

Exterior Building Color & Material Samples

Color Drawdowns

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Airport Vicinity Development Checklist

Parking Study

Trip Generation Comparison

Parking Master Plan

Market Analysis of Desert Mountain Parcel 19

Scottsdale, Arizona



Prepared for:
M3 Companies
DM19, LLC
May 2016

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Executive Summary

Purpose of Study

Elliott D. Pollack and Company was retained by DM19, LLC to conduct a market analysis related to a proposed Major General Plan Amendment for Parcel 19 in the Desert Mountain Master Planned Community. The amendment request is from the land use categories of Employment, Commercial, Office, Developed Open Space and Rural Neighborhoods to the Suburban Neighborhoods (approximately 54 acres) and Developed Open Space/Golf (approximately 39 acres). A companion rezoning request will also be submitted for the property from the current Industrial and Commercial uses to R-4 for a residential development and a short-game par 3 golf course with clubhouse.

This study analyzes the supply and demand for employment and commercial uses within the market area surrounding the intersection of Pima and Cave Creek Roads with particular focus in the viability of developing such uses on Parcel 19. A summary of existing commercial centers in the north Scottsdale market area is provided including their size, occupancy and vacancy status, the types of anchor tenants in the centers, and similar information. A broad overview of the Greater Phoenix commercial markets is also provided.

Property Description

The property is located in the far southwest corner of Desert Mountain, north and east of the intersection of Cave Creek Road and Pima Road. The municipal boundary of the Town of Carefree adjoins the subject property on its west and south. The subject property has approximately 1,900 feet of frontage on Pima Road and 400 feet on Cave Creek Road. The original zoning of the property for C-0, C-2 and I-1 uses was approved in 1987.

Parcel 19 is located just to the east of the SkyRanch Carefree private airport. The original zoning plan for Parcel 19 includes 6.06 acres of I-1 zoning, 29.9 acres of C-2 zoning and 29.9 acres of C-0 zoning. A total of 600,000 square feet of commercial building square footage can be placed on the property. No other parcels in the Carefree and North Scottsdale area can or have reached this level of development.

Primary Market Area Identification

The Primary Market Area (PMA) is the region that will generate most of the demand for a particular real estate product. For this particular analysis, the PMA is defined as a three mile radius surrounding the intersection of Pima and Cave Creek Roads. The PMA encompasses the Town of Carefree, the eastern part of Cave Creek and the northern part of the City of Scottsdale. In 2015, the 3-mile PMA contained a population of 9,245 persons in 4,528 households. The median age of residents is nearly 60 years, well in excess of the County's median age of 34.6 years. The median household income of residents is \$115,000 compared to the County's \$57,400.



PMA Retail Market

An inventory of the retail market data collected from broker websites, site visits and other resources conclude that the PMA has approximately 658,000 square feet of retail space (centers and complexes over 10,000 square feet in size). The market area has a vacancy rate of 17.9% which is significantly higher than Maricopa County vacancy rate of 9.1%. Altogether, the PMA has 118,000 square feet of vacant retail space.

Much of the retail inventory in the PMA is concentrated in the Town of Carefree or just outside town boundaries. Two properties in the area with the highest vacancy rates include Terravita Marketplace located at the intersection of Scottsdale Road and Carefree Highway and Spanish Village in Downtown Carefree. In particular, Terravita Marketplace lost its anchor grocery store tenant after Albertson's sold the property to Haggen Foods which subsequently closed the store. The shopping center that is dominating the North Scottsdale retail market area is The Summit at Scottsdale located at the northeast corner of Scottsdale Road and Ashler Hills Drive. The center is anchored by Target and Safeway and is fully leased.

In our opinion, the current zoning and acreage of the property designated for commercial retail uses (C-2) is not warranted relative to the demand generated from the residents living within the PMA. Existing retail centers in the PMA are currently operating at high vacancies and at least two grocery-anchored centers are more than 45% vacant. In addition, the C-2 property within Parcel 19 has limited access and visibility to Cave Creek Road, an important consideration in the development and marketing of a retail center.

North Scottsdale/Carefree Office Market

The North Scottsdale and Carefree office markets consist of approximately 362,000 square feet of space with an overall vacancy rate of 23%, higher than the County-wide rate of 19%. Most of the buildings are clustered in Downtown Carefree in relatively small buildings. The largest complexes are Stagecoach Village in Cave Creek and Scottsdale Westland, an office condo complex. Stagecoach Village has an estimated 40% vacancy, partly due to its location in a ravine off of Cave Creek Road. Built prior to the recession, the property has never performed to expectations and large parts of the complex were sold at a sheriff's sale in 2013. Scottsdale Westland is essentially fully occupied.

Pima Norte is an office condo complex located at the southwest corner of Pima and Cave Creek Roads just west of Desert Mountain Parcel 19. The complex was constructed in 2005 and was the subject of a distressed sale in 2007. Nine suites are available for lease with a vacancy rate of 23%.

The PMA office market is limited in size and provides space for small local businesses such as attorneys, CPAs, real estate agents, dentists and doctors. The size of the C-O office site in Parcel 19 is capable of accommodating 400,000 square feet of office space, an amount larger than the entire PMA office market of 362,000 square feet. In our opinion, the current zoning and acreage



of the property designated for commercial office uses (C-O) is not warranted relative to demand.

Industrial Market Summary

The industrial market in the Carefree and North Scottsdale area is essentially non-existent. The only property that could be considered industrial in character is the complex of aircraft hangars at the SkyRanch airport. The Town of Carefree does not permit industrial uses in the community and there are no industrial uses within the PMA in Scottsdale. Industrial uses typically locate along major thoroughfares with convenient access to the wider metro area. Business uses in industrial parks also depend on access to a labor force to fill jobs. Based upon the typical criteria mentioned above, industrial uses are not appropriate for Desert Mountain Parcel 19 given the residential uses in the immediate vicinity.



1.0 Introduction

1.1 Purpose of Study

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This study analyzes the supply and demand for employment and commercial uses within the market area surrounding the intersection of Pima and Cave Creek Roads with particular focus in the viability of developing such uses on Parcel 19. A summary of existing commercial centers in the north Scottsdale market area is provided including their size, occupancy and vacancy status, the types of anchor tenants in the centers, and similar information. A broad overview of the Greater Phoenix employment and commercial markets is also provided.

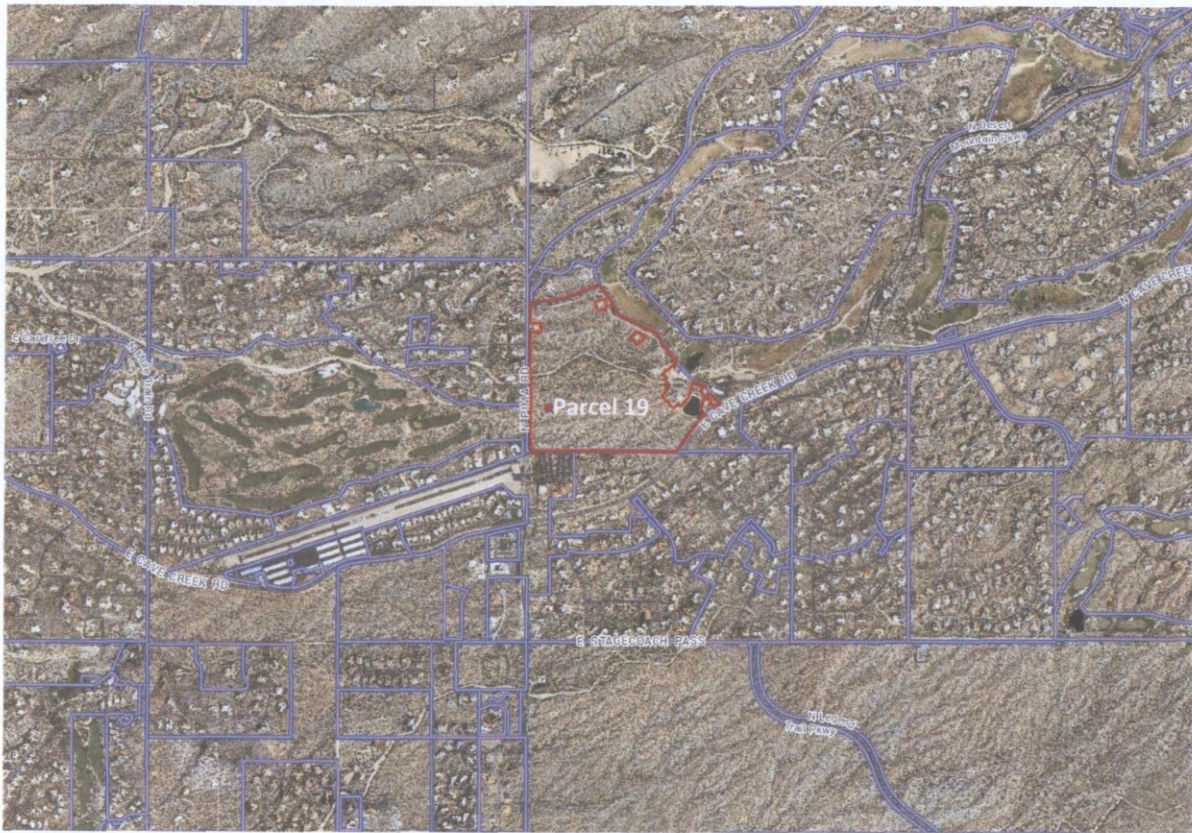
1.2 Property Description

The property is located in the far southwest corner of Desert Mountain, north and east of the intersection of Cave Creek Road and Pima Road. The municipal boundary of the Town of Carefree adjoins the subject property on its west and south. The subject property has approximately 1,900 feet of frontage on Pima Road and 400 feet on Cave Creek Road. The original zoning of the property for C-0, C-2 and I-1 uses was approved in 1987.

Parcel 19 is directly east of SkyRanch at Carefree, a private airport that serves the area. Use of the airport is restricted to members with landing permission required of transient aircraft 24 hours prior to landing. The airport has 101 based aircraft with an average of 66 operations per week. Due to the slope of the runway from its high point on the east, the preferred direction of takeoff is to the west; preferred landings are to the east. This could direct most of the traffic at the airport to its west side away from Parcel 19. The airport has variety of homes and home sites adjacent to the runway. Hangars are available for rent or purchase.

An aerial photo of Desert Mountain Parcel 19 follows.





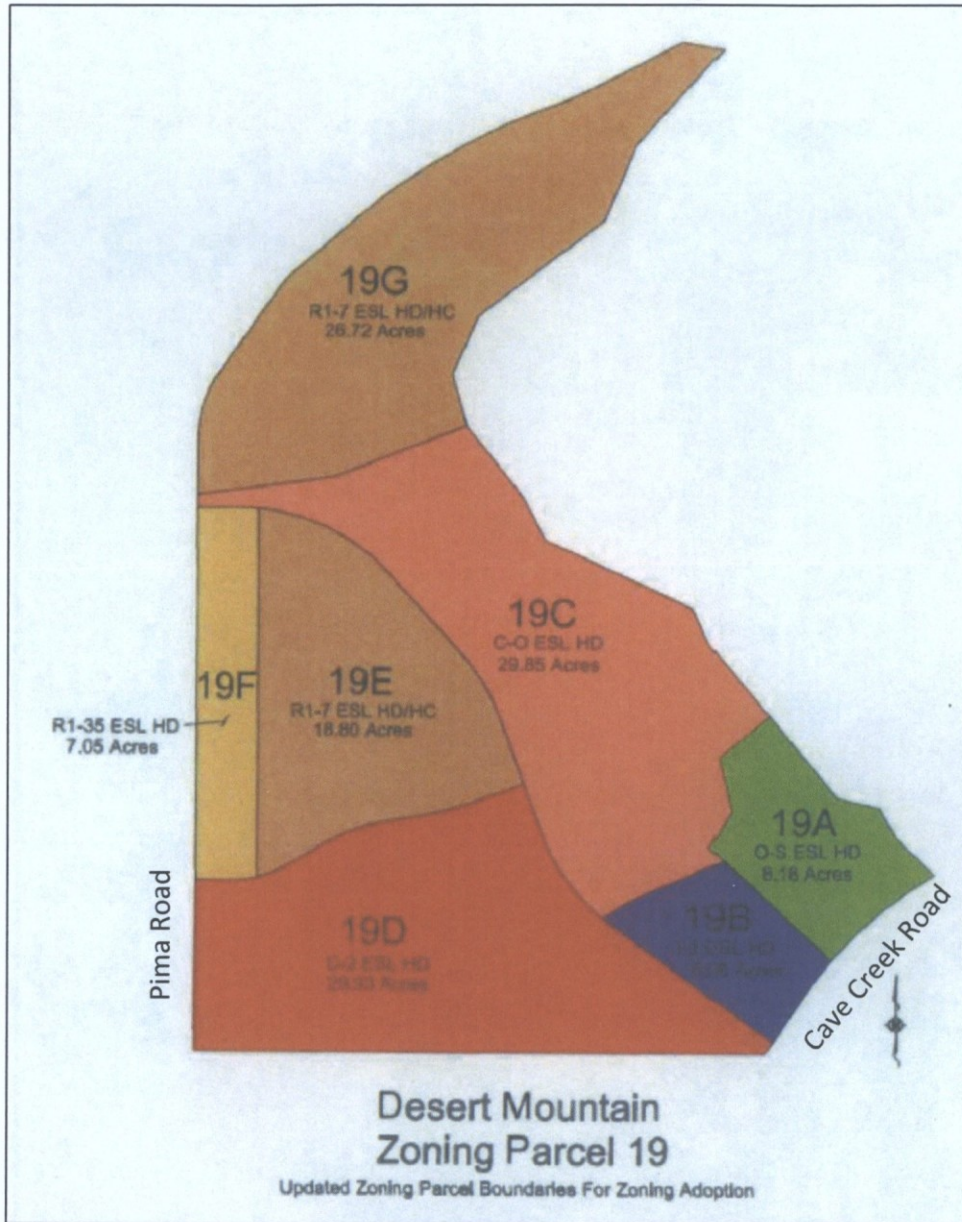
To the east of SkyRanch is a church with a large parking lot directly in line with the runway. Single family homes are located east of the church. The proposed golf course to be located in Parcel 19 would be located along the southern boundary of the property in line with the extension of the SkyRanch runway to the east.

The original zoning plan for the property is shown on the following exhibit. Parcel 19A includes the City's fire station and water infrastructure facilities as well as improvements for Desert Mountain. Parcel 19B is the I-1 zoned property at 6.06 acres in size with 366 feet of frontage on Cave Creek Road. According to the City staff report from 1987, uses permitted in the I-1 parcel are limited to warehouse, storage and other low occupancy uses. Parcel 19C is the proposed C-O office parcel north of the Industrial site. Parcel 19D is the C-2 commercial site that has only 50 feet of frontage onto Cave Creek Road.

At the acreages shown on the following exhibit, a total of 600,000 square feet of commercial square footage can be placed on the property. No other parcels in the Carefree and North Scottsdale area can or have reached this level of development.



Desert Mountain Parcel 19 Zoning



Potential Building Square Footage Desert Mountain Parcel 19		
Use	Net Acres	Potential Building SF
Industrial (I-1)	4.74	100,000
Commercial Retail (C-2)	23.35	100,000
Commercial Office (C-O)	25.56	400,000
Totals	53.65	600,000



Traffic volumes in the area are available from the City of Scottsdale, however, Carefree has not updated traffic counts since 2008. Unfortunately, the intersection of Pima and Cave Creek Roads is not located within Scottsdale. The following table outlines the most currently available average daily traffic counts.

City	Type of Count	Segment or Intersection	2008	2012	2014
Carefree	Segment	Cave Creek Rd. East of Pima Rd.	11,373		
Carefree	Segment	Cave Creek Rd. West of Pima Rd.	6,215		
Carefree	Segment	Pima Rd. South of Cave Creek Rd.	9,695		
Carefree	Segment	Pima Rd. North of Cave Creek Rd.	1,524		
Scottsdale	Segment	Cave Creek Rd. at Lone Mountain Pkwy.		1,400	2,200
Scottsdale	Segment	Pima Rd. South of Stagecoach Pass		10,400	11,200
Scottsdale	Intersection	Pima Rd. & Stagecoach Pass		11,600	11,900

Sources: City of Scottsdale, Town of Carefree

The only currently available traffic count for Cave Creek Road from Scottsdale is approximately 2.5 miles east of the intersection of Pima and Cave Creek Roads at Lone Mountain Parkway. Those counts are very low at 2,200 vehicles per day in 2014 and do not account for intervening traffic entering or exiting Desert Mountain or subdivisions to the south. The counts from the Town of Carefree show more than 11,000 trips on Cave Creek Road just east of Pima Road in 2008. The Carefree data appears to show most west-bound traffic turning south onto Pima Road. Scottsdale data also suggests that much of the traffic in the area is using Pima Road. The Scottsdale traffic counts also show an increase in traffic between 2012 and 2014.

The traffic counts for the intersection of Pima and Cave Creek Roads are meaningful, but the area to the east of Pima Road has little room for additional housing development and population growth. The traffic counts on Cave Creek Road pale in comparison to Scottsdale Road. For instance, between Westland Boulevard and Lone Mountain Road, more than 24,000 cars per day on average used Scottsdale Road in 2014.

1.3 Proposed General Plan Amendment and Rezoning

DM19, LLC is proposing the development of a 190-unit single family residential community at an overall density of 2.04 units per acre for the approximate 93-acre site. Home sites would be developed along the par-3 golf course. The property also includes four separate recharge well sites, a fire station and other water infrastructure facilities operated by the City of Scottsdale. The well sites are proposed for relocation. Fire Station 16 is a temporary station that will be moving three miles east on Cave Creek Road in the future to better serve city residents.



2.0 Greater Phoenix and Carefree/North Scottsdale Retail Market

This section provides an overview of the broader Greater Phoenix commercial trends and analysis of the retail market in the Carefree/North Scottsdale area. The market area surrounding Desert Mountain Parcel 19 will be identified along with the demographic characteristics of the population living within the market area.

2.1 Greater Phoenix Retail Market

Over the past six years, the Maricopa County retail market has experienced some of its highest vacancy rates in history resulting from the effects of the Great Recession. According to CBRE, the vacancy rate across the Valley reached 12.2% in 2010 and 2011, the highest vacancy rate for retail space ever recorded in the region. Since that time, the vacancy rate has trended downward to less than 10% at the end of 2014 and 9.1% as of the fourth quarter of 2015. Over 84% of the vacant retail space is in neighborhood and unanchored strip retail space as retailers either went out of business, closed non-performing stores or exited the Greater Phoenix market.

Retail Market Statistics Greater Phoenix							
Year	Total SF	Vacant SF	Occupied SF	Percent Vacant	SF Under Construction	SF Completed	Net Absorption (SF)
2000	93,634,900	4,919,085	88,715,815	5.3%	6,169,321	4,529,029	4,130,567
2001	101,091,384	6,658,568	94,432,816	6.6%	2,230,257	7,568,331	5,500,963
2002	104,978,951	7,662,407	97,316,544	7.3%	3,573,033	4,266,275	3,041,142
2003	109,992,060	8,119,612	101,872,448	7.4%	3,297,567	5,013,109	4,118,612
2004	115,493,766	6,983,293	108,510,473	6.1%	6,191,363	5,639,916	6,664,812
2005	121,742,555	6,390,301	115,352,254	5.3%	4,319,527	6,517,045	6,708,155
2006	126,325,173	6,487,730	119,837,443	5.1%	9,996,355	4,511,645	5,244,597
2007	137,430,038	8,445,939	128,984,099	6.1%	6,133,316	11,555,084	9,424,362
2008	143,659,243	10,774,443	132,884,800	7.5%	6,008,998	5,202,267	3,395,986
2009	148,065,228	16,879,436	131,185,792	11.4%	757,511	708,920	(1,117,100)
2010	148,967,608	18,174,048	130,793,560	12.2%	315,590	380,032	(75,352)
2011	148,992,151	18,177,042	130,815,109	12.2%	395,281	362,590	(152,647)
2012	149,177,083	16,409,479	132,767,604	11.0%	463,775	727,175	1,879,005
2013	148,851,124	15,182,815	133,668,309	10.2%	125,400	512,000	1,579,202
2014	148,801,899	14,284,982	134,516,917	9.6%	458,413	285,400	1,487,313
2015	148,966,758	13,555,975	135,410,783	9.1%	1,324,537	552,000	1,150,192

Source: CBRE

As a result of the recession and high vacancy rates, shopping center construction activity has declined dramatically. According to CBRE, between 2000 and 2008, an average of 6.1 million square feet of retail space was constructed each year in Maricopa County with 11.6 million square feet constructed in 2007 alone. Since 2008, only 3.53 million square feet of retail space have been completed or an average of 504,000 square feet each year. In addition, at the end of 2015, there were 120 vacant buildings greater than 20,000 square feet in size or a total of 4.5 million square feet. The majority of these buildings have limited opportunity for releasing or



development because of their location, size of the building or age of the building. The reason for the high vacancy in big box buildings is the trend of retailers to downsize their space needs. Except for grocery stores and supercenters, nearly every major big box retail category is shrinking their brick-and-mortar footprint.

Some of the major trends that have affected the local retail industry over the last decade are:

Domination by Big Box Retailers

One of the most important trends in retailing over the past two decades has been the rise of big box retailers led predominantly by Wal-Mart Supercenters and Target. Warehouse clubs such as Costco have also contributed to the rise of big box domination. Most importantly, many of the big box retailers have also transitioned into the grocery business, severely impacting the traditional neighborhood grocery industry. Wal-Mart, in particular, has penetrated the Greater Phoenix retail market so deeply that there are just as many Wal-Mart stores as there are Safeway groceries in the region. Big box retailers have also had a significant influence on sales at regional malls and traditional department stores.

Obsolescence

The retail industry is constantly changing due to the threat of obsolescence. Obsolescence can occur due to the demands of consumers preferring one retail format over another (such as the recent misfortunes of JC Penney and Sears) or it can occur as a retailer transitions to a different format to avoid obsolescence. In the past year, a number of national retail chains, particular in the apparel industry, have announced store closings and, in some cases, declared bankruptcy including Abercrombie and Fitch, Aeropostale, American Eagle, Chico's, Express and Juicy Couture.

Over-Supply of Retail

National retail chains need to grow their businesses by growing their number of outlets. As one of the country's fastest growing regions, Greater Phoenix drew a wide variety of national retailers to the area over the last ten to twenty years, all hoping to take advantage of the rapidly growing population base. The Great Recession demonstrated the hazards of this strategy and the resulting high levels of vacancy in retail space that persist in the market today.

Consolidation

A common outcome of a highly competitive retail environment is consolidation and one of the best examples is the grocery industry. In fact, Albertson's corporate owner recently purchased Safeway which could lead to store closures over time. Consolidation has primarily occurred in the grocery industry due to inroads made by Wal-Mart, Target and Costco in the grocery business. Natural foods companies such as Whole Foods and Sprouts have also placed additional pressure on traditional grocery chains. Few new grocery stores have been built in recent years and the area will likely see few built in the future except in select areas where demand is growing and a market area is underserved.



For the far north Scottsdale/Carefree area, consolidation in the grocery market has resulted in the former Albertson's in the Terravita Marketplace shopping center at Scottsdale Road and Carefree Highway being sold to Haggen Foods. Shortly after the sale, the grocery store was closed by Haggen. Albertson's disposed of the store because of the Safeway located just one mile south on Scottsdale Road. As a result, there are only three groceries currently serving the immediate Carefree and north Scottsdale market – the Safeway on Scottsdale Road, a Bashas' in Carefree and an AJ's at Scottsdale and Lone Mountain Roads.

E-Commerce Sales

Bricks and mortar retailing has been significantly affected over the past decade by internet sales and the trend is expected to continue in the future. E-Commerce sales have increased from 1.8% of retail sales in 2000 to 11.2% in 2013. Most affected are book stores, department stores, discount stores (those not selling perishable foods), florists, and office supply stores. Traditional department stores recorded the most loss of retail sales of any other type of store, with overall sales more than 39% lower in 2013 compared to 2000. Some of this decline can also be attributed to the rise of the big box value retailers as well.

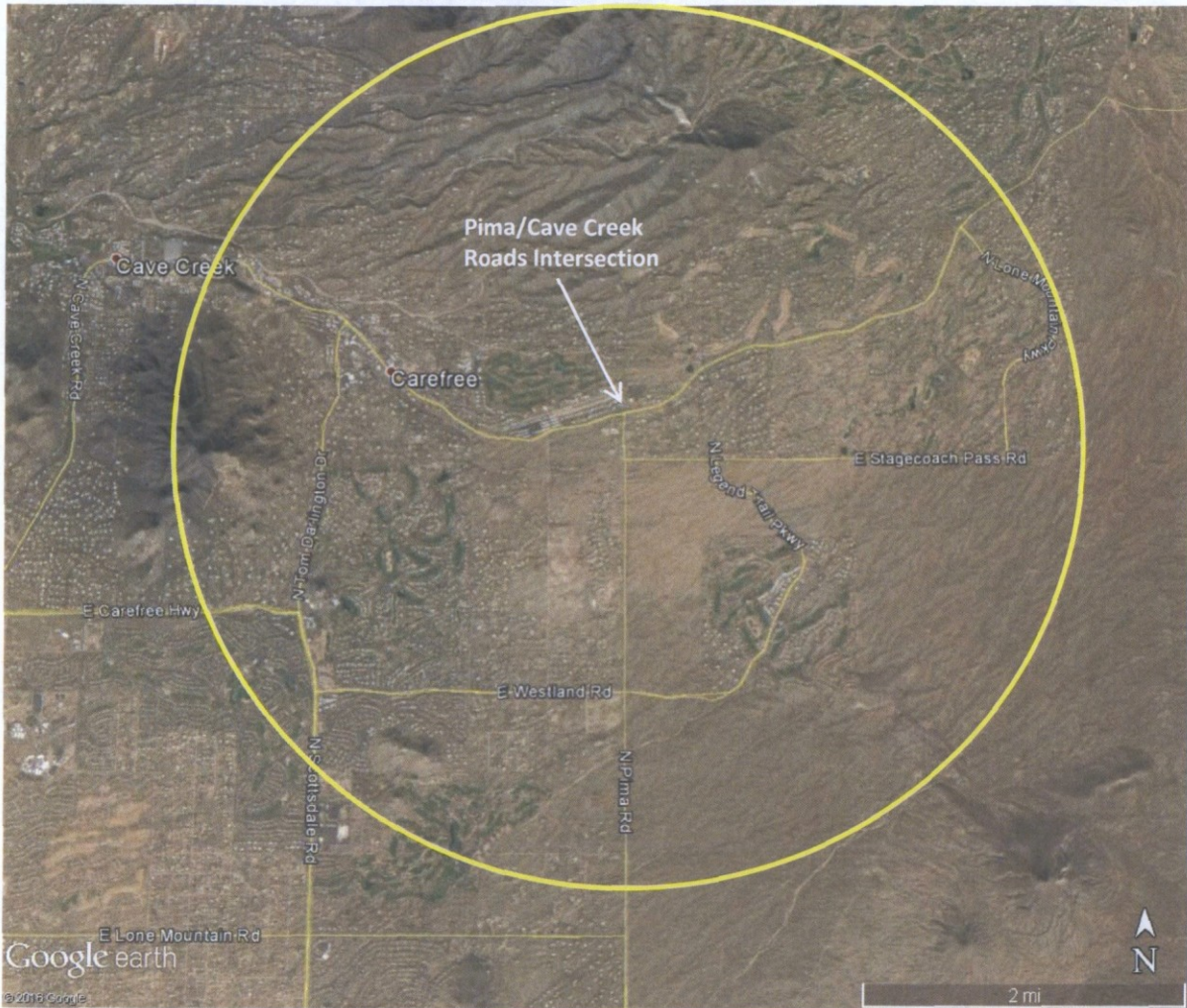
The above trends are expected to persist into the future making retailing a dynamic industry that will continuously evolve and change with new retailers entering markets and others leaving as trends change.

2.2 Primary Market Area Identification

The Primary Market Area (PMA) is the region that will generate most of the demand for a particular real estate product. It is also the area that contains most of the properties that will compete against the subject property. For this particular analysis, the PMA is defined as a three mile radius surrounding the intersection of Pima and Cave Creek Roads. The PMA encompasses the Town of Carefree, the eastern part of Cave Creek and the northern part of the City of Scottsdale. It is generally a sparsely populated area with large lot subdivisions and above average home values. The following aerial photo outlines the location of the PMA. The market area will be referred to in this report as the Desert Mountain Parcel 19 PMA.



Desert Mountain Parcel 19 PMA



The following table outlines the demographic characteristics of residents living in the PMA. For comparison purposes, a 2-mile radius summary is also provided as well as Maricopa County data.

According to the U.S. Census and EASI Demographics, the 3-mile PMA contains a population of 9,245 persons and 4,528 households in 2015. The median age of residents is nearly 60 years, well in excess of the County’s median age of 34.6 years. Nearly 30% of all units in the PMA are noted as vacant by the U.S. Census indicating that many of the homes are occupied on a part-time basis. There are few multi-family units in the PMA. The median household income of residents is \$115,000 compared to the County’s \$57,400. Overall, the PMA demonstrates a much older and wealthier population than the typical County household.

The table also demonstrates that the immediate 2-mile radius around the intersection of Pima and Cave Creek Roads has a limited population of less than 4,700 persons. This level of population restricts the potential demand for retail uses on the DM Parcel 19 site.



Population and Housing Characteristic Pima and Cave Creek Roads Market Area						
	2-Mile Radius		3-Mile Radius		Maricopa County	
	Total	% of Total	Total	% of Total	Total	% of Total
Population 2010	4,322		8,549		3,824,058	
Population 2015	4,675		9,245		4,076,438	
Population 2020	4,937		9,763		4,480,899	
Households 2015	2,101		4,279		1,526,756	
Households 2020	2,223		4,528		1,678,240	
Average Household Size	2.22		2.15		2.67	
Median Age	56.0		57.8		34.6	
Housing Units	2,754		5,640		1,639,279	
Occupied Units	1,944	70.6%	3,962	70.2%	1,411,583	86.1%
Vacant Units	810	29.4%	1,678	29.8%	227,696	13.9%
Owner Occupied Units	1,708	87.9%	3,550	89.6%	910,320	64.5%
Renter Occupied Units	236	12.1%	412	10.4%	501,263	35.5%
Occupied Units	1,944		3,962		1,411,583	
Single Family Detached	1,628	83.7%	3,276	82.7%	924,478	65.5%
Single Family Attached	171	8.8%	475	12.0%	76,281	5.4%
Multi-Family	145	7.5%	211	5.3%	410,824	29.1%
Median Household Income	\$128,922		\$115,366		\$57,354	
Average Household Income	\$188,421		\$162,443		\$77,656	

Sources: MAG, EASI, U.S. Census, AZ Dept. of Administration

2.3 PMA Retail Market

An inventory of the retail market data from broker websites, site visits and other resources conclude that the PMA has approximately 658,000 square feet of retail space (centers and complexes over 10,000 square feet in size). The market area has a vacancy rate of 17.9% which is significantly higher than Maricopa County vacancy rate of 9.1%. Altogether, the PMA has 118,000 square feet of vacant retail space.

Much of the retail inventory in the PMA is concentrated in the Town of Carefree or just outside town boundaries. Two of the problem properties in the area include Terravita Marketplace located at the intersection of Scottsdale Road and Carefree Highway and Spanish Village in Downtown Carefree. In particular, Terravita Marketplace lost its anchor grocery store tenant after Albertson's sold the property to Haggen Foods which subsequently closed the store. This shopping center was at one time a fully leased property.

Another historically-problem retail center has been the Scottsdale North Marketplace located at the southeast corner of Lone Mountain and Scottsdale Roads. While outside the boundaries of the PMA, the center has never performed to expectations and today carries a 45% vacancy rate.



The shopping center that is dominating the North Scottsdale market area is The Summit at Scottsdale located at the northeast corner of Scottsdale Road and Ashler Hills Drive. The center is anchored by Target and Safeway and is fully leased. Another healthy center is Carefree Marketplace in Carefree anchored by Bashas' and Ace Hardware.

The following table illustrates the inventory and availability of retail space in the market area. As noted previously, except for The Summit at Scottsdale and Carefree Marketplace, all other centers are experiencing vacancy rates above 25%.

Retail Inventory & Vacancies Desert Mountain Parcel 19 Market Area					
Center	Location	Total SF	Vacant SF	Vacant %	Anchor Tenants/Notes
El Pedregal	34505 N. Scottsdale Rd	82,175	25,060	30.5%	
Terravita Marketplace	34402 North Scottsdale Road	102,733	55,287	53.8%	Wells Fargo, Walgreens
The Summit at Scottsdale	32331 N. Scottsdale Road	322,908	4,498	1.4%	Target, Safeway, CVS, Office Max
Carefree Marketplace	36889 North Tom Darlington Dr	84,951	8,942	10.5%	Bashas', Ace Hardware
Spanish Village	7208 E. Ho Road	21,013	12,331	58.7%	
Mariachi Plaza	7171 E. Cave Creek Road	27,630	6,848	24.8%	
Carefree Galleria	3755 Hum Road	16,775	4,595	27.4%	mixed office and retail space
Total Retail		658,185	117,561	17.9%	

Sources: Colliers International; Whitestone REIT; Commercial Properties Incorporated (CPI); Diamond Pacific Investments, Inc.; North Bay Commercial; BGA Realty Partners; Plaza Companies; The Hogan Group; Weingarten Realty; Coldwell Banker; Henstra Hounds Realty; CBRE; Westwood Financial Corp.; SoHo International; Donahue Shriber; Desert Capital Venture; Tony Cox & Associates.; Cushman & Wakefield; LoopNet.com; PropertyLine.com; CommercialSearch.com; Elliott D. Pollack & Co.; LandisCor; Maricopa County Assessor

An important anchor for any neighborhood or community shopping center is a grocery store. The Desert Mountain Parcel 19 site is 23 acres in size and could accommodate upwards of 100,000 square feet of building space. In order to function properly as a retail center it would require an anchor tenant of some type. Within the PMA, the retail centers that are performing at high occupancy rates are those with a grocery anchor.

A simple measure of demand for grocery stores in the Greater Phoenix region is the number of persons per store. For instance, of the top four grocery chains in the region (Bashas' (including Food City and AJ's), Safeway, Albertsons and Fry's), there are approximately 17,800 persons per store. In Scottsdale, the ratio is much lower at 8,600 persons per store. Scottsdale has 28 grocery stores for its 231,000 residents. The reasons for this low ratio of grocery stores could be several including:

- The above average incomes of Scottsdale households that produces more disposable income and spending in grocery stores.
- The linear geography of Scottsdale which means that the stores provide service to residents living outside of the city.

The demand for grocery stores in the PMA is outlined on the following table using both county-wide demand estimates and City of Scottsdale demand estimates. The Market Area should be able to support just one grocery store today even though it has two currently in operation. Part of



the demand for these grocery stores appears to be coming from residents living outside of the PMA and Scottsdale.

Grocery Store Demand Desert Mountain Parcel 19 Market Area		
	2015*	2020**
Market Area Population	9,245	9,763
County Grocery Store Demand/Person	17,800	17,800
Scottsdale Grocery Store Demand/Person	8,600	8,600
PMA Grocery Store Demand at County Average	0.5	0.5
PMA Grocery Store Demand at Scottsdale Average	1.1	1.1
Sources: EASI, Elliott D. Pollack & Co.		

2.4 Conclusions

In our opinion, the current zoning and acreage of the property designated for commercial retail uses (C-2) is not warranted relative to the demand generated from the residents living within the PMA. Existing retail centers in the PMA are currently operating at high vacancies and at least two grocery-anchored centers are more than 45% vacant. The PMA can only support one grocery store, although two are currently operating in the area. A third grocery-anchored center cannot be supported. In addition, the C-2 property has limited access and visibility to Cave Creek Road, an important consideration in the development and marketing of a retail center.

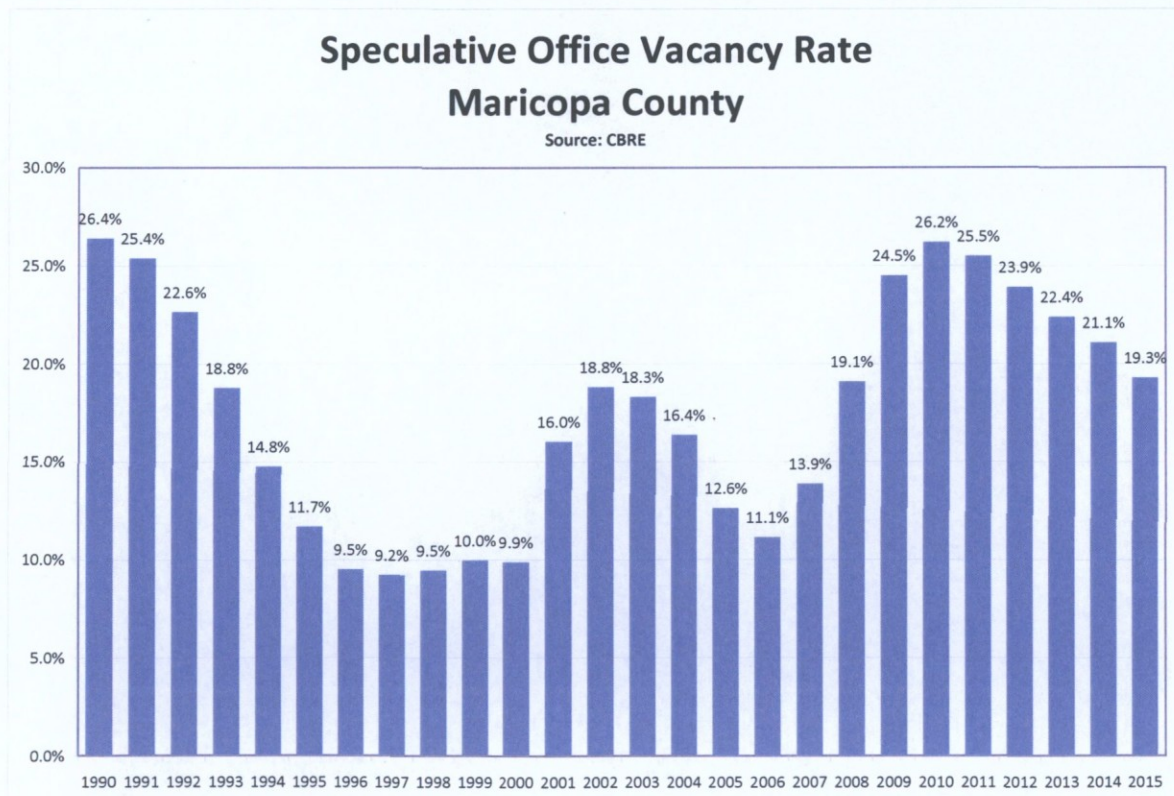


3.0 Maricopa County and Carefree/North Scottsdale Office Market

3.1 Office Market Overview

The Maricopa County office market is comprised of two types of buildings: speculative buildings and owner-occupied buildings. Speculative office buildings are owned by an investor and leased to tenants. Owner-occupied buildings are just that: owned by the company that occupies the building. The speculative or spec office market is the sector that is followed by most commercial office brokers because it contains the inventory of space that is available to companies and corporations.

The office market in Greater Phoenix is comprised of approximately 85 million square feet of space according to CBRE. The office sector has historically been subject to significant cycles and swings in vacancy. Coming out of the recession of the early 1990s, vacancy rates were well above 20%. Construction activity was non-existent between 1990 and 1996 until vacancy rates fell below 10%. Finally in 1997, construction activity resumed. Since then, construction activity has been highly variable with 5 million square feet developed in 2001 and 2007. However, the Great Recession had a significant effect on office employment with the metro-wide vacancy rate rising to more than 26%. At the end of 2015, the Maricopa County office vacancy rate declined to 19.3%.



While vacancy rates are high today by historic standards, construction activity began again in earnest in 2013. At the end of 2014, approximately 3.15 million square feet was under construction. The rate of construction accelerated into 2015 and at the end of the first quarter a total of 4.00 million square feet was under construction. All of the construction activity today is occurring in Scottsdale or in the Southeast Valley.

The majority of projects under construction, however, are not the typical speculative office building. Instead, a variety of companies are constructing their own buildings or contracting with development companies for build-to-suit complexes. Some of development projects include:

- The State Farm Regional office in Tempe at 2.1 million square feet.
- The GM Information Center in Chandler at 170,000 square feet.
- The GoDaddy 150,000 square foot campus at the ASU Research Park in Tempe.
- A 60,000 square foot build-to-suit for Garmin in Chandler.
- A build-to-suit for Isagenix in Gilbert at 150,000 square feet.
- Expansion of the Wells Fargo campus in Chandler at 205,000 square feet.
- A 70,000 square foot build-to-suit for Crown Castle in Chandler.

In addition, several speculative buildings are currently also under construction or recently completed in the Southeast Valley.

- SkySong in Scottsdale which completed a 140,000 square foot building for WebFilings and the ASU Foundation.
- A spec office building in the Scottsdale Quarter at 170,000 square feet.
- A 125,000 square foot building at the Rivulon project in Gilbert.
- A 155,000 square foot building at the Reserve at San Tan in Gilbert.
- A 48,000 square foot building known as Portico Place in Chandler.

Office brokers indicate that no new office construction is occurring outside of the Southeast Valley and Scottsdale.

As a result of the demand for office space in Tempe, Scottsdale and Chandler, vacancy rates have fallen dramatically while other parts of the metro area still retain high rates. Generally, office brokers believe that vacancy rates below 15% stimulate construction activity. This appears true for parts of the Southeast Valley and Scottsdale. The market areas with the highest vacancy rates are the Phoenix CBD along Central Avenue and in the West Valley.



Maricopa County Office Market Status 2015 Quarter 4						
Market Area	Total SF	Vacant SF	Vacancy Rate	Net Absorption (SF)	SF Under Construction	Average Asking Rate Per SF
Tempe	6,470,568	815,292	12.6%	937,209	1,827,000	\$23.86
Central/South Scottsdale	9,093,953	1,154,932	12.7%	106,504	145,000	\$24.07
Southeast Valley	10,112,527	2,012,393	19.9%	324,194	291,712	\$21.29
Scottsdale Airpark/Desert Ridge	10,866,162	2,162,366	19.9%	374,569	39,750	\$25.38
Phoenix CBD	16,569,756	3,529,358	21.3%	582,458	-	\$22.57
East Phoenix/Sky Harbor	9,205,616	1,638,600	17.8%	172,192	-	\$21.64
Camelback/Piestewa Peak	9,760,583	2,235,174	22.9%	128,357	-	\$26.16
West/Northwest Valley	13,054,150	2,845,805	21.8%	553,556	150,000	\$18.74
Maricopa County	85,133,315	16,393,919	19.3%	3,179,039	2,453,462	\$22.90

Source: CBRE

While the above office market dynamics appear to defy logic given the high vacancy rates in the Greater Phoenix area, according to brokerage companies, recent construction activity is driven by two factors:

- Corporate balance sheets that are flush with cash combined with the low interest rate environment. Companies are growing and they are making significant investments for the future. Brokers indicate there is a shortage of class A office product that is driving the construction activity for high quality space.
- The emergence of the local technology sector. Tech companies prefer office space that is located in high tech corridors with nearby walkable amenities. The Southeast Valley, predominantly Tempe, Scottsdale and Chandler, offer the environment conducive to the needs of these companies.

The following tables outline the composition of the office market by class of building according to CBRE. Overall, the Class A market accounts for approximately 28% of all square footage and carries the lowest vacancy rate. Class B buildings represent the majority of the building inventory, but have a 22.2% vacancy rate as of the first quarter of 2015. Class C buildings have the highest vacancy rate at 24.2%.

Maricopa County Office Market By Building Class 2nd Quarter 2015				
Class	Buildings	SF	Vacant SF	% Vacant
Class A	141	23,542,737	3,670,976	15.6%
Class B	638	45,942,411	10,216,512	22.2%
Class C	460	12,668,859	3,067,664	24.2%
Totals	1,239	82,154,007	16,955,152	20.6%

Source: CBRE

The following table illustrates the dynamics of office market for each city in the County by building type for the second quarter of 2015. Typically the office market tends to cluster in



central Maricopa County. **Approximately 87% of the spec office market is found in just three cities: Phoenix, Scottsdale and Tempe.** These three cities also account for 95% of the Class A office market. In suburban parts of the metro area, the office market is typically the last sector of the commercial real estate market to make an appearance. Retail uses usually follow population growth. The suburban office market, however, grows much more slowly and provides building space for small businesses such as accountants, insurance agents, lawyers and similar occupations. Alternatively, most large corporations still desire a central location near amenities, access to Sky Harbor and transportation corridors.

Class A buildings have the lowest vacancy rate. Cities with the lowest vacancy rates include Chandler, Scottsdale and Tempe.



Office Market Status By City and Building Class								
Maricopa County								
2nd Quarter 2015								
City/Area	Class A Buildings				Class B Buildings			
	Buildings	SF	Vacant SF	% Vacant	Buildings	SF	Vacant SF	% Vacant
Ahwatukee					1	13,100	5,824	44.5%
Anthem					1	65,000	59,200	91.1%
Avondale					2	82,000	24,583	30.0%
Buckeye					2	36,000	-	0.0%
Chandler	4	672,500	26,861	4.0%	33	2,323,915	303,803	13.1%
Fountain Hills					4	70,402	21,645	30.7%
Gilbert	2	287,835	128,416	44.6%	21	755,135	203,287	26.9%
Glendale	3	438,280	171,898	39.2%	13	786,369	336,512	42.8%
Goodyear					6	227,300	51,332	22.6%
Mesa					36	2,012,672	442,017	22.0%
Peoria					6	342,203	60,981	17.8%
Phoenix	59	12,629,591	2,355,773	18.7%	273	25,042,199	6,251,386	25.0%
Scottsdale	63	7,412,542	935,364	12.6%	149	8,204,186	1,430,996	17.4%
Sun City								
Surprise					7	223,262	59,164	26.5%
Tempe	10	2,101,989	52,664	2.5%	84	5,758,668	965,782	16.8%
TOTAL	141	23,542,737	3,670,976	15.6%	638	45,942,411	10,216,512	22.2%
City/Area	Class C Buildings				Totals			
	Buildings	SF	Vacant SF	% Vacant	Buildings	SF	Vacant SF	% Vacant
Ahwatukee					1	13,100	5,824	44.5%
Anthem					1	65,000	59,200	91.1%
Avondale	1	12,900	3,519	27.3%	3	94,900	28,102	29.6%
Buckeye					2	36,000	-	0.0%
Chandler	3	33,114	900	2.7%	40	3,029,529	331,564	10.9%
Fountain Hills	1	11,695	9,116	77.9%	5	82,097	30,761	37.5%
Gilbert	1	10,625	521	4.9%	24	1,053,595	332,224	31.5%
Glendale	22	613,339	162,232	26.5%	38	1,837,988	670,642	36.5%
Goodyear	2	27,492	7,109	25.9%	8	254,792	58,441	22.9%
Mesa	45	1,173,923	303,897	25.9%	81	3,186,595	745,914	23.4%
Peoria	2	61,191	8,146	13.3%	8	403,394	69,127	17.1%
Phoenix	244	7,422,876	1,898,168	25.6%	576	45,094,666	10,505,327	23.3%
Scottsdale	82	1,866,204	341,631	18.3%	294	17,482,932	2,707,991	15.5%
Sun City	7	181,410	52,135	28.7%	7	181,410	52,135	28.7%
Surprise	1	15,800	4,146	26.2%	8	239,062	63,310	26.5%
Tempe	49	1,238,290	276,144	22.3%	143	9,098,947	1,294,590	14.2%
TOTAL	460	12,668,859	3,067,664	24.2%	1,239	82,154,007	16,955,152	20.6%

Source: CBRE

3.2 Carefree/North Scottsdale Office Market

The North Scottsdale and Carefree office markets consist of approximately 362,000 square feet of space with an overall vacancy rate of 23%, higher than the County-wide rate of 19%. Most of the buildings are clustered in Downtown Carefree in relatively small buildings. The largest complexes are Stagecoach Village in Cave Creek (a condo complex that is included in the office inventory although a portion of the property is used for retail purposes) and Scottsdale Westland, an office condo complex. Stagecoach Village has an estimated 40% vacancy, partly due to its location in a ravine off of Cave Creek Road. Built prior to the recession, the property has never performed to



expectations and large parts of the complex were sold at a sheriff's sale in 2013. Scottsdale Westland is essentially fully occupied.

Pima Norte is an office condo complex located at the southwest corner of Pima and Cave Creek Roads just west of Desert Mountain Parcel 19. The complex was constructed in 2005 and was the subject of a distressed sale in 2007. Nine suites are available for lease with a vacancy rate of 23%.

Office Inventory & Vacancies Desert Mountain Parcel 19 Market Area					
Center	Location	Total SF	Vacant SF	Vacant %	Anchor Tenants/Notes
Stagecoach Village	7100 E. Cave Creek Road	105,000	42,000	40%	Mixed office/retail
Scottsdale Bank Branch	34252 N. Scottsdale Road	10,000	10,000	100%	
Scottsdale Westland	33747 N Scottsdale Road	74,000	1,109	1%	
Carefree Business Center	7202 E. Carefree Drive	13,619	-	0%	
One Carefree Place	36800 Sidewinder Road	21,741	6,475	30%	
Carefree Corners	7509 E. Cave Creek Rd	14,575	2,885	20%	
Carefree Office Center	7518 E. Elbow Bend Road	15,734	4,753	30%	
Sundance Gardens	7301 E. Sundance Trail	26,650	965	4%	
Montana Vista	7208 E Cave Creek Road	12,000	1,222	10%	
Montana Vista Studios	7209 E Cave Creek Road	24,888	2,240	9%	Flex office
Pima Norte	36600 N. Pima Road	43,560	9,809	23%	
Total Office		361,767	81,458	23%	

Sources: Colliers International; Whitestone REIT; Commercial Properties Incorporated (CPI); Diamond Pacific Investments, Inc.; North Bay Commercial; BGA Realty Partners; Plaza Companies; The Hogan Group; Weingarten Realty; Coldwell Banker; Henstra Hounds Realty; CBRE; Westwood Financial Corp.; SoHo International; Donahue Shriber; Desert Capital Venture; Tony Cox & Associates.; Cushman & Wakefield; LoopNet.com; PropertyLine.com; CommercialSearch.com; Elliott D. Pollack & Co.; LandisCor; Maricopa County Assessor

3.3 Office Market Summary

The PMA office market is limited in size and provides space for small local businesses such as attorneys, CPAs, real estate agents, dentists and doctors. Corporate offices are not found in the PMA because of its location and distance from potential clients and employees. As noted previously, the size of the C-O office site in Parcel 19 is capable of accommodating 400,000 square feet of office space, an amount larger than the entire PMA office market of 362,000 square feet. In addition, the PMA office market has a 23% vacancy rates with more than 81,000 square feet of vacant space available. In our opinion, the current zoning and acreage of the property designated for commercial office uses (C-O) is not warranted relative to demand.

3.4 Industrial Market Summary

The industrial market in the Carefree and North Scottsdale area is essentially non-existent. The only property that could be considered industrial in character is the complex of aircraft hangars at the SkyRanch airport. The Town of Carefree does not permit industrial uses in the community and there are no industrial uses within the PMA in Scottsdale. Industrial uses typically locate along major thoroughfares with convenient access to the wider metro area. Business uses in industrial parks also depend on access to a labor force to fill jobs. Based upon the typical criteria mentioned



above, industrial uses are not appropriate for Desert Mountain Parcel 19 given the residential uses in the immediate vicinity.



4.0 Limiting Conditions

This study prepared by Elliott D. Pollack & Company is subject to the following considerations and limiting conditions.

- It is our understanding that this study is for the client's due diligence and other planning purposes. Neither our report, nor its contents, nor any of our work were intended to be included and, therefore, may not be referred to or quoted in whole or in part, in any registration statement, prospectus, public filing, private offering memorandum, or loan agreement without our prior written approval.
- The reported recommendation(s) represent the considered judgment of Elliott D. Pollack and Company based on the facts, analyses and methodologies described in the report.
- Except as specifically stated to the contrary, this study will not give consideration to the following matters to the extent they exist: (i) matters of a legal nature, including issues of legal title and compliance with federal, state and local laws and ordinances; and (ii) environmental and engineering issues, and the costs associated with their correction. The user of this study will be responsible for making his/her own determination about the impact, if any, of these matters.
- This study is intended to be read and used as a whole and not in parts.
- This study has not evaluated the feasibility or marketability of any site for planned uses.
- Our analysis is based on currently available information and estimates and assumptions about long-term future development trends. The data is considered current as of May 2016. Such estimates and assumptions are subject to uncertainty and variation. Accordingly, we do not represent them as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the forecasted results.

