APPRAISAL COVER SHEET

TYPE OF APPRAISAL:	Appraisal Report for possible sale or disposal
PARCEL NO.:	Portion of 12-0554
OWNER'S NAME:	The State of Arizona by and through its Department of Transportation (Formerly owned by David R. Pfeiler Family Trust and leased and operated by Carl's Jr.)
LOCATION OF PROPERTY:	Northeast corner of Mariposa Road and Shell Loop, Nogales, Santa Cruz County, Arizona
PROJECT NUMBER:	189-SC 000 H8045 01D
HIGHWAY:	Nogales Primary Connection Highway
SECTION:	Nogales P.O.E. – SR19B (Grand Avenue)
DATE OF REPORT:	February 12, 2024
EFFECTIVE DATE OF VALUE:	October 31, 2023
APPRAISER:	Beverly Weissenborn, MAI Arizona Certified General Real Estate Appraiser #30125

WEISSENBORN APPRAISAL

February 12, 2024

Mr. Timothy J. O’Connell, Jr.
Appraisal Section Supervisor
Right of Way Project Management Section
205 South 17th Avenue, Room 331
ADOT Mail Drop 612E
Phoenix, AZ 85007-3212

RE: Appraisal Assignment No. TO-24-016
Parcel No.: Portion of 12-0554 Carl’s Jr. (David R. Pfeiler Family Trust)

Dear Mr. O’Connell:

At your request, I have developed an opinion of market value of a 6,547 square foot site and associated improvements that were acquired by the Arizona Department of Transportation (ADOT) from the Carl’s Jr. property as part of the above referenced highway project. This was a design-build project for new fly-over ramps at the Mariposa Road and Interstate 19 interchange in Nogales, Santa Cruz County, Arizona. Upon completion of the project, the right-of-way needed to complete the project only included 345 square feet of land at the southwest corner of the Carl’s Jr. property. As a result, that portion of the property owned by ADOT but not needed for the project is slated for sale or disposal.

The surplus property, which is the subject of this appraisal report, was originally part of Carl’s Jr. restaurant located at the northeast corner of Mariposa Road and Shell Loop. It includes a 6,547 square foot strip of land that extends along the south boundary of the Carl’s Jr. property adjacent to the Mariposa Road right of way. Improvements include a portion of the parking lot, landscaped planters, three flagpoles, menu board and intercom system, a portion of the drive-thru lane and a portion of the indoor playground. These improvements are now owned by ADOT but remain in place and continue to be used by Carl’s Jr.

The effective date of the appraisal is October 31, 2023, which coincides with my most recent visit to the property.

The purpose of this appraisal is to develop an opinion of market value of the fee simple interest. Pursuant to Arizona Revised Statute 28-7091, the definition of market value is as follows:

> "...'Market Value' means the most probable price estimated in terms of cash in United States dollars or comparable market financial arrangements which the property would bring if exposed for sale in the open market, with reasonable time allowed in which to find a purchaser, buying with knowledge of all of the uses and purposes to which it was adapted and for which it was capable."

P.O. Box 86805 ◆ Tucson, Arizona 85754 ◆ Phone (520) 792-8200

Based on the physical characteristics of the property, the highest and best use is for continued use in conjunction with Carl's Jr. And, for this reason, the subject property has limited market appeal and only a few potential buyers. Thus, the market value opined in this report is best viewed as the contributory value of the whole.

The intended use of the appraisal report is to utilize the opinion of market value to assist in decisions regarding the potential disposition of the property. The intended users of the appraisal are the Office of Arizona Attorney General as represented by Ms. Kalyn Behnke, Assistant Attorney General Transportation Section, and the State of Arizona Department of Transportation (ADOT).

The appraisal is intended to comply with:

- ADOT Department of Transportation Contract ID CTR054976;
- ADOT Right of Way Procedures Manual, Project Management Section, Chapters 3 and 4;
- Federal Highway Administration (FHWA) Uniform Act, 49 CFR Part 24;
- The current edition of the *Uniform Standards of Professional Appraisal Practice (USPAP)*;
- the scope of work for this assignment.

Based upon the data, analysis and discussions contained in this report, it is my opinion that the market value of the subject property, as of the October 31, 2023 date of value, was:

$675,000

Extraordinary Assumption:

The preceding valuation excludes $212,671 of compensation paid to the property owner when ADOT acquired the property. This compensation included $22,766 for personal property, $51,218 for the *entire* playground consisting of 864 square feet, and $138,687 for costs to cure, most of which was for the relocation of the monument sign and 50'-foot tall freeway sign.

Hypothetical Condition:

The north boundary of the subject property passes through the southeast corner of the indoor play area of the Carl's Jr. property. Thus, technically, about 25% of the play area is on ADOT owned land and 75% of the building is on land owned by Pfeiler Family Trust. For valuation purposes, it is assumed that the entire building and play area are under one ownership.

The use of the extraordinary assumption and hypothetical condition could affect the assignment results.

I hereby certify that to the best of my knowledge and belief, all statements and opinions contained in this appraisal report are correct. This transmittal letter is not valid for any purpose unless accompanied by the appraisal referred to herein.

Thank you for this opportunity to be of service.

Weissenborn Appraisal, LLC

Beverly Weissenborn, MAI
Arizona Certified General
Real Estate Appraiser #30125

ADOT Aerial Map #1

	AREA REQUIRED			REMAINDER	
TOTAL AREA	GROSS (INCLUDING EXISTING R/W)	NET (EXCLUDING EXISTING R/W)	NEW EASEMENTS	LEFT	RIGHT
36,537 Sq. Ft.		345 Sq. Ft.	ACCESS CONTROL	36,192 Sq. Ft.	

PLEASE NOTE: This exhibit is intended for Appraisal purposes only. Refer to Final Right-of-Way Plans for additional information.

ADOT Right Of Way THIS SKETCH PLAN IS FOR ADOT INTERNAL USE ONLY	PARCEL #	12-0554	HIGHWAY NAME: NOGALES PRIMARY CONNECTION HIGHWAY	
	EXHIBIT #	———	PROJECT NO.: 189 SC 000 H8045	
	DATE	08/02/22		
ROUTE NO.: I -10	LOCATION: NOGALES P.O.E. - SR 19B (GRAND AVE)		FEDERAL AID NO.: 189-A(201)A	SHEET NO.: 1 OF 1

Proposed Right of Way as of 11-29-2018

\\NFFLSP98008\EngGroups\6840\PROJECTS\SANTA CRUZ (12)\189 SC 000 H8045 - Nogales POE - SR19B\Plans\Exhibits\Project Exhibits\12-0554\Parcel 12-0554 Rev-1.dgn

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Contingent and Limiting Conditions

The certification of the Appraiser appearing in this report is subject to the following conditions, and to such other specific and limiting conditions as are set forth by the Appraiser in the report.

This report is being prepared for our client. This report or any portion thereof is for the exclusive use of the client and is not intended to be used, sold, transferred, given or relied on by any other person than the client without the prior, expressed written permission of the author, as set forth within the Limiting Conditions contained in this report.

The Appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the Appraiser render any opinion as to the title, which is assumed to be good and marketable. The property is appraised as though under responsible ownership, competent management and adequate marketing typical for that type of property.

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

In determining the opinion of value of the subject property and in analyzing comparable information, the Appraiser has relied upon information from public and private planning agencies as to the potential use of land or improved properties. This information may include, but is not limited to, Area Plans, Neighborhood Plans, Zoning Plans and Ordinances, Transportation Plans and the like. In developing the opinion of market value, the Appraiser may have considered the extent to which a knowledgeable and informed purchaser or seller, as of the date of the appraisal, would reflect the reasonable probability of changes in such land uses becoming actualized in the future. To the extent that these plans may change, the value opinion of this report may also change.

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

The Appraiser is not required to give testimony or appear in court because of having made the appraisal unless prior arrangements have been made and confirmed in writing.

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

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

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

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

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

On all reports which are undertaken subject to satisfactory completion of, alterations of or repairs to improvements, the report and value conclusions contained in it are contingent upon completion of the improvements or of the repairs thereto or alterations thereof in a workmanlike manner and consistent with the specifications presented to the Appraiser.

The Appraiser has not made a specific survey of the subject property to determine whether or not it has any plant or wildlife identified by the U.S. Fish and Wildlife Service as endangered or threatened species. While not observed and while no information was provided to confirm or deny the existence of any endangered or threatened species on the subject property (unless expressly stated herein), it is emphasized that the Appraiser is not qualified to detect or analyze such plants and wildlife. Any such conclusions must be based upon the professional expertise of persons qualified to make such judgments. Thus, any person or other entity with an interest in the subject property is urged to retain an expert if so desired. It is possible that a survey of the property could reveal that the site contains endangered or threatened plants or wildlife. If so, this fact could have a negative effect on the value of the property. Since the Appraiser has no direct evidence relating to this issue, possible endangered or threatened species were not considered in valuing the property.

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

Extraordinary Assumption:

The preceding valuation excludes $212,671 of compensation paid to the property owner when ADOT acquired the property. This compensation included $22,766 for personal property, $51,218 for the *entire* playground consisting of 864 square feet, and $138,687 for costs to cure, most of which was for the relocation of the monument sign and 50'-foot tall freeway sign.

Hypothetical Condition:

The north boundary of the subject property passes through the southeast corner of the indoor play area of the Carl's Jr. property. Thus, technically, about 25% of the play area is on ADOT owned land and 75% of the building is on land owned by Pfeiler Family Trust. For valuation purposes, it is assumed that the entire building and play area are under one ownership.

The use of the extraordinary assumption and hypothetical condition could affect the assignment results.

Summary of Salient Facts

Parcel:	A portion of 12-0554
Subject Property:	6,547 square feet of land and associated improvements.
Property Location:	Northeast corner of Mariposa Road and Shell Loop, Nogales, Santa Cruz County, Arizona.
Assessor Parcel No.:	A portion of 102-03-0250
Purpose of the Appraisal:	To develop an opinion of market value of the fee simple interest based on the contributory value of the whole.
Intended Use:	To utilize the opinion of market value to assist in decisions regarding the disposition of the property.
Client and Intended User:	Office of Arizona Attorney General, Ms. Kalyn Behnke, Assistant Attorney General Transportation Section and State of Arizona Department of Transportation (ADOT).
Effective Date of Value:	October 31, 2023
Date of the Report:	February 12, 2024
Owner of Record:	State of Arizona, Department of Transportation (ADOT).
Interest Appraised:	Fee Simple
Scope of the Appraisal:	Work on the appraisal was not limited in scope and was intended to comply with the Statement of Work for this assignment, the ADOT Procedures Manual Project Management Section Chapters Three and Four, the Federal Highway Administration (FHWA) Uniform Act, 49CFR Part 24, and the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP). My findings are conveyed via a Real Property Appraisal Report per USPAP.
Site Description:	*Size:* 6,547 square feet per ADOT. *Shape:* Long and narrow *Topography:* Level *Access:* No legal access. Physical access is via a driveway across the Carl’s Jr. property off Shell Loop. There is access control along Mariposa Road. *Utilities:* All utilities are available.

Improvements*:*	All improvements on the property were built for and currently used in conjunction with Carl's Jr. restaurant adjacent north. They include a portion of the indoor playground, paved parking lot with landscaping, drive-thru and menu board, 3 flagpoles and chain fencing along the south boundary. Though the monument sign and 50'-tall freeway sign are located on the subject property, ADOT paid the property owners to relocate these signs. Thus, they are still owned by David R. Pfeiler Family Trust.
Flood Hazard:	According to FEMA Panel No.: 04023C 0627C dated December 2, 2011, the subject property is in Zone X, an area determined to be outside the 500-year floodplain.
Zoning:	GC; General Commercial, City of Nogales.
Comprehensive Plan:	Centro Commercial
Highest and Best Use:	Assemblage; Continued use in conjunction with the Carl's Jr. restaurant located adjacent north.
Exposure Time:	1-3 months
Opinion of Market Value:	$675,000

Extraordinary Assumption:

The preceding valuation excludes $212,671 of compensation paid to the property owner when ADOT acquired the property. This compensation included $22,766 for personal property, $51,218 for the *entire* playground consisting of 864 square feet, and $138,687 for costs to cure, most of which was for the relocation of the monument sign and 50'-foot tall freeway sign.

Hypothetical Condition:

The north boundary of the subject property passes through the southeast corner of the indoor play area of the Carl's Jr. property. Thus, technically, about 25% of the play area is on ADOT owned land and 75% of the building is on land owned by Pfeiler Family Trust. For valuation purposes, it is assumed that the entire building and play area are under one ownership.

The use of the extraordinary assumption and hypothetical condition could affect the assignment results.

Property Identification – Larger Parcel

The subject property is a long. narrow shaped parcel consisting of 6,547 square feet. The site is improved with portions of a parking lot, building, signage and a drive thru lane used in conjunction with an existing fast food restaurant leased and occupied by Carl's Jr. The property is an excess parcel acquired by the State of Arizona – Department of Transportation for interchange improvements that were recently completed at S.R. 189 and Interstate 19.

The north boundary of the property is a slightly curved line that runs approximately 209 feet east from Shell Loop. The south boundary is roughly 175 feet long with frontage on Mariposa Road. The property is only 35.67 feet wide at the east boundary. Due to slight curves along the north and south boundaries, the width of the parcel narrows in the middle and widens out to a depth of roughly 50 feet at the west end.

The **Larger Parcel** concept finds its foundation in condemnation appraisal, when an organization with condemnation authority acquires a partial interest in a property through an eminent domain action. It is useful for other types of partial acquisitions as well, such as road and utility rights of way, or for conservation easements.

According to the ADOT Right of Way Procedures Manual, the "larger parcel" may be all of one parcel, part of a parcel, or several parcels combined, depending on the following:

> a. Unity of use: Unity of use is considered the most predominate test. This does not necessarily mean the existence or non-existence of a current unity of use, but rather unity of Highest and Best Use. Thus, even though a parcel may be under one ownership and contiguous, there may be more than one existing or economic use of the site. In this case there may be more than one "larger parcel" to be considered.
>
> b. Unity of title/ownership: Acquisition of parts of a whole at different times does not destroy unity of title, nor, in some cases, does the fact that one parcel is owned by an individual and the second is owned by a corporation under the control of that individual.
>
> Likewise, a fee interest in one parcel and a leasehold interest in an abutting parcel can operate as one larger parcel for the remaining term of the lease.
>
> c. Contiguity: Although typically a prime factor in determination of the larger parcel, contiguity is also not always mandatory. For example, a site located several parcels away, which provides necessary overflow parking may be considered as part of a larger parcel. Another example would be the taking of a processing plant for items produced on a non-contiguous site.

The subject property represents a single parcel of excess property acquired by ADOT for the reconstruction of the interchange at S.R. 189 and I-19. Though the property and the improvements continue to be used as an integral part of the fast-food restaurant adjacent north that is currently leased to Carl's Jr., the ownership interest of ADOT Parcel 12-0554 was severed when the acquisition occurred, and title conveyed to ADOT on December 5, 2019. The remainder of Parcel 12-0554 is owned by David R. Pfeiler, as Trustee of the David R. Pfeiler Family Trust.

Land adjacent south is ADOT right-of-way for Mariposa Road and S.R. 189. There is a 6.76-acre parcel of vacant land adjacent east under different ownership. The west boundary is formed by Shell Loop. Circle K occupies the property across the street at the northwest corner of Mariposa Road and Shell Loop.

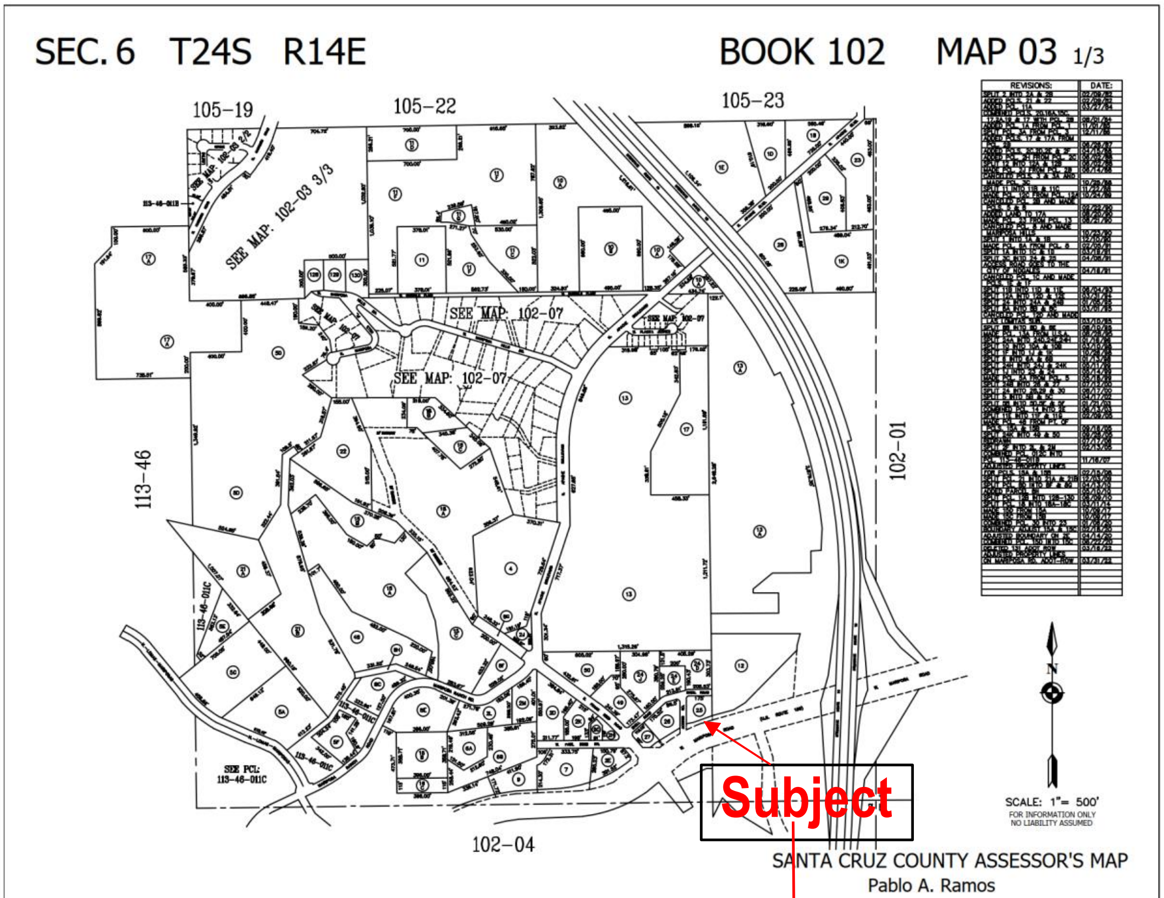
The subject property and the site adjacent north have an integrated use, but do not have common ownership. The subject property and the right of way adjacent south have common ownership, but do not have an integrated use. In this case, it is ADOT's intent to dispose of the subject property on a voluntary basis, including all interests in the property held by ADOT.

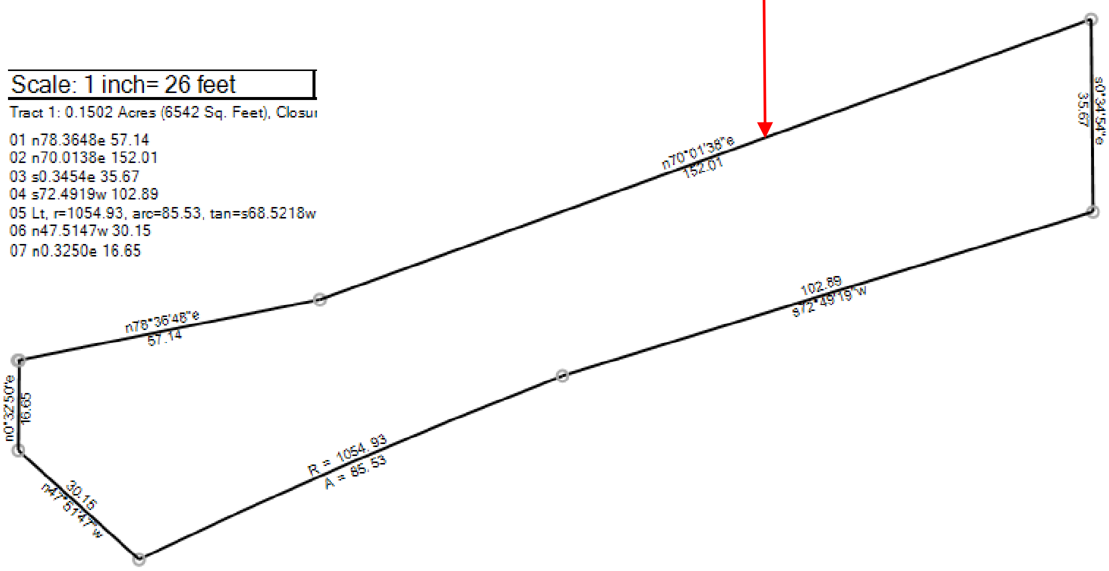
In conclusion, the subject property, as described above and identified for disposal, represents the Larger Parcel.

Legal Description

A legal description provided by ADOT is included in the Addenda to this appraisal report.

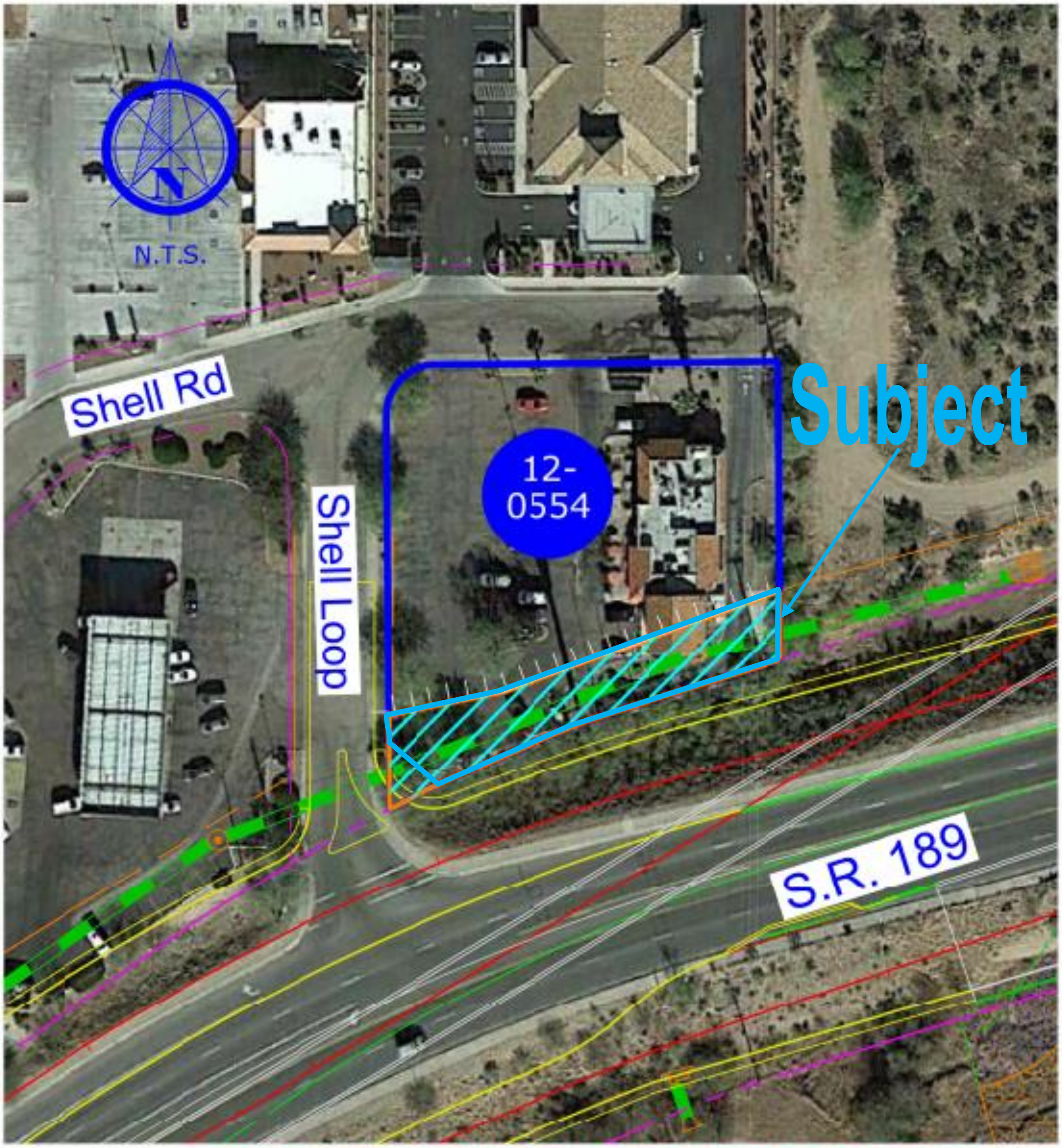
Assessor Map





ADOT Aerial Map #2

TOTAL AREA	AREA REQUIRED			REMAINDER	
	GROSS (INCLUDING EXISTING R/W)	NET (EXCLUDING EXISTING R/W)	NEW EASEMENTS	LEFT	RIGHT
36,537 Sq. Ft.		6,892 Sq. Ft.	ACCESS CONTROL	29,645 Sq. Ft.	



PLEASE NOTE: This exhibit is intended for Appraisal purposes only. Refer to Fina Right-of-Way Plans for additional information.

ADOT Right Of Way THIS SKETCH PLAN IS FOR ADOT INTERNAL USE ONLY	PARCEL # 12-0554	HIGHWAY NAME: NOGALES PRIMARY CONNECTION HIGHWAY	
	EXHIBIT # ———	PROJECT NO. 189 SC 000 H8045	
	DATE 08/02/22		
ROUTE NO.: I-10	LOCATION: NOGALES P.O.E. - SR 19B (GRAND AVE)	FEDERAL AID NO.: 189-A(201)A	SHEET NO. 1 OF 1

Proposed Right of Way as of 11-29-2018

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Valuation Process

An appraisal includes the development and reporting of an opinion of value that is based upon research and analysis of factors influencing real property values. When organized properly, the appraisal process runs through a series of steps that lead to a well-founded and soundly supported opinion of market value that is credible, reliable and accurate.

The Arizona Department of Transportation (ADOT) Project Management Section Right of Way Procedure Manual lays out the preferred process for the development and reporting of appraisals made for ADOT operations. This report is structured on those guidelines.

The first sections of this report cover factual data that define the appraisal problem. Those include *Property Identification - Larger Parcel*, the *Purpose of the Appraisal*, the *Scope of the Appraisal* process, *Neighborhood Data*, and *Subject Property Data and Description*. The second portion of the appraisal includes the analyses and conclusions on which the opinion of value is based. This follows logically through the appraisal process, beginning with the *Highest and Best Use* analysis, which is followed by the *Valuation Analyses*.

As discussed throughout this appraisal, this is a unique assignment that involves surplus land and improvements acquired by the Arizona Department of Transportation but ultimately not needed for the SR 189 highway project. As of the date of valuation, the property remains intact, and the land and improvements continue to be used in conjunction with Carl's Jr. restaurant. However, if the improvements on the subject property were demolished, the condemnation clause of the lease would likely be invoked due to the partial acquisition of the building and the elimination of the drive-thru which is in integral part of the Carl's Jr. operation.

This assignment involves the valuation of the surplus property as it currently exists. And, given the existing use, the highest and best use is for assemblage and continued operation in conjunction with Carl's Jr. Thus, if the property were available in the open market, the most likely buyer would be the owner of the Carl's Jr. property. Other potential buyers could include the Carl's Jr. franchisee or a competitor of Carl's Jr. No other potential users are identified.

Given these potential buyers/users several methods of valuation are employed. The first involves the Cost Approach, whereby recent vacant land sales are gathered and compared to the subject site. The estimated contributory value of the improvements is based on the cost, new, of the improvements less accrued depreciation. The depreciated value of the improvements is added to the land value estimate resulting in an indication of value of the subject property through the Cost Approach.

The second method of valuation involves the Income Approach. The Income Approach is based on the principle of anticipation, or the premise that value is the present worth of expected future benefits—as reflected via capitalization of income generated. Key data includes, but is not limited to, the pattern and duration of the income stream, projected operating expenses, the anticipated reversionary value, and appropriate rates for conversion to present value. The approach is most reliable when the income producing potential is the primary market driver and market-based data is available for use in construction of the valuation model.

Though there may be demand from the adjacent property owner to lease the subject property, there is no data from which to measure the market rent solely for the subject property. In this case, the measure of value of the subject property is based, in part, on what the adjacent property owner may be willing to pay to retain the existing tenant and, thus, retain the contracted rental income over the remaining term of the lease compared to the market rent to a local user. Using the income approach, the loss in value is measured by:

1) the difference between the value of the Carl's Jr. property with and without the benefit of the lease to a nationally accredited tenant; and

2) the lost revenue is measured by the present value of the difference between the per square foot rental rate to a franchise user like Carl's Jr. and a non-franchise user. Added to this rental difference are the costs of lease-up, commissions, and tenant improvements that would be incurred if Carl's Jr. were to vacate the property.

The third method of valuation involves the Sales Comparison Approach. In this approach recent sales of similar properties, known as "comparables," are analyzed and adjusted to the subject property. This approach best represents the actions of buyers and sellers in the market for this type of property.

The physical characteristics of the subject property are unique and there are no sales that can be compared directly to the subject. However, the Sales Comparison can be used to measure the amount the adjacent property owner may be willing to pay for the subject property in order to retain the current tenant, Carl's Jr. In this instance, a comparison can be made using sales of fast-food restaurants that are leased to national franchises to those restaurant sales that were vacant and/or leased to non-credit tenants.

The results from applying these various approaches to value are not intended to provide a precise measure of value for the subject property but, instead, intended to measure the potential amount the adjacent property owner may be willing to pay for the subject property as it currently exists.

Purpose of the Appraisal

The purpose of this appraisal is to develop an opinion of market value of the fee simple interest, subject to reservations and encumbrances of record. Pursuant to Arizona Revised Statute 28-7091, the definition of market value is as follows:

> *'Market Value' means the most probable price estimated in terms of cash in United States dollars or comparable market financial arrangements which the property would bring if exposed for sale in the open market, with reasonable time allowed in which to find a purchaser, buying with knowledge of all of the uses and purposes to which it was adapted and for which it was capable.*

Based on the physical characteristics of the property, the highest and best use is for continued use in conjunction with Carl's Jr. And, for this reason, the subject property has limited marketability and only a few potential buyers which include, but may not be limited to, the adjacent property owner (lessor), Carl Karcher Enterprises (lessee) or a competitor. Thus, the market value opined in this report is best be viewed as a contributory value to the whole.

Interest Appraised

Fee Simple is defined in the Dictionary of Real Estate Appraisal, 2022 version, published by the Appraisal Institute, as:

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

Prior to the acquisition by ADOT, the subject property was owned by David R. Pfeiler, as Trustee of the David R. Pfeiler Family Trust and leased to Carl Karcher Enterprises. While this lease remains in effect, and the lessor continues to collect rent on the property, including that portion acquired by ADOT which is the subject of this report, the rights associated with this lease are null and void with respect to the subject property which is now under a different ownership. Thus, the marketable interest owned by ADOT is the fee simple estate.

Per the ADOT Procedure Manual:

> *The underlying assumptions and limiting conditions pertaining to this report are contained in the Certificate of Appraiser immediately following the Summary of Salient Facts section of this report. These assumptions and limiting conditions are an integral part of the report.*

Intended User

The intended users of the appraisal are the Office of Arizona Attorney General as represented by Ms. Kalyn Behnke, Assistant Attorney General Transportation Section, and the State of Arizona Department of Transportation (ADOT).

Intended Use of the Appraisal

The intended use of the appraisal report is to utilize the opinion of value to assist in decisions regarding the potential disposition of the property.

Owner Contact and Site Inspection Information:

The property is owned by the Arizona Department of Transportation, which has commissioned Weissenborn Appraisal, LLC to perform this appraisal. Much communication between the representatives for ADOT and the Office of the Attorney General has taken place throughout the appraisal process.

Since the property continues to be used in conjunction with Carl's Jr., contact was made with the property owner and the lessee through Jenifer Dorn, secretary to Mr. Thomas M. Parsons, legal counsel with Stubbs and Schubart, P.C. Exterior access was granted via email on October 26, 2023. On October 26, 2023, Mr. Bill Leto, the tenant's representative, granted interior access to the property.

Beverly Weissenborn, MAI visited the property at about 9:30 am on October 31, 2023. Ms. Weissenborn met with the onsite manager, Myriam Molina. No one from ADOT or the Arizona Attorney Generals' office was present at the inspection.

ADOTM-1-V-4042-9-14 APPRAISALS EXHIBIT 9-14 July 1, 1992

CONTACT REPORT
DATE: October 26, 2023 PARTIES CONTACTED: On October 26, 2023, Timothy O'Connell and Mark Lawler with ADOT were contacted by email regarding their availability for a site visit to the subject property. Mr. O'Connell and Mr. Lawler declined the opportunity to meet at the property. Jenifer Dorn, secretary to Mr. Thomas M. Parsons, legal counsel with Stubbs and Schubart, P.C. was contacted regarding an inspection of the Carl's Jr. property. (520) 623-5466 Ex. 118. Exterior access was granted via email on October 26, 2023. On October 26, 2023, Mr. Bill Leto, tenant's representative (480) 907-7018, granted access to the interior of Carl's Jr. . I met with the property manager Myriam Molina at about 9:30 a.m. on Tuesday, October 31, 2023. Those present at the inspection included Beverly Weissenborn, MAI, and Barry Weissenborn. There were no representatives from ADOT or the Arizona Attorney Generals' office
Appraisal Services Contract No. CTR054976 Appraisal Assign. No.: TO-24-016 Project: H8045 01D Highway: Nogales Primary Connection Section: Nogales POE SR 19B (Grand Avenue) Parcel No. Portion of 12-0554

Effective Date of Value:

The effective date of this appraisal is October 31, 2023, which coincides with the most recent property visit.

Date of the Appraisal:

This report was completed for use by the client on February 12, 2024.

Ownership & Five-Year Chain of Title:

Title to the property is held by the State of Arizona, by and through its Department of Transportation. Title was acquired by virtue of a Warranty Deed dated November 27, 2019 and recorded on December 5, 2019 in Document Number 2019-07774. This was not an arms-length transaction but instead an acquisition for a road improvement project. The amount of compensation was based on an appraisal commissioned by ADOT.

Since 1997, the subject property has been operated in conjunction with Carl's Jr. restaurant. Prior to the acquisition, the property, as a whole, was subject to a 20-lease that was initiated March 13, 1997. On October 6, 2010, the lease was amended and included the exercise of Options One and Two and the extension of the lease term through and including December 31, 2026. Thereafter, there are three additional 5-year option periods with rental increases of 10% per period. The Base rent and terms of the lease are summarized below. The original lease and the first amendment to the lease are included in the Addenda.

Period	Annual Base Rent*	Monthly Base Rent	Rent/S.F.**
From 01/01/17 to 12/31/21	$114,466.04	$ 9,538.84	$30.27
From 01/01/22 to 12/31/26	$125,912.64	$10,492.72	$33.29
First Option From 01/01/27 to 12/31/31	$138,503.90	$11,541.99	$36.62
Second Option From 01/01/32 to 12/31/36	$152,354.29	$12,696.19	$40.28
Third Option From 01/01/37 to 12/31/41	$167,589.71	$13,965.81	$44.31

*Absolute triple net
**Based on building size of 3,782 s.f.

Since the lessor no longer owns a portion of the property originally leased by Carl's Jr., the owner's legal counsel was asked if the lease terms outlined above remain in effect as of the date of valuation. According to legal counsel, there have been no changes to the lease since the acquisition. The original lease dated March 13, 1997 and the first amendment dated October 6, 2010 remain in effect between the original parties. Since there is no contractual agreement between ADOT and the lessee, there is no impact on the marketable interest held by ADOT.

Scope of the Project

The appraisal is not being made for a specific highway project. Rather, the subject is excess property resulting from the acquisition of a portion of the Carl's Jr. property for the reconstruction and improvement of the S.R. 189 – I-19 interchange.

Arizona State Transportation Board Resolution Data: Not applicable

Right of Way Plan Drawing Number: Drawing D-12-T363 is outdated.

Scope of Work Performed

My work on this appraisal was not limited in scope and included a thorough application of appropriate appraisal methodology. It was made subsequent to my inspection of the subject property and investigation of relevant market data. The appraisal and report are intended to comply with:

- ADOT Department of Transportation Contract ID CTR054976;
- ADOT Right of Way Procedures Manual, Project Management Section Chapters 3 and 4;
- Federal Highway Administration (FHWA) Uniform Act, 49 CFR Part 24;
- current edition of the *Uniform Standards of Professional Appraisal Practice (USPAP)*;
- the scope of work written specifically for this assignment.

As noted previously, the subject property includes a narrow strip of land and improvements that are part of a Carl's Jr. fast food restaurant. The property was acquired by ADOT for right of way purposes but is no longer needed. As a result, ADOT plans to dispose of the property and the property owner has the option to buy the property back at the appraised value. Should the property owner not exercise this option, the property will be offered at auction.

The line of acquisition included 6,547 square feet of land and improvements that comprise a portion of the parking lot with landscaping, three flagpoles, a portion of a drive-thru with a menu board and intercom system and a portion of the building at the southeast corner which houses the playground. The monument sign and freeway sign are owned by Carl's Jr. As described later in this appraisal report, the drive-thru window is essential to the operation and occupancy of the property by a national fast food restaurant chain like Carl's Jr. Without the drive-thru, it is highly likely Carl's Jr. would exercise their right to cancel their lease effective immediately. This would negatively impact the value of the adjoining property and provides motivation to the property owner to exercise their option to purchase.

The challenge of this assignment is to estimate the market value of a property that is integral to the operation of the Carl's Jr. located adjacent north, but which has little appeal and few potential buyers in the broader market. Because of the unique nature of this assignment, multiple valuation techniques are employed in an effort to bracket a reasonable value conclusion.

There are three generally accepted approaches to the valuation of real property, the cost approach, the income approach and the sales comparison approach. The applicability of each varies with the valuation task and the nature of market data available.

In this case, the market value of the subject property through the cost approach is based on the contributions provided by the land and the property improvements. The improvement valuation includes an estimate of the current cost of reproducing or replacing site improvements, minus the loss in value from depreciation. Though this approach is generally best suited for application where property improvements are new or nearly new, the subject is unique and lacks broad market appeal. As such, the cost approach is relevant to this assignment and provides a baseline for value.

Given the unique characteristics of the subject property, few sales or rentals were found in the Nogales market that can be used to estimate the market value of the subject property through the Income Approach or the Sales Comparison Approach. However, variations of each of these approaches can be used to help measure the amount the adjacent property owner or tenant might be willing to pay for the subject property in order to continue current operations.

In the Income Approach**,** value is indicated by a property's earning power, as estimated via the discounting or capitalization of income generated. This approach is most reliable when the income producing potential is the primary market driver and market-based data is available for use in construction of the valuation model.

The subject property has been leased on a long-term basis as part of Carl's Jr. The initial lease period is set to expire December 31, 2026, but there are three, 5-year renewal options. The leased fee interest of the Carl's Jr. property, as a whole, can easily be developed by capitalizing the income stream at an appropriate overall rate.

To estimate the contributory value of the subject property to the whole, direct capitalization is applied to the net income base on the market rent of the Carl's Jr. property without the benefit of the Carl's Jr. lease and without the drive-thru. The difference between these values of the leased fee interest and the value based on market rent to a local user is one measure of the contributory value of the subject property.

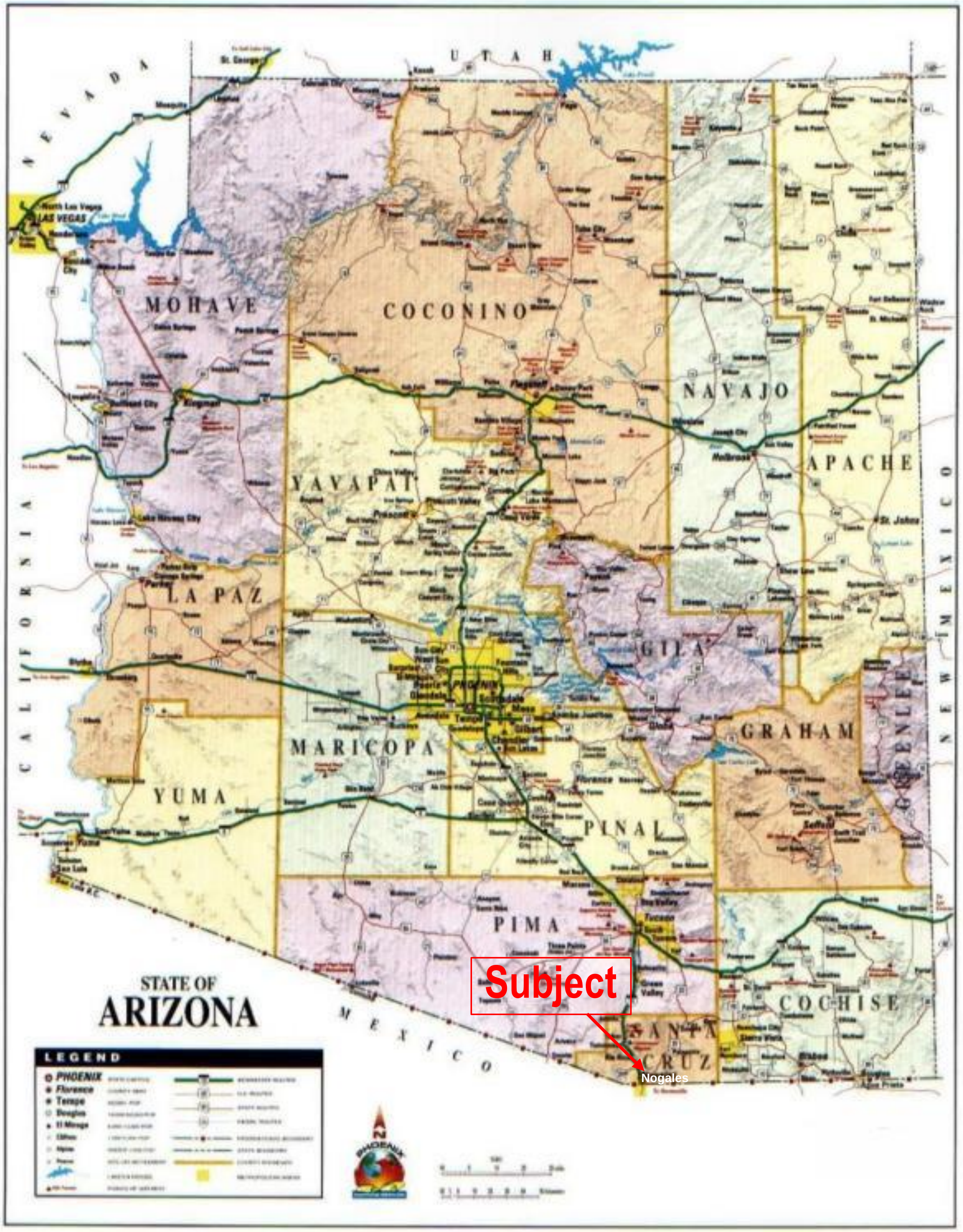
Another method considers the present value of the potential income lost should Carl's Jr. vacate the premises. The capitalized lost income, plus the cost of lease up, can then be used as a measure of value that the adjacent property owner or operator is willing to pay in order to continue current operations.

And, lastly, the Sales Comparison Approach is applied. Typically, valuation through the Sales Comparison Approach is based on the analysis of sales that include properties that are competitive with the subject property in the given marketplace. This approach is generally recognized as the most reliable indication of valuation, but because of the unique characteristics of the subject property, no comparable sales were found. Instead, the Sale Comparison Approach will be used to measure the difference in value between a fast-food restaurant that is leased and/or occupied by a national franchise and one that is either vacant or leased by a local operator. This change, compared to the leased fee estate, can be used to measure the amount the adjacent owner or operator might be willing to pay in order to continue operations.

To find sales of freestanding fast-food restaurants, I have conducted a thorough search of the Nogales market dating back to January 1, 2019. This search involved a review of data published by MLS, LoopNet and Real Quest plus interviews of local market participants. The search revealed four sales and one listing. They are a mix of franchise and local owner/operator properties. Due to the limited about of data from which to make reliable comparisons, the search was expanded to other areas across Arizona including all of Santa Cruz County, Cochise County, Pima County and Yuma County. This search revealed a number of sales with similar income characteristics as the subject as well as sales of buildings that were constructed for franchise operators but no longer viable for national franchise occupancy for a variety of reasons.

In the end, the indications from all three approaches are used to bracket a reliable indication of market value for the subject property.

State of Arizona



Regional Data

The subject property is about two miles north of the international border with Mexico, in Nogales, Arizona, a small city adjoining the border in Santa Cruz County, the smallest county in Arizona. The Nogales and Rio Rico areas comprise roughly 85% of the population of the county. Rio Rico is a large, master-planned, principally residential community centered roughly four miles north of Nogales.

Nogales is approximately 60 miles south of Tucson via I-19. The economic health of the Nogales/Rio Rico area is dramatically affected by trends related to the crossing of goods into, and out of, Mexico and its Mexican twin city, Nogales, Sonora. Economic and population growth have occurred, generally at a moderate rate, due to its border location. Nogales, Arizona's retail stores near the border see much business from Mexican consumers, largely for apparel, electronics and groceries not available in Mexico.

The population of Nogales, Sonora, was estimated to be 264,782 in 2020 up 20% from 220,292 in 2010 according to official Mexican census figures published by their National Institute of Statistics and Geography (INEGI), although some believe that this understates the actual population by as much as 30%. Nogales, Son. is growing much faster than its twin city as people from the south seek the economic benefits of being near the border.

The 2020 population of the State of Sonora is roughly 2.945 million. Nogales is approximately 175 miles north of Hermosillo, Sonora’s capital (2020 population of over 935,000) where there is a large Ford Motor manufacturing plant. A Union Pacific rail line runs south from Tucson through Nogales to Hermosillo and the Sonoran seaport City of Guaymas. It carries Ford cars into the U.S. as well as U.S. products into Mexico. The main international sales include gold in all forms, electrical wires and cable and sales of fresh or chilled vegetables. A large agricultural region in southern Sonora is increasing in acreage.

For over 70 years, long-established agricultural regions in the western Mexican state of Sinaloa have been trucking fresh produce to the U.S. through distribution facilities in Nogales and Rio Rico. The importation and distribution of large quantities of Mexican-grown produce provide work for many on the U.S. side. Interstate-19 begins in Tucson and terminates at the border in western Nogales. It provides access to Mexico’s Route 15, the major north/south highway in western Mexico. There are currently an estimated 90 cold storage and distribution warehouses.

Other warehouses are dry storage warehouses coordinating with "twin-plants" across the border to take advantage of low-priced Mexican labor. Dry storage is also used by the customs brokerage industry, and now “logistics” which encompasses the customs brokerage function. Government is a large and growing employment sector as increasing numbers of government employees work in the area as a result of the increased attention of the government to the border region.

In 2008, Nogales ranked as the 42nd largest U.S. freight “gateway” (by value of import/export shipments for all three types of shipments: land, water and air). For freight gateways along the U.S./Mexico border, it ranked as 4th largest. Since 2019, it has ranked as 4th in number of truck crossings on the U.S./Mexico border, behind Calexico, CA and is by far the busiest border crossing in Arizona with over 3.8 million arrivals of truck and passenger vehicles in fiscal yar 2023. According to the U.S. Customs and Border Protection data, nearly 10 million pedestrians crossed through Nogales ports in fiscal year 2023.

Storage and distribution of Mexican- grown fruits and vegetables by truck is the single largest industry although dry storage and distribution by truck of merchandise related to either Mexican manufacturing or other U.S./Mexico trade is a strong second. Additionally, American and Canadian- made products and other goods including agricultural supplies are shipped in great quantities into Mexico. Due to the quantity of trucks coming into Nogales from the U.S. and Mexico transporting produce and other goods, trucking is also a major industry.

Importing, exporting, and trucking require a great many support services. The Nogales Chamber of Commerce reports that over 350 businesses exist in the area related to importing and exporting services.

County Population. As of 2022, Santa Cruz County had a population of 49,039 up 0.2 to 1.4% per year since 2017. Growth slowed during the COVID-19 pandemic but increased measurably in 2021 following the pandemic.

In the past several years, measures taken to prevent illegal immigration may be impacting the region, which is overwhelmingly Hispanic. Most new residential development has occurred north of the city in Tubac and Rio Rico. Tubac is a mostly upscale community centered roughly 12 miles north of Nogales along I-19. It features a well-established arts district attracting tourism and new residents. Rio Rico is a master-planned community centered roughly 4 miles north of the city limits which has evolved over many years from a retirement community into somewhat of a suburb of Nogales. The population of Rio Rico was recently reported to 20,000 to 21,000.

City Population. The Nogales city limits encompass a 20 square mile, rectangular area, 5 miles along the border and extending 4 miles to the north. Population growth inside the city limits is less than the county, in part because there is a shortage of easily developable land remaining in the city. The following U.S. Census data for the City of Nogales from 1980 to 2020 is reported below.

City of Nogales

Date	Population	Growth Rate
4/1/80	15,683	
4/1/90	19,489	2.20%
4/1/00	20,856	0.69%
4/1/10	20,837	-0.01%
4/1/20	19,759	-5.17%

Source: U.S. Census

Population growth inside the city limits of the City of Nogales since 2020 depicts a slight increase of 0.4% to 19,833 as of July 1, 2022. This is lower than the County as a whole as estimated by the State.

The statistics and anecdotal evidence support some population growth in the City limits in recent years but at a very low rate, insufficient to support significant growth in new housing. Growth outside the city limits is moderate, supporting a moderate amount of new housing construction.

Economic Indicators. The Nogales area is not as affluent as Santa Cruz County as a whole, or as Pima County, most of which includes the Tucson metro area. Population data for the Tucson and Nogales areas from the 2020 U.S. Census along with selected demographic data from the 2017-2021 are reprinted in the table below (the ACS is the Census Bureau's Population Estimates Program).

COMPARATIVE DEMOGRAPHICS- U.S. CENSUS*

	Pima County		Santa Cruz Co.	City of Nogales
Population 2010	980,263		47,420	20,837
Population 2022	1,057,597		48,759	19,833
Growth Rate	7.89%		2.82%	-4.77%
Median Home Value	$217,700		$165,500	$139,300
Median Gross Rent	$976		$667	$592
Income - Median Household	$59,215		$45,089	$31,997
Income - Per Capita	$33,016		$22,985	$19,413

*For 2017-2021

Employment Data: Employment in Santa Cruz County is considerably more dependent on government jobs than Arizona as a whole. It is also considerably more dependent on Service-Providing Industries rather than Goods-Producing Industries. Over the past six months, the unemployment rate has fluctuated between 6.3% to 8.1%. This is higher than the statewide unemployment rate of 3.4% to 4% over the same period. The higher rate in Santa Cruz County is, in part, a function of the cyclical nature of the produce industry.

Industrial Overview: The supply of industrial space in the Nogales/Rio Rico market is in the range of 7.0 million square feet. Demand for industrial property in the Nogales/Rio Rico area is dependent on a number of factors, but of greatest significance is the produce industry which affects demand for cold storage and distribution warehouses, or "produce warehouses." Nearly 2/3 of the industrial space is for produce distribution.

Evidence of growth in industrial demand is indicated to some extent by growth in truck traffic coming into the U.S. through the Nogales Port of Entry. According to figures published by the U.S. Department of Transportation, truck crossings into Arizona through Nogales are at their highest point ever, well above the 10-year average and somewhat above the 5-year average. They dipped in 2011 to 287,091. Produce imports were lower in 2011 because the growing regions of northwest Mexico suffered one of its worst freezes ever in early February 2011.

Truck Crossing Data per the U.S. Bureau of Transportation Statistics is shown below.

Year	Truck Crossings	% Increase Decrease
2022	370,773	-2.2
2021	379,106	7.7
2020	352,032	0.8
2019	349,377	3.6
2018	337,179	1.0
2017	333,941	-0.5
2016	335,737	5.0

2015	319,747	2.5
2014	312,010	0.1
2013	311,669	1.3
2012	307,626	7.2
2011	287,091	-6.6
2010	307,510	11.1
2009	276,877	-8.8
2008	303,757	2.9
2007	295,267	2.0
2006	289,590	8.8
2005	266,233	7.6
2004	247,553	1.7

Truck crossing totals vary somewhat year to year, but it is worth noting that there was a significant increase in 2021 which was likely attributed to increased consumer demand and pent-up supply chain issues related to COVID-19. A decline from 2021 was posted in 2022, yet the number of crossings was still measurably higher than any posted in the 10 years prior. Over the past 10 years the average annual increase has been 1.93%.

Until several years ago, the daily wait times for trucks to cross into the U.S. in Nogales during the busiest part of the year were a major problem for importers due to the insufficient capacity of the truck crossing facility (known as the Mariposa Port of Entry). The port had been designed to handle only 400 trucks per day when it was built in the 1970's. Reportedly in recent years, during the busy produce season the truck crossings have numbered as high as 1,800 per day. This significantly hampered local industrial profitability and growth.

To address this problem, in 2009, the Federal government announced a huge Nogales port expansion and modernization project as a part of the American Recovery and Reinvestment Act. This project, completed in 2014, cost roughly $244 million. The port now has eight truck lanes and 12 passenger vehicle lanes. The 216,000 square foot facility is now able to handle as many as 4,000 trucks a day and process up to $35 billion of goods annually.

All market participants believe the POE expansion has been a significant positive development for local industry for several years. However, subsequent to the completion of the project, concerns developed over wait times being longer than necessary due to understaffing. In 2015 the CBP addressed this problem by hiring and training a significant number of additional agents, however under-staffing continued to be an issue until late 2019. Reportedly, this has since been corrected and the average current wait time is currently about one hour.

Local Effects of U.S./Mexico Trade Developments

U.S./Mexico trade issues are highly complex and have a significant impact on Nogales commercial and industrial real estate, a community whose economy is greatly influenced by the crossing of goods into and out of Mexico. But, over the years, market participants tend to have a longer-range view than many markets and believe that U.S./Mexico trade is mutually beneficial and the probability for implementation of significant, locally damaging, trade restrictions is relatively low. As a result, industrial demand over the years has been resilient and new projects have continued at a measured pace, based on demand.

USMCA (NAFTA Re-Negotiations)

Now known as the U.S. Mexico Canada Agreement, a re-negotiation of NAFTA promised by the new administration began in mid-2017. One of the main focuses of the renegotiation was the creation of manufacturing jobs in the U.S. at the expense of manufacturing jobs in Mexico. This would tend to have a negative effect on maquilas, which are companies taking advantage of low- priced, Mexican labor in manufacturing.

There obviously were concerns locally that manufacturing at the Ford plant in Hermosillo would be affected. However, there were also concerns in the local produce industry. Included in its list of NAFTA negotiating objectives were several pertaining to more rigorous enforcement of antidumping and countervailing duty measures, stemming from proponents' claims of an ongoing lack of application of existing pricing rules. The Fresh Produce Association of the Americas and Peterson Institute of International Economics both report the proponents to be "a small group of politically connected, wealthy agribusiness firms from Florida," a recurring theme since the 1990's.

The proponents sought to reduce or control competition from Mexican- grown tomatoes, moving in the direction of barriers to trade, to increase profits for domestic tomato growers. These agribusinesses, principally based in Florida, have had a certain amount of past success in this regard, most notably in 1996 and 2013.

In late-August 2018 the concerns were thought to have been allayed. Some USMCA details were resolved. U.S. trade officials released a fact sheet, including a chapter on agriculture, "reinforcing the free trade regime that NAFTA created between the United States and Mexico." (Source: Peterson Institute on International Economics)

On August 27, Tom Karst with the industry publication *The Packer* wrote "The revised trade agreement between the U.S. and Mexico won't bring any new trade protection tools for U.S. growers of seasonal specialty crops." This includes tomatoes and grapes. Florida Fruit and Vegetable Association lobbyist Mike Stuart was quoted as saying "This is not the outcome we have worked for."

2019 Development - Tomato Suspension Agreement

Surprisingly, subsequent to the above developments, in February 2019 the Department of Commerce announced its intention to terminate the existing tomato free trade "suspension agreement" May 7 and open an investigation of anti-competitive practices in tomato pricing (sometimes referred to as "dumping"). While the issue was unresolved, nonetheless, a new 17.5% tariff on imported Mexican tomatoes has been enacted, the first in many decades. This was reported as very unwelcome news for Nogales' tomato distributors and was likely to have somewhat of a dampening effect on future demand in the local cold storage market. Then, in mid-August 2019, a draft version of a new Tomato Suspension Agreement was released. Reportedly the tariffs were eliminated, but new, "non-tariff trade barriers" (FPAA wording) would be implemented. Included are new, increased, minimum prices for certain varieties of Mexican-grown, imported tomatoes, and a new tomato inspection policy.

The new policy required that that almost all Mexican-grown tomatoes entering the U.S. would face inspection, a huge increase over the previous percentage. Interestingly, one warehouse owner thought this might aid demand locally by requiring more space for inspection areas in existing warehouses in Nogales. The inspections began in late March 2020.

In July 2023 the Florida Tomato Exchange (FTE) filed a request with the U.S. Department of Commerce to terminate the 2019 Tomato Suspension Agreement and reimpose antidumping duties on the billions of dollars' worth of tomatoes crossing in the U.S. each year. This request is the latest dispute in a sometimes-rocky relationship between the U.S. and Mexico.

The FTE claims that, in the past four years, Mexican producers have failed to address unfair trade practices they were required to stop after the 2019 Tomato Suspension Agreement. Specifically, Mexican exporters are accused of dumping the tomatoes in the U.S. market and selling them below Mexican market price while exporting to the U.S. in bulk. Reportedly, the average tomato price increased directly after the 2019 agreement was signed, only to steadily decline later as some exporters resumed selling the tomatoes in bulk under the reference price. Going forward, it is likely the U.S. will terminate the 2019 suspension agreement and resume antidumping tariffs to balance out the low prices, against which Florida growers cannot complete. Mexico could then, in turn, impose tariffs on U.S. exports to Mexico, such as pork and corn. However, given the importance of tomatoes for U.S.-Mexico commerce, and the cost of a larger trade war, stakeholders on both sides would likely aim to find a more amicable resolution. As of this writing, it remains to be seen.

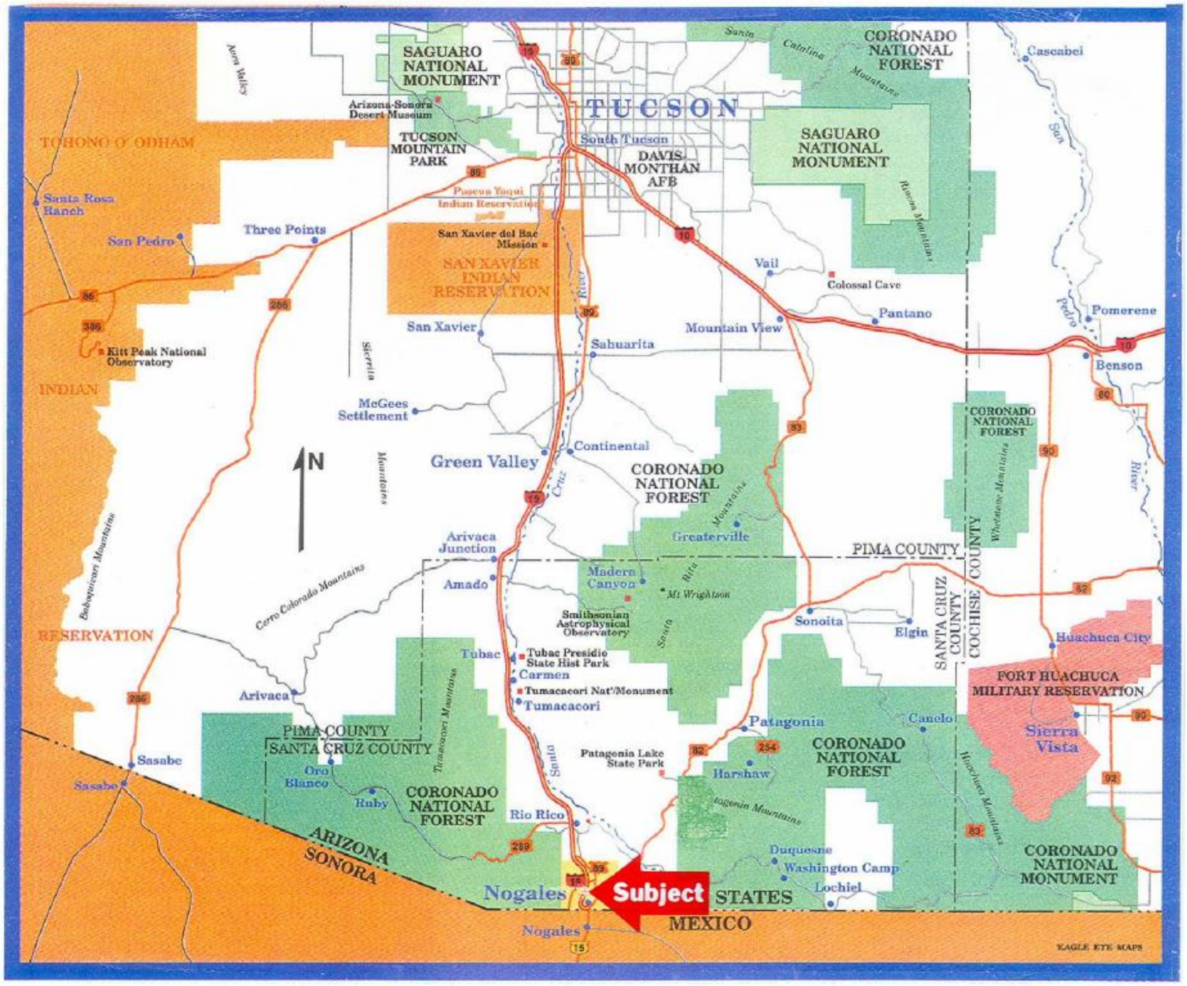
Export of U.S.-grown Produce into Mexico

In addition to the importation of Mexican-grown produce into the U.S. through Nogales, increasing amounts of U.S.-grown produce is being exported into Mexico through Nogales, particularly during the off-season months of summer and fall, including tree fruit and potatoes. Some, but not all, of this produce is warehoused in Nogales.

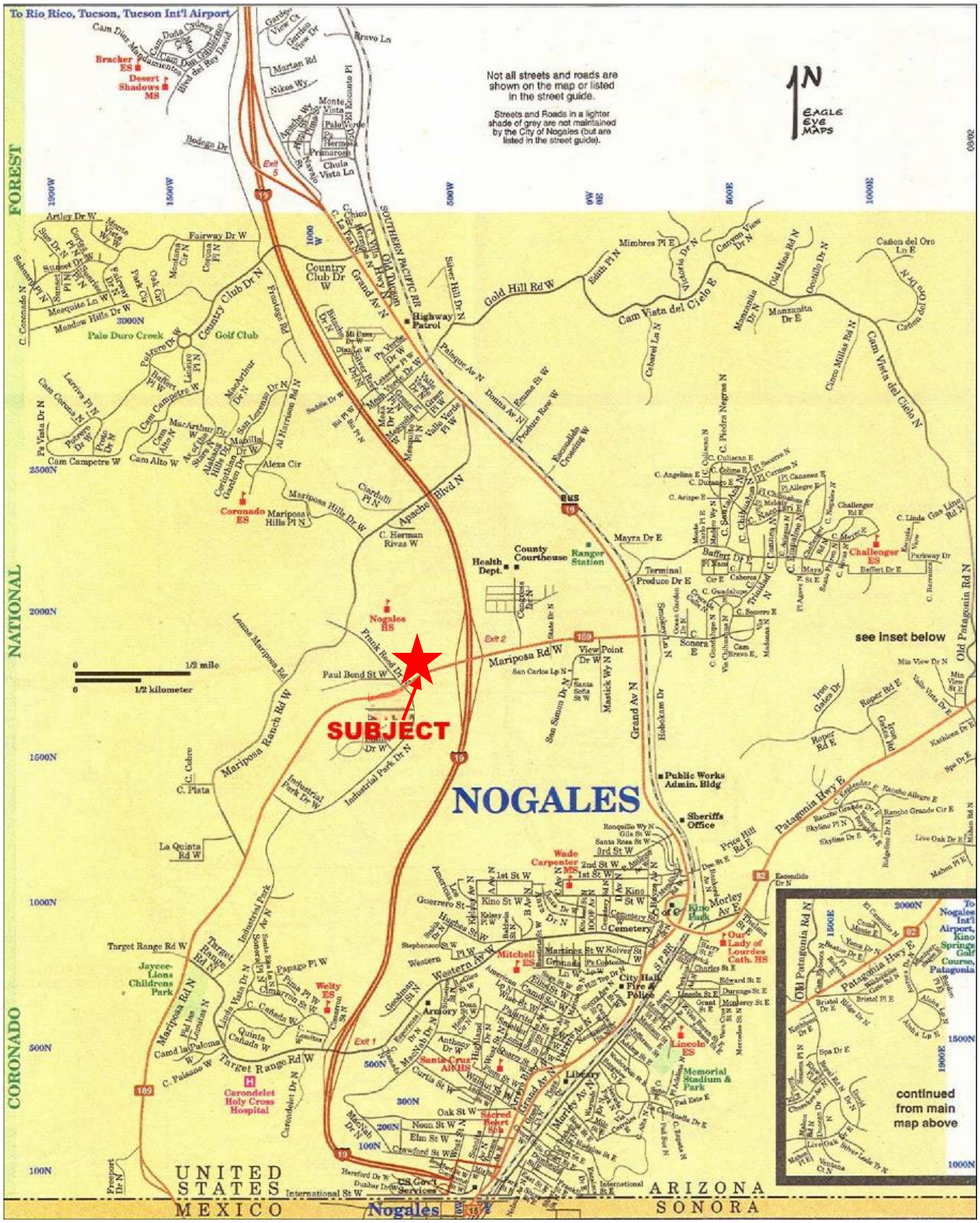
Conclusion:

Market participants tend to believe that U.S./Mexico trade is mutually beneficial and the probability for implementation of significant, locally damaging, trade restrictions is relatively low. Additionally, over many years, Nogales warehouse owners have proven to be sufficiently sophisticated, knowledgeable of trends, and proactive, taking measures such as diversification to increase demand. Industrial development in Nogales has historically been predictive, closely in line with demand, resulting in little speculative construction.

Regional Map



CITY MAP


To Rio Rico, Tucson, Tucson Int'l Airport
Not all streets and roads are shown on the map or listed in the street guide.
Streets and Roads in a lighter shade of grey are not maintained by the City of Nogales (but are listed in the street guide).
N
EAGLE EYE MAPS
SUBJECT
NOGALES
see inset below
continued from main map above
UNITED STATES
MEXICO
ARIZONA
SONORA
CORONADO NATIONAL FOREST

Mariposa Road – West of I-19

The west Nogales neighborhood comprises land located east and west of the southern three miles of Mariposa Road (Arizona SR 189). This section of Mariposa Road, known locally as the "truck route," travels from I-19 west and then south to the international border where it crosses into Nogales, Sonora and connects to Mexican Highway 15. Highway 15 travels south through Sonora then generally along the west coast of Mexico. This portion of Mariposa Road was completed for commercial traffic in the late 1970's to provide access to the Mariposa Port-of-Entry. Since then, it has become the premier industrial location in Nogales. The neighborhood caters to international trade and some of the largest and best quality warehouses in Nogales are located here.

Since construction, the Mariposa Land Port-of-Entry has received heavy commercial use and as a result a major port improvement and expansion project was completed in 2014. It has greatly reduced the crossing times for trucks to enter the U.S., which was a serious issue for many years and was believed to be hampering the ports competitiveness with other land POE's. The expanded facility has the capacity to handle 4,000 trucks per day. Parking and maneuvering were also greatly expanded. As enlarged, the port encompasses more land to the north and east of the prior port. The expansion moves commercial trucks through a large inspection dock area located near the northeast quadrant of the port with exit lanes being more northward. ADOT also has a truck inspection facility there. Auto traffic enters and exits as before.

Across and west of the port is an older industrial subdivision known as the Nogales Foreign Trade Zone. This development includes roughly 15 to 20 simply constructed block warehouses of 10,000 to 30,000 square feet in size constructed in the early 1980's. Most of these are owned by a local investor although a few are independently owned. Interior roads and building conditions are below average.

Also at the port, a significant amount of new tenant occupied buildings were constructed due to increased international trade. Constructed high up on a graded hilltop immediately west of the Foreign Trade Zone is a 107,254 square foot, single tenant warehouse occupied by SecoMex completed in 2014 by Delta Properties, Nogales' largest investor and developer. SecoMex has foreign trade status and is being used for this purpose. Just north of the port and FTZ are two additional tenant occupied warehouses on the east side of Mariposa Road. Built by the same developer, both were constructed on previously leveled land. Another new 75,000 square foot warehouse was completed on Freeport Drive in 2018 and is tenant occupied by Gamas International Forwarding (customs/logistics brokerage). At the same time grading was completed for the construction of a twin just below, but was put on hold by the developer. All three of these projects involved extensive grading of topographically challenged sites with grade changes of 100 to 200 feet. Increased demand, and higher land prices and rents have made use of this land economically feasible.

Between the border and the Mariposa Wash, roughly 1.5 miles to the north, land is hilly and topographically difficult to develop. In the vicinity of the Mariposa Wash, the land is more level. This is the location of the Mariposa Industrial Park subdivisions, which contain some of Nogales' largest and best quality industrial warehouses.

The area has been in transition from vacant land to industrial warehousing since State Route 189 (Mariposa Road) was constructed in the late 1970's. Due to some difficult terrain in the neighborhood, those properties developed first took advantage of the most suitable available land. Much of the remaining land requires considerable engineering for future use.

Near the border there are a few large parcels with partial grading completed and some or all utilities. Nearly all level land fronting Mariposa Road has been improved, to some degree. Land further from the highway with hilly terrain remains mostly unimproved.

As Mariposa Road meets I-19 land uses become more commercial. Some of these include a Holiday Inn Express, Candlewood Suites, Carl's Jr. restaurant, a two-story office building, Circle K with gasoline isles, I-Hop restaurant, Unisource, the Martinez Funeral Chapel and Mariposa Self Storage. On Industrial Park Drive and Bell Road is the roughly 30,000 square foot Campana Business Center with a large bilingual call center and several small businesses, many of these being medical.

Mariposa Road – East of I-19

There is a large and strong commercial presence east of I-19 between I-19 and Grand Avenue, but there has been very little interest in new retail development. Retail sales have not seen strong growth in decades. While the weak peso aids international trade it has a dampening effect on Nogales' retail market, as goods and services are more expensive to Mexican shoppers. Other impediments to new growth include the relatively recent expansion of big box and other U.S. based chain stores into Mexico including Nogales, Sonora, along with a much-increased level of internet shopping due to better delivery times for goods shipped to Mexico. The currently large concentration of retail space on Mariposa Road targets shoppers visiting from Mexico as the relatively small Santa Cruz County population cannot support the size and number of stores located here.

The core commercial district is located between I-19 and Grand Avenue. It includes two large shopping centers: Mariposa Mall and Loma Linda. Mariposa Mall is anchored by Aeropostale, Ross Dress for Less, Old Navy, Marshall's and Hobby Lobby. It includes additional strip retail space and a number of pads fronting Mariposa Road. These are occupied by McDonalds, Panda Express, Starbucks, Chase Bank, Auto Zone, Washington Federal Bank and NextCare Urgent Care. Planet Fitness and Harbor Freight are located at the west end with two pad sites: one occupied by Dunkin Donuts/Baskin Robbins and the other occupied by Chuyito's Hot Dogs.

Loma Linda Shopping Center is anchored by Safeway and Big Five Sporting Goods. The former Factory 2-U space is vacant. The inline space is reasonably well occupied. The front pads include Jack-in-the-Box, Okiroki Suchi Wings and KFC. Further east a former branch bank was recently converted into Chipotle restaurant.

The Oasis Town Centre a large power center has been developed south of Loma Linda Shopping Center. It is east of I-19 and south of Mariposa Road. This large development has been on the market for a number of years but with no serious offers. A 10,674 square free-standing restaurant was built and occupied by China Buffet. This business closed and the building has recent sold to Mariposa Community Health Service for redevelopment into a medical use. Though Home Depot and Walmart are nearby, much of the land in Oasis Town Centre remains vacant.

In addition, there is a roughly 16-acre tract of land located behind the Mariposa Mall that has access from Congress Street with some I-19 frontage. To date there have been no offers.

Despite the lack of demand, a few smaller sites with frontage on Mariposa Road and Grand Avenue have seen some minor more locally focused activity in the last few years. One of these was a site acquired for the new Tractor Supply store on Grand Avenue and another on Grand Avenue was purchased for parking. Recent additions and/or changes along Mariposa Road include Chipotle, Duncan Donuts/Baskin Robbins and Chuyito Hot Dogs mentioned above.

By far, the most recent land sale activity in Nogales has been for the construction of industrial or industrial related uses. These are in support of trucking along Mariposa Road. Land listings with commercial potential along Mariposa Road west of I-19 have received some calls, but the relatively high prices being sought might be dissuading buyers. Most sites are listed in the range of $16 to $20 per square foot. Sales transactions in this area over the last five years have been in the $5 to $10 per square foot range. This has been considered in the valuation process.

Mariposa Road Improvements

Since the realization of the potential impact of the POE's expansion project, the Arizona Department of Transportation focused on improving the enlarged POE's linkage to Interstate 19. Three alternatives were studied and, mainly due to lower costs, the alternative which was chosen improved the current route, Mariposa Road, with emphasis on improving its interchange with I-19.

Mariposa Road from the POE to I-19 is a distance of three miles, first traveling north, then gradually turning east. ADOT has divided the three miles into four individual segments for reporting traffic count data. Below we have reproduced traffic count data for Mariposa Road which has been collected by ADOT and published over the last several years. The segments are shown south to north. The subject segment is the fourth segment (Frank Reed to I-19).

From	To	2017	2016	2015	2014	2013
POE	Target Range	11,484	11,096	10,857	9,849	9,843
Target Range	IP Drive (South End)	13,874	13,405	13,116	14,902	14,718
IP Drive (South End)	Frank Reed	15,894	15,357	15,026	15,125	14,939
Frank Reed	I-19	24,870	24,029	23,512	20,372	20,324

The traffic counts increase traveling north. Prior to recent road improvements, the segment nearest the Interstate (east of Frank Reed Road) carried over 20,000 vehicles daily (2012-2016 average traffic count). Over the years, this resulted in a good amount of development of retail, office and restaurants as well as two sizeable national chain motels. This segment also carries traffic generated by nearby Nogales High School as well as the truck traffic. This area was of greatest concern due to the safety issues inherent in the high volume of trucks.

Both truck and car traffic are expected to increase markedly in the next few years due to the increased capacity of the POE. An Arizona Department of Transportation study concluded that traffic east of Frank Reed Road will increase to 38,000 vehicles per day in 2040. As a result, ADOT accelerated construction and the project was completed in 2022.

The main feature of the project included the construction of "fly-over" ramps for the northbound trucks (approaching I-19 on eastbound Mariposa Road) entering I-19 which resulted in routing the vast majority of trucks up and over the current overpass instead of under. It begins west of the Mariposa Road/ Frank Reed Road intersection and is roughly one mile in length, and passes high over both I-19, Frank Reed Road, and Mariposa Road. In addition, a "fly over" ramp was built for west/southbound traffic from I-19 to Mariposa Road. These new ramps have resulted in much less interaction between passenger cars and trucks at the Frank Reed Road/Mariposa intersection.

In conjunction with this project was the addition of raised medians in place of the former center turning lane converting Mariposa Road into a divided roadway. There are several left turn bays in the raised median for most properties, but the raised median will cause some properties' access to become "right-in / right-out" only. In addition, a roundabout was built at the intersection of Mariposa Road and Target Range Road.

In conclusion, the subject neighborhood contains the community's largest and best quality industrial property. The neighborhood is seeing good growth in new construction directly related to increased demand for warehousing used for international trade. Infrastructure improvements have been and will be improved to aid in commerce. Commercial development is concentrated at the Mariposa and I-19 interchange and further east to Grand Avenue. The prospects for the neighborhood are positive.

Site Description

Property Location, Assessor Parcel Number, Legal Description

The subject property is a remnant parcel originally developed as part of Carl's Jr. restaurant. It extends along the south side of the Carl's Jr. parcel which is situated at the northeast corner of Mariposa Road and Shell Loop, in Nogales, Santa Cruz County, Arizona. The site is just west of I-19 and just north of the newly constructed flyover ramps that were designed to improve the flow of truck traffic to and from the Mariposa P.O.E.

The subject property is a portion of Santa Cruz County Parcel Number 102-03-025.

The legal description is included in the Addenda.

Size and Shape

The subject property has a long, narrow shape. It measures roughly 209.15 feet along the north boundary and 188.42 feet along the south boundary. It is 35.67 feet deep at the east boundary. The depth narrows slightly in the middle and then widens to roughly 50 feet at the west end. According to ADOT, the site consists of 6,547 square feet.

Visibility, Streets and Access

The site has good visibility to Mariposa Road and good visibility to the new west/southbound flyover ramp on State Route 189. These two roads carry 2,970 vpd and 9,717 vpd, respectively, as of 2022. Based on historic traffic volumes, it appears these counts were taken during recent construction and do not represent current traffic volumes.

Despite the good visibility, there is no direct access from either roadway to the subject site. At this location, Mariposa Road was recently converted to a three-lane, one-way, west boundary arterial. There is a drainageway and access control along the south boundary of the subject site that precludes direct access. To access the subject property from Mariposa Road, vehicles must turn north onto Shell Loop. There is a curb cut at the immediate corner that is currently shared with Carl's Jr. Access is also possible across the adjoining Carl's Jr. parcel. Though the subject property has physical access, it does not have legal access across the Carl's Jr. property.

Eastbound traffic on Mariposa Road must turn north at the signalized intersection of Frank Reed Road and turn east onto Shell Road. One block east, Shell Road intersects with Shell Loop Road which continues south to the two driveways along the west boundary of the Carl's Jr. parcel.

Access to the subject property via the new west/south bound flyover ramp requires drivers to either turn right at Loma Mariposa to Mariposa Ranch to Frank Reed Road or make a U-turn at the signalized intersection of Loma Mariposa and continue on Mariposa Road to the intersection of Frank Reed Road. Alternatively, westbound traffic on Mariposa Road could continue west to Industrial Park Drive and turn south. Industrial Park Drive ultimately intersects with Mariposa Road at the Frank Reed Road intersection.

Topography/Vegetation

The subject property was originally developed as part of the Carl's Jr. pad. It has been graded, leveled and paved. The property is at grade on the west and north sides but above grade of the vacant parcel adjacent east and above grade of a drainageway that separates the property from Mariposa Road. Due to the differences in topography, concrete retaining walls have been constructed along the south and east boundaries.

The site was cleared of all native vegetation long ago. However, as part of the development of Carl's Jr., landscaped planters were installed along the perimeter. There are mature palo verde trees near the southwest corner, drought resistant shrubs along the south boundary and decomposed granite.

Utilities

All utilities are available to the subject property and provided by the following sources.

Electric:	UniSource Energy
Natural Gas:	UniSource Energy
Water:	City of Nogales
Sewer:	Santa Cruz County
Telephone:	Century Link or private provider

Surrounding Uses

The subject property is located in an established commercial district at the interchange of Interstate 19 and Mariposa Road aka S.R. 189. Nearby uses include Carl's Jr. adjacent north, Circle K across Shell Loop to the west and several motels/hotels to the north including Best Western, Holiday Inn Express and Candlewood Suites. In addition, there is a freestanding restaurant and a strip retail building on the north side of Shell Road. A two-story office building and IHOP restaurant are situated at the intersection of Mariposa Road and Frank Reed Road/Industrial Park Drive. West of this intersection, development transitions to industrial and quasi-industrial uses. The main commercial district for Nogales is located along Mariposa Road, east of I-19.

FEMA Floodplain

The property is included on FEMA FIRM Map # 04023C0462C, which was last revised on December 2, 2011. According to FEMA, the site is in Zone X, outside the 500-year floodplain.

Soil and Subsoil Conditions

A soils report was not provided, but given the existing and adjacent development of Carl's Jr. there does not appear to be any soil-related issues that would preclude development of the site to its highest and best use.

Easements, Restrictions and Encroachments

Property documentation provided to me has been minimal. That documentation includes an ADOT-provided legal description that states the following.

> The above-described property shall have no right or easement of access to said State Route 189.
>
> The Access Control provisions set forth above shall be a covenant running with the land and shall be binding upon and shall inure to the benefit of the State of Arizona, the landowners and their respective successors and assigns with respect to the property.

The Access Control provisions shall also remain enforceable by the State of Arizona even if all or part of any roadway is abandoned to a local jurisdiction.

GRANTOR RESERVES unto the public and various utility companies, easements for existing utilities, if any, within the above-described property, in accordance with Arizona Revised Statute 28-7210. Access to the existing utilities will be by way of what exists at the time of this conveyance and shall be the responsibility of the Grantee herein and of the public or utility companies to show where that access is located.

All utilities at the subject property appear to be along the property boundaries or within the existing right of way for either Shell Loop or Mariposa Drive. No other easements, restrictions and/or encroachments are known.

In addition to the legal description for the subject property, I was provided access to a Right-of-Way Title Report prepared on August 9, 2018 for Parcel 12-0554 which included the subject property at the time the title report was prepared. Important items in Schedule B that may impact the subject property pertain primarily to easements for public utilities. A visual inspection of the subject noted overhead electric and communication lines that extend along the east boundary and a sewer manhole proximate to the drive-thru. There are two possible wellsites noted under Item Number 6. A review of the public records on the Arizona Department of Water Resources website suggests these are not located within the boundaries of the subject property or the Carl's Jr. property.

Environmental Considerations

A Phase I Environmental Site Assessment has not been provided and there are no signs of distressed vegetation or other adverse conditions observed. Lacking an environmental assessment, this appraisal assumes there are no adverse environmental conditions on or near the property that would require costly mitigation.

Conclusion

The subject site is well located proximate to Interstate 19. Access to the area is somewhat circuitous due to recent road improvements along S.R. 189 and Mariposa Road. Once at the property, physical access is across the adjoining Carl's Jr. property, but legal access is not currently in place. Other significant characteristics impacting on the development potential of the site, as if vacant, are the small size and long narrow shape.

Subject property is the front portion of a parcel improved with Carl's Jr.

Subject property is comprised of a 6,547 square foot strip of land and improvements along the south side of the Carl's Jr. property.

Looking east from Shell Loop, subject property right of cone, left of fence.

Western portion of subject property between cone and fence.

Subject property left of arrows.

Another view of subject property between fence and arrows.

Subject property right of cone. Includes portion of playground, drive thru, menu board and intercom box.

Subject property left of arrow.

Subject property between dotted line and fence.

Freeway sign.

Intercom.

Menu board.

Three flagpoles.

Monument sign.

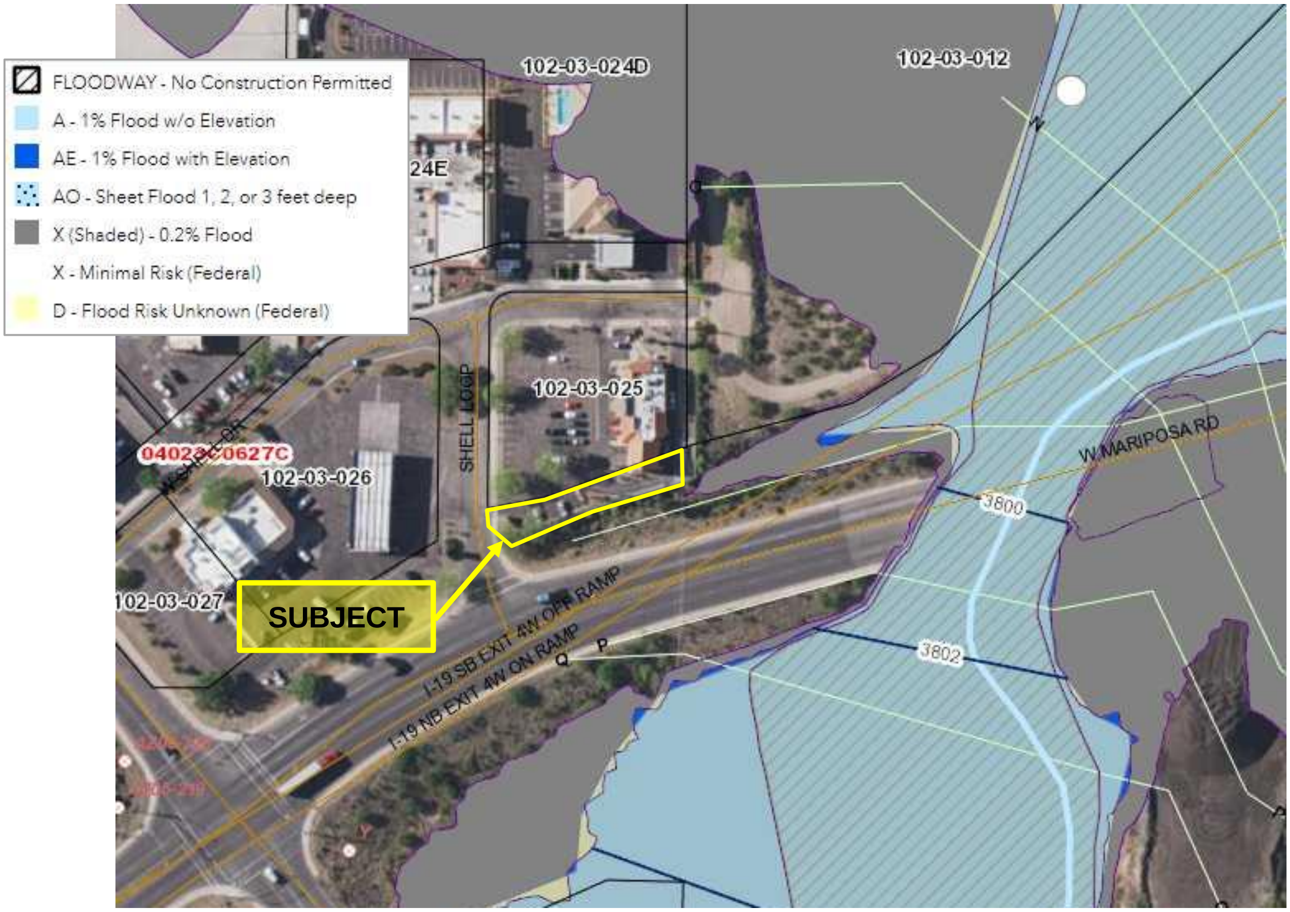
Interior of playground addition.

Looking east on Mariposa Road, subject property to the left. Note the new flyover ramp.

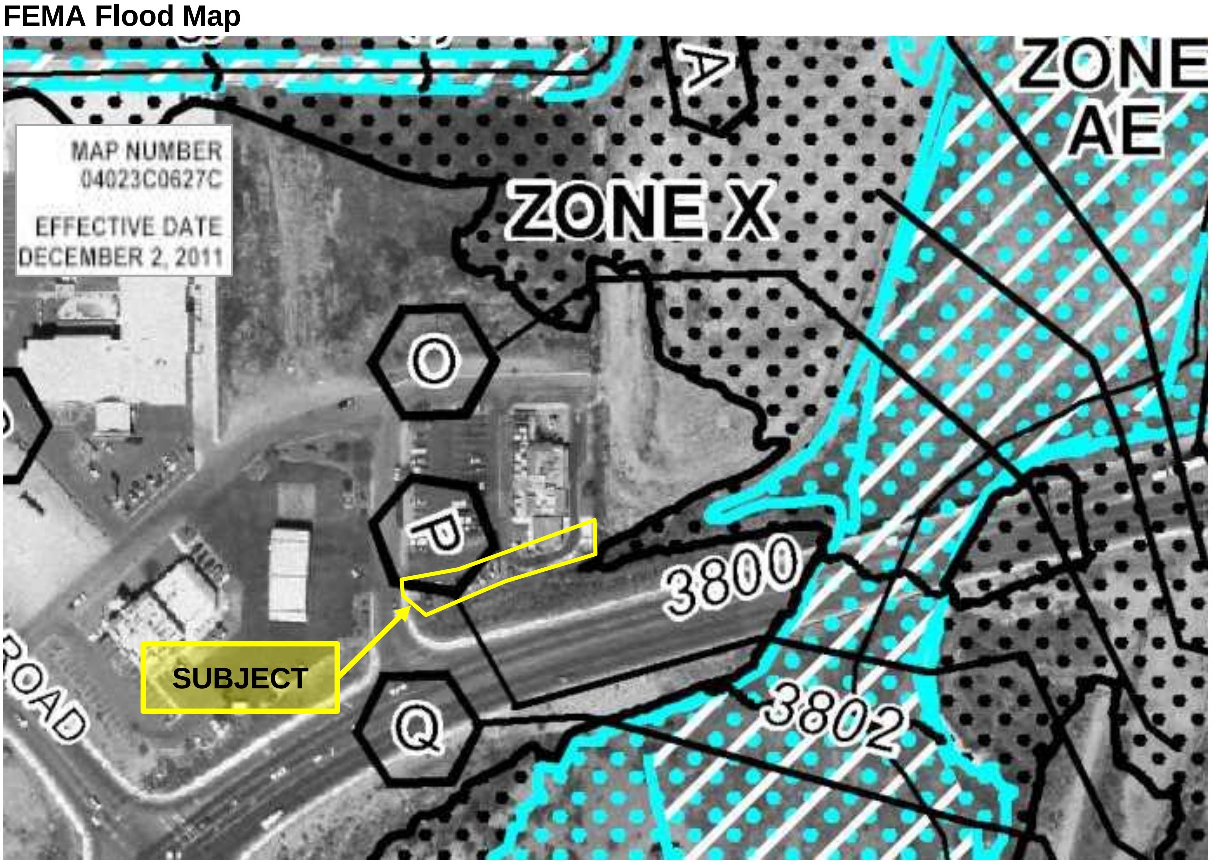
Looking west on Mariposa Road, subject property to the right.

Looking north on Shell Loop, subject property to the right.

Santa Cruz County Flood Map



FEMA Flood Map



Description of Improvements

The subject property was developed as part of Carl's Jr. restaurant. The main building and most of the site improvements were constructed in 1991 and are currently 33 years old. The playground, consisting of 864 square feet, was added in 1998 and is 25 years old.

Below is a summary of the improvements on the subject property. It is believed that nearly all of these improvements were added or modified in 1998 when the playground addition was made.

Portion of Playground: The playground is located at the south end of the main restaurant. It consists of 864 square feet and represents 22.85% of the entire building. Based on aerial drawings, the new right of way cuts a diagonal line across the southeast corner of the building. An estimated 175 square feet or roughly 20% of the playground is now within the boundaries of the subject property. **It is noted, however, that when ADOT acquired the property, the property owner was compensated for the depreciated value of the entire playground. The amount of compensation was $51,218.**

This portion of the building is constructed of wood frame and stucco with a concrete slab foundation. There are double-pane, store-front windows that show signs of warping due to seals that have been compromised. This area has a gable roof structure with mission tile cover.

The interior has a small dining/seating area along the north side but is mostly open and filled with play equipment. There is ceramic tile flooring in the dining area and rubberized tile pads in the play area. Lighting includes large suspended incandescent fixtures. Exposed duct work that is connected to the main HVAC system has been extended for heating and cooling. The ceiling is pitched with tongue and groove. There is no sprinkler system for fire protection.

Drive-Thru: Also located on the subject property is a portion of the drive-thru, menu board and intercom equipment. The drive-thru includes a single lane that wraps around the south end of the building adjacent to the playground addition. Traffic enters from the west or north and circles around to the drive-thru pick-up window that is on the east side of the main building north of the subject property. This drive-thru lane is approximately 120 feet long with asphalt paving, concrete curbs and landscaping along either side. Bollards have been installed along the south and east sides of the drive-thru lane. There is a concrete apron at the southeast corner of the site east of the drive-thru.

The menu board is mounted on a single steel pole that is 6" in diameter and about 18" tall. The board has three lighted faces. The lowest board measures 6' wide by 6' tall and displays the items available to order. The middle menu board is smaller measuring 6' wide by 1.7' tall. This board displays breakfast items. The upper menu board measures 3.3' wide by 8" tall. It displays a combo meal.

Just west of the menu board is a ground mounted intercom system. It measures 4.4' tall by 1.6' wide. It is used to convey orders to the kitchen counter.

Monument Sign: There is a monument sign at the southwest corner of the subject site, near the intersection of Mariposa Road and Shell Loop. This is a double sided, illuminated sign set on a concrete and stucco pedestal that is 3' tall, 11' wide and 1.4' wide. The sign face measures 4' tall by 11' wide.

Freeway Sign: There is a freeway sign located in the middle of the property. This sign has three, double-sided sign faces mounted on two 50+ foot tall monopoles. The diameter of the poles is 2' at the base. As they rise, the diameter tapers to 1.5' in the middle and again to approximately 1' at the top. The bottom sign face measures 12' wide by approximately 4' tall. The middle face is larger, measuring 17' wide by 6' or 8' tall. At the top is a star with a happy face which is the Carl's Jr. logo. The star measures 10' wide by 10' tall.

Based on aerial photos with a plan overlay provided by ADOT, it appears that the property boundary between the ADOT owned parcel (subject property) and the Carl's Jr. property goes through the middle of the sign. It is my understanding that the property owner was paid $130,942 to relocate the signs. Both signs remain in place but are owned by the property owner.

Parking Lot Improvements: There are 11 asphalt paved parking spaces on the subject property and connecting driveways and travel lanes. Landscaped planters with concrete curbs and decomposed granite groundcover wrap around the monument sign and expand eastward parallel to the south boundary. There is a 4' tall chain link fence and concrete retaining wall along the south and east boundaries.

There are three flagpoles just east of the freeway sign. Two are estimated to be 50' tall. The third pole is about 45' tall.

Functional Utility: The subject property, as improved, has little functional utility independent from the adjoining Carl's Jr. property.

Division of Realty and Personalty

All playground equipment, tables and chairs within that portion of Carl's Jr. which was acquired by ADOT is considered personal property and excluded from the valuation in this appraisal. It is noted, however, that ADOT paid $22,766 for this personal property when the subject was acquired.

Tax Data and Assessed Valuation

The subject property was previously part of Santa Cruz County Assessor Parcel Number 102-03-025. Since the acquisition by ADOT for the road right-of-way, this portion of the property has been removed from the assessor's rolls. Once ADOT disposes of the property it should return to the tax rolls and assessed based on its current or future use.

Signs

There is a monument sign and a freeway sign on the subject property. These are described in detail under the Description of Improvements. Though these signs are located on the subject property, they are still owned by David Pfeiler Family Trust, the owner of the Carl's Jr. property adjacent north. At the time of acquisition by ADOT, the Trust was paid $130,942 to relocate the signs.

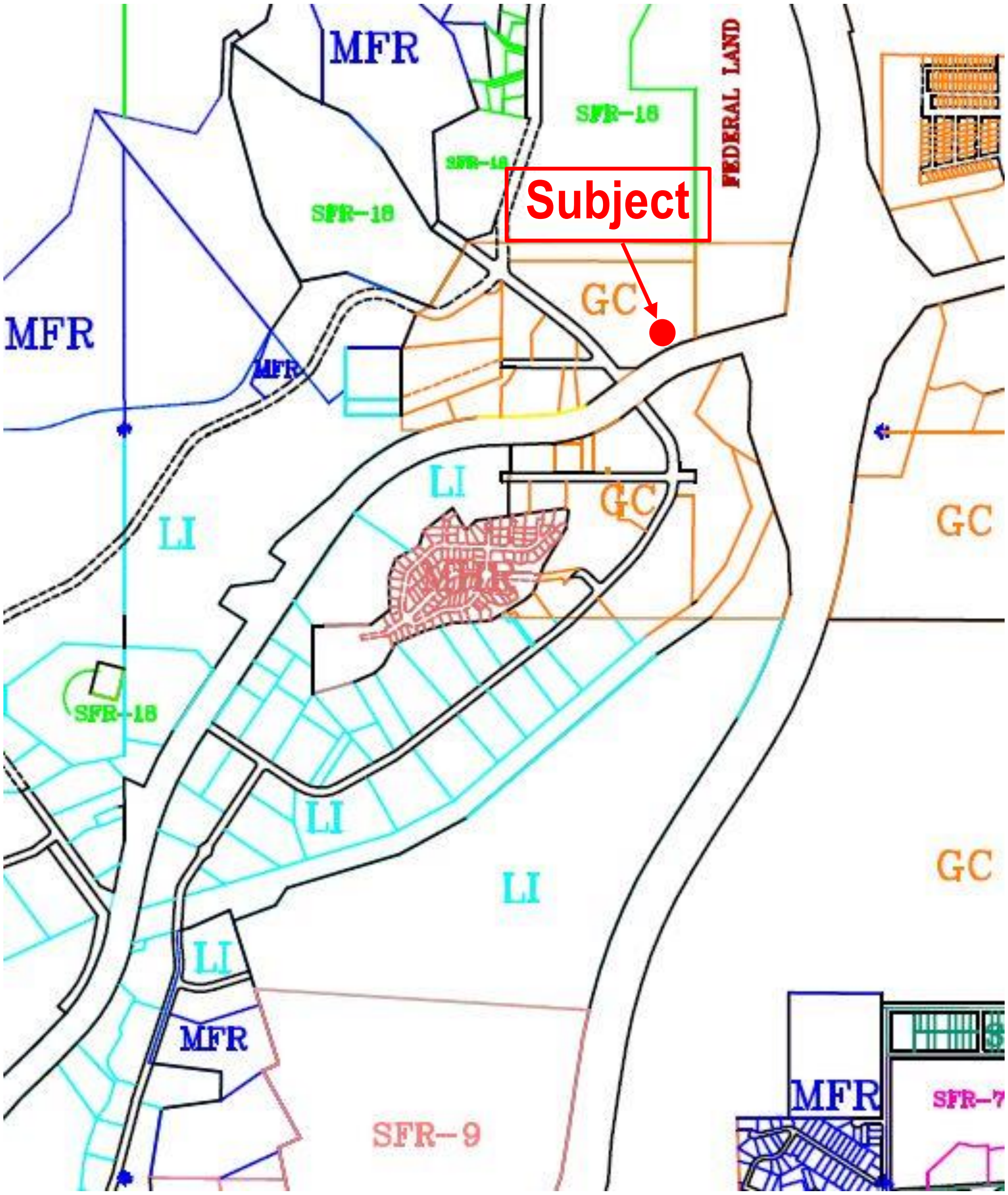
Zoning and Comprehensive Plan

As can be seen on the map that follows, the subject site is zoned GC, General Commercial, City of Nogales. Per the City of Nogales Development Standards, Code, and Ordinances, GC allows a large variety of commercial uses such as business and professional uses, retail sales, and service businesses, auto sales and service, tire sales/repair large fuel depots, fast food uses and hotels/motels. Warehousing is not permitted.

The subject property is within the Centro Commercial area of the City of Nogales General Plan. Lands within this area are intended for development of highway oriented commercial uses that include large scale developments such as malls, power centers, auto malls, entertainment and mix-use commercial. Most of these types of uses are concentrated east of I-19, but the immediate area in and around the intersection of Mariposa Road and Industrial Park Drive/Frank Reed Road are also intended for these types of uses. The recommended uses under the City of Nogales General Plan generally coincide with the uses allowed under the existing zoning.

As improved as part of a fast-food restaurant, the subject property conforms to the existing zoning regulations.

Zoning Map



LC=LimitedCommercial
LI=LightIndustrial
GC=GeneralCommercial
MHR=MobileHomeResidential
MFR=Mulity-FamilyResidential
SFR-4=SingleFamily,4,000SqFt
SFR-7=SingleFamily,7,000SqFt
SFR-9=SingleFamily,9,000SqFt
SFR-12=SingleFamily,12,000SqFt
SFR-18=SingleFamily,18,000SqFt
SFR-32=SingleFamily,32,000SqFt

Highest and Best Use

Highest and best use is defined in the 15th Edition of The Appraisal of Real Estate, published by the Appraisal Institute, as:

> "The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are physical possibility, legal permissibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property – specific with respect to the user and timing of the use – that is adequately supported and results in the highest present value." (Page 306)

The subject property consists of a 6,547 square foot site and associated improvements that were designed for, and currently used in conjunction with the Carl's Jr. property adjacent north. In December 2019, ADOT acquired the subject property with the expectation that it was needed for a road widening and improvement project along State Route 189. Once the project was completed, it was determined that only 345 square feet of land was needed at the immediate northeast corner of Mariposa Road and Shell Loop. As a result, ADOT plans to dispose of the surplus land and improvements which are the subject of this appraisal.

As Vacant

Physically Possible:

The subject site has a long, narrow shape. It measures 35.67 feet on the east boundary and 209 feet along the north boundary. At its widest point on the west boundary, the property is roughly 50 feet. The south boundary is approximately 188 feet long. The total size is 6,547 square feet.

The subject property is located in the northwest quadrant of the I-19/S.R. 189 interchange. It is situated at the northeast corner of Mariposa Road and Shell Loop. As part of the recent road improvement project, new flyover ramps were built to streamline truck traffic heading to and from the Mariposa Port of Entry, which is located at the international border approximately 3 miles southwest of the interchange. Subsequent the recent construction, the segment of Mariposa Road at the interchange and under the new flyover ramps was converted to a divided highway with three lanes of traffic heading west in front of the subject site and three lanes of traffic heading east on the other side of the median. Due to access control restrictions along Mariposa Road, there is no direct access to the subject site. Instead, westbound traffic can turn right (north) onto Shell Loop and use one of two curb cuts off Shell Loop to access Carl's Jr. Both curb cuts allow physical access to the subject property, but there is no recorded access easement across the Carl's Jr. parcel to allow legal access to the subject property. Eastbound traffic on Mariposa Road must turn left (north) onto Frank Reed Road at the signalized intersection, one block west of the subject, and then turn east on Shell Road and continue one block to Shell Loop.

All utilities are within or at the property boundaries.

The property is generally level and above grade of a drainage channel that separates the site from Mariposa Road. This wash appears adequate to carry any excess runoff to the east toward Mariposa Wash. According to FEMA, the subject site is in Zone X, an area determined to be outside the 500-year floodplain.

Due to the location at a freeway interchange, the immediate area surrounding the subject property is developed with commercial uses. Circle K convenience store with multiple gas pumps is located across Shell Loop to the west. Carl's Jr. is adjacent north. There are three hotels, a freestanding restaurant and strip retail center located beyond Carl's Jr. to the north. The site adjacent east is vacant, likely due to significant floodplain restrictions. There are other commercial uses at the intersection of Mariposa Road and Frank Reed Road which is one block west of the subject. Industrial and quasi-industrial uses are prevalent along Mariposa Road west of Frank Reed Road. Over the past 10 to 20 years, much of the commercial development in Nogales relocated from Grand Avenue near the international border to Mariposa Road east of I-19. Although there has been little recent development in this area, there are a number of big box retailers, fast food restaurants and financial institutions in this vicinity.

The small size, long, narrow shape and lack of legal access greatly impact the development potential of the subject site, as vacant.

Legally Permissible:

The second step of highest and best use analysis considers the legally permissible uses. These include existing zoning, private deed restrictions and any other restrictions that may be in effect.

The subject property is zoned GC, General Commercial. The GC zoning allows a variety of commercial uses including business and professional uses, retail sales, and service businesses, auto sales and service, tire sales/repair large fuel depots, fast food uses and hotels/motels. Warehousing is not permitted.

The subject property is within the Centro Commercial area of the City of Nogales General Plan. Lands within this area are intended for development of highway oriented commercial uses that include large scale developments such as malls, power centers, auto malls, entertainment and mix-use commercial. Most of these types of uses are concentrated east of I-19, but the immediate area in and around the intersection of Mariposa Road and Industrial Park Drive/Frank Reed Road are also intended for these types of uses. The recommended uses under the City of Nogales General Plan generally coincide with those allowed under the GC zoning.

In addition to the zoning regulations, ADOT has enforced access control along the south and west boundaries of the subject site. Direct access to Mariposa Road will not be permitted. And, with access control along the west boundary, access directly from Shell Loop will also be restricted. For the subject property to be developed independent of the adjoining parcel, legal access would have to be secured from the property owner adjacent north or from the property owner adjacent east.

Financially Feasible:

The third criterion considered in determining the highest and best use of the subject property is the financial feasibility of the various alternative uses. To be financially feasible, a use must produce a positive return.

Given the visibility, zoning and surrounding uses, a commercial use is most likely. However, the subject site is only 6,547 square feet in size. It has a long, narrow shape, 50 feet at its widest point. Also, it lacks legal access. With these limitations, the site, as vacant, has little to no appeal in the open market. Thus, it is best combined with the property adjacent north. Together these two properties would have a trapezoid shape and total 36,192 square feet which is adequate for a variety of pad users. Combination with the adjoining parcel provides for better visibility, signage and access to both properties.

Maximally Productive:

In conclusion, the highest and best use of the subject site, as vacant, is for assemblage with the property adjacent north.

As Improved

Physically Possible:

The right-of-way line for the original project was moved 35' to 50' north of the previous right-of-way and cut across the southern portion of the Carl's Jr. property. This new right-of-way sliced through the southeast corner of the playground addition and included that segment of the drive-thru lane south of the building. The alignment continued in a westerly direction through the middle of the freeway sign and across a portion of the parking lot to the west boundary. Those improvements within the right-of-way acquisition that remain on the subject property include about 175 square feet of building, a segment of the drive-thru lane, menu board, intercom system, three flagpoles, 11 asphalt paved parking spaces, landscaping and fencing. The acquisition by ADOT included compensation to the owners of the Carl's Jr. property for the relocation of the monument sign and the 50' tall pole sign. But, to date, these signs have not been moved. The land and all improvements within the boundaries of the subject property continue to be used in conjunction with Carl's Jr., despite the lack of a lease or written agreement between the owner of the Carl's Jr. property and the State of Arizona.

The remnant improvements have virtually no functional utility independent of the Carl's Jr. property and very little appeal in the open market.

Legally Permissible:

As improved, the subject property legally conforms to the zoning regulations.

Financially Feasible:

The most likely use of the subject property, as improved, is for use in conjunction with Carl's Jr. adjacent north. When combined with Carl's Jr., the improvements, particularly the drive-thru, add considerably to the overall market value of that property. As demonstrated in the valuation sections that follow, without the drive-thru it is likely Carl's Jr. will invoke the Condemnation Clause of their lease and vacate the premises. This would result in increased vacancy and increased expenses to the property owner for re-leasing and tenant improvements. In addition, it is unlikely the property owner would be able to lease the building to a franchise operator and achieve the same rent level that is currently being paid.

Other than the lessor or lessee of the Carl's Jr. property, there are few, if any, potential buyers in the open market. The subject site is too small, highly irregular in shape and lacks legal access.

The only other possible buyer is a competitor of Carl's Jr. who might be interested in acquiring the subject property to disrupt the Carl's Jr. business. Without the drive thru, Carl's

Jr. is likely to vacate. However, sale to a competitor is a long shot. Direct competitors of Carl's Jr., such as McDonald's and Jack-in-the-Box, often share market areas. And, in Nogales, none of the competitors are within the immediate area of the subject. McDonald's and Jack-in-Box are located on Mariposa Road, east of I-19. Though these two franchises likely compete with the subject, each is arguably better located. McDonald's occupies a pad site in Mariposa Mall, anchored by multiple big box stores and Jack-in-the-Box occupies a pad site in Loma Linda Shopping Center, anchored by Safeway. Like the subject, both are established businesses that have been at these locations for a number of years.

McDonald's also has two other restaurants in Nogales, Arizona. One is located just north of the Dennis DeConcini POE and the other is in the newly constructed Love's Truck Stop at I-19 and Ruby Road at the north end of Nogales. Burger King has a 5,617 square foot restaurant at the border and Wendy's is within the Pilot Truck Stop at I-19 and Ruby Road. The border locations target pedestrians crossing to and from Mexico and the I-19/Ruby Road location targets truckers. These facilities do not compete directly with the subject for customers. The Carl's Jr. likely draws customers from the local high school and from the three hotels that are just north.

Based on a review of the competition, purchase of the subject property by a competitor simply to disrupt the Carl's Jr. business seems highly unlikely.

Maximally Productive.

The improvements on the subject property were designed for use in conjunction with Carl's Jr. restaurant adjacent north. And, for this reason, they are best suited for continued use as part of this property providing there is a continued need.

A segment of the drive-thru lane for Carl's Jr. crosses the subject property. Though it may be possible to relocate the drive-thru lane, a review of the building layout as it currently exists suggests there is an insufficient area between the remaining building and the south boundary of the Carl's Jr property to reconfigure the drive-thru. Even if the playground addition were demolished, it is unlikely there would be sufficient room to make the sharp turn needed for the drive-thru lane. It might also be possible to move the drive-thru window to the west side of the building, but this would be unsafe for walk-in customers due to a conflict between the parking lot and the building entrance.

In Section 14.2 of the lease with Carl's Jr., "Lessee shall have the right to elect to terminate the lease should a Contemnor by Condemnation acquire and of the following:

A. Any portion of the restaurant facility and/or drive-thru.
B. In excess of ten percent (10%) of the parking spaces within the premises;
C. Any taking of the Premises, or adjacent streets, highways or properties that would reasonably be anticipated to substantially diminish Lessee's business or any taking for which Lessee would not thereafter be in conformance with governmental ordinances."

This clause suggests the drive-thru window and adequate parking are important to the continued successful operation of Carl's Jr. And, without the drive-thru and adequate parking, the tenant, Carl's Jr., has the right to terminate the lease.

Thus, given the need by Carl's Jr. for the land and improvements that comprise the subject property, the highest and best use, as improved, is for assemblage with the Carl's Jr. property adjacent north for continued operation in conjunction with this use.

Valuation Methodology for the Subject Property

The three traditional approaches to value are considered. But, as described throughout this report, there is virtually no demand in the open market for the subject property as a stand-alone parcel. The small site size, narrow width and lack of legal access preclude development. However, as discussed and concluded in the Highest and Best Use section, the existing improvements were originally part of the Carl's Jr. property adjacent north and continue to be used as part of that operation. Without the subject property, which includes 6,547 square feet of land and improvements associated with the fast-food restaurant, it is likely that Carl's Jr. will invoke the Condemnation Clause of their lease and vacate the premises. The result would be a decline in the market value of the restaurant property adjacent north.

To estimate the value of the subject property, the three traditional approaches to value are used to measure the opportunity costs of acquiring or not acquiring the subject property. In other words, how much would the adjacent property owner or franchisee be willing to pay for the subject property in order to maintain current operations and occupancy by Carl's Jr?

Cost Approach: The Cost Approach is a function of the cost to reproduce or replace the property, including the site, less any deterioration or obsolescence. Though it is unlikely a potential buyer would base their purchasing decisions on the cost new, they would evaluate the property based on the land value, as vacant, plus the contributory value of the improvements.

The Sales Comparison Approach is used to derive an opinion of market value of the site as vacant. Given the lack of functional utility and marketability of the subject site as a stand-alone parcel, the property is assumed to have the same per square foot value as the site adjacent north. Once the two parcels are combined in accordance with the highest and best use conclusion, the site will consist of a 36,192 square foot pad at the northeast corner of Mariposa Road and Shell Loop.

A thorough search of the Nogales market has been conducted for recent land sales that are similar in size and potential use. Supply and demand for these sites is limited and few recent sales have occurred. Nonetheless, five sales and one listing were found that can be compared to the subject. These are tabulated on the following page. A map showing their locations relative to the subject and more detailed descriptions follow. After the Land Value Analysis, the reproduction cost new will be estimated for the improvements. Depreciation will be deducted and the resulting depreciated value of the improvements will be added to the land value as vacant to arrive at an opinion of market value of the subject property through the Cost Approach.

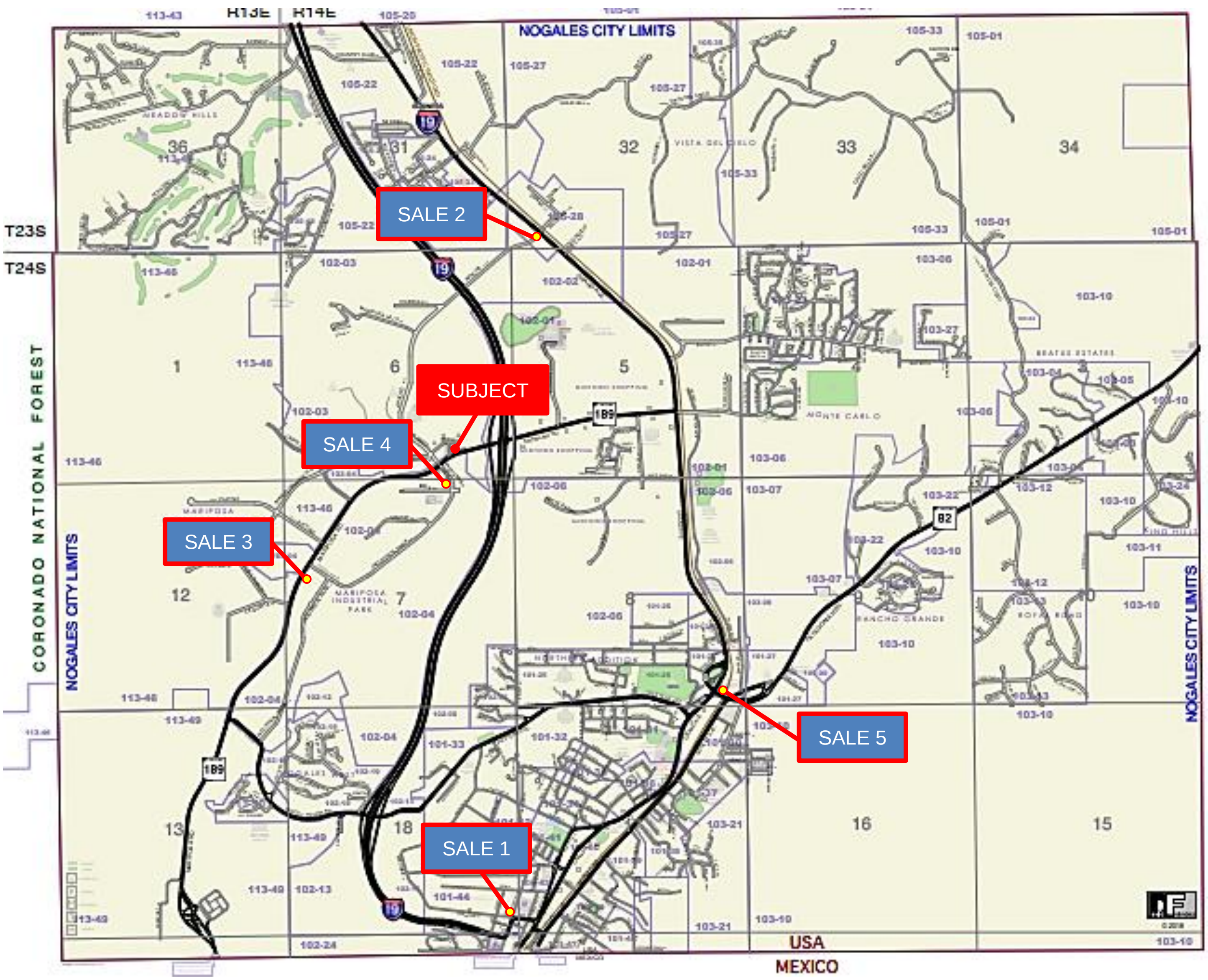
Here follows a tabulation of the comparable sales, a location map showing the sales relative to the subject and individual sale write-ups.

Tabulation of Land Sales in Nogales

SALE	DATE DOC NO.	LOCATION ASSESSOR PARCEL NUMBER	SALE PRICE TERMS	SITE SIZE Sq. Ft. Acres	SALE PRICE PER S.F.	COMMENTS	ZONING
1	4/1/2019 2019-020870	NWc of Sonoita Ave. & Crawford St. 101-43-114 , -115 & -116	$550,000 Cash to seller	26,048 0.60	$21.11	The site is improved with a 67 space, paved, striped and landscaped parking lot enclosed by a rock wall Buyer planned fast food use, but plans delayed. Seller continues to lease property for parking.	GC
2	6/10/2021 2021-05286 & 2021-05272	NW & SWc of Grand Ave. & Frank Reed Rd. 105-28-008	$730,000 11% Cash 2 Deeds of Trust	74,140 1.70	$9.85	Two parcels split by Frank Reed Rd. N sd is graded, leveled & ready for use. S sd is fenced with small low cost storage structure. Buyer to build small warehouse for Frito Lay on N parcel. S parcel used for a food truck	LI
3	9/23/2021 2021-08495	W of SWc of Mariposa Rd & Industrial Park Dr 102-04-021B	$500,000 Cash to seller	38,768 0.89	$12.90	Vacant site on Mariposa Road with shared access across adjacent parcel occupied by Fiesta Market. Site zoned for commercial use but used for storage	GC
4	4/22/2022 2022-03958	NWc of Bell Rd & Industrial Park Dr 102-04-040H	$349,300 Cash	38,902 0.89	$8.98	Vacant parcel purchased by an adjacent property owner UNS Energy. The yard will be used for additional storage & parking. Site is adj south of IHOP	GC
5	10/31/2023 2023-06363	Grand Ave. at Patagonia Overpass 101-28-055	$220,000 Cash	14,310 0.33	$15.37	Commercial lot leased to used car dealer ($1,000/mo), food truck ($1,000/mo) and car wash ($800/mo) Modular building with est. value of $10,000 and misc site imps incl. 2 water meters & 3 sewer hookups	GC
Listing A	Current Listing	NWc of Mariposa Road & Frank Reed Rd. 102-03-002E	$1,142,925	54,425 1.25	$21.00	Vacant fenced storage yard located at signalized intersection. Rent covers R.E. taxes Asking price based on offer 5 yrs ago for gas station use. On mkt 3 months. No serious interest	GC
Subject Property	10/31/23 DOV	NEc of Mariposa Rd. & Shell Loop N/A Assume part of 102-03-025	N/A Assume Cash	36,537 * 0.84	N/A	Subject property has limited marketability as a stand-alone property. Per H&BU site is appraised as combined with pad site adjacent north.	GC

*Subject property consists of 6,547 s.f., but is appraised as part of parcel adj. north.

Overall Land Sales Map



Comparable Land Sale

Sale Number:	1
Location:	Northwest corner of Crawford Street and Sonoita Avenue, Nogales, Santa Cruz County, Arizona.
Legal Description:	Lots 8A, 8B, & 8C in Block 6 of City of Nogales Subdivision, Nogales, Santa Cruz County, Arizona.
Tax Code Number:	101-43-114, -115 & -116
Records:	Instrument: Warranty Deed Date Recorded: April 1, 2019 Document No.: 2019-020870
Seller:	Nogales Premier Parking held by MJP Real Estate Holdings, held by Michael Pendergrant, Phoenix, AZ., operated as American Valet Parking
Buyer:	Jeetendra K. Yadav
Sale Price:	$550,000
Terms:	Cash to seller. Buyer secured private financing
Site Size:	26,048 square feet
Sale Price Per Square Foot:	$21.12
Zoning:	GC, General Commercial, City of Nogales
Utilities:	All available.
Shape / Topography:	Nearly rectangular / sloping
Access:	Currently off Crawford Street along south boundary. Access may be possible from Sonoita Ave. for alternative use. Traffic count less than 3,000 vpd. See comments.
Floodplain:	According to FEMA Map No. 04023C-0629C, dated December 2, 2011, the site is in Zone X, outside the 500-year floodplain.
Existing/Proposed Use:	Public parking lot / Possible future fast food
Three Year History:	No sales in the past three years.
Exposure Time:	1+ year by De Rito Partners; Initial asking price $700,000.
Confirmed With:	Morey Fischel, De Rito Partners, selling agent.
Date Confirmed:	September 2021 and November 2023
Comments:	The buyer bought the property with the intent of developing a fast-food restaurant, but plans were delayed due to Covid. The buyer and seller have since entered into an agreement for seller to continue operating the property as a public parking lot. The site is just north of US/Mexico border and provides parking

to pedestrian crossers, downtown merchants, and local shoppers. The parking lot agreement can be terminated by the buyer at any time.

Comparable Land Sale

Sale Number:	2
Location:	Northwest and southwest corners of Grand Avenue and Frank Reed Road (aka Apache Blvd.), Nogales, Santa Cruz County, Arizona.
Legal Description:	Lot R and new Lot S, Potrero Acres excl. Apache Blvd, Santa Cruz County, Arizona.
Tax Code Number:	105-28-008
Records:	Instrument: Warranty Deeds Date Recorded: June 10, 2021 Document No.: 2021-05286 2021-05272
Seller:	The Ono Family Limited Partnership
Buyer:	Videl Properties, LLC
Sale Price:	$600,000 + $130,000 = $730,000
Terms:	11% Cash; two deeds of trust. Cash to seller. Buyer secured private financing.
Site Size:	74,140 square feet or 1.7 acres per legal
Sale Price Per Square Foot:	$9.85
Zoning:	LI, Light Industrial, City of Nogales. Allows commercial use.
Utilities:	All available.
Shape / Topography:	Irregular, split by road / N side graded, level ready for use. Narrow, fenced, suitable for storage.
Access:	North parcel has access off Grand Ave. or Frank Reed Rd. South parcel access off Frank Reed Rd. only. Traffic count is approximately 14,000 vpd.
Floodplain:	According to FEMA Map No. 04023C-0464C dated December 2, 2011, the site is in Zone AE, within the 100-year floodplain, and Shaded Zone X, within the 500-year floodplain.
Existing/Proposed Use:	Mostly vacant. Small low-cost storage on south parcel.
Three Year History:	No sales in the past three years.
Exposure Time:	Unknown
Confirmed With:	Gabe Gastellum, C-21 Success Realty
Date Confirmed:	June 2021 and November 2023
Comments:	The buyers plan to build a mini warehouse for Frito Lay to be used for local distribution. The south parcel is now parking for a food truck.


105-26-018
105-26-006
105-26-016
105-26-008
105-26-014
105-26-009
105-26-012
105-26-011
105-26-010
105-23-127
105-23-033
105-28-012A
105-28-016
105-28-010C
105-28-010B
105-28-010D
105-28-010E
105-28-005B
105-28-010G
105-28-009A
105-28-009D
105-28-010I
105-28-009C
105-28-008
105-28-005A
105-23-032B
105-23-034
102-02-005C
105-28-008
105-28-007
102-02-999
102-02-999
105-28-006
102-03-001D
102-03-001B
102-02-005B
102-02-017A
102-02-016
102-03-001E
102-02-016A
102-03-023
102-02-017
102-03-029
102-02-005A
102-02-014D
102-02-015
102-03-028
102-02-014C
102-02-018
W FRONTAGE ROW
FRANK REED RD
19

Comparable Land Sale

Sale Number:	3
Location:	South of southwest corner of Mariposa & Industrial Park Drive; aka 1340 N. Mariposa Road, Nogales,
Legal Description:	Southerly portion of Lot B, SW4, NW4 of Section 7, T24S, R 14E plus 30' wide ingress/egress easement across adjacent parcel, Santa Cruz County, Arizona.
Tax Code Number:	102-04-021B
Records:	Instrument: Special Warranty Deeds Date Recorded: September 23, 2021 Document No.: 2021-08495
Seller:	Araujo Vazquez Co., LLC
Buyer:	Hispania Estates, LLC
Sale Price:	$500,000
Terms:	Cash to seller. See comments.
Site Size:	38,768 square feet
Sale Price Per Square Foot:	$12.90
Zoning:	GC, General Commercial, City of Nogales.
Utilities:	All available.
Shape / Topography:	Nearly rectangular / Generally level
Access/Visibility:	The site has 180' of frontage on Mariposa Road but no direct access. Legal access to Mariposa is via a shared driveway on the parcel adjacent north. Access to Industrial Park Drive is also across the adjacent parcel occupied by Fiesta Market. The average daily traffic count is about 12,000 vpd.
Floodplain:	According to FEMA Map No. 04023C-0627C, dated December 2, 2011, the site is in Zone X, outside the 500-year floodplain.
Existing/Proposed Use:	Fenced yard / Fenced storage
Three Year History:	No sales in the past three years.
Exposure Time:	On and off the market since 2018. The agent received an offer from the current buyer in 2019 for $620,000 or $15.99/sf with seller financing which was not accepted. The buyer resides in Mexico & needed to establish U.S. credit. Buyer has since qualified and obtained institutional financing. In the interim, agent reduced price to $500,000.
Confirmed With:	Mima Valdez, agent C-21 Success Realty
Date Confirmed:	April 2021 and November 2023

Comments: Though the site was purchased for an industrial use it is suitable for commercial or office use related to commercial traffic and proximity to Mexico.

Comparable Land Sale

Sale Number:	4
Location:	Northwest corner of Bell Road and Industrial Park Drive, Nogales, Arizona.
Legal Description:	Portion of Lot 1 of Mariposa Industrial Park Lots 1 thru 20, in Section 7, T24S, R 14E, Santa Cruz County, Arizona.
Tax Code Number:	102-04-040H
Records:	Instrument: Warranty Deed Date Recorded: April 22, 2022 Document No.: 2022-03958
Seller:	Mariposa Land Management, LLC
Buyer:	UNS Energy, Inc.
Sale Price:	$349,300
Terms:	Cash
Site Size:	38,902 square feet per legal
Sale Price Per Square Foot:	$8.98
Zoning:	GC, General Commercial, City of Nogales
Utilities:	All available.
Shape / Topography:	Irregular / sloping
Access/Visibility:	Off Industrial Park Drive or Bell Road, both 2 lane paved streets. Traffic counts unknown. One parcel south of the intersection of Mariposa Road and Industrial Park Drive
Floodplain:	According to FEMA Map No. 04023C-0627C, dated December 2, 2011, the site is in Zone X, outside the 500-year floodplain.
Existing/Proposed Use:	Vacant / Expansion of UNS Energy property for additional parking and storage.
Three Year History:	No sales in the past three years.
Exposure Time:	The property had been on the market several years with an asking price of $10/s.f.
Confirmed With:	Jim Barr; Mariposa Properties, Seller
Date Confirmed:	November 2023
Comments:	The buyer owns the property adjacent west and plans to use this parcel, in part, to replace parking lost due to S.R. 189/Mariposa Road widening. A maintenance facility is also planned. A small area was retained by the seller for continued use by IHOP located adjacent north.


2023/10/31


N FRANK REED RD
I-19 NB EXIT 4W ON R
102-03-002E
N INDUSTRIAL PARK DR
102-04-040F
102-04-040H
102-04-040B
102-04-040G
4-007
102-04-040C
W BELL RD

Comparable Land Sale

Sale Number:	5
Location:	970 North Grand Avenue, at Patagonia Road overpass, Nogales, Arizona.
Legal Description:	All that portion of Lot 7, Block 106, of Northern Addition, in Section 7, T24S, R14E, Santa Cruz County, Arizona.
Tax Code Number:	101-28-055
Records:	Instrument: Warranty Deed Date Recorded: October 31, 2023 Document No.: 2023-06363
Seller:	Felician Chacon
Buyer:	Ana Isabel Clemente Shutt
Sale Price:	$220,000
Terms:	Cash
Site Size:	14,310 square feet per Assessor & Listing
Sale Price Per Square Foot:	$15.37
Zoning:	GC, Nogales
Utilities:	All available. The property had two water meters and three sewer connections.
Shape / Topography:	Trapezoid / Level; The portion of the property used by the food truck(s) is under the overpass. The overpass provides shade for this use.
Access/Visibility:	Direct access off Grand Avenue, a four-lane commercial road through Nogales. The site is just below the Patagonia Highway overpass which provides additional visibility.
Floodplain:	According to FEMA Map No. 04023C-0631C dated December 2, 2011, the site is in Zone X, outside the 500-year floodplain.
Existing/Proposed Use:	Land leased to 3 tenants. Used car lot with modular building $1,000/mo. Food truck $1,000/mo & car wash $800/mo. The agent did not know the buyer’s intended use.
Three Year History:	No sales in the past three years.
Exposure Time:	Two months. The asking price was $270,000 or $18.87 per square foot.
Confirmed With:	Luis Morales; Century 21 Realty
Date Confirmed:	November 2023

Comments:

There was a modular office for the used car sales portion of the property and miscellaneous concrete slabs and a shed. In total, the property generated $2,800 per month from the used car business, food truck lease and car wash lease. Reportedly, there is a 10' parking lot encroachment from Zula's restaurant adjacent north.

Land Sales Analysis

Due to the small size of 6,547 square feet, the long narrow shape and lack of legal access, the highest and best use of the subject site, as vacant, is for a commercial use in conjunction with the land adjacent north. Thus, the per square foot value of the subject property is based on the characteristics of the entire Carl's Jr. site assuming both parcels were combined. Together, the site consists of a 36,537 square foot pad at the northeast corner of Mariposa Road and Shell Loop. With access restrictions along the south boundary, access would be from Shell Loop along the west boundary and from Shell Road which forms the north boundary of the Carl's Jr. property.

To develop an opinion of value for the site, as a whole, a thorough search of the Nogales real estate market has been conducted using Loop Net, the local multiple listing service, Real Quest and interviews of local market participants. The search focused on commercially zoned land sales along major arterial streets in Nogales. Historically, most commercial development was along Grand Avenue, particularly near the international border. But when Mariposa Mall and Loma Linda Shopping Center were developed along Mariposa Road between I-19 and Grand Avenue, many of the businesses near the border relocated. Today, this stretch of Mariposa Road has the highest concentration of commercial services. Though there is strong retail demand at this location, no recent land sales were discovered. This suggests the market for commercial development is in equilibrium.

Despite the lack of commercial land sales, five sales were found. Four of these sales are zoned GC like the subject. The other is zoned LI but allows a commercial use. One sale, near the international border, was purchased for the development of a fast-food restaurant, but development never occurred, and the site continues to be used as a pay parking lot. Two sales west of I-19 in the same general area as the subject are zoned GC but intended for quasi-industrial use. The other two sales, along Grand Avenue, are not far from Mariposa Road but are planned for a mix of commercial and industrial use. These sales represent the best available date for comparison to the subject.

Unit of Comparison:

The sale price per square foot is the most appropriate unit of comparison for this class of property. This is equal to the sale price divided by the total number of square feet of the sale property. Appropriate adjustments will be applied to the sales based on this unit of comparison.

Comparable Sales Overview:

Sale One is a 26,048 square foot paved parking lot located just north of the U.S./Mexico border near the terminus of I-19. Though this is an interior parcel with a traffic count of less than 3,000 vehicles per day, the property is across the street from McDonalds and within walking distance of the port of entry. It provides parking for pedestrian crossers, downtown merchants and local shoppers.

The buyer purchased the site with the intent of developing a fast-food restaurant for Dunkin Donuts/Baskin Robbins. However, plans were delayed due to the Covid-related border closure. Subsequent to this sale, the buyer and seller entered into an agreement for the seller to continue to operate the property as a public pay parking lot. That is the use as of the date of valuation.

Sale One sold in April 2019 for $550,000 or $21.12 per square foot, cash to the seller.

Sale Two is located on the west side of Grand Avenue at Frank Reed Road. It consists of 74,140 square feet divided into two parcels by Frank Reed Road. The northernmost parcel, consisting of 60,097 square feet, was a level, graded pad ready for use. The buyer is developing a 2,000 square foot mini warehouse for local deliveries by Frito Lay. The southernmost parcel is a long narrow shaped site with 14,042 square feet. At the time of sale, it was fenced and had a small structure for exterior storage. It is now occupied by a food truck.

Though Sale Two was recorded in two transactions, the parties in each closing are the same and the property was negotiated as one sale. Both documents were recorded on June 10, 2021. The total price was $730,000 or $9.85 per square foot with seller financing.

Sale Three is located just west of the southwest corner of the signalized intersection of Mariposa Road and Industrial Park Drive, which is less than a mile southwest of the subject property. This is the only sale west of I-19 that has frontage along Mariposa Road.

This site consists of 38,768 square feet. It was split from the corner parcel adjacent north that is occupied by Fiesta Market. Due to access restrictions along Mariposa Road, the sale included the right for joint use of a shared driveway just off the northeast corner of the property. The buyers of Sale Three also have the right to cross the adjacent parcel for access to Industrial Park Drive. The site is zoned GC, but purchased for truck and materials storage.

Sale Three closed on September 23, 2021 at a price of $500,000, cash, or $12.90 per square foot, cash.

Sale Four is a 38,902 square foot vacant parcel of land located just south of IHOP which occupies the southwest corner of the signalized intersection of Mariposa Road and Industrial Park Drive/Frank Reed Road. This site is zoned GC, but purchased by the adjacent property owner, UNS Energy, for employee parking and development of a maintenance garage.

Sale Four sold in April 2022 for $349,300, cash, or $8.98 per square foot, cash.

Sale Five consists of 14,310 square feet of land located on the east side of Grand Avenue and the Patagonia Highway overpass. The northern portion has a modular office and open dirt lot leased to a used car sales business. The portion of the property under the overpass is leased to the owner of a food truck. The southeast corner of the property also below the overpass is leased and used as a car wash. The sale agent did not know whether the buyer planned to continue to lease the property or change the use.

Sale Five closed on October 31, 2023 at a price of $220,000 which equals $15.37 per square foot, cash.

The elements of value are segregated into two general categories. The first includes factors related to the sale transaction. These are:

- Property Rights Conveyed
- Financing Terms
- Conditions of Sale
- Expenditures Made Immediately After Purchase
- Market Conditions

The second category includes factors related to the property. Those are:

- Location
- Physical Characteristics
- Economic Characteristics
- Legal Characteristics
- Non-realty Components of Value Included in the Sale

Transactional Characteristics:

The first five sections of the analysis consider *transaction*-related factors that may have impacted the prices paid for the comparable sales.

Property Rights Conveyed:

The sale price of a property is always predicated on the property rights conveyed. The interest appraised is the fee simple estate subject to known reservations and encumbrances. For the purposes of the Cost Approach, the subject site is assumed to be vacant and unencumbered by the lease to Carl's Jr.

The seller of Sale One operated a pay public parking lot at the time of sale. And this use continues 4.5 years after the sale closed. However, according to the sales agent, there was no agreement in place between the buyer and seller for the continued operation of the parking lot. At the time of sale, the buyer intended to develop a fast-food restaurant but shortly thereafter the COVID-19 pandemic broke out closing the U.S./Mexico border. Plans were then put on hold and a subsequent agreement was reached for the seller to lease the property for continued operation of a pay parking lot. This lease agreement can be terminated at any time.

Thus, despite the current use, this sale represents the transfer of the fee simple interest. There was no agreement in place at the time of sale. No adjustment is necessary.

Sales Two, Three and Four were not leased at the time of sale. No adjustments are made.

Sale Five was leased to three different operators, each with their own businesses. There is a used car sales lot with a modular office building that is leased for $1,000 per month. A local food truck occupies the southern portion of the property. This owner also pays $1,000 per month and, lastly, a local business owner uses an area at the southeast corner for a car wash. Rent for this space is $800 per month.

While this income likely added to the overall value of the property, at least on an interim basis, these are month-to-month leases that can be terminated at any time. Thus, the interest conveyed is the fee simple interest. No adjustment is applied for property rights conveyed. The incremental value attributed to the income stream is addressed under economic characteristics.

Financing Terms:

In accordance with the definition of market value, adjustments for financing terms are made on an all-cash basis or cash plus institutional financing at the prevailing market interest rate. Sales One, Three, Four and Five sold for cash or cash to the seller with the buyer obtaining outside financing. No adjustments are necessary.

Sale Two closed in two different recordings. One for the north parcel and one for the south parcel. And each parcel included its own Deed of Trust. This is likely attributed to the buyers planned use. The northern parcel will be improved with a small distribution warehouse leased to Frito Lay. The Deed of Trust on this parcel will likely be paid off through a construction loan. The Deed of Trust on the south parcel will remain in place. Though the agent indicated there was no significant impact on the total price that was negotiated, the overall down payment was only 11% of the purchase price.

The listing and sale history of Sale Three suggests an adjustment is appropriate for seller financing. In 2019, the buyer of the Sale Three property made an offer of $620,000 with seller financing. The seller would not accept the owner carry terms. Subsequent to the offer, the asking price was reduced to $500,000. The same buyer was then able to secure outside financing and, in 2021, paid the asking price of $500,000 in cash to the seller. This suggests a downward adjustment of 19% may be appropriate for the seller financing. However, the COVID-19 pandemic occurred between the initial offer and the sale closing. While the agent did not believe there had been a decline in value over time, the market had stalled due to uncertainty.

Thus, relative to Sale Two, a more moderate downward adjustment of 10% is made.

Conditions of Sale:

The definition of market value requires that the resulting value opinion reflect *"… a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming that the price is not affected by undue stimulus."*

The definition continues to include the following conditions:
1. *buyer and seller are typically motivated;*
2. *both parties are well informed or well advised, and each acting in what he or she considers his or her best interest;*
3. *a reasonable time is allowed for exposure in the open market;*

An adjustment for conditions of sale considers any unusual circumstances that may have affected the sale price. Examples include the purchase by an adjacent property owner, a seller under duress, or a related buyer and seller.

To the best of my knowledge, Sales One, Two, Three and Five were actively listed and negotiated between knowledgeable parties with the aid of a real estate agent. There were no known conditions of sale that impacted these sale prices.

Sale Four was purchased by UNS Energy who owns the property adjacent west. As part of the road improvements along S.R. 189, ADOT acquired land from UNS Energy along the Mariposa Road frontage. This land had been used for employee parking. Since that time, it was determined that ADOT would not need this portion of the property for the project. Nonetheless, UNS Energy decided to acquire the Sale Four property for additional parking and for construction of a maintenance garage for their truck fleet.

The adjacent parcel had been on the market for a number of years with an asking price of $10.00 per square foot. Though the seller indicated he gave UNS Energy "a deal" at $9.00 per square foot, there are no sales of interior parcels like the Sale Four property at the $10.00 per square foot price level. The price is believed to represent a fairly negotiated sale between two knowledgeable parties. No adjustment is made.

Expenditures Made Immediately After Purchase:

A knowledgeable buyer considers expenditures that will have to be made upon purchase of a property because these costs affect the price the buyer agrees to pay.

There are no known expenditures that were made after purchase that altered the prices that were negotiated. No adjustments are necessary.

Market Conditions:

An adjustment for changes in market conditions may be appropriate when there are changes in property values that occur between the date of the oldest sale and the valuation date of the subject property. The effective date of value for the subject property is October 31, 2023. The sales span a time period from April 2019 to October 2023.

The difficulty here is measuring any change in commercial land values in Nogales over time the time period in question. There is just not enough data. Sale One sold prior to the pandemic. It is the highest priced sale of the five sales considered, but it is the only sale proximate to the international border. At the time the buyer planned to develop a fast-food restaurant, but these plans were thwarted by pandemic-related border closures and have not yet been revived. This could, but not necessarily suggest a decline in property values. The site continues to be operated as a public pay parking lot.

As discussed above, the buyer of Sale Three offered to pay $620,000 in 2019. Following the pandemic, he ultimately paid $500,000. But, according to the sales agent, the difference in price was attributed primarily to the terms of sale, cash versus seller financing, not changes in market conditions.

Lacking any definitive data from which to measure a change in value since 2019, no adjustments are developed or applied, but the more recent sales will be given greater weight in the reconciliation.

<u>Property Characteristics:</u>

The next five sections of the analysis consider *property*-related factors that may have influenced the prices paid for the comparable sales.

Location/Access:

The subject property is located in the northwest quadrant of I-19 and State Route 189, aka Mariposa Road. S.R. 189 is the main road to the Mariposa International border crossing which is the primary truck route for goods crossing into and out of the United States and Mexico.

Recent road improvements have been made along State Route 189 that were designed to improve the flow of truck traffic. New flyover ramps were built to facilitate a smooth transition from Mariposa Road to and from I-19. At the freeway, Mariposa Road remains at grade and below the new ramps. These improvements have resulted in a change of access to and from the subject property. Due to the drainageway adjacent south, the subject site never had direct access to Mariposa Road. Access was always from and continues to be from Shell Loop along the west boundary and from Shell Road at the north boundary. However, at this location, Mariposa Road is now a 3-lane, one way street heading west. Eastbound traffic must turn at the signalized intersection one block west to access the subject property.

In 2022, the traffic count was about 3,000 vpd, which was much lower than previously reported. However, this count may have been taken during the construction period and may not reflect current conditions. Nonetheless, the traffic count is likely lower along Mariposa Road, yet the property has reasonably good visibility to both Mariposa Road and the west/southbound flyover ramp.

Sale One is an interior site with visibility to less than 3,000 vehicles per day. However, it is only two blocks northwest of the Dennis DeConcini POE which is the primary crossing for pedestrians. Sale One is at the terminus of I-19 and across the street from McDonald's. Once again, due to lack of data, it is difficult to measure any difference in location between this sale and the subject. Therefore, no adjustment is developed or applied.

Sale Two is situated on the west side of Grand Avenue less than one mile north of Mariposa Road. It is split by Frank Reed Road which continues west under the freeway and loops around to Mariposa Road near the subject. Access to the northernmost parcel is possible from Grand Avenue and/or Frank Reed Road. Access to the southernmost parcel is only from Frank Reed Road. Traffic counts at this location are unavailable.

As noted previously, the synergy for commercial development is along Mariposa Road between I-19 and Grand Avenue. The more distant from this location the less desirable the site is for commercial use. This site and the subject are similarly located.

Sale Three is an off-corner parcel just west of the southwest corner of Mariposa Road and Industrial Park Drive. It is less than one mile west of the subject and the only sale in this report that is west of I-19 with frontage on Mariposa Road. Although this property has good visibility to roughly 12,000 vehicles per day, it does not have direct access. Instead, access is via a shared driveway across the adjacent property just off the northeast corner. Since completion of the improvements along Mariposa Road, which included the installation of a median in front of this site, access is right-in, right-out only, similar to the subject.

Sale Four is an interior site adjacent south of IHOP, which is situated at the southwest corner of the signalized intersection of Mariposa Road and Frank Reed Road. Though proximate to the subject, Sale Four does not have exposure to a commercial arterial. Of the five comparable sales in this report, Sale Four represents the lower end of the price range, which is attributed to the lack of visibility. An upward adjustment is appropriate compared to the subject.

To develop this adjustment, Sale Four is compared to Sale Three, which is comparable to the subject in terms of location. Both sale properties are similar to each other in terms of size and zoning. And both sold in 2021. The most significant difference between the two sales is the visibility and access to Mariposa Road. Sale Three sold for nearly $13 per square foot. Sale Four sold for just under $9.00 per square foot. This comparison suggests an upward adjustment of about 45% is appropriate for location.

Sale Five is situated on the east side of Grand Avenue at the Patagonia Highway overpass, which is about one mile south of Mariposa Road. Though further from the concentration of commercial uses, Grand Avenue at this location is a 4-lane arterial. In addition, like the subject, the flyover ramp for Patagonia Highway provides additional visibility.

Granted there are differences in location and access between the sales and the subject but, with the exception of Sale Four, each is considered reasonably similar to the subject. No adjustments are developed or applied to Sales One, Two, Three or Five for differences in location.

Size/Shape:

Together with the Carl's Jr. property adjacent north, the property consists of 36,537 square feet. It is level and has a trapezoid shape.

Typically, a smaller site will sell for a higher price on a per square foot basis than a larger parcel, all else being equal. Conversely, a larger parcel tends to sell for a lower price per square foot. The sales range in size from 14,310 square feet up to 74,140 square feet and bracket the size of the subject. The subject and all of the sales have usable shapes.

Sales One and Five are the smallest parcels, consisting of 26,048 square feet and 14,310 square feet, respectively. And at $21.11 per square foot and $15.37 per square foot, respectively, these two sales represent the upper end of the price range. Though this is partially attributed to their smaller sizes, the higher prices cannot be attributed solely to size. Sale One was a paved parking lot with improvements that continue to attribute value, at least on an interim basis. Sale Five included a modular office and three short-term leases that produce income over and above the real estate taxes and other expenses. These characteristics likely had more influence on the price per square foot than the smaller sizes. Nonetheless, modest downward adjustments of 10% are applied to Sales One and Five for their smaller sizes.

Sale Two is the largest site consisting of 74,140 square feet. In addition, it is comprised of two parcels split by Frank Reed Road. The northernmost parcel consists of 60,097 square feet and is adequate in size and shape for the proposed 2,000 square foot warehouse. The southernmost parcel with 14,042 square feet has a long narrow shape with limited utility. It is currently used for a food truck. Assuming all of the value is attributed to the northernmost parcel, the price would be equal to $12.15 per square foot ($730,000 / 60,097 sf.). The difference between this adjusted price and the actual price of $9.82 per square foot suggests an upward adjustment of 19% at the most. But considering the southernmost parcel is not "worthless," a smaller adjustment is appropriate. However, the Sale Two property is still larger than the subject. Thus, relative to the subject, an upward adjustment of 20% is applied.

Sales Three and Four consist of 38,768 square feet and 38,902 square feet, respectively, and are very similar in size and shape to the subject. No adjustments are applied to these two sales.

Utilities:

The subject property has all utilities at or within the property boundaries. Likewise, all utilities are available to each of the five sales.

Sale Five, however, had two water meters and three sewer connections which allowed a portion of the property to be leased to the car wash user. The agent estimated a contributory value of $20,000 for all hookups. Given that the subject has one water meter and a sewer hook-up, the adjustment for the additional utility connections is equal to $10,000 or $0.70 per square foot which is half the amount estimated by the sales agent.

Improvements:

In this analysis, the subject property combined with the Carl's Jr. parcel adjacent north is assumed to be vacant. Any value attributed to the improvements will be considered separately.

Sales Two, Three and Four were unimproved at the time of sale. No adjustments are made.

Sale One was an asphalt paved parking lot with an attractive 3' rock wall and small pay booth. Since the site continues to be operated as a public parking lot four and one-half years after the sale, the improvements are considered to add value. According to Marshall Valuation the cost new for asphalt paving ranges from $3.03 to $5.45 per square foot. To account for the parking lot improvements, a downward adjustment of $4.00 per square foot is applied.

Sale Five had a modular building leased as an office for a used car sales business. The agent estimated a contributory value of $10,000 which is equal to $0.70 per square foot. A downward adjustment is made.

Floodplain:

Sale Two is in the 100-year floodplain and will require additional fill dirt on a portion of the property prior to development. An upward adjustment of 10% is made.

Economic Characteristics:

Economic characteristics include all the attributes of a property that directly affect its income. This element of comparison is usually applied to income-producing properties. In this analysis, the subject property is assumed to be vacant. Likewise, Sales Two, Three and Four were vacant at the time of sale.

Sale One had previously been operated as a public parking lot but the property was purchased for the development of a fast-food restaurant without any lease in place for the continued operation of the parking facility. However, when the pandemic hit and the border closed, the buyer decided not to pursue development and instead re-leased the property to the seller who was the prior operator. Clearly, the Sale One property has added economic potential, but the added benefit is difficult to quantify without knowing the amount of income the parking lot generates. As noted previously, a fairly sizable adjustment was made for the paving and site improvements and, at this point, it is unknown whether any additional adjustment is appropriate. Lacking data, no adjustment is made.

Though the buyer's intended use for the Sale Five property is unknown, Sale Five currently generates income from three sources. The adjustment for this additional income is partially accounted for in the adjustments that were made for the modular office building and the contributory value of the multiple water meters and sewer hookups. But these adjustments do not account for the income generated by the food truck(s). Assuming a gross income of $1,000 per month for three years discounted at 10% equals a present value of $30,991 or $2.17 per square foot of land area. Admittedly, this is a rough calculation that assumes no change in use and continued monthly income from the food truck operator(s) for the next three years and no expenses, it does provide a measure from which an adjustment can be made. In this case, a downward adjustment of $2.00 per square foot is applied for economic characteristics.

Zoning:

The subject property is zoned GC, General Commercial. Like the subject, Sales One, Three, Four and Five are zoned GC. Sale Two is zoned LI, Light Industrial, which also allows commercial use. No adjustments are developed or applied.

Non-Realty Components:

Adjustments for non-realty components are necessary when a sale includes chattel, business concerns or other items that do not constitute real property but are included in either the sale price of the comparable property or in the ownership interest of the subject property. Since the subject and none of the sales included non-realty components, no adjustments are made.

Here follows an Adjustment Grid summarizing the adjustments.

LAND SALES ADJUSTMENT GRID

	Subject Property	Sale 1 26,048 sf	Sale 2 74,140 sf	Sale 3 38,768 sf	Sale 4 38,902 sf	Sale 5 14,310 sf
Sale Price / S.F.	As part of 36,537 sf	$21.11	$9.85	$12.90	$8.98	$15.37
Transactional Adjustments	site adj. north					
Property Rights	Fee Simple	$0.00	$0.00	$0.00	$0.00	$0.00
Financing Terms	Assume Cash	$0.00	($0.99)	$0.00	$0.00	$0.00
Conditions of Sale	Market	$0.00	$0.00	$0.00	$0.00	$0.00
Expenditures After Purchase	N/A	$0.00	$0.00	$0.00	$0.00	$0.00
Market Conditions	10/31/2023	$0.00	$0.00	$0.00	$0.00	$0.00
Subtotal		**$21.11**	**$8.87**	**$12.90**	**$8.98**	**$15.37**
Property Adjustments						
Location / Access	SR. 189 / Good	$0.00	$0.00	$0.00	$4.04	$0.00
Size / Shape	36,537* sf / Irreg.	($2.11)	$1.77	$0.00	$0.00	($1.54)
Utilities	All available	$0.00	$0.00	$0.00	$0.00	($0.70)
Improvements	Assume none	($4.00)	$0.00	$0.00	$0.00	($0.70)
Floodplain	Not floodprone	$0.00	$0.89	$0.00	$0.00	$0.00
Economic Characteristics	Assume vacant	$0.00	$0.00	$0.00	$0.00	($2.00)
Zoning	GC	$0.00	$0.00	$0.00	$0.00	$0.00
Non-realty Components	None	$0.00	$0.00	$0.00	$0.00	$0.00
Indicated Market Value		**$15.00**	**$11.52**	**$12.90**	**$13.02**	**$10.43**

Prior to adjustments, the sales range in price from $8.98 to $21.11 per square foot. After adjustments, the range is narrowed to $10.43 to $15.00 per square foot. Sale One represents the upper end of the range. It is the oldest sale and continues to be operated as a public parking lot. It is given least weight for these reasons.

Sale Two is comprised of two parcels divided by Frank Reed Road. It is the largest sale and sold with seller financing. The buyer plans an industrial use on the northernmost parcel. Lesser weight is accorded to this sale.

Sale Three is the only sale west of I-19 located on Mariposa Road. It is similar in size to the subject and has good visibility with right-in, right-out only access. Sale Three is most comparable to the subject.

Sale Four is similar in size and closest to the subject. Though it is zoned GC, General Commercial, it does not have frontage on Mariposa Road.

Sale Five closed on October 31, 2023, which is the date of valuation of the subject. In addition, it shares other similarities. The site is located on Grand Avenue, a commercial arterial street and is adjacent and below the flyover ramp leading to Patagonia. It is smaller than the subject but otherwise similar in terms of physical characteristics. However, there were three leases on the property that generate roughly $2,800 per month in gross income. The sales agent did not know what the buyer's intent was for the property, but the income appears to have contributed to the price that was paid. Nonetheless, without full knowledge of the buyer's motive for purchase, the adjustments that are developed and applied to this sale may not accurately reflect the buyer's intent. For this reason, lessor weight is given to Sale Five.

Lastly, consideration is given to the current listing of a 54,425 square foot parcel located at the northwest corner of the signalized intersection of Mariposa Road and Frank Reed Road, which is one block west of the subject property. The site is listed for $21.00 per square foot. It has been on the market for three months with no serious interest. According to the listing agent, the price is based on an offer received about five years ago from a gas station user. That offer was made prior to the change in access along Mariposa Road and State Route 189. Lacking any recent interest in the property, this listing only serves to set an upper limit of value.

Conclusion: With greatest weight accorded to Sale Three, the contributory value of the subject site, as combined with the Carl's Jr. parcel adjacent north, is estimated to be $13.00 per square foot. That is, $13.00 per square foot times 6,547 square feet equals $85,111, rounded to $85,000.

OPINION OF CONTRIBUTORY VALUE OF THE SUBJECT SITE, AS COMBINED WITH CARL'S JR. PARCEL ADJCAENT NORTH $85,000

The following table summarizes the reproduction costs, new, less depreciation for the improvements located on the subject property.

COST APPROACH

I	**Playground (Owned by ADOT)**							
Sec/Pg.	MVS - Average Quality Class C						COST/SQ.FT.	
13/16	*Base Cost Per S.F.:*						$113.00	
	Playground	864	S.F.	x	$113.00	/S.F.		$97,632
99/3	*Current Cost Multiplier: Western Class C*							1.070
99/6	*Local Cost Multiplier: Nogales*							0.960
	Adjusted Cost of Main Building:							$100,288
II	**OTHER IMPROVEMENTS:**							
66/2	Drive Thru	120	L.F.	X	$71.25	/Lin. ft. =	$8,550	
65/8	Outdoor Menu Syst excl sign						$3,350	
64/3	Menu sign	65	sq.ft.	X	$200.00	/Sq. ft. =	$13,000	
64/3	Menu board Sign post	1.5	lin.ft.	X	$115.00	/Lin. ft. =	$173	
66/3	11 pkg space with lighting & landscaping	11	spaces	X	$2,350.00	/Space =	$25,850	
66/4	CMU Retaining Wall	840	sq. ft.	X	$16.50	/Lin. ft. =	$13,860	
66/4	Fencing - Chain Link	210	Lin.ft.	X	$14.95	/Lin. ft. =	$3,140	
66/3	Flagpoles	3	poles	X	$6,600	/pole =	$19,800	
	Total Other Improvements:							$87,722
	Subtotal							$188,010
III	**DEVELOPER'S OVERHEAD AND PROFIT @**					0.0%		$0
	TOTAL REPRODUCTION COST, NEW							$188,010
IV	**LESS ACCRUED DEPRECIATION**							
	Accrued Depreciation based on tables:	25.0%		X	$188,010	=		-$47,002
	Depreciated Value:							$141,008
V	**LAND VALUE, AS VACANT**							$85,000
VII	**ESTIMATED MARKET VALUE THROUGH THE COST APPROACH**							**$226,008**

Cost Approach Analysis

The preceding Cost Approach calculations reflect ADOT's real property ownership interest. The calculations **do not** include any personal property or costs to cure that were estimated in a prior appraisal and paid by ADOT when the property was acquired on December 5, 2019.

The cost calculations summarized on the previous page were derived from *Marshall Valuation Service* which is a widely used cost estimation source. These costs are adjusted by multipliers to account for changes in costs over time and local market conditions. The cost sources are identified by the corresponding section and page numbers for each component.

The plans in effect when ADOT acquired the subject property showed a right of way line that passed through the southeast corner of the building severing approximately 175 square feet of the 864 square foot playground addition. In the original appraisal prepared by another contractor, the property owner was paid for the *entire* playground addition plus the cost to repair the south-facing wall of the remaining building. Since ADOT technically owns the playground addition, even though much of this area is on the remaining Carl's Jr. property adjacent north, the entire area of 864 square feet is included in the Cost Approach.

The Cost Approach calculations also include other site improvements that are on the subject property. These include a portion of the drive-thru, outdoor menu system and sign, 11 asphalt paved parking spaces, CMU retaining wall, chain link fencing and three flagpoles. The Cost Approach excludes the monument sign and the 50' tall freeway sign since ADOT does not technically own these signs. In the acquisition, the owner of the Carl's Jr. property was paid to relocate these signs, yet they remain on the ADOT property.

The total improvement costs are then depreciated. The playground was added in 1998 and is currently 25 years old. It is assumed that the drive-thru lane and all improvements south of the playground were added at the same time. Depreciation is estimated at 25% which reflects a slight increase from the rate applied in the original appraisal which had a date of value of October 2, 2018.

The land value of $85,000 is then added to the depreciated value of the improvements to arrive at an opinion of contributory value of $226,008, rounded to $226,000, for the subject property through the Cost Approach.

**OPINION OF CONTRIBUTORY VALUE OF THE
SUBJECT PROPERTY THROUGH THE COST APPROACH
EXCLUDING PERSONAL PROPERTY…………………………………………..$226,000**

Though this amount is only slightly higher than the amount ADOT paid for the "part to be acquired" in 2019, there are some notable differences as highlighted on the following page.

Land Value:

Prior appraisal:	$70,634 ($10.50/s.f. based on 6,727 s.f.)
Current appraisal	$85,000 ($13.00/s.f. based on 6,547 s.f.)
Difference:	**$14,366**

Costs above exclude personal property, grading and contingencies included in prior appraisal:

Modular play area:	$18,096
Play Area Tables & chairs:	$ 4,680
Site Grading:	$ 3,148
Contingency:	$12,964
Total	**$38,888**

As demonstrated throughout this report, the subject property is not marketable as a stand-alone property. It was developed as part of the Carl's Jr. restaurant located adjacent north and the market value is best viewed as a contributory value to that property. Without the drive-thru lane and playground, the lessee, Carl's Jr., will likely invoke the Condemnation Clause of their lease and vacate the property. And without the subject improvements, particularly the drive-thru window, the fast-food restaurant adjacent north will no longer be attractive to a national franchise.

Thus, in addition to the Cost Approach, variations of the Income Approach and Sales Comparison Approach are used to measure the value contribution of the subject property to the entire property that is currently leased to Carl's Jr. Using each of these two approaches, the Carl's Jr. property is valued with and without the subject property as a component of the whole. This difference represents the amount of money the adjacent property owner may be willing to pay to retain the existing tenant, Carl's Jr, a nationally recognized fast-food operator.

Income Approach

When the most likely buyer of a property bases their purchasing decisions on the income producing ability of the real estate, the Income Approach is appropriate.

The Income Approach is based on the premise that the value of a property is determined by its ability to produce income. It reflects the principles of anticipation and change, since the basis of the Income Approach is that value is the present worth of future benefits generated by an income-producing property. Supply and demand are important, since economic factors, including competition, are significant in an accurate forecast of future benefits and rates of return. The principle of substitution tests the validity of the approach, because the data which forms the basis for the approach, in particular prices, rents and rates of return, are drawn from characteristics of equally desirable substitute properties.

When valuing the fee simple interest, the first step in the Income Approach is the estimate of economic rent, or market rent, for the property. Market rent is defined as the rentable income that a property would most probably command in the open market, as indicated by current rentals being paid for comparable space, as of the date of the appraisal.

After estimating the effective market rent, operating expenses of real estate are estimated. The operating expenses are then deducted from the effective gross income to arrive at the net operating income for the subject property. It is this income that forms the basis for the capitalization process.

The capitalization process, the fourth step, is simply the conversion of the income stream into an estimate or estimates of value for the property. An overall rate is applied to the net operating income. An appropriate overall rate is derived from the comparable sales and applied to the projected net income of the subject property. The overall rate is the net income of a comparable sale divided by the sale price.

Valuation of Carl's Jr and Subject Property Combined:

The subject property and the property adjacent north were built together as a fast-food restaurant designed specifically for use and occupancy by Carl's Jr. The initial lease was signed on March 13, 1997 between Ventura Pacific Capital Group, IX (Pfeiler is successor in interest) and Carl Kartchner Enterprises, Inc. The initial lease was for a 20-year term with rental increases every five years. The lease included two, 5-year renewal options that, if exercised, would extend the lease through December 31, 2026.

On October 6, 2010, an amendment to the lease was signed. In this amendment the first two option periods were exercised, and the lease was renewed to provide for three (3) additional options to extend and renew the lease, and to provide for Base Rent payable by Lessee to Lessor. The Base rent and terms of the lease are summarized below. The original lease and the first amendment to the lease are included in the Addenda.

Period	Annual Base Rent	Monthly Base Rent	Rent/S.F.*
From 01/01/17 to 12/31/21	$114,466.04	$ 9,538.84	$30.27
From 01/01/22 to 12/31/26	$125,912.64	$10,492.72	$33.29
First Option From 01/01/27 to 12/31/31	$138,503.90	$11,541.99	$36.62
Second Option From 01/01/32 to 12/31/36	$152,354.29	$12,696.19	$40.28
Third Option From 01/01/37 to 12/31/41	$167,589.71	$13,965.81	$44.31

*Based on building size of 3,782 s.f.

The initial lease and amendment are absolute triple net. That is, the lessee is responsible for all operating expenses associated with the real estate including building and mechanical repairs.

Carl's Jr. has leased the property for 27 years and is nearing the end of the "initial" lease term which expires on December 31, 2026, three years and two months from the date of valuation. The current annual rent is $125,912.64 or $33.29 per square foot, triple net. From 2026 forward, there are three, 5-year options to renew.

Using direct capitalization, the market value of the leased fee estate, which is the property owner's interest, is equal to the net operating income as stipulated in the lease divided by an appropriate overall rate. Since the lease is absolute triple net, the net income is the same as the gross income of $125,912.64. Though one could argue that a property owner does incur some expenses over time, overall capitalization rates developed in the marketplace for triple net leased investments do not reflect any deduction for expenses. Thus, the leased fee interest of the subject property is based on the current income of $125,912.64.

At this point the question becomes, "What is an appropriate overall capitalization rate for the Carl's Jr. property, as a whole, including the subject property?" Capitalization rates are income rates that reflect the return on and return of capital. They vary depending on the quantity, quality and durability of the income stream. Most triple net leased investments have long-term leases of at least 15 years with nationally recognized, creditworthy tenants. They commonly have periodic rental adjustments and multiple renewal options.

Leases to fast-food restaurant operators have terms that are similar to those negotiated with Carl's Jr. Those properties that are new typically command higher rents and generally sell at lower overall rates due to the durability of the income stream over a longer term. Older properties, like the Carl's Jr. property, tend to sell at higher overall rates, but these rates are still lower than those produced by sales of properties leased to non-credit tenants who lack the financial backing of a national franchise operator, like Carl's Jr.

To develop an appropriate overall rate to be applied to the income stream generated by Carl's Jr., a thorough search of the market has been conducted to find sales of fast-food restaurants that are similar in terms of age and income characteristics. There have not been any sales in Nogales that are leased to nationally accredited fast-food restaurant operators. However, the Chipotle restaurant is currently listed for sale and provides a benchmark rate for a credit investment in Nogales.

Lacking any additional data in Nogales, the search for fast-food restaurant sales was expanded to areas across southern Arizona including other communities in Santa Cruz County, Cochise County, Pima County and Yuma County. Unfortunately, due to increases in interest rates over the past year, sales activity has slowed. According to those market participants that were interviewed, overall rates have recently increased 50 to 100 basis points, though this is difficult to measure due to the lack of recent sales. Nonetheless, the change in market conditions will be reflected in the selection of an appropriate rate for the Carl's Jr. property.

The following table summarizes the results of this search.

Date of Sale Term	Name Location	Sale Price Terms	# of SF Age	Price/SF	Rent / S.F.	OAR
Current Listing 15 yrs, New + 3 5-yr options	**Chipotle*** Mariposa Rd Nogales	$2,745,000 Asking	2,995 1 yr*	$916.53	$48.08	5.25% Asking
08/05/2020 4 yrs left + 4 5-yr options	**Buffalo Wild Wings** Sierra Vista	$2,250,000 51% Cash SCB	5,971 14 yrs	$376.82	$27.63 + 8% every 4 yrs	7.33%
3/23/2021 New	**Arby's** Sahuarita	$1,750,000 Cash	2,200 1 yr.	$795.45	$51.14	6.43%
09/07/22 3 yrs left + 4 5-yrs options	**Carl's Jr.** Douglas	$1,656,000 20% Cash New Loan	2,489 15 yrs	$665.33	$60.27	9.1%
09/30/22 New 20 yrs. + options	**Carl's Jr.** Resale	$1,685,000 55% Cash New Loan		$676.98	$37.16	5.5%
Tucson Sales						
5/26/2021 8 yrs left + 3, 5-yr options	**Carl's Jr.** Valencia Rd. Tucson	$2,192,871 Cash	3,209 23 yrs.	$683.35	$32.56 + 10% every 5 yrs	5.06%
01/14/2020 3 yrs left + 5, 5-yr. options	**Pizza Hut** 22nd St. Tucson	$1,565,000 Cash	3,314 19 yrs	$472.24	$35.87+ 1.5% / yr	7.6%
07/21/2021 15 yrs New	**Filibertos**** Grant Rd. Tucson	$1,483,836 Cash	2,115 1 yr**	$701.48	$42.09	6.0%
08/15/2023 6 yrs left, + 2 5-yrs options	**Filibertos***** 22nd Street Tucson	$1,240,000 Cash	2,702 4 yrs***	$458.92	$27.97 + 10% every 5 yrs	6.1%
No Sale 3 yr. 2 mo. left 3, 5-yr options	**Carl's Jr.** Nogales	N/A Assume cash	3,782			

*Built in 1991 as Arby's. Renovated for bank use; 2022 converted back to fast food for Chipotle
**Built in 1976 as Wendy's. Completely remodeled in 2020 for Filibertos
***Former Carl's Jr. built in 1973. Completely remodeled in 2019 for Filibertos

As mentioned above, Chipotle restaurant, located at 337 W. Mariposa Road in Nogales, is currently listed for sale. The asking price is $2,745,000 and the rental rate is $48.08 per square foot, absolute triple net. This calculates to an overall rate of 5.25%. This restaurant was completely redeveloped in 2023 and a new 15-year lease was signed with three, 5-year renewal options and 12.5% rental increases every five years. Since this is a listing and the lease rate is measurably higher with a much longer term remaining, this listing suggests an overall rate greater than 5.25% is appropriate for the Carl's Jr. property.

The next three entries are sales of national franchise restaurants located in smaller communities in Southern Arizona. The first sale is a 5,971 square foot restaurant on a pad site just south of the southeast corner Highways 80 and 82 in Sierra Vista. It sold in August 2020 for $2,250,000 with 50% down and seller financing. There was a 21-year lease to Buffalo Wild Wings that had 4 years remaining plus four 5-year renewal options. The rent at the time of sale was $27.63 per square foot with 8% increases every 4 years. The overall rate was 7.33%.

The overall rate on this property is toward the upper end of the range indicated by the eight sales tabulated above. The higher rate is attributed to the relatively short-term remaining on the lease and the smaller market as compared to those properties in Tucson. Relative to the subject, the rent is lower, but the remaining lease term is comparable. Therefore, the overall rate derived from this sale may be a good indicator of a rate for the Carl's Jr. property in Nogales.

The next sale listed is a sale/leaseback transaction of an Arby's restaurant located in Sahuarita. The property is situated on the north side of Sahuarita Road, just east of I-19. The restaurant was constructed in 2020 specifically for lease to Arby's. It sold in March 2021 for $1,750,000, cash. Based on a triple net rental rate of $51.15 per square foot, the overall rate was 6.43%. This is a 20-year absolute triple net lease with 10% increases every 5 years.

Though the Town of Sahuarita has a population of only about 37,000, it is a suburb of Tucson and has a 2.52% annual growth rate. Compared to the subject, the location of this sale is superior, the rent per square foot is measurably higher and there is a much longer term remaining on the lease. This sale suggests an overall rate greater than 6.43% is appropriate for Carl's Jr.

The third sale on the table is the sale of a Carl's Jr. leased property located in Douglas. The community of Dougles, like Nogales, is situated on the US/Mexico border. But with a population of only 16,500+/- and a much smaller international trade presence, the location in Douglas is inferior to Nogales.

This property sold two times in September 2022. According to Warren Forsythe, who was the buyer in the first sale and seller in the second sale, the initial term of the lease was set to expire in three years and the rental rate at about $150,000 per year ($60.26/sf) was significantly above market. There was little likelihood that the lessee would exercise the option. For this reason, Mr. Forsythe was able to negotiate a sale with the seller that resulted in a relatively high overall rate of 9.1%, based on current income. He then renegotiated a 20-year lease with the same franchisee for a much lower rent of $90,000 per year or $37.16 per square foot. Three weeks later he sold the property at a 5.5% cap rate based on the renegotiated lease.

Mr. Forsythe indicated the higher overall rate developed in the initial sale was a function of the above market lease rate and the short duration remaining on the lease. The more recent sale, at a cap rate of 5.5%, is representative of the value of a fast-food restaurant with a new 20-year lease, to a national credit tenant in a tertiary market. Mr. Forsythe further noted that today, with higher interest rates, the overall rate for this property would likely be 6.0% to 6.25%, which is 50 to 100 basis points higher. This suggests the earlier sale would have sold at a 9.5% to 9.75% cap rate in today's market.

Tucson Sales

The next four sales are located in Tucson which has a population of over 1.0 million in the metropolitan area. For this reason, these four sales are considered superior to the subject property in terms of location. Nonetheless, they provide additional market data.

The first sale in this table is the sale of a 3,209 square foot fast food restaurant leased to Carl's Jr. The property is located along Valencia Road, near Tucson International Airport. It was built in 1999. At the time of sale, it was leased for $32.56 per square foot and there were eight years remaining on the lease with three, 5-year renewal options and rental increases of 10% every 5-year term. The sales agent, Will Pural with CIRE Partners, reported an overall rate of 5.09%, at the time of sale. He further noted that with higher interest rates today, this property would likely sell at a 6.25% to 6.5% overall rate in the current marketplace.

This property is very similar to the subject in terms of the quantity and quality of the income stream. The rental rate is nearly identical, and the lease is held by a franchise operator of Carl's Jr. with a guarantee. However, the remaining term of the lease is five years longer and the location in Tucson is superior. Considering these two factors and the increase in interest rates since this sale occurred, this sale suggests an overall rate above 6.25% or 6.5% for the Carl's Jr. property in Nogales.

The second Tucson sale in the table above is the sale of a 3,314 square foot fast-food restaurant leased to Pizza Hut. The property has a high-profile location in the Oxford Plaza shopping center at the corner of 22nd Street and Wilmot. It sold in January 2020 at a price of $1,565,000, cash. There were 3 years remaining on the lease with five, 5-year renewal options. The rent, at the time of the sale, was $35.87 per square foot with 1.5% annual increases. The overall rate was 7.6%. Reportedly, the operator of the franchise was recognized as one of Pizza Hut's top 10 operators in 2014 and 2018.

With only three years remaining on the initial lease term, this sale is comparable to the subject. However, it is better located and has built-in escalations of 1.5% per year, compounded. At an overall rate of 7.6%, this sale suggests the overall rate for the Carl's Jr. property in Nogales should be at the upper end of the range.

The last two sales on the tabulation are fast-food restaurants leased to Filiberto's which is a regional franchise. The property on Grant Road was built as a Wendy's in 1976. It sold, as vacant, in July 2020 for $775,000. It was then leased and remodeled for occupancy by Filibertos. Improvements included a new roof, HVAC system, ceiling tiles, flooring, bathrooms, interior/exterior paint, drive-thru, 33 parking spaces and signage. On July 23, 2021, it sold with a new 15-year, triple net lease, for $1,483,636, cash. The net operating income was $89,018 or $42.09 per square foot which results in an overall capitalization rate of 6.0%.

The other sale also represents a sale and resale. This property was originally designed for, and occupied by Carl's Jr. In 2019, it sold as vacant for $800,000. It was then re-leased and remodeled for occupancy by Filiberto's. In 2020 it sold for $1,225,000. It resold again in August 2023 for $1,240,000. The most recent sale is summarized on the table.

The lease to Filiberto's began in November 2019 with a base rent of about $28.00 per square foot for a 2,702 square foot building. The annual net income at the time of sale was $75,600. This equals an overall capitalization rate of 6.1%. This is a 10-year lease with a 10% increase in 2024. There are two 5-year options each with 10% increases.

The per square foot rental rates between the two Filiberto's properties are quite different but the overall capitalizations rates are nearly the same, despite the longer lease term remaining on the Grant Road property. Nonetheless, relative to the Carl's Jr. property in Nogales, these sales suggest the overall rate for Carl's Jr. should be greater than 6.1% due to these sales having longer lease terms and superior locations in Tucson.

Conclusion:

The overall rates for the eight sales range from 5.06% to 9.1%. The current listing of Chipotle in Nogales produced an overall rate of 5.25% based on the *asking* price and current rent. Given that this property has a new, 15-year lease at a rent of $48.08 per square foot suggests the overall rate for the Carl's Jr. property should be considerably higher since only 3 years and two months remain on the lease and the rent is lower. Furthermore, the ultimate sale price of this listing will likely be less resulting in a higher overall rate.

In general, the sales with new leases or those with six or more years remaining, produced overall rates of 5.5% to 6.43%. Three sales had leases with less than five years remaining. These three sales produced overall rates of 7.33%, 7.6% and 9.1%. Like the subject, all had multiple options to renew.

The sale of Buffalo Wild Wings in Sierra Vista closed in August 2020 at an overall rate of 7.33%. The sale of Pizza Hut is located in Tucson but had a shorter term remaining. It sold in 2020 at an overall rate of 7.6%. And most notable is the initial sale of Carl's Jr. in Douglas, which closed in September 2022 at an overall rate of 9.1%. This rate is significantly higher than those developed from the other sales but indicative of the short term remaining on the lease (3 years) and the above market rental rate of $60.26 per square foot.

In addition to interviewing Mr. Forsythe, the buyer and seller of the two Carl's Jr. sales in Douglas, I interviewed the agent for the Carl's Jr. sale in Tucson. Mr. Will Pural with CIRE Partners specializes in net leased investment properties that are leased to Carl's Jr. and Hardees. Mr. Pural thought the rate for the Tucson Carl's Jr. property in the current market would likely be 6.25% to 6.5% or 125 to 150 basis points higher due to increased interest rates. When asked about his opinion of the Carl's Jr. property in Nogales he indicated that he would list the property at an overall capitalization rate of 7.0% with the expectation that it would sell at a cap rate of 7.25% to 7.5%. This higher rate reflects the location in a smaller community as well as the short duration remaining on the lease. In addition, not knowing the sales volume at Carl's Jr. makes the investment riskier.

Mr. Ban Farthing with CBRE indicated rates in the Phoenix market are up 25 to 100 basis points over the past year due to higher interest rates. He stated he would expect rates in smaller markets like Nogales to be up at least 100 basis points.

And lastly, Ms. Sarah Shanks with SRS Real Estate Partners was interviewed. Ms. Shanks recently listed a Pizza Hut in Safford. This property had a new 15-year lease at $19.18 per square foot with 10% increases every five years and multiple renewal options. The asking price of $962,000 was based on an overall rate of 5.25%. The property has since been taken off the market. However, Ms. Shanks indicated that today she would list the property at a cap rate of 5.85% with the expectation of selling the property at a cap rate of 6%.

The biggest risk for the Carl's Jr. property is that it only has three years and two months remaining on its lease. According to Mr. Forsythe, the buyer and seller of Carl's Jr. in Douglas, the rent on the Nogales property might be "a little high" but it was not out of line. With this in mind, an overall rate of less than 9.1% is appropriate based on the sale in

Douglas. A rate greater than 7.6% as indicated by the sale of Buffalo Wild Wings in Sierra Vista is appropriate due to interest rate increases since this sale occurred.

Thus, based on the data and comments by market participants, and lacking any retail sales trends for Carl's Jr. in Nogales, a range in overall rates 8.0% to 8.5% is applied. These rates divided into the actual net operating income of $125,912.64, result in an indicated range in value of the leased fee interest of $1,481,325 to $1,573,908 with a mid-range of $1,525,000.

On a per square foot basis, this range in value equals $391.68 to $416.16, which is at the low end of the per square foot prices of the sales presented thus far, but reasonable considering the larger size. According to Mr. Forsythe, fast food restaurants typically generate 60% to 80% of their income from drive-thru services, so the larger building size does not proportionately equate to higher sales volume. For this reason, the size of fast-food restaurants has been trending downward in recent years with less reliance on revenue from dine-in customers and more reliance on drive-thru sales and digital services. Thus, a value at the low end of the range is appropriate on a per square foot basis.

Those sales with the most similar income characteristics are the Buffalo Wild Wings in Sierra Vista and Pizza Hut in Tucson. Both are older properties in the later stages of their initial lease terms with similar income levels. In addition, these two sales represent the upper end of the range for building size. At sale prices of $376.82 and $472.24 per square foot, respectively, they bracket the value conclusion developed through income capitalization.

**Opinion of Market Value of the Lease Fee Interest
of the Carl's Jr. property in combination
with the Subject Property .... $1,525,000 or $403.23/S.F.**

The next sections of this appraisal will focus on the value of the Carl's Jr. property *excluding* the subject property. Under this scenario, the right to use the drive-thru window is terminated and it is assumed that the Carl's Jr. franchisee has exercised their right to end their lease and vacate the building. Furthermore, the following analysis assumes ADOT and the property owner have negotiated separately for the owner to retain the playground portion of the building and the existing signage. **The property owner was paid $51,216 for the depreciated value of the playground, $6,806 to reconstruct the wall between the playground and dining area, and $130,942 to relocate the monument sign and freeway sign. The reimbursement for these items should be considered separately from the appraisal.**

The intent of the following analysis is to develop an opinion of value for the subject property if it were vacated by Carl's Jr and no longer suitable for use by a national franchise operator. The difference between the two value opinions represents the amount of money the adjacent property owner *may* be willing to pay for the subject property in order to retain Carl's Jr. as a tenant.

Valuation of Restaurant Property Adjacent North, Without Carl's Jr. Lease

In this scenario, it is assumed that the subject property is no longer apart of the Carl's Jr. property and, as a result of the lack of a drive thru window, Carl's Jr. exercises it's right to immediately vacate the property. The property owner would then have to re-tenant the property to another restaurant user who does not require a drive-thru window. **Once again it is noted that this analysis assumes the entire building, including the play area, remains intact and the signage remains in place.**

In an effort to estimate the market rent for the restaurant property, a thorough search of the rental market in Nogales has been conducted. Due to the relatively small market area, this search did not reveal many recent leases that are truly comparable to the subject. Those that were found are summarized in the table that follows. In addition, I have interviewed several local real estate agents active in Nogales. These agents helped to narrow the range indicated by the leases.

Restaurant Rentals in Nogales

Rental	Date	Tenant	Size - sf	Rent/sf	Terms	Improvements	Confirmed by	Comments
1	Aug. 2023 Jul-25	Casa 32 Grill & Lounge 186 N. Grand Ave.	3,323 3,323 6,646	$10.83 $9.03 $9.93	Mod Gross Owner pays RE taxes & Insurance	6,647 s.f. bldg divided into 2 equal spaces. Front restaurant, Rear bar Built in 1947	Karen Miller Agave Premier Properties	This space recently leased to Casa 32 Grill & Lounge Owner replaced HVAC & made roof repairs. Tenant made all other T.I's incl. installing sprinkers to rear lounge. Parking lot adj. No drive-thru
2	Unkn	Pizza Hut 589 N. Grand Ave.	2,996	$12.82	Triple Net	Freestanding Pizza Hut No drive-thru Built in 2003	Karen Miller Agave Premier Properties	Long time tenant with below market lease. Adequate on-site parking. Well maintained No drive thru
3	Long term	Floreria los Girasoles 1020 N. Grand Ave.	1,130	$21.24	Unknn.	Freestanding slump block bldg. origiinally had drive thru; Built in 1970	Luis Morales Century 21	Older building originally designed as El Taco. Then occupied by liquor store. Long time lease to florist who just relocated. Lease specifics unknown. Currently vacant and listed for sale
4	Orig. Feb-07	Little Caesars Pizzeria Loma Linda S.C.	1,500	$23.09	Triple Net + CAM of $1.21/sf/yr	In-line space in Safeway anchored shopping center Built in 1989	Venture West	Older lease for in-line restaurant. No drive-thru Estimated rent & CAM charges based on older lease
5	Orig. Apr-07 Renewed 2023	Subway Loma Linda S.C.	1,320	$25.90	Triple Net + CAM of $1.10/sf/yr	End cap in Safeway anchored shopping center Built in 1989	Venture West	Older lease forend cap in-line restaurant. No drive-thru; Rent & CAM's estimated based on older lease terms.

Rental Analysis – Assuming Carl's Jr. Vacates

As in the preceding analysis, this analysis assumes triple net lease terms whereby the tenant is responsible for all operating expenses including real estate taxes and property insurance. Adjustments, if necessary, are made accordingly.

Rental One is the recent lease of a 6,646 square foot building on Grand Avenue a short distance north of the international border. In June 2023 a lease was signed with the owners of Casa 32 Grill and Lounge. According to the leasing agent, roughly 50% of the building is occupied by the restaurant and 50% is built out with the lounge. The restaurant portion was leased at a rate of $10.83 per square foot. The lounge portion was leased for $9.03 per square foot for an average of $9.93 per square foot. The owner replaced the HVAC and made roof repairs, but all other improvements were completed by the tenant including the installation of a sprinkler system in the lounge. Onsite parking is available adjacent north. There is no drive-thru.

The terms of the lease are modified gross. The owner pays real estate taxes and property insurance which amount to about $1.00 per square foot. A downward adjustment is made.

This property is a sit-down restaurant and lounge with on-site parking. It is leased to a local operator and, in this regard, it is similar to the type of user anticipated for the Carl's Jr. property assuming it no longer has a drive-thru. However, it was built in 1915 and much larger than the subject. In addition, the location along Grand Avenue near the international border is inferior. At an adjusted price of about $10.00 per square foot for the restaurant portion, this rental sets a lower limit for the subject.

Rental Two is the long-term lease to Pizza Hut for a 2,996 square foot, freestanding restaurant located at 589 North Grand Avenue. The property has good on-site parking but no drive-thru. Karen Miller with Agave Premier Properties indicated the property was leased for $3,200 per month, triple net, when it sold in November 2022. This equals $38,400 annually or $12.82 per square foot. Ms. Miller indicated the property was built for Pizza Hut in 2003 and the rental rate was below market. This suggests the rent for the subject property, if it were vacant, would be greater than $12.82 per square foot.

Rental Three is the lease of a former fast-food restaurant located at 1020 North Grand Avenue. The building consists of 1,130 square feet and has drive-thru capabilities. It was built for El Taco in 1970. El Taco vacated long ago. The property was most recently leased to a floral shop who just vacated due to changes in business operations. According to the agent, Floreria los Girasoles was paying $2,000 per month or $21.24 per square foot. The terms of the lease are unknown. In this case, it is likely the owner paid the real estate taxes and property insurance. And, if so, a downward adjustment of $1.50 per square foot would be appropriate based on the current assessment.

This property is much smaller than the subject, which warrants a downward adjustment. However, it is also significantly inferior in terms of location, quality and appeal. This comparable suggests a rental rate of about $20.00 per square foot.

Rentals Four and Five are two inline restaurants in the Loma Linda Shopping Center which is anchored by Safeway. Neither has a drive-thru window. Comparable Four consists of 1,500 square feet and is leased to Little Caesars Pizza who has occupied the space since February 2007. This is a triple net lease with renewal options every five years. The current rent is $23.90 per square foot. The tenant also pays CAM charges of about $1.21/sf/year. An upward adjustment is made.

Rental Five is the end-cap leased to Subway. It consists of 1,320 square feet. Subway has occupied the space since April 2007. The lease is renewed every five years. The most recent renewal occurred in April 2023. The current rent is estimated to be $25.90 plus CAM charges of about $1.10/sf. An upward adjustment is made.

These two bays are leased to regional/national franchises, but neither has a drive-thru window. Both are smaller than the subject. The locational differences are difficult to measure. The subject is a freestanding pad, but located west of the commercial synergy created by Loma Linda Shopping Center and Mariposa Mall which are east of I-19. These two rentals are located in Loma Linda Shopping Center, anchored by Safeway, but do not have great visibility.

Overall, based primarily on size, downward adjustments are appropriate to these two rentals. This would suggest a rental rate of less than $25.00 per square foot, triple net.

No rentals were found that are truly comparable to the subject. However, the search revealed a sufficient number of rentals that can be used to bracket the market rent for the restaurant property if it were vacant and available for lease in the local market. Based on the preceding analysis, a market rent of $18.00 to $22.00 per square foot is indicated. This range was confirmed by Ms. Hilda Rowe with Century-21 in Nogales. Ms. Rowe quoted a market rent for the subject of $15.00 to $22.00 per square foot, triple net.

Lacking sufficient data from which to select a precise conclusion of market rent, a range of rents is used to bracket a value conclusion. Three operating statements are presented on the following page. The rental rates vary on each from $18.00 to $20.00 to $22.00 per square foot. As can be seen, a vacancy and credit loss of 5% is projected. This scenario assumes the Carl's Jr. property will be leased to a local tenant rather than a national franchise which increases the likelihood of periodic vacancy going forward. Also, a nominal expense is included for Reserves for Replacement. Again, a potential buyer would expect to incur some capital expenses over the course of ownership.

The net operating income using the three different rental rates is now capitalized into indications of value. But, here again, the data from which to derive a market overall rate is extremely limited to non-existent. Most sales of fast-food restaurants are either vacant at the time of sale or leased to nationally accredited or regional tenants with guarantees. No *recent* sales were found that were leased to non-credit tenants.

In lieu of sale data, I have relied upon the earlier sales and interviews of local agents and regional brokers for their opinions. And, as alluded to previously, all those who were interviewed noted recent increases in overall rates of up to 100 basis points over the past year due to higher interest rates.

In the prior analysis, overall rates of 8.0% to 8.5% were selected for the subject property as leased to Carl's Jr. These rates reflect the higher rates today but also consider there are only 3 years and 2 months remaining on the existing lease as of the date of valuation. The short duration remaining on the lease significantly increases the risk of vacancy. Lacking any retail sales data from Carl's Jr., the profitability and continued viability of this restaurant operation is unknown, particularly with recent changes in the traffic pattern due to the new flyover ramps. Thus, rates of 8% to 8.5%, which are toward the upper end of the range, were considered appropriate. Assuming the fast-food restaurant adjacent north of the subject property is leased to a local, non-credit tenant, a higher rate is appropriate. An overall rate of 9% is applied.

The calculations below summarize the results based on a range in market rents, a deduction for nominal expenses and an overall capitalization rate of 9%.

POTENTIAL GROSS INCOME		***$18.00 / S.F. X***		***3782 S.F.***		$68,076	
Less Vacancy & Credit Loss of	5%					($3,404)	
Effective Gross Income						$64,672	
Reserves for Replacement						($1,891)	
NET OPERATING INCOME						**$62,781**	
		DIRECT CAPITALIZATION					
N.O.I.		Ro		VALUE			
$62,781 /		9.0%	=	$697,569		($58,024)	**$639,545**

POTENTIAL GROSS INCOME		***$20.00 / S.F. X***		***3782 S.F.***		$75,640	
Less Vacancy & Credit Loss of	5%					($3,782)	
Effective Gross Income						$71,858	
Reserves for Replacement						($1,891)	
NET OPERATING INCOME						**$69,967**	
		DIRECT CAPITALIZATION					
N.O.I.		Ro		VALUE			
$69,967 /		9.0%	=	$777,411		($58,024)	**$719,387**

POTENTIAL GROSS INCOME		***$22.00 / S.F. X***		***3782 S.F.***		$83,204	
Less Vacancy & Credit Loss of	5%					($4,160)	
Effective Gross Income						$79,044	
Reserves for Replacement						($1,891)	
NET OPERATING INCOME						**$77,153**	
		DIRECT CAPITALIZATION					
N.O.I.		Ro		VALUE			
$77,153 /		9.0%	=	$857,253		($58,024)	**$799,229**

The market value of the fast-food restaurant adjacent north, excluding the subject property, is estimated to be $720,000 or $190.38 per square foot.

Using the Income Approach, the market value of the subject property may be equal to the *difference* between the leased fee interest of the Carl's Jr. property, which includes the subject property, and the market value of the fast-food restaurant without the benefit of the Carl's Jr. lease and excluding the subject property. The theory being that the adjacent property owner may be willing to purchase the subject property for an amount equal to the potential decline in value of the property with and without the drive-thru and with and without the benefit of the Carl's Jr. lease. Using this methodology, the difference is equal to the market value of the leased fee estate of $1,525,000 less a market value, as if vacant, of $720,000 or **$805,000.**

An alternative method of estimating the amount the property owner may be willing to pay for the subject property considers the present value of the potential income lost when Carl's Jr. vacates and the expenses that will be incurred to re-lease the property. The lost income is equal to the difference between the contract rent of $125,913 per year and the market rent of $75,640 which is based on the mid-range rent of $20.00 per square foot. As shown below, this equals annual lost income of $50,273 or $4,189 per month. Total income lost over 38 months, which is the remaining term of the lease, equals $159,198. The lost income per month is discounted by 11% for a present value of $133,903.

The discount rate of 11% is simply the overall capitalization rate plus the annual change in income common to fast food restaurant leases. Rental increases are generally built into the leases with changes occurring every 5 years. These increases are typically 10% of the base year rate or 2% per year. Adding 2% to the overall capitalization rate of 9% equals a discount rate of 11%.

The lease-up period is projected to be 6 months. A rental rate of $20 per square foot, which is in the middle of the range, is applied in the calculation. The cost of tenant improvements is estimated to be $15 per square foot. Leasing commissions are typically 5% of the total lease amount over the term of the lease. In this case, the commissions are based on a lease rate of $20 per square foot for a five-year term. Real estate taxes are equal to the current tax assessment multiplied by the lease-up period. Insurance is estimated at $0.35 per square foot with maintenance and security estimated at $1.00 per square foot. The result is a total cost of lease-up of $178,133.

Net Inc. / Per Lease					$125,913
Net Inc. / Market					($75,640)
Annual lost Income due to rent difference					$50,273
Total Income Lost	$4,189	/ month X	38	Mos.	$159,198
P.V. of Lost Income discounted at 11%					$133,903
Plus Cost of Lease up					
Lease up - 6 mo.	$6,303	/ month X	6	Mos.	$37,820
Plus Cost of T.I.	3782	S.F. X	$15	/ S.F.	$56,730
Plus Commissions	$349,835	* X	5.0%		$17,492
Plus R.E. Taxes	$494	/ mo. X	6	Mo.	$2,962
Plus Insurance	3782	S.F. X	$0.35	/ S.F.	$1,324
Plus maint., security etc.	3782	S.F. X	$1	/ S.F.	$3,782
Subtotal					$178,133
Total					**$312,036**

The present value of the income stream of $133,903 plus the previously estimated cost of lease-up of $178,133 equals **$312,036, rounded to $312,000**.

Conclusion:

Using the Income Approach, the amount that the adjacent property owner would be willing to pay for the subject property to ensure continued use of the drive-thru, and potentially retain Carl's Jr. as a tenant, is between $312,000 and $805,000.

OPINION OF CONTRIBUTORY VALUE OF THE SUBJECT PROPERTY THROUGH THE INCOME APPROACH EXCLUDING PERSONAL PROPERTY .... $312,000 to $805,000

<u>Sales Comparison Approach – As Improved</u>

In the Sales Comparison Approach, sales of similar properties in the subject and competing areas are compared and adjusted to the subject property. This approach applies the principle of substitution which affirms that when a property can be replaced, its value tends to be set by the cost of acquiring an equally desirable substitute property without undue or costly delay.

As discussed throughout this appraisal, the subject property has no marketability independent of the Carl's Jr. property adjacent north. The small size, long narrow shape and lack of legal access preclude any other use. However, similar to the methodology applied in the Income Approach, sales of similar restaurant properties can be used to compare the difference in prices between the sales of fast-food restaurants leased to national or regional franchise operators with ones that are either vacant or leased to a local operator.

A thorough search for sales has been conducted in Nogales, but only three recent sales and one listing were found. Lacking sufficient sales data from which to evaluate the difference in price/value between a property that is leased to a credit tenant versus one that is vacant or leased to a local operator, sales across southern Arizona outside Nogales were considered. The search revealed a number of sales and, collectively, it was apparent that there is a measurable difference in price/value between properties that are leased to national franchise operators compared to those that are vacant or leased to local operators. And, clearly, the prices paid for each are most often related to the quantity, quality and durability of the income stream at the time of sale.

While an analysis of all sales with and without credit tenants could be made, there are other variables that impact price. And, within the dataset, four paired sales were found that provide a more refined analysis that eliminates many of the other variables that also impact price. These pairings can be used to demonstrate the decline in value of a property that is directly related to a change in the income stream. These changes in value can then be applied to the potential decline in value of the leased fee interest in the Carl's Jr. property that was developed in the Income Approach. Using a specific value of the leased fee estate of the Carl's Jr. property eliminates some of the subjectivity that would inherently occur if using and comparing all sales from the region.

The tabulation that follows summarizes four pairings. The first pairing includes two different restaurant properties designed specifically for lease to Denny's. The other three pairings are the sale and resale of the same property. In these three cases, the earlier sale represents a vacant property and the second sale represents a property that was leased at the time of sale.

RESTAURANT SALES PAIRINGS

SALE	DATE DOCUMENT	NAME SELLER / BUYER LOCATION APN	SALE PRICE TERMS	BLDG SIZE S.F.	SALE PRICE / SF OF BLDG	YEAR BUILT AGE	COMMENTS	PERCENT CHANGE IN PRICE
A	9/26/2023 2023-17476	Denny's Spirit Master Funding IX/ Grant Holdings 825 Ocotillo Rd. Benson 123-08-114a	$1,100,000 Cash	4,600	$239.13	1991 28	Freestanding restaurant leased by Denny's. At this location for 25 years. Previously sold in March 2015 for $500,000	
	1/24/2020 2020-01502	Vacant - Former Denny's Redus One, LLC / ZK Homes LLC 401 Chiricahua Ave.; Douglas 409-09-082B	$405,000 New loan	3,584	$113.00	2001 20	Former Denny's now Golden Time Rest. On market 6 months	-53%
Sale / Resales								
B	9/21/2020 2020-2650620	Filiberto's OneTen REI / Landance, LLC	$1,225,000 Cash	2,702	$453.37	1973 47	Vacant Carl's Jr. remodeled to Filiberto's, New 10-yr. lease, 10% inc. in Yr 5 + options Property sold again 8/23 for $1,240,000 there were 7 yrs remaining on lease	
	5/20/2019 2019-1400379	Vacant Carl's Jr. GVD Comm. Properties / OneTen REI 4110 E. 22nd St; 130-14-027	$800,000 20% Dn, New loan		$296.08	1973 46	Vacant Carl's Jr. in Fry's anchored shopping center. Buyer rehabbed for Filibertos. Has drive-thru	-35%
C	7/23/2021 2021- 1483636	Filiberto's Atlas BL Grant Rd. / E Grant Rd. HY	$1,483,000 Cash	2,115	$701.18	1976 46	Seller had completely rehabbed with new roof, HVAC, parking lot, ceiling tiles int & ext. paint, bathrooms, drive thru signage. New 15-yr. lease with 2% annual increases plus options	
	7/17/2020 2020-1990837	Former Wendy's Kuck / Atlas BL Grant Rd. 4011 E. Grant Rd.	$800,000 30% Dn, New loan		$378.25	1976 45	Originally built as Wendy's & rebranded as Filiberto's in 2014.	-46%
D	8/14/2020 2020-2270522	LosBertos Arete Ptnrs / Zala	$775,000 Cash	3,202	$242.04	1988 32	Former KFC; Remodelled & leased to LosBertos, The property resold again in March 2022 for $950,000. Remodelled to La Michoacona Ice Cream	
	10/1/2019 2019-2740663	Vacant KFC Estate of Shettlesworth / Arete Ptnrs 3344 N. Oracle Rd. 106-03-121A	$440,000 Cash		$137.41	1988 31	Vacant KFC located near Amphi H.S.	-43%

Paired Sales Analysis

Pairing A represents two sales of two different properties. The first sale is a 4,600 square foot restaurant located in Benson that is leased to Denny's. It sold in September 2023 for $1,100,000, cash, or $239.60 per square foot. The terms of the lease are unknown.

The second sale in the pairing is a vacant freestanding, 3,584 square foot restaurant located in Douglas. It was originally built for and leased by Denny's who vacated in 2018 or 2019. In January 2020, the property sold for $405,000 or $113.00 per square foot, cash.

The difference in price suggests a downward adjustment of 53% is appropriate for a property that is leased to a national credit tenant compared to a property that was vacant at the time of sale. The restaurant in Douglas has since been leased to a local restaurant operator known as Golden Time.

The next three pairings represent the sale and resale of the same property. All are located in Tucson.

Pairing B was originally built and occupied by Carl's Jr. It consists of a 2,702 square foot building located on a pad site in a Fry's-anchored shopping center on 22nd Street. It sold as vacant in May 2019 for $800,000 or $296.08 per square foot with institutional financing.

After the sale, the buyers secured a lease with Filibertos and remodelled the restaurant for their specific use. In September 2020, the buyers resold the property with a new, 10-year lease in place. The price was $1,225,000, cash, or $453.37 per square foot.

The difference in price suggests a downward adjustment of 35% for a property that is leased compared to the same property as vacant.

It is noted that the property sold again in August 2023 with Filibertos lease still in effect. But since the sale in 2020 is closer to the date of the first sale, the comparison of the earlier sales is more relevant.

Pairing C was formerly a Wendy's franchise. It consists of a 2,115 square foot building on a pad site situated on the north side of Grant Road in Tucson. In July 2020, the property sold as vacant for $800,000 or $378.25 per square foot, with institutional financing.

Like Pairing B, the buyers subsequently secured a lease with Filiberto's and completely remodeled the building including completing a number of capital improvements. Then in July 2021, they resold the property with a new lease in place. The price was $1,483,000, cash, or $701.18 per square foot.

This difference in price indicates a downward adjustment of 46%.

Pairing D is a former KFC restaurant consisting of 3,202 square feet. It is located on the east side of Oracle Road, between Ft. Lowell and Prince Road near Amphi High School. In October 2019 it sold for $440,000, cash, or $137.41 per square foot.

The property was remodeled and leased to LosBertos, a local operator. It then resold in August 2020 for $775,000, cash, or $242.04 per square foot.

The comparison of this pairing suggests a downward adjustment of 43%.

The property was later rebranded to La Michoacana Ice Cream and sold again in 2022. But, as with Pairing B, the sale immediately following the vacancy is more relevant to this analysis.

Conclusion: Pairing A represents the pairing of two restaurant sales from two smaller communities in southern Arizona. However, these are two different properties and the variance in the prices may be attributed to influences other than differences in the income streams. Pairing A indicates a decline of 53%.

Pairings B, C and D are located in Tucson. Though the location in Tucson is better, the adjustments developed using these pairings are not impacted by the location of the sales. Instead, the comparison of these sales and resales represents the decline in value for a property that is leased compared to one as vacant. And, in this regard, they best represent the decline in value attributed to the potential loss of Carl's Jr. as a tenant.

These three pairings indicate a decline in value ranging from 35% to 46%.

It should be noted that Pairing A represents two sales of sit-down restaurants with no drive-thru windows. Pairings B, C and D, each had lost their original national accredited tenant, but retained the drive-thru windows which allowed each to be re-leased to either a fast-food operator or sit-down restaurant.

With these factors considered, a downward adjustment of 45% is applied to the leased fee value previously estimated to be $1,525,000. Thus,

Leased Fee Value, Incl SP	$1,525,000
Less 45%	($ 686,250)
Indicated Value, Excl S.P. & Carl's J. Lease:	$ 838,750 or $221.77/s.f.

Unlike the value conclusions developed in the Income Approach, no deduction is appropriate for the cost of lease-up. The sales and resales inherently consider the buyer's anticipated cost of re-leasing the properties.

As a cross-check to this value conclusion, it is appropriate to introduce the restaurant sales that were found in Nogales. These are tabulated on the following page.

IMPROVED SALES TABULATION - Nogales

SALE	DATE DOCUMENT	NAME BUYER / SELLER LOCATION APN	SALE PRICE TERMS	BLDG SIZE S.F.	SALE PRICE / SF OF BLDG	YEAR BUILT AGE	COMMENTS	CONFIRMED WITH
1-N	4/16/2021 2021-03555 Now listed	Former bank - Now Chipotle Kitica, LLC / ADL 337 Mariposa, LLC 337 W. Mariposa Road 101-01-019	$905,000 Cash $2,745,000 Asking	3,219 2,995	$281.14 $916.53 Asking	1991 30 Renov.	Originally built for Arby's. Converted to a bank leased for 10 year but bank vacated after 3 yrs., stayed vacant. Once lease expired sold for redevelopment & leased to Chipotle	Hilda Rowe - Century 21 & Ben Farthing Listing Agent CBRE
2-N	4/23/2018 2018-02751 9/3/2021 2021-07948	Former Jack-in-the-Box, Now Filibertos RMC Prop, Ltd Ptnshp / CAP 1 Sweat CAP 1 Sweat, LLC / Atlas Bl Nogales 208 N. Grande Ave. 101-50-101	$760,000 New loan $1,000,000 Cash	2,223	$341.88 $449.84	1976 43 46	Vacant fast food restauarant with drive thru formerly occupied by JIB, now leased to Filibertos	Western Retail Advisors 602 778-3747
3-N	11/7/2022 2022-08857	Pizza Hut Est. Robt Farley / Peterson & Burge 589 N. Grand Ave. 101-36-046	$540,000 New loan	2,996	$180.24	2003 20	Freestanding restaurant with below market lease to Pizza Hut. No drive-thru Buyer is a Pizza Hut affiliate with 1st right of refusal	Karen Miller Agave Premier Props. 520 313-9229
4-N	8/11/2023 2023-04656	Vacant China Buffet OTC-2, LLC / Mariposa Health Center 251 W. White Park Dr. 102-06-024	$2,200,000 Cash	10,674	$206.11	2004 20	Formerly a large sit-down restaurant. Purchased for redevelopment as part of Mariposa Community Health	Public Records
5-N	Current Listing	Vacant formert fast food restaurant Chacon / N/A 1020 N. Grand Ave. 101-28-057	$350,000 Negotiable	1,130	$309.73 Asking	1970 53	Originally built as El Taco, then liquor store, then leased for 27+/- yrs to flourist who recently moved out.	Luis Morales Century 21 520 313-4244

Analysis of Restaurant Sales in Nogales

As mentioned previously in this report, Chipotle is currently listed for sale with an asking price of $916.53 per square foot. It includes a newly executed, long-term lease. However, the property previously sold in April 2021 for $905,000, cash, or $281.41 per square foot. This property was originally occupied by Arby's. Long ago it was converted to a branch bank. Banamex leased the bank for 10 years but only occupied the property for three years. Once this lease expired, the property sold as a bank/office and then the buyers redeveloped property for lease to Chipotle.

Relative to the restaurant property adjacent north of the subject, this sale is difficult to evaluate as the improvements, at the time of sale, were quite different. Nonetheless, considering the superior location of the Sale 1-N property, the conclusion of value of $221.77 per square foot, excluding the Carl's Jr. lease, appears reasonable.

Sale 2-N is the former Jack-in-the-Box restaurant on Grand Avenue a short distance north of the international border. This 2,223 square foot restaurant sold in April 2018 for $760,000 or $341.88 per square foot. In 2021, the property was remodeled and a new 15-year lease was signed for occupancy by Filibertos. The property resold in September 2021 for $449.84 per square foot.

Arguably, this sale and resale should be considered in developing an adjustment for the change in value for a property leased to a national tenant and one that is vacant or not leased. However, repeated efforts to confirm this sale were unsuccessful. It is unclear whether or not Filiberto's occupied the restaurant when the early sale occurred. And, if so, the higher price paid in 2021 would be a function of the improvements that were made and a long-term lease renewal.

Lacking a full understanding of these two sales, I have not placed strong reliance on these sales in the valuations presented in this report. However, on a price per square foot basis, these sales generally support the value conclusions relative to the Carl's Jr. property adjacent north.

Sale 3-N is the sale of Pizza Hut also located along Grand Avenue. The property sold in November 2022 for $540,000 or $180.24 per square foot based on a building size of 2,996 square feet. According to the sales agent, the lease at $12.71 per square foot was far below market. The buyers were affiliates of the Pizza Hut franchise and did not base their purchasing decisions on the income producing ability of the real estate. Nonetheless, this sale with a below market lease suggests the Carls' Jr. property should sell for a higher price, with or without the Carl's Jr. lease in place.

Sale 4-N is the August 2023 sale of the former China Buffet which sold for $2,200,000 or $206.11 per square foot. This property is situated on an interior lot behind Safeway and west of Walmart. With a total of 10,674 square feet, this property is substantially larger than the Carl's Jr. property. In addition, it was purchased by Mariposa Health Center for conversion to a medical use. This sale is not comparable to the subject and included for informational purposes only.

Lastly, *Comparable 5-N* is the listing of 1,130 square foot, freestanding building located on Grand Avenue, south of Mariposa Road. As mentioned earlier in this report, the property was originally built as El Taco and later occupied for retail use. The long-time tenant, a florist, recently vacated. The asking price is $350,000 or $309.73 per square foot. It has been on the market for only about two months.

The preceding sales are intended to illustrate price levels for restaurant properties in Nogales. Though it is difficult to compare these to the subject property, their unit prices provide support to the value conclusions in this appraisal.

Using paired sales, the amount that the adjacent property owner may be willing to pay for the subject property to ensure continued use of the drive-thru, and potentially retain Carl's Jr. as a tenant, is equal to the difference between the value of the leased fee interest of $1,525,000, which includes the subject property, and the value of $838,750, which excludes the subject property and the Carl's Jr. lease. This difference equals $686,250, rounded to $686,000.

OPINION OF CONTRIBUTORY VALUE OF THE SUBJECT PROPERTY USING THE SALES COMPARISON APPPROACH, EXCLUDING PERSONAL PROPERTY……………………………$686,000

Reconciliation

Based on preliminary plans for road improvements along Mariposa Road and the construction of new flyover ramps on State Route19B, the subject property was acquired by ADOT. The initial plans included 6,892 square feet of land and showed the new right of way slicing through a corner of the playground, eliminating a segment of the drive -thru and including other site improvements such as paving, parking and fencing. In addition to those improvements within the acquisition area and severance damages, the owner of the Carl's Jr. property was paid for the depreciated value of the *entire* playground of 896 square feet. The owner was also paid to relocate the monument sign and freeway sign.

This was a design-build project and once the project was completed it was determined that the impact on the Carl's Jr. property was not nearly so severe. Only 345 square feet of land at the southwest corner was needed. Nonetheless, the property, which is the subject of this appraisal report, is currently owned by ADOT, but Carl's Jr. continues to use the property and all improvements as originally designed.

From a practical standpoint, there are only two potential buyers: either the owner of the Carl's Jr. property or the franchise operator. Independent of the property adjacent north, the subject property lacks legal access. In addition, it has a long, narrow shape and is quite small with only 6,547 square feet. Though the signage might be useful to another business, ADOT does not technically own the signs and does not have the right to sell them. Thus, as described throughout this appraisal, the value of the subject property is based on the contributory value of the property as a whole.

All three traditional approaches to value have been used. Except for the Cost Approach, the valuations effectively measure the decline in value of the Carl's Jr. property without the drive-thru and without the lease. The theory being that without the subject property, and particularly without the drive-thru window, Carl's Jr. would exercise their right to immediately terminate their lease and vacate the building. This would leave the property owner with a vacant fast-food restaurant building with no drive-thru window. Though it could be re-leased to a local operator as a sit-down restaurant, the value without the Carl's Jr. lease is substantially lower. Variations of the Income Approach and Sales Comparison Approach demonstrate this difference and attempt to measure the amount of money the adjacent property owner would be willing to pay for the subject property in order to retain the drive-thru window and Carl's Jr. as a tenant.

Below are the results of these analyses.

Cost Approach	$226,000
Income Approach	$312,000 to $805,000
Sales Comparison Approach	$686,000

The Cost Approach is simply the depreciated value of the improvements plus the contributory of the land. It does not consider any premium the adjacent property would likely pay in order to retain Carl's Jr. as a tenant. The Cost Approach is given least weight in this analysis.

The Income Approach and the Sales Comparison Approach are used to measure the decline in value that results if Carl's Jr terminates their lease immediately. In each approach the base value is equal to the current market value of the leased fee interest in the Carl's Jr. property, which includes the subject property and the drive-thru lane. This current value is based on the terms of the existing lease. The capitalization rate is developed from comparable sales and specifically considers the quantity, quality and durability of the income stream based on the Carl's Jr. lease and location of the property in Nogales. This base value is then compared to the values opined for the property if it were vacant and available in the marketplace. The so-called "after" values are developed using two different methodologies in the Income Approach and using paired sales in the Sales Comparison Approach.

In the Income Approach, direct capitalization is applied by developing a market rent, deducting appropriate expenses and capitalizing the net income. While this approach is reasonable, and one commonly used in the appraisal industry, the input variables including the estimates of market rent and capitalization rate are not particularly well supported due to a lack of data in the Nogales market. Nonetheless, this approach results in an estimated "after value" of $720,000, or $190.38 per square foot. The difference between the leased fee value of $1,525,000 and the "after" value of $720,000 results in an indicated value of $805,000 for the subject property.

A second method of valuation considers the present value of the potential lost income due to the immediate termination of the Carl's Jr. lease. This is simply the present value of the difference in the contract rent and market rent over the 3 years and 2 months that remain on the initial term of the lease. In addition, the costs of lease-up are added. The result of $312,000 is the total loss of income that the owner of the Carl's Jr. property would potentially incur if Carl's Jr. were to vacate. And, theoretically, it is the amount the adjacent property may be willing to pay to purchase the subject property in order to preclude this from happening. However, it does not consider the three, 5-year options to renew that are in the lease and the potential of retaining Carl's Jr. beyond the initial lease term. Furthermore, it assumes a lease-up in 6 months which may or may not be realistic. Thus, the indication of value of $312,000 sets a lower limit of value for the subject property.

Lastly, paired sales were used to develop market derived changes in values of fast-food restaurants that are leased on a long-term basis to credit tenants versus ones that are vacant. These comparisons resulted in an estimated decline in value of 45% which resulted in an indicted value of the subject property of $686,000.

Conclusion:

There is a fairly large range between the indicated values. The value conclusion of $226,000 developed through the Cost Approach does not consider the potential impact that the subject property has on the value of the Carl's Jr. property. The Cost Approach is given little weight.

The adjacent property owner's motivation to purchase, and the amount he may be willing to pay, depends, in large part, on his ability to negotiate a lease extension with Carl's Jr. And understanding the likelihood of renewal depends on the profitability of the restaurant, which has not been disclosed.

Thus, disregarding the value indication through the Cost Approach and due to the number of variables in the Income Approach, greater weight is given to the Sales Comparison approach. Thus, the value of the subject property is estimated to be $675,000.

OPINION OF CONTRIBUTORY VALUE OF THE
SUBJECT PROPERTY, EXCLUDING PERSONAL PROPERTY........................$675,000

The preceding valuation excludes a total of $212,671 of compensation paid to the property owner for personal property ($22,766), the playground ($51,218) and costs to cure ($138,687), most of which was for relocation of the freeway sign.

Exposure Time / Marketing Time

Exposure time is the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market.

The exposure times of the sales ranged from not actively marketed to less than six months. Given the location and demand for industrial uses, the exposure time is projected to be 3 to 6 months.

Marketing time differs from exposure time. It is defined as “the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal.” In a market that is trending downward, the marketing time is often longer than the exposure time.

From a practical standpoint, there are only two potential buyers for the subject property: the adjacent property owner and the franchisee, Carl’s Jr. Thus, the exposure time and marketing time are one to three months. If a sale cannot be negotiated, the exposure time/marketing time could be forever.

Project Influence

The valuation of the subject property is made in “as is” condition. Influences of the completed project have been considered.

Auditing Breakdown

Market Value of the Subject Property for Disposal $675,000

Certificate of Appraiser

Project Number: H8045 01D

Parcel Number: Portion of 12-0554

I hereby certify:

That I personally inspected the property herein appraised, and that I have afforded the property owner the opportunity to accompany me at the time of inspection. Beverly Weissenborn made a personal field inspection of each of the comparable sales relied upon in making said appraisal. The subject and the comparable sales relied upon in making the appraisal were as represented by the photographs contained in the appraisal.

That I have given consideration to the value of the property the damages and benefits to the remainder, if any; and accept no liability for matters of title or survey. That, to the best of my knowledge and belief, the statements contained in said appraisal are true and the opinions, as expressed therein, are based upon correct information; subject to the limiting conditions therein set forth.

That no hidden or unapparent conditions of the property, subsoil, or structures were found or assumed to exist which would render the subject property more or less valuable; and I assume no responsibility for such conditions, or for engineering which might be required to discover such factors. That, unless otherwise stated in this report, the existence of hazardous material, which may or may not be present in the property, was not observed by myself or acknowledged by the owner. This appraiser, however, is not qualified to detect such substances, the presence of which may affect the value of the property. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

That my analysis, opinion, and conclusions were developed and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.

That this appraisal has further been made in conformity with the appropriate State and Federal laws, regulations, policies and procedures applicable to appraisal of right of way for such purposes; and that, to the best of my knowledge, no portion of the value assigned to such property consists of items which are non-compensable under the established laws of said State.

That I understand this appraisal may be used in connection with that acquisition of right of way for a highway to be constructed by the State of Arizona with the assistance of Federal aid highway funds or other Federal funds.

That neither my employment nor my compensation for making the appraisal and report are in any way contingent upon the values reported herein.

That I have no direct or indirect present or contemplated future personal interest in the property that is the subject of this report, or any benefit from the acquisition of the property appraised herein.

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

That I have not revealed the findings and result of such appraisal to anyone other than the property officials of the Arizona Department of Transportation or officials of the Federal Highway Administration, and I will not do so unless so authorized by property State officials, or until I am required to do so by due process of law, or until I am released from this obligation by having publicly testified as to such findings.

That I am Certified General Real Estate Appraiser #30125 in the State of Arizona and meet the requirements of A.R.S. 32-3603.

That my opinion of the MARKET VALUE of the subject property as of October 31, 2023, based upon my independent appraisal and the exercise of my professional judgment, is as follows:

OPINION OF MARKET VALUE OF THE SUBJECT PROPERTY $675,000

Date: February 12, 2024

Signature: ______________________

Beverly Weissenborn, MAI
Certified General Real
Estate Appraiser #30125

Certification

THE APPRAISER CERTIFIES TO THE BEST OF MY KNOWLEDGE AND BELIEF:

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

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

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

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

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

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

My analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation.

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

No one provided significant professional assistance to the person(s) signing this report. All conclusions and opinions concerning the real estate that are set forth in the appraisal report were prepared by the Appraiser whose signature appears on the appraisal report, unless indicated as "Review Appraiser."

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 the Standards of Professional Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice (USPAP).

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

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

I have not provided appraisal services on the subject property within three years prior to accepting this assignment.

Beverly Weissenborn, MAI
Certified General Real
Estate Appraiser #30125

Qualifications of Beverly Weissenborn, MAI

Formal Education:

Bachelor of Science Degree in Business Administration, Northern Arizona University, 1980. Concentration: Finance.

Professional Affiliations:

Member of the Appraisal Institute, (MAI), Certification Number 8972. I have completed the requirements under the continuing education program of the Appraisal Institute. Currently certified through December 31, 2026.

Arizona Certified General Real Estate Appraiser Number 30125. Currently certified through August 31, 2024.

President, Southern Arizona Chapter of the Appraisal Institute, 2004

Member, Board of Directors, Southern Arizona Chapter of the Appraisal Institute, 2005-07 and 2021-2023

Appointment to the Arizona State Board of Equalization; March 2007 to current

Current Member of IRWA (International Right-of-Way Association), Saguaro Chapter #73

Professional Experience:

2014 to current:	Co-Owner, Weissenborn Appraisal, LLC
2005 – 2013:	Partner, Burke Weissenborn, LLC
1982 – 2005:	Associate Appraiser with Southwest Appraisal Associates, Inc.

Experience includes valuation of most types of real property: vacant land, subdivisions, multi-family residential, commercial and industrial. Experience also includes valuation of complex properties, flood prone properties, easements, leased fee and leasehold estates. Geographical areas of experience include Southern Arizona, specifically Pima, Pinal, Santa Cruz, Cochise, Graham, Greenlee, La Paz and Yuma Counties. Areas of experience also outside of Southern Arizona include Gila County, Navajo County, Apache County, Coconino County and rural Maricopa County.

Professional Education:

Successful completion of all courses related to the MAI designation given by the American Institute of Real Estate Appraisers or The Appraisal Institute between 1982 and 1991. Successful completion of the Comprehensive Examination for the MAI Designation, February 1991.

Recently attended courses and seminars given by the Appraisal Institute:

Highest and Best Use Applications, June 1996
Litigation Skills for the Appraiser: An Overview, April 1997
Acquisitions & Appraisals of State Lands, April 1998
Attacking & Defending an Appraisal in Litigation, January 2000
Partial Interest Valuation – Undivided, March 2000
Conservation Easements – June 2001
Appraisal Consulting – October 2003
Reappraising, Readdressing and Reassigning Appraisals – May 2005
Scope of Work – May 2005
Case Studies in Commercial Highest and Best – May 2007
Condemnation Appraising: Advanced Topics & Applications - March 2008
Appraisal Curriculum Overview - January 2009
Litigation Appraising; Specialized Topics and Applications, April 2011
Fundamentals of Separating Real Property, Personal Property & Intangible Business Assets – March 2012
Appraising the Appraisal; Appraisal Review-General – September 2012
Complex Litigation Appraisal Case Studies – March 2013
Business Practices and Ethics – August 2016 and June 2020
Advanced Land Valuation: Sound Solutions to Perplexing Problems – August 2017

Uniform Standards of Professional Appraisal Practice – 15 Hours, January 2004
Uniform Standards of Professional Appraisal Practice – 7 Hours, December 2021
Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book), 15 hours: April 2007, May 2017

Recently attended courses and seminars:

International Right of Way Association (IRWA):
Eminent Domain & Right-of-Way Symposium, October 2010
Ethics and the Right-of-Way Profession, April 2011

Gallagher & Kennedy / Jennings, Strouss Salmon:
Commendation Summit XXII, October 2019
Commendation Summit XXV, May 2018
Condemnation Summit XXVI, October 2021
Condemnation Summit XXVII, May 2022 (presenter)
Condemnation Summit XXIX, May 2023 and Oct. 2023

American Society of Farm Managers and Rural Appraisers:
Spring Ag Forum, annually 2010 through 2022

Expert Witness:

State of Arizona v. Guwnig Investment Group Limited Partnership, Commerce Bank of Arizona, Cool Car Wash, Pima County Treasurer, Superior Court of the State of Arizona Testimony in Order to Show Cause Case No. C20182502, June 2018

United States v. 400 acres of land in Lincoln County, State of Nevada, and Jessie J. Cox, et al., Deposition, June 2018; Expert Witness testimony February 2020, United States District Court for the District of Nevada

Goodeagle, et al., vs. United States of America; *Bear, et al., vs. United States of America*; and *Quapaw Tribe of Oklahoma vs. United States of America*; Deposition, July 2016

The Chickasaw Nation and The Choctaw Nation vs. The Department of Interior; Deposition, April 2015

Department of Insurance and Financial Institutions

State of Arizona

CGA - 30125

This document is evidence that: **BEVERLY K WEISSENBORN** has complied with the provisions of Arizona Revised Statutes, relating to the establishment and operation of a:

Certified General Real Estate Appraiser

and that the Deputy Director of Financial Institutions of the State of Arizona has granted this license to transact the business of a:

Certified General Real Estate Appraiser

BEVERLY K WEISSENBORN

This license is subject to the laws of Arizona and will remain in full force and effect until expired, surrendered, revoked or suspended as provided by law.

Expiration Date : **August 31, 2024**

ADDENDA

#349

LAND AND BUILDING LEASE

by and between

CARL KARCHER ENTERPRISES, INC.

a California corporation, as Lessee

and

VENTURA PACIFIC CAPITAL GROUP IX,

a California limited partnership, as Lessor

For the Property located at:

800 West Mariposa Road

in

Nogales, Arizona

This document shall not have, nor be construed as having, any binding effect on the parties unless fully executed by the Lessee and Lessor and a fully executed copy is delivered to the Lessor.

LEASE AGREEMENT EXHIBITS

iv

#7107

LAND AND BUILDING LEASE

THIS LAND AND BUILDING LEASE ("Lease") is made and entered into as of March 13, 1997, ~~1996~~, by and between VENTURA PACIFIC CAPITAL GROUP, IX, a California limited partnership ("Lessor") and CARL KARCHER ENTERPRISES, INC., a California corporation ("Lessee").

1. DESCRIPTION OF PREMISES

Lessor hereby leases to Lessee, and Lessee hereby hires and takes from Lessor:

(i) That certain real property located at 800 West Mariposa Road, Nogales, Arizona, more fully described in attached Exhibit "A" and incorporated herein by reference ("Property"), and as shown on the Site Plan attached hereto as Exhibit "B", incorporated herein by reference;

(ii) all buildings, structures, and other improvements of every kind (including, but not limited to, alleyways, drive-thru lanes and related improvements, sidewalks, utility pipes, conduits and lines, signs and sign structures, parking areas and roadways) presently situated upon the Property (collectively "Improvements"); and

(iii) all permanently affixed machinery, and other items of real property, including all components thereof, now and hereafter located in, on or used in connection with, and permanently affixed to or incorporated into the Improvements and which is the property of Lessor, including, without limitation, all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus (other than individual units and grill or fryer hoods), sprinkler systems and fire and theft protection equipment, together with all replacements, modifications, alterations and additions thereto;

(all collectively referred to as "Premises"), for the term, at the rental, and upon all of the terms, covenants, and conditions set forth in this Lease.

For all purposes of this Lease, including all time requirements, the "date hereof," or any other reference to the date of this Lease, shall be the date first set forth above.

2. **TERM**

The term of this Lease shall commence on March 17, 1997 and continue until December 31, 2016.

3. **BASE RENT**

Lessee shall pay as fixed rental ("Base Rent") for the Premises during the Term hereof the sum of Seven Thousand One Hundred Sixty-Six Dollars and Sixty Six Cents ($7,166.66) per month. The Rent shall be paid in advance on the first day of each month, partial months being prorated based upon a thirty (30) day month. Except as otherwise provided herein, the first Rent payment shall be made upon the first day of the first full calendar month following the commencement of the term of this Lease ("Rent Commencement Date"); provided, however, in the event that the Term of this Lease commences on the a day other than the first day of the month, the minimum monthly rent for the first such fractional month of the Term of this Lease shall be prorated in proportion to the number of days of Lessee's tenancy during said fractional month bears to thirty (30) days and shall be payable on the first day of the following month.

The Rent shall be increased every five (5) years during the Term hereof beginning on the sixth (6th) anniversary of the first day of the first full calendar month following the Commencement Date and continuing every five years thereafter, as follows:

LEASE YEARS	MONTHLY BASE RENT
6 through 10	$ 7,883.34
11 through 15	$ 8,671.67
16 through 20	$ 9,538.84

4. **USE OF THE PREMISES**

The Premises shall be used for a restaurant business or for any other lawful purpose. Lessee agrees to comply with all applicable laws, rules, regulations, and ordinances of every governmental body or agency whose authority extends to the Premises, or to any business conducted upon the Premises.

5. **TRADE FIXTURES**

Lessee may place upon the Premises its inventory, movable fixtures, trade fixtures, furniture, machinery, and equipment (collectively "Equipment"). Any such Equipment installed by Lessee in or upon the Premises, no matter how affixed, during the Term may be removed at any time during the term of this Lease or any extension thereof and for a period of thirty (30) days after the termination of the Lease; provided Lessee shall repair any damage caused to the Premises by the removal of the Equipment, normal wear and tear to the Premises excepted.

6. ALTERATIONS AND REPAIRS

6.1 Subject to the provisions of Section 6.3 below, from and after the commencement of the Term of this Lease, Lessee shall at its expense, maintain the Premises and the Improvements thereon, in the same condition in which they were received, reasonable wear and tear, depreciation, damage and loss from the elements, loss covered by insurance, and other occurrences beyond the reasonable control of Lessee excepted. Lessee shall maintain the Premises in a clean and sanitary condition, in accordance with all applicable state, city, and county health and sanitation laws and ordinances, and as directed by the applicable governmental officials during the Term of this Lease; provided, however, any alteration, repair, or change which may be required by law, regulation or rule, or resulting from non-compliance by Lessor with the terms of this Lease shall be the sole responsibility and done at the expense of Lessor.

6.2 Lessee, at its sole cost and expense, without Lessor's consent, shall have the right to construct structural, except as provided in the next sentence, and nonstructural upgrades, changes, modifications, remodels or alterations ("Alterations") to the interior and exterior of the Premises. Lease may not make structural alterations within the last two (2) years of the Term without Lessor's prior written consent. Lessee shall not make structural Alterations until complying with the following:

A. Lessee shall provide Lessor with ten (10) days' written notice stating the date of the commencement of the Alterations to enable Lessor to post and record an appropriate notice of non-responsibility.

B. Lessee shall acquire the approval of all appropriate government agencies and, where applicable, receipt of all permits and authorizations.

6.3 Notwithstanding anything to the contrary in Section 6.1, for any single repair or replacement costing in excess of five thousand dollars ($5,000) made to the Premises during the last two (2) years of the Lease Term or any extensions thereof (as the case may be), Lessee shall pay only a proportion of such repair cost, which proportion shall be calculated in the following manner: A fraction, the numerator of which shall be the number of full months remaining in the Lease Term, and the denominator of which shall be the number of months of the extended useful life of the item repaired or replaced, shall be multiplied by the cost of the repair or replacement. The resulting product shall be the amount of the cost of such repair or replacement paid by Lessee. The remainder of such cost shall be borne by Landlord. For example, if the cost of a repair to the electrical system was $10,000, and the remaining full months of the Lease Term were 20 and the useful life of the electrical system unit was 120 months, Lessee's share of the repair cost would be 20/120 x $10,000 or $1,666.67. If the parties cannot mutually agree upon the life of the item for which the costs were incurred, then the parties agree that the life of said item shall be determined in accordance with the

Rules of the American Arbitration Association and such determination shall be binding upon the parties hereto. In the event that the provisions of this Section 6.3 are applied during the initial term of this Lease and subsequent to the application of such provisions, Lessee exercises its option to extend the initial term of this Lease, Lessee, upon the commencement of the extended term, shall pay Lessor the difference between (i) the entire cost of the repair or replacement for which the provisions of this Section were applied and (ii) the amount previously paid by Lessee for such repair or replacement as a result of the application of the provisions of this Section.

7. SURRENDER OF IMPROVEMENTS.

Subject to the provisions of Section 6.3 hereof, all Alterations, made on the Premises shall be the property of Landlord and shall be surrendered with the Premises upon the expiration of the Term, as extended. The Premises shall be surrendered to Landlord in the same condition as received by Tenant, reasonable wear and tear excepted and except for the addition of the Alterations. Tenant shall leave the heating, ventilation and air conditioning systems, power panels, electrical systems and plumbing in good operating condition and the fences and landscaping in good condition. The Equipment shall remain at all times the property of Lessee and may be removed by Lessee as provided in Section 5.

8. TAXES

8.1 In addition to the rent set forth above, Lessee shall pay all of the real and personal property taxes levied or assessed against the Premises thereon for any period, all of which is included in the term of this Lease, and also its prorata share of all such taxes levied or assessed thereon for any period, part of which is included in the term of this Lease. Lessee shall also reimburse Lessor, on a monthly basis, for the amount of the privilege or excise tax, imposed by the State of Arizona, on Rent paid by Lessee hereunder. Upon at least fifteen (15) days written request from Lessee, Lessor will provide Lessee with copies of privilege tax returns, for periods within the Term hereof, and evidence of payment of tax liabilities reported therein. Lessee shall not be liable for any penalty or interest assessed or accruing on account of any failure by Lessor to timely and accurately file such returns and pay such taxes.

This Section shall not be deemed or construed to require Lessee to pay or discharge any tax which may be levied by any governmental authority upon the net income, profits, or business of Lessor, or any personal property taxes, franchise, inheritance or estate bases, or taxes upon inheritance or right of succession which may be levied against any estate or interest of Lessor, even though such taxes shall become a lien against the Premises.

8.2 Lessor agrees that Lessee shall have the right, at Lessee's sole cost and expense, to contest the legality or validity of any of the taxes which are to be paid by Lessee pursuant to the foregoing provisions, and in the event of any such contest, failure on the part of Lessee to pay any such tax, prior to the delinquency date thereof shall not constitute a default hereunder. Lessee, upon the final determination of such contest, shall immediately pay and discharge any judgment rendered against it, together with all costs and charges incidental thereto. Lessor further agrees at the request of Lessee, to execute, or join in the execution of any instrument or documents necessary in connection with any such contest, but at no expense to Lessor.

8.3 Lessor agrees either (i) to forward to Lessee in a timely fashion the periodic statements for taxes contemplated in Section 8.1 above, or (ii) to join with Lessee in the necessary formalities to insure that such statements are sent directly to Lessee. If tax statements are sent to Lessor, failure of Lessor to provide Lessee with the subject tax bill within 180 days after the delinquency date of any such tax bill shall thereafter relieve Lessee of any responsibility whatsoever for the payment of such taxes.

9. MECHANICS' LIENS

Lessee agrees to keep the Premises free from the claims of persons who, at the request of Lessee, furnish labor or material to or for the benefit of the Premises. Lessor at any time may post and keep posted on the Premises appropriate notices to protect Lessor against the claims of persons who, at the request of Lessee, furnish labor or materials to or for the benefit of the Premises.

10. UTILITIES

Lessee shall pay, prior to the delinquency, all charges for utilities used on the Premises during the term of this Lease.

11. ASSIGNMENT; SUBLETTING

11.1 Lessee shall have the right to assign, hypothecate, or mortgage this Lease, or sublet the Premises or any portion thereof, without the consent of Lessor, including any assignment or sublease:

A. To any corporation with which Lessee may merge or consolidate, which acquires all or substantially all of the shares of stock or assets of Lessee or which is a parent or subsidiary of Lessee, or which is the successor corporation in the event of a corporate reorganization; or

B. To any person, entity, partnership, or corporation which acquires a majority of Lessee's restaurants, or a majority of Lessee's restaurants in the state in which the Premises are located; or

C. To a franchisee of Lessee; or

D. To a nationally or regionally known restaurant chain, including, but not limited to, McDonald's, Wienerschnitzel, Burger King, Wendy's, Taco Bell, In-and-Out Burger, Hot-N-Now, Jack-in-the-Box, Whataburger, Hardee's, El Pollo Loco, or Del Taco.

11.2 Any such assignment or sublease shall not relieve Lessee of liability under this Lease unless expressly approved in writing by Lessor.

11.3 No sublessee can assign or further sublet its subleasehold interest without Lessor's prior written consent.

12. INDEMNITY AND INSURANCE

12.1 During the Term of this Lease and any extensions thereof, Lessee agrees to indemnify and hold Lessor harmless from and against any and all claims arising from any act or omission due to the sole negligence of Lessee or its contractors, licensees, agents, servants, or employees arising from any accident, injury, or damage whatsoever caused to any person or property occurring in, on, or about the Premises, or any part of them, and from and against all costs, expenses, and liabilities incurred in or in connection with any such claim or proceeding brought thereon, except that Lessor shall be liable to Lessee for damage resulting from the gross negligence or wilful misconduct of Lessor or its representatives. Lessor shall indemnify and hold Lessee harmless from all damages arising out of any such gross negligence or wilful misconduct.

12.2 Lessee shall maintain in full force during the Term of this Lease a policy or policies of comprehensive general liability insurance, including property damage, covering the Premises and their use and occupation by Lessee, insuring against liability for injuries to persons and property and for death of any person or persons occurring in or about the Premises. The liability under such insurance shall be not less than Two Million Dollars ($2,000,000.00) for any one occurrence, and in the aggregate. Lessee shall to name Lessor as an additional insured, as its interests may appear, and shall furnish Lessor with a certificate of insurance.

12.3 During the Term, Lessee shall, at its own expense, maintain in full force a policy or policies of full standard fire, extended coverage, and vandalism insurance under Lessee's blanket insurance policy covering the Improvements in an amount equal to onehundred percent (100%) of the replacement cost of the Improvements, subject to any deductible as determined by Lessee. Lessee shall name Lessor as additional insured, as its interest may appear, on such policies.

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12.4 Lessee and Lessor each hereby waives any and all rights to recover against the other, or against the officers, employees, agents, and representatives of the other, for loss of or damage to such waiving party or its property or the property of others under its control, where such loss or damage is insured against under any insurance policy in force at the time of such loss or damage. Each party shall cause each insurance policy obtained by it hereunder to provide that the insurance company waives all of its rights of recovery by way of subrogation against either party in connection with any damage covered by such policy.

13. DAMAGE OR DESTRUCTION

13.1 If, during the Term, the Improvements shall be partially or totally destroyed from a risk covered by the insurance described in Section 12, rendering the Improvements totally or partially inaccessible or untenable, the Improvements shall be restored by Lessee to substantially the same condition they were in immediately prior to the destruction, except to the extent Lessee's current plans for its restaurant differ, and Lessee shall restore the Improvements in accordance with the then current construction plans and specifications.

Lessee shall utilize the insurance proceeds paid or to be paid to physically restore the Improvements. Lessee agrees that the restoration shall be performed in a good and workmanlike manner. Except as otherwise provided below, such destruction shall not terminate this Lease. Lessor shall bear the cost of restoration which exceeds the amount of the insurance proceeds. If the existing laws at the time of restoration do not permit restoration, either party may terminate this Lease immediately by giving notice to the other party.

13.2 If, during the Term, thirty percent (30%) or less of the replacement value of the Premises are totally or partially destroyed from a risk not covered by the insurance described in Section 12, Lessee shall physically restore the Premises to substantially the same condition as they were in immediately prior to the destruction, except to the extent Lessee's current plans for its restaurant differ. Such destruction shall not terminate this Lease. Lessor and Lessee shall bear the cost of restoration equally by depositing their one-half portion of the restoration costs with an independent escrow holder, with said funds held in trust. Lessee shall be reimbursed for such restoration by a voucher type system administered by the escrow holder. If the existing laws do not permit the restoration, either party may terminate this Lease immediately by giving notice to the other party.

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13.3 If the cost of the restoration exceeds thirty percent (30%) of the replacement value of the Premises destroyed by a risk not covered by insurance, Lessee may elect to terminate the Lease by providing a thirty (30) day written notice to Lessor; provided, however, that if Lessor elects to promptly repair, restore, or reconstruct the Premises to substantially its previous condition, at Lessor's sole cost and expense, then this Lease shall not be terminable by Lessee, but rents called for hereunder shall be abated until such repairs, restoration, or reconstruction is completed. Should Lessee elect not to terminate this Lease, then Lessee shall physically restore the Premises and proceed in accordance with Section 13.3 herein, with Lessor and Lessee bearing the cost of such restoration equally.

13.4 In the event the Premises shall be partially or totally destroyed from a risk covered or not covered by the insurance described in Section 12 within the last five (5) years in the original Term of the Lease, Lessee may, at its election, by giving thirty (30) days' written notice following the partial or total destruction of the Premises, terminate the Lease.

13.5 In the event the Premises are damaged to the extent that they cannot be fully restored and are no longer reasonably suitable for the normal conduct of Lessee's business as carried on prior to said damage, and despite such damage Lessee elects to continue occupancy, then Lessor agrees that within thirty (30) days after completion of the partial restoration, there shall be an equitable adjustment in the Rental for the remainder of the Term, taking into account the impact on Lessee's normal conduct of business and diminished profits resulting therefrom.

13.6 During any restoration period to repair damage or destruction under this Section 13, an equitable reduction in the Rental shall be made in recognition of the interference with Lessee's normal conduct of business and loss of profit resulting therefrom.

13.7 In the event that the restoration as provided under this Section 13 is not capable of being completed within a period of nine (9) months from the date of damage, then Lessee, at its option, may terminate this Lease upon the giving of ten (10) days' written notice to Lessor of its intention to do so, provided that Lessee releases any claim to insurance proceeds provided for in Section 12 herein.

14. CONDEMNATION OF LEASED PREMISES

14.1 Should any public or quasi-public authority or private corporation or individual having the power of condemnation ("Condemnor") exercise any governmental power, whether by legal proceedings or otherwise or by a voluntary sale or transfer by Lessor to any Condemnor under threat of condemnation or other legal proceedings for condemnation ("Condemnation") against the Premises during the Term, the rights and obligations of the parties shall be determined pursuant to this Section 14. If the Premises are totally taken by Condemnation, the Lease shall terminate on the date the Condemnor has the right to possession of the Premises ("Date of Taking"). Should a phased condemnation occur, Lessee may terminate at the point Lessee's business is substantially prevented or impaired.

14.2 Lessee shall have the right to elect to terminate the Lease should a Condemnor by Condemnation acquire any of the following:

A. Any portion of the restaurant facility and/or drive-thru;

B. In excess of ten percent (10%) of the parking spaces within the Premises;

C. Any taking of the Premises, or adjacent streets, highways or properties that would reasonably be anticipated to substantially diminish Lessee's business or any taking for which Lessee would not thereafter be in conformance with governmental ordinances.

14.3 If Lessee elects to terminate this Lease, Lessee must exercise its right to terminate pursuant to this Section by giving notice to Lessor within ninety (90) days after the nature and extent of the taking has been ascertained. The effective date of the termination shall be the Date of Taking.

14.4 If the Lease is terminated, the Rental and all other obligations of Lessee shall be prorated to the Date of Taking and Lessor shall pay to Lessee the Rent and any other payments made by Lessee for any period beyond the Date of Taking.

14.5 If any portion of the Premises is taken by Condemnation and this Lease remains in full force and effect, then on the Date of Taking the following shall occur:

A. The Rental and other obligations of Lessee hereunder shall be reduced for the remainder of the Term in the same proportion that the number of square feet of the Premises so taken bears to the original number of square feet in the Premises.

B. Lessor shall promptly restore the Premises to a condition substantially similar to that which existed prior to the Condemnation. The restoration shall be subject to and shall be performed in accordance with the provisions of Section 13 hereof. Lessee shall be entitled to a reasonable suspension or diminution of the Rent and any other monetary obligation to be paid during the time required by Lessor to restore the Premises, taking into consideration the time and extent of interference with Lessee's business.

14.6 All the compensation, sums or anything of value awarded, paid, or received on a total or partial Condemnation ("Award") shall belong to and be paid to Lessor, except that Lessee shall receive from the Award the value of Lessee's Improvements to the Premises, cost of removal of and relocation of Lessee's Equipment, Lessee's leasehold interest in the Premises and Lessee's loss of goodwill. Chec w/ Ariz Att

14.7 Should the Premises be subject to Condemnation for a period of less than one (1) year, then this shall constitute a Temporary Condemnation, during which time all the provisions of this Lease shall remain in full force and effect, except that all Rental obligations and all other monetary obligations shall be abated or reduced to the extent to which the Condemnation interferes with Lessee's use of the Premises. Lessee shall be entitled to damages against the Condemnor if allowable or against the total Award for the interruption of Lessee's business and such other relief as provided by law.

14.8 Each party waives the provisions of any law allowing either party to petition a court to terminate this Lease in the event of a partial taking of the Premises.

15. COVENANT OF TITLE AND QUIET ENJOYMENT

Lessor covenants that Lessor is well seized of and has good title to the Premises, does warrant and will defend the title thereto, and will indemnify Lessee against any damage and expense which Lessee may suffer by reason of any lien, encumbrance, restriction or defect in the title or description herein of the leased Premises. If, at any time, Lessor's title or right to receive rent hereunder is disputed, or there is a change of ownership of Lessor's estate by act of the parties or operation of law, Lessee may withhold rent thereafter accruing until Lessee is furnished proof satisfactory to it as to the party entitled thereto. So long as Lessee is not in default under the terms of this Lease, Lessee shall have quiet enjoyment of the leased Premises during the entire term of the Lease and any extension thereof.

In the event that Lessor is not the fee owner of the Premises, Lessor shall obtain, as an express condition to the effectiveness of this Lease, a Non-Disturbance Agreement in a form acceptable to Lessee from the fee owner, which agreement shall be executed substantially in the form attached to this Lease as Exhibit "D" prior to the Commencement Date.

16. INTENTIONALLY OMITTED.

17. SUBORDINATION AND NON-DISTURBANCE

Lessee hereby agrees that this Lease shall be subject and subordinate to the lien of any mortgage or deed of trust which Lessor has already or may place upon the Premises and to all terms, conditions, and provisions thereof, to all advances made, and to any renewals, extensions, modifications, or replacements thereof. Provided, however, that Lessee will agree to such subordination only so long as the lender executes a non-disturbance agreement in a form acceptable to Lessee providing that if the Lease is in full force and effect and there are no defaults thereunder on the part of the Lessee, the right of possession of Lessee to the Premises and Lessee's rights arising out of this Lease shall not be affected or disturbed by the mortgagee, trustee, or beneficiary in the exercise of any of its rights under the mortgage, deed of trust or the note secured thereby, nor shall Lessee be named as a party defendant to any foreclosure of the lien of mortgage, or deed of trust nor in any other way be deprived of its rights under this Lease. In the event that the mortgagee, beneficiary, or any other person, acquires title to the Premises pursuant to the exercise of any remedy provided for in the mortgage or deed of trust, this Lease shall not be terminated or affected by said foreclosure or sale, or any such proceeding, and the mortgagee or beneficiary shall agree that any sale of the Premises pursuant to the exercise of any rights and remedies under the mortgage, deed of trust or otherwise, shall be made subject to this Lease and the rights of the Lessee hereunder. Lessee agrees to attorn to the mortgagee, beneficiary or such other person as its new landlord, and the Lease shall continue in full force and effect as a direct Lease between Lessee and mortgagee, beneficiary or such other person, upon all the terms, covenants, and agreements set forth in this Lease.

The parties hereto agree to execute or obtain execution of such reasonable documents as may be necessary to effectuate such subordination, non-disturbance, and attornment.

In the event that Lessor has already placed a mortgage or deed of trust on the Premises or any part thereof prior to the commencement of the term of this Lease, Lessor shall obtain, as an express condition to the effectiveness of this Lease, a Non-Disturbance Agreement in a form acceptable to Lessee from any such mortgagee or beneficiary, which agreement shall be executed substantially in the form attached to this Lease as Exhibit "E".

18. WARRANTIES OF LESSOR

Lessor represents and warrants to and agrees with Lessee as conditions of this Lease that during the term of this Lease and any extensions hereof:

18.1 The Premises are zoned for use as a fast food restaurant with a drive-thru, and there are no easements, covenants, conditions, restrictions, rights of way of record or otherwise, governmental rules, statutes, ordinances, policies or plans, which would prohibit or materially interfere with the operation of a fast food restaurant with a drive-thru; and

18.2 Public water, telephone, electric power and natural gas services and sewers sufficient to handle the requirements of a self-sufficient retail fast food restaurant exist and are connected to the Improvements on the Premises; and

18.3 All taxes on the Premises, except current taxes not delinquent, have or will have been paid in full, prior to the commencement of the term of this Lease; and

18.4 Lessor is able to and will place Lessee in the peaceful and undisturbed possession of the Premises on commencement of the term hereof; and

18.5 Lessor is not in default under the terms and provisions of any ground lease, mortgage, or deed of trust placed upon or affecting the leased Premises; and

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18.6 Lessor warrants that no "Hazardous Materials," which shall include, but not be limited to, substances which are flammable, explosive, corrosive, radioactive, toxic, petroleum and petroleum products and any substances defined as hazardous substances, hazardous materials, toxic substances, or hazardous wastes in the Federal Comprehensive Environmental Response Compensation and Liability Act of 1980, the Federal Hazardous Materials Transportation Act, the Resource Conservation and Recovery Act, the Arizona Rivsed Statutes, all amendments to these laws and regulations adopted or publications promulgated pursuant to these laws, and shall also include those asbestos-containing materials defined and described in Environmental Protection Agency Report No. 56/5-85-024 (June, 1985) or any related or successor report, or other applicable governmental regulations defining or describing such materials, are presently located in, on or under the Premises including, without limitation, the subsurface soils and groundwater, have migrated to the Premises from another source, have been installed, used, generated, manufactured, stored, released or disposed of on, under or about the Premises by Lessor or any third person, nor has Lessor received any notice or communication regarding any alleged Hazardous Materials on or about the Premises and that the Premises is in compliance with all laws, ordinances, rules and regulations relating to any such Hazardous Materials. Should any Hazardous Materials for which Lessor is responsible (as described above) be found on the Premises during the term hereof, Lessor shall bear all costs for the removal of the Hazardous Materials and shall restore the Premises to substantially the same condition as they were in immediately prior to the removal.

Lessor agrees to indemnify, defend, and hold Lessee harmless from and against all claims, demands, losses, damages, clean-up costs, liabilities or judgments imposed against Lessee, including all interest, penalties, fines and other sanctions, any costs or expenses in connection therewith, including reasonable attorneys' fees and expenses arising out of or in connection with the breach or misrepresentation of the representations and warranties of Lessor set forth herein or the failure by Lessor to perform its warranties and representations set forth herein and for which suit is brought or claims asserted against Lessee.

Lessor shall immediately notify Lessee in writing of (i) any enforcement, cleanup, removal or other governmental or regulatory action instituted, completed or threatened pursuant to any Hazardous Materials Laws; (ii) any claim made or threatened by any person against the Lessor or tenants of the Premises or any building thereon relating to damage, contribution, cost recovery compensation, loss or injury resulting from or claimed to result from any Hazardous Materials; and (iii) any reports made to any environmental agency arising out of or in connection with any Hazardous Materials in or removed from any building within the Premises including any complaints, notices, warnings or asserted violations in connection therewith. Lessor shall also supply to Lessee as promptly as possibly, and in no event later than five (5) business days after Lessor first receives or sends the same, with copies of all claims, reports, complaints, notices, warnings or asserted violations relating in any way to any building or area of the Premises.

18.7 Lessor warrants that as of the date of execution of this Lease, it has no knowledge of any proposed Condemnation of all or any part of the Premises. Should any or a portion of the Premises be subject to a Condemnation action by Condemnor, which occurs prior to the Commencement Date of the Lease, then Lessee shall be under no obligation to commence or continue performing under the Lease, and all Rental and other obligations shall be abated until such time that Lessee can determine that the Premises shall not be affected by such Condemnation action.

19. RIGHT OF FIRST REFUSAL

19.1 If Lessor, or Lessor's heirs, executors, grantees, successors or assigns, at any time during the term of this Lease or any extension thereof, receives an offer to purchase the Premises, or any part thereof, and Lessor desires to accept said offer; or if Lessor during any such time make an offer to sell the Premises, or any part thereof, Lessor shall give Lessee twenty (20) days notice in writing of such offer setting forth the name and address of the proposed purchaser, the amount of the proposed purchase price, and all other terms and conditions of such offer, and Lessee shall have the first option to purchase the Premises which are the subject of the offer by giving written notice to Lessor of its intention to purchase within such twenty (20) day period at the same price and on the same terms of any such offer, it being understood that in the event Lessee does not give notice of its intention to exercise said option to purchase within said period, this Lease and all of its terms and conditions shall nevertheless remain in full force and effect and Lessor and any purchaser or purchasers of the Premises, shall be bound thereby. In the event that the Premises set forth in the offer are not sold for any reason, Lessee shall have, upon the same conditions and notice, the continuing right of first refusal to purchase the Premises or any part thereof upon the terms of any subsequent offer or offers to purchase.

19.2 Within thirty (30) days of the date of exercise of such option, Lessor will furnish to Lessee at Lessor's expense an ALTA title insurance policy from a company acceptable to Lessee, in its usual form, brought down to such date of exercise, guaranteeing Lessee against loss or damage to the extent of the purchase price by reason of defects in or liens upon Lessor's title, subject only to the usual exceptions contained in guaranty title policies of the issuing company. Settlement of the purchase price and conveyance to the Lessee shall be made within ninety (90) days from such date of exercise. Lessor shall pay for the premium for CLTA title coverage and Lessee shall pay for the premium for the extended, ALTA coverage. Taxes, utilities, rents, and other current expenses, shall be adjusted as of the date of settlement.

19.3 In addition, in the event of the exercise of such options, all monies shall be placed with an escrow agent of Lessee's designation and the settlement of the purchase price and the conveyance to Lessee shall take place in escrow.

19.4 In the event the foregoing option is exercised, Lessor shall convey a merchantable title in fee simple to said real estate by good and sufficient warranty deed, free from all encumbrances.

19.5 In the event there are any conflicts between the terms of this Lease concerning the exerc of the aforementioned option involving the right of first refusal, and the terms contained in the offer wh Lessee must accept if Lessee desires to purchase the Premises, then the terms of this Lease shall control a supersede those contained in such offer.

20. INSPECTION

Lessor may enter upon the Premises at any reasonable time (i.e., nonpeak business hours) and upon pr notification to Lessee for the purpose of inspecting the leased Premises. Lessor shall be permitted to place up the Premises any usual "For Lease" signs within sixty (60) days prior to expiration of the Lease.

21. WRITTEN CONSENT

Whenever the "prior written consent" of either Lessor or Lessee is referred to in this Lease, it understood and agreed that such consent shall not be unreasonably withheld by Lessor or Lessee, unle otherwise expressly stated. In the event the requested prior written consent is not received by the requestir party within thirty (30) days (or such shorter specified time frame) of receipt of said notice by the nonrequestir party, such consent shall be deemed to have been given.

22. INVESTMENT TAX CREDIT

Lessor expressly waives and relinquishes in favor of Lessee any rights to claim the benefit of or to us any federal or state investment tax credits that are currently or may become available during the Term of thi Lease as a result of any installation of any equipment, furniture or fixtures installed by Lessee in or on th Premises, whether or not such items become a part of the realty, and agrees to execute and deliver to Lessee an election form required to evidence Lessee's right to claim investment tax credits.

23. OPTION TO RENEW

As part of the consideration for the execution of this Lease, Lessor hereby grants to Lessee options to extend and renew this Lease for two (2) consecutive five-year terms upon the same terms and conditions hereof excluding Base Rent which shall be increased by fifteen percent (15%) for each such term as follows:

OPTION PERIOD	MONTHLY BASE RENT
FIRST OPTION PERIOD (if exercised)	[$10,969.67]
SECOND OPTION PERIOD (if exercised)	$12,615.12

Within thirty (30) days of Lessee's receipt from Lessor of written notice of the expiration date of the Term of the Lease or any renewal thereof, Lessee shall notify Lessor of its intent to exercise any said option period. Lessor shall forward said notice to Lessee at least three (3) months but no more than six (6) months prior to the expiration date of the Lease or any renewal thereof. Should Lessor fail to give Lessee notice as stated herein, the Lease shall automatically extend (unless voluntarily terminated by Lessee at the end of the original term or

D:\CKE\SB-Rest\Nogales\Lease.Fin 13 12/20/94 then applicable extension term) to allow Lessee the specified thirty (30) day time frame in which to exercise a option.

24. DEFAULT; LESSOR'S REMEDIES

24.1 The occurrence of any of the following shall constitute a default by Lessee:

A. Failure to pay rent when due if the failure continues for thirty (30) days after writt notice has been received by Lessee;

B. Failure to perform any other provisión of this Lease if the failure to perform is not cure within forty-five (45) days after written notice has been received by Lessee. If the default cannot reasonab be cured within forty-five (45) days, Lessee shall not be in default of this Lease if Lessee commences to cu the default within said forty-five (45) day period and thereafter diligently and in good faith continues to cu the default.

The purpose of the notice requirements set forth in subsections A and B above is to extend th notice requirements of the eviction statutes of the State of Arizona.

24.2 Lessor shall have the following remedies in case of Lessee's default:

A. Immediately re-enter upon and remove all persons and property from the Premises storing said personal property in a public warehouse or elsewhere at the cost of, and for the account of, Lessee No such re-entry or taking possession of the Premises by Lessor shall be construed as an election on its part to terminate this Lease unless a written notice of such intention is given by Lessor to Lessee.

B. Collect by suit or otherwise each installment of rent or other sum as it becomes due hereunder, or to enforce by suit or otherwise any other term or provision hereof on the part of Lessee required to be performed.

C. Cure such failure by Lessee for the account and at the expense of Lessee. All such payments made by Lessor shall be deemed to be additional rent under this Lease and shall become immediately due and payable.

24.3 Should Lessor re-enter and not elect to terminate this Lease, it may from time to time relet th Premises or any part thereof, as the agent and for the account of Lessee, either in Lessor' name or otherwise, upon such terms and conditions and for such period (whether longer than the balance of the Term hereof or not) as Lessor may deem advisable, in which event the rents received upon such reletting during the balance of the Term of this Lease or any part thereof shall be applied first to the expenses of reletting and collection (including reasonable attorneys' fees and any real estate commission actually paid) and, thereafter, toward payment of all sums due or to become due to Lessor hereunder; and if such rents shall not be sufficient to pay such sums, Lessee shall pay to Lessor monthly any deficiency.

24.4 Each and all of the remedies given to Lessor hereunder are cumulative. The exercise of on right or remedy by Lessor shall not impair its right to any other remedy.

25. DEFAULT; LESSEE'S REMEDIES

25.1 Lessor shall be in default of this Lease if it fails or refuses to perform any provision of t[illegible] Lease that it is obligated to perform if the failure to perform is not cured within thirty (30) days after notice the default has been given by Lessee to Lessor. If the default cannot reasonably be cured within thirty (30) day Lessor shall not be in default of this Lease if Lessor commences to cure the default within the thirty (30) d[illegible] period and diligently and in good faith continues to cure the default.

25.2 Lessee, at any time after Lessor commits a default, may cure the default at Lessor's cost. Lessee at any time, by reason of Lessor's default, pays any sum or does any act that requires the payment of an sum, the sum paid by Lessee shall be due immediately from Lessor to Lessee at the time the sum is paid, and if paid at a later date, shall bear interest at the maximum rate permitted by law to charge from the date the sum is paid by Lessee until Lessee is reimbursed by Lessor. If Lessor fails to reimburse Lessee as required by thi[s] Section, Lessee shall have the right to withhold from future rental due the sum Lessee has paid until Lessee i[s] reimbursed in full for the sum and interest thereon.

If all such indebtedness is not fully paid at the expiration of the original Term of this Lease o[r] any extension thereof, Lessee may, at its option, extend this Lease upon the same covenants and conditions as herein provided, until such indebtedness is fully paid by application of all rents thereto.

25.3 In addition, in the event of breach by Lessor of any covenants, warranties, terms or obligation under this Lease on Lessor's part to be performed, and Lessor fails to cure the same within thirty (30) days after written notice thereof by Lessee, Lessee may, at its option, terminate this Lease, whereupon all obligations of Lessee shall terminate forthwith.

26. SIGNS

In addition to existing sign space located at the Premises, to which Lessee shall have exclusive rights hereunder, Lessee shall have the right to affix signs to the windows and doors of the Premises of such sizes, colors, and designs as customarily used in other restaurants of Lessee. In addition, Lessee shall have the right to install or erect the maximum area of exterior signs as the City of Nogales permits.

27. MISCELLANEOUS

27.1 Binding on Successors. The provisions of this Lease shall be binding upon and shall insure to the benefit of the heirs, successors, assigns, and legal representatives of the parties hereto.

27.2 Captions. The captions and headings herein are for convenience and reference only and in no way define or limit the scope or content of this Lease or in any way affect its provisions.

27.3 Gender. Whenever the sense of this Lease so requires, the use of (1) the singular number shall be deemed to include the plural, (2) the masculine gender shall be deemed to include the feminine or neuter gender, and (3) the neuter gender shall be deemed to include the masculine or feminine gender.

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27.4 Qualification. Each party represents that it is authorized to do business in the state in which Premises are located and will remain so during the Term hereof, and in all respects is duly authorized to er into and perform this Lease.

27.5 Entire Agreement. This Lease embodies the entire agreement and understanding between parties and supersedes all prior negotiations, agreements and understanding between them, oral or written, a any provision of this Lease may be modified, waived or discharged only by an instrument in writing signed both parties hereto.

27.6 Net Lease. The parties intend this to be a "net, net, net" Lease, on the terms and to the exte provided herein.

27.7 Time of Essence. Time is of the essence in this Lease.

27.8 Notices. Any notice required or permitted hereunder shall be in writing and shall be personal delivered or sent by United States Certified Mail, return receipt requested, postage and fees prepaid, address as follows:

LESSOR: Ventura Pacific Capital Group IX,
Attention: Neno N. Spondello, Jr.
591 Los Angeles Ave
Moorpark, CA 93021

310-659-8989

Taxpayer Identification Number: ____________

LESSEE: Carl Karcher Enterprises, Inc.
1200 N. Harbor Boulevard
P. O. Box 4349
Anaheim, California 92803-4349
ATTN: Lease Administration Dept.

Either party hereto may from time to time change its notice address by written notice to the othe party.

28.8 Force Majeure. In the event that either party hereto shall be delayed or hindered in or prevented from the performance of any act required hereunder by reason of strikes, lock-outs, labor troubles, inability to procure materials, failure of power, restrictive governmental laws or regulations, riots, insurrection, was, military or usurped power, sabotage, terrorism, unusually severe weather, acts of God, fire or other casualty or other reason (but excluding financial inability) of a like nature beyond the reasonable control of the party delayed in performing work or doing acts required under the terms of this Lease, then performance of such act shall be excused for the period of the delay, and the period for the performance of any such act shall be extended for a period equivalent to the period of the delay.

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28.9 Legal Expenses. In the event of the bringing of any action by either party hereto against the ot heron or hereunder, or by reason of the breach of any term, covenant or condition on the part of the other pa or arising out of this Lease, the party in whose favor final judgment shall be entered shall be entitled to have a recover from the other party reasonable attorneys' fees to be fixed by the court which shall have rendered su judgment.

28.10 Waiver. The waiver by either party hereto of any term, covenant or condition of this Lease be performed by the other, shall not be deemed to be a waiver of any subsequent breach thereof.

28.11 Holding Over. In the event Lessee shall continue to occupy the Leased Premises after t expiration of the Term hereof, such holding over shall be deemed to have created a month-to-month tenan subject to all the terms, except rent, and conditions of this Lease. The Monthly Base Rent during such month-t month tenancy shall be one hundred twenty-five percent (125%) of the Monthly Base Rent in effect during t initial or option period of the Term just ended.

28.12 Applicable Law. The invalidity of unenforceability of any provision of this Lease shall not affe or impair any other provision. If any provision of this Lease is capable of two constructions, one of whic would render the provision invalid and the other of which would make the provision valid, then the provisic shall have the meaning which renders it valid. The laws of the State of Arizona shall govern the validit performance, and enforcement of this Lease. The submission of this document for examination does n constitute an offer to lease and becomes effective only upon execution and delivery thereof by Lessor ar Lessee.

28.13 Memorandum of Lease. Lessor and Lessee agree to execute a Memorandum of this Lease fc the purpose of recording in the form attached hereto as Exhibit "C", incorporated herein by reference. Suc Memorandum of Lease shall include but not be limited to Term, option periods, use restrictions, all rights tha Lessee may have over any property owned or controlled by Lessor (e.g., common area rights), and Lessee's rigł of first refusal to purchase.

28.14 Estoppel Certificate. Lessor and Lessee shall at any time and without charge or expense to th other party upon not less than ten (10) days prior written notice from the requesting party or mortgagee, execute acknowledge, and deliver a statement in writing (i) certifying that this Lease, as amended hereby, is unmodifiec and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as so modified, is in full force and effect) and the date to which the Rental and other charges are paid in advance if any, and (ii) acknowledging that there are not any uncured defaults of which the acknowledging party has knowledge, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upor by any prospective assignee, sublessee or encumbrancer of the Premises.

28.15 Brokerage Commissions. Lessor and Lessee each warrants and represents to the other that there are no brokers' or finders' fees or any real estate commissions due to any broker, agent or other party in connection with the negotiation or execution of this Lease, or on behalf of either of them. Each Party shall

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indemnify the other with respect to compensation, commissions, fees or other sums claimed to be due or owin with respect to the representations made by Lessor or Lessee, as applicable.

IN WITNESS WHEREOF, the parties have executed, or if a corporation, caused its duly authorize officers to execute this Lease and affix its corporate seal hereto, as of the day and year first above written.

LESSOR:	LESSEE:
VENTURA PACIFIC CAPITAL GROUP IX, a California limited partnership	**CARL KARCHER ENTERPRISES, INC.,** a California corporation
By:	By: Robert A. Wilson
Its:	Its: VICE PRESIDENT
By:	By:
Its:	Its: Vice President

If Lessor is a corporation, the authorized officers must sign on behalf of the corporation and indicate the capacity in which they are signing. The Lease must be executed by the President or Vice President and the Secretary of Assistant Secretary, unless the Bylaws or Resolution of the Board of Directors shall otherwise provide, in which event, the Bylaws or a certified copy of the Resolution, as the case may be, must be attached to this Lease. If Lessor is a partnership, the type of partnership must be stated. The Lease must be signed by the partners authorized to sign as indicated in the Statement of Partnership or Certificate of Limited Partnership recorded in the county where the Premises is located, a copy of which must be attached to this Lease.

EXHIBIT "A"

A portion of the Southwest One Quarter of the Southeast One Quarter of Section 6, Township 24 South, Range 14 East, Gila and Salt River Base and Meridian, Santa Cruz County, Arizona more particularly described as follows:

BEGINNING at the Southwest corner of said Southwest One Quarter of the Southeast One Quarter of Section 6;

thence North 89 degrees 42 minutes 24 seconds East, a distance of 1315.22 feet to the Southeast corner of said Southwest One Quarter of the Southeast One Quarter of Section 6;

thence North 00 degrees 32 minutes 50 seconds West along the East line of said Southwest One Quarter of the Southeast One Quarter of Section 6, a distance of 649.94 feet to its intersection with the North right-of-way line of State Highway 189 being the TRUE POINT OF BEGINNING.

thence continuing North 00 degrees 32 minutes 50 seconds West along the East line of said Southwest One Quarter of the Southeast One Quarter of Section 6, a distance of 151.00 feet to a point;

thence South 89 degrees 27 minutes 10 seconds West, a distance of 175.00 feet to a point;

thence along a curve concave to the Southeast having a radius of 25.00 feet, a central angle of 90 degrees 00 minutes 00 seconds, a distance of 39.27 feet;

thence South 00 degrees 32 minutes 50 seconds East, a distance of 199.71 feet more or less to a point on the North right-of-way line of State Highway 189;

thence Northeasterly along the North right-of-way line of State Highway 189 along a non-tangent curve whose radius point bears South 27 degrees 08 minutes 43 seconds, a distance of 110.38 feet to a point;

thence North 72 degrees 48 minutes 38 seconds East along the North right-of-way line of State Highway 189, a distance of 103.21 feet to the TRUE POINT OF BEGINNING.

EXHIBIT "B"

SITE PLAN

All Exhibits attached hereto and referenced herein shall be deemed incorporated herein by this reference.

This Memorandum of Lease in no way modifies or amends the provisions of the Lease.

IN WITNESS WHEREOF, the parties have executed this Memorandum of Lease as of the dates hereinbelow set forth.

LESSOR	**LESSEE**
VENTURA PACIFIC CAPITAL GROUP IX, a California limited partnership	**CARL KARCHER ENTERPRISES, INC.,** a California corporation
By:____________________	By:____________________
By:____________________	By:____________________

THIS DOCUMENT MUST BE EXECUTED IN THE PRESENCE OF A NOTARY PUBLIC.

EXHIBIT "D"

NON-DISTURBANCE AGREEMENT
(Fee Owner)

THIS AGREEMENT is made and entered into this ________ day of ____________, 199__ by and between CARL KARCHER ENTERPRISES, INC., ("CKE"), a California corporation and ________________________________ ("Owner").

WITNESSETH

WHEREAS, Owner owns certain real property in the City of ____________, County of ___________, State of California, more particularly described on Exhibit "A" attached hereto, and commonly known as ____, California (the "Leased Premises"); and

WHEREAS, ________________________ ("Lessee") is the lessee of the Leased Premises under a Lease entered into with Owner dated _______________, as amended (the "Lease"), a copy of which is attached hereto as Exhibit "B", the original term of which is __________ years with an expiration date of __________________.

WHEREAS, Lessee desires to sublease the Leased Premises to CKE on the terms and conditions set forth in the lease dated ____________, 199__ (the "sublease") a copy of which is attached hereto as Exhibit "C"; and

WHEREAS, CKE and Owner desire to recognize CKE's right to occupy the Leased Premises for the full term of the Sublease, including all option terms according to the terms and conditions of the Sublease.

NOW, THEREFORE, in consideration for the mutual covenants and promises set forth herein, the parties covenant and agree as follows:

1. CKE and Owner agree that so long as the Sublease attached hereto as Exhibit "C" shall be in full force and effect without default thereunder by CKE, no action shall be taken which shall disturb the peaceful possession by CKE of the Leased Premises or the full enjoyment and use thereof as provided for in the Sublease and in accordance with the terms and provisions thereof.

2. It is understood and agreed that any termination, modification, or assignment of the Lease or any other Leases respecting the Leased Premises to which Owner is a party or any sale, transfer, conveyance, assignment, encumbrance or other disposition of Owner's interest in the Leased Premises shall in no way affect the rights of CKE under the Sublease or this Agreement.

3. It is understood and agreed that any person or entity acquiring any interest of Owner in the Leased Premises in any manner as described in Section 2 above whether voluntary, involuntary or by operation of law takes such interest subject to CKE's rights under this Agreement and the Sublease and shall be bound by all terms, conditions and obligations therein so long as the Sublease remains in full force and effect without default thereunder by CKE.

4. If the interest of Lessee in or to the Leased Premises or any part thereof shall be transferred to and owner by Owner, or Owner succeeds to the interest of Lessee under the Lease, CKE shall be bound to Owner under all the terms, covenants and conditions of the Sublease for the balance of the term thereof remaining and any extensions or renewals thereof which may be effected in accordance with any option therefor in the Sublease, with the same force and effect as if the Owner was the original Landlord under the Lease and CKE does hereby attorn to owner as its Landlord, said attornment to be effective and self-operative without the execution of any further instruments on the part of any parties hereto immediately upon Owner's succeeding to the interest of Lessee under the Lease; provided, however, that CKE shall be under no obligation to pay rent to Owner until CKE receives written notice from Owner that is has succeeded to the interest of Lessee under the Lease. The respective rights and obligations of CKE and Owner under such attornment, to the extent of the then remaining balance of the term of the Sublease, and any such extensions and renewals, shall be and are the same as now set forth therein, it being the intent of the parties hereto for this purpose to incorporate the Sublease into this Agreement by reference, with the same force and effect as if set forth herein.

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5. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, successors, assigns, Sublessees and legal representatives.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties hereto on the date first above written.

OWNER:

____

By:______________________________

By:______________________________

CARL KARCHER ENTERPRISES, INC.,
a California corporation

By:______________________________ By: ______________________________
Its:______________________________ Its: ______________________________

AMENDMENT OF LAND AND BUILDING LEASE

THIS AMENDMENT OF LAND AND BUILDING LEASE ("Amendment") is made and entered into on March 13, 1997 by and between CARL KARCHER ENTERPRISES, INC., a California corporation ("Lessee") and VENTURA PACIFIC CAPITAL GROUP IX, a California limited partnership ("Lessor").

RECITALS

1. Concurrently herewith, Lessor and Lessee are entering into that certain Land and Building Lease dated March 13, 1997 ("Lease"), covering the property commonly known as 800 West Mariposa Road, Nogales, Arizona, as more particularly described therein ("Premises").

2. As a condition for entering into the Lease, Lessee requires that the current beneficiary of the Deed of Trust encumbering the Premises enter into a subordination, non-disturbance and attornment agreement with Lessee. In connection with such instrument, such beneficiary has requested that the Lease require certain insurance measures for the benefit of such beneficiary.

3. The parties are willing to amend the Lease upon the terms hereof.

Now, therefore, for good and valuable consideration, receipt which is hereby acknowledged, the parties agree as follows.

1. All terms used in this Amendment which are defined in the Lease shall have the same meanings as are provided in the Lease.

2. Section 12.3 of the Lease is hereby amended to read as follows:

"During the Term hereof, Lessee shall, at its own expense, maintain in full force a policy or policies of insurance for all risk of direct physical loss (Special Form) except earthquake, under Lessee's blanket insurance policy, covering the Improvements in an amount equal to one hundred percent (100%) of the replacement cost of the Improvements, subject to any deductible as determined by Lessee, except as provided in ~~Section 12.5.d. Such~~ insurance shall include flood insurance if the Premises is located in a designated flood hazard area and the ~~Lessor's~~ lender under ~~a~~ recorded deed of trust covering the Premises, advises Lessor and Lessee in writing that such insurance is required by such lender. Lessee shall name Lessor as additional named insured, as its interest may appear, on such policies."

3. The following new Section 12.5 is hereby added to the Lease:

"Until that certain Deed of Trust, recorded on November 20, 1992, at Docket 599, page 42, in Santa Cruz County, Arizona ("Trust Deed") ~~is reconveyed~~, only, Lessee agrees to comply with the following provisions:

"a. Within ten (10) days after the Effective Date of the Lease, and at policy renewal annually thereafter, Lessee shall provide Wells Fargo Bank, National Association, and/or their affiliates or subsidiaries, as their interests may appear ("Lender") with Evidence of Property Insurance (Form ACORD 27 or equivalent) naming Lender as mortgagee under a Lender's Loss Payable Endorsement (From 438FU or equivalent). Such policy shall provide that Lender be given written notice ten (10) days prior to cancellation or any material change to the policy.

"b. Within ten (10) days after the Effective Date of the Lease, and at policy renewal annually thereafter, Lessee shall provide Lender with a Certificate of Liability Insurance (Form ACORD 25 or equivalent). Such Certificate of Liability shall provide that Lender be given written notice ten (10) days prior to cancellation.

"c. All property and liability insurers providing coverage required by this Section 12 must be admitted to do business in Arizona and must carry a minimum Best's Rating of B+ or better, and have policyholder surplus of $25,000,000 or better.

"d. Commencing with the Effective Date, for the following twelve months, Lessee's deductible applicable to the Premises, under the policies described in Section 12.3, shall not exceed $25,000; thereafter, such deductible shall not exceed $50,000.

"e. Lessee shall maintain loss of rents coverage in an amount equal to one year's Base Rent, with a loss-payable endorsement in favor of Lessor."

3. Except as expressly amended hereby, all terms and conditions of the Lease shall remain unmodified and in full effect.

IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first set forth above.

LESSOR

VENTURA PACIFIC CAPITAL GROUP IX,
a California limited partnership

By: ______________________
Richard Devericks, General Partner

By: ______________________
Neno N. Spondello, Jr., General Partner

LESSEE

CARL KARCHER ENTERPRISES, INC.,
a California corporation

By: ______________________

____

By: ______________________

____

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IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first set forth above.

LESSOR

VENTURA PACIFIC CAPITAL GROUP IX,
a California limited partnership

By:______________________________
Richard Devericks, General Partner

By:______________________________
Neno N. Spondello, Jr., General Partner

LESSEE

CARL KARCHER ENTERPRISES, INC.,
a California corporation

By: Kathryn S. Peldon
Senior Vice President

By: Robert A. Wilson
VICE PRESIDENT

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CKE #7514
Nogales, CA

FIRST AMENDMENT TO

LAND AND BUILDING LEASE

THIS FIRST AMENDMENT TO LAND AND BUILDING LEASE ("First Amendment") is made and entered into as of the 6TH day of October 2010 by and between **DAVID R. PFEILER** ("Lessor"), successor-in-interest to VENTURE PACIFIC CAPITAL GROUP, IX, and **CARL KARCHER ENTERPRISES, INC.**, a California corporation, ("Lessee").

RECITALS

A. Lessor (through its predecessor-in-interest) and Lessee entered into a written Land And Building Lease dated March 13, 1997 ("Lease") whereby Lessor is leasing to Lessee, and Lessee is leasing from Lessor, that certain real property, together with all buildings, structures and improvements thereon and appurtenances thereto, commonly known as 800 West Mariposa Road, Nogales, Arizona 85621 ("Premises");

B. The term ("Term") of the Lease shall expire on December 31, 2016 pursuant to Section 2 of the Lease;

C. Lessee has two (2) options to extend and renew the Term of the Lease as set forth in Section 23 of the Lease, the first option being for the period from January 1, 2017 through and including December 31, 2021 ("First Option Period"), and the second option being for the period from January 1, 2022 through and including December 31, 2026 ("Second Option Period");

D. Section 3 of the Lease provides for certain Base Rent to be paid by Lessee to Lessor during the Term, all as more particularly set forth in that Section;

E. Lessee and Lessor now desire to amend the Lease to provide for the exercise of the two (2) options to extend and renew the Term of the Lease, to provide for three (3) additional options to extend and renew the Lease, to provide for Base Rent payable by Lessee to Lessor during certain periods during the Term of the Lease, and other matters as set forth below;

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, the mutual promises and provisions herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Each and all of the Recitals set forth above are true and correct, and are incorporated herein by this reference as though set forth in full.

2. All capitalized terms used herein shall have the same meaning as is given such terms in the Lease unless expressly superseded by the terms of this First Amendment.

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CKE #7514
Nogales, CA

3. Lessee hereby exercises (a) its first option to extend and renew the Term of the Lease for the period from January 1, 2017 through and including December 31, 2021 ("First Option Period"), and (b) its second option to extend and renew the Term of the Lease for the period from January 1, 2022 through and including December 31, 2026 ("Second Option Period") upon all of the same terms and conditions of the Lease; and Lessor hereby accepts the exercise by Lessee of both of Lessee's options to extend and renew the Term of the Lease for the First Option Period and the Second Option Period, respectively.

4. Section 23 of the Lease is hereby modified and amended to provide that, in addition to the two (2) options to extend and renew the Lease previously granted, both of which having now been duly exercised, Lessor hereby grants to Lessee three (3) additional options to extend and renew the Lease, each for five (5) years, such that Lessee now has remaining options to extend and renew the Lease for the following periods:

Third Option Period	January 1, 2027 through December 31, 2031;
Fourth Option Period	January 1, 2032 through December 31, 2036; and
Fifth Option Period	January 1, 2037 through December 31, 2041.

5. Section 3 and Section 23 of the Lease are hereby modified and amended to provide that commencing January 1, 2017, as Base Rent for the Premises, Lessee shall pay to Lessor the following amounts during the following periods of time:

Period:	*Annual Base Rent:*	*Monthly Base Rent:*
From 01/01/2017 to 12/31/2021	$ 114,466.04	$ 9,538.84
From 01/01/2022 to 12/31/2026	125,912.64	10,492.72
From 01/01/2027 to 12/31/2031 *	138,503.90	11,541.99
From 01/01/2032 to 12/31/2036 *	152,354.29	12,696.19
From 01/01/2037 to 12/31/2041 *	167,589.71	13,965.81

* In the event the respective Option to extend the Lease is duly exercised by Lessee

6. Except as otherwise provided herein, all of the terms, covenants and conditions of the Lease are hereby continued, approved and ratified and, as hereby amended, shall continue in full force and effect and shall be binding upon, and shall inure to the benefit of Lessor and Lessee and their respective agents, attorneys, employees, representatives, affiliates, parents, beneficiaries, subsidiaries, officers, directors, members, heirs, executors, administrators, personal representatives, successors and assigns.

7. To the extent, if any, that the terms, covenants or conditions of this First Amendment conflict with the terms, covenants or conditions of the Lease, the terms, covenants and conditions of this First Amendment shall control.

8. This First Amendment may be executed in one or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one

CKE #7514
Nogales, CA

and the same instrument. This First Amendment shall have no force or effect unless and until each party executes and delivers this First Amendment to the other party.

9. Each of the persons executing this First Amendment on behalf of each party represents and warrants that said party has the full right, power and authority to execute and deliver this First Amendment and that each person signing on said party's behalf is authorized to do so.

10. The parties acknowledge and agree that this First Amendment shall be interpreted as if it was drafted jointly by all of the parties, and that neither this First Amendment, nor any provision within it, shall be construed against any party or its attorney because it was drafted in full or in part by any party or its attorney. Any exhibits attached hereto are hereby incorporated herein by this reference.

11. This First Amendment along with any exhibits and attachments or other documents affixed hereto, or referred to herein, constitutes the entire and exclusive agreement between Lessor and Lessee with respect to the subject matter of this First Amendment. Lessor and Lessee hereby agree that all prior or contemporaneous oral or written understandings, agreements or negotiations relative to the subject matter of this First Amendment which were acceptable to both parties have been merged into this First Amendment and are included herein.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment effective as of the date first above written.

Date: 9-30-, 2010

LESSOR:

David R. Pfeiler

David R. Pfeiler

Date: October 6, 2010

LESSEE:

CARL KARCHER ENTERPRISES, INC.
A California Corporation

By: ______________________________
Colleen Ford-McDonough
Vice President, Real Estate Management

CKE #7514
Nogales, CA

and the same instrument. This First Amendment shall have no force or effect unless and until each party executes and delivers this First Amendment to the other party.

9. Each of the persons executing this First Amendment on behalf of each party represents and warrants that said party has the full right, power and authority to execute and deliver this First Amendment and that each person signing on said party's behalf is authorized to do so.

10. The parties acknowledge and agree that this First Amendment shall be interpreted as if it was drafted jointly by all of the parties, and that neither this First Amendment, nor any provision within it, shall be construed against any party or its attorney because it was drafted in full or in part by any party or its attorney. Any exhibits attached hereto are hereby incorporated herein by this reference.

11. This First Amendment along with any exhibits and attachments or other documents affixed hereto, or referred to herein, constitutes the entire and exclusive agreement between Lessor and Lessee with respect to the subject matter of this First Amendment. Lessor and Lessee hereby agree that all prior or contemporaneous oral or written understandings, agreements or negotiations relative to the subject matter of this First Amendment which were acceptable to both parties have been merged into this First Amendment and are included herein.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment effective as of the date first above written.

Date: _______________, 2010 **LESSOR:**

____
David R. Pfeiler

Date: _______________, 2010 **LESSEE:**

CARL KARCHER ENTERPRISES, INC.
A California Corporation

By: Colleen F. McDonough
Colleen Ford-McDonough
Vice President, Real Estate Management

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