# Appraisal Report

131.39 Acre Vacant Land Parcel
Red Hill Ranch Road
Parcels: 306-11-0020 & -0030
Within Section 17 T16S R18E
Tucson (unincorporated), Pima County, Arizona

FOR:
**Pima County Real Property Services**
Mr. Jeffrey Teplitsky
Appraisal Supervisor
201 N Stone Avenue, Floor 6
Tucson, AZ 85701

Project Name: Hufault Property – Red Hill Ranch Road
Property Owners: John R. and Cathryn C. Hufault Trust

**Valbridge Property Advisors | Tucson**

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Valbridge File Number:
AZ01-18-L-114

June 25, 2018

Mr. Jeffrey Teplitsky
Appraisal Supervisor
Pima County Real Property Services
201 N Stone Avenue, Floor 6
Tucson, AZ 85701

Appraisal Report
131.39 Acre Vacant Land Parcel
Red Hill Ranch Road
Tucson (unincorporated), Pima County, Arizona

Valbridge Property Advisors | Tucson, Job # AZ01-18-L-114
Pima County Reference: Hufault Property – Red Hill Ranch Road
Property Owner: John R. and Cathryn C. Hufault Trust

Dear Mr. Teplitsky:

In accordance with your request, I have appraised the fee simple interest in the above-referenced property. This appraisal report sets forth the pertinent data gathered, the techniques employed, and the reasoning leading to my value opinion.

The subject property is a 131.39 acre parcel of land located along Red Hill Ranch Road in Tucson (unincorported), Pima County, Arizona. More specifically, the parcel is located in Section 17, Township 16 South, Range 18 East. The subject is further identified as Assessor's Parcel Numbers (APNs) 306-11-0020 & -0030.

I developed my analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation; the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute; and the requirements of the client as we understand them.

Pima County Real Property Services is the client in this assignment. The intended users of this report are Pima County RFCD, Pima County RPS, and/or designated users. The intended use is for asset management decisions, specifically potential acquisition under the Pima County FLAP program. The value opinion reported herein is subject to the definitions, assumptions and limiting conditions, and certification contained in this report.

## Extraordinary Assumptions:

- Legal and physical access is available to the subject site.

## Hypothetical Conditions:

- None

Based on the analysis contained in the following report, my value conclusion involving the subject property is summarized as follows:

**Value Conclusion**

| | **Market Value of the Subject Parcel** |
|---|---|
| Value Type | As Is |
| Property Rights Appraised | Fee Simple |
| Date of Value | June 7, 2018 |
| **Value Conclusion** | **$300,000** |
| | **$2,283 per acre** |

This letter of transmittal is not considered valid if separated from this report, and must be accompanied by all sections of this report as outlined in the Table of Contents, in order for the value opinions set forth above to be valid.

Respectfully submitted,
Valbridge Property Advisors | Tucson

Carolyn Van Hazel, MAI
Certified General Real Estate Appraiser
State of Arizona, Certificate No. 31591
Expires December 31, 2019

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# Summary of Salient Facts

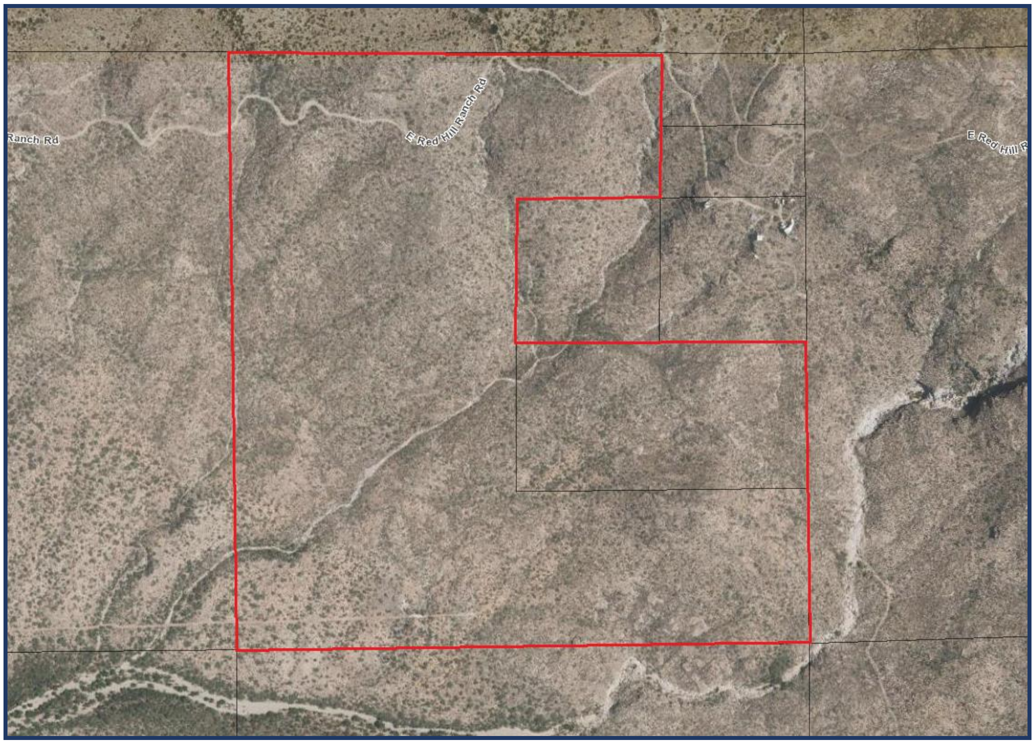
| | |
|---|---|
| Property Name: | Hufault Property – Red Hill Ranch Road |
| Address: | Red Hill Ranch Road, on the south side of the Coronado National Forest<br>Tucson (unincorporated), Pima County, Arizona 85641 |
| Assessor's Parcel Number: | 306-11-0020 & -0030 |
| Property Rights Appraised: | Fee simple interest |
| Zoning: | RH, Rural Homestead, Pima County |
| Site Size: | 131.39 acres, per Pima County Assessor |
| Property Type: | Vacant Land |
| Extraordinary Assumptions: | Legal and physical access is available to the subject site |
| Hypothetical Conditions: | None |
| Highest and Best Use<br>As Vacant: | Investment or single family residential development |
| Date of Value: | June 7, 2018 |
| Date of Report: | June 25, 2018 |

**Value Conclusion**

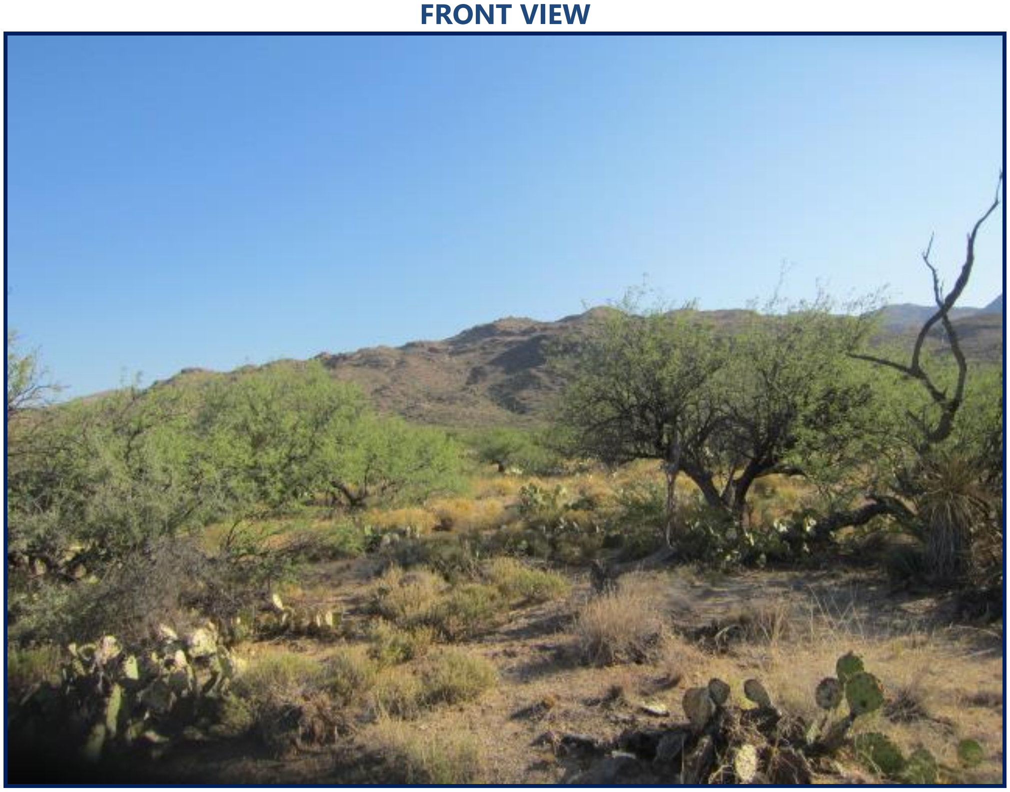
| | **Market Value of the Subject Parcel** |
|---|---|
| Value Type | As Is |
| Property Rights Appraised | Fee Simple |
| Date of Value | June 7, 2018 |
| **Value Conclusion** | **$300,000** |
| | **$2,283 per acre** |

# Aerial and Front Views

**AERIAL VIEW**




**FRONT VIEW**



# Introduction

## Client and Other Intended Users of the Appraisal

The client in this assignment is Pima County Real Property Services. The intended users of this report are Pima County RFCD, Pima County RPS, and/or other designated users.

## Intended Use of the Appraisal

The intended use of this report is for asset management decisions, specifically potential acquisition utilizing the Pima County FLAP program.

## Real Estate Identification

The subject parcel is located along Red Hill Ranch Road, on the south side of the Coronado National Forest in unincorporated Tucson, Pima County, Arizona. The Pima County Assessor identifies the property as Assessor Parcel Numbers 306-11-0020 & -0030.

## Legal Description

PARCEL 1:

The North half of the Southeast Quarter of the Northeast Quarter of Section 17 Township 16 South, Range 18 East, Gila and Salt River Meridian, Pima County, Arizona.

PARCEL 2:

The West half of the Northeast Quarter;
The Northwest Quarter of the Northeast Quarter of the Northeast Quarter;
The South half of the Southeast Quarter of the Northeast Quarter;
All of Section 17 Township 16 South, Range 18 East, Gila and Salt River Meridian, Pima County, Arizona.

## Real Property Rights Appraised

I have appraised the fee simple interest in the subject property.

## Type and Definition of Value

The following definition of market value has been utilized for the purpose of this appraisal.

### Market Value

Market value 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.

(Dictionary of Real Estate, 6th Edition, Page 141)

Please refer to the Glossary in the Addenda section for further definitions of value type(s) employed in this report.

## Valuation Scenarios and Effective Dates of Value

The effective date of value is as follows:

| Valuation | Effective Date |
|---|---|
| Market Value, Fee Simple, As Is | June 7, 2018 |

The property was inspected on June 7, 2018 together with Pima County representatives, Mr. Jeff Teplitsky and Mr. Jim Rossi, along with property owners, John and Cathy Hufault.

## Date of Report

The date of this report is June 25, 2018, which is the same as 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

These items are discussed as follows:

### Extent to Which the Property was Identified

#### Legal Characteristics

The subject parcel was legally identified via inspection of the plat map and the legal description provided within the title report.

#### Economic Characteristics

Economic characteristics of the subject property were identified via STDB demographic reports and Tucson Area MLS and CoStar market data, as well as a comparison to properties with similar locational and physical characteristics, and discussions with market participants.

#### Physical Characteristics

The subject property was physically identified via an inspection and a review of available plat maps and GIS mapping.

### Extent to Which the Property was Inspected

I inspected the subject property on June 7, 2018.

### Type and Extent of Data Researched

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

### Type and Extent of Analysis Applied

The subject is vacant land. I observed surrounding land use trends, existing zoning, demand for the subject land, and relative physical and legal limitations in concluding a highest and best use. I then valued the subject parcel utilizing the Sales Comparison Approach.

### Appraisal Report Type

This is an Appraisal Report as defined by the Uniform Standards of Professional Appraisal Practice.

### Appraisal Conformity

I developed my analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation; the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute; and the requirements of our client as we understand them.

## Use of Real Estate as of the Effective Date of Value

The subject property is a vacant land parcel.

## Use of Real Estate as of the Date of this Report

Same as above.

## Ownership and Sales History

According to the title report prepared by Stewart Title under File No. 217618, the current owner of record for the subject parcel are John R. and Cathryn C. Hufault, as Trustees of the John R. & Cathryn C. Hufault Trust dated May 24, 1995. The most recent deed was recorded June 29, 1995 in Docket Book 10075 at Page 1716. A sale price was not reported as this was a related party transaction.

CHAIN OF TITLE (30 YEAR) VESTING NOTE:

1) Deed from Jenlee, Inc., an Arizona corporation to Title Security Agency of Arizona, an Arizona corporation, as Trustee under Trust #T-553 recorded July 21, 1986 in Docket 7830, page 172;
2) Deed from Title Security Agency of Arizona, an Arizona corporation, as Trustee under Trust #T-553 to Jenlee, Inc., an Arizona corporation recorded December 6, 1988 in Docket 8427, page 1000;
3) Trustees Deed to John R. Hufault and Carol C. Hufault, husband and wife recorded May 17, 1989 in Docket 8539, page 20;
4) Deed from John R. Hufault and Carol C. Hufault, husband and wife to Christine M. Smith, a single woman recorded June 29, 1995 in Docket 10075, page 1714; (Parcel 1)
5) Deed from John R. Hufault and Carol C. Hufault, husband and wife to Christine M. Smith, a single woman recorded June 29, 1995 in Docket 10075, page 1702; (Parcel 2)
6) Deed from Christine M. Smith, a single woman to John R. Hufault and C. Cathryn Hufault, husband and wife recorded June 29, 1995 in Docket 10075, page 1716; (Parcel 1)

The subject property is not currently listed or under contract for sale. The property was listed on the market for approximately two years but the listing expired in February 2018. The listing history is difficult to follow based on MLS reports. However, reviewing the MLS data as well as discussions with the listing broker, it appears that the subject was originally listing on the market in 2016 at $268,500, or $2,044/acre. The property was listing for about one year at this price. The listing broker, Vince Watson, reported that there was some interest in the property but the lack of water and, most detrimental, the extremely rough access, discouraged most interested parties from even visiting the site. No offers were made. In 2017, the owners raised the price to $400,000, $3,044/acre and interest dropped dramatically. The property was listing for about one year at the $400,000 price and then expired in February 2018. The reader should note that the increased listing price despite a lack of interest at the original lower listing price is contrary to typical market actions.

Pima County Flood Control District is contemplating purchasing the subject property as part of the FLAP program.

We have considered and analyzed the known history of the subject in the development of our opinions and conclusions.

## List of Items Requested but Not Provided

Sufficient information was available.

## Extraordinary Assumptions

An extraordinary assumption is an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. An extraordinary assumption may impact the assignment results. An extraordinary assumption may be used in an assignment only if:

- it is required to properly develop credible opinions and conclusions;
- the appraiser has a reasonable basis for the extraordinary assumption;
- use of the extraordinary assumption results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

(USPAP, 2018 ed.)

- Legal and physical access is available to the subject site.

## Hypothetical Conditions

A hypothetical condition is a condition, directly related to a specific assignment that is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. A hypothetical condition may impact the assignment results. A hypothetical condition may be used in an assignment only if:

- use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
- use of the hypothetical condition results in a credible analysis; and
- the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.

(USPAP, 2018 ed.)

- None

# Regional and Market Area Analysis

**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 2018 population in metro Tucson is projected at 1,032,100, which reflects a 0.6% increase over the prior year. The same growth rate is projected for 2019 with a slightly higher growth of 0.7% to 0.8% per year projected for 2020, 2021 and 2022.

**Metropolitan Tucson Population Forecasts**

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| Population (000s, mid-year) | 1,013.1 | 1,026.1 | 1,032.1 | 1,038.2 | 1,045.3 | 1,054.0 | 1,062.7 |
| Change (000s) | 3.7 | 13.0 | 6.0 | 6.1 | 7.1 | 8.7 | 8.7 |
| % Change | 0.4% | 1.3% | 0.6% | 0.6% | 0.7% | 0.8% | 0.8% |

Source: Arizona's Economy February 2018, Eller College of Management, The University of Arizona

The population projections made in February 2018 reflect downward adjustments from those made in June of 2017 but will likely be adjusted upward when the next projections are released. The first quarter 2018 Economic Outlook Update by George W. Hammond, PhD, Director and Research Professor, EBRC, indicated that the Arizona Office of Economic Opportunity subsequently released new population projections estimates that indicated a July 1, 2017 Tucson MSA (Pima County) population of 1,026,099. After adjusting for a change in methodology, the data suggested that Tucson's growth over the prior year was 8,600 residents, a 0.8% increase rather than the 1.3% noted below. The projections above call for Tucson's population to increase by 6,000 residents over 2018 (mid-year), 6,100 residents over 2019, 7,100 residents over 2020 and 8,700 residents over 2021 and 2022.

Esri estimated a 2017 population of 1,029,203 for the Tucson MSA and projects an increase to 1,066,763 by 2022. This results in an overage annual increase of 7,500 residents per year. They further project an increase of about 13,400 households over this period, or an average of just under 2,700 households per year. Tucson has a projected 2017 average household size of 2.48 persons.

## 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 foreseeable future although the sector has been fairly stable over the past several years.

**Top 10 Southern Arizona Employers**

| Name | Full Time Jobs | Change Past Year | Industry |
|---|---|---|---|
| University of Arizona | 11,251 | 16 | Education |
| Raytheon Missile Systems | 9,600 | 0 | Manufacturing |
| State of Arizona | 8,580 | 56 | Government |
| Davis-Monthan Air Force Base | 8,406 | 71 | Military |
| Pima County | 7,060 | 37 | Government |
| Tucson Unified School District | 6,770 | -364 | Education |
| Banner-University Medical Center | 6,272 | -270 | Health Care |
| U.S. Customs and Border Protection | 5,739 | N/A | Government |
| Freeport-McMoRan, Inc. | 5,530 | -270 | Mining |
| Walmart | 5,500 | 100 | Retail |

Source: Arizona Daily Star 4/24/2016

Davis Monthan Air Force Base's total economic impact in 2016 was estimated at $2.6 billion. Employment was 16,679, including all contractors with 6,460 indirect jobs created according to statistics from Davis Monthan Air Force Base. There are 19,321 military retirees with annual retirement pay of $513.6 million. Davis Monthan Air Force Base has annual expenditures totaling approximately $428 million.

There have been a number of recent employment and other significant announcements that suggest Tucson's economy may improve at a greater pace than indicated over the past five or more years. Raytheon Missile Systems, Tucson's largest private employer, is in the process of planning a major expansion that would add over 1,900 new high-paying jobs. Caterpillar recently announced that it is bringing its regional headquarters for its Surface Mining and Technology Division to Tucson and will provide more than 600 new high paying jobs over the next five years. They will initially locate in an existing building in Downtown Tucson while their new facility is being constructed just to the west of downtown. HomeGoods has completed construction of an 800,000 square foot distribution center near the Tucson International Airport and will reportedly employ up to 900. Comcast recently located a call center into a newly renovated facility near the Tucson Mall that will employ up to 1,100 positions. Banner-University is building a new $400 million addition to their existing facility near the University of Arizona campus and a new AC Hotel by Marriott is under construction in downtown. Pima County has completed a deal (although there is litigation pending) that will bring World View Enterprises to the Airport area where they would operate Spaceport Tucson, a high altitude balloon launch site for near-space tourism and research. Afni and Alorica both announced in early 2017 that they will be hiring for 280 and 200 position at their local call centers in the coming year. Amazon recently announced its plans to complete an 850,000+ S.F. distribution center by 2019. The center will be located near Kolb & I-10 and is expected to employ over 1,500 people.

Employment by industry for the MSA is as follows.

**Metropolitan Tucson Nonfarm Employment**

| Year Ending | 2013 | | 2014 | | 2015 | | 2016 | | 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Sector | Empl.* | %Total | Empl.* | %Total | Empl.* | %Total | Empl.* | %Total | Empl.* | %Total |
| Natural Resources & Mining | 2.3 | 0.6% | 2.3 | 0.6% | 2.0 | 0.6% | 1.6 | 0.4% | 1.7 | 0.5% |
| Construction | 15.1 | 4.2% | 14.5 | 4.0% | 14.9 | 4.1% | 14.8 | 4.1% | 16.4 | 4.6% |
| Manufacturing | 22.6 | 6.3% | 22.5 | 6.3% | 22.9 | 6.4% | 23.4 | 6.5% | 24.6 | 6.8% |
| Trade, Transp. & Utilities | 62.6 | 17.4% | 63.3 | 17.6% | 62.8 | 17.4% | 61.4 | 17.1% | 62.4 | 17.3% |
| Information | 4.5 | 1.3% | 4.5 | 1.3% | 4.8 | 1.3% | 5.0 | 1.4% | 5.3 | 1.5% |
| Financial Activities | 17.7 | 4.9% | 17.8 | 4.9% | 17.2 | 4.8% | 17.4 | 4.8% | 17.8 | 4.9% |
| Professional & Business Svcs | 50.6 | 14.1% | 51.7 | 14.4% | 51.6 | 14.3% | 50.0 | 13.9% | 52.2 | 14.5% |
| Education & Health Services | 62.6 | 17.4% | 62.7 | 17.4% | 64.2 | 17.8% | 65.4 | 18.2% | 65.6 | 18.2% |
| Leisure & Hospitality | 40.3 | 11.2% | 42.1 | 11.7% | 43.1 | 12.0% | 46.0 | 12.8% | 45.5 | 12.6% |
| Other Services | 12.6 | 3.5% | 14.5 | 4.0% | 14.5 | 4.0% | 15.1 | 4.2% | 13.0 | 3.6% |
| Government | 79.7 | 22.1% | 79.1 | 22.0% | 80.1 | 22.3% | 79.2 | 22.0% | 80.9 | 22.5% |
| TOTAL NONFARM | 370.6 | 100% | 375.0 | 100% | 378.1 | 100% | 379.3 | 100% | 385.4 | 100% |

Source: Arizona Office of Employment and Population Statistics * (000s) Year-end figures, non-seasonally adjusted

## Unemployment

The unemployment rate increased dramatically over 2009 and 2010 as a result of the Great Recession, but has declined every year since 2010. Unemployment rates in Tucson were historically below the national and state averages, as dependence on governmental and tax-supported employment had historically insulated the region from national recessionary trends; however, the metro area's unemployment rate has more recently been similar to the national rate.

**Average Unemployment Rate**

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| National | 4.6% | 5.8% | 9.3% | 9.6% | 8.9% | 8.1% | 7.4% | 6.2% | 5.3% | 4.9% | 4.4% |
| Arizona | 3.9% | 6.2% | 9.9% | 10.4% | 9.5% | 8.3% | 7.7% | 6.8% | 6.1% | 5.4% | 4.9% |
| Metro Tucson | 3.7% | 5.8% | 9.1% | 9.3% | 8.5% | 7.4% | 6.8% | 6.0% | 5.5% | 5.0% | 4.5% |

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

Notes: Not seasonally adjusted.

## Economic Forecasts

The projections summarized below suggest modest, yet stronger economic growth from 2018 through 2019 with a slight decrease in growth rates in 2021. The forecast suggest that number of jobs lost in the Great Recession will be recaptured some time in 2018. Projected growth will remain well below the growth experienced in prior recoveries.

**Metropolitan Tucson Economic Forecasts**

| Category | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| Personal Income ($mill) | $ 40,182.1 | $ 41,477.5 | $ 43,287.8 | $ 45,367.6 | $ 47,777.4 | $ 50,119.6 | $ 52,378.6 |
| % Change | 2.4% | 3.2% | 4.4% | 4.8% | 5.3% | 4.9% | 4.5% |
| Retail Sales ($mill) | $ 13,062.0 | $ 13,673.9 | $ 13,962.0 | $ 14,403.4 | $ 14,992.0 | $ 15,467.6 | $ 15,960.3 |
| % Change | 1.0% | 4.7% | 2.1% | 3.2% | 4.1% | 3.2% | 3.2% |
| Employment (non-farm,000s) | 373.4 | 377.4 | 382.4 | 387.8 | 392.8 | 396.7 | 400.6 |
| Change (000s) | 4.8 | 4.0 | 5.0 | 5.4 | 5.0 | 3.9 | 3.9 |
| % Change | 1.3% | 1.1% | 1.3% | 1.4% | 1.3% | 1.0% | 1.0% |
| Residential Permits | 2,466.0 | 2,862.4 | 2,940.1 | 3,032.4 | 3,216.2 | 3,689.4 | 3,786.6 |
| % Change | 1.6% | 16.1% | 2.7% | 3.1% | 6.1% | 14.7% | 2.6% |

Source: Arizona's Economy February 2018, Eller College of Management, The University of Arizona

## Commercial Real Estate

The retail, office and industrial sectors have all significantly recovered since the Great Recession; however, the office sector still remains somewhat challenged with respect to non-Class A properties, particularly those with secondary or marginal locations. Class A office sub-sector is fairly strong but is limited in scale relative to the overall office sector, which is impacted by significant aging inventory. Retail development has been on-going at prime locations while most significant vacancies are associated with secondary locations or older, dysfunctional spaces. Essentially all new industrial development over the recent past has been user-driven and there is minimal investor demand for new speculative industrial construction.

**Metro Tucson Commercial Sectors - 2018**

| Sector | No. Buildings | Total Sq. Ft. | YTD Deliveries | Under Construction | Vacancy | YTD Absorption | Average Quoted Rent |
|---|---|---|---|---|---|---|---|
| Industrial | 2,560 | 42,241,266 | 0 | 242,734 | 6.6% | 61,323 | $6.49 |
| Office | 2,542 | 26,273,268 | 0 | 311,435 | 9.0% | 37,445 | $19.48 |
| Retail | 5,378 | 52,955,331 | 136,028 | 231,984 | 5.6% | 262,466 | $15.05 |

Source: CoStar: 1st Quarter 2018

## Residential Real Estate

The Tucson MSA housing market is in a slow sustained recovery that commenced in 2012. Sale velocity has been within a consistent range from 10,300 to 11,500 sales per year since 2011. Based on the average sales velocity over the past five years, there is currently a little over three months of supply on the market. The low supply is due to limited new construction, a decrease in REO sales, and an inability of some homeowners to sell due to a lack of equity. The average single-family sale price increased by nearly 14% during 2016 and by 8% during 2017; however, average single-family pricing is still 5.5% below the historic high reached in 2007. Real estate agents are reporting shorter marketing times, which is caused by a limited supply and gradual increase in demand. Investors made up a larger percentage of the total sales from 2011 to 2013; however, investor purchases have since slowed for the most part. The housing market is currently considered to be in balance with respect to supply and demand. The recent trends are summarized below.

**Tucson Single-Family Market**

| Year | # Sales | Avg. SF | Avg. Sale Price | % Change | Avg. Price/SF | % Change | DOM |
|---|---|---|---|---|---|---|---|
| 2007 | 10,164 | 1,688 | $264,122 | 1.30% | $156.47 | -2.60% | 101 |
| 2008 | 8,383 | 1,727 | $233,696 | -11.52% | $135.32 | -13.52% | 155 |
| 2009 | 9,286 | 1,724 | $192,314 | -17.71% | $111.55 | -17.56% | 148 |
| 2010 | 9,329 | 1,731 | $180,091 | -6.36% | $104.04 | -6.73% | 140 |
| 2011 | 10,702 | 1,723 | $156,611 | -13.04% | $90.89 | -12.63% | 103 |
| 2012 | 11,245 | 1,752 | $167,787 | 7.14% | $95.77 | 5.36% | 70 |
| 2013 | 11,502 | 1,750 | $184,523 | 9.97% | $105.44 | 10.10% | 63 |
| 2014 | 10,616 | 1,771 | $196,987 | 6.75% | $111.23 | 5.49% | 76 |
| 2015 | 11,479 | 1,775 | $202,485 | 2.79% | $107.93 | -2.97% | 79 |
| 2016 | 10,328 | 1,881 | $230,616 | 13.89% | $122.60 | 13.59% | 65 |
| 2017 | 10,431 | 1,889 | $249,489 | 8.18% | $128.19 | 4.56% | 54 |

source: Tucson MLS

Tucson's multifamily sector has demonstrated stable performance over the past several years with larger 40-plus unit apartment projects averaging about 94% occupancy over 2017. There was a limited amount of new multifamily construction from 2007 to 2010 but a new development cycle ramped up during 2011 and 2012 and roughly 5,500 units have been constructed since 2010. Approximately 650 units were under construction at the end of 2017. The vast majority of new construction has been in the Class A luxury and student housing sectors. The Class A sector had been underserved for the past 20 or more years and new Class A projects have generally been experiencing strong market acceptance. Rental rates remain fairly modest, averaging about $0.98 per square foot overall and about $1.13 per square foot for new conventional projects currently in lease-up. Tucson's modest economic growth over the recent past kept downward pressure on rents;

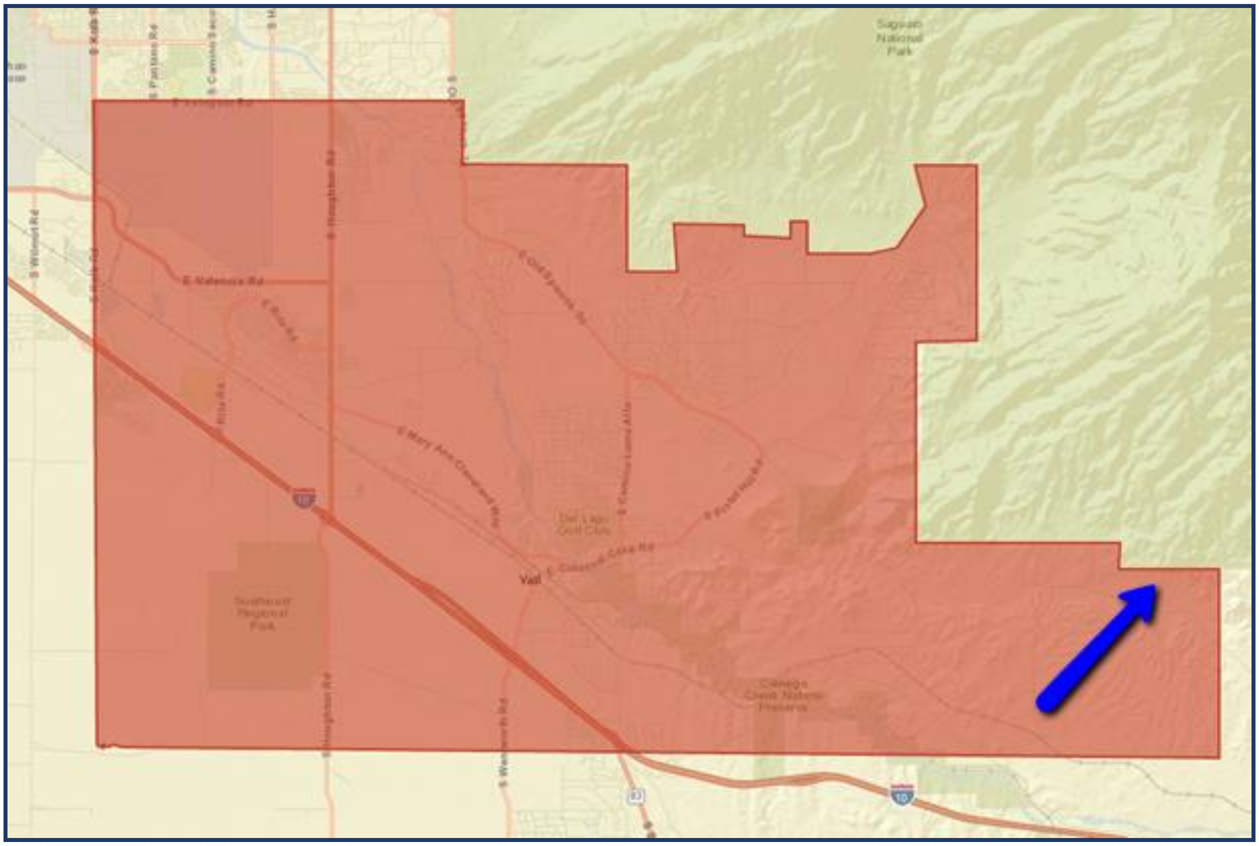
however, concessions have continued to trend downward and average gross rents increased by almost 5% over 2016 and by 6% over 2017. Given the limited amount of construction currently scheduled, Tucson's apartment market should continue to improve over the near term.

## Conclusions

Economic projections for metro Tucson suggested that the population increased by about 8,600, or 0.8% from mid-2016 to mid-2017, and gains of 0.7% to 0.8% are forecast for 2018 through 2022. Employment growth was projected at 1.1% over 2017 but is forecast to increase to 1.3% to 1.4% over the next two years, followed by reduced growth of only 1.0% for 2021 and 2022. While these annual growth rates are well below those experienced during prior recoveries, the overall economic climate in Tucson has improved significantly over the past several years and there have been a number of recent employment and other significant announcements that suggest Tucson's economy may improve at a greater pace than indicated over the past five or more years. Economists from the University of Arizona do not predict a full recovery of jobs lost during the Great Recession until 2018. These factors positively impact the residential and commercial real estate sectors and there is essentially no speculative development occurring so the risk of overbuilding is considered to be minimal in the current market environment. With the exception of office, most real estate sectors are demonstrating fairly balanced supply and demand characteristics and the office market has also been continuing to show improvement over the past several years. Significant vacancies in most sectors are at least partially the result of older, dysfunctional space as opposed to limited demand.

# City and Neighborhood Analysis

### Tucson Southeast Neighborhood Map




Boundaries: Irvington Road / Saguaro National Park (north), Saguaro National Park / Cochise County border (east), Pima Mine Road alignment (south), Kolb Road and Kolb Road alignment (west).

## Neighborhood Trends

The subject is located in a rural area near the eastern boundary of the Southeast neighborhood. Southeast Tucson is comprised of the areas south of Irvington Road and east of Kolb Road. Irvington Road generally separates developed areas to the north from a large area of undeveloped land extending east from Davis-Monthan Air Force Base to Houghton Road. Kolb Road and Houghton Road are the only north-south arterials that bisect the neighborhood and connect with Interstate 10 to the south. Houghton Road provides access to established residential areas in eastern Tucson, north of the neighborhood, as well as access to Corona de Tucson, a developing satellite community to the south. Interstate 10 bisects the southwest quadrant of the neighborhood and also includes interchanges at Rita Road and Colossal Cave Road. Valencia Road will eventually be extended across the Pantano Wash, but until then, the portions of the neighborhood along Old Spanish Trail remain relatively secluded from employment and residential services. East of Houghton near the end of Old Spanish Trail is Vail, a growing bedroom community formerly dominated by ranching and low density residential development.

Rita Ranch, one of Tucson's first master-planned communities, is generally situated at the southwest quadrant of Houghton and Valencia Roads and was a leapfrog development into a largely undeveloped area, starting in the 1990s. The success of this project fostered other projects in the southeast, including the "new urban" Civano community on the east side of Houghton near Irvington Road. Additional medium density residential development continued along the east side of Houghton Road in the 2000s with future development planned for the west side. The far east and southeast portions of the neighborhood are characterized by low density rural residential uses ultimately terminating at the boundary of the Saguaro National Park. The southeast is one of metropolitan Tucson's major paths of growth, with ample vacant land, both for residential development and for commercial development.

Rita Ranch has two grocery-anchored shopping centers, Fry's and Safeway, with a large amount of shop space. Houghton Town Center, is a 118-acre Walmart-anchored center under development located at the southwest former of Houghton and Old Vail Road. There are currently a number of restaurants, general retail, automotive service uses as well as an urgent care facility in place but additional national major tenants are expected in 2019. Las Plazas at Vail is a 60-acre developing shopping center located at the northwest corner of this intersection; to date three restaurants have been constructed. There is a mixed-use office/retail center at Houghton and Valencia. At various times, there have been rumors of a new regional mall to be built along I-10 in or near the subject neighborhood, but there are no current plans.

The Southeast Neighborhood is not a recognized office location. Most office users in this area locate within retail space. Industrial uses are found in the Valencia and I-10 corridors, and include the Port of Tucson (an active inland port) located at the northwest quadrant of Kolb Road and Interstate 10 and the University of Arizona Science and Technology Park (a former IBM facility) located at the northeast quadrant of this interchange, and extending east along the north side of I-10 to Rita Road. There is ample available vacant industrial land. Target is a notable industrial user in the area and operates a large distribution center. Amazon recently announced plans to open an 850,000+ S.F. distribution facility at the Port of Tucson in 2019.

Overall, Southeast Tucson is about 90% built out west of Houghton Road and north of Interstate-10 but 25% built out or less throughout the rest of the neighborhood. Future growth in this area will be substantial. Demographics tabulated on the following page reflect path-of-growth characteristics, with higher growth rates, higher income measures, and relatively affordable home pricing.

## Neighborhood Demographic Profile

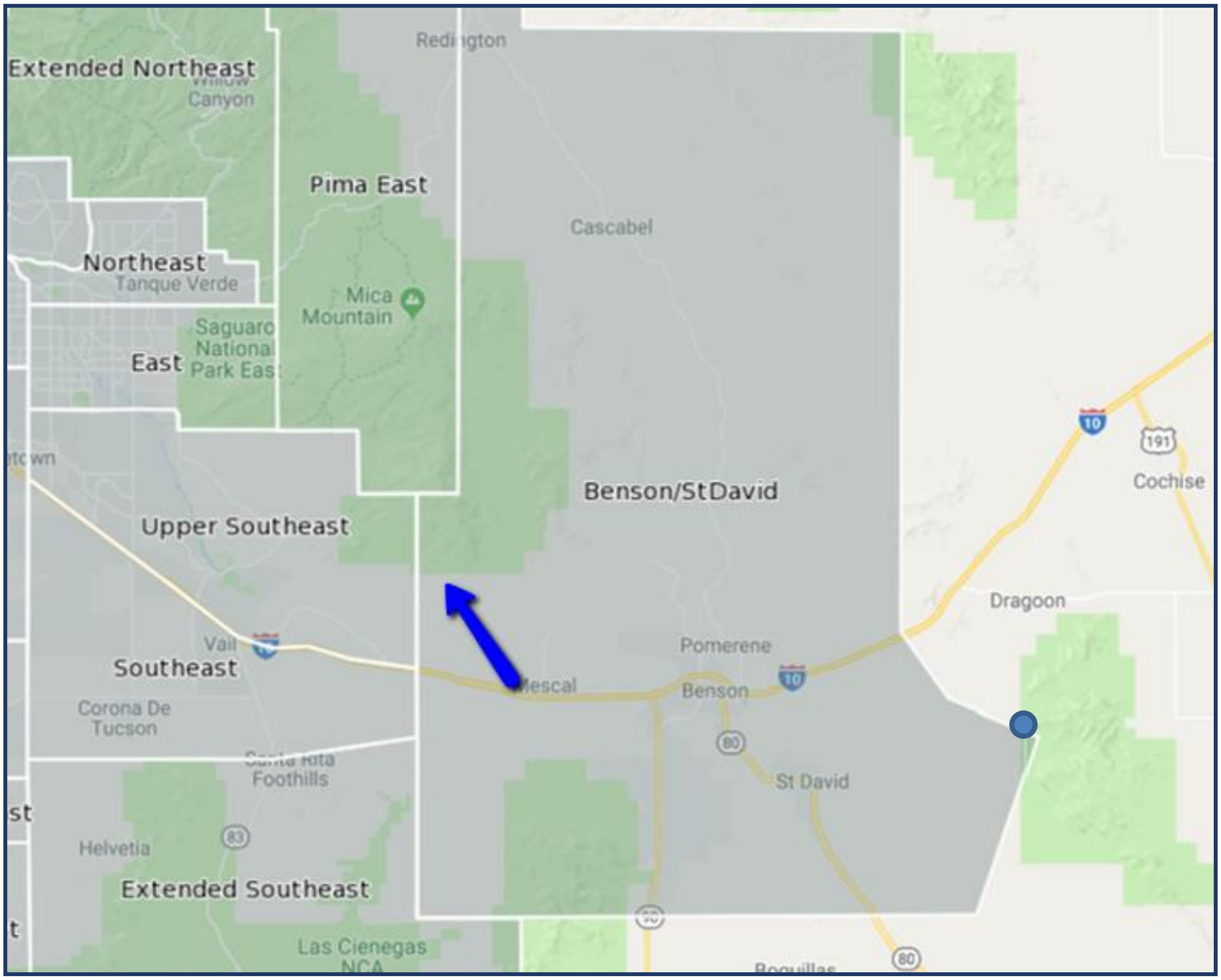
| Population | Neighborhood | Tucson MSA |
|---|---|---|
| 2010 Census | 37,959 | 980,263 |
| 2017 Estimate | 42,849 | 1,029,203 |
| 2022 Projection | 46,621 | 1,066,763 |
| **Gross Population Change** | | |
| 2010 - 2017 | 12.9% | 5.0% |
| 2017 - 2022 | 8.8% | 3.6% |
| **Average Annual Population Change** | | |
| 2010 - 2017 | 2.1% | 0.8% |
| 2017 - 2022 | 1.8% | 0.7% |
| Median Age (2017) | 37.1 | 38.8 |
| **Households** | | |
| 2017 Estimate | 14,871 | 404,272 |
| 2022 Projection | 16,056 | 417,701 |
| Avg. New HH/Year 2017-2022 | 237 | 2,686 |
| 2017 - 2022 % Change | 8.0% | 3.3% |
| Avg. Annual Change 2017 - 2022 | 1.6% | 0.7% |
| Average Household Size (2017) | 2.86 | 2.48 |
| **Daytime Population (2017)** | | |
| Total | 30,059 | 1,022,251 |
| Workers | 7,302 | 442,321 |
| Residents | 22,757 | 579,930 |
| **Income (2017)** | | |
| Average HH Income | $91,877 | $67,467 |
| Median HH Income | $78,412 | $48,436 |
| Per Capita Income | $32,076 | $26,958 |
| Household Income | | |
| $0 - $15,000 | 3.8% | 14.1% |
| $15,000 - $24,999 | 5.1% | 11.6% |
| $25,000 - $34,999 | 5.6% | 11.2% |
| $35,000 - $49,999 | 11.6% | 14.2% |
| $50,000 - $74,999 | 20.6% | 18.4% |
| $75,000 - $99,999 | 17.9% | 11.6% |
| $100,000 - $149,999 | 22.9% | 11.2% |
| $150,000 - $199,999 | 7.5% | 3.9% |
| $200,000 + | 5.0% | 3.8% |
| **Housing (2017)** | | |
| % Owner Occupied | 74.3% | 52.8% |
| % Renter Occupied | 15.3% | 34.7% |
| % Vacant | 10.4% | 12.5% |
| Median Home Value | $234,523 | $199,207 |

Source: U.S. Bureau of the Census, 2010 Census of Population and Housing. ESRI forecasts for 2017 and 2022

# Market Analysis

## Overview

The subject's market area coincides with the MLS boundaries for the Benson/ St. David District. The subject is located near the western border of the district. The district boundaries are somewhat misleading, as Benson and St. David are in Cochise County, while the subject is in Pima County. Therefore statistics from the Upper Southeast district are also included. The subject is in a rural area premature for significant residential development.

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## Definition of Product and Market Segmentation

In the following paragraphs, we describe the competitive qualities of the subject and the market segment in which it competes.

## Property Type

The subject property is vacant land zoned for rural density use. Demand is shallow and limited to a select subgroup of potential buyers due to preferences for isolation.

## Location of Competition

The market area includes unincorporated southeast Tucson. The subject is located on the periphery of development which affords above average privacy and views. Access to the upper southeast submarket is good and market activity is growing with rising production lot development. Access to the immediate subject area is below average due to a long network of rough dirt roads which generally require a 4WD vehicle. Neighborhood activity is minimal.

## Demographic information

The area demographics were previously identified. The submarket is expected to grow faster than Pima County overall, although most of the growth will occur in the eastern portion of the neighborhood, away from the immediate subject environs. The average household income is above the metro average, while the median home value is similar to Pima County overall, indicating an area of increased affordability.

## Supply and Demand Trends

*Supply and Demand Trends*

We researched the market area to determine real estate trends within the market area.

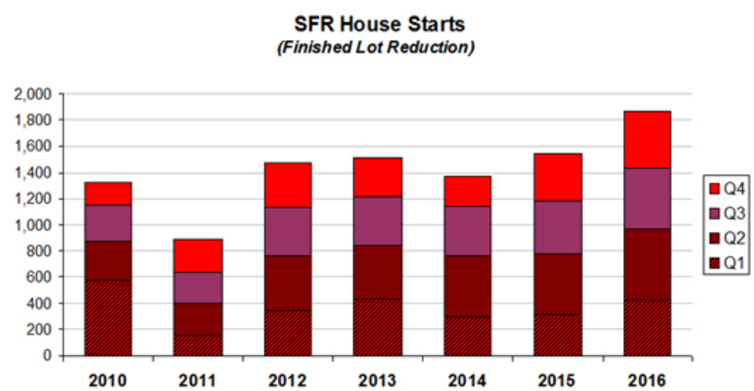
Metropolitan Tucson's single-family home permits reached 3,150 in 2017, an increase of 17% over 2016. Increases to supply were stable at about 3% per year until 2004-05. In 2005, nearly 13,000 homes were added to the supply, double the annual additions of 2001-03. Declines in permitting occurred each year between 2005 and 2011. In 2012 the trend was reversed and permitting increased 42% over the previous year; however, the volume was still only about half of 2008, and one half of a likely stabilized level of approximately 4,000-4,500 permits per year. The increasing trend in 2017 at 3,150 permits is 21-30% below the stabilized level.

| Year | Permits | % Change in Permits |
|---|---|---|
| 2001 | 6,420 | - |
| 2002 | 6,734 | 4.9% |
| 2003 | 6,834 | 1.5% |
| 2004 | 3,954 | -42.1% |
| 2005 | 12,946 | 227.4% |
| 2006 | 8,532 | -34.1% |
| 2007 | 7,415 | -13.1% |
| 2008 | 4,060 | -45.2% |
| 2009 | 2,088 | -48.6% |
| 2010 | 1,813 | -13.2% |
| 2011 | 1,438 | -20.7% |
| 2012 | 2,040 | 41.9% |
| 2013 | 2,250 | 10.3% |
| 2014 | 2,254 | 0.2% |
| 2015 | 2,176 | -3.5% |
| 2016 | 2,699 | 24.0% |
| 2017 | 3,150 | 16.7% |

Source: CCIM Southern Arizona Chapter

Another measure of activity is the number of housing starts each year. Since the start of the recession, the largest number of home starts occurred in 2009 when 2,615 homes were started. Excluded are active adult, attached, and multi-family homes. Traditional single family builders started 1,869 new homes in 2016, which is the highest annual number of new home starts since 2009. This measure includes spec homes suggesting slowly increasing builder optimism and illustrates increasing demand for finished lots.

| Year | Metro Tucson New Home Starts |
|---|---|
| 2012 | 1,467 |
| 2013 | 1,514 |
| 2014 | 1,375 |
| 2015 | 1,545 |
| 2016 | 1,869 |
| Source: Tucson Land Update Q4 2016 | |




The historical statistics from Tucson Multiple Listing Service (MLS) are summarized below and illustrate a number of significant characteristics. As stated earlier, 2005 and 2006 were peak years in the market in terms of sales volume, selling price, and days on the market. This was a time of "overheated" market conditions. Subsequent years show a trend of significant decline as a result of the housing meltdown. From 2007 to 2011, the average home price fell 34%, but has since rebounded to $274,537. Sales volume decreased significantly through 2010, but have since rebounded with increases every year except 2014. The recent increase in sale prices and volumes are indications of a gradual recovery period.

Currently, there are 3,845 single-family detached properties listed on Multiple Listing Service (MLS) for sale in the metro Tucson area, including only 248 classified as "new construction". Considering the average sales rate of 1,051 residences per month (12,615 sales / 12 months) demonstrated over 2017, the current inventory equates to about a 3.7 month supply. The market held about an 8 month supply in mid-2009. The market has mostly absorbed the excess supply and exhibits undersupplied characteristics, particularly for houses under $400,000.

The subject is within the Benson/St. David MLS district. This district generally represents less than 1% of the Tucson home sales each year. The 2018 YTD average home sale price in the Benson/St. David district was $158,532 approximately 42% below the Tucson average. Pricing has generally been stagnant over the past 3-4 years. Marketing times are longer. The adjacent Upper Southeast subdistrict reported a 2018 YTD average home sale price of $247,770, which is 10% below the Tucson average. The average home price has increased 16% since 2014 in the Upper Southeast district. This district has similar marketing times to Tucson overall.

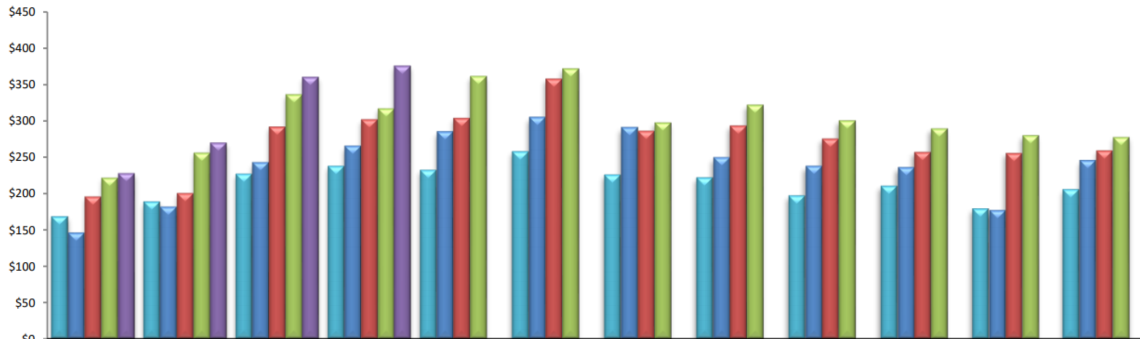
**TUCSON RESIDENTIAL MARKET HISTORY**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018* |
|---|---|---|---|---|---|---|---|
| **SINGLE FAMILY - TUCSON OVERALL (Pima County)** | | | | | | | |
| Gross Sales | $2,095,536,541 | $2,362,017,442 | $2,318,867,723 | $2,613,571,665 | $3,032,021,926 | $3,301,593,876 | $1,183,258,740 |
| Units Sold | 10,859 | 11,012 | 10,024 | 11,103 | 12,520 | 12,615 | 4,310 |
| Avg. Sale Price | $192,976 | $214,494 | $227,250 | $235,393 | $242,174 | $261,719 | $274,537 |
| % Change vs. Prior Yr. | 7% | 11% | 6% | 4% | 3% | 8% | 5% |
| Avg. Days on Market | 88 | 89 | 103 | 98 | 81 | 64 | 45 |
| **SINGLE FAMILY - SUBJECT NEIGHBORHOOD (Tucson MLS "Benson/ St. David")** | | | | | | | |
| Gross Sales | $10,736,376 | $12,289,601 | $11,360,749 | $13,352,866 | $15,549,011 | $16,645,739 | $8,158,568 |
| Units Sold | 85 | 89 | 74 | 86 | 101 | 105 | 43 |
| % of Tucson units sold | 0.8% | 0.8% | 0.7% | 0.8% | 0.8% | 0.8% | 1.0% |
| Avg. Sale Price | $123,310 | $138,085 | $153,524 | $155,266 | $153,951 | $158,531 | $158,532 |
| % Change vs. Prior Yr. | | 12.0% | 11.2% | 1.1% | -0.8% | 3.0% | 0.0% |
| SP % of overall avg | 64% | 64% | 68% | 66% | 64% | 61% | 58% |
| Avg. Days on Market | 109 | 118 | 98 | 107 | 84 | 69 | 95 |
| **SINGLE FAMILY - SUBJECT NEIGHBORHOOD (Tucson MLS "Upper Southeast")** | | | | | | | |
| Gross Sales | $141,122,110 | $151,316,552 | $141,335,506 | $172,156,156 | $205,751,035 | $224,502,185 | $80,277,540 |
| Units Sold | 762 | 743 | 667 | 780 | 928 | 921 | 324 |
| % of Tucson units sold | 7.0% | 6.7% | 6.7% | 7.0% | 7.4% | 7.3% | 7.5% |
| Avg. Sale Price | $185,200 | $203,656 | $211,897 | $220,713 | $221,714 | $243,759 | $247,770 |
| % Change vs. Prior Yr. | 3.4% | 10.0% | 4.0% | 4.2% | 0.5% | 9.9% | 1.6% |
| SP % of overall avg | 96% | 95% | 93% | 94% | 92% | 93% | 90% |
| Avg. Days on Market | 77 | 81 | 104 | 104 | 76 | 60 | 41 |

source: Tucson Association of Realtors Multiple Listing Service

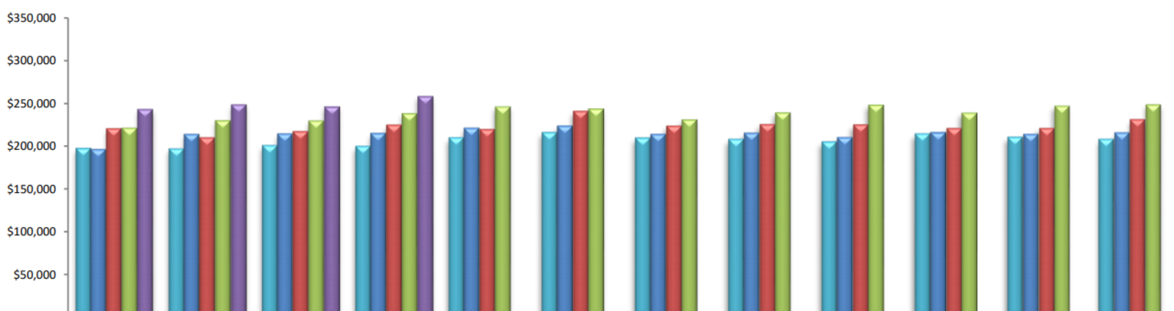
The market is still transitioning from the overheated and historically unprecedented 2005-2006 period, perhaps returning to the more normal conditions demonstrated over 2000 to 2003. The timing of a full recovery of the market is difficult to predict, but is generally expected now to be in the range of one year. By no means is a return to the 2005-2006 market conditions anticipated over the foreseeable future. The housing market began to normalize from its current correction cycle beginning in 2016 and some submarkets have already begun to show strength including the Central, Northwest and the Southeast areas.

**Total Sales Volume – April 2018**




| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $257,916,141 | $259,256,105 | $362,397,582 | $367,164,710 | $395,081,716 | $404,364,096 | $316,549,145 | $296,964,652 | $209,911,233 | $229,448,467 | $216,102,902 | $193,643,336 |
| 2008 | $164,675,327 | $198,192,914 | $240,688,743 | $255,750,619 | $269,871,608 | $275,281,555 | $240,837,426 | $217,601,752 | $208,706,814 | $186,356,109 | $140,720,158 | $161,044,358 |
| 2009 | $126,748,154 | $153,702,306 | $188,033,398 | $179,846,835 | $208,358,145 | $245,389,730 | $259,690,959 | $199,819,664 | $192,241,702 | $207,559,066 | $190,456,030 | $179,304,898 |
| 2010 | $143,268,044 | $145,233,131 | $235,799,289 | $245,382,762 | $236,990,728 | $221,400,614 | $152,120,688 | $164,547,474 | $158,546,942 | $133,203,906 | $144,588,779 | $169,063,508 |
| 2011 | $130,258,440 | $160,319,228 | $191,236,186 | $200,425,573 | $210,060,577 | $219,330,275 | $194,610,823 | $171,367,731 | $160,343,846 | $149,078,897 | $160,810,437 | $155,173,463 |
| 2012 | $143,708,985 | $167,639,105 | $233,228,623 | $224,278,223 | $229,315,967 | $221,812,678 | $206,909,439 | $212,447,687 | $170,755,194 | $188,863,288 | $181,444,177 | $172,396,621 |
| 2013 | $161,222,377 | $177,344,784 | $255,010,096 | $254,228,400 | $273,255,331 | $274,731,163 | $249,372,650 | $230,496,950 | $198,683,662 | $217,449,776 | $178,915,596 | $210,031,523 |
| 2014 | $168,462,403 | $188,915,109 | $226,742,804 | $237,746,907 | $232,224,138 | $257,845,939 | $225,727,311 | $221,806,173 | $196,928,072 | $210,485,098 | $179,335,659 | $205,863,391 |
| 2015 | $145,845,691 | $181,217,647 | $242,090,899 | $264,685,653 | $284,428,648 | $304,427,786 | $290,439,724 | $248,930,674 | $237,392,082 | $235,499,468 | $176,481,013 | $245,103,277 |
| 2016 | $195,873,577 | $200,517,266 | $291,848,243 | $301,945,796 | $303,502,051 | $357,372,475 | $286,111,971 | $293,263,202 | $275,351,463 | $256,797,986 | $255,666,525 | $259,126,521 |
| 2017 | $221,242,651 | $255,659,723 | $335,720,904 | $316,664,086 | $361,024,841 | $371,493,209 | $297,091,774 | $321,376,738 | $300,150,958 | $288,890,599 | $279,460,100 | $276,914,274 |
| 2018 | $227,851,861 | $270,019,575 | $360,404,000 | $375,510,677 | | | | | | | | |

**Average Sales Price – April 2018**



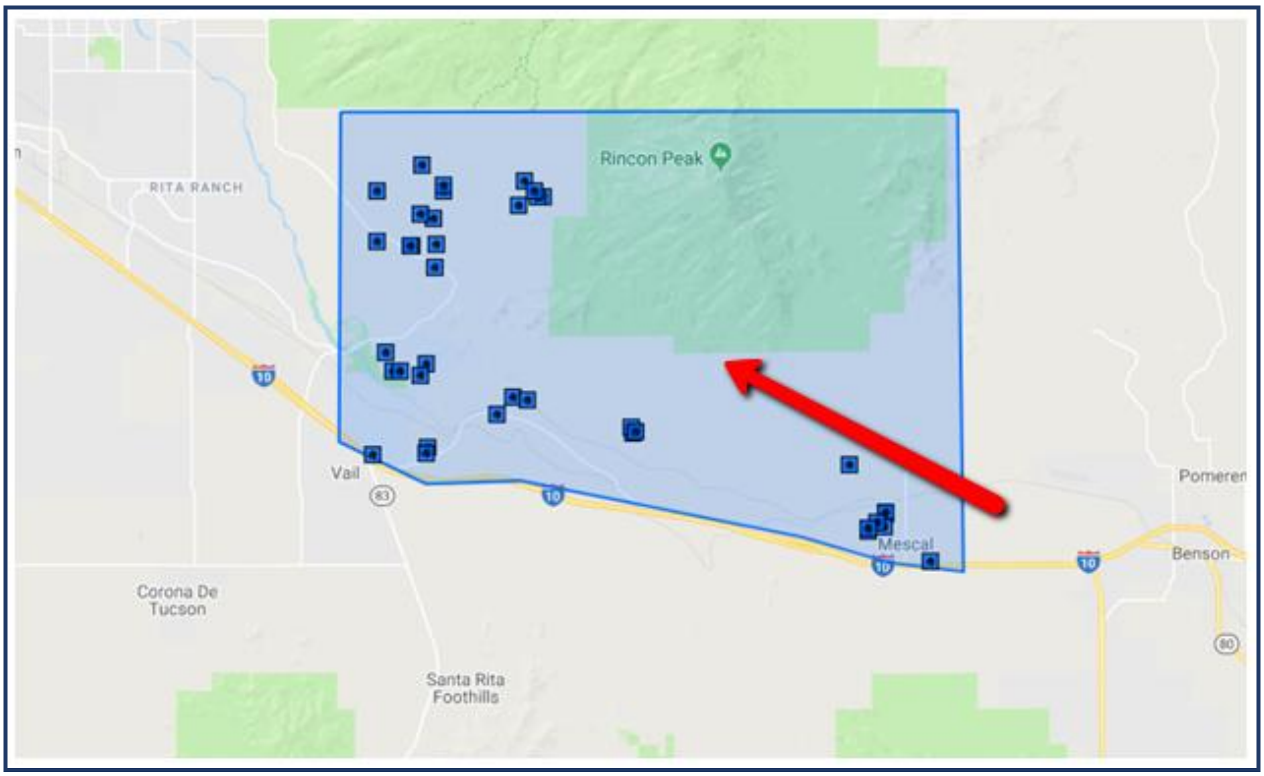

| | JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | $272,351 | $259,516 | $270,648 | $278,577 | $278,619 | $293,443 | $267,808 | $273,953 | $272,966 | $259,557 | $266,794 | $257,162 |
| 2008 | $265,178 | $260,437 | $258,805 | $251,971 | $252,216 | $257,272 | $254,854 | $235,755 | $216,276 | $226,435 | $215,168 | $200,803 |
| 2009 | $206,095 | $221,154 | $203,279 | $191,530 | $202,486 | $207,080 | $210,276 | $198,234 | $196,365 | $195,258 | $188,384 | $202,376 |
| 2010 | $201,219 | $195,996 | $201,710 | $199,986 | $194,838 | $189,231 | $192,072 | $186,562 | $181,612 | $177,133 | $180,736 | $186,399 |
| 2011 | $166,998 | $182,388 | $163,590 | $173,981 | $168,453 | $167,172 | $173,141 | $154,944 | $150,699 | $151,812 | $158,434 | $161,471 |
| 2012 | $157,059 | $164,513 | $168,153 | $175,766 | $173,987 | $174,793 | $181,978 | $180,193 | $182,041 | $175,850 | $182,539 | $183,011 |
| 2013 | $182,378 | $186,482 | $191,881 | $192,160 | $190,156 | $196,376 | $197,444 | $191,283 | $189,042 | $192,433 | $191,763 | $202,342 |
| 2014 | $197,262 | $196,581 | $200,479 | $199,620 | $209,400 | $215,410 | $209,200 | $207,684 | $204,707 | $214,125 | $209,995 | $207,524 |
| 2015 | $196,029 | $213,448 | $213,861 | $214,494 | $220,487 | $223,024 | $213,245 | $214,966 | $209,896 | $215,462 | $213,399 | $215,192 |
| 2016 | $220,083 | $209,527 | $216,665 | $224,328 | $218,977 | $240,331 | $223,176 | $224,723 | $224,593 | $220,238 | $220,212 | $230,540 |
| 2017 | $220,801 | $229,703 | $229,474 | $237,736 | $245,595 | $243,124 | $230,661 | $238,764 | $247,649 | $238,358 | $246,437 | $248,131 |
| 2018 | $243,431 | $249,095 | $246,514 | $258,616 | | | | | | | | |

### *Inventory of Existing Units*

The market is running low on finished lot inventory and many of the finished lots which remain for sale have some functionality issues. The number of finished lot transactions in 2013 decreased from 21 to 5 in 2014 and 6 in 2015, illustrating the absorption of finished lots. Builders are seeking raw and platted land due to the scarcity of finished lots. The number of these transactions increased 14% in 2014 and another 88% in 2015. According to Aaron Mendenhall, formerly of Chapman Lindsey, lot development costs have increased since the downturn of the market and entry level home pricing is insufficient to offset the fairly static lot development costs. The general rule of thumb for merchant built finished lot values is 20-22% of the home price and 25%+ of a custom home price. Development costs of $25,000 to $35,000 per lot plus the land cost has resulted in builders focusing on move-up homes starting in the mid to high $200,000's. A Residential Market Study prepared for the Pima County Real Estate Research Council in November 2016 by Ginger G. Knuep and Michael J. Naifeh predicted that the finished lot inventory in Tucson will be completely absorbed by 2018. The study also reiterated that sales volumes for new homes in the next 10-15 years will be reduced as builders focus only on the move-up market due to the lack of affordable land.

## Lot Sales In Defined Submarket

The subject contains 131.39 acres and is located in a rural area premature for significant residential development. The primary market in the immediate area consists of 20 to 40 acre lots. The Tucson Area MLS was utilized to research lot sales and trends in the defined submarket as indicated on the following map.

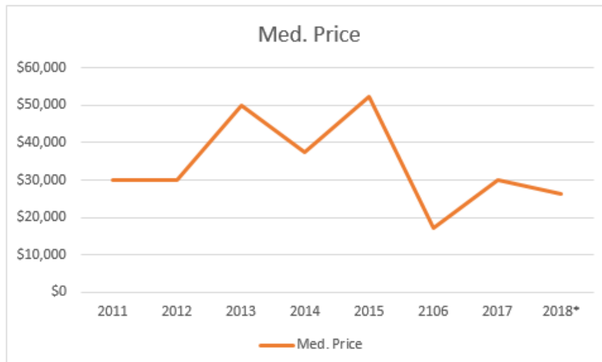



Transaction volume has been highest in the 3.3-6.5 acre lot category which has typically observed 3 to 5 sales per year, other than 2013 and 2017 which had higher transaction volumes. The 20-50 acre category has averaged just above 1 sale per year since 2011. No sales of 50+ acres (the subject category) were reported by MLS in this defined area.  Area brokers report very little demand and a shallow market, which is supported with minimal sales transactions reported by MLS.

**3.3 to 6.5 acre lot sales**

| Year | No. Sales | Med. Price |
|---|---|---|
| 2011 | 5 | $29,900 |
| 2012 | 3 | $29,900 |
| 2013 | 7 | $50,000 |
| 2014 | 2 | $37,500 |
| 2015 | 4 | $52,250 |
| 2106 | 5 | $17,000 |
| 2017 | 9 | $30,000 |
| 2018* | 3 | $26,250 |

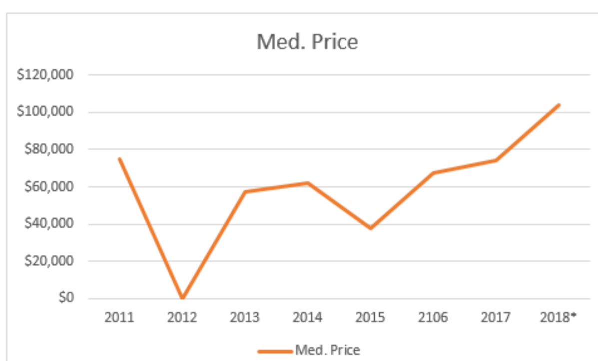
*YTD Thru 6/1/2018


**6.3-20 acre lot sales**

| Year | No. Sales | Med. Price |
|---|---|---|
| 2011 | 1 | $75,000 |
| 2012 | 0 | $0 |
| 2013 | 5 | $57,000 |
| 2014 | 2 | $62,000 |
| 2015 | 2 | $37,500 |
| 2106 | 5 | $67,500 |
| 2017 | 6 | $73,900 |
| 2018* | 2 | $104,000 |

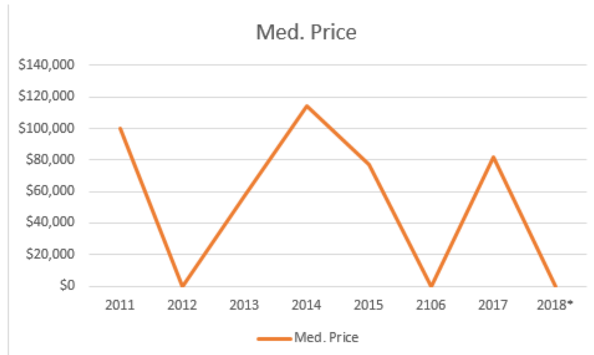
*YTD Thru 6/1/2018

**20-50 acre lot sales**

| Year | No. Sales | Med. Price |
|---|---|---|
| 2011 | 1 | $99,900 |
| 2012 | 0 | $0 |
| 2013 | 0 | $57,000 |
| 2014 | 2 | $114,500 |
| 2015 | 2 | $77,500 |
| 2106 | 0 | $0 |
| 2017 | 4 | $81,500 |
| 2018* | 0 | $0 |

*YTD Thru 6/1/2018


## Barriers to Entry

One of the most significant barriers to entry is represented by utility availability and the cost of extending services to vacant land. The subject site lacks water and sewer, but has electricity nearby. Water and sewer would typically be obtained through a well and a septic system. Access is a barrier to entry. The subject has legal and physical access, although it is rough in places and requires a 4 WD vehicle. This reduces the buyer pool and demand. Zoning is also considered a potential barrier to entry. Rezoning is unlikely due to the location within the Buffer Overlay and the general plan designation as Resource Sensitive. Furthermore, market actions infer demand in the area for space and privacy, consistent with a larger lot. Development consistent with surrounding land uses and trends of one home per larger lot is more likely. Affordability is also a barrier. Financing is still difficult to obtain for vacant land. Many buyers are required to pay cash or obtain seller financing. Given the larger subject size and price ranges in the area, this greatly reduces the buyer pool.

## Conclusions

Home pricing is increasing and lot inventory is beginning to decline. The seeds are gradually being sown for the recovery of the Tucson single-family market. The time table for full recovery to permitting at 4,000 to 4,500 units per year level is uncertain, but an eventual recovery is likely based on slowly emerging market changes. Prices are increasing, builders are acquiring inventory, and some submarkets are already low on finished lots, while population continues to grow. The single-family market is slowly moving towards recovery, with some submarkets already in progress. Full recovery is likely in 1 year+/- as Tucson continues to grow in population. The vacant land market in the subject area remains stagnant, with minimal demand and a very shallow buyer pool considering the remoteness, the difficult access, and the lack of wet utilities.

## Strengths/Weaknesses

**Strengths:**

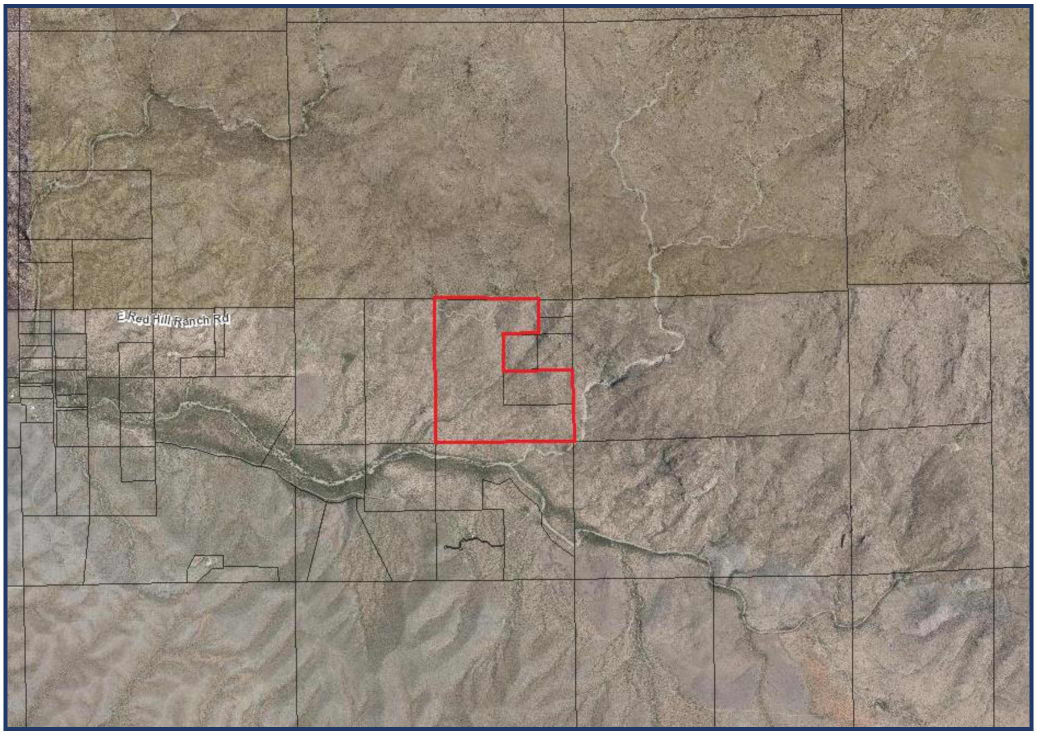
- bordering the national forest
- attractive topography, views and privacy,
- nearby creeks and waterfall vistas
- limited area competition.

**Weaknesses:**

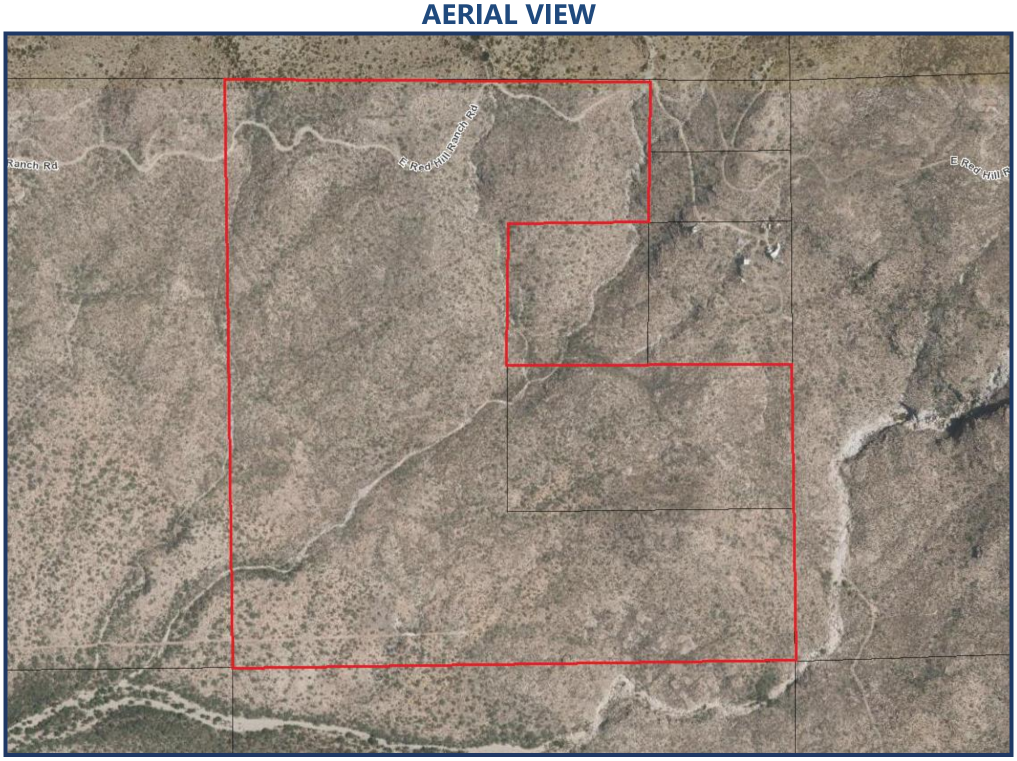
- difficulty obtaining financing for land,
- difficult access and lack of wet utilities,
- Limited buyer pool

# Site Description

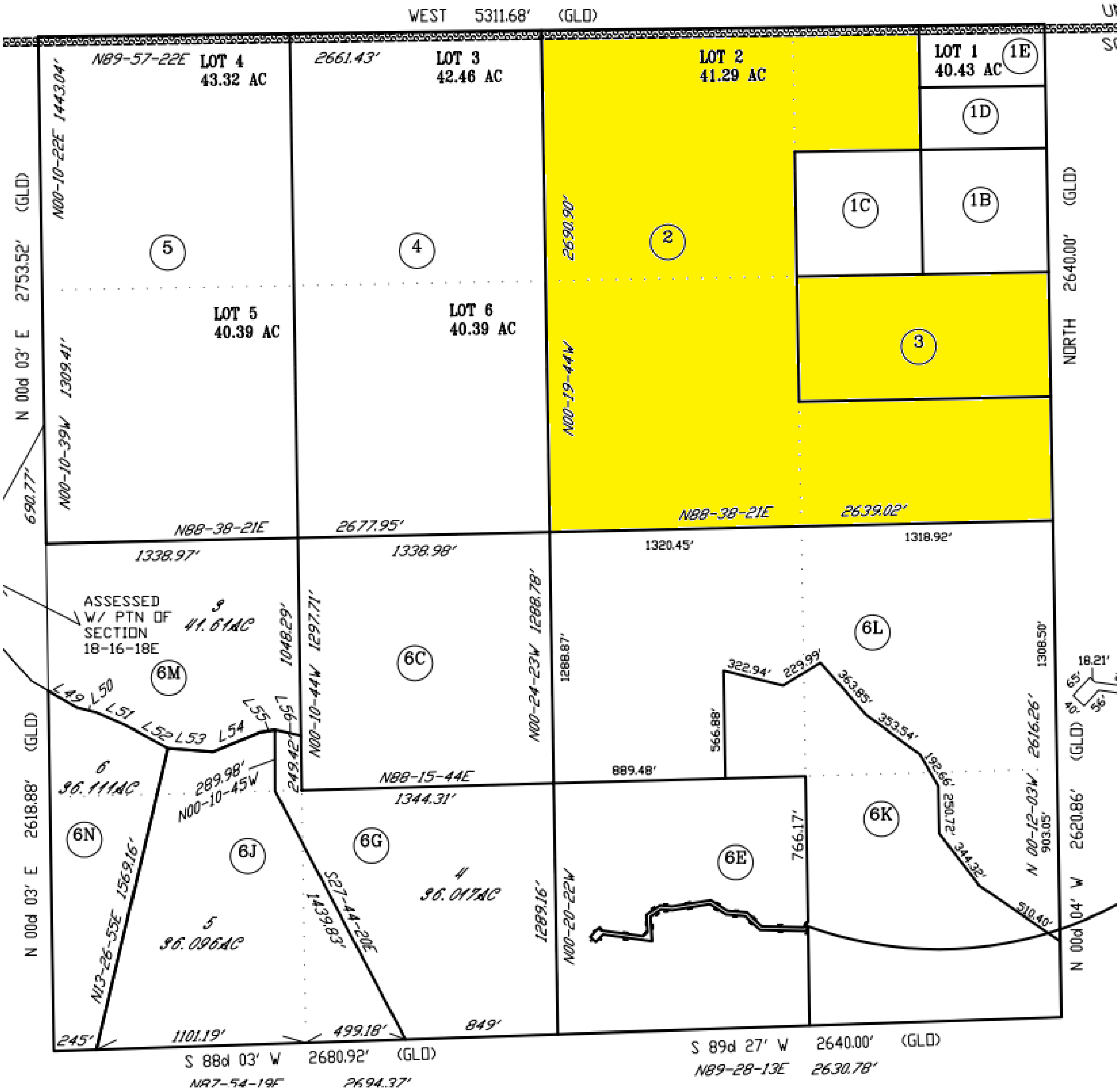
**AERIAL VIEW**




**AERIAL VIEW**



## ASSESSOR'S MAP



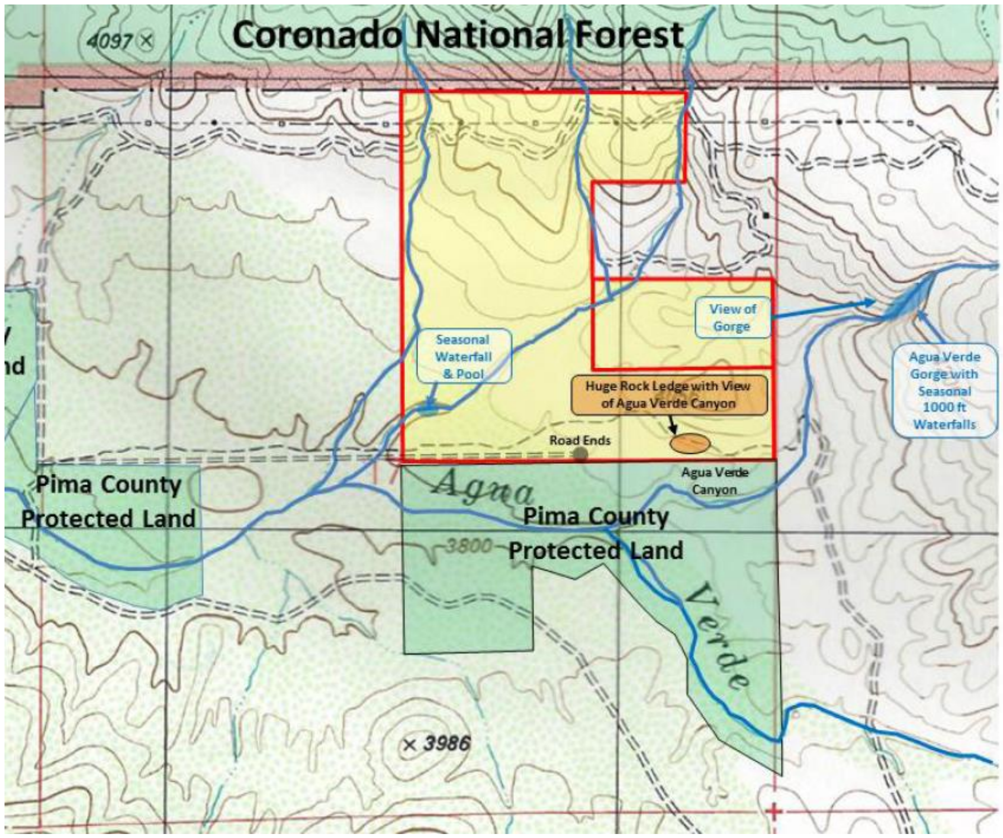

**Subject** The subject site consists of a 131.39 acre parcel of land within a rural area of Southeast Metropolitan Tucson

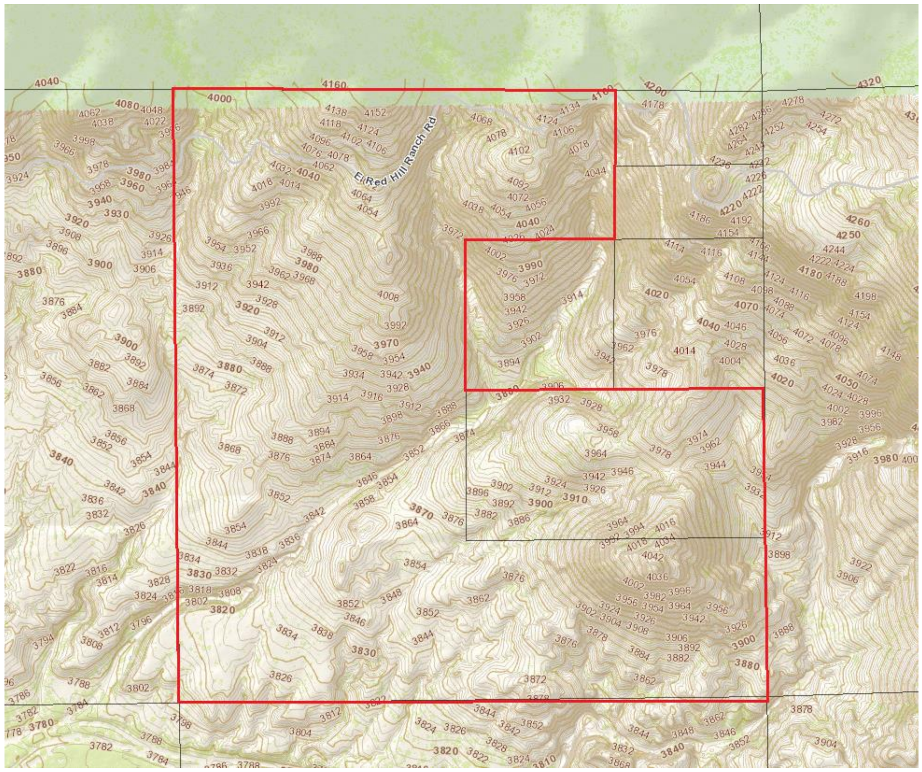
**Methodology** The subject parcel was inspected on June 7, 2018. Present at the inspection was the appraiser, Carolyn Van Hazel, MAI, the property owners, John and Cathy Hufault, and Mr. Jeff Teplitsky and Mr. Jim Rossi of Pima County.

**Location** The subject is located in a rural area within the southeastern portion of unincorporated Tucson in Pima County, Arizona. The parcel is located within Section 17, Township 16 South, Range 18 East, G&SRB&M.

**Shape** The parcel has an irregular shape, yet is functional.

**Topography** The topography of the site is rolling to mountainous. Views of the mountains to the north and canyon to the south are above average. The Agua Verde Gorge and seasonal waterfall to the east are also visible from portions of the site.






**Vegetation/ Soils**

Vegetation on the site mostly includes native cacti, shrubs, and grasses. The soils on the subject property appear to be sufficient to support development consistent with the surrounding land uses.

**Size**

According to the Pima County Assessor’s records the subject has a site size of 131.39 acres.

**Hydrology**

According to the FEMA Flood Insurance Rate Map 04019C2975L dated June 16, 2011, the subject property is outside the 100-year floodplain in Zone X. The flood areas were crosschecked and supported by Pima County GIS/ Flood Hazard mapping.