	7.9%	202,690	4.8%	5.0%	-0.2%
<b>10</b>	<b>South Tucson</b>	<b>977</b>	<b>6,512,810</b>	<b>12.2%</b>	<b>341,539</b>	<b>5.2%</b>	<b>5.7%</b>	<b>-0.4%</b>
11	South / SW Outlying	140	1,782,685	3.3%	102,811	5.8%	5.9%	-0.2%
12	Southeast Tucson	122	1,609,815	3.0%	126,048	7.8%	7.7%	0.1%
13	Southwest Tucson	182	2,576,725	4.8%	178,309	6.9%	6.9%	0.0%
14	W Outlying Pima Cnty Ret	36	301,306	0.6%	27,829	9.2%	9.4%	-0.1%
15	West Tucson	133	867,405	1.6%	33,395	3.8%	4.0%	-0.1%
	<b>Total</b>	<b>5,378</b>	<b>53,226,712</b>	<b>100.0%</b>	<b>2,955,370</b>	<b>5.6%</b>	<b>5.6%</b>	<b>-0.1%</b>

*Note: Rate based on total physical space*

*Source: CoStar Group, Inc., Quarterly Tucson Retail Market Report*

Retail development in the neighborhood is well established with over 6.5 million square feet of inventory, about 12.2 percent of total metro inventory. Vacancy was reported as 5.2 percent, slightly lower than the previous quarter; and lower than the metro average of 5.6 percent.

**Government and Public Uses**

The neighborhood is within the jurisdiction of Pima County and the City of Tucson and is provided with county and some city services including police and fire protection, solid waste removal services, and public transit services. All utilities are available throughout the neighborhood, including water, sewer, natural gas, electric, and telecommunications.

## Summary

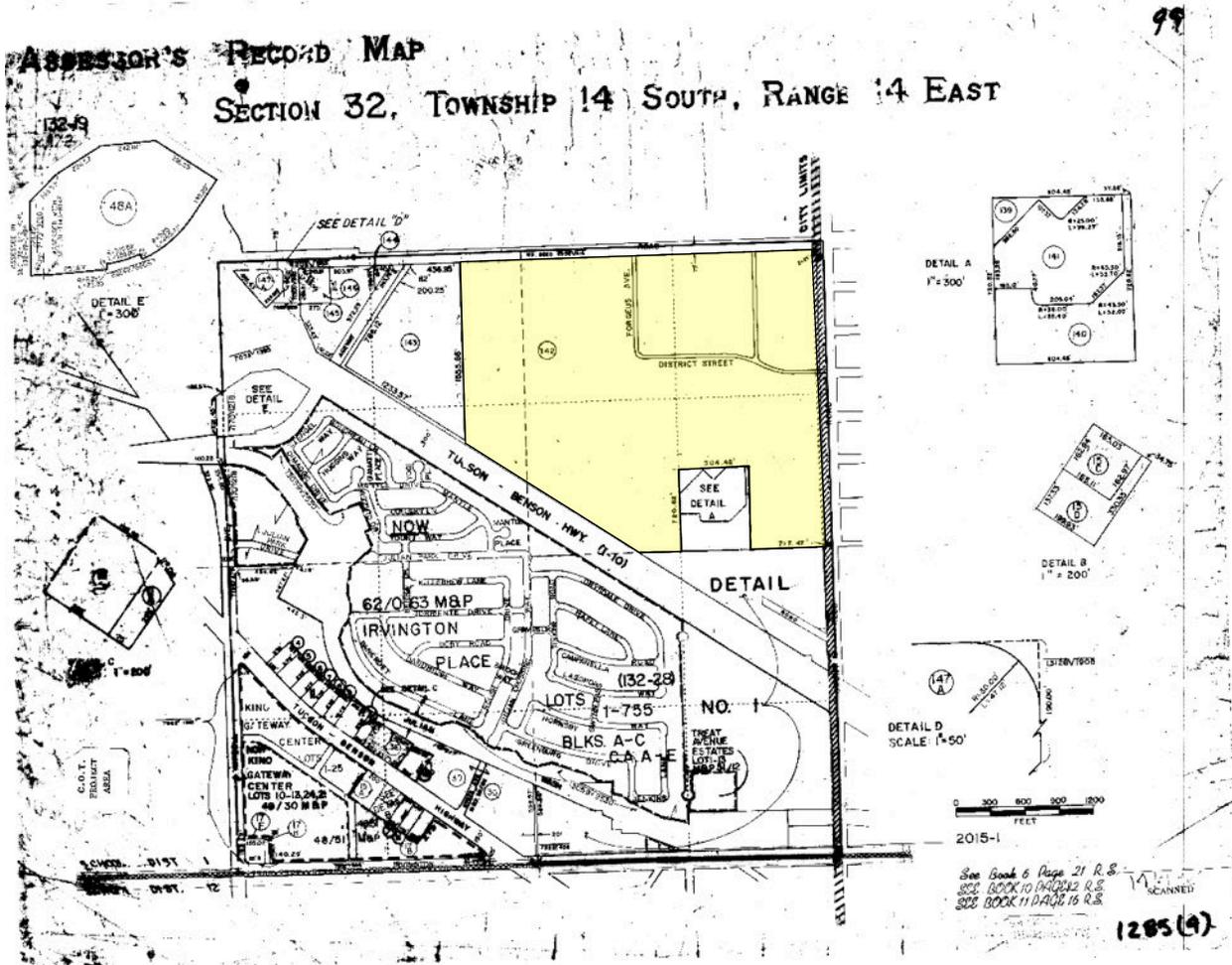
The neighborhood benefits from its proximity to major transportation systems including freeway, rail, and air, factors that are contributing to the current strong upswing in industrial and associated development in and surrounding the neighborhood. Major influences are the Tucson International Airport, Davis-Monthan Air Force Base, and the hotels and industrial facilities in the Airport area. Future industrial development is likely due to the existing industrial development, the availability of industrially zoned land, and the proximity to interstate, rail, and air transportation. The long term projections for the subject neighborhood indicate increased growth, especially in the industrial sector. The overall trends occurring in the neighborhood are considered to have a positive impact upon the subject property.

# PROPERTY DESCRIPTION

## Site Description

### LOCATION:

The subject property is located within the Herbert K. Abrams Public Health Building which is located along the west side of Country Club Road, south of Ajo Way. The physical address of the subject is 3950 S. Country Club Road, Suite 470, 4<sup>th</sup> floor, Tucson, Arizona 85714. The property is further identified by Pima County Assessor parcel number as 132-19-1420 (portion of).



### SIZE:

According to the Pima County Assessor's records, the larger parcel has a site area of 7,882,618 square feet or approximately 180.96 acres of land.

### CONFIGURATION:

The site is irregular in shape. Please refer to the Assessor's Record Map included above.

**DIMENSIONS:** According to the above Assessor's Record Map, the site has varying depths and widths.

**TOPOGRAPHY:** The site is generally level and at grade with its frontage roadway and surrounding properties.

**FRONTAGE/ACCESS** Frontage is along both Country Club Road and Bentley Avenue. Access is along Country Club Road, Bentley Avenue, President Street and District Street. Overall, considering its location and proximity to major routes of travel, the frontage and access for the property is considered to be good.

**VISIBILITY:** Visibility for the property is considered to be good.

**UTILITIES:** All utilities are in place to the subject including: electric power by Tucson Electric Power, water by City of Tucson, telecommunications available through CenturyLink and other providers, sewer by Pima County, and natural gas from Southwest Gas.

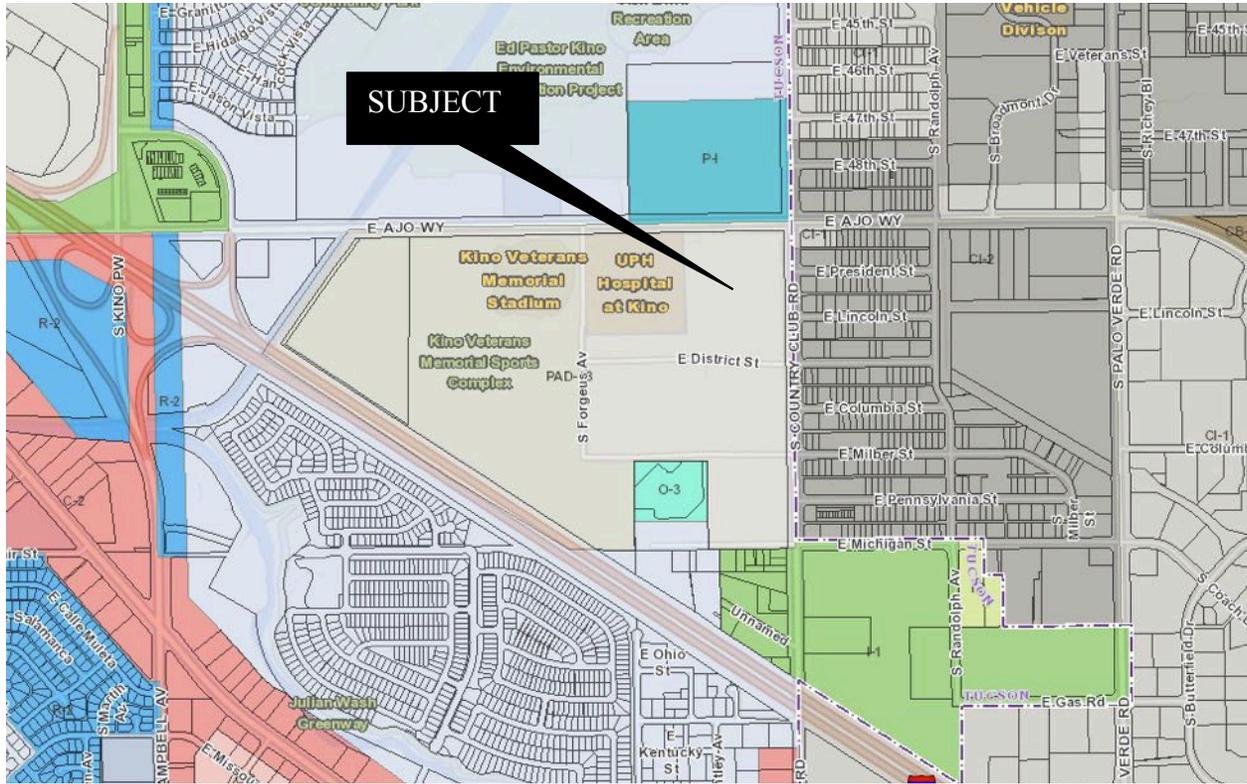
**EASEMENTS:** I was not provided with a title report for the subject property. Based on my physical inspection and a review of the subject's plat map, there do not appear to be any atypical easements that would adversely impact the utility of the subject site.

**ENVIRONMENTAL:** My inspection of the subject site did not indicate any potential environmental hazards that were readily observable. A Phase I environmental site survey was not available as of the writing of this report. It is a fundamental assumption of this appraisal report and the valuation conclusions contained herein that the subject property is not impacted by any environmental concern, which could affect the value or marketability of the property. If this remains an area of concern for the client, a Phase I Environmental site analysis of the site should be performed by qualified personnel.

**SOIL CONDITIONS:** As of the date of inspection, there did not appear to be any negative soil or subsoil conditions affecting the subject site. The actual soil conditions are unknown. It is assumed that the subject property is not impacted by any negative soil/subsoil issues.

**ZONING:** The subject larger site is zoned PAD-18 (Kino Health Campus), City of Tucson. The Kino Health Campus PAD is a medical and healthcare oriented educational, office, medical support, research and regional employment infill activity center with mixed-use character and adequate access to arterial roads. The primary

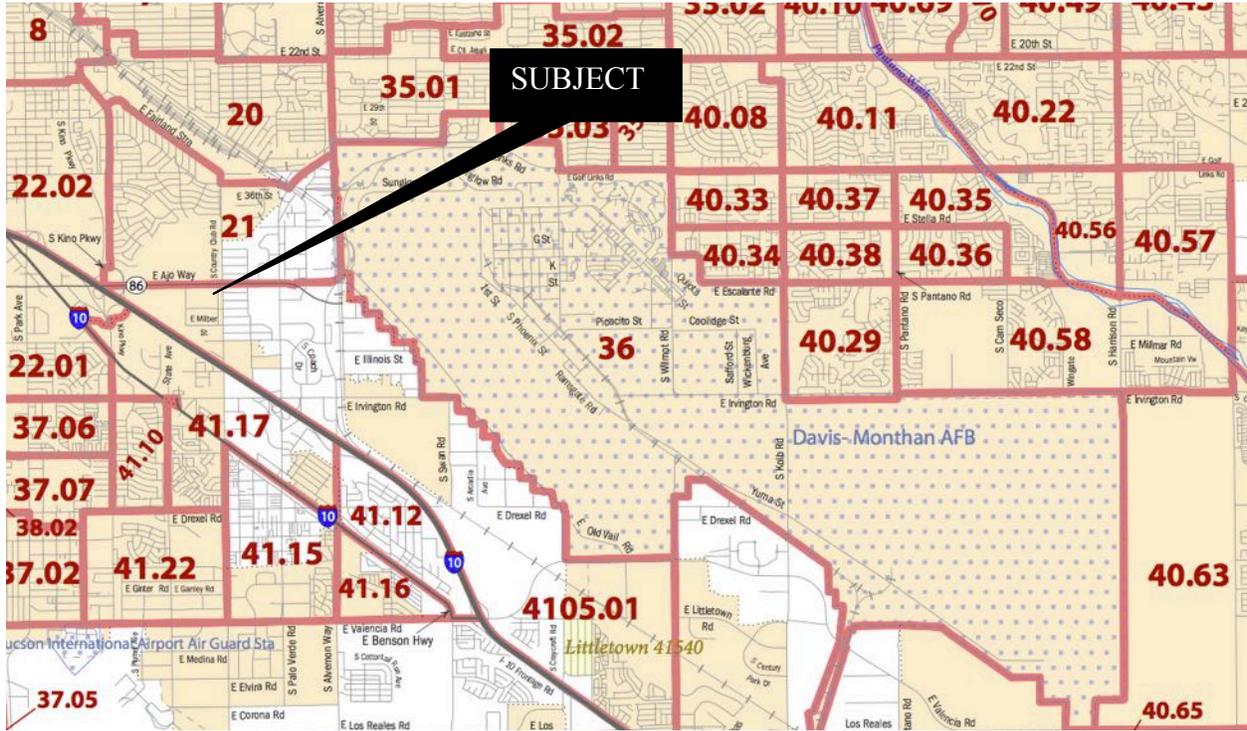
purpose of the PAD is to develop an academic research/healthcare campus that supports excellent, full service healthcare, and state of the art research and teaching programs.



\*PimaMaps 2018

CENSUS TRACT:

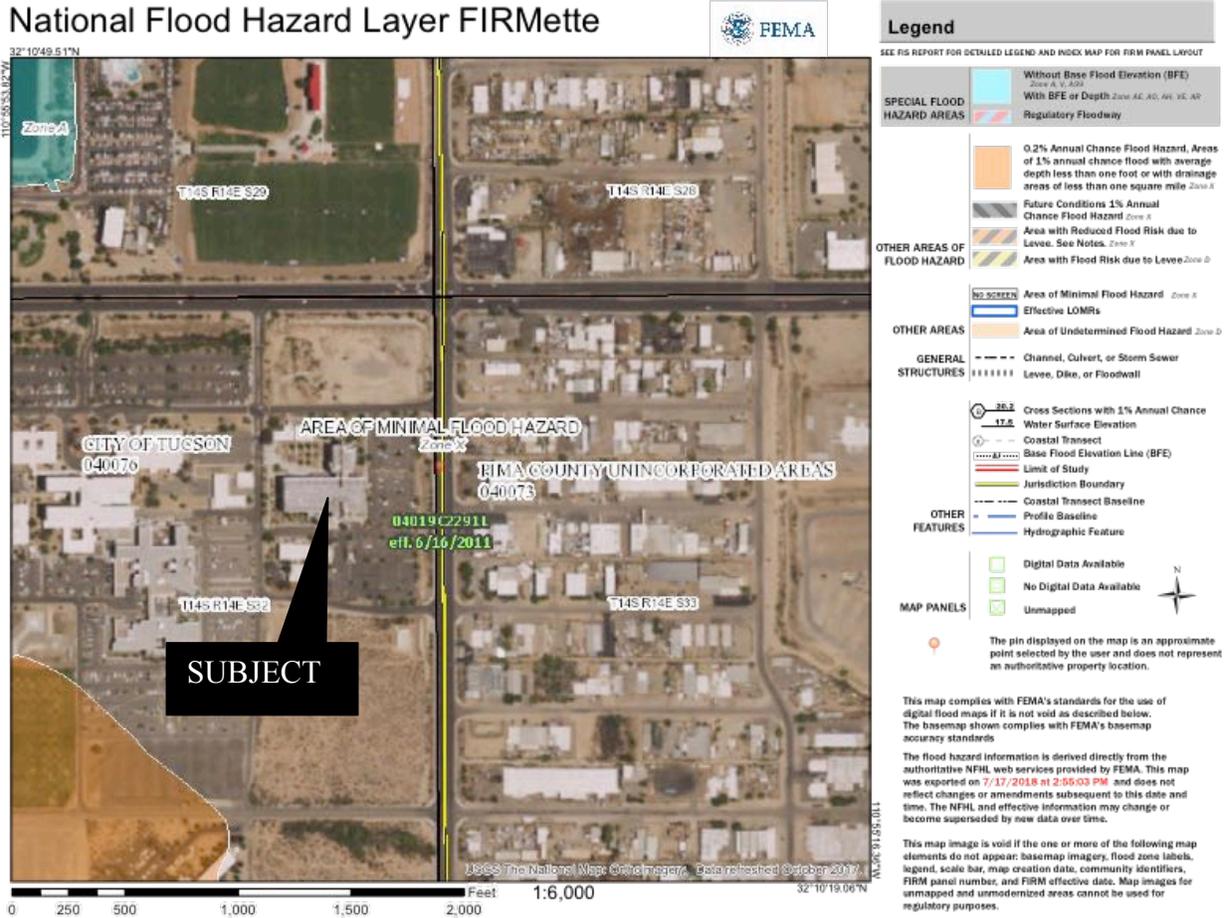
The subject site is located within Census Tract 4105.01.



\* U.S. Census Bureau 2010

**FLOOD CONDITION:**

The subject is depicted on Federal Emergency Management Agency, Flood Insurance Rate Map 04019C2291L, dated June 16, 2011. According to this map, the subject property is located in an area designated as Zone X. Zone X is within *Other Areas*: areas determined to be outside the 0.2% annual chance floodplain.



**SURROUNDING USES:**

**NORTH:**

To the north is a medical clinic followed by President Street a vacant dirt pad and then Ajo Way.

**EAST:**

To the east is Country Club Road.

**SOUTH:**

To the south is the Pima County Office of Medical Examiner followed by District Street.

**WEST:**

To the west is Bentley Avenue followed by Banner-University Medical Center.

**PROPERTY TAXES:**

According to the Pima County Assessor, the 2018 Limited Cash Value for the subject is \$54,133,035, and the 2018 Full Cash Value is \$78,462,280. The 2019 LCV is \$56,839,687 while the FCV is



\$104,839,670. Notably, the subject is only the 4<sup>th</sup> floor of this building and therefore the above values are not relevant.

APN	2018 LCV	2018 FCV	2019 LCV	2019 FCV	2017 Taxes
132-19-1420	\$54,133,035	\$78,462,280	\$56,839,687	\$104,839,670	\$0.00

**TAX STATUS:** The subject property is owned by Pima County and is not subject to real estate taxes.

**OTHER VALUE:** The subject property is not considered to have any scientific, recreational, cultural or historic value.

**SUMMARY:** Analysis of the subject site indicates that the property could be physically developed for a variety of uses. Legally the property is limited to those uses allowed under the PAD-18 (Kino Health Campus). The subject is not located within a flood hazard zone. All utilities are available to the site. The site is level and has average access and visibility.

## Description Of Improvements

The subject property is comprised of 45,885 net rentable square foot located on the entire 4<sup>th</sup> floor of the Herbert K. Abrams Public Health Building. The suite is currently in use as office and biological laboratories.



\*PimaMaps 2018

**TYPE:** Fourth floor office and laboratory space. The tenant occupies the entire fourth floor of the Abrams building.

**SIZE:** Based upon information obtained from the client and from the lease and its amendments, the subject has the following floor areas:

Offices, training and conference rooms	18,481 sq.ft.
Office expansion	<u>4,551</u> sq.ft.
Subtotal – office space	23,032 sq.ft.
Engineering space	3,594 sq.ft.
Laboratory and office space	15,096 sq.ft.
Shipping and engineering	<u>4,163</u> sq.ft.
<b>Total fourth floor</b>	<b><u>45,885</u> sq.ft.</b>

With regard to the 15,096 square feet of laboratory space, there is a limited amount of office space in this portion of the floor. Because the subject consists of the entire fourth floor the gross floor area and the rentable floor area are the same. A useable floor area calculation has not been provided.

**CONSTRUCTION:** The larger building is primarily of steel frame design. The building exterior includes either concrete block or poured concrete panels and aluminum framed tinted windows.

**ROOF IMPROVEMENTS:** The building roof is composition sheathing over steel panels and beams.

**INTERIOR - OFFICE:** The office finishes are what is commonly found in Class A office building design. Flooring varies and includes carpeting, laminate wood, and vinyl tile. Ceiling finishes primarily include a drop acoustic system with recessed fluorescent lighting. Decorative tract of halogen lighting is also provided. Interior wall partitions are mainly painted gypsum panels. Some rooms, such as the lobby and conference room, have glass panel walls. Doors are solid core hardwood. There is a kitchen and also an outdoor patio.

**INTERIOR – LABORATORY:** The laboratory area includes significant upgrades for electrical, mechanical, ventilation, compressed air, and plumbing. The interior is finished with drop grid ceilings and vinyl flooring.

**FIRE SPRINKLERS:** The entire fourth floor is provided with a wet fire safety system.

**RESTROOMS:** Adequate men’s and women’s restrooms are provided throughout the fourth floor. Restroom finishes are good in quality and include ceramic or marble tile flooring as well as extensive ceramic tile wainscoting.

**ELECTRICAL:** Electric service is assumed adequate and compliant with code.

**HVAC:** The building is serviced by roof-mounted HVAC units.

**ELEVATORS:** There are two elevator lobbies with 3 elevators at one location and 2 at the other elevator lobby.

**SITE IMPROVEMENTS:** The subject is part of the larger Abrams Public Health Center. There is surface parking provided in open lots around the building. Information provided by the client indicates that there are 623 parking spaces. This results in a parking ratio of about 4.4 per 1,000

square feet of building area. (The building area for the entire building is reported at 141,944 rentable square feet.)

**ADA COMPLIANCE:** The subject building was originally constructed in 2007, which is after the Americans with Disabilities Act being passed in 1990. Therefore, it is assumed that the property fully complies with all ADA requirements.

**SITE COVERAGE:** Not applicable

**ACTUAL AGE:** The larger building was originally constructed in 2007. The lease was originally executed in 2012 when a portion of the space was completed. Expansion resulted in new tenant improvement work through several lease amendments.

**EFFECTIVE AGE:** Based on the lease and amendment dates as well as the observed quality and condition of the improvements the interior tenant improvements are in very good condition and have been well maintained. The effective age of the tenant improvements is estimated at 3 years.

**TOTAL ECONOMIC LIFE:** A building of similar quality to the subject might have an anticipated economic life of from 50 to 55 years. This analysis is of the interior tenant improvements for the fourth floor as well as considering the age of the larger building. Based on the quality of the interior build out the economic life of the build out is estimated at 20 years.

**REMAINING ECONOMIC LIFE:** The larger building is estimated to have a remaining economic life of 50 years while the interior build out is estimated to have a remaining economic life of 17 years.

**CONDITION:** The quality and condition of the larger building as well as the subject interior tenant improvements are both good.

## SUBJECT PHOTOS

Top: View north along Country Club Road.  
Bottom: View of corner of President Street and Country Club Road.



## SUBJECT PHOTOS

Top: View south along Country Club Road, subject building and parking at right.  
Bottom: View of subject property's eastern elevation.



## SUBJECT PHOTOS

Top: View of subject property, 4<sup>th</sup> floor within Abrams Building.  
Bottom: Additional view of subject's southern elevation.



## SUBJECT PHOTOS

Top: Additional view of subject building (southern and western elevations) and parking areas.  
Bottom: Internal view of laboratory areas.



## SUBJECT PHOTOS

Top: Internal view of laboratory and storage areas.

Bottom: Internal view of laboratory areas.



## SUBJECT PHOTOS

Top: View of laboratory area.  
Bottom: View of laboratory area.



## SUBJECT PHOTOS

Top: View of laboratory area.  
Bottom: View of laboratory area.



## SUBJECT PHOTOS

Top: View of lunch room and office areas.  
Bottom: View of typical conference room.



## SUBJECT PHOTOS

Top: View of lobby.  
Bottom: View of typical corridor.



## SUBJECT PHOTOS

Top: View of kitchen/break room.  
Bottom: View of corridor and conference room.



## SUBJECT PHOTOS

Top: View of typical restroom.  
Bottom: View of typical outdoor patio.



## HIGHEST AND BEST USE

Highest and best use is the basic premise of value and, as such, reflects an appraiser's opinion based upon an analysis of prevailing market occurrences. Highest and Best Use is defined as:

The reasonably probable and legal use of vacant land or an improved property that is legally permissible, physically possible, appropriately supported, financially feasible, and that results in the highest value.<sup>1</sup>

This analysis is of the market rent for the property under a specific use, as office space with related laboratory improvements. As a result the purpose of the highest and best use analysis as applied here is to determine two factors: (1) whether there is adequate demand to lease the office component of the property; and (2) whether there is adequate demand to lease the laboratory space. The following several paragraphs first review ( briefly) legally and physically possible uses of the property. A more in-depth discussion is then provided relative to demand for both office space and for laboratory space.

### **Highest and Best Use, As Presently Improved**

#### *Legally Permissible*

The subject property is within a special zoning district which is intended to promote office, medical office, and related uses. The current utilization of the property with office space and related laboratory use is a legally allowed use.

#### *Physically Possible*

The subject consists of the 4<sup>th</sup> floor within the Abrams medical office building. The existing build out with both office and laboratory use is clearly physically possible.

#### *Financial Feasibility – General Office Use*

As part of this appraisal a detail rent study is provided later in the market rental rate analysis. In order to assess the overall market for office space the following detail history as obtained from Costar is provided for the period from 2009 through 2nd Quarter 2018. This information relates to office vacancy rates citywide and in the various submarkets for the period reviewed.

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<sup>1</sup> The Appraisal of Real Estate, 14<sup>th</sup> Edition

**Historic Office Vacancy Rate (All Types)**

	YE2009	YE2010	YE2011	YE2012	YE2013	YE2014	YE2015	YE2016	YE2017	1Q2018	2Q2018
Ajo/W Outlying Pima Cnty	N/App	0.7%	0.7%								
Central Tucson	11.8%	13.8%	12.6%	14.3%	15.3%	14.7%	15.4%	13.7%	12.7%	12.5%	11.5%
Downtown Tucson	7.1%	7.5%	9.2%	10.7%	10.6%	9.3%	7.3%	7.0%	4.0%	3.5%	2.8%
East Tucson	17.8%	15.3%	19.1%	18.3%	21.4%	23.0%	23.0%	18.8%	14.9%	12.6%	12.8%
Foothills	10.5%	12.3%	9.7%	8.6%	9.8%	14.4%	16.5%	7.9%	7.8%	6.8%	6.6%
Green Valley/South Tucson	5.2%	6.0%	5.1%	6.8%	11.8%	12.5%	13.2%	13.0%	12.5%	15.2%	12.2%
North Tucson/Oro Valley	14.3%	13.7%	13.1%	10.2%	9.9%	10.7%	11.4%	10.8%	10.3%	8.3%	8.6%
Northwest Tucson	32.5%	31.3%	28.5%	27.9%	23.3%	17.4%	17.6%	11.1%	8.9%	9.3%	9.0%
Southeast Tucson	13.4%	5.8%	7.9%	7.0%	9.5%	10.0%	11.0%	12.4%	5.6%	4.7%	4.8%
Southwest Tucson	5.4%	5.0%	5.5%	6.6%	8.4%	6.7%	5.8%	5.1%	4.3%	4.2%	4.2%
West Tucson	10.6%	14.1%	13.6%	8.9%	9.2%	7.8%	13.6%	10.9%	8.5%	12.4%	10.4%
Citywide	11.5%	12.2%	12.0%	12.2%	12.9%	12.6%	12.8%	11.0%	9.4%	9.0%	8.4%

*Note: Rate based on total physical space*

*Source: CoStar Group, Inc., Tucson Office Market Report*

Tucson’s office markets have been in a slow but steady recovery from overbuilding and, or, negative net absorption, in the prior recession. A peak vacancy rate of 12.9% occurred at year-end 2012. Since then vacancy rates have steadily recovered. The year-end 2017 vacancy rate was 9.4%. The 2<sup>nd</sup> Quarter 2018 vacancy rate declined to 8.4%. These vacancy rates are indicative of a market that is reaching stabilization. Given the subject’s good quality design and recent construction there more than likely would be office or medical office demand for the space.

*Financial Feasibility – Laboratory Use*

A significant component of the subject spaces consist of wet-laboratory space. This type of space may also be called bio-tech space. During the course of this rent study an effort was made to identify market statistics reports to quantify factors relative to inventory, absorption, vacancy, and rental rates for this property type. No such studies were identified for Tucson. This is more than likely due to the limited amount of this product currently available in the market. Presently, there are only two significant concentrations of laboratory or bio-tech space in the greater Tucson area. These are both in “tech parks” owned and operated by the University of Arizona. Commentary regarding both of these projects is provided below.

UofA Tech Park at Rita Ranch

This project was once a single tenant facility occupied by IBM. IBM is still one of the anchor tenants in this project. This massive complex has a total building area of 1.89 million square feet and occupies a 1,345 acre site in the southeast area of Tucson. Anchor tenants include IBM, Raytheon, Citi, and Optum. A representative of the UofA indicates that the current occupancy level for all space types in the project is about 95%. The same party indicates that there is a very small amount of speculative biotech space totaling about 50,000 square feet. There is only 2,030 square feet of biotech space available indicating an occupancy level of 96% for this component of the project as well. There are three biotech tenants: Ampcera, Capienda, and Reglagen. At least two of these tenants located into the project in 2017. However, lease details are confidential. Some of the anchor tenants may have biotech space as well but these spaces were added by the tenants and are not part of the speculative space.

Recent press releases indicate that an expansion of this project is planned. About 175 acres on the west side of the project will be developed with “The Village” . This expansion will include retail, commercial, residential, and hotel uses.

#### UofA Tech Park at The Bridges

The Bridges is a master planned residential and commercial project located in Central Tucson. The entire project covers 350 acres. The UofA Tech Park is a 65 acre component of The Bridges. The UofA representative indicates that there is currently no laboratory space in this project. A planned expansion is, however, in progress with ground breaking anticipated in early 2019. This expansion will include two “tech” buildings. The first will be a 120,000 square foot building to be at least partially occupied by the UofA. There may be some laboratory space in this building but this has not been determined at this time. The second building will be 180,000 square feet. This building is planned to house mostly laboratory space. Asking rents for this speculative space have not been established.

Returning to the broad discussion of biotech space in Tucson, there is presently a very limited supply of this type of space in the city. The goal of the UofA Tech Parks is to encourage and foster demand for this type of space. Presently, however, demand for this type of space is very limited. With the exception of the subject space (about 15,000 sq.ft.) and the reported 50,000 square feet within the Tech Park at Rita Ranch, there are no other similar spaces identified within the Tucson market place. Further, rental information for the few leases that have occurred is not available. Therefore, predicting demand for this space use is speculative. As a result, the market rental rate estimate for the subject which follows evaluates the entire fourth floor as office space with no attribution of added value to the laboratory space.

## MARKET RENT ANALYSIS

A market rent analysis is based on the principal of substitution, in that a potential tenant would not pay more for the subject space than they would for a space that is considered similar with respect to location, quality, and lease terms.

### Current and Historic Subject Rent

The following lease details are the same as provided earlier in the introduction of this report relative to the property history.

Lessee: Accelerate Diagnostic, Inc.

Premises: Entire Fourth Floor of 3950 S. Country Club, Suite 470  
Tucson, Arizona

Rentable Area: Lease Amendment 4 specifies a total useable area of, 45,885 sq. ft. This figure is relied upon for this analysis. The original lease space was 15,096 sq. ft. on the fourth floor. This was expanded via several options and lease amendments.

Date: August 20, 2012

Term: Originally three years from January 1, 2013 to January 12, 2016. Subsequent options have extended the term to an expiration date of January 12, 2019.

Options: Three 1-year options, each of which have been exercised. All extensions and options are co-terminus with the original lease which as noted above expires in January 12, 2019.

Rent: The original base rent was \$9.25 per square foot applied during the first lease term.

Rent Increases: The rent increased to \$19.80 per square foot which is the current rent and which applied during each of the three option periods. The lease Sixth Amendment appears to have modified the rent. In the Sixth Amendment rent for 4,163 square feet of the space is noted at \$17.63 per square feet. Rent for the balance of the space is as previously noted here, or \$19.80 per square feet.

Percentage Rent: None.

Expenses: The lease was originally modified gross with the tenant paying only janitorial costs. When the tenant expanded into the entire fourth floor the tenant became responsible for all utility costs.

- Repairs: Landlord.
- Janitorial: Tenant
- Utilities: Originally the landlord. The Fourth Amendment changed this with the tenant paying all utility costs.
- Taxes: The larger property is not taxed due to the ownership status. The tenant is responsible for any taxes related to trade equipment and related tenant improvements or leasehold improvements.
- Insurance: Landlord.
- Other: The landlord provided \$1,400,000 in a tenant improvement allowance at the start of the original lease.
- Amendment 1: Dated October 15, 2015. The tenant name was changed to the current name. The tenant expanded into another 4,332 square feet of space. The owner provided \$400,000 in tenant improvements. This was reimbursed by the tenant.
- Amendment 2: Dated April 15, 2014. Tenant expanded into another 7,757 square feet of space. Rent for 3,594 sq. ft. was at \$9.25 per square foot. Rent for 4,163 square feet was at \$17.63 per square foot. There were no tenant improvements provided by the owner. The tenant was granted a right of first refusal for an unspecified amount of expansion space.
- Amendment 3: Dated June 17, 2014. Minor rewording of lease details.
- Amendment 4: Dated December 16, 2014. Further expansion into another 18,481 square feet of space. The initial rent for this space was \$17.63 per square foot which changed going into the first extension. Tenant began paying utility costs at this time. There were no owner provided tenant improvements. The tenant paid for the installation of utility sub meters.
- Amendment 5: Dated January 13, 2015. Minor rewording of lease details.
- Amendment 6: Dated February 16, 2016. Tenant exercised first extension through February 12, 2017. Restated that tenant is to pay all utilities. Rent for 41,722 square feet set at \$19.80 per square foot. Rent for 4,163 square feet set at \$17.63 per square foot.
- Amendment 7: Dated December 31, 2016. Tenant exercised second extension through January 12, 2018.

Amendment 8: Dated October 3, 2017. Tenant exercised third extension through January 12, 2019.

### **Market Rent Analysis**

In order to identify comparable rentals several sources were reviewed. These included reviewing rental comparables as published by Costar; reviewing rental listings as obtained from LoopNet; reviewing the appraiser's research files; and reviewing an appraisal of another space within the Abrams project as provided by the client. Due to the size of the subject space there is a limited amount of recent data available that could also be confirmed with a party to the lease. As a result the data reviewed here includes leases covering an approximately 3-year time period from 2015 through the effective date of this analysis. Unless otherwise noted in the data sheets, the lease data reviewed here was confirmed with a party to the lease. Further, each comparable was field reviewed for purposes of this analysis.

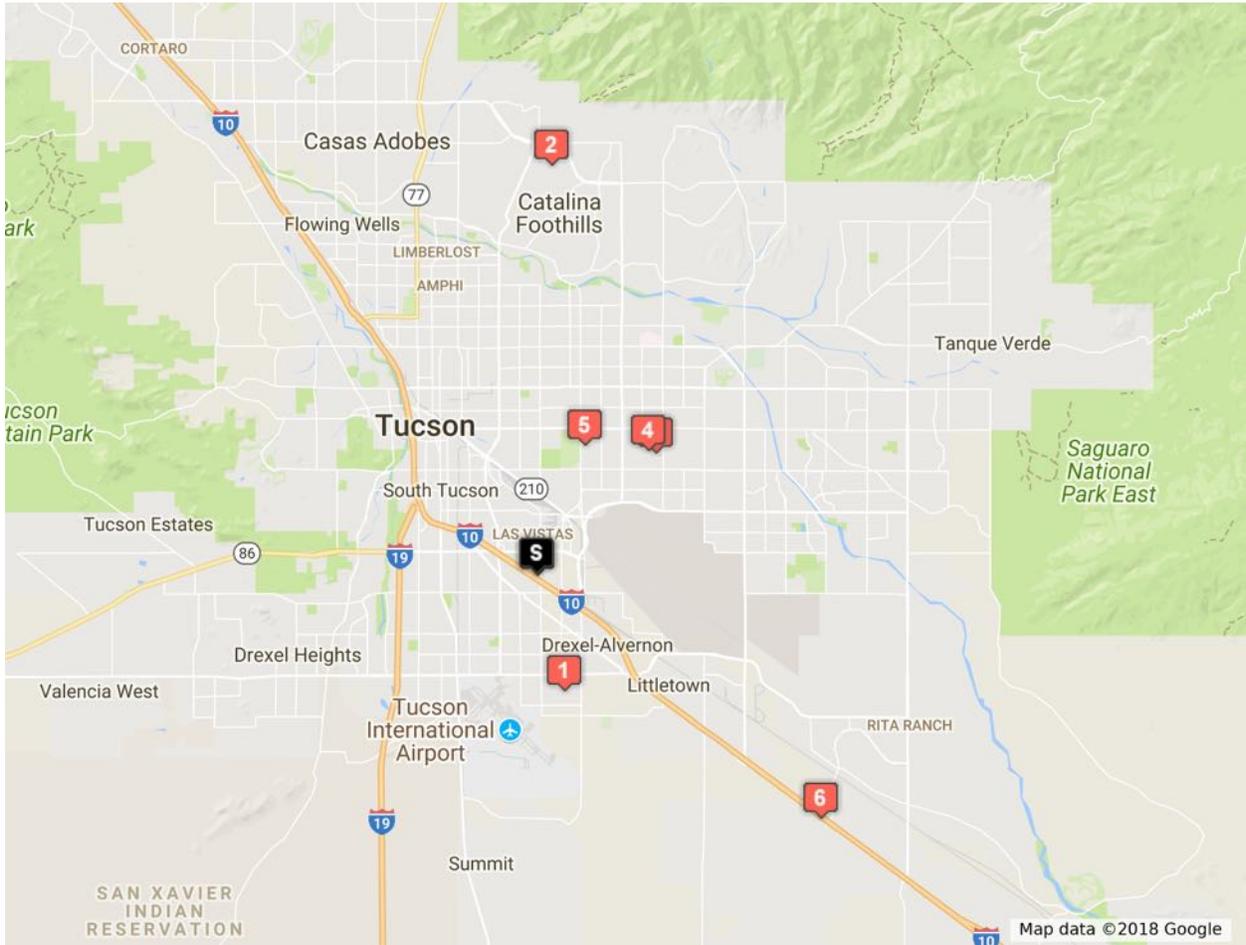
In reviewing the market rental data, please note that due to the subject space size a significant number of the rental comparables reviewed involve single tenant buildings or larger spaces as well. In the Tucson area these rentals are primarily negotiated on a triple-net NNN basis with the tenant responsible for all property operating costs. Therefore, the rental comparables are analyzed here on a NNN basis. Under such a lease the tenant pays all operating costs but the landlord is responsible for management and administration costs.

The following exhibit summarizes the rental comparables. A market data map follows the summary exhibit. Data sheets for each rental comparable are then provided..

**Comparable Rentals**

Data No.	Tenant/Location	Year Built	Lease Date	Lease Size SF	Lease Term - Years	Rent/ SF/Yr.	Lease Increase	Lease Basis	Free Rent & Tis
1	Coventry Health Group 3535 E. Valencia Road	2001	Jul-15	100,273	10 years	\$ 15.19	3.0%	NNN	None \$ -
2	Sunquest Information Systems 3300 E. Sunrise Drive	1992	Dec-15	82,942	11 years	\$ 18.50	2.2%	NNN	Yes \$ 20.00
3	ADP 5451 E. Williams Boulevard	2001	Mar-16	49,543	8 years 2 5-year options	\$ 15.75	2.5%	NNN	Nt. Av. Nt. Av.
4	HBM Prencia 5210 E. Williams Circle	1987	Jan-18	13,405	5 years	\$ 28.00 (Approx. - Slightly Less)	3.0%	FSG	Negotiable \$ 10.00
5	Stewart Title & Trust 3939 E. Broadway	1985	May-18	9,850	5 years	\$ 25.00	2.5%	FSG	None \$ 12.00
6	UofA Tech Park 9016 - 9070 S. Rita Road	1980	Current Listing	13,157 to 38,620	Negot.	\$ 21.00	Negot.	FSG	None Negot.

# COMPARABLE RENTALS MAP



**OFFICE LEASE NO. 1**



Address: 3535 W. Valencia Road, Tucson

<b>Project Data</b>		<b>Lease Data</b>	
Building Area:	100,273 sq. ft.	Tenant:	Coventry Health Group
Class:	B	Date:	July 2015
Floors:	2	Area Leased:	100,273 sq. ft.
Year Built:	2001	Term:	10-years with no options
Occupancy:	Single Tenant	Rate per sq. ft.:	\$15.19
Parking:	Surface, adequate	Expenses:	NNN
Elevators:	Yes	Increases:	3% per year
Expenses:	NNN	Free Rent:	None
		Tenant	Existing – full build out at time of lease
		Improv.:	

Verification: Press releases, landlord SEC 10K report, confidential local source

Comments: This is a freestanding single tenant corporate headquarters. The building is near the Airport and has a very similar location. The rent quoted is triple-net but is adjusted here to reflect the subject's favorable tax treatment with ownership by a non-profit entity. The adjustment applied is \$2.30 per sq. ft. and where appropriate the same adjustment is applied to any other rental comparables. The size is larger with an upward adjustment applied. All other physical characteristics are similar.

**OFFICE LEASE NO. 2**



Address: 3300 E. Sunrise Drive, Tucson

<b>Project Data</b>		<b>Lease Data</b>	
Building Area:	82,942 sq. ft.	Tenant:	Sunquest Information Systems
Class:	A	Date:	December 2015
Floors:	2	Area Leased:	82,942 sq. ft.
Year Built:	1992	Term:	11 years
Occupancy:	Single tenant	Rate per sq. ft.:	\$18.50
Parking:	Surface, adequate	Expenses:	NNN
Elevators:	Yes	Increases:	2.2%
Expenses:	NNN	Free Rent:	Yes, amount not available
		Tenant	\$20.00
		Improv.:	

Verification: Andy Seleznov, Larsen Baker, 520-296-0200

Comments: This is a Class A single tenant office building with a very superior location in the Foothills area of the city of Tucson. An upward adjustment is applied for the subject's tax structure. The size is much larger with an upward adjustment applied. Otherwise this rental is similar to the subject.

**OFFICE LEASE NO. 3**



Address: 5451 E. Williams Boulevard, Tucson

<b>Project Data</b>		<b>Lease Data</b>	
Building Area:	49,543 sq. ft.	Tenant:	ADP
Class:	B	Date:	March 2016
Floors:	2	Area Leased:	49,543 sq. ft.
Year Built:	2001	Term:	8 years with 2 5-year options
Occupancy:	Single tenant	Rate per sq. ft.:	\$15.75
Parking:	Surface, adequate	Expenses:	NNN
Elevators:	Yes	Increases:	2.5%
Expenses:	NNN	Free Rent:	Not available
		Tenant	Not available
		Improv.:	

Verification: Press releases, listing materials, Dylan Brown, CBRE, 602-735-1714

Comments: This is a single tenant building that is located in the Williams Center area. This area has a concentration of Class A and B office complexes and the location is superior warranting a downward adjustment. An adjustment is also applied for the subject's favorable tax status. Otherwise, this lease is rated as very similar.

**OFFICE LEASE NO. 4**



Address: 5210 E. Williams Circle, Tucson

<b>Project Data</b>		<b>Lease Data</b>	
Building Area:	166,182 sq. ft.	Tenant:	HBM Prencia
Class:	A	Date:	January 2018
Floors:	9	Area Leased:	13,405 sq. ft.
Year Built:	1987	Term:	5 years
Occupancy:	84%	Rate per sq. ft.:	Slightly less than \$28.00
Parking:	Structure, adequate	Expenses:	FSG
Elevators:	Yes	Increases:	3%
Expenses:	FSG	Free Rent:	Negotiable
		Tenant	\$10.00 per sq. ft. is the standard tenant
		Improv.:	improvement allow.

Verification: Peter Casey, Colton Company, 520-790-3900

Comments: This is space in one of the better high-rise towers in Tucson. This property is also in the Williams Center area with a downward adjustment for location applied. A downward adjustment of \$10.00 per sq. ft. is applied to reflect the full service gross lease status with the landlord paying all operating costs. This is offset by the favorable tax status at the subject property. A downward adjustment is applied for the much smaller size. A downward adjustment is also applied for the Class A design.

**OFFICE LEASE NO. 5**



Address: 3939 E. Broadway, Tucson

<b>Project Data</b>		<b>Lease Data</b>	
Building Area:	9,850 sq. ft.	Tenant:	Stewart Title
Class:	B-	Date:	May 2018
Floors:	2	Area Leased:	9,850 sq. ft.
Year Built:	1985	Term:	5 years
Occupancy:	Single tenant	Rate per sq. ft.:	\$25.00
Parking:	Adequate, surface	Expenses:	FSG
Elevators:	Not available	Increases:	2.5%
Expenses:	FSG	Free Rent:	None
		Tenant	\$12.00
		Improv.:	

Verification: Dean Cotlow, Cotlow Company, 520-881-8160

Comments: This is a single tenant building that is older than the subject and in inferior condition. Upward adjustments are applied for these two items. Similar to Rental No. 4 a \$10.00 per sq. ft. downward adjustment is applied for the expense treatment. This is offset by the subject's beneficial tax status. The size is much smaller with a downward adjustment applied.

**OFFICE LEASE NO. 6**



Address: 9016 – 9070 S. Rita Road, Tucson

Project Data		Lease Data	
Building Area:	1.89 million sq. ft.	Tenant:	Confidential
Class:	B	Date:	Asking rent
Floors:	2 & 3	Area Leased:	Availabilities range from 13,157 to 38,620 sf
Year Built:	1980	Term:	Negotiable
Occupancy:	95%	Rate per sq.ft.:	\$21.00 asking rent
Parking:	Adequate, surface	Expenses:	FSG
Elevators:	Yes	Increases:	Negotiable
Expenses:	FSG	Free Rent:	Negotiable
		Tenant	Negotiable
		Improv.:	

Verification: Review of listing brochures, confidential local sources

Comments: This is a former single tenant office and research and development project that has been converted to multi-tenant use. Anchor tenants in the project include CITI, IBM, Raytheon, and Optum. There is reported to be laboratory space in this project. A downward adjustment is applied for expenses with the partially offsetting adjustment for the subject’s tax status. Due to the outlying location an upward adjustment is applied. Upward adjustments are also applied for age and condition.

## Comparable Rental Analysis

The following table provides the adjustments discussed in the individual data sheets. As noted earlier in this section of the report, all rentals are analyzed on a NNN basis.

**Rent Comparable Adjustment Grid**

No.	Transactional Adjustments					Physical Adjustments					
	Unadjusted Rent/SF	Expense Treatment	Adjusted Rent	Market Conditions	Adjusted Rent/SF	Size	Location	Age/Condition	Quality	Net Adj.	Indicated Rent/SF
1	\$15.00	\$2.30	\$17.30	0%	\$17.30	5%	0%	0%	0%	5%	\$18.17
2	\$18.50	\$2.30	\$20.80	0%	\$20.80	5%	-25%	0%	0%	-20%	\$16.64
3	\$15.75	\$2.30	\$18.05	0%	\$18.05	0%	-15%	0%	0%	-15%	\$15.34
4	\$28.00	(\$7.70)	\$20.30	0%	\$20.30	-10%	-15%	0%	-5%	-30%	\$14.21
5	\$25.00	(\$7.70)	\$17.30	0%	\$17.30	-15%	0%	5%	5%	-5%	\$16.44
6	\$21.00	(\$7.70)	\$13.30	0%	\$13.30	0%	5%	5%	5%	15%	\$15.30

## Supplemental Rent Comparable

Prior to providing the rental rate conclusion for the subject, one supplemental rental comparable is reviewed here. Based on information provided by the client ASHline. UofA, leased 5,252 square feet of space in the subject building on the 3<sup>rd</sup> Floor in July 2015. The rental rate at that time was \$11.84 per square foot, on a NNN equivalent basis. This lease is not emphasized due to size and date of lease. Moreover, although this lease rate is reported to have been based on an appraised market rent, the rental rate seems low relative to the other data reviewed.

## Market Rent Conclusion

The adjusted comparable rentals provide a fairly consistent range of rental rate indications of from \$14.21 to \$18.17 per square foot, NNN. Rental No. 1 (\$18.17 per sq. ft. – adjusted) is given secondary emphasis.. This is because this is a sale leaseback. The remaining five comparables provide an adjusted range of rental rate indications of from \$14.21 to \$16.64 per sq. ft., NNN. The subject has fairly recent build out of Class A quality space and this might tend to indicate a rent toward the high-end of this range. However, two factors offset this comment. First, the subject has a secondary location. Second, the subject lease is for a full floor and therefore the tenant is paying for common areas that might not normally be included in a rentable area. As a result the concluded market rent is toward the low-end of the adjusted range, or at **\$14.50 per sq. ft., NNN.**

## Increases

The comparable rentals reviewed here, as well as other lease data retained in the appraiser's research files, indicates that annual rental rate increases are common in this market. Rental rate

increases might range from 2% to 3% per year. The concluded annual increase factor here is **2.5%**.

## **Term**

Leases for space of this size usually range from 5 to 10 years. Due to the large space size many of these leases are up-to 10 years in duration. The concluded lease term for the subject is **10 Years**.

## **Concessions and Tenant Improvements**

In noting the tenant improvement allowance conclusions, please note that tenant improvements of this nature are negotiable and therefore the tenant improvement conclusions are quoted within a range here. There are two components to the subject space. These include general office space as well as laboratory space. As noted in the highest and best use discussion, no additional or different rent is assigned to the laboratory space and the concluded market rent here for the subject property is for the entire floor as office space. For spaces with existing office build out tenant improvement allowances are minimal. In the case of the subject property it is also noted that the office build out is in good condition and has been recently completed. In this instance tenant improvements might range from nothing to up-to \$10.00 per sq. ft.

According to information provided by the client the original space lease was for 15,096 square feet which was listed as “labs and offices”. Because there is limited demand for this space, it might be anticipated that in a market rental rate scenario, without assuming that the subject tenant renews (value in use), a significant tenant improvement allowance would be needed to return this space to more typical office build out. Three examples are noted below.

- 6261 N. La Cholla – this was a December 2015 lease of 14,801 sq. ft. within a medical office building. This is a Class A building. The owner provided a \$50.00 per sq. ft. tenant improvement allowance.
- 10130 N. Oracle Road – this was shell office space of 2,200 sf. It was rented in March 2016 to a small laboratory space user. The owner provided a build out from shell allowance of \$50 psf. The tenant completed any work beyond an office build out allowance.
- 6296 E. Grant Road – this was a medical space lease that was part of a general retail and office space project. The tenant leased 6,240 sq. ft. of space in December 2013. The owner provided a \$65.00 per sq. ft. tenant improvement allowance.

Based on this data, a potential tenant improvement allowance for the subject laboratory space is estimated at from **\$40.00 to \$50.00 per sq. ft.**

## **Options**

For large space leases similar to the subject space it is common to negotiate options which are beneficial to the tenant. In the case of the subject property 2 5-year options are considered appropriate.

**Final Conclusions – Summarized**

The following table summarizes the previously noted market conclusions for leasing of the subject space.

<b>LEASE RATE .....</b>	<b>\$14.50 PSF</b>
<b>EXPENSE STRUCTURE.....</b>	<b>NNN</b>
<b>INCREASES.....</b>	<b>2.5% PER YEAR</b>
<b>TERM.....</b>	<b>10 YEARS</b>
<b>CONCESSIONS/TI's – OFFICE SPACE.....</b>	<b>\$0 TO \$10 PSF</b>
<b>CONCESSIONS/TI's – LABORATORY SPACE .....</b>	<b>\$40 to \$50 PSF</b>
<b>OPTIONS .....</b>	<b>2 x 5-YEAR</b>

## APPRAISERS' CERTIFICATION

I HEREBY WARRANT AND CERTIFY THAT, TO THE BEST OF MY KNOWLEDGE AND BELIEF:

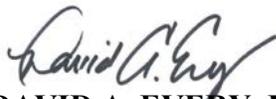
- The statements of fact contained in this appraisal report, which are used as the basis of our analyses, opinions, and conclusions, are true and correct. We have no responsibility for legal matters, questions of survey, opinion of title, soil or subsoil conditions, engineering, or other technical matters. Any sketches prepared by us and contained in this report are included solely to aid the user of the report in visualizing the property and its location, and are not necessarily to scale.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or contemplated future interest in the real estate that is the subject of this appraisal report and, further, I have no personal interest or bias with respect to the subject matter of this appraisal report or the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. Specifically, the assignment was not based on a minimum value, a specific value, or approval of a loan.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have made a personal inspection of the property that is the subject of this report.
- Credit should be given to Robert Rickman, who provided significant real property appraisal assistance to the person signing this certification in the form of researching and confirming rent comps and drafting portions of this report. The value conclusions drawn, however, are my own. In addition, I certify that I have the knowledge, experience, and the geographic competency to complete this appraisal assignment and have appraised this property type before.

## **APPRAISERS' CERTIFICATION (CONTINUED):**

- The reported analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, David A. Every, MAI, AI-GRS, has completed the continuing education requirements of the Appraisal Institute.
- *Every Appraisal Service* and the appraiser signing this report have never been sued by a regulatory agency or financial institution for fraud or negligence involving appraisal services.

Each finding, prediction, assumption, or conclusion contained in this report is my personal opinion and is not an assurance that an event will or will not occur. I assume that there are no conditions that are not apparent relating to the real estate, subsoil conditions, or structures located on the real estate which would affect my analyses, opinions, or conclusions with respect to the real estate.

The data gathered in this appraisal process (except data furnished by the client) and the appraisal report itself remain our property. With respect to data provided by the client, we shall not violate the confidential nature of the appraiser-client relationship by improperly disclosing any confidential information furnished to us. We are, however, authorized by the client to disclose all or any portion of this appraisal report and the related appraisal data to appropriate representatives of the Appraisal Institute, if such disclosure is required, to enable us to comply with the bylaws and regulations of said Institute now or hereafter in effect. This appraisal report shall not be quoted or referred to in any report or financial statement of the client or in any documents filed with any governmental agency without our prior written consent.



**DAVID A. EVERY, MAI, AI-GRS**

Owner - Every Appraisal Service  
State of Arizona Certified General  
Real Estate Appraiser #31343

# QUALIFICATIONS OF DAVID A. EVERY, MAI, AI-GRS

State of Arizona Certified General Real Estate Appraiser, Certificate #31343

## EMPLOYMENT HISTORY

2010 - Present	Every Appraisal Service, Owner, Tucson, Arizona
2004 - 2010	AXIA Real Estate Appraisers (previously known as KB Real Estate Appraisers), as Commercial Real Estate Appraiser and Valuation Analyst, Tucson, Arizona
1999 - 2004	Andrew J. Briefer Real Estate Advisory Services, Inc. dba KB Real Estate Advisors, as Consultant and Valuation Analyst, Tucson, Arizona
1989 - 1999	Mesa Airlines, Inc. dba America West Express, as Phoenix Station Manager, Phoenix, Arizona

## PROFESSIONAL EDUCATION

- 2018 • 2018-2019 Uniform Standards of Professional Appraisal Practice 7 hour update, Appraisal Institute, Tucson, Arizona
- 2017 • Uniform Appraisal Standards for Federal Land Acquisitions: Practical Applications, Appraisal Institute, Tucson, Arizona
  - Review Theory - General, Appraisal Institute, San Diego, California
- 2016 • Residential & Commercial Valuation of Solar, Appraisal Institute, Tucson, Arizona
- 2015 • Advanced Concepts & Case Studies, Appraisal Institute, Nashville, Tennessee
- 2014 • Advanced Income Capitalization, Appraisal Institute, San Diego, California
- 2012 • Appraising the Appraisal: Appraisal Review, Appraisal Institute, Tucson, Arizona
  - General Appraiser Report Writing and Case Studies, Appraisal Institute, San Diego, California
- 2011 • Business Practices and Ethics, Appraisal Institute Course OL-420X, Online
- 2009 • Supervising Beginning Appraisers, Arizona School of Real Estate and Business, Scottsdale Arizona
- 2008 • Condemnation Appraising: Basic Principals and Applications, Appraisal Institute Course 710, Tucson, Arizona
  - Condemnation Appraising: Advanced Topics and Applications, Appraisal Institute Course 720, Tucson, Arizona
- 2007 • Highest and Best Use and Market Analysis, Appraisal Institute Course 520, Boise, Idaho
- 2005 • Real Property Valuation Course 104 – Part I by the Arizona School of Real Estate and Business, Scottsdale Arizona
- 2004 • Real Property Valuation Course 103 by the Arizona School of Real Estate and Business, Scottsdale Arizona
  - Real Property Valuation Course 104 – Part II by the Arizona School of Real Estate and Business, Scottsdale Arizona
- 1999 • Real Property Valuation Courses 101 & 102 by the Arizona School of Real Estate and Business, Scottsdale Arizona

## **Qualifications of David A. Every, MAI, AI-GRS (continued)**

### **DESIGNATIONS, MEMBERSHIPS, LICENSES AND CERTIFICATIONS**

MAI - Designated Member of the Appraisal Institute, January 2017

AI-GRS – Designated Member of the Appraisal Institute, November 2017

Certified General Real Estate Appraiser, State of Arizona, Certificate #31343

### **SEMINARS/WORKSHOPS/CLASSES**

- 2018 • CCIM 2018 Annual Real Estate Forecast
- 2017 • CCIM 2017 Annual Real Estate Forecast
- 2013 • Pima County Real Estate Research Council 2013 Real Estate Forecast
- 2010 • International Right-of-way Association Federal Agency Update, Las Vegas, Nevada
- 2009 • International Right-of-way Association Federal Agency Update, Las Vegas, Nevada
- 2008 • Eminent Domain Conference – ABA No. 0407-628
- 2007 • Pima County Real Estate Research Council 2007 Real Estate Forecast
- 2006 • “A Frank Discussion about Eminent Domain “ – ABA No. 0906-576
- 2005 • Pima County Real Estate Research Council 2005 Real Estate Forecast
- 2000 • Real Estate Appraisal Review Workshop by the Federal Highway Administration, Phoenix Arizona

### **APPRAISAL EXPERIENCE/SCOPE OF PRACTICE**

- Clientele includes private individuals, corporate organizations, financial institutions, and governmental agencies.
- Appraisal assignments include industrial properties, vacant and improved land, large and small residential income properties, office and retail buildings, hotel and motel properties, as well as numerous special use properties.
- Experience in preparation of reports for conventional lending, SBA, litigation work, eminent domain work, consultations and appraisal reviews.
- Appraisal assignments have been completed in Pima, Maricopa, Cochise, Santa Cruz, Yavapai, Yuma, La Paz, Coconino, Navajo, Mohave and Pinal Counties within the state of Arizona; Luna, Dona Ana and Grant Counties within the state of New Mexico; and San Bernardino County within the state of California.

## **ADDENDA**

- 1) Engagement Letter
- 2) Assumptions and Limitations
- 3) Appraisers' Certificates

**ENGAGEMENT LETTER**





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Tucson, Arizona 85710  
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July 16, 2018

Mr. Jeffrey Teplitsky  
Appraisal Supervisor  
201 North Stone Avenue, Sixth Floor  
Tucson, Arizona 85701

VIA EMAIL: Jeffrey.Teplitsky@pima.gov

**RE: Proposal for two appraisal reports addressing the market lease rate of: 1) 45,000 square feet within the "Abrams Building" located at 3950 S Country Club; and, 2) the 6,207 square foot Annex Building located at 2980 E Ajo Way, Tucson, Pima County, Arizona.**

Dear Mr. Teplitsky:

In accordance with your request, I am submitting a proposal for an appraisal assignment addressing the current market value of the above referenced property. The assignment is intended to comply with the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Foundation. The assignment will be completed based on the following criteria:

<i>CLIENT:</i>	<i>Pima County Real Property Services</i>
<i>PURPOSE:</i>	<i>To develop an opinion of the current market lease rate for the subject properties.</i>
<i>INTENDED USE:</i>	<i>Potential lease negotiations by Pima County.</i>
<i>INTENDED USERS OF THE ASSIGNMENT:</i>	<i>Pima County, Pima County RPS, and/or designated users</i>
<i>INTEREST ANALYZED:</i>	<i>Leased Fee</i>
<i>FORMAT OF REPORT:</i>	<i>2 Narrative Appraisals</i>
<i>EFFECTIVE DATE OF ASSIGNMENT:</i>	<i>Current</i>
<i>SCOPE:</i>	<i>Research and analyze applicable market data as it pertains to the current market lease rate for the subject properties.</i>

Based on the above noted criteria, the total fee for this assignment is \$3,500. The assignment will be completed within 30 days, provided all available necessary information is provided in a timely manner.

The client agrees that the appraiser shall not be required to testify or be in attendance at any court, administrative proceeding or court-oriented conferences relating to this assignment without additional compensation unless prior arrangement has been set forth by the Appraiser and Client. The fee for deposition, preparation, and court testimony is \$150 per hour plus any related travel/lodging expenses.

In the event that it should be necessary to employ an attorney or agency to collect any delinquent funds under this assignment, you will be responsible for the following; the initial amount of the invoice which will be doubled, all finance charges and all reasonable costs of collection, plus attorney's fees.

If these terms are acceptable, you may authorize us to begin this assignment by signing and returning the enclosed copy of this letter.

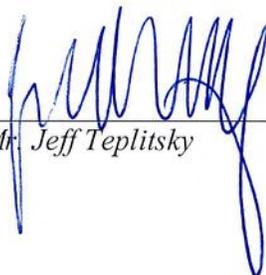
I look forward to being of service to you. If you have any questions or require additional information, please call.

Respectfully submitted,



David A. Every, MAI, AI-GRS  
Owner - Every Appraisal Service  
Certified General Appraiser  
AZ Certificate #31343

ACCEPTED AND APPROVED:

By:   
Mr. Jeff Teplitsky

  
Date

## **ASSUMPTIONS AND LIMITATIONS**

## STANDARD ASSUMPTIONS AND LIMITATIONS OF THIS APPRAISAL

This appraisal is for no purpose other than property valuation, and the appraisers are neither qualified nor attempting to go beyond that narrow scope. The reader should be aware that there are also inherent limitations to the accuracy of the information and analysis contained in this appraisal. Before making any decision based on the information and analysis contained in this report, it is critically important to read this entire section to understand these limitations.

### **This appraisal is not a survey.**

It is assumed that the utilization of the land and improvements is within the boundaries of the property lines of the property described and that there is no encroachment or trespass unless otherwise noted.

No survey of the property has been made by the appraiser and no responsibility is assumed in connection with such matters. Any maps, plats or drawings reproduced and included in this report are intended only for the purpose of showing spatial relationships. The reliability of the information contained on any such map or drawing is assumed by the appraiser and cannot be guaranteed to be correct. A surveyor should be consulted if there is any concern regarding boundaries, setbacks, encroachments or other survey matters.

### **This appraisal is not a legal opinion.**

No responsibility is assumed for matters of a legal nature that affect title to the property nor is an opinion of title rendered. The title is assumed to be good and marketable. The value opinion is given without regard to any questions of title, boundaries, encumbrances or encroachments. We are not usually provided an abstract of the property being appraised and, in any event, we neither made a detailed examination of it nor do we give any legal opinion concerning it.

It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report. A comprehensive examination of laws and regulations affecting the subject property was not performed for this appraisal.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined and considered in the appraisal report. Information and analysis shown in this report concerning these items is based only on a rudimentary investigation. Any significant question should be addressed to local zoning or land use officials and/or an attorney.

It is assumed that all required licenses, consents or other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value opinion contained in this report is based. Appropriate government officials and/or an attorney should be consulted if an interested party has any questions or concerns on these items since we have not made a comprehensive examination of laws and regulations affecting the subject property.

### **This appraisal is not an engineering or property inspection report.**

This appraisal should not be considered a report on the physical items that are a part of this property. Although the appraisal may contain information about the physical items being appraised (including their adequacy and/or condition), it should be clearly understood that this information is only to be used as a general guide for property valuation and not as a complete or detailed physical report. The appraisers are not construction, engineering, environmental or legal experts, and any statement given on these matters in this report should be considered preliminary in nature.



For properties in which the conditions of foundations, roofs, exterior walls, interior walls, floors, heating systems, plumbing, insulation, electrical service and all mechanical and construction items are described, these descriptions are based on a casual inspection only and no detailed inspection was made. For instance, we are not experts on heating systems and no attempt was made to inspect the interior of a given property's furnace. Structures are not checked for building code violations, and it is assumed that all buildings meet applicable building codes unless so stated in the report.

Some items, such as conditions behind walls, above ceilings, behind locked doors or under the ground, are not exposed to casual view and, therefore, are typically not inspected. The existence of insulation, if any is mentioned, was found by conversation with others and/or circumstantial evidence. Since it is not normally exposed to view, the accuracy of any statements about insulation cannot be guaranteed.

It is assumed that there are no hidden or unapparent conditions of the property, sub-soil or structures that would render it more or less valuable. No responsibility is assumed for such conditions or for the engineering that may be required to discover such factors. Since no engineering or percolation tests were made, no liability is assumed for soil conditions. Sub-surface rights (mineral and oil) were not considered in making this appraisal unless specifically noted.

Unless stated otherwise in the report, wells and septic systems, if any, are assumed to be in good working condition and of sufficient size and capacity for the stated highest and best use of the property.

We are not environmental experts, and we do not have the expertise necessary to determine the existence of environmental hazards such as the presence of urea-formaldehyde foam insulation, toxic waste, asbestos or hazardous building materials, or any other environmental hazards on the subject or surrounding properties. If we know of any problems of this nature that we believe would create a significant problem, they are disclosed in this report. However, nondisclosure should not be taken as an indication that such a problem does not exist. An expert in the field should be consulted if any interested party has questions on environmental factors.

No chemical or scientific tests were performed by the appraiser on the subject property, and it is assumed that the air, water, ground and general environment associated with the property present no physical or health hazard of any kind unless otherwise noted in the report. It is further assumed that the subject site does not contain any type of dump site and that there are no underground tanks (or any underground source) leaking toxic or hazardous chemicals into the groundwater or the environment unless otherwise noted in the report.

The age of any improvements to the subject property mentioned in this report should be considered a rough estimate. We are not sufficiently skilled in the construction trades to be able to reliably estimate the age of improvements by observation. We therefore rely on circumstantial evidence that may come into our possession (such as dates on architectural plans) or conversations with those who might be somewhat familiar with the history of the property such as property owners, on-site personnel or others. Parties interested in knowing the exact age of improvements on the land should contact us to ascertain the source of our data and then make a decision as to whether they wish to pursue additional investigation.

Because no detailed construction, engineering, environmental or legal inspection was made and because such knowledge goes beyond the scope of this appraisal, any observed condition or other comments given in this appraisal report should not be taken as a guarantee that a problem does not exist. Specifically, no guarantee is made as to the adequacy or condition of a given property's foundation, roof, exterior walls, interior walls, floors, heating system, air conditioning system, plumbing, electrical service, insulation or any other detailed construction matters. If any interested party is concerned about the existence, condition or adequacy of any particular item, we would strongly suggest that a construction expert be hired for a detailed investigation.

**This appraisal is made under conditions of uncertainty with limited data.**

As can be seen from limitations presented above, the appraisal is based on an analysis of many sources of data. Every attempt has been made to confirm the data as reliable and factual, however, there are a number of limitations with respect to data including: a lack of certain areas of expertise beyond real estate appraisal methodology and techniques; the inability of the appraiser to view certain portions of the property; and the inherent limitations of relying upon information provided by others such as: income and expense data; comparable sales data; and engineering analyses.

This appraisal is an opinion of value based on an analysis of information known to us at the time the appraisal was made. All values and conclusions shown in the appraisal report are premised upon our analysis as of the date of the appraisal. These values may not be valid in other time periods or as conditions change. We take no responsibility for events, conditions or circumstances affecting the property's market value that take place subsequent to either the date of value contained in this report or the date of our field inspection, whichever occurs first.

Opinions and estimates expressed herein represent our best judgment but should not be construed as advice or recommendation to act. Before relying on any statement made in this appraisal report, interested parties should contact us for the exact extent of our data collection on any point that they believe to be important to their decision making. This will enable such interested parties to determine whether they believe the extent of our data gathering process was adequate for their needs.

**Appraisal report limitations**

Appraisal reports are technical documents addressed to the specific technical needs of clients. Casual readers should understand that this report does not contain all of the information we have concerning the subject property or the real estate market. While no factors we believe to be significant but unknown to the client have been knowingly withheld, it is always possible that we have information of significance that may be important to others but which, with our limited acquaintance with the property and in light of the limitations of our expertise (as outlined in this document), does not seem to be important to us.

Appraisal reports are technical documents, with their reporting formats guided by both the Uniform Standards of Appraisal Practice and specific technical requirements of a given client. Casual readers are cautioned about their limitations and are warned against possible misinterpretation of the information contained in these reports.

The liability of Every Appraisal Service, its employees and/or agents is limited only to the Client who paid the fee. Furthermore, there is no accountability, obligation or liability to any third party. The appraiser(s) should be contacted with any questions before this report is relied on for decision making.

This appraisal was prepared at the request of and for the exclusive use of the client to whom the appraisal is addressed. No third party shall have any right to use or rely upon this appraisal for any purpose, unless specifically identified as an additional intended user of the report.

There are no requirements, by reason of this appraisal, to give testimony or appear in court or any pretrial conference or appearance required by subpoena with reference to the property in question, unless sufficient notice is given to allow adequate preparation and additional fees are paid by the client at our regular rates for such appearances and the preparation necessitated thereby.

This report is made for the information and/or guidance of the client and possession of this report, or a copy thereof, does not carry with it a right of publication. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media without the written consent and approval of the appraiser. Nor shall the appraiser, firm or professional organization of which the appraiser is a member be identified without the written consent of the appraiser.



It is suggested that those who possess this appraisal report should not give copies to others. Certainly, legal advice should be obtained on potential liability issues before this is done. Anyone who gives out an incomplete or altered copy of the appraisal report (including all attachments) does so at their own risk and assumes complete liability for any harm caused by giving out an incomplete or altered copy. Neither the appraiser nor this company assumes any liability for harm caused by reliance upon an incomplete or altered copy of the appraisal report given out by others. Anyone with a question on whether their copy of an appraisal report is incomplete or altered should contact our office.

Values and conclusions for various components of the subject property as contained within this report are valid only when making a summation; they are not to be used independently for any purpose and must be considered invalid if so used. The allocation of the total value in this report between land and improvements (if applicable) applies only under the reported highest and best use of the property. The separate valuations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

In the case of limited partnerships, syndication offerings or stock offerings in real estate, the Client agrees that in case of a lawsuit (brought by lender, partner or part owner in any form of ownership, tenant or any other party), the Client and all parties will completely hold harmless this firm, its employees and/or agents.

#### **Americans with Disabilities Act (ADA)**

The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in valuing the property.

#### **Arizona-specific considerations**

Special consideration must be given to properties located in Arizona with respect to seismicity/subsidence. Seismic activity in Arizona is rare but does occasionally occur. A more common geotechnical manifestation has been the development of subsidence cones caused by pumping of groundwater. A geologist should be consulted if there is any concern regarding these matters.

Due to the historic nature of the American Southwest, properties within Arizona may be impacted by the presence of archaeological features, such as Native American remains or artifacts (specifically the ancient Hohokam and Anasazi settlements). The presence of such features may require mitigation on the part of the property owner or developer and could involve significant costs or time delays. It is an assumption of this report that no such archeological issues impact the subject property, unless otherwise noted in the appraisal report. Should a competent archeologist specifically identify significant archeology and quantify the cost of data recovery, we reserve the right to alter the valuation opinion contained in this report.

**APPRAISERS' CERTIFICATE**



# Department of Financial Institutions State of Arizona

CGA - 31343

**DAVID A. EVERY**

has complied with the provisions of

This document is evidence that:

Arizona Revised Statutes, relating to the establishment and operation of a:

**Certified General Real Estate Appraiser**

and that the Superintendent of Financial Institutions of the State of Arizona has granted this license to transact the business of a:

**Certified General Real Estate Appraiser**

**DAVID A. EVERY**

This license is subject to the laws of Arizona and will remain in full force and effect until surrendered, revoked or suspended as provided by law.

Signed in the Superintendent's office at 2910 North 44<sup>th</sup> Street, Suite 310,  
in the City of Phoenix, State of Arizona, this 1st day of June, 2017.

Robert D. Charlton  
Superintendent

Expiration Date : **June 30, 2019**



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APPRAISAL REPORT  
FOR MARKET RENT

OF

EASTERN PORTION OF THE ABRAMS PUBLIC HEALTH  
CENTER ANNEX BUILDING

LOCATED AT  
2980 E. AJO WAY  
TUCSON, ARIZONA 85714

PREPARED FOR  
MR. JEFFREY TEPLITSKY  
APPRAISAL SUPERVISOR  
PIMA COUNTY PUBLIC WORKS REAL PROPERTY SERVICES

BY

DAVID A. EVERY, MAI, AI-GRS

OWNERSHIP: PIMA COUNTY  
TAX CODE NO.: 132-19-1420 (PORTION OF)  
TOWNSHIP 14 SOUTH, RANGE 14 EAST, SECTION 32

EFFECTIVE DATE OF THE APPRAISAL: JULY 18, 2018  
DATE OF THE REPORT: AUGUST 20, 2018  
OUR FILE NO. 7557-1802



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August 20, 2018

Our File No. 7557-1802

Mr. Jeffrey Teplitsky  
Pima County Public Works Real Property Services  
Appraisal Supervisor  
201 N. Stone Avenue, Sixth Floor  
Tucson, Arizona 85701-1215

**RE: Appraisal report addressing the market lease rate of the property known as the Eastern Portion of the Abrams Public Health Center Annex (Accelerate Diagnostics, Inc.), 2980 E. Ajo Way, APN 132-19-1420 (portion of), Tucson, Pima County, Arizona, 85714.**

In accordance with your request, I have appraised the property described above. This document is written in conformance with the Uniform Standards of Professional Appraisal Practice as issued by the Appraisal Foundation (USPAP), Rule 2-2a, specifically pertaining to Appraisal reports; and the appraisal standards and guidelines of Pima County Public Works Real Property Services.

The *effective date of the appraisal* is July 18, 2018, the most recent date of inspection of the subject property. The ownership and identification of this property are set forth in the following report.

The *purpose* of this valuation is to develop an opinion of the current market lease rate for the subject property. The *intended use* of this report is to serve as the basis for potential lease negotiations by Pima County.

Pima County Public Works Real Property Services is the *client*. The *intended users* of this report are Pima County, its designees and the subject tenant. Besides the intended users and appropriate regulatory agencies, parties other than those specified above may not use or rely upon this report. Every Appraisal Service and the appraisers signing this report assume no responsibility to any party, other than the client and the stated *intended users*, who uses or relies on any information in this report.

The *Scope of Work* for this report includes completing an appraisal inspection of the subject, analyzing the local market for trends that impact real estate values, and searching the local market for comparable data. The subject property is comprised of the eastern portion of the Annex Building to the Abrams Public Health Center. According to the lease the subject has 6,207 square feet of usable floor area. Additional details on scope of work are contained in the body of the report.

The client has requested an analysis of the current market lease rate for the subject property. Based on the data and discussions within this report, my opinion of the current market lease rate of the subject property, as of July 18, 2018, is as follows.

**LEASE RATE .....\$8.50 PSF**  
**EXPENSE STRUCTURE.....NNN**  
**INCREASES.....2.5% PER YEAR**  
**TERM..... 5 YEARS**  
**CONCESSIONS/TI'S – OFFICE SPACE.....\$0 PSF**  
**OPTIONS .....NONE**

The current subject lease terms are on a modified gross basis. The conclusion here is on a triple-net basis with the tenant paying all property operating costs. This conclusion is consistent with the market rental data reviewed later in the rental analysis.

I hereby certify that I have inspected the subject; that my fee was not contingent upon the value opinion contained herein; and that I have no interest, present or prospective, in the property appraised. Furthermore, I certify that, to the best of my knowledge and belief, all statements, and opinions contained in this report are correct, subject to the assumptions, conditions, special limiting conditions, and certification that are made as part of this report.

Respectfully submitted,



**DAVID A. EVERY, MAI, AI-GRS**

Owner - Every Appraisal Service  
State of Arizona Certified General  
Real Estate Appraiser #31343

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## EXECUTIVE SUMMARY

- PURPOSE/INTENDED USE: The *purpose* of this valuation is to develop an opinion of the current market lease rate for the subject property. The *intended use* of this report is for potential lease negotiations by Pima County.
- CLIENT/INTENDED USERS: Pima County Public Works Real Property Services is the *client*. The *intended users* of this report are Pima County, its designees and the subject tenant. Besides the intended users and appropriate regulatory agencies, parties other than those specified above may not use or rely upon this report. Every Appraisal Service and the appraisers signing this report assume no responsibility to any party, other than the client and the stated *intended users*, who uses or relies on any information in this report.
- EFFECTIVE DATE OF THE APPRAISAL: July 18, 2018, the most recent date of inspection.
- INTERESTS TO BE APPRAISED: Leased Fee
- PROPERTY HISTORY/ OWNERSHIP: According to Pima County records, title to the larger property of which the subject is a part is vested in the name of Pima County. There have been no market transactions involving the larger property in the previous 10 years.
- The subject is part of the Annex Building to the Abrams Public Health Center. The subject space is currently encumbered by a lease. Details of the current lease are summarized in the following report.
- PROPERTY IDENTIFICATION: The subject occupies the eastern portion of the Annex Building to the Abrams Public Health Center located at 2980 E. Ajo Way, Tucson, Pima County, Arizona 85714. According to the lease there is 6,207 square feet of usable space. The property is further identified by Pima County Assessor parcel number 132-19-1420 (portion of).
- CURRENT ZONING: PAD-18 (Kino Health Campus), City of Tucson.

HIGHEST AND  
BEST USE:

The highest and best use of the subject is “flex” industrial use similar to the current utilization.

VALUATION  
METHODOLOGY:

In order to develop an opinion of the current market rent for the subject, recent leases have been collected and analyzed. Based on the data and discussions within this report, my opinion of the current market lease rate of the subject property, as of July 18, 2018, is as follows.

**LEASE RATE .....\$8.50 PSF**  
**EXPENSE STRUCTURE..... NNN**  
**INCREASES.....2.5% PER YEAR**  
**TERM..... 5 YEARS**  
**CONCESSIONS/TI's .....NONE**  
**OPTIONS .....NONE**

## INTRODUCTION

This document is written in conformance with the Uniform Standards of Professional Appraisal Practice as issued by the Appraisal Foundation (USPAP), Rule 2-2a, specifically pertaining to Appraisal reports. As such, it presents only summary discussions of the data, reasoning, and analyses that were utilized by the appraiser to develop an opinion of value. The level of detail and discussion presented in this report is specific to the needs of the intended user and for the intended use, as stated. Additional details and supporting documentation is retained in the appraisers files.

### Property Identification

The subject occupies the eastern portion of the Annex Building to the Abrams Public Health Center located at 2980 E. Ajo Way, Tucson, Pima County, Arizona 85714. According to the lease there is 6,207 square feet of usable space. The property is further identified by Pima County Assessor parcel number 132-19-1420 (portion of).

### Legal Description

The legal description of the subject property follows (these are abbreviated descriptions abstracted from public records):

*PTN N2 OF SEC 32 LYG ADJ TO & NELY OF I-10  
180.96 AC SEC 32-14-14*

### Purpose, Intended Use, Intended User

The *purpose* of this valuation is to develop an opinion of the current market lease rate for the subject property. The *intended use* of this report is for potential lease negotiations for Pima County. Pima County Public Works Real Property Services is the *client*. The *intended users* of this report are Pima County, its designees and the subject tenant.

### Interest Appraised

The client has requested an analysis of the current market lease rate for the subject property.

### Effective Date of the Appraisal

The *effective date of the appraisal* is July 18, 2018, the date of the most recent inspection of the subject property. On this date, the physical characteristics of the subject property were documented and photographed.

## Extraordinary Assumptions & Hypothetical Conditions

None.

## Market Value Definition

According to the 6<sup>th</sup> Edition of The Dictionary of Real Estate Appraisal, as published by the Appraisal Institute, **Market Rent** is defined as: The most probable rent that a property should bring in a competitive and open market reflecting the conditions and restrictions of a specified lease agreement, including the rental adjustment and revaluation, permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs).

## Property History/Ownership and Lease Summary

According to Pima County records, title to the larger property of which the subject is a part is vested in the name of Pima County. There have been no market transactions involving the larger property in the previous 10 years. The following summarizes important lease details. This information is based on review of the original lease as well as upon review of the First Amendment to the lease.

Lessee:	Accelerate Diagnostics, Inc.
Premises:	The Eastern Portion of the Annex to the Abrams Public Health Center 2980 E. Ajo Way, Tucson, Arizona
Rentable Area:	The lease indicates a <i>usable</i> building area of 6,207 square feet. This includes 3,827 square feet of existing space and 2,380 square feet of new space. The new space was constructed by the tenant without landlord tenant improvements.
Date:	July 7, 2015.
Term:	Two years commencing November 19, 2015 and terminating November 18, 2017.
Options:	One 1-year option which has been exercised. The option ends on November 18, 2018.
Rent:	Existing space - \$9.24 per square feet, modified gross. New space - \$5.00 per square feet, modified gross.
Rent Increases:	The rent was flat during the initial term and no increase is specified for the 1-year option to extend.
Percentage Rent:	None.

Expenses: The lease is on a modified gross basis with the following expenses paid either by the landlord or tenant as noted.

Repairs: Landlord.

Janitorial: Tenant

Utilities: The tenant reimburses the landlord for water and electrical costs.

Taxes: The larger property is not taxed due to the ownership status. The tenant is responsible for any taxes related to trade equipment and related tenant improvements or leasehold improvements.

Insurance: Landlord.

Other: There were no tenant improvements provided for either the original lease or the extension.

Amendment 1: This is the official acceptance of the 1-year extension exercised by the tenant. There were no other lease modifications.

### **Scope of the Work**

Scope of Work is an integral part of the appraisal process and identifies the type and extent of research and analyses for an appraisal assignment. According to *USPAP*, for each appraisal assignment, an appraiser must:

1. identify the problem to be solved;
2. determine and perform the scope of work necessary to develop credible assignment results; and,
3. disclose the scope of work in the report.

This document is written in conformance with the Uniform Standards of Professional Appraisal Practice as issued by the Appraisal Foundation (*USPAP*), Rule 2-2a, specifically pertaining to Appraisal Reports. As such, it presents only summary discussions of the data, reasoning, and analyses that were utilized by the appraiser to develop an opinion of value. The level of detail and discussion presented in this report is specific to the needs of the intended user and for the intended use, as stated. Additional details and supporting documentation are retained in the appraisers files.

David A. Every, MAI, AI-GRS inspected the subject property, as well as the immediate neighborhood, on July 18, 2018. Comparable data has been researched, verified, and analyzed from reliable sources, with the appraiser's analyses, opinions, and conclusions reported in this Appraisal report.

In order to evaluate the subject property, relevant general and property specific data has been gathered and analyzed. General data includes information on social, economic, governmental, and environmental trends and conditions affecting the subject property. Each of these items has an impact on property value and the study of these forces enables the appraiser to identify the underlying causes of change in property values and what future market expectations might be. The geographic extent of our search for general market information included the larger Tucson metropolitan area. Sources of general market information included government publications, census data, local newspapers, and other public and private organizations. Real estate oriented market information was abstracted from econometrics publications specific to the Tucson market.

Property specific information includes data about the subject site, development plan, tax information, and zoning classifications. Information was obtained from the City of Tucson, the Pima County Assessor's office, the current owner of the subject property, and from the client. A typical inspection of the property was also performed by the appraiser. Market information is obtained through conversations with brokers, appraisers, property managers, purchasers and owners active locally, as well as commercial data providers.

Highest and best use analysis was undertaken and established the foundation for the valuation process. This analysis considered the physically possible, legally permissible and financially feasible uses of the property and ultimately led to conclusions of a use or class that was considered to be optimal, or most productive, for the subject property.

As discussed, I have been requested to analyze the current market lease rate for the subject property. As such, recent comparable leases have been gathered and analyzed. This methodology is sufficient to develop credible assignment results.

## AREA OVERVIEW

The purpose of this section of the report is to identify and analyze the social, economic, governmental, and environmental forces that can influence property values in the vicinity of the subject. The primary area of influence is the neighborhood, defined as a group of complimentary land uses; a residential neighborhood may contain residential uses along with ancillary commercial uses that provide services for the residents. A district, on the other hand, has one predominate land use such as apartments, commercial, industrial, or agricultural.

### ARIZONA

Arizona is in the southwestern area of the United States within the Sunbelt Region and ranks sixth in the nation in terms of size with 113,417 square miles. The state can be divided into three geographical areas, each with its own distinct topography and climate. The northeastern portion of the state is a high plateau, which tends to be cool and dry. Most of this area is within the boundaries of the Navajo Nation, the largest Native American reservation in the United States. The mountainous region, extending diagonally across the state from northwest to southeast, offers cool summertime temperatures and winter sports opportunities, attracting visitors to this area year round. The remaining half of the state, south and west of the mountainous region, consists of desert valleys divided by low desert mountain ranges and is home to most of the state's population; about 80 percent of the state population resides in the Tucson and Phoenix metropolitan areas.

Between 1980 and 1990, Arizona was the third fastest growing state, with a population increase of almost 35 percent. According to the 2000 census, approximately 5,130,000 people resided in the State, up from 3,665,000 in 1990, reflecting an increase of about 40 percent, or a 4.0 percent annual rate. The latest 2010 census information shows the Arizona population at about 6,392,017, an increase of about 24.6% over the 2000 number or an average of 2.5% per annum. Arizona's projected growth is about 200,000 per year through 2030.

The state also ranked third in job growth for the same period with a gain of 47 percent, twice the national average. Employment is fairly diversified with professional and business services accounting for 14 percent of total non-farm employment, followed by government with 13 percent, retail with 12 percent, health care with 10 percent, construction with 8 percent, and manufacturing with 6 percent. During 2008, job growth in the State and in Tucson was greatly reduced, with a rise in unemployment throughout much of 2008 that persisted throughout 2009 and into 2010. However, by May 2018, Arizona's seasonally adjusted unemployment rate had declined to 4.7% per the Bureau of Labor and Statistics. Arizona's unemployment has lagged the US unemployment rate by approximately 0.5% for the years 2000 through 2010.

According to George W. Hammond, Ph.D., Director and Research Professor, EBRC (Eller Economic and Business Research Center), "Arizona's economy is well positioned to outpace the U.S. during the next 30 years. The outlook calls for the state, the Phoenix metropolitan statistical area (MSA), and the Tucson MSA to grow faster than the nation across most major macroeconomic aggregates. However, as is expected for the nation, the state is not likely to regain the rapid growth

rates posted during the 30 years before the Great Recession. In the end, the aging of the baby boom generation will take a toll on growth at the national, state, and local levels.

Arizona's recent growth continues to be strong, with job gains far outpacing the national average. This is true even for Tucson, where employment increases have accelerated strongly during the past nine months. The outlook calls for growth rates to improve in the near term, with reduced fiscal drag and increased migration flows into the state. This drives further gains in construction and related sectors, which have been slow to rebound from the housing bust. Overall, the state economy is moving forward and its trajectory is positive. “



## Metro Tucson



\*Map data @2018 Google

Tucson is the economic center of southeastern Arizona. While the Tucson area enjoyed economic growth with the rise of the housing boom in the middle of the decade, the overall economy began to decline in late 2007, with a significant decline beginning in late 2008. Since that time the local economy generally mirrored the larger national economic downturn. Some signs of stabilization began to appear in 2011 and 2012, with evidence of a slow recovery through 2014 and forward.

The population of Pima County, which approximates the metropolitan area, increased from 666,954 in 1990 to 843,746 in 2000 and to 980,263 in 2010 (based on the 2010 census), reflecting compounded annual growth rates of 2.38 percent from 1990 to 2000 and 1.51 percent annually from 2000 to 2010.

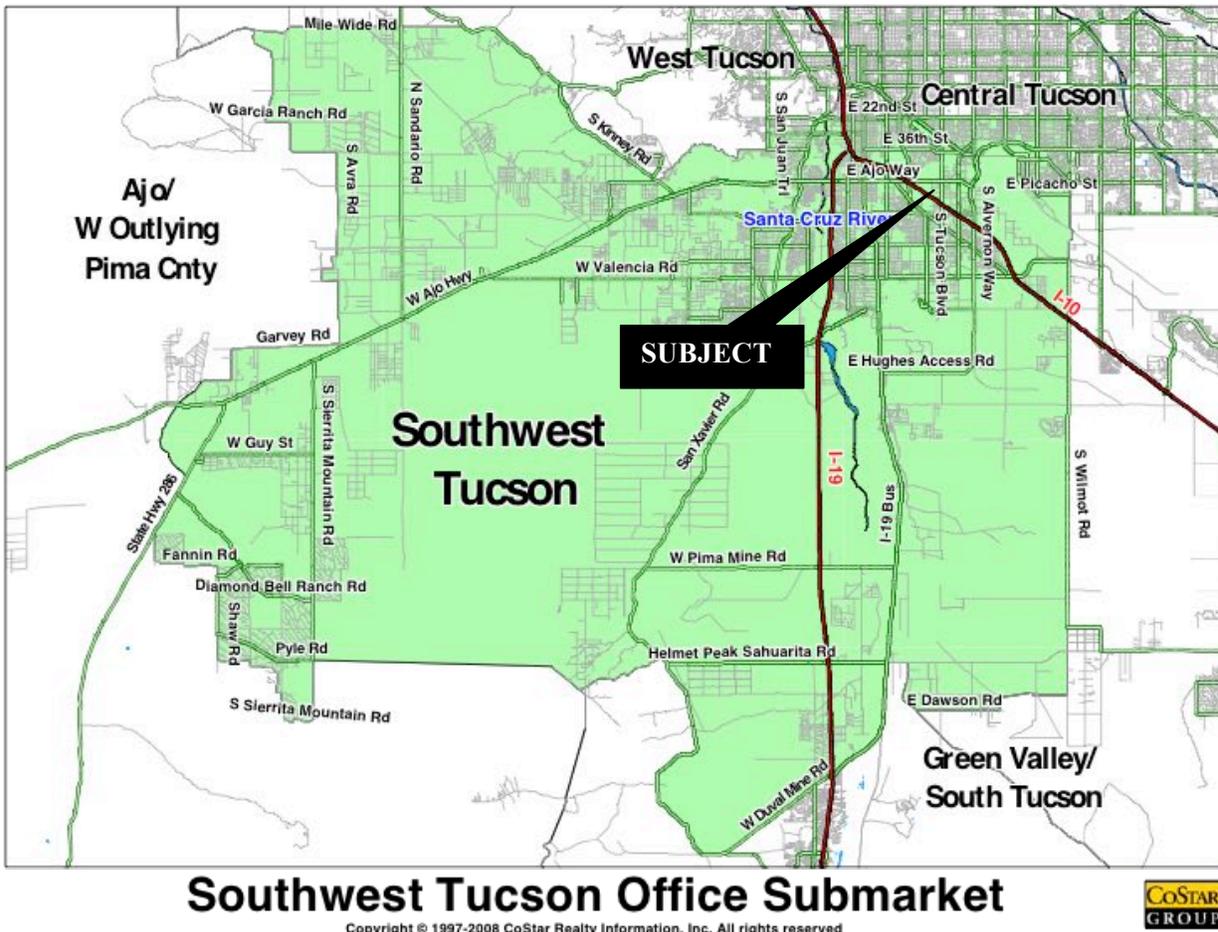
The Pima Association of Governments (PAG), projects that the population of the County will grow by 1.6 to 2.1 percent annually over the next 20 years. The northwest and southeast portions of the

metropolitan area, where ample land is available, are expected to be the focal points for most of the growth.

The long-term outlook for Tucson is positive. Population and employment, though currently down for the first time in nearly a decade, are projected to continue to increase at rates in excess of the nation as a whole as the market recovers over the next one to two years. The cyclical nature of the economy reflected in the population, employment, and development segments is now stabilized from the peak of the previous cycle. Overall, the Tucson Metropolitan area is considered to be in the growth stage of its life cycle and, even with the recent challenges shown by the residential and commercial markets, should have a positive long-term impact upon properties in the area.

## NEIGHBORHOOD DATA

The subject is located in the south portion of the Tucson metropolitan area, about ten miles southeast of the Tucson central business district (CBD). The following discussion summarizes those factors that influence values within the neighborhood.



### Boundaries

General neighborhood boundaries are: Wilmot Road on the east; State Highway 286 & Avra Road on the west; 22<sup>nd</sup> Street and Kinney Road on the north; and Duval Mine Road on the south. This is the southern region of the metropolitan Tucson area.

### Population

The following tabulation summarizes population projections as prepared by the Arizona Department of Economic Security for Pima County and related jurisdictions.

Year	PIMA COUNTY (DES projected)	TOWN OF MARANA	TOWN OF ORO VALLEY	TOWN OF SAHUARITA	CITY OF SO. TUCSON	CITY OF TUCSON	UNINCORP. COUNTY
2006	980,977	29,802	40,576	18,464	5,657	537,677	348,800
2007	1,003,918	32,774	41,662	23,075	5,684	545,273	355,449
2008	1,026,506	36,037	42,852	28,140	5,710	552,715	361,052
2009	1,048,796	39,616	44,111	33,185	5,735	560,018	366,130
<b>2010</b>	<b>1,070,723</b>	<b>43,352</b>	<b>45,199</b>	<b>37,965</b>	<b>5,742</b>	<b>566,237</b>	<b>372,227</b>
2011	1,092,369	46,844	46,204	41,845	5,746	572,503	379,227
2012	1,113,749	50,335	47,209	45,725	5,750	578,769	385,961
2013	1,134,853	53,826	48,213	49,606	5,753	585,036	392,418
2014	1,155,599	57,318	49,218	53,486	5,757	591,302	398,518
<b>2015</b>	<b>1,175,967</b>	<b>60,809</b>	<b>50,222</b>	<b>57,367</b>	<b>5,761</b>	<b>597,568</b>	<b>404,240</b>
2016	1,195,933	63,230	51,005	60,189	5,758	602,988	412,763
2017	1,215,512	65,652	51,787	63,011	5,754	608,409	420,899
2018	1,234,697	68,073	52,569	65,834	5,751	613,830	428,641
2019	1,253,475	70,494	53,352	68,656	5,747	619,250	435,976
<b>2020</b>	<b>1,271,912</b>	<b>72,915</b>	<b>54,134</b>	<b>71,479</b>	<b>5,743</b>	<b>624,671</b>	<b>442,969</b>
2021	1,290,058	74,783	54,806	72,934	5,737	629,503	452,296
2022	1,307,914	76,650	55,478	74,389	5,730	634,335	461,333
2023	1,325,564	78,517	56,150	75,844	5,723	639,167	470,164
2024	1,342,978	80,385	56,821	77,299	5,716	643,998	478,759
<b>2025</b>	<b>1,360,157</b>	<b>82,252</b>	<b>57,493</b>	<b>78,754</b>	<b>5,709</b>	<b>648,830</b>	<b>487,119</b>
2026	1,377,097	83,754	58,063	79,946	5,702	653,309	496,323
2027	1,393,778	85,256	58,633	81,138	5,695	657,788	505,268
2028	1,410,235	86,757	59,204	82,330	5,689	662,267	513,989
2029	1,426,456	88,259	59,774	83,522	5,682	666,746	522,473
<b>2030</b>	<b>1,442,420</b>	<b>89,761</b>	<b>60,344</b>	<b>84,714</b>	<b>5,675</b>	<b>671,225</b>	<b>530,701</b>
2031	1,458,104	91,047	60,844	85,591	5,670	675,350	539,601
2032	1,473,502	92,333	61,344	86,468	5,665	679,476	548,215
2033	1,488,594	93,619	61,844	87,346	5,661	683,602	556,523
2034	1,503,365	94,905	62,345	88,223	5,656	687,728	564,509
<b>2035</b>	<b>1,517,839</b>	<b>96,190</b>	<b>62,845</b>	<b>89,100</b>	<b>5,651</b>	<b>691,854</b>	<b>572,199</b>
2036	1,532,026	97,442	63,416	89,726	5,656	695,835	579,952
2037	1,545,909	98,694	63,986	90,352	5,660	699,816	587,401
2038	1,559,521	99,945	64,557	90,978	5,665	703,797	594,578
2039	1,572,877	101,197	65,128	91,604	5,670	707,778	601,500
<b>2040</b>	<b>1,585,983</b>	<b>102,449</b>	<b>65,699</b>	<b>92,230</b>	<b>5,674</b>	<b>711,759</b>	<b>608,172</b>
2041	1,598,868	103,706	66,354	93,053	5,689	715,711	614,355
2042	1,611,534	104,964	67,008	93,876	5,704	719,662	620,320
2043	1,623,983	106,221	67,663	94,700	5,718	723,614	626,067
2044	1,636,316	107,479	68,317	95,523	5,733	727,565	631,699
<b>2045</b>	<b>1,648,586</b>	<b>108,737</b>	<b>68,972</b>	<b>96,346</b>	<b>5,748</b>	<b>731,517</b>	<b>637,267</b>
2046	1,660,779	109,992	69,677	97,332	5,770	735,551	642,457
2047	1,672,813	111,247	70,383	98,317	5,791	739,585	647,489
2048	1,684,824	112,503	71,089	99,303	5,813	743,619	652,497
2049	1,696,902	113,758	71,794	100,289	5,835	747,653	657,573
<b>2050</b>	<b>1,709,026</b>	<b>115,014</b>	<b>72,500</b>	<b>101,274</b>	<b>5,857</b>	<b>751,687</b>	<b>662,694</b>
2051	1,721,232	116,269	73,302	102,502	5,889	756,125	667,145
2052	1,733,499	117,525	74,105	103,729	5,921	760,562	671,657
2053	1,745,812	118,781	74,907	104,956	5,954	765,000	676,215
2054	1,758,177	120,036	75,710	106,183	5,986	769,437	680,824
<b>2055</b>	<b>1,770,610</b>	<b>121,292</b>	<b>76,513</b>	<b>107,410</b>	<b>6,019</b>	<b>773,874</b>	<b>685,502</b>

## Transportation

Primary access to the neighborhood is provided by Interstate 10, Alvernon Road, Palo Verde Road, the Kino-Campbell Corridor, and the Kolb-Valencia Corridor. I-10, a six-lane freeway, traverses the neighborhood in a northwest to southeast manner and has interchanges at Palo Verde/Alvernon Roads, Campbell/Kino Roads, and Park Avenue. I-19 splits from I-10 in Tucson and provides access to Mexico.

Other major north-south roadways include Country Club Road, Park Avenue, Twelfth Avenue, and Sixth Avenue/Tucson-Nogales Highway. Major east-west arterials include 22<sup>nd</sup> Street, Ajo

Way, Irvington Road, Drexel Road, and Valencia Road. Benson Highway/US 80 traverses the neighborhood one-half mile south of and generally parallel to I-10.

In addition to the above noted roadways, the Aviation Corridor, completed through to Broadway Boulevard and the southeasterly portion of the Central Business District, has greatly improved access to the northeastern portions of the neighborhood. The Aviation Corridor is a limited access thoroughfare extending from Golf Links Road on the south to the CBD, with plans to extend it to St. Mary's Road and I-10 on the north.

The Tucson International Airport facility is located within the subject neighborhood. The main entrance to the airport is located on South Tucson (Kino) Boulevard, south of Valencia Road. The Tucson International Airport is a major asset, not only to the city of Tucson and Pima County, but also the entire region including Sierra Vista, Nogales, and northwestern Mexico. To accommodate the airport's increasing needs, a master plan was prepared for the Tucson Airport Authority in the 1990's. This plan includes the expansion of land area for the facility, as well as adding to and improving existing buildings, runways, and facilities needed to provide services related to the airport service industry. The Tucson Airport Authority has received over \$60 million from bond proceeds to finance the airport extension. Much of the airport renovation has been completed, with additional approved expansion projects in progress.

## **Land Use**

The neighborhood is well established both residentially and commercially and is largely built up. The subject area is considered to be in a stable stage of its life cycle, which is typified by a period of equilibrium without any marked gains or losses in land values. Land uses include a variety of single and multi-family residences, commercial, and a variety of industrial uses that are situated along the southern, eastern and western boundaries of the area.

## **Residential**

The majority of residential development in the area is older single family housing and mobile homes primarily located in the western, central, and northern areas of the neighborhood. Several new single family subdivisions have been developed in the eastern portion of the neighborhood in recent years. Single-family homes range in age from new to over 30 years.

The subject neighborhood contains a number of major apartment complexes, typically situated along major roadways. Occupancy and rental rates have been improving following the effects of the Great Recession.

## **Commercial**

### Office

Office space is rather limited, due to two primary factors. The first is the historical lack of demand for office space in the area; the second being that several office facilities within the

area's business and commerce parks are labeled as industrial buildings. Occupancy in the area is much stronger than the metropolitan Tucson average. Also refer to the below table.

**Tucson Office Market Vacancy Summary**  
Second Quarter 2018

#	Submarket	# of Buildings	Total RBA	Share	Vacant Space	Vacancy Rate	Last Qtr.	% Chg.
1	Ajo/W Outlying Pima Cnty	9	104,583	0.4%	750	0.7%	0.7%	0.0%
2	Central Tucson	1,113	9,937,879	37.7%	1,141,940	11.5%	12.5%	-1.1%
3	Downtown Tucson	325	5,364,065	20.4%	149,305	2.8%	3.5%	-0.7%
5	East Tucson	130	1,261,816	4.8%	161,861	12.8%	12.6%	0.2%
6	Foothills	93	1,340,627	5.1%	88,076	6.6%	6.8%	-0.3%
7	Green Valley/South Tucson	48	359,077	1.4%	43,958	12.2%	15.2%	-2.9%
8	North Tucson, Oro Valley	330	3,607,715	13.7%	310,708	8.6%	8.3%	0.3%
9	Northwest Tucson	52	492,788	1.9%	44,411	9.0%	9.3%	-0.3%
10	Southeast Tucson	38	535,560	2.0%	25,946	4.8%	4.7%	0.2%
<b>11</b>	<b>Southwest Tucson</b>	<b>180</b>	<b>1,785,576</b>	<b>6.8%</b>	<b>75,510</b>	<b>4.2%</b>	<b>4.2%</b>	<b>0.0%</b>
12	West Tucson	225	1,551,779	5.9%	160,731	10.4%	12.4%	-2.1%
	<b>Total</b>	<b>2,543</b>	<b>26,341,465</b>	<b>100.0%</b>	<b>2,203,196</b>	<b>8.4%</b>	<b>9.0%</b>	<b>-0.7%</b>

*Note: Rate based on total physical space*

*Source: CoStar Group, Inc., Quarterly Tucson Office Market Report*

According to CoStar's 2<sup>nd</sup> Quarter 2018 Report, the overall vacancy rate of leasable office space for Tucson is 8.4 percent, while the Southwest Tucson Market, which includes the subject property, is 4.2 percent.

### Industrial

The neighborhood is ideally suited for industrial uses with I-19 providing access for goods to and from Mexico and I-10 allowing direct access to Phoenix and California to the west and Texas and the eastern seaboard to the east. In addition, the neighborhood is well served by the rail system and has proximity to the airport.

Industrial uses dominate the neighborhood, with nearly 30 percent of the total metropolitan inventory. Major business parks include Butterfield Business Park, Tucson International Business Center, Tucson Broadbent Business Center, and the larger business parks at Park and Ajo. Industrial uses west of Alvernon Way, in proximity to the Air Force Base, tend to be heavy industrial uses, ranging from lumber yards to heavy manufacturing uses, automotive recycling facilities, and the like.

The neighborhood and surrounding area has been the focus of major new development. This includes the Rockefeller Group's 2007 purchase of 20 acres of land in the Airport Commerce Center (due east of Tucson International Airport) for development of a 520,000-square foot distribution center. In late 2007, Summit Properties of Scottsdale broke ground on a 250,000-square foot expansion to the existing 140,000-square foot Hemisphere Corporate Center (multi-tenant office/industrial complex) in Tucson International Business Center near Valencia and Palo Verde Road.

Overall, the area is well established industrially and will benefit from the strong, on-going, upswing in industrial and associated development due to its proximity to transportation arterials, including freeway, rail, and air. The industrial identity of the area will also contribute to the anticipated growth of the area.

According to CoStar's 2<sup>nd</sup> Quarter 2018 Industrial Report, the overall vacancy rate of leasable office space for Tucson is 6.6 percent, while the Palo Verde Market, which includes the subject property, is 5.3 percent.

**Tucson Industrial Market Vacancy Summary**  
Second Quarter 2018

#	Submarket	# of Buildings	Total RBA	Share	Vacant Space	Vacancy Rate	Last Qtr.	% Chg.
1	Downtown Tucson	420	4,194,265	9.9%	69,000	1.6%	2.3%	-0.6%
2	E Outlying Pima Cty Ind	2	18,464	0.0%	-	0.0%	0.0%	N/App
3	Northeast Tucson	237	2,685,202	6.3%	264,543	9.9%	8.6%	1.3%
4	NW Tucson/Oro Valley	740	9,804,695	23.0%	276,379	2.8%	2.7%	0.1%
<b>5</b>	<b>Palo Verde</b>	<b>539</b>	<b>6,663,215</b>	<b>15.7%</b>	<b>353,614</b>	<b>5.3%</b>	<b>5.4%</b>	<b>-0.1%</b>
6	Park/Ajo	261	3,792,136	8.9%	311,344	8.2%	7.6%	0.6%
7	Pima/Green Valley	12	187,683	0.4%	1,200	0.6%	0.6%	0.0%
8	Southeast Tucson	96	5,855,459	13.8%	200,366	3.4%	3.9%	-0.5%
9	SW Tucson/Airport	256	9,336,158	21.9%	1,317,707	14.1%	14.7%	-0.6%
10	W Outlying Pima Cty Ind	3	13,892	0.0%	-	0.0%	0.0%	N/App
	<b>Total</b>	<b>2,566</b>	<b>42,551,169</b>	<b>100.0%</b>	<b>2,794,153</b>	<b>6.6%</b>	<b>6.6%</b>	<b>-0.1%</b>

*Note: Rate based on total physical space and does not include self-storage space  
Source: CoStar Group, Inc., Quarterly Tucson Industrial Market Report*

## Retail

The neighborhood includes several large retail developments including two new power centers that are located along the major arterials, Interstate 19, Irvington, Interstate 10 and Kino Parkway.

At the southwest corner of Interstate 19 and Irvington Road is the Tucson Spectrum, a 1,024,816 square foot Regional Shopping Center that is situated on 122.29 acres of land. Target, J.C. Penny, Home Depot, and Sports Authority have opened stores in this development and these stores are serving as anchor tenants for additional development by national retailers. There are numerous restaurants such as Red Lobster and The Olive Garden as well as the Tucson Spectrum 18 Harkins Theater.

Tucson Marketplace at The Bridges is a Regional Power Center and is located at the northwest corner of Interstate 10 and Kino Parkway. It is a 350 acre site which will be a mixed-use project which will include the proposed Arizona Biosciences Park which will be a 3 million square foot facility. Also proposed is an executive hotel, housing for graduate students and visiting scientists,

an innovative high school and a scientific skills training center. Seven hundred distinctive homes are proposed as well which will offer residents a location to live, work, and play closely together within the development. Currently, Costco and Walmart are serving as anchors with a variety of shops and pads available with a 1,000,000 square foot retail center. Cafes, restaurants, banks, and movie theaters will support the master-planned community as well.

The neighborhood also contains a number of neighborhood shopping centers along with VF Factory Outlet, a small discount center, at Palo Verde Road and I-10. Other commercial uses include numerous formal and fast food restaurants, gas stations, convenience stores, and the Tanque Verde Swap Meet.

Overall, the neighborhood is considered to be well served commercially. There are sufficient commercial facilities in the neighborhood to support the population.

**Tucson Retail Market Summary**  
Second Quarter 2018

#	Submarket	# of Buildings	Total GLA	Share	Vacant Space	Vacancy Rate	Last Qtr.	% Chg.
1	Central East	1,163	8,530,719	16.0%	544,504	6.4%	6.6%	-0.2%
2	Central West	763	7,023,305	13.2%	314,727	4.5%	4.1%	0.4%
3	Downtown Tucson	316	1,840,378	3.5%	102,364	5.6%	6.0%	-0.4%
4	E Outlying Pima Cnty Ret	1	4,720	0.0%	-	0.0%	0.0%	0.0%
5	East Tucson	776	9,856,924	18.5%	599,852	6.1%	5.6%	0.5%
6	Foothills	288	5,217,098	9.8%	198,209	3.8%	4.7%	-0.9%
7	North / Oro Valley	181	2,534,794	4.8%	149,654	5.9%	6.1%	-0.2%
8	Northeast Tucson	25	353,098	0.7%	33,439	9.5%	9.7%	-0.2%
9	Northwest Tucson	275	4,214,930	7.9%	202,690	4.8%	5.0%	-0.2%
<b>10</b>	<b>South Tucson</b>	<b>977</b>	<b>6,512,810</b>	<b>12.2%</b>	<b>341,539</b>	<b>5.2%</b>	<b>5.7%</b>	<b>-0.4%</b>
11	South / SW Outlying	140	1,782,685	3.3%	102,811	5.8%	5.9%	-0.2%
12	Southeast Tucson	122	1,609,815	3.0%	126,048	7.8%	7.7%	0.1%
13	Southwest Tucson	182	2,576,725	4.8%	178,309	6.9%	6.9%	0.0%
14	W Outlying Pima Cnty Ret	36	301,306	0.6%	27,829	9.2%	9.4%	-0.1%
15	West Tucson	133	867,405	1.6%	33,395	3.8%	4.0%	-0.1%
	<b>Total</b>	<b>5,378</b>	<b>53,226,712</b>	<b>100.0%</b>	<b>2,955,370</b>	<b>5.6%</b>	<b>5.6%</b>	<b>-0.1%</b>

*Note: Rate based on total physical space*

*Source: CoStar Group, Inc., Quarterly Tucson Retail Market Report*

Retail development in the neighborhood is well established with over 6.5 million square feet of inventory, about 12.2 percent of total metro inventory. Vacancy was reported as 5.2 percent, slightly lower than the previous quarter; and lower than the metro average of 5.6 percent.

**Government and Public Uses**

The neighborhood is within the jurisdiction of Pima County and the City of Tucson and is provided with county and some city services including police and fire protection, solid waste removal services, and public transit services. All utilities are available throughout the neighborhood, including water, sewer, natural gas, electric, and telecommunications.

## Summary

The neighborhood benefits from its proximity to major transportation systems including freeway, rail, and air, factors that are contributing to the current strong upswing in industrial and associated development in and surrounding the neighborhood. Major influences are the Tucson International Airport, Davis-Monthan Air Force Base, and the hotels and industrial facilities in the Airport area. Future industrial development is likely due to the existing industrial development, the availability of industrially zoned land, and the proximity to interstate, rail, and air transportation. The long term projections for the subject neighborhood indicate increased growth, especially in the industrial sector. The overall trends occurring in the neighborhood are considered to have a positive impact upon the subject property.



**DIMENSIONS:** According to the above Assessor's Record Map, the site has varying depths and widths.

**TOPOGRAPHY:** The site is generally level and at grade with its frontage roadway and surrounding properties.

**FRONTAGE/ACCESS** Frontage is along President Street which extends west from Country Club Road. The larger development does also have frontage along Country Club Road. Access is along President Street, although access to the larger development is also available via Bentley Avenue and District Street. Overall, considering its location and proximity to major routes of travel, the frontage and access for the property is considered to be good.

**VISIBILITY:** Visibility for the property is considered to be good.

**UTILITIES:** All utilities are in place to the subject including: electric power by Tucson Electric Power, water by City of Tucson, telecommunications available through CenturyLink and other providers, sewer by Pima County, and natural gas from Southwest Gas.

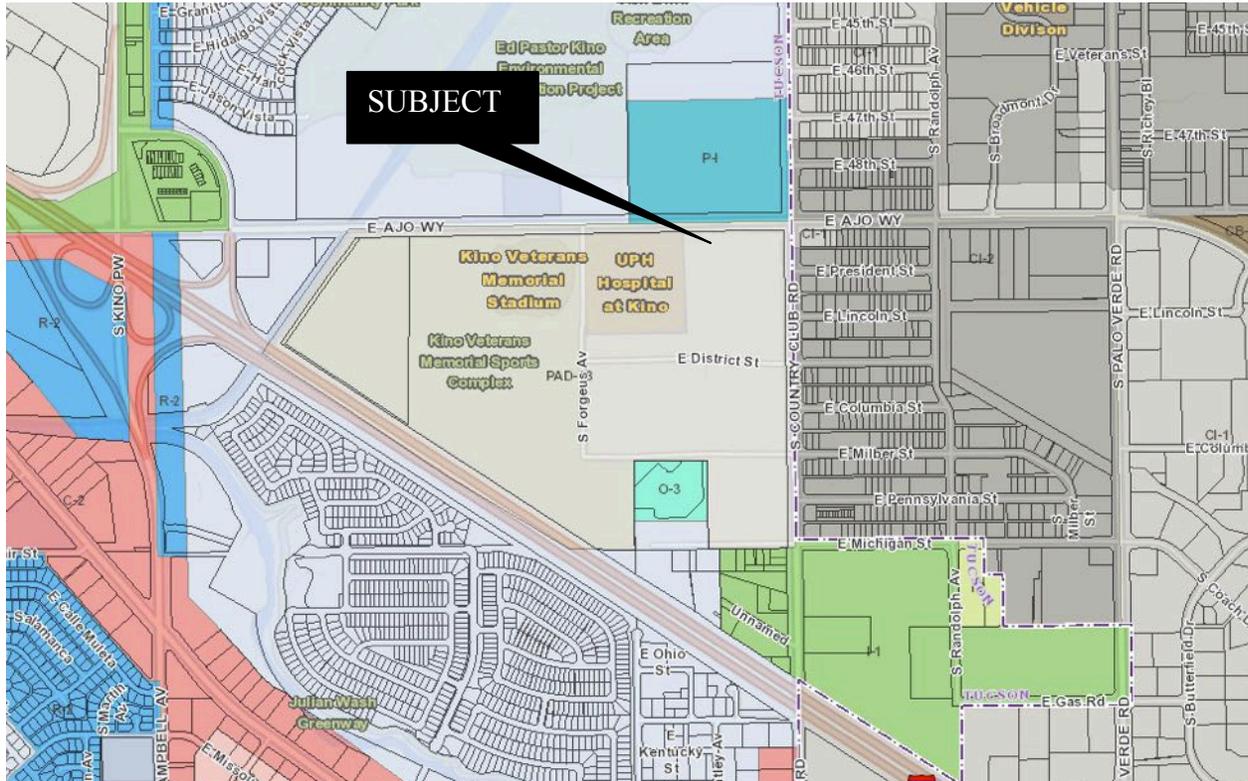
**EASEMENTS:** I was not provided with a title report for the subject property. Based on my physical inspection and a review of the subject's plat map, there do not appear to be any atypical easements that would adversely impact the utility of the subject site.

**ENVIRONMENTAL:** My inspection of the subject site did not indicate any potential environmental hazards that were readily observable. A Phase I environmental site survey was not available as of the writing of this report. It is a fundamental assumption of this appraisal report and the valuation conclusions contained herein that the subject property is not impacted by any environmental concern, which could affect the value or marketability of the property. If this remains an area of concern for the client, a Phase I Environmental site analysis of the site should be performed by qualified personnel.

**SOIL CONDITIONS:** As of the date of inspection, there did not appear to be any negative soil or subsoil conditions affecting the subject site. The actual soil conditions are unknown. It is assumed that the subject property is not impacted by any negative soil/subsoil issues.

**ZONING:** The subject larger site is zoned PAD-18 (Kino Health Campus), City of Tucson. The Kino Health Campus PAD is a medical and healthcare oriented educational, office, medical support, research

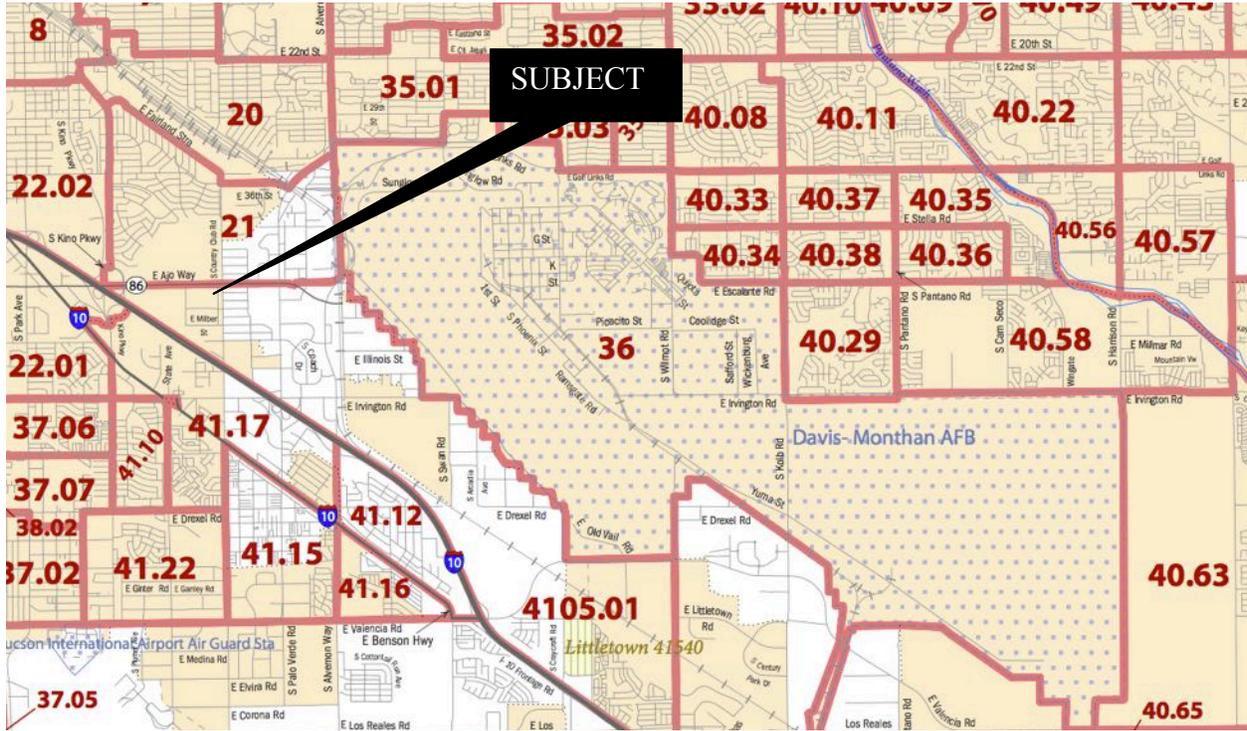
and regional employment infill activity center with mixed-use character and adequate access to arterial roads. The primary purpose of the PAD is to develop an academic research/healthcare campus that supports excellent, full service healthcare, and state of the art research and teaching programs.



\*PimaMaps 2018

CENSUS TRACT:

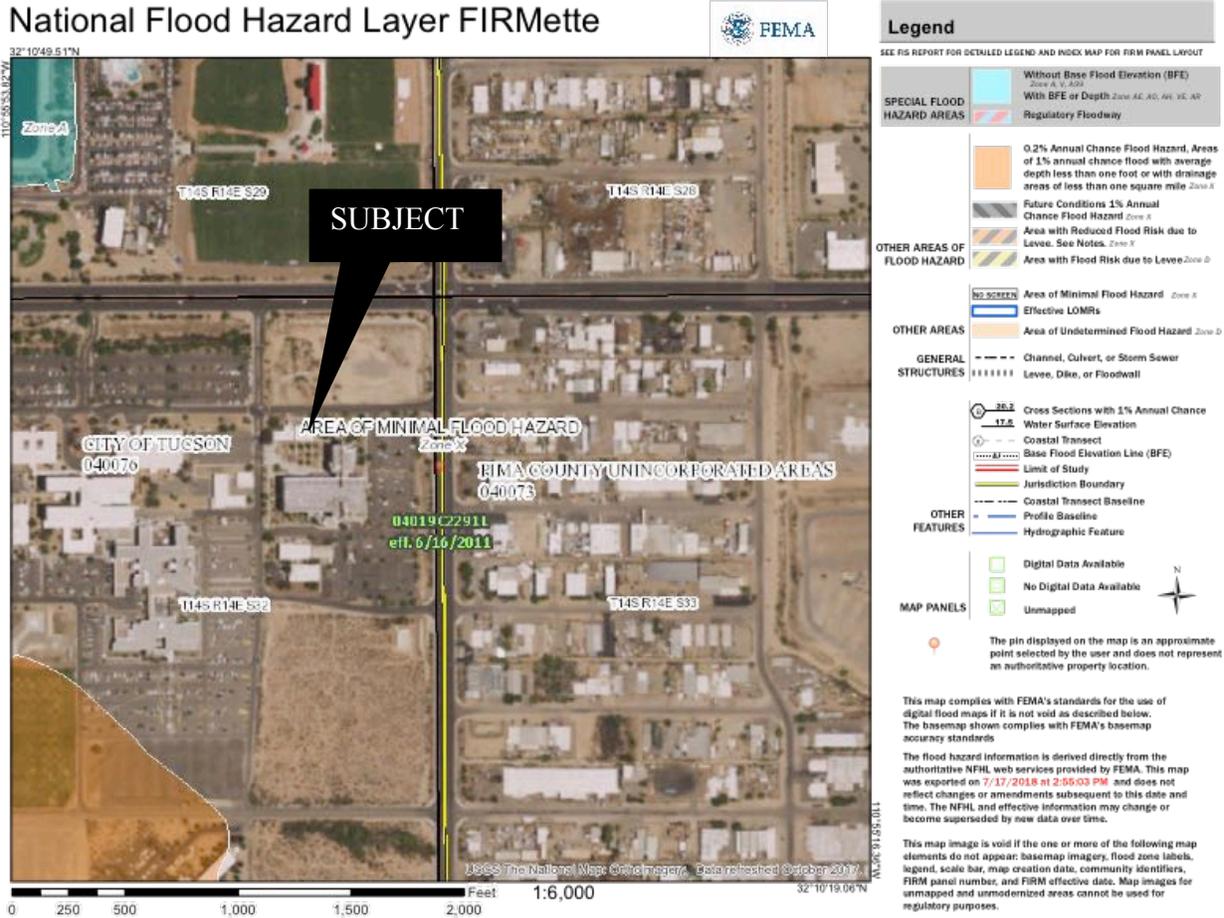
The subject site is located within Census Tract 4105.01.



\* U.S. Census Bureau 2010

**FLOOD CONDITION:**

The subject is depicted on Federal Emergency Management Agency, Flood Insurance Rate Map 04019C2291L, dated June 16, 2011. According to this map, the subject property is located in an area designated as Zone X. Zone X is within *Other Areas*: areas determined to be outside the 0.2% annual chance floodplain.



**SURROUNDING USES:**

- NORTH:** To the north is President Street, a vacant dirt pad and then Ajo Way.
- EAST:** To the east is Country Club Road.
- SOUTH:** To the south is the larger main building – the Abrams Public Health Center.
- WEST:** To the west is Bentley Avenue followed by Banner-University Medical Center.

**PROPERTY TAXES:**

According to the Pima County Assessor, the 2018 Limited Cash Value for the subject is \$54,133,035, and the 2018 Full Cash Value is \$78,462,280. The 2019 LCV is \$56,839,687 while the FCV is



\$104,839,670. The subject is a small portion of this property as the subject is within the Annex to the Abrams Public Health Center. Therefore the above values are not relevant.

<b>APN</b>	<b>2018 LCV</b>	<b>2018 FCV</b>	<b>2019 LCV</b>	<b>2019 FCV</b>	<b>2017 Taxes</b>
132-19-1420	\$54,133,035	\$78,462,280	\$56,839,687	\$104,839,670	\$0.00

**TAX STATUS:** The subject property is owned by Pima County and is not subject to real estate taxes.

**OTHER VALUE:** The subject property is not considered to have any scientific, recreational, cultural or historic value.

**SUMMARY:** Analysis of the subject site indicates that the property could be physically developed for a variety of uses. Legally the property is limited to those uses allowed under the PAD-18 (Kino Health Campus). The subject is not located within a flood hazard zone. All utilities are available to the site. The site is level and has average access and visibility.

## Description Of Improvements

The subject property is part of the Annex to the Abrams Public Health Center. The subject occupies the eastern portion of the Annex Building. Pima County health facilities occupy the western portion of the annex.



\*PimaMaps 2018

**TYPE:** Single story manufacturing and light assembly building, also described as “flex” or “research and development” space.

**YEAR BUILT:** The original building was constructed in 1998, the same date as the construction of the larger annex. The expansion space was completed by the tenant in 2013.

**SIZE:** Based upon information obtained from the client and from the lease and its amendments, the subject has the following floor areas:

Original construction	3,827 sq. ft.
Expansion space – constructed by tenant	<u>2,380</u> sq. ft.
Total area	<u>6,207</u> sq. ft.

**CONSTRUCTION:** The building is of concrete block design.

**ROOF IMPROVEMENTS:** The building roof is composition sheathing over steel or wood panels and beams.

**INTERIOR:** The building interior is designed as clean rooms, light assembly and warehouse space. Interior finishes include vinyl tile flooring, painted interior gypsum wall panels, and a drop acoustic ceiling system with recessed fluorescent lighting. Most of the interior is built out in this manner, with drop ceilings. However, some storage areas have higher ceilings or may have no ceiling finishes with exposed beams and trusses.

**FIRE SPRINKLERS:** The building overall does not have a typical wet fire safety system. However, some work stations or work areas have wet fire safety systems that are custom designed for the existing tenant's use.

**RESTROOMS  
LOCKER ROOMS:** Adequate men's and women's restrooms are provided.

**ELECTRICAL:** Electric service is assumed adequate and compliant with code.

**HVAC:** The building is serviced by HVAC units.

**SITE IMPROVEMENTS:** The subject is part of the larger Abrams Public Health Center. There is surface parking provided in open lots around the building. Information provided by the client indicates that there are 623 parking spaces. This results in a parking ratio of about 4.4 per 1,000 sq. ft. of building area. (The building area for the entire building is reported at 141,944 rentable sq. ft.)

**ADA COMPLIANCE:** The subject building was originally constructed in 1998, which is after the Americans with Disabilities Act being passed in 1990. Therefore, it is assumed that the property fully complies with all ADA requirements.

**SITE COVERAGE:** Not applicable

**ACTUAL AGE:** The building was originally constructed in 1998. The tenant constructed the expansion place in 2013. At the same time the entire building interior was renovated for the current tenant at the tenant's cost.

**EFFECTIVE AGE:** The subject was recently substantially renovated and a portion of the building is nearly new as it was expanded by the current tenant. As a result the effective age is estimated at 3 years.

TOTAL ECONOMIC  
LIFE:

A building of similar quality to the subject might have an anticipated economic life of from 50 to 55 years. Based on the quality of the interior build out as well as the renovation date the total economic life is estimated at 55 years.

REMAINING  
ECONOMIC LIFE:

The remaining economic life is estimated at 52 years.

CONDITION:

The quality and condition of the subject are both good.

## SUBJECT PHOTOS

Top: View east along Ajo Way, Bentley Avenue access to medical center at right.  
Bottom: View of corner of Ajo Way and Bentley Avenue (provides access to medical center).



## SUBJECT PHOTOS

Top: View of subject's southern elevation.  
Bottom: View of subject property's northern elevation.



## SUBJECT PHOTOS

Top: View of subject's northern elevation.  
Bottom: View of subject's northern elevation and loading dock.



## SUBJECT PHOTOS

Top: View of Annex Building, clean room areas.  
Bottom: View of Annex Building, clean room areas.



## SUBJECT PHOTOS

Top: View of Annex Building, clean room areas.  
Bottom: View of Annex Building, clean room areas.



## SUBJECT PHOTOS

Top: View of Annex Building, clean room areas.  
Bottom: View of Annex Building, clean room areas.



## SUBJECT PHOTOS

Top: View of Annex Building, clean room areas .  
Bottom: View of Annex Building, clean room areas.



## SUBJECT PHOTOS

Top: View of Annex Building, clean room areas.  
Bottom: View of outdoor enclosed mechanical room.



## SUBJECT PHOTOS

Top: View of enclosed outdoor mechanical room.  
Bottom: View of Annex Building interior.



## SUBJECT PHOTOS

Top: View of shipping/receiving storage area within Annex Building.  
Bottom: View of walk-in cooler.



## SUBJECT PHOTOS

Top: View of subject's employee locker and changing room.  
Bottom: View of subject's employee locker and changing room.



## HIGHEST AND BEST USE

Highest and best use is the basic premise of value and, as such, reflects an appraiser's opinion based upon an analysis of prevailing market occurrences. Highest and Best Use is defined as:

The reasonably probable and legal use of vacant land or an improved property that is legally permissible, physically possible, appropriately supported, financially feasible, and that results in the highest value.<sup>1</sup>

This analysis is of the market rent for the property as it is currently configured, or “as is”. As a result the purpose of the highest and best use analysis as applied here is to determine whether there is adequate demand to lease the property. The following several paragraphs first review (briefly) legally and physically possible uses of the property. A more in-depth discussion is then provided relative to demand for both the property as improved.

### **Highest and Best Use, As Presently Improved**

#### *Legally Permissible*

The subject property is within a special zoning district which is intended to promote office, medical office, and related uses. The current utilization of the property with flex or research and development space related to the tenant’s operations in the larger Abrams complex use is a legally allowed use.

#### *Physically Possible*

The subject is a fully functional flex or research and development style building. The existing build out is clearly physically possible.

#### *Financial Feasibility*

As part of this appraisal a detail rent study is provided later in the market rental rate analysis. In order to assess the overall market for industrial space the following detail history as obtained from CoStar is provided for the period from 2009 through 2nd Quarter 2018. This information relates to industrial vacancy rates citywide and in the various submarkets for the period reviewed.

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<sup>1</sup> The Appraisal of Real Estate, 14<sup>th</sup> Edition

**Historic Industrial Vacancy Rate (All Types)**

	YE2009	YE2010	YE2011	YE2012	YE2013	YE2014	YE2015	YE2016	YE2017	1Q2018	2Q2018
Downtown Tucson	4.8%	4.5%	3.1%	5.1%	4.9%	3.8%	3.9%	4.2%	1.2%	2.3%	1.6%
E Outlying Pima Cty Ind	N/App	0.0%	0.0%								
Northeast Tucson	10.9%	11.3%	10.7%	14.6%	12.6%	11.6%	7.5%	6.8%	10.0%	8.6%	9.9%
Northwest Tucson/Oro Valley	8.8%	8.8%	9.3%	8.6%	6.6%	4.8%	5.0%	4.3%	3.1%	2.7%	2.8%
Palo Verde	10.4%	10.2%	10.6%	9.7%	11.9%	11.0%	6.8%	6.3%	5.7%	5.4%	5.3%
Park/Ajo	9.6%	10.8%	11.6%	12.7%	9.7%	8.5%	6.8%	6.7%	9.4%	7.6%	8.2%
S Pima/Green Valley	0.0%	0.0%	4.7%	0.0%	3.1%	1.7%	0.0%	1.8%	0.6%	0.6%	0.6%
Southeast Tucson	12.8%	12.6%	11.1%	11.8%	10.2%	14.3%	13.5%	8.6%	4.3%	3.9%	3.4%
Southwest Tucson/Airport	17.9%	15.2%	15.6%	20.3%	18.5%	19.0%	16.9%	14.9%	14.1%	14.7%	14.1%
W Outlying Pima Cty Ind	N/App	0.0%	0.0%								
Citywide	11.1%	10.6%	10.6%	11.9%	10.8%	10.6%	9.1%	7.8%	6.8%	6.6%	6.6%

*Note: Rate based on total physical space and does not include self-storage space*

*Source: CoStar Group, Inc., Tucson Industrial Market Report*

As a result of the recession of the last decade, Tucson’s industrial markets were overbuilt. Vacancy rates during the period from 2009 through 2014 were over 10% which is not indicative of a stabilized market. Beginning in 2015 the year-end vacancy rates dropped below 10% and with minor exceptions have declined consistently for the past three plus years. The year-end 2017 vacancy rate was 6.8%. The current quarter vacancy rate is 6.6%. Due to continuing absorption and favorable local economic conditions there is presently demand for industrial space throughout Tucson. The following market rental survey demonstrates area demand by review of several market rental comparables.

## MARKET RENT ANALYSIS

A market rent analysis is based on the principal of substitution, in that a potential tenant would not pay more for the subject space than they would for a space that is considered similar with respect to location, quality, and lease terms.

### Current and Historic Subject Rent

The following summarizes important lease details. This information is based on review of the original lease as well as upon review of the First Amendment to the lease.

Lessee:	Accelerate Diagnostics, Inc.
Premises:	The Eastern Portion of the Annex to the Abrams Public Health Center 2980 E. Ajo Way, Tucson, Arizona
Rentable Area:	The lease indicates a <i>usable</i> building area of 6,207 sf. This includes 3,827 sq. ft. of existing space and 2,380 sq. ft. of new space. The new space was constructed by the tenant without landlord tenant improvements.
Date:	July 7, 2015.
Term:	Two years commencing November 19, 2015 and terminating November 18, 2017.
Options:	One 1-year option which has been exercised. The option ends on November 18, 2018.
Rent:	Existing space - \$9.24 per sq. ft. , modified gross. New space - \$5.00 per sq. ft., modified gross.
Rent Increases:	The rent was flat during the initial term and no increase is specified for the 1-year option to extend.
Percentage Rent:	None.
Expenses:	The lease is on a modified gross basis with the following expenses paid either by the landlord or tenant as noted.
Repairs:	Landlord.
Janitorial:	Tenant
Utilities:	The tenant reimburses the landlord for water and electrical costs.

Taxes: The larger property is not taxed due to the ownership status. The tenant is responsible for any taxes related to trade equipment and related tenant improvements or leasehold improvements.

Insurance: Landlord.

Other: There were no tenant improvements provided for either the original lease or the extension.

Amendment 1: This is the official acceptance of the 1-year extension exercised by the tenant. There were no other lease modifications.

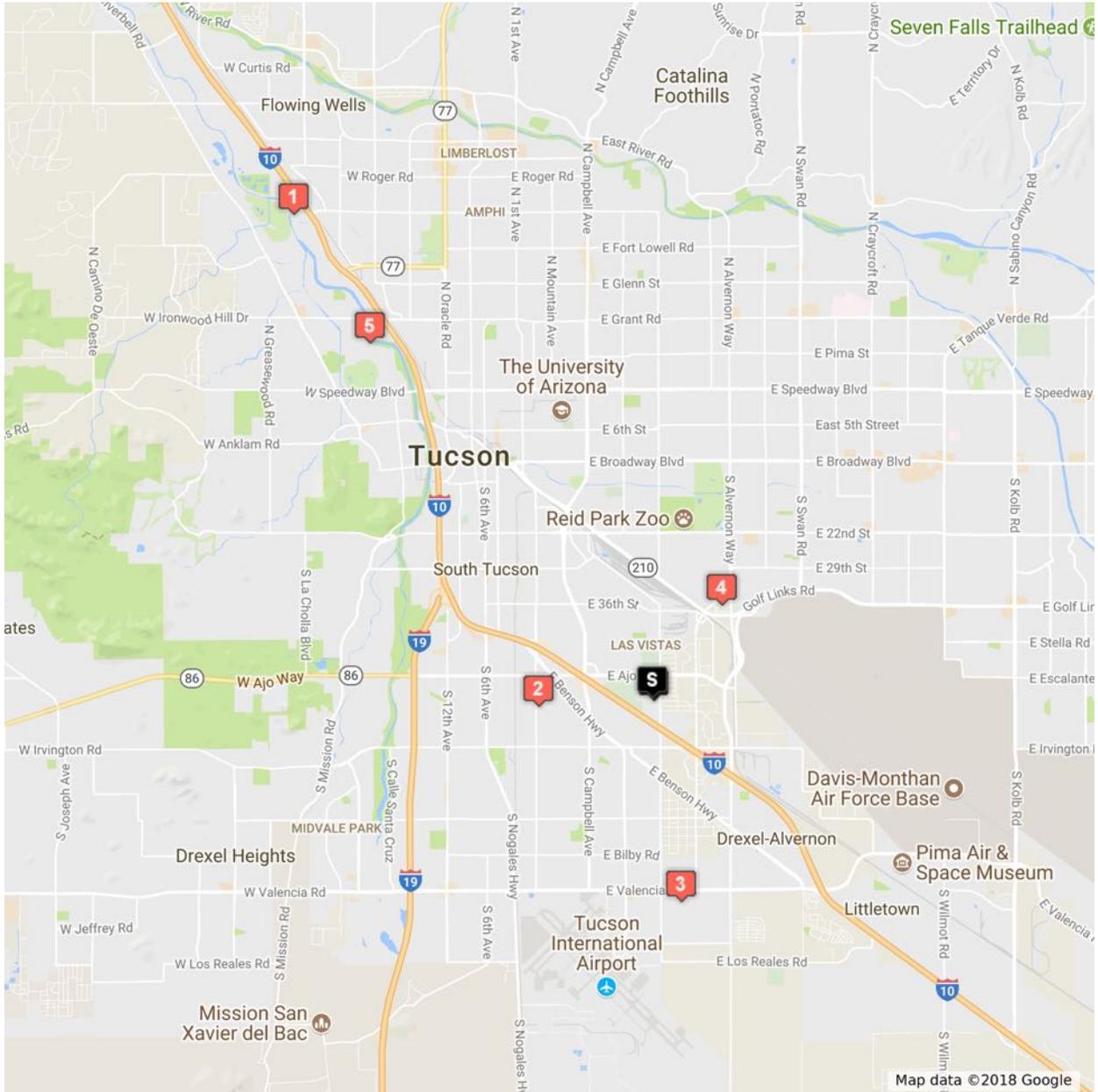
### Market Rent Analysis

In order to identify comparable rentals several sources were reviewed. These included reviewing rental comparables as published by Costar; reviewing rental listings as obtained from LoopNet; reviewing the appraiser's research files; and reviewing an appraisal of another space within the Abrams project as provided by the client. The following exhibit summarizes the rental comparables. A market data map follows the summary exhibit. Data sheets for each rental comparable are then provided. Unless otherwise noted in the data sheets, the lease data reviewed here was confirmed with a party to the lease. Further, each comparable was field reviewed for purposes of this analysis.

#### Comparable Rentals

Data No.	Tenant/Location	Year Built	Lease Date	Lease Size SF	Lease Term - Years	Rent/ SF/Yr.	Lease Increase	Lease Basis	Free Rent & Tis
1	Tyco Simplex Grinnell 3865 N. Business Center Dr. No. 109 Tucson	1986	May-16	7,193	1 year	\$ 9.72	None	MG Tenant Pays Utilities	None \$ -
2	BE Aerospace 1010 E. Palmdale Street Tucson	1986	Nov-16	3,520	37 months	\$ 6.84	7.5%	MG Tenant Pays Utilities	1 Month Minimal
3	Stratsys 3280 E. Hemisphere Loop Tucson	1987	Feb-17	16,437	2 years	\$ 5.88	Nt. Av.	NNN	None \$ -
4	Intelight - Expansion 3801 E. 34th Street Tucson	1976	Aug-17	17,810	61 months	\$ 6.89	2.4%	NNN	Nt. Av. Significant
5	QuikTrip 2301 N. Forbes Blvd. Tucson	1978	Oct-17	7,848	5 years	\$ 7.80	3.0%	NNN	2 months \$ -

# COMPARABLE RENTALS MAP



**LEASE NO. 1**



Address: 3865 N. Business Center Drive, Tucson

<b>Building Data</b>		<b>Lease Data</b>	
Building Area:	7,193 sq. ft.	Tenant:	Tyco Simplex Grinnell
Year Built:	1986	Date:	May 2016
Office Space:	70%	Term:	1 year – tenant has extended to present
Clearance:	18'	Rate per sq. ft.:	\$9.72
Loading:	Grade level	Expenses:	Modified gross, tenant pays utilities
Power:	Nt. Av.	Increases:	None
Parking:	5.5 per 1,000 sq. ft.	Free Rent:	None
Freestanding:	Multi-tenant	Tenant	None
		Improv.:	

Verification: Bob Delaney, CBRE

Comments: This space is part of a multi-tenant business park with flex industrial users, retail showroom space, and a religious group. Due to the modified gross lease structure a downward adjustment of \$2.25 per sq. ft. is applied. (Notably, subject tenant's are not responsible for paying for taxes. As a result each rental is adjusted upward by \$1.75 per sq. ft. for taxes, resulting in a net downward adjustment of \$0.50 in this case.) This reflects typically common area maintenance costs in light industrial parks in Tucson. The location on the northwest side of Tucson is superior.

Although this is an older project, it is well maintained. As a result, there is no adjustment applied for age, quality, or condition.

**LEASE NO. 2**



Address: 1010 E. Palmdale Street, Tucson

Building Data		Lease Data	
Building Area:	3,520 sq. ft.	Tenant:	BE Aerospace
Year Built:	1986	Date:	November 2016
Office Space:	80% - includes second floor	Term:	37 months
Clearance:	20' – estimate	Rate per sq. ft.:	\$6.84
Loading:	Grade level	Expenses:	Modified gross, tenant pays utilities
Power:	Nt. Av.	Increases:	7.5%
Parking:	4.3 per 1,000 sq. ft.	Free Rent:	1 month
Freestanding:	Multi-tenant	Tenant Improv...:	Paint and flooring

Verification: Gary Emerson, GRE Partners

Comments: This is two-story space that is part of a larger office and light industrial park. Due to the modified gross expense structure a downward adjustment is applied. This property has a directly comparable location on the south side of Tucson. The age and quality are inferior to the subject and upward adjustments are applied. In reviewing this rental it should be noted that a significant amount of this space consists of second floor office space. There is a limited market for this space type in Tucson and therefore this rental is given secondary emphasis.

**LEASE NO. 3**



Address: 3280 E. Hemisphere Loop, Tucson

<b>Building Data</b>		<b>Lease Data</b>	
Building Area:	16,437 sq. ft.	Tenant:	Stratasys
Year Built:	1987	Date:	February 2017
Office Space:	Flex	Term:	2 years
Clearance:	14' – 18'	Rate per sq. ft.:	\$5.88
Loading:	GL	Expenses:	NNN
Power:	Nt. Av.	Increases:	Nt. Av.
Parking:	2.4 per 1,000 sq. ft.	Free Rent:	None
Freestanding:	No	Tenant Improv.:	None

Verification: Bob Delaney, CBRE

Comments: This is multi-tenant space in a flex industrial park. This property is located in south Tucson and the location overall is rated as similar. The size is inferior with an upward adjustment applied. Although this is an older project it is maintained in good condition. As a result, age, quality, and condition adjustments are not applied.

## LEASE NO. 4



Address: 3801 E. 34<sup>th</sup> Street, Tucson

<b>Building Data</b>		<b>Lease Data</b>	
Building Area:	17,810 sq. ft.	Tenant:	Intelight – expansion
Year Built:	1976	Date:	August 2017
Office Space:	Flex – see comments	Term:	61 months
Clearance:	18’ – estimate	Rate per sq. ft:	\$6.89
Loading:	Grade level	Expenses:	NNN
Power:	Nt. Av.	Increases:	2.4%
Parking:	3.3 per 1,000 sq. ft.	Free Rent:	Nt. Av.
Freestanding:	Multi-tenant	Tenant	Significant, unspecified
		Improv.:	

Verification: Ron Zimmerman, Picor

Comments: This is multi-tenant space in a flex light industrial park. The location is in the south Tucson area and is similar. The party confirming this lease indicated that the owner provided a significant amount of build out for flex or office use but did not specify the amount. The size is inferior with an upward adjustment applied. The age and condition are also inferior with another upward adjustment applied.

**LEASE NO. 5**



Address: 2301 N. Forbes Blvd., Tucson

<b>Building Data</b>		<b>Lease Data</b>	
Building Area:	7,848 sq. ft.	Tenant:	QuikTrip
Year Built:	1978	Date:	October 2017
Office Space:	40%	Term:	5 years
Clearance:	21'	Rate per sq. ft.:	\$7.80
Loading:	Grade level	Expenses:	NNN
Power:	Nt. Av.	Increases:	3%
Parking:	2.7 per 1,000 sq. ft.	Free Rent:	2 months
Freestanding:	Multi-tenant	Tenant Improv.:	None

Verification: David Gallaher, Tucson Industrial Realty

Comments: This is multi-tenant space in a light industrial and office project. The space was built out with 40% of office at the time of lease but the tenant paid to add another 10% office build out. The location in northwest Tucson is superior with a downward adjustment applied. The property is older but is maintained in good condition. As a result age, quality, and condition adjustments are not applied.

## Comparable Rental Analysis

The following table provides the adjustments discussed in the individual data sheets. This table contains individual adjustments which are discussed in the data sheets.

No.	Transactional Adjustments					Physical Adjustments					
	Unadjusted Rent/SF	Expense Treatment	Adjusted Rent	Market Conditions	Adjusted Rent/SF	Size	Location	Age/Condition	Quality	Net Adj.	Indicated Rent/SF
1	\$9.72	(\$0.50)	\$9.22	0%	\$9.22	0%	-10%	0%	0%	-10%	\$8.30
2	\$6.84	(\$0.50)	\$6.34	0%	\$6.34	0%	0%	5%	5%	10%	\$6.97
3	\$5.88	\$1.75	\$7.63	0%	\$7.63	5%	0%	0%	0%	5%	\$8.01
4	\$6.89	\$1.75	\$8.64	0%	\$8.64	5%	0%	5%	0%	10%	\$9.51
5	\$7.80	\$1.75	\$9.55	0%	\$9.55	0%	-10%	0%	0%	-10%	\$8.60

One other adjustment is applied on a global basis to each of the rental comparables. This adjustment reflects the subject's tax free status. If the subject tenant's are not responsible for paying for taxes then a rental conclusion on a NNN basis without an adjustment for this item would be a "below market" rental rate conclusion. As a result each rental is adjusted upward by \$1.75 per sq. ft. for taxes. This adjustment is based on review of actual expense comparables as reported by Costar for multiple industrial parks. The adjustment at \$1.75 per sq. ft. reflects the subject's substantial build out for flex or research and development use. Four samples of real estate taxes reported by Costar are noted below. Each of these four properties is referenced earlier as a rental comparable.

- Multi-tenant flex industrial, 1010 E. Palmdale Street - \$1.70 per sq. ft.
- Multi-tenant flex industrial, 3280 E. Hemisphere Loop - \$1.00 per sq. ft.
- Multi-tenant flex industrial, 3801 E. 24<sup>th</sup> Street - \$1.78 per sq. ft.
- Multi-tenant flex industrial, 2301 N. Forbes Blvd. - \$1.29 per sq. ft.

## Market Rent Conclusion

The adjusted comparable rentals provide a range of rental rate indications of from \$6.97 to \$9.51 per sq. ft. Each rental is quoted on a triple-net (NNN) basis whereby the tenant pays all property operating costs. The low-end of the range at \$6.97 per sq. ft. is Rental No. 2. This rental is not emphasized due to the significant amount of second floor office build out. The high-end of the range is Rental No. 4 at \$9.51 per sq. ft.. This rental is not emphasized for two reasons. First, the party confirming this lease indicates that the owner provided a significant amount of tenant improvements but did not provide the amount. Second, this was an expansion. The three remaining rentals provide a more consistent range of rental rate indications of from \$8.01 to \$8.60 psf. The subject's age, quality, and condition each merit a conclusion toward the high-end of this range. As a result, the concluded market rent here for the subject is **\$8.50 per sq. ft., NNN.**

## **Increases**

The comparable rentals reviewed here, as well as other lease data retained in the appraiser's research files, indicates that annual rental rate increases are common in this market. Rental rate increases might range from 2% to 3% per year. The concluded annual increase factor here is **2.5%**.

## **Term**

Leases for space of this size usually range from 3 to 5 years. The concluded lease term here is **5 years**.

## **Concessions and Tenant Improvements**

There are limited concessions in the form of free rent being offered in the current market. In noting the tenant improvement allowance conclusion, please note that tenant improvements of this nature are negotiable. In the current market minimal tenant improvements are granted with a lease of industrial space of this nature. Usually this might include new painting and carpeting but otherwise any extra work is amortized over the lease term. As a result, there is no tenant improvement allowance provided.

## **Options**

Leases for industrial space of this nature often do not include options. There are no options provided in this estimate.

## **Final Conclusions – Summarized**

The following table summarizes the previously noted market conclusions for leasing of the subject space.

<b>LEASE RATE .....</b>	<b>\$8.50 PSF</b>
<b>EXPENSE STRUCTURE.....</b>	<b>NNN</b>
<b>INCREASES.....</b>	<b>2.5% PER YEAR</b>
<b>TERM.....</b>	<b>5 YEARS</b>
<b>CONCESSIONS/TI'S – OFFICE SPACE.....</b>	<b>\$0 PSF</b>
<b>OPTIONS .....</b>	<b>NONE</b>

## APPRAISERS' CERTIFICATION

I HEREBY WARRANT AND CERTIFY THAT, TO THE BEST OF MY KNOWLEDGE AND BELIEF:

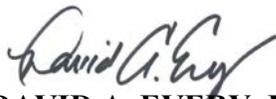
- The statements of fact contained in this appraisal report, which are used as the basis of our analyses, opinions, and conclusions, are true and correct. We have no responsibility for legal matters, questions of survey, opinion of title, soil or subsoil conditions, engineering, or other technical matters. Any sketches prepared by us and contained in this report are included solely to aid the user of the report in visualizing the property and its location, and are not necessarily to scale.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or contemplated future interest in the real estate that is the subject of this appraisal report and, further, I have no personal interest or bias with respect to the subject matter of this appraisal report or the parties involved.
- I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. Specifically, the assignment was not based on a minimum value, a specific value, or approval of a loan.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have made a personal inspection of the property that is the subject of this report.
- Credit should be given to Robert Rickman, who provided significant real property appraisal assistance to the person signing this certification in the form of researching and confirming rent comps and drafting portions of this report. The value conclusions drawn, however, are my own. In addition, I certify that I have the knowledge, experience, and the geographic competency to complete this appraisal assignment and have appraised this property type before.

## APPRAISERS' CERTIFICATION (CONTINUED):

- The reported analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, David A. Every, MAI, AI-GRS, has completed the continuing education requirements of the Appraisal Institute.
- *Every Appraisal Service* and the appraiser signing this report have never been sued by a regulatory agency or financial institution for fraud or negligence involving appraisal services.

Each finding, prediction, assumption, or conclusion contained in this report is my personal opinion and is not an assurance that an event will or will not occur. I assume that there are no conditions that are not apparent relating to the real estate, subsoil conditions, or structures located on the real estate which would affect my analyses, opinions, or conclusions with respect to the real estate.

The data gathered in this appraisal process (except data furnished by the client) and the appraisal report itself remain our property. With respect to data provided by the client, we shall not violate the confidential nature of the appraiser-client relationship by improperly disclosing any confidential information furnished to us. We are, however, authorized by the client to disclose all or any portion of this appraisal report and the related appraisal data to appropriate representatives of the Appraisal Institute, if such disclosure is required, to enable us to comply with the bylaws and regulations of said Institute now or hereafter in effect. This appraisal report shall not be quoted or referred to in any report or financial statement of the client or in any documents filed with any governmental agency without our prior written consent.



**DAVID A. EVERY, MAI, AI-GRS**

Owner - Every Appraisal Service  
State of Arizona Certified General  
Real Estate Appraiser #31343

# QUALIFICATIONS OF DAVID A. EVERY, MAI, AI-GRS

State of Arizona Certified General Real Estate Appraiser, Certificate #31343

## EMPLOYMENT HISTORY

2010 - Present	Every Appraisal Service, Owner, Tucson, Arizona
2004 - 2010	AXIA Real Estate Appraisers (previously known as KB Real Estate Appraisers), as Commercial Real Estate Appraiser and Valuation Analyst, Tucson, Arizona
1999 - 2004	Andrew J. Briefer Real Estate Advisory Services, Inc. dba KB Real Estate Advisors, as Consultant and Valuation Analyst, Tucson, Arizona
1989 - 1999	Mesa Airlines, Inc. dba America West Express, as Phoenix Station Manager, Phoenix, Arizona

## PROFESSIONAL EDUCATION

- 2018 • 2018-2019 Uniform Standards of Professional Appraisal Practice 7 hour update, Appraisal Institute, Tucson, Arizona
- 2017 • Uniform Appraisal Standards for Federal Land Acquisitions: Practical Applications, Appraisal Institute, Tucson, Arizona
  - Review Theory - General, Appraisal Institute, San Diego, California
- 2016 • Residential & Commercial Valuation of Solar, Appraisal Institute, Tucson, Arizona
- 2015 • Advanced Concepts & Case Studies, Appraisal Institute, Nashville, Tennessee
- 2014 • Advanced Income Capitalization, Appraisal Institute, San Diego, California
- 2012 • Appraising the Appraisal: Appraisal Review, Appraisal Institute, Tucson, Arizona
  - General Appraiser Report Writing and Case Studies, Appraisal Institute, San Diego, California
- 2011 • Business Practices and Ethics, Appraisal Institute Course OL-420X, Online
- 2009 • Supervising Beginning Appraisers, Arizona School of Real Estate and Business, Scottsdale Arizona
- 2008 • Condemnation Appraising: Basic Principals and Applications, Appraisal Institute Course 710, Tucson, Arizona
  - Condemnation Appraising: Advanced Topics and Applications, Appraisal Institute Course 720, Tucson, Arizona
- 2007 • Highest and Best Use and Market Analysis, Appraisal Institute Course 520, Boise, Idaho
- 2005 • Real Property Valuation Course 104 – Part I by the Arizona School of Real Estate and Business, Scottsdale Arizona
- 2004 • Real Property Valuation Course 103 by the Arizona School of Real Estate and Business, Scottsdale Arizona
  - Real Property Valuation Course 104 – Part II by the Arizona School of Real Estate and Business, Scottsdale Arizona
- 1999 • Real Property Valuation Courses 101 & 102 by the Arizona School of Real Estate and Business, Scottsdale Arizona

## **Qualifications of David A. Every, MAI, AI-GRS (continued)**

### **DESIGNATIONS, MEMBERSHIPS, LICENSES AND CERTIFICATIONS**

MAI - Designated Member of the Appraisal Institute, January 2017

AI-GRS – Designated Member of the Appraisal Institute, November 2017

Certified General Real Estate Appraiser, State of Arizona, Certificate #31343

### **SEMINARS/WORKSHOPS/CLASSES**

- 2018 • CCIM 2018 Annual Real Estate Forecast
- 2017 • CCIM 2017 Annual Real Estate Forecast
- 2013 • Pima County Real Estate Research Council 2013 Real Estate Forecast
- 2010 • International Right-of-way Association Federal Agency Update, Las Vegas, Nevada
- 2009 • International Right-of-way Association Federal Agency Update, Las Vegas, Nevada
- 2008 • Eminent Domain Conference – ABA No. 0407-628
- 2007 • Pima County Real Estate Research Council 2007 Real Estate Forecast
- 2006 • “A Frank Discussion about Eminent Domain “ – ABA No. 0906-576
- 2005 • Pima County Real Estate Research Council 2005 Real Estate Forecast
- 2000 • Real Estate Appraisal Review Workshop by the Federal Highway Administration, Phoenix Arizona

### **APPRAISAL EXPERIENCE/SCOPE OF PRACTICE**

- Clientele includes private individuals, corporate organizations, financial institutions, and governmental agencies.
- Appraisal assignments include industrial properties, vacant and improved land, large and small residential income properties, office and retail buildings, hotel and motel properties, as well as numerous special use properties.
- Experience in preparation of reports for conventional lending, SBA, litigation work, eminent domain work, consultations and appraisal reviews.
- Appraisal assignments have been completed in Pima, Maricopa, Cochise, Santa Cruz, Yavapai, Yuma, La Paz, Coconino, Navajo, Mohave and Pinal Counties within the state of Arizona; Luna, Dona Ana and Grant Counties within the state of New Mexico; and San Bernardino County within the state of California.

## **ADDENDA**

- 1) Engagement Letter
- 2) Assumptions and Limitations
- 3) Appraisers' Certificates

**ENGAGEMENT LETTER**





8476 E Speedway Blvd., Suite 210  
Tucson, Arizona 85710  
Ph: 520.954.4736  
Fax: 520.979.3408  
www.everyappraisals.com

July 16, 2018

Mr. Jeffrey Teplitsky  
Appraisal Supervisor  
201 North Stone Avenue, Sixth Floor  
Tucson, Arizona 85701

VIA EMAIL: Jeffrey.Teplitsky@pima.gov

**RE: Proposal for two appraisal reports addressing the market lease rate of: 1) 45,000 square feet within the "Abrams Building" located at 3950 S Country Club; and, 2) the 6,207 square foot Annex Building located at 2980 E Ajo Way, Tucson, Pima County, Arizona.**

Dear Mr. Teplitsky:

In accordance with your request, I am submitting a proposal for an appraisal assignment addressing the current market value of the above referenced property. The assignment is intended to comply with the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Foundation. The assignment will be completed based on the following criteria:

<i>CLIENT:</i>	<i>Pima County Real Property Services</i>
<i>PURPOSE:</i>	<i>To develop an opinion of the current market lease rate for the subject properties.</i>
<i>INTENDED USE:</i>	<i>Potential lease negotiations by Pima County.</i>
<i>INTENDED USERS OF THE ASSIGNMENT:</i>	<i>Pima County, Pima County RPS, and/or designated users</i>
<i>INTEREST ANALYZED:</i>	<i>Leased Fee</i>
<i>FORMAT OF REPORT:</i>	<i>2 Narrative Appraisals</i>
<i>EFFECTIVE DATE OF ASSIGNMENT:</i>	<i>Current</i>
<i>SCOPE:</i>	<i>Research and analyze applicable market data as it pertains to the current market lease rate for the subject properties.</i>

Based on the above noted criteria, the total fee for this assignment is \$3,500. The assignment will be completed within 30 days, provided all available necessary information is provided in a timely manner.

The client agrees that the appraiser shall not be required to testify or be in attendance at any court, administrative proceeding or court-oriented conferences relating to this assignment without additional compensation unless prior arrangement has been set forth by the Appraiser and Client. The fee for deposition, preparation, and court testimony is \$150 per hour plus any related travel/lodging expenses.

In the event that it should be necessary to employ an attorney or agency to collect any delinquent funds under this assignment, you will be responsible for the following; the initial amount of the invoice which will be doubled, all finance charges and all reasonable costs of collection, plus attorney's fees.

If these terms are acceptable, you may authorize us to begin this assignment by signing and returning the enclosed copy of this letter.

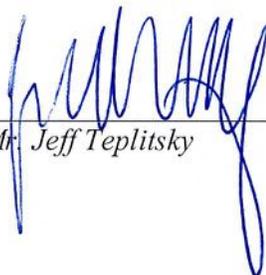
I look forward to being of service to you. If you have any questions or require additional information, please call.

Respectfully submitted,



David A. Every, MAI, AI-GRS  
Owner - Every Appraisal Service  
Certified General Appraiser  
AZ Certificate #31343

ACCEPTED AND APPROVED:

By:   
Mr. Jeff Teplitsky

  
Date

## **ASSUMPTIONS AND LIMITATIONS**

## STANDARD ASSUMPTIONS AND LIMITATIONS OF THIS APPRAISAL

This appraisal is for no purpose other than property valuation, and the appraisers are neither qualified nor attempting to go beyond that narrow scope. The reader should be aware that there are also inherent limitations to the accuracy of the information and analysis contained in this appraisal. Before making any decision based on the information and analysis contained in this report, it is critically important to read this entire section to understand these limitations.

### **This appraisal is not a survey.**

It is assumed that the utilization of the land and improvements is within the boundaries of the property lines of the property described and that there is no encroachment or trespass unless otherwise noted.

No survey of the property has been made by the appraiser and no responsibility is assumed in connection with such matters. Any maps, plats or drawings reproduced and included in this report are intended only for the purpose of showing spatial relationships. The reliability of the information contained on any such map or drawing is assumed by the appraiser and cannot be guaranteed to be correct. A surveyor should be consulted if there is any concern regarding boundaries, setbacks, encroachments or other survey matters.

### **This appraisal is not a legal opinion.**

No responsibility is assumed for matters of a legal nature that affect title to the property nor is an opinion of title rendered. The title is assumed to be good and marketable. The value opinion is given without regard to any questions of title, boundaries, encumbrances or encroachments. We are not usually provided an abstract of the property being appraised and, in any event, we neither made a detailed examination of it nor do we give any legal opinion concerning it.

It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report. A comprehensive examination of laws and regulations affecting the subject property was not performed for this appraisal.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined and considered in the appraisal report. Information and analysis shown in this report concerning these items is based only on a rudimentary investigation. Any significant question should be addressed to local zoning or land use officials and/or an attorney.

It is assumed that all required licenses, consents or other legislative or administrative authority from any local, state or national government or private entity or organization have been or can be obtained or renewed for any use on which the value opinion contained in this report is based. Appropriate government officials and/or an attorney should be consulted if an interested party has any questions or concerns on these items since we have not made a comprehensive examination of laws and regulations affecting the subject property.

### **This appraisal is not an engineering or property inspection report.**

This appraisal should not be considered a report on the physical items that are a part of this property. Although the appraisal may contain information about the physical items being appraised (including their adequacy and/or condition), it should be clearly understood that this information is only to be used as a general guide for property valuation and not as a complete or detailed physical report. The appraisers are not construction, engineering, environmental or legal experts, and any statement given on these matters in this report should be considered preliminary in nature.



For properties in which the conditions of foundations, roofs, exterior walls, interior walls, floors, heating systems, plumbing, insulation, electrical service and all mechanical and construction items are described, these descriptions are based on a casual inspection only and no detailed inspection was made. For instance, we are not experts on heating systems and no attempt was made to inspect the interior of a given property's furnace. Structures are not checked for building code violations, and it is assumed that all buildings meet applicable building codes unless so stated in the report.

Some items, such as conditions behind walls, above ceilings, behind locked doors or under the ground, are not exposed to casual view and, therefore, are typically not inspected. The existence of insulation, if any is mentioned, was found by conversation with others and/or circumstantial evidence. Since it is not normally exposed to view, the accuracy of any statements about insulation cannot be guaranteed.

It is assumed that there are no hidden or unapparent conditions of the property, sub-soil or structures that would render it more or less valuable. No responsibility is assumed for such conditions or for the engineering that may be required to discover such factors. Since no engineering or percolation tests were made, no liability is assumed for soil conditions. Sub-surface rights (mineral and oil) were not considered in making this appraisal unless specifically noted.

Unless stated otherwise in the report, wells and septic systems, if any, are assumed to be in good working condition and of sufficient size and capacity for the stated highest and best use of the property.

We are not environmental experts, and we do not have the expertise necessary to determine the existence of environmental hazards such as the presence of urea-formaldehyde foam insulation, toxic waste, asbestos or hazardous building materials, or any other environmental hazards on the subject or surrounding properties. If we know of any problems of this nature that we believe would create a significant problem, they are disclosed in this report. However, nondisclosure should not be taken as an indication that such a problem does not exist. An expert in the field should be consulted if any interested party has questions on environmental factors.

No chemical or scientific tests were performed by the appraiser on the subject property, and it is assumed that the air, water, ground and general environment associated with the property present no physical or health hazard of any kind unless otherwise noted in the report. It is further assumed that the subject site does not contain any type of dump site and that there are no underground tanks (or any underground source) leaking toxic or hazardous chemicals into the groundwater or the environment unless otherwise noted in the report.

The age of any improvements to the subject property mentioned in this report should be considered a rough estimate. We are not sufficiently skilled in the construction trades to be able to reliably estimate the age of improvements by observation. We therefore rely on circumstantial evidence that may come into our possession (such as dates on architectural plans) or conversations with those who might be somewhat familiar with the history of the property such as property owners, on-site personnel or others. Parties interested in knowing the exact age of improvements on the land should contact us to ascertain the source of our data and then make a decision as to whether they wish to pursue additional investigation.

Because no detailed construction, engineering, environmental or legal inspection was made and because such knowledge goes beyond the scope of this appraisal, any observed condition or other comments given in this appraisal report should not be taken as a guarantee that a problem does not exist. Specifically, no guarantee is made as to the adequacy or condition of a given property's foundation, roof, exterior walls, interior walls, floors, heating system, air conditioning system, plumbing, electrical service, insulation or any other detailed construction matters. If any interested party is concerned about the existence, condition or adequacy of any particular item, we would strongly suggest that a construction expert be hired for a detailed investigation.

**This appraisal is made under conditions of uncertainty with limited data.**

As can be seen from limitations presented above, the appraisal is based on an analysis of many sources of data. Every attempt has been made to confirm the data as reliable and factual, however, there are a number of limitations with respect to data including: a lack of certain areas of expertise beyond real estate appraisal methodology and techniques; the inability of the appraiser to view certain portions of the property; and the inherent limitations of relying upon information provided by others such as: income and expense data; comparable sales data; and engineering analyses.

This appraisal is an opinion of value based on an analysis of information known to us at the time the appraisal was made. All values and conclusions shown in the appraisal report are premised upon our analysis as of the date of the appraisal. These values may not be valid in other time periods or as conditions change. We take no responsibility for events, conditions or circumstances affecting the property's market value that take place subsequent to either the date of value contained in this report or the date of our field inspection, whichever occurs first.

Opinions and estimates expressed herein represent our best judgment but should not be construed as advice or recommendation to act. Before relying on any statement made in this appraisal report, interested parties should contact us for the exact extent of our data collection on any point that they believe to be important to their decision making. This will enable such interested parties to determine whether they believe the extent of our data gathering process was adequate for their needs.

**Appraisal report limitations**

Appraisal reports are technical documents addressed to the specific technical needs of clients. Casual readers should understand that this report does not contain all of the information we have concerning the subject property or the real estate market. While no factors we believe to be significant but unknown to the client have been knowingly withheld, it is always possible that we have information of significance that may be important to others but which, with our limited acquaintance with the property and in light of the limitations of our expertise (as outlined in this document), does not seem to be important to us.

Appraisal reports are technical documents, with their reporting formats guided by both the Uniform Standards of Appraisal Practice and specific technical requirements of a given client. Casual readers are cautioned about their limitations and are warned against possible misinterpretation of the information contained in these reports.

The liability of Every Appraisal Service, its employees and/or agents is limited only to the Client who paid the fee. Furthermore, there is no accountability, obligation or liability to any third party. The appraiser(s) should be contacted with any questions before this report is relied on for decision making.

This appraisal was prepared at the request of and for the exclusive use of the client to whom the appraisal is addressed. No third party shall have any right to use or rely upon this appraisal for any purpose, unless specifically identified as an additional intended user of the report.

There are no requirements, by reason of this appraisal, to give testimony or appear in court or any pretrial conference or appearance required by subpoena with reference to the property in question, unless sufficient notice is given to allow adequate preparation and additional fees are paid by the client at our regular rates for such appearances and the preparation necessitated thereby.

This report is made for the information and/or guidance of the client and possession of this report, or a copy thereof, does not carry with it a right of publication. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media without the written consent and approval of the appraiser. Nor shall the appraiser, firm or professional organization of which the appraiser is a member be identified without the written consent of the appraiser.



It is suggested that those who possess this appraisal report should not give copies to others. Certainly, legal advice should be obtained on potential liability issues before this is done. Anyone who gives out an incomplete or altered copy of the appraisal report (including all attachments) does so at their own risk and assumes complete liability for any harm caused by giving out an incomplete or altered copy. Neither the appraiser nor this company assumes any liability for harm caused by reliance upon an incomplete or altered copy of the appraisal report given out by others. Anyone with a question on whether their copy of an appraisal report is incomplete or altered should contact our office.

Values and conclusions for various components of the subject property as contained within this report are valid only when making a summation; they are not to be used independently for any purpose and must be considered invalid if so used. The allocation of the total value in this report between land and improvements (if applicable) applies only under the reported highest and best use of the property. The separate valuations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

In the case of limited partnerships, syndication offerings or stock offerings in real estate, the Client agrees that in case of a lawsuit (brought by lender, partner or part owner in any form of ownership, tenant or any other party), the Client and all parties will completely hold harmless this firm, its employees and/or agents.

#### **Americans with Disabilities Act (ADA)**

The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in valuing the property.

#### **Arizona-specific considerations**

Special consideration must be given to properties located in Arizona with respect to seismicity/subsidence. Seismic activity in Arizona is rare but does occasionally occur. A more common geotechnical manifestation has been the development of subsidence cones caused by pumping of groundwater. A geologist should be consulted if there is any concern regarding these matters.

Due to the historic nature of the American Southwest, properties within Arizona may be impacted by the presence of archaeological features, such as Native American remains or artifacts (specifically the ancient Hohokam and Anasazi settlements). The presence of such features may require mitigation on the part of the property owner or developer and could involve significant costs or time delays. It is an assumption of this report that no such archeological issues impact the subject property, unless otherwise noted in the appraisal report. Should a competent archeologist specifically identify significant archeology and quantify the cost of data recovery, we reserve the right to alter the valuation opinion contained in this report.

**APPRAISERS' CERTIFICATE**



# Department of Financial Institutions State of Arizona

CGA - 31343

**DAVID A. EVERY**

has complied with the provisions of

This document is evidence that:

Arizona Revised Statutes, relating to the establishment and operation of a:

**Certified General Real Estate Appraiser**

and that the Superintendent of Financial Institutions of the State of Arizona has granted this license to transact the business of a:

**Certified General Real Estate Appraiser**

**DAVID A. EVERY**

This license is subject to the laws of Arizona and will remain in full force and effect until surrendered, revoked or suspended as provided by law.

Signed in the Superintendent's office at 2910 North 44<sup>th</sup> Street, Suite 310,  
in the City of Phoenix, State of Arizona, this 1st day of June, 2017.

Robert D. Charlton  
Superintendent

Expiration Date : **June 30, 2019**