

AN APPRAISAL REPORT OF

297.3304 Acres of land located on the north side of Aerospace Parkway,
between Raytheon Parkway and Alvernon Way in Tucson, Arizona
Owned by the Tucson Airport Authority, Inc.

**PREPARED FOR**

Mr. Neil Konigsberg
Manager, Pima County Real Property
Public Works Administration
Pima County
201 N. Stone Avenue, Sixth Floor
Tucson, AZ 85701-1215

EFFECTIVE DATE OF THE APPRAISAL

August 14, 2019

PREPARED BY

J. Douglas Estes, MAI, SR/WA
Landpro Valuation
444 South Greenfield Road
Mesa, Arizona 85206
www.landprovaluation.com

FILE NUMBER

19.0239C

NOT 31/19/2020/PCD/KTF/PP

472



September 26, 2019

Mr. Neil Konigsberg
Manager, Pima County Real Property
Public Works Administration
Pima County
201 N. Stone Avenue, Sixth Floor
Tucson, AZ 85701-1215

Re: An appraisal of 297.3304 acres of land located on the north side of Aerospace Parkway, between Raytheon Parkway and Alvernon Way in Tucson, Arizona
Landpro Valuation File Number 19.0239C

Dear Mr. Konigsberg:

At your request, I have appraised the above-referenced real property. The objective of this appraisal is to provide an opinion of the market value of the fee simple estate of the property, subject to the extraordinary assumption stated herein. The intended users of the appraisal are the City of Tucson, the Tucson Airport Authority and Pima County. The intended use of the appraisal is in purchase and sale negotiations. The clients for this assignment are the City of Tucson, the Tucson Airport Authority and Pima County.

As a result of my investigation and analysis, it is my opinion that the market value of the subject property is **\$6,475,000.***

***Extraordinary Assumption:** This appraisal is based on the extraordinary assumption that use of the property is restricted to (i) Raytheon Missile Systems (RMS) buffer and/or expansion and (ii) an Arizona Air National Guard (AANG) munitions storage area on a portion of the property. This assumption is based on the following:

- A. The property is subject to a 2015 agreement that provides that the property, from and after 2015, will remain undeveloped land available for an RMS buffer and/or expansion use until the sale of the Property to the County and City. After the sale, the City and County will continue to hold the property as undeveloped land used as an RMS buffer and/or available for RMS expansion or other compatible uses, such that if and when such expansion is necessary, in any form, it can proceed quickly and unencumbered.
- B. The sale of the property to the City and County has been approved by the FAA and United States Air Force (USAF), as evidenced by the Record of Decision

dated November 28, 2018 (the ROD). The ROD approved (i) the ultimate transfer of Parcel H from Tucson Airport Authority (TAA) to the USAF, a portion of which would be designated for use by the National Guard Bureau (NGB); (ii) appropriate agreements between the USAF and NGB for use of the land in Parcel H for construction of Munitions Storage Area (MSA); and (iii) approval of funds for design/construction of an MSA to support the AANG at the Tucson Air National Guard Based on Parcel H.

- C. This assumption limits use of the property to RMS and AANG, but does not limit uses to which RMS may put on the property, except that the uses must be compatible with USAF or Raytheon's use of the adjoining property, and with the MSA on a portion of Parcel H.

This valuation is based upon the attached report and all of the assumptions and limiting conditions contained therein, including the understanding that I have no control of the use to which the report may be put by a subsequent reader of this report. Disclosure of the contents of this appraisal report is governed by the Bylaws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which he is connected, nor any reference to the Appraisal Institute or the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communication without prior written consent and approval of the undersigned.

I refer the reader to the Underlying Assumptions and Limiting Conditions. I am not qualified to determine the presence of hazardous substances as they affect the site. This would include, but not be limited to, toxic chemicals, asbestos, radon gas, methane, etc. Unless otherwise stated, the site is assumed to be unaffected by these substances.

I certify, to the best of my knowledge and belief, that:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest or bias with respect to the parties involved.
4. I have reviewed two appraisals of the property in the last three years. I have performed no other services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment was not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP).
9. I have made an on-site inspection of the property that is the subject of this report.
10. No person provided significant real property appraisal assistance to the person signing this certification.
11. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, I have completed the continuing education program for Designated Members of the Appraisal Institute.

I appreciate the opportunity to assist you.

Respectfully submitted,



J. Douglas Estes, MAI, SR/WA
Certified General Real Estate Appraiser
Certificate Number 30821, State of Arizona
Expires October 31, 2019

TABLE OF CONTENTS

SUMMARY OF APPRAISAL 1

ASSUMPTIONS AND LIMITING CONDITIONS 3

INTRODUCTION AND SCOPE OF THE APPRAISAL..... 6

TUCSON AREA DATA 11

MARKET AREA DESCRIPTION AND ANALYSIS..... 25

SITE DESCRIPTION..... 33

HIGHEST AND BEST USE ANALYSIS..... 52

VALUATION 56

SALES COMPARISON APPROACH 58

RECONCILIATION AND VALUATION CONCLUSION..... 85

ADDENDA

 SUBJECT PHOTOGRAPHS

 CONDITION OF TITLE REPORT SCHEDULES A AND B

 APPRAISER’S QUALIFICATIONS

SUMMARY OF APPRAISAL

Type of Property:	The subject property is 297.3304 acres of undeveloped land.
Location:	On the north side of Aerospace Parkway, between Raytheon Parkway and Alvernon Way in Tucson, Arizona
Assessor's Parcel Numbers:	A portion of 140-47-005B, 006E and 006F
Objective of the Appraisal:	To provide an opinion of the market value of the fee simple estate of the property, subject to the extraordinary assumption stated herein
Intended Use:	Purchase and sale negotiations
Intended Users:	City of Tucson, the Tucson Airport Authority and Pima County.
Client:	City of Tucson, the Tucson Airport Authority and Pima County
Site Area:	12,951,714 Square feet/297.3304 Acres
Flood Zone:	Flood Zone X per FEMA FIRM 04019C2880L and 04019C2900L
Zoning:	I-2 (Heavy Industrial) and P-I (Park Industrial) by the City of Tucson
Building Areas:	None
Highest and Best Use:	To develop 84.8500 acres with an Arizona Air National Guard munitions storage facility and to hold 212.4804 acres as a buffer area for Raytheon with potential for future development of other Raytheon facilities.
Final Conclusion of Market Value:	\$6,475,000
Date of Inspection:	August 14, 2019

**Effective Date
of the Appraisal:**

August 14, 2019

Date of Report:

September 26, 2019

ASSUMPTIONS AND LIMITING CONDITIONS

1. The legal description of the property provided as part of the survey provide by the client is assumed to be accurate. I assume that the property is correctly identified in this report.
2. I was provided with a title report and a site survey for the subject property. This appraisal assumes that any easements affecting the site are disclosed in the title report and/or on the site survey.
3. Title to the property is marketable, free, and clear of all liens.
4. The fee simple estate in the property contains the sum of all fractional interests that may exist.
5. The property is appraised as if owned in fee simple title without encumbrances, unless otherwise mentioned in this report.
6. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
7. It is assumed that all required licenses, certificates of occupancy, or other legislative or administrative authority from any local, state, or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
8. Responsible ownership and competent management exist for the property, unless otherwise stated.
9. The appraiser is not responsible for the accuracy of the opinions furnished by others and contained in this report, nor is he responsible for the reliability of government data used in the report.
10. Compensation for appraisal services is dependent only upon the production of this report and is not contingent upon the values estimated.
11. This report considers nothing of a legal character, is not considered to be a legal document and the appraiser assumes no responsibility for matters of a legal nature.
12. Testimony or attendance in court may be required by reason of this appraisal.

13. Hidden defects within the materials of the structures, property or subsoil or defects which are inaccessible to normal inspection, are not the responsibility of the appraiser.
14. Information furnished by the property owner, lender, agent, or management is correct as received.
15. Neither this report, nor any of its contents, may be used for the sale of shares or similar units of ownership in the nature of securities, without specific prior approval of the appraiser. No part of this appraisal may be reproduced without the permission of the appraiser.
16. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news sales, or other media without prior written consent and approval of the appraiser.
17. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser.
18. This report is the confidential and private property of the client and the appraiser. Any person other than the appraiser or the client who obtains and/or uses this report or its contents for any purpose not so authorized by the appraiser or the client is hereby forewarned that all legal means to obtain redress may be employed against him.
19. Utility services are available, as detailed in this report, for the subject property and they will continue to be so in the foreseeable future, unless otherwise noted in this report.
20. Subsurface rights (mineral, oil, etc.) and their potential impact upon value were not considered in this appraisal, unless stated otherwise.
21. The appraiser cannot predict or evaluate the possible effects of future wage price control actions of the government upon rental income or financing of the subject property; hence, it is assumed that no control will apply which would nullify contractual agreements, thereby changing property values.
22. The subject property is not, nor will it be, in violation of the National Environmental Policy Act, the State Environmental or Clean Air Act, or any and all similar government regulations or laws pertaining to the environment.
23. This appraisal assumes that the subject property, as vacant, has no historical or archaeological significance. The value estimate is predicated on the assumption that

no such condition exists. Should the client have a concern over the subject's status, he or she is urged to retain the services of a qualified independent specialist to determine the extent of either significance, if any, and the cost to study the condition or the benefit or detriment such a condition brings to the property. The cost of the inspection and study must be borne by the client or owner of the property. Should the development of the property be restricted or enhanced in any way, the appraiser reserves the right to modify the opinion of value indicated by the market.

24. Unless otherwise stated in this report, the appraiser did not observe the existence of hazardous materials, which may or may not be present on, or below, the property. The appraiser has no knowledge of the existence of such materials on, or in, the property. The appraiser, however, is not qualified to detect such substances as asbestos, PCB transformers, urea-formaldehyde foam insulation, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (containing hazardous materials). The value estimate is predicated on the assumption that there are no such materials on, or in, the property that would cause a loss in value. No responsibility is assumed for such conditions, or for any expertise or engineering knowledge required to discover them. Thus, the value estimated herein is as if unaffected by any such cause and/or substance. Should the client have concern over the existence of such substances, he or she is urged to retain the services of a qualified independent environmental specialist to determine the extent of contamination, if any, and the cost of treatment or removal. The cost of detection, treatment or removal and permanent storage must be borne by the client or owner of the property. This cost can be deducted from the estimate of market value of the subject property if so indicated by the market.

INTRODUCTION AND SCOPE OF THE APPRAISAL

Appraisal Problem

The City of Tucson is interested in acquiring the 297.3304-acre subject property from the Tucson Airport Authority, Inc. The parties want to know the value of the property for the proposed purchase and sale. This appraisal is to provide an opinion of market value of the property, based on the extraordinary assumption stated in the letter of transmittal.

Identification of Property Appraised

Property Type

The property is 297.3304 acres of undeveloped land, zoned for industrial uses.

Location

The property is located on the north side of Aerospace Parkway, between Raytheon Parkway and Alvernon Way in Tucson, Arizona.

Property Rights Appraised

Fee simple interest subject to the easements and restrictions discussed in this report

Legal Description

The property is legally described as a portion of the north half of Section 32 and the northwest quarter of Section 33, Township 15 South, Range 14 East of the Gila and Salt River Meridian, Pima County, Arizona. A complete legal description is included in the Addenda of this report as part of the title report.

Assessor's Parcel Numbers

A portion of Pima County Assessor's Parcel Numbers 140-47-005B, 006 and 006E.

Owner and Ownership History

According to public records, the subject property is owned by the Tucson Airport Authority, Inc. which has owned the property for more than five years prior to the effective date of the appraisal. The property is not currently listed for sale or under contract for sale.

Current Leases

The property is not currently leased.

Appraiser's Clients

City of Tucson, the Tucson Airport Authority and Pima County.

Intended Users of the Appraisal

City of Tucson, the Tucson Airport Authority and Pima County.

Intended Use of the Appraisal

Purchase and sale negotiations

Objective of the Appraisal

To provide an opinion of the market value of the fee simple estate of the property, subject to the extraordinary assumption stated herein

Effective Date of the Appraisal

August 14, 2019

Date of Inspection

August 14, 2019

Date of Report

September 26, 2019

Assignment ConditionsAssumptions and Limiting Conditions

I refer the reader to the assumptions and limiting conditions at the end of this report.

Extraordinary Assumptions and Hypothetical Conditions

I refer the reader to the extraordinary assumption(s) and hypothetical condition(s) in the letter of transmittal, if any.

Jurisdictional Exceptions

This appraisal was not completed under any jurisdictional exceptions.

Definitions

Market Value

Market value is defined as “the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interest;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹

Fee Simple Estate

Fee simple estate is defined as “absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”²

Easement

Easement is defined as “the right to use another’s land for a stated purpose.”³

Scope of Work to Solve the Appraisal Problem

The scope of work to solve the appraisal problem included the following:

Inspection of the Subject Property

My inspection of the property included an on-site inspection of the property and photographing the property and adjacent roadways.

¹ 12 C.F.R. Part 34.42(g).

² Appraisal Institute, *The Dictionary of Real Estate Appraisal, Sixth Edition* (Chicago, Illinois, 2015), page 90.

³ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Sixth Edition* (Chicago, Illinois, 2015), page 71.

Regional and Market Area Analysis

I have researched and analyzed the four forces - geographic, social, economic, and governmental - that influence value for the market area. Where factual information is required, I have used several sources including:

- Wikipedia
- Factfinder.census.gov
- Federal Reserve Bank of St. Louis (FRED)
- Arizona Economic Forecast Data published by University of Arizona Economic and Business Research Center, Eller College of Management
- CoStar
- My inspection of the area

Property Description and Analysis

I have researched and analyzed the subject properties. Where factual information is required, I have used several sources including:

- Various City of Tucson maps and publications
- City of Tucson General Plan
- City of Tucson zoning map and applicable ordinances
- Federal Emergency Management Agency Flood Insurance Rate Maps
- Pima County Assessor's and Treasurer's Offices
- Monsoon
- Title report provided by the client
- Information provided by the client
- My inspection of the property

Highest and Best Use Analysis

When the objective of an appraisal is to estimate market value, the highest and best use analysis identifies the most profitable, competitive use to which the property can be put. Therefore, the highest and best use is a market-driven concept. In this appraisal, I have analyzed the highest and best use of the property, as vacant.

Valuation Analysis

For valuation of the property, I have used the sales comparison approach. The cost approach was not used due to the fact that the property does not have any significant improvements. The income approach was not used due to the fact that similar properties are typically not leased at a rate that provides a fair return to the land, relative to its value. Therefore, only the sales comparison approach is used.

In the valuation, I made several independent investigations and analyses concerning both the subject property and the subjects' market area. The data collected and utilized

in the valuation section is referenced in the report and the sources of the data and confirmation are also referenced. The degree of reliance, as well as the significance of the data and each approach, is also presented. I have gathered information from one or more of the following sources:

- CoStar
- Pima County Assessor's Office
- Pima County Recorder's Office
- Direct contact with listing/sales brokers, leasing agents, and property managers and owners
- Inspection of the comparable sales

Reconciliation

In the reconciliation section of the report, the valuation approaches are evaluated as to their pertinence and reliability to the appraisal problem. This analysis results in a final value conclusion.

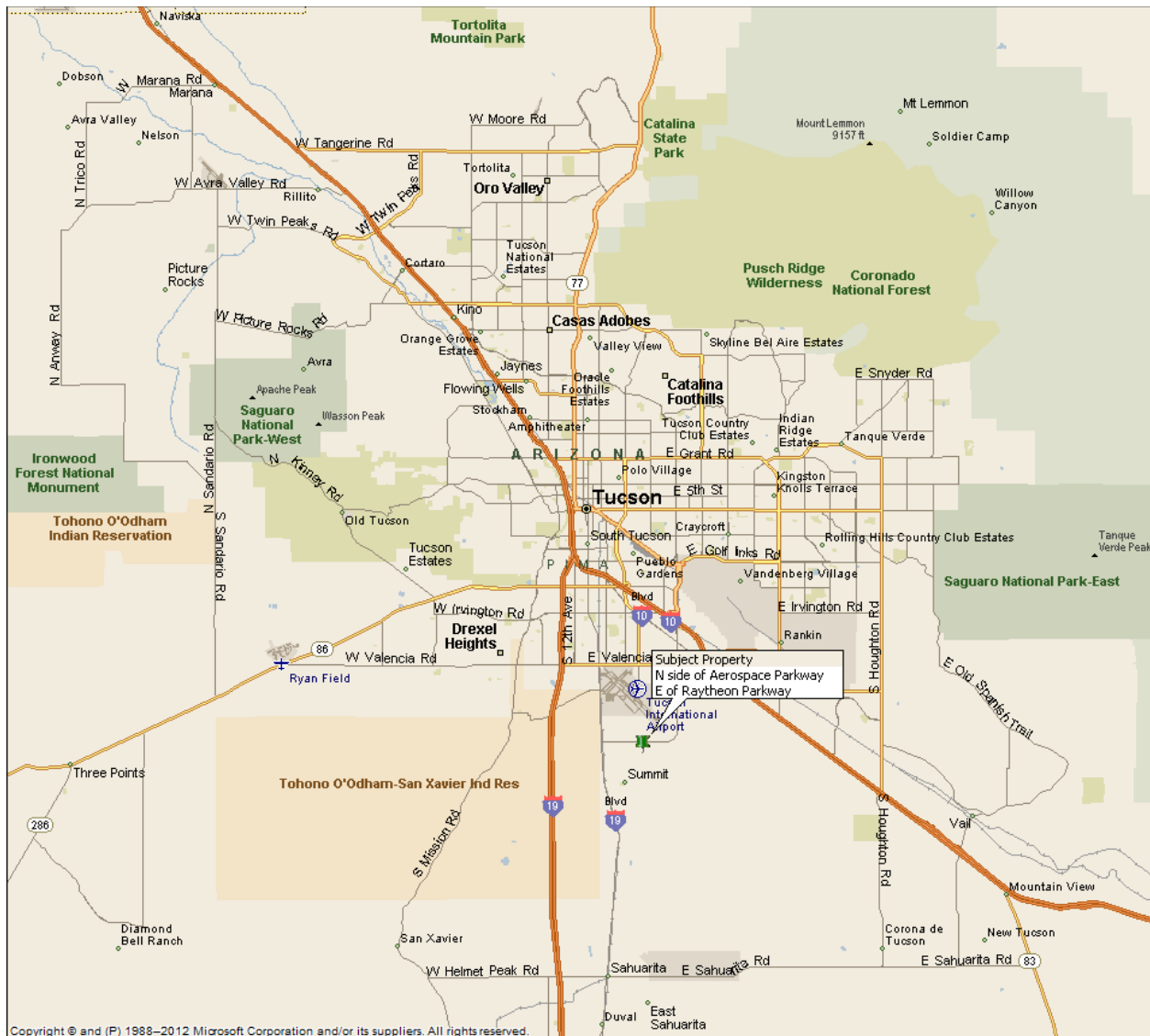
Professional Assistance

No one provided assistance in the preparation and completion of this appraisal.

Items Not Included in the Scope of Work

I am not qualified to confirm or deny the existence of hazardous conditions, environmental contamination, soil defects, construction defects, other hidden defects or illegal conditions. The scope of this assignment did not include research, inspection or analysis of these items. Furthermore, the scope of this assignment does not include analysis or valuation of personal property.

TUCSON AREA DATA



Physical Characteristics

General Description

The Tucson area is located in the south portion of the State of Arizona, 108 miles southeast of Phoenix and 60 miles north of the U.S.-Mexico border. Tucson is the 33rd largest city and 58th largest metropolitan area in the United States. Significant incorporated areas of Tucson include Oro Valley and Marana to the northwest, Sahuarita to the south and South Tucson surrounded by the City of Tucson, south of downtown. Tucson is the second most populated city in Arizona and is the Pima County seat.

The city's elevation is 2,643 feet above sea level (as measured at the Tucson International Airport). Tucson is on an alluvial plain in the Sonoran Desert, surrounded by five minor mountain ranges: the Santa Catalina Mountains and the Tortolita Mountains to the north, the Santa Rita Mountains to the south, the Rincon Mountains to the east, and the Tucson Mountains to the west. The high point of the Santa Catalina Mountains is 9,157 feet at Mount Lemmon, the southernmost ski destination in the continental U.S. The highest point in the area is Mount Wrightson at 9,453 feet in the Santa Rita Mountains to the south.

Tucson has a hot desert climate with two major seasons, a very hot summer and mild winter. Tucson averages 11.8 inches (299.7 mm) of precipitation per year, concentrated mostly in the Summer monsoon season and Winter wet season with little rainfall in Fall and especially Spring. Summer is characterized by daytime temperatures of over 100°F and overnight temperatures between 66 and 85 °F. Winters in Tucson are mild relative to other parts of the United States. Daytime highs range between 64 and 75° F, with overnight lows between 30 and 44° F. Tucson typically averages one hard freeze per winter season, with temperatures dipping to the mid or low-20s, but this is typically limited to only a very few nights.

Land Use Patterns

Current land use patterns in the Tucson area are tied to historic development patterns which began in the Downtown and Central Tucson area and developed outward.

Downtown and Central Tucson: Tucson originally developed on a grid pattern starting in the late 19th century, with the city center at Stone Avenue and Broadway Boulevard. The area includes a number of historic neighborhoods and properties, retail uses, the historic train depot, an arts and entertainment district, the University of Arizona, Tucson Botanical Gardens, Reid Park and Reid Park Zoo.

Southern Tucson is generally considered to be the area south of 22nd Street, east of I-19, west of Davis Monthan Air Force Base, southwest of Aviation Parkway and north of Sahuarita on the south. The Tucson International Airport, the Kino Sports Complex, USA Speedway Tucson/Arizona Motorplex, Pima Air and Space Museum and a variety of industrial uses are located in Southern Tucson. The City of South Tucson is an independent, incorporated area of 1 square mile that is completely surrounded by the City of Tucson and located within the northern portion of Southern Tucson.

Western Tucson is generally identified as the area west of Interstate 10 and has a combination of urban and suburban uses and includes the wildlife Museum, Sentinel Peak, the Marriott Starr Pass Resort & Spa, the Tucson Mountains, Old West Tucson, Saguaro National Park West, the Arizona-Sonora Desert Museum, the Old Tucson Studios, A Mountain (with a large A for University of Arizona),

Northern Tucson is generally identified as the area north of Fort Lowell Road with diverse development that includes rural communities and good quality residential and commercial uses. Northern Tucson includes the areas of Amphitheater, Flowing Wells,

Catalina Foothills, Marana, Picture Rocks, Oro Valley, Continental Ranch, Dove Mountain, Rancho Vistoso and Casa Adobes. North Tucson includes some of Tucson's primary commercial zones, upscale boutiques, restaurants, art galleries, the historic St. Philip's in the Hills Episcopal Church (built in 1936), major resorts and golf courses, Catalina State Park and Tortolita Mountain Park.

Eastern Tucson is generally identified as the area east of Swan Road. The area is relatively new compared to other parts of the city and has above-average real estate values relative to other areas and a combination of urban and suburban development. Eastern Tucson includes the areas of Harold Bell Wright Estates, the Tucson Country Club, the Dorado Country Club, Williams Centre, a mixed-use, master-planned development, Tanque Verde, the Lakecrest Neighborhood, Rita Ranch and Civano, a master planned development. Significant uses in the area include Saguaro National Park East, Tucson's Restaurant Row, other retail uses, the remnants of the Historic Fort Lowell, the San Pedro Chapel, the Arizona National Golf Club, Forty-Niners Country Club, the historic Tanque Verde Guest Ranch, Davis-Monthan Air Force Based, Chuck Ford Park (Lakeside Park), Lincoln Park (upper and lower), Pima Community College East Campus and the Atterbury Wash with its access to excellent bird watching,

Transportation System

The transportation system, along with other geographical and economic factors, helps to determine the shape of a metropolitan area. A mile-square grid pattern of major streets, perhaps more than any other factor, has contributed to the low-density, omnidirectional pattern of growth in the Tucson area. On surface streets, private automobiles comprise approximately 95 percent of the traffic volume. Nonetheless, Sun Tran buses provide public transportation throughout the area. Sun Link streetcars provide linkage between the University of Arizona, the 4th Avenue Business District, Downtown and the Mercado area. Furthermore, Tucson has various bikeways in and around the downtown and central Tucson areas.

Developed freeways in the Tucson area have been mostly extensions of the Interstate highways connecting the Phoenix area to other distant areas. Interstate 10 enters from the northwest, passes through Tucson and then generally extends southeasterly to New Mexico. Interstate 19 Tucson extends south Interstate 10 toward Nogales. State Route 77 extends north from Tucson to Oracle and beyond to Globe. State Route 86 extends southwest to the Tohono O'odham Nation. The Sonoran Corridor (SR 410) is proposed to extend from Interstate 10 to Interstate 19 generally along the alignment of Old Vail Road and Alvernon Way.

The layout of area transportation has had a significant impact on land use patterns throughout the Tucson area. Commercial land uses are located mostly along section-line arterials, especially at arterial intersections, and residential uses are located more often along feeder streets. Industrial uses and large office projects have been developed along the freeways.

Area Resources

The Tucson area provides a variety of economic resources including a young and skilled labor force, an adequate supply of water and energy, adequate educational and technical schools, a relatively low cost of living due to low housing costs, a variety of year-round recreational/entertainment activities and an abundance of vacant land.

Demographic Characteristics

The following are current and historic demographic characteristics for Pima County:

Pima County Demographic Data					
Population	<u>Number</u>	<u>% Growth</u>	Gender (2017)	<u>Number</u>	<u>Percentage</u>
2010	980,263		Males	495,714	49.21%
2011	988,407	0.83%	Females	511,543	50.79%
2012	993,215	0.49%	Total	1,007,257	100.00%
2013	997,437	0.43%			
2014	1,004,675	0.73%	Housing Tenure (2017)		
2015	1,009,737	0.50%	Owner-Occupied	61.9%	
2016	1,017,624	0.78%	Renter-Occupied	38.1%	
2017	1,027,502	0.97%			
2018	1,039,073	1.13%	Home Value (2017)		
			Less than \$50,000	9.7%	
Household Size (2016)	2.76		\$50,000 To \$99,999	13.9%	
Owner-Occupied	2.74		\$100,000 To \$149,000	19.1%	
Renter-Occupied	2.79		\$150,000 To \$199,999	18.7%	
			\$200,000 To \$299,999	19.5%	
Age Distribution (2016)			\$300,000 To \$499,999	13.1%	
Under 5 years	5.9%		\$500,000 To \$999,999	5.2%	
5 To 9 years	6.1%		\$1,000,000 Or more	0.9%	
10 To 14 years	6.0%		Median Home Value (2017)	\$166,000	
15 To 19 years	6.8%				
20 To 24 years	9.0%		Household Income (2017)		
25 To 34 years	12.4%		Less than \$10,000	7.90%	
35 To 44 years	11.4%		\$10,000 To \$14,999	5.70%	
45 To 54 years	11.7%		\$15,000 To \$24,999	12.00%	
55 To 69 Years	6.4%		\$25,000 To \$34,999	11.10%	
60 To 64 years	6.3%		\$35,000 To \$49,999	14.50%	
65 To 74 years	10.3%		\$50,000 To \$74,999	18.10%	
75 to 84 years	5.6%		\$75,000 To \$99,999	11.60%	
85 Years and over	2.2%		\$100,000 To \$149,999	11.30%	
			\$150,000 To \$199,999	4.10%	
Median Age	38.2		\$200,000 Or more	3.80%	
			Median Income	\$48,676	
			Mean Income	\$67,524	
Source: Factfinder.census.gov					

Economic Characteristics

Arizona Forecast

According to the University of Arizona Economic and Business Research Center Second Quarter 2019 Forecast Update, “the Arizona economy continues its long winning streak. Employment is expanding, population growth is solid, and wages are rising. Further, Arizona continues to far outpace national growth rates. The only smudge on this picture is the state unemployment rate, which remains stubbornly above the U.S. average. The likely explanation for that lies in the state’s strong job growth, which is drawing more residents to the state and more discouraged workers off the sidelines and into the labor market.”

“The outlook for 2019 remains solid for the state and nation. The current national expansion is very much on track to be the longest on record. However, gains are expected to slow from above trend rates last year to below trend rates by 2020. This implies that recession risks are elevated beginning in 2020. Nonetheless, the most likely scenario remains continued gains in the near term, with more jobs, residents, and income in Arizona.”

“Arizona added 78,800 jobs in 2018, which translated into 2.8% growth, according to the latest revised data from the U.S. Bureau of Labor Statistics. As Exhibit 1 shows, that was up from 2.5% in 2017. Employment gains also accelerated in the Phoenix Metropolitan Statistical Area (MSA), rising from 3.0% in 2017 to 3.3% in 2018. In contrast, job growth decelerated in the Tucson MSA, from 1.3% in 2017 to 1.2% last year. Nationally, job growth was 1.6% in 2017 and 1.7% in 2018.”

Tucson Outlook

According to CoStar, “Tucson’s economy has started to regain its footing. Like many small and mid-sized U.S. cities, it experienced a late recovery following the recession as employment growth regularly trailed the national average. But job growth accelerated in recent quarters, giving a boost to the commercial real estate sector.”

“A healthier job market has coincided with a surge in population growth, which is mostly driven by in-migration. New residents are attracted to the metro’s affordability and quality of life. According to the most recent data from the U.S. Census Bureau, new residents moving to the metro accounted for nearly 90% of 2018’s population growth. Tucson’s 2018 population growth surpassed 1% for the second consecutive year since the Great Recession.”

“Even with the recent uptick in job creation, Tucson has yet to regain all of the jobs lost during the downturn. The drawn-out recovery is due in large part to the local economy’s reliance on the aerospace industry and the private sector—both of which were struck by government spending cuts. Although employment growth sputtered for stretches, the addition of high-value jobs in the last several years is encouraging.”

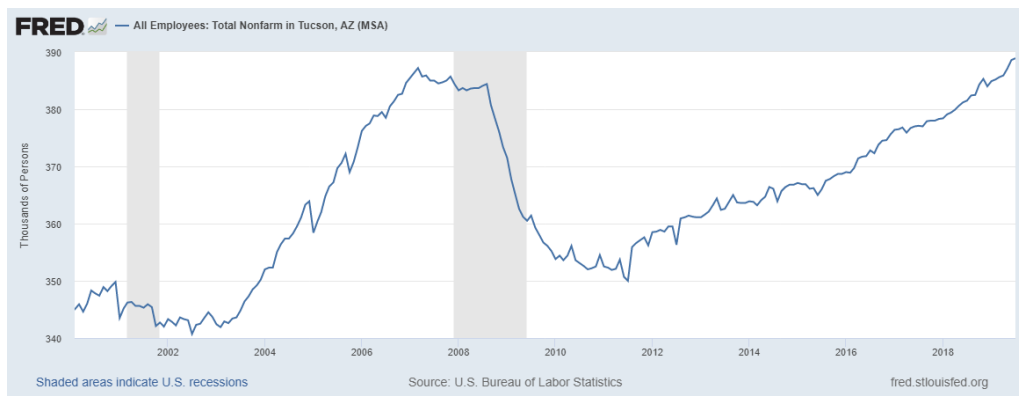
“Recent corporate relocations and expansions have been a bright spot in the economy. Companies including Caterpillar, HomeGoods, GEICO, Comcast, ADP, and Raytheon are all in varying stages of expanding their operations in Tucson and, combined, are expected to bring thousands of jobs to the metro area over the next few years. The metro’s low cost of living and doing business, in addition to State and local government incentives, have played a key role in attracting the corporate relocations and expansions that are spurring job creation.”

“It is worth noting that some of the expansions are for back-office, call center, and distribution operations, as in the case of Comcast, GEICO and HomeGoods. However, several recent corporate expansion announcements have focused on value-add, high-paying job creation. For example, Caterpillar is expected to create more than 600 jobs with average annual salaries of \$90,000 over the next several years. Construction wrapped up in March on Caterpillar’s new regional headquarters, located west of downtown Tucson.”

“Additionally, Raytheon announced expansion plans to add more than 2,000 high-paying jobs to the metro area over the next several years. The higher wages that come along with these types of jobs would be welcome in Tucson where median household income, at less than \$50,000, which is more than 20% below the national index.”

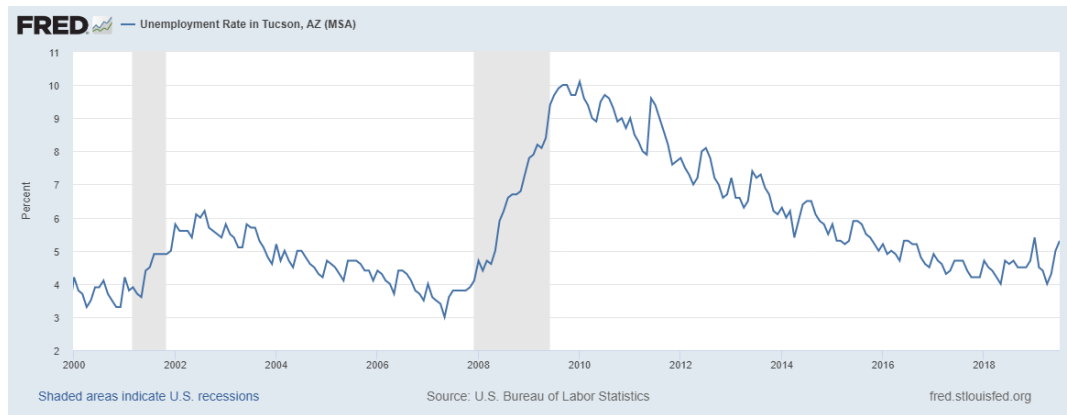
Tucson Area Employment and Unemployment

The following chart shows employment growth for the Tucson MSA between 2000 and 2019:



The table indicates that employment declined from the peak of 387,200 in 2007 to a low of 350,000 in 2011. Since 2011 employment growth has resumed and increased to 388,900 in July 2019.


The following table shows unemployment in the Tucson MSA between 2000 and 2019:



The table indicates that unemployment has declined from the peak of over 10% in 2010 to 5.3% in July 2019.

Tucson MSA Forecast

According to Arizona Economic Forecast Data, published by the University of Arizona, the five-year forecast for personal income, retail sales, nonfarm employment, population and residential permits are summarized in the following table:

Tucson MSA Forecast*	2017	2018	2019	2020	2021	2022
Personal Income (\$ mil)	42,585.4	44,489.5	46,479.7	48,514.0	50,588.1	52,845.6
% Chg from Year Ago	5.4%	4.5%	4.5%	4.4%	4.3%	4.5%
Retail Sales (\$ mil)	13,704.2	14,457.9	15,100.5	15,596.0	16,047.4	16,547.3
% Chg from Year Ago	4.6%	5.5%	4.4%	3.3%	2.9%	3.1%
Total Nonfarm Employment (000s)	377.2	381.5	386.2	389.7	391.8	394.4
% Chg from Year Ago	1.3%	1.2%	1.2%	0.9%	0.5%	0.7%
Population (000s), July 1st estimates	1,026.1	1,034.2	1,041.9	1,049.3	1,056.5	1,063.7
% Chg from Year Ago	1.3%	0.8%	0.7%	0.7%	0.7%	0.7%
Residential Permits (units)	4,495.0	4,266.0	3,902.5	3,712.4	3,650.6	3,672.6
% Chg from Year Ago	82.3%	-5.1%	-8.5%	-4.9%	-1.7%	0.6%
Copyright 2019 The University of Arizona. All rights reserved.						
Published by  Economic and Business Research Center, The University of Arizona.					Powered by data200	

These projections indicate that personal income, retail sales, employment, population and residential permits will all increase from 2017 through 2022, although the growth rate will decelerate after 2019.

Real Estate Market Conditions

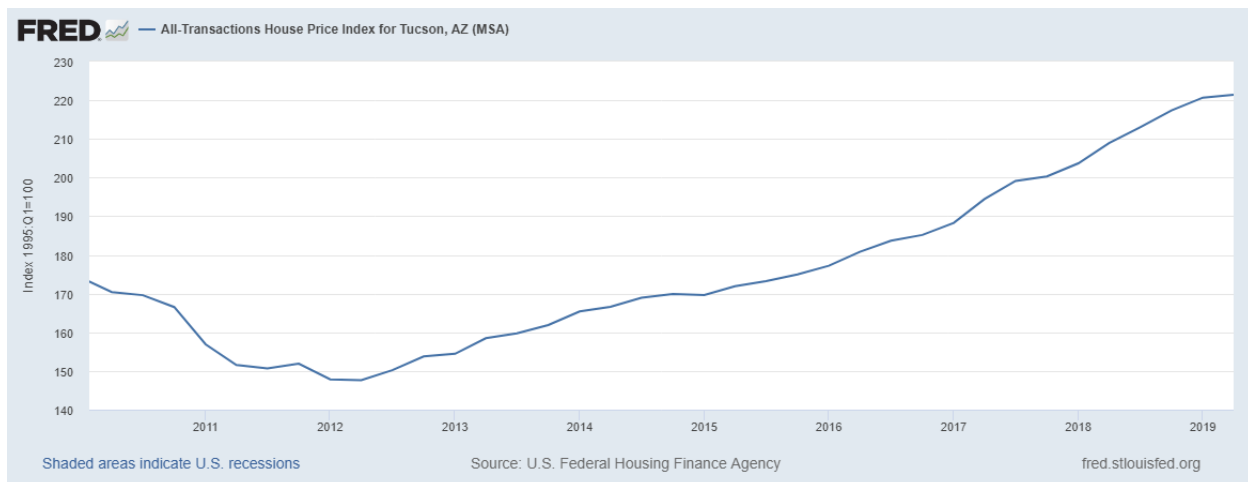
Single-Family Residential Market Conditions

According to Arizona Indicator Data published in Arizona's Economy by the University of Arizona's Eller college of Management, residential permits for the Tucson area over the last ten years are as follows:

Phoenix, Mesa, Scottsdale MSA Historic Residential Permits						
Year	Single-Family	% Change		Multi-Family	% Change	Total % Change
2008	2,768			632		3,400
2009	2,043	-26%	▼	94	-85%	2,137 -37%
2010	1,909	-7%	▼	396	321%	2,305 8%
2011	1,616	-15%	▼	445	12%	2,061 -11%
2012	2,141	32%	▼	928	109%	3,069 49%
2013	2,625	23%	▼	978	5%	3,603 17%
2014	2,510	-4%	▼	983	1%	3,493 -3%
2015	2,624	5%	▼	1,050	7%	3,674 5%
2016	2,218	-15%	▼	421	-60%	2,639 -28%
2017	2,697	22%	▼	172	-59%	2,869 9%
2018	3,227	20%	▼	1,055	513%	4,282 49%

This data indicates that single-family permits have increased in five of the last seven years, with small declines in 2014 and 2016. Multi-family permits have increased in seven of the last ten years, with declines in 2009, 2016 and 2017. And total residential permits have increased in seven of the last ten years.

Furthermore, according to the FRED All Transactions House Price Index for Tucson, the sale prices of residences in Pima County have increased since the Second Quarter of 2012 as indicated in the following chart.



In the Second Quarter of 2012 the index was 147.65 and in the Second Quarter of 2019 was 221.39. This is an increase of 73.74, or 49.9% over seven-year period, or 7.13% per year.

Multi-Family Market Conditions

According to CoStar, “the Tucson apartment market continues to strengthen, thanks to steady employment and population growth. While late to the recovery, employment growth gained some momentum over the past two years, and Tucson is attracting several businesses that are generating high-quality jobs in the metro. A brightening economic picture, in addition to a large student renter pool, has supported apartment demand. Net absorption has outpaced new supply for four consecutive years, compressing vacancies near all-time lows.”

“Sound fundamentals are supporting rent growth, which is well-above the national average. Tucson's average rent is now more than 20% above the previous peak but remains affordable on a national and regional level. Despite elevated levels of new construction, steady demand should support healthy rent gains.”

“The performance and future outlook of the local multifamily market have corresponded with substantial investment activity. Investors have been especially active over the past few years, with a strong interest in value-add opportunities. More than \$700 million worth of apartments traded in 2018, and prices soared to an all-time high. Tucson has been a liquid market for multifamily players, particularly for a smaller metro, and investment is coming from all ends of the spectrum.”

According to information obtained from CoStar, the Tucson Multi-Family market ended the Second Quarter 2019 with a vacancy rate of 6.2%. The vacancy rate has declined gradually from a high of 8.1% in the Second Quarter of 2019. Net absorption has been positive in 11 of the last 12 quarter and total net absorption was 3,101 units. The effective rental rate per unit ended the second quarter at \$826 and has increased from a low of \$732 in the Third Quarter of 2016. The total Tucson area market statistics for the last three years are summarized as follows:

Total Tucson Multi-Family Market Statistics Through Second Quarter 2019										
Quarter	Inventory		Vacant		Aborption	Deliveries		Under Construction		Effective
	Buildings	Units	Units	Percent	Units	Buildings	Units	Buildings	Units	Rent
2019 Q2	2,672	103,771	6,434	6.2%	117	5	232	12	2,085	\$826
2019 Q1	2,667	103,539	6,318	6.1%	87	3	193	14	1,993	\$819
2018 Q4	2,664	103,346	6,212	6.0%	233	0	-	15	1,699	\$806
2018 Q3	2,664	103,346	6,445	6.2%	311	0	-	14	1,633	\$810
2018 Q2	2,664	103,346	6,757	6.5%	82	2	90	12	1,229	\$798
2018 Q1	2,663	103,261	6,753	6.6%	294	1	240	12	1,214	\$782
2017 Q4	2,663	103,029	6,814	6.6%	483	0	-	11	1,366	\$782
2017 Q3	2,663	103,029	7,297	7.1%	969	1	25	8	991	\$768
2017 Q2	2,663	103,052	8,288	8.1%	(141)	1	50	4	703	\$757
2017 Q1	2,666	103,046	8,141	7.9%	300	2	136	4	513	\$750
2016 Q4	2,664	102,910	8,304	8.1%	264	2	268	3	161	\$740
2016 Q3	2,662	102,642	8,300	8.1%	102	2	123	4	385	\$732
Total:					3,101	19	1,357			
Source: CoStar										

Office Market Conditions

According to CoStar, “Tucson’s office fundamentals are fairly stable, with supply and demand maintaining a healthy balance. Several corporate relocations and expansions to Tucson bolstered office demand and enabled strong vacancy compression over the past few years.”

“The market vacancy rate continues to trend below the national average. New construction is limited to build-to-suit rather than speculative space, and vacancies are unlikely to be impacted by supply-driven pressure.”

“Despite the improvement in fundamentals, rent growth has been relatively weak throughout the expansion. This is not an uncommon trend in Tucson and lower-tier markets, where rents tend to remain flat due to the lack of robust demand drivers.”

“A healthier local economy has coincided with an uptick in heightened buyer interest. Most capital has flowed from outside of the state as larger investors chasing yield have been attracted to Tucson's above-average cap rates.”

According to information obtained from CoStar, the Tucson Office market ended the third quarter 2019 with a vacancy rate of 9.0%. The vacancy rate has fluctuated slightly between 8.2% and 9.9% since the Second Quarter of 2017. Net absorption has been positive in 10 of the last 12 quarters, with net absorption totaling 844,711. Rental rates ended the second quarter at \$18.71. The rental rate has fluctuated between \$18.48 and \$19.16 over the last three years. New office buildings were delivered to the market in 10 of the last 12 quarters. A total of 16 buildings with 677,248 square feet were delivered. Four new office buildings with 273,505 square feet were under construction at the end of the second quarter. The total historic office market statistics for the Tucson area from CoStar are as follows:

Total Tucson Office Market Area Statistics Through Second Quarter 2019										
Quarter	Inventory		Vacant		Absorption	Deliveries		Under Construction		Office Base
	Buildings	SQ FT	SQ FT	Percent	SQ FT	Buildings	SQ FT	Buildings	SQ FT	Rent
2019 Q2	2,557	26,861,016	2,419,658	9.0%	33,126	1	266,300	4	273,505	\$18.71
2019 Q1	2,557	26,600,871	2,192,639	8.2%	252,492	2	200,000	5	539,805	\$18.52
2018 Q4	2,555	26,400,871	2,245,131	8.5%	(62,028)	1	14,952	5	730,300	\$18.49
2018 Q3	2,554	26,385,919	2,168,151	8.2%	51,745	3	53,015	5	545,252	\$18.82
2018 Q2	2,552	26,334,169	2,168,146	8.2%	85,998	1	61,000	8	598,267	\$18.59
2018 Q1	2,552	26,277,419	2,197,394	8.4%	43,859	1	20,000	8	392,967	\$19.16
2017 Q4	2,552	26,455,552	2,419,386	9.1%	75,377	2	12,850	7	388,108	\$18.90
2017 Q3	2,551	26,455,346	2,494,557	9.4%	127,952	0	0	6	281,850	\$18.81
2017 Q2	2,551	26,455,346	2,622,509	9.9%	104,199	2	21,631	4	93,850	\$18.67
2017 Q1	2,549	26,433,715	2,705,077	10.2%	72,604	0	0	5	108,631	\$18.65
2016 Q4	2,550	26,484,134	2,828,100	10.7%	144,936	2	21,500	3	41,631	\$18.48
2016 Q3	2,548	26,462,634	2,951,536	11.2%	(85,549)	1	6,000	4	43,131	\$18.57
Total:					844,711	16	677,248			
Source: CoStar										

Retail Market Conditions

According to CoStar, “retail deliveries reached their highest point in more than a decade last year. Despite the elevated level of construction, retail vacancies are near cyclical lows thanks to strong demand in a growing economy with promising demographic trends. The near-term construction pipeline is far more muted in 2019 and will likely help keep fundamentals stable.”

“The retail sector is likely to benefit from an uptick in high-value job additions and above-average population growth, fueled by in-migration. Companies such as Caterpillar and Raytheon are expanding and creating much-needed, quality jobs in a market with a household median income well below the national average. In 2018, more than 90% of Tucson's population growth was attributed to new residents, a sign that the job market may have turned a corner as people move to the metro for new opportunities.”

“Rents are roughly 25% below the nationwide average. Even with the compressed vacancy rate, rent growth is nominal, a common trend in tertiary markets. A significant amount of outdated and obsolete space continues to weigh on average rents.”

“Tucson has not been a particularly liquid retail market, but sales velocity over the past few years is the highest on record. Although local players often dominate the investment scene, the biggest trades in recent quarters have involved investors from outside of the state chasing higher yields.”

According to information obtained from CoStar, the vacancy rate for the Tucson retail market ended the second quarter at 5.6%. The vacancy rate over the last three years has fluctuated between 5.4% and 6.1%. Net absorption was positive in 11 of the last 12 quarters, with total net absorption of 1,506,359 square feet. New buildings were delivered in all of the last 12 quarters with a total of 116 buildings with 1,444,945 square feet. 13 New buildings with 81,938 square feet were under construction at the end of the Second Quarter. The rental rate at the end of the second quarter was \$15.00 per square foot. The rental rate has fluctuated between \$14.63 and \$15.17 over the last three years. Total historic retail market statistics for the Tucson area from CoStar are summarized as follows:

Total Tucson Retail Market Area Statistics Through Second Quarter 2019										
Quarter	Inventory		Vacant		Absorption	Deliveries		Under Construction		Office Base
	Buildings	SQ FT	SQ FT	Percent	SQ FT	Buildings	SQ FT	Buildings	SQ FT	Rent
2019 Q2	5,417	54,035,311	3,025,801	5.6%	53,066	6	16,889	15	81,938	\$15.00
2019 Q1	5,411	54,011,833	3,065,089	5.7%	(205,644)	9	78,434	15	68,577	\$14.76
2018 Q4	5,404	53,944,177	2,794,900	5.2%	200,880	9	101,924	14	105,078	\$14.63
2018 Q3	5,396	53,845,868	2,897,471	5.4%	246,192	14	182,955	15	124,995	\$14.65
2018 Q2	5,383	53,665,054	2,962,849	5.5%	209,143	12	216,640	24	287,510	\$14.69
2018 Q1	5,373	53,466,270	2,973,208	5.6%	287,446	19	182,894	29	424,195	\$15.05
2017 Q4	5,359	53,299,662	3,094,046	5.8%	168,045	12	75,013	34	415,194	\$14.87
2017 Q3	5,348	53,228,609	3,191,038	6.0%	198,567	3	85,155	35	425,994	\$15.17
2017 Q2	5,345	53,143,454	3,304,450	6.2%	16,049	9	79,866	21	319,784	\$14.95
2017 Q1	5,336	53,063,588	3,240,633	6.1%	170,556	9	196,962	19	208,888	\$14.81
2016 Q4	5,327	52,866,626	3,214,227	6.1%	27,347	7	190,688	20	346,111	\$14.83
2016 Q3	5,324	52,708,136	3,083,084	5.8%	134,712	7	37,525	19	405,796	\$14.78
Total:					1,506,359	116	1,444,945			
Source: CoStar										

Industrial Market Conditions

According to CoStar, “Tucson’s industrial market has traditionally been dominated by local tenants serving the local consumer base. The metro area has roughly 43 million SF of industrial space, which is about one-tenth of the size of Phoenix's industrial inventory. However, the dynamics of the Tucson industrial property sector are evolving. Most recently, Amazon expanded its footprint in the market, drawing tenant and investor interest to the area.”

“Since 2015, more than 1.1 million SF of logistics space delivered as national tenants FedEx and HomeGoods built new distribution centers. Furthermore, an uptick in leasing activity and limited speculative construction has significantly compressed vacancies since 2012. Vacancies continue to trend below the metro's historical average.”

“Improved fundamentals have translated into robust rent growth in recent years, and the average metro rent closely mirrors the national average. Investors chasing high yields continue to show interest in Tucson. Trading activity increased in the past several quarters, while pricing remains elevated near the all-time high.”

According to information obtained from CoStar, the Tucson Industrial market (industrial and flex) ended Second Quarter 2019 with a vacancy rate of 5.1%, down slightly over the last three years from a high of 7.3% in the Third Quarter of 2017. Absorption of industrial space has been positive in 10 of the last 12 quarters for total absorption of 3,232,286 square feet. Over the last three years, 12 new buildings with 2,283,561 square feet were added. Five new buildings with 443,434 square feet were under construction at the end of the Second Quarter. The rental rate at the end of the Second Quarter was \$6.22 per square foot and has fluctuated from \$6.03 to \$6.81 over the last three years. The total historic industrial market statistics for the Tucson area from CoStar are summarized as follows:

Total Tucson Industrial Market Area Statistics Through Second Quarter 2019										
Quarter	Inventory		Vacant		Absorption	Deliveries		Under Construction		Office Base
	Buildings	SQ FT	SQ FT	Percent	SQ FT	Buildings	SQ FT	Buildings	SQ FT	Rent
2019 Q2	2,576	43,696,766	2,245,062	5.1%	1,193,453	2	906,900	5	443,434	\$6.22
2019 Q1	2,574	42,789,866	2,531,615	5.9%	(62,826)	0	0	7	1,350,334	\$6.07
2018 Q4	2,574	42,789,866	2,468,789	5.8%	28,500	0	0	6	1,340,834	\$6.03
2018 Q3	2,574	42,789,866	2,497,289	5.8%	280,404	0	0	3	1,096,334	\$6.15
2018 Q2	2,575	42,818,866	2,799,093	6.5%	289,237	1	300,181	3	1,096,334	\$6.15
2018 Q1	2,575	42,526,760	2,796,224	6.6%	36,513	0	0	3	539,115	\$6.15
2017 Q4	2,575	42,526,760	2,832,737	6.7%	253,789	0	0	2	530,315	\$6.27
2017 Q3	2,575	42,526,760	3,086,526	7.3%	32,064	0	0	2	530,315	\$6.35
2017 Q2	2,575	42,526,760	3,118,590	7.3%	(153,454)	4	53,721	2	530,315	\$6.28
2017 Q1	2,571	42,473,039	2,911,415	6.9%	67,121	0	0	4	53,721	\$6.37
2016 Q4	2,571	42,473,039	2,978,536	7.0%	239,381	1	140,000	3	43,721	\$6.66
2016 Q3	2,570	42,333,039	3,077,917	7.3%	1,028,104	4	892,759	3	179,971	\$6.81
Total:					3,232,286	12	2,293,561			
Source: CoStar										

Political - Governmental (Including Public Utilities):

In addition to federal, state, county, and municipal levels of government, other special districts, such as water irrigation districts and school systems levy taxes and provide services. Primary sources of revenue utilized by the state government include a personal state income tax and a sales tax on retail sales. The state legislature maintains a tight control over the level of taxes imposed by lower levels of government. Funding of the lower levels of government is achieved primarily through property taxes and a retail sales tax.

Growth

Local municipalities within the metropolitan Tucson area have generally been supportive of growth, however, impose land use restrictions that are more stringent than municipalities in other areas of the State. Most of the local governments in the region have adequate infrastructure development programs. Furthermore, most are willing to re-zone land and approve potential uses.

Education

The Metropolitan Tucson area is adequately served by local school districts. The University of Arizona, the state's second largest university had an enrollment of 44,831 in 2017. In addition, several private universities and Pima Community Colleges are also located within the metropolitan area.

Police and Fire Protection

Police and fire protection are typically provided on the municipal and county level and do not differ significantly between the various municipalities.

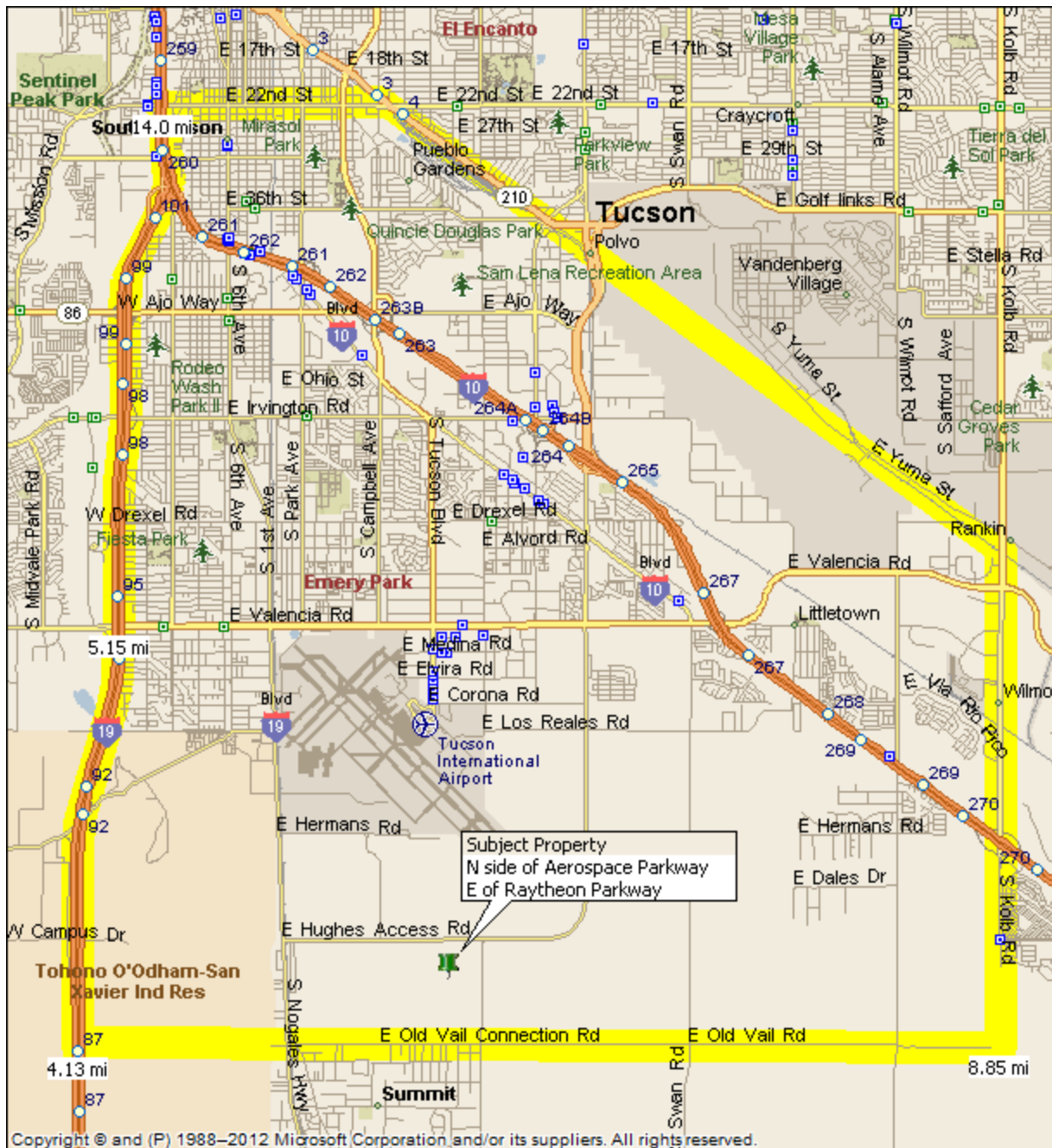
Utilities

Electrical service in the Tucson area is provided by Tucson Electric Power. Electrical rates are within a competitive range. Sufficient electrical capacity is available for projected needs. Natural gas is provided by Southwest Gas, a regulated private company. Water is provided by Tucson Water or private water companies. Sewer/wastewater is provided by Pima County Regional Wastewater and Reclamation Department. Other services such as garbage collection, telephone, and cable TV are provided by the municipalities or by private utilities.

Conclusion

With adequate resources to accommodate the anticipated growth in population and employment, a mild climate and affordable housing, the long-term outlook for the Tucson area is positive.

MARKET AREA DESCRIPTION AND ANALYSIS



For this appraisal the market area is generally identified as a portion of southern Tucson and includes areas within the City of Tucson, the City of South Tucson and some unincorporated areas of Pima County. The boundaries of the market area are 22nd Street on the north, Interstate 10 and Interstate 19 on the west, Aviation Parkway and Davis Monahan Air Force Based on the northeast, Kolb Road on the east and Old Vail Road on the south.

Market Area Property Types/Land-Use Patterns

Property Types

The market area generally has a balanced mix of residential, commercial, retail, industrial, public uses and undeveloped land.

Residential Development

Much of the older residential development is generally of average quality and condition. The newer residential development is generally average quality and in good condition.

Commercial Development

Both office and retail development are located throughout the market area mostly along arterial roadways. Most commercial services required for the market area are available within or near the market area.

Industrial Development

Existing industrial uses are located throughout the market area with concentrations North of Interstate 10 along Alvernon Way, south of 22nd Street, east of Interstate 10 and in the area of the Tucson International Airport.

Other Uses

Other land uses in the market area include public parks, schools, the Tucson International Airport, a Union Pacific Railroad switching yard, Tucson Greyhound Park, Pima County Rodeo Grounds, Kino Sports Complex, a Veterans Affairs Healthcare Systems Hospital, Federal and State Prisons, the Pima Air & Space Museum, a number of parks and other public uses.

Undeveloped Land

Based on my review of aerial photographs, more than 90% of the land within the northern portion of the market area is developed; however, there is a large amount of undeveloped land in the southern portion of the market area, indicating that there is some potential for future growth.

Quality and Condition

Some of the existing uses within the area were developed more than 30 years ago and have fair-to-average quality improvements in fair-to-average condition. Those developed since 1990 are of average-to-good quality and are in average-to-good condition.

Surrounding Land Uses

To the north of the subject market area are other portions of Tucson, including the downtown area and the University of Arizona. To the east of the market area are other portions of the City of Tucson, including the Davis-Monthan Air Force Base. To the west of the market area are unincorporated areas of Pima County with low-density residential uses. The area to the south of the market area is mostly undeveloped land.

Basic Transportation/Linkage

Arterial Roadways

Primary transportation routes within the subject market area are provided by arterial streets arranged in one-mile grids. North/south arterials include 12th Avenue, 6th Avenue, Nogales Highway, Park Avenue, Campbell Avenue, Country Club Road, Palo Verde Road, Alvernon Way, Swan Road, Wilmot Road and Kolb Road. East/west arterials include 22nd Street, 29th Street, 36th Street, Ajo Way, Irvington Road, Drexel Road, Valencia Road, Los Reales Road and Aerospace Parkway. Benson Highway bisects the market area diagonally and runs nearly parallel to Interstate 10. Some of these roadways are intermittent and do not extend through the market area. In the less developed areas, the arterial roadways are two lanes. In the developed areas, the arterial roadways are four or six lanes.

Freeway Access

Interstate 10 bisects the market area diagonally from the northwest side to the southeast side. Interstate 19 extends north-south along the west side of the market area. These freeways provide linkage with the Phoenix area and beyond to the northwest, New Mexico and beyond to the southeast and Nogales and Mexico and beyond to the south. SR 210/Aviation Parkway is located along the northeast side of the market area from Downtown Tucson on the northwest to Alvernon Parkway on the southeast. The Sonoran Corridor (SR 410) is proposed to extend from Interstate 10 to Interstate 19 generally along the alignment of Old Vail Road and Alvernon Way.

Estimated Non-Rush Hour Commute Times

Estimated non-rush hour commute times to and from the market area are as follows:

Downtown Tucson:	20 Minutes
University of Arizona:	10 Minutes
Davis Monthan Base:	10 Minutes
Tucson International Airport:	Within the market area
Marana:	22 Minutes
Oro Valley:	32 Minutes
Sahuarita:	22 Minutes
Nogales (Mexican Border):	55 Minutes
Downtown Phoenix:	110 Minutes

Air Transportation

Tucson International airport is located within the market area, near the intersections of Valencia Road and Tucson Boulevard.

Rail Transportation

The Union Pacific Railroad bisects the east portion of the market area and provides rail transportation to the area. There is a rail yard along the southwest side of Aviation Parkway, between 22nd Street on the northwest and Palo Verde Road on the southeast.

Bus Transportation:

Sun Tran provides general bus transportation for the subject market area.

Availability of Support Facilities and Services

Schools

The market area is served by adequate elementary, middle and high schools. The schools are a combination of public, private and charter schools.

Utilities

A large portion of the market area is located within the incorporated area of the City of Tucson and the City of South Tucson. Within these areas, water is provided by the City of Tucson and sewer is provided by Pima County Wastewater Management. The Tucson Electric Power company provides electrical service to area residences and businesses. Southwest Gas Corporation provides natural gas service to most area residences and businesses. Environmental Services provides residential and commercial refuse collection for city residents and businesses.

Police Protection

Police protection is provided by the City of Tucson, the City of South Tucson and the Pima County Sheriff's Office.

Fire Protection

Fire protection is provided by Pima County.

Healthcare

The Veterans Affairs Healthcare System medical complex is located within the market area, northeast of 6th Avenue and Ajo way. Banner-University Medical Center is located

within the market area, southwest of Country Club Road and Ajo Way. Medical services not available within the market area are available in the surrounding market areas.

Retail Services

The market area has a wide variety of existing retail uses. Adequate land has been set aside for future development of additional retail space. Furthermore, those retail services not available in the market area are available in the surrounding market areas.

Demographic Trends

According to information obtained from CoStar, demographic trends within approximately a one, three- and five-mile radius of the subject property are as follows:

	1 Mile	3 Mile	5 Mile
2019 Total Population:	0	13,676	71,858
2024 Population:	0	14,018	74,160
Pop Growth 2019-2024:	0.00%	2.50%	3.20%
Average Age:	.00	37.10	34.20
2019 Total Households:	0	2,551	20,242
HH Growth 2019-2024:	0.00%	3.96%	3.29%
Median Household Inc:	\$0	\$50,568	\$39,737
Avg Household Size:	.00	3.20	3.20
2019 Avg HH Vehicles:	.00	2.00	2.00
Median Home Value:	\$0	\$133,812	\$100,531
Median Year Built:	0	2002	1991

Real Estate Market Conditions

Multi-Family Market Conditions

Within the market area, according to information obtained from CoStar, as of the end of the Second Quarter of 2019, the market area had 264 multi-family residential developments with 9,587 total units. Three new projects with 212 units have been added in the last three years. At the end of the Second Quarter, the market area had 638 vacant units for a vacancy rate of 6.7%. The vacancy rate has declined slightly from

a high of 9.2% in the Third Quarter of 2016. There has been net absorption in 8 of the last 12 quarters and total net absorption of 378 units. The effective rent per units has increased from a low of \$616 in the Third Quarter of 2016 to \$669 at the end of the Second Quarter of 2019. The historic multi-family statistics for the market area from CoStar are summarized as follows:

Multi-Family Market Area Statistics Through Second Quarter 2019										
Quarter	Inventory		Vacant		Absorption	Deliveries		Under Construction		Effective
	Buildings	Units	Units	Percent	Units	Buildings	Units	Buildings	Units	Rent
2019 Q2	264	9,587	638	6.7%	62	1	80	0	-	\$669
2019 Q1	263	9,507	621	6.5%	(7)	0	-	1	80	\$648
2018 Q4	263	9,507	614	6.5%	(12)	0	-	1	80	\$646
2018 Q3	263	9,507	602	6.3%	(10)	0	-	1	80	\$648
2018 Q2	263	9,507	592	6.2%	55	1	40	1	80	\$651
2018 Q1	262	9,467	607	6.4%	83	0	-	2	120	\$640
2017 Q4	262	9,467	690	7.3%	54	0	-	2	120	\$639
2017 Q3	262	9,467	744	7.9%	12	0	-	2	120	\$629
2017 Q2	262	9,467	757	8.0%	11	0	-	0	-	\$624
2017 Q1	262	9,467	768	8.1%	125	1	92	0	-	\$622
2016 Q4	261	9,375	801	8.5%	65	0	-	1	92	\$617
2016 Q3	261	9,375	866	9.2%	(60)	0	-	1	92	\$616
Total:					378	3	212			
Source: CoStar										

Office Market Conditions

Within the market area, according to information obtained from CoStar, as of the end of the Second Quarter of 2019, the market area had 138 office buildings totaling 1,460,567 square feet of space. Over the prior three years one new building with 50,000 square feet was added. Of the total inventory, 3,390 square feet (0.2%) were vacant at the end of the Second Quarter. Net absorption has been positive in 8 of the last 12 quarters and total net absorption was positive 113,852 square feet. The rental rate for office space in the market area has increased from a low of \$9.66 per square foot in the Fourth Quarter of 2016 and ended the Second Quarter 2019 at \$12.72 per square foot. The historic office statistics for the market area from CoStar are summarized as follows:

Office Market Area Statistics Through Second Quarter 2019										
Quarter	Inventory		Vacant		Absorption	Deliveries		Under Construction		Office Base
	Buildings	SQ FT	SQ FT	Percent	SQ FT	Buildings	SQ FT	Buildings	SQ FT	Rent
2019 Q2	138	1,460,567	3,390	0.2%	38,554	0	0	1	200,000	\$12.72
2019 Q1	138	1,460,567	41,944	2.9%	77,161	1	50,000	1	200,000	\$12.67
2018 Q4	137	1,410,567	69,105	4.9%	1,258	0	0	2	250,000	\$12.79
2018 Q3	137	1,410,567	70,363	5.0%	(6,462)	0	0	1	50,000	\$12.74
2018 Q2	137	1,410,567	63,901	4.5%	(200)	0	0	1	50,000	\$11.41
2018 Q1	137	1,410,567	63,701	4.5%	1,000	0	0	1	50,000	\$11.41
2017 Q4	137	1,410,567	64,701	4.6%	19,298	0	0	1	50,000	\$11.63
2017 Q3	137	1,410,567	83,999	6.0%	(8,460)	0	0	0	0	\$11.90
2017 Q2	137	1,410,567	75,539	5.4%	2,284	0	0	0	0	\$12.21
2017 Q1	137	1,410,567	77,823	5.5%	19,749	0	0	0	0	\$11.34
2016 Q4	137	1,410,567	97,572	6.9%	12,539	0	0	0	0	\$9.66
2016 Q3	137	1,410,567	110,111	7.8%	(42,869)	0	0	0	0	\$10.83
Change/Total					113,852	0	50,000			
Source: CoStar										

Retail Market Conditions

Within the market area, according to information obtained from CoStar, as of the end of the Second Quarter of 2019, the market area had 837 retail buildings totaling 5,225,723 square feet of space. Over the prior three years, 17 new buildings with 251,187 square feet were delivered. Of the total inventory, 275,457 square feet (5.3%) were vacant at the end of the Second Quarter of 2019. The vacancy rate has fluctuated between 4.5% and 7.6% over the last three years. Net absorption was positive in 8 of the last 12 quarters and total net absorption was 229,242 square feet. The average rental rate was \$14.18 per square foot at the end of the Second Quarter of 2019. The rental rate has fluctuated between \$13.35 and \$14.45 per square foot over the last three years. The historic retail statistics for the market area from CoStar are summarized as follows:

Retail Market Area Statistics Through the Second Quarter 2019										
Quarter	Inventory		Vacant		Net Absorption	Deliveries		Under Construction		Base
	Buildings	SQ FT	SQ FT	Percent	SQ FT	Buildings	SQ FT	Buildings	SQ FT	Rent
2019 Q2	837	5,225,723	275,457	5.3%	(30,986)	0	0	2	9,098	\$14.18
2019 Q1	837	5,225,723	244,471	4.7%	670	1	8,400	1	2,640	\$13.86
2018 Q4	836	5,217,323	236,741	4.5%	68,106	2	57,500	1	8,400	\$13.94
2018 Q3	834	5,159,823	247,347	4.8%	9,670	2	8,760	3	65,900	\$13.57
2018 Q2	832	5,151,063	248,257	4.8%	44,301	4	27,420	4	66,260	\$13.35
2018 Q1	828	5,123,643	265,138	5.2%	13,202	3	26,044	7	43,680	\$13.62
2017 Q4	825	5,097,599	252,296	4.9%	137,255	0	0	7	52,584	\$14.13
2017 Q3	825	5,097,599	389,551	7.6%	(24,407)	0	0	3	26,044	\$14.26
2017 Q2	825	5,097,599	365,144	7.2%	(11,429)	1	1,760	0	0	\$14.36
2017 Q1	824	5,095,839	351,955	6.9%	(35,215)	2	55,075	1	1,760	\$14.43
2016 Q4	822	5,040,764	261,665	5.2%	48,575	2	66,228	2	55,075	\$13.45
2016 Q3	820	4,974,536	244,012	4.9%	9,500	0	0	4	121,303	\$13.58
Change/Total					229,242	17	251,187			
Source: CoStar										

Industrial Market Conditions

Within the market area, according to information obtained from CoStar, as of the end of the Second Quarter of 2019, the market area had 1,105 industrial buildings (including flex ,buildings) totaling 21,225,964 square feet of space. Over the prior three years five new buildings with 1,322,379 square feet were added. Of the total inventory, 1,306,471 square feet (6.2%) were vacant at the end of the Second Quarter of 2019. The vacancy rate has declined from a higher of 9.5% in the Third Quarter of 2017. Net absorption has been positive in 10 of the last 12 quarters and total net absorption has been positive 2,008,619 square feet. Five new buildings with a total of 1,322,379 square feet were added in the last three years. Two buildings with 166,500 square feet were under construction at the end of the Second Quarter. The historic industrial and flex statistics for the market area from CoStar are summarized as follows:

Industrial (including Flex) Market Area Statistics Through Second Quarter 2019										
Quarter	Inventory		Vacant		Net Absorption	Deliveries		Under Construction		Base
	Buildings	SQ FT	SQ FT	Percent	SQ FT	Buildings	SQ FT	Buildings	SQ FT	Rent
2019 Q2	1,105	21,225,964	1,306,471	6.2%	140,113	0	0	2	166,500	\$5.87
2019 Q1	1,105	21,225,964	1,446,584	6.8%	129,607	0	0	2	166,500	\$5.83
2018 Q4	1,105	21,225,964	1,576,191	7.4%	95,569	0	0	1	157,000	\$5.82
2018 Q3	1,105	21,225,964	1,671,760	7.9%	254,678	0	0	0	0	\$5.90
2018 Q2	1,105	21,225,964	1,926,438	9.1%	285,468	1	300,181	0	0	\$6.01
2018 Q1	1,104	20,925,783	1,911,725	9.1%	(1,110)	0	0	1	300,181	\$6.17
2017 Q4	1,104	20,925,783	1,910,615	9.1%	86,034	0	0	1	300,181	\$6.28
2017 Q3	1,104	20,925,783	1,996,649	9.5%	37,207	0	0	1	300,181	\$6.46
2017 Q2	1,104	20,925,783	2,033,856	9.7%	(287,635)	2	23,910	1	300,181	\$6.34
2017 Q1	1,102	20,901,873	1,722,311	8.2%	104,158	0	0	2	23,910	\$6.24
2016 Q4	1,102	20,901,873	1,826,469	8.7%	232,566	1	140,000	2	23,910	\$6.40
2016 Q3	1,101	20,761,873	1,919,035	9.2%	931,964	1	858,288	2	160,160	\$6.49
Total					2,008,619	5	1,322,379	15		

Source: CoStar

Governmental Considerations

Municipalities

The subject market area comprises portions of the City of Tucson, the City of South Tucson and unincorporated areas of Pima County.

Land Use Controls

The City of Tucson, the City of South Tucson and Pima County in the unincorporated areas control land uses within the market area. These controls are typical relative to other municipalities in the Tucson area, however, are more stringent than municipalities in other areas of the State

Grow and Development

The municipalities within the area are generally supportive of growth and development.

Conclusion and Relevance to the Subject Property

The market area and surrounding area are developed with a mixture of residential, industrial and commercial uses. With some remaining undeveloped land, the market area will likely continue to experience growth in the coming years. Overall, in common with other portions of the metropolitan area, the long-term outlook for the subject market area is good.

SITE DESCRIPTION

The subject property is 297.3304 acres of undeveloped land targeted for employment uses, and located on the north side of Aerospace Parkway, between Raytheon Parkway and Alvernon Way in Tucson. The property is further described as follows:

Type of Property:	Undeveloped land targeted for employment uses
Site Area:	12,951,714 Square feet/297.3304 Acres
Shape/Dimensions:	Irregular
Location:	On the north side of Aerospace Parkway, between Raytheon Parkway and Alvernon Way in Tucson
Topography:	Slightly rolling desert, bisected by desert washes.
Soil:	Based on my inspection of the subject property and observation of adjacent properties, the soil appears adequate to support potential improvements.
Drainage:	The site is bisected by desert washes. According to the Pima County GIS maps, the washes are all under 500 CFS. Other than the washes, the drainage appears to be typical.
Lot Type:	The property is effectively a corner lot at the northeast and northwest corners of Aerospace Parkway and Country Club Road.
Frontage:	The property has good frontage along the north side of Aerospace Parkway and the east and west sides of Country Club Road.
Traffic Volume:	A traffic count along Aerospace Parkway near the subject property was not available; however, Aerospace Parkway has effectively replaced Hughes Access Road, which had a 2017 traffic count of 13,149 vehicles per day. Thus, the traffic count along Aerospace Parkway is likely near 13,149 vehicles per day.

Roadway Improvements:

	<u>Aerospace Parkway</u>
Traffic Lanes	Two (one east and one west)
Median	None (center turn lane at select locations)
Surface	Asphalt pavement
Curbs	None
Sidewalks	None
Gutters	None
Streetlights	None
Comments	According to Pima County Ordinance No. 2017-10, pass and adopted April 4, 2017, Aerospace Parkway is a controlled access highway. No owner or occupant of the land abutting the has a legal right of vehicular access to Aerospace Parkway except at such points and in the manner determined by the Pima County Engineers.

	<u>Country Club Road</u>
Traffic Lanes	Two (one north and one south)
Median	None
Surface	Asphalt pavement
Curbs	None
Sidewalks	None
Gutters	None
Streetlights	None
Comments	Since Hughes Access Road has been rerouted, County Club Road has been closed from Aerospace Parkway. Nonetheless, the roadway could be reopened to provide access to the subject property.

Flood Zone:

Flood Zone X per FEMA FIRM's 04019C2880L and 04019C2900L.

According to the environmental report provided by the client, the property has a number of small areas that are potentially waters of the United States. Use of land within waters of the United States may be subject to federal regulations.

General Plan Designation:

According to the City of Tucson Future Growth Scenario Map, the north portion of the property is located in an area targeted for industrial areas; the south portion of the property is targeted for southlands; and the east portion is targeted for existing neighborhoods.

Industrial areas are strategically located for efficient handling of intermodal freight movements. These areas support national and international freight movement through Tucson by connecting existing major regional commercial transportation routes, including railway, major highways and the airports.

Southlands is a long-term growth area, formed predominantly by large tracts of undeveloped land located the southeastern and southern perimeters of the city. A large portion of this area is administered by the State Land Department. Prior to releasing these lands for development, the state will initiate planning efforts to promote orderly phased development that reflects sustainable and innovative community design.

Existing neighborhoods are primarily developed and largely built-out residential neighborhoods and commercial districts in which minimal new development and redevelopment are expected in the next several decades. The goal is to maintain the character of these neighborhoods, while accommodating some new development and redevelopment and encouraging reinvestments and new services and amenities that contribute further to neighborhood stability.

**Tucson International Airport
Authority Master Plan:**

According to Tucson International Airport Master Plan Update dated June 2014, the subject property is targeted for employment uses. This category includes light industrial, business park, large-scale service commercial and warehouse/distribution activities. The master plan provides for phasing of development around the airport in three separate phases. The subject property is located within Phase 2, which has midterm development potential.

Zoning:

According to the City of Tucson Zoning map, the subject property is zoned I-2 (Heavy Industrial Zone) and P-I (Park Industrial Zone).

The I-2 zone provides for industrial uses that are generally nuisances, making them incompatible with most other land use. These nuisances may be in the

form of air pollutants; excessive noise, traffic, glare, or vibration; noxious odors; the use of hazardous materials; or unsightly appearance. Select other agriculture, civic, commercial, industrial, retail, storage, utility, and wholesaling uses may also be permitted. Permitted uses include a wide variety of commercial, industrial and public uses.

The P-I zoning provides for corporate business centers, wholesaling and manufacturing activities, and select agriculture, civic, commercial, industrial, retail, storage, utility, and wholesaling uses may also be permitted provided design and development standards apply that can be carried on in an unobtrusive, controlled manner. Permitted uses include a wide variety of commercial, industrial and public uses.

Airport Environs:

With a location near the Tucson International Airport, approximately 7% to 10% of the northeast portion of the property is located within the Airport Environs Area. The Airport Environs plan is to ensure the compatibility of land uses in the Environs area with the airport; to achieve a balance between the needs of the airport and growth trends of the Environs area; and to pursue techniques to mitigate the extreme impacts of aircraft operations on existing noise-sensitive uses.

The northeast portion of the property is located within the Airport Land Use Overlay Zone 1, LDN area 65-70 (NCD-A – 65-70 Ldn). Within the NCD-65-70 areas, sound attenuation is required for residential uses, places of public accommodations and administrative and professional office. Prohibited uses include outdoor civil assembly, educational use (elementary and secondary), day care, entertainment, medical services and select residential uses.

The northeast portion of the property is also located within an area with height restrictions ranging from 50 to 88 feet.

Lighting Code:

Much of the property is located within the E3 lighting area. The east portion of the property is located within the E2 lighting area. The maximum outdoor light

output per acre is 350,000 lumens per acre for the E3 area and 195,000 lumens per acre for the E2 area.

Likelihood of Zoning Change: The existing I-2 zoning is consistent with the City of Tucson General Plan and the Tucson International Airport master plan. Furthermore, the I-2 zoning is consistent with the other land use restrictions, such as the Airport Environs restrictions. Nonetheless, there is some possibility of rezoning the P-I zoned portion of I-2 to be consistent with the rest of the property. Nonetheless, development of the property with an industrial use may not require rezoning that portion of the property.

**Easements, Encroachments
And Restrictions:**

Based on my review of the title report and/or inspection, the property is subject to the following easements and restrictions:

- Drainage easement(s) along the north side of Aerospace Parkway
- Access restrictions along Aerospace Parkway
- Right of way for Country Club Road

The property does not appear to be impacted by any other atypical easements, encroachments or restrictions.

Use Restriction:

It is an extraordinary assumption that use of the property is restricted to (i) Raytheon Missile Systems (RMS) buffer and/or expansion (212.4804 acres) and (ii) an Arizona Air National Guard (AANG) munitions storage area on a portion of the property (84.8500 acres). This assumption is based on the following:

- A. The property is subject to a 2015 agreement that provides that the property, from and after 2015, will remain undeveloped land available for an RMS buffer and/or expansion use until the sale of the Property to the County and City. After the sale, the City and County will continue to hold the property as undeveloped land used as an RMS buffer and/or available for RMS expansion or other compatible uses, such that if and when such expansion is necessary, in any form, it can proceed quickly and unencumbered.

- B. The sale of the property to the City and County has been approved by the FAA and United States Air Force (USAF), as evidenced by the Record of Decision dated November 28, 2018 (the ROD). The ROD approved (i) the ultimate transfer of Parcel H from Tucson Airport Authority (TAA) to the USAF, a portion (84.8500 acres) of which would be designated for use by the National Guard Bureau (NGB); (ii) appropriate agreements between the USAF and NGB for use of the land in Parcel H for construction of Munitions Storage Area (MSA); and (iii) approval of funds for design/construction of an MSA to support the AANG at the Tucson Air National Guard Based on Parcel H.
- C. This assumption limits use of the property to RMS and AANG, but does not limit uses to which RMS may put on the property, except that the uses must be compatible with USAF or Raytheon's use of the adjoining property, and with the MSA on a portion of Parcel H.

Environmental Concerns:

According to a Biological Assessment provided by the client, the property may be affected by the Lesser long-nosed bat, the Pima pineapple cactus (PPC) and the Wester burrowing owl; however, the only species that is likely to be adversely affected by development of the property is the PPC. In the study for the assessment, approximately twelve PPC were found on the subject property (Parcel H) and the adjacent Parcel G. Seven of the twelve could be avoided and five would likely be affected. Approximately 13 acres of land would be affected by the Air National Guard facility. Mitigation credits can be purchased to compensate for the loss at a ratio of 1:1 of area of modified habitat. The five affected PPC can be transplanted to other areas of the airport that are not accessible to the general public.

According to Sherry Ruther, Pima County Deputy Director Office of Sustainability & Conservation, a developer of the property has a variety of options for dealing with the PPC. If development of the property can be configured to avoid disturbing the PPC and its

habitat, no mitigation or transplanting may be required. If a relatively small number are impacted, the cost may only be the cost to transplant the cactus. If most of the cacti are impacted, the cost could be the cost to transplant the impacted cacti, plus the cost to acquire mitigation credits.

Mitigation credits cost \$5,000 per acre and the cost to transplant the PPC is estimated to be approximately \$500 per plant, plus another \$5,000 to \$7,500 per plant to monitor the plants for five years. Thus, the total cost of mitigation could be as low as a few thousand dollars to as much as \$160,000.

Riparian Habitat:

Portions of the subject property that are bisected by small washes are identified as Xeroriparian (Riparian) C habitat. Based on calculations from the City of Tucson GIS maps, approximately 97 acres (32.62%) of the property are impacted. Xeroriparian habitat is typically associated with ephemeral streams (those that flow only in response to rainfall). The plant species present are similar to those found in upland areas, but plant densities tend to be greater due to the relative abundance of water. Xeroriparian C is the less dense subcategory, after A (most dense) and B (moderately dense).

The goal of the riparian regulations and mitigation standards is to promote the preservation of high-quality riparian habitat and encourage the integration of riparian open space within the urban and suburban environment. Onsite mitigation is required when greater than one third acre of regulated riparian habitat is disturbed. Mitigation should occur in the area to enhance the overall function of the natural open space and include planting and seeding of trees, shrubs and understory to comparable biological value to the habitat being disturbed; irrigation to assist in re-establishment of the habitat; maintenance of the habitat for five years; and monitoring the habitat to ensure that the plan is being successfully implemented.

Alternatively, if onsite mitigation is not possible, a developer may pay a fee in-lieu of onsite mitigation. According to Eric Shepp, with the Pima County

Regional Flood Control District, the mitigation fee for Riparian C habitat is \$14,000 per acre. The fee is based on the actual estimated cost of revegetating, irrigating and monitoring the replacement habitat. Thus, the mitigation cost for onsite mitigation is similar to the \$14,000 fee. If all 97 acres of Riparian C Habitat are disturbed, the total mitigation cost could be as high as \$1,358,000 (97 acres x \$14,000 per acre = \$1,358,000). Nonetheless, I recognize that development of the property could be configured to minimize the amount of disturbed area by retaining the habitat in setback and open space areas, which will result in less than 97 acres of disturbed area.

Utilities:

Water:	There is an existing water line in Aerospace Parkway in front of the World View facility to the west. The water line is approximately 1,200 feet west of the subject property. According to information provided by the client, the cost to extend water to the property is approximately \$234,326. The City of Tucson will be extending a water line in Aerospace Parkway in the summer of 2021.
Sewer:	There is an existing sewer line in Aerospace Parkway in front of the World View facility to the west. The sewer line is approximately 1,200 feet west of the subject property. According to information provided by the client, the cost to extend the sewer line to the property is approximately \$204,335.
Electricity:	There is a Tucson Electric Power electric line to the World View facility to the west. There is also an electric line along the now closed Hughes Access Road. According to information provided by the client, the cost to extend electricity and communications facilities to the property is \$330,465.
Telephone:	CenturyLink
Gas:	None
Fiber Optic Cable:	As of the date of my inspection, a fiber optic cable line is being installed along Aerospace Parkway.

Adjacent Land Uses:

North: A Raytheon Buffer area (Parcel G) followed by the now closed Hughes Access Road and other Raytheon and airport related uses

East: Undeveloped land targeted for employment uses followed by Alvernon Way and undeveloped land

South: Aerospace Parkway followed by undeveloped land formerly used for sand and gravel extractions

West: World View Enterprises followed by Raytheon Parkway and undeveloped land

Apparent Adverse Factors: None identified

Site Utility and Accessibility:

The property has adequate access from existing roadways and adequate utility for potential uses.

Non-apparent Adverse Factors:

I again refer the reader to the Underlying Assumptions and Limiting Conditions. I repeat that I am not qualified to determine the presence of hazardous substances as they affect the site. This would include, but not be limited to, toxic chemicals, radon gas, methane, etc. Unless otherwise stated, the site is assumed to be unaffected by these substances.

Full Cash Values And Real Estate Taxes:

The subject property is identified as a portion of Pima County Assessor's Parcel numbers 140-47-005B, 006E and 006F. As land owned by a governmental entity, the property is not subject to real estate taxes. The full cash values for these parcels are summarized as follows:

140-47-005B

	2017 Prelim	2018 Prelim	2019 Prelim	2020 Prelim
FCV Improvement	\$0	\$0	\$0	\$0
FCV Land	\$2,160,810	\$2,160,810	\$2,160,810	\$2,160,810
FCV Total	\$2,160,810	\$2,160,810	\$2,160,810	\$2,160,810
FCV YoY Change	0%	0%	0%	0%
Assessed FCV	\$0	\$0	\$0	\$0
LPV Total	\$0	\$0	\$0	\$2,160,810
State Aid	\$0	\$0	\$0	\$0
Tax Amount	\$0	\$0	\$0	\$0

140-47-006E

	2017 Prelim	2018 Prelim	2019 Prelim	2020 Prelim
FCV Improvement	\$0	\$0	\$0	\$0
FCV Land	\$2,360,885	\$2,360,885	\$2,360,885	\$2,360,885
FCV Total	\$2,360,885	\$2,360,885	\$2,360,885	\$2,360,885
FCV YoY Change	0%	0%	0%	0%
Assessed FCV	\$0	\$0	\$0	\$0
LPV Total	\$0	\$0	\$0	\$2,360,885
State Aid	\$0	\$0	\$0	\$0
Tax Amount	\$0	\$0	\$0	\$0

140-47-006F

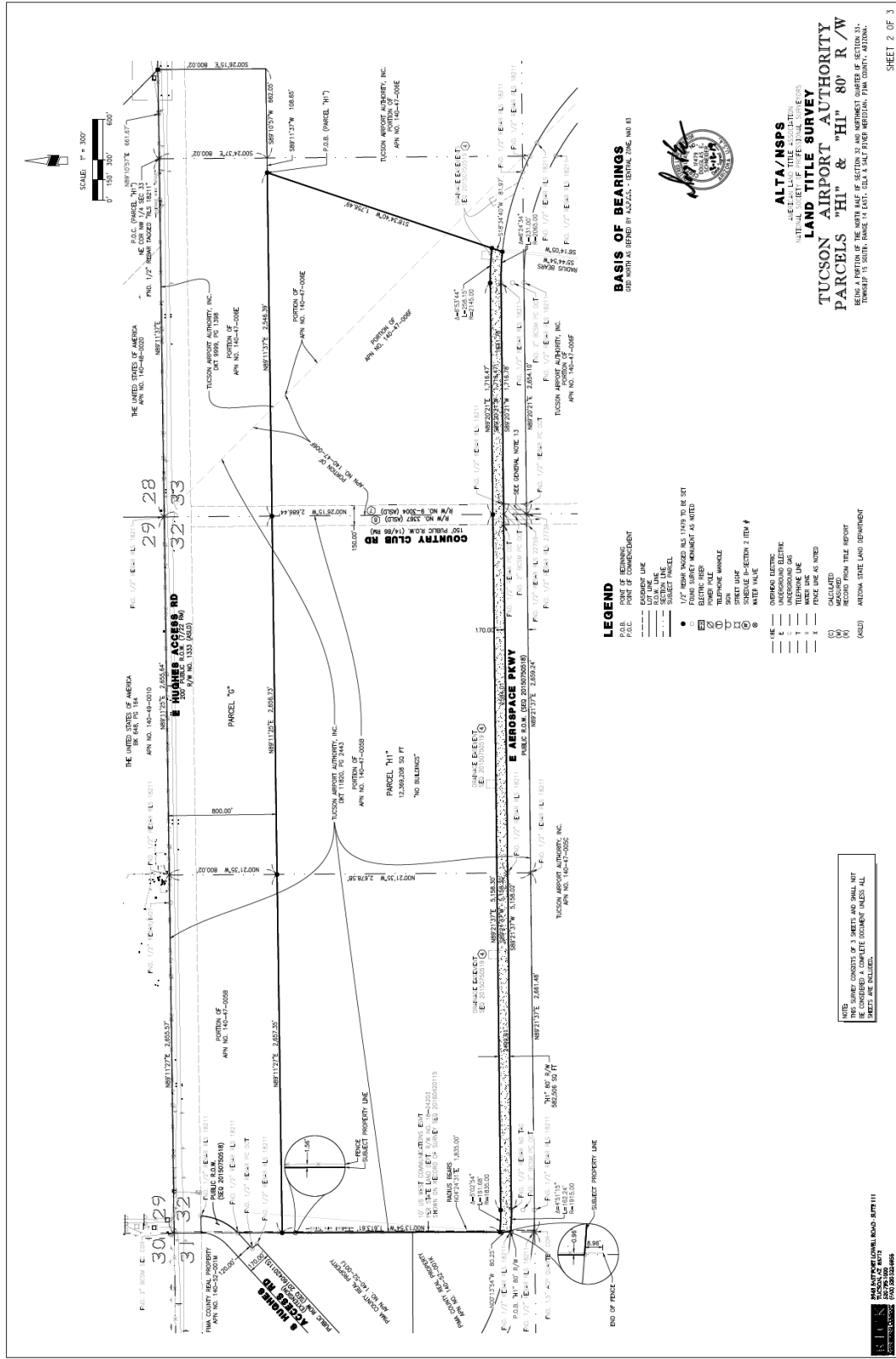
	2017 Prelim	2018 Prelim	2019 Prelim	2020 Prelim
FCV Improvement	\$0	\$0	\$0	\$0
FCV Land	\$2,408,903	\$2,408,903	\$2,408,903	\$2,408,903
FCV Total	\$2,408,903	\$2,408,903	\$2,408,903	\$2,408,903
FCV YoY Change	0%	0%	0%	0%
Assessed FCV	\$0	\$0	\$0	\$0
LPV Total	\$0	\$0	\$0	\$2,408,903
State Aid	\$0	\$0	\$0	\$0
Tax Amount	\$0	\$0	\$0	\$0

Back Taxes:

No delinquent prior year taxes are owed on these parcels.

Special Assessments:

The subject property is located in the Southlands Impact Fee area.



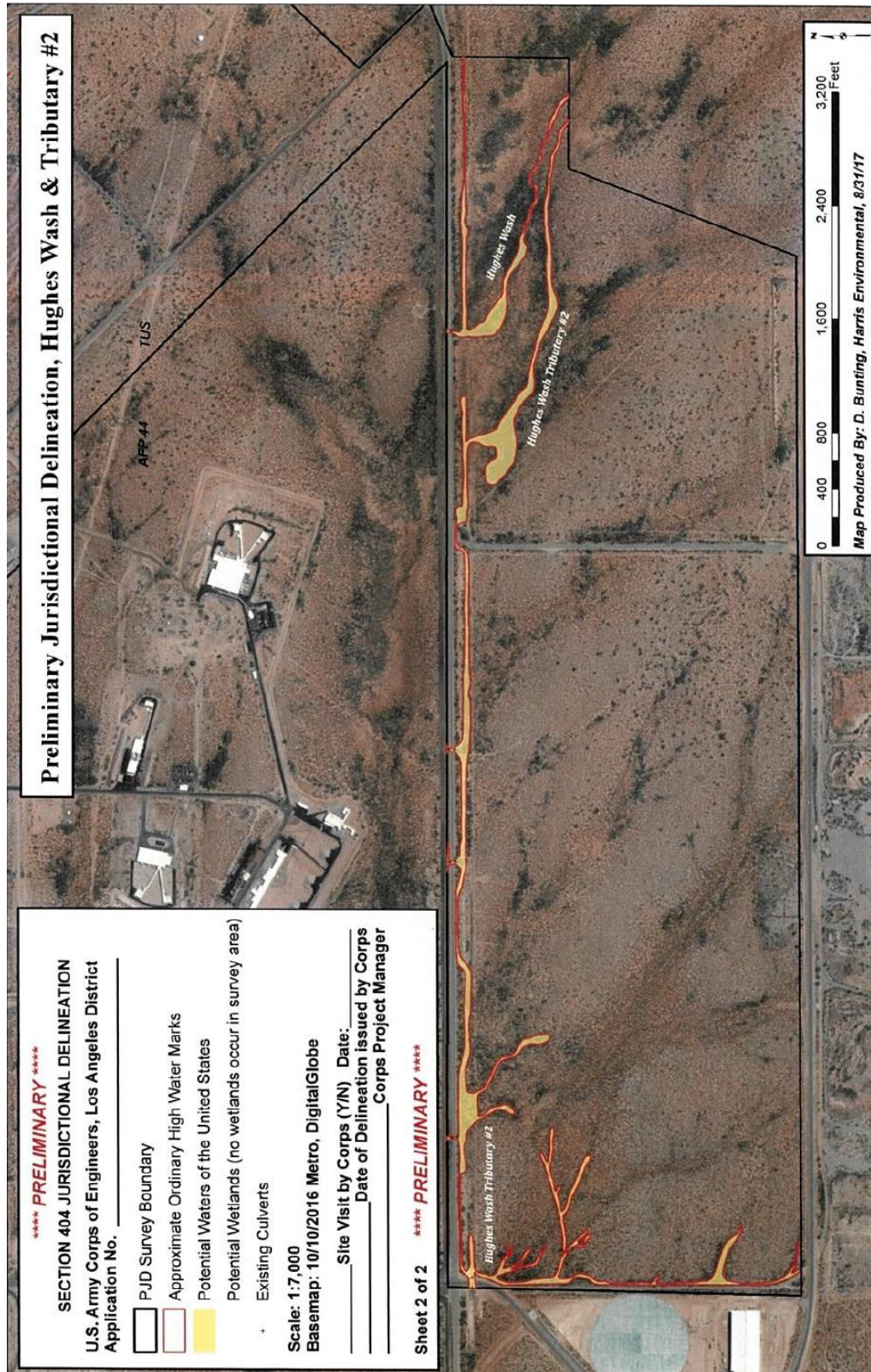
Aerial Photo



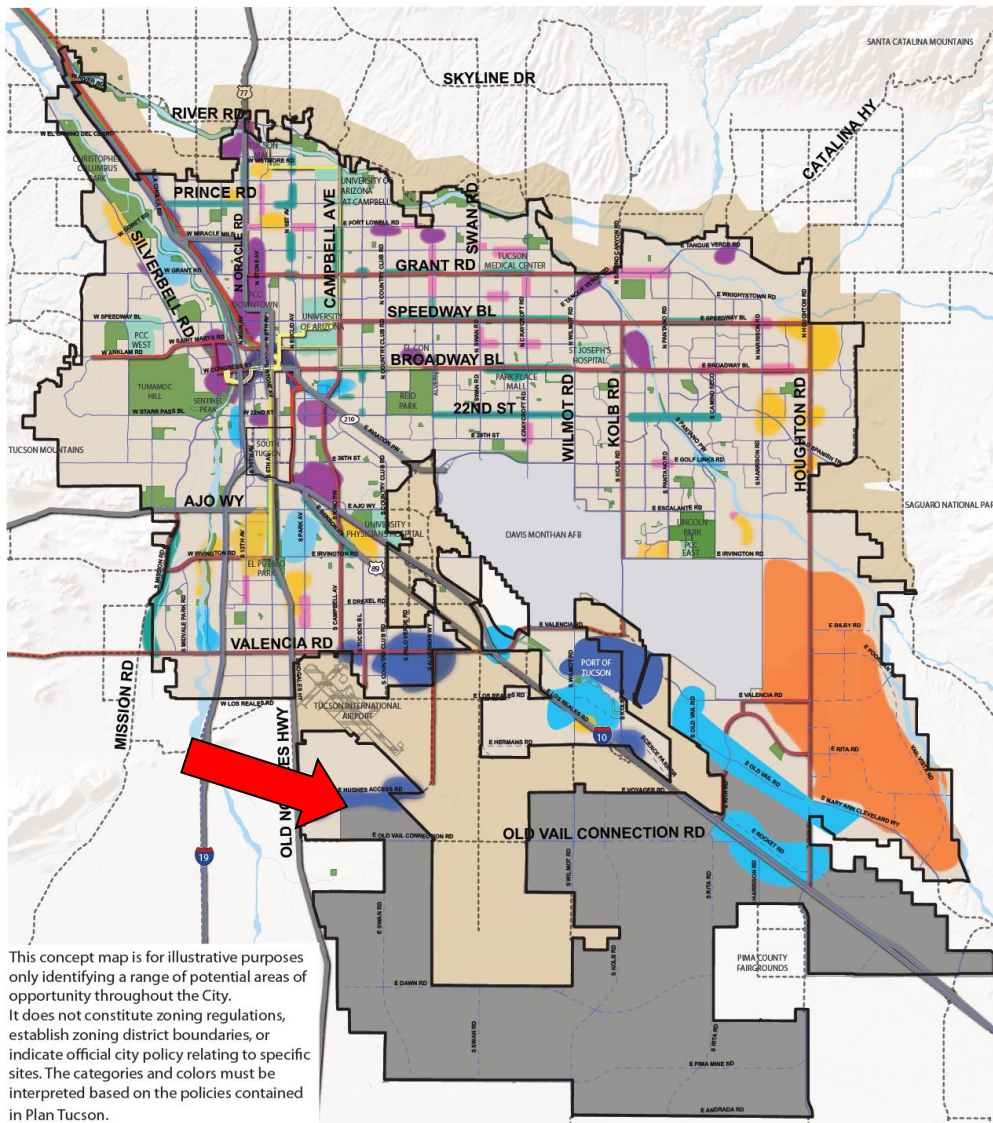
Flood Map



Aerial Photo of Washes



Future Growth Scenario Map



This concept map is for illustrative purposes only identifying a range of potential areas of opportunity throughout the City. It does not constitute zoning regulations, establish zoning district boundaries, or indicate official city policy relating to specific sites. The categories and colors must be interpreted based on the policies contained in Plan Tucson.

Building Blocks

(See Exhibit LT-8 for general descriptions of the building blocks):

- Downtown
- Mixed-Use Centers
- Business Centers
- Industrial Areas
- Mixed-Use Corridors
- Neighborhood Centers
- Campus Areas
- Neighborhoods of Greater Infill Potential
- Houghton Corridor Area
- Existing Neighborhoods
- Potential Annexation Areas

- Southlands
- Existing Parks/Open Space
- City of Tucson Boundary

From Major Streets and Routes Plan:

- Future Roads
- County Major Routes
- Major Highways
- Major Roads

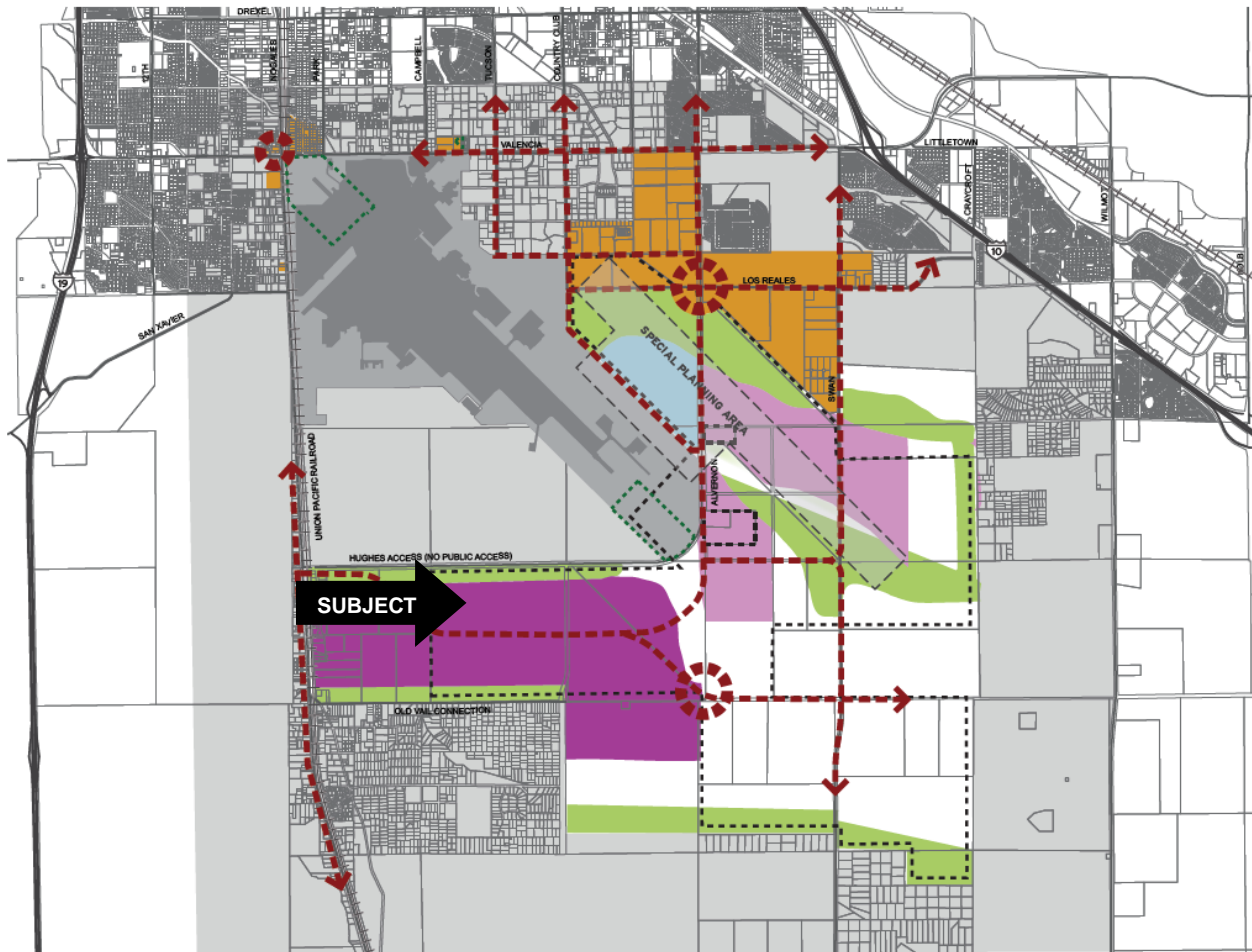
From 2040 Regional Transportation Plan:

- Planned Bus Routes (BRT, Express and Circulator)
- Planned Streetcar
- Planned Commuter/Intercity Rail

Map available online at
www.tucsonaz.gov/plantucson

Map and legend may vary slightly from each other. Colors may also vary depending on printer used.

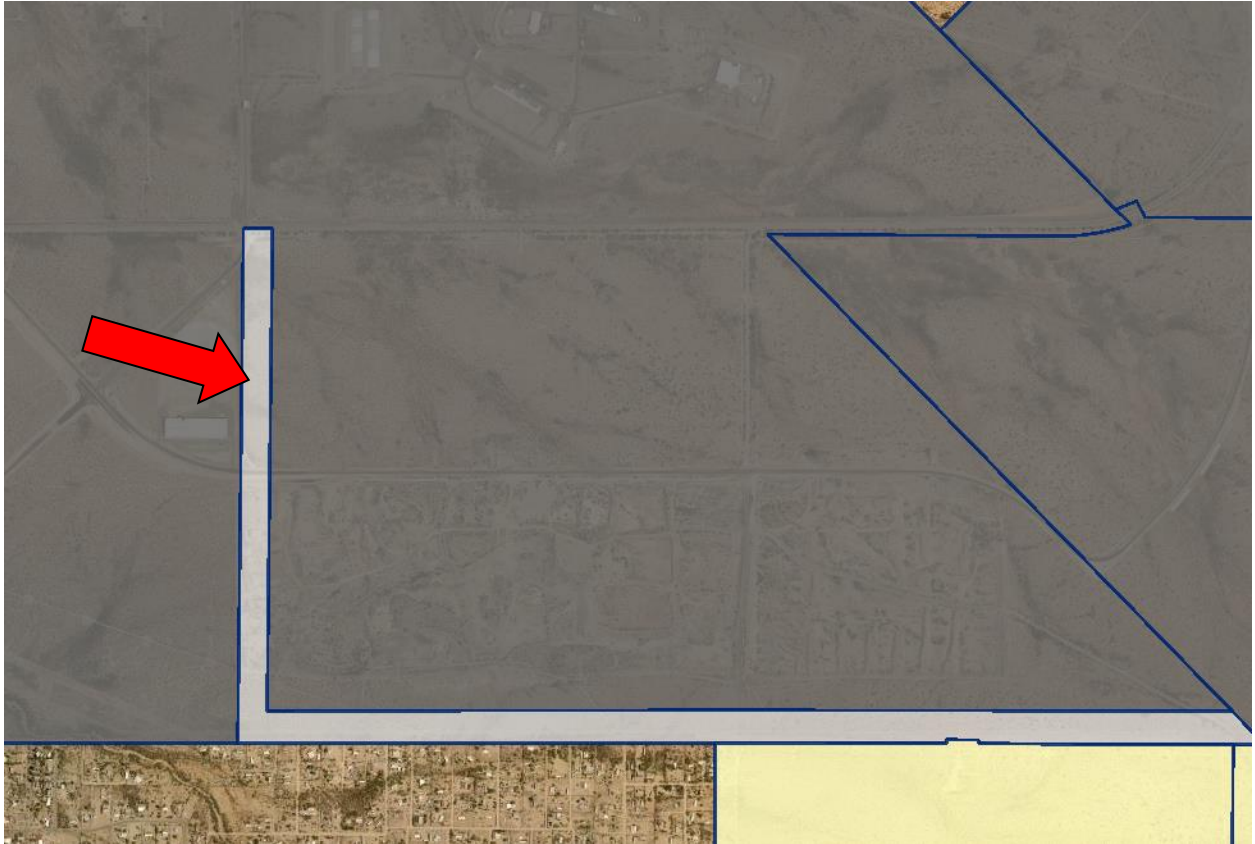
Tucson International Airport Master Plan



LEGEND

- PRIMARY ROAD NETWORK
- COMMERCIAL NODE
- RESERVE LAND AREA (APPROXIMATE)
- EXTENDED CLEAR ZONE POLICY AREA
- INFILL / ENHANCEMENT AREA
- PRIMARY (AERONAUTICAL) LAND
- TIA AIRFIELD
- AIRPORT-RELATED SERVICE
- EMPLOYMENT (OFFICE / INDUSTRIAL)
- INDUSTRIAL / LOGISTICS
- LARGE SCALE INDUSTRIAL
- NATURAL CORRIDOR / MITIGATION

Zoning Map



 P-1

 I-1

 I-2

Airport Environs Noise Zone Map



- 65-70 LDN
- 70-75 LDN
- 70-PLUS LDN
- 75-80 LDN
- 80-PLUS LDN

Airport Environs Height Map



HIGHEST AND BEST USE ANALYSIS

Highest and best use is defined as “the reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity”.⁴

This definition applies specifically to the highest and best use of land. It is to be recognized that in cases where a site has existing improvements, the highest and best use may very well be determined to be different from the existing use. The existing use will continue, however, unless the land value in its highest and best use exceeds the total value of the property in its existing use. Implied within this definition is recognition of the contribution of that specific use to community environment or to community development goals in addition to the wealth maximization of individual property owners. Also implied is that the determination of highest and best use results from the appraiser's judgment and analytical skill, and that the use determined from analysis represents an opinion, not a fact to be found.

On the basis of the preceding sections, a general discussion will follow analyzing the highest and best use of the subject property, as vacant.

Legally Permissible

As discussed previously, the property is zoned I-2 (Heavy Industrial Zone) and P-I (Park Industrial Zone). The property is also partially located within the Airport Environs area, which places additional use and height restrictions on that portion of the property. The current zoning is consistent with the City of Tucson general plan and the Tucson International Airport master plan. The zoning is consistent with the existing and planned industrial uses in the area. Other than changing the P-I zoning to I-2, a zoning change for the property is not likely. The property is subject to typical easements and restrictions. Furthermore, the property is subject to a use restriction that limits use of the property to Raytheon (212.4804 acres) and the Arizona Air National Guard munitions storage facility (84.8500 acres). Raytheon can use their portion for any uses that are compatible with USAF or Raytheon's use of the adjoining property, and with the munitions storage facility. Therefore, based on this analysis, the legally permissible uses of the property are for use of 212.4804 acres as a Raytheon buffer area and/or to hold for future development of additional Raytheon facilities and for development of an Arizona Air National Guard munitions storage facility on 84.8500 acres.

⁴ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Sixth Edition* (Chicago, Illinois, 2015), page 109.

Physically Possible

The subject site is 297.3304 acres of land (212.4804 acres for Raytheon and 84.8500 acres for Arizona Air National Guard) with slightly irregular desert topography. Land uses in the area of the subject property are a combination of undeveloped land, industrial and airport related uses. Electricity, water and sewer services are in the area, but will need to be extended to the property. According to the environmental report provided by the client, the property has a number of small areas that are potentially waters of the United States. Use of land within waters of the United States may be subject to federal regulations. A portion of the property has Pima Pineapple Cactus and associated habitat, which may require mitigation if the area of the cactus is disturbed during development. Furthermore, the property has a number of areas with Xeroriparian C habitat, which will also require mitigation if the areas are disturbed during development. Approximately 7% to 10% of the property is located the Airport Environs area and is subject to noise from the airport and building height limitations. Although all of these physical issues will impact development, none will preclude development of the property.

Therefore, it is my opinion that the most likely legally permissible and physically possible use of the subject property is for use of 212.4804 acres as a Raytheon buffer area and/or to hold for future development of additional Raytheon facilities and for development of an Arizona Air National Guard munitions storage facility on 84.8500 acres.

Financially Feasible

The economy and real estate market conditions have improved in the area over the last few years. Vacant sites are being acquired and developed with a variety of uses, including retail, employment, multi-family and single-family residential uses. Based on the development of employment uses in the last few years, it is my opinion that development of employment uses in the area is financially feasible; however, with a total of 297.3304 acres, development of the entire site is not financially feasible.

Raytheon currently uses approximately 420 to 450 acres of land in the area of the subject property. Most of the existing buildings were developed more than 20 years ago. Furthermore, most of the existing Raytheon buildings are more than 4,000 feet from the subject property. Other land near Raytheon's existing buildings is available for development of additional Raytheon buildings. Before the subject property is developed with buildings for Raytheon's use, it is likely that other land closer to their existing buildings will be developed. Furthermore, the subject property has 212.4804 acres for use by Raytheon. This is 47.22% to 50.59% of the existing Raytheon land area. The total building area used by Raytheon has not increased by even 50% in the last 20 years. Therefore, based on the historic expansion of the Raytheon facility and the fact that other land closer to their existing buildings is available for future expansion, it is not likely that Raytheon will need the 212.4804 acres of the subject property for

development of additional building area in the foreseeable future. Thus, the most likely use of the 212.4804 acres is as a buffer area.

Furthermore, even if the property is not used by Raytheon, development of the entire property is not financially feasible. As support for this, I have considered absorption of industrial space and the indicated effective absorption of industrial land in the Tucson area in the last few years. Assuming an average land-to-building ratio range of 5:1 to 5.5:1, based on total net absorption of industrial and flex space in the Tucson area, the effective absorption of industrial land is as follows:

Year	SF Building Absorption*	Effective Land Absorption			
		<u>Based On A 5:1 Ratio</u>		<u>Based On A 5.5:1 Ratio</u>	
		Square Feet	Acres	Square Feet	Acres
2019 YTD	1,043,928	5,219,640	119.8264	5,741,604	131.809
2018	634,654	3,173,270	72.8483	2,538,616	58.279
2017	199,020	995,100	22.8444	796,080	18.275
2016	1,496,418	7,482,090	171.7652	5,985,672	137.412
2015	671,658	3,358,290	77.0957	2,686,632	61.677
2014	<u>349,962</u>	<u>1,749,810</u>	<u>40.1701</u>	<u>1,399,848</u>	<u>32.136</u>
Total	4,395,640	21,978,200	504.5500	24,176,020	555.0051

*Source: CoStar

This table indicates that based on the net absorption of industrial and flex space, the Tucson area has had positive effective net absorption of land for industrial uses since 2014. Furthermore, total net absorption was in the range of 504.55 acres and 555.0051 acres over the last 5.5 years.

I have also considered the delivery (new construction) of industrial space and the effective absorption of industrial land in the Tucson area in the last few years. Assuming an average land-to-building ratio range of 5:1 to 5.5:1, based on the delivery of new industrial and flex space in the Tucson area, the effective absorption of industrial land is as follows:

Year	SF of Building Deliveries*	Effective Land Absorption			
		<u>Based On A 5:1 Ratio</u>		<u>Based On A 5.5:1 Ratio</u>	
		Square Feet	Acres	Square Feet	Acres
2019 YTD	1,145,834	5,729,170	131.5236	6,302,087	144.6760
2018	300,181	1,500,905	34.4560	1,650,996	37.9016
2017	53,721	268,605	6.1663	295,466	6.7830
2016	1,037,959	5,189,795	119.1413	5,708,775	131.0554
2015	270,000	1,350,000	30.9917	1,485,000	34.0909
2014	<u>70,951</u>	<u>354,755</u>	<u>8.1441</u>	<u>390,231</u>	<u>8.9585</u>
Total	2,878,646	14,393,230	330.4231	15,832,553	363.4654

*Source: CoStar

This table indicates that based on the delivery of new industrial and flex space, the Tucson area has had positive effective net absorption of land for industrial uses since 2014. Total net absorption was in the range of 330.4231 acres and 363.4654 acres over the last 5.5 years.

Based on the effective historic absorption of industrial land with other superior industrial sites available for development in the Tucson area and with a total of 297.3304 acres for the subject property, there is not sufficient demand for development of the entire property in the near term. Nonetheless, if the property were not restricted to use by Raytheon and the Arizona Air National Guard, development of the property could be phased over a number of years. Furthermore, development of the entire property with a specific use for a specific industrial user may be financially feasible.

Therefore, it is my opinion that the most likely financially feasible use of the subject property is to develop 84.8500 acres with an Arizona Air National Guard munitions storage facility and to hold 212.4804 acres as a buffer area for Raytheon with potential for future development of other Raytheon facilities with a long-term development horizon.

Maximally Productive

The financially feasible use that provides the greatest return to the property is the maximally productive use. The most likely financially feasible use of the property is to develop 84.8500 acres with an Arizona Air National Guard munitions storage facility and to hold 212.4804 acres as a buffer area for Raytheon with potential for future development of other Raytheon facilities with a long-term development horizon. It is my opinion that no other use would provide a greater return to the property. Therefore, it is my opinion that the maximally productive and highest and best use of the property is to develop 84.8500 acres with an Arizona Air National Guard munitions storage facility and to hold 212.4804 acres as a buffer area for Raytheon with potential for future development of other Raytheon facilities.

Typically, real estate can be valued by applying three approaches, i.e., the Cost Approach, the Sales Comparison Approach, and the Income Capitalization Approach. Each of these approaches are defined and discussed as follows:

Cost Approach

The Cost Approach is defined as “a set of procedures through which a value indication is derived for the fee simple estate by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive or profit; deducting depreciation from the total cost; and adding the estimated land value. Adjustments may then be made to the indicated value of the fee simple estate in the subject property to reflect the value of the property interest being appraised”.⁵

This approach in appraisal analysis is based on the proposition that the informed purchaser would pay no more than the cost of producing a substitute property with the same utility as the subject property. It is particularly applicable when the property being appraised involves relatively new improvements that represent the highest and best use of the land or when relatively unique or specialized improvements are located on the site and for which there exist no comparable properties on the market. This is sometimes referred to as Value in Use or the value of a particular property for a specific use, i.e., Special Purpose Value.

Sales Comparison Approach

The sales comparison approach is defined as “the process of deriving a value indication for the subject property by comparing sales of similar properties to the property being appraised, identifying appropriate units of comparison, and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant when an adequate supply of comparable sales is available”.⁶

Traditionally, this is an appraisal procedure in which the market value estimate is predicated upon prices paid in actual market transactions and prices asked in current listings. It is a process of analyzing sales of similar recently sold properties in order to derive an indication of the most probable sales price of the property being appraised. The reliability of this technique is dependent upon (a) the availability of comparable

⁵ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Sixth Edition* (Chicago, Illinois, 2015), page 54.

⁶ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Sixth Edition* (Chicago, Illinois, 2015), page 207.

sales data; (b) the verification of the sales data; (c) the degree of comparability or extent of adjustment necessary for time differences; and (d) the absence of atypical conditions affecting the sales price. It is sometimes referred to as Value in Exchange or the value, in terms of money, of real estate in a typical market.

The Income Capitalization Approach

The Income Capitalization Approach is defined as “specific appraisal techniques applied to develop a value indication for a property based on its earning capability and calculated by the capitalization of property income.”⁷

The Discounted Cash Flow Analysis is defined as “the procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams and the quantity and timing of the reversion, and discounts each to its present value at a specified yield rate”.⁸

Final Reconciliation

Final Reconciliation is defined as “the last phase in the development of a value opinion in which two or more value indications derived from market data are resolved into a final value opinion, which may be either a range of value, in relation to a benchmark, or a single point estimate”.⁹ In the final reconciliation section of the report, the valuation approaches are evaluated as to their pertinence and reliability to the appraisal problem. This analysis results in a final value estimate.

For valuation of the subject property, I have used the sales comparison approach. The cost approach was not used due to the fact that the property does not have any improvements. The income approach was not used due to the fact that similar properties are typically not leased at a rate that provides a fair return to the land, relative to their value. Therefore, only the sales comparison approach is used.

⁷ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Sixth Edition* (Chicago, Illinois, 2015), page 115.

⁸ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Sixth Edition* (Chicago, Illinois, 2015), page 66.

⁹ Appraisal Institute, *The Dictionary of Real Estate Appraisal, Sixth Edition* (Chicago, Illinois, 2015), page 91.

SALES COMPARISON APPROACH

To develop an opinion of the value of the subject site, I have used the sales comparison approach. The sales comparison approach is an approach through which an appraiser derives a value indication by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison and making adjustments, based on the elements of comparison, to the sale prices of the comparables.

Traditionally, this is an appraisal procedure in which the market value estimate is predicated upon prices paid in actual market transactions and prices asked in current listings. It is a process of analyzing sales of similar recently sold properties in order to derive an indication of the most probable sales price of the property being appraised. The reliability of this technique is dependent upon (a) the availability of comparable sales data; (b) the verification of the data; (c) the degree of comparability or extent of adjustment necessary for time differences; and (d) the absence of non-typical conditions affecting the sales price. It is sometimes referred to as Value in Exchange or the value, in terms of money, of real estate in a typical market.

The appraisal of land focuses on valuing the property rights attached to the land. In addition, the physical characteristics of land, the availability of utilities, and site improvements affect land use and value. The physical characteristics of a parcel of land that an appraiser may consider are size, topography, view amenity, access and utilities. Topographical characteristics include the land's contour, grade, and drainage. Land value must always be considered in terms of highest and best use.

Overview of the Search for Comparable Sales Information

Emphasis was placed upon selecting relatively recent transactions involving comparables which were considered to be similar to the subject properties in terms of property rights conveyed, location, physical characteristics and potential use. Nonetheless, although differing in some of these characteristics, after adjustments, the comparables are representative of the range of value within which the subject property could be placed.

Selection of Appropriate Units of Comparison

Although alternative units might be employed, when utilizing the sales comparison approach for parcels of land of this size, the predominant unit of comparison is the sales price per square foot of land area. During the research process, market participants clearly indicated that this unit of comparison is the primary unit used in the negotiation process. Accordingly, for the purpose of this report, the sale price per square foot of land area is used.

Analysis and Comparison of Comparable Sales

Typically, comparable sales are analyzed based on a variety of value influencing criteria. For this analysis, the factors that have been considered are as follows:

- Real Property Rights Conveyed
- Financing Terms
- Conditions of Sale
- Expenditures Immediately After the Sale
- Market Conditions (Date of Sale)
- Location
- Physical Characteristics (size, topography, off-site improvements, etc...)
- Intended Use
- Economic Characteristics
- Non-Realty Components of Value

Description of Vacant Land Comparables

Presented on the following pages are data sheets for each of the comparables examined, as well as a map showing the location of each comparable with respect to the subject property. Following the comparable data sheets is a detailed discussion of the application of the sales comparison approach and the value indications derived.