

AN APPRAISAL REPORT OF

A 37.4408-acre parcel of land located at the northeast
Corner of Bell Road and 94th Street in Scottsdale, Arizona



PREPARED FOR

Ms. Martha West
Senior Real Estate Manager
City of Scottsdale
7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251-4468

EFFECTIVE DATE OF THE APPRAISAL

March 2, 2021

PREPARED BY

J. Douglas Estes, MAI, SR/WA
Landpro Valuation
1128 East Greenway Street, Suite 104
Mesa, Arizona 85203
www.landprovaluation.com

FILE NUMBER

21.0140



March 22, 2021

Ms. Martha West
Senior Real Estate Manager
City of Scottsdale
7447 E. Indian School Road, Suite 210
Scottsdale, AZ 85251-4468

Re: An appraisal report of a 37.4408-acre parcel of land located at the northeast corner of Bell Road and 94th Street in Scottsdale, Arizona
Landpro Valuation File Number 21.0140

Dear Ms. West:

At your request, I have appraised the above-referenced real property. The objective of this appraisal is to provide an opinion of the market value of the subject property. The intended user of this appraisal is the City of Scottsdale. The intended use of this appraisal is in asset management decisions including the potential sale of the property through a competitive bid process and should not be used for other purposes.

As a result of my investigation and analysis, it is my opinion that the market value of the subject property, as of March 2, 2021, is **\$28,541,100**.

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

I refer the reader to the Underlying Assumptions and Limiting Conditions. I am not qualified to determine the presence of hazardous substances as they affect the site. This would include, but not be limited to, toxic chemicals, asbestos, radon gas,

methane, etc. Unless otherwise stated, the site is assumed to be unaffected by these substances.

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

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest or bias with respect to the parties involved.
4. I completed an appraisal of a portion of the property in the last years. I have performed no other services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment was not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP).
9. I have made an on-site inspection of the property that is the subject of this report.
10. No one provided significant real property appraisal assistance to the person signing this certification.
11. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute.

Martha West
March 22, 2021
Page 3

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

13. As of the date of this report, I have completed the continuing education program for Designated Members of the Appraisal Institute.

I appreciate the opportunity to assist you.

Respectfully submitted,

Draft

J. Douglas Estes, MAI, SR/WA
Certified General Real Estate Appraiser
Certificate Number 30821, State of Arizona
Expires October 31, 2021

DRAFT

TABLE OF CONTENTS

SUMMARY OF APPRAISAL 1

ASSUMPTIONS AND LIMITING CONDITIONS 2

INTRODUCTION AND SCOPE OF THE APPRAISAL 5

PHOENIX AREA DESCRIPTION 10

MARKET AREA DESCRIPTION AND ANALYSIS..... 29

PROPERTY DESCRIPTION 39

HIGHEST AND BEST USE ANALYSIS..... 52

VALUATION 54

SALES COMPARISON APPROACH TO VALUE 56

RECONCILIATION 78

ADDENDA

 SUBJECT PHOTOGRAPHS

 APPRAISER’S QUALIFICATIONS

SUMMARY OF APPRAISAL

| | |
|---|--|
| Type of Property: | The property is 37.4408 acres of undeveloped land. |
| Location: | At the northeast corner of Bell Road and 94 th Street in Scottsdale, Arizona |
| Assessor's Parcel Number: | 215-07-023C, excluding the area in the north 65 feet of Bell Road |
| Objective of the Appraisal: | To provide an opinion of the market value of the property |
| Intended Use: | Asset management decisions including the potential sale of the property through a competitive bid process |
| Intended User: | The City of Scottsdale |
| Client: | The City of Scottsdale |
| Site Area: | 1,630,920 Square feet/37.4408 acres |
| Flood Zone: | Flood Zone AO and Zone A |
| Zoning: | R1-7 (Single-Family Residential), PCD (Planned Community District), ESL (Environmentally Sensitive Land) City of Scottsdale |
| Highest and Best Use: | Development of a residential use with a density in the range of 2.08 to 4.54 units per acre or rezone for development of a mix of residential and/or commercial uses |
| Market Value Conclusion: | \$28,541,100 |
| Date of Inspection: | March 2, 2021 |
| Effective Date of the Appraisal: | March 2, 2021 |
| Date of Report: | March 22, 2021 |

ASSUMPTIONS AND LIMITING CONDITIONS

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

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

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

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

INTRODUCTION AND SCOPE OF THE APPRAISAL

Appraisal Problem

The City of Scottsdale owns the subject property. The City is considering selling the property through a competitive bid process. This appraisal is to provide an opinion of the market value of property.

Identification of Property Appraised

Property Type

The property is 37.4408 acres of undeveloped land.

Location

The property is located at the northeast corner of Bell Road and 94th Street in Scottsdale.

Property Rights Appraised

Fee simple

Legal Description

The subject property is legally described as a portion of the Southeast $\frac{1}{4}$ of the Southeast $\frac{1}{4}$ of Section 31, Township 4 North, Range 5 East of the Gila and Salt River Meridian, Maricopa County, Arizona.

Assessor's Parcel Number

215-07-023C, excluding the area in the north 65 feet of Bell Road

Owner and Ownership History

According to public records, as of the effective date of the appraisal, the property is owned by the City of Scottsdale, which has owned the property for more than five years prior to the effective date of the appraisal. The property is not currently listed for sale or under contract for sale.

Current Lease

The property is not currently leased.

Personal Property

This appraisal does not include any personal property.

Appraiser's Client

The City of Scottsdale

Intended Users of the Appraisal

The City of Scottsdale

Intended Use of the Appraisal

Asset management decisions including the potential sale of the property through a competitive bid process

Objective of the Appraisal

To provide an opinion of the market value of the property

Effective Date of the Appraisal

March 2, 2021

Date of Inspection

March 2, 2021,

Date of Report

March 22, 2021

Assignment Conditions

Assumptions and Limiting Conditions

I refer the reader to the assumptions and limiting conditions after the summary of salient facts in this report.

Extraordinary Assumptions and Hypothetical Conditions

I refer the reader to the extraordinary assumptions and hypothetical conditions in the letter of transmittal, if any.

Jurisdictional Exceptions

This appraisal was not completed under any jurisdictional exceptions.

Definitions

Market Value

Market value is defined as “the most probable price estimated in terms of cash in United States dollars or comparable market financial arrangements that the property would bring if exposed for sale in the open market, with reasonable time allowed in which to find a purchaser, buying with knowledge of all of the uses and purposes to which it was adapted and for which it was capable.”¹

Fee Simple Estate

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

Easement

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

Scope of Work to Solve the Appraisal Problem

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

Inspection of the Subject Property

I completed an on-site inspection of the property.

Regional and Market Area Analysis

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

- Factfinder.census.gov
- Federal Reserve Bank of St. Louis (FRED)
- US Bureau of Labor Statistics

¹ *Arizona Revised Statute 12-1122(C).*

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

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

- Arizona Economic Forecast Data published by University of Arizona Economic and Business Research Center, Eller College of Management
- Arizona Indicator Data published in Arizona's Economy by the University of Arizona's Eller college of Management
- The Greater Phoenix Blue Chip report
- CoStar
- My inspection of the area

Property Description and Analysis

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

- City of Scottsdale General Plan
- City of Scottsdale zoning map and applicable ordinances
- City of Scottsdale maps
- Federal Emergency Management Agency Flood Insurance Rate Maps
- Maricopa County Assessor's and Treasurer's Offices
- ARMLS Monsoon
- My inspection of the subject property

Highest and Best Use Analysis

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

Valuation Analysis

For valuation of the subject property, I have considered the cost, sales comparison, and income approaches; however, only the sales comparison approach is used. The property does not have any improvements; therefore, the cost approach is not applicable. Although similar properties are sometimes leased, most are not; therefore, the income approach is not applicable. Thus, only the sales comparison approach is used.

In the valuation, I made several independent investigations and analyses concerning both the subject property and the subject's market area. The data collected and utilized in the valuation section is referenced in the report and the sources of the data and confirmation are also referenced. The degree of reliance, as well as the significance of the data and each approach, is also presented. I have gathered information from one or more of the following sources:

- CoStar
- Vizzda

- Arizona Regional Multiple Listing Service (ARMLS)
- ARMLS Monsoon
- Direct contact with market participants
- Landpro Valuation files
- Maricopa County records
- Inspection of the comparable sales

Reconciliation

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

Professional Assistance

No one provided significant professional assistance in preparation of this appraisal.

Items Not Included in the Scope of Work

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

Physical Characteristics

General Description

The Phoenix area is in the south-central portion of the State of Arizona and is called the “Valley of the Sun” by area residents because it is situated in a broad valley just below the point where the Salt River winds into the desert from the mountains to the north and east. In the Greater Phoenix Area, six major cities (Phoenix, Mesa, Tempe, Scottsdale, Glendale, and Chandler) contain more than 80% of the area’s total population. Other outlying suburbs, including Gilbert, Peoria, Goodyear, Buckeye, Queen Creek, Apache Junction, San Tan Valley and Casa Grande, are growing rapidly, and are also becoming major centers of population. The rural areas of Maricopa and Pinal Counties are sparsely populated.

Land Use Patterns

Current land use in the Phoenix area is tied to historic development patterns, which are best described by dividing the overall area into five areas: Northeast, Southeast, Southwest, Northwest, and Pinal County.

The Northeast area is the most affluent portion of the metropolitan area and includes Northeast Phoenix (and the Biltmore area), Paradise Valley, Scottsdale and Cave Creek/Carefree. This area is predominantly characterized by residential growth, elegant shopping centers and light industrial development, which are concentrated around the Scottsdale Airpark. It also contains most the area’s resort hotels, with the City of Scottsdale distinguished as a nationally ranked resort destination.

The Southeast area includes the suburban Cities of Mesa, Tempe, Gilbert, Queen Creek and Chandler. This area is characterized by residential growth, including numerous, large, master planned residential developments, and commercial and industrial developments along the various freeways. The Southeast area’s economic base has developed a separate identity, which includes various major industrial employers and allows it to compete aggressively with the major industrial and commercial office districts of Phoenix.

The Northwest Area was historically a topographically flat area of farming and moderate-quality housing; however, the outlying northwest suburbs have experienced a substantial amount of new growth, including numerous master-planned residential districts with golf courses, lake amenities, up-scale retail development and luxury homes in the outlying areas. The Northwest Area includes northwest Phoenix, Peoria, Glendale, Surprise and Sun City.

The Southwest Area is a relatively flat, industrial, and agricultural district, which is gradually being developed with a variety of residential, commercial and industrial uses. The outlying suburbs include Avondale, Goodyear, Buckeye and Litchfield. Most of the new development extends along the I-10 Freeway, where there are various master-planned developments with attractive housing and upscale retail uses.

The Pinal County Area is generally located south and east the Southeast Area. Much of the developed area of Pinal County is relatively flat with a large amount of agricultural and desert land. The eastern portions of Pinal County have irregular and mountainous terrain. Developed areas in Pinal County include Apache Junction, Arizona City, Coolidge, Casa Grande, Florence, Eloy, Maricopa, San Tan Valley, Superior and other smaller towns, and communities.

The transportation system, along with other geographical and economic factors, helps to determine the shape of a metropolitan area. A mile-square grid pattern of major streets, perhaps more than any other factor, has contributed to the low-density, omnidirectional pattern of growth in the Phoenix area. On surface streets, private automobiles comprise approximately 95 percent of the traffic volume.

Historically, developed freeways in the Phoenix area have been mostly extensions of the Interstate highways connecting the Phoenix area to other distant areas. Interstate 10 enters Phoenix from the west, passes through central Phoenix and then generally goes southeasterly to the Tucson area and beyond. Interstate 17 enters the Phoenix area from the north, extending south through north central Phoenix, where it turns east and connects with Interstate 10. US 60 enters the Phoenix area from the east, passing through Apache Junction, Mesa and Tempe, where it connects with Interstate 10.

The other freeways throughout the Phoenix area provide linkages from local neighborhoods to these primary freeways. The Loop 101 Freeway encircles most of Metro-Phoenix forming an irregular $\frac{3}{4}$ circle. The Loop 202 Freeway encircles most of the south and southeast suburbs. The layout of area transportation has had a significant impact on land use patterns throughout the Phoenix area. Commercial land uses are located mostly along section-line arterials, especially at arterial intersections, and residential uses are located more often along feeder streets. Extensive industrial uses and large office projects have been developed along the freeways, especially Interstate Highways 10 and 17.

Area Resources

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

Demographic Characteristics

The following are current and historic demographic characteristics of the Phoenix-Mesa-Scottsdale metropolitan statistical area (Maricopa and Pinal Counties):

| Phoenix, Mesa, Scottsdale MSA Demographic Data | | | | | |
|---|---------------|-----------------|---------------------------------|---------------|-------------------|
| Population | Number | % Growth | Gender (2018) | Number | Percentage |
| 2010 | 4,204,148 | | Males | 2,415,266 | 49.72% |
| 2011 | 4,247,852 | 1.04% | Female | 2,442,696 | 50.28% |
| 2012 | 4,321,686 | 1.74% | Total | 4,857,962 | 100.00% |
| 2013 | 4,390,565 | 1.59% | | | |
| 2014 | 4,470,712 | 1.83% | Housing Tenure (2018) | | |
| 2015 | 4,558,145 | 1.96% | Owner-Occupied | 3,057,881 | 64.81% |
| 2016 | 4,648,498 | 1.98% | Renter-Occupied | 1,660,580 | 35.19% |
| 2017 | 4,737,270 | 1.91% | Total | 4,718,461 | 100.00% |
| 2018 | 4,857,962 | 2.55% | | | |
| | | | Median Home Value (2018) | \$267,000 | |
| Household Size (2018) | 2.76 | | Household Income (2018) | | |
| Owner-Occupied | 2.79 | | Less than \$10,000 | 5.0% | |
| Renter-Occupied | 2.70 | | \$10,000 To \$14,999 | 3.0% | |
| | | | \$15,000 To \$24,999 | 8.3% | |
| Age Distribution (2018) | | | \$25,000 To \$34,999 | 8.8% | |
| Under 5 years | 6.30% | | \$35,000 To \$49,999 | 12.8% | |
| 5 To 17 years | 17.5% | | \$50,000 To \$74,999 | 19.0% | |
| 18 To 24 years | 9.2% | | \$75,000 To \$99,999 | 13.9% | |
| 25 To 44 years | 27.4% | | \$100,000 To \$149,999 | 15.8% | |
| 45 To 54 years | 12.4% | | \$150,000 To \$199,999 | 6.5% | |
| 55 To 64 years | 11.6% | | \$200,000 Or more | 7.1% | |
| 65 To 74 years | 9.1% | | Median Income | \$64,427 | |
| 75+ Years | 6.5% | | Mean Income | \$87,435 | |
| Median Age | 36.9 | | | | |
| Source: Factfinder.census.gov | | | | | |

Economic Characteristics

According to the University of Arizona Economic and Business Research Center Fourth Quarter 2020 Arizona Economic Forecast, published December 2020, “the Arizona recovery continued in the third quarter, although at a much slower pace than during the April-June period. The state has received a significant boost from the CARES Act, with just over \$40 billion in federal funds flowing to the state in the second quarter. That supported taxable sales and boosted the recovery in retail trade, warehousing, and transportation jobs. While construction employment rose modestly from June to October, housing permits surged, rising almost one-third over the year in the third quarter.”

“The outlook for Arizona remains unusually uncertain and continues to be dominated by the pandemic. The baseline forecast assumes that the outbreak recedes from summer highs, but remains elevated. It also assumes significant federal stimulus in the fourth quarter of 2020. Under these assumptions, the state is forecast to return to pre-pandemic employment levels by mid-2021. The pessimistic scenario projects a slower recovery, with the state returning to its prior peak at the end of 2021.”

Arizona Recent Developments

“Arizona added 55,600 jobs (seasonally adjusted) from June to October. Trade, transportation, and utilities added the most jobs during the period, followed by professional and business services; government; education and health services; leisure and hospitality; construction; other services; financial activities; and information. Manufacturing jobs were stable, while natural resources and mining jobs fell slightly.”

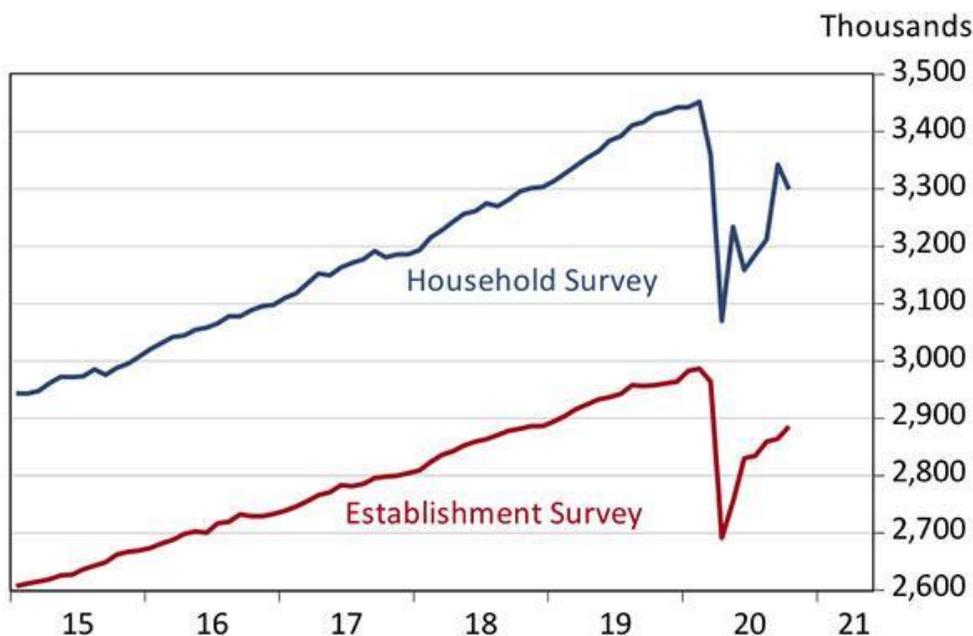
“Overall, the state has now replaced 193,900 of the 294,600 jobs lost from February to April, for a 65.8% replacement rate. The nation has replaced 54.5% of the jobs lost from February to April.”

“Note that the state needs to add 100,700 jobs to return to pre-pandemic employment. If the state can continue to add nearly 13,900 jobs per month on average, as it has since June, then employment will be back to pre-pandemic levels next June. However, that may be a difficult pace to maintain, since over-the-month job gains averaged 6,200 during 2015-2019.”

“Exhibit 1 shows seasonally-adjusted employment from both the establishment and household surveys. As the exhibit suggests, we have a long way to go to replace the jobs lost during the spring.”

“Seasonally-adjusted employment measured by the household survey experienced a huge jump in September that was not reflected in the establishment survey. These data are always volatile during the current year and seem to be even more volatile than usual this year. This may be related to reduced survey response rates during the pandemic.”

Exhibit 1: The Jobs Recovery in Arizona Has A Long Road Ahead



“The household survey also generates estimates of the state unemployment rate. These estimates have also been very volatile, with the seasonally adjusted state rate falling from 10.7% in July to 5.9% in August then back up to 6.5% in September and 8.0% in October.”

“The travel and tourism sector continues to struggle with the impact of the pandemic. As Exhibit 2 shows, leisure and hospitality jobs in October were 54,500 below February. Through October, jobs at eating and drinking places have recovered much faster than jobs in accommodation or arts, entertainment, and recreation. Employment at eating and drinking places was down 9.7% in October, compared to -29.4% and -34.3% for accommodations and arts, entertainment, and recreation.”

Exhibit 2: Arizona’s Leisure and Hospitality Sector Remained Hardest Hit from February 2020 to October 2020



“From February to October, jobs in professional and business services were down 18,100, reflecting losses in employment services (temporary help). These jobs are very sensitive to the business cycle.”

“Employment in education and health services declined by 14,700 from February to October, reflecting large declines in health care and social assistance (although education jobs were down as well). Job losses in health care and social assistance were fairly evenly distributed across social assistance, ambulatory health care, nursing and residential care facilities, and hospitals.”

“Two sectors posted more jobs in October than February: other services and trade, transportation, and utilities. Job gains in trade, transportation, and utilities were driven by transportation, warehousing, and utilities. Retail and wholesale trade jobs were up slightly.”

“Arizona’s personal income skyrocketed in the second quarter of 2020, thanks to the CARES Act. State personal income rose 11.6% over the year, driven by a 62.2%”

increase in transfer receipts. Net earnings by place of residence fell by 0.8% and income from dividends, interest, and rent fell by 1.3%.”

“According to estimates from the U.S. Bureau of Economic Analysis, the CARES Act pumped \$40.2 billion into Arizona in the second quarter. The largest contribution came from the Economic Impact Payments (Recovery Rebates), which added \$23.4 billion to state income. Absent CARES Act funds, Arizona’s personal income would have declined by 3.8% (or -14.4% annualized) from the first to the second quarter.”

“While construction jobs have weakened during the pandemic, housing permit activity has surged. Preliminary seasonally adjusted housing permit data suggest that statewide total permits were up 25.2% year to date through October compared to last year. Even so, house prices continue to rise at a rapid pace.”

Arizona Outlook

“The forecast for Arizona depends on global and national economic performance. The current state and local forecasts rely on the October 2020 U.S. forecast generated by IHS Markit, which was based on the following assumptions:”

“COVID-19 infections and deaths recede from July levels, but remain elevated. This creates stop-and-go openings by states. A vaccine is assumed to become widely available in mid-2021.”

“The forecast includes current federal fiscal policy actions and assumes legislation enacting a \$300/week unemployment insurance supplement from October through December. Further, the forecast assumes \$270 billion in stimulus checks are disbursed in the fourth quarter of 2020. As of this writing, it does not appear that this assumption will be met, which suggests that the baseline projections may be too optimistic.”

“The Federal Reserve maintains its policy rate near 0% until late 2026. Real foreign GDP contracts by 6.7% in 2020. Growth rebounds to 4.4% in 2021.”

“The current baseline forecast calls for a sharp rebound in real GDP growth in the third quarter, but the level remains well below the pre-pandemic peak. Thereafter, growth decelerates significantly as the current durable goods spending overshoot unwinds, fiscal stimulus fades out in 2021, and the pandemic accelerates this winter.”

“The national forecast sets the stage for Arizona’s recovery, summarized in Exhibit 3. In the baseline, state jobs are expected to decline by 2.0% in 2020, on an annual average basis. Jobs rebound in 2021, rising 4.3%, followed by 3.2% growth in 2022.”

Exhibit 3: Arizona Outlook Summary

| | Actual | Forecast | | |
|--------------------------|--------|----------|--------|--------|
| | 2019 | 2020 | 2021 | 2022 |
| Growth Rate | | | | |
| Nonfarm Jobs | 2.8 | -2.0 | 4.3 | 3.2 |
| Personal Income | 5.0 | 6.4 | 0.9 | 5.8 |
| Retail Plus Remote Sales | 7.7 | 9.5 | 4.4 | 3.1 |
| Population | 1.6 | 1.4 | 1.5 | 1.5 |
| Level | | | | |
| Unempl. Rate | 4.7 | 7.6 | 6.3 | 5.2 |
| Housing Permits | 46,580 | 53,526 | 49,885 | 46,880 |

“On a quarterly basis, the baseline forecast calls for Arizona jobs to return to their pre-pandemic peak in the second quarter of 2021. Keep in mind that this assumes a major federal fiscal stimulus package in the fourth quarter of 2020. The pessimistic scenario envisions a slower recovery, with state jobs reaching pre-pandemic levels at the end of 2021.”

“Overall, Arizona population growth is forecast to hit 1.5% in 2021 (fiscal year basis) and then gradually decelerate as the aging of the baby boom generation raises deaths while births stabilize and recover weakly.”

“The combination of remote sales with traditional retail beginning at the end of 2019 artificially boosts growth in the combined category in 2020. The forecast calls for growth in the retail plus remote sales sector to rise by 9.5% in 2020, then decelerate to 4.4% in 2021 and 3.1% in 2022.”

“The baseline forecast calls for nonfarm payroll jobs in Phoenix to decline by 2.0% in 2020, then rebound with growth of 4.0% in 2021 and 3.3% in 2022. Maricopa County generates the bulk of the job gains for the metropolitan area during the next decade. However, job gains in Pinal County are expected to be robust, in part driven by expanding auto/truck manufacturing in the county.”

“The Tucson metropolitan area also generates a solid recovery from the pandemic. Tucson nonfarm payroll jobs are forecast to decline by 3.2% in 2020. Growth returns in 2021 with a 3.4% increase, followed by 2.1% growth in 2022.”

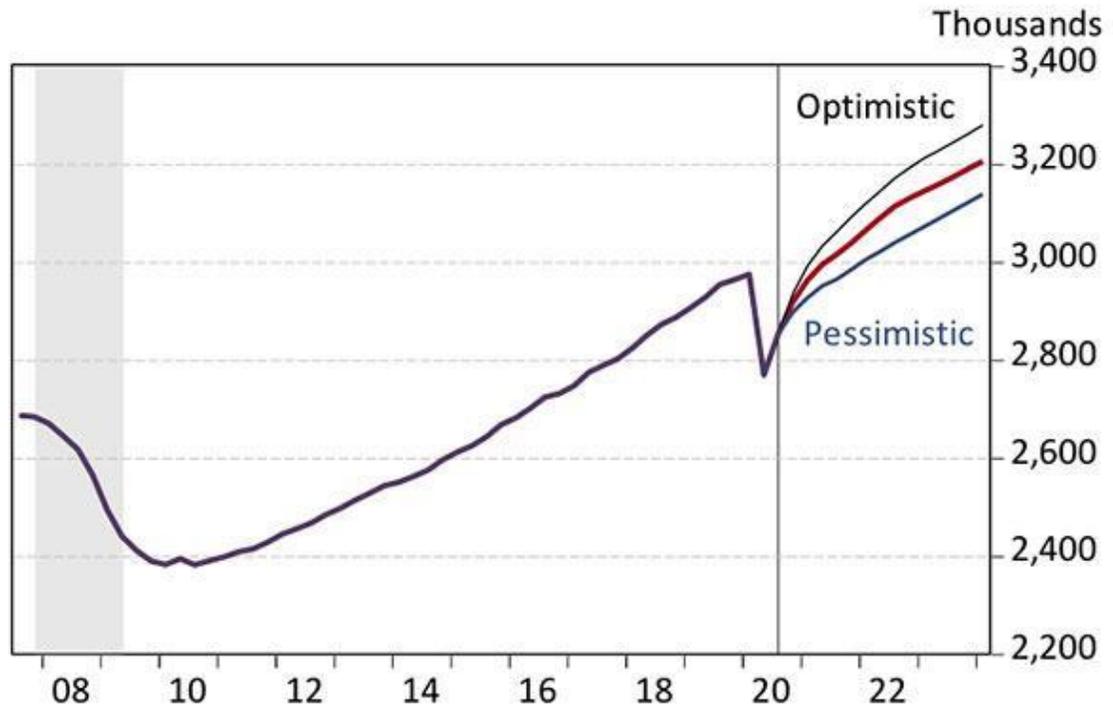
Risks to the Outlook

“The risks to the outlook primarily revolve around the progress of the outbreak. Exhibit 4 shows three scenarios for Arizona nonfarm jobs.”

“The pessimistic scenario assumes that the progress of the outbreak is less controlled than under the baseline, with large negative impacts on consumer spending, particularly services. The result is a slower recovery. Under this assumption, Arizona jobs return to their pre-pandemic peak in the fourth quarter of 2021.”

“The optimistic scenario assumes a less threatening progression of the outbreak, with correspondingly faster gains in consumer spending. The result in this case is faster growth in the near term. Under this assumption, Arizona jobs return to their pre-pandemic peak in the first quarter of 2021.”

Exhibit 4: Arizona Jobs Take Longer to Recover Under the Pessimistic Scenario
Three Scenarios for Arizona Nonfarm Jobs

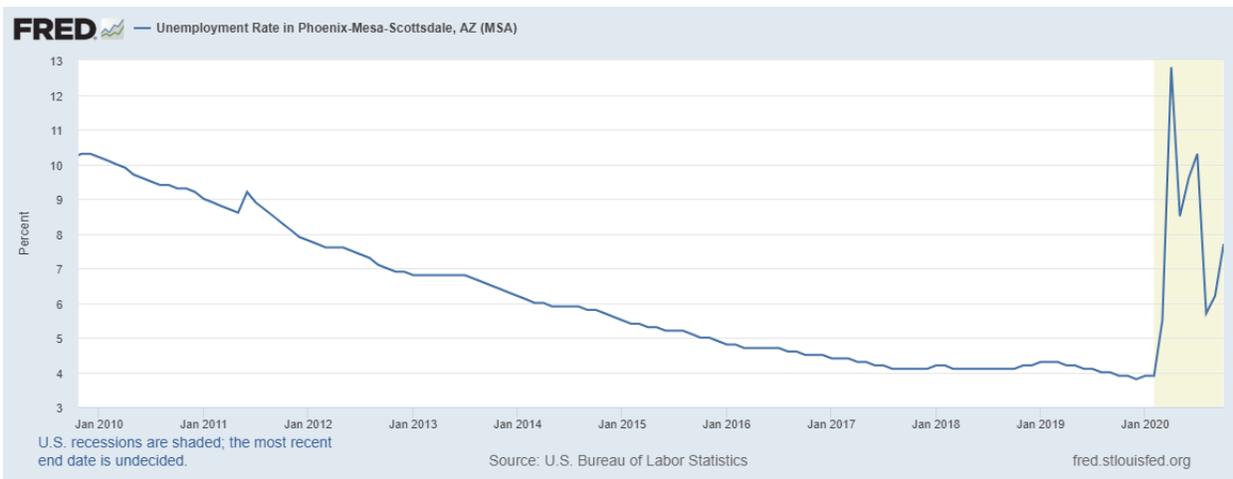


Employment and Unemployment

The following chart shows employment growth for the Phoenix-Mesa-Scottsdale MSA between 2010 and 2020. The chart indicates that employment increased from 1,688,200 in January of 2010 to 2,221,600 in February 2020, then declined to 2,003,600 in April 2020, then increased to 2,157,800 in November 2020.



The following table shows unemployment in the Phoenix-Mesa-Scottsdale MSA between 2010 and 2020. The table indicates that unemployment has declined from 10.2% in January of 2010 to 3.8% in December 2019, then spiked to 12.8% in April 2020, then declined to 5.7% in August 2020 and increased to 7.7% in October 2020.



According to the University of Arizona, the five-year forecast for personal income, retail sales, nonfarm employment, population, and residential permits for the Phoenix-Mesa-Scottsdale MSA are summarized as follows:

| Phoenix-Mesa-Scottsdale MSA Forecast* | 2020 | 2021 | 2022 | 2023 | 2024 |
|---------------------------------------|---------|---------|---------|---------|---------|
| Personal Income (\$ mil) | 252,293 | 258,394 | 274,043 | 289,439 | 305,778 |
| % Chg from Year Ago | 6.7% | 2.4% | 6.1% | 5.6% | 5.6% |
| Retail Sales (\$mil) | 82,150 | 88,654 | 93,622 | 98,370 | 103,288 |
| % Chg from Year Ago | 1.7% | 7.9% | 5.6% | 5.1% | 5.0% |
| Total Nonfarm Employment (000s) | 2,134.0 | 2,220.0 | 2,293.5 | 2,349.8 | 2,409.5 |
| % Chg from Year Ago | -2.0% | 4.0% | 3.3% | 2.5% | 2.5% |
| Population (000s) | 4,904 | 4,997 | 5,089 | 5,176 | 5,260 |
| % Chg from Year Ago | 1.7% | 1.9% | 1.8% | 1.7% | 1.6% |
| Residential Permits (units) | 41,159 | 39,174 | 38,271 | 37,847 | 37,657 |
| % Chg from Year Ago | 14.7% | -4.8% | -2.3% | -1.1% | -0.5% |

Copyright 2020 The University of Arizona. All rights reserved.
Published by  Economic and Business Research Center, The University of Arizona. Powered by data200

These projections indicate that personal income, retail sales, nonfarm employment, population will increase through 2024. Residential permits are projected to be generally flat.

Real Estate Market Conditions

Single-Family Residential Market Conditions

According to Arizona Indicator Data published in Arizona's Economy by the University of Arizona's Eller college of Management and/or the US Census Bureau, residential permits for the Phoenix area over the last 10 years are as follows:

| Phoenix, Mesa, Scottsdale MSA Historic Residential Permits | | | | | | |
|--|---------------|----------|--------------|----------|--------|----------|
| Year | Single-Family | % Change | Multi-Family | % Change | Total | % Change |
| 2010 | 7,347 | | 1,007 | | 8,354 | |
| 2011 | 7,551 | 3% | 1,920 | 91% | 9,471 | 13% |
| 2012 | 11,790 | 56% | 3,626 | 89% | 15,416 | 63% |
| 2013 | 12,737 | 8% | 4,125 | 14% | 16,862 | 9% |
| 2014 | 11,735 | -8% | 8,761 | 112% | 20,496 | 22% |
| 2015 | 16,738 | 43% | 7,114 | -19% | 23,852 | 16% |
| 2016 | 18,452 | 10% | 10,182 | 43% | 28,634 | 20% |
| 2017 | 20,484 | 11% | 8,893 | -13% | 29,377 | 3% |
| 2018 | 23,465 | 27% | 8,278 | -19% | 31,743 | 11% |
| 2019 | 24,748 | 34% | 11,078 | 9% | 35,826 | 25% |
| 2020* | 30,638 | 50% | 13,630 | 53% | 44,268 | 51% |

*Annualized based on estimates through November 2020

This data indicates that single-family permits have increased every year since 2010, with the exception of 2014. Multi-family permits have increased in three of the last five years. And total residential permits have increased every year since 2010.

Moreover, the S&P/Case-Shiller AZ-Phoenix Home Price Index increased from 163.8404 in October of 2016 to 222.80196 in October of 2020. This is an increase of 35.99% or 7.20% per year over the last five years. This trend is illustrated in the following chart:



Furthermore, according to the Greater Phoenix Blue Chip Construction Forecast for the Third Quarter of 2020, “there have been significant changes in the forecast for both residential and commercial activity for 2020 and 2021 in the third quarter Greater Phoenix Blue Chip forecasts. Panelists have become much more bullish on single family residential permit forecasts. In the second quarter forecast, the consensus was for 21,215 single family permits in 2020 and 23,259 single family permits in 2021. Now, as the panel members take a good look at the third quarter actuals, the current forecasts call for 25,320 single family permits in 2020 (an increase of over 19% between the two quarters) and 26,806 in 2021 (an increase of almost 15% the second quarter projections). In addition, the current forecast for 2022 is for 27,937 new single-family permits. This heightened level of optimism is probably due to what actual data for the single-family marketplace. New permits have exceeded expectations in the second and third quarters; and there appears to be no end in sight for good news related to housing.”

Multi-Family Market Conditions

According to CoStar, “the Phoenix multifamily market has proved resilient since the onset of the pandemic. Before the coronavirus, fundamentals were solid and supported by some of the country's strongest employment and household growth. Low levels of single-family inventory and healthy demand had kept vacancies low. While the multifamily sector is not immune to the impact of the pandemic, it has fared better than the retail and hospitality sectors. Much of that positive performance was bolstered by

Federal and state aid that has helped people pay the rent and a statewide eviction moratorium that kept renters in their apartments through October.”

“Pent up demand from the stay-at-home order released in the second half of 2020, resulting in net absorption. Vacancies compressed to a record low in mid-tier apartments. At the same time, construction progressed on a substantial pipeline that was limited to top-tier rentals. The mismatch in supply and demand will likely push up 4 & 5 Star vacancies in the near-term.”

“While it is unknown how long the pandemic's lingering impact will last, it will be temporary. The demand drivers that were supporting the market will return, perhaps even stronger than before. Historically, the Valley of the Sun has attracted people in search of affordable living and job opportunities. This trend will likely accelerate due to work from home arrangements that will lure renters from pricey West Coast markets.”

“Despite robust population growth over the past several years, single-family development has not kept pace, and pricing has soared. Phoenix has been a top market for home price appreciation for the past few years. Multifamily developers have worked to make up for the lack of residential construction. Demand for apartments has withstood a wave of new supply over the past three years. Tight vacancies have contributed to ample rent growth that has consistently ranked among the nation's best.”

“Investors are bullish on Phoenix, and competition for multifamily assets has increased, especially among out-of-state buyers. The market had set new records for investment in 2018 and 2019. The pandemic set 2020 off course, but investment rebounded in the second half of the year. Pricing has surged, and cap rates have compressed below 5.5%. Despite the contraction, Phoenix still offers a 50–150-basis-point spread over California rates, which is driving yield motivated investors to the market.”

Furthermore, according to information obtained from CoStar, as of the end of the Fourth Quarter 2020, the Phoenix area had 5,993 apartment projects with 441,449 total units of which 24,277 units (5.8%) were vacant. The vacancy rate has fluctuated between 5.8% and 6.6% over the last three years. In the last three years, 28,272 units were added, and 22,042 units were under construction at the end of the Fourth Quarter of 2020. Net absorption was positive in all of the last twelve quarters and exceeded deliveries in 8 of the last 12 quarters. Net absorption over the last three years was positive 29,530 units, which is 3,890 more units than was delivered. The effective rental rate has trended upward from \$1,014 per unit in the First Quarter of 2018 to \$1,197 at the end of the Fourth Quarter 2020. The historic multi-family statistics for the Phoenix area from CoStar are summarized as follows:

| Phoenix Area Multi-Family Market Statistics Through Fourth Quarter of 2020 | | | | | | | | | |
|--|-----------|---------|--------|---------|--------------|--------------|--------------|--------------|-----------|
| Quarter | Inventory | | Vacant | | Deliveries | Absorption | Excess | Units Under | Eff. Rent |
| | Buildings | Units | Units | Percent | Units | Units (Net) | Deliveries | Construction | Per Unit |
| 2020 Q4 | 5,993 | 441,449 | 24,277 | 5.8% | 2,255 | 2,322 | (67) | 22,042 | \$1,197 |
| 2020 Q3 | 5,981 | 439,194 | 25,910 | 5.9% | 1,625 | 4,063 | (2,438) | 22,425 | \$1,174 |
| 2020 Q2 | 5,972 | 437,724 | 28,501 | 6.6% | 2,250 | 1,694 | 556 | 21,657 | \$1,150 |
| 2020 Q1 | 5,958 | 435,474 | 27,942 | 6.5% | 2,774 | 2,127 | 647 | 20,991 | \$1,148 |
| 2019 Q4 | 5,940 | 432,700 | 27,289 | 6.3% | 4,705 | 2,992 | (1,713) | 17,707 | \$1,143 |
| 2019 Q3 | 5,918 | 427,995 | 25,567 | 6.0% | 1,905 | 1,649 | (256) | 19,290 | \$1,132 |
| 2019 Q2 | 5,906 | 426,326 | 25,545 | 6.0% | 2,485 | 1,764 | (721) | 19,751 | \$1,110 |
| 2019 Q1 | 5,893 | 423,841 | 24,686 | 5.9% | 805 | 2,179 | 1,374 | 18,102 | \$1,092 |
| 2018 Q4 | 5,888 | 423,074 | 26,097 | 6.2% | 2,731 | 2,326 | 405 | 15,630 | \$1,068 |
| 2018 Q3 | 5,873 | 420,432 | 25,779 | 6.2% | 2,169 | 2,315 | (146) | 17,098 | \$1,058 |
| 2018 Q2 | 5,867 | 418,287 | 25,949 | 6.2% | 1,628 | 2,169 | (541) | 16,844 | \$1,036 |
| 2018 Q1 | 5,854 | 416,790 | 26,619 | 6.4% | <u>2,940</u> | <u>3,930</u> | <u>(990)</u> | 16,747 | \$1,014 |
| Total | | | | | 28,272 | 29,530 | (3,890) | | |

Source: CoStar

Furthermore, according to the Greater Phoenix Blue Chip Construction Forecast for the Third Quarter of 2020, “the projections for new multi-family permits also increased in the current forecast, compared to the previous quarter. For 2020, multi-family permit forecasts are up by an average of 24.9% over the second quarter. For 2021, the panel increased the expected number of apartment permits by 33.7% over the second quarter projections. A first look at 2022 indicates that the absolute number of multi-family permits will see a decline of 11.8% in that year. Absorptions are expected to be lower as well, and vacancy rates in apartments are anticipated to be flat to down over the forecast period.”

Office Market Conditions

According to CoStar, “the pandemic has disrupted what was a consistently positive performance in the Phoenix office market. Robust employment growth and relatively limited new supply supported fundamentals over the past decade. But efforts to contain the virus' spread have impacted the local office market, at least in the near term. While the office sector has been more resilient than the retail and hospitality property types, the cracks have appeared: leasing activity has slowed, sublease availabilities have risen, and transaction volume has tumbled. Admittedly, the degree to which the market will be affected and the length are unknown. The recovery will depend on how quickly the health situation improves, how comfortable people feel about returning to the office, and whether companies decide to rethink their space needs.”

“Nearly all office employers directed their employees to work remotely in late March to early April. In mid-May, the statewide stay-at-home order was lifted, but many workers are still uneasy about returning to the office. Meanwhile, the transition to work-from-home has been a test for many companies that have been monitoring productivity. USAA stated that they were confident that they could run the business indefinitely without returning to the physical office. The firm made its 150,000-SF building available

for sublease in 20Q2. Likely, firms will continue to compare the effectiveness of the remote workforce to future cost savings by reducing their office footprints.”

“Fortunately, vacancies were low, heading into the chaos. Major corporate expansions and relocations stimulated demand for office space. But many leases signed by companies that announced large expansions commenced during the virus outbreak and coincided with layoff and furlough announcements. Among those tenants is Opendoor and ZipRecruiter. Consequently, Opendoor sublet a portion of its space in September.”

“A relative lack of new supply has also supported fundamentals. Demand had outpaced new supply for nine consecutive years, and vacancies had finally returned to 2007 levels in 19Q4. Steady vacancy compression translated into some of the healthiest rent gains in the country in the past several years. But construction starts edged up late last year, and the market will receive speculative supply over the next several quarters amid weaker demand, which will lift vacancies.”

“Investment activity has substantially slowed due to the pandemic. In previous quarters, investors were bullish on Phoenix, and the buyer pool expanded, with more out-of-state investors drawn to the market's comparably higher yields. Increased buyer competition had put upward pressure on pricing, and office properties have only recently approached near the previous peak pricing.”

Furthermore, according to CoStar as of the end of the Fourth Quarter 2020, the Phoenix area had 8,996 office buildings with 194,697,871 square feet of space, of which 24,521,466 square feet (12.6%) were vacant. The vacancy rate has fluctuated between 11.5% and 13.5% over the last twelve quarters but has trended upward from 11.5% to 12.6% in the last four quarters. In the last three years, 6,748,820 square feet of office space were added, and 2,833,917 square feet were under construction at the end of the Fourth Quarter 2020. Net absorption of office space has been positive in 9 of the last 12 quarters and exceeded deliveries in 6 of the last 12 quarters. Total net absorption was positive 7,302,458 square feet over the last three years and exceeded deliveries by 553,638 square feet. The rental rate for office space has increased from \$22.63 per square foot in the First Quarter of 2018 to \$24.96 in the Fourth Quarter of 2020. The historic office statistics for the Phoenix area from CoStar are summarized as follows:

| Phoenix Area Office Market Statistics Through Fourth Quarter 2020 | | | | | | | | | |
|---|-----------|-------------|-------------|---------|------------|-------------|-------------|---------------|---------|
| Quarter | Inventory | | Vacant | | Deliveries | Absorption | Excess | Sq. Ft. Under | Base |
| | Buildings | Square Feet | Square Feet | Percent | Sq. Ft. | Net Sq. Ft. | Deliveries | Construction | Rent |
| 2020 Q4 | 8,996 | 194,697,871 | 24,521,466 | 12.6% | 143,201 | (171,454) | 314,655 | 2,833,917 | \$24.96 |
| 2020 Q3 | 8,993 | 194,573,512 | 24,225,653 | 12.5% | 493,173 | (74,836) | 568,009 | 2,977,118 | \$25.13 |
| 2020 Q2 | 8,982 | 194,080,339 | 23,657,644 | 12.2% | 575,844 | 177,481 | 398,363 | 3,078,361 | \$24.95 |
| 2020 Q1 | 8,968 | 193,527,168 | 23,281,954 | 12.0% | 1,014,435 | (218,302) | 1,232,737 | 3,225,567 | \$24.71 |
| 2019 Q4 | 8,960 | 192,522,536 | 22,059,020 | 11.5% | 1,030,005 | 1,455,128 | (425,123) | 3,488,989 | \$24.09 |
| 2019 Q3 | 8,953 | 191,550,738 | 22,542,350 | 11.8% | 533,073 | 861,266 | (328,193) | 3,515,713 | \$23.74 |
| 2019 Q2 | 8,949 | 191,070,188 | 22,923,066 | 12.0% | 883,040 | 468,290 | 414,750 | 3,905,603 | \$23.54 |
| 2019 Q1 | 8,940 | 190,402,285 | 22,722,859 | 11.9% | 806,100 | 1,057,796 | (251,696) | 4,050,112 | \$23.54 |
| 2018 Q4 | 8,927 | 189,612,275 | 22,993,748 | 12.1% | 311,562 | 263,158 | 48,404 | 4,202,761 | \$23.19 |
| 2018 Q3 | 8,923 | 189,392,311 | 23,036,942 | 12.2% | 219,099 | 1,554,190 | (1,335,091) | 3,765,098 | \$23.05 |
| 2018 Q2 | 8,919 | 189,209,158 | 24,407,979 | 12.9% | 310,923 | 1,479,165 | (1,168,242) | 3,818,759 | \$22.74 |
| 2018 Q1 | 8,915 | 188,931,354 | 25,592,880 | 13.5% | 428,365 | 450,576 | (22,211) | 3,455,341 | \$22.63 |
| Total | | | | | 6,748,820 | 7,302,458 | (553,638) | | |

Source: CoStar

Furthermore, according to the Greater Phoenix Blue Chip Construction Forecast for the Third Quarter of 2020, “the news for the office sector centers around an expected decline in absorption of office space. Last quarter, absorptions in 2020 and 2021 were expected to be 1.10 million sq. ft. and 1.80 million sq. ft. respectively. The current outlook calls for negative absorption of -0.28 million sq. ft. for 2020, and modest increases of 0.95 million sq. ft. in 2021, and 1.04 million sq. ft. in 2022. The change in outlook for office space is related to the number of workers who are working from home rather than going to the office during COVID-19, as well as the expectation that many of those who work remotely will continue to do so into the future. The result has been an increase in the amount of sublease space on the market, as well as projected lower demand going forward.”

Retail Market Conditions

According to CoStar, “before the global pandemic, Phoenix's retail market dealt with the rising competition between e-commerce and brick-and-mortar sales. Over the past decade, positive demand drivers and a conservative supply pipeline had supported fundamentals. However, the economic disruption caused by the coronavirus has created significant headwinds that are weighing on the market. Phoenix has recorded three consecutive quarters of negative net absorption this year, which has pushed up vacancies. The near-term outlook is grim. Nonessential business closures during the initial statewide stay-at-home order from late March to mid-May, the second wave of partial closures in June, and a severe slowdown in tourism and foot-traffic have rattled the market. The curtail in non-necessity retail spending, particularly for service, entertainment, and apparel retailers, has dealt a significant blow to retailer revenues.”

“Many retailers have closed during the pandemic. Retailers scattered across the market have left behind vacant space from 2,000-SF coffee shops to 10,000-SF escape rooms and 20,000-SF gyms. But not all businesses are struggling, and some retailers continue to pen new leases. Consumer demand has been uncharacteristically high for grocery, drug, drive-thru, and hobby stores.”

“There are many uncertainties about the length and depth of the economic disruption caused by the coronavirus. The recovery is dependent on an improving health situation and when people will feel comfortable revisiting crowded retail locations. Fortunately, the Phoenix retail market is in a better position than in years past, thanks to a slowdown in development. New supply has been limited to build-to-suits, mitigating supply-side risks in the near term.”

“The long-term demand drivers in Phoenix continues to attract opportunistic investors. Sales volume increased over the past few months but is still down from last year. Out-of-state buyers searching for well-located single-tenant triple-net lease properties are driving transaction activity. California buyers remain active, since Phoenix retail assets provide an attractive yield spread over Southern California properties.”

Furthermore, according to CoStar as of the end of the Fourth Quarter 2020, the Phoenix area had 15,688 retail buildings with 234,231,850 square feet of space, of which 17,952,039 square feet (7.7%) were vacant. The vacancy rate has increased from 6.8% in the Third Quarter 2018. In the last three years, 4,613,461 square feet of retail space were added, and 708,560 square feet were under construction at the end of the Fourth Quarter 2020. Net absorption of retail space has been positive in 9 of the last 12 quarters and total net absorption was positive 3,037,616 square feet over the three-year period. Deliveries exceeded absorption in 7 of the last 12 quarters and total deliveries exceeded total absorption by 1,575,842 square feet over the last three years. The rental rate for retail space has increased from \$14.74 per square foot in the First Quarter of 2018 to \$15.58 in the Fourth Quarter of 2020. The historic retail statistics for the Phoenix area from CoStar are summarized as follows:

| Quarter | Inventory | | Vacant | | Deliveries | Absorption | Excess | Sq. Ft. Under | Base |
|---------|-----------|-------------|-------------|---------|------------|-------------|------------|---------------|---------|
| | Buildings | Square Feet | Square Feet | Percent | Sq. Ft. | Net Sq. Ft. | Deliveries | Construction | Rent |
| 2020 Q4 | 15,688 | 234,231,850 | 17,952,039 | 7.7% | 333,951 | 124,330 | 209,621 | 708,560 | \$15.58 |
| 2020 Q3 | 15,659 | 233,897,899 | 17,742,418 | 7.6% | 471,179 | (360,212) | 831,391 | 943,696 | \$15.47 |
| 2020 Q2 | 15,635 | 233,508,697 | 17,003,162 | 7.3% | 263,302 | (325,495) | 588,797 | 1,184,235 | \$15.41 |
| 2020 Q1 | 15,618 | 233,433,836 | 16,596,379 | 7.1% | 561,912 | 187,662 | 374,250 | 1,306,255 | \$15.75 |
| 2019 Q4 | 15,568 | 232,927,576 | 16,297,456 | 7.0% | 443,584 | 454,613 | (11,029) | 1,660,258 | \$15.64 |
| 2019 Q3 | 15,535 | 232,566,253 | 16,391,121 | 7.0% | 328,957 | 207,553 | 121,404 | 1,328,381 | \$15.48 |
| 2019 Q2 | 15,504 | 232,328,790 | 16,375,011 | 7.0% | 346,919 | 350,009 | (3,090) | 1,292,319 | \$15.51 |
| 2019 Q1 | 15,479 | 232,018,491 | 16,422,630 | 7.1% | 315,290 | 136,008 | 179,282 | 1,264,622 | \$15.51 |
| 2018 Q4 | 15,447 | 231,979,320 | 16,519,467 | 7.1% | 368,962 | (446,708) | 815,670 | 907,892 | \$15.25 |
| 2018 Q3 | 15,418 | 231,660,516 | 15,753,955 | 6.8% | 439,313 | 730,007 | (290,694) | 1,106,635 | \$15.18 |
| 2018 Q2 | 15,382 | 231,252,307 | 16,070,032 | 6.9% | 370,472 | 906,709 | (536,237) | 1,143,848 | \$15.15 |
| 2018 Q1 | 15,339 | 230,890,175 | 16,623,809 | 7.2% | 369,620 | 1,073,143 | (703,523) | 1,171,191 | \$14.74 |
| Total | | | | | 4,613,461 | 3,037,619 | 1,575,842 | | |

Source: CoStar

Industrial Market Conditions

According to CoStar, “robust population and job growth in the Valley of the Sun over the past several years have supported a rapidly growing consumer base, which has generated demand for industrial space. Policies adopted to stop the spread of the coronavirus have impacted the industrial market, both in terms of leasing and

investment activity. Industrial has fared better than other commercial property types, with some segments receiving a tailwind due to changes in consumer behavior, including the shift away from brick-and-mortar retail. Last-mile delivery operators and logistics companies have seen a rise in demand, which has increased the need for warehouse and distribution spaces. Amazon signed about ten leases since the start of the year for both small (under 200,000 SF) and extensive distribution centers. However, supply-chain disruptions have weakened some areas of manufacturing demand. Additionally, a curtailment in consumer spending is affecting nonessential goods e-commerce retailers.”

“Phoenix's strong demand drivers and competitive advantage remain in place. Approximately 35 million consumers can be reached within a single day's truck ride from metro Phoenix, fueling demand for industrial space among companies in the e-commerce, logistics, and construction industries. Phoenix has also become one of the most active data center markets in the country, due to Arizona's tax incentive for data center development, a robust and growing power grid, and limited occurrence of natural disasters.”

“With relatively few barriers to development, a flourishing local economy, and favorable demographics, new industrial supply has consistently poured into the market. Much of the new supply is speculative and is primarily tailored to the logistics segment. Even with elevated levels of construction, strong demand has maintained a vacancy rate well below the market's historical average.”

“Many companies established industrial operations in Phoenix because of the low cost of doing business and proximity to major regional markets, particularly in California. The average industrial rent in Phoenix is near the national average but is roughly 35%-40% below average rents in Los Angeles and Orange County.”

“Before the virus, investors had become increasingly active. After falling in the second quarter, sales volume has picked up, though the total is still down from 2019. Demand for e-commerce and last-mile delivery has driven transaction velocity.”

Furthermore, according to CoStar as of the end of the Fourth Quarter 2020, the Phoenix area had 11,095 industrial and flex buildings with 371,296,258 square feet of space, of which 26,669,301 square feet (7.2%) were vacant. The vacancy rate has increased from 6.5% in the Second Quarter 2018. In the last three years, 33,793,439 square feet of industrial space were added, and 7,722,244 square feet were under construction at the end of the Fourth Quarter 2020. Net absorption of industrial space has been positive in all of the last 12 quarters and total net absorption was positive 29,721,980 square feet over the three-year period. Deliveries exceeded absorption in 8 of the last 12 quarters and total deliveries exceeded total absorption by 4,071,459 square feet over the last three years. The rental rate for industrial space has increased from \$6.65 per square foot in the First Quarter of 2018 to \$7.70 in the Fourth Quarter of 2020. The historic retail statistics for the Phoenix area from CoStar are summarized as follows:

| Phoenix Area Industrial and Flex Market Statistics Through Fourth Quarter 2020 | | | | | | | | | |
|--|-----------|-------------|-------------|---------|------------------|------------------|------------------|---------------|--------|
| Quarter | Inventory | | Vacant | | Deliveries | Absorption | Excess | Sq. Ft. Under | Base |
| | Buildings | Square Feet | Square Feet | Percent | Sq. Ft. | Net Sq. Ft. | Deliveries | Construction | Rent |
| 2020 Q4 | 11,095 | 371,296,258 | 26,669,301 | 7.2% | 7,058,660 | 8,234,351 | (1,175,691) | 7,722,244 | \$7.70 |
| 2020 Q3 | 11,077 | 364,242,098 | 27,849,492 | 7.6% | 4,108,154 | 2,938,204 | 1,169,950 | 13,243,340 | \$7.58 |
| 2020 Q2 | 11,054 | 360,150,644 | 26,696,242 | 7.4% | 4,587,300 | 4,127,118 | 460,182 | 14,208,657 | \$7.64 |
| 2020 Q1 | 11,028 | 355,623,672 | 26,296,388 | 7.4% | 1,886,885 | 1,085,520 | 801,365 | 18,210,779 | \$7.34 |
| 2019 Q4 | 11,022 | 353,978,136 | 25,736,372 | 7.3% | 1,931,096 | 1,479,639 | 451,457 | 11,479,206 | \$7.26 |
| 2019 Q3 | 11,011 | 352,055,465 | 25,293,340 | 7.2% | 3,283,307 | 1,922,539 | 1,360,768 | 7,927,516 | \$7.08 |
| 2019 Q2 | 10,987 | 348,790,303 | 23,950,717 | 6.9% | 2,092,801 | 986,861 | 1,105,940 | 9,051,440 | \$7.10 |
| 2019 Q1 | 10,970 | 346,790,685 | 23,001,237 | 6.6% | 559,695 | 815,440 | (255,745) | 7,988,572 | \$6.97 |
| 2018 Q4 | 10,970 | 346,526,291 | 23,544,983 | 6.8% | 3,744,418 | 2,637,913 | 1,106,505 | 6,237,052 | \$6.86 |
| 2018 Q3 | 10,955 | 342,861,789 | 22,518,394 | 6.6% | 1,099,029 | 739,003 | 360,026 | 7,372,518 | \$6.73 |
| 2018 Q2 | 10,946 | 341,773,698 | 22,160,060 | 6.5% | 1,825,453 | 2,717,074 | (891,621) | 6,608,672 | \$6.73 |
| 2018 Q1 | 10,936 | 339,703,329 | 23,134,796 | 6.8% | <u>1,616,641</u> | <u>2,038,318</u> | <u>(421,677)</u> | 7,349,775 | \$6.65 |
| Total | | | | | 33,793,439 | 29,721,980 | 4,071,459 | | |

Source: CoStar

Furthermore, according to the Greater Phoenix Blue Chip Construction Forecast for the Third Quarter of 2020, “the outlook for industrial space has actually improved as absorptions are expected to rise by 8.5 million sq. ft. in 2020 and 2021, along projected increases in spec construction over the forecast period.”

Political - Governmental (Including Public Utilities):

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

Growth

Local municipalities within the metropolitan Phoenix area have always been generally supportive of growth. During the expansionary cycle of the 1990’s most of the cities in the region implemented strong infrastructure development programs rather than institute slow or anti-growth policies. Although some rapidly growing cities have struggled with providing adequate infrastructure, city governments have typically been willing to re-zone land for higher density residential uses as well as for commercial-industrial land uses.

Education

The Metropolitan Phoenix area is served by 55 school districts with over 300 elementary schools and over 50 high schools. Arizona State University, the state's largest university with an enrollment of nearly 60,000 is in Tempe, a Phoenix suburb. In addition, several private universities and ten community colleges with various branch campuses are also located within the metropolitan area.

Police and Fire Protection

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

Utilities

Electrical service is provided primarily by two utilities, Arizona Public Service, a privately-owned regulated utility, and Salt River Project, a quasi-governmental agency established by the U.S. Government. Electrical rates, although slightly higher than the national norm, are within a competitive range. Sufficient electrical capacity is available for projected needs. Natural gas is provided by Southwest Gas, a regulated private company. Other services such as water, sewer, garbage collection, telephone, and cable TV are provided by the municipalities or by publicly regulated private companies.

Conclusion

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

MARKET AREA DESCRIPTION AND ANALYSIS



Market Area Delineation and Overview

The subject's market area is generally located within the north central portion of the City of Scottsdale. The market area boundaries are as follows:

- North: Jomax Road
- South: Frank Lloyd Wright Boulevard and the Salt River Pima-Maricopa Indian Community
- East: McDowell Mountains/136th Street
- West: Scottsdale Road

Market Area Property Types/Land-Use Patterns

Property Types

The market area is a largely residential area with various commercial uses located throughout the area and employment uses located near Loop 101.

Master Planned Areas

Master planned areas within the market area include DC Ranch, Silverleaf, McDowell Mountain Ranch, Ironwood Village, Grayhawk and Ancala.

Golf Courses

The market area includes the Sanctuary Golf Course at WestWorld, Silverleaf Golf Course, TPC Scottsdale Desert Course, TPC Stadium Course Players Club, Grayhawk Golf Course, Talon Course, Raptor Course, The Country Club at DC Ranch and Pinnacle Peak Country Club.

Residential Development

Residential uses in the market area are generally good-to-excellent quality, single and multi-family residential uses. Residential uses comprise approximately 60% of the uses within the market area.

Commercial Development

Commercial development within the market area includes a combination of office and retail uses. Commercial uses comprise approximately 10% to 15% of the market area.

Employment Development

The majority of the employment development is located within the southwest portion of the market area near the Loop 101 Freeway. Employment uses comprise approximately 5% to 10% of the market area.

Other Uses

Other land uses in the market area include parks, schools, and other public uses. The market area also includes a large amount of open space that is included as part of the existing developed uses.

Undeveloped Land

Based on my review of aerial photographs, there is some undeveloped land within the market area, indicating that there is some room for future growth; however, the supply of available land than can be developed is diminishing.

Quality and Condition

The existing uses in the market area generally have good-to-excellent quality improvements. Many of the properties in DC Ranch/Silverleaf are of the best quality and condition within the Greater Phoenix area and the State of Arizona.

Surrounding Land Uses

Generally, the land uses surrounding the market area are similar to the subject market area and include a combination of residential, commercial, industrial, and undeveloped land.

DC Ranch/Silverleaf

The subject property is located adjacent to the DC Ranch area. This is a luxury residential community with a nationally acclaimed golf course. The community is located near the McDowell Mountains providing homeowners with a view of Scottsdale, Phoenix, and the adjacent mountains. Many of the single-family residences located in DC Ranch/Silverleaf are multi-million-dollar estates. There are two private clubs and golf courses: The Country Club at DC Ranch and The Silverleaf Club.

Market Area Life Cycle

A typical development cycle of a market area evolves through four stages: growth, stability, decline and revitalization. Although the market area has some land available for future growth and development, the supply of land is diminishing. Thus, the market area is projected to continue to grow until saturated.

Basic Transportation/Linkage

Arterial Roadways

Arterial streets arranged in rectangular grids provide primary transportation routes within the subject market area. North/south arterials include Scottsdale Road, Hayden Road, Pima Road, 124th Street, 130th Street and 136th Street. East/west arterials include Jomax Road, Happy Valley Road, Pinnacle Peak Road, Thompson Peak Parkway, Bell Road, Via Linda and Shea Boulevard.

Freeway Access

The Pima Freeway (Loop 101) bisects the southwest portion of the market area. This freeway provides good access to other freeways within the Phoenix area.

Airports

The City of Scottsdale Airport is located nearby, southwest of the market area. Sky Harbor Airport (located near downtown Phoenix) is the primary airport in the Phoenix

area. Other secondary airports in the area are the Deer Valley Airport (in Phoenix) and Falcon Field (in Mesa).

Rail Linkages

None in the market area

Bus Transportation:

Public bus transportation is available in select locations of the subject market area.

Estimated Non-Rush Hour Commute Times:

| | |
|----------------------|------------|
| Downtown Scottsdale: | 20 Minutes |
| Downtown Phoenix: | 24 Minutes |
| Downtown Tempe: | 20 Minutes |
| Downtown Mesa: | 25 Minutes |
| Sky Harbor Airport: | 20 Minutes |

Availability of Support Facilities and Services

Schools

The subject property is adequately served by public and private primary, secondary, and high schools located within the market area or within surrounding market areas. The market area is located within the Scottsdale Unified School District and the Paradise Valley Unified School District. Arizona State University is located in Tempe to the southwest of the market area. Scottsdale Community College is located to the south of the market area at the northeast corner of Chaparral Road and the Loop 101 Freeway.

Utilities

Utilities for most of the market area are adequate and are provided at costs competitive with the rest of the metropolitan area. Electricity for the market area is furnished by the Arizona Public Service. Natural gas for the market area is supplied by the Southwest Gas Company. Water and sewer are provided by the individual municipalities. Some of the less developed areas may lack some utilities.

Police Protection

Police protection is provided by the City of Scottsdale.

Fire Protection

Fire protection is provided by the City of Scottsdale.

Health Care

The market area is currently served by HonorHealth Scottsdale at the northeast corner of Scottsdale Road and Thompson Peak Parkway as well as the Mayo Clinic Hospital with facilities west of the market area in Phoenix at the southeast corner of 56th Street and Mayo Boulevard, and the northwest corner of Shea Boulevard and 136th Street. Moreover, additional healthcare facilities are available outside of the market area. The available healthcare facilities are apparently adequate.

Retail Services

Many retail services are available in the market area. Those retail services not available within the market area are available within the areas south of the market area.

Recreational:

There are a number of recreational attractions in, or near, the market area. These include several golf courses, the Scottsdale Sports Complex, WestWorld, and a number of city parks. The market area also has numerous trails and paths along roadways, within the McDowell Sonoran Preserve, Pinnacle Peak Park, and other lineal open space areas. These trails and paths are used for a combination of biking, hiking and equestrian use.

Real Estate Market Conditions

Multifamily Market Conditions

According to information obtained from CoStar, as of the end of the Fourth Quarter 2020, the market area had 23 apartment projects with 5,570 total units of which 387 units (7.0%) were vacant. The vacancy rate has fluctuated between 4.5% and 9.0% over the last three years. In the last three years, 436 units were added, and 727 units were under construction at the end of the Fourth Quarter of 2020. Net absorption was positive or flat in ten of the last twelve quarters and exceeded or equaled deliveries in eight of the last twelve quarters. Net absorption over the last three years was positive 519 units, which is 83 more units than was delivered. The effective rental rate has trended upward from \$1,284 per unit in the First Quarter of 2018 to \$1,506 at the end of the Fourth Quarter 2020. The historic multi-family statistics for the Phoenix area from CoStar are summarized as follows:

| Phoenix Area Multi-Family Market Statistics Through Fourth Quarter of 2020 | | | | | | | | | |
|--|-----------|-------|--------|---------|------------|-------------|------------|--------------|-----------|
| Quarter | Inventory | | Vacant | | Deliveries | Absorption | Excess | Units Under | Eff. Rent |
| | Buildings | Units | Units | Percent | Units | Units (Net) | Deliveries | Construction | Per Unit |
| 2020 Q4 | 23 | 5,570 | 387 | 7.0% | 135 | 31 | 104 | 727 | \$1,506 |
| 2020 Q3 | 22 | 5,435 | 283 | 5.2% | 0 | 73 | (73) | 862 | \$1,441 |
| 2020 Q2 | 22 | 5,435 | 356 | 6.5% | 0 | (29) | 29 | 687 | \$1,406 |
| 2020 Q1 | 22 | 5,435 | 326 | 6.0% | 0 | 31 | (31) | 687 | \$1,419 |
| 2019 Q4 | 22 | 5,435 | 358 | 6.6% | 301 | 174 | 127 | 135 | \$1,472 |
| 2019 Q3 | 21 | 5,134 | 231 | 4.5% | 0 | 26 | (26) | 436 | \$1,432 |
| 2019 Q2 | 21 | 5,134 | 258 | 5.0% | 0 | (19) | 19 | 436 | \$1,380 |
| 2019 Q1 | 21 | 5,134 | 238 | 4.6% | 0 | 31 | (31) | 301 | \$1,366 |
| 2018 Q4 | 21 | 5,134 | 269 | 5.2% | 0 | 89 | (89) | 301 | \$1,357 |
| 2018 Q3 | 21 | 5,134 | 358 | 7.0% | 0 | 104 | (104) | 301 | \$1,337 |
| 2018 Q2 | 21 | 5,134 | 463 | 9.0% | 0 | 0 | 0 | 301 | \$1,290 |
| 2018 Q1 | 21 | 5,134 | 463 | 9.0% | 0 | 8 | (8) | 301 | \$1,284 |
| Total | | | | | 436 | 519 | (83) | | |

Source: CoStar

Office Market Conditions

According to information obtained from CoStar as of the end of the Fourth Quarter 2020, the market area had 242 office buildings with 5,605,378 square feet of space, of which 867,644 square feet (15.5%) were vacant. The vacancy rate has fluctuated between 15.1% and 19.0% over the last twelve quarters but has trended generally downwards. In the last three years, 138,160 square feet of office space was added, and 610,000 square feet was under construction at the end of the Fourth Quarter 2020. Net absorption of office space has been positive in seven of the last twelve quarters. Deliveries exceeded net absorption in six of the last twelve quarters. Total net absorption was positive 67,663 square feet over the last three years but was less than deliveries by 70,497 square feet. The rental rate for office space has increased from \$25.79 per square foot in the First Quarter of 2018 to \$26.17 per square foot in the Fourth Quarter of 2020. The historic office statistics for the Phoenix area from CoStar are summarized as follows:

| Phoenix Area Office Market Statistics Through Fourth Quarter 2020 | | | | | | | | | | |
|---|-----------|-------------|-------------|---------|------------|-------------|------------|---------------|---------|--|
| Quarter | Inventory | | Vacant | | Deliveries | Absorption | Excess | Sq. Ft. Under | Base | |
| | Buildings | Square Feet | Square Feet | Percent | Sq. Ft. | Net Sq. Ft. | Deliveries | Construction | Rent | |
| 2020 Q4 | 242 | 5,605,378 | 867,644 | 15.5% | 0 | 5,856 | (5,856) | 610,000 | \$26.17 | |
| 2020 Q3 | 242 | 5,605,378 | 873,500 | 15.6% | 30,449 | (5,853) | 36,302 | 610,000 | \$26.27 | |
| 2020 Q2 | 238 | 5,574,929 | 837,198 | 15.0% | 17,119 | 17,194 | (75) | 640,449 | \$26.42 | |
| 2020 Q1 | 237 | 5,557,810 | 837,273 | 15.1% | 0 | 14,543 | (14,543) | 507,568 | \$26.09 | |
| 2019 Q4 | 237 | 5,557,810 | 851,816 | 15.3% | 48,514 | 39,141 | 9,373 | 507,568 | \$26.34 | |
| 2019 Q3 | 236 | 5,509,296 | 842,443 | 15.3% | 0 | 41,033 | (41,033) | 65,633 | \$26.30 | |
| 2019 Q2 | 236 | 5,509,296 | 883,476 | 16.0% | 2,243 | 21,127 | (18,884) | 48,514 | \$26.28 | |
| 2019 Q1 | 236 | 5,557,781 | 953,088 | 17.1% | 0 | (88,920) | 88,920 | 50,757 | \$26.75 | |
| 2018 Q4 | 236 | 5,557,781 | 864,168 | 15.5% | 0 | 192,968 | (192,968) | 2,243 | \$27.01 | |
| 2018 Q3 | 236 | 5,557,781 | 1,057,136 | 19.0% | 36,735 | (108,526) | 145,261 | 2,243 | \$26.82 | |
| 2018 Q2 | 235 | 5,521,046 | 911,875 | 16.5% | 0 | (40,715) | 40,715 | 36,735 | \$26.18 | |
| 2018 Q1 | 235 | 5,521,046 | 871,160 | 15.8% | 3,100 | (20,185) | 23,285 | 36,735 | \$25.79 | |
| Total | | | | | 138,160 | 67,663 | 70,497 | | | |

Source: CoStar

Retail Market Conditions

According to information obtained from CoStar as of the end of the Fourth Quarter 2020, the market area had 159 retail buildings with 2,332,466 square feet of space, of which 148,876 square feet (6.4%) were vacant. The vacancy rate has fluctuated between 5.5% and 8.7% over the last three years. In the last three years, 50,023 square feet of retail space was added, and no new space was under construction at the end of the Fourth Quarter 2020. Net absorption of retail space has been positive in six of the last twelve quarters and total net absorption was positive 50,675 square feet over the three-year period. Net absorption exceeded deliveries in six of the last twelve quarters and total absorption exceeded deliveries by 652 square feet over the last three years. The rental rate for retail space has increased from a low of \$21.00 per square foot in the Second Quarter of 2019 to \$24.49 in the Fourth Quarter of 2020. The historic retail statistics for the Phoenix area from CoStar are summarized as follows:

| Phoenix Area Retail Market Statistics Through Fourth Quarter 2020 | | | | | | | | | |
|---|-----------|-------------|-------------|---------|------------|-------------|------------|---------------|---------|
| Quarter | Inventory | | Vacant | | Deliveries | Absorption | Excess | Sq. Ft. Under | Base |
| | Buildings | Square Feet | Square Feet | Percent | Sq. Ft. | Net Sq. Ft. | Deliveries | Construction | Rent |
| 2020 Q4 | 159 | 2,332,466 | 148,876 | 6.4% | 4,275 | (11,337) | 15,612 | 0 | \$24.49 |
| 2020 Q3 | 158 | 2,328,191 | 133,264 | 5.7% | 0 | 13,345 | (13,345) | 4,275 | \$23.64 |
| 2020 Q2 | 158 | 2,328,191 | 146,609 | 6.3% | 0 | (19,668) | 19,668 | 4,275 | \$23.35 |
| 2020 Q1 | 158 | 2,328,191 | 126,941 | 5.5% | 1,887 | 4,071 | (2,184) | 4,275 | \$23.82 |
| 2019 Q4 | 157 | 2,326,304 | 129,125 | 5.6% | 0 | 32,848 | (32,848) | 1,887 | \$22.60 |
| 2019 Q3 | 157 | 2,326,304 | 161,973 | 7.0% | 0 | (20,905) | 20,905 | 1,887 | \$21.03 |
| 2019 Q2 | 157 | 2,326,304 | 141,068 | 6.1% | 0 | (2,043) | 2,043 | 1,887 | \$21.00 |
| 2019 Q1 | 158 | 2,332,584 | 145,305 | 6.2% | 0 | (15,069) | 15,069 | 1,887 | \$21.39 |
| 2018 Q4 | 159 | 2,352,300 | 149,952 | 6.4% | 29,861 | 34,708 | (4,847) | 0 | \$21.72 |
| 2018 Q3 | 157 | 2,322,439 | 154,799 | 6.7% | 10,000 | 55,368 | (45,368) | 29,861 | \$21.89 |
| 2018 Q2 | 156 | 2,312,439 | 200,167 | 8.7% | 4,000 | (26,093) | 30,093 | 39,861 | \$22.14 |
| 2018 Q1 | 155 | 2,308,439 | 170,074 | 7.4% | 0 | 5,450 | (5,450) | 43,861 | \$22.24 |
| Total | | | | | 50,023 | 50,675 | (652) | | |

Source: CoStar

Industrial Market Conditions

According to information obtained from CoStar as of the end of the Fourth Quarter 2020, the market area had 76 industrial and flex buildings with 1,934,395 square feet of space, of which 97,072 square feet (5.0%) were vacant. The vacancy rate has fluctuated between 3.4% and 6.1% over the last three years. In the last three years, 131,299 square feet of industrial space were added, and no new space was under construction at the end of the Fourth Quarter 2020. Net absorption of industrial space has been positive in eight of the last twelve quarters and total net absorption was positive 140,533 square feet over the three-year period. Absorption exceeded deliveries in six of the last twelve quarter, and total deliveries exceeded total absorption by 9,234 square feet over the last three years. The rental rate for industrial space has increased from a low of \$11.88 per square foot in the First Quarter of 2018 to \$13.55 per square foot in the Fourth Quarter of 2020. The historic retail statistics for the Phoenix area from CoStar are summarized as follows:

| Phoenix Area Industrial and Flex Market Statistics Through Fourth Quarter 2020 | | | | | | | | | |
|--|-----------|-------------|-------------|---------|------------|-------------|------------|---------------|---------|
| Quarter | Inventory | | Vacant | | Deliveries | Absorption | Excess | Sq. Ft. Under | Base |
| | Buildings | Square Feet | Square Feet | Percent | Sq. Ft. | Net Sq. Ft. | Deliveries | Construction | Rent |
| 2020 Q4 | 76 | 1,934,395 | 97,072 | 5.0% | 0 | 20,861 | (20,861) | 0 | \$13.55 |
| 2020 Q3 | 76 | 1,934,395 | 117,933 | 6.1% | 37,812 | 1,402 | 36,410 | 0 | \$13.76 |
| 2020 Q2 | 73 | 1,896,583 | 81,523 | 4.3% | 0 | 2,218 | (2,218) | 37,812 | \$13.64 |
| 2020 Q1 | 73 | 1,896,583 | 83,741 | 4.4% | 0 | (2,606) | 2,606 | 37,812 | \$13.26 |
| 2019 Q4 | 73 | 1,896,583 | 81,135 | 4.3% | 0 | (17,598) | 17,598 | 37,812 | \$13.19 |
| 2019 Q3 | 73 | 1,896,583 | 63,537 | 3.4% | 0 | 3,619 | (3,619) | 23,419 | \$13.24 |
| 2019 Q2 | 73 | 1,896,583 | 67,156 | 3.5% | 0 | 26,090 | (26,090) | 23,419 | \$13.23 |
| 2019 Q1 | 73 | 1,896,583 | 93,246 | 4.9% | 0 | (17,741) | 17,741 | 12,743 | \$13.31 |
| 2018 Q4 | 73 | 1,896,583 | 75,505 | 4.0% | 0 | (469) | 469 | 0 | \$13.20 |
| 2018 Q3 | 73 | 1,896,583 | 75,036 | 4.0% | 12,550 | 11,368 | 1,182 | 0 | \$13.04 |
| 2018 Q2 | 72 | 1,884,033 | 73,854 | 3.9% | 80,937 | 87,424 | (6,487) | 12,550 | \$12.34 |
| 2018 Q1 | 71 | 1,803,096 | 80,341 | 4.5% | 0 | 25,965 | (25,965) | 93,487 | \$11.88 |
| Total | | | | | 131,299 | 140,533 | (9,234) | | |

Source: CoStar

Demographic Trends

According to information obtained from CoStar, demographic trends within approximately a one-, two- and three- mile radius of the intersection of 94th Street and Bell Road are as follows:

| Population | 1 mile | 2 mile | 3 mile |
|-----------------------------|-----------------|--------|--------|
| | 2010 Population | 5,259 | 25,185 |
| 2020 Population | 6,706 | 29,282 | 53,386 |
| 2025 Population Projection | 7,302 | 31,512 | 57,503 |
| Annual Growth 2010-2020 | 2.8% | 1.6% | 1.7% |
| Annual Growth 2020-2025 | 1.8% | 1.5% | 1.5% |
| Median Age | 39.3 | 41.2 | 43.1 |
| Bachelor's Degree or Higher | 59% | 58% | 59% |
| U.S. Armed Forces | 0 | 32 | 33 |

Households

| | 1 mile | 2 mile | 3 mile |
|--|---------|----------|----------|
| 2010 Households | 2,422 | 12,012 | 20,391 |
| 2020 Households | 2,845 | 13,132 | 22,820 |
| 2025 Household Projection | 3,065 | 14,005 | 24,417 |
| Annual Growth 2010-2020 | 0.8% | 0.2% | 0.4% |
| Annual Growth 2020-2025 | 1.5% | 1.3% | 1.4% |
| Owner Occupied | 1,500 | 6,837 | 13,921 |
| Renter Occupied | 1,345 | 6,296 | 8,899 |
| Avg Household Size | 2.2 | 2.1 | 2.2 |
| Avg Household Vehicles | 2 | 2 | 2 |
| Total Specified Consumer Spending (\$) | \$94.7M | \$414.9M | \$773.1M |

Income

| | 1 mile | 2 mile | 3 mile |
|-------------------------|-----------|-----------|-----------|
| Avg Household Income | \$140,510 | \$133,140 | \$143,552 |
| Median Household Income | \$116,656 | \$103,984 | \$112,424 |
| < \$25,000 | 161 | 919 | 1,465 |
| \$25,000 - 50,000 | 365 | 1,934 | 2,931 |
| \$50,000 - 75,000 | 304 | 1,662 | 2,867 |
| \$75,000 - 100,000 | 329 | 1,786 | 2,830 |
| \$100,000 - 125,000 | 397 | 1,669 | 2,650 |
| \$125,000 - 150,000 | 348 | 1,128 | 2,113 |
| \$150,000 - 200,000 | 361 | 1,411 | 2,506 |
| \$200,000+ | 582 | 2,625 | 5,458 |

Housing

| | 1 mile | 2 mile | 3 mile |
|-------------------|-----------|-----------|-----------|
| Median Home Value | \$576,446 | \$477,188 | \$545,139 |
| Median Year Built | 1998 | 1996 | 1996 |

Governmental Considerations

The market area is located entirely within the City of Scottsdale. The City of Scottsdale controls land uses within the market area. These controls are typical relative to other municipalities in the Phoenix area. In the market area, the City of Scottsdale has

provided for a large amount of open space to preserve the natural desert landscape through zoning and land use controls. The open space and natural desert landscaping contribute to the desirability of the market area. The City of Scottsdale is generally supportive of growth.

Conclusion and Relevance to the Subject Property

As a desirable residential area with good-to-excellent quality residential development, adequate freeway access, and attractive natural desert landscaping, the long-term outlook of the market area is good.

PROPERTY DESCRIPTION

The subject property is 37.4408 acres of land located at the northeast corner of Bell Road and 94th Street in Scottsdale. The property is further described as follows

| | |
|-----------------------------|---|
| Site Area: | 1,630,920 Square feet/37.4408 acres (based on the Maricopa County GIS map, excluding the area in Bell Road) |
| Shape/Dimensions: | Rectangular |
| Topography: | Near-level-to-slightly-irregular desert land bisected by desert washes |
| Soil: | Based on my inspection of the property and observation of adjacent properties, the soil appears adequate to support potential improvements. |
| Drainage: | Drainage is apparently adequate. Although the site is bisected by natural desert washes, consistent with other properties in the area, the property can be engineered to allow for development of those portions of the site that are located outside the washes. |
| Lot Type: | Corner |
| Frontage: | The property has adequate frontage along the north side of Bell Road and the east side of 94 th Street. |
| Traffic Volume: | 4,200 Vehicles per day along 94 th Street per 2014 ADT data (most recent available) 16,088 Vehicles per day along Bell Road per 2018 MPSI estimate |
| Street Improvements: | <u>Bell Road</u> Four (two east and two west), plus center turn lane and bike paths along both sides Raised and landscaped median and center enter turn lane at select locations Asphalt pavement Concrete None Concrete None |
| Traffic Lanes | |
| Median | |
| Surface | |
| Curbs | |
| Sidewalks | |
| Gutters | |
| Streetlights | |

94th Street

| | |
|---------------|--|
| Traffic Lanes | Two (one north and one south), plus center turn lane and bike paths along both sides |
| Median | Center turn lane |
| Surface | Asphalt pavement |
| Curbs | Concrete |
| Sidewalks | None |
| Gutters | Concrete |
| Streetlights | None |

Flood Zone:

According to Federal Emergency Management Agency Flood Insurance Rate Map Number 04013C1320L, dated October 16, 2013, most of the property is located in Flood Zone AO and a small portion of the site is located in Flood Zone A.

Flood Zone AO is identified as areas subject to inundation by 1-percent-annual-chance shallow flooding (usually sheet flow on sloping terrain) where average depths are between one and three feet. Average flood depths derived from detailed hydraulic analyses are shown in this zone. Mandatory flood insurance purchase requirements and floodplain management standards apply.

Some Zone AO have been designated in areas with high flood velocities such as alluvial fans and washes. Communities are encouraged to adopt more restrictive requirements for these areas.

Flood Zone A are identified as areas subject to inundation by the 1-percent-annual-chance flood event generally determined using approximate methodologies. Because detailed hydraulic analyses have not been performed, no Base Flood Elevations (BFEs) or flood depths are shown. Mandatory flood insurance purchase requirements and floodplain management standards apply.

Other developed properties in the area are also located in Zone AO and are developed with a variety of uses.

General Plan Designation:

According to the City of Scottsdale General Plan Future Land Use Map, the subject property is located in an area targeted for developed Suburban

Neighborhoods. The southwest portion of the property is also located within the Regional Use Overlay.

The **Suburban Neighborhoods** designation includes medium to small lot, single-family neighborhoods, or subdivisions. Density in Suburban Neighborhoods are usually more than one house per acre, but less than eight houses per acre. This category also includes some townhouses and can also be used for small lot, single-family homes, such as patio homes. It can be incorporated into neighborhoods near Old Town Scottsdale and in or adjacent to other non-residential activity centers. These uses may be used as a transition between less intense residential areas and non-residential areas, such as offices or retail centers. The terrain should be relatively flat, or gently sloping, to accommodate this density. Preservation of environmental features (particularly in desert settings near the mountains) is a key consideration and in the past has been often accommodated through master-planned communities or clustering.

The **Regional Use** overlay designation provides flexibility for land uses when it can be demonstrated that new land uses are viable in serving a regional market. Regional uses include, but are not limited to, corporate office, region serving retail, major medical, educational campus, community service facilities, tourism, and destination attraction uses. In determining whether proposed land uses are regional in nature, the city will consider whether the use has a regional draw, implements current economic development policies, enhances the employment core and the city's attractiveness to regional markets, benefits from good freeway access, and complements the established character for the area. According to the City, the Regional Use overlay does not have any impact on the residential density.

Zoning:

The subject property is zoned R1-7 (Single-Family Residential), PCD (Planned Community District), ESL (Environmentally Sensitive Land) City of Scottsdale.

The **R1-7 district** is intended to promote and preserve urban single-family residential development. Lot size permits the highest density of population

attainable in a single-family residential district. The principal land use is a single-family dwelling. Uses incidental or accessory to dwellings, recreations, religious and educational facilities are included. Select development standards of the R1-7 zoning are as follows:

| | |
|--------------------------|-------------------|
| Minimum lot size: | 7,000 Square feet |
| Minimum lot width: | 70 Feet |
| Density: | 1 House per lot |
| Maximum Building Height: | 30 Feet |

The **PCD district** is a zoning district that may be developed only in accordance with a specific development plan. The approved development plan is an integral part of this zoning district and all development shall comply with said plan. The planned community district is designed and intended to enable and encourage the development of large tracts of land which are under unified ownership or control, or lands which by reason of existing or planned land uses are appropriate for development under this section, so as to achieve land development patterns which will maintain and enhance the physical, social, and economic values of an area. To this end, there may be provided within such areas a combination of land uses, including a variety of residential types, commercial, industrial, public, and semi-public areas, arranged and designed in accordance with modern land planning principles and development techniques; and in such a manner as to be properly related to each other, the surrounding community, the planned thoroughfare system, and other public facilities such as water and sewer systems, parks, schools, and utilities. The planned community district and procedure are further established to provide a land developer with reasonable assurance that specific uses proposed from time to time, if in accordance with an approved development plan, will be acceptable to the city; and to provide the City Planning Commission and the City Council with a long-term proposal for the development of a given area. The PCD zoning does not designate a specific use for the property.

The **ESL Overlay** is intended to protect environmentally sensitive lands in the city and to

promote the public health, safety, and welfare by providing appropriate and reasonable controls for the development of such lands. Specifically, the ESL District is intended to:

- Protect people and property from hazardous conditions characteristic of environmentally sensitive lands and their development. Such hazards include rockfalls, rolling boulders, other unstable slopes, flooding, flood-related mud slides, subsidence, erosion, and sedimentation.
- Protect and preserve significant natural and visual resources. Such resources include, but are not limited to, major boulder outcrops and large boulders, major ridges and peaks, prime wildlife habitat and corridors, unique vegetation specimens, significant washes, and significant riparian habitats.
- Protect renewable and nonrenewable resources such as water quality, air quality, soils, and natural vegetation from incompatible land uses.
- Minimize the costs of providing public services and facilities in ESL District areas such as streets, water, sewer, emergency services, sanitation services, parks, and recreation. Costs associated with the design and development of infrastructure in environmentally sensitive areas can be higher than costs in other areas of the city due to the unique and fragile nature of such lands.
- Conserve the character of the natural desert. Guide the location and distribution of meaningful on-lot and common tract open space and protect sensitive environmental features to sustain the unique desert character found in ESL District areas.
- Recognize and conserve the economic, educational, recreational, historic, archaeological, and other cultural assets of the environment that provide amenities and services for residents and visitors.

- Assure that decisions regarding development in environmentally sensitive areas are based on complete and accurate information about the environmental conditions including drainage features and probable development impacts.
- Minimize the impacts of development by controlling the location, intensity, pattern, design, construction techniques, and materials of development and construction.
- Retain the visual character of the natural landscape to the greatest extent feasible by regulating building mass, location, colors, and materials; grading location, design, and treatment; and landscaping design and materials.
- Maintain significant open spaces which provide view corridors, buffers, protect landmarks and large boulders, and prime wash habitats, by preserving these features in their natural state to maintain the city's unique desert setting.
- Protect environmentally sensitive lands, while also recognizing the legitimate expectations of property owners and the city's overall economic goals.
- Encourage innovative planning, design, and construction techniques for development in environmentally sensitive areas.

The ESL overlay allows the uses allowed in the underlying zoning; however, places additional development standards including minimum open space requirements, lower building heights and other standards.

Zoning Change:

The subject's R1-7, PCD, ESL zoning is consistent with general plan designation and the developed land uses in the area. The general plan designation allows for higher density uses than the R1-7 zoning. Furthermore, the Regional Use overlay designation provides flexibility for land uses when it can be demonstrated that new land uses are viable in serving a regional market. Regional uses include, but are not limited to, corporate office, region serving retail, major

medical, educational campus, community service facilities, tourism, and destination attraction uses. Considering the commercial use located southwest of Bell Road and 94th Street and the WestWorld located south of Bello Road, there is some potential to rezone the south portion of the property. Nonetheless, considering the ESL zoning and the washes bisecting the property, and the developed residential uses in the area with R1-7 zoning, a zoning change for the entire property is not likely.

**Easements, Encroachments
And Restrictions:**

A title report for the property was not available for this appraisal. Based on City of Scottsdale maps, the property is subject to drainage and storm water easements. Specifically, there are drainage improvements where the washes pass under 94th Street and along the wash along the northeast side of the site. No other significant easements, encroachments or restrictions were identified during my inspection and research.

Utilities:

| | |
|--------------|------------------------------|
| Water: | City of Scottsdale |
| Sewer: | City of Scottsdale |
| Electricity: | Arizona Public Service (APS) |
| Telephone: | CenturyLink |
| Gas: | Southwest Gas |

Adjacent Land Uses:

| | |
|--------|---|
| North: | A single-family residential subdivision |
| East: | Washes and single-family residential uses |
| South: | Bell Road followed by multi-family residential uses and WestWorld of Scottsdale |
| West: | 94 th Street followed by land being developed with ballfields |

Comments: For this analysis, I have considered the density of the R1-7 zoned single-family residential uses in the immediate area. Specifically, I have considered the density of the following subdivisions:

| | |
|-----------------------|--------------|
| DC Ranch Parcel 1.11: | 2.08 du/acre |
| DC Ranch Parcel 1.18: | 2.91 du/acre |

Wingate Ranch Parcel H: 3.60 du/acre
 DC Ranch Parcel 1.13: 3.87 du/acre
 DC Ranch Parcel 1.12: 4.54 du/acre

These nearby subdivisions indicate a density range of 2.08 to 4.54 dwelling units per acre.

Apparent Adverse Factors: The washes bisecting the property will impact development.

Site Utility and Accessibility: The site has adequate utility and accessibility for potential uses.

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

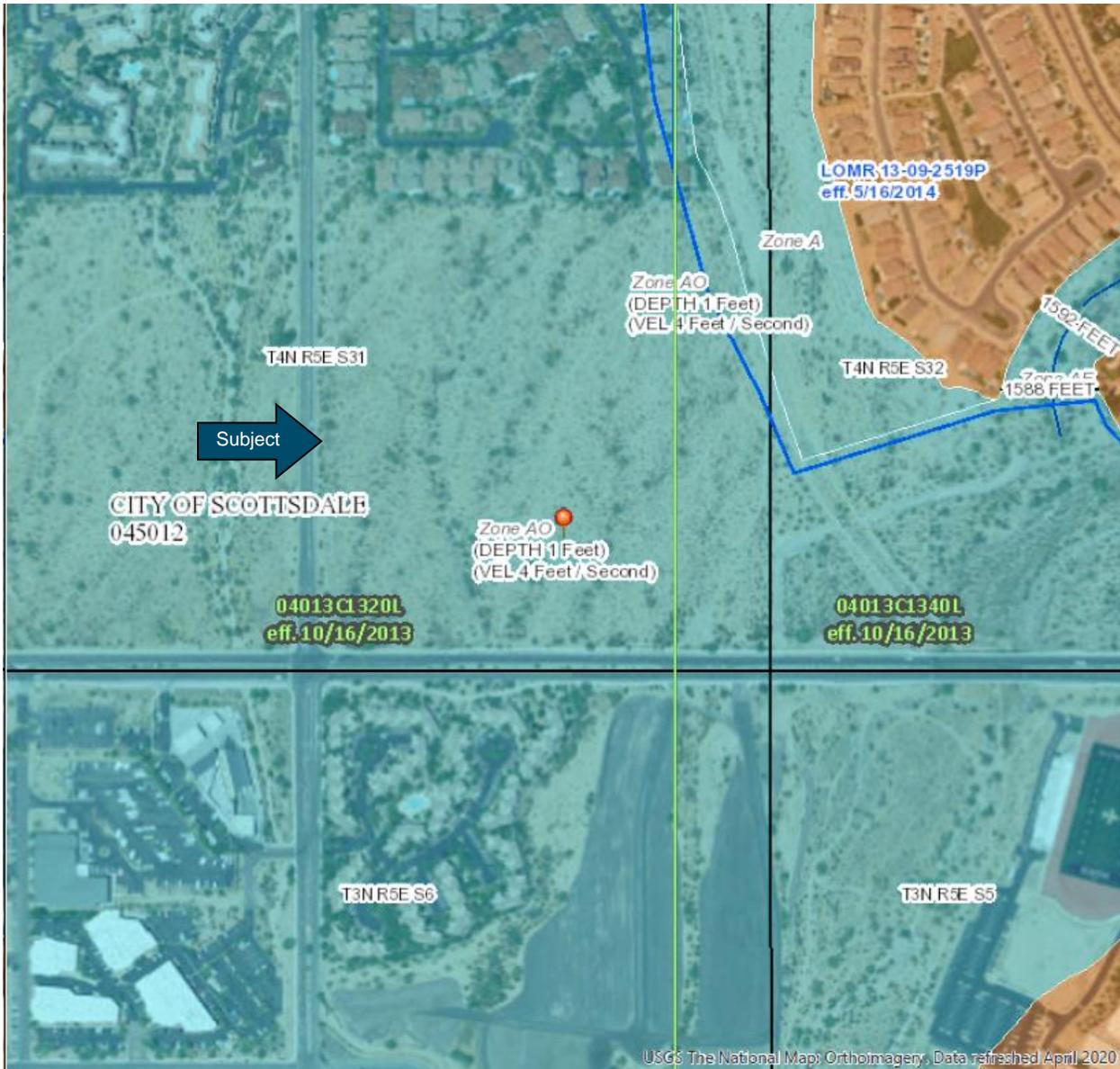
Full Cash Values And Real Estate Taxes: The subject property is owned by the City of Scottsdale and is not subject to real estate taxes. The parcel is identified as APN 215-07-023C. The full cash values for this parcel are summarized as follows:

| | 2014 Final | 2015 Final | 2016 Final | 2017 Final | 2018 Final | 2019 Final | 2020 Final | 2021 Prelim |
|--------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|--------------|
| FCV Improved | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| FCV Land | \$18,600,200 | \$19,530,200 | \$23,422,000 | \$8,153,300 | \$7,191,300 | \$8,712,800 | \$8,165,900 | \$10,724,100 |
| FCV Total | \$18,600,200 | \$19,530,200 | \$23,422,000 | \$8,153,300 | \$7,191,300 | \$8,712,800 | \$8,165,900 | \$10,724,100 |
| YoY Change % | 605% | 5% | 20% | -65% | -12% | 0% | 0% | 0% |
| Assessed FCV | \$2,976,032 | \$3,124,832 | \$3,513,300 | \$1,222,995 | \$1,078,695 | \$1,306,920 | \$1,224,885 | \$1,608,615 |
| LPV Total | \$16,926,182 | \$17,772,491 | \$18,661,116 | \$8,153,300 | \$7,191,300 | \$7,550,865 | \$7,928,408 | \$8,324,828 |
| State Aid | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Tax Amount | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

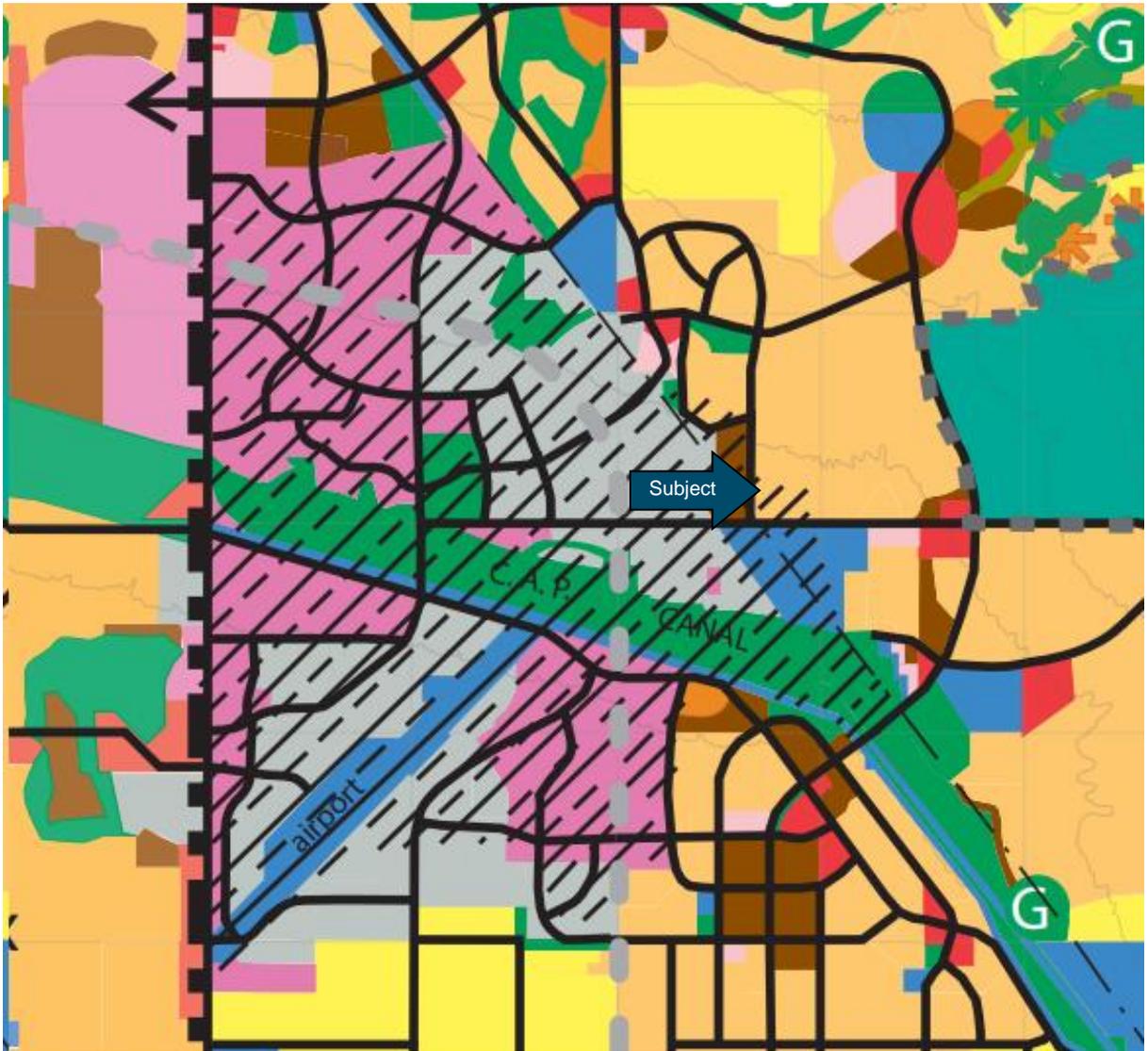
Back Taxes: According to the Maricopa County Treasurer's Office, there are no delinquent prior year taxes owed on this parcel.

Special Assessments: None identified.

Improvement Description: The property is improved with natural desert vegetation. The property does not have any other significant improvements.



General Plan Land Use Map



HIGHEST AND BEST USE ANALYSIS

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

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

Based on the preceding sections, a general discussion will follow analyzing the highest and best use of the property, as vacant.

Legally Permissible

The subject property is zoned R1-7 (Single-Family Residential), PCD (Planned Community District), ESL (Environmentally Sensitive Land) by the City of Scottsdale. The R1-7 zoning allows for residential uses within a minimum lot size of 7,000 square feet as well as other public uses, such as schools and churches. The PCD zoning does not identify a specific use for the subject property. The ESL zoning places additional restrictions on the use of the property to preserve the natural features such as washes and hillsides.

The subject's R1-7, PCD, ESL zoning is consistent with general plan designation and the developed land uses in the area. The general plan designation allows for higher density uses than the R1-7 zoning. Furthermore, the Regional Use overlay designation provides flexibility for land uses when it can be demonstrated that new land uses are viable in serving a regional market. Regional uses include, but are not limited to, corporate office, region serving retail, major medical, educational campus, community service facilities, tourism, and destination attraction uses. Considering the commercial use located southwest of Bell Road and 94th Street and the WestWorld located south of Bello Road, there is some potential to rezone the south portion of the property. Nonetheless, considering the ESL zoning and the washes bisecting the property, and the developed residential uses in the area with R1-7 zoning, a zoning change for the entire property is not likely.

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

The property is not impacted by any easements, encroachments or restrictions that would preclude development of the property consistent with the existing or potential zoning, other than drainage easements.

Therefore, based on legal considerations, the mostly likely legally permissible uses of the property are for development of a residential use with a density in the range of 2.08 to 4.54 units per acre or rezone for development of a mix of residential and/or commercial uses

Physically Possible

The subject property is a 37.4408-acre parcel of desert land. The property has a rectangular shape and near-level to slightly irregular topography. The property fronts along and has adequate access from Bell Road and 94th Street. All utilities necessary for development are extended to the site or are in adjacent roadways. The property is bisected by desert washes and is located in Flood Zones AO and A, however, can be engineered for development of potential uses. Recognizing these physical characteristics, development of the legally permissible uses is physically possible. With medium density and commercial uses in the area, the property is suitable for development of residential and/or commercial uses. Considering the developed residential uses in the area with R1-7 zoning, the most likely residential density would be in the range of 2.08 to 4.54 dwelling units per acre.

Therefore, the mostly likely legally permissible and physically possible uses of the property are for development of a residential use with a density in the range of 2.08 to 4.54 units per acre or to rezone for development of a mix of residential and/or commercial uses

Financially Feasible

The economy and real estate market conditions have supported development of both residential and commercial uses in the Phoenix area and in the market area over the last few years. Properties are being acquired for and developed with residential and commercial uses. Based on the development that is occurring in the area, development of the legally permissible and physically possible uses is financially feasible. Therefore, the financially feasible uses of the property are for development of a residential use with a density in the range of 2.08 to 4.54 units per acre or to rezone for development of a mix of residential and/or commercial uses.

Maximally Productive

The financially feasible use that provides the greatest return to the property or results in the highest value of the property is the maximally productive use. Development of a residential and/or mixed use of the would result in a similar value for the property. Therefore, it is my opinion that the maximally productive and highest and best use of the subject property are for development of a residential use with a density in the range of 2.08 to 4.54 units per acre or rezone for development of a mix of residential and/or commercial uses.

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

Cost Approach

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

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

Sales Comparison Approach

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

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

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

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

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

Income Capitalization Approach

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

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

Final Reconciliation

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

Valuation Analysis

For valuation of the subject property, I have considered the cost, sales comparison, and income approaches; however, only the sales comparison approach is used. The property does not have any improvements; therefore, the cost approach is not applicable. Although similar properties are sometimes leased, most are not; therefore, the income approach is not applicable. Thus, only the sales comparison approach is used.

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

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

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

SALES COMPARISON APPROACH TO VALUE

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

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

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

Overview of the Search for Comparable Sales Information

Emphasis was placed upon selecting relatively recent sale of properties that are similar to the subject property based on property rights conveyed, location, physical characteristics, potential use, and development time horizons. Nonetheless, although differing in some of these characteristics, the comparables are representative of the range of value within which the subject property could be placed.

Selection of Appropriate Units of Comparison

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

Analysis and Comparison of Comparable Sales

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

Transaction Characteristics

- Real Property Rights Conveyed
- Financing Terms
- Conditions of Sale
- Expenditures Immediately After the Sale
- Market Conditions (Date of Sale)

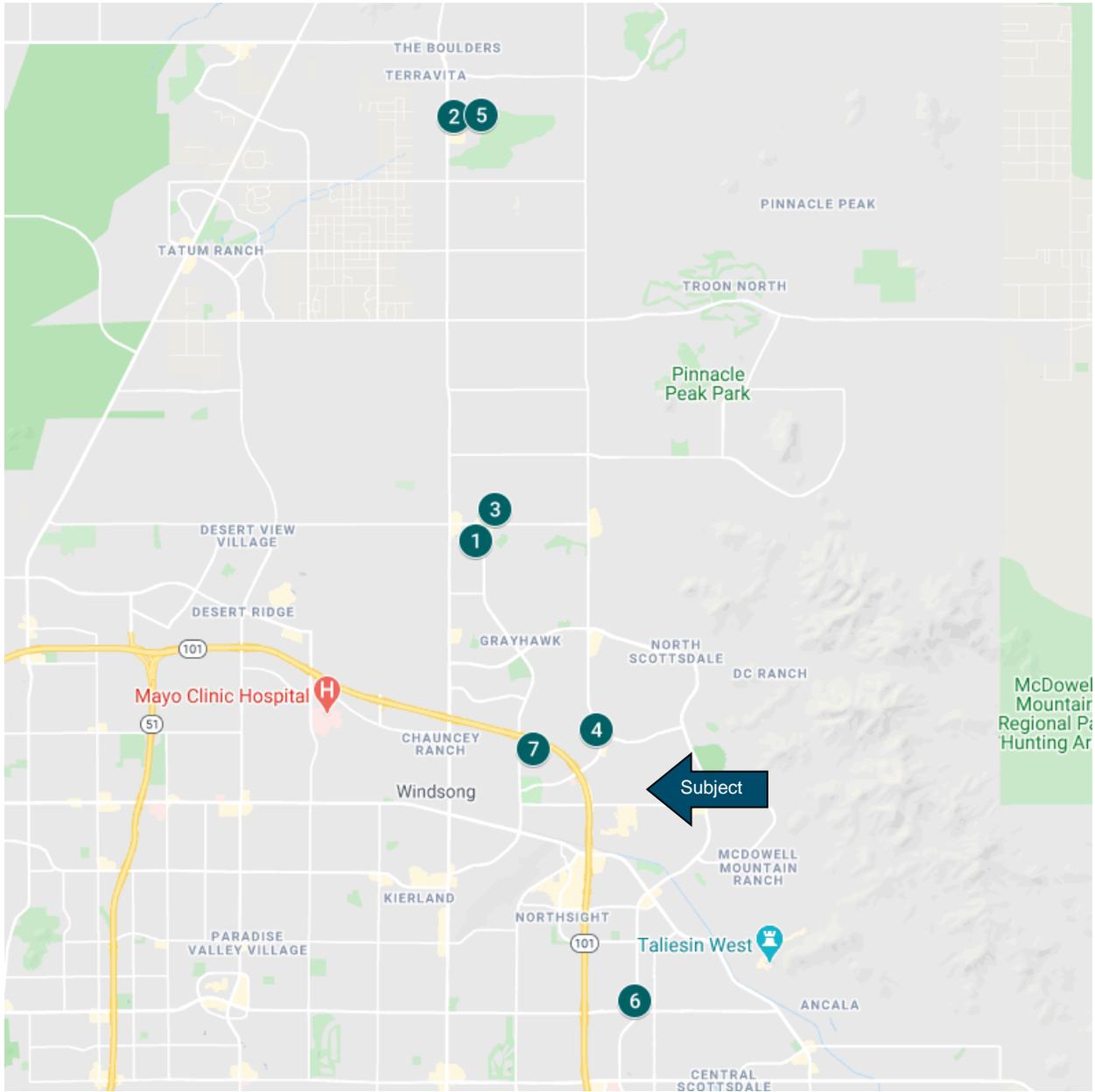
Property Characteristics

- Location
- Physical Characteristics (size, topography, off-site improvements, etc...)
- Intended Use
- Economic Characteristics
- Non-Realty Components of Value

Description of Vacant Land Comparables

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

Comparable Land Sales Map



Comparable Land Sale One



South from Pinnacle Peak Road



West from Miller Road

Identification

Type: Residential Land
Location: At the southwest corner of Pinnacle Peak Road and Miller Road in Scottsdale, Arizona
Tax Parcel Number: 212-03-599

Sale Data

Sale Price: \$23,000,000
Terms: All cash to seller
Unit Price: \$22.25 Per net square foot/\$126,374 per unit
Date of Recordation: May 8, 2018 (December 2016 escrow)
Grantor/Seller: Silverstone Development, Inc.
Grantee/Buyer: Vistas at Silverstone LLC
Instrument: Special Warranty Deed
Instrument Number: 2018-0361751
Conditions of Sale: Typical
Marketing Period: Less than on year at sale price
Source/Confirmation: Costar, Vizzda, Monsoon, public records, buyer (Chad Fuller at 480-824-4148) and inspection

Site Data

Shape/Dimensions: Irregular
Area: 1,033,533 Net square feet/23.7267 net acres
Topography: Level
Zoning/Restrictions: R-5
Flood Zone: Zone X
Noise Zone: None

OffSites: All installed
 Lot Type: Corner
 Utilities: All necessary utilities are in the area.
 Arterial Frontage: Pinnacle Peak Road
 Traffic Count: 14,692 VPD along Pinnacle Peak Road and 11,842 VPD along Miller Road per MPSI estimates
 Improvements: Entitlements for the proposed use
 One-Mile Demographics (2020): 6,091 Total population; \$137,666 median household income; \$596,858 median home value
 Comments: The buyer obtained entitlements for the proposed use during escrow.

Intended Use For development of a 182 lot multi-family residential development for a density of 7.67 du/acre

Aerial Photo



Comparable Land Sale Two



East from Scottsdale Road



South from Dove Valley Road

Identification

Type: Residential Land
Location: At the southeast corner of Scottsdale Road and Dove Valley Road in Scottsdale, Arizona
Tax Parcel Numbers: 216-51-382 Through 439

Sale Data

Sale Price: \$8,636,000
Terms: All cash to seller
Unit Price: \$14.89 Per net square foot/\$159,926 per lot
Date of Recordation: February 1, 2019 (December 2017 escrow)
Grantor/Seller: Shea 124 Investments, LLL and HYV & Canal, LLC
Grantee/Buyer: K. Hovnanian at Scottsdale Heights, LLC
Instrument: Special Warranty Deed
Instrument Number: 2019-0073127
Conditions of Sale: Typical
Marketing Period: Less than one year at sale Price
Source/Confirmation: Costar, Vizzda, Monsoon, public records, seller (Michael Lieb at 602-859-2977) and inspection

Site Data

Shape/Dimensions: Nearly rectangular
Area: 579,825 Net square feet/13.3110 net acres
Topography: Near level to slightly irregular
Zoning/Restrictions: R-3
Flood Zone: Zone X
Noise Zone: None
OffSites: All installed

| | |
|-------------------------------|--|
| Lot Type: | Minor corner |
| Utilities: | All necessary utilities are in the area. |
| Arterial Frontage: | Scottsdale Road |
| Traffic Count: | 20,562 VPD along Scottsdale Road per 2018 MPSI data |
| Improvements: | Entitlements for the proposed use |
| One-Mile Demographics (2020): | 3,700 Total population; \$112,373 median household income; \$623,311 median home value |
| Comments: | The buyer obtained entitlements for the proposed use during escrow. |

Intended Use For development of a 54-lot single-family attached residential subdivision, for a density of 4.06 du/acre

Aerial Photo



Comparable Land Sale Three



East from Miller Road



North from Pinnacle Peak Road

Identification

Type: Residential land
Location: At the northeast corner of Pinnacle Peak Road and Miller Road in Scottsdale, Arizona
Tax Parcel Numbers: 212-04-001B, 001C, 001D and 001E

Sale Data

Sale Price: \$12,500,000 (\$12,000,000 recorded sale price, plus \$500,000 for demolition of the existing improvements.)
Terms: All cash to seller
Unit Price: \$16.63 Per net square foot/\$227,273 per lot
Date of Recordation: March 7, 2019 (December 2017)
Grantor/Seller: PFCCP Pinnacle Peak LLC
Grantee/Buyer: Lennar Arizona, Inc.
Instrument: Special Warranty Deed
Instrument Number: 2019-0143654
Conditions of Sale: Typical
Marketing Period: Less than one year at sale price
Source/Confirmation: Costar, Vizzda, Monsoon, public records, buyer (Chris Clonts at 480-476-8441 and Erik Molina at erik.molina@lennar.com) and inspection

Site Data

Shape/Dimensions: Nearly rectangular
Area: 751,692 Net square feet/17.2565 net acres
Topography: Near level to slightly irregular
Zoning/Restrictions: R1-10

| | |
|-------------------------------|---|
| Flood Zone: | Zone X |
| Noise Zone: | None |
| Off Sites: | Paved Roads |
| Lot Type: | Corner |
| Utilities: | All necessary utilities are in the area. |
| Arterial Frontage: | Pinnacle Peak Road and Miller Road |
| Traffic Count: | 17,203 VPD along Pinnacle Peak Road and 4,547 VPD along Miler Road per MPSI data |
| Improvements: | Entitlements for the proposed use |
| One-Mile Demographics (2020): | 5,751 Total population; \$136,702 median household income; \$615,551 median home value |
| Comments: | The seller had rezoned the property. The buyer obtained entitlements (platting and engineering) for the proposed use during escrow. In addition to the recorded sale price, the buyer paid approximately \$500,000 for demolition of the existing improvements. |

Intended Use

For development of a 55-lot single family residential subdivision, for a density of 3.19 du/acre

Aerial Photo



Comparable Land Sale Four



North from Legacy Boulevard



West from Pima Road

Identification

Type: Commercial Land
Location: Wrapping the northwest corner of Pima Road and Legacy Boulevard in Scottsdale, Arizona
Tax Parcel Number: 215-07-406A

Sale Data

Sale Price: \$11,500,000
Terms: All cash to the seller
Unit Price: \$22.00 Per square foot/\$66,092 per lot
Date of Recordation: February 28, 2019 (April 2018 escrow)
Grantor/Seller: Torino Holdings, LLC
Grantee/Buyer: KIW Revel Pima Venture, LLC
Instrument: Special Warranty Deed
Instrument Number: 2019-0138028
Conditions of Sale: Typical
Marketing Period: Less than one year at sale price
Source/Confirmation: Co-Star, Vizzda, public records, seller (Wayne Howard at 602-861-5974) and inspection

Site Data

Shape/Dimensions: Irregular
Area: 522,832 Net square feet/12.0026 net acres
Topography: Sloping, but at grade with surrounding properties
Zoning/Restrictions: C-O, ESL by the City Scottsdale
Flood Zone: Zone AO
Noise Zone: None

| | |
|-------------------------------|---|
| Off-Sites: | All installed |
| Lot Type: | Surrounds corner |
| Utilities: | All to site |
| Roadway Frontage: | Good along the west side of Pima Road and the north side of Legacy Boulevard |
| Traffic Count: | 43,500 Vehicles per day along Pima Road per City of Scottsdale |
| One-Mile Demographics (2019): | 6,056 Population; \$134,375 median household income; and \$655,430 median home value |
| Improvements: | None |
| Comments: | This property was marketed for multi-use. According to the site plan for the proposed project, approximately 52.5% of the property will be used as open space. The seller assisted with the rezoning of the property but was not sure who paid for the rezoning. The buyer completed the platting and engineering for the proposed use. |
| Intended Use | Buyer plans to develop a 174-unit (14.5 du/acre) senior living facility |

Aerial Photo



Comparable Land Sale Five



Identification

Type: Residential land
Location: On the south side of Dove Valley Road and East of Scottsdale Road in Scottsdale, Arizona.
Tax Parcel Numbers: 216-51-299

Sale Data

Sale Price: \$10,450,000
Terms: \$3,135,000 (30%) Cash Down with the balance of \$7,315,000 carried by the seller, considered cash equivalent
Unit Price: \$16.79 Per net square foot/\$180,172 per lot
Date of Recordation: August 10, 2020 (July 2019 escrow date)
Grantor/Seller: Rex Dove Valley, LLC
Grantee/Buyer: K Hovanian at Scottsdale Heights, LLC
Instrument: Special Warranty Deed
Instrument Number: 2020-0725640
Conditions of Sale: Typical
Marketing Period: Less than one year at sale price
Source/Confirmation: Costar, Vizzda, Monsoon, public record, (seller's broker (Don McCaul at 480-443-8570) and inspection

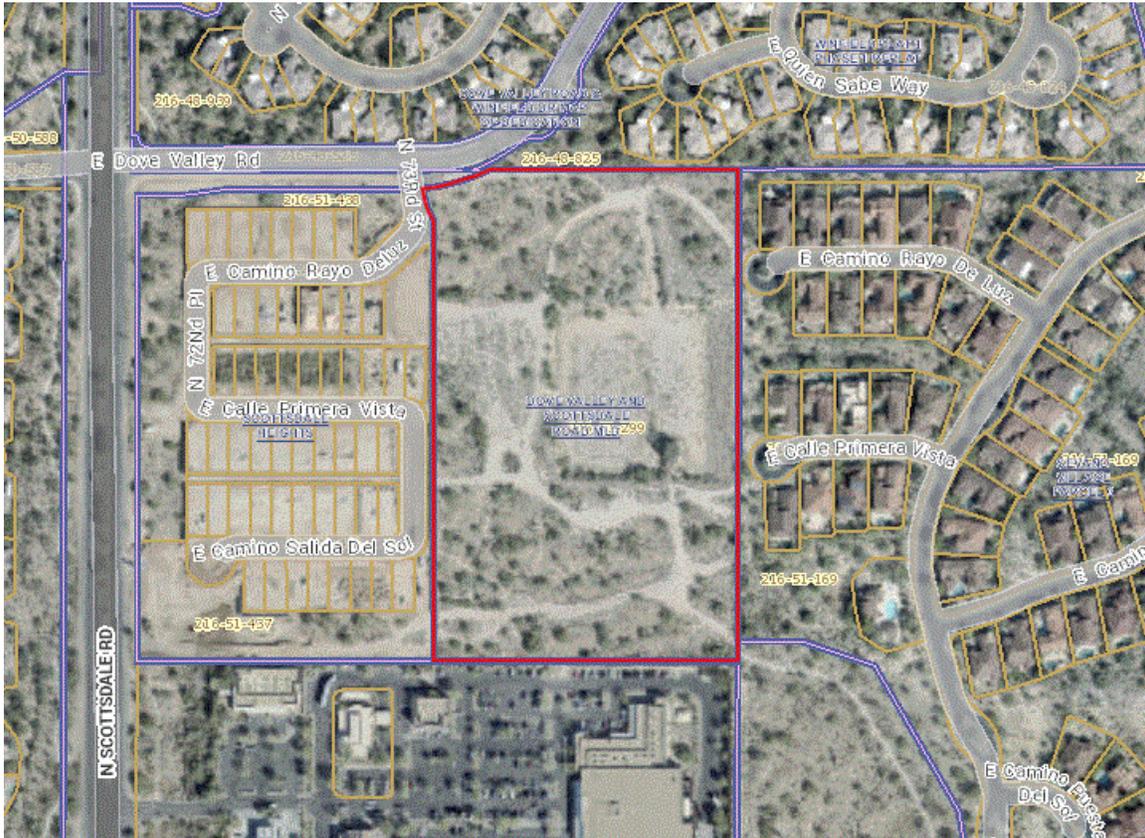
Site Data

Shape/Dimensions: Irregular

Area: 622,320 Net square feet/14.2865 net acres
 Topography: Near-level to slightly irregular
 Zoning/Restrictions: R-3
 Flood Zone: Zone X
 Noise Zone: None
 OffSites: All Installed
 Lot Type: Midblock
 Utilities: All necessary utilities are in the area.
 Arterial Frontage: None
 Traffic Count: Not Counted
 Improvements: Entitlements for the proposed use
 One-Mile Demographics (2020): 3,606 Total population; \$111,500 median household income; \$633,769 median home value
 Comments: The buyer obtained entitlements during escrow. The broker could not disclose the escrow price; however, indicated that it was more than slightly below the asking price.

Intended Use Development of a 58-lot single-family subdivision, for a density of 4.06 du/acre

Aerial Photo



Comparable Land Sale Six



South from Cactus Road



West from 94th Street

Identification

Type: Residential land
Location: At the northwest corner of Cactus Road and 94th Street in Scottsdale
Tax Parcel Numbers: 217-24-006, 017A, 017B, 018, 019P, 019M, 019N, and 019Q

Sale Data

Sale Price: \$17,000,000
Terms: \$3,400,000 (20%) Cash Down with the balance of \$13,600,000 as a deferred payment of \$340,000 per lot, considered cash equivalent
Unit Price: \$23.99 Per net square foot/\$425,000 per lot
Date of Recordation: August 17, 2020 (August 2020 escrow date)
Grantor/Seller: Empire Residential Communities Fund II, LLC
Grantee/Buyer: Pulte Home Company, LLC
Instrument: Special Warranty Deed
Instrument Number: 2020-0753995
Conditions of Sale: Typical
Marketing Period: Less than one year at sale price
Source/Confirmation: Costar, Vizzda, public record, (seller's brokers Don McCaul at 602-818-1930 and Grant Helgeson at 602-762-1556) and inspection

Site Data

Shape/Dimensions: Nearly rectangular
Area: 708,564 Net square feet/16.2664 net acres
Topography: Near-level

Comparable Land Sale Seven



East from Hayden Road



North from Mayo Boulevard

Identification

Type: Residential land
Location: At the northeast corner of Hayden Road and Mayo Boulevard in Scottsdale
Tax Parcel Numbers: 215-07-210B

Sale Data

Sale Price: \$52,296,951 (See comments.)
Terms: \$3,171,000 (10%) plus selling costs of \$1,013,415 with the balance carried by the seller at market terms, considered cash equivalent
Unit Price: \$16.89 Per net square foot
Date of Recordation: September 10, 2020 (August 2020 escrow date)
Grantor/Seller: Arizona State Land Department
Grantee/Buyer: Axon Enterprises, Inc.
Instrument: Patent No. 53-121237-01
Instrument Number: 2020-1032207
Conditions of Sale: Auction
Marketing Period: Less than one year at sale price
Source/Confirmation: Costar, Vizzda, Monsoon, public record, seller (Joe Charles Arizona State Land Department Administrator at 602-542-3000) and inspection

Site Data

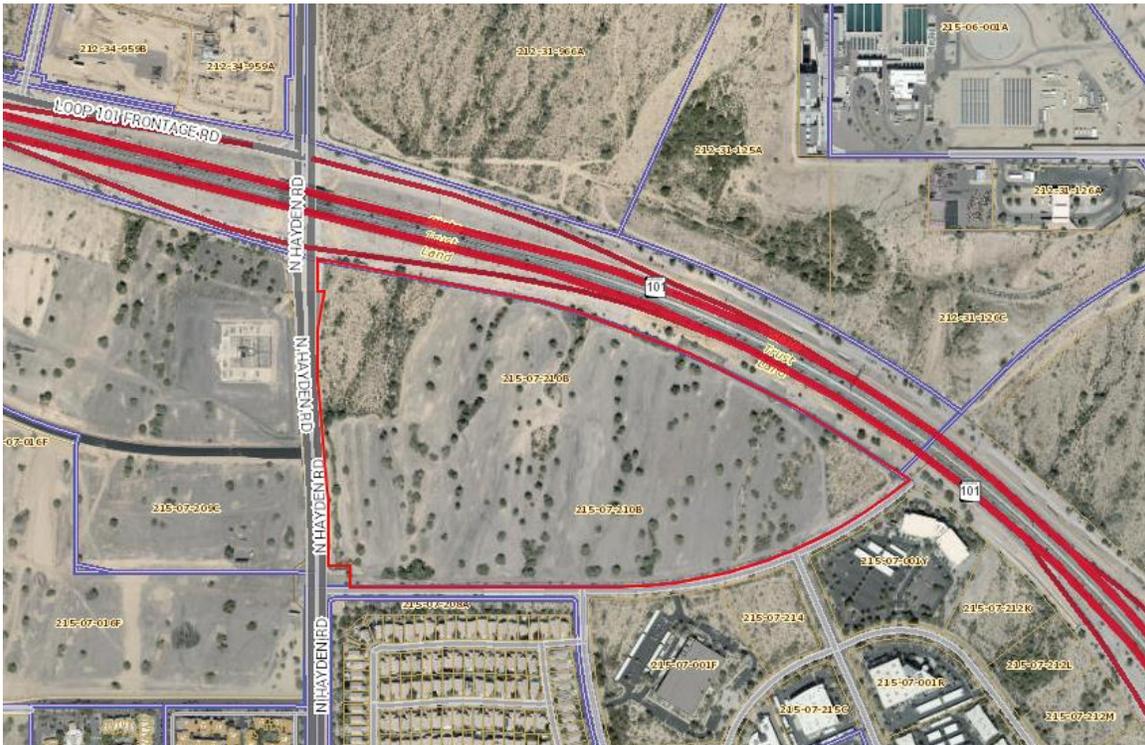
Shape/Dimensions: Irregular
Area: 3,095,650 Net square feet/71.0663 net acres
Topography: Near-level
Zoning/Restrictions: PCD Planned Community District
Flood Zone: Zone AO

| | |
|-------------------------------|--|
| Noise Zone: | None |
| OffSites: | All Installed along Hayden Road partial improvements along Mayo Boulevard |
| Lot Type: | Corner |
| Utilities: | All necessary utilities in the area |
| Arterial Frontage: | Hayden Road |
| Traffic Count: | 13,708 VPD along Hayden Road 2020 MPSI data, not counted along Mayo Boulevard |
| Improvements: | None of value |
| One-Mile Demographics (2020): | 2,833 Total population; \$87,445 median household income; \$492,404 median home value |
| Comments: | The sale price includes the auction price of \$49,100,000, selling and marketing costs of \$1,031,415 and a City of Scottsdale obligation of \$2,183,536 for offsite improvements for a total of \$52,296,951. The property has good visibility from Loop 101. Development of the property will require dedication of land for and construction of roadways, some of which will be reimbursed by the City of Scottsdale. |

Intended Use

Development of a 401,085 square foot corporate campus with a combination of office and manufacturing areas

Aerial Photo



| Land Sales Summary and Adjustment Grid | | | | | | | | |
|---|-------------------------|-------------------------|---------------|---------------|---------------|-----------------|-------------------|-------------------|
| | Subject | Land Comparables | | | | | | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Sale Price | - | \$23,000,000 | \$8,636,000 | \$12,500,000 | \$11,500,000 | \$10,450,000 | \$17,000,000 | \$52,296,951 |
| Size in Net Sq Ft | 1,630,920 | 1,033,533 | 579,825 | 751,692 | 522,832 | 622,320 | 708,564 | 3,095,650 |
| Size in Acres | 37.4408 | 23.7267 | 13.3110 | 17.2565 | 12.0026 | 14.2865 | 16.2664 | 71.0663 |
| Proposed Units | - | 182 | 54 | 55 | 174 | 58 | 40 | - |
| Price Per Sq Ft | - | \$22.25 | \$14.89 | \$16.63 | \$22.00 | \$16.79 | \$23.99 | \$16.89 |
| Price Per Unit | - | \$126,374 | \$159,926 | \$227,273 | \$66,092 | \$180,172 | \$425,000 | - |
| Property Rights Conveyed | Fee Simple | Fee Simple | Fee Simple | Fee Simple | Fee Simple | Fee Simple | Fee Simple | Fee Simple |
| Total Adjustment | - | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Price Adj. For Rights Conveyed | - | \$23,000,000 | \$8,636,000 | \$12,500,000 | \$11,500,000 | \$10,450,000 | \$17,000,000 | \$52,296,951 |
| Financing | All Cash | All Cash | All Cash | All Cash | All Cash | Cash Equivalent | Cash Equivalent | Cash Equivalent |
| Total Adjustment | - | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Price Adj. For Financing | - | \$23,000,000 | \$8,636,000 | \$12,500,000 | \$11,500,000 | \$10,450,000 | \$17,000,000 | \$52,296,951 |
| Conditions of Sale | Typical | Typical | Typical | Typical | Typical | Typical | Typical | Typical |
| Adjustment Factor | - | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total Adjustment | - | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Price Adj. For Conditions | - | \$23,000,000 | \$8,636,000 | \$12,500,000 | \$11,500,000 | \$10,450,000 | \$17,000,000 | \$52,296,951 |
| Market Conditions | Jul-20 | Dec-16 | Dec-17 | Dec-17 | Apr-18 | Jul-19 | Aug-20 | Aug-20 |
| Adjustment Factor | - | 20.00% | 15.00% | 15.00% | 15.00% | 10.00% | 5.00% | 5.00% |
| Total Adjustment | - | \$4,600,000 | \$1,295,400 | \$1,875,000 | \$1,725,000 | \$1,045,000 | \$850,000 | \$2,614,848 |
| Price Adj. For Market Conditions | - | \$27,600,000 | \$9,931,400 | \$14,375,000 | \$13,225,000 | \$11,495,000 | \$17,850,000 | \$54,911,799 |
| Adjusted Price Per Sq Ft | - | \$26.70 | \$17.13 | \$19.12 | \$25.29 | \$18.47 | \$25.19 | \$17.74 |
| Location | Typical | Typical | Typical | Typical | Typical | Typical | Typical | Frwy. Interchange |
| 1-Mile Population | 6,706 | 6,091 | 3,700 | 5,751 | 6,056 | 3,606 | 12,627 | 2,833 |
| Median Income | \$116,656 | \$137,666 | \$112,373 | \$136,702 | \$134,375 | \$111,500 | \$91,410 | \$87,445 |
| Median Home Value | \$576,446 | \$596,858 | \$623,311 | \$615,551 | \$655,430 | \$633,769 | \$430,374 | \$492,404 |
| Adjustment Factor | - | 0% | 0% | 0% | 0% | 0% | 0% | -10% |
| Topography/Flood Zone | Sltly. Irrg. / A and AO | Superior / X | Superior / X | Superior / X | Similar / AO | Superior / X | Superior / X | Superior / AO |
| Adjustment Factor | - | -5% | -5% | -5% | 0% | -5% | -5% | -2% |
| Size in Acres | 37.4408 | 23.7267 | 13.3110 | 17.2565 | 12.0026 | 14.2865 | 16.2664 | 71.0663 |
| Adjustment Factor | - | -5% | -10% | -5% | -10% | -10% | -10% | 5% |
| Utilities | All Installed | All Installed | All Installed | All Installed | All Installed | All Installed | All Installed | All Installed |
| Adjustment Factor | - | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Off-Site Improvements | All Installed | All Installed | All Installed | All Installed | All Installed | All Installed | All Installed | Partial |
| Adjustment Factor | - | 0% | 0% | 0% | 0% | 0% | 0% | 5% |
| Improvements | None | Platted | Platted | Platted | Platted | Platted | Platted by Seller | None |
| Adjustment Factor | - | -5% | -5% | -5% | -5% | -5% | -10% | - |
| Zoning | R1-7, PCD, ESL | R-5 | R-3 | R1-10 | C-O | R-3 | R1-18 | PCD |
| Adjustment Factor | - | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Density (DU/Acre) | 2.08 to 4.54 | 7.67 | 4.06 | 3.19 | 14.50 | 4.06 | 2.46 | N/A |
| Adjustment Factor | - | -20% | 0% | 0% | -25% | 0% | 0% | 0% |
| Net Percentage Adjustment | - | -35% | -20% | -15% | -40% | -20% | -25% | -2% |
| Net Dollar Adjustment | - | (\$9,660,000) | (\$1,986,280) | (\$2,156,250) | (\$5,290,000) | (\$2,299,000) | (\$4,462,500) | (\$1,098,236) |
| Final Adjusted Sale Price | - | \$17,940,000 | \$7,945,120 | \$12,218,750 | \$7,935,000 | \$9,196,000 | \$13,387,500 | \$53,813,563 |
| Final Adjusted Price Per Sq Ft | - | \$17.36 | \$13.70 | \$16.25 | \$15.18 | \$14.78 | \$18.89 | \$17.38 |

Discussion of Transaction Adjustments

Property Rights Conveyed

This is an appraisal of the subject's fee-simple interest. The fee-simple interest was conveyed in each of the comparable sales; therefore, no adjustments are indicated for property rights conveyed.

Financing Terms

All the comparables sold for all cash to the seller, or with cash equivalent financing, indicating no adjustment for financing terms.

Conditions of Sale

All of the comparables appear to have sold under typical conditions of sale, indicating no adjustment.

Market Conditions

The effective date of the appraisal is March 2, 2021. The comparable sales went into escrow between December 2016 and August 2020.

According to Arizona Indicator Data published in Arizona's Economy by the University of Arizona's Eller college of Management and/or the US Census Bureau, residential permits for the Phoenix area over the last 10 years are as follows:

| Phoenix, Mesa, Scottsdale MSA Historic Residential Permits | | | | | | |
|---|----------------------|-----------------|---------------------|-----------------|--------------|-----------------|
| Year | Single-Family | % Change | Multi-Family | % Change | Total | % Change |
| 2010 | 7,347 | | 1,007 | | 8,354 | |
| 2011 | 7,551 | 3% | 1,920 | 91% | 9,471 | 13% |
| 2012 | 11,790 | 56% | 3,626 | 89% | 15,416 | 63% |
| 2013 | 12,737 | 8% | 4,125 | 14% | 16,862 | 9% |
| 2014 | 11,735 | -8% | 8,761 | 112% | 20,496 | 22% |
| 2015 | 16,738 | 43% | 7,114 | -19% | 23,852 | 16% |
| 2016 | 18,452 | 10% | 10,182 | 43% | 28,634 | 20% |
| 2017 | 20,484 | 11% | 8,893 | -13% | 29,377 | 3% |
| 2018 | 23,465 | 27% | 8,278 | -19% | 31,743 | 11% |
| 2019 | 24,748 | 34% | 11,078 | 9% | 35,826 | 25% |
| 2020* | 30,638 | 50% | 13,630 | 53% | 44,268 | 51% |

*Annualized based on estimates through November 2020

This data indicates that single-family permits have increased every year since 2010, with the exception of 2014. Multi-family permits have increased in three of the last five years. And total residential permits have increased every year since 2010.

Moreover, the S&P/Case-Shiller AZ-Phoenix Home Price Index increased from 163.8404 in October of 2016 to 222.80196 in October of 2020. This is an increase of 35.99% or 7.20% per year over the last five years. This trend is illustrated in the following chart:



Furthermore, according to the Greater Phoenix Blue Chip Construction Forecast for the Third Quarter of 2020, “there have been significant changes in the forecast for both residential and commercial activity for 2020 and 2021 in the third quarter Greater Phoenix Blue Chip forecasts. Panelists have become much more bullish on single family residential permit forecasts. In the second quarter forecast, the consensus was for 21,215 single family permits in 2020 and 23,259 single family permits in 2021. Now, as the panel members take a good look at the third quarter actuals, the current forecasts call for 25,320 single family permits in 2020 (an increase of over 19% between the two quarters) and 26,806 in 2021 (an increase of almost 15% the second quarter projections). In addition, the current forecast for 2022 is for 27,937 new single-family permits. This heightened level of optimism is probably due to what actual data for the single-family marketplace. New permits have exceeded expectations in the second and third quarters; and there appears to be no end in sight for good news related to housing.”

Recognizing these market conditions and considering the sale dates, all of the comparables are adjusted upward for market conditions.

Discussion of Property Adjustments

Location

For purposes of this appraisal, the location of the subject property is rated as typical and the demographic characteristics are as reported. Although the comparables have different locations with varying demographics and varying proximity to freeways, services, and amenities, Comparables 1, 2, 3, 4, 5 and 6 are sufficiently similar that no

adjustment for location is required. Comparable 7 is located at the Loop 101-Hayden Road interchange, which is superior to the subject, indicating a downward adjustment.

Topography and Flood Zone

The subject property is bisected by small washes and has slightly irregular topography. The east portion of the property is located in a drainage easement and cannot be developed with building improvements. The property is located in Flood Zones A and AO. Comparable 4 has similar topography, is bisected by a similar wash and is in Flood Zone AO. This is sufficiently similar to not require an adjustment. Comparable 7 is located in Flood Zone AO, however, has superior topography, indicating a downward adjustment. Comparables 1, 2, 3, 5, 6 and 7 have superior topography and superior Flood zone classifications, indicating downward adjustments.

Size in Acres

Typically, larger properties sell for a lower unit price compared to smaller properties. The subject property has 37.4408 acres of site area. Comparables 1, 2, 3, 4, 5 and 6 are smaller than the subject and are adjusted downward for size. Comparable 7 is larger than the subject and is adjusted upward for size.

Utilities

All utilities are available to the subject property and comparable sales, indicating no adjustments.

Off-Site Improvements

The subject property has frontage along an asphalt-paved roadway, with concrete curbs and gutters. All of the comparables, except Comparable 7, have sufficiently similar off-site improvements to not require adjustments. Comparable 7 will require dedication of right of way and construction of roadway improvements. This is inferior to the subject, indicating an upward adjustment.

Improvements

The subject property does not have any improvements. Comparables 1, 2, 3, 4, 5 and 6 are entitled for the proposed uses, which is superior to the subject, indicating a downward adjustment. For Comparable 6, the seller obtained the entitlements, indicating a further downward adjustment. Comparable 7 is similar to the subject based on improvements, indicating no adjustments.

Zoning

Although there is potential to rezone the property for other uses, development of the subject property can be achieved under the existing R1-7, PCD, ESL zoning. All of the

comparables had zoning that allowed for development of the highest and best use, indicating no adjustments.

Density (Dwelling Units per Acre)

Typically, properties acquired for higher density uses sell for a higher price per square foot than properties acquired for lower density uses. As discussed previously in this report, the most likely density of the subject property is between 2.08 and 4.45 dwelling unit per acre. Comparables 2, 3, 5 and 6 were acquired for development of uses with similar densities, indicating no adjustments. Comparables 1 and 4 were acquired for development of uses with higher densities and are adjusted downward. Comparable 7 was acquired for a commercial use; therefore, an adjustment for residential density is not applicable.

Reconciliation of Value Indications

The comparable sales have an unadjusted sale price range of \$14.89 to \$23.99 per square foot of site area and indicate an adjusted value range of \$13.70 to \$18.89 per square foot of site area. Based on these indications, it is my opinion that the subject property has a value of \$17.50 per square foot.

With a unit value of \$17.50 per square foot and a site area of 1,630,920 square feet, the overall value range of the subject property is calculated as follows:

$$\text{\$17.50 Per Square Foot X 1,630,920 Square Feet} = \text{\$28,541,100}$$

Therefore, based on the sales comparison approach, it is my opinion that the market value of the subject property as of the effective date of the appraisal, is \$28,541,100.

RECONCILIATION

Reconciliation is the process whereby the appraiser evaluates and selects from among alternative conclusions or indications, a single conclusion of value. An orderly connection of interdependent elements is a prerequisite of proper reconciliation. This requires a re-examination of specific data, procedures, and techniques within the framework of the approaches used to derive preliminary estimates. Each approach is reviewed separately by comparing it to the other approaches to value in terms of adequacy, accuracy, completeness of reasoning, and overall reliability.

Within the scope of this report, only the sales comparison approach to value has been considered. The cost approach is not used because the properties do not have any significant improvements. The income approach is not used due to the fact that comparable properties, as vacant, are typically not leased.

In the valuation of the subject property, I analyzed sales of seven comparable parcels. Although none of the comparables are highly similar to the subject property, it is my opinion that the value of the subject property is within the sale price range of the comparables. Furthermore, after analysis, the comparable sales provided a reasonable indication of the value for the subject property.

Therefore, with exclusive emphasis on the sales comparison approach, it is my opinion that the market value of the subject property is **\$28,541,100**.

Exposure Period

Exposure time is defined as “an opinion, based on supporting market data, of the length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.”¹⁰ Based on other sales in the area, it is my opinion that the subject property could have been sold in twelve months or less.

¹⁰Appraisal Standards Board of The Appraisal Foundation, *2020-2021 Uniform Standards of Professional Appraisal Practice* (United States of America, 2020), page 4.

- Subject Photographs
- Appraiser's Qualifications



DRAFT

SUBJECT PHOTOGRAPHS



**Subject property looking
Northeast from Bell Road**



**Subject property looking
Northwest from Bell Road**



East along Bell Road



West along Bell Road



**Subject property looking
Southeast from 94th Street**



**Subject property looking
Northeast from 94th Street**



94th Street looking south



94th Street looking north



**Subject property looking north
from near the center of the site**



**Subject property looking northeast
from near the center of the site**

APPRAISER'S QUALIFICATIONS

DRAFT

Professional Qualifications of J. Douglas Estes, MAI, SR/WA

Professional Certification, Designations and Associations

- Arizona Certified General Real Estate Appraiser Number 30821
- MAI, Appraisal Institute, Certificate Number 11429
- SR/WA, International Right of Way Association, Designation Number 5641

Experience

Firms

- 2014—Present, Real Estate Appraiser and Owner, Landpro Valuation, Mesa, AZ
- 1998—2014, Real Estate Appraiser for Sell & Associates, Tempe, AZ
- 1994—1998, Real Estate Appraiser for Sell, Huish & Associates, Tempe, AZ
- 1993—1994, Appraisal Researcher for R.H. Whitlatch & Associates, Yuma, Arizona
- 1989—1993, Construction Estimator for Estes Insulation, Yuma, Arizona

Property Types/Assignments

- Expert Witness Testimony
- Industrial Buildings
- Retail Buildings
- Gas Stations and Convenience Stores
- Environmentally Contaminated Property
- Rights-of-Way and Easements
- Multi-Family Residential Properties
- Residential Subdivisions
- Medical Office Buildings
- Billboard Leases
- Transportation and Utility Corridors
- Leased Fee Analysis/Valuations
- Mini-Storage Facilities
- Historic Properties
- Professional Office Buildings
- Section 8 Rent Comparability Studies
- Desert Land
- Agricultural Land
- Ranches
- Mobile Home and RV Parks
- Single-Family Residences
- Funeral Homes
- Auto Service Facilities
- Auto Sales Facilities
- Sand and Gravel Land (Mine)
- Feasibility Studies
- RV and Boat Storage Facilities
- Partial Interest Valuations
- Master Planned Communities
- Partial Taking Valuations
- Transit Warehouses
- Commercial Subdivisions

Geographical Areas

- Arizona
- California
- Utah
- New Mexico
- Nevada
- Mexico
- Gila River Indian Community
- Navajo Nation
- Salt River Pima Maricopa Indian Community

Litigation Assignments

- Eminent Domain
- Bankruptcy
- Divorce
- Income, Gift and Estate Taxes
- Foreclosure
- Real Estate Taxes
- Insurance Claims
- Fraud

Education

- Bachelor of Science, Business Management-Finance, Cum Laude, Marriott School of Management, Brigham Young University, 1989

Professional Courses and Seminars

- AI Seminar, Subdivision Valuation, Online, 2019
- AI Seminar, Fundamentals of the UASFLA, Online, 2019
- AI Course Online Business Practices and Ethics, 2018
- IRWA The Uniform Act Executive Summary, Online, 2018
- IRWA Ethics and the Right of Way Profession, 2018
- Basic Hotel Appraising-Limited-Service Hotels, McKissock, 2017
- Various Condemnation Summits from 2010 through 2018
- The Nuts and Bolts of Green Building for Appraisers, McKissock, 2015
- Arizona Appraiser Laws and Regulations Course, 2013
- Arizona Supervisory Appraiser/Trainee Appraiser Course, 2013
- IRWA Course 103, Ethics and the Right of Way Profession, 2012
- AI Seminar, Introduction to Valuation for Financial Reporting, Phoenix, 2011
- State Bar of Arizona Annual Convention, Bankruptcy, Glendale, 2010
- State Bar of Arizona Annual Convention, Negotiating & Restructuring RE, Glendale, 2010
- IRWA Course 502, Business Relocation, Tempe, 2010
- LAI, Real Estate Bankruptcies for the Non-Lawyer RE Professional, Scottsdale, 2010
- International Right of Way Association Facilitator Clinic, Las Vegas, 2010
- AI Seminar, Uniform Appraisal Standards for Federal Land Acquisitions, Phoenix, 2009
- IRWA Course 803, Eminent Domain Law for the Right of Way Professional, Phoenix, 2009
- AI Seminar, Appraising Distressed Commercial RE: Here We Go Again, Mesa, 2009
- IRWA Course 410, Reviewing Appraisals in Eminent Domain, Tempe, 2008
- IRWA Course 401, Appraisal of Partial Acquisitions, Los Angeles, 2007
- IRWA Course 900, Principles of Real Estate Engineering, Tempe, 2007
- IRWA Course 213, Conflict Management, Tempe, 2006
- IRWA Course 205, Bargaining Negotiations, Tempe, 2006
- IRWA Course 800, Principles of Real Estate Law, Tempe, 2006
- IRWA Course 212, Creatively Solving Problems in Groups, Tempe, 2005
- IRWA Course 104, Standards of Practice for the Right of Way Professional, 2005
- IRWA Course 200, Principles of Real Estate Negotiation, Phoenix, 2004
- IRWA Course 403, Easement Valuation, Phoenix, 2004
- IRWA Course 214, Skills of Expert Testimony, Phoenix, 2004
- AI Seminar, Online Valuation of Detrimental Conditions, Online, 2003

- AI Course 420N, Business Practices and Ethics, Tempe, 2003
- IRWA Course 802, Legal Aspects of Easements, Phoenix 2003
- AI Course 410, Standards of Professional Practice, Part A, Tempe 2003
- AI Course 705, Litigation Appraising: Specialized Topics and Applications, Tempe 2002
- AI Course 700, Appraiser as Expert Witness: Preparation and Testimony, Tempe 2002
- AI Course 720, Condemnation Appraising: Advanced Principles, Tempe 2000
- AI Course 710, Condemnation Appraising: Basic Principles, Tempe 2000
- Comprehensive Appraisal Workshop, Dallas, Texas, 1996
- AI Course 550, Advanced Applications, San Diego, California, 1996
- AI Course 540, Report Writing & Valuation Analysis, San Diego, California, 1995
- AI Course 530, Sales Comparison & Cost Approaches, Boulder, Colorado, 1995
- AI Course 420, Code of Professional Ethics, Las Vegas, Nevada, 1995
- AI Course 410, USPAP, Las Vegas, Nevada, 1995
- AI Course 520, Highest and Best Use and Market Analysis, Tempe, AZ, 1995
- AI Course 510—Advanced Income Capitalization, San Jose, California, 1994
- AI Course 310—Basic Income Capitalization, San Diego, California, 1993
- AI Course 110—Appraisal Principles, Salt Lake City, Utah, 1993

Other Readings/Studies

- Principles of Right of Way (International Right of Way Associations)
- Numerous Eminent Domain Cases
- Real Estate Valuation in Litigation, 2nd Edition (Chicago: Appraisal Institute, 1995)
- The Appraisal of Real Estate (Chicago: Appraisal Institute)

Other Professional & Civic Activities

- IRWA Course Facilitator
- IRWA Kachina Chapter 28 Professional of the Year, 2008
- IRWA Kachina Chapter Executive Board, 2006-2009 (2008 President)
- IRWA Kachina Chapter-Seminar Committee, 2004-2008
- IRWA Kachina Chapter-Marketing and Public Awareness Chairman, 2004-2009
- Arizona Management Group
- Boy Scouts of America
- Instructor for Lorman Education Services
- Spanish Speaking