



Valbridge
PROPERTY ADVISORS

Appraisal Report

Tucson Small Animal Hospital Property
22 South Kolb Road
Tucson, Pima County, Arizona 85710
Parcel 134-21-002
Within S18 T14S R15E



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

Valbridge Property Advisors | Tucson

6061 East Grant Road
Tucson, AZ 85712
520.321.0000 phone
520.290-5293 fax
valbridge.com

Valbridge File Number:
AZ01-19-SP-120



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Tucson, AZ 85712
520.321.0000 phone
520.290-5293 fax
valbridge.com

August 27, 2019

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

Appraisal Report
Tucson Small Animal Hospital Property,
22 South Kolb Road, Tucson, Pima County, Arizona 85710
Valbridge Property Advisors | Tucson Job # AZ01-19-SP-120

Dear Mr. Teplitsky:

In accordance with your request, I have prepared a real property appraisal of the above-referenced property. This appraisal report sets forth the pertinent data gathered, the techniques employed, and the reasoning leading to our value opinion.

The subject property is a small animal veterinary clinic/hospital facility that was originally constructed for this use in 1962. The building improvements comprise 3,706 gross square feet and were in fair to average overall condition as of the date of value, with some deferred maintenance evident. The building appears to be largely in original condition with no recent major renovation work evident. A roof-top solar photovoltaic system is excluded from the appraisal since it is subject to a lease and is therefore not part of the subject real estate. Additionally, the appraisal has not considered the value of personal property and fixtures within the property that are utilized in the business practice. The site comprises approximately 0.66 acres and zoned for commercial uses. The subject is further identified as Assessor's Parcel Number (APN) 134-21-002. The property was being offered for sale for \$550,000 on the date of value. Pima County is reportedly interested in purchasing the property at a proposed price of \$500,000, but has not prepared a written offer.

I developed my analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, and the requirements of the Pima County Real Property Services as required by the Scope of Work specified in the RFP for this assignment.

Pima County Real Property Services is the client in this assignment and is the intended user of this appraisal report. The intended use is for decisions related to a potential acquisition of the property. The acceptance of this appraisal assignment and the completion of the appraisal report submitted herewith are contingent on the following extraordinary assumptions and/or hypothetical conditions:

Extraordinary Assumptions:

- **None**

Hypothetical Conditions:

- **None**

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

Value Conclusion	
	As Is, Real Estate Only
Value Type	Market Value
Property Rights Appraised	Fee Simple
Date of Value	August 20, 2019
Value Conclusion	\$575,000
	\$155.15 per SF Building
	\$19.91 per SF Land

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

Respectfully submitted,
Valbridge Property Advisors | Tucson



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

Table of Contents

Cover Page	
Letter of Transmittal	
Table of Contents	i
Summary of Salient Facts	ii
Aerial and Front Views.....	iii
Introduction.....	1
Market Area Description.....	6
Site Description	16
Improvements Description	22
Highest and Best Use.....	33
Appraisal Methodology	38
Sales Comparison Approach.....	39
Reconciliation.....	58
General Assumptions and Limiting Conditions	60
Certification	66
Addenda	68

Summary of Salient Facts

Property Name:	Tucson Small Animal Hospital Property
Address:	22 South Kolb Road Tucson, Pima County, Arizona 85710
Assessor's Parcel Number:	134-21-002
Property Rights Appraised:	Fee Simple, real estate only
Site Size:	0.660 acres (28,875 square feet)
Zoning:	C-2, Commercial
Existing Improvements:	<p>The site is currently improved with a small animal veterinary clinic/hospital that was constructed in 1962 and totals 3,706 gross square feet. The building appears to be largely in original condition with some deferred maintenance evident.</p> <p>A roof-top solar photovoltaic system is excluded from the appraisal since it is subject to a lease and is therefore not part of the subject real estate.</p>
Current Status:	The property is currently being offered for sale for \$550,000. Pima County is reportedly interested in purchasing the property at a proposed price of \$500,000, but has not prepared a written offer.
Extraordinary Assumptions:	None
Hypothetical Conditions:	None
Highest and Best Use	Redevelopment with a new commercial use, most likely with a fast food restaurant or similar use.

Value Conclusion

	As Is, Real Estate Only
Value Type	Market Value
Property Rights Appraised	Fee Simple
Date of Value	August 20, 2019
Value Conclusion	\$575,000
	\$155.15 per SF Building
	\$19.91 per SF Land

Aerial and Front Views

AERIAL VIEW



FRONT VIEW



Introduction

Client and Other Intended Users of the Appraisal

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

Intended Use of the Appraisal

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

Real Estate Identification

The subject property is located at 22 South Kolb Road, Tucson, Pima County, Arizona, 85710. The Pima County Assessor identifies the subject property as Assessor Parcel Number 134-21-002. The property is known as the Tucson Small Animal Hospital.

Legal Description

The legal description from the last vesting deed is set forth below.

•
**The South 105 feet of the North 330 feet of the East
350 feet of Lot 8 of Section 18, Township 14 South,
Range 15 East, Gila and Salt River Base and Meridian,
Pima County, Arizona;**

**EXCEPT the East 75 feet thereof, lying within Kolb
Road.**

Real Property Rights Appraised

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

Types and Definitions of Value

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

Market Value

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

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

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and each acting in what they consider their own best interest;
- A reasonable time is allowed for exposure to the open market;

- Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
 - The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concession granted by anyone associated with the sale
- 12 CFR 34.429(g) (2012)

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

Valuation Scenarios and Effective Dates of Value

I developed an opinion of value for the subject property under the following scenario and corresponding effective date of value:

Valuation Scenarios	Effective Date of Value
Market Value As Is, Fee Simple	August 20, 2019

Date of Report

The date of this report is August 27, 2019, which is the same as the date of the letter of transmittal.

Scope of Work

The scope of work includes all steps taken in the development of the appraisal. These include 1) the extent to which the subject property is identified, 2) the extent to which the subject property is inspected, 3) the type and extent of data researched, 4) the type and extent of analysis applied, and the type of appraisal report prepared. These items are discussed as follows:

Extent to Which the Property was Identified

Legal Characteristics

The subject was legally identified via review of the legal description from the last vesting deed.

Economic Characteristics

Economic characteristics of the subject property were identified via interviews with brokers, buyers, sellers and governmental agencies, and secondary sources, such as STDBOnline, CoStar COMPS and Property Professional, and data published by governmental entities such as the Arizona Department of Economic Security and the U.S. Census Department, as well as a comparison to properties with similar locational and physical characteristics.

Physical Characteristics

The subject was physically identified via a typical appraisal inspection, information provided by the client and listing broker and a review of assessor's records.

Extent to Which the Property was Inspected

I completed an interior and exterior inspection of the property on August 20, 2019. I completed field measurements of the property and entered these into the APEX program to determine the gross building area. Mr. Kirk Costich, the listing broker, Dr. Howard Moore, one of the owners, and various representatives from Pima County were present at the inspection.

Type and Extent of Data Researched

I researched and analyzed: 1) market area data, 2) property-specific market data, 3) zoning and land-use data, and 4) current data on comparable listings and sales in the competitive market area. I also interviewed people familiar with the subject market/property type.

Type and Extent of Analysis Applied

I observed surrounding land use trends, the condition of the improvements, demand for the subject property, and relative legal limitations in concluding a highest and best use. I then valued the subject based on the appropriate standard valuation methods applicable for this specific property type. The methods of valuation employed for this appraisal are discussed in the Valuation Methodology section of the report.

Appraisal Report Type

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

Appraisal Conformity

I developed my analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation; the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute; and the requirements of the Pima County Real Property Services as required by the Scope of Work specified in the RFP for this assignment.

Use of Real Estate as of the Effective Date of Value

The subject property was being utilized as a small animal veterinary clinic/hospital on the effective date of the "as is" value scenario.

Ownership and Sales History

According to the Assessor's records, title to the subject is vested in Tucson Small Animal Hospital, Ltd.. The last vesting deed was recorded in 1989; however, this was a related party transaction.

The property is currently offered for sale for \$550,000 through Kirk Costich (Southern Arizona Real Estate Partners 520-404-1704). Pima County is reportedly interested in purchasing the property at a proposed price of \$500,000, but has not prepared a written offer.

Mr. Costich reported that he initially began marketing the property in March of 2017 for a price of \$650,000. The marketing materials reflect a gross building area of 3,683 square feet and a site area of 29,775 square feet, which are the building and site sizes reported by the Pima County Assessor's office. For this appraisal, I have primarily based all calculations on a gross building area of 3,706 square feet (based on my measurements and APEX calculations) and a site area of 28,875 square feet (based on actual site dimensions). The original asking price of \$650,000 equates to \$175 per square foot of gross building area and \$22.51 per square foot of land area.

On May 5, 2017, Mr. Costich received an unsigned letter of intent (LOI) from GPS Retail Advisors acting on behalf of Vintage Partners (or assigns) offering to purchase the property for \$550,000. The LOI set forth a due diligence period of 180 days with closing to occur 90 days later. Although not stated in the LOI, Mr. Costich believed that the buyer was interested in acquiring the property in order to redevelop the site with a Dutch Bros coffee store. The \$550,000 offered price equates to \$19.05 per square foot of land area and \$148 per square foot of building area. The owners of the property reportedly provided no response to this LOI because another local veterinarian had

reportedly expressed an interest in buying the property for \$850,000 around this time but ultimately failed to make any type of offer. Contact with GPS ended in August of 2017.

Mr. Costich reported that the offered price was then increased to \$750,000 for a short period of time but was later reduced back to \$650,000.

In October of 2018, negotiations began with a new party known as WNDG, LLC, and a purchase contract was finalized on December 19, 2018, stating a purchase price of \$600,000. Under this contract, the buyer would acquire the real estate and the seller's position under the solar PV system lease. The feasibility (due diligence) period would have been only 45 days and closing would have occurred 15 days later. It is noted that the buyer had just acquired the adjacent west property in September of 2018 and was apparently interested in assembling these properties for their enhanced redevelopment potential. The contract also noted that half of the 5% brokerage commission would be paid by the buyer to the buyer's broker (Pete Villaescusa with CBRE). The buyer would also have to deal with termination of the solar PV lease since they would presumably demolish the improvements in order to redevelop the site. Mr. Costich reported that the buyers felt that the cost of buying out the lease could range from \$5,000 to \$50,000. There is significant uncertainty regarding the buy-out due to the language included in the lease and lack of stipulated purchase prices at various times. The buy-out price appears to be solely based on "the fair market value of the system as of the applicable purchase date (as determined by a nationally recognized independent appraiser mutually acceptable to Lessor and Lessee)." Excluding the solar PV system buyout, the buyer's effective cost including their portion of the brokerage commission would have been \$615,000, which equates to \$21.30 per square foot of land area. If the buy-out actually cost \$50,000, this would add \$1.73 per square foot to the basis. Mr. Costich reported that the buyer ultimately requested more time to evaluate or close the transaction and that the sellers refused and the contract was terminated.

The offered price was subsequently reduced to \$550,000 and Mr. Costich reported that there was some interest by a couple of local vets; however, no offers were ever received from them. He then reportedly contacted Mr. Chuck Huckelberry's office at Pima County informing them of the availability of the property and subsequently the parties negotiated a proposed purchase price of \$500,000, which equates to about \$135 per square foot of building area. Pima County would apparently utilize the property as part of its animal control operation and this was very important to the seller, who wanted the property to remain in its current use. Mr. Costich believed that the seller's desire for the property to remain an animal care facility outweighed his desire to sell it for the highest price. This appears to be borne out by the marketing history as the potential sale to Pima County is effectively more than \$100,000 less than the contract price to the adjacent property owner, who would have redeveloped the property with another use. Therefore, I concluded that the current owner is not typically motivated and that the proposed sale price may not be reflective of the current market value of the property.

List of Items Requested but Not Provided

- None

Extraordinary Assumptions

An extraordinary assumption is an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information

about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. An extraordinary assumption may impact the assignment results. An extraordinary assumption may be used in an assignment only if:

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

(USPAP, 2018 ed.)

The following extraordinary assumptions apply in this report

- **None**

Hypothetical Conditions

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

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

(USPAP, 2018 ed.)

The following hypothetical conditions apply in this report

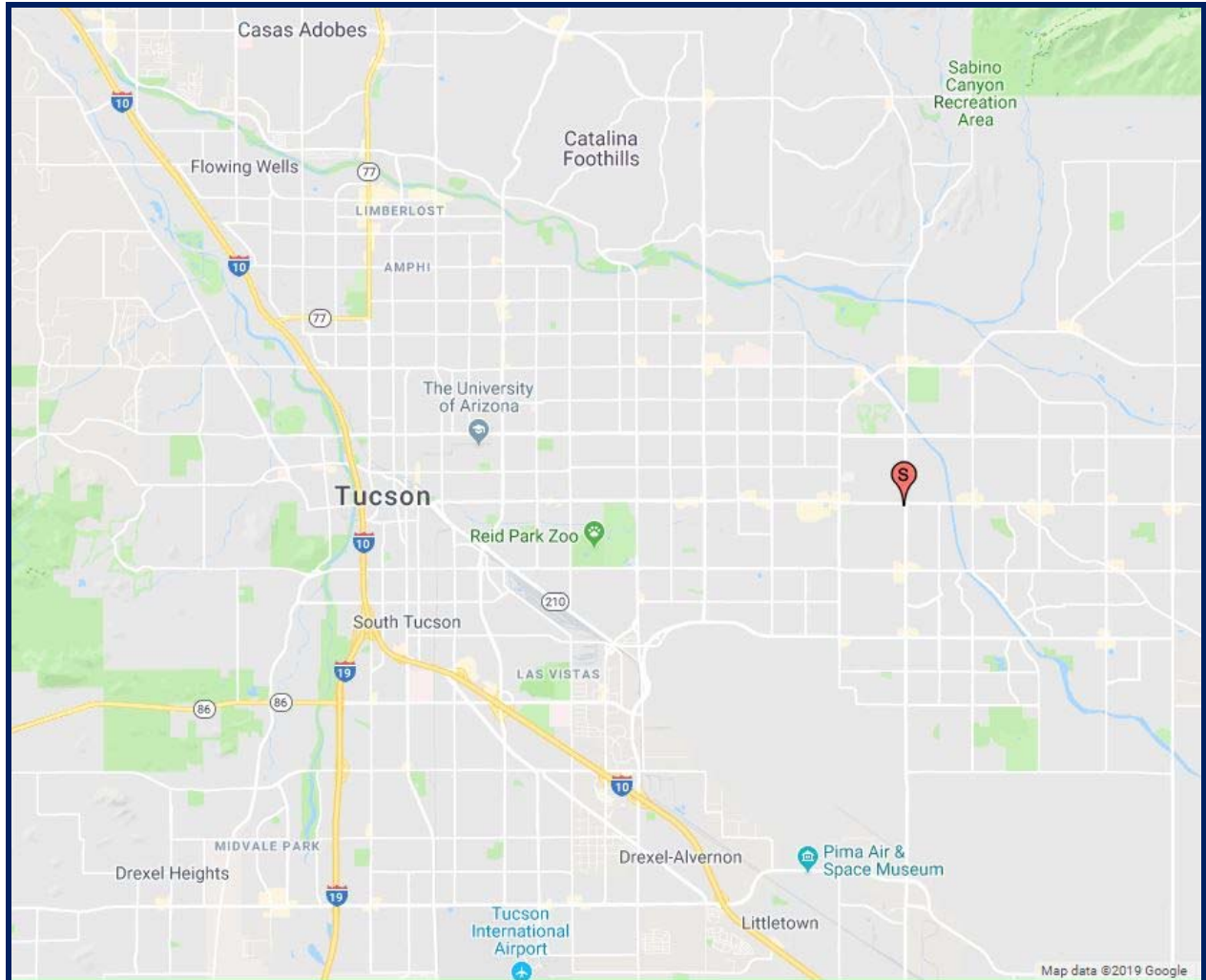
- **None**

Personal Property

No personal property has been included in the appraisal of the subject property. Any personal property, including equipment related to the veterinary operation, has been excluded from consideration.

Market Area Description

REGIONAL MAP



Overview

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

Population

Mid-year 2019 population in metro Tucson was projected at 1,041,900, which reflects a 0.8% increase over the prior year. As noted below, slightly lower rates are projected for 2020 through 2022.

Metropolitan Tucson Population Forecasts

	2017	2018	2019	2020	2021	2022
Population (000s, mid-year)	1,026.1	1,034.1	1,041.9	1,049.3	1,056.5	1,063.7
Change (000s)	8.6	8.0	7.8	7.4	7.2	7.2
% Change	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%

Source: Economic and Business Research Center, The University of Arizona, May 2019

Esri estimated a 2018 population of 1,039,768 for the Tucson MSA and projects an increase to 1,082,583 by 2023. This results in an overage annual increase of 8,600 residents per year. They further project an increase of about 16,500 households over this period, or an average of just under 3,300 households per year. Tucson has a projected 2018 average household size of 2.47 persons.

Employment

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

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

There have been a number of recent employment and other significant announcements that suggest Tucson's economy may improve at a greater pace than indicated over the past five or more years.

Raytheon Missile Systems, Tucson's largest private employer, is undertaking a major expansion that will add 1,975 new high-paying jobs.

Caterpillar has relocated its Surface Mining and Technology Division to Tucson and will provide 635 new high paying jobs over the next five years. They are temporarily located in several existing buildings in downtown Tucson while their new facility is being constructed just to the west of downtown. Completion is scheduled for early 2019.

Hexagon Mining, an information technology provider of planning, operations and safety solutions for the mining industry, announced in March 2017 the relocation and expansion of its North American headquarters to a new mixed-use facility in downtown Tucson. Hexagon moved into the new facility in the summer of 2018 and will employ 260 people in Tucson.

Tucson's Top 25 Employers - 2018

Rank	Name	Full Time Jobs	Industry
1	University of Arizona	11,251	Education
2	Raytheon Missile Systems	9,600	Manufacturing
3	State of Arizona	8,580	Government
4	Davis-Monthan Air Force Base	8,406	Military
5	Tucson Unified School District	7,700	Education
6	Pima County	7,060	Government
7	Banner-University Medical Center	6,272	Health Care
8	U.S. Border Patrol	5,739	Government
9	Freeport-McMoRan Copper & Gold	5,530	Mining
10	Wal-Mart Stores, Inc.	5,500	Retail
11	Fort Huachuca	5,477	Military
12	City of Tucson	4,595	Government
13	Tohono O'odham Nation	4,350	Government
14	Carondelet Health Network	3,860	Health Care
15	TMC HealthCare	3,162	Health Care
16	Southern AZ VA Health Care System	2,464	Health Care
17	Corrections Corp. of America (CCA)	2,413	Corrections
18	Fry's Food Stores of Arizona, Inc.	2,346	Retail
19	Pima Community College	2,235	Education
20	Asarco, LLC	2,200	Mining
21	Sunnyside Unified School District	2,100	Education
22	Afni Inc.	1,900	Call Center
23	Pinal County	1,852	Government
24	Amphitheater Unified School District	1,739	Education
25	Vail Unified School District	1,705	Education

Source: Phoenix Relocation Guide 2018

Amazon selected Tucson for a new fulfillment center that will ultimately employ 1,500 people. The facility is currently under construction in the southeast area of Tucson near I-10 and Kolb Road and should be completed mid-2019.

GEICO will soon move into a new office complex and expand its employment by 861 jobs.

ADP, a major human resources provider, announced in early 2017 that it was bringing another 250 jobs to Tucson as part of a program coordinated between the Human Capital Management firm, the City of Tucson and the State of Arizona.

HomeGoods has completed construction of an 800,000 square foot distribution center near the Tucson International Airport and will reportedly employ up to 900.

Comcast recently located a call center into a newly renovated facility near the Tucson Mall that will employ up to 1,100 positions.

Banner-University is building a new \$400 million addition to their existing facility near the University of Arizona campus.

A new AC Hotel by Marriott was completed in downtown Tucson in 2017, representing the first hotel to be built in the area in over 40 years. At least two more CBD hotels are in the planning stages.

Pima County completed a deal that brought World View Enterprises to the Tucson International Airport area where they operate Spaceport Tucson, a high altitude balloon launch site for near-space tourism and research.

Afni and Alorica call centers both announced in early 2017 that they will be hiring for 280 and 200 position at their local call centers in the coming year. C3/Customer Contact Channel opened its third call center facility in Tucson in 2017 as well.

Employment by industry for the MSA is as follows.

Metropolitan Tucson Nonfarm Employment

Year Ending	2014		2015		2016		2017		2018	
Sector	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total
Natural Resources & Mining	2.3	0.6%	2.0	0.5%	1.6	0.4%	1.7	0.4%	1.7	0.4%
Construction	14.5	3.9%	14.9	3.9%	14.8	3.9%	16.4	4.3%	17.4	4.4%
Manufacturing	22.5	6.0%	22.9	6.1%	23.4	6.2%	24.6	6.4%	26.2	6.6%
Trade, Transp. & Utilities	63.3	16.9%	62.8	16.6%	61.4	16.2%	62.4	16.2%	63.1	16.0%
Information	4.5	1.2%	4.8	1.3%	5.0	1.3%	5.3	1.4%	5.6	1.4%
Financial Activities	17.8	4.7%	17.2	4.5%	17.4	4.6%	17.8	4.6%	17.7	4.5%
Professional & Business Svcs	51.7	13.8%	51.6	13.6%	50.0	13.2%	52.2	13.5%	54.5	13.8%
Education & Health Services	62.7	16.7%	64.2	17.0%	65.4	17.2%	65.6	17.0%	68.2	17.3%
Leisure & Hospitality	42.1	11.2%	43.1	11.4%	46.0	12.1%	45.5	11.8%	46.2	11.7%
Other Services	14.5	3.9%	14.5	3.8%	15.1	4.0%	13.0	3.4%	13.0	3.3%
Government	79.1	21.1%	80.1	21.2%	79.2	20.9%	80.9	21.0%	81.2	20.6%
TOTAL NONFARM	375.0	100%	378.1	100%	379.3	100%	385.4	100%	394.8	100%

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

Unemployment

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

Average Unemployment Rate

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
National	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.4%	3.7%
Arizona	6.2%	9.9%	10.4%	9.5%	8.3%	7.7%	6.8%	6.1%	5.4%	4.9%	5.1%
Metro Tucson	5.8%	9.1%	9.3%	8.5%	7.4%	6.8%	6.0%	5.5%	5.0%	4.5%	4.8%

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

Notes: Not seasonally adjusted.

Economic Forecasts

The projections summarized below suggest that job growth will peak in 2019 at a rather anemic rate of 1.2%, and then decline to only 0.5% during 2021 before increasing slightly in 2022. The forecast suggests that number of jobs lost in the Great Recession was finally recaptured some time in 2018. Projected growth will remain well below the growth experienced in prior recoveries.

Metropolitan Tucson Economic Forecasts

Category	2017	2018	2019	2020	2021	2022
Personal Income (\$mill)	\$42,585.4	\$44,489.5	\$46,479.7	\$48,514.0	\$50,588.1	\$52,845.6
% Change	6.0%	4.5%	4.5%	4.4%	4.3%	4.5%
Retail Sales (\$mill)	\$13,704.2	\$14,457.9	\$15,100.5	\$15,596.0	\$16,047.4	\$16,547.3
% Change	4.9%	5.5%	4.4%	3.3%	2.9%	3.1%
Employment (non-farm,000s)	377.2	381.5	386.2	389.7	391.8	394.4
Change (000s)	3.8	4.3	4.7	3.5	2.1	2.6
% Change	1.0%	1.1%	1.2%	0.9%	0.5%	0.7%
Residential Permits	4,495.0	4,266.0	3,902.5	3,712.4	3,650.6	3,672.6
% Change	82.3%	-5.1%	-8.5%	-4.9%	-1.7%	0.6%

Source: Economic and Business Research Center, The University of Arizona, May 2019

Commercial Real Estate

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

Metro Tucson Commercial Sectors - 2019

Sector	No. Buildings	Total Sq. Ft.	YTD Deliveries	Under Construction	Vacancy	YTD Absorption	Average Quoted Rent
Industrial	2,574	42,860,566	74,500	1,300,834	5.2%	291,175	\$6.22
Office	2,564	26,933,955	466,300	539,805	9.0%	285,648	\$18.71
Retail	5,458	54,357,508	90,099	74,476	5.7%	(225,898)	\$15.00

Source: CoStar: 2nd Quarter 2019

Residential Real Estate

The Tucson MSA housing market is in a slow sustained recovery that commenced in 2012. Sale velocity has been within a consistent range from 10,300 to 11,500 sales per year since 2011, though falling to 9,900 in 2018. Based on the average sales velocity over the past five years, there is currently a little over three months of supply on the market. The low supply is due to limited new construction, a decrease in REO sales, and an inability of some homeowners to sell due to a lack of equity. The average single-family sale price increased by nearly 14% during 2016 and by 8% during 2017; and the average single-family sale price in 2018 finally topped the former 2007 peak by 0.3%. Real estate agents are reporting shorter marketing times, which is caused by a limited supply and gradual increase in demand. Investors made up a larger percentage of the total sales from 2011 to 2013; however, investor purchases have since slowed for the most part. The housing market is currently considered to be in balance with respect to supply and demand. The recent trends are summarized below.

Tucson Single-Family Market

Year	# Sales	Avg. SF	Avg. Sale Price	% Change	Avg. Price/SF	% Change	DOM
2007	10,164	1,688	\$264,122	1.30%	\$156.47	-2.60%	101
2008	8,383	1,727	\$233,696	-11.52%	\$135.32	-13.52%	155
2009	9,286	1,724	\$192,314	-17.71%	\$111.55	-17.56%	148
2010	9,329	1,731	\$180,091	-6.36%	\$104.04	-6.73%	140
2011	10,702	1,723	\$156,611	-13.04%	\$90.89	-12.63%	103
2012	11,245	1,752	\$167,787	7.14%	\$95.77	5.36%	70
2013	11,502	1,750	\$184,523	9.97%	\$105.44	10.10%	63
2014	10,616	1,771	\$196,987	6.75%	\$111.23	5.49%	76
2015	11,479	1,775	\$202,485	2.79%	\$107.93	-2.97%	79
2016	10,328	1,881	\$230,616	13.89%	\$122.60	13.59%	65
2017	10,431	1,889	\$249,489	8.18%	\$128.19	4.56%	54
2018	9,944	1,903	\$264,966	6.20%	\$135.38	5.61%	40

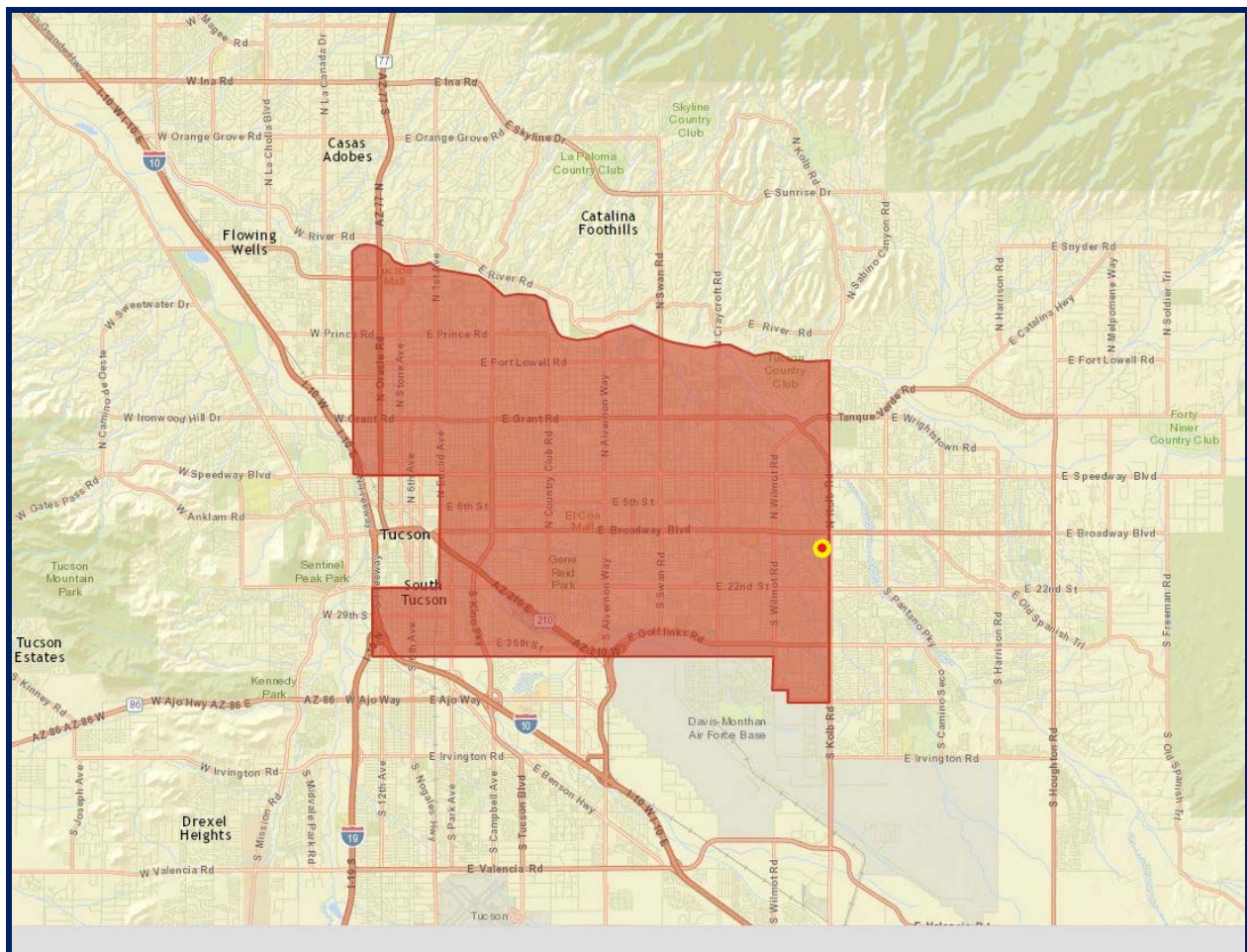
source: Tucson MLS

Tucson's multifamily sector has demonstrated stable performance over the past several years with larger 40-plus unit apartment projects averaging about 94% occupancy over 2017 and 2018. There was a limited amount of new multifamily construction from 2007 to 2010 but a new development cycle ramped up during 2011 and 2012 and over 5,500 units have been constructed since 2010. Approximately 943 units were under construction at the end of the fourth quarter 2018. The vast majority of new construction has been in the Class A luxury and student housing sectors. The Class A sector had been underserved for the past 20 or more years and new Class A projects have generally been experiencing strong market acceptance. Rental rates remain fairly modest, averaging about \$1.05 per square foot overall and about \$1.38 per square foot for new conventional projects currently in lease-up. Tucson's modest economic growth over the recent past kept downward pressure on rents; however, concessions have continued to trend downward and average gross rents increased by almost 5% over 2016, by 6% over 2017 and by 7% over 2018. Given the limited amount of construction currently scheduled, Tucson's apartment market should continue to improve over the near term.

Conclusions

Economic projections for metro Tucson suggested that the population will increase by about 7,800, or 0.8% from mid-2018 to mid-2017 and that annual gains of 0.7% are forecast through 2022. Employment growth was projected at 1.1% over 2018 and 1.2% over 2019, but growth is forecast to decrease to 0.9% over 2020, 0.5% over 2021, and 0.7% for 2022. These forecasts suggest that economic growth will peak in 2019 and that Tucson's economy will again become sluggish by 2021 or 2022. These factors suggest that the residential and commercial real estate sectors should remain fairly healthy over the next two years but may experience reduced demand or downward pressure on rents in the following years. Because there is essentially no speculative development occurring, the risk of overbuilding is considered to be minimal in the current market environment. With the exception of office, most real estate sectors are demonstrating fairly balanced supply and demand characteristics and the office market has also been continuing to show improvement over the past several years. Significant vacancies in most sectors are at least partially the result of older, dysfunctional space as opposed to limited demand.

Tucson Central Neighborhood Map



Boundaries: Rillito River (north), Sabino Canyon Road/Kolb Road (east), Golf Links Road/36th Street (south), I-10/Fairview Avenue (west), excluding the CBD, bounded by Speedway (north), 1st Avenue / Euclid (east), 22nd Street (south) and I-10 (west), including area bounded by Golf Links, Kolb, Escalante and Wilmot.

Neighborhood Trends

Central Tucson is not directly served by freeways. Instead, transportation throughout the neighborhood is via surface streets, primarily oriented along an arterial grid network. The largest arterials, like Oracle Road, Speedway Boulevard and Broadway Boulevard, are as wide as six lanes. The lack of a central freeway tends to increase traffic congestion although The Regional Transportation Authority has been making improvements to improve traffic flow and is currently widening Grant Road from Oracle Road to Swan Road. In general, access to surrounding neighborhoods is good.

Most of the residential areas in Central Tucson are older, established communities with medium to high density development. Other than occasional infill projects, there has not been substantial new single-family development within this area for several decades. Multifamily residential uses are common, with student housing clustered near the University of Arizona, and base-oriented housing in the southeastern portion of Central Tucson, near Davis-Monthan Air Force Base.

Retail uses are dominated by the three major malls, which draw significant demand from outside the neighborhood across the entire Tucson MSA and beyond. Major retail corridors are evident along Oracle Road, south of the Tucson Mall and Auto Mall, and along Broadway Boulevard, especially between the two malls. Student-oriented retail is found along Speedway Boulevard near the University of Arizona and along Campbell Avenue north of Grant Road. All of the major arterials have substantial convenience retail, with grocery-anchored shopping centers typically located at arterial intersections.

Williams Centre, at Broadway and Craycroft, is the largest concentration of Class A office space outside the CBD. Williams Centre includes supporting retail and hotel uses, which reinforce this node as a dominant office location. There are several other mid-rise and high-rise offices along Broadway Boulevard, but the buildings outside of Williams Centre are generally outmoded, and they struggle to maintain high occupancy. Medical office uses are concentrated near Tucson Medical Center, at Grant and Craycroft and, to a lesser extent, Cardondelet, on Wilmot north of Broadway. Industrial uses are infrequent in central Tucson, and are generally found in the southeast quadrant of the neighborhood.

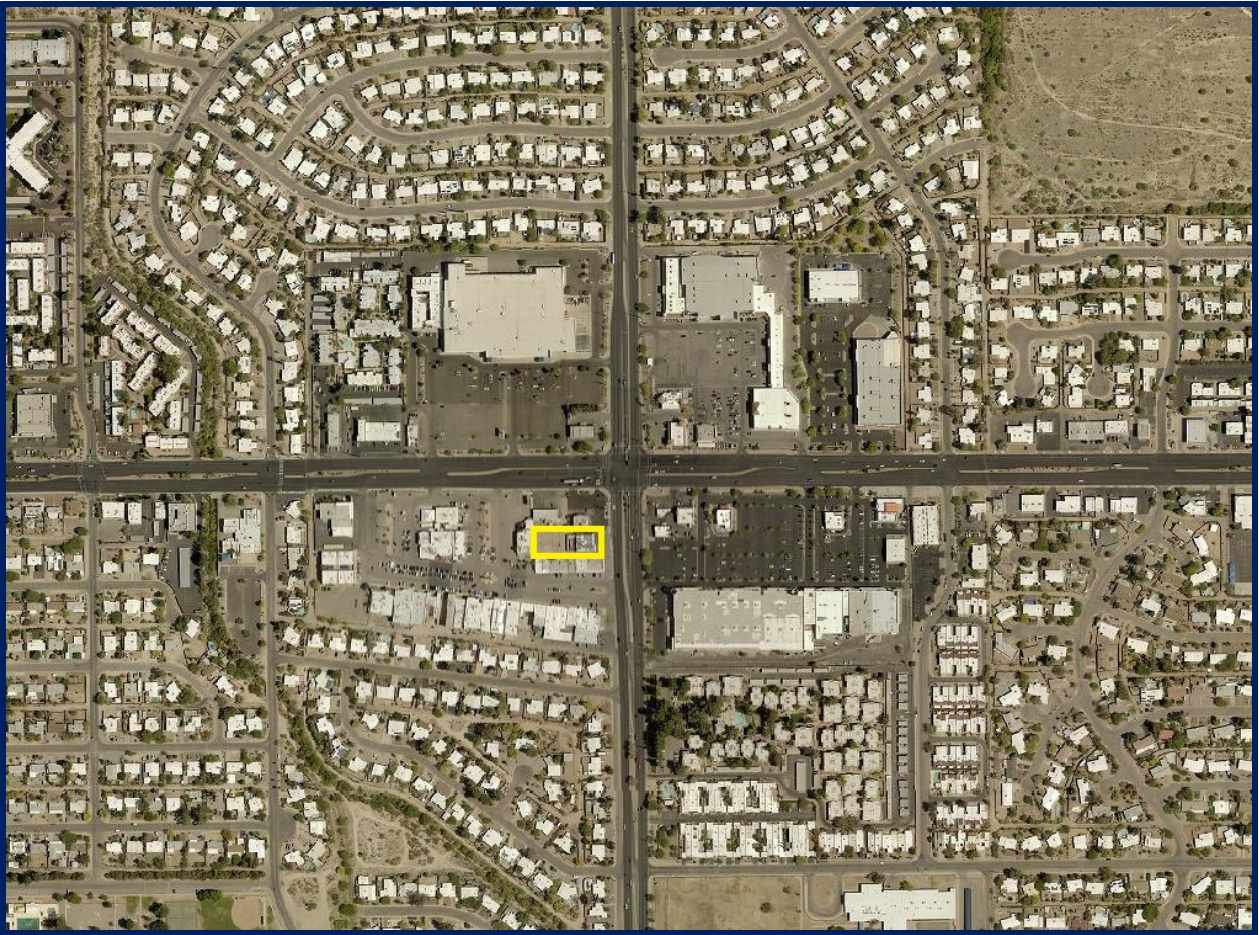
Overall, Central Tucson is approximately 90-95% built out, and most new construction requires redevelopment. Demographics tabulated on the following page reflect this in lower population and household growth rates. The population is younger than the Tucson MSA overall, with lower measures of income and wealth, which is typical for an urban central location.

Neighborhood Demographic Profile

Population	Neighborhood	Tucson MSA
2010 Census	222,980	980,263
2019 Estimate	230,189	1,051,292
2024 Projection	235,751	1,095,684
Gross Population Change		
2010 - 2019	3.2%	7.2%
2019 - 2024	2.4%	4.2%
Average Annual Population Change		
2010 - 2019	0.4%	0.8%
2019 - 2024	0.5%	0.8%
Median Age (2019)	34.0	39.2
Households		
2019 Estimate	99,348	416,703
2024 Projection	101,919	434,591
Avg. New HH/Year 2019-2024	514	3,578
2019 - 2024 % Change	2.6%	4.3%
Avg. Annual Change 2019 - 2024	0.5%	0.9%
Average Household Size (2019)	2.20	2.46
Daytime Population (2019)		
Total	298,178	1,043,206
Workers	172,038	448,813
Residents	126,140	594,393
Income (2019)		
Average HH Income	\$53,011	\$74,752
Median HH Income	\$36,109	\$53,114
Per Capita Income	\$23,032	\$29,725
Household Income		
\$0 - \$15,000	22.1%	12.3%
\$15,000 - \$24,999	14.7%	10.6%
\$25,000 - \$34,999	11.8%	9.8%
\$35,000 - \$49,999	14.7%	14.0%
\$50,000 - \$74,999	15.8%	18.4%
\$75,000 - \$99,999	8.6%	12.3%
\$100,000 - \$149,999	7.8%	13.5%
\$150,000 - \$199,999	2.4%	4.4%
\$200,000 +	2.2%	4.8%
Housing (2019)		
% Owner Occupied	35.2%	56.7%
% Renter Occupied	53.1%	32.0%
% Vacant	11.7%	11.3%
Median Home Value	\$186,663	\$217,669

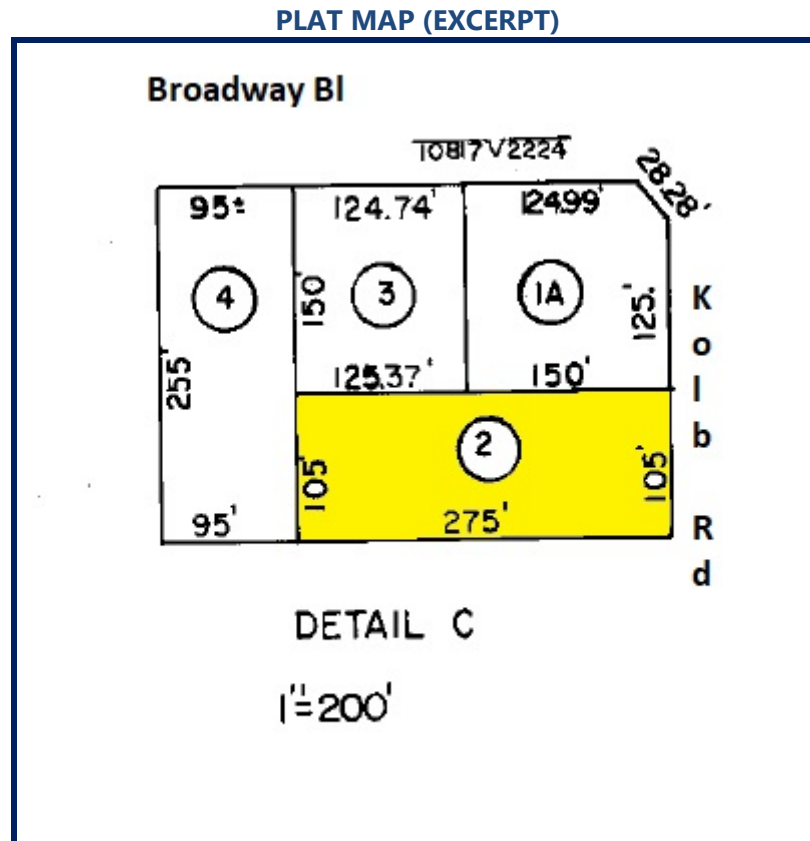
Source: U.S. Bureau of the Census, 2010 Census of Population and Housing. Esri forecasts for 2018 and 2023

AERIAL PHOTO OF SUBJECT PROPERTY ENVIRONS



Site Description

The following description is based on my appraisal inspection of the subject property, assessor records, and information provided by the property owner's broker and the client.



General Data

Street Address:	22 South Kolb Road, Tucson, Pima County, Arizona 85710
General Location:	West side of Kolb Road, 150 feet south of Broadway Boulevard
Assessor Parcel Number:	134-21-002
Current Assessments:	The 2019 full cash value (FCV) and limited property value (LPV) are both equal to \$423,545.
Current Taxes	The 2018 real estate taxes totaled \$12,009.16 and have been paid in full.

Adjacent Land Uses

North:	7-Eleven convenience store at southwest corner of Broadway Boulevard and Kolb Road and small retail store adjacent west (Brooklyn Bedding)
South:	Retail and office uses within the Gaslight Plaza, which wraps around the southwest corner of Broadway and Kolb, followed by single-family residential uses
East:	Kolb Road, followed by Circle Plaza Shopping Center, anchored by Michael's, Natural Grocers, Ross, Home Goods and Beall's Outlet
West:	Retail and office uses within Gaslight Plaza, followed by single-family residential uses and some commercial uses along Broadway

Physical Characteristics

Site Area:	28,875 net square feet, or 0.66 net acres per appraiser's calculations from plat map and legal description (105' x 275'). Assessor's records indicate a site area of 29,775 square feet, which appears to be overstated.
Shape:	Rectangular (105.0' frontage x 275.0' depth)
Topography:	Generally level
Visibility:	Good

Access

Street Name(s):	Kolb Road
Access:	The site has 105 feet of frontage along Kolb Road, which is a primary north-south arterial improved with six lanes. It is median divided at the subject property so there is no direct access from northbound traffic. However, U-turns are permitted just to the north at the Broadway and Kolb intersection. Kolb Road has an average traffic volume of about 45,600 vehicles per day while Broadway carries about 39,800 VPD. There is no direct access to the site from Broadway or apparently via the Gaslight Plaza retail center. It is apparent that people do drive to and from the subject site through the adjacent north Brooklyn Bedding property; however, it is my understanding that no easement for such exists. Overall access is rated good.

Site Improvements

Utilities:	All available to the site
	Electric: Tucson Electric Power
	Natural Gas: Southwest Gas
	Water: City of Tucson
	Sewer: Pima County

On-Site Improvements: Asphalt-paved front parking area, limited landscaping, monument sign, walled and gated rear yard with exercise runs and storage area. The rear portion of the site is unimproved.

Flood Zone Data

Flood Map Panel: 04019C2302L dated June 16, 2011
Flood Zone: X, outside the 100-year floodplain

Other Site Conditions

Soils: No atypical conditions assumed
Environmental Issues: No atypical conditions assumed
Easements and Encroachments: None known. A review of the Commitment for Title Insurance used by Pioneer Title Agency, Inc. as of August 12, 2019 did not appear to indicate any apparent easements associated with the subject property. Most of the Schedule B items that referenced restrictions, conditions, covenants, easements, etc. did not appear to apply to the subject property.

Zoning Designation

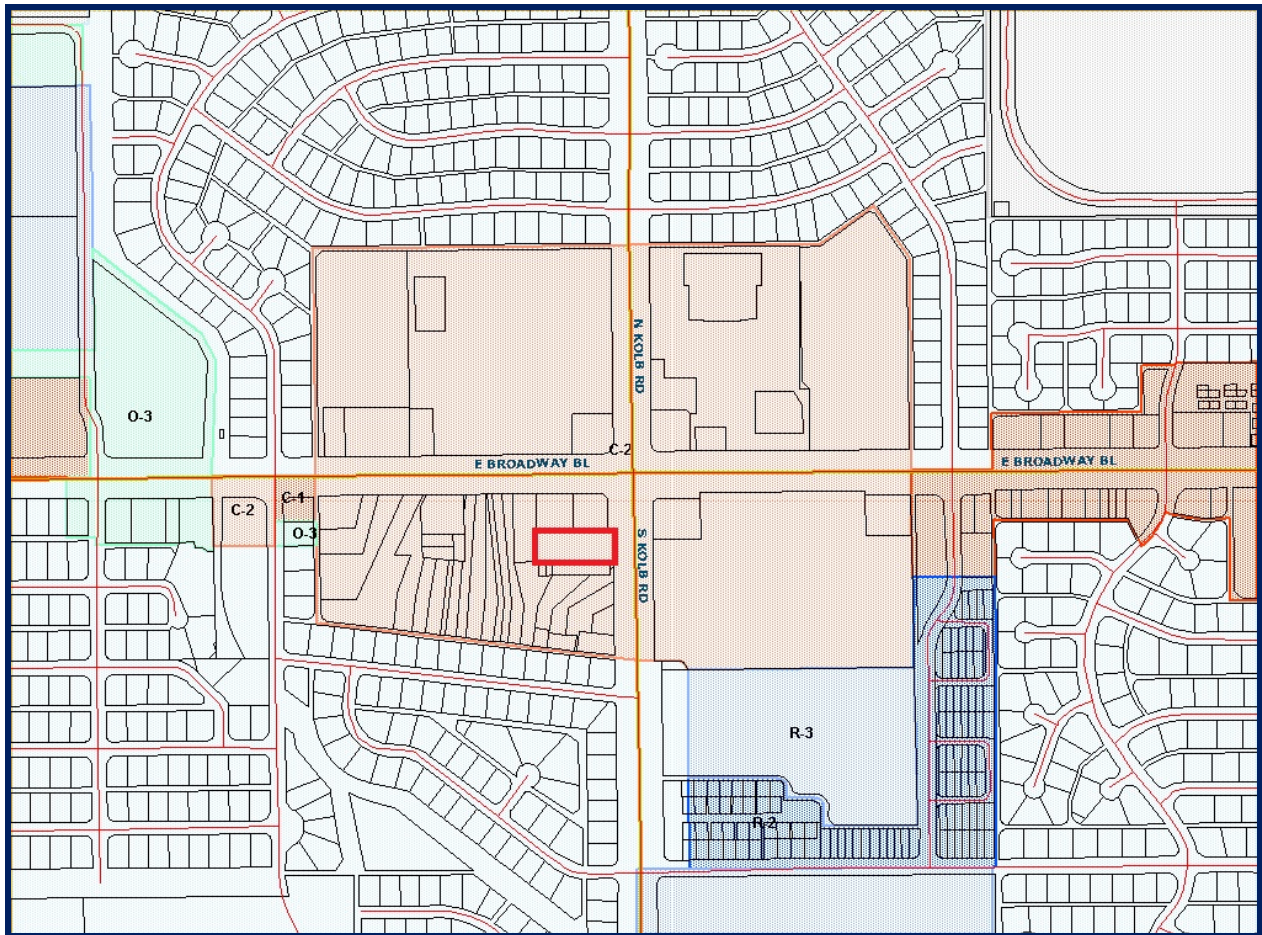
Zoning Code: C-2, Commercial
Zoning Jurisdiction: Tucson
Zoning Comments: The property is zoned C-2, Commercial Zone, under the City of Tucson Unified Development Code (UDC). The C-2 zone provides for general commercial uses that serve the community and region. Residential and select other agriculture, civic, recreational, and utility uses may also be permitted that provide reasonable compatibility with adjoining residential uses. Permitted uses include retail, restaurant, nightclub/bar, wholesale, automotive sales, leasing and service, administrative and professional office, educational, religious, civic, commercial recreation and high density residential.

There is no minimum site area in the C-2 zone. Residential density may not exceed 44 units per acre. There is no maximum lot coverage limitation for non-residential uses; residential development is limited to a maximum lot coverage of 70%. Perimeter yard requirements vary depending on use and surrounding uses. The maximum building height is 40 feet

Parking requires the commercial services use group are 1 space per 300 square feet of gross floor area. The subject has 8 delineated parking spaces in front of the building but there is also unmarked parking along the south side of the building and a large unpaved area in the rear portion of the site. Based on the gross building area, the property would require 13 parking spaces.

Under the current use, the property appears to conform to zoning standards. Non-conformance, if present, does not represent a significant valuation issue as this is typical of property of this age.

ZONING MAP



FLOOD MAP

National Flood Hazard Layer FIRMette



Legend

SEE FIS REPORT FOR DETAILED LEGEND AND INDEX MAP FOR FIRM PANEL LAYOUT

SPECIAL FLOOD HAZARD AREAS	Without Base Flood Elevation (BFE) Zone A, V, AE, AH, VE, AR
	With BFE or Depth Zone AE, AO, AH, VE, AR
	Regulatory Floodway
OTHER AREAS OF FLOOD HAZARD	0.2% Annual Chance Flood Hazard, Areas of 1% annual chance flood with average depth less than one foot or with drainage areas of less than one square mile Zone X
	Future Conditions 1% Annual Chance Flood Hazard Zone X
	Area with Reduced Flood Risk due to Levee. See Notes, Zone X
	Area with Flood Risk due to Levee Zone D
OTHER AREAS	Area of Minimal Flood Hazard Zone X
	Effective LOMRs
GENERAL STRUCTURES	Channel, Culvert, or Storm Sewer
	Levee, Dike, or Floodwall
OTHER FEATURES	Cross Sections with 1% Annual Chance Water Surface Elevation
	Coastal Transect
	Base Flood Elevation Line (BFE)
	Limit of Study
	Jurisdiction Boundary
	Coastal Transect Baseline
MAP PANELS	Profile Baseline
	Hydrographic Feature
	Digital Data Available
	No Digital Data Available
	Unmapped

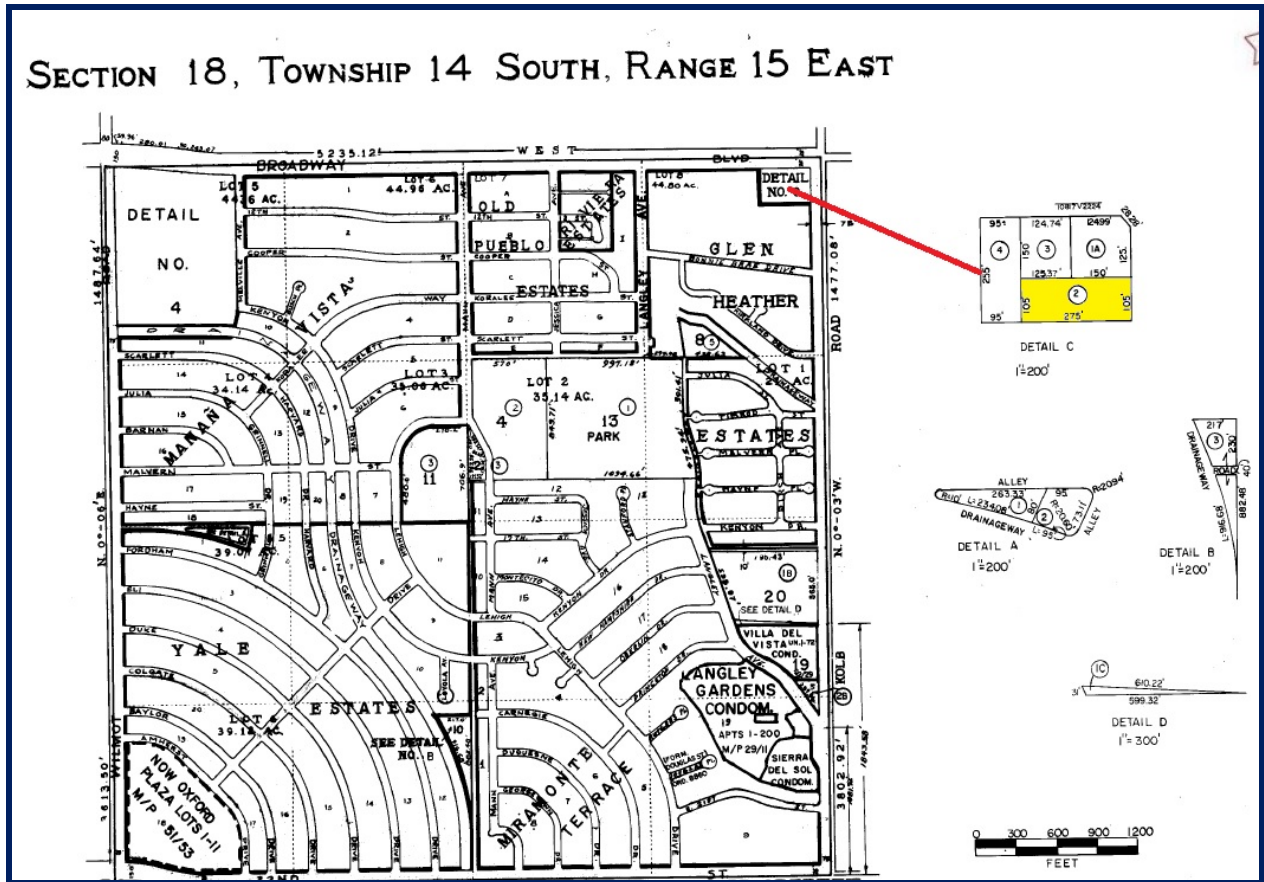
This map complies with FEMA's standards for the use of digital flood maps if it is not void as described below. The basemap shown complies with FEMA's basemap accuracy standards.

The flood hazard information is derived directly from the authoritative NFHL web services provided by FEMA. This map was exported on 8/19/2019 at 6:52:32 PM and does not reflect changes or amendments subsequent to this date and time. The NFHL and effective information may change or become superseded by new data over time.

This map image is void if the one or more of the following map elements do not appear: basemap imagery, flood zone labels, legend, scale bar, map creation date, community identifiers, FIRM panel number, and FIRM effective date. Map images for unmapped and unmodernized areas cannot be used for regulatory purposes.

ASSESSOR'S MAP

SECTION 18, TOWNSHIP 14 SOUTH, RANGE 15 EAST



Improvements Description

AERIAL PHOTO



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

General Data

Property Type:	Special Purpose
Property Subtype:	Veterinary Clinic/Hospital – small animal
Number of Buildings:	1
Number of Stories:	1
Number of Tenant Spaces:	1

Building Areas & Ratios

Gross Building Area (GBA): 3,706 square feet

GBA Source: Appraiser measurements and calculation by Apex sketch program. The Assessor shows a gross building area of 3,683 square feet, which only 0.6% smaller.

Floor Area Ratio: 0.13 (based on GBA)

Age / Life

Year Built:	1962 (per Assessor's records)
Actual Age:	57 years
Effective Age:	40 years
Typical Building Life:	40 years
Remaining Economic Life:	0 years

Exterior

Construction Class:	C - Masonry
Foundation:	Concrete slab
Structure:	Masonry exterior walls with steel column roof supports
Exterior Walls:	Brick and Concrete Block
Windows:	Single pane glass in aluminum frames
Doors:	Glass and aluminum front entry doors; hollow steel side and rear doors
Roof System:	Built-up composition roof over wood sheathing and trusses

Interior

Floors:	Combination of terrazzo, ceramic tile, carpet and finished concrete.
Walls:	Finished plaster/drywall
Doors:	Solid core wood
Ceiling Finish:	Finished plaster/drywall
Lighting Fixtures:	Surface mounted fixtures, most with LED tubes
Restrooms:	There are two restrooms, neither of which appear to be ADA compliant. One has a shower.

Mechanical Systems

Electrical:	Unknown capacity; assumed adequate and code compliant.
Sprinklers:	None
HVAC:	Two split systems with gas furnaces serve all but the surgery and pre-surgery areas, which are served by a separate rooftop system.

Layout

The layout appears to be accurately presented on the floorplan exhibit that follows and includes a reception waiting area, two exam rooms, a surgery area, x-ray area, doctor's office, night attendant area(office), two restrooms, three separate ward areas, food preparation area, wash and grooming area and storage.

Improvement Ratings

Quality:	Average
Functional Utility:	Below average compared to modern layouts that include more exam rooms and smaller ward areas.
Condition:	Fair to Average
Deferred Maintenance	The exterior of the property appears to be in good overall condition other than peeling paint on the fascias. There do not appear to be any notable structural cracks in the foundation or exterior walls. The interior was relatively good condition for the age of the property but there were a number of areas with damaged plaster and paint what require minor repairs. Built-in cabinets also have paint/surface damage in some areas. The asphalt pavement is in poor condition. The representative from Pima County Facilities Management reported that there were cracks in the roof coating/membrane and evidence of ponding.

Conclusion

The property was constructed as a small animal hospital in 1962 and does not appear to have been significantly changed since that time. While property condition is rated fair to average, the building it is considered to be functionally obsolete by current design standards, which emphasize more exam rooms and less ward area. The cages in the ward areas appear to be constructed of reinforced concrete and have integrated drainage channels that lead to floor drains. Conversion of these areas to alternative uses would likely face major physical challenges due to the construction materials and mass of the cage enclosures.

This is a detailed architectural floor plan of a veterinary hospital. The layout is organized around a central corridor system.

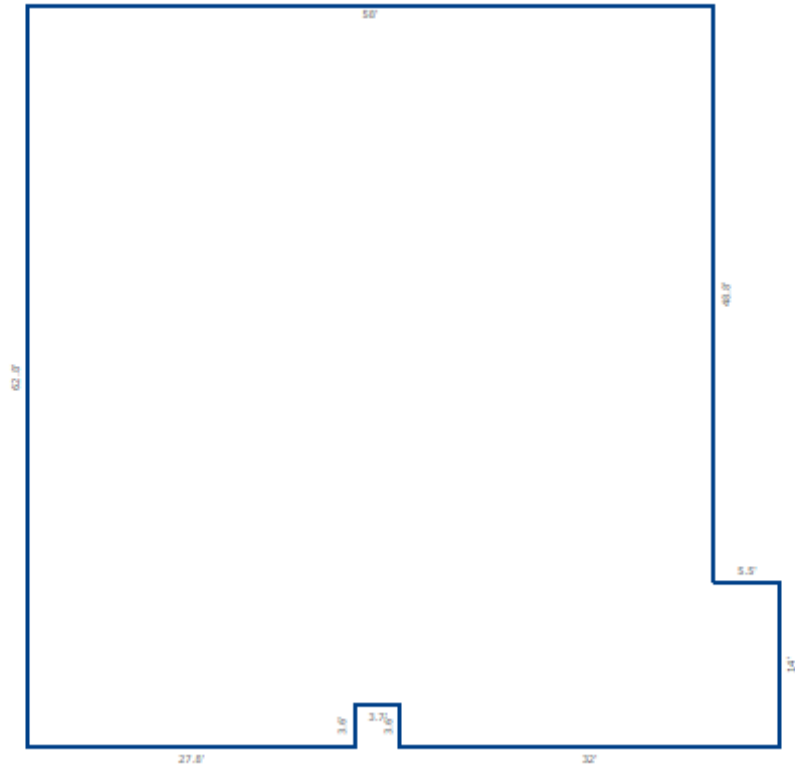
Left Wing: Contains three wards (WARD 1, WARD 2, WARD 3) and a large exercise runs area. WARD 1 is 10' x 11', WARD 2 is 10' x 11', and WARD 3 is 10' x 11'. The exercise runs area is labeled 'EXERCISE RUNS'.

Right Wing: Includes a waiting room (15' x 16'), examination rooms (16' x 16'), a laboratory (16' x 16'), a pharmacy (16' x 16'), and a service yard. The waiting room is labeled 'WAITING ROOM 15' x 16'. The examination room is labeled 'EXAMINATION 16' x 16'. The laboratory is labeled 'LABORATORY 16' x 16'. The pharmacy is labeled 'PHARMACY 16' x 16'. The service yard is labeled 'SERVICE YARD'.

Central Corridor: Connects the various rooms and includes a reception area, a laboratory (16' x 16'), a pharmacy (16' x 16'), and a service yard. The reception area is labeled 'RECEPTION 16' x 16'. The laboratory is labeled 'LABORATORY 16' x 16'. The pharmacy is labeled 'PHARMACY 16' x 16'. The service yard is labeled 'SERVICE YARD'.

Other Rooms: Includes a waiting room (15' x 16'), examination room (16' x 16'), laboratory (16' x 16'), pharmacy (16' x 16'), ward (10' x 11'), exercise runs, service yard, parking, and service yard.

APEX SKETCH AND AREA CALCULATION



Scale: 1" = 14'

AREA CALCULATIONS SUMMARY			
Code	Description	Net Size	Net Totals
GLA1	First Floor	3706.1	3706.1

LIVING AREA BREAKDOWN			
Breakdown			Subtotals
First Floor			
3.6	x	27.8	100.1
48.8	x	58.0	2830.4
3.6	x	32.0	115.2
10.4	x	63.5	660.4