

**1040–1042 N. Euclid Avenue**  
**APN: 115-04-508A**  
**SARR, L.L.C.**

Reasonable Economic Use Statement

March 2022



The following is intended to provide a summary of the information requested by Zoning Ordinance Section 5.8.10.E.2 regarding documentation of a lack of reasonable use of the property and the need for the relocation of the structure to permit redevelopment of the subject property for economically viable use.

This situation is a bit unusual in that the structure is proposed for relocation, rehabilitation and preservation as a residential dwelling within the West University Neighborhood Historic District.

This application is for the relocation of five (5) of the six (6) historically contributing structures (one was not salvageable). The following provides the summary responses to the standard questions regarding reasonable economic use requested by the Zoning Ordinance as it relates specifically to 1040-1042 N. Euclid Avenue, as one of the five (5) contributing structures.

Section 5.8.10.E.2.a asks the following:

**1. The assessed value of the land and improvements thereon according to the two most recent assessments.**

*\$385,216.00 (2021 FCV)*

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**2. Real estate taxes for the previous two years.**

*\$4,355.76 (2019)*

*\$4,413.95 (2020)*

*Note: 2021 tax amount is not yet publicly available.*

**3. The date of purchase of the property or other means of acquisition of title, such as by gift or inheritance.**

*09/1983 – Deed Recorded at PCR#: Unknown*

*Note – Under contract to purchase by Applicant Capstone*

**4. Annual debt service, if any, for the previous two years.**

*The property is free and clear of any debt.*

**5. All appraisals obtained within the previous two years by the owner or applicant in connection with the purchase, financing, ensuring, or ownership of property.**

*No formal appraisals have been commissioned by owner. A real estate broker opinion of value is included in Exhibit 1.*

**6. Any listing of the property for sale or rent, price asked, and offers received, if any.**

*See Exhibit 2.*

**7. Any consideration by the owner as to profitable adaptive uses for the property.**

*As concluded herein the present use of the property as a residential rental property is not the highest and best use of the property. While the economic performance of the property suggests that the existing improvements do add contributory value to the property, reliable market demonstration indicate an alternative use will likely put the property to a higher and better use. Therefore, it has been necessary for the owners to consider alternative uses for the property.*

*The nationally and industry recognized Appraisal Institute defines “highest and best use” as being 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.”*

*According to the West University Neighborhood Plan the property is located in the “West University Transition Zone”. As such legal uses of the property are stated to be: “Administrative and professional offices, alcoholic beverage services (including micro-breweries), civic assembly, cultural uses, day care/child care, educational uses, educational use-post secondary, entertainment uses (including theaters), financial services, food and beverage sales, general merchandise sales, instructional school, lodging, medical services (out-patient), mixed use (a combination of residential and other uses in this list), parking, personal services, residential (attached), residential (multi-family) and travelers’ accommodation”.*

*Of these legal uses few, if any, are physically possible due to the property site containing only 12,618sf. Therefore, an essential component of any highest best use of the property will involve the property being assembled with adjacent parcels in order to create an assembled parcel large enough to accommodate some or all of the legally permissible land uses. Consequently, the property has been and is now being presented to the market as a part of a 7 parcel assemblage (the property and 6 other similarly undersized parcels) with the assemblage containing approximately 45,289sf. As such all, or most, of the legal uses can now be accommodated and therefore considered.*

*While all of the legal and physically possible alternative land uses for the property are appropriately supported by surrounding land use patterns and are considered to be financially feasible to varying degrees, the stand out alternative land use of the property that results in the highest value is putting the property, as part of the above mentioned assemblage, to use as a student housing site that will address the growing long term demand for student housing that is the result of increasing enrollment at the University of Arizona and the retirement and/or obsolescence of older student housing inventories.*

**8. The current fair market value of the property as determined by at least two independent appraisals.**

*Please see Item 5 above and Exhibit 1.*

**9. An estimate of rehabilitation cost to restore the structure to active use.**

*In its current location, the structure is not a long-term viable single-family residence. The condition of the home is generalized as follows:*

Address	APN	Year Built	Square Footage	# of Bedrooms	# of Bathrooms	Leased? - if so, term in months	# of Residents	Students or Market Tenant?
1040 N Euclid Ave	11504508A	1920	1,460	2	2	Occupied	2	Market

Systems Conditions			
Electrical	Mechanical	Plumbing	Roofing
Original - Fair to Average	Evap & FAG - Fair	Original - Fair	Unknown Age - Poor

Aesthetic Conditions					
Kitchen	Bathroom(s)	Bedroom(s)	Flooring	Paint	Lighting
Original - Fair	Original - Fair	Fair	Mixed material in fair condition	Fair condition	Various eras in fair condition

*The investment required to return the structure to a “marketable” condition for single-family use (i.e. modern appliances, finishes and fixtures expected for market rate tenants or buyers) as well as necessary upgrades of the infrastructure of the building is beyond the value of the building on a retail return and/or sales return basis (basically, these costs are more than the value of the structure, making them economically unfeasible).*

*While a building specific assessment is beyond the scope of this statement, a generalized estimate cost for rehabilitation the structure based on discussions with professionals that have worked on similar projects (a single-family historic home rehab to market condition) is estimated at \$175 to \$250 a square foot. That would exclude finishes (such as paint, fixtures, and flooring) and is only to modernize the building for structural, electrical, plumbing and mechanical systems. That estimate alone for this building is \$255,500 to \$365,000.*

*In addition to the internal upgrades required above, the exterior of the structure needs significant investment to bring it up to current market expectations. The exterior rehabilitation costs are budgeted at \$160,000. The scope of work is more detailed in the relocation plan.*

*In summary, the necessary interior investment and the exterior investment to return this structure to a marketable condition in today’s rental/sales market is estimated to be*

\$525,000.

**10. Not applicable (waiver provisions).**

In addition, because this is an income producing rental building, the additional questions below also apply, Section 5.8.10.E.2.b:

**1. Annual gross income from the property for the previous two years.**

*See below.*

**2. Itemized operating and maintenance expenses for the previous two years, including proof that adequate and competent management procedures were followed.**

	2019	2020
Total Gross Income	40,792.00	40,285.00
Operating Expenses		
Real Estate Taxes	4,355.76	4,414.00
Utilities	3,969.67	4,134.00
Insurance	1,584.00	1,422.00
Maintenance & Repairs	6,754.43	4,746.00
Landscaping	1,610.00	1,565.00
Miscellaneous	5,348.99	5,859.00
Management	0.00	0.00
Total Operating Expenses	23,622.85	22,140.00
Net Operating Income	17,169.15	18,145.00

**3. Annual cash flow, if any, for the previous two years.**

*See above.*

**4. Proof that efforts have been made by the owner to obtain a reasonable return on investment based on previous service.**

*As presently improved, when vacant, the property owner has marketed the property for residential rental use. Considering the close proximity to the University of Arizona the property has traditionally been occupied by students or lower paid University of Arizona faculty and/or staff. In the context of the property as a residential rental property, the owner has primarily relied on internet based channels such as Craig's List, RentLinx, Zillow, HotPads, etc. Going forward these channels may prove to be less effective because of the loss of any remaining privacy/aesthetic character of the property related to the development of the immediately adjacent high density student housing projects and an increasing supply of more suitably sited alternatives in the moderate to low cost student housing market sector.*

In summary, the historically contributing structure is nearing the end of its useful life, the area around it has changed in character dramatically and with Euclid Avenue being less than 20 feet from the front porch.

Relocation of this structure as proposed will place it in an interior neighborhood location within the West University Neighborhood Historic District (WUNHD) which will increase the economic feasibility of rehabilitation/restoration and thereby perpetuating the continued residential use of the improvements and the contributing nature of the duplex to the WUNHD and the greater Tucson community.

## Exhibit 1 – Property Value

As part of the presenting the property to the market as is described in Exhibit 2 which follows, the value of the property was evaluated by NAI Horizon, a national commercial brokerage company with an office in Tucson, Arizona. Based on this evaluation the following assessments and conclusions were communicated:

Property Description: According to public record the property parcel contains 12,618sf and is improved with a duplex that was originally constructed in 1920 and is reported to contain 1,460sf of living area. Additionally, in what would have been the rear yard area of the single-family residence there are two identical duplex units, each reported to contain 1,100sf, that were originally constructed in 1957 and 1960. The overall condition of the property is considered good to fair.

Market Value – As Is: Based on the property as it presently exists, relevant recent sales transactions involving comparable properties, after adjustments for differences in age, condition, living area size, parcel area and general and specific location when compared to the property, demonstrate a range of value for the property that is approximately equal to \$150.00 to \$180.00 per square foot of living area. Therefore, the estimated market value of the property – as is, based on the sales comparison approach to value, ranges from \$585,000.00 to \$695,000.00, rounded.

Based on the income producing performance of the property is important to note that the total income and operating expenses reported earlier include rental income from and operating expenses associated with two other non-contributing duplexes that are sited on the same parcel. Regardless, since the entire property cannot be physically or legally split all reported income and expenses will be considered in this analysis. Based on the total net income from the property real estate investment activity provides reasonable demonstration that the estimated market value of the property – as is, based on the income approach to value, ranges from \$640,000.00 to \$685,000.00.

Reconciling the two approaches used indicates an estimated market value of the property – as is, ranges from \$640,000.00 to \$695,000.00.

Market Value – As If Vacant Commercial Land: Based on the underlying assumption that the property will be assembled with adjacent parcels in order to create a market viable vacant parcel large enough to be considered suitable for commercial uses, relevant recent sales transactions involving comparable properties, after adjustments for parcel area, general and specific location and influences by surrounding land uses when compared to the property, demonstrate a range of value for the property that is approximately equal to \$30.00 to \$35.00 per square foot of site area. Therefore, the estimated market value of the property – as if vacant commercial land, based on the sales comparison approach, ranges from \$380,000.00 to \$440,000.00, rounded.

Market Value – Put To Highest And Best Use: Based on the underlying assumption that the property will be assembled with adjacent parcels in order to create a market viable vacant parcel put to its highest and best use as a student housing site, relevant recent sales transactions involving comparable properties, after adjustments for parcel area, general and specific location and influences by surrounding land uses when compared to the property, demonstrate a range of value

for the property that is approximately equal to \$130.00 to \$175.00 per square foot of site area. Therefore the estimated market value of the property – as if vacant commercial land, ranges, sales comparison approach, from \$1,640,000.00 to \$2,210,000.00, rounded.



## **Exhibit 2 – Evidence of Listings/Marketing**

Based on the value analysis provided in Exhibit 1, the property was listed with NAI Horizon, along with 6 other adjacent parcels, in August of 2016 and presented to the market since then as a potential student housing site. As a result of this market exposure the property has been in escrow twice. The first fully executed purchase and sale agreement was entered into in May of 2017 with a well-qualified national student housing developer with the escrow being opened with a total sales price of \$7,250,000. Based on the property's contribution to the total site area of the larger assembled parcel, approximately \$2,019,927.58 (\$160.08/sf of site area) of the total sales price was allocated to the property. The escrow was canceled and the transaction did not close.

The second fully executed purchase and sale agreement is still in escrow and is with another well-qualified national student housing developer. The escrow was opened in July of 2018 with a minimum total sales price of \$6,000,000. This minimum total sale price has since been increased to be \$6,375,000. Based on the property's contribution to the total site area of the larger assembled parcel, approximately \$1,776,143.21 (140.76/sf of total site area) of the total minimum sales price is allocated to the property. The escrow related to this transaction is expected to close in late 2022.