December 13, 2016

Ground Lease Options with the Rio Nuevo Multipurpose Facilities District for County-owned Vacant Property at Cushing Street/Interstate 10 and Broadway Boulevard/Sixth Avenue

Background

Chapter 1, Primary Job Center Development, and Chapter 11, Downtown Enhancement, in the Pima County Economic Development Plan, discuss using current County vacant properties to attract major employers.

As you know, 97 E. Congress will be used over the next 4 to 6 years by Caterpillar as headquarters of their Surface Mining and Technology Division. They are expected to move to new facilities in the Rio Nuevo Multipurpose Facilities District at the end of the lease. 97 E. Congress will then be remarketed by the County for another new major downtown employer.

The County has two properties in the downtown area that warrant active marketing for major new employers; they are located at 75 E. Broadway and 332 S. Freeway. Both properties are vacant and each would accommodate new multistory developments. The County will work cooperatively with all of our economic development partners to attract new or expanding employers to these properties.

To facilitate development of these properties for new employers, I propose the Board of Supervisors grant the Rio Nuevo District an option to lease each of the properties. Each option would include a basic form of ground lease and would specify development requirements. The District could then market these properties to specific-sized employers who would occupy new buildings to be constructed by the District on the leased land.

The Freeway property could accommodate a new building of at least 200,000 square feet and 350 parking spaces. Such a size is sufficient for a new employer with 1,000 employees.

For the Broadway property, due to the property’s geometry, a multistory building of 150,000 to 345,000 square feet and 300 parking spaces is possible. An additional 800 parking spaces could be made available in the Scott/Pennington Garage or other County public garages.

Since the primary goal of redevelopment of these properties is to add to the downtown employment base, residential uses will be prohibited, except on the top two floors of the Broadway building, and retail uses will be permitted only on the ground floor of the Broadway property.

The ground leases will require that the Rio Nuevo District pay the County an annual ground lease payment based on market appraised value for both properties. The ground lease will include an option to purchase, provided the purchase price is equal to or greater than the market appraised total value of the property.
By entering into these ground lease option agreements, the County is entering into an economic development partnership with the Rio Nuevo Multipurpose Facilities District. The advantages to the County of such a partnership are:

- Both County vacant properties are within the Rio Nuevo Multipurpose Facilities District.
- Both County vacant properties are within the designated downtown Government Property Lease Excise Tax (GPLET) incentive area.
- Rio Nuevo is exempt from the Gift Clause by statute, as well as by Attorney General opinion.
- Rio Nuevo can finance capital improvements at low interest rates comparable with the County.
- Rio Nuevo is able to pay a market-rate ground rent or purchase price if they exercise an option agreement.

For your information, I have attached recent appraisals for both properties (Attachments 1A and 1B). The Cushing Street property appraises at a purchase price of $2 million and a ground lease rate of $140,000 per year. The Broadway property appraises for $2,335,000 and a ground lease annual market rate of $163,450. I have also attached draft ground-lease options for both properties (Attachments 2A and 2B).

Recommendation

I recommend the Board of Supervisors approve the Ground Lease Option Agreements for the Broadway Property and Cushing Street Property with the Rio Nuevo Multipurpose Facilities District for the purpose of advancing the County's Economic Development Plan and providing for rapid response to new employment opportunities in the downtown area for high-wage, high-technology and/or export-based employment between 1,500 and 2,500 new employees.

Respectfully submitted,

C.H. Huckleberry
County Administrator

CHH/mjk – December 8, 2016

Attachments

c: Regina Nassen, Deputy County Attorney
   Dr. John Moffatt, Director, Economic Development
   Fletcher McCusker, Chair, Rio Nuevo Multipurpose Facilities District
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. JEFFREY TEPLITSKY
APPRaisal SUPERVISOR

OWNERSHIP: PIMA COUNTY
SECTION 13, TOWNSHIP14 SOUTH, RANGE 13 EAST

EFFECTIVE DATE OF APPRAISAL

October 30, 2016

BAKER, PETERSON, BAKER & ASSOCIATES, INC.
Tucson, Arizona
November 7, 2016

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
Effective Date of Appraisal: October 30, 2016
Date of Report: November 7, 2016

Dear Mr. Teplitsky:

In response to your authorization, I have conducted the required inspection, gathered the necessary data, and made certain analyses that have enabled me 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 appraiser. 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.

I have formed the opinion that, as of the effective date of the appraisal, October 30, 2016, in its “as is” condition, 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 THREE HUNDRED THIRTY FIVE THOUSAND DOLLARS
($2,335,000)
Mr. Jeffrey Teplitsky
Pima County Public Works
Real Property Services

I have formed the opinion that, as of the effective date of the appraisal, October 30, 2016, in its “as is” condition, and 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 SIXTY THREE THOUSAND FOUR HUNDRED FIFTY DOLLARS ($163,450)

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 appraiser’s opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser’s 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 appraiser is 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,

[Signature]

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

C167317
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APPRAISAL ABSTRACT - PART I

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

APPRAISER:
Thomas A. Baker, MAI, SRA
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 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 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. No current
listings, options, or agreements of sale of the subject property were discovered in the course of
this analysis. There has been interest from potential users of the property to purchase or lease the
property, but no offers have been provided to the appraiser.
TAX PARCEL NUMBERS:
117-15-0060 and 117-15-0080

FULL CASH VALUE:
117-15-0060
117-15-0080
$463,104 (2016) $463,104 (2017)

Total

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
117-15-0080
$463,104 (2016) $463,104 (2017)

Total

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.
PURPOSE OF THE APPRAISAL:
The purpose of this appraisal is to provide the appraiser’s opinion of the market value and market rent of the subject real property as of the effective date of the appraisal, October 30, 2016.

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 appraiser. 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.”

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.

EFFECTIVE DATE OF APPRAISAL:
October 30, 2016

DATE OF INSPECTION:
October 30, 2016
SCOPE OF THE APPRAISAL - PART II

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 Teplitzky 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 appraiser. 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 appraiser’s 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), Swango Land Sales, 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 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 appraiser’s data, analyses, and conclusions. The appraiser’s 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.
DESCRIPTION OF REAL ESTATE APPRAISED - PART III

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 has remained mostly stable with some slight variations since 2013. The 2016 data is through September 2016.

![Residential Building Permits Chart]

Overall, housing permits and sales had been increasing and a period of substantial growth occurred during 2004 and 2005 with unprecedented price increases having been 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 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 shows a continued improvement in the market, with indications of a slight decline in 2014. Although there was a slight increase in 2015, permit numbers in 2015 and early 2016 remained below earlier levels. 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 continued to remain high into 2011. Figure 2 shows vacancy rates in metropolitan Tucson between Second Quarter 2008 and Second Quarter 2016, according to Apartment Insights' Statistics/Trends Summary.

![Apartment Vacancy Rate](image)

The vacancy rate peaked in the Second Quarter 2009 and generally declined through early 2012, with another slight decline in mid-2014. However, vacancy rates for apartment properties typically increase in the second quarter of each year due to seasonal changes in population. The vacancy rate then remained mostly stable with slight fluctuations. In 2014 and 2015, particularly in the second half of 2015, vacancy rates continued to decline. The current
rent levels for multi-family properties have remained generally stable with small increases in most sectors in the second half of 2015. 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 74,085 square feet in the Third Quarter of 2016, according to The CoStar Office Report, Tucson Office Market, Third Quarter 2016. This compares to net positive absorption of 25,408 square feet in the Second Quarter 2016, 187,143 square feet in the First Quarter 2016, net positive absorption of 187,210 square feet in the Fourth Quarter of 2015, net positive absorption of 60,813 square feet in the Third Quarter 2015, and net negative absorption of 17,259 square feet in the Second Quarter 2015.

No new office buildings were completed in the Third Quarter 2016. This compares to one new building containing 3,000 square feet in Second Quarter, five new office buildings containing 108,950 square feet completed in First Quarter 2016, two new office buildings containing a total of 217,363 square feet completed in the Fourth Quarter 2015, no new office buildings completed in Third Quarter 2015, and two new office building containing 21,761 square feet completed in Second Quarter 2015.

The following figure shows trends in the vacancy rates for office properties in Tucson between Third Quarter 2008 and Third Quarter 2016. The vacancy rate increased until late 2010 and then remained mostly stable with a slight decline through mid-2012. The vacancy rate increased from late 2012 through late 2013 and has remained mostly stable with a slight decline since late 2013.
The stable but increased overall annual vacancy rate indicates an office market which is coupled to the overall stable but slow real estate market. There has been 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 have slightly declined in 2016. Market conditions for office properties are expected to remain stable in the near term and will improve slowly.

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 one new building containing 858,288 square feet in the Third Quarter 2016, one new building containing 5,200 square feet completed in the Second Quarter 2016, no new buildings completed in First Quarter 2016 or Fourth Quarter 2015, two buildings containing 270,000 square feet completed in Third Quarter 2015, and no new buildings completed in Second Quarter 2015 or First Quarter 2015, according to The CoStar Industrial Report, Tucson Industrial Market, Third Quarter 2016.

The following figure shows trends in the industrial vacancy rate in Tucson between Third Quarter 2008 and the Third Quarter 2016, according to The CoStar Industrial Report, Tucson Industrial Market, Third Quarter 2016.
Overall, the industrial vacancy rate increased through 2011, peaking in the Third Quarter 2011 and Third Quarter 2012. The vacancy rate declined from late 2012 through late 2013. The vacancy rate for industrial properties increased slightly in early 2014 but has slowly declined since mid-2014.

There was net positive absorption of 992,151 square feet in the Third Quarter 2016. This compares to net positive absorption of 226,882 square feet in the Second Quarter 2016, net negative absorption of 10,917 square in the First Quarter 2016, net positive absorption of 47,047 square in the Fourth Quarter 2015, net positive absorption of 304,801 square feet of industrial space in the Third Quarter 2015, and net positive absorption of 40,288 square feet of industrial space in the Second Quarter 2015.

Overall, the industrial vacancy rate increased through 2011, peaking in the Third Quarter 2011 and Third Quarter 2012. The vacancy rate declined from late 2012 through late 2013. The vacancy rate for industrial properties increased slightly in early 2014 but has slowly declined since mid-2014. 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 reasons 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.

There was net positive absorption of 173,291 square feet in the Third Quarter 2016, according to The CoStar Retail Report, Tucson Retail Market, Third Quarter 2016. This compares to net positive absorption of 112,204 square feet in the Second Quarter 2016, net positive absorption of 87,187 square feet in the First Quarter 2016, net positive absorption of 47,555 square feet in the Fourth Quarter 2015, net positive absorption of 464,566 square feet in Third Quarter 2015, and net negative absorption of 45,315 square feet in the Second Quarter 2015.

In the Third Quarter 2016, five new buildings containing 27,429 square feet were completed. This compares to ten buildings containing 137,690 square feet in Second Quarter 2016, seven new buildings containing 42,192 square feet in First Quarter 2016, eight buildings containing 130,664 square feet in the Fourth Quarter 2015, six new buildings containing 411,794 square feet in Third Quarter 2015, and three new buildings containing 30,757 square feet in Second Quarter 2015.

The following shows trends in the vacancy rate for retail properties in the Tucson market between Third Quarter 2008 and Third Quarter 2016, according to The CoStar Retail Report, Tucson Retail Market, Third Quarter 2016.
The following shows trends in the vacancy rate for retail properties in the Tucson market between Third Quarter 2008 and Third Quarter 2016, according to *The CoStar Retail Report, Tucson Retail Market, Third Quarter 2016*. The vacancy rate for retail properties increased through early 2011. The retail vacancy rate remained mostly stable in 2011 but peaked in the Second Quarter 2012. The retail vacancy rate declined since that time, with a slight increase in late 2014 followed by a slight decline in 2015. The retail market has stabilized and is starting to improve slightly in high demand areas, although there remains for little demand for older retail properties in low demand areas.
According to Arizona Department of Administration, Office of Employment and Population Statistics, the seasonally adjusted unemployment rate for metropolitan Tucson was as follows:

![Tucson Unemployment Chart](chart)

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.
According to the United States Department of Labor, Bureau of Labor Statistics, the national seasonally adjusted unemployment rate has also increased since 2008 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.

![U.S. Unemployment chart]

Overall, the commercial real estate markets reveal that most investors hold a cautionary outlook for 2016 due to the tight credit that 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, limited 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. 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 neighborhood 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 neighborhood 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 residential multi-family development in the downtown area.

Future trends anticipate an 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 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 neighborhood and state, federal, and county buildings are located near Pennington and Congress Streets. The neighborhood 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 neighborhood, particularly in the east side of downtown where a connection to Fourth Avenue and the University area is being made. 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, and downtown’s east side. Several multifamily residential developments have been completed or are planned, including redevelopment of the old Martin Luther King Apartment building at Fifth Avenue and Congress into what is now One North Fifth. One North Fifth is a rental apartment building with ground floor retail space. New retail space has been developed in 63 East Congress by John Wesley Miller Company and One North Fifth by Peach Properties. The new AC brand by Marriot hotel is currently under construction at the northwest corner of Broadway Boulevard and Fifth Avenue. 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. Some of these projects include:

- Southwest corner of Stone and Broadway - located in the core downtown area, this project is under construction and is to be a six-story mixed use multifamily development with 40 units, 6,000 square feet of retail space, and parking garage.

- Northwest corner of Stone and Broadway - located in the core downtown area. This is a planned mixed-use project originally planned for a high-rise tower site consisting of retail/office uses and apartment/condominiums. This site has a three level underground parking garage already in place. However, due to high cost of construction of development over five or six stories, this planned development has been scaled down to a five or six story development.
• East side of Stone Avenue between McCormick and Street and Ochoa Street - located approximately one to two blocks south from the core downtown area. Development of a multi-family uses on both the northern and southern portions of the property. The southern portion of the site is planned multi-family consisting of 25 three-story town homes. The northern portion of the site is currently in the planning phase with the potential for a mid-rise multifamily tower to be developed on the site. This site will be developed in phases.

• 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.

• West of I-10, in the Mercado area are four planned multi-family projects, with earthwork already started on the Monier Apartments which will consist of a four story building with 189 rental units with a retail component and underground parking. There are three other parcels immediately adjacent to this project which are also planned to include mixed use multifamily uses. These uses include retail development and construction of a new facility for Caterpillar which will add employees to the area. This area west of I-10 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.

• 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 RFP 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.

SITE DESCRIPTION:
28,780 square feet. The site is a mostly rectangular shaped property with approximately 275 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 2014 traffic count of approximately 17,100 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 traffic count of approximately 6,800 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 commercial 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 would offset the demolition costs of the existing parking lot improvements.

Utilities available to the property include electric (Tucson Electric Power Company), telephone (Qwest), 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 Map 04019C1655L, 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. 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. 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.
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 2006 and peaked in the beginning of 2012. Since the peak, vacancy rates declined until the beginning of 2014, where they have remained mostly stable through the third quarter of 2016. Vacancy rates remain well above 2006 levels.

![Retail Vacancy Rate, Tucson](image)

The following is the average rental rate for retail properties in the Tucson Market, according to CoStar. This data indicates that the average rental rate peaked in the fourth quarter 2007 and has steadily declined through 2011. Results from 2012 through the third quarter have been mostly stable. Retail rental rates remain below peak market levels.

![Retail Average Rental Rate, Tucson](image)
The following is the available space for lease in the Tucson Market, according to CoStar. The amount of retail space available for lease has increased from 2006 to a peak in 2010. After dropping slightly, the available space for lease has remained mostly stable from 2012 through the third quarter of 2016. Available space remains well above 2006 levels.

Retail Available Space, Tucson

The following is the number of retail sales transactions in the Tucson Market, according to CoStar. The number of retail sales transactions declined from 2006 to a low point in 2008. From 2010, through the third quarter of 2016, overall sales volume has varied from year to year.

Retail Sales Transactions, Tucson
The following is the number of retail listings for sale in the Tucson Market, according to CoStar. There has been an increase in the amount of retail space available for sale. The amount of retail listing for sale increased from 2006 through 2010. The amount of available space has remained fairly stable from 2011 through the third quarter of 2016, with a slight upward trend over that time period.

![Retail Listings For Sale, Tucson](image)

The following is the net absorption for retail properties in the Tucson Market, according to CoStar. This indicates that there has been mostly in a net positive absorption rate in the retail Tucson market since 2006 through the third quarter 2016.

![Retail Net Absorption, Tucson](image)
The following is the number of construction deliveries in the Tucson Market, according to Costar. There was a significant decrease in retail construction from 2008 to 2009. New retail construction deliveries have remained relatively stable from 2009 through 2015, with limited new construction deliveries occurring in the yearly through the third quarter of 2016. As market conditions improve and the oversupply of available retail properties is absorbed, new construction will increase, however this is not projected to occur for at least several years.

![Retail New Construction Deliveries, Tucson](image)

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 2016, vacancy rate have increased slightly. The downtown sector has a vacancy rate slightly below that of the overall Tucson market.

![Retail Vacancy Rate, Downtown Sector](image)
The following is the average rental rate for retail properties in the subject sector, Downtown, according to Costar. This indicates that the average rental rate increased from 2006 through 2008. Rental rates remained relatively stable from 2008 through 2011 before increasing to a peak in mid-2014. Rental rates remained fairly stable for about a year before dropping slightly at the end of 2014. From 2015 through the third quarter of 2016, rental rates have had an upward trend in the sector. The average rental rate in the Downtown Sector is higher than the overall Tucson market.

![Retail Average Rental Rate, Downtown Sector](chart)

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 through in 2011, and somewhat stable, with a slight downward trend through the third quarter of 2016.

![Retail Available Space For Lease, Downtown Sector](chart)
The following is the amount of retail listings for sale in the subject sector, Downtown, according to Costar. The amount of retail listings increased from 2006 to a peak in 2011. Listings dropped in 2012 and have fluctuated somewhat from 2013 through the third quarter of 2016.

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 increase in the amount of retail space absorbed, but 2014 through the third quarter of 2016 have seen a large slowdown.

Retail Net Absorption, Downtown Sector
The following in the amount of construction deliveries in the subject sector, Downtown, according to Costar. There have been no new construction deliveries in the subject sector since 2011. However, there has been a 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.

Overall, the commercial and industrial real estate markets had eroded due to a weak economy, employment cutbacks and tight credit that adversely affect tenants, owners and investors. The weakened supply and demand fundamentals had resulted in declining values due to rising capitalization rates and shortages of capital. However, there are indications that market conditions for many types of commercial property have started to stabilize since 2012. In the short term, limited growth and stable values are projected for Tucson over the next several 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. Additionally, there are a number of mixed use residential/retail projects in the Downtown which are planned to be started during 2016.
MARKET PROFILE – MULTIFAMILY:

The following is the multifamily vacancy rates for Tucson, according to CoStar. This data indicates that the vacancy rate declined in to 2006. Starting in mid 2006, the vacancy rate increased, peaking in 2009. Starting at the end of 2009, the vacancy rate declined through mid 2013. There was a slight increase in late 2013 before declining through the third quarter of 2016.

Multifamily Vacancy Rate, Tucson

The following is the multifamily absorption rate for Tucson, according to Costar. Since 2010, all years have seen a net positive absorption rate through the third quarter of 2016.

Multifamily Net Absorption, Tucson
The following is the effective rent by unit type for multifamily properties in Tucson, according to Costar. This data indicates that apartment rates increased through early 2008 and then declined slightly. After remaining mostly stable from 2009 through 2010, starting in early 2011, apartment rental rates began to increase slightly and have been on a slight upward trend through the third quarter of 2016.

**Multifamily Effective Rent by Unit Type, Tucson**

![Multifamily Effective Rent Chart](image)

The following is the sales volume for multifamily properties in Tucson, according to CoStar. This data indicates that sales declined from 2006 through 2009. Since 2009, sales volume has fluctuated, but has been on an upward trend beginning in 2013 through the third quarter of 2016.

**Multifamily Sales Volume, Tucson**

![Multifamily Sales Volume Chart](image)
The following is the multifamily property new construction deliveries in the Tucson market, according to Costar. This shows that there was limited new construction from 2007 through 2011. From 2012 through 2014, there was a substantial increase in multifamily construction deliveries. This was primarily new student housing units and low density, high end apartments. 2015 through the third quarter of 2016 has shown a large reduction in multifamily construction deliveries, however, there many new projects underway with deliveries expected late 2016 into 2017 or later. The majority of these new construction projects will be high end units in the downtown market area.

**Multifamily New Construction Deliveries, Tucson**

![Multifamily New Construction Deliveries, Tucson](image)

The following is the vacancy rate for multifamily properties in the Downtown sector, according to CoStar. This data indicates that the vacancy rates in the sector remained increased from 2006 to a peak in 2009. Beginning in mid-2009, vacancy rates dropped drastically until the end of 2012 before increasing again until mid-2013. After that time, vacancy rates dropped again sharply, continuing through the third quarter of 2016.

**Multifamily Vacancy Rate, Downtown Sector**

![Multifamily Vacancy Rate, Downtown Sector](image)
The following is the net absorption for multifamily properties in the Downtown sector, according to CoStar. There was very little change in absorption from 2006 through 2011 in the sector. Beginning in 2012 through 2014 there was a large increase in net positive absorption. 2016 through the third quarter of 2016 have shown a slowdown in net absorption in the Sector as vacancy rates are low. However, there are many planned units which will lead to an increase in the number of available units downtown over the next few years.

**Multifamily Net Absorption, Downtown Sector**

The following is the effective rent for multi-family properties in the Downtown sector, according to CoStar. This data shows that rental rates have remained relatively flat from 2006 through 2012, with a slight rise in rates through the third quarter of 2016. However, 3-bedroom units have had a large increase in the sector from 2013 through the third quarter of 2016.

**Multifamily Effective Rent, Downtown Sector**
The following is the number of sales of multifamily properties in the Downtown sector, according to CoStar. There has been a limited sale of multifamily properties in the Downtown sector since 2006 through the third quarter of 2016, other than the third quarter of 2012. This has been mostly due to the multifamily sales activity Downtown occurring in the sale of vacant land to develop new multifamily projects, or the sale of existing buildings to be converted to a mixed-use multi family development.

**Multifamily Sales, Downtown Sector**

![Multifamily Sales Chart]

The following are the multifamily property new construction deliveries in the Downtown sector, according to Costar. This shows that there were limited multifamily construction deliveries from 2006 through 2009. Beginning in 2009 through 2015, there was an increase in new multifamily developments in the sector. There are currently new mixed use multifamily developments in the downtown area under construction as well as a large number of planned developments which will begin construction in the near term.

**Multifamily, Under Construction, Downtown Sector**

![Multifamily Under Construction Chart]
Market conditions for apartment properties declined significantly starting in 2008. There was a significant decline in the number of sales and in sale prices. Capitalization rates were increasing throughout that time. There was still demand in the market for newer, higher end apartments. There continued to be demand for unstable properties with high vacancy rates that could be updated on the interior and leased at higher rental rates. However, there are fewer of these properties listed on the market. Tucson has a large number of older apartments constructed before 1980 with small, aging units. In the last few years, there has been some new construction, primarily of student housing near downtown and the University of Arizona, and some high end, low density complexes throughout Tucson, particularly in the northwest. According to market participants, including Chuck Corriere of Keller Williams, Allan Mendelsberg of PICOR, Bob Kaplan of PICOR, and James Robertson of Realty Executives, starting in 2012, market conditions for apartments started to stabilize. Capitalization rates and sale prices started to stabilize. In 2013, there was a slight increase in prices for most property types and capitalization rates declined, although there continued to be some low sale prices with distressed sales. Market conditions are expected to remain stable and will improve only slowly. Demand will continue to remain stable with greater demand for Class A apartment complexes in good locations. There has been an increase in Class A multifamily developments beginning in 2011 through 2014. There is several Class A multifamily developments currently under construction as of the date of this report or planned for construction as of the date of this report.

There are a number of planned multifamily developments within the core and immediately adjacent to the core downtown area. According to information from the Downtown Tucson Partnership, there are over 1,500 planned housing units in and around the core downtown area which are planned to be under construction by the end of 2016. 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 1,500 units under construction by the end of 2016.
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.

An analysis of market data supports the conclusion of highest and best use.

**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.

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2. Ibid, p. 83
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 multi-family 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 frontage on Broadway Boulevard along the southern border, frontage on Scott Avenue along the western border, and frontage on Sixth Avenue along the eastern border. There is a public alleyway at 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) roadway with a 2014 traffic count of approximately 17,100 vehicles per day near this site. The modern streetcar has track runs immediately in adjacent to the subject property along Broadway Boulevard. The intersection of Broadway Boulevard and Sixth Avenue is a traffic light controlled intersection. Scott Avenue is a two-lane asphalt paved roadway in the area of the subject property. Sixth Avenue is a three lane asphalt paved roadway with street parking, concrete curbs, sidewalks, and streetlights in the area of the subject with a traffic count of approximately 6,800 vehicles per day in the area of the subject property. The intersection of Broadway and Sixth is a traffic light controlled intersection. 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 commercial and office uses to the east, north, east, and west. All utilities are available to the property and the site is not flood prone.
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 would offset the demolition costs of the existing parking lot improvements.

The physical characteristics of the subject property would allow for the development of a mixed-use development consisting of retail on the ground floor fronting on Broadway with multifamily uses on the upper floors, with a likely building height limited to six stories.

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, and the University campus area continues to improve. There has been increased demand and sales activity for commercial properties and multi-family developments in the 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. Given the recent building activity in student housing and based on discussions with market participant, there appears to be limited demand for future mid-rise or high-rise student housing projects. There is one large planned student housing project on Park Avenue, directly adjacent to the University campus and a second planned for the northwest corner of Broadway and Park that will fill the market demand for the near term future.

There are a number of planned multifamily/mixed use developments within the core and immediately adjacent to the core downtown area, being much superior in location to the subject. According to information from the Downtown Tucson Partnership, there are over 1,500 planned housing units 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. Some of these projects include:

• Southwest corner of Stone and Broadway - located in the core downtown area, this project is under construction and is to be a six-story mixed use multifamily development with 40 units, 6,000 square feet of retail space, and parking garage.

• Northwest corner of Stone and Broadway - located in the core downtown area. This is a planned mixed-use project originally planned for a high-rise tower site consisting of retail/office uses and apartment/condominiums. This site has a three level underground parking garage already in place. However, due to high cost of construction of development over five or six stories, this planned development has been scaled down to a five or six story development.
East side of Stone Avenue between McCormick and Street and Ochoa Street - located approximately one to two blocks south from the core downtown area. Development of a multi-family uses on both the northern and southern portions of the property. The southern portion of the site is planned multi-family consisting of 25 three-story town homes. The northern portion of the site is currently in the planning phase with the potential for a mid-rise multifamily tower to be developed on the site. This site will be developed in phases.

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.

West of I-10, in the Mercado area are four planned multi-family projects, with earthwork already started on the Monier Apartments which will consist of a four story building with 189 rental units with a retail component and underground parking. There are three other parcels immediately adjacent to this project which are also planned to include mixed use multifamily uses. These uses include retail development and construction of a new facility for Caterpillar which will add employees to the area. This area west of I-10 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.

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 RFP 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.

- Located at the northwest corner of Stone Avenue and Franklin Street - located 5 blocks north of the core downtown area. Known as the “Platform Site”, is planned to contain a mixed use development of multifamily uses and retail uses.

The appraiser spoke 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. These market participants all agreed that the subject property 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. Of the market participants willing to provide an opinion on the value of the subject property, the majority of the market participant felt the subject property could sell in the area of $80 per square foot of land area.

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 would offset the demolition costs of the existing parking lot improvements.

The most financially feasible use of the subject property is for development of a mixed-use development consisting of retail on the ground floor fronting on Broadway with multi-family uses on the upper floors, with a likely building height limited to six stories. The location of the subject property, 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 development consisting of retail on the ground floor fronting on Broadway with multi-family uses on the upper floors, with a likely building height limited to six stories.
SUMMARY OF ANALYSIS AND VALUATION - PART IV

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

<table>
<thead>
<tr>
<th>Sale No.</th>
<th>Sale Date</th>
<th>Property Location</th>
<th>Sale Price</th>
<th>Site Size (Sq. Ft.)</th>
<th>Price/Sq. Ft.</th>
<th>Zoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>07/09</td>
<td>Block 257, bounded by Broadway Boulevard, Sixth Avenue, Twelfth Street, and Scott Avenue, Tucson</td>
<td>$6,550,000</td>
<td>102,465</td>
<td>$63.92</td>
<td>OCR-2</td>
</tr>
<tr>
<td>2.</td>
<td>03/15</td>
<td>East side of Stone Avenue, between Ochoa Street and McCormick Street</td>
<td>$3,169,650</td>
<td>62,824</td>
<td>$50.45</td>
<td>C-3</td>
</tr>
<tr>
<td>3.</td>
<td>04/15</td>
<td>Southwest corner of Stone Avenue and Broadway Boulevard</td>
<td>$1,780,000</td>
<td>22,027</td>
<td>$80.81</td>
<td>OCR-2</td>
</tr>
<tr>
<td>4.</td>
<td>Escrow</td>
<td>Southeast corner of Congress Street and Avenida Del Convento</td>
<td>$1,750,000</td>
<td>41,818</td>
<td>$41.85</td>
<td>C-3/I-1</td>
</tr>
</tbody>
</table>

Subject Property  28,780  OCR-2
### COMPARABLE SALES ADJUSTMENT GRID

<table>
<thead>
<tr>
<th></th>
<th>Subject</th>
<th>Comp 1</th>
<th>Comp 2</th>
<th>Comp 3</th>
<th>Comp 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale Date</td>
<td>07/2009</td>
<td>03/2015</td>
<td>04/2015</td>
<td>Escrow</td>
<td></td>
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<tr>
<td>Site Size (Sq. Ft.)</td>
<td>28,780</td>
<td>102,465</td>
<td>62,824</td>
<td>22,027</td>
<td>41,818</td>
</tr>
<tr>
<td>Zoning</td>
<td>OCR-2</td>
<td>OCR-2</td>
<td>C-3</td>
<td>OCR-2</td>
<td>C-3/I-1</td>
</tr>
<tr>
<td>Utility</td>
<td>Average</td>
<td>Superior</td>
<td>Inferior</td>
<td>Similar</td>
<td>Similar</td>
</tr>
<tr>
<td>Sale Price</td>
<td>$6,550,000</td>
<td>$3,169,650</td>
<td>$1,780,000</td>
<td>$1,750,000</td>
<td></td>
</tr>
<tr>
<td>Price per Sq. Ft.</td>
<td>$63.92</td>
<td>$50.45</td>
<td>$80.81</td>
<td>$41.85</td>
<td></td>
</tr>
</tbody>
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### Summary of Adjustments

<table>
<thead>
<tr>
<th></th>
<th>Unadjusted Price / Sq. Ft.</th>
<th>Property Rights</th>
<th>Financing</th>
<th>Conditions of Sale</th>
<th>Date/Market Conditions</th>
<th>Physical Adjustments (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Adjusted Price</td>
<td></td>
<td>Adjusted Price</td>
<td>Adjusted Price</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$63.92</td>
<td>$63.92</td>
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<td>$80.81</td>
<td></td>
</tr>
<tr>
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<td>0%</td>
<td>$41.85</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$86.30</td>
<td>35%</td>
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<td></td>
<td></td>
<td>$41.85</td>
<td>0%</td>
<td>$41.85</td>
<td>$86.30</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>$77.67</td>
<td>35%</td>
<td>$81.46</td>
<td>$86.30</td>
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<td></td>
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<td></td>
<td></td>
<td>$69.05</td>
<td>35%</td>
<td>$81.46</td>
<td>$86.30</td>
<td></td>
</tr>
</tbody>
</table>

|                                | 0                           | 25               | 0         | 65                  | 0                       |                          |
|                                | 0                           | 0                | 0         | 0                   | 0                       |                          |
|                                | 10                          | 5                | 0         | 0                   | 0                       |                          |
|                                | -20                         | 10               | 0         | 0                   | 0                       |                          |
|                                | -10%                        | 40%              | 0%        | 65%                 |                         |                          |
|                                | $77.67                      | $74.17           | $81.46    | $69.05              |                        |                          |

---

This analysis compares four 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 $41.85 to $80.81 per sq. ft. before adjustment. 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* has offsetting adjustments for conditions of sale as the buyer reported paying above market value for the property. However, this is offset as the property had existing improvements which needed to be demolished at a cost to the buyer. This sale required an upward adjustment for date and market conditions. Sale prices have increased for the downtown area since the date of this sale.

Physical adjustments include an upward adjustment for site size as this property is larger than the subject property. Larger properties tend to sell for less on a price per square foot basis compared to smaller properties, all else being equal. This sale requires a downward adjustment for site utility as this property encompassed an entire square shaped block with access from all four sides and having a better shape. Overall, this sale price per square foot indicates an upward adjustment in comparison to the subject.

*Comparable Sale Two* 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. This property requires an upward adjustment for site size as this property is 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 an upward adjustment for site utility as this property consists of two parcels which are divided by a roadway, compared to the subject property which is one parcel with no streets dividing the potential development on the site. 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 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 mostly offsetting adjustments in comparison to the subject.
Comparable Sale Four indicates no 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.

Sales Comparison Approach Summary.

<table>
<thead>
<tr>
<th>Adjusted Sale Price/Sq.Ft.</th>
<th>Sale 1</th>
<th>Sale 2</th>
<th>Sale 3</th>
<th>Sale 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$77.67</td>
<td>$74.17</td>
<td>$81.46</td>
<td>$69.05</td>
</tr>
</tbody>
</table>

These four comparable sales indicate a price range of $69.05 to $81.46 per square foot after adjustment. Comparable Sale Three warrants the greatest weight as this sale does not require any physical adjustments. Comparable Sales One and Two receive secondary weight as these properties required more physical adjustments. Comparable Sale Four receives slightly less weight as this sale required a high magnitude adjustment. After analyzing the comparable sales, the conclusion of market value of the subject property by the sales comparison approach, as of October 20, 2016, is $81.00 per square foot, times 28,780 square feet, equaling $2,331,180, rounded to $2,335,000.

In discussion with Mr. Ron Schwabe with Peach Properties, a vacant lot currently listed for sale is located to the east of the subject property, on the south side of Broadway Boulevard, on the north side of 12th Avenue, between Herbert Avenue and Fourth Avenue has had several offers made by potential purchasers who are interested in developing the property with a mixed use developments. The most recent offers have been in the low $90’s per square foot. Currently the seller have not accepted any of the offers made on the property. In comparison to the subject property, this lot would have 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, October 30, 2016, is $2,335,000.

OPINION OF MARKET VALUE OF SUBJECT PROPERTY, “AS IS”, AS OF OCTOBER 30, 2016:

TWO MILLION THREE HUNDRED THIRTY FIVE THOUSAND DOLLARS ($2,335,000)
MARKET GROUND LEASE RATE - PART V

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 10 percent.

**GROUND LEASE RATE CONCLUSION:**
As concluded previously in this report, the appraiser’s opinion of market value for the subject property is $2,335,000. 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, October 30, 2016. 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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value of Land Previously Concluded</td>
<td>$2,335,000</td>
</tr>
<tr>
<td>Rate of Return for a Ground Lease – 7 percent</td>
<td>7.0%</td>
</tr>
<tr>
<td>Annual Ground Lease Amount</td>
<td>$163,450</td>
</tr>
</tbody>
</table>

**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 is”, as of the effective date of the appraisal, October 30, 2016, is $163,450.

**OPINION OF ANNUAL GROUND LEASE RATE OF THE SUBJECT PROPERTY, “AS IS”, AS OF OCTOBER 30, 2016:**

**ONE HUNDRED SIXTY THREE THOUSAND FOUR HUNDRED FIFTY DOLLARS ($163,450)**
ASSUMPTIONS AND LIMITING CONDITIONS - PART VI

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 appraiser's 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 used in the construction and/or maintenance of the improvements, or from any other 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.
CERTIFICATION - PART VII

I 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 my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

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

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

6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

7. My 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, I have the experience and knowledge to complete this assignment in a credible and competent manner.

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

11. The effective date (date of valuation) of this appraisal is October 30, 2016.

12. I have made a personal inspection of the property that is the subject of this report.
13. Our firm has not appraised the subject property within three years prior to this assignment.

14. It is noted that Dan F. Orlowski (Registration Number T0025) assisted significantly with this report by performing the following tasks under the direction of the appraiser: Researched the subject and comparable sale information, assisted in comparable sale selection, inspected the subject property, developed the report, and provided analysis and value conclusion input. The final analysis and value conclusion is that of Thomas A. Baker, MAI, SRA.

15. I am a Certified General Real Estate Appraiser in the State of Arizona.

[Signature]

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

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
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.
EXHIBIT D - ZONING MAP

Zoning - Tucson
- C-1
- C-2
- C-3
- HC-1
- HC-2
- HC-3
- HNC
- HO-1
- HO-2
- HO-3
- HOCR-2
- HP
- HR-1
- HR-2
- HR-3
- HRX-1
- HRX-2
- HSR
- I-1
- I-2
- MH-1
- MH-2
- MU
- NR-1
- NR-2
- NR-3
- O-1
- O-2
- O-3
- OCR-1
- OCR-2
- OS
- P
- P-I
- PAD-1
- PAD-2
- PAD-3
- PAD-4
- PAD-5
- PAD-7
- PAD-8
- PAD-9

- PAD-10
- PAD-11
- PAD-12
- PAD-13
- PAD-14
- PAD-15
- PAD-16
- PAD-17
- PAD-18
- PAD-19
- PAD-20
- R-1
- R-2
- R-3
- RH
- RV
- RX-1
- RX-2
- SH
- SR
EXHIBIT F - INCENTIVE DISTRICT MAPS

GPLET Incentive Area

Are you in the area? Visit maps.tucsonaz.gov/zoombiz.

Created: 11/9/13
Subject: **North side of Broadway Boulevard Between Scott Avenue and Sixth Avenue**

Sale 1: Block 257, City of Tucson, bounded by Broadway Boulevard, Sixth Avenue, 12th Street and Scott Avenue

Sale 2: East side of Stone Avenue between McCormick Street and Ochoa Street

Sale 3: Southwest corner of Broadway Boulevard and Stone Avenue

Sale 4: Southeast corner of Congress Street and Avenida Del Convento
EXHIBIT I - COMPARABLE LAND SALES

LAND COMPARABLE NUMBER ONE (SALE)  ID: OCR2 0021 5959A/B

LOCATION: Block 257, City of Tucson, bounded by Broadway Boulevard, Sixth Avenue, 12th Street, and Scott Avenue.

LEGAL DESCRIPTION: Lots 1, 3 through 10, and a portion of Lot 2, Block 257, and the abandoned alley and a portion of Scott Avenue, Pima County, Arizona.

STATE TAX PARCEL: 117-17-022B, 023C, 026A, 029A, 030A (now 117-17-023E)

RECORD DATA: Book 13592, at Page 2621

DATE OF SALE: July 2, 2009

SELLER: HSL Properties, Inc.

BUYER: Unisource Energy Corporation

CONFIRMED BY: Omar Mireles, seller's representative (520-322-6994) Buzz Isaacson, buyer's broker (520-323-5100) JT; August, 2009 TAB; August, 2010

LAND DESCRIPTION: This site is a mostly rectangular shaped property forming a city block, with Broadway Boulevard to the north, Sixth Avenue to the east, 12th Street to the south, and Scott Avenue to the west. The property has approximately 264 feet of frontage on Broadway Boulevard, 396 feet along Sixth Avenue, approximately 252 feet fronting on 12th Street, and approximately 390 feet along Scott Avenue. Broadway Boulevard is an eastbound one-way, three-lane, asphalt-paved roadway with concrete curbs, sidewalks, and streetlights in the vicinity of this property. Broadway Boulevard has a 2006 traffic count of 25,000 vehicles per day near this site. Sixth Avenue is a northbound one-way, three-lane, asphalt-paved roadway with concrete curbs, sidewalks, and streetlights in the vicinity of this property. Sixth Avenue has a 2005 traffic count of 10,000 vehicles per
day near this site. Twelfth Street and Scott Avenue are two-way, two-lane, asphalt-paved roadways with angled parking on the north and east sides of the streets. The intersections of Broadway Boulevard/Sixth Avenue and Broadway Boulevard/Scott Avenue are signalized. The topography is level. All utilities are available to the property. According to FEMA Flood Insurance Rate Maps 04019C2226K, dated February 8, 1999, and 04019C2227K, revised January 4, 2002, the land is not identified as being located in a Special Flood Hazard Area.

LAND SIZE: 102,468 square feet or 2.35 acres

ZONING: OCR-2

REPORTED SALE PRICE: $6,550,000

PRICE PER SQ. FT.: $63.92

MARKETING TIME: Six months

TERMS OF SALE: This was 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 valuation.

CONDITIONS OF SALE: The purchaser was unable to find any other competitive parcels in the downtown area that met the purchaser’s requirements. As this was the only property that met the buyer’s specific site requirements, the buyer was willing to pay an above market sale price.

INTENDED USE: To develop a corporate headquarters high-rise building for Unisource.

COMMENTS: According to the seller, the prior escrow of the property to another developer had plans to re-develop the existing improvements from the hotel use to a condominium project, reflecting value to the existing improvements. Consequently, the seller included a premium in the sale price for the existing improvements. The seller estimated the value of the improvements at $1,000,000. However,
this is offset as the purchaser gave no value to the improvements and paid $1,000,000 to demolish the improvements.

The buyer had specific site requirements and was unable to find another site in the downtown area that met these requirements. Therefore, the buyer paid an above market sale price. The buyer wanted to occupy an entire city block as not having direct neighbors would allow for greater security, which was required in their development. This property has no adjacent properties and has access from four streets, which met the buyer’s requirements. The few other vacant parcels in the downtown area had archeological artifacts or were located near planned future development and the buyer was unwilling to purchase these properties. The buyer did not want to purchase a site with archeological significance or where controversial development would occur in the future. Therefore, this property was the only available site that met all of the purchaser’s requirements.
LOCATION: East side of Stone Avenue between McCormick and Street and Ochoa Street

LEGAL DESCRIPTION: Portions of Lot 2,3,8, and 9, Block 225, Tucson, Pima County, Arizona

STATE TAX PARCEL: 117-13-1610 through 1670, and 117-13-1760 through 1790 (now 117-13-177A)

RECORD DATA: 2015-0640386, 2015-1000306, and 2015-2670560

DATES OF SALE: March 5, 2015, April 10, 2015, and September 24, 2015

SELLER: De La Warr Investment Corporation and 236 South Scott, LLC

BUYER: Stone Avenue North, LLC and Stone Avenue Homes, LLC (Holualoa Companies)

CONFIRMED BY: Ann Lawrence, buyer’s representative, (520-615-1094) DFO; July 2015 Ron Schwabe, buyer’s broker, (520-798-3331) TAB; March, 2016

LAND DESCRIPTION: The site contains two mostly rectangular land areas, separated in the middle by Corral Street.

The land area located north of Corral Street is a rectangular shaped property with approximately 275 feet of frontage on Stone Avenue along the western border, approximately 140 feet of frontage on Ochoa Street along the northern border, and approximately 140 feet of frontage on Corral Street along the southern border. The land area north of Corral Street has a has a size of 35,672 square feet, per the Pima County Assessor. The site has direct access from Stone Avenue, Ochoa Street, and Corral Street. The intersections of Stone Avenue and Ochoa and Corral are not traffic light controlled intersections. Stone Avenue is a two-lane asphalt paved roadway with
center turn lane, concrete curbs, sidewalks, and streetlights in the area of the property. Stone Avenue has a 2012 traffic count of 9,000 vehicles per day near this site. Ochoa Street and Corral Street are two-lane asphalt paved roadways with concrete curbs and sidewalks, but no streetlights in the area of the property. There are no traffic counts available for Ochoa Street or Corral Street in the area if the property.

The land area located south of Corral Street is a mostly rectangular shaped property with approximately 225 feet of frontage on Stone Avenue along the western border, approximately 110 feet of frontage on Corral Street along the northern border, and approximately 125 feet of frontage on McCormick Street along the southern border. The land area south of Corral Street has a size of 27,152 square feet, per survey. The site has direct access from Stone Avenue, Corral Street, and McCormick Street. The intersections of Stone Avenue and Ochoa and McCormick are not traffic light controlled intersections. Stone Avenue is a two-lane asphalt paved roadway with center turn lane, concrete curbs, sidewalks, and streetlights in the area of the property. Stone Avenue has a 2012 traffic count of 9,000 vehicles per day near this site. Corral Street and McCormick Street are two-lane asphalt paved roadways with concrete curbs and sidewalks, but no streetlights in the area of the property. There are no traffic counts available for Corral Street or McCormick Street in the area if the property.

All public utilities are available to the property line.

According to FEMA Flood Insurance Rate Maps 04019C2276L, dated June 16, 2011, the property is not located within a floodplain.

LAND SIZE:

62,824 square feet - per Pima County Assessor

ZONING:

C-3 (City of Tucson)

REPORTED SALE PRICE:

$3,169,650

C167317
<table>
<thead>
<tr>
<th><strong>PRICE PER SQ. FT.</strong></th>
<th><strong>$50.45</strong></th>
</tr>
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<tbody>
<tr>
<td><strong>MARKETING TIME:</strong></td>
<td><strong>N/A</strong></td>
</tr>
<tr>
<td><strong>TERMS OF SALE:</strong></td>
<td>This is reported to be an all cash to the seller transaction.</td>
</tr>
<tr>
<td><strong>PRIOR SALE:</strong></td>
<td>Pima county records indicate no prior sales of the subject property within three years of the date of sale.</td>
</tr>
<tr>
<td><strong>CONDITIONS OF SALE:</strong></td>
<td>This sale is reported to have occurred under normal market conditions.</td>
</tr>
<tr>
<td><strong>INTENDED USE:</strong></td>
<td>Development of a multi-family uses on both the northern and southern portions of the property. The southern portion of the site is planned multi-family consisting of 25 three-story town homes. The northern portion of the site is currently in the planning phase with the potential for a mid-rise multifamily tower to be developed on the site.</td>
</tr>
<tr>
<td><strong>COMMENTS:</strong></td>
<td>These transactions were an assemblage by the buyer from two different sellers with a planned phased in closing process.</td>
</tr>
</tbody>
</table>
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


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%


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 THREE - PLAT MAP AND AERIAL PHOTO
LOCATION: Southeast corner of Congress Street and Avenida Del Convento

LEGAL DESCRIPTION: Portion of Block 1, Mission District, City of Tucson, Pima County, Arizona

STATE TAX PARCEL: 116-20-6330 (Portion)

RECORD DATA: In Escrow

DATE OF ESCROW: March, 2016

SELLER: Mission District Partners, LLC

BUYER: Gorman and Company, Inc

CONFIRMED BY: Zach Johnson, buyer’s rep, (602-338-9444) TAB; March 2016 and November 2016

LAND DESCRIPTION: This is a mostly rectangular shaped property with frontage on Congress Street along the northern border and frontage on Avenida Del Convento along the western border. The property contains 41,818 square feet, per the buyer’s representative. The site has direct access from Avenida Del Convento Only. While there is frontage along Congress Street, there is no direct access to the property from Congress Street. The intersection of Congress Street and Avenida Del Convento is a traffic light controlled intersection. Congress Street is a three-lane (Two westbound, One eastbound) asphalt paved roadway with streetcar tracks, center turn lane, concrete curbs, sidewalks, and streetlights in the area of the property. Congress Street has a 2014 traffic count of approximately 16,400 vehicles per day near this site. Avenida Del Convento is a two-lane asphalt paved roadway with streetcar tracks, street parking, concrete curbs, sidewalks, but no streetlights in the area of the property. There is no traffic count available for Avenida Del Convento in the area if the property. All public utilities are available to the property.
According to FEMA Flood Insurance Rate Maps 04019C2276L, dated June 16, 2011, with a LOMR issued June 17, 2011, the vast majority of the property is located within FEMA flood hazard area Zone X-shaded, which area areas of 500-year flood; areas of 100-year flood with average depths of less than 1 foot or with drainage areas less than 1 square mile; and areas protected by levees from 100-year flood. A very small portion of the property, located in the southeast area of the property is located within FEMA special flood hazard area Zone AE, with base flood elevations determined.

LAND SIZE: 41,818 square feet - per buyer’s representative

ZONING: C-3 (City of Tucson)

REPORTED SALE PRICE: $1,750,000

PRICE PER SQ. FT.: $41.85

MARKETING TIME: N/A

TERMS OF SALE: This property is reported to be an all cash to the seller transaction.

PRIOR SALE: Pima county records indicate no prior sales of the subject property within three years of the date of sale. There was a transaction dated June 10, 2013, however this was an internal transfer and not a market transaction of the property.

CONDITIONS OF SALE: This sale is reported to have occurred under normal market conditions.

INTENDED USE: Development of a 70 unit, four-story multifamily development with underground parking.

COMMENTS: This property is located adjacent to the street car line with a stop located very close to this property.

This sale was contingent on the purchaser obtaining low income tax credits. The sale is to close May 2017.

C167317
COMPARABLE LAND SALE FOUR - PLAT MAP AND AERIAL PHOTO

ASSSESSOR’S RECORD MAP
MISSION DISTRICT
BLOCKS 001-005 & COMMON AREA A

(R Rev 57/049 MAP)

CCS
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. 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, founded by Don M. Baker and William D. Peterson in 1974, with Thomas A. Baker becoming an owner in 1984.

WILLIAM D. PETERSON, MAI, is a principal of the Company, and specializes 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 30216). He is a graduate of the University of Arizona in Business and Public Administration. He holds the MAI Designation of the Appraisal Institute. He is a licensed real estate broker in the State of Arizona and a Graduate of the Realtor Institute (GRI). He qualifies as an expert witness in the Superior Court of Pima and Cochise Counties. He is a past President of the Arizona Chapter of the American Institute of Real Estate Appraisers, and of the Tucson Chapter of the Society of Real Estate Appraisers.

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 the Superior Court of Pima County, Pinal County and United States Bankruptcy Court, 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 staff appraiser in commercial valuation. She 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. Sara is the 2015 Past President of the Appraisal Institute, Southern Arizona Chapter and serves as the Chair of Continuing Education. 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 registered appraiser trainee in commercial valuation (Registration Number T0025). 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. Dan has taken the following classes in working towards his Certified General certification: Basic Appraisal Principles; Basic Appraisal Procedures; Real Estate Finance, Statistics and Valuation Modeling; General Appraiser Market Analysis and Highest & Best Use;

**JAMES MOSLEY** is an appraiser trainee in commercial valuation. He graduated from the University of Arizona with a Bachelor of Arts degree.

**ROBERT A. PARKER** and **ALISHA SMART** are production coordinators and support technicians.
AN APPRAISAL REPORT AND MARKET RENT ANALYSIS

OF

90,153 SQUARE FEET OF VACANT LAND

LOCATED AT
THE NORTHWEST CORNER OF CUSHING STREET AND THE SOUTHBOUND I-10 FRONTAGE ROAD

TUCSON, PIMA COUNTY, ARIZONA

FOR

PIMA COUNTY PUBLIC WORKS, REAL PROPERTY SERVICES

MR. JEFFREY TEPLITSKY
APPRaisal SUPERVISOR

OWNERSHIP: PIMA COUNTY
TAX PARCEL NUMBER: 116-20-027B
SECTION 14, TOWNSHIP14 SOUTH, RANGE 13 EAST

EFFECTIVE DATE OF APPRAISAL

OCTOBER 30, 2016

BAKER, PETERSON, BAKER & ASSOCIATES, INC.
Tucson, Arizona
November 8, 2016

Mr. Jeffrey Teplitzky  
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 90,153 square feet of vacant land located at the northwest corner of Cushing Street and the southbound I-10 Frontage Road, Tucson, Pima County, Arizona.

Ownership: Pima County  
Tax Parcel No.: 116-20-0276  
Effective Date of Appraisal: October 30, 2016  
Date of Report: November 8, 2016

Dear Mr. Teplitzky:

In response to your authorization, I have conducted the required inspection, gathered the necessary data, and made certain analyses that have enabled me 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 appraiser. 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.

I have formed the opinion that, as of the effective date of the appraisal, October 30, 2016, in its “as is” condition, 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 DOLLARS  
($2,000,000)
Mr. Jeffrey Teplitsky  
Pima County Public Works  
Real Property Services

I have formed the opinion that, as of the effective date of the appraisal, October 30, 2016, in its “as is” condition, and 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 FORTY THOUSAND DOLLARS  
($140,000)

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 appraiser’s opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser’s 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 appraiser is not responsible for unauthorized use of this report.

**Extraordinary Assumptions:**
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.

This appraisal report is based on the extraordinary assumption that the subject property has a net useable land area of 67,100 square feet per appraiser’s estimate. If a survey completed at a later date shows the useable land area to be substantially different that the appraiser’s estimated, 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,

[Signature]

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

C167312
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APPRAISAL ABSTRACT - PART I

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

APPRAISER:
Thomas A. Baker, MAI, SRA

4547 East Fort Lowell Road, Suite 401
Tucson, Arizona 85712

SUBJECT PROPERTY:
90,153 square feet of vacant land located at the northwest corner of Cushing Street and the southbound I-10 Frontage Road, Tucson, Pima County, Arizona.

LAND AREA:
90,153 square feet – Total gross land area (per Pima County Assessor’s records)
67,100 square feet – Net useable land area (per appraiser’s estimate)

There is a wash and a linear park path easement located in the northern portion of the subject property, making this land area, totaling 23,053 square feet (per appraiser estimate), where the wash and linear park path easement are located unusable land area. This unusable land area, which includes the wash area and the linear park path easement, would not provide any benefit to potential future development of the subject property. Any potential purchaser of the subject property would base the purchase price on the net useable land area. Therefore, the value analysis of the subject property is based on the net useable land area of 67,100 square feet which has been estimated by the appraiser.

This appraisal report is based on the extraordinary assumption that the subject property has a net useable land area of 67,100 square feet per appraiser’s estimate. If a survey completed at a later date shows the useable land area to be substantially different that the appraiser’s estimated, 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.

ZONING:
C-3 (City of Tucson)

LEGAL DESCRIPTION:
Northeast portion of Lot 17 LYG W & ADJ FWY 2.07 AC, Section 14, Township 14 South, Range 13 East.
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 854, Page 525. Due to the age of the recorded deed confirming ownership of the property, the deed and date of recording are unavailable. No Title Report has been provided to the appraiser. Therefore the Appraiser is making an assumption that the subject property is owned by Pima County, as noted on the assessor’s available information.

SALES/LISTING HISTORY:
No known sales of the subject property have occurred within the last three years. No current listings, options, or agreements of sale of the subject property were discovered in the course of this analysis. There has been interest from potential users of the property to purchase or lease the property, but no offers have been provided to the appraiser.

TAX PARCEL NUMBERS:
116-20-027B

FULL CASH VALUE:
$273,164 (2016) – Gross Land Area
$273,164 (2017) – Gross Land Area

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:
$273,164 (2016) – Gross Land Area
$273,164 (2017) – Gross Land Area

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.

DELIQUENT 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.

PURPOSE OF THE APPRAISAL:
The purpose of this appraisal is to provide the appraiser’s opinion of the market value and market rent of the subject real property as of the effective date of the appraisal, October 30, 2016.

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 appraiser. 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.”

EXTRAORDINARY ASSUMPTIONS:
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.

There is a wash and a linear park path easement located in the northern portion of the subject property, making this land area where the wash and linear path easement are located unusable land area. This unusable land area, which includes the wash area and the linear park path easement, would not provide any benefit to potential future development of the subject property. Any potential purchaser of the subject property would base the purchase price on the net useable land area. Therefore, the value analysis of the subject property is based on the net useable land area of 67,100 square feet which has been estimated by the appraiser.
EFFECTIVE DATE OF APPRAISAL:
October 30, 2016

DATE OF INSPECTION:
October 30, 2016
SCOPE OF THE APPRAISAL - PART II

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 Teplitzky for Pima County Real Property Services in a contract executed by Sara R. 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 appraiser. This report is intended only for use in assisting the intended user in the determination of the 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 appraiser’s 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), Swango Land Sales, 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 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 appraiser’s data, analyses, and conclusions. The appraiser’s file retains supporting documentation.

There is a wash and a linear park path easement located in the northern portion of the subject property, making this land area, totaling 23,053 square feet (per appraiser estimate), where the wash and linear path easement are located unusable land area. This unusable land area, which includes the wash area and the linear park path easement, would not provide any benefit to potential future development of the subject property. Any potential purchaser of the subject property would base the purchase price on the net useable land area. Therefore, the value analysis of the subject property is based on the net useable land area of 67,100 square feet which has been estimated by the appraiser.

**Extraordinary Assumptions:**
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.

There is a wash and a linear park path easement located in the northern portion of the subject property, making this land area where the wash and linear path easement are located unusable land area. This unusable land area, which includes the wash area and the linear park path easement, would not provide any benefit to potential future development of the subject property. Any potential purchaser of the subject property would base the purchase price on the net useable land area. Therefore, the value analysis of the subject property is based on the net useable land area of 67,100 square feet which has been estimated by the appraiser.
DESCRIPTION OF REAL ESTATE APPRAISED - PART III

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 has remained mostly stable with some slight variations since 2013. The 2016 data is through September 2016.

Overall, housing permits and sales had been increasing and a period of substantial growth occurred during 2004 and 2005 with unprecedented price increases having been 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 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 shows a continued improvement in the market, with indications of a slight decline in 2014. Although there was a slight increase in 2015, permit numbers in 2015 and early 2016 remained below earlier levels. 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 continued to remain high into 2011. Figure 2 shows vacancy rates in metropolitan Tucson between Second Quarter 2008 and Second Quarter 2016, according to Apartment Insights’ *Statistics/Trends Summary.*

![Graph showing Apartment Vacancy Rate from 2008 to 2016](image)

The vacancy rate peaked in the Second Quarter 2009 and generally declined through early 2012, with another slight decline in mid-2014. However, vacancy rates for apartment properties typically increase in the second quarter of each year due to seasonal changes in population. The vacancy rate then remained mostly stable with slight fluctuations. In 2014 and 2015, particularly in the second half of 2015, vacancy rates continued to decline. The current rent levels for multi-family properties have remained generally stable with small increases in most sectors in the second half of 2015. 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 74,085 square feet in the Third Quarter of 2016, according to The CoStar Office Report, Tucson Office Market, Third Quarter 2016. This compares to net positive absorption of 25,408 square feet in the Second Quarter 2016, 187,143 square feet in the First Quarter 2016, net positive absorption of 187,210 square feet in the Fourth Quarter of 2015, net positive absorption of 60,813 square feet in the Third Quarter 2015, and net negative absorption of 17,259 square feet in the Second Quarter 2015.

No new office buildings were completed in the Third Quarter 2016. This compares to one new building containing 3,000 square feet in Second Quarter, five new office buildings containing 108,950 square feet completed in First Quarter 2016, two new office buildings containing a total of 217,363 square feet completed in the Fourth Quarter 2015, no new office buildings completed in Third Quarter 2015, and two new office building containing 21,761 square feet completed in Second Quarter 2015.

The following figure shows trends in the vacancy rates for office properties in Tucson between Third Quarter 2008 and Third Quarter 2016. The vacancy rate increased until late 2010 and then remained mostly stable with a slight decline through mid-2012. The vacancy rate increased from late 2012 through late 2013 and has remained mostly stable with a slight decline since late 2013.

Office Vacancy Rate

The stable but increased overall annual vacancy rate indicates an office market which is coupled to the overall stable but slow real estate market. There has been 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 have slightly declined in 2016. Market conditions for office properties are expected to remain stable in the near term and will improve slowly.

**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 one new building containing 858,288 square feet in the Third Quarter 2016, one new building containing 5,200 square feet completed in the Second Quarter 2016, no new buildings completed in First Quarter 2016 or Fourth Quarter 2015, two buildings containing 270,000 square feet completed in Third Quarter 2015, and no new buildings completed in Second Quarter 2015 or First Quarter 2015, according to *The CoStar Industrial Report, Tucson Industrial Market, Third Quarter 2016*.

The following figure shows trends in the industrial vacancy rate in Tucson between Third Quarter 2008 and the Third Quarter 2016, according to *The CoStar Industrial Report, Tucson Industrial Market, Third Quarter 2016*.

![Industrial Vacancy Rate](image)

Overall, the industrial vacancy rate increased through 2011, peaking in the Third Quarter 2011 and Third Quarter 2012. The vacancy rate declined from late 2012 through late 2013. The vacancy rate for industrial properties increased slightly in early 2014 but has slowly declined since mid-2014.
There was net positive absorption of 992,151 square feet in the Third Quarter 2016. This compares to net positive absorption of 226,882 square feet in the Second Quarter 2016, net negative absorption of 10,917 square in the First Quarter 2016, net positive absorption of 47,047 square in the Fourth Quarter 2015, net positive absorption of 304,801 square feet of industrial space in the Third Quarter 2015, and net positive absorption of 40,288 square feet of industrial space in the Second Quarter 2015.

Overall, the industrial vacancy rate increased through 2011, peaking in the Third Quarter 2011 and Third Quarter 2012. The vacancy rate declined from late 2012 through late 2013. The vacancy rate for industrial properties increased slightly in early 2014 but has slowly declined since mid-2014. 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 reasons 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.

There was net positive absorption of 173,291 square feet in the Third Quarter 2016, according to *The CoStar Retail Report, Tucson Retail Market, Third Quarter 2016*. This compares to net positive absorption of 112,204 square feet in the Second Quarter 2016, net positive absorption of 87,187 square feet in the First Quarter 2016, net positive absorption of 47,555 square feet in the Fourth Quarter 2015, net positive absorption of 464,566 square feet in Third Quarter 2015, and net negative absorption of 45,315 square feet in the Second Quarter 2015.

In the Third Quarter 2016, five new buildings containing 27,429 square feet were completed. This compares to ten buildings containing 137,690 square feet in Second Quarter 2016, seven new buildings containing 42,192 square feet in First Quarter 2016, eight buildings containing 130,664 square feet in the Fourth Quarter 2015, six new buildings containing 411,794 square feet in Third Quarter 2015, and three new buildings containing 30,757 square feet in Second Quarter 2015.
The following shows trends in the vacancy rate for retail properties in the Tucson market between Third Quarter 2008 and Third Quarter 2016, according to The CoStar Retail Report, Tucson Retail Market, Third Quarter 2016. The vacancy rate for retail properties increased through early 2011. The retail vacancy rate remained mostly stable in 2011 but peaked in the Second Quarter 2012. The retail vacancy rate declined since that time, with a slight increase in late 2014 followed by a slight decline in 2015. The retail market has stabilized and is starting to improve slightly in high demand areas, although there remains for little demand for older retail properties in low demand areas.
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.
According to the United States Department of Labor, Bureau of Labor Statistics, the national seasonally adjusted unemployment rate has also increased since 2008 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 outlook for 2016 due to the tight credit that 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, limited 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. 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 on the west side of I-10 from the downtown business district of the City of Tucson. Generally speaking, it is bounded on the north by Congress Street, on the west by Grande Avenue, on the south by Mission Lane alignment, and on the east by I-10. Access to the market area is considered good with the modern streetcar line circling and traversing the market area.

This market area is considered a supporting market area for the downtown Tucson market area, which is linked by the modern streetcar line which travels around and through the market area. This market area is the western termination point of the modern streetcar line. The market area currently consists of mostly vacant land. However, like the core downtown market area, there has been a recent increase in planned multi-family, retail, and mixed-use developments. The market area is anchored by the Mercado shopping area, which consists of an existing restaurant use and retail uses. There are currently plans to expand the Mercado retail area in the near future. Additionally, there are currently new single-family residences on small lots under construction immediately surrounding the Mercado.

The far western portion of the market area consists of older single-family residences and a multi-family development. The far eastern portion of the market area consists of a newer senior housing development and older motels fronting on the southbound I-10 Frontage Road.

Future trends anticipate an increase in multifamily and mixed-use properties in the downtown area projected to continue to be strong. A big driver of future development in this market area is the new Caterpillar headquarters offices, which will be developed on the southern portion of the market area along Cushing Street. This planned Caterpillar office, along with the number of planned multifamily developments (both low-income and market rate), and the planned development of the Arena Site on the east side of the freeway from the market area with a planned hotel use, multifamily uses, and Gem show facilities will likely bring further demand to the market area.

Discussions with market participants feel that the streetcar line running adjacent and through the market area and the planned developments for the area make this market area a desirable area for further development based on the success of the already planned multifamily, retail, and mixed use developments. Market participants indicate the subject site along the streetcar route and being a larger parcel near the downtown area are positive features that would generate interest for development of the subject property.

Additionally, there is a number of planned multifamily/mixed use developments within the core downtown area which is located adjacent to the market area. 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 and this market area which are planned to be under construction in the next couple of years. Depending on the success of these planned nearby developments could lead to further demand in this market area as the available space to develop further multifamily and mixed use developments in the core downtown area diminishes. 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. Some of these projects include:

- Southwest corner of Stone and Broadway - located in the core downtown area, this project is under construction and is to be a six-story mixed use multifamily development with 40 units, 6,000 square feet of retail space, and parking garage.

- Northwest corner of Stone and Broadway - located in the core downtown area. This is a planned mixed-use project originally planned for a high-rise tower site consisting of retail/office uses and apartment/condominiums. This site has a three level underground parking garage already in place. However, due to high cost of construction of development over five or six stories, this planned development has been scaled down to a five or six story development.

- East side of Stone Avenue between McCormick and Street and Ochoa Street - located approximately one to two blocks south from the core downtown area. Development of a multi-family uses on both the northern and southern portions of the property. The southern portion of the site is planned multi-family consisting of 25 three-story town homes. The northern portion of the site is currently in the planning phase with the potential for a mid-rise multifamily tower to be developed on the site. This site will be developed in phases.

- 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.

- 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 RFP 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.

SITE DESCRIPTION:
67,100 square feet of net useable land area, out of a gross site size of 90,153 square feet. The useable land area is a mostly rectangular shaped property with approximately 335 feet of frontage on Cushing Street along the southern border and approximately 200 feet of frontage on the southbound I-10 Frontage Road along the eastern border. The site has a depth of approximately 160 feet along the western border and a width of approximately 330 feet along the northern border. The useable land area contains a total area of 67,100 square feet. Cushing Street is a two-way asphalt paved roadway with street car tracks running along each direction of travel, a streetcar stop located along Cushing Street at the intersection of the I-10 Frontage Road, concrete curbs, sidewalks, and streetlights in the area of the subject property. Cushing Street has a 2015 traffic count of approximately 2,900 vehicles per day on the east side of the freeway, near the subject property. The I-10 Frontage Road is a two-lane one-way asphalt paved roadway with concrete curbs, sidewalks, and streetlights in the area of the subject property. There is no traffic count available for the southbound I-10 Frontage Road in the area of the property. The subject property has some visibility from I-10, however, the freeway is elevated above the subject property and a highway sign or building signage would be needed for good visibility of the subject property from the freeway, or for any business that may potentially be developed on the subject property. I-10 has a traffic count of approximately 149,400 vehicles per day in the area of the subject property. The intersection of Cushing Street and the southbound I-10 Frontage Road is a traffic light controlled intersection. Direct access to the subject property is from Cushing Street and the southbound I-10 Frontage Road with right-in, right-out turning. The topography is level. Soil conditions appear to be typical of the area. Properties bordering the subject property include the Santa Cruz linear park bike path, a wash, followed by a small industrial use then motel uses to the north, a hotel use followed by an office use to the south, the I-10 followed by vacant land which is planned to be developed in the future with mixed uses to support the Gem Show and the TCC to the east, and the Santa Cruz River followed by vacant land which is planned to be developed with multifamily and commercial uses in the future.
There is a wash and a linear park path easement located in the northern portion of the subject property, making this land area, totaling 23,053 square feet (per appraiser estimate), where the wash and linear park path easement are located unusable land area. This unusable land area, which includes the wash area and the linear park path easement, would not provide any benefit to potential future development of the subject property. Any potential purchaser of the subject property would base the purchase price on the net useable land area. Therefore, the value analysis of the subject property is based on the net useable land area of 67,100 square feet which has been estimated by the appraiser.

**Extraordinary Assumption:** This appraisal report is based on the extraordinary assumption that the subject property has a net useable land area of 67,100 square feet per appraiser’s estimate. If a survey completed at a later date shows the useable land area to be substantially different that the appraiser’s estimated, 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.

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 Map 04019C2278L, dated June 16, 2011, the subject property is identified as being located almost entirely in Zone X-shaded; which area areas of 500-year flood; areas of 100-year flood with average depths of less than 1 foot or with draining of areas less than 1 square mile; and areas protected by levees from 100-year flood (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 C-3, under the City of Tucson zoning code. The C-3 zone provides for mid-rise development of general commercial uses that serve the community and region, located downtown or in other major activity center areas. The C-3 zone allows general and intensive commercial uses including retail commercial with wholesale; nightclubs, bars, amusement enterprises permitted. Full range of automotive activities; sales, repair, leasing, etc. Limited manufacturing permitted. Residential and other related uses are also permitted. There is no minimum lot or site area. A maximum building height of 75 feet is permitted under this zoning. 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. 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 subject property falls within both the Rio Nuevo and Downtown Core sub districts of the new IID. The IID provides 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 – MULTIFAMILY:

The following is the multifamily vacancy rates for Tucson, according to CoStar. This data indicates that the vacancy rate declined in to 2006. Starting in mid 2006, the vacancy rate increased, peaking in 2009. Starting at the end of 2009, the vacancy rate declined through mid 2013. There was a slight increase in late 2013 before declining through the third quarter of 2016.

Multifamily Vacancy Rate, Tucson

![Multifamily Vacancy Rate Chart](chart1)

The following is the multifamily absorption rate for Tucson, according to Costar. Since 2010, all years have seen a net positive absorption rate through the third quarter of 2016.

Multifamily Net Absorption, Tucson

![Multifamily Net Absorption Chart](chart2)
The following is the effective rent by unit type for multifamily properties in Tucson, according to Costar. This data indicates that apartment rates increased through early 2008 and then declined slightly. After remaining mostly stable from 2009 through 2010, starting in early 2011, apartment rental rates began to increase slightly and have been on a slight upward trend through the third quarter of 2016.

**Multifamily Effective Rent by Unit Type, Tucson**

![Graph showing effective rent by unit type in Tucson, with data from 2007 to 2016.](image)

The following is the sales volume for multifamily properties in Tucson, according to CoStar. This data indicates that sales declined from 2006 through 2009. Since 2009, sales volume has fluctuated, but has been on an upward trend beginning in 2013 through the third quarter of 2016.

**Multifamily Sales Volume, Tucson**

![Graph showing sales volume for multifamily properties in Tucson from 2006 to 2016.](image)
The following is the multifamily property new construction deliveries in the Tucson market, according to Costar. This shows that there was limited new construction from 2007 through 2011. From 2012 through 2014, there was a substantial increase in multifamily construction deliveries. This was primarily new student housing units and low density, high end apartments. 2015 through the third quarter of 2016 has shown a large reduction in multifamily construction deliveries, however, there many new projects underway with deliveries expected late 2016 into 2017 or later. The majority of these new construction projects will be high end units in the downtown market area.

Multifamily New Construction Deliveries, Tucson

The following is the vacancy rate for multifamily properties in the Downtown sector, according to CoStar. This data indicates that the vacancy rates in the sector remained increased from 2006 to a peak in 2009. Beginning in mid-2009, vacancy rates dropped drastically until the end of 2012 before increasing again until mid-2013. After that time, vacancy rates dropped again sharply, continuing through the third quarter of 2016.

Multifamily Vacancy Rate, Downtown Sector
The following is the net absorption for multifamily properties in the Downtown sector, according to CoStar. There was very little change in absorption from 2006 through 2011 in the sector. Beginning in 2012 through 2014 there was a large increase in net positive absorption. 2016 through the third quarter of 2016 have shown a slowdown in net absorption in the Sector as vacancy rates are low. However, there are many planned units which will lead to an increase in the number of available units downtown over the next few years.

Multifamily Net Absorption, Downtown Sector

The following is the effective rent for multi-family properties in the Downtown sector, according to CoStar. This data shows that rental rates have remained relatively flat from 2006 through 2012, with a slight rise in rates through the third quarter of 2016. However, 3-bedroom units have had a large increase in the sector from 2013 through the third quarter of 2016.

Multifamily Effective Rent, Downtown Sector
The following is the number of sales of multifamily properties in the Downtown sector, according to CoStar. There was has been a limited sale of multifamily properties in the Downtown sector since 2006 through the third quarter of 2016, other than the third quarter of 2012. This has been mostly due to the multifamily sales activity Downtown occurring in the sale of vacant land to develop new multifamily projects, or the sale of existing buildings to be converted to a mixed-use multi family development.

**Multifamily Sales, Downtown Sector**

![Graph showing multifamily sales in Downtown Sector](chart1)

The following are the multifamily property new construction deliveries in the Downtown sector, according to Costar. This shows that there were limited multifamily construction deliveries from 2006 through 2009. Beginning in 2009 through 2015, there was an increase in new multifamily developments in the sector. There are currently new mixed use multifamily developments in the downtown area under construction as well as a large number of planned developments which will begin construction in the near term.

**Multifamily, Under Construction, Downtown Sector**

![Graph showing multifamily under construction in Downtown Sector](chart2)
Market conditions for apartment properties declined significantly starting in 2008. There was a significant decline in the number of sales and in sale prices. Capitalization rates were increasing throughout that time. There was still demand in the market for newer, higher end apartments. There continued to be demand for unstable properties with high vacancy rates that could be updated on the interior and leased at higher rental rates. However, there are fewer of these properties listed on the market. Tucson has a large number of older apartments constructed before 1980 with small, aging units. In the last few years, there has been some new construction, primarily of student housing near downtown and the University of Arizona, and some high end, low density complexes throughout Tucson, particularly in the northwest. According to market participants, including Chuck Corriere of Keller Williams, Allan Mendelsberg of PICOR, Bob Kaplan of PICOR, and James Robertson of Realty Executives, starting in 2012, market conditions for apartments started to stabilize. Capitalization rates and sale prices started to stabilize. In 2013, there was a slight increase in prices for most property types and capitalization rates declined, although there continued to be some low sale prices with distressed sales. Market conditions are expected to remain stable and will improve only slowly. Demand will continue to remain stable with greater demand for Class A apartment complexes in good locations. There has been an increase in Class A multifamily developments beginning in 2011 through 2014. There is several Class A multifamily developments currently under construction as of the date of this report or planned for construction as of the date of this report.

There are a number of planned multifamily developments within the core and immediately adjacent to the core downtown area. According to information from the Downtown Tucson Partnership, there are over 1,500 planned housing units in and around the core downtown area which are planned to be under construction by the end of 2016. 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 1,500 units under construction by the end of 2016.
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 early 2007, peaking in mid-2013. Since the peak, office vacancy rates in Tucson have declined slightly through the third quarter of 2016.

![Office Vacancy Rate, Tucson](image)

The following is the amount of available office space in the Tucson market, according to Costar. This data indicates that the amount of vacant space increased from 2006, peaking in 2013. Available space has remained stable since that time through the third quarter of 2016.

![Office Available Space, Tucson](image)
The following is the office rental rate in the Tucson market, according to Costar. The average rental rate increased between 2006 and 2007, but then declined steadily to a bottom of market level in mid-2014. Since that time, through the third quarter of 2016, rental rates have increased slightly.

Office Rental Rate, Tucson

The following is net absorption for office properties 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. 2014 through the third quarter of 2016 have shown a net positive absorption rate.

Office Net Absorption, Tucson
The following is the number of office properties listed for sale in the Tucson market, according to Costar. The number of listings has been on a gradual upward trend from 2006 through the third quarter of 2016.

[Image: Office Listings for Sale, Tucson]

The following is the new construction deliveries for office properties in Tucson, according to Costar. There has been limited new construction since 2010 for office properties in Tucson. As market conditions improve and the oversupply of existing properties is absorbed, it is expected that new construction will increase. There has been an increase in the repurposing of older buildings into office uses, especially in the areas around downtown.

[Image: 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 sharply from 2006 through 2007. Beginning in 2009, the vacancy rate in the downtown sector increased to a peak level in mid-2012. Since 2012, the vacancy rate has been on a downward trend through the third quarter of 2016.

**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 office space in the subject sector declined from 2006 to 2007. Starting in 2009, the amount of vacant office space increased, peaking in 2012. Vacant office space has declined slightly each year since that time through the third quarter of 2016.

**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 in the downtown sector has remained mostly stable from 2008 through the third quarter of 2016.

**Office Average Rental Rates, Downtown Sector**

![Graph showing average rental rates for office properties in Downtown Sector from 2007 to 2016.](image)

The following is the average net absorption for office properties in the subject sector, Downtown, according to Costar. There has been a mix of net positive and net negative absorption for office properties in the downtown sector since 2005. However, from 2013 through the third quarter of 2016, the sector has seen an annual net positive absorption rate.

**Office Net Absorption, Downtown Sector**

![Graph showing net absorption for office properties in Downtown Sector from 2007 to 2016.](image)
The following is the number of office properties listed for sale in the subject sector, Downtown, according to Costar. The number of listings has remained mostly stable through the third quarter of 2016.

![Office Listings for Sale, Downtown Sector](image)

The following is the new construction deliveries for office properties in the subject sector, Downtown, according to Costar. There have been some years of increased construction in the downtown sector since 2009, however, the majority of new office uses in the area are being built in redeveloped older buildings.

![Office New Construction Deliveries, Downtown Sector](image)
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.
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.  

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. 

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.

An analysis of market data supports the conclusion of highest and best use.

Highest and Best Use as Vacant

Legal Considerations
The subject property is zoned C-3, City of Tucson zoning code. The C-3 zone provides for mid-rise development of general commercial uses that serve the community and region, located downtown or in other major activity center areas. The C-3 zone allows general and intensive commercial uses including retail commercial with wholesale; nightclubs, bars, amusement enterprises permitted. Full range of automotive activities; sales, repair, leasing, etc. are permitted. Residential, office, limited manufacturing, and limited service hotel uses and other related uses are also permitted. There is no minimum lot or site area. A maximum building height of 75 feet is


2. Ibid, p. 83
permitted under this zoning. 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. The new IID is made up of four subdistricts consisting of the Rio Nuevo Area, The Greater Infill Incentive Sub District, The Downtown Core sub district and The Downtown Links Sub district.

The subject property falls within both the Rio Nuevo and Downtown Core sub districts of the new IID. The IID provides 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 multi-family uses allowed under the C-3 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 useable land area is a mostly rectangular shaped property with frontage on Cushing Street along the southern border and frontage on the southbound I-10 Frontage Road along the eastern border. The useable land area contains a total area of 67,100 square feet. Cushing Street has streetcar tracks running along the roadway in each direction of travel and a streetcar stop located along Cushing Street at the intersection of the I-10 Frontage Road, immediately in front of the subject property. Cushing Street has a 2015 traffic count of approximately 2,900 vehicles per day on the east side of the freeway, near the subject property. There is no traffic count available for the southbound I-10 Frontage Road in the area of the property. The subject property has some visibility from I-10, however, the freeway is elevated above the subject property and a highway sign or building signage would be needed for good visibility of the subject property from the freeway for any business that may potentially be developed on the subject property. I-10 has a traffic count of approximately 149,400 vehicles per day in the area of the subject property. The intersection of Cushing Street and the southbound I-10 Frontage Road is a traffic light controlled intersection. Direct access to the subject property is from Cushing Street and the southbound I-10 Frontage Road. The I-10 freeway has a traffic count of approximately 149,400 vehicles per day in the area of the subject property. The topography is level. Soil conditions appear to be typical of the area. Properties bordering the subject property include the Santa Cruz linear park bike path, a wash, followed by a small industrial use then motel uses to the north, a hotel use followed by an office use to the south, the I-10 followed by vacant land which is planned to be developed in the future with mixed uses to support the Gem Show and the TCC to the east, and the Santa
Cruz River followed by vacant land which is planned to be developed with multifamily and commercial uses in the future. All utilities are available to the property and the useable land area is not located within a FEMA 100-year floodplain.

There is a wash and a linear park path easement located in the northern portion of the subject property, making this land area, totaling 23,053 square feet (per appraiser estimate), where the wash and linear path easement are located unusable land area. This unusable land area, which includes the wash area and the linear park path easement, would not provide any benefit to potential future development of the subject property. Any potential purchaser of the subject property would base the purchase price on the net useable land area. Therefore, the value analysis of the subject property is based on the net useable land area of 67,100 square feet which has been estimated by the appraiser.

**Extraordinary Assumption:** This appraisal report is based on the extraordinary assumption that the subject property has a net useable land area of 67,100 square feet per appraiser's estimate. If a survey completed at a later date shows the useable land area to be substantially different that the appraiser's estimated, 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.

The physical characteristics of the site would allow for office development, limited service hotel, and retail uses. The physical characteristics of the subject property would also allow for the development of a mixed-use development consisting of office uses on the ground floor fronting on Cushing Street with multi-family uses on the upper floors with a likely building height limited to six stories. The subject is located adjacent to the freeway and therefore a highway sign or building signage would provide good visibility to the any future improvements development on the subject property.

**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, and the University campus area continues to improve. There has been increased demand and sales activity for commercial properties and multi-family developments in the downtown area, with demand also adjacent to downtown, particularly in the area of the subject, west of downtown. Demand in the subject area will increase in the future with the anticipation of Caterpillar headquarters being developed in the market area of the subject. 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. Given the recent building activity in student housing and based on discussions with market participant, there appears to be limited demand for future mid-rise or high-rise student housing projects. There is one large planned student housing project on Park Avenue, directly adjacent to the University campus and a second planned for the northwest corner of Broadway and Park that will fill the market demand for the near term future.

This market area of the subject property, located to the west of I-10, is considered a support area of the core downtown area and downtown entertainment district.
There are a number of planned multifamily/mixed use developments within the core and immediately adjacent to the core downtown area, being much superior in location to the subject. According to information from the Downtown Tucson Partnership, there are over 1,500 planned housing units 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.

Specifically in the immediate area of the subject property, west of I-10, in the Mercado area, there are four planned multi-family projects, with earthwork already started on the Monier Apartments which will consist of a four story building with 189 rental units with a retail component and underground parking. There are three other parcels immediately adjacent to this project which are also planned to include mixed use multifamily uses. These uses include retail development and construction of a new facility for Caterpillar which will add employees to the area. This area west of I-10 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. Some other planned projects which the subject area would support include:

- Southwest corner of Stone and Broadway - located in the core downtown area, this project is under construction and is to be a six-story mixed use multifamily development with 40 units, 6,000 square feet of retail space, and parking garage.

- Northwest corner of Stone and Broadway - located in the core downtown area. This is a planned mixed-use project originally planned for a high-rise tower site consisting of retail/office uses and apartment/condominiums. This site has a three level underground parking garage already in place. However, due to high cost of construction of development over five or six stories, this planned development has been scaled down to a five or six story development.

- East side of Stone Avenue between McCormick and Street and Ochoa Street - located approximately one to two blocks south from the core downtown area. Development of a multi-family uses on both the northern and southern portions of the property. The southern portion of the site is planned multi-family consisting of 25 three-story town homes. The northern portion of the site is currently in the planning phase with the potential for a mid-rise multifamily tower to be developed on the site. This site will be developed in phases.

- 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.

• 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 RFP 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.

• Located at the northwest corner of Stone Avenue and Franklin Street - located 5 blocks north of the core downtown area. Known as the “Platform Site”, is planned to contain a mixed use development of multifamily uses and retail uses.

The appraiser spoke 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. These market participants all agreed that the subject property was inferior to properties located in the core downtown and entertainment districts located on the east side of the freeway. These market participants indicated that the benefits of the subject property include having frontage from I-10, being adjacent to a street car stop, and being near the core downtown and entertainment districts are a benefit to this area. All market participants indicated there are not many parcels of the site of the subject near downtown which is a positive feature of the subject. The immediate location of the subject property, located on the east side of the Santa Cruz River from the rest of the immediate market area, including the planned Arena Site, will take longer to develop than the properties located adjacent to the Mercado development along Congress Street. Because of the distance to the Mercado area and the subject property immediate
area having being less walkable to amenities, this property would not likely be suitable for retail uses. Although office and limited service hotel uses are permitted on the site, these uses do not command the highest prices in this market. Therefore, it would not be financially feasible to develop an office or limited service hotel use on the property.

The most financially feasible use of the subject property is for development of a mixed-use development consisting of office on the ground floor fronting on Cushing Street, with multifamily uses on the upper floors, with a likely building height limited to six stories.

The immediate market area of the subject property located on the west side of the freeway, near downtown is considered a support area to the core downtown market area and the entertainment district of the downtown market area. The modern street car makes a loop around this area, with many planned developments in the immediate market area of the subject property. There are planned retail use along Congress Street and newer single-family residences on the northwest portion of the subject property. The new Caterpillar head office will be located in the City of Tucson owned land along Cushing Street to the west of the subject. There are planned market rate multifamily projects and low income housing projects. There are other vacant parcels available for continued development in this area. In the immediate location of the subject property, east of the Santa Cruz River, the site has the benefit of being located adjacent to I-10. Adjacent to the subject property are two older hotels; however, once the new Arena Site opens and Caterpillar has opened its headquarters in the market area of the subject property, there is expected to be increased demand in this area to support these uses.

Maximally Productive
Therefore, the maximally productive highest and best use of the subject site is for development of a mixed-use development consisting of office the ground floor fronting on Cushing Street, with multifamily uses on the upper floors, with a likely building height limited to six stories.
SUMMARY OF ANALYSIS AND VALUATION - PART IV

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>
<thead>
<tr>
<th>Sale No.</th>
<th>Sale Date</th>
<th>Property Location</th>
<th>Sale Price</th>
<th>Site Size (Sq. Ft.)</th>
<th>Price/Sq. Ft.</th>
<th>Zoning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>02/14</td>
<td>Northeast corner of Stone and 16th Street</td>
<td>$550,000</td>
<td>30,775</td>
<td>$17.87</td>
<td>C-3</td>
</tr>
<tr>
<td>2.</td>
<td>09/15</td>
<td>East side of Stone Avenue, between Ochoa Street and McCormick Street</td>
<td>$3,169,650</td>
<td>62,824</td>
<td>$50.45</td>
<td>C-3</td>
</tr>
<tr>
<td>3.</td>
<td>10/15</td>
<td>Southeast corner of Congress Street and I-10 Frontage Road</td>
<td>$5,567,500</td>
<td>366,685</td>
<td>$15.18</td>
<td>OCR-2</td>
</tr>
<tr>
<td>4. Escrow (03/16)</td>
<td>Southeast corner of Congress Street and Avenida Del Convento</td>
<td>$1,750,000</td>
<td>41,818</td>
<td>$41.85</td>
<td>C-3/I-1</td>
<td></td>
</tr>
</tbody>
</table>

Subject 67,100*

* Net useable land area out of a 90,153 square foot parcel

Extraordinary Assumption: This appraisal report is based on the extraordinary assumption that the subject property has a net useable land area of 67,100 square feet per appraiser’s estimate. If a survey completed at a later date shows the useable land area to be substantially different that the appraiser’s estimated, 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.
## COMPARABLE SALES ADJUSTMENT GRID

<table>
<thead>
<tr>
<th></th>
<th>Subject</th>
<th>Comp 1</th>
<th>Comp 2</th>
<th>Comp 3</th>
<th>Comp 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale Date</td>
<td>02/2014</td>
<td>09/2015</td>
<td>10/2015</td>
<td>Escrow</td>
<td></td>
</tr>
<tr>
<td>Site Size (Sq. Ft.)</td>
<td>67,100*</td>
<td>30,775</td>
<td>62,824</td>
<td>366,685</td>
<td>41,818</td>
</tr>
<tr>
<td>Zoning</td>
<td>C-3</td>
<td>C-3</td>
<td>C-3</td>
<td>OCR-2</td>
<td>C-3/I-1</td>
</tr>
<tr>
<td>Utility</td>
<td>Average</td>
<td>Similar</td>
<td>Inferior</td>
<td>Inferior</td>
<td>Similar</td>
</tr>
<tr>
<td>Sale Price</td>
<td>$550,000</td>
<td>$3,169,650</td>
<td>$5,567,500</td>
<td>$1,750,000</td>
<td></td>
</tr>
<tr>
<td>Price per Sq. Ft.</td>
<td>$17.87</td>
<td>$50.45</td>
<td>$15.18</td>
<td>$41.85</td>
<td></td>
</tr>
</tbody>
</table>

*Net useable land area out of a 90,153 square foot parcel

### Summary of Adjustments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$17.87</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
<td>40%</td>
<td>$27.52</td>
</tr>
<tr>
<td>Adjusted Price</td>
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<td>$37.08</td>
</tr>
<tr>
<td></td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>$27.10</td>
</tr>
<tr>
<td></td>
<td>$17.87</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>$31.39</td>
</tr>
</tbody>
</table>

| Location            | -25                        | 0                | 0                | 0                  |
| Zoning              | 0                          | 0                | 0                | 0                  |
| Site Size           | 60                         | 0                | 0                | 0                  |
| Site Utility        | 10                         | 10               | 0                | 0                  |
| Net Adjustment      | 70%                        | -30%             | 0%               | -25%              |
This analysis compares four 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 $15.18 to $50.45 per sq. ft. before adjustment. 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 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 with less demand compared to the subject property. Overall, this sale price per square foot indicates an upward adjustment in comparison to the subject.

*Comparable Sale Two* 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 a downward adjustment for location as this property is located in an area closer to the core downtown area with greater demand compared to the subject property. There is an upward adjustment for site utility as this property consists of two parcels which are divided by a roadway, compared to the subject property which is one parcel with no streets dividing the potential development on the site. Overall, this sale price per square foot indicates a downward adjustment in comparison to the subject.

*Comparable Sale Three* 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 an upward adjustment for site size as this property is 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. There is an upward adjustment for site utility as the long narrow shape of this site in comparison to the subject property would require developing this site in phases, with some of the development lacking exposure to any roadway. 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 and market conditions. Market data indicates that there was no change in prices between the date of this escrow and the date of value.

Physical adjustments include a downward adjustment for location as this property is located in an area with superior demand compared to the subject property as this property is located adjacent existing retail and residential uses, compared to the subject property which is located further from existing developments. Overall, this sale price per square foot indicates a downward adjustment in comparison to the subject.
Sales Comparison Approach Summary.

<table>
<thead>
<tr>
<th></th>
<th>Sale 1</th>
<th>Sale 2</th>
<th>Sale 3</th>
<th>Sale 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted Sale Price/Sq. Ft.</td>
<td>$27.52</td>
<td>$37.08</td>
<td>$27.10</td>
<td>$31.39</td>
</tr>
</tbody>
</table>

These four comparable sales indicate a price range of $27.10 to $37.08 per square foot after adjustment. Comparable Sale Four warrants the greatest weight as this sale required the least amount/lowest magnitude of physical adjustments and is closest in location to the subject. The remainder sales are given secondary weight as these sales required a greater amount/higher magnitude of physical adjustments. After analyzing the comparable sales, the conclusion of market value of the subject property by the sales comparison approach, as of October 30, 2016, is $30.00 per square foot, times 67,100 square feet, equaling $2,013,000, rounded to $2,000,000.

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 is”, as of the effective date of the appraisal October 30, 2016 is $2,000,000.

OPINION OF MARKET VALUE OF SUBJECT PROPERTY, “AS IS”, AS OF OCTOBER 30, 2016:

TWO MILLION DOLLARS  
($2,000,000)
MARKET GROUND LEASE RATE - PART V

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 10 percent.

**GROUND LEASE RATE CONCLUSION:**
As concluded previously in this report, the appraiser’s opinion of market value for the subject property is $2,000,000. 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, October 30, 2016. 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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value of Land Previously Concluded</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Rate of Return for a Ground Lease – 7 percent</td>
<td>7.0%</td>
</tr>
<tr>
<td>Annual Ground Lease Amount</td>
<td>$140,000</td>
</tr>
</tbody>
</table>

**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 is”, as of the effective date of the appraisal, October 30, 2016, is $140,000.

**OPINION OF ANNUAL GROUND LEASE RATE OF THE SUBJECT PROPERTY, “AS IS”, AS OF OCTOBER 30, 2016:**

ONE HUNDRED FORTY THOUSAND DOLLARS ($140,000)
ASSUMPTIONS AND LIMITING CONDITIONS - PART VI

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 appraiser's 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 used in the construction and/or maintenance of the improvements, or from any other 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.
CERTIFICATION - PART VII

I 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 my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

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

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

6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

7. My 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, I have the experience and knowledge to complete this assignment in a credible and competent manner.

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

11. The effective date (date of valuation) of this appraisal is October 30, 2016.

12. I have made a personal inspection of the property that is the subject of this report.
13. Our firm has not appraised the subject property within three years prior to this assignment.

14. It is noted that Dan F. Orlowski (Registration Number T0025) assisted significantly with this report by performing the following tasks under the direction of the appraiser: Researched the subject and comparable sale information, assisted in comparable sale selection, inspected the subject property, developed the report, and provided analysis and value conclusion input. The final analysis and value conclusion is that of Thomas A. Baker, MAI, SRA.

15. I am a Certified General Real Estate Appraiser in the State of Arizona.

[Signature]

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

Exhibit A    Subject Plat Map
Exhibit B    Aerial Photograph
Exhibit C    Zoning Map
Exhibit D    FEMA Flood Plain Map
Exhibit E    Incentive District Maps
Exhibit F    Estimated Usable Land Area
Exhibit G    Subject Photographs
Exhibit H    Comparable Land Sales Location Map
Exhibit I    Comparable Land Sales, Maps and Aerials
Exhibit J    Qualifications
EXHIBIT A - SUBJECT PLAT MAP

Assessor's Record Map Detail Sheet No. 2
NE 1/4
Section 14, Township 14 South, Range 13 East

[Map Image]
EXHIBIT B - AERIAL PHOTOGRAPH
EXHIBIT G - SUBJECT PHOTOGRAPHS

PHOTO 1 - VIEW FROM I-10 FRONTAGE ROAD AND CUSHING STREET

PHOTO 2 - VIEW OF PROPERTY FROM FRONTAGE ROAD
PHOTO 3 - VIEW FROM CUSHING STREET

PHOTO 4 - VIEW OF WASH ON NORTH PORTION OF PROPERTY
PHOTO 7 - VIEW NORTHEAST FROM SOUTHWEST CORNER

PHOTO 8 - VIEW SOUTHEAST FROM NORTHWEST CORNER OF PROPERTY
PHOTO 9 - VIEW EAST ALONG PATH AT NORTH PORTION OF PROPERTY

PHOTO 10 - VIEW WEST ALONG CUSHING STREET
PHOTO 13 - VIEW NORTH ALONG FRONTAGE ROAD
Subject: **Northwest corner of Cushing Street and the southbound I-10 Frontage Road**

Sale 1: Northeast corner of Stone Avenue and Sixteenth Street

Sale 2: East side of Stone Avenue between McCormick Street and Ochoa Street

Sale 3: Southeast corner of Congress Street and I-10 Frontage Road

Sale 4: Southwest corner of Congress Street and Avenida Del Convento
EXHIBIT I - COMPARABLE LAND SALES

LAND COMPARABLE NUMBER ONE (SALE)  

LOCATION:  
Northeast corner of Stone Avenue and Sixteenth Street

LEGAL DESCRIPTION:  
Tucson portion of lots 7, 10, and 11, Block 238

STATE TAX PARCEL:  
117-14-2180, 2140, 2190

RECORD DATA:  
Fee/Recording Number: 2014-0590817

DATES OF SALE:  
February 28, 2014

SELLER:  
Stone Avenue Apartments, LLC

BUYER:  
Urban Oasis, LLC

CONFIRMED BY:  
Phil Lipman, buyer, (520-609-6093)  
TAB; August, 2014

LAND DESCRIPTION:  
This site is an somewhat rectangular shaped property with approximately 195 feet frontage on Stone Avenue along the western border, 147.84 feet of frontage on Sixteenth Street along the southern border, 191.95 feet of frontage on Russell Avenue along the eastern border, and a depth of 178.08 on the northern border. Stone Avenue is a two-lane, asphalt-paved roadway with, center turn lane, concrete curbs, sidewalks, and streetlights in the vicinity of this property. Stone Avenue has a 2012 traffic count of 9,000 vehicles per day in the area of this property. Sixteenth 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 Sixteenth Street in the area of this property. Russell Avenue is essentially a two-lane, asphalt-paved alley with no concrete curbs, sidewalks, or streetlights in the vicinity of this property. There is no traffic count for Russell Avenue in the area of this property. The topography is mostly level. All utilities are available to the property. Direct access to the site is from Russell Avenue and Stone Avenue.

According to FEMA Flood Insurance Rate Maps 04019C2278L, dated June 16, 2011, the land is identified as being outside the floodplain.
LAND SIZE: 30,775 square feet
ZONING: C-3 (City of Tucson)
REPORTED SALE PRICE: $550,000
PRICE PER SQ. FT.: $17.87
MARKETING TIME: N/A
TERMS OF SALE: This was an all cash transaction to the seller,
PRIOR SALE: Records of the Pima County Assessor indicate that no prior transactions have occurred within 3 years of the date of sale.
CONDITIONS OF SALE: This sale is reported to have occurred under normal market conditions.
INTENDED USE: Potential development of 3-story, 30 unit apartment complex.
COMMENTS: The northern portion of the site included an 11 unit apartment complex built in 1947. The property was purchased for land value only. No value was given for improvements located on the site.

The buyer received permit for a total demo of the existing improvements on the site (approximately 4,400 square feet)
LOCATION: East side of Stone Avenue between McCormick and Street and Ochoa Street

LEGAL DESCRIPTION: Portions of Lot 2,3,8, and 9, Block 225, Tucson, Pima County, Arizona

STATE TAX PARCEL: 117-13-1610 through 1670, and 117-13-1760 through 1790 (now 117-13-177A)

RECORD DATA: 2015-0640386, 2015-100306, and 2015-2670560

DATES OF SALE: March 5, 2015, April 10, 2015, and September 24, 2015

SELLER: De La Warr Investment Corporation and 236 South Scott, LLC

BUYER: Stone Avenue North, LLC and Stone Avenue Homes, LLC (Holualoa Companies)

CONFIRMED BY: Ann Lawrence, buyer’s representative, (520-615-1094)
DFO; July 2015
Ron Schwabe, buyer’s broker, (520-798-3331)
TAB; March, 2016

LAND DESCRIPTION: The site contains two mostly rectangular land areas, separated in the middle by Corral Street.

The land area located north of Corral Street is a rectangular shaped property with approximately 275 feet of frontage on Stone Avenue along the western border, approximately 140 feet of frontage on Ochoa Street along the northern border, and approximately 140 feet of frontage on Corral Street along the southern border. The land area north of Corral Street has a has a size of 35,672 square feet, per the Pima County Assessor. The site has direct access from Stone Avenue, Ochoa Street, and Corral Street. The intersections of Stone Avenue and Ochoa and Corral are not traffic light controlled intersections. Stone
Avenue is a two-lane asphalt paved roadway with center turn lane, concrete curbs, sidewalks, and streetlights in the area of the property. Stone Avenue has a 2012 traffic count of 9,000 vehicles per day near this site. Ochoa Street and Corral Street are two-lane asphalt paved roadways with concrete curbs and sidewalks, but no streetlights in the area of the property. There are no traffic counts available for Ochoa Street or Corral Street in the area if the property.

The land area located south of Corral Street is a mostly rectangular shaped property with approximately 225 feet of frontage on Stone Avenue along the western border, approximately 110 feet of frontage on Corral Street along the northern border, and approximately 125 feet of frontage on McCormick Street along the southern border. The land area south of Corral Street has a size of 27,152 square feet, per survey. The site has direct access from Stone Avenue, Corral Street, and McCormick Street. The intersections of Stone Avenue and Ochoa and McCormick are not traffic light controlled intersections. Stone Avenue is a two-lane asphalt paved roadway with center turn lane, concrete curbs, sidewalks, and streetlights in the area of the property. Stone Avenue has a 2012 traffic count of 9,000 vehicles per day near this site. Corral Street and McCormick Street are two-lane asphalt paved roadways with concrete curbs and sidewalks, but no streetlights in the area of the property. There are no traffic counts available for Corral Street or McCormick Street in the area if the property.

All public utilities are available to the property line.

According to FEMA Flood Insurance Rate Maps 04019C2276L, dated June 16, 2011, the property is not located within a floodplain.

**LAND SIZE:**
62,824 square feet - per Pima County Assessor

**ZONING:**
C-3 (City of Tucson)

**REPORTED SALE PRICE:**
$3,169,650
PRICE PER SQ. FT.: $50.45

MARKETING TIME: N/A

TERMS OF SALE: This is reported to be an all cash to the seller transaction.

PRIOR SALE: Pima county records indicate no prior sales of the subject property within three years of the date of sale.

CONDITIONS OF SALE: This sale is reported to have occurred under normal market conditions.

INTENDED USE: Development of a multi-family uses on both the northern and southern portions of the property. The southern portion of the site is planned multi-family consisting of 25 three-story town homes. The northern portion of the site is currently in the planning phase with the potential for a mid-rise multifamily tower to be developed on the site.

COMMENTS: These transactions were an assemblage by the buyer from two different sellers with a planned phased in closing process.
COMPARABLE LAND SALE TWO - PLAT MAP AND AERIAL PHOTO

Assessor's Record Map

Block 225, City of Tucson

Assessor's Record Map

Block 226, City of Tucson
LOCATION: Southeast corner of Congress Street and I-10 Frontage Road.

LEGAL DESCRIPTION: All of Block 14 and a portion of Block 15 and Common Area C, Rio Nuevo.

STATE TAX PARCEL: 116-20-1350, 116-20-136A, 116-20-139A

RECORD DATA: 2015-2740550

DATE OF SALE: October 15, 2015

SELLER: Rio Nuevo Multipurpose Facilities District

BUYER: Nor-Development, LLC

CONFIRMED BY: Mark Irvin, Seller Representative (520-623-7336) DFO; May, 2015

LAND DESCRIPTION: This site is a mostly rectangular shaped property with approximately 1,200 feet of frontage on the northbound I-10 frontage road on the western border of the property, approximately 320 feet of frontage along Cushing Street on the southern border, and approximately 230 feet of frontage along Congress Street along the northern border. The I-10 Frontage Road is a one-way, four-lane, asphalt-paved roadway with concrete curbs, streetlights, and no sidewalks in the vicinity of this property. I-10 has a 2012 traffic count of 182,000 vehicles per day near this site. Cushing Street is a four-lane, asphalt paved roadway, with a raised center median, concrete curbs, streetlights, sidewalks and trolley tracks in the vicinity. Cushing Street has a 2012 traffic count of 5,000 vehicles per day in the vicinity. Congress Street is a six-lane, asphalt paved roadway with concrete curbs, streetlights and sidewalks in the vicinity. Congress Street has a 2010 traffic count of 43,000 vehicles per day in the vicinity. Direct access to the property is from the I-10 frontage road (right-in/right-out only), Congress Street, and
Cushing Street. The topography is mostly level. 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: 366,685 square feet or 8.42 acres

ZONING: OCR-2

REPORTED SALE PRICE: $5,567,500

PRICE PER SQ. FT.: $15.18

MARKETING TIME: N/A

TERMS OF SALE: This is proposed to be 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 valuation.

CONDITIONS OF SALE: This sale is reported to have occurred under normal market conditions.

INTENDED USE: Development of multi-use development including hotel, multi-family development, retail uses, and event space for the Gem and Mineral Show.

COMMENTS: The property will be developed in several phases. There currently is a Greyhound Bus Station located on the property, which will be relocated.
LOCATION: Southeast corner of Congress Street and Avenida Del Convento

LEGAL DESCRIPTION: Portion of Block 1, Mission District, City of Tucson, Pima County, Arizona

STATE TAX PARCEL: 116-20-6330 (Portion)

RECORD DATA: In Escrow

DATE OF ESCROW: March, 2016

SELLER: Mission District Partners, LLC

BUYER: Gorman and Company, Inc

CONFIRMED BY: Zach Johnson, buyer’s rep, (602-338-9444)
TAB; March 2016 and November 2016

LAND DESCRIPTION: This is a mostly rectangular shaped property with frontage on Congress Street along the northern border and frontage on Avenida Del Convento along the western border. The property contains 41,818 square feet, per the buyer’s representative. The site has direct access from Avenida Del Convento only. While there is frontage along Congress Street, there is no direct access to the property from Congress Street. The intersection of Congress Street and Avenida Del Convento is a traffic light controlled intersection. Congress Street is a three-lane (Two westbound, One eastbound) asphalt paved roadway with streetcar tracks, center turn lane, concrete curbs, sidewalks, and streetlights in the area of the property. Congress Street has a 2014 traffic count of approximately 16,400 vehicles per day near this site. Avenida Del Convento is a two-lane asphalt paved roadway with streetcar tracks, street parking, concrete curbs, sidewalks, but no streetlights in the area of the property. There is no traffic count available for Avenida Del Convento in the area if the property. All public utilities are available to the property.
According to FEMA Flood Insurance Rate Maps 04019C2276L, dated June 16, 2011, with a LOMR issued June 17, 2011, the vast majority of the property is located within FEMA flood hazard area Zone X-shaded, which area areas of 500-year flood; areas of 100-year flood with average depths of less than 1 foot or with drainage areas less than 1 square mile; and areas protected by levees from 100-year flood. A very small portion of the property, located in the southeast area of the property is located within FEMA special flood hazard area Zone AE, with base flood elevations determined.

LAND SIZE: 41,818 square feet - per buyer's representative

ZONING: C-3 (City of Tucson)

REPORTED SALE PRICE: $1,750,000

PRICE PER SQ. FT.: $41.85

MARKETING TIME: N/A

TERMS OF SALE: This property is reported to be an all cash to the seller transaction.

PRIOR SALE: Pima county records indicate no prior sales of the subject property within three years of the date of sale. There was a transaction dated June 10, 2013, however this was an internal transfer and not a market transaction of the property.

CONDITIONS OF SALE: This sale is reported to have occurred under normal market conditions.

INTENDED USE: Development of a 70 unit, four-story multifamily development with underground parking.

COMMENTS: This property is located adjacent to the street car line with a stop located very close to this property.

This sale was contingent on the purchaser obtaining low income tax credits. The sale is to close May 2017.

C167317
COMPARABLE LAND SALE FOUR - PLAT MAP AND AERIAL PHOTO
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. 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, founded by Don M. Baker and William D. Peterson in 1974, with Thomas A. Baker becoming an owner in 1984.

WILLIAM D. PETERSON, MAI, is a principal of the Company, and specializes 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 30216). He is a graduate of the University of Arizona in Business and Public Administration. He holds the MAI Designation of the Appraisal Institute. He is a licensed real estate broker in the State of Arizona and a Graduate of the Realtor Institute (GRI). He qualifies as an expert witness in the Superior Court of Pima and Cochise Counties. He is a past President of the Arizona Chapter of the American Institute of Real Estate Appraisers, and of the Tucson Chapter of the Society of Real Estate Appraisers.

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 the Superior Court of Pima County, Pinal County and United States Bankruptcy Court, 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 staff appraiser in commercial valuation. She 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. Sara is the 2015 Past President of the Appraisal Institute, Southern Arizona Chapter and serves as the Chair of Continuing Education. 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 registered appraiser trainee in commercial valuation (Registration Number T0025). 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. Dan has taken the following classes in working towards his Certified General certification: Basic Appraisal Principles; Basic Appraisal Procedures; Real Estate Finance, Statistics and Valuation Modeling; General Appraiser Market Analysis and Highest & Best Use;

JAMES MOSLEY is an appraiser trainee in commercial valuation. He graduated from the University of Arizona with a Bachelor of Arts degree.

ROBERT A. PARKER and ALISHA SMART are production coordinators and support technicians.
OPTION AGREEMENT

[Broadway Property]

This Ground Lease Option Agreement ("Agreement") is entered into, effective as of December 13, 2016 (the "Effective Date"), by and between Pima County, a political subdivision of the State of Arizona ("County") and Rio Nuevo Multipurpose Facilities District, a special taxing district of the State of Arizona ("Rio Nuevo").

1. Background and Purpose.

1.1. Rio Nuevo, as a multipurpose facilities district formed under 48-4202(B), has the authority to acquire property and construct, within the Rio Nuevo multipurpose facility site, commercial facilities that its board determines are necessary or beneficial to the district (A.R.S. §§ 48-4201(4) and 48-4204(B)), and may issue revenue bonds for that purpose (A.R.S. §§ 48-4203(B)(3) and 48-4251). It may also [e]nter into agreements with developers, contractors, tenants and other users of all or part of such a facility. A.R.S. § 48-4203(A)(2).

1.2. County owns a parcel of unimproved real property (the "Property"), approximately 0.6 acres in size, which is located on the north side of Broadway Boulevard, between Scott and 6th Avenues in downtown Tucson, Arizona, within the Rio Nuevo multipurpose facility site. The Property is legally described and depicted on Exhibit A.

1.3. The Pima County Board of Supervisors (the "Board") has authority under A.R.S. § 11-254.04 to engage in any "activity that the board of supervisors has found and determined will assist in the creation or retention of jobs or will otherwise improve or enhance the economic welfare of the inhabitants of the county," including specifically the "acquisition, improvement, leasing or conveyance of real or personal property."

1.4. County is interested in leasing the Property to Rio Nuevo for development and sublease to companies whose presence will create economic development opportunities for the community.

2. Definitions.

2.1. "Ground Lease" means the lease for the Property that County and Rio Nuevo will enter into upon Rio Nuevo's exercise of the Option, the material terms of which will be as set forth in Exhibit B. The Ground Lease will be in a form substantially similar to that attached to this Agreement as Exhibit C.

2.2. "Option" means Rio Nuevo's option to lease the Property from County, as provided below.

2.3. "Option Term" means a 2-year period commencing on the Effective Date.

2. "Rent Amount" means the fair-market annual rent for the Ground Lease as established under Section 4 below.
3. **Grant of Option.** For and in consideration of the sum of One Hundred Dollars and no cents ($100.00), the receipt and sufficiency of which are acknowledged and in consideration of the mutual covenants, promises and agreements contained herein, the County hereby grants Rio Nuevo an exclusive option to lease the Property from County, as provided in this Agreement.

3.1. **Exercise of Option.** Rio Nuevo may exercise this Option at any time prior to the expiration of the Option Term by providing the County written notice (the "Option Notice") of its election to do so. The Option Notice must include information about the improvements that Rio Nuevo plans to build, and the proposed tenant(s) for the improvements.

3.2. **Approval by Board.** The County will not be obligated to enter into the Ground Lease unless and until the Board takes formal action at a public meeting approving the Option Notice and the Rent Amount. If any of the information provided in the Option Notice is confidential, Rio Nuevo must so indicate; in that event, the Board will be provided details about the Option Notice in executive session as permitted by A.R.S. § 38-431.03(A)(7). Rio Nuevo acknowledges that the County is granting this Option for economic development purposes and that the Board is under no obligation to approve the proposed Ground Lease unless it determines that the Ground Lease will assist in the creation or retention of jobs or will otherwise improve or enhance the economic welfare of the inhabitants of the County. Preference will be given to a proposal that includes a sublease to one or more new or expanding high-wage, technology-driven companies.

3.3. **Revocation of Option.** Rio Nuevo may withdraw its Option Notice and elect not to enter into the Ground Lease at any time before the Ground Lease is executed by County.

4. **Establishing the Rent Amount.** Rio Nuevo will, in the Option Notice, include its determination of fair-market-value rent for the Ground Lease, along with a copy of an appraisal by a licensed appraiser that supports that determination. That fair-market-value rent will be the Rent Amount unless the County Administrator or his designee, within 10 business days after receipt of the notice, send Rio Nuevo a written objection, which must contain the name and contact information for another appraiser. This appraiser, together with Rio Nuevo's appraiser, will select a third appraiser. The three appraisers will then determine the fair-market-value rent for the Ground Lease. Any valuation agreed upon by 2 of the 3 appraisers will be the Rental Amount. The appraisers will make their report in writing and deliver a copy to each of the parties. The parties will equally share the cost of the additional appraisers.

5. **Final Ground Lease.** After the Rental Amount is established as provided above, and the Board has approved the proposal, the parties will negotiate diligently to agree upon the final form of the Ground Lease.

6. **Use of Property during Option Term.** County will not, during the Option Term, without Rio Nuevo's prior written consent, make any substantial changes to the physical condition of the Property, and will continue to use the Property in the same way it was being used as of the Effective Date.
7. **Assignment; Successors.** All of the terms, provisions and conditions of this Agreement are binding upon and inure to the benefit of the heirs, successors and assigns of the respective parties.

8. **Notices.** Any notices required or permitted to be given under the terms of this Agreement, or by law, must be in writing and may be given by personal delivery or certified mail (return receipt requested), directed to the parties at the following addresses, or such other address as any party may designate in writing prior to the time of the giving of such notice, or in any other manner authorized by law:

   **County:**
   Pima County Administrator
   130 W. Congress, 10th Floor
   Tucson, AZ 85701

   **Rio Nuevo:**
   Rio Nuevo Multipurpose Facilities District
   400 West Congress, Suite 152
   Tucson, AZ 85701

   with a copy to:
   Mark Collins, Esq.,
   Gust Rosenfeld P.L.C.
   One South Church Avenue, Suite 1900
   Tucson, Arizona 85701

   Any notice given will be effective when actually received, or if given by certified mail, then 72 hours after the deposit of such notice in the United States mail with postage prepaid.

9. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the state of Arizona.

10. **Default.** If either party fails or refuses to carry out any provision hereof, the other party will be entitled to such remedy or remedies for breach of contract as may be available under applicable law, including without limitation the remedy of specific performance, if such other party has fully performed all of its obligations hereunder. Time is of the essence hereof.

11. **County's Warranty.** County warrants that it has fee title to the Property as of the Effective Date, and that execution of this Agreement has been duly authorized by the Pima County Board of Supervisors.

12. **Modification.** This Agreement may not be modified except by a written agreement executed by all parties.

13. **Jurisdiction and Venue.** This Agreement must be construed in accordance with Arizona law. Jurisdiction for any dispute or claim raised under this Agreement or proceeding brought to interpret the Agreement will lie solely in the State of Arizona, with venue in Pima County.

14. **Recording.** Upon the execution of this Agreement Buyer and Seller will execute a Memorandum of Option Agreement and record it in the Pima County Recorder's Office.
15. **Further Assurances.** Each party agrees in good faith to take, or cause to be taken, any reasonable actions that are necessary to ensure that both parties' rights and interests in and under this Agreement are valid and enforceable.

16. **Counterparts.** This Agreement may executed by the exchange of faxed or electronic signatures and in any number of counterparts.

17. **Entire Agreement.** This Agreement, together with the Lease and documents related to the Lease, sets forth the entire understanding of the parties with respect to the subject matter of this Agreement, and supersedes any and all prior understandings and agreements, whether written or oral, between the parties with respect to such subject matter.

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the Effective Date first set forth above.

**RIO NUEVO**

By: ____________________________  
Fletcher McClusker  
Chair of the Board of Directors  

Date: ____________________________

**PIMA COUNTY**

By: ____________________________  
Sharon Bronson  
Chair of the Board of Supervisors  

Date: ____________________________

**ATTEST:**

Robin Brigode  
Clerk of the Board of Supervisors  

**APPROVED AS TO FORM:**

[Signature]

Deputy County Attorney  

REGINA NASSEN
EXHIBIT A
LEGAL DESCRIPTION AND DIAGRAM OF PROPERTY
[Broadway Property]

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)
Exhibit A, Cont.
Location of Broadway Property
EXHIBIT B
CONDITIONS FOR GROUND LEASE
[BROADWAY PROPERTY]

The Ground Lease between the parties will reflect the following terms and conditions:

1. Upon acceptance of the Option Notice and Rental Amount by the Board, Rio Nuevo shall be obligated to improve the Property by constructing a Class A, mixed use, retail and professional office building, at least 8 stories in height and with approximately 150,000 square feet of interior space (the "Building"), together with appropriate common elements and landscaping (all together, the "Project"). The Project may, but is not required to, include an underground parking garage. Retail is permitted on the ground floor only, and residential on the top 2 floors only.

2. Site development plans, including exterior architectural design, are subject to review and approval by the County. Approval will not be unreasonably withheld.

3. Rio Nuevo must contract for the construction of the Project within 18 months of the effective date of the Ground Lease and must complete the Project within 18 months after construction commences.

4. Pima County will provide building permitting and plan review services and inspections.

5. Rio Nuevo will pay rent in the Rental Amount. Payment of rent will commence upon execution of the Ground Lease.

6. The initial term of the Ground Lease shall be twenty-five (25) years, with two successive renewal terms of ten (10) years each, conditioned on Rio Nuevo (or its tenant) making improvements to the Building to keep it up-to-date.

7. Rio Nuevo will be responsible for insuring, maintaining, repairing, and operating the Project.

8. Title to the improvements comprising the Building and the Project shall be held by Rio Nuevo throughout the initial term of the Ground Lease, and any subsequent renewal(s). Title to the improvements will become the County’s when the Ground Lease ends.

9. The average wages plus benefits paid by tenants of the Building must exceed 150 percent of the median regional wage.

10. County will consent to Rio Nuevo's grant of a security interest in its leasehold interest as part of its financing of the Project.
GROUND LEASE AND OPTION AGREEMENT

This Ground Lease and Option Agreement (the "Agreement") is entered into as of __________, 201__, (the "Agreement Date") by and between Rio Nuevo Multipurpose Facilities District, a special taxing district of the State of Arizona ("District"), and Pima County, a political subdivision of the State of Arizona ("County"). District and County are sometimes individually referred to as a "Party" and jointly referred to as the "Parties".

RECITALS

A. County owns an unimproved parcel of real property (the "Premises"), approximately ___ acres in size, which is located [describe location] in downtown Tucson, Arizona, within the Rio Nuevo Multipurpose Facilities boundary. The Premises is legally described and depicted on Exhibit A.

B. The District has the authority to acquire property within the Rio Nuevo Multipurpose Facilities boundary, and construct commercial facilities that its board determines are necessary or beneficial to the district (A.R.S. §§ 48-4201(4)(b) and 48-4204(B)), and may issue revenue bonds for that purpose (A.R.S. §§ 48-4203(B)(3) and 48-4251). It may also "[e]nter into agreements with developers, contractors, tenants and other users of all or part of" such a facility. A.R.S. § 48-4203(B)(2).

C. The Pima County Board of Supervisors (the "Board") has authority under A.R.S. § 11-254.04 to engage in any "activity that the board of supervisors has found and determined will assist in the creation or retention of jobs or will otherwise improve or enhance the economic welfare of the inhabitants of the county," including specifically the "acquisition, improvement, leasing or conveyance of real or personal property."

D. The District and the County executed a Ground Lease Option Agreement dated __________, 2016 (the "Option Agreement") pursuant to which the County granted to District an exclusive option (the "Option") to lease the Premises in accordance with the terms and conditions of the Option Agreement.

E. District has exercised the Option, and the Parties, as provided in the Option Agreement, have agreed on the Rent Amount. The Board has determined that entering into this Agreement and leasing the Premises to District will assist in the creation or retention of jobs and will improve and enhance the economic welfare of the inhabitants of the County.

F. District intends to improve the Premises by constructing a Class A, multi-story, high-technology office building (the "Building"), together with a parking structure containing 350 parking spaces, and appropriate driveways and landscaping (all together, the "Project"). The District will sublease the Project to one or more new or expanding high-wage, technology-driven companies.

G. The District has determined that Project is a related commercial facility located within the Rio Nuevo Multipurpose Facilities boundary, that the District’s primary component is in
close proximity to the Project and will benefit from the Project, and that District will benefit from the tax revenues to be generated by the Project.

H. The Parties desire that County: (i) lease the Premises to District and (ii) grant an option to purchase the Premises to District (the “Purchase Option”), all upon the terms and conditions of this Agreement.

AGREEMENTS

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises of the Parties in this Agreement, the Parties agree as follows:

1. **Accuracy of Recitals.** The Parties hereby acknowledge the accuracy of the Recitals.

2. **Ground Lease.** Effective upon the Agreement Date, County hereby lets the Premises to District, and District hereby leases and takes the Premises from County (the “Lease”).

3. **Condition of Premises.** District has inspected the Premises and accepts possession of the Premises in its “AS IS” condition on the Commencement Date (as defined below), and except for those representations and warranties of County contained in this Agreement, without representation or warranty of any kind, express or implied, including, without limitation, any warranty of income potential, future operating expenses or uses or fitness for a particular purpose. Except as otherwise expressly provided in this Agreement, District has full responsibility for the repair, alteration, maintenance, and replacement of the Premises, and any portion thereof, and any Improvements (as defined below). County has no obligation whatsoever for the repair, alteration, maintenance and replacement of the Premises, or any portion thereof, or the Improvements, except as expressly provided in this Agreement. District expressly acknowledges and agrees that the County has not made and is not making, and District is not relying upon, any warranties or representations regarding the Premises or any Improvements, except as expressly set forth in this Agreement.

4. **Term.**

   A. **Initial Term.** The initial term of this Lease is twenty (25) years, commencing upon Substantial Completion as defined in Section 7(E), below (the “Commencement Date”) and ending on the same day and month in the year 204_. “Term” means and includes this initial term and any exercised extensions.

   B. **Extensions.** So long as District is in full compliance with all the terms and conditions of this Lease, it may extend the Term of this Lease for two successive terms of ten years each, provided that [describe reinvestment/improvement requirements for extensions]. Each extension option may be exercised no more than 12 months nor less than 3 months before the expiration of the initial term or preceding extension term.

5. **Rent.** Rent for the Premises from the Agreement Date through the Commencement Date (“Initial Rent”) will be __________ and no/100 Dollars ($___________).00) per year, payable by District to County, in advance, in equal monthly installments. Rent for the Premises after the Commencement Date (“Net Rent”) will be
and no/100 Dollars ($____.00) per year, payable by District to County, in advance, in equal monthly installments.

6. **Possession and Enjoyment.** County acknowledges and agrees that District, by paying the Rent and performing the other terms and conditions of this Lease, may peaceably hold and enjoy the Premises without any interruption by County or any person lawfully claiming by, through or under County, during the Term, except that County may enter upon and inspect the Premises by providing District with written notice of its intent to do so not less than 24 hours in advance.

7. **District’s Improvements to the Premises.**

   A. **Construction.** District will develop and construct the Project together with parking and driveway areas and other installations necessary or incidental to the operation or maintenance thereof (collectively, referred to as the “**Improvements**”). The Improvements will include a building (the “**Building**”), which will be a complete, independent structure containing not less than ______ square feet of interior space. [Insert any other design requirements or restrictions.] The Improvements will be constructed and developed in accordance with the approved Final Plans (as provided below) and all local development and building codes, and in compliance with Title 34 of the Arizona Revised Statutes. The Building must be designed and constructed using the U.S. Green Building Council’s LEED Silver standard as a design guideline, but District is not required to obtain LEED certification.

   B. **Commencement.** Construction of the Improvements will be commenced upon the closing of the debt and equity financing for the Project, no later than 18 months after the Agreement Date. Construction will not commence until each of the following has occurred:

   i. **Plan Approvals.** County approves the Final Plans.

   ii. **Contract.** District provides to County a copy of District’s contract with the general contractor that will construct the Project. The contract must give County the right, but not the obligation, to assume District’s obligations and rights under that contract if District defaults.

   iii. **Insurance.** District furnishes County with proof that District has obtained the liability and worker’s compensation insurance required in this Agreement.

   iv. **Builder’s Risk Insurance.** District furnishes County with proof that District, or District’s contractor, has obtained “all risks” builder’s risk insurance including vandalism and malicious mischief, in broad form and with a company reasonably acceptable to County, covering improvements in place and all material and equipment at the job site furnished under contract, but excluding contractor’s, subcontractor’s and construction manager’s tools and equipment and property owned by contractor’s or subcontractor’s employees, with limits of at least $_______ per loss single limit for all work at the job site. District must maintain
this insurance in effect until the Project is complete and a permanent Certificate of Occupancy has been issued for the Project.

v. Payment and Performance Bonds. District delivers to County payment and performance bonds meeting the requirements of Title 34 of the Arizona Revised Statutes, issued by a surety company licensed to do business in the State of Arizona, running to County as obligee, conditioned on the completion of the Project in accordance with the Final Plans and the provisions of this Lease, free and clear of all mechanics' and other liens.

C. Plans and Specifications. District must obtain County’s approval of plans and specifications for the Project. County will not unreasonably withhold its approval of plans and specifications, will communicate its approval or disapproval in writing, and will explain the grounds for any disapproval. If County disapproves of submitted plans and specifications, District will submit revised plans and specifications addressing the County’s concerns. The Director of the County’s Facilities Management Department is authorized to conduct the review and give approvals and disapprovals on behalf of County.

i. Preliminary Plans. District will submit three full hard-copy sets, and an electronic (Autocad) set of preliminary construction plans and specifications for the Project, no later than 2 months after the Agreement Date. The plans must be prepared by an architect or engineer licensed to practice in Arizona, and must include preliminary grading and drainage plans, soil tests, utilities, sewer and service connections, locations of ingress and egress to and from public thoroughfares, curbs, gutters, parkways, street lighting, designs and locations for outdoor signs, storage areas, and landscaping. The plans must be sufficiently clear and detailed for the County make an informed judgment about the design and quality of construction, and about the impact of the Project on adjacent and nearby properties.

ii. Final Plans. Within 2 months after County’s approval of the preliminary plans, District will prepare and deliver to County three full hard copy sets and one electronic (Autocad) set of final plans and specifications ("Final Plans") substantially conforming to the preliminary plans previously approved by County. Any subsequent modification of the Final Plans must be submitted for County review and approval.

D. Cost of Improvements. All costs, expenses and charges incurred in the construction of the Improvements will be District’s sole and exclusive obligation, and District will defend, hold the County harmless and indemnify it from all such costs, expenses, and charges, including attorneys’ fees relating thereto.

E. Substantial Completion. Construction must be substantially completed within 18 months after it commences, subject to delays occasioned by "force majeure." If it is not substantially completed in a timely manner, the County may cancel this Lease by written notice to the District, subject to a period of 30 days during which the District may cure the failure to substantially complete the Project. The Project will be deemed
to be substantially complete upon issuance of a Certificate of Occupancy by the City of Tucson.

F. **County Inspection.** County representatives may, but are not obligated to, inspect the Project as it is being constructed, and District will provide them access to the work for that purpose.

8. **Title to Improvements.** At all times during the Term of the Lease, the Improvements will be owned by District and District alone will be entitled to all of the tax attributes of ownership, including, without limitation, the right to claim depreciation or cost recovery, and District will have the right to amortize capital costs and to claim any other federal or state tax benefits attributable to the Premises. Provided District has not exercised the Purchase Option, at the expiration or earlier termination of the Term, or any portion thereof, Tenant will peaceably leave, quit and surrender the Premises. Upon such expiration or termination and provided District has not exercised the Option, the Improvements will become the sole property of County at no cost to County, and will be free of all liens and encumbrances and in good condition, subject only to reasonable wear and tear.

9. **Fixtures and Furnishings.** District will retain ownership of all personal property, fixtures, equipment and furnishings (collectively, "Fixtures") from time to time installed in the Premises by District or its sublessees. District may remove any Fixtures at any time during the Term and will remove all Fixtures prior to the expiration of the Term, except those Fixtures that County agrees, in writing, may be left on the Premises. Any Fixtures not removed at the expiration of the Term will, at the election of County, become the property of County without payment to the District, or be deemed abandoned and removed by County at County’s expense. Upon any removal of Fixtures, the District will promptly repair any and all resulting damage to the Premises.

10. **Subordination to Lenders.** The cost of the Project will be funded in part by loans from various lenders (the “Lenders”).

   A. Provided the County has received at least 10 days written notice of any intended encumbrance of the Premises, it will allow the Lenders to hold a deed of trust or other security interest (a “Leasehold Deed of Trust”) in District’s leasehold interest in the Premises only to the extent necessary to secure repayment of Project loans, and County will execute such subordination agreements or similar document(s) as may be required by the Lenders, provided that such documents contain terms and conditions and are in a form reasonably satisfactory to County. A Lender, in the event of any foreclosure or assignment in lieu of foreclosure, must cure all District defaults, and any relending of the Premises by a Lender must comply with all the terms and conditions of this Lease.

   B. District will keep the Premises free and clear of all other liens, claims, and encumbrances, including, but not limited to, mechanics’ liens, laborers’ liens and materialmen’s liens. County agrees not to place any liens or encumbrances of any kind on the Premises without the prior written consent of District and its Lenders.
11. Sublease and Assignment.

A. Assignment. District will not assign or encumber this Lease or any interest in it, except as permitted under Section 10 above, without County’s prior written consent, which will not be unreasonably withheld.

B. Sublease. County acknowledges that District does not intend to occupy or use the Premises itself, and instead intends to sublet the Premises to one or more subtenants. County hereby approves the following proposed subtenants [list any identified subtenants] (“Initial Subtenant(s”)”). Consent to any such subletting will in no way relieve District of any liability under this Lease and will not impose any additional burden or obligation on County. Every subtenant is required to comply with all District’s obligations under this Lease.

C. Salary Requirement. Each subtenant must pay its employees an average annual wage, including benefits, of at least one-hundred fifty percent (150%) of the median regional wage for Pima County.

12. Memorandum of Ground Lease and Option Agreement. Upon the execution of this Agreement, the Parties will also execute a Memorandum of Ground Lease and Option Agreement to be recorded in the official records of the Pima County, Arizona Recorder (the “Official Records”) in substantially the form attached hereto as Exhibit B.

13. Payment of Additional Amounts. The Lease described in this Agreement is a completely net lease. As such, except as specifically provided herein, District is solely responsible for any and all capital, operating, maintenance, and replacement costs and any other costs and expenses that result from District’s development and use of the Premises, including, but not limited to, the construction of the Improvements. District’s payment of insurance, taxes, utilities and any other charges, costs or fees charged and prorated to District under the terms of this Lease (collectively “District’s Obligations”) will accrue and be payable by District from and after the Agreement Date throughout the Term. County will forward to District any invoices, bills, or other charges representing District’s Obligations (“District Bills”). District will pay any District Bills on or before the date such payment becomes due or if no due date is provided, then within ten (10) days of receipt of any such District Bill. District’s failure to timely pay a District Bill will constitute a breach of this Agreement.

14. Utilities. District will promptly pay when due all charges for sewer, water, gas, electricity, telephone, garbage, and any other utilities or services delivered in connection with District’s use and operation of the Premises during the Term, including connection and disconnection charges, if any.

15. Taxes. District will pay and discharge as and when the same become due, and prior to delinquency, all real and personal property, Government Property Lease Excise Tax (“GPLTE”), and ad valorem taxes, assessments, levies, and other charges, general and special, which are or may be during the Term levied, assessed, imposed or charged against the Premises. District’s obligation to pay such real and personal property and ad valorem taxes, assessments, levies, and other charges will begin with respect to amounts first accruing from and after the Agreement Date. District will also pay any taxes that County,
now or hereafter, is required to pay based on the Rent paid or other benefits conferred to County hereunder, including any income, franchise, excise, gross receipts, sales, or transaction privilege taxes.

16. **Insurance.**

**A. Types of Insurance Required.** District and any subtenants will procure, prior to beginning any activities on the Premises, and maintain throughout the Term of this Lease, the following insurance from an insurance company or companies reasonably acceptable to County:

i. **Commercial General Liability (CGL):** Occurrence Form covering liability arising from premises, independent contractors, personal injury, bodily injury, broad form contractual liability and products-completed operations with minimum limits not less than $2,000,000 Each Occurrence and $2,000,000 General Aggregate.

ii. **Business Automobile Liability:** Coverage for any owned, leased, hired, and/or non-owned autos assigned to or used in connection with the Premises, with minimum limits not less than $1,000,000 Each Accident.

iii. **Workers’ Compensation (WC) and Employers’ Liability:** Workers’ Compensation with Employers Liability limits of $1,000,000 each accident and $1,000,000 each employee – disease. Workers’ Compensation statutory coverage is compulsory for employers of one or more employees.

iv. **Property:** Commercial Property, Boiler and Machinery insurance with coverage at least as broad as ISO forms CP 00 01 and BM 00 20, covering the full replacement cost of all improvements on the Premises.

**B. Additional Coverage Requirements:**

i. **Claims Made Coverage:** If any part of the required insurance is written on a claims-made basis, any policy retroactive date must precede the effective date of this Lease, and District must maintain such coverage for a period of not less than three (3) years following expiration or termination of this Lease.

ii. **Insurer Financial Ratings:** Coverage must be placed with insurers acceptable to County with A.M. Best rating of not less than A- VII, unless otherwise approved by County.

iii. **Additional Insured:** The General Liability policy must be endorsed to include County and all its related special districts, elected officials, officers, agents, employees and volunteers (collectively “County and its Agents”) as additional insureds with respect to liability arising out of the activities performed by or on behalf of District. The full policy limits and scope of protection must apply to County and its Agents as an additional insured, even if they exceed the limits required by this Lease.
iv. **Waiver of Subrogation**: Commercial General Liability and Workers’ Compensation coverages must each contain a waiver of subrogation in favor of County and its Agents for losses arising from work performed by or on behalf of District.

v. **Primary Insurance**: The required insurance policies, with respect to any claims related to this Lease or the Premises, must be primary and must treat any insurance carried by County as excess and not contributory insurance. The required insurance policies may not obligate the County to pay any portion of District’s deductible or Self Insurance Retention (SIR).

C. **Verification of Coverage**:

i. **Certificates**: District’s Insurer or Broker must evidence compliance with the insurance requirements by furnishing certificates of insurance executed by a duly authorized representative of each insurer. Each certificate must include a notation of policy deductibles or SIRs relating to the specific policy, and must specify that the policy is endorsed to include additional insured and subrogation waiver endorsements for the County and its Agents.

ii. **Renewal Certificate**: A renewal certificate must be provided to County not less than 15 days prior to the policy’s expiration date, along with actual copies of the additional-insured and waiver-of-subrogation endorsements.

iii. **Policies**: County reserves the right to, at any time, require complete copies of any or all required insurance policies.

iv. **Cancellation Notice**: District must notify the County in advance, in writing, if a required insurance policy will expire, be cancelled, be suspended, or be materially changed. The notice must be provided to the County by the earlier of (a) 30 days before the change will take effect, and (b) 2 business days after District receives notice of the change from its insurer. For cancellation for non-payment, Insurer must provide County with written notice ten (10) days prior to cancellation of policy.

D. **Approval and Modifications**: The Pima County Risk Manager may approve a modification of the above insurance requirements without the necessity of a formal contract amendment, but the approval must be in writing. Neither the County’s failure to receive a required insurance certificate or endorsement, the County’s failure to object to a non-complying insurance certificate or endorsement, or the County’s receipt of any other information from District, its insurance broker(s) and/or insurer(s), constitutes a waiver of any of the Insurance Requirements.

17. **Repairs and Maintenance**: District will, at its sole cost and expense, keep and maintain, and replace where necessary, all Improvements on the Premises, including without limitation, buildings, sidewalks, fencing, paving, landscaping, wiring, heating, air conditioning, ventilating, plumbing, parking areas, ingress and egress, and other installations in good condition and repair in all material respects (normal wear and tear excepted), except if caused by County. District agrees to maintain, and replace where necessary, all underground and unexposed service facilities of the Premises.
18. **Permits, Laws and Ordinances.** District will, at its sole cost and expense, comply, and cause its contractors and subcontractors and subtenants to comply, in all material respects with all laws of all applicable governmental authorities which may now or hereafter, from time to time, be established and which are or will be applicable to the Premises and any operations on the Premises, and will take all actions necessary to cause the Premises to comply in all material respects with all provisions of the Project Documents and this Agreement.

19. **Environmental Compliance.**

A. **Hazardous Materials Prohibited; Clean Air Act.** District and its sublessees will not cause or permit any Hazardous Material (as defined below) to be brought upon, kept, or used in or about the Premises without the prior written consent of County, other than such Hazardous Materials as are customarily necessary or useful to the type of operations permitted under this Lease and actually being carried out by District or its sublessees on the Premises which will be used, kept and stored in a manner that complies with all laws regulating any such Hazardous Materials. District’s operations on the Premises will comply with applicable provisions of the Clean Air Act, 42 U.S.C. 7401 et seq. and Arizona Revised Statutes, Title 49, Chapter 3 and any other applicable environmental laws or regulations.

B. **Hazardous Material.** As used herein, the term “Hazardous Material” means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of Arizona or the United States Government. The term “Hazardous Material” includes, without limitation, any material or substance that is (i) defined as a “hazardous waste” under NRS 459.400 et. seq., (ii) petroleum, (iii) asbestos, (iv) designated as a “hazardous substance” pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. 1321), (v) defined as a “hazardous waste” pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. 6901 et. seq. (42 U.S.C. 6903), (vi) defined as a “hazardous substance” pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et. seq. (42 U.S.C. 9601) or (vii) defined as a “regulated substance” pursuant to Subchapter IX, Solid Waste Disposal Act (Regulation of Underground Storage Tanks), 42 U.S.C. 6991 et. seq.

C. **Clean-Up.** If the presence of any Hazardous Material on or in the Premises, or the soil or ground water under or adjacent to the Premises caused or permitted by the District, its sublessee(s) or their agents, employees, contractors or invitees results in any suspected contamination of the Premises, the soil or ground water under or adjacent to the Premises, the District will promptly notify County in writing and take all actions at its sole expense as are necessary to return the Premises, or such soil or ground water to the condition existing prior to the introduction of any such Hazardous Material to the Premises, or to such soil or ground water; provided that County’s approval of such actions will first be obtained, which approval will not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises.
D. **Pre-existing Contamination.** District, at District’s cost, may obtain a Phase I Environmental Report (the “Phase I”) for the Property. County agrees that any Hazardous Materials contaminating the Premises prior to possession of the Premises by the District will not result in liability for the District under this Paragraph, 42 U.S.C. § 9607(b)(3) or A.R.S. § 49-283(D), except to the extent such contamination is aggravated by the action or inaction of District.

E. **Notices Regarding Environmental Conditions.** The District will, within ten (10) business days following receipt thereof, provide County with a copy of (i) any notice from any local, state or federal governmental authority of any violation or administrative or judicial order or complaint having been filed or about to be filed against the District, its sublessee(s), or the Premises alleging any violation of any local, state or federal environmental law or regulation or requiring District or County to take any action with respect to any release on or in the Premises or the soil or ground water under or adjacent to the Premises of Hazardous Material, or (ii) any notices from a federal, state or local governmental agency or private party alleging that the District may be liable or responsible for cleanup, remedial, removal, restoration or other response costs in connection with Hazardous Material on or in the Premises or the soil or ground water under or adjacent to the Premises or any damages caused by such release.

20. **Indemnification.** To the fullest extent permitted by law, the District will indemnify, defend, and hold harmless County, its officers, employees and agents ("Indemnified Parties") from and against any and all losses, costs, or expenses (including reasonable attorney fees) incurred or suffered by County as a result of any damages to property or injuries to persons (including death), or any suits, actions, legal administrative proceedings, claims or demands and costs attendant thereto, arising out of or directly related to any act, omission, fault or negligence by the District, its agents, employees, invitees, contractors, subtenants, or anyone under its direction or control or acting on its behalf, or anyone permitted by District to conduct any activity on the Premises, or in connection with any use or occupancy of the Premises under the terms of this Lease. District’s indemnity obligations under this paragraph shall not extend to any claims for damages arising out of or directly related to any act, omission, fault or negligence of any of the Indemnified Parties, or any other persons or entities unrelated to the District.

21. **Default/Termination.** Either party may present written notice of default or non-performance to the other party.

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

i. **Operation of Premises.** The vacating or abandonment of the Premises, or cessation of activities thereon, where such abandonment will continue for a period of thirty (30) calendar days after notice of such default is sent by County to District.
ii. **Monetary Obligations.** The failure by District to make any payment required to be made by District hereunder, as and when due, where such failure will continue for a period of ten (10) calendar days after notice from County that such payment is due.

iii. **Insurance.** The failure by District to maintain insurance policies as set forth above for any period of time, in which event District must immediately cease all operations at the Premises until such insurance is obtained. In the event of such a default, County may, in County’s sole discretion, obtain necessary insurance coverage in which event District will, within ten (10) business days of demand, reimburse and pay to County the full amount of any costs and premiums expended by County to obtain such coverage.

iv. **Violation of Law.** Violation of any law by District, or the conduct of any unlawful activities on the Premises that are permitted by District, either tacitly or explicitly, or that District has not taken reasonable means to prevent after it becomes or in the exercise of reasonable diligence should have become aware that such activities are being conducted.

v. **Health and Safety Violation.** Any action or omission by District that, in the County’s reasonable judgment, causes a threat to the health or safety of the general public.

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

B. **County Default.** County will be in default if it fails to comply with any material obligation under this Lease, and fails to cure that failure within 30 days after receiving a written default notice from District detailing the nature of the obligation. If, however, the nature of County’s default is such that more than 30 days are reasonably required for its cure, then County will not be deemed to be in default if County commences such cure within that period and thereafter diligently prosecutes such cure to completion.

C. **Remedies.** Either party may pursue any remedies provided by law and in equity for the breach of this Lease, including termination of the Lease. No right or remedy is intended to be exclusive of any other right or remedy and each will be cumulative and in addition to any other right or remedy existing at law or in equity or by virtue of this Lease.

22. **Purchase Option.**

A. **Grant of Option.** County hereby grants to District an option to purchase the Premises in fee together with all easements and other rights appurtenant to or for the benefit of
the Premises (the "Purchase Option"). Fee title to the Premises will be conveyed to District via special warranty deed (the "Deed") free and clear of all liens and encumbrances except exceptions permitted under the Original Agreement or those approved in writing by District.

B. **Option Purchase Price.** District will pay to County, in cash at closing, the fair market value of the Premises, appraised as vacant land. The Parties will establish this value (the "Purchase Price") using the appraisal process set forth in the Option Agreement.

C. **Term of Option.** The Purchase Option will commence on the Agreement Date and will continue during the Term of the Lease.

D. **Exercise of Option.** At any time during the Term, District may exercise the Purchase Option by giving County and Title Company ("Title Company") at least thirty (30) days’ written notice of its intent to exercise the Purchase Option with a direction to Title Company to prepare an updated Title Commitment for the Premises. The date upon which District pays the Purchase Price to County and Title Company records the Deed will be referred to as the “Purchase Option Closing Date”.

E. **Title Commitment and Closing.**

   i. Within four (4) days of the Opening of Escrow, the Title Company will issue and deliver to District and County a preliminary title commitment for the Premises, as well as copies of all instruments referred to therein, including all deeds, easements or other instruments which provide for access to the Premises (collectively the "Title Commitment"). The Title Commitment will be an irrevocable commitment by the Title Company to issue the Title Policy (defined below) subject to the satisfaction of the requirements contained in the Title Commitment.

   ii. District will have twenty (20) days after receipt of the Title Commitment to object to any exceptions or requirements contained in the Title Commitment or identified on the ALTA/ACSM survey of the Premises ("Survey") to be provided and paid for by District ("Title Issues") by providing written notice thereof to the County. If District has no objection, it may provide notice thereof to County, in which case the 20-day period will cease. In the event of any such objection, County will have ten (10) days after receipt of District’s notice of the Title Issues to review and evaluate the Title Issues and give written notice to District whether or not the County will cure or cause to be removed the Title Issues ("Title Review Period"). If the initial Title Commitment or Survey is updated and/or amended by any new exception(s) or requirement(s) (by endorsement, amendment, or otherwise) that District deems to be adverse to its anticipated title ("Amended Title Commitment"), the Title Review Period will be extended by three (3) business days following District’s receipt of the Amended Title Commitment (including the best available copies of all new exceptions) to notify the County in writing of District’s objections to any new exceptions ("Extended Title Review Period"). If District timely objects to any matter disclosed in an Amended Title Commitment, County may give written notice to District within three (3) business days after receipt of the new objections as to
whether or not the will cure or cause to be removed an objected to matter. If County
timely gives District written notice that the County will not cure or cause to be
removed the objected to matter (or if the County fails to provide any written notice
within the applicable response period), then District will have three (3) business days
after receipt of such written notice (or, in the case of no written notice, three (3)
business days after the expiration of the County's applicable response period) within
which to terminate this Option Purchase Agreement. If District fails to timely
terminate the Option under this provision, the Title Review Period and the Extended
Title Review Period will expire.

iii. In the event that the County fails to cure any exceptions that County agreed to cure, to
the reasonable satisfaction of the District prior to closing, the Purchase Option may be
canceled by the District giving notice thereof to the County and Title Company as
provided above.

iv. County and District hereby agree and acknowledge that electronic delivery of the
Title Commitment and any Amended Title Commitments by the Title Company
(whether in the form of an attachment to electronic mail or in the form of a link to a
website where the Title Commitment or Amended Title Commitment can be
downloaded) is an acceptable form of delivery, and the Title Commitment or
Amended Title Commitment will be deemed delivered on the day it is electronically
transmitted to and received by County and District.

v. Notwithstanding anything mentioned herein to the contrary, on or before the Purchase
Option Closing Date, County will satisfy and remove all voluntary monetary liens
placed on the Premises by County, without the need of any objection from District.

vi. As used in this Agreement, the term "Permitted Exceptions" will collectively mean
the exceptions to title reflected in the Title Commitment or any amendment thereto
which are approved (or deemed approved) by District pursuant to this section.

vii. At the Purchase Option Closing, the Title Company will deliver to District either an
ALTA extended form of title insurance (the "Title Policy") with respect to the
Premises in the full amount of the Purchase Price, which will insure that fee simple
title to the Premises is vested in District, subject only to: (i) the usual printed
exceptions and exclusions contained in the Title Policy; and (ii) the Permitted
Exceptions or an endorsement to its existing Owner's Policy in connection with the
Project. If a new policy is issued, the cost of a basic premium policy will be paid for
by County with any extended coverage paid for by District.

viii. The escrow agent's fee will be evenly divided and paid by the Parties. Each Party
will pay its own attorneys' fees. All other fees and costs relating to the Closing will
be paid by the parties as is customary in similar real estate transactions in Pima
County, Arizona.

ix. The Parties understand, acknowledge and agree that no real estate broker is involved
in this transaction and that no real estate brokerage commission will be paid as a
result of the sale of the Premises. District acknowledges that District Board Members Mark Irvin and Chris Sheafe are each licensed real estate brokers in Arizona. Each Party will defend, indemnify and hold the other harmless from and against any and all claims, costs, liabilities or damages for any real estate brokerage commissions or fees, including any attorneys’ fees incurred in connection therewith, which may result from the conduct of the party from whom indemnification is sought.

x. The Parties agree to execute escrow instructions that the escrow agent may require in connection with the Closing.

23. **Representations and Warranties.**

A. **District Representations and Warranties.** As of the Agreement Date and on the Purchase Option Closing Date, if any, District hereby represents and warrants to County as follows:

i. District is organized and lawfully existing as a special taxing district of the State of Arizona.

ii. District has the full right, power and authority to make, execute, deliver and perform this Agreement.

iii. District’s execution and delivery of this Agreement has been authorized by all requisite action on the part of the District, and the execution and delivery of this Agreement by District and the performance of its obligations hereunder will not violate or contravene any agreement or obligation to which District is a party or by which it is bound.

iv. There is no action, suit, litigation or proceeding pending or, to District’s knowledge, threatened against District that could prevent or impair District’s entry into this Agreement and/or performance of its obligations hereunder.

v. The persons signing this Agreement on behalf of District are duly and validly authorized to do so.

B. **County’s Representations and Warranties.** As of the Agreement Date and on the Purchase Option Closing Date, if any, County hereby represents and warrants to District that, to the best of the County Administrator’s and the Manager of Real Property Services’ knowledge:

i. County owns fee simple title to the Premises, free and clear of all liens, charges, encumbrances, encroachments, easements, restrictions, leases, tenancies, occupancies or agreements and other matters affecting title, except for those matters previously approved by District in writing, or created by District or by County with District’s approval. The Premises is in compliance with all easements, restrictions and other matters of record affecting title as of the date hereof.
ii. County has full right, power and authority to make, execute, deliver and perform its obligations under this Agreement. County has obtained and received all required and necessary consents and approvals to enter into this Agreement with District. The entry by County into this Agreement with District and the performance of all of the terms, provisions and conditions contained herein does not and will not violate or cause a breach of or default under any agreement or obligation to which County is a party or by which it is bound.

iii. There are no tenants, lessees or other occupants of the Premises having any right or claim to possession or use of the Premises or a claimed preference for occupancy in the Premises.

iv. County is not obligated under any other option, contract, lease or agreement, oral or written, with respect to the ownership, use, operation, management, maintenance, lease, sale or financing of the Premises except as previously disclosed to District.

v. No representation, statement or warranty by County contained in this Agreement or in any exhibit attached hereto contains any untrue statement or omissions a material fact necessary to make the statement of fact therein recited not misleading.

vi. There is no action, suit, litigation or proceeding pending or, to County’s knowledge, threatened against County and/or the Premises which could prevent or impair County’s entry into the Premises and/or performance of its or any of District’s obligations hereunder or materially and adversely impact District’s rights hereunder.

vii. The person signing this Agreement on behalf of County is duly and validly authorized to do so.

viii. There are no pending condemnation proceedings relating to any portion of the Premises, and County has received no notices of the institution or the proposed institution of condemnation proceedings relating to any portion of the Premises or of any other proceedings against or any taking of all or any part of the Premises.

ix. There is no pending or threatened litigation, governmental proceeding, notice of action required to be taken, judgment or cause of action against or related to the Premises, or any portion thereof, or against County or County’s agents with respect to the Premises or any portion thereof.

x. Except as may be referenced in any environmental assessment, neither the Premises nor any part thereof has been used for the disposal of refuse or waste, or for the generation, processing, manufacture, storage, handling, treatment, transportation, or disposal of any Hazardous Materials, as defined in will have the meaning ascribed in, and will include those substances listed in Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq. and the regulations promulgated thereunder (as amended from time to time) and the Clean Air Act, 42 U.S.C. 7401, et seq. and the regulations promulgated thereunder (as amended from time to time).
xi. County represents and warrants that no person on its behalf significantly involved in
the initiating, negotiating, securing, drafting, creating or consulting with respect to
this Agreement, the Lease or the Option is or will be at any time from the Agreement
Date and for a period of 3 consecutive years thereafter, and if the District exercised
the Option, for a period of 3 consecutive years after the Purchase Option Closing
Date, be an employee or agent of District or act as a consultant on behalf of District
or any of its affiliated entities.


A. Waivers. No waiver of any of the provisions of this Agreement will constitute a
waiver of any other provision, whether or not similar, nor will any waiver be a
continuing waiver. Unless expressly provided for in this Agreement, no waiver will be
binding unless executed in writing by the Party making the waiver. Any Party may
waive any provision of this Agreement intended for its sole benefit; however, unless
otherwise provided for herein, such waiver will in no way excuse the other Party from
the performance of any of its other obligations under this Agreement.

B. Construction, Governing Law and Venue. This Agreement will be interpreted
according to Arizona law, and will be construed as a whole and in accordance with its
fair meaning and without regard to, or taking into account, any presumption or other
rule of law requiring construction against the Party preparing this Agreement or any
part hereto. Any dispute or controversy relating to this Agreement, including the
breach and enforcement thereof, will take place in the Superior Court of Pima County,
Arizona.

C. Time. Time is strictly of the essence of each and every provision of this Agreement.

D. Attorneys’ Fees. If any action is brought by any Party in respect to its rights under this
Agreement, the prevailing Party will be entitled to reasonable attorneys’ fees and court
costs as determined by the court, including attorneys’ fees incurred prior to any court or
enforcement action that relate to the enforcement hereof.

E. Binding Effect. This Agreement and all instruments or documents entered into
pursuant hereto are binding upon and will inure to the benefit of the Parties and their
respective successors and assigns.

F. Further Assurances and Documentation. Each Party agrees in good faith to take
such further actions and execute such further documents as may be necessary or
appropriate to fully carry out the intent and purpose of this Agreement.

G. Time Periods. If the time for the performance of any obligation under this Agreement
expires on a Saturday, Sunday or legal holiday, the time for performance will be
extended to the next succeeding day which is not a Saturday, Sunday or legal holiday.

H. Headings. The headings of this Agreement are for purposes of reference only and will
not limit or define the meaning of any provision of this Agreement.
I. **Entire Agreement.** This Agreement, together with all exhibits referred to herein, which are incorporated herein and made a part hereof by this reference, constitute the entire agreement between the parties pertaining to the subject matter contained in this Agreement. No supplement, modification or amendment of this Agreement will be binding unless in writing and executed by the Parties.

J. **Counterparts.** This Agreement may be executed by the exchange of faxed or electronic signatures and in any number of counterparts.

K. **Approvals and Notices.** Any objection, approval, disapproval, demand, document or other notice (“Notice”) that any Party may desire or may be obligated to give to any other Party will be in writing and may be given by personal delivery, registered or certified mail (return receipt requested), email transmission (with delivery receipt) or by commercial courier to the party or its successors or assigns to whom the Notice is intended at the address of the party set forth below or at any other address as the parties may later designate. Change of address by a party will be given by Notice as follows:

If to the District: Rio Nuevo Multipurpose Facilities District
400 West Congress, Suite 152
Tucson, Arizona 85701

with a copy to: Mark Collins, Esq.,
Gust Rosenfeld P.L.C.
One South Church Avenue, Suite 1900
Tucson, Arizona 85701

If to the County: Director, Pima County facilities Management
150 W. Congress Street, 5th Floor
Tucson, Arizona 85701

L. **Conflict of Interest.** This Agreement is subject to and may be cancelled in accordance with the provisions of A.R.S. § 38-511.

**SIGNATURES APPEAR ON THE FOLLOWING PAGES**
This Ground Lease and Option Agreement is dated as of the date first above written.

**DISTRICT:**

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

By: ____________________________

Its: Chairman

By: ____________________________

Its: Secretary

**COUNTY:**

PIMA COUNTY, ARIZONA

By: ____________________________

Chair of the Board of Supervisors

**ATTEST:**

______________________________

Clerk of the Board of Supervisors

**APPROVED AS TO CONTENT:**

By: ____________________________

Director, Facilities Management Department
APPROVED AS TO FORM:

By:______________

Deputy County Attorney
EXHIBIT A

(TO GROUND LEASE AND OPTION AGREEMENT)

(LEGAL DESCRIPTION OF THE PREMISES)
EXHIBIT B

(TO PURCHASE AND SALE AGREEMENT)

(MEMORANDUM OF GROUND LEASE AND OPTION)

When recorded, return to:

Mark Collins, Esq.,

Gust Rosenfeld P.L.C.

One South Church Avenue, Suite 1900

Tucson, Arizona 85701

MEMORANDUM OF GROUND LEASE AND OPTION AGREEMENT

THIS MEMORANDUM OF GROUND LEASE AND OPTION AGREEMENT is entered into this ___ day of _______, 201_, by and between Pima County, a political subdivision of the State of Arizona ("County"), and Rio Nuevo Multipurpose Facilities District, a special taxing district of the State of Arizona ("District").

County and District have entered into an unrecorded Ground Lease and Option Agreement dated ___ ___ , 201_ (the "Lease") whereby County has leased to District all of the tract of land located in Tucson, Arizona, which is more fully described on Exhibit A attached hereto, and all rights, alleys, ways, privileges, appurtenances and advantages appurtenances and advantages, to the same belonging or in any way appertaining ("Property") for a term of 20
years, and (ii) granted to District an option to purchase the Property at any time for the term of the Lease on the terms more fully described therein.

A copy of the Lease and Option Agreement is available for person having a legitimate interest in the Property at the following address:

Rio Nuevo Multipurpose Facilities District
400 West Congress, Suite 152
Tucson, Arizona 85701

This Memorandum of Ground Lease and Option Agreement is dated as of the date first above written.

SIGNATURES APPEARS ON THE FOLLOWING PAGES
DISTRCT:

RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

By: _____________________________

Its: Chairman

By: _____________________________

Its: Secretary

STATE OF ARIZONA )

) ss.

COUNTY OF PIMA )

I HEREBY CERTIFY that on this __ day of ____________, 201__, before me, a Notary Public for the state aforesaid, personally appeared Fletcher McClusker, known to me or satisfactorily proven to be the person whose name is subscribed to the foregoing Memorandum of Lease and Option Agreement, who acknowledged that he is the Chairman of the Board of Directors for Rio Nuevo Multipurpose Facilities District and that he has been duly authorized to execute, and has executed, such instrument on its behalf for the purposes therein set forth.
Notary Public

My commission expires on ________

STATE OF ARIZONA )
 ) ss.
COUNTY OF PIMA )

I HEREBY CERTIFY that on this __ day of ____________, 20__, before me, a Notary Public for the state aforesaid, personally appeared Fletcher McClusker, known to me or satisfactorily proven to be the person whose name is subscribed to the foregoing Memorandum of Lease and Option Agreement, who acknowledged that he is the Chairman of the Board of Directors for Rio Nuevo Multipurpose Facilities District and that he has been duly authorized to execute, and has executed, such instrument on its behalf for the purposes therein set forth.

Notary Public

My commission expires on ________
COUNTY:

PIMA COUNTY, ARIZONA

By: __________________________

Chair of the Board of Supervisors

STATE OF ARIZONA )

) ss.
COUNTY OF PIMA )

I HEREBY CERTIFY that on this __ day of __________, 2016, before me, a Notary Public for
the state aforesaid, personally appeared __________________, known to me or satisfactorily
proven to be the person whose name is subscribed to the foregoing Memorandum of Lease and
Option Agreement, who acknowledged that he/she is the Chairperson of the Pima County Board
of Supervisors and that he/she has been duly authorized to execute, and has executed, such
instrument on its behalf for the purposes therein set forth.

__________________________
Notary Public

My commission expires on _________
OPTION AGREEMENT
[Cushing Street Property]

This Ground Lease Option Agreement ("Agreement") is entered into, effective as of December 13, 2016 (the "Effective Date"), by and between Pima County, a political subdivision of the State of Arizona ("County") and Rio Nuevo Multipurpose Facilities District, a special taxing district of the State of Arizona ("Rio Nuevo").

1. Background and Purpose.

1.1. Rio Nuevo, as a multipurpose facilities district formed under 48-4202(B), has the authority to acquire property and construct, within the Rio Nuevo multipurpose facility site, commercial facilities that its board determines are necessary or beneficial to the district (A.R.S. §§ 48-4201(4)(b) and 48-4204(B)), and may issue revenue bonds for that purpose (A.R.S. §§ 48-4203(B)(3) and 48-4251). It may also "[e]nter into agreements with developers, contractors, tenants and other users of all or part of such a facility. A.R.S. § 48-4203(B)(2)."

1.2. County owns an unimproved parcel of real property (the "Property"), approximately 2 acres in size, which is located at the corner of Cushing Street and the I-10 frontage road in downtown Tucson, Arizona, within the Rio Nuevo multipurpose facility site. The Property is legally described and depicted on Exhibit A.

1.3. The Pima County Board of Supervisors (the "Board") has authority under A.R.S. § 11-254.04 to engage in any "activity that the board of supervisors has found and determined will assist in the creation or retention of jobs or will otherwise improve or enhance the economic welfare of the inhabitants of the county," including specifically the "acquisition, improvement, leasing or conveyance of real or personal property."

1.4. County is interested in leasing the Property to Rio Nuevo for development and sublease to companies whose presence will create economic development opportunities for the community.

2. Definitions.

1.1. "Ground Lease" means the lease for the Property that County and Rio Nuevo will enter into upon Rio Nuevo's exercise of the Option, the material terms of which will be as set forth in Exhibit B. The Ground Lease will be in a form substantially similar to that attached to this Agreement as Exhibit C.

1.2. "Option" means Rio Nuevo's option to lease the Property from County, as provided below.

1.3. "Option Term" means a 2-year period commencing on the Effective Date.

2. "Rent Amount" means the fair-market annual rent for the Ground Lease as established under Section 4 below.

3. Grant of Option. For and in consideration of the sum of One Hundred Dollars and no cents ($100.00), the receipt and sufficiency of which are acknowledged and in consideration of the
mutual covenants, promises and agreements contained herein, the County hereby grants Rio Nuevo an exclusive option to lease the Property from County, as provided in this Agreement.

3.1. **Exercise of Option.** Rio Nuevo may exercise this Option at any time prior to the expiration of the Option Term by providing the County written notice (the "Option Notice") of its election to do so. The Option Notice must include information about the improvements that Rio Nuevo plans to build, and the proposed tenant(s) for the improvements.

3.2. **Approval by Board.** The County will not be obligated to enter into the Ground Lease unless and until the Board takes formal action at a public meeting approving the Option Notice and the Rent Amount. If any of the information provided in the Option Notice is confidential, Rio Nuevo must so indicate; in that event, the Board will be provided details about the Option Notice in executive session as permitted by A.R.S. § 38-431.03(A)(7). Rio Nuevo acknowledges that the County is granting this Option for economic development purposes and that the Board is under no obligation to approve the proposed Ground Lease unless it determines that the Ground Lease will assist in the creation or retention of jobs or will otherwise improve or enhance the economic welfare of the inhabitants of the County. Preference will be given to a proposal that includes a sublease to one or more new or expanding high-wage, technology-driven companies.

3.3. **Revocation of Option.** Rio Nuevo may withdraw its Option Notice and elect not to enter into the Ground Lease at any time before the Ground Lease is executed by County.

4. **Establishing the Rent Amount.** Rio Nuevo will, in the Option Notice, include its determination of fair-market-value rent for the Ground Lease, along with a copy of an appraisal by a licensed appraiser that supports that determination. That fair-market-value rent will be the Rent Amount unless the County Administrator or his designee, within 10 business days after receipt of the notice, send Rio Nuevo a written objection, which must contain the name and contact information for another appraiser. This appraiser, together with Rio Nuevo's appraiser, will select a third appraiser. The three appraisers will then determine the fair-market-value rent for the Ground Lease. Any valuation agreed upon by 2 of the 3 appraisers will be the Rental Amount. The appraisers will make their report in writing and deliver a copy to each of the parties. The parties will equally share the cost of the additional appraisers.

5. **Final Ground Lease.** After the Rental Amount is established as provided above, and the Board has approved the proposal, the parties will negotiate diligently to agree upon the final form of the Ground Lease.

6. **Use of Property during Option Term.** County will not, during the Option Term, without Rio Nuevo's prior written consent, make any substantial changes to the physical condition of the Property, and will continue to use the Property in the same way it was being used as of the Effective Date.

7. **Assignment; Successors.** All of the terms, provisions and conditions of this Agreement are binding upon and inure to the benefit of the heirs, successors and assigns of the respective parties.
8. **Notices.** Any notices required or permitted to be given under the terms of this Agreement, or by law, must be in writing and may be given by personal delivery, or certified mail (return receipt requested) directed to the parties at the following addresses, or such other address as any party may designate in writing prior to the time of the giving of such notice, or in any other manner authorized by law:

**County:**
Pima County Administrator
130 W. Congress, 10th Floor
Tucson, AZ 85701

**Rio Nuevo:**
Rio Nuevo Multipurpose Facilities District
400 West Congress, Suite 152
Tucson, AZ 85701

with a copy to:
Mark Collins, Esq.,
Gust Rosenfeld P.L.C.
One South Church Avenue, Suite 1900
Tucson, Arizona 85701

Any notice given will be effective when actually received, or if given by certified mail, then 72 hours after the deposit of such notice in the United States mail with postage prepaid.

9. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the state of Arizona.

10. **Default.** If either party fails or refuses to carry out any provision hereof, the other party will be entitled to such remedy or remedies for breach of contract as may be available under applicable law, including without limitation the remedy of specific performance, if such other party has fully performed all of its obligations hereunder. Time is of the essence hereof.

11. **County’s Warranty.** County warrants that it has good title to the Property as of the Effective Date, and that execution of this Agreement has been duly authorized by the Pima County Board of Supervisors.

12. **Modification.** This Agreement may not be modified except by a written agreement executed by all parties.

13. **Jurisdiction and Venue.** This Agreement must be construed in accordance with Arizona law. Jurisdiction for any dispute or claim raised under this Agreement or proceeding brought to interpret the Agreement will lie solely in the State of Arizona, with venue in Pima County.

14. **Recording.** Upon the execution of this Agreement Buyer and Seller will execute a Memorandum of Option Agreement and record it in the Pima County Recorder’s Office.

15. **Further Assurances.** Each party agrees in good faith to take, or cause to be taken, any reasonable actions that are necessary to ensure that both parties' rights and interests in and under this Agreement are valid and enforceable.

16. **Counterparts.** This Agreement may executed by the exchange of faxed or electronic signatures and in any number of counterparts.
17. **Entire Agreement.** This Agreement, together with the Lease and documents related to the Lease, sets forth the entire understanding of the parties with respect to the subject matter of this Agreement, and supersedes any and all prior understandings and agreements, whether written or oral, between the parties with respect to such subject matter.

IN WITNESS WHEREOF, the Parties have executed this Agreement effective as of the Effective Date first set forth above.

**RIO NUEVO**

By: __________________________
    Fletcher McClusker
    Chair of the Board of Directors

Date: __________________________

**ATTEST:**

Mark Irvin
Secretary of the Board of Directors

**PIMA COUNTY**

By: __________________________
    Sharon Bronson
    Chair of the Board of Supervisors

Date: __________________________

**ATTEST:**

Robin Brigode
Clerk of the Board of Supervisors

**APPROVED AS TO FORM:**

[Signature]
Deputy County Attorney

REGINA NASSEN
EXHIBIT A
LEGAL DESCRIPTION AND DIAGRAM OF PROPERTY
(Cushing Street Property)

1. Legal Description Pending

2. Property Diagram Follows

The remainder of this page is intentionally blank.
Exhibit A, Cont.
Location of Cushing Street Property
EXHIBIT B
CONDITIONS FOR GROUND LEASE
[CUSHING STREET PROPERTY]

The Ground Lease between the parties will reflect the following terms and conditions:

1. Upon acceptance of the Option Notice and Rental Amount, Rio Nuevo shall be obligated to improve the Property by constructing a Class A, multi-story, high-technology office building (the "Building"), together with a parking structure containing 350 parking spaces, and appropriate driveways and landscaping (all together, the "Project"). The Building must have at least 200,000 square feet of interior professional office or light-manufacturing space. No residential use is permitted.

2. Site development plans, including exterior architectural design, are subject to review and approval by the County. Approval will not be unreasonably withheld.

3. Rio Nuevo must contract for the construction of the Project within 18 months of the effective date of the Ground Lease and must complete the Project within 18 months after construction commences.

4. Pima County will provide building permitting and plan review services and inspections.

5. Rio Nuevo will pay rent in the Rental Amount. Payment of rent will commence upon execution of the Ground Lease.

6. The initial term of the Ground Lease shall be twenty-five (25) years, with two successive renewal terms of ten (10) years each, conditioned on Rio Nuevo (or its tenant) making improvements to the Building to keep it up-to-date.

7. Rio Nuevo will be responsible for insuring, maintaining, repairing, and operating the Project.

8. Title to the improvements comprising the Building and the Project shall be held by Rio Nuevo throughout the initial term of the Ground Lease, and any subsequent renewal(s). Title to the improvements will become the County's when the Ground Lease ends.

9. The average wages plus benefits paid by tenants of the Building must exceed 150 percent of the median regional wage.

10. County will consent to Rio Nuevo's grant of a security interest in its leasehold interest as part of its financing of the Project.
GROUND LEASE AND OPTION AGREEMENT

This Ground Lease and Option Agreement (the “Agreement”) is entered into as of __________, 201__ (the “Agreement Date”) by and between Rio Nuevo Multipurpose Facilities District, a special taxing district of the State of Arizona (“District”), and Pima County, a political subdivision of the State of Arizona (“County”). District and County are sometimes individually referred to as a “Party” and jointly referred to as the “Parties”.

RECITALS

A. County owns an unimproved parcel of real property (the “Premises”), approximately ___ acres in size, which is located [describe location] in downtown Tucson, Arizona, within the Rio Nuevo Multipurpose Facilities boundary. The Premises is legally described and depicted on Exhibit A.

B. The District has the authority to acquire property within the Rio Nuevo Multipurpose Facilities boundary, and construct commercial facilities that its board determines are necessary or beneficial to the district (A.R.S. §§ 48-4201(4)(b) and 48-4204(B)), and may issue revenue bonds for that purpose (A.R.S. §§ 48-4203(B)(3) and 48-4251). It may also “[e]nter into agreements with developers, contractors, tenants and other users of all or part of” such a facility. A.R.S. § 48-4203(B)(2).

C. The Pima County Board of Supervisors (the “Board”) has authority under A.R.S. § 11-254.04 to engage in any “activity that the board of supervisors has found and determined will assist in the creation or retention of jobs or will otherwise improve or enhance the economic welfare of the inhabitants of the county,” including specifically the “acquisition, improvement, leasing or conveyance of real or personal property.”

D. The District and the County executed a Ground Lease Option Agreement dated __________, 2016 (the “Option Agreement”) pursuant to which the County granted to District an exclusive option (the “Option”) to lease the Premises in accordance with the terms and conditions of the Option Agreement.

E. District has exercised the Option, and the Parties, as provided in the Option Agreement, have agreed on the Rent Amount. The Board has determined that entering into this Agreement and leasing the Premises to District will assist in the creation or retention of jobs and will improve and enhance the economic welfare of the inhabitants of the County.

F. District intends to improve the Premises by constructing a Class A, multi-story, high-technology office building (the “Building”), together with a parking structure containing 350 parking spaces, and appropriate driveways and landscaping (all together, the “Project”). The District will sublease the Project to one or more new or expanding high-wage, technology-driven companies.

G. The District has determined that Project is a related commercial facility located within the Rio Nuevo Multipurpose Facilities boundary, that the District’s primary component is in
close proximity to the Project and will benefit from the Project, and that District will benefit from the tax revenues to be generated by the Project.

H. The Parties desire that County: (i) lease the Premises to District and (ii) grant an option to purchase the Premises to District (the “Purchase Option”), all upon the terms and conditions of this Agreement.

AGREEMENTS

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises of the Parties in this Agreement, the Parties agree as follows:

1. **Accuracy of Recitals.** The Parties hereby acknowledge the accuracy of the Recitals.

2. **Ground Lease.** Effective upon the Agreement Date, County hereby lets the Premises to District, and District hereby leases and takes the Premises from County (the “Lease”).

3. **Condition of Premises.** District has inspected the Premises and accepts possession of the Premises in its “AS IS” condition on the Commencement Date (as defined below), and except for those representations and warranties of County contained in this Agreement, without representation or warranty of any kind, express or implied, including, without limitation, any warranty of income potential, future operating expenses or uses or fitness for a particular purpose. Except as otherwise expressly provided in this Agreement, District has full responsibility for the repair, alteration, maintenance, and replacement of the Premises, and any portion thereof, and any Improvements (as defined below). County has no obligation whatsoever for the repair, alteration, maintenance and replacement of the Premises, or any portion thereof, or the Improvements, except as expressly provided in this Agreement. District expressly acknowledges and agrees that the County has not made and is not making, and District is not relying upon, any warranties or representations regarding the Premises or any Improvements, except as expressly set forth in this Agreement.

4. **Term.**

   A. **Initial Term.** The initial term of this Lease is twenty (25) years, commencing upon Substantial Completion as defined in Section 7(E), below (the “Commencement Date”) and ending on the same day and month in the year 204_. “Term” means and includes this initial term and any exercised extensions.

   B. **Extensions.** So long as District is in full compliance with all the terms and conditions of this Lease, it may extend the Term of this Lease for two successive terms of ten years each, provided that [describe reinvestment/improvement requirements for extensions]. Each extension option may be exercised no more than 12 months nor less than 3 months before the expiration of the initial term or preceding extension term.

5. **Rent.** Rent for the Premises from the Agreement Date through the Commencement Date (“Initial Rent”) will be _________ and no/100 Dollars ($___________.00) per year, payable by District to County, in advance, in equal monthly installments. Rent for the Premises after the Commencement Date (“Net Rent”) will be
and no/100 Dollars ($______.00) per year, payable by District to County, in advance, in equal monthly installments.

6. **Possession and Enjoyment.** County acknowledges and agrees that District, by paying the Rent and performing the other terms and conditions of this Lease, may peaceably hold and enjoy the Premises without any interruption by County or any person lawfully claiming by, through or under County, during the Term, except that County may enter upon and inspect the Premises by providing District with written notice of its intent to do so not less than 24 hours in advance.

7. **District’s Improvements to the Premises.**

A. **Construction.** District will develop and construct the Project together with parking and driveway areas and other installations necessary or incidental to the operation or maintenance thereof (collectively, referred to as the “Improvements”). The Improvements will include a building (the “Building”), which will be a complete, independent structure containing not less than _____ square feet of interior space. [Insert any other design requirements or restrictions.] The Improvements will be constructed and developed in accordance with the approved Final Plans (as provided below) and all local development and building codes, and in compliance with Title 34 of the Arizona Revised Statutes. The Building must be designed and constructed using the U.S. Green Building Council’s LEED Silver standard as a design guideline, but District is not required to obtain LEED certification.

B. **Commencement.** Construction of the Improvements will be commenced upon the closing of the debt and equity financing for the Project, no later than 18 months after the Agreement Date. Construction will not commence until each of the following has occurred:

i. **Plan Approvals.** County approves the Final Plans.

ii. **Contract.** District provides to County a copy of District’s contract with the general contractor that will construct the Project. The contract must give County the right, but not the obligation, to assume District’s obligations and rights under that contract if District defaults.

iii. **Insurance.** District furnishes County with proof that District has obtained the liability and worker’s compensation insurance required in this Agreement.

iv. **Builder’s Risk Insurance.** District furnishes County with proof that District, or District’s contractor, has obtained “all risks” builder’s risk insurance including vandalism and malicious mischief, in broad form and with a company reasonably acceptable to County, covering improvements in place and all material and equipment at the job site furnished under contract, but excluding contractor’s, subcontractor’s and construction manager’s tools and equipment and property owned by contractor’s or subcontractor’s employees, with limits of at least $_______ per loss single limit for all work at the job site. District must maintain
this insurance in effect until the Project is complete and a permanent Certificate of Occupancy has been issued for the Project.

v. Payment and Performance Bonds. District delivers to County payment and performance bonds meeting the requirements of Title 34 of the Arizona Revised Statutes, issued by a surety company licensed to do business in the State of Arizona, running to County as obligee, conditioned on the completion of the Project in accordance with the Final Plans and the provisions of this Lease, free and clear of all mechanics’ and other liens.

C. Plans and Specifications. District must obtain County’s approval of plans and specifications for the Project. County will not unreasonably withhold its approval of plans and specifications, will communicate its approval or disapproval in writing, and will explain the grounds for any disapproval. If County disapproves of submitted plans and specifications, District will submit revised plans and specifications addressing the County’s concerns. The Director of the County’s Facilities Management Department is authorized to conduct the review and give approvals and disapprovals on behalf of County.

i. Preliminary Plans. District will submit three full hard-copy sets, and an electronic (Autocad) set of preliminary construction plans and specifications for the Project, no later than 2 months after the Agreement Date. The plans must be prepared by an architect or engineer licensed to practice in Arizona, and must include preliminary grading and drainage plans, soil tests, utilities, sewer and service connections, locations of ingress and egress to and from public thoroughfares, curbs, gutters, parkways, street lighting, designs and locations for outdoor signs, storage areas, and landscaping. The plans must be sufficiently clear and detailed for the County make an informed judgment about the design and quality of construction, and about the impact of the Project on adjacent and nearby properties.

ii. Final Plans. Within 2 months after County’s approval of the preliminary plans, District will prepare and deliver to County three full hard copy sets and one electronic (Autocad) set of final plans and specifications (“Final Plans”) substantially conforming to the preliminary plans previously approved by County. Any subsequent modification of the Final Plans must be submitted for County review and approval.

D. Cost of Improvements. All costs, expenses and charges incurred in the construction of the Improvements will be District’s sole and exclusive obligation, and District will defend, hold the County harmless and indemnify it from all such costs, expenses, and charges, including attorneys’ fees relating thereto.

E. Substantial Completion. Construction must be substantially completed within 18 months after it commences, subject to delays occasioned by “force majeure.” If it is not substantially completed in a timely manner, the County may cancel this Lease by written notice to the District, subject to a period of 30 days during which the District may cure the failure to substantially complete the Project. The Project will be deemed
to be substantially complete upon issuance of a Certificate of Occupancy by the City of Tucson.

F. **County Inspection.** County representatives may, but are not obligated to, inspect the Project as it is being constructed, and District will provide them access to the work for that purpose.

8. **Title to Improvements.** At all times during the Term of the Lease, the Improvements will be owned by District and District alone will be entitled to all of the tax attributes of ownership, including, without limitation, the right to claim depreciation or cost recovery, and District will have the right to amortize capital costs and to claim any other federal or state tax benefits attributable to the Improvements. Provided District has not exercised the Purchase Option, at the expiration or earlier termination of the Term, or any portion thereof, Tenant will peaceably leave, quit and surrender the Premises. Upon such expiration or termination and provided District has not exercised the Option, the Improvements will become the sole property of County at no cost to County, and will be free of all liens and encumbrances and in good condition, subject only to reasonable wear and tear.

9. **Fixtures and Furnishings.** District will retain ownership of all personal property, fixtures, equipment and furnishings (collectively, “**Fixtures**”) from time to time installed in the Premises by District or its sublessees. District may remove any Fixtures at any time during the Term and will remove all Fixtures prior to the expiration of the Term, except those Fixtures that County agrees, in writing, may be left on the Premises. Any Fixtures not removed at the expiration of the Term will, at the election of County, become the property of County without payment to the District, or be deemed abandoned and removed by County at County’s expense. Upon any removal of Fixtures, the District will promptly repair any and all resulting damage to the Premises.

10. **Subordination to Lenders.** The cost of the Project will be funded in part by loans from various lenders (the “**Lenders**”).

A. Provided the County has received at least 10 days written notice of any intended encumbrance of the Premises, it will allow the Lenders to hold a deed of trust or other security interest (a “**Leasehold Deed of Trust**”) in District’s leasehold interest in the Premises only to the extent necessary to secure repayment of Project loans, and County will execute such subordination agreements or similar document(s) as may be required by the Lenders, provided that such documents contain terms and conditions and are in a form reasonably satisfactory to County. A Lender, in the event of any foreclosure or assignment in lieu of foreclosure, must cure all District defaults, and any reletting of the Premises by a Lender must comply with all the terms and conditions of this Lease.

B. District will keep the Premises free and clear of all other liens, claims, and encumbrances, including, but not limited to, mechanics’ liens, laborers’ liens and materialmen’s liens. County agrees not to place any liens or encumbrances of any kind on the Premises without the prior written consent of District and its Lenders.
11. **Sublease and Assignment.**

A. **Assignment.** District will not assign or encumber this Lease or any interest in it, except as permitted under Section 10 above, without County’s prior written consent, which will not be unreasonably withheld.

B. **Sublease.** County acknowledges that District does not intend to occupy or use the Premises itself, and instead intends to sublet the Premises to one or more subtenants. County hereby approves the following proposed subtenants [list any identified subtenants] ("**Initial Subtenant(s)**"). Consent to any such subletting will in no way relieve District of any liability under this Lease and will not impose any additional burden or obligation on County. Every subtenant is required to comply with all District’s obligations under this Lease.

C. **Salary Requirement.** Each subtenant must pay its employees an average annual wage, including benefits, of at least one-hundred fifty percent (150%) of the median regional wage for Pima County.

12. **Memorandum of Ground Lease and Option Agreement.** Upon the execution of this Agreement, the Parties will also execute a Memorandum of Ground Lease and Option Agreement to be recorded in the official records of the Pima County, Arizona Recorder (the "**Official Records**") in substantially the form attached hereto as Exhibit B.

13. **Payment of Additional Amounts.** The Lease described in this Agreement is a completely net lease. As such, except as specifically provided herein, District is solely responsible for any and all capital, operating, maintenance, and replacement costs and any other costs and expenses that result from District’s development and use of the Premises, including, but not limited to, the construction of the Improvements. District’s payment of insurance, taxes, utilities and any other charges, costs or fees charged and prorated to District under the terms of this Lease (collectively "**District’s Obligations**") will accrue and be payable by District from and after the Agreement Date throughout the Term. County will forward to District any invoices, bills, or other charges representing District’s Obligations ("**District Bills**"). District will pay any District Bills on or before the date such payment becomes due or if no due date is provided, then within ten (10) days of receipt of any such District Bill. District’s failure to timely pay a District Bill will constitute a breach of this Agreement.

14. **Utilities.** District will promptly pay when due all charges for sewer, water, gas, electricity, telephone, garbage, and any other utilities or services delivered in connection with District’s use and operation of the Premises during the Term, including connection and disconnection charges, if any.

15. **Taxes.** District will pay and discharge as and when the same become due, and prior to delinquency, all real and personal property, Government Property Lease Excise Tax ("**GPLET**"), and ad valorem taxes, assessments, levies, and other charges, general and special, which are or may be during the Term levied, assessed, imposed or charged against the Premises. District’s obligation to pay such real and personal property and ad valorem taxes, assessments, levies, and other charges will begin with respect to amounts first accruing from and after the Agreement Date. District will also pay any taxes that County,
now or hereafter, is required to pay based on the Rent paid or other benefits conferred to County hereunder, including any income, franchise, excise, gross receipts, sales, or transaction privilege taxes.

16. Insurance.

A. Types of Insurance Required. District and any subtenants will procure, prior to beginning any activities on the Premises, and maintain throughout the Term of this Lease, the following insurance from an insurance company or companies reasonably acceptable to County:

i. Commercial General Liability (CGL): Occurrence Form covering liability arising from premises, independent contractors, personal injury, bodily injury, broad form contractual liability and products-completed operations with minimum limits not less than $2,000,000 Each Occurrence and $2,000,000 General Aggregate.

ii. Business Automobile Liability: Coverage for any owned, leased, hired, and/or non-owned autos assigned to or used in connection with the Premises, with minimum limits not less than $1,000,000 Each Accident.

iii. Workers’ Compensation (WC) and Employers’ Liability: Workers’ Compensation with Employers Liability limits of $1,000,000 each accident and $1,000,000 each employee – disease. Workers’ Compensation statutory coverage is compulsory for employers of one or more employees.

iv. Property: Commercial Property, Boiler and Machinery insurance with coverage at least as broad as ISO forms CP 00 01 and BM 00 20, covering the full replacement cost of all improvements on the Premises.

B. Additional Coverage Requirements:

i. Claims Made Coverage: If any part of the required insurance is written on a claims-made basis, any policy retroactive date must precede the effective date of this Lease, and District must maintain such coverage for a period of not less than three (3) years following expiration or termination of this Lease.

ii. Insurer Financial Ratings: Coverage must be placed with insurers acceptable to County with A.M. Best rating of not less than A- VII, unless otherwise approved by County.

iii. Additional Insured: The General Liability policy must be endorsed to include County and all its related special districts, elected officials, officers, agents, employees and volunteers (collectively “County and its Agents”) as additional insureds with respect to liability arising out of the activities performed by or on behalf of District. The full policy limits and scope of protection must apply to County and its Agents as an additional insured, even if they exceed the limits required by this Lease.
iv. **Waiver of Subrogation:** Commercial General Liability and Workers’ Compensation coverages must each contain a waiver of subrogation in favor of County and its Agents for losses arising from work performed by or on behalf of District.

v. **Primary Insurance:** The required insurance policies, with respect to any claims related to this Lease or the Premises, must be primary and must treat any insurance carried by County as excess and not contributory insurance. The required insurance policies may not obligate the County to pay any portion of District’s deductible or Self Insurance Retention (SIR).

C. **Verification of Coverage:**

i. **Certificates:** District’s Insurer or Broker must evidence compliance with the insurance requirements by furnishing certificates of insurance executed by a duly authorized representative of each insurer. Each certificate must include a notation of policy deductibles or SIRs relating to the specific policy, and must specify that the policy is endorsed to include additional insured and subrogation waiver endorsements for the County and its Agents.

ii. **Renewal Certificate:** A renewal certificate must be provided to County not less than 15 days prior to the policy’s expiration date, along with actual copies of the additional-insured and waiver-of-subrogation endorsements.

iii. **Policies:** County reserves the right to, at any time, require complete copies of any or all required insurance policies.

iv. **Cancellation Notice:** District must notify the County in advance, in writing, if a required insurance policy will expire, be cancelled, be suspended, or be materially changed. The notice must be provided to the County by the earlier of (a) 30 days before the change will take effect, and (b) 2 business days after District receives notice of the change from its insurer. For cancellation for non-payment, Insurer must provide County with written notice ten (10) days prior to cancellation of policy.

D. **Approval and Modifications:** The Pima County Risk Manager may approve a modification of the above insurance requirements without the necessity of a formal contract amendment, but the approval must be in writing. Neither the County’s failure to receive a required insurance certificate or endorsement, the County’s failure to object to a non-complying insurance certificate or endorsement, or the County’s receipt of any other information from District, its insurance broker(s) and/or insurer(s), constitutes a waiver of any of the Insurance Requirements.

17. **Repairs and Maintenance.** District will, at its sole cost and expense, keep and maintain, and replace where necessary, all Improvements on the Premises, including without limitation, buildings, sidewalks, fencing, paving, landscaping, wiring, heating, air conditioning, ventilating, plumbing, parking areas, ingress and egress, and other installations in good condition and repair in all material respects (normal wear and tear excepted), except if caused by County. District agrees to maintain, and replace where necessary, all underground and unexposed service facilities of the Premises.
18. **Permits, Laws and Ordinances.** District will, at its sole cost and expense, comply, and cause its contractors and subcontractors and subtenants to comply, in all material respects with all laws of all applicable governmental authorities which may now or hereafter, from time to time, be established and which are or will be applicable to the Premises and any operations on the Premises, and will take all actions necessary to cause the Premises to comply in all material respects with all provisions of the Project Documents and this Agreement.

19. **Environmental Compliance.**

   A. **Hazardous Materials Prohibited; Clean Air Act.** District and its sublessees will not cause or permit any Hazardous Material (as defined below) to be brought upon, kept, or used in or about the Premises without the prior written consent of County, other than such Hazardous Materials as are customarily necessary or useful to the type of operations permitted under this Lease and actually being carried out by District or its sublessees on the Premises which will be used, kept and stored in a manner that complies with all laws regulating any such Hazardous Materials. District’s operations on the Premises will comply with applicable provisions of the Clean Air Act, 42 U.S.C. 7401 et seq. and Arizona Revised Statutes, Title 49, Chapter 3 and any other applicable environmental laws or regulations.

   B. **Hazardous Material.** As used herein, the term “Hazardous Material” means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of Arizona or the United States Government. The term “Hazardous Material” includes, without limitation, any material or substance that is (i) defined as a “hazardous waste” under NRS 459.400 et. seq., (ii) petroleum, (iii) asbestos, (iv) designated as a “hazardous substance” pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. 1321), (v) defined as a “hazardous waste” pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. 6901 et. seq. (42 U.S.C. 6903), (vi) defined as a “hazardous substance” pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et. seq. (42 U.S.C. 9601) or (vii) defined as a “regulated substance” pursuant to Subchapter IX, Solid Waste Disposal Act (Regulation of Underground Storage Tanks), 42 U.S.C. 6991 et. seq.

   C. **Clean-Up.** If the presence of any Hazardous Material on or in the Premises, or the soil or ground water under or adjacent to the Premises caused or permitted by the District, its sublessee(s) or their agents, employees, contractors or invitees results in any suspected contamination of the Premises, the soil or ground water under or adjacent to the Premises, the District will promptly notify County in writing and take all actions at its sole expense as are necessary to return the Premises, or such soil or ground water to the condition existing prior to the introduction of any such Hazardous Material to the Premises, or to such soil or ground water; provided that County’s approval of such actions will first be obtained, which approval will not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises.
D. **Pre-existing Contamination.** District, at District’s cost, may obtain a Phase I Environmental Report (the “Phase I”) for the Property. County agrees that any Hazardous Materials contaminating the Premises prior to possession of the Premises by the District will not result in liability for the District under this Paragraph, 42 U.S.C. § 9607(b)(3) or A.R.S. § 49-283(D), except to the extent such contamination is aggravated by the action or inaction of District.

E. **Notices Regarding Environmental Conditions.** The District will, within ten (10) business days following receipt thereof, provide County with a copy of (i) any notice from any local, state or federal governmental authority of any violation or administrative or judicial order or complaint having been filed or about to be filed against the District, its sublessee(s), or the Premises alleging any violation of any local, state or federal environmental law or regulation or requiring District or County to take any action with respect to any release on or in the Premises or the soil or ground water under or adjacent to the Premises of Hazardous Material, or (ii) any notices from a federal, state or local governmental agency or private party alleging that the District may be liable or responsible for cleanup, remedial, removal, restoration or other response costs in connection with Hazardous Material on or in the Premises or the soil or ground water under or adjacent to the Premises or any damages caused by such release.

20. **Indemnification.** To the fullest extent permitted by law, the District will indemnify, defend, and hold harmless County, its officers, employees and agents ("Indemnified Parties") from and against any and all losses, costs, or expenses (including reasonable attorney fees) incurred or suffered by County as a result of any damages to property or injuries to persons (including death), or any suits, actions, legal administrative proceedings, claims or demands and costs attendant thereto, arising out of or directly related to any act, omission, fault or negligence by the District, its agents, employees, invitees, contractors, subtenants, or anyone under its direction or control or acting on its behalf, or anyone permitted by District to conduct any activity on the Premises, or in connection with any use or occupancy of the Premises under the terms of this Lease. District’s indemnity obligations under this paragraph shall not extend to any claims for damages arising out of or directly related to any act, omission, fault or negligence of any of the Indemnified Parties, or any other persons or entities unrelated to the District.

21. **Default/Termination.** Either party may present written notice of default or non-performance to the other party.

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

i. **Operation of Premises.** The vacating or abandonment of the Premises, or cessation of activities thereon, where such abandonment will continue for a period of thirty (30) calendar days after notice of such default is sent by County to District.
ii. **Monetary Obligations.** The failure by District to make any payment required to be made by District hereunder, as and when due, where such failure will continue for a period of ten (10) calendar days after notice from County that such payment is due.

iii. **Insurance.** The failure by District to maintain insurance policies as set forth above for any period of time, in which event District must immediately cease all operations at the Premises until such insurance is obtained. In the event of such a default, County may, in County’s sole discretion, obtain necessary insurance coverage in which event District will, within ten (10) business days of demand, reimburse and pay to County the full amount of any costs and premiums expended by County to obtain such coverage.

iv. **Violation of Law.** Violation of any law by District, or the conduct of any unlawful activities on the Premises that are permitted by District, either tacitly or explicitly, or that District has not taken reasonable means to prevent after it becomes or in the exercise of reasonable diligence should have become aware that such activities are being conducted.

v. **Health and Safety Violation.** Any action or omission by District that, in the County’s reasonable judgment, causes a threat to the health or safety of the general public.

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

**B. County Default.** County will be in default if it fails to comply with any material obligation under this Lease, and fails to cure that failure within 30 days after receiving a written default notice from District detailing the nature of the obligation. If, however, the nature of County’s default is such that more than 30 days are reasonably required for its cure, then County will not be deemed to be in default if County commences such cure within that period and thereafter diligently prosecutes such cure to completion.

**C. Remedies.** Either party may pursue any remedies provided by law and in equity for the breach of this Lease, including termination of the Lease. No right or remedy is intended to be exclusive of any other right or remedy and each will be cumulative and in addition to any other right or remedy existing at law or in equity or by virtue of this Lease.

22. **Purchase Option.**

**A. Grant of Option.** County hereby grants to District an option to purchase the Premises in fee together with all easements and other rights appurtenant to or for the benefit of
the Premises (the “Purchase Option”). Fee title to the Premises will be conveyed to District via special warranty deed (the “Deed”) free and clear of all liens and encumbrances except exceptions permitted under the Original Agreement or those approved in writing by District.

B. Option Purchase Price. District will pay to County, in cash at closing, the fair market value of the Premises, appraised as vacant land. The Parties will establish this value (the “Purchase Price”) using the appraisal process set forth in the Option Agreement.

C. Term of Option. The Purchase Option will commence on the Agreement Date and will continue during the Term of the Lease.

D. Exercise of Option. At any time during the Term, District may exercise the Purchase Option by giving County and _________ Title Agency (“Title Company”) at least thirty (30) days’ written notice of its intent to exercise the Purchase Option with a direction to Title Company to prepare an updated Title Commitment for the Premises. The date upon which District pays the Purchase Price to County and Title Company records the Deed will be referred to as the “Purchase Option Closing Date”.

E. Title Commitment and Closing.

i. Within four (4) days of the Opening of Escrow, the Title Company will issue and deliver to District and County a preliminary title commitment for the Premises, as well as copies of all instruments referred to therein, including all deeds, easements or other instruments which provide for access to the Premises (collectively the “Title Commitment”). The Title Commitment will be an irrevocable commitment by the Title Company to issue the Title Policy (defined below) subject to the satisfaction of the requirements contained in the Title Commitment.

ii. District will have twenty (20) days after receipt of the Title Commitment to object to any exceptions or requirements contained in the Title Commitment or identified on the ALTA/ACSM survey of the Premises (“Survey”) to be provided and paid for by District (“Title Issues”) by providing written notice thereof to the County. If District has no objection, it may provide notice thereof to County, in which case the 20-day period will cease. In the event of any such objection, County will have ten (10) days after receipt of District’s notice of the Title Issues to review and evaluate the Title Issues and give written notice to District whether or not the County will cure or cause to be removed the Title Issues (“Title Review Period”). If the initial Title Commitment or Survey is updated and/or amended by any new exception(s) or requirement(s) (by endorsement, amendment, or otherwise) that District deems to be adverse to its anticipated title (“Amended Title Commitment”), the Title Review Period will be extended by three (3) business days following District’s receipt of the Amended Title Commitment (including the best available copies of all new exceptions) to notify the County in writing of District’s objections to any new exceptions (“Extended Title Review Period”). If District timely objects to any matter disclosed in an Amended Title Commitment, County may give written notice to District within three (3) business days after receipt of the new objections as to
whether or not the will cure or cause to be removed an objected to matter. If County timely gives District written notice that the County will not cure or cause to be removed the objected to matter (or if the County fails to provide any written notice within the applicable response period), then District will have three (3) business days after receipt of such written notice (or, in the case of no written notice, three (3) business days after the expiration of the County's applicable response period) within which to terminate this Option Purchase Agreement. If District fails to timely terminate the Option under this provision, the Title Review Period and the Extended Title Review Period will expire.

iii. In the event that the County fails to cure any exceptions that County agreed to cure, to the reasonable satisfaction of the District prior to closing, the Purchase Option may be canceled by the District giving notice thereof to the County and Title Company as provided above.

iv. County and District hereby agree and acknowledge that electronic delivery of the Title Commitment and any Amended Title Commitments by the Title Company (whether in the form of an attachment to electronic mail or in the form of a link to a website where the Title Commitment or Amended Title Commitment can be downloaded) is an acceptable form of delivery, and the Title Commitment or Amended Title Commitment will be deemed delivered on the day it is electronically transmitted to and received by County and District.

v. Notwithstanding anything mentioned herein to the contrary, on or before the Purchase Option Closing Date, County will satisfy and remove all voluntary monetary liens placed on the Premises by County, without the need of any objection from District.

vi. As used in this Agreement, the term "Permitted Exceptions" will collectively mean the exceptions to title reflected in the Title Commitment or any amendment thereto which are approved (or deemed approved) by District pursuant to this section.

vii. At the Purchase Option Closing, the Title Company will deliver to District either an ALTA extended form of title insurance (the "Title Policy") with respect to the Premises in the full amount of the Purchase Price, which will insure that fee simple title to the Premises is vested in District, subject only to: (i) the usual printed exceptions and exclusions contained in the Title Policy; and (ii) the Permitted Exceptions or an endorsement to its existing Owner’s Policy in connection with the Project. If a new policy is issued, the cost of a basic premium policy will be paid for by County with any extended coverage paid for by District.

viii. The escrow agent’s fee will be evenly divided and paid by the Parties. Each Party will pay its own attorneys’ fees. All other fees and costs relating to the Closing will be paid by the parties as is customary in similar real estate transactions in Pima County, Arizona.

ix. The Parties understand, acknowledge and agree that no real estate broker is involved in this transaction and that no real estate brokerage commission will be paid as a
result of the sale of the Premises. District acknowledges that District Board Members Mark Irvin and Chris Sheafe are each licensed real estate brokers in Arizona. Each Party will defend, indemnify and hold the other harmless from and against any and all claims, costs, liabilities or damages for any real estate brokerage commissions or fees, including any attorneys' fees incurred in connection therewith, which may result from the conduct of the party from whom indemnification is sought.

x. The Parties agree to execute escrow instructions that the escrow agent may require in connection with the Closing.

23. **Representations and Warranties.**

A. **District Representations and Warranties.** As of the Agreement Date and on the Purchase Option Closing Date, if any, District hereby represents and warrants to County as follows:

i. District is organized and lawfully existing as a special taxing district of the State of Arizona.

ii. District has the full right, power and authority to make, execute, deliver and perform this Agreement.

iii. District's execution and delivery of this Agreement has been authorized by all requisite action on the part of the District, and the execution and delivery of this Agreement by District and the performance of its obligations hereunder will not violate or contravene any agreement or obligation to which District is a party or by which it is bound.

iv. There is no action, suit, litigation or proceeding pending or, to District's knowledge, threatened against District that could prevent or impair District's entry into this Agreement and/or performance of its obligations hereunder.

v. The persons signing this Agreement on behalf of District are duly and validly authorized to do so.

B. **County's Representations and Warranties.** As of the Agreement Date and on the Purchase Option Closing Date, if any, County hereby represents and warrants to District that, to the best of the County Administrator's and the Manager of Real Property Services' knowledge:

i. County owns fee simple title to the Premises, free and clear of all liens, charges, encumbrances, encroachments, easements, restrictions, leases, tenancies, occupancies or agreements and other matters affecting title, except for those matters previously approved by District in writing, or created by District or by County with District's approval. The Premises is in compliance with all easements, restrictions and other matters of record affecting title as of the date hereof.
ii. County has full right, power and authority to make, execute, deliver and perform its obligations under this Agreement. County has obtained and received all required and necessary consents and approvals to enter into this Agreement with District. The entry by County into this Agreement with District and the performance of all of the terms, provisions and conditions contained herein does not and will not violate or cause a breach of or default under any agreement or obligation to which County is a party or by which it is bound.

iii. There are no tenants, lessees or other occupants of the Premises having any right or claim to possession or use of the Premises or a claimed preference for occupancy in the Premises.

iv. County is not obligated under any other option, contract, lease or agreement, oral or written, with respect to the ownership, use, operation, management, maintenance, lease, sale or financing of the Premises except as previously disclosed to District.

v. No representation, statement or warranty by County contained in this Agreement or in any exhibit attached hereto contains any untrue statement or omits a material fact necessary to make the statement of fact therein recited not misleading.

vi. There is no action, suit, litigation or proceeding pending or, to County’s knowledge, threatened against County and/or the Premises which could prevent or impair County’s entry into the Premises and/or performance of its or any of District’s obligations hereunder or materially and adversely impact District’s rights hereunder.

vii. The person signing this Agreement on behalf of County is duly and validly authorized to do so.

viii. There are no pending condemnation proceedings relating to any portion of the Premises, and County has received no notices of the institution or the proposed institution of condemnation proceedings relating to any portion of the Premises or of any other proceedings against or any taking of all or any part of the Premises.

ix. There is no pending or threatened litigation, governmental proceeding, notice of action required to be taken, judgment or cause of action against or related to the Premises, or any portion thereof, or against County or County’s agents with respect to the Premises or any portion thereof.

x. Except as may be referenced in any environmental assessment, neither the Premises nor any part thereof has been used for the disposal of refuse or waste, or for the generation, processing, manufacture, storage, handling, treatment, transportation, or disposal of any Hazardous Materials, as defined in will have the meaning ascribed in, and will include those substances listed in Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq. and the regulations promulgated thereunder (as amended from time to time) and the Clean Air Act, 42 U.S.C. 7401, et seq. and the regulations promulgated thereunder (as amended from time to time).
xi. County represents and warrants that no person on its behalf significantly involved in
the initiating, negotiating, securing, drafting, creating or consulting with respect to
this Agreement, the Lease or the Option is or will be at any time from the Agreement
Date and for a period of 3 consecutive years thereafter, and if the District exercised
the Option, for a period of 3 consecutive years after the Purchase Option Closing
Date, be an employee or agent of District or act as a consultant on behalf of District
or any of its affiliated entities.


A. Waivers. No waiver of any of the provisions of this Agreement will constitute a
waiver of any other provision, whether or not similar, nor will any waiver be a
continuing waiver. Unless expressly provided for in this Agreement, no waiver will be
binding unless executed in writing by the Party making the waiver. Any Party may
waive any provision of this Agreement intended for its sole benefit; however, unless
otherwise provided for herein, such waiver will in no way excuse the other Party from
the performance of any of its other obligations under this Agreement.

B. Construction, Governing Law and Venue. This Agreement will be interpreted
according to Arizona law, and will be construed as a whole and in accordance with its
fair meaning and without regard to, or taking into account, any presumption or other
rule of law requiring construction against the Party preparing this Agreement or any
part hereof. Any dispute or controversy relating to this Agreement, including the
breach and enforcement thereof, will take place in the Superior Court of Pima County,
Arizona.

C. Time. Time is strictly of the essence of each and every provision of this Agreement.

D. Attorneys’ Fees. If any action is brought by any Party in respect to its rights under this
Agreement, the prevailing Party will be entitled to reasonable attorneys’ fees and court
costs as determined by the court, including attorneys’ fees incurred prior to any court or
enforcement action that relate to the enforcement hereof.

E. Binding Effect. This Agreement and all instruments or documents entered into
pursuant hereto are binding upon and will inure to the benefit of the Parties and their
respective successors and assigns.

F. Further Assurances and Documentation. Each Party agrees in good faith to take
such further actions and execute such further documents as may be necessary or
appropriate to fully carry out the intent and purpose of this Agreement.

G. Time Periods. If the time for the performance of any obligation under this Agreement
expires on a Saturday, Sunday or legal holiday, the time for performance will be
extended to the next succeeding day which is not a Saturday, Sunday or legal holiday.

H. Headings. The headings of this Agreement are for purposes of reference only and will
not limit or define the meaning of any provision of this Agreement.
I. **Entire Agreement.** This Agreement, together with all exhibits referred to herein, which are incorporated herein and made a part hereof by this reference, constitute the entire agreement between the parties pertaining to the subject matter contained in this Agreement. No supplement, modification or amendment of this Agreement will be binding unless in writing and executed by the Parties.

J. **Counterparts.** This Agreement may be executed by the exchange of faxed or electronic signatures and in any number of counterparts.

K. **Approvals and Notices.** Any objection, approval, disapproval, demand, document or other notice ("Notice") that any Party may desire or may be obligated to give to any other Party will be in writing and may be given by personal delivery, registered or certified mail (return receipt requested), email transmission (with delivery receipt) or by commercial courier to the party or its successors or assigns to whom the Notice is intended at the address of the party set forth below or at any other address as the parties may later designate. Change of address by a party will be given by Notice as follows:

If to the District: Rio Nuevo Multipurpose Facilities District
400 West Congress, Suite 152
Tucson, Arizona 85701

with a copy to: Mark Collins, Esq.,
Gust Rosenfeld P.L.C.
One South Church Avenue, Suite 1900
Tucson, Arizona 85701

If to the County: Director, Pima County facilities Management
150 W. Congress Street, 5th Floor
Tucson, Arizona 85701

L. **Conflict of Interest.** This Agreement is subject to and may be cancelled in accordance with the provisions of A.R.S. § 38-511.

**SIGNATURES APPEAR ON THE FOLLOWING PAGES**
This Ground Lease and Option Agreement is dated as of the date first above written.

**DISTRICT:**

RIÓ NUEVO MULTIPURPOSE FACILITIES DISTRICT

By: ___________________________

Its: Chairman

By: ___________________________

Its: Secretary

**COUNTY:**

PIMA COUNTY, ARIZONA

By: ___________________________

Chair of the Board of Supervisors

ATTEND:

________________________________

Clerk of the Board of Supervisors

**APPROVED AS TO CONTENT:**

By: ___________________________

Director, Facilities Management Department
APPROVED AS TO FORM:

By:______________________

Deputy County Attorney
EXHIBIT A

(TO GROUND LEASE AND OPTION AGREEMENT)

(LEGAL DESCRIPTION OF THE PREMISES)
EXHIBIT B

(TO PURCHASE AND SALE AGREEMENT)

(MEMORANDUM OF GROUND LEASE AND OPTION)

When recorded, return to:

Mark Collins, Esq.,

Gust Rosenfeld P.L.C.

One South Church Avenue, Suite 1900

Tucson, Arizona 85701

MEMORANDUM OF GROUND LEASE AND OPTION AGREEMENT

THIS MEMORANDUM OF GROUND LEASE AND OPTION AGREEMENT is entered into this ___ day of __________, 201__, by and between Pima County, a political subdivision of the State of Arizona ("County"), and Rio Nuevo Multipurpose Facilities District, a special taxing district of the State of Arizona ("District").

County and District have entered into an unrecorded Ground Lease and Option Agreement dated _______ ___, 201__ (the "Lease") whereby County has (i) leased to District all of the tract of land located in Tucson, Arizona, which is more fully described on Exhibit A attached hereto, and all rights, alleys, ways, privileges, appurtenances and advantages appurtenances and advantages, to the same belonging or in any way appertaining ("Property") for a term of 20
years, and (ii) granted to District an option to purchase the Property at any time for the term of the Lease on the terms more fully described therein.

A copy of the Lease and Option Agreement is available for person having a legitimate interest in the Property at the following address:

Rio Nuevo Multipurpose Facilities District
400 West Congress, Suite 152
Tucson, Arizona 85701

This Memorandum of Ground Lease and Option Agreement is dated as of the date first above written.

SIGNATURES APPEARS ON THE FOLLOWING PAGES
DISTRICT:
RIO NUEVO MULTIPURPOSE FACILITIES DISTRICT

By: ____________________________
Its: Chairman

By: ____________________________
Its: Secretary

STATE OF ARIZONA )
) ss.
COUNTY OF PIMA )

I HEREBY CERTIFY that on this __ day of__________, 20__, before me, a Notary Public for the state aforesaid, personally appeared Fletcher McClusker, known to me or satisfactorily proven to be the person whose name is subscribed to the foregoing Memorandum of Lease and Option Agreement, who acknowledged that he is the Chairman of the Board of Directors for Rio Nuevo Multipurpose Facilities District and that he has been duly authorized to execute, and has executed, such instrument on its behalf for the purposes therein set forth.
Notary Public

My commission expires on ________

STATE OF ARIZONA )

) ss.

COUNTY OF PIMA )

I HEREBY CERTIFY that on this ___ day of __________, 201_, before me, a Notary Public for the state aforesaid, personally appeared Fletcher McClusker, known to me or satisfactorily proven to be the person whose name is subscribed to the foregoing Memorandum of Lease and Option Agreement, who acknowledged that he is the Chairman of the Board of Directors for Rio Nuevo Multipurpose Facilities District and that he has been duly authorized to execute, and has executed, such instrument on its behalf for the purposes therein set forth.

Notary Public

My commission expires on ________
COUNTY:

PIMA COUNTY, ARIZONA

By: ____________________________

Chair of the Board of Supervisors

STATE OF ARIZONA

) ss.

COUNTY OF PIMA

I HEREBY CERTIFY that on this ___ day of __________, 2016, before me, a Notary Public for the state aforesaid, personally appeared ______________, known to me or satisfactorily proven to be the person whose name is subscribed to the foregoing Memorandum of Lease and Option Agreement, who acknowledged that he/she is the Chairperson of the Pima County Board of Supervisors and that he/she has been duly authorized to execute, and has executed, such instrument on its behalf for the purposes therein set forth.

__________________________
Notary Public

My commission expires on _______