ADDENDUM #1 12-11-2014

REQUEST FOR BIDS

FOR THE SALE AT PUBLIC AUCTION OF AN EXISTING MIXED USE OFFICE AND RESIDENTIAL BUILDING LOCATED AT 4021 N. 75TH STREET IN DOWNTOWN SCOTTSDALE, ARIZONA

ADDENDUM #1 12-11-2014

FOR THE SALE AT PUBLIC AUCTION OF AN EXISTING MIXED USE OFFICE AND RESIDENTIAL BUILDING LOCATED AT 4021 N. 75TH STREET IN DOWNTOWN SCOTTSDALE, ARIZONA

(McKnight Building)

This Addendum #1 has been prepared to give notice that an appraisal of the subject property, prepared by Dennis L. Lopez & Associates, LLC on behalf of the city of Scottsdale and dated July 9, 2014, has been added as Exhibit H to the Request For Bids. Accordingly, a Section 2.5.6 is added to the Request For Bids, as follows:

2.5.6 A copy of an appraisal report issued July 9, 2014 by Dennis L. Lopez & Associates, LLC is attached as Exhibit H

APPRAISAL REPORT

PROPERTY:	McKnight Office Building
OWNER:	City of Scottsdale
ASSESSOR'S PARCEL NOS.:	130-25-107, 108 and 109
ADDRESS:	4021 North 75th Street, Scottsdale, Arizona
TYPE:	Multi-tenanted Office Building
INTEREST APPRAISED:	Fee Simple Interest
EFFECTIVE DATE OF THE APPRAISAL:	July 9, 2014
CLIENT:	Mr. Dennis J. Haley, SR/WA Right of Way Agent Capital Project Management City of Scottsdale 7447 East Indian School Road, Suite 205 Scottsdale, Arizona 85251
APPRAISER:	Dennis L. Lopez, MAI, SRA *Dennis L. Lopez & Associates, LLC*
OUR FILE NO.:	140425

DENNIS L. LOPEZ & ASSOCIATES, LLC
REAL ESTATE APPRAISERS AND CONSULTANTS

August 4, 2014

Mr. Dennis J. Haley, SR/WA
Right of Way Agent
Capital Project Management
City of Scottsdale
7447 East Indian School Road, Suite 205
Scottsdale, Arizona 85251

Re:	Assignment:	Estimate Market Value of the Fee Simple Interest
	Property:	McKnight Office Building
	Ownership:	City of Scottsdale
	APNs:	130-25-107, 108 and 109
	Address:	4021 North 75th Street, Scottsdale, Arizona
	Our File No.:	140425

Dear Mr. Haley:

Pursuant to your request, I have inspected the above-referenced property for the purpose of estimating the market value of the fee simple interest as of the effective date of the appraisal (date of valuation), July 9, 2014. The intended use of the appraisal and report will be for asset management purposes. The intended user of the appraisal and report will be you (the client) and others involved in the management of this property.

My opinion of market value assumed a cash transaction or one involving financing at market terms after a reasonable exposure time as of the effective date of the appraisal. The opinion expressed was subject to the underlying assumptions and limiting conditions, definitions and certification set forth in the body of the accompanying appraisal report. The appraisal and report were prepared in conformity with the appraisal guidelines of the Arizona Board of Appraisal and the Uniform Standards of Professional Appraisal Practice, 2014-2015 (USPAP).

During the course of the appraisal and analysis, I became thoroughly familiar with the subject property and its location. Documented market data from the applicable market segment to which the subject belongs were analyzed and I spoke with well-informed persons familiar with current real estate values, all for the purpose of estimating the market value of this property.

8631 South Priest Drive, Suite 103 ▪ Tempe, Arizona 85284 ▪ 480-838-7332 ▪ FAX 480-838-8950 ▪ www.lopezappraisal.com

Based on the information found in my investigation and coupled with my professional and independent appraisal, my opinion of the market value of the fee simple interest in the subject property as of the effective date of the appraisal (date of valuation), July 9, 2014, was:

ONE MILLION EIGHT HUNDRED THOUSAND DOLLARS

($1,800,000 or $124.46/s.f. of Gross and Leasable Building Area)

Reconciled from two approaches to value:

Sales Comparison Approach	$1,800,000
Income Approach	$1,825,000

The opportunity to assist you has been appreciated.

Respectfully submitted,

Dennis L. Lopez, MAI, SRA
Certified General Real Estate Appraiser - State of Arizona
Certificate No. 30189

DLL:lcm

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Appendix

UNDERLYING ASSUMPTIONS AND LIMITING CONDITIONS

1. This report is the confidential and private property of the client and the appraiser. Neither all nor any part of the contents of this report shall be conveyed to any person or entity, other than the appraiser's or firm's client, through advertising, solicitation materials, public relations, news, sales, or other media without the written consent and approval of the authors, particularly as to valuation conclusions, the identity of the appraiser or firm with which the appraiser is connected, or any reference to the Appraisal Institute or the MAI and SRA designations. Further, the appraiser or firm assumes no obligation, liability, or accountability to any third party. If this report is placed in the hands of anyone but the client, client shall make such party aware of all the assumptions and limiting conditions of the assignment.

2. Neither this report, nor any of its contents, may be used for the sale of shares or similar units of ownership in the nature of securities, without specific prior approval of the appraiser. No part of this appraisal may be reproduced in any promotional materials without the permission of the appraiser.

3. The information furnished by the property owner, agent, management or the client is assumed to be correct as received.

4. The appraiser is not responsible for the accuracy of the opinions furnished by others and contained in this report, nor is he responsible for the reliability of government data utilized in the report.

5. The title to the property is assumed to be marketable and free and clear of all liens.

6. The property is appraised as if owned in fee simple title without encumbrances, unless otherwise mentioned in this report.

7. The fee simple estate in the property contains the sum of all fractional interests which may exist.

8. The legal description obtained by the appraiser was assumed correct and descriptive of the subject property. No responsibility is assumed for the legal description provided or for matters including legal or title considerations. A survey and title report should be obtained to verify its accuracy.

9. No site survey was provided to the appraiser unless otherwise noted. It is assumed that the sources for dimensions and size relied upon are correct.

10. The utilization of the land by the improvements is assumed to be within the boundaries or property lines described and that no encroachments exist unless otherwise noted in the report.

11. No hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable were assumed to exist. No responsibility is assumed for such conditions or arranging engineering studies that may be required for their discovery.

12. Subsurface rights (mineral, oil, etc.) and their potential impact upon value were not considered in this appraisal, unless stated otherwise.

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

14. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in the appraisal report.

15. This appraisal assumes the subject property complies with the requirements under the *ADA, Americans With Disabilities Act*. The appraisers are not qualified to detect each and every item of compliance or lack thereof. The value estimate is predicated on the assumption that there is no lack of compliance that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

    Should the client have a concern over the subject's state of compliance, he or she is urged to retain the services of a qualified independent ADA specialist to determine the extent of compliance and the cost to bring the property into compliance if needed. The cost of inspection, study and compliance must be borne by the client or owner of the property. The cost could be deducted from the estimate of market value of the subject property if indicated by the market.

16. The subject property is assumed not to be in violation of any government regulations or laws pertaining to the environment.

17. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances as asbestos, PCB transformers, urea-formaldehyde foam insulation, or other toxic, hazardous, or contaminated substances and/or underground storage tanks (containing hazardous materials). Mold may be present in areas the appraiser cannot see. The value estimate is predicated on the assumption that there is no such material or growth on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

    Should the client have a concern over the existence of such substances, he or she is urged to retain the services of a qualified independent environmental specialist to determine the extent of the contamination, if any, and the cost of treatment or removal. The cost of detection, treatment or removal and permanent storage must be borne by the client or owner of the property. This cost can be deducted from the estimate of market value of the subject property if requested by the client.

18. Responsible ownership and competent management is assumed to exist for the subject property.

19. The values assigned to the improvements, if shown in this report, are in proportion to the contribution they make to the value of the property as a whole. The separate estimates of value for the land and building must not be used in conjunction with any other appraisal and are invalid if so used, or if used separately.

20. All furnishings and equipment (or other personal property), except those specifically indicated and/or typically considered as a part of real property (under common accepted definitions) have been disregarded in this valuation. Only the real estate, as permanently affixed to the subject site, has been valued herein.

21. This report is not considered a legal document and the appraiser assumes no responsibility for matters of a legal nature except for his obligations under the contract to provide the appraisal and report.

22. The appraiser is not required to testify regarding this report in deposition or in court unless arrangements were previously made.

23. The appraiser cannot predict or evaluate the possible effects of future wage or price control actions of the government upon rental income or financing of the subject property; hence, it is assumed that no controls will apply which would nullify contractual agreements, thereby changing property values.

24. The appraiser did not base a conclusion or opinion of value on the following:

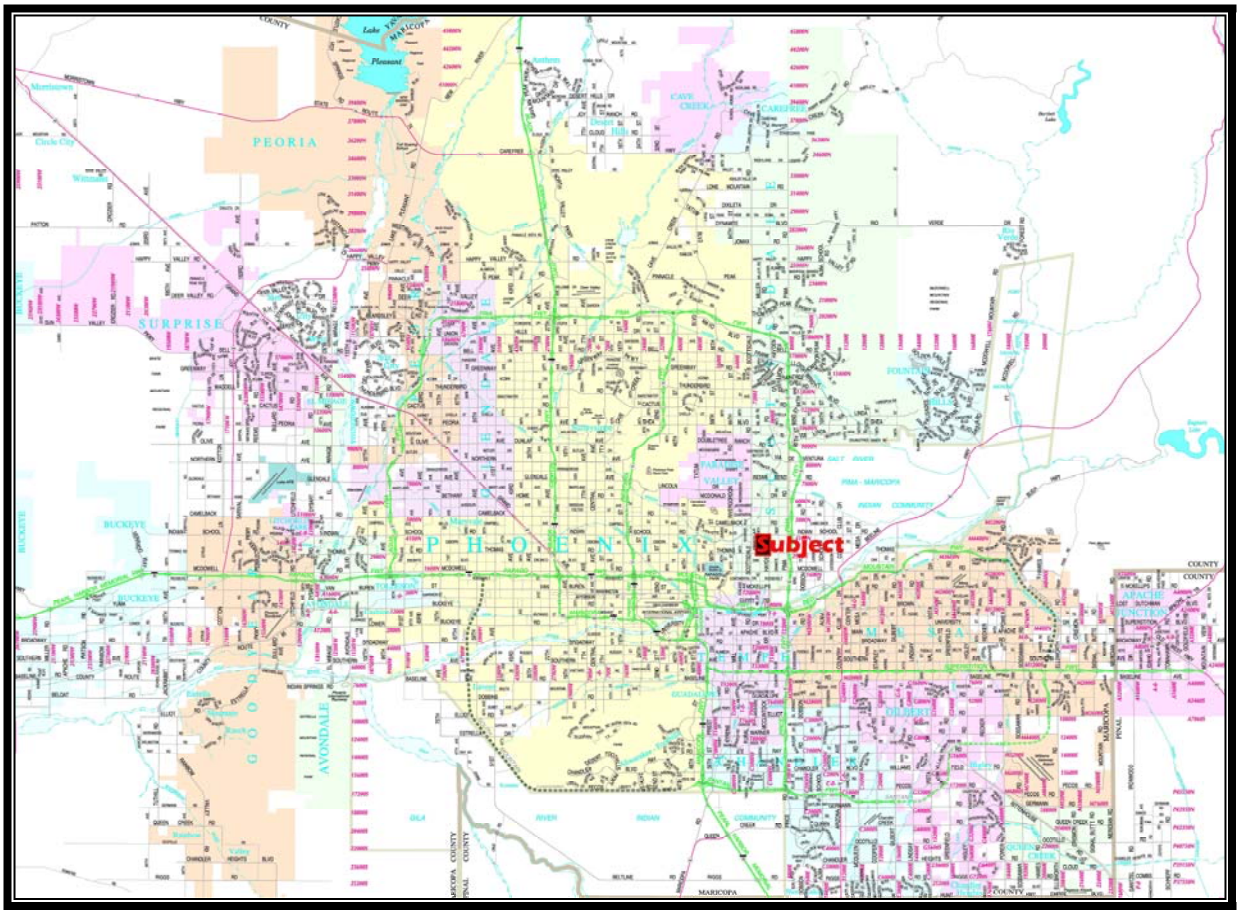
a. Racial, ethnic, or religious homogeneity of the inhabitants of an area or of a property

b. Racial, religious, and ethnic factors as predictors of value trends or price variance

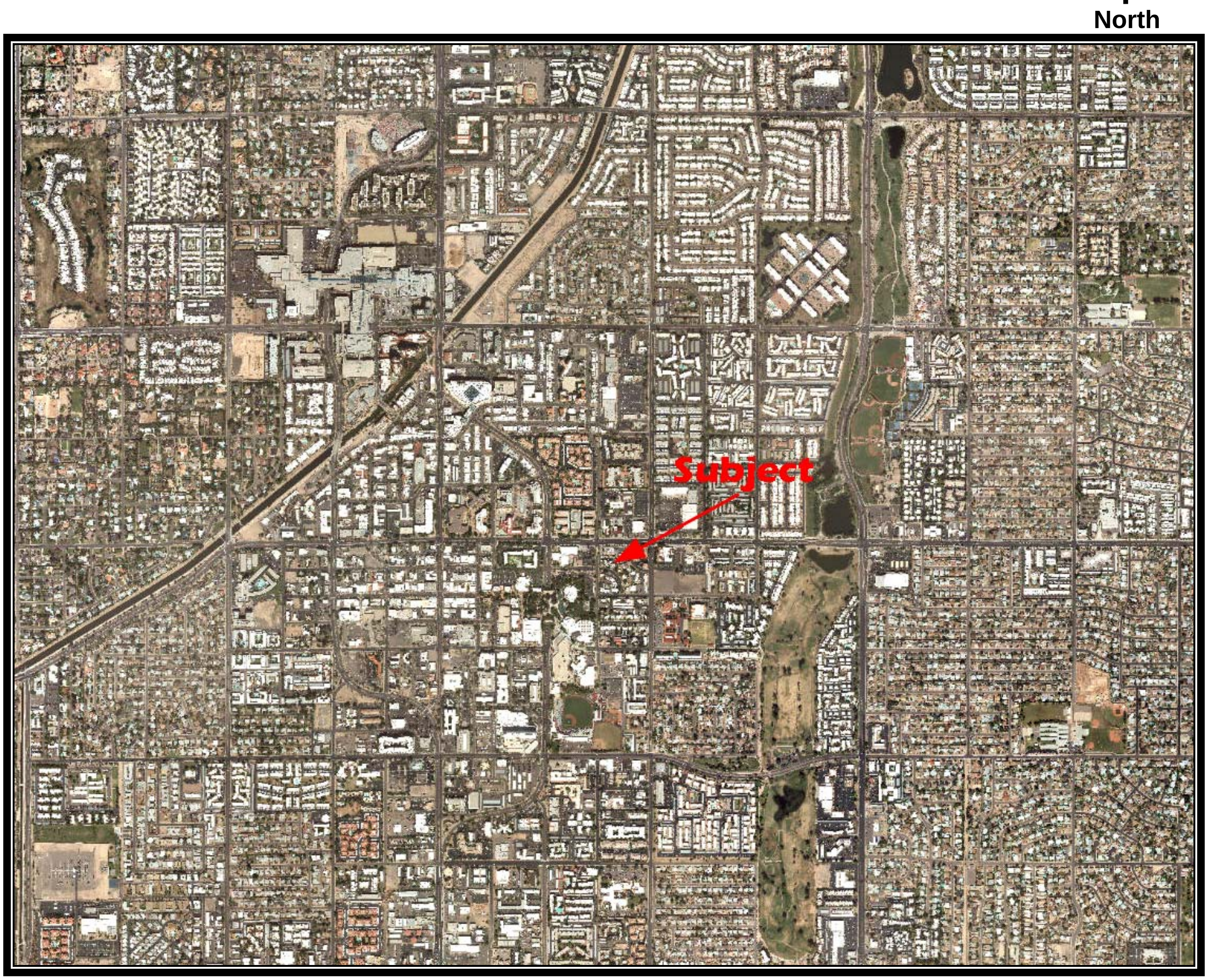
c. Neighborhood trends analyzed upon stereotyped or biased presumptions relating to race, color, religion, sex, or national origin, or upon unsupported presumptions relating to the effective age or remaining life of the property being appraised or the life expectancy of the neighborhood in which it is located.

REGIONAL MAP

North



ASSESSOR'S AERIAL PHOTOGRAPH



SUMMARY OF IMPORTANT FACTS AND OPINIONS

PROPERTY:	McKnight Office Building
OWNER:	City of Scottsdale
ASSESSOR'S PARCEL NOS.:	130-25-107, 108 and 109
ADDRESS:	4021 North 75th Street, Scottsdale, Arizona
TYPE:	Multi-tenanted office building
OWNER CONTACT AND PROPERTY INSPECTION:	Ms. Martha West, Real Estate Management Specialist, representing the City of Scottsdale, was contacted July 8, 2014, and arrangements were made to inspect the property. The property was inspected accompanied by Ms. West and Ms. Maria L. Muiser, Asset Management Coordinator, on July 9, 2014. Ms. West can be reached at 480-312-7042.
PURPOSE AND INTENDED USE AND USER:	The purpose of this appraisal was to estimate the market value of the fee simple interest in the subject property as of the effective date of the appraisal, July 9, 2014. The intended use of the appraisal will be for asset management purposes. The intended user will be you (the client) and others involved in the management of the property.
SITE AREA:	27,978 square feet or 0.642 net acre
GROSS AND LEASABLE BUILDING AREA (GBA):	14,463 square foot, 2-story office building with 10,583 square feet of office space and 3,880 square feet in two second floor residential units, built in 2001
LAND-TO-BUILDING RATIO:	1.93:1 (27,978 s.f. of NSA ÷ 14,463 s.f. of GBA/LBA)
FLOOR AREA RATIO:	0.52 (14,463 s.f. of GBA/LBA ÷ 27,978 s.f. of NSA)

ZONING:	D/OR-1.5 DO, Downtown, Office-Residential, Low Scale Development, Downtown Overlay
HIGHEST AND BEST USE:	
As Vacant	Speculative land investment
As Improved	Existing use
INDICATIONS OF VALUE:	
Cost Approach	Not applicable
Sales Comparison Approach	$1,800,000 or $124.46 per square foot
Income Approach	$1,825,000 or $126.18 per square foot
FINAL OPINION OF MARKET VALUE OF THE FEE SIMPLE INTEREST:	**$1,800,000** or **$124.46** per square foot of gross and leasable building area
EXPOSURE TIME:	6 months
TYPE OF REPORT:	Appraisal Report (per USPAP 2014-15)
DATE OF INSPECTION:	July 9, 2014
EFFECTIVE DATE OF THE APPRAISAL:	July 9, 2014 (date of valuation)
DATE OF THE REPORT:	August 4, 2014 (date of transmittal)
APPRAISER:	Dennis L. Lopez, MAI, SRA *Dennis L. Lopez & Associates, LLC* 8631 South Priest Drive, Suite 103 Tempe, Arizona 85284 dennis@lopezappraisal.com

SUBJECT PROPERTY PHOTOGRAPHS

(July 9, 2014)

Subject Looking Northeast and North

Subject Looking Northwest and North

Subject Looking East and Southeast


Subject Looking West and Northwest


75th Street Looking North and South – Subject on Right and Left


McKnight Avenue Looking East and West – Subject on Left and Right

INTRODUCTION

Scope of Work

Scope of work is defined by USPAP as follows:

The type and extent of research and analyses in an assignment.

This summary report leads the reader through the appraisal of a parcel of real property in Scottsdale, Arizona. I provided an appraisal report which provides all the introduction, description, data, analysis and conclusions that the reader requires to understand the opinion of market value. The appraisal and report adhere to requirements of the Uniform Standards of Professional Appraisal Practice, 2014-2015 (USPAP). This appraisal report has an accompanying workfile. A workfile is defined by USPAP as:

Documentation necessary to support an appraiser's analyses, opinions and conclusions

Thus, where my description, data, analysis and conclusions are summarized in the report, my workfile contains supporting documentation.

The scope of work included an analysis of the physical and legal characteristics of the subject, the influences of the surrounding region and neighborhood on the property, and supply and demand in the subject's market segment which led to my opinion of highest and best use. Once my opinion of highest and best use was established, I studied recent comparable sales and listings in the subject's market segment and I spoke with knowledgeable market participants who are familiar with properties like the subject. How the market viewed the subject was critical to my supported opinion of market value and a reasonable exposure time. Their comments also helped provide further support for quantitative and qualitative sales adjustments.

The appraisal documented in this report supported a final opinion of value by the Sales Comparison Approach and the Income Approach. Sufficient data was contained within this report for an adequate understanding of the data considered, as well as the methodology and reasoning utilized to reach my opinion of market value for the leased fee interest.

Assumptions and limiting conditions plus my certification set forth the boundaries in which my opinion of market value was contained. Larry C. Meadows provided significant assistance with the appraisal by researching and confirming market data, assembling the report and assisting in the estimation of market value.

Special Limiting Conditions

Extraordinary Assumptions

According to USPAP 2014-2015, an extraordinary assumption is defined as follows:

> *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.*

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. My opinion of market value was not subject to any extraordinary assumptions.

Hypothetical Conditions

According to USPAP 2014-2015, a hypothetical condition is defined as follows:

> *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.*

Hypothetical conditions assume conditions *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. My opinion of market value was not subject to any hypothetical conditions.

Property Identification

The property appraised was a 27,978 square foot, or 0.642-acre, parcel of land located at 4021 North 75th Street, Scottsdale, Arizona. The site was improved with a two-story multi-tenanted office building that includes 10,583 square feet of office space and 3,880 square feet in two second floor residential units, built in 2001. The property was referred to as the "subject" in the body of the report.

Legal Description

Lots 22, 23 and 24, SCOTTSDALE MANOR

Ostensible Owner

According to the information provided by the client and Assessor's records, the subject property is owned by the City of Scottsdale.

Ownership and Marketing History

According to public records, the subject property was purchased by the City of Scottsdale on August 25, 2010, for an undisclosed amount. No other sales or listings were noted in the past five years.

Owner Contact and Property Inspection

Ms. Martha West, Real Estate Management Specialist, representing the City of Scottsdale, was contacted July 8, 2014, and arrangements were made to inspect the property. The property was inspected accompanied by Ms. West and Ms. Maria L. Muiser, Asset Management Coordinator, on July 9, 2014. Ms. West can be reached at 480-312-7042.

Leasehold Interest and Lease Summaries

Rudow & Berry occupies 1,760 square feet of the building and pays $3,218 per month, or **$21.94** per square foot per year, on a modified gross lease with the tenant responsible for electricity and janitorial. The lease has expired and the tenant is leasing the space on a month-to-month basis, but has the option of renegotiating the lease. The City of Scottsdale occupies the remaining three office suites on the 1st floor, which have a combined area of 8,843 square feet. The second floor is divided into 2 residential suites, 1,940 square feet each. Both residential units are currently vacant and not offered for lease.

Purpose of the Appraisal

The purpose of this appraisal was to estimate the market value of the fee simple interest in the subject property as of the effective date of the appraisal.

Intended Use and Users of the Appraisal

The written report is the vehicle which transmits the data and reasoning to the reader in support of my opinion of market value. The intended use of the appraisal will be for asset management purposes. The intended user of the appraisal will be you (the client) and others involved in the management of the subject property.

Definitions

Market Value

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

1. *Buyer and seller are typically motivated;*

2. *Buyer and seller are well informed or well advised, and acting in what they consider their own best interests;*

3. *A reasonable time is allowed for exposure in the open market;*

4. *Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*

5. *The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*[1]

Fee Simple Interest

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.[2]

Leased Fee Interest

A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease). [3]

Exposure Time

The estimated length of time 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: a retrospective estimate based on an analysis of past events assuming a competitive and open market.) [4]

Date of Inspection

July 9, 2014

Effective Date of the Appraisal

July 9, 2014 (date of valuation)

Date of the Report

August 4, 2014 (transmittal date of the report)

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1 Title II, FIRREA, 34.42 (f)

2 Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition, (Chicago, Illinois: Appraisal Institute, 2010), page 78.

3 Ibid., page 111.

4 Uniform Standards of Appraisal Practice 2014-2015, Appraisal Standards Board, Definitions, page U-2

REGIONAL ANALYSIS

As real estate is fixed in location, it is important to analyze the external forces, which affect its value. This section introduces the four interrelated forces that have both a direct and indirect effect upon the marketability of real estate in metropolitan Phoenix:

- *Environmental Forces*: This category of market forces includes an analysis of topography, climate, land-use patterns, water availability, transportation and street patterns as well as constraints on future growth and development potential.

- *Economic Forces*: This category includes an analysis of population and employment trends, wage levels, local market trends (including supply/demand characteristics of major market segments), availability of financing, and the availability of goods and services.

- *Governmental Forces*: This category includes an analysis of local/regional governmental attitudes and policies regarding growth, development, provision of services, taxation, city planning and incentives to commerce, industry and real estate development.

- *Social Forces*: This category includes an analysis and discussion of the demographic composition of the population and its demand for real estate. Consideration is also given to attitudes of the population regarding education, growth, development and lifestyle options.

Environmental Forces

Physical factors including land area, topography, climate, availability of water, and surrounding land uses have a direct impact on the general desirability of a city or town.

The subject is located in Scottsdale, Arizona, one of 23 incorporated cities in the Phoenix metropolitan area. Phoenix is located in a river valley within the desert that covers the southwest portion of the state. The metropolitan area covers an area of approximately 2,500 square miles. The incorporated area of Phoenix covers about 517 square miles and Scottsdale covers about 183 square miles. Maricopa County is 9,222 square miles in size with 29% privately-held.

Topography

The metropolitan area is located in a river valley and on highlands within the desert that covers the southwest portion of the state. Development comes easily to Phoenix and other cities in the area as the mostly-level topography allows for construction without costly site preparation. With the relatively unobstructed terrain, street patterns have taken on a north/south, east/west grid orientation. Along nearly every section line is a major arterial criss-crossing the valley. These major arterials carry the bulk of everyday traffic.

Climate

Climate alone attracts thousands of people to the state annually as residents or as visitors. This in turn creates great increases in demand for goods, services and housing, thereby bolstering the local economy and contributing to the growth cycle. Located at an elevation of 1,117 feet, Phoenix enjoys a dry subtropical climate with an average yearly precipitation of 6.74 inches, an average maximum temperature of 84.9 degrees and an average minimum temperature of 55.3 degrees. The sun shines on approximately 86 percent of the days of the year.

Land Use

Phoenix and its incorporated satellite cities were once separated by open land, however explosive growth over the past 70 years has caused their borders to become blurred. Although largely surrounded, Phoenix itself has sufficient room to grow, especially to the north with additional incorporation. Incorporated portions of the region are estimated to be only 70 percent developed. Given the large supply of undeveloped infill and outlying land, Phoenix does not appear overly restricted in terms of increasing its tax base and funding existing and new growth.

Water Availability

As metropolitan Phoenix is within the Sonoran desert, water and its continued availability are a concern to the continued growth of the area and quality of life. The sources of the area's water supply are estimated to be groundwater (50%) and surface water (50%).

Groundwater is pumped from basins located beneath the surface of Maricopa County. The metropolitan area had been consuming nearly 500,000 acre-feet more than was being replenished. In response to this overdraft, the Arizona State Legislature enacted the 1980 Groundwater Management Code to safeguard groundwater supplies. According to the code, the goal is to reach "safe yield" by the year 2025, which assumes that there will be no more groundwater withdrawn than is recharged. State and local municipal governments coordinate efforts to ensure an adequate water supply will meet forecasted demand/growth in this century.

Local surface water supplies come from reservoirs located on the Salt, Verde, and Agua Fria Rivers and are delivered by canal systems. The area also receives allocations of Colorado River water through the Central Arizona Project (CAP).

Although the present water supply appears adequate for the needs of the region, the rapid population growth and increased development of golf courses and the use of decorative water features has raised concern among planners as to the future capacity of the area to absorb population. For this reason, water conservation and apportionment of water rights have become two major issues facing residents of the region and impacting the potential for growth.

Transportation

Highways and Freeways - The metropolitan area is served by Interstates-10 and -17, U.S. Highways 60 and 93, together with State Routes 51, 74, 85, 87, 101, 143, 202, and 303, the last two of which are fully or partially-completed urban freeways. Personal vehicles and trucks have been, and will continue to be, the primary means of transportation in the metropolitan area.

An expanded freeway system of over 230 miles was approved in 1985 (see Regional Map in the opening pages of this report). It was intended to have been built by 2005 with a special one-half cent sales tax approved by Maricopa County voters. However, with rising right-of-way acquisition and construction costs, and opposition to portions of the plan, a few miles of the planned system were discarded. New funding for transportation improvements and new routes has been identified with the extension of a 20-year half-cent sales tax in 2005.

Major Streets - Major section-line arterials still carry the bulk of everyday traffic given the development sprawl. Most are improved with four or six lanes and carry traffic at speeds from 35 to 45 m.p.h.

Airports - The largest airport in the Phoenix metropolitan area is Sky Harbor International Airport. As of 2013, it was the 10th busiest in the country for passenger traffic and the 18th busiest airport in the world. FAA records show the airport had 40,341,614 commercial passenger boardings (enplanements and deplanements) in 2013 compared to 38,554,530 in 2010. For 2013, the airport handled 436,184 aircraft (arrivals and departures), 3,530,670 passengers, and more than 304,348 tons of cargo. There are 17 domestic and international airlines operating at the airport serving 100 cities in the U.S. and 16 cities internationally. In addition to Sky Harbor, there are eight smaller satellite airports in the metropolitan area.

Railroads - The area is served by two railroad companies--*Union Pacific Railroad* and *BNSF Railway*. Commerce and industry depends little on rail transportation although large areas of industrial development are served by the rail system. None of the rail lines are used for mass transit.

Mass Transit - The Phoenix metropolitan area lacks a mass transit system serving all of the metropolitan area. The *Valley Metro* bus lines serve a large portion of the metropolitan area. The cities of Phoenix, Tempe and Mesa have built *Metro*, a 20-mile mass transit light rail line serving central Phoenix and linking the downtown areas of Phoenix and Tempe and ending at a point about two miles west of downtown Mesa. It became operational in late 2008 and has met with good acceptance by the public. Three mile extensions are under construction at both ends.

Economic Forces

Population and Growth Statistics

Strong gains in population are due to an upturn in net in-migration. Net in-migration currently accounts for two thirds of the change in the population. Strong net in-migration is expected to continue as Arizona is an attractive destination due to climate, lifestyle and job availability.

The 2000 resident population in Arizona was 5,130,632 which indicated a 40% gain over the number in 1990. By 2013, the number was estimated to be 6,581,054 by the US Census Bureau. Maricopa County is among the top metropolitan growth markets in the United Sates. In 1970, metro Phoenix was ranked the 33rd largest metro area in the United States. By 1988, however, it had climbed to 20th, and by 2000, Phoenix was the 13th largest metropolitan area in the country. In 2010, it was fourth largest.

According to Office of Employment & Population Statistics, Arizona Department of Administration, Maricopa County was estimated to have a population of 3,944,859 or 59.9% of the state total (6,581,054). Phoenix alone had a population of 1,485,751 in 2013 (most recent count) or 37.7% of the county total and 22.6% of the state total. The following tables summarize actual population growth and growth rates of the county and the cities and incorporated areas within:

MARICOPA COUNTY	3,944,859
Apache Junction *	298
Avondale	77,511
Buckeye	56,460
Carefree	3,424
Cave Creek	5,228
Chandler	246,197
El Mirage	32,472
Fountain Hills	22,893
Gila Bend	1,948
Gilbert	227,603
Glendale	231,109
Goodyear	72,275
Guadalupe	6,019
Litchfield Park	5,759
Mesa	450,310
Paradise Valley	13,282
Peoria *	160,545
Phoenix	1,485,751
Queen Creek *	29,048
Scottsdale	222,213
Surprise	121,629
Tempe	165,158
Tolleson	6,632
Wickenburg *	6,493
Youngtown	6,236
Unincorporated	288,366

Maricopa Co. Population Increase

Year	Population	Population Increase	% Change
1960	663,510	---	---
1970	967,522	304,012	45.18%
1980	1,509,052	541,530	55.97%
1985	1,837,956	328,904	21.79%
1990	2,122,101	284,145	15.46%
1995	2,551,765	429,664	20.24%
2000	3,072,149	520,384	20.39%
2004	3,475,500	403,351	13.12%
2005	3,648,545	173,045	4.98%
2006	3,792,675	144,130	3.95%
2007	3,907,492	114,817	3.02%
2008	3,987,942	80,450	2.05%
2009	4,023,331	35,389	0.88%
2010	3,817,117	(206,214)	-5.12%
		Bureau of the Census	

Demographics

People QuickFacts	Maricopa County	Arizona
Population, 2013 estimate	NA	6,626,624
Population, 2012 estimate	3,942,169	6,551,149
Population, 2010 (April 1) estimates base	3,817,117	6,392,015
Population, percent change, April 1, 2010 to July 1, 2013	NA	3.7%
Population, percent change, April 1, 2010 to July 1, 2012	3.3%	2.5%
Population, 2010	3,817,117	6,392,017
Persons under 5 years, percent, 2012	7.0%	6.7%
Persons under 18 years, percent, 2012	25.7%	24.7%
Persons 65 years and over, percent, 2012	13.0%	14.8%
Female persons, percent, 2012	50.5%	50.3%
White alone, percent, 2012 (a)	85.0%	84.3%
Black or African American alone, percent, 2012 (a)	5.6%	4.5%
American Indian and Alaska Native alone, percent, 2012 (a)	2.7%	5.3%
Asian alone, percent, 2012 (a)	3.9%	3.1%
Native Hawaiian and Other Pacific Islander alone, percent, 2012 (a)	0.3%	0.3%
Two or More Races, percent, 2012	2.6%	2.5%
Hispanic or Latino, percent, 2012 (b)	30.0%	30.2%
White alone, not Hispanic or Latino, percent, 2012	57.9%	57.1%

Living in same house 1 year & over, percent, 2008-2012	79.9%	80.4%
Foreign born persons, percent, 2008-2012	15.1%	13.6%
Language other than English spoken at home, pct age 5+, 2008-2012	26.4%	26.9%
High school graduate or higher, percent of persons age 25+, 2008-2012	86.2%	85.4%
Bachelor's degree or higher, percent of persons age 25+, 2008-2012	29.5%	26.6%
Veterans, 2008-2012	275,434	530,693
Mean travel time to work (minutes), workers age 16+, 2008-2012	25.4	24.6
Housing units, 2012	1,654,587	2,871,423
Homeownership rate, 2008-2012	63.8%	65.5%
Housing units in multi-unit structures, percent, 2008-2012	25.1%	20.6%
Median value of owner-occupied housing units, 2008-2012	$193,900	$175,900
Households, 2008-2012	1,402,149	2,357,158
Persons per household, 2008-2012	2.71	2.66
Per capita money income in past 12 months (2012 dollars), 2008-2012	$27,552	$25,571
Median household income, 2008-2012	$54,385	$50,256
Persons below poverty level, percent, 2008-2012	15.8%	17.2%

Employment

Arizona, as well as the Phoenix metropolitan area, has enjoyed strong economic job growth and job gains in the long term. The metropolitan area possesses a diversified economic base. The following table illustrates the composition of the county's employment structure:

PHOENIX-MESA-GLENDALE METROPOLITAN AREA
NONFARM EMPLOYMENT
Prepared in Cooperation with the U.S. DEPARTMENT OF LABOR, Bureau of Labor Statistics
Arizona Department of Administration, Office of Employment and Population Statistics
2013

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	AVERAGE
Total Nonfarm	1,774.5	1,785.4	1,799.3	1,801.7	1,802.5	1,772.7	1,760.1	1,790.4	1,805.7	1,819.1	1,842.6	1,849.0	1,800.3
Total Private	1,538.5	1,543.5	1,558.1	1,559.8	1,568.0	1,563.9	1,557.9	1,567.3	1,566.9	1,577.5	1,601.0	1,610.4	1,567.7
Goods Producing	208.9	210.3	212.9	214.3	219.9	219.9	220.2	217.3	216.9	214.9	214.9	214.3	215.4
Service-Providing	1,565.6	1,575.1	1,586.4	1,587.4	1,582.6	1,552.8	1,539.9	1,573.1	1,588.8	1,604.2	1,627.7	1,634.7	1,584.9
Private Service-Providing	1,329.6	1,333.2	1,345.2	1,345.5	1,348.1	1,344.0	1,337.7	1,350.0	1,350.0	1,362.6	1,386.1	1,396.1	1,352.3
Natural Resources and Mining	3.9	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.7	3.7	3.6	3.8
Construction	88.4	90.0	91.9	93.0	98.6	98.3	98.5	96.8	96.4	94.9	94.9	94.2	94.7
Manufacturing	116.6	116.5	117.2	117.5	117.5	117.8	117.9	116.7	116.7	116.3	116.3	116.5	117.0
Durable Goods	90.7	90.6	91.3	91.5	91.4	91.6	91.8	90.4	90.4	89.9	89.9	90.0	90.8
Computer and Electronic Prod.	34.8	34.8	35.0	34.8	34.7	34.8	35.1	34.9	34.6	34.3	34.3	34.5	34.7
Aerospace Products and Parts	15.2	15.2	15.2	15.3	15.2	15.2	15.2	15.2	15.2	15.2	15.1	15.0	15.2
Non-Durable Goods	25.9	25.9	25.9	26.0	26.1	26.2	26.1	26.3	26.3	26.4	26.4	26.5	26.2
Trade, Transportation, and Utilities	361.7	358.7	359.1	359.6	361.2	363.7	362.4	364.1	365.0	368.0	379.4	384.0	365.6
Wholesale Trade	84.6	85.6	85.4	85.0	85.2	86.9	86.3	85.9	86.9	87.5	87.8	87.9	86.3
Retail Trade	213.0	208.8	209.9	211.0	211.7	212.0	211.2	213.0	212.3	215.5	225.0	228.2	214.3
Motor Vehicles and Parts	26.3	26.5	26.9	27.2	27.4	27.8	27.6	27.8	28.0	28.0	28.3	28.1	27.5
Building Material, Garden Supply	14.0	14.2	14.6	14.9	14.8	14.7	14.5	14.5	14.5	15.0	15.1	15.3	14.7
Food and Beverage	36.0	36.1	36.1	36.3	36.4	36.1	36.1	36.2	36.1	36.2	36.5	36.7	36.2
Clothing and Gen. Merchandise	62.4	59.7	59.4	59.7	59.5	59.0	58.8	58.9	58.4	59.5	64.7	67.3	60.6
General Merchandise	45.1	43.5	43.1	43.8	43.3	43.0	42.7	42.6	42.7	43.8	47.5	49.5	44.2
Department Stores	19.8	18.9	18.5	18.9	18.7	18.6	18.5	18.5	18.4	18.7	21.2	22.7	19.3
Other General merchandise	25.3	24.6	24.6	24.9	24.6	24.4	24.2	24.1	24.3	25.1	26.3	26.8	24.9
Transp., Warehousing, and Utilities	64.1	64.3	63.8	63.6	64.3	64.8	64.9	65.2	65.8	65.0	66.6	67.9	65.0
Utilities	8.1	8.1	8.1	8.2	8.2	8.2	8.3	8.3	8.3	8.3	8.3	8.3	8.2
Transportation and Warehousing	56.0	56.2	55.7	55.4	56.1	56.6	56.6	56.9	57.5	56.7	58.3	59.6	56.8
Air Transportation	12.9	12.9	12.9	13.0	13.0	13.2	13.3	13.4	13.4	13.4	13.4	13.4	13.2
Truck Transportation	15.4	15.4	15.5	15.8	16.0	16.1	16.4	16.6	16.5	16.3	16.4	16.3	16.1
Information	29.7	30.0	30.1	29.7	29.9	29.8	30.2	30.3	29.7	29.4	30.0	30.4	29.9
Telecommunications	11.6	11.7	11.6	11.4	11.4	11.4	11.4	11.4	11.5	11.5	11.5	11.5	11.5
Financial Activities	150.0	150.4	150.7	150.9	152.3	152.3	152.2	153.0	152.3	154.8	157.3	159.1	152.9
Finance and Insurance	112.7	112.7	112.6	113.4	114.7	114.6	114.6	115.3	115.2	116.7	118.0	119.1	115.0
Credit Intermed., Monetary Auth.	64.7	64.5	64.0	64.8	65.4	65.3	65.2	65.6	65.6	66.6	67.2	67.9	65.6
Insurance, Funds, and Trusts	34.3	34.4	34.7	34.7	35.1	35.2	35.2	35.4	35.4	35.6	36.1	36.3	35.2
Securities, Investments, related	13.7	13.8	13.9	13.9	14.2	14.1	14.2	14.3	14.2	14.5	14.7	14.9	14.2
Real Estate, Rental, and Leasing	37.3	37.7	38.1	37.5	37.6	37.7	37.6	37.7	37.1	38.1	39.3	40.0	38.0
Professional and Business Services	283.1	283.7	285.9	286.7	288.2	288.6	289.1	291.3	291.0	294.3	296.9	297.7	289.7
Professional and Tech. Services	95.0	94.8	94.0	95.8	94.7	94.6	95.6	95.7	95.3	95.6	97.6	98.0	95.6
Management of Companies	23.1	23.2	23.2	23.2	23.4	23.5	23.3	23.3	23.2	23.3	23.3	23.4	23.3
Administrative and Waste Services	165.0	165.7	168.7	167.7	170.1	170.5	170.2	172.3	172.5	175.4	176.0	176.3	170.9
Employment Services	78.3	78.5	80.1	79.2	79.3	78.9	78.5	76.9	76.8	80.4	80.9	81.0	79.1
Business Support Services	19.0	19.1	19.3	19.0	19.2	19.4	19.2	19.4	19.7	19.5	19.7	20.3	19.4
Services to Buildings	28.6	28.6	28.8	29.5	30.3	30.7	30.2	31.0	31.3	31.9	31.6	31.3	30.3
Educational and Health Services	258.2	258.8	261.5	262.3	261.3	259.8	257.8	263.7	264.4	266.6	269.2	271.0	262.9
Educational Services	44.3	45.6	45.7	45.4	45.2	41.9	40.1	43.8	45.1	46.1	47.0	46.9	44.8
Health Care and Social Assistance	213.9	213.2	215.8	216.9	216.1	217.9	217.7	219.9	219.3	220.5	222.2	224.1	218.1
Leisure and Hospitality	185.0	189.3	195.1	194.3	192.9	188.3	184.5	186.2	186.4	187.9	190.7	191.1	189.3
Arts, Entertainment, and Recreation	26.1	27.2	28.4	28.2	27.8	27.1	26.3	26.3	26.5	26.3	26.9	26.6	27.0
Accommodation and Food Services	158.9	162.1	166.7	166.1	165.1	161.2	158.2	159.9	159.9	161.6	163.8	164.5	162.3
Other Services	61.9	62.3	62.8	62.0	62.3	61.5	61.5	61.4	61.2	61.6	62.6	62.8	62.0
Government	236.0	241.9	241.2	241.9	234.5	208.8	202.2	223.1	238.8	241.6	241.6	238.6	232.5
Federal Government	21.7	21.7	21.5	21.4	21.4	21.4	21.4	21.4	21.4	21.3	21.2	21.4	21.4
State Government	47.6	48.2	47.9	48.5	47.2	41.7	41.2	44.0	48.2	49.8	49.3	47.8	46.8
State Government Education	20.8	21.4	21.1	21.8	20.5	14.9	14.5	17.3	21.6	22.3	22.5	20.8	20.0
Local Government	166.7	172.0	171.8	172.0	165.9	145.7	139.6	157.7	169.2	170.5	171.1	169.4	164.3
Local Government Education	94.6	99.7	99.3	99.6	91.8	68.7	61.8	82.9	95.7	97.4	98.2	96.5	90.5

Over the past ten years, the unemployment rate in Maricopa and Pinal Counties has generally been less than the overall unemployment rate in Arizona. As of November, 2013, the state unemployment rate was 7.8% whereas the Phoenix-Mesa-Glendale MSA rate was at 6.7 percent.

PHOENIX-MESA-GLENDALE MSA UNEMPLOYMENT RATE (Seasonally Adjusted) * 2000-2012													
YEAR	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.	AVG.
2000	3.4%	3.4%	3.4%	3.1%	3.4%	3.4%	3.4%	3.7%	3.4%	3.3%	3.2%	3.1%	3.4%
2001	3.4%	3.4%	3.7%	3.6%	3.7%	3.9%	3.9%	4.4%	4.6%	5.0%	5.3%	5.5%	4.2%
2002	5.6%	5.6%	5.7%	5.8%	5.7%	5.7%	5.7%	5.6%	5.5%	5.5%	5.7%	5.6%	5.6%
2003	5.3%	5.4%	5.3%	5.4%	5.4%	5.4%	5.4%	5.3%	5.2%	4.9%	4.9%	4.9%	5.2%
2004	4.9%	4.8%	4.7%	4.6%	4.6%	4.5%	4.3%	4.3%	4.3%	4.3%	4.1%	4.0%	4.5%
2005	4.0%	4.1%	4.2%	4.2%	4.2%	4.0%	4.1%	4.1%	4.3%	4.2%	4.1%	3.9%	4.1%
2006	3.9%	3.8%	3.6%	3.7%	3.6%	3.7%	3.7%	3.5%	3.5%	3.5%	3.4%	3.5%	3.6%
2007	3.5%	3.3%	3.3%	3.2%	3.0%	3.2%	3.2%	3.2%	3.3%	3.5%	3.8%	4.1%	3.4%
2008	3.9%	3.9%	4.1%	4.2%	4.7%	5.1%	5.4%	5.8%	5.9%	6.2%	6.6%	7.3%	5.3%
2009	7.2%	7.9%	8.3%	8.3%	8.7%	8.7%	8.8%	8.8%	8.8%	8.8%	8.7%	8.7%	8.5%
2010	8.7%	9.2%	8.8%	8.9%	9.2%	8.7%	8.8%	8.8%	8.7%	8.4%	8.9%		8.8%
2011	8.9%	8.8%	8.8%	8.6%	8.5%	8.6%	8.5%	8.4%	8.2%	8.1%	7.9%	7.9%	8.4%
2012	8.7%	8.7%	8.6%	8.2%	8.2%	8.2%	8.3%	8.3%	8.2%	8.1%	7.8%	7.9%	8.3%

Notes:

* Seasonally adjusted rates for this area are not official BLS estimates.

Phoenix-Mesa-Glendale Metropolitan Statistical Area includes all of Maricopa and Pinal counties.

Adjusted to the Current Population Survey (CPS 2011) to reflect place of residence.

Prepared in cooperation with the U.S. Department of Labor, Bureau of Statistics.

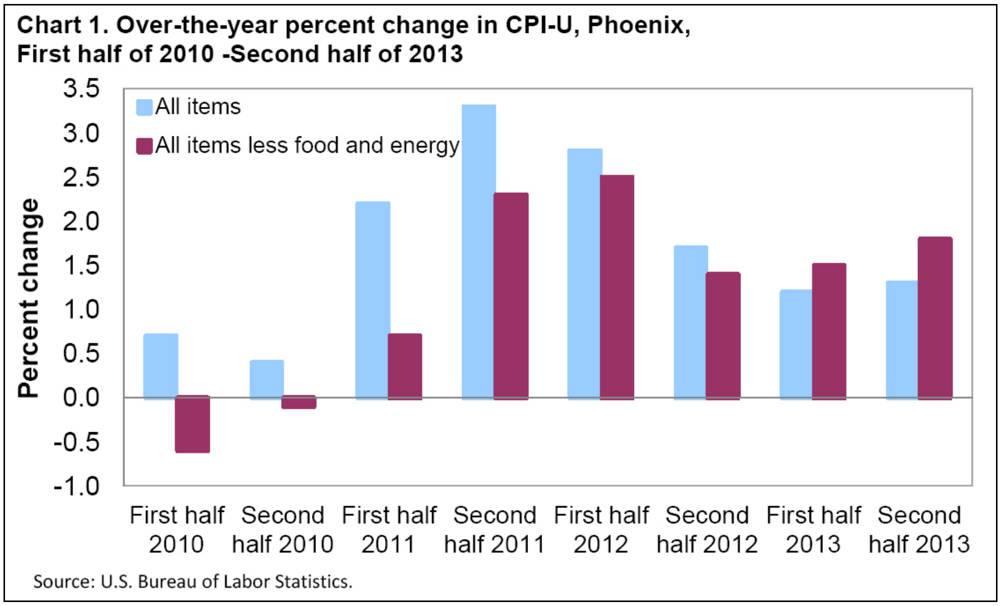
Source: *AZ Dept. of Administration, Office of Employment and Population Statistics, CES/LAUS Unit.*

retrieved from www.worforce.az.gov/unemployment-data.aspx on 2/7/2013

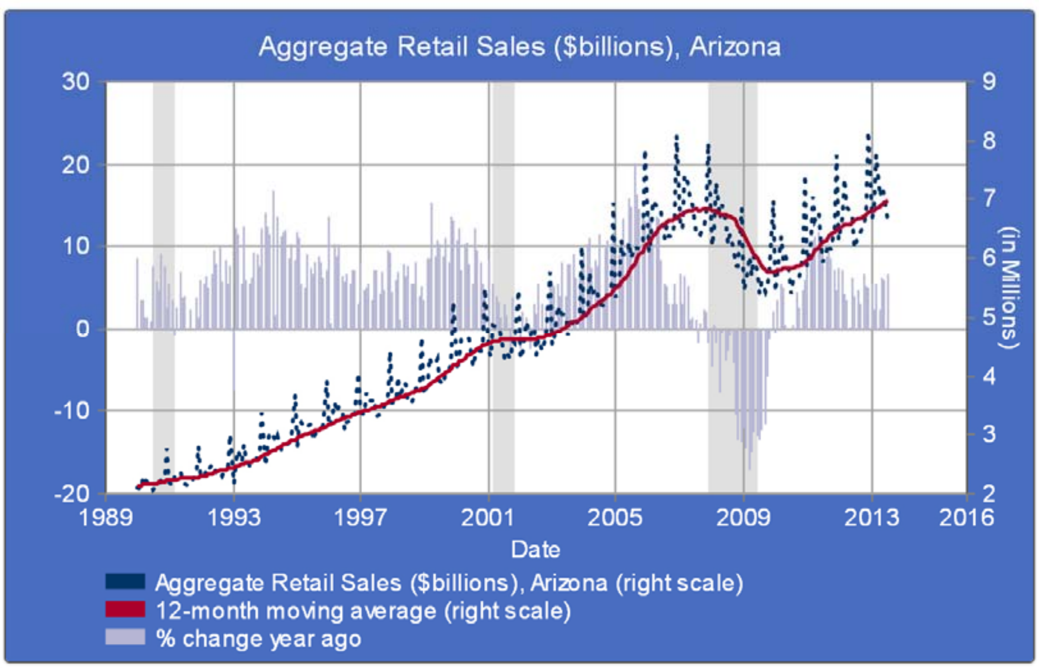
Economy

Arizona has ranked among the leading states in three important economic indices of growth for more than a decade--growth in personal income; growth in population; and growth in non-farm wage and salary employment. Among all Arizona counties, Maricopa County has the largest and most diverse economic base. Construction, manufacturing, service and trade, government, and agriculture are all important factors contributing to a diverse economy.

The Consumer Price Index for All Urban Consumers (CPI-U) was up 0.2 percent from September, 2013, until February, 2014, and up 1.3 percent from February, 2013. Energy prices decreased 2.4 percent, mainly due to a decrease in the price of gasoline. The index for all items less food and energy advanced 1.8 percent over the year. The Consumer Price Index changes from 2010 to 2013 were shown was follows:



The following is from the Arizona Department of Revenue and University of Arizona which shows improvement in retail sales in Arizona from the depths of the recession in 2010:



Construction

The construction industry was one of the primary strengths of the Phoenix economy. However, the construction activity in the single-family market segment took a significant downturn from 2008 until 2012. With a severe decline in demand for new homes, single-family residential construction activity came to a near standstill. But improvement over the last two years has been noted in the more appealing locations of the metropolitan area. As a side effect, commercial/retail, office and industrial development came to a standstill. As such development lags the residential market by as much as two years, a widespread revival in these market segments has not yet begun.

Manufacturing

Manufacturing in Arizona is represented by the categories of electronics, transportation equipment, industrial machinery, scientific instruments, fabricated metals, rubber and plastics, primary metals, chemicals, paper food, “green” products, solar energy and miscellaneous.

Education

The retail trade, service sector and housing markets are greatly impacted by college students, tourists and winter visitors. Over 70,000 college students attend Arizona State University on three campuses, and 200,000 students attend Maricopa County Community Colleges at 10 campuses for credit courses. A significant number of these students are from outside the Phoenix metropolitan area. During their stay in the metropolitan area, they inject millions of dollars into the local economy.

Tourism

Tourism is one of the leading industries in the metropolitan area. For the metropolitan area, in 2012, tourists spent $12.2 billion (63.2% of Arizona direct travel spending) in Maricopa and Pinal Counties, generating 91,600 direct jobs, $3.7 billion in direct earnings and providing $722 million in local and state tax revenues, according to Dean Runyan Associates, Tourism Economics, Longwoods International, VisaVUE, Smith Travel Research.

The most noted Arizona tourists are winter visitors generally over the age of 55. They arrive in the metropolitan area during October and leave the following spring. Arizona attracts more winter visitors than any other state, except Florida. According to the latest (2002-03) research AZB/Arizona Business, a publication of the Center for Business Research, Arizona State University, published in their June, 2003, issue, an estimated 300,000 or more winter residents ("snowbirds") were living in Arizona at the height of the 2002-03 winter season. An estimated 84,000 winter residents lived in Phoenix area RV/ travel trailer/ mobile home parks at the same time. An additional 68,000 were living in similar parks outside the Phoenix/Apache Junction area. The typical seasonal household stayed four months and spent an estimated $2,000 per month while in Arizona. Based upon these figures, seasonal residents staying in area RV/travel trailer/mobile home parks spent approximately $340 million during the 2002-03 winter season. Using the same assumptions, consumer spending by snowbird households not living in parks in the rest of the study area would have been about $270 million. Overall, park snowbirds throughout the state injected more than $600 million into the Arizona economy.

Government

Government agencies fulfill an enormous economic role in the Phoenix metropolitan economy as governmental agencies are forecasted to employ 232,500 people in the area in 2013. The State of Arizona is the largest employer in the metropolitan area. Maricopa County and the 23 incorporated cities employ many more. Governments not only employ thousands of people, but they are also users of many professional services.

Agriculture

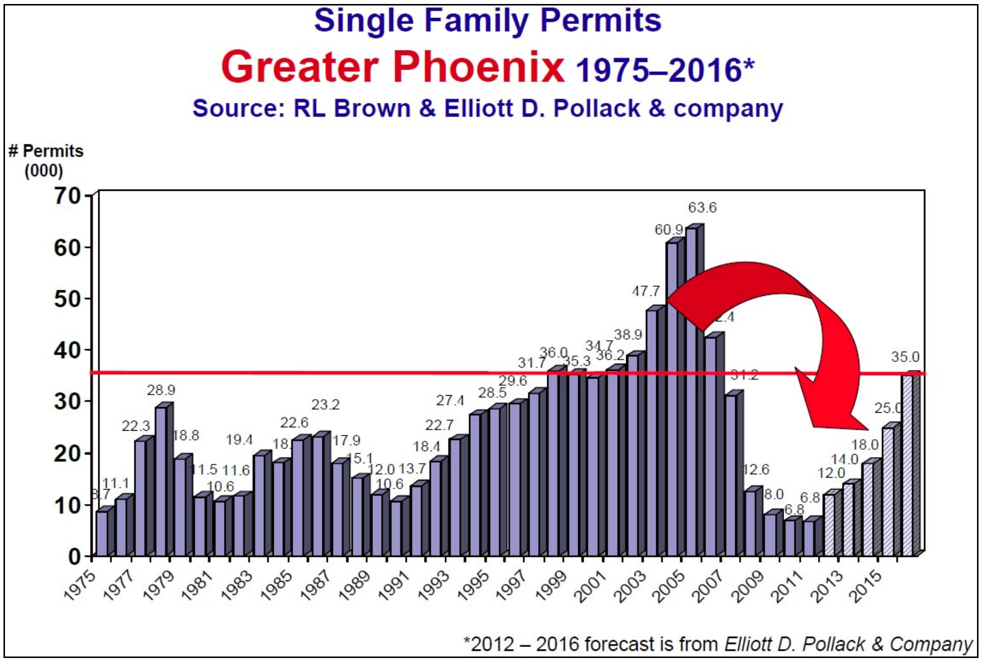
Maricopa County is the largest agricultural county in the State of Arizona, about 25 to 30 percent of all the crop acreage in Arizona. The supply is shrinking, though, given the unprecedented growth the county continues to experience. From 1997 to 2007, the number of crop acres in the county has fallen from 356,639 to less than 267,295 acres, a 25% decrease, according Arizona Farm Bureau and the US Department of Agriculture. The industry employs about 5,672 people in the county Economic Profile System-Human Dimensions Toolkit EPS-HDT and the US Census, January 15, 2014. Major commodities produced in Maricopa County include hay, cotton, grains, vegetables and fruits.

Real Estate Development, Supply, and Demand

Single-family Residential Detached Housing – Residential development still appears in planned subdivisions, generally 10 acres to 160 acres in size. Developers prefer to build within appealing masterplanned communities of 100 to 1,000 ± acres which include a variety of land uses and attractive common amenities and recreational features.

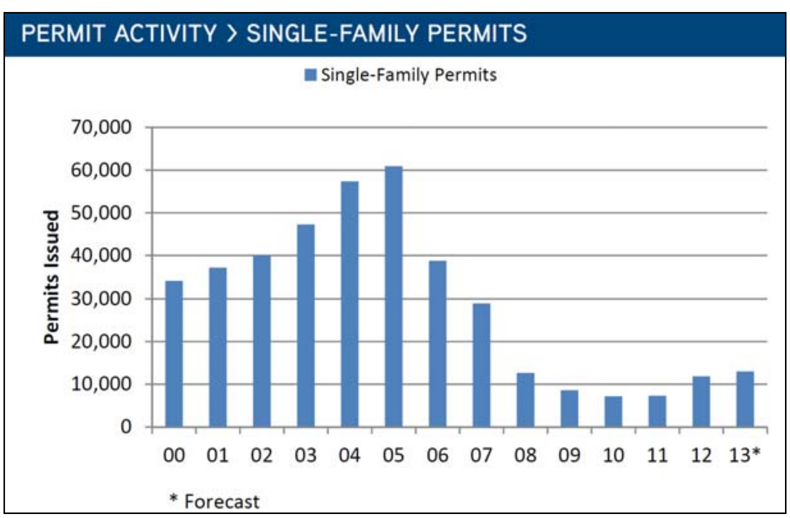
From 2001 to the end of 2005, homebuilders experienced tremendous demand from buyers and land in many locations became scarce. Raw land prices escalated tremendously. But with a significant downturn in demand for new homes at the end of 2007, tract home development virtually ceased from mid-2007 to 2012. As such, land was no longer in demand and land prices declined county-wide. Many homebuilders filed for bankruptcy. Others merged to survive. But in 201314, some submarkets are improving and performing better than others.

Land sales surged in the second half of last year and continued at a steady pace in the first half of 2014. While improvement in commercial real estate fundamentals has largely stalled as of 2014, the residential market has continued to strengthen. Median home prices for all sales have been recording healthy gains for more than a year, but pricing for new homes began to surge in the first few months of 2013. For much of 2012, sales of new homes were showing single-digit year-over-year annual price gains. In 2013, prices for new homes spiked approximately 25 percent from the same period a year ago. This sustained rise in prices will likely encourage further development of new homes and will support continued sales of residential land parcels.

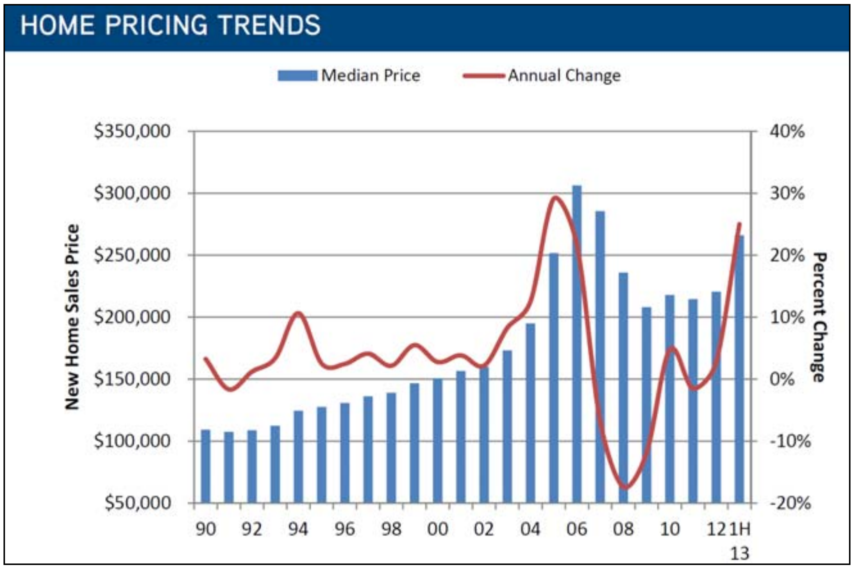


For the Phoenix metropolitan area, including Pinal County, housing permits, the leading gauge in home construction, dropped from 43,256 in 2006 to 21,882 in 2007, 10,348 in 2008 and then 8,027 in 2009. Single-family residential activity bottomed out in 2010 with about 7,112 building permits issued or the lowest number of permits issued in over fifteen years.

For 2011, the number of permits was up slightly to 7,142. But in 2012, single-family permits were up significantly to 11,300. In the first half of 2013, the number of permits issued for single-family residential construction rose 10 percent from year-earlier levels to more than 6,900 units. There was a modest slowdown in the second half of the year with the number of single-family residential permits reaching 12,785, or 15 percent higher than 2012 levels.

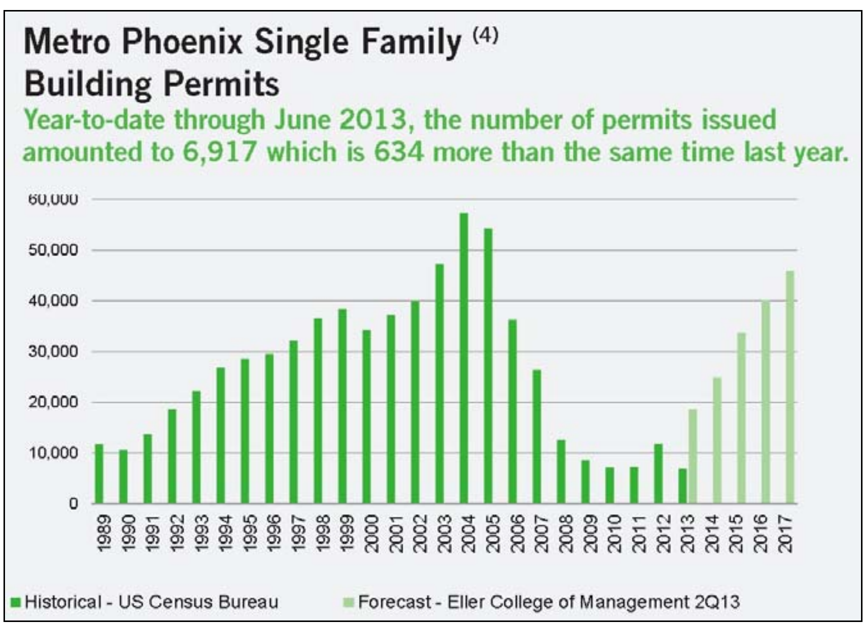


www.colliers.com/greaterphoenix

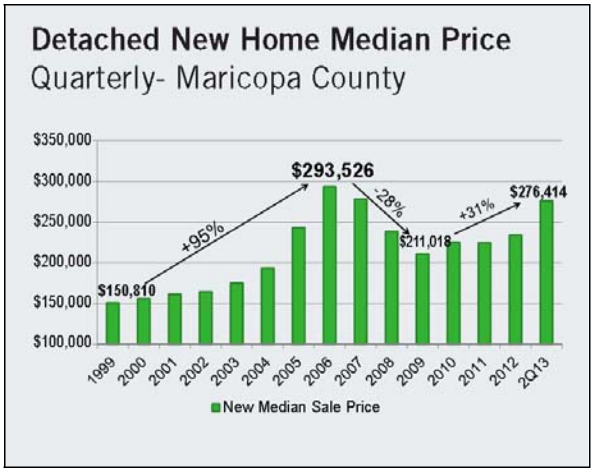


www.colliers.com/greaterphoenix

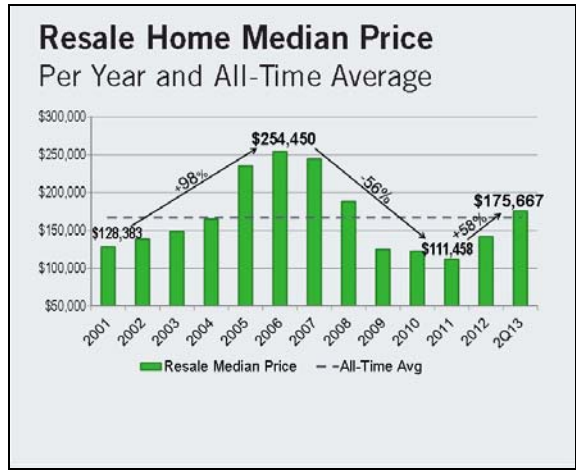
Prices for new homes continue to push higher with the median price topping $250,000 in late-2012 and ending the first half of 2013 at nearly $272,000, which indicates a 27 percent increase from one year earlier. Homebuilders have been cautious to date, keeping inventory levels low so as not to flood the market with new product. New home sales activity in June, 2013, for example, was down modestly on both a month-over-month and year-over-year basis. This trend is not expected to persist over the long term, particularly with recent new home sales accounting for just a fraction of the market's long-term average. As the market proves it can sustain rising new home prices, even as more units enter the system, builders will increasingly deliver new homes.



U.S. Census Bureau

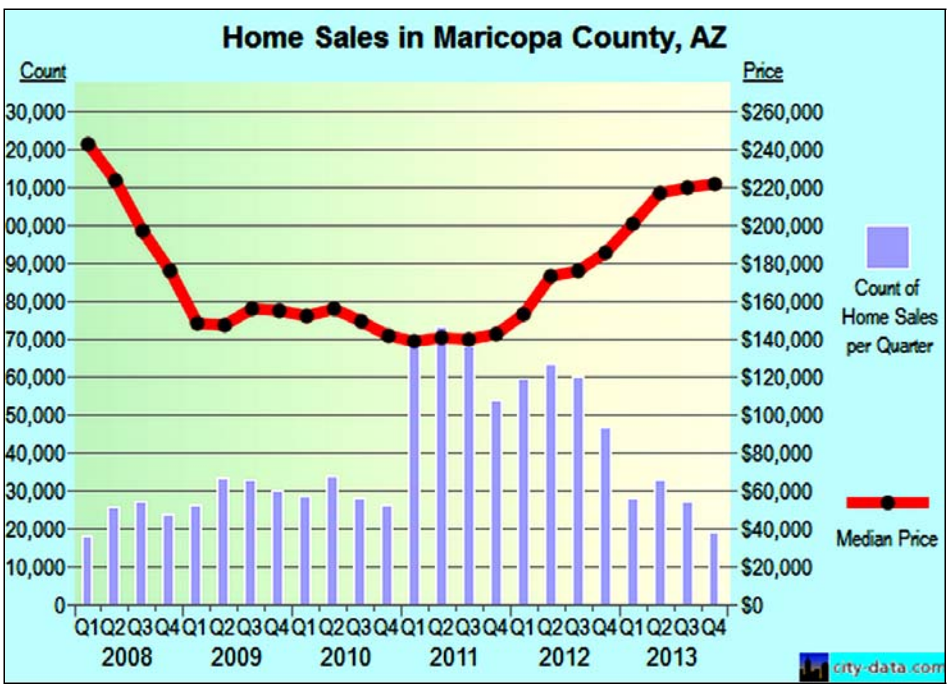


The Cromford Report



ARMLS

Market trends suggest that the improvement in the residential market is primarily within the more centralized and well-located infill areas of the southeast Phoenix metropolitan market. Outlying areas and most of Pinal County have seen little improvement.



As can be seen, the single-family residential land market is rebounding. Along with the rebound will come increased employment and a positive ripple effect across the entire local economy.

<u>Multi-family Residential</u> - Multi-family residential development generally follows new single-family residential, commercial and employment development and the extension of freeways. Class A and B apartment development typically occurs on parcels of land ranging from 9 to 20 acres in size. New projects typically contain between 150 and 400 units with densities of 17 to 23 units per gross acre to allow for a

balance between income and expense. The following list indicates the number of apartment units built from 1985 until the end of 2013 in projects with 100 units or more in the metropolitan area:

Apartment Units Built 100+

Year	Units	Year	Units	Year	Units	Year	Units	Year	Units
1985	21,115	1992	878	1999	9,262	2006	4,544	2013	3,353
1986	21,008	1993	1,573	2000	8,440	2007	4,534	2014	-
1987	9,718	1994	2,728	2001	8,013	2008	5,782	2015	-
1988	6,312	1995	6,841	2002	6,128	2009	5,749	2016	-
1989	2,498	1996	9,074	2003	4,627	2010	200	2017	-
1990	1,681	1997	5,123	2004	4,972	2011	3,566	2018	-
1991	293	1998	8,139	2005	5,098	2012	2,942	2019	-

Source: https://apartmentinsights.com/reports

For 4Q 2013, more than 3,500 units are either under- or scheduled for construction. Over 600 units have achieved final plan approval. While both figures are down from the previous quarter, they remain at elevated levels compared to the past three years.

For 4Q 2013, the average vacancy rate in apartment projects with 100 or more units of conventionally-operated, stabilized units was 7.30%. For year-end 2012, the rate was 8.26%; 9.32% in 2011; 10.41% in 2010, 13.42% in 2009; 12.53% in 2008; and 10.18% in 2007. Dramatic improvement has been seen in the last four years.

For 4Q 2013, average monthly gross apartment rent without utilities in the Metropolitan Phoenix 100+ unit segment was $787 per unit or $0.93/s.f. In 4Q 2012 rent was $775 per unit or $0.92/s.f.; in 2011, rent was $772 per unit or $0.91/s.f.; in 2010, rent was $776 or $0.92/s.f.; in 2009, rent $771 per unit or $0.92/s.f.; and in 2008, rent was $785 or $0.94/s.f. Skewing the results were changes in average unit size.

Twenty seven arm's length sales of properties with 100 or more units (7,562 units) took place by the end of 4Q 2013. The sales indicated average prices of $77,877 per unit and $91.77/s.f. By 4Q 2012, thirty-one arm's length sales (6,702 units) indicated averages of $78,370 per unit and $91.93 per square foot; in 2011, the averages were $76,378 per unit and $89.61/s.f.; in 2011, averages were $63,469 per unit and $79.52/s.f.; in 2010, averages were $46,750 per unit and $67.10/s.f.; in 2009, the averages were $61,279 per unit and $75.65/s.f.; and in 2008 the averages were $84,252 per unit and $105.55/s.f. As can be seen, prices have risen substantially but may have stabilized temporarily.

Retail - In the older areas of the region, commercial and retail development can be found in "strip" fashion along the frontages of major arterials. However, to control development and to enhance the appearance of cities, most commercial development is now found primarily at the intersection of major arterials in a shopping center or business park setting. Development of this sort better segregates and concentrates this land use, and controls access, visibility, density, layout, appearance, design and parking needs.

The CoStar Retail Report Year-End, 2013 provided a useful overview of retail market conditions in the Phoenix Metropolitan retail market. The overall Phoenix retail market experienced continued improvement in market conditions in 4th Quarter 2013 with a vacancy rate of 10.4 percent. The vacancy rate declined from 11.5 percent at the end of 4th Quarter 2012. In 4th Quarter 2011, the rate was 12.6 percent and in 4th Quarter 2010, the rate was 12.5 percent.

Total Retail Market Statistics

Year-End 2013

Period	Existing Inventory		Vacancy			Net	Deliveries		UC Inventory		Quoted
	# Blds	Total GLA	Direct SF	Total SF	Vac %	Absorption	# Blds	Total GLA	# Blds	Total GLA	Rates
2013 4q	12,956	215,580,105	21,564,402	22,367,424	10.4%	676,297	21	336,821	9	156,210	$13.94
2013 3q	12,941	215,410,432	21,982,842	22,874,048	10.6%	1,320,313	12	691,774	25	396,461	$14.03
2013 2q	12,935	214,744,445	22,594,782	23,528,374	11.0%	999,323	24	488,325	28	1,004,545	$14.26
2013 1q	12,917	214,313,820	23,109,237	24,097,072	11.2%	480,505	8	90,351	34	1,251,940	$14.31
2012 4q	12,915	214,298,920	23,609,949	24,562,677	11.5%	1,640,455	21	593,973	29	557,680	$14.36
2012 3q	12,897	213,722,726	24,770,725	25,626,938	12.0%	162,099	12	150,186	38	1,079,277	$14.56
2012 2q	12,888	213,750,828	24,978,919	25,817,139	12.1%	331,619	9	197,295	43	1,094,256	$14.68
2012 1q	12,889	213,912,667	25,446,841	26,310,597	12.3%	723,916	16	168,100	34	496,194	$14.73
2011 4q	12,873	213,744,567	26,019,181	26,866,413	12.6%	1,093,209	15	200,329	38	536,506	$14.79
2011 3q	12,863	213,625,163	26,932,031	27,840,218	13.0%	107,170	13	454,127	39	628,231	$15.09
2011 2q	12,859	213,213,846	26,678,473	27,536,071	12.9%	210,609	11	75,863	32	706,972	$15.45
2011 1q	12,849	213,139,552	26,944,050	27,672,386	13.0%	(845,201)	16	125,891	32	711,463	$15.83
2010	12,834	213,028,486	26,184,772	26,716,119	12.5%	(414,439)	50	831,819	37	739,278	$16.24
2009	12,793	212,236,264	24,938,395	25,509,458	12.0%	(2,516,797)	166	3,058,807	36	635,851	$17.41
2008	12,631	209,199,422	19,173,148	19,955,819	9.5%	2,339,202	435	8,912,349	136	2,412,768	$19.55
2007	12,205	200,341,174	13,171,824	13,436,773	6.7%	9,322,954	580	11,760,839	325	6,899,426	$20.10

New construction added 336,821 square feet of retail space last year. Net absorption in the quarter was a positive 676,297 square feet, thus supply was lessening. Twenty-one buildings were completed in 4th Quarter 2011, adding 336,821 square feet. By the end of 4th Quarter 2013, a total of 156,210 square feet was under construction. As a result of slowed population growth, depressed economic conditions and overbuilding, quoted rental rates dropped to $13.94 per square foot at the end of 4th Quarter 2013, which was a $0.38 per square foot decline over the last year and a $0.80 decline over the last two years.

While only 156,210 square feet of retail space were under construction as of year-end 2013, the metropolitan Phoenix retail market is not expected to see much of an improvement into 2014.

Average quoted asking rental rates in the Phoenix retail market are down over previous quarter levels, and down from their levels four quarters ago. Quoted rents ended 4th Quarter 2013 at $13.94 per square foot per year, triple net. Quoted rents ended 4th Quarter 2012 at $14.32/s.f. As a result of slowed population growth, depressed economic conditions and overbuilding, quoted and actual rental rates have declined over the last five years.

Total retail center sales activity in 2013 was down compared to 2012. In the first nine months of 2013, the market saw 110 retail sales transactions with a total volume of $434,618,586. The price per square foot averaged $82.61. In the same first nine months of 2012, the market posted 75 transactions with a total volume of $680,911,951.

The price per square foot averaged $120.39. Cap rates have been higher in 2013, averaging 8.39% compared to the same period in 2012 when they averaged 8.22%. In 2011, they averaged 8.51%.

Total Retail Market Statistics — Year-End 2013

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total GLA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Airport Area Ret	631	5,350,960	305,750	330,242	6.2%	61,375	1,962	0	$13.96
Downtown Phoenix Ret	716	6,423,729	718,928	718,928	11.2%	113,091	68,129	0	$12.37
East Valley Ret	3,703	70,672,159	8,135,554	8,404,837	11.9%	1,990,492	955,436	96,230	$13.13
Maricopa County Ret	94	672,416	42,245	42,245	6.3%	9,376	22,000	0	$8.39
North Phoenix Ret	2,469	38,592,038	4,898,947	5,060,977	13.1%	112,580	38,373	7,000	$12.26
North Scottsdale Ret	734	17,171,322	1,284,879	1,324,346	7.7%	236,714	46,548	0	$18.60
Northwest Phoenix Ret	920	19,287,302	1,364,829	1,489,025	7.7%	25,579	11,605	0	$16.04
Pinal County Ret	860	9,119,337	784,312	800,457	8.8%	(24,128)	16,358	0	$10.50
Scottsdale Ret	1,191	19,483,174	1,819,030	1,873,181	9.6%	208,884	51,503	23,500	$20.58
South Mountain Ret	319	6,594,287	462,129	486,289	7.4%	461,335	356,184	3,225	$16.53
West Phoenix Ret	1,319	22,213,381	1,747,799	1,836,897	8.3%	281,140	39,173	26,255	$13.30
Totals	**12,956**	**215,580,105**	**21,564,402**	**22,367,424**	**10.4%**	**3,476,438**	**1,607,271**	**156,210**	**$13.94**

Office - Office development is generally found in close association with commercial and retail development in the metropolitan area. In many cases, planned parks cater only to office uses. But office development is still found regularly on singular parcels along the frontage of busy arterials, where zoning allows.

The CoStar Office Report Year-End 2013 provided a useful overview of office market conditions for the Phoenix metropolitan office market. Total office inventory in the Phoenix market area amounted to 159,573,095 square feet in 8,088 buildings as of the end of 4th Quarter 2013. At the end of 2012, total office inventory was 159,232,271 square feet in 8,063 buildings. At the end of 4th Quarter 2011, the office inventory was 156,647,821 square feet in 8,024 buildings.

During 4th Quarter 2013, one 5,200 square foot building was completed in the Phoenix market area. One building, totaling 68,867 square feet, was completed in 3rd Quarter 2013, with three buildings totaling 196,153 square feet completed in 2nd Quarter 2013, and nothing completed in 1st Quarter 2013. There were 837,268 square feet of office space under construction at the end of 4th Quarter 2013.

Total Office Market Statistics

Year-End 2013

Period	Existing Inventory		Vacancy			Net	Deliveries		UC Inventory		Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	# Blds	Total RBA	# Blds	Total RBA	Rates
2013 4q	8,088	159,573,095	28,448,358	29,170,931	18.3%	774,516	1	5,200	10	837,268	$20.30
2013 3q	8,088	159,581,648	29,190,394	29,954,000	18.8%	1,115,227	1	68,867	4	405,822	$20.19
2013 2q	8,095	159,641,254	30,328,709	31,128,833	19.5%	115,106	3	196,153	3	229,067	$20.02
2013 1q	8,092	159,445,101	30,259,685	31,047,786	19.5%	19,401	0	0	5	420,020	$19.43
2012 4q	8,094	159,485,647	30,253,528	31,107,733	19.5%	1,542,311	6	247,142	5	420,020	$19.93
2012 3q	8,091	159,250,595	31,320,531	32,414,992	20.4%	415,277	3	62,617	8	440,871	$19.90
2012 2q	8,091	159,258,774	31,687,907	32,838,448	20.6%	954,902	3	160,738	10	464,759	$19.92
2012 1q	8,091	159,154,884	32,345,854	33,689,460	21.2%	266,775	3	910,588	12	589,797	$20.08
2011	8,091	158,264,945	32,008,391	33,066,296	20.9%	1,176,721	10	755,149	6	990,962	$20.41
2010	8,083	157,564,265	32,330,697	33,542,337	21.3%	512,108	16	1,472,071	10	1,632,506	$21.34
2009	8,067	156,092,194	31,330,490	32,582,374	20.9%	(1,998,669)	58	2,608,247	14	2,488,850	$22.84
2008	8,015	153,683,721	26,617,726	28,175,232	18.3%	(651,606)	272	7,744,100	52	3,666,472	$25.35
2007	7,752	146,156,616	18,870,717	19,996,521	13.7%	2,818,160	428	8,220,560	249	8,553,612	$25.96
2006	7,329	138,038,863	13,857,897	14,696,928	10.6%	6,734,447	468	5,941,197	439	9,745,115	$24.35
2005	6,863	132,299,544	14,876,122	15,692,056	11.9%	7,607,408	415	4,367,766	454	7,322,225	$21.89
2004	6,455	128,007,778	17,993,730	19,007,698	14.8%	4,245,013	314	5,254,756	361	3,681,608	$19.79

Net absorption for the overall Phoenix office market was positive 774,516 square feet in 4th Quarter 2013; positive 1,115,227 square feet in 3rd Quarter 2013; positive 115,106 square feet in 2nd Quarter 2013; and positive 19,401 square feet in 1st Quarter 2013.

The office vacancy rate in the Phoenix market area decreased to 18.3% at the end of 4th Quarter 2013. At the end of 4th Quarter 2012, the rate was 19.5%. In 2011, the rate was 20.9% and 21.3% at Year-end 2010. Thus, as can be seen, in terms of occupancy, the market has improved gradually.

The average quoted asking rental rate for available office space, all classes, was $20.30 per square foot per year, full service, at the end of 4th Quarter 2013 in the Phoenix market area. The average quoted asking rental rate at the end of 2012 was $19.93/s.f.; $20.41/s.f. at the end of 2011; and $21.34/s.f. at the end of 2010. As can be seen, a slight improvement in rental rates occurred over the last year but still lower than prior years.

By 3rd Quarter 2013, the market saw 67 office sales transactions with a total volume of $687,480,393. The price per square foot averaged $130.75. In the same first nine months of 2012, the market posted 72 transactions with a total volume of $653,942,783 or $129.86 per square foot. In the same first nine months of 2011, the market posted 61 transactions with a total volume of $921,778,947 for an average price per square foot of $125.36. Cap rates were higher in 2013, averaging 7.05% compared to the same period in 2012 when they averaged 6.99%. In 2011, they averaged 8.59% and in 2010, rates averaged 8.06%.

Total Office Market Statistics

Year-End 2013

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Airport Area	485	16,427,463	2,674,843	2,779,675	16.9%	118,095	139,403	217,001	$19.32
Central Corridor	574	22,705,697	4,413,072	4,576,399	20.2%	(51,330)	0	155,000	$20.65
East Phoenix	876	20,299,959	3,545,715	3,603,682	17.8%	433,127	0	0	$21.31
East Valley	2,066	26,781,677	4,156,523	4,207,572	15.7%	652,078	68,867	320,267	$19.39
North Phoenix	467	8,304,000	1,580,331	1,610,992	19.4%	81,096	5,200	0	$19.62
Northwest Phoenix	1,515	26,082,718	5,386,860	5,471,368	21.0%	239,966	0	0	$18.56
Scottsdale	1,471	29,590,143	5,066,270	5,253,428	17.8%	289,640	0	145,000	$22.06
West Phoenix	634	9,381,438	1,624,744	1,667,815	17.8%	261,578	56,750	0	$21.62
Totals	**8,088**	**159,573,095**	**28,448,358**	**29,170,931**	**18.3%**	**2,024,250**	**270,220**	**837,268**	**$20.30**

Industrial Overview – Most new industrial development is related to regional distribution, light manufacturing, assembly, service, warehousing and back office. The incorporated cities of Maricopa County relegate most industrial development to planned parks. Heavy industry, with visual, noise or odor pollution is generally located in older neighborhoods away from residential areas.

The CoStar Industrial Report Year-End 2013 provided a useful overview of market conditions for the Phoenix metropolitan industrial market. Total Industrial inventory in the Phoenix market area amounted to 299,377,503 square feet in 9,842 buildings as of the end of 4th Quarter 2013. Total industrial inventory in the Phoenix market area amounted to 294,164,030 square feet in 9,828 buildings as of the end of 4th Quarter 2012. At the end of 2011, total industrial inventory was 291,835,810 square feet in 9,818 buildings.

TOTAL INDUSTRIAL MARKET STATISTICS — **Year-End 2013**

	Existing Inventory		Vacancy			Net	Deliveries		UC Inventory		Quoted
Period	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	# Blds	Total RBA	# Blds	Total RBA	Rates
2013 4q	9,842	299,377,503	35,097,651	37,163,078	12.4%	2,822,891	4	1,265,477	15	3,534,155	$6.53
2013 3q	9,838	298,112,026	36,751,665	38,720,492	13.0%	(59,425)	7	1,605,725	9	4,510,157	$6.50
2013 2q	9,836	296,653,258	35,279,839	37,202,299	12.5%	68,336	6	2,051,304	14	6,101,959	$6.39
2013 1q	9,831	294,633,574	33,192,643	35,250,951	12.0%	1,343,816	4	714,875	19	7,353,263	$6.28
2012 4q	9,828	294,164,030	33,925,357	36,125,223	12.3%	2,948,006	3	2,008,075	16	6,189,036	$6.22
2012 3q	9,827	292,252,330	34,954,078	37,161,529	12.7%	852,314	1	80,000	12	5,241,407	$6.17
2012 2q	9,826	292,172,330	35,803,994	37,933,843	13.0%	2,488,838	5	336,520	8	4,455,532	$6.10
2012 1q	9,821	291,835,810	37,967,311	40,086,161	13.7%	(392,729)	5	565,549	12	4,662,052	$6.04
2011	9,818	291,397,601	37,715,343	39,255,223	13.5%	6,703,899	16	1,179,481	13	4,208,401	$6.02
2010	9,804	290,744,684	43,618,237	45,306,205	15.6%	4,360,532	16	1,960,104	8	402,350	$6.14
2009	9,797	289,319,470	45,991,244	48,241,523	16.7%	(4,755,237)	46	3,999,958	9	1,413,426	$6.68
2008	9,764	285,736,339	38,373,311	39,903,155	14.0%	(1,878,905)	226	11,642,956	40	4,269,108	$7.69
2007	9,540	274,172,313	25,573,637	26,460,224	9.7%	5,440,213	244	11,992,716	151	9,371,189	$8.12
2006	9,303	263,071,354	19,504,768	20,799,478	7.9%	6,637,316	252	8,405,028	171	10,245,893	$7.80
2005	9,055	254,984,716	18,200,740	19,350,156	7.6%	11,169,190	200	6,833,420	198	5,426,204	$7.12
2004	8,860	248,242,237	22,775,953	23,776,867	9.6%	7,835,381	196	5,299,998	127	4,546,454	$6.73

During 4th Quarter 2013, four buildings totaling 1,265,477 square feet were completed in the Phoenix market area. At the end of 3rd Quarter 2013, seven buildings totaling 1,605,725 square feet were completed. Six buildings totaling 2,051,304 square feet were completed in 2nd Quarter 2013, and 714,875 square feet were completed in four buildings in 1st Quarter 2013.

Net absorption for the overall Phoenix Industrial market was positive 2,822,891 square feet in 4th Quarter 2013. Negative (59,425) square feet was tallied in 3rd Quarter 2013; positive 68,336 square feet in 2nd Quarter 2013; and positive 1,343,816 square feet in 1st Quarter 2013.

The vacancy rate in the Phoenix market area decreased to 12.4% at the end of 4th Quarter 2013. The vacancy rate was 13.0% at the end of 3rd Quarter 2013; 12.6% at the end of 2nd Quarter 2013; and 12.0% at the end of the 1st Quarter 2013. At the end of 4th Quarter 2012, the rate was 12.4% and at the end of 4th Quarter 2011, the rate was 13.5%. As such, the market appears to be improving in this respect.

TOTAL INDUSTRIAL MARKET STATISTICS Year-End 2013

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Airport Ind	2,013	49,211,079	5,380,317	5,722,691	11.6%	608,492	35,000	0	$6.25
Northeast Ind	830	16,911,450	1,784,187	1,820,645	10.8%	215,619	0	0	$10.18
Northwest Ind	2,491	57,333,505	5,324,607	5,403,185	9.4%	1,596,040	582,651	289,475	$7.41
Southeast Ind	3,187	89,883,988	11,123,898	11,745,661	13.1%	695,433	1,028,968	2,444,680	$7.60
Southwest Ind	1,321	86,037,481	11,484,642	12,470,896	14.5%	1,060,034	3,990,762	800,000	$4.40
Totals	**9,842**	**299,377,503**	**35,097,651**	**37,163,078**	**12.4%**	**4,175,618**	**5,637,381**	**3,534,155**	**$6.53**

The average quoted asking rental rate for available industrial space was $6.53 per square foot per year, triple net, at the end of 4th Quarter 2013 in the Phoenix market area. The average quoted asking rental rate at the end of 4th Quarter 2012 was $6.22/s.f. At the end of 4th Quarter 2011, the average rate was $6.02 per square foot per year and $6.14 at the end of 2010. Although occupancy increased, it appeared to have been at the expense of rental rates.

Total 2013 year-to-date industrial building sales activity is up compared to the previous year. In the first nine months of 2013, the market saw 126 industrial sales transactions with a total volume of $624,648,279. Price per square foot averaged $72.99. In the first nine months of 2012, the market posted 125 transactions with a total volume of $609,212,704. Price per square foot averaged $59.29. In the first nine months of 2011, the market posted 111 transactions with a total volume of $345,138,008 with an average price per square foot of $47.72. Cap rates have been lower in 2013, averaging 7.90%, compared to the first nine months of last year when they averaged 8.14%. Cap rates averaged 7.69% in 2011. In 2010 cap rates averaged 8.73%.

Lodging

The January, 2014, chart below, published by the Arizona Department of Tourism and Smith Travel Research, provides the significant measures of performance in the lodging industry nationwide, regionally, statewide and locally in the major markets. The second chart gives specifics by Arizona county.

Statewide Lodging Performance										
Market	January					Year to Date				
	Occupancy	ADR	RevPAR	Demand	Supply	Occupancy	ADR	RevPAR	Demand	Supply
United States										
2013	51.0%	$106.11	$54.14	76,207,716	149,368,044	51.0%	$106.11	$54.14	76,207,716	149,368,044
2014	**52.2%**	**$109.24**	**$57.02**	**78,686,762**	**150,749,404**	**52.2%**	**$109.24**	**$57.02**	**78,686,762**	**150,749,404**
% change	2.3%	2.9%	5.3%	3.3%	0.9%	2.3%	2.9%	5.3%	3.3%	0.9%
Mountain Region										
2013	50.9%	$110.18	$56.03	9,166,897	18,025,291	50.9%	$110.18	$56.03	9,166,897	18,025,291
2014	**54.0%**	**$112.46**	**$60.67**	**9,784,357**	**18,135,155**	**54.0%**	**$112.46**	**$60.67**	**9,784,357**	**18,135,155**
% change	6.1%	2.1%	8.3%	6.7%	0.6%	6.1%	2.1%	8.3%	6.7%	0.6%
State of Arizona										
2013	54.5%	$106.99	$58.33	1,887,704	3,462,607	54.5%	$106.99	$58.33	1,887,704	3,462,607
2014	**57.1%**	**$108.88**	**$62.19**	**1,980,166**	**3,466,854**	**57.1%**	**$108.88**	**$62.19**	**1,980,166**	**3,466,854**
% change	4.8%	1.8%	6.6%	4.9%	0.1%	4.8%	1.8%	6.6%	4.9%	0.1%
Metro Phoenix										
2013	61.3%	$123.16	$75.46	1,181,629	1,928,696	61.3%	$123.16	$75.46	1,181,629	1,928,696
2014	**63.9%**	**$125.12**	**$79.91**	**1,228,802**	**1,923,891**	**63.9%**	**$125.12**	**$79.91**	**1,228,802**	**1,923,891**
% change	4.3%	1.6%	5.9%	4.0%	-0.2%	4.3%	1.6%	5.9%	4.0%	-0.2%
Metro Tucson										
2013	55.7%	$93.00	$51.77	270,980	486,762	55.7%	$93.00	$51.77	270,980	486,762
2014	**54.1%**	**$95.57**	**$51.73**	**266,861**	**493,024**	**54.1%**	**$95.57**	**$51.73**	**266,861**	**493,024**
% change	-2.8%	2.8%	-0.1%	-1.5%	1.3%	-2.8%	2.8%	-0.1%	-1.5%	1.3%
Flagstaff AZ										
2013	44.7%	$66.84	$29.87	69,979	156,581	44.7%	$66.84	$29.87	69,979	156,581
2014	**44.6%**	**$69.48**	**$31.02**	**71,151**	**159,371**	**44.6%**	**$69.48**	**$31.02**	**71,151**	**159,371**
% change	-0.1%	4.0%	3.8%	1.7%	1.8%	-0.1%	4.0%	3.8%	1.7%	1.8%
Non-metro AZ										
2013	41.9%	$73.28	$30.74	416,846	993,798	41.9%	$73.28	$30.74	416,846	993,798
2014	**46.0%**	**$76.31**	**$35.08**	**458,159**	**996,526**	**46.0%**	**$76.31**	**$35.08**	**458,159**	**996,526**
% change	9.6%	4.1%	14.1%	9.9%	0.3%	9.6%	4.1%	14.1%	9.9%	0.3%

Given the dampening effects of the past recession and continued slowdown in the economy, room supply shrunk in Metropolitan Phoenix by 0.2% and only grew by 0.1% in the state. As such, occupancy grew by 4.3% in the metropolitan area and 4.8% in the state. ADR, RevPar and Demand, all increased in the metropolitan area which shows that tourism and travel are improving.

Arizona County Lodging Indicators															
County	Occupancy Rate			ADR			RevPAR			Room Demand			Room Supply		
	Jan. 2013	**Jan. 2014**	% Change	Jan. 2013	**Jan. 2014**	% Change	Jan. 2013	**Jan. 2014**	% Change	Jan. 2013	**Jan. 2014**	% Change	Jan. 2013	**Jan. 2014**	% Change
Apache	34.5%	**35.0%**	1.3%	$72.36	**$71.15**	-1.7%	$25.00	**$24.90**	-0.4%	10,527	**10,663**	1.3%	30,473	**30,473**	0.0%
Cochise	41.8%	**48.6%**	16.1%	$66.32	**$65.71**	-0.9%	$27.74	**$31.92**	15.1%	39,225	**45,553**	16.1%	93,775	**93,775**	0.0%
Coconino	34.6%	**39.8%**	15.0%	$67.87	**$75.21**	10.8%	$23.50	**$29.93**	27.4%	108,547	**125,921**	16.0%	313,565	**316,386**	0.9%
Gila	42.4%	**47.6%**	12.3%	$64.74	**$64.48**	-0.4%	$27.47	**$30.72**	11.8%	15,430	**17,292**	12.1%	36,363	**36,301**	-0.2%
Graham	47.2%	**74.6%**	57.9%	$74.97	**$89.84**	19.8%	$35.42	**$66.99**	89.2%	9,079	**14,333**	57.9%	19,220	**19,220**	0.0%
Greenlee	N/A	**N/A**		N/A	**N/A**		N/A	**N/A**		N/A	**N/A**		N/A	**N/A**	
La Paz	63.0%	**60.2%**	-4.4%	$71.92	**$74.55**	3.7%	$45.28	**$44.86**	-0.9%	12,120	**11,583**	-4.4%	19,251	**19,251**	0.0%
Maricopa	61.4%	**64.2%**	4.4%	$124.66	**$126.40**	1.4%	$76.60	**$81.10**	5.9%	1,143,080	**1,190,507**	4.1%	1,860,310	**1,855,505**	-0.3%
Mohave	49.1%	**52.5%**	7.0%	$60.06	**$62.98**	4.9%	$29.49	**$33.08**	12.2%	64,533	**69,044**	7.0%	131,440	**131,440**	0.0%
Navajo	33.8%	**36.5%**	7.9%	$65.85	**$63.54**	-3.5%	$22.28	**$23.19**	4.1%	33,344	**35,972**	7.9%	98,549	**98,549**	0.0%
Pima	55.7%	**54.1%**	-2.8%	$93.00	**$95.57**	2.8%	$51.77	**$51.73**	-0.1%	270,980	**266,861**	-1.5%	486,762	**493,024**	1.3%
Pinal	56.4%	**56.0%**	-0.7%	$78.67	**$85.30**	8.4%	$44.35	**$47.77**	7.7%	38,549	**38,295**	-0.7%	68,386	**68,386**	0.0%
Santa Cruz	39.5%	**45.3%**	14.7%	$70.06	**$68.38**	-2.4%	$27.65	**$30.97**	12.0%	13,030	**14,951**	14.7%	33,015	**33,015**	0.0%
Yavapai	36.0%	**43.3%**	20.3%	$101.86	**$104.15**	2.3%	$36.67	**$45.12**	23.1%	55,518	**66,827**	20.4%	154,225	**154,256**	0.0%
Yuma	63.2%	**61.9%**	-2.1%	$72.03	**$72.67**	0.9%	$45.52	**$44.95**	-1.3%	73,072	**71,519**	-2.1%	115,630	**115,630**	0.0%

Arizona County Lodging Indicators															
County	Occupancy Rate			ADR			RevPAR			Room Demand			Room Supply		
	2013 YTD	**2014 YTD**	% Change	2013 YTD	**2014 YTD**	% Change	2013 YTD	**2014 YTD**	% Change	2013 YTD	**2014 YTD**	% Change	2013 YTD	**2014 YTD**	% Change
Apache	34.5%	**35.0%**	1.3%	$72.36	**$71.15**	-1.7%	$25.00	**$24.90**	-0.4%	10,527	**10,663**	1.3%	30,473	**30,473**	0.0%
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Greenlee	N/A	**N/A**		N/A	**N/A**		N/A	**N/A**		N/A	**N/A**		N/A	**N/A**	
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Financial and Lending Industry

Interest rates have decreased, but there is a reduced supply of willing lenders and investors seeking returns from mortgages and deeds of trusts given the past lending, banking and mortgage investment crisis. Lenders are wary of residential jumbo loans given the continued foreclosure risk in the upper-end home market.

Governmental Forces

There are basically three levels of government servicing metropolitan Phoenix: state, county and municipal (city) levels. Additionally, other special districts, such as school systems and irrigation districts, levy taxes and provide services. Primary revenue sources utilized by state government include a personal state income tax and a sales tax on retail items purchased in the state. Property taxes and a retail sales tax are the primary funding for the lower levels of government.

It appears that the factors of government and regulation do not unfairly burden real estate development. Local governments are generally well-staffed, organized and funded to support most community services and facilities. They are fairly liberal regarding change in land use. The cities and counties restrict commercial and industrial development more than before with strong requirements for attractive design, open space, sign size and type, parking, and compatibility with surrounding residential areas. Although their requirements may drive up developers' costs, the end product has proven to be more appealing and marketable.

Education/Schools

The Phoenix metropolitan area is served by 55 school districts with 353 ± elementary schools and 60 ± high schools. Additionally, there are roughly 200 parochial and private schools in the area. Arizona State University, based in Tempe, is the state's largest university with enrollment of over 70,000 students on three campuses (main, ASU West campus and ASU East) and hopes to have 90,000 by 2020. Eleven community colleges also serve the area.

Utilities

Water, electricity, and gas availability has not generally been a problem in the Phoenix area, but utility companies can affect the demand for real estate. The Phoenix area has had the least problems with water supply as it is well protected by acquired water rights and deep untainted wells. The metropolitan area is primarily served by Salt River Project and Arizona Public Service, the two principal suppliers of electricity in the metropolitan area. Sewer service is provided by each city and gas is primarily distributed by Southwest Gas and the City of Mesa. Overall, utility costs in the neighborhood are average when compared with similar large metropolitan areas. CenturyLink and Cox provide telephone, cable and internet services.

Real Estate Taxes

Taxes are another operating expense incurred in the operation of real estate. Commercial and industrial properties top the scale with a 25 percent assessment of current value. Residential properties are assessed at 10 percent of current value; 10 percent for residential rentals; and 16 percent for vacant land. Developers and investors indicate that the tax burden is not generally repressive to the operation of real property and an effective tax appeal system allows for adjustment.

Social Factors

Recreation

A full range of recreational amenities are available in the Phoenix metropolitan area including more than 100 golf courses, two water parks, and several major and minor league sports teams. Spring training is a major attraction and significant contributor to the economy.

US Airways Center, a 19,100 seat arena, was built in June, 1992, in downtown Phoenix. It is host to the Phoenix Suns, Mercury, and Rattlers. The Phoenix Coyotes have moved to their new facility, Jobing.com Arena, in Glendale.

In 1994, Arizona was awarded a baseball expansion franchise. To accommodate the *Diamondbacks*, a new 48,500-seat stadium, Chase Field was built on a 24.84-acre site at the southwest corner of Jefferson and 7th Street in March, 1998. The facility hosted the World Series in 2001.

In January, 1996, the nation's largest sporting event, Superbowl XXX, was hosted in Tempe at Sun Devil Stadium, an open air facility. Superbowl XLII was held in February, 2008, at the University of Phoenix Stadium, a domed stadium completed in 2006 for the Arizona Cardinals in Glendale, Arizona, next door to Jobing.com Arena. The championship game will return in 2015.

Conclusion and Outlook

Some market segments are seeing improvement. The real estate market, economic and real estate growth will be stronger than the country's average in the long run given the appealing location, climate, available buildable land, educated and young work force and history of in-migration of commerce, industry and people.

NEIGHBORHOOD ANALYSIS

Location and Neighborhood Boundaries

The subject property is located in downtown Scottsdale, Arizona. The neighborhood boundaries were defined as follows:

North	- Indian Bend Road
South	- McDowell Road
East	- Loop 101
West	- 64^{th} Street/Invergordon Road

This nearly sixteen square mile area is well-served by these major arterials as well as others crossing the neighborhood.

The area north of these boundaries was developed as the masterplanned McCormick Ranch community and smaller Gainey Ranch development. Downtown Scottsdale, which is dominated by tourist-oriented specialty shopping and retail districts, city hall, cultural and sports facilities, a hospital, and medical and professional offices are located south of Chaparral Road. The Scottsdale city limits are located one block west of Scottsdale Road, along 64^{th} Street and as far west as 60^{th} Street. Although the Scottsdale city limits extend west of 64th Street, 64th Street is generally perceived as the boundary between Scottsdale and Phoenix. Homes west of 64th Street are generally newer, larger and higher-priced than those within the defined neighborhood. Light-density custom home development in the Town of Paradise Valley predominates in the northwestern part of the neighborhood.

East of Pima Road is the bulk of the Salt River Pima/Maricopa Indian Community. This area is generally undeveloped and in agriculture except for a college campus, a power shopping center and office development along Loop 101.

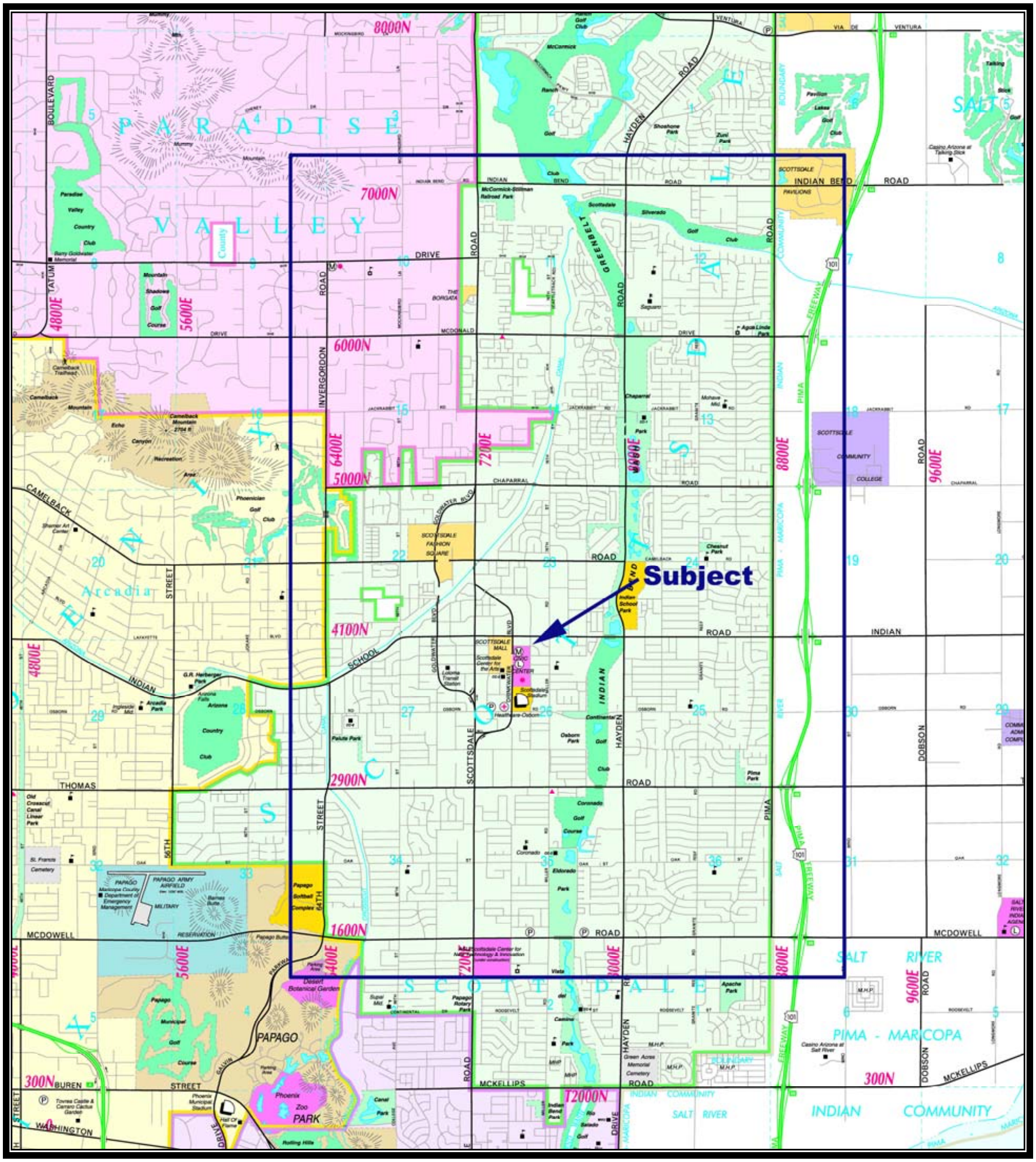
Transportation

Major Surface Streets

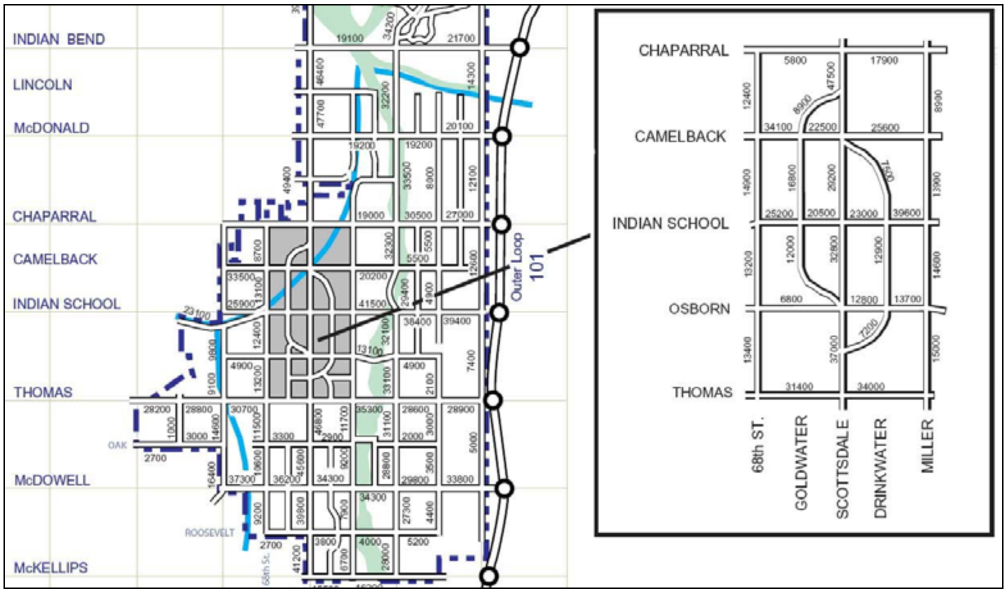
Modern city streets and arterials serve this area well. In addition to the major section-line arterials that form the neighborhood boundaries, Thomas Road, Indian School Road, Camelback Road, Chaparral Road, and McDonald Drive are also important east/west arterials carrying traffic to the Salt River Pima/Maricopa Indian Community and west into Phoenix and Paradise Valley. Hayden Road is a major north/south roadway competing for many of the same commercial, retail and office uses that Scottsdale Road strives for. 64th Street, a section line arterial, and 68th Street and Miller Road, both mid-section arterials, alleviate traffic on Scottsdale Road and allow drivers to avoid the congestion of downtown.

NEIGHBORHOOD MAP

North



Traffic volumes and movement through the neighborhood are both good. Major arterials and their average 2012 weekday traffic counts (City of Scottsdale survey) are listed as follows:



The City of Scottsdale has lightened the traffic flow along Scottsdale Road between Chaparral and Osborn Roads with the "couplet." This loop, Goldwater Boulevard on the west and Drinkwater Boulevard on the east, has relieved the traffic congestion on Scottsdale Road and has helped make it more pedestrian-oriented. The couplet is best described as a boulevard, with a landscaped median in most areas, and traffic signals phased for 35 mile-per-hour traffic. The couplet has enhanced the "shopability" of the 5th Avenue and other downtown retail shopping areas and distributes traffic throughout the downtown area to enhance business activity in areas that had no direct major arterial frontage before.

The completion of Loop 101 has decreased the traffic flow on Hayden Road by over 20,000 vehicles per average weekday.

Freeways

Loop 101 (Pima Freeway) is two blocks east of Pima Road and two miles east of the subject within the Indian community. It extends from Loop 202 (between Frye and Pecos Roads) in south Chandler across Tempe and north to Princess Boulevard where it turns west along the Beardsley Road alignment to reach Interstate-17 in north Phoenix. The freeway has full diamond interchanges serving McKellips Road, McDowell Road, Thomas Road, Indian School Road, Chaparral Road, McDonald Drive and Indian Bend Road.

Public Transportation

Public transportation is provided by *Valley Metro* bus lines which have routes along all of the major arterials traversing the neighborhood.

Land Uses and Neighborhood Characteristics

Physical Characteristics

The subject neighborhood is located in the northeastern quadrant of the Phoenix metropolitan area and in within what is now defined as downtown and located in central Scottsdale. The neighborhood is mostly level as is the topography of most of the Phoenix area. The most prominent neighborhood physical characteristic is the Indian Bend wash which crosses the north and eastern boundary of the neighborhood along Hayden and Indian Bend Roads. The bulk of the floodway was developed with golf courses, parks and greenbelts.

Below is a general discussion of land use in the neighborhood. The next map in this section and the pages following provide a more detailed summary of new development in and out of downtown.

Single-family Residential Housing

Residential development in the subject neighborhood consists primarily of single-family housing on standard 6,000 square foot lots to one-acre lots. Most of the housing in the neighborhood was developed in the 1950s, 1960s and 1970s. Homes generally range in value from $250,000 to well over $1,000,000. Townhouse, condominium and patio home development is common. Such development typically ranges in size and price from 1,200 to 3,000 square feet and from $200,000 to $800,000.

According *to* the *Multiple Listing Service* the average price of resale homes within the subject neighborhood boundaries from October, 2013, to March, 2014, was $365,325, or $175.26 per square foot.

Multi-Family Residential Housing

This area of Scottsdale is home to a common form of multi-family development, 2 to 20-unit one and two-story apartment complexes that were built in the 1950s and 1960s with 1 and 2-bedroom units, 500 to 900 square feet in size. Once, these modest complexes catered to winter visitors, however, they aged and lost their appeal to this market segment. Most receive the maintenance they require but some are not being maintained as well as in the past. Many complexes are now providing affordable low-income housing for many of the workers of the hotel and resort districts to the north and blue collar laborers.

Investment Activity in Central and Southern Scottsdale

Because central and south Scottsdale are nearly fully developed, vacant land for new development is limited. A report released in 2003 by Arizona State University's Morrison Institute for Public Policy urged city leaders to attract high-tech employment and make the most of its proximity to ASU. This encouraged the city to focus its efforts on redeveloping the southern part of the city, and today the Scottsdale City Council states that the revitalization of the southern portion of Scottsdale is its "number one priority." As a result, total investment in rebuilding the area totals more than $3 billion in recent years. This new investment has been in all sectors: residential, office, retail, hotels, and cultural ventures. Major new residential, retail, and office projects include the Scottsdale Waterfront, ASU – Scottsdale Innovation Center, and various "Old Town" rebuilding projects. A positive outcome of the renaissance taking place in this area of Scottsdale is seen in home appreciation rates; average home appreciation values here outpace those in North Scottsdale, Phoenix, and nearly all other areas of the Valley, according to the ASU Arizona Real Estate Center.

In 2006, the Scottsdale approved a new use for the former Los Arcos Mall site with the development of *SkySong,* a 1.2 million square foot research lab and business complex combining technology, innovation, education and business in a campus environment that integrates digital infrastructure into flexible office and research space. Organized around a main boulevard lined by retail, restaurants and cultural institutions, the ASU Scottsdale Innovation Center is a development of Higgins Development Partners, The Plaza Companies and Arizona State University Foundation, with special collaboration from Arizona State University and the City of Scottsdale and USAA Real Estate Company as financial partner. The first phase, which includes two four-story, 150,000-square foot office buildings each with 20,000 square feet of ground floor retail space, was completed in 2008. The recent real estate slump and recession has postponed the development of additional structures.

Retail Development

Downtown Scottsdale centers on the intersection of Scottsdale Road and Indian School Road, extending about 0.50 mile in all directions. It is characterized and well-known for four heavily-concentrated districts of retail shops oriented towards the tourist and winter visitor trade. Those east/west streets from Camelback Road to 2nd Street (between Indian School Road and Osborn Road) are lined with abutting shops merchandising gifts, crafts, artwork, food and professional services. The 5th Avenue district, just south of the Arizona Canal and west of Scottsdale Road, centers on the street that gives it its name. To the southwest of 5th Avenue extending south to Indian School Road and west to Goldwater Boulevard is the district known as Craftsman Court. South of Indian School on the west side of Scottsdale Road is the Main Street district of shops. East of Indian School Road extending to Buckboard Trail is the retail district of Old Town. The Scottsdale Mall and Civic Center are located to the east of Old Town.

The retail development is generally of single-story heights and in an architectural style which suggests a western frontier town. Small shop spaces are filled with galleries, restaurants, cocktail lounges, souvenir shops, craft and gift stores, jewelry shops, salons, and professionals including designers, architects and real estate agents.

However, densities and styles are changing rapidly. The city is encouraging higher intensity land use for both retail and office uses. Over the last twenty years, there have been many garden office and medical buildings constructed in the neighborhood. Along Scottsdale and Indian School Roads, three and four story office buildings and hotels have become more common.

Scottsdale Fashion Square, located at 7014 E Camelback Rd, Scottsdale, is an upscale, super-regional luxury shopping mall located in Scottsdale, Arizona. It is the largest shopping mall in Arizona and the American Southwest, with approximately 2 million square feet of retail space. The mall is anchored by *Neiman Marcus, Nordstrom, Macy's, Dillard's* (the largest store in the *Dillard's* chain), and *Barneys New York*. The mall continues to attract first-to-market retailers with *David Yurman, Free People*, and *Ted Baker* and *Prada*. The center is also home to prominent retailers *Armani Exchange, Burberry, Hugo Boss, Kate Spade, Gucci, Louis Vuitton, L'Occitane en Provence, Tourneau, Swarovski, Juicy Couture, GUESS, Tiffany and Co., Ferragamo, Michael Kors, Jimmy Choo, Cartier, Abercrombie and Fitch, Lucky Brand Jeans, Ed Hardy, Prada, Steve Madden, Marciano, Carolina Herrera, Bvlgari, Bottega Veneta, Salvatore Ferragamo, Lacoste* and *Kenneth Cole* among hundreds of others. *Crate & Barrel, Forever 21, H&M, Armani Exchange and Microsoft*. Restaurants & entertainment tenants include *Godiva Chocolatier, Häagen-Dazs, Harkins Theatres 7-Plex Cinema, Paradise Bakery, Yard House, Z'Tejas,* and Rocky Mountain Chocolate Factory.

The Scottsdale Waterfront is a 1.1 million-square-foot mixed-use commercial/retail, office and residential project located in downtown Scottsdale at the southeast corner of Camelback Road and Marshall Way. It includes retail, office, restaurant and high-rise residential buildings. Retailers include *Urban Outfitters, High Point, David's Bridal, Primp & Blow, Polished the Dental Spa* and *Verizon Wireless*. The restaurants include *Zoës Kitchen, P.F. Chang's, Culinary Dropout, Olive & Ivy, Wildfish* and *Sauce*.

A new mixed-use development, Optima Sonoran Village, is under construction at the southeast corner of Camelback Road and 68th Street. It offers ground floor retail and office space with a 781 residential unit condominium development above. As of the date of the appraisal, 6,441 square feet of retail space was being offered at $28.00 per square foot triple net.

Hayden Road is lined with far less commercial/retail development. Most is clustered around major intersection corners and is characterized more by neighborhood and strip shopping centers.

The majority of the subject neighborhood is south of this new development and redevelopment. Commercial development south of Osborn Road is varied and diverse. Some of the Scottsdale Road frontage is lined with automotive dealerships and used car lots. In between are older, small retail and commercial buildings and automotive-related businesses, some exhibiting deferred maintenance. These building are occupied by a variety small retailers and service-oriented business.

Auto Dealerships

Automobile dealers traditionally have located near each other, creating strip commercial development along major arterial streets. By offering a wide variety of makes and models in one general area, these dealers tend to have a competitive advantage and greater sales potential; customers know that they will be able to compare different lines of cars without having to drive all over town. In addition, these areas tend to attract a variety of auto related services that support the dealer base in that area. Examples of this within the metro Phoenix area include the east Camelback corridor in Phoenix and the Motor Mile in the southern part of Scottsdale.

Significant restructuring of the automobile industry is currently taking place. The weakness of the national and global economies, changes in buyer preferences, and pressures to development new, more environmentally friendly vehicles have all taken a toll on the industry. Manufacturers have also changed their marketing and location strategies with a new emphasis on locations which have direct freeway access—at least in larger urban areas. With these changes has come relocation of dealerships to locations considered more competitive. Manufacturers have also begun enacting programs to reduce the number of dealerships nationally. This affects relocation decisions for those remaining new car dealerships.

In response to these economic and business conditions, Scottsdale and other cities in the metropolitan area have recently experienced substantial changes in the mix and number automobile dealerships through dealership closures, consolidations, and relocations. The appeal and marketability of Motor Mile has significantly weakened. Scottsdale is revitalizing this strip of McDowell Road and Scottsdale Road as well.

A new automobile dealer, Mercedes-Benz of Scottsdale, recently opened at 4725 North Scottsdale Road. It features 115,000-square feet of space on three levels.

Office Development

Office development ranged from smaller 4,000 ± single or two-level class "B" office buildings to multi-level two to three story "Class A" buildings with up to 205,000 square feet or more. Most office development occurred during the 1980s. Area office buildings have historically experienced low vacancy and some of the highest rental rates in the metropolitan area. Most office buildings house smaller service-oriented or professional businesses including architects, real estate companies, attorneys, and mortgage companies.

Hotel-Resort

Scottsdale is a destination with numerous luxury and world class resorts. *W Hotel, FireSky Resort & Spa, Marriott Suites Old Town Scottsdale, Hyatt House Hotel, Hilton Garden Inn, Hotel Indigo, Chaparral Suites Resort, Saguaro Hotel, Scottsdale Cottonwoods Resort, Hilton Resort & Villas, 3 Palms Resort, JW Marriott Camelback Resort, Scottsdale Plaza, Scottsdale Resort & Spa at Montelucia Paradise Valley, Millennium Resort McCormick Ranch, Scottsdale Resort Club*, and *Scottsdale Resort and Conference Center* are within downtown. Within or near the subject neighborhood are the *Hotel Valley Ho, Doubletree Paradise Valley Resort,* the *Renaissance Inn Scottsdale,* the *Radisson Resort,* the *Ritz Carlton Hotel,* the *Royal Palms,* the *Sanctuary on Camelback,* and *The Phoenician*, to name a few. The *Doubletree La Posada* underwent renovation and was renamed *Montelucia.* But later, it went into foreclosure. It is now in the hands of a new owner.

Industrial Development

Only a small amount of land zoned and utilized for industrial uses. A small amount is found just north of Thomas Road in downtown and a parcel or two at the northwest corner of Thomas Road and Pima Road.

Vacant Land

Most of the neighborhood is built-out. Only a few parcels remain available for development. However, old uses which are under-improvements of land are making way for higher density and more profitable development.

Support Facilities

Medical – *Healthcare-Osborn*, a multi-storied medical facility with 366 beds, is located at 74th Street and Osborn Road.

Schools – Seven public schools, including Saguaro High School are located within the neighborhood.

Recreational - Indian Bend Wash was developed in the 1970s as a flood control greenbelt consisting of public parks, lakes, golf courses, and ball fields. This park system provides excellent recreational opportunities to Scottsdale residents. During major rainstorms, some intersections of Hayden Road and cross streets flood and are unusable.

The greenbelt hosts Eldorado Park, Vista Del Camino Park, Indian Bend Park, Indian School Park, Continental Golf Club, Scottsdale Silverado Golf Club are in and along the banks.

Salt River Fields at Talking Stick (a Cactus League baseball training facility for the Arizona Diamondbacks and the Colorado Rockies) opened in 2013 and is located on Pima Road, north of Indian Bend Road and south of Via de Ventura.

Municipal - City offices are located in the Civic Center at the southeast corner of Drinkwater Boulevard and Indian School Road. Within Civic Center are city hall, city offices, library, police/city court building, county court building, retail shops, and the Scottsdale Center for the Arts.

Conclusions and Outlook

The subject property is located in downtown Scottsdale in the southern part of the City of Scottsdale. Recent market conditions are improving in all classifications of property from the recent recession which adversely affected the general availability of credit, and overbuilding in the residential markets, particularly in the outlying and more distant areas of Maricopa County and in Pinal County.

The subject's neighborhood has not been immune from the adverse effects of the market downturn and it too, was adversely affected by the economic downturn. Over the long run, however, the strong locational amenities and the desirability of a Scottsdale address should continue to enhance property values. As overall market conditions continue to recover, the marketability of all types of land and improvements is expected to be good long into the future.

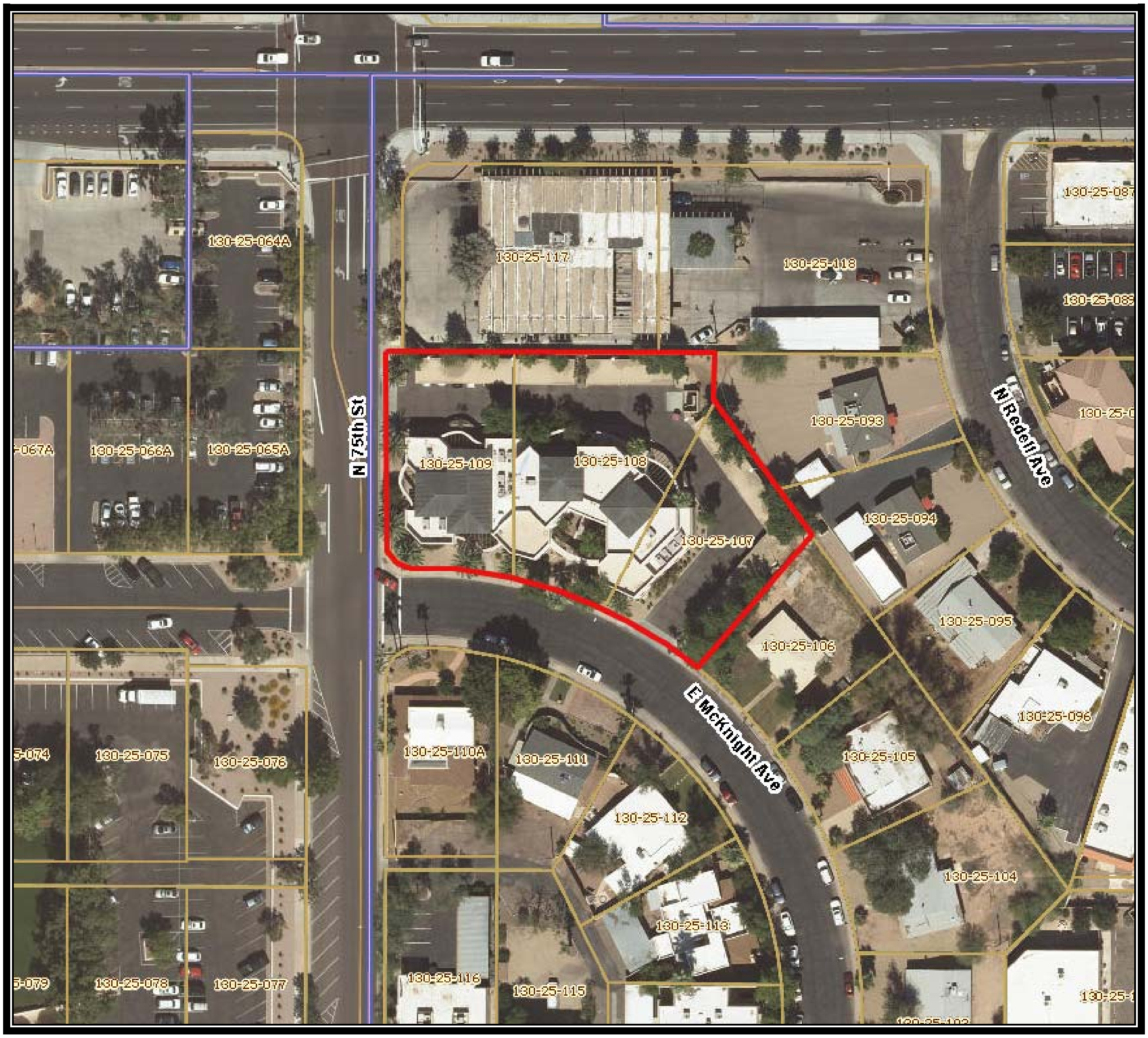
SITE ANALYSIS

ADDRESS:	4021 North 75th Street, Scottsdale, Arizona
ASSESSOR'S PARCEL NOS.:	130-25-107, 108 and 109
SITE AREA:	27,978 ± square feet or 0.642 net acre
SHAPE/DIMENSIONS:	Irregular; see plat map
TOPOGRAPHY:	Level
DRAINAGE:	No drainage study was provided for my review. I assumed no adverse drainage conditions.
FLOOD ZONE:	According to FEMA flood map number 04013C 2235L, effective September 30, 2005, the subject property is within Flood Zone X where periodic flooding is not expected, site improvement costs are typical and flood insurance is not required for improved properties.
CONTAMINATION:	No environmental study was provided for my review. I assumed no contamination.
SOIL:	No soil study was provided for my review. I assumed no adverse soil conditions.
ARCHEOLOGICAL:	No archeological study was provided for my review. I assumed no ruins, burials, or artifacts.
FRONTAGE/ACCESS:	190.47 feet of frontage on the north side of McKnight Avenue, a neighborhood street; 114.54 feet of frontage on the east side of 74th Street, a collector street

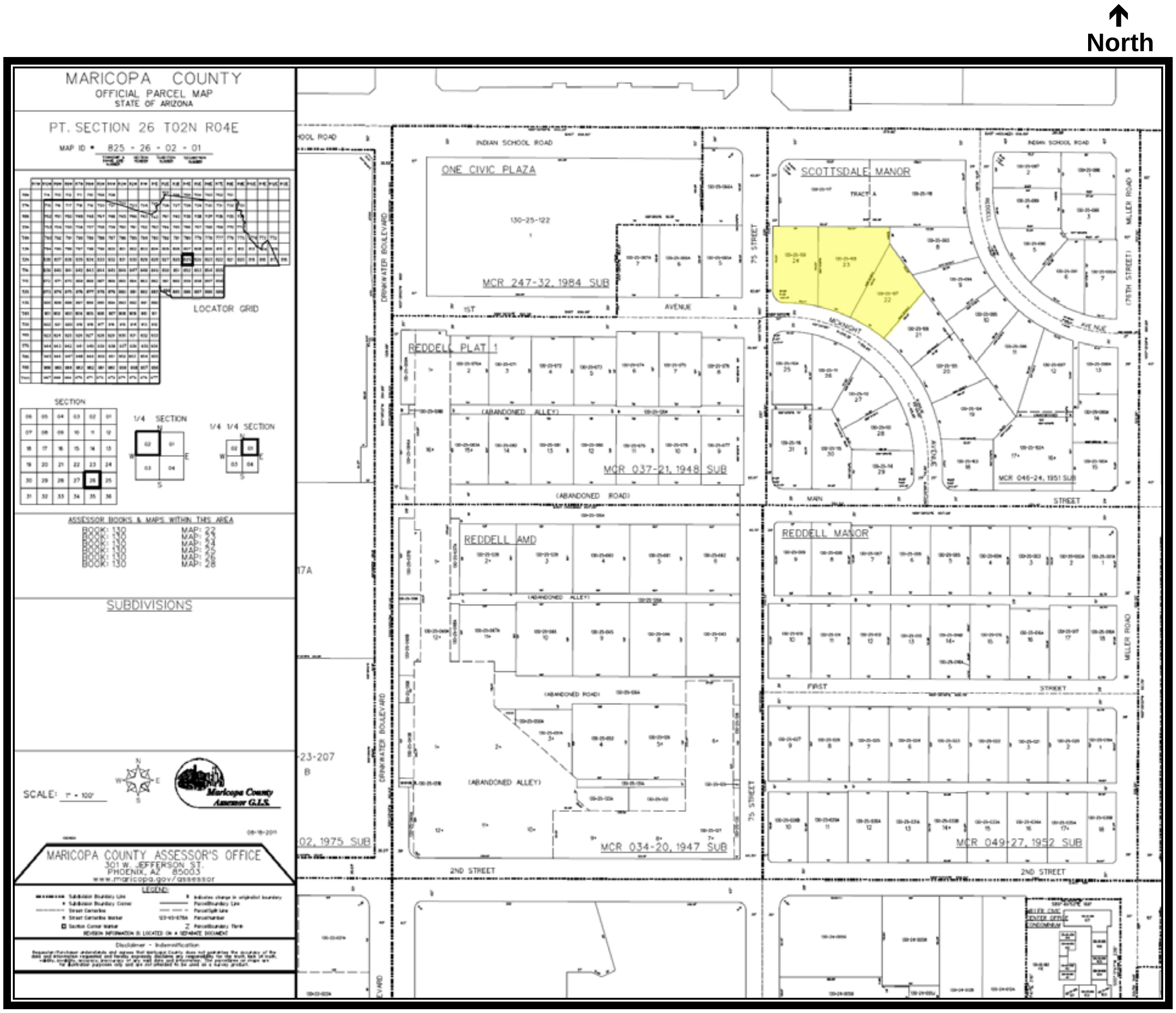
AERIAL PHOTOGRAPH

(2014)

North

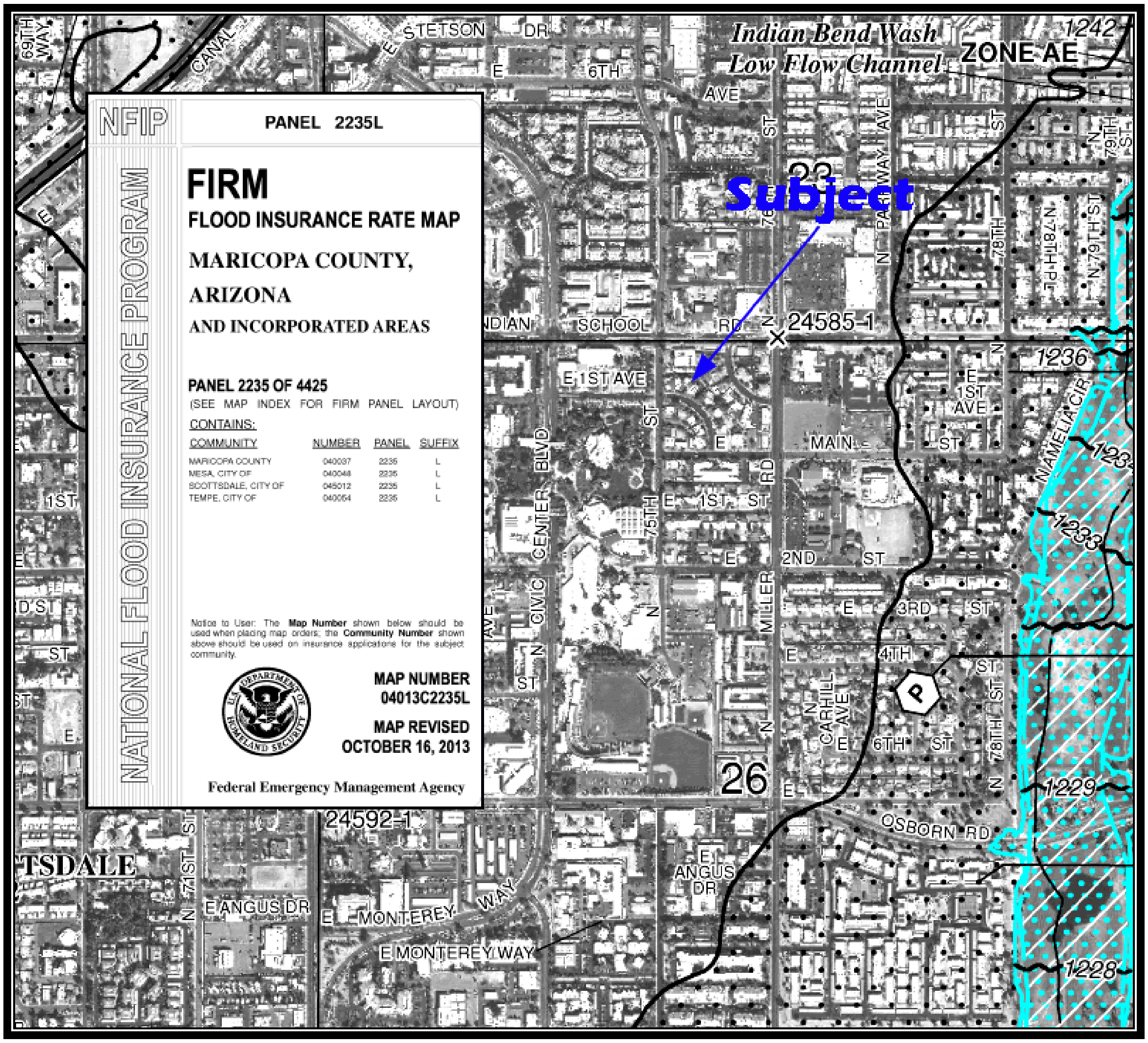


ASSESSOR'S PLAT MAP



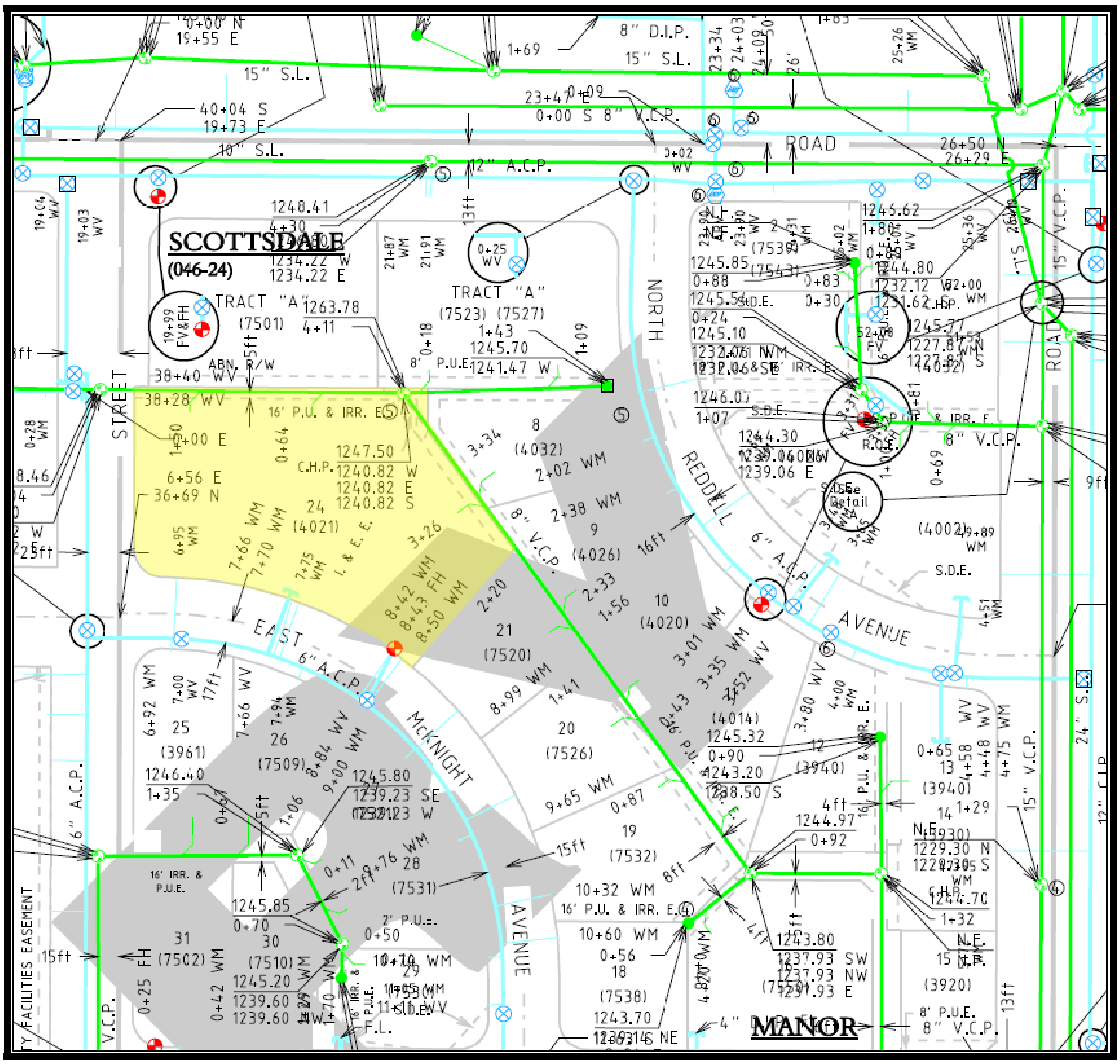
FEMA FLOOD ZONE MAP

North



CITY OF SCOTTSDALE UTILITY MAP

North



STREET IMPROVEMENTS:	McKnight Avenue	75th Street
Right-of-Way	53.81 feet	50 feet
Traffic Lanes	1 north/1 south	1 east/1 west
Median	None	None
Surface	Asphalt	Asphalt
Curb/gutter	Yes	Yes
Sidewalk	Yes	Yes
Streetlights	Yes	Yes
Storm Sewer	Yes	Yes
Speed Limit	30 m.p.h.	25 m.p.h.
Curbside Parking	Yes	No

The intersection of McKnight Avenue and 75th Street is stop sign controlled on McKnight Avenue only.

TRAFFIC COUNT: Both Streets - Light, unmeasured

FUTURE ROW REQUIREMENTS: None anticipated

EASEMENTS: Typical utility easements which do not unduly restrict the subject's marketability were assumed.

UTILITIES:

Water	City of Scottsdale
Electric	Salt River Project
Sanitary Sewer	City of Scottsdale
Telephone	CenturyLink
Gas	Southwest Gas

ADJACENT LAND USES:

North	Commercial
East	Office
South	Single-family residences
West	City offices

ENCROACHMENTS: None noted

EXTERNAL INFLUENCES: None noted

MARKETABILITY:

Physical factors which enhanced marketability included:

- Appealing Scottsdale location
- Publicly-dedicated and maintained access
- No soil or sub-soil problems known
- Electricity, water and sewer available
- Level topography
- Sufficient size for many uses

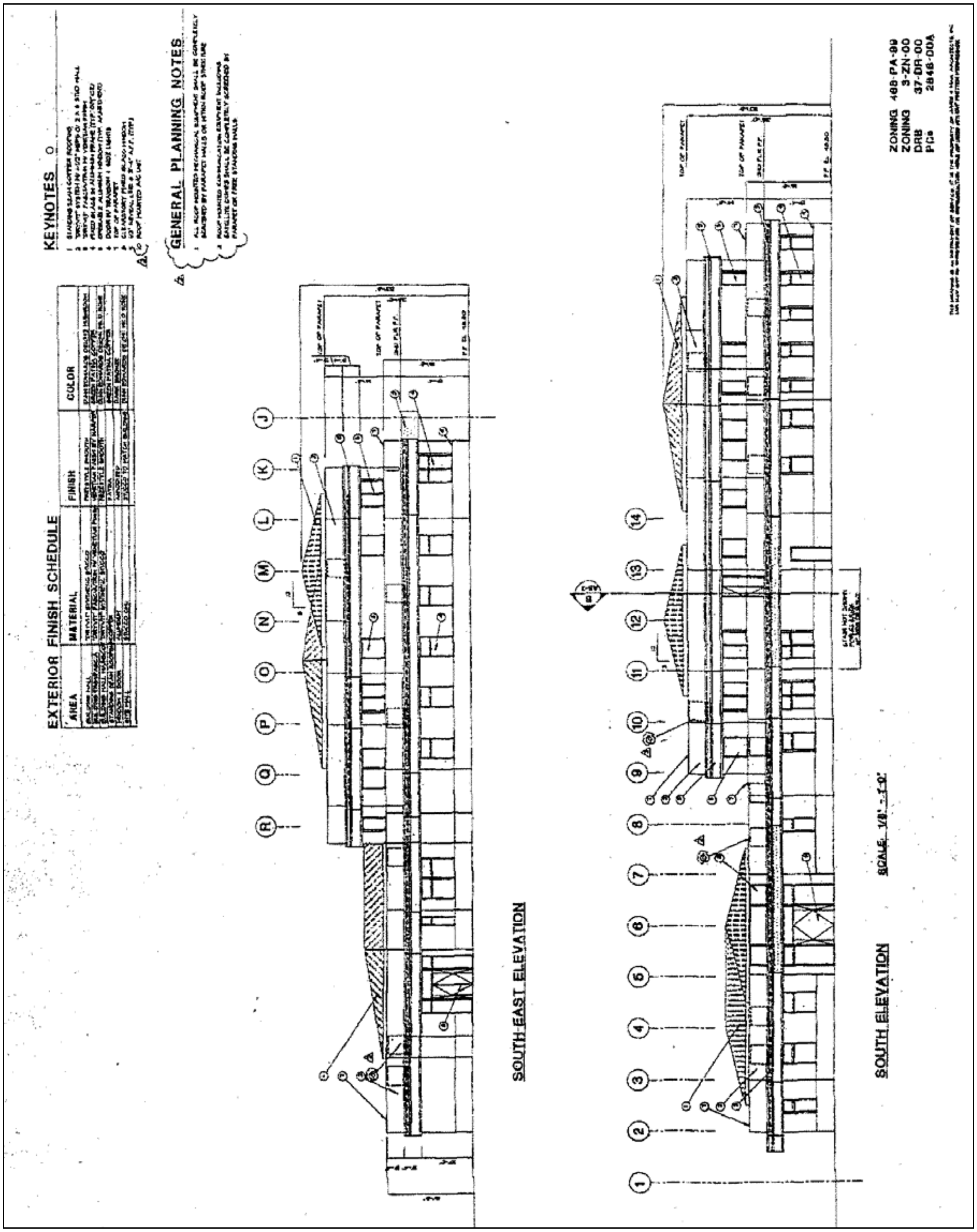
Physical features which limited marketability included:

- None

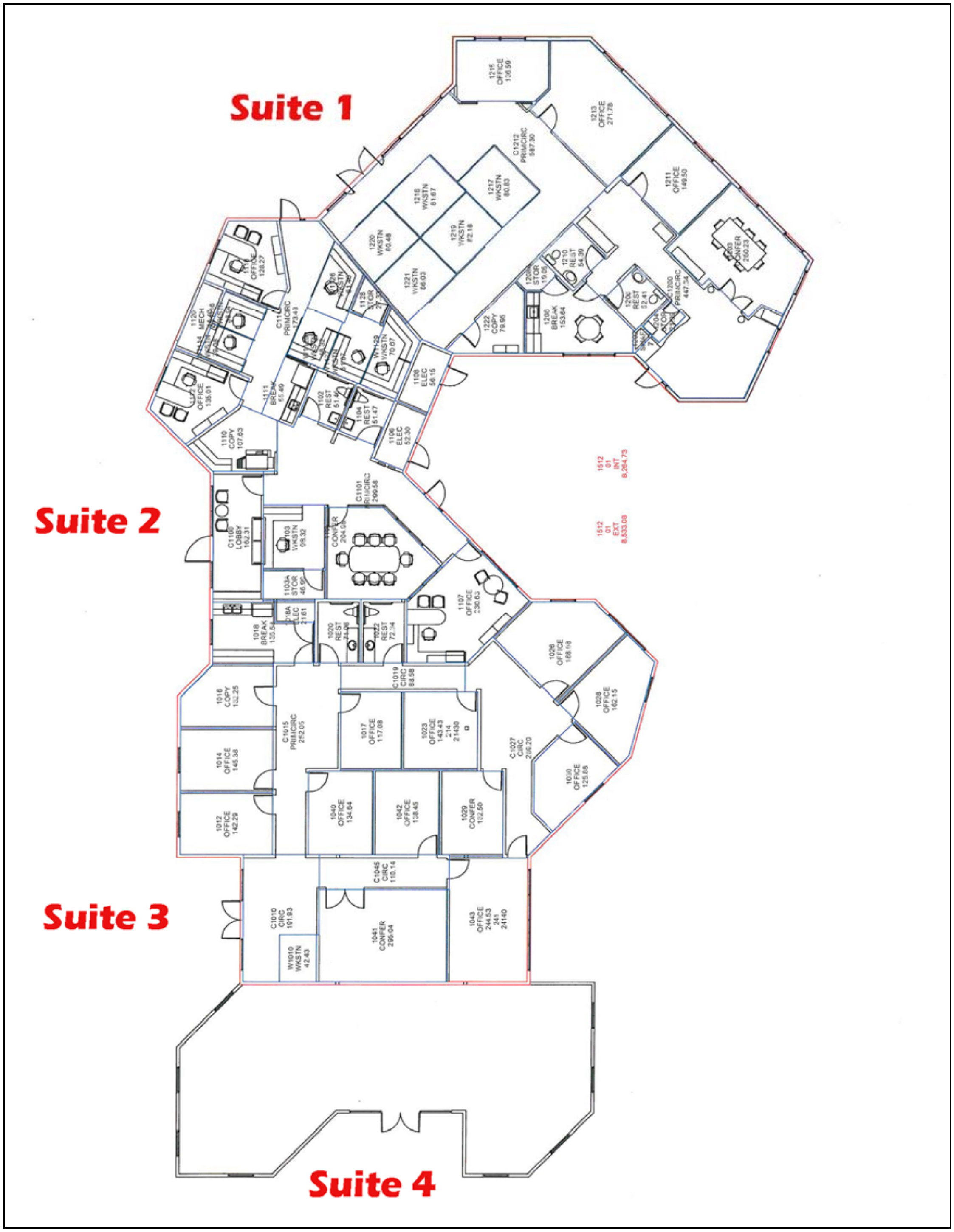
IMPROVEMENT ANALYSIS

INTRODUCTION:	This description of the subject property is based upon my physical inspection of the subject on July 9, 2014 and data provided by the property owner.
ADDRESS:	4021 North 75th Avenue, Scottsdale, Arizona
TYPE:	The subject property is a two-story, multi-tenanted, office building with two second-floor residential units. The design is contemporary with a color-coated stucco exterior and thermal glass in metal sash.
YEAR BUILT:	2001
BUILDING AREA:	Building plans and other data provided by the property owner indicated a net leasable area of 14,463 square feet including 10,583 square feet of first-floor office area and 3,880 square feet in two second-floor residential apartments.
LAND-TO-BUILDING RATIO:	1.93:1 (based on net leasable area)
FLOOR AREA RATIO:	0.52:1
BUILDING PLANS AND LAYOUT:	Please refer to the Building Elevations and Building Plans on the next pages. The layout has two second-floor residential units over a multi-tenant office. There is one staircase on the south sides serving the upper level.
INTERIOR LAYOUT:	All office suites and the two residential units have exterior entries. The building is currently divided into four office suites of 1,740 square feet, 3,673 square feet, 1,661 square feet and 3,509 square feet, plus two residential units of 1,940 square feet each. Restrooms are internal to each office tenant space.

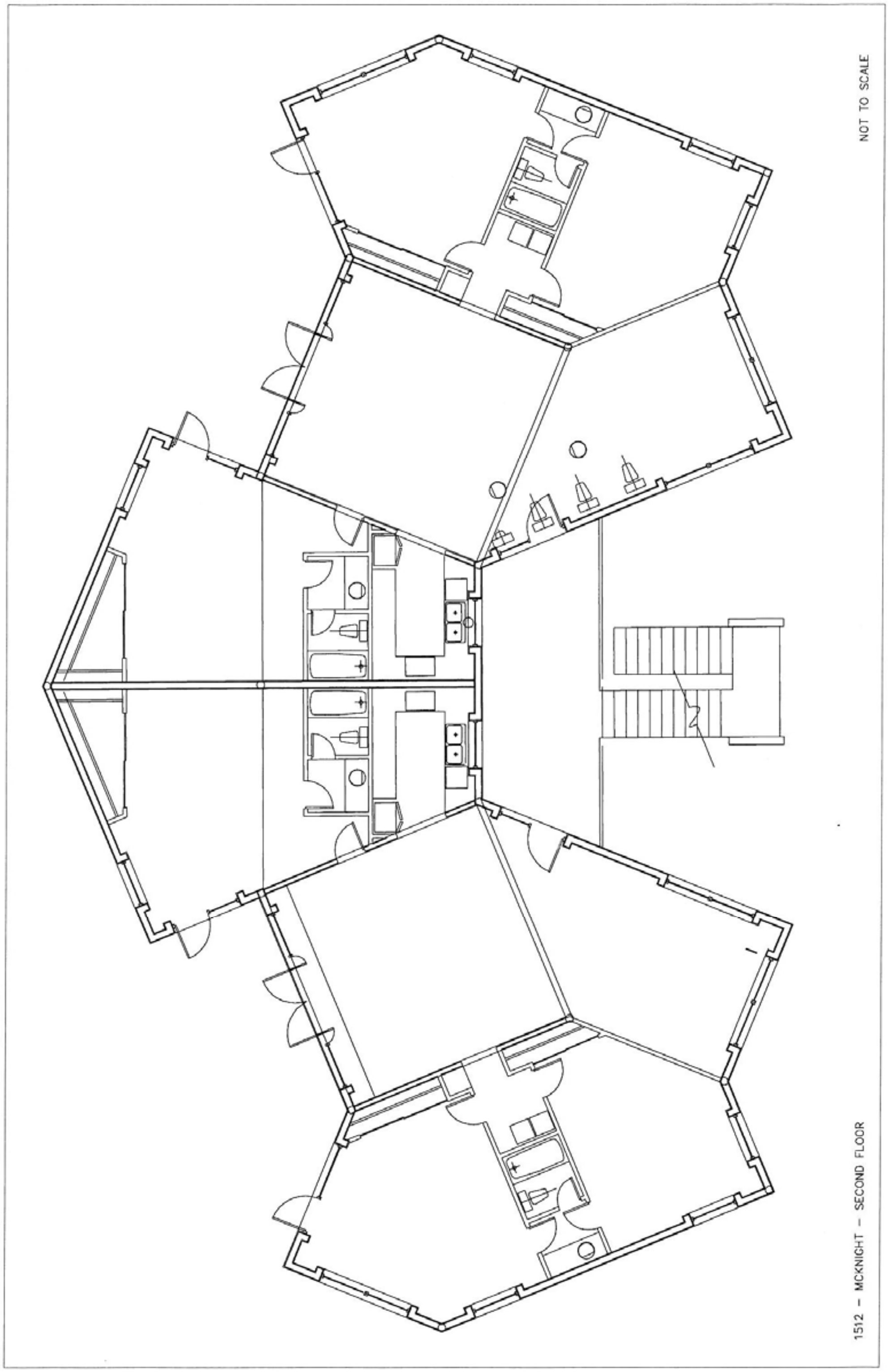
ELEVATION PLANS



FIRST FLOOR BUILDING PLAN



SECOND FLOOR BUILDING PLAN



STORAGE AND JANITORIAL:	Storage/janitorial areas are within tenant spaces
FOUNDATION:	Reinforced concrete perimeter foundation walls and interior footings
FLOORS:	First Floor – Poured concrete Upper Floors – Gypcrete over plywood (assumed)
EXTERIOR WALLS:	Stucco over frame exterior curtain walls are supported by structural steel frame
ROOF STRUCTURE:	Steel trusses (assumed)
ROOFING:	Tile and built-up roofing systems
WINDOWS:	Reflective thermal glass in bronzed anodized aluminum frames
DOORS:	Bronze anodized aluminum and glass entry doors; hollow metal utility doors; solid core interior wooden doors; steel and wood door frames and trim
FLOOR COVERINGS:	Exposed, stained/painted concrete in hallways; carpet in offices; ceramic tile in restrooms (typical)
PARTITIONS:	Steel studs covered with painted or papered drywall
INSULATION:	Batt insulation in ceiling and walls (assumed)
CEILINGS:	9 or 10-foot suspended acoustic tile ceilings in most offices and corridors
HEATING & COOLING:	14 roof-mounted HVAC units ducted to all areas
PLUMBING AND RESTROOMS:	Copper plumbing; private men's and women's restrooms in each tenant spaces, typically equipped
LIGHTING:	Recessed fluorescent lighting or suspended decorative fluorescent fixtures
FIRE SPRINKLERS:	Yes
STAIRCASES:	One double-width steel and masonry staircase on the south side serves second-floor residential units

ELEVATORS:	None
UTILITIES:	Electricity and water service; all appear to be average and suitable for typical office use; natural gas service for residential units
METERING:	Separate metering for electricity, water and gas
PARKING:	The parking is on the north and east sides of the building with 35 covered spaces.
PARKING RATIO:	The subject property has an overall parking ratio of 1:413 square feet or 2.42 spaces per 1,000 square feet of gross and leasable building area According to Kim Chafin, City of Scottsdale Planning Department, non-residential buildings have a required parking ratio of 1:350 square feet and residential units require one parking space per bedroom. Thus, the subject's 10,583 square foot office area has 31 available parking spaces for a parking ratio of 1:341 square feet, well within the city's requirement. The residential units have 2 bedrooms each and require access to the remaining 4 spaces.
RESIDENTIAL UNITS:	The two second-floor residential units are mirror images of one another. Each includes 1,940 square feet with 12-foot ceilings, vaulted living room ceiling, three bedrooms and two baths. Kitchens have double porcelain-on-steel sinks with disposals, dishwasher, good quality wood cabinets, ceramic tile floors and Jenn Air cooktops and built in microwaves and ovens. Each has a pantry room, a large terrace on the south side and a balcony on the north side. The master suites have large bedrooms with ceiling fans, ceramic tiled bathrooms with glass-walled showers, seven foot wooden vanities with double sinks, and bathtubs with tile surrounds and standard toilet. Secondary bedrooms share a three-fixture bathroom with single sink, shower over bathtub and standard toilet. Each bedroom has a large closet. Laundry equipment is in a hall closet. All windows have thermal glass with contemporary coverings.

IMPROVEMENT PHOTOGRAPHS

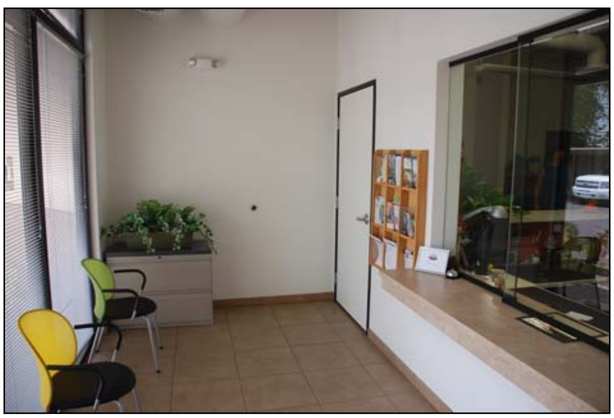
(July 9, 2014)


Suite 1 Office Cubicles


Suite 1 Conference Room and Typical Office

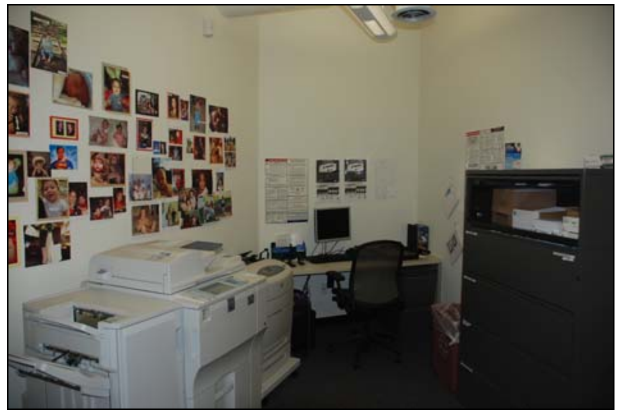

Suite 1 Breakroom and Work Area

Suite 1 Restrooms



Suite 2 Reception Area

Suite 2 Conference Room and Typical Office

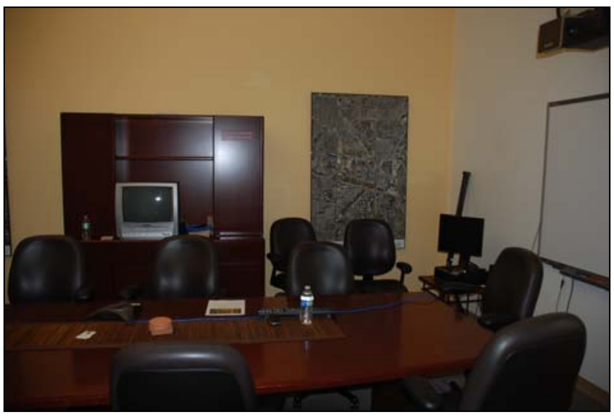


Suite 2 Work Area and Copy Room

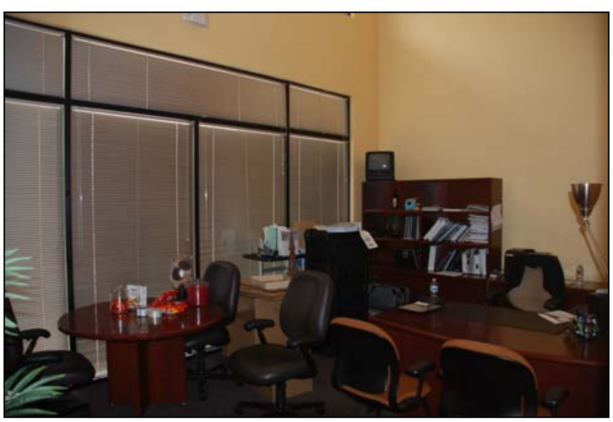
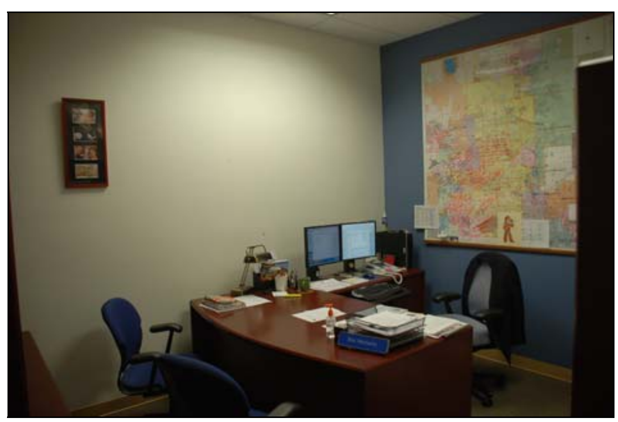
Suite 2 Breakroom

Suite 2 Restrooms


Suite 3 Reception Area




Suite 3 Conference Room

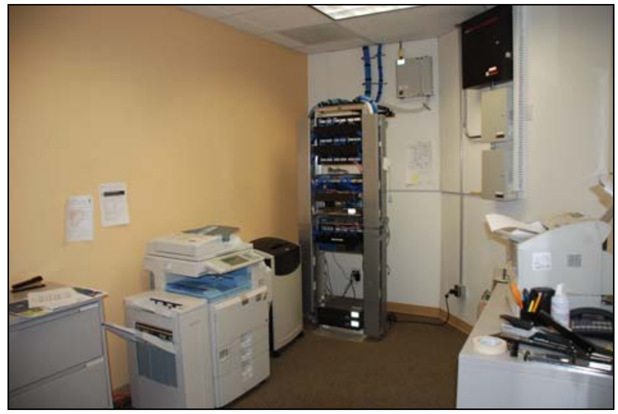



Suite 3 Typical Offices


Suite 3 Work Room and Open Area

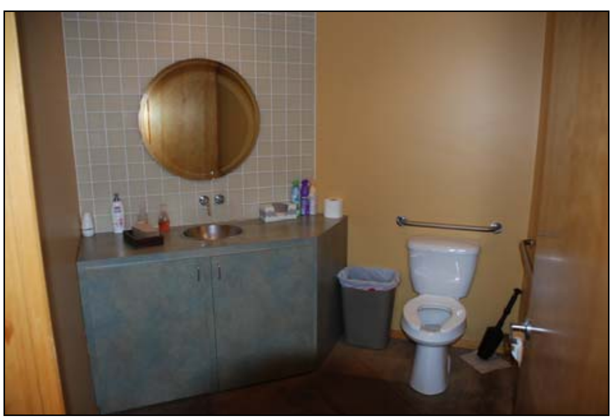
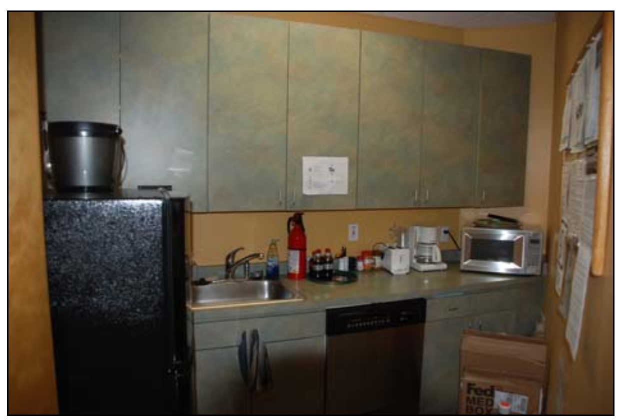

Suite 3 Restroom and Storage/Utility Room


Suite 4 Reception and Conference Room

Suite 4 Open Work Area and Copy Room


Suite 4 Conference Room and Typical Office

Suite 4 Typical Restroom and Breakroom


Typical Second Floor Residential Unit Kitchen


Typical Second Floor Restroom


Typical Second Floor Living Room and Bedroom

Typical Secondary Restroom

Second Floor Terrace and Balcony

LANDSCAPING:	Mature trees and shrubs watered by a timed drip irrigation and sprinkler system
PROJECT SIGNAGE:	Address only
ENVIRONMENTAL CONSIDERATIONS:	For the purposes of this analysis, I assumed no contamination. Should contamination be found, then as a minimum, the cost of detection, removal, transportation and storage should be deducted from the final value estimate if sold in an "as is" condition.
AMERICANS WITH DISABILITIES ACT:	The subject property was constructed in 2001 according to the Assessor's records and subsequent to the enactment of the Americans with Disabilities Act (ADA). As such, it is likely that the subject improvements comply with the requirements of the ADA, but the appraiser is not trained to discern all compliance. There does not appear to be any provision for handicapped access to the second floor. The services of an ADA-certified building inspector is recommended should the reader have any questions.
QUALITY CLASSIFICATION:	CoStar, a provider of real estate data and information, classifies the subject building as Class B. I agree with this rating. The office structural and tenant improvements appear to be good quality overall. The second-floor residential units are classified as very good quality with granite tile kitchen surfaces, upgraded cabinets and fixtures.
PHYSICAL DEPRECIATION:	Overall, the subject appeared to be in good condition that reflects its 13-year age. No deferred maintenance was noted.
FUNCTIONAL OBSOLESCENCE:	The design of the office portion of the building is contemporary and functional. The layout with multiple restrooms is highly marketable. However, the second floor residential units are atypical of the office market and lack the amenities of nearby residential apartment complexes making the property less desirable overall and limiting to marketability. Thus, functional obsolescence was noted.
EXTERNAL OBSOLESCENCE:	None noted

PHYSICAL LIFE & EFFECTIVE AGE: An office building like the subject and the associated improvements typically have a physical life of 60 ± years. The subject improvements were 13 years old on the date of valuation. Given the good condition of the property, its effective physical age was also considered to be 13 years old

REMAINING PHYSICAL LIFE: 47 years

ECONOMIC LIFE & EFFECTIVE AGE: Economic life is generally shorter than physical life given changes in investor and user taste. Thus, effective economic life can be greater or less than effective physical age. In this case, the economic life of such improvements is 50 years in my opinion.

Considering the contemporary design, the effective economic age is estimated to be 10 ± years.

REMAINING ECONOMIC LIFE: 40 years with typical maintenance

REAL PROPERTY VS. PERSONAL PROPERTY: Real property included:

- Fixed interior and exterior lighting
- Plumbing fixtures
- Window coverings
- Electrical systems and HVAC
- Doors
- Floor coverings
- Cabinetry
- Security alarm systems
- Landscaping

Personal property included:

- Furniture
- Appliances
- Office equipment, tools and supplies
- Electronics (computers, communications equipment, etc.)

ZONING AND LEGAL RESTRICTIONS ANALYSIS

General Plan

The Downtown Scottsdale Land Use Plan, dated March, 2005, designated the subject property for "Office-Residential" development.

Zoning Classification

The subject parcel is zoned D/OR-1.5, DO, Downtown, Office-Residential, Low Scale Development, Downtown Overlay. The D/OR district is one of six downtown districts and is intended to provide for an environment compatible with office and residential uses either as mixed uses on one (1) site or as neighboring uses. Ancillary uses such as retail are permitted for local convenience, but limited in scale and design to protect against dispersion of these activities from other designated subdistricts. The 1.5 designation is for low scale development permitting a base floor area ratio of 0.8, and with bonus credits for particular developments up to a 1.8 FAR. The DO designation is a downtown overlay and will be discussed below.

Permitted Uses – D/OR

Many uses are allowed under D/OR zoning. These include single-family and multi-family residential uses, hotels, motels, resorts, banks, savings and loans, small scale restaurants and bars, food sales, professional and medical offices, and parking and accessory uses.

DO, Downtown Overlay

The primary purpose of the DO, Downtown Overlay district is to create new opportunities for the development or expansion of properties that do not have (D) downtown zoning. The (DO) downtown overlay also provides additional regulations for properties with and without downtown zoning. Specific objectives of the downtown overlay include:

A Simplify parking regulations to ease the downtown development process
B Provide incentives for new buildings, remodels, for buildings with new tenants, or for building area expansions of smaller downtown businesses
C Allow for more residences in downtown
D Maintain a mixture of land uses to keep downtown vital in the day and night
E Minimize the impact of bars, after hours establishments, tattoo and related businesses and other similar uses on neighboring properties
F Enhance the nature of downtown by encouraging uses that cater to all ages and by requiring greater oversight of potentially detrimental uses
G Assure consistent regulation of design and architecture throughout downtown

Downtown Overlay Land Use Classifications

A. Residential Use Classifications
   1. Multifamily residential: Two (2) or more dwelling units on a lot
   2. Single-family residential: One (1) dwelling unit on a lot
B. Commercial Use Classifications
   1. After hour establishments
   2. Bar and cocktail lounges; taverns, nightclubs and lounges shall be classified as bars if they meet the definition
   3. Restaurant
   4. Tattoo and related businesses

Downtown Overlay Use Regulations

"P" Permitted without conditions
"L" Permitted with limitations to size or use characteristics as described in land use classifications (Section 6.1206)
"CU" Permitted with a Conditional Use Permit
"N" Not permitted

Residential
Multi-family residential (3) - P
Single-family residential (1) L

Commercial
After hours establishments (see sec. 1.403 for criteria) - CU
Bars (2), except for properties with (R-5) Multiple-family Residential District and (S-R) Service Residential zoning (see sec. 1.403 for criteria) - CU
Bars (2) , for properties with (R-5) Multiple-family Residential District and (S-R) Service Residential zoning - N
Drive-through and drive-in restaurants - N
Tattoo and related businesses, except for properties with (R-5) Multiple-family Residential District and (S-R) Service Residential zoning (see sec. 6.1205.B. for criteria) - CU

(1) Cannot occupy more than twenty-five (25) percent of the first-floor floor area and cannot be located along street frontages on the first floor
(2) Commercial use classification as set in Sec. 6.1206.B.2
(3) Shall not occupy the first floor in Special District Type 1 areas as designated in the Downtown Plan Urban Design

Downtown Overlay Development Standards

1. Floor area ratio (FAR) - 0.8
   FAR bonus maximum - 0.5
   Total maximum FAR (excluding residential) - 1.3
2. Building Volume - No maximum
3. Open Space - None required and the site development shall demonstrate conformance to the Downtown Plan Urban Design and Architectural Guidelines

Site requirements within (DO) Downtown Overlay (all zoning districts)

1. Minimum site area - None required
2. Minimum front building setback - 16 feet from planned curb
3. Minimum interior side building setback - None.
4. Minimum corner side building setback - 16 feet from planned curb

5. Minimum rear building setback - Minimum of 50 feet when adjacent to single-family residential districts, and minimum of 25 feet when adjacent to multi-family residential districts. No minimum in all other instances except as required for off-street loading and trash storage.

Residential density (all zoning districts) with Downtown Overlay

1. Maximum residential density - 23 dwelling units per gross acre

Downtown Overlay Parking Regulations

Commercial Retail Service Uses and Parking Area Required

Banks/financial/civic offices
    One (1) space per three hundred (300) square feet of gross floor area
Bars, taverns, nightclubs, lounges –
    One (1) space per eighty (80) square feet of gross floor area
    One (1) space per two hundred (200) square feet of outdoor public floor area, excluding the first two hundred (200) square feet
Establishments with live entertainment
    One (1) space per eighty (80) square feet of gross floor area, plus one (1) space which is available to the live entertainment establishment between 8:00 p.m. and 2:00 a.m. per twenty-five (25) square feet of gross floor area
Freestanding stores
    One (1) space per three hundred (300) square feet of gross floor area
Office, business and professional services
    One (1) space per three hundred (300) square feet of gross floor area
Personal services
    One (1) space per three hundred (300) square feet of gross floor area
Restaurants
    One (1) parking space for each one hundred and twenty (120) square feet of gross floor area.
One (1) space for each three hundred fifty (350) square feet of outdoor public floor area. Exclude the first three hundred fifty (350) square feet of outdoor public floor area, unless the space is located next to and oriented toward a publicly owned walkway, in which case the first five hundred (500) feet of outdoor public floor area is excluded.
Restaurants that serve breakfast and lunch only
    One (1) parking space for each two hundred fifty (250) square feet of gross floor area
    One (1) space for each three hundred fifty (350) square feet of outdoor public floor area. Exclude the first three hundred fifty (350) square feet of outdoor public floor area, unless the space is located next to and oriented toward a publicly owned walkway, in which case the first five hundred (500) feet of outdoor public floor area is excluded.
Live performing arts theaters
    One (1) parking space per ten (10) seats
All other uses
    As specified in Article IX

Entitlements

The subject was entitled for the existing use. However, the entitlement had no contributory market value as no one would replicate the improvements today.

Rezoning Potential

The existing zoning provides for many uses and permits a wide variety of commercial uses and mixed uses. Given the surrounding uses and the trends in the neighborhood, no change in zoning is likely.

Private Restrictions

No title report was provided. I assumed no adverse deed restrictions or active CC&Rs.

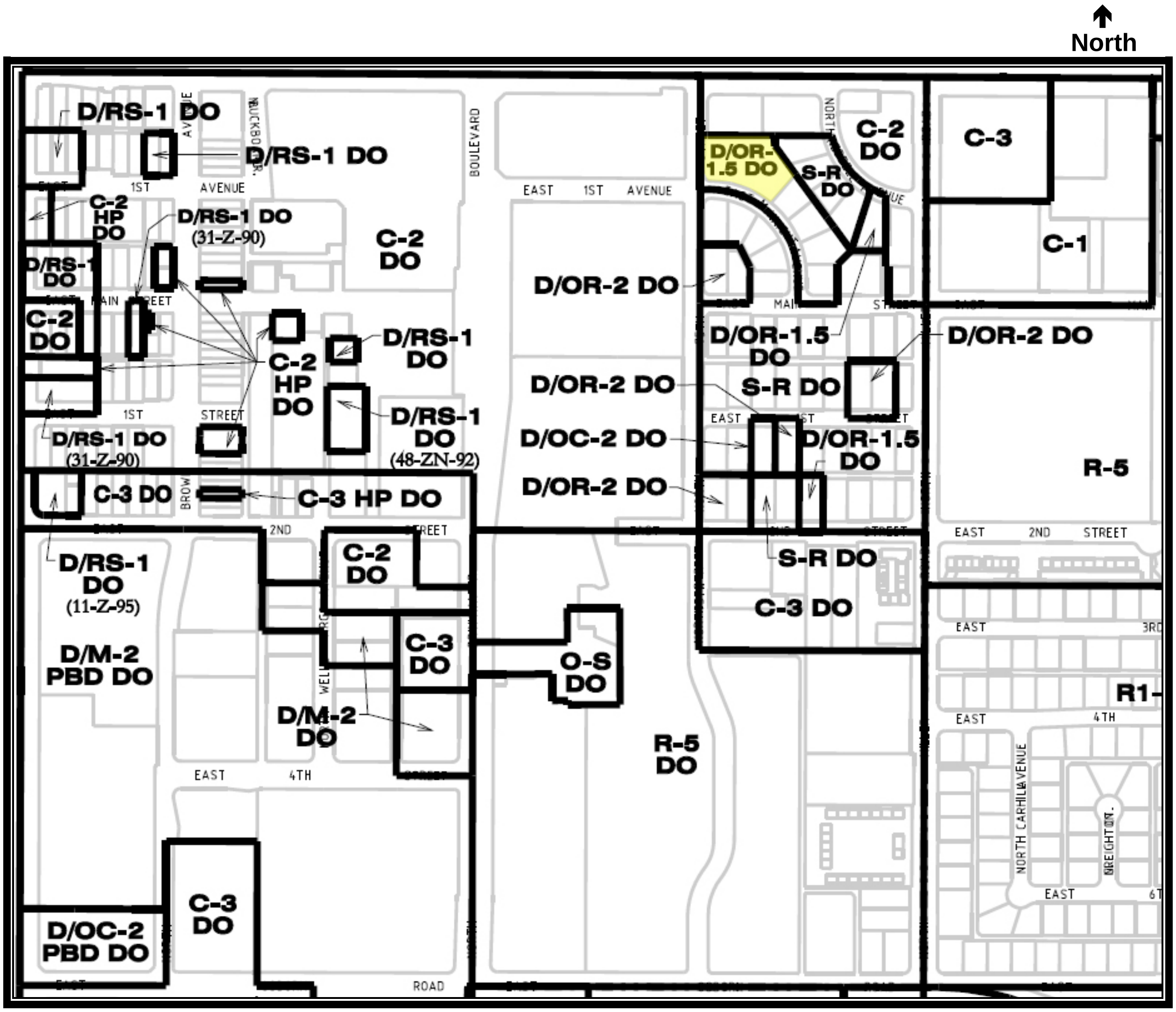
Off-Title Information

At times, a property can be restricted by agreements with adjoining property owners, by customary use or by adverse possession. In this case, there appeared to have been none.

Existing Use

Neighborhood trends support the current zoning and the subject's improvements are among those uses permitted by current zoning restrictions. The existing improvements constitute a legal use in the current zoning code. Because building codes have changed since the improvements were constructed, individual construction details, setbacks, retention and landscaping requirements may not adhere to current codes making the improvements a legal non-conforming use. However, such status, if true, does not adversely affect its market value. The improvements can continue to be used, as is, without the need to meet current standards, as long as the basic use is not changed.

ZONING MAP


North
D/RS-1 DO
D/RS-1 DO
C-2 HP DO
D/RS-1 DO (31-Z-90)
C-2 DO
D/RS-1 DO
C-2 DO
C-2 HP DO
D/RS-1 DO
D/RS-1 DO (48-ZN-92)
D/RS-1 DO (31-Z-90)
C-3 DO
C-3 HP DO
D/RS-1 DO (11-Z-95)
D/M-2 PBD DO
C-2 DO
C-3 DO
D/M-2 DO
C-3 DO
D/OC-2 PBD DO
D/OR-2 DO
D/OR-2 DO
D/OC-2 DO
D/OR-2 DO
O-S DO
R-5 DO
D/OR-1.5 DO
S-R DO
C-2 DO
D/OR-1.5 DO
S-R DO
D/OR-1.5 DO
S-R DO
C-3 DO
C-3
C-1
D/OR-2 DO
R-5
R1-
EAST 1ST AVENUE
BOULEVARD
EAST 2ND STREET
EAST 4TH
NORTH CARHILL AVENUE
ROAD

REAL ESTATE TAX AND ASSESSMENT ANALYSIS

Introduction

Most real property in the county is assessed by the Assessor and the tax liability is collected by the Treasurer. Assessed values are typically established in November or December of each year, with tax rates in the following September. Taxes are paid in equal bi-annual installments, due October 1 of the current tax year and March 1 of the following year.

Assessment and Full Cash Value

The Assessor identified the subject with parcel numbers 130-25-107, 108 and 109. The parcels were classified as "City Commercial Property" and assessed at ratios of 16% for 2013. For 2013 the aggregate ownership had an estimated full cash value of $2,258,619 with $1,145,619 or $156.17 per square foot allocated to the improvements and $1,113,000 or $39.78 per square foot allocated to the land. The 2013 value represented a slight increase of .008% over the 2012 aggregate full cash value of $2,240,035. The Assessor's 2013 estimate of full cash value was higher than mine.

Real Estate Tax Liability

The subject property has no tax liability as it is owned by the City of Scottsdale, a tax exempt entity. However, for my appraisal I have assumed a typical tax liability as a stabilized operating expense.

Delinquent Tax Liability

None

Special Assessment

No special assessment was reported.

HIGHEST AND BEST USE ANALYSIS

Highest and best use reflects a basic assumption about real estate market behavior--that the price a buyer will pay for a property is based on his or her conclusions about the most profitable use of the land or property. The determination of a property's highest and best use may or may not conform with the existing use. The determination of highest and best use must be based upon careful consideration of prevailing market conditions, trends affecting market participation and change, and the existing use of the subject property.

Highest and best use may be defined as:

> *The reasonably probable and legal use of vacant land or an improved property, that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. Alternatively, the probable use of land or improved property-specific with respect to the user and timing of the use-that is adequately supported and results in the highest present value.* [5]

Because the use of land can be limited by the presence of improvements, highest and best use is determined separately for the land as though vacant and available to be put to its highest and best use, and then for the property as it is currently improved.

The first determination reflects the fact that land value is derived from potential land use. Land has limited value or no value unless there is a present or anticipated use for it. The amount of value depends on the nature of the land's anticipated use according to the concept of surplus productivity. Among all reasonable alternative uses, the use that yields the highest present value, after payments are made for labor, capital, and coordination, is generally regarded as the highest and best use of the land as though vacant.

The highest and best use of a property as improved refers to the optimal uses that could be made of the property including all existing structures. The implication is that the existing improvements should be retained "as is" so long as they continue to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing them and the construction of the new improvement.

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5 Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition, (Chicago, Illinois: Appraisal Institute, 2010), page 93.

The highest and best use of both land as though vacant and property as improved must meet four criteria. The highest and best use must be:

1. Physically possible,
2. Legally permissible,
3. Financially feasible, and
4. Maximally productive.

These four criteria are considered in reference to the subject property in the following analysis.

Highest and Best Use, As Vacant

Physically Possible

The subject was 27,978 square feet or 0.642 acre of land located at 4021 North 75th Street, Scottsdale, Arizona. Physical factors which enhanced marketability included:

- Appealing Scottsdale location
- Publicly-dedicated and maintained access
- No soil or sub-soil problems known
- Electricity, water and sewer available
- Level topography
- Sufficient size for many uses

Physical features which limited marketability included:

- None

The subject's location and trends of development in the area indicate that the subject was ultimately most suitable for a professional office development.

Legally Permissible

Public Restrictions – The Downtown Scottsdale Land Use Plan, designated the subject property for "Office-Residential" development. The subject parcel is zoned D/OR-1.5, DO, Downtown, Office-Residential, Low Scale Development, Downtown Overlay. The D/OR district is one of six downtown districts and is intended to provide for an environment compatible with office and residential uses either as mixed uses on one (1) site or as neighboring uses. Ancillary uses such as retail are permitted for local convenience, but limited in scale and design to protect against dispersion of these activities from other designated subdistricts. The 1.5 designation is for low scale development permitting a base floor area ratio of 0.8, and with bonus credits for particular developments up to a 1.8 FAR.

The primary purpose of the DO, Downtown Overlay district is to create new opportunities for the development or expansion of properties that do not have (D) downtown zoning. The (DO) downtown overlay also provides additional regulations for properties with and without downtown zoning.

Entitlements – The subject was entitled for the existing use. However, the entitlement had no contributory market value as no one would replicate the improvements today.

Rezoning Potential - The existing zoning provides for many uses and permits a wide variety of commercial uses and mixed uses. Given the surrounding uses and the trends in the neighborhood, no change in zoning is likely.

Private Restrictions – No adverse deed restrictions or active CC&Rs were noted in a review of the title report.

Off-Title Information - At times, a property can be restricted by informal agreements with adjoining property owners, by customary use or by adverse possession. In this case, there appeared to have been none.

Financially Feasible

Given the subject's downtown Scottsdale location and zoning, it has the best potential for general office development.

The CoStar Office Report 2nd Quarter 2014 provided a useful overview of office market conditions for the Phoenix metropolitan office market. Total office inventory in the Phoenix market area amounted to 159,579,745 square feet in 8,088 buildings as of the 2nd Quarter 2014. As of 2nd Quarter 2013, total office inventory was 160,103,881 square feet in 8,106 buildings. At the end of 4th Quarter 2012, the office inventory was 159,948,274 square feet in 8,105 buildings.

During 2nd Quarter 2014, one 100,622 square foot building was completed in the Phoenix market area. One building, totaling 68,867 square feet, was completed in 2nd Quarter 2013, with three buildings totaling 196,153 square feet completed in 2nd Quarter 2013. There were 2,007,403 square feet of office space under construction at the end of 2nd Quarter 2014.

Total Office Market Statistics — Mid-Year 2014

	Existing Inventory		Vacancy			Net	Deliveries		UC Inventory		Quoted
Period	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	# Blds	Total RBA	# Blds	Total RBA	Rates
2014 2q	8,088	159,579,745	27,431,989	28,191,437	17.7%	285,140	1	100,622	13	2,007,403	$20.62
2014 1q	8,088	159,504,123	27,617,768	28,400,955	17.8%	792,884	1	117,710	11	1,839,890	$20.39
2013 4q	8,095	159,884,70	28,841,921	29,574,417	18.5%	589,317	1	5,200	10	942,600	$20.28
2013 3q	8,100	160,049,660	29,555,164	30,328,693	18.9%	977,519	2	74,252	5	522,599	$20.17
2013 2q	8,106	160,103,881	30,567,613	31,360,433	19.6%	100,128	3	196,153	4	197,162	$20.00
2013 1q	8,103	159,907,728	30,476,307	31,264,408	19.6%	19,933	0	0	6	388,115	$19.41
2012	8,105	159,948,274	30,470,682	31,324,887	19.6%	3,128,315	15	1,381,085	5	382,730	$19.91
2011	8,102	158,727,572	32,174,595	33,232,500	20.9%	1,181,798	10	755,149	6	990,962	$20.39
2010	8,094	158,026,892	32,501,978	33,713,618	21.3%	494,869	15	1,461,615	10	1,632,506	$21.32
2009	8,079	156,565,277	31,492,173	32,746,872	20.9%	(2,058,832)	59	2,614,638	13	2,478,394	$22.83
2008	8,026	154,150,413	26,715,670	28,273,176	18.3%	(494,902)	272	7,857,440	53	3,673,677	$25.33
2007	7,762	146,499,468	18,993,296	20,127,329	13.7%	2,823,228	430	8,331,798	250	8,673,231	$25.95
2006	7,338	138,280,977	13,893,035	14,732,066	10.7%	6,761,926	470	5,964,371	437	9,755,672	$24.35
2005	6,870	132,518,484	14,915,565	15,731,499	11.9%	7,632,904	413	4,382,283	452	7,296,280	$21.90
2004	6,464	128,212,201	18,050,041	19,058,120	14.9%	4,331,323	316	5,373,579	359	3,690,854	$19.86
2003	6,148	122,838,622	16,744,750	18,015,864	14.7%	4,851,583	231	4,186,887	244	4,636,086	$19.49

Source: CoStar Property®

Net absorption for the overall Phoenix office market was positive 285,140 square feet in 2nd Quarter 2014; positive 100,128 square feet in 2nd Quarter 2013; positive 3,128,315 square feet in 2012; and positive 1,181,798 square feet in 2011.

The office vacancy rate in the Phoenix market area decreased to 17.7% at the end of 2nd Quarter 2014. At the end of 2nd Quarter 2013, the rate was 19.6%. In 2012, the rate was unchanged at 19.6% and 20.9% at Year-end 2011. Thus, as can be seen, in terms of occupancy, the market has improved gradually.

The average quoted asking rental rate for available office space, all classes, was $20.62 per square foot per year, full service, at the end of 2nd Quarter 2014 in the Phoenix market area. The average quoted asking rental rate at 2nd Quarter 2013 was $20.00/s.f.; $19.91/s.f. at the end of 2012; and $20.39/s.f. at the end of 2011. As can be seen, there has been a slight improvement in rental rates occurring over the last several years.

By 2nd Quarter 2014, the market saw 27 office sales transactions with a total volume of $288,429,279. The price per square foot averaged $135.27. At the end of 1st Quarter 2013, the market posted 16 transactions with a total volume of $48,276,567 or $62.06 per square foot. During the same period of 2012, the market posted 20 transactions with a total volume of $320,466,960 for an average price per square foot of $185.93. Cap rates were higher in 2014, averaging 7.85% compared to the same period in 2013 when they averaged 6.72%. In 2012, they averaged 8.59% and in 2011, rates averaged 9.76%.

Total Office Market Statistics

Mid-Year 2014

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Airport Area	493	16,457,817	2,314,753	2,439,702	14.8%	234,867	0	481,068	$20.17
Central Corridor	572	22,585,708	4,273,081	4,427,603	19.6%	53,056	0	0	$20.94
East Phoenix	873	20,340,241	3,521,680	3,574,752	17.6%	168,911	117,710	0	$21.80
East Valley	2,072	27,027,034	4,030,463	4,107,896	15.2%	238,812	100,622	1,356,335	$19.72
North Phoenix	466	8,272,810	1,587,783	1,621,434	19.6%	(9,993)	0	0	$20.20
Northwest Phoenix	1,516	26,138,795	5,254,121	5,399,679	20.7%	65,631	0	25,000	$18.35
Scottsdale	1,461	29,370,164	4,861,346	4,986,653	17.0%	303,445	0	145,000	$22.49
West Phoenix	635	9,387,176	1,588,762	1,633,718	17.4%	23,295	0	0	$21.83
Totals	8,088	159,579,745	27,431,989	28,191,437	17.7%	1,078,024	218,332	2,007,403	$20.62

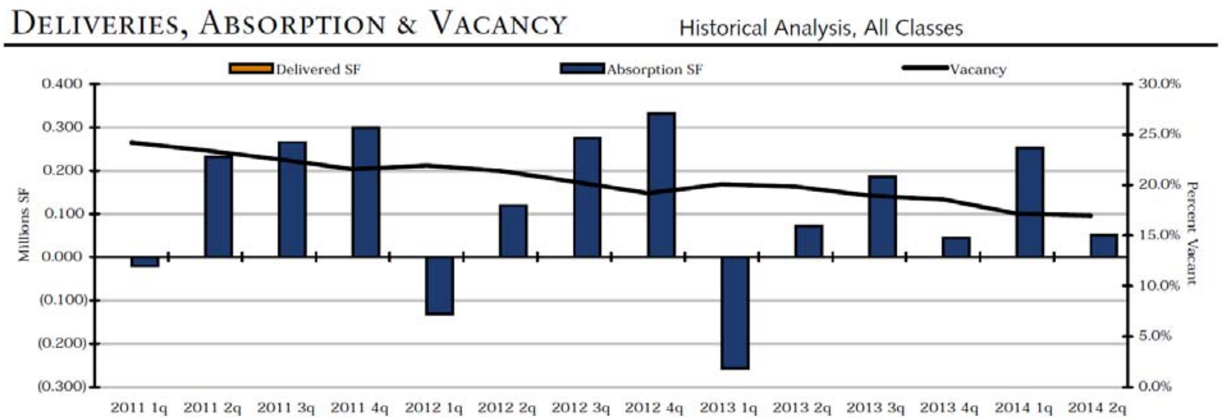
Source: CoStar Property®

The *CoStar Office Report* places the subject in the Scottsdale market and Scottsdale South submarket. With 29,370,164 square feet of space in 1,461 properties, the Scottsdale market accounts for around 18.4 percent of the total office space in the metropolitan area. Thus, trends in the overall Phoenix office market are often reflective of the Scottsdale market. Vacancy in the Scottsdale market has gone from 19.8% in 2nd Quarter 2013 to 17.0% as of 2nd Quarter 2014. Rents have increased from $21.52 in 2nd Quarter 2013 to $22.49 as of 2nd Quarter 2014. During the same period in 2012, vacancy was 21.4% and rents were $21.49 per square foot. In 2011, vacancy was 23.4% with rents being $21.99 per square foot. As demonstrated by the graph on the following page. The office market in the Scottsdale area has seen a gradual improvement in both vacancy rate and increase in rents.

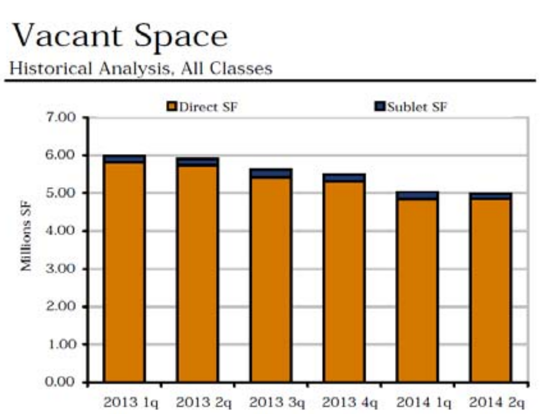
Period	Existing Inventory		Vacancy		Net	Delivered Inventory		UC Inventory		Quoted
	# Bldgs	Total RBA	Vacant SF	Vacancy %	Absorption	# Bldgs	Total RBA	# Bldgs	Total RBA	Rates
2014 2q	1,461	29,370,164	4,986,653	17.0%	50,816	0	0	1	145,000	$22.49
2014 1q	1,461	29,370,164	5,037,469	17.2%	252,629	0	0	1	145,000	$22.24
2013 4q	1,464	29,574,099	5,494,033	18.6%	43,166	0	0	1	145,000	$22.01
2013 3q	1,465	29,654,587	5,617,687	18.9%	186,119	0	0	1	145,000	$21.73
2013 2q	1,469	29,750,064	5,899,283	19.8%	71,842	0	0	0	0	$21.52
2013 1q	1,469	29,750,064	5,971,125	20.1%	(256,618)	0	0	0	0	$21.19
2012 4q	1,469	29,750,064	5,714,507	19.2%	331,677	0	0	0	0	$21.66
2012 3q	1,469	29,750,064	6,046,184	20.3%	275,309	0	0	0	0	$21.44
2012 2q	1,471	29,804,860	6,376,289	21.4%	119,026	0	0	0	0	$21.49
2012 1q	1,474	29,861,708	6,552,163	21.9%	(132,006)	0	0	0	0	$21.45
2011 4q	1,475	29,877,908	6,436,357	21.5%	298,661	0	0	0	0	$21.59
2011 3q	1,475	29,877,908	6,735,018	22.5%	265,523	0	0	0	0	$21.68
2011 2q	1,475	29,877,908	7,000,541	23.4%	232,303	0	0	0	0	$21.82
2011 1q	1,475	29,877,908	7,232,844	24.2%	(20,479)	0	0	0	0	$21.99
2010 4q	1,475	29,877,908	7,212,365	24.1%	7,320	0	0	0	0	$22.17
2010 3q	1,475	29,877,908	7,219,685	24.2%	118,013	0	0	0	0	$22.09

Source: CoStar Property®

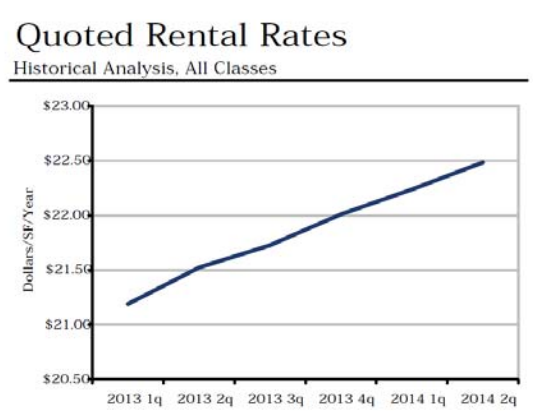
The concern that many companies associated with the residential housing market would contract or go out of business has been realized in many instances. This has resulted in a glut of sublease office space flooding the market. Sublease space fulfills the needs of many users but the space often feels worn and used and some lease terms may not be optimum. However, with significant discounts and a growing disparity between the new lease rates and sublease rents, more and more tenants are willing to accept the occupancy parameters of sublease space.



Source: CoStar Property®



Source: CoStar Property®



Source: CoStar Property®

With 6,387,663 square feet, the Scottsdale South submarket accounts for 4.0 percent of the total office market. As indicated below, it is the eleventh largest out of the 28 submarkets listed below. Occupancy increased from 82.3 percent at 2nd Quarter 2012 to 85.6 percent at 2nd Quarter 2013, to 86.4 percent at 2nd Quarter 2014. During the same period rental rates increased from $20.34 to $20.42, then to $21.61 as of 2nd Quarter 2014. The Scottsdale South submarket had experienced a negative absorption of (87,452) square feet as of 2nd Quarter 2014.

Total Office Submarket Statistics

Mid-Year 2014

	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
Market	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
44th Street Corridor	157	5,943,905	774,662	779,486	13.1%	26,992	0	0	$21.03
Airport Area	210	10,192,673	1,491,749	1,598,471	15.7%	(95,266)	0	154,067	$19.77
Arrowhead	362	3,972,532	721,217	724,935	18.2%	37,249	0	25,000	$21.11
Camelback Corridor	229	9,246,111	2,008,933	2,051,417	22.2%	34,815	0	0	$24.02
Central Scottsdale	387	8,472,684	1,344,446	1,357,670	16.0%	80,569	0	0	$21.73
Chandler	437	7,571,877	1,152,903	1,205,363	15.9%	63,958	100,622	341,335	$21.98
Deer Valley/Airport	267	10,957,676	1,941,117	2,075,318	18.9%	20,578	0	0	$20.36
Downtown	173	9,423,943	1,339,061	1,390,637	14.8%	(36,885)	0	0	$24.16
Gateway Airport/Loop.	250	2,242,186	458,961	458,961	20.5%	41,873	0	0	$23.27
Glendale	187	2,992,506	653,943	661,304	22.1%	(3,622)	0	0	$22.36
Loop 303/Surprise	146	1,926,685	407,130	407,130	21.1%	8,021	0	0	$22.71
Mesa Downtown	207	1,496,837	203,895	203,895	13.6%	(4,762)	0	0	$13.76
Mesa East	416	3,365,639	490,039	490,039	14.6%	31,561	0	0	$15.76
Midtown	399	13,161,765	2,934,020	3,036,966	23.1%	89,941	0	0	$19.54
Midtown/Central Phoe.	487	5,150,225	738,085	743,849	14.4%	107,104	117,710	0	$16.82
N Phoenix/Cave Creek	14	102,881	24,698	24,698	24.0%	8,132	0	0	$20.85
N Scottsdale/Carefre.	187	1,894,498	629,296	635,721	33.6%	9,397	0	0	$20.56
North I-17	56	722,008	194,500	194,500	26.9%	(3,551)	0	0	$21.70
Northwest Phoenix	831	10,486,579	2,397,287	2,404,926	22.9%	11,355	0	0	$15.69
Paradise Valley	254	4,696,782	928,427	949,486	20.2%	24,027	0	0	$21.82
Piestewa Peak Corrid.	198	3,473,147	634,658	647,250	18.6%	(42,152)	0	0	$18.07
Scottsdale Airpark	383	12,615,319	2,075,493	2,123,476	16.8%	300,931	0	0	$23.57
Scottsdale South	504	6,387,663	812,111	869,786	13.6%	(87,452)	0	145,000	$21.61
South Tempe/Ahwatuk.	283	6,265,144	823,004	841,231	13.4%	330,133	0	327,001	$20.69
Southwest Phoenix	162	2,546,655	302,721	326,428	12.8%	16,515	0	0	$19.88
Superstition Corrido.	399	5,911,640	1,099,243	1,120,936	19.0%	50,954	0	0	$18.24
Tempe	363	6,438,855	625,422	628,702	9.8%	55,228	0	1,015,000	$19.58
West I-10	140	1,921,330	224,968	238,856	12.4%	2,381	0	0	$21.73
Totals	8,088	159,579,745	27,431,989	28,191,437	17.7%	1,078,024	218,332	2,007,403	$20.62

Source: CoStar Property®

The Scottsdale South submarket has a higher occupancy than the total office market with rental rates $0.99 per square foot higher than the Phoenix metropolitan average. Despite the negative absorption in the current quarter, there has been an improvement in occupancy and a rise in average rental rates over the past three years.

Maximally Productive

The subject site has good linkages to employment, entertainment and recreational amenities and an attractive setting that enhances marketability. It is large enough to allow for several types of commercial development or it could appeal to large single user seeking to headquarter in Scottsdale or to consolidate their operations in a central-city location.

At this time, my study of demand and supply in the various real estate market segments indicated that no new development is feasible without committed tenants or end users. Financing is generally unavailable unless the overall risk is negligible. Although development does not appear feasible at this time, the subject is an attractive site given its location and setting. Thus, it has strong appeal to an investor seeking to hold the land for future development or for profit from appreciation and resale at a profit.

Conclusion, As Vacant

Therefore, after considering the physical, legal and financial limitations of the site, it was my opinion that the highest and best use of the subject property would be for speculative investment purposes anticipating appreciation and profit upon future development or resale at a profit.

Highest and Best Use, As Improved

Improvements

The subject property is a two-story, multi-tenanted office building with two second-floor residential units built in 2001. The design is contemporary with a color-coated stucco exterior and thermal glass in metal sash. All office suites and the two residential units have exterior entries. The building is currently divided into four office suites of 1,740 square feet, 3,673 square feet, 1,661 square feet and 3,509 square feet, plus two residential units of 1,940 square feet each. Restrooms are internal to each office tenant space. There is no elevator.

Legally Permissible

Neighborhood trends support the current zoning and the subject's improvements are among those uses permitted by current zoning restrictions. The existing improvements constitute a legal use in the current zoning code. Because building codes have changed since the improvements were constructed, individual construction details, setbacks, retention and landscaping requirements may not adhere to current codes making the improvements a legal non-conforming use. However, such status, if true, does not adversely affect its market value. The improvements can continue to be used, as is, without the need to meet current standards, as long as the basic use is not changed.

Financially Feasible

The theory of highest and best use says that if the market value of the fee simple interest in the land, less the cost of demolition, is greater than the property as improved, then the improvements no longer represent the highest and best use of the land.

The subject improvements were substantial, appealing and in good condition. Although the site could be redeveloped, market conditions do not support redevelopment and barring any unprecedented changes in land value, the improvements had a remaining economic life on the order of 40 years.

Maximally Productive

As the value of the subject property, as improved, exceeded the value of the land as vacant (less demolition costs) by my preliminary analysis, the existing improvements reflected a feasible and productive use of the land. The improvements were expected to remain a popular use of the land for the duration of its remaining economic life.

Conclusion, As Improved

Despite existing forms of obsolescence and depreciation, the existing improvements represented the highest and best use of the land, as improved

VALUATION PROCESS

The use of the Cost, Sales Comparison, and Income Approaches to Value depend on the type of property, the use of the appraisal, and the quality and quantity of data available for analysis. They are defined as follows:

> ***Cost Approach**: A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost; and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.* [6]
>
> ***Sales Comparison Approach**: The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.* [7]
>
> ***Income Approach**: A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.* [8]
>
> ***Reconciliation**: The last phase in the development of a value opinion in which two or more value indications derived from market data are resolved into a final value opinion, which may be either a final range of value or a single point estimate.* [9]

All three approaches to value are based upon the Principle of Substitution. This is a valuation principle that states a prudent purchaser would pay no more for real property than the cost of acquiring an equally desirable substitute on the open market. The principle presumes that the purchaser will consider the alternatives available to him or her, that the buyer will act rationally and prudently on the basis of the information available about these alternatives, and that time is not a significant factor. Substitution may assume the form of the purchase of an existing property with the same utility and income potential or the acquisition of vacant land and the construction of a structure upon the land having the same general utility as the subject property.

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6 Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition, (Chicago, Illinois: Appraisal Institute, 2010), page 47.

7 Ibid., page 175.

8 Ibid., page 99.

9 Ibid., page 79

Applied Method

Under current market conditions where many improved properties are selling for far less than their replacement cost plus land value, the Cost Approach is of very limited reliability. Thus, the Cost Approach was not considered applicable.

The Sales Comparison Approach was utilized and resulted in an indication of value for the fee simple interest in the subject property in its "as is" condition, given the many recent comparable sales available which indicated a consistent range of market price and value.

The Income Approach is a method of valuation from the viewpoint of an investor. Income producing properties are typically purchased by investors on the basis of a careful analysis of the probable net income to be derived from the operation of the property, and the rate of return required by investors. This approach is typically a reliable indicator of value when sufficient market rental rate and expense data can be accumulated and the most typical buyer is an investor. As such, this approach was considered to be a reliable indication of market value and was utilized in this report.

SALES COMPARISON APPROACH

Theory

This approach calls for the typical buyer or appraiser to compare the subject property with similar properties which have either recently sold or are currently listed for sale. The comparables are compared and adjusted to the subject on the basis of physical, legal, and economic factors that affect value. Superior differences in the comparables indicate downward adjustments to their sales prices. Inferior differences result in upward adjustments to their sales prices. After adjustment, the range of adjusted prices indicates a range of market value for the subject. The specific unit of comparison used in this approach was "package price" or the sales price of the property divided by gross building area. Both land and improvements are accounted for in package price.

This approach gives an excellent indication of current market prices when sales data are plentiful and easily confirmed. Recent sales and listings show where the market has been and where it may be going. The data reveal the trends not only in price, but in the trends of investment and development as well as current seller and buyer behavior.

Data

My search of the market was conducted by reviewing sales compiled by the Pinal and Maricopa County recorders' offices and obtaining sales in escrow and listings from real estate agents, brokers and other market participants. Of numerous sales and listings discovered, the following comparables were documented and discussed which represented the most current and comparable data for the estimation of market value. Other comparable sales and listings, in addition to those documented and analyzed here, were also considered and influenced my opinion of value as part of my workfile.

My data were arranged from newest to oldest to emphasize those sales which best reflect current market conditions. If listings were used, they were presented last. Please note that "Date of Sale" as shown in the documentation of the comparables on the following pages, reflects the date the price was agreed upon by buyer and seller, the contract signed and placed in escrow. Even though the sales closed later, sometimes months or even years afterward, the date of sale is important to understand market conditions and for judging and adjusting for appreciation and depreciation.

IMPROVED COMPARABLE NO. 1

Type:	Office Building
Location:	3010 South Priest Drive, Tempe, Arizona

Sale Data

Grantor:	Lemmon & Koepke, LLC
Grantee:	Ruby Properties, LLC
Date of Sale:	March, 2014
Recorded Date:	May 1, 2014
Instrument:	Warranty Deed
Instrument No.:	14-0284301
Sales Price:	$1,100,000
Terms:	Cash
Unit Price:	**$126.38** per square foot

Site Data

Assessor's Parcel No.:	123-57-336, 337 and 338
Legal Description:	Units 401, 402 and 403, FAIRMONT BUSINESS CENTER
Site Area:	140,767 ± square feet or 3.23 ± net acre (entire site)
Shape/Dimensions:	Irregular; see plat map
Zoning:	CSS, Commercial Shopping and Service
Frontage/Access:	185.00 ± feet on the west side of Priest Drive, a major north/south arterial
Offsites:	Asphalt-paved for two lanes in each direction, painted median, curb, gutter, sidewalk and streetlights
Traffic Count:	20,170 v.p.d. (2010)

Improvement Data

Leasable Building Area:	8,704 square feet
Land-to-Building Ratio:	3.27:1
Building Description:	Class B, single-story, masonry construction with built-up roof; roof-mounted HVAC units
Parking:	1:435 s.f. with 16 surface spaces and 4 covered spaces
Site Improvements:	Asphalt-paved parking, landscaping
Age/Condition/Appeal:	Built in 2004; good; average

Income Data

Rents: NA

Reimbursements: NA

Vacancy: 42.2% vacant at the time of sale; 3,670 square feet leased during escrow

Operating Statement:

Rental Income – 8,704 s.f. x $/s.f.	$NA
Other	$NA
Potential Gross Income	$NA
Vacancy & Collec. Loss – NA%	($NA)
Effective Gross Income	$NA
Less Expenses –	$NA
Net Operating Income (est.)	$107,800

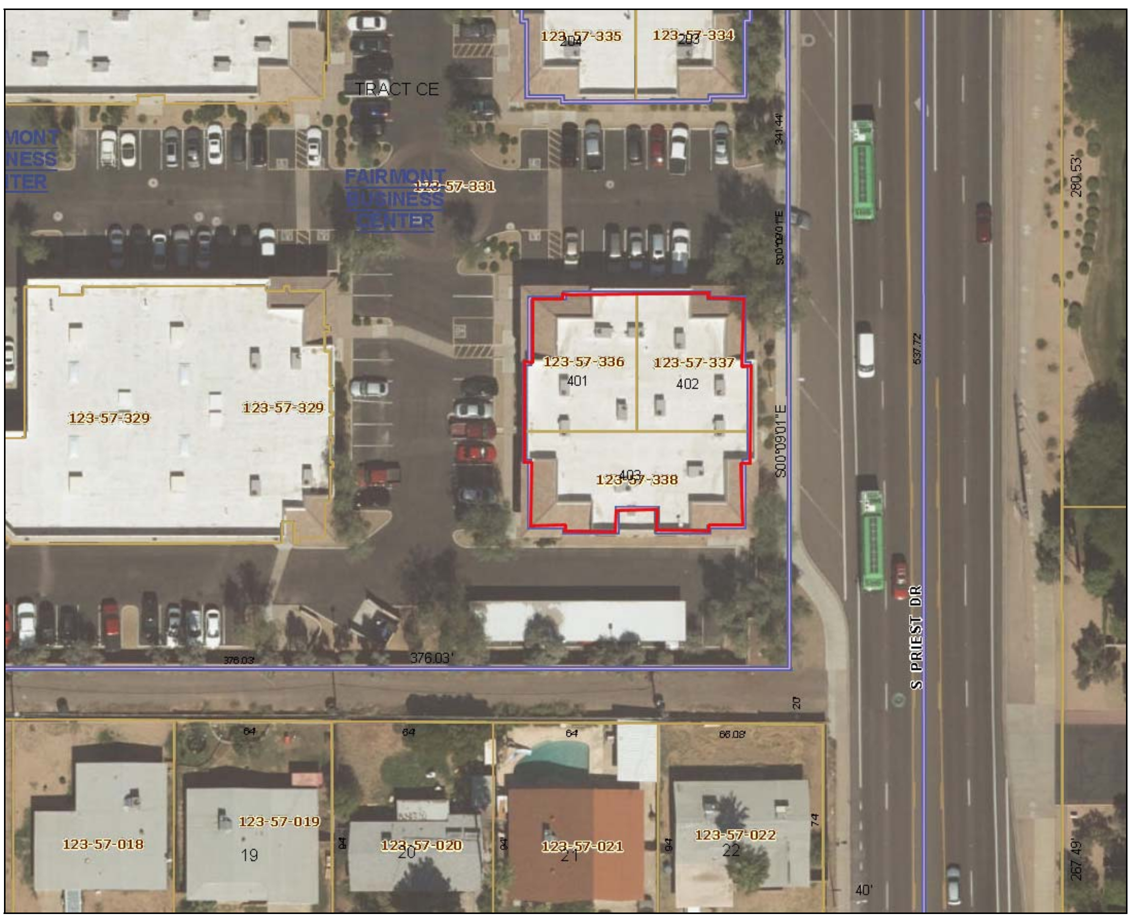
Overall Rate: 9.80%

History: The property was marketed for 7.9 months at a price of $1,175,000. No other sales or listings were noted in the past five years.

Confirmation: Public records; Rick Robertson, listing agent, Lee & Associates, 602-954-3748, July 15, 2014

Comments: The property is located in east Tempe. There are office buildings to the north, east and west and a single-family subdivision to the south.

IMPROVED COMPARABLE NO. 1



IMPROVED COMPARABLE NO. 2

Type:	Office Building
Location:	8683 East Via de Negocio, Scottsdale, Arizona

Sale Data

Grantor:	Face to Face International
Grantee:	8683 Via de Negocio, LLC
Date of Sale:	January, 2014
Recorded Date:	February 24, 2014
Instrument:	Special Warranty Deed
Instrument No.:	14-0115068
Sales Price:	$775,000
Terms:	Cash
Unit Price:	**$91.78** per square foot

Site Data

Assessor's Parcel No.:	177-04-892
Legal Description:	Lot 1, FACE TO FACE INTERNATIONALL
Site Area:	25,618 square feet or 0.588 net acre
Shape/Dimensions:	Irregular; see plat map
Zoning:	C-O, Commercial Office
Frontage/Access:	83.01 feet on the south side of Via de Commercio, a neighborhood street; 146.41 feet on the east side of Via de Negocio, a neighborhood street
Offsites:	Via de Commercio - Asphalt-paved for one lane in each direction, curb, gutter, sidewalk; no median or streetlights

	Via de Negocio - Asphalt-paved for one lane in each direction, curb, gutter, sidewalk; no median or streetlights
Traffic Count:	Light, unmeasured

Improvement Data

Leasable Building Area:	8,444 square feet
Land-to-Building Ratio:	3.03:1
Building Description:	Class B, 2-story, masonry building with flat roof and built-up roofing; fully air conditioned; no elevator
Parking:	1:256 s.f. with 19 surface spaces and 14 covered spaces
Site Improvements:	Asphalt-paved parking, landscaping
Age/Condition/Appeal:	Built in 1984; average; average-fair

Income Data

Rents:	NA
Reimbursements:	NA
Vacancy:	100% vacant at the time of sale; purchased as an investment

Operating Statement:

Rental Income – 8,444 s.f. x $/s.f.	$NA
Other	$NA
Potential Gross Income	$NA
Vacancy & Collec. Loss – NA%	($NA)
Effective Gross Income	$NA
Less Expenses –	$NA
Net Operating Income	$NA

Overall Rate: NA

History: The property was marketed for 5.6 months at a price of $995,000 or $117.84 per square foot. No other sales or listings were noted in the prior five years.

Confirmation: Public records; Chad Merwin, listing agent, Commercial Properties, Inc., 480-522-2767, July 15, 2014

Comments: The property is located just south of Via de Ventura and east of Pima Road. It is surrounded by office buildings.

IMPROVED COMPARABLE NO. 2

IMPROVED COMPARABLE NO. 3

Type:	Office Building
Location:	4301 North 75th Street, Scottsdale, Arizona

Sale Data

Grantor:	Michael J. and Kathryn Robbins
Grantee:	4301 75th Street, LLC
Date of Sale:	January, 2014
Recorded Date:	February 24, 2014
Instrument:	Special Warranty Deed
Instrument No.:	14-0117038
Sales Price:	$840,000
Terms:	$250,000 (29.8%) cash downpayment, seller carried back $590,000; details of the seller carryback not available; listing broker indicated that seller financing did not result in a premium paid over market value
Cash Equivalency Adj.:	None needed as terms did not result in a premium above market value
Unit Price:	**$84.00** per square foot

Site Data

Assessor's Parcel Nos.:	173-40-048, 049, 050 and 051B
Legal Description:	Lots 34, 35, 36 and 37, INDIAN PLAZA PROPERTIES
Site Area:	10,498 square feet or 0.241 net acre
Shape/Dimensions:	Rectangular; 79.92' x 131.36' ±
Zoning:	C-2, Central Business District

Frontage/Access:	79.92 feet on the north side of 6th Avenue, a neighborhood street; 131.36 feet on the east side of 75th Street, a minor north/south arterial
Offsites:	6th Avenue - Asphalt-paved for one lane in each direction, painted median, curb, gutter, sidewalk and streetlights 75th Street - Asphalt-paved for one lane in each direction, painted median, curb, gutter, sidewalk and streetlights
Traffic Count:	Light, unmeasured

Improvement Data

Leasable Building Area:	10,000 square feet
Land-to-Building Ratio:	1.05:1
Building Description:	Class C, 2-story, masonry construction with built-up roof, roof mounted HVAC units, 1 elevator
Parking:	1:455 s.f. with 22 surface spaces
Site Improvements:	Asphalt-paved parking, landscaping
Age/Condition/Appeal:	Built in 1979; fair; average-fair The listing agent reported that the property had deferred maintenance in excess of $100,000.

Income Data

Rents:	NA
Reimbursements:	NA
Vacancy:	85.0% occupied by long-term tenants paying below-market rents. The property was purchased as an investment with the intent of raising rents. The low rents made an overall capitalization rate unreliable.

Operating Statement:	Rental Income – 10,000 s.f. x $/s.f.	$NA
	Other	$NA
	Potential Gross Income	$NA
	Vacancy & Collec. Loss – NA%	($NA)
	Effective Gross Income	$NA
	Less Expenses –	$NA
	Net Operating Income	$NA
Overall Rate:	NA	

History: The property was an off market sale. The buyer's broker approached the seller with an offer to purchase. Both buyer and seller were knowledgeable of price and value. No other sales or listings were noted in the prior five years.

Confirmation: Public records; Jon Rosenberg, buyer's broker, LevRose Real Estate, 480-947-0600,

Comments: The property is located in downtown Scottsdale in an area dominated by office buildings.

IMPROVED COMPARABLE NO. 3

IMPROVED COMPARABLE NO. 4

Type:	Office Building
Location:	7418 East Helm Drive, Scottsdale, Arizona

Sale Data

Grantor:	Airpark Scottsdale Executive Office Circle, LLC
Grantee:	Helm Investments, LLC
Date of Sale:	December, 2013
Recorded Date:	February 18, 2014
Instrument:	Warranty Deed
Instrument No.:	13-0105134
Sales Price:	$2,250,000
Terms:	Cash
Unit Price:	**$99.04** per square foot

Site Data

Assessor's Parcel No.:	215-56-038 and 037B
Legal Description:	Lot Thirty-eight (38) and part of Lot Thirty-seven (37), THUNDERBIRD INDUSTRIAL AIRPARK NO. 3
Site Area:	50,094 square feet or 1.150 net acres
Shape/Dimensions:	Irregular; see plat map
Zoning:	I-1, Industrial Park
Frontage/Access:	260.00 ± feet of frontage on Helm Drive, a neighborhood street
Offsites:	Asphalt-paved cul-de-sac with one lane in each direction, curb, gutter, sidewalk and streetlights; no median

Traffic Count:	Light, unmeasured

Improvement Data

Leasable Building Area:	22,717 square feet
Land-to-Building Ratio:	2.21:1
Building Description:	Class B, two-story, masonry building, built-up roof, air conditioned, 1 elevator
Parking:	1:325 s.f. with 48 surface spaces and 22 covered spaces
Site Improvements:	Asphalt-paved parking, landscaping
Age/Condition/Appeal:	Built in 1986; avg.-fair; average

Income Data

Rents:	NA
Reimbursements:	NA
Vacancy:	The building was 100% occupied at the time of sale. The buyer owns the adjoining property and purchased the building with the intent of expanding his operation. The buyer will occupy a majority of the building and lease the remaining area. No premium above market for special use was paid.

Operating Statement:

Rental Income – 22,717 s.f. x $/s.f.	$NA
Other	$NA
Potential Gross Income	$NA
Vacancy & Collec. Loss – NA%	($NA)
Effective Gross Income	$NA
Less Expenses –	$NA
Net Operating Income	$NA

Overall Rate:	NA

History: According to the listing broker, the property was listed for $2,250,000 or $99.04 per square foot, but sold with the furnishings included for $2,442,105. No other sales were noted in the prior five years.

Confirmation:	Public records; John Quatrini, listing agent, Shell Commercial, 602-386-1229, July 15, 2014
Comments:	The property is located in Scottsdale Airpark in an area dominated by industrial and office buildings.

<u>**IMPROVED COMPARABLE NO. 4**</u>

IMPROVED COMPARABLE NO. 5

Type:	Office Building
Location:	910 East Osborn Road, Phoenix, Arizona

Sale Data

Grantor:	Donald R. Wilson, Trustee of the DRW Trust
Grantee:	Kightly Living Trust
Date of Sale:	November, 2013
Recorded Date:	December 30, 2013
Instrument:	Warranty Deed
Instrument No.:	13-1091951
Sales Price:	$1,165,000
Terms:	Cash
Unit Price:	**$108.98** per square foot

Site Data

Assessor's Parcel No.:	118-19-052, 053, 054, 071A, 070A, 072A
Legal Description:	Lots 54, 55, 56, 70, 71 and 72, Block 1, WHITTON ACRES
Site Area:	39,204 square feet or 0.900 net acre
Shape/Dimensions:	Rectangular; 150.00’ x 261.36’
Zoning:	R-5, Multi-family Residence
Frontage/Access:	150.00 feet on the north side of Osborn Road, a minor east/west arterial; 150.00 feet on the south side of Mitchell Drive, an east/west neighborhood street
Offsites:	Osborn Road - Asphalt-paved for two lanes in each direction, painted median, curb, gutter, sidewalk and streetlights

	Mitchell Drive - Asphalt-paved for two lanes in each direction, painted median, curb, gutter, sidewalk and streetlights
Traffic Count:	Osborn Road – 18,031 v.p.d. (2010) Mitchell Drive - Light, unmeasured

Improvement Data

Leasable Building Area:	10,690 square feet
Land-to-Building Ratio:	3.67:1
Building Description:	Class B, 2-story, masonry construction with built-up roof with foam roofing, fully air conditioned, one elevator
Parking:	1:334 s.f. with 20 surface spaces and 12 covered spaces
Site Improvements:	Asphalt-paved parking, minimal landscaping
Age/Condition/Appeal:	Built in 1980; average; average-fair

Income Data

Rents:	NA
Reimbursements:	NA
Vacancy:	100% vacant at the time of sale; purchased for investment

Operating Statement:

Rental Income – 10,690 s.f. x $/s.f.	$NA
Other	$NA
Potential Gross Income	$NA
Vacancy & Collec. Loss – NA%	($NA)
Effective Gross Income	$NA
Less Expenses –	$NA
Net Operating Income	$NA

Overall Rate: NA

History: The property was marketed for 18 days at a price of $1,285,000 or $120.21 per square foot. No other sales or listings were noted in the prior five years.

Confirmation:	Public records; Justin Horwitz, listing agent, Sperry Van Ness, 480-425-5518, July 15, 2014
Comments:	The property has a central urban Phoenix location between 16th Street and Central Avenue. There is a single-family subdivision to the north, Phoenix Country Club south, residential condominiums to the east and office buildings to the west.

IMPROVED COMPARABLE NO. 5

IMPROVED COMPARABLE NO. 6

Type:	Office Building
Location:	7243 North 16th Street, Phoenix, Arizona

Sale Data

Grantor:	7243 N. 16th Street, LLC
Grantee:	American Associated Druggists, Inc.
Date of Sale:	June, 2013
Recorded Date:	July 5, 2013
Instrument:	Special Warranty Deed
Instrument No.:	13-0619118
Sales Price:	$1,522,520
Terms:	Cash
Unit Price:	**$136.00** per square foot

Site Data

Assessor's Parcel No.:	164-24-020B
Legal Description:	Part of NW4 SW4 Section 3, T-2N, R-5E, G&SRB&M, Maricopa County, Arizona.
Site Area:	28,314 square feet or 0.650 net acre
Shape/Dimensions:	Rectangular; 110.20' x 282.57'
Zoning:	C-O, Commercial Office
Frontage/Access:	110.20 feet on the east side of 16th Street, a major north/south arterial street
Offsites:	Asphalt-paved for three lanes north and 2 lanes south, painted median, curb, gutter, sidewalk and streetlights
Traffic Count:	19,782 v.p.d. (2013)

Improvement Data

Leasable Building Area:	11,195 square feet
Land-to-Building Ratio:	2.53:1
Building Description:	Class B, two-story, masonry construction with pitched metal roof, roof-mounted HVAC units, 1 elevator
Parking:	1:243 s.f. with 36 surface spaces and 10 covered
Site Improvements:	Asphalt-paved parking, good landscaping
Age/Condition/Appeal:	Built in 1984; good; good

Income Data

Rents:	NA
Reimbursements:	NA
Vacancy:	100% vacant at the time of sale; purchased by an owner/user

Operating Statement:

Rental Income – 11,195 s.f. x $/s.f.	$NA
Other	$NA
Potential Gross Income	$NA
Vacancy & Collec. Loss – NA%	($NA)
Effective Gross Income	$NA
Less Expenses –	$NA
Net Operating Income	$NA

Overall Rate: NA

History: The property was marketed for eight months at a price of $1,750,000 or $156.32 per square foot. No other sales or listings were noted in the prior five years.

Confirmation: Public records; Peter Nieman, buyer's broker, Colliers International, 602-222-5043, July 15, 2014

Comments: The property has a central urban Phoenix location between SR 51 and Central Avenue, south of Orangewood Avenue. The surrounding area is dominated by office buildings.

IMPROVED COMPARABLE NO. 6

IMPROVED COMPARABLE NO. 7

Type:	Office Building
Location:	4441 East McDowell Road, Phoenix, Arizona

Sale Data

Grantor:	R&D Jacobs Buildings, LLC
Grantee:	Don, Dan & Dave Smith, LLC
Date of Sale:	September, 2012
Recorded Date:	October 3, 2012
Instrument:	Warranty Deed
Instrument No.:	12-0920926
Sales Price:	$1,485,000
Terms:	Cash
Unit Price:	**$82.50** per square foot

Site Data

Assessor's Parcel No.:	125-17-134
Legal Description:	Lot 1, ABC MEDICAL
Site Area:	84,506 square feet or 1.940 net acres
Shape/Dimensions:	Irregular; see plat map
Zoning:	C-2, Intermediate Commercial
Frontage/Access:	321.18 feet on the south side of McDowell Road, a major east/west arterial street
Offsites:	Asphalt-paved for three lanes in each direction, raised median, curb, gutter, sidewalk and streetlights
Traffic Count:	33,579 v.p.d. (2012)

Improvement Data

Leasable Building Area:	18,000 square feet
Land-to-Building Ratio:	4.69:1
Building Description:	Class B, single-story, masonry construction with flat roof; roof mounted HVAC units and solar panels
Parking:	1:300 s.f. with 20 surface spaces and 40 covered
Site Improvements:	Asphalt-paved parking, average landscaping
Age/Condition/Appeal:	Built in 2004; good; average

Income Data

Rents:	NA
Reimbursements:	NA
Vacancy:	The property was 100% occupied at the time of sale.

Operating Statement:

Rental Income – 18,000 s.f. x $/s.f.	$NA
Other	$NA
Potential Gross Income	$NA
Vacancy & Collec. Loss – NA%	($NA)
Effective Gross Income	$NA
Less Expenses –	$NA
Net Operating Income	$148,500

Overall Rate: 10.0%

History: The property was marketed for eleven months at a price of $2,100,000 or $116.67 per square foot. No other sales or listings were noted in the prior five years.

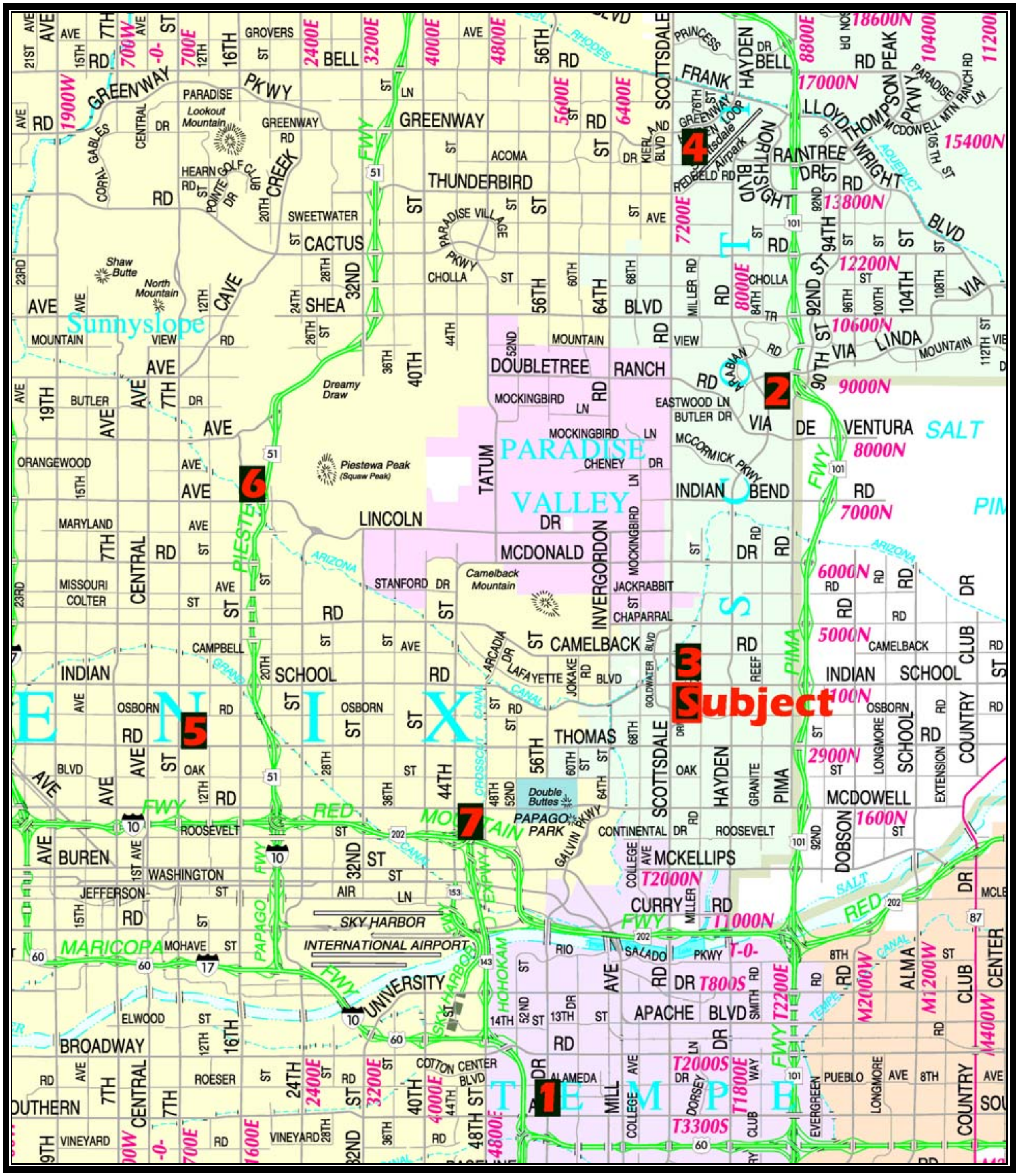
Confirmation: Public records; Chris McClurg, listing broker, Lee & Associates, 602-954-3766, July 15, 2014

Comments: The property has a central Phoenix location one mile north of Red Mountain Freeway just east of 44th Street. There is a shopping center to the north, hotel and warehouse to the south and west and a warehouse to the east.

IMPROVED COMPARABLE NO. 7

IMPROVED COMPARABLES LOCATION MAP

North



SUMMARY OF IMPROVED COMPARABLES

No.	Location	Date	Cash Equiv. Price	Leasable Area	Age/ Condition	L-to-B Ratio	Price/ S.F.	Parking Ratio	Traffic Count	Zoning	Other	OAR (R_O)
1	3010 S. Priest Dr., Tempe	3-14	$1,100,000	8,704 s.f.	2004 Good	3.27:1	$126.38	1:435 s.f.	20,170 vpd	CSS	42.2% Vacant When Sold	0.0980
2	8683 E. Via de Negocio, Scottsdale	1-14	$ 775,000	8,444 s.f.	1984 Average	3.03:1	$ 91.78	1:256 s.f.	Light	C-O	Vacant When Sold, No Elevator	NA
3	4301 N. 75th St., Scottsdale	1-14	$ 840,000	10,000 s.f.	1979 Fair	1.05:1	$ 84.00	1:455 s.f.	Light	C-2	Deferred Maintenance	NA
4	7418 E. Helm Dr., Scottsdale	12-13	$2,250,000	22,717 s.f.	1986 Average	2.21:1	$ 99.04	1:325 s.f.	Light	I-1	NA	NA
5	910 E. Osborn Rd., Phoenix	11-13	$1,165,000	10,690 s.f.	1980 Average	3.67:1	$108.98	1:334 s.f.	18,031 vpd	R-5	Vacant When Sold	NA
6	7243 N. 16th St., Phoenix	6-13	$1,522,520	11,195 s.f.	1984 Good	2.53:1	$136.00	1:243 s.f.	19,782 vpd	C-O	Vacant When Sold	NA
7	4441 E. McDowell Rd., Phoenix	9-12	$1,485,000	18,000 s.f.	2004 Good	4.69:1	$ 82.50	1:300 s.f.	33,579 vpd	C-2	100% Occupied When Sold	0.1000
Subj.	4021 N. 75th St., Scottsdale	7-14	----	14,463 s.f.	2001 Avg.-Good	1.93:1	----	1:413 s.f.	Light	D/OR-1.5 DO	Two Story 2 Res. Units No Elevator	----

Factors Affecting Marketability

The following factors were the major influences on value in the market segment to which the subject belongs:

Property Rights Conveyed

The market value of the fee simple interest was estimated for the subject property as the majority of the building is owner-occupied. There is one tenant leasing 1,760 square feet on a month-to-month basis and paying above market rent. But given the short-term of the lease, a buyer would pay no premium for bonus rent. The short term of the lease allows the appraisal of the fee simple interest without a special limiting condition.

The buyers purchased the fee simple interest in Comparable Nos. 2, 5 and 6 as the buildings were vacant at the time of sale. Given the good comparison, no adjustments were needed.

Nos. 1, 4 and 7 were the sale of the leased fee interest as tenants occupied all or portions of the buildings. As the tenants were leasing at market rent, the buyers received the equivalent of the fee simple interest. Thus, no adjustments were needed.

Comparable No. 3 was 85% leased at the time of sale, but the leases were long term and below market. As the buyer could not realize the full income producing potential in the property until leases expire and rents razed, the property sold at a discount. As not to double-count, an adjustment was made for the effect of the below market leases under the category of “Economic Factors” below.

Terms of Sale

The subject was appraised assuming a cash sale or one with cash equivalent terms. Seller-carried terms generally influence the price paid as they are more generous than terms available for first or second mortgage lenders. The seller receives a premium over market value in order to counter the risk of a carryback. Since market value is estimated for the real estate only, any premium paid for generous terms must be deducted.

As Comparable Nos. 1, 2, 4, 5, 6 and 7 sold for cash or cash equivalent terms, no adjustments were indicated.

Comparable No. 3 sold with a 29.8% downpayment with the seller carrying back the remainder. According to the listing agent, the terms did not result in a premium paid over market value. Thus, no cash equivalency adjustment was necessary.

Conditions of Sale

The subject was appraised assuming normal conditions of sale in which a sale is arm's length, the price was not unduly influenced by distress situations or inter-related party transfers and the property had adequate exposure to the market.

When questioned during the confirmation process, the sellers, buyers, brokers or agents involved in Comparable Nos. 1, 2, 3 4, 5, 6 and 7 indicated that these comparables met the criteria for normal conditions of sale. Thus, no adjustments were indicated.

Market Conditions

The subject was appraised as of the effective date of the appraisal, July 9, 2014. Given the passage of time, market prices generally change given fluctuations in supply and demand. Prices tend to move up or down in stair-step fashion, quickly changing and then stabilizing for a period of time. Thus, adjustments to older sales whether up or down, must be considered.

My data sample sold between September, 2012 and March, 2014. Although my data does not illustrate the significant past downward market trends given an apparent stabilization in this market segment since mid-2010, my continued work in the Phoenix metropolitan area, as well as my daily study of the recessionary period we are in, suggests that the market is still oversupplied. The following factors caused a general and continuing decline in the real estate market in the metropolitan Phoenix area and in most of the United States from 2007 until 2010:

- Downturn in the residential new home market beginning in 2006
- Downturn in the stock market
- Reduced supply of credit
- Growing unemployment with stalled construction industry, layoffs and business failures
- Declining in-migration and stable population growth
- Oversupply of commercial space with increasing vacancy and decreasing rental rates
- Official announcement of national and world-wide recession
- Fluctuating energy prices
- Specter of deflation

In varying degrees, all of the above adversely affected the demand for office buildings. Agents, buyers and sellers interviewed for this assignment and data considered in the analysis indicated that this market segment remained optimistic through early 2006 but stabilized for the year. However, as an extended slump of the market became evident and financing concerns affected all segments of the market, prices began to drop significantly in 2008. The economic crisis in the fall of 2008 created additional concerns. Prices continued to fall until the middle of 2010 when they apparently reached bottom. Available data, market forecasts and brokers offering office properties for sale have indicated that prices are beginning the rise, with increases in both rents and occupancy.

Comparable No. 1 sold in March, 2014. Based upon my research, this sale was current enough that no adjustments were needed.

Comparable Nos. 2 through 7 sold between September, 2012 and January, 2014. As the market has improved in the interim, they required varying upward adjustments.

Buyer Motivation

User v. Investor – At times, users (owner-occupants) are often willing to pay a premium over the prices that investors pay. In general, users are examining the immediate potential or value of a property for their specific ready-to-use needs. They do not anticipate the risk of tenant occupancy and fluctuating net income that an investor experiences. The subject property is multi-tenanted in its design and build-out. However, partial owner-occupancy is likely, just as the city occupies space now.

Comparable Nos. 4 and 6 were purchased by owner-users. Nos. 1, 2, 3, 5 and 7 were purchased by investors. From my study, I did not find a two-tiered market. Thus, adjustments were unnecessary.

Assemblage - When buyers have a need to expand an existing location, they usually are forced to pay a premium over market value for their lack of substitution.

Comparable Nos. 1, 2, 3, 4, 5, 6 and 7 were not purchased for assemblage. Thus, no adjustments were necessary.

Special Need - Buyers may have special needs that prevent them from choosing a substitute property available on the open market.

Comparable Nos. 1, 2, 3, 5, 6 and 7 were not purchased by buyers with special need. Thus, no adjustments were necessary.

Comparable No. 4 was purchased by the adjoining property owner who required a large portion of the building for expansion. But according to the listing agent, no premium was paid for special need. Thus, no adjustment was required.

Location

General Location – General locational factors include the market's perception of a particular neighborhood or area of the community, support facilities, growth and development potential. The subject had a good general location in downtown Scottsdale.

As Comparable Nos. 3 and 4 also had good general locations in Scottsdale with similar appeal, no adjustments were indicated.

Comparable Nos. 1, 2, 5, 6 and 7 were in various locations in Scottsdale, Phoenix and Tempe, where market appeal varied, but all had less appeal when compared to the subject's location. For their inferiority, varying upward adjustments were necessary.

Specific – Specific locational features relate to setting. If a parcel is located in a cluster of commercial/retail development, part of a shopping center or in a masterplanned community that has an appealing theme, it may bring a premium in the marketplace given the added customer draw of the surroundings. On the other hand, land that is surrounded by unattractive locational features may sell at a reduced price.

Comparable Nos. 1, 2, 3, 4, 5, 6 and 7 had specific locations with varying appeal. However, all were similar to the subject's specific location. Thus, no adjustments were warranted.

Frontage/Access

Frontage is important to the marketability of land as it generally provides publicly-dedicated and maintained access. Access can be judged from streets immediate to the subject or from adjacent or nearby boulevards, expressways or freeways. This grouping includes categories that are closely related but the distinction is important.

Frontage – The subject has frontages on publicly-dedicated, improved and maintained streets.

As Comparable Nos. 1 through 7 had frontage on publicly-dedicated and -maintained streets, no adjustments were necessary.

Access – The subject had access from 75th Street and McKnight Avenue, sufficient for its current and future use.

As Comparable Nos. 1, 2, 3, 4, 5, 6 and 7 had similar access from their frontages, no adjustments were required.

Traffic Count/Visibility

Traffic count and visibility are not primary considerations in the subject’s market segment. Office users are typically destination-oriented businesses and are not entirely dependent upon drive-by traffic for their patronage. Nevertheless, a building that can be seen from a large volume of passing traffic usually has added marketability. The subject had a light unmeasured traffic count along its frontages.

Comparable Nos. 2, 3 and 4 had “light, unmeasured” traffic counts. For the similarity, no adjustments were necessary.

Comparable Nos. 1, 5, 6 and 7 had traffic counts of 20,170, 18,031, 19,782 and 33,579 vehicles per day respectively. For their superiority, downward adjustments were indicated.

Visibility - At times, the visibility of an office building can be blocked by adjoining buildings, terrain or the frontage can be too narrow to take advantage of the traffic count.

In addition, the added visibility of an arterial intersection will generally bring a premium for the added marketability. In the subject's case, it had broad enough and sufficient unblocked frontage along 75th Street and McKnight Avenue to allow it average visibility.

Comparable Nos. 1, 2, 3, 4, 5, 6 and 7 all had average visibility. For their similarity to the subject, no adjustments were necessary.

Size

Size often influences the price paid for office building properties. Usually, buildings in a larger size classification tend to sell at a lower unit price than buildings in a smaller size classification as larger buildings appeal to a smaller market segment, and generally require a longer marketing and holding period.

The subject property was 14,463 leasable square feet in size with 10,583 square feet devoted to offices and 3,880 square feet in two residential units on the second floor. Its size places it well within my data sample which had sizes ranging from 8,444 square feet to 22,717 square feet. My examination and analysis of the comparables indicated that Comparable Nos. 1, 2, 3, 5, 6 and 8, with sizes ranging from 8,444 square feet to 11,195 square feet, were sufficiently similar to the subject so that no adjustments were required.

Comparable Nos. 4 and 7 were significantly larger than the subject with leasable areas of 22,717 and 18,000 square feet. For the limited number of market participants available to purchase larger buildings and the impact of size on sales price, upward adjustments were necessary.

Age/Condition/Appeal

Buyers and sellers tend to group these three factors into a single adjustment, but each category is discussed separately.

Age - The subject was built in 2001. The comparable properties were built from 1979 to 2004. For the most part, buyers are less discerning about age and pay more attention to a property's condition assuming they do not exhibit excessive deferred maintenance. In my comparisons of the data to the subject, adjustments for "age" were combined with adjustments for "condition".

Condition – The subject appears to have been well maintained as no deferred maintenance was noted. Based upon my inspection and considering its 13-year age, it was in average-to-good condition.

Comparable Nos. 2, 3, 4 and 5 were in inferior condition when they sold. When compared to the superior condition of the subject, upward adjustments were needed.

Comparable Nos. 1, 6 and 7 were in better overall condition as compared to the subject. In comparing this data with the subject, downward adjustments for their superior condition was warranted.

Appeal – This category reflects extras, the exterior design and attractiveness, and the overall market appeal of the subject and the comparables. The subject property had average market appeal as of the effective date of the appraisal.

In my sample of sales, Comparable Nos. 1, 4 and 7 were similar with their average designs and site improvements. Thus, no adjustments were necessary to these sales.

Comparable No. 2, 3 and 5 had dated, less appealing designs. When compared to the subject, upward adjustments were warranted.

Comparable No. 6 was an older building, but substantially upgraded with superior appeal compared to the subject and the other properties in the sample. For its superior marketability, a downward adjustment was indicated.

Functionality/Quality

Functionality – This category refers to a building's suitability for its designated use and its conformance with market trends in design and layout.

The subject is unusual as the second floor is not valuable office space but two less marketable, and almost incompatible residential units on the second floor. As such, 3,880 square feet, or 27 percent, of gross building area has reduced functionality and market appeal. One way to judge the reduced functionality is to study the residential units' income compared to the income potential from equivalent office area. The average rental income for the 3,880 square feet of residential area is $11.50 ± per square foot (see Income Approach). Compared with the average office rent of $20.00 per square foot, the difference is equivalent to an income reduction of 43%. Multiplying the percentage of lower rent by the area results in a downward adjustment factor of 11.6% ± (0.27 x 0.43) for comparison with buildings with 100 percent of their gross building area devoted to office use. As Comparable Nos. 1, 2, 3, 4, 5, 6 and 7 had all of their gross building area in office build-out, downward adjustments were indicated for their superiority.

Quality – This factor is related to the quality classification of office buildings. Buildings are divided into classes--Class A, the highest quality, Class B, average quality, and Class C, below average quality. The quality classification of office buildings is often directly related to their location, quality, design, services, and rental rates. The subject was best classified as a Class B building by contemporary standards.

Comparable Nos. 1, 2, 4, 5, 6 and 7 were all Class B buildings as well. For their similarity, no adjustments were necessary.

Comparable No. 3 was an inferior Class C building. For its lesser market appeal, an upward adjustment was necessary.

Zoning

The subject was zoned D/OR-1.5, Downtown, Office-Residential. This zoning designation allowed the subject to utilized to its highest and best use.

Comparable Nos. 1, 2, 3, 4, 5, 6 and 7 had various zonings that allowed the same use as the subject. Given their similarity, no adjustments for zoning were necessary.

Parking Ratio

Parking ratio is implicitly tied to the land-to-building ratio of a property. In this case, the subject had a relatively low parking ratio of 1 space for each 413 square feet of building area. Although the ratio is less than a typical ratio of 1 space for every 300 to 350 square feet of building area, curbside parking and 27% of the building dedicated to residential use , however, the concern is mitigated somewhat. Most office investors prefer greater parking availability as it allows for medical use and other uses that are personnel- and client-intensive. The data in my sample had parking ratios within a range from 1 space for each 243 square feet to 1 space for each 455 square feet.

Comparable Nos. 1 and 3 had ratios of 1: 435 square feet and 1:455 square feet which made them similar to the subject. For their similarity, no adjustments were necessary.

Comparable Nos. 2, 4, 5, 6 and 7 had parking ratios ranging from 1:243 to 1:334 square feet. For their superior parking ratios, varying downward adjustments were indicated in the comparisons with the subject.

Economic Factors

This category of factors included adjustments for major differences in tenant creditworthiness, lease terms or rental rates that were noted to have a measurable influence on sales price. As the fee simple interest was appraised, the subject was assumed to be occupied by creditworthy tenants paying market rents and likely partial owner-occupancy. The existing tenant is likely to renew their lease and remain in the building. If the building is sold, the city may vacate. Even so, the space is attractive and likely to be leased quickly.

My analysis of Comparable Nos. 1, 2, 4, 5, 6 and 7 indicated that no below- or above-market lease rates, occupancies or tenant creditworthiness measurably influenced their sales prices. Thus, no adjustments needed to be applied.

Comparable No. 3 was 85.0% occupied by long-term tenants paying below-market rents. According to the leasing agent, the inability of management to raise the low rents had a negative impact on the property's marketability. Compared to the subject property, an upward adjustment was needed.

Summary of Adjustments

The adjustment grid on the following page charted the subject property and the sales and the relevant information about each one. Differences between the subject and the sales were identified. The sales prices for each were adjusted in accordance with the discussion related above. The adjusted prices indicate a range of estimated market value for the subject property. Following the presentation of the grid is my opinion of market value, as improved.

SALES COMPARISON APPROACH

APN's 130-25-107, 108 and 109 (City of Scottsdale)

Effective Date of the Appraisal - July 9, 2014

140425

ADJUSTMENT GRID

Comparable No.	Subject	1	2	3	4	5	6	7
Location	**4021 N. 75th St., Scottsdale**	**3010 S. Priest Dr., Tempe**	**8683 E. Via de Negocia, Scottsdale**	**4301 N. 75th St., Scottsdale**	**7418 E. Helm Dr., Scottsdale**	**910 E. Osborn Rd., Phoenix**	**7243 N. 16th St., Phoenix**	**4441 E. McDowell Rd., Phoenix**
Sales Price	**NA**	**$1,100,000**	**$775,000**	**$840,000**	**$2,250,000**	**$1,165,000**	**$1,522,520**	**$1,485,000**
Unit Price (Price/S.F.)	**NA**	**$126.38**	**$91.78**	**$84.00**	**$99.04**	**$108.98**	**$136.00**	**$82.50**
Property Rights Conveyed	Fee Simple	Leased Fee	Fee Simple	Leased Fee	Leased Fee	Fee Simple	Fee Simple	Leased Fee
Adjustment		0%	0%	0%	0%	0%	0%	0%
Terms of Sale	Cash	Cash	Cash	Seller Carryback	Cash	Cash	Cash	Cash
Adjustment		0%	0%	0%	0%	0%	0%	0%
Conditions of Sale	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal
Adjustment		0%	0%	0%	0%	0%	0%	0%
Market Conditions (Time)	Jul-14	Mar-14	Jan-14	Jan-14	Dec-13	Nov-13	Jun-13	Sep-12
Adjustment		0%	5%	5%	5%	5%	15%	25%
Buyer Motivation	User/Investor	Investor	Investor	Investor	User	Investor	Investor	User
Adjustment		0%	0%	0%	0%	0%	0%	0%
Assemblage/Special Need	None/None	Similar/Similar	Similar/Similar	Similar/Similar	Similar/Special Need	Similar/Similar	Similar/Similar	Similar/Similar
Adjustment		0%	0%	0%	0%	0%	0%	0%
Adjusted Unit Price		**$126.38**	**$96.37**	**$88.20**	**$104.00**	**$114.43**	**$156.40**	**$103.13**
Location - General/Specific	Good/Good	Inferior/Similar	Inferior/Similar	Similar/Similar	Similar/Similar	Inferior/Inferior	Inferior/Similar	Inferior/Similar
Adjustment		20%	20%	0%	0%	20%	20%	35%
Frontage/Access	Public/Average	Similar/Similar	Similar/Similar	Similar/Similar	Similar/Similar	Similar/Similar	Similar/Similar	Similar/Similar
Adjustment		0%	0%	0%	0%	0%	0%	0%
Visibility/Traffic Count	Average/Light	Similar/20,170 v.p.d.	Similar/Similar	Similar/Similar	Similar/Similar	Similar/18,031 v.p.d.	Similar/19,782 v.p.d.	Similar/33,579 v.p.d.
Adjustment		-5%	0%	0%	0%	-5%	-5%	-5%
Bldg. Size (Leasable Area)	14,463	8,704	8,444	10,000	22,717	10,690	11,195	18,000
Adjustment		0%	0%	0%	20%	0%	0%	10%
Age/Condition/Appeal	2001/Avg.-Good/Avg.	2004/Superior/Similar	1984/Inferior/Inferior	1979/Inferior/Inferior	1986/Inferior/Similar	1980/Inferior/Inferior	1984/Superior/Superior	2004/Superior/Similar
Adjustment		-5%	20%	25%	5%	10%	-20%	-5%
Functionality/Quality	Average-Fair/Class B	Superior/Class B	Superior/Class B	Superior/Class C	Superior/Class B	Superior/Class B	Superior/Class B	Superior/Class B
Adjustment		-10%	-10%	-10%	-10%	-10%	-10%	-10%
Zoning	D/OR-1.5 DO	CSS	C-O	C-2	I-1	R-5	C-O	C-2
Adjustment		0%	0%	0%	0%	0%	0%	0%
Parking Ratio	1:413 sf	1:435 sf	1:256 sf	1:455 sf	1:325 sf	1:334 sf	1:243 sf	1:300 sf
Adjustment		0%	-5%	0%	-3%	-3%	-5%	-3%
Economic Factors	Typical Assumed	Similar	Similar	Low Rents	Similar	Similar	Similar	Similar
Adjustment		0%	0%	20%	0%	0%	0%	0%
Overall Adjustment		**0%**	**25%**	**35%**	**12%**	**12%**	**-20%**	**22%**
Estimated Value Range (Price/S.F.)		**$126.38**	**$120.46**	**$119.07**	**$116.48**	**$128.16**	**$125.12**	**$125.81**

Conclusion to the Analysis

Unadjusted, the comparable sales indicated a price range from $84.00 to $136.00 square foot of leasable building area. Adjusted, they present a narrower range from $116.48 to $128.16 per square foot. Applying the adjusted range to the subject's gross and leasable building area provides the following:

$116.48/s.f. x 14,463 s.f. = $1,684,650

- to -

$128.16/s.f. x 14,463 s.f. = $1,853,578

Given the good comparison, a value near the middle of the range was indicated. Acknowledging that the market usually rounds to a whole number, my opinion of the market value of the fee simple interest in the subject property, from application of the Sales Comparison Approach, as of the effective date of the appraisal, July 9, 2014, was **$1,800,000**, which indicates a package price of **$124.46** per square foot of gross and leasable building area ($1,800,000 ÷ 14,463 square feet).

Exposure Time

The exposure period for the marketing of the subject depends on many factors including current market conditions, the factors of supply and demand, pricing and professional marketing. Agents interviewed for this assignment report steady demand for properties like the subject. Based on this information, I have estimated a six-month exposure time for subject property, assuming it has been priced appropriately within 10 percent of the appraised value and professionally marketed.

INCOME APPROACH TO VALUE

The Income Approach is utilized to arrive at an estimate of value by converting anticipated benefits, such as its net operating income, into property value. The conversion can be completed via the capitalization of a single year's income expectancy at a market derived rate or by discounting the annual cash flows over the holding period and the reversion at a specified yield rate.

This approach is relied upon primarily by investors as the earning power of the property is critical to their decisions. An investor will trade an amount of money today in order to receive the right to future flows of money. The investor's decision is based on the factors that affect value in all cases; anticipation and change, supply and demand, substitution, balance and external forces.

Traditional Method

Traditionally, the Income Approach has been viewed as consisting of three primary steps. In the first broad step, market rent and stabilized vacancy and collection loss are estimated providing both estimates of potential gross income and effective gross income.

Estimation of Market Rent and Income

Market rent is defined as:

> *"The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options and tenant improvements* [10]

The estimate of market rent will indicate potential gross income attributable to the property along with other sources of income. But gross income is diminished by vacancy, credit loss and expenses relating to the operation of the real property and continuation of the expected income stream.

Stabilized vacancy refers to an annual rate influenced by current market conditions but also what is expected to be typical over the holding period. Most investors overlook short term aberrations and will project stable rates based on past histories and future expectations.

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10 Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition, (Chicago, Illinois: Appraisal Institute, 2010), page 121

Effective gross income is derived by deducting an estimate of vacancy and credit loss. Vacancy is one of the market conditions that is estimated as of the effective date of the appraisal but also influenced by considering past and expected trends.

Fixed and Variable Operating Expenses

For the second step in the process, applicable expenses of operation are estimated and deducted from effective gross income. Like the estimate of vacancy, the estimated expenses represent stabilized or typical amounts adjusted to represent normal operations over the typical holding period. Applicable categories and expenses are determined through market comparison and survey. Non-cash accounting expenses are not considered (e.g. depreciation); only those expenses pertaining directly to the operations of the property are used. The effective gross income less estimated expenses is called the net operating income.

Capitalization of Net Operating Income

The third step is the conversion of the net operating income into an indication of value. Capitalization is simply the conversion of income into value. In the conversion of net operating income to value, various methods of capitalization were considered. The two main capitalization methods are **direct capitalization** and **yield capitalization**.

The first method is market oriented and relatively simple. Income is converted to a value indication by dividing one year's income by an appropriate rate derived from the market. Investors rely upon direct capitalization using estimates of net income and an overall rate extracted from recent sales. This method works well when the subject property as well as the comparable sales, are at, or near, stabilized occupancy. But when contract rents are above or below market, or when occupancy is expected to remain stable, fall or rise in the near term, the estimated overall capitalization takes into the consideration the risk involved.

Yield capitalization simulates investor assumptions and constraints with formulas that discount future benefits to present values. With this type of capitalization attitudes and expectations of the market must be accurately projected. A holding period must be selected; future cash flows must be identified; an accurate yield (discount) rate is estimated; and the discounting of the future benefits and a reversion must be completed.

Market Application of the Income Approach

In the subject’s market segment, direct capitalization is applied in the form described above. The typical buyer will estimate market value based on the net income resulting from existing contract rents at existing occupancy. The overall capitalization rate takes into consideration the risk in the existing tenancy and the need for possible lease-up of space after the sale of the property.

Applied Valuation Technique

As mentioned above, the typical buyer would use direct capitalization of existing net income with a few modifications depending on the buyer's assumptions of the subject's performance in the near and intermediate future. My valuation scenario for the subject includes the following assumptions and processes:

1. ***Estimation of Market Rent*** - Through market comparison, I estimated market rent for the subject's space and then compared it to the contract rents. The comparison measures the risk that the existing tenant would default given above market rents or ask to negotiate lower rents.

2. ***Estimation of Potential Gross Income*** – This amount is contract rent at stabilized occupancy plus reimbursements and other income, if any.

3. ***Estimation of Vacancy Rate and Credit Loss*** - The typical buyer would be confident in filling the property for a certain percentage of time over the holding period. I discussed market vacancy rates and how the subject's current occupancy compared to market occupancy and whether or not an increase in occupancy could be expected in the near or intermediate future.

4. ***Estimation of Effective Gross Income*** – Potential gross income less vacancy and credit loss

5. ***Estimate Stabilized Operating Expenses*** - Like the estimate of vacancy and credit loss, the estimated expenses represent stabilized or typical amounts adjusted to represent normal operations. Applicable categories of expenses are determined through market analysis. Non-cash accounting expenses, such as depreciation, and unusual/atypical expenses such as capital expenditures, debt service or corporation fees are not considered. Only those expenses pertaining directly to the operation of the property are deducted.

6. ***Estimation of Net Operating Income*** – The amount of Potential Gross Income, less Vacancy & Credit Loss and Stabilized Operating Expenses is Net Operating Income before taxes and debt service.

7. ***Estimation of Capitalization Rate*** - A market-supported capitalization rate was estimated from previously-presented sales, other sales of a similar nature, and information supplied by various nationally-published investor surveys.

8. ***Capitalization of Net Operating Income*** – The appropriate overall rate was applied to net operating income for my opinion of market value.

Lease Structure

It is important to note that lease structures can vary widely between different property types and even among similar property types. Specifically, most leases are structured in one of three ways. These common leasing structures and the treatment of expense items (i.e. paid by owner or paid by tenant) with each is described below:

Summary of Lease Structures

Full Service		Modified or Industrial Gross		Net	
Owner	**Tenant**	**Owner**	**Tenant**	**Owner**	**Tenant**
RE Taxes		RE Taxes			RE Taxes
Insurance		Insurance			Insurance
Management		Management			Management
Utilities			Utilities		Utilities
Janitorial			Janitorial		Janitorial
Major Maint.		Major Maint.		Major Maint.	
Legal/Audit		Legal/Audit		Legal/Audit	

In this office market segment, space is typically rented on a full service. Even though the subject's tenant was leasing on a modified gross lease basis, the lease was month-to-month and likely to be renegotiated to a market rent and to a full service allocation of operating expenses. Thus, my analysis considers full service allocation of operating expenses.

Estimation of Market Rent

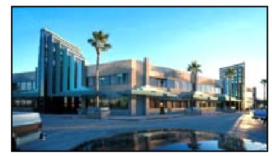
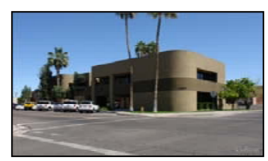
For the purpose of estimating the subject's market rent, similar properties in the subject's market segment were surveyed. Following is an analysis of comparable properties that offer competition and substitution. Space within these properties was rented prior to the effective date of the appraisal, or is currently offered for rent, indicating acceptance of past rates and a testing of the level of current rents. The comparables provided a range of rate from which the subject's market rent could be estimated after locational, physical and economic differences that affect market rent were identified.

DOWNTOWN SCOTTSDALE OFFICE RENTAL DATA
JULY, 2014

ITEM	PROPERTY ADDRESS REMARKS	BUILDING SIZE YEAR BUILT # STORIES	BUILDING CLASS AREA AVAILABLE OCCUPANCY RATE	RENTAL RATES EXPENSE ALLOCATION ASKING OR ACTUAL	PHOTOGRAPH
1	Scottsdale Financial Center III 7272 E. Indian School Rd. Scottsdale Parking Ratio of 3.8:1,000 s.f.; Covered Parking Available; Build-outs Negotiable Brett M. Abramson, Leasing Agent, JLL, 602-282-6257	150,050 1989 5	Class A 19,176 87.2%	$25.00 to $28.00 Full Service Asking	
2	Lincoln Towne Center N & S 4150-4250 N. Drinkwater Blvd. Scottsdale Parking Ratio of 4.0:1,000 s.f.; 200 Covered Parking Spaces Available; Build-outs Negotiable Jerry Noble, leasing agent, Cushman & Wakefield, 602-253-7900	230,000 1999 5	Class A 5,480 97.6%	$25.00 Full Service Asking	
3	Scottsdale Financial Center I 4110 N. Scottsdale Rd. Scottsdale Parking Ratio of 4.7:1,000 s.f.; 400 Covered Parking Spaces Available; Build-outs Negotiable Jerry Noble, leasing agent, Cushman & Wakefield, 602-253-7900	104,949 1982 3	Class B 20,605 80.4%	$25.00 Full Service Asking	
4	McKnight Building 4021 N. 75th St. Scottsdale Parking Ratio of 2.93:1,000 s.f.; Separate Entries for Each Tenant Suite	10,583 2001 1	Class B 0 100.0%	$21.94 Modified Gross Actual - 2014	
5	Office Building 4130 N. Goldwater Blvd. Scottsdale Parking Ratio of 2.86:1,000 s.f. Monica Morales, leasing agent, Triyar Manangement Co., 602-748-8888	12,000 1970 2	Class C 11,724 2.3%	$16.50-$17.50 Full Service Asking	
6	Office Building 8399 E. Indian School Rd. Scottsdale Parking Ratio of 3.00:1,000 s.f. Including 5 Covered S spaces avaliable; Build-outs Negotiable Steve Berghoff, leasing agent, Clayton Companies, 480-941-2260	15,000 2004 2	Class B 1,700 88.7%	$19.06 Modified Gross Asking	
7	Monterey Plaza 3295 N. Drinkwater Blvd. Scottsdale Parking Ratio of 7.0:1,000 s.f. including 70 free covered spaces Kelly F. O'Dea, leasing agent, LevRose Real Estate, 480-294-6005	20,000 1973 1	Class C 8,034 59.8%	$16.00 Full Service Asking	
8	Office Building 4248 N. Craftsman Ct. Scottsdale Parking Ratio of 2.0:1,000 s.f. with free city parking adajcant to the building Richard Feldheim, leasing agent, SR Ventures, LLC, 480-922-6801	5,923 1973 2	Class B 3,044 48.6%	$20.00 Full Service Asking	

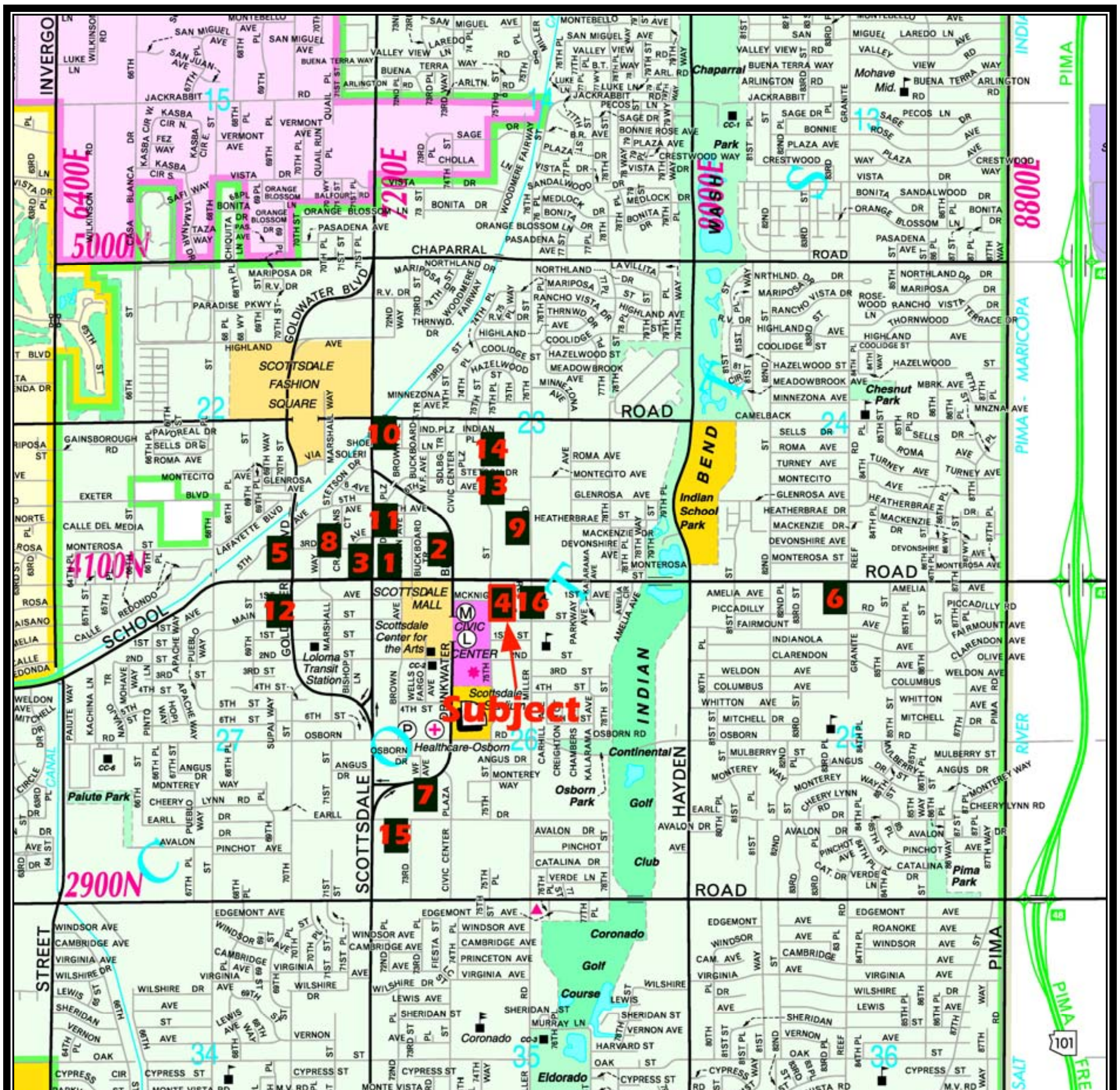
DOWNTOWN SCOTTSDALE OFFICE RENTAL DATA

JULY, 2014

ITEM	PROPERTY ADDRESS	BUILDING SIZE YEAR BUILT # STORIES	BUILDING CLASS AREA AVAILABLE OCCUPANCY RATE	RENTAL RATES EXPENSE ALLOCATION ASKING OR ACTUAL	PHOTOGRAPH
9	Plaza Cordoniz 4300 N. Miller Rd. Scottsdale Parking Ratio of 5.25:1,000 s.f. Including 80 Covered Spaces Kelly F. O'Dea, leasing agent, LevRose Real Estate, 480-294-6005	59,744 1982 2	Class B 1,300 97.8%	$17.00 Full Service Gross Actual	
10	Office Building 7201 E. Camelback Rd. Scottsdale Parking Ratio of 4.0:1,000 s.f. Including 155 Covered Spaces Geoffrey Turbow, leasing agent, LevRose Real Estate, 480-294-6019	67,691 1982 2	Class B 1,850 97.3%	$19.00 Full Service Gross Actual	
11	Galleria Corporate Centre 4343 N. Scottsdale Rd. Scottsdale Total Area is 442,132 Including 129,671 s.f. Retail and 130,000 s.f. Telecommunications Space Parking Ratio of 0.75:1,000 s.f.; Reserved $60.00/mo., 50 free; 250 covered $45.00/mo. Larry Downey, leasing agent, Cushman & Wakefield, 602-229-5833	401,903 1991 2	Class B 14,847 96.3%	$21.00-$28.00 Full Service Gross Asking	
12	Office Building 6990 E. Main St. Scottsdale Parking Ratio of 1.2:1,000 s.f. Janet Wilson, leasing agent, Floyd Investments, 480-748-0801	8,730 1988 3	Class B 1,500 82.8%	$16.00 Full Service Gross Asking	
13	Office Building 4301 N. 75th St. Scottsdale Parking Ratio of 2.2:1,000 s.f. Kelly F. O'Dea, leasing agent, LevRose Real Estate, 480-294-6005	10,000 1979 2	Class C 2,650 73.5%	$18.00-$20.00 Full Service Gross Asking	
14	Office Building 4385 N. 75th St. Scottsdale Parking Ratio of 1.2:1,000 s.f. Including 7 Covered Spaces Kelly F. O'Dea, leasing agent, LevRose Real Estate, 480-294-6005	5,785 1982 2	Class B 1,500 74.1%	$16.50 Full Service Gross Actual	
15	Office Building 7281 E. Earl Dr. Bldg. A Scottsdale Parking Ratio of 4.60:1,000 s.f. Including 10 Covered Spaces Troy M. Weurding, leasing agent, Caliber Commercial Group, 480-398,4085	6,328 2001 2	Class B 2,360 62.7%	$18.00-$21.00 Full Service Gross Asking	
16	Miller Court 4016 N. Miller Rd. Scottsdale Parking Ratio of 1.60:1,000 s.f. Parking Ratio of 1.60:1,000 s.f. Geoff Turbow, Leasing Agent, LevRose Real Estate, 480-294-6019	4,384 2006 2	Class B 2,800 36.1%	$20.00 Modified Gross Actual	

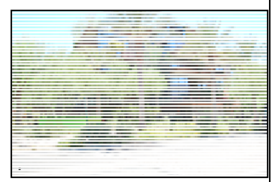
OFFICE RENT COMPARABLES LOCATION MAP

North



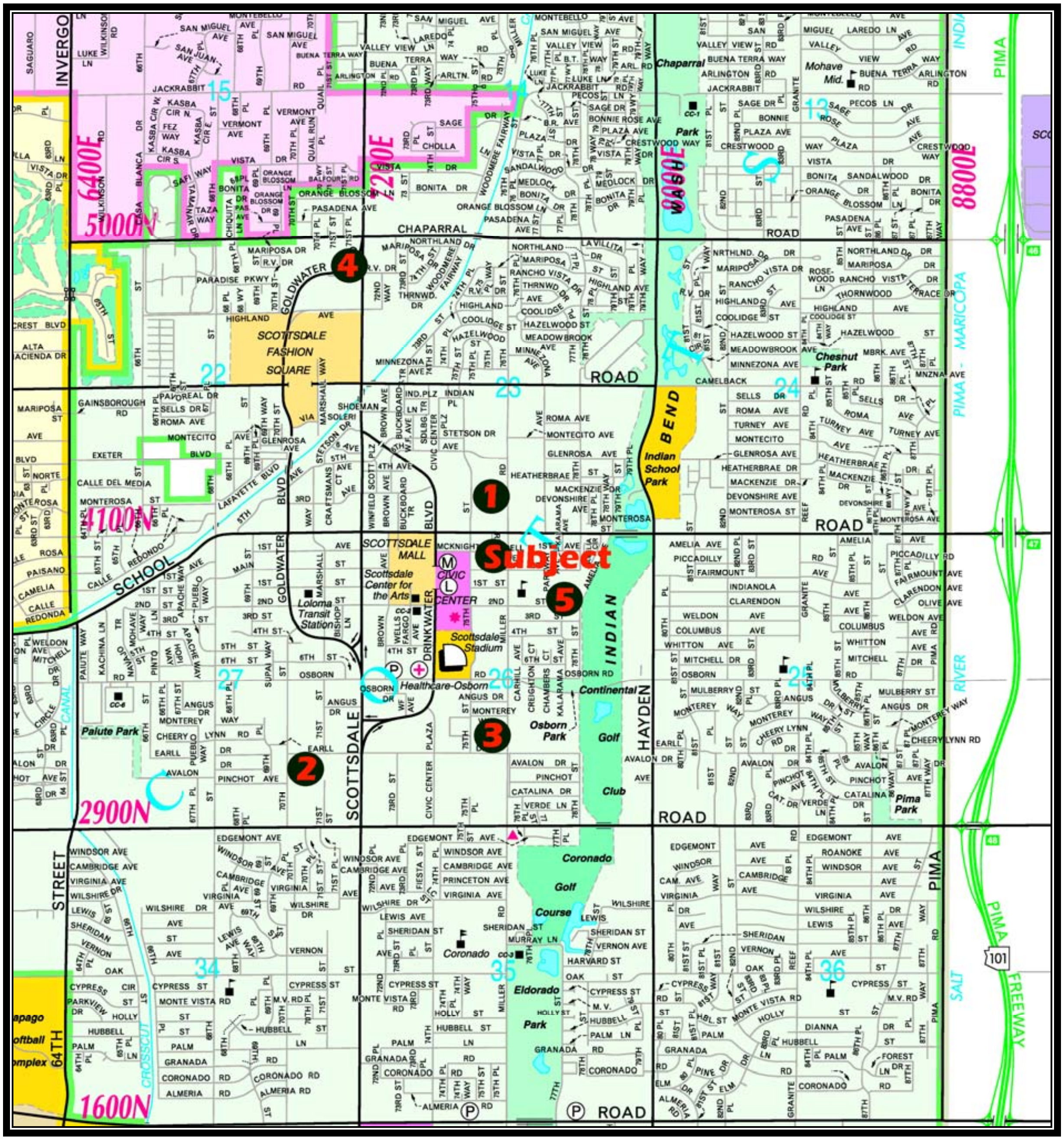
COMPARABLE SCOTTSDALE RESIDENTIAL RENTAL DATA

JULY, 2014

ITEM	PROPERTY ADDRESS AMENITIES	YEAR BUILT # STORIES	BR/BA SQUARE FEET	RENTAL RATE RENT INCLUDES ASKING OR ACTUAL	PHOTOGRAPH
1	Marquessa 4200 N. Miller Rd. #226 Scottsdale Remodeled Condo, Fire Sprinkers, Gated Community, Elevators, Concierge, Pool, Spa, Fitness 1-Car Carport Parking, Storage Room, Christina M. Shea, leasing agent, Saving Grace Investments, 480-619-0151	1987 5	2/2 1,419 1-Year Lease	$12.26 Utilities CATV Actual	
2	Pueblo Verde 7021 E. Earll Dr. Scottsdale Gated Community, Pool Unassigned Parking Tony T. Novey, leasing agent, West USA Realty, 602-403-7030	1997 2	2/2 1,113 1-Year Lease	$12.36 HOA Paid by Landlord Actual	
3	Villas at Vista Verde 7580 E. Earl Dr. #81 Scottsdale Gated Community, Clubhouse, Pool, Spa, Fireplace 1-Car Garage Gabriela Hebronova, leasing agent, DPR Realty, LLC, 480-628-4224	1997 2	2/2 1,331 1-Year Lease	$11.95 Sewer, Trash, Assn. Actual	
4	Optima Camelview 7127 E. Rancho Vista Dr. Scottsdale Gated Community, Luxury Quality, Balcony, Concierge, Pool, Spa, Club House, Fitness 2 Garage Spaces Richard Baxter, leasing agent, Realty Executives, 480-998-0676	2009 7	2/2 1,800 6-Mo. Lease	$17.00 HOA Paid by Landlord Actual	
5	Scottsdale Regency Club 7777 E. 2nd St. Scottsdale Gated Community, Pool & Spa, Fireplace 1-Car Garage David Pierce, leasing agent, Realty Connection, LLC, 602-312-1419	1992 2	2/2 1,256 1-Year Lease	$13.85 HOA Paid by Landlord Actual	

RESIDENTIAL RENT COMPARABLES LOCATION MAP

North



SUMMARY OF OFFICE SURVEY DATA AND INDICATIONS

TOTAL AREAS IN DATA SAMPLE			NUMBER OF BUILDINGS IN SAMPLE	
TOTAL BUILDING AREA	1,112,487	SF	TOTAL BUILDINGS	16
CLASS A BUILDING AREA	380,050	SF	CLASS A BUILDINGS	2
CLASS B BUILDING AREA	690,437	SF	CLASS B BUILDINGS	11
CLASS C BUILDING AREA	42,000	SF	CLASS C BUILDINGS	3
AVAILABLE AREAS			**VACANCY RATES**	
TOTAL VACANT AREA	132,214	SF	OVERALL VACANCY RATE	11.88%
CLASS A VACANT AREA	24,656	SF	CLASS A VACANCY RATE	6.49%
CLASS B VACANT AREA	85,150	SF	CLASS B VACANCY RATE	12.33%
CLASS C VACANT AREA	22,408	SF	CLASS C VACANCY RATE	53.35%
AVERAGE BUILDING AREAS			**AVERAGE YEAR BUILT IN SAMPLE**	
TOTAL BUILDINGS	74,166	SF	TOTAL BUILDINGS	1988
CLASS A BUILDINGS	190,025	SF	CLASS A BUILDINGS	1989
CLASS B BUILDINGS	62,767	SF	CLASS B BUILDINGS	1991
CLASS C BUILDINGS	14,000	SF	CLASS C BUILDINGS	1974
AVERAGE RENTAL RATES			**AVERAGE PARKING RATIOS (Spaces per 1,000 sf)**	
TOTAL BUILDINGS	$20.63	/SF	TOTAL BUILDINGS	3.26
CLASS A BUILDINGS	$26.50	/SF	CLASS A BUILDINGS	3.75
CLASS B BUILDINGS	$20.32	/SF	CLASS B BUILDINGS	2.94
CLASS C BUILDINGS	$17.83	/SF	CLASS C BUILDINGS	4.02

Estimation of Market Rent – Office and Residential

The subject includes two categories of space--office and residential. *Rudow & Berry* occupies 1,760 square feet of the office building and pays $3,218 per month, or **$21.94** per square foot per year, on a modified gross basis with the tenant responsible for the cost of electricity and janitorial. The lease has expired and the tenant is leasing the space on a month-to-month basis, but has the option of renegotiating the lease. The City of Scottsdale occupies the remaining three office suites on the 1st floor, which have a combined area of 8,843 square feet. The second floor is divided into two residential suites, 1,940 square feet each. Both residential units are currently vacant and not offered for lease.

To analyze the subject property's market rent I have surveyed the surrounding area and obtained information on the current occupancy and rental rates for fifteen buildings, including the subject, that a potential tenant or tenants would consider. In those buildings there was a total of 1,112,487 square feet. The survey included two Class A buildings, eleven Class B buildings and three Class C buildings. The buildings averaged 74,166 square feet overall with an average size of 190,025 square feet in the Class A buildings, 62,767 square feet in the Class B buildings and 14,000 square feet in the Class C buildings.

Rental rates in the Class A buildings surveyed ranged from $25.00 to $28.00 per square foot, with an average of $26.50 per square foot. In Class B buildings, the most similar to the subject, rents ranged from $16.00 to $28.00 per square foot with an average of $20.32 per square foot. Class C buildings had a range of rents from $16.00 to $20.00 per square foot with an average rent of $17.83 per square foot. It should be noted that the majority of rents cited were asking rents, but four recently leased properties were included. In a period of increasing rental rates and occupancy, asking rents represent the most likely rent attainable.

The subject, including all gross and leasable space, has a parking ratio of 1 space per each 413 square feet of building area. Considering just the office space, it has a parking ratio of 1:341 square feet. Alternatively, the subject's officer space has a ratio of 2.93 spaces per 1,000 square feet of building area. As indicated in the preceding summary, the average parking ratio for the nine Class B buildings surveyed was 2.94 spaces per 1,000 square feet, or one space for each 340 square feet of building area. Thus, the subject was considered to be similar in this regard. The subject also has curbside parking available.

The average age of the Class B buildings in the survey was 26 years, with an average year built of 1988. As the subject was built in 2001, it is 13 years old. As such, it was considerably newer than the average Class B building surveyed.

As shown on the preceding map, Items 3, 4, 6, 8, 9, 10, 11, 12, 14, 15 and 16 are Class B buildings. Overall, the subject's location south of Indian School and to the east of City of Scottsdale governmental offices is considered to be equal to, or better, than the Class B data in the survey.

Opinion of Market Rent - Office

I spoke with knowledgeable real estate agents and brokers regarding the subject's rental potential. The predominant opinion was that it was a fairly typical Class B building for the area. As noted above, Class A rents averaged $26.50 per square foot, Class B rents averaged $20.32 per square foot and Class C rents averaged $17.83 per square foot. The subject is newer than average, is well-located with covered parking. Its office tenant layout and improvements are considered average. The residential units are currently vacant and not offered for lease. These units lack many of the amenities offered by the comparable residential data, including: gated entry, garage parking, pool & spa and additional exercise and recreational areas.

Given the apparent increase of office rental rates and occupancy, my opinion of market rent on a full service allocation of operating expenses as of the effective date of the appraisal, was **$20.00** per square foot per year.

Opinion of Market Rent - Residential

The five apartment surveys provided a reliable range of rent from $11.95 to $17.00 per square foot per year. Most of the rents were towards the lower end of the range. Given that the subject rental units lack typical and expected amenities, my opinion of market rent for the residential units was **$11.50** per square foot per year, with the tenants paying the cost of utilities and janitorial.

Potential Gross Rental Income

As no load factor was necessary, the subject's potential gross rental income was based on its leasable building area as follows:

10,583 s.f. of Office Area x $20.00/s.f./yr. =	$211,660
3,880 s.f. of Res. Area x $11.50/s.f./yr. =	$ 44,620
14,463 s.f. of Leasable Building Area	**$256,280**

Reimbursements

No reimbursements were assumed for the direct capitalization of net income in the first (stabilized) year of operation. However, in successive years, an expense stop would counter the inflationary increase in operating expenses.

Other Income

The property has 35 covered parking spaces. My survey of comparable office buildings indicated that management is able to charge $25 or more per month for covered spaces. However, as all of the subject's required parking spaces were covered, they could not be charged for in addition to the tenants' lease rent. Thus, in my estimate of market rent I assumed the use of covered parking in the annual rental rate. As the subject had no other features that would produce other income, none was estimated. Late charges were reflected in the credit loss rate utilized.

Vacancy and Credit Loss

Vacancy and credit loss are deducted from potential gross income to yield effective gross income. These losses are related to supply and demand, condition and continued appeal of the property, and the quality of management.

My survey of 15 office buildings in the subject's surrounding area, which included the subject, confirmed the vacancy indications for the overall Scottsdale submarket as reported by the *CoStar* Office Report 2nd Quarter 2014. As indicated in the preceding summary, the overall vacancy rate of the 15 buildings surveyed was 11.88%. Class A buildings had a vacancy rate of 6.49%, Class B buildings had a vacancy rate of 12.33% and Class C buildings had a vacancy rate of 53.35%.

As previously noted, the most likely purchaser of the subject would be a partial owner-user. This probability has the effect of largely offsetting the prevailing vacancy rate. Note that in my sample of the seven building sales utilized in the Sales Comparison Approach, three, Nos. 2, 5 and 6 were vacant at the time of sale, with this factor having no effect on the sales price with typical buyers being both investors and owner-users.

Given that the most probable buyer under the market conditions as of the effective date of the appraisal would be a partial owner-user, in the estimation of the subject's effective gross income, it is likely that an informed buyer would have considered a combined vacancy and credit loss of 6%.

Effective Gross Income

Effective gross income can be calculated as follows:

Potential Gross Rental Income	$256,280
Reimbursements	$ 0
Other Income	$ 0
Potential Gross Income	$256,280
Less 6% Vacancy & Credit Loss	($ 15,377)
Effective Gross Income	**$240,903**

Stabilized Operating Expense Analysis

In the appraisal of the fee simple interest, the subject office space was assumed to be leased on a full service basis with the landlord paying all operating expenses. My analysis of the subject therefore relies on expense data from both the client and similar buildings.

On the following page is a summary of expenses from six buildings in the Phoenix metropolitan area. Sizes range from an 8,620 square foot, Class C building in Scottsdale to a 47,505 square foot, Class B building also in Scottsdale. Actual data from 2012, 2013 and 2014 was obtained from actual statements and budget projections.

The category of reserves for replacements is conspicuously absent. For the most part, contributing to an account for reserves for replacement that is required to replace all expendable components of the property is not done by owners. Property like the subject is bought and sold "as is" and adjustments are made to the price for the condition of the property at the time of sale. Thus, the typical buyer in analyzing a property's value via the Income Approach, will not figure an amount for this category. Thus, as discussed later in this section of the report, overall rates are based on net income that was not decreased by a deduction for reserves for replacements.

Fixed Operating Expenses

Property Insurance - The expense data indicates an insurance expense ranging from $0.13 to $0.40 per square foot. Insurance rates are closely tied to type of construction and type of tenant. Larger buildings generally pay lower unit amounts for insurance than do smaller buildings. The presence or absence of fire sprinklers also affects insurance rates. The client reported an insurance expense of $1,525.85 per year or $0.11 per square foot, which is lower than the properties surveyed. I have estimated a stabilized insurance expense of **$2,900** per year or **$0.20** per square foot.

Real Estate Taxes – The subject is currently owned by the City of Scottsdale, a tax exempt entity. Thus, real estate taxes must be estimated based upon an assumed assessment of the property. For inclusion in the stabilized expense projection I have estimated taxes for the subject property based on an average tax of the seven office buildings included in the sales comparison approach. The individual tax amounts ranged from $1.34 per square foot to $2.13 per square foot and averaged $1.84 per square foot. Accordingly, I have estimated taxes at **$26,612** or **$1.84** per square foot.

COMPARABLE OFFICE EXPENSE DATA

Expense Comparable No.	**One**		**Two**		**Three**		**Four**		**Five**		**Six**	
Property City	Phoenix		Scottsdale		Scottsdale		Scottsdale		Tempe		Phoenix	
Property Class	B		B		C		B		B		B	
Building Size	23,308		47,505		8,620		23,076		20,937		46,281	
Number of Stories	1		1		2		2		1		4	
Building Age	2001		1998		1982		2006		1982		1993	
Confidential I&E Record	No		No		No		No		No		No	
Statement Type	Budget		Budget		Actual		Actual		Actual		Actual	
Year of Record	2014		2014		2012		2014		2013		2013	
Effective Gross Income	$305,038		$773,806		$158,068		$442,630		$250,948		$453,615	
	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI	GLA (SF)	% EGI
EFFECTIVE GROSS INCOME	$13.09	100.00%	$16.29	100.00%	$18.34	100.00%	$19.18	100.00%	$11.99	100.00%	$9.80	100.00%
OPERATING EXPENSES												
Property Insurance	$0.18	1.38%	$0.15	0.92%	$0.25	1.36%	$0.40	2.09%	$0.17	1.42%	$0.19	1.94%
Management Fees	$0.51	3.90%	$0.42	2.58%	$0.78	4.25%	$1.47	7.66%	$0.00	0.00%	$0.31	3.16%
Real Estate Taxes	$2.25	17.19%	$2.76	16.94%	$2.31	12.60%	$2.37	12.36%	$1.28	10.68%	$1.32	13.47%
Administrative Fees	$0.00	0.00%	$0.00	0.00%	$0.15	0.82%	$0.00	0.00%	$0.00	0.00%	$0.00	0.00%
Total Utilities	$1.49	11.39%	$2.26	13.87%	$2.27	12.38%	$2.45	12.77%	$1.31	10.93%	$1.84	18.77%
Repairs & Maintenance	$0.21	1.60%	$0.36	2.21%	$0.34	1.85%	$0.06	0.31%	$0.21	1.75%	$0.78	7.96%
Cleaning & Janitorial	$0.08	0.61%	$0.63	3.87%	$0.24	1.31%	$0.00	0.00%	$0.29	2.42%	$0.56	5.71%
Landscaping and Security	$0.24	1.83%	$0.27	1.66%	$0.59	3.22%	$0.00	0.00%	$0.17	1.42%	$0.21	2.14%
Other Operating Expenses	$0.08	0.61%	$0.06	0.37%	$0.00	0.00%	$0.00	0.00%	$0.04	0.33%	$0.13	1.33%
TOTAL OPERATING EXPENSES	$5.04	38.51%	$6.91	42.42%	$6.93	37.79%	$6.75	35.19%	$3.47	28.95%	$5.34	54.48%

Variable Operating Expenses

Management - Management fees are typically based on a percentage of effective gross or collected income. Based on conversations with several professional leasing and management agents, 3 to 5 percent of the effective gross income was typically reported in multi-tenanted buildings. The expense data indicated a range from 2.6% to 7.7%. A building like the subject, which appeals to both an investor or investor-user, is expected to have an estimate at the lower end of the range. Therefore, management expense is estimated as **3 percent** of effective gross income or **$7,227** per year ($240,903 x .03).

Administrative - Administrative fees include accounting, licenses and fees, tax appeal, advertising, and general office and administrative expenses. Typically administrative fees do not include payroll or management expenses and range from 1 to 2 percent of effective gross income in multi-tenanted buildings. Only Comparable No. 3 reported an administrative expense, which was $0.15 per square foot. The client reported an administrative expense of $8,667 per year or $0.60 per square foot. I have estimated a stabilized administrative expense of **$4,500** per year or **$0.31** per square foot.

Repairs and Maintenance - Repairs and maintenance expense typically includes maintenance service, HVAC service, electrical repair, structural roof, plumbing, fire and life safety, etc. Buildings like the subject in the Phoenix metropolitan area typically have an expense from $0.50 to $2.00 per square foot, depending upon location, age, layout, building finish and occupancy. The expense data exhibits a range from $0.06 to $0.78 per square foot. The client reported an expense of $13,715 per year, or $0.95 per square foot, which is higher than the properties surveyed. Based on client information, I have estimated a stabilized expense of **$13,715** per year or **$0.95** per square foot.

Cleaning/Janitorial - For the operation of buildings on a full service basis, office janitorial costs are the responsibility of the landlord. Janitorial expenses in Phoenix office buildings have ranged from $0.65 to $0.80 per square foot at 100 percent occupancy. The expense data includes six properties that included cleaning/janitorial services. Those indications ranged from $0.08 and $0.63 per square foot. On the basis of a percentage of effective gross income the data ranged from 0.61% to 5.71%. From this data, I have estimated expenses in this category to be **$0.70** per square foot or **$10,124** per year.

Utilities – As with cleaning/janitorial expense, utility consumption is affected by occupancy and building design. The subject has no common hallways to heat or air condition and the residential units pay their own utilities. The building is also newer and more energy efficient.

The data ranged from $1.31 per square foot to $2.45 per square foot, and from 10.93% to 18.77% of effective gross income. For this category, I have given most weight to the actual utilities expense as provided by the client. The expense was reported to be $26,181 per year, which excluded an electricity cost for the residential units as they have remained vacant. I have estimated a utility expense of **$26,180** or **$1.81** per square foot.

Landscaping & Sweeping – Generally, the landscaper not only maintains the landscaping but sweeps the parking lot as well. The expense data ranges from $0.00 to $0.67 per square foot and from 0% to 3.22% of effective gross income. For this category, I have given most weight to the actual landscaping expense as provided by the client. The subject's landscaping expense was reported to be **$6,720** per year. I have estimated it to be the same, or **$0.46** per square foot of building area. As such, I have entered this amount as a stabilized amount in the pro forma.

Other – Other expenses include items that do not fit precisely into the previous categories or that are unique to a specific property. These may include miscellaneous expenses, land leases or expenses related to special services such as high speed internet access. In the format presented, with reliance on the market expense data, no "Other" expenses were applicable.

Expense Ratio

The expense ratio is influenced by the type of leases in place, the property's occupancy and the rental rates obtained. The expense data indicated expense ratios ranging from 28.95% to 54.48% with total expenses per square foot ranging from $3.47 per square foot to $6.93 per square foot.

The total expenses projected for the subject on a stabilized basis are equal to **$6.77** per square foot and 40.67**%** of Effective Gross Income, an amount and a ratio that are supported by the ranges indicated from the comparable data.

Net Operating Income

The following stabilized forecast operating statement summarizes the estimation of net operating income for the subject:

STABILIZED FORECAST OPERATING STATEMENT

Leasable Building Area (s.f.)	14,463			TOTAL
Potential Gross Rental Income				**$256,280**
Office Area of 10,583 s.f. @ $20.00 per s.f.		$211,660		
Residential Area 3,880 s.f. @ $11.50 per s.f.		$44,620		
Other Income				**$0**
Potential Gross Income				**$256,280**
Less Vacancy & Collection Loss	6%			**($15,377)**
Effective Gross Income				**$240,903**
<u>Less Operating Expenses</u>				
		Projected Expense	**Expense Per S.F.**	
Fixed Expenses				
Taxes		$26,612	$1.84	
Insurance		$2,900	$0.20	
Variable Expenses				
Management	3%	$7,227	$0.50	
Administrative		$4,500	$0.31	
Maintenance		$13,715	$0.95	
Cleaning/Janitorial		$10,124	$0.70	
Utilities		$26,180	$1.81	
Landscaping & Security		$6,720	$0.46	
Total Operating Expenses	40.67%	**$97,978**	$6.77	**($97,978)**
Net Operating Income				**$142,925**

Direct Capitalization

An appropriate overall capitalization rate applied to the estimated net operating income results in a value indication for the subject by direct capitalization. Generally, rates extracted from the sales in the Sales Comparison Approach provide useful indications of overall capitalization rates applicable to the net income for the subject property.

The highest and best use of the subject, as improved, was concluded to be continued operation as designed and utilized. Overall rate indications were obtained from numerous office sales in the metropolitan Phoenix market area, including two of the sales, <u>Nos. 1 and 7</u> (<u>Nos. 6 and 7</u> in the following summary), which compared to the subject in the Sales Comparison Approach.

MARKET SALES OF OFFICE BUILDINGS WITH OVERALL RATE INDICATIONS							
Number	Property	Class	Yr. Blt.	Rentable	Sale Price	Recording Date	**OAR**
1	7825 E. Gelding Dr., Scottsdale	B General	1988	9,252	$1,300,000	4/16/2014	**6.00%**
2	3225 N. Civic Center Plaza	C Medical	1983	10,230	$1,275,000	12/23/2013	**6.20%**
3	6865 E. Becker Ln. Scottsdale	B Medical	1998	10,000	$1,300,000	9/5/2013	**8.50%**
4	8600 E. Via de Ventura, Scottsdale	B Medical	1982	8,620	$1,525,000	4/30/5730	**8.17%**
5	29 W. Thomas Rd., Phoenix	C General	1975	9,360	$725,000	12/26/2013	**9.10%**
6	3010 S. Priest Dr., Tempe	B General	2004	8,704	$1,100,000	5/1/2014	**9.80%**
7	4441 E. McDowell Rd., Phoenix	B General	2004	18,000	$1,485,000	10/3/2012	**10.00%**

In addition to the above indications, a fully occupied 8,040 square foot Class B office building, built in 1998, at 10841 South 48th Street, Phoenix, is currently in escrow at an overall rate of 10.02%

Given the improving economy, and increased investor confidence, overall capitalization rates have seen significant improvement over the past three years, but very little change over the past year. My discussions with active brokers and agents support this opinion.

Another source of overall capitalization rates is provided by Korpacz Real Estate Investor Survey, published by PriceWaterhouseCoopers. In their 2nd Quarter 2014 issue, they report their findings regarding overall rates in the office market segment. As of the 2nd Quarter, they reported a range in capitalization rates of 5.50 percent to 10.00 percent with an average rate of 7.35 percent, up 9 basis points from the quarter before. This compares to the national suburban office market which had a range in capitalization rates of 5.00 percent to 9.00 percent with an average overall rate of 6.75%, up 3 basis points from the prior quarter.
Recognizing the subject's 13-year age and average quality, Class B improvements, and also giving weight to its appealing location across from City of Scottsdale offices, a range of overall capitalization rates from 7.5% to 8.0% was concluded applicable to the subject.

Applying this range to the subject’s estimated stabilized net operating income offers a range of market value for the subject property from application of the Income Approach:

Net Income of $142,925 divided by OAR 0.0800 = $1,786,562

- to –

Net Income of $142,925 divided by OAR 0.0750 = $1,905,567

Opinion of Market Value by the Income Approach

Considering all the factors affecting the marketability of the subject, my opinion of market value of the fee simple interest in the subject property, assuming market rents and occupancy, as of July 9, 2014, by direct capitalization within the Income Approach, was **$1,825,000** or **$126.18** per square foot of the subject's gross and leasable building area ($1,825,000 ÷ 14,463 s.f.).

RECONCILIATION AND OPINION OF MARKET VALUE

As indicated, there are three approaches of estimating the value of real property: the Cost Approach, the Sales Comparison Approach and the Income Approach. Because of the age and design of the improvements the Cost Approach was not applicable. The Sales Comparison Approach and the Income Approach were considered applicable. The various analyses provided the following indications of market value:

Sales Comparison Approach:	$1,800,000
Income Approach:	$1,825,000

Sales Comparison Approach

The Sales Comparison Approach is used by buyers and sellers to form an important indication of value. Similar properties that have recently sold are used to develop a useful unit of comparison--price per square foot of leasable building area. Sales data for comparable improved properties in the subject's market segment were adequate and comparable to the subject. Overall, the data was reliable as it set well defined boundaries for the subject's market value.

Under the current market conditions, the market favors owner-occupancy or partial owner-occupancy as financing is less available for investment properties. In addition, owner-users currently dominate the market as declining rental rates and a pattern of increasing vacancy makes investment properties less appealing. Given the overall good comparability of the sales data and the reliance that the typical buyer places on this Sales Comparison Approach, it provided a reliable indication of market value for the subject property as improved.

Income Approach

The Income Approach is considered an important indicator for income producing properties because prudent investors often buy real estate based on the capitalization and strength of its net income flow, especially when cash flow is more important than the weak tax advantage real estate provides.

The typical investor finds the direct capitalization method utilized in the Income Approach reliable and bases his or her purchase decision on the results of such analysis. This approach provided an accurate and meaningful result given the good comparability of the data, reliable indications of market rent, vacancy, credit loss and expenses. When available, strong, applicable overall rate indications from the data effectively provide good evidence of a rate applicable to the subject. As a result, the Income Approach was considered to provide a reliable estimate of the value of an income producing investment property, but is less reliable when the primary market participants are made up of owner-users or partial owner-users.

Conclusion of Market Value

The application of the Sales Comparison Approach and Income Approach both considered the fee simple estate of the subject as if rented at the market rate to the prevailing market rate of occupancy. In reconciling the indications from the Sales Comparison Approach and the Income Approach, more weight was given to the Sales Comparison Approach.

Therefore, from my investigation and analysis of the subject and relevant market data, my opinion of the market value of the fee simple interest in the subject property, as of the effective date of the appraisal (date of valuation), July 9, 2014 was:

ONE MILLION EIGHT HUNDRED THOUSAND DOLLARS

($1,800,000 or $124.46/s.f. of Gross and Leasable Building Area)

<u>CERTIFICATION</u>

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

1. The statements of fact contained in this report are true and correct.

2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.

4. I have performed no service, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.

6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.

7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

8. My analyses, opinions, and conclusions were developed, and this report have been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

9. I have made a personal inspection of the property that is the subject of this report.

10. Larry C. Meadows provided significant real property appraisal assistance to the person signing this certification.

11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

12. As of the date of this report, I have completed the continuing education program of the Appraisal Institute.

My opinion of the market value of the fee simple interest in the subject property as of the effective date of the appraisal, July 9, 2014, was **$1,800,000** or **$124.46** per square foot of gross and leasable building area (package price).

Dennis L. Lopez, MAI, SRA
Certified General Real Estate Appraiser - State of Arizona
Certificate No. 30189

APPENDIX

Qualifications of the Appraiser

QUALIFICATIONS OF DENNIS L. LOPEZ, MAI, SRA

Bachelor of Science Degree, Business Administration, Arizona State University, Magna Cum Laude, December, 1978
Real Estate Principles, Arizona State University, 1977
Real Estate Law, Arizona State University, 1977
Real Estate Management, Arizona State University, 1978
SREA 101 (Real Estate Appraisal), Arizona State University, 1978
SREA 201 (Real Estate Appraisal), Arizona State University, 1978
Real Estate Land Development, Arizona State University, 1978
Real Estate Investments, Arizona State University, 1978
Urban Planning, Arizona State University, 1978
AIREA Course VIII, "Single Family Residential Appraising," Arizona State University, 1978
SREA "Marketability and Market Analysis," Phoenix, Arizona, 1979
SREA Seminar "Basic Money Market & Economic Analysis," Phoenix, Arizona, 1980
SREA "Market Abstractions Seminar," Phoenix, Arizona, 1981
AIREA "Standards of Professional Practice," Tempe, Arizona, 1981
AIREA "Condemnation & Litigation Valuation," San Diego, California, 1982
IRWA "Skills of Expert Testimony," Phoenix, Arizona, 1983
SREA FHLBB Reg. R41-(b) Seminar, Tempe, Arizona, 1985
AIREA "Valuation Analysis and Report Writing" (Exam 2-2), Tempe, Arizona, March, 1986
AIREA "Case Studies in Real Estate Valuation" (Exam 2-1), Tempe, Arizona, March, 1986
AIREA "Highest and Best Use Analysis" Tucson, Arizona, April, 1986
"Eminent Domain Valuation-Procedures and Case Studies," Robert Helmandollar, Deputy Chief Right-of-way Agent, Arizona Department of Transportation, Tempe, Arizona, November, 1986
"Arizona Condemnation and Zoning", Professional Education Systems, Scottsdale, Arizona, June, 1988
SREA "Environmental Waste As It Applies To Real Estate", Phoenix, Arizona, December, 1988
SREA "Standards of Professional Practice and Conduct", Tempe, Arizona, December, 1988
AIREA "Rates, Ratios and Reasonableness", Tempe, Arizona, August, 1989
AIREA "Uniform Standards of Professional Practice," Tempe, Arizona, February, 1990
SREA "Income Property Valuation for the 1990's", Phoenix, Arizona, July, 1990
AI "Reviewing Appraisals", Tempe, Arizona, June, 1992
IRWA "Easement Valuation" (Course 403), Tempe, Arizona, March, 1993
ADOT "Impact of Highway Construction on Real Estate", April, 1993
AI "Uniform Standards of Professional Appraisal Practice, Part A & B" Tempe, Arizona, February, 1994
AI "Advanced Income Capitalization, Course II510, ASU, Tempe, Arizona, February, 1995
AI "Fair Lending", San Diego, California, October, 1995
AI "Subdivision Analysis", Phoenix, Arizona, March, 1996
AI "New Industrial Valuation", Phoenix, Arizona, May, 1998
Ted Whitmer, “Attacking & Defending an Appraisal in Litigation”, Tempe, Arizona, January, 2000
AI, “710 Condemnation Appraising – Basic Principles and Applications”, Tempe, Arizona, May, 2000
AI, “720 Condemnation Appraising – Advanced Topics and Applications”, Tempe, Arizona, May, 2000
AI "Uniform Standards of Professional Appraisal Practice, Part C" Las Vegas, Nevada, October, 2000
AI “Litigation Appraisal: Specialized Topics and Applications, Course 705, Tempe, Arizona, March, 2002
IRWA “Reviewing Appraisals in Eminent Domain”, Phoenix, Arizona, May, 2005
AI "Subdivision Analysis", Phoenix, Arizona, October, 2007
AI “Business Practices and Ethics”, Chandler, Arizona, May, 2008
AI “Uniform Appraisal Standards for Federal Land Acquisitions (“Yellow Book”)”, Phoenix, Arizona, December, 2009
AI “Fundamentals of Separating Real Property, Personal Property, and Intangible Business Assets”, Phoenix, Arizona, May, 2012
AI “2014-2015 Uniform Standards of Professional Appraisal Practice (USPAP) Update”, Scottsdale, Arizona, January, 2014

Professional Designations, Memberships, Licenses and Certifications

MAI - Member, Appraisal Institute, May, 1988, Certificate No. 7798
SRA - Senior Residential Appraiser, Appraisal Institute, August, 1980
Certified General Real Estate Appraiser, State of Arizona, Certificate No. 30189
Member, International Right of Way Association, Chapter 28, Phoenix, Arizona
Licensed Real Estate Salesperson - State of Arizona

Professional & Civic Activities

Appraisal Institute, Admissions Committee, Experience Review, 1989-1997
Appraisal Institute, Review and Counseling Committee, 1991-2005
Society of Real Estate Appraisers, Phoenix Chapter #68, Chairman, Professional Practice Committee, 1989-1990
Society of Real Estate Appraisers, Phoenix Chapter #68, Chapter President and Supervisory Officer of the Professional Practice Committee, 1987-88
College of Business Administration, Arizona State University, Guest Lecturer, Finance and Real Estate Departments, College of Business
Mesa Community College, Scottsdale Community College, Desert Vista High School, Guest Lecturer, Real Estate Appraisal
CLE International, Guest Lecturer, Eminent Domain Conference, April, 2005

Awards

Awarded the "Employer of the Year, 2004", by the Phoenix Chapter 28, International Right-of-way Association, September, 2004
Awarded the "Minority Consultant Firm of the Year", by the City of Phoenix Minority Business Enterprise Affirmative Action Program, October, 1989
Awarded the "Phoenix Board of Realtors Outstanding Real Estate Student of the Year," by the Phoenix Board of Realtors in conjunction with the College of Business Administration, Arizona State University, 1978

Experience

Independent fee appraiser and consultant since June, 1978, with varied experience in appraising and analyzing single-family residences, vacant land, multi-family residential properties, commercial, retail, industrial and special use properties; specialization in eminent domain valuation and expert witness testimony
Qualified as an expert witness in matters of real estate appraisal in Maricopa County, Pima County, Maricopa County, Coconino County, Yavapai County, Yuma County, and Mohave County Superior Courts, and U.S. Bankruptcy Court
Currently self-employed with *Dennis L. Lopez & Associates, LLC*, Real Estate Appraisers and Consultants, 8631 South Priest Drive, Suite 103, Tempe, Arizona 85284, 480-838-7332, FAX 480-838-8950, dennis@lopezappraisal.com, www.lopezappraisal.com
Vice President, Commercial Team Leader and Residential Manager with Sell, Huish & Associates, Inc., Real Estate Appraisers and Consultants, Tempe, Arizona, from January, 1980 to July, 1988
Licensed Real Estate Salesperson - State of Arizona

Geographical Area

State of Arizona

STATE OF ARIZONA

BOARD OF APPRAISAL

BE IT KNOWN THAT

DENNIS L. LOPEZ

HAS MET ALL THE REQUIREMENTS AS A

Certified General Real Estate Appraiser

In accordance with Arizona Revised Statutes and on authority of the Board of Appraisal, State of Arizona.

This certificate shall remain evidence thereof unless or until the same is suspended, revoked or expires in accordance with the provisions of law.

CERTIFICATE NUMBER
30189
EXPIRATION DATE
August 31, 2014

STATE OF ARIZONA DITAT DEUS BOARD OF APPRAISAL

In witness whereof the Arizona Board of Appraisal caused to be signed by the Chair of the Board and the Executive Director

Chair, Board of Appraisal — Date 6/19/12

Executive Director of the Board of Appraisal — Date 6/19/12

SHALL REMAIN PROPERTY OF ARIZONA BOARD OF APPRAISAL