



Board of Supervisors Memorandum

November 10, 2015

Sam Lena-South Tucson Library Building Acquisition

Background

The Pima County Public Library (PCPL), and previously the Tucson (Pima) Public Library, has leased space for a branch library located at 1607 S. Sixth Avenue in South Tucson since 1986. Prior to 1986, PCPL delivered services from a mobile trailer and/or bookmobile with stops every two to three weeks.

The Sam Lena-South Tucson Library building has been remodeled and expanded over time through a combination of City and County funds. More recently, interior spaces have been improved with funding from the Pima County Library District. Today, the Library occupies 9,500 square feet of space and serves a population of 5,600 South Tucson residents, as well as others living in the vicinity of South Tucson. This is the only PCPL library located within the City of South Tucson.

Information regarding gate count and operating expenses for this library location is Attachment 1 to this memorandum. A review of this information shows the Sam Lena-South Tucson branch ranks 17th in operating cost at \$609,855. The most costly branch library to operate is Woods at \$1,312,947, followed by the Nannini branch at \$1,245,763. The Murphy-Wilmot branch costs \$1,128,702 to operate and the Oro Valley branch \$1,113,571.

Gate count information indicates the Sam Lena-South Tucson branch ranks 18th, with the Valencia Branch having the highest gate count outside of the Main Library. Woods has the 3rd highest gate count while being the most costly to operate. The Nannini branch, with the 3rd highest operating cost, is 13th in gate count. The Oro Valley branch has the 5th highest operating cost and ranks 10th in gate count.

The current lease with the City of South Tucson expired on April 30, 2015 (Attachment 2). Former South Tucson City Manager Benny Young and Former Deputy County Administrator Hank Atha initiated discussions on the terms of the lease in April 2015; and according to the terms of the lease, the Library has continued to operate on a month-to-month lease.

At that same time, South Tucson was requesting an increase in the lease rate to something more than \$98,788.80 annually for 9,500 square feet of space. As a result of these discussions, it was agreed that two appraisals would be conducted; one to determine the market rental rate and one for an "as is" market value for purchase. The July 8, 2015 appraisal (Attachment 3) indicates the appraised "as is" market rent is \$63,357 per year, which is substantially below the present rate of \$98,778.80 in the expired lease. The appraised "as is" market value for the real estate is \$450,000.

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Sam Lena-South Tucson Library Building Acquisition**
November 10, 2015
Page 2

The City of South Tucson prefers to sell the Sam Lena Library to the County or Library District for its appraised value and reduce South Tucson's General Fund debt to the County in proportion to the library building's value. Such is a benefit to the County, as it results in an acquisition that is significantly below the present lease rate paid by the County and allows the City of South Tucson a viable method to reduce its debt to the County. I have directed this transaction be processed through staff and presented to the Board of Supervisors when all due diligence has been completed and the necessary documentation prepared.

Supervisor Ally Miller has asked this item be placed on the November 10, 2015 Board of Supervisors Agenda for discussion. This is the reason the Board is receiving this memorandum at this time.

The option offered by the City of South Tucson is the best scenario for all involved, since occasionally, due to South Tucson's financial difficulties, they have been unable to pay some past County services costs. It is also beneficial to the County to own the Sam Lena-South Tucson Library.

Also attached for the Board's information and review is correspondence between the County and South Tucson regarding this matter (Attachment 4).

Recommendation

I recommend the Board of Supervisors approve the purchase of the Sam Lena-South Tucson Library building located at 1607 S. Sixth Avenue at the appraised value of \$450,000 and direct staff to prepare the documents necessary to complete the purchase.

Respectfully submitted,



C.H. Huckelberry
County Administrator

CHH/mjk – October 28, 2015

Attachments

- 1: FY 2015/16 Branch Library Operating Expenses; FY 2014/15 Branch Library Gate Counts
- 2: Third Amendment to the Sam Lena Library Lease
- 3: July 8, 2015 Appraisal Prepared by Valbridge Property Advisors
- 4: Correspondence between Pima County and South Tucson Regarding the Sam Lena Library

c: Nanette Slusser, Assistant County Administrator for Public Works Policy
Melinda Cervantes, Director, Library District
Neil Konigsberg, Manager, Real Property Services

ATTACHMENT 1

Operating Expenses for PCPL Libraries FY 2015-2016

Location	AnnualBudget
Joel D. Valdez Main Library	3,571,374
Woods Memorial Branch Library	1,312,947
Nanini Branch Library	1,245,763
Murphy-Wilmot Branch Library	1,128,702
Oro Valley Branch Library	1,113,571
Valencia Branch Library	1,076,106
Miller-Golf Links Branch Library	992,748
Wheeler Taft Abbett Sr. Branch Library	952,232
Kirk-Bear Canyon Branch Library	906,104
Joyner-Green Valley Branch Library	899,634
Eckstrom-Columbus Branch Library	894,451
Mission Branch Library	774,582
Quincie Douglas Branch Library	752,741
Dusenberry-River Branch Library	733,587
Himmel Park Branch Library	712,546
Martha Cooper Branch Library	681,244
Sam Lena - South Tucson Branch Library	609,855
Flowing Wells Branch Library	588,090
Santa Rosa Branch Library	371,754
Salazar-Ajo Branch Library	342,918
El Pueblo Branch Library	288,364
Southwest Branch Library	287,231
Dewhirst-Catalina Branch Library	274,175
Sahuarita Branch Library	243,549
El Rio Branch Library	204,950
Caviglia-Arivaca Branch Library	178,552
Geasa-Marana Branch Library	173,415

**Figures used in this chart do not include the cost of books and materials, IT or County Overhead*

PCPL Gate Count FY 2014-2015 (high to low)

Location	Annual Gate Count
Joel D. Valdez Main Library	670,772
Valencia Branch Library	404,454
Woods Memorial Branch Library	396,751
Murphy-Wilmot Branch Library	326,347
Eckstrom-Columbus Branch Library	311,475
Flowing Wells Branch Library	305,295
Joyner-Green Valley Branch Library	283,929
Wheeler Taft Abbett Sr. Branch Library	267,156
Kirk-Bear Canyon Branch Library	256,941
Oro Valley Branch Library	246,324
Dusenberry-River Branch Library	243,422
Miller-Golf Links Branch Library	241,266
Nanini Branch Library	231,506
Himmel Park Branch Library	211,988
Quincie Douglas Branch Library	206,185
Mission Branch Library	163,898
Martha Cooper Branch Library	150,336
Sam Lena - South Tucson Branch Library	138,171
El Pueblo Branch Library	125,384
Santa Rosa Branch Library	75,374
Salazar-Ajo Branch Library	59,008
Southwest Branch Library	56,179
Dewhirst-Catalina Branch Library	50,833
Sahuarita Branch Library	45,238
Geasa-Marana Branch Library	36,126
El Rio Branch Library	30,616
Caviglia-Arivaca Branch Library	29,653

ATTACHMENT 2

**THIRD AMENDMENT
PIMA COUNTY FREE LIBRARY DISTRICT
SAM LENA LIBRARY LEASE/THE CITY OF SOUTH TUCSON
CONTRACT # 01-30-S-107961-0986**

CONTRACT
NO. 01-30-S-107961-0986
AMENDMENT NO. 03
<small>This number must appear on all invoices, correspondence and documents pertaining to this contract.</small>

This THIRD AMENDMENT is made and entered into by and between the CITY OF SOUTH TUCSON, an Arizona municipal corporation (hereinafter called "Lessor"), and PIMA COUNTY LIBRARY DISTRICT, a political subdivision of the State of Arizona (hereinafter called "Lessee").

WITNESSETH

WHEREAS, Lessor and Lessee entered into that certain Lease of Real Property, dated effective September 1, 1986 (the "Lease"), which included an annual automatic renewal clause;

WHEREAS, Lessor and Lessee amended the Lease pursuant to that certain First Amendment dated January 16, 1996, to terminate the annual renewal clause and establish a lease term of ten (10) years commencing May 1, 1995, and ending April 30, 2005, with a ten-year renewal option;

WHEREAS, Lessor and Lessee amended the Lease again pursuant to that certain Second Amendment executed by Lessee on November 12, 2002, to increase the usable building space by 5,196 square feet and the annual rental rate to Eighty Nine Thousand Eight Hundred Eight and 00/100 Dollars (\$89,808.00):

WHEREAS, the parties have determined that it is in their best interests to extend the term of the Lease for an additional ten (10) year period as provided for in section 2 of the first Amendment;

NOW, THEREFORE, it is agreed as follows:

1. **Term.** Lessee hereby exercises its right to extend the term of the Lease for an additional ten (10) years commencing May 1, 2005 and terminating April 30, 2015.
2. **Rent.** The annual rental amount due under the Lease shall, commencing May 1, 2005, increase to \$98,788.80. Payments by Lessee under the Lease shall not exceed \$987,888.00 during this extension period (May 1, 2005 to April 30, 2015).
3. **Survival.** All other terms, conditions and covenants of the Lease and subsequent Amendments not amended herein shall continue in full force and effect and in accordance with their terms.

THE REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK.

This is an Official Copy of the Pima County contract executed and on file with Pima County.

LESSEE:

PIMA COUNTY LIBRARY DISTRICT

BY: 
CHAIR, LIBRARY DISTRICT
BOARD

MAY 3 2005

ATTEST:

BY: 
CLERK of BOARD OF SUPERVISORS

APPROVED AS TO FORM:

BY: 
DEPUTY PIMA COUNTY ATTORNEY

DATE: 3-9-2005

APPROVED AS TO CONTENT:

BY: 
M. A. TUINSTRA, DIRECTOR
FACILITIES MANAGEMENT

DATE: 3-10-05

BY: 
MIKE HEINS, DIRECTOR
LIBRARY DISTRICT

DATE: 3/18/05

LESSOR:

CITY OF SOUTH TUCSON, ARIZONA

BY: 

TITLE: Mayor

DATE: 04/11/05

This is an Official Copy of the Pima County contract executed and on file with Pima County.

ATTACHMENT 3



Valbridge
PROPERTY ADVISORS

Appraisal Report

Sam Lena Library
1601 S 6th Avenue
South Tucson, Pima County, Arizona 85713



FOR
Pima County Real Property Services
Mr. Douglas M. Laney, MAI
201 N Stone Avenue, Floor 6
Tucson, AZ 85701

**Valbridge Property Advisors |
MJN Enterprises, Inc.**
6061 East Grant Road
Tucson, AZ 85712
520.321.0000
520.590.5293 fax

valbridge.com

Valbridge Job No.:
AZ01-15-SP-080



6061 E. Grant Road
Suite 121
Tucson, AZ 85712
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valbridge.com

July 8, 2015

Mr. Douglas M. Laney, MAI
Pima County Real Property Services
201 N Stone Avenue, Floor 6
Tucson, AZ 85701

RE: Appraisal Report
Sam Lena Library
1601 S 6th Avenue
South Tucson, Pima County, Arizona 85713
Valbridge | MJN Job # AZ01-15-SP-080

Dear Mr. Laney:

At your request, I have appraised the above-referenced property. This appraisal report sets forth the most pertinent data gathered, the techniques employed, and the reasoning leading to my value opinions.

The subject property is currently utilized as a public library and is part of the South Tucson Municipal Complex. For this assignment, I have been asked to determine the market value and the market rental rate for the property assuming that it was legally separated from the larger municipal complex property. Per the information provided by the client, I have assumed that the property has a gross building area of 9,051 and that the site comprises 19,700 square feet. The assumed terms of the lease have also been stipulated by the client. To my knowledge, the property is not currently listed for sale or pending; however, Pima County reportedly is investigating the purchase or lease of the property from the City of South Tucson.

I developed my analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) and the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute.

Pima County Real Property Services is the client in this assignment. The intended use is for decisions related to a potential acquisition or lease of the property. The intended user of the report is the client. The value opinion reported herein is subject to the definitions, assumptions and limiting conditions, and certification contained in this report.

The following extraordinary assumptions apply in this report:

- 1. The site and building areas provided by Pima County Facilities Management that are stated in this report are assumed to be accurate.**
- 2. The appraisal assumes that the property would have grandfathered rights allowing all legally permissible uses under the zoning code that do not require more parking spaces than the current use as a library.**
- 3. The assumed lease terms stipulated by the client reflected the following conditions: 1) tenant pays for insurance, utilities, janitorial, repairs and maintenance of the interior and exterior of the building, including roofing and HVAC; 2) landlord (South Tucson) pays for common area maintenance, consisting of the parking lot and landscaping; 3) real estate taxes will be zero since this is a government-owned facility; 4) The tenant will be responsible for roof replacement and exterior building repairs that are estimated to cost \$65,800.**

The following hypothetical conditions apply in this report:

- 1. The appraisal assumed that the subject site has been legally split from the larger South Tucson Municipal Complex parcel as described in this report and is provided with a legal means of access to and from 6th Avenue and the non-exclusive right to utilize parking within the South Tucson Municipal Complex.**

Based on my investigation and the analyses summarized in the attached appraisal report, I concluded the following:

MARKET VALUE – “AS IS”, FEE SIMPLE INTEREST (REAL ESTATE ONLY)
AS OF JUNE 25, 2015 \$450,000

MARKET RENT – “AS IS”, (PER STIPULATED TERMS)
AS OF JUNE 25, 2015 \$63,357 PER YEAR

This letter of transmittal is not valid if separated from this report and must be accompanied by all of its sections.

Respectfully submitted,
Valbridge Property Advisors |
MJN Enterprises, Inc.



Craig Johnson, MAI
Certified General Real Estate Appraiser
State of Arizona Certificate No. 30236
cjohnson@valbridge.com

Table of Contents

Table of Contents	i
Summary of Salient Facts	1
Introduction.....	3
Client and Intended Users of the Appraisal	3
Intended Use of the Appraisal.....	3
Real Estate Identification	3
Legal Description	3
Real Property Interest Appraised	3
Personal Property Identification	3
Definition of Market Value.....	3
Effective Dates of Value	4
Date of Report	4
Scope of Work	4
Use of Real Estate as of the Effective Date of Value.....	5
Ownership and Sales History	5
List of Items Requested but Not Provided	5
Extraordinary Assumptions.....	5
Hypothetical Conditions	6
Prior Appraisal	6
Market Area Data	7
Overview	7
Population	7
Employment.....	8
Unemployment.....	9
Forecasts	9
Commercial Real Estate.....	10
Conclusions.....	10
Property Analysis.....	14
Strengths and Weaknesses.....	24
Market Position and Conclusions.....	24
Highest and Best Use	25
Most Probable Purchaser Of Subject Property	25

Subject Photographs.....	26
Sales Comparison Approach.....	31
Adjustments to Comparable Sales.....	48
Determination of Market Rent.....	52
Market Rent Analysis.....	52
General Assumptions and Limiting Conditions.....	61
Certification.....	66
Addenda.....	68

Summary of Salient Facts

Property Name:	Sam Lena Library
Address:	1601 S 6th Avenue, South Tucson, Pima County, Arizona 85713
Assessor's Parcel Number:	118-18-041A
Property Rights Appraised:	Fee Simple
Property Type:	Special Purpose, Public Library
Site Size:	0.452 acres (19,700 square feet)
Existing Improvements	
Building Area:	9,051 SF
Year Built:	1986 and 2000
Condition:	Fair
Current Status:	The property is currently utilized as a public library branch and is part of the Pima County Public Library system. It is presently part of the South Tucson Municipal Complex, which is owned by the City of South Tucson. To my knowledge, the property is not currently listed for sale or pending; however, Pima County reportedly is investigating the purchase or lease of the property from the City of South Tucson. I have not been provided with any information related to the possible sale price or rental rate.
Important Issues:	For this assignment, I have been asked to determine the market value and the market rental rate for the property assuming that it was legally separated from the larger municipal complex property.
Extraordinary Assumptions:	1) The site and building areas provided by Pima County Facilities Management that are stated in this report are assumed to be accurate. 2) The appraisal assumes that the property would have grandfathered rights allowing all legally permissible uses under the zoning code that do not require more parking spaces than the current use as a library. 3) The assumed lease terms stipulated by the client reflected the following conditions: 1)

tenant pays for insurance, utilities, janitorial, repairs and maintenance of the interior and exterior of the building, including roofing and HVAC; 2) landlord (South Tucson) pays for common area maintenance, consisting of the parking lot and landscaping; 3) real estate taxes will be zero since this is a government-owned facility; 4) The tenant will be responsible for roof replacement and exterior building repairs that are estimated to cost \$65,800.

Hypothetical Conditions:

1) The appraisal assumed that the subject site has been legally split from the larger South Tucson Municipal Complex parcel as described in this report and is provided with a legal means of access to and from 6th Avenue and the non-exclusive right to utilize parking within the South Tucson Municipal Complex.

Highest and Best Use

Commercial use, most likely for office, educational or religious use.

Date of Inspection:

June 25, 2015

Date of Report:

July 8, 2015

APPRAISAL CONCLUSIONS

MARKET VALUE – “AS IS”, FEE SIMPLE INTEREST (REAL ESTATE ONLY)

AS OF JUNE 25, 2015 \$450,000

MARKET RENT – “AS IS”, (PER STIPULATED TERMS)

AS OF JUNE 25, 2015 \$63,357 PER YEAR

Introduction

Client and Intended Users of the Appraisal

The client in this assignment is Pima County Real Property Services. The intended user of this report is Pima County Real Property Services.

Intended Use of the Appraisal

The intended use of this report is for decisions related to a potential acquisition or lease of the property.

Real Estate Identification

The subject property is a public library branch facility located at 1601 S 6th Avenue, South Tucson, Arizona, 85713.

The Pima County Assessor identifies the subject property as Assessor Parcel Number (APN) 118-18-041A; however, this is a larger parcel that includes the entire South Tucson Municipal Complex.

Legal Description

A legal description has not been provided for this assignment. I have relied on the following general description provided by Gary A. Campbell, RA, Asset Management & Planning Division Manager, with Pima County Facilities Management.

Start at NW property corner, south on west PL south to point even with the south wall of the library, east to a point even with the projected west wall of the municipal complex (MC), north to MC building corner, west to a point approximately 6 feet beyond east wall of library, north to PL, west to point of beginning.

Real Property Interest Appraised

The appraisal has addressed the fee simple interest.

Personal Property Identification

No personal property (FF&E) has been included in the concluded opinion of value.

Definition of Market Value

Market value is the most probable price that a specified interest in real property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- a) buyer and seller are typically motivated;
- b) both parties are well informed or well advised, and each acting in what they consider their own best interest;

- c) a reasonable time is allowed for exposure to the open market;
 - d) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
 - e) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
- 12 CFR 34.42(g) (2012).

The definition of market value set forth above is utilized for most federally-related transactions but is considered to be appropriate for general use as well, including this appraisal of the subject property. Use of an alternate definition of market value would not change the results of this appraisal as long as the general terms and conditions were similar.

Effective Dates of Value

The effective dates of value are as follows:

Valuation Scenarios	Effective Date of Value
Market Value As Is, Fee Simple	June 25, 2015
Market Rental Rate *	June 25, 2015

* assuming general terms specified by client

The date of inspection was June 25, 2015.

Date of Report

The date of this report is July 8, 2015, the date of the letter of transmittal.

Scope of Work

Real estate appraisal involves the following steps:

- Identify the property
- Inspect the property
- Research subject and comparable data
- Analyze data
- Report conclusions

The subject could not be legally identified since no legal description was available. I have relied on a general description provided by the client.

The subject was physically identified via review of the recorded plat map any my inspection of the property and the available floor plan and partial site plan.

I completed a typical appraisal field inspection but did not measure the building. I have relied on the building area provided by the client. I am not an engineer or a zoning inspector. An appraisal inspection is not a structural inspection of the improvements for soundness or conformity with applicable codes.

Economic characteristics of the subject property were identified via data provided by client, owner, or owner's representative; interviews with brokers, buyers, sellers and governmental agencies; and secondary sources, such as STDBOnline, CoStar COMPS and Property Professional, and data published by governmental entities such as the Arizona Department of Economic Security and the U.S. Census Department.

I researched and analyzed: 1) market area data, 2) property-specific data, 3) zoning and land-use data, and 4) current data on comparable sales, rentals and listings in the competitive market area.

Based on the subject inspection and data research, I concluded a highest and best use and valued the subject based on this conclusion. The three approaches to value, cost approach, sales comparison approach and the income capitalization approach, were considered as they relate to the valuation of the subject property. I applied the sales comparison approach since it provided the most reliable results of the three approaches. The exclusion of the cost and income approaches did not reduce the overall reliability of the appraisal. The opinion of market rent was based on comparison of leases for properties deemed most similar to the subject property.

Use of Real Estate as of the Effective Date of Value

As of the date of value, the subject property was being utilized as a public library branch facility.

Ownership and Sales History

Title to the property is currently vested in the City of South Tucson. There have been no sales of the property over the past three years.

Pima County is reportedly investigating the purchase or lease of the property from the City of South Tucson. I have not been provided with any information related to the possible sale price or rental rate.

List of Items Requested but Not Provided

- **None**

Extraordinary Assumptions

- 1) The site and building areas provided by Pima County Facilities Management that are stated in this report are assumed to be accurate.**
- 2) The appraisal assumes that the property would have grandfathered rights allowing all legally permissible uses under the zoning code that do not require more parking spaces than the current use as a library.**
- 3) The assumed lease terms stipulated by the client reflected the following conditions: 1) tenant pays for insurance, utilities, janitorial, repairs and maintenance of the interior and exterior of the building, including roofing and HVAC; 2) landlord (South Tucson) pays for common area maintenance, consisting of the parking lot and landscaping; 3) real estate taxes will be zero since this is a government-owned facility.**

Hypothetical Conditions

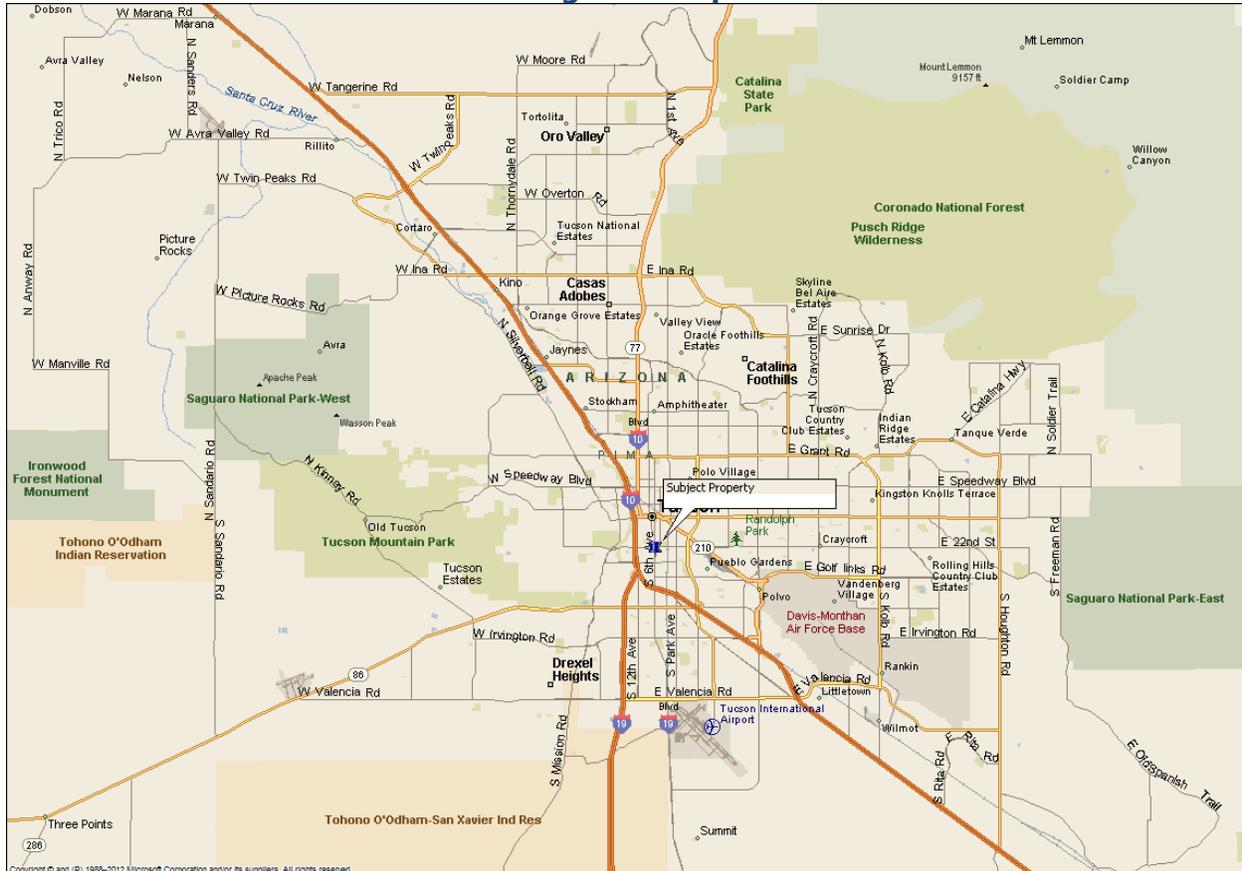
- 1) The appraisal assumed that the subject site has been legally split from the larger South Tucson Municipal Complex parcel as described in this report and is provided with a legal means of access to and from 6th Avenue and the non-exclusive right to utilize parking within the South Tucson Municipal Complex.**

Prior Appraisal

I have not appraised the subject property within the past three years nor have I been provided with any prior appraisals.

Market Area Data

Regional Map



Overview

Tucson is in south-central Arizona, about 100 miles southeast of Phoenix and 60 miles north of the Mexican border. Tucson is the second largest metropolitan area in Arizona. The metropolitan area includes the incorporated communities of South Tucson, Oro Valley, Marana, and Sahuarita, plus the surrounding unincorporated areas of Pima County.

Population

Mid-year 2015 population in metro Tucson is projected at 1,018,100, which reflects a 1.1% increase over the prior year. Similar growth is projected for 2016, with increased growth rates in 2017 and 2018.

Metropolitan Tucson Population Forecasts

	2013	2014	2015	2016	2017	2018
Population (000s, mid-year)	996.0	1,007.2	1,015.4	1,025.0	1,038.2	1,052.7
Change (000s)	5.6	11.2	8.2	9.6	13.2	14.5
% Change	0.6%	1.1%	0.8%	0.9%	1.3%	1.4%

Source: Arizona's Economy May 2015, Eller College of Management, The University of Arizona

Employment

The regional economy is primarily driven by tax-supported entities, including military bases, the University of Arizona, state and local governments, and the school districts. Most of these sectors have posted moderate levels of growth over the past decade. The military, which includes the U.S. Army Intelligence Center at Fort Huachuca in Sierra Vista (80 miles southeast of Tucson) and Davis Monthan Air Force Base in Tucson, employs nearly 15,000 in Southern Arizona. Raytheon Missile Systems, a defense contractor, is the largest private employer in the area and has maintained relatively stable employment over the past 20+ years. The government budget cuts for defense spending may affect employment in the military and defense related industries over the near term. Employment by industry for the MSA is as follows.

Top 10 Southern Arizona Employers

Name	Full Time Jobs	Change Past Year	Industry
University of Arizona	11,235	118	Education
Ratheon Missile Systems	9,600	-333	Manufacturing
State of Arizona	8,524	-915	Government
Davis-Monthan Air Force Base	8,335	54	Military
Tucson Unified School District	7,134	609	Education
Pima County	7,023	-305	Government
Banner-University Medical Center	6,542	213	Health Care
U.S. Customs and Boarder Protection	6,470	N/A	Government
Freeport-McMoRan, Inc.	5,800	200	Mining
Walmart	5,400	200	Retail

Source: Arizona Daily Star 4/26/2015

Davis Monthan Air Force Base's economic impact in 2014 was \$974 million. The total payroll was \$542 million. Local retiree pay was \$513.5 million. Employment was 9,934, including all contractors with 4,216 indirect jobs created according to statistics from Davis Monthan Air Force Base.

Metropolitan Tucson Nonfarm Employment

Year Ending Sector	2011		2012		2013		2014	
	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total
Natural Resources & Mining	2.0	0.6%	2.1	0.6%	2.2	0.6%	2.4	0.7%
Construction	14.0	3.9%	15.0	4.2%	14.0	3.9%	15.5	4.3%
Manufacturing	23.4	6.5%	23.2	6.4%	23.1	6.4%	22.9	6.4%
Trade, Transp. & Utilities	60.3	16.8%	59.7	16.6%	61.4	17.1%	61.5	17.1%
Information	4.3	1.2%	4.3	1.2%	4.0	1.1%	4.3	1.2%
Financial Activities	18.9	5.3%	19.2	5.3%	20.0	5.6%	17.7	4.9%
Professional & Business Svcs	49.0	13.6%	48.8	13.6%	48.4	13.4%	50.7	14.1%
Education & Health Services	61.1	17.0%	61.3	17.0%	61.5	17.1%	67.0	18.6%
Leisure & Hospitality	39.6	11.0%	41.7	11.6%	42.1	11.7%	42.1	11.7%
Other Services	12.5	3.5%	12.4	3.4%	12.2	3.4%	12.5	3.5%
Government	78.3	21.8%	81.7	22.7%	80.9	22.5%	79.0	22.0%
TOTAL NONFARM	363.4	100%	369.4	100%	369.8	100%	375.6	100%

Source: Arizona Office of Employment and Population Statistics * (000s)

Unemployment

The unemployment rate increased dramatically over 2008 and 2009 as a result of overall economic conditions, but has declined since 2011. Unemployment rates in Tucson have historically been below the national and state averages, as dependence on governmental and tax-supported employment has historically insulated the region from national recessionary trends.

Average Unemployment Rate

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
National	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	5.6%
Arizona	4.7%	4.1%	3.7%	6.0%	9.8%	10.4%	9.4%	8.3%	8.0%	6.7%
Metro Tucson	4.5%	3.9%	3.6%	5.7%	9.0%	9.4%	8.3%	7.4%	7.0%	5.9%

Source: Arizona Office of Employment and Population Statistics & Bureau of Labor Statistics

Notes: Not seasonally adjusted.

Forecasts

The projections suggest continuation of the continuation of modest recovery in 2015 followed by a trend of increasing growth and stabilization in 2016, 2017 and 2018.

Metropolitan Tucson Economic Forecasts

Category	2013	2014	2015	2016	2017	2018
Personal Income (\$mill)	\$ 36,935.4	\$ 38,026.2	\$ 39,051.5	\$ 40,488.8	\$ 42,636.6	\$ 44,966.8
% Change	2.4%	3.0%	2.7%	3.7%	5.3%	5.5%
Retail Sales (\$mill)	\$ 12,378.4	\$ 12,573.5	\$ 12,571.5	\$ 13,159.7	\$ 13,767.4	\$ 14,435.5
% Change	2.6%	1.6%	0.0%	4.7%	4.6%	4.9%
Employment (non-farm,000s)	363.1	365.0	368.4	373.6	379.9	386.4
Change (000s)	4.3	1.9	3.4	5.2	6.3	6.5
% Change	1.2%	0.5%	0.9%	1.4%	1.7%	1.7%
Residential Permits	3,491.0	3,279.0	3,329.3	3,844.2	4,535.8	4,818.9
% Change	22.9%	-6.1%	1.5%	15.5%	18.0%	6.2%

Source: Arizona's Economy May 2015, Eller College of Management, The University of Arizona

Commercial Real Estate

Commercial real estate in Tucson has struggled in most sectors over the past few years. The retail and industrial sectors are now in moderate recoveries, while the office sector remains in a persistent recession. Some retail development has emerged at prime locations, but there is minimal demand for new industrial construction, while the office sector appears overbuilt for at least several years.

Metro Tucson Commercial Sectors - 2015

Sector	No. Buildings	Total Sq. Ft.	YTD Deliveries	Under Construction	Vacancy	YTD Absorption	Quoted Rent
Industrial	2,507	40,383,426	0	270,000	10.1%	270,292	\$6.50/NNN
Office	2,457	24,362,675	37,179	30,711	12.8%	(6,351)	\$18.57/FS
Retail	5,221	50,480,946	18,764	373,050	6.7%	28,580	\$14.45/NNN

Source: CoStar: 1st Quarter 2015 data

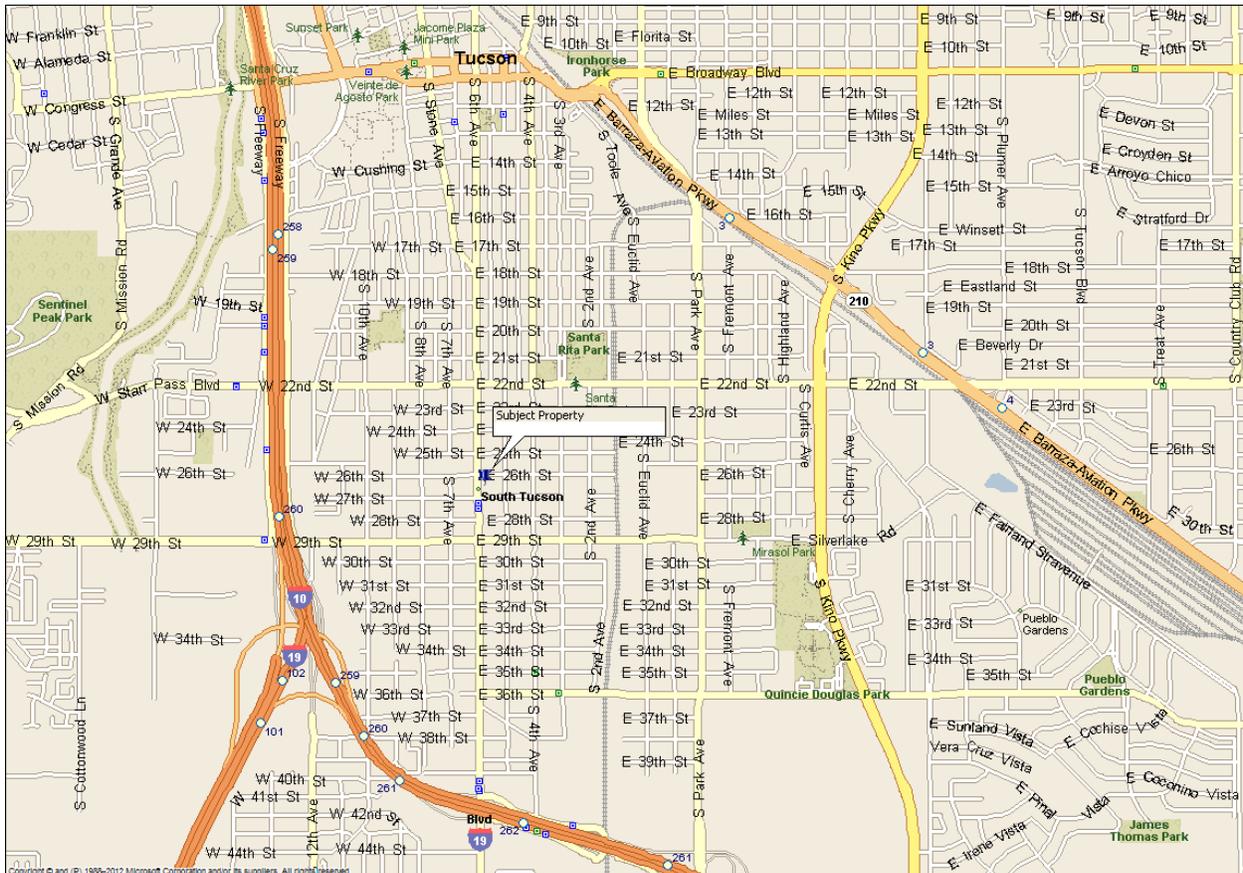
Conclusions

The national and local economies began to show signs of stabilization and modest growth in 2012 and this has continued through 2014. Slightly stronger growth is projected for 2015 with more significant improvement projected from 2016 through 2018, with annual employment growth in the 1.4% to 1.7% range. This should positively impact all residential and commercial real estate markets. Economists do not generally predict strong economic growth until at least 2017 and a full recovery of lost jobs is not expected until 2018.

Neighborhood Trends

The subject is located within an established neighborhood in the south central sector of the metropolitan Tucson area, within the jurisdiction of the City of South Tucson. The immediate area, which is generally bounded by 22nd Street on the north, I-10 on the west and south and Kino Parkway on the east, includes a mixture of residential, commercial and industrial uses.

NEIGHBORHOOD MAP



In terms of residential uses, the area includes single-family and multifamily properties that were generally constructed prior to the 1960s and reflect low-to-moderate pricing relative to the metro area norms. There has been no significant new residential development in the area for over three decades.

Commercial uses are typically located along 6th Avenue and 22nd Street, with 4th Avenue functioning as a secondary arterial for the area. There are no regional retail facilities in the core area of the neighborhood, although a Food-City anchored shopping center was developed along 6th Avenue in 2000 and includes some national tenants. 4th Avenue is characterized by mixed development that includes restaurants, smaller strip retail centers and automotive service uses. Tucson Marketplace at the Bridges is a new regional facility under development at I-10 and Kino Parkway, at the southeast corner of the neighborhood. This facility is anchored by Walmart and Costco.

Industrial uses are clustered in the southeast quadrant of the neighborhood, generally to the south of 36th Street. An additional industrial node is found along Euclid Avenue, just to the south of 22nd Street. This node includes single and multi-tenant facilities that were typically developed from the 1960s through the mid-1980s.

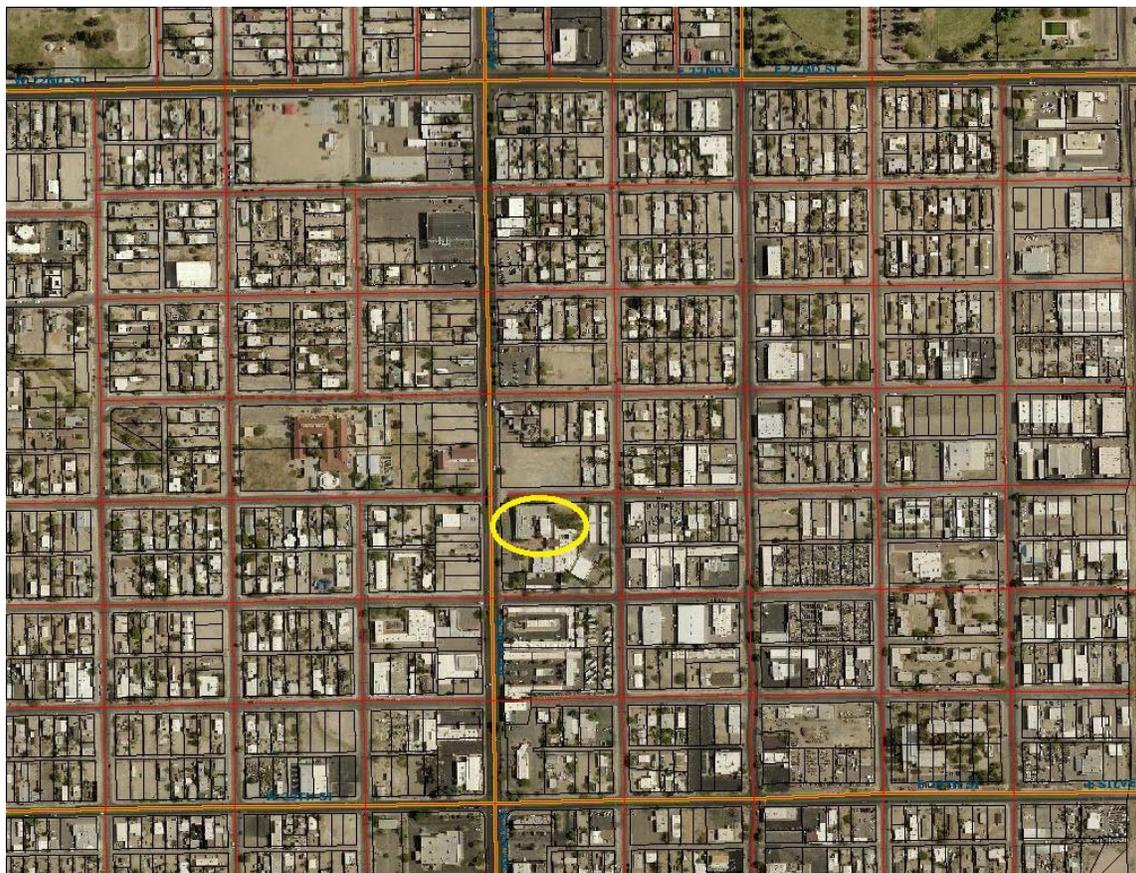
The neighborhood does not include any well-established office nodes. Most office uses are found in or adjacent to retail corridors.

The neighborhood is primarily under the jurisdiction of the City of South Tucson and is provided with all municipal services. Access to schools and parks is adequate. The City of South Tucson comprises an approximate one-square-mile area that is surrounded by the City of Tucson jurisdiction.

A demographic profile for the area is summarized on the following page. ESRI projects negative population and household for the City of South Tucson over the next five years. The population was projected to have declined by over 4% from 2010 to 2015. The area is already substantially built-out and any significant new development would likely reflect redevelopment of an older use. South Tucson includes above-average household sizes and below-average median age.

The income and housing characteristics summarized in the following table demonstrate that households in the area surrounding the subject have significantly lower income characteristics compared to the metro figures, as well as a lower percentage of home ownership. Owner-estimated home values are well below the regional median.

Aerial Photo of Area Surrounding Subject Property



Neighborhood Demographic Profile

Population	South Tucson	Tucson MSA
2010 Census	5,652	980,263
2015 Estimate	5,412	1,007,707
2020 Projection	5,309	1,033,814
Gross Population Change		
2010 - 2015	-4.2%	2.8%
2015 - 2020	-1.9%	2.6%
Average Annual Population Change		
2010 - 2015	-0.8%	0.6%
2015 - 2020	-0.4%	0.5%
Median Age (2014)	32.5	38.4
Households		
2015 Estimate	1,734	399,890
2020 Projection	1,691	410,750
Avg. New HH/Year 2015-2020	(9)	2,172
2015 - 2020 % Change	-2.5%	2.7%
Avg. Annual Change 2015 - 2020	-0.5%	0.5%
Average Household Size (2015)	2.94	2.46
Income (2015)		
Average HH Income	\$29,223	\$62,690
Median HH Income	\$19,543	\$45,786
Per Capita Income	\$10,363	\$25,315
Household Income		
\$0 - \$15,000	39.4%	15.2%
\$15,000 - \$24,999	18.9%	12.6%
\$25,000 - \$34,999	13.0%	11.7%
\$35,000 - \$49,999	13.3%	13.7%
\$50,000 - \$74,999	9.1%	17.7%
\$75,000 - \$99,999	2.4%	11.9%
\$100,000 - \$149,999	3.6%	11.3%
\$150,000 - \$199,999	0.2%	3.4%
\$200,000 +	0.2%	2.7%
Housing (2015)		
% Owner Occupied	25.6%	52.9%
% Renter Occupied	54.5%	34.9%
% Vacant	19.9%	12.1%
Median Home Value	\$81,230	\$174,094

Source: U.S. Bureau of the Census, 2010 Census of Population and Housing. ESRI forecasts for 2015 and 2020.

Property Analysis

The following description is based on my property inspection, assessor records, and information provided by the client.

Site Data

Location:	Southeast corner of 6th Avenue and 26th Street
Street Address:	1601 S 6th Avenue, South Tucson, Pima County, Arizona 85713.
Assessor Parcel Number:	118-18-041A – Larger Parcel

Adjacent Land Uses

North:	26th Street, followed by vacant land and miscellaneous commercial uses along 6th Avenue
South:	South Tucson Municipal Complex (police, fire, courts) followed by 27th Street and miscellaneous commercial uses along 6th Avenue
East:	Water retention basin and employee parking lot for South Tucson Municipal Complex, followed by 5th Avenue and mixed residential uses
West:	Commercial uses along 6th Avenue, followed by mixed residential uses

Physical Characteristics

Site Area:	19,700 square feet, or 0.452 acres (per client)
Shape:	Irregular
Topography:	Generally level
Access:	The site is currently part of the South Tucson Municipal Complex, which is bounded by 6 th Avenue on the west, 26 th Street on the north, 5 th Avenue on the east and 27 th Street on the south. Access to the subject property is effectively provided by the 6 th Avenue and 26 th Street points of access as the other points of access serve the police and fire departments. 26 th Street terminates just to the east of 6 th Avenue and does not intersect with 6 th Avenue. I have assumed that the subject property will be provided with a legal means of access from 6 th Avenue via a cross easement through the municipal complex site.

The traffic count is 15,000 to 22,000 VPD for 6th Avenue near the subject property.

Utilities: All utilities are located to the site

Site Improvements: Asphalt-paved parking lot striped for 10 spaces, concrete walkways and landscaping.

Flood Zone Data

Flood District: X

Floodplain Status: Not in 100 year flood plain

Flood Map Panel: 04019C2279L dated June 16, 2011



Aerial Photo



Assessor's Record Map

ASSESSOR'S RECORD MAP

118-18
6/25

BLOCK 6, CHATTMAN'S ADDITION

