



APPRAISAL CO.
OF KEY WEST

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May 27, 2011

Ms. Marilyn Wilbarger, RPA, CCIM
Senior Property Manager
City of Key West
525 Angela Street
Key West, FL 33040

Subject: Caribbean Spa
529 Front Street
Key West, Florida 33040
Our File No.: 148-11

Dear Ms. Wilbarger;

We have performed a Self-Contained Appraisal Report in order to render our opinion of the various components of the above referenced property, as of April 7, 2011. The various components of the subject property are as follows: (1) "As Is" Market Value of the Fee Simple Interest of the subject property based on the current Highest and Best Use, (2) Leasehold Value of the subject property, the value to the Pier House Joint Venture, based on the continued uninterrupted hotel operation at the end of the lease term, and finally (3) Leased Fee Value of the subject property, value to the City of Key West, based on the startup of a new standalone hotel operation at the end of the current lease term. The assumptions and the real estate referenced above are more clearly defined in the general and extraordinary assumptions and limiting conditions, and in the property description section of this report. The attached self-contained appraisal report has been prepared to comply with our understanding of the requirements of the Uniform Standards of Professional Appraisal Practice.

Our client also requested the contributory value of the subject property, as it relates to the overall Pier House Resort property. However, the Pier House Joint Venture management group considered financial information for the overall Pier House Resort to be confidential; hence, would not provide it to the appraisers. As a result, this analysis was not possible due to the lack of detailed historical income and expense information. Nevertheless, the Pier House Joint Venture did provide us with the three-year average of the Occupancy Rate and Average Daily Rates just for the Caribbean Spa parcel.

The subject property is in a prime location in the heart of the tourist district between downtown Key West and the Key West Bight Historic Seaport. The subject property fronts 245.00 feet along the westerly side of Simonton Street, and 88.34 feet along the northerly side of Front Street. The site is rectangular in shape and located one block easterly from Duval Street, the main shopping/entertainment district, and one block west of the Historic Key West Bight area. A survey of the entire Pier House property, which includes the subject property parcel, was made available. The survey was prepared by

Ms. Marilyn Wilbarger, RPA, CCIM
City of Key West
May 26, 2011
Page 2

Mr. Frederick H. Hildebrandt, Professional Engineer, Planner and Surveyor, 3152 Northside Drive, Key West, Florida 33040, dated April 10, 2003 (the most recent update). The site size utilized in the analysis herein was taken from the survey provided. According to the survey provided, the site contains 21,643 square feet of site area or 0.50 acres. We have included the survey in the addendum section of this report. Any deviations from the sizes could possibly result in a change in value. If and when, an updated survey is made available for the subject property, noting changes in the measurements used in this report, any easements or encroachments, the appraisers reserve the right to change the final value. Any maps or plats reproduced and included in this report are intended only for the purpose of showing spatial relationships.

The subject property is owned by the City of Key West and is encumbered by a long-term land lease that commenced June 1, 1966 and terminates 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, the Pier House Joint Venture totally renovated the building to create twenty-two guest rooms, a day spa and exercise center, plus divisible conference rooms. The property was combined with the adjacent Pier House Resort which is an exclusive waterfront destination resort hotel and spa.

The subject is improved with a two-story, CBS/masonry structure encompassing a total gross building area of 24,188 square feet, plus open porches and balconies, based on the detailed drawings provided by the Pier House Joint Venture. These detailed plans and specification were prepared by Ai-Group, 3425 Peachtree Road, NE, Suite 1600, Atlanta, GA 30326, dated March 31, 2008. As previously mentioned, the structure was totally renovated to convert the building from a fabric printing factory to an extension of the Pier House Resort and Spa in approximately 1989, according to the Monroe County Property Appraisers Records Office. According to the architects plans, specifications and building permits issued by the City of Key West, the subject building was most recently renovated in August 2008. At the time of our site visit, the subject property was in very good to excellent condition.

The subject property is currently being utilized as twenty-two transient units, a fitness center, health spa, and conference center. This facility is an essential part of the Pier House overall operations that provides ancillary income and offer the guest a complete full service facility; thus, maximizing their potential income. However, as a stand alone boutique hotel property, the subject would not have any off street parking. Even though this is fairly common in this market, it is considered a detriment.

Market Value is defined as the most probable price in cash (or its equivalency) for which the appraised property will sell in a competitive market under all conditions requisite to a fair sale. Market Value assumes a normal or reasonable time for exposure on the open market.

This report contains the results of our investigation and analysis made in order to furnish an estimate of the Market Value of the Fee Simple Estate, the Leased Fee Interest and the Leasehold Interest. The

Ms. Marilyn Wilbarger, RPA, CCIM
City of Key West
May 26, 2011
Page 3

Fee Simple Interest is the unencumbered value of the subject property; basically, market rents and terms are considered with no regard to existing leases and terms. The Leased Fee Interest is an ownership interest held by the landlord, who conveys the rights of use and occupancy to a tenant by lease. The landlord's rights include the right to receive rent and the right of possession at the end of the lease period. The leasehold interest is "the tenant's possessory interest created by a lease" which could be either positive or negative.

In the case at hand, the subject property is encumbered by a long term lease that terminates on May 31, 2020, with nine year and two months remaining at which time the property reverts back to the landlord, the City of Key West. Our assignment is to value the Fee Simple Estate (whole property), the Leasehold Interest (tenants interest), plus the Leased Fee Interest (landlords interest). Furthermore, the appraisers analyzed the Leased Fee Interest based on the continued uninterrupted hotel operation at the end of the lease, as well as based on a new startup as a standalone hotel property at the end of the lease.

A Going-Concern is an established and operating business having an indefinite future life. The Going-Concern Value considers all the tangible and intangible assets necessary for the continued operation of the subject property. The Going-Concern Value considers the value of the furniture, fixtures and equipment, as well as an intangible value for the business operation and goodwill. The Going Concern Value considers all the tangible and intangible assets necessary for the continued operation of the 22-unit transient lodging facility.

Market Value is defined as the most probable price in cash (or its equivalency) for which the appraised property will sell in a competitive market under all conditions requisite to a fair sale. Market Value assumes a normal or reasonable time for exposure on the open market. Market Value of the Total Assets of the Business (MVTAB) is the market value of all of the intangible assets of a business as if sold in aggregate as a going-concern.

The Uniform Standards of Professional Practice (USPAP) requires that the values of real estate, personal property, trade fixtures, and intangibles be allocated to their separate components when they are significant to the overall value conclusion. In the case at hand, we have reported our opinion of the market value of the total assets of the business (market value of the going-concern) and the furniture, fixtures, and equipment (tangible business assets other than real property). The intangible business assets of the subject property are not considered to be significant to the overall value conclusions and have not been separately reported.

Based on our site visit, walk-through and research, it is our opinion that the "As Is" Value of the Total Assets of the Business (MVTAB) also known as the Market Value of the Going-Concern of the Fee Simple Interest of the subject property located at 529 Front Simonton Street, Key West, Florida 33040, based upon land plus entitlements for 22 transient guest units, subject to definitions, assumptions and limiting conditions, as of May 1, 2011 is:

Ms. Marilyn Wilbarger, RPA, CCIM
City of Key West
May 26, 2011
Page 4

SIX MILLION THREE HUNDRED DOLLARS
(\$ 6,300,000)

Furthermore, based on our site visit, walk-through and research, it is our opinion that the *Leasehold Interest* of the subject property located at 529 Front Street, Key West, Florida 33040, based on the existing lease terms, and also subject to definitions, assumptions and limiting conditions, as of May 1, 2011 is:

THREE MILLION SIX HUNDRED DOLLARS
(\$3,600,000)

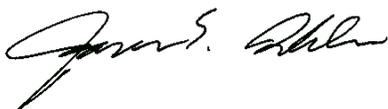
Lastly, based on our site visit, walk-through and research, it is our opinion that the *Leased Fee Interest* of the subject property located at 529 Front Street, Key West, Florida 33040, based on the existing lease terms, plus a new startup as a standalone hotel property at the end of the lease, and also subject to definitions, assumptions and limiting conditions, as of May 1, 2011 is:

THREE MILLION TWO HUNDRED THOUSAND DOLLARS
(\$3,200,000)

The Market Value of the Total Assets of the Business considers the intangible business assets, as well as furnishings, fixtures and equipment necessary for the continued operation of a hotel. The estimated contributory value of the furniture, fixtures and equipment is \$157,000 (rounded). However, it does not include any personal property utilized by the health club, spa or conference center.

A Summary of Facts and Conclusions is provided in the front of this report. The Assumptions and Limiting Conditions may be found in Section I. The Certification of Value appears in Section II. If you have any questions regarding this appraisal report, please feel free to contact me. Thank you for giving me the opportunity to provide this service for you. This transmittal letter must remain attached to the report, which contains 226 pages including related exhibits, in order for the value opinion set forth to be considered valid.

Respectfully submitted,



James E. Wilson, MRICS, President
St. Cert. Gen. REA
License No. RZ 2164



Richard Padron, CCIM, MSA
St. Cert. Gen. REA
License No. RZ 544

APPRAISAL REPORT

A Self-Contained Appraisal Report

Property Located At:

CARIBBEAN SPA
529 FRONT STREET, KEY WEST, FLORIDA

Property Type:

“AS IS” FEE SIMPLE ESTATE - A 22-UNIT HOTEL WITH HEALTH SPA & CONFERENCE CENTER FACILITY
LEASED FEE INTEREST - A 22-UNIT HOTEL WITH ADDITIONAL AMENITIES FACILITY
LEASEHOLD INTEREST - A 22-UNIT HOTEL WITH HEALTH SPA & CONFERENCE CENTER FACILITY

Prepared For:

MS. MARILYN WILBARGER, RPA, CCIM
CITY OF KEY WEST
525 ANGELA STREET
KEY WEST, FL 33040

Valuation Date:

MAY 1, 2011

Prepared By:

James E. Wilson, MRICS, President
St. Cert. Gen. REA
License No. RZ 2164

Richard Padron, CCIM, MSA
St. Cert. Gen. REA
License No. RZ 544

APPRAISAL COMPANY OF KEY WEST
3229 Flagler Avenue, Suite 101
Key West, Florida 33040

OUR FILE NO.: 148-11

TABLE OF CONTENTS

I
ASSUMPTIONS AND LIMITING CONDITIONS 1

II
CERTIFICATION OF VALUE 4

III
SUMMARY OF FACTS AND CONCLUSIONS 8

IV
APPRAISAL PROCESS, PURPOSE & INTENDED USE OF THE APPRAISAL 11
 A. The Appraisal Problem 11
 1. Purpose of the Appraisal 11
 2. Intended Use of Appraisal 11
 3. Property Rights Appraised 11
 B. Appraisal Process 11

V
DEFINITIONS 13

VI
IDENTIFICATION AND HISTORY OF THE SUBJECT PROPERTY 16
 A. Location and Address 16
 B. Legal Description 16
 C. Owner of Record 16
 D. Sales History of Subject Property and Current Contracts 16
 E. History of Subject Property and Operation 17

VII
DEMOGRAPHICS 18
 FLORIDA KEYS HISTORY 18
 MONROE COUNTY DATA 22
 THE UPPER KEYS 24
 THE MIDDLE KEYS 26
 THE LOWER KEYS 29
 AREA AND CITY ANALYSIS 32
 NEIGHBORHOOD ANALYSIS 34
 SUBJECT PROPERTY AND MARKETABILITY ANALYSIS 36

VIII	
SITE DATA AND ANALYSIS	52
A. General Site Description	52
B. Topography	52
C. Utilities	53
D. Zoning	53
E. Access	53
F. Easements/Encroachments	54
G. Real Estate Taxes and Assessment	54
H. Census Tract	58
IX	
IMPROVEMENTS ANALYSIS	59
X	
STATEMENT OF HIGHEST AND BEST USE	65
AS VACANT AND AVAILABLE	66
AS IMPROVED	68
CONCLUSION OF HIGHEST AND BEST USE	68
XI	
ANALYSIS, VALUATION AND CONCLUSIONS	69
A. Methodology	69
B. Cost Approach	72
C. Sales Comparison Approach	98
D. Income Approach	157
XII	
RECONCILIATION AND FINAL ESTIMATE OF VALUE	196
XIII	
ADDENDA	198
QUALIFICATIONS OF APPRAISER JAMES WILSON	199
QUALIFICATIONS OF RICHARD PADRON	203
SUBJECT PROPERTY PHOTOGRAPHS	205
STATE MAP	215
FLORIDA KEYS MAP	216
LOCATION MAP	217
PLAT MAP	218
AERIAL MAP	219
OVERALL SURVEY	220

SURVEY OF SUBJECT PROPERTY 221
SITE PLAN 222
BUILDING SKETCH 223
FLOOD MAP PANEL & LEGEND 224
ZONING MAP 225

I

ASSUMPTIONS AND LIMITING CONDITIONS

This is a self-contained appraisal report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice for a self-contained appraisal report. As such, it includes full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value.

THIS VALUATION IS CONTINGENT UPON THE FOLLOWING CONDITIONS:

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales or other media without the prior consent and approval of the appraiser.

The distribution of value between land and building applies only under the present program of utilization and is invalidated if used in making a summation appraisal. The value of the whole is not necessarily the sum of the estate or parts.

No responsibility is assumed by the Appraiser for matters which are of legal nature, nor is any opinion on the title rendered herewith. Good title is assumed as a title search was not made available.

The property has been appraised as though free of liens and encumbrances, except as herein described. Charges for solid waste collection are a special assessment in Monroe County; delinquent charges for solid waste collection, or other liens against the subject property, have not been considered in the valuation contained herein as a title search was not made available or conducted by the appraisers.

The management of the property is assumed to be competent and the ownership in responsible hands.

This report contains the results of our investigation and analysis made in order to furnish an estimate of the Market Value of the Fee Simple Estate, the Leased Fee Interest and the Leasehold Interest. The Fee Simple Interest is the unencumbered value of the subject property; basically, market rents and terms are considered with no regard to existing leases and terms. The Leased Fee Interest is an ownership interest held by the landlord, who conveys the rights of use and occupancy to a tenant by lease. The landlord's rights include the right to receive rent and the right of possession at the end of the lease period. The leasehold interest is "the tenant's possessory interest created by a lease" which could be either positive or negative.

A Going-Concern is an established and operating business having an indefinite future life. The Going-Concern Value considers all the tangible and intangible assets necessary for the continued operation of the subject property. The Going-Concern Value considers the value of the furniture, fixtures and equipment, as well as an intangible value for the business operation and goodwill. The Going Concern Value considers all the tangible and intangible assets necessary for the continued operation of the 22-unit transient lodging facility.

Market Value is defined as the most probable price in cash (or its equivalency) for which the appraised property will sell in a competitive market under all conditions requisite to a fair sale. Market Value assumes a normal or reasonable time for exposure on the open market. Market Value of the Total Assets of the Business (MVTAB) is the market value of all of the intangible assets of a business as if sold in aggregate as a going-concern.

The Uniform Standards of Professional Practice (USPAP) requires that the values of real estate, personal property, trade fixtures, and intangibles be allocated to their separate components when they are significant to the overall value conclusion. In the case at hand, we have reported our opinion of the market value of the total assets of the business (market value of the going-concern) and the furniture, fixtures, and equipment (tangible business assets other than real property). The intangible business assets of the subject property are not considered to be significant to the overall value conclusions and have not been separately reported herein.

A survey of the entire Pier House property which the subject property parcel is included was made available. The survey was prepared by Mr. Frederick H. Hildebrandt, Professional Engineer, Planner and Surveyor, 3152 Northside Drive, Key West, Florida 33040, dated April 10, 2003 (the most recent update). The site size utilized in the analysis herein was taken from the survey provided. According to the survey provided, the site contains 21,643 square feet of site area or 0.50 acres. We have included the survey in the addendum section of this report. Any deviations from the sizes could possibly result in a change in value. If and when, an updated survey is made available for the subject property, noting changes in the measurements used in this report, the appraiser reserves the right to change the final value. Any maps or plats reproduced and included in this report are intended only for the purpose of showing spatial relationships.

At the time of inspection, the appraisers were given interior access to the various unoccupied units, each was represented as a typical unit type. We have assumed that these were good samples of the subject's transient units and are representative of the current condition of the uninspected units.

The Appraiser herein is not required to give testimony in court unless arrangements have been previously made thereof.

The Appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The Appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors.

Information, estimates and opinions furnished to the appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished to the Appraiser can be assumed by the Appraiser. Subject information used in the preparation of this report was provided by Ms. Joy Smatt, General Manager, Mr. Ken Marsh, Chief Engineer and The Richard E. Jacobs Group, Inc. of the Pier House Resort, City of Key West Assistant City Manager, Mr. Mark Finigan, Senior Property Manager, Ms. Marilyn Wilbarger and Planning Department Staff, Local Developers and Real Estate Brokers.

The Americans with Disabilities Act ("ADA") became effective January 26, 1992. The appraisers have not made a specific survey or analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser have no direct evidence relating to this issue, possible noncompliance with the requirements of the ADA in estimating the value of the property has not been considered.

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

The Appraisers have no present or contemplated future interest in the property and the compensation is in no manner contingent upon the value reported.

The appraiser does not assume the responsibility for the condition of the roofs, termite damage, nor the physical condition of the structures without the benefit of a complete engineering report. However, the roof was replaced in 2008 and the building was totally renovated.

In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, such as the presence of radon, asbestos insulation and/or existence of toxic waste, which may or may not be present on the property, has not been considered. As the subject building was originally built before 1978, it is possible that the building contains lead-based paint, although it was completely renovated in 1989 and 2008. The appraiser is not qualified to detect such substances. I urge the client to retain an expert in this field if desired. The subject property had been utilized for light manufacturing up until 1987. It is unknown if there has been any environmental concerns. An environmental site assessment report was not made available to the appraiser.

This appraisal report has been made in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the appraisal organizations with which the Appraiser is affiliated.

The discovery of latent conditions is beyond the scope of this appraisal. Detection of latent conditions requires the expertise of qualified persons such as architects and engineers. Latent conditions include, among other things, non-apparent structural conditions; presence of prohibited hazardous wastes; presence of radon gas, methane gas, asbestos, lead, petroleum products and other air, soil, or water contaminants; and many other conditions too numerous to mention which may affect the value of the property being appraised. The appraiser conducting this appraisal is not qualified to detect latent conditions and has conducted this appraisal upon the assumption that no latent conditions (including those mentioned above and others) exist on the property covered by this appraisal.

ACCORDINGLY NOTICE IS HEREBY GIVEN that neither the appraisers conducting this appraisal, nor the APPRAISAL COMPANY OF KEY WEST make any warranty, express or implied, to property covered by this appraisal, and neither shall have any liability to any person for differences in the value of the appraised property, or other damages, resulting from discovery of latent conditions (including those mentioned above and others) on, or in proximity to, the appraised lands.

We do hereby certify that to the best of our knowledge and belief the statements of fact contained in this report, upon which the analyses, opinions and conclusions expressed herein are based, are true and correct; also this report sets forth all the limiting conditions affecting the analyses, opinions and conclusions included in this report; also this report has been made in conformance with the National Association of Real Estate Boards and the Appraisal Institute.

II

CERTIFICATION OF VALUE

We HEREBY CERTIFY THAT UPON APPLICATION FOR VALUATION BY:

**MS. MARILYN WILBARGER, RPA, CCIM
SENIOR PROPERTY MANAGER
CITY OF KEY WEST
525 ANGELA STREET
KEY WEST, FL 33040**

We have personally examined the following property:

Commonly Known as: **Caribbean Spa
529 Front Street
Key West, Florida 33040**

and based on our site visit, walk-through and research, it is our opinion that the “*As Is*” Value of the Total Assets of the Business (MVTAB) also known as the Market Value of the Going-Concern of the Fee Simple Interest of the subject property located at 529 Front Street, Key West, Florida 33040, subject to definitions, assumptions and limiting conditions, as of May 1, 2011 is:

**SIX MILLION THREE HUNDRED DOLLARS
(\$ 6,300,000)**

Furthermore, based on our site visit, walk-through and research, it is our opinion that the Leasehold Interest of the subject property located at 529 Front Street, Key West, Florida 33040, based on the existing lease terms, and also subject to definitions, assumptions and limiting conditions, as of May 1, 2011 is:

**THREE MILLION SIX HUNDRED DOLLARS
(\$3,600,000)**

Lastly, based on our site visit, walk-through and research, it is our opinion that the *Leased Fee Interest* of the subject property located at 529 Front Street, Key West, Florida 33040, based on the existing lease terms, plus a new startup as a standalone hotel property at the end of the lease, and also subject to definitions, assumptions and limiting conditions, as of May 1, 2011 is:

THREE MILLION TWO HUNDRED THOUSAND DOLLARS
(\$3,200,000)

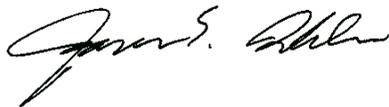
The Market Value of the Total Assets of the Business considers the intangible business assets, as well as furnishings, fixtures and equipment necessary for the continued operation of a hotel. The estimated contributory value of the furniture, fixtures and equipment is \$157,000 (rounded). However, it does not include any personal property utilized by the health club, spa or conference center.

We ADDITIONALLY CERTIFY that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinion, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased professional analyses, opinions and conclusions.
- We have no present or prospective interest in the property that is the subject of this report, and our have no personal interest or bias with respect to the parties involved.
- Our compensation is not contingent on an action or event resulting from the analyses, opinion, or conclusions in, or the use of, this report.
- The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- Our analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
- James E. Wilson and Richard Padron have made a personal walk through and site visit of the property that is the subject of this report.
- No one has provided significant professional assistance to the persons signing this report.

- The use of this report is subject to the requirements of the State of Florida relating to review by the Florida Real Estate Appraisal Board of the Department of Professional Regulations, Division of Real Estate.
- The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.
- This appraisal report is in conformity with the Uniform Standards of Professional Appraisal Practices and this appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- James E. Wilson has completed both the Standards and Ethics education program requirements of the Appraisal Institute for Associate Members.

APPRAISAL COMPANY OF KEY WEST



James E. Wilson, MRICS, President
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Richard Padron, CCIM, MSA
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License No. RZ 544

III

SUMMARY OF FACTS AND CONCLUSIONS

Location: 529 Front Street
Key West, FL 33040

Property Type: 22-Unit Hotel with Health Spa & Conference Center Facility

Land Size: 21,643 Square Feet or 0.50 Acres

Flood Hazard Zone: Map No.: 12087C1516K, 2/18/05; Zone “AE”, Elevation 7-9 feet

Improvements Description:

Subject Property Improvement Description Caribbean Spa 529 Front Street, Key West, FL 33040									
Floor Level	No. Units	Type Construction	Year Built	Description	First G.B.A. Sq. Ft.	Open Porch Sq. Ft.	Unfin. Porch Sq. Ft.	Utility/ Storage Sq. Ft.	Patio Area Sq. Ft.
First	7	CBS/masonry	Appox. 1968, Last Renovated 2008	Rooms, Spa, Fitness Center, Conference Rooms	12,985	1,673	525	650	835
Second	15	CBS/masonry	Appox. 1968, Last Renovated 2008	Rooms / Suites	11,203	1,903	596		
Total	22				24,188	3,576	1,121	650	835

Zoning: HRCC-1, Historic Commercial Core District, City of Key West

Highest and Best Use: “As Improved” as a transient hotel with a maximum of 22 units, as currently licensed, plus accessory uses obtaining maximum utilization of the land.

Value Conclusions:

Reconciliation	
Caribbean Spa Resort	
529 Front Street, Key West, Florida	
Fee Simple Estate	
Valuation Method:	VTAB
Cost Approach	\$6,700,000
Income Approach	\$6,300,000
Sales Comparison Approach	\$6,600,000
"As Is" Market Value of the Fee Simple Estate of the Total Assets of the Business, as of May 1, 2011 (Rounded):	\$6,300,000

Reconciliation	
Caribbean Spa Resort	
529 Front Street, Key West, Florida	
Leasehold Interest	
Valuation Method:	VTAB
Cost Approach	Not Applicable
Income Approach	\$3,600,000
Sales Comparison Approach	Not Applicable
Leasehold Interest Value of the Total Assets of the Business, as of May 1, 2011 (Rounded):	\$3,600,000

Reconciliation	
Caribbean Spa Resort	
529 Front Street, Key West, Florida	
Leased Fee Interest	
Valuation Method:	VTAB
Cost Approach	Not Applicable
Income Approach	\$3,200,000
Sales Comparison Approach	Not Applicable
Leased Fee Interest Value as of May 1, 2011, Based on a New Startup at the End of the Lease (Rounded):	\$3,200,000

Date of Site Visit: April 7, 2011

Valuation Date: May 1, 2011

Report Date: May 27, 2011

Special &

Hypothetical Assumptions: The Uniform Standards of Professional Practice (USPAP) requires that the values of real estate, personal property, trade fixtures, and intangibles be allocated to their separate components when they are significant to the overall value conclusion. In the case at hand, we have reported our opinion of the market value of the total assets of the business (market value of the going-concern) and the furniture, fixtures, and equipment (tangible business assets other than real property). The intangible business assets of the subject property are not considered to be significant to the overall value conclusions and have not been separately reported.

At the time of inspection, the appraisers were given interior access to the various unoccupied units, each was represented as a typical unit type. We have assumed that these were good samples of the subject's transient units and are representative of the current condition of the uninspected units.

It should be noted that this Fee Simple valuation herein is based on a hypothetical condition, that the subject property is currently owned in fee simple estate, when in fact there is an existing long-term lease encumbering the property.

IV

APPRAISAL PROCESS, PURPOSE AND INTENDED USE OF THE APPRAISALA. The Appraisal Problem1. Purpose of the Appraisal Report:

The *purpose* of this appraisal is to estimate the value of the various components of the subject property commonly known as the Caribbean Spa, 529 Front Street, Key West, Florida, as of May 1, 2011: (1) “*As Is*” *Market Value of the Fee Simple Interest* of the subject property based on the current Highest and Best Use, (2) *Leasehold Value* of the subject property, the value to the Pier House Joint Venture, *based on the continued uninterrupted hotel operation at the end of the lease term*, and finally (3) *Leased Fee Value* of the subject property, value to the City of Key West, *based on the startup of a new standalone hotel operation at the end of the current lease term*.

2. Intended Use/User of Appraisal:

The *intended use* of this appraisal is to assist the client in establishing a potential selling price for the subject property.

The *intended user* of this report is Ms. Marilyn Wilbarger, RPA, CCIM, Senior Property Manager, City of Key West, 525 Angela Street, Key West, FL 33040.

3. Property Rights Appraised:

This appraisal is made with the understanding that the present ownership of the property includes all the rights that may lawfully be held under a Fee Simple Estate. These rights are sometimes referred to in appraisal literature as the “bundle of rights.” It includes the right to use, keep others from using, sell, rent or otherwise dispose of the property. The elements which have been included in this appraisal are the land and the existing improvements. No personal property has been included in the valuation herein.

B. Appraisal Process

There are three typical approaches to value to consider in each appraisal assignment. The three traditional approaches to value are the Cost Approach, the Income (Direct Capitalization and/or Discounted Cash Flow) Approach and the Sales Comparison 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 Tax Assessor'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 appraisers. 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). In the case at hand, the time period for which market data was researched included from 2003 through the effective date of this report. The local geographical market was researched and analyzed.

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

The Cost Approach consists of combining the estimated value of the land, based on comparable sales, with the depreciated value of the improvements. The vacant land sales are always inspected. The cost of the improvements is estimated by utilizing a cost service, Marshall and Swift, plus knowledge of costs to construct obtained from local contractors.

Exterior inspections of the comparable improved sales are always made; interior inspections are made when possible. Sales prices for the comparable sales are obtained from the public records. Prices are customarily confirmed with a party to the transaction, i.e., buyer, seller, closing agent/attorney, or real estate agent. The public records are researched for mortgage terms and information.

The comparable sales are researched utilizing First American Real Estate Solution (FARES) and Rapattoni, and LoopNet.com, a computerized MLS (Multiple Listing System), and Win2Data. All sources use data from the Monroe County Property Appraisers 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 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 in Section I, as well as the Certification of Value, Section II of this report.

V

DEFINITIONS

1. Appraisal is the act or process of estimating value; an estimate of value.
2. Appraisal Report is the written or oral communication of an appraisal; the document transmitted to the client upon completion of an appraisal assignment. The reporting standards are set forth in the Standards Rules relating to Standards 2 and 5 of the Uniform Standards of Professional Appraisal Practice.¹
3. Cash Equivalency Analysis is a method in which the sales prices of comparable properties, which sold with atypical financing for the market area are adjusted to reflect typical market terms.²
4. Fee Simple Estate is absolute ownership unencumbered by any other interest, subject only to the governmental limitations including: eminent domain, escheat, police power, and taxation.³
5. Leased Fee: The Leased Fee Interest is an ownership interest held by the landlord, who conveys the rights of use and occupancy to a tenant by lease. The landlord's rights include the right to receive rent and the right of possession at the end of the lease period.
6. Leasehold Interest: The tenant's possessory interest created by a lease.
7. Positive Leasehold: A lease situation in which the market rent is greater than the contract rent.
8. Going-Concern Value is the value of a proven property operation. The value includes the incremental value associated with the business concern, which is distinct from the value of the real estate only. Going-Concern value includes an intangible enhancement of the value of an operating business enterprise which is produced by the assemblage of the land, building, labor, equipment and a marketing operation. This process creates an economically viable business that is expected to continue. Going-Concern value refers to the total property value including both real property and intangible personal property attributed to business value. Going-Concern value is for hotels, motels, restaurants, shopping centers and similar properties when the physical real estate assets are integral parts of the ongoing business.
9. Going-Concern is an established and operating business having an indefinite future life.

10. Market Value of the Total Assets of the Business (MVTAB) is the market value of all of the intangible assets of a business as if sold in aggregate as a going concern.
11. Market Value is defined as follows:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to fair sale, the buyer and seller each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

 - a) Buyer and seller are typically motivated;
 - b) Both parties are well informed or well advised, and each acting in what he considers his own best interest;
 - c) A reasonable time is allowed for exposure in the open market;
 - d) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto;
 - e) The price represents the normal consideration for the property sold unaffected by special or creative financing or sale concessions granted by anyone associated with the sale."
12. Average Daily Rate (ADR): In the lodging industry, total guest room revenue divided by the total number of occupied rooms. In the lodging industry, a ratio that indicated average room rates, and to what extent room are being up-sold or discounted: calculated by dividing rooms revenue by number of rooms sold.
13. Revenue per Available Room (RevPAR): A unit of comparison applied in the appraisal of lodging facilities; calculated by multiplying a hotel's percentage of occupancy by average room rates. RevPAR is used throughout the lodging industry to compare the income of competing facilities.
14. Competitive Set: A peer group of competitive hotels selected by hotel management to benchmark the subject property performance.

15. Exposure Time

Exposure Time is defined in the Uniform Standards of Professional Appraisal Practice 2006 Edition as:

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

In summary, based on the above it is estimated that the normal exposure time would be 12 to 24 months for the subject property provided it is competitively priced.

16. Marketing Time

Reasonable marketing time is the estimated prospective amount of time it will likely take the appraised property to sell at the equivalent estimate of market value contained in this appraisal. This time period assumes that the economic conditions currently impacting the property, and which have been taken into consideration in the estimate of value, continue into the foreseeable future. Further, it assumes an arm's length sale within the context of a normal marketing period experienced by similar-type property.

Taking into account the various differences between the sales utilized, current market conditions, and the quality and quantity of the income stream analyzed, the estimated reasonable marketing time (the amount of time it would probably take to sell the appraised property at the estimate of market value contained herein, if exposed for sale beginning on the date of the valuation) would be 12 to 24 months.

VI

IDENTIFICATION AND HISTORY OF THE SUBJECT PROPERTYA. Location and Address:

The subject property is commonly known as Caribbean Spa, 529 Front Street, Key West, Florida 33040.

B. Legal Description:

That Part of Lot One (1) in Square Two (2) according to William A. Whitehead's map of the Island of Key West, delineated in February A. D. 1829, more particularly described as follows:

Beginning at the intersection of the Westerly line of Simonton Street and the Northerly line of Front Street, run thence westerly along the Northerly line of Front Street 88 feet 4 inches to Lot 2 of said Square; thence run at right angles Northerly and parallel with Simonton Street a distance of 245 feet; thence run at right angles and parallel with Front Street a distance of 88 feet 4 inches back to said Westerly line of Simonton Street; thence run along the said Westerly line of Simonton Street a distance of 245 feet back to the point of beginning.

Reserving unto the Lessor herein an easement of 15 feet in width along the Easterly line of the above described premises to be used by the Lessor for street purposes or public parking purposes.

Subject to the restriction that no improvements of any nature shall be constructed on the Northerly 20 feet of the above described property.

C. Owner of Record:

According to the Monroe County Tax Appraiser's Records, the subject property is owned by:

*City of Key West
P.O. Box 1409
Key West, Florida 33041*

D. Sales History of Subject Property and Current Contracts:

According to the Monroe County Property Appraiser's records and the Monroe County Public Records, the subject property has been owned by the City of Key West dating back to before 1965, the exact date was not available. However, the site was leased on December 13, 1965 to Key West Hand Print Fabrics, Inc. The original lease term terminated May 31, 2001 and later amended on July 23, 1969 to extend the lease term to May 31, 2020. In July 29, 1987 the lease was assigned to Six

Tulips Development Corp., Pier House Joint Venture and Ohio General Partnership. The City of Key West is currently the Lessor and the Pier House Joint Venture is the Lessee of the subject property. According to the City of Key West officials and the local multiple listing service, the subject property has not been listed for sale. Nevertheless, the Lessee's have indicated an interest in purchasing the property which requires approval of the public at large. Thus, the potential sale of the subject property was put to a referendum in November 2010, which passed by a majority.

E. History of Subject Property and Operation:

As previously mentioned, the subject property was Leased by Key West Hand Print Fabrics, Inc. in December 1965. At that time, there were very little tourism or attractions in this section of town, which was predominately industrial and manufacturing with the Coca-Cola Bottling Company, a shipyard and a lumber yard across the street from the subject property. In order to promote a broader economic base for the City, the then City Commissioner's leased the subject vacant site to Key West Hand Print Fabrics, Inc. One of the requirements in the lease was for the lessee to construct a concrete block factory building having an approximate size of 60 feet by 225 feet at a minimum cost of \$75,000. The venture was successful and promoted jobs, added to the economic base as well as promoting tourism. In June 1971 the lease was amended to extend the lease term to May 31, 2020 and to remove an easement reserved unto the City along the easterly line of the property, which is noted in the meter and bounds legal description. Later in the 1980's, the original partners of Key West Hand Print transferred their interest to another firm which eventually wound up in bankruptcy court. During this period of 1965 to mid 1980's, the Navy shut down the Navy shipyard along with all the supporting operations and administration offices, what is now known as "Truman Annex Development." The City and entrepreneur's began to focus on expanding tourism as an economic base to help fill the void of the military leaving. During this period Mr. David Wolkowsky, real estate developer, was redeveloping the north-end of the island with shops, boutiques and what is now the Pier House Resort. With the subject property in bankruptcy, the Pier House Joint Venture was successful in obtaining an assignment of the lease through the bankruptcy courts. After acquiring the property in September 1987, the Lessor, completely converted and renovated the property into an annex to the Pier House Resort with additional guest rooms, health club, spa and conference center. It was named the Caribbean Spa and the property was most recently renovated in 2008.

VII

DEMOGRAPHICS

FLORIDA KEYS HISTORY

1538 - Hernando De Soto stops en route to Florida in quest of gold and slaves.

1815 - Granted to Juan Pablo Salas by the Spanish governor of Florida.

1821 - Florida becomes a U.S. territory (ceded from Spain).

1845 - Florida becomes a U.S. state.

1861 - Florida secedes from the Union.

1868 - Spain's new conscription laws result in large Cuban migration.

1898 - Survivors and injured of the USS Maine brought from Havana to Key West. War with Spain declared.

1912 - Overseas Railway completed.

1920 - First international air mail route established.

1921 - Official end of the wrecking era.

1927 - Key West Airport designated first airport of entry in U.S.

1928 - City of Key West incorporated; Overseas highway and ferry system, Miami to Key West, opened.

1935 - Hurricane destroys railroad service.

1938 - New Overseas Highway opened.

1939 - U.S. Naval Station re-activated.

1942 - Water line from mainland completed.

1954 - Auto-passenger ferry to Havana established.

1960 - Havana Auto Ferry ceases operation.

1962 - Cuban Missile crisis.

- 1967 - Desalinization plant completed.
- 1975 - Fort Taylor area turned over to State as park site.
- 1982 - New Seven Mile Bridge and Lower Keys Bridges completed.
- 1983 - New water pipeline completed to Florida Keys.
- 1984 - Completion of Cruise Port.
- 1986 - Sale of Truman Annex property.
- 1989 - New Wastewater Treatment Plant on Fleming Key operational.
- 1990 - Florida Keys Memorial Hospital and Depoo Doctors Memorial Hospital complete a merger.
- 1992 - Hurricane Andrew hits South Miami and Homestead--Key West spared! Monroe County Rate of Growth Ordinance Implemented.
- 1993 - City of Key West purchases Singleton properties in Key West Bight area for 15.7 million dollars.
- 1995 - Baptist hospital purchases Mariner's hospital, located on Plantation Key, with proposed facilities near mile marker 91.0 on Tavernier.
- City of Key West begins \$13.1 million restoration of the former Truman School for Monroe County Tax Collector's Office, Channel 16 offices and other County facilities.
- Monroe County Commissioners pass a moratorium on Big Pine Key due to low traffic speeds.
- 1996 - Monroe County implements a moratorium on Commercial Uses pending a Commercial Rate of Growth Allocation System.
- 1998 - Moratorium on Big Pine lifted for First Quarter, with a 4-year waiting list for residential building permits; Moratorium Reinstated in Second Quarter.
- Hurricane Georges, Category 2, hits the Florida Keys on September 25th damages estimated at 329 million dollars.
- 1999 - New Mariner's Hospital in Tavernier is completed.

- 2002 - No more market rate permits are available for the City of Key West; therefore, an indefinite moratorium on new, residential housing exists.
- 2004 - Four hurricanes hit Florida between August 13 and September 25. Key West suffered minimally.
- 2005 - The worst hurricane season on record. Hurricane Wilma affects the Florida Keys October 25th with 3-8 feet of flooding and significant property damage due mostly to storm surge.
- 2006 - Rebuilding or renovations due to storm damage. Falling residential real estate values due to large increase in inventory and decrease of buyers.
- 2007 - Continued residential market decline, upper-end luxury residences in most desirable areas experience lower decline. Lodging industry experiences increases and Monroe County has record Bed Tax Revenue collections.
- 2008 - Judge Wayne Miller rules that the ROGO (Rate of Growth Ordinance), which limited development has technically expired. According to his ruling February 2, 2008, state-issued building allocations have not been necessary for building in Key West for the past five years. Presently, the City of Key West is working on a new system, however, details are not available at this time. A temporary moratorium on building permits is currently in place.
- 2009- The local economy takes a downturn due to the national recession. The lodging industry experiences declines in average daily rates (ADRs) and occupancy rates as tourism begins to suffer. Heavy discounting of ADRs is noted for large hotels, particularly in Key West, to try to increase occupancy. However, panic discounting may have hurt branding and long-term pricing power for a few properties. The residential housing market continues to decline from the height of late 2005/early 2006.

The local economy begins to stabilize as tourism begins to rebound and the number of cruise ships docking in Key West increases based on concerns of the H1N1 virus in Mexico, but mostly due to new routes through the Caribbean. Many speculate that the cruise ship industry is anticipating that the U.S. government will lift travel restrictions to Cuba in the near future. There is a push to open Key West International and Marathon Airports to commercial travel to Cuba, although it appears that it may take a few years. The lodging industry begins to rebound midyear, as early summer is strong for most properties, highlighted by a strong Mini-Lobster season. Activity in the residential housing is increasing with a decline in supply (active listings), although prices continued to decline. Most residential properties have depreciated from 20% to 50% since the height of the market. It appears the bottom of the market is near, depending on the national economy and availability of credit. Stabilization appears to be on the horizon for 2010. Overall the Florida Keys market still appears to be outperforming the mainland.

2010 - The lodging industry continues to rebound with significant increases in occupancy and slight gains in ADRs (average daily rates). The residential housing market has realized gains in sales activity, although average prices continued to decline. The commercial real estate market has observed significant declines due to lower rental rates and higher occupancies in most segments. The BP oil spill in the Gulf of Mexico has become a major concern. Oil has not impacted the Florida Keys, as of yet; however, the negative press has led to slight cancellation of tourist vacation plans, and some real estate sales closing have been delayed or cancelled.

MONROE COUNTY DATA

Key West, the Florida Keys and their location "in the sea" are well-known throughout the United States and Canada as the Southernmost Point in the Continental U.S. The primary attractions for the tourist, second home dwellers or vacationers are the mild, stable climate ranging from an average of 73 degrees in the winter months to an average high of 88.9 degrees in August, the hottest of the summer months. Another important reason why visitors come to the Keys are the beautiful clear waters of the Gulf of Mexico and the Atlantic Ocean, and all their attractions such as: swimming, diving, yachting, fishing, etc.

Monroe County is the southernmost County in the State of Florida. The County is commonly known as the Florida Keys, which are connected by a series of bridges along U. S. Highway No. 1, the only highway providing access to the Keys from the Mainland. Monroe County is known as the most expensive County in the State, whose economic bases are tourism, commercial fishing and sports fishing. The Florida Keys have flourished over the last decade due to rapid growth in tourism, an increasing population (some of which is seasonal), plus growth in the construction industry.

According to a study performed by The Metropolitan Center, An Urban Thought Collective, from Miami, Florida, Monroe County's population has decreased 6% since 2000, while the State of Florida population has increased by 13%. Commercial development in the City of Homestead and South Miami-Dade will provide increased competition for service workers who are now residing in Monroe County. They also state that there has been a 14% loss in the 20-54 working age group, however, a 15% increase in the 55 and over retirement age group. The U.S. Census data reports a 6% increase in per capita for Monroe County's median household income since 2000.

The major labor force in Monroe County, 91.3% is made up service-providing industries. This labor work force is primarily concentrated in Key West, Marathon, Key Largo and Islamorada. These are the cities where the largest concentrations of the service-producing facilities are located. In addition, these cities house 72% of Monroe County's Service, Sales and Office workers, and 68% of the County's Education and Health Care practitioners.

In 1984 the Tourist Development Commission (TDC), which originally began in the City of Key West, was expanded to support tourism in the Florida Keys through national advertising campaigns and cultural events. This organization is divided into five districts and is funded by "bed tax" revenues collected by the State of Florida and refunded to the Monroe County Commission.

The County's uncontrolled development has been a concern over the last decade. Monroe County is designated as an "Area of Critical State Concern" by the State of Florida. This designation requires that Monroe County maintain land use plans for development. On February 28, 1986, the Monroe County Board of County Commissioners adopted the Florida Keys' Comprehensive Land Use Plan. On July 29, 1986, the Land Use Plan was approved by the Florida Department of Community Affairs (DCA) and the Administration Commission of the State of Florida. The Land Use Plan severely restricted development of large acreage tracts and environmentally sensitive parcels. The Plan is currently in effect.

On July 13, 1992, Monroe County adopted an ordinance (Rate of Growth Ordinance (R.O.G.O.) Dwelling Units Allocation Ordinance) limiting the number of annual building permits that can be issued for construction of new dwelling units. The purpose of the ordinance is to ration the growth of new residential units in a fair manner that implements the goals, objectives and policies of the Florida Keys Comprehensive Plan. The ordinance divides the Florida Keys (Monroe County) into three areas: Lower, Middle, and Upper Keys. Each area is allocated quarterly building permits, of which each area awards these permits on a "quality of application" basis. This system has been very effective as it allows for a pre-determined number of permits. It awards points according to the impact the structure(s) would have on the environment, the utility providers, neighboring uses, and hurricane evacuation plans. Those parcels with the most points are the first to be issued a building permit. At the end of each quarter, the parcels with the least points may not be issued a permit for that quarter, unless all the allocated permits have not been used. However, Judge Wayne Miller ruled that the ROGO (Rate of Growth Ordinance) has technically expired. According to the article written in the Key West Citizen, February 2008, state-issued building allocation have not been necessary for building in Key West for the past five years. Presently, the City of Key West is working on a new system, however, details are not available at this time.

It is expected that Monroe County will continue to attract vacationers and visitors due to its tropical location, bordered by the Atlantic Ocean to the southeast and Gulf of Mexico to the northwest. Its accessibility by automobile is an added convenience for tourists due to the relatively inexpensive commute as compared to airplane travel. The Florida Keys geography appeals to a diverse populace. Geographically, the Florida Keys are divided into four (4) groups or neighborhoods:

<u>Neighborhood</u>	<u>Boundaries</u>	<u>Estimated Distance</u>
The Upper Keys	Long Key to Key Largo	50 miles
The Middle Keys	7 Mile Bridge to Long Key	23 miles
The Lower Keys	Key West to 7 Mile Bridge	36 miles
The City of Key West		5 miles

A "neighborhood" some 50 miles in length may seem unbelievable to someone from an urban area; however, when this neighborhood is usually only a few hundred yards wide, it becomes plausible. The fact is that all activity and movement seem to flow along the Overseas Highway (U.S. #1) which is the main connector of this island chain and it's center-roadway. Along U. S. 1, one will find small green signs with white numbers, these are called mile markers (MM). The mile markers begin with mile marker 126 just southwesterly of Florida City and end with MM 0 on the corner of Front and Whitehead Streets in the City of Key West.

Each of the sections in the Keys has its distinct features: each section engenders its own loyalties and neighborhood pride. High School rivalries and political competitions are intense. A closer look at these four "neighborhoods" follows.

THE UPPER KEYS

The three (3) principal communities of the Upper Keys are Key Largo, Tavernier, and Islamorada. Key Largo is the largest Key, approximately two (2) miles wide and almost thirty (30) miles long, and is the most developed with new condominiums, camping and trailer parks. The keys are the perfect weekend resort area with fishing, boating, swimming, State Parks and tourist attractions in abundance. The Upper Keys is an almost continuous band of development or committed development area along the Overseas Highway (U.S. #1).

The Upper Keys have reflected more growth and new housing unit construction in the last decade than any of the other areas of the Florida Keys; this is probably best attributed to its proximity to the Miami-Fort Lauderdale-Palm Beach Metropolis, as the Upper Keys is an ideal weekend retreat. Despite the ever increasing numbers of people and buildings, The Upper Keys are essentially water-oriented resort communities which abound in power boats, sailboats, and yachts of all sizes and descriptions and which seem to be inhabited solely by fishermen, divers, charter boat skippers, and sailors. These inhabitants can be found in marinas, dive shops, boatyards, bars, and restaurants.

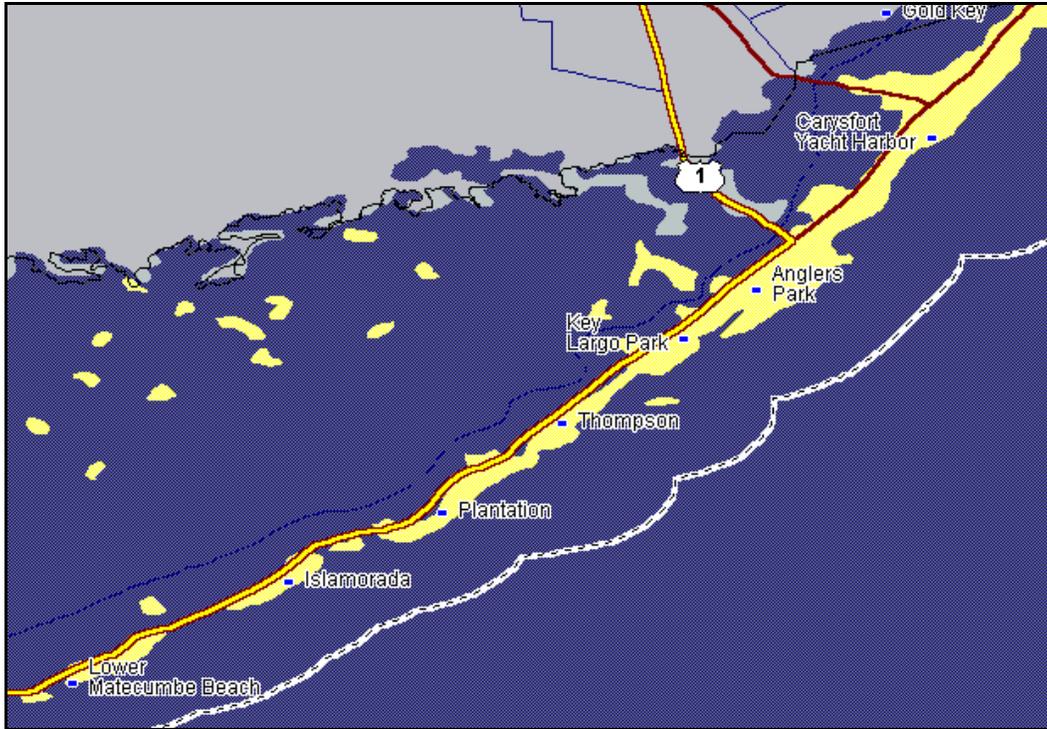
Public schools in the area include kindergarten through twelfth grade at Key Largo Elementary School, Plantation Key School, and Coral Shores High School, plus classes offered locally by Florida Keys Community College. Recreation in the area includes: the Islamorada City Park, John Pennecamp State Park, Indian Key State Historic Site, plus many marinas, beaches, and other water sports locations.

Police protection is provided by the Monroe County Sheriff's Department and the Florida Highway Patrol. Fire protection is provided by a volunteer fire department.

A full service, non-profit medical and surgical hospital, Mariners Hospital, is located on Plantation Key. The hospital contains 35 medical/surgical beds, a three-bed pediatric unit, and a four-bed intensive care unit. Plantation Key Convalescent Center lies adjacent to the hospital. Recently, the hospital was purchased by Baptist Hospital with plans to relocate the facilities to a site, adjacent to the Tavernier Towne Shopping Center. According to hospital officials, relocation will include a similar size facility with expanded services.

Yet, with all of this, there exists in the Upper Keys market area a very solid core of permanent, service, and professional citizens. The population of the Upper keys is estimated to be slightly over 22,000.

UPPER KEYS MAP



THE MIDDLE KEYS

The main communities of the Middle Keys are Marathon, Marathon Shores and Key Colony Beach which adjoin like one metropolis with a population of over 20,000, second only to Key West. Marathon lies 90 miles from the mainland and 48 miles from Key West. Marathon has its own 5,200 foot airstrip, the multi-million dollar Sombrero Country Club and 18-hole championship golf course, and yacht basins, with the famous, unique Seven Mile Bridge just southwesterly of Marathon.

Duck Key, with the Hawk's Cay Resort complex including a marina basin, 9-hole golf course, bars, restaurants and a convention hall, is also in the eastern Middle Keys. Duck Key is also building up with a number of custom designed, luxury quality residences, with typical prices from \$200,000 to well in excess of \$500,000. In September, 1997 ground breaking for a new 300+ unit development took place with the "conch" style homes built by local developer Pritam Singh.

Key Colony Beach, which is one of the two Florida Keys incorporated cities outside of Key West, is situated adjacent to Marathon. This separate island boasts of some of the most beautiful sand beach shoreline in the county, along with a public golf course.

Most of the population density is in the immediate area of Marathon. Single family home construction moves along at a brisk pace in the area and condominium projects seem to be more active here than in the Upper Keys with a price range from \$200,000 to \$350,000 for individual units. The Middle Keys is also home to several large resort-marinas, such as the Faro Blanco Resort (under redevelopment), and the new Boat House Marina.

Public Schools in the area are located close by, including kindergarten through twelfth grade: Sugarloaf Elementary and Middle School; Stanley Switlik Elementary, and Marathon High School.

Police protection is provided by the Monroe County Sheriff's Department and the Florida Highway Patrol. Fire protection is provided by fire departments manned by volunteers from the area. A full service medical and surgical hospital with 58 beds, Fisherman's Hospital, provides medical services locally.

MIDDLE KEYS MAP



THE LOWER KEYS

The Lower Keys begin at Ohio Key near Bahia Honda Key just west of the Seven Mile Bridge and extend to Key West; they enjoy superb fishing from boat, bridge, or surf, shelling and sandy beaches, or exploring pine forests from campsites and trailer parks. Big Pine Key is the largest of the Lower Keys and No Name Key attaches to Big Pine Key, both providing refuge for the small Key Deer which are endangered and protected.

Development on the big scale apparently passed up this area, except in the 1980's when the population grew about 34%; however, the population of the entire area excluding Key West was historically about 10,000, before the 1980's, with some living in areas so remote that census takers could have missed them. Today, this area of the Florida Keys boasts over 18,000 residents. The Lower Keys are strictly single family residential with minimal evidence of major condominium developments and probably only three major motels, the Looe Key Resort on Ramrod Key, the Big Pine Motel and the Sugarloaf Lodge. The most notable new major commercial construction in the area is the Big Pine Shopping Plaza.

Many of the residential roads in the area remain unpaved, exactly the way the "locals" want them, in order to retard development as much as possible. The Lower Keys is also home to "Fat Albert", the huge spy blimp based on Cudjoe Key keeping an electronic eye on Cuba and drug traffickers. Boca Chica Key hosts the U.S. Naval Air Station.

Development is controlled in this area due to the purchase of large tracts of land by the Federal government, and will continue to be limited due to the recent enactment and implementation of the Monroe County Land Usage/Growth Management Plan. The total population of the area including Key West is fewer than 50,000 in the off-season, and does not include those who are remotely situated in the area. As a whole, the Lower Keys are mainly single-family residential, with minor evidence of property and condominium development, namely the Shark Key development and the sales of Porpoise Point condominiums on Big Coppitt Key. Several large hotels and resort complexes are evident in Key West: Marriott's Casa Marina, The Reach, The Pier House, Ocean Key House, Holiday Inn La Concha, Hyatt Front Street and many smaller ocean and beach front hotels and motels in the area.

Key West itself is only one mile wide and five miles long. Public and private efforts have accomplished extensive restoration in the old section of Key West with a collection of Bahamian and Victorian frame homes with gingerbread balconies, captain's walks, and tin roofs. Key West boasts an artistic heritage of many famous artists and writers from Audubon to Hemingway and Tennessee Williams. Additionally, several United States Presidents made this their winter resort.

Through the course of many years, the Island has developed a military presence with the ancient Spanish forts, old Fort Zachary Taylor, the old Naval submarine base (Truman Annex) and the Naval Air Station at Boca Chica.

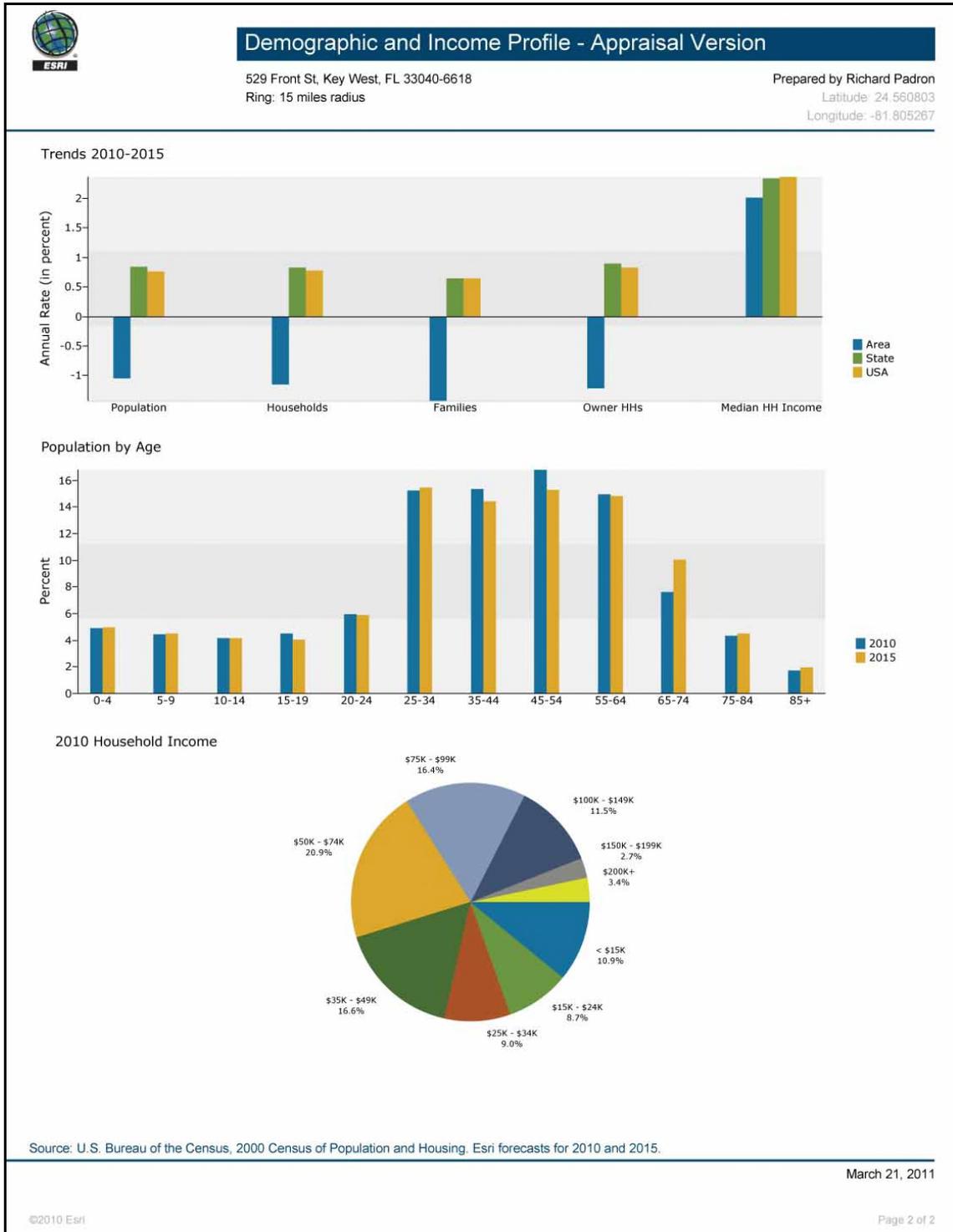
Fully detailed commentary on the City of Key West, the County seat, has been excluded because it becomes a complete story unto itself. Suffice it to say, Key West is the Southernmost City in the Continental United States, one of the oldest, most unique and remarkable cities in the United States.

LOWER KEYS MAP



In terms of demographic trends taking place in Key West, Florida, the following data has been compiled by from the CCIM Site To Do Business:

		Demographic and Income Profile - Appraisal Version					
		529 Front St, Key West, FL 33040-6618 Ring: 15 miles radius			Prepared by Richard Padron Latitude: 24.560803 Longitude: -81.805267		
Summary		2000		2010		2015	
Population		33,730		30,919		29,339	
Households		14,301		12,653		11,941	
Families		7,567		6,538		6,086	
Average Household Size		2.30		2.38		2.38	
Owner Occupied Housing Units		7,022		6,299		5,925	
Renter Occupied Housing Units		7,279		6,354		6,016	
Median Age		39.1		42.1		42.5	
Trends: 2010 - 2015 Annual Rate		Area		State		National	
Population		-1.04%		0.84%		0.76%	
Households		-1.15%		0.83%		0.78%	
Families		-1.42%		0.64%		0.64%	
Owner HHs		-1.22%		0.89%		0.82%	
Median Household Income		2.00%		2.34%		2.36%	
Households by Income		2000		2010		2015	
		Number	Percent	Number	Percent	Number	Percent
<\$15,000		2,124	14.8%	1,382	10.9%	1,095	9.2%
\$15,000 - \$24,999		1,719	12.0%	1,096	8.7%	844	7.1%
\$25,000 - \$34,999		1,897	13.2%	1,136	9.0%	843	7.1%
\$35,000 - \$49,999		2,549	17.7%	2,101	16.6%	1,586	13.3%
\$50,000 - \$74,999		2,945	20.5%	2,643	20.9%	3,143	26.3%
\$75,000 - \$99,999		1,482	10.3%	2,075	16.4%	1,878	15.7%
\$100,000 - \$149,999		945	6.6%	1,455	11.5%	1,710	14.3%
\$150,000 - \$199,999		321	2.2%	340	2.7%	392	3.3%
\$200,000+		380	2.6%	425	3.4%	450	3.8%
Median Household Income		\$42,718		\$54,927		\$60,653	
Average Household Income		\$57,443		\$70,181		\$76,673	
Per Capita Income		\$25,009		\$29,174		\$31,750	
Population by Age		2000		2010		2015	
		Number	Percent	Number	Percent	Number	Percent
0 - 4		1,668	4.9%	1,524	4.9%	1,449	4.9%
5 - 9		1,694	5.0%	1,376	4.5%	1,323	4.5%
10 - 14		1,600	4.7%	1,293	4.2%	1,229	4.2%
15 - 19		1,563	4.6%	1,400	4.5%	1,185	4.0%
20 - 24		2,079	6.2%	1,838	5.9%	1,729	5.9%
25 - 34		5,665	16.8%	4,710	15.2%	4,543	15.5%
35 - 44		6,394	19.0%	4,747	15.4%	4,225	14.4%
45 - 54		5,722	17.0%	5,191	16.8%	4,488	15.3%
55 - 64		3,514	10.4%	4,618	14.9%	4,347	14.8%
65 - 74		2,166	6.4%	2,347	7.6%	2,940	10.0%
75 - 84		1,309	3.9%	1,335	4.3%	1,314	4.5%
85+		356	1.1%	540	1.7%	567	1.9%
Data Note: Income is expressed in current dollars							
Source: U.S. Bureau of the Census, 2000 Census of Population and Housing. Esri forecasts for 2010 and 2015.							
March 21, 2011							
©2010 Esri Page 1 of 2							



The following average daily two-way traffic data was provided by the State of Florida Department of Transportation:

AVERAGE DAILY TRAFFIC COUNTS

<u>Average Daily Traffic Count (Both Directions)</u>												
D.O.T.												
Station	Location	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
5004	US-1/Truman Ave., 200' W. First St.	20,500	21,500	22,500	22,500	21,000	18,600	13,700	18,100	18,500	19,600	22,000
5008	SR-5/US-1/Truman Ave., 200' W. White St.	25,100	17,000	14,500	14,000	14,300	14,000	14,800	16,800	15,200	16,800	17,700
5011	SR-5/US-1/Truman Ave., 200' E. Duval St.	9,200	12,000	8,800	9,000	10,400	8,200	7,600	8,600	8,600	9,300	9,700

AREA AND CITY ANALYSIS

The appraised property is located in the corporate limits of the Island known as the City of Key West, Monroe County, Florida. The Island of Key West is the last in a chain of islands known as the Florida Keys, extending in a Southwesterly direction from the Southern tip of Florida which are connected by a series of islands and bridges. U.S. Highway 1, the Overseas Highway, provides access to these various islands from the mainland. The approximate distance from Miami, Florida, to Key West is 150 miles.

Key West, the Florida Keys and their location "in the sea" are well-known throughout the United States and Canada as the Southernmost Point. The primary attractions for the tourist, second home dwellers or vacationer is the mild, stable climate ranging from an average of 66.2 degrees in the winter months to an average high of 89.6 degrees in August, the hottest of the summer months. Another important reason why visitors come to the Keys is the beautiful clear waters of the Gulf of Mexico and the Atlantic Ocean, and all their attractions such as: swimming, diving, yachting, fishing, etc.

A well developed air and ground transportation system links Key West to the Miami metropolitan area and population centers throughout the United States, Canada, and the Caribbean. Accessibility to Key West by automobile has increased dramatically since the completion in 1983 of the new bridges and highway. The new Overseas Highway (U.S. Highway 1) has induced an overwhelming population to venture in the Florida Keys, seeking refuge from the climate and crowded metropolitan areas. Key West International Airport is well serviced by Delta, US Air, and American Eagle Airlines, which began operation on October 1, 1989. These airlines provide numerous daily commuter flights to and from Miami, West Palm Beach, Fort Lauderdale, Orlando, and Tampa. Gulfstream Airways (the Continental Connection) provides daily flights to the mainland and nearby Caribbean islands. These carriers have greatly enhanced the influx of tourism, and have also made it easier for second home dwellers to commute between their points of origin and Key West. A major renovation of Key West International Airport was recently completed with a new terminal being currently constructed. Last month, March 2011, at the Key West International Airport's was the busiest March on record, with 36,046 passengers arriving and 35,593 departing. An air taxi and seaplane service is also available. Public transportation is provided by a municipal bus system that serves Key West and Stock Island. The Greyhound bus services between Key West and Miami, and onto other major cities.

The visitors who vacation in Key West during the winter season are the affluent population of the Northern and Midwestern States and Canada. The remainder of the year includes vacationers from the Southeastern United States, and southern and central Florida. The winter visitors usually stay for longer periods of time and spend more money. Whereas, the remainder of the year, spring, fall and summer the vacationers staying in Key West is often on a second or mini-vacation taking longer vacations out of the state.

Each year Key West has an average of about 3,000,000 visitors, approximately 700,000 families. About two thirds of these vacationers stay an average of three to five days. These short term visitors prefer accommodations with beach and water access, together with all the amenities that beach clubs and resorts provide.

Public schools include kindergarten through twelfth grade, and a community college, Florida Keys Community College. The public school system includes: Key West High School, Horace O'Bryant Junior High School, Glynn Archer Elementary, Gerald Adams, Poinciana Elementary, Sigsbee Elementary, Reynolds and May Sands. The public school system is supplemented by two private schools: Grace Lutheran and Mary Immaculate Star of the Sea School.

Police protection is provided by the City of Key West and the Monroe County Sheriff's Department. Fire protection is provided by the City of Key West within the corporate limits. In the event of an emergency, the U.S. Navy Fire Fighters will assist.

The City Park includes a softball field, six tennis courts and a gazebo, grand stand, and picnic areas. Other recreational facilities include a municipal pool, a city beach, a county beach with several tennis courts, an indigenous park, and children's playground. On Stock Island there is a new 18 hole professional golf course, privately owned with public access. In 1995, a 390-townhouse, three-phase development began construction at the center of the golf course and subsequently sold out. The City operates a marina docking facilities providing wet storage and boat ramp access at Garrison Bight and the Historic Seaport. There are three private marinas within the city limits, the Key West Yacht Club, Garrison Bight Marina and the Galleon Condominium marina facility.

There were two hospitals serving Key West and the Lower Keys area. Florida Keys Memorial Hospital, located on Stock Island, was a tax district supported, licensed 120 bed general hospital. Depoo Memorial Doctors' Hospital was a privately owned hospital with 34 bed capacity. These two hospitals completed a merger resulting in Lower Florida Keys Health System, which decreased medical costs for years; however, in 1997, the local populace was taxed due to hospital losses. In 2010 the Key West Convalescent Center was reopened under new management.

Public utilities include electric service provided by municipally owned City Electric System; potable water is furnished by the Florida Keys Aqueduct Authority, managed by the South Florida Water District. The sewer system is municipally owned and operated. In 1989, the new wastewater treatment plant on Fleming Key became operational. Solid waste collection is provided by a private firm with its rates controlled by the City; however, that contract expired in December 1991. A new private collection company has since

been contracted to continue solid waste collection and the City's recycling program. According to the Key West Citizen, local newspaper, recycling may be mandatory for the City of Key West in the near future.

Neighborhood (Market Area) Analysis:

The subject property is located in the "Old Town," downtown section of Key West, specifically on the easterly side of Simonton Street, the northerly side of Greene Street. The "Old Town" section of Key West represents an area where the architecture and building construction are historically preserved. The subject property is surrounded mostly by residential, commercial and mixed-use properties with commercial/retail establishments nearby. It is located only one block easterly from Duval Street, a two-lane main thoroughfare leading the tourists to major attractions at the harbor area and connects north and south side of the island stretching from the Gulf of Mexico to the Atlantic Ocean. In addition, it is located approximately eight blocks from Truman Avenue. Truman Avenue is a four-lane highway also called U.S. Highway No. 1, the main thoroughfare in and out of the Florida Keys.

The subject property's immediate area has evolved as an extension from the Duval Street tourist retail and restaurant district. Presently, Mallory Square boasts a nightly ritual of sunset celebration usually attended by tourists, locals, jugglers, artists, fire-eaters and performers of all sorts. This area is utilized during the day as a cruise port and nightly as an open-air "carnival" with vendors and performers for sunset celebration.

The subject property is approximately two blocks away from the Key West Harbor which was once utilized by the fishing industry, which moved out of the City of Key West in the late 1970's. In the 1830's, this Harbor area was dominated by auction houses, chandleries, piers and wooden wharves; then, wrecking dominated the economy of Key West. During this era, the town was known as one of the wealthiest in the Nation. Between 1824 and 1825, an estimated \$293,000 worth of salvage (cargoes of wine, silks and lace) was sold. In recent history, restoration of the piers occurred in 1963, with subsequent modernization and rehabilitation for its present use as a cruise port. The area was named for the Mallory Steamship Line.

The subject neighborhood boundaries can be described as being bordered on the north and west by the Key West Harbor and the Gulf of Mexico, on the east by Eisenhower Drive and the south by Truman Avenue, U.S. Highway No. 1. Most of the structures in the area are wood-frame with some CBS/masonry commercial and residential structures. This area is a part of the "Old Town" section of the island which is fully developed except for a few isolated vacant parcels. The principal land uses are commercial and residential.

Within two miles to the southeast of the subject property, there are three major regional shopping centers, fronting along North Roosevelt Boulevard with ancillary access from Northside and Kennedy Drives; these shopping centers service the City of Key West and the Lower Florida Keys.

There are very few unsightly areas in any of the surrounding neighborhoods of the subject parcel. Recent renovation projects and new home construction indicates an active interest in gentrification of this area. It

is the appraisers' opinion that local and national economics have already helped and will continue to attract visitors to the area.

Currently there are several developments that were fairly recently completed as transient condominium conversion redevelopment projects. These projects include the Holiday Inn Beachside redevelopment, and the Hampton Inn redevelopment, known as Parrot Key, both in "New Town" and the Santa Maria condominium project and the Atlantic Shores total redevelopment into an expansion of the Southernmost Hotel, located in "Old Town." These properties were hotels which have been converted to transient condominiums' complexes.

There have been limited affordable housing developments, with more recently completed or will start construction in near future. Meridian West Apartments on Stock Island is a recently developed 102 unit affordable housing project for low income rental. One new affordable housing project in New Town, Key West was constructed known as Roosevelt Gardens. The Steamplant located in "Old Town" Key West, has constructed and sold 38 affordable units, known as the Railway project. In addition, there is one more large project under construction Old Drive-In and development in Stock Island where a newly completed project known as Tortuga West, Park Village, and the first Phase of the Islander were constructed and sold.

SUBJECT PROPERTY AND MARKETABILITY ANALYSIS

Subject Location Analysis:

There has been steady development in the area, with the remodeling and renovation of existing frame and CBS/masonry structures. The subject site does contain the essential elements: location, situs, and access. The subject property has street frontage along Front and Simonton Streets. This commercial neighborhood caters to the tourists and major attractions at the harbor area. The subject project is located approximately one block easterly from Duval Street, which connects the north and south side of the island stretching from the Gulf of Mexico to the Atlantic Ocean and is approximately eight blocks northerly from Truman Avenue also called U.S. Highway No. 1, the main thoroughfare in and out of the Florida Keys. The subject property's location in "Old Town" allows for favorable access to all parts of the island.

The Florida Keys and specifically Key West have flourished over the past two decades with tourism developing as the County's primary economic base. The County has had tremendous success with its advertising efforts and attraction of tourists of all Nationalities. Hotels and motel facilities in Monroe County have flourished over the past decade. Although we have experienced a decrease in tourism during 2008 and 2009, due to the national extended recession, coupled with the national decline in the housing and commercial real estate market. However, in 2010 according to the Bed Tax there was a 22.3% increase over the pervious year. The success of these operations is well-demonstrated in the sale/resales of hotels, as well as in the increased seasonal trend noted in the 1990's. A review of the TDC, Tourist Development Council's, records indicate that this "season" has slightly shifted and expanded to include the summer months (January through August). A large portion of this shift has resulted from the marketing efforts of the Tourist Development Council and additional annual events, as well as the deflated dollar abroad, stimulating travel within the United States.

Monroe County has ranked No. 1 in the State of Florida in terms of occupancy and average daily rate over the past number of years. In fact, County-wide Bed Tax collections have increased by 17.4% between 2002 (\$11,697,577.82) and 2006 (\$13,730,589.28). County-wide Bed tax collections have averaged 3.3% per annum increases from Fiscal Year (October to November) 2003 to 2006. However, for the fiscal year 2006 there was a 2.1% decline, which was a result of the 2005 hurricane season. In the fiscal 2007, the County recovered and exceed the 2005 revenues. The first half of 2008 was strong until a few storms during Hurricane seasons forced evacuations and the national economy experienced a large decline in the housing sector, stock market, and employment. Bed Tax collections are up about 4.4% for January 2011 from the previous January. Year-to-date occupancy appears to be stabilizing although Average Daily Rates (ADRs) were down due to heavy discounting late 2008/early 2009.

During the same period the City of Key West Bed Tax collections has increased by 14.3% between 2002 (\$6,419,684) and 2006 (\$7,421,576) calendar years. The year 2010 proved to be a record year for Key West Bed Tax Revenue, in the amount of \$11,442,020, a 22.3% increase over 2009; however, this increase is distorted due to the increase to four penny tax in June 1, 2009. Furthermore, the 2008 Bed Tax Revenue's

in Key West increased to \$8,162,756, 3.6% above 2007. However, due to the national economic recession, the first six months of 2009 appear to be about 12.8% in RevPAR below the same period in 2008 in the Key West Market. Overall the District I, Key West Bed Tax Revenues, increased by 7.5% for the Fiscal Year, October to September, 2007 to 2008. However, within the first five months of this year, there has been a decrease of 8.4% in overall Key West Bed Tax Revenues. Although, the lodging industry started to rebound in summer 2009. In fact, for the first three months of 2010, bed tax collections were up \$2,850,000 or 9.4% ahead of the same time in 2009 (not including the new 4th cent tax added in June 2009). According to Smith Travel Research, Key West overall occupancy during 2010 was 78.1% up 1.7% from 76.9% for the same time in 2009. The average Daily Rate was \$190.96 for up 5.4% from \$181.12 for the same period in 2009.

According to the Monroe County Tourist Development Council (TDC), Smith Travel Research, the Florida Keys led all Florida destinations in lodging occupancy and average daily rate for the year 2010. The overall Keys occupancy was 70.5 percent a 1.6% rise from the previous year. Average daily rate for the Keys was \$178, a 3.2% gain compared with 2009. Miami was second at 70.2% occupancy and \$144 average daily rate. Ft. Lauderdale ranked third in occupancy, with 67.3% and West Palm Beach average daily rate of \$125 was third. According to the Smith Travel Research, the Keys lodging picture continues to look bright during the first quarter of 2011. The Keys led in occupancy and room rates in Florida for February and March. In March the occupancy was up 4.7% and room rates were up 6.3%. Overall tourism statistics are on the rise as well.

The following charts provided from the Smith Travel Research indicates the Average Daily Rates and Occupancy Rates the Key West for year-end 2006 through 2010. Also included is the Tier Report for the Florida Keys, by region and market segment. Lastly, is the Key West Bed Tax for the years 1996 through January 2011.

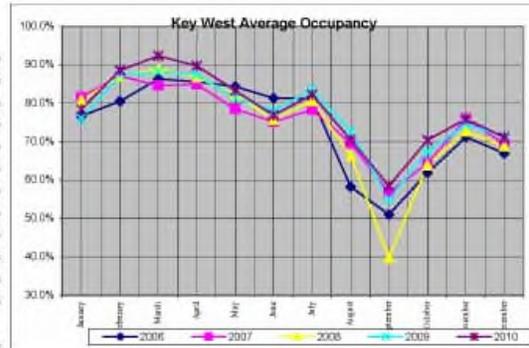
HISTORIC TREND REPORT
SMITH TRAVEL RESEARCH

KEY WEST
2/1/2011

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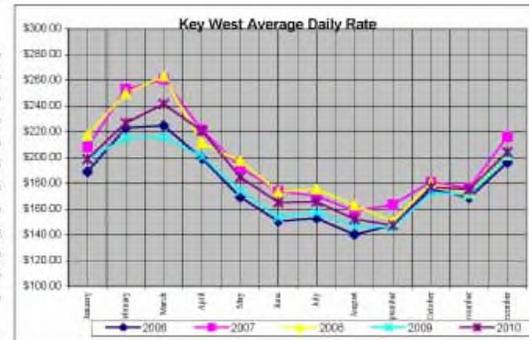
OCCUPANCY RATE

	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%



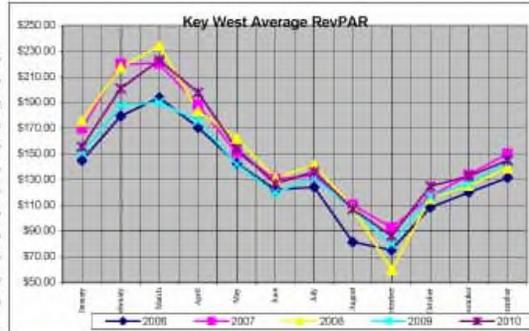
AVERAGE DAILY RATE

	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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Monroe County Tourist Development Council Smith Travel Research - Tier Report

For the month of: December 2010



	Current Month - December 2010 vs December 2009						Year to Date - December 2010 vs December 2009															
	Occ %	ADR (\$)			RevPAR (\$)			Occ %	ADR (\$)			RevPAR (\$)										
		2010	2009	% Chg	2010	2009	% Chg		2010	2009	% Chg	2010	2009	% Chg								
Florida Keys																						
Florida Keys Luxury	61.1	62.0	-0.9	192.04	192.72	-0.35	117.64	119.42	-1.4	0.1	-1.3	70.5	68.4	2.1	177.64	172.10	2.5	119.47	1.6	-3.2	4.9	
Florida Keys Upscale	60.3	60.3	0.0	304.85	299.83	1.67	183.72	180.95	-1.5	1.7	1.5	67.2	66.0	1.2	299.36	299.49	-0.04	179.03	177.90	0.6	-1.2	0.6
Florida Keys Midscale	71.1	63.2	8.9	208.53	216.42	-3.8	148.87	136.73	12.5	-3.2	6.9	73.7	68.1	5.6	202.45	194.54	3.5	134.36	6.7	4.1	11.0	
Florida Keys Economy	57.2	59.8	-2.6	152.58	156.49	-2.5	87.27	93.52	-6.3	-2.5	-6.7	68.7	68.4	0.3	145.45	144.33	0.8	98.87	98.65	0.2	0.6	1.2
Florida Keys Budget																						
Key West																						
Key West Lower Tier	71.1	71.4	-0.3	204.17	201.28	1.44	145.08	143.64	-1.0	1.4	1.0	76.1	76.9	-0.8	190.96	181.12	6.5	139.22	1.7	5.4	7.2	
Key West Middle Tier	67.6	70.4	-2.8	154.78	159.18	-2.8	104.95	112.03	-3.7	-2.8	-6.3	77.0	77.9	-0.9	149.09	144.05	3.5	112.15	-1.1	3.5	2.4	
Key West Upper Tier	75.4	71.0	4.4	259.72	260.00	-0.1	195.93	184.52	6.3	-0.1	6.2	78.2	74.4	3.8	244.98	235.50	4.0	175.24	5.1	4.0	9.3	
B&Bs, Guest Houses & Inns	66.3	72.3	-6.0	172.91	166.43	3.9	118.06	120.26	-5.5	3.9	-1.6	77.3	77.4	-0.1	164.68	153.27	7.8	116.61	-0.1	7.4	7.3%	
Upper Florida Keys																						
Upper Florida Keys Lower Tier	49.9	51.1	-1.2	175.12	178.85	-2.1	87.43	91.33	-2.2	-2.1	-4.3	61.9	60.8	1.1	158.35	158.49	-0.09	97.94	96.00	2.1	-0.1	2.0
Upper Florida Keys Middle Tier	50.6	38.4	12.2	111.60	122.27	-9.6	58.82	46.96	32.3	-8.6	21.0	56.8	48.6	8.2	110.18	116.55	-6.4	64.74	56.58	21.0	-5.5	14.4
Upper Florida Keys Upper Tier	46.2	48.9	-2.7	218.03	215.77	1.04	100.70	105.51	-5.5	1.0	-4.6	58.3	58.8	-0.5	188.73	189.98	-0.6	108.85	111.66	-0.8	-1.7	-2.5
Key Largo																						
Key Largo	51.7	53.8	-2.1	162.81	169.51	-4.1	84.17	91.16	-3.9	-4.0	-7.7	63.9	62.7	1.2	148.91	150.20	-0.9	94.14	94.14	0.0	-0.9	1.0
Marathon																						
Marathon	52.5	49.0	3.5	198.15	214.81	-8.4	104.86	105.25	-0.4	7.1	-7.3	-0.7	61.9	58.1	3.8	176.87	180.25	-1.9	104.72	6.5	-0.9	5.6
Islamorada																						
Islamorada	42.7	46.4	-3.7	179.26	172.76	6.5	78.47	80.11	-2.0	3.8	-4.5	56.2	56.8	-0.6	162.29	161.87	0.2	91.24	91.92	-1.1	0.3	-0.7

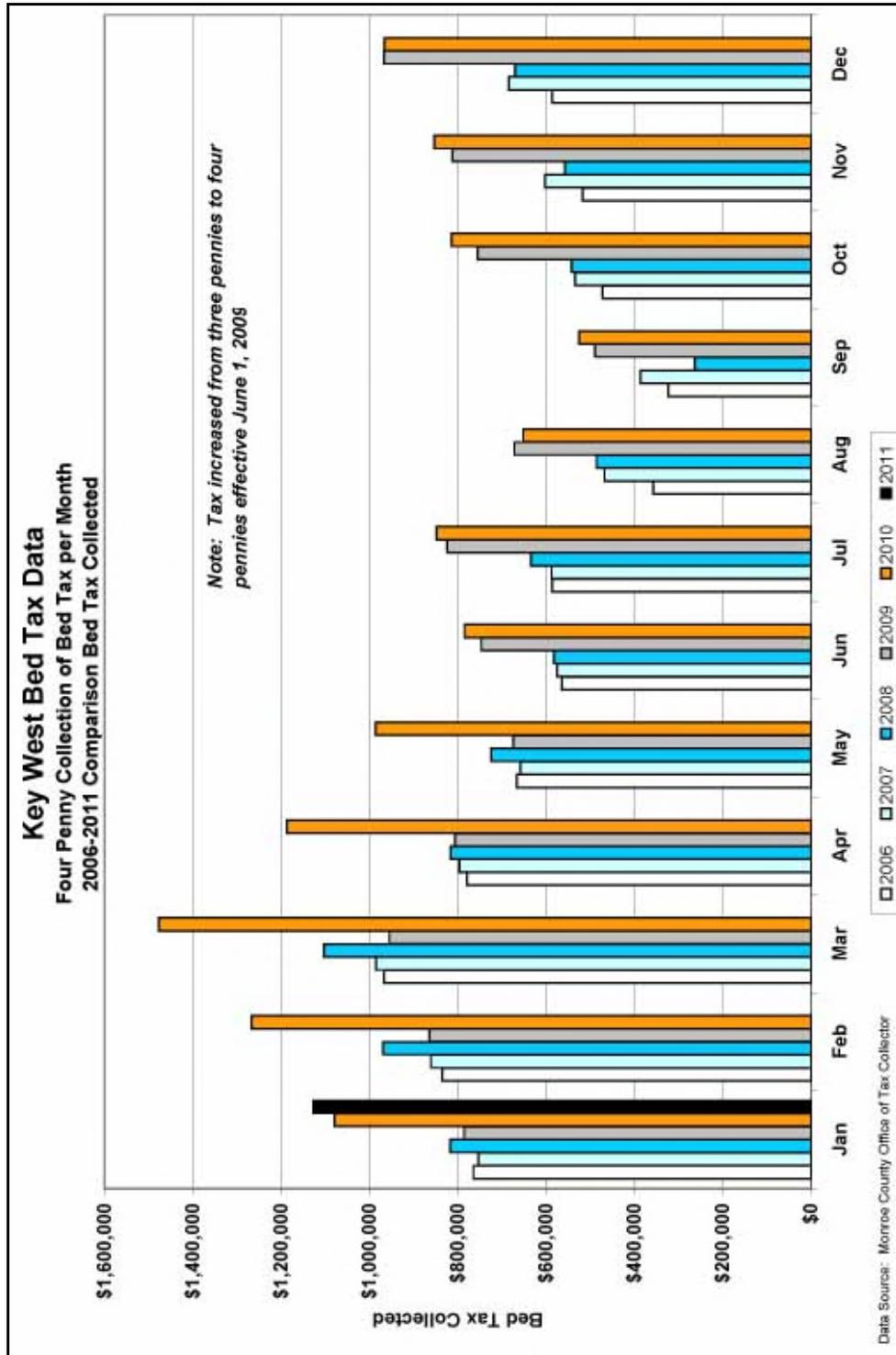
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Key West Bed Tax Data - Four Penny Collection of Bed Tax (See Note Below)															
Bed Tax Collected															
(Source: Monroe County Tax Collector's Office)															
Month	1999	1997	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Jan	\$ 501,722	\$ 548,248	\$ 592,821	\$ 595,868	\$ 642,813	\$ 686,975	\$ 632,430	\$ 719,902	\$ 752,980	\$ 784,078	\$ 753,349	\$ 817,090	\$ 780,802	\$ 1,079,187	\$ 1,126,822
Feb	\$ 614,602	\$ 658,751	\$ 692,105	\$ 651,748	\$ 704,660	\$ 746,032	\$ 756,310	\$ 800,024	\$ 872,984	\$ 835,180	\$ 860,734	\$ 969,999	\$ 864,578	\$ 1,266,876	
Mar	\$ 662,727	\$ 717,706	\$ 699,510	\$ 748,690	\$ 818,851	\$ 860,902	\$ 909,000	\$ 942,660	\$ 1,057,758	\$ 967,408	\$ 965,307	\$ 1,105,404	\$ 654,601	\$ 1,476,949	
Apr	\$ 473,917	\$ 500,388	\$ 521,208	\$ 588,905	\$ 599,621	\$ 636,381	\$ 653,332	\$ 681,556	\$ 748,330	\$ 778,778	\$ 798,705	\$ 818,211	\$ 806,181	\$ 1,187,107	
May	\$ 377,812	\$ 422,870	\$ 447,430	\$ 482,639	\$ 483,623	\$ 548,426	\$ 595,808	\$ 590,054	\$ 640,489	\$ 666,900	\$ 656,312	\$ 724,689	\$ 574,487	\$ 966,544	
Jun	\$ 288,791	\$ 324,704	\$ 346,819	\$ 362,642	\$ 401,214	\$ 428,148	\$ 448,368	\$ 510,010	\$ 567,089	\$ 584,056	\$ 574,856	\$ 582,433	\$ 748,975	\$ 764,883	
Jul	\$ 316,724	\$ 359,939	\$ 393,660	\$ 427,490	\$ 432,309	\$ 482,120	\$ 475,033	\$ 526,302	\$ 533,725	\$ 580,000	\$ 590,030	\$ 634,009	\$ 624,900	\$ 640,354	
Aug	\$ 314,271	\$ 356,090	\$ 392,703	\$ 396,821	\$ 368,022	\$ 415,603	\$ 468,752	\$ 398,955	\$ 400,262	\$ 391,942	\$ 407,980	\$ 489,098	\$ 672,039	\$ 691,913	
Sep	\$ 297,715	\$ 284,726	\$ 227,160	\$ 290,153	\$ 310,134	\$ 283,946	\$ 282,570	\$ 268,847	\$ 257,016	\$ 302,562	\$ 323,388	\$ 388,574	\$ 283,455	\$ 469,618	\$ 595,077
Oct	\$ 320,448	\$ 361,571	\$ 298,147	\$ 405,242	\$ 420,974	\$ 422,911	\$ 457,442	\$ 530,944	\$ 352,884	\$ 472,715	\$ 534,464	\$ 542,390	\$ 755,570	\$ 814,941	
Nov	\$ 351,487	\$ 375,026	\$ 384,104	\$ 441,198	\$ 491,417	\$ 449,808	\$ 496,357	\$ 539,656	\$ 498,967	\$ 517,208	\$ 602,085	\$ 557,143	\$ 812,187	\$ 853,221	
Dec	\$ 420,520	\$ 485,896	\$ 465,963	\$ 465,469	\$ 522,818	\$ 489,537	\$ 539,250	\$ 568,840	\$ 578,107	\$ 602,177	\$ 584,154	\$ 684,885	\$ 669,936	\$ 967,884	\$ 966,389
Total	\$ 4,692,544	\$ 5,341,010	\$ 5,393,124	\$ 5,658,492	\$ 6,228,176	\$ 6,426,114	\$ 6,419,694	\$ 7,271,371	\$ 7,220,187	\$ 7,421,576	\$ 7,893,266	\$ 8,165,768	\$ 9,364,543	\$ 11,442,029	\$ 1,126,822

Key West Bed Tax Data - Four Penny Collection of Bed Tax (See Note Above)															
Percentage Change from Prior Year															
(Source: Monroe County Tax Collector's Office)															
Month	1999	1997	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Jan	6.0%	9.3%	8.1%	-0.5%	8.9%	6.9%	5.9%	13.6%	4.9%	1.6%	-1.5%	8.5%	-3.8%	37.3%	4.4%
Feb	16.8%	3.9%	-1.0%	3.1%	12.8%	3.4%	1.3%	17.7%	-1.9%	-4.3%	3.1%	12.6%	-10.8%	46.5%	
Mar	13.2%	8.3%	-2.7%	6.9%	7.6%	3.2%	-3.5%	7.5%	12.2%	-3.5%	1.9%	12.0%	-13.5%	54.7%	
Apr	14.0%	5.6%	4.2%	12.8%	1.9%	6.1%	6.0%	13.1%	1.9%	4.2%	2.2%	2.4%	-1.2%	47.3%	
May	12.8%	11.9%	5.8%	7.9%	11.1%	-4.2%	13.4%	-0.9%	6.4%	4.1%	-1.3%	10.1%	-6.9%	46.3%	
Jun	16.8%	12.4%	6.9%	10.3%	4.9%	-5.7%	13.8%	13.8%	11.1%	-0.5%	1.9%	1.3%	26.3%	5.1%	
Jul	0.1%	12.7%	6.0%	11.4%	1.1%	13.8%	11.1%	15.1%	10.1%	9.0%	0.3%	7.8%	30.0%	2.0%	
Aug	22.4%	14.2%	-1.7%	9.7%	-7.5%	-1.0%	13.9%	-17.4%	-12.2%	-10.6%	30.7%	5.8%	36.4%	-3.0%	
Sep	3.8%	11.4%	-14.2%	27.7%	6.9%	7.1%	0.1%	-21.0%	27.7%	6.0%	19.5%	-31.8%	85.8%	7.4%	
Oct	14.3%	12.8%	-17.3%	35.5%	8.8%	-2.3%	14.5%	1.0%	-52.4%	68.9%	13.1%	1.5%	39.3%	7.9%	
Nov	6.1%	6.7%	2.4%	14.8%	8.1%	22.5%	10.3%	8.7%	-6.4%	5.8%	16.4%	-7.5%	45.8%	5.1%	
Dec	9.4%	9.1%	-0.8%	-0.1%	13.2%	8.5%	7.5%	1.5%	-2.7%	18.6%	-2.2%	44.4%	-2.2%	44.4%	
Total	11.4%	9.2%	0.2%	9.0%	6.3%	-0.1%	6.7%	0.1%	-0.7%	2.8%	6.4%	3.5%	14.0%	22.3%	4.6%

Note: Monroe County Three Penny Bed Tax Increased to Four Pennies as of June 1, 2009



Development within the subject's market area (Old Town, Key West) has been very heated in 2004 to 2006 due to the condominium conversion projects, rejuvenation of older properties and ongoing speculative development in the Key West Area. The renovations, improvements and demand for properties within the area had been steady; however, because of the national slow down in the housing market and national recession supply has exceeded the demand. Hence, we have been experiencing a distinct slowdown in the residential sales due to the decrease in property values and the financial process of obtaining loans to purchase property has become much more stringent. Proposed developments may result in some needed "market adjustments" with regard to stabilized rental rates for commercial properties, as opposed to the typical CPI or up to 5% annual increases and asking prices of residential projects. Prior to the national housing market slowdown, the market steadily absorbed new space. However, extended vacancies with increasing rent concessions is still currently taking place.

After Hurricane Wilma, which affected the Florida Keys October 24th and 25th, 2005, the real estate market began to soften, which is demonstrated by increased inventory and decreased closed transactions (number of sales and overall sales dollars). Furthermore, the national economic downturn, housing market decline, and credit crisis has affected the local market. In most of the Florida Keys, real estate values have dropped since the height of the market (mid to end of 2006) from 20% to 50%. It appears that prices are starting to stabilize in the lower price ranges, while the lower-end of the market appears to be stabilizing. Residential inventory has declined swiftly over the past two years. An increased number of foreclosures or "short sales" starting to be reflective in the inventory commercial properties. Fortunately, the Florida Keys has enjoyed four straight years of quiet hurricane seasons. It is anticipated that the second home market will eventually rebound, although it may take at least a few years to absorb the inventory and particularly the distressed sales. It appears that the tourism market has begun to rebound with notable gains in occupancy rates, while average daily rates are anticipated to begin climbing for lodging facilities. Typically, the real estate market in the Keys has been more resilient than the mainland as the supply of new developments is still rather inelastic as older properties are redeveloped based on existing entitlements. However, the Florida Keys is still affected by the credit crisis.

Based on the general economic environment, it is our opinion that real estate values for commercial and residential properties may decline slightly more and stabilize in the very near future. Tourism, the economic base of Key West and the Florida Keys, has experienced steady growth over the last decade with recent declines observed due to the national economic conditions. Stabilization is forecasted in the near future, unless the national recovery takes longer than expected. It appears that the market will begin to stabilize this year, 2011. Monroe County typically has the lowest unemployment rate in the State of Florida. Historical employment rates are noted in the demographics. A faltering stock market over the past couple of years with rising fuel prices, increasingly stringent financial requirements, and the war on terrorism has spurred concerns and has contributed to the national and local housing slow down. Further Economic trends are noted in the following graphs from the Key West Chamber of Commerce. Key West, the county seat, is typically the leading indicator for the overall county. On the following pages is a Visitor Profile Survey provided by the Tourist Development Council.

Visitor Profile Survey FY 2010

A total of 3000 intercept interviews were completed with visitors to the Florida Keys/Key West from September 09 – August 10. The quota of 50 interviews per district per month was met or exceeded in each district. The survey data were weighted by visitation figures for each district. The following provides a brief summary of overall results:

Tripographics:

- The vast majority of respondents drove to their Keys destination (87.1%). Use of automobiles to arrive at the Keys increased 12 percent. Drive visitors broke down as 34% driving directly to the Keys in their own car; 4% arriving in a car rented outside of Florida; 37% flying into Miami and then driving a rental car down; and finally 12% flying into another airport in Florida and then driving a rental car down.
- The majority of respondents reported that their primary purpose for visiting the Keys was recreation or vacation (82%), followed by Visit Friends and Family (13%) and Business/Pleasure Combined (3%). This year, we saw more visit friends and family travel (+20%).
- Most respondents planned their Keys vacation two weeks to one month in advance (34%). However, this was down from the previous year as was last minute (one week or less) planned trips. Though booking windows have gotten shorter, our visitors were planning farther out; possibly to maximize travel dollars.
- 14% of respondents used a travel agent. Among respondents who used travel agent services, most did so for air reservations (95%). Travel agents were also utilized by these respondents for car reservations (72%) and hotel reservations (40%). The percentage of respondents who utilized a travel agent for planning their vacation and also reported that a travel agent recommended the Florida Keys & Key West was 45%.
- The average visitor spent \$397 a day; including \$165 on their accommodations, \$21 on transportation within the county, \$22 on water-based activities, \$26 on land-based activities, \$141 on food & beverages and \$22 on other miscellaneous expenses. Spending is up 10% over last fiscal year; though down in the attractions categories. This is consistent with Florida Department of Revenue sales data.
- The average length of stay was 5.64 nights. Length of stay is flat this year, stabilizing after a loss in 2009 over 2008.
- The average party size was 3, with 13% traveling with children under 18. The most popular travel party size was two people (57%), followed by three to five people (32%). While the party size average remained the same over 2009, there were fewer travel parties with children under the age of 18. Most travel parties did include a spouse or significant other (81%), followed by friends of mixed gender (16%).
- When asked how the visitor made his/her accommodations reservation, among those respondents who had made reservations, the most popular response was one-line through a

travel web site (36%) followed by online at the lodging property's website (16%). There was an increase (+19%) in travelers making no advanced reservations before arriving in the Keys.

- Most visitors stayed at a hotel/motel/resort (60%); followed by B&B/guest house/inn (29%). There were about twice as many respondents reporting staying in a vacation rental this year over last year, though this figure remains low (4%).
- While on vacation, most visitors *Dined Out* (97%), went *Sightseeing/Visited Attractions* (92%) and enjoyed the *Nightlife/Bars* (88%).
- Of the visitors who had decided whether or not they were satisfied with their Keys trip at this point in the vacation, 89% indicated a positive satisfaction rate and <1% indicated they were unsatisfied. We also inquired as to what type of word of mouth they may spread upon returning home – positive or negative. 90% would recommend a Keys vacation to family or friends while only 1% would not. The remaining respondents were unsure (8%).
- In May '09 we added a question to probe use of specific internet sources to trip plan, including social media websites. 42% of visitors consulted an online site that features fellow traveler vacation reviews; such as Trip Advisor, IgoUgo, etc. 18% used social media to plan their trip; such as Facebook, YouTube, Twitter, etc. 24% consulted an online blog specific to travel. Finally, 27% visited our official destination website, www.fl-keys.com, during their trip planning.
- 67% of respondents recalled seeing some type of Keys advertising in the past three months. The Internet had the highest media source recall (36%), followed by Magazine (12%), Television (9%) and Newspaper (7%).
- We also added a question in May '09 to ask how many visitors were looking for value-added offers or special deals during this trip. Industry trends show, in light of the economic crisis, travelers are more often seeking value-ads or deals. About 41% of respondents were unsure if a value-ad or special deal was sought for their Keys trip; indicating they were likely not the primary trip planner. 39% of respondents did see a special deal or value added offer when planning the trip.

Psychographics

- The vacation experience most visitors were primarily seeking (i.e. the Top Motivator) was to “relax and escape, get away from stress, reconnect with friends or family” (52%). The second highest reason continues to be, “to go somewhere new” (12%). In third place was “sunshine and warm weather” (9%).
-
- Next, we ask respondents to tell us ALL of the experiences they were seeking in their vacation. This gives us an idea of the entire “basket of goods” they were shopping for when selecting the Keys as their vacation destination. For the past two years, we've observed nearly 100% of visitors are seeking to “relax and escape” as one of their vacation experiences here. This trend would seem to suggest stressed-out consumers continue to be more focused on relaxation during their vacations. Also popular on a visitor's trip wish list is to take a warm weather trip (93%), in a destination offering high quality tourism product and cleanliness (89%) with soft adventure sports (81%).

- With the recent increased discussion of lifting the travel embargo to Cuba, in May '09 we resumed two questions probing our visitors' interest in a Cuba visit that had been asked from 2000-2001. We first asked the likelihood our visitors would travel to Cuba if the embargo was lifted. 25 percent are likely to visit Cuba. Almost the same amount (23%) is not likely to visit Cuba. The rest were undecided. For those that were likely to visit Cuba, we next asked if they would do so instead of a Keys vacation in the future, or would seek to combine the two destinations during one trip. 75% would opt for a "two nation vacation" visiting both the Keys and Cuba while 24% would only wish to visit Cuba. Compared to when these two questions were asked in '00 and '01 there is more interest in a Cuba instead of the Keys trip now. Back in '00 and '01, 90 to 97% of respondents indicated they would have sought a Keys plus Cuba trip following an embargo lifting. However, the overall likelihood of visiting Cuba at all remains steady from the '00-'01 surveys at around 18%.

Demographics

- Average age was 44. 50 percent of adult visitors were Generation X (age 26-45), 44% were Baby Boomers (age 46-65) and 7% were Generation Y (age 18-25). The majority of visitors were non-Hispanic white (79%), followed by Latino (16%), Africa-American (3%) and Asian (1%). 53% were male, while 47% were female. 91% of respondents were heterosexual, 5% gay, 3% lesbian and <1% bi-sexual. The remaining declined to answer the question.
- 51% of respondents were repeat visitors (within the past three years). 37% earned \$75,000 or less while 44% earned over \$75,000; the rest declined to answer.
- Florida continues to be the top origin state for domestic travelers (19%). New York continues to be the top out-of-state area of origin for domestic travelers (5%). Rounding out the top 5 out-of-state areas were Georgia (3%), New Jersey (2.2%), California (2.1%), Illinois (2.1%) and Pennsylvania (2%). 33% of visitors were foreign. This Canada and the Scandinavian countries edged out Germany for the top countries of foreign origin.

Supply and Demand:

With growth in the tourism economy with a tendency toward attracting more affluent visitors, a great need for affordable and residential housing units has developed. This need is great in the City of Key West, which boasts the highest rental rates within the County. In the mid-1990's increased tourism spawned conversion of formerly non-transient residential rental units to transient rental with a 40% increase documented between 1994 and 1996. This conversion resulted in a shortage of long-term housing units. The market has continually attempted to balance the needs of the service employees and the limited supply of housing; however, the result has been increasing rental rates and displacement of workers.

Presently, the City has no market rate multi-family and single family permits available; furthermore, there is a moratorium on transient licenses, which is uncertain when it may be lifted. With respect to single family housing unit permits, none are currently available. No more market rate permits are available for the City of Key West; therefore, an indefinite moratorium on new, residential housing exists. The City of Key West is presently addressing the need for affordable housing by holding multi-family housing permits plus development rights, which will be utilized for affordable housing development.

In February 2008, Judge Wayne Miller of Monroe County ruled that the ROGO (Rate of Growth Ordinance), which limited development had technically expired. According to the article written in the Key West Citizen, February 28, 2008, state-issued building allocations have not been necessary for building in Key West for the past five years. As a result, the City of Key West is not issuing any new building permits until such time as they have updated their ordinance, however, details are not available at this time.

The 2010 season was positive and indicated a recovery in the Florida Keys. However, the BP Oil Spill in the Gulf of Mexico, halted any recovery in the last half of 2010. The negative media coverage was detrimental to the Florida Keys businesses, although no local waters were affected by the oil spill. The first quarter 2011 indicates a rebound in visitors, lodging and tourism.

All of the proposed developments within the market, plus existing projects which are still in the absorption phase, indicates that the area has an excess of residential units, especially the lodging sector. Though some of the proposed projects will be phased-in, offering concessions, and reducing rental rates in order to offset vacancies, increased competition for commercial retail/restaurant tenants and for tourism spending is on the horizon.

Over the past decade the trend within the subject's downtown area has included National Franchise interest in the "Old Town" area of the City. National companies including: Express, Coach, Bath and Body Works, Chico's, Hard Rock Café, Banana Republic, Denny's, and most recently, Nine West occupies space on Duval Street. In addition, Walgreen's and CVS have inhabited large historic buildings in the high rent district of Duval Street. All of this activity continues to spawn speculation among national investors, as well as, local entrepreneurs in the area.

Based upon all of the foregoing market activity, current and proposed, coupled with the subject's favorable location/views and access, it appears that the subject's location for transient use would eventually be supported by adequate demand, as the market rebounds, although large condotel units are very difficult to find in the current environment. The limited number of vacant sites and the stricter current zoning regulations greatly restricts the potential for additional lodging uses (competing properties) within the subject's market area.

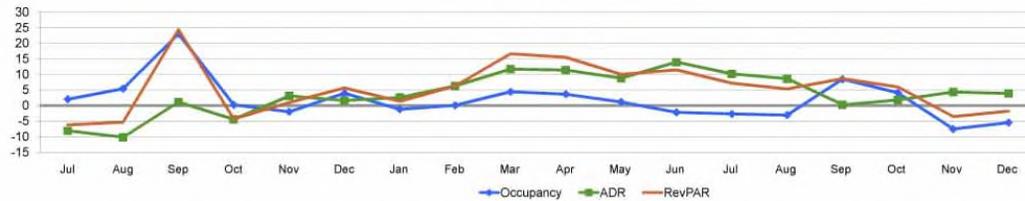
The following tables includes the Smith Travel Research Trend Report for hotels, guest houses and bed and breakfast facilities within the City with under 40 rooms. This represents the competitive set for the subject property as a standalone operation.

Tab 7 - Trend Key West under 40 Rooms

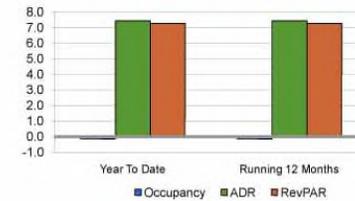
Currency: USD - US Dollar

Monroe County TDC
For the Month of December 2010

Monthly Percent Change



Overall Percent Change



Occupancy (%)	2009						2010						Year To Date			Running 12 Months								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008	2009	2010	2008	2009	2010
This Year	82.7	71.0	53.1	67.7	75.5	72.3	78.7	90.0	94.7	89.2	84.1	75.6	80.5	68.9	57.6	70.5	69.8	66.3	76.8	77.4	77.3	76.8	77.4	77.3
Last Year	81.0	67.4	43.2	67.6	77.1	69.6	79.7	90.0	90.7	86.0	83.1	77.3	82.7	71.0	53.1	67.7	75.5	72.3	78.6	76.8	77.4	78.6	76.8	77.4
Percent Change	2.0	5.4	23.0	0.2	-2.0	3.9	-1.2	0.0	4.4	3.7	1.1	-2.2	-2.7	-3.0	8.4	4.1	-7.6	-5.5	-2.3	0.8	-0.2	-2.3	0.8	-0.2

ADR	2009						2010						Year To Date			Running 12 Months								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008	2009	2010	2008	2009	2010
This Year	131.70	122.28	130.19	149.21	145.93	166.43	172.58	195.01	205.43	187.34	158.77	143.58	145.03	132.79	130.45	151.84	152.26	172.91	167.69	153.27	164.68	167.69	153.27	164.68
Last Year	143.34	136.15	128.80	156.20	141.64	163.77	168.22	183.52	183.89	188.17	146.00	126.04	131.70	122.28	130.19	149.21	145.93	166.43	172.08	167.69	153.27	172.08	167.69	153.27
Percent Change	-8.1	-10.2	1.1	-4.5	3.0	1.6	2.6	6.3	11.7	11.4	8.7	13.9	10.1	8.6	0.2	1.8	4.3	3.9	-2.5	-8.6	7.4	-2.5	-8.6	7.4

RevPAR	2009						2010						Year To Date			Running 12 Months								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008	2009	2010	2008	2009	2010
This Year	106.89	88.85	69.14	101.02	110.23	120.28	135.87	175.58	194.59	167.04	133.47	108.59	116.69	91.44	75.12	107.03	106.32	118.08	128.76	118.61	127.24	128.76	118.61	127.24
Last Year	116.18	91.73	55.61	105.54	109.18	113.90	134.07	165.17	168.83	144.66	121.38	97.45	108.89	86.85	69.14	101.02	110.23	120.28	135.25	128.76	118.61	135.25	128.76	118.61
Percent Change	-8.3	-5.3	24.3	-4.3	1.0	5.6	1.3	6.3	16.6	15.5	10.0	11.4	7.2	5.3	8.6	5.9	-3.5	-1.8	-4.8	-7.9	7.3	-4.8	-7.9	7.3

Supply	2009						2010						Year To Date			Running 12 Months								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008	2009	2010	2008	2009	2010
This Year	36,394	36,394	35,220	36,394	35,220	36,394	36,394	32,872	36,394	35,220	36,394	35,220	36,394	36,394	35,220	36,394	35,220	36,394	428,875	428,661	428,510	428,875	428,661	428,510
Last Year	36,425	36,425	35,250	36,425	35,250	36,425	36,425	32,900	36,425	35,250	36,425	35,220	36,394	36,394	35,220	36,394	35,220	36,394	428,875	428,875	428,661	428,875	428,875	428,661
Percent Change	-0.1	-0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Demand	2009						2010						Year To Date			Running 12 Months								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008	2009	2010	2008	2009	2010
This Year	30,092	25,849	18,706	24,841	26,603	26,301	28,652	29,598	34,475	31,403	30,596	26,835	29,281	25,061	20,262	25,654	24,594	24,853	329,325	331,714	331,084	329,325	331,714	331,084
Last Year	29,522	24,540	15,219	24,610	27,171	25,334	29,031	29,610	33,045	30,322	30,283	27,231	30,062	25,849	18,706	24,641	26,603	26,301	337,096	329,325	331,714	337,096	329,325	331,714
Percent Change	1.9	5.3	22.9	0.1	-2.1	3.8	-1.3	0.0	4.3	3.6	1.0	-2.2	-2.7	-3.0	8.4	4.1	-7.6	-5.5	-2.3	0.7	-0.2	-2.3	0.7	-0.2

Revenue	2009						2010						Year To Date			Running 12 Months								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008	2009	2010	2008	2009	2010
This Year	3,963,053	3,160,940	2,435,259	3,676,638	3,882,217	4,377,324	4,944,866	5,771,785	7,082,049	5,893,168	4,857,652	3,824,382	4,249,658	3,327,920	2,645,756	3,895,325	3,744,712	4,297,279	55,223,954	50,842,338	54,521,552	55,223,954	50,842,338	54,521,552
Last Year	4,231,733	3,341,095	1,960,185	3,844,141	3,848,429	4,148,844	4,883,487	5,433,950	6,076,664	5,099,370	4,421,346	3,432,090	3,963,053	3,160,940	2,435,259	3,676,638	3,882,217	4,377,324	58,005,842	55,223,954	50,842,338	58,005,842	55,223,954	50,842,338
Percent Change	-6.3	-5.4	24.2	-4.4	0.9	5.5	1.3	6.2	16.5	15.4	9.9	11.4	7.2	5.3	8.6	5.9	-3.5	-1.8	-4.8	-7.9	7.2	-4.8	-7.9	7.2

Census %	2009						2010						Year To Date			Running 12 Months								
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2008	2009	2010	2008	2009	2010
Census Props	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56	56
Census Rooms	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174	1174
% Rooms Participants	21.2	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5

A blank row indicates insufficient data.

Source 2011 SMITH TRAVEL RESEARCH, INC.

Tab 8 - Response Key West under 40 Room

Monroe County TDC

For the Month of December 2010

STR Code	Name of Establishment	City & State	Zip Code	Aff Date	Open Date	Rooms
42745	Albury Court	Key West, FL	33040	Jul 2001	Jul 2001	40
39979	Alexander Palms Court	Key West, FL	33040	Jun 1990	Jun 1990	12
39987	Alexander's Guesthouse	Key West, FL	33040	Jun 1981	Jun 1981	17
30090	Almond Tree Inn	Key West, FL	33040	Jun 1950	Jun 1950	22
45536	Ambrosia Key West	Key West, FL	33040	Jun 1996	Jun 1996	19
30101	Andrews Inn & Garden Cottages	Key West, FL	33040	Jun 1988	Jun 1988	10
46175	Angelina Guesthouse	Key West, FL	33040	Jan 1985	Jan 1985	14
30103	Authors Guest House	Key West, FL	33040	Jun 1905	Jun 1905	10
48212	Big Ruby's Guesthouse	Key West, FL	33040			22
48217	Chelsea House	Key West, FL	33040	Jun 1990	Jun 1990	34
39961	Conch House Heritage Inn	Key West, FL	33040	Jun 1993	Jun 1993	6
49397	Courtney's Place	Key West, FL	33040	Jun 1988	Jun 1988	17
48147	Curry House	Key West, FL	33040	Jun 1974	Jun 1974	9
35668	Curry Mansion Inn	Key West, FL	33040	Sep 1997	Sep 1997	28
39963	Cypress House	Key West, FL	33040	Jun 1970	Jun 1970	22
48218	Douglas House	Key West, FL	33040	Jun 1992	Jun 1992	31
34146	Duval Gardens	Key West, FL	33040	Jun 1994	Jun 1994	12
11572	Duval House	Key West, FL	33040	Jun 1975	Jun 1975	30
49395	Duval Inn	Key West, FL	33040	Jun 1999	Jun 1999	16
35669	Eden House	Key West, FL	33040	Jun 1924	Jun 1924	41
45121	El Patio Motel	Key West, FL	33040	Jun 1955	Jun 1955	30
48071	Equator Resort	Key West, FL	33040	Aug 1997	Aug 1997	12
39990	Frances Street Bottle Inn	Key West, FL	33040	Jun 1994	Jun 1994	8
35670	Heron House	Key West, FL	33040	Jun 1978	Jun 1978	23
47419	Heron House Court	Key West, FL	33040	Jun 1987	Jun 1987	16
30104	Island City House Hotel	Key West, FL	33040	Jun 1912	Jun 1912	24
39964	Island House	Key West, FL	33040	Jun 1974	Jun 1974	34
39977	Key Lime Inn	Key West, FL	33040	Mar 1999	Mar 1999	37
10705	Key Lodge	Key West, FL	33040	Jun 1943	Jun 1943	24
30106	Key West Harbor Inn	Key West, FL	33040	Jun 1979	Jun 1979	14
30507	La Mer Hotel & Dewey House	Key West, FL	33040	Jan 1980	Jan 1980	19
49414	La Te Da	Key West, FL	33040			15
48204	Lighthouse Court Guesthouse	Key West, FL	33040			40
46383	Marrero's Guest Mansion	Key West, FL	33040	Oct 2000	Oct 2000	13
35768	Merlinn Guesthouse	Key West, FL	33040	Jun 1970	Jun 1970	20
48210	Oasis Guest House	Key West, FL	33040			20
43577	Ocean Breeze Inn	Key West, FL	33040	Jun 1947	Jun 1947	15
43266	Paradise Inn	Key West, FL	33040	Jun 1995	Jun 1995	17
48205	Pearl's Rainbow	Key West, FL	33040	Jun 1989	Jun 1989	38
30200	Pegasus International Hotel	Key West, FL	33040	Jun 1983	Jun 1983	30
22304	Pelican Landing	Key West, FL	33040			16
49269	Sea Shell Motel	Key West, FL	33040			10
39989	Seascape Tropical Inn	Key West, FL	33040	Oct 1984	Oct 1984	11
30096	Simonton Court Hotel	Key West, FL	33040	Jun 1978	Jun 1978	30
45551	Southern Cross Hotel	Key West, FL	33040			38
49393	Southwind Motel	Key West, FL	33040			15
47971	Spanish Gardens Motel	Key West, FL	33040	Jun 1970	Jun 1970	26
10712	Spindrift Motel	Key West, FL	33040	Jun 1955	Jun 1955	18
43265	The Gardens Hotel	Key West, FL	33040	Jun 1993	Jun 1993	17
30186	The Marquesa Hotel	Key West, FL	33040	Jun 1988	Jun 1988	27
40067	The Mermaid & The Alligator	Key West, FL	33040	Aug 1988	Aug 1988	9
35769	The Palms Hotel	Key West, FL	33040			31
39962	The Weatherstation Inn	Key West, FL	33040	Jun 1997	Jun 1997	8
57457	Tropical Inn	Key West, FL	33040	Jun 1984	Jun 1984	11
30183	Westwinds Inn	Key West, FL	33040	Jun 1988	Jun 1988	26
49381	Wicker Guesthouse	Key West, FL	33040	Jun 1984	Jun 1984	20
Total Properties:					56	1174

Below is a resume of lodging facilities, guesthouse, bed and breakfast use property listings through the Key West Association of Realtors Multiple Listing Service (MLS) for the local Key West market area. However, it should be noted that some of these listings are mixed use properties that have different income sources than the subject.

Active Listings of Hotel/Motel Guest Houses												
MLS No.	Property Name	Property Address	Key	Asking Price	Site Area Sq. Ft.	GBA SF	Price/SF	No. Of Units	Price/Unit	Description	DOM	Status
113217	Pearl's Rainbow	521-531 United St.	Key West	\$9,900,000	21,625	12,183	\$812.61	38	\$260,526	38 Unit Guesthouse in Old Town, 2 Commercial Swimming Pools, 2 Hot Tubs, Commercial Kitchen	268	Active
114043	Casa 325	325 Duval St.	Key West	\$4,995,000	12,811	11,042	\$452.36	6	\$832,500	6 Large Suite Units with total of 12 Bedrooms in Old Town, Flexible Bedroom Configuration, Heated Swimming Pool, Private Parking, Kiosk Located on Duval Street	114	Active
114087	Marroro's Guest House	410 Fleming St.	Key West	\$4,450,000	6,700	7,615	\$584.37	12	\$370,833	12 Unit Guesthouse plus Managers Unit in Old Town, Commercial Swimming Pools, Covered Porches, Leased Parking	104	Active
114161	Island City House Hotel	411 William St.	Key West	\$9,000,000	28,000	12,300	\$731.71	20	\$450,000	20 Transient Condominium Units plus 3/2 Residence in Old Town, Including Hotel Management Company	87	Active
114588	Sea Shell Motel	716-718 South St.	Key West	\$3,600,000	13,743	9,719	\$370.41	17	\$211,765	13 Motel Rooms & 4 Hostel Rooms, Total 17 Units in Casa Marina Area, Courtyard Patio Area, Off-street Parking	7	Active
				Mean	\$6,389,000		\$590.29		\$425,125		116	
				Median	\$4,995,000		\$584.37		\$370,833		104	
				Minimum	\$3,600,000		\$370.41		\$211,765		7	
				Maximum	\$9,900,000		\$812.61		\$832,500		268	

The following average daily two-way traffic data was provided by the State of Florida Department of Transportation:

AVERAGE DAILY TRAFFIC COUNTS

Average Daily Traffic Count (Both Directions)												
D.O.T.		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	
Station	Location											
5004	US-1/Truman Ave., 200' W. First St.	20,500	21,500	22,500	22,500	21,000	18,600	13,700	18,100	18,500	19,600	
5008	SR-5/US-1/Truman Ave., 200' W. White St.	25,100	17,000	14,500	14,000	14,300	14,000	14,800	16,800	15,200	16,800	
5011	SR-5/US-1/Truman Ave., 200' E. Duval St.	9,200	12,000	8,800	9,000	10,400	8,200	7,600	8,600	8,600	9,300	

Marketing Time : 12 to 24 Months based on overall project as a bulk-sale and based on a list price within 5 percent of appraised value, completion and based on stable economic conditions.

Exposure Time : Exposure time considers the amount of time necessary to effect a sale of the subject property on the valuation date. In the case at hand, it is our opinion that the exposure time would be equal to the marketing time, based on a listing price within 5.0% of our appraised value.

VIII

SITE DATA AND ANALYSISA. General Site Description:

The subject fronts 88.34 feet along the northerly side of Front Street and 245.00 feet along the westerly side of Simonton Street. A survey of the entire Pier House property, which includes the subject property parcel is included was made available. The survey was prepared by Mr. Frederick H. Hildebrandt, Professional Engineer, Planner and Surveyor, 3152 Northside Drive, Key West, Florida 33040, dated April 10, 2003 (the most recent update). The site size utilized in the analysis herein was taken from the survey provided. According to the survey provided, the site contains 21,643 square feet of site area or 0.50 acres. We included the survey of the subject property in the addendum section of this report. Any deviations from the sizes could possibly result in a change in value. If and when, an updated survey is made available for the subject property, noting changes in the measurements used in this report, the appraiser reserves the right to change the final value. Any maps or plats reproduced and included in this report are intended only for the purpose of showing spatial relationships.

Site Size & Description				
<i>Pier House Caribbean Spa Leasehold Property</i>				
Parcel	Street		Land Size	Land Size
Account No.	Frontage	Depth	Sq. Ft.	Acres
00072082-000600	88.34	245.00	21,643	0.50
Total	88.34	245.00	21,643	0.50

B. Topography:

Although a soil engineering report was not made available to us, it appears that the site and most of the properties in the immediate neighborhood show no signs of any subsurface instability. The subject site is level and slightly above street grade, with adequate drainage sloping toward the streets.

Flood Zone:

The site is located in Flood Area Zone AE, Elevations 7-9 feet as designated by the Federal Emergency Management Agency, Flood Insurance Rate Maps of Monroe County, Florida, City of Key West, Map Number 12087C 1516K, dated February 18, 2005. Monroe County participates in a National Flood Insurance Program and is covered by a regular program.

The subject structures are located within a special Flood Hazard Area. An elevation certificate was not available. However, the survey indicated a finished floor elevation 4.76 feet, which is below the 7-foot flood zone elevation.

Therefore, if the improvements are destroyed by fire or natural disaster, they would require variances or special exception for reconstruction. However, in the event that they are built below the flood zone criteria, and the improvements are destroyed beyond 49.9 percent of the improvement value, the subject would also be required to meet the present flood elevation criteria and regulations in effect. There are specific construction guidelines (flood proofing), which allow commercial construction at grade as permitted by FEMA.

C. Utilities:

The subject parcel is serviced by public water and electric utilities, with the private sector providing cable TV and LP bottled gas. The subject property is connected to the City sewer system. The solid waste is serviced by Waste Management that contracts with the City of Key West.

D. Zoning:

According to the City of Key West Zoning Department, the zoning district for the subject property is HRCC-1, Historic Residential Commercial Core District - 1. The HRCC designation is designed to accommodate the historic Old Town residential commercial core mixed-use center. The HRCC designation is intended to provide a management framework for preserving the nature, character and historic quality of the Old Town commercial core, including related residential development. The HRCC-1 District is the Duval Street, Gulfside Corridor, from Petronia Street north to the Gulf of Mexico. Permitted uses include single and multi-family uses, professional offices, service shops, specialty shops, retail uses and transient and non-transient units with a permitted density of 22 units per acre. Therefore, based on the subject site of 0.50 acres, the subject's maximum density is 11 units. (22 dwelling units per acre x 0.50 acres).

The subject property is a legal, non-conforming use, which has been grandfathered with respect to density and set backs. Grandfathered uses must conform to legal, permissible uses per zoning regulations with loss of grandfathered status; therefore, the subject's grandfathered use should be preserved. The reader is referred to the Highest and Best Use Section for further details on current zoning regulations.

E. Access:

The subject property can be accessed via Front Street, a two-way asphalt paved street which runs westerly and easterly and intersects Duval Street, (just one block westerly) the main street of Key West, a two-way asphalt paved street extending northerly and southerly from the Atlantic Ocean to the Gulf of Mexico. The subject property can also be accessed via Simonton Street, a

commercial/residential thoroughfare that runs parallel with Duval Street. Hence, the property enjoys a prime location in the heart of the tourist district with the highest pedestrian traffic within the City. The subject is one block easterly from Duval Street, the main shopping/entertainment district in Old Town area of Key West and about one block west of the Historical Seaport, Key West Bight.

The subject property has good highway access to and from North Roosevelt Boulevard, U. S. Highway No. 1, via Truman Avenue, approximately one and one-half miles, which connects with Simonton Street. U. S. Highway No. 1 is the main and only route into and out of the Florida Keys and Key West.

F. Easements/Encroachments:

A survey of the subject property was provided, as mentioned earlier. There appear to be no adverse easements. Though, in the original lease and legal description there was a 15-foot easement for street access and public parking along the easterly boundary line. This easement was removed in an Amended Resolution (69-45) in July 1969. Furthermore, there is a 4 foot 4 inch encroachment of the balcony extending over the sidewalk along Simonton Street, per the survey. In addition a portion of the covered lobby entry encroaches over the westerly boundary line. This is typical in the "Old Town" neighborhood, especially in the downtown market area. Minor encroachments are typical in the "Old Town" section of the City and do not appear to adversely affect the marketability or values of properties. No responsibility is taken by this office for the accuracy or in regard to any questions on the nature of any encroachments or easements. We reserve the right to change the final indicated value herein if and when any discrepancies are found in regard to easements and/or encroachments.

G. Real Estate Taxes and Assessment:

Monroe County Property Appraiser's records indicate two property cards for this property. One is based on the land only and the other is based on the leasehold interest. The following tax assessments of the subject property for the past five years. Between 2006 and 2007, the millage rate decreased. However, the millage rates increased by 6.7%, 12.9% and 16.8% in 2008, 2009 and 2010, respectively. According to Monroe County Property Appraiser's office, it is possible that the millage rates will further increase in 2011 as the budget is in a deficit mainly due to declining residential and commercial real property tax assessments, though it appears to be starting to rebound.

Real Estate Property Taxes						
Caribbean Spa						
<u>Land Leasehold Interest</u>						
Parcel No. 00072082-000600 - Alternate Key 8757727						
Year	Land	Building Improvement	Misc. Imprv.	Assessment	Tax Burden	Tax Millage
2006	\$3,137,800	\$0	\$0	\$2,596,800	\$22,564.89	8.6895
2007	\$3,202,720	\$0	\$0	\$3,202,720	\$25,424.47	7.9384
2008	\$3,202,720	\$0	\$0	\$3,202,720	\$27,121.59	8.4683
2009	\$2,882,448	\$0	\$0	\$2,882,448	\$27,546.69	9.5567
2010	\$1,347,869	\$0	\$0	\$1,347,869	\$15,048.69	11.1648

Real Estate Property Taxes						
Caribbean Spa						
<u>Building Leasehold Interest</u>						
Parcel No. 00072082-000601 - Alternate Key 9038503						
Year	Land	Building Improvement	Misc. Imprv.	Assessment	Tax Burden	Tax Millage
2006	\$1	\$2,985,785	\$27,038	\$2,100,000	\$18,247.95	8.6895
2007	\$1	\$2,985,785	\$25,796	\$3,130,131	\$24,848.23	7.9384
2008	\$1	\$3,407,244	\$26,421	\$3,130,131	\$26,506.89	8.4683
2009	\$1	\$3,407,244	\$26,154	\$3,172,174	\$30,315.52	9.5567
2010	\$1	\$3,407,244	\$25,897	\$3,316,486	\$37,027.68	11.1648

Based on the 2010 millage rate of \$11.1648 per \$1,000 of the subject's total 2010 assessed value for the subject property is \$4,664,355 or \$192.84 per square foot of gross building area and \$215.51 per square foot of site area. The total tax burden for 2010 is \$52,076.37 (a 10.0% decline from 2009) and the 2010 total tax assessment indicated a decline of 26.3% from 2009.

Real Estate Tax Analysis:

An analysis of comparables sales indicate a tax burden per square foot of building area (including the underlying land) from \$0.59 to \$6.08 per square foot, with a mean at \$3.71 and a median at \$4.20. Based upon the comparable tax burdens, the subject's tax burden at \$2.15 is below the mean and median indicated by the comparable sales. Likewise, the total 2010 tax assessment for the subject property is 74% of our opinion of the "As Is" Market Value of the Fee Simple Interest herein. The assessment is below the market value, therefore, a tax appeal may not be feasible. A copy of the Monroe County Tax Collector's 2010 Tax Information sheets follow.

Property Tax Information Sheet: 00072082-000600 (Land Only)

DANISE D. HENRIQUEZ, C.F.C. MONROE COUNTY TAX COLLECTOR		2010 Paid Real Estate NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS			
ALTERNATE KEY NUMBER	ESCROW CD				MILLAGE CODE
8757727					10KW
CITY OF KEY WEST PO BOX 1409 KEY WEST, FL 33041-1409		00072082000600316725 529 FRONT ST (PIER HOUSE JOINT VENTURE LEASE)			
Paid 11/23/2010 \$14,446.74 Receipt # 124-10-00000625					
AD VALOREM TAXES					
TAXING AUTHORITY	MILLAGE RATE	ASSESSED VALUE	EXEMPTION AMOUNT	TAXABLE VALUE	TAXES LEVIED
SCHOOL STATE LAW	1.9440	1,347,869	0	1,347,869	2,620.26
SCHOOL LOCAL BOARD	1.8795	1,347,869	0	1,347,869	2,533.32
GENERAL REVENUE FUND	1.0971	1,347,869	0	1,347,869	1,478.75
F&F LAW ENFORCE JAIL JUDICIAL	2.2060	1,347,869	0	1,347,869	2,973.40
HEALTH CLINIC	0.0414	1,347,869	0	1,347,869	55.80
FLORIDA KEYS MOSQUITO CONTROL	0.4596	1,347,869	0	1,347,869	619.48
CITY OF KEY WEST	2.9132	1,347,869	0	1,347,869	3,926.61
SO FL WATER MANAGEMENT DIST	0.2549	1,347,869	0	1,347,869	343.57
OKEECHOBEE BASIN	0.2797	1,347,869	0	1,347,869	377.00
EVERGLADES CONSTRUCTION PRJT	0.0894	1,347,869	0	1,347,869	120.50
TOTAL MILLAGE		11.1648	AD VALOREM TAXES		\$15,048.69
NON-AD VALOREM ASSESSMENTS					
LEVYING AUTHORITY		RATE		AMOUNT	
NON-AD VALOREM ASSESSMENTS					\$0.00
COMBINED TAXES AND ASSESSMENTS		\$15,048.69		See reverse side for important information.	
If Postmarked By Please Pay	Nov 30, 2010 \$0.00	Dec 31, 2010 \$0.00	Jan 31, 2011 \$0.00	Feb 28, 2011 \$0.00	Mar 31, 2011 \$0.00
					IF PAID BY ...
DANISE D. HENRIQUEZ, C.F.C. MONROE COUNTY TAX COLLECTOR		2010 Paid Real Estate NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS			
ALTERNATE KEY NUMBER	ESCROW CD				MILLAGE CODE
8757727					10KW
CITY OF KEY WEST PO BOX 1409 KEY WEST, FL 33041-1409		00072082000600316725 529 FRONT ST (PIER HOUSE JOINT VENTURE LEASE)			
Paid 11/23/2010 \$14,446.74 Receipt # 124-10-00000625					
CHECKS ON U.S. BANKS ONLY TO DANISE D. HENRIQUEZ, C.F.C TAX COLLECTOR P.O. BOX 1129, KEY WEST, FL 33041-1129					
If Postmarked By Please Pay	Nov 30, 2010 \$0.00	Dec 31, 2010 \$0.00	Jan 31, 2011 \$0.00	Feb 28, 2011 \$0.00	Mar 31, 2011 \$0.00

RETAIN THIS PORTION FOR YOUR RECORDS. WALK-IN CUSTOMERS PLEASE BRING FOR RECEIPT.

RETURN WITH PAYMENT

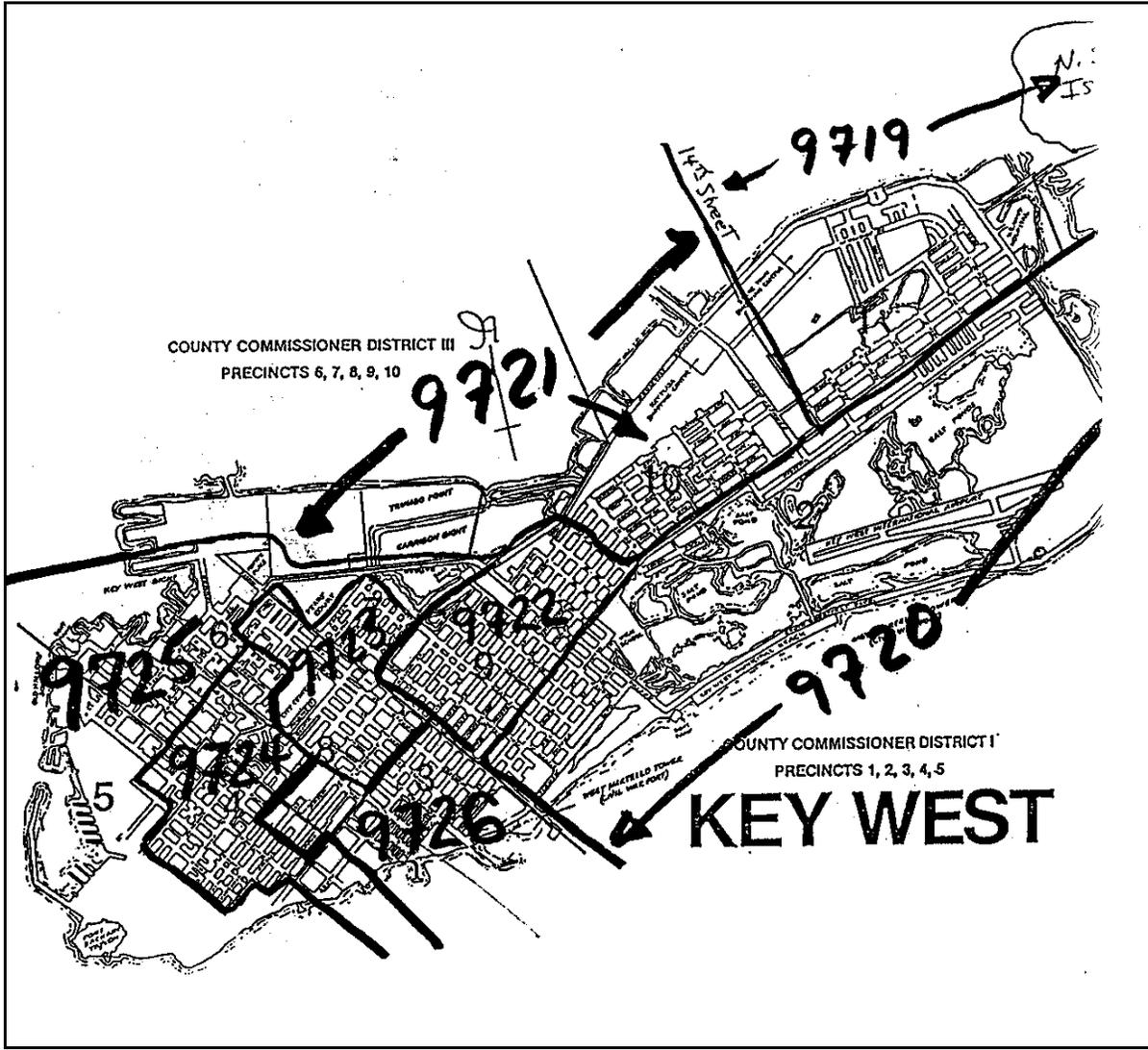
Property Tax Information Sheet: 00072082-000601 (Leasehold Interest)

DANISE D. HENRIQUEZ, C.F.C. MONROE COUNTY TAX COLLECTOR		2010 Paid Real Estate NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS			
ALTERNATE KEY NUMBER	ESCROW CD				MILLAGE CODE
9038503					10KW
PIER HOUSE JOINT VENTURE 25425 CENTER RIDGE RD CLEVELAND, OH 44145		00072082000601316725 529 FRONT ST PIER HOUSE JOINT VENTURE LEASE			
Paid 11/23/2010 Receipt # 124-10-00000625 \$35,546.57					
AD VALOREM TAXES					
TAXING AUTHORITY	MILLAGE RATE	ASSESSED VALUE	EXEMPTION AMOUNT	TAXABLE VALUE	TAXES LEVIED
SCHOOL STATE LAW	1.9440	3,316,466	0	3,316,466	6,447.21
SCHOOL LOCAL BOARD	1.8795	3,316,466	0	3,316,466	6,233.30
GENERAL REVENUE FUND	1.0971	3,316,466	0	3,316,466	3,638.49
F&F LAW ENFORCE JAIL JUDICIAL	2.2060	3,316,466	0	3,316,466	7,316.12
HEALTH CLINIC	0.0414	3,316,466	0	3,316,466	137.30
FLORIDA KEYS MOSQUITO CONTROL	0.4596	3,316,466	0	3,316,466	1,524.25
CITY OF KEY WEST	2.9132	3,316,466	0	3,316,466	9,661.53
SO FL WATER MANAGEMENT DIST	0.2549	3,316,466	0	3,316,466	845.37
OKEECHOBEE BASIN	0.2797	3,316,466	0	3,316,466	927.62
EVERGLADES CONSTRUCTION PRJT	0.0894	3,316,466	0	3,316,466	296.49
TOTAL MILLAGE		11.1648		AD VALOREM TAXES	\$37,027.68
NON-AD VALOREM ASSESSMENTS					
LEVYING AUTHORITY	RATE	AMOUNT			
NON-AD VALOREM ASSESSMENTS					\$0.00
COMBINED TAXES AND ASSESSMENTS		\$37,027.68		See reverse side for important information.	
If Postmarked By Please Pay	Nov 30, 2010 \$0.00	Dec 31, 2010 \$0.00	Jan 31, 2011 \$0.00	Feb 28, 2011 \$0.00	Mar 31, 2011 \$0.00
					IF PAID BY ...
DANISE D. HENRIQUEZ, C.F.C. MONROE COUNTY TAX COLLECTOR		2010 Paid Real Estate NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS			
ALTERNATE KEY NUMBER	ESCROW CD				MILLAGE CODE
9038503					10KW
PIER HOUSE JOINT VENTURE 25425 CENTER RIDGE RD CLEVELAND, OH 44145		00072082000601316725 529 FRONT ST PIER HOUSE JOINT VENTURE LEASE			
Paid 11/23/2010 Receipt # 124-10-00000625 \$35,546.57					
NON-AD VALOREM ASSESSMENTS					
LEVYING AUTHORITY	RATE	AMOUNT			
NON-AD VALOREM ASSESSMENTS					\$0.00
COMBINED TAXES AND ASSESSMENTS		\$37,027.68		See reverse side for important information.	
If Postmarked By Please Pay	Nov 30, 2010 \$0.00	Dec 31, 2010 \$0.00	Jan 31, 2011 \$0.00	Feb 28, 2011 \$0.00	Mar 31, 2011 \$0.00

RETAIN THIS PORTION FOR YOUR RECORDS. WALK-IN CUSTOMERS PLEASE BRING FOR RECEIPT.

RETURN WITH PAYMENT

- H. Census Tract:
According to Mr. Jim Anderson of the Tallahassee, Florida Division of the United States Census Bureau, Monroe County is not divided into Census Tracts; but rather "Block Numbering Areas." According to 1990 Census Maps, the subject property is located within Block Number 9725.⁴



IX

IMPROVEMENTS ANALYSIS

The building improvements were originally built by Key West Hand Print Fabrics, as their headquarters and factory. Subsequent to the assignment of lease, the Pier House Joint Venture totally renovated the building to create twenty-two guest rooms, a day spa and exercise center, plus divisible conference rooms. The property was combined with the adjacent Pier House Resort which is an exclusive waterfront destination resort hotel and spa.

The subject is improved with a two-story CBS/masonry structures encompassing a total gross building area of 24,188 square feet, plus open porches and balconies, based on the detailed drawings provided by the Pier House Joint Venture. These detailed plans and specification were prepared by Ai-Group, 3425 Peachtree Road, NE, Suite 1600, Atlanta, GA 30326, dated March 31, 2008. The appraisers utilized these measurements and verified by the survey previously mentioned. The structure was totally renovated to convert the building from a fabric printing factory (light manufacturing) to an extension of the Pier House Resort and Spa in approximately 1989, according to the Monroe County Property Appraisers Records Office. According to the architects plans, specifications and building permits issued by the City of Key West, the subject building was most recently renovated in August 2008. At the time of our site visit, the subject property was in very good to excellent condition.

The subject property is currently being utilized and licensed by the City of Key West, as twenty-two transient units, a fitness center, health spa and conference center. This facility is an annex of the Pier House overall operations that provides ancillary income and offer the guest a complete full service facility. The structure size and description are as follows:

Subject Property Improvement Description									
Caribbean Spa									
529 Front Street, Key West, FL 33040									
Floor Level	No. Units	Type Construction	Year Built	Description	First G.B.A. Sq. Ft.	Open Porch Sq. Ft.	Unfin. Porch Sq. Ft.	Utility/ Storage Sq. Ft.	Patio Area Sq. Ft.
First	7	CBS/masonry	Appox. 1968, Last Renovated 2008	Rooms, Spa, Fitness Center, Conference Rooms	12,985	1,673	525	650	835
Second	15	CBS/masonry	Appox. 1968, Last Renovated 2008	Rooms / Suites	11,203	1,903	596		
Total	22				24,188	3,576	1,121	650	835

The guest rooms ranged in size from 298 to 370 square feet and the suite units were approximately 622 square feet. The appraisers estimated that the spa and common area contained about 4,508 square feet,

excluding the conference rooms. The following description of the property and improvements was based upon a site visit and walk-through of the property, and Monroe County Tax Appraiser's records. A construction summary of the building improvements follows:

Element	Description
Basic Structure:	Two-Story CBS/masonry Buildings with Reinforced Bond Beams and Pilasters
Use:	22-Unit Hotel with Health Spa & Conference Center Facility
Year Built:	Appx. 1968; Converted to Hotel 1989; Renovated 2008
Foundation:	Concrete Reinforced Footer with Pilasters
Floor Structure:	First Floor-Slab on Grade; Second Floor Elevated Reinforced Slab
Exterior Walls:	Painted Stucco Concrete Block Walls with Pilasters and Bond Beams with Wood Trim Around Windows and Balcony Columns
Exterior Windows:	Minimal Fenestration for security purposes.
Exterior Doors:	Wood with Glass Lite French Doors on all the Guest Rooms, Wood Framed Glass Double Doors at Main Entrances and Conference Center
Roof Structure & Cover:	Flat Roofs with Decorative Parapet Wall, Covered with Modified Rubber with Insulation
Interior Floor Finish:	Ceramic Tile and Commercial Carpeting Floor Covering
Interior Walls:	Painted Drywall with Wood Chair Railing, Base Board and Crown Moulding
Interior Ceilings:	Painted Drywall Ceilings
Electric Service:	Adequate for Present Use; Currently Main Service Connected to Pier House Resort, An Independent Separate Service Needs to be Installed.
Plumbing:	22 Guest Rooms with Upgrade Plumbing Fixtures, 1 Room is ADA Compliant; 2 - 5 Fixture Restrooms in Spa including Shower and Sauna, 2 - 6 Fixture Restroom in Conference Center
Amenities:	1,673 Sq. Ft. Open Porches 1,903 Sq. Ft. Decorative Wood Balconies 835 Sq. Ft. Tiled Patio Decking 1,121 Sq. Ft. Concrete Patio Decking 95 Sq. Ft. Spa Pool with Waterfall 1,388 Sq. Ft. CBS/Masonry Wall Signage Landscaping

Fixtures & Equipment: The Values herein includes typical hotel personal property or furniture, fixtures and equipment in our evaluation. However, it does not include any personal property utilized by the health club, spa or conference center.

Construction Quality: Very Good

Improvement Condition: Very Good to Excellent

Building Ages:

Subject Property Effective Age & Economic Life Summary					
Caribbean Spa					
529 Front Street, Key West, FL 33040					
Building Description	Year Built	Effective Age	Effective Age	Economic Life	Remaining Economic Life
Resort Hotel	1969	42	10	50	40

Environmental Issues: An environmental screening or audit of the subject property was not made available to the appraiser. Upon inspection of the property, no visible signs of environmentally hazardous materials were noted. The appraisers are not aware of any environmental hazards on the property. The appraisers are not experts in the field of environmental hazards. An expert in the field is recommended if desired, as no environmental tests were made by the appraisers.

ADA Compliance: The Americans with Disabilities Act ("ADA") became effective January 26, 1992. The appraisers have not made a specific survey or analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. The appraisers recommend that a Contractor or Engineer be hired to determine compliance or noncompliance, if so desired. The appraisers are not contractors and are not qualified to make a determination if the building adheres to the requirements. The property, together with a detailed analysis of the requirements of the ADA, could reveal that the property may or may not be in compliance with one or more of the requirements of the Act. If so, this fact could have an effect upon the value of the property. The subject property does have an ADA restroom in the booth property per the Monroe County Property Appraiser's Records.

Lot Coverage Ratio: The subject's lot coverage ratio is calculated by dividing the first floor building footprint, including any porches or covered areas by the land size. Therefore, the subject's lot coverage ratio is:

$$77.0\% \text{ (} 16,668 \text{ SF/ } 21,643 \text{ SF)}$$

A Lot Coverage Ratio of 50.0% is permitted. Therefore, the subject appears to exceed this criteria.

Floor Area Ratio: The subject's floor area ratio (FAR) is calculated by dividing the total gross building area by the land size. The subject property's floor area ratio is:

$$1.118:1.0 \text{ (} 24,188 \text{ SF/ } 21,643 \text{ SF)}$$

A Floor Area Ratio (gross floor area to lot area) of up to 1.0:1 is permitted in the subject's zoning district; therefore, the subject property appears to exceed the permissible ratios.

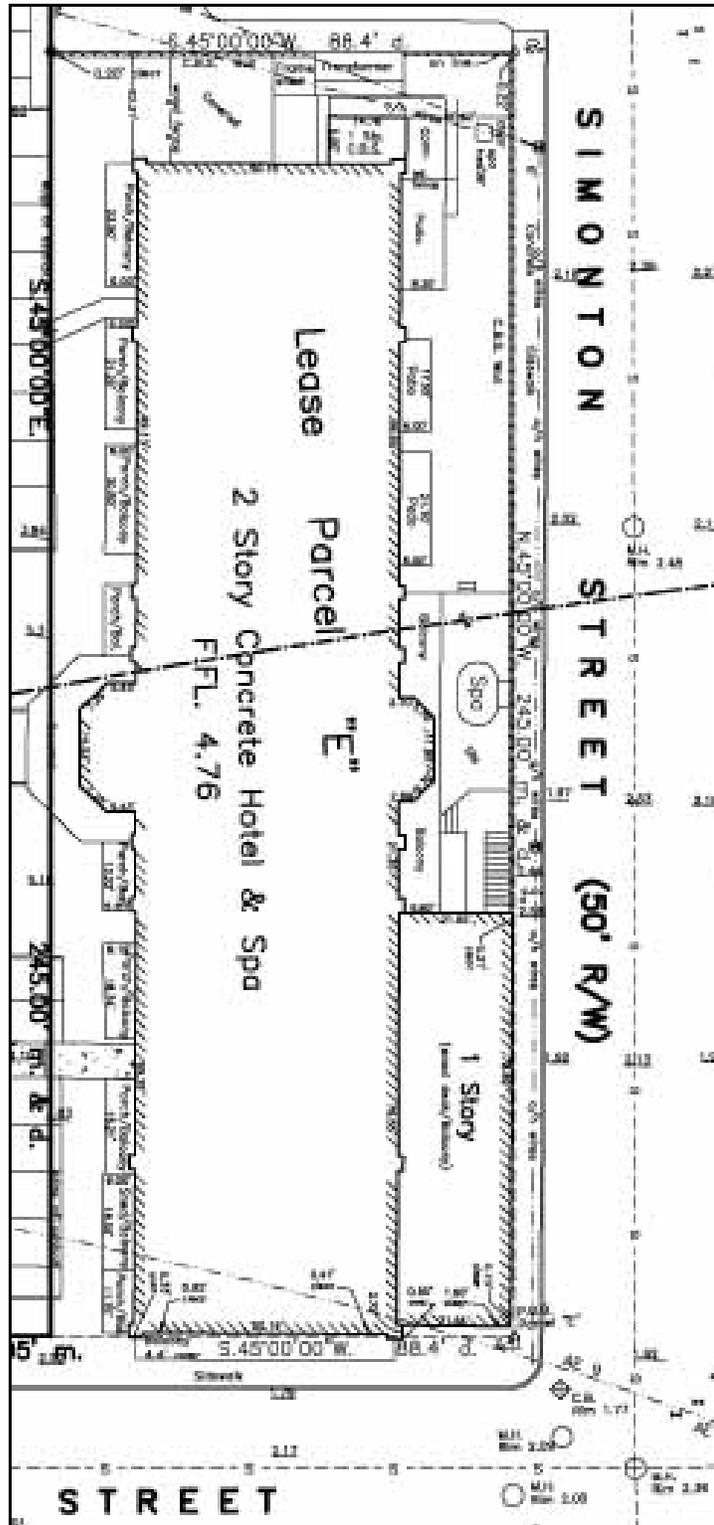
Photographs of the subject buildings, location maps, aerial map, plat map, building floor plans, zoning map and flood zone map are included in the Addenda section of this report. The following site plan and survey of the subject building are on the following pages.

SITE PLAN OF OVERALL PIER HOUSE RESORT



Subject

SURVEY - SUBJECT BUILDINGS



X

STATEMENT OF HIGHEST AND BEST USE

According to the definition as stated in The Appraisal of Real Estate, 12th Edition 2001, by the Appraisal Institute, Highest and Best Use is defined as:

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, legally permissible, financially feasible, and that results in the highest value.

Alternatively, that use, from among reasonably probable and legal alternative uses, found to be physically possible, appropriately supported, financially feasible, and which results in highest land value.

The definition immediately above applies specifically to the Highest and Best Use of the land. It is to be recognized that in cases where a site has existing improvements on it, the Highest and Best Use may very well be determined to be different from the existing use. The existing use will continue, however, unless and until land value in its Highest and Best Use exceeds the total value of the property in its existing use."

Four stages are included in the analysis of Highest and Best Use:

Possible Use: determines the physically possible uses for the subject site.

Permissible Use: determines which uses are legally permitted for the subject site.

Feasible Use: determines which possible and permissible uses will produce a net return to the subject site.

Most Profitable Use: determines which use, among the feasible uses, is the most profitable use of the subject site.

The Highest and Best Use of the land as if vacant and available for use may be different from the Highest and Best Use of the improved property. This is true when the improvements do not constitute an appropriate use. The existing use will continue unless and until land value in its Highest and Best Use exceeds the sum value of the entire property in its existing use and the cost to remove the improvements.

Since the appraisal of the subject property is based on a particular premise of use, the Highest and Best Use analysis determines just what this premise of use should be. A Highest and Best Use analysis consists of considering the Highest and Best Use of a property under two assumptions: (1) with a vacant and available

site and (2) with the property as improved. These two assumptions on Highest and Best Use are correlated into one final estimate of Highest and Best Use.

AS VACANT AND AVAILABLE

The first major aspect of the Highest and Best Use analysis is considering the property as if it were vacant and available for development. This assumption is made to determine whether the land alone is worth more than the existing property as is, to determine whether the site is presently under utilized.

Possible Use - The physical aspects of the land impose the first constraints on any possible use of the property. The subject property consists of an irregular-shaped site, with street frontage along the easterly side of Simonton Street, and the northerly side of Greene Street. The subject site contains 21,643 square feet or 0.50 acres, conforming to minimum lot size requirements. Based on the above physical facts, various land uses are possible. The physical aspects of the land impose the first constraints on any possible use of the property.

Permissible Use - The subject property is located within the HRCC-1, Historical Residential Commercial Core District. The HRCC-1 Duval Street Gulfside district incorporates the city's intensely vibrant tourist commercial entertainment center which is characterized by specialty shops, sidewalk-oriented restaurants, lounges and bars with inviting live entertainment; and transient residential accommodations. The core of the commercial entertainment center spans generally from the Pier House south to Petronia Street, generally extending from about one-half block easterly and westerly from Duval Street, as specifically referenced on the official zoning map. This segment of Duval Street is the most intense activity center in the historic commercial core. Uses permitted in the HRCC-1 Duval Street Gulfside district are as follows:

- (1) Single-family and two-family residential dwellings.
- (2) Multiple-family residential dwellings.
- (3) Group homes with less than or equal to six residents as provided in section 122-1246.
- (4) Places of worship.
- (5) Business and professional offices.
- (6) Commercial retail low and medium intensity less than or equal to 5,000 square feet as provided in division 11 of article V of this chapter.
- (7) Commercial retail high intensity less than or equal to 2,500 square feet as provided in division 11 of article V of this chapter.
- (8) Hotels, motels, and transient lodging.
- (9) Medical services.
- (10) Parking lots and facilities.
- (11) Restaurants, excluding drive-through.
- (12) Veterinary medical services without outside kennels.
- (13) Adult entertainment establishments (see section 122-1533).

(Ord. No. 97-10, § 1(2-5.5.3(1)(B)), 7-3-1997; Ord. No. 04-14, § 1, 7-7-2004)

The following dimensional regulations are indicated for the subject's zoning district:

Minimum Lot Width:	40 Feet
Minimum Lot Depth:	100 Feet
Maximum Density:	22 Dwelling units per Acre
Setbacks:	a. Front: minimum of None, and Street Minimum None b. Rear: 10 feet c. Side: 2.5 feet
Maximum Lot Coverage:	50%
Floor Area Ratio:	1.0
Maximum Height:	35 feet plus 5 feet if roof is pitched (Subject to Approval)

The appraiser has referenced some building criteria above. For further details, the reader is referred to the City of Key West Building Department.

The subject property is a permitted use within the HRCC-1 zoning district and is licensed as a 22 transient unit project.

Feasible Use - Vacant land in this zoning district is in great demand with appreciating values, as this section of the city is approximately 98% built-up. The general uses in the subject's area consist of commercial and residential uses with many mixed-use structures including: retail shops, professional offices, guesthouses, boutiques, tourist-oriented businesses with apartments and/or residential units at the second level. In the case at hand, the subject property is currently developed with 22 transient units, (44 dwelling units per acre) which is considered an entitlement to the land. Nevertheless, as of right, the subject could only be developed with 11 transient units and furthermore, there is an indefinite moratorium on transient units. It is the appraisers' opinion that if the development of the site with the maximum number of transient units plus other commercial complimentary or ancillary uses would be feasible and provide a positive net return for the land under the HRCC-1 zoning regulations, subject to acquiring the transient licenses.

Most Maximally Productivity Profitable Use - In the final analysis, a determination must be made as to which feasible use is the Highest and Best Use of the parcel as if vacant. The Highest and Best Use is that feasible use which produces the highest (greatest) return to the land. Based on the current zoning, coupled with the limited number of similar sites in the subject's area, our opinion is that the Highest and Best Use of the site, if vacant, would be for development with the maximum number of transient units allowable, based on existing entitlements, in combination with other commercial complimentary uses.

AS IMPROVED

The site is improved with a two-story structure with a total gross building area of 21,188 square feet. The structures are utilized as a 22-unit transient hotel facility, plus a fitness center, health spa, and conference center. The property is licensed with the City of Key West as 22 transient guest units and has been valued as such. The existing improvements make a substantial contribution to the total property in excess of the value of the site. Therefore, no alternative legal use would economically justify removal of the existing improvements. The current use of the subject parcel as a luxury hotel facility represents the Highest and Best Use of the site, as of the date of this report. The subject property is a legal, non-conforming use, which has been grandfathered with respect to density and setback regulations. Grandfathered uses must conform to legal, permissible uses per zoning regulations with loss of grandfathered status, if discontinued for a period of two years or more; therefore, the subject's grandfathered use should be preserved.

There is presently also a "build back" issue, with respect to a total disaster. It is unknown what the outcome will be; however, it is evident that current densities and intensities are generally in excess of presently permitted zoning regulations. With little or no land available for development, it appears that economically, 100% build back will be supported by the majority.

CONCLUSION OF HIGHEST AND BEST USE

Based on the preceding analysis of the subject site as if it were vacant and available for development and as improved, it is our opinion that the Highest and Best Use for the subject site would be for redevelopment with the maximum number of transient units allowable, based on existing entitlements, plus any other commercial complimentary uses. In other word, the property is current being utilized at its Highest and Best Use.