CBRE VALUATION & ADVISORY SERVICES

MARKET STUDY

INDUSTRIAL MARKET STUDY
PIMA COUNTY, AZ
CBRE GROUP, INC. FILE NO. CB23US000962

PIMA COUNTY REAL ESTATE RESEARCH COUNCIL

CBRE

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May 8, 2023

Paul Kraft
Research Committee Chair
PIMA COUNTY REAL ESTATE RESEARCH COUNCIL

RE: Industrial Market Study
Pima County
CBRE, Inc. File No. CB23US000962

Dear Mr. Kraft:

At your request and authorization, CBRE, Inc. has prepared a market study of industrial product throughout the Tucson MSA. Our analysis is presented in the following consultation.

The report, in its entirety, including all assumptions and limiting conditions, is an integral part of, and inseparable from, this letter.

The following market study sets forth the most pertinent data gathered, techniques employed, and the reasoning leading to general conclusions. The analyses, opinions and conclusions were developed based on, and this report has been prepared in conformance with, the guidelines and recommendations set forth in the Uniform Standards of Professional Appraisal Practice (USPAP), the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

The intended use and user of our report are specifically identified in our report as agreed upon in our contract for services and/or reliance language found in the report. No other use or user of the report is permitted by any other party for any other purpose. Dissemination of this report by any party to any non-intended users does not extend reliance to any such party, and CBRE will not be responsible for any unauthorized use of or reliance upon the report, its conclusions or contents (or any portion thereof).

It has been a pleasure to assist you in this assignment. If you have any questions concerning the analysis, or if CBRE can be of further service, please contact us.

Respectfully submitted,

CBRE - VALUATION & ADVISORY SERVICES

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Certification

We certify to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in or bias with respect to the property that is the subject of this report and have no personal interest in or bias with respect to the parties involved with this assignment.
4. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
5. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
6. This appraisal assignment was not based upon a requested minimum valuation, a specific valuation, or the approval of a loan.
7. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as well as the requirements of the State of Arizona.
8. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
10. As of the date of this report, Byron Bridges, MAI, MRICS has completed the continuing education program for Designated Members of the Appraisal Institute.
11. As of the date of this report, Susan M. Moore has completed the Standards and Ethics Education Requirements for Candidates/Practicing Affiliates of the Appraisal Institute.
12. This report considers the greater market area. Susan M. Moore and Byron Bridges, MAI, MRICS have not made personal inspections of all properties discussed in this report.
13. No one provided significant real property appraisal assistance to the persons signing this report.
14. Valuation & Advisory Services operates as an independent economic entity within CBRE, Inc. Although employees of other CBRE, Inc. divisions may be contacted as a part of our routine market research investigations, absolute client confidentiality and privacy were maintained at all times with regard to this assignment without conflict of interest.
15. Susan M. Moore and Byron Bridges, MAI, MRICS have provided multiple services, as appraisers, regarding several properties that are discussed in this report within the three-year period immediately preceding acceptance of this assignment.

Susan M. Moore, MAI
Vice President
Arizona Certified General Real
Estate Appraiser No. 31911

Byron Bridges, MAI, MRICS
Director
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Scope of Work

This consultation is intended to comply with the reporting requirements set forth under Standards Rule 2 of USPAP. The scope of the assignment relates to the extent and manner in which research is conducted, data is gathered, and analysis is applied.

INTENDED USE OF REPORT

This consultation report is to be used for analytical and evaluative purposes, and no other use is permitted.

CLIENT

The client is Pima County Real Estate Research Council.

INTENDED USER OF REPORT

This consultation report is to be used by the Pima County Real Estate Research Council (PCRERC) in service to PCRERC business, and no other user may rely on our report unless as specifically indicated in the report.

> Intended Users - the intended user is the person (or entity) who the appraiser intends will use the results of the appraisal. The client may provide the appraiser with information about other potential users of the appraisal, but the appraiser ultimately determines who the appropriate users are given the appraisal problem to be solved. Identifying the intended users is necessary so that the appraiser can report the opinions and conclusions developed in the appraisal in a manner that is clear and understandable to the intended users. Parties who receive or might receive a copy of the appraisal are not necessarily intended users. The appraiser's responsibility is to the intended users identified in the report, not to all readers of the appraisal report. [1]

PURPOSE OF THE APPRAISAL

The purpose of this report is to present a market analysis for industrial product within the Tucson MSA.

Type and Extent of the Data Researched

CBRE reviewed the following:

- Public records
- Market Inventory
- Market sales, leases, and listings
- Published market studies
- Various public websites and news publications

[1] Appraisal Institute, The Appraisal of Real Estate, 14th ed. (Chicago: Appraisal Institute, 2013), 50.

Type and Extent of Analysis Applied

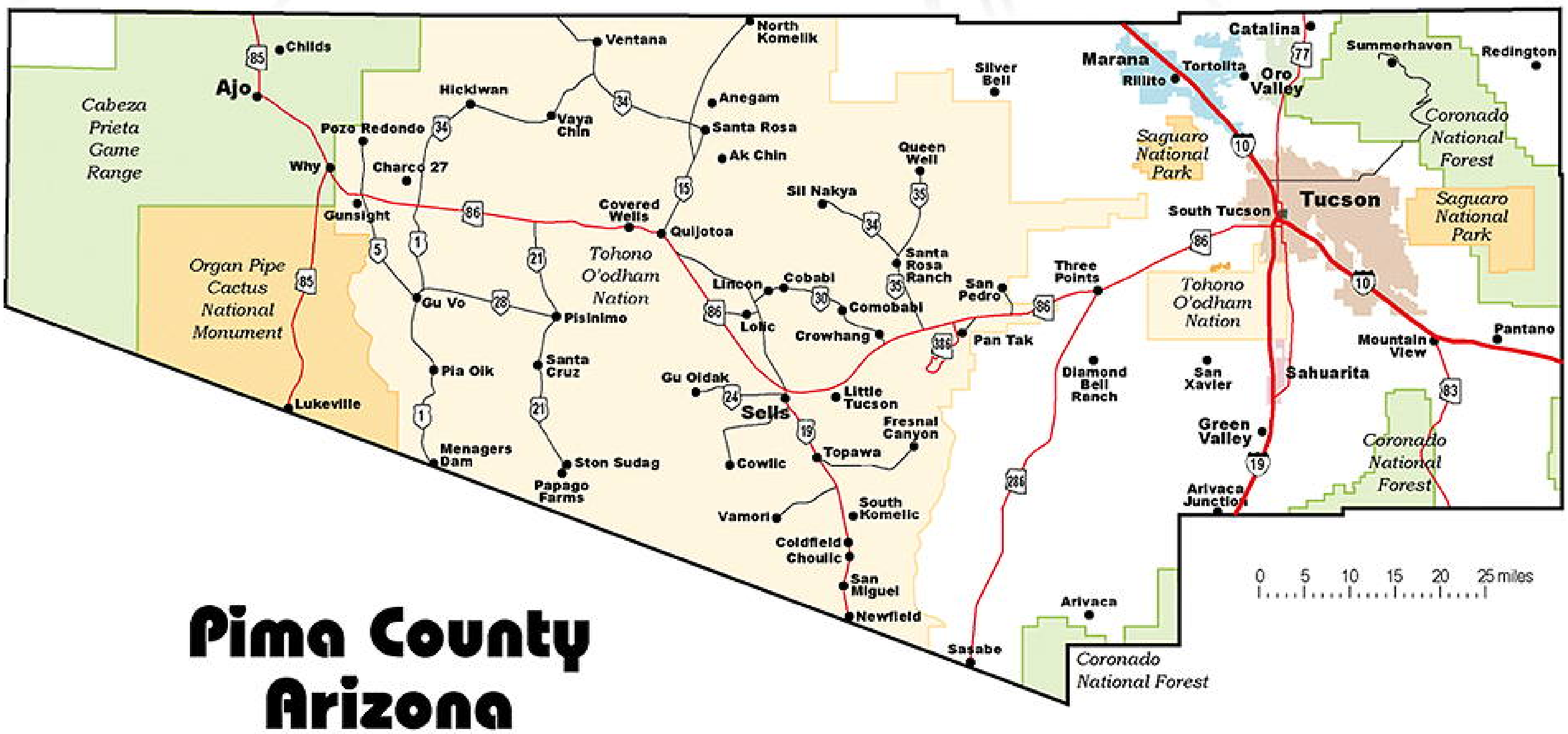
CBRE, Inc. analyzed the data gathered through the use of appropriate and accepted appraisal methodology to arrive at conclusions regarding the greater market.

Data Resources Utilized in the Analysis

In the course of gathering and analyzing data for this report, the consultants have utilized several data reporting services, including CoStar; several published market studies, CBRE MarketView Reports, and other publications from real estate firms throughout Tucson; and interviews with several market participants. CBRE would like to thank the following market participants for their willingness to be interviewed in the course of conducting research for this report:

- Jesse Blum, PICOR
- Stephen Cohen, PICOR
- Dean Cotlow, Cotlow Company
- Alex Demeroutis, PICOR
- Gary Emerson, GRE Partners
- Daniela Gallagher, Sun Corridor
- Rob Glaser, PICOR
- Tim Healy, CBRE
- Bill Kelley, Diamond Ventures
- Jackson Kraft, CBRE
- Ian Roark, Pima Community College
- Lisa Schlegel, Pima Community College
- Heath Vescovi-Chiordi, Pima County Economic Development

MAP OF PIMA COUNTY



CBRE

Demand

A BRIEF HISTORY

This analysis focuses on trends for the industrial market, with primary emphasis on changes over the past five years. These changes have been significant. A brief discussion of events that have influenced the industrial market are discussed below.

COVID-19

In the beginning of 2020, the onset of the COVID-19 pandemic changed, and continues to change, the way we do business and the real estate market overall.

The industrial market is one sector that benefitted from the COVID-19 pandemic. The first major impact was for the ecommerce market. The pandemic began with a brief six- to eight-week pause while suppliers and consumers waited to see what changes the pandemic would bring. Following this, the industrial market gained significant momentum.

Internet buying had been increasing for several years, and the pandemic accelerated this trend. Under quarantine, households became more heavily dependent on e-commerce. Additionally, certain “at-risk” demographics that were previously more resistant to online shopping were compelled to explore ecommerce as an alternative to in-person shopping.

Distribution was already undergoing a change from a “hub and spoke” operation, whereby companies would have one large distribution center and broad coverage via national delivery. As a result of the e-commerce industry that was already emerging prior to the pandemic, retailers were changing this approach by building a larger number of smaller warehouses in more markets, thereby enabling quicker delivery. The pandemic pushed forward the timeline for this type of development and cities previously on the “spoke” of this fading system were prime for development, including Tucson.

The huge wave of demand pushed the need for speculative projects, several of which have been developed or are currently under development in the Tucson MSA. However, the amount of speculative distribution space developed was likely well below what demand could have justified, at the time. One broker interviewed believes that Tucson could have supported roughly three times the development that was delivered during the early pandemic years. Tucson did not have a proven track record prior to the pandemic. Larger markets such as Phoenix did and were perhaps more primed for significant development because of this. Being a small market with a limited history, it has been difficult for a speculative builder to develop more than one project at a time.

Overall, the Tucson market has seen unprecedented growth over the past few years, and still there was likely some business lost due to Tucson’s slow pace.

Another impact of the COVID-19 pandemic that continues into the current market is that the ability to work remotely has resulted in out-of-state and city migration into Tucson. The ability to do one's job from any location has many people leaving larger, more expensive locations to areas with lower housing costs and a lower cost of living in general. There are a lot of people coming into Arizona from California for this very reason. People are also able to choose where to live based on lifestyle, and the quality of life in Tucson appeals to many.

Supply Chain Issues

A short while after the onset of the pandemic, supply chain issues resulted in shortages for many items nation-wide. China had a much stricter "zero-tolerance" policy during the pandemic and many manufacturing facilities were shut down. Additionally, China's strict anti-COVID-19 measures were in place through 2022. The United States, on the other hand, recognized essential businesses that were able to continue operating. With limited inventory coming in from Asia, retailers recognized the need for more localized warehousing for "just in time" supply and sought to store inventory in the United States or North America. As such, warehousing demand increased.

This also happened on a micro level. Several market participants reported that local businesses, whether plumbing, HVAC repair, etc., are using small warehouses for supplies. This way, these businesses don't lose clientele due to long wait times for materials.

Supply-chain issues have driven groups to control the supply chain instead of relying on imports from China. While ecommerce may have taken the lead during those early months, it soon became apparent that bringing manufacturing jobs back into the United States was also a priority. As will be demonstrated in the discussion of new development, presented later in this report, much of Tucson's growth over the past few years has also been related to manufacturing. Some believe that we are seeing a move toward "re-industrialization" across the nation.

For Tucson, trade with Mexico is poised to be very beneficial in the near- and mid-term. Tucson is an exceptional location for companies that partner with both the United States and Mexico, and is an excellent location for logistics, on account of its access to the Union Pacific Rail Road, proximity to the Mexico Border, and direct access to the Interstate-10 Highway, which transverses the southern states.

CHIPS AND SCIENCE ACT

With microchips in short supply, and heavy dependence on that technology, bringing the manufacturing of chips back to the United States became a high priority for the US Government. This was considered to be not only an economic issue, but also a national security issue. Significant government funds have been sourced for chips manufacturing.

The following is extracted from a White House Briefing Statement published on August 9, 2022:

> In President Biden's first year in office, the Biden-Harris Administration has implemented an industrial strategy to revitalize domestic manufacturing, create good-paying American jobs, strengthen American supply chains, and accelerate the industries of the future. These policies have spurred an historic recovery in manufacturing, adding 642,000 manufacturing jobs since

> 2021. Companies are investing in America again, bringing good-paying manufacturing jobs back home. The construction of new manufacturing facilities has increased 116 percent over last year.
>
> Today, President Biden will sign into law the bipartisan CHIPS and Science Act of 2022, which will build on this progress, making historic investments that will poise U.S. workers, communities, and businesses to win the race for the 21st century. It will strengthen American manufacturing, supply chains, and national security, and invest in research and development, science and technology, and the workforce of the future to keep the United States the leader in the industries of tomorrow, including nanotechnology, clean energy, quantum computing, and artificial intelligence.
>
> The CHIPS and Science Act will boost American semiconductor research, development, and production, ensuring U.S. leadership in the technology that forms the foundation of everything from automobiles to household appliances to defense systems. America invented the semiconductor, but today produces about 10 percent of the world's supply—and none of the most advanced chips. Instead, we rely on East Asia for 75 percent of global production. The CHIPS and Science Act will unlock hundreds of billions more in private sector semiconductor investment across the country, including production essential to national defense and critical sectors.

While the CHIPS and Science act has more directly impacted the Phoenix Market in terms of manufacturing, the availability of these items will directly impact other business throughout the State and Country, including Tucson. Three plants are currently under construction in the Phoenix MSA.

Taiwan Semiconductor Manufacturing Company (TSMC) has made a significant investment in the Phoenix market, announcing Phase II of its development in December 2022, raising its total investment to $40 billion. The following is extracted from an article published by AZ Central on December 6, 2022:

> Taiwan Semiconductor Manufacturing Co.'s massive economic investment in Arizona is about to get much bigger.
>
> The company announced construction of another factory during a visit by President Biden on Tuesday, where the president cited the massive complex as a sign that "American manufacturing is back, folks."
>
> Taiwan Semiconductor Manufacturing originally said it would invest $12 billion in the complex on a campus that spans nearly two miles by one mile, but the company marked the occasion by announcing it would more than triple its investment to $40 billion.
>
> That would mark the state's largest private-sector investment ever and one of the largest direct foreign investments anywhere in the United States.

Intel, already operating in the Phoenix MSA, is developing two additional factories at its existing Chandler campus. The following is extracted from an article published by AZ Central on March 23, 2021:

> Computer chip giant Intel announced Tuesday that it will spend $20 billion to build two additional factories in Arizona, a move heralded as the largest private-sector investment in the state's history.

The new factories will employ more than 3,000 workers and will locate at Intel's current campus in Chandler, the company said.

“We are setting a course for a new era of innovation and product leadership at Intel,” said CEO Pat Gelsinger in a speech broadcast to the Chandler complex. He said the project also would create 3,000 construction jobs and 15,000 "local long-term jobs" at suppliers and others around the state.

"Hundreds of local companies stand to benefit from our announcement today," Gelsinger said, adding that planning and construction will start immediately.

"To make our new expansion in Arizona possible, we are excited to be partnering with the state of Arizona and the Biden administration on incentives that spur this type of domestic investment," he added.

Rising Construction Costs

As a result of supply chain issues, material costs have increased substantially, even doubled, over the past few years. This has, unfortunately, made speculative development more difficult as higher construction results in substantial rental increases. A feasibility analysis is presented in greater detail at the end of this report. Presented in the chart below is a side-by-side feasibility analysis that compares a study of today’s costs against 2019 figures (as presented in a 2019 report written for PCRERC):

FEASIBILITY RENT

	2019 Study	2023 Estimates
Site Acquisition	$10	$10
Construction Costs per SF	$90	$150
15% Entrepreneurial Profit	$15	$24
Total Cost	**$115**	**$184**
x rate of return	8%	9%
Annual Feasibility Rent (NNN)	**$9.20**	**$16.56**
Monthly Feasibility Rent (NNN)	**$0.77**	**$1.38**

Source: Marshall & Swift Valuation Service, Appraiser's Estimate

Demand for new product is still very high. However, the cost to develop has hindered development.

LABOR SHORTAGE

In addition to a materials shortage, labor has also been in short supply. Development surged across the nation. Within Arizona, nearly 40 million square feet are under construction in Phoenix. Development in Tucson is unprecedented at roughly 1.8 million square feet. As a result, it is difficult for subcontractors in Tucson to find the laborers needed. Contracting companies are offering signing bonuses and highly competitive wages to their subcontractors. With so many development projects under way, contractors are in high demand and are able to bid work at a significant increase over prior years.

Interest Rates

Most recently, the Federal Reserve has increased mortgage interest rates in an effort to restrain high inflation. The chart below is extracted from the macrotrends.com website and illustrates historical treasury rates from 1962 to present:

While rising interest rates have been a deterrent some investors, most of the market participants interviewed suggest that the increase in interest rates hasn't had nearly as significant an impact as rising construction costs. While interest rates do affect the return on cost for speculative developments, the cost of construction presents a much greater obstacle.

Further, interest rates aren't as relatively high when a broader history is considered. As illustrated in the chart above, current rates are still below the average since 1971. Although there has been a significant jump in a very short period, borrowers will likely reset to the "new normal" in time, and borrowing will continue. This does impact a developer's return, but according to many interviewees, the increase in interest rates is not the primary obstacle in today's market.

DEMAND DRIVERS

Tucson is an excellent location for logistics, technology, mining, bioscience, and aerospace & defense, among others. Logistics and manufacturing appear to have taken center stage for recent development, but largely in part to the impacts of the COVID-19 pandemic. Historically, Tucson has been a hub for Research and Development, but in recent years a lot of growth has been on the manufacturing side, whether for the tech industry, mining industry, or autonomous vehicles.

Economic Growth

Below is a discussion of recent economic growth. Please note that this is not a comprehensive list, but rather features development that was highlighted in market participant interviews.

AMAZON

In May 2018, Amazon officially announced plans to develop an 857,400-square-foot fulfillment center on a ±94-acre site at the Port of Tucson. To date, Amazon has developed a total of four facilities in Pima County. These include the following:

AMAZON DEVELOPMENTS

Name	Address	Square Feet	Year Built
Amazon Distribution Center	6701 S. Kolb Road	857,400	2019
Amazon Distribution Center	775 W. Silverlake Road	49,500	2019
Amazon Distribution Center	3550 E. Corona Road	278,670	2021
Amazon Distribution Center	7300 N. Silverbell Road	220,000	2022
Total		**1,405,570**	

Source: CoStar

Shortly after announcing development of their first fulfillment center in 2018, Amazon announced that they would also be constructing a support facility for "last-mile" delivery. This smaller facility was quickly deemed to be too small and frequently has a line of Amazon vans lined up on the road waiting for access. The two subsequent facilities are much larger centers developed on larger sites.

There has reportedly been a change in management and philosophy at Amazon. After several years of fast-paced development, Amazon has paused construction across the nation. Here in Pima County, the Silverbell facility remains vacant. After exploring options, including the potential to sell, Amazon currently intends to occupy the building at a future date. Additionally, Amazon has additional land adjacent to their first development that was slated for future expansion. Amazon's plans for this site are unknown.

The following photo of the Amazon Silverbell facility was extracted from the Arizona Daily Star:

Please note that Amazon is very unique and does not necessarily reflect the trends of the broader market. While the facility on Silverbell currently sits vacant, this is a result of Amazon's significant push to build, followed by a change in company philosophy. The majority of those interviewed suggested that this does not reflect a general over-building of distribution space. Demand for logistics appears to remain strong.

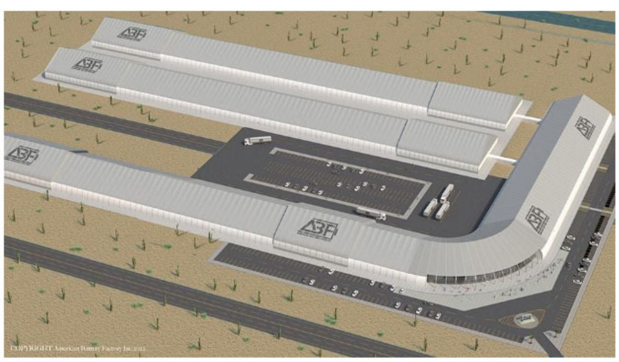
AMERICAN BATTERY FACTORY

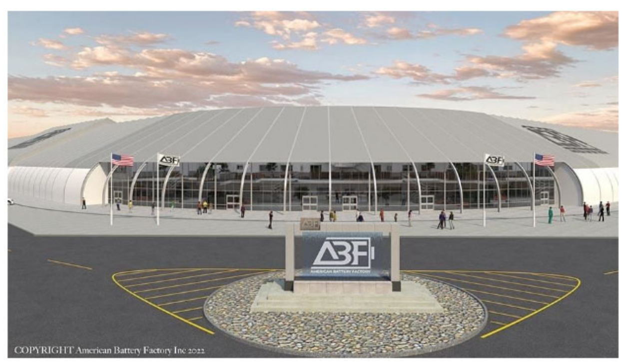
The American Battery Factory (ABF) story is perceived by many to be a "win" for the Tucson market. ABF was initially looking a greater Phoenix market as the CEO had ties to Scottsdale; however, they were unable to find the right property that they thought they needed. AZ commerce authority reached out to Sun Corridor to show Tucson sites for potential development. Being one of the few remaining "shovel-ready" sites in Tucson, The Aerospace Research Campus was ultimately chosen, as it had the infrastructure in place and was able to keep up with ABF's preferred timeline to be operational.

This is also a big win for the Tucson area in general, as the community came together to show a unified effort. When ABF came to Tucson, all of the parties involved came together Pima County, Development Services, Tucson Electric Power, Southwest Gas, Union Pacific, etc. ABF was reportedly impressed by this effort. Tucson had both the land ABF needed and community support.

ABF has begun the permitting process, and is now working with the University of Arizona and Pima Community College to help satisfy their labor needs. A more in-depth discussion of the programs at these institutions and how they impact growth will be presented later in this report.

The following rendering is extracted from American Battery Factory's website:





As stated on the American Battery Factory website, "American Battery Factory Inc., a Lithium Iron Phosphate (LFP) battery cell manufacturer, is developing the first-ever network of safe LFP cell giga-factories in the United States. The company is dedicated to making energy independence and renewable energy a reality for the United States by creating a domestic battery supply chain. Along with creating domestic manufacturing jobs, ABF will play a crucial role in meeting federal and state government climate change initiatives and "Made-in-USA" national security requirements."

The following is extracted from a press release published on December 6, 2022 by American Battery Factory's website:

> Arizona Governor Doug Ducey and Paul Charles, President and CEO of American Battery Factory (ABF), today announced that Tucson, Ariz. has been selected as the site for the first in a planned series of battery cell gigafactories based in the United States. The site will serve as ABF's official headquarters and will be the country's largest gigafactory for the production of lithium iron phosphate (LFP) battery cells at nearly 2 million square feet, providing an estimated $1.2 billion in capital investment, $3.1 billion in economic impact to the state and accelerating the growth of the clean energy economy across the country. Approximately 300 high-paying jobs will be provided in the first phase of the factory's opening, scaling up to 1,000 cumulative jobs. Positions include operations, production, scientific and technology jobs including research and development, automation and robotics, executive and other headquarter positions.
>
> To be located on 267 acres in Pima County's renowned Aerospace Research Campus – close to world-class companies like Raytheon Missiles & Defense – ABF's headquarters will be the home of energy storage innovation, with opportunities for new technology development. Through rapid modular construction the company plans to have the headquarters, R&D center and initial factory module built within the next 18 to 24 months. Using cutting-edge construction technology, the building will greatly limit waste at the site, be airtight and will ensure the protection of the battery cells during production.
>
> With high-capacity border and transportation infrastructure, Tucson is an ideal fit for ABF's vision and will provide the necessary access to ship battery cells to nearby markets. Plans for the gigafactory aim to enhance Pima County's already growing economy and support Arizona's business community by cultivating an environment that fosters innovation as well as attracting and retaining residents to the Tucson economy.

TU SIMPLE

With the help of Diamond Ventures, TuSimple developed at 50,000-square-foot expansion for its research and development in 2022.

The following is extracted from Tu Simple's Website:

> On December 22, 2021, TuSimple made history by becoming the world's first to operate a fully autonomous semi-truck run on open public roads without a human on board while naturally interacting with other motorists. The TuSimple Driver Out program required our upfitted self-driving truck to travel on surface streets and highways, to safely navigate traffic signals, emergency lane vehicles, on- and off-ramps, and highway lane changes in open traffic.
>
> Driver Out represents an exciting step in the evolution of self-driving trucking. It also provided crucial validation of the safety of our L4 self-driving truck technology.

The following is extracted from a news article published on October 6, 2022 by the Arizona Daily Star:

> Self-driving truck developer TuSimple has more room to grow in Tucson after christening a new facility at its development center and terminal on East Old Vail Road.

Gov. Doug Ducey and local officials were on hand Thursday for a formal ribbon-cutting event at the new, 35,000-square foot office, lab and warehouse space.

TuSimple Chairman and CEO Xiaodi Hou said TuSimple's technology can significantly improve traffic safety, reduce trucking fatalities and help relieve current supply-chain shortages, citing a shortage of an estimated 80,000 truck drivers.

Partnering with truck makers including Navistar, Peterbilt and Traton, and shippers including UPS and the U.S. Postal Service, TuSimple has been testing its self-driving trucks with monitor drivers along Interstate 10 from its Tucson site since 2017. More recently, the company has logged more than 500 miles of completely driverless runs in cooperation with transportation and law enforcement.

The company, which is subject to a federal probe of a minor crash involving a TuSimple truck in April, hopes to win federal approval for autonomous truck runs by 2024.

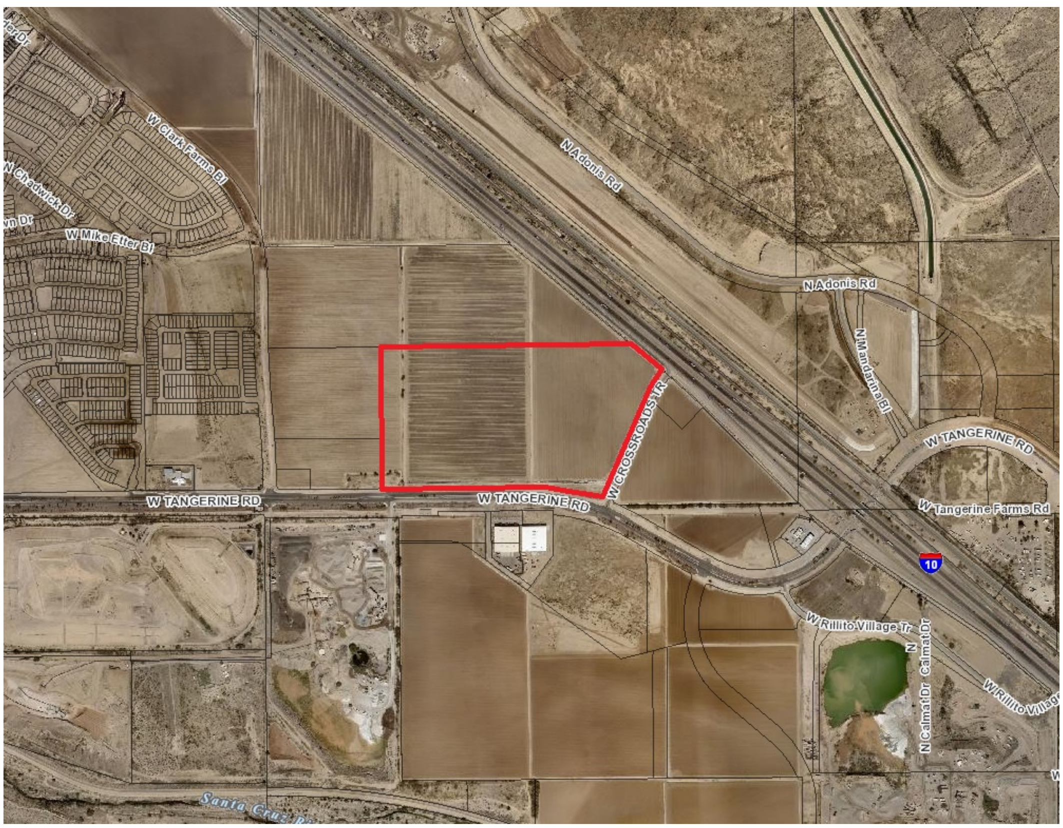
With the new building, San Diego-based TuSimple has roughly doubled the footprint of its Tucson operation, which after the company added about 100 jobs in the past two years now employs about 300 workers.

SHAMROCK FARMS

Shamrock Farms has purchased an 81-acre site in the NW Tucson / Oro Valley Submarket for development of a cold storage / distribution facility.

The following is extracted from a news article published on September 30, 2022 by The Real Estate Daily News:

> Shamrock Foods Company purchased 81 acres at Crossroads at Gladden for $18,153,630 ($5.15 PSF). The property was block patted only and represents block 6 that sold.
>
> The buyer, purchased for construction of a cold storage / warehouse/ distribution center that will be owner occupied by Shamrock Farms.
>
> Crown West Land Group of Tucson c/o Dean Wingert is the seller. Crown West purchased 288 acres known as Crossroads at Gladden at I-10 and Tangerine, adjacent to its successful master planned community, Gladden Farms.
>
> Amazon had considered this site for a distribution center before choosing Silverbell and Ina where they are under construction.
>
> Shamrock Foods is an Arizona family business success story that celebrated 100 years of business this year. Beginning in 1922 in Tucson as a family dairy with 20 cows, a truck and a dream, the McClelland's entrepreneurial spirit grew Shamrock Foods Company into a recognized dairy innovator and leader in restaurant and foodservice distribution industry, while staying true to its roots as a family-held company.



EPIROC

Epiroc, a mining technology manufacturing company, recently signed a lease restructure for its existing building at 6393 S. Campbell Avenue. The new lease included 3.4 acres of land directly south of the existing property. Epiroc plans to develop an expansion on the vacant site and is waiting for permits to be approved. The aerial image below, taken from Pima County's GIS website, outlines the existing building and planned development area.

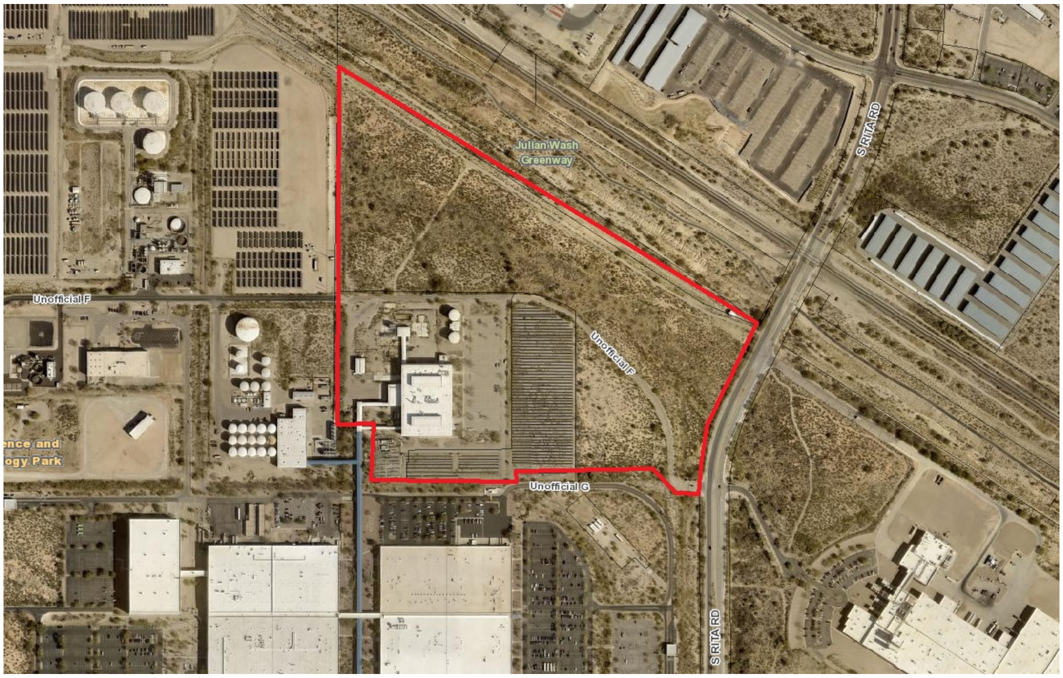
The 10-year lease is valued at roughly $2.4 million, and Epiroc is reportedly not finished expanding with two more developments planned for a future date. Epiroc has been in Tucson for about 15 years and has completed eight different remodels / expansions since they've occupied this building. The Swedish-owned company is reportedly redeveloping much of their real estate across the country, Canada, and South America. The Tucson location is said to be the number one remanufacturing plant in the world out of a total of only four locations. Epiroc is relying on the Tucson workforce for this ongoing expansion.

CHROME HEARTS

Chrome Hearts, a jewelry and luxury brand clothing manufacturer out of Los Angeles, acquired a 116,000-square foot manufacturing building at 8500 S. Rita Road in Jan 2023. The adjacent site, totaling 35.07 acres, was also purchased in November 2022. Due to the rising cost of construction, Chrome Hearts determined it best to purchase an existing building that will require retrofitting prior to occupancy. To the best of the consultant's knowledge, the adjacent site will be held for future development. The following is extracted from a news article published on January 26, 2023 by the Real Estate Daily News:

> While it began in an LA garage, the brand, Chrome Hearts, now occupies three blocks in Hollywood, a 250,000-square-foot campus that includes thirteen buildings, eight factories, and this new industrial site in Tucson for an undisclosed use.

The aerial image below, taken from Pima County's GIS website, outlines the existing building and planned development area.



Speculative Development Projects

In addition to the build-to-suit and expansion projects discussed above, the large majority of market participants interviewed heavily emphasized Tucson's speculative development for industrial real estate.

The consultant conducted a market study for PCRERC in 2019. At that time there were two speculative construction projects underway: the Rockefeller Distribution Center (157,500 square feet) and a 230,000-square-foot distribution building at the Port of Tucson, both being developed by Schnitzer Properties (formerly Harsch Investment Properties).

The following is extracted from the 2019 market study:

> The general market opinion is that rents do not currently cover the cost of development for speculative product. As an outpost to other large markets (including Phoenix), Tucson has a low risk tolerance for speculative product. This does, however, create some issues with potential investors coming into the market. As of now, Tucson must focus its efforts on companies looking for build-to-suit projects, because the existing inventory is limited and generally functionally obsolete (as discussed above).
>
> Many market participants are watching the Harsh development to gauge its level of success. Because Harsh is a family business with good capital, they are perceived as being uniquely positioned to build spec on a trial basis. Until then, most investors / developers are waiting to see if the Tucson market can sustain speculative product. Should Harsch succeed, it seems likely that others will do the same.

The above-mentioned developments were fully leased prior to the completion of construction, clearly illustrating that demand was sufficient to cover the cost of construction. Now, there are no longer one or two outliers being built on a speculative basis, and current speculative construction includes large-scale projects representing millions of dollars in investments. These are primarily in the NW Tucson / Oro Valley and SW Tucson / Airport submarkets. Those interviewed have said that never before has Tucson had so many institutional developers that currently own land in Tucson. Below is a discussion of several of these speculative projects. Please note that this is not a comprehensive list, but rather features development that was highlighted in market participant interviews.

SCHNITZER PROPERTIES

The first speculative property developed over the past several years was the Rockefeller Group Distribution Center, a 157,000-square foot distribution center located in the SW Tucson / Airport submarket. This building, developed in 2019, was pre-leased before the shell was completed, proving that the needed lease rates to provide a developer the desired return was feasible. Today, the "sister building" on an adjacent site, known as Tucson Airport Center II is largely completed (to shell condition) with the exception of one last bay. Building B within Tucson Airport Center II is proposed for future development, and will consist of roughly 142,000 square feet. The broker who represents Schnitzer Properties reports that every spec project they have built in the last four years has been fully leased before the shell was complete.

The following photo of the Tucson Airport Center II is taken from the Pima County Assessor's website:

FLINT

Flint Development currently has two large projects underway in the NW Tucson / Oro Valley submarket. The Southern Arizona Logistics Center has a total of 1,789,475 square feet across five buildings. Tucson Commerce Center has a total of 806,606 square feet across three buildings. Both of these projects are under construction and are pre-leasing activity is reported to be strong with several letters of intent received from potential tenants.

The following images are extracted from the listing brochures for these developments. Please note that asking rents have been withheld from the marketing information for these projects.

SOUTHERN ARIZONA LOGISTICS CENTER

BUILDING SPECS

	BUILDING 1	BUILDING 2
Building SF	±511,412 SF	±435,023 SF
Total Site Area	±31.49 AC	±31.79 AC
Auto Parking	259 spaces	243 spaces
Trailer Parking	150 spaces	133 spaces
Clear Height	36'	36'
Column Spacing	54' x 50' 54' x 60' speed bay	54' x 50' 54' x 60' speed bay
Exterior Walls	Reinforced tilt-up concrete wall panels with textured painted finish	Reinforced tilt-up concrete wall panels with textured painted finish
Structural Steel	10 x 10 columns/ Steel bar joists / White roof deck	10 x 10 columns/ Steel bar joists / White roof deck
Slab Construction	7" unreinforced | 4,000 PSI	7" unreinforced | 4,000 PSI
Vapor Barrier	2 bays of 15 mil vapor barrier under the slab at each building corner	2 bays of 15 mil vapor barrier under the slab at each building corner
Dock Doors	52 Built / 54 Future / 106 Total	44 Built / 44 Future / 88 Total
Drive-In Doors	4	4
Roofing	45 mil white TPO with R-38 insulation	45 mil white TPO with R-38 insulation
HVAC	Make-up air units to maintain 55 degrees minimum	Make-up air units to maintain 55 degrees minimum
Fire Protection	ESFR	ESFR
Electrical Service	3000 amps 480/277V	3000 amps 480/277V
Lighting	LED, 30 F.C.	LED, 30 F.C.
Office	Build to Suit	Build to Suit

ALL MEASUREMENTS ARE APPROXIMATE

SOUTHERN ARIZONA
LOGISTICS CENTER

BUILDING SPECS

	BUILDING 3	BUILDING 4	BUILDING 5
Building SF	±37,500 SF	±583,200 SF	±222,340 SF
Total Site Area	±5.39 AC	±38.36 AC	±21.23 AC
Auto Parking	45	366 spaces	214 spaces
Trailer Parking	2	148 spaces	54 spaces
Exterior Walls	Reinforced tilt-up concrete wall panels with textured painted finish	Reinforced tilt-up concrete wall panels with textured painted finish	Reinforced tilt-up concrete wall panels with textured painted finish
Structural Steel	12 x 12 columns/ Steel bar joists / White roof deck	10 x 10 columns/ Steel bar joists / White roof deck	10 x 10 columns/ Steel bar joists / White roof deck
Slab Construction	7" unreinforced | 4,000 PSI	7" unreinforced | 4,000 PSI	7" unreinforced | 4,000 PSI
Vapor Barrier	2 bays of 15 mil vapor barrier under the slab at each building corner	2 bays of 15 mil vapor barrier under the slab at each building corner	2 bays of 15 mil vapor barrier under the slab at each building corner
Dock Doors	2	58 Built/56 Future/114 Total	22 Built/34 Future/56 Total
Drive-in Doors	2	4	2
Roofing	45 mil white TPO with R-38 insulation	45 mil white TPO with R-38 insulation	45 mil white TPO with R-38 insulation
HVAC	Make-up air units to maintain 55 degrees minimum	0.06 CFM/SF Ventilation, No MAUs installed w/initial shell construction	0.06 CFM/SF Ventilation, No MAUs installed w/initial shell construction
Fire Protection	ESFR	ESFR	ESFR
Electrical Service	800 amps 480/277v	3000 amps 480/277v	2000 amps 480/277v
Lighting	LED, 30 F.C.	LED, 30 F.C.	LED, 30 F.C.
Office	Build to suit	Build to suit	Build to suit

ALL MEASUREMENTS ARE APPROXIMATE


TUCSON COMMERCE CENTER
THREE HIGH CUBE WAREHOUSES
EASY ACCESS TO INTERSTATE 10
AVAILABLE FOR LEASE OR SALE 2Q 2023
UNDER CONSTRUCTION - SLABS POURED
Building 1 - 3610 E Valencia Rd
±85,668 SF (divisible)
Building 2 - 3780 E Valencia Rd
±259,274 SF (divisible)
Building 3 - 6690 S Alvernon Way
±244,889 SF (divisible)
SWC ALVERNON WAY & VALENCIA ROAD | TUCSON, ARIZONA 85756

TUCSON COMMERCE CENTER

BUILDING SPECS

	BUILDING 1	BUILDING 2	BUILDING 3
Building SF	±302,443 SF	±259,274 SF	±244,889 SF
Total Site Area	±17.35 AC	±15.25 AC	±14.98 AC
Auto Parking	241 spaces	209 spaces	203 spaces
Trailer Parking	78	63 spaces	55 spaces
Clear Height	32'	32'	32'
Column Spacing	54' x 50' 54' x 60' speed bay	54' x 50' 54' x 60' speed bay	54' x 50' 54' x 60' speed bay
Exterior Walls	Reinforced tilt-up concrete wall panels with textured painted finish	Reinforced tilt-up concrete wall panels with textured painted finish	Reinforced tilt-up concrete wall panels with textured painted finish
Structural Steel	10 x 10 columns/ Steel bar joists / White roof deck	10 x 10 columns/ Steel bar joists / White roof deck	10 x 10 columns/ Steel bar joists / White roof deck
Slab Construction	7" unreinforced | 4,000 PSI	7" unreinforced | 4,000 PSI	7" unreinforced | 4,000 PSI
Vapor Barrier	15 mil | Under the slab at entire front bay	15 mil | Under the slab at entire front bay	15 mil | Under the slab at entire front bay
Dock Doors	30	26	24
Drive-In Doors	2	2	2
Roofing	45 mil white TPO with R-38 insulation	45 mil white TPO with R-38 insulation	45 mil white TPO with R-38 insulation
HVAC	Make-up air units to maintain 55 degrees minimum	Make-up air units to maintain 55 degrees minimum	Make-up air units to maintain 55 degrees minimum
Fire Protection	ESFR	ESFR	ESFR
Electrical Service	2000 amps 480/277V	2000 amps 480/277V	2000 amps 480/277V

ALL MEASUREMENTS ARE APPROXIMATE

LINCOLN PROPERTY COMPANY

In June 2022, Lincoln Property Company purchased a 78-acre tract of land at Alvernon Road & Los Reales Road from Diamond Ventures. The purchase price was $6,500,000, or $1.91 per square foot of land. This is a $260 million project totaling ~986,600 square feet across four buildings. The project is called I-10 International. The first phase of development will include three buildings averaging 170,000 square feet each, while the second phase of development will be a 476,000-square-foot distribution center.

This projected is waiting for permits and ought to break ground soon. The ownership did a direct lease with a back-office tenant prior to breaking ground. The rest of the planned development remains speculative. It is noted that the details of this lease were not disclosed for this report, and the marketing information suggests that all building area is available for lease. The asking rates are not disclosed on the marketing materials for this development.

The following is extracted directly from the LPC Desert West website:

> "I-10 International is a premier Class A industrial park consisting of four buildings that total 1,000,000 SF. When complete, I-10 International will provide maximum functionality, featuring: 32'- 36' clear height, R-38 insulated roof deck system, full concrete truck courts and glass entrances. The building will also offer creative amenities that are often only found in Class A office buildings – touchless technology at all entries/exits, generous use of clerestory

windows to let in abundant natural light and a best-in-class outdoor amenity space to include shaded and landscapes areas, built-in barbeque equipment and seating for outdoor relaxing, dining and games.

"Located at the southeast corner of Alvernon Way and Los Reales Road in Tucson, Arizona, I-10 International sits within a world-class e-commerce market, home to companies like Amazon, Home Goods, Pepsi, FedEx, DHL, Intuit, Raytheon and more.

"The project is two miles from a full-diamond interchange at I-10 and Valencia Road and is located within a Foreign Trade Zone. With superior access, supply chain will be directly connected with major ports and major cities in all directions. I-10 International provides users with the ability to distribute product to 46 million people within a 500-mile radius."

The following is extracted from the listing brochure from this development:

SITE PLAN

THE BUILDING FEATURES

- FTZ Capable
- 3,000 Amp, 277/480 Volt power (expandable)
- Touch-less Technology throughout project
- Steel Moment Frame Shear Bracing
- 5'-0" X 5'-0" Clerestory Windows on all elevations
- White reflective 60 mil TPO roof membrane
- Outdoor Amenity Space
- ESFR fire-sprinkler system
- 7" Slab Thickness over 4" Crushed Rock
- 14' Tall Glass Entries

PHASE I

	BUILDING A	BUILDING B	BUILDING C
BUILDING AREA:	±188,434 SF	±158,944 SF	±214,867 SF
NET SITE AREA:	11.7 ACRES	8.5 ACRES	11.7
BUILDING HEIGHT:	32' CLEAR	32' CLEAR	32' CLEAR
BUILDING DEPTH:	260'	240'	240'
CAR PARKING:	249	203	315
TRAILER STALLS:	18	6	9
DOCK DOORS:	41	31	45

PHASE II

BUILDING D

BUILDING AREA:	±476,000 SF
NET SITE AREA:	29 ACRES
BUILDING HEIGHT:	36' CLEAR
BUILDING DEPTH:	470'
CAR PARKING:	458 (EXPANDABLE TO 535)
TRAILER STALLS:	143
DOCK DOORS:	98

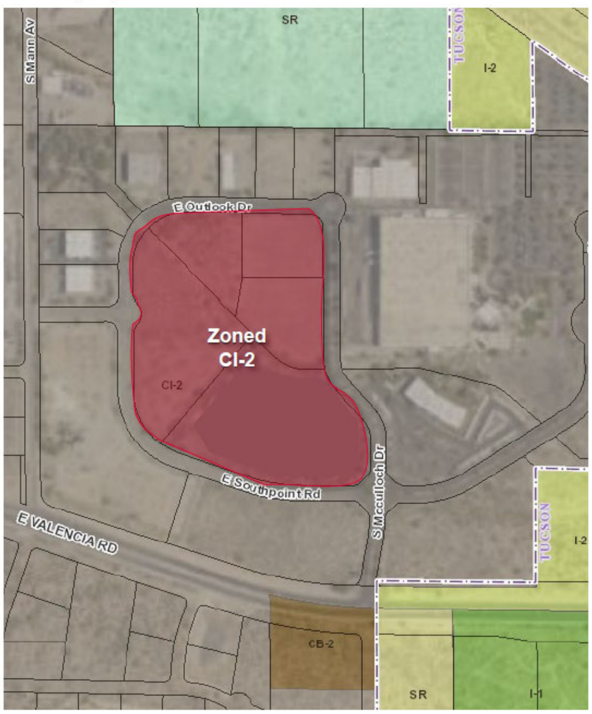
SOUTHPOINT

On April 24, 2023, a new speculative development in the Southpoint master-planned park was announced – Lots 22-26 located at the Northwest Corner of Southpoint Road and McCulloch Drive. This project will include two buildings totaling 187,452 on 11.14 acres, and is expected to deliver in Q2 2024. The following images are extracted directly from the listing brochure. It is noted that asking rates are not disclosed in the marketing materials.

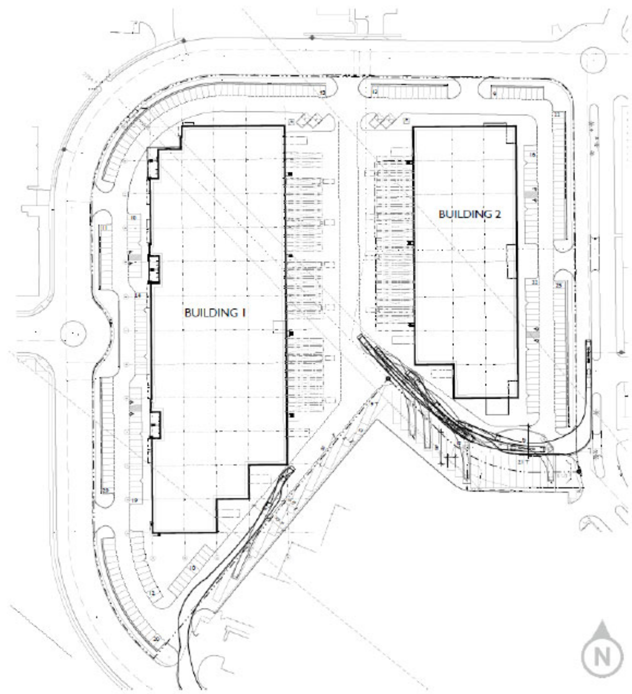
Property Highlights

- Located in Kolb – Valencia submarket
- Master-planned park – Southpoint - Home to Rainbird, Parker-Hanifan Corp and CARF
- Nearby 850,000 SF Amazon distribution facility
- New planned manufacturing / distribution projects in the area for 2022
- Zoned CI-2 (Heavy Industrial – Pima County)
- * Property is in the vicinity of Davis Monthan Air Force Base, may be subject to restrictions

Zoning Map



Site Plan



Building Details	
Office SF	To Suit
Lot Size	485,121 Sq. Ft. (~11.14 Acres)
Total Gross Building Area	187,452 SF Building Area 1: 122,308 SF Building Area 2: 65,144 SF
Ceiling Height	32'
Loading	Total Dock Positions Provided: 39-45 Docks Total Grade Doors Provided: 4-7 Grade Doc
Power	2-2,000 Amp, 277/480 Volt, 3 Phase Entran
HVAC	AC in Office, EVAP in Warehouse (To Suit)
Sprinkler	ESFR
Construction	Tilt-Up
Delivery	4th Quarter, 2023
Parking	266 Spaces (1.4 / 1,000)
Zoning	CI-2 (Heavy Industrial – Pima County)

CAMPBELL LANDING

Campbell Landing presents a spec construction option that is unique in the current market. While the majority of speculative projects are large distribution centers offering suites of 50,000 square feet or more, Campbell Landing is the only new construction project that offer smaller suites of roughly 5,000 to 10,000 square feet.

Campbell Landing consists of four 10,000-square-foot buildings located East of Tucson Boulevard, north of Valencia Road. The first two buildings should be completed by May, with the second two being delivered into the market in July. To date, no spaces have been pre-leased; however, the listing broker reports that they are currently under negotiations with a national tenant to take full occupancy of one of the buildings. No other activity was noted.

For this project, construction is being completed by the ownership at a cost of $150 to $160 per square foot, which includes the land cost of roughly $4.25 per square foot. The asking rate is $1.09 per square foot per month, NNN ($13.08/SF annually).

The broker reports that the developer is looking for a 9% return on cost for this project; however, a 9% return on cost would suggest that a slightly higher rental rate is needed. Several market participants have stated that the return on cost is achieved not with the starting rate, but within the first three years of escalations. It appears that this is the case for Campbell Landing as well. At a starting rate of $1.09 per square foot, the 9% return on cost will be met in two or three years, assuming a 3% annual increase.

The following rendering is extracted from the Campbell Landing listing on Loopnet:

Land Speculation Projects

When it comes to current land speculation projects, the dynamics have unfortunately changed. Similar to 2019, developers are again hesitant to build on a speculative basis because of the costs of construction. It is difficult to know if the needed rents will be sufficient to cover the cost to build and provide an adequate return on cost to the developer. Market rents that are the best comparable data are based on building pricing from 12-18 months ago, and pricing has increased significantly. Some report that buildings costs have doubled.

Historically, smaller companies have been accustomed to paying rents of $0.70 to $0.85 per square foot, NNN for older buildings. New construction would require a starting rate of $1.00 to $1.10 per square foot to be feasible. These rates are difficult to achieve with smaller, local tenants.

Recent trends indicate that it is very difficult to get leases signed prior to breaking ground; however, many developers are hesitant to start development before knowing for certain what lease rates will be achieved. As such, developers and tenants are each waiting for the other to move first. A number of developers have put projects on hold and are trying to figure out how to build when construction is so costly.

The increase in interest rates has also widened the gap between cost and required lease rates, although this is a small deterrent as compared to construction costs overall.

That being said, Tucson is still highly undersupplied. Vacancy is at about 2.5%, and market participants generally agree that most of the vacant space is functionally obsolete. True vacancy on functional space is extremely limited. Many developers hope this means that lease rates will be driven upward.

Simply put, institutional developers are in the business to build and they are currently building in other markets, some with more competitive environments than Tucson. Further, many other markets have much more inventory under construction, whereas the Tucson market has relatively less competition. Over time, it is likely that developers will build on a speculative basis with the anticipation that they will be able to achieve the necessary rental income because of high demand.

Additionally, several market participants have stated that the return on cost is achieved not with the starting rate, but within the first three years of escalations. So, while the starting rates represent a significant increase over existing inventory, the base rate is slightly low to make construction feasible. The feasibility of new construction relies upon projected rate increases in the first few years of a new lease.

Despite all this, inventory is limited, and demand is high. With limited alternatives, it seems likely that these new rental rates will have to be accepted to accommodate pent-up demand, although this will likely take some time as prospective tenants adjust to the “new normal.”

BUZZ OATES

Buzz Oates, a Sacramento-based commercial development company, purchased 97 acres of land in January 2023. This was a combination of three land acquisitions, including a site that was previously platted for an industrial business park.

The First Phase of development is in the planning stages and will include roughly 45,000 square feet. This phase is expected to deliver mid-2024.

Buzz Oates development company benefits from having their own general contractor. This ought to abate labor supply issues, enabling them to bring existing subcontractors in from other markets.

BOURN COMPANIES

In February 2023, Bourn Companies purchased 390 acres of industrial-zoned land along I-10 between Colossal Cave and State Route 83 for $7.65 million. This was purchased for a mixed-use development with commercial, industrial, and residential development. This will be similar to other Bourn development projects including The Bridges.

SCHNITZER PROPERTIES

In September 2022, Schnitzer Properties purchased the former Tucson International Raceway for $76,000,000, or $1.77 per square foot. Although improved with five small buildings, a racetrack and grandstands, the site was purchased for the land and will be redeveloped for industrial use.

PIMA COUNTY AEROSPACE RESEARCH CAMPUS

Pima County Aerospace, where American Battery Factory will be building, totals roughly 400 acres. Of this, 285 acres are off the market. Sun Corridor reports that there is another project in final negotiations, although the details are confidential. Should this project move forward, the Pima County Aerospace Research Campus will have only ~50 acres remaining for future development.

MARKET FEASIBILITY RENT STUDY

As has been mentioned throughout this report, market participants generally agree that rising costs of construction have negatively impacted the feasibility of new construction. The feasibility study below addresses appropriate market rent levels for speculative construction. As R&D development has been limited to build-to-suit activity over the past several years, this analysis considers the industrial warehouse and distribution market.

The consultants emphasize that these are very general cost estimates based on our interviews, and are subject to change based on the specifications of an actual user. While this study provides general insight into the overall market, it is not meant to provide conclusive evidence regarding potential construction, as individual requirements must be carefully considered.

SITE ACQUISITION

Site acquisition costs vary depending on location within the market. Based on sales data and the opinions of market participants, a site cost of $2.50 per square foot is used for this analysis. It is noted that sites within business centers are typically more expensive because of the infrastructure costs that have been put in place. Additionally, these are typically smaller sites reserved for smaller developments as compared to the large-scale industrial developments discussed previously in this report. For this analysis, those costs are captured in development, and are not attributed to land value.

The market feasibility analysis is based on cost per building area; therefore, a conversion from cost per square foot of land to cost per square foot of building area is necessary. Site coverages range from roughly 25% to 30% for industrial product. Based on the increasing demand for yard space and maneuverability, an estimated site coverage ratio at the low end of the range is used. A site acquisition cost of $10 ($2.50/SF ÷ 25% site coverage) is used for this analysis..

CONSTRUCTION COSTS

Various resources were referenced in order to derive estimated construction costs. Market participants often quoted a range, and as such the low and high ends of the range are presented here. Construction costs include all costs over a base land value, including all direct costs, impact fees, soft costs, and site improvements.

ESTIMATED CONSTRUCTION COSTS			
	Broker Estimates - Low End	Broker Estimates - High End	Marshall - Distribution Warehouses
Base cost per SF	***$150***	***$200***	***$160***
Source: Compiled by Appraiser			

ENTREPRENEURIAL PROFIT

We have found in our many appraisals that entrepreneurial profit ranges from 15% to 30% in the market. Because this analysis is to find a break point for development, the low end of the range is employed in order to find the minimal rent amount acceptable within market parameters. An entrepreneurial profit allowance of 15% has been used for this analysis. This figure has been deemed reasonable by market participants.

RATE OF RETURN

Market participants have quoted varying rates of return. most have suggested that rates of 8% to 9% would represent the low end of the range. In light of recent interest rates, 9% is used in this analysis.

EXPENSES

As illustrated above, rental rates for industrial space are generally quoted on a triple net basis, whereby the tenant is responsible for the majority of operating expenses. No expenses are added to the base rental rate in this analysis. Capital improvement costs are captured in the rate of return.

FEASIBILITY RENT CONCLUSION

The chart below shows the feasibility calculation based on information outlined above. Please note that this is a general estimate, and figures can vary widely from building to building based on quality of construction and level of interior build-out.

FEASIBILITY RENT			
	Broker Estimates - Low End	Broker Estimates - High End	Marshall - Distribution Warehouses
Site Acquisition	$10	$10	$10
Construction Costs per SF	$150	$200	$160
15% Entrepreneurial Profit	$24	$32	$26
Total Cost	**$184**	**$242**	**$196**
x rate of return	8.0%	9.0%	9.0%
Annual Feasibility Rent (NNN)	**$14.72**	**$21.74**	**$17.60**
Monthly Feasibility Rent (NNN)	**$1.23**	**$1.81**	**$1.47**
Source: Marshall & Swift Valuation Service, Appraiser's Estimate			

Based on the rough estimate presented above, rental rates need to be at least $1.23 per square foot, NNN in order to cover the cost of new construction.

TUCSON MARKET

One impact of the COVID-19 pandemic that continues into the current market is that the ability to work remotely has resulted in out-of-state and city migration into Tucson. The ability to do one's job from any location has many people leaving larger, more expensive locations to areas with lower housing costs and a lower cost of living in general. There are a lot of people coming into Arizona from California for this very reason. People are also able to choose where to live based on lifestyle, and Tucson's weather appeals to many.

Demographics

Selected demographics for Pima County and the State of Arizona are outlined in the table below:

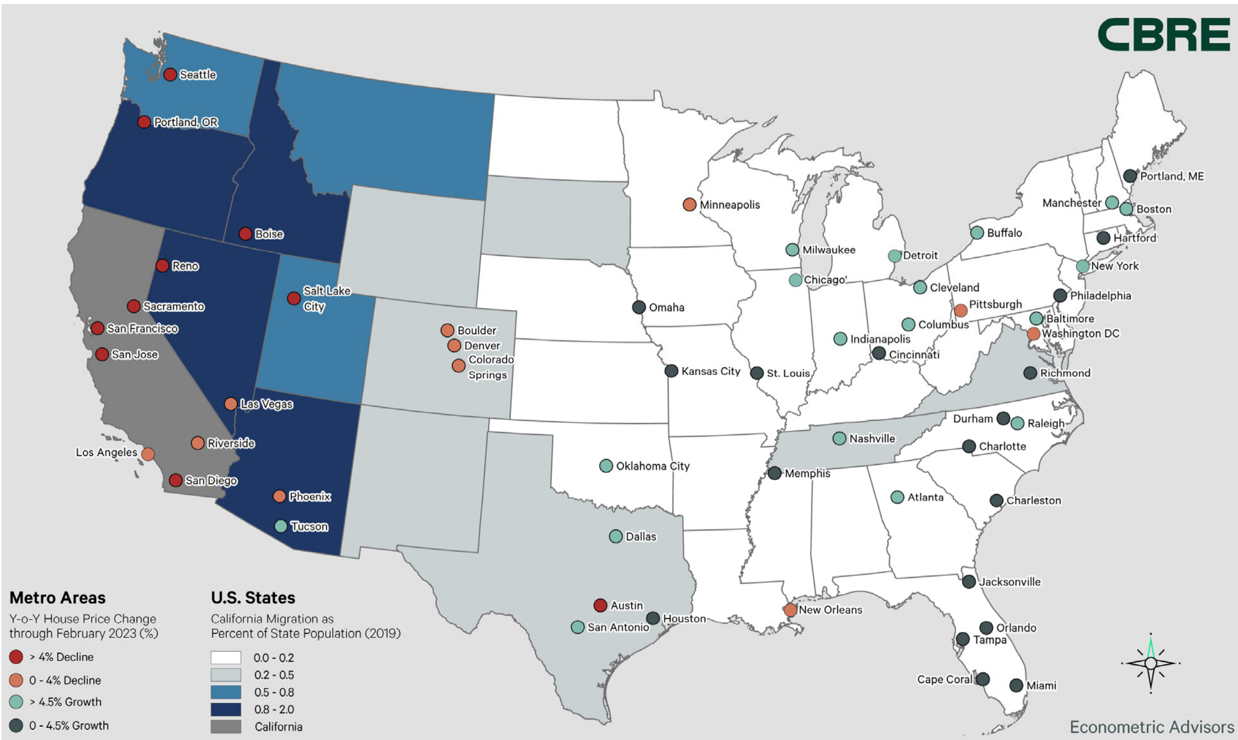
SELECTED DEMOGRAPHICS

	Pima County, Az	Arizona
Population		
2027 Total Population	1,077,572	7,592,389
2022 Total Population	1,060,553	7,349,266
2010 Total Population	980,263	6,392,017
2000 Total Population	843,746	5,130,632
Growth 2022 - 2027	0.32%	0.65%
Growth 2010 - 2022	0.66%	1.17%
Growth 2000 - 2010	1.51%	2.22%
Households		
2027 Total Households	445,379	2,886,858
2022 Total Households	435,759	2,786,341
2010 Total Households	388,660	2,380,990
2000 Total Households	332,350	1,901,327
Growth 2022 - 2027	0.44%	0.71%
Growth 2010 - 2022	0.96%	1.32%
Growth 2000 - 2010	1.58%	2.28%
2022 Median Household Income	$61,675	$68,466
2022 Average Household Income	$88,679	$97,317
2022 Per Capita Income	$36,615	$37,006
2022 Median Value of Owner Occupied Housing Units	$255,160	$294,477
2022 Pop 25+ College Graduates	257,739	1,593,582
Age 25+ Percent College Graduates - 2022	34.9%	32.0%

Source: ESRI

While market participants have noted migration to Arizona in several interviews, the demographics table shown above would suggest that population growth has slowed over the past twelve years as compared to 2000-2010. Further, the state overall has outpaced Pima County suggesting that migration has been primarily focused on the Phoenix MSA. This is understandable as the Phoenix MSA is a much larger market overall. Market participants have noted that industrial development is much more rapid-paced in the Phoenix market, which will be presented in more detail later in the discussion of competitive markets.

Overall, Tucson has seen growth both in population and economics. The following is extracted from a CBRE publication from April 12, 2023 regarding CA migration:



As illustrated in the table above, Arizona’s population as a percentage of California migration was among the highest, along with Nevada, Idaho, and Oregon. Further, Tucson is the only major city in the west to demonstrate a continued upward trend in housing costs year-over-year as of February 2023. This data would suggest that Tucson continues to be an area of interest for those looking to relocate, especially out of California.

Tucson Quality of Life

When asked about Tucson’s appeal for those looking to relocate, the following factors were mentioned:

- Good weather, enjoyed by both residents and business owners who can anticipate less downtime here than in other areas of the country
- Limited natural disasters
- Outdoor lifestyle
- Low cost of living
- Good school districts with many charter school options
- Excellent medical health care systems

Logistics

Tucson is an excellent location for logistics, on account of its access to the Union Pacific Rail Road, proximity to the Mexico Border, and direct access to the Interstate-10 Highway, which transverses the southern states. Nearly every person interviewed for this study mentioned logistics as being one of Tucson's strongpoints. This is clearly illustrated by the level of distribution warehouse development, presented earlier in this report.

Although located outside of Pima County, the Mariposa Port of Entry is a key international port that provides direct access to Tucson via the Interstate-19 highway. The following is extracted from the Nogales-Santa Cruz County Economic Development Foundation's website:

> Nogales remains the primary Arizona port for volume and revenue, and has seen remarkable improvements to the Mariposa Port and highway infrastructure to support growth of commerce.

Collaborative Market

Tucson is generally perceived to be a collaborative market, with the county, various city / town jurisdictions, business community, Sun Corridor, etc. all working together toward a united purpose.

In the more in-depth discussion regarding American Battery Factory presented earlier in this report, it is noted that many groups worked together to bring this company into the Tucson market. This has also helped capture business from major companies in the past, including Hexagon, Caterpillar, HomeGoods, and Amazon.

Labor Force

Tucson is reported to have good availability of labor. Historically, one perceived weakness was that Tucson did not have a skilled labor force. Tucson has previously been a prime location for call centers. However, this perception has shifted over the past several years as Tucson has become more educated, and more highly-trained.

The AZ Daily Star recently did a large publication regarding Tucson's industry growth – Vision '23, dated March 26, 2023. The following includes several excerpts from that publication. The link to the referenced article is:

https://arizonadailystar-az.newsmemory.com/?special=Vision+23

> Finding well-qualified workers remains the top concern of companies looking to move to or grow in the Tucson region, said Joe Snell, president and CEO of Sun Corridor Inc., the area's main economic-development group.
>
> "Labor still drives all market decisions," said Snell, adding that includes local expansions as well as attracting new companies.
>
> Major new investments in technical education programs at Pima Community College promise to shore up the local pool of qualified workers, Snell said, citing PCC's establishment of Centers of Excellence in applied technology, aviation, information technology and cybersecurity, health professions, public safety, hospitality leadership and arts and humanities.

Recruiting Efforts

As previously mentioned, Tucson is considered to be a second-tier market in terms of population, and several interviewees have suggested that instead of considering Tucson as a direct competitor to Phoenix, focusing on Tucson's particular strengths is the best way to go. These strengths include good quality of life, low cost of labor, and proximity to Mexico as previously addressed. By focusing on these, Tucson can differentiate itself from larger competitors.

CITY OF TUCSON

The city of Tucson offers several incentive programs including the Government Property Lease Excise Tax (GPLET), Primary Jobs Incentive, Site Specific Sales Tax Incentive, and Global Economic Development District. The following information on these programs is extracted directly from the city's website:

Government Property Lease Excise Tax (GPLET)

> The GPLET can provide up to eight (8) years of property tax abatement. This incentive is available for projects located in the Central Business District that result in a property value increase of at least 100%. The amount abated cannot exceed the economic benefit created by the project. To become "government property" the City will take ownership of the property for the duration that the owner wishes to be relieved of tax obligations.

Primary Jobs Incentive

> The Primary Jobs Incentive assists Tucson in its efforts to bring quality jobs and investment into the region. The incentive provides up to a 100% reimbursement of construction sales tax to qualifying expenses such as the project's public infrastructure improvements, offsets to impact fees, and/or job-training. The City may also reimburse eligible building permit fees.
>
> Qualifying projects must:
>
> a) invests a minimum of $5 million in facilities or equipment
>
> b) creates 25 jobs that pay wages of at least $54,932 (and all other local jobs are paid an average of $50,164)
>
> c) cover at least 75% of employee health insurance premiums

Site Specific Sales Tax Incentive

> For retail projects that would not otherwise locate in the city of Tucson, the City can apply project-generated tax revenues to qualifying public expenses such as job training or public infrastructure improvements. Projects must create significant and quantifiable economic benefits to be considered. The amount of sales tax revenue applied cannot exceed the economic benefit created by the project.

Global Economic Development District (GEDD)

> The Global Economic Development District is located in Tucson's rapidly growing south and southeast side, already a viable and energetic entrepreneurial community, key transportation and logistics infrastructure, key manufacturing operations and the UA Tech Parks. The area has favorable proximity and accessibility to Mexico, Texas and California markets through both rail and road.

> Within the GEDD boundary lays the Tucson Tech Corridor (TTC), an area defined by a diverse group of experienced retail estate development professionals and property owners committed to promoting the available development sites within the Corridor. Partners, include the Port of Tucson, UA Tech Parks, Diamond Ventures, and the Ashland Group

Further information on these programs can be found on the city website:

https://www.tucsonaz.gov/business/incentives

ARIZONA COMMERCE AUTHORITY

The Arizona Commerce Authority offers incentives, programs, and grants. Per the organization's website, "The Arizona Commerce Authority (ACA) is the state's leading economic development organization with a streamlined mission to grow and strengthen Arizona's economy. The ACA uses a three-pronged approach to advance the overall economy: recruit, grow, create – recruit out-of-state companies to expand their operations in Arizona; work with existing companies to grow their business in Arizona and beyond; and partner with entrepreneurs and companies large and small to create new jobs and businesses in targeted industries." More information can be found on their website:

http://www.azcommerce.com/incentives/

SUN CORRIDOR

Sun Corridor focuses its efforts on economic development throughout Southern Arizona. The following is extracted directly from their website:

> "Sun Corridor Inc.'s role is to coordinate all economic development activities and programs within the Southern Arizona megaregion under one umbrella. The primary goal of Sun Corridor Inc. is to facilitate primary (non-retail) job and investment growth in the region. Our work also includes creating a competitive environment that allows primary employers to flourish and succeed.
>
> "Economies, both nationally and internationally, compete for jobs and capital investment based on regional strengths. The economic benefits of business expansion and attraction, no matter where physically located, transcend jurisdictional lines. Thus, the realities of the marketplace dictate that Sun Corridor Inc. be committed to the economic prosperity of the entire megaregion.
>
> "Sun Corridor Inc. brings together the interests of a broad range of private, public, academic and nonprofit groups to promote Southern Arizona as a single economic entity."

More information can be found on Sun Corridor's Website:

http://www.suncorridorinc.com/

COMPETITIVE CITIES

It is somewhat difficult to identify which cities are considered to be competitors. Tucson is a second-tier market in terms of population, and some opine that it does not directly compete with larger markets such as Phoenix, El Paso, Las Vegas, etc. However, others report that potential business often stems from users who start in these larger markets and ultimately decide to locate to a smaller market, such as Tucson, based on the strengths outlined above. For some users it's a matter of cost. Others simply prefer smaller communities.

For this analysis, several second-tier southwestern cities are considered, based on their location and the capture of business that prefers to be outside of these larger markets. Some larger cities in the southwest are also considered. These are the markets most often mentioned when market participants were asked to name Tucson's competitive markets.

The chart below compares Tucson against the selected markets:

COMPETITIVE CITIES STATISTICS - 4Q 2022 YTD

City	Total Net Rentable Area (SF)	Under Construction	Projected Δ to Supply	2022 Net Absorption	Vacancy Rate	Average Annual Rent PSF (NNN)	Average Monthly Rent PSF (NNN)
Tucson	**40,282,495**	**1,753,041**	**4.4%**	**821,729**	**4.3%**	**$10.68**	**$0.89**
Phoenix	378,624,685	38,186,889	10.1%	26,526,290	3.0%	$12.24	$1.02
Albuquerque	46,358,332	578,636	1.2%	327,395	1.1%	$12.00	$1.00
El Paso	N/Av.	5,495,867	N/Av.	5,147,043	0.6%	$4.38	N/Av.
Las Vegas	153,817,709	15,953,700	10.4%	7,384,700	1.3%	$14.28	$1.19
Reno	103,062,302	9,200,000	8.9%	6,448,089	1.1%	$12.00	$1.00

Source: CBRE 4Q 2022 Figures Publications

By comparison, Tucson has the smallest market within the competitive group outlined above. Tucson has less than 11% of the overall supply as compared to nearby Phoenix. Current construction will increase supply by 4.4%, while current construction will increase supply in the Phoenix market by 10.1%. Phoenix is much larger, with much more square footage; however, when taking into account the existing size of the overall market, the 4.4% growth rate suggests that Tucson is also seeing good growth despite being a second-tier market. Further, While it may lag the Phoenix market, Tucson's recent growth and current development is unparalleled as compared to its own history.

Annual net absorption is positive in all markets, suggesting good demand across the southwest region. Tucson's average rental rate represents the low end of the range, roughly 13% below the nearby Phoenix market. This is due, in part, to dated and functionally obsolete inventory that has been available in the Tucson area for an extended period of time.

Tucson's industrial rental rates will need to increase in order to substantiate new development. Financial feasibility is discussed in greater detail later in this report; however, it is noted here that the feasible rents are generally in line with average rents being achieved in these other markets.

Comparative Study

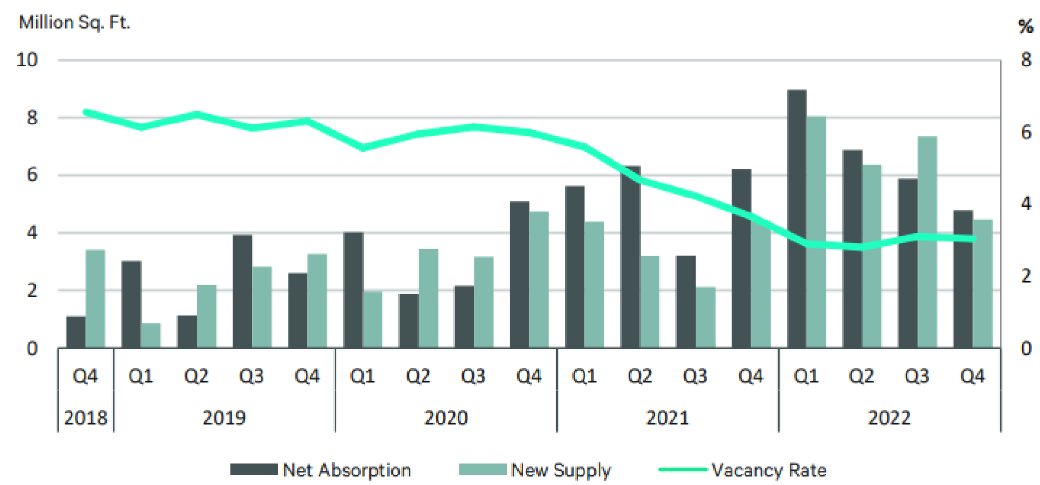
The information for each city below is extracted from various "Figures" reports published by CBRE.

PHOENIX

▼ 3.0%	▼ 4.8M	▲ 38.2 M	▼ $1.02
Vacancy Rate	SF Net Absorption	SF Construction	NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q4 2022.

Per CBRE's report, the fourth quarter of 2022 displayed a record-breaking year for the Phoenix industrial & logistics market. The market continued to grow with over 26.5 million square feet of space absorbed year-to-date. 24.0% of new product that delivered in the fourth quarter was preleased. Currently, CBRE is tracking roughly 36.8 million square feet of demand for industrial space. Phoenix remains a hot spot for local and out of market tenants looking to move into the market.

The overall outlook for Phoenix metro industrial market remains very promising, even during economic uncertainty. This is due to several key factors:

- Strong market fundamentals combined with an attractive workforce
- Generous amounts of tenant activity with new users entering the market
- Competitive lease rates in the southwest region of the United States
- Growing demand for space from distribution/3PL and e-commerce users

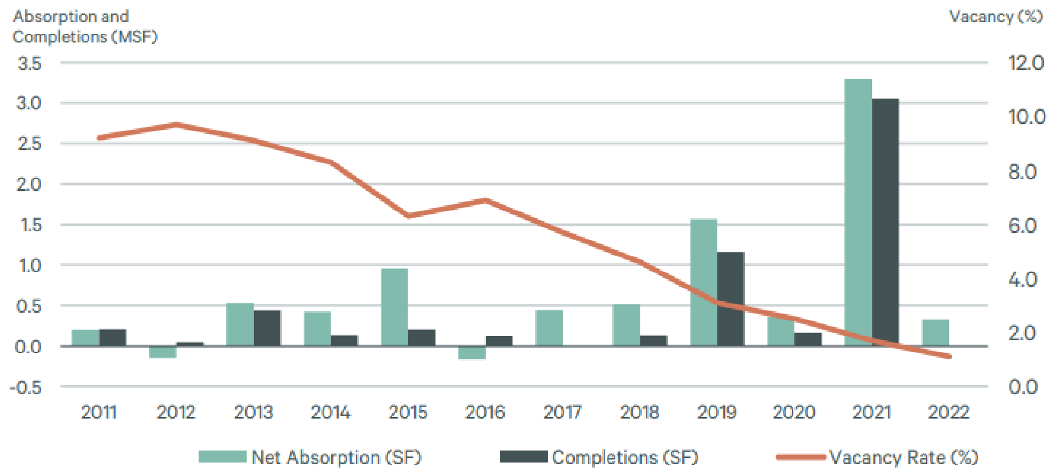
After multiple record-breaking years for Phoenix industrial, there is an expected slow down in construction starts. While there is ample product under construction. This is expected to absorb the robust volume of tenants in the market that continue to seek Phoenix in 2023.

ALBUQUERQUE

▼ 327,395	▲ 1.1%	▼ $12.00 NNN	▶ 528,636
SF YTD Net Absorption	Total Vacancy	Median Yearly Asking Rate PSF	SF Under Construction

Note: Arrows indicate change from previous quarter.

FIGURE 1: Net Absorption (SF), Completions (SF) and Vacancy Rate (%)



Source: CBRE Research, Q4 2022

Per CBRE's report, Albuquerque industrial market fundamentals remained stable in Q4 2022, with new supply in the pipeline, low vacancy rates and high demand. Netflix expanded their presence in Albuquerque by breaking ground on a five-building expansion, including a 50,000 square foot warehouse, a 120,000 square foot office building, a post-production facility, 10 sound stages, dedicated space to construct sets and more. Vacancy experienced some relief by increasing 10 basis points quarter-over-quarter but is still at an all-time annual low. Year-to-date net absorption declined quarter-over-quarter but remains positive. Net absorption experienced a significant drop year-over-year due to 2021's record deliveries. Groundbreakings paused this quarter, but many construction projects are expected to deliver in the middle of 2023. Median asking lease rates stabilized this quarter. The highest rates can be found in the SE Heights submarket and for manufacturing-type properties. The New Mexico unemployment rate, now at 4.1%, decreased 180 basis points year-to-date. A tight labor market is a concern both locally and nationally.

EL PASO

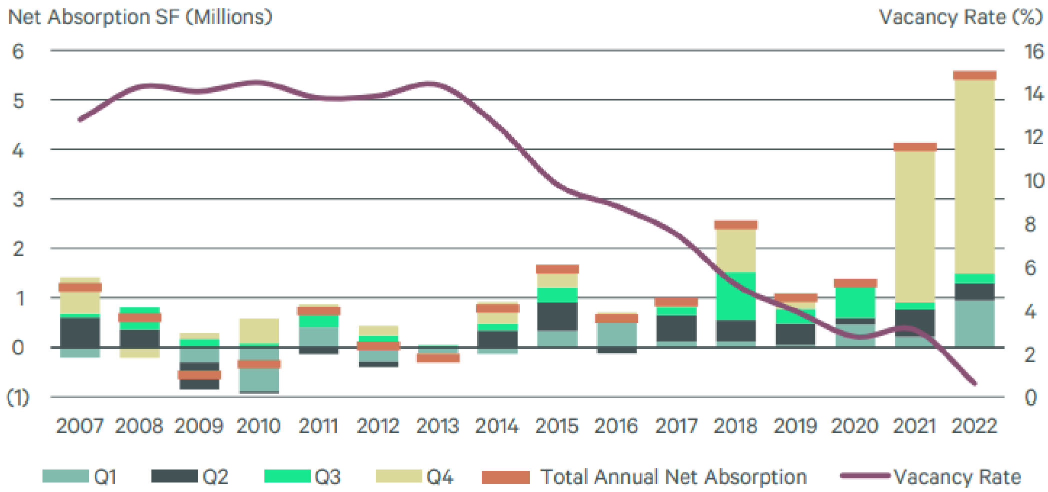
▼ 0.6% Vacancy Rate

▲ 3,995,781 SF Net Absorption

▼ 5,495,867 SF Construction

Note: Arrows indicate change from previous quarter.

FIGURE 1: Net Absorption and Vacancy



Source: CBRE Research, Q4 2022.

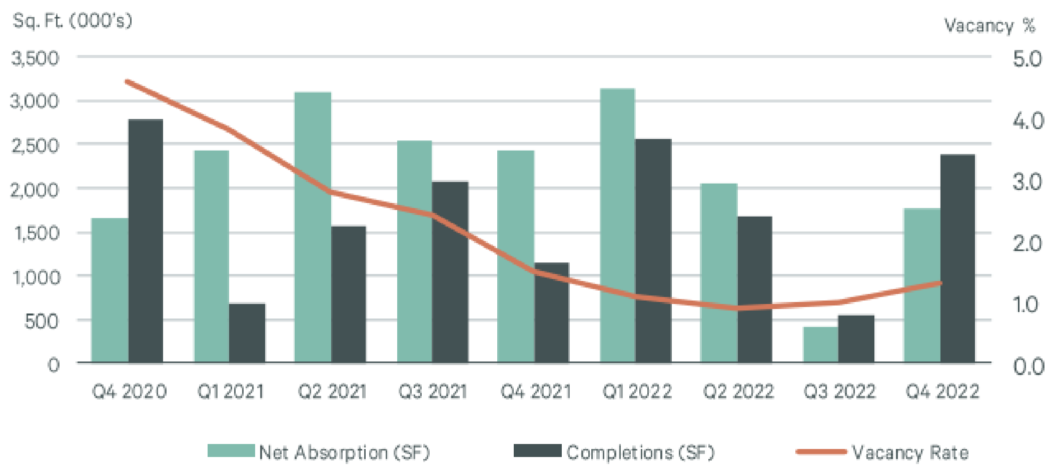
Per CBRE's report, the El Paso Industrial Market saw quarterly and annual new absorption hit record highs. Strong absorption of existing space and pre-leasing activity pushed vacancy to a historic low, forcing tenants to look at the construction pipeline to find future space. A slew of speculative projects began construction during Q4 2022 and will help offset some of the scarcity of space. However, the market will remain tight as high demand for industrial continues to outpace supply.

LAS VEGAS

▲ 1.3%	▲ 1.8M	▲ 7.2M	▼ 16.0M	▶ $1.19 NNN
Direct Vacancy Rate	SF Net Absorption	SF YTD Deliveries	SF Under Construction	Avg. Asking Lease Rate

Note: Arrows indicate change from previous quarter.

FIGURE 1: Net Absorption, Construction Completions, Vacancy Rate



Source: CBRE Research, Q4 2022

Per CBRE's publication, the Las Vegas industrial market proved resilient in 2022, maintaining strong supply and demand fundamentals, despite unpredictable market conditions. Net absorption, driven by a 73% prelease rate in completed projects, remained positive for another quarter at 1.8 million square feet. The overall vacancy rate remained at historic lows through 2022, though it ticked up slightly during the fourth quarter, reaching 1.3%. While rent growth began to slow during 2022, landlords held firm on their asking rates across all submarkets, averaging $1.19 per square foot, NNN. Asking lease rates grew 58.7% from fourth quarter 2020 but only 21.4% year-over-year.

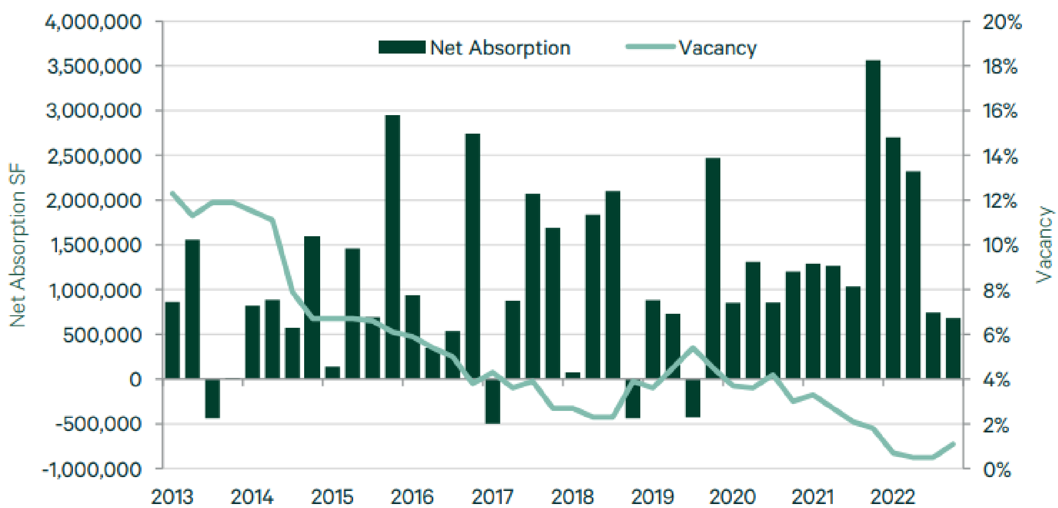
Overall, the Las Vegas industrial market proved robust in 2022; however, the next several quarters will determine whether the industrial sector's rapid pace is sustainable. Widespread (global) economic uncertainty, as well as challenges with entitlements, land scarcity, and concern over rising interest rates, could lead to more challenges in leasing and construction activity.

RENO

1.1%	681K	9.2M	$1.00	89K
Vacancy Rate	SF Net Absorption	SF Under Construction	NNN / Lease Rate Existing Properties	Industrial Using Employment Reno Market

Note: Arrows indicate change from previous quarter.

FIGURE 1: Vacancy & Net Absorption Trend



Source: CBRE Research

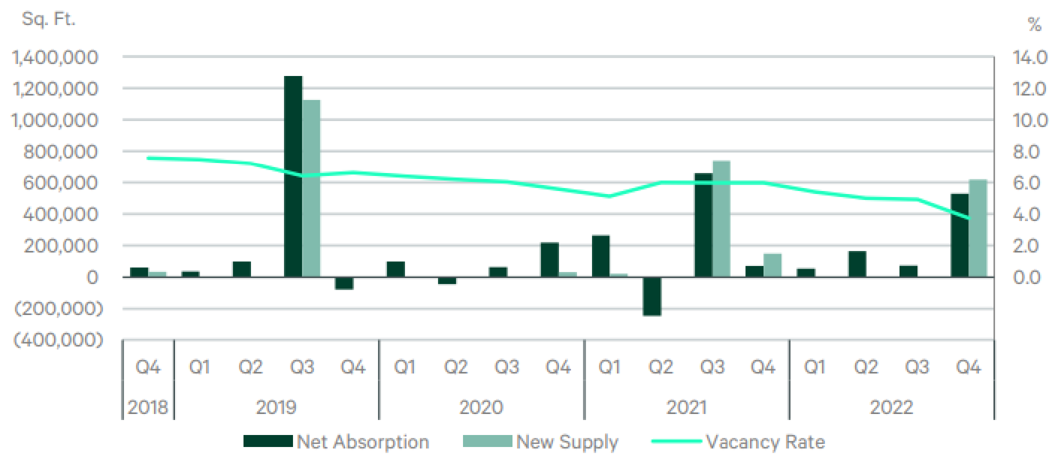
Per CBRE's report, the Reno Industrial market finished the quarter with strong market fundamentals, posting the thirteenth consecutive quarter of positive net absorption. Average asking lease rates increased $0.13 quarter-over-quarter, ending the year at a record high of $1.00 per square foot monthly on a NNN basis. On the supply side, 1.1 million square feet of product was delivered to the market with 9.2 million square feet currently under construction. Market-wide vacancy and availability slightly rose in Q4 2022. The vacancy rate increased 50 basis points to 1.1%.

TUCSON

▼ 3.7%	▲529K	▲1.8M	▲ $0.89
Vacancy Rate	SF Net Absorption	SF Construction	NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q4 2022.

Per the Tucson Metro Area Industrial Market Figures report published by CBRE, the Tucson industrial market saw strong positive net absorption of 529,052 square feet in Q4 2022, due in large part to 600,000 square feet of new construction deliveries in the Airport and Northwest submarkets, much of which was preleased. The upward trend of NNN asking lease rates continued as the average asking rate hit $0.89 per square foot.

Despite a large quantity of new deliveries, supply remained tight. The vacancy rate dropped 120 bps to 3.7%. With new construction starts in the latter half of 2022, tenants will have more space options in the future. Construction increased nearly 200,000 square feet from Q3 2022, reaching nearly 1.8 million square feet. The increased construction is only the beginning as there is over 3 million square feet of planned development across the Tucson market.

The Tucson industrial market continues its incredible traction this past quarter and trends indicate demand for industrial space will remain high in the near future. However, future growth may be hindered by recession concerns and increasing costs to development. A large amount of planned projects and sustained industrial demand in the sun belt are cause for optimism. As new product comes online, preleasing and net absorption is expected to remain positive over the next year. The Northwest submarket is a standout due to its proximity to a growing population in Marana. The announcement of American Battery Factory's new manufacturing facility will draw attention to Tucson as an ideal industrial location.

CONCLUSION

Tucson is a desirable location in terms of weather, lifestyle, amenities, and cost of living. Generally speaking, the industrial market is strong. Recent growth attests to this, and is further supported by growth in competing markets. Market participants point to growth in distribution and manufacturing as strengths within the market, with the potential for additional growth.

Industrial Supply

NOTABLE PROJECTS – INDUSTRIAL

The following tables outline notable projects over 100,000 square feet throughout the Tucson MSA. Flex / R&D projects are considered independently from other industrial development.

NOTABLE INDUSTRIAL PROJECTS

Name	Address	Square Feet	Year Built
Downtown			
CenturyLink Building	126 E. Alameda Street	178,013	N/A
Warehouse Building	300 S. Toole Avenue	122,360	1993
Food Processing Facility	931 S. Highland Avenue	106,704	1963
NW Tucson / Oro Valley			
Amazon Silverbell Gateway Distribution Center	7300 N. Silverbell Road	220,000	2022
Southwest Gas	W I-10 & Tangerine	400,000	2023
Sam Levitz Distribution	2020 W. Prince Road	215,617	1996
Manufacturing Facility	3735 N. Romero Road	138,855	1982
PSE Archery Factory	2727 N. Fairview Avenue	142,416	1975
Manufacturing Facility	2620 N. Flowing Wells Road	204,685	1969
Palo Verde			
Distribution Building	3740 E. 34th Street	287,550	1984
Bookman's Entertainment Center	5120 S. Julian Drive	140,000	1984
Sam Levitz Warehouse	3430 E. 36th Street	129,394	1978
Punch Woods Multi-Service Center	3003 S. Country Club Road	141,035	1969
Park / Ajo			
Park Avenue Industrial Center	777 E. MacArthur Circle	113,920	1984
Hensley Beverage Company	705 E. Ajo Way	161,121	1975
Tucson Newspapers	4850 S. Park Avenue	183,046	1973
Southeast Tucson			
Port of Tucson	7215 S. Kolb Road	240,000	2021
Amazon Distribution Center	6701 S. Kolb Road	857,400	2019
Port of Tucson	7225 S. Kolb Road	230,134	2019
Target Fulfillment Center	8940 E. Road Park Drive	970,480	2008
Century Park Research Center	6992 E. Century Park Drive	180,000	2007
Arizona Canning Company	8755 S. Rita Road	440,000	2002
Century Park Research Center	6908 E. Century Park Drive	360,000	2001
Century Park Research Center	6978 E. Century Park Drive	240,000	2001
Century Park Research Center	6620 S. Memorial Place	210,000	2001
Century Park Research Center	7000 E. Century Park Drive	180,000	2001
Manufacturing Facility	9280 E. Old Vail Road	106,507	1997
Southpointe Distribution Center	6991 E. Southpoint Road	207,000	1989
Global Solar Enegry	8500 S. Rita Road	116,898	1979
SW Tucson / Airport			
Raytheon Building	1151 E. Hermans Road	144,829	N/A
Tucson Airport Center	3818 S. Country Club	229,320	2022
Amazon Distribution Center	3550 E. Corona Road	278,670	2021
Rockefeller Group Distribution Center	6850 S. Brosius Avenue	157,000	2019
The Chamberlain Group	2850 E. Drexel Road	300,181	2018
HomeGoods Distribution Center	7000 S. Alvernon Way	858,288	2016
World View Building	1805 E. Aerospace Parkway	140,000	2016
FedEx Distribution Facility	7050 S. Palo Verde Road	210,000	2015
Alvernon Way Commerce Center	6720 S. Alvernon Way	100,100	2012
Rockefeller Group Distribution Center	6855-6751 S. Lisa Frank Avenue	113,546	2009
Manufacturing Facility	6151 S. Tucson Boulevard	101,250	2006
Manufacturing Facility	6601 S. Palo Verde Road	151,585	2000
Lisa Frank Building	6760 S. Lisa Frank Avenue	300,855	1996
Manufacturing Facility	6161 S. Palo Verde Road	129,047	1996
Airport Distribution Center	6874 S. Palo Verde Road	162,478	1995
Country Club Commerce Center	6050 S. Country Club Road	153,600	1994
Tucson International Business Center	3131 E. Transcon Way	170,702	1990
Manufacturing Facility	1255 E. Aero Park Boulevard	123,357	1984
Tucson Commerce Center III	2900 E. Elvira Road	101,250	1980
Texas Instruments Building 3	2380 E. Medina Road	123,609	1979
Tucson Commerce Center IV	3000 E. Elvira Road	104,674	1978
APAC Call Center	2929 E. Corona Road	101,436	1978
Medina Business Park	2201 E. Medina Road	153,500	1977
Manufacturing Facility	5580 S. Nogales Highway	109,229	1970

Source: CoStar

As can be seen in the table above, the majority of large industrial projects (warehouse, service, distribution, and manufacturing) in the Tucson MSA are located in the Southwest Tucson / Airport submarket and the adjacent Southeast Tucson submarket. These two submarkets are home to several large-scale distribution centers including Target, HomeGoods, and FedEx distribution centers, plus the two Amazon Distribution buildings (further detailed below).

NOTABLE PROJECTS – FLEX / R&D

NOTABLE FLEX / R&D PROJECTS			
Name	Address	Square Feet	Year Built
Northeast Tucson			
Rockwell Collins	1851 S. Pantano Road	124,778	1985
NW Tucson / Oro Valley			
Ventana Medical Systems	1910 E. Innovation Park Drive	182,400	2001
Sanofi-Aventis	2090 E. Innovation Park Drive	110,350	2008
Palo Verde			
Tucson Expo Center	3750 E. Irvington Road	153,125	1985
Southeast Tucson			
UA Tech Park	9022 S. Rita Road	376,857	1980
UA Tech Park	9030 S. Rita Road	367,095	1980
Flex / Light Manufactiring Facility	8350 E. Old Vail Road	150,249	1997
UA Tech Park	9040 S. Rita Road	115,000	1980
UA Tech Park	9042 S. Rita Road	115,000	1980
UA Tech Park	9060 S. Rita Road	115,632	1980
UA Tech Park	9072 S. Rita Road	115,632	1980
UA Tech Park	9024 S. Rita Road	109,836	1980
SW Tucson / Airport			
R&D / Engineering Building	3260 E. Universal Way	165,505	2004
Aero Business Center	6700 S. Pella Drive	263,937	1999
Intuit Building	2800 E. Commerce Center Place	135,760	1998
Oakridge Center	2701-2731 E. Elvira Road	112,038	1979
Solon	6950 S. Country Club Road	111,401	1978
R&D / High-Tech Manufacturing Building	2650 E. Elvira Road	110,026	1987
Source: CoStar			

Flex / R&D projects are also concentrated in the Southwest Tucson / Airport and Southeast Tucson submarkets. The majority of large-scale flex / R&D development is located in Tech Parks Arizona.

REPURPOSING OLDER PRODUCT

The Tucson industrial market is experiencing record-low vacancy rates, with most market sources reporting a vacancy rate of roughly 2.5%. Much of the limited inventory on the market is deemed to be functionally obsolete.

The appraisers note that in the 2019 industrial market study prepared for PCRERC, several projects that were marked as being functionally obsolete have since been leased. With limited inventory, high demand, and rising construction costs, some tenants have taken the existing space formerly deemed functionally obsolete and made it functional.

- A 260,000-square foot building located at 6700 S. Pella Drive had roughly 20,000 square feet of office space in the middle of the building. Home Goods entered into the market two years ago and leased a portion of this building, excluding the office space. Home Goods had planned to establish 13 distribution centers nationally and chose this building for one of the first locations. The initial lease term was signed for only two years, as Home Goods was not certain that this would be a permanent location. 1.5 years into their initial lease term, Home Goods extended their lease to occupy the whole building for a three-year term, with a rental rate increase from $0.45/SF to $0.60 per square foot.
- The Park Avenue Industrial Center located at 777 E. MacArthur Circle is a 113,920-square-foot building originally constructed in 1984 and formerly occupied by FedEx. The clear height on this building ranges from 18′ to 21′. FedEx developed a new 210,000-square-foot distribution facility in 2015. The former building became functionally obsolete for this user and was marketed as a "value-add" property for an undisclosed price. This property sold at auction in April 2019 for $4,305,000, or $37.79 per square foot. The buyer demised the building into three spaces and it is now fully leased.
- The Lisa Frank building located at 6760 S. Lisa Frank Avenue was a purpose-built, 300,855-square-foot, flex building that was developed in 1996. Despite its 28′ ceiling height, 42′6″ x 60′ column spacing, and 130,080-square-foot expansion pad, most market participants believe that the specific interior build-out for the previous user limits its potential for other industrial users. However, since 2019 the ownership hired some personnel that was able to focus on the real estate and make the space more available by being more responsive to inquiries. Availability of other product became much more limited. As a result of less competition and high demand, the Lisa Frank building became a more attractive option. Although a 85,000-square-foot space is currently listed on the market, the building was 100% occupied prior to this recent vacancy.

CONSTRUCTION

Recent Construction

The following table outlines new construction from 2019 to present.

RECENT CONSTRUCTION			
Name	Address	Square Feet	Year Built
NW Tucson / Oro Valley			
Southwest Gas	9711 W. Tangerine Road	400,000	2023
Amazon Distribution Center	7300 N. Silverbell Road	220,000	2022
Silverbell Flex Center - Building 1	2706 N. Silverbell Road	7,200	2022
Silverbell Flex Center - Building 2	2706 N. Silverbell Road	7,200	2022
Silverbell Flex Center - Building 3	2706 N. Silverbell Road	7,200	2022
Silverbell Flex Center - Building 4	2706 N. Silverbell Road	7,200	2022
Ventana	9821 W. Tangerine	60,437	2022
Warehouse Building	3224 N. Freeway Industrial Loop	12,237	2021
Warehouse Building	3210 N. Freeway Industrial Loop	13,000	2020
Warehouse Building	6107 N. Travel Center Drive - Lot	25,000	2019
Al Coronado Plumbing	6149 N. Travel Center Drive	8,800	2019
Palo Verde			
Warehouse Building	4725 S. Overland Drive	10,539	2022
Warehouse Building	3580 S. Palo Verde Road	5,473	2020
Park / Ajo			
UArizona Mission Integration Lab	1564 E. 36th Street	9,500	2022
DES	4760 S. Park Avenue	30,000	2021
Warehouse Building	1352 E. Benson Highway	7,000	2020
Warehouse Building	1350 S. Euclid Avenue	28,122	2020
Amazon Distribution Center	775 W. Silverlake Road	49,500	2019
Southeast Tucson			
Tu Simple Expansion	9538-9568 E. Old Vail Road	50,000	2022
Amazon Distribution Center	3550 E. Corona Road	278,670	2021
Port of Tucson	7215 S. Kolb Road	240,000	2021
Port of Tucson	7225 S. Kolb Road	230,134	2019
Amazon Distribution Center	6701 S. Kolb Road	857,400	2019
Tucson Cannabis Campus	8000 S. Rita Road	38,000	2019
SW Tucson / Airport			
Imperial Brown	3350 E. Medina Road	99,000	2022
Warehouse Building	1920 Aero Park	32,324	2022
Tucson Airport Center 2, Bldg. A	6818 S. County Club	229,320	2022
Daybreak Distribution Center	6360 S. Tucson Boulevard	76,225	2022
SAMTEC	16220 S. La Canada Drive	32,000	2020
Warehouse Building	6300 Hemisphere Loop	9,500	2019
Rockefeller Group Distribution Center	6850 S. Brosius Avenue, Building 1	157,000	2019
Total		**3,264,294**	
Source: CoStar			

Recent construction totals 3,264,294 square feet, and includes a combination of build-to-suit projects for single-tenant occupancy and speculative projects. The Southeast Tucson submarket accounts for the majority of new construction, totaling 1,694,204 square feet, or 51.9% of all new construction. Included in the new inventory for this submarket are two Amazon distribution centers and two Port of Tucson spec projects.

Current and Proposed Construction

The following table outlines both current and proposed construction projects throughout the Tucson MSA. Please note that this information is extracted from CoStar, which typically does not capture projects in the early stages of permitting. As such, proposed development projects outlined earlier in this report, may not appear in this table.

CURRENT / PROPOSED CONSTRUCTION

Name	Address	Square Feet	Submarket	Status
Current Construction				
Warehouse Building	3231 N. Freeway Industrial Loop	4,000	NW Tucson / Oro Valley	Under Construction
Southern Arizona Logistics Center	Clark Farms Boulevard - Bldg. 1	511,412	NW Tucson / Oro Valley	Under Construction
Southern Arizona Logistics Center	Clark Farms Boulevard - Bldg. 2	435,023	NW Tucson / Oro Valley	Under Construction
Southern Arizona Logistics Center	Clark Farms Boulevard - Bldg. 3	37,500	NW Tucson / Oro Valley	Under Construction
Southern Arizona Logistics Center	Clark Farms Boulevard - Bldg. 4	583,200	NW Tucson / Oro Valley	Under Construction
Southern Arizona Logistics Center	Clark Farms Boulevard - Bldg. 5	222,340	NW Tucson / Oro Valley	Under Construction
Campbell Landing Building One	2180 Ginter	10,000	SW Tucson / Airport	Under Construction
Campbell Landing Building Two	2236 Ginter	10,000	SW Tucson / Airport	Under Construction
Campbell Landing Building Three	2655 Wieding	10,000	SW Tucson / Airport	Under Construction
Campbell Landing Building Four	2701 Wieding	10,000	SW Tucson / Airport	Under Construction
Southpoint - Lots 22-26	NWC Southpoint Road & McCulloch Drive	187,452	SW Tucson / Airport	Under Construction
Tucson Commerce Center	6690 S. Alvernon Way - Bldg. 1	302,443	SW Tucson / Airport	Under Construction
Tucson Commerce Center	6690 S. Alvernon Way - Bldg. 2	259,274	SW Tucson / Airport	Under Construction
Tucson Commerce Center	6690 S. Alvernon Way - Bldg. 3	244,889	SW Tucson / Airport	Under Construction
Total Under Construction		***2,827,533***		
Proposed Construction				
Keenan Commerce Center	2545 N. Flowing Wells Road	35,000	NW Tucson / Oro Valley	Proposed
Butterfield Logistics Center Block D	3721 E. Columbia Street	194,750	Palo Verde	Proposed
South Gate Business Park, Bldg. E	1995 E. Ajo Way	10,742	Palo Verde	Proposed
Alvernon Corners - Lots 2 & 3	3897-3959 S. Palo Verde Road	38,610	Palo Verde	Proposed
Rita Tech Park	9000 S. Rita Road	175,000	Southeast Tucson	Proposed
Southern Arizona Regional	Old Vail Road & S. Distribution Way	990,000	Southeast Tucson	Proposed
Airport Commerce Center	6824 S. Bonney Avenue, Lots 41 & 87	15,000	SW Tucson / Airport	Proposed
Drexel Commerce Center	2565 E. Commerce Center Plaza	67,600	SW Tucson / Airport	Proposed
Drexel Commerce Center	2567 E. Commerce Center Plaza	116,480	SW Tucson / Airport	Proposed
Tucson Airport Center II, Bldg. B	2858 Medina	141,960	SW Tucson / Airport	Proposed
I-10 International	4301 E. Los Reales Road	188,434	SW Tucson / Airport	Proposed
I-10 International	4401 E. Los Reales Road	158,944	SW Tucson / Airport	Proposed
I-10 International	4501 E. Los Reales Road	214,867	SW Tucson / Airport	Proposed
I-10 International	4601 E. Los Reales Road	214,867	SW Tucson / Airport	Proposed
Total Proposed Construction		***2,562,254***		

Source: Compiled by CBRE

Of note, the Southern Arizona Logistics Center and Tucson Commerce Center currently under development are both Flint Development projects. These total 2,596,081 square feet, accounting for 98.3% of the new additions to supply.

I-10 International is Lincoln Property Company's development that should break ground in the near future. This accounts for 777,112 total square feet.

Sun Corridor reports that they are working on multiple projects that would change the landscape of Tucson. These are all national, manufacturing-related companies in a variety of industries including automotive, renewal energy, autonomous, and consumer products. Sun Corridor also hinted that they are working on a very large-scale project at this time, but hesitated to give details.

LAND AVAILABILITY

One of the many benefits of Tucson is that our land is easily developable. It is generally flat and less expensive than competing communities.

LARGE LAND AREA SALES

There have been several notable land sales in the past few years. Many of those mentioned in the market participant interviews are noted in the table below. Please note that this is not a comprehensive list, but rather features development that was highlighted in market participant interviews.

INDUSTRIAL LAND SALES

Name	Location	Sale Date	Site Size (ac.)	Sale Price (per SF of land)
Bourn Companies Site	I-10, between Colossal Cave & State Soute 83	Feb-23	390	$0.45
Buzz Oates Development Site	Old Vail Road (Rita Ranch #28)	Jan-23	29.26	$1.92
Buzz Oates Development Site	8300 E. Old Vail Road	Jan-23	39.89	$0.95
Buzz Oates Development Site	8400 E. Old Vail Road	Jan-23	28.09	$0.95
Chrome Hearts Site	8500 S. Rita Road	Nov-22	35.07	$1.64
Former Tucson International Raceway	4300 E. Los Reales Road	Sep-22	98.65	$1.77
Shamrock Farms Site	Tangerine Farms & Gladden Road	Sep-22	81.27	$5.13
Lincoln Development Site	4150 E. Los Reales Road	Jun-22	77.98	$1.91
Century Park Research Center	6701 & 6751 E. Littletown Road	Dec-21	10.14	$3.65
Success Drive Industrial Lots	11494 E. Success Drive	Dec-21	14.34	$1.04
Butterfield Business Center - Block D	S. Palo Verde Road	Nov-21	9.07	$3.95
Sunbelt Industrial Land - Lot 2	Old Vail Road	Nov-21	60.92	$0.51
Century Park Marketplace Block 1	Century Park Marketplace	Mar-21	32.65	$2.90
Source: CoStar				

While this is not a comprehensive list, a total of over 800 acres have been purchased for development in the last two years alone.

LARGE LAND AREA LISTINGS

A CoStar search yielded a large number of available industrial sites. For this analysis, emphasis is placed on larger sites of over 50 acres. The consultants are aware of other large sites available in the market. But this particular piece of the analysis focuses on those listed on the open market.

AVAILABLE LAND - OVER 25 ACRES

Address	Size (Acres)	Size (SF)	Zoning	Utilities
Sunbelt Industrial Land - Lot 2	60.92	2,653,632	I-1, I-2	All available to site
Swan & Old Vail Road	160.00	6,969,600	CI-2	Water, electric, and sewer on site; no gas service
9825 E. Old Vail Road	63.00	2,744,000	I-1	All available to site
6195 S. Wilmot Road	29.10	1,267,596	I-1	Electric, gas, sewer, water; no irrigation
11731 N. Breakers Road	26.00	1,132,560	C, MU-1, HI	Electric, gas, irrigation, water; no sewer service
Total Available Land	***339.01***	***14,767,388***		
Source: CoStar				

BUSINESS / INDUSTRAL PARK SITES

The following chart outlines developable land in some of Tucson's Business / Industrial Parks:

BUSINESS / INDUSTRIAL PARKS - AVAILABLE SITES				
Name	Location	Number of Available Sites	Site Size (ac.)	Asking Price (per SF of land)
Butterfield Business Center	NEC Irvington & Palo Verde	5	0.76 - 2.01	$4.95 - $9.95
Miller Ranch Tech Park	Tangerine & La Canada	4	1.62 (average)	$6.00 - $8.00
Rita Ranch Commerce Center	9688 E. Old Vail Road	17	1.45 - 23.7	$4.00 - $4.50
Sunbelt Industrial Center	Old Vail Road	1	60.92	$3.47
Tangerine Business Park	Tangerine & I-10	2	2.88 - 5.69	$3.00 - $4.00
Tucson International Business Center	3461-3481 & 3361 E. Global Loop	3	1.37 - 1.77	$3.25 - $4.00
Total		**32**		
Source: Compiled by Appraiser				

The following chart outlines recent site sales within the business / industrial parks mentioned above, per CoStar.

BUSINESS / INDUSTRIAL PARKS - SITE SALES				
Name	Location	Sale Date	Site Size (ac.)	Sale Price (per SF of land)
Butterfield Business Center Lot 35	S. Palo Verde Road	Aug-22	2.06	$4.14
Butterfield Commerce Park Lot 7	3561 S. Gas Road	Jul-22	1.12	$3.86
Fairview Business Park Lots 4-7	NW Grant Road	Jun-22	6.71	$2.91
Southpointe Industrial Lot 24	Valencia Road	May-22	1.99	$2.25
Swan Industrial Park	7770 & 7771 S. Reuse Place	Apr-22	5.96	$2.91
Century Park Research Center	6701 & 6751 E. Littletown Road	Dec-21	10.14	$3.65
Success Drive Industrial Lots	11494 E. Success Drive	Dec-21	14.34	$1.04
Butterfield Business Center - Block D	S. Palo Verde Road	Nov-21	9.07	$3.95
Sunbelt Industrial Land - Lot 2	Old Vail Road	Nov-21	60.92	$0.51
Swan Eco Industrial Park - Lots 1 & 11	7800 S. Swan Road	Jun-21	9.24	$0.72
Swan Eco Industrial Park - Lot 12	7800 S. Swan Road	May-21	1.47	$1.71
Century Park Marketplace Block 1	Century Park Marketplace	Mar-21	32.65	$2.90
Butterfield Lot 43	4725 S. Overland Drive	Mar-20	1.11	$2.21
Swan Eco Industrial Park - Lot 14	7800 S. Swan Road	Nov-19	1.47	$1.50
Swan Eco Industrial Park - Lot 3	7800 S. Swan Road	Jul-19	3.17	$0.76
Swan Eco Industrial Park - Lot 13	7800 S. Swan Road	Jul-19	1.47	$1.40
Tangerine Business Park - Lot 10	W. Tangerine Road	Jan-19	5.55	$1.86
Source: CoStar				

As seen above, sale prices vary widely. While this is not a comprehensive list, sales activity in general is higher than was reported in the 2019 market study prepared for PCRERC.

EXISTING SUPPLY WITHIN THE TUCSON MSA

This analysis of supply considers the overall industrial market. It is noted that the overall industrial figures include all property subtypes. Information is extracted from CoStar.

Overall Industrial Supply

The following chart provides the industrial supply, leasing activity, and asking rates since 2013, according to CoStar:

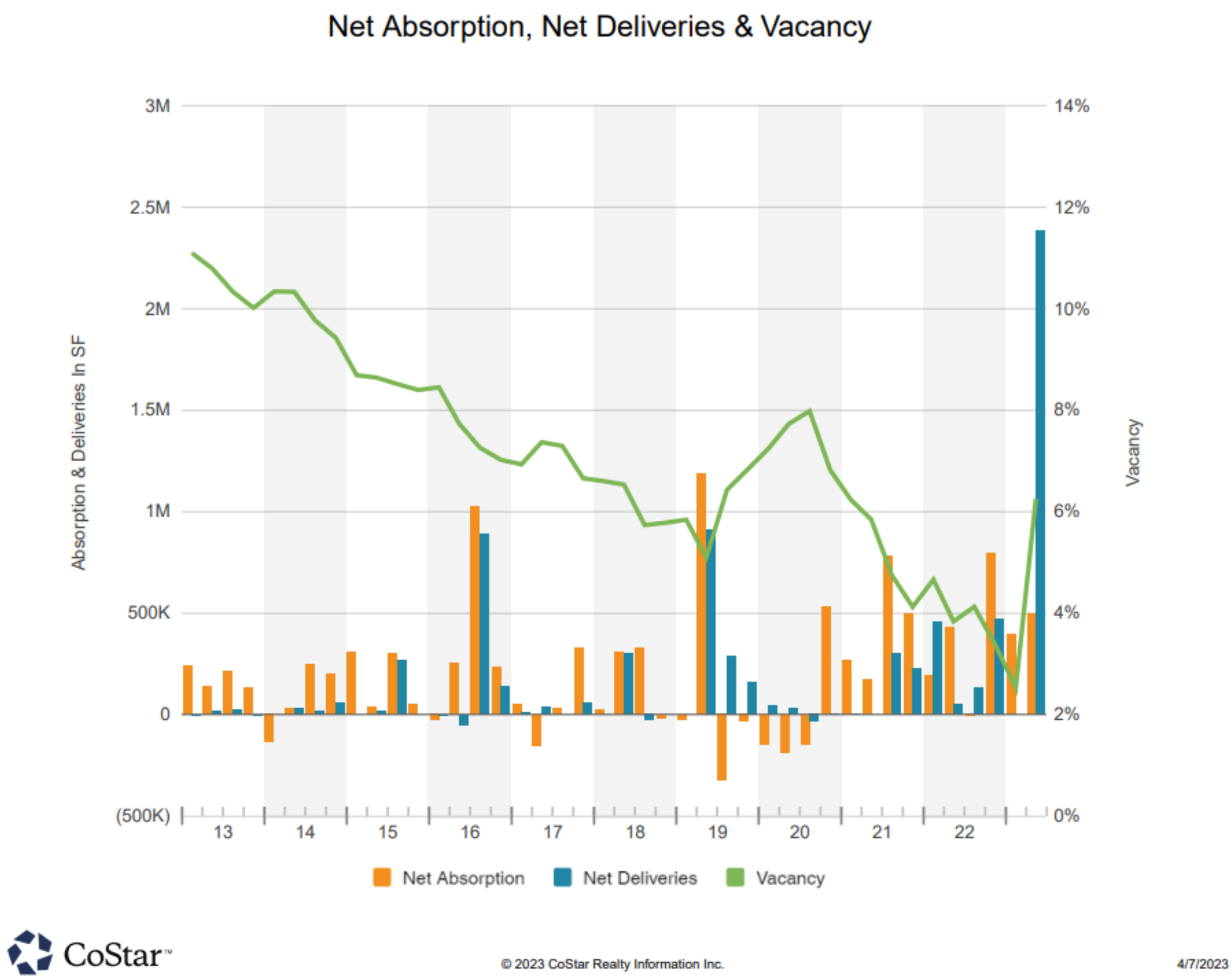
PIMA COUNTY INDUSTRIAL MARKET STATISTICS

Year	No. of Buildings	Total Area (SF)	Annual Growth	Construction Deliveries (SF)	Leasing Activity (SF)	12-Month Net Absorption (SF)	Occupancy Rate	Average Asking Rent PSF (NNN)	Annual Rent Growth
2013	2,608	41,770,026	---	40,515	2,260,414	719,006	90.0%	$6.10	---
2014	2,613	41,873,505	0.2%	103,479	2,911,205	339,601	90.6%	$6.39	4.8%
2015	2,616	42,160,962	0.7%	287,457	1,780,272	693,565	91.6%	$6.80	6.4%
2016	2,620	43,134,028	2.3%	1,043,859	2,110,838	1,484,531	93.0%	$6.65	-2.2%
2017	2,625	43,237,763	0.2%	121,461	1,921,964	253,674	93.4%	$6.27	-5.7%
2018	2,625	43,507,619	0.6%	306,931	1,557,201	640,517	94.2%	$6.07	-3.2%
2019	2,632	44,857,953	3.1%	1,350,334	2,037,835	800,010	93.2%	$6.25	3.0%
2020	2,636	44,907,548	0.1%	78,595	2,007,665	47,396	93.2%	$6.81	9.0%
2021	2,637	45,434,744	1.2%	560,907	2,334,189	1,714,595	95.9%	$8.08	18.6%
2022	2,649	46,545,109	2.4%	1,117,145	3,554,262	1,408,550	96.6%	$10.10	25.0%
2023 YTD	2,649	46,545,109	0.0%	0	845,659	349,306	97.4%	$9.67	-4.3%

Source: CoStar

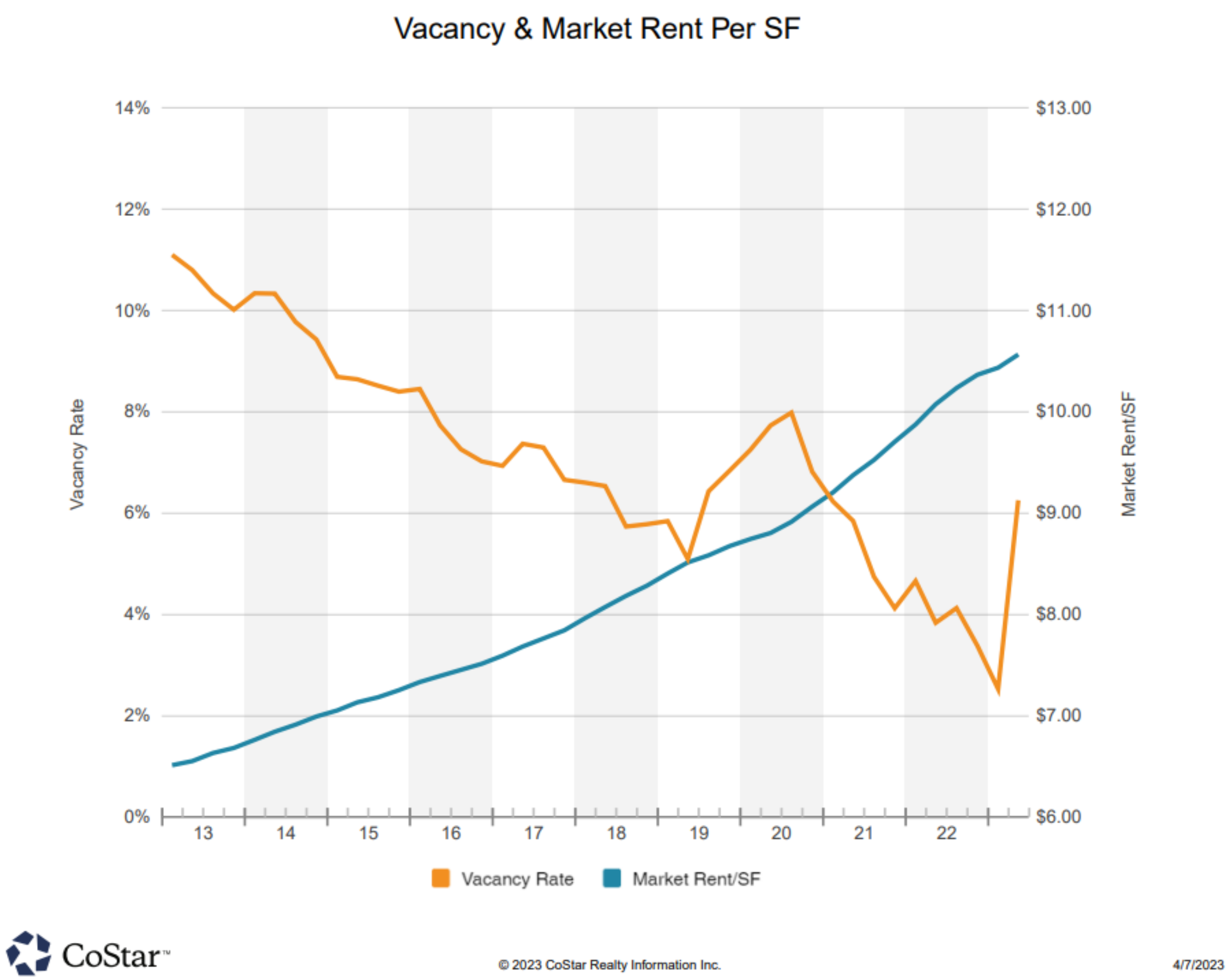
Total industrial inventory for the Tucson MSA is currently 46,545,109 square feet. Inventory has increased by 11.4% over the past ten years, or roughly 1.2% per year. Current construction totals 2,640,081 square feet, representing a 5.7% increase to existing supply, reflective of the recent surge in new development. It is noted that the annual rent growth is substantial in 2021 and 2022, commensurate with the higher lease rates associated with new construction.

The following chart outlines a quarter-by-quarter analysis for net absorption, net deliveries, and vacancy, per CoStar.



Please note that CoStar has captured a large delivery in the current quarter but has not taken pre-leasing into account. As such, the spike in vacancy appears to be inaccurate.

Since 2013, absorption has generally outpaced new construction, which has consisted of both build-to-suit and speculative projects. Existing vacancies have also been absorbed, resulting in a gradual decrease in vacancy.



Vacancy and rental rates have followed opposing trends with market rents increasing as vacancy declines.

Industrial Supply by Property Subtype

The following chart outlines the market's industrial inventory by property subtype. Please note that the analysis by property type has a lower total square footage than the overall industrial supply table. This is likely due to the exclusion of some specialty buildings that fall outside of one of the three categories listed below.

PIMA COUNTY INDUSTRIAL MARKET STATISTICS

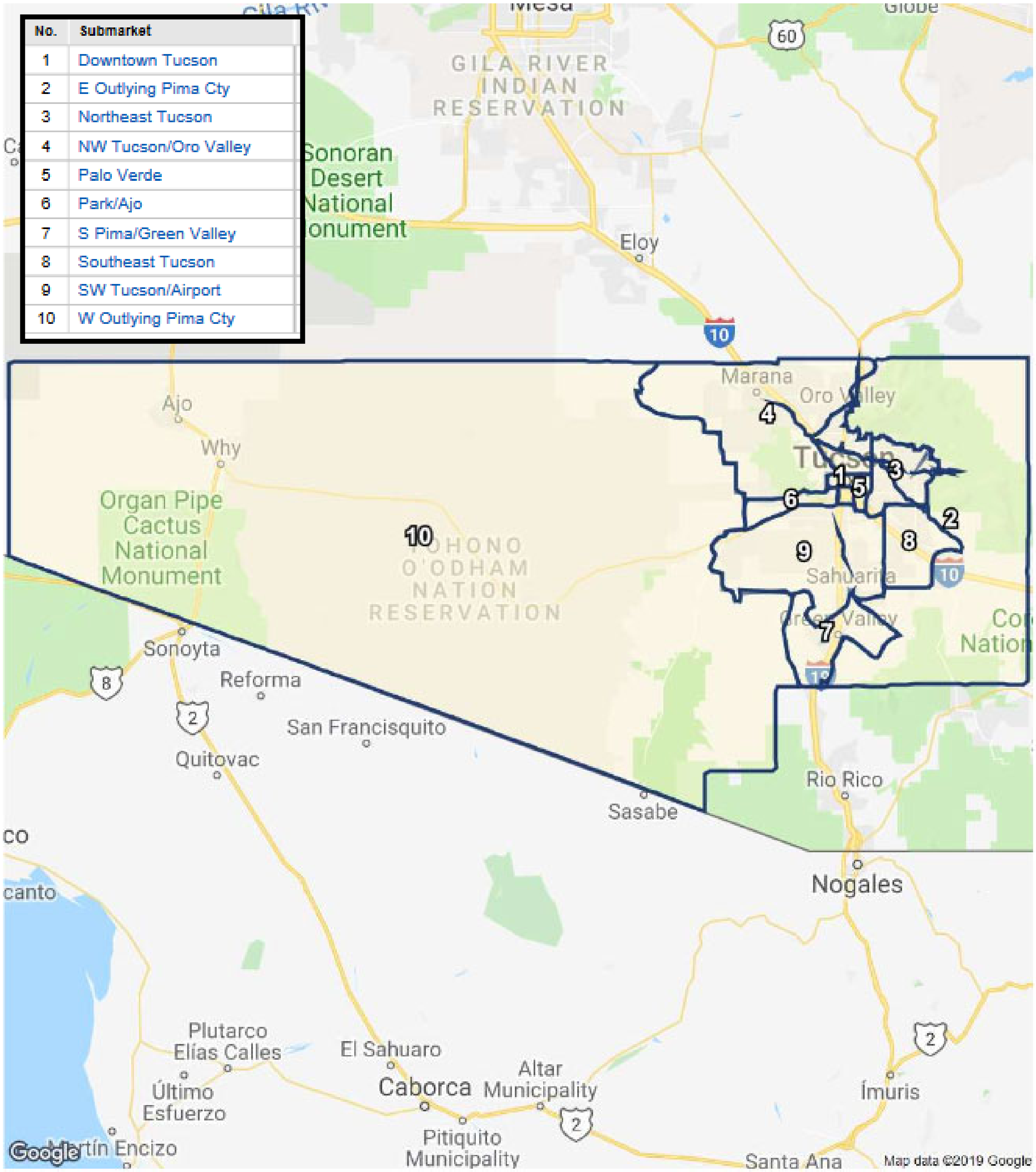
Property Subtype	No. of Buildings	Total Area (SF)	Percentage of total supply	Average Rent PSF (NNN)
Flex / R&D	488	10,022,679	21.5%	$10.25
Warehouse, Service, Distribution	1,507	25,045,253	53.8%	$8.10
Manufacturing	532	8,786,916	18.9%	$9.54

Source: CoStar

Over half of the market's existing product is warehouse / service / distribution buildings, which accounts for 25,045,253 square feet, or 53.8% of total supply. One of Tucson's strengths is in logistics, on account of its access to the Union Pacific Rail Road, proximity to the Mexico Border, International Airport, and direct access to the Interstate-10 Highway, which transverses the southern states. There is also a significant amount of flex / R&D product that serves the aerospace, and mining industries.

SUPPLY BY SUBMARKET

This section considers industrial statistics by submarket. The following map outlines the industrial submarket boundaries within the Tucson MSA, as defined by CoStar.



Overall Industrial Supply by Submarket

The following chart outlines current industrial market trends by submarket, as outlined by CoStar. Rents are reflected on a triple net (NNN) basis.

INDUSTRIAL MARKET STATISTICS BY SUBMARKET							
Submarket	No. of Buildings	Total Area (SF)	Percent of Total Supply	12-Month Construction Deliveries (SF)	12-Month Net Absorption	Occupancy Rate	Average Asking Rent PSF (NNN)
Downtown Tucson	424	4,139,406	8.9%	0	(53,797)	97.1%	$10.26
East Outlying Pima County	2	18,464	0.0%	0	0	100.0%	N/A
Northeast Tucson	243	2,773,176	6.0%	0	3,684	95.3%	$9.49
Northwest Tucson / Oro Valley	770	10,879,545	23.4%	302,037	264,298	96.4%	$8.76
Palo Verde	547	6,719,437	14.4%	10,539	(21,039)	98.2%	$8.90
Park / Ajo	268	4,049,195	8.7%	9,500	56,679	99.2%	$9.61
South Pima / Green Valley	14	204,538	0.4%	0	0	100.0%	N/A
Southeast Tucson	106	7,388,144	15.9%	0	606,429	99.8%	$10.80
Southwest Tucson / Airport	270	10,326,810	22.2%	337,869	745,866	96.0%	$10.08
West Outlying Pima County	5	46,394	0.1%	0	28,779	100.0%	N/A
Totals / Average	**2,649**	**46,545,109**		**659,945**	**1,630,899**	**97.4%**	**$9.67**
Source: CoStar							

For this study, industrial and flex / R&D supply are analyzed separately. Flex / R&D buildings have superior build-out and are generally geared toward different end-users. These typically yield higher rents and the majority of flex / R&D buildings are located in different submarkets than other warehouse, distribution, service, and manufacturing developments.

Warehouse, Distribution, Service, and Manufacturing by Submarket

The following chart outlines current warehouse, distribution, service, and manufacturing market trends by submarket, as outlined by CoStar. Rents are reflected on a triple net (NNN) basis.

WAREHOUSE, DISTRIBUTION, SERVICE, AND MANUFACTURING MARKET STATISTICS BY SUBMARKET							
Submarket	No. of Buildings	Total Area (SF)	Percent of Total Supply	Construction Deliveries (SF)	12-Month Net Absorption	Occupancy Rate	Average Rent PSF (NNN)
Downtown Tucson	370	3,676,495	10.1%	0	(61,682)	97.0%	$9.82
East Outlying Pima County	2	18,464	0.1%	0	0	100.0%	N/A
Northeast Tucson	169	1,660,458	4.5%	0	(6,902)	93.5%	$9.85
Northwest Tucson / Oro Valley	610	8,507,117	23.3%	280,437	264,270	97.6%	$7.28
Palo Verde	469	5,339,264	14.6%	10,539	19,715	99.1%	$10.01
Park / Ajo	214	3,489,792	9.6%	0	51,308	99.5%	$8.96
South Pima / Green Valley	8	147,406	0.4%	0	0	100.0%	N/A
Southeast Tucson	93	5,742,595	15.7%	0	604,679	100.0%	$10.80
Southwest Tucson / Airport	222	7,898,168	21.6%	337,869	496,154	98.4%	$10.39
West Outlying Pima County	4	42,671	0.1%	0	28,779	100.0%	N/A
Totals / Average	**2,161**	**36,522,430**		**628,845**	**1,396,321**	**98.3%**	**$9.45**
Source: CoStar							

Downtown Submarket

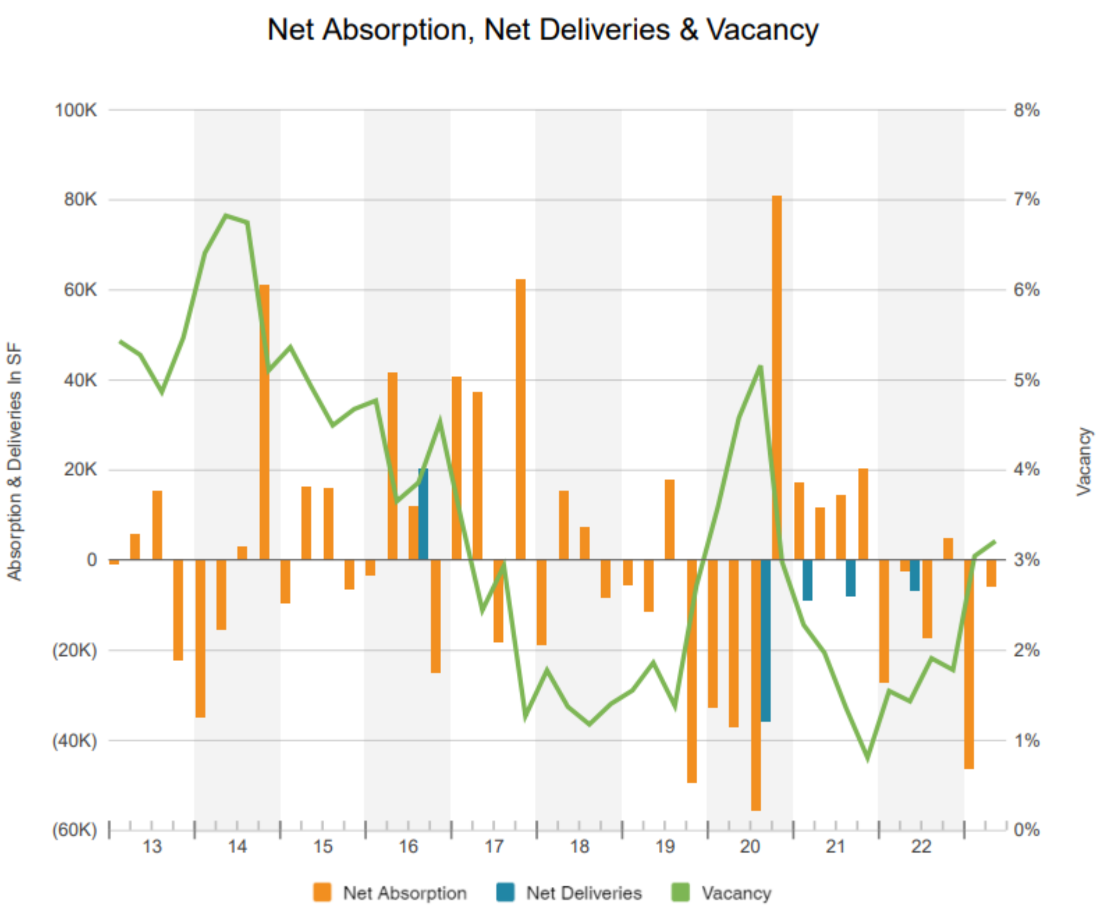
INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
3.7M -0.2%	0 -	(61.5K) -440.6%	3.0% +1.5%	$10.31 +4.4%	$116 +9.1%	7.7% +0%
Prior Period 3.7M	Prior Period 0	Prior Period 18.1K	Prior Period 1.5%	Prior Period $9.87	Prior Period $106	Prior Period 7.7%

Source: CoStar

The Downtown submarket accounts for roughly 3.7 million square feet of the market's overall supply. Large projects in this market include the CenturyLink Building. The 20,313-square-foot Modern Streetcar Maintenance building is considered to be one of the greater market's "Class A" projects.

There is no new product under construction, and although 12-month net absorption has been negative, overall vacancy is still quite low.

The following chart outlines a quarter-by-quarter analysis for net absorption, net deliveries, and vacancy, per CoStar.



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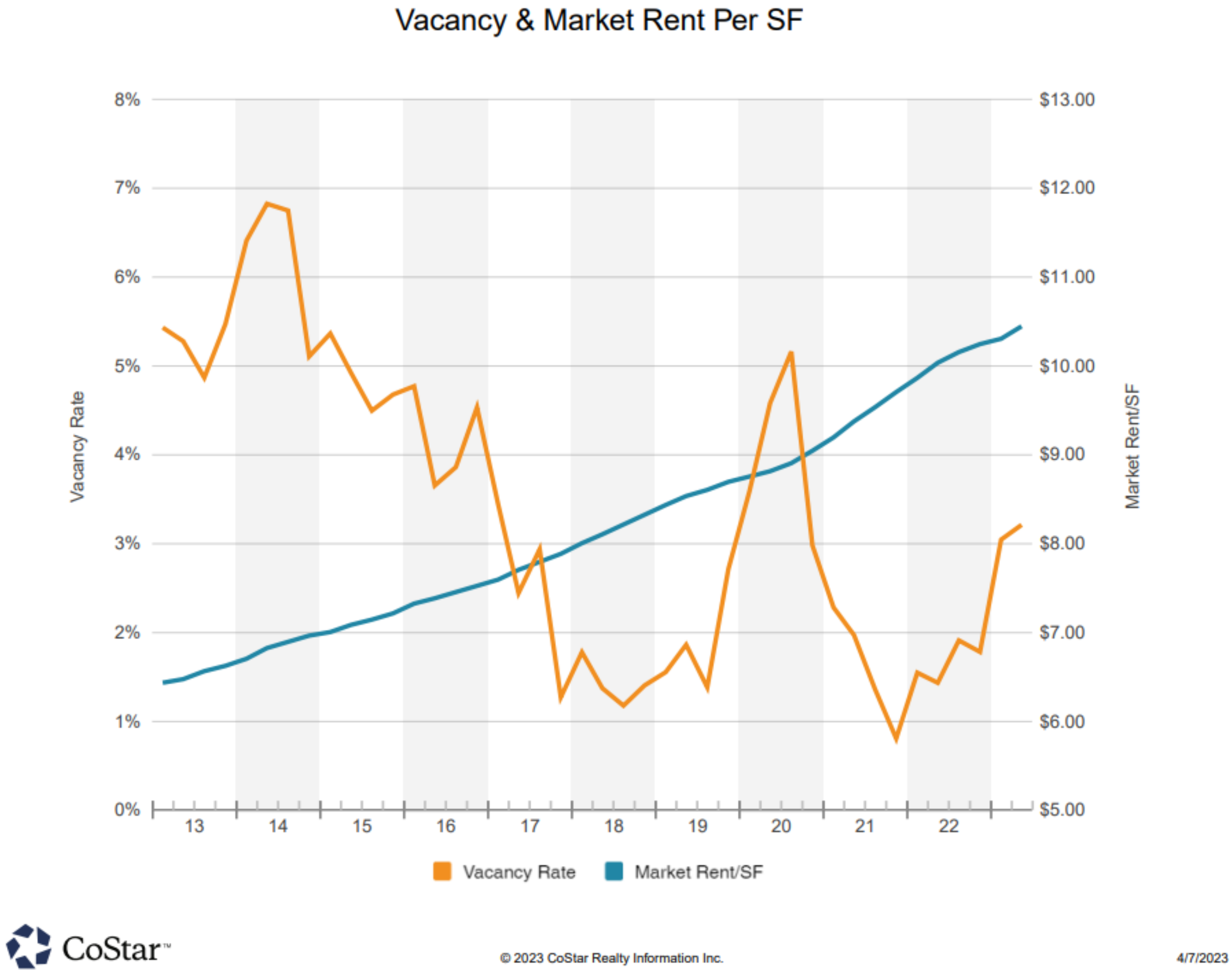
Over the past ten years, absorption and vacancy have both fluctuated, although vacancy remains quite low, near or below 5% since mid-2015.



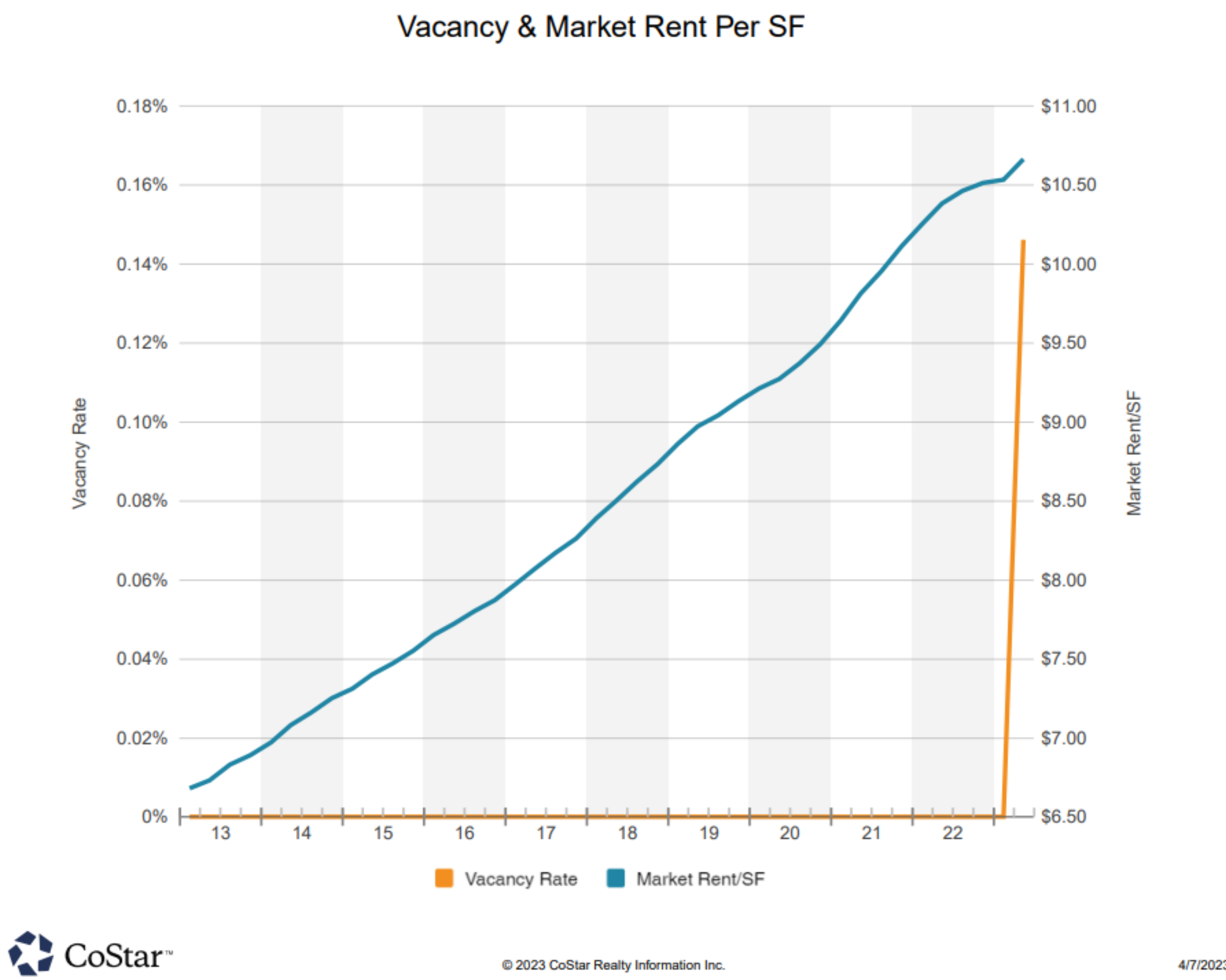
As previously mentioned, vacancy has been near or below 5% since 2015. At the same time, rental rates have been increasing, suggesting that there is good demand for industrial product in this submarket.

East Outlying Pima County Submarket

INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
18.5K +0%	0 -	0 -	0% +0%	$10.53 +2.7%	$120 +8.8%	7.3% +0.1%
Prior Period 18.5K	Prior Period 0	Prior Period 0	Prior Period 0%	Prior Period $10.26	Prior Period $110	Prior Period 7.2%

Source: CoStar

The East Outlying Pima County submarket accounts for very little industrial product of the market's overall supply. There is no new product under construction, and no absorption reported, either positive or negative. There are only two buildings in this submarket totaling roughly 18,500 square feet. Data is insufficient to provide a graph for absorption, deliveries, and vacancy.



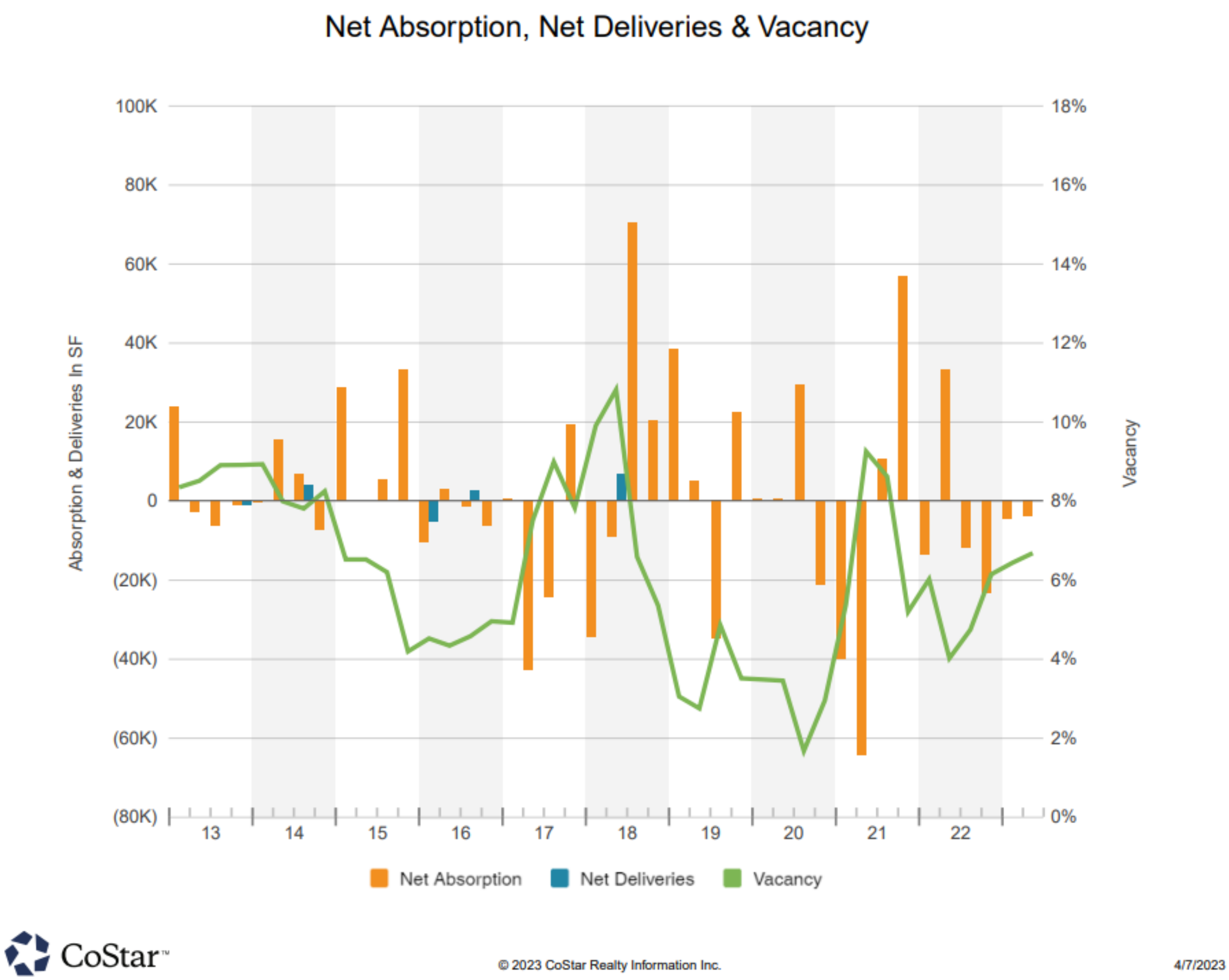
The submarket's vacancy rate has been 0% over the past 10 years, with little movement. Please note that the chart above is a bit deceiving – while there appears to be a significant spike in vacancy in Q1 2023, the Y axis has a very limited range. Vacancy is approximately 0.15%. CoStar estimates that the market rent has increased since 2013.

Northeast Tucson Submarket

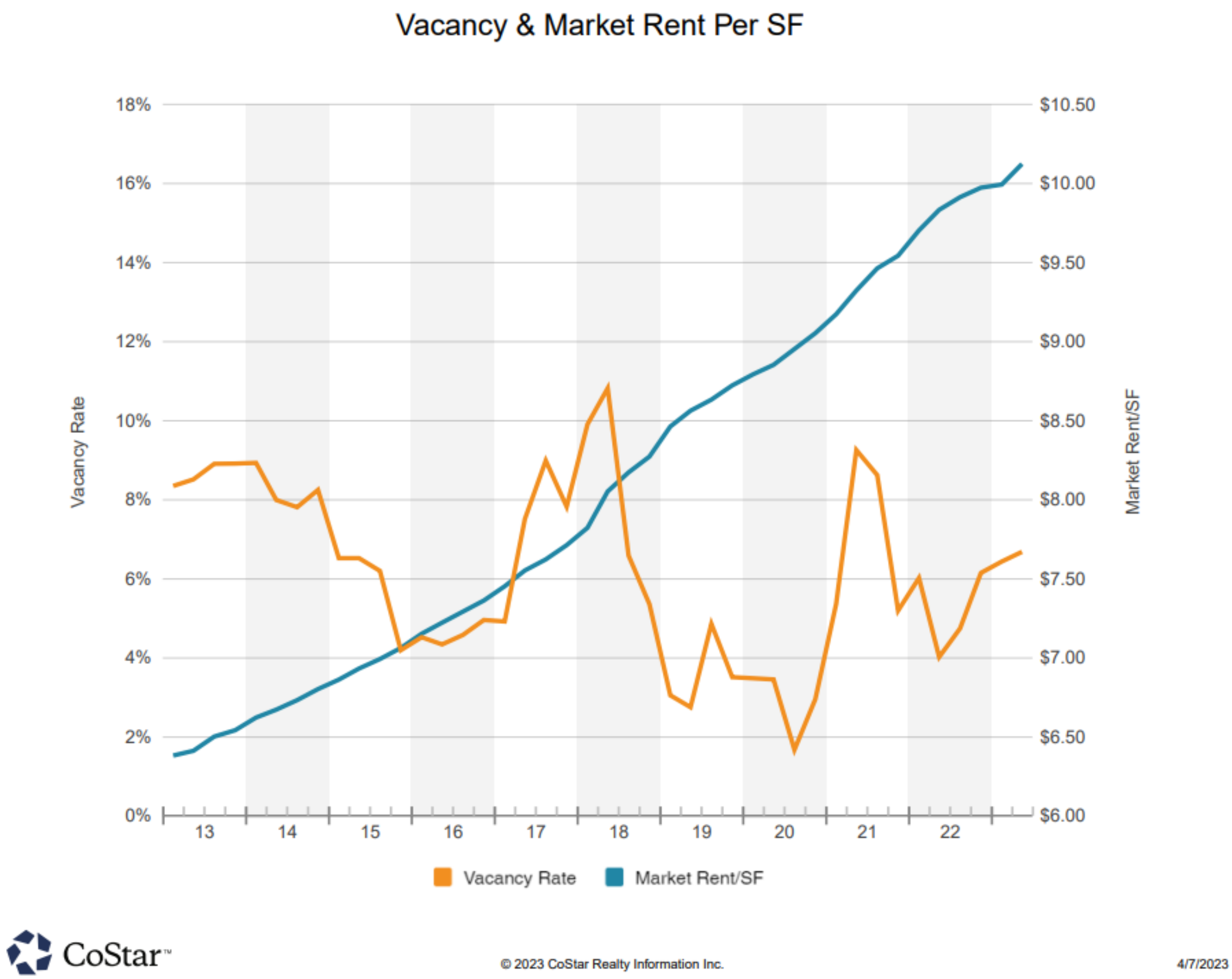
INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
1.7M +0%	0 -	(10.1K) -129.3%	6.5% +0.6%	$10.00 +2.9%	$131 +8.9%	7.5% +0.1%
Prior Period 1.7M	Prior Period 0	Prior Period (4.4K)	Prior Period 5.9%	Prior Period $9.71	Prior Period $120	Prior Period 7.4%

Source: CoStar

The Northeast Tucson submarket accounts for roughly 1.7 million square feet of the market's overall supply. There is no new product under construction, and although net absorption was negative over the past 12 months, overall vacancy is still fairly low at 6.5%. This submarket has a high level of flex / R&D space. The chart below covers all other types of industrial development (warehouse, distribution, service, manufacturing).



There have been very few deliveries over the past ten years. Absorption has fluctuated. Negative absorption in the last four quarters have resulted in an increase in vacancy.



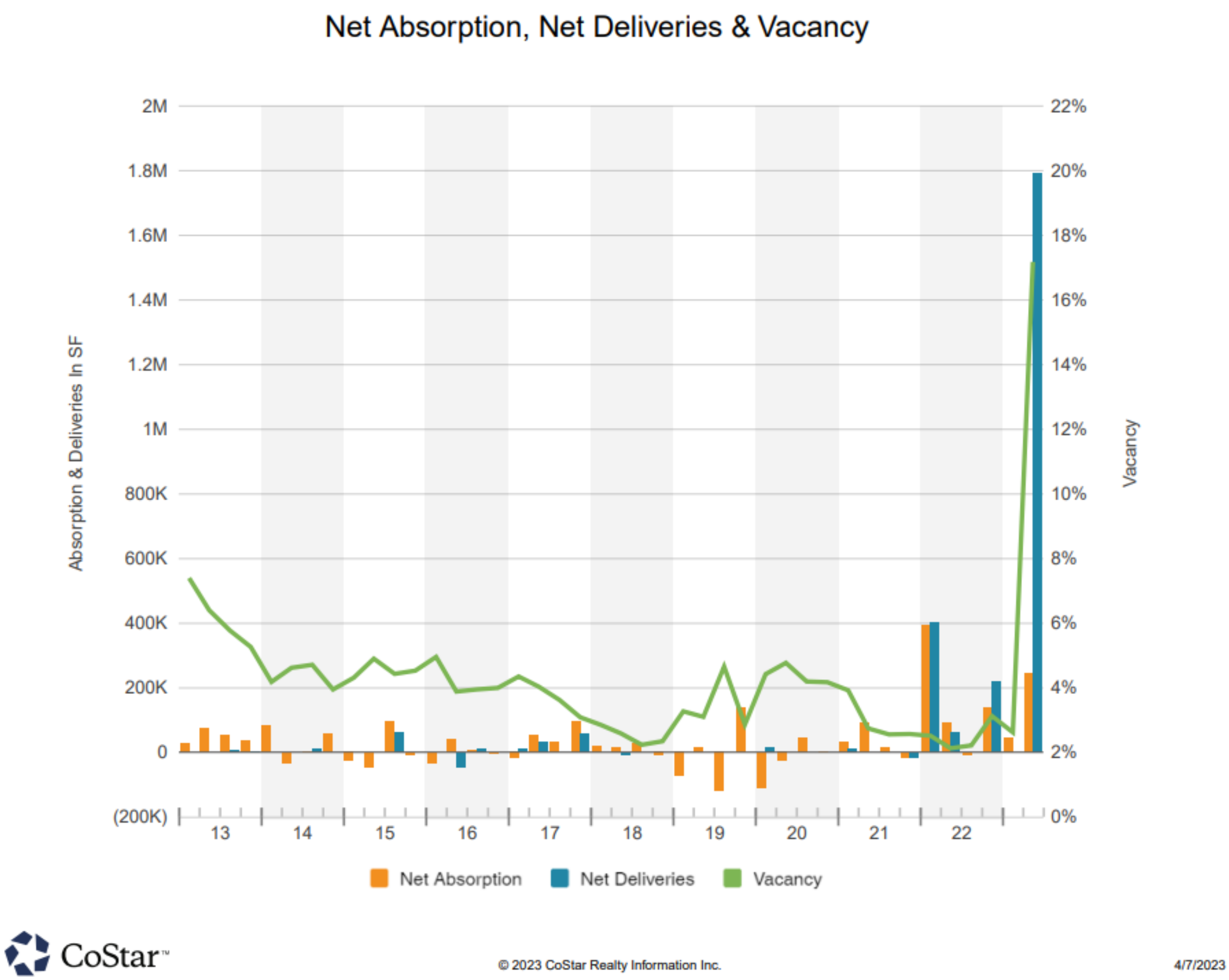
As previously mentioned, vacancy has generally fluctuated over the past ten years, with a sharp rise mid-2021. At the same time, rental rates have been increasing, suggesting that there is good demand for industrial product in this submarket.

Northwest Tucson / Oro Valley Submarket

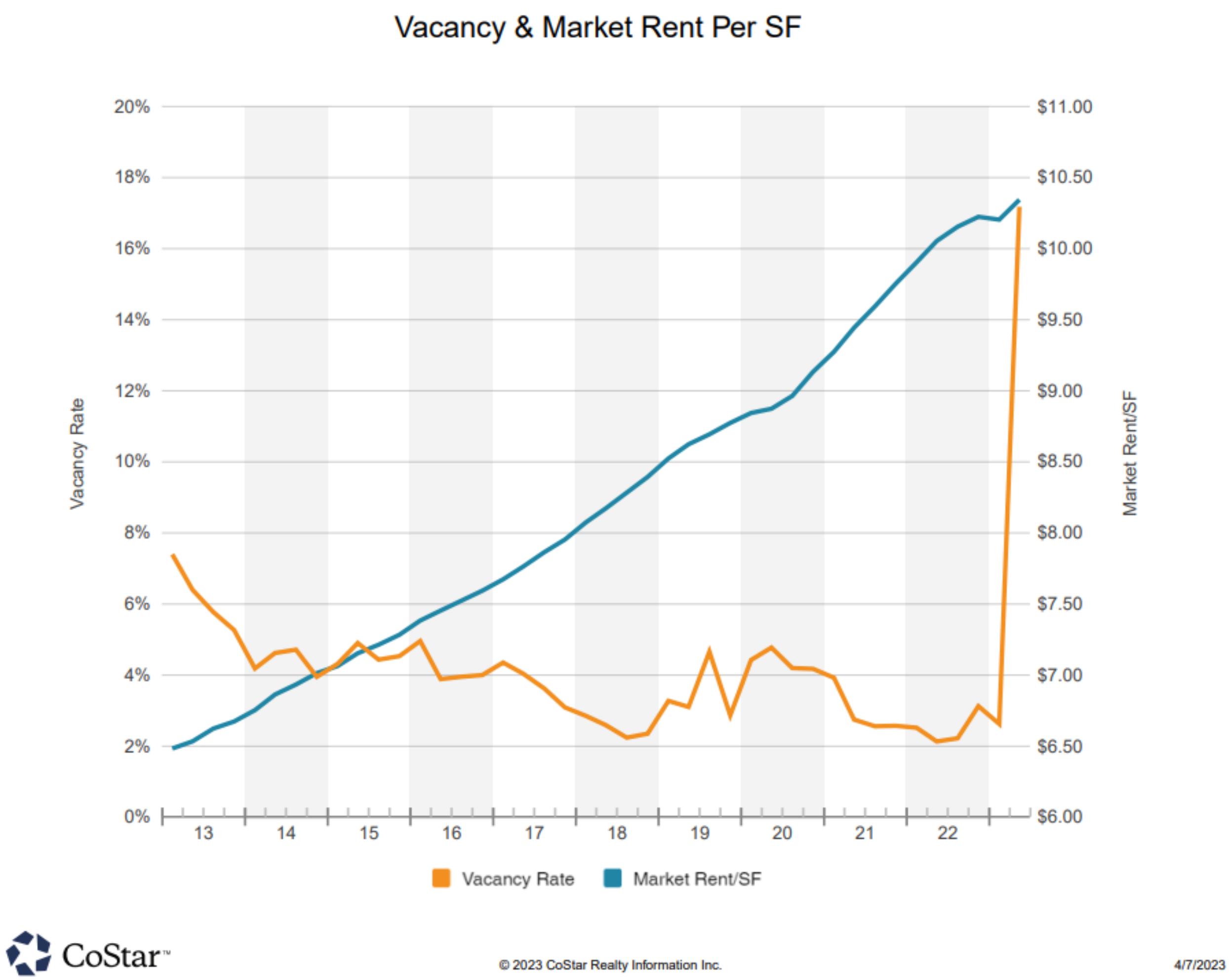
INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
8.5M +3.4%	1.8M +548.7%	273K -43.6%	2.4% -0.1%	$10.21 +3.1%	$141 +12.4%	7.4% -0.1%
Prior Period 8.2M	Prior Period 276K	Prior Period 484K	Prior Period 2.5%	Prior Period $9.91	Prior Period $125	Prior Period 7.5%

Source: CoStar

The Northwest Tucson / Oro Valley submarket accounts for roughly 8.5 million square feet of the market's overall supply. There is a significant amount of new product under construction, totaling 1.8 million square feet. Once delivered, new construction will increase supply by approximately 21%. This submarket is the location of Flint Development's Southern Arizona Logistics Center. Net absorption has been positive over the past 12 months, and overall vacancy is quite low at 2.4%. The chart below covers all other types of industrial development (warehouse, distribution, service, manufacturing).



Please note that CoStar has captured a large delivery in the current quarter but has not taken pre-leasing into account. As such, the spike in vacancy appears to be inaccurate.



Please note that CoStar has captured a large delivery in the current quarter but has not taken pre-leasing into account. As such, the spike in vacancy appears to be inaccurate.

Vacancy has generally declined over the past ten years. At the same time, rental rates have been increasing, suggesting that there is good demand for industrial product in this submarket.

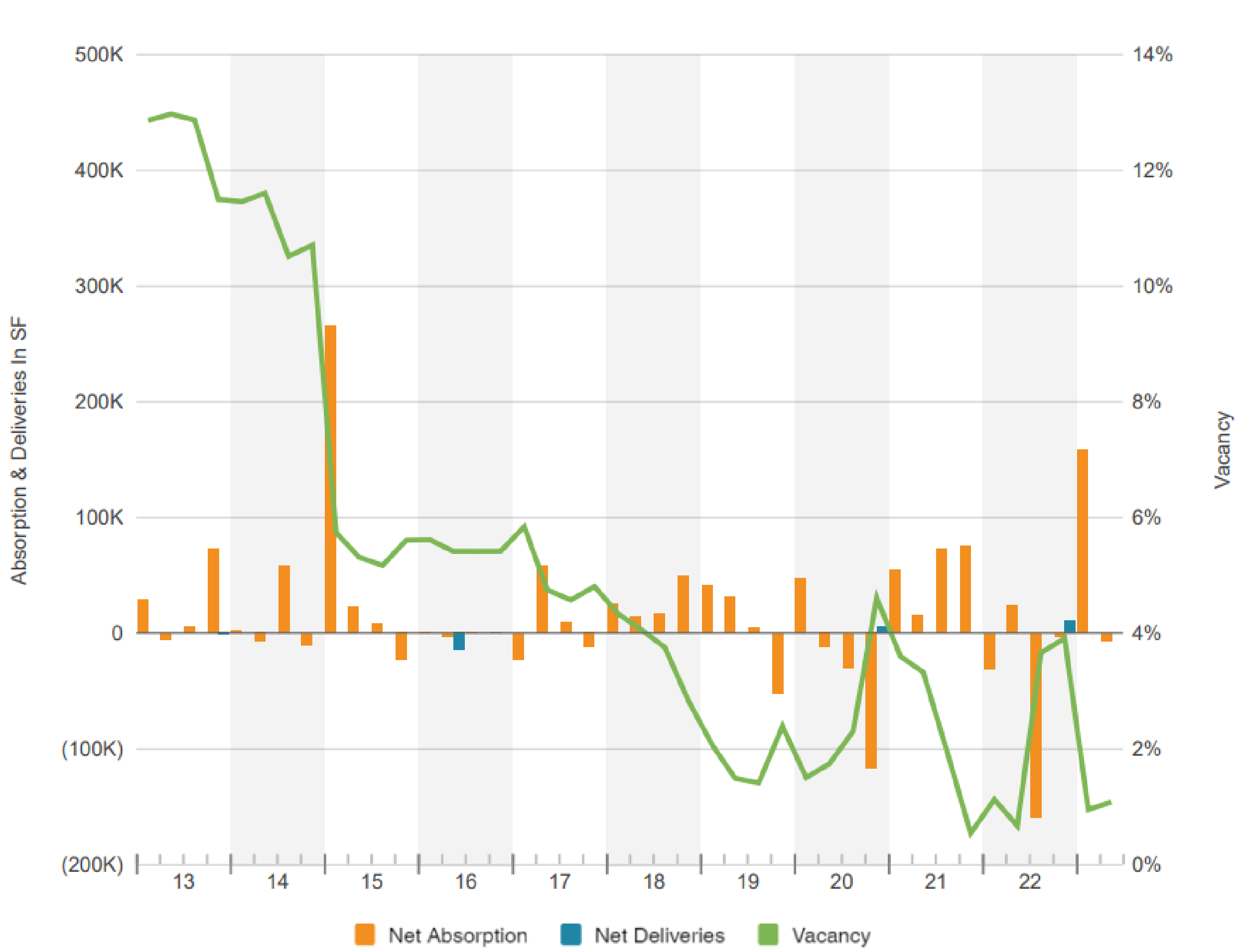
Palo Verde Submarket

INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
5.3M +0.2%	0 -100.0%	18.7K -85.9%	0.9% -0.2%	$9.49 +5.0%	$115 +8.9%	8.0% +0.1%
Prior Period 5.3M	Prior Period 10.5K	Prior Period 132K	Prior Period 1.1%	Prior Period $9.03	Prior Period $106	Prior Period 7.9%

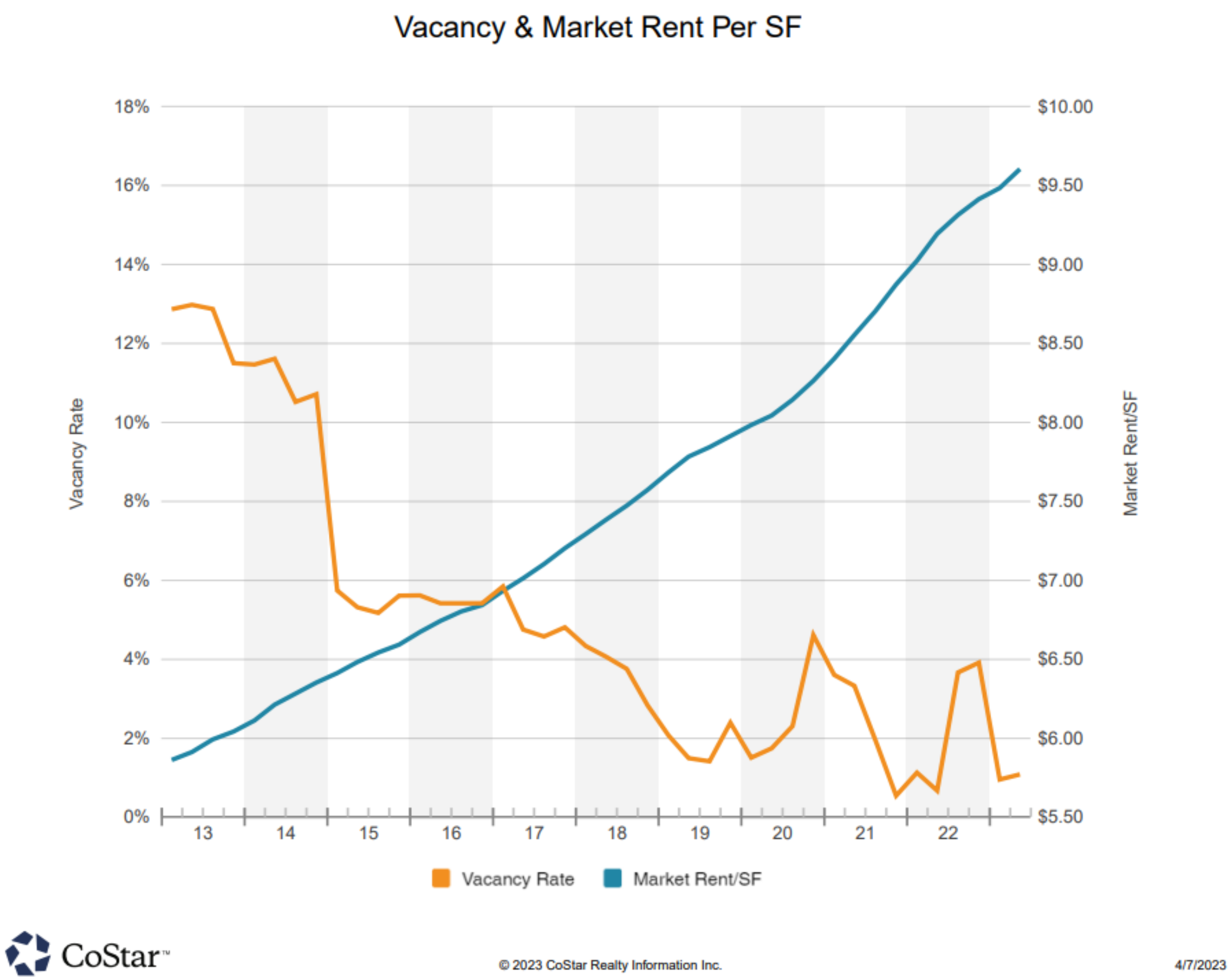
Source: CoStar

The Palo Verde submarket accounts for roughly 5.3 million square feet of the market's overall supply. There is no new product under construction. While absorption has been negative over the past 12 months, overall vacancy is down to 0.9%. The chart below covers all other types of industrial development (warehouse, distribution, service, manufacturing).

Net Absorption, Net Deliveries & Vacancy



There has been limited new construction in this market over the past ten years. Absorption has varied with overall vacancy remaining quite low since 2017.



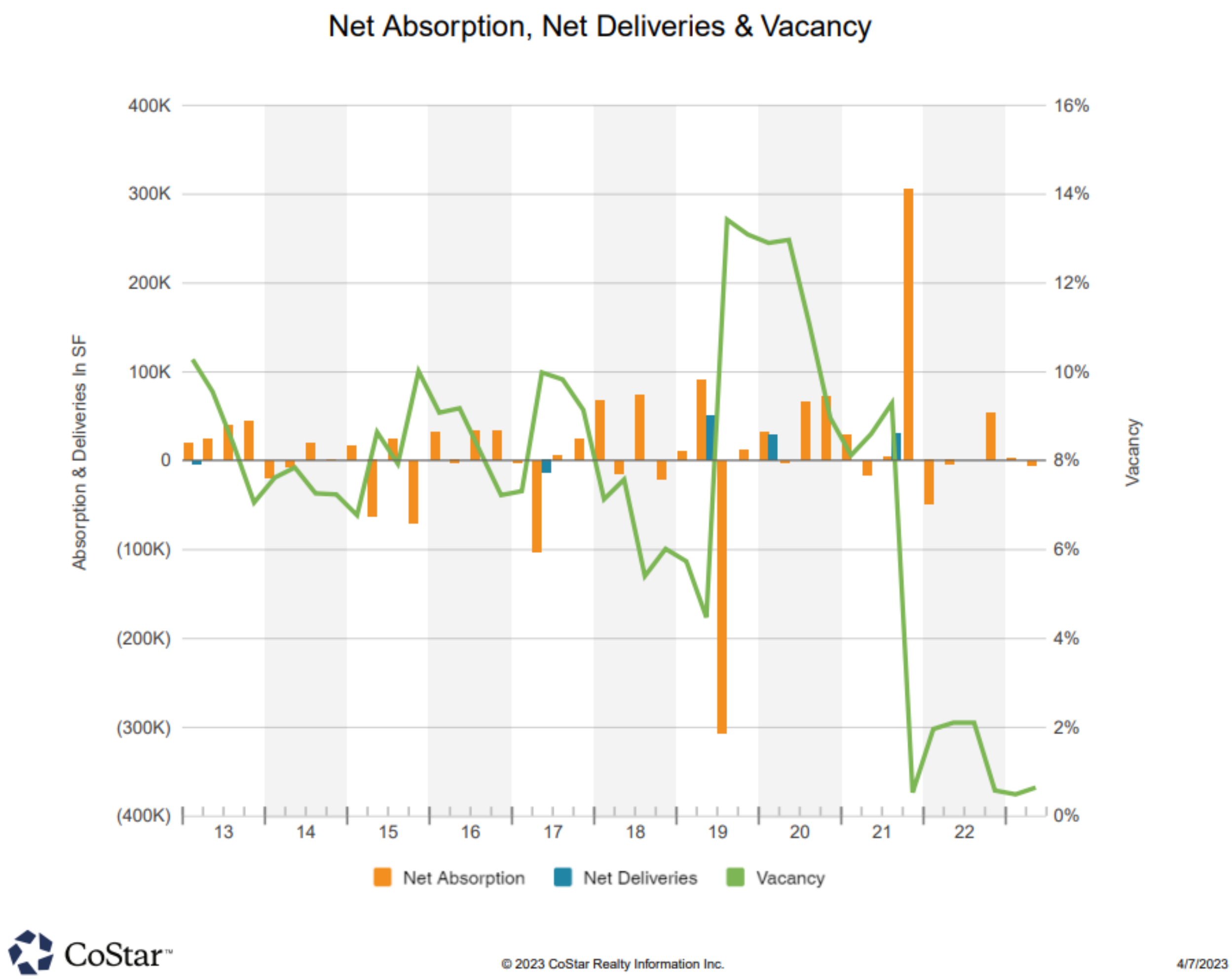
The submarket's historical vacancy has been below 5% since 2017. Meanwhile, market rents have experienced a steady increase over the past ten years.

Park / Ajo Submarket

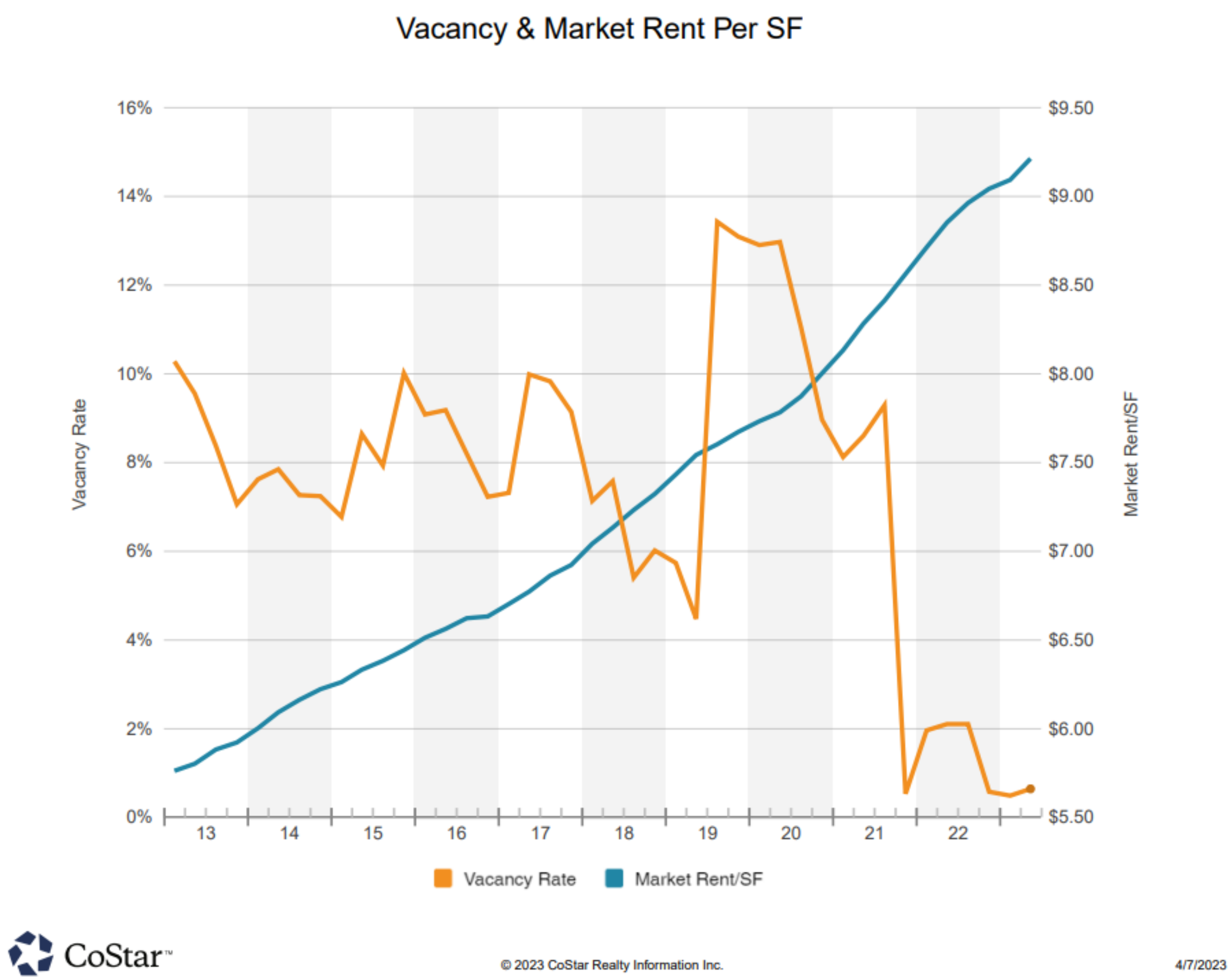
INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
3.5M +0%	0 -	51.7K -78.8%	0.5% -1.5%	$9.10 +4.4%	$125 +7.8%	7.5% +0%
Prior Period 3.5M	Prior Period 0	Prior Period 243K	Prior Period 2.0%	Prior Period $8.72	Prior Period $116	Prior Period 7.5%

Source: CoStar

The Park / Ajo submarket accounts for roughly 3.5 million square feet of the market's overall supply. Notable projects include the Hensley Beverage Company building. Recent construction include an Amazon Distribution center located on Silverlake road, and a DES building along Park Avenue. Despite negative absorption over the past 12 months, overall vacancy is currently at 0.5%.



There has been limited new construction in this market over the past ten years. Absorption has varied, with a generally positive trend since 2019.



Vacancy has fluctuated over the past few years, with a downward trend over the past two years. Market rents have generally been increasing since 2013.

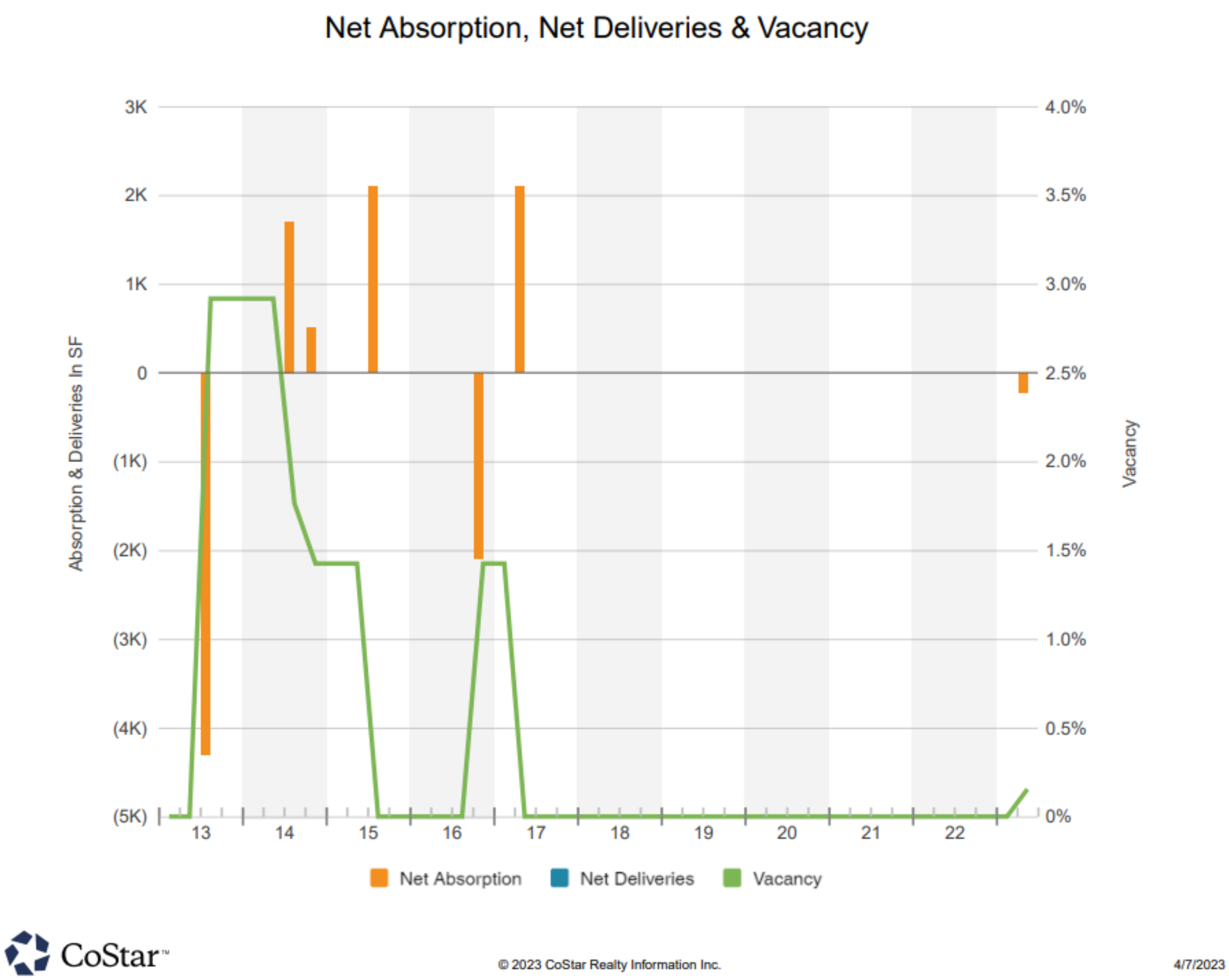
South Pima / Green Valley Submarket

INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
135 K 0%	0 -	0 -100.0%	0% 0%	$9.24 +3.5%	$95 -0.5%	8.1% +0.3%
Prior Period 135 K	Prior Period 0	Prior Period 1.1 K	Prior Period 0%	Prior Period $8.93	Prior Period $96	Prior Period 7.8%

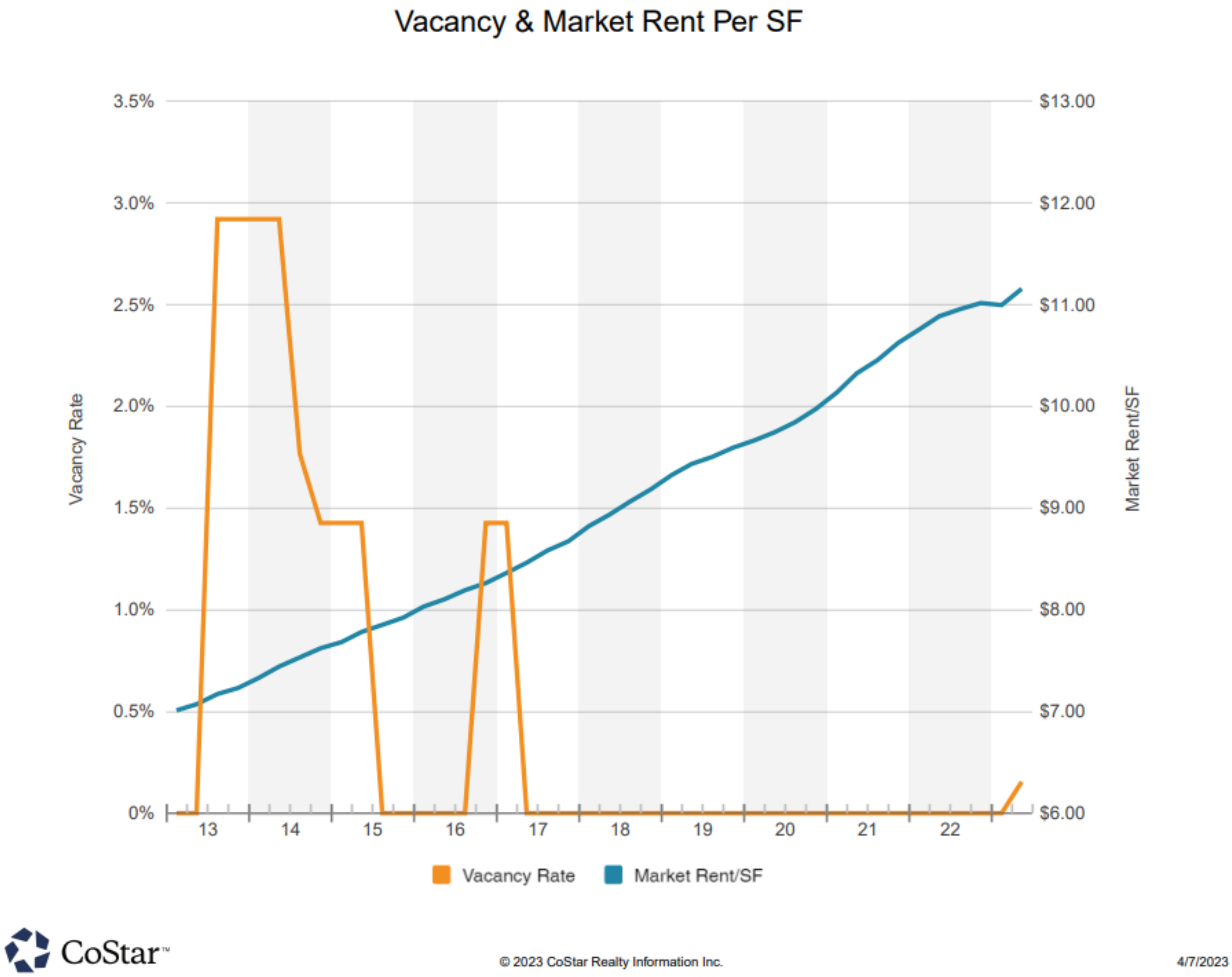
Source: CoStar

The South Pima / Green Valley submarket accounts for less than 0.5% of the market's overall supply. There is no new product under construction, and no absorption reported, either positive or negative. There are only 14 buildings in this submarket totaling roughly 205,000 square feet.

Caterpillar Inc. occupies two buildings totaling approximately 116,000 square feet. The Caterpillar development is in a remote location, located west of Green Valley, and was developed specifically for use by a mining company.



In consideration of its limited inventory, vacancy is typically quite low in this submarket, with only small variances in absorption. No new product has been delivered to this market over the past 10 years.



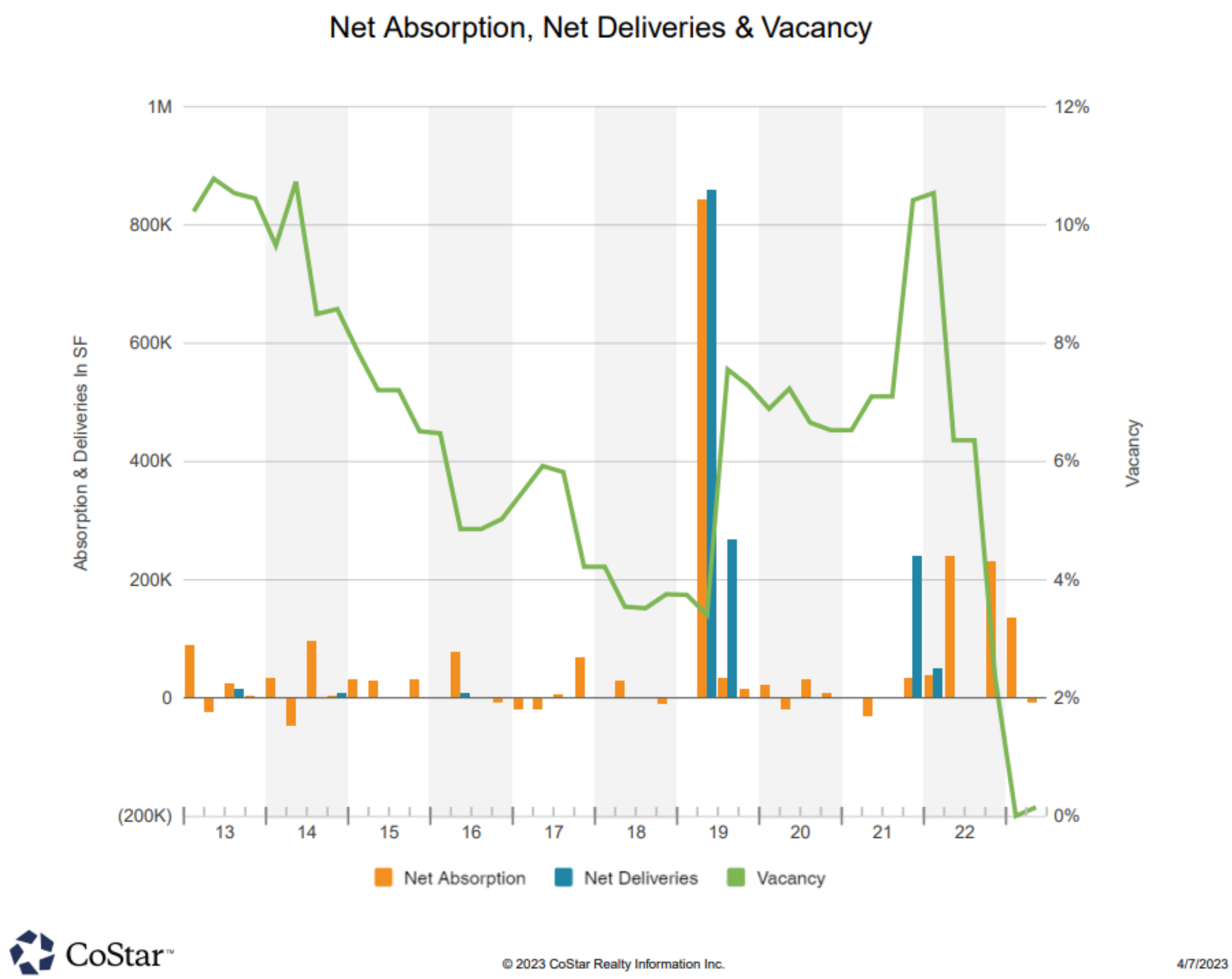
The submarket's vacancy rate has ranged from 0% to just under 3% over the past 10 years, with limited movement. The chart above shows CoStar's market rent estimate. CoStar estimates that the market rent has increased since 2013.

Southeast Tucson Submarket

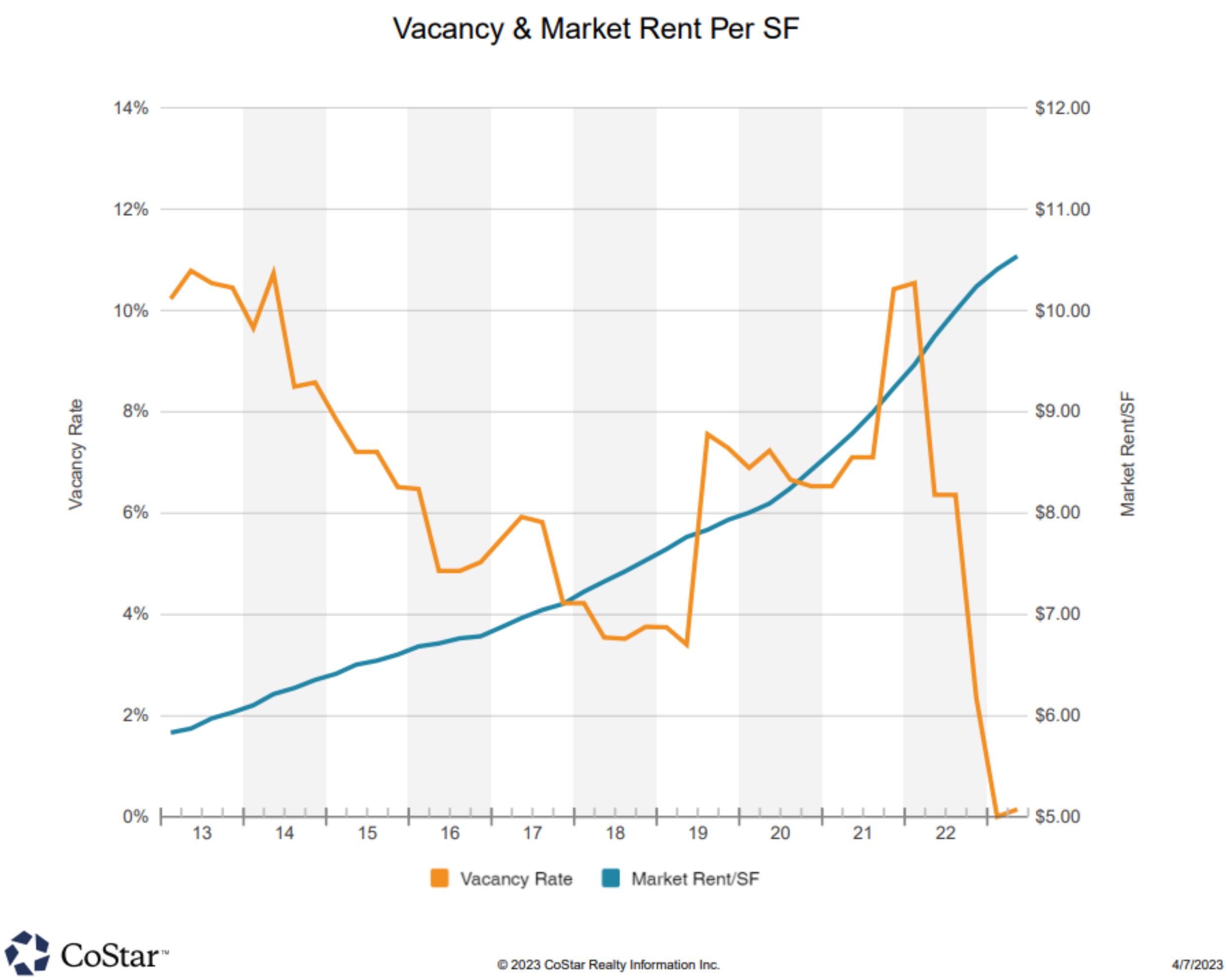
INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
5.7M +0%	0 -	586K +897.4%	0% -10.3%	$10.41 +9.8%	$125 +11.0%	7.4% +0%
Prior Period 5.7M	Prior Period 0	Prior Period 58.8K	Prior Period 10.3%	Prior Period $9.48	Prior Period $112	Prior Period 7.4%

Source: CoStar

The Southest Tucson submarket accounts for roughly 5.7 million square feet of the market's overall supply. There are no projects under construction, but recent deliveries have included two Amazon distribution centers and two Port of Tucson distribution buildings. Diamond Ventures has a proposed 990,000-square-foot project at Old Vail Road and Distribution Way that, if developed, would be a significant increase to overall inventory. Other large developments in the submarket include the Target Fulfillment Center, and several other large research buildings and distribution centers. Tech Parks Aizona accounts for foughly 1/3 of the industrial space in this submarket.



Recent deliveries over the past four years have been absorbed into the market resulting in a very low vacancy rate.



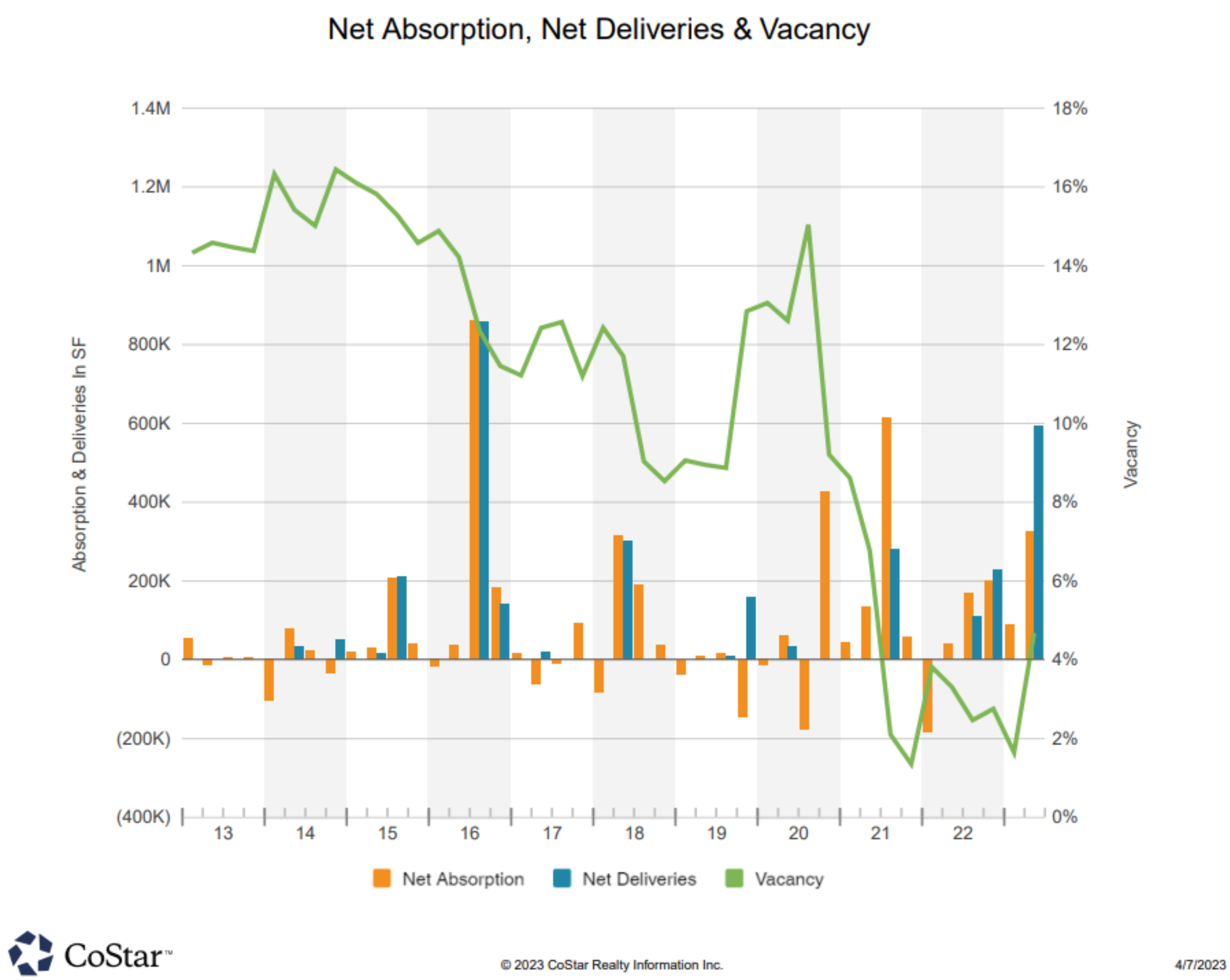
The vacancy rate has varied over the past several years, but is currently quite low, with all new product being absorbed into the market. Meanwhile, CoStar estimates that market rents have steadily increased since 2013.

Southwest Tucson / Airport Submarket

INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
7.3 M +3.9%	167 K -39.2%	458 K +628.2%	12.4% -3.2%	$7.29 +4.6%	$91 -3.9%	7.8% +0.4%
Prior Period 7 M	Prior Period 274 K	Prior Period (86.8 K)	Prior Period 15.6%	Prior Period $6.97	Prior Period $95	Prior Period 7.4%

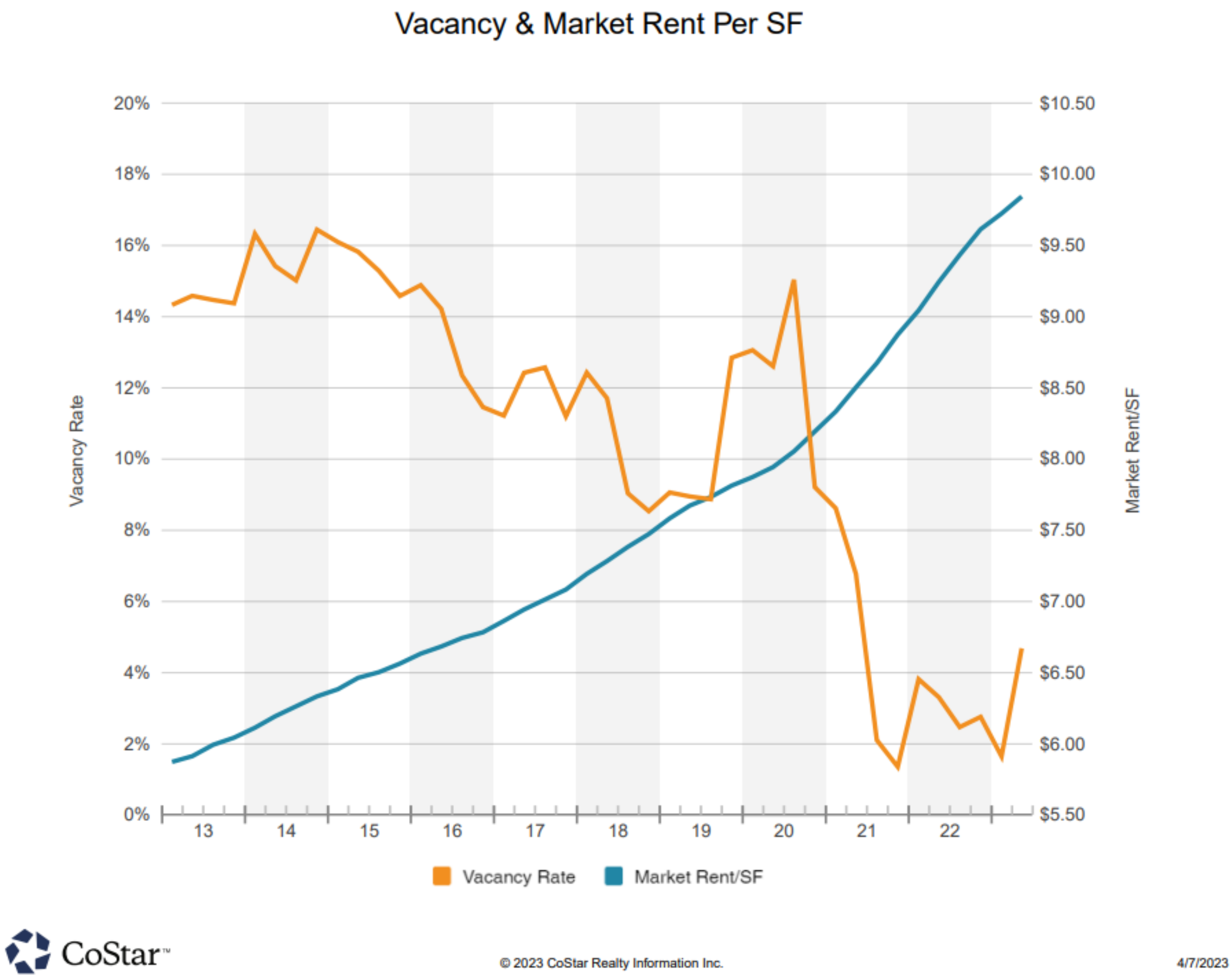
Source: CoStar

The Southwest Tucson / Airport submarket accounts for roughly 7.3 million square feet of the market's overall supply. There are two projects under construction in this submarket, one of which is Flint Development's Tucson Commerce Center. This development totals 806,606 square feet and does not appear to be captured by CoStar. Other large developments in this area include the 858,288-square-foot HomeGoods Distribution Center, 300,855-square-foot Lisa Frank Building, 300,181-square-foot Chamberlain Group Building, 210,000-square-foot FedEx Distribution facility, etc.



Please note that CoStar has captured a large delivery in the current quarter but has not taken pre-leasing into account. As such, the spike in vacancy appears to be inaccurate.

As outlined in the chart above, there have ben several large deliveries into the Southwest Tucson / Airport submarket over the past several years. Lincoln Properties plans to develop I-10 International in this submarket, which will include four buildings totaling 777,112 square feet.



Please note that CoStar has captured a large delivery in the current quarter but has not taken pre-leasing into account. As such, the spike in vacancy appears to be inaccurate.

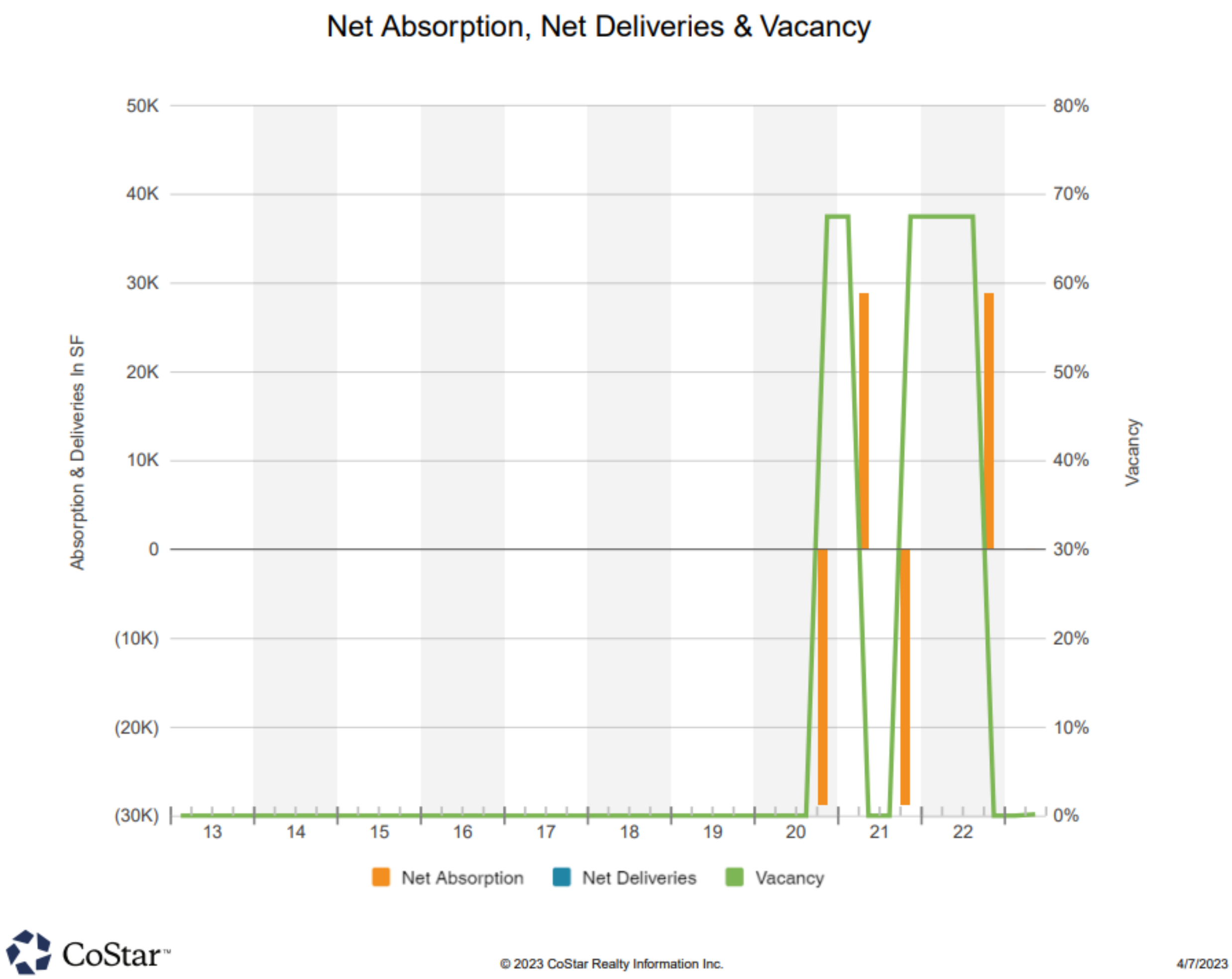
This submarket's vacancy has generally declined since 2020. Rental rates have generally shown an upward trend, which is reasonable considering the amount of new product, which generally yields a higher rental rate.

West Outlying Pima County Submarket

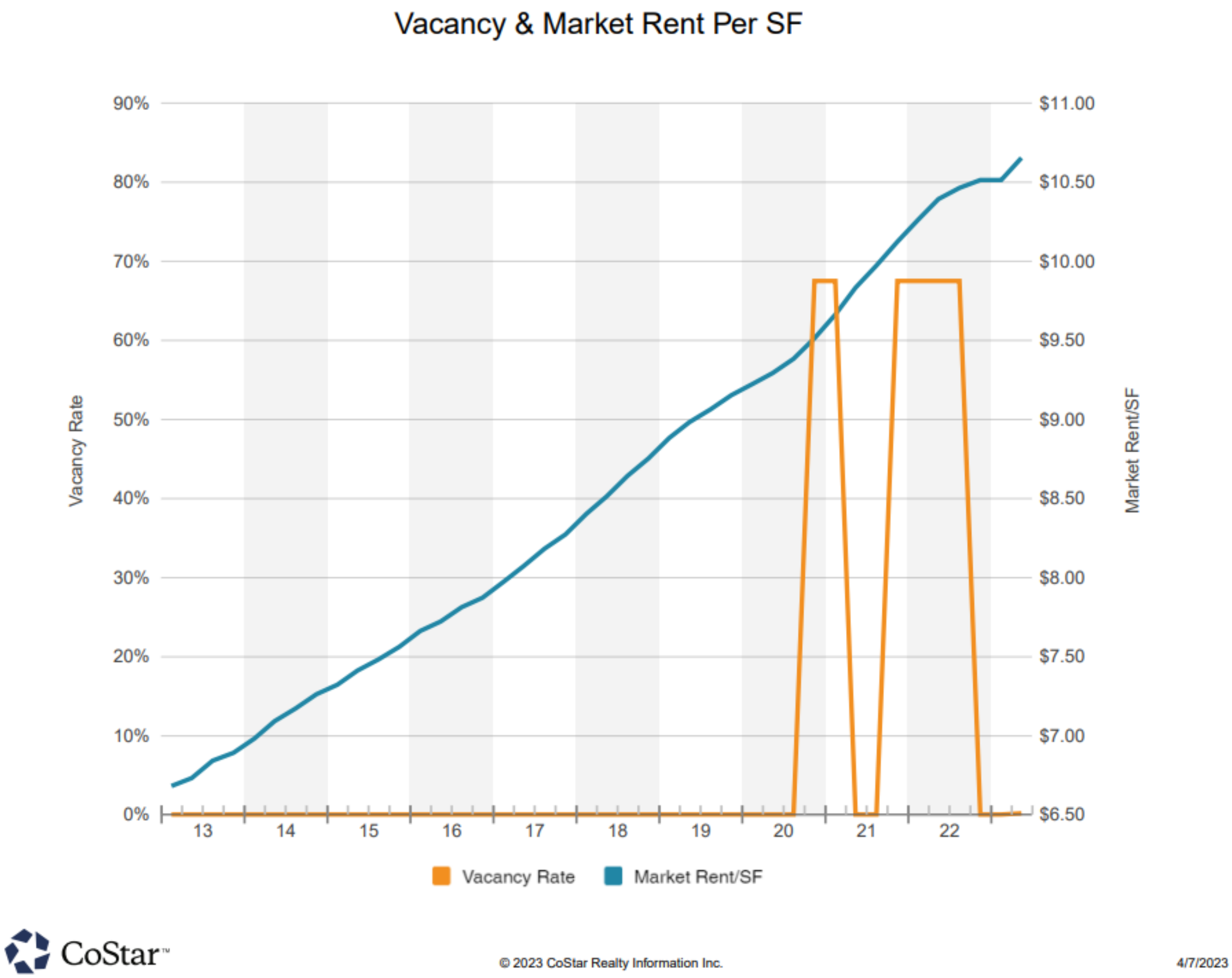
INVENTORY SF	UNDER CONSTRUCTION SF	12 MO NET ABSORPTION SF	VACANCY RATE	MARKET RENT/SF	MARKET SALE PRICE/SF	MARKET CAP RATE
42.7K +0%	0 -	28.8K +1,616.7%	0% -67.4%	$10.52 +2.4%	$119 +6.5%	7.7% +0.1%
Prior Period 42.7K	Prior Period 0	Prior Period (1.9K)	Prior Period 67.4%	Prior Period $10.27	Prior Period $111	Prior Period 7.6%

Source: CoStar

The West Outlying Pima County submarket accounts for very little industrial product of the market's overall supply. There is no new product under construction, and limited but positive absorption reported. There are only five buildings in this submarket totaling roughly 46,394 square feet.



It appears that CoStar reports the same space being vacated and re-leased in the past three years, with vacancy at 0%.



The submarket's vacancy rate has changed dramatically over the past three years, which is typical of a small market wherein the vacancy is highly impacted by a single building. As of 4Q 2022, the market has 0% vacancy. As illustrated in the chart above, CoStar estimates that the market rent has increased since 2013.

Flex / R&D by Submarket

The following chart outlines current Flex / R&D market trends by submarket, as outlined by CoStar. Rents are reflected on a triple net (NNN) basis.

FLEX / R&D MARKET STATISTICS BY SUBMARKET

Submarket	No. of Buildings	Total Area (SF)	Percent of Total Supply	Construction Deliveries (SF)	12-Month Net Absorption	Occupancy Rate	Average Rent PSF (NNN)
Downtown Tucson	54	462,911	4.6%	0	7,685	97.9%	$16.00
East Outlying Pima County	N/A	---	---	---	---	---	---
Northeast Tucson	74	1,112,718	11.1%	0	10,586	98.0%	$9.16
Northwest Tucson / Oro Valley	160	2,372,428	23.7%	21,600	(15,748)	92.2%	$12.38
Palo Verde	78	1,380,173	13.8%	0	(40,754)	94.8%	$8.22
Park / Ajo	54	559,403	5.6%	9,500	5,371	96.9%	$11.20
South Pima / Green Valley	6	57,132	0.6%	0	1,200	100.0%	N/A
Southeast Tucson	13	1,645,549	16.4%	0	1,750	99.2%	N/A
Southwest Tucson / Airport	48	2,428,642	24.2%	0	249,712	88.4%	$9.87
West Outlying Puma County	1	3,723	0.0%	0	0	100.0%	N/A
Totals / Average	**488**	**10,022,679**		**31,100**	**219,802**	**94.0%**	**$10.25**

Source: CoStar

As outlined above, the majority of the market's flex / R&D projects are located in the Northwest Tucson / Oro Valley and Southwest Tucson / Airport submarkets. Large projects in the Northwest Tucson / Oro Valley submarket include the Ventana Medical Systems and Sanofi-Aventis buildings, both high-end R&D facilities. The bulk of flex / R&D properties in the Southeast Tucson submarket are located in Tech Park Arizona.

The flex / R&D facilities in the Southwest Tucson / Airport submarket generally represent older development. Much of this product is functionally obsolete, which explains the low occupancy rate in this submarket. Much of the older product has been vacant for an extended period of time. Until this product is either repurposed or demolished, the vacancy rate in this submarket is likely to remain at or near this level.

Market Activity

NOTABLE SALES

The following chart outlines notable closed sales throughout the Tucson market from 2018 to present. For this analysis, the consultants have included properties that sold for $5,000,000 or more.

NOTABLE SALES

Name	Address	Square Feet	Year Built	Sale Date	Sale Price	Sale Price per SF	Occupancy	Cap Rate
DirecTV Building	9608 E Old Vail Rd	16,152	2007	Apr-23	$6,607,902	$409.11	Owner User	
Tucson Warehouse & Transfer Co	100 E 6th St	59,291	1943	Aug-22	$5,600,000	$94.45	Owner User	
Hughes Federal Credit Union	3301-3321 E Global Loop	79,072	1998	May-22	$13,893,950	$175.71	Owner User	
Warehouse Building	7475 E Old Vail Rd	41,280	2010	Apr-22	$5,425,000	$131.42	Owner User	
ComSovereign	5120 S Julian Dr	140,000	1986	Jan-21	$6,125,000	$43.75	Owner User	
Southpointe Distribution Center	6991 E Southpoint Rd	272,000	1989	Dec-19	$14,050,000	$51.65	Owner User	
Flex / R&D Building	3260 E Universal Way	165,505	2004	Apr-18	$21,342,428	$128.95	Owner/User	N/A
Hensley Beverage Company	705 E Ajo Way	161,121	1975	Jun-18	$13,300,000	$82.55	Single Tenant	6.47%
Industrial Manufacturing Property	1851 S Pantano Rd	124,778	1985	Jan-18	$13,175,000	$105.59	Single Tenant	8.31%
Global Solar Energy	8500 S Rita Rd	116,898	1979	Jan-23	$13,000,000	$111.21	100%	
Amazon Distribution Center	775 W Silverlake Rd	49,500	2019	Dec-22	$22,300,000	$450.51	100%	4.29%
Roche Tissue Diagnostics	9821 W Tangerine Rd	60,437	2022	Oct-22	$19,000,000	$314.38	100%	
Destech Corporation	401 E Irvington Rd	57,649	1987	Oct-22	$6,100,000	$105.81	100%	5.90%
Manufacturing Building	5580 S Nogales Hwy	109,229	1970	Sep-22	$7,300,000	$66.83	100%	
Ajo-Evans Business Park	1100 & 1200 E Ajo Wy, 3819 & 3855 Evans Blvd	36,024	1984	Sep-22	$5,000,000	$138.80	N/Av.	6.37%
Warehouse Building	1800 S Research Loop	99,858	2008	Apr-22	$9,357,692	$93.71	100%	5.00%
ComSovereign	5120 S Julian Dr	140,000	1986	Jan-22	$15,800,000	$112.86	100%	7.00%
Distribution Building	3535 E Columbia St	53,751	2009	Dec-21	$6,500,000	$120.93	0%	
North Tucson Business Park	3759 N Commerce Dr	21,000	2004	Dec-21	$7,200,000	$342.86	100%	5.48%
Elvira	2650 E Elvira Rd	117,331	1987	Nov-21	$16,200,000	$138.07	77%	
Amazon Distribution Center	3550 E Corona Rd	278,670	2021	Nov-21	$64,866,016	$232.77	100%	
Grant Interstate Commons	1101-1141 W Grant Rd	74,134	1984	Sep-21	$11,400,000	$153.78	N/Av.	
American Openings	6885 E Southpoint Rd	94,831	1987	Aug-21	$10,500,000	$110.72	100%	7.43%
Amazon Distribution Center	775 W Silverlake Rd	49,500	2019	Jul-21	$18,000,000	$363.64	100%	5.00%
Department Of Veterans Affairs Bldg	3675 E Britannia Dr	85,588	2004	Apr-21	$9,125,378	$106.62	100%	5.00%
Lasertel	7775 N Casa Grande Hwy	71,059	1997	Dec-20	$10,000,000	$140.73	100%	
R & D Building	4475 S Coach Dr	15,000	2013	Dec-20	$5,305,000	$353.67	N/Av.	
Manufacturing Building	9538 E Old Vail Rd	50,400	2009	Jun-20	$5,050,000	$100.20	N/Av.	
PSE Archery Factory	2727 N Fairview Ave	142,416	1975	Mar-20	$5,000,000	$35.11	100%	
Amazon Distribution Center	775 W Silverlake Rd	49,500	2019	Dec-19	$17,718,000	$357.94	100%	5.41%
Grant Interstate Commons	1101-1141 W Grant Rd	74,134	1984	Dec-19	$6,741,361	$90.93	N/Av.	7.40%
Flex / R&D Building (partial sale-leaseback)	3601 E Britannia Dr	57,600	2008	Jan-19	$12,450,000	$216.15	50%	N/A
Warehouse Building	6161 S Palo Verde Rd	129,047	1996	Dec-18	$10,025,000	$77.68	100%	
Medina Business Park	2201 E Medina Rd	153,500	1977	Nov-18	$10,505,000	$68.44	N/Av.	
Palo Verde Industrial Center	6221 & 6223 S Palo Verde Rd	120,810	1998	Sep-18	$16,415,000	$135.87	100%	8.19%
South Dodge Business Center	Dodge Boulevard & 44th Street	124,863	1968-1979	May-18	$6,491,160	$51.99	67%	N/A
Foothill Business Park	10831-10861 N. Mavinee Drive	41,336	2000	Apr-18	$5,625,000	$136.08	81%	8.30%
Oro Valley Commerce Center (Portion)	10831 & 10861 N Mavinee Dr	45,500	2000	Mar-18	$5,625,000	$123.63	81%	7.80%

Source: CoStar; Appraiser's Records

Investment Activity v. Owner/User

Of the sales noted in the table above, only seven were owner/user sales. Owner/user properties are generally smaller buildings, and many therefore did not reach the above-mentioned price criteria.

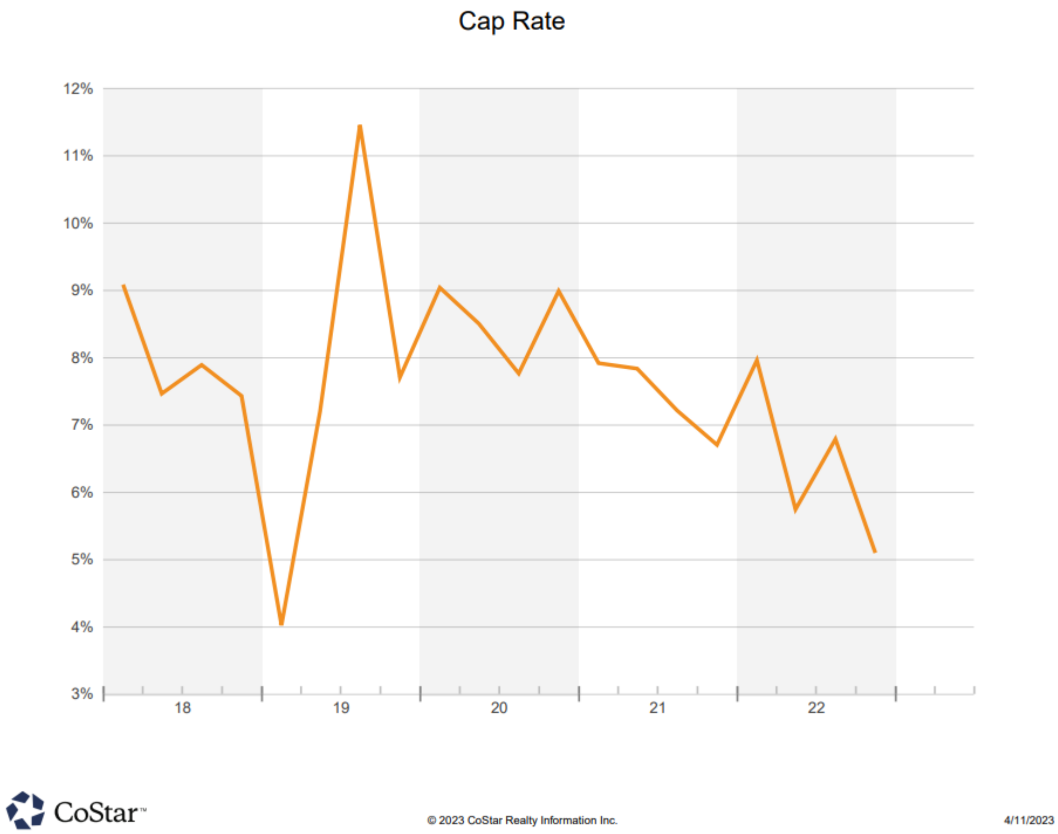
Investment activity includes both single- and multi-tenant assets. It is noted that under-stabilized "value-add" properties is down significantly since the 2019 market study report. Due to high demand, many of the multi-tenant sales are fully leased.

OVERALL CAPITALIZATION RATES

Historic Investment Sales

The following chart illustrates all investment sales captured by CoStar from 2018 to present:

INVESTMENT SALES							
Period	Number of Transactions	Total SF	Average Building SF	Sales Volume	Average Sale Price	AverageSale Price per SF	Average Actual Cap Rate
2023 Q1	---	---	---	---	---	---	---
2022 Q4	2	107,149	53,575	$28,400,000	$14,200,000	$107,149	5.10%
2022 Q3	2	41,724	20,862	$5,480,000	$2,740,000	$41,724	6.80%
2022 Q2	5	620,977	124,195	$52,931,542	$10,586,308	$620,977	5.70%
2022 Q1	3	164,500	54,833	$17,683,400	$5,894,467	$164,500	8.00%
2021 Q4	3	51,378	17,126	$11,768,300	$3,922,767	$51,378	6.70%
2021 Q3	3	161,081	53,694	$31,050,000	$10,350,000	$161,081	7.20%
2021 Q2	5	145,311	29,062	$13,645,378	$2,729,076	$145,311	7.80%
2021 Q1	4	98,282	24,571	$7,026,250	$1,756,563	$98,282	7.90%
2020 Q4	2	46,088	23,044	$3,019,500	$1,509,750	$46,088	9.00%
2020 Q3	1	4,290	4,290	$595,000	$595,000	$4,290	7.80%
2020 Q2	1	25,673	25,673	$1,125,000	$1,125,000	$25,673	8.50%
2020 Q1	2	63,031	31,516	$3,958,010	$1,979,005	$63,031	9.00%
2019 Q4	4	152,000	38,000	$29,224,361	$7,306,090	$152,000	7.70%
2019 Q3	1	35,600	35,600	$2,285,000	$2,285,000	$35,600	11.50%
2019 Q2	3	94,149	31,383	$6,813,571	$2,271,190	$94,149	7.20%
2019 Q1	1	40,130	40,130	$1,950,000	$1,950,000	$40,130	4.00%
2018 Q4	4	125,172	31,293	$11,750,000	$2,937,500	$125,172	7.40%
2018 Q3	3	174,287	58,096	$19,323,000	$6,441,000	$174,287	7.90%
2018 Q2	4	245,608	61,402	$23,660,000	$5,915,000	$245,608	7.50%
2018 Q1	4	184,623	46,156	$19,412,500	$4,853,125	$184,623	9.10%
Total/Average	***57***	***2,581,053***	***45,282***	***$291,100,812***	***$5,107,032***	***$112.78***	***7.59%***
Source: CoStar							



As illustrated in the table and chart above, overall capitalization rates have generally illustrated a downward trend since mid-2019. While cap rates are projected to increase with the rise of interest rates, there has been nominal data (only four sales since Q3 2022) to substantiate this.

While there is limited data for cap rate sales, it is anticipated that increasing interest rates will ultimately cause a value decrease in existing investment properties.

Band of Investment

Due to the limited amount of investment sales, the band of investment methodology is discussed briefly here. The Mortgage Interest Rate and the Equity Dividend Rate (EDR) are based upon current market yields for similar investments. The analysis is shown in the following table.

BAND OF INVESTMENT					
Mortgage Interest Rate	6.50%				
Mortgage Term (Amortization Period)	30 Years				
Mortgage Ratio (Loan-to-Value)	65%				
Mortgage Constant (monthly payments)	0.07585				
Equity Dividend Rate (EDR)	9.00%				
Mortgage Requirement	65%	x	0.07585	=	0.04930
Equity Requirement	35%	x	0.09000	=	0.03150
	100%				0.08080
Indicated OAR:					**8.10%**
Compiled by CBRE					

Historically, there has been a disconnect in the band of investment technique as investors were projecting continued growth prior to the increase in interest rates. Considering rate increases and higher construction costs, it is reasonable to assume that risk premiums will come into alignment with market conditions. Consequently, overall capitalization rates will likely gain a closer association with the band of investment in the foreseeable future.

LARGE SALE LISTINGS

The following chart outlines notable sale listings throughout the Tucson market. For this analysis, the consultants have included properties that are listed for $3,000,000 or more, and/or properties that are over 50,000 square feet in size.

NOTABLE SALE LISTINGS

Name	Address	Square Feet	Year Built	Asking Price	Asking Price per SF	Time on Market	Occupancy	Pro Forma Cap Rate
Former Concentrix Building	3760 N. Commerce Center Drive	91,706	1985	$13,000,000	$141.76	17 mos.	Vacant	N/A
Warehouse Building	6270 S. Country Club Road	82,754	1979/1990	$12,500,000	$151.05	3 mos.	Vacant	N/A
Former Sam Levitz Warehouse	3430 E. 36th Street	129,394	1978	$11,500,000	$88.88	2 mos.	Vacant	N/A
Lauderbach Builders Supply Building	3761 E. Farnum Place	67,500	2008	$6,950,000	$102.96	9 mos.	Sale-Leaseback	6.99%
Call Center	1150 W. Drexel Road	65,250	1979	$5,990,000	$91.80	35 mos.	Vacant	N/A
Clean Manufacturing Warehouse	4646 S. Overland Drive	30,162	2007	$5,199,000	$172.37	7 mos.	Sale-Leaseback or Owner/User	6.96%
Warehouse Building	1309 N. Main Avenue	24,000	2007	$4,500,000	$187.50	2 mos.	Investor or Owner/User	N/A
Warehouse Building	1225 N. Main Avenue	22,852	1960	$4,500,000	$196.92	2 mos.	Investor or Owner/User	N/A
AZ Tucson Poolcorp	4055 N. Runway Drive	28,625	2007	$4,478,000	$156.44	5 mos.	Single-Tenant	5.75%
Warehouse Building	1224 N. Main Avenue	13,472	1948	$4,200,000	$311.76	2 mos.	Investor or Owner/User	N/A
Multi-Tenant Industrial Building	2106 N. Forbes Road	40,130	1980	$3,950,000	$98.43	7 mos.	100%	5.87%
Atlas Wire Corporation	4705 S. Coach Drive	21,578	2000	$3,199,000	$148.25	1 mo.	Sale-Leaseback	6.50%
Industrial Flex Building	3160 E. Transcon Way & 3293 E. Hemisphere Loop	50,900	1995	Not Disclosed	Not Disclosed	10 mos.	22%	N/A

Source: CoStar

Several of the sale listings include obsolete buildings, discussed earlier in this report. These include the Lisa Frank building, and former Texas Instruments buildings. Generally, buildings considered to be functionally obsolete for one or more of the following reasons:

- Layout of office area limits potential to demise
- Low clear height
- Out-of-date technology
- Location within the market

As some of these listings have been on the market for an extended period of time, and are in some cases considered to be functionally obsolete, listings do not present an accurate representation of the higher-quality product in Tucson. These listings are presented for informational purposes only.

EXECUTED LEASES

The following chart outlines notable executed leases throughout the Tucson market over the past five years. The availabilities listed here include leases for over 50,000 square feet. While this is not an exhaustive list, it is reflective of several transactions over the past five years. These are sorted first by tenant type, then by date. The leases have varying expense structures. In order to better facilitate comparison, the consultants present a triple net equivalent rent estimate. Based on market data, modified gross leases are adjusted upward by $2.50 per square foot to account for the difference in reimbursable operating costs.

EXECUTED LEASES

Address	Tenant	Tenant Type	Square Feet	Date	Annual Rate per SF	Monthly Rate per SF	Expense Structure	NNN Equivalent
3350 E. Hemisphere Loop	Raytheon	Flex / R&D	143,650	Apr-22	$15.68	$1.31	NNN	$15.68
4850 S. Park Avenue	Arizona Daily Star	Flex / R&D	220,816	Jun-21	$6.79	$0.57	NNN	$6.79
2380 E. Medina Road	Weldus	Flex / R&D	69,362	Feb-21	$6.06	$0.51	NNN	$6.06
3770 S. Park Avenue	Pepperidge Farm	Flex / R&D	250,000	10/1/20019	$5.04	$0.42	NNN	$5.04
3601 E. Britannia Drive	Raytheon	Flex / R&D	57,600	Aug-18	$16.25	$1.35	NNN	$16.25
Total/Average - Flex / R&D			***741,428***					***$8.59***
6393 S. Campbell Avenue	Epiroc	Industrial	51,224	Jul-22	$31.48	$2.62	NNN	$31.48
2620 N. Flowing Wells Road	Johnson Controls	Industrial	247,896	Aug-22	$7.50	$0.63	Abs. Net	$7.50
6818 S. Country Club	United Parcel Service	Industrial	163,800	May-22	$7.44	$0.62	NNN	$7.44
6992 E. Century Park Drive	Keefe Group	Industrial	90,000	Nov-21	$8.18	$0.68	MG	$5.68
3350 E. Westco Place	FedEx Ground	Industrial	210,440	Nov-21	$8.88	$0.74	NNN	$8.88
3590 E. Corona Road	Amazon	Industrial	278,670	Sep-21	$9.08	$0.76	NNN	$9.08
3350 E. Medina Road	Imperial Brown	Industrial	99,000	Jul-21	$7.20	$0.60	NNN	$7.20
6850 S. Brosius Avenue	FedEx Supply Chain	Industrial	55,350	May-21	$9.82	$0.82	NNN	$9.82
6700 S. Pella Drive	Home Goods	Industrial	237,600	Jan-21	$5.04	$0.42	NNN	$5.04
300 S. Toole Avenue	Sam Levitz	Industrial	59,675	Dec-20	$6.84	$0.57	NNN	$6.84
6855 S. Lisa Frank Avenue	Express Messenger Systems	Industrial	56,773	Oct-20	$7.02	$0.59	NNN	$7.02
6850 S. Brosius Avenue	Home Depot	Industrial	78,750	Sep-20	$6.60	$0.55	NNN	$6.60
2201 E. Medina Road	Ferguson Express	Industrial	86,000	Mar-20	$6.60	$0.55	NNN	$6.60
2900 E. Elvira Road	SION Power	Industrial	68,721	Jan-20	$3.95	$0.33	NNN	$3.95
6978 E. Century Park Drive	MTD Southwest	Industrial	180,000	Oct-19	$5.37	$0.45	MG	$2.87
6701 S. Kolb Road	Amazon	Industrial	2,319,382	Aug-19	$4.51	$0.38	Abs. Net	$4.51
6908 E. Century Park Drive	MicroMex International	Industrial	141,913	May-19	$5.76	$0.48	MG	$3.26
6630 S. Memorial Place	Walmart	Industrial	70,000	Jan-19	$6.64	$0.55	MG	$4.14
6161 S. Palo Verde Road	PODS	Industrial	65,390	Jul-18	$6.06	$0.51	NNN	$6.06
2201 E. Medina Road	Highland Valley Partners	Industrial	67,500	Feb-18	$5.27	$0.44	NNN	$5.27
Total/Average - Industrial			***4,628,084***					***$5.77***
Overall Total / Average			**5,369,512**				**NNN**	**$6.16**

Source: Compiled by Appraiser

Flex / R&D facilities generally have the highest quality build-out, as compared to other industrial projects, and appropriately yield the highest rental rates. The average rate for the leases presented above is $8.59 per square foot annually. The appraisers note that build-out can vary widely for flex buildings, including full air conditioning, specialized air and/or water filtration, percentage of office build-out, clean space, etc. These variances are reflected by the rental rates.

The remaining industrial buildings have varying rental rates, reflective of their wide variety of quality, condition, and build-out. Of note, Epiroc has highly specialized build-out resulting in a very high rental rate. Overall, the average rental rate for industrial space is $5.77 per square foot annually. Excluding Epiroc, this average falls to $5.48 per square foot.

Conclusion

Overall, Tucson is a desirable location in terms of weather, lifestyle, amenities, and cost of living. The largest barrier is the lack of functional product available and the cost to build new. However, it seems likely that due to pent-up demand and the recent history of success, developers will continue to build. Construction pricing and the associated higher rental rates will at some point become the "new normal" as there is simply no other space for potential tenants to occupy.

Generally speaking, the industrial market is strong. Recent growth attests to this, and is further supported by growth in competing markets. The aftermath of COVID-19 has created significant demand for logistics, warehousing, and manufacturing needs. Speculative development has increased substantially over the past four years. Additionally, build-to-suit activity has been strong as large companies have brough operations into Tucson

While Tucson's growth may be outpaced by larger markets including Phoenix, this second-tier market's successes are expected to continue into the near future.

Assumptions and Limiting Conditions

1. CBRE, Inc. through its appraiser (collectively, "CBRE") has inspected through reasonable observation the subject property. However, it is not possible or reasonably practicable to personally inspect conditions beneath the soil and the entire interior and exterior of the improvements on the subject property. Therefore, no representation is made as to such matters.
2. The report, including its conclusions and any portion of such report (the "Report"), is as of the date set forth in the letter of transmittal and based upon the information, market, economic, and property conditions and projected levels of operation existing as of such date. The dollar amount of any conclusion as to value in the Report is based upon the purchasing power of the U.S. Dollar on such date. The Report is subject to change as a result of fluctuations in any of the foregoing. CBRE has no obligation to revise the Report to reflect any such fluctuations or other events or conditions which occur subsequent to such date.
3. Unless otherwise expressly noted in the Report, CBRE has assumed that:

(i) Title to the subject property is clear and marketable and that there are no recorded or unrecorded matters or exceptions to title that would adversely affect marketability or value. CBRE has not examined title records (including without limitation liens, encumbrances, easements, deed restrictions, and other conditions that may affect the title or use of the subject property) and makes no representations regarding title or its limitations on the use of the subject property. Insurance against financial loss that may arise out of defects in title should be sought from a qualified title insurance company.

(ii) Existing improvements on the subject property conform to applicable local, state, and federal building codes and ordinances, are structurally sound and seismically safe, and have been built and repaired in a workmanlike manner according to standard practices; all building systems (mechanical/electrical, HVAC, elevator, plumbing, etc.) are in good working order with no major deferred maintenance or repair required; and the roof and exterior are in good condition and free from intrusion by the elements. CBRE has not retained independent structural, mechanical, electrical, or civil engineers in connection with this appraisal and, therefore, makes no representations relative to the condition of improvements. CBRE appraisers are not engineers and are not qualified to judge matters of an engineering nature, and furthermore structural problems or building system problems may not be visible. It is expressly assumed that any purchaser would, as a precondition to closing a sale, obtain a satisfactory engineering report relative to the structural integrity of the property and the integrity of building systems.

(iii) Any proposed improvements, on or off-site, as well as any alterations or repairs considered will be completed in a workmanlike manner according to standard practices.

(iv) Hazardous materials are not present on the subject property. CBRE is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, contaminated groundwater, mold, or other potentially hazardous materials may affect the value of the property.

(v) No mineral deposit or subsurface rights of value exist with respect to the subject property, whether gas, liquid, or solid, and no air or development rights of value may be transferred. CBRE has not considered any rights associated with extraction or exploration of any resources, unless otherwise expressly noted in the Report.

(vi) There are no contemplated public initiatives, governmental development controls, rent controls, or changes in the present zoning ordinances or regulations governing use, density, or shape that would significantly affect the value of the subject property.

(vii) All required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, nor national government or private entity or organization have been or can be readily obtained or renewed for any use on which the Report is based.

(viii) The subject property is managed and operated in a prudent and competent manner, neither inefficiently or super-efficiently.

(ix) The subject property and its use, management, and operation are in full compliance with all applicable federal, state, and local regulations, laws, and restrictions, including without limitation environmental laws, seismic hazards, flight patterns, decibel levels/noise envelopes, fire hazards, hillside ordinances, density, allowable uses, building codes, permits, and licenses.

(x) The subject property is in full compliance with the Americans with Disabilities Act (ADA). CBRE is not qualified to assess the subject property's compliance with the ADA, notwithstanding any discussion of possible readily achievable barrier removal construction items in the Report.

(xi) All information regarding the areas and dimensions of the subject property furnished to CBRE are correct, and no encroachments exist. CBRE has neither undertaken any survey of the boundaries of the subject property nor reviewed or confirmed the accuracy of any legal description of the subject property.

Unless otherwise expressly noted in the Report, no issues regarding the foregoing were brought to CBRE's attention, and CBRE has no knowledge of any such facts affecting the subject property. If any information inconsistent with any of the foregoing assumptions is discovered, such information could have a substantial negative impact on the Report. Accordingly, if any such information is subsequently made known to CBRE, CBRE reserves the right to amend the Report, which may include the conclusions of the Report. CBRE assumes no responsibility for any conditions regarding the foregoing, or for any expertise or knowledge required to discover them. Any user of the Report is urged to retain an expert in the applicable field(s) for information regarding such conditions.

4. CBRE has assumed that all documents, data and information furnished by or behalf of the client, property owner, or owner's representative are accurate and correct, unless otherwise expressly noted in the Report. Such data and information include, without limitation, numerical street addresses, lot and block numbers, Assessor's Parcel Numbers, land dimensions, square footage area of the land, dimensions of the improvements, gross building areas, net rentable areas, usable areas, unit count, room count, rent schedules, income data, historical operating expenses, budgets, and related data. Any error in any of the above could have a substantial impact on the Report. Accordingly, if any such errors are subsequently made known to CBRE, CBRE reserves the right to amend the Report, which may include the conclusions of the Report. The client and intended user should carefully review all assumptions, data, relevant calculations, and conclusions of the Report and should immediately notify CBRE of any questions or errors within 30 days after the date of delivery of the Report.
5. CBRE assumes no responsibility (including any obligation to procure the same) for any documents, data or information not provided to CBRE, including without limitation any termite inspection, survey or occupancy permit.
6. All furnishings, equipment and business operations have been disregarded with only real property being considered in the Report, except as otherwise expressly stated and typically considered part of real property.
7. Any cash flows included in the analysis are forecasts of estimated future operating characteristics based upon the information and assumptions contained within the Report. Any projections of income, expenses and economic conditions utilized in the Report, including such cash flows, should be considered as only estimates of the expectations of future income and expenses as of the date of the Report and not predictions of the future. Actual results are affected by a number of factors outside the control of CBRE, including without limitation fluctuating economic, market, and property conditions. Actual results may ultimately differ from these projections, and CBRE does not warrant any such projections.
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12. The Report applies to the property as a whole only, and any pro ration or division of the title into fractional interests will invalidate such conclusions, unless the Report expressly assumes such pro ration or division of interests.

13. The allocations of the total value estimate in the Report between land and improvements apply only to the existing use of the subject property. The allocations of values for each of the land and improvements are not intended to be used with any other property or appraisal and are not valid for any such use.
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