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# Board of Supervisors Memorandum

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August 6, 2019

## Accelerate Diagnostics, Inc. Lease Extension

### Background

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

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

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

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

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

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

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

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

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

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

#### Recommendation

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

Sincerely,



C.H. Huckelberry  
County Administrator

CHH/mp – 07/29/2019

Attachment

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

## LEASE AGREEMENT

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

### **RECITALS**

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

## AGREEMENT

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

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

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

**4. Rent.**

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

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

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

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

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

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

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

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

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

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

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

### **5.4. Janitorial.**

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

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

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

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

## 5.5. **Security.**

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

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

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

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

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

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



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

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

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

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

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

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

**5.10. Telephone/Internet.**

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

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

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

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

**8. Default.**

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

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

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

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

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

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

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

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

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

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

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

*With a copy to:*

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

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

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

## **16. Condemnation.**

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

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

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

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

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

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

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



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

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

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

**LANDLORD:**

PIMA COUNTY, a political subdivision of  
The State of Arizona

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

Richard Elias  
Chairman, Board of Supervisors

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

**TENANT:**

ACCELERATE DIAGNOSTICS, INC.  
a Delaware corporation

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

Steve Reichling  
Chief Financial Officer

Date: 7/19/2019

**ATTEST:**

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

Julie Castaneda, Clerk of the Board of Supervisors

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

**APPROVED AS TO CONTENT:**

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

Lisa Josker, Director, Facilities Management Department

Date: 7/24/19

**APPROVED AS TO FORM:**

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

Regina Nassen, Deputy Pima County Attorney

Date: 7.23.2019

**Exhibits:**

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



**EXHIBIT A**  
**ABRAMS AND ANNEX BUILDINGS**



**ANNEX: 2980 EAST AJO WAY, TUCSON ARIZONA**  
**ABRAMS: 3950 SOUTH COUNTRY CLUB ROAD, TUCSON ARIZONA**



**EXHIBIT C**  
**COUNTY'S RULES & REGULATIONS**

Re: 3950 S. Country Club, Tucson, Arizona

Tenant: Accelerate Diagnostics, Inc.

These Rules & Regulations have been adopted by County in order to set forth standards of conduct that will allow all tenants to enjoy a professional working environment that is compatible with the general character of the building. County reserves the right to make amendments and/or additions to these Rules and Regulations from time to time. These Rules and Regulations are in addition to and will not be construed to modify or amend any of the terms, covenants, or agreements and conditions of a tenant's lease. Each tenant will be responsible for informing its employees and invitees as to the provisions of these Rules and Regulations and to enforce same with respect to its employees and invitees. County may waive compliance with any one or more of these Rules and Regulations for the benefit of a tenant. Such waiver will not be construed as a waiver for any other tenant, nor will it prevent County from enforcing the same against any or all other tenants. These rules may only be enforced by County. The failure of County to enforce any Rule or Regulation will not give any tenant the right to enforce same against another Building occupant. Any concerns about violations of the Rules and Regulations should be addressed to the Building Manager's office or to such other place as County may designate from time to time.

1. No sign, placard, picture, advertisement, name or notice will be inscribed, displayed, printed or affixed on or to any part of the inside of the Building without the prior written consent of County. County will have the right to remove any unapproved sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant. All approved signs must be placed or affixed on the wall adjacent to Tenant's entry doors. All approved signs will be printed, painted, inscribed, affixed or removed at the expense of Tenant by a person approved by County. All walls or other structures where Tenant's signs have been affixed or attached must be restored to their original condition at Tenant's expense after removal of such signs. Nothing may be mounted on wood doors or finished wood surfaces.
2. Tenant will not place anything or allow anything to be placed near any window, door, partition or wall that may appear unsightly from outside the Premises, nor will Tenant cause any window in the Premises to be color treated.
3. The sidewalks, halls, passages, exits, entrances, elevators and stairways will not be obstructed by Tenant or used for any purpose other than for ingress and egress from Tenant's Premises.
4. Tenant will not alter any lock or install any new or additional locks or any bolts on any doors or windows of the Premises without prior written consent of County, which will not be unreasonably withheld. County will have no obligation to open Tenant's Premises due to the loss of keys by Tenant. All requests to open Tenant's Premises to guests or employees must be made by Tenant to County. If Tenant needs to have its leased Premises rekeyed for any reason, Tenant will use the County's authorized building locksmith. Any rekeying will keep the applicable lock

on the existing building master keyway. Tenant will bear the entire cost of rekeying, unless the rekeying is requested by County. Any installation or repair of specialty locks will be at Tenant's expense. Tenant assumes all responsibility for protecting its Premises from theft, robbery, and pilferage, including but not limited to, keeping all means of entry to Premises closed and locked.

5. The plumbing facilities will not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever will be thrown therein. The expense of any breakage, stoppage or damage resulting from a violation of this provision will be borne by the Tenant whose employee, agent or invitee will have caused it.
6. Tenant will not deface the Premises or any part thereof. Tenant will not install, affix or fasten to the rooftop any signs, satellites, or antennas without the prior written approval of County. County may require design drawings, specifications and/or weight load structural tests prior to granting approval for any rooftop installation. Tenant will bear the entire expense of any drawings or tests to be submitted to County for approval.
7. No furniture, freight or equipment of any kind will be brought into the Building without prior notice to County. All moving of items into or out of the Building will be done at such time and in such manner as County will designate. Any damage to the elevators, doors, frames, walls or hallway surfaces caused by Tenant or Tenant's invitees or moving contractors will be repaired at Tenant's expense to County's satisfaction. County will have the right to prescribe the weight, size and position of all heavy equipment brought into the Building. Heavy objects, will, stand on supports of such thickness as is necessary to properly distribute the weight.
8. Tenant will not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or allow the Premises to be occupied or used in a manner offensive or objectionable to the County or other occupants of the Building by reason of noise, odors and/or vibrations, or that would interfere in any way with other Building occupants or those having business therein. No animals will be brought in or kept in or about the Premises or the Building except service animals.
9. Tenant will not use or keep in the Premises or the Building any kerosene, gasoline, or flammable or combustible fluid or material, other than such hazardous or toxic materials or substances that are necessary or useful to Accelerate's business and will be used, kept and stored in a manner that complies with all laws regulating any such materials or substances, or use any method of heating or air conditioning other than that supplied by County.
10. Tenant acknowledges that periodically the Tucson Fire Department or other contractor or representative of the County will inspect the Premises for Fire Code compliance and fire, sprinkler, and alarm testing. Tenant, and its employees, contractors and invitees will comply with any fire safety and handicap procedures and regulations established by the County and/or any governmental agency. Tenant will distribute to its employees, representatives, contractors and invitees a copy of these Rules and Regulations and all fire drill safety and handicap material provided to it from time-to-time by County and/or any governmental agency. If an audible fire



alarm is sounded in the Building, Tenant must take immediate and prudent actions to evacuate its employees, guests or patients from the Building through designated exits as posted by County. Tenant will notify County in writing of the emergency contact information of two on-site employees or representatives who are responsible for emergency evacuations or fire drills for their Premises. Tenant is responsible for notifying the County in writing of any changes to such assignments. Each Tenant will notify the County of any handicapped occupants or other individuals who may require special assistance in the event of an emergency.

11. Pursuant to the Smoke-Free Arizona Act, A.R.S. section 36-601.01, no smoking is allowed in any part of the Building, or within 20' of doors outside the Building. Tenant will instruct its employees of this regulation.
12. County will direct electricians and/or phone installation employees or contractors as to where and how telephone and computer network cables are to be introduced. No boring or cutting for wires will be allowed without the consent of the County. The location of telephones, call boxes and other office equipment affixed to the Premises will be subject to the approval of County.
13. County reserves the right, in its sole and reasonable discretion, to increase security services for the Building. Each Tenant will be responsible for its share of costs associated with such additional security, based on the percentage of the Building's useable square footage occupied by each tenant.
14. Outside of Business Hours, Tenant and its employees may access the Building or halls, elevators or stairways in the Building or to the Premises by using the security access card assigned by County. The County will in no case be liable for damages with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, fire alarm, bomb threat, riot, public excitement, or other commotion, County reserves the right to prevent access to the Building during the continuance of the same by closing of the doors or otherwise, for the safety of the Building occupants and the protection of the Building.
15. County reserves the right to exclude or expel from the Building any person who, in the judgment of County, is intoxicated or under the influence of alcohol or drugs, or who will in any manner do any act in violation of any of the rules and regulations of the Building or impair the safety of any Tenant, employee, or contractor of County.
16. No machines of any description will be installed, maintained or operated upon the Premises without the written consent of the County.
17. Tenant will not disturb, solicit, or canvass any occupant of the Building and will cooperate to prevent same by others.
18. County will have the right to control and operate the Common Area(s), and the public facilities, and heating and air conditioning, as well as facilities furnished for the common use of the Building occupants, in such manner as County deems best for the benefit and safety of the

Building occupants generally.

19. All entrance doors in the Premises will be locked when the Premises are not in use, and all doors opening to public corridors will be kept closed except for normal ingress and egress from the Premises. All emergency fire exit doors must remain free of debris from both the interior and exterior and remain locked when not in use.
20. The common hallway immediately adjoining the Premises will be kept clean and free from dirt and rubbish by Tenant and Tenant will not place or permit any obstruction or merchandise in such areas.
21. All patio areas, other than those adjacent to the common break room, may be utilized only by the Building tenants, and their employees, guests or invitees. No unsightly storage will be placed upon the patios. Tenant agrees to limit the use of the patio to outdoor furniture such as tables and chairs. There will be no storage, temporary or permanent, of bicycles, refuse containers or other such unsightly materials on any patio.
22. Upon the termination of the tenancy, Tenant will deliver to County all keys to the Premises and security access cards for the Building that have been furnished to Tenant.
23. No electrical cooking appliances other than microwave ovens and coffee machines located in the kitchen/breakroom are allowed in the Premises.
24. No space heaters, floor fans or floor lamps are allowed at any time in the Premises.

**EXHIBIT D**  
**TOBACCO FREE POLICY C 3.1.18**

Page 1 of 2

**PIMA COUNTY, ARIZONA**  
**BOARD OF SUPERVISORS POLICY**  
**Subject: Tobacco-Free Environment**  
**Policy Number C 3.18**

**Purpose:**

Smoking and the use of tobacco related products are a major cause of preventable disease and death. As a leading employer and health proponent Pima County is committed to the promotion of health, wellness, and the prevention / treatment of diseases. Pima County also serves as a model for the public influencing attitudes about smoking and the dangers of tobacco products. The purpose of this tobacco-free policy is to create tobacco-free environments for all Pima County facilities, public buildings and adjacent properties, to provide Pima County employees and the public with guidelines for managing and supporting this policy, and to encourage a healthy lifestyle for all personnel and visitors.

**Background:**

As a major entity involved in the promotion of public health and safety within Pima County, the Board of Supervisors promotes and encourages the establishment of a tobacco-free zone on County facilities, public buildings and adjacent properties. The Board of Supervisors has previously established wellness as a priority for all County employees, by the adoption of the long-range Sustainability Program and employee incentives in the way of premium discounts for health insurance benefits. The establishment of a tobacco-free policy is the natural continuance of those efforts.

**Policy:**

It is the policy of the Board of Supervisors that to provide a safe and healthy environment for all employees, and the general public.

The Board of Supervisors prohibits the use of tobacco products at all times on County facilities, public buildings and adjacent properties, and in County vehicles. This prohibition applies to all employees, and to all visitors and other persons at any County sponsored activity or event conducted on County facilities, in public buildings or on adjacent properties.

**Definitions:**

Tobacco Products include cigarettes, cigars, pipes, smokeless tobacco, water pipes, hookah, e-cigarettes, chewing tobacco, snuff and other products containing tobacco.

**EXHIBIT D**  
**TOBACCO FREE POLICY C 3.1.18**

Page 2 of 2

County Facilities, Public Buildings and Adjacent Properties including County owned or leased properties and a facility occupied or used by any County personnel, visitor, or vendor, and includes but is not limited to buildings, courtyards, walkways, breeze-ways, parking lots, parking structures, County vehicles (owned or leased), loading docks or construction sites.

**Compliance:**

County personnel are responsible for compliance with the policy.

Visitors and vendors observed to violate this policy shall be respectfully informed of the Tobacco-Free Environment Policy and asked to comply. If a visitor or vendor neglects to comply, that neglect to comply may be used as grounds for prohibiting access to premises or facilities by said visitor or vendor.

If any individual violating the policy appears agitated or otherwise confrontational regarding compliance, then County personnel shall immediately inform the staff responsible for the facility or security personnel if available and shall engage in no further intervention.

All vendors doing business with Pima County shall be notified of the Tobacco-Free policy and shall be expected to comply with the policy. Organizers and supervisors of public events, conferences, meetings and work activities on County facilities, work sites, public buildings and adjacent properties shall be responsible to communicating the requirements of the Tobacco-Free Policy to such events or conferences for attendees.

All new employees of Pima County will be informed on and educated about the Tobacco-Free Policy and the requirement that employees comply with the policy. Additionally, new employees shall be made aware of the availability of tobacco cessation programs sponsored or funded by Pima County.

**References:**

Pima County Ordinance, Chapter 2.12  
Pima County Code, Section 8.50

Adopted Date: November 13, 2012  
Effective Date: January 1, 2013

**Website:**

[http://webcms.pima.gov/UserFiles/Servers/Server\\_6/File/Government/Clerk%20of%20the%20Board/Policies/C3-18.pdf](http://webcms.pima.gov/UserFiles/Servers/Server_6/File/Government/Clerk%20of%20the%20Board/Policies/C3-18.pdf)





8476 E. Speedway Blvd., Suite 210  
Tucson, Arizona 85710  
Ph: 520.954.4736  
Fax: 520.979.3408  
[www.everyappraisals.com](http://www.everyappraisals.com)

APPRAISAL REPORT  
FOR MARKET RENT  
  
OF THE  
4<sup>TH</sup> FLOOR OF THE ABRAMS BUILDING  
CONTAINING APPROXIMATELY 45,885 SQUARE FEET

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

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

BY

DAVID A. EVERY, MAI, AI-GRS

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

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



8476 E. Speedway Blvd., Suite 210  
Tucson, Arizona 85710  
Ph: 520.954.4736  
Fax: 520.979.3408  
[www.everyappraisals.com](http://www.everyappraisals.com)

August 20, 2018

Our File No. 7557-1801

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

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

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

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

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

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

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

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

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

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

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

Respectfully submitted,



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

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

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## EXECUTIVE SUMMARY

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

HIGHEST AND  
BEST USE:

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

VALUATION  
METHODOLOGY:

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

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

## INTRODUCTION

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

### Property Identification

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

### Legal Description

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

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

### Purpose, Intended Use, Intended User

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

### Interest Appraised

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

### Effective Date of the Appraisal

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

## Extraordinary Assumptions & Hypothetical Conditions

None.

## Market Value Definition

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

## Property History/Ownership and Lease Summary

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

Lessee:	Accelerate Diagnostics, Inc.
Premises:	Entire Fourth Floor of 3950 S. Country Club Tucson, Arizona
Rentable Area:	Lease Amendment 4 specifies a total useable area of, 45,885 square feet. This figure is relied upon for this analysis. The original lease space was 15,096 square feet on the fourth floor. This was expanded via several options and lease amendments.
Date:	August 20, 2012
Term:	Originally three years from January 1, 2013 to January 12, 2016. Subsequent options have extended the term to an expiration date of January 12, 2019.
Options:	Three 1-year options, each of which have been exercised. All extensions and options are co-terminus with the original lease which as noted above expires in January 12, 2019.
Rent:	The original base rent was \$9.25 per square foot applied during the first lease term.
Rent Increases:	The rent increased to \$19.80 per square foot which is the current rent and which applied during each of the three option periods. The lease Sixth Amendment appears to have modified the rent. In the Sixth Amendment



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

Percentage Rent: None.

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

Repairs: Landlord.

Janitorial: Tenant

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

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

Insurance: Landlord.

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

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

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

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

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

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

### **Scope of the Work**

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

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

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

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

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

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

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

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

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

## AREA OVERVIEW

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

### ARIZONA

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

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

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

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

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

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



## Metro Tucson



*\*Map data @2018 Google*

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

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

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

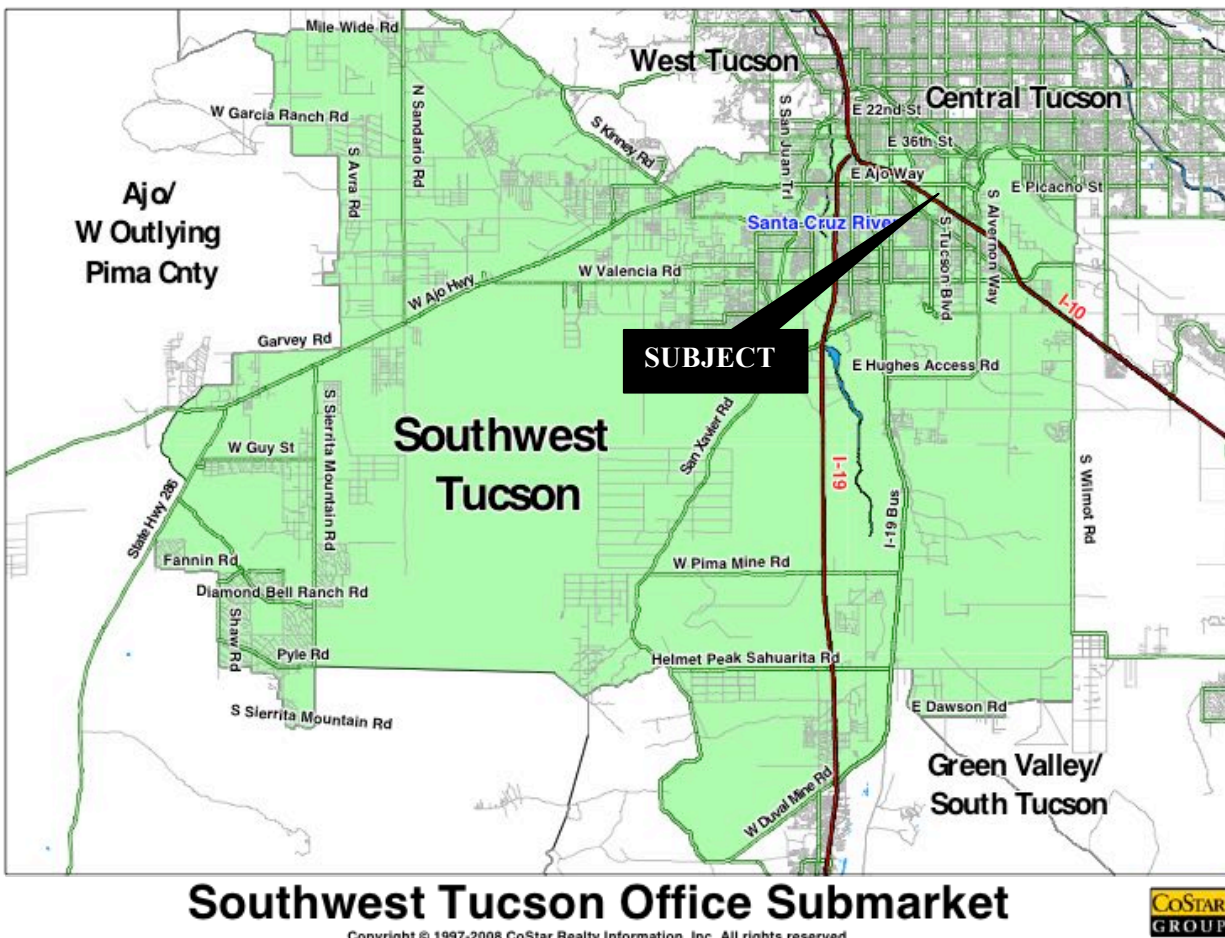
metropolitan area, where ample land is available, are expected to be the focal points for most of the growth.

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



## NEIGHBORHOOD DATA

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



### Boundaries

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

### Population

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

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

## Transportation

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

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

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

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

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

## **Land Use**

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

## **Residential**

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

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

## **Commercial**

### Office

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

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

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

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

*Note: Rate based on total physical space*

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

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

### Industrial

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

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

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

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

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

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

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

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

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

## Retail

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

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

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

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

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

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

**Tucson Retail Market Summary**  
Second Quarter 2018

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

*Note: Rate based on total physical space*

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

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

### Government and Public Uses

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

## Summary

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

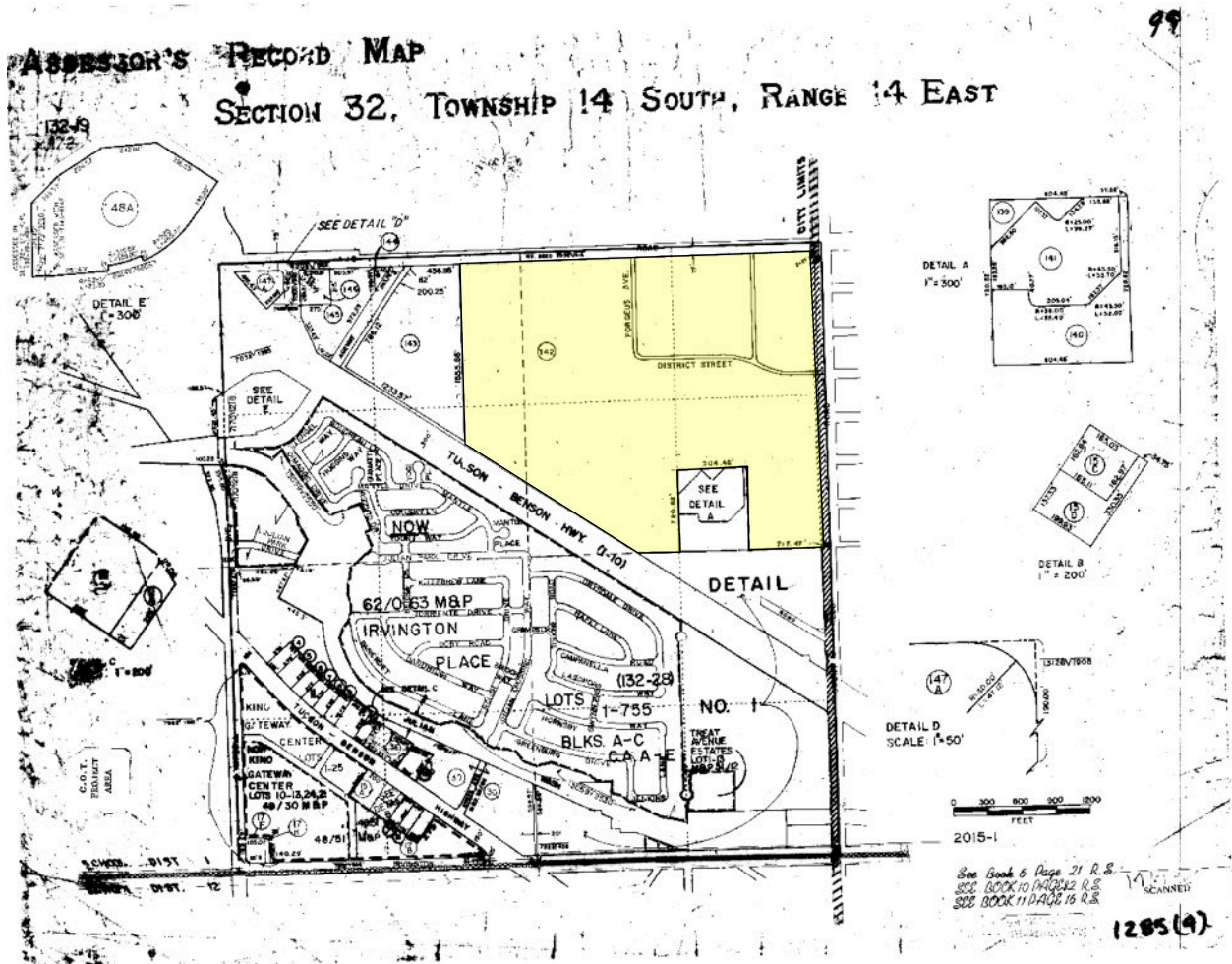


## PROPERTY DESCRIPTION

### Site Description

#### LOCATION:

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



#### SIZE:

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

#### CONFIGURATION:

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



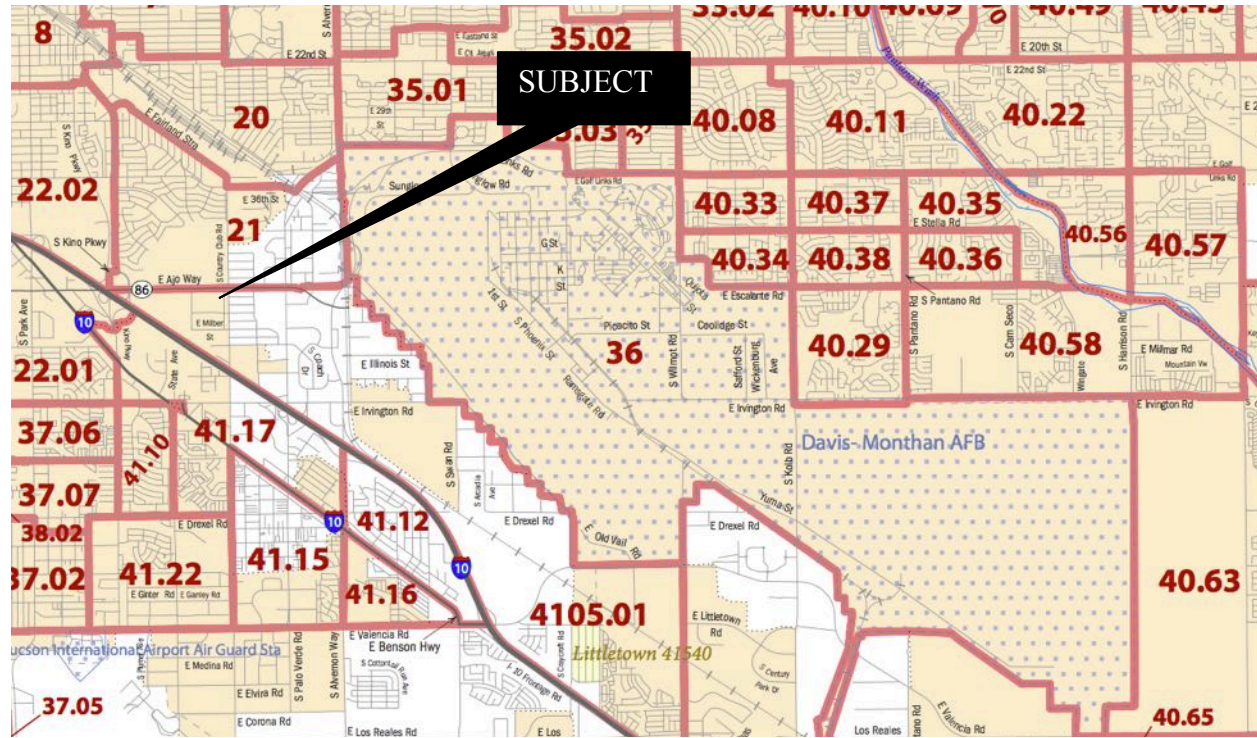
DIMENSIONS:	According to the above Assessor's Record Map, the site has varying depths and widths.
TOPOGRAPHY:	The site is generally level and at grade with its frontage roadway and surrounding properties.
FRONTAGE/ACCESS	Frontage is along both Country Club Road and Bentley Avenue. Access is along Country Club Road, Bentley Avenue, President Street and District Street. Overall, considering its location and proximity to major routes of travel, the frontage and access for the property is considered to be good.
VISIBILITY:	Visibility for the property is considered to be good.
UTILITIES:	All utilities are in place to the subject including: electric power by Tucson Electric Power, water by City of Tucson, telecommunications available through CenturyLink and other providers, sewer by Pima County, and natural gas from Southwest Gas.
EASEMENTS:	I was not provided with a title report for the subject property. Based on my physical inspection and a review of the subject's plat map, there do not appear to be any atypical easements that would adversely impact the utility of the subject site.
ENVIRONMENTAL:	My inspection of the subject site did not indicate any potential environmental hazards that were readily observable. A Phase I environmental site survey was not available as of the writing of this report. It is a fundamental assumption of this appraisal report and the valuation conclusions contained herein that the subject property is not impacted by any environmental concern, which could affect the value or marketability of the property. If this remains an area of concern for the client, a Phase I Environmental site analysis of the site should be performed by qualified personnel.
SOIL CONDITIONS:	As of the date of inspection, there did not appear to be any negative soil or subsoil conditions affecting the subject site. The actual soil conditions are unknown. It is assumed that the subject property is not impacted by any negative soil/subsoil issues.
ZONING:	The subject larger site is zoned PAD-18 (Kino Health Campus), City of Tucson. The Kino Health Campus PAD is a medical and healthcare oriented educational, office, medical support, research and regional employment infill activity center with mixed-use character and adequate access to arterial roads. The primary

## SUBJECT



CENSUS TRACT:

The subject site is located within Census Tract 4105.01.



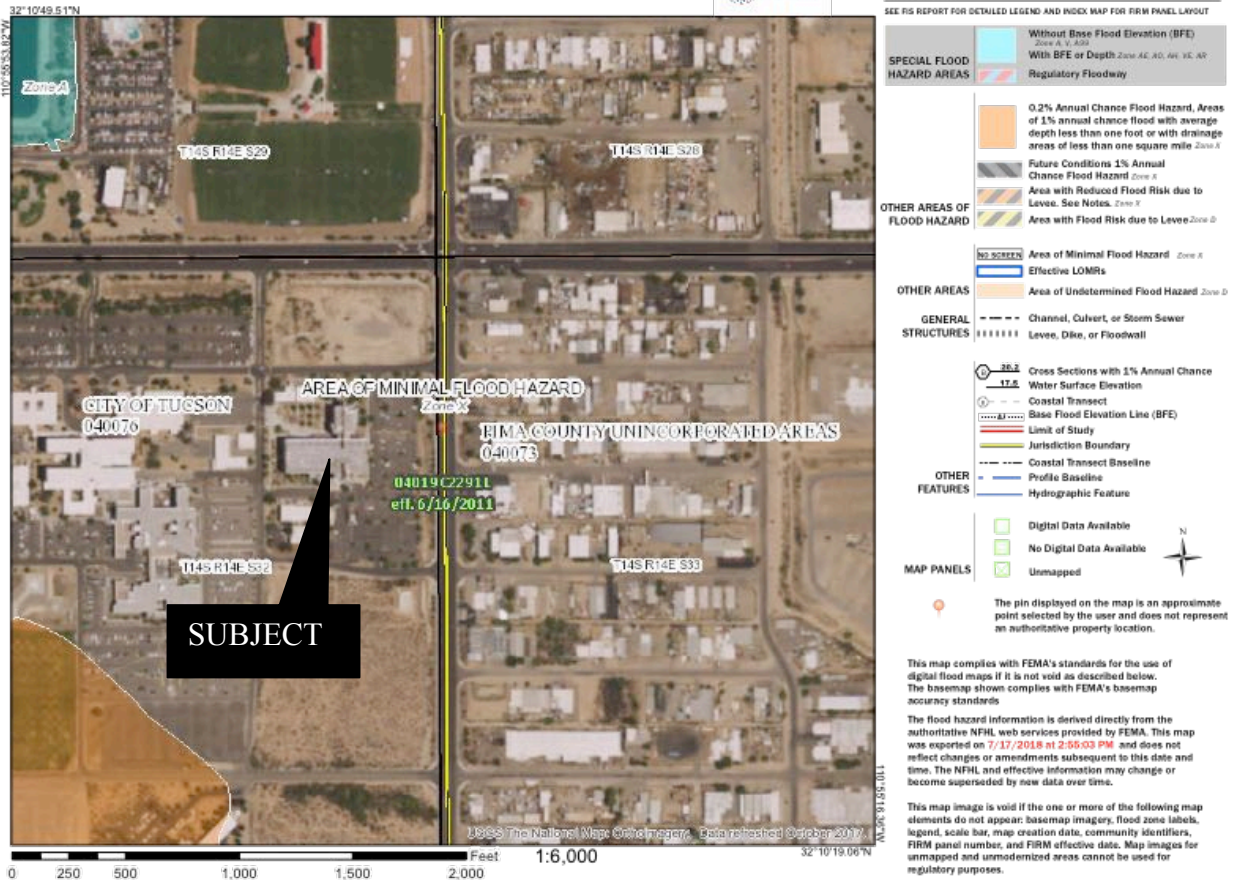
\* U.S. Census Bureau 2010



## FLOOD CONDITION:

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

## National Flood Hazard Layer FIRMette



## SURROUNDING USES:

### NORTH:

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

### EAST:

To the east is Country Club Road.

### SOUTH:

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

### WEST:

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

## PROPERTY TAXES:

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

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

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

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

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

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

## Description Of Improvements

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



\*PimaMaps 2018

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

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

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

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

CONSTRUCTION:	The larger building is primarily of steel frame design. The building exterior includes either concrete block or poured concrete panels and aluminum framed tinted windows.
ROOF IMPROVEMENTS:	The building roof is composition sheathing over steel panels and beams.
INTERIOR - OFFICE:	The office finishes are what is commonly found in Class A office building design. Flooring varies and includes carpeting, laminate wood, and vinyl tile. Ceiling finishes primarily include a drop acoustic system with recessed fluorescent lighting. Decorative tract of halogen lighting is also provided. Interior wall partitions are mainly painted gypsum panels. Some rooms, such as the lobby and conference room, have glass panel walls. Doors are solid core hardwood. There is a kitchen and also an outdoor patio.
INTERIOR – LABORATORY:	The laboratory area includes significant upgrades for electrical, mechanical, ventilation, compressed air, and plumbing. The interior is finished with drop grid ceilings and vinyl flooring.
FIRE SPRINKLERS:	The entire fourth floor is provided with a wet fire safety system.
RESTROOMS:	Adequate men's and women's restrooms are provided throughout the fourth floor. Restroom finishes are good in quality and include ceramic or marble tile flooring as well as extensive ceramic tile wainscoting.
ELECTRICAL:	Electric service is assumed adequate and compliant with code.
HVAC:	The building is serviced by roof-mounted HVAC units.
ELEVATORS:	There are two elevator lobbies with 3 elevators at one location and 2 at the other elevator lobby.
SITE IMPROVEMENTS:	The subject is part of the larger Abrams Public Health Center. There is surface parking provided in open lots around the building. Information provided by the client indicates that there are 623 parking spaces. This results in a parking ratio of about 4.4 per 1,000

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

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

SITE COVERAGE: Not applicable

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

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

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

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

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



## SUBJECT PHOTOS

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



## SUBJECT PHOTOS

Top: View south along Country Club Road, subject building and parking at right.

Bottom: View of subject property's eastern elevation.





## SUBJECT PHOTOS

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



## SUBJECT PHOTOS

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





## SUBJECT PHOTOS

Top: Internal view of laboratory and storage areas.  
Bottom: Internal view of laboratory areas.



## SUBJECT PHOTOS

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





## SUBJECT PHOTOS

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



## SUBJECT PHOTOS

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





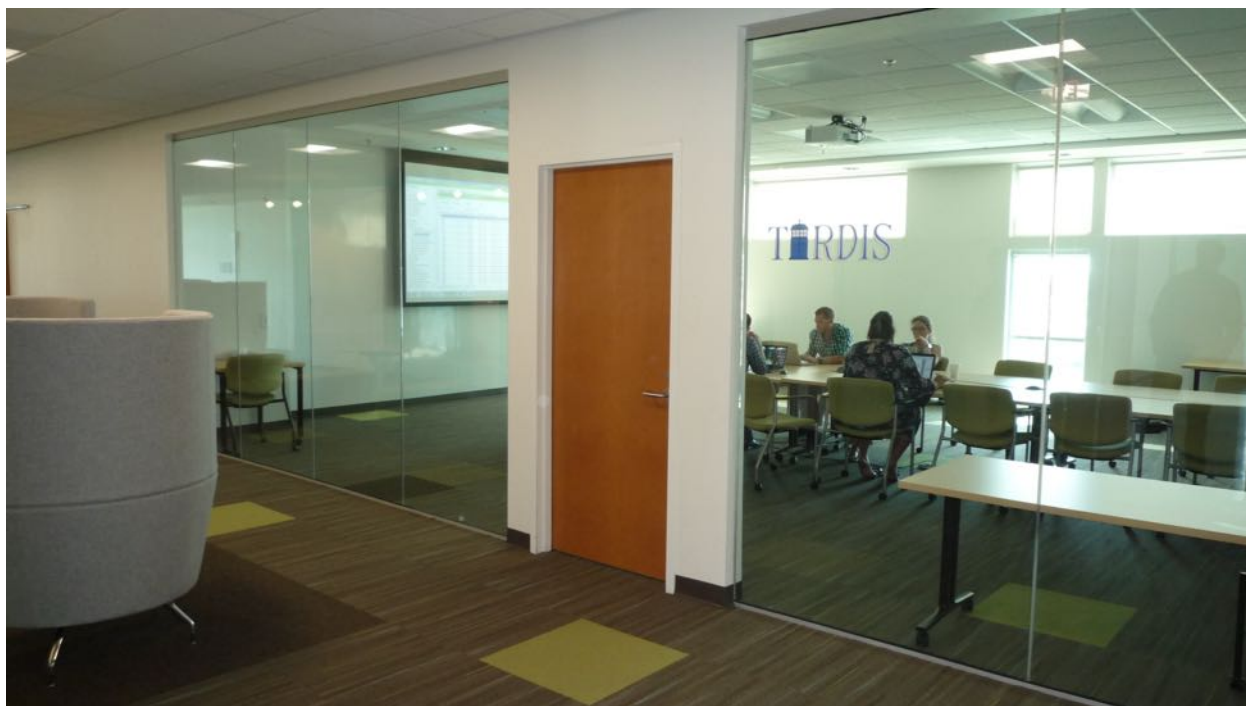
## SUBJECT PHOTOS

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



## SUBJECT PHOTOS

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



## SUBJECT PHOTOS

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



## HIGHEST AND BEST USE

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

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

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

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

#### *Legally Permissible*

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

#### *Physically Possible*

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

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

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

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<sup>1</sup>

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



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

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

*Note: Rate based on total physical space*

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

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

#### *Financial Feasibility – Laboratory Use*

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

#### UofA Tech Park at Rita Ranch

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

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

#### UofA Tech Park at The Bridges

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

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

## MARKET RENT ANALYSIS

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

### Current and Historic Subject Rent

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

Lessee:	Accelerate Diagnostic, Inc.
Premises:	Entire Fourth Floor of 3950 S. Country Club, Suite 470 Tucson, Arizona
Rentable Area:	Lease Amendment 4 specifies a total useable area of, 45,885 sq. ft. This figure is relied upon for this analysis. The original lease space was 15,096 sq. ft. on the fourth floor. This was expanded via several options and lease amendments.
Date:	August 20, 2012
Term:	Originally three years from January 1, 2013 to January 12, 2016. Subsequent options have extended the term to an expiration date of January 12, 2019.
Options:	Three 1-year options, each of which have been exercised. All extensions and options are co-terminus with the original lease which as noted above expires in January 12, 2019.
Rent: lease term.	The original base rent was \$9.25 per square foot applied during the first
Rent Increases:	The rent increased to \$19.80 per square foot which is the current rent and which applied during each of the three option periods. The lease Sixth Amendment appears to have modified the rent. In the Sixth Amendment rent for 4,163 square feet of the space is noted at \$17.63 per square feet. Rent for the balance of the space is as previously noted here, or \$19.80 per square feet.
Percentage Rent:	None.
Expenses:	The lease was originally modified gross with the tenant paying only janitorial costs. When the tenant expanded into the entire fourth floor the tenant became responsible for all utility costs.

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



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

### **Market Rent Analysis**

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

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

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

**Comparable Rentals**

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