XI

SCOPE OF WORK
ANALYSIS, VALUATION AND CONCLUSIONS

SCOPE OF WORK, APPRAISAL PROCESS, PURPOSE AND INTENDED USE OF THE APPRAISAL

A. Methodology:

There are three typical approaches to value to consider in each appraisal assignment. The three traditional approaches to value are the Cost Approach, the Sales Comparison Approach and the Income (Direct Capitalization and/or Discounted Cash Flow) Approach. The three approaches to value are not always applicable to the assignment; however, the three approaches to value are always considered.

All appraisals begin by identifying the subject property (property to be appraised) and the appraisal problem. Data relevant to the subject property is obtained from various sources including but not limited to: the Monroe County Property Appraiser's office, surveys, building plans and specifications and the property owner. If possible, more than one source is utilized to confirm the information. Improvements, if applicable, are inspected and measured by the appraiser. If and when building plans or sketches are made available, the measurements are verified for accuracy. Land size is based on recorded plat maps, Monroe County public records, legal descriptions or surveys (when available). Because of the size of the subject, location within the Historic Preservation District and within the high rent district, the lower part of Duval Street and the adjacent areas were researched and analyzed.

The comparable sales are researched utilizing First America Real Estate Solution and Realist.com, (FARES) plus Rapattoni and Loopnet.com, on-line MLS (Multiple Listing System) service. All sources use data from the Monroe County Property Appraiser's Office, as well as, from the public records. The data is verified and compiled into sale sheets located within the Addenda of this report. Additional data sources include: newspaper clippings and the National Multiple Listing Service. Real estate agents in the market area are interviewed for the most current information on sales and listings. All of the information is analyzed in preparing the report and is utilized in supporting the indicated value.

The appraiser describes the building improvements in detail, if applicable; these descriptions are based on a physical inspection and/or plans and specifications. The appraisers are not contractors or structural engineers; therefore, structure soundness or damage cannot be warranted. The appraisers will note any apparent or potential problems such as deferred maintenance, water damage or spalling.

The reader of the appraisal should be made aware that the valuation contained herein is based on a specific date. The value estimated on the specified valuation date will likely differ from the value one, two or three years in the future or in the past. The reader is advised to review the Assumptions and Limiting Conditions, as well as the Certification of Value in Part I of this report.

The Cost Approach:
The Cost Approach is determined by taking the value of the land and adding to it the depreciated value of the present improvements. A separate land analysis is done to determine the value of the land considering entitlements. This approach is also based on the Principle of Substitution, which states that a purchaser will not pay more for an existing property than the cost to reproduce it, in a similar area, assuming that it could be reproduced without delay. Since, the existing improvements have been totally renovated within the past three years the appraisers have considered this approach in the Fee Simple, "As Is" Market Value, but not weighted in the final reconciliation.

The Income Approach:
The Income Approach is based on the amount of rental income the subject property is capable of producing. In the valuing the subject property, we have considered a Discounted Cashflow Analysis in valuing the subject property due to the long term lease. The Discounted Cash Flow Technique takes into consideration the timing, frequency and magnitude of the income stream the property is expected to generate. The existing lease was considered full-term, with the continued hotel operation applied upon expiration; thus, the reversion is based on continues hotel operation the year after the expiration of the lease with the longest term. This technique was considered reliable and applicable in estimating the "As Is" market value of the subject property, since it considers the lease terms and timing of the lease. The Income Approach was weighted heaviest in the final indicated Market Value of the Total Assets of the Business for the subject property, due to reliable income and expense data for comparable properties in the local hotel/motel resort market. Market Value of the Total Assets of the Business (MVTAB) is the market value of all of the tangible and intangible assets of a business as if sold in aggregate as a going-concern. In our Discounted Cash Flow model, our projections included analyzing comparable and competing operations with application of "industry standards" and market expense ratios in order to achieve a maximized operation.

Sales Comparison Approach:
The Sales Comparison Approach is based upon the Principle of Substitution. When applied, it states that when similar (comparable) properties in similar locations are adjusted for any dissimilarities, the value from these comparable properties can indicate an estimate of value. In the case at hand,

land sales for redevelopment project were researched and analyzed in order to estimate a reliable land value for the subject property. This approach was also considered applicable in the valuation of the subject property as a mid-size transient lodging facility.

The Sales Comparison Approach is an appraisal technique in which the market value estimate is based on the prices paid in actual market transactions and current listings. The actual transaction will fix the lower limits of value in a static or advancing market and higher limit in a declining market. It is a process of correlation and analysis of similar properties that recently sold in the subject's market area.

When a property is placed in the market, its value tends to be set at the cost of acquiring an equally desirable substitute property, assuming no costly delays in making the substitution. The Sales Comparison Approach bases its value indication on sales of other similar properties in the area. These sales are analyzed and compared to the subject property. The Sales Comparison Approach bases its value indication on recent sales that are pertinent to the value of the subject property.

Valuation Conclusion

Each approach to value has varying degrees of applicability and weight under a given set of circumstances. Usual appraisal procedure involves an estimate of value by the separate approaches: the Cost Approach, the Sales Comparison Approach, and the Income Approach. From the indication of these analyses each approach is weighted accordingly; then, an opinion of value is reconciled and reported.

B. Cost Approach:

The Cost Approach is based on the principle of substitution, the belief that a purchaser would not pay more than the cost of acquiring a similar site plus the cost of constructing a replica or similar structure. "The Cost Approach is based on the understanding that market participants relate value to cost. In the Cost Approach the value of a property is derived by adding the estimated value of the land to the current cost of constructing a reproduction or replacement for the improvements and then subtracting the amount of depreciation (i.e., deterioration and obsolescence) in the structures from all causes. Profit for coordination by the entrepreneur is included in the value indication. This approach is particularly useful in valuing new or nearly new improvements and properties that are not frequently exchanged in the market. Cost approach techniques can also be employed to derive information needed in the sales comparison and income capitalization approaches to value.

The current costs to construct the improvements can be obtained from cost estimators, cost estimating publications, builders and contractors. Depreciation is measured through market research and the application of specific valuation procedures. Land value is estimated separately in the cost approach." The land value is determined by analyzing recent sales of vacant tracts within the subject's market area.

An appraiser must follow a series of steps in deriving a value indication by the Cost Approach. These steps are as follows:

- Estimate the value of the subject site. The land value estimate is as though the land was vacant and available to be developed to its Highest and Best Use. Adjustments are made if necessary for financing/financing concessions, time, and for physical differences, i.e., location, size, and topography, etc. .

- After a land value is derived for the subject site, the reproduction cost or replacement cost of the improvements must be estimated as of the effective date of the appraisal. This estimate includes direct (hard) costs, as well as indirect (soft) costs.

- Other costs (indirect) which must be incurred after construction to bring the new, vacant structure up to occupancy levels and market conditions must be estimated.

- A relevant entrepreneurial profit must be estimated from market analysis and research.

- A total replacement or reproduction cost of the primary structures is estimated by addition of all of these costs (direct and indirect).

- An estimate of the amount of accrued depreciation in the structures must be considered. This depreciation is divided into three categories: physical deterioration, functional obsolescence and external obsolescence.

- The estimated accrued depreciation must be deducted from the total reproduction or replacement cost of the primary structure(s) to derive an estimate of the depreciated reproduction or replacement cost.

- Then, an estimated reproduction or replacement cost for accessory buildings and site improvements should be estimated with deductions made for depreciation. These improvements are typically appraised at their net value (on a depreciated-cost basis).

- The depreciated reproduction or replacement costs of the primary structure(s), the accessory structures, and the site improvements are added to derive the total depreciated reproduction or replacement cost of all improvements.

- The site value and total depreciated reproduction or replacement cost of all improvements are added to arrive at the indicated value of the Fee Simple Interest in the property.

- The Fee Simple Value is adjusted to reflect the property interest being appraised, if necessary, to arrive at an indicated value of the interest in the subject property being appraised.[5]

Cost Analysis:
The Cost Approach consists of combining the estimated value of the land, based on comparable sales, plus the depreciated value of the improvements. A purchaser would normally give little consideration to this value approach when his primary interest in the property is its income stream and desirable rate of return on his/her equity. The two major exceptions might be in the case of a purchaser who is acquiring a property for his own use and occupancy, an owner-user property, or in valuing a special purpose property.

1. Comparable Land Sales Analysis:
The subject property consists of a 21,643 square foot, rectangular-shaped corner site with 245.00 feet of frontage along the westerly side of Simonton Street and 88.40 feet along the

northerly side of Front Street. A survey of the subject property was made available that was utilized for site and building measurements. The subject is currently licensed for 22 transient units, which is considered an entitlement, as it exceed the number of permitted units as of right (11 units).

A thorough search was conducted for recent sales of similar properties that had entitlements based on transient units within the Florida Keys market area with emphasis within the Key West market. A recent pending land sales within the Old Town section of the City of Key West was found and analyzed, as well as older sales going back to 2005. The sales indicate a fairly tight range of value, after market condition adjustment, and were considered reliable, and all are located within the market area.

Market Conditions Adjustment:
Analysis of the comparable sales and historical sales data indicates appreciating values through the early part of the year 2005. However, there has been depreciation (market decline) since the market correction which began in late 2005, as discussed previously in this report. Unfortunately, there have been no significant Arm's Length sales of redevelopment land sales since early 2009 due to the declining housing market and the lack of available financing for development projects. The limited recent market activity has been Forced or Distressed Sales that was REO/bank-owned or under duress.

Research of market data was conducted for sale/resales in order to make adjustments to the sales for declining market conditions. The following sales/resales were analyzed:

Property Address	1st Sale Date	Sale Price	2nd Sale Date	Sale Price	% Change Per Year
99490 O/S Hwy. Key Largo, FL	02/2006	$ 12,750,000	08/2008	$ 8,700,000	- 15.2%
104180-104220 Overseas Hwy. Key Largo, FL	06/12/2005	$ 8,990,000 (Assemblage)	05/2008	$ 5,722,100	- 15.3%
904-906 South Street Key West, FL	05/20/2004	$ 1,200,000	07/23/2009	$ 500,000	- 16.8%

The first comparable is the sale/resale of a 56-unit resort property(Marr Bayside), which was originally purchased for redevelopment; it was never begun. This comparable is reflective of the decreasing value trends for similar properties. This property was purchased by Cay Clubs for redevelopment, but was foreclosed on by the lender and recently resold. This property has minimal frontage on the Overseas Highway and is located in an inferior location to the subject. The second sale consists of three contiguous Bayfront (mobile home/RV park, marina with restaurant, and a motel) parcels that were assembled in Key Largo (Comparable Sale No. 2). This property was a distressed sale due to a bankruptcy by the seller and the lender offered attractive financing to the buyer to assume the loan. The third and most recent comparable was two adjacent lots purchased redevelopment prior to the economic crisis. This vacant land comparable was also a distress or sale. Although, these sales were distressed, they are the best recent market data available to measure present market conditions. We anticipate these trends to continue until a national recovery starts. We have considered these sale/resales, as well as analyzed current active listings of redevelopment land which indicate reduced asking prices per unit. As a result, We estimated very conservative time or market condition adjustment. Interviews of local lenders and developers indicates that similar properties may be on the market in the near future, due to default in timely mortgage payments. Furthermore in the Sales Comparison section, we researched the market decline of end units in recently built projects as another indication.

Though market data is limited, the prior analysis suggests that a negative 15% to 21% per annum is appropriate for distressed redevelopment projects; or vacant land with entitlements. After also considering recent declines for commercial improved properties and commercial rents in the market area, in some cases above 30.0%. As a result, we adjusted the sales at the depreciation rate of 21% per annum for the older sales. The overall negative adjustments for the sales range from negative 58% to 74% from their actual sales prices. In addition, in the Sales Comparison Approach, we analyzed the recent sale and resale of lodging facilities in order to further support our market conditions.

On the following page, we have included a resume of comparable sales and detailed analyses of all the sales. We feel these sales provide the best available indication of site value.

Resume of Comparable Land Sales for Redevelopment

Comp. No.	Address	Redevelopment Project Name	City/Key	Sales Date	Sales Price	Adjusted Sales Price	Upland Size Acres	Upland Size SF	No. Units	Upland Size SF/ Unit	Location Waterfront	Unadjusted Price/ $ / Unit	Adjusted Price/ $ / Unit	Adjusted Price/ SF	Zoning	Miles Distance
1	223 Elizabeth Street	Harbor House	Key West	Pending	$10,000,000	$10,000,000	1.90	82,624	96	861	0.5	$104,167	$104,167	$121.03	HRCC1	2 Blks.
2	104180-104220 Overseas Hwy.	Old Hobo's	Key Largo	05/09/08	$5,722,100	$2,852,798	2.28	99,348	20	4,967	1.0	$286,105	$142,640	$28.72	RV/MC	103.0
3	510 South & 1420 Simonton Sts.	Atlantic Shores	Key West	05/31/07	$19,500,000	$7,761,169	1.93	84,243	77	1,094	1.5	$253,247	$100,794	$92.13	HCT	1.5
4	13351 Overseas Highway	Ramada Inn	Marathon	01/16/07	$28,100,000	$10,237,856	4.38	190,650	72	2,648	1.0	$390,278	$142,192	$53.70	MU	53.0
5	4900 Overseas Highway	Crystal Bay	Marathon	12/06/06	$11,000,000	$3,901,542	5.78	251,814	30	8,394	1.5	$366,667	$130,051	$15.49	SC/SR	48.0
6	7003 & 7005 Overseas Hwy.	Aloha Comm.	Marathon	10/04/06	$8,250,000	$2,807,904	6.66	290,009	25	11,600	1.0	$330,000	$112,316	$9.68	MU	50.0
7	2801 N. Rsvlt. Blvd.	Hampton Inn	Key West	08/15/05	$35,000,000	$9,077,853	5.02	218,671	74	2,955	1.0	$472,973	$122,674	$41.51	CG	3.0
Subject	**529 Front Street**	**Caribbean Spa**	**Key West**	**N/A**	**N/A**	**N/A**	**0.50**	**21,643**	**22**	**984**	**0.0**	**N/A**	**N/A**	**N/A**	**HRCC1**	
	Current Date:			**04/07/11**		**Average**	**3.99**	**173,908**	**56**	**4,646**		**$314,777**	**$122,119**	**$51.75**		
Depreciation Rate from 2005 to Current:				**-21.00%**		**Median**	**4.38**	**190,650**	**72**	**2,955**		**$330,000**	**$122,674**	**$41.51**		
Location:	**Dry/Inland = 0.0**					**Minimum**	**1.90**	**82,624**	**20**	**861**		**$104,167**	**$100,794**	**$9.68**		
	Canal/Partial Waterfront = 0.5					**Maximum**	**6.66**	**290,009**	**96**	**11,600**		**$472,973**	**$142,640**	**$121.03**		
	Open Water = 1	**Superior Open Waterfront = 1.5**														

Note: Each of the comparable sales was analyzed in order to make comparisons to the subject property. The appraisers utilized sales within the last two years located within the Key West market area. Market research indicates that market conditions have shown signs of appreciation up until the end of 2005 when the market peaked; thereafter, the market began to decline. Hence, the appraisers have considered a market conditions ("time") adjustment based on a 21.0% depreciation rate per annum until the present. The most recent sale within the last six months was not adjusted. The remainder was adjusted for depreciation over time.

REDEVELOPMENT LAND SALE NO. 1

PROJECT NAME: Harbor House

PROPERTY TYPE: Redevelopment of 96 Transient Units (Land with Entitlements)

LOCATION: 223 Elizabeth Street, Key West, Monroe County, Florida

COUNTY ASSESSORS PARCEL NO.: 00000720-000000; 00000730-000000; 00000740-000000; 00000750-000000; 00000760-000000; 00000810-000000; 00000840-000000;

ZONING: HRCC-1

GRANTOR: M & I Marshall & Ilsley Bank

GRANTEE: Mr. Pritam Singh

DATE OF SALE: Recent Offer **OFFICIAL RECORD BOOK:** N/A **PAGE** N/A

LAND AREA: 82,624 sq. ft./1.90Acres **VERIFICATION:** Buyer, Seller, JEW

OFFER PRICE: $10,000,000 (Based on 96 Transient ROGOs) **PRICE PER SQ. FT.:** $ 121.03

UNITS TO BE DEVELOPED: 96 **PRICE PER UNIT**: $ 104,167

HIGHEST AND BEST USE: Hotel Development

TERMS OF SALE: Cash to Seller

INTEREST CONVEYED: Fee Simple

Comments: This comparable is located about two blocks southeasterly from the subject property, adjacent to the Historic Seaport. This sale is contingent on the City of Key West approval of 96 transient units. If redeveloped as a hotel, this property would be a direct competitor of the subject property. Although, not a closed sale, this offer is a very good indicator of value for the subject property.

REDEVELOPMENT LAND SALE NO. 2

PROJECT NAME: Former Rod's/Hobo's Restaurant & Marina/Neptune's Hideaway Resort & Spa

PROPERTY TYPE: Redevelopment of 20 Transient Licensed Condotel Units (Land with Entitlements)

LOCATION: 104180-104220 Overseas Highway, Key Largo, Key West, Monroe County, Florida

COUNTY ASSESSORS PARCEL NO.: 00439630, 00439630-000100 & 00439620 **ZONING:** RV **FLUM:** / MC

GRANTOR: DB Key Largo, LLC (Gassenheimer/Goldberg)

GRANTEE: Philrich of Key Largo, LLC (Zipes)

DATE OF SALE: 05/09/08 **OFFICIAL RECORD BOOK:** 2361, **PAGE** 621

LAND AREA: 99,348 sq. ft./2.28 Acres **VERIFICATION:** Public Records, TIB Bank (Lender)

PURCHASE PRICE: $5,722,100 (Includes all ROGOs) **PRICE PER SQ. FT.:** $ 57.60

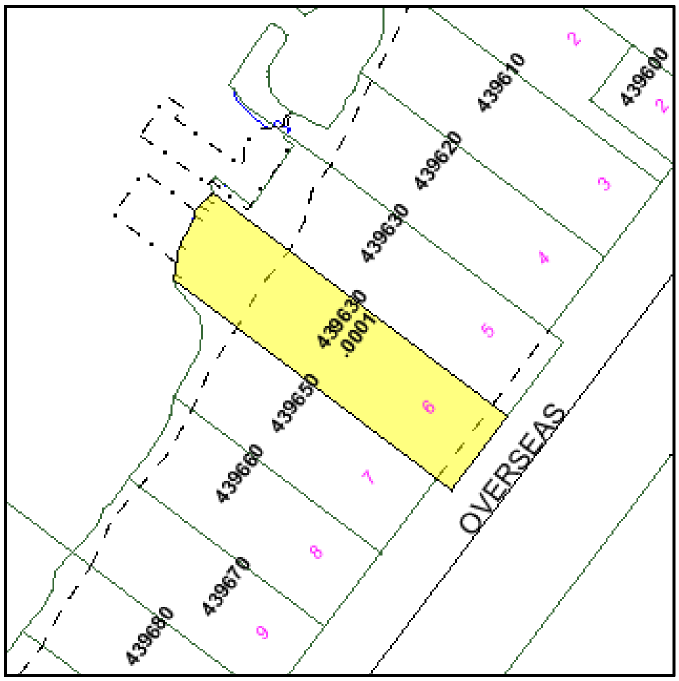
UNITS TO BE DEVELOPED: 20 **PRICE PER UNIT**: $ 286,105

HIGHEST AND BEST USE: Hotel Suites Redevelopment

TERMS OF SALE: Assuming Existing Mortgage ($6,234,000 Original Principal)

INTEREST CONVEYED: Fee Simple

Comments: This comparable is located about 103 miles northeasterly from the subject property in Key Largo. This property was a resale of an assemblage that took place in mid to the end of 2005 with a total acquisition price of $8,990,000. In August 2006, a letter of Development Rights (LDRD) by Monroe County indicated that the total property had entitlements for 47 transient units, two market rate residential units, plus 3,770 square feet of non-residential (commercial) floor area. On September 17, 2007, Development Order #04-07 was recorded for the redevelopment of 39 transient units as a hotel condominium. Thus, the original acquisition price was $230,513 per unit. Subsequently, the loan was nonperforming and the developer was in default. Bankruptcy took place and the Bankruptcy Court approved the sale of the property to the buyer on March 10, 2008. Furthermore, according to representatives of TIB Bank, the development plan was altered and approved for redevelopment into 19 two bedroom/two and one-half bathroom condotel units, plus a one bedroom/one and one-half bathroom unit in a separate building. The sale closed May 9, 2008 for $5,722,100 or $286,105 per unit. This comparable is overall inferior to the subject due to its Key Largo location.



REDEVELOPMENT LAND SALE NO. 3

PROJECT NAME: Atlantic Shores

PROPERTY TYPE: Redevelopment of 77 Transient Licensed Hotel Units (Land with Entitlements)

LOCATION: 510 South Street & 1420 Simonton Street, Monroe County, Florida

COUNTY ASSESSORS PARCEL NO.: 00036290-000000 & 0036310-000000 **ZONING:** HCT

GRANTOR: Atlantic Shores Resort, LLC & Atlantic Sands, LLC

GRANTEE: Southernmost Beach Resorts Limited Partnership

DATE OF SALE: 05/31/07 **OFFICIAL RECORD BOOK:** 2299, **PAGE** 1906 & 1910

TOTAL LAND AREA: 84,243 sq. ft./1.93 Acres

PURCHASE PRICE:	$14,040,000	(Atlantic Shores)	**PRICE PER SQ. FT.:** $ 231.47
Plus:	$5,460,000	(Sands Beach Club)	
TOTAL PRICE:	$19,500,000		

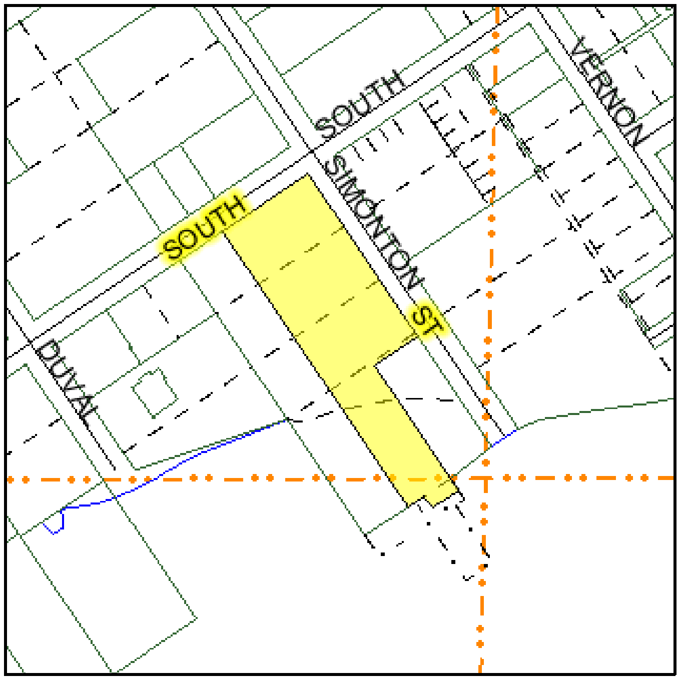
UNITS TO BE DEVELOPED: 77 **PRICE PER UNIT:** $ 253,247

HIGHEST AND BEST USE: Hotel Redevelopment

TERMS OF SALE: Cash to Seller (Conventional Mortgage)

INTEREST CONVEYED: Fee Simple

Comments: This comparable is located about one-and one-half miles southerly from the subject property in the South Beach Area, City of Key West. This sale represents an assemblage of the Sands Beach Club Restaurant/Bar (The old Logun's Lobster Restaurant) and the adjacent Atlantic Shores Resort. These sales parcels are contiguous to Southernmost Hotel Resort (Buyer). The site consists of a L-shaped and a rectangular-shaped waterfront parcel with approximately 84,243 square feet of upland site area. It had entitlements for a total of 76 transient units, plus one owner/manger's unit. The site has open water frontage along the Atlantic Ocean with unobstructed views. The new hotel was finished and opened in the beginning of 2009. The new structures appear to be similar to the subject's proposed layout and views. Most of the units are suites with upscale finishing.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SIMONTON ST
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REDEVELOPMENT LAND SALE NO. 4

PROJECT NAME: Former Ramada Inn

PROPERTY TYPE: Currently an 88-unit Motel Property

LOCATION: 13351 Overseas Highway, Ocean, Marathon

COUNTY ASSESSORS PARCEL NO.: 00100320-000000 **ZONING:** MU

GRANTOR: Marathon Hotel Partners, LLC

GRANTEE: Key Colony Bay Development, LLC

DATE OF SALE: 01/16/07 **OFFICIAL RECORD BOOK:** 2265, **PAGE** 1193

LAND AREA: 190,650 sq. ft./4.38 Acres

PURCHASE PRICE: $28,100,000 **PRICE PER SQ. FT.:** $ 147.39

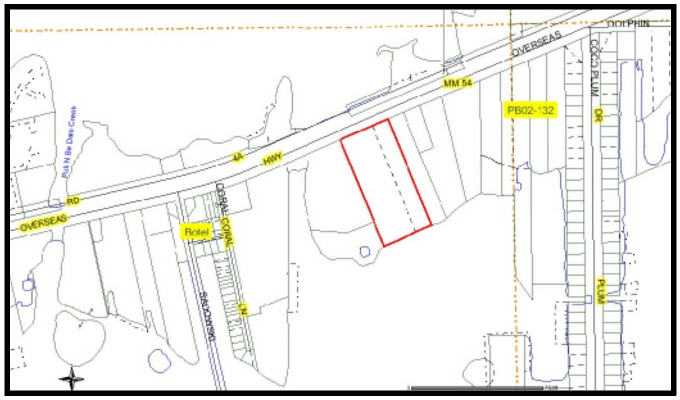
UNITS TO BE DEVELOPED: 72 **PRICE PER UNIT:** $ 390,278

HIGHEST AND BEST USE: Residential Redevelopment

TERMS OF SALE: Cash to Seller (Conventional Mortgage)

INTEREST CONVEYED: Fee Simple

Comments: This comparable is located about 53 miles northeasterly from the subject property in the City of Marathon. It is an internal lot with limited water frontage. Details for the proposed development were not available. This property was bought as an interim use for future redevelopment into luxury resort residences with water views. The sale was a cash sale with conventional financing and considered an arm's length transaction. It is waterfront with water views of Bonefish Harbour: however, its location is considered inferior to the subject. This sale is currently in foreclosure by the lender.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REDEVELOPMENT LAND SALE 5

PROJECT NAME: Crystal Bay Resort and Marina

PROPERTY TYPE: Resort Motel, Redevelopment is Permitted **ZONING:** SC/SR

COUNTY ASSESSORS PARCEL NO.: 1401382, 1402133, 1402141, 1402214, 1402222, 1402231, 1402249, 1402257, 1120294

LOCATION: 4900 Overseas Highway, Bay, Marathon

KEY: City of Marathon

LEGAL DESCRIPTION: Lots 5 & 6, Lots 1,2,9,10,11,12,13, and "Adj. To Lot 13" & Adjacent Baybottom

PROPERTY LOCATION: MM 49

DATE OF SALE: 12/06/06 **SALE PRICE:** $ 11,000,000

INSTRUMENT: Warranty Deed **OFFICIAL RECORD BOOK** 2257, **PAGE** 1788

CONDITION: Arm's Length

VERIFICATION: Buyers, Appraisal (370-06), and Public Records, James E. Wilson

GRANTORS: Jack W. And Veronica Leggett

GRANTEE: HTG Crystal Cove Resort, LLP

FINANCING: Conventional

AREA: Upland - 5.78 Acres (per Development Agreement), 33,777 Square Feet of Bay Bottom

UNITS TO BE DEVELOPED: 27 Market Rate and 3 Affordable Units = Total 30 Units

WATER FRONTAGE: Marina & Boat Basin, Bay of Florida

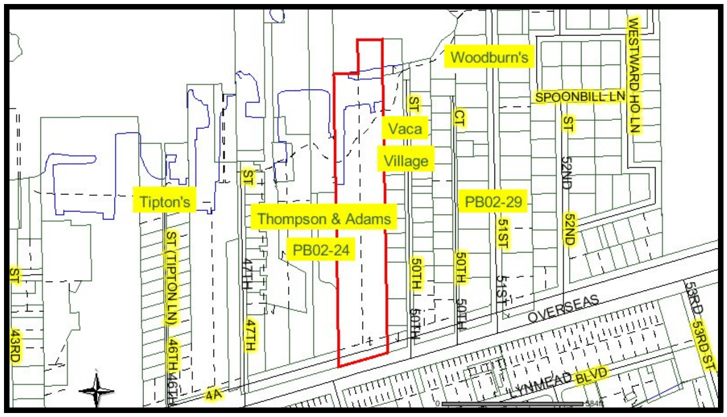
PRICE PER DWELLING UNIT: $ 366,667

HIGHEST AND BEST USE: Residential Development with Maximized Density

UTILITIES: Available on-site

ACCESS: Overseas Highway

COMMENTS: This comparable is a combination of nine contiguous parcels, with approximately 296.5 feet of highway frontage along the north side of the Overseas Highway, approximately 649.2 feet of frontage along Vaca Road (A.K.A. 50th Street excluding Lots 4, 5, 6, 7 & 8 of the Vaca Village Sub-division), with an overall depth of approximately 1,220 feet, and extending to the Florida Bay in the City of Marathon. There are twelve (12) buildings including a stilted residence on the site. Four of the buildings are wood structures and the remaining are CBS construction. The site contains approximately 187.5 linear Feet of water-frontage along the southern boundary of the Bay of Florida, (excluding a length of 45 Linear Feet of Bay Front that was not included in the survey) plus wood and concrete dockage along a man-made canal and around the existing boat basin. The property can be developed with originally 30 market rate units, according to City of Marathon Development Order 2004-06, and, later amended to 27 two-bedroom market rate units with Ordinance 2004-017. Three units were memorialized as Conditional Redevelopment Units that will be scheduled as future "affordable housing" units (the manager's residence located over the check-in building, is scheduled as one of the affordable units), the configuration as defined in the Development Order 2004-06. Hence, the development rights for the property consist of 27 market rate, two bedroom/two & one half baths, dwelling units, without going through the ROGO process with 3 memorialized affordable housing units, plus a 27-boat slip marina. This comparable is located approximately 48 miles northeasterly from the subject property. Overall, this comparable is considered inferior to the subject due to its Marathon location.



Woodburn's
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WESTWARD HO LN
Vaca
Village
Tipton's
Thompson & Adams
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PB02-29
ST
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51ST
ST (TIPTON LN)
47TH
50TH
46TH
43RD
4A
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REDEVELOPMENT LAND SALE 6

PROJECT NAME: Aloha Community

PROPERTY TYPE: Mobile Home Park/Motel with Single Family Residence and Canal Redevelopment Land Sale

COUNTY ASSESSORS PARCEL NO.: 1416151, 1416193, 8694474, 1416169, 9081696, 1120841

KEY: City of Marathon **ZONING:** MU, Mixed-Use

LEGAL DESCRIPTION: This property is located in a part of Tract 2 of Edmond's Acreage Tract. Lengthy metes and bounds description.

PROPERTY LOCATION: Located at Mile Marker 51

DATE OF SALE: 10/04/06 **SALE PRICE:** $ 8,250,000

INSTRUMENT: Warranty Deed **OFFICIAL RECORD BOOK** 2244, **PAGE** 1689

CONDITION: Arm's Length

VERIFICATION: Buyer, Seller, Appraisal (307-06), and Public Records, Richard Padron

GRANTOR: Aloha Developers, LLC

GRANTEE: HTG Oceanside Estates, LLLP

FINANCING: Conventional

AREA: Upland - 290,009 Square Feet or 6.66 Acres, plus 1.32 Acres of baybottom.

UNITS TO BE DEVELOPED: 25 Units

WATER FRONTAGE: 220 Feet, Deep Canal Leading to Atlantic Ocean

PRICE PER DWELLING UNIT: $ 330,000

HIGHEST AND BEST USE: Residential Development with Maximized Density

UTILITIES: Available on-site

ACCESS: Overseas Highway, U.S. Highway No. 1

<u>COMMENTS</u>: This comparable is a combination of four contiguous parcels with highway frontage along the south side of the Overseas Highway and extending to the Atlantic Ocean in the City of Marathon. Three of the parcels that are improved and described as follows: Tract "A" was formerly had 16 mobile home units, which have been removed, seven CBS/masonry former motel units, plus two modular homes, Tract "B" consists of a 3 bedrooms, 2 bathroom single family home with a large double garage, Tract "C" is made up of a Suburban Residential (SR) zoned vacant undeveloped land, and Tract "D" consists of a two bedroom, two bathroom single family home on an open water/canal lot. The subject property can be developed with 25 market rate units according to a letter prepared by Ms. Wendy Dyer, Acting Planning Director, dated June 15, 2006.

The property is very well located in the middle of Marathon close to the city shopping centers, the airport and other service along the Overseas Highway and enjoys the open water views and boating access on the Atlantic Ocean. Within the approximately 119 linear feet of ocean frontage there is a man-made canal that extends about 200 feet into the property plus a private boat basin that offer good boating access to the Atlantic Ocean. Overall, this comparable is considered to be inferior to the subject due to its Marathon location.

REDEVELOPMENT LAND SALE NO. 7

PROJECT NAME: Former Hampton Inn

PROPERTY TYPE: Redevelopment of 74 Transient Licensed Residential Units

LOCATION: 2801 N. Roosevelt Boulevard, Key West

COUNTY ASSESSORS PARCEL NO.: 00002410-000400 **ZONING:** CG

GRANTOR: H.L. Murphy, Inc.

GRANTEE: Parrot Key Associates, Inc.

DATE OF SALE: 08/15/05 **OFFICIAL RECORD BOOK:** 2143, **PAGE** 0204

LAND AREA: 218,671 sq. ft./5.025 Acres

PURCHASE PRICE: $35,000,000 **PRICE PER SQ. FT.:** $ 160.06

UNITS TO BE DEVELOPED: 74 **PRICE PER UNIT**: $ 472,973

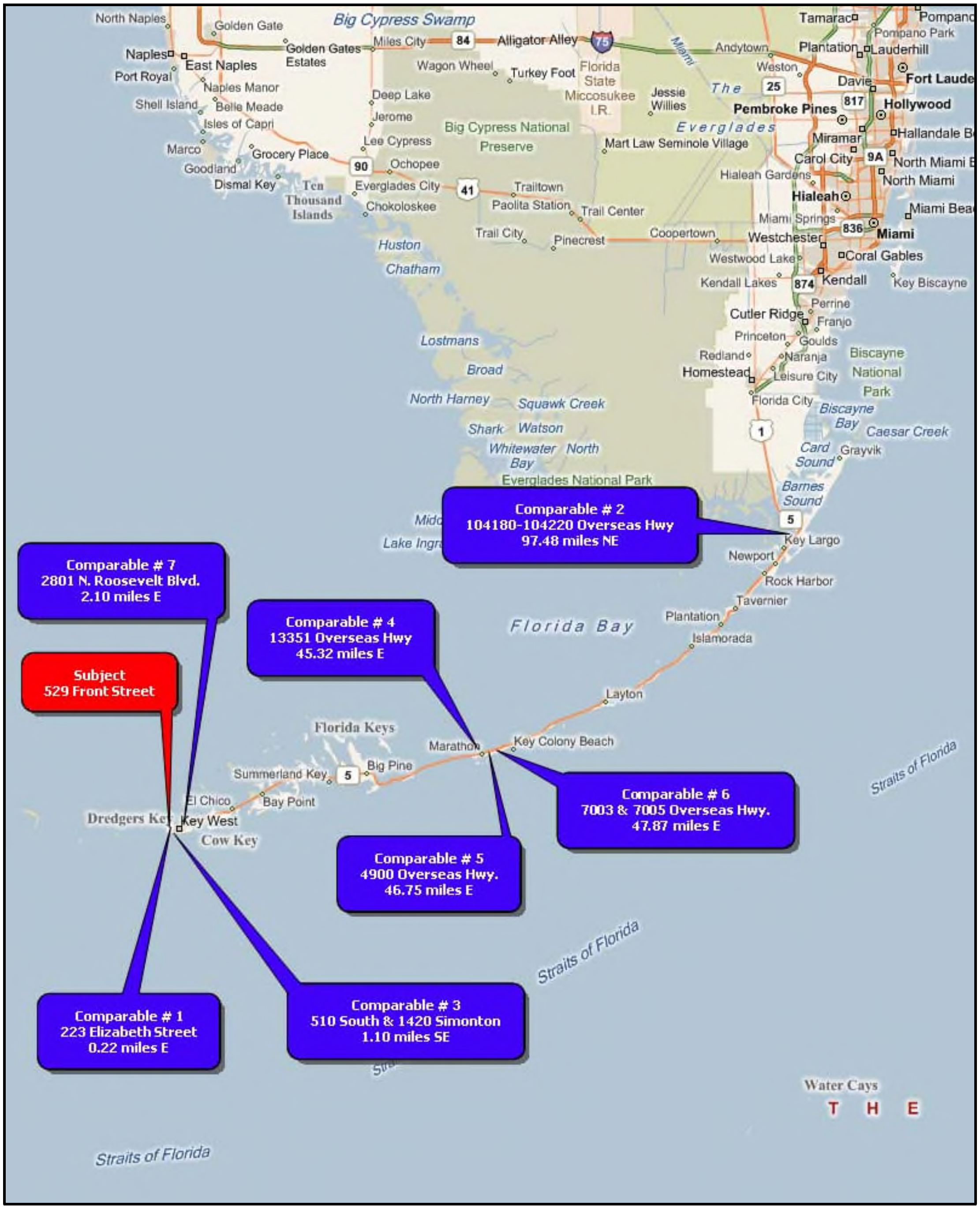
HIGHEST AND BEST USE: Residential Redevelopment

TERMS OF SALE: Cash to Seller (Conventional Mortgage)

INTEREST CONVEYED: Fee Simple

Comments: This comparable is located about 3 miles easterly from the subject property in the New Town Area of the City of Key West. This comparable is an irregular sized lot containing 218,671 square feet or 5.025 acres. This project was developed with 74, two and one-half story, 3 bedroom/3.5 bathroom transient licensed residential units which also some (17) have Florida Bay views, similar to the subject property, while 28 units overlook Salt Run Channel and the remainder have courtyard views. This project however, does contain water access for jet skis on the southwest corner of the property, but is not boatable. The sale was a cash sale with conventional financing and considered an arm's length transaction. It is most inferior to the subject property in water view due to the dense mangrove fringe and low site level. After the sale, the developer razed the hotel and filled the site to a seven-foot ground elevation; therefore, the first level of the finished units were above the mangroves. This comparable is overall slightly inferior to the subject due to its New Town location.

COMPARABLE LAND SALES MAP



2. Valuation Regression Analysis:

These comparables were the most similar recent sales and were the most reliable in valuing the subject property. Due to the lack of paired sales data, percentage adjustments and/or comparisons were not utilized. Instead, we have considered a linear regression analysis of the comparables based on reasonable units of measure. We have found a very tight correlation between the land square footage, location and the adjusted sales price.

The x-variables, two independent variables, is the land site size and number of transient units for each comparable. The y-variable, dependent variable, is the comparables adjusted sales price. This data population sample of the comparable sales indicates a tight correlation which is measured by the R^2 of the data set. In the case at hand, a correlation of +0.921 was indicated. Correlations near 1.0 are considered most reliable; therefore, the subject's correlation is considered very reliable, and the population sample appears appropriate in our valuation model and can be considered credible in the units of measure for the subject property. The computer analysis of this model indicated the following values:

Intercept =	**($498,041.81)**	
	Land SF$_1$	**No. Units$_2$**
Subject Coefficients X$_n$	**21,643**	**22**
B$_n$	**$4.92**	**$112,020.02**

In equation form, the regression model looks like this:

$Y = (X_1b_1) + (X_2B_2)$ + Intercept

Y = (21,643 X $4.92) + (22 X $112,020.02) + -$498,041.81 = $2,072,882

Land Valuation Summary

Adjusted sale price per square foot of land for the comparable ranged from $9.68 to $121.03 with a mean of $51.75 and a median of $41.51 per square foot. While the unadjusted dollars per unit for the comparables ranged from $104,167 to $472,973, with the mean of $314,777 and the median of $330,000 per unit. The indicated value for the subject was considered credible and reliable as the dollar per unit is well supported by Comparable No. 1 which is the most recent pending sale and within two blocks of the subject property. Our estimated value per square foot is at the upper limit of the range due to the small size of the subject. Furthermore, the appraisers note that the subject property is smaller than any of the comparable sales and has fewer number of units, as there have not been any sales of property this small within the market area. The dollar per square foot is inversely related to the site size, in other words the larger the site the lower the dollar per square foot. However, the number of entitlement units is also considered.

Land Value Indicated for Subject Property by the Sales Comparison Approach (Rounded): $2,100,000

3. Estimate of Improvement Costs and Summary:

The replacement cost of the improvements has been estimated using the Marshall Valuation Service and our knowledge of actual cost to construct in the area. These costs are continuously updated and adjusted for local differences.

The Marshall Valuation Service cost estimates include labor materials and sales tax, average architect and engineer's fees, job supervision and insurance, and contractor's overhead and profit. The cost estimates do not include: costs of buying/assembling the land (i.e., escrow fees, legal fees, demolition, storm drains or rough grading), costs of land planning or preliminary concept and layout for a large development, discounts or bonuses for financing, developer's overhead and profit, and interest or taxes on land.

On the following pages, the replacement cost new and estimated depreciation for the subject buildings have been estimated:

Marshall & Swift Cost Estimates

Marshall & Swift Basic Cost	
Motel & Health Club	Data Input
Class C: Very Good Construction Quality	
Section 12, Page 9 Dated 08/2010 & Section 11,Page 31, Dated 11/10	
Basic Structure Cost (per S.F. of Building Area):	$124.56
Class C: Good Construction Quality	
(Less: Air Condition Adjustments	($3.49)
Adjusted Basic Structure Cost	$121.07
Floor Area/Perimeter Multiplier	0.935
Ceiling Height	0.973
Adjusted Cost per Square Foot:	$110.15
Time and Local Multipliers:	
Time (Section 99/Page 3/ Dated 04/11)	1.03
Local (Section 99/Page 7/ Dated 04/11)	1.17
Resort Multiplier (Section 99/Page 1/ Dated 01/11)	1.40
Adjusted Cost per Square Foot:	$185.84
Estimated Cost per Square Foot (Rounded):	**$186.00**
Entry Stairs & Porches-Ground Level, (Rounded):	**$61.00**
Balconies (Rounded):	**$80.00**

Marshall & Swift Basic Cost	
Utility Building	**Data Input**
Class C - Good Quality	
Section 17, Page 12 Dated 05/2009	
Basic Structure Cost (per S.F. of Building Area):	$32.09
Refinement Multipliers:	
Floor Area/Perimeter Multipliers (Page 12):	1.311
Story Height Multiplier (Page 12)	1.000
Total Basic Cost	$42.07
Time and Local Multipliers:	
Time (Section 99/Page 3/ Dated 01/11)	1.02
Local (Section 99/Page 7/ Dated 01/11)	1.17
Resort Multiplier	1.40
Adjusted Cost per Square Foot:	$70.29
Estimated Cost per Square Foot (Rounded):	**$70.00**

A Cost and Depreciation Summary for the subject follows:

Detailed Cost Approach Caribbean Spa 529 Front Street, Key West, Florida								
Detailed Cost Estimate	**Quantity/ Size**	**Unit Cost**	**Effective Age**	**Total Life**	**Depreciation**	**Replacement Cost New**	**Depreciated Value**	**RCN Per Room**
Cost New for the Motel/Health Club Building:	24,188	$186	10	50	20.0%	$4,498,968	$3,599,174	$204,499
Cost New for Porches & Entry Stairs:	1,673	$61	10	50	20.0%	$102,053	$81,642	$4,639
Cost New for Balconies:	1,903	$80	10	50	20.0%	$152,240	$121,792	$6,920
Cost New for the Utility Buildings:	650	$70	10	50	20.0%	$45,500	$36,400	$2,068
Total Cost for Building Improvements:						$4,798,761	$3,839,008	$218,126
Plus: Site Improvements & Extras:								
Commercial Swimming Spa Pool w/ Waterfall	95	$300.00	5	25	20.0%	$28,500	$22,800	$1,295
Concrete Patio Decking	1,121	$6.50	10	45	22.2%	$7,287	$5,668	$331
Tiled Patio Decking	835	$16.50	10	30	33.3%	$13,778	$9,185	$626
CBS/Masonry Fencing	1,388	$12.25	15	50	30.0%	$17,003	$11,902	$773
Signage	1	$8,000.00	5	25	20.0%	$8,000	$6,400	$364
Landscaping	1	$85,000.00	0	30	0.0%	$85,000	$85,000	$3,864
Total Site Improvements & Extras:						$159,568	$140,955	$7,253
Estimated Value before F, F & E Land Value, Entrepreneurial Incentive and Indirect Costs:						$4,958,329	$3,979,963	$225,379
Plus: Furniture, Fixtures & Equipment:								
22 Units FF&E including Health Club & Spa	1	$261,000	10	25	40.0%	$261,000	$156,600	$11,864
Estimated Value before Indirect Costs:						$5,219,329	$4,136,563	$237,242
Estimated Land Value						$2,100,000	$2,100,000	
Plus Indirect Costs*:					19.7%	$524,000	$420,772	$23,818
Replacement Cost New of Building and Site Improvements:						$7,843,329	$6,657,335	$261,060
Total Replacement Cost New of Building Improvements & Land (Rounded):						**$7,800,000**		
Value Indicated Via the Cost Approach (Rounded):							**$6,700,000**	

*Indirect Costs: The Indirect Costs in the Cost Approach are based on expenditures for items other than labor and materials, such as professional fees, financing costs, and taxes and insurance during construction. Because of the construction expenses incurred in Monroe County, including impact fees for commercial retail/office and residential apartment uses, plus permit fees, these Indirect Costs are a necessary part of our

Cost Approach analysis. It is based on estimated impact fees, plus a percentage of the Replacement Cost New which we have found to be consistent. This cost is grouped with other miscellaneous costs such as site improvements and site value, and is part of the building cost as it is depreciable.

******<u>Entrepreneurial Incentive:</u> Entrepreneurial Incentive is realized only when the property is first developed and sold, even if the sale takes place years after the property was built. Over time, entrepreneurial profit becomes obscured by the appreciation in property values. Entrepreneurial Incentive is truly a developer's profit and a "return to the land." In the case at hand, similar hotel/guest house properties are owner-occupied; hence, entrepreneurial incentive was not included in the Cost Approach.

<u>Physical Depreciation Estimate:</u> The appraisers utilized the Economic Age-Life Method in estimating physical depreciation for the subject buildings. The original structure was built in approximately 1969 according to the lease terms. The structure has been totally renovated and updated, as well as being well maintained over the years. There was no evidence of deferred maintenance or any potential structural issues noted. The structure is in very good to excellent condition and depreciation estimates are based on a straight-line basis.

<u>Functional or External Obsolescence:</u> The subject property does not suffer from functional or external obsolescence. Hence, the appraisers have not indicated any functional or external obsolescence, but rather only the physical obsolescence based on a straight line basis.

<u>Conclusion:</u> The Cost Approach is generally considered to have limited applicability in valuing commercial properties. Estimates of physical depreciation for older structures like the subject property are difficult; therefore, it makes the Cost Approach less reliable. Furthermore, because of the built-up nature of the neighborhood and entitlements, the subject structure may never reach its economic life, but continue to be updated and/or converted to its Highest and Best Use. Furthermore, it is difficult and not reliable to estimate depreciation in older buildings that have been converted and renovated. Hence, the Cost Approach was considered but not weighted in the final value conclusion.

"As Is" Value of the Fee Simple Interest Indicated for Subject Property via the Cost Approach (Rounded): . . . . <u>$6,700,000</u>

C. SALES COMPARISON APPROACH:

The Sales Comparison Approach is an appraisal technique in which the market value estimate is based on the prices paid in actual market transactions and current listings. The actual transaction will fix the lower limits of value in a static or advancing market and higher limit in a declining market. It is a process of correlation and analysis of similar properties that recently sold in the subject's market area.

This approach to value is based upon the principal of substitution; that is, when a property is placed in the market, its value tends to be set at the cost of acquiring an equally desirable substitute property, assuming no costly delays in making the substitution.

The Sales Comparison Approach bases its value indication on sales of other similar properties in the area. These sales are analyzed and compared to the subject properties. The Sales Comparison Approach bases its value indication on sales of other similar properties in the area. These sales are analyzed and compared to the subject property. From these comparable sales, the appraiser must extract meaningful "common denominators" to be applied to the subject building. Typically, the sales price per square foot of the gross building or per unit, and the overall sale price are the most common denominators, used in estimating the value of the properties similar to the subject. Adjustments are made to the indicated sale prices for differences between the sale and the subject, when possible. The more similar the sale is to the subject property, the fewer required adjustments, and the better it serves as an indicator of value.

1. Analysis of Market Data:
   A thorough search was conducted for recent sales of similar commercial properties. A survey of the market area resulted in comparable motel/hotel property sales which were located within the subject's Florida Keys market area. After dismissing the outliers, twenty-three sales were considered in the valuation of the subject property. The subject consists of an existing downtown lodging facility containing a total of 22 transient hotel units plus a fitness center, health spa, and conference center. Although none of the sales are truly similar, the available sales were considered a reliable representation within the subject's market area. The following chart summarizes relevant units of measure of the comparable sales followed by detail sales information sheets.

Resume of Key West and Florida Keys Hotel/Motel & Guest House Comparable Sales

Comp. No.	Property Name	Street	Key	Sale Date	Total Sales Price	Time Adjusted Price	Upland Size Sq. Ft.	G.B.A. Sq. Ft.	No. of Units	Frontage Water	Condition	Density	Adjusted Price/SF Land Area	Adjusted Price/SF Bldg. Area	Adjusted Price Per Unit	Est EGI per Unit	Est. EGIM	Adj. EGIM	Gross PAR	Est. OER	Est. OAR	Distance From Miles
1	Paradise Inn	819 Simonton Street	Key West	02/16/11	$4,400,000	$4,400,000	33,873	10,305	18	0.0	1.00	23.15	$129.90	$426.98	$244,444	$56,740	4.3	4.3	$155.45	62.3%	8.0%	0.65
2	Nassau House	1016 Fleming Street	Key West	02/03/11	$1,275,000	$1,275,000	4,960	3,437	5	0.0	0.25	43.91	$257.06	$370.96	$255,000	$47,000	5.4	5.4	$128.77	N/A	N/A	0.56
3	Pirates Cove	614 Greene Street	Key West	01/07/10	$925,000	$792,100	4,759	1,703	3	0.0	0.25	27.46	$166.44	$465.12	$264,033	$48,333	6.4	5.5	$132.42	50.0%	7.8%	0.14
4	Seascape an Inn	420 Olivia Street	Key West	12/31/08	$1,510,533	$1,146,800	3,318	2,053	6	0.0	0.50	78.77	$345.63	$558.60	$191,133	$39,900	6.3	4.8	$109.32	58.2%	6.6%	0.71
5	Artist House	534 Eaton Street	Key West	08/15/08	$2,130,000	$1,546,500	4,365	3,820	7	0.0	0.50	69.86	$354.30	$404.84	$220,929	$49,029	7.4	5.4	$134.32	N/A	N/A	0.30
6	Ramada Inn / Inn at Key West	3420 N. Roosevelt Blvd.	Key West	10/04/07	$30,169,800	$19,774,800	137,650	33,925	105	0.5	0.50	33.23	$143.66	$582.90	$188,331	NA	NA	NA	NA	NA	NA	2.79
7	Sheraton Suites	2001 S. Roosevelt Blvd.	Key West	06/27/07	$39,000,000	$24,756,300	215,186	58,091	184	0.5	1.00	37.25	$115.05	$426.16	$134,545	NA	NA	NA	NA	NA	NA	2.11
8	Ocean Breeze Inn	625 South Street	Key West	05/24/07	$4,000,000	$2,511,300	16,368	5,567	15	0.0	0.75	39.92	$153.43	$451.10	$167,420	$46,030	5.8	3.6	$126.11	49.6%	8.6%	1.07
9	Days Inn	3852 N. Roosevelt Blvd.	Key West	11/08/06	$25,000,000	$15,196,300	144,184	42,125	134	0.0	0.50	40.48	$105.40	$360.74	$113,405	NA	NA	NA	NA	NA	NA	3.37
10	Radisson Inn	3820 N. Roosevelt Blvd.	Key West	11/01/06	$29,928,000	$18,226,000	134,688	31,454	145	0.5	0.75	46.90	$135.32	$579.45	$125,697	NA	NA	NA	NA	NA	NA	3.24
11	Comfort Inn	3824 N. Roosevelt Blvd.	Key West	11/01/06	$18,982,300	$11,560,100	132,858	43,644	100	0.5	0.50	32.79	$87.01	$264.87	$115,601	NA	NA	NA	NA	NA	NA	3.33
12	Fairfield Inn	2400 N. Roosevelt Blvd.	Key West	06/05/06	$20,877,300	$13,228,700	88,181	18,844	106	0.5	1.00	52.36	$150.02	$702.01	$124,799	NA	NA	NA	NA	NA	NA	1.82
13	Ambrosia House and Ambrosia Too	615, 618-622 Fleming Street	Key West	05/11/06	$7,600,000	$4,847,600	20,877	8,936	16	0.0	1.00	33.38	$232.20	$542.48	$302,975	$69,812	6.8	4.3	$191.27	53.6%	6.8%	0.35
14	Wicker Guesthouse	913 Duval Street	Key West	02/03/06	$6,100,000	$3,991,100	18,808	8,870	21	0.0	0.75	48.64	$212.20	$449.95	$190,052	$52,489	5.5	3.6	$143.81	51.4%	8.8%	0.72
15	Red Rooster Inn and Chelsea House	705-709 Truman Avenue and 915-919 Elizabeth Street	Key West	09/16/05	$9,900,000	$6,716,700	34,485	12,076	33	0.0	0.75	41.68	$194.77	$556.20	$203,536	$47,111	6.4	4.3	$129.07	52.0%	7.5%	0.78
16	Banana Bay Resort	2319 N. Roosevelt Blvd.	Key West	09/08/05	$13,500,000	$9,178,000	102,366	32,622	50	1.0	1.00	21.28	$89.66	$281.34	$183,560	NA	NA	NA	NA	NA	NA	1.73
17	Hampton Inn Key West	2801 N. Roosevelt Blvd.	Key West	08/15/05	$35,000,000	$23,941,900	218,671	53,544	157	1.0	0.75	31.27	$109.49	$447.14	$152,496	$39,349	5.7	3.9	$107.81	68.26%	5.6%	2.10
18	Reach Resort	1435 Simonton Street	Key West	05/04/05	$45,562,100	$31,997,900	127,115	120,512	150	1.0	1.25	51.40	$251.72	$265.52	$213,319	$60,667	5.0	3.5	$166.21	65.93%	6.8%	1.16
19	Quality Inn / Holiday Inn	3850 N. Roosevelt Blvd.	Key West	04/28/05	$20,000,000	$14,067,300	166,835	38,209	141	0.0	0.50	36.81	$84.32	$368.17	$99,768	$40,638	3.5	2.5	$111.34	72.95%	7.8%	3.34
20	Heron House	512-520 Simonton Street	Key West	03/15/05	$8,800,000	$6,259,100	16,521	9,914	22	0.0	0.75	58.01	$378.86	$631.34	$284,505	$63,586	6.3	4.5	$174.21	55.5%	7.1%	0.40
21	Lighthouse Court	902-912 Whitehead Street	Key West	01/11/05	$9,250,000	$6,684,500	27,680	14,131	40	0.0	0.75	62.95	$241.49	$473.04	$167,113	$43,892	5.3	3.8	$120.25	57.3%	8.0%	0.73
22	Authors Of Key West	725 White Street	Key West	07/15/04	$1,900,000	$1,436,100	8,624	4,449	9	0.0	0.50	45.46	$166.52	$322.79	$159,567	$31,687	6.7	5.0	$86.81	63.1%	5.5%	0.82
23	The Gardens Hotel	526 Angela Street	Key West	04/01/04	$7,000,000	$5,429,800	35,291	9,837	17	0.0	1.25	20.98	$153.86	$551.98	$319,400	$64,706	6.4	4.9	$177.28	57.0%	7.6%	0.52
24	Holiday Inn Beachside	3841 N. Roosevelt Blvd.	Key West	07/25/03	$17,170,000	$14,156,100	338,461	91,549	222	1.0	0.50	28.57	$41.82	$154.63	$63,766	$28,280	2.7	2.3	$77.48	57.60%	15.5%	3.42
Subject	**Caribbean Spa**	**529 Front Street**	**Key West**	**NA**	**NA**	**NA**	**21,643**	**24,188**	**22**	**0.0**	**1.10**	**44.28**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**	
	Valuation Date:	**05/01/11**		**Mean**	**$14,999,168**	**$10,130,000**	**84,839**	**27,484**	**71**			**41.94**	**$179.17**	**$443.26**	**$186,891**	**$48,779**	**5.6**	**4.2**	**$133.64**	**58.31%**	**7.9%**	
	Appreciation Rate:	**6.0%**		**Median**	**$9,575,000**	**$6,700,600**	**34,888**	**13,104**	**37**			**40.20**	**$153.64**	**$448.55**	**$185,946**	**$47,111**	**5.8**	**4.3**	**$129.07**	**57.29%**	**7.6%**	
	Depreciation Rate:	**-11.0%**		**Minimum**	**$925,000**	**$792,100**	**3,318**	**1,703**	**3**			**20.98**	**$41.82**	**$154.63**	**$63,766**	**$28,280**	**2.7**	**2.3**	**$77.48**	**49.55%**	**5.5%**	
	Market Peak Date:	**12/31/06**		**Maximum**	**$45,562,100**	**$31,997,900**	**338,461**	**120,512**	**222**			**78.77**	**$378.86**	**$702.01**	**$319,400**	**$69,812**	**7.4**	**5.5**	**$191.27**	**72.95%**	**15.5%**	

EGIM=Effective Gross Income Multiplier
GrossPAR=Revenue Per Available Room Note[*] Combined Income
OAR=Overall Rate -"Cap Rate" **GRRM=Gross Room Rate Multiplier**
NOI=Net Operating Income **ADR=Average Daily Rate**
OER=Operating Expense Ratio **EGI=Effective Gross Income**

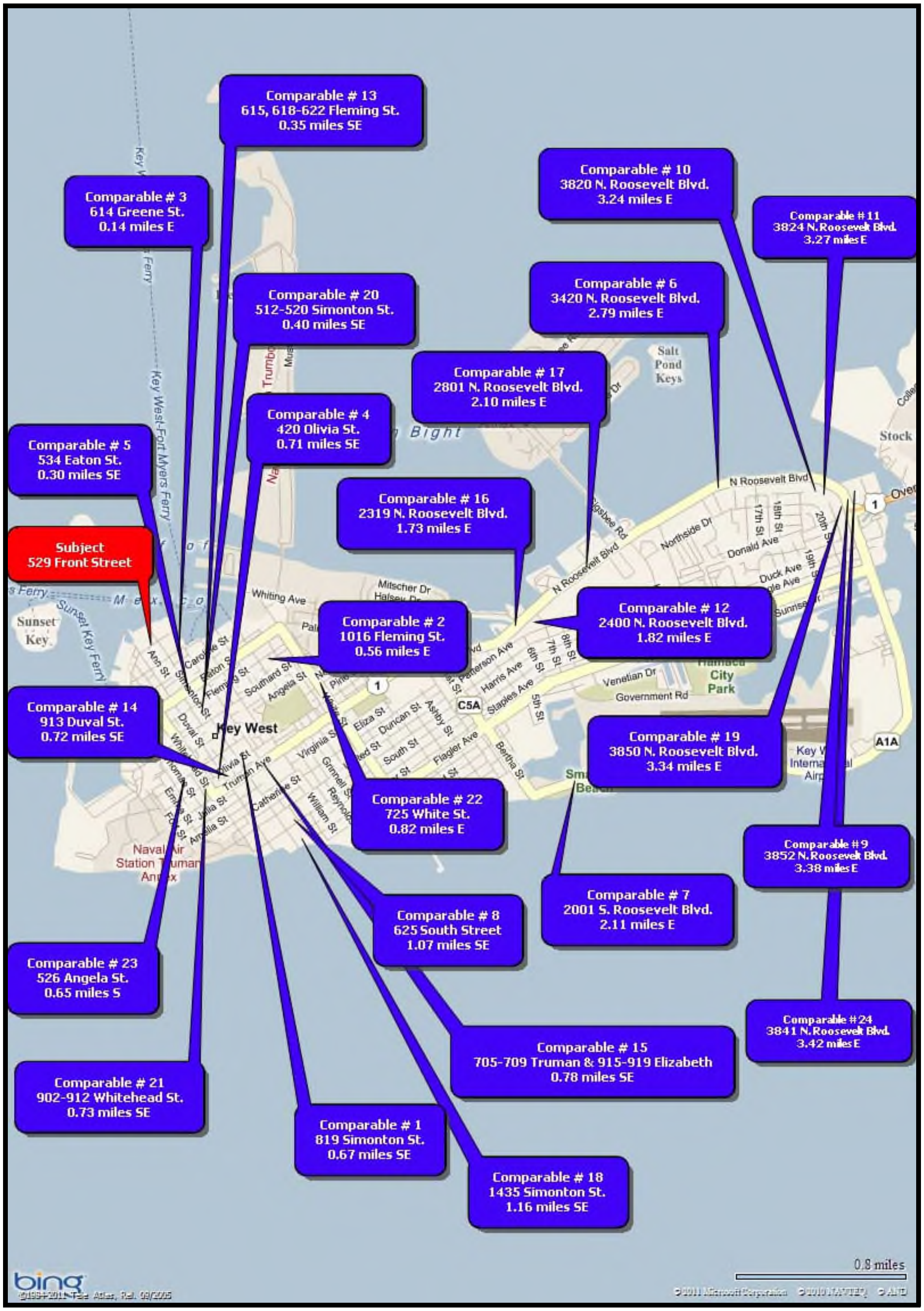
WaterFrontage:
None = 0.0
Canal = 0.5
Ocean/Bay = 1.0

Highway Frontage:
None = 0.0
Exposure (No Access) = 0.5
Access = 1.0

Condition:
Below Average = 0.00
Average = 0.50
Good = 1.00
Excellent = 1.25

Note: See Market Condition Analysis following the detailed comparable sales.

COMPARABLE SALES MAP (1)



IMPROVED SALE NO. 1

PROPERTY NAME: Paradise Inn

PROPERTY TYPE: Commercial **CURRENT USE:** Hotel

PROPERTY LOCATION: 819 Simonton Street

DATE OF SALE: 02/16/11 **DAYS ON MARKET:** N/A

SALE PRICE: $4,400,000 **LISTING PRICE:** N/A

GRANTOR: Paradise Inn, Ltd.

GRANTEE: Paradise Inn Hostel, LLC

DOCUMENT TYPE: Warranty Deed

LEGAL DESCRIPTION: Four Parcels, a Part of Tract 4 according to William A. Whitehead's Map, Part of Lot 2, Square 4, more particularly described by Metes and Bound Description

PARCEL ID: RE # 00016410-000000 **ALTERNATE KEY#** 1016802

VERIFICATION: Seller and Public Records: JW

FINANCING: Private 78.4% Loan to Value

CONDITIONS OF SALE: Arm's Length

IMPROVED SALE NO. 1 (Continued)

PRIOR SALES LAST 3 YEARS: N/A

LAND SIZE: 33,873 Square Feet

GROSS BUILDING AREA: 10,305 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 30.4%

ZONING: HNC-1

BUILDING DESCRIPTION: Six Buildings - Four, One-Story and Two, Two-Story

CONSTRUCTION: Wood Frame

CONDITION: Average to Good

YEAR BUILT: 1913 to 1995

PARKING: On Site Open Parking

PRICE PER SQUARE FOOT OF GBA: $426.98

EFFECTIVE GROSS INCOME: (Estimated) $1,021,315

NOI - NET OPERATING INCOME: (Estimated) $350,000

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 4.3

OPERATING EXPENSE RATIO: 65.7

OVERALL RATE: 7.96%

NUMBER OF LICENSED UNITS: 18 **SALES PRICE PER UNIT:** $244,444

APPRAISED BY OUR OFFICE:
DATE: 02/14/94 **FILE NUMBER:** 773-93

IMPROVED SALE NO. 2

PROPERTY NAME: Nassau House

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse/Bed and Breakfast

PROPERTY LOCATION: 1016 Fleming Street

DATE OF SALE: 02/03/11 **DAYS ON MARKET:** 139

SALE PRICE: $1,275,000 **LISTING PRICE:** $1,700,000 **RATIO:** 75.0%

GRANTOR: Special Acquisitions IV, Inc.

GRANTEE: The Artist House on Fleming, Inc.

DOCUMENT TYPE: Special Warranty Deed

LEGAL DESCRIPTION: KW Part of Lot 2, Sqr. 45 (Metes and Bound Description)

PARCEL ID: RE # 00007290-000000 **ALTERNATE KEY#** 1007552

VERIFICATION: Seller; RP

FINANCING: Conventional (TIB Bank - 80% LTV)

CONDITIONS OF SALE: Arm's Length (REO)

IMPROVED SALE NO. 2 (Continued)

PRIOR SALES LAST 3 YEARS: 08/17/06 Price $2,150,000 OR Bk. 2231, Page 1792
This sale indicated an annual decline of 10.9% based on a sale/resale analysis of this comparable. This decline was based on a 4.55 year period from 2006 to 2011.

LAND SIZE: 4,960 Square Feet **GROSS BUILDING AREA:** 3,437 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 69.3%

ZONING: HNC-2

BUILDING DESCRIPTION: Two-Story Buildings

CONSTRUCTION: Wood Frame

CONDITION: Fair to Average

YEAR BUILT: 1933

PARKING: On Street Parking

PRICE PER SQUARE FOOT OF GBA: $370.96

EFFECTIVE GROSS INCOME (First Year-Estimated per Appraisal):$235,000

NOI - NET OPERATING INCOME: Not Stabilized

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 5.4

OPERATING EXPENSE RATIO: N/A

OVERALL RATE: N/A

NUMBER OF LICENSED UNITS: 5 **SALES PRICE PER UNIT: $**255,000

APPRAISED BY OUR OFFICE:
DATE: 11/04/10 **FILE NUMBER:** 339-10

IMPROVED SALE NO. 3

PROPERTY NAME: Pirates Cove

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse/Bed and Breakfast

PROPERTY LOCATION: 614 Greene Street

DATE OF SALE: 01/07/10 **OFFICIAL RECORD BOOK/PAGE**: 2448/755

DAYS ON MARKET: 196

SALE PRICE: $925,000 **LISTING PRICE:** $1,299,000 **RATIO:** 71.2%

GRANTOR: BDM, LLC

GRANTEE: Dajuld3, LLC

DOCUMENT TYPE: Warranty Deed

LEGAL DESCRIPTION: KW Part of Lot 2, Square. 12, (Metes and Bound Description)

PARCEL ID: RE # 00000930-000000 **ALTERNATE KEY#** 1000949

VERIFICATION: Listing Agent; & Previous Appraisal

FINANCING: Cash to Seller

CONDITIONS OF SALE: Arm's Length

IMPROVED SALE NO. 3 (Continued)

PRIOR SALES LAST 3 YEARS: 10/12/07 Price $1,600,000 OR Bk. 2325, Page 2359

LAND SIZE: 4,759 Square Feet

GROSS BUILDING AREA: 1,703 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 35.8%

ZONING: HRCC-1

BUILDING DESCRIPTION: Two Detached One-Story Buildings

CONSTRUCTION: Wood Frame

CONDITION: Less than Average

YEAR BUILT: 1928

PARKING: On Street Parking

PRICE PER SQUARE FOOT OF GBA: $543.16

EFFECTIVE GROSS INCOME (Stabilized-Estimated per Appraisal): $145,000

NOI - NET OPERATING INCOME: $72,500

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 6.4

OPERATING EXPENSE RATIO: 50.0%

OVERALL RATE: 7.8%

NUMBER OF LICENSED UNITS: 3 **SALES PRICE PER UNIT: $**308,333

IMPROVED SALE NO. 4

PROPERTY NAME: Seascape Tropical Inn

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse/Bed and Breakfast

PROPERTY LOCATION: 420 Olivia Street

DATE OF SALE: 12/31/08 **DAYS ON MARKET:** 0

SALE PRICE: $1,510,533 **LISTING PRICE:** $1,994,000 **RATIO:** 75.7%

GRANTOR: Centennial Bank

GRANTEE: Transitire, Inc.

DOCUMENT TYPE: Special Warranty Deed

LEGAL DESCRIPTION: KW Part of Subs 1 & 2, All Sub 7, Part Lot 1, Sqr. 9, Tr 4 (Metes and Bound Description)

PARCEL ID: RE # 00017850-000100 **ALTERNATE KEY#** 1018317

VERIFICATION: Sales Contract and Buyer; RP

FINANCING: Conventional (Centennial Bank)

CONDITIONS OF SALE: Arm's Length (REO)

IMPROVED SALE NO. 4 (Continued)

PRIOR SALES LAST 3 YEARS: 09/09/05 Price $1,900,000 OR Bk. 2150, Page 138
This sale indicated an annual decline of 6.4% based on a sale/resale analysis of this comparable. This decline was based on a 3.49 year period from 2005 to 2008.

LAND SIZE: 3,318 Square Feet **GROSS BUILDING AREA:** 2,053 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 61.8%

ZONING: HRCC-3

BUILDING DESCRIPTION: Two-Story Buildings

CONSTRUCTION: Wood Frame

CONDITION: Average

YEAR BUILT: 1902

PARKING: On Street Parking

PRICE PER SQUARE FOOT OF GBA: $735.77

EFFECTIVE GROSS INCOME (Stabilized-Estimated per Appraisal): $239,400

NOI - NET OPERATING INCOME: $111,848

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 6.3

OPERATING EXPENSE RATIO: 53.3%

OVERALL RATE: 7.4%

NUMBER OF LICENSED UNITS: 6 **SALES PRICE PER UNIT: $**251,755

APPRAISED BY OUR OFFICE:
DATE: 09/07/10 **FILE NUMBER:** 271-10

IMPROVED SALE NO. 5

PROPERTY NAME: Artist House

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse/Bed and Breakfast

PROPERTY LOCATION: 534 Eaton Street

DATE OF SALE: 08/15/08 **DAYS ON MARKET:** 268

SALE PRICE: $2,130,000 **LISTING PRICE:** $2,600,000 **RATIO:** 81.9%

GRANTOR: David C. Wilson

GRANTEE: Artist House, LLC

DOCUMENT TYPE: Warranty Deed

LEGAL DESCRIPTION: KW Part of Lot 2, Sqr. 37 (Metes and Bound Description)

PARCEL ID: RE # 00006490-000000 **ALTERNATE KEY#** 1006726

VERIFICATION: Listing Agent; RP

FINANCING: Conventional (TIB Bank - 24.6% LTV)

CONDITIONS OF SALE: Arm's Length (Short Sale)

IMPROVED SALE NO. 5 (Continued)

PRIOR SALES LAST 3 YEARS: 06/15/04 Price $1,989,000 OR Bk. 2016, Page 1229
This sale indicated an annual appreciation of 1.7% based on a sale/resale analysis of this comparable. This appreciation was based over a 4.23year period from 2004 to 2008.

LAND SIZE: 4,365 Square Feet **GROSS BUILDING AREA:** 3,820 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 87.5%

ZONING: HNC-1

BUILDING DESCRIPTION: Two and one-half Story Buildings

CONSTRUCTION: Wood Frame

CONDITION: Fair to Average

YEAR BUILT: 1898

PARKING: On Street Parking

PRICE PER SQUARE FOOT OF GBA: $557.59

EFFECTIVE GROSS INCOME (First Year-Estimated per Appraisal):$287,600

NOI - NET OPERATING INCOME: Not Stabilized

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 7.4

OPERATING EXPENSE RATIO: N/A

OVERALL RATE: N/A

NUMBER OF LICENSED UNITS: 7 **SALES PRICE PER UNIT: $**304,286

APPRAISED BY OUR OFFICE:
DATE: 07/01/08 **FILE NUMBER:** 179-08

IMPROVED SALE NO. 6

LOCATION: 3420 North Roosevelt (Formerly Ramada Inn) Currently: Inn at Key West

TYPE OF PROPERTY TYPE: Motel Resort

COUNTY ASSESSOR PARCEL NO.: 00065560-000000 **ZONING:** CG

ALTERNATE KEY NO. 1068268

GRANTOR: Johnson Resort Properties-Florida 1, Inc.

GRANTEE: IKW Borrower, LLC

DATE OF SALE: 10/04/07 **OFFICIAL RECORD BOOK/PAGE**: 2324/2431

PURCHASE PRICE: $30,169,800 **VERIFICATION:** Former Listing Agent, Public Records

INTEREST CONVEYED: Fee Simple

TERMS OF SALE: 88.9% LTV Conventional Financing; Cash to Seller

LAND SALE: 325.0' Frontage - Irregular **AREA:** 3.16 Acres

BUILDING AREA: 33,925 Square Feet

IMPROVED SALE NO. 6 (Continued)

CONSTRUCTION TYPE: CBS/Masonry

PRICE PER GROSS BUILDING AREA: (Including Land Area): $889.31

YEAR BUILT: 1971 & 1976

NUMBER OF UNITS: 105 Units **PRICE PER UNIT:** $287,331

INCOME ANALYSIS:
Verified Income and Expense Information at the time of sale was not available.

HIGHEST AND BEST USE: As Improved

2008 Tax Assessment:

Total Assessment:	$11,421,310
Tax Burden:	$101,575.41

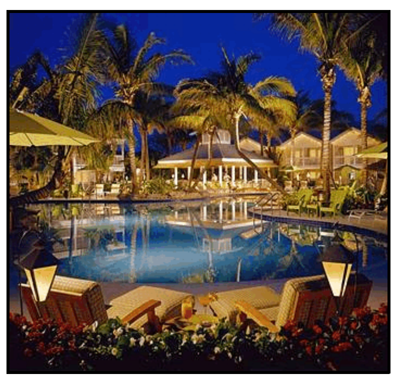
COMMENTS: This comparable contains 105 rooms, but is licensed for 106 units according to the records, plus a 43-seat restaurant. The property is located about 2.79 miles southeasterly from the subject property and boasts frontage along North Roosevelt Boulevard. The structures are built of concrete blocks and were built in 1971 and 1976. The property boasts a luxury swimming pool, wading pool, hot tub and Tiki bar with 32-seat capacity. There are 165 on-site parking spaces. The property has undergone approximately significant in renovations per subsequent to Hurricane Wilma, October 2005. This comparable sale is dry, although some units at the front house shallow water views across North Roosevelt Boulevard.

Aerial

Room View

Lobby View

Pool Views



IMPROVED SALE NO. 7

PROPERTY NAME: Sheraton Suites

PROPERTY TYPE: Commercial **CURRENT USE:** Suites Hotel

PROPERTY LOCATION: 2001 S. Roosevelt Boulevard

DATE OF SALE: 06/27/07 **DAYS ON MARKET:** N/A

SALE PRICE: $39,000,000 **LISTING PRICE:** N/A

GRANTOR: Delray Beach Development, LLC

GRANTEE: OpRock Key West Fee, LLC

DOCUMENT TYPE: Special Warranty Deed

LEGAL DESCRIPTION: KW Tract 45 of an unrecorded map prepared by Crawshaw-Baily and being more particularly described by Metes and Bound Description

PARCEL ID: RE # 00065130-000000 **ALTERNATE KEY#** 1065650

VERIFICATION: Public Records; RP

FINANCING: Assignment of Existing Mortgage

CONDITIONS OF SALE: Arm's Length (Transfer between Corporation)

IMPROVED SALE NO. 7 (Continued)

PRIOR SALES LAST 3 YEARS: 02/14/06 Price $31,000,000 OR Bk. 2188, Page 1927

LAND SIZE: 215,186 Square Feet

GROSS BUILDING AREA: 58,091 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 27.0%

ZONING: CT

BUILDING DESCRIPTION: Ten Buildings - Two Story Elevated Structures

CONSTRUCTION: Wood Frame w/Concrete Columns

CONDITION: Average

YEAR BUILT: 1993

PARKING: On Site Covered Parking

PRICE PER SQUARE FOOT OF GBA: $671.36

EFFECTIVE GROSS INCOME: N/A

NOI - NET OPERATING INCOME: N/A

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: N/A

OPERATING EXPENSE RATIO: N/A

OVERALL RATE: N/A

NUMBER OF LICENSED UNITS: 184 **SALES PRICE PER UNIT:** $211,957

APPRAISED BY OUR OFFICE: No

IMPROVED SALE NO. 8

PROPERTY NAME: Ocean Breeze Inn

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse/Motel

PROPERTY LOCATION: 625 South Street

DATE OF SALE: 5/24/07 **DAYS ON MARKET:** 177

SALE PRICE: $4,000,000 **LISTING PRICE:** $4,800,000 **RATIO:** 83.3%

GRANTOR: Ocean Breeze Inn, Inc.

GRANTEE: Donald Whitehead

DOCUMENT TYPE: Warranty Deed

LEGAL DESCRIPTION: KW Pt. Lots 6 and 7, Square 5, Tract 17

PARCEL ID: RE # 00038140-000000 **ALTERNATE KEY#** 1038890

VERIFICATION: Public Records, Buyer, Seller; RP 4/25/07, Appraisal

FINANCING: Conventional **CONDITIONS OF SALE:** Arm's Length

PRIOR SALES LAST 3 YEARS: 19/13/1999 Price $1,125,000 BK. 1595, Page 2152
This sale indicated an annual appreciation of 17.6% based on a sale/resale analysis of this comparable. This appreciation was based on a 7.84 year period from 1999 to 2007.

IMPROVED SALE NO. 8 (Continued)

LAND SIZE: 16,368 Square Feet **GROSS BUILDING AREA:** 5,567 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 34.0%

ZONING: HRO

BUILDING DESCRIPTION: Three - 1 Story Buildings

CONSTRUCTION: CBS/Masonry

CONDITION: Average to Good

YEAR BUILT: 1958 **PARKING:** On Site Parking

PRICE PER SQUARE FOOT OF GBA: $718.52

EFFECTIVE GROSS INCOME: $690,447

NOI - NET OPERATING INCOME: $348,330

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 5.8

OPERATING EXPENSE RATIO: 49.6%

OVERALL RATE: 8.7%

NUMBER OF LICENSED UNITS: 15 **SALES PRICE PER UNIT: $**266,667

COMMENTS: Property is licensed by the City of Key West for 15 transient units.

APPRAISED BY OUR OFFICE:

DATE: 4/25/07 **FILE NUMBER:** 133-07

IMPROVED SALE NO. 9

PROPERTY NAME: Days Inn Key West

PROPERTY TYPE: Commercial **CURRENT USE:** Hotel

PROPERTY LOCATION: 3852 N. Roosevelt Boulevard

DATE OF SALE: 11/08/06 **DAYS ON MARKET:** N/A

SALE PRICE: $25,000,000 **LISTING PRICE:** N/A

GRANTOR: SH Key West, Ltd.

GRANTEE: JLW Key West 1, LLC

DOCUMENT TYPE: Special Warranty Deed

LEGAL DESCRIPTION: Block 15, Key West Foundation Company's Plat No. 2, recorded in Plat 1, Page 189, more particularly described by Metes and Bound Description

PARCEL ID: RE # 00065060-000000 **ALTERNATE KEY#** 1065587

VERIFICATION: Public Records; RP

FINANCING: Assignment of Existing Mortgage

CONDITIONS OF SALE: Arm's Length (Partnership Transfer)

IMPROVED SALE NO. 9 (Continued)

PRIOR SALES LAST 3 YEARS: N/A

LAND SIZE: 144,184 Square Feet

GROSS BUILDING AREA: 42,125 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 29.2%

ZONING: CT

BUILDING DESCRIPTION: Five Buildings - Two Story Structures

CONSTRUCTION: CBS/Masonry

CONDITION: Fair to Average

YEAR BUILT: 1975

PARKING: On Site Open Parking

PRICE PER SQUARE FOOT OF GBA: $593.47

EFFECTIVE GROSS INCOME: N/A

NOI - NET OPERATING INCOME: N/A

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: N/A

OPERATING EXPENSE RATIO: N/A

OVERALL RATE: N/A

NUMBER OF LICENSED UNITS: 134 **SALES PRICE PER UNIT:** $186,567

APPRAISED BY OUR OFFICE: **No**

IMPROVED SALE NO. 10

PROPERTY NAME: Former Radisson Inn, Now Comfort Inn

PROPERTY TYPE: Commercial **CURRENT USE:** Hotel

PROPERTY LOCATION: 3820 N. Roosevelt Boulevard

DATE OF SALE: 11/01/06 **DAYS ON MARKET:** N/A

SALE PRICE: $29,928,000 **LISTING PRICE:** N/A

GRANTOR: Betty Cooper and Marvin Cooper, as Trustees

GRANTEE: JLW Key West 1, LLC

DOCUMENT TYPE: Special Warranty Deed

LEGAL DESCRIPTION: Block 15, Key West Foundation Company's Plat No. 2, recorded in Plat 1, Page 189, more particularly described by Metes and Bound Description

PARCEL ID: RE # 00065530-000000 **ALTERNATE KEY#** 1068233

VERIFICATION: Public Records; RP

FINANCING: Cash to Seller

CONDITIONS OF SALE: Arm's Length

IMPROVED SALE NO. 10 (Continued)

PRIOR SALES LAST 3 YEARS: N/A

LAND SIZE: 134,688 Square Feet

GROSS BUILDING AREA: 31,454 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 23.4%

ZONING: CG

BUILDING DESCRIPTION: Two Buildings - One Five-Story and One Single-Story Structures

CONSTRUCTION: CBS/Masonry

CONDITION: Fair to Average

YEAR BUILT: 1971 and 2000

PARKING: On Site Open Parking

PRICE PER SQUARE FOOT OF GBA: $951.484

EFFECTIVE GROSS INCOME: N/A

NOI - NET OPERATING INCOME: N/A

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: N/A

OPERATING EXPENSE RATIO: N/A

OVERALL RATE: N/A

NUMBER OF LICENSED UNITS: 145 **SALES PRICE PER UNIT:** $206,400

APPRAISED BY OUR OFFICE: **No**

IMPROVED SALE NO. 11

PROPERTY NAME: Former Comfort Inn, Now Quality Inn

PROPERTY TYPE: Commercial **CURRENT USE:** Hotel

PROPERTY LOCATION: 3824 N. Roosevelt Boulevard

DATE OF SALE: 11/01/06 **DAYS ON MARKET:** N/A

SALE PRICE: $18,982,300 **LISTING PRICE:** N/A

GRANTOR: Barry Preston Cooper

GRANTEE: JLW Key West 1, LLC

DOCUMENT TYPE: Special Warranty Deed

LEGAL DESCRIPTION: Block 15, Key West Foundation Company's Plat No. 2, recorded in Plat 1, Page 189, more particularly described by Metes and Bound Description

PARCEL ID: RE # 00065550-000000 **ALTERNATE KEY#** 1068250

VERIFICATION: Public Records; RP

FINANCING: Cash to Seller

CONDITIONS OF SALE: Arm's Length

IMPROVED SALE NO. 11 (Continued)

PRIOR SALES LAST 3 YEARS:

LAND SIZE: 132,858 Square Feet

GROSS BUILDING AREA: 43,644 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 32.8%

ZONING: CG

BUILDING DESCRIPTION: Five Buildings - Two One-Story and Three Two-Story

CONSTRUCTION: CBS/Masonry

CONDITION: Fair to Average

YEAR BUILT: 1971 and 2000

PARKING: On Site Open Parking

PRICE PER SQUARE FOOT OF GBA: $483.93

EFFECTIVE GROSS INCOME: N/A

NOI - NET OPERATING INCOME: N/A

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: N/A

OPERATING EXPENSE RATIO: N/A

OVERALL RATE: N/A

NUMBER OF LICENSED UNITS: 100 **SALES PRICE PER UNIT:** $189,823

APPRAISED BY OUR OFFICE: **No**

IMPROVED SALE NO. 12

PROPERTY NAME: Fairfield Inn

PROPERTY TYPE: Commercial **CURRENT USE:** Hotel

PROPERTY LOCATION: 2400 N. Roosevelt Boulevard

DATE OF SALE: 06/05/06 **DAYS ON MARKET:** N/A

SALE PRICE: $20,877,300 **LISTING PRICE:** N/A

GRANTOR: Key West Partners I, LLP

GRANTEE: RLJ II-F Key West, LLC

DOCUMENT TYPE: Special Warranty Deed

LEGAL DESCRIPTION: Parcel 13, of a Plat of the Record of The Holdings of A.E. Golan and Florence Golan, recorded in Plat 3, Page 35, more particularly described by Metes and Bound Description

PARCEL ID: RE # 00065220-000100 **ALTERNATE KEY#** 1067849

VERIFICATION: Public Records; RP

FINANCING: Conventional (Barnett Bank)

CONDITIONS OF SALE: Arm's Length

<u>IMPROVED SALE NO. 12 (Continued)</u>

PRIOR SALES LAST 3 YEARS: N/A

LAND SIZE: 88,181 Square Feet

GROSS BUILDING AREA: 18,844 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 21.4%

ZONING: CG

BUILDING DESCRIPTION: Three Buildings - Two One-Story and One Two-Story

CONSTRUCTION: CBS/Masonry

CONDITION: Average

YEAR BUILT: 1987

PARKING: On Site Open Parking

PRICE PER SQUARE FOOT OF GBA: $1,107.90

EFFECTIVE GROSS INCOME: N/A

NOI - NET OPERATING INCOME: N/A

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: N/A

OPERATING EXPENSE RATIO: N/A

OVERALL RATE: N/A

NUMBER OF LICENSED UNITS: 106 **SALES PRICE PER UNIT:** $196,660

APPRAISED BY OUR OFFICE: **No**

IMPROVED SALE NO. 13

The Ambrosia House and Ambrosia Too were actually two separate sales to the same individual. The sales are detailed here separately, although they were purchased together. For comparison purposes we have combined the sales as one Guesthouse.

PROPERTY NAME: Ambrosia House

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse

PROPERTY LOCATION: 615 Fleming Street

DATE OF SALE: 05/11/06 **DAYS ON MARKET:** N/A

SALE PRICE: $2,140,000 **LISTING PRICE:** $2,397,000 **RATIO:** 89.3%

GRANTOR: Keys Katie Too LLC

GRANTEE: Michael P. Vagnoni

DOCUMENT TYPE: Warranty Deed

LEGAL DESCRIPTION: KW Pt. Lot 2, Square 49

PARCEL ID: RE # 00009130-000000 **ALTERNATE KEY#** 1009393

VERIFICATION: Public Records, Listing Agent, Appraisal

IMPROVED SALE NO. 13 (Continued)

FINANCING: Conventional

CONDITIONS OF SALE: Arm's Length

PRIOR SALES LAST 3 YEARS: 02/00 Price $2,000,000 BK. 1616, Page 0234

LAND SIZE: 4,657 Square Feet

GROSS BUILDING AREA: 3,159 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 67.6%

ZONING: HMDR

BUILDING DESCRIPTION: 2 Story

CONSTRUCTION: Wood Frame

CONDITION: Good to Excellent

YEAR BUILT: 1928

PARKING: On Street Parking

PRICE PER SQUARE FOOT OF GBA: $677.43

EFFECTIVE GROSS INCOME: $325,000

NOI - NET OPERATING INCOME: Est. $149,953

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 6.6

OPERATING EXPENSE RATIO: Est. 53.9%

OVERALL RATE: 7.0%

NUMBER OF LICENSED UNITS: 5 **SALES PRICE PER UNIT:** $428,000

IMPROVED SALE NO. 13 (Continued)

COMMENTS: Property is licensed by the City of key west for 5 Transient units, but is operated as 7 transient units.

APPRAISED BY OUR OFFICE:

DATE: 03/07/06 **FILE NUMBER:** 082-06

IMPROVED SALE NO. 13 (Continued)

PROPERTY NAME: Ambrosia HouseToo

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse

PROPERTY LOCATION: 618-622 Fleming Street

DATE OF SALE: 05/11/06 **DAYS ON MARKET:** N/A

SALE PRICE: $5,460,000 **LISTING PRICE:** $5,747,000 **RATIO:** 95.0%

GRANTOR: Keys Katie Too LLC

GRANTEE: Michael P. Vagnoni

DOCUMENT TYPE: Warranty Deed

LEGAL DESCRIPTION: KW Pt. Lot 4, Square 36

PARCEL ID: RE # 00006380-000000 **ALTERNATE KEY #:** 1006602

VERIFICATION: Public Records, Listing Agent, Appraisal

FINANCING: Conventional

CONDITIONS OF SALE: Arm's Length

IMPROVED SALE NO. 13 (Continued)

PRIOR SALES LAST 3 YEARS: 09/96 Price $710,000 BK. 1425, Page 0644

LAND SIZE: 16,183 Square Feet **GROSS BUILDING AREA:** 5,777 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 35.7%

ZONING: HMDR

BUILDING DESCRIPTION: 2 Story

CONSTRUCTION: Wood Frame

CONDITION: Good to Excellent

YEAR BUILT: 1938, 1943, 1990, 1995 **PARKING:** On Street Parking

PRICE PER SQUARE FOOT OF GBA: $945.13

EFFECTIVE GROSS INCOME: $792,000

NOI - NET OPERATING INCOME: Est. $367,987

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 6.9

OPERATING EXPENSE RATIO: Est. 53.6%

OVERALL RATE: 6.7%

NUMBER OF LICENSED UNITS: 11 **SALES PRICE PER UNIT: $**469,364

COMMENTS: Property is licensed by the City of key west for 11 Transient units, but is operated as 12 transient units.

APPRAISED BY OUR OFFICE:
DATE: 03/07/06 **FILE NUMBER:** 081-06

IMPROVED SALE NO. 14

PROPERTY NAME: Wicker House

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse

PROPERTY LOCATION: 913 Duval Street

DATE OF SALE: 2/3/2006 **DAYS ON MARKET:** 35

SALE PRICE: $6,100,000 **LISTING PRICE:** $6,450,000 **RATIO:** 94.6%

GRANTOR: Wicker House Associates, Inc.

GRANTEE: Donald E. Whitehead

DOCUMENT TYPE: Warranty Deed, Contract of Purchase and Sale

LEGAL DESCRIPTION: KW Pt. Lots 2 and 4, Square 8, Tract 4

PARCEL ID: RE # 00017630-000000 **ALTERNATE KEY#** 1018104

VERIFICATION: Public Records, Seller, Listing Agent, Appraisal

FINANCING: Conventional

CONDITIONS OF SALE: Arm's Length

PRIOR SALES LAST 3 YEARS: Parcels Purchased from 1985-1995, Total Price $884.500

IMPROVED SALE NO. 14 (Continued)

LAND SIZE: 18,808 Square Feet **GROSS BUILDING AREA:** 8,870 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 47.1%

ZONING: HRCC-3

BUILDING DESCRIPTION: Five (5) 2 Story Buildings

CONSTRUCTION: Wood Frame

CONDITION: Good to Excellent

YEAR BUILT: 1918-1948

PARKING: On Site Parking

PRICE PER SQUARE FOOT OF GBA: $687.71

EFFECTIVE GROSS INCOME: $1,102,268

NOI - NET OPERATING INCOME: $535,993

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 5.5

OPERATING EXPENSE RATIO: 51.4%

OVERALL RATE: 8.8%

NUMBER OF LICENSED UNITS: 21 **SALES PRICE PER UNIT: $**290,476

COMMENTS: Property is licensed by the City of Key West for 21 transient units, but is operated as 18 transient units.

APPRAISED BY OUR OFFICE:

DATE: 1/19/2006 **FILE NUMBER:** 025-06

IMPROVED SALE NO. 15

PROPERTY NAME: Chelsea House and Red Rooster Inn

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse

PROPERTY LOCATION: 705-709 Truman Avenue

DATE OF SALE: 9/16/2005 **DAYS ON MARKET:** 56

SALE PRICE: $9,900,000 **LISTING PRICE:** $10,400,000 **RATIO:** 95.2%

GRANTOR: James Leslie Durbin

GRANTEE: Victor Heymann

DOCUMENT TYPE: Warranty Deed, Contract of Purchase and Sale

LEGAL DESCRIPTION: KW Pt. Lots 2 and 4, Square 2, Tr 5

PARCEL ID: RE #: 00020360-000000 **ALTERNATE KEY #**: 1021105

VERIFICATION: Public Records, Seller, Listing Agent

FINANCING: Conventional, with some seller financing.

CONDITIONS OF SALE: Arm's Length

PRIOR SALES LAST 3 YEARS: 1993-1995 total $1,978,300

IMPROVED SALE NO. 15 (Continued)

LAND SIZE: 34,485 Square Feet **GROSS BUILDING AREA:** 12,076 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 35.0 %

ZONING: HNC-1

BUILDING DESCRIPTION: 2 and 2.5 Story

CONSTRUCTION: combination CBS/masonry and Wood Frame

CONDITION: Good to Excellent

YEAR BUILT: 1938-1987 **PARKING:** On Site Parking

PRICE PER SQUARE FOOT OF GBA: $819.81

EFFECTIVE GROSS INCOME: $1,554,700

NOI - NET OPERATING INCOME: $746,069

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 6.4

OPERATING EXPENSE RATIO: 52.0%

OVERALL RATE: 7.5%

NUMBER OF LICENSED UNITS: 33 **SALES PRICE PER UNIT: $**300,000

COMMENTS: Property is licensed by the City of Key West for 33 Transient units, but is operated as 35 transient units.

APPRAISED BY OUR OFFICE:

DATE: 5/26/2005 **FILE NUMBER:** 188-05

IMPROVED SALE NO. 16

PROPERTY NAME: Banana Bay Resort

PROPERTY TYPE: Commercial **CURRENT USE:** Hotel

PROPERTY LOCATION: 2319 N. Roosevelt Boulevard

DATE OF SALE: 09/08/05 **DAYS ON MARKET:** N/A

SALE PRICE: $13,500,000 **LISTING PRICE:** N/A

GRANTOR: Banana Bay of Key West, Inc.

GRANTEE: Banana, LLC

DOCUMENT TYPE: Warranty Deed

LEGAL DESCRIPTION: Amended Plat of Hilton Haven, Section 1, recorded in Public Records, more particularly described by Metes and Bound Description

PARCEL ID: RE # 00002000-000000 **ALTERNATE KEY#** 1002101

VERIFICATION: Listing Agent and Seller; RP

FINANCING: Cash to Seller

CONDITIONS OF SALE: Arm's Length

IMPROVED SALE NO. 16 (Continued)

PRIOR SALES LAST 3 YEARS: N/A

LAND SIZE: 102,366 Square Feet

GROSS BUILDING AREA: 32,622 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 31.9%

ZONING: CG

BUILDING DESCRIPTION: Six Buildings - Five One-Story and One Two-Story w/Covered Parking

CONSTRUCTION: CBS/Masonry

CONDITION: Fair/Average to Good

YEAR BUILT: 1955 and 1995

PARKING: On Site Open and Parking

PRICE PER SQUARE FOOT OF GBA: $413.83

EFFECTIVE GROSS INCOME: N/A

NOI - NET OPERATING INCOME: N/A

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: N/A

OPERATING EXPENSE RATIO: N/A

OVERALL RATE: N/A

NUMBER OF LICENSED UNITS: 50 **SALES PRICE PER UNIT:** $270,000

APPRAISED BY OUR OFFICE:
DATE: 06/2004 **FILE NUMBER:** 153-04

IMPROVED SALE NO. 17

LOCATION: Hampton Inn, 2801 N. Roosevelt Blvd., Key West, Florida

TYPE OF PROPERTY TYPE: 157 Unit Gulf front Motel Resort

COUNTY ASSESSOR PARCEL NO.: 00002410-000400 **ZONING:** CG

ALTERNATE KEY NO. 8609892

GRANTOR: H. L. Murphy, Inc.

GRANTEE: Parrot Key Associates, Inc.

DATE OF SALE: 08/15/05
OFFICIAL RECORD BOOK/PAGE: 2143/2014
PURCHASE PRICE: $35,000,000
VERIFICATION: Public Records, Buyer, Appraisal, Seller

INTEREST CONVEYED: Fee Simple

TERMS OF SALE: Conventional Financing; Cash to Seller

LAND SALE: 335 Frontage x 670 -Irregular **AREA:** 5.025 Acres of Uplands 218,671 SF

BUILDING AREA: 53,544 Square Feet

IMPROVED SALE NO. 17 (Continued)

CONSTRUCTION TYPE: CBS/Masonry

PRICE PER GROSS BUILDING AREA: (Including Land Area): $653.67

YEAR BUILT: 1985 through 1986

NUMBER OF UNITS: 157 Units
(Operating as 159, but licensed for 157)

PRICE PER UNIT: $222,930

INCOME ANALYSIS:

Total Gross Income:	$6,177,852	Average Daily Rate:	$115.55
Gross Room Revenue:	$5,846,239	Occupancy Rate:	87%
Net Operating Income:	$1,960,947	RevPar:	$100.46
Gross Income Multiplier:	5.7		
Gross Room Revenue Multiplier:	6.0		
Overall Rate:	5.6%		

HIGHEST AND BEST USE: As Improved

2008 Tax Assessment:

Total Assessment:	$21,952,000
Tax Burden:	$195,230.11

COMMENTS: At the time of sale, the existing facility consisted of three, two-story CBS/masonry buildings with ground level parking underneath containing a total of 53,544 square feet of gross building area and 157 transient units, plus two commercial units. The amenities included: a Gazebo bar, meeting room (small conference room), swimming pool, Jacuzzi/spa, a sundeck surrounded by the motel building, plus more than adequate covered and open parking. The existing improvements were currently in overall average to good condition. According to the Monroe County records, the buildings were constructed in 1985, with some subsequent renovations and upgrades noted.

IMPROVED SALE NO. 17 (Continued)

At the time of purchase, the proposed redevelopment of the subject property was to include: the total renovation of the existing three buildings, plus the addition of three new buildings, a lushly landscaped courtyard and a large swimming pool. When completed, the property was supposed to consist of 97,436 square feet of gross building, which will include 157 transient licensed, one bedroom one bathroom condominium unit, plus two commercial condominium units. The residential units were planned to have an average unit size of 584 square feet. In addition, each unit will have a private balcony for a total of 31,026 square feet of covered balcony. However, subsequent to the sale, the developer changed the plan to construct 74 attached, 3 bedroom/3.5 bathrooms' townhouse resort residential units with an average of 1,727 square feet. The development plan was altered based on the success of the sellout of the individual units at Tranquility Bay Resort, Indigo Reef Marina homes and Coral Lagoon Resort in Marathon. The Parrot Key Resort is complete with a 110-seat restaurant, Tiki bar and four swimming pools. Due to the decline in sales of the units in 2009, the developer is presently converting the unsold townhouse units to one and two bedroom suite hotel units.

The site consists of a parallelogram-shaped parcel, encompassing 218,909 square feet or 5.03 acres of site area with 335 feet of frontage along the northerly side of North Roosevelt Boulevard and extending 670 feet to Florida Bay Waterfront on the rear side. The entire length of the westerly property line fronts along the Salt Run Channel.

Aerial View

IMPROVED SALE NO. 18

LOCATION: Reach Resort (Formerly Wyndham, Now Waldorf Astoria) 1435 Simonton Street, Key West, Florida

TYPE OF PROPERTY TYPE: 150 Unit Oceanfront Full-Service Luxury Resort

COUNTY ASSESSOR PARCEL NO.: 00036270-000000 **ZONING:** HCT

ALTERNATE KEY NO. 1037117

GRANTOR: The Key West Reach Limited Partnership

GRANTEE: Key West Reach Owner, LLC

DATE OF SALE: 05/04/05

OFFICIAL RECORD BOOK/PAGE: 1674/940

PURCHASE PRICE: $45,562,000

VERIFICATION: Public Records, Agent for Seller/Partner, Inspection, County Property Appraiser's Records, Prior Appraisal

INTEREST CONVEYED: Fee Simple

TERMS OF SALE: Conventional Financing; Cash to Seller

LAND SALE: Irregular

AREA: 2.92 Acres of Uplands

IMPROVED SALE NO. 18 (Continued)

BUILDING AREA: 120,512 sq ft. (According to County Records)

CONSTRUCTION TYPE: CBS/Masonry

PRICE PER GROSS BUILDING AREA: (Including Land Area): $378.07

YEAR BUILT: 1985

NUMBER OF UNITS: 150 Units **PRICE PER UNIT:** $303,46

INCOME ANALYSIS: (Based on Actual & Projections)

Gross Room Revenue	$8,600.000		
Net Food &Beverage and Other:	$500,000	Occupancy Rate: 78%	
Total Revenues (Net F & B):	$9,100,000	RevPar:	$157.08
Net Operating Revenue:	$3,100,000		
Gross Income Multiplier	5.0		
Overall Rate:	6.8%		

HIGHEST AND BEST USE: As Improved

2008 Tax Assessment:

Total Assessment:	$23,500,000
Tax Burden:	$208,997.25

COMMENTS: This comparable sale is an oceanfront full-service, luxury hotel/resort, commonly known as The Wyndham Reach Resort, situated within the South Beach Motel District at 1435 Simonton Street, Key West, Florida. This property is one of the few open waterfront luxury resorts within the City of Key West. The property consists of an irregular-shaped, interior site, which fronts approximately 277.20 feet along the easterly side of Simonton Street and 325.00 feet along the westerly side of Vernon Avenue. The project has an average lot width of about 350 feet and an average lot depth of 369 feet. The property is located at the southerly terminus of Simonton Street with approximately 248 feet of frontage along the Straits of Florida, Atlantic Ocean. The site contains 127,115 square feet or 2.92 acres of upland land area, plus the property owners are leasing bay bottom from the State of Florida consisting of 3,200 square feet of submerged land beneath the wood deck, pier and gazebo/pavilion. The building improvements consist of a five-story CBS/masonry, irregular-shaped, full-service hotel structure, plus a219 space covered parking garage (part of first and second levels), and a one-story CBS/masonry poolside cabana/bar and grill containing a total gross building area of 120,512 square feet including 150 transient (hotel) rooms. The

CBS hotel buildings were constructed in 1985 per the Monroe County Property Appraiser's records. According to the City of Key West, Monroe County, and the State of Florida, the subject property is properly licensed as 150 transient motel/hotel units.

IMPROVED SALE NO. 19

LOCATION: (Formerly Quality Inn) Now Holiday Inn, Key West, Florida

TYPE OF PROPERTY TYPE: 148 Unit Motel Resort

COUNTY ASSESSOR PARCEL NO.: 00064940-000000 **ZONING:** CG

ALTERNATE KEY NO. 1065455

GRANTOR: Island Hotel Ventures, LTD.

GRANTEE: JRC Key West Hotel, LLC, Key West Holdings, LLC and SHG, Inc.

DATE OF SALE: 04/28/05 **OFFICIAL RECORD BOOK/PAGE**: 2108/2490

PURCHASE PRICE: $20,000,000 **VERIFICATION:** Public Records, Inspection, Local MLS Loop Net

INTEREST CONVEYED: Fee Simple

TERMS OF SALE: Cash to Seller

LAND SALE: 662.93' Frontage -Irregular **AREA:** 3.83 Acres of Uplands

IMPROVED SALE NO. 19 (Continued)

BUILDING AREA: 38,209 sq. ft.

CONSTRUCTION TYPE: CBS/Masonry

PRICE PER GROSS BUILDING AREA: (Including Land Area): $523.44

YEAR BUILT: 1973 through 1990 (Renovated in 1996)

NUMBER OF UNITS: 141 Units **PRICE PER UNIT:** $136,054

INCOME ANALYSIS: (Based on Actual & Projections)

Effective Room Revenue:	$4,675,000		
Total Revenue:	$5,730,000		
Net Operating Revenue:	$1,550,000	RevPar:	$87.13

Gross Income Multiplier	3.5
Gross Room Revenue Multiplier	4.3
Overall Rate:	7.8%

HIGHEST AND BEST USE: As Improved

2008Tax Assessment:

Total Assessment:	$7,516,886
Tax Burden:	$66,844.36

COMMENTS: This comparable contains 141 units (Motel Rooms - Standard, Superior, Deluxe, Queen, King - Poolside, Kitchenette Efficiency, Bedroom Apartment), plus a pool side bar/gazebo, and restaurant. The property is located only about three and one-half miles northeasterly from the subject property near the entrance of Key West. The complex consists of CBS/masonry structures mostly built between 1973 and 1978 with one building constructed in 1996. The property boasts a swimming pool, in-ground spa with a large open concrete sundeck, wood decking, and Tiki huts. The comparable does have extensive open on-site parking. Although this comparable lacks water frontage, it was considered due to its size.

IMPROVED SALE NO. 20

PROPERTY NAME: Heron House

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse

PROPERTY LOCATION: 512-520 Simonton Street

DATE OF SALE: 3/15/2005 **DAYS ON MARKET:** N/A

SALE PRICE: $8,800,000 **LISTING PRICE:** N/A **RATIO:** N/A

GRANTOR: Frederick Geibelt

GRANTEE: Marsh Enterprises of Southwest Florida

DOCUMENT TYPE: Warranty Deed, Contract of Purchase and Sale

LEGAL DESCRIPTION: KW Lots 1 and 2, Square 50EL-134 Co Judge Series 8-112A

PARCEL ID: RE # 00009380-000000 **ALTERNATE KEY#** 1009636

VERIFICATION: Public Records, Seller, Listing Agent, Appraisal

FINANCING: Conventional

CONDITIONS OF SALE: Arm's Length

IMPROVED SALE NO. 20 (Continued)

PRIOR SALES LAST 3 YEARS: 11/84 $163,000 OR Book 958, Page 1390

LAND SIZE: 16,521 Square Feet **GROSS BUILDING AREA:** 9,914 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 60.0%

ZONING: HNC-1

BUILDING DESCRIPTION: 2 & 3 Story

CONSTRUCTION: Wood Frame

CONDITION: Good to Excellent

YEAR BUILT: 1930-1940's **PARKING:** On Street Parking

PRICE PER SQUARE FOOT OF GBA: $887.63

EFFECTIVE GROSS INCOME: $1,398,920

NOI - NET OPERATING INCOME: $622,206

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 6.3

OPERATING EXPENSE RATIO: 55.5%

OVERALL RATE: 7.1%

NUMBER OF LICENSED UNITS: 22 **SALES PRICE PER UNIT: $**400,000

COMMENTS: Property is licensed by the City of Key West for 22 Transient units, but is operated as 23 transient units.

APPRAISED BY OUR OFFICE:

DATE: 12/14/2004 **FILE NUMBER:** 582-04

IMPROVED SALE NO. 21

PROPERTY NAME: Lighthouse Court

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse

PROPERTY LOCATION: 902-912 Whitehead Street

DATE OF SALE: 1/11/2005 **DAYS ON MARKET:** 71

SALE PRICE: $9,250,000 **LISTING PRICE:** $10,500,000 **RATIO:** 88.1%

GRANTOR: Barry L. Dumond

GRANTEE: Julia Fondriest or Assigns

DOCUMENT TYPE: Warranty Deed **OFFICIAL RECORD BOOK:** 2075; Page 1637

LEGAL DESCRIPTION: KW Pt. Lot 1, 2 and3 Square 3 Tr3

PARCEL ID: RE # 00014760-000000 **ALTERNATE KEY#** 1015105

VERIFICATION: Public Records, Seller, Listing Agent

FINANCING: Conventional

CONDITIONS OF SALE: Arm's Length

IMPROVED SALE NO. 21 (Continued)

PRIOR SALES LAST 3 YEARS: 12/86 Price $335,000 OR Book 1003, Page 0706

LAND SIZE: 27,680 Square Feet **GROSS BUILDING AREA:** 14,131 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 51.1%

ZONING: HMDR

BUILDING DESCRIPTION: 10 Structures

CONSTRUCTION: Combination CBS/masonry, Wood Frame

CONDITION: Good to Excellent

YEAR BUILT: 1920-1980 **PARKING:** On Site Parking

PRICE PER SQUARE FOOT OF GBA: $654.59

EFFECTIVE GROSS INCOME: $1,755,694

NOI - NET OPERATING INCOME: $749,863

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 5.3

OPERATING EXPENSE RATIO: 57.3%

OVERALL RATE: 8.1%

NUMBER OF LICENSED UNITS: 40 **SALES PRICE PER UNIT: $**231,250

COMMENTS: Property is licensed by the City of Key West for 40 Transient units, but is operated as 43 transient units.

APPRAISED BY OUR OFFICE:

DATE: 11/29/2004 **FILE NUMBER**: 561-04

IMPROVED SALE NO. 22

PROPERTY NAME: Authors

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse

PROPERTY LOCATION: 721-725 White Street

DATE OF SALE: 7/15/2004 **DAYS ON MARKET:** 868

SALE PRICE: $1,900,000 **LISTING PRICE:** $2,100,000 **RATIO:** 90.5%

GRANTOR: Wild Iris, Inc.

GRANTEE: King Holdings of Key West, LLC.

DOCUMENT TYPE: Warranty Deed **OFFICIAL RECORD BOOK:** 2028; Page 1874

LEGAL DESCRIPTION: KW Waddells Sub. PB 1-28, Lots 3 & 4, Square 3, Tr. 7

PARCEL ID: RE # 00022800-000000 **ALTERNATE KEY#** 1023591

VERIFICATION: Public Records, Listing Agent; RP 7/15/04

FINANCING: Conventional

CONDITIONS OF SALE: Arm's Length

PRIOR SALES LAST 3 YEARS: 10/01/01 Price $1,360,000 OR Book 1728, Page 1562

IMPROVED SALE NO. 22 (Continued)

LAND SIZE: 8,624 Square Feet

GROSS BUILDING AREA: 4,449 Square Feet

FLOOR AREA (BUILDING TO LAND) RATIO: 51.6%

ZONING: HMDR

BUILDING DESCRIPTION: 3 One and Two Story Buildings

CONSTRUCTION: CBS/masonry & Wood Frame

CONDITION: Good

YEAR BUILT: 1952

PARKING: On Site Parking

PRICE PER SQUARE FOOT OF GBA: $427.06

EFFECTIVE GROSS INCOME: $285,180

NOI - NET OPERATING INCOME: $105,231

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 6.7

OPERATING EXPENSE RATIO: 63.1%

OVERALL RATE: 5.5%

NUMBER OF LICENSED UNITS: 9 **SALES PRICE PER UNIT: $**211,111

COMMENTS: Property is licensed by the City of Key West for 9 transient units.

APPRAISED BY OUR OFFICE:

DATE: 6/9/04 **FILE NUMBER:** 277-04

IMPROVED SALE NO. 23

PROPERTY NAME: The Gardens Hotel

PROPERTY TYPE: Commercial **CURRENT USE:** Guesthouse

PROPERTY LOCATION: 526 Angela Street

DATE OF SALE: 4/01/2004 **DAYS ON MARKET:** 14

SALE PRICE: $7,000,000 **LISTING PRICE:** $7,500,000 **RATIO:** 93.3

GRANTOR: Gulfstream Airways Inc.

GRANTEE: The Gardens of Key West, LLC

DOCUMENT TYPE: Warranty Deed, Contract of Purchase and Sale

LEGAL DESCRIPTION: KW Lot 1, Pt Lot 3 Square 2, Tract 4

PARCEL ID: RE # 00015690-000000 **ALTERNATE KEY#** 1016055

VERIFICATION: Public Records

FINANCING: Conventional

IMPROVED SALE NO. 23 (Continued)

CONDITIONS OF SALE: Arm's Length

PRIOR SALES LAST 3 YEARS: 05/92 Price $1,300,000 BK 1212, Page 1378

LAND SIZE: 35,291 **GROSS BUILDING AREA:** 9,837

FLOOR AREA (BUILDING TO LAND) RATIO: 27.9

ZONING:

BUILDING DESCRIPTION: 1 Structure

CONSTRUCTION: Combination CBS/masonry, Wood Frame

CONDITION: Good to Excellent

YEAR BUILT: 1923

PARKING: On Site Parking

PRICE PER SQUARE FOOT OF GBA: $711.60

EFFECTIVE GROSS INCOME: $1,100,000

NOI - NET OPERATING INCOME: $473,000

EGIM - EFFECTIVE GROSS INCOME MULTIPLIER: 6.4

OPERATING EXPENSE RATIO: 57.0%

OVERALL RATE: 6.8%

NUMBER OF LICENSED UNITS: 17 **SALES PRICE PER UNIT: $**411,765

IMPROVED SALE 24

LOCATION: Holiday Inn Beach Side, 3841 North Roosevelt Blvd., Key West, Florida

TYPE OF PROPERTY: 222 Unit Gulf front Hotel Resort

COUNTY ASSESSOR PARCEL NO.: 00064880-000000 **ZONING:** CG

GRANTOR: LHO Key West HI, LP

GRANTEE: SH5, Ltd.

DATE OF SALE: 07/25/2003 **OFFICIAL RECORD BOOK** 1912 **PAGES**: 1647
Special Warranty Deed

PURCHASE PRICE: $17,170,000 **VERIFICATION:** Public Records,
County Property Appraiser's Records
Representative of Grantee & Broker

INTEREST CONVEYED: Fee Simple

TERMS OF SALE: 66.4% LTV Assumption of Mortgage; Cash to Seller

LAND SIZE: Irregular **AREA:** 7.77 Acres of Uplands

BUILDING AREA: 91,549 sq. ft.

CONSTRUCTION TYPE: CBS/Masonry

PRICE PER GROSS BUILDING AREA: (Including Land Area): $187.55

YEAR BUILT: 1960 to 1989

<u>IMPROVED SALE 24 (Continued)</u>

NUMBER OF UNITS: 222 Units **PRICE PER UNIT:** $77,342

<u>INCOME ANALYSIS:</u> (At time of Sale)

Total Gross Revenues:	N/A	Average Daily Rate:	$110.76
Gross Room Revenues:	$6,278,204	Occupancy Rate:	70.0%
Net Operating Income:	$2,661,958	RevPAR:	$77.48
Gross Room Revenue Multiplier:	2.7		
Overall Rate:	15.5%		

HIGHEST AND BEST USE: As Improved

<u>2003Tax Assessment:</u>
Total Assessment: $21,414,030

<u>COMMENTS</u>: This comparable includes eight, one and two three-story buildings that encompass 222 guest rooms (29 are suites) and 91,549 square feet of gross building area, according to Monroe County Tax Appraiser's records. The improvements were in average condition at the time of sale and were constructed from 1960 to 1989. The purchaser has upgraded many of the rooms subsequent to the transaction. The property is located at the entrance of Key West and features frontage along Florida Bay, Gulf of Mexico. This complex consists of CBS/masonry structures mostly built between 1960 and 1989. The property amenities include: heated swimming pool with waterfall, spa, sandy beach, full-service restaurant, bar, conference rooms, fitness facilities, tennis courts, 249 open parking spaces, and water sports rentals.

2. Market Conditions Adjustment:

Analysis of the comparable sales and historical sales data indicates appreciating values through the early part of the year 2005. However, there has been depreciation (Market Decline) since the market correction which began by the end of 2006, as discussed previously in this report. In the following table we have analyzed three sales that sold since 2005 and subsequently resold indicating a decline in value. The limited recent market activity has been Forced or Distressed Sales that was REO/bank-owned or under duress; however, because of the economic conditions, that is the market. The following sales/resales were researched and analyzed to determine current market conditions.

Property Address	1st Sale Date	Sale Price	2nd Sale Date	Sale Price	% Change Per Year
1016 Fleming Street	08/11/2006	$ 2,150,000	02/03/2011	$ 1,275,000	- 11.6%
614 Greene Street	10/11/2007	$ 1,600,000	01/07/2010	$ 925,000	- 24.1%
420 Olivia Street	07/22/2005	$ 1,900,000	12/31/08	$ 1,510,533	- 6.7

All three of these sales are included in our resume of hotel and guest house comparables. These properties were either bank owned, REO, or distress sales because of the declining market. These comparables are reflective of the decreasing value trends for similar properties. We anticipate these trends to continue until a national recovery starts. We have considered these sale/resales, as well as analyzed current active listings of lodging facilities which indicate reduced asking prices per unit.

Though market data is limited, the prior analysis suggests that a depreciation rate of 6% to 24% per annum with a mean of 14.1% and the median of 11.6%. We adjusted the sales at the median rate of negative 11% per annum for sales older than six months.

3. **Valuation Regression Analysis:**

After analyzing all the motels, hotels the lodging facility comparables from July 2003 and dismissing the outliers in our analysis, as well as the comparables that were not considered similar. These 24 comparable sales were the most similar recent comparables and were the most reliable in valuing the subject property and supportive of the value indicated in the Income Approach. Due to the lack of paired sales data, percentage adjustments and/or comparisons were not utilized. Instead, we have considered a multiple linear regression analysis of the comparables based on reasonable units of measure. We have found a very tight correlation between the land area, gross building area, number of units, waterfront view, condition/age, density (units/acre) and the adjusted sales price.

The statistical analysis or regression is a quantitative technique used to identify and measure adjustments to the sale prices of comparable properties. Regression is a widely used model in both appraisal practice and in related real estate research, as it is similar to the Sales Comparison technique of matched paired data. The use of regression model relates to traditional sales comparison, whereby, the influence of time adjusted sale prices, property size, condition to the subject property in relation to their mean or average. Regression produces both a point estimate of value (mean) and an objectively determined measure of dispersion (standard deviation or standard error) around the point estimate. The greater the number of sample size the greater the statistical significance and the closer to a 1:1 correlation the more assured is the resultant value.

The x-variables, six independent variables, are the land area, gross building area, number of units, waterfront view, condition, density (units/acre) for each comparable. The y-variable, dependent variable, is the comparable's adjusted sales price. This data population sample of the comparable sales indicates a reasonable correlation which is measured by the R^2 of the data set. In the case at hand, a correlation of +0.908 was indicated. Correlations near 1.0 are considered most reliable; therefore, the subject's correlation is considered fairly reliable, and the population sample appears appropriate in our valuation model and can be considered credible in the units of measure for the subject property. The computer analysis of this model indicated the following values:

Intercept =	$3,064,056.29					
	Land SF $_1$	GBASF $_2$	No. Units $_3$	Water Frontage $_4$	Condition $_5$	Density $_6$
Subject Coefficients X_n	21,643	24,188	22	0.0	1.10	44.28
B_n	($114.39)	$59.20	$202,221.00	5,520,599.96	2,736,466.41	(64,219.08)

Valuation:

In equation form, the regression model looks like this:

$Y = (X_1B_1) + (X_2B_2) + (X_3B_3) + (X_4B_4) + (X_5B_5) + (X_6B_6) + \text{Intercept}$

Y = (21,643 X -$114.39) + (24,188 X $59.20) + (22 X $202,221.00) + (0.0 X $5,520,599.96) + (1.10 X $2,736,466.41) + (44.28 X -$64,219.08) + ($3,064,056.29) = $6,635,597

"AS IS" VALUE OF THE FEE SIMPLE ESTATE VIA THE SALES COMPARISON APPROACH (Rounded): . . . . $ 6,600,000

D. <u>INCOME APPROACH:</u>

The Income Approach, Discounted Cash Flow Analysis, to value presumes that a prudent buyer would likely not pay more for the subject property than the capitalized rental value attainable through ownership of the property. The buyer will typically only pay the present value of what he considers those future benefits to be. This approach is considered to be the strongest indicator of current fair market value when the property is purchased as an income-producing property, especially if it has an existing lease. Our assignment is to value the various components of the subject property as follows:

(1) <u>*"As Is" Market Value of the Fee Simple Interest*</u> of the subject property based on the current Highest and Best Use. This valuation is based on a Hypothetical Condition; it assumes that the property is owned in Fee Simple with the owner having the full bundle of rights. The valuation further assumes that the present operation will continue, uninterrupted.

(2) <u>*Leasehold Value*</u> of the subject property, the value interest of the Pier House Joint Venture, based on the continued, uninterrupted hotel operation at the end of the lease term.

(3) <u>*Leased Fee Value*</u> of the subject property, City of Key West interest, based on the contract rent and reversion of the subject property at the end of the ground lease term. The reader should note that the reversion value is based on continued use as a stand-alone boutique hotel, as a start-up operation.

We considered both a Direct Capitalization and a Discounted Cash Flow Analysis in valuing the subject property due to the lease encumbrance. The Direct Capitalization technique was considered reliable and applicable in estimating the "As Is" Fee Simple Interest value of the subject property. This valuation is based on a hypothetical condition that the subject property is presently owned in Fee simple Estate, which ignores the existing lease.

The Discounted Cash Flow Technique takes into consideration the timing, frequency and magnitude of the income stream the property is expected to generate. This approach was utilized in the Leasehold and Leased Fee Valuations, each of which considers the present lease encumbrance.

The Income Approach was considered most applicable in each valuation; it was heavily weighted, due to reliable income and expense data from comparable properties in the local hotel/motel resort market as well as the subject's historical operation. Market Value of the Total Assets of the Business (MVTAB) is the market value of all of the tangible and intangible assets of a business as if sold in aggregate as a going-concern.

1. Summary of the Fee Simple Analysis:
In the case at hand, the subject property is an ongoing operation of an income-producing property. Hence, Direct Capitalization was utilized in the Fee Simple Estate scenario. This income analysis assumes full ownership interest and benefit of all revenue streams. The potential revenue is estimated from the subject's historical revenues and supported by comparable hotel facilities. Projections of expenses are made based on analysis of market expenses for similar properties, as the subject's actual historical expenses were not provided. Finally, a market derived overall rate is applied and a final value estimate is derived.

2. Summary of Leased Fee Analysis:
In valuing the Leased Fee Estate of the subject property, we have considered the present contract rents, plus researched market data for comparable properties in the market area in order to project income and expenses upon expiration of the lease. The current lease and terms are summarized as follows:

Contract Lease Terms
529 Front Street, Key West, FL

Leasee	Land Area Size (SF)	Improvements	G.B.A. Sq. Ft.	Remaining Lease Years	Annual Base Rent	Annual Escalators	Ownership Upon Expiration	Utilities paid by Tenant	Option Period
Pier House Joint Venture	21,643	CBS/Masonry	24,457	9.16	$3,600.00	None	Lessor	All	None
	21,643		**24,457**						

The subject's commercial land lease is based on absolute net terms, whereby the tenant is responsible for utilities, repairs and maintenance, taxes and insurance. On an absolute net term lease, the landlord only is responsible for property management as all other expenses are paid by the tenant.

History and details of this long term lease are as follows: The land lease commenced on June 1, 1966 and terminates on May 31, 2020. The building improvements were originally built by Key West Hand Print Fabrics, as their headquarters and factory. On July 29, 1987, Key West Hand Print Fabrics through the bankruptcy court assigned the lease to Six Tulips Development Corp., Pier House Joint Venture and Ohio General Partnership. Subsequent to the assignment, Pier House Joint Venture totally renovated the building to create twenty-two guest rooms, a day spa and an exercise center, plus conference rooms. The property was combined with the adjacent Pier House Resort, which is an exclusive waterfront destination resort hotel and spa.

The original lease term terminated May 31, 2001 and later was amended on July 23, 1969 to extend the lease term to May 31, 2020. This lease amendment also included the removal of a 15-foot easement along the easterly boundary line. The next lease amendment, on June 7, 1971, allowed the lessee to obtain financing for a mortgage without consent of the lessor. Then on May 20, 1974, the lease was amended "to remove the restriction that no improvement shall be constructed on the northerly 20 feet of the subject property". Then, there was a City Resolution 87-262, for an assignment of the lease to Six Tulips Development Corp., Pier House Joint Venture and Ohio General Partnership in consideration of $35,000. The City of Key West is currently the Lessor and the Pier House Joint Venture is the Lessee of the subject property. The terms are as follows:

Annual Base Rent: $3,600.00
Escalator: None
Option to Renew: None
Termination of Lease: May 31, 2020

"It is further understood and agreed that improvements and repairs made shall become the property of the City at the termination of the lease. Upon termination of the term of this lease, the Lessee will return the leased premises to the City in good condition, except for normal wear and tear and such damage as may occur through an act of God, or fire."

3. <u>Summary of Leasehold:</u>

The subject property is part of a resort hotel facility which consists of a two-story CBS/masonry building containing a total of 24,188 square feet of gross building area. This facility is an essential part of the Pier House operations and includes twenty-two (22) guest rooms/suites, spa and convention rooms. As a stand-alone boutique hotel property, the subject would not offer any on-site parking or waterfront amenities, i.e. beach or water views. The property has a superb corner location in the heart of the downtown tourist district--surrounded by luxury waterfront hotels.

The existing ground lease agreement is substantially below market rent. The lease was subsidized to the original lessee, Key West Hand Print Fabric, over 40 years ago with no escalators.

4. <u>Subject Property Historical Revenues and Competitive Market Set:</u>

Our assignment is to value the property at its Highest and Best Use. In the supply and demand section of the report, we discussed the fixed supply of transient licenses and the barriers to entry for competing facilities. The Pier House Joint Venture **only** provided us with a three-year historical high/low average of the Occupancy Rate and Average Daily Rate for the subject property as follows. Detailed Income and Expense history Resort was not made available.

HISTORICAL INCOME SUMMARY Average Three Year Occupany and Rates Caribbean Spa Resort 529 Front Street, Key West, FL	
	Year End
Period:	
No. of Rooms:	22
No. of Available Room Nights:	8,030
No. of Occupied Room Nights:	4,657 - 5,059
Occupancy Rate	58% - 63%
Average Daily Rate	$291 - $294
RevPar:	$168.77 - $185.22
Annual Dollars Per Occupied Room	$61,599 - $67,607
Potential Annual Room Revenues:	
Rooms Revenue Range:	**$1,355,187 - $1,487,346**

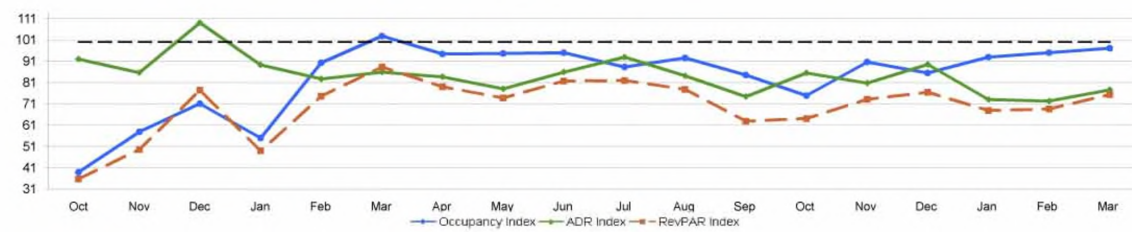
All of these are downtown waterfront resorts that compete with the subject property. The secondary competitive set includes smaller boutique hotels, guest house or bed and breakfast facilities in the "Old Town" market area. This secondary group consists of: The Gardens Hotel, The Marquesa Hotel and Paradise Inn.

Tab 4 - Competitive Set Report

STR # 60270 ChainID: MgtCo: None Owner: None

For the Month of: March 2011 Date Created: May 09, 2011 Monthly Competitive Set Data Includes Subject Property

Monthly Indexes



RevPAR Percent Change

Occupancy (%)	2009			2010												2011		
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Competitive Set	68.0	71.1	68.1	74.7	87.6	90.2	87.1	82.3	78.6	77.4	70.1	56.8	73.1	77.4	75.0	83.7	95.3	96.0
Index	38.9	57.9	71.0	54.9	90.3	102.8	94.4	94.6	95.0	88.2	92.6	84.5	74.9	90.6	85.5	92.9	95.0	97.1
Rank																		
% Chg																		
Competitive Set	20.6	1.9	1.5	6.9	7.0	9.8	5.8	8.3	8.9	-1.0	5.5	4.9	7.5	8.8	10.1	12.1	8.8	6.4
Index	8.2	61.3	45.5	48.4	-3.0	-0.7	13.2	31.2	14.9	-21.1	7.1	64.9	92.3	56.5	20.4	69.2	5.2	-5.5
Rank																		

Occupancy (%)	Year To Date			Running 3 Month			Running 12 Month		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Competitive Set	77.8	84.1	91.6	77.8	84.1	91.6	63.7	74.1	79.3
Index	79.5	84.1	95.2	79.5	84.1	95.2	58.5	77.8	93.2
Rank									
% Chg									
Competitive Set	-6.2	8.0	8.9	-6.2	8.0	8.9	-18.0	16.3	7.0
Index		5.7	13.2		5.7	13.2		33.0	19.7
Rank									

ADR	2009			2010												2011		
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Competitive Set	272.93	283.00	304.80	295.77	330.54	337.01	320.11	272.97	237.70	244.67	222.62	220.20	271.00	275.66	299.97	293.99	337.67	371.78
Index	92.0	85.6	109.0	89.3	82.6	85.9	83.7	78.0	85.9	92.9	84.1	74.4	85.5	80.7	89.5	73.0	72.2	77.6
Rank																		
% Chg																		
Competitive Set	-5.7	-3.1	-4.1	-8.7	-2.1	6.1	-1.4	-1.2	-3.0	1.5	-3.0	-0.5	-0.7	-2.6	-1.6	-0.6	2.2	10.3
Index	-16.8	-12.6	-7.6	-0.5	6.4	0.7	2.6	-14.3	-7.2	-0.1	-14.0	-23.7	-7.0	-5.7	-17.9	-18.2	-12.6	-9.7
Rank																		

ADR	Year To Date			Running 3 Month			Running 12 Month		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Competitive Set	326.03	322.29	336.23	326.03	322.29	336.23	313.45	284.01	285.36
Index	82.9	86.5	74.9	82.9	86.5	74.9	96.3	91.3	81.8
Rank									
% Chg									
Competitive Set	-18.1	-1.1	4.3	-18.1	-1.1	4.3	-3.1	-9.4	0.5
Index		4.3	-13.4		4.3	-13.4		-5.2	-10.5
Rank									

RevPAR	2009			2010												2011		
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Competitive Set	185.47	201.29	207.64	220.90	289.51	304.07	278.77	224.76	186.84	189.48	155.95	125.01	198.04	213.29	224.96	246.14	321.80	356.87
Index	35.8	49.5	77.4	49.0	74.6	88.3	79.0	73.8	81.6	82.0	77.8	62.9	64.0	73.1	76.5	67.8	68.6	75.3
Rank																		
% Chg																		
Competitive Set	13.7	-1.3	-2.7	-2.4	4.8	16.5	4.3	7.0	5.6	0.5	2.3	4.3	6.8	6.0	8.3	11.4	11.2	17.4
Index	-9.9	40.9	34.4	47.6	3.3	-0.1	16.1	12.5	6.6	-21.2	-7.9	25.9	78.8	47.6	-1.2	38.4	-8.0	-14.7
Rank																		

RevPAR	Year To Date			Running 3 Month			Running 12 Month		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Competitive Set	253.77	270.89	307.82	253.77	270.89	307.82	199.79	210.45	226.33
Index	66.0	72.7	71.3	66.0	72.7	71.3	56.4	71.1	76.2
Rank									
% Chg									
Competitive Set	-23.2	6.7	13.6	-23.2	6.7	13.6	-20.5	5.3	7.5
Index		10.3	-1.9		10.3	-1.9		26.1	7.2
Rank									

SMITH TRAVEL RESEARCH, Inc

Monroe County Tourist Development Council
Smith Travel Resarch - Tier Report

For the month of: December 2010

Current Month - December 2010 vs December 2009

	Occ %		ADR ($)		RevPAR ($)		Percent Change from December 2009		
	2010	2009	2010	2009	2010	2009	Occ	ADR	RevPAR
Florida Keys	61.1	62.0	192.94	192.72	117.84	119.42	-1.4	0.1	-1.3
Florida Keys Luxury	60.3	60.3	304.85	299.83	183.72	180.95	-0.1	1.7	1.5
Florida Keys Upscale	71.1	63.2	209.53	216.42	148.87	136.73	12.5	-3.2	8.9
Florida Keys Midprice	57.2	59.8	152.58	156.49	87.27	93.52	-4.3	-2.5	-6.7
Florida Keys Economy									
Florida Keys Budget									
Key West	71.1	71.4	204.17	201.28	145.08	143.64	-0.4	1.4	1.0
Key West Lower Tier									
Key West Middle Tier	67.6	70.4	154.78	159.18	104.95	112.03	-3.7	-2.8	-6.3
Key West Upper Tier	75.4	71.0	259.72	260.00	195.93	184.52	6.3	-0.1	6.2
B&Bs, Guest Houses & Inns	68.3	72.3	172.91	166.43	118.08	120.28	-5.5	3.9	-1.8
Upper Florida Keys	49.9	51.1	175.12	178.85	87.43	91.33	-2.2	-2.1	-4.3
Upper Florida Keys Lower Tier									
Upper Florida Keys Middle Tier	50.8	38.4	111.80	122.27	56.82	46.96	32.3	-8.6	21.0
Upper Florida Keys Upper Tier	46.2	48.9	218.03	215.77	100.70	105.51	-5.5	1.0	-4.6
Key Largo	51.7	53.8	162.81	169.51	84.17	91.16	-3.9	-4.0	-7.7
Marathon	52.5	49.0	199.15	214.81	104.56	105.25	7.1	-7.3	-0.7
Islamorada	42.7	46.4	179.26	172.76	76.47	80.11	-8.0	3.8	-4.5

Year to Date - December 2010 vs December 2009

	Occ %		ADR ($)		RevPAR ($)		Percent Change from YTD 2009		
	2010	2009	2010	2009	2010	2009	Occ	ADR	RevPAR
Florida Keys	70.5	69.4	177.64	172.10	125.32	119.47	1.6	3.2	4.9
Florida Keys Luxury	67.2	66.0	266.36	269.49	179.03	177.90	1.8	-1.2	0.6
Florida Keys Upscale	73.7	69.1	202.45	194.54	149.13	134.36	6.7	4.1	11.0
Florida Keys Midprice	68.7	68.4	145.45	144.33	99.87	98.65	0.5	0.8	1.2
Florida Keys Economy									
Florida Keys Budget									
Key West	78.1	76.9	190.98	181.12	149.21	139.22	1.7	5.4	7.2
Key West Lower Tier									
Key West Middle Tier	77.0	77.9	149.09	144.05	114.79	112.15	-1.1	3.5	2.4
Key West Upper Tier	78.2	74.4	244.98	235.50	191.55	175.24	5.1	4.0	9.3
B&Bs, Guest Houses & Inns	77.3	77.4	164.68	153.27	127.24	116.61	-0.1%	7.4%	7.3%
Upper Florida Keys	61.9	60.6	156.35	158.49	97.94	96.00	2.1	-0.1	2.0
Upper Florida Keys Lower Tier									
Upper Florida Keys Middle Tier	58.8	48.6	110.18	116.55	64.74	56.56	21.0	-5.5	14.4
Upper Florida Keys Upper Tier	58.3	58.8	186.73	189.98	108.85	111.66	-0.8	-1.7	-2.5
Key Largo	63.9	62.7	148.91	150.20	95.09	94.14	1.9	-0.9	1.0
Marathon	61.9	58.1	176.67	180.25	110.62	104.72	6.5	-0.9	5.6
Islamorada	56.2	56.8	162.29	161.87	91.24	91.92	-1.1	0.3	-0.7

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HISTORIC TREND REPORT **KEY WEST**
SMITH TRAVEL RESEARCH 2/1/2011

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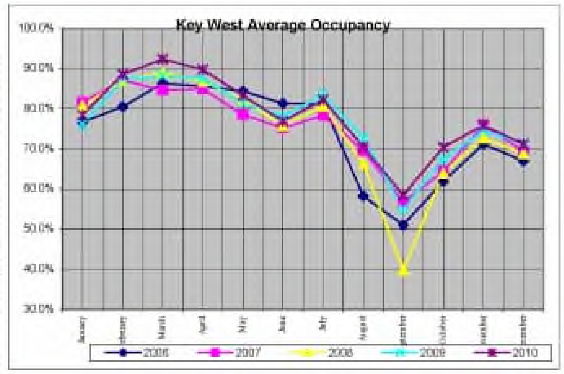
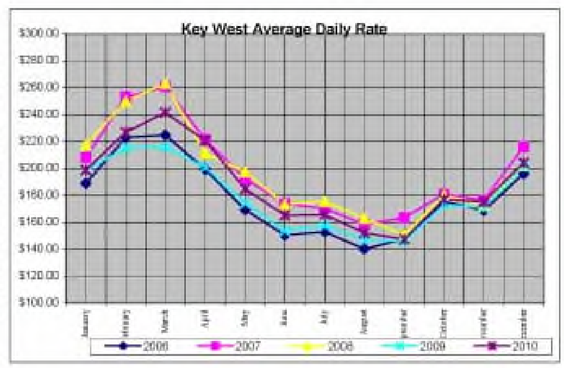
OCCUPANCY RATE

	2006	2007	2008	2009	2010	% Chg
January	76.7%	81.6%	80.8%	76.1%	78.4%	**3.0%**
February	80.5%	87.1%	87.0%	87.2%	88.6%	**1.6%**
March	86.3%	84.6%	89.0%	88.2%	92.3%	**4.6%**
April	85.6%	84.9%	86.8%	87.5%	89.7%	**2.5%**
May	84.3%	78.5%	82.3%	81.5%	83.3%	**2.2%**
June	81.3%	75.2%	75.7%	78.0%	76.9%	**-1.4%**
July	81.2%	78.3%	80.6%	83.5%	82.2%	**-1.6%**
August	58.3%	69.6%	66.4%	72.7%	70.5%	**-3.0%**
September	51.0%	56.7%	39.9%	55.0%	58.5%	**6.4%**
October	61.9%	64.4%	63.9%	67.4%	70.4%	**4.5%**
November	71.2%	75.9%	72.7%	74.5%	75.9%	**1.9%**
December	67.0%	69.5%	68.8%	71.4%	71.1%	**-0.4%**
Total	73.5%	75.5%	74.2%	76.9%	78.1%	**1.7%**



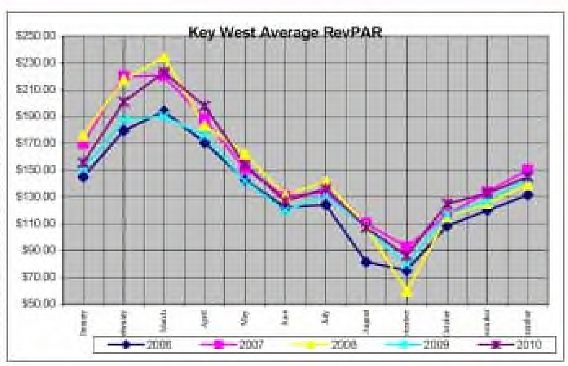
AVERAGE DAILY RATE

	2006	2007	2008	2009	2010	% Chg
January	$188.95	$208.16	$217.36	$198.54	$198.77	**0.1%**
February	$223.05	$253.00	$250.00	$215.09	$226.80	**5.4%**
March	$224.85	$260.70	$263.15	$215.70	$241.60	**12.0%**
April	$199.27	$221.42	$211.36	$200.74	$220.53	**9.9%**
May	$169.33	$192.52	$197.28	$174.23	$184.80	**6.1%**
June	$150.49	$173.72	$173.38	$153.72	$165.20	**7.5%**
July	$152.98	$170.21	$175.56	$157.32	$165.73	**5.3%**
August	$140.17	$158.42	$162.91	$147.18	$152.20	**3.4%**
September	$147.39	$163.52	$150.22	$145.66	$147.42	**1.2%**
October	$175.52	$181.01	$180.14	$173.13	$177.25	**2.4%**
November	$168.65	$176.46	$172.41	$170.62	$175.06	**2.6%**
December	$196.15	$216.07	$201.92	$201.28	$204.17	**1.4%**
Total	$180.31	$200.18	$201.44	$181.12	$190.96	**5.4%**



RevPAR

	2006	2007	2008	2009	2010	% Chg
January	$145.01	$169.84	$175.61	$151.03	$155.76	**3.1%**
February	$179.56	$220.26	$217.42	$187.62	$200.95	**7.1%**
March	$194.01	$220.51	$234.21	$190.30	$223.09	**17.2%**
April	$170.64	$188.01	$183.45	$175.68	$197.87	**12.6%**
May	$142.77	$151.04	$162.29	$141.96	$154.01	**8.5%**
June	$122.29	$130.61	$131.20	$119.94	$126.97	**5.9%**
July	$124.24	$133.34	$141.56	$131.32	$136.30	**3.8%**
August	$81.67	$110.26	$108.18	$106.97	$107.26	**0.3%**
September	$75.21	$92.64	$59.94	$80.06	$86.18	**7.6%**
October	$108.60	$116.63	$115.17	$116.72	$124.81	**6.9%**
November	$120.01	$133.89	$125.43	$127.17	$132.89	**4.5%**
December	$131.51	$150.21	$138.98	$143.64	$145.08	**1.0%**
Total	$132.54	$150.64	$149.49	$139.22	$149.21	**7.2%**



Prior year performance numbers may be updated with current data due to new participants providing their historic information and/or past participants providing updated prior year performance numbers.

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The fact that our assignment is to value the subject property "as is" and as a stand-alone new startup, the appraisers additionally research smaller luxury boutique hotels similar in size to the subject property. These smaller boutique hotels were considered the secondary competitive set for the subject. These small hotels are unique in that they have luxury room accommodation, larger rooms or suites than typical hotels and personalized service, superior to the typical bed and breakfast facilities.

Boutique hotels are always individual and focused on offering their services in a comfortable, intimate, and welcoming setting, so they are extremely unlikely to be found amongst the homogeneity of large chain hotel groups. Guest rooms and suites may be fitted with telephony and Wi-Fi Internet, air-conditioning, honesty bars and often cable/pay TV, but equally may have none of these, focusing on quiet and comfort rather than gadgetry. Guest services are often attended to by 24-hour hotel staff. Many boutique hotels have on-site dining facilities, and the majority offer bars and lounges that may also be open to the general public. Boutique hotels have typically been unique properties operated by individuals or companies with a small collection. However, their successes have prompted multi-national hotel companies to try to establish their own brands in order to capture a market share.

Due to the unique luxury quality of the subject, the appraisers researched small upscale luxury hotels and guest houses in the local market area. We analyzed other high-end transient licensed facilities in order to establish whether or not the projected room revenue presented is reasonable; furthermore, to establish room rates and occupancy for a startup stand-alone facility. The appraiser has appraised all of the comparables analyzed; therefore, the income and expense data is very reliable. The following rental revenue comparables were utilized in projecting the revenue potential of the subject units.

Room Revenue Comparable No. 1

The Gardens Hotel

Room Revenue
The Gardens Hotel
526 Angela Street, Key West, FL
Room Revenue & RevPAR Analysis

Year	# Of Units	Room Revenue	Revenue / Unit	Occupancy	RevPAR	ADR
Actual 2006	17	$1,663,055	$97,827	92.2%	$268.75	$291.65
Actual 2007	17	$1,832,204	$107,777	94.1%	$295.28	$313.66
Actual 2008 (11 Months)	17	$1,795,877	$105,640	86.4%	$312.54	$361.62
Estimated 2009	17	$1,819,000	$107,000	92.0%	$293.15	$318.64

This comparable is the premier boutique in Key West, recognized as one of the top 10 hotels in the country and rated as the top hotel in Key West by Zagat. The property consists of a slightly irregular-shaped corner parcel at Angela and Simonton Streets. The Gardens Hotel operates as a 17-unit luxury hotel with lounge, lobby, and reception area, an in-house kitchen, outdoor bar and seating around the central brick patio and swimming pool area. In addition there is an in-house laundry, office, a cabana with two on-site parking spaces. The improvements are surrounded by a perimeter privacy wall inside lush garden consisting of rare exotic and tropical landscaping with meandering brick pathways throughout. The building improvements have a total gross building area of 9,797 square feet. Though this comparable has superior amenities, the subject property enjoys a superior location, closes to the lower-end of Duval Street.

Room Revenue Comparable No. 2

The Marquesa Hotel

Room Revenue
The Marquesa Hotel
600 Fleming Street, Key West, FL
Room Revenue & RevPAR Analysis

Year	# Of Units	Room Revenue	Revenue / Unit	Occupancy	RevPAR	ADR
Actual 2006	27	$2,224,147	$82,376	69.5%	$216.15	$311.00
Actual 2007	27	$2,432,766	$90,102	80.4%	$262.10	$326.00
Estimated 2008	25	$2,375,000	$95,000	82.0%	$260.27	$317.41

This comparable is also a premier boutique hotel in Key West. The property consists of a corner property that fronts on Fleming and Simonton Streets. Historically, this comparable has been operated as a twenty-seven (27) room hotel and a thirty-eight (38) seat restaurant. The hotel offers a parking garage. Amenities include a commercial swimming pool, and lush landscaping around the complex. This comparable has superior amenities, but its location is still slightly inferior to the subject property.

Room Revenue Comparable No. 3

Paradise Inn

Room Revenue *Paradise Inn, 819 Simonton Street, Key West, FL* *Room Revenue & RevPAR Analysis*						
Year	**# Of Units**	**Room Revenue**	**Revenue / Unit**	**Occupancy**	**RevPAR**	**ADR**
Actual 2007	18	$1,148,935	$63,830	67.0%	$174.88	$345.86
Actual 2008	18	$1,068,059	$59,337	63.0%	$162.57	$269.71
Actual 2009	18	$848,558	$47,142	57.0%	$129.16	$259.00
Estimated 2010	18	$1,021,315	$56,740	N/A	N/A	N/A

This comparable is a luxury boutique hotel in Old Town. This property consists of an "L" shaped site that fronts along Simonton Street and wraps around to Olivia Street. This comparable has been operated as an eighteen (18) room upscale guest house. Amenities include a commercial swimming pool, tropical landscaping, and limited off-street parking. This comparable has superior amenities, but the subject has a superior location.

Room Revenue Comparable No. 4

Casa Morada, Islamorada

Room Revenue *Casa Morada, Islamorada* *136 Madeira Road, Islamorada, FL* *Room Revenue & RevPAR Analysis*						
Year	**# Of Units**	**Room Revenue**	**Revenue / Unit**		**RevPAR**	**ADR**
2006	16	$1,352,608	$84,538	67.5%	$231.61	$348.97
Projected 2007	16	$1,430,800	$89,425	N/A	$245.00	$350.00
Actual 2008	16	$1,487,095	$92,943	79.3%	$272.01	$343.04
Actual 2009	16	$1,481,976	$92,624	76.9%	$256.80	$333.93
Estimated 2010	16	$1,275,312	$79,707	68.9%	$221.64	$321.48

Although this property is located in Islamorada, it was considered as it is one the higher revenue generating transient properties within the Florida Keys. This property is licensed for sixteen (16) transient units. All of the rooms are suites and offer contemporary furniture and continental breakfast daily. In addition, the property includes a swimming pool and complimentary use of bicycles, and kayaks. This property is a Resort featuring contemporary architectural and personalized service. This comparable sets the upper limit of the room rate range for one bedroom suites in the Upper Florida Keys.

5. <u>Income and Revenue Projections:</u>
Our assignment is to value the subject property "As Is" Fee Simple based on its current operation and highest and best use. The valuation is based on a hypothetical condition. The Leasehold Value is based on the continued, uninterrupted hotel operation to the end of the lease term. The Leased Fee Valuation assumes continued collection of contract rent and reversion (net sale proceeds) at the end of the lease term. The reversion value is based on the assumption that the property will be used as a stand alone boutique hotel, as a start-up operation. Hence, the appraisers researched the competitive hotel market as well as the smaller luxury boutique hotels similar in size in the market area. *Since we were only provided with the average revenue over the past three years, we have relied heavily on local market data.* We researched market data within the subject property's market area and reviewed income and expenses for similar small boutique hotels and guest houses. As mentioned in the Economic Conditions and the Supply and Demand sections of this report, the hospitality industry in the Florida Keys appears to have stabilized and begun to rebound.

According to the Monroe County Tourist Development Council (TDC), the Florida Keys led all Florida destinations in lodging occupancy and average daily rates for the past year. Detailed graphs and statistics are included in Economic and Neighborhood Section of this report.

The subject property has been in operation for more than 24 years and in 2008 was updated and remodeled. It is located in the heart of the downtown tourist, attractions and the Key West Historic Seaport. *Pro-forma income and expense projections or historical income statements were not made available; therefore, the appraisers utilized market data as detailed above including Hotel Operating Statistics Program from Smith Travel Research, plus competitive set for average daily rates (ADRs), occupancy statistics revenues per room (RevPAR) were analyzed.*

6. <u>Subject Room Revenue Projections (Fee Simple Estate Based on Continued Operation as a Hotel):</u>
Because of the subject's location in the heart of the downtown tourist district within walking distance of all the attractions, shopping and sightseeing activities, we estimated the subject's room rates to be at the midpoint of the historical ADRs and Occupancy rate that were provided by the Pier House Venture Group. The subject's room rates, average daily rates, and occupancy rates are well-supported by the local market at the upper price tier resort/hotel operation. Furthermore, the ADRs, Occupancy and RevPARs are also supported by the competitive set.

We projected an Average Daily Rate, ADR, for the subject to be at $293.00 with an occupancy rate of 60% resulting in a revenue per available room of $175.80 or annual room revenue at $1,412,000 (rounded). A direct capitalization of the subject property has been included at the end of the Income Approach section herein.

Units of Measure: Income and expense projections are typically based on historical operating data for the subject property and comparable market data. Specific units of comparison are utilized in order to make reliable projections. The typical units of comparison for Hotels are: percent of total revenue, percent of rooms revenue, dollars per available room (PAR), and dollars per occupied room (POR).

Miscellaneous, Communications and Other Service Revenues: Communications Revenue is generated from hotel guests charging local and long-distance calls to their rooms or internet access charges and patrons or visitors utilizing business center telephones, faxes, internet access, etc. Miscellaneous and Other Service revenues were estimated at 1.5% of Room Revenue, which is in-line with the upscale boutique hotel local market.

Rental Income: As the appraisers were not provided historical or ancillary income for the current operation, we have projected that the day spa section of the subject property would be leased to a third party on a modified net basis. In a modified net lease the tenant would pay their own operating and utility expense and the landlord would be responsible for real estate taxes and insurance and management. We have estimated that the spa and a portion of the meeting room section consisted of approximately 4,508 square feet of rentable building area. This estimated income is based on the following resume of rental comparables of spa operations within the City and retail, storage and warehouse comparables in the immediate neighborhood.

Resume of Commercial Spa Market Rent Comparables

Location	Use	Size Sq.Ft.	Mod. Gr Rent Per Sq.Ft.	Mod. Gr Monthly Rent	Annual Base Rent
1213 Truman Avenue	Salon/ Spa	378	$30.40	$958	$11,491
1702 N. Roosevelt Blvd., #202	Salon/ Spa	875	$41.92	$3,057	$36,684
2822 N. Roosevelt Blvd.	Retail/Spa	2,100	$38.62	$6,759	$81,102
1714 N. Roosevelt Blvd.	Retail/Spa	2,880	$22.95	$5,509	$66,108
		Mean	**$33.47**		
		Median	**$34.51**		
		Minimum	**$22.95**		
		Maximum	**$41.92**		

Resume of Commercial Retail Market Rent Comparables

Location	Use	Size Sq.Ft.	NNN Rent Per Sq.Ft.	NNN Monthly Rent	Annual Base Rent
503 Front Street	Retail	3,354	$53.42	$14,932	$179,179
608-610 Greene Street	Retail	3,629	$26.36	$7,972	$95,659
535 Greene Street	Retail	6,798	$41.77	$23,663	$283,951
114 Simonton Street	Warehouse	2,420	$14.07	$2,837	$34,047
524 Front Street	Pending Offer	7,836	$25.00	$16,325	$195,900
		Mean	**$32.12**		
		Median	**$26.36**		
		Minimum	**$14.07**		
		Maximum	**$53.42**		

Based on the foregoing market rent comparables the appraisers estimated the spa area rent at $20.00 per square foot, the lower end of the range due to the subject's large size. All the comparables are stand-alone operations, while the subject is part of a hotel operation. However, it is felt that this space could easily be leased at this rate to a third party for a commercial use because of it good location and exposure. Our projections are based on a net revenue; hence, a 10 percent vacancy and collection loss or 90% occupancy was applied. Hence, in our cash flow model we have estimated this income on a net basis, i.e., (4,508 square feet X $20.00 per square foot X 90% occupancy) = Rounded $81,000.

<u>Total Revenue</u> is calculated by the summation of Room Revenue, Miscellaneous, Communications and Other Service Revenues plus Rental Income.

7. <u>Expenses</u>

Estimates of expenses are projected, based on and the actual expenses of other similar operations. Such as The Gardens Hotel, The Marquess Hotel, Parrot Key Resort Hotel, the Old Hampton Inn in Key West, Case Morada in Islamorada plus the fixed and variable ratios provided by Hospitality Valuation Services.

a. <u>Rooms Department Expenses</u>: Room expenses consist of all items relating to the sale and upkeep of the guest rooms and public space. Payroll and employee benefits account for a large portion of this category. This expense is somewhat occupancy sensitive because maids, bell persons, and housekeepers can be scheduled to work as necessary; however, a lot of the hotel's payrolls are fixed. Front desk persons, maintenance staff, housekeepers and other supervisory staff are maintained at all occupancy levels. As a result, payroll and employee benefits are moderately sensitive to occupancy levels, we estimate about 60% are fixed.

Commissions to travel agents for booking rooms are typically based on a percentage of room revenue; therefore, this expense is sensitive to occupancy rates. Reservations are a similar expense and typically reflect the cost of a reservation system. Room department expenses typically range from 18% to 29% of room revenue for large hotels. Based on local market expense data, we projected 25% of Room Revenue.

b. Food & Beverage: This expense considers all expenses relating to the preparation, upkeep of the complimentary breakfast, cabana bar, meeting room facilities, and minimal food concession service operation. In the case at hand, the subject would be a limited-service hotel with just continental breakfast served and no other food service. As a result, we projected 1% of Room Revenue for food and beverage expense which equals about $2.91 per occupied room. This is supported by other bed and breakfast properties in the market. This percentage is at the lower-end of the typical range for limited service hotels.

c. Rental Expenses: This expense category includes the management fee of the commercial space rented to a third party. This fee is based on 4% of the net rental income.

d. Miscellaneous and Other Department Expenses: This expense category includes all of the costs associated with the operation of the hotel's telephone/internet communications department. The costs of the calls/internet service fees is moderately occupancy sensitive, while the salaries and wages and other expenses are fairly fixed in this department. The appraisers project 70% expense of Miscellaneous Revenue, which appears reasonable and was utilized throughout our model.

Departmental Income/Profit equals Total Revenues less Total Department Expenses.

e. Administrative and General Expenses: This expense includes the salaries and wages of administrative personnel, managerial and operational expenses not associated with a particular department. Expense items are related to management and operation of the property. Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages, commissions on credit card charges, provisions for doubtful accounts, and salaries/wages and benefits which are slightly influenced by revenues.

In recent years, new items have been added to this expense category including human resource departments which include the cost of recruiting and training personnel. These expenses typically run between 9% and 19% of room revenues for larger full service motel/hotel operations. Based on market research, we have projected this expense at 9.0% of total revenue because of the small size of the subject property.

f. Advertising and Marketing Expense: This expense consists of all costs associated with advertising, promotions and sales of a lodging facility. These activities are intended to attract new customers and retain existing clienteles. Marketing can be used to create an image, stimulate patronage of the property's various facilities and to develop customer awareness. This expense category is unique in that all expense items, except commissions and fees, are controlled by management. Most resorts establish annual budgets with planned expenditures. Therefore, the marketing budget can be accurately forecasted, if followed.

Marketing expenses can be subdivided into five categories: sales, reservations, merchandising and advertising, marketing activities and commissions and fees, which are typically a percentage of room revenues. These expenditures are atypical because there is a lag before results are realized; however, the benefits may be extended over a long period.

Advertising and promotion expenses typically range from 1% to 6% of total revenues depending on the property type. Most upscale hotels spend 4% to 5% of total revenues. The most appropriate unit of comparison is the amount per available room. Based on market data, we projected this expense at $4,000 per available room (PAR), which is inline with the market considering that the property enjoys such a good location.

g. Property Operations and Maintenance: Property Operations and Maintenance (PO&M), formerly known as repair and maintenance, are another expense category which is controlled by management. Most maintenance items can be deferred for varying lengths of time, except for repairs necessary to the keep the facility operating and to prevent damage. Maintenance is an accumulating expense. If management decides to postpone required repairs, they have not eliminated the expense, they have only deferred payment to a later date. A resort with a lower than typical maintenance budget is likely to have a considerable amount of deferred maintenance.

The quality of the initial construction can impact future maintenance requirements. The use of high quality building materials and construction techniques typically reduces the need for maintenance expenses over the long term. In the case at hand, the subject property was totally renovated in 2008 with high quality material and workmanship. Hence, we anticipated that the maintenance would be at the lower end of the range.

Maintenance is considered an operating expense; thus, it only contains those components that can be extended, rather than capitalized. For example if a chair is broken, the repair of the chair is considered an expense and chargeable to maintenance. If the chair is replaced, it becomes a capital expense and does not appear under maintenance. We account for capital replacements of items such as furniture, fixtures and equipment under the reserves for replacement category. Typical maintenance ratios for hotels range from 3% to 8% of total room revenue. Because this expense is predominantly fixed, the most appropriate unit of comparison is the amount per available room supported by the percentage of total revenue. Based on the comparable market data, we projected this expense at 4.5% of total revenue, which equals $3,091 per available room.

h. Utility/Energy Costs: Energy costs include utility expenses for water, air conditioning/heating, lighting, cooking fuel and other power requirements. The subject property's energy costs include electricity and water, plus cooking fuel. Costs depend on the source and quantity of fuel. Electricity is the most expensive source, followed by water. Although all motels/hotels use a large amount of electricity, many properties supplement their energy requirements with less expensive sources: gas or solar panels for water heating and heating the swimming pool.

A moderate portion of the resort's energy consumption is fixed with public areas that must be continually lighted regardless of occupancy. Energy costs are typically 6% to 14% of effective room revenue for smaller motels in Monroe County. Analyses of other similar large operations indicate expense ratios toward the low end of the range.

The high-end of the historical range was based on older, less energy efficient properties. Thus, we have projected Energy Costs at 8.0% of Total Revenue which is typical of similar boutique hotels.

Gross Operating Profit, House Profit or Income Before Fixed Expenses equals Departmental Income/Profit less Total Undistributed Operating Expenses.

Fixed Charges: The fixed charges included herein are the Real Estate Taxes, Insurance and Reserves for Replacement. I reported these expenses separately as follows, in conformance to how they are reported in the subject's historical operating statement.

I. Management Fee: This covers the basic fee to a hotel management company or entity to operate the subject property. Some hotel management companies provide solely management services, while others also provide brand name affiliation. Most motel/hotel management companies charge a basic fee (percentage of total revenue) and an incentive fee (percentage of profit, usually after debt service). The impact of the incentive fee is usually considered in an upward adjustment of the equity yield or capitalization rate for the added cost of management. Basic motel/hotel management fees are totally variable since they are virtually always based on a percentage of total revenue. Typical management fees range from two to five percent. Most small boutique hotels are typically owner-operated; thus, there is no historical information. However, according to the management agreement made available for our review, for another property the management company is charging a Management Fee of 3% of Gross Room Revenues, plus 5% of Gross Operating Profit. However, other hotel operations use only the total gross revenue. Therefore, we have projected a Management Fee at 4% of Total Revenue.

j. Real Estate and Personal Property Taxes: This expense is an annual tax on the real property and tangible (personal property) including hotel and office fixtures, furnishings and equipment. The historical taxes for the subject tend to be distorted due to prepayment of taxes which provide for a discount if paid before they are due. The actual real property taxes appeared to be inline with our projection. Real Estate Taxes for the subject property were projected based on the subject's assessment and tax burden, plus support from actual expense of comparable and competing properties which recently sold. Comparable properties tax burdens had a range of $1.26 to $6.08 per square foot, with a mean of $3.95 and a median of $4.28 per square foot.

The valuation herein is based upon the effective date of our valuation. We have assumed that the property assessment would remain the same as 2010, which is well supported by market data which equals about 74% of our estimated Fee Simple value. The total 2010 Real Estate Tax and Tangible Property Tax amount is $54,990.38 rounded to $55,000.

k. <u>Insurance:</u> The property owner pays an annual insurance premium for fire, wind and flood insurance on the building, and liability coverage. This expense is fairly fixed and typically not dependent on revenues, but the market indicates a ratio range from 1.0% to 7.0% of room revenue. As the appraisers were not provided policy information; thus, we projected the insurance expense at $2.50 per square foot of gross building area. This is well within the range of $1.75 to $6.00 per square foot of gross building area. This appears to be very reasonable and well within the range.

l. <u>Reserves for Replacement Expense:</u> Furniture, fixtures and equipment are necessary in operating a resort facility, and their quality often influence the property class. Included in this category are all items that are typically capitalized rather than expended. The furniture, fixtures and equipment of a motel/hotel are heavily used and must be replaced at regular intervals. Their useful life is based on their quality, durability and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures and equipment is necessary to maintain the quality, image and income potential of a resort. Capital expenditures are not typically included on operating statements; however, they affect cash flow and should be reflected in the form of a replacement allowance.

Full service hotels typically indicate reserve ratios of 3% to 5% of total operating revenue. In the case at hand the subject property being a limited service hotel does not have as high of a reserve schedule as larger full service hotels. The following table provides a Reserves Schedule based on replacement cost new estimates. Furthermore, we included an annual sinking fund payment was deposited within an account yielding 2.5 percent, then the estimated annual reserve payment would be $35,000. In the “As Is” valuation, this expense was 2.3% of total revenue.

RESERVES FOR REPLACEMENT				
Caribbean Spa				
Item Description	**Economic Life**	**Estimated Cost**	**Sinking Func Factor**	**Payment/ Period**
Roof Covers	25	$52,000	0.0293	$1,524
Central A/C	15	$67,700	0.0558	$3,778
Telephone System	15	$35,000	0.0558	$1,953
Furnishings & Appliances	7	$208,800	0.1325	$27,666
Pool/Spa Resurfacing/Equipmer	15	$2,000	0.0558	$112
Annual Reserve Amount (Rounded):				**$35,000**
Interest Rate	2.50%			

Projected Income and Expense Summary: On the following page, a projected income and expense statement is shown for the subject property based on our projected income and expenses.

Caribbean Spa	Year 2011	1		
Number of Rooms	22			
Occupancy	60.0%			
Average Rate	$ 293.00			
Days Open	365			
Rooms Occupied	4,818			
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms	$ 1,412	93.3%	$ 64,182	$ 293.07
Rentals and Other Income	$ 81	5.4%	$ 3,682	$ 16.81
Misc. Revenue	$ 21	1.4%	$ 955	$ 4.36
Total Revenue	$ 1,514	100.0%	$ 68,818	$ 314.24
Departmental Expenses				
Rooms	$ 353	25.0%	$ 16,045	$ 73.27
Food & Beverages	$ 14	1.0%	$ 636	$ 2.91
Rentals and Other Income	$ 3	3.7%	$ 136	$ 0.62
Misc. Revenue	$ 15	71.4%	$ 682	$ 3.11
Total Departmental Expenses	$ 385	25.4%	$ 17,500	$ 79.91
Departmental Income	$ 1,129	74.6%	$ 51,318	$ 234.33
Undistributed Operating Expenses				
Administrative & General	$ 136	9.0%	$ 6,182	$ 28.23
Marketing	$ 88	5.8%	$ 4,000	$ 18.26
Prop. Oper. & Maintenance	$ 68	4.5%	$ 3,091	$ 14.11
Energy Costs	$ 121	8.0%	$ 5,500	$ 25.11
Total UDOEs	$ 413	27.3%	$ 18,773	$ 85.72
Income Before Fixed Charges	$ 716	47.3%	$ 32,545	$ 148.61
Fixed Charges				
Management Fee	$ 61	4.0%	$ 2,773	$ 12.66
Property Tax	$ 55	3.6%	$ 2,500	$ 11.42
Insurance	$ 60	4.0%	$ 2,727	$ 12.45
Reserve for Replacement	$ 35	2.3%	$ 1,591	$ 7.26
Total Fixed Charges	$ 211	13.9%	$ 9,591	$ 43.79
Net Income	**$ 505**	**33.4%**	**$ 22,955**	**$ 104.82**
Overall Expense Ratio		**66.6%**		

<u>Conclusion and Market Data Support for Expense Estimates:</u> The subject property's estimated expenses indicate an operating expense ratio of 66.6% of total revenue in the Market Value of the Going-Concern model. The ratio is within the range indicated by the hotel industry and is at the high-end of the local competitive set. The comparable sales analyzed in this report indicated an operating expense range from 50% to 73% with a mean at 58% and a median at 57%.

8. Capitalization: Capitalization can be defined as a method of converting an income stream into a capital sum by dividing the net income of the future income stream by an overall rate (OAR) or capitalization rate. The result should be the indicated value of the total property or the income-producing package. The capitalization rate was determined by the Mortgage Equity Method, from capitalization rates derived from the market, and from Debt Coverage Analysis as detailed below.

    a. Band of Investment Model or Mortgage Equity Method: Assume a mortgage of 70% of the value, 6.25% interest with a 20-year term, the mortgage constant will be 0.0877; a down payment of 30% as equity, and an Equity Capitalization of 7.5%.

    b. Comparable Sales Analysis: Based on sales comparables, we have estimated 7.75% capitalization rate for the subject property via the Comparable Sales Method (Market Approach) which ranged from 5.5% to 15.5% with a mean at 7.9% and a median at 7.6% for the subject's market area. RealtyRates.com indicated national surveyed rates for hospitality, resorts lodging facilities, at 6.25% for the low-end to 15.09% at the maximum, with a mean at 9.73%. Even though the subject is a limited service boutique hotel, its pricing due to its Florida Keys location is in-line with the upscale market. In the Florida Keys market, the actual capitalization rates tend to be near the lower-end of this range. Mr. Andrew Pace of Hotel Equities indicated based on his experience that the intense barriers to entry would warrant a cap rate at the lower-end. Based on the subject's use, design, and unit mix, we have estimated an overall rate at the mid-range of the market spectrum at 8%.

    c. Debt Coverage Analysis: An overall rate based on the Debt Coverage Method was estimated at 8.30%. After analysis of current financing availability for similar properties with quoted rates ranging from 6.0% to 7.5% and loan-to-value ratios of from 70% to 75%, we estimated an 8.77% loan constant rate for the subject property with a loan-to-value at 70.0%. A debt coverage ratio of 1.35 was considered appropriate for the subject according to a survey of local commercial banks. Thus, an overall rate based on the debt coverage analysis was estimated.

    A reconciled Overall Rate (OAR) of 8.0% has been estimated for the subject property with total weight being given to the Comparable Sales method as it is most reflective of the local market. The following table is a summary of our analysis of the capitalization rate.

Development of Capitalization Rate			
Loan Ratio	70.0%		
Loan Term (Years)	20		
Loan Rate	6.25%		
Equity Yield Rate	7.50%		
Band of Investment Method			
Capital Source	**Portion**	**Rate**	**Cap. Rate**
Mortgage Loan	70.00%	8.77%	6.14%
Equity Funds	30.00%	7.50%	2.25%
Overall Rate			8.39%
Overall Rate Via Band of Investment Method (Rounded):			**8.40%**
Debt Coverage Analysis			
Debt Coverage Ratio	1.35		
X Loan to Value Ratio	70.0%		
X Mortgage Constant	0.0877		
Overall Rate	8.29%		
Overall Rate Via Debt Coverage Analysis (Rounded):			**8.30%**
Market Derived Capitalization Rates:			**Local**
Realty Rates .Com 1st Quarter 2010:			**Mkt.**
Resort Lodging	Low	6.25%	5.5%
	High	15.09%	15.5%
	Average	9.73%	7.9%
Overall Rate Via Market Approach (Rounded):			**7.75%**
Reconciled Overall Rate:			**8.00%**

Correlation:

An OAR of 8.0% has been estimated for the subject property with most weight placed on the Comparable Sales Method, which is reflective of the local market, plus national surveys via RealtyRates.com. The indicated value via Direct Capitalization is developed as follows:

Subject GBA:	**24,188**			
Subject Upland Site Size (SF):	**21,643**			
No. of Licensed Room:	**22**			
Capitalization Rate:	**8.00%**	**Value Per**	**Value Per**	**Value Per**
Net Operating Income (Rounded):	**$ 505,000**	**SF of GBA**	**SF of Land**	**Lic. Unit**
Indicated "As Is" Value via Direct Capitalization (Rounded):	**$6,300,000**	**$260.46**	**$291.09**	**$286,364**

"AS IS" VALUE OF THE SUBJECT PROPERTY OF THE FEE SIMPLE INTEREST BASED ON ITS CONTINUED CURRENT OPERATIONS BY THE INCOME APPROACH (ROUNDED): $6,300,000

9. Subject Room Revenue Projections (Leasehold Interest Based on Continued Operation as a Hotel):

As explained in our previous analysis, we estimated the subject's room rates to be at the mid-point of the historical ADR's and Occupancy that were provided by the Pier House Resort. The subject's room rates, average daily rates, and occupancy rates are well-supported by the local market at the upper price tier resort/hotel operation. Furthermore, the ADR's, Occupancy and RevPARs are also supported by the competitive set.

For the subject, we projected an Average Daily Rate, ADR, for the first year to be at $293.00 with an occupancy rate of 60% resulting in a revenue per available room of $175.80. This scenario is a continuation of the previous analysis with increases in revenue and occupancy according to the following table.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Analyst Estimate:											
Occupancy Rate	60.0%	61.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%	62.0%
Average Rate	$293.00	$295.93	$301.85	$310.90	$326.45	$336.24	$346.33	$356.72	$367.42	$378.44	$389.80

Units of Measure: Income and expense projections are typically based on historical operating data for the subject property and comparable market data. Specific units of comparison are utilized in order to make reliable projections. The typical units of comparison for Hotels are: percent of total revenue, percent of rooms revenue, dollars per available room (PAR), and dollars per occupied room (POR).

Miscellaneous, Communications and Other Service Revenues: Communications Revenue is generated from hotel guests charging local and long-distance calls to their rooms or internet access charges and patrons or visitors utilizing business center telephones, faxes, internet access, etc. Miscellaneous and Other Service revenues were estimated at 1.5% of Room Revenue in Year 1 and subsequent years of our cash flow model. This revenue is in-line with the upscale boutique hotel local market.

Rental Income: As the appraisers were not provided historical or ancillary income for the current operation, we have projected that the day spa section of the subject property would be leased to a third party on a modified net basis. In a modified net lease the tenant would pay their own operating and utility expense and the landlord would be responsible for real estate taxes and insurance and management. We have estimated that the spa and a portion of the meeting room section consisted of approximately 4,508 square feet of rentable building area. This estimated income is based on the resume of rental comparables outlined in the previous section of this report.

Based on the foregoing market rent comparables the appraisers estimated the rent at $20.00 per square foot in Year 1 with an escalator of 2.5% per annual in subsequent years of our model. Our projections are based on a net revenue; hence, a 10 percent vacancy and collection loss or 90% occupancy was applied. Hence, in our cash flow model we have estimated this income on a net basis, i.e., (4,508 square feet X $20.00 per square foot X 90% occupancy) = Rounded $81,000 for Year 1 and increased by 2.5% in each of the subsequent years of our model.

<u>Total Revenue</u> is calculated by the summation of Room Revenue, Miscellaneous, Communications and Other Service Revenues plus Rental Income.

10. <u>Expenses</u>

Estimates of expenses are projected, based on and the actual expenses of other similar operations. Such as The Gardens Hotel, The Marquess Hotel, Parrot Key Resort Hotel, the Old Hampton Inn in Key West, Casa Morada in Islamorada, plus the fixed and variable ratios provided by Hospitality Valuation Services.

a. <u>Rooms Department Expenses</u>: Room expenses consist of all items relating to the sale and upkeep of the guest rooms and public space. Payroll and employee benefits account for a large portion of this category. This expense is somewhat occupancy sensitive because maids, bell persons, and housekeepers can be scheduled to work as necessary; however, a lot of the hotel's payrolls are fixed. Front desk persons, maintenance staff, housekeepers and other supervisory staff are maintained at all occupancy levels. As a result, payroll and employee benefits are moderately sensitive to occupancy levels, we estimate about 60% are fixed.

Commissions to travel agents for booking rooms are typically based on a percentage of room revenue; therefore, this expense is sensitive to occupancy rates. Reservations are a similar expense and typically reflect the cost of a reservation system. Room department expenses typically range from 18% to 29% of room revenue for large hotels. Based on local market expense data, we projected 25% of Room Revenue in Year 1with an annual 2.5% increase in each succeeding year thereafter.

b. Food & Beverage: This expense considers all expenses relating to the preparation and upkeep of the complimentary breakfast, cabana bar, meeting room facilities, and minimal food concession service operation. In the case at hand, the subject would be a limited-service hotel with just continental breakfast served and no other food service. As a result, we projected 1% of Room Revenue for food and beverage expense which equals about $2.91 per occupied room in Year 1. We estimated an increase of 2.0% in the subsequent years of our cash flow model.

c. Rental Expenses: This expense category includes the management fee of the commercial space rented to a third party. This fee is base on 4% of the net rental income throughout our cash flow model.

d. Miscellaneous and Other Department Expenses: This expense category includes all of the costs associated with the operation of the hotel's telephone/internet communications department. The costs of the calls/internet service fees is moderately occupancy sensitive, while the salaries and wages and other expenses are fairly fixed in this department. The appraisers project 70% expense of th miscellaneous revenue, which appears reasonable and was utilized throughout our model.

Departmental Income/Profit equals Total Revenues less Total Department Expenses.

e. Administrative and General Expenses: This expense includes the salaries and wages of administrative personnel, managerial and operational expenses not associated with a particular department. Expense items are related to management and operation of the property. Most administrative and general expenses are relatively fixed. The exceptions are cash overages and shortages, commissions on credit card charges, provisions for doubtful accounts, and salaries/wages and benefits which are slightly influenced by revenues.

In recent years, new items have been added to this expense category including human resource departments which include the cost of recruiting and training personnel. These expenses typically run between 9% and 19% of room revenues for larger full service motel/hotel operations. Based on market research, we have projected this expense at 9.0% of total revenue in Year 1 with a 2.0% annual increase in Years 2 and 3, then a 2.5% annual increases each year thereafter.

f. Advertising and Marketing Expense: This expense consists of all costs associated with advertising, promotions and sales of a lodging facility. These activities are intended to attract new customers and retain existing clienteles. Marketing can be used to create an image, stimulate patronage of the property's various facilities and to develop customer awareness. This expense category is unique in that all expense items, except commissions and fees, are controlled by management. Most resorts establish annual budgets with planned expenditures. Therefore, the marketing budget can be accurately forecasted, if followed.

Advertising and promotion expenses typically range from 1% to 6% of total revenues depending on the property type. Most upscale hotels spend 4% to 5% of total revenues. The most appropriate unit of comparison is the amount per available room. Based on market data, we projected this expense at $4,000 per available room (PAR) in Year 1 of our model. We have projected a 3.0% annual increase each year thereafter.

g. Property Operations and Maintenance: Property Operations and Maintenance (PO&M), formerly known as repair and maintenance, are another expense category which is controlled by management. Most maintenance items can be deferred for varying lengths of time, except for repairs necessary to the keep the facility operating and to prevent damage. Maintenance is an accumulating expense. If management decides to postpone required repairs, they have not eliminated the expense, they have only deferred payment to a later date. A resort with a lower than typical maintenance budget is likely to have a considerable amount of deferred maintenance.

The quality of the initial construction can impact future maintenance requirements. The use of high quality building materials and construction techniques typically reduces the need for maintenance expenses over the long term. In the case at hand, the subject property was totally renovated in 2008 with high quality material and workmanship. Hence, we anticipated that the maintenance would be at the lower end of the range.

Typical maintenance ratios for hotels range from 3% to 8% of total room revenue. Because this expense is predominantly fixed, the most appropriate unit of comparison is the amount per available room supported by the percentage of total revenue. Based on the comparable market data, we projected this expense at 4.5% of total revenue in Year 1, which equals $3,091 per available room. We have estimated a 3.0% increase in each of the succeeding years of our cash flow model.

h. Utility/Energy Costs: Energy costs include utility expenses for water, air conditioning/heating, lighting, cooking fuel and other power requirements. The subject property's energy costs include electricity and water, plus cooking fuel. Costs depend on the source and quantity of fuel. Electricity is the most expensive source, followed by water. Although all motels/hotels use a large amount of electricity, many properties supplement their energy requirements with less expensive sources: gas or solar panels for water heating and heating the swimming pool.

A moderate portion of the resort's energy consumption is fixed with public areas that must be continually lighted regardless of occupancy. Energy costs are typically 6% to 14% of effective room revenue for smaller motels in Monroe County. Analyses of other similar large operations indicate expense ratios toward the low end of the range. Thus, we have projected Energy Costs at 8.0% of Total Revenue in Year 1, with an annual increase of 3.0% each year thereafter, which is typical of similar boutique hotels.

Gross Operating Profit, House Profit or Income Before Fixed Expenses equals Departmental Income/Profit less Total Undistributed Operating Expenses.

Fixed Charges: The fixed charges included herein are the Real Estate Taxes, Insurance and Reserves for Replacement. I reported these expenses separately as follows, in conformance to how they are reported in the subject's historical operating statement.

I. Management Fee: This covers the basic fee to a hotel management company or entity to operate the subject property. Some hotel management companies provide solely management services, while others also provide brand name affiliation. Most motel/hotel management companies charge a basic fee (percentage of total revenue) and an incentive fee (percentage of profit, usually after debt service). The impact of the incentive fee is usually considered in an upward adjustment of the equity yield or capitalization rate for the added cost of management. Basic motel/hotel management fees are totally variable since they are virtually always based on a percentage of total revenue. Typical management fees range from two to five percent. Most small boutique hotels are typically owner-operated; thus, there is no historical information. However, according to the management agreement made available for our review, for another proposed hotel the management company is charging a Management Fee of 3% of Gross Room Revenues, plus 5% of Gross Operating Profit. However, other hotel operations use only the total gross revenue. Therefore, we have projected a Management Fee at 4% of Total Revenue throughout our cash flow model.

j. Real Estate and Personal Property Taxes: This expense is an annual tax on the real property and tangible (personal property) including hotel and office fixtures, furnishings and equipment. The historical taxes for the subject tend to be distorted due to prepayment of taxes which provide for a discount if paid before they are due. The actual real property taxes appeared to be inline with our projection. Real Estate Taxes for the subject property were projected based on the subject's assessment and tax burden, plus support from actual expense of comparable and competing properties which recently sold. Comparable properties tax burdens had a range of $1.26 to $6.08 per square foot, with a mean of $3.95 and a median of $4.28 per square foot.

The valuation herein is based upon the effective date of our valuation. We have assumed that the property assessment would remain the same as 2010, in Year 1 of our model, which equals about 74% of our estimated fee simple value. We anticipate this expense to increase by 5.0% annually in the next three years of our model based on historical tax burden increases. Then, in the following years of our cash flow model we estimated a 3.0% annually increase.

k. Insurance: The property owner pays an annual insurance premium for fire, wind and flood insurance on the building, and liability coverage. This expense is fairly fixed and typically not dependent on revenues, but the market indicates a ratio range from 1.0% to 7.0% of room revenue. As the appraisers were not provided policy information; thus, we projected the insurance expense at $2.50 per square foot of gross building area in Year 1 of our model. This is well within the range of $1.75 to $6.00 per square foot of gross building area. We project that this expense will increase by 5.0% annually based on historical insurance data.

l. Reserves for Replacement Expense: Furniture, fixtures and equipment are necessary in operating a resort facility, and their quality often influence the property class. Included in this category are all items that are typically capitalized rather than expended. The furniture, fixtures and equipment of a motel/hotel are heavily used and must be replaced at regular intervals. Their useful life is based on their quality, durability and the amount of guest traffic and use.

Periodic replacement of furniture, fixtures and equipment is necessary to maintain the quality, image and income potential of a resort. Capital expenditures are not typically included on operating statements; however, they affect cash flow and should be reflected in the form of a replacement allowance.

Full service hotels typically indicate reserve ratios of 3% to 5% of total operating revenue. However, in the case at hand the subject property being a limited service hotel does not have as high of a reserve schedule as larger full service hotels. The following table provides a Reserves Schedule based on replacement cost new estimates. Furthermore, we included an annual sinking fund payment was deposited within an account yielding 2.5 percent, then the estimated annual reserve payment would be $35,000. This expense remains the same throughout our cash flow model.

RESERVES FOR REPLACEMENT

Caribbean Spa

Item Description	Economic Life	Estimated Cost	Sinking Func Factor	Payment/ Period
Roof Covers	25	$52,000	0.0293	$1,524
Central A/C	15	$67,700	0.0558	$3,778
Telephone System	15	$35,000	0.0558	$1,953
Furnishings & Appliances	7	$208,800	0.1325	$27,666
Pool/Spa Resurfacing/Equipmer	15	$2,000	0.0558	$112
Annual Reserve Amount (Rounded):				**$35,000**
Interest Rate	2.50%			

Projected Discounted Cash Flow Analysis: On the following page, is our Discounted Cash Flow Analyses based on our projected income and expenses detailed on the previous pages.

Caribbean Spa

Discounted Cash Flow

Leasehold Interest

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Caribbean Spa		Year 2011	1			Year 2012	2		
Number of Rooms		22				22			
Occupancy		60.0%				61.0%			
Average Rate		$ 293.00				$ 295.93			
Days Open		365				365			
Rooms Occupied		4,818				4,898			
Revenues		$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms		$ 1,412	93.3%	$ 64,182	$ 293.07	$ 1,450	93.2%	$ 65,909	$ 296.02
Rentals and Other Income		$ 81	5.4%	$ 3,682	$ 16.81	$ 84	5.4%	$ 3,818	$ 17.15
Misc. Revenue		$ 21	1.4%	$ 955	$ 4.36	$ 22	1.4%	$ 1,000	$ 4.49
Total Revenue		$ 1,514	100.0%	$ 68,818	$ 314.24	$ 1,556	100.0%	$ 70,727	$ 317.66
Departmental Expenses									
Rooms		$ 353	25.0%	$ 16,045	$ 73.27	$ 364	25.1%	$ 16,545	$ 74.31
Food & Beverages		$ 14	1.0%	$ 636	$ 2.91	$ 15	1.0%	$ 682	$ 3.06
Rentals and Other Income		$ 3	3.7%	$ 136	$ 0.62	$ 3	3.6%	$ 136	$ 0.61
Misc. Revenue		$ 15	71.4%	$ 682	$ 3.11	$ 15	68.2%	$ 682	$ 3.06
Total Departmental Expenses		$ 385	25.4%	$ 17,500	$ 79.91	$ 397	25.5%	$ 18,045	$ 81.05
Departmental Income		$ 1,129	74.6%	$ 51,318	$ 234.33	$ 1,159	74.5%	$ 52,682	$ 236.61
Undistributed Operating Expenses									
Administrative & General		$ 136	9.0%	$ 6,182	$ 28.23	$ 141	9.1%	$ 6,409	$ 28.79
Marketing		$ 88	5.8%	$ 4,000	$ 18.26	$ 91	5.8%	$ 4,136	$ 18.58
Prop. Oper. & Maintenance		$ 68	4.5%	$ 3,091	$ 14.11	$ 71	4.6%	$ 3,227	$ 14.49
Energy Costs		$ 121	8.0%	$ 5,500	$ 25.11	$ 125	8.0%	$ 5,682	$ 25.52
Total UDOEs		$ 413	27.3%	$ 18,773	$ 85.72	$ 428	27.5%	$ 19,455	$ 87.38
Income Before Fixed Charges		$ 716	47.3%	$ 32,545	$ 148.61	$ 731	47.0%	$ 33,227	$ 149.24
Fixed Charges									
Management Fee		$ 61	4.0%	$ 2,773	$ 12.66	$ 62	4.0%	$ 2,818	$ 12.66
Property Tax		$ 55	3.6%	$ 2,500	$ 11.42	$ 58	3.7%	$ 2,636	$ 11.84
Insurance		$ 60	4.0%	$ 2,727	$ 12.45	$ 63	4.0%	$ 2,864	$ 12.86
Reserve for Replacement		$ 35	2.3%	$ 1,591	$ 7.26	$ 35	2.2%	$ 1,591	$ 7.15
Total Fixed Charges		$ 211	13.9%	$ 9,591	$ 43.79	$ 218	14.0%	$ 9,909	$ 44.51
Net Income		**$ 505**	**33.4%**	**$ 22,955**	**$ 104.82**	**$ 513**	**33.0%**	**$ 23,318**	**$ 104.73**
Overall Expense Ratio			**66.6%**				**67.0%**		
Discount Factor	8.0%	0.925926				0.857339			
Present Value		$468				$440			

Caribbean Spa	Year 2013	3			Year 2014	4		
Number of Rooms	22				22			
Occupancy	62.0%				62.0%			
Average Rate	$ 301.85				$ 310.90			
Days Open	365				365			
Rooms Occupied	4,979				4,979			
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms	$ 1,503	93.2%	$ 68,318	$ 301.89	$ 1,548	93.3%	$ 70,364	$ 310.93
Rentals and Other Income	$ 87	5.4%	$ 3,955	$ 17.47	$ 89	5.4%	$ 4,045	$ 17.88
Misc. Revenue	$ 22	1.4%	$ 1,000	$ 4.42	$ 23	1.4%	$ 1,045	$ 4.62
Total Revenue	$ 1,612	100.0%	$ 73,273	$ 323.79	$ 1,660	100.0%	$ 75,455	$ 333.43
Departmental Expenses								
Rooms	$ 376	25.0%	$ 17,091	$ 75.52	$ 385	24.9%	$ 17,500	$ 77.33
Food & Beverages	$ 15	1.0%	$ 682	$ 3.01	$ 15	1.0%	$ 682	$ 3.01
Rentals and Other Income	$ 3	3.4%	$ 136	$ 0.60	$ 4	4.5%	$ 182	$ 0.80
Misc. Revenue	$ 15	68.2%	$ 682	$ 3.01	$ 15	65.2%	$ 682	$ 3.01
Total Departmental Expenses	$ 409	25.4%	$ 18,591	$ 82.15	$ 419	25.2%	$ 19,045	$ 84.16
Departmental Income	$ 1,203	74.6%	$ 54,682	$ 241.63	$ 1,241	74.8%	$ 56,409	$ 249.27
Undistributed Operating Expenses								
Administrative & General	$ 146	9.1%	$ 6,636	$ 29.33	$ 150	9.0%	$ 6,818	$ 30.13
Marketing	$ 95	5.9%	$ 4,318	$ 19.08	$ 97	5.8%	$ 4,409	$ 19.48
Prop. Oper. & Maintenance	$ 73	4.5%	$ 3,318	$ 14.66	$ 75	4.5%	$ 3,409	$ 15.06
Energy Costs	$ 129	8.0%	$ 5,864	$ 25.91	$ 133	8.0%	$ 6,045	$ 26.71
Total UDOEs	$ 443	27.5%	$ 20,136	$ 88.98	$ 455	27.4%	$ 20,682	$ 91.39
Income Before Fixed Charges	$ 760	47.1%	$ 34,545	$ 152.65	$ 786	47.3%	$ 35,727	$ 157.88
Fixed Charges								
Management Fee	$ 64	4.0%	$ 2,909	$ 12.86	$ 66	4.0%	$ 3,000	$ 13.26
Property Tax	$ 61	3.8%	$ 2,773	$ 12.25	$ 64	3.9%	$ 2,909	$ 12.86
Insurance	$ 67	4.2%	$ 3,045	$ 13.46	$ 70	4.2%	$ 3,182	$ 14.06
Reserve for Replacement	$ 35	2.2%	$ 1,591	$ 7.03	$ 35	2.1%	$ 1,591	$ 7.03
Total Fixed Charges	$ 227	14.1%	$ 10,318	$ 45.60	$ 235	14.2%	$ 10,682	$ 47.20
Net Income	**$ 533**	**33.1%**	**$ 24,227**	**$ 107.06**	**$ 551**	**33.2%**	**$ 25,045**	**$ 110.67**
Overall Expense Ratio		**66.9%**				**66.8%**		
Discount Factor	0.793832				0.735030			
Present Value	$423				$405			

Caribbean Spa

Discounted Cash Flow

Leasehold Interest

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Caribbean Spa	Year 2015	5			Year 2016	6		
Number of Rooms	22				22			
Occupancy	62.0%				62.0%			
Average Rate	$ 326.45				$ 336.24			
Days Open	365				365			
Rooms Occupied	4,979				4,979			
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms	$ 1,625	93.4%	$ 73,864	$ 326.40	$ 1,674	93.4%	$ 76,091	$ 336.24
Rentals and Other Income	$ 91	5.2%	$ 4,136	$ 18.28	$ 93	5.2%	$ 4,227	$ 18.68
Misc. Revenue	$ 24	1.4%	$ 1,091	$ 4.82	$ 25	1.4%	$ 1,136	$ 5.02
Total Revenue	$ 1,740	100.0%	$ 79,091	$ 349.50	$ 1,792	100.0%	$ 81,455	$ 359.94
Departmental Expenses								
Rooms	$ 395	24.3%	$ 17,955	$ 79.34	$ 405	24.2%	$ 18,409	$ 81.35
Food & Beverages	$ 16	1.0%	$ 727	$ 3.21	$ 16	1.0%	$ 727	$ 3.21
Rentals and Other Income	$ 4	4.4%	$ 182	$ 0.80	$ 4	4.3%	$ 182	$ 0.80
Misc. Revenue	$ 15	62.5%	$ 682	$ 3.01	$ 15	60.0%	$ 682	$ 3.01
Total Departmental Expenses	$ 430	24.7%	$ 19,545	$ 86.37	$ 440	24.6%	$ 20,000	$ 88.38
Departmental Income	$ 1,310	75.3%	$ 59,545	$ 263.13	$ 1,352	75.4%	$ 61,455	$ 271.56
Undistributed Operating Expenses								
Administrative & General	$ 154	8.9%	$ 7,000	$ 30.93	$ 158	8.8%	$ 7,182	$ 31.74
Marketing	$ 100	5.7%	$ 4,545	$ 20.09	$ 103	5.7%	$ 4,682	$ 20.69
Prop. Oper. & Maintenance	$ 77	4.4%	$ 3,500	$ 15.47	$ 80	4.5%	$ 3,636	$ 16.07
Energy Costs	$ 137	7.9%	$ 6,227	$ 27.52	$ 141	7.9%	$ 6,409	$ 28.32
Total UDOEs	$ 468	26.9%	$ 21,273	$ 94.00	$ 482	26.9%	$ 21,909	$ 96.81
Income Before Fixed Charges	$ 842	48.4%	$ 38,273	$ 169.12	$ 870	48.5%	$ 39,545	$ 174.75
Fixed Charges								
Management Fee	$ 70	4.0%	$ 3,182	$ 14.06	$ 72	4.0%	$ 3,273	$ 14.46
Property Tax	$ 66	3.8%	$ 3,000	$ 13.26	$ 68	3.8%	$ 3,091	$ 13.66
Insurance	$ 74	4.3%	$ 3,364	$ 14.86	$ 77	4.3%	$ 3,500	$ 15.47
Reserve for Replacement	$ 35	2.0%	$ 1,591	$ 7.03	$ 35	2.0%	$ 1,591	$ 7.03
Total Fixed Charges	$ 245	14.1%	$ 11,136	$ 49.21	$ 252	14.1%	$ 11,455	$ 50.62
Net Income	**$ 597**	**34.3%**	**$ 27,136**	**$ 119.91**	**$ 618**	**34.5%**	**$ 28,091**	**$ 124.13**
Overall Expense Ratio		**65.7%**				**65.5%**		
Discount Factor	0.680583				0.630170			
Present Value	$406				$389			

Caribbean Spa	Year 2017	7			Year 2018	8		
Number of Rooms	22				22			
Occupancy	62.0%				62.0%			
Average Rate	$ 346.33				$ 356.72			
Days Open	365				365			
Rooms Occupied	4,979				4,979			
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms	$ 1,724	93.4%	$ 78,364	$ 346.28	$ 1,776	93.5%	$ 80,727	$ 356.73
Rentals and Other Income	$ 96	5.2%	$ 4,364	$ 19.28	$ 98	5.2%	$ 4,455	$ 19.68
Misc. Revenue	$ 25	1.4%	$ 1,136	$ 5.02	$ 26	1.4%	$ 1,182	$ 5.22
Total Revenue	$ 1,845	100.0%	$ 83,864	$ 370.59	$ 1,900	100.0%	$ 86,364	$ 381.63
Departmental Expenses								
Rooms	$ 415	24.1%	$ 18,864	$ 83.36	$ 425	23.9%	$ 19,318	$ 85.37
Food & Beverages	$ 16	0.9%	$ 727	$ 3.21	$ 17	1.0%	$ 773	$ 3.41
Rentals and Other Income	$ 4	4.2%	$ 182	$ 0.80	$ 4	4.1%	$ 182	$ 0.80
Misc. Revenue	$ 15	60.0%	$ 682	$ 3.01	$ 15	57.7%	$ 682	$ 3.01
Total Departmental Expenses	$ 450	24.4%	$ 20,455	$ 90.39	$ 461	24.3%	$ 20,955	$ 92.60
Departmental Income	$ 1,395	75.6%	$ 63,409	$ 280.20	$ 1,439	75.7%	$ 65,409	$ 289.04
Undistributed Operating Expenses								
Administrative & General	$ 161	8.7%	$ 7,318	$ 32.34	$ 166	8.7%	$ 7,545	$ 33.34
Marketing	$ 106	5.7%	$ 4,818	$ 21.29	$ 110	5.8%	$ 5,000	$ 22.09
Prop. Oper. & Maintenance	$ 82	4.4%	$ 3,727	$ 16.47	$ 85	4.5%	$ 3,864	$ 17.07
Energy Costs	$ 145	7.9%	$ 6,591	$ 29.12	$ 149	7.8%	$ 6,773	$ 29.93
Total UDOEs	$ 494	26.8%	$ 22,455	$ 99.22	$ 510	26.8%	$ 23,182	$ 102.44
Income Before Fixed Charges	$ 901	48.8%	$ 40,955	$ 180.97	$ 929	48.9%	$ 42,227	$ 186.60
Fixed Charges								
Management Fee	$ 74	4.0%	$ 3,364	$ 14.86	$ 76	4.0%	$ 3,455	$ 15.27
Property Tax	$ 70	3.8%	$ 3,182	$ 14.06	$ 72	3.8%	$ 3,273	$ 14.46
Insurance	$ 81	4.4%	$ 3,682	$ 16.27	$ 85	4.5%	$ 3,864	$ 17.07
Reserve for Replacement	$ 35	1.9%	$ 1,591	$ 7.03	$ 35	1.8%	$ 1,591	$ 7.03
Total Fixed Charges	$ 260	14.1%	$ 11,818	$ 52.22	$ 268	14.1%	$ 12,182	$ 53.83
Net Income	**$ 641**	**34.7%**	**$ 29,136**	**$ 128.75**	**$ 661**	**34.8%**	**$ 30,045**	**$ 132.77**
Overall Expense Ratio		**65.3%**				**65.2%**		
Discount Factor	0.583490				0.540269			
Present Value	$374				$357			

Caribbean Spa

Discounted Cash Flow

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Caribbean Spa	Year 2019	9			Year 2020	10		
Number of Rooms	22				22			
Occupancy	62.0%				62.0%			
Average Rate	$ 367.42				$ 378.44			
Days Open	365				365			
Rooms Occupied	4,979				4,979			
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms	$ 1,829	93.5%	$ 83,136	$ 367.37	$ 157	93.5%	$ 7,136	$ 31.53
Rentals and Other Income	$ 101	5.2%	$ 4,591	$ 20.29	$ 9	5.1%	$ 390	$ 1.72
Misc. Revenue	$ 27	1.4%	$ 1,227	$ 5.42	$ 2	1.4%	$ 106	$ 0.47
Total Revenue	$ 1,957	100.0%	$ 88,955	$ 393.08	$ 168	100.0%	$ 7,633	$ 33.73
Departmental Expenses								
Rooms	$ 436	23.8%	$ 19,818	$ 87.57	$ 37	23.7%	$ 1,693	$ 7.48
Food & Beverages	$ 17	0.9%	$ 773	$ 3.41	$ 1	0.9%	$ 64	$ 0.28
Rentals and Other Income	$ 4	4.0%	$ 182	$ 0.80	$ 0	3.9%	$ 15	$ 0.07
Misc. Revenue	$ 15	55.6%	$ 682	$ 3.01	$ 1	53.6%	$ 57	$ 0.25
Total Departmental Expenses	$ 472	24.1%	$ 21,455	$ 94.81	$ 40	24.0%	$ 1,830	$ 8.08
Departmental Income	$ 1,485	75.9%	$ 67,500	$ 298.28	$ 128	76.0%	$ 5,803	$ 25.64
Undistributed Operating Expenses								
Administrative & General	$ 170	8.7%	$ 7,727	$ 34.15	$ 15	8.6%	$ 659	$ 2.91
Marketing	$ 113	5.8%	$ 5,136	$ 22.70	$ 10	5.8%	$ 439	$ 1.94
Prop. Oper. & Maintenance	$ 87	4.4%	$ 3,955	$ 17.47	$ 8	4.5%	$ 341	$ 1.51
Energy Costs	$ 154	7.9%	$ 7,000	$ 30.93	$ 13	7.9%	$ 602	$ 2.66
Total UDOEs	$ 524	26.8%	$ 23,818	$ 105.25	$ 45	26.7%	$ 2,042	$ 9.02
Income Before Fixed Charges	$ 961	49.1%	$ 43,682	$ 193.03	$ 83	49.3%	$ 3,761	$ 16.62
Fixed Charges								
Management Fee	$ 78	4.0%	$ 3,545	$ 15.67	$ 7	4.0%	$ 307	$ 1.36
Property Tax	$ 74	3.8%	$ 3,364	$ 14.86	$ 6	3.8%	$ 288	$ 1.27
Insurance	$ 89	4.5%	$ 4,045	$ 17.88	$ 8	4.7%	$ 356	$ 1.57
Reserve for Replacement	$ 35	1.8%	$ 1,591	$ 7.03	$ 3	1.7%	$ 133	$ 0.59
Total Fixed Charges	$ 276	14.1%	$ 12,545	$ 55.44	$ 24	14.2%	$ 1,083	$ 4.79
Net Income	**$ 685**	**35.0%**	**$ 31,136**	**$ 137.59**	**$ 59**	**35.1%**	**$ 2,678**	**$ 11.83**
Overall Expense Ratio		**65.0%**				**64.9%**		
Discount Factor	0.500249				0.463193			
Present Value	$343				$27			
	Indicated Leasehold Value as of May 1, 2011 (Rounded):						**$3,600,000**	

11. Analysis of Leasehold Cash Flows:

The Market Value of the Leasehold Interest of the subject property indicated by the Discounted Cash Flow Technique is equal to the sum of the present values of the before tax cash flows, with no reversion. A holding period was determined to be nine years and one month based on the lease terms.

The discount rate, often used interchangeably with the phrases, internal rate of return or yield rate, represents the time-weighted return a developer anticipates on a real estate investment. This rate equates the present value of future receipts with the Market Value or Investment Value of the investment.

We have analyzed discount rates for the lodging industry from a national survey of rates. RealtyRates.com, indicates national lodging resort facilities discount rates at 7.01% to 14.50% with a mean at 10.31% for acquisitions, while full service lodging facilities discount rates at 7.11% to 12.34% with a mean at 10.27%. In the case at hand we are analyzing a leasehold interest, of a land lease, which has much less risk, hence, a lower discount rate. According to RealtyRates.com, land lease discount rates are at 5.91% to 16.52% with a mean at 9.06%. Therefore, we have estimated a discount rate of 8% is at the lower-end of the spectrum, but reasonable based on the property type, age, condition, and barriers to entry for new competition.

Explanation of Columnar Calculations: The columns within the spreadsheet are broken down into 10 years and there is no reversion as the tenant will vacate upon expiration of the lease.

In each cashflow, the Room Revenue on an annual basis plus the Other Income would then be added to arrive at a Total Operating Revenue. Typical holding and management expenses are then deducted from the Total Operating Revenue. These expenses include, but are not limited to: management fees, real estate taxes, building hazard insurance, operating cost and supplies, building maintenance, reserves for replacement. After deducting these expenses, the resulting figure is commonly known as Net Operating Income.

The Net Operating Income times the Discount Factor yields a present value. In each year of our model, the net operating incomes are multiplied by the discount factor in order to determine the present value for each year. Finally, all of the present values are added together resulting in the Leasehold Value of the subject property. The 10 year spreadsheets were detailed in the previous pages.

LEASEHOLD VALUE OF THE SUBJECT PROPERTY BASED ON ITS CONTINUED CURRENT OPERATIONS BY THE INCOME APPROACH (ROUNDED): $3,600,000

12. Subject Room Revenue Projections (Leased Fee Interest):

As explained in our leasehold analysis, we estimated the subject's room rates to be at the mid-point of the historical ADR and Occupancy that were provided by the Pier House Resort. In the leasehold scenario, the appraisers estimated an Average Daily Rate, ADR, for the first year to be at $293.00 with an occupancy rate of 60% resulting in a revenue per available room of $175.80 in Year 1.

The ADR grew to $378.44 in Year 10 with a 62% Occupancy. In this scenario, leased fee interest, we are projecting a startup boutique hotel operation at the end of the lease term, April 2020 and estimating the ADR at that point in time. We have estimated the ADR in 2020 to be $284 which is 75% of the leasehold projection. Furthermore, we have assumed that it would require five years for the operation to stabilize. Our projected Room Revenue, ADRs and Occupancy, are based on the following table assuming a new boutique hotel startup in 2020 with stabilization in 2024 and a reversion in 2025. We have estimated that due to the conversion and retrofitting of the property, that there would be about three months of work before it is ready for business. Hence, the first year we estimated a 40% occupancy rate due to the down time. The subsequent years occupancy are as follows.

	2020	2021	2022	2023	2024	2025
Analyst Estimate:						
Occupancy Rate	40.0%	50.0%	55.0%	62.0%	62.0%	62.0%
Average Rate	$284.00	$292.52	$307.15	$331.72	$341.67	$351.92

Other Revenues and Expenses:

Other revenues including Rentals and Miscellaneous Revenues are based on the previously outlined leasehold scenario, commencing with the year 2020. The appraisers have assumed the commercial rental rate would be at $22.00 per square foot of net rentable area and that Miscellaneous Revenue will remain at 1.5% of room revenue.

Likewise, we have assumed that the expenses in the leasehold scenario would remain the same, with the exception of some higher room expense ratios and startup expenses for advertising and marketing. At the end of the lease and in order for the subject to be a stand-alone operation, capital expenses would be required, including: creation of a new entrance and reception/lobby, remodeling of existing rooms, new signage, re-routing of electrical service, plus furniture, fixtures and equipment. As part of the conversion, removal of a section of CBS wall/fence on Simonton street would be necessary in order to retrofit the entrance/lobby along Simonton Street. We have estimated the construction conversion cost at $188,000 and the FF&E at $261,000 based on 2020 inflated values. This conversion expense is projected in Year 1 of our Leased Fee Reversion cash flow model. We have estimated that this conversion work could be completed in about three months and ready for business. Hence, in the first year, we estimated a 40% occupancy rate for consideration of construction time.

The subject's projected reversion value is based on the Discounted Cash Flow Analyses detailed on the following page based on the projected income and expenses previously detailed in the leasehold section of this report.

Caribbean Spa

Discounted Cash Flow

Leased Fee Reversion Value

Caribbean Spa	1 2020				2 2021			
Number of Rooms	22				22			
Occupancy	40.0%				50.0%			
Average Rate	$ 284.00				$ 292.52			
Days Open	365				365			
Rooms Occupied	3212				4015			
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms	$ 1,026	90.8%	$ 46,636	$ 319.43	$ 1,321	91.5%	$ 60,045	$ 329.02
Rentals and Other Income	$ 89	7.9%	$ 4,045	$ 27.71	$ 103	7.1%	$ 4,682	$ 25.65
Misc. Revenue	$ 15	1.3%	$ 682	$ 4.67	$ 20	1.4%	$ 909	$ 4.98
Total Revenue	$ 1,130	100.0%	$ 51,364	$ 351.81	$ 1,444	100.0%	$ 65,636	$ 359.65
Departmental Expenses								
Rooms	$ 277	27.0%	$ 12,591	$ 86.24	$ 353	26.7%	$ 16,045	$ 87.92
Food & Beverages	$ 6	0.6%	$ 273	$ 1.87	$ 6	0.5%	$ 273	$ 1.49
Rentals and Other Income	$ 4	4.5%	$ 182	$ 1.25	$ 4	3.9%	$ 182	$ 1.00
Misc. Revenue	$ 11	73.3%	$ 500	$ 3.42	$ 14	70.0%	$ 636	$ 3.49
Total Departmental Expenses	$ 298	26.4%	$ 13,545	$ 92.78	$ 377	26.1%	$ 17,136	$ 93.90
Departmental Income	$ 832	73.6%	$ 37,818	$ 259.03	$ 1,067	73.9%	$ 48,500	$ 265.75
Undistributed Operating Expenses								
Administrative & General	$ 102	9.0%	$ 4,636	$ 31.76	$ 129	8.9%	$ 5,864	$ 32.13
Marketing	$ 113	10.0%	$ 5,136	$ 35.18	$ 128	8.9%	$ 5,818	$ 31.88
Prop. Oper. & Maintenance	$ 51	4.5%	$ 2,318	$ 15.88	$ 56	3.9%	$ 2,545	$ 13.95
Energy Costs	$ 90	8.0%	$ 4,091	$ 28.02	$ 95	6.6%	$ 4,318	$ 23.66
Total UDOEs	$ 356	31.5%	$ 16,182	$ 110.83	$ 408	28.3%	$ 18,545	$ 101.62
Income Before Fixed Charges	$ 476	42.1%	$ 21,636	$ 148.19	$ 659	45.6%	$ 29,955	$ 164.13
Fixed Charges								
Management Fee	$ 45	4.0%	$ 2,045	$ 14.01	$ 58	4.0%	$ 2,636	$ 14.45
Property Tax	$ 74	6.5%	$ 3,364	$ 23.04	$ 76	5.3%	$ 3,455	$ 18.93
Insurance	$ 89	7.9%	$ 4,045	$ 27.71	$ 93	6.4%	$ 4,227	$ 23.16
Construction Cost	$ 186	16.6%	$ 8,545	$ 58.53	$ -	0.0%	$ -	$ -
FF & E	$ 261	23.1%	$ 11,864	$ 81.26	$ -	0.0%	$ -	$ -
Reserve for Replacement	$ 35	3.1%	$ 1,591	$ 10.90	$ 35	2.4%	$ 1,591	$ 8.72
Total Fixed Charges	$ 692	61.2%	$ 31,455	$ 215.44	$ 262	18.1%	$ 11,909	$ 65.26
Net Income	$ (216)	-19.1%	$ (9,818)	$ (67.25)	$ 397	27.5%	$ 18,045	$ 98.88
Overall Expense Ratio		**119.1%**				**72.5%**		
Discount Factor 10.0%	0.909091				0.826446			
Present Value	-$216				$328			

Caribbean Spa	3 2022				4 2023			
Number of Rooms	22				22			
Occupancy	55.0%				62.0%			
Average Rate	$ 307.15				$ 331.72			
Days Open	365				365			
Rooms Occupied	4417				4979			
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent	$/Avail Rm	$/Occ Rm
Rooms	$ 1,526	92.0%	$ 69,364	$ 345.52	$ 1,858	92.6%	$ 84,455	$ 373.20
Rentals and Other Income	$ 111	6.7%	$ 5,045	$ 25.13	$ 123	6.1%	$ 5,591	$ 24.71
Misc. Revenue	$ 22	1.3%	$ 1,000	$ 4.98	$ 26	1.3%	$ 1,182	$ 5.22
Total Revenue	$ 1,659	100.0%	$ 75,409	$ 375.64	$ 2,007	100.0%	$ 91,227	$ 403.13
Departmental Expenses								
Rooms	$ 396	26.0%	$ 18,000	$ 89.66	$ 458	24.7%	$ 20,818	$ 91.99
Food & Beverages	$ 6	0.4%	$ 273	$ 1.36	$ 6	0.3%	$ 273	$ 1.21
Rentals and Other Income	$ 4	3.6%	$ 182	$ 0.91	$ 5	4.1%	$ 227	$ 1.00
Misc. Revenue	$ 15	68.2%	$ 682	$ 3.40	$ 17	65.4%	$ 773	$ 3.41
Total Departmental Expenses	$ 421	25.4%	$ 19,136	$ 95.32	$ 486	24.2%	$ 22,091	$ 97.62
Departmental Income	$ 1,238	74.6%	$ 56,273	$ 280.31	$ 1,521	75.8%	$ 69,136	$ 305.51
Undistributed Operating Expenses								
Administrative & General	$ 144	8.7%	$ 6,545	$ 32.61	$ 167	8.3%	$ 7,591	$ 33.54
Marketing	$ 137	8.3%	$ 6,227	$ 31.02	$ 150	7.5%	$ 6,818	$ 30.13
Prop. Oper. & Maintenance	$ 60	3.6%	$ 2,727	$ 13.59	$ 64	3.2%	$ 2,909	$ 12.86
Energy Costs	$ 99	6.0%	$ 4,500	$ 22.42	$ 104	5.2%	$ 4,727	$ 20.89
Total UDOEs	$ 440	26.5%	$ 20,000	$ 99.63	$ 485	24.2%	$ 22,045	$ 97.42
Income Before Fixed Charges	$ 798	48.1%	$ 36,273	$ 180.69	$ 1,036	51.6%	$ 47,091	$ 208.09
Fixed Charges								
Management Fee	$ 66	4.0%	$ 3,000	$ 14.94	$ 80	4.0%	$ 3,636	$ 16.07
Property Tax	$ 79	4.8%	$ 3,591	$ 17.89	$ 81	4.0%	$ 3,682	$ 16.27
Insurance	$ 98	5.9%	$ 4,455	$ 22.19	$ 103	5.1%	$ 4,682	$ 20.69
Construction Cost	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
FF & E	$ -	0.0%	$ -	$ -	$ -	0.0%	$ -	$ -
Reserve for Replacement	$ 35	2.1%	$ 1,591	$ 7.92	$ 35	1.7%	$ 1,591	$ 7.03
Total Fixed Charges	$ 278	16.8%	$ 12,636	$ 62.95	$ 299	14.9%	$ 13,591	$ 60.06
Net Income	$ 520	31.3%	$ 23,636	$ 117.74	$ 737	36.7%	$ 33,500	$ 148.03
Overall Expense Ratio		**68.7%**				**63.3%**		
Discount Factor	0.751315				0.683013			
Present Value	$391				$503			

Caribbean Spa	5 2024				Base +5 2025	
Number of Rooms	22				22	
Occupancy	62.0%				62.0%	
Average Rate	$ 341.67				$ 351.92	
Days Open	365				365	
Rooms Occupied	4979				4979	
Revenues	$(000)	Percent	$/Avail Rm	$/Occ Rm	$(000)	Percent
Rooms	$ 1,914	92.6%	$ 87,000	$ 384.45	$ 1,971	92.6%
Rentals and Other Income	$ 126	6.1%	$ 5,727	$ 25.31	$ 129	6.1%
Misc. Revenue	$ 27	1.3%	$ 1,227	$ 5.42	$ 28	1.3%
Total Revenue	$ 2,067	100.0%	$ 93,955	$ 415.18	$ 2,128	100.0%
Departmental Expenses						
Rooms	$ 470	24.6%	$ 21,364	$ 94.40	$ 481	24.4%
Food & Beverages	$ 6	0.3%	$ 273	$ 1.21	$ 7	0.4%
Rentals and Other Income	$ 5	4.0%	$ 227	$ 1.00	$ 5	3.9%
Misc. Revenue	$ 17	63.0%	$ 773	$ 3.41	$ 17	60.7%
Total Departmental Expenses	$ 498	24.1%	$ 22,636	$ 100.03	$ 510	24.0%
Departmental Income	$ 1,569	75.9%	$ 71,318	$ 315.15	$ 1,618	76.0%
Undistributed Operating Expenses						
Administrative & General	$ 172	8.3%	$ 7,818	$ 34.55	$ 177	8.3%
Marketing	$ 154	7.5%	$ 7,000	$ 30.93	$ 159	7.5%
Prop. Oper. & Maintenance	$ 66	3.2%	$ 3,000	$ 13.26	$ 68	3.2%
Energy Costs	$ 107	5.2%	$ 4,864	$ 21.49	$ 110	5.2%
Total UDOEs	$ 499	24.1%	$ 22,682	$ 100.23	$ 514	24.2%
Income Before Fixed Charges	$ 1,070	51.8%	$ 48,636	$ 214.92	$ 1,104	51.9%
Fixed Charges						
Management Fee	$ 83	4.0%	$ 3,773	$ 16.67	$ 85	4.0%
Property Tax	$ 83	4.0%	$ 3,773	$ 16.67	$ 86	4.0%
Insurance	$ 108	5.2%	$ 4,909	$ 21.69	$ 114	5.4%
Construction Cost	$ -	0.0%	$ -	$ -	$ -	0.0%
FF & E	$ -	0.0%	$ -	$ -	$ -	0.0%
Reserve for Replacement	$ 35	1.7%	$ 1,591	$ 7.03	$ 35	1.6%
Total Fixed Charges	$ 309	14.9%	$ 14,045	$ 62.07	$ 320	15.0%
Net Income	$ 761	36.8%	$ 34,591	$ 152.85	$ 784	36.8%
Overall Expense Ratio		**63.2%**			**$ 9,200,000**	**63.2%**
Discount Factor	0.620921			**Cost of Sale**	($552,000)	
Present Value	$473			**Reversion**	**$8,648,000**	

Indicated Reversion Value as of May, 2020 (Rounded): $6,800,000

The Leased Fee Value for the subject property is calculated based on the lease payment remaining for the duration of the lease, nine years and one month, plus the reversion value. As previously stated, the lease payments are fixed annually at $3,600, and the reversion value was estimated at $6,800,000. The Discounted Cash Flow Analysis for the subject Leased Fee Value is as follows.

Discounted Cash Flow Analysis
Leased Fee Value
Reversion Value Based on New Startup

Periods Years		N.O.I.	PV Factor	PV of Lease
1	Lease Payment	$3,600.00	0.92593	$3,333.33
2	Lease Payment	$3,600.00	0.85734	$3,086.42
3	Lease Payment	$3,600.00	0.79383	$2,857.80
4	Lease Payment	$3,600.00	0.73503	$2,646.11
5	Lease Payment	$3,600.00	0.68058	$2,450.10
6	Lease Payment	$3,600.00	0.63017	$2,268.61
7	Lease Payment	$3,600.00	0.58349	$2,100.57
8	Lease Payment	$3,600.00	0.54027	$1,944.97
9	Lease Payment	$3,600.00	0.50025	$1,800.90
10	1 Months Lease + Reversion	$6,800,300.00	0.46319	$3,149,854.68
(Rounded)				**$3,200,000**
Discount Factor			**8.0%**	

The discount rate, often used interchangeably with the phrases, internal rate of return or yield rate, represents the time-weighted return a developer anticipates on a real estate investment. This rate equates the present value of future receipts with the Market Value or Investment Value of the investment.

We have analyzed discount rates for the lodging industry from a national survey of rates as previous stated. In the case of the estimated reversion value, the appraisers used a 10% discount rate because it is based on unknown factors ten years into the future. However, in regards to our analysis of the leased fee interest the appraisers used a discount rate of 8.0%, based on a land lease, which has minimal risk; thus, a lower discount rates. Based on

RealtyRates.com, and land leases within the local market, a discount rate of 8% is at the lower-end of the spectrum but considered reasonable.

LEASED FEE VALUE OF THE SUBJECT PROPERTY BASED ON LEASE PAYMENT PLUS THE REVERSION VALUE AT THE TERMINATION OF THE LEASE TERM BY THE INCOME APPROACH (ROUNDED): $3,200,000

13. Conclusion:
In summary, this technique is viewed as a long-term investment valuation, based on the Highest and Best Use of the subject property, that an investor would anticipate as a return on and return of his investment. Though the estimates are considered reliable, this approach tends to be speculative, but was the most reliable approach built utilizing conservative models based on the existing lease terms.

Due to reliable market data and a conservative Discounted Cash Flow Model, the Income Approach was considered and weighted totally in the various values included herein. Our assignment is to value the various components of the subject property as follows:

(1) *"As Is" Market Value of the Fee Simple Interest* of the subject property based on the current Highest and Best Use. This valuation is based on a hypothetical condition, that the subject property is currently owned in Fee Simple Estate, which ignores the lease encumbrance. This would represent the market value to the Pier House as if currently owned in Fee Simple.

(2) *Leasehold Value* of the subject property based on the continued hotel operation to the end of the lease term. This scenario represents the value of the subject property to the Pier House Joint Venture, making the assumptions included herein.

(3) Leased Fee Value of the subject property based on collection of the current lease payments and reversion of the property. The reversion value is based on a discounted cashflow analysis beginning at the end of the lease period and considering the startup of a new boutique hotel operation. The valuation is indicative of the value of the subject property to the City of Key West as of the effective date.