



**Valbridge**  
PROPERTY ADVISORS

## Land Use Consultation

Two Vacant Parcels  
(Avilla Rancho Vistoso)  
NW and NE Quadrants of Rancho Vistoso Blvd and Tangerine Rd  
Oro Valley, Pima County, Arizona 85737

Report Date: May 16, 2022



FOR:  
Mr. Santiago Fajardo  
NexMetro Communities  
2355 E. Camelback Rd Suite 805  
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c/o Mr. Paul Oland  
Paradigm Land Design, LLC

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May 16, 2022

Mr. Santiago Fajardo  
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c/o Mr. Paul Oland  
Paradigm Land Design, LLC

Sent by e-mail: [santiago@nexmetro.com](mailto:santiago@nexmetro.com) and [gpo@paradigmland.us](mailto:gpo@paradigmland.us)

RE: Land Use Consultation Report  
Two Vacant Parcels  
(Avilla Rancho Vistoso)  
NW and NE quadrants of Rancho Vistoso Blvd and Tangerine Rd  
Oro Valley, Pima County, Arizona 85737

Dear Mr. Fajardo and Mr. Oland:

In accordance with your request, we have prepared a land use consultation of the above-referenced properties, which for the purposes of this report are considered a single economic unit. This consultation sets forth the pertinent data gathered, the techniques employed, and the reasoning leading to our land use recommendations.

The subject property consists of two non-contiguous parcels of vacant land located within the Rancho Vistoso Planned Area Development. For convenience, and consistency with current rezoning processes, we have referred to these as the "East" and "West" sites. The East site comprises about 8.05 acres and is located on the east side of Rancho Vistoso Boulevard, adjacent north of the Safeway anchored shopping center, approximately 0.15 miles north of Tangerine Road. The West site comprises about 15.64 acres and is located along the north side of Tangerine Road, approximately 0.10 miles west of Rancho Vistoso Boulevard, and extending north to Woodburne Avenue.

The purpose of this assignment is to address market strengths, weaknesses, opportunities and threats (SWOT) relating to possible land uses of the subject property. To assess potential land uses, we researched the office, retail, and apartment sectors for metro Tucson and Oro Valley. The current zoning permits office and retail uses, while the proposed rezoning, which would involve a change to the Rancho Vistoso Planned Area Development (PAD), would be required to support apartments/rental housing. We limited the analysis to these major use categories since office and retail are essentially the only significant uses permitted by the current PAD and apartments/rental housing appears to be strongly supported by exceptional demand in the current market environment. Other uses such as senior living and memory care could represent potential uses but we do not believe that they are likely given the overall size of the subject property.

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Based on the land use analyses undertaken, it is clear that the office and retail uses permitted by the current Rancho Vistoso PAD zoning are not aligned with market demand and that there is no reason to believe that this will change in the foreseeable future. Therefore, office and retail uses cannot be considered viable recommended uses of either site. Apartments or various forms of rental housing represent the most appropriate use of the subject sites today and over the foreseeable future. Demand for this type of use is exceptionally high today due in part to high housing prices, but also due to consumers desiring the freedom and amenities of today's rental housing options. Given the location of the subject parcels adjacent to existing single-family subdivisions, we believe that development of the sites with a single-story rental product similar to that being proposed by NexMetro and numerous other developers in the region represents the ideal use.

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

Respectfully submitted,  
Valbridge Property Advisors | Tucson



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# Introduction

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## Client and Other Intended Users of the Consultation

The client in this assignment is NexMetro Communities. The intended users of this report are the client, their consultant, Mr. Paul Oland, Paradigm Land Design, LLC, and the Town of Oro Valley planning staff.

## Intended Use of the Consultation

The intended use of this report is to address market strengths, weaknesses, opportunities and threats (SWOT) relating to possible land uses of the subject property.

## Real Estate Identification

The subject property consists of two non-contiguous parcels of vacant land located within the Rancho Vistoso Planned Area Development. For convenience, and consistency with current rezoning processes, we have referred to these as the “East” and “West” sites.

The East site comprises about 8.05 acres and is located on the east side of Rancho Vistoso Boulevard, adjacent north of the Safeway anchored shopping center, approximately 0.15 miles north of Tangerine Road. The Pima County Assessor identifies the East site as parcel number 219-54-003B and notes the following street addresses: 12176, 12192, 12208, 12224, 12240, and 12256 N Rancho Vistoso Boulevard, Oro Valley, Arizona 85737

The West site comprises about 15.64 acres and is located along the north side of Tangerine Road, approximately 0.10 miles west of Rancho Vistoso Boulevard, and extending north to Woodburne Avenue. The Pima County Assessor identifies the West site as parcel number 219-54-002L. There are currently no known addresses associated with the West site.

We have not been provided with complete legal descriptions for either site.

## Date of Report

The date of this report is May 16, 2022, which is the same as the date of the letter of transmittal.

## Scope of Work

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

### Extent to Which the Property was Identified

#### Legal Characteristics

The subject was legally identified via review of the abbreviated legal description noted by the Assessor’s website and the plat maps.

#### Economic Characteristics

Economic characteristics of the subject property were identified via data provided by the client/owner, interviews with brokers, buyers, sellers and government agencies; and secondary

sources such as STDBOnline, CoStar, Real Data/Apartment Insights, and data published by governmental agencies such as assessor's offices and the US Census Department, as well as a comparison to properties with similar locational and physical characteristics.

#### Physical Characteristics

The subject property was physically identified via an exterior inspection.

#### Extent to Which the Property was Inspected

The subject sites were inspected by Craig Johnson on April 26, 2022. Michael Naifeh did not inspect the properties for this assignment.

#### Type and Extent of Data Researched

We researched and analyzed: 1) market area data, 2) property-specific market data, 3) zoning and land-use data. We also interviewed people familiar with the subject market/property type.

#### Type and Extent of Analysis Applied

The subject sites are vacant land parcels. We observed surrounding land use trends, demand for the subject property, and relative legal limitations in ranking possible uses.

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

The subject sites were both vacant land parcels on the effective date of consultation.

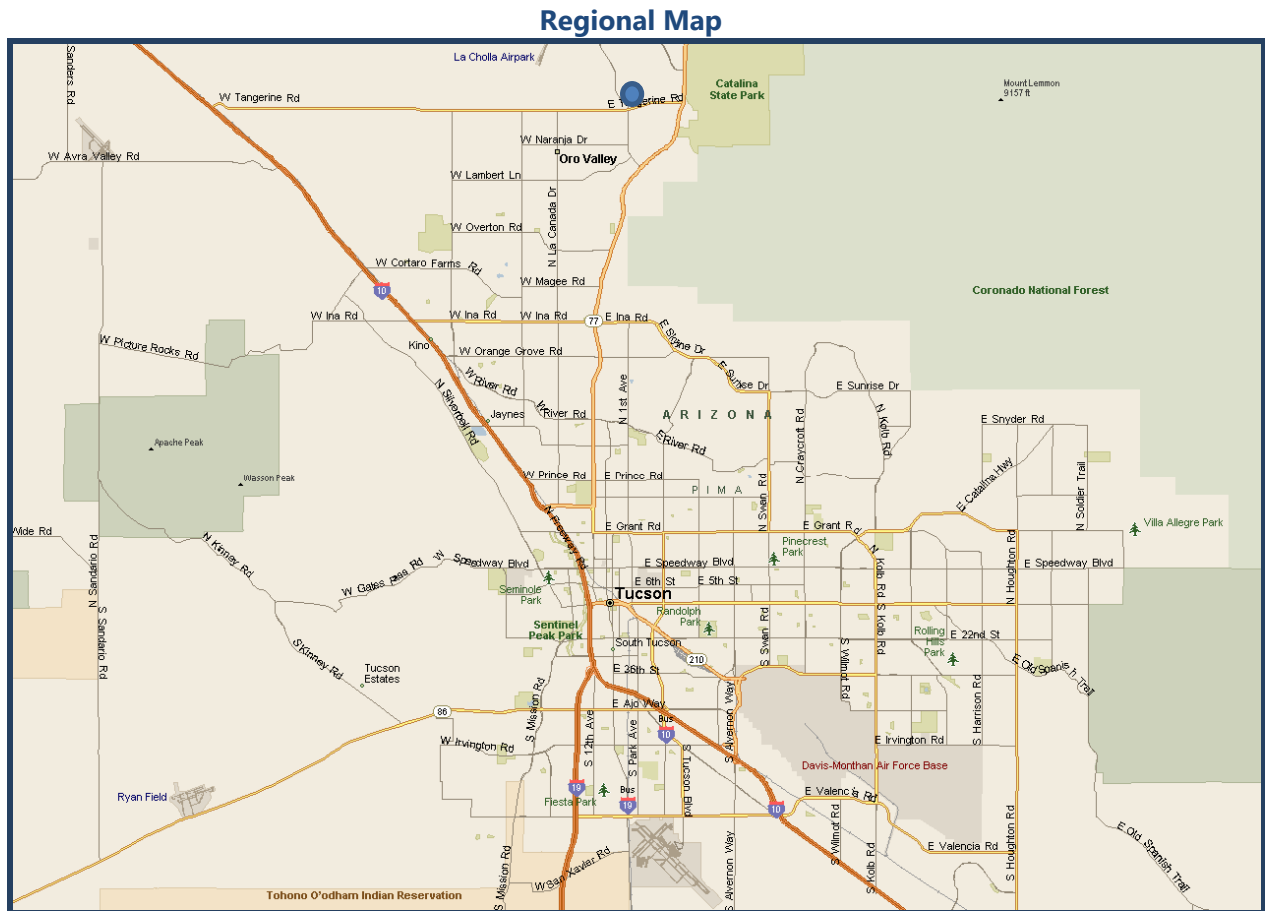
#### Ownership and Sales History

According to the Pima County Assessor's records, title to the East site is vested in PWP, LLC. The current owner acquired the property from an entity related to Bank of Oklahoma, N.A. on October 25, 2016. The purchase price was \$650,000, or approximately \$1.85 per square foot of land area. Bank of Oklahoma acquired the property via a trustee's deed in March 2009 with a reported credit bid of \$1,800,000. The prior owner (and borrower) acquired the property for \$2,000,000 in February of 2006 and had proposed development of an office complex that was also to include a restaurant use as well. The East site was recently listed for sale for \$2,200,000 (\$6.27/SF) and is reportedly under contract to NexMetro Communities or a related entity.

According to the Pima County Assessor's records, title to the West site is vested in VW Vistoso Investment 71, LLC. The current owner acquired the property as part of a larger parcel from an entity related to the original developer of the Rancho Vistoso PAD on July 26, 2006. The purchase price for the 22.82-acre larger parcel was \$3,000,000, or approximately \$3.00 per square foot of land area. The larger parcel included the adjacent 7.2-acre site at the northwest corner of Rancho Vistoso Boulevard and Tangerine Road. The West site is reportedly under contract to NexMetro Communities or a related entity.

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

# Market Area Description



## Overview

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

## Population

Mid-year 2021 population in metro Tucson was projected at 1,053,900, which reflected a 0.9% increase over the prior year. The population is expected to grow by 1.2% over the next year, reaching 1,066,700 by mid-year 2022. Slightly declining growth rates of 1.1% and 1.0% are projected for the next two years. The population estimates are measured on July 1 of each year.

### Metropolitan Tucson Population Forecasts

	2020	2021	2022	2023	2024
Population (000s, mid-year)	1,045.0	1,053.9	1,066.7	1,078.5	1,088.8
Change (000s)	7.3	8.9	12.8	11.8	10.3
% Change	0.7%	0.9%	1.2%	1.1%	1.0%

Source: Economic and Business Research Center, The University of Arizona, November 2021

## Employment

The regional economy is primarily driven by tax-supported entities, including military bases, the University of Arizona, state and local governments, and the school districts. Most of these sectors have posted moderate levels of growth over the past decade. The military, which includes the U.S. Army Intelligence Center at Fort Huachuca in Sierra Vista (80 miles southeast of Tucson) and Davis Monthan Air Force Base in Tucson, employs nearly 14,000 in Southern Arizona. Raytheon Missile Systems, a defense contractor, is the largest private employer in the area and has maintained relatively stable employment over the past 20+ years. The government budget cuts for defense spending may affect employment in the military and defense related industries over the foreseeable future although the sector has been fairly stable over the past several years.

Davis Monthan Air Force Base's total economic impact in 2017 was estimated at \$3.0 billion. Employment was 19,175, including all contractors with 7,577 indirect jobs created according to statistics from Davis Monthan Air Force Base. There are 19,321 military retirees with annual retirement pay of \$513.6 million. Davis Monthan Air Force Base has annual expenditures totaling approximately \$369 million.

Recent new employment announcements are as follows:

Raytheon Missile Systems, Tucson's largest private employer, is undertaking a major expansion that will add 1,975 new high-paying jobs. An additional 1,000 positions are also being proposed.

Northwest Healthcare announced expansion in Tucson, creating nearly 600 jobs.

Imperfect Produce, an on-line produce delivery company focusing on fighting food waste by finding a home for "ugly produce", will open its first customer care center in Tucson. The company plans to create 350 jobs at all levels.

Symboticware, Inc., an industry leader that provides an industrial hardware and software program to help customers obtain and analyze data in the mining industry is establishing a US/Mexico headquarters in Tucson. Symboticware will add 20 new high-tech jobs and invest \$500,000 in their Tucson headquarters.

MicroMex, a private contract manufacturer, is opening a new manufacturing and distribution center at the Port of Tucson. The company plans to create 100 new jobs, which will primarily be assembly and warehouse workings.

### Tucson's Top 25 Employers

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

Source: Phoenix Relocation Guide 2019-2020 edition

Caterpillar has relocated its Surface Mining and Technology Division to Tucson and will provide 635 new high paying jobs over the next five years. Their new facility located just to the west of downtown Tucson was completed in 2019.

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

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

GEICO recently moved into a new office complex and will reportedly expand its employment by 861 jobs. The new regional office is 200,000 S.F.

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

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

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

Banner-University Medical Center recently completed a \$400 million addition to their existing facility near the University of Arizona campus.

A new AC Hotel by Marriott was completed in downtown Tucson in 2017, representing the first hotel to be built in the area in over 40 years. Caliber Hospitality is currently constructing a 170-room DoubleTree Hotel convention hotel southwest of the Tucson Convention Center and a new 200-room Hilton facility has recently been approved for incentives. The Hilton project, at South Stone Avenue and East Ochoa Street, will include a 75-room Hampton Inn and a 123-room Extended-Stay.

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

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

Employment by industry for the MSA is as follows.

#### Metropolitan Tucson Nonfarm Employment

Year Ending	2016		2017		2018		2019		2020		2021	
Sector	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total	Empl.*	%Total
Natural Resources & Mining	1.6	0.4%	1.7	0.4%	1.9	0.5%	1.7	0.4%	1.9	0.5%	1.9	0.5%
Construction	15.3	4.0%	16.3	4.2%	17.6	4.5%	18.7	4.7%	18.5	4.9%	18.7	4.7%
Manufacturing	25.0	6.5%	25.9	6.7%	27.5	7.0%	27.9	7.0%	27.1	7.2%	28.6	7.3%
Trade, Transp. & Utilities	63.0	16.5%	63.6	16.5%	64.9	16.5%	66.8	16.6%	70.1	18.5%	72.3	18.4%
Information	5.3	1.4%	5.5	1.4%	5.6	1.4%	5.8	1.4%	5.0	1.3%	5.4	1.4%
Financial Activities	17.6	4.6%	18.0	4.7%	17.6	4.5%	17.8	4.4%	17.7	4.7%	18.2	4.6%
Professional & Business Svcs	51.4	13.4%	50.7	13.1%	52.0	13.2%	51.0	12.7%	46.3	12.2%	43.7	11.1%
Education & Health Services	65.8	17.2%	66.1	17.1%	67.9	17.2%	69.9	17.4%	68.8	18.2%	71.0	18.0%
Leisure & Hospitality	44.7	11.7%	44.9	11.6%	45.2	11.5%	45.6	11.4%	35.3	9.3%	45.1	11.5%
Other Services	12.9	3.4%	13.2	3.4%	13.5	3.4%	14.1	3.5%	12.8	3.4%	12.8	3.3%
Government	79.6	20.8%	80.1	20.8%	80.6	20.4%	82.0	20.4%	75.1	19.8%	76.1	19.3%
TOTAL NONFARM	382.2	100%	386.0	100%	394.3	100%	401.3	100%	378.6	100%	393.8	100%

Source: Arizona Office of Economic Opportunity; \* (000s) Year-end figures, non-seasonally adjusted

## Unemployment

The metro Tucson area unemployment rate peaked at 10.1% in January 2010 as a result of the Great Recession, but declined every year thereafter though 2018, when the average declined to 4.4% and remained at the low level over 2019 as well.

Unemployment rates in Tucson were historically below the national and state averages through 2014, as dependence on governmental and tax-supported employment had insulated the region from national recessionary trends. However, the metro area's unemployment rate exceeded the national rate from 2017 through 2019, although the maximum differential was only 50 basis points in 2019. Metro Phoenix followed a similar pattern and both major metro areas generally had lower unemployment rates than the state average over the past decade.

#### Average Unemployment Rate

Year	2015	2016	2017	2018	2019	2020	2021
National	5.3%	4.9%	4.4%	3.9%	3.7%	8.1%	5.5%
Arizona	6.1%	5.5%	4.9%	4.8%	4.9%	7.9%	5.6%
Metro Phoenix	5.2%	4.7%	4.3%	4.2%	4.2%	7.4%	5.1%
Metro Tucson	5.5%	5.0%	4.6%	4.4%	4.4%	7.7%	5.6%

Source: Arizona Office of Economic Opportunity & Bureau of Labor Statistics

Notes: Not seasonally adjusted average annual rate

The impact of the COVID-19 pandemic is illustrated in the following table, which presents unemployment data on a monthly basis over 2020 and 2021. The depth or duration of the increased unemployment rates are currently unknown. Small businesses, particularly those involved with food service, hospitality, and travel were expected to be the hardest hit. Tucson's unemployment rate increased from 4.4% during February 2020 to 13.9% by April 2020 and similar patterns were indicated by the U.S., Arizona and Metro Phoenix sectors. The state and major Arizona MSAs appeared to recover significantly by May, but the unemployment rates all exceeded 10% through July 2020. There has been significant improvement in all of the unemployment rates noted since the summer of 2020; with the Arizona, Metro Phoenix, and Metro Tucson unemployment rates generally in the 6% to 7% range through July 2021, but declining to less than 3% by December 2021.

#### Average Unemployment Rate Over 2020 & 2021

Year	2020											
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
National	4.0%	3.8%	4.5%	14.4%	13.0%	11.2%	10.5%	8.5%	7.7%	6.6%	6.4%	6.5%
Arizona	4.8%	4.5%	5.2%	14.2%	10.7%	10.8%	10.9%	7.1%	7.0%	6.4%	6.4%	6.7%
Metro Phoenix	4.2%	4.0%	4.6%	13.5%	10.1%	10.3%	10.3%	6.7%	6.6%	6.1%	6.1%	6.4%
Metro Tucson	4.7%	4.4%	5.0%	13.9%	10.4%	10.6%	10.7%	6.8%	6.7%	6.4%	6.4%	6.9%

Year	2021											
Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
National	6.8%	6.6%	6.2%	5.7%	5.5%	6.1%	5.7%	5.3%	4.6%	4.3%	3.9%	3.7%
Arizona	6.9%	7.1%	6.4%	6.5%	6.7%	7.3%	6.4%	5.3%	4.3%	3.7%	3.2%	2.8%
Metro Phoenix	6.6%	6.7%	6.1%	6.1%	6.2%	6.6%	5.7%	4.7%	3.8%	3.2%	2.8%	2.4%
Metro Tucson	7.1%	7.3%	6.6%	6.6%	6.7%	7.3%	6.4%	5.2%	4.3%	3.7%	3.2%	2.8%

Source: Arizona Office of Economic Opportunity - Not seasonally adjusted

## Economic Forecasts

The forecast suggests that number of jobs lost in the Great Recession was finally recaptured some time in 2018 and that prior to COVID-19, job growth peaked in 2019 at a modest rate of 2.1%. In 2020, there was negative growth of -4.6%, or a loss of about 18,000 positions, with about 9,900 of these being recaptured over 2021. The current projection is for job growth of about 10,000 positions

over 2022 and 10,200 positions over 2023, indicating a 2.6% growth rate for each year. Job growth is expected to decline to 1.6%, or 6,500 positions for 2024.

### Metropolitan Tucson Economic Forecasts

Category	2020	2021	2022	2023	2024
Personal Income (\$mill)	\$ 52,388	\$ 55,355	\$ 54,665	\$ 57,899	\$ 61,303
% Change	10.0%	5.7%	-1.2%	5.9%	5.9%
Retail Sales (\$mill)	\$ 16,184	\$ 18,964	\$ 19,491	\$ 20,282	\$ 21,276
% Change	4.8%	17.2%	2.8%	4.1%	4.9%
Employment (non-farm,000s)	373.0	382.9	392.9	403.1	409.6
Change (000s)	(18.0)	9.9	10.0	10.2	6.5
% Change	-4.6%	2.7%	2.6%	2.6%	1.6%
Residential Permits	4,958	6,269	6,339	5,618	4,804
% Change	15.0%	26.4%	1.1%	-11.4%	-14.5%

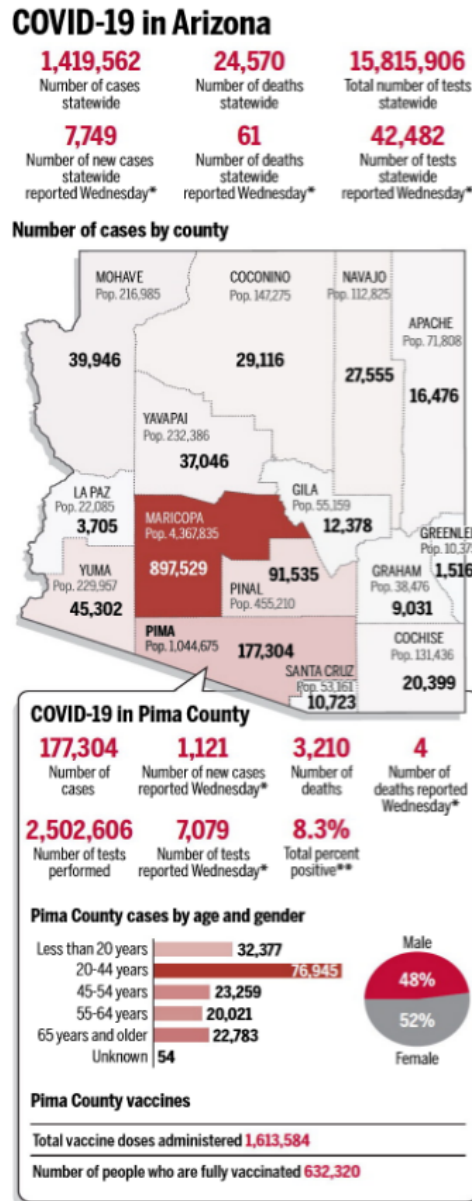
Source: Economic and Business Research Center, The University of Arizona, November 2021

The University of Arizona's Economic and Business Research Center's Third Quarter 2021 Forecast Update was released in September 2021 and included the following comments:

- Arizona's recovery from the pandemic gained significant momentum in the second quarter. Job gains surged, housing permit activity remained very strong, and taxable sales remained on track for significant gains. The housing market grew even hotter in the second quarter, with low inventories, high construction materials prices, and strong demand driving median home prices up by 30% or more in June.
- As of July, Arizona has replaced 93.7% of the jobs lost from February to April of last year, which left the state 20,900 jobs short of the prior peak. The nation has replaced 74.5%. Since June of last year, Arizona has added an average of 12,800 jobs per month. If the state can maintain that pace, we will be back to the pre-pandemic peak in September. If we return to average monthly job growth during 2015-2019 (6,300 per month), then we will regain the pre-pandemic peak in November. Arizona is currently on pace to regain our prior peak well before the U.S., which would accomplish that in April 2022 (at the pace set since last June).
- While the hot housing market was driven in part by supply-side issues, demand-side factors mattered as well. With the increase in remote work during the pandemic, some workers have more freedom to choose a residential location independent of the location of their employer. It is likely that some of these workers are moving from high-cost metropolitan areas (particularly in the West) to lower-cost locations in Arizona. Compared to many metropolitan areas in the West, Arizona house prices are lower and thus relatively affordable.
- Tucson MSA housing permits increased 44.8% through the first six months of 2021, compared to 2020. Single-family permits rose by 51.8% while multi-family permits rose by 8.7%.

Note that while Pima County is the second most populous county in Arizona, the growth of COVID-19 cases had remained relatively low compared to Maricopa County and Arizona overall, until just

recently when a spike in cases occurred. Recent statewide and Pima County data related to COVID-19 is presented in the following exhibit.



\*Counts of new cases, deaths and numbers tested reflect increases in the total numbers compared with the previous day.

\*\*Percent positive is the number of people with a positive test result.

Figures as of 11 a.m. Wednesday, Jan. 5

SOURCE: Arizona Department of Health Services

County population numbers as of 2019; SOURCE: Arizona Office of Economic Opportunity

## Commercial Real Estate

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

the recent past has generally been user-driven, including a number of Amazon facilities, although one major speculative project of about 157,000 square feet was completed in 2019 and a 76,000 square foot spec facility is currently under construction. The retail sector was expected to experience a downturn due to the COVID-19 pandemic with vacancy increases and rent decreases as businesses fail due to the social isolating restrictions; however, overall vacancy has only increased slightly since the first quarter of 2020 when it stood at 5.9% and absorption over the past four quarters has been positive.

#### Metro Tucson Commercial Sectors - 2022

Sector	No. Buildings	Total Sq. Ft.	T-12 Deliveries	Under Construction	Vacancy	T-12 Absorption	Average Quoted Rent
Industrial	2,625	45,675,972	998,670	316,084	4.7%	1,638,511	\$8.02
Office	2,615	28,690,607	184,037	192,988	9.2%	390,722	\$19.48
Retail	5,510	26,690,200	428,694	167,272	6.1%	245,150	\$15.12

Source: CoStar: 1st Quarter 2022

#### Residential Real Estate

The Tucson MSA housing market has been in a sustained recovery stage since 2012. Sale velocity has generally been within a consistent range from 10,300 to 11,500 sales per year since 2011, though falling to 9,900 in 2018. Based on the average sales velocity over the past five years, there is currently under two months of supply on the market. The low supply is due to limited new construction, a decrease in REO sales, and a disincentive for existing homeowners to move given their current low base and significant price appreciation of comparable homes. The average single-family sale price has continued to increase every year since 2011. Though the rate of increase declined moderately over 2018 and 2019 (at 6.2% over 2018 and 5.4% over 2019) the rate increased dramatically in 2020 and 2021, likely in good part due to the historically low mortgage interest rates established by the Fed as part of its economic stimulus strategy. The average single-family sale price in 2018 finally topped the former 2007 peak by 0.3%. The current average sale price is 45.7% above the 2007 rate. Real estate agents are reporting shorter marketing times, and rising prices, even over the short term. The housing market is currently considered to be undersupplied. The recent trends are summarized below.

### Tucson Single-Family Market

Year	# Sales	Avg. SF	Avg. Sale Price	% Change	Avg. Price/SF	% Change	DOM
2007	10,164	1,688	\$264,122	1.30%	\$156.47	-2.60%	101
2008	8,383	1,727	\$233,696	-11.52%	\$135.32	-13.52%	155
2009	9,286	1,724	\$192,314	-17.71%	\$111.55	-17.56%	148
2010	9,329	1,731	\$180,091	-6.36%	\$104.04	-6.73%	140
2011	10,702	1,723	\$156,611	-13.04%	\$90.89	-12.63%	103
2012	11,245	1,752	\$167,787	7.14%	\$95.77	5.36%	70
2013	11,502	1,750	\$184,523	9.97%	\$105.44	10.10%	63
2014	10,616	1,771	\$196,987	6.75%	\$111.23	5.49%	76
2015	11,479	1,775	\$202,485	2.79%	\$107.93	-2.97%	79
2016	10,328	1,881	\$230,616	13.89%	\$122.60	13.59%	65
2017	10,431	1,889	\$249,489	8.18%	\$128.19	4.56%	54
2018	9,944	1,903	\$264,966	6.20%	\$135.38	5.61%	40
2019	10,976	1,903	\$279,187	5.37%	\$146.21	8.00%	36
2020	11,305	1,924	\$311,536	11.59%	\$158.86	8.65%	27
2021	11,635	1,935	\$383,453	23.08%	\$194.66	22.54%	15

source: Tucson MLS

Tucson's multifamily sector has demonstrated strong performance over the past several years with larger 40-plus unit apartment projects averaging over 95% occupancy at the end of 2021. There was a limited amount of new multifamily construction from 2007 through 2010 but a new development cycle ramped up during 2011 and 2012 and about 7,900 units have been constructed since 2010, including 405 units in 2018, 943 units in 2019, 756 units in 2020 and 1,442 units in 2021. Approximately 1,500 units were under construction at the end of 2020 and 1,725 units were under construction at the end of 2021. The vast majority of new construction has been in the Class A luxury and student housing sectors. The Class A sector had been underserved for the past 20 or more years and new Class A projects have generally been experiencing strong market acceptance. Rental rates remain fairly modest, averaging about \$1.46 per square foot overall and about \$1.95 per square foot for new conventional projects currently in lease-up. Despite Tucson's modest economic growth over the recent past, rents increased by more than 6% annually over the past five years, including an increase of nearly 23% over the past year. Concessions are essentially nonexistent. Tucson's apartment market should continue to demonstrate strong performance over the near term.

### Conclusions

Economic projections for metro Tucson suggested that the population and employment growth was slowing in Metropolitan Tucson, even before the COVID-19 pandemic and forecast that economic growth peaked in 2019. COVID-19 has negatively impacted the economy but the expectation is that all of the jobs lost in 2020 were recaptured in 2021, with a slight increase in total employment by year end.

Because there is essentially no speculative commercial development occurring, the risk of overbuilding office, retail and industrial is considered to be minimal in the current market environment. With the exception of office, most real estate sectors are demonstrating fairly balanced supply and demand characteristics and the office market has also been continuing to show

improvement over the past several years. The large workforce working from home due to COVID-19 mandates could delay the office recovery if the restrictions are enforced over a long period of time. Vacant supply may increase, particularly in the retail sector, due to social distancing restrictions placed on the market as a reaction to the COVID-19 pandemic. Warehousing and cold storage are well positioned for the future, as a result of increased e-commerce and grocery sales resulting from social distancing restrictions.

The residential real estate sector should remain fairly healthy over the next year but may experience moderately reduced demand or downward pressure rent growth in the following years. The short-term health will also be largely dependent on actions and intervention over the short term by the government, landlords, and banks as the population and economy works through the effects of the social isolating restrictions imposed for the COVID-19 pandemic.

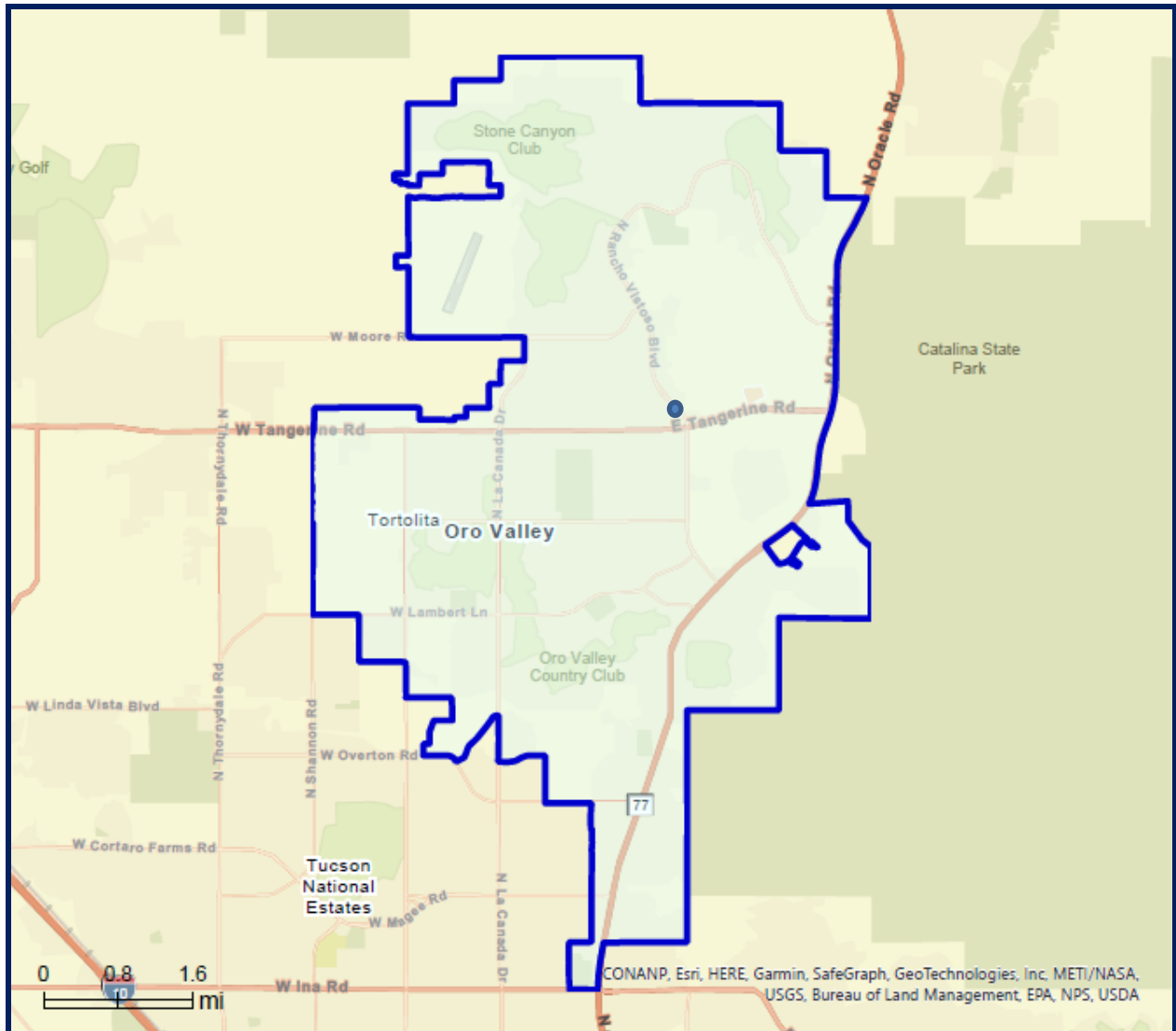
### Neighborhood Trends

The subject property is located within the Town of Oro Valley. Given the nature of the property and intended use of this report, we consider the subject neighborhood to be generally defined by the boundaries of the Town of Oro Valley, which are shown on the map which follows. Oro Valley is located in the northwest quadrant of metro Tucson and was incorporated in 1974. It is still within its build out phase, with significant land still available in Rancho Vistoso and west of La Cholla Boulevard.

Primary access to the neighborhood is from State Route 77, known as Oracle Road within the Tucson metro area. This is one of the busiest arterials in Tucson, linking Oro Valley with the central urban core of Tucson to the south. Oracle Road is intensively developed with retail, office and multifamily uses through much of Oro Valley and nearly fully developed with similar uses to the south of Oro Valley. La Cholla Boulevard is a secondary north-south arterial roadway that includes some commercial nodes and also provides access to the Town of Marana and City of Tucson to the south. Access from the west is primary facilitated via Tangerine Road in the northern proportion of the neighborhood and via Ina Road at the southern tip of Oro Valley. There are no freeways in Oro Valley. Interstate 10 is located about 8 miles west of Oro valley via Tangerine Road. Oracle Road generally forms the eastern boundary of Oro Valley since the location of the Santa Catalina Mountains limits roads to the east.

Residential development is ongoing in Oro Valley including projects by Meritage Homes, Richmond American, Pulte and KB Homes. Most new homes are priced at \$400,000 or more, although some are priced in the \$300,000s. Rancho Vistoso is by far the largest master planned community in Oro Valley; however, most of the developable residential land has been improved with high quality single-family homes at this time, so additional construction should be more limited in the future.

### NEIGHBORHOOD MAP



Oro Valley is well served by retail projects, most of which are located along Oracle Road. Oro Valley Village Center, at the southwest corner of Oracle Road and Tangerine Road, is the largest but is distressed after losing numerous anchor tenants over the past five years or so. The project was recently purchased by a local investment group who has proposed constructing multifamily and hotel uses on the undeveloped portions of the site, which were originally planned for additional retail uses and office uses. The current owner has stated that continued operation of the center as originally proposed and as permitted by existing zoning is not economically feasible. The majority of major retail centers in Oro Valley are located along Oracle Road to the south of Oro Valley Village Center, or are located at one of two retail nodes along La Canada Drive, or within Rancho Vistoso.

Most office development in Oro Valley has also occurred along Oracle Road, although there are a number of other office nodes. Innovation Park, a 200-acre development located at the northwest quadrant of Oracle Road and Tangerine Road, is within Rancho Vistoso and includes office, medical and industrial uses. Major users include Roche Tissue Diagnostics, Oro Valley Hospital, IcaGen and Meggitt Securaplane. Italian defense and aerospace giant Leonardo plans to build a 120,000-square-foot laser diode manufacturing plant in Oro Valley's Innovation Park, which also includes a number

of small office users, but no major multi-tenant office complexes. The University of Arizona Center for Innovation (UACI) at Oro Valley opened in December 2020 and is an incubator focused on supporting bioscience startups. It is part of the UACI startup incubator network that has outposts across the Southern Arizona region and a mission to grow scalable science and technology startups that fuel the Arizona economy.

Overall, Oro Valley is likely more than 75% built out overall. Demographics tabulated on the following page reflect this in higher population and household growth rates, combined with high rates of home ownership and above average incomes and home values.

## Neighborhood Demographic Profile

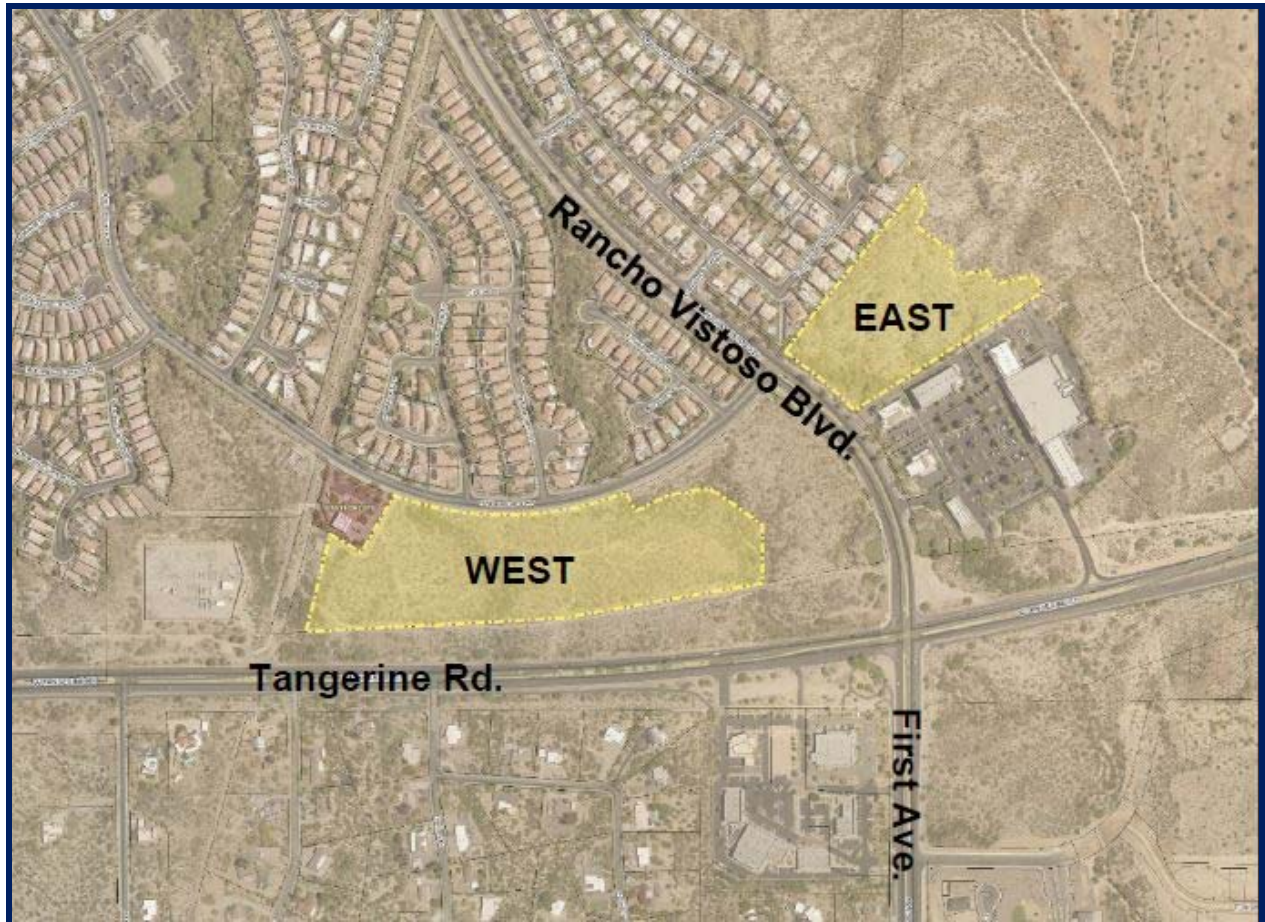
<b>Population</b>	<b>Oro Valley</b>	<b>Tucson MSA</b>
2010 Census	41,040	980,263
2021 Estimate	47,209	1,077,673
2026 Projection	49,700	1,125,712
<b>Gross Population Change</b>		
2010 - 2021	15.0%	9.9%
2021 - 2026	5.3%	4.5%
<b>Average Annual Population Change</b>		
2010 - 2021	1.4%	0.9%
2021 - 2026	1.1%	0.9%
Median Age (2021)	54.6	39.5
<b>Households</b>		
2021 Estimate	20,688	428,697
2026 Projection	21,823	448,462
Avg. New HH/Year 2021-2026	227	3,953
2021 - 2026 % Change	5.5%	4.6%
Avg. Annual Change 2021 - 2026	1.1%	0.9%
Average Household Size (2021)	2.28	2.46
<b>Daytime Population (2021)</b>		
Total	54,395	1,070,185
Workers	26,545	471,708
Residents	27,850	598,477
<b>Income (2021)</b>		
Average HH Income	\$114,990	\$77,004
Median HH Income	\$86,252	\$55,823
Per Capita Income	\$50,300	\$30,716
Household Income		
\$0 - \$15,000	4.2%	11.1%
\$15,000 - \$24,999	4.4%	9.5%
\$25,000 - \$34,999	7.5%	9.9%
\$35,000 - \$49,999	10.6%	14.2%
\$50,000 - \$74,999	15.2%	17.2%
\$75,000 - \$99,999	15.4%	13.8%
\$100,000 - \$149,999	20.5%	14.3%
\$150,000 - \$199,999	10.3%	5.2%
\$200,000 +	11.9%	4.8%
<b>Housing (2021)</b>		
% Owner Occupied	68.1%	57.3%
% Renter Occupied	20.8%	32.3%
% Vacant	11.1%	10.4%
Median Home Value	\$383,211	\$240,501

Source: U.S. Bureau of the Census, 2010 Census of Population and Housing. ESRI forecasts for 2021 and 2026.

## Site Description

The subject property consists of two non-contiguous parcels of vacant land located within the Rancho Vistoso Planned Area Development. For convenience, and consistency with current rezoning processes, we have referred to these as the "East" and "West" sites. The following description is based on our site visit, assessor and other government records, and information provided by the client or owners.

### AERIAL PHOTO



### General Data – East Site

Street Address:	12176, 12192, 12208, 12224, 12240, and 12256 N Rancho Vistoso Boulevard, Oro Valley, Arizona 85737
General Location:	East side of Rancho Vistoso Boulevard, adjacent north of the Safeway anchored shopping center, approximately 0.15 miles north of Tangerine Road
Assessor Parcel Number:	219-54-003B

## Physical Characteristics

Site Area:	350,511 square feet, or 8.047 acres per 2007 preliminary development plan prepared by WLB Group. Assessor shows slightly larger size of 350,658 square feet.
Shape:	Irregular but functional
Topography:	Rolling, generally slopes downward from northeast to southwest
Parcel Location:	The parcel is a mid-block lot but a proposed access road on the west side of Rancho Vistoso Boulevard would effectively change this to a corner parcel.

## Adjacent Land Uses

North:	Single family residences followed by vacant land
East:	Vacant land and the Big Wash, followed by the Oro Valley Hospital and Innovation Park
South:	Safeway-anchored shopping center followed by Tangerine Road and vacant commercially zoned land
West:	Rancho Vistoso Boulevard, followed by vacant land zoned for commercial uses, including the subject West site

## Access

Street Name:	Rancho Vistoso Boulevard
Street Type:	Four-lane arterial with a median turn lane
At Signalized Intersection:	Not presently but a proposed access road from Tangerine Road to the west side of Rancho Vistoso Boulevard would effectively change this to a signalized intersection if approved and constructed.
Overall Visibility:	Good – Rancho Vistoso Boulevard had a 2021 traffic count of about 13,100 vehicles per day.
Proposed Access:	The conceptual development plan indicates that primary access would be from two points along the current rear (north) access drive serving the Safeway shopping center and via a new planned signalized intersection on Rancho Vistoso Boulevard that would connect to a new access road from Tangerine Road at the northwest quadrant of Tangerine and Rancho Vistoso Boulevard. There would be no direct access from Rancho Vistoso Boulevard.

## Site Improvements

On-Site Improvements: None; raw land with natural desert vegetation.

Utilities: All available to site or nearby  
Electric: Tucson Electric Power Company  
Water: Oro Valley  
Sewer: Pima County  
Gas: Southwest Gas Company  
Telecomm: CenturyLink

## Flood Zone Data

Flood Map Panel: 04019C1090L dated June 16, 2011  
Flood Zone: Zone X, outside the 100-year floodplain

## Other Site Conditions

Environmental Issues: According to the AZDEQ Map, the site is not within a superfund or WQARF designated Area. A Phase I ESA was not provided. No environmental conditions were noted upon inspection, but we are not qualified to detect them.

Easements and Encroachments: A title report was not provided. This report assumes typical access, parking, and utility easements that do not affect the site adversely.

## Zoning Designation

Zoning Code: Rancho Vistoso Planned Area Development (PAD); the subject property has a C-1 (Commercial) zoning classification

Zoning Jurisdiction: Oro Valley

Permitted Uses: Includes retail, restaurant, office, and civic and service uses, but specifically excludes residential uses. Maximum building height is 34 feet, or three stories, and open space requirement would be 10%.

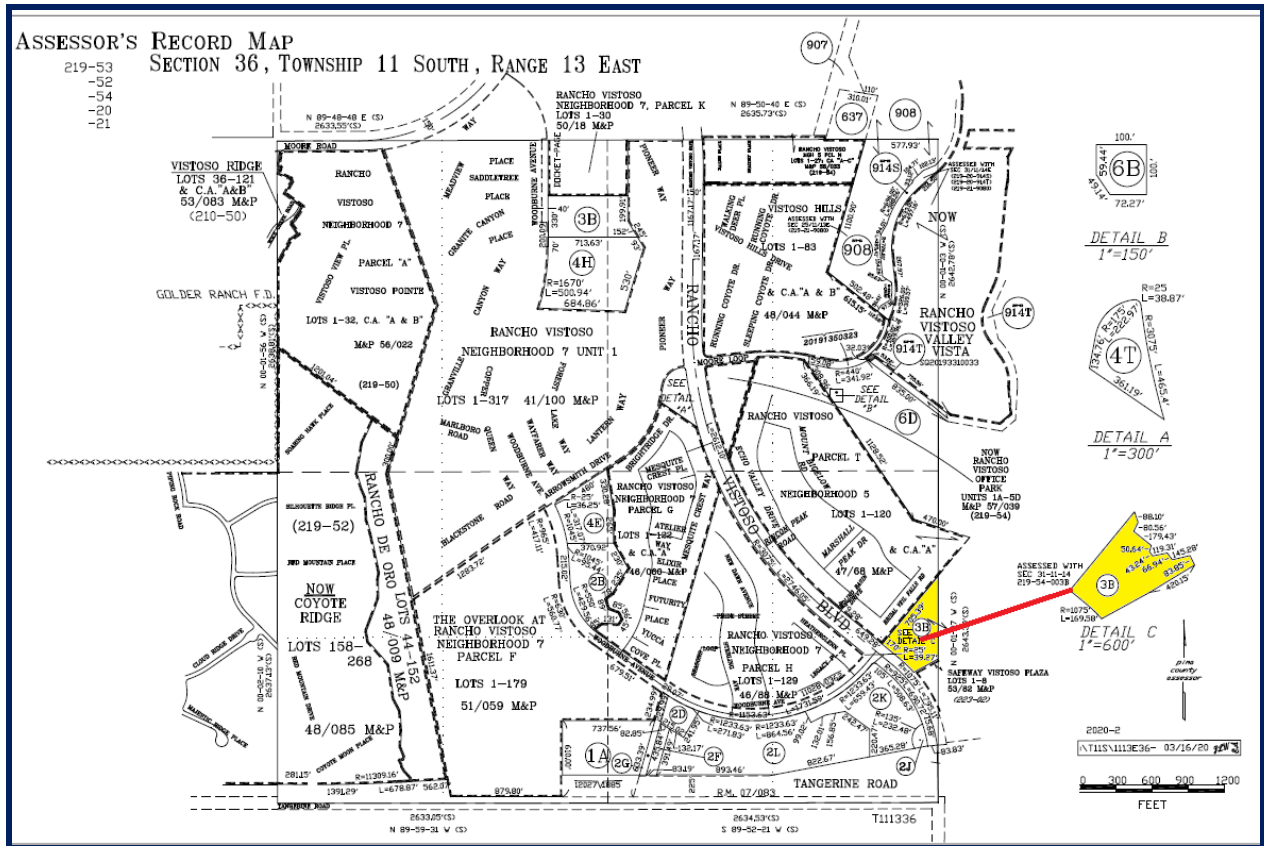
Proposed Zoning: High Density Residential (HDR) per Rancho Vistoso PAD, which would permit single-family homes, attached townhomes, apartments and offices. Maximum building height is 34 feet, or three stories, and open space requirement would be 30%.

Zoning Comments: A rezoning case is in progress and would change the underlying permitted uses of the subject site under the Rancho Vistoso PAD from C-1 to HDR. NexMetro has proposed development of 85 to 90 single-story residential rental units on the site, resulting in a density of about 10.6 to 11.2 units per acre.

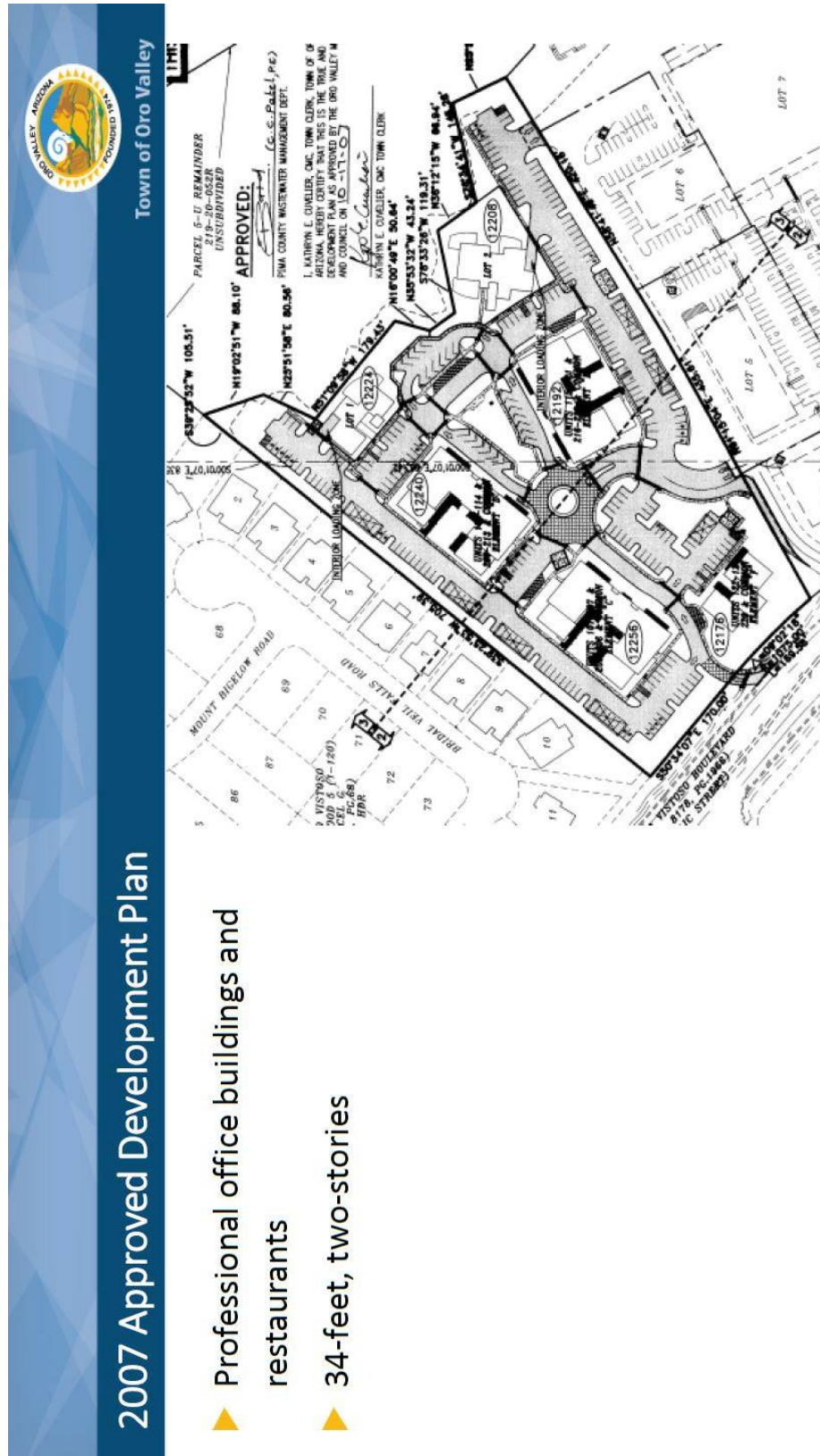
**AERIAL PHOTO**



**PLAT MAP**

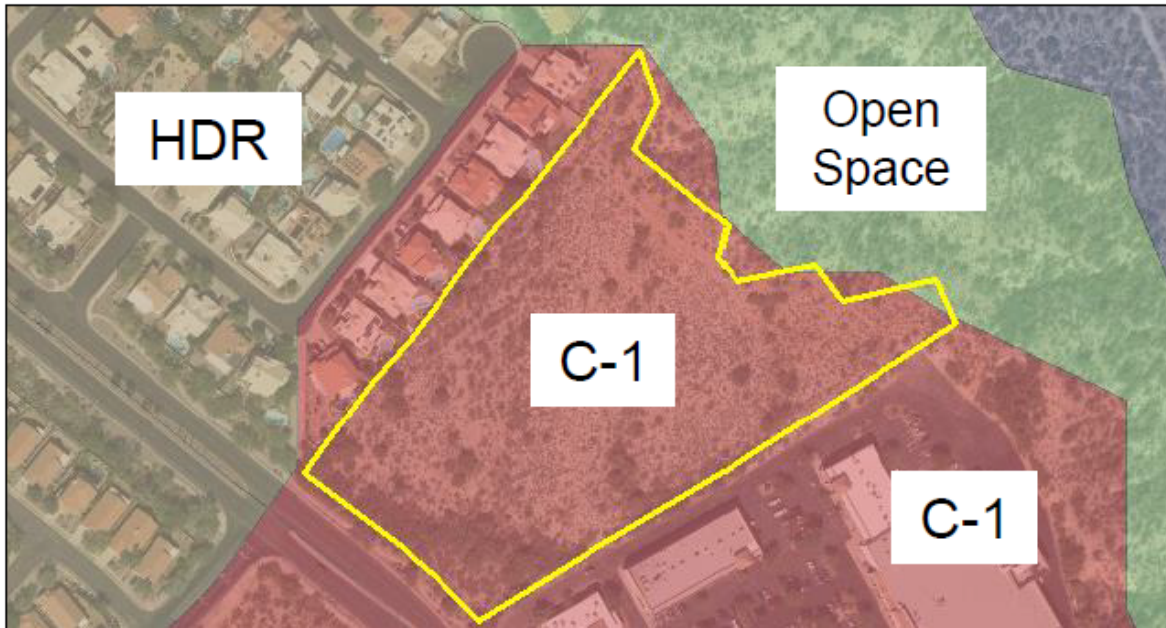


## 2007 APPROVED DEVELOPMENT PLAN

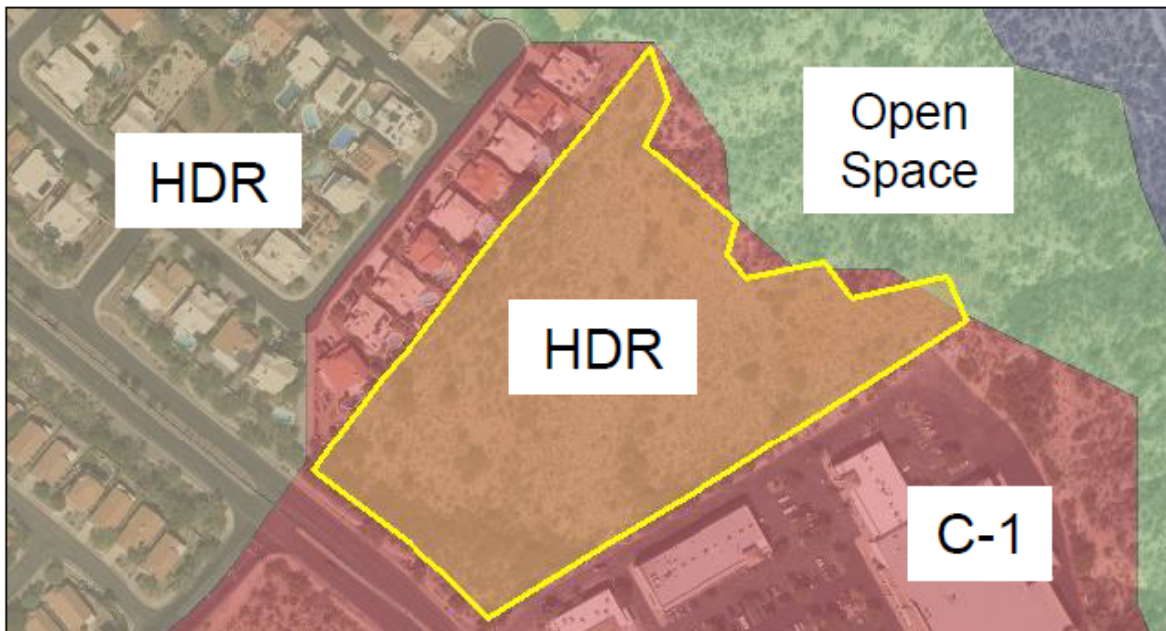


- ▲ Professional office buildings and restaurants
- ▲ 34-feet, two-stories

**ZONING MAPS**



Existing Zoning



Proposed Zoning

**CONCEPTUAL SITE PLAN**



### EAST SITE PHOTOS



View of property from Rancho Vistoso Boulevard



Looking north on Rancho Vistoso Boulevard from north access drive of Safeway center



Looking northeast over site



Looking east from Rancho Vistoso Boulevard at Safeway center access drive



Looking south on Rancho Vistoso Boulevard



Looking west along Safeway center access drive



Looking north over eastern portion of the site



Looking east over southern portion of the site



Looking north over the central area of the site



Looking northwest over the site



Looking northeast from the site



Looking south over the site

## General Data – West Site

Street Address:	No address at this time (Oro Valley, Arizona 85737)
General Location:	North side of Tangerine Road, approximately 0.10 miles west of Rancho Vistoso Boulevard, and extending north to Woodburne Avenue
Assessor Parcel Number:	219-54-002L

## Physical Characteristics

Site Area:	681,079 square feet, or 15.635 acres per Assessor records
Shape:	Irregular but functional
Topography:	Rolling, generally slopes downward from northwest to southeast
Parcel Location:	The parcel is a mid-block lot but a proposed access road on the west side of Rancho Vistoso Boulevard connecting to Tangerine Road would effectively change this to a corner parcel.

## Adjacent Land Uses

North:	Woodburne Avenue followed by single family residences
East:	Vacant land zoned for commercial use, followed by Rancho Vistoso Boulevard and Safeway-anchored shopping center
South:	Tangerine Road, followed by single-family residences
West:	Golder Ranch fire station, Comcast Cable facility and single-family residences.

## Access

Street Name:	Tangerine Road and Woodburne Avenue
Street Type:	Tangerine Road is a median-divided four-lane arterial with intermittent left turn bays. Woodburne Avenue is a two-lane residentially-oriented collector Roadway that runs west from Rancho Vistoso Boulevard.
At Signalized Intersection:	Not presently but a proposed access road from the west side of Rancho Vistoso Boulevard to the north side of Tangerine Road would effectively change this to a signalized intersection (Tangerine and new access road) if approved.
Overall Visibility:	Good – Tangerine Road had a 2021 traffic count of about 17,700 vehicles per day to the west of the subject and 9,800 VPD to the

east, near Innovation Park Drive. Woodburne is a low volume Road. The site would not likely have visibility from Rancho Vistoso Boulevard, which carries about 13,100 VPD.

**Proposed Access:**

The conceptual development plan indicates that primary access would be from a new access road at the northwest quadrant of Tangerine and Rancho Vistoso Boulevard. There would be secondary access (perhaps exit only) farther to the west on Tangerine Road and at one point on Woodburne Avenue.

## Site Improvements

**On-Site Improvements:**

None; raw land with natural desert vegetation.

**Utilities:**

All available to site or nearby  
Electric: Tucson Electric Power Company  
Water: Oro Valley  
Sewer: Pima County  
Gas: Southwest Gas Company  
Telecomm: CenturyLink

## Flood Zone Data

**Flood Map Panel:**

04019C1090L dated June 16, 2011

**Flood Zone:**

Zone X, outside the 100-year floodplain; although the eastern portion of the site is clearly impacted by a natural wash and would be preserved as open (green) space.

## Other Site Conditions

**Environmental Issues:**

According to the AZDEQ Map, the site is not within a superfund or WQARF designated Area. A Phase I ESA was not provided. No environmental conditions were noted upon inspection, but we are not qualified to detect them.

**Easements and  
Encroachments:**

A title report was not provided. This report assumes typical access, parking, and utility easements that do not affect the site adversely.

## Zoning Designation

**Zoning Code:**

Rancho Vistoso Planned Area Development (PAD); the subject property has a C-1 (Commercial) zoning classification

**Zoning Code:**

PAD (Planned Area Development) - Rancho Vistoso; the subject property has a C-1 zoning classification

**Zoning Jurisdiction:**

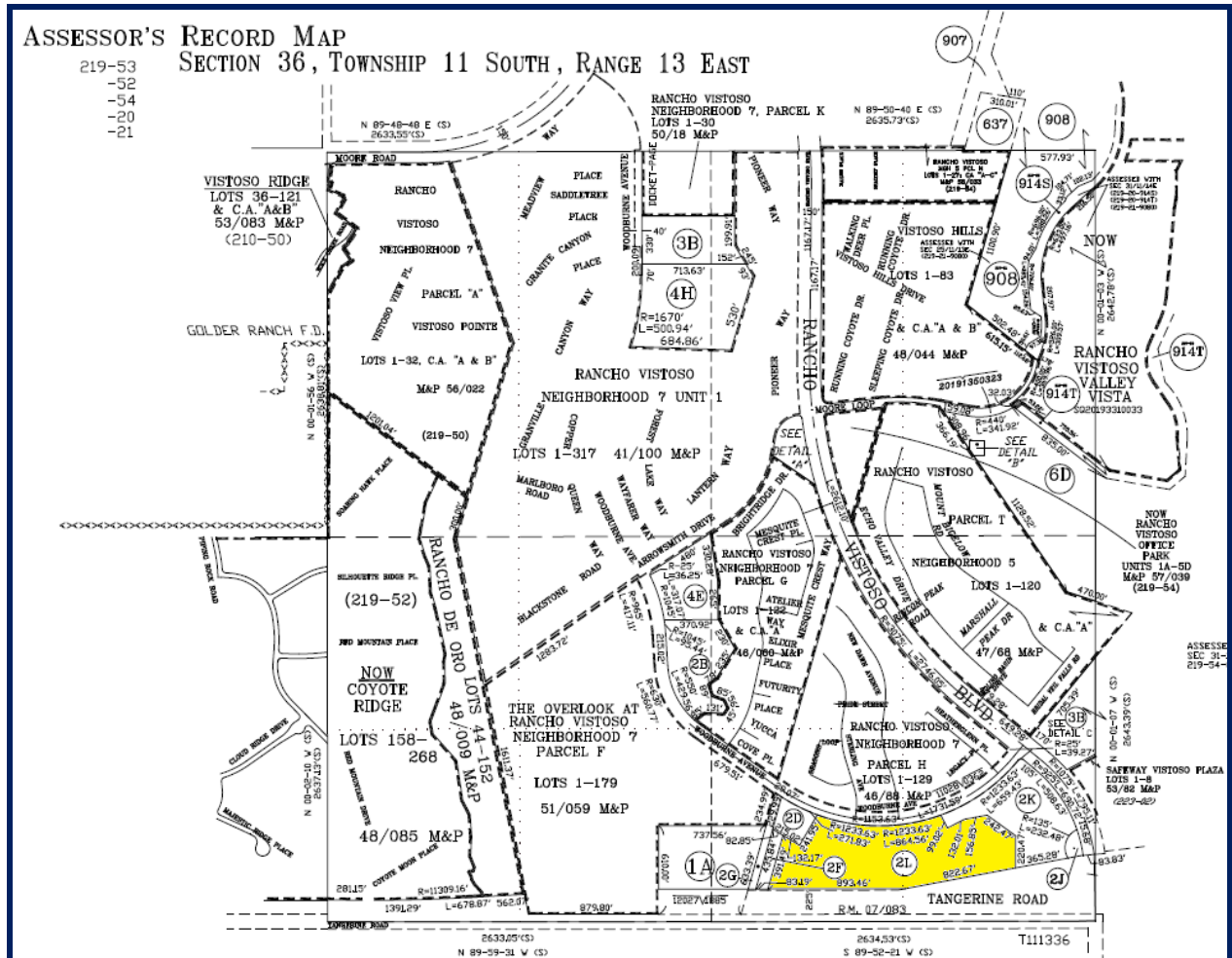
Oro Valley

**Permitted Uses:**

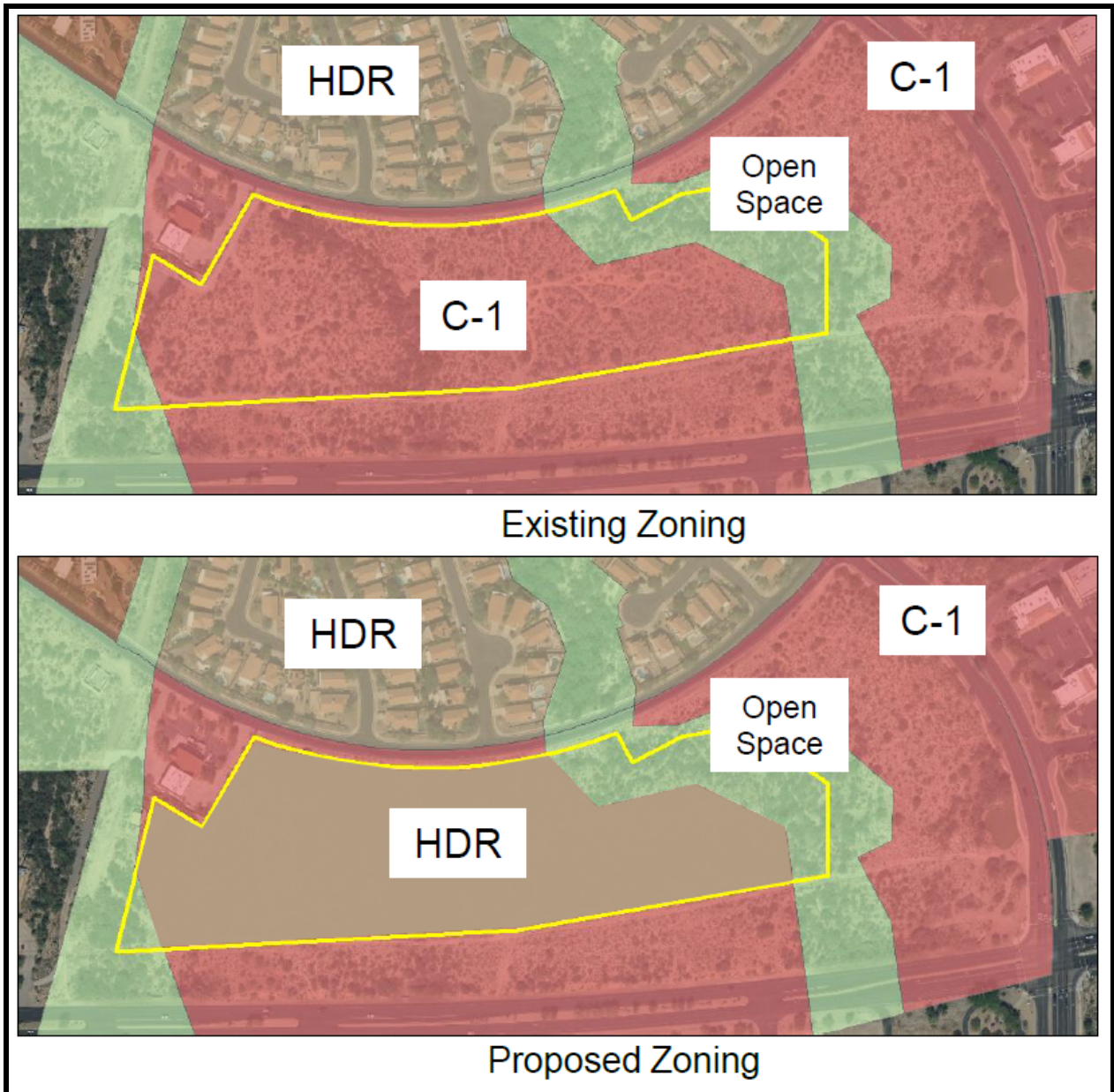
Includes retail, restaurant, office, and civic and service uses, but

A re-zoning case is in progress and would change the underlying permitted uses of the subject site under the Rancho Vistoso PAD from C-1 to HDR. NexMetro has proposed development of 125-130 single-story residential rental units on the site, resulting in a density of about 8.0 to 8.3 units per acre.

**PLAT MAP**



**ZONING MAPS**



**CONCEPTUAL SITE PLAN**



**WEST SITE PHOTOS**



Looking east along Tangerine Road



Looking west along Woodburne Avenue



Looking west along Tangerine Road from  
Rancho Vistoso Boulevard



Looking north over site from Tangerine Road



Looking east along Woodburn Avenue



Looking north over site from Tangerine Road



Looking south over site from Woodburne Avenue



Looking east over site



Looking south over site from Woodburne Avenue



Looking southeast over the site



Looking south over site from Woodburne Avenue

# Land Use Analysis

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## Methodology

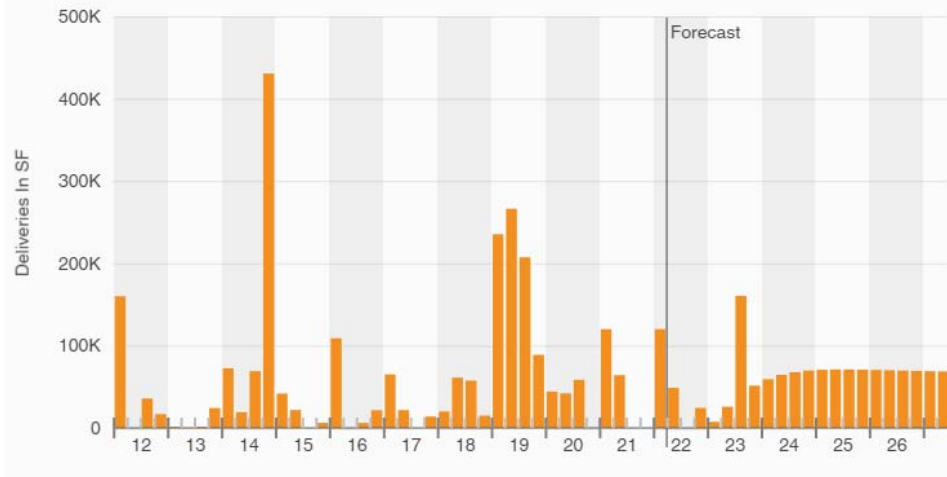
The purpose of this assignment is to address market strengths, weaknesses, opportunities and threats (SWOT) relating to possible land uses of the subject property. To assess potential land uses, we researched the office, retail, and apartment sectors for metro Tucson and Oro Valley. This data was primarily obtained from CoStar, but we also utilized Real Data/Apartment Insights for the apartment sector. The current zoning permits office and retail uses, while the proposed rezoning, which would involve a change to the Rancho Vistoso Planned Area Development (PAD), would be required to support apartments/rental housing. We limited the analysis to these major use categories since office and retail are essentially the only significant uses permitted by the current PAD and apartments/ rental housing appears to be strongly supported by exceptional demand in the current market environment. Other uses such as senior living and memory care could represent other potential uses but we do not believe that they are likely given the overall size of the subject property.

## Office Market

### Metro Tucson Office Market

Period	Leaseable Sq. Ft.	Change in Inventory	Vacancy Rate	Vacant Sq. Ft.	Avail. Rate	Net Absorption	Sq. Ft. Delivered	Quoted Rates
<b>Annual Trend</b>								
2012	26,793,274	196,587	11.2%	3,010,138	12.6%	30,270	212,581	\$17.92
2013	26,778,723	-14,551	11.6%	3,095,775	12.9%	-100,188	27,196	\$18.08
2014	27,359,594	580,871	10.9%	2,974,019	12.7%	702,627	591,131	\$18.13
2015	27,383,664	24,070	10.9%	2,977,752	12.6%	20,337	69,757	\$18.53
2016	27,513,516	129,852	10.3%	2,833,873	11.8%	273,731	136,450	\$18.50
2017	27,548,611	35,095	8.5%	2,339,837	9.9%	529,131	100,498	\$18.89
2018	27,491,165	-57,446	7.7%	2,108,022	10.5%	174,369	153,468	\$18.55
2019	28,282,593	791,428	8.4%	2,365,322	11.1%	534,128	797,583	\$18.72
2020	28,408,122	125,529	9.7%	2,745,982	11.7%	-255,131	144,669	\$18.95
2021	28,570,607	162,485	9.9%	2,842,146	11.1%	66,321	184,037	\$19.48
<b>Quarterly Trend</b>								
2020 Q2	28,358,622	42,000	9.1%	2,566,564	11.9%	-62,430	42,000	\$19.02
2020 Q3	28,408,122	49,500	9.4%	2,657,418	11.9%	-41,354	58,500	\$19.03
2020 Q4	28,408,122	0	9.7%	2,745,982	11.7%	-88,564	0	\$18.95
2021 Q1	28,524,522	116,400	10.0%	2,859,203	11.7%	3,179	120,000	\$19.39
2021 Q2	28,588,559	64,037	10.6%	3,023,718	11.9%	-100,478	64,037	\$19.43
2021 Q3	28,570,607	-17,952	10.4%	2,961,568	11.8%	44,198	0	\$19.64
2021 Q4	28,570,607	0	9.9%	2,842,146	11.1%	119,422	0	\$19.48
2022 Q1	28,690,607	120,000	9.2%	2,634,566	9.8%	327,580	120,000	\$19.48
8 Quarter Average			9.8%	2,786,396	11.5%	25,194	50,567	\$19.30
4 Quarter Average			10.0%	2,865,500	11.2%	97,681	46,009	\$19.51
Source: CoStar Group - Note: includes leasable and owner-occupied space								

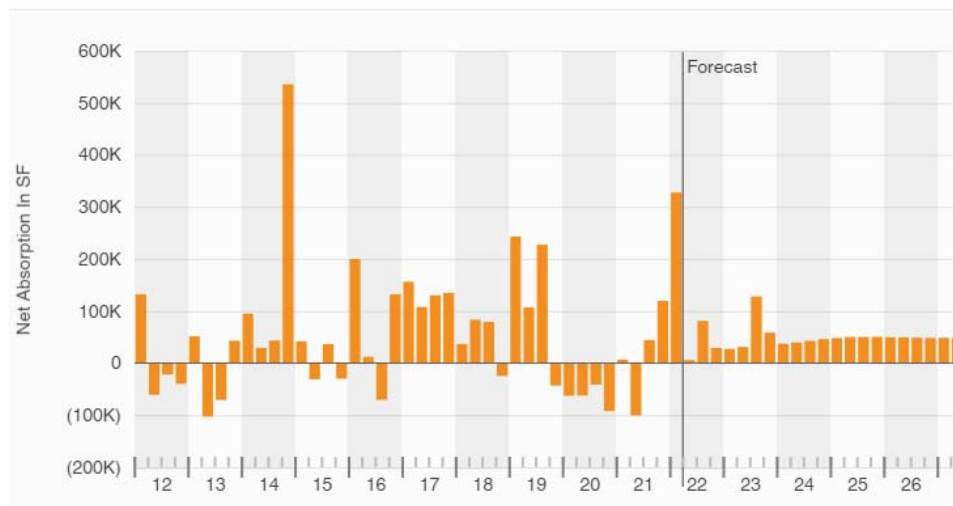
## Metro Tucson Office Market New Construction Deliveries



## Metro Tucson Office Market Vacancy / Availability Rate



## Metro Tucson Office Market Net Absorption

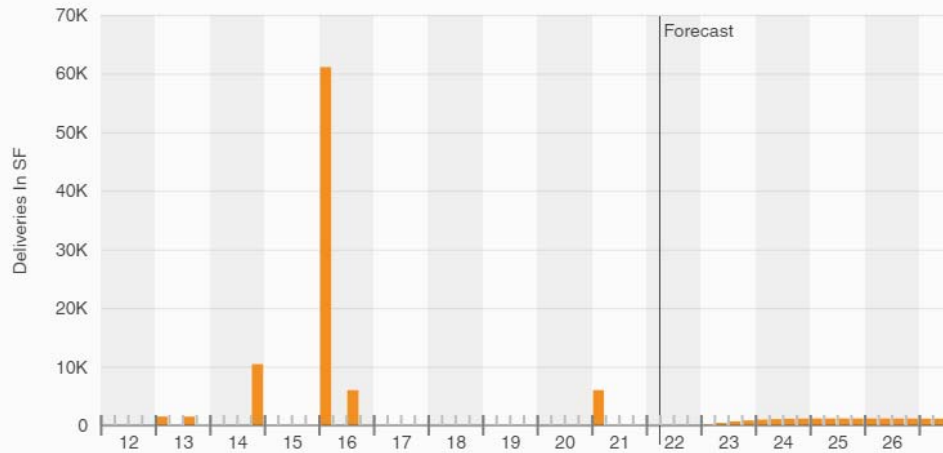


### Oro Valley Office Submarket

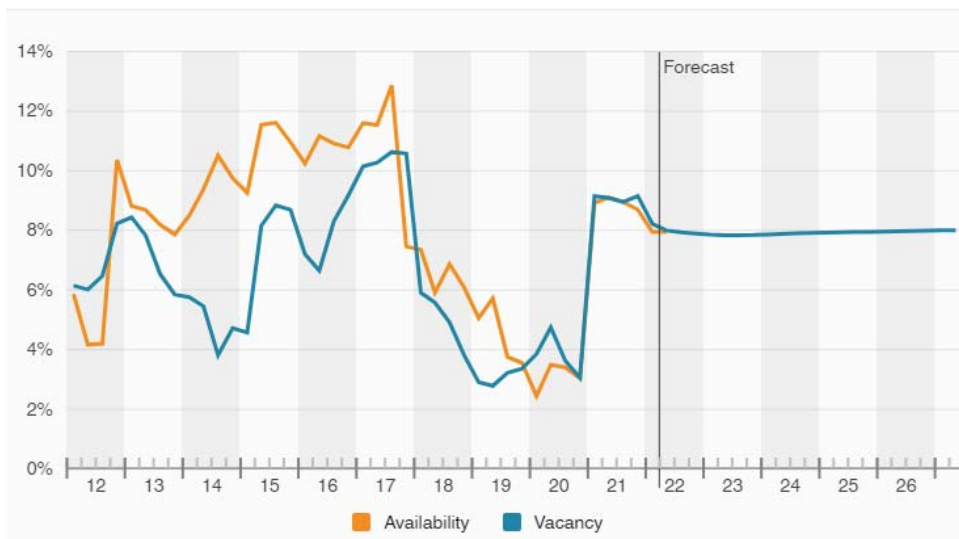
Period	Leaseable Sq. Ft.	Change in Inventory	Vacancy Rate	Vacant Sq. Ft.	Avail. Rate	Net Absorption	Sq. Ft. Delivered	Quoted Rates
<b>Annual Trend</b>								
2012	795,027	0	8.2%	65,212	10.3%	12,168	0	\$15.63
2013	798,014	2,987	5.8%	46,472	7.8%	21,727	2,987	\$16.23
2014	808,454	10,440	4.7%	37,992	9.7%	18,920	10,440	\$17.78
2015	808,454	0	8.7%	70,075	10.9%	-32,083	0	\$17.73
2016	875,554	67,100	9.2%	80,185	10.8%	56,990	67,100	\$20.70
2017	875,554	0	10.6%	92,378	7.4%	-12,193	0	\$19.38
2018	875,554	0	3.8%	33,173	6.1%	59,205	0	\$22.25
2019	875,554	0	3.3%	29,250	3.5%	3,923	0	\$23.13
2020	875,554	0	3.0%	26,567	3.0%	2,683	0	\$21.60
2021	881,554	6,000	9.1%	80,477	8.7%	-47,910	6,000	\$19.39
<b>Quarterly Trend</b>								
2020 Q2	875,554	0	4.7%	41,332	3.5%	-7,783	0	\$23.36
2020 Q3	875,554	0	3.6%	31,512	3.4%	9,820	0	\$21.57
2020 Q4	875,554	0	3.0%	26,567	3.0%	4,945	0	\$21.60
2021 Q1	881,554	6,000	9.1%	80,440	8.9%	-47,873	6,000	\$19.32
2021 Q2	881,554	0	9.1%	79,972	9.1%	468	0	\$19.38
2021 Q3	881,554	0	8.9%	78,741	8.9%	1,231	0	\$19.29
2021 Q4	881,554	0	9.1%	80,477	8.7%	-1,736	0	\$19.39
2022 Q1	881,554	0	8.2%	72,257	7.9%	8,220	0	\$19.12
8 Quarter Average			7.0%	61,412	6.7%	-4,089	750	\$20.38
4 Quarter Average			8.8%	77,862	8.7%	2,046	0	\$19.30

Source: CoStar Group - Note: includes leasable and owner-occupied space

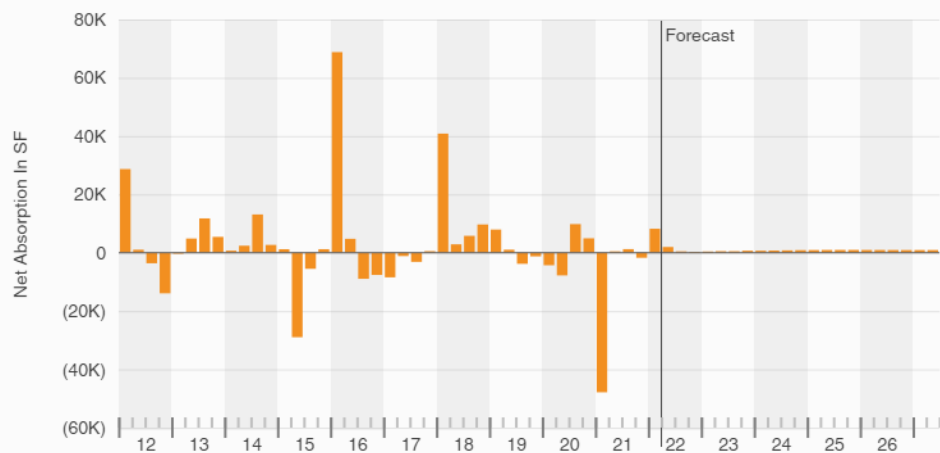
## Oro Valley Office Market New Construction Deliveries



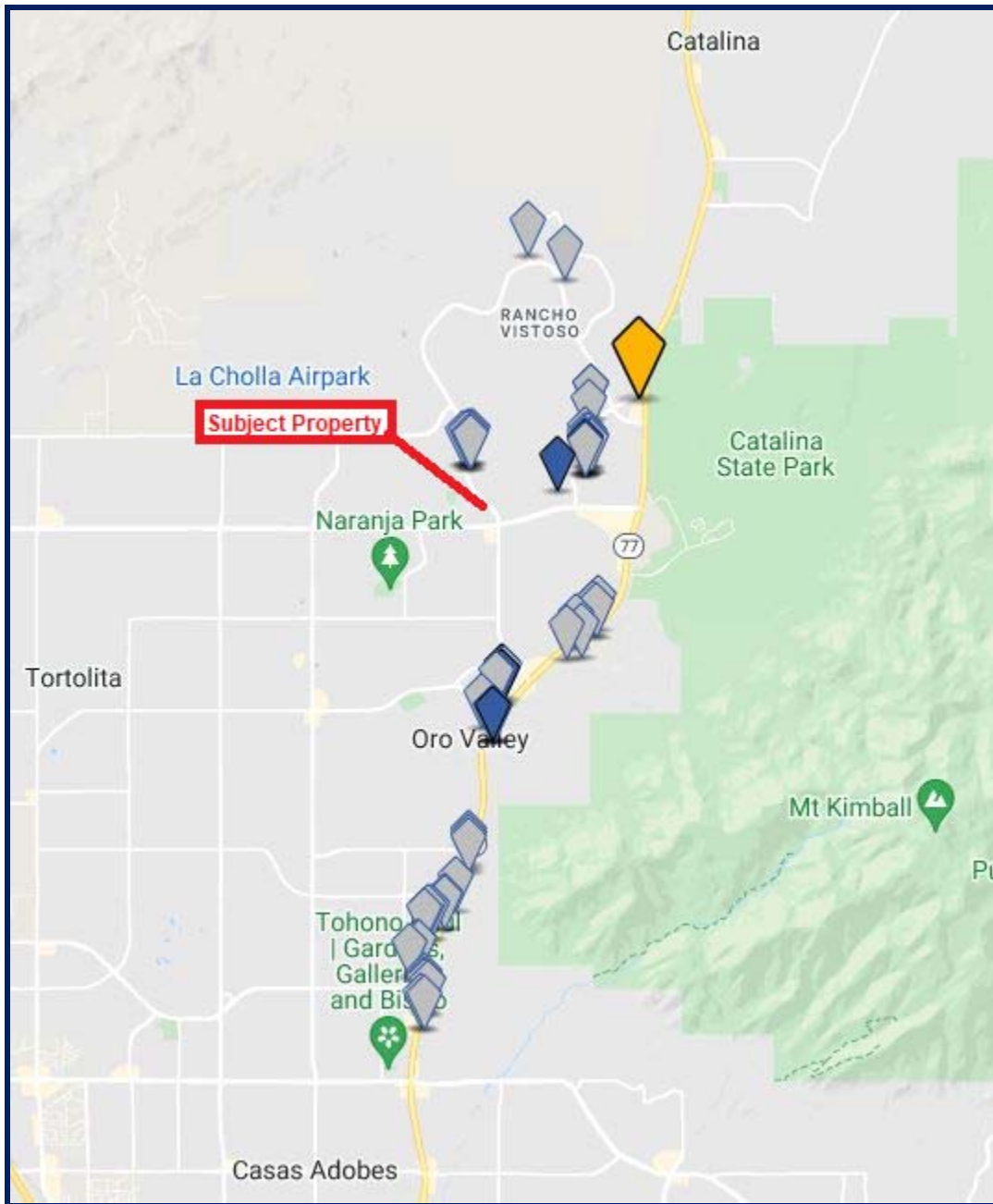
## Oro Valley Office Market Vacancy / Availability Rate



## Oro Valley Office Market Net Absorption



**SUBMARKET MAP - OFFICE**



## Key Points

- New office construction in metro Tucson has been moderate over the past 10 years and has been primarily user driven, with only limited speculative development occurring. An average of approximately 276,000 square feet was delivered annually from 2017 to 2021. The annual average decreased to about 202,000 square feet over the past two years. There are currently four buildings totaling about 193,000 square feet under construction.
- New office construction in Oro Valley has been very limited over the past 10 years despite abundant availability of land for small or large projects. An average of only 1,200 square feet was delivered annually from 2017 to 2021. The annual average increased to 3,000 square feet over the past two years, although this reflected the construction of only one 6,000 square foot building over this period. There are currently no office buildings under construction in Oro Valley.
- Oro Valley contains 3.1% of the metro Tucson office market inventory but comprises 4.4% of the estimated metro Tucson population.
- CoStar reported the metro Tucson office market vacancy at 9.2% as of the first quarter 2022; however, errors in their reporting of several large properties likely result in this being 100 to 200 basis points below the actual vacancy rate. There has been improvement in the reported rate since 2020 and predictions of much higher vacancy as a result of COVID-19 failed to materialize; however, market participants report that a significant portion of leased office space is not actually being fully utilized by the tenants or users since many employees are still working remotely.
- CoStar reported the Oro Valley office submarket vacancy at 8.2% as of the first quarter 2022, which is significantly above the 3.0% vacancy reported at the end of 2020. This increase was due to the vacancy of a 50,500 square foot urgent care facility in Rancho Vistoso. The only other significant vacancy is within the medical office building located next to the Oro Valley Hospital. In general, office vacancies are very low in Oro Valley.
- Net absorption in metro Tucson had been positive annually from 2014 through 2019, but trended negative in 2020. We believe that CoStar may have under-reported the level of negative net absorption in 2020 since they continued to classify space formerly occupied by GEICO as occupied when it had actually been vacated. Other reporting errors have likely resulted in an understatement of overall vacancy for the past five years or more. Reported absorption trended net positive over the past four quarters with a total absorption figure of about 391,000 square feet.
- Net absorption in Oro Valley has fluctuated between overall positive and negative annually over the past decade and was negative 32,700 square feet over the past two years, but positive 8,200 square feet over the past year. Absorption was clearly limited in part due to the lack of new construction and the relatively high occupancy rate since 2017. The recent negative absorption was driven by the 50,000 former urgent care facility.

## Subject Market Position - Office

### Strengths

- Vacancies are generally very limited in Oro Valley
- High quality nearby single family uses
- Above-average buying power

### Weaknesses

- Short-term and long-term demand for office uses remains uncertain as the impact of COVID-19 has not yet become fully apparent. Current occupancy rate may not be indicative of actual current and future demand.
- Better located parcels to support office use are readily available in nearby Innovation Park and on Oracle Road, to the south. There is no shortage of land suitable for office development in Oro Valley and the surrounding area.
- Subject sites, with roughly 8.1 acres for East site and 15.6 acres for West site, are relatively large and could support over 200,000 square feet of office if developed at a relatively low floor area ratio of 0.20. This represents nearly 23% of the current office inventory in Oro Valley and nearly 2.5 times the total net absorption demonstrated over the past decade.

### Opportunities

- There would appear to be very limited opportunities to attract major office users to either of the subject sites and development of an office park type of project on either site would not likely be feasible. A prior owner of the subject East site attempted to develop it as an office park in 2007 and ultimately failed to get this project off the ground and lost the property due to default on the loan. It took the former lender over seven years to sell the property to the current owner.

### Threats

- Absorption risk is high and rents are too low for speculative development.
- Due to the relatively large size of the subject sites, office development other than for or by a large credit tenant/user would involve very high risk as there are already numerous development-ready sites that would strongly compete with the subject sites.
- COVID-19 remains a potential continued threat to the office market and this could result in reduced demand for new and existing facilities.

### Conclusions

The market data strongly suggests that the subject sites are not well suited for office development. A former owner had proposed development of an office park on the East site in 2007 but failed to undertake development and the property reverted to the lender in 2009. We believe that the market has clearly "spoken" since neither subject parcel has attracted demand for an office use despite being potentially available for such for over 20 years. There are still a significant number of vacant sites available within the nearby 200-acre Innovation Park that are considered to be better suited for development of large or small office projects. Demand for offices in Oro Valley could be stronger than suggested by the limited amount of absorption demonstrated over the past decade; however, the office sector in Tucson and Oro Valley has certainly not been robust over this period and new

construction has generally been limited to user-driven deals, with only very limited speculative development occurring. If market demand existed, developers or users would have been acquiring vacant sites in Oro Valley that were zoned to permit offices, however, this clearly did not happen to a significant extent over the past 10 or more years.

A recent example involves the 9.6-acre site located at the northwest corner of Oracle Road and Linda Vista Boulevard. The property is part of the Oracle Vista Centre master development plan, which covered a 14-acre site that includes the Golder Ranch fire station at the southwest corner and the Catalina Springs memory care facility at the northeast corner. This plan was approved in 2008 as part of a rezoning (case OV12-06-25B) of the site from R-144 (low density residential) to C-N (Neighborhood Commercial). This was essentially an office park approved for the development of 19 buildings totaling 119,089 square feet, including the Golder Ranch fire station. The memory care facility was ultimately developed in place of four of the buildings. As part of the rezoning, all buildings on the site were limited to one-story or 18 feet in height and "convenience" uses were restricted. The current development plan for the site essentially reworks the existing development plan to permit construction of 64 apartment units and two commercial buildings. It is noted that Oro Valley limited the overall residential component to no more than 50% of the square footage developed on the overall site. Otherwise, the entire remaining vacant portion of the site would have been developed with apartments, which are currently under construction. In this example, the market demonstrated demand for apartments, memory care and a fire station but no traditional offices.

In general, we believe that there still years of supply of office land available in Oro Valley and that there are numerous parcels available that have much better potential to support office development than either of the subject sites.

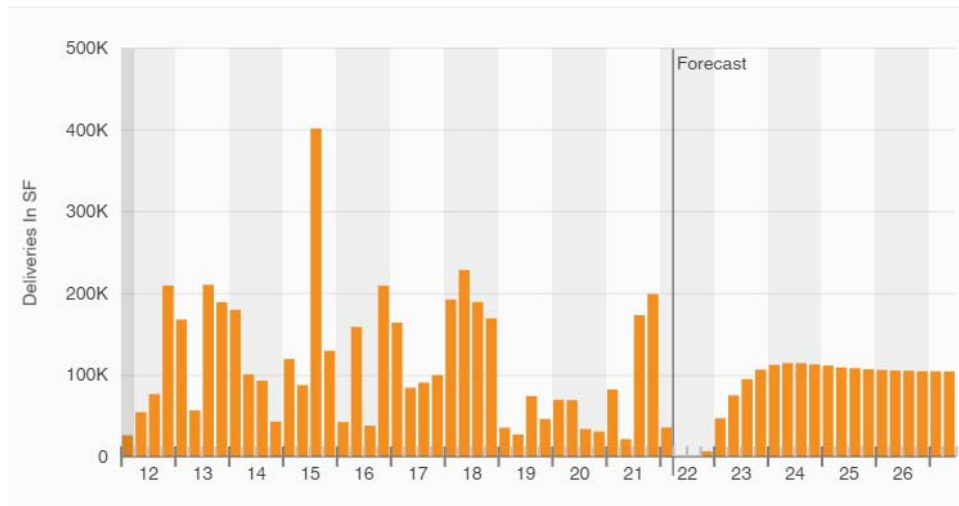
## Retail Market

### Metro Tucson Retail Market

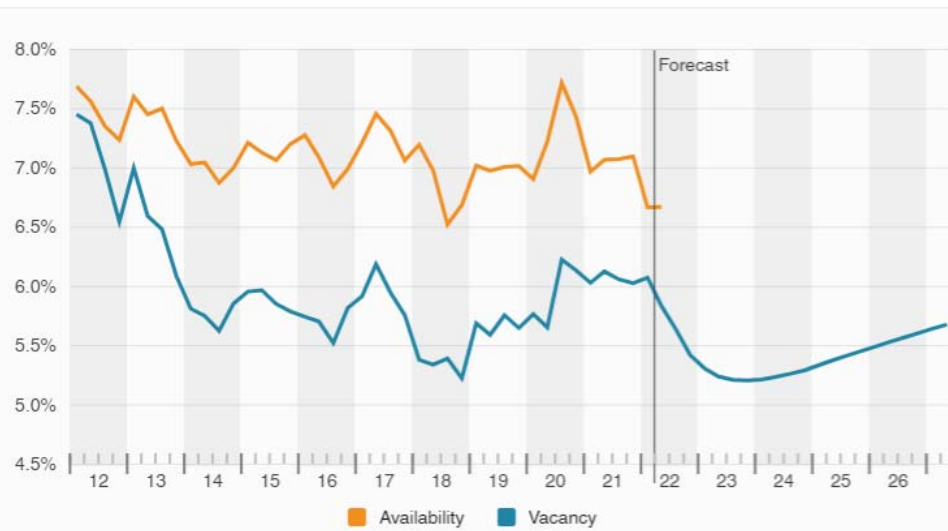
Period	Leaseable Sq. Ft.	Change in Inventory	Vacancy Rate	Vacant Sq. Ft.	Avail. Rate	Net Absorption	Sq. Ft. Delivered	Quoted Rates
<b>Annual Trend</b>								
2012	53,211,429	-188,725	7.1%	3,797,409	7.1%	241,475	365,722	\$14.87
2013	53,684,870	473,441	6.5%	3,485,649	7.1%	785,201	622,739	\$14.28
2014	54,053,675	368,805	6.3%	3,412,381	6.9%	442,073	415,168	\$14.25
2015	54,453,414	399,739	5.9%	3,192,827	7.1%	619,293	737,096	\$14.63
2016	54,836,871	383,457	5.8%	3,182,714	6.9%	393,570	447,156	\$14.77
2017	55,268,279	431,408	5.8%	3,188,825	7.0%	425,297	437,902	\$14.63
2018	56,000,222	731,943	5.3%	2,943,773	6.7%	976,995	778,053	\$14.42
2019	56,195,236	195,014	5.6%	3,168,351	7.0%	-29,564	181,297	\$15.38
2020	56,373,935	178,699	6.2%	3,511,222	7.4%	-164,172	202,629	\$15.60
2021	56,675,435	301,500	6.1%	3,433,147	7.1%	379,575	475,128	\$15.37
<b>Quarterly Trend</b>								
2020 Q2	56,311,045	49,287	5.6%	3,180,486	7.2%	124,591	68,870	\$15.07
2020 Q3	56,340,268	29,223	6.2%	3,501,282	7.7%	-291,573	33,731	\$15.42
2020 Q4	56,373,935	33,667	6.2%	3,511,222	7.4%	23,727	30,591	\$15.60
2021 Q1	56,395,116	21,181	6.0%	3,390,676	6.9%	141,727	82,006	\$15.46
2021 Q2	56,416,447	21,331	6.2%	3,525,841	7.0%	-113,834	21,331	\$15.47
2021 Q3	56,509,606	93,159	6.1%	3,451,483	7.1%	167,517	172,960	\$15.45
2021 Q4	56,675,435	165,829	6.1%	3,433,147	7.1%	184,165	198,831	\$15.37
2022 Q1	56,690,200	14,765	6.1%	3,440,610	6.7%	7,302	35,572	\$15.12
8 Quarter Average			6.1%	3,429,343	7.1%	30,453	80,487	\$15.37
4 Quarter Average			6.1%	3,462,770	7.0%	61,288	107,174	\$15.35

Source: CoStar Group - Note: includes leasable and owner-occupied space

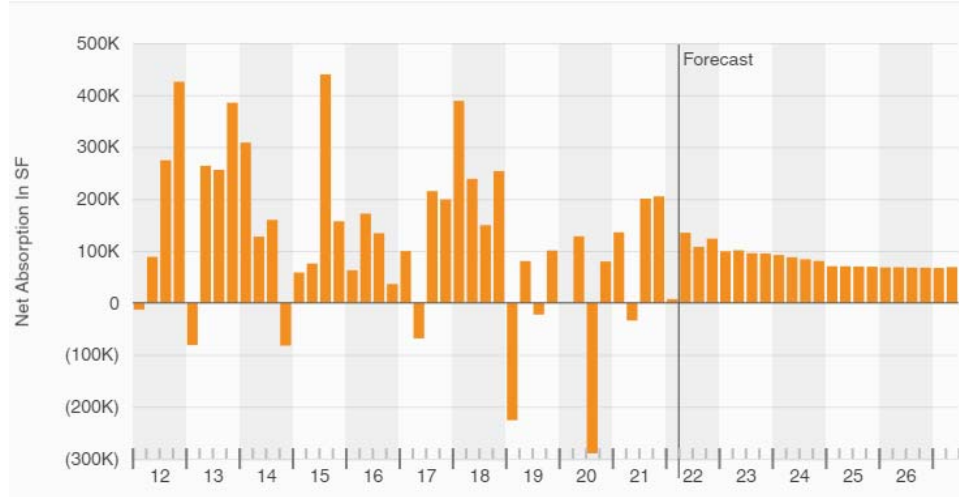
### Metro Tucson Retail Market New Construction Deliveries



### Metro Tucson Retail Market Vacancy / Availability Rate



### Metro Tucson Retail Market Net Absorption



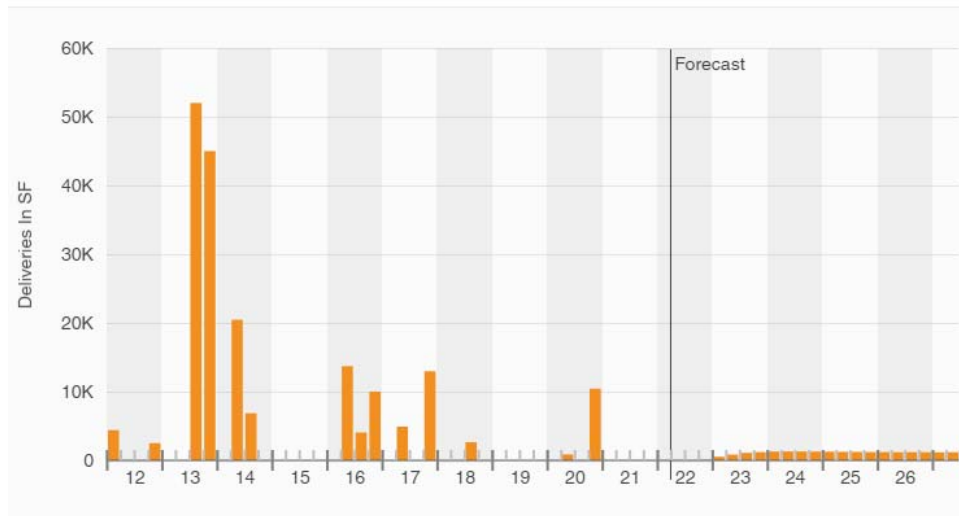
### Oro Valley Retail Submarket

Period	Leaseable Sq. Ft.	Change in Inventory	Vacancy Rate	Vacant Sq. Ft.	Avail. Rate	Net Absorption	Sq. Ft. Delivered
<b>Annual Trend</b>							
2012	1,854,341	6,900	6.6%	121,549	7.1%	30,410	6,900
2013	1,951,341	97,000	6.6%	129,385	8.9%	89,164	97,000
2014	1,978,655	27,314	6.0%	119,376	9.2%	37,323	27,314
2015	1,978,655	0	5.5%	109,738	8.1%	9,638	0
2016	2,006,412	27,757	6.2%	124,606	9.8%	12,889	27,757
2017	2,024,275	17,863	6.0%	121,227	9.5%	21,242	17,863
2018	2,026,915	2,640	5.4%	109,161	9.1%	14,706	2,640
2019	2,026,915	0	7.2%	144,946	7.7%	-35,785	0
2020	2,038,206	11,291	5.6%	113,506	6.2%	42,731	11,291
2021	2,038,206	0	3.9%	79,915	4.2%	33,591	0
<b>Quarterly Trend</b>							
2020 Q2	2,027,773	858	5.5%	111,129	5.9%	41,726	858
2020 Q3	2,027,773	0	5.6%	112,835	6.0%	-1,706	0
2020 Q4	2,038,206	10,433	5.6%	113,506	6.2%	9,762	10,433
2021 Q1	2,038,206	0	5.6%	114,726	6.0%	-1,220	0
2021 Q2	2,038,206	0	4.6%	94,274	4.6%	20,452	0
2021 Q3	2,038,206	0	4.2%	84,745	4.5%	9,529	0
2021 Q4	2,038,206	0	3.9%	79,915	4.2%	4,830	0
2022 Q1	2,038,206	0	3.9%	78,665	4.3%	1,250	0
8 Quarter Average			4.9%	98,724	5.2%	10,578	1,411
4 Quarter Average			4.2%	84,400	4.4%	9,015	0

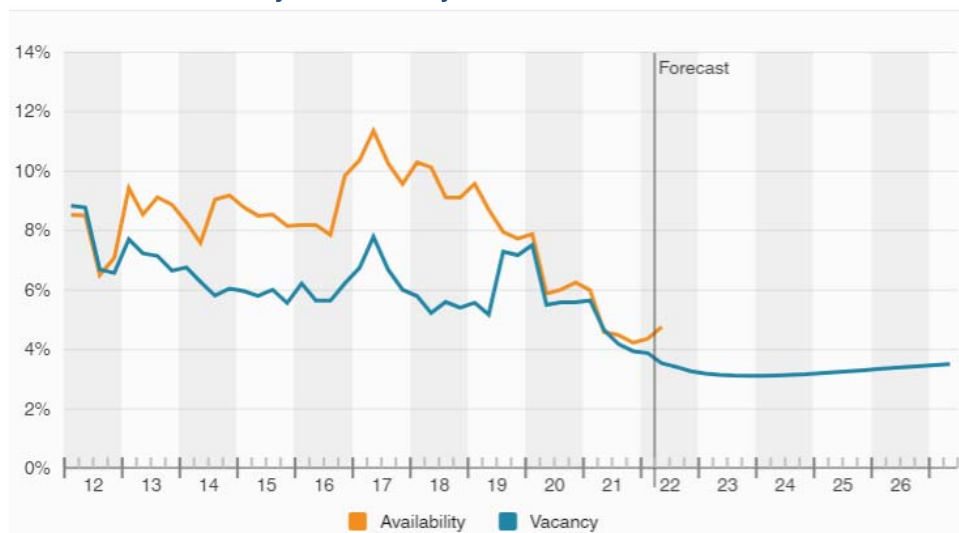
Source: CoStar Group - Note: includes leasable and owner-occupied space

NOTE: CoStar has incorrectly reported vacancy within Oro Valley Village Center and as of the end of the first quarter 2021, the estimated retail vacancy rate within Oro Valley was 7.9%.

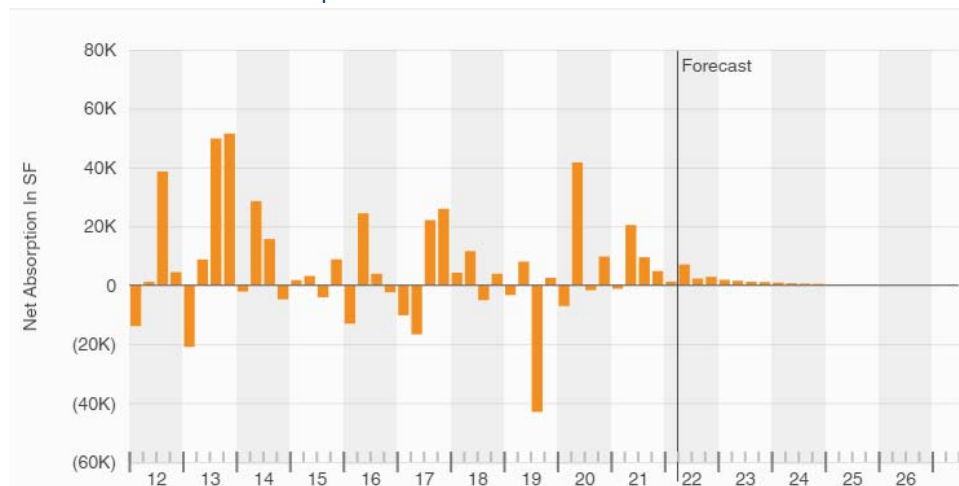
### Oro Valley Retail Market New Construction Deliveries



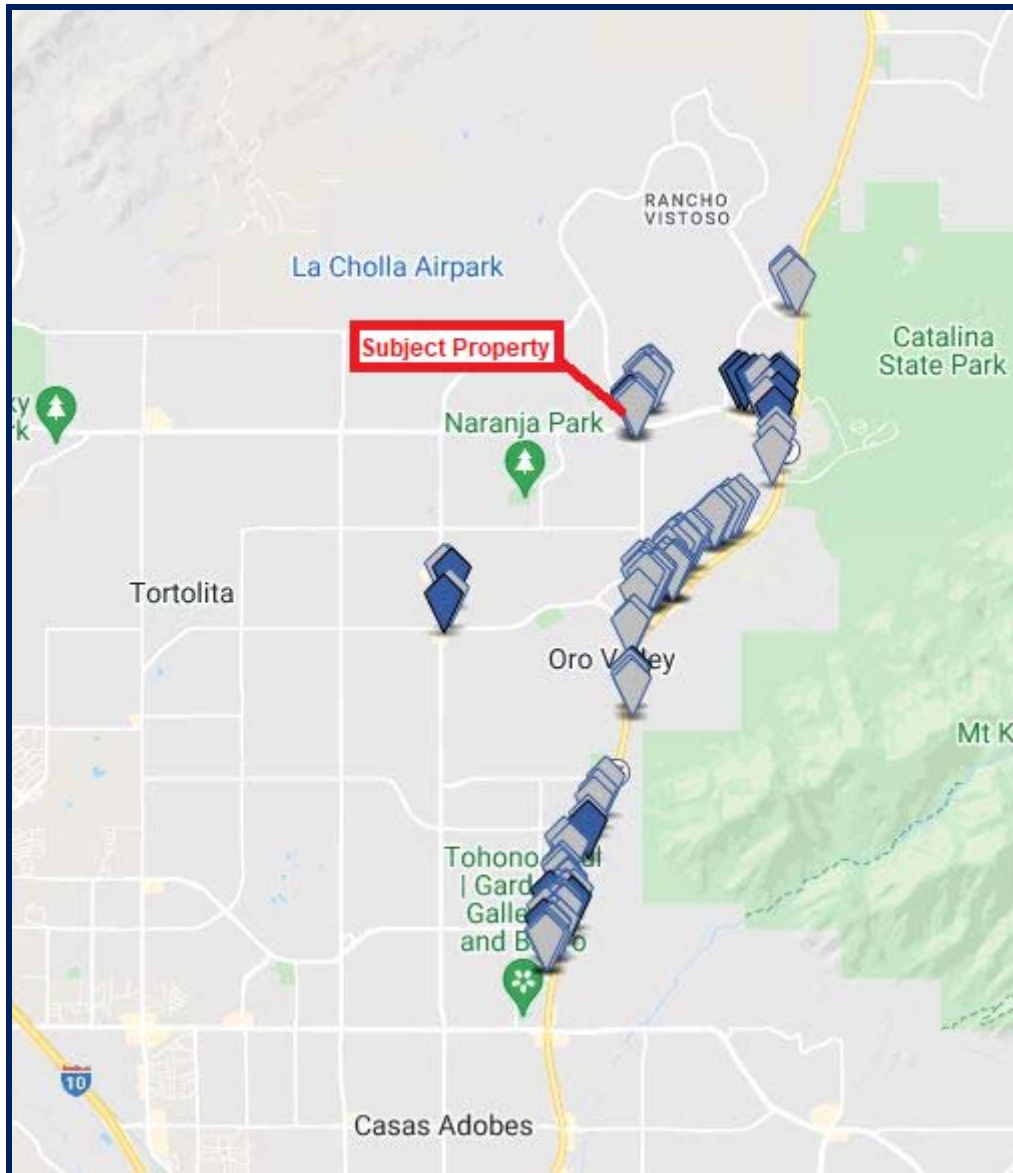
### Oro Valley Retail Market Vacancy / Availability Rate



### Oro Valley Retail Market Net Absorption



**SUBMARKET MAP - RETAIL**



## Key Points

- New retail construction in metro Tucson has been moderate over the past 10 years and has been primarily user driven, with only limited speculative development occurring. An average of approximately 415,000 square feet was delivered annually from 2017 to 2021. The annual average decreased to about 322,000 square feet over the past two years. There are currently 21 buildings totaling about 167,300 square feet under construction.
- New retail construction in Oro Valley has been fairly limited over the past 10 years despite abundant availability of land for small or large projects. An average of only 6,359 square feet was delivered annually from 2017 to 2021. The annual average decreased slightly to 5,646 square feet over the past two years, although this reflected the construction of a Dutch Bros. coffee store and a multi-tenant retail building within the El Corredor project located at Oracle Road and Linda Vista. In reality, over 60% of the new construction from 2017 through 2021 was within El Corredor, a non-anchored center started in 2017. There are currently no retail buildings under construction in Oro Valley.
- Oro Valley contains 4.9% of the metro Tucson retail market inventory but comprises 4.4% of the estimated metro Tucson population.
- CoStar reported the metro Tucson retail market vacancy at 6.1% as of the first quarter 2022. The vacancy rate was essentially unchanged over 2020 and 2021 and was only moderately higher than the prior three years, suggesting that the predictions of much higher vacancy as a result of COVID-19 failed to materialize.
- CoStar reported the Oro Valley retail submarket vacancy at 3.9% as of the first quarter 2022; however, our research indicates that CoStar has greatly underreported the vacancy within the Oro Valley Village Center, and when adjusted for this, the actual vacancy is believed to approximate 7.9%. Best Buy vacated their store in March 2022 and there are three additional vacancies of major tenants within this project, as well as numerous shop vacancies.
- Net absorption in metro Tucson had been positive annually from 2012 through 2018, but trended negative in 2019 and 2020. However, the market demonstrated fairly strong positive net absorption of nearly 380,000 square feet in 2021, which was primarily driven by new construction. Most vacancies are within older spaces, some of which do not meet current market standards.
- Net absorption in Oro Valley has fluctuated between overall positive and negative annually over the past decade and was reported to be positive over 2020 and 2021; however, this may not have been accurate given CoStar's errors related to Oro Valley Village Center.

## Subject Market Position – Retail

### Strengths

- High quality nearby single family uses with above-average buying power
- Full occupancy in adjacent Safeway-anchored shopping center

### Weaknesses

- Four major tenant spaces totaling 85,848 square feet and numerous shop spaces totaling over 38,000 square feet are currently vacant in the nearby Oro Valley Village Center, which was only about 70% completed after initial construction occurred in 2008. The current owner

has indicated that the center is not viable as originally conceived and has proposed rezoning to permit apartment and hotel uses on the larger undeveloped portions of the site, which were originally proposed for retail and office uses.

- Better located and smaller parcels to support limited retail use are available in Oro Valley, including the northwest corner of Rancho Vistoso Boulevard and Tangerine Road and northeast corner of Tangerine Road and Innovation Park Drive.
- Subject sites, with roughly 8.1 acres for East site and 15.6 acres for West site, are relatively large and could support over 200,000 square feet of retail if developed at approximate floor area ratio of 0.20. This represents over 10% of the current retail inventory in Oro Valley.

#### Opportunities

- There would appear to be very limited opportunities to attract major retail users to either of the subject sites. The current owner of the West site reported no interest by retail developers or users over the past decade. We are not aware of any demand for a major retail development ever on the East site.

#### Threats

- Due to the relatively large size of the subject sites, retail development other than for or by a large credit tenant/user would involve very high risk as there are already numerous development-ready sites that would strongly compete with the subject sites.
- COVID-19 and Amazon/on-line purchasing remain potential continued threats to the retail market and this could result in reduced demand for new and existing facilities.

#### Conclusions

Oro Valley is well served by retail projects, most of which are located along Oracle Road. Oro Valley Village Center, at the southwest corner of Oracle Road and Tangerine Road, is the largest with over 500,000 square feet, but is currently anchored only by Walmart and Ashley. The 114-acre project was initially constructed in 2008 and originally included Best Buy, Dick's Sporting Goods, Big Lots and others, which have since left the center, and Petco, DSW, Ulta and Century Theatres, which remain. Ashley moved into the former Dick's space in the latter part of 2019. Sources report that about 30% of the site has never been developed to date. The project was recently purchased by a local investment group who has proposed constructing multifamily and hotel uses on the larger undeveloped portions of the site, which were originally planned for additional retail uses and office uses. The current owner has stated that continued operation of the center as originally proposed and as permitted by existing zoning is not economically feasible. A rezoning to permit development of apartments and hotels is currently underway, although the developer requested a continuance at the February 2022 meeting before the town council. The Oro Valley Planning and Zoning Commission recommended conditional approval of the applicant's request.

Other retail uses in the neighborhood have generally fared much better than the Oro Valley Village Center, which market participants generally report has suffered due to insufficient nearby population. The Safeway Vistoso Center is located at the northeast quadrant of Tangerine Road and Rancho Vistoso Boulevard and the Rancho Vistoso Center is located at the northwest corner of Rancho Vistoso Boulevard and Oracle Road. The Safeway Vistoso Center, which is adjacent south of the subject East site, has been very successful with limited vacancy over the past decade or more. However, the Rancho Vistoso Center lost its anchor grocer many years ago, but still includes a Walgreens and shops that are mostly occupied. Placita Del Oro is located at the southwest corner of

Tangerine and First Avenue and is anchored by Ace Hardware and Walgreens. It originally struggled to lease up and still includes an undeveloped pad site.

The market data strongly suggests that the subject sites are not well suited for retail development. The owner of the West site reported no interest by retail developers or users over the past decade and to our knowledge, the East site has never been a serious contender for a retail-oriented development. In general, we consider it to be highly unlikely that either of the subject sites would attract demand for a major retail use over the foreseeable future. Most major retailers already have a presence in Oro Valley and would be unlikely to locate on the subject properties when the owner of the Oro Valley Village Center would be in a position to offer much lower rent than would be possible if new construction was required.

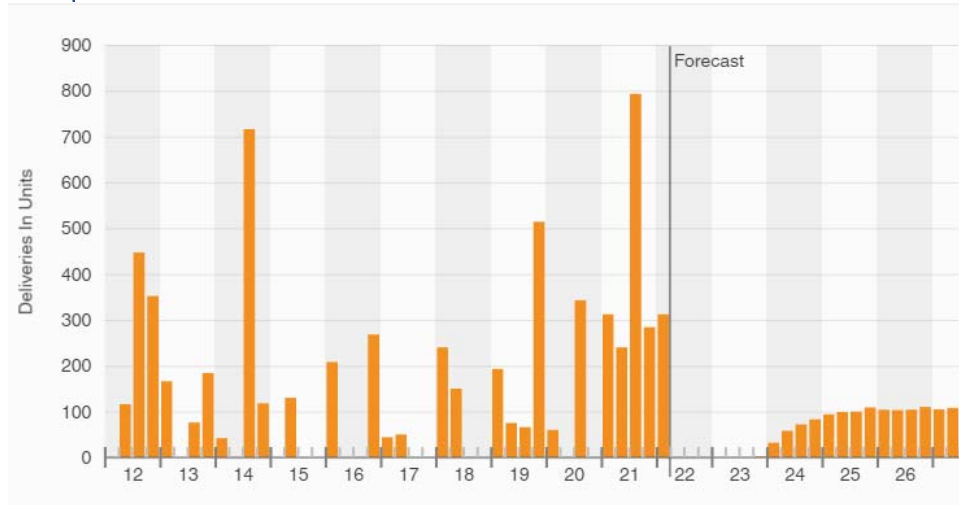
## Apartment / Rental Housing Market

### Metro Tucson Apartment Market

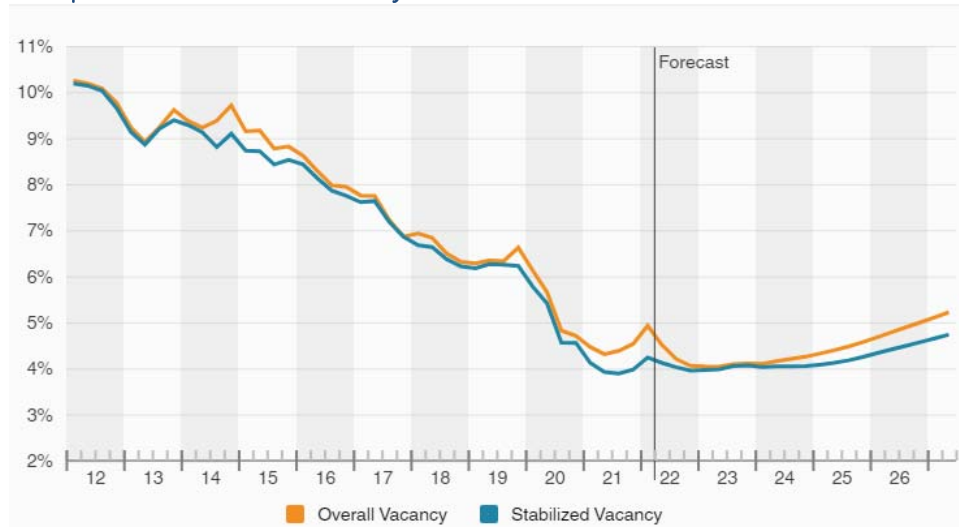
Period	Total Units	Change in Inventory	Vacancy Rate	Vacant Units	Net Absorption	Units Delivered	Average Rent
<b>Annual Trend</b>							
2012	65,334	915	9.3%	6,076	1,281	915	\$687
2013	66,032	698	9.5%	6,273	501	698	\$703
2014	66,908	876	9.7%	6,490	659	876	\$717
2015	67,406	498	9.0%	6,067	922	498	\$742
2016	67,882	476	7.8%	5,295	1,248	476	\$768
2017	67,976	94	6.5%	4,418	970	94	\$801
2018	68,366	390	5.9%	4,034	775	390	\$842
2019	69,214	848	6.3%	4,360	521	848	\$887
2020	69,725	511	4.2%	2,928	1,943	511	\$945
2021	71,354	1,629	4.3%	3,068	1,489	1,589	\$1,104
<b>Quarterly Trend</b>							
2020 Q2	69,274	0	5.3%	3,672	314	0	\$902
2020 Q3	69,725	451	4.4%	3,068	1,055	451	\$930
2020 Q4	69,725	0	4.2%	2,928	139	0	\$945
2021 Q1	70,037	312	4.0%	2,801	439	312	\$976
2021 Q2	70,277	240	3.9%	2,741	301	240	\$1,045
2021 Q3	71,070	793	4.1%	2,914	620	793	\$1,089
2021 Q4	71,354	284	4.3%	3,068	130	244	\$1,104
2022 Q1	71,354	0	4.4%	3,140	-71	0	\$1,128
8 Quarter Average			4.3%	3,041	366	255	\$1,015
4 Quarter Average			4.2%	2,966	245	319	\$1,092

Source: CoStar Group - Projects with 40 units or more

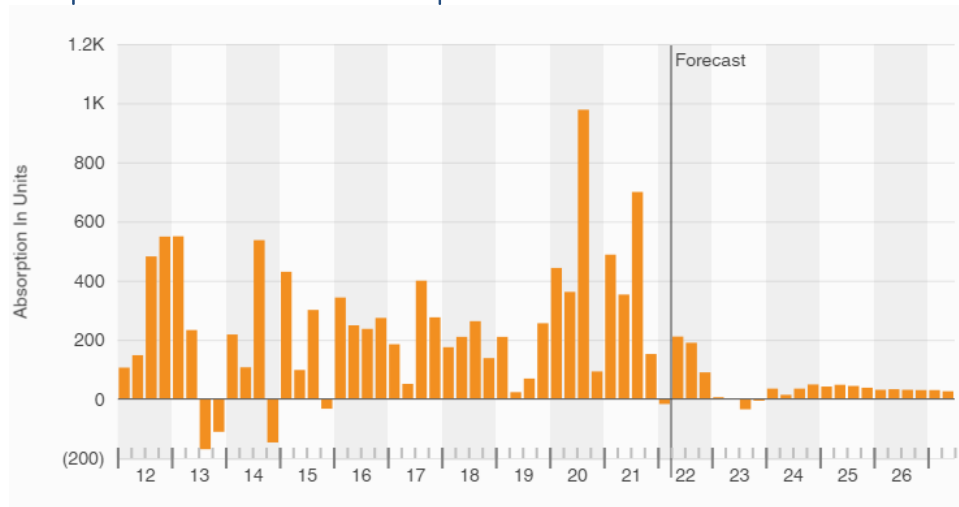
## Metro Tucson Apartment Market New Construction Deliveries



## Metro Tucson Apartment Market Vacancy Rate



## Metro Tucson Apartment Market Net Absorption

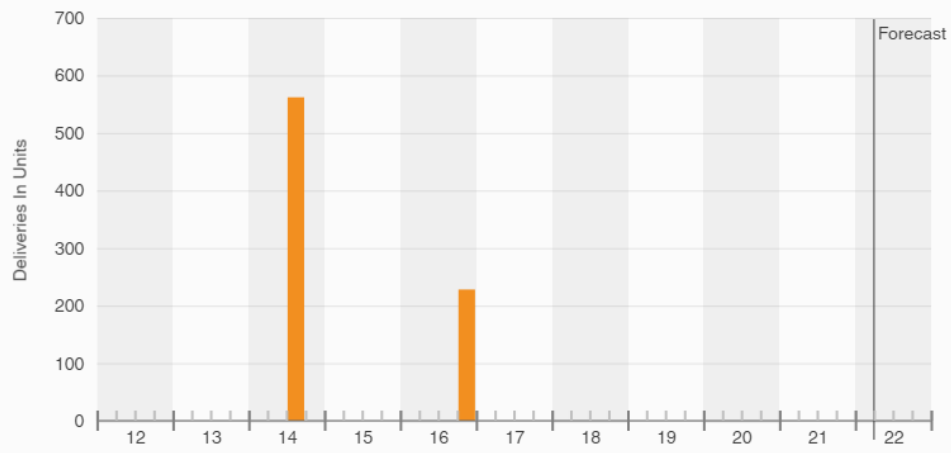


### Oro Valley Apartment Market - Excluding Senior Living

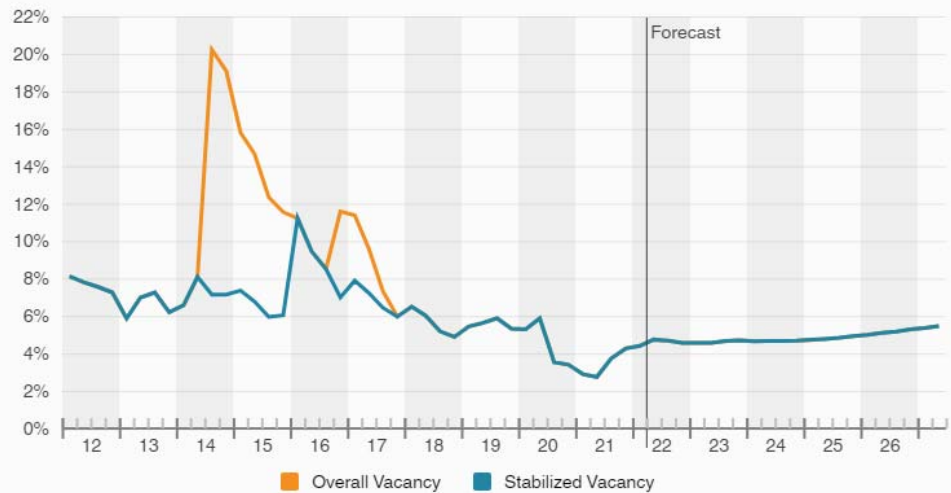
Period	Total Units	Change in Inventory	Vacancy Rate	Vacant Units	Net Absorption	Units Delivered	Average Rent
<b>Annual Trend</b>							
2012	2,262	0	7.3%	165	23	0	\$826
2013	2,262	0	6.2%	140	25	0	\$838
2014	2,824	562	19.1%	539	163	562	\$859
2015	2,824	0	11.5%	325	215	0	\$896
2016	3,052	228	11.6%	354	199	228	\$925
2017	3,052	0	6.0%	183	171	0	\$957
2018	3,052	0	4.9%	150	34	0	\$1,043
2019	3,052	0	5.3%	162	-12	0	\$1,102
2020	3,052	0	3.4%	104	58	0	\$1,178
2021	3,052	0	4.3%	131	-27	0	\$1,484
<b>Quarterly Trend</b>							
2020 Q2	3,052	0	5.9%	180	-18	0	\$1,094
2020 Q3	3,052	0	3.5%	107	73	0	\$1,122
2020 Q4	3,052	0	3.4%	104	3	0	\$1,178
2021 Q1	3,052	0	2.9%	89	15	0	\$1,226
2021 Q2	3,052	0	2.8%	85	3	0	\$1,387
2021 Q3	3,052	0	3.7%	113	-27	0	\$1,478
2021 Q4	3,052	0	4.3%	131	-18	0	\$1,484
2022 Q1	3,052	0	4.4%	134	-3	0	\$1,518
8 Quarter Average			3.9%	118	3	0	\$1,311
4 Quarter Average			3.8%	116	-11	0	\$1,467

Source: CoStar Group - Projects with 40 units or more

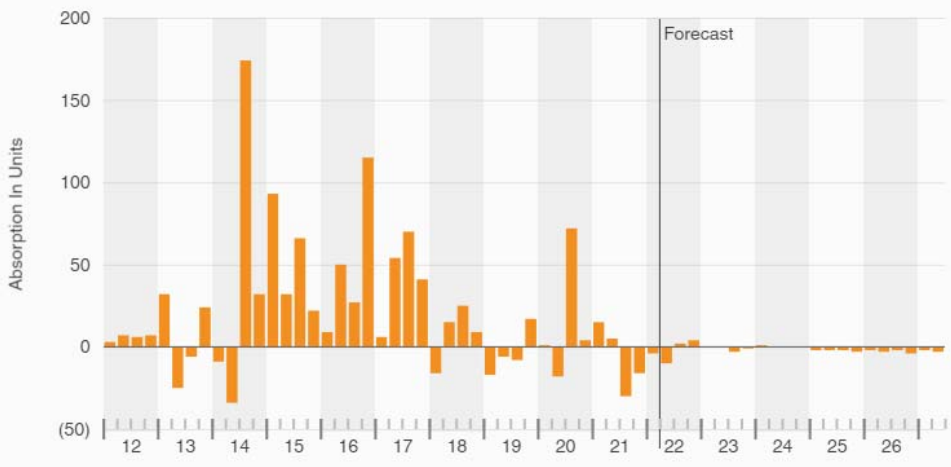
## Oro Valley Apartment Market New Construction Deliveries



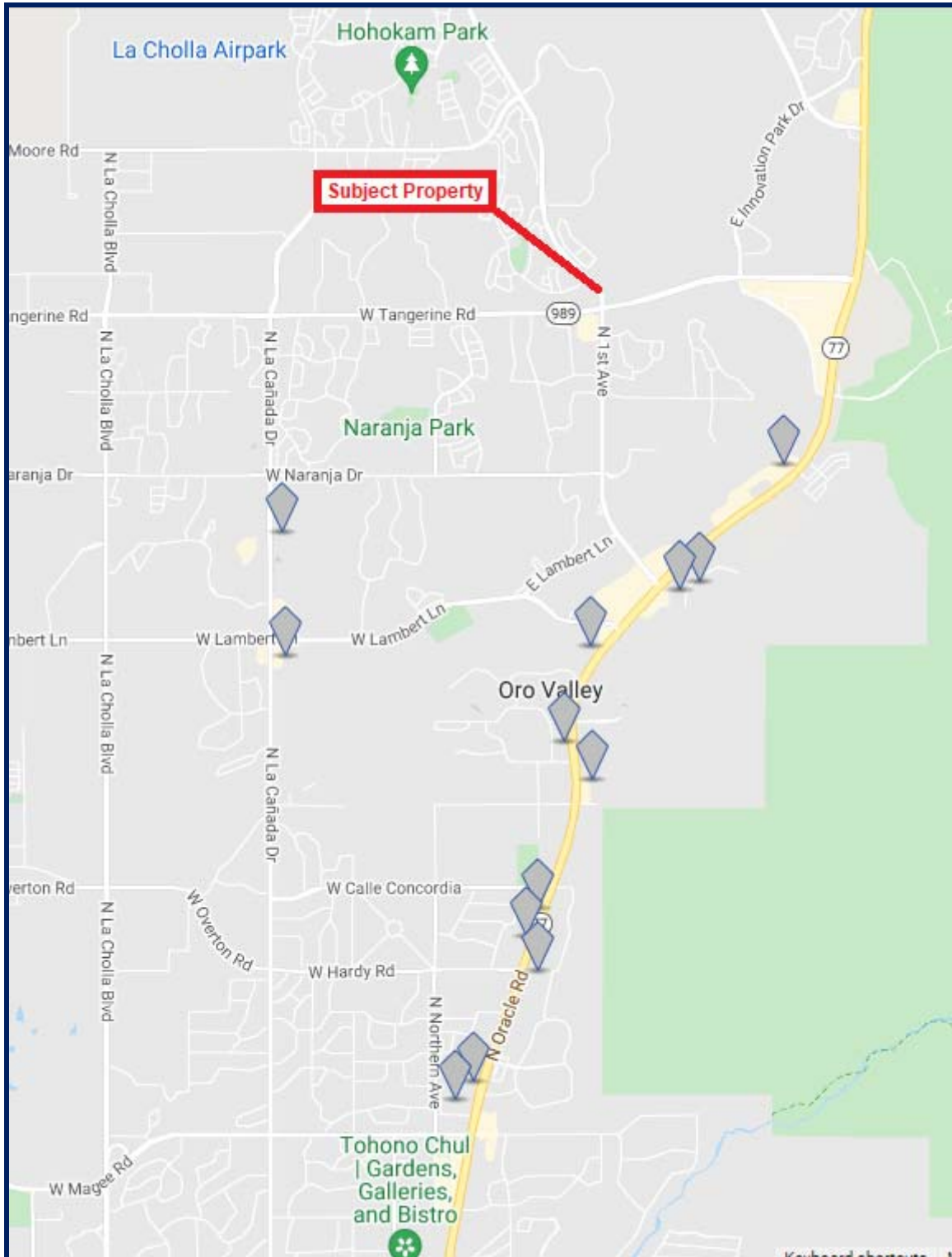
## Oro Valley Apartment Market Vacancy Rate



## Oro Valley Apartment Market Net Absorption



**SUBMARKET MAP - APARTMENTS**



## Key Points

- New apartment construction in metro Tucson has been occurring at a significant pace over most of the past 10 years. An average of 690 units was delivered annually from 2012 to 2021. The annual average increased to 983 units over the past three years. There are currently 1,380 units within nine project under construction.
- New apartment construction in Oro Valley has been fairly limited over the past 10 years and includes only three conventional projects: one in 2016 and two in 2014. There is currently one project known as Linda Vista Luxury Rentals under construction in Oro Valley and it will contain 64 units.
- We excluded senior/independent living projects from our survey, although it is noted that the 108-unit All Seasons Oro Valley project was constructed in Innovation Park in 2020 and the 125-unit Desert Springs Gracious Living project was constructed in 2011.
- Oro Valley contains 4.5% of the metro Tucson apartment market (40+ units) inventory and comprises 4.4% of the estimated metro Tucson population.
- CoStar reported the metro Tucson apartment market vacancy at 4.4% as of the first quarter 2022. The vacancy rate was essentially unchanged over 2020 and 2021. After initial concerns and prohibitions against evictions, there has generally been no significant negative impact from COVID-19. In fact, rents generally increased by more than 20% over 2021.
- CoStar reported the Oro Valley apartment submarket vacancy at 4.5% as of the first quarter 2022, which was just slightly higher than the 2021 year-end rate of 4.3% and well above the year-end 2020 rate of only 3.2%.
- Net absorption in metro Tucson had been positive annually from 2012 through 2021 and has generally kept up with new construction. CoStar reported slightly negative net absorption for the first quarter of 2022; however, this is not considered to be reflective of a new trend. Net absorption averaged 1,463 units per year over the past two years.
- Net absorption in Oro Valley has been limited since 2017 due to the lack of new construction. Slightly positive or negative absorption reported since 2017 is not significant and does not model any trends of change.
- The average monthly rent in Oro Valley increased by roughly 9% in 2018, 6% in 2019, 7% in 2020 and 26% in 2021.

## Subject Market Position – Apartments

### Strengths

- Above average purchase power by apartment tenants in this area with 60% earning over \$50,000 per year according to US Census data.
- Limited supply of apartment land in Oro Valley.
- Strong market performance in metro Tucson and Oro Valley over the past five years with unprecedented rent growth achieved. Vacancy rate in Oro Valley has averaged less than 4% over the past two years and stood at 4.4% at the end of the first quarter 2022 per CoStar. Apartment Insights reported a vacancy rate of 4.0% at this time, with similar rent increases.

- Subject sites are adjacent to attractive single-family communities and have good proximity to grocery and general needs shopping and nearby employment.
- There is significant existing and potential future employment from the Oro Valley Hospital and Innovation Park, less than one mile from the subject sites, but no major rental housing options within one mile; most large apartments are at least 2 to 3 miles away.

#### Weaknesses

- The current zoning doesn't allow apartments.

#### Opportunities

- This land use attracts currently underrepresented age and lifestyle (renter) cohorts that are strong consumers, which benefit local commercial enterprises and generates sales tax.
- Some of these underrepresented age cohorts (young professionals) are attractive to R&D/Tech employers but have limited rental options in the immediate area.
- There has reportedly been strong demand by apartment developers over the past several years, and there should be good potential to achieve neighborhood acceptance for such a use if it involves low-density, single story construction. This type of development has been highly successful in other areas of metro Tucson, as well as within other major markets in the Southwest region of the country.

#### Threats

- Deep recession could harm employment and increase vacancy, probably for a limited duration.
- High and volatile construction costs and labor shortages add risk to development.
- There is potential for overbuilding if all planned units are constructed too soon.
- COVID-19 has greatly increased the use and market acceptability of remote working and this has reportedly added tenant demand in secondary markets such as Tucson; however, it is unknown how long this will continue or whether Tucson and Oro Valley could see a reduction in apartment demand if employers require work to be completed in traditional workplace settings and/or otherwise limit remote work options.

#### Conclusions

Existing apartment projects in Oro Valley are currently performing very well and command rents that are well above average for the metro Tucson area. Market participants have commented that it has been difficult for developers to acquire land in Oro Valley that is zoned to permit construction of apartments. Because of this, developers have been focusing on commercially-zoned sites that are well-suited for rental housing but will require rezoning to permit the use. This is the case with the subject parcels, some of the larger vacant parcels within the Oro Valley Village Center, which are proposed for two high-density apartments with 586 units, and the 11.5-acre parcel at the southeast corner of Tangerine Road and La Cholla Boulevard, which is proposed for a low-density rental housing project with 95 units that would be fairly similar to that proposed for the subject sites. Similar examples have also been reported.

An apartment study by Real Estate Consulting Group was commissioned by Oro Valley in the fall of 2020 and indicated there was 95.5 acres of vacant land in Oro Valley that was zoned for apartments

but that the average size was only 5 acres, compared to an average site area of 12 acres for existing projects.

As noted in the data above, there has been only one major apartment project constructed in Oro Valley since 2015 and only two additional projects were constructed within the past decade. There is currently a relatively small 64-unit complex under construction at Oracle and Linda Vista, which will be similar but not identical to the units proposed on the subject sites in that the units will all be within one-story buildings.

Mr. Neil Simon, one of the owners of the West parcel, reported that this parcel had previously been under contract with a local apartment developer, perhaps 10 years ago, but that this transaction ultimately was terminated when the prospect of achieving a change in the PAD appeared unlikely. While there has been no demand by retail or office users or developers since, there has been strong demand for the site by apartment developers over the past several years. The site was purchased in 2006 with the intent of commercial development.

Mr. Craig Finfrock, the broker associated with the pending sales of the two subject parcels, reported that he first listed the East site in 2018 and other than some interest by a couple of restaurants, which would only utilize a very small portion of the site, there has been no interest by office or retail developers for the entire property. While there were some inquiries by senior housing and memory care developers prior to the COVID-19 pandemic, the vast majority of interest was from apartment developers, including those interested in constructing single-family rental housing, sometimes referred to as “build to rent” housing, which is the general class of rental housing that is being proposed for the subject sites. He reported interest by over 20 apartment/rental housing developers over the past several years. Development of rental housing has exploded in many areas of the United States over the past five or more years and the metro Tucson area is no exception. There are numerous rental housing projects currently being planned throughout metro Tucson and particularly in the greater northwest metro area, including Oro Valley and Marana. While most of these deals are currently pending sale, Mr. Finfrock reported that apartment/rental housing developers are currently able and willing to pay higher land prices than other potential users. There was exceptionally high demand for the subject parcels by these types of developers and essentially no demand over the past 10 or more years by office or retail developers.

Ultimately, if apartments/rental housing is not permitted on the subject sites or other similar commercially-zoned sites in Oro Valley, development will occur in nearby areas under the jurisdiction of Pima County or Marana and the sites in Oro Valley will likely remain vacant and unproductive for many years, perhaps indefinitely or until zoning aligns with demand.

## Conclusions

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The purpose of this assignment is to address market strengths, weaknesses, opportunities and threats (SWOT) relating to possible land uses of the subject property. To assess potential land uses, we researched the office, retail, and apartment sectors for metro Tucson and Oro Valley. The current zoning permits office and retail uses, while the proposed rezoning, which would involve a change to the Rancho Vistoso Planned Area Development (PAD), would be required to support apartments/rental housing. We limited the analysis to these major use categories since office and retail are essentially the only significant uses permitted by the current PAD and apartments/rental housing appears to be strongly supported by exceptional demand in the current market environment. Other uses such as senior living and memory care could represent potential uses but we do not believe that they are likely given the overall size of the subject property.

Based on the land use analyses undertaken, it is clear that the office and retail uses permitted by the current Rancho Vistoso PAD zoning are not aligned with market demand and that there is no reason to believe that this will change in the foreseeable future. These sites have generally been available for more than 20 years, through up and down cycles, but have failed to attract demand or ultimately be developed as originally envisioned by the PAD. The recent history of the Oro Valley Village Center, formerly known as Oro Valley Marketplace, strongly suggests that there is inadequate population in this area to support the existing retail base, much less additional large scale retail development in the northern area of Oro Valley. Retail development of either subject site would face extreme risk and almost certainly fail to attract adequate anchor tenants due to the history of Oro Valley Village Center and the fact that this competing project still has four vacant major tenant spaces that could be offered for lease at a fraction of the rent needed to support new construction, plus numerous vacant shop spaces, some of which have never been occupied. The fact that the owner has requested a rezoning to permit development of apartments and hotels on the major vacant portions of Oro Valley Village Center demonstrates the lack of feasibility of new large-scale retail development in the area. Furthermore, the modest pace of development within the nearby 200-acre Innovation Park demonstrates the level of demand for offices in the area. With high quality infrastructure already in place, new office development in the area is realistically going to within Innovation Park and not within a to-be-developed property. Again, a new developer is not going to be able to effectively compete with Innovation Park for most office users. Quite simply, if zoning can't be amended, the subject sites will likely continue to remain vacant and unproductive for many years to come. The fact that they are zoned for commercial use does not guarantee demand for such and this has been directly demonstrated over the past 20-plus years. We believe, and the market has demonstrated, that Oro Valley has an excessive amount of commercially-zoned vacant land.

Apartments or various forms of rental housing represent the most appropriate use of the subject sites and demand for suitable sites by developers is currently exceptionally high, even unprecedented in the Tucson market over the past 40 years or more. There are numerous examples of sites zoned and originally envisioned for commercial development finally attracting demand by apartment/rental housing developers after sitting idle for over 20 years. While traditional two- and three-story garden style apartments are still being constructed in metro Tucson and throughout the Southwest, by far the greatest amount of new proposed construction now involves single-story detached rental housing, sometimes referred to as build-to-rent housing. This type of rental

housing, which is primarily comprised of individual freestanding rental units, has been constructed in metro Tucson since the mid-2000s, but has since gained exponential momentum due to very strong demand by renters, who have been unable to purchase homes in the current ultra-competitive housing market or desire the freedom of renting but don't want a traditional apartment unit. These types of units are also attractive to seniors and other established homeowners that wish to reduce maintenance responsibilities and/or downsize but don't want to reside in a traditional multi-story garden-style apartment complex. Given the location of the subject parcels adjacent to existing single-family subdivisions, we believe that development of the sites with a single-story rental product similar to that being proposed by NexMetro represents the ideal use since these have strong market acceptance among all income-qualified age cohorts, including young professionals and seniors, and would not negatively impact the adjacent residential uses.

## General Assumptions and Limiting Conditions

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The conclusions of the Consultant appearing in the consultation report are subject to the following conditions, and to such other specific and limiting conditions as are set forth by the Consultant in the consultation report.

This report is being prepared for our client. This report or any portion thereof is for the exclusive use of the client and is not intended to be used, sold, transferred, given, or relied on by any other person than the client without the prior, expressed written permission of the authors, as set forth within the Limiting Conditions contained in this report. Possession of this consultation, or a copy thereof, does not carry with it the right of publication. The consultation may not be used for any purpose by any person other than the client without prior written consent of the consultant. Neither all nor any part of the contents of this consultation (especially any conclusions as to value, the identity of the consultant, or the firm with which the consultant is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the consultant.

The Consultant assumes no responsibility for matters of a legal nature affecting the subject property or the title thereto, nor does the Consultant render any opinion as to the title, which is assumed to be good and marketable. No Owner's Title Policy has been furnished to the Consultant. The consultation assumes responsible ownership, competent management, and adequate marketing typical for that type of property.

The Consultant has made no survey of the property. Any sketch or map in the consultation report may show approximate dimensions and is included for illustrative purposes only. It is the responsibility of a certified engineer, architect, or registered surveyor to show by a site plan the exact location of the subject property or any improvements or any proposed improvements thereon, or the exact measurements or calculations of estimated area of the site. In the absence of such a survey, the consultant may have utilized Tax Assessor's maps or other maps provided by the client which may not represent the exact measurements of the subject property or other comparable information utilized in the consultation regarding the subject property. Any variation in dimensions or calculations based thereon may alter the conclusions or recommendations of value contained within the consultation.

The plot plans and illustrative material in this consultation are included only to assist the reader in visualizing the property.

The property is assumed to be free and clear of any or all liens or encumbrances unless otherwise stated.

Responsible ownership and competent property management are assumed.

Unless expressly specified in this Agreement, the fee for this consultation does not include the attendance or giving of testimony by Consultant at any court, regulatory, or other proceedings, or any conferences or other work in preparation for such proceeding. If any partner or employee of Valbridge Property Advisors | MJN enterprises, Inc. is asked or required to appear and/or testify at any deposition, trial, or other proceeding about the preparation, conclusions or any other aspect of

this assignment, client shall compensate Consultant for the time spent by the partner or employee in appearing and/or testifying and in preparing to testify according to the Appraiser's then current hourly rate plus reimbursement of expenses.

The Valbridge Property Advisors office responsible for the preparation of this report is independently owned and operated by MJN Enterprises, Inc. Valbridge Property Advisors, Inc. nor any of its affiliates, has not been engaged to provide this report. Valbridge Property Advisors, Inc. does not provide valuation services, and has taken no part in the preparation of this report.

Possession of this report, or a copy thereof, does not carry with it the right of publication. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to property value, the identity of the appraisers, professional designations, reference to any professional appraisal organization or the firm with which the appraisers are connected), shall be disseminated to the public through advertising, public relations, news, sales, or other media without prior written consent and approval.

This consultation was prepared for the sole and exclusive use of the client. Any party who is not the client or intended user identified in the consulting report or engagement letter is not entitled to rely upon the contents of the consultation without express written consent of Valbridge Property Advisors | MJN Enterprises, Inc. and Client. We assume no liability for unauthorized use of the consulting report by a third party.

If any claim is filed against any of Valbridge Property Advisors, Inc., a Florida Corporation, its affiliates, officers or employees, or the firm providing this report, in connection with, or in any way arising out of, or relating to, this report, or the engagement of the firm providing this report, then (1) under no circumstances shall such claimant be entitled to consequential, special or other damages, except only for direct compensatory damages and (2) the maximum amount of such compensatory damages recoverable by such claimant shall be the amount actually received by the firm engaged to provide this report.

No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated, unless specifically stated to the contrary.

It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the consultation.

It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use upon which the conclusions or recommendations contained in this consultation are based.

It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the consultation.

In developing conclusions and recommendations regarding the subject property and in analyzing comparable information, the consultants have relied upon information from public and private planning agencies as to the potential use of land or improved properties. This information may include, but is not limited to, Area Plans, Neighborhood Plans, Zoning Plans and Ordinances,

Transportation Plans, and the like. In the conclusions and recommendations, the consultant may consider the extent to which a knowledgeable and informed purchaser or seller, as of the date of the consultation, would reflect the reasonable probability of changes in such land uses becoming actualized in the future. To the extent that these plans may change, the conclusions and recommendations of this consultation may also change.

In the absence of a professional Engineer's Feasibility Study, information regarding the existence of utilities is made only from a visual inspection of the site. The Consultant assumes no responsibility for the actual availability of utilities, their capacity, or any other problem which may result from a condition involving utilities. The respective companies, governmental agencies or entities should be contacted directly by concerned persons.

The Consultant is not required to give testimony or appear in court because of having made the consultation with reference to the property in question, unless prior arrangements have been made and confirmed in writing.

Any allocation of any valuation in the consultation report between land and improvements applies only under the stated program of utilization. Any separate valuations for land and improvements must not be used in conjunction with any other appraisal or consultation and are invalid if so used.

The Consultant assumes that there are no hidden or unapparent conditions of the property, subsoil, potential flooding hazards, hydrology, or structures, which would render it more or less valuable. The Consultant assumes no responsibility for such conditions, or for engineering which might be required to discover such factors. To the extent that published data from public agencies is available on the above, the Consultant has made an effort to consult this information.

Unless otherwise stated within our report, the existence of hazardous material, which may or may not be present within or on the property, will not be considered by us. The Consultant assumes, and the client warrants, that no such materials adversely affect the utility, usability, or developability of the property to the best of their knowledge. The consultants are not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, radon gas, or other potentially hazardous materials may affect the value of the property. The conclusions and recommendations and any value estimate has been predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility will be assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired. If at a later time hazardous materials or substances are discovered, we reserve the right, for an additional agreed-upon fee, to re-analyze and/or re-appraise said property, taking into account the discovery of such factor or factors and their effects on the conclusions and recommendations and value of the subject property.

Information, estimates, and opinions furnished to the Consultant and contained in the consultation report were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished to the Consultant can be attributed to the Consultant.

In this consultation assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, such as the presence of urea formaldehyde foam insulation, and/or existence of toxic waste or radon gas, which may or may not be present on this

property, has not been considered. The consultant is not qualified to detect such substances. We suggest that the client retain an expert in this field, if desired.

The consultant has not detected or knows of any substance relating to environmental health that would affect the market value of the subject property.

Disclosures of the contents of the consultation report by the Consultant are governed by the Bylaws and Regulations of the professional appraisal organizations with which the Consultant is affiliated.

On all consultations which are undertaken subject to satisfactory completion of, alterations of, or repairs to improvements, the consultation report and any value conclusions contained in it are contingent upon completion of the improvements or of the repairs thereto or alterations thereof in a workmanlike manner.

As agreed upon with the client prior to the preparation of this consultation, this is not an Appraisal wherein market value is estimated. As such, information pertinent to the valuation (if any) may not have been considered and/or the full valuation process may not have been applied. Depending on the type and degree of limitations, the reliability of the value conclusion (if any) provided herein may be reduced.

This is a Consultation Report which is intended to comply with the reporting requirements set forth under Standard Rule 5 of the Uniform Standards of Professional Appraisal Practice. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the consultation process to develop the Consultant's conclusions, recommendations and any opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the Consultant's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The consultant is not responsible for unauthorized use of this report.

There were no other specific and/or limiting conditions associated with this consultation for the subject property except what has been previously mentioned above.

It is your responsibility to read the report and to inform the appraisers of any errors or omissions of which you are aware, prior to utilizing the report.

Disclosures of the contents of the consultation report by the Consultant are governed by the Bylaws and regulations of the professional appraisal organizations with which the Consultant is affiliated

This report and any associated work files may be subject to evaluation by Valbridge Property Advisors, Inc., or its affiliates, for quality control purposes subject to client data confidentiality.

All disputes shall be settled by binding arbitration in accordance with the then-existing commercial arbitration rules of the American Arbitration Association.

The global outbreak of a "novel coronavirus" known as COVID-19 was officially declared a pandemic by the World Health Organization (WHO). It is currently unknown what direct, or indirect, effect, if any, this event may have on the national economy, the local economy or the market in which the subject property is located. The reader is cautioned, and reminded that the conclusions presented in

this consultation report apply only as of the effective date(s) indicated. The consultant makes no representation as to the effect on the subject property of this event, or any event, subsequent to the effective date of the consultation report.

Acceptance of and/or use of this consultation report constitutes acceptance of the foregoing general assumptions and limiting conditions.

The use of this report or its analysis and conclusions by the client or any other party constitutes acceptance of all the above limiting conditions.

# Addenda

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Glossary

Qualifications

- Michael Naifeh, MAI, CRE®
- Craig W Johnson, MAI

Information on Valbridge Property Advisors

Office Locations

## Glossary

Definitions are taken from the Dictionary of Real Estate Appraisal, 6<sup>th</sup> Edition (Dictionary), the Uniform Standards of Professional Appraisal Practice (USPAP) and Building Owners and Managers Association International (BOMA).

### Absolute Net Lease

A lease in which the tenant pays all expenses including structural maintenance, building reserves, and management; often a long-term lease to a credit tenant. (Dictionary)

### Amortization

The process of retiring a debt or recovering a capital investment, typically through scheduled, systematic repayment of the principal; a program of periodic contributions to a sinking fund or debt retirement fund. (Dictionary)

### As Is Market Value

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date. (Dictionary)

### Base Rent

The minimum rent stipulated in a lease. (Dictionary)

### Base Year

The year on which escalation clauses in a lease are based. (Dictionary)

### Building Common Area

In office buildings, the areas of the building that provide services to building tenants but which are not included in the office area or store area of any specific tenant. These areas may include, but shall not be limited to, main and auxiliary lobbies, atrium spaces at the level of the finished floor, concierge areas or security desks, conference rooms, lounges or vending areas, food service facilities, health or fitness centers, daycare facilities, locker or shower facilities, mail rooms, fire control rooms, fully enclosed courtyards outside the exterior walls, and building core and service areas such as fully enclosed mechanical or equipment rooms. Specifically excluded from building common area are floor common areas, parking space, portions of loading docks outside the building line, and major vertical penetrations. (BOMA)

### Building Rentable Area

The sum of all floor rentable areas. Floor rentable area is the result of subtracting from the gross measured area of a floor the major vertical penetrations on that same floor. It is generally fixed for the life of the building and is rarely affected by changes in corridor size or configuration. (BOMA)

### Certificate of Occupancy (COO)

A formal written acknowledgment by an appropriate unit of local government that a new construction or renovation project is at the stage where it meets applicable health and safety codes and is ready for commercial or residential occupancy. (Dictionary)

### Common Area Maintenance (CAM)

The expense of operating and maintaining common areas; may or may not include management charges and usually does not include capital expenditures on tenant improvements or other improvements to the property. (Dictionary)

The amount of money charged to tenants for their shares of maintaining a [shopping] center's common area. The charge that a tenant pays for shared services and facilities such as electricity, security, and maintenance of parking lots. Items charged to common area maintenance may include cleaning services, parking lot sweeping and maintenance, snow removal, security and upkeep. (ICSC – International Council of Shopping Centers, 4<sup>th</sup> Ed.)

### Condominium

A multiunit structure, or a unit within such a structure, with a condominium form of ownership. (Dictionary)

### Conservation Easement

An interest in real estate restricting future land use to preservation, conservation, wildlife habitat, or some combination of those uses. A conservation easement may permit farming, timber harvesting, or other uses of a rural nature as well as some types of conservation-oriented development to continue, subject to the easement. (Dictionary)

### Contributory Value

A type of value that reflects the amount a property or component of a property contributes to the value of another asset or to the property as a whole.

The change in the value of a property as a whole, whether positive or negative, resulting from the addition or deletion of a property component. Also called deprival value in some countries. (Dictionary)

### Debt Coverage Ratio (DCR)

The ratio of net operating income to annual debt service (DCR = NOI/Im), which measures the relative ability of a property to meet its debt service out of net operating

income; also called *debt service coverage ratio (DSCR)*. A larger *DCR* typically indicates a greater ability for a property to withstand a reduction of income, providing an improved safety margin for a lender. (Dictionary)

### Deed Restriction

A provision written into a deed that limits the use of land. Deed restrictions usually remain in effect when title passes to subsequent owners. (Dictionary)

### Depreciation

- 1) In appraisal, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date.
- 2) In accounting, an allocation of the original cost of an asset, amortizing the cost over the asset's life; calculated using a variety of standard techniques. (Dictionary)

### Disposition Value

The most probable price that a specified interest in property should bring under the following conditions:

- Consummation of a sale within a specified time, which is shorter than the typical exposure time for such a property in that market.
- The property is subjected to market conditions prevailing as of the date of valuation;
- Both the buyer and seller are acting prudently and knowledgeably;
- The seller is under compulsion to sell;
- The buyer is typically motivated;
- Both parties are acting in what they consider to be their best interests;
- An adequate marketing effort will be made during the exposure time;
- Payment will be made in cash in U.S. dollars (or the local currency) or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (Dictionary)

### Easement

The right to use another's land for a stated purpose. (Dictionary)

### EIFS

Exterior Insulation Finishing System. This is a type of exterior wall cladding system. Sometimes referred to as dry-vit.

### Effective Date

- 1) The date on which the appraisal or review opinion applies. (SVP)

- 2) In a lease document, the date upon which the lease goes into effect. (Dictionary)

### Effective Gross Income (EGI)

The anticipated income from all operations of the real estate after an allowance is made for vacancy and collection losses and an addition is made for any other income. (Dictionary)

### Effective Rent

Total base rent, or minimum rent stipulated in a lease, over the specified lease term minus rent concessions; the rent that is effectively paid by a tenant net of financial concessions provided by a landlord. (TIs). (Dictionary)

### EPDM

Ethylene Propylene Diene Monomer Rubber. A type of synthetic rubber typically used for roof coverings. (Dictionary)

### Escalation Clause

A clause in an agreement that provides for the adjustment of a price or rent based on some event or index. e.g., a provision to increase rent if operating expenses increase; also called *escalator clause*, *expense recovery clause* or *stop clause*. (Dictionary)

### Estoppel Certificate

A signed statement by a party (such as a tenant or a mortgagee) certifying, for another's benefit, that certain facts are correct, such as that a lease exists, that there are no defaults, and that rent is paid to a certain date. (Black's) In real estate, a buyer of rental property typically requests estoppel certificates from existing tenants. Sometimes referred to as an *estoppel letter*. (Dictionary)

### Excess Land

Land that is not needed to serve or support the existing use. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land has the potential to be sold separately and is valued separately. (Dictionary)

### Excess Rent

The amount by which contract rent exceeds market rent at the time of the appraisal; created by a lease favorable to the landlord (lessor) and may reflect unusual management, unknowledgeable or unusually motivated parties, a lease execution in an earlier, stronger rental market, or an agreement of the parties. (Dictionary)

### Expense Stop

A clause in a lease that limits the landlord's expense obligation, which results in the lessee paying operating expenses above a stated level or amount. (Dictionary)

### Exposure Time

- 1) The time a property remains on the market.
- 2) The estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market. (Dictionary)

### Extraordinary Assumption

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. (USPAP, 2016-2017 ed.)

### Fee Simple Estate

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. (Dictionary)

### Floor Common Area

In an office building, the areas on a floor such as washrooms, janitorial closets, electrical rooms, telephone rooms, mechanical rooms, elevator lobbies, and public corridors which are available primarily for the use of tenants on that floor. (BOMA)

### Full Service (Gross) Lease

A lease in which the landlord receives stipulated rent and is obligated to pay all of the property's operating and fixed expenses; also called a *full service lease*. (Dictionary)

### Furniture, Fixtures, and Equipment (FF&E)

Business trade fixtures and personal property, exclusive of inventory. (Dictionary)

### Going-Concern Value

An outdated label for the market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; more accurately termed the *market value of the going concern* or *market value of the total assets of the business*. (Dictionary)

### Gross Building Area (GBA)

- 1) Total floor area of a building, excluding unenclosed areas, measured from the exterior of the walls of

the above-grade area. This includes mezzanines and basements if and when typically included in the market area of the type of property involved.

- 2) Gross leasable area plus all common areas.
- 3) For residential space, the total area of all floor levels measured from the exterior of the walls and including the superstructure and substructure basement; typically does not include garage space. (Dictionary)

### Gross Measured Area

The total area of a building enclosed by the dominant portion (the portion of the inside finished surface of the permanent outer building wall which is 50 percent or more of the vertical floor-to-ceiling dimension, at the given point being measured as one moves horizontally along the wall), excluding parking areas and loading docks (or portions of same) outside the building line. It is generally not used for leasing purposes and is calculated on a floor by floor basis. (BOMA)

### Gross Up Method

A method of calculating variable operating expenses in income-producing properties when less than 100% occupancy is assumed. Expenses reimbursed based on the amount of occupied space, rather than on the total building area, are described as "grossed up." (Dictionary)

### Gross Retail Sellout

The sum of the separate and distinct market value opinions for each of the units in a condominium, subdivision development, or portfolio of properties, as of the date of valuation. The aggregate of retail values does not represent the value of all the units as though sold together in a single transaction; it is simply the total of the individual market value conclusions. Also called the *aggregate of the retail values*, *aggregate retail selling price* or *sum of the retail values*. (Dictionary)

### Ground Lease

A lease that grants the right to use and occupy land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term. (Dictionary)

### Ground Rent

The rent paid for the right to use and occupy land according to the terms of a ground lease; the portion of the total rent allocated to the underlying land. (Dictionary)

### HVAC

Heating, ventilation, air conditioning (HVAC) system. A unit that regulates the temperature and distribution of heat and fresh air throughout a building. (Dictionary)

### Highest and Best Use

- 1) 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.
- 2) The use of an asset that maximizes its potential and that is possible, legally permissible, and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid. (IVS)
- 3) [The] highest and most profitable use for which the property is adaptable and needed or likely to be needed in the reasonably near future. (Uniform Appraisal Standards for Federal Land Acquisitions) (Dictionary)

### Hypothetical Condition

- 1) A condition that is presumed to be true when it is known to be false. (SVP – Standards of Valuation Practice, effective January 1, 2015)
- 2) A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. Comment: Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. (USPAP, 2016-2017 ed.) (Dictionary)

### Industrial Gross Lease

A type of modified gross lease of an industrial property in which the landlord and tenant share expenses. The landlord receives stipulated rent and is obligated to pay certain operating expenses, often structural maintenance, insurance and real property taxes, as specified in the lease. There are significant regional and local differences in the use of this term. (Dictionary)

### Insurable Value

A type of value for insurance purposes. (Typically this includes replacement cost less basement excavation, foundation, underground piping and architect's fees). (Dictionary)

### Investment Value

The value of a property to a particular investor or class of investors based on the investor's specific requirements. Investment value may be different from market value because it depends on a set of investment

criteria that are not necessarily typical of the market. (Dictionary)

### Just Compensation

In condemnation, the amount of loss for which a property owner is compensated when his or her property is taken. Just compensation should put the owner in as good a position pecuniarily as he or she would have been if the property had not been taken. (Dictionary)

### Leased Fee Interest

The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires. (Dictionary)

### Leasehold Interest

The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease. (Dictionary)

### Lessee (Tenant)

One who has the right to occupancy and use of the property of another for a period of time according to a lease agreement. (Dictionary)

### Lessor (Landlord)

One who conveys the rights of occupancy and use to others under a lease agreement. (Dictionary)

### Liquidation Value

The most probable price that a specified interest in property should bring under the following conditions:

- Consummation of a sale within a short time period.
- The property is subjected to market conditions prevailing as of the date of valuation.
- Both the buyer and seller are acting prudently and knowledgeably.
- The seller is under extreme compulsion to sell.
- The buyer is typically motivated.
- Both parties are acting in what they consider to be their best interests.
- A normal marketing effort is not possible due to the brief exposure time.
- Payment will be made in cash in U.S. dollars (or the local currency) or in terms of financial arrangements comparable thereto.
- 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. (Dictionary)

### Loan to Value Ratio (LTV)

The ratio between a mortgage loan and the value of the property pledged as security, usually expressed as a percentage. (Dictionary)

### Major Vertical Penetrations

Stairs, elevator shafts, flues, pipe shafts, vertical ducts, and the like, and their enclosing walls. Atria, lightwells and similar penetrations above the finished floor are included in this definition. Not included, however, are vertical penetrations built for the private use of a tenant occupying office areas on more than one floor. Structural columns, openings for vertical electric cable or telephone distribution, and openings for plumbing lines are not considered to be major vertical penetrations. (BOMA)

### Market Rent

The most probable rent that a property should bring in a competitive and open market reflecting the conditions and restrictions of a specified lease agreement, including the rental adjustment and revaluation, permitted uses, use restrictions, expense obligations; term, concessions, renewal and purchase options and tenant improvements (TIs). (Dictionary)

### Market Value

The most probable price that 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:

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

(Dictionary)

### Marketing Time

An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (Advisory Opinion 7 of the Appraisal Standards Board of the Appraisal Foundation and Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions")

address the determination of reasonable exposure and marketing time.) (Dictionary)

### Master Lease

A lease in which the fee owner leases a part or the entire property to a single entity (the master lease) in return for a stipulated rent. The master lessee then leases the property to multiple tenants. (Dictionary)

### Modified Gross Lease

A lease in which the landlord receives stipulated rent and is obligated to pay some, but not all, of the property's operating and fixed expenses. Since assignment of expenses varies among modified gross leases, expense responsibility must always be specified. In some markets, a modified gross lease may be called a *double net lease*, *net net lease*, *partial net lease*, or *semi-gross lease*. (Dictionary)

### Operating Expense Ratio

The ratio of total operating expenses to effective gross income (TOE/EGI); the complement of the net income ratio, i.e.,  $OER = 1 - NIR$  (Dictionary)

### Option

A legal contract, typically purchased for a stated consideration, that permits but does not require the holder of the option (known as the *optionee*) to buy, sell, or lease real estate for a stipulated period of time in accordance with specified terms; a unilateral right to exercise a privilege. (Dictionary)

### Partial Interest

Divided or undivided rights in real estate that represent less than the whole, i.e., a fractional interest such as a tenancy in common, easement, or life interest. (Dictionary)

### Pass Through

A tenant's portion of operating expenses that may be composed of common area maintenance (CAM), real property taxes, property insurance, and any other expenses determined in the lease agreement to be paid by the tenant. (Dictionary)

### Potential Gross Income (PGI)

The total income attributable to property at full occupancy before vacancy and operating expenses are deducted. (Dictionary)

### Prospective Future Value Upon Completion

A prospective market value may be appropriate for the valuation of a property interest related to a credit decision for a proposed development or renovation project. According to USPAP, an appraisal with a prospective market value reflects an effective date that is subsequent to the date of the appraisal report. ... The prospective market value –as completed– reflects the

property's market value as of the time that development is expected to be complete. (Dictionary)

### Prospective Future Value Upon Stabilization

A prospective market value may be appropriate for the valuation of a property interest related to a credit decision for a proposed development or renovation project. According to USPAP, an appraisal with a prospective market value reflects an effective date that is subsequent to the date of the appraisal report ...The prospective market value – as stabilized – reflects the property's market value as of the time the property is projected to achieve stabilized occupancy. For an income-producing property, stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties. (Dictionary)

### Replacement Cost

The estimated cost to construct, at current prices as of a specific date, a substitute for a building or other improvements, using modern materials and current standards, design, and layout. (Dictionary)

### Reproduction Cost

The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship and embodying all of the deficiencies, superadequacies, and obsolescence of the subject building. (Dictionary)

### Retrospective Value Opinion

A value opinion effective as of a specified historical date. The term *retrospective* does not define a type of value. Instead, it identifies a value opinion as being effective at some specific prior date. Value as of a historical date is frequently sought in connection with property tax appeals, damage models, lease renegotiation, deficiency judgments, estate tax, and condemnation. Inclusion of the type of value with this term is appropriate, e.g., "retrospective market value opinion." (Dictionary)

### Sandwich Leasehold Estate

The interest held by the sandwich leaseholder when the property is subleased to another party; a type of leasehold estate. (Dictionary)

### Sublease

An agreement in which the lessee in a prior lease conveys the right of use and occupancy of a property to another, the sublessee, for a specific period of time, which may or may not be coterminous with the underlying lease term. (Dictionary)

### Subordination

A contractual arrangement in which a party with a claim to certain assets agrees to make his or her claim junior, or subordinate, to the claims of another party. (Dictionary)

### Surplus Land

Land that is not currently needed to support the existing use but cannot be separated from the property and sold off for another use. Surplus land does not have an independent highest and best use and may or may not contribute value to the improved parcel. (Dictionary)

### Triple Net (Net Net Net) Lease

An alternative term for a type of net lease. In some markets, a net net net lease is defined as a lease in which the tenant assumes all expenses (fixed and variable) of operating a property except that the landlord is responsible for structural maintenance, building reserves, and management; also called *NNN lease*, *net net net lease*, or *fully net lease*. (Dictionary)

(The market definition of a triple net lease varies; in some cases tenants pay for items such as roof repairs, parking lot repairs, and other similar items.)

### Usable Area

The measured area of an office area, store area, or building common area on a floor. The total of all the usable areas for a floor shall equal floor usable area of that same floor. (BOMA)

### Value-in-Use

The value of a property assuming a specific use, which may or may not be the property's highest and best use on the effective date of the appraisal. Value in use may or may not be equal to market value but is different conceptually. (Dictionary)

## Qualifications

### Qualifications of the Appraisers

#### **Michael J. Naifeh, MAI, CRE®**

##### **Experience**

- Includes valuation of most types of urban real property and interest in real property; i.e., single and multi-family residential, commercial, industrial, and vacant land. Experience also includes special-purpose properties, feasibility studies, property tax appeals, lease fee and leasehold interest, and counseling.
- Employed as a Fee Appraiser with Sanders K. Solot and Associates, Tucson, Arizona, from May 1980 through April 1983.
- Employed as a Fee Appraiser with Mahoney, Cole and Associates, Tucson, Arizona, from May 1983 through May 1988.
- President and Principal Appraiser, MJN Enterprises, Inc. since 1986.
- Served on the Board of Directors founding Valbridge Property Advisors since June, 2011.
- Currently Senior Managing Director, Valbridge Property Advisors | MJN Enterprises, Inc.

##### **Professional Education**

All required classes to obtain MAI Designation and state certification

##### **Professional Memberships**

- Member of the Counselors of Real Estate (CRE®), Certification Number 2387. The CRE® designation is awarded only to those individuals who are invited by their peers into the membership of the Counselors of Real Estate.
- Member, Appraisal Institute, (MAI), Certificate Number 7812. As of the date of this report, I, Michael J. Naifeh, have completed the requirements under the continuing education program of the Appraisal Institute.
- Certified General Real Estate Appraiser, State of Arizona Certificate No. 30276.
- Registered Property Tax Agent in the State of Arizona
- Licensed Real Estate Salesman, State of Arizona

##### **Formal Education**

Bachelor of Science Degree, University of Arizona, 1980.

Concentration: Accounting and Real Estate

##### **Public Service**

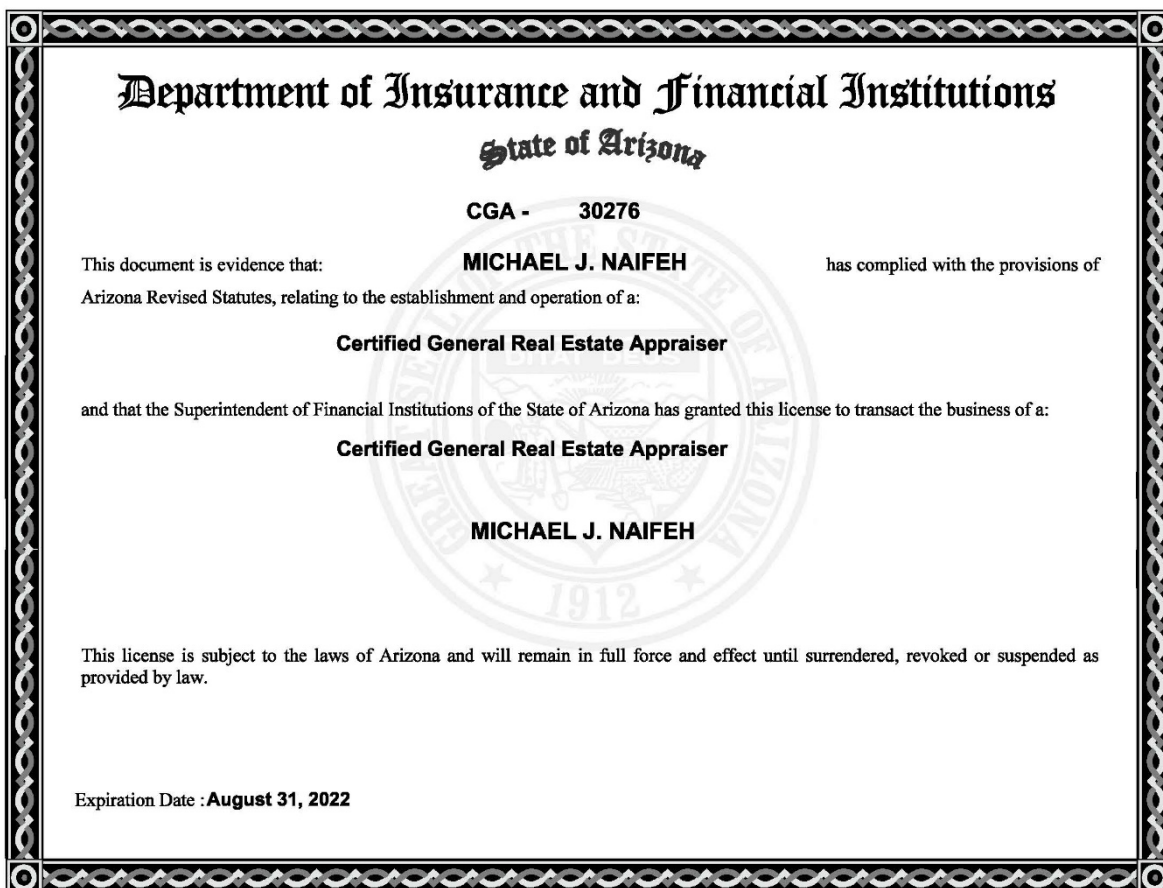
- Appointed to the Arizona State Board of Appraisal January, 2000.
- Served as Vice Chairperson in 2000 and Chairperson in 2001.
- Reappointed for a second term January, 2002.

### Scope of Appraisal Practice

Appraisal practice is classified into five categories:

- Mortgage Loan Appraisal
- Taxation Valuation
- Eminent Domain Appraisal
- Market Value for Private Negotiation Purposes
- Counseling

Clientele includes governmental agencies, corporate organizations, development companies, and financial institutions.



**CRAIG W. JOHNSON, MAI**  
**State of Arizona Certified General Real Estate Appraiser, Certificate #30236**

**PROFESSIONAL EXPERIENCE**

2013 to present	Valbridge Property Advisors   MJN Enterprises, Inc., Managing Director
2012 – 2013	US Department of Interior, Office of Valuation Services, Review Appraiser
2005 to 2012	MJN Enterprises, Inc., Senior Analyst and Consultant
2001 – 2005	Bruce D. Greenberg, Inc., Senior Analyst and Consultant
2000	KB Real Estate Advisors & Appraisers, Inc., Senior Analyst/Consultant
1994 - 2000	CB Richard Ellis, Inc., Assistant VP Valuation & Advisory Services
1992 - 1994	Craig W. Johnson, MAI, sole proprietor
1990 - 1991	RTC/Pima Federal Savings, Vice President and Chief Appraiser
1982 - 1990	Greenberg Chin Consultants, Senior Appraiser

**PROFESSIONAL AFFILIATIONS AND MEMBERSHIPS**

Member (MAI), #8241 of the Appraisal Institute. The Institute conducts a mandatory program of continuing education for its designated members. Mr. Johnson is currently certified under this program.

**FORMAL EDUCATION**

Bachelor of Science in Business Administration, University of Arizona, Finance major

**PROFESSIONAL EDUCATION**

All required classes to obtain MAI Designation and state certifications.

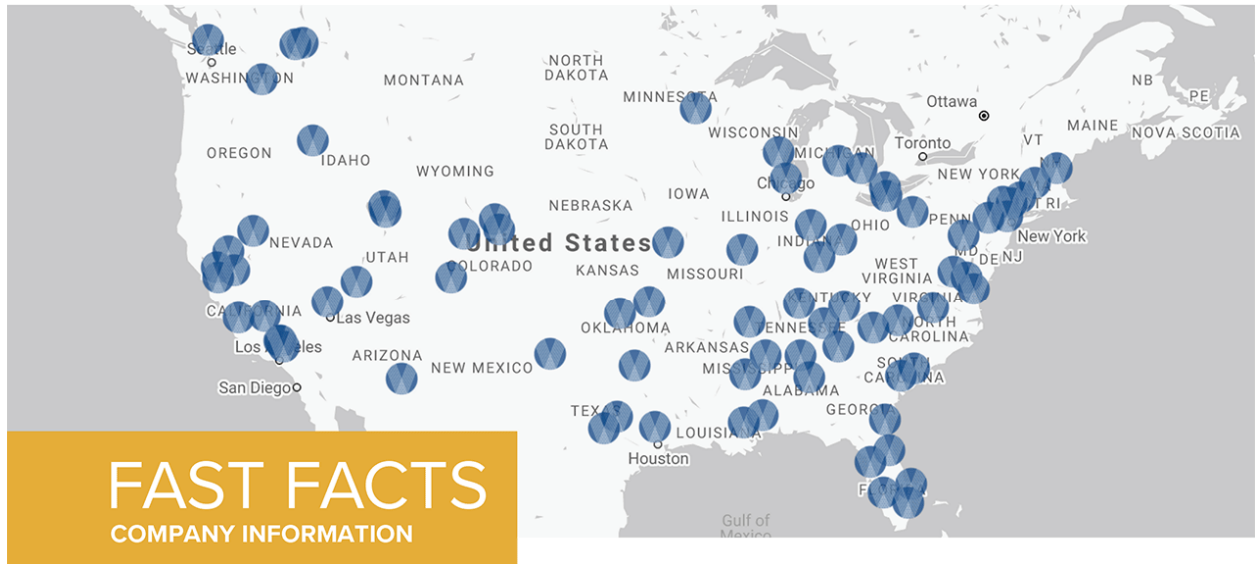
**SCOPE OF PRACTICE**

Mr. Johnson's appraisal practice is concentrated on valuations for the following purposes: Mortgage loan underwriting, Private negotiations, Legal proceedings, and Consultations.

Clientele include private individuals, corporate entities, financial institutions, and governmental agencies. Mr. Johnson is experienced in the appraisal of both residential and commercial properties and specializes in single- and multi-tenant industrial, retail, and office facilities, and conventional and subsidized multifamily projects, including apartments developed under the Low Income Housing Tax Credit (LIHTC) program. Assignments have been completed in Arizona, New Mexico, Colorado and Nevada, with the State of Arizona being the primary service area.



## Valbridge Property Advisors Information / Office Locations



### FAST FACTS COMPANY INFORMATION

- Valbridge is the largest independent commercial property valuation and advisory service firm in North America.
  - Total number of MAI-designated appraisers (200+ on staff)
  - Total number of office locations (80+ across the U.S.)
  - Total number of staff (675+ strong)
- Valbridge covers the entire U.S. from coast to coast.
- Valbridge specializes in appraising all types of real property.
- Valbridge provides independent valuation services. We are NOT owned by a brokerage firm or investment company.
- Every Valbridge office is overseen by a senior managing director who holds the MAI designation of the Appraisal Institute.
- Valbridge is owned by local offices.
- Valbridge welcomes single-property assignments as well as portfolio, multi-market, and other bulk-property engagements.

#### Valbridge Property Advisors, Inc.

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Summer 2021



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