Board of Supervisors Memorandum

January 8, 2019

Rio Nuevo Lease and Purchase of 75 East Broadway

Background

On December 13, 2016, the Board of Supervisors approved a two-year option agreement with the Rio Nuevo Multipurpose Facilities District (Rio Nuevo) for the potential development of 75 East Broadway and 332 South Church (the "Property"). The agreement called for the development of the Property with a building of at least 150,000 square feet of Class A Office Space, plus a minimum of 350 parking places, and ground floor retail space. Additionally, the option agreement required the average wage level of the employees of the office portion of the building to exceed 150% of the Average Annual Pima County Wage.

In September 2017, Rio Nuevo issued an RFP to attract possible developers for the Property. After extensive review, Rio Nuevo—with the input of County representatives— selected J.E. Dunn's proposal as the best concept for development of the Property, in compliance with the County's minimum requirements. J.E. Dunn and Rio Nuevo have reached an agreement to develop the required Class A Office building containing a minimum of 150,000 and up to 250,000 square feet of Class A office space, up to 40,000 square feet of retail space, and parking for at least 350 cars.

Much of the "due diligence" for the project has been completed. The major remaining item—assessment of archeological impact—will begin in January 2019. Assuming the investigation does not reveal anything unexpected, the Pima County Office of Sustainability and Conservation should be able to approve development by early March, 2019. Once that assessment is approved in a timely manner, J.E. Dunn has a maximum of 12 months to commence construction. Should JE Dunn fail to commence construction at that point, Rio Nuevo has the option to terminate the Ground Lease without penalty.

Once construction commences, Rio Nuevo will begin paying the County ground rent for the Property in the amount of $189,000 per year. That rental rate is based on the latest appraisal of the property dated December 6, 2018, which is attached. Final design and construction is expected to take approximately two years. If J.E. Dunn fails to commence construction in a timely manner, Rio Nuevo may terminate the Lease/Purchase agreement without incremental cost.

Rio Nuevo sent notice to the County on December 7, 2016 to execute the lease and purchase for Property upon substantial completion of the building, Rio Nuevo will pay the County the 2.7 million price identified in the December 6, 2018 appraisal. Rio Nuevo will also pay the lease cost between commencement of construction and substantial completion, which is estimated to be approximately $400,000.

Downtown Tucson has not had a class A office building constructed in over 30 years. Site selectors brought to Tucson by Sun Corridor, Inc. indicated that the greatest weakness the region has in attracting high-wage companies was a lack of speculative space for those companies to move into quickly, as most are not willing to wait two-plus years for new construction. J.E. Dunn has an excellent track record nationally and locally (TMC Orthopedic Wing and the recent Arizona Stadium renovation). Having a multi-use facility of this quality is an important component of our continuing quest to attract to the region companies offering high wage jobs. With hundreds of housing units being built downtown, it is important to add quality office space for a balanced community in order to attract the millennial workforce--just as Caterpillar and Hexagon Mining are doing.

Developing County owned properties for high wage employment and returning them to the tax base are two of the key factors in the County's Economic Development Plan. Moving forward with this exciting project is consistent with those objectives and I encourage your approval of this agreement.

Recommendation

Approval of ground lease and purchase agreement between Rio Nuevo and Pima County for 75 East Broadway.

Sincerely,

C.H. Huckelberry
County Administrator

CHH/mp– December 28, 2018

Attachment

Attachment

AN APPRAISAL REPORT AND MARKET RENT ANALYSIS

OF

AN EXISTING 28,780 SQUARE FOOT PARKING LOT

LOCATED ON

THE NORTH SIDE OF BROADWAY BOULEVARD BETWEEN SCOTT AVENUE AND SIXTH AVENUE TUCSON, PIMA COUNTY, ARIZONA

FOR

PIMA COUNTY PUBLIC WORKS,
REAL PROPERTY SERVICES

MR. JEFF TEPLITSKY
APPRAISAL SUPERVISOR

OWNERSHIP: PIMA COUNTY
TAX PARCEL NUMBERS: 117-15-0060 AND 117-15-0080
SECTION 13, TOWNSHIP 14 SOUTH, RANGE 13 EAST

EFFECTIVE DATE OF APPRAISAL

DECEMBER 5, 2018

BAKER, PETERSON, BAKER & ASSOCIATES, INC.
Tucson, Arizona

BAKER, PETERSON, BAKER & ASSOCIATES, INC.
REAL ESTATE APPRAISERS - CONSULTANTS
4547 E. FT. LOWELL ROAD • SUITE 401 • TUCSON, AZ 85712
520.881.1700 • 1.800.204.1700
FAX 520.325.3108
admin@bakerpeterson.com

• *Over 40 Years of Service* •

December 6, 2018

Mr. Jeffrey Teplitsky
Appraisal Supervisor
Pima County Public Works, Real Property Services
201 North Stone Avenue, Sixth Floor
Tucson, Arizona 85701-1207

RE: An appraisal report and market rent analysis of an existing 28,780 square foot parking lot located on the north side of Broadway Boulevard, between Scott Avenue and Sixth Avenue, Tucson, Pima County, Arizona.

Ownership:	Pima County
Tax Parcel Nos.:	117-15-0060, 117-15-0080
Effective Date of Appraisal:	December 5, 2018
Date of Report:	December 6, 2018

Dear Mr. Teplitsky:

In response to your authorization, we have conducted the required inspection, gathered the necessary data, and made certain analyses that have enabled us to form an opinion of the market value of the fee simple interest in the above-named property as well as the market rental rate of the subject property land area. This report is intended for use only by the intended user, Pima County Public Services Division and its designees. Use of this report by others is not intended by the appraisers. This report is intended only for use in assisting the intended user in the determination fee simple market value for potential disposition purposes as well as a market rental rate of the subject property. It is not intended for any other use.

We have formed the opinion that, as of the effective date of the appraisal, December 5, 2018, based on a six to twelve month market period, and subject to the assumptions and limiting conditions set forth in the report, the subject property has a market value of:

TWO MILLION SEVEN HUNDRED THOUSAND DOLLARS
($2,700,000)

Mr. Jeffrey Teplitsky
Pima County Public Works
Real Property Services

We have formed the opinion that, as of the effective date of the appraisal, December 5, 2018, subject to the assumptions and limiting conditions set forth in the report, the subject property has an estimated annual market ground lease rate of:

ONE HUNDRED EIGHTY-NINE THOUSAND DOLLARS
($189,000)

This is an appraisal report which is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report (USPAP). As such, it presents only summary discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraisers' opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraisers' file. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated above. The appraisers are not responsible for unauthorized use of this report.

EXTRAORDINARY ASSUMPTION

This appraisal report is based on the extraordinary assumption that the subject property does not have any environmental or archeological issues which would require a cost to remediate. If it is found that the subject property does have any environmental or archeological issues which would require a cost to remediate, the value ascribed in this report is subject to change. Per USPAP, use of this extraordinary assumption may have impacted the value in this report.

Respectfully submitted,

Thomas A. Baker, MAI, SRA
Certified General Real Estate Appraiser
Certificate Number 30139
Designated Supervisory Appraiser
Registration Number DS0007

Dan Orlowski
Certified General Real Estate Appraiser
Certificate Number 32195

C187656

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PART I - APPRAISAL ABSTRACT

CLIENT
Mr. Jeffrey Teplitsky, Appraisal Supervisor
Pima County Public Works, Real Property Services

APPRAISERS
Thomas A. Baker, MAI, SRA
Dan Orlowski

Baker, Peterson, Baker & Associates, Inc.
4547 East Fort Lowell Road, Suite 401
Tucson, Arizona 85712

SUBJECT PROPERTY
An existing 28,780 square foot parking lot located on the north side of Broadway Boulevard, between Scott Avenue and Sixth Avenue, Tucson, Pima County, Arizona.

The subject property currently includes existing parking lot improvements on the site. Based on discussions with market participants, the subject property would be purchased for immediate development and not for the continued use as a parking lot. The existing parking lot improvements would not contribute any value to the site as the improvements would need to be removed in order to put the subject property into its highest and best use. Any potential revenue from the existing parking use would offset the demolition costs of the existing parking lot improvements.

LAND AREA
28,780 square feet (per Pima County Assessor's records)

ZONING
OCR-2 (City of Tucson)

LEGAL DESCRIPTION
Lots 3, 4, and 5, and a portion of Broadway Boulevard, Block 248, City of Tucson (See exhibits for full legal description – Recording Sequence Number: 2005-0040131 Parcels 3 and 4 only).

OWNERSHIP
According to public records of the Pima County Assessor, title to the subject property is in the name of Pima County, according to Docket 12463, at Page 315, dated January 6, 2005.

SALES/LISTING HISTORY
No known sales of the subject property have occurred within the last three years. The subject property is currently under option to lease, with the lease rate for the subject to be determined based on rental rate conclusion outlined in this appraisal report.

TAX PARCEL NUMBERS
117-15-0060 and 117-15-0080

FULL CASH VALUE

117-15-0060	$682,231	(2018)	$682,231	(2019)
117-15-0080	$1,228,470	(2018)	$1,228,557	(2019)
Total	$1,910,701	(2018)	$1,910,788	(2019)

The development of full cash values is based on mass appraisal models as set by the State of Arizona. They are for tax assessment purposes only and cannot be equated with market value as utilized in this appraisal. Thus, they serve only as a point of comparison with other properties.

LIMITED CASH VALUE

117-15-0060	$271,277	(2018)	$284,841	(2019)
117-15-0080	$486,259	(2018)	$510,572	(2019)
Total	$757,536	(2018)	$795,413	(2019)

Limited Cash Value is the basis for primary property taxes. It is a legislatively established value based on a mathematical formula that limits the amount of increase in any given year.

REAL ESTATE TAXES
Exempt

Real estate taxes are a combination of a primary tax, which is the primary tax rate applied to the limited cash value and divided by 100, plus the secondary tax, which is the secondary tax rate applied to the full cash value and divided by 100. The primary and secondary tax rates are an aggregate of various tax rates set by various jurisdictions.

DELINQUENT TAXES
None

SPECIAL ASSESSMENTS
None

LIMITING CONDITIONS
Subject to those assumptions and limiting conditions contained in the "*Assumptions and Limiting Conditions*" section of this report.

EXTRAORDINARY ASSUMPTION
This appraisal report is based on the extraordinary assumption that the subject property does not have any environmental or archeological issues which would require a cost to remediate. If it is found that the subject property does have any environmental or archeological issues which would require a cost to remediate, the value ascribed in this report is subject to change. Per USPAP, use of this extraordinary assumption may have impacted the value in this report.

PURPOSE OF THE APPRAISAL
The purpose of this appraisal is to provide the appraisers' opinion of the market value and market rent of the subject real property as of the effective date of the appraisal, December 5, 2018.

MARKET VALUE DEFINITION
Market value, as utilized in this appraisal, and as defined in The Appraisal of Real Estate, 14th Edition, published by the Appraisal Institute, 2013, page 59, is:

> The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

INTENDED USE AND USER OF REPORT
This report is intended for use only by the intended user, Pima County Public Services Division and its designees. Use of this report by others is not intended by the appraisers. This report is intended only for use in assisting the intended user in the determination fee simple market value for potential disposition purposes as well as a market rental rate of the subject property. It is not intended for any other use.

INTEREST VALUED
Fee Simple Interest. *Fee Simple Interest*, as defined in The Dictionary of Real Estate Appraisal, Sixth Edition, Appraisal Institute, 2015, page 90, is "Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."

EFFECTIVE DATE OF APPRAISAL
December 5, 2018

DATE OF INSPECTION
December 5, 2018

PART II - SCOPE OF THE APPRAISAL

Scope of work is identified by USPAP as the "amount and type of information researched and the analysis applied in an assignment." According to the scope of work rule as defined by USPAP, "For each appraisal, appraisal review, and appraisal consulting 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 appraisal assignment has been completed in response to authorization by Mr. Jeffrey Teplitsky for Pima County Real Property Services in a contract executed by Thomas A. Baker, MAI, SRA for Baker, Peterson, Baker and Associates, Inc. The assignment includes appraisal of the property herein described, and the preparation of a report which describes the property being appraised, analyzes appropriate data, and offers an opinion of the market value of the property as of the effective date specified in the report. The appraisal is prepared and reported according to the Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation, the Code of Ethics and the Standards of Professional Practice of the Appraisal Institute, the standards of Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and to those specifications provided by the client.

This report is intended for use only by the intended user, Pima County Public Services Division and its designees. Use of this report by others is not intended by the appraisers. This report is intended only for use in assisting the intended user in the determination fee simple market value for potential disposition purposes as well as a market rental rate of the subject property. It is not intended for any other use. The purpose of the appraisal is to provide the appraisers' opinion of the market value in fee simple interest and market rental rate of a specific property which has been previously identified in this report, and is referred to as the subject property, the subject, or the property.

The exact nature of, and interest in, the subject property is defined elsewhere in this report. The appraisal provides an opinion of the market value of the subject property using the sales comparison approach, which is defined in the report. In completing this assignment, the appraiser inspected and photographed the subject property, reviewed and confirmed data relative to metropolitan Tucson (from economic and demographic data, including COMPS© Commercial Property Information Services, Tucson Multiple Listing Service (MLS), Metropolitan Tucson Land Use Study (MTLUS), and the Pima County Real Estate Research Council), the neighborhood and the site).

An opinion of the "highest and best use" of the property was formed, utilizing resources to identify such factors as land use, supply and demand, governmental requirements, environmental concerns, and economic elements, present and anticipated which may impact upon the marketability of the property.

In the sales comparison approach, there was a thorough search for sale and listing data considered directly competitive to the subject property. This data was confirmed with one or more parties related to the transaction and (in the case of sales) by review of deeds and records of the Pima County Assessor. The analysis then compared each sale considered a reliable indicator of the value to the subject property in terms of those factors which were superior to the subject, inferior to the subject, and equal or offsetting.

The subject property currently includes existing parking lot improvements on the site. Based on discussions with market participants, the subject property would be purchased for immediate development and not for the continued use as a parking lot. The existing parking lot improvements would not contribute any value to the site as the improvements would need to be removed in order to put the subject property into its highest and best use. Any potential revenue from the existing parking use would offset the demolition costs of the existing parking lot improvements.

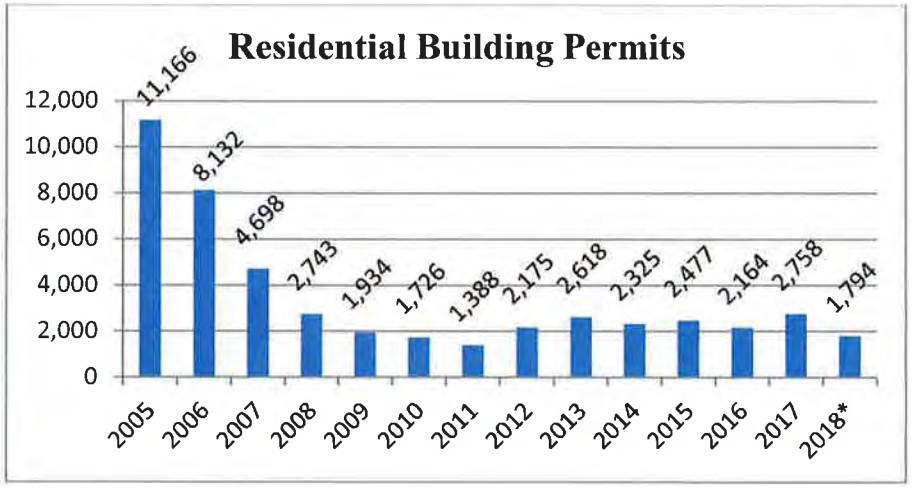
The sales comparison approach provided an opinion of the market value of the subject property to arrive at a final opinion of market value. To develop the opinion of value, the appraiser performed an appraisal process as defined by the Uniform Standards of Professional Appraisal Practice. This appraisal report is a brief recapitulation of the appraisers' data, analyses, and conclusions. The appraisers' file retains supporting documentation.

Extraordinary Assumption: This appraisal report is based on the extraordinary assumption that the subject property does not have any environmental or archeological issues which would require a cost to remediate. If it is found that the subject property does have any environmental or archeological issues which would require a cost to remediate, the value ascribed in this report is subject to change. Per USPAP, use of this extraordinary assumption may have impacted the value in this report.

PART III - DESCRIPTION OF REAL ESTATE APPRAISED

TUCSON OVERVIEW:
Tucson is Arizona's second largest city and the "hub" of commerce in southeastern Arizona. According to the Pima Association of Governments, in July, 2010, the estimated population of all of Pima County (including Tucson) was 981,168 persons while the population of Tucson alone was estimated to be 520,795 persons.

Starting in 2006, fewer single-family residential permits were issued due to the current oversupply of lots and residential homes on the market. According to the United States Census Bureau, Building Permits Survey, the number of single-family residential permits declined through 2011. There was limited new single-family construction since 2008, with the decline continuing through 2011, with a small increase in 2012. The number of permits remained mostly stable with some slight variations since 2013, and increased slightly in 2017. The 2018 data is for the first half of the year only.



Overall, housing permits and sales had been increasing and a period of substantial growth occurred during 2004 and 2005 with unprecedented price increases experienced for most areas of Tucson. Building permit activity declined steadily in the Tucson Metropolitan area from a peak in 2005 of 11,166 to a summit of 1,388 in 2011 for all new single-family residential construction residential building permits, according to the United States Census Bureau, Building Permits Survey. This was due in part to the difficulty in obtaining financing and, to a larger extent, a decrease in demand from primary home buyers and speculative home purchases by out of state buyers and an oversupply of available homes on the market, resulting in declining home prices. The slow-down in sales has resulted in an increase in the inventory of available houses and a decrease in housing prices in the Tucson Metropolitan area. There has been a 56 percent increase in residential permits in 2012 from the bottom in 2011. This is an indication that the new home residential market is beginning to recover. The number of permits for 2013 showed a continued improvement in the market, with indications of a slight decline in 2014. In recent years, the number of permits has remained mostly stable with a slight increase in 2017. New home sales are still well below peak or stabilized levels seen in the past.

Multi-Family Market

Vacancy rates for apartment properties in the Tucson Metropolitan area peaked in 2009 before slowly declining. The chart below shows vacancy rates in metropolitan Tucson between Second Quarter 2008 and Second Quarter 2018, according to Apartment Insights' *Statistics/Trends Summary*.

The vacancy rate peaked in the Second Quarter 2009 and generally declined since that time. The vacancy rate declined in late 2015 and remained mostly stable in 2016. Vacancy rates for apartment properties typically increase in the second quarter of each year due to seasonal changes in population. The current rent levels for multi-family properties have remained generally stable with small increases in most sectors in many recent quarters. There is limited demand for new construction, with the exception of student housing projects and some larger high-end Class A apartment complexes with many amenities.

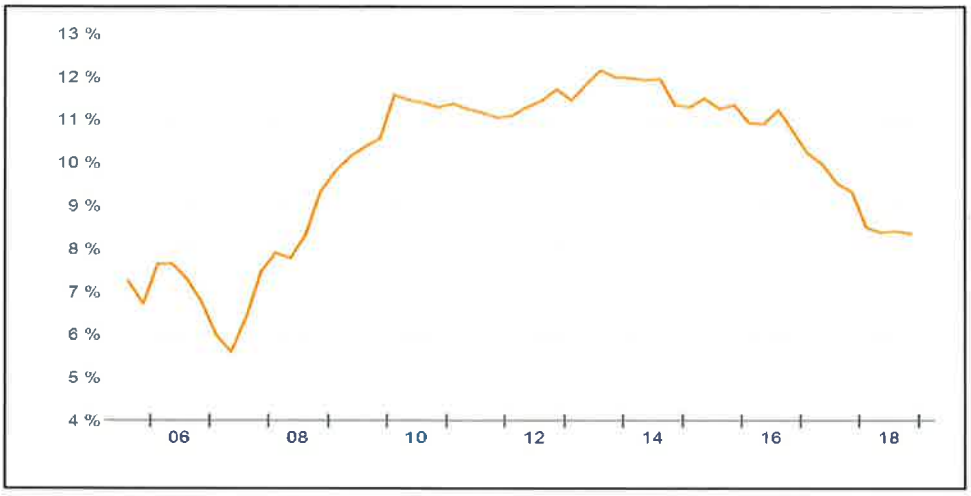
Office Market

Overall, the leasable *office market* experienced net positive absorption of 42,164 square feet in the Third Quarter of 2018, according to *The CoStar Office Report, Tucson Office Market, Third Quarter 2018.* This compares to net positive absorption of 110,299 square feet in the Second Quarter 2018, net positive absorption of 44,011 square feet in the First Quarter of 2018, net positive absorption of 51,296 square feet in the Fourth Quarter of 2017, net positive absorption of 135,986 square feet in the Third Quarter of 2017, net positive absorption of 84,046 square feet in the Second Quarter of 2017, and net positive absorption of 89,696 square feet in the First Quarter of 2017.

Two new office buildings containing 50,500 was completed in Third Quarter of 2018. This compares to one new building containing 61,000 square feet completed in the Second Quarter of 2018, one new building containing 20,000 square feet completed in the First Quarter of 2018, two new buildings containing 12,850 square feet was completed in Fourth Quarter 2017, no new buildings in the Third Quarter 2017, two buildings containing 21,631 square feet was completed in the Second Quarter 2017, and no new buildings completed in the First Quarter 2017.

The following figure shows trends in the vacancy rates for office properties in Tucson between Second Quarter 2005 and Third Quarter 2018. The vacancy rate increased until late 2013 and has declined since that time. The office vacancy rate remains higher than 2005-2008 levels.

Office Vacancy Rate



The stable but higher overall annual vacancy rate indicates an office market which is coupled to the overall stable but slow real estate market. There was a decline in demand for owner/user office buildings, which had made up a majority of office sales in 2006 and 2007. Market conditions stabilized in 2013 and remain slow but stable. Market conditions for office properties have started to slowly improve, primarily for office properties in high demand areas and newer office buildings in good condition. Demand remains lower for older office buildings.

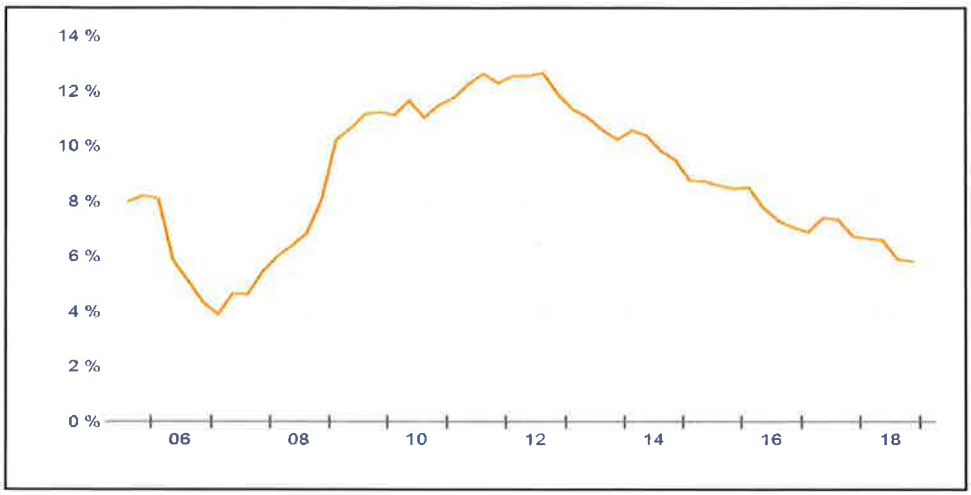
Industrial Market

Tucson experienced rapid *industrial* growth from the late 70's to the mid-80s. There has been limited new industrial space constructed recently in Tucson, with no new buildings completed in the Third Quarter of 2018, one new building containing 300,181 square feet completed in the Second Quarter of 2018, no new buildings completed in the First Quarter of 2018, the Fourth Quarter of 2017, or the Third Quarter of 2017, four new buildings containing 53,721 square feet completed in the Second Quarter 2017, and no new buildings completed in the First Quarter 2017, according to *The CoStar Industrial Report, Tucson Industrial Market, Third Quarter 2018.*

There was net positive absorption of 275,254 square feet in the Third Quarter 2018. This compares to net positive absorption of 314,587 square feet in the Second Quarter 2018, net positive absorption of 44,854 square feet in the First Quarter 2018, net positive absorption of 255,485 square feet in the Fourth Quarter 2017, net positive absorption of 29,338 square feet in the Third Quarter 2017, net negative absorption of 171,007 square feet in the Second Quarter 2017, and net positive absorption of 71,381 square feet in the First Quarter 2017, according to *The CoStar Industrial Report, Tucson Industrial Market, Third Quarter 2018.*

The following chart shows trends in the industrial vacancy rate in Tucson from Second Quarter 2005 through Third Quarter 2018, according to CoStar.

Industrial Vacancy Rate



Overall, the industrial vacancy rate increased through late 2012. The vacancy rate declined from late 2012 and continued to decline through 2016. The vacancy rate was somewhat stable from 2017 through the first half of 2018. The industrial market has stabilized but there are not yet signs of increased prices. There continues to be a large supply of fully zoned and improved industrial lots available in the Tucson market with limited demand in the current market. The overall decline in the economy is affecting many potential industrial users and there remains a slow demand for industrial zoned land.

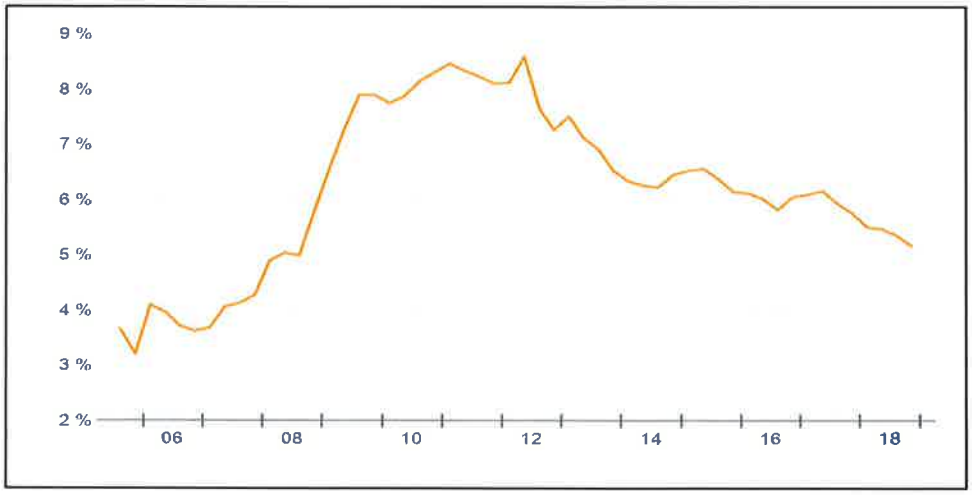
Retail Market

Retail space had maintained more constant levels of growth and absorption, with decreasing vacancy rates observed prior to mid-2007. In general, the market turned down starting at the end of 2007. Some signs for a decline in market conditions includes contracts cancelled, development projects put on hold with reasons including reduced demand and increased competition of other developments coming out of the ground, offers and counter offers at considerably below the listing price, listings being repriced at lower levels, existing tenants looking for rental relief, businesses closing their stores and vacating the premises, and excess developed land without demand. However, in recent years, demand has increased for many types of retail properties.

There was net positive absorption of 283,189 square feet in the Third Quarter 2018, according to *The CoStar Retail Report, Tucson Retail Market, Third Quarter 2018.* This compares to net positive absorption of 125,855 square feet in the Second Quarter 2018, net positive absorption of 263,692 square feet in the First Quarter 2018, net positive absorption of 166,347 square feet in the Fourth Quarter 2017, net positive absorption of 201,700 square feet in the Third Quarter 2017, net positive absorption of 44,726 square feet in the Second Quarter 2017, and net positive absorption of 126,805 square feet in the First Quarter 2017.

The following shows trends in the vacancy rate for retail properties in the Tucson market between Second Quarter 2005 and Third Quarter 2018, according to *Costar*.

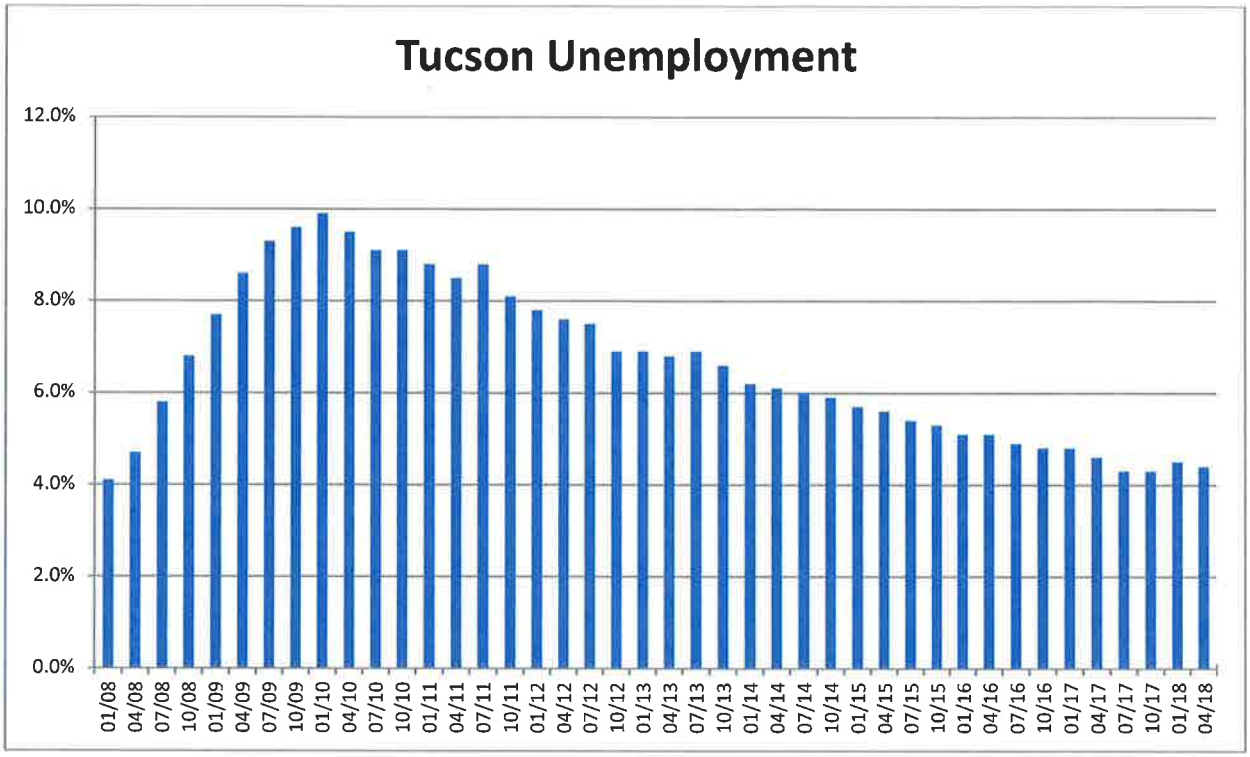
Retail Vacancy Rate



This chart shows that the vacancy rate for retail properties increased through mid-2012. The retail vacancy rate declined since that time and remained mostly stable from 2016 through the 2017, with a slight decline in early 2018. The retail market has stabilized and is starting to improve in high demand areas, although there remains little demand for older retail properties in low demand areas.

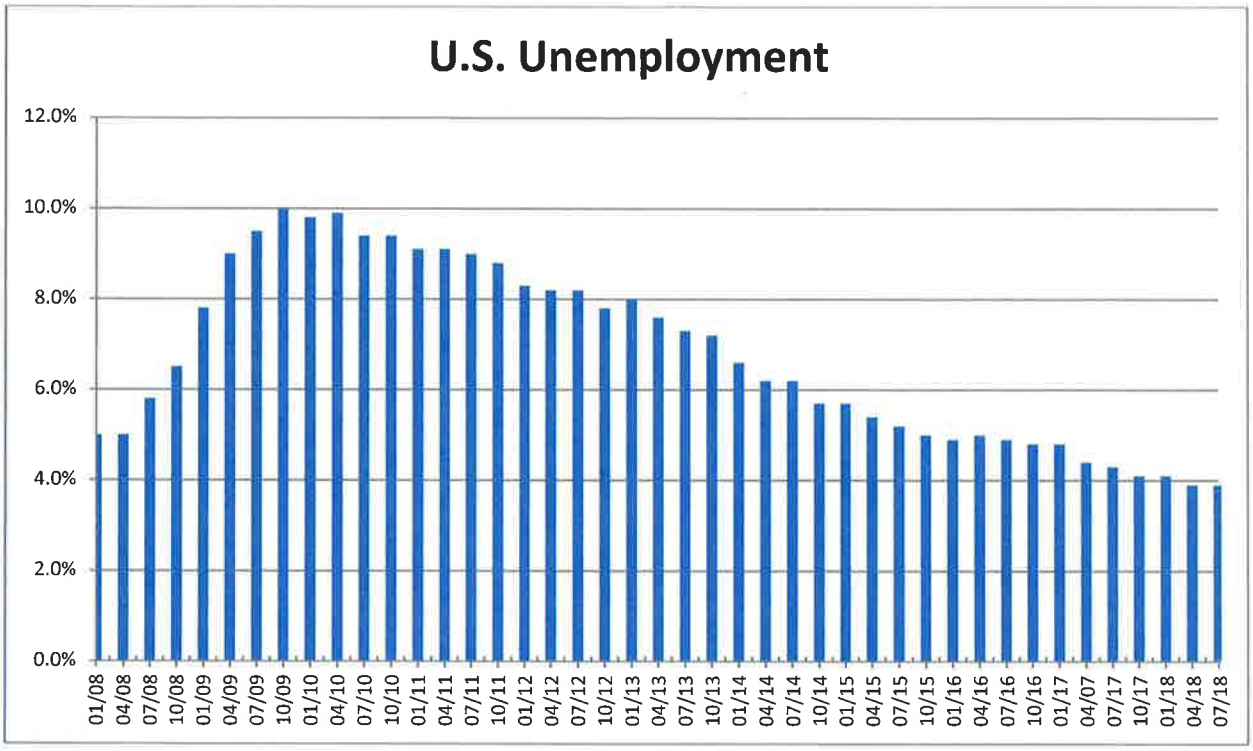
In the Third Quarter of 2018, eight new buildings containing 227,611 square feet were completed. This compares to six new buildings containing 118,780 square feet in the Second Quarter 2018, fifteen new buildings containing 152,297 square feet in the First Quarter 2018, seven new buildings containing 43,949 square feet in the Fourth Quarter 2017, three new buildings containing 85,155 square feet in the Third Quarter 2017, nine new buildings containing 80,229 square feet in the Second Quarter 2017, and eight new buildings containing 156,962 square feet in the First Quarter 2017.

According to Arizona Department of Administration, Office of Employment and Population Statistics, the seasonally adjusted unemployment rate for metropolitan Tucson was as follows:



The previous data shows that the unemployment rate in the Tucson metropolitan area increased and peaked in early 2010. The unemployment rate has slowly been declining since early 2010 and remained mostly stable from mid-2012 through 2013. There has been a slow steady decline in the unemployment rate over the last several years, with the unemployment rate remaining mostly level in the last year.

According to the United States Department of Labor, Bureau of Labor Statistics, the national seasonally adjusted unemployment rate also increased through late 2009. The unemployment rate remained high and started to decline slowly in late 2010. The unemployment rate has declined and is now close to early 2008 levels.



Overall, the commercial real estate markets reveal that most investors hold a cautionary but improving outlook due to continued oversupply of available space in many markets which adversely affects tenants, owners and investors, and the continuing uncertainty of the government conditions. The stabilizing supply and demand fundamentals will result in slowly improving values. In the short term, improving growth is projected for Tucson over the next one to two years, with market conditions expected to remain stable and slowly start to improve during this time. There are some areas of Tucson where demand is increasing greater than the overall market. The long term result should be a more balanced level of supply and demand - more conducive to steady long-term development. Factors such as climate, health and educational facilities, and the availability of housing are positive influences which will result in long-term economic growth for metropolitan Tucson.

MARKET AREA

The market area of the subject property is located within and immediately adjacent to the downtown business district of the City of Tucson. Generally speaking, it is bounded on the north by Sixth Street and the Union Pacific Railroad tracks, on the south by Cushing Street, the Cushing Street alignment and 14th Street, on the east by the Union Pacific Railroad tracks and Third Avenue, and on the west by Interstate 10. Existing property types located in the market area include commercial retail buildings, City, County, State, and Federal office buildings, low and medium high rise office buildings, hotels, and residential uses, with most vacant land in the general area typically used for parking lots. The downtown area consists of the "core area" and the "core support area." The core area is bounded on the north by Alameda Street, on the east by Scott Avenue, on the south by Broadway Boulevard and on the west by Church Avenue. It is that downtown area which includes the most intense land uses. It includes all of the high-rise properties in the downtown area. It also has some retail space which is predominantly utilized by restaurants. The remainder of the area surrounding the downtown core area is the "core support area." This area generally consists of support uses to the core area. These uses include garden to mid-rise office buildings, public buildings, retail, hotel, residential, parking lot and garage uses, and vacant land. The core support area on the west side of the downtown market area is influenced by proximity to Interstate 10 and the Tucson Community Center. Single family residential properties in the area include historic barrio homes with ages ranging from 75 to 125 years, and a trend towards some new residential construction, such as the conversion of the old "Ice House" building located near 17th Street into 51 loft condos. Residential development has been limited in the area since the slowdown in the residential market starting in mid-2006. However, there has been a recent increase in multifamily mixed-use development in the downtown area.

Future trends anticipate a continued increase in multifamily and mixed-use properties in the downtown area projected to continue to be strong, with low vacancy rates. Commercial uses include single-tenant and multi-tenant retail and office space. Many properties between Broadway Boulevard and Alameda Street, east of Stone Avenue are commercial buildings used for art gallery space, restaurants and service businesses, as well as multi-tenant low, mid and high-rise office buildings. The area east of Scott Avenue is comprised of single-story to low-rise retail and apartment uses.

The east area of downtown, which would be considered the entertainment district of downtown, has seen the most development in the past couple of years, with student housing over two city garages, new retail, and conversion of older spaces with restaurant and bar uses. The core area has a higher and more stable occupancy, with an estimated vacancy rate ranging from 5 to 10 percent. The core area has been the focus of recent multifamily developments, with several new mid-rise and high-rise projects recently completed and a number of developments currently under construction or in the planning phase. The area outside of the core area has a higher vacancy rate due to age and condition of the available space. This is based on observation and conversations with brokers familiar with the downtown area. The Tucson Community Center is located in the southwest portion of the market area and state, federal, and county buildings are located near Pennington and Congress Streets. The market area is identified as being a part of the Heritage Incentive Zone and the Rio Nuevo Plan. Over the past few years, public and private improvements have been completed or are planned

which will increase demand for new development in the market area. Unisource purchased the former Santa Rita Hotel property on Broadway between Scott and Sixth Avenues and demolished the former hotel building and built a new company headquarters office on the site. Scott Avenue improvements and construction of the Fourth Avenue underpass are complete. The Fourth Avenue underpass improves connection between the University area, the Fourth Avenue area, and the east side of downtown. Construction of a modern streetcar, which went live in 2014, has been an important component in the revitalization of the downtown area, and further enhances mobility between the University area, the Fourth Avenue area, downtown's east side, and the Mission district area located on the west side of the freeway is also a newer core support area. Many mixed-use and multifamily residential developments have been completed in the downtown area including redevelopment of the old Martin Luther King Apartment building at Fifth Avenue and Congress into what is now a mixed-use development with market rate apartments and ground floor retail space; two mixed-use developments located at the northeast and southwest corners of Stone and Broadway; the AC brand by Marriot which opened late in the third quarter of 2017 at the northwest corner of Broadway Boulevard and Fifth Avenue; the McCormick Townhouses located on Stone Avenue, south of Broadway; and several other smaller developments and renovations throughout the downtown area. The Congress District is planned for a facelift for storefronts with the implementation of the Downtown Facade program. Streetscape improvements, including sidewalks, plantings, and lighting features are also planned. The Rialto Theatre and Club Congress provide a center of activity for the east side of downtown.

There are a number of planned multifamily/mixed use developments within the core and immediately adjacent to the core downtown area, being the area with the strongest demand. According to information from the Downtown Tucson Partnership, there are over 1,500 planned housing units (some already under construction) in and around the core downtown area which are planned to be under construction in the next couple of years. There are additional planned developments that are not listed on the Downtown Tucson Partnership list which would likely increase the number of upcoming multifamily residential uses in and around the core downtown area to over 2,000 units under construction over the next several years. While not a complete list, below are some of the more notable projects in the area include:

- Northwest corner of Stone and Broadway - located in the core downtown area. The Rendezvous Urban Flats is a planned mixed-use project with six-story structure consisting of over 4,000 square feet of ground floor retail and 100 market rate apartments on the upper floors. This site has a three level underground parking garage already in place. This site was initially planned for a high-rise site; however, due to high cost of construction of development over five or six stories, this planned development has been scaled down to six story development.

- Southeast corner of I-10 and Congress Street - located approximately five blocks west of the core downtown area. This is a large land area (8.5 acres) with several uses planned which include multifamily development, hotel, and gem show facility.

- Northeast corner of Stone and 16th Street - located approximately 5 blocks south of the core downtown area. This is planned to contain a development of nine two-story town homes.

- In the Mission District, west of I-10, are several planned projects in different phases of development. The West End station apartment development which will be an affordable housing mixed-use development which is currently under construction. Site work has already started on the Monier Apartments, which will consist of a four-story building with market-rate rental units with ground-floor retail and an underground parking garage structure. Additionally, a large entertainment and retail development utilizing storage containers has opened in the immediate vicinity of the Monier Apartment site. There is a planned high-density mixed use development which is early in the planning stages. This area west of I-0 is a separate market area that supports the downtown market area due to the proximity to downtown and the streetcar line which runs through this market area.

- Adjacent to the Mission District on the west side of I-10, currently in the construction phase, is a new corporate headquarters facility for Caterpillar which will add employees to the area. This office use development has been a key driver for the recent increase in demand in the adjacent Mission District.

- On the south side of Congress Street, between Scott Avenue and Stone Avenue - located within the core downtown area. Known as City Park, this development is planned to be a six-story mixed use development containing 39 residential lofts, 39,500 square feet of creative office lofts, 23,500 square feet of ground floor retail and restaurant space, and 10,000 square feet of outdoor and rooftop entertainment space.

- Southwest corner of Broadway Boulevard and Church Avenue - located within the core downtown area. HSL Properties has plans to redevelop La Placita into a four to five story residential multifamily development containing approximately 230 - 240 multifamily units with two levels of onsite parking.

- Southwest corner of Church Avenue and Franklin Street - located approximately 5 blocks north of the core downtown area. Known as "Block 175", located on 84,626 square feet of land area and is currently within the RFP phase with plans to develop the site into a mixed use development with ground-floor retail and medical office uses, mid-rise multifamily uses, and town home uses along Franklin street. The number of units planned has not yet been determined.

- Northeast corner of Congress Street and Sixth Avenue - located within the main downtown entertainment district. This site is currently in the planning phase with a planned retail use, hotel use, and multi-family uses. The development will consist of two towers with hotel, retail, and multifamily uses. As part of this development, an existing parking lot located at the northeast corner of Toole and Sixth Avenue, located two blocks north of the main entertainment district is planned to contain a parking garage.

- Behind the Rialto Theater - located within the main downtown entertainment district. A dual-branded 16 story hotel building is expected to begin construction shortly. The building will contain two boutique hotels run by Marriott called Moxy, which will contain 109 rooms, and Element, which will contain 140 rooms. As part of this development, the existing Rialto Theater will be relocated temporarily to the Corbett Building during construction of the hotels.

- Additionally, a planned hotel site is to be located just south of Broadway Boulevard, on Stone Avenue and another hotel is to be located adjacent to the community center. Other market rate apartments are being considered for development in downtown support areas like Fourth Avenue where mixed use developments are planned.

SITE DESCRIPTION

The site is a mostly rectangular shaped property with approximately 267 feet of frontage on Broadway Boulevard along the southern border, 106 feet of frontage on Scott Avenue along the western border, and 114.4 feet of frontage on Sixth Avenue along the eastern border (see Exhibits). There is a public alleyway that runs along the northern border of the property. The site contains a total area of 28,780 square feet. Broadway Boulevard is a one-way (eastbound) asphalt paved roadway with a two through lanes and a left turn lane to head east on Sixth Avenue with concrete curbs, sidewalks, and streetlights in the vicinity of this property. Broadway Boulevard has a 2017 traffic count of approximately 18,200 vehicles per day near this site. The intersection of Broadway Boulevard and Sixth Avenue is a traffic light controlled intersection. The modern streetcar track runs adjacent to the subject property along Broadway Boulevard. Scott Avenue is a two-lane asphalt paved roadway with street parking, concrete, curbs, sidewalks and streetlights in the area of the subject property. There is no traffic count available for Scott Avenue in the area of the subject. Sixth Avenue is a three lane asphalt paved roadway with street parking, concrete curbs, sidewalks, and streetlights in the area of the subject. The intersection of Broadway and Sixth is a traffic light controlled intersection. Sixth Avenue has a 2017 traffic count of approximately 8,900 vehicles per day in the area around the subject property. While the subject property has frontage and visibility from Broadway Boulevard, there is no direct access to the site from Broadway Boulevard. Direct access to the subject property is from Sixth Avenue only. The site also has secondary access from the adjacent alleyway to the north. The topography is level. Soil conditions appear to be typical of the area. Properties bordering the subject property include an office use (Unisource building) to the south; and downtown retail and office uses to the north, east, and west.

The subject property currently includes existing parking lot improvements on the site. Based on discussions with market participants, the subject property would be purchased for immediate development and not for the continued use as a parking lot. The existing parking lot improvements would not contribute any value to the site as the improvements would need to be removed in order to put the subject property into its highest and best use. Any potential revenue from the existing parking use would offset the demolition costs of the existing parking lot improvements.

Utilities available to the property include electric (Tucson Electric Power Company), telephone (CenturyLink), water (City of Tucson Water Company), and sewer (Pima County Wastewater Management). Any development of the site would require an engineering study to determine the availability and adequacy of utilities.

According to FEMA Flood Insurance Rate Maps 04019C2276L and 04019C2277, dated June 16, 2011, the subject property is not identified as being located in a Special Flood Hazard Area (see Exhibits). The property is in a seismic zone which is considered to have a low probability of seismic activity. There are no known easements or encumbrances that adversely affect the subject property.

ZONING

The subject property is zoned OCR-2, City of Tucson zoning code (see Exhibits). The purpose of this zone is to provide for high-rise development that serves the community and region, located in major activity centers. A mixture of development types is encouraged, including office, commercial, and high-density residential uses. There is no minimum lot or site area. A maximum building height of 300 feet is permitted. The maximum floor area ratio is 10.50 which indicate a maximum of 10.5 square feet of floor area for every square foot of site area is allowed under this designation. Specific building setbacks for the subject vary depending on the type of uses allowed on adjacent sites.

On February 18, 2015, a new Infill Incentive District (IID) was adopted, Ordinance No. 11246, and was implemented on March 20, 2015 (see Exhibits). The new IID is made up of four sub districts consisting of the Rio Nuevo Area, The Greater Infill Incentive Sub District, The Downtown Core sub district and The Downtown Links Sub district. The Downtown Links Sub district is further subdivided into the Toole Avenue Area, Warehouse Triangle Area, Fourth Avenue Area, Iron Horse Area, and Stone/Sixth Area.

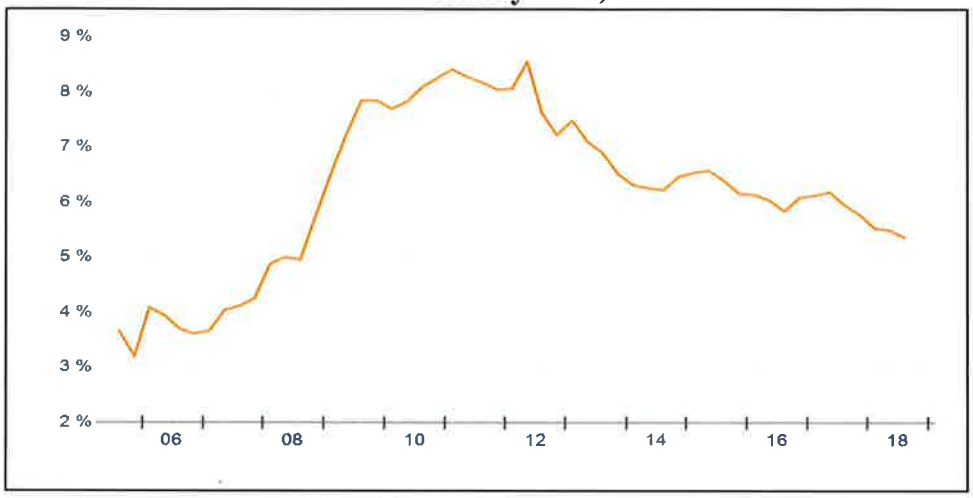
The subject property falls within the Downtown Core subdistrict of the new IID. The IID does not change the uses allowed for the underlying OCR-2 zoning of the subject property, however the IID does provide for some development standard exceptions such as reduced parking requirements and reduced setback restrictions.

The subject property is also located within the City of Tucson Government Property Lease Excise Tax (GPLET) district. Per the City of Tucson, the GPLET district can provide up to 8 years of property tax abatement. This incentive is available for projects located in the Central Business District that result in a property value increase of at least 100%. This amount abated cannot exceed the economic benefit created by the project. To become "government property" the City will take ownership of the property for the duration that the owner wishes to be relieved of tax obligations.

MARKET PROFILE - RETAIL

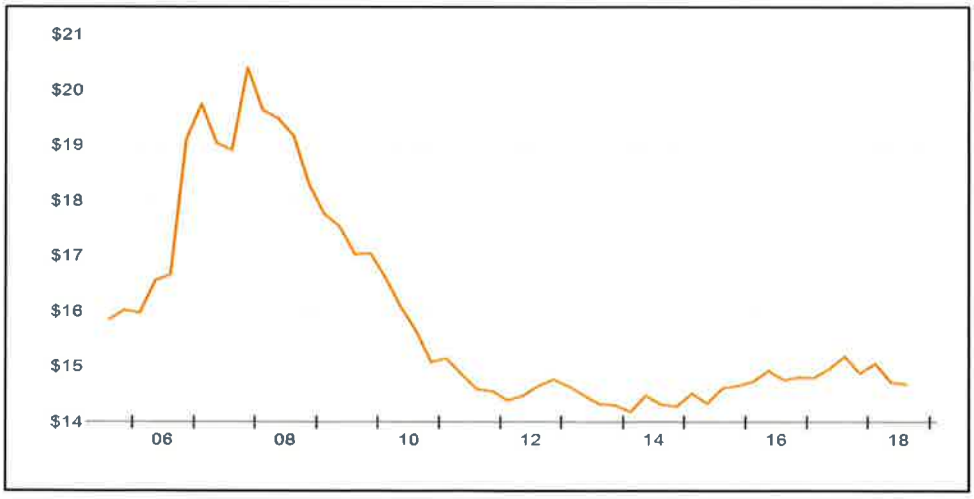
The following is the vacancy rate for retail properties in the Tucson Market, according to CoStar. This data indicates that the vacancy rate increased from the end of 2006 and peaked near the middle of 2012. Since the peak level, retail vacancy rates have declined through the third quarter of 2018.

Retail Vacancy Rate, Tucson



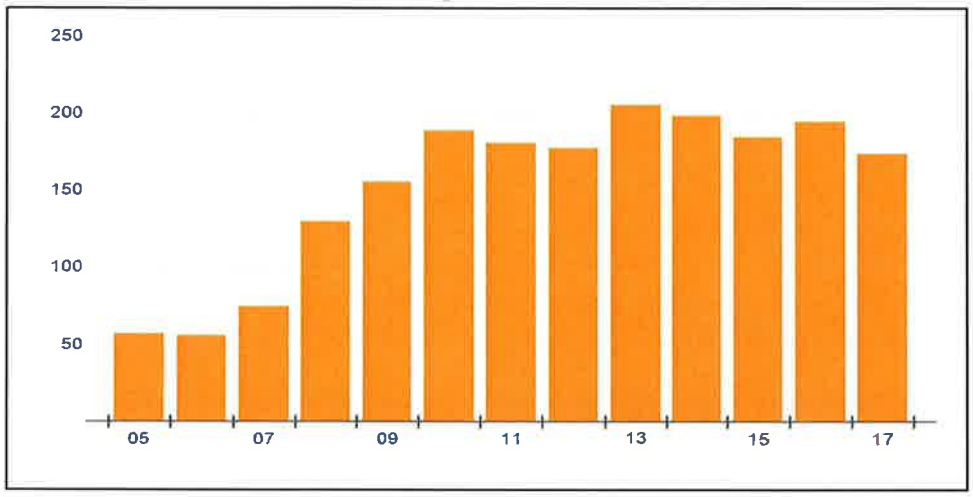
The following is the average asking rental rate for retail properties in the Tucson market, according to CoStar. This data indicates that the average asking rental rate peaked in late 2007, and then steadily declined through 2011 before stabilizing. Since that time, the average asking rental rate has remained mostly stable, with a gradual upward trend beginning in mid-2015 and continuing the third quarter of 2018.

Retail Average Asking Rental Rate, Tucson



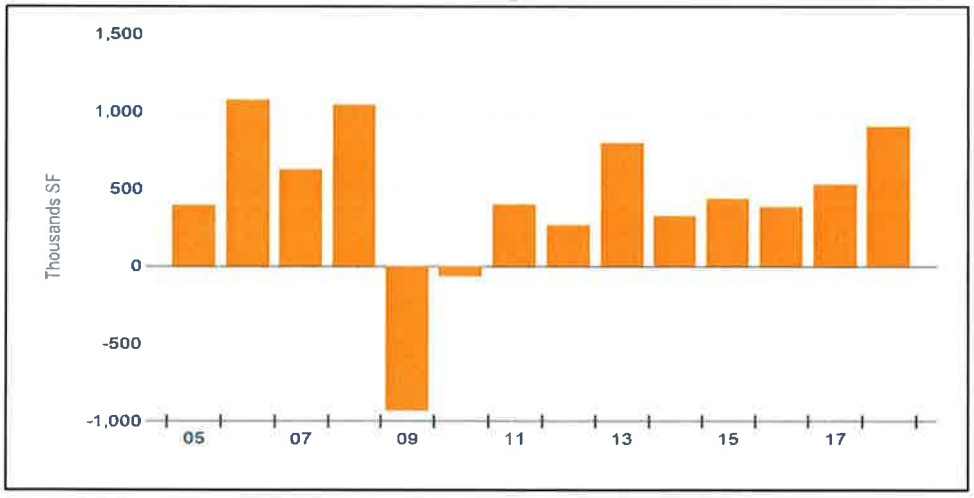
The following is the number of retail listings for sale in the Tucson Market, according to CoStar. The number of retail listing for sale increased from 2005 through 2013. The number of retail listings has remained relatively steady from 2014 through the third quarter of 2018, with some minor fluctuation during that time period.

Retail Listings For Sale, Tucson



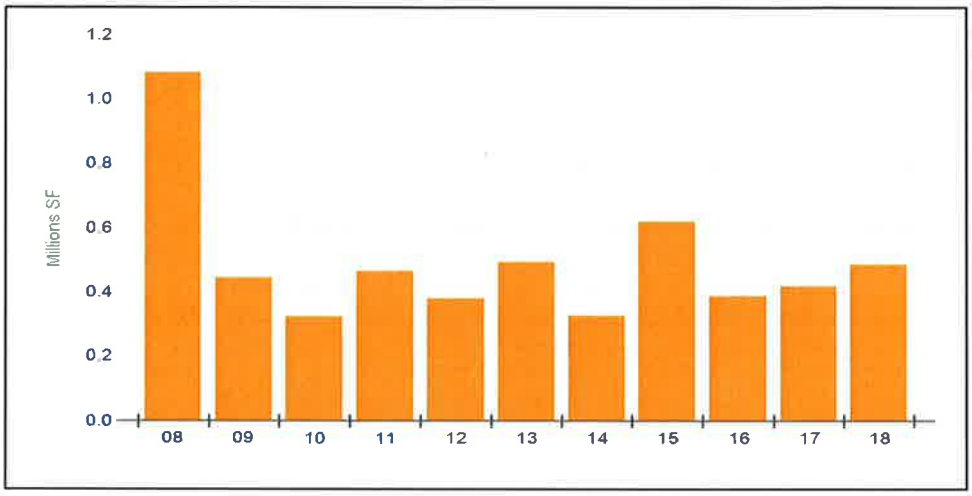
The following is the net absorption for retail properties in the Tucson Market, according to Costar. This indicates after net negative absorption in 2009 and 2010, there has been net positive rate in the retail Tucson market from 2010 through the third quarter of 2018.

Retail Net Absorption, Tucson



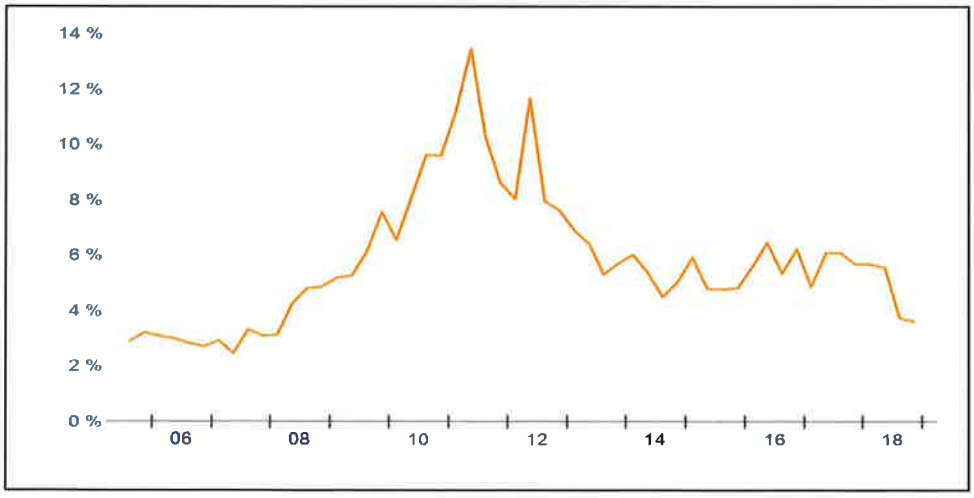
The following are new retail construction deliveries in the Tucson Market, according to Costar. There was a significant decrease in retail construction beginning in 2009. New retail construction deliveries have remained relatively stable from 2009 through the third quarter of 2018. During that time period, there were limited new construction deliveries occurring. As market conditions improve and the oversupply of available retail properties is absorbed, new construction will increase.

Retail New Construction Deliveries, Tucson



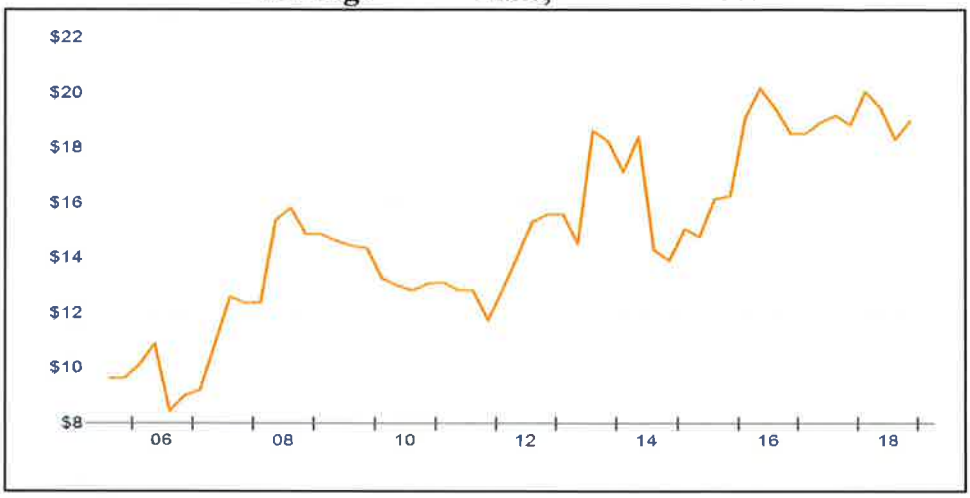
The following is the vacancy rate for retail properties in the subject sector, Downtown, according to Costar. This indicates that the vacancy rate peaked in 2011 then fluctuated somewhat, but had been on an overall downward trend until mid-2014. From mid-2014 through the third quarter of 2018, vacancy rate was mostly stable with a slight decline in 2018.

Retail Vacancy Rate, Downtown Sector



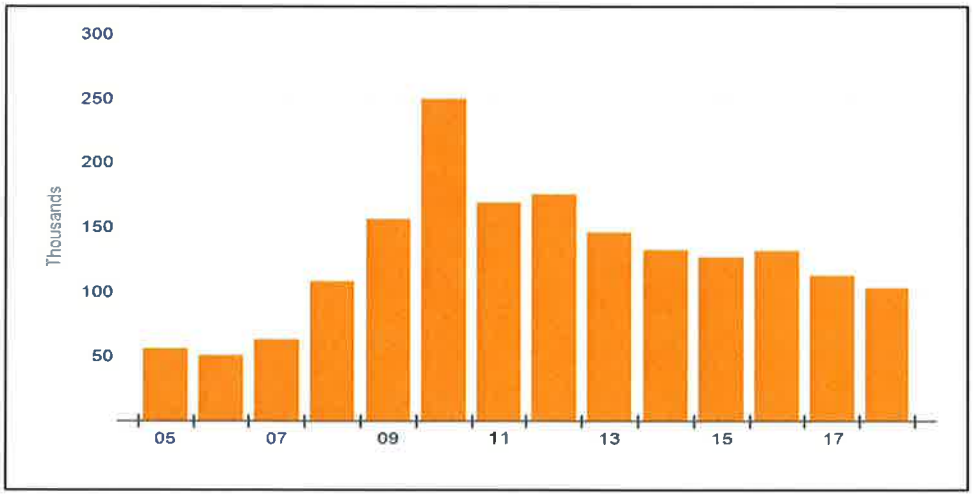
The following is the average rental rate for retail properties in the subject sector, Downtown, according to Costar. This indicates that the average asking rental rate in the Downtown sector generally increased from 2006 through 2016. The average asking rental rate remained mostly stable from 2016 through the third quarter of 2018.

Retail Average Rental Rate, Downtown Sector



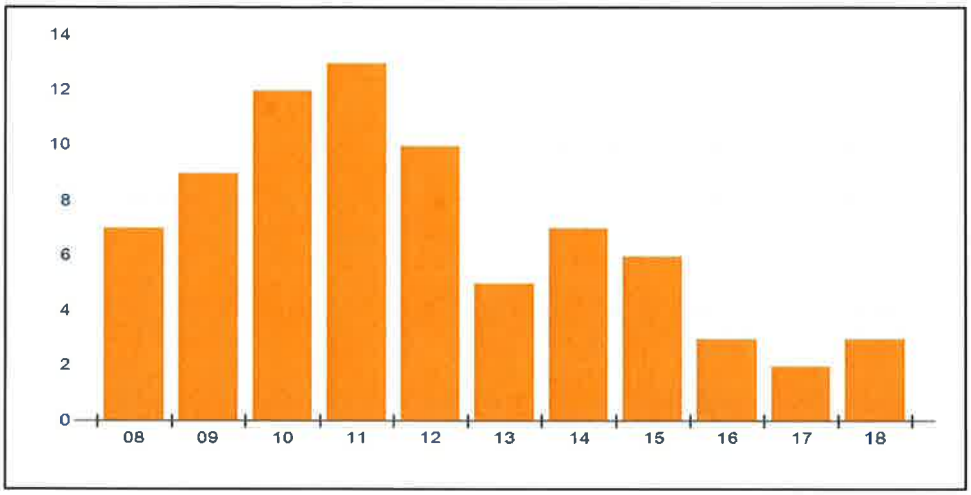
The following is the retail space available for lease in the subject sector, Downtown, according to CoStar. This data indicates that available space increased from 2007 to a peak in 2010. Available space dropped slightly in 2011, and has remained mostly stable, with a slight downward trend through the third quarter of 2018.

Retail Space For Lease, Downtown Sector



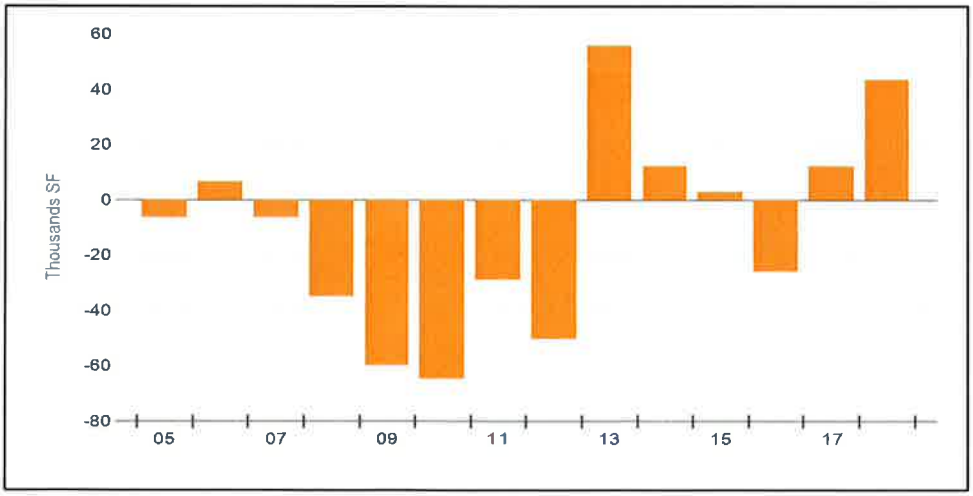
The following is the amount of retail listings for sale in the subject sector, Downtown, according to Costar. The number of retail listings increased from 2006 to a peak in 2011. The number of listings generally declined from 2012 through 2017. There was a slight increase in the number of listings for sale through the first three quarters of 2018.

Retail Listings For Sale, Downtown Sector



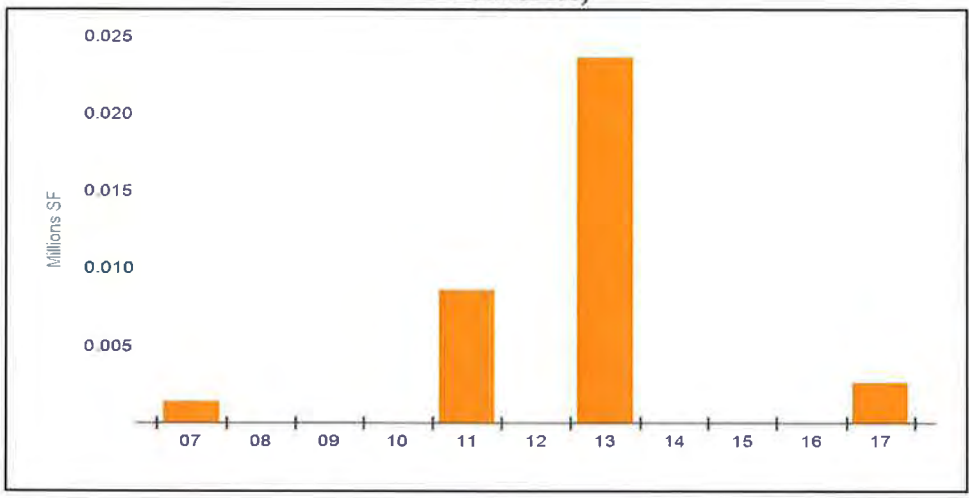
The following is the net absorption for retail properties in the subject sector, Downtown, according to Costar. There was a net negative absorption rate for retail properties in the Downtown Sector from 2007 through 2012. In 2013, there was a large net positive absorption for retail space, and 2014 through 2015 saw lower net positive absorptions. After net negative absorption in 2016, there was net positive absorption in 2017 and through the first three quarters of 2018.

Retail Net Absorption, Downtown Sector



The following in the amount of construction deliveries in the subject sector, Downtown, according to Costar. There have been very limited new construction deliveries in the subject sector since 2013. However, there have been a substantial amount of redevelopment of retail uses in older buildings and some retail components built as part of mixed use residential properties which would not be accounted for in the new construction deliveries.

Retail Construction Deliveries, Downtown Sector



Overall, the commercial and industrial real estate markets have stabilized and are expected to slowly recover over the next few years. In the short term, limited growth and stable values are projected for Tucson over the next one to two years. The long-term result should be a more balanced level of supply and demand - more conducive to steady long-term development. Factors such as climate, health and educational facilities, and the availability of housing are positive influences which will result in long-term economic growth for metropolitan Tucson.

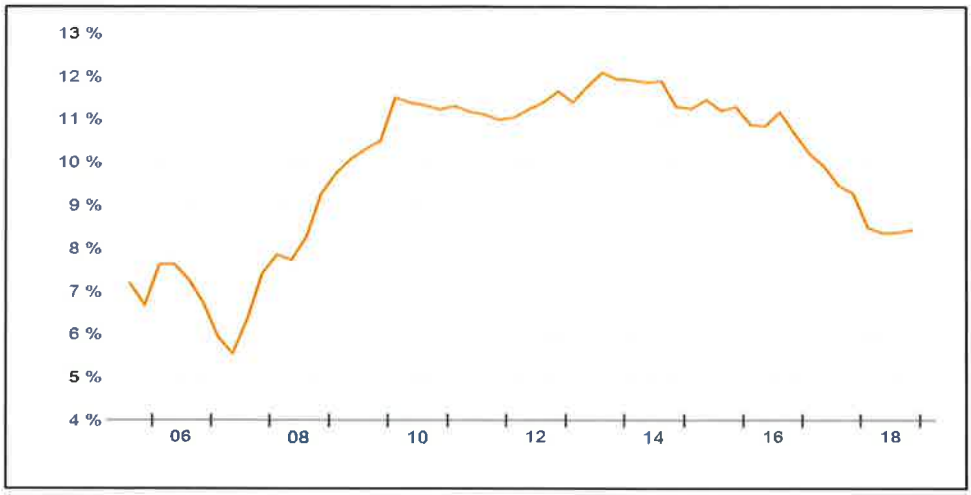
While the overall Tucson commercial real estate market has been stable, the areas around downtown and the University campus continues to improve and this market is performing better than the market in general. There is increased demand and sales activity for commercial properties in these areas, specifically the redevelopment of older buildings into creative office spaces and retail uses. This is evidenced by several recent purchases of older buildings that have been purchased in the area and have been remodeled from warehouse uses to retail and office uses, which is due to factors such as the modern streetcar and new student housing projects.

In discussions with market participants familiar with the areas near downtown, these market participants stated that prices of vacant land on a per square foot basis drop significantly each block you move away from the core downtown area. Additionally, these market participants stated that demand significantly decreases the further away from Fourth Avenue due to decreased traffic and available amenities, including the streetcar.

MARKET PROFILE - OFFICE

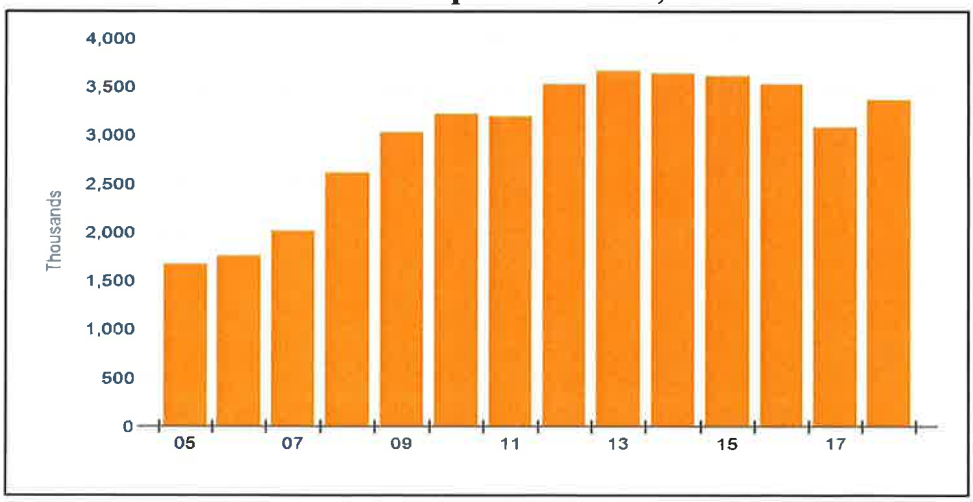
The following is the vacancy rate for office properties in the Tucson Market, according to CoStar. This data indicates that the vacancy rate for office properties increased from 2007 to a peak level in 2013. From the peak level, vacancy rates then remained relatively stable from 2013 through the third quarter of 2018.

Office Vacancy Rate, Tucson



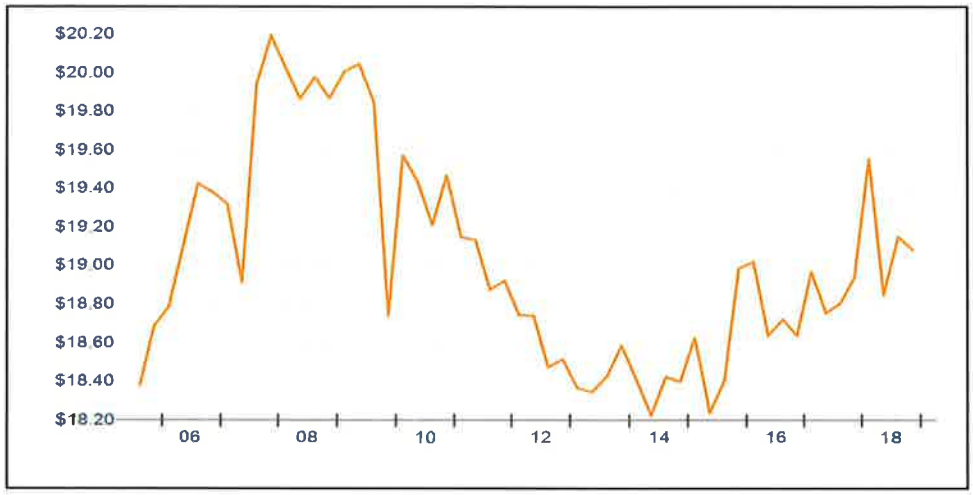
The following is the amount of available office space for lease in the Tucson Market, according to CoStar. This data indicates that the amount of available space began to increase from 2005 through 2013. The amount of available office space then remained mostly stable through 2016 before declining slightly in 2017. The amount of available office space increased slightly through the first three quarters of 2018.

Office Available Space For Lease, Tucson



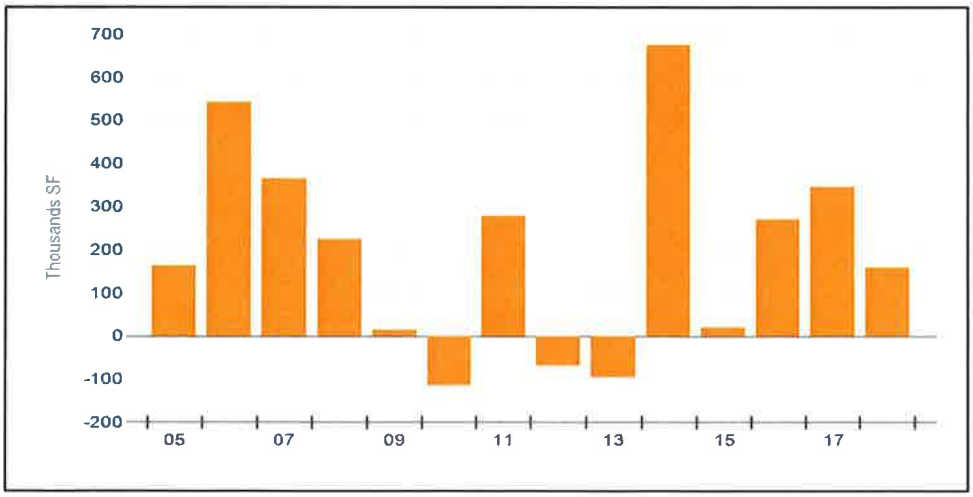
The following is the average asking rental rate for office properties in the Tucson Market, according to CoStar. This date indicates the average asking rental rate increased through 2007 and then remained mostly stable before declining through 2014. Starting in 2015, the average asking rental rate increased gradually. In 2018, the average asking rental rate declined before increasing slightly through the third quarter of 2018.

Office Average Asking Rental Rate, Tucson



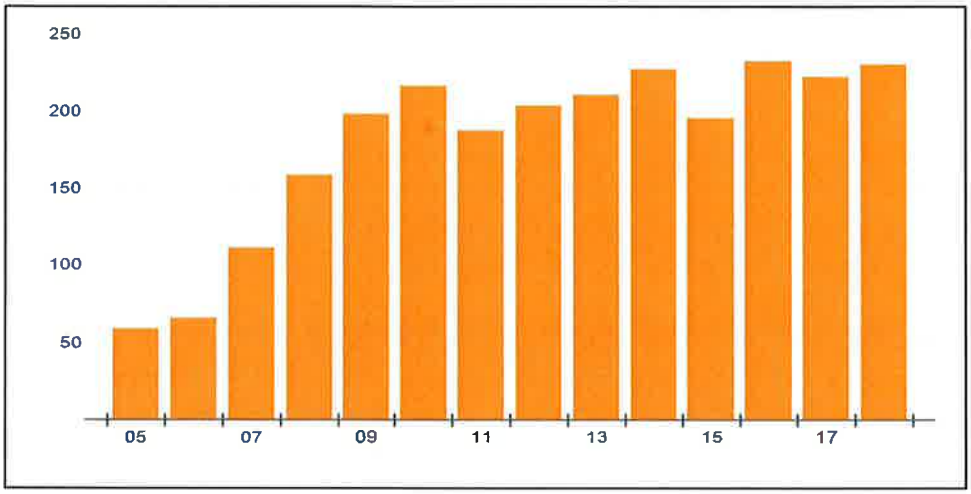
The following is the office net absorption in the Tucson Market, according to CoStar. There has been a mix of net positive and net negative absorption for office properties in the Tucson market since 2005. However, there has been net positive absorption each year from 2014 through the end of 2017, with the first three quarters of 2018 also having net positive absorption.

Office Annual Net Absorption, Tucson



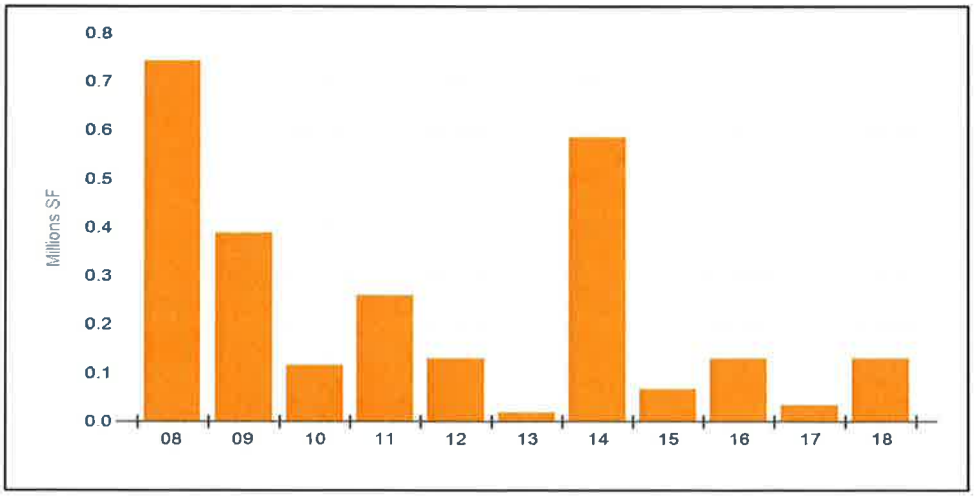
The following is the number of office properties listed for sale in the Tucson market, according to CoStar. The number of office listings increased from 2005 through 2010. After a slight decline in 2011, the number of listings gradually increased from 2012 through 2016, with a minor decline in 2015. Office listings have been mostly level from 2016 through the first three quarters of 2018.

Office Listings for Sale, Tucson



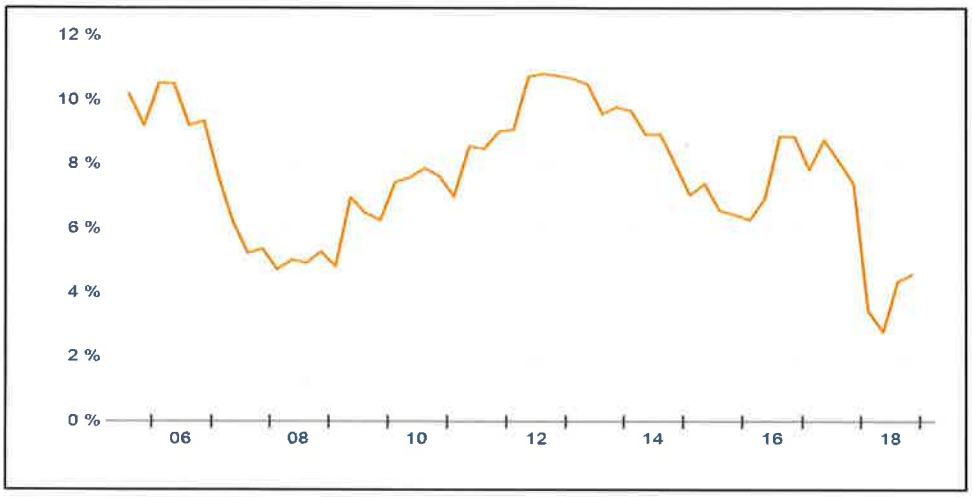
The following is the new construction deliveries for office properties in the Tucson Market, according to CoStar. There was a large drop in new construction after 2008 for office properties in Tucson. Limited office construction deliveries occurred between 2009 and 2013, with a significant increase in office space new construction deliveries in 2014. After 2014, the new construction deliveries declined and remained relatively low through the first three quarters of 2018.

Office New Construction Deliveries, Tucson



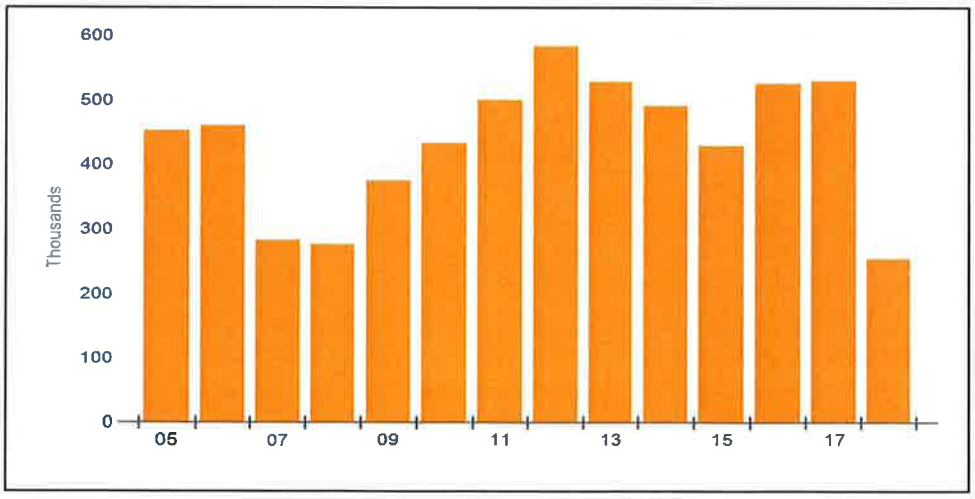
The following is the vacancy rate for office properties in the subject sector, Downtown, according to CoStar. The sector vacancy rate declined from 2006, before increasing again starting in early 2009. The vacancy rate peaked in 2012 and has declined since that time through the first quarter of 2018, with a slight increase through the second and third quarters of 2018.

Office Vacancy Rate, Downtown Sector



The following is the amount of vacant space for office properties in the subject sector, Downtown, according to CoStar. The amount of vacant increased from 2008 to a peak in 2012. From the peak market level, the amount of vacant office space declined through 2015 and then increased in 2016. After remaining mostly stable in 2017 there was a significant decline through the third quarter of 2018.

Office Available Space, Downtown Sector

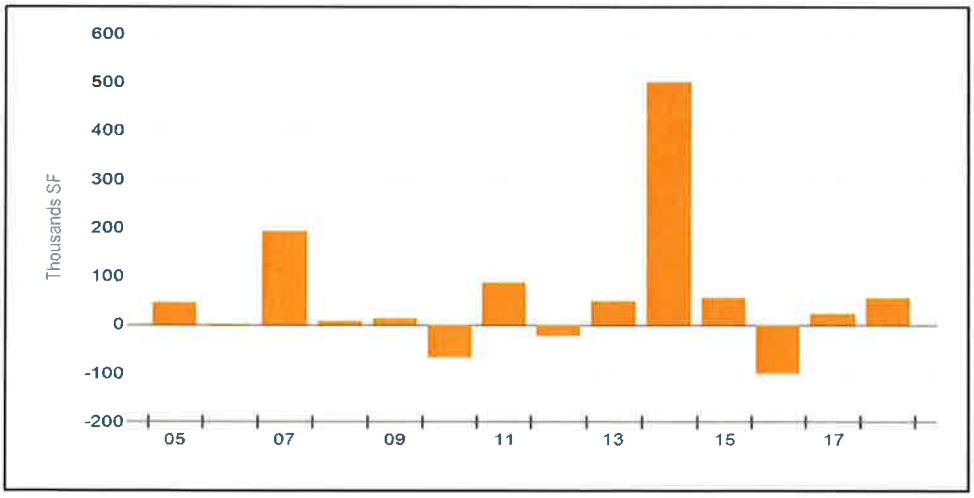


The following is the average rental rate for office properties in the subject sector, Downtown, according to Costar. The average rental rate remained mostly stable through 2013, before beginning a gradual upwards trend which has continued through the first three quarters of 2018.

Office Average Asking Rental Rate, Downtown Sector

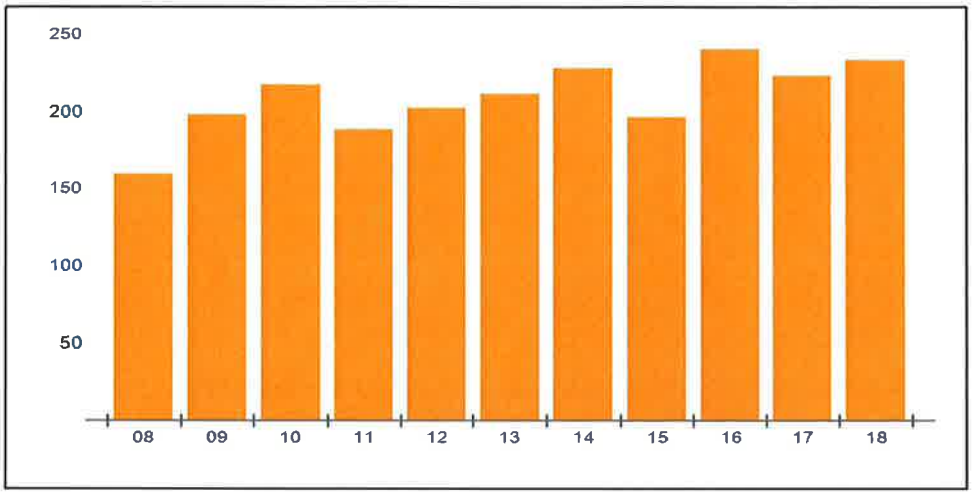
The following is the average net absorption for office properties in the subject sector, Downtown, according to Costar. Since 2005, the majority of years have seen a slight net positive absorption of office space in the downtown area through the first half of 2019, with 2014 having the highest net positive absorption during this time period. Most recently, there was net positive absorption in 2017 and through the first three quarters of 2018.

Office Net Absorption, Downtown Sector



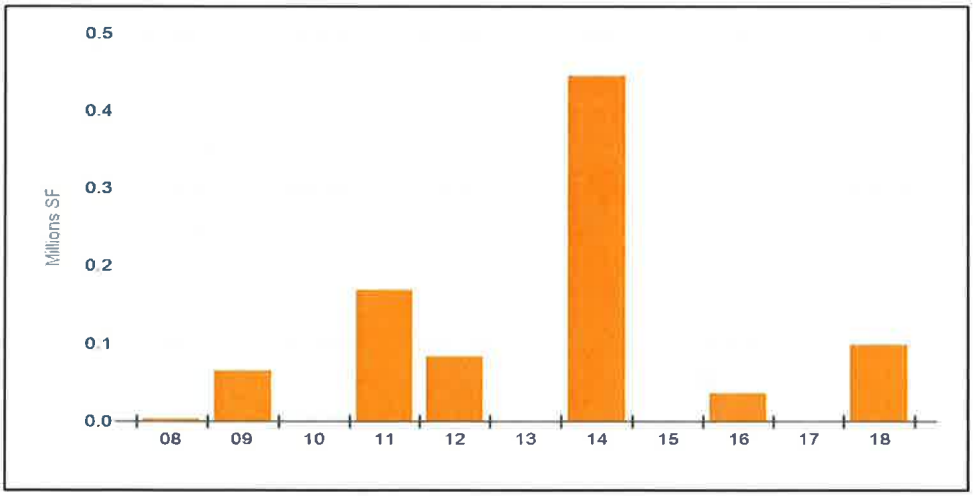
The following is the number of office properties listed for sale in the subject sector, Downtown, according to Costar. The number of listings gradually trended upwards from 2008 and peaked in 2016. The number of office properties listed for sale downtown was mostly stable in 2017 and through the first three quarters of 2018.

Office Total Listings, Downtown Sector



The following is the new construction deliveries for office properties in the subject sector, Downtown, according to Costar. There has been no to minimal new construction in the downtown sector from 2018 through first three quarters of 2018, other than 2014 which saw a large increase in activity. However, the majority of new office uses in the area are being built in redeveloped older buildings with historical charm.

Office New Construction Deliveries, Downtown Sector



While the overall Tucson commercial real estate market has been stable, the areas around downtown and the University campus continues to improve and this market is performing better than the market in general. There is increased demand and sales activity for commercial properties in these areas, specifically the redevelopment of older buildings into creative office spaces and retail uses. This is evidenced by several recent purchases of older buildings that have been purchased in the area and have been remodeled from warehouse uses to retail and office uses, which is due to factors such as the modern streetcar and new student housing projects. There has also been increased demand for vacant sites planned for mixed use developments, market rate apartments, or hotel uses.

EXPOSURE/MARKETING TIME

Marketing time, as utilized in this appraisal, is defined as:

> An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. [1]

The reasonable *exposure time* is the period a property is on the market until a sale is consummated and as utilized in this appraisal, is defined as:

> The estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market. [2]

The reasonable exposure and marketing time is estimated to be six to twelve months based on the sales used in this report and based on conversations with brokers familiar with properties similar to the subject property.

HIGHEST AND BEST USE

The Sixth edition of The Dictionary of Real Estate Appraisal (Appraisal Institute; 2015, p. 109), defines highest and best use as:

> The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.

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1. The Dictionary of Real Estate Appraisal (Appraisal Institute, Sixth Edition, 2015), p. 140

2. Ibid, p. 83

An analysis of market data supports the conclusion of highest and best use. The first step is to determine the highest and best use of the land as though vacant. This includes a determination as to whether the site should be left as vacant or should be developed. If the site should be developed, an analysis determines the ideal improvements that should be developed on the property. The second step is to determine the highest and best use of the property as improved. This involves a comparison of the existing improvements to the ideal improvements in order to determine if the existing improvements should be modified or left in the current condition.

Highest and Best Use as Vacant

Legal Considerations

The subject property is zoned OCR-2, City of Tucson zoning code. The purpose of this zone is to provide for high-rise development that serves the community and region, located in major activity centers. A mixture of development types is encouraged, including office, commercial, and high-density residential uses. There is no minimum lot or site area. A maximum building height of 300 feet is permitted. The maximum floor area ratio is 10.50 which indicate a maximum of 10.5 square feet of floor area for every square foot of site area is allowed under this designation. Specific building setbacks for the subject vary depending on the uses allowed on adjacent sites.

On February 18, 2015, a new Infill Incentive District (IID) was adopted, Ordinance No. 11246, and was implemented on March 20, 2015. The new IID is made up of four sub districts consisting of the Rio Nuevo Area, The Greater Infill Incentive Sub District, The Downtown Core sub district and The Downtown Links Sub District. The Downtown Links Sub District is further subdivided into the Toole Avenue Area, Warehouse Triangle Area, Fourth Avenue Area, Iron Horse Area, and Stone/Sixth Area.

The subject property falls within the Downtown Core sub district of the new IID. The IID does not change the uses allowed for the underlying OCR-2 zoning of the subject property, however the IID does provide for some development standard exceptions such as reduced parking requirements and reduced setback restrictions.

The subject property is also located within the City of Tucson Government Property Lease Excise Tax (GPLET) district. Per the City of Tucson, the GPLET district can provide up to 8 years of property tax abatement. This incentive is available for projects located in the Central Business District that result in a property value increase of at least 100%. This amount abated cannot exceed the economic benefit created by the project. To become "government property" the City will take ownership of the property for the duration that the owner wishes to be relieved of tax obligations.

Therefore, the subject property could be developed with commercial uses, retail uses, or office uses under the existing zoning or can be developed with mixed-use multifamily uses allowed under the OCR-2 zoning. The property owner can apply for a reduction of development requirements under the IID. If developed, the subject property could qualify for GPLET incentives.

Physical Considerations

The site is a mostly rectangular shaped property with approximately 267 feet of frontage on Broadway Boulevard along the southern border, 106 feet of frontage on Scott Avenue along the western border, and 114.4 feet of frontage on Sixth Avenue along the eastern border. There is a public alleyway that runs along the northern border of the property. The site contains a total area of 28,780 square feet. Broadway Boulevard is a one-way (eastbound) asphalt paved roadway with a two through lanes and a left turn lane to head east on Sixth Avenue with concrete curbs, sidewalks, and streetlights in the vicinity of this property. Broadway Boulevard has a 2017 traffic count of approximately 18,200 vehicles per day near this site. The intersection of Broadway Boulevard and Sixth Avenue is a traffic light controlled intersection. The modern streetcar track runs adjacent to the subject property along Broadway Boulevard. Scott Avenue is a two-lane asphalt paved roadway with street parking, concrete, curbs, sidewalks and streetlights in the area of the subject property. There is no traffic count available for Scott Avenue in the area of the subject. Sixth Avenue is a three lane asphalt paved roadway with street parking, concrete curbs, sidewalks, and streetlights in the area of the subject. The intersection of Broadway and Sixth is a traffic light controlled intersection. Sixth Avenue has a 2017 traffic count of approximately 8,900 vehicles per day in the area around the subject property. While the subject property has frontage and visibility from Broadway Boulevard, there is no direct access to the site from Broadway Boulevard. Direct access to the subject property is from Sixth Avenue only. The site also has secondary access from the adjacent alleyway to the north. The topography is level. Soil conditions appear to be typical of the area. Properties bordering the subject property include an office use (Unisource building) to the south; and downtown retail and office uses to the north, east, and west. All utilities are available to the subject and the site is not located within a FEMA floodplain.

The subject property has sufficient land area for the development of multi-use office and retail building. According to architectural plans provided by the client, as well as a discussion with Mr. Michael Becherer with Swain Associates, the proposed building improvements to be developed on the subject property is proposed to consist of two lower levels of retail uses, five levels of parking, and five floors of office use space for a total of 12 floors. Due to the narrow nature of the site, the building improvements will be cantilevered 30 feet above the adjacent alleyway to the north in order to efficiently utilize the site and allow continued ground level access in the alley area.

The appraisers have discussed the subject property location with market participants who are very active in the downtown area, including Ms. Anne Lawrence with Holualoa Companies, Mr. Roger Karber with Aerie Development LLC, and Mr. Ron Schwabe with Peach Properties. These market participants were very familiar with the subject property. Each of these market participants felt that the location of the subject was very strong. However, these market participants indicated that the very narrow nature of the site would make any potential development of the site fairly difficult and inefficient. The market participants noted onsite parking would be necessary for any potential development on the subject, and that a potential building would need to cantilever over the existing subject public alleyway in order to efficiently develop a large mixed-use development on the site. The intended use for noted by these market participants would likely be a mixed use with office and/or retail component.

Financial Feasibility

As noted in the market profile section, while the overall Tucson commercial real estate market has been stable, the areas around downtown, the downtown core area, Mission District on the west site of the I-10 freeway, and the University campus area continues to increase in demand. There has been increased demand and sales activity for commercial properties and mixed use multifamily developments in and around the core downtown area. Due to greater parking requirements for student housing away from the campus, student housing projects away from the campus have only been developed on sites with 100,000 square feet or larger land areas. There are several large student housing uses currently being developed, with several others planned. The largest of these properties include the Hub III tower on Speedway, the Mark on Speedway, and the Chase Bank site tower adjacent to Park Avenue. Both of these tower sites are located immediately adjacent to the campus in the immediate area of the existing student housing tower sites. There also a large student housing project under construction on Broadway Boulevard, located approximately one-half mile south of the campus. This project is located on a land area greater than 100,000 square feet and is a mid-rise development with a parking garage on site.

Construction of a modern streetcar, which went live in 2014, has been an important component in the revitalization of the downtown area, and further enhances mobility between the University area, the Fourth Avenue area, downtown's east side, and the Mission district area located on the west side of the freeway and is also newer core support area. Many mixed-use and multifamily residential developments have been completed in the downtown area including redevelopment of the old Martin Luther King Apartment building at Fifth Avenue and Congress into what is now a mixed-use development with market rate apartments and ground floor retail space; two mixed-use developments located at the northeast and southwest corners of Stone and Broadway; the new AC brand by Marriot which opened late in the third quarter of 2017 at the northwest corner of Broadway Boulevard and Fifth Avenue; the McCormick Townhouses located on Stone Avenue, south of Broadway; and several other smaller developments and renovations throughout the downtown area. The Congress District is planned for a facelift for storefronts with the implementation of the Downtown Facade program. Streetscape improvements, including sidewalks, plantings, and lighting features are also planned. The Rialto Theatre and Club Congress provide a center of activity for the east side of downtown.

There are a number of planned multifamily/mixed use developments within the core and immediately adjacent to the core downtown area, being the area with the strongest demand. According to information from the Downtown Tucson Partnership, there are over 1,500 planned housing units (some already under construction) in and around the core downtown area which are planned to be under construction in the next couple of years. There are additional planned developments that are not listed on the Downtown Tucson Partnership list which would likely increase the number of upcoming multifamily residential uses in and around the core downtown area to over 2,000 units under construction over the next several years. While not a complete list, below are some of the more notable projects in the area which include:

- Northwest corner of Stone and Broadway - located in the core downtown area. The Rendezvous Urban Flats is a planned mixed-use project with six-story structure consisting of over 4,000 square feet of ground floor retail and 100 market rate apartments on the upper floors. This site has a three level underground parking garage already in place. This site was initially planned for a high-rise site; however, due to high cost of construction of development over five or six stories, this planned development has been scaled down to six story development.

- Southeast corner of I-10 and Congress Street - located approximately five blocks west of the core downtown area. This is a large land area (8.5 acres) with several uses planned which include multifamily development, hotel, and gem show facility.

- Northeast corner of Stone and 16th Street - located approximately 5 blocks south of the core downtown area. This is planned to contain a development of nine two-story town homes.

- In the Mission District, west of 1-10, are several planned projects in different phases of development. The West End station apartment development which will be an affordable housing mixed-use development which is currently under construction. Site work has already started on the Monier Apartments, which will consist of a four-story building with market-rate rental units with ground-floor retail and an underground parking garage structure. Additionally, a large entertainment and retail development utilizing storage containers has opened in the immediate vicinity of the Monier Apartment site. There is a planned high-density mixed use development which is early in the planning stages. This area west of I-0 is a separate market area that supports the downtown market area due to the proximity to downtown and the streetcar line which runs through this market area.

- Adjacent to the Mission District on the west side of I-10, currently in the construction phase, is a new corporate headquarters facility for Caterpillar which will add employees to the area. This office use development has been a key driver for the recent increase in demand in the adjacent Mission District.

- On the south side of Congress Street, between Scott Avenue and Stone Avenue - located within the core downtown area. Known as City Park, this development is planned to be a six-story mixed use development containing 39 residential lofts, 39,500 square feet of creative office lofts, 23,500 square feet of ground floor retail and restaurant space, and 10,000 square feet of outdoor and rooftop entertainment space.

- Southwest corner of Broadway Boulevard and Church Avenue - located within the core downtown area. HSL Properties has plans to redevelop La Placita into a four to five story residential multifamily development containing approximately 230 - 240 multifamily units with two levels of onsite parking.

- Southwest corner of Church Avenue and Franklin Street - located approximately 5 blocks north of the core downtown area. Known as "Block 175", located on 84,626

square feet of land area and is currently within the RFP phase with plans to develop the site into a mixed use development with ground-floor retail and medical office uses, mid-rise multifamily uses, and town home uses along Franklin street. The number of units planned has not yet been determined.

- Northeast corner of Congress Street and Sixth Avenue - located within the main downtown entertainment district. This site is currently in the planning phase with a planned retail use, hotel use, and multi-family uses. The development will consist of two towers with hotel, retail, and multifamily uses. As part of this development, an existing parking lot located at the northeast corner of Toole and Sixth Avenue, located two blocks north of the main entertainment district is planned to contain a parking garage.

- Behind the Rialto Theater - located within the main downtown entertainment district. A dual-branded 16 story hotel building is expected to begin construction shortly. The building will contain two boutique hotels run by Marriott called Moxy, which will contain 109 rooms, and Element, which will contain 140 rooms. As part of this development, the existing Rialto Theater will be relocated temporarily to the Corbett Building during construction of the hotels.

- Additionally, a planned hotel site is to be located just south of Broadway Boulevard, on Stone Avenue and another hotel is to be located adjacent to the community center. Other market rate apartments are being considered for development in downtown support areas like Fourth Avenue where mixed use developments are planned.

The appraisers have spoken with several market participants who are active in development in the downtown area. These market participants include Mr. Art Wadlund with Berkadia, Mr. Ron Shwabe with Peach Properties, Mr. Swain Chapman with Chapman Management Group, and Mr. Jim Campbell, with Oasis Tucson, and Mr. Roger Karber with Aerie Development LLC. These market participants all agreed that the subject property, when assembled with the land area to the south, was in a very good location having frontage on Broadway Boulevard being adjacent to the street car, and being within the entertainment district and adjacent to the core area of Downtown with very good walkability to the amenities of the downtown area.

The most financially feasible use of the subject property is for development of a mixed-use office and retail use development. The location of the subject, with frontage within the entertainment district of Downtown along Broadway Boulevard, has a high pedestrian count and is located adjacent to the restaurants and entertainment amenities of the Congress Street area. Additionally, the street car runs adjacent to the subject property on Broadway Boulevard and along Congress Street to the north.

Maximally Productive
Therefore, the maximally productive highest and best use of the subject site is for development of a mixed-use office and retail use development.

PART IV - SUMMARY OF ANALYSIS AND VALUATION

SALES COMPARISON APPROACH

The sales comparison approach to value considers what a typical well-informed purchaser would pay for a property, based on an analysis of similar properties. This approach reflects the application of the principle of substitution, which affirms that when a property can be replaced, its value tends to be set by the cost of acquiring an equally desirable substitute property.

This approach analyzes sales and listings of properties similar to the subject. This analysis uses those sales most relevant as indicators of value of the subject property, making adjustments for dissimilarities such as terms of sale, site size, location, zoning, and utility. Sales used in this approach must contain these elements; 1) both parties are typically motivated; 2) both parties are well-informed; 3) a reasonable market exposure time is allowed; 4) payment is made in cash or its equivalent; and 5) financing reflects terms typically available and not affected by special or unusual terms. The summary below illustrates the comparable sales used in this report.

Table of Comparable Land Sales

Sale No.	Sale Date	Property Location	Sale Price	Site Size (Sq. Ft.)	Price/ Sq. Ft.	Zoning
1.	04/15	Southwest corner of Stone Avenue and Broadway Boulevard	$1,780,000	22,027	$80.81	OCR-2
2.	12/17	Northeast corner of Cushing Street and Linda Avenue	$16,000,000	229,561	$69.70	C-2/I-1
3.	04/18	Southwest corner of Scott Avenue and Alameda Street	$3,250,000	41,284	$78.72	OCR-2
4.	08/18	Southwest corner of Avenida Del Covnvento and Paseo De Los Zanjeros	$3,500,000	45,820	$76.39	OCR-2
5.	09/18*	Northwest corner of Stone Avenue and Broadway Boulevard	$2,650,000	33,146	$79.95	OCR-2/ C-3
		Subject Property		**28,780**		**OCR-2**

* Price set in early 2015

COMPARABLE SALES ADJUSTMENT GRID

	Subject	*Comp 1*	*Comp 2*	*Comp 3*	*Comp 4*	*Comp 5*
Sale Date		04/2015	12/2017	04/2018	08/2018	09/2018*
Site Size (Sq. Ft.)	28,780	22,027	229,561	41,284	45,820	33,146
Zoning	OCR-2	OCR-2	C-2/I-1	OCR-2	PAD-10	OCR-2/C-3
Utility	Average	Similar	Superior	Similar	Similar	Inferior
Sale Price		$1,780,000	$16,000,000	$3,250,000	$3,500,000	$2,650,000
Price per Sq. Ft.		$80.81	$69.70	$78.72	$76.39	$79.95

* Price set in early 2015

Summary of Adjustments

Unadjusted Price / Sq. Ft.		$80.81	$69.70	$78.72	$76.39	$79.95
Property Rights		0%	0%	0%	0%	0%
Adjusted Price		$80.81	$69.70	$78.72	$76.39	$79.95
Financing		0%	0%	0%	0%	0%
Adjusted Price		$80.81	$69.70	$78.72	$76.39	$79.95
Conditions of Sale		-4%	0%	-12%	0%	-20%
Adjusted Price		$77.58	$69.70	$69.28	$76.39	$63.96
Date/Market Conditions		20%	5%	3%	0%	20%*
Adjusted Price		$93.09	$73.18	$71.35	$76.39	$76.75
Physical Adjustments (%)						
Location		0	20	25	20	0
Zoning		0	0	0	0	0
Site Size		0	25	0	0	0
Site Utility		0	-25	0	0	20
Net Adjustment		0%	20%	25%	20%	20%
Indicated Value / Sq. Ft.		**$93.09**	**$87.82**	**$89.19**	**$91.66**	**$92.10**

This analysis compares five sales of similar land to the subject property on a price per square foot basis. This is the sale price divided by the number of square feet of the site. Sales prices range from $69.70 to $80.81 per square foot before adjustment. The appraisers are also aware of a similar property to the subject currently in escrow at a price in the mid to upper $90's per square foot. The appraisers have been asked to keep this information confidential, but this information has been considered in valuing the subject property. The adjustment grid on the previous page reflects the adjustments. An upward adjustment indicates that the comparable is inferior to the subject; a downward adjustment indicates that the comparable is superior to the subject; and no adjustment (0) indicates the comparable is similar or equal to the subject.

Comparable Sale One requires a downward adjustment for conditions of sale as the property owner indicated that an above market value was paid for the property as the buyer owns the property on the other side of the intersection from the property. However, this is partially offset as there were no agents involved in this sale and no commissions were paid. This sale requires an upward adjustment for date/market conditions. Market data indicates that prices have increased for the downtown area between the date of this sale and the date of value.

There are no physical adjustments required for this property in comparison to the subject property. Overall, this sale price per square foot indicates an upward adjustment in comparison to the subject.

Comparable Sale Two indicates an upward adjustment for date/market conditions. Market data indicates that prices have increased for the downtown area between the date of this sale and the date of value.

Physical adjustments include an upward adjustment for location as this property is located in an area further from the core downtown area with less demand compared to the subject property which is located within the downtown entertainment district and adjacent to the core downtown area. There is an upward adjustment for site size as this property is much larger than the subject property. Larger properties tend to sell for less on a per square foot basis than smaller properties, all else being equal. This property requires a downward adjustment for site utility as this the size and shape of this property allow for a much higher density of development compared to the potential development that can occur on the subject property. The purchaser indicated the planned development will be up to ten stories, and he paid a higher price due to the size of the land allowing for higher density of development. Overall, this sale price per square foot indicates an upward adjustment in comparison to the subject.

Comparable Sale Three requires a downward adjustment for conditions of sale. This property is currently improved with parking lot improvements which will be retained in the near term as an interim use, with the income producing potential from this interim use having an impact on the sale price of the property. The property sold at a higher price due to the income (approximately $190,000 NOI per year) which can be received during the investment holding period. This sale requires an upward adjustment for date/market conditions. Market data indicates that prices have increased for the downtown area between the date of this sale and the date of value.

Physical adjustments include an upward adjustment for location as this property is located in an area further from the core downtown area with less demand compared to the subject property which is located within the downtown entertainment district and adjacent to the core downtown area. Overall, this sale price per square foot indicates an upward adjustment in comparison to the subject.

Comparable Sale Four does not require an adjustment for date/market conditions. Market data indicates that there was no change in prices between the date of this sale and the date of value.

Physical adjustments include an upward adjustment for location as this property is located in an area further from the core downtown area with less demand compared to the subject property which is located within the downtown entertainment district and adjacent to the core downtown area. Overall, this sale price per square foot indicates an upward adjustment in comparison to the subject.

Comparable Sale Five indicates a downward adjustment for conditions of sale as this property included rights to an existing shared underground parking garage with the adjacent property and contributed value and reduced development costs, according to the buyer. This is partially offset as there were no brokers involved in this transaction and no commissions were paid. This sale requires an upward adjustment for date/market conditions. Market data indicates that prices have increased for the downtown area between the date this property entered escrow and the price set in early 2015 and the date of value.

Physical adjustments include an upward adjustment for site utility as this property included unusable land area that cannot be developed and is required to be set aside for use as a public plaza and walkways, compared to the subject which is all useable land area. Overall, this sale price per square foot indicates an upward adjustment in comparison to the subject.

Sales Comparison Approach Summary.

	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5
Adjusted Sale Price/ Square Foot	$93.09	$87.82	$89.19	$91.66	$92.10

The appraiser was made aware of a property in the downtown area that recently entered into escrow at a sales price in the mid to upper $90's per square foot. The market participant who confirmed this transaction requested that the details of the sale remain confidential. In comparison to the subject property, this sale would require an upward adjustment for inferior location and a downward adjustment for superior site utility. Overall, this sale would indicate an adjusted value in the mid $90's per square foot for the subject property. Although the appraiser cannot discuss the details of this sale, the information is contained in the appraiser's file and has been considered in the valuation of the subject property.

These five comparable sales indicate a price range of $87.82 to $93.09 per square foot after adjustment. Comparable Sale One warrants the greatest weight as this sale does not require any physical adjustments. Primary weight has also been given to the confidential sale currently in escrow which indicated a value in the mid $90's per square foot. The remaining sales are given secondary weight in valuing the subject property. After analyzing the comparable sales, the conclusion of market value of the subject property by the sales comparison approach, as of December 5, 2018, falls within the range of $93.00 to $94.00 per square foot, which equals a range of $2,676,540 to $2,705,320, correlated to $2,700,000.

In a discussion with Mr. Ron Schwabe with Peach Properties, a vacant lot often listed for sale and with several offers obtained is located on the south side of Broadway Boulevard, between Herbert Avenue and Fourth Avenue, just east of the subject property. This site has had several offers made by potential purchasers who are interested in developing the property with a mixed use developments. There have been several recent offers received, with the most recent offer being approximately $98.00 per square foot of land area. Currently the seller had not accepted the offer, or any subsequent offers. In comparison to the subject property, this lot would an upward adjustment for larger size, and a downward adjustment for superior utility. Overall, the offers made on this property support the concluded value of the subject property.

MARKET VALUE CONCLUSION

Therefore, based on the above analysis and subject to the assumptions and limiting conditions contained in this report, the opinion of market value of the subject property, "as vacant", as of the effective date of the appraisal, December 5, 2018, is $2,700,000.

OPINION OF MARKET VALUE OF SUBJECT PROPERTY,
AS OF DECEMBER 5, 2018:

TWO MILLION SEVEN HUNDRED THOUSAND DOLLARS
($2,700,000)

PART V - MARKET GROUND LEASE RATE

The appraiser interviewed various market participants regarding the potential annual rental rate of the subject property for a ground lease. All of the market participants are active in the development and sale of properties similar to the subject property. None of the market participants completed a ground lease for a property to a tenant for a ground lease for the development of a mixed-use retail and residential development which would be the highest and best use of the subject property. The market participants are not aware of a ground lease being completed in the subject market area.

These market participants interviewed by the appraiser included:

- Mr. Art Wadlund with Berkadia gave the opinion that if the property could be leased, he would not think the rate of return to establish the beginning ground lease rate would be greater than a 6 to 8 percent range, and that he would want a long term lease to be established.

- Mr. Ron Schwabe with Peach Properties gave the opinion that a ground lease rate for the subject property would be between a 5-8 percent range if leased to a tenant for a ground lease for the development of a mixed-use retail and residential development. Mr. Schwabe indicated he would want a long term lease established. Additionally, Mr. Schwabe also felt that a potential benefit to leasing the subject property, which is owned by Pima County, would be the exemption of property tax requirements.

- Mr. Swain Chapman with Chapman Management provided his opinion of a rate of return of 10 percent if leased to a tenant for a ground lease for the development of a mixed-use retail and residential development.

- Mr. George Larsen with Larsen, Baker Real Estate gave the opinion that he always seeks to obtain an 8-10 percent rate of return to establish an initial rental rate for ground leases. Mr. Larsen indicated that he would still seek a rate of return of 8-10 percent if leased to a tenant for a ground lease for the development of a mixed-use retail and residential development. Mr. Larsen felt that a ground lease term would need to be at least 70 years. For the subject property, Mr. Larsen felt that if the land value was a market price, the rate would be closer to 8 percent.

Mr. Jim Marian with Chapman Lindsey was actively involved in the potential ground lease of a property near the University of Arizona campus for student housing development with some ground floor retail uses. Mr. Marian's client, Mr. Steve Buss, made an offer to complete a ground lease on the site at a beginning rate of 5.75 percent of the value of the land. Mr. Marian indicated that his client was willing to go as high as 6.5 percent of the land value for the beginning ground lease rate in order to make a deal with the property owner. The terms of the ground lease were to include a 99 year lease, with an option to buy out the lease after 5-10 years. Ultimately, the property owner decided against leasing the property. The appraiser also confirmed this information with the potential ground lessee, Mr. Steve Buss.

These market participants indicated that a long term lease of at least 70 years would be expected if the subject property were to be leased on a ground lease. The majority of these market participants felt that the rate of return to establish the beginning rental rate would be lower than what would be expected for a single tenant commercial user and would likely be leased between 5 percent and 10 percent of the estimate land value. However, the majority of these market participants felt that the rate of return for a mixed use property would be within the 6-8 percent range of the estimated land value to establish a beginning rental rate for a ground lease.

The following are examples of land leases which have been leased to single-tenant commercial users as well as comments from market participants who are actively involved in completing ground lease transactions in the Tucson market.

1. ***Andy Romo, Lyons Romo Real Estate.*** Mr Romo has been involved in the lease of land for commercial uses and is an active real estate broker in the Tucson market. Mr. Romo indicated that he recently sold commercial land located on the south side of Grant Road, west of Interstate 10, to QuikTrip Convenience Stores and that prior to the sale the purchaser had also investigated the possibility of a land lease. The rate of return discussed during the negotiations for the potential land lease was 8 percent according to Mr. Romo. He further indicated that in his real estate experience the rate of return for a land lease is typically between 8 and 10 percent, depending on the credit of the tenant, in that if the tenant has a strong credit rating the rate of return is lower than 10 percent.

2. ***George Larsen, Larsen, Baker Real Estate.*** Mr. Larsen has been active in the sale and leasing of land for commercial uses and is an active real estate broker in the Tucson market. Mr. Larsen indicated that he recently leased a parcel of land located on Houghton Road and Golf Links Road to QuikTrip Convenience Stores. Mr. Larsen indicated that the parcel totals 78,400 square feet and is leasing at a rate of $129,000 per year. Mr. Larsen indicated that he based the lease rate on a 10 percent return to the value, or $1,290,000 total land value ($129,000 divided by .10 = $1,290,000). This is equal to $16.45 per square foot for the land.

   Mr. Larsen indicated that he also recently leased a parcel of land located at the northeast corner of Oracle Road and Fort Lowell Road to QuikTrip Convenience Stores. Mr. Larsen indicated that this lease rate was based on the estimated land value and a rate of return of just over 8 percent. Mr. Larsen indicated that in his real estate experience the rate of return for a land lease is typically between 8 and 10 percent.

3. ***Jonathan Jump, Jump Real Estate Investments.*** Mr. Jump has been active in the sale and leasing of land for commercial uses and is an active real estate broker in the Tucson market. Mr. Jump indicated that he recently leased a parcel of land to Valero for the development of a gas station/convenience store. The land is located at Drexel Road and Houghton Road. Mr. Jump indicated that the parcel totals 75,000 square feet and is leasing at a rate of $150,000 per year. He related that he

did not use a typical rate of return formula to estimate the land lease rate, but that he is familiar with the industry standard rate of return being between 8 and 10 percent.

4. ***Bill Young, Horseshoe Management.*** Mr. Young has been active in the sale and leasing of land for commercial uses and is an active real estate broker in the Tucson market. Mr. Young indicated that he recently extended a land lease to Wells Fargo Bank for property located on the west side of Campbell Avenue, north of Glenn Street. Mr. Young indicated that he based the land lease on a 10 percent return to the land value, which he estimated to be $15.00 per square foot. The parcel size totals 65,489 square feet which indicates a total estimated land value at $982,000 (rounded). The new land lease to Wells Fargo is at $100,000 for the first year with 3 percent annual increases based on a 10-year term with two 5-year option periods. The lease rate reflects a rate of return to the estimated value of 10.18 percent ($100,000 divided by $982,000).

5. ***Craig Finfrock, Commercial Retail Advisors.*** Mr. Finfrock has been active in the sale and leasing of land for commercial uses and is an active real estate broker in the Tucson market. Mr. Finfrock indicated that he recently wrote a land lease to In-N-Out Burger for a parcel of land located on the east side of Kolb Road, north of Broadway Boulevard. Mr. Finfrock indicated that he did not base the lease rate on a typical return due to the circumstances surrounding the lease, but that he is aware of the industry standard that typically uses a rate of return of between 8 and 10 percent to the land value. Mr. Finfrock indicated that he did not use the typical return as the lessee was the adjacent property owner seeking to expand their site for the development of a new restaurant. The site that In-N-Out Burger leased is roughly 15,000 square feet, but it is a site within an existing retail plaza. The effective size is larger as a result of cross easements and additional adjacent parking. By leasing the property In-N-Out Burger was able to develop a larger parcel that meets their development standards. The lease is for a 20-year period with three 5-year options. The lease amount is $115,000 per year.

6. ***Brian Harpel, Harpel Real Estate.*** Mr Harpel indicated that in his experience the rate of return for land leases ranges from 8 to 10 percent, depending on the strength of the tenant. He indicated that national credit tenants may be able to negotiate a lower rate, in the range of 7 to 7.5 percent, but the more typical tenant in the Tucson market was in the range of 8 to 10 percent.

7. ***David DeConcini, 4-D Properties.*** Mr. DeConcini indicated that his company recently entered into two land leases. The first land lease is at the northwest corner of Irvington Road and Benson Highway. The tenant is QuickTrip. Mr. DeConcini indicated that the rate of return used for the land lease was 10 percent on a land value of $1,320,000, or $132,000 per year. The lease is for a 20 year period of time with 6 five year option periods. Mr. DeConcini related information about a second lease that his company had entered into recently with Circle K. The land is located at 6th Avenue and Interstate 10. He indicated that the Circle K Corporation dictates a non-negotiable 8 percent rate of return for the land lease, but that the land value is

valued at the upper end of the value range which had the net effect of equaling a 10 percent rate of return to the lessor. The lease period is for 20 years with 8 five year options.

Based on the comments from the market participants, and the examples cited for single-tenant commercial uses, the rate of return to establish the beginning rental rate for a ground lease is concluded to be 7 percent.

GROUND LEASE RATE CONCLUSION

As concluded previously in this report, the appraisers' opinion of market value for the subject property is $2,700,000. The following ground lease rate conclusion is based on the previously concluded fee simple market value and provides an opinion of the annual market ground lease rate as of the effective date of appraisal, December 5, 2018. The ground lease rate conclusion for the subject property is based on the terms previously outlined using a concluded rate of return of 7 percent as follows:

Market Value of Land Previously Concluded	$2,700,000
Rate of Return for a Ground Lease – 7 percent	7.0%
Annual Ground Lease Amount	$189,000

ANNUAL GROUND LEASE RATE CONCLUSION

Therefore, based on the above analysis and subject to the assumptions and limiting conditions contained in this report, the opinion of the annual ground lease rate of the subject property, as of the effective date of the appraisal, December 5, 2018, is $189,000.

OPINION OF ANNUAL GROUND LEASE RATE OF THE SUBJECT PROPERTY, AS OF DECEMBER 5, 2018:

ONE HUNDRED EIGHTY-NINE THOUSAND DOLLARS
($189,000)

PART VI - ASSUMPTIONS AND LIMITING CONDITIONS

1. ***Type of Report***. This is an appraisal report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice for an Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraisers' file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

2. ***Definitions***. "Appraisal," as herein defined, is the process of completing a service; namely, a valuation assignment. "Subject property" refers to the property which is the subject of the assignment. "Appraisers" are those persons, whether one or more, who have accepted the assignment and who have participated in the analyses, opinions, and conclusions formed in the appraisal. "Company" refers to Baker, Peterson, Baker & Associates, Inc. "Report" refers to this written document containing the analyses, opinions, and conclusions which constitute the appraisal.

3. ***Liability***. The liability of Baker, Peterson, Baker & Associates, Inc., including any or all of its employees, and including the appraiser responsible for this report, is limited to the Client only, and to the fee actually received by the Company. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of any person other than the Client, the Client is responsible for making such party aware of all assumptions and limiting conditions related thereto. The appraiser is in no way responsible for any costs incurred to discover or correct any deficiencies of any type present in the subject property, whether physical, financial, or legal.

4. ***Title***. No opinion as to title is rendered. Data related to ownership and legal description was provided by the Client or was obtained from available public records and is considered reliable. Unless acknowledged in this report, no title policy or preliminary title report was provided. Title is assumed to be marketable and free and clear of all liens, encumbrances, and restrictions except those specifically discussed in the report. The property is appraised assuming responsible ownership, competent management and ready availability for its highest and best use.

5. ***Survey or Engineering***. No survey or engineering analysis of the subject property has been made by the appraiser. It is assumed that the existing boundaries are correct and that no encroachments exist. The appraiser assumes no responsibility for any condition not readily observable from customary investigation and inspection of the premises which might affect the value thereof, excepting those items which are specifically mentioned in the report.

6. ***Data Sources***. The report is based, in part, upon information assembled from a wide range of sources and, therefore, the incorporated data cannot be guaranteed. An impractical and uneconomic expenditure of time would be required in attempting to furnish unimpeachable verification in all instances, particularly as to engineering and market-related information. It is suggested that the Client consider independent verification within these categories prior to any transaction involving a sale, lease, or other significant commitment of the subject property, and that such verification be performed by appropriate recognized specialists.

7. ***Subsequent Events***. The date of valuation to which the conclusions and opinions expressed in this report apply is set forth in the letter of transmittal. The appraiser assumes no responsibility for economic or physical factors occurring after the date of valuation which may affect the opinions in this report. Further, in any prospective valuation assignment, the appraiser cannot be held responsible for unforeseeable events that alter market conditions prior to the date of valuation. Such prospective value estimates are intended to reflect the expectations and perceptions of market participants along with available factual data, and should be judged on the market support for the forecasts when made, not whether specific items in the forecasts are realized.

8. ***Adjustments***. The appraiser reserves the right to make such adjustments to the analyses, opinions, and conclusions set forth in this report as may be required by consideration of additional data or more reliable data which may become available subsequent to issuance of the report.

9. ***Special Rights***. No opinion is expressed as to the value of any subsurface (oil, gas, mineral) or aerial rights or whether the property is subject to surface entry for the exploration or removal of materials except where expressly stated in the report.

10. ***Value Distribution***. The distribution of total value in this report between land and improvements applies only under the specified highest and best use of the subject property as herein described. The allocations of value among the land and improvements do not apply to any other property other than the property which is the subject of this report.

11. ***Legal or Special Opinions***. No opinion is intended to be expressed for matters which require legal expertise, specialized investigation, or a level of professional or technical knowledge beyond that customarily employed by real estate appraisers.

12. ***Personal Property***. Unless expressly stated within this report, no consideration has been given as to the value of any personal property located on the premises, or to the cost of moving or relocating such personal property. Only the real property has been considered.

13. ***Soil Conditions***. Unless expressly stated within this report, no detailed soil studies covering the subject property were available to the appraiser. Therefore, it is assumed that existing soil conditions are capable of supporting development of the subject property in a manner consistent with its highest and best use without extraordinary foundation or soil remedial expense. Further, it is assumed that there are no hidden or unapparent matters (hazardous materials, toxic substances, etc.) related to the soil or subsurface which would render the subject more or less valuable by knowledge thereof.

14. ***Court Testimony***. Testimony or attendance in court or at any other hearing (including depositions) is not required by reason of rendering this appraisal or issuing this report, unless such arrangements have previously been made and are part of a contract for services.

15. ***Exhibits***. Maps, floor plans, photographs, and any other exhibits contained in this report are for illustration only, and are provided as an aid in visualizing matters discussed within the report. They should not be considered as surveys or scale renderings, or relied upon for any other purpose.

16. ***Statute, Regulation, and License***. Unless otherwise stated within the report, the subject property is assumed to be in full and complete compliance with all applicable federal, state, and local laws related to zoning, building codes, fire, safety, permits, and environmental regulations. Further, it is assumed that all required licenses, certificates of occupancy, consents or other legislative or administrative authorizations have been, or can be, readily obtained or renewed as related to any use of the subject property on which the value estimate contained herein is based.

17. ***Hidden or Unapparent Conditions***. It is assumed that there are no hidden or unapparent conditions which, if known, would affect the analyses, opinions or conclusions contained in this report. This includes, but is not limited to, electrical, mechanical, plumbing, and structural components.

18. ***Hazardous/Toxic Substances***. In this appraisal assignment, no observation was made of the existence of potentially hazardous material from any source, whether borne by land or air, including, but not limited to, asbestos, lead, toxic waste, radon, and urea formaldehyde. While not observed, and while no information was provided to confirm or deny the existence of such substances (unless expressly stated herein), it is emphasized that the appraiser is not qualified to detect or analyze such substances. Unless otherwise stated, no consideration has been given to the presence of, nature of, or extent of such conditions, nor to the cost to "cure" such conditions or to remove any toxic or hazardous substances which could potentially affect the value or marketability of the property. Any such conclusions must be based upon the professional expertise of persons qualified to make such judgments. Thus, any person or other entity with an interest in the subject property is urged to retain an expert if so desired. This value estimate assumes that there is no such material on or in the property.

19. ***Americans with Disabilities Act of 1990***. The ADA became effective on January 26, 1992. I 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 on the value of the property. Since I have no direct evidence relating to this issue, I did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.

20. ***Disclosure***. Disclosure of the contents of this report is governed by the By-Laws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report, including the value estimate, the identity of the appraisers or their professional designations, or the company with which the appraisers are associated, shall be used for any purpose by anyone other than the Client as herein stated, without the prior written consent of the appraisers. Nor shall it be conveyed, in whole or in part, in the public through advertising, news, sales, listings, or any other media without such prior written consent. Possession of this report does not carry with it any right of public distribution.

21. ***Endangered and Threatened Species***. The appraisers have not made a specific survey of the subject property to determine whether or not it has any plant or wildlife which are identified as an endangered or threatened species by the U. S. Fish and Wildlife Service. While not observed and while no information was provided to confirm or deny the existence of any endangered or threatened species on the subject property (unless expressly stated herein), it is emphasized that the appraisers are not qualified to detect or analyze such plants or wildlife. Any such conclusions must be based upon the professional expertise of persons qualified to make such judgments. Thus, any person or other entity with an interest in the subject property is urged to retain an expert if so desired. It is possible that a survey of the property could reveal that the site contains endangered or threatened plants or wildlife. If so, this fact could have a negative effect on the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible endangered or threatened species in estimating the value of the property.

22. ***Acceptance of Report***. Acceptance and/or use of this report by the Client or any third party constitutes acceptance of all of the above conditions.

PART VII - CERTIFICATION

WE CERTIFY THAT, TO THE BEST OF MY KNOWLEDGE AND BELIEF:

1. The statements of fact contained in this report are true and correct.

2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.

3. We have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.

4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.

6. Our 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.

7. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice* (USPAP) of The Appraisal Foundation, the Code of Ethics and Standards of Professional Practice of the Appraisal Institute, and any other specifications submitted by the Client, including Title XI, FIRREA.

8. The use of this report is subject to the requirements of the Appraisal Institute, relating to review by its duly authorized representatives.

9. In accord with the Uniform Standards of Professional Appraisal Practice, We have the experience and knowledge to complete this assignment in a credible and competent manner.

10. As of the date of this report, we have completed requirements of the continuing education program of the Appraisal Institute.

11. The effective date of this appraisal is December 5, 2018.

12. We have made a personal inspection of the property that is the subject of this report.

13. Our firm has appraised the subject property within three years prior to this assignment.

14. No one provided significant real property appraisal assistance to the persons signing this certification.

15. We are Certified General Real Estate Appraisers in the State of Arizona.

Thomas A. Baker, MAI, SRA
Certified General Real Estate Appraiser
Certificate Number 31039
Designated Supervisory Appraiser
Registration Number DS0007

Dan Orlowski
Certified General Real Estate Appraiser
Certificate Number 32195

PART VIII - EXHIBITS

Exhibit A	Legal Description
Exhibit B	Subject Plat Map
Exhibit C	Aerial Photograph
Exhibit D	Zoning Map
Exhibit E	FEMA Flood Plain Map
Exhibit F	Incentive District Maps
Exhibit G	Subject Photographs
Exhibit H	Comparable Land Sales Location Map
Exhibit I	Comparable Land Sales, Maps and Aerials
Exhibit J	Qualifications

EXHIBIT A - LEGAL DESCRIPTION

Exhibit A

Order No. 257524

Parcel No. 1:

That part of Lot 13, in Block 195, of the CITY OF TUCSON, Pima County, Arizona according to the plat thereof, as made and executed by S.W. Forman and approved and adopted by Mayor and Common Council of said City (then village) of Tucson, on June 26, 1872, which map is of record in the office of the County Recorder of Pima County, Arizona, in Book 3 of Maps and Plats, at Page 70 thereof, described as follows:

BEGINNING at a point on the South line of said Lot 13 and on the North line of Congress Street, North 87 degrees East 14.4 feet from the Southwest corner of said Lot 13;

THENCE East along the South line of said Lot 13, a distance of 50 feet to a point;

THENCE Northerly at right angles to the South line of said Lot 13, a distance of 106 feet to a point;

THENCE South 87 degrees West a distance of 54.75 feet to a point on the East line of Scott Avenue (formerly Belknap Street);

THENCE South 6 1/4 degrees East a distance of 106 feet, to the Point of Beginning;

EXCEPT the following described property:

COMMENCING at the Southwest corner of said Lot 13;

THENCE North 87 degrees East along the South line of Lot 13, a distance of 14.4 feet to the True Point of Beginning;

THENCE continue North 87 degrees East along the South line of Lot 13, a distance of 33.00 feet;

THENCE North 3 degrees West a distance of 20.33 feet;

THENCE South 87 degrees West a distance of 5.00 feet;

THENCE North 3 degrees West a distance of 4.00 feet;

THENCE South 87 degrees West a distance of 18.67 feet;

THENCE North 3 degrees West a distance of 4.00 feet;

THENCE South 87 degrees West a distance of 4.00 feet;

THENCE North 3 degrees West a distance of 13.33 feet;

THENCE North 87 degrees East a distance of 4.00 feet;

THENCE North 3 degrees West a distance of 18.00 feet;

THENCE South 87 degrees West a distance of 4.00 feet;

THENCE North 3 degrees West a distance of 13.33 feet;

THENCE North 87 degrees East a distance of 4.00 feet;

THENCE North 3 degrees West a distance of 18.00 feet;

THENCE South 87 degrees West a distance of 4.00 feet;

THENCE North 3 degrees West a distance of 6.67 feet;

THENCE North 87 degrees East a distance of 41.83 feet;

THENCE North 3 degrees West a distance of 8.34 feet;

THENCE South 87 degrees West a distance of 53.18 feet to a point on the East line of Scott Avenue (formerly Belknap Street);

THENCE South 6 1/4 degrees East a distance of 106.17 feet to the True Point of Beginning.

The property hereinabove described being also described as a portion of Lots 1 and 2, according to the unrecorded Manning's Resubdivision thereof, of Lot 13, in Block 195, of the City of Tucson.

(jv arbs 12 and 23)

Parcel No. 2:

That part of Lot 13, in Block 195, of the CITY OF TUCSON, Pima County, Arizona according to the plat thereof, as made and executed by S.W. Forman and approved and adopted by Mayor and Common Council of said City (then village) of Tucson, on June 26, 1872, which map is of record in the office of the County Recorder of Pima County, Arizona, in Book 3 of Maps and Plats, at Page 70 thereof, described as follows:

BEGINNING at a point on the South line of said Lot and the North line of Congress Street, North 87 degrees East 64.4 feet from the Southwest corner of said Lot 13;

THENCE Easterly along the South line of said Lot 13, a distance of 50 feet;

THENCE North at right angles 106 feet to a point in the Southerly line of a 20 foot alley;

THENCE South 87 degrees West along the Southerly line of said alley 50 feet;

THENCE South 106 feet to the Point of Beginning.

The property hereinabove described being also described as Lots 3 and 4, according to the unrecorded Manning's Resubdivision thereof, of Lot 13, in Block 195, of the City of Tucson.

(jv arb 134)

Parcel No. 3:

That portion of that certain unnumbered Block (sometimes referred to as Block 248) of the CITY OF TUCSON, Pima County, Arizona according to the plat thereof, as made and executed by S.W. Forman and approved and adopted by Mayor and Common Council of said City (then village) of Tucson, on June 26, 1872, which map is of record in the office of the County Recorder of Pima County, Arizona, in Book 3 of Maps and Plats, at Page 70 thereof, described as follows:

COMMENCING at the Southwest corner of the property heretofore conveyed by the Corporate Authorities of the City of Tucson, to Kirt L. Hart, by Deed bearing date of December 11, 1903 and recorded in Book 34

12463 0038

of Deeds at Page 822, records of said County, said point being the present Northeast corner of Broadway and Scott Street;

THENCE Easterly along the Southerly line of the property so conveyed to Kirt L. Hart, said line being also the present North line of Broadway, a distance of 100.1 feet to a point;

THENCE Northerly to a point on the South line of that certain 15 feet strip of ground theretofore conveyed to the said City of Tucson, for alley purposes, by Deed bearing dated May 31, 1902 executed by Kirt L. Hart and recorded in Book 34 of Deeds at Page 15, records of said County, which point is distant 100.5 feet Easterly from the East line of said Scott Street;

THENCE Westerly along the South line of said 15 foot alley, a distance of 100.5 feet to the East line of Scott Street;

THENCE Southerly along the East line of Scott Street, being along the West line of said Block, to the Point of Beginning.

Said property commonly known as Lot 3 and 5 of Block 248, City of Tucson.

Parcel No. 4:

That portion of that certain unnumbered Block (sometimes referred to as Block 248) of the CITY OF TUCSON, Pima County, Arizona according to the plat thereof, as made and executed by S.W. Forman and approved and adopted by Mayor and Common Council of said City (then village) of Tucson, on June 26, 1872, which map is of record in the office of the County Recorder of Pima County, Arizona, in Book 3 of Maps and Plats, at Page 70 thereof, described as follows:

BEGINNING at the intersection of the West line of 6th Avenue with the North line of Broadway;

THENCE North, along the West line of 6th Avenue and the East line of said Block 248 of a distance of 114.4 feet, more or less to a point on the South line of that certain 15 foot alley, conveyed to the City of Tucson by Deed recorded in Book 34 of Deeds at Page 15;

THENCE Westerly, along the South line of said alley, a distance of 170.7 feet, more or less, to a point thereon distant 100.5 feet from the East line of Scott Street;

THENCE South to a point on the North line of Broadway, distant thereon 100.1 feet from the Northeast corner of Scott Street and Broadway;

THENCE Easterly, along the South line of Broadway, a distance of 166.63 feet, more or less, to the Point of Beginning.

Said property is also commonly known as Lot 4 in Block 248 of the City of Tucson.

(jv arb 804)

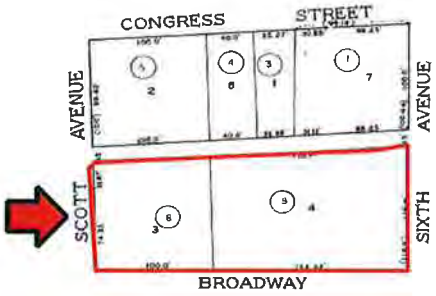
12463 00319

EXHIBIT B - SUBJECT PLAT MAP

ASSESSOR'S RECORD MAP

11/-15
121

BLOCK 248 , CITY OF TUCSON

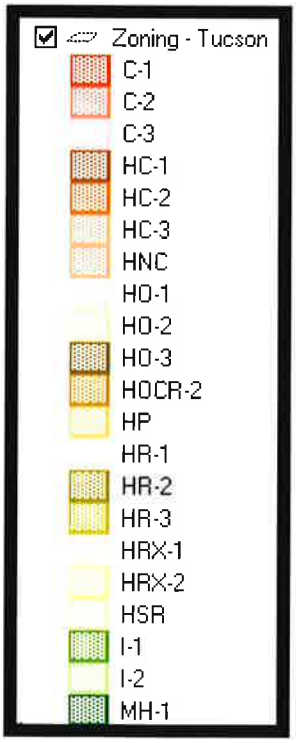


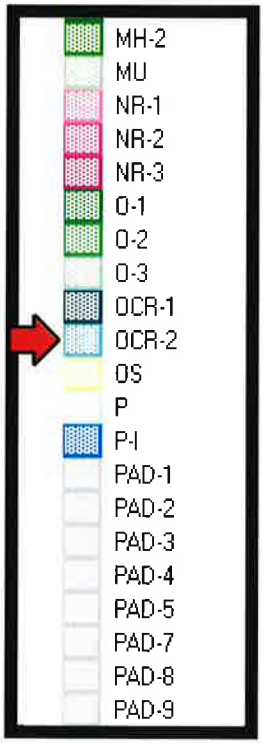
SCALE-1"=50'

SEE BOOK 3 PAGE 70,M & P

EXHIBIT C - AERIAL PHOTOGRAPH

EXHIBIT D - ZONING MAP





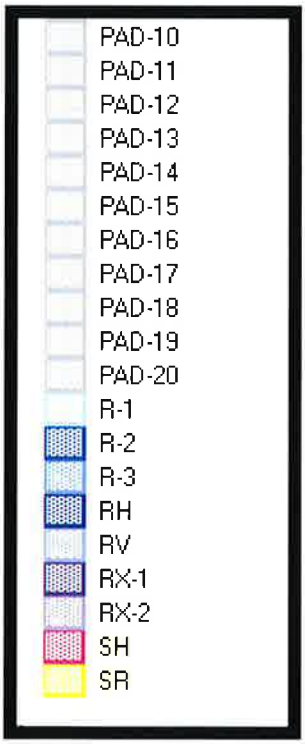


EXHIBIT E - FEMA FLOODPLAIN MAP

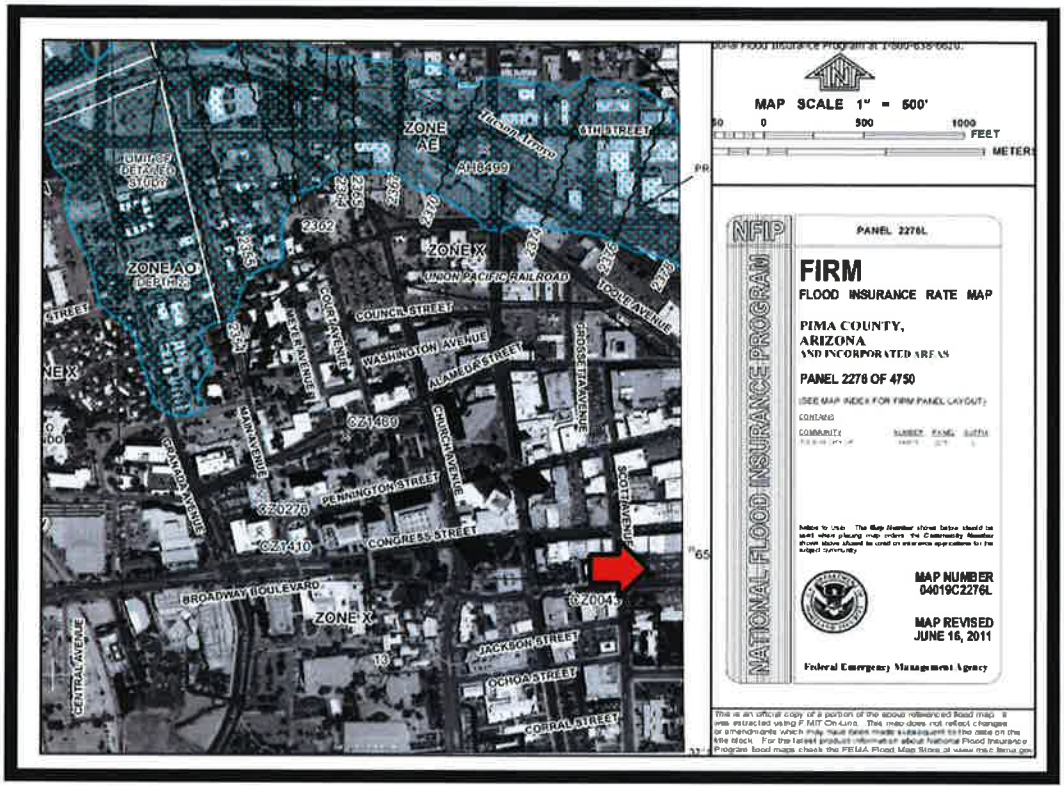
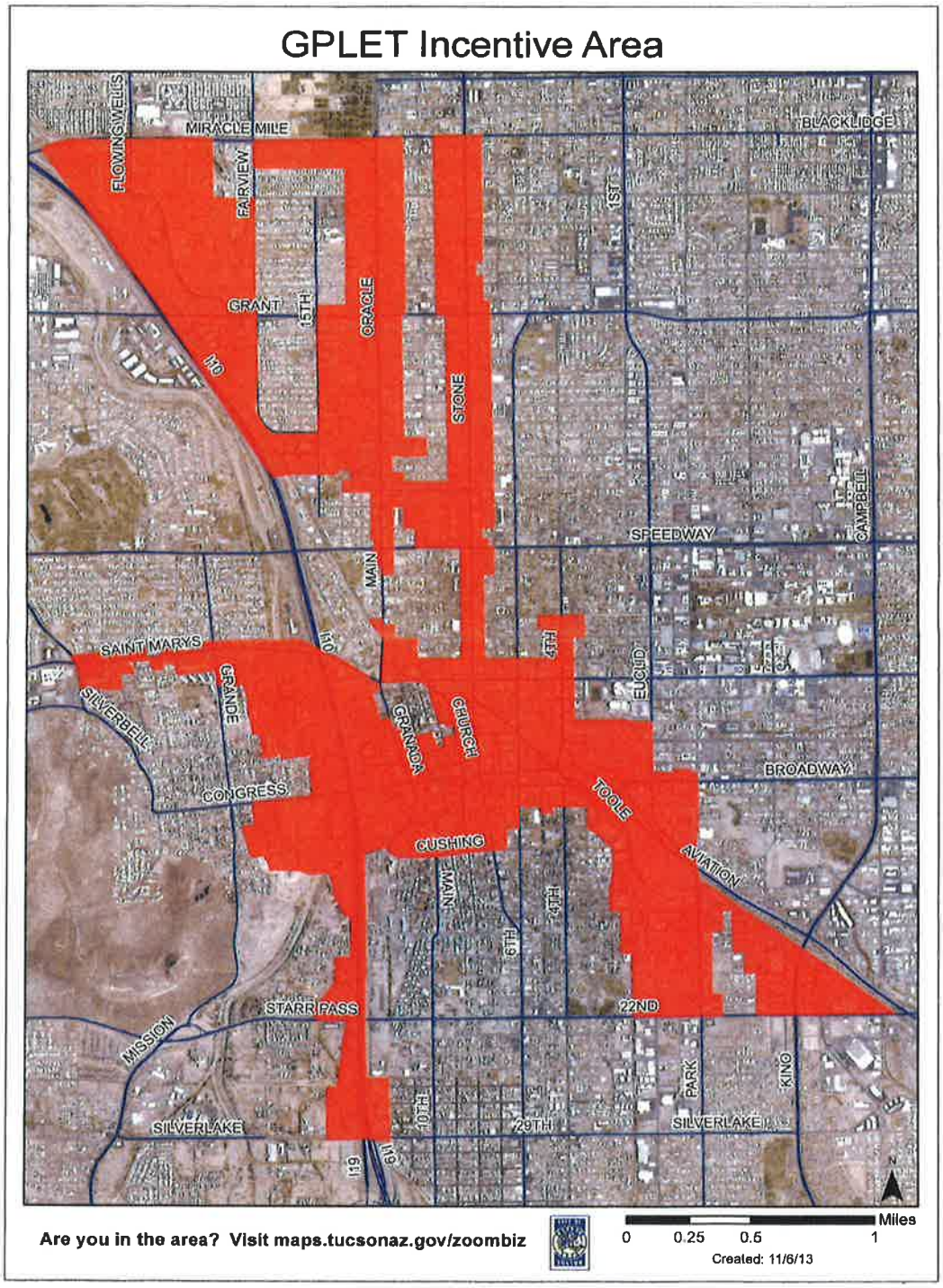
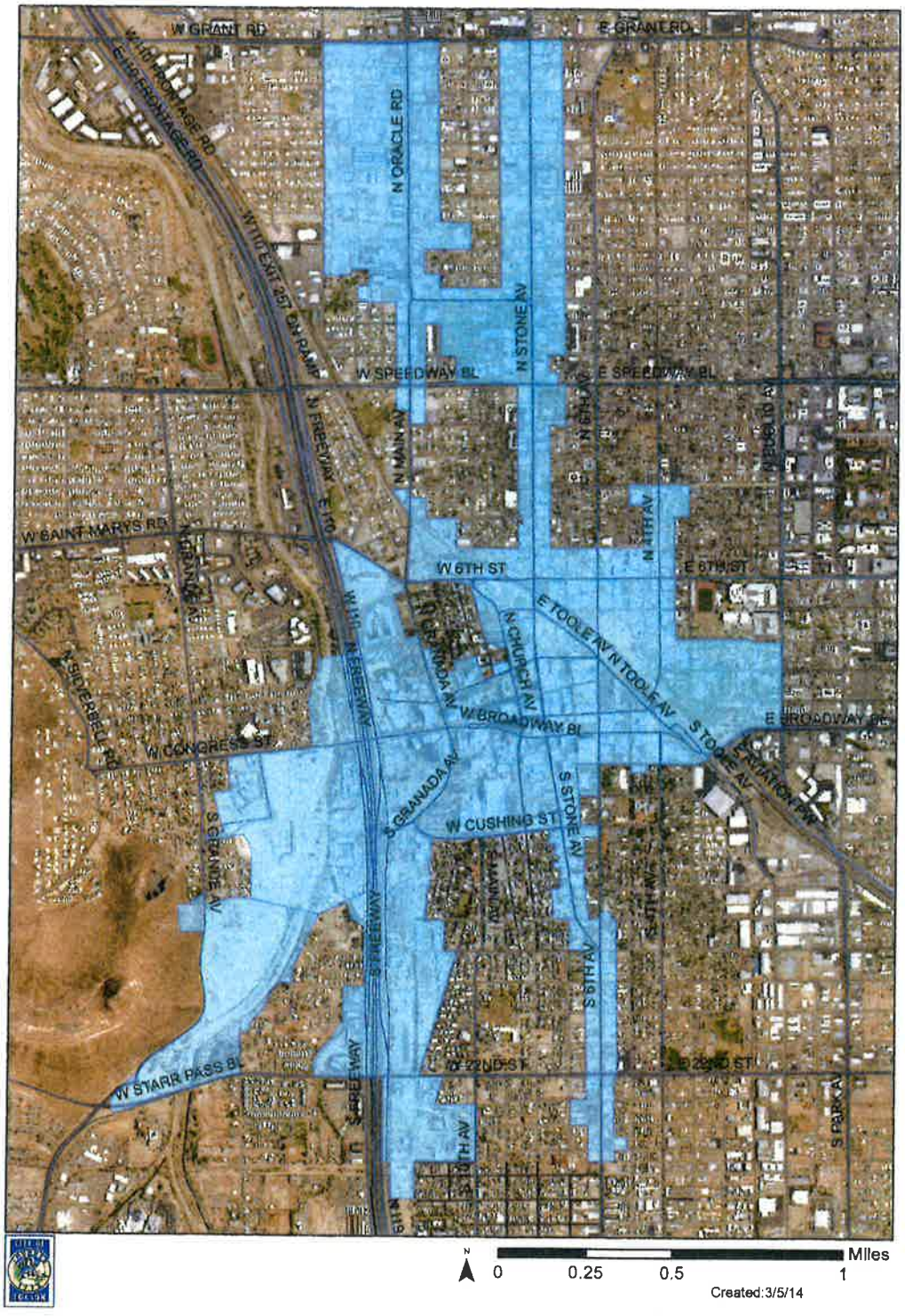


EXHIBIT F - INCENTIVE DISTRICT MAPS



Infill Incentive District



Infill Incentive District - Downtown Core

EXHIBIT G - SUBJECT PHOTOGRAPHS

PHOTO 1 - VIEW FROM BROADWAY BOULEVARD AND SCOTT AVENUE

PHOTO 2 - VIEW FROM BROADWAY BOULEVARD AND SIXTH AVENUE

PHOTO 3 - VIEW FROM SIXTH AVENUE

PHOTO 4 - VIEW FROM SCOTT AVENUE

PHOTO 5 - VIEW EAST ALONG BROADWAY BOULEVARD

PHOTO 6 - VIEW WEST ALONG BROADWAY BOULEVARD

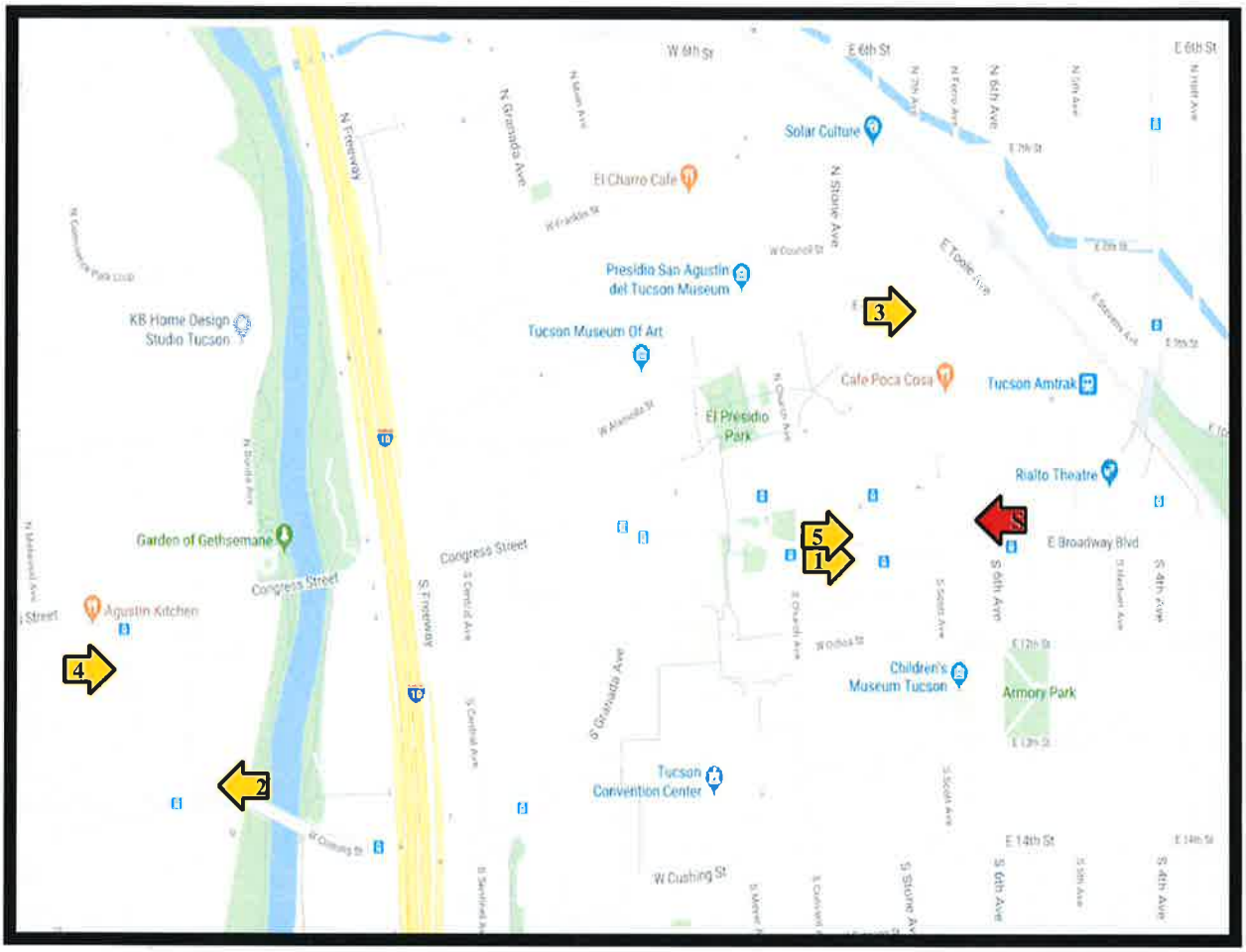
PHOTO 7 - VIEW NORTH ALONG SIXTH AVENUE

PHOTO 8 - VIEW SOUTH ALONG SIXTH AVENUE

PHOTO 9 - VIEW NORTH ALONG SCOTT AVENUE

PHOTO 10 - VIEW SOUTH ALONG SCOTT AVENUE

EXHIBIT H - COMPARABLE LAND SALES LOCATION MAP



Subject:	**North side of Broadway Boulevard between Scott Avenue and Sixth Avenue**
Sale 1:	Southwest corner of Broadway Boulevard and Stone Avenue
Sale 2:	Northeast corner of Cushing Street and Linda Avenue
Sale 3:	Southwest corner of Scott Avenue and Alameda Street
Sale 4:	Southwest corner of Avenida del Convento and Paseo de Los Zanjeros
Sale 5:	Northeast corner of Broadway Boulevard and Stone Avenue

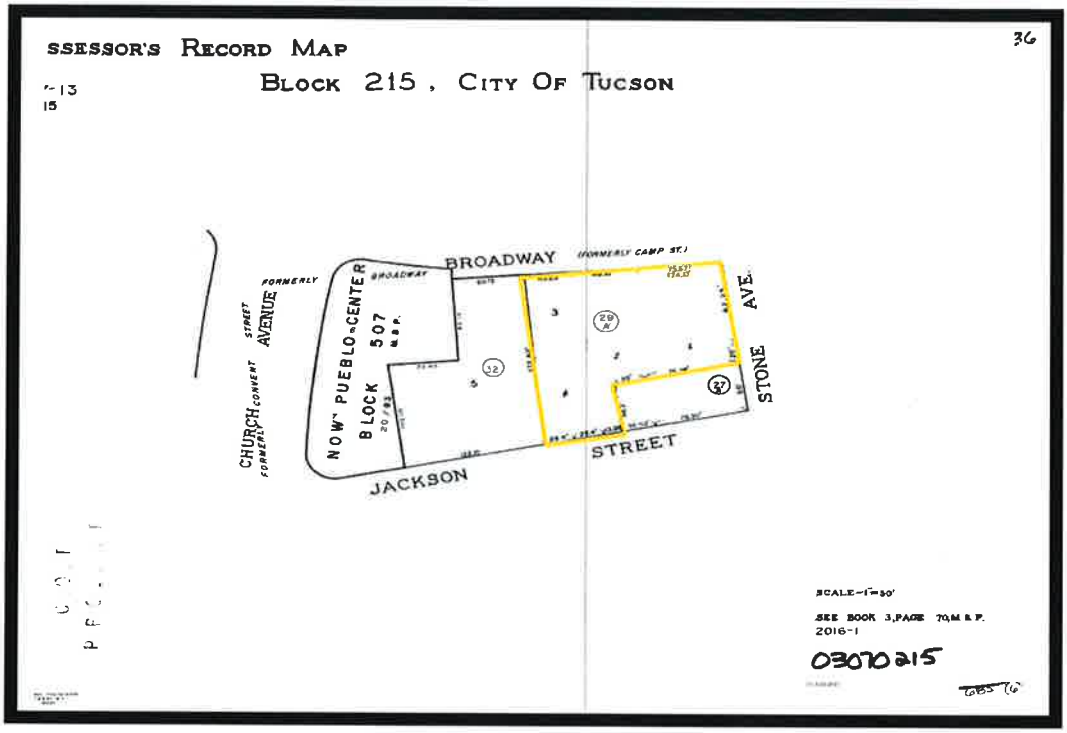
EXHIBIT I - COMPARABLE LAND SALES

LAND COMPARABLE NUMBER ONE (SALE) ID: OCR-2 0025 7224

LOCATION:	Southwest corner of Broadway Boulevard and Stone Avenue
LEGAL DESCRIPTION:	Lots 3 and 4 and a Portion of Lots 1 and 2, Block 215, City of Tucson
STATE TAX PARCEL:	117-13-0250, 117-13-0260, 117-13-0290, 117-13-0300, 117-13-0310 (Now 117-13-029A)
RECORD DATA:	2015-1120087
DATE OF SALE:	April 22, 2015
SELLER:	Lerdai Limited Partnership (c/o Chapman Group)
BUYER:	7740 Oracle LLC 44% & Elcaro Xtra LLC 36% & Vistoso LLC 20%
CONFIRMED BY:	Art Wadlund, Buyer's Rep (520-299-7200) TAB; July, 2015 Swain Chapman, Seller's Rep (520-622-5544) TAB; July, 2015
LAND DESCRIPTION:	This site an "L" shaped property with approximately 165 feet of frontage on Broadway Boulevard along the northern border, approximately 100 feet of frontage on Stone Avenue along the eastern border, and approximately 75 feet of frontage on Jackson Street along the southern border. The site has a depth of approximately 170 feet along the western border. The site has direct access from Broadway Boulevard, Stone Avenue, and Jackson Street. Broadway Boulevard is a one-way (eastbound), two-lane, asphalt-paved roadway with right hand turn for southbound Stone Avenue, streetcar tracks, concrete curbs, streetlights, and sidewalks in the area of this property. Broadway Boulevard has a 2014 traffic count of approximately 15,000 vehicles per day near this property. Stone Avenue is a three-lane (2 southbound, 1 northbound), asphalt paved roadway, with concrete curbs, streetlights, and sidewalks in the area of this property. Stone Avenue

	has a 2010 traffic count of approximately 9,800 vehicles per day in the area of this property. Jackson Street is a two-lane, asphalt paved roadway with concrete curbs, sidewalks, but no streetlights in the vicinity of this property. There is no traffic count for Jackson Street near this property. All utilities are available to the property. According to FEMA Flood Insurance Rate Map 04019C2276L, dated June 16, 2011, the land is identified as being located in Zone X (unshaded) which are areas determined to be outside the 0.2 percent annual chance floodplain.
LAND SIZE:	22,027 square feet (per survey)
ZONING:	OCR-2
REPORTED SALE PRICE:	$1,780,000
PRICE PER SQ. FT.:	$81.81
MARKETING TIME:	N/A
TERMS OF SALE:	This is an all cash to the seller transaction.
PRIOR SALE:	Records of the Pima County Assessor indicate that no transaction has occurred within three years of the date of sale.
CONDITIONS OF SALE:	According the buyer, the property sold at an above market price as the buyer already owned the property on the northeast corner of Stone and Broadway and could manage the properties together.
INTENDED USE:	The development of a six-story multi-use development containing approximately 100,000 square feet. There is 6,500 square feet of ground floor retail space planned with 40 apartment units. There will be a two-story parking garage with 61 parking spaces developed on the site.

COMPARABLE LAND SALE ONE - PLAT MAP AND AERIAL PHOTOGRAPH
(117-13-0250; -0260; -0290; -0300; -0310 (now 117-13-029A))

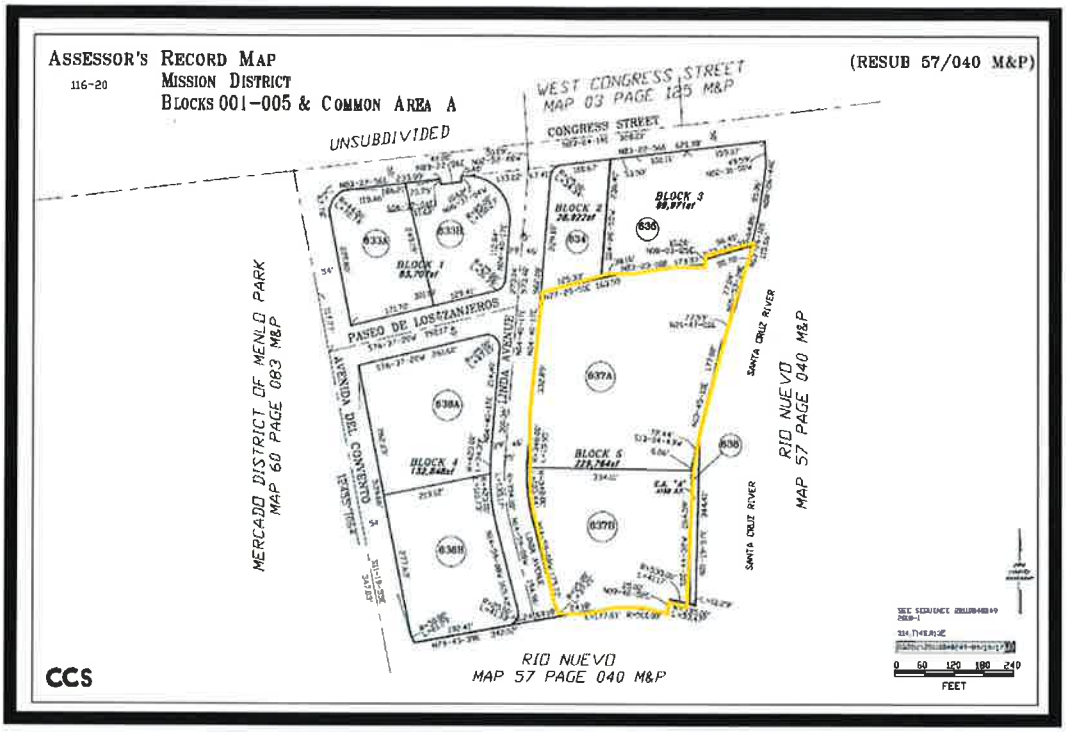


LAND COMPARABLE NUMBER TWO (SALE) ID: C2 0344 7508

LOCATION:	Northeast corner of Cushing Street and Linda Avenue
LEGAL DESCRIPTION:	Block 5, Mission District, Pima County, Arizona
STATE TAX PARCEL:	116-20-637B; 116-20-637A
RECORD DATA:	No affidavit to be recorded - see comments
DATE OF SALE:	December 27, 2017 (Confirmed date with buyer)
SELLER:	Mission District Partners, LLC
BUYER:	Aerie Development LLC
CONFIRMED BY:	Roger Karber, buyer (520-977-5456) DFO; December, 2017
LAND DESCRIPTION:	This site is a mostly rectangular shaped property with approximately 620 feet of frontage on Linda Avenue along the western property line and approximately 280 feet of frontage on Cushing Street along the southern property line. The site has a depth of approximately 725 feet along the eastern property line. Linda Avenue is a two-lane, asphalt-paved roadway with concrete curbs, sidewalks, and streetlights in the vicinity of this property. There are streetcar tracks in Linda Avenue adjacent to this property. There is no traffic count available for Linda Avenue. Cushing Street is a two-lane, asphalt-paved roadway with concrete curbs, sidewalks, and streetlights in the vicinity of this property. There are street tracks in Cushing Street adjacent to this property. Cushing Street has a 2015 traffic count of 2,900 vehicles per day in the vicinity of this site. The topography is mostly level, with the south western portion sloping to the east. All utilities are available to the site. According to LOMC number 07-09-1469L, effective June 11, 2011, the subject property is not located in a FEMA flood zone.
LAND SIZE:	229,764 square feet
ZONING:	C-2, I-1 (City of Tucson).

REPORTED SALE PRICE:	$16,000,000
PRICE PER SQ. FT.:	$69.70
MARKETING TIME:	N/A
TERMS OF SALE:	Affidavit not yet available
PRIOR SALE:	Records of the Pima County Assessor indicate that no market transactions have occurred within three years of the date of this sale. There were transaction recorded on November 6th, 2014; however, these were internal transfers of ownership, and not market transactions.
CONDITIONS OF SALE:	This sale price of the property is based on normal market conditions per the buyer. The buyer entered into a joint venture/development agreement, of which the property will be developed; therefore no affidavit of value will be completed for this sale. However, the purchaser confirmed that the agreed upon sale price of the property was a normal market value for the land at $16,000,000.
INTENDED USE:	A mixed use development consisting of 460 market rate apartments with ground floor retail uses. The development is planned to include includes two 5-story buildings and one 10-story building with onsite parking.
COMMENTS:	The immediate area of this property has recently seen an increase in demand due to the planned construction of the new Caterpillar corporate headquarters. Additionally, the property being adjacent to the streetcar and new planned commercial developments in the immediate area have increased the demand for this specific area. The buyer of this property indicated he was able to pay a higher price for the site due to the larger site size which provides ability to develop at a higher density.

COMPARABLE LAND SALE TWO - PLAT MAP AND AERIAL PHOTOGRAPHS
(116-20-637A; - 637B)

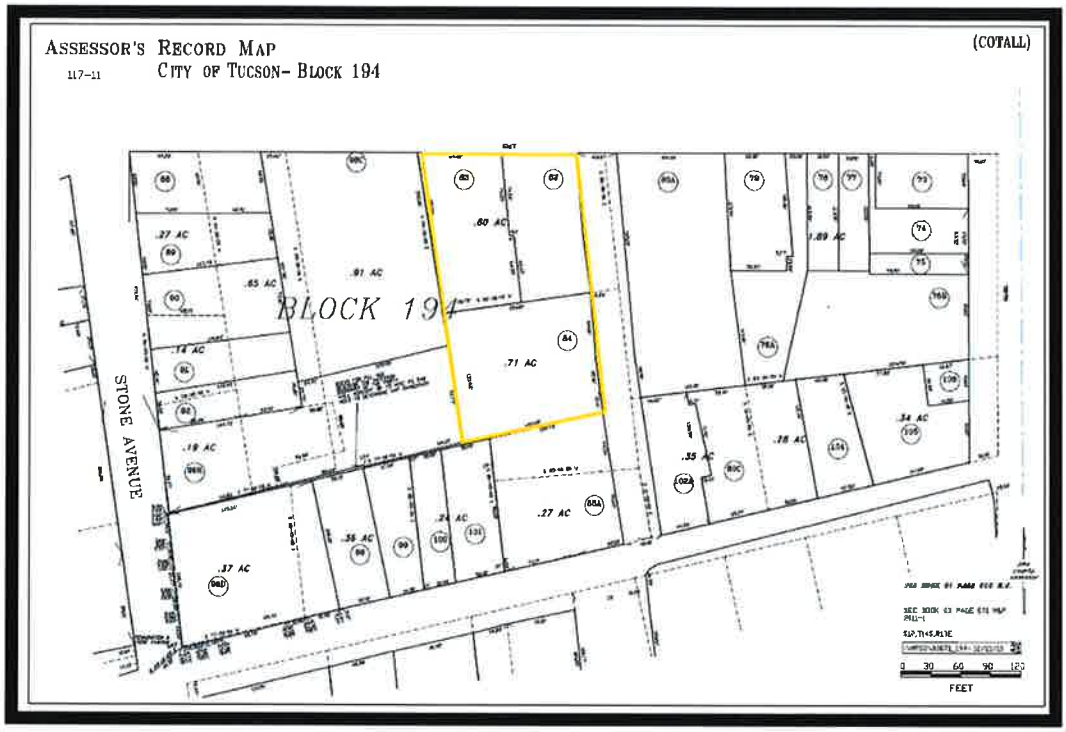


LAND COMPARABLE NUMBER THREE (SALE) ID: OCR2 0027 7583

LOCATION:	Southwest corner of Scott Avenue and Alameda Street
LEGAL DESCRIPTION:	Portions of Lots 2 and 3, Block 194, Tucson, Pima County, Arizona
STATE TAX PARCEL:	117-11-0820, 117-11-0830, and 117-11-0840
RECORD DATA:	2018-1200841
DATE OF SALE:	April 30, 2018
SELLER:	Woodward Family LLC
BUYER:	TAZ Parking LLC
CONFIRMED BY:	Affidavit
LAND DESCRIPTION:	This site is a mostly rectangular shaped property located at the southwest corner of Scott Avenue and Alameda Street. The site has 170 feet of frontage on Alameda Avenue along the northern property line and approximately 265 feet of frontage on Scott Avenue along the eastern property line. The site has a width of approximately 140 feet along the southern border. Alameda Street is a one-way, two-lane, asphalt-paved roadway with concrete curbs, sidewalks and streetlights in the vicinity of this property. Alameda Street has a 2017 traffic count of approximately 3,300 vehicles per day in the vicinity of this site. Scott Avenue is a two-lane, asphalt-paved roadway with concrete curbs, sidewalks, and street lights in the vicinity of this property. There is no traffic count available for Scott Avenue in the vicinity of this site. The intersection of Alameda and Scott is not a traffic light controlled intersection. The site has direct access from Alameda Street and Scott Avenue. The topography is mostly level. All utilities are available to the site. According to FEMA Flood Insurance Rate Map 04019C2276L, dated June 16, 2011, the land is located in Zone X (unshaded) which are areas determined to be outside the 0.2 percent annual chance floodplain.
LAND SIZE:	41,284 square feet (per Pima County Assessor)

ZONING:	OCR-2 (City of Tucson)
REPORTED SALE PRICE:	$3,250,000
PRICE PER SQ. FT.:	$78.72
MARKETING TIME:	N/A
TERMS OF SALE:	Not disclosed
PRIOR SALE:	According to the records of the Pima County Assessor, there have been no prior sales of this property within three years from the date of this sale. This property is currently listed for sale on the market with an asking price of $3,800,000.
CONDITIONS OF SALE:	This sale is reported to have occurred under normal market conditions. The subject property was purchased as an investment property with value attributed by the purchaser to the interim use as a parking lot. According to the current listing packet for this property, the property is continuing to operate as a parking lot with a reported NOI of $190,000.
INTENDED USE:	Continue to utilize the parking lot improvements as an interim use with potential to develop with a mixed-use development in the future.

COMPARABLE LAND SALE THREE - PLAT MAP AND AERIAL PHOTOGRAPH
(117-11-0820; -0830; -0840)

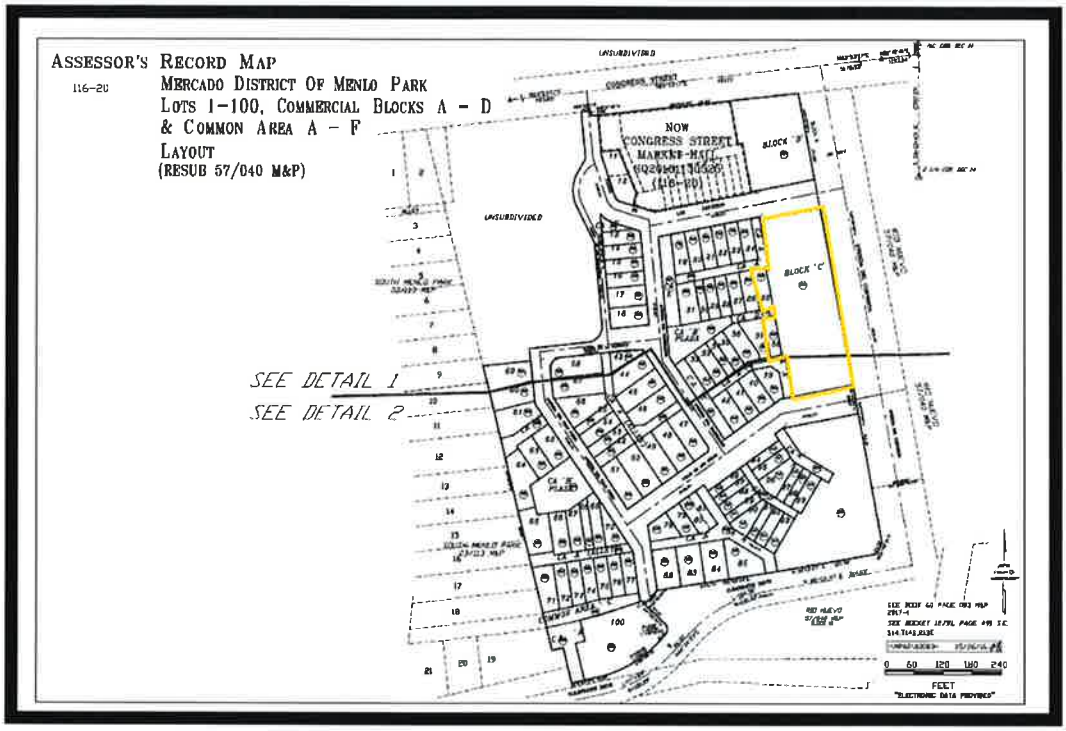


LAND COMPARABLE NUMBER FOUR (SALE) ID: PAD 0013 7656

LOCATION:	Southwest corner of Avenida del Convento and Paseo de Los Zanjeros
LEGAL DESCRIPTION:	Commercial Block C and Lots 25 and 38, Mercado District of Menlo Park, Pima County, Arizona
STATE TAX PARCEL:	116-20-5470, 5600 and 6300
RECORD DATA:	Fee number 2018-2410314
DATE OF SALE:	August 29, 2018
SELLER:	Holualoa Monier Apartments, LLC
BUYER:	The Gadsden Company, LLC
CONFIRMED BY:	Anne Lawrence, seller's representative (520-605-1094) DFO; November, 2018
LAND DESCRIPTION:	This site is a mostly rectangular shaped corner property with approximately 355 feet of frontage on Avenida del Convento and approximately 125 feet of frontage on Paseo de Los Zanjeros along the northern property line. The parcel also has approximately 125 feet of frontage on Calle de Los Higos along the southern property line. Avenida del Convento is a two-lane, asphalt-paved roadway with concrete curbs, sidewalks, on-street striped parking, and streetlights in the vicinity of this property. The modern streetcar tracks are located along Avenida del Convento adjacent to this property with a streetcar stop located less than one block to the north of this property. Paseo de Los Zanjeros and Calle de Los Higos are two-lane, asphalt-paved roadways with concrete curbs and sidewalks, but no streetlights in the vicinity of this property. There are no traffic counts available for any of the adjacent roadways in the vicinity of this site. The topography is level, sloping in an easterly direction. There is a large pit where the earthwork for an underground parking garage was started several years ag; however, this did not impact the value of the property according to the buyer. All utilities are available to the site. According to FEMA Flood Insurance Rate Maps 04019C2276L and 2278L, both dated June 16, 2011, the entire property is located in

	Zone X (shaded) which are areas of 0.2% annual chance flood.
LAND SIZE:	45,820 square feet
ZONING:	PAD-10 (City of Tucson)
REPORTED SALE PRICE:	$3,500,000
PRICE PER SQ. FT.:	$76.39
MARKETING TIME:	N/A
TERMS OF SALE:	This was an all cash to the seller transaction.
PRIOR SALE:	Records of the Pima County Assessor indicate that this property sold on June 26, 2012 for a reported sale price of $1,685,000 as recorded at fee number 2012-1780949.
CONDITIONS OF SALE:	This sale is reported to have occurred under normal market conditions.
INTENDED USE:	To construct a market rate multi-family development with ground floor retail uses.

COMPARABLE LAND SALE FOUR - PLAT MAP AND AERIAL PHOTOGRAPH
(116-20-5470; -5600; -6300)



LAND COMPARABLE NUMBER FIVE (SALE) ID: OCR2 0026 7508

LOCATION:	Northwest corner of Broadway Boulevard and Stone Avenue
LEGAL DESCRIPTION:	A portion of Block 209 and Block 506, Pima County, Arizona
STATE TAX PARCEL:	117-12-098A; 117-12-099A
RECORD DATA:	2018-2640799
DATE OF SALE:	September 21, 2018
SELLER:	1SC Partners LLC
BUYER:	Rendezvous Urban Flats
CONFIRMED BY:	Roger Karber, (520-977-5456) DFO; July, 2018
LAND DESCRIPTION:	This site is an irregular shaped property located at the Northeast corner of Broadway Boulevard and Stone Avenue. The site has 249 feet of frontage on Stone Avenue along the eastern property line, approximately 240 feet of frontage on Broadway Boulevard along the southern property line, and 70 feet of frontage on Congress Street along the northern property line. Stone Avenue is a three-lane, asphalt-paved roadway with concrete curbs, sidewalks and streetlights in the vicinity of this property. The intersection at Stone and Broadway is a traffic light controlled intersection. Stone Avenue has a 2016 traffic count of 7,200 vehicles per day in the vicinity of this site. Congress Street is a two-lane, asphalt-paved roadway with concrete curbs, sidewalks, and street lights in the vicinity of this property. There are street car tracks on Congress Street adjacent to this property. Congress Street has a 2014 traffic count of 14,500 vehicles per day in the vicinity of this site. Broadway Boulevard is a two-lane, asphalt-paved roadway with concrete curbs, sidewalks, and street lights in the vicinity of this property. There are street car tracks on Broadway Boulevard adjacent to the property. Broadway Boulevard has a 2014 traffic count of 14,000 vehicles per day in the vicinity of this site. The

	topography is mostly level. All utilities are available to the site. According to FEMA Flood Insurance Rate Map 04019C2276L, dated June 16, 2011, the land is located in Zone X (unshaded) which are areas determined to be outside the 0.2 percent annual chance floodplain.
LAND SIZE:	33,146 square feet (per development plan)
ZONING:	OCR-2, C-3 (City of Tucson)
REPORTED SALE PRICE:	$2,650,000
PRICE PER SQ. FT.:	$79.95
MARKETING TIME:	N/A
TERMS OF SALE:	This was reported to be an all cash to the seller transaction.
PRIOR SALE:	According to the records of the Pima County Assessor, (Record number 2015-2750647) this property was purchased along with the adjacent high-rise office building and 500 space underground parking garage located under the entire site on October 2, 2015, for $32,000,000.
CONDITIONS OF SALE:	This sale is reported to have occurred under normal market conditions. The purchase option price was set on October 2, 2015, with the buyer having the option to purchase this property along with the rights to 150 parking spaces in the underground garage at a later date. The sale closed in September, 2018 for the amount of $2,650,000 per the recorded affidavit. There were no brokers involved in this transaction and no commissions were paid.
INTENDED USE:	The property will be developed with a six-story building which will include 101 market rate apartments with ground floor retail space.
COMMENTS:	This purchase also includes the rights to 150 parking spaces located in the existing underground parking structure which is shared with the adjacent property. The buyer indicated approximately 10 percent of the purchase price was attributed to the value of the parking

spaces. The revenue and expense sharing of the parking spaces is being determined internally, however; the buyer indicated the internal revenue sharing of the parking spaces for the future tenant's use does not impact the sales price agreed in the option.

In order to provide public access through the site and to the existing plaza located on the property, the building is planned to be cantilevered over the ground in several locations to permit public pedestrian access beneath the building. Per the site plan, of the 33,164 square feet of the land area for the entire subject property, 13,157 square feet of the land area of the site is restricted in use and is required to be left open as a public plaza and public walkways.

COMPARABLE LAND SALE FIVE - PLAT MAP AND AERIAL PHOTOGRAPH
(117-12-098A; 117-12-099A)

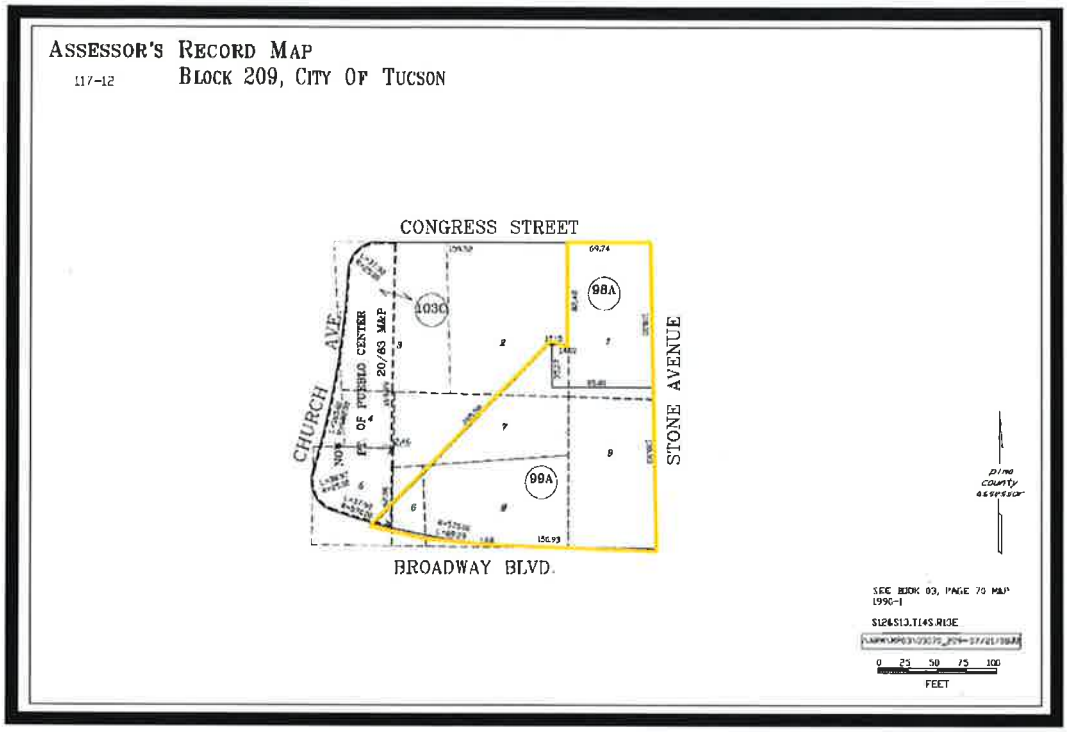


EXHIBIT J - QUALIFICATIONS

BAKER, PETERSON, BAKER & ASSOCIATES, INC. serves a wide variety of clients in Arizona, providing real estate appraisal and consultation services relating both to commercial and to residential properties. We also provide a wide variety of appraisal services relating to right of way acquisitions for multiple government agencies across Arizona. These clients include governmental agencies, utility companies, right of way companies, attorneys, CPA's, banks, credit unions, developers, real estate brokers, corporate and legal professionals, and numerous individuals. More than forty years of such services are represented by those presently associated with the firm, which was founded in 1974.

THOMAS A. BAKER, MAI, SRA, is a principal of the Company, and specializes in valuation and consultation services related to commercial, income-producing, and residential properties. He is a Certified General Real Estate Appraiser in the State of Arizona (Certificate 30139). He is a graduate of the University of Arizona, with a Master's Degree in Business Administration (MBA) with a specialty in Real Estate Finance. He holds the MAI and SRA Designations of the Appraisal Institute. He qualifies as an expert witness in United States District Court, the Superior Courts of Pima County, Maricopa County and Pinal County, and United States Bankruptcy Court. He is Past President of the Tucson Chapter of the Society of Real Estate Appraisers and is Past President of the Southern Arizona Chapter of the Appraisal Institute.

SARA R. BAKER, MAI, SRA, is a principal of the Company, and specializes in valuation and consultation services related to commercial, income-producing, and residential properties. She is a Certified General Real Estate Appraiser in the State of Arizona (Certificate 31679). She holds the MAI and SRA Designations of the Appraisal Institute. She qualifies as an expert witness in the Superior Court of Pima County. She is a Past President of the Appraisal Institute, Southern Arizona Chapter. She graduated from Washington University in St. Louis with a Bachelor's Degree in Comparative Literature and earned a Master's Degree at the University of California at Los Angeles.

DAN F. ORLOWSKI is a staff appraiser specializing in valuation and consultation services related to commercial and income-producing properties. He is a Certified General Real Estate Appraiser in the State of Arizona (Certificate 32195). He graduated from San Diego State University with a Bachelor's Degree in Business Administration and also received a Master's Degree from the University of Phoenix in Accountancy.

TIM HALE is an appraiser trainee in commercial valuation. He graduated from Arizona State University with a Bachelor's Degree in Justice Studies.

ROBERT PARKER, SUSAN CLEVELAND, and **ROBIN ELLER** are production coordinators and support technicians.