A SELF-CONTAINED APPRAISAL REPORT
OF THE

CARIBBEAN SPA BUILDING
LOCATED AT
529 FRONT STREET IN
KEY WEST, FLORIDA 33040

Appraisal No. 11-105

FOR

City of Key West
c/o Mr. Mark Finigan
525 Angela Street
Key West, FL 33040

BY

Lighthouse Realty Services, Inc.
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Palm Beach Gardens, Florida 33410

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May 26, 2011

City of Key West
c/o Mr. Mark Finigan
Assistant City Manager
525 Angela Street
Key West, FL 33040

Re: Caribbean Spa Building, a 22 room, hotel and spa located at 529 Front Street, Key West, Florida 33040

Dear Mr. Finigan:

As requested, I have prepared the attached self contained appraisal report of the above referenced property. The purpose of the report was to estimate:

1) the Market Value of the subject property as a stand alone property based on the total assets of the business (i.e. tangible and intangible assets) or going concern as a hotel as a Fee Simple Estate, as of April 25, 2011.

2) the Market Value of the subject property, as a Leased Fee Estate, as of April 25, 2011.

3) the Market Value of the Leasehold Interest as of April 25, 2011.

Market Value may be defined as the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

The subject property is located at 529 Front Street within the City of Key West, Monroe County, Florida. The subject consists of a two-story, 22 room hotel known as the Caribbean Spa Building. It is currently leased to the Pier House Resort and Caribbean Spa and is being operated in conjunction with the entire hotel and resort. The Pier House Resort is an upper end full service hotel that contains a total of 142 rooms including the subject rooms located at One Duval Street. The subject building was completed/renovated in 1989 and was in an good condition as of the date of appraisal. The property was upgraded and the FF & E (Furniture, Fixture & Equipment) was replaced in 2008. The building which includes interior corridors, contains 24,188 gross square feet. The 22 rooms (transient units) offered either king or queen beds with 20 rooms considered standard and each contain from approximately 300 to 370 ± square feet. There are two deluxe suites in the building that contain 620 square feet. The remainder of the subject contains a day spa area with small fitness gym, meeting/conference rooms, out side hot tub and sundeck.

The subject parcel contains 0.497 acres or 21,640 square feet and is zoned HRCC-1, Duval Street Gulfside District, by the City of Key West, Florida. A property survey was provided and all site and building measurements were obtained from a survey from Ai Group, last dated March 31, 2008 and confirmed by the appraiser at the time of inspection. The subject is under a long term ground lease from the City of Key West to the Pier House Joint Venture. The lease was assumed in August 1987 and expires on May 31, 2020. The annual lease payment is only $3,600 per year.

A hotel is a unique real estate investment that derives value from its Furniture, Fixtures and Equipment (FF&E) and being a retail type business requiring specialized management. In the case of the subject property the FF&E will include room furnishings, hotel equipment, spa equipment, lobby furnishings, and items of decor.

In order to properly value this property all of the above items must be included. Separate values for business and real property, (land, building and Furniture, Fixtures and Equipment (FF&E) can be allocated, but they must be considered together to accurately estimate the market value of the going concern of a property, operated as a hotel. In most cases it may be difficult to separate the market value of the land and the building from the total value of the business, but such a division of realty and non-realty components of value is often required by federal regulations. Under USPAP standard 1-4 (g) states that an appraiser has to attempt to separate the characteristics of a going concern, i.e. real property and intangible assets. As per USPAP the FF&E will be allocated.

The market value indication is premised upon a Hypothetical assumption. According to USPAP 2010-2011 Edition, published by the Appraisal Foundation, an hypothetical assumption is "that which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in the analysis."

The subject property is currently under a long term ground lease to the Pier House and the lease will expire on May 31, 2020, which is approximately nine years from now. This lease is below market and there is a leasehold position. The appraiser requested operational data from the Pier House Resort & Caribbean Spa in order to value the property under several scenarios for the fee simple client, which is the City of Key West. The hotel operator provided the appraiser with only the three year averages of the Caribbean Spa Building (subject property) ADR, (Average Daily Rate), Occupancy and RevPAR. The appraiser requested operating data for the entire hotel operation as well as separate allocations for revenue and expenses from the spa and meetings rooms. This information was not provided to the appraiser. The appraiser was requested to also value the property based as a going concern as a hotel with the benefit of the Pier House Resort and Caribbean Spa as a whole in the fee simple estate. However, this approach was not valued since I was unable to obtain the information. I have appraised the property in fee simple assuming the subject is a stand alone property of 22 units(transient) and is not affiliated with the Pier House. In order to value the property under this hypothetical assumption, I have allocated capital needed for start up cost as a stand alone hotel. Further, the meeting rooms will be leased to a third party for use as a restaurant or retail use as meeting rooms would not be needed for a small hotel.

Since historic operational information on the Pier House as a whole was not provided, it was determined that a value of the subject property with the benefit of the Pier House Resort and Caribbean Spa would be difficult and would not reflect a true indication of value. Therefore, the appraiser has not valued the subject under this scenario, which was the Market Value in fee with the benefit of the property as a whole. For the fee value, the appraiser's projections, of revenue and expenses, will be based on a combination of the income of the subject provided as a whole, along with current market data from nearby competitive hotels. The appraiser was able to extract market data from discussions with local hotel managers, Star Reports, and office files.

This is a Self-Contained Appraisal Report which is intended to comply with reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice. The three traditional approaches to value include the Cost Approach, Sales Comparison and Income Capitalization Approach to Value. The appraiser believes that the most appropriate method of valuation is the Income Capitalization Approach. The current zoning code and current market conditions preclude the subject property from being developed, as if vacant, with a hotel at its current density. This combined with the age of the improvements limits the reliability of the Cost Approach. As such, a Cost Approach will not be utilized. However, an indication of replacement cost new or insurable value will be provided.

Although the tourism industry has been improving investment activity for hotels have been limited. Market participants blame both a poor economy along with lender reluctance and stricter credit requirements for the lack of sales.

The Sales Comparison Approach was used but not considered to be the primary indicator of market value for the subject property. However, it will be included as additional support for the Income Capitalization Approach.

This appraisal report is in compliance with the minimum standards of the 2010-2011 Uniform Standards of Professional Appraisal Practice (USPAP), Title XI of FIRREA. A copy of the engagement letter is included in the addenda. The value opinion reported is qualified by certain definitions, limiting conditions and certifications are within this report. The appraisal report does include hypothetical assumptions.

The appraisers have previously provided consultation and value estimates for properties similar to the subject property throughout the South Florida and Monroe County Florida. As such, the appraiser is in compliance with the competency provision contained within USPAP. A copy of the appraiser qualifications is included in the addenda. I have not appraised this property over the previous three years.

By virtue of our investigation and analyses, it is the opinion of the appraiser that, the Market Value of the subject property as a stand alone property based on the total assets of the business (i.e. tangible and intangible assets) or going concern as a hotel, as a fee simple estate, as of April 25, 2011**,** is:

SEVEN MILLION DOLLARS
($7,000,000)

By virtue of our investigation and analyses, it is the opinion of the appraiser that, the Market Value of the subject property, as a leased fee estate, as of April 25, 2011, is:

FOUR MILLION SEVEN THOUSAND DOLLARS
($4,700,000)

Further, it is the opinion of the appraiser that, the Market Value of the subject property as a leasehold interest, as of April 25, 2011, is:

THREE MILLION FIVE HUNDRED FIFTY THOUSAND DOLLARS
($3,550,000)

Respectfully Submitted,

Blair c Lee

Blair C. Lee, MAI
State-Certified General
Real Estate Appraiser, No. RZ 2125

EXECUTIVE SUMMARY

Property Type:	Caribbean Spa Building.
Report Type:	Self-Contained
Intended Use:	To aid the client in internal decision making with respect to the possible sale of the property.
Intended User:	City of Key West.

Property Information:

Location	529 Front Street, Key West, Florida 33040
Parcel No	0007082-0006000 - Fee Simple
	0007082-000601 - Leasehold
Site Size:	21,640 square feet or .0497 acres
Property Type:	Part of Full Service, upper end Hotel
Building Size SF (Gross):	24,188
Hotel Rooms & Common Areas Size SF	16,791
Spa/Meeting Rooms Size SF	7,397
FAR:	1.12
Construction Type:	CBS with interior corridors
Year Built:	1989, renovated
Condition:	Good
No. Stories:	Two
Parking Spaces:	0 As a stand alone
No. Guest Rooms (Transient):	22
Room Size SF:	300 to 370 SF +/-Standard & 620 SF for Suite

The subject hotel is a two story, interior corridor, structure that has been renovated. As of the date of appraisal, 22 rooms have been renovated with new furnishing, flooring and fixtures. The hotel includes a spa area, meeting rooms, gym, outside hot tub and sundeck.

<u>EXECUTIVE SUMMARY</u> (Continued)

Zoning: HRCC-1, Duval Street Gulfside District by the City of Key West, Florida.

Census Tract: 9725

Flood Zone: AE

Highest and Best Use: The continuation of the existing hotel and support operation.

Date of Value: April 25, 2011

Date of Report: May 26, 2011

Marketing/Exposure Time: Within 12 months

VALUE INDICATIONS

VALUE INDICATIONS	
Insurable Value:	$3,650,000
Property Rights Appraised: **Fee Simple Estate**	
Income Capitalization Approach	$7,000,000
Sales Comparison Approach	$6,700,000
Final Value Indication	**$7,000,000**
Allocation of FF&E:	**$425,000**
Fee Simple Real Estate Value	**$6,575,000**
Lease Fee Estate	**$4,700,000**
Leasehold Interest	**$3,550,000**

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PURPOSE OF THE APPRAISAL

The purpose of the report was to estimate:

1) the Market Value of the subject property as a stand alone property based on the total assets of the business (i.e. tangible and intangible assets) or going concern as a hotel, as a fee simple estate, as of April 25, 2011.

2) the Market Value of the subject property, as a leased fee estate, as of April 25, 2011.

3) The Market Value of the Leasehold Estate as of April 25, 2011.

DEFINITION OF MARKET VALUE

According to the agencies that regulate federal financial institutions in the United States of America (FIRREA), *Market Value* is defined as "the most probable selling price in terms of money which a property should bring in a competitive and open market under all conditions requisite to be 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:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and each acting in what he considers his own best interest;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. The price represents a normal consideration for the property sold unaffected by special financing or creative financing or sales concessions granted by anyone associated with the sale.

DEFINITION OF GOING CONCERN

The entity is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the entity has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations. (IAS Framework 23; IAS 1, 23-24) An operating business. Going concern also serves as a valuation premise, under which Valuers and accountants consider a business as an established entity that will continue in operation indefinitely. The premise of a going concern serves as an alternative to the premise of liquidation. Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute), 2010.

One of the premises under which the total assets of a business can be valued; the assumption that a company is expected to continue operating well into the future (usually indefinitely). Under the going-concern premise, the value of a business as a going concern is equal to the sum of the value of the tangible assets and the value of the intangible assets, which may include the value of excess profit, where asset values are derived consistent with the going-concern premise.

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute), 2010.

A going concern valuation is typically applied to properties where the physical real estate assets are an integral part of the ongoing business. Typical properties include hotels, motels, restaurants, bowling alleys, manufacturing enterprises, athletic clubs, land fills, etc. In many cases it may be difficult to separate the market value of the land and the building from the total value of the business, but such a division of realty and non-realty components of value is often required by federal regulations. Under USPAP standard 1-4 (g) states that an appraiser has to attempt to separate the characteristics of a going concern, i.e. real property and intangible assets.

A hotel/motel is a unique real estate investment that derives value from its Furniture, Fixtures and Equipment (FF&E) and being a retail type business requiring specialized management. In the case of the subject property the FF&E will include room furnishings; hotel equipment, exercise equipment, spa equipment, lobby furnishings; and items of decor.

In order to properly value this property all of the above items must be included. Separate values for business and real property, (land, building and Furniture, Fixtures and Equipment (FF&E)) can be allocated, but they must be considered together to accurately estimate the market value of the going concern of a property, operated as a hotel. In most cases it may be difficult to separate the market value of the land and the building from the total value of the business, but such a division of realty and non-realty components of value is often required by federal regulations. As per USPAP FF&E will be allocated.

DATE OF VALUATION

The effective date of the opinion of value in this report is April 25, 2011, which is the date the subject property was last inspected. The date of appraisal is May 26, 2011.

PROPERTY RIGHTS APPRAISED

Fee Simple Estate, Leased Fee Estate and Leasehold Interest are defined as follows: (The Dictionary of Real Estate Appraisal, 5th Edition, Appraisal Institute 2010):

Fee Simple Estate: Absolute ownership subject only to limitations imposed by the State; also called a freehold.

Leased Fee Estate: A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).

Leasehold Interest: The tenant's possessory interest created by a lease.

The subject parcel is encumbered by a long term ground lease that began in 1965. The current tenant (leaseee) assumed the lease in August 1987. The current lease is under the ownership of the Pier House Lease Joint Venture. The lease calls for annual payments of $3,600 per year and the tenant is responsible for all expenses and upkeep. The lease expires on May 31, 2020, which is approximately nine years. At the request of the client, I have valued the property in both the leased fee and Fee simple estate. Due to the low rent payment there is a leasehold position of the tenant or leasee.

Extraordinary Assumptions

Extraordinary assumptions are defined by the Uniform Standards of Professional Appraisal Practice as "...an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis." This appraisal employs the following extraordinary assumptions:

None.

<u>Hypothetical conditions</u>

Hypothetical conditions are defined by the Uniform Standards of Professional Appraisal Practice as "…that which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in the analysis." This appraisal employs the following hypothetical conditions:

The subject property is currently under a long term ground lease to the Pier House and the lease will expire on May 31, 2020, which is approximately nine years. This lease is below market and there is a leasehold position. The appraiser requested operational data from the Pier House Resort & Caribbean Spa in order to value the property under several scenarios for the fee simple client, which is the City of Key West. This information was not provided. I have appraised the property in fee simple assuming the subject is a stand alone property of 22 transient units and is not affiliated with the Pier House. To value the property, I have estimated start up cost and leased the meeting rooms to a third party for a restaurant or commercial type use.

USE OF THE APPRAISAL

This appraisal report is to be used by the client for for internal decision making purposes for the possible sale of the subject property. The appraisal report is for the sole use of the entity that engages the appraiser(s). "Readdressing an appraisal report to another party that was completed and delivered to a client is prohibited by USPAP. Once an assignment is completed, it is misleading to try to add a new party as client or intended user who was not the original client or identified intended user."

INTENDED USER OF APPRAISAL

The intended user of the appraisal report is City of Key West and/or assigns.

LOCATION

The site is located at the northwesterly corner of Front Street and Simonton Street in the City of Key West, Monroe County, Florida. The property address is as follows:

529 Front Street,
Key West, Florida 33040

Source: www.mcpafl.org

LEGAL DESCRIPTION

The legal was obtained by a survey prepared by Frederick H. Hilderbrandt, Job No 06-335, last updated June 14, 2006. The subject legal is that part of Lot 1, Square 2 according to William A. Whiteheads's map of the Island of Key West, delineated in February 1829 in the Public Records of Monroe County, Florida and is described as follows:

Beginning at the intersection of th westerly line of Simonton Street and the northerly line of front street; thence run 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 to the point of beginning, containing .0497 acres, more or less.

Source: www.mcpafl.org

PLAT MAP

OWNER OF RECORD

The subject property is under a long term ground lease that expires in May 31, 2010. The subject fee simple owner of record is listed as:

The City of Key West
P.O. Box 1409
Key West, FL 33041-1409

The leasedhold owner is listed as

Pier House Joint Venture
25425 Center Bridge Road
Cleveland, OH 44145

Source: www.mcpafl.org

PRIOR RECENT SALES & PROPERTY HISTORY

The property has been under the same ownership for over the past five years. To the best of my knowledge, the property was not listed for sale nor under any other contracts for sale as of the date of appraisal.

The subject property is under a long term lease. The original lease was from the City of Key West to Key West Hand Print Fabrics. The lease commenced on December 13, 1965 and was extended to May 31, 2020. In August 1987, the sale and assignment of the lease was approved and Pier House Joint Venture assumed the lease and payments.

The lease calls for an annual payment of $3,600 per year and the lease will be responsible for the upkeep, taxes, etc on the property. Once the lease expires, the improvements and repairs on the property will become the property of the City. The subject lease is recorded in OR Book 375, Pages 404 - 410 of the Public Records of Monroe County, Florida.

ASSESSED VALUE AND TAXES

The following table illustrates the current assessed value and tax bill information for the subject property. The subject has two separate parcel numbers and assessed values due to the fact that there is a fee simple owner and the other is for the lease of the improvements. The information was obtained from the Monroe County Property Appraiser's website www.mcpafl.org.

ASSESSED VALUE & TAX BILL INFORMATION		
Parcel	Key West - Fee Owner	
Folio Number	00072082-00600	
Alternate Key	8757727	
No. Rooms	22	
Site Size SF	21,640	
Gross Building Area SF	24,188	
Year Built	1989, Renovated	
Tax Year	2010	2009
Millage Rate	11.1648	10.1623
Assessed Value: Land - Building - Total -	 $1,347,869 $0 $1,347,869	 $2,882,448 $0 $2,882,448
Assessed Value Per Unit	$61,267	$131,020
Assessed Value Per Land SF	$62.29	$133.20
Tax Bill	$15,048.69	$29,292.31
Tax Bill Per Land SF	$0.70	$1.35

ASSESSED VALUE AND TAXES (Continued)

ASSESSED VALUE & TAX BILL INFORMATION		
Parcel	Pier House JV - Leasehold	
Folio Number	00072082-00601	
Alternate Key	9038503	
No. Rooms	22	
Gross Building Area SF	24,188	
Year Built	1989, Renovated	
Tax Year	2010	2009
Millage Rate	11.1648	10.1623
Assessed Value: Land - Building/Msc - Total -	 $0 $3,316,466 $3,316,466	 $0 $3,172,174 $3,172,174
Assessed Value Per Unit	$150,748	$144,190
Assessed Value Per Bldg SF	$137.11	$131.15
Tax Bill	$37,027.68	$32,236.58
Tax Bill Per Unit	$1,683.08	$1,465.30

According to the aforementioned Property Appraiser's web site there were no prior year delinquent taxes or tax certificates on the property. The Property Tax Record indicate a total room count of 22 and I have used the building area of 24,188 square feet, which was obtained from a survey.

The 2010 assessed value was published in June and the final tax bill will be levied in November for the year in arrears. The tax bill is due on March 31st of the following year and discounts are available for early payment. The subject property is assessed as two separate parcels due to the fact there is a long term lease on the property. By combing the total for 2010, the Assessed value for the subject is $4,664,335. This equates to $212,015 per unit and $192.84 per square foot. The total taxes are $52,076.37, which equate to $2,367.10 per unit or $2.15 per square foot of building area.

In order to test the reasonableness of the subject property's assessed value and resulting tax bill as a whole several comparable hotels within close proximity were surveyed. These comparable properties are illustrated on the next page as follows:

ASSESSED VALUE AND TAXES (Continued)

COMPARABLE TAX PROPERTIES				
Comparable #	A	B	C	Subject
Property Name	Paradise Inn	Wicker Guesthouse	Marreros Guest	Caribbean Spa
Address	819 Simonton Street	913 Duval Street	410 Fleming Street	529 Front Street
City, State	Key West, Fl.	Key West, Fl.	Key West, Fl.	Key West, Fl.
Gross Building Area	10,320	8,870	7,615	24,188
Number of Rooms	18	21	13	22
Year Built	1995	1918, 1946	1928	1989
2010 Assessment	$3,437,179	$4,071,898	$2,239,121	$4,664,335 (total)
Decrease From 2009	(3.1%)	(7.0%)	(7.0%)	(23%)
Assessed Value Per Room	$190,954	$193,900	$172,240	$212,015
2010 Taxes	$38,375	$45,462	$24,999	$52,076
2010 Taxes Per Room	$2,132	$2,165	$1,923	$2,367

The comparable properties indicated a range in assessed values from $172,240 to $193,900 per room. The comparable hotels/motels are smaller guest houses in the area. The subject is a newer hotel and is being run in conjunction with the Pier House Resort and Caribbean Spa. Further, the subject also includes the spa area and commercial space in the form of meeting rooms. Hotel properties are typically re-assessed or assessed at a rate of about 70% to just over 90% of market value. The main measure of market value is generally the sale price of a specific property or market value. Since the market downturn, assessments have decreased for the most part over the past several years. The subject property decreased 23% from 2009 but the bulk of the decrease was attributed the land 's assessed value. The overall result has been considerably lower assessment ratios.

With the passage of Constitutional Amendment 1 in January 2008, increases in the assessment of non-homesteaded properties will be limited to a maximum of ten (10) percent beginning in 2009. Pursuant to Senate Bill 1588 owners of non-homesteaded properties do not apply for this benefit. The cap does not apply to the School Board portion of property taxes. Recorded ownership changes will reset the 10 percent cap to current market value.

Overall the 2010 assessed value and resulting tax bill while above the comparables appears to be reasonable. For the purpose of this appraisal the real estate taxes will be estimated at $52,000 (rounded).

NATIONAL ECONOMIC OUTLOOK AND INDICATORS

The U.S. economy slowed during the first three months of 2011. The Gross Domestic Product, the broadest measure of the goods and services produced by the economy increased at an annual rate of 1.8% in the first quarter of 2011. That was considerably lower than the 3.1% experienced during the fourth quarter months of 2010. The slowdown occurred because high gas and food prices cut into consumer spending, bad weather, a poor housing market and the federal government slashed defense spending by the most in six years.

Consumer spending accounts for nearly 70% of the economic output. In the January-March quarter, consumers boosted spending at a 2.7% pace. That was down from the 4% posted during the previous quarter. Pump prices were mostly blamed for the pullback, although harsh winter weather also kept people from shopping.

The deceleration in real GDP in the first quarter primarily reflected a sharp upturn in imports, a deceleration in personal consumer expenditures, a larger decrease in federal government spending, and decelerations in nonresidential fixed investment and in exports that were partly offset by a sharp upturn in private inventory investment. Most economist believe economic growth will average about 3% during 2011. However, a static job market, slow housing market and rising gas and food prices remain a major concern for consumers. The national unemployment rate dropped to a one year low in March 2011 to 8.8%. Florida unemployment was 11.1% in March 2011 and Monroe County had an unemployment rate of 6.6%.

The following is a list of key interest rates as of April 13, 2011.

	This Week	**Month Ago**	**Year Ago**
Prime Rate	3.25%	3.25%	3.25%
Federal Discount Rate	0.75%	0.75%	0.50%
Fed Funds Rate	0.25%	0.25%	0.25%
Libor, 3 Month	0.28%	0.28%	0.31%
Libor, 6 Month	0.44%	0.49%	0.47%
Libor, 1 Year	0.77%	0.77%	0.94%
10 Year Treasury	3.51%	3.29%	3.85%
Consumer Price Index	2.235%	2.223%	2.177%

Source: Bankrate.com

MONROE COUNTY AREA DATA

Monroe County encompasses all of the Florida Keys and a portion of the Everglades National Park. Although barely detached from the mainland, the Florida Keys are a world apart from the rest of the United States. They are a unique chain of approximately 50 coral islands covered with tropical vegetation, stretching southwestward between the shallows of Florida Bay to the north and a barrier reef of living coral in the Atlantic Ocean to the south. The Florida Keys begin approximately 58 miles south of Miami (at Key Largo, the largest Key) and extend 115 miles to Key West, the southernmost point in the continental United States.

Monroe County's climate is subtropical, situated south of the frost line in Florida. Key West's average temperature range is 73 to 82 degrees, with a maximum of 95 degrees and a minimum of 41 degrees. Mean rainfall is 39 inches. Temperatures in the northern end of the county tend to be more extreme. Hurricanes do occur, the last direct hit on the Western, or Lower Keys was 1998, and the Eastern, or Upper Keys, was 1965. In 1992 Hurricane Andrew hit the very northern tip of Key Largo at the Ocean Reef Club and damage was relatively minor. The last severe storm was Donna in 1960 which crossed the Upper Keys. Indirect effects of storms can cause significant damage as evidenced by the storm surge damage occurring from Hurricane Wilma in 2008. Warning systems are very good and the resident population is well prepared to survive the hurricane season which lasts from July through October. Key West has a number of wood frame houses over 100 years old still in use, evidence that weather hazards are not much different in Monroe County than in other hurricane and tornado prone areas.

The Florida Keys, in many places, are just barely wide enough to accommodate the Overseas Highway (U.S. Highway One), the connecting link for the island chain. The "width" of the Keys varies from that of the two-lane highway to perhaps a mile or so. The islands are joined by a series of 42 bridges with the largest being the magnificent Seven-Mile Bridge, the longest single span bridge in the world. Total usable land area scattered over the larger Keys is about 100 square miles, which includes Key West's six plus square miles. Of this, 100 square miles, only 25% are improved. However, most of the 75% vacant land is not developable, meaning it is wetlands, mangroves, or native areas protecting endangered species of birds, animals, plant and marine life. Virtually all of this land is 0 to 16 feet above mean high water and classified within the FEMA 500-year flood hazard zone. The geology is mostly oolite (calcium carbonate granules) and coral rock. Tropical vegetation covers surface areas with a wide assortment of grasses, vines, shrubs and trees such as palms and pines. The shoreline is extensive and nearly all in mangroves, a protected species. Sand beaches are few and are usually found in five or six state parks. Surrounding waters are shallow, one to three feet deep, with channels often six feet or less. Key West has the only deep-water harbor maintained at 30 to 34 feet.

MONROE COUNTY AREA DATA (Continued)

On the Atlantic Ocean or Florida Straits side of the Keys is a string of barrier reefs four to six miles off shore with the axis of the Gulfstream two to four miles beyond, flowing northward. This band of turquoise and blue water contains some of the finest sport fishing in the world. Snorkeling and scuba diving are very popular, especially at John Pennekamp and Looe Key State Underwater Parks. Lobstering and shrimping are substantial commercial enterprises in these waters.

Commercial fishing was equal in importance to the tourist industry a few years ago, but has declined drastically, while tourism has grown rapidly since 1980. Industry in the Florida Keys, which was dominated by commercial fishing until recently, has changed in recent years to sport fishing and diving, marinas, hotels, time-share resorts, restaurants, and other tourist-oriented businesses.

Tourism is now the single major economic driving force. Over 400,000 cruise ships passengers disembark in Key West every year. The total number of hotel rooms in the Keys is more than 8,200. The Keys are a magnet for bird watchers and boaters, naturalists and treasure seekers, sun worshipers and skin divers. Over the past ten years, the tourist season has expanded from a few months a year to almost year-round.

The past of the Keys was shaped by adventurers and Indians, Spanish conquistadors and pirates, "Tories" and Bahamians (who came to timber and salvage, then remained to settle and raise families). Railroad men came to build Flagler's railroad to Key West, then road builders to convert the railway into the Overseas Highway (U.S. Highway One). Key West was settled by many Bahamians in the early 1820s. By 1831 it had a population of 367. By 1860 it was Florida's largest city with 18,000 people. For 40 years it ranked highest in the state in per capita income due primarily to its lucrative wrecking activities. Many of the homes were built of the planking of salvaged ships. There was a large influx of Cubans in the 1870s with over 200 employed in local cigar factories by 1876. During the 12 years of Prohibition, smuggling from the Bahamas was commonplace, grand fathering today's illicit drug trade. After the collapse of the Florida Land Boom in 1926, the City fell on hard times and went bankrupt in 1934. It revived somewhat through tourism and the sacrifices of the citizenry until the infusion of the World War II military expansion. Turtles became an important food source and industry until 1969, when the turtle fishery was declared unlawful. Many presidents of the United States, including Cleveland, Taft, Roosevelt, Truman, Eisenhower, and Kennedy visited Key West, providing worldwide press coverage. Truman was a regular winter visitor at the "Little White House" on the Naval Base and he continued his visits after he stepped down as President. Key West became home for many notable artists, authors, and playwrights.

MONROE COUNTY AREA DATA (Continued)

Monroe County, other than Key West, was sparsely settled through these years, and began to develop after the Overseas Highway (U.S. Highway One) was completed in 1938. The highest rate of development today is found in the Upper Keys.

The United States Navy also contributes significantly to the Lower Keys' economy, with Key West's Trumbo Point Naval facility and Boca Chica Naval Air Station, homes to naval fighter training and development. All services are represented with highly trained units. This results not only in a substantial military population requiring housing and services needs, but also employment for local civilians.

The entire length of the Keys from Key Largo (northeast end) to Key West (southwest end) underwent a modest boom period which has lasted, generally, since 1969. The Monroe County statistical abstract (1991) reports that the number of housing units in the Keys rose from 20,731 in 1970 to 38,088 in 1980 (an increase of 83.7%) and then rose to 46,215 in 1990 (an increase of 21%). During the decade 1980 to 1990, the total permanent population grew from 63,188 to 78,024 (an increase of 23.5%). The 2000 Florida Census reports Monroe County's was 79,859, which is only a 2% increase in population since 1990. The estimated population as of 2010 was 73,090, a 8.2% decrease since the 2000 census. The county has a population of 125,000 during the peak winter season.

The population of the City of Key West has remained fairly stationary with the city declining from 24,563 in 1970 to 24,382 in 1980 then increased to 24,832 in 1990 and to 25,478 according to the 2000 census from Monroe County. The 2008 population (last available) was approximately 22,364 a 12.2% decrease since the 2000 census.

The other four incorporated areas in the Keys indicated a 2009 population estimate of 857 for Key Colony Beach 191 for Layton, 6,323 for the Village of Islamorada and 9,526 for the City of Marathon. The Village of Islamorada was incorporated on November 4, 1997 and Marathon was incorporated in late 1999.

The condominium concept was introduced to the Florida Keys in the early 1970s and became partly responsible for the rapid growth of the Upper and Middle Keys for the next decade. Condominium development was resurrected in the mid 2000's housing boom, however, the rate of development for these and most types of residential units has tapered off and been only modest for the last several years.

MONROE COUNTY AREA DATA (Continued)

The flurry of condominiums constructed in the Keys during the early 1970s was absorbed by buyers from the close-by Miami-Fort Lauderdale-Palm Beach areas (with over four million population) and by other upper state or out-of-state purchasers, many of who became permanent residents.

From that time a consistent flow of condominiums was built and the supply-demand ratio was in balance. However, a moratorium was put into effect in 1986 which effectively stopped all development. When it was lifted, new county-wide development regulations replaced it, which impeded the development of some projects and limited others so Monroe County would have its growth controlled and regulated.

As of 2000, there were 51,617 housing units according to the US Census. In 2010, the US Census reported 52,764 units, which is only an increase of just over 1,100 units or 2.2%. It was reported that 61.8% of those homes are owner occupied. From 2000 to 2009, there were 3,223 permits issued in Monroe County. In 2008 there were 260 permits issued and only 116 permits were issued in 2009, which indicates a 55.4% decrease.

The increased population throughout the Florida Keys brought the need for more support and service type businesses, more public services and personnel and, as previously mentioned, more utility services. Shopping centers were built in Key Largo (K-Mart Plaza), Tavernier (Tavernier Towne) and on Big Pine Key (Big Pine Key Plaza) to complement the older established centers like Waldorf Plaza and the K-Mart Plaza in Marathon. The growth of Marathon has led to the opening of the Publix center and Home Depot.

According to Smith Travel Reports the 2010 overall Occupancy rate in Monroe County was 70.5%, which was up from 69.4% in 2009. The ADR was $177.64 in 2010, which is up $5.54 or 3.2% from 2009.

Hospital needs are met by Mariner's Hospital on Plantation Key, Fisherman's Hospital in Marathon, Florida Keys Health System facilities on Stock Island and in Key West.

Growth management plans attempting to deal with future land and water development in the Florida Keys proliferate. The most comprehensive plan which significantly affects development in order to protect the environmentally fragile chain of islands is the Monroe County Land Development Regulations, put into effect in 1986. The plan prohibits development on over 16,000 lots throughout the County, restricts building height to 35 feet, or about three stories, and favors "destination resorts" designed to keep visitors confined to relatively small areas instead of encouraging small motels and scattered marinas.

Previous County legislation restricted density of multifamily developments to a maximum of eight units per acre. This had been considered by most to be the single most important saving factor for the environment of the Keys.

MONROE COUNTY AREA DATA (Continued)

The Florida Keys continue to grow, but environmentalists and conservationists continue to be more and more vocal and militant. Destruction of the fragile ecology has ground to a halt during the past few years. The County rarely issues permits for large developments, both residential and commercial, and a building moratorium was placed in effect in 1996. The commercial moratorium has been lifted but it is still subject to strict developmental guidelines.

There is a "Rate of Growth Ordinance" (ROGO) in effect for all of Monroe County, which is based on a hurricane evacuation time frame of 25 to 30 hours. At this time the number of residential permits which may be issued in Monroe County per year stands at 255. Commercial development in Monroe County is also affected by this permit allocation system (ROGO) and limited commercial construction permits will be issued (NROGO).

There has been a high demand for affordable housing in Monroe County the past several years. There have been limited sites purchased in Monroe County for this use. The ROGO System must allocate 20% of the residential unit's allocation for affordable housing. Most of the allocations in Monroe County are not being used for this purpose. In 2007 most incorporated areas and Monroe County have changed the ROGO system to Building Permit Allocation System (BPAS) a somewhat similar program limiting growth through strict regulation on the issuance of new building permits

The general picture for the Florida Keys appears good but restricted with respect to growth and development. Restraints are necessary. Some people may consider them to be an "overkill", but somewhat necessary to maintain a balance between man and nature in this vulnerable chain of islands.

Geographically, the Florida Keys are divided into four groups or neighborhoods:

1. The Upper Keys - from Key Largo to Long Key
2. The Middle Keys - from Long Key to Seven-Mile Bridge
3. The Lower Keys - from Seven-Mile Bridge to Key West
4. The City of Key West

A "neighborhood" some 40 miles in length may seem unbelievable to someone from an urban area; however, when this "neighborhood" is only a few hundred yards wide, it becomes plausible. All activity and movement flows along the Overseas Highway (U.S. Highway One), the main connector of this island chain.

Each of the sections in the Keys has its distinct features; each section engenders its own loyalties and neighborhood pride. High school sports rivalries and political competitions are intense.

A closer look at these four "neighborhoods" follows.

The three principal communities of the Upper Keys are Key Largo, Tavernier and Islamorada. Key Largo is the largest Key (approximately two miles wide and almost thirty miles long) and is the most developed with new condominiums, camping and trailer parks, marinas, motels, shopping centers and resorts. Being so close to Miami, the Upper Keys are the perfect weekend resort areas with fishing, boating, swimming, state parks and numerous tourist attractions. In the Upper Keys there is an almost continuous band of development or committed development areas along the Overseas Highway (U.S. Highway One).

MONROE COUNTY AREA DATA (Continued)

The area is served by the Florida Keys Electric Cooperative Association, Inc. and the Florida Keys Aqueduct Authority. Coral Shores High School on Plantation Key at Mile Marker 90 serves the Upper Keys. There are two elementary schools, one on Key Largo at Mile Marker 104 and another on Plantation Key across U.S. Highway One from the high school. The County government center is located on Plantation Key at Mile Marker 88; Mariner's Hospital is located next to those offices.

The main communities of the Middle Keys are Marathon, Marathon Shores and Key Colony Beach which adjoin like one metropolis, and are second in population size only to Key West. Marathon lies 90 miles from the mainland and 48 miles from Key West. Marathon has its own 8,000-foot airstrip, the multi-million dollar Sombrero Country Club and 18-hole championship golf course, yacht basins, and the famous unique Seven Mile Bridge lies just below Marathon.

Duck Key, with the Hawks Cay Resort complex, including a marina basin, nine-hole golf course, bars, restaurants and a convention hall, is also in the eastern Middle Keys. Duck Key is also building up with a good number of custom-designed luxury residences, typically ranging in prices from $300,000 to over $4,000,000.

Key Colony Beach, one of the five incorporated cities outside of Key West, is located adjacent to Marathon. This separate island boasts of some of the most beautiful sandy beach shoreline in the County, along with a public golf course.

Most of the population density is in the immediate area of Marathon. The affluence of the outside world is very evident in the Middle Keys; perhaps due to the presence of several large resort-marinas, such as "Faro Blanco" with million dollar yachts tied to their docks.

The Lower Keys begin at Sunshine Key (AKA Ohio Key) near Bahia Honda Key, just west of the Seven Mile Bridge, and extend to Key West. They provide superb boat, bridge and surf fishing, shelling and sandy beaches, and pine forests for exploring from campsites and trailer parks. Big Pine Key is the largest of the Lower Keys, and No Name Key attaches to Big Pine Key, also providing refuge for the small Key Deer which are protected here.

Big scale development passed up much of this area. The Lower Keys area is strictly single-family residential, with no major condominium developments and only a few motels, including Looe Key Reef Resort on Ramrod Key, the Big Pine Motel and the Mariner Motel on Big Pine Key and Sugarloaf Lodge on Sugarloaf Key. The Big Pine Key Shopping Plaza is the largest development of its kind in the Lower Keys.

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

MONROE COUNTY AREA DATA (Continued)

At the western tip of the Keys is Key West, only one mile wide and five miles long. The Old Islanders Associations has accomplished extensive restoration in the old section of Key West with a collection of Bahamian and Victorian frame homes with gingerbread balconies and captains' walks and tin roofs. Key West boasts an artistic heritage of many famous artists and writers from Audubon to Hemmingway and Tennessee Williams, and several United States Presidents made this their winter home. Key West obtains its drinking water from the pipeline from Florida City well fields and from a reverse osmosis plant on Stock Island.

Through the course of many years, the Island has developed a military presence with the ancient Spanish fort, old Fort Zachary Taylor, 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 in itself. Key West is the southernmost, one of the oldest and most unique cities in the United States.

Conclusion

Monroe County is a recreational area catering to the families in the middle to upper income groups. The county has excellent recreational resources surrounded by the Atlantic Ocean and Florida Bay. The problem in Monroe County is there is only one major artery which is U.S. Highway 1 (Overseas Highway) and that there is a strict building moratorium that limits residential and commercial development.

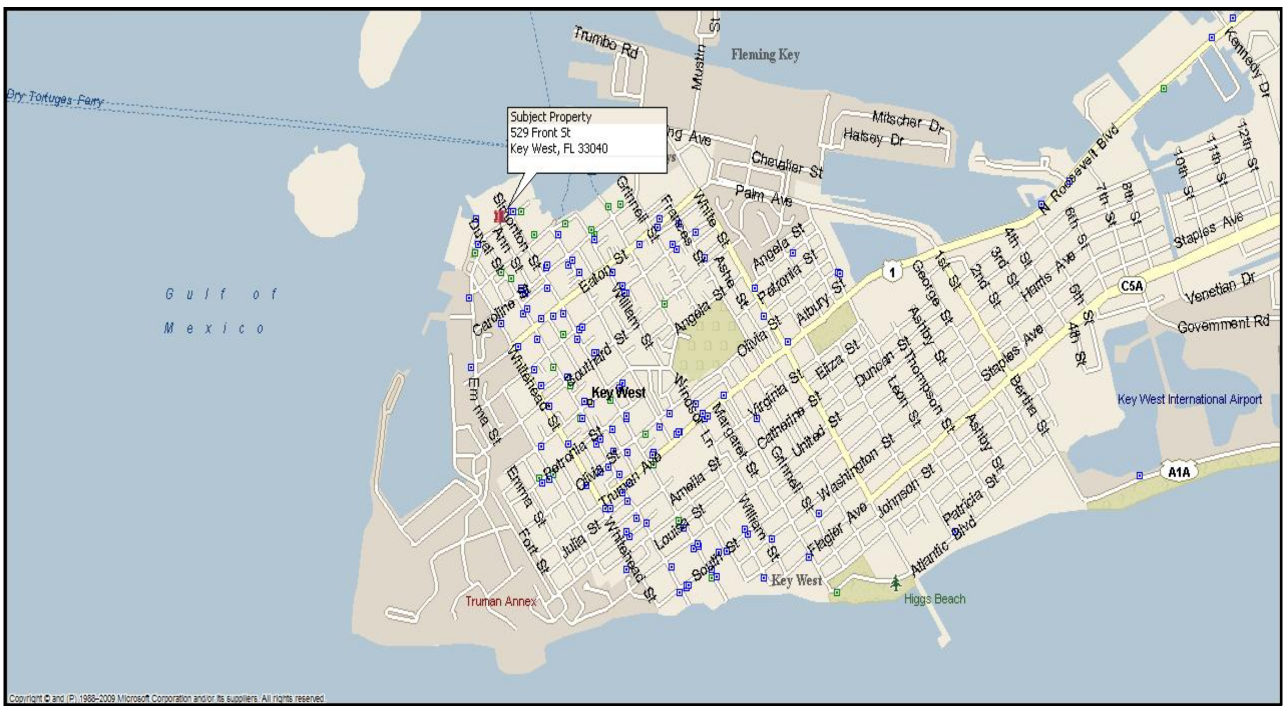
The limitations on building had resulted in increased demand for quality homes throughout the county. Property values had increased for residential homes substantially from 2002 to 2006 with a significant downward trending values beginning in late 2006 and has continued into 2011. New development of commercial property is based on an as needed basis at this time. The Florida Keys has shown signs of recovery as the hotel industry increased occupancy and ADR in 2010 from 2009. The first three months of 2011 have also shown increases year to date from 2010. Further, there was an increase in air travel to Key West in 2010 from 2009. The outlook for Monroe County’s economy is for continued growth fueled by tourism in the longer term with a subdued market in the short term considering both the Florida and national economic conditions as well as continued limited financing, specifically for second/vacation homes, hotels, and development projects.

NEIGHBORHOOD DESCRIPTION

According to The Dictionary of Real Estate Appraisal, 5th Edition, Appraisal Institute 2010, a neighborhood is defined as: “a group of complementary land uses; a congruous grouping of inhabitants, buildings, or business enterprises”.

The subject property is located within the City of Key West in the historic section in an area known as "Old Town". The subject has direct frontage on both Front Street and Simonton Street.

In the case of this appraisal assignment, neighborhood boundaries are identified by physical boundaries and surrounding land uses. The subject neighborhood is considered to be the Atlantic Ocean to the south, the Gulf of Mexico (Key West Harbor) to the north, Eisenhower Drive to the east and Fort Zachary Taylor State Park to the west. A map of the neighborhood is shown below. The island City of Key West is the southernmost island of the Florida Keys and the continental United States. U.S. Highway 1 (Overseas Highway) provides access to Key West which is approximately 150 miles from mainland Florida.



The general uses surrounding the subject property area are luxury hotels, restaurants, commercial buildings, retail, guest houses and single family homes off the main roads. In this section of Key West, there are many small hotels and guest houses with a concentration of commercial uses situated along Duval Street, Geene Street and Front Street. The subject is just a block from the high rent district known as Duval Street, which caters to the tourist. The subject is only a few blocks east of the famous Mallory Square, the cruise port into the city. This area is also popular for the nightly celebrations and sunset views.

NEIGHBORHOOD DESCRIPTION (Continued)

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. The Overseas Highway (U.S. Highway 1) has induced an overwhelming population to venture in Florida Keys, seeking refuge from the climate and crowded metropolitan areas. Key West International Airport, located on the southeast corner of the island, is well serviced by Delta, AirTran, American Airlines, Cape Air, and US Airways. These airlines provide numerous daily commuter flights to and from Miami, Key West, Fort Lauderdale, Orlando, and Tampa. These carriers have greatly enhanced the influx of tourism, and have also made it easier for second home dwellers to commute between their point of origin and Key West. In 2010, there were 566,889 passenger arrivals and departures in Key West Airport, which was a 22.2% increase from 2009. As of March 2011, passenger arrivals are up 11.7%.

The visitors who vacation in Key West during the winter season are typically affluent population of the Northern and Midwestern States and Canada. The remainder of the year is comprised of vacationers from the Southern 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 are often on a mini-vacation.

In 2009 there were 2,230,999 visitors to Key West, according to a report prepared by the Monroe County Tourist Development Council. This was approximately 8.40% above 2008; however was 14.82% below the reported peak year of 2003 with 2,619,049 visitors. On average approximately 66% of Monroe County tourists visit Key West, according to the report.

In 2010 survey, about two-thirds of these vacationers stay an average of three to seven days with an average of 5.64 nights. These visitors prefer accommodations with beach and water access, together with all the amenities that beach clubs and resorts provide. 60% of visitors stayed in a hotel/motel/resort followed by 29% for a B&B/Guesthouse In 2007, the last year available, the accommodation and food services directly employee 18.3% of the Key West work force according to the U.S. Bureau of Economic Analysis.

The hotel and lodging industry in Key West saw an increase in 2010 as average occupancy was 78.1% and the ADR was $190.96. This was a 1.7% increase in occupancy and a 5.4% increase in ADR from 2009. As of March 2011, the occupancy is up 3.4% and the ADR is up 3,4% from the same time last year.

Due to the market and economic conditions, there has not been a sale of a hotel over 50 rooms in Key West for over three years. Since 2008, there has only been a handful of sale hotel or guesthouses in all of Monroe County. In 2011, there has been two recent sales in Key West. The Paradise Inn, containing 18 rooms, sold for $4,400,000 or $244,444 per room in February 2011. Also in February 2011, the Nassau House, which contains only five units sold for $1,275,000 or $255,000 per unit. This was a bank sale that sold for $2,150,000 in August 2006, which is just over a 40% decrease in price.

NEIGHBORHOOD DESCRIPTION (Continued)

I am also aware of several listings of small hotels and guest houses in the market that range in price due to location, quality, number of units and size. The listed prices general range from just over $200,000 per unit to $450,000 per unit.

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. The City Park includes a softball field, six tennis courts and a gazebo, grand stand, and picnic area. Other recreational facilities include a municipal pool, a city beach, a county beach with several courts, an indigenous park, and children's playground. On Stock Island just outside the immediate neighborhood there is an 18-hole professional golf course, privately owned with public access. There are three private marinas within the city limits, the Key West Yacht Club, Garrison Bight Marina and the Galleon Condominium marina facility.

The of tourism spike in the past several years and increasing interest in restoration for properties in the "Old Town" section had caused properties to increase in value at an accelerated appreciation rate. The growth in tourism, second home purchasers and interest in the historic area had created consistently escalating housing costs in the Key West locale. The prices have fallen from 20% to over 50% for homes and condominiums since the peak of 2006. Prices appear to be stabilizing for the immediate area. There is still a shortage of 'affordable housing' for the thousands of full time workers and service employees needed in the operation and maintenance of the tourist generated hotels, bars, restaurants, retail stores, and in the normal functioning of an island city.

The shortage has been further exacerbated by state and county mandated Rate of Growth Ordinance (ROGO) and Building Permit Allocation System (BPAS) which impose restrictions on both residential and commercial development permits in Key West and throughout the Florida Keys. The Monroe County Commission, on June 30, 2010 extended a building moratorium on hotel/motel units for at least eighteen months. Commissioners themselves have weighed several different scenarios in which the moratorium on transient units would be lifted included occupancies above 90% or occupancies above 82% over three years, with all scenarios rejected until the current expiration proposed for December 31, 2011.

As mentioned earlier, Duval Street is the main tourist / commercial strip for Key West. Most of the island's well known bars, clubs and restaurants are located along Duval. These establishments include the famous Hemmingway haunt Sloppy Joe's and the Hogs Breath Saloon. The vacancies in this area range from 5% to 10% as the economy and rising prices forced some business to move to lower rental areas or shut down. The list prices currently range from $18.00 to $30.00 per square foot for spaces off Duval Street and over $40.00 per square foot for spaces on Duval Street. A myriad of specialty shops catering to the needs and desires of the tourists are located along or just off Duval Street. In the past 10 to 15 years more national franchise stores have located to the Old Town area of Key West and downtown. These retailers include Banana Republic, Walgreens, CVS, Coach, Nine West, Denny's and Hard Rock Café just to name a few.

NEIGHBORHOOD DESCRIPTION (Continued)

Conclusion

The subject is located within an area that had shown appreciation in values through 2006 with a leveling off and eventual decrease in values occurring from 2006 to 2010. The subject property is situated in close proximity to the restaurants and shops associated with Duval/Front Streets. Demand for hotel units on the island of Key West is tempered from the demand at the peak but has improved over the past 12 to 18 months. Lowering occupancy rates and average daily rates have lowered the net operating profits precipitously in the last two years with the national economic slowdown. The last twelve months have shown some improvement in room occupancies and ADR. In the near term, values of hospitality properties should remain stable to increasing slightly while in the longer term values should increase with the desirability of Key West and the limited amount of available properties coupled with a limited number of building permits issued.

HOTEL MARKET OVERVIEW

National Market:

The modest economic recovery helped to raise occupancy in 2010, and a transition to a more normal and sustainable expansion cycle will occur in 2011 as job creation and economic activity accelerates. Employers will add nearly twice as many positions this year as in 2010, spurring an increase in business travel and spending on vacations. The projected rise in the creation of full-time positions and less reliance on temporary workers will greatly benefit the hospitality sector. Profitability measures show considerable momentum heading into 2011, as revenue per available room (RevPAR) increased year-over-year in the final nine months of 2010. In addition, the average daily rate (ADR) rose from year-earlier levels in each month during the year's second half. Declining construction and increasing revenues will further boost RevPAR, although many markets will not reach their pre-recession peaks until 2012, when daily rates will rise more robustly. The annual ADR, meanwhile, will tick up for the first time in two years during 2011 as property operators leverage increases in room demand, especially in periods of peak travel.

In 2010, the US occupancy rate increased by 5.7%, over 2009, to 57.6%. Room revenues indicated a decline in .1% to $98.08, however RevPAR was up by 5.5% to $56.47. With the economic recovery slowly gaining momentum, room demand continues to rebound from the low levels recorded during the recession. A further rebound in room demand will occur in 2011 as employment growth accelerates, generating additional business and leisure trips. Construction of new properties, meanwhile, continues to decline sharply as projects are completed and financing constraints prevent many planned properties from breaking ground. Despite the nationwide drop in hotel building, several markets enter 2011 with a considerable number of rooms under construction, which may limit the extent of occupancy improvements in the months ahead. These markets include New York City, where 7,100 rooms are under way, and Orlando, where more than 3,000 rooms are being built.

Rising room demand underpinned a robust increase in room revenue during 2010. Room revenues increased 5.5 percent from 2009, driven by an 8 percent gain in room revenue at nationally branded full-service properties. In comparison, room revenue at branded limited-service assets rose 5.3 percent, as demand for limited-service accommodations has not yet rebounded as strongly. The increase in room revenue, combined with declining construction, yielded a 5.5 percent jump in national RevPAR. Property owners, however, continue to make slow progress raising rates due to frugal consumers and the application of lower corporate room rates negotiated one year ago. Increases were recorded each day of the week, with relatively strong gains on Fridays and Saturdays in the fourth quarter indicating a rebound in leisure travel.

Despite the increase in transaction velocity, the median price of branded full-service hotels declined about 4 percent in the past 12 months to $51,600 per room, approximately 41 percent less than the peak recorded in 2006. More stringent underwriting and higher equity requirements in deals will likely maintain prices well below peak for several more quarters. In the limited-service segment, the median price also continues to decrease, logging a 24 percent drop to $33,900 per key. The low price

HOTEL MARKET OVERVIEW (Continued)

National Market: (Continued)

of limited-service properties in many markets, however, will likely delay the onset of a new construction cycle for such assets through the middle of 2012. Although the recovery of the investment market appears on track, some remnants remain from the recession. Specifically, about $38 billion of hotel properties were in distress at the end of 2010. While a considerable portion of the total consists of large, high-priced properties in areas such as Las Vegas, Oahu and New York City, distress remains widespread and exists to some degree in every market. Large distressed assets will attract REITs, funds and institutions in the months ahead, but small investors may find opportunities in markets such as Atlanta, Dallas and Houston.

Long-term rates remain low, with the 10-year U.S. Treasury ending 2010 in the 3.3 percent range. The extension of quantitative easing by the Federal Reserve will help maintain the yield in the 3.4 percent to 4.0 percent range during most of 2011. An accelerated rate of economic growth, however, may stoke inflation fears and push up long-term rates. Financing for hotel acquisitions continues to expand for solid assets and qualified borrowers. Lenders are willing to underwrite deals with loan-to-value ratios generally ranging from 50 percent to 65 percent; an LTV of 70 percent remains possible for top-quality assets with stable operating histories. Debt-service coverage ratios typically vary from 1.3x to 1.5x, with interest rates of around 7 percent. Recently enacted legislation raises the limits on Small Business Administration 504 and 7A loans from $2 million to $5 million, which should enhance the purchasing power of owner-operators. Requirements for refinancing loans coming due have also been eased.

The hotel market is divided into various product types. The following table illustrates the most recent investment yields for the full service and limited service hotel sectors.

INVESTOR SURVEY			
Sector	Full Service	Limited Service	All Types
Discount Rates Range Average	 7.11% - 12.30% 10.27%	 8.29% - 16.09% 12.38%	 7.11% - 16.09% 12.01%
Equity Dividend Rates Range Average	 8.04% - 18.31% 12.66%	 8.24% - 19.51% 13.31%	 8.04% - 19.51% 14.35%
Capitalization Rates Range Average	 5.83% - 12.72% 9.44%	 7.27% - 16.87% 11.82%	 5.83% - 16.87% 11.46%

Source: Realtyrates.com Investor Survey 1st Quarter 2011.

<u>HOTEL MARKET OVERVIEW</u> (Continued)

<u>National Market:</u> (Continued)

NATIONAL LODGING INVESTMENT TRENDS & STATISTICS (1st Qtr 2011)				
Market Segment	Full Service	Limited Service	Luxury Market	Extended Stay
Key Indicators				
Discount Rate Range Average	 9.50%-12.0% 10.95%	 10.0%-14.0% 11.94%	 8.0%-14.00% 10.58%	 10.0%-15.0% 11.55%
Overall Cap Rate Range Average	 7.50%-10.0% 8.79%	 8.0%-13.0% 9.80%	 5.0%-11.0% 8.28%	 5.0%-12.0% 8.40%
Residual Cap Rate Range Average	 8.00%-12.0% 9.79%	 8.50%-12.0% 10.00%	 6.0%- 12.00% 9.05%	 6.00% - 12.0% 10.05%
Average Daily Rate Range Average	 (1.0%) - 4.0% 2.58%	 (3.0%) - 7.00% 2.60%	 (2.0%) - 20.0% 4.55%	 (0.00%) - 10.0% 5.0%
Marketing Time Range Average	 2-24 Months 9.17 Months	 2-12 Months 7.90 Months	 2- 20 Months 8.50 Months	 2-12 Months 6.70 Months

Korpacz Investor Survey 1st Quarter 2011.

Overall it is expected that the hotel market will continue to recover throughout 2011. The top markets will continue to show improved occupancy and ADR’s. Investment continues to recover as a result of the improvement in property performance. Interest in flagged full-service assets in urban locations remains intense, and sales of these properties led to a surge in transaction velocity during 2010. Buyers will continue to focus on properties in primary locations while prices remain well below the last peak. Many large investors still deploy considerable cash in deals, but expanding financing capacity will draw smaller, leveraged investors back into the market. As the outlooks for the sector and overall economy have improved, lenders have started to underwrite deals at loan-to-value ratios ranging from 50 percent to 65 percent. Financing from the Small Business Administration, a commonly used source of capital for owner-operators, is more readily available and offers higher loan limits than one year ago. A resumption of the CMBS market could further expand financing capacity as 2011 progresses, although defaults on hotel loans remain high, and a significant number of distressed properties exist.

HOTEL MARKET OVERVIEW (Continued)

Monroe County / Key West Market

According to the Smith Travel Research Group, Monroe County led the state in lodging occupancy and the ADR (average daily rate) in 2010 and for the past three months in 2011. The occupancy rates in 2010 averaged 70.5%, a 1.6% increase from 2009. The ADR was $178, a 3.2% gain compared to 2009. The Florida Keys lodging also led the State of Florida in the first quarter of 2011. For March 2011, occupancy was up 4.7% and the ADR was up 6.3%.

A Smith Travel Host report was obtained for full service or upper scale hotels in Key West for January 2011. The data reported was for year end 2010. These hotels indicated an average occupancy for December of 75.4%, which was a 8.9% increase from December 2009. The ADR for December was $276.12, which indicated a slight decrease of 0.9%. The year end occupancy for 2010 was 78.2% for 2010 and the ADR was $257.86. This indicated a 6.5% and 3.3% increase respectively.

The same report indicated all hotels in Key West surveyed averaged 78.1% for 2010, which was a 1.7% increase and the ADR was $190.96, which indicated a 5.4% increase. The RevPar for Key West in 2010 was $149.21, which indicated a 7.2% increase from 2009. A summary can be seen below for four sectors in the hotel market:

Monroe County Hotel Market Statistics

		Fla Keys	Upscale Class	Key West	Independents
Occupancy Rate					
	2010	70.5%	63.6%	78.1%	77.3%
	2009	68.9%	60.0%	76.4%	75.7%
Average Daily Rate					
	2010	$177.64	$220.92	$190.96	$185.52
	2009	$171.95	$220.26	$180.65	$174.57
RevPAR					
	2010	$125.23	$140.42	$149.21	$143.45
	2009	$119.18	$135.93	$138.47	$132.55

Source: Smith Travel Research.

All of these sectors above increased overall and most of the County sectors illustrated an increase in ADR's, occupancy rates and RevPAR during 2010. The largest increases were noted in the City of Key West, which rely on tourism travel from air, cruise ships and by car.

The increase in hotel occupancy can also be seen in the increase in travel from both air and cruise lines that arrive in Key West. There were 566,889 passengers that flew in and out of Key West International Airport. This is a 22.2% increase from 2009. March 2011 was the busiest on record with 36,046 passengers arriving and 35,593 departing.

HOTEL MARKET OVERVIEW (Continued)

The passenger counts for the Cruise ships into Key West indicated 850,290 for year end 2010, which was a slight decrease of 1.1% in 2009. As of March 31, 2011 there were 247,617 passengers arrivals in Key West, which is up 17.9% from the same period in 2010.

The Key West Bed Tax collected was $11,442,112 in 2010, which was a 22.3% increase from 2009 at $9,354,543. In the first two months of 2011, the bed tax revenue is up 6%.

Overall, tourism and hotels have improved in most parts of Monroe County. The Florida Keys led the state in 2010 and the first quarter of 2011. This trend is expected to continue for the remainder of 2011 as the economy slowly improves and the financing becomes more readily available.

HOTEL MARKET ANALYSIS

The subject property is located at the northwesterly corner of Front Street and Simonton Street, which is one block off. Duval Street. This area is the high rent district due to the concentration of tourist and it's direct path to the Seaport.

As a hotel operated in conjunction with the Pier House Resort and Caribbean Spa, the target market includes mostly leisure travelers that are seeking a full service and upper end environment due to the amenities that include private beaches, pools, restaurants and on site parking with no resort fee. For this analysis, I am assuming the property will be operated as a smaller hotel of 22 rooms. This is considered a Hypothetical Assumption as it is currently under a ground lease and is being operated in conjunction with the Pier House at this time. As a stand alone hotel, it will also cater to leisure travelers that prefer a smaller, “boutique” type environment that offers less amenities. The subject property is located directly one block off Duval and is in walking distance to some of Key West most popular attractions. The subject does not have on site parking or pool. Overall the subject’s location for a hotel is considered to be very good.

The subject hotel will not compete as much with the full service hotels due to its smaller size. The subject will compete with the well located smaller hotels and guest houses to a large extent.

According to the City of Key West, (June 2010) there are 117 lodging licenses not including vacation rentals that comprise of 4,983 units. There are 46 licenses and 413 units or 8.2% for Bed & Breakfast units with 3,843 units allocated for hotels and motels. To determine market rate, the immediate area was surveyed for upper end/full service hotels and smaller hotels or guest houses. I obtained a Monthly Smith Travel Research STAR report.

HOTEL MARKET ANALYSIS (Continued)

The table on the following page illustrates my survey of the competitive hotel facilities.

COMPETITIVE HOTEL SURVEY				
Hotel	1	2	3	4
Name	Westin Key Resort	Hyatt Key West Resort & Spa	Paradise Inn	Chelsa House
Location	245 Front Street	601 Front Street	819 Simonton Street	705 - 709 Truman Ave
No. Rooms	178	118	18	33
Year Built	1996	1988	1995	1938 - 87
Rack Rates: Standard Suite Rooms	 $229.00-$449.00 $529.00-$829.00	 $290.00 -570.00	 $179.00 - $339.00 $409.00 - $699.00	 $119.00-$269.00
Occupancy Rate	78.0%	73.0%	64.0%	78.0%
ADR	$240.00	$295.00	$244.00	$185.00
Rev Par*	$187.20	$215.35	$156.161	$144.30

COMPETITIVE HOTEL SURVEY			
Hotel	5	6	7
Name	Heron House	Ambroisa Hotel	Pier House Resort & Caribbean Spa
Location	512 Simonton Street	622 Fleming Street	1 Duval Street
No. Rooms	23	20	142 (22 Units are Subject)
Year Built	1930 - 1993	1928 - 1995	1963 - 2007
Rack Rates: Standard Suite Rooms	 $116.00-$278.00 $148.00 - $378.00	 $229.00 - $349.00 $309.00 - $459.00	 $219.00 - $429.00 $329.00 - $699.00 Excluding New Suites
Occupancy Rate	N/A	N/A	N/A
ADR	N/A	N/A	N/A
Rev Par*	N/A	N/A	N/A

* ADR x Occupancy Rate.

HOTEL MARKET ANALYSIS (Continued)

Comparables 1 and 2 are national hotels while the remaining competitive facilities, like the subject are all independently operated. Comparables 1, 2 and 7 include full service restaurants.

The competitive hotels surveyed indicated a range in occupancy rates from 64.0% to 78.0% over the past 12 months. The ADR's obtained ranged from $185.00 to $295.00 These hotels offer a good range to compare to the subject. According to management for the Pier House Resort & Caribbean Spa, the Caribbean spa building (subject property) only of the hotel indicated a three year average occupancy from 58% to 63% and an ADR from $291.00 to $294.00. The RevPar for the subject ranged from $181.00 to $184.00.

The following table illustrates the competitive data obtained from the STAR report. A copy of the report is included in the addenda.

STAR REPORT - March 2011			
	Occupancy Rate	ADR	RevPAR
Key West			
Year to Date (2 mo)	86.7%	$218.97	$189.83
2010	78.1%	$190.86	$149.21
2009	76.9%	$181.12	$139.22
Key West B&Bs, Guest Houses & Inns			
Year to Date (2 mo)	83.3%	$191.11	$159.23
2010	77.3%	$164.65	$127.24
2009	77.4%	$153.27	$118.61

Source: Smith Travel Research Group.

In February 2011 the hotel occupancy in Key West indicated an occupancy rate of 86.7%, which was a 3.8% increase from 2009. In February 2011, the ADR for Key West was $235.81, which was a 4.5% increase from the same time last year. The 2010 year end occupancy for Key West was 78.1% with an ADR of $190.96. The Key West smaller inns, B&B's and guesthouses indicated a average occupancy and ADR for February 2011 lower than the Key West Hotels at 83.3% and $191.11 respectively. The 2010 year numbers indicated an occupancy of 77.3% and an ADR of $164.65.

HOTEL MARKET ANALYSIS (Continued)

The survey will help measure an appropriate projected ADR, occupancy rate and RevPAR for the subject hotel as 22 units. These facilities will also be utilized to help estimate the market share and penetration rate for the subject hotel.

Hotel	No. Rooms	Year Built	ADR	Occ. Rate	RevPAR
Westin Key West Resort	178	1996	$240.00	74.00%	$187.20
Hyatt Key West Resort	118	1988	$295.00	73.00%	$215.35
Paradise Inn	18	1995	$244.00	64.00%	$156.16
Chelsa House	33	1938-87	$185.00	78.00%	$144.30
Confidential Key West	Over 100	Newer	$238.44	69.00%	$163.96
Spa Building (subject)	22	1989`	$291.00-	58.00%	$181.00-
(with Pier House)			$294.00	63.00%	$184.00

The subject property (22 units) is currently part of the Pier House Resort & Caribbean Spa and is under a long term ground lease from the City of Key West. For valuation purposes, we have assumed the 22 units were being operated as a stand alone property. The management provided a three year history of the spa building from 58% to 63% and a ADR from $291 to $294 with a RevPar from $181.00 to $184.00 The occupancy is below the range of the Comparables and the STAR report but the ADR and RevPar are at the upper end of the range.

For this analysis, I have assumed that as a fee simple, the property will be considered a start up to some extent and will require cost to convert, make changes and time to lease/rent up to stabilized occupancy. Taking into account the subject will be a stand alone property with no benefit of the Pier House with their amenities such as a private beach, parking, pool area and restaurants, the ADR will be lower than what they currently receive. In year 1, the occupancy rate as a start up of 50% is estimated for the subject hotel.

It is presumed that the occupancy rate will increase to 65% in year 2 and stabilize in year 3 at 75%. The year 1 ADR is estimated at $235.00, which is below the current numbers but within the range of the comparables. This is about a 20% decrease in ADR form the current subject average as an operation with the Pier House. Taking into account a 3% annual increase the ADR in stabilized year 3 will be $249.31. A discounted cash flow analysis will be prepared in the Income Capitalization Approach. These assumptions will be applied.

Conclusion

The local hotel market, including the smaller"boutique" hotel or guest house sector, is in demand generated by numerous factors. In 2010, the market showed marked improvement with occupancy rates and ADR up. Based on an increase in air travel and recent surveyed statistics it does appear that the hotels will continue to improve throughout 2011. With stabilized occupancy rates an increase in ADR's and RevPar's should be realized.

ZONING

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 as specifically referenced on the official zoning map.

This segment of Duval Street is the most intense activity center in the historic commercial core. The following light manufacturing and warehousing uses are located within the eastern portion of the HRCC-1 district

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).

In the HRCC-1 Duval Street gulfside district, all uses not specifically or provisionally provided for in this subdivision are prohibited.

The dimensional requirements in the HRCC-1 Duval Street gulfside district are as follows; however, construction may be limited by proportion, scale and mass considerations as expressed through the historic architectural review commission design guidelines:

(1) Maximum density: 22 dwelling units per acre (22 du/acre).
(2) Maximum floor area ratio: 1.0
(3) Maximum height: 35 feet plus an additional 5 feet if the structure has a pitched roof, the design of which is approved by the historic architectural review commission.

(4)Maximum lot coverage:

a. Maximum building coverage: 50 percent.

b. Impervious surface ratio: 70 percent.

5) Minimum lot size: 4,000 square feet.

a. Minimum lot width: 40 feet.

b. Minimum depth: 100 feet.

(6) Minimum setbacks:

a. Front: none.

b. Side: 2.5 feet.

c. Rear: 10 feet.

d. Street side: none.

Summary

The use as as hotel is permitted under the HRCC-1 zoning code. The subject property was completed during a time frame, in which, a different zoning code was applied. The use is grandfathered and considered to be legally non-conforming. The subject property exceeds the density and FAR allowed under current zoning.

STREET IMPROVEMENTS/ACCESS

The subject parcel fronts along the northerly side of Front Street and the westerly side of Simonton Street. These are both two lane, asphalt paved roadways, with a dedicated right-of-ways at 50 feet. The street improvements include sidewalks, concrete curbs, gutters, utility poles and storm sewers.

Site Size

A survey was obtained from Frederick H. Hilderbrant, job 06-335 and was last updated June 14, 2006. The subject site is rectangular shaped contains 21,640 square feet or 0.497 acres. The site has 88 feet of frontage on the northerly side of Front Street and 245 feet of frontage along the western side of Simonton Street.

Access

The site does not have on site parking. The property is assessable from Simonton and from the Pier House parking lot at this time.

SITE DESCRIPTION

Parcel	Hotel
Shape	Rectangular
Dimensions	88.4" feet along Front Street and 245 feet along Simonton Street
Size	21,640 square feet
Topography	At or near road level
Concurrency	Site is improved. No concurrency issues known as improved
Flood Zone	AE, Map Number 12087C 1716 H, Effective Date 3/3/97
Census Tract	9725
Easements	Typical utility easements are presumed to exist along the site boundary.
Encroachments	None noted.
Environmental Note:	Soil tests were not available and the soil is assumed to be free of contaminants and pollutants.
Utilities:	
Water & Sewer	City of Key West
Electrical	FPL
Police & Fire Rescue	City of Key West
Telephone	Bellsouth/AT&T

Summary:

The subject is functionally adequate for commercial or hotel development. The location, size and configuration of the sites contribute to its suitability for the existing hotel. Upon inspection it was revealed that the water to the property is on its own meter. However, the electric is direct from the Pier House hotel. To value the property as a stand alone, it would require its own eclectic. A cost will be estimated.

DESCRIPTION OF IMPROVEMENTS

The subject sizes were based upon a survey provided, and recent project information from Ai Group, job number 0716.00, last dated March 31, 2008. The subject is described as follows:

Property Type:	Hotel	Meeting/Conference Room
Building Size SF (Gross):	24,188, plus balconies	4,500 (Estimate per survey)
Hotel Area SF	16,796	
Meeting Room/Spa SF	7,392	
FAR:	1.12	
Construction Type:	CBS with interior corridors	
Year Built:	1989, Renovated	
Condition:	Good	
No. Stories:	Two	
Parking Spaces:	0	
No. Guest Rooms:	22	

The subject includes a two-story building that contains 22 transient rooms with day spa and conference/meeting rooms. The building was completed/renovated in 1989 and was renovated in 2008. The FF&E was replaced with high quality furnishings in 2008. The property is being run in conjunction with the entire Pier House Resort and Caribbean Spa. It was observed to be in good condition as of the date of appraisal. The building, which includes interior corridors, contains 24,188 gross square feet as well as porches and balconies. There were 20 standard style with either king or double beds, each contain from 300 to 370 ± square feet and 2 suite rooms that are 620 square feet for a total of 22 rooms.

Access to the day spa area is in the middle portion with the spa area and meetings room located on the first floor at the southerly section of the building. The spa portion includes a gym, reception area with 2 nail tech room, 4 massage room, 2 facial rooms and one wet room. The spa also contains a mens and womens bathroom with steam rooms. Access to the meeting rooms are currently within the hotel grounds at the southwest section of the hotel. It is set up with 2,600 square feet of meeting area and offers an entrance area and mens and womens bathrooms. The total area was estimated at 4,500 square feet from the survey provided.

DESCRIPTION OF IMPROVEMENTS (Continued)

The Caribbean building as a stand alone does not have on site parking or pool. The building does offer a private hot tub area 8' x 12', gym and out side patios/balconies from the rooms.

The following is a summary of the hotel building specifications:

Foundation:	Poured concrete.
Structural Frame:	Concrete
Upper Floors:	Poured reinforced concrete and steel frame.
Roof:	Rolled asphalt roof under a modified pichman with insulation (2008).
Exterior Walls:	Concrete Block and Stucco (CBS).
Windows:	Hurricane-panel glass set in aluminum frames.
Patios:	The rooms each include a concrete frame patio with french doors. The second floor rooms include wood covered balconies.
Exterior Doors:	Glass in metal frame.
Interior Doors:	Solid Wood Doors.
Floors:	The hotel rooms include wood /bamboo flooring and tile in the bathrooms. The interior hallways are carpeted. The meeting rooms are carpeted and the spa contains motly tile with several room of wood flooring.
Bathrooms:	The rooms each include a bathroom with tub/shower, sink, vanity and toilet. The renovated rooms include granite counter tops.
Interior Walls:	Painted drywall. The rooms have crown molding. The hallways include chair rail moldings.
Ceilings:	Painted ceilings on the first floor and exposed, fiberglass sprayed, roof structure on the second floors.
Lighting:	Florescent fixtures and recessed

DESCRIPTION OF IMPROVEMENTS (Continued)

Climate control:	Guestrooms are heated and cooled via individual climate control systems.
Electrical:	Three-phase electrical system.
Elevator:	None
Parking:	No parking as a stand alone parcel.
Pool Area:	The property does not have a pool as a stand alone. There is a hot tub on site.
Laundry:	None on site.

Furniture Fixtures & Equipment (FF&E):

Room Furnishings:	The rooms include either double or king beds, a dresser, table, chairs, sitting area, refrigerator, microwave oven and flat screen TV's.
Room Amenities:	The rooms include phones, clocks, internet access and basic cable TV. The rooms also include coffee makers, irons and ironing boards, in room safes and ceiling fans. The rooms have porches and balconies.
Lobby:	The lobby is now being operating as the day spa welcome area.. The flooring is tile and there is a stair case in the entrance area that is carpeted that leads to the second floor rooms.

Age, Condition and Quality:

According to "Marshall Valuation Service" this type of property will be classified as class "C" Good Quality hotel building with an estimated economic life of 50 years.

The hotel building has been well maintained throughout the years and was in good condition at the time of appraisal. The effective age is estimated to be 8 years. The remaining economic life is estimated at 42 years.

Conclusion:

The subject property is similar to other hotels within the market. The rooms are functional and the property conforms to the surrounding uses.

DESCRIPTION OF IMPROVEMENTS (Continued)

Meeting Rooms

The meeting rooms are currently being used as a conference center in conjunction with the Pier House. The space can be separated into three rooms for use and range in size from 600 to 1,000 square feet and a total area of 2,600 square feet. There is a men's and women's facilities and a food prep area. From the survey, provided an estimate for the entire space of 4,500 square feet was estimated. In my opinion, this space would not be needed as a stand alone hotel and would be leased out to a third party as a commercial or restaurant use. The direct frontage on Front Street with the high volume of tourism would lend it self for many uses.

Day Spa Area

The remaining area is the day spa which contains 2,892 square feet. The spa area has a reception area, private bathrooms with shoes and steam rooms for men and women as well as facial, nail and massage rooms. The interior is of higher quality and was updated in 2008. The interior flooring is ceramic tile and the rooms have small sinks with granite counter tops. It was determined that some of this space will be needed for hotel operations as a stand alone. However, the remaining space will continue to be used as a spa area and cater to its guest as well as the public.

HIGHEST AND BEST USE

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, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property—specific with respect to the user and timing of the use—that is adequately supported and results in the highest present value.

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute), 2010.

The definition immediately above applies specifically to the Highest and Best Use of 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. There are four tests that a property must meet in order to indicate Highest and Best Use. The use must be physically and legally possible, financially feasible, and must be the most productive use among the possible alternative uses.

Physically Possible

The subject property is within the HRCC-1 Zoning District. The parcel has adequate frontage, depth and size to support the construction of most of the uses allowed under the HRCC-1 zoning codes. There is adequate access to utilities and the roadways. Subsoil conditions are assumed to be adequate. The surrounding uses include a mix of hotels, commercial uses related to retail, restaurant, etc.

Legally Permissible:

Any proposed use for the site must be legal; it must conform to zoning ordinances, deed restrictions, private use agreements or public historical use controls.

The subject is zoned HRCC-1, which allows for a variety of retail, hotel, office and residential development. Hotel use is permitted on the subject site, as if vacant.

HIGHEST AND BEST USE (Continued)

Financially Feasible:

The use for the site must provide a yield on invested capital sufficient to warrant the investment. The possible uses for the subject parcel, as if vacant, would be for residential, retail, hotels, professional office and/or mixed use development. Taking into account the size and frontage of the site the most probable use would either be a small hotel or commercial or restaurant building. The subject property is situated on Front Street and Simonton Street, which offers a high volume of foot traffic from tourist.

According to the Smith Travel Report Hotel occupancies and ADR have improved in 2010 from 2009 and has reported stronger number in 2011. The year end occupancy in Key West 78.1%, which is up 1.2% from 2009. The ADR was $190.96, which is up $9.84 from 2009. The Occupancy and ADR are both up 3.4% as of March 2011 from the same time in 2010.

The commercial rents in the old town range from a listing of $18.00 to $50.00 per square foot depending on location. The space at 524 Front Street is listed at $25.00 per square foot net.

The local real estate downturn has negatively impacted the local markets due to the general downsizing of many mortgage, construction/development, and other real estate oriented businesses that relied upon the recent residential boom. Credit tightening for residential and commercial real estate has slowed the driving force of the local economy. Few, national or local retailers appear to be expansion mode in comparison to the rapid pace set in 2004 through 2008.

Overall, hotel and or commercial development, in any form, is not considered to be financially feasible at this time. In most cases, replacement cost new far exceeds market value at this time. Therefore a positive residual to the land will not be realized.

Maximally Productive

Due to the current economic conditions no form of commercial or hotel development is financially feasible at this time. Construction lending is at a stand still for almost all types of projects.

The only logical use for the subject site as vacant would be to land bank until any of the allowable uses are once again a financially feasible alternative.

Conclusion - Highest and Best Use as if vacant

The highest and best use of the subject property, as if vacant, is to land bank until either commercial and/or hotel development is once again a feasible option. The potential for future hotel usage would be limited as the zoning would allow less units than what is in place today.

HIGHEST AND BEST USE (Continued)

Highest and Best Use as Improved

The subject property is improved with 22 rooms that includes a spa service and meeting rooms. The property is being used in conduction with the Pier House Resort & Caribbean Spa as the subject is under a long term ground lease from the City of Key West to the Pier House. The improvements are physically possible with the hotel, as an individual parcel, being a legal non conforming use. Hotel development is permitted under the HRCC-1 zoning code but the density and lot coverage is exceeded under the current zoning.

The existing hotel is considered to be financially feasible because it does return a positive value to the land as well as having a substantially long remaining economic life. The property was upgraded in 2008 and is in good condition. According to management from the Pier House, the ADR (Average Daily Rate) for the spa building has ranged from $291 to $294 with an average occupancy of 58% to 63% the last three years. The RevPar ranged from $181.00 to $184.00.

The hotel is projected to operate within market parameters, as set by competitive hotels. The results of this appraisal show an overall market value that is considerably higher than the market value, as if vacant, and available for re-development. Therefore the most financially feasible and maximally productive use of the property is for the continuation of the existing hotel operation.

The highest and best use, as improved, is for the continuation of the existing hotel operation.

SCOPE OF WORK

As a part of this appraisal, the appraiser has made a number of independent investigations and analysis.

Blair C. Lee, MAI completed an inspection of the subject property on March 6 and 7, 2011. An exterior only inspection was done on April 25, 2011.

The hotel operator management for the Pier House only provided the appraiser with a range of the spa building in terms of ADR, Occupancy and Rev Par for the past three years. The spa building is being operated in conjunction with the Pier House Spa and Caribbean Resort as it is under a long term ground lease from the City of Key West. I requested detailed information for the entire resort operation as well as the income expenses attributed to the spa and meeting room portions. This information was not provided by the management or ownership of the Pier House. The appraiser was provided with a copy of the ground lease for parcel and a survey with floor plans.

Since, the appraiser was not provided with critical data for the valuation of the hotel as a whole, the value will be based upon the value as a stand alone hotel with 22 rooms with spa and meetings rooms. The appraiser's projections, of revenue and expenses, will be based on collected data from past hotel assignments along with current market data from nearby competitive hotels. The appraiser was able to extract market data from discussions with local hotel managers and office files. The subject will be valued as a stand alone property in fee simple under a Hypothetical condition as the property is currently under a ground lease and is being operated in conjunction with the Pier House as a whole.

Comparable hotel sales relied upon were confirmed through public records and with knowledgeable parties to the transactions where possible with primary and secondary data utilized. Confirmation with principals is often not possible due to their inaccessibility during the time frame over which the appraisal is being prepared. In the course of the sales investigation, proprietary information is often withheld from the appraisers. Such information, which is not a matter of public record is also not available to the general market and for that reason, the market is imperfect.

Real estate taxes and zoning information was obtained via various websites such as www.Municode.com and those associated with specific offices within the Monroe County government**.** Comparable hotel sales data was obtained from local market participants (i.e. brokers); Loop Net, Keys MLS, and public records.

All data is verified to the best of our ability. The appraisers have no legal or technical expertise and if legal agreements and other factual data under review appear on the surface to be reasonable, the information is accepted as accurate. The extent of this verification is to confirm that the documents exist and to review them. It is assumed that they are legal and valid. The appraisers do not have the ability to audit, make legal interpretations, or to detect fraud. No in depth investigation is conducted of the individual lease documents nor is verification made with tenants regarding rent levels and terms.

<u>SCOPE OF WORK</u> (Continued)

A hotel/motel is a unique real estate investment that derived value from:

> FF&E including: rooms, dining and lounge furnishings, kitchen equipment and items of decor. These items can account for up to 25% to 30% of the value.
>
> Retail type business requiring specialized management. They are labor intensive representing as much as 40% of gross revenues in wages and benefits.
>
> Inventories and working capital for lodging facilities is expensive and necessary.

In order to properly value this property, as a hotel, all of the above items must be included. Separate values for hotel business and real estate are very difficult to estimate. These two factors must be considered together to accurately estimate the market value of a property operated as a hotel. Therefore the market value determination in this appraisal encompasses the entire property including the FF&E and the going concern as a hotel.

The existence of any environmental hazard such as the presence of hazardous wastes, toxic substances, radon gas, asbestos-containing materials, urea-formaldehyde insulation, etc, which may or may not be present in or on the subject property or any site within the vicinity of the property was not observed by the appraiser and the appraiser has no knowledge of any such environmental hazard. The appraiser, however, is not qualified to detect such substances. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The user of the report should therefore consult an attorney,contractor, accountant, engineer or other experts as necessary to verify technical data which could impact on the value of the property. Also, no independent investigation of concurrency matters regarding the subject or any comparable sale was made.

There are three primary approaches to value which should be considered. They are: (1) the Cost Approach, (2) the Sales Comparison Approach, and (3) the Income Capitalization Approach.

The Cost Approach utilizes the value of the subject land as estimated from the market together with a replacement cost estimate of the structures and site improvements. From this a deduction must be made for accrued depreciation: physical, functional, and external, if any, to provide an additional estimate of the total property value.

The age of the improvements and current market conditions negate the reliability of the Cost Approach. As such, the Cost Approach will not be prepared. However, an indication of insurable value will be provided.

SCOPE OF WORK (Continued)

The Sales Comparison Approach involves an investigation and inspection of recent sales in the area as nearly similar as possible to the subject. The sale properties (comparable sales) are then compared with the subject, and adjustments made for dissimilar characteristics.

The Income Capitalization Approach, designed for application to income producing properties, utilizes a technique of capitalizing the net income into an estimate of value. The factors included in the technique are derived from a study of other similar type income properties.

In all cases, except an appraisal of vacant land, it is necessary that all approaches should be considered and that those applicable approaches to be utilized to form an estimate of value.

When more than one approach is used, although the indications of value may not be identical, they should establish a reasonable range and act as a cross check upon one another.

After arriving at the value estimates and establishing a range of value (by more than one approach), the appraiser must correlate these estimates into a single conclusion of value. In formulating this conclusion, the appraiser must determine which approach is best supported and conforms realistically with the multitude of factors relating to the subject property.

This appraisal will include all applicable methods of valuation.

INSURABLE VALUE

Per request of the client, an insurable value for the subject will be estimated. Please be advised that the appraisers are not licensed contractors and have not received replacement cost bids specifically regarding the subject. Additionally, construction costs have continued to escalate over recent months. Therefore, the following is an estimate and should not be relied upon exclusively in determining the insurable value of the subject. The client is advised to consult a professional that has had experience in underwriting insurance policies for commercial properties similar to the subject.

According to The Dictionary of Real Estate Appraisal, 5th Edition, 2010, insurable value is defined as a type of value for insurance purposes. It is that portion of the value of an asset or asset group that is acknowledged or recognized under the provision of an applicable loss insurance policy. This is the value used by insurance companies as the basis for insurance. Value used by insurance companies as the basis for insurance. Often considered to be replacement or reproduction cost less deterioration and non-insurable items. Sometimes cash value or market value but often entirely a cost concept (Marshall & Swift)."

The Marshall Valuation Service will be utilized in estimating insurable value for the subject property. The following is the estimate of insurable value.

INSURABLE VALUE ESTIMATE	
Improvement	Hotel
Cost Source	Marshall Valuation Service
Section & Page	Section 11, Page 22 (dated 11/10)
Building Structure Class	C - Limited Service
Type	Good to Excellent
Base Square Footage Cost, Say	$125.00
Multipliers:	
Current (04/11)	1.03
Local (04/11)	1.17
Adjusted Base Cost Per Square Foot	$150.64
Gross Building Area (SF)	24,188
Insurable Value	$3,643,620
Insurable Value (Rounded)	$3,650,000

INCOME CAPITALIZATION APPROACH TO VALUE

The Income Approach Capitalization Approach a comparative approach to value that considers income and expense data relating to the property being valued and estimates value through a capitalization process. Capitalization relates income (usually net income) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (whereby an overall capitalization rate or all risks yield is applied to a single years income), yield or discount rates (reflecting measures of return on investment) applied to a series of incomes over a projected period, or both. The income approach reflects the principles of substitution and anticipation.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th Edition (Chicago: Appraisal Institute), 2010.

Direct Capitalization is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted or developed from market data. Only a single year's income is used. Yield and value changes are implied but not identified.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th Edition (Chicago: Appraisal Institute), 2010.

The Discounted Cash Flow (DCF) analysis is a procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams and the quantity and timing of the reversion, and discounts each to its present value at a specified yield rate.

Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th Edition (Chicago: Appraisal Institute), 2010.

The discounted cash flow analysis is most effective when the subject property is not at stabilized occupancy or when the contract rents are not equivalent to market. The DCF is basically used in estimating the leased fee value of a property. This method is also appropriate when the leases are structured in a way that the terms, renewal options and annual increases vary.

The subject is being operated in conjunction with the entire Pier House Resort and Caribbean Spa and the appraiser was not provided with an overall occupancy or operating statements of the hotel. To value the property the appraiser has relied upon historic data provided, the preceding Hotel Market Analysis and competitive properties in the immediate market. For the purpose of this appraisal both the direct capitalization and discounted cash flow methods will be applied.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

A five year discounted cash flow analysis using Excel software will be prepared. The cash flow will begin as of the date of appraisal and run five years. In order to complete this cash flow several assumptions will be made on gross revenues, operating expenses, an Internal Rate of Return (IRR) and a terminal capitalization rate at the time of reversion or at the end of the discounted period.

The discounted cash flow analysis will be broken down into three sections. The first section will project the total gross revenues, attributed to the hotel operation, over the holding period. The projected room revenues will be extracted from similar quality hotels within the neighborhood. This section will also measure the growth rates in ADR and annual occupancy. Additional revenues such as food and beverage, spa services, telephone and miscellaneous income will also be projected.

The second section analyzes the operating expenses for the subject's hotel operation. Once again comparable data from similar quality hotels will be relied upon. The third and final section will be the estimation of the investor parameters. This includes the estimation of an Overall Rate of Return (OAR), reversionary capitalization rate and an Internal Rate of Return or discount rate.

It was determined that as a stand alone property, the meetings rooms would not be needed for the operation of a small 22 transient room hotel with spa services. This space would generate additional income if leased to a third party for a restaurant or other commercial use. A estimate of market rent will be determined at the end of the hotel analysis.

Total Gross Revenues

Gross revenues for the subject hotel are made up of room revenues and other income that is comprised of telephone usage, vending, spa operations, airport shuttle service, etc. The subject property operates with 22 guest rooms. The building includes queen and king standard rooms averaging over 300 square feet for their standard rooms. There are also two suites of 620 square feet. The management indicated that over the last three years the ADR for the Spa building ranged from $291 to $294 and the average occupancy was from 58% to 63%. However, the results were based on the property being operated in conjunction with the Pier House Resort as a whole with the benefit of all the amenities a full service hotel offers.

Typically, additional revenues are realized for telephone usage and miscellaneous income related to laundry services and vending machines.

A discussion of each revenue category is located over the following pages.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Total Gross Revenues (Continued)

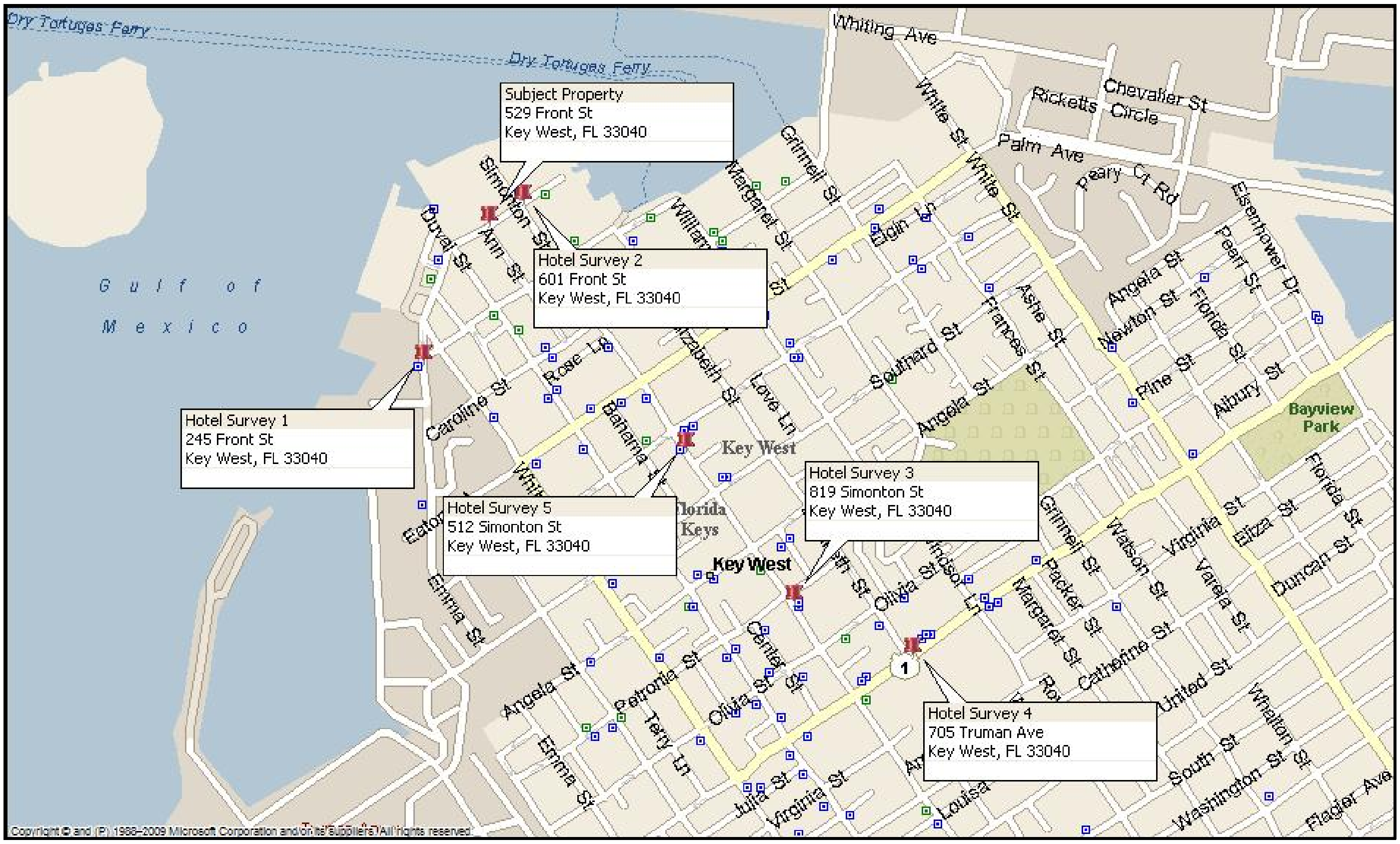
Room Revenues:

The subject property has a total of 8,030 available room nights (22 rooms x 365 days). In order to help estimate an occupancy rate and ADR a Market Survey was conducted. This survey included the primary competitive hotels located within the immediate market. Please refer to the following table for a summary of each of the competitive hotels. A Hotel competitive map can be seen on the following page.

COMPETITIVE HOTEL MARKET SURVEY					
Competitive Hotel	1	2	3	4	5
Hotel Name	Westin Key West Resort	Hyatt Key West Resort & Spa	Paradise Inn	Chelsa House	Heron House
Address	245 Front Street	601 Front Street	819 Simonton Street	705 - 709 Truman Avenue	512 - 520 Simonton Street
City	Key West	Key West	Key West	Key West	Key West
# Rooms	178	118	18	33	23
Year Built	1996	1988	1995	1938 - 87	1930 - 1993
Rack Rates: Standard Deluxe/Water View/Other	$229 - $449 $529- $827	$290.00 - $570.00	$179 - $339 $409 - $699 (2 Br)	$119 - $269	$116 - $278 $148 -$378
Average Daily Rate (Estimated)	$240.00	$295.00	$244.00	$185.00	N/A
Occupancy Rate	78%	73%	64%	78%	N/A
Rev PAR	$187.20	$215.35	$156.16	$144.30	N/A
Amenities	Full Service, Luxury, pools, meeting rooms, parking, etc.	Full Service, Luxury, pools, meeting rooms, parking, etc. $20 Resort fee	Parking, internet, pool, breakfast, laundry service	No parking, internet, pool, breakfast, laundry service, front desk	No parking, internet, pool, breakfast, laundry service, front desk

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Hotel Survey Map



INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

These competitive hotels included both full service resort and smaller hotels and/or guest houses. The indicated ADR's for the competitive hotels are within the range of what the subject could command.

The quoted rack rates for the subject hotel are in line with the market. The Rooms have a rack rate from $239 to $429 for the standard rooms as part of the entire hotel. It was discussed earlier that the ADR would be lower than what is it achieving today in operation with the Pier House due to the amenities as a full service hotel. In this analysis, I have assumed the property will be a start up as it will be run as a stand alone hotel.

An ADR was estimated at $235.00 for Year 1 , which is 20% below the average ADR of $292.00 for the subject with the Pier House. The national indicators presented earlier show that ADR's have been increasing and is up by about 2.60% since the last quarter for Limited Service hotels. The ADR's in Key West are up 3.4% as of March 2011. Traditionally ADR's tend to increase from 2% to 5%. For the purpose of this appraisal it is presumed that as the subject hotel stabilizes the ADR will increase by an annual rate of 3% throughout the remainder of the cash flow analysis. The occupancy rate will increase by 15% annually or to 65% in year 2 and 75% in year 3. Based on the competitive hotels stabilized operations for the subject hotel is estimated to occur in year 3. Therefore the occupancy rate will remain fixed at 75% for years 4 and 5.

The occupancy rate, ADR and resulting RevPAR over the five year cash flow analysis are estimated as follows:

Year	Occupancy	ADR	RevPAR
1 - Start up	50%	$235.00	$117.15
2	65%	$242.05	$157.33
3	75%	$249.31	$186.98
4	75%	$256.79	$192.59
5	75%	$264.49	$198.37
Reversion	75%	$272.43	$204.32

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Another way of determining if the projected total room revenues are reasonable is by comparing the Revenues Per Available Room (RevPAR) for the subject to the competitive hotels. The projected RevPAR for the subject hotel is estimated at $117.50 per room ($235.00 ADR x 50%) during year 1. The property will be stabilized in Year 3, which indicates a RevPar of $186.98. The competitive hotels indicated a range in Rev Par's from $144.300 to $215.35 per room. The projected RevPAR for the subject hotel is in line with the competitive hotels. For further support, I also considered the Smith STAR Reports for Key West. As discussed earlier the RevPar for 2010 was $149.21 and the first two months in 2011 averaged $189.83. The subject RevPar in year one and year two is within this range.

Other Income:

In a smaller hotel other income is typically accounted for by telephone usage, vending machines, airport shuttle service, etc. In surveying similar type hotels it was found that revenues generated by these generators is less than 5%.

The subject is currently being run in conjunction with the Pier House, which runs a full service spa service and meeting/convention rooms within this building. In my opinion the meetings rooms are a benefit to the Pier House as a whole as they can accommodate such users and events and this would not apply to a smaller hotel due to parking, amenities and number of rooms. However, this space is situated directly on Front Street and Simonton Street and benefits from a high volume of tourism foot traffic. This space has been estimated at approximately 4,500 rentable square feet. This space will be leased to a third party to run as a commercial operation such as a restaurant or retail type use. The space and rent will be estimated separately and will not be included as part of the hotel operating expenses. I will estimate the market rent and Net operating income after the hotel discussion.

However, the spa area with gym will remain. According to a survey provided the hotel section contains 16,796 square feet with 7,392 square feet remaining for the spa and meeting rooms. By deducting the 4,500 square feet this would leave approximately 2,892 square feet of the spa area. This includes the reception area, gym, common walkways and spa rooms. In my opinion most or all of this space would be needed for the operation of the hotel for 22 rooms. The remainder would still offer spa services as it could attract both hotel clients as well as outside tourist. The service or fees generated would help enhance the property but would probably not generate much additional income. Therefore, I have estimated 3% for other income.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

The projected room and gross revenues for years 1 through 3 are illustrated as follows:

Room Statistics:						
Total Rooms	22		22		22	
Occupancy Rate	50.0%		65.0%		75.0%	
Average Daily Rate	$235.00		$242.05		$249.31	
RevPAR	$117.50		$157.33		$186.98	
Year	**1**		**2**		**3**	
	Amount	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**
REVENUES						
Rooms	$943,525	97.09%	$1,263,380	97.09%	$1,501,479	97.09%
Other	$28,306	2.91%	$37,901	2.91%	$45,044	2.91%
Total Gross Revenues	$971,831	100.00%	$1,301,281	100.00%	$1,546,523	100.00%

Start Up Cost

The subject is currently leased to the Pier House Resort & Caribbean Spa and for this analysis I have valued the property in fee as a stand alone property. Therefore, I have estimated start up cost needed as a stand alone. According to management the electric is through the hotel and there will be a conversion cost to set up its own electric. Also, the entrance is set up through the Pier House property. The new entrance will need to be from Simonton Street and the lobby must be turned around. There will take equipment cost for the hotel as stand alone, new entrance as well as needed hotel supplies. According to the HVS 2010 development survey, pre-opening and working capital cost range from $900 to $25,700 per room for midscale hotels. The luxury hotels cost ranged from $10,400 to $80,600 per room. I have used a cost at $15,000 per room or $330,000 for start up cost, utility hook up, etc. This will be a year one deduction only and I have used a total of $350,000 for the start up cost.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Operating Expenses:

Operating expenses consist of departmental expenses, undistributed operating expenses and fixed expenses.

Departmental Expense items relate directly to the sale and upkeep of guest rooms, telephone expenses and general upkeep of public spaces. Salaries, wages and employee benefits account for a substantial portion of this category. The wages paid to maids and maintenance personnel are relatively fixed as are payroll for front desk personnel, public area cleaners, the housekeepers and assistant manager.

Undistributed Operating Expenses typically include administrative and general expenses, sales and marketing, repairs and maintenance and utilities. Included within sales and marketing are commission and reservation expenses. These items are usually based on room sales and therefore are highly occupancy and rate sensitive.

Operating supplies, uniforms and other operating expenses are only slightly affected by the changes in volume and are classified as slightly occupancy sensitive. Contract cleaning is a relatively fixed expense, but it comprises only a small portion of the total category. Also included in this category are utility expenses such as telephone, electric, and water and sewer.

Also included in this category is a management fee. Hotel managers in the South Florida and Florida Keys indicated a management fee from 2% to 5% of total gross revenues. I have used a fee at 3% of the total gross revenues.

Fixed Expenses include: real estate and personal property taxes; and property insurance.

I was not provided with any operational expenses for the Pier House Resort as a whole nor the subject spa building. Therefore, the expenses were estimated using hotel expenses from other hotel operations.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

In order to help estimate the operating expenses for the subject hotel as a stand alone, several hotels were be surveyed or information was obtained. For confidentiality purposes the names and location of the hotels will not be disclosed. The table on the following page illustrates the operating expenses for the comparable hotels.

COMPARABLE HOTEL PROPERTY EXPENSES				
Property	A	B	C	D
Location	Monroe County	Monroe County	Monroe County	Monroe County
Rooms/Type	76 Limited	38 Guest house	33 Guest house	18 Small Inn
ITEM	% OF GROSS	% OF GROSS	% OF GROSS	% OF GROSS
Departmental Expenses:				
Rooms	21.37%	5.11%	24.8%	30.0%
Food/Beverage	0.0%	17.24%	0.0%	2.5%
Other	0.44%	4.94%	0.0%	0.0%
Total Departmental Expenses	23.77%	27.28%	24.8%	32.50%
Departmental Profit	76.23%	72.72%	75.20%	67.5%
Undistributed Expenses:				
Administrative	7.49%	23.76%	7.0%	4.9%
Sales & Marketing/other	3.20%	13.22%	7.6%	7.6%
Repairs & Maintenance	12.98%	1.59%	2.4%	2.5%
Energy	7.48%	6.68%	6.6%	9.4%
Management Fee	3.00%	0.00%	0.00%	0.0%
Total Undistributed	34.15%	45.24%	23.6%	24.4%
Fixed Expenses:				
Real Estate Taxes	2.23%	3.00%	2.70%	3.4%
Property Insurance	9.40%	2.88%	2.20%	2.0%
Reserves	0.0%	0.0%	0.0%	0.0%
Total Fixed	11.63%	5.88%	4.70%	5.4%
Total Operating Expenses	67.55%	77.23%	53.10%	62.30%

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Departmental Expenses

Room expense include; housekeeping, related payroll, front desk and reservation salaries; cleaning supplies; guest room supplies; reservation costs; uniforms; contract cleaning; television cost; management; and other. As indicated earlier, I was not provided with any expenses information in regards to the Pier House or Caribbean spa building.

The comparable hotels indicated similar departmental expenses in the 23.77% to 32.50% range. For the purpose of this appraisal a departmental expense of 25.0% is estimated. This ratio will be held constant throughout the five year cash flow period.

The departmental expenses for the subject hotel are estimated at 25.0% during year 1 and throughout the remainder of the cash flow analysis. The departmental profit is estimated at 75.0%. The projected expense for the subject hotel is in line with the comparable hotels and is, therefore, considered to be reasonable.

Undistributed operating expenses:

Administrative and general include; office supplies, bad debt, credit card fees, travel and entertainment, postage and telephone, contract labor and licenses. The expense comparable properties indicated a range from 4.9% to 23.76%. The high end or Comparable B included a management expense and payroll for rooms. The administration fees for the subject was estimated 7%.

Marketing includes advertising, dues and subscriptions, internet, travel and entertainment, promotions and trade shows. The comparable hotels indicated marketing expenses from 3.2% to 13.22%. The marketing expense for the subject hotel is estimated 6%.

Repairs and maintenance include; salaries for maintenance personal; general repairs, HVAC, furniture and fixtures, landscaping, etc. The comparable expense hotels indicated from 1.5% to 12.98%. A repairs and maintenance expense of 5% is estimated for the subject hotel.

Energy expenses includes cable, electric, water and sewer and trash removal services. The comparable properties indicated a range from 6.6% to 9.4%. The whole dollar amount for energy expenses tend to remain, somewhat, consistent, while the percentage of gross revenues varies because of occupancy. For the purpose of this appraisal an energy expense of 7% is estimated.

A management fee is based on 3% of the total gross income.

<u>INCOME CAPITALIZATION APPROACH TO VALUE</u> (Continued)

The table on the following page illustrates the undistributed operating expenses estimated for the subject hotel over years 1 through 3.

Year	**1**		**2**		**3**	
	Amount	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**
Undistributed Expenses						
Administrative	$68,028	7.00%	$91,090	7.00%	$108,257	7.00%
Sales & Marketing	$58,310	6.00%	$78,077	6.00%	$92,791	5.00%
Repairs & Maint.	$48,592	5.00%	$65,064	5.00%	$77,326	5.00%
Energy	$68,028	7.00%	$91,090	7.00%	$108,257	7.00%
Management Fee	$29,155	3.00%	$39,038	3.00%	$46,396	3.00%
Total Undistributed Exp.	$272,113	28.00%	$364,359	28.00%	$433,026	28.00%

The estimated undistributed expenses for the subject hotel is in line with the comparable hotels. The same ratios will be held constant throughout the cash flow analysis.

Fixed expenses include taxes and insurance.

The real estate taxes for year 1 was estimated at $52,000. The insurance expense for the hotel is projected at $29,155 or 3% for year one.. The taxes and insurance are anticipated to increase 3% annually throughout the cash flow analysis. The projected operating expenses for the subject property during years 1 through 3 is presented on the following page.

<u>Conclusion</u>:

Discussions with several property managers revealed that operating expenses could run anywhere from 50% to 75% of the total gross revenues. The operating expenses basically include all costs associated with the everyday running of a hotel. Any minor replacement items such as carpeting and flooring are included under repairs and maintenance. Larger replacement items such as roof replacements and major capital expenditures and will be addressed under reserves for replacements.

The estimated operating expenses for the subject hotel are at 61.35% for year 1. The comparable hotels indicated a range from 53.10% to 77.23%. Since the projected operating expenses for the subject property is in line with the market they will be estimated in this analysis.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Room Statistics:						
Total Rooms	22		22		22	
Available Room Nights	8,030		8,030		8,030	
Occupied Room Nights	4,015		5,220		6,023	
Occupancy Rate	50.0%		65.0%		75.0%	
Average Daily Rate	$235.00		$242.05		$249.31	
RevPAR	$117.50		$157.33		$186.98	
Year	**1**		**2**		**3**	
	Amount	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**
REVENUES						
Rooms	$943,525	97.09%	$1,263,380	97.09%	$1,501,479	97.09%
Other Income	$28,306	2.91%	$37,901	2.91%	$45,044	2.91%
Total Gross Revenues	$971,831	100.00%	$1,301,281	100.00%	$1,546,523	100.00%
OPERATING EXPENSES						
Departmental Expenses						
Rooms & Other	$242,958	25.00%	$325,320	25.00%	$386,230	25.00%
Total Departmental Exp.	$242,958	25.00%	$325,320	25.00%	$386,230	25.00%
Departmental Profit	$728,873	75.00%	$975,961	75.00%	$1,159,892	75.00%
Undistributed Expenses						
Administrative	$68,028	7.00%	$91,090	7.00%	$108,257	7.00%
Sales & Marketing	$58,310	6.00%	$78,077	6.00%	$92,791	5.00%
Repairs & Maint.	$48,592	5.00%	$65,064	5.00%	$77,326	5.00%
Energy	$68,028	7.00%	$91,090	7.00%	$108,257	7.00%
Management Fee	$29,155	3.00%	$39,038	3.00%	$46,396	3.00%
Total Undistributed Exp.	$272,133	28.00%	$364,359	28.00%	$433,026	28.00%
Fixed Expenses						
Real Estate Taxes	$52,000	5.35%	$53,560	5.51%	$55,167	5.68%
Insurance	$29,155	3.00%	$30,030	3.09%	$30,930	3.18%
Total Fixed Expenses	$81,155	8.35%	$83,590	8.60%	$95,386	8.86%
Total Operating Expenses	$596,225	61.35%	$773,269	61.60%	$905,754	61.86%

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Reserve for Replacement:

Usually the only items which would be replaced during a typical holding period would be the roof, air-conditioning units and carpeting and flooring. Due to the fact that deterioration of the roof is over a substantial period of years, the timing of its replacement can be anticipated rather accurately. For this reason, it appears typical within the market for buyers and sellers to recognize the repair of the roof as a normal maintenance item and the replacement of the roof as an item by which to discount the sale price.

Air-conditioning units typically have a life of 8 to 10 years. Carpeting and flooring have a life of 3 to 5 years. For this reason, it appears typical within the market for buyers and sellers to recognize the repair of these as a normal maintenance expense. Replacement of these items is generally treated as a capital expenditure and not included in operating expenses.

For this reason, reserves for the replacement of these items have not been allocated. Furthermore, the capitalization rates are typically not extracted from the comparable sales did not include a reserve for replacements.

Net Operating Income Projections

The chart on the following page illustrates the net operating income projections for the subject hotel operation.

Caribbean Spa Building

Room Statistics:						
Total Rooms	22	22	22	22	22	22
Available Room Nights	8,030	8,030	8,030	8,030	8,030	8,030
Occupied Room Nights	4,015	5,220	6,023	6,023	6,023	6,023
Occupancy Rate	50.0%	65.0%	75.0%	75.0%	75.0%	60.0%
Average Daily Rate	$235.00	$242.05	$249.31	$256.79	$264.49	$272.43
RevPAR	$117.50	$157.33	$186.98	$192.59	$198.37	$204.32
Year	**1**	**2**	**3**	**4**	**5**	**Reversion**
	Amount	**Amount**	**Amount**	**Amount**	**Amount**	**Amount**
REVENUES						
Rooms	$943,525	$1,263,380	$1,501,479	$1,546,523	$1,592,919	$1,640,706
Other Income	$28,306	$37,901	$45,044	$46,396	$47,788	$49,221
Total Gross Revenues	$971,831	$1,301,281	$1,546,523	$1,592,919	$1,640,706	$1,689,927
OPERATING EXPENSES						
Start Up Cost	$350,000					
Departmental Expenses						
Rooms & Other	$242,958	$325,320	$386,230	$398,230	$410,177	$422,482
Total Departmental Exp.	$242,958	$325,320	$386,230	$398,230	$410,177	$422,482
Departmental Profit	$728,873	$975,961	$1,159,892	$1,194,689	$1,230,530	$1,267,445
Undistributed Expenses						
Administrative	$68,028	$91,090	$108,257	$111,504	$114,849	$118,295
Sales & Marketing	$58,310	$78,077	$92,791	$95,575	$98,442	$101,396
Repairs & Maint.	$48,592	$65,064	$77,326	$79,646	$82,035	$84,496
Energy	$68,028	$91,090	$108,257	$111,504	$114,849	$118,295
Management Fee	$29,155	$39,038	$46,396	$47,788	$49,221	$50,698
Total Undistributed Exp.	$272,113	$364,359	$433,026	$446,017	$459,398	$473,180
Fixed Expenses						
Real Estate Taxes	$52,000	$53,560	$55,167	$56,822	$58,526	$60,282
Insurance	$29,155	$30,030	$30,930	$31,858	$32,814	$33,799
Total Fixed Expenses	$81,155	$83,590	$95,386	$88,680	$91,341	$94,081
Total Operating Expenses	$596,225 (1)	$773,269	$905,754	$932,937	$960,915	$989,742
NET OPERATING INCOME	$125,606	$528,013	$640,768	$659,992	$679,791	$700,185

(1) Excludes Start up cost

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

In the next step, I have determined that the meeting rooms should be leased out to a third party such as a restaurant or retail use.

Meeting Rooms

The meeting room space contains approximately 4,500 square feet and has direct frontage on Front and Simonton Street.

Market Rent Survey

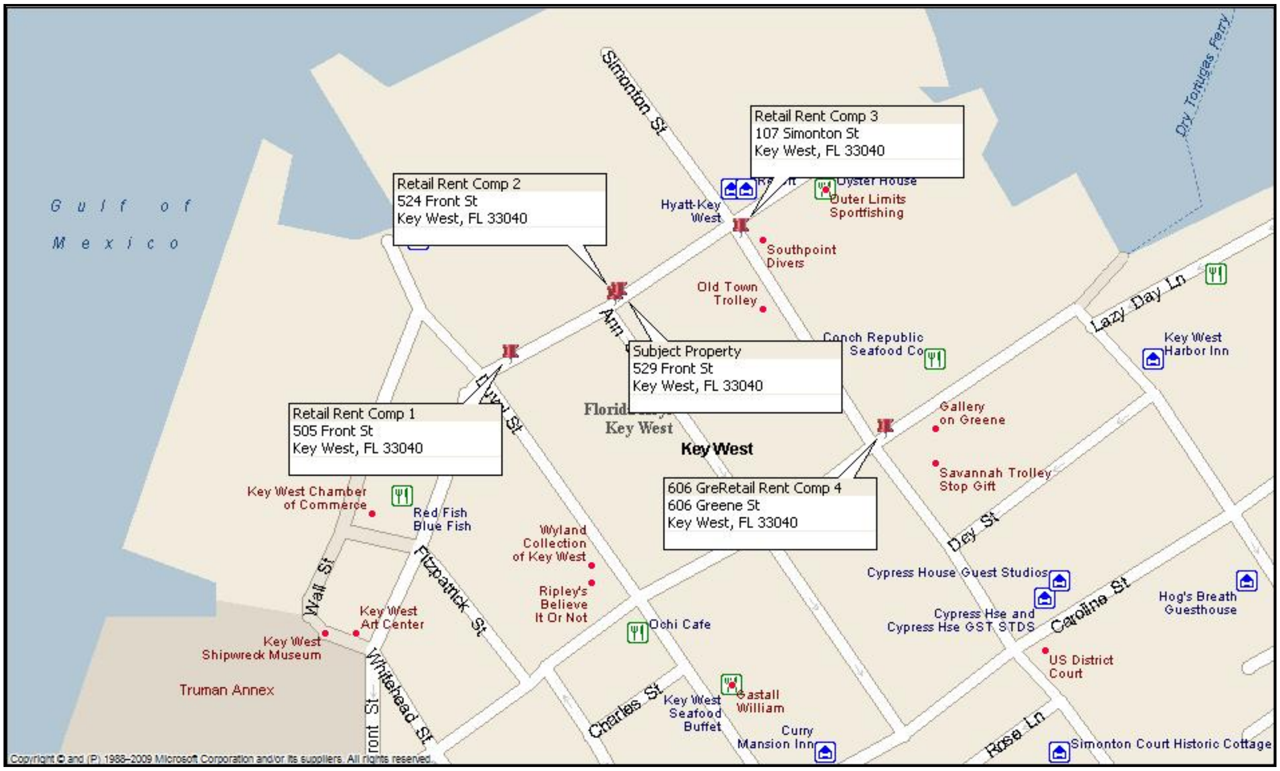
A Market Rent Survey was conducted to determine a base market rent for the subject space. All the rent comparable were on a net lease basis and my analysis will be based on a net lease. In a net lease the tenant will be responsible for the expenses associated with the building. A limited rental analysis of commercial buildings was conducted.

MARKET RENTAL SURVEY				
Rental	1	2	3	4
Location	505 Front Street	524 Front Street	107 Simonton Street	606 Green Street
City, State	Key West, FL	Key West, FL	Key West, FL	Key West, FL
NRA/SF	2,811	9,730	5,605	2,570
Property Type	Restaurant	Retail/office	Commercial	Restaurant
Condition	Good	Good	Average	Average
Rent Per SF	$44.00 - Actual	$25.00 Asking	$26.05 Asking	$24.81 Actual
Rent Type	Net	Net	Net	Net
Pass Through Exp.	$6.00 (Est)	$7.00	$5.70	$6.00 (Est)
Gross Rent	$50.00	$32.00	$31.75	$30.81

The comparable rentals indicated a range from $24.81 to $44.00 per square foot on a net basis and from $30.81 to $50.00 on a gross lease basis. The buildings are comparable to the subject property in age and/or condition. All the comparables are located in the old town area of Key West. Comparable Rentals 1 and 4 are actual leases and Comparables 2 and 3 are asking rates. Rent Comparable 1 is Island Dogs and was leased in better times and sets the upper limit. The leasing agent indicated that he is close to a deal for Rent Comparable 2 at $22.00 per square foot. Based on the current market and the leases above, I have concluded at $24.00 per square foot for the subject space.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Retail Commercial Rent Comparables Map



INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Potential Gross Rental Income (P.G.I.):

The total potential gross rental income for the subject space is estimated at $24.00 per square foot net or $108,000 (4,500 SF x $24.00/SF).

Vacancy and Collection Losses

The subject space is a single-user building. Typical free-standing buildings are either vacant or 100% occupied. A vacancy and collection loss of 10% is estimated.

Effective Gross Income

The effective gross income is calculated as follows:

Potential Gross Rental Income:	$108,000
Less: Vacancy and Collection Losses @ 10%	$10,800
Effective Gross Income	$97,200

Estimated Annual Operating Expenses

The lease will be on a triple net lease where all the expenses will be the responsibility of the tenant or occupant. Since the subject is part of the hotel an allocation was made for their pro rata share of the expenses. The expenses comps were from $5.70 to $7.00 per square foot and I have made an estimate of $6.00 per square foot. The landlord will only be responsible for the expenses when the building is vacant or an estimate of 10%. The expenses are estimated at $27,000 (4,500 SF x $6.00/SF) and 10% equates to $2,700.

I have also allocated an owner expense of non-recoverable expenses for the property at $2,000 for internal fees, accounting, etc.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

The following is the pro forma operating statement for the subject property commercial space.

Proforma Operating Statement

Potential Gross Income	$108,000	
Less: Vacancy & Collection Losses @ 10%	$10,800	
Effective Gross Income		$97,200
Less: Operating Expenses		
Cost associated with Vacant Space	$2,700	
Non-Recoverable Expense	$2,000	
Total Operating Expenses		$4,700
Net Operating Income		$92,500

This income will be added below the Net operating income for the hotel operations. A summary of the hotel NOI and the commercial space NOI can be seen below.

NOI Summary					
Year	1	2	3	4	5
NOI Hotel	$25,606*	$528,013	$640,768	$659,992	$679,791
NOI - Commercial	$92,500	$95,275	$98,133	$101,077	$104,110
Total NOI	$118,106	$623,288	$738,902	$761,069	$783,901

* Reflects start up cost

<u>INCOME CAPITALIZATION APPROACH TO VALUE</u> (Continued)

<u>Investment Criteria</u>

This section will include the estimation of both a current and terminal capitalization rate as well as discount rate. National publications such as the most recent Korpacz Investor Survey and Realtyrates.com will be relied upon along with the most recent sales from the market. A band of investment analysis will also be completed.

NATIONAL LODGING INVESTMENT TRENDS & STATISTICS (1st Qtr 2011)				
Market Segment	Full Service	Limited Service	Luxury Market	Extended Stay
Key Indicators				
Discount Rate Range Average	 9.50%-12.0% 10.95%	 10.0%-14.0% 11.94%	 8.0%-14.00% 10.58%	 10.0%-15.0% 11.55%
Overall Cap Rate Range Average	 7.50%-10.0% 8.79%	 8.0%-13.0% 9.80%	 5.0%-11.0% 8.28%	 5.0%-12.0% 8.40%
Residual Cap Rate Range Average	8.00%-12.0% 9.79%	8.50%-12.0% 10.00%	6.0%- 12.00% 9.05%	6.00% - 12.0% 10.05%
Average Daily Rate Range Average	(1.0%) - 4.0% 2.58%	(3.0%) - 7.00% 2.60%	(2.0%) - 20.0% 4.55%	(0.00%) - 10.0% 5.0%
Marketing Time Range Average	 2-24 Months 9.17 Months	 2-12 Months 7.90 Months	 2- 20 Months 8.50 Months	 2-12 Months 6.70 Months

Korpacz Investor Survey 1st Quarter 2011.

<u>Capitalization Rates</u>

A capitalization rate or Overall Rate of Return (OAR) is determined based on published information as well as information gathered from the market, via hotel sales. There have been very few sales of similar type hotels over the past few years. The following are the most recent sales of small hotels.

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

INCOME DATA FROM SALES						
Sale	Name	Location	Date of Sale	Sale Price	# of Units	OAR
1	Wicker Guesthouse	Key West, FL	02/06	$6,100,000	21	8.8%
2	Ambrosia House	Key West, FL	05/06	$7,600,000	16	6.8%
3	Ocean Breeze Inn	Key West, FL	05/07	$4,000,000	15	8.6%
4	Paradise Inn	Key West, FL	02/11	$4,400,000	18	7.1%*
A	Raleigh Hotel	Miami Beach	09/09	$30,000,000	105	8.5%
B	Kona Kai Motel	Sanibel Island	05/10	$1,800,000	12	9.56%

The sales indicated a range in overall rates of return from 6.8% to 9.56%. All the sales are independently operated. Although some sales are not directly comparable to the subject property the sales do offer an good indication of OAR's for this type of investment in the south Florida market. Sale 4 is a recent sale at a low OAR but does not reflect a stabilized operations. Based on the NOI in 2008, the property would of indicated an OAR of 9.13%. Based on these indicators a going in OAR of 8.50% to 9.00% appears to be reasonable.

Surveyed Rates

The Korpacz Investor Survey indicated OAR’s for limited service hotels at 8.0% to 13.0% with a current average of about 9.80%. The luxury market ranged from 5.0% to 11.0% with an average of 8.28%. The table shown earlier in the National Market Overview indicates a survey of capitalization rates, for limited service hotels, as per Realtyrates.com. The surveyed rates ranged from 7.27% to 16.87% with an average of 11.82%. The full service Overall rates ranged from 5.83% to 12.72% with an average of 9.44%. The realty rates indicators are much higher than Korpacz. Further, Korpacz breaks down the segment into four categories while realty rates uses three. Based on the two surveys an OAR of 9.00% to 9.50% does appear to be appropriate for the subject hotel.

<u>INCOME CAPITALIZATION APPROACH TO VALUE</u> (Continued)

<u>Band of Investment Method</u>

To help estimate an appropriate OAR for the subject property a Band of Investment Technique will be employed. The Band of Investment is a technique in which the capitalization rates attributable to components of a capital investment are weighted and combined to derive a weighted-average rate attributable to the total investment.

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute), 2010.

Because most investment properties are purchased with debt and equity capital, the OAR must satisfy the market return requirements of both investment positions. The capitalization rate for debt is called the mortgage constant (Rm). It is the ratio of the annual debt service to the principal amount of the mortgage loan. The mortgage constant is a function of the interest rate, the frequency of amortization and the amortization of the loan.

The rate used to capitalize the equity income or portion of the investment is the equity capitalization rate (Re). The following tables illustrate the mortgage interest rate and equity requirements for various types of real estate investments. From these surveys an appropriate Band of Investment Technique will be prepared. Once again since no sales of similar type investments exist Realtyrates.com will be used to help estimate the equity return requirements.

Mortgage Component

The following table illustrates the national benchmarks for mortgage interest rates.

	This Week	**Month Ago**	**Year Ago**
Prime Rate	3.25%	3.25%	3.25%
Federal Discount Rate	0.75%	0.75%	0.50%
Fed Funds Rate	0.25%	0.25%	0.25%
Libor, 3 Month	0.28%	0.28%	0.31%
Libor, 6 Month	0.44%	0.49%	0.47%
Libor, 1 Year	0.77%	0.77%	0.94%
10 Year Treasury	3.51%	3.29%	3.85%
Consumer Price Index	2.235%	2.223%	2.177%

Source: Bankrate.com

INCOME CAPITALIZATION APPROACH TO VALUE (Continued)

Band of Investment Method (Continued)

A survey of local lending banks revealed an average interest rate for a commercial mortgage, for hotels, at about 6.5% to 9.0%. Most banks are basing interest rates on a spread of 2 to 4 times the 10 year treasury. Based on the current treasury indication this would result in a interest rate range from 5.52% to 11.04%.

The mortgage amount is typically based on a 65% loan to value ratio. Meaning the remaining 35% is the equity position. Amortization is typically based on 15 to 20 year terms with monthly payments. For the purpose of this appraisal the mortgage component will be estimated at a 7.0% interest rate amortized over 20 years with monthly payments. The mortgage constant is estimated at .0930.

Equity Component

The table in the Hotel Market Overview illustrates the equity requirements for various types of real estate investments. This table was extracted from realtyrates.com for the first quarter 2011.

Limited Service hotel investments indicated a range in equity yield rates from 8.24% to 19.51%. The average rate is 13.31% . The full service equity rates ranged from 8.04% to 18.31% with an average of 12.66%. Due to the subject location, I have used 11% for a equity rate.

The OAR is constructed via the following formula.

Mortgage Component:	M x Rm or	65% x .0930 =	.0605
Equity Component:	E x Re or	35% x .1100 =	.0385
Overall Rate of Return			.0990
		Round To:	.0990

With consideration to investment risk the estimated OAR via the Band of Investment Method is similar to the middle to upper portion of the range established by the two investor surveys. However, these rates are much higher than the Overall rates of the sales. The most recent sales used was at 9.56% and was located in an inferior location. For this conclusion, consideration is given to the location in Key West in which Overall rates tend to trade lower than the national averages. Therefore a OAR of 8.50% to 9.00% will be applied.

Terminal Capitalization Rate

This is the capitalization rate that will be applied to the reversion of the subject property at the end of the cash flow period. The terminal rate is typically higher than the current or going in rate because of the risk involved with maintaining the cash flow over time. This rate can range from 25 to 200 basis points. This is illustrated by the Korpacz Investor Survey. Taking into account current market conditions, a higher terminal capitalization rate of 9.25% is estimated.

Brokerage Fee

A brokerage fee of 3% will be applied to the reversion or potential sale of the property at the end of the cash flow analysis.

Discount Rate

A discount rate is a rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it should reflect the opportunity cost of capital, i.e., the rate of return the capital can earn if put to other uses having similar risk.

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute), 2010.

Discount rates can be extracted from two sources. The first is published materials that reflect overall national or local market conditions for a specific property type. The second is by extracting rates from similar projects. No rates could be extracted from similar projects. Therefore only published information will be used as a guide for building a suitable IRR.

The 1st quarter 2011 Korpacz Investor Survey indicated discount rates from 10.0% to 14% for limited service hotels with an average of 11.94%. The luxury market ranged from 8.0% to 14.0% with an average of 10.58%. The realty rates survey for the 1st Quarter of 2011 indicated a limited service hotel from 8.29% to 16.09% with an average discount rate of 12.38%. For the purpose of this appraisal a discount rate towards the middle end of the range or 12.0% is estimated for the subject property.

The net present value, based on the projected cash flow, was estimated at $6,900,000 Please refer to the complete discounted cash flow analysis located in the addenda.

This value indication essentially represents the market value of the subject property as a stand alone property with no benefit from the Pier House.

<u>INCOME CAPITALIZATION APPROACH TO VALUE</u> (Continued)

<u>Direct Capitalization Method</u>

The direct capitalization method entails applying a current OAR to the current net operating income. Direct Capitalization is a method used to convert a single year's income expectancy into value in one direct step, by dividing the income estimate by a rate. This method is not applicable when contract rents fluctuate dramatically in future periods.

When a sufficient amount of relevant market data is available, the Direct Capitalization method is considered to be the best measure of the subject's value.   Direct Capitalization is market oriented and stresses the analysis of market evidence by inferring the assumptions of investors. The selected overall rate will satisfy a typical investor in the market for property with similar utility, including upside and downside potential, to the subject.

In order to support the aforementioned market value, the estimated going in capitalization rate ranged from 8.50% to 9.00%. I have applied a 8.75% Overall rate. Once again the going capitalization rate is premised upon stabilized operations. For the purpose of this appraisal said OAR will be applied to the NOI indicated by year 2.

The resulting market value of the subject hotel is estimated as follows:

NOI Year 2	$623,288 / 8.75%	=	$7,123,291
		Round To:	$7,100,000
			========

Conclusion of Market Value

CONCLUSION - INCOME CAPITALIZATION APPROACH	
Discounted Cash Flow Method	$6,900,000
Direct Capitalization Method	$7,100,000
Final Value Indication	$7,000,000

The two methods applied in the Income Capitalization Approach indicated similar and supportive results. With emphasis placed on both the discounted cash flow analysis and the direct capitalization approach, a market value of $7,000,000 is estimated for the subject property, as a stand alone property.

SALES COMPARISON APPROACH TO VALUE

The Sales Comparison Approach is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. In general, a property being valued (a subject property) is compared with sales of similar properties that have been transacted in the open market. Listings and offerings may also be considered. A general way of estimating a value indication for personal property or an ownership interest in personal property, using one or more methods that compare the subject to similar properties or to ownership interests in similar properties. This approach to the valuation of personal property is dependent upon the Valuers market knowledge and experience as well as recorded data on comparable items.

Source: The Dictionary of Real Estate Appraisal, 5th Edition (Chicago: Appraisal Institute), 2010.

The subject property consists of a 22 transient room hotel and commercial space. Although the tourism industry has been improving, the investment activity for hotels have been limited. Market participants mostly blame lender reluctance and stricter credit requirements for the lack of sales. The most prevalent form of hotel sales are the limited service type branded facilities, such as, Holiday Inn Express, Hampton Inn, etc. These type of investments tend to lure a higher amount of equity because of a perceived lower risk than a non-branded or independently owned facility.

A search for similar type hotel/motel sales was in Key West and was expanded to include all of Monroe County. Four closed sales and several listings were found. A complete write-up of the closed sales will be included in the addenda. A photograph of each sale and listing will also be included in the addenda. A location map will follow the sales summary chart.

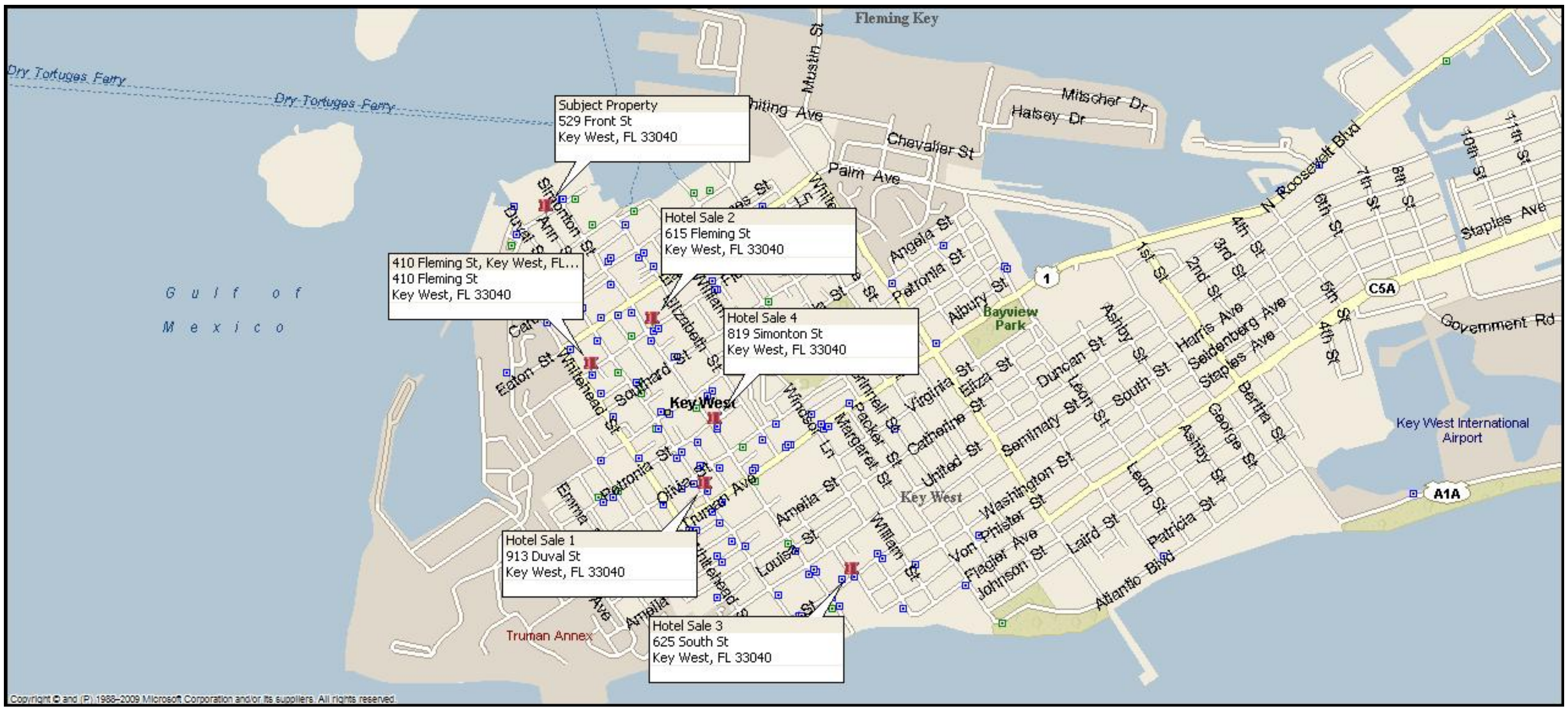
The Sales Comparison Approach is not considered to be the primary indicator of market value for the subject property. A lack of recent sales limits the reliability of this approach. However, it will be included as additional support for the Income Capitalization Approach. The Sales were also utilized as a basis for yield rate extraction.

SALES COMPARISON APPROACH TO VALUE (Continued)

IMPROVED HOTEL SALES CHART						
Sale #	1	2	3	4	5	Subject
Name	Wicker Guesthouse	Ambrosia House	Ocean Breeze Inn	Paradise Inn	Marrero's Bed & Breakfast	Caribbean Spa
Location	913 Duval St, Key West FL.	615, 618 - 622 Fleming Street, Key West FL.	625 South Street, Key West FL.	819 Simonton Street, Key West FL.	410 Fleming Street, Key West FL.	529 Front Street, Key West FL.
Date of Sale	02/06	05/06	05/07	02/11	Listing	N/A
OR Book/Page	2185/1380	2208/560	2297/1118	2507/1693	N/A	N/A
Sale Price	$6,100,000	$7,600,000	$4,000,000	$4,400,000	$4,450,000	N/A
Year Built	1918, 1946	1928 - 1995	1958	1995	1889	1989
# Total Rooms	21	16	15	18	14	22
Site Size/SF	18,808	20,877	16,638	34,231	6,700	21,640
Gross Bldg./SF	8,870	8,936	5,567	10,320	7,615	24,188
FAR	.47	0.43	0.33	.30	1.14	1.12
$/Room	$290,476	$475,000	$266,667	$244,444	$317,857	N/A
$/SF, (Rounded)	$688	$850	$719	$426	$584	N/A
Effective gross Room Rev. Multiplier	5.5	6.8	5.8	4.4	6.9	N/A
Overall Rate of Return (OAR)	8.8%	6.8%	8.6%	7.1%	7.6%	N/A

SALES COMPARISON APPROACH TO VALUE (Continued)

IMPROVED HOTEL SALES MAP



SALES COMPARISON APPROACH TO VALUE (Continued)

Analysis:

In valuing a hotel property, via the Sales Comparison Approach, there are several different unit comparisons that can be applied. The typical unit of measure when valuing a hotel is either the price per square foot or price per room. For the purpose of this appraisal the price per room method will be utilized. The sales and listing each included operating small hotels or Guest houses in Key West. In conversations with market participants it was determined that most smaller hotels and guest houses in the Keys are owner operated with minimal value given toward business value and FF&E. The sales and listing indicated a range in prices from $244,444 to $475,000 per guest room. When purchasing an investment property, such as a hotel, the main concern of an investor is the income potential of the building. The sales and the subject indicated differences in time, location, age and condition, room sizes, condition of FF&E, etc. These factors lead to difference in levels of room rates and occupancy.

The sales will be analyzed for property rights transferred, conditions of sale, financing, market conditions (time), zoning, age, condition and quality, building and average room size, FAR, location and Income Stream. The sales will be analyzed and adjusted on a qualitative and quantitative basis. The qualitative units of comparison will be + (inferior), - (superior) and = (equal). The market condition or time, building size to room ratio and location adjustments will be based on a quantitative or percentage measurement.

Price Per Room

Property Rights Transferred

The sales and the subject property each include transfers of fee simple interest.

Conditions of Sale

The sales are all considered to be arm's length transactions. Comparable 5 is a listing and has been on the market for over two years. It was under contract almost 18 months ago but fell through due to financing. A downward adjustment of 15% was applied to its listing status.

Financing

The sales all indicated either cash or cash equivalent terms. Therefore an adjustment for this factor will not be applied.

SALES COMPARISON APPROACH (Continued)

Market Conditions (Time)

The sales closed from February 2006 through February 2011 with a current listing. Sales 1, 2 and 3 sold in superior market conditions. None of the sales used had resold in the last several years. I am aware of a recent sale for the five room property located at 1016 Fleming Street that sold in August 2006 for $2,125,000, and resold for $1,275,000 or $255,000 per room in February 2011 which indicates a decrease of 40.70% or a 11% annual decrease. Seascape Inn is a smaller six unit property located at 625 Olivia Street sold in July 2005 for $1,900,000 and resold in December 2008 for $1,510,000. This indicates a 20.53% decrease in value or an annual depreciation of around 6%. Sales of properties have been deceasing in values since 2006 and values have decreased from 25% to over 50% depending on the property type and location. Therefore a downward adjustment for the passage of time will be applied to Sales 1, 2 and 3. The remaining sale and listing were not adjusted for time.

Location:

The subject property is located on Front Street one block off Duval Street. In my opinion all the sales had a inferior location compared to the subject and a upward (+) adjustment was applied.

Age and Condition

All the sales are older than the subject except Sale 4. All the sales have been completely renovated over the years. Sales 1, 2 and 3 are condiered inferior and a upward (+) adjustment was applied for this factor. The remaining sales were not adjusted for this factor.

Building Sizes

The sales indicated a range in building sizes from 5,567 to 10,320 square feet. The subject property contains 24,188 square feet and 22 guest rooms. Sale 1 had a similar room count but was much smaller. Typically a smaller property will sell for more than a larger property when all things are equal due to economies of scale. All the sales were adjusted downward for their small building sizes.

Floor Area Ratio (FAR)

The sales and the subject property indicated a range in FAR's from .30 to .47 with the listing at 1.14. The subject has a FAR of 1.12. Based on economies of scale a property with a lower FAR will typically sell for more than a property with a higher FAR. Several of the properties have on site parking or gardens and pool areas. The subject does not have any parking or pool. Sales 1, 2, 3 and 4 were considered superior and a downward adjustment was applied. Listing 5 was similar.

<u>SALES COMPARISON APPROACH</u> (Continued)

The following chart illustrates the adjustments applied to the comparable sales.

IMPROVED HOTEL SALES ADJUSTMENT CHART					
Sale #	1	2	3	4	5
$ Per Room	$290,476	$475,000	$266,667	$244,444	$317,857
Conditions of Sale	=	=	=	=	-15%
Financing	=	=	=	=	=
Market Conditions	-30%	-30%	-25%	0%	0%
Location	(+)	(+)	(+)	(+)	(+)
Age & Condition	(+)	(+)	(+)	=	=
Building Size	-	-	-	-	-
FAR	-	-	-	-	=
Other	=	=	=	=	=
Total % Adjustment	-35%	-35%	-25%	0%	-15%
Adjusted $ Per Room	$188,809	$308,750	$200,000	$244,444	$270,179
Total Qualitative Adjustment	=	=	=	-	=

The sales indicated an adjusted range in prices from $188,809 to $308,750 per guest room. The subject was larger in size and contains excess space such as the meeting rooms. This space was assumed to be leased to a third party for commercial use. The sales offer a reasonable range but due because of imperfect market conditions the final adjusted prices and qualitative factors were, somewhat, skewed. Based on these sales, a price per room at the upper end or $300,000 per room is estimated.

Therefore the market value via the price per room method is estimated as follows:

$300,000 Per Room	x	22 Guest Rooms =	$6,600,000
		Round To:	$6,600,000
			========

SALES COMPARISON APPROACH (Continued)

Gross Income Multiplier Analysis

Another reliable indicator for income producing properties is the relationship of gross revenues to the sales prices. In the acquisition of income producing properties, the potential buyer is often concerned with the relationship of the price paid to the return they may anticipate for the property.

The buyer is usually aware of the general range of expected expenses for similar property. For this reason, the Gross Income Multiplier or Effective Gross Income Multiplier (EGIM) is often used as a predicate for investment.

The majority of the income derived by the subject hotels is attributed to room revenues. Other income such as telephone, valet parking, mini bar, etc. only derives a small amount at less than 5%. The aforementioned improved sales indicate an allocation of sale price to room revenues. The result is a Effective Gross Income Multiplier (EGIM). The table on the following page illustrates the hotel sales as well as several additional hotel sales, will give an indication of investor attitude toward investment properties.

SALES COMPARISON APPROACH TO VALUE (Continued)

EGIM ANALYSIS				
Sale	Name & Location	Date of Sale	Sale Price	EGIM
1	Wicker House 913 Duval Street	02/06	$6,100,000	5.5
2	Ambriosia I & II 615 Fleming Street	05/06	$7,600,000	6.8
3	Ocean Breeze Inn 625 South Street	05/07	$4,000,000	5.8
4	Paradise Inn	02/11	$4,400,000	4.4
5	Marrero's Bed & Breakfast	Listing	$4,450,000	6.8
A	Nassau House 1016 Fleming Street	02/11	$1,275,000	5.4
B	Heron House 512 - 520 Simonton Street	03/05	$8,800,000	6.3

The year one revenue reflects start up cost and the year 2 projected room revenues for the subject hotel are estimated at $1,301,281. I have used year two in my estimate. The sales indicated a range in EGIM's from 4.4 to 6.8. Sale 4 and Sale A is the most recent transactions at 4.4 and 5.4. Sale 4 was not considered stable. Based on these sales a EGIM of 5.2, is estimated for the subject property.

When multiplying a 5.2 EGIM to the subject's estimated gross revenues the indication of value via the GRM technique is:

5.2 x	$1,301,281 =	$6,766,661
	Round To	$6,750,000

SALES COMPARISON APPROACH TO VALUE (Continued)

Conclusion of Sales Comparison Approach

The Sales Comparison Approach indicated the following value conclusions.

Price Per Room:	$6,600,000
EGIM	$6,750,000

The two methods were based on difference parameters and market measurements. The price per room analysis was the most comprehensive and reflective of current market conditions. The EGIM is an excellent indicator of value when measuring room revenues. Therefore with equal emphasis placed on each method the market value via the Sales Comparison Approach is estimated at $6,700,000.

As mentioned the subject also includes the meeting room space of 4,500 square feet that could be leased. To test my value conclusion, I separated the commercial space from the 22 rooms. As discussed and shown in the Income Approach, I estimated a market rent of $24.00 per square foot net and an NOI of $92,500. In South Florida, smaller well located properties have sold from 7% to 9% OAR in the recent past. The subject is well located and using a rate of 8.5% would result in a value of $1,100,000 ($92,500 / .085 = $1,088,235, Rounded $1,100,000). This value accounts for $50,000 per room based on 22 rooms. The two most recent hotel sales in Key West were in February 2011. They were the Paradise Inn at 18 rooms for $244,444 per room and a bank REO sale of 1016 Fleming for five rooms at $255,000 per room. The combined price of these two sales support my overall conclusion of $300,000 per room, which includes the commercial space.

RECONCILIATION AND FINAL MARKET VALUE CONCLUSION

The market value estimates derived from the various approaches to value utilized in this report are as follows:

VALUE INDICATIONS	
Property Rights Appraised	Fee Simple Estate
Income Capitalization Approach	$7,000,000
Sales Comparison Approach	$6,700,000

The Income Capitalization Approach included both the direct capitalization and discounted cash flow methods. The quality and quantity of information upon which occupancy, expenses, and capitalization rates were good. The quantity and quality of income and expense data utilized was considered good. The revenues and expenses were based on actual historical data as well as competitive facilities within the neighborhood.

A discounted cash flow analysis projecting the room revenues, occupancy and operating expenses over a five year period was applied. The investment rates were extracted from either the comparable sales or published data from the Korpacz Investor Survey. A discount rate of 12.0% was estimated.

The Income Capitalization Approach was based solely on historical trends along with current market data supplied by competing properties. The yield rates were extracted directly from the market. The overall strength of this approaches contributes to its significance in estimating a market value for the subject property.

The Sales Comparison Approach relied on a grouping of sales and a listing of independently owned hotels. The sales offered a reasonable range but were not directly compared because of location and various other factors. However, they did provide recent yield rate extractions. Further, a EGIM analysis was performed. The Sales Comparison Approach was included as additional support for the Income Capitalization Approach.

RECONCILIATION AND FINAL MARKET VALUE CONCLUSION (Continued)

By virtue of our investigation and analyses, it is the opinion of the appraisers that, the Market Value of the subject property as a stand alone property, based on the total assets of the business (i.e. tangible and intangible assets) or going concern as a hotel, as a fee simple estate, as of April 25, 2011**,** is:

SEVEN MILLION DOLLARS
($7,000,000)

PERSONAL PROPERTY (FF&E)

The FF&E includes the furnishings, equipment and decor used to run the everyday operation of the hotel. According to the 2010 HVS Development Cost Survey, the cost for FF&E for a full service hotel ranged from $8,400 to $53,500 per room with an average of $22,000 per room and for Luxury it ranged from $33,700 to $119,500 per room with an average of $54,000. I am concluding that a package at the full service end or $25,000 per room is appropriate.

For the purpose of this analysis a $25,000 per room cost plus a 10% entrepreneurial incentive is estimated. Therefore the replacement cost new of the FF&E is estimated at $27,500 per guest room ($25,000 x 1.10).

According to the "Marshall Valuation Service" typical FF&E items, as described in the Improvement Description, have an estimated economic life of 5 years. Therefore its is not uncommon to see a hotel change its decor and furnishings every five years. The FF&E is in an good condition with all the rooms renovated in late 2008. The lobby has also been refurbished and the improvements were observed to be in very good condition. Overall the effective age for the FF&E is estimated at 2 years. The depreciation rate applied to the FF&E will be 30%.

The depreciation cost of the FF&E is estimated as follows:

Replacement Cost New:	$27,500 Per Room x 22 Total Rooms =	$605,000
Less: Depreciation @ 30%		$181,500
Depreciated Value of the FF&E		$423,500
	Rounded,	$425,000

By subtracting the FF&E, the subject allocation for the real estate is $6,575,000.

LEASED FEE/LEASEHOLD

To this point I have valued the property under a Fee Simple basis, which was under a hypothetical assumption. due to the fact it leased to the Pier House until May 31, 2020. The subject property is currently under to a long-term lease agreement that is due to expire in approximately nine years. The appraiser needs to evaluate the impact of the lease in order to determine if there is a Leasehold value and to also determine the Leased Fee Value.

Leased Fee and Leasehold Interest Definition

The Dictionary of Real Estate Appraisal (5th Edition 2010), by the Appraisal Institute, defines Leased Fee and Leasehold Interest as follows:

Leased Fee Estate: A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).

Leasehold Interest: The tenant's possessory interest created by a lease.

If the leased fee value is below the fee simple value, then there is a positive leasehold interest. If the leased fee interest is above the fee simple value, then there exists a negative leasehold interest. If the leased fee is equivalent to the fee simple, then there is effectively no value attributed to the leasehold interest.

In order to arrive at the leasehold interest, it is necessary to first determine the leased fee value in relation to the Fee Simple value. In order to determine the leased fee interest, we have reviewed the lease agreement and rental terms between City of Key West (lessor) and Pier House Joint Venture (lessee). The resultant rent or net income can then be capitalized into a measure of value to be compared to the fee simple conclusion. The variance, if any, can then be analyzed to determine the potential value attributed to the leasehold position.

In this case it was determined that there is a leasehold interest due to the payments of only $3,600 per year, which are well under market. In South Florida, out parcels lease for $50,000 to over $300,000 per year depending on locations. The current rent of $3,600 equates to $.017 per square foot of land and $0.11 per square foot of gross building area. The property next door is listed at $25.00 per square foot and the restaurant on Front Street is leased for over $30.00 per square foot. The current lease is well below market and there is a leasehold interest in the property.

In order to determine the Leased Fee and Leasehold Values, one could discount the rent payments for nine years in order to determine the present value of the lease payments and use the fee simple value less the FF&E as part of its calculation for a reversion value in order to determine the leased fee. This method was not used as it will not accurately demonstrate the value of either the leasehold interest due to elements with associated with the hotel operation and other factors.

LEASED FEE AND LEASEHOLD (Continued)

The subject is under a long term ground lease that is due to expire in nine years, which is well below market. The Korpacz Investor Survey indicated OAR's for limited service hotels at 8.0% to 13.0% with a current average of about 9.80%. The luxury market ranged from 5.0% to 11.0% with an average of 8.28%. The table shown earlier in the National Market Overview indicates a survey of capitalization rates, for limited service hotels, as per Realtyrates.com. The surveyed rates ranged from 7.27% to 16.87% with an average of 11.82%. The long-term nature and scheduled base rent would suggest that the appropriate rate should be towards the lower end of the range.

The current lease is below market potential and ground rent lease and its payments are considered to be a secure investment with less risk. This is due to the fact that the improvements produce value and income based on its operation. The improvements will revert to the fee simple owner upon expiration of the lease. However, it was assumed the FF & E could or would be taken as well as the current operation will cease to operate as a hotel.

Considering these factors, I feel that an appropriate rate for the remaining ground rent payments can also be viewed based on typical spreads over noted safe rates such as a 10 year treasury note, which is currently yielding 3.51%. Typical market spreads range from approximately 200 to 400 basis points, which results in an implied overall rate ranging from 5.5% to 7.50%.

After all the factors were considered, I have concluded that the appropriate rate applicable to the ground lease payments at the low end of the range or 6.00%. The current rent payments are well below market and the property is well located. I have also used a 6% rate for the reversion.

The Fee value has been estimated at $6,575,000, which is less the FF& E allocation. As discussed earlier it was determined minimal weight if any is given to business value or FF&E when purchasing small hotels and guesthouses in the Florida Keys. I have therefore used the fee simple value less the FF&E of $6,575,000 as part of its calculation for a reversion value in order to determine the leased fee.

Under the Leased Fee analysis, the value will be determined as the present value of the ground rent payment and the reversion of the property. The building will revert back to the fee owner, who is the City of Key West. At this point, the hotel operation would cease to exist. It is assumed the building will be returned in good condition but not as an operating hotel.

Hotels and commercial properties had been increasing at high levels prior to the financial collapse and national recession occurred in 2007. Since then properties have depreciated from 20% to over 50% since there market highs. Prices and rents appear to be bottoming out and stabilizing in many of the well located areas. The subject is located in a well located area with a high volume of tourism foot traffic. 2010 and 2011 have seen improvements in most sectors for tourism in Key West. Due to the location I have assumed a appreciation of an average of 2% per year for the next nine years. The Leased Fee value is calculated in chart for on the following page.

LEASED FEE AND LEASEHOLD (Continued)

LEASED FEE CALCULATIONS

Lease Begin: December 13, 1965
Lease End: May 31, 2020
Term of Lease: 55 years
Lease Years Remaing: 9 years
Growth Rate: 2.0%
Annual Lease Payment: $3,600
Current Value Fee Simple: $6,575,000 (Excluding FF&E)

Present Value (PV) of Ground Lease Payments

Unexpired Lease Years		Annual Rent		PV Factor at 6.00%		PV
0	@	$3,600 =	x	1	=	$3,600.00
1	@	$3,600 =	x	0.971285862	=	$3,496.63
2	@	$3,600 =	x	0.916307417	=	$3,298.71
3	@	$3,600 =	x	0.86444096	=	$3,111.99
4	@	$3,600 =	x	0.815510339	=	$2,935.84
5	@	$3,600 =	x	0.769349377	=	$2,769.66
6	@	$3,600 =	x	0.725801299	=	$2,612.88
7	@	$3,600 =	x	0.684718206	=	$2,464.99
8	@	$3,600 =	x	0.645960572	=	$2,325.46
9	@	$3,600 =	x	0.609396766	=	$2,193.83

Total Present Value of Lease Payments = $28,810

Reversion

Remaining Years to Expiration	Estimated Fee Value		Growth Factor at 2.00% per Year	Total Reversion		Reversion Factor at 6.00%		
9	$6,575,000	x	1.195092569	$7,857,734	x	0.5918985	=	$4,650,980

Total Present Value = $4,679,790

Rounded to, **$4,700,000**

(1) Represents the deferred present value factor for an ordinary annuity of 1 per period, mid-year calculation.
(2) Represents the formula (1+n)^remaining months/12.

<u>LEASED FEE AND LEASEHOLD</u> (Continued)

The Leased Fee Value equates to a value of $4,700,000. Typically one would determine the leased fee value in relation to the fee simple value. By subtracting this value from the Fee Value less the FF&E would result in a possible Leasehold Interest of $1,875,000. ($6,575,000 - $4,700,000). However, in my opinion, this number is not accurate and does not reflect the true leasehold Interest of the subject property. Since actual income and expense information from the Pierhouse Resort as a whole was not available. I have used the income stream (NOI) for the subject in fee less the annual rent payments for the next nine years. The Present value or Leasehold Interest will be determined applying an appropriate discount rate.

As discussed earlier, the survey's indicated a discount rate for limited service hotels at 10.0% to 14.0% with a average of 11.94%. The luxury market ranged from 8.0% to 14.0% with an average of 10.58%. I have concluded at a discount rate of 12%. The NOI for the subject for nine years until expiration is summarized below. The Leasehold Interest cash flow summary can be seen in the addenda of the report.

Leasehold Estimated NOI Summary

Year	1	2	3	4	5
NOI	$118,106	$623,288,	$738,902	$761,069	$783,901
Less Rent Payment	$3,600	$3,600	$3,600	$3,600	$3,600
Total Adjusted NOI	$114,506	$619,6888	$735,302	$757,469	$780,301
Year	6	7	8	9	
NOI	$807,418	$858,510	$911,135	$965,339	
Less Rent Payment	$3,600	$3,600	$3,600	$3,600	
Total Adjusted NOI	$803,818	$854,910	$907,535	$961,739	

LEASED FEE AND LEASEHOLD (Continued)

The Leasehold Interest was determined by the he net present value, based on the projected cash flow (NOI) of the remaining nine years on the lease,. This was estimated based on the cash flows on the previous page using a discount rate of 12%. The Leasehold Interest was estimated at $3,550,000 Please refer to the complete discounted cash flow analysis located in the addenda.

Conclusion of Values

By virtue of our investigation and analyses, it is the opinion of the appraiser that, the Market Value of the subject property as a stand alone property based on the total assets of the business (i.e. tangible and intangible assets) or going concern as a hotel, as a fee simple estate, as of April 25, 2011**,** is:

SEVEN MILLION DOLLARS

($7,000,000)

By virtue of our investigation and analyses, it is the opinion of the appraiser that, the Market Value of the subject property, as a leased fee estate, as of April 25, 2011, is:

FOUR MILLION SEVEN THOUSAND DOLLARS

($4,700,000)

Further, it is the opinion of the appraiser that, the Market Value of the subject property as a leasehold interest, as of April 25, 2011, is:

THREE MILLION FIVE HUNDRED FIFTY THOUSAND DOLLARS

($3,550,000)

EXPOSURE TIME

Exposure time is defined as:

1. The time a property remains on the market.
2. 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 on an analysis of past events assuming a competitive and open market.

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute), 2010.

The hotel business is a capital and labor intensive industry that is considered a high risk investment. Part of the risk is related to the relative illiquidity of the business. That is, the marketing time for a hotel could take as little as six months, but more probably will consume at least one to two years prior to a sale agreement. After a contract has been executed, the actual closing of the sale could be delayed for another six months to one year to allow for clearance of technical issues such as transfer of permits, occupational licenses, liquor licenses, franchise agreements, etc. The Korpacz Investor Survey indicated marketing times for limited service lodging facilities at 2 to 12 months with an average of 7.90 months. The luxury market ranged from 2 to 20 months with an average of 8.50 months. The sales each indicated marketing times that were basically within 12 months. As such, a marketing and exposure time of 12 months is estimated.

C E R T I F I C A T I O N

I certify that, to the best of our knowledge and belief:

* The statements of fact contained in this report are true and correct.
* The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial and unbiased professional analysis, opinions, and conclusions.
* I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
* I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
* My engagement in this assignment was not contingent upon developing or reporting predetermined results.
* I have not appraised this property in the past three years.
* My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
* My analysis, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice and the Appraisal Institute.
* Blair C. Lee, MAI made a personal inspection of the property that is the subject of this report.
* No one provided significant professional assistance to the persons signing this report.
* The appraiser has performed within the context of the competency provisions of the Uniform Standards of Professional Appraisal Practice and those of the Appraisal Institute, relating to review by the Real Estate Appraisal Subcommittees of the Florida Real Estate Commission and the Appraisal Institute. This report is made in compliance with the U.S.P.A.P. competency provision.

C E R T I F I C A T I O N (Continued)

* This report was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

* I currently hold an appropriate state license or certification allowing the performance of real estate appraisals in connection with federally related transactions.

* As of the date of this appraisal Blair C. Lee, MAI has completed the continuing education program of the Appraisal Institute.

Blair C Lee

Blair C. Lee, MAI
State-Certified General Real Estate Appraiser, No. RZ 2125

Date: May 26, 2011

ASSUMPTIONS AND LIMITING CONDITIONS

The value conclusion and certification within this report are made expressly subject to the following assumptions and limiting conditions as well as any further reservations or conditions stated within the text of the report.

1) No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be good and marketable.

2) All existing liens and encumbrances, (except the existing leases if any) have been disregarded, and the property is appraised as though free and clear.

3) Responsible ownership and competent property management are assumed.

4) The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.

5) All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.

6) It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.

7) It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless non-compliance, is stated, defined, and considered in the appraisal report.

8) It is assumed that all applicable zoning and use regulations and restrictions have been complied with, except where non- conformity has been stated, defined, and considered in the appraisal report.

9) It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

10) It is assumed that the utilization of the land and improvements is within the boundaries of property lines or the property described and that there is no encroachment or trespass unless noted in this report.

ASSUMPTIONS AND LIMITING CONDITIONS (Continued)

11) Subsurface rights were not considered in making this appraisal.

12) The distribution, if any, of the total valuation of this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.

13) Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with proper written qualification and only in its entirety.

14) The appraiser herein by reason of this appraisal is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements have been previously made.

15) Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or any reference to the MAI or SREA designations) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser.

16) The existence of potentially hazardous material used in the construction or maintenance of the building and/or the existence of toxic waste which may or may not be present on or under the site was not observed during our inspection. However, we are not qualified to detect such substances. These substances, if they exist, could have a negative effect on the estimated value of the property. The user of this report is urged to retain an expert in this field if desired.

17) Unless specifically stated to the contrary in the report, no independent evaluation of concurrency matters were made for the subject or any sales comparables. In the event concurrency is found to affect subject property or any of the sales comparables, we reserve the right to reconsider the value conclusion.

18) This appraisal was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.

ASSUMPTIONS AND LIMITING CONDITIONS (Continued)

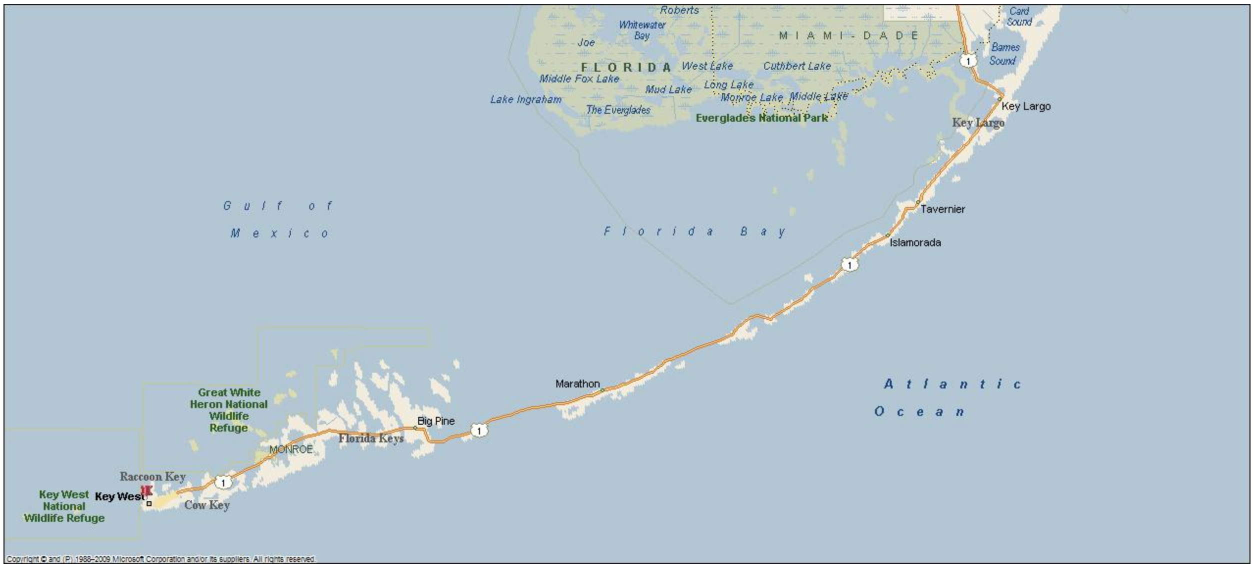
19) The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey 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 has no direct evidence relating to this issue, he did not consider possible noncompliance with the requirements of the ADA in estimating the value of the property.

20) The market value indication is premised upon several Hypothetical assumption. That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. (USPAP, 2010-2011 ed).

The subject is currently under a ground lease from the City of Key West to the Pier House Joint Venture. I have valued the property in fee simple under the hypothetical condition as a stand alone property without the benefit of the Pier House Resort. The hotel operator provided the appraiser with only a three year average of the Spa building for occupancy, ADR and RevPar. Operating expenses were requested but not provided. The appraiser's projections, of revenue and expenses, will be based on historical data along with current market data from nearby competitive hotels. The appraiser was able to extract market data from discussions with local hotel managers and office files.

ADDENDA

Monroe County Map



Monroe County Map

LOOKING NORTHERLY AT SUBJECT PROPERTY FROM FRONT STREET

LOOKING WESTERLY AT SUBJECT FROM THE CORNER OF FRONT AND SIMONTON STREETS

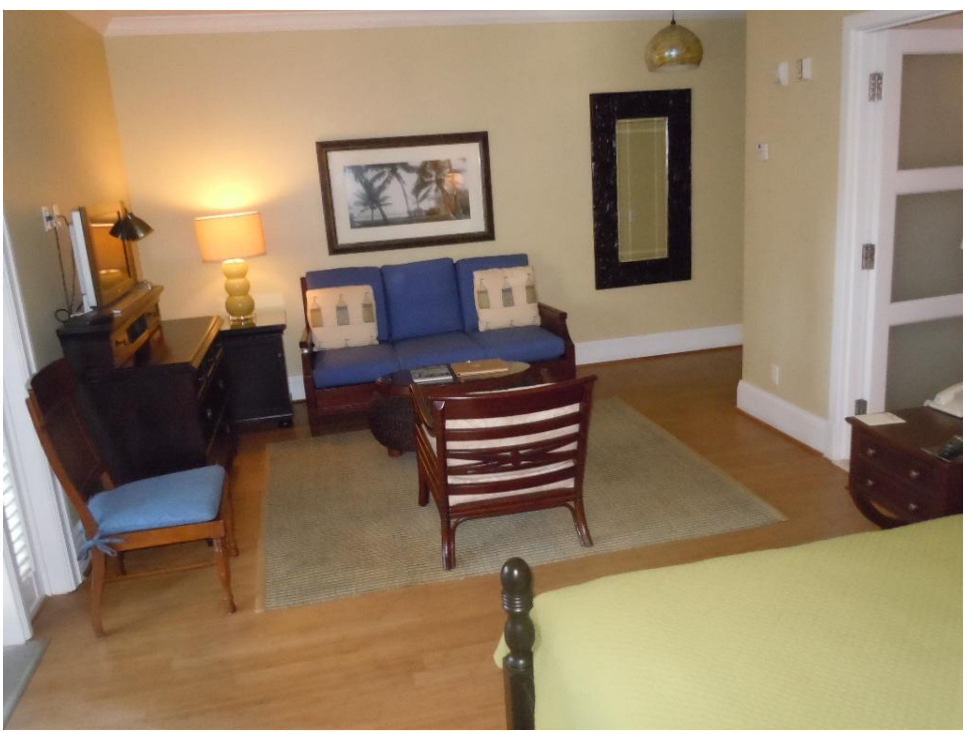
LOOKING EASTERLY AT SUBJECT FROM INSIDE THE PIERHOUSE GROUNDS

LOOKING EAST AT SUBJECT PROPERTY

INTERIOR VIEW OF SPA BATHROOM

INTERIOR VIEW OF GYM

INTERIOR VIEW OF SPA RECEPTION AREA



INTERIOR VIEW OF TYPICAL ROOM

INTERIOR VIEW OF TYPICAL ROOM

INTERIOR VIEW OF TYPICAL BATHROOM

INTERIOR VIEW OF SHOWER

VIEW OF SUBJECT STAIR WAY

INTERIOR VIEW OF TYPICAL HALLWAY AND DOOR

INTERIOR VIEW OF MEETING ROOMS

INTERIOR VIEW OF OTSIDE DECK AND PATIO

OUTSIDE VIEW OF SUBJECT HOT TUB

LOOKING NORTH ALONG SIMONTON STREET

LOOKING NORTHERLY AT SUBJECT PROPERTY AND ACCESS AND EXIT

FOR PARKING FOR THE PIERHOUSE FROM FRONT STREET

VIEW OF PIERHOUSE HARBOR VIEW UNITS AND BEACH

VIEW OF PIERHOUSE BEACH AND RESTAURANT

VIEW OF PIERHOUSE POOL AREA

HOTEL SURVEY 1

HOTEL SURVEY 2

HOTEL SURVEY 3

HOTEL SURVEY 4

HOTEL SURVEY 5

IMPROVED HOTEL SALE 1

Name & Location	Wicker Guesthouse 913 Duval Street, Key West, Florida
OR Book/Page	2185/1380, Warranty Deed
Date of Sale	February, 2006
Grantor	Wickerhouse Associates
Grantee	Donald E. Whitehead
Legal Description	Key West Pt, Lots 2 and 4, Square 8, Tract 4, Monroe County, Florida.
Alternate Key Number	1018104
Sale Price	$6,100,000
Terms	Conventional financing with no effect on sales pricer
Land Size/SF	18,8084
Description of Property	

Property Type -	Guesthouse
Building Size SF -	8,870
No. Stories -	2
Construction Type -	Wood frame
Year Built -	1918-6
Condition -	Good
No. of Guest Rooms -	21
FAR	.47

IMPROVED HOTEL SALE 1 (Continued)

Description of Property (Continued)	The hotel includes some on site parking. The amenities include a pool, wi fi and breakfast.
Verified With	Representative of Grantee
Comments	The property was on the market for about 35 days.

Income Analysis:

Effective Room Revenues	$1,102,268
Net Operating Income	$535,993

Indicators of Value:

Effective Revenue Multiplier	5.5
Overall Rate of Return	8.8%
Price Per Room	$290,476
Price Per SF	$687.71

IMPROVED HOTEL SALE 2

Name & Location	Amrosia I & II 615, 618 - 622 Fleming Street Key West, Florida
OR Book/Page	2208/560
Date of Sale	May 2006
Grantor	Keys Katie Too, LLC
Grantee	Michael P. Vagoni
Legal Description	K.W. Pt., Lot 2, Square 49, of the Public Records of Monroe County, Florida; and
Alternate Key Number	1009393
Sale Price	$7,600,000 (Two transactions)
Terms	Cash Equivalent
Land Size/SF	20,877

Description of Property

Property Type -	Guesthouse
Building Size SF -	8,936
No. Stories -	2
Construction Type -	Wood frame
Year Built -	1928 - 1995
Condition -	Good
No. of Guest Rooms -	16
FAR	.43

IMPROVED HOTEL SALE 2 (Continued)

Verified With	Listing Agent and public records.
Comments	The two properties were purchased separately but by one buyer. The hotel amenities include pool, lush gardens, private entrances and breakfast.

Income Analysis:

Gross Room Revenues	$1,117,000
Net Operating Income	$516,800

Indicators of Value:

Effective Revenue Multiplier	6.8
Overall Rate of Return	6.8%
Price Per Room	$475,000
Price Per SF	$850

IMPROVED HOTEL SALE 3

Name & Location	Ocean Breeze Inn 625 South Street Key West, Florida
OR Book/Page	2297/1118
Date of Sale	May 2007
Grantor	Ocean Breeze Inn, Inc.
Grantee	625 South Street, LLC
Legal Description	KW Lots 6- 7, Square 7, Tract 14 according to the public records of Monroe County, Florida.
Alternate Key Number	1038890
Sale Price	$4,000,000
Terms	Conventional.
Land Size/SF	16,368 SF

Description of Property

Property Type -	Motel/Guesthouse
Building Size SF -	5,567
No. Stories -	3, one-story bldgs
Construction Type -	CBS
Year Built -	1958
Condition -	Average to Good
No. of Guest Rooms -	15
FAR	.33

<u>IMPROVED HOTEL SALE 3</u> (Continued)

Verified With	Public records/listing agent
Comments	The property was on the market for approx 180 days and was listed at $4,800,000. The property has on site parking, wi fi and a pool area.

Income Analysis:

Effective Room Revenues	$690,000
Net Operating Income	$342,000

Indicators of Value:

Effective Revenue Multiplier	5.8
Overall Rate of Return	8.6%
Price Per Room	$266,667
Price Per SF	$718.52

IMPROVED HOTEL SALE 4

Name & Location	Paradise Inn 819 Simonton Street Key West, Florida
OR Book/Page	2507/1693
Date of Sale	February 2011
Grantor	Paradise Inn Hotels, LLC
Grantee	Paradise Inn, Ltd. South Street, LLC
Legal Description	KW Pt Lot 2, Square 4, Tract 4, according to the public records of Monroe County, Florida.
Alternate Key Number	1016802
Sale Price	$4,400,000
Terms	Conventional.
Land Size/SF	34,231 SF

Description of Property

Property Type -	Guesthouse
Building Size SF -	10,320
No. Stories -	Six, One-story bldgs
Construction Type -	CBS
Year Built -	1995
Condition -	Very Good
No. of Guest Rooms -	18
FAR	.30

IMPROVED HOTEL SALE 4 (Continued)

Verified With	Public records/broker
Comments	The property has on site parking, wi fi and a pool area. The ADR was reported at $244 and the occupancy for year end 2010 was 64%. The 2010 expenses were annualized and indicated a EGI of $991, 083 and an NOI of $312,359. The income in 2008 was $1,067,733 with a NOI of $402,109. The indicators below are based on 2010.

Income Analysis:

Effective Room Revenues	$991,083
Net Operating Income	$3312,359

Indicators of Value:

Effective Revenue Multiplier	4.4
Overall Rate of Return	7.10%
Price Per Room	$244,444
Price Per SF	$584

LEGAL DESCRIPTION: Parcel I

A parcel of land, a portion of which is filled sovereignty land, in Key West Harbor on the Island of Key West, Section 31, Township 67 South, Range 25 East, Monroe County, Florida, and being a parcel of land formerly submerged northerly of and adjacent to Square 2 of William A. Whitehead's map delineated in February 1829, and being more specifically described as follows:
Commence at the intersection of the Northwesterly Right–of–Way Line of Front Street and the Northeasterly Right–of–Way Line of Duval Street; thence N 45°00'00" W along the said Northeasterly Right–of–Way Line of Duval street for 125.00 feet to the Point of Beginning; thence continue N 45°00'00" W along the said Northeasterly Right–of–Way Line of Duval Street for 200.50 feet to a point on the mean high water line, said mean high water line being evidenced by the outside face on an existing concrete seawall; thence North 45°00'00" West along the Northerly extension of the said Northeasterly right of way line of Duval Street, 7.41 feet to a point (Note: The bearing on the Northeasterly right of way line of Duval Street is assumed to be North 45°00'00" West and all bearing on the Northeasterly right of way line of Duval Street is assumed to be N 45°00'00" W and all bearings contained herein are based upon this assumed bearing); thence North 45°21'40" East along the outside face of an existing concrete seawall 43.41 feet to the point of intersection with the outside face of an existing concrete seawall extending Northwesterly; thence North 46°18'30" West along the outside face of an existing concrete seawall 36.38 feet to a point; thence North 50°12'47" West along the outside face of an existing steel seawall, 71.46 feet to a point; thence North 39°09'24" West along the outside face of an existing seawall 58.77 feet to a point; thence North 41°13'56" West along the outside face of a proposed new seawall 133.71 feet to a point; thence North 44°45'35" East along the outside face of a proposed new seawall 63.33 feet to a point; thence South 48°03'43" East along the outside face of a proposed new seawall, 87.47 feet to a point, said point being the end of the proposed new seawall; thence along a boulder rip–rap Seawall and the Mean High Water Line for the following two (2) metes and bounds, said Line also the approved shoreline per Trustee No. 29827 (4645–44); (1) thence N 86°19'57" E for 56.46 feet; (2) thence S 45°47'54" E for 4.90 feet to the Northwesterly Line of T.I.I.F. Deed No. 24519; thence N 45°00'00" E along the said Northwesterly Line of T.I.I.F. Deed No. 24519 for 72.18 feet; thence along a boulder rip–rap Seawall and the Mean High Water Line for the following seven (7) metes and bounds; said Line also the approved shoreline per Trustee No. 29827 (4645–44); (1) thence N 39°05'51" W for 6.42 feet; (2) thence N 16°50'35" W for 7.75 feet; (3) thence N 30°34'04" E for 11.52 feet; (4) thence N 45°10'00" E for 40.46 feet; (5) thence N 48°13'19" E for 42.23 feet; (6) thence N 52°26'50" E for 59.05 feet; (7) thence N 79°49'31" E for 6.99 feet; thence S 45°00'00" E for 508.45 feet to the said Northwesterly Right–of–Way line of Front Street; thence S 45°00'00" W along the said Northwesterly Right–of–Way Line of Front Street for 243.72 feet; thence N 45°00'00" W and leaving the said Northwesterly Right–of–Way Line of Front Street for 125.00 feet; thence S 45°00'00' W for 150.00 feet to the said Northeasterly Right–of–Way Line of Duval Street and the Point of Beginning.
Containing 207,083 square feet or 4.75 Acres, more or less.

PARCEL II (Lease Parcel "E"):

That part of Lot 1, Square 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; thence run 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.
Containing 0.497 acres, more or less.

Parcel III (Lease Parcel "C"):

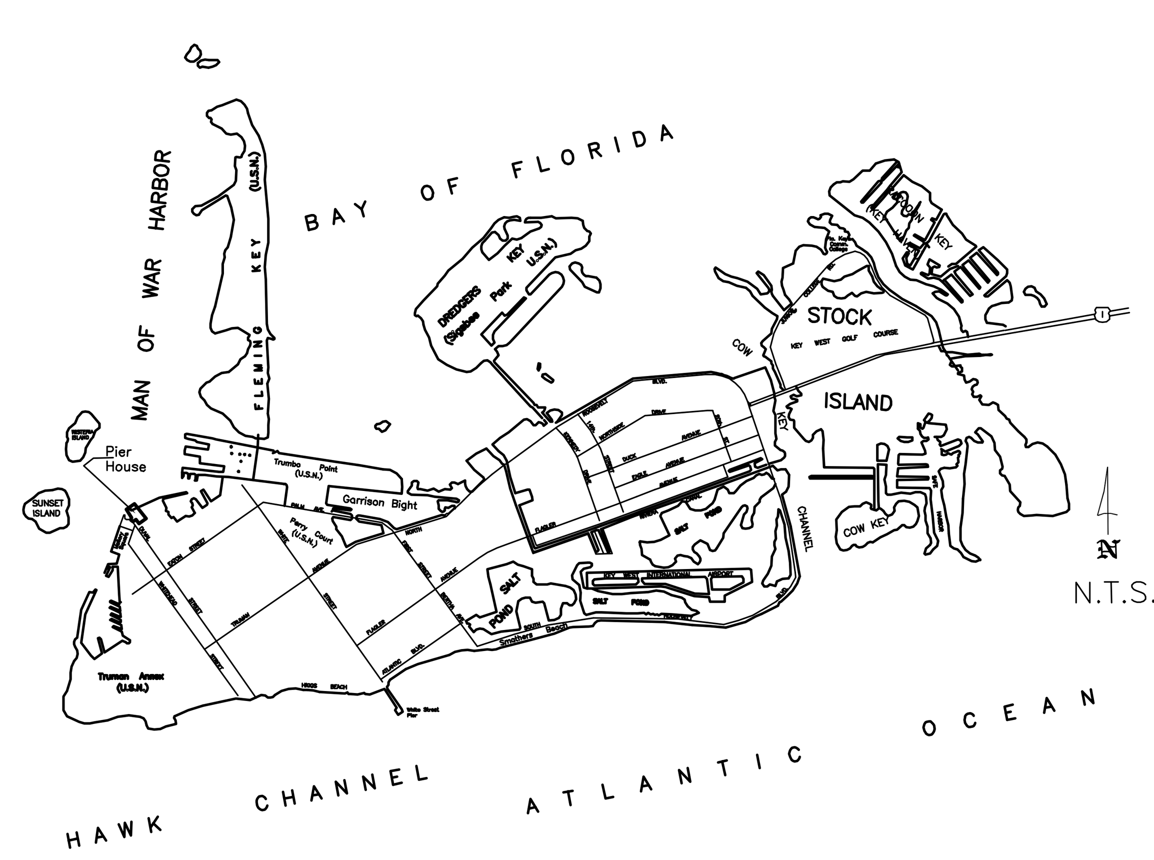
A parcel of sovereignty submerged land adjacent to Lots 2, 3, and 4, Square 2 of William A. Whitehead's Map of the Island of Key West, Monroe County, Florida and lying in Section 31, Township 67 South, Range 25 East and being more particularly described as follows: COMMENCE at the Southeast corner of Lot 2, Square 2, according to William A. Whitehead's Map of Island of Key West, delineated in February, 1829, said corner being the intersection of the Northwesterly right of way line of Front Street (50' R/W) with the Northeasterly boundary line of said Lot 2; thence N 45°00'00" W(assumed bearing based on the R/W line of Front Street) along the Northeasterly boundary line of said Lot 2 a distance of 508.45 feet to the Mean High Water Line of Key West Harbor as lying along a boulder rip–rap Seawall and the Point of Beginning; thence continue along said Mean High Water Line and boulder rip–rap Seawall for the following seven (7) metes and bounds:
(1) S 79°49'31" W for 6.99 feet; thence
(2) S 52°26'50" W for 59.05 feet; thence
(3) S 48°13'19" W for 42.23 feet; thence
(4) S 45°10'00" W for 40.46 feet; thence
(5) S 30°34'04" W for 11.52 feet; thence
(6) S 16°50'35" E for 7.75 feet; thence
(7) S 39°05'51" E for 6.42 feet to the Northwesterly line of T.I.I.F. Deed No. 24519; thence
S 45°00'00" W along the said Northwesterly line of T.I.I.F. Deed No. 24519 for 72.18 feet; thence along the Mean High Water Line of a boulder rip–rap Seawall for the following two (2) metes and bounds, said Line also the approved shoreline per Trustee No. 29827 (4645–44);(1) thence N 45°47'54" W for 4.90 feet; (2) thence S 86°19'57" W for 56.46 feet; thence N 47°30'00" W along the Northeasterly line of Parcel "B", as prepared by Philips & Trice Surveying, Inc., dated and revised on 3/16/78 for 77.97 feet (77.5 feet per P & T survey); thence N 47°30'00" E for 280.69 feet; thence S 45 00'00" E for 105.89 feet to the Point of Beginning. Containing 28,615 square feet, or 0.66 Acres, more or less.

Parcel IV (Lease Parcel "A"):

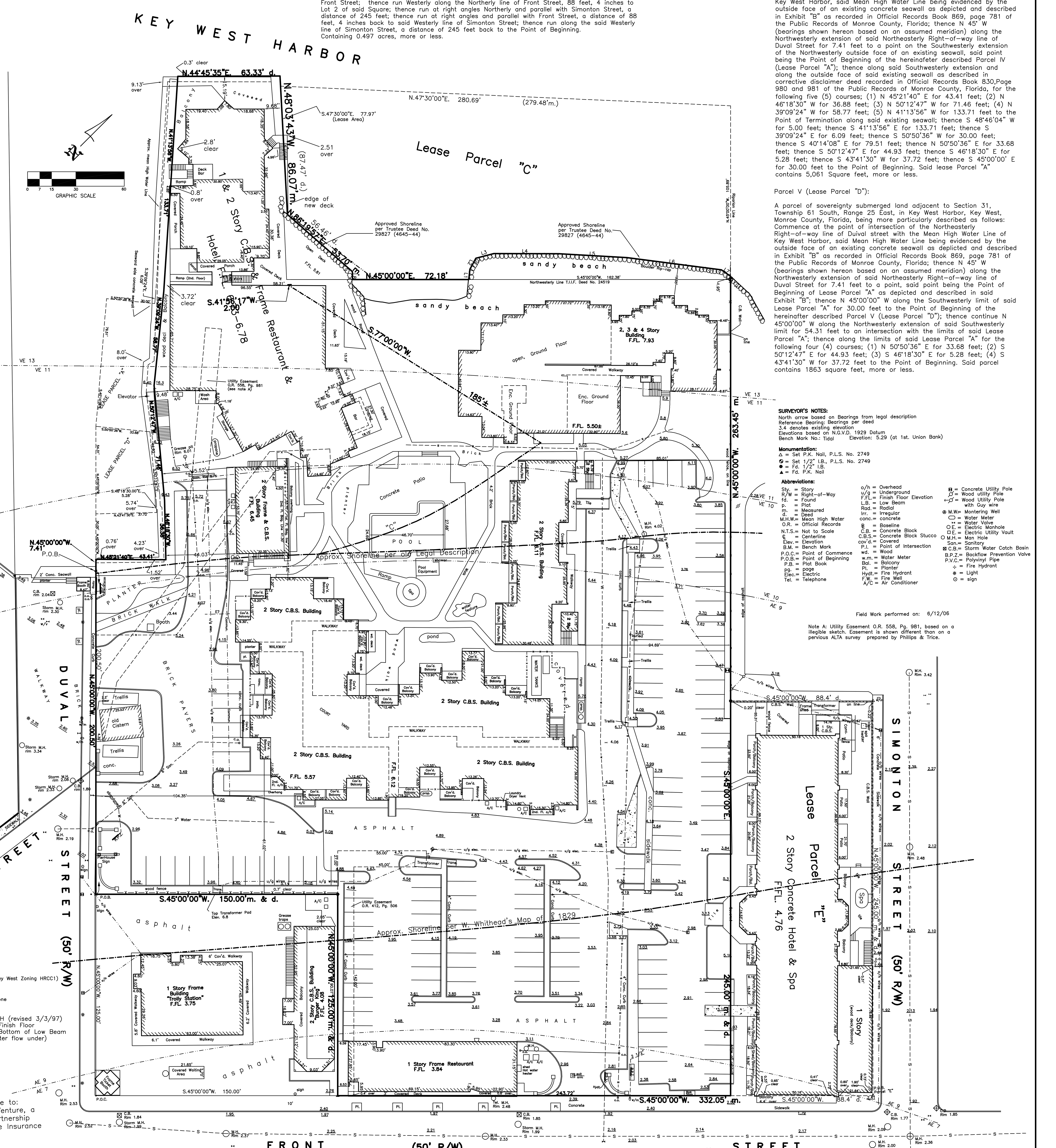
A parcel of sovereignty submerged land adjacent to Section 31, Township 61 South, Range 25 East, in Key West Harbor, Key West, Monroe County, Florida, being more particularly described as follows: Commence at a point of intersection of the Northeasterly Right–of–Way line of Duval street with the Mean High Water Line of Key West Harbor, said Mean High Water Line being evidenced by the outside face of an existing concrete seawall as depicted and described in Exhibit "B" as recorded in Official Records Book 869, page 781 of the Public Records of Monroe County, Florida; thence N 45° W (bearings shown hereon based on an assumed meridian) along the Northwesterly extension of said Northeasterly Right–of–way line of Duval Street for 7.41 feet to a point on the Southwesterly extension of the Northwesterly outside face of an existing seawall, said point being the Point of Beginning of the hereinafeter described Parcel IV (Lease Parcel "A"); thence along said Southwesterly extension and along the outside face of said existing seawall as described in corrective disclaimer deed recorded in Official Records Book 830,Page 980 and 981 of the Public Records of Monroe County, Florida, for the following five (5) courses; (1) N 45°21'40" E for 43.41 feet; (2) N 46°18'30" W for 36.88 feet; (3) N 50°12'47" W for 71.46 feet; (4) N 39°09'24" W for 58.77 feet; (5) N 41°13'56" W for 133.71 feet to the Point of Termination along said existing seawall; thence S 48°46'04" W for 5.00 feet; thence S 41°13'56" E for 133.71 feet; thence S 39°09'24" E for 6.09 feet; thence S 50°50'36" E for 30.00 feet; thence S 40°14'08" E for 79.51 feet; thence N 50°50'36" E for 33.68 feet; thence S 50°12'47" E for 44.93 feet; thence S 46°18'30" E for 5.28 feet; thence S 43°41'30" W for 37.72 feet; thence S 45°00'00' E for 30.00 feet to the Point of Beginning. Said lease Parcel "A" contains 5,061 Square feet, more or less.

Parcel V (Lease Parcel "D"):

A parcel of sovereignty submerged land adjacent to Section 31, Township 61 South, Range 25 East, in Key West Harbor, Key West, Monroe County, Florida, being more particularly described as follows: Commence at the point of intersection of the Northeasterly Right–of–Way line of Duval street with the Mean High Water Line of Key West Harbor, said Mean High Water Line being evidenced by the outside face of an existing concrete seawall as depicted and described in Exhibit "B" as recorded in Official Records Book 869, page 781 of the Public Records of Monroe County, Florida; thence N 45° W (bearings shown hereon based on an assumed meridian) along the Northwesterly extension of said Northeasterly Right–of–way line of Duval Street for 7.41 feet to a point, said point being the Point of Beginning of Lease Parcel "A" as depicted and described in said Exhibit "B"; thence N 45°00'00" W along the Southwesterly limit of said Lease Parcel "A" for 30.00 feet to the Point of Beginning of the hereinafter described Parcel V (Lease Parcel "D"); thence continue N 45°00'00" W along the Northwesterly extension of said Southwesterly limit for 54.31 feet to an intersection with the limits of said Lease Parcel "A"; thence along the limits of said Lease Parcel "A" for the following four (4) courses; (1) N 50°50'36" E for 33.68 feet; (2) S 50°12'47" E for 44.93 feet; (3) S 46°18'30" E for 5.28 feet; (4) S 43°41'30" W for 37.72 feet to the Point of Beginning. Said parcel contains 1863 square feet, more or less.



LOCATION MAP
City of Key West & Stock Island



SURVEYOR'S NOTES:
North arrow based on Bearings from legal description
Reference Bearing: Bearings per deed
3.4 denotes existing elevation
Elevations based on N.G.V.D. 1929 Datum
Bench Mark No.: Tidal Elevation: 5.29 (at 1st. Union Bank)

Monumentation:
△ = Set P.K. Nail, P.L.S. No. 2749
= Set 1/2" I.B., P.L.S. No. 2749
● = Fd. 1/2" I.B.
▲ = Fd. P.K. Nail

Abbreviations:

Sty. = Story	o/h = Overhead	= Concrete Utility Pole
R/W = Right–of–Way	u/g = Underground	= Wood utility Pole
fd. = Found	F.FL.= Finish Floor Elevation	= Wood Utility Pole with Guy wire
p. = Plat	L.B. = Low Beam	M.W.= Montering Well
m. = Measured	Rad.= Radial	= Water Meter
d. = Deed	Irr. = Irregular	= Water Valve
M.H.W.= Mean High Water	conc.= concrete	E. = Electric Manhole
O.R. = Official Records	B = Baseline	E. = Electric Utility Vault
N.T.S.= Not to Scale	C.B. = Concrete Block	M.H. = Man Hole
℄ = Centerline	C.B.S.= Concrete Block Stucco	San.= Sanitary
Elev.= Elevation	cov'd.= Covered	C.B.= Storm Water Catch Basin
B.M. = Bench Mark	P.I. = Point of Intersection	B.P.Z.= Backflow Prevention Valve
P.O.C.= Point of Commence	wd. = Wood	P.V.C.= Polyvinyl Pipe
P.O.B.= Point of Beginning	w.m.= Water Meter	= Fire Hydrant
P.B. = Plat Book	Bal. = Balcony	= Light
pg. = page	Pl. = Planter	= sign
Elec.= Electric	Hydt.= Fire Hydrant	
Tel. = Telephone	F.W. = Fire Well	
	A/C = Air Conditioner	

Field Work performed on: 6/12/06

Note A: Utility Easement O.R. 558, Pg. 981, based on a illegible sketch. Easement is shown different than on a pervious ALTA survey prepared by Phillips & Trice.

SETBACKS: (per City of Key West Zoning HRCC1)
Front: None
Side: 2.5 feet
Rear 10 feet
Side Street: None

FLOOD ZONE:
Map: 12087C 1716 H (revised 3/3/97)
AE = Elevation for Finish Floor
VE = Elevation for Bottom of Low Beam (to permit water flow under)

CERTIFICATION made to:
Pier House Joint Venture, a Florida general partnership
First American Title Insurance Company

Surveyor's Certificate

The undersigned, a professional surveyor, duly licensed in the State of Florida, hereby certifies to PIER HOUSE JOINT VENTURE, a Florida general partnership ("Owner"); PNC BANK, NATIONAL ASSOCIATION ("LENDER") and FIRST AMERICAN TITLE INSURANCE COMPANY ("Title Company") that (i) the survey (the "Survey"), dated 3/3/93, identified as THE PIER HOUSE, and prepared by the undersigned is an accurate survey of the premises (the "Premises") shown thereon, (ii) the property lines shown thereon are consistent with the property lines shown on the recorded plan of which the premises are a part, (iii) the Survey shows the location of all improvements, structures and other physical conditions presently existing, (iv) the Survey shows the exact location of all rights of way, easements, building lines and other conditions appearing of record or apparent from an inspection the to the Premises, including the mean high water line of any bodies of water located on the Land (v) except as may be shown on the Survey, there are no encroachments or any buildings or other structure or improvements of any kind upon the rights or way, easement, building restriction or set back lines or adjoining property lines, (vi) except as shown on the survey, there are no encroachments of the property lines of the Premises upon any adjoining property lines, (vii) the National Flood Insurance Program Zones are indicted in the Surveyors Report, (viii) all roads and rights of way identified on the Survey are publicly accepted and open, (ix) all building and setback lines created by any covenant, restriction, law, ordinance or regulation, affecting the remises are shown on the Survey, and (x) the Survey fulfills the Minimum Standard Detail requirements for ALTA/;ACSN Land Title Surveys, s most recently established and adopted, and meets the accuracy requirements of a Class A Survey as defined therein.

Owner, Lender and Title Company and their respective successors and assigns may rely upon this certificate for all purposes.

F. H. HILDEBRANDT COMPANY

____
F. H. Hildebrandt, PLS, PE
Florida Registration

Dated:_______________

LINE TABLE

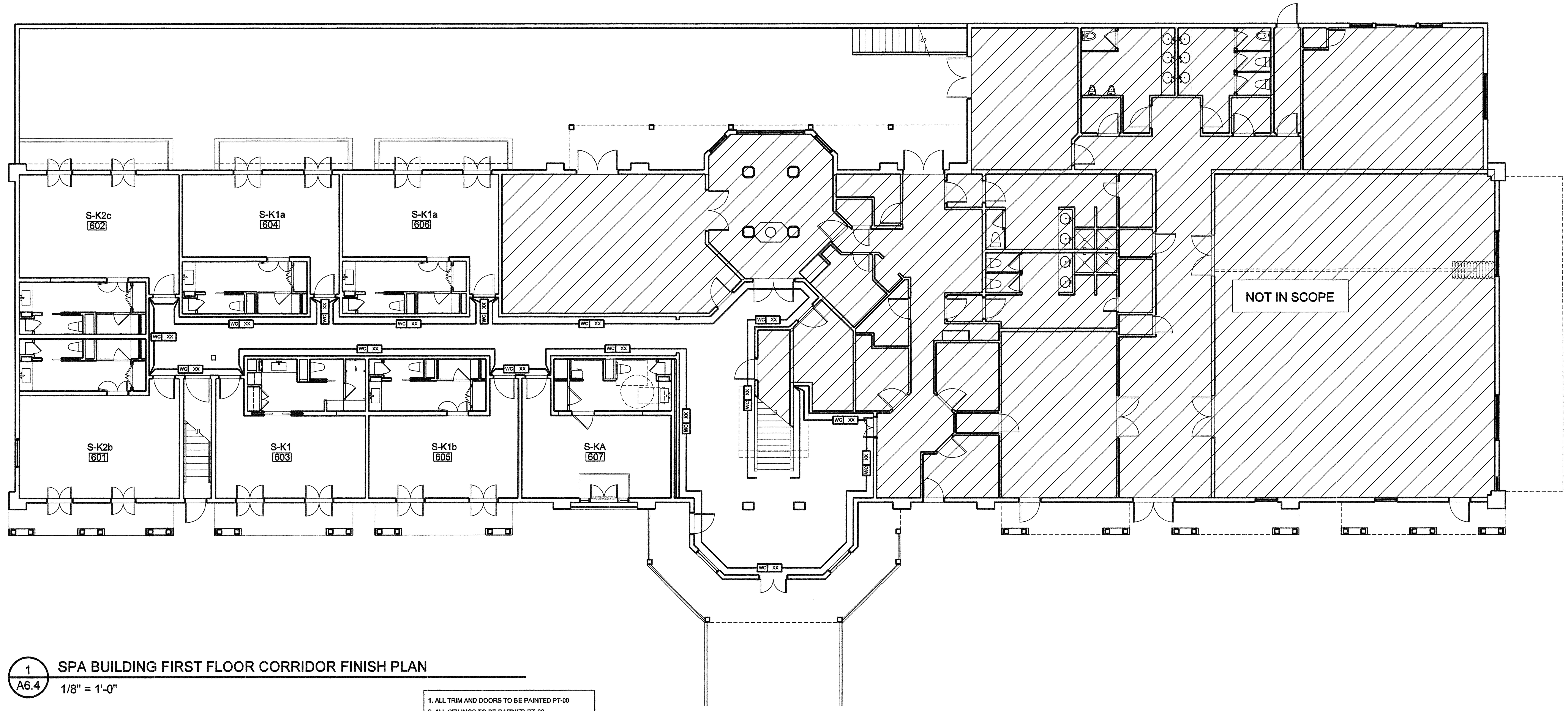
Line	Bearing	Distance
L1	N.39°05'51"W.	6.42'
L2	N.16°50'35"W.	7.75'
L3	N.30°34'04"E.	11.52'
L4	N.45°10'00"E.	40.46'
L5	N.48°13'19"E.	42.23'
L6	N.52°26'50"E.	59.05'
L7	N.79°49'31"E.	6.99'
L8	S.45°47'54"E	4.90'

7/28/03: Revise L.D.
5/16/03: Revise L.D.
5/8/03: Revise L.D.
6/14/06: updated
8/11/03: Revise L.D.

Pier House Joint Venture 1 Duval Street, Key West, Fl. 33040			
ALTA/ACSM Land Title Survey			Dwn No.: 06–335
Scale: 1"=30'	Ref. 130–21 160–5 161–86	Flood panel No. 1516 K	Dwn. By: F.H.H.
Date: 5/15/01		Flood Zone: AE–VE	Flood Elev. 7–13'
REVISIONS AND/OR ADDITIONS			
8/10/01: L.D., misc.		4/30/03: Revise Legal Description	
9/2/01: typo's L.D., Deck Addition			
4/8/03: Updated, Prop. Line, front entrance, pool			
c/dwg/kw/block2			

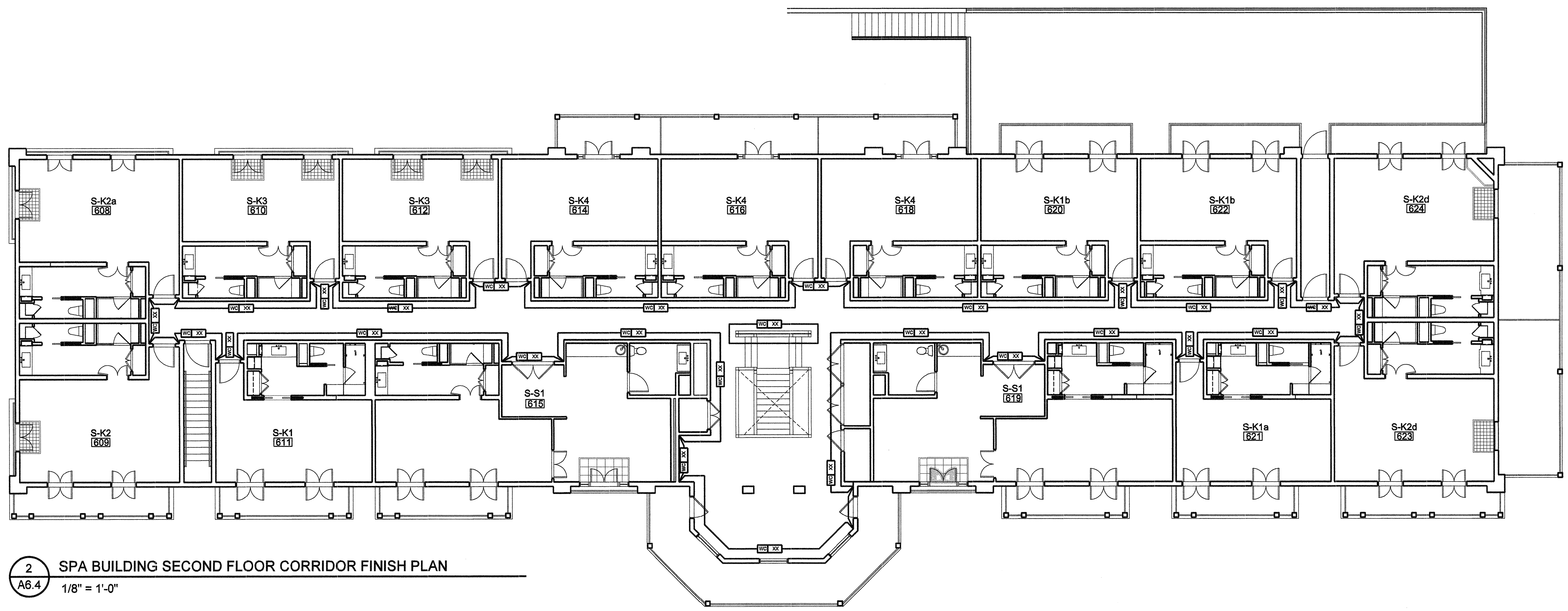
FREDERICK H. HILDEBRANDT
ENGINEER PLANNER SURVEYOR

3152 Northside Drive
Suite 201
Key West, Fl. 33040
(305) 293–0466
Fax. (305) 293–0237



1 A6.4 SPA BUILDING FIRST FLOOR CORRIDOR FINISH PLAN
1/8" = 1'-0"

1. ALL TRIM AND DOORS TO BE PAINTED PT-00
2. ALL CEILINGS TO BE PAITNED PT-00
3. ACCESS PANELS TO BE PAINTED TO MATCH ADJACENT SURFACE.



2 A6.4 SPA BUILDING SECOND FLOOR CORRIDOR FINISH PLAN
1/8" = 1'-0"

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3424 PEACHTREE ROAD, NE
SUITE 1600
ATLANTA, GEORGIA 30326
(404)266-9955 FAX (404)266-9935
www.aigroupdesign.com

Pier House
Resort and Caribbean Spa
ONE DUVAL STREET KEY WEST, FLORIDA

ISSUE	DATE
PRELIMINARY SET	12.12.07
PERMIT SET	01.31.08
RELEASE FOR CONSTRUCTION	03.31.08

SPA BUILDING
CORRIDOR FINISH PLAN

DATE 08.20.2007

A6.4
SHEET NUMBER
0716.00
PROJECT NUMBER

RELEASED FOR CONSTRUCTION 01.31.08

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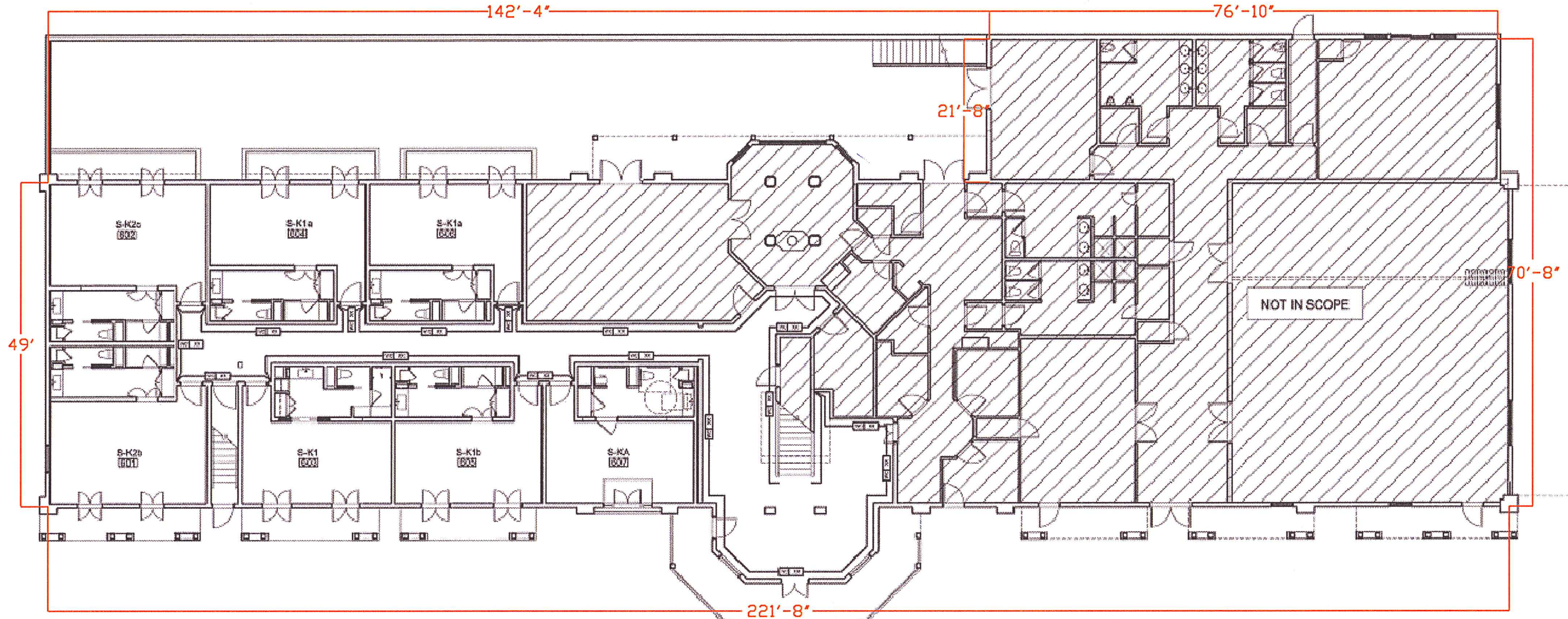


1 A6.4 SPA BUILDING FIRST FLOOR CORRIDOR FINISH PLAN

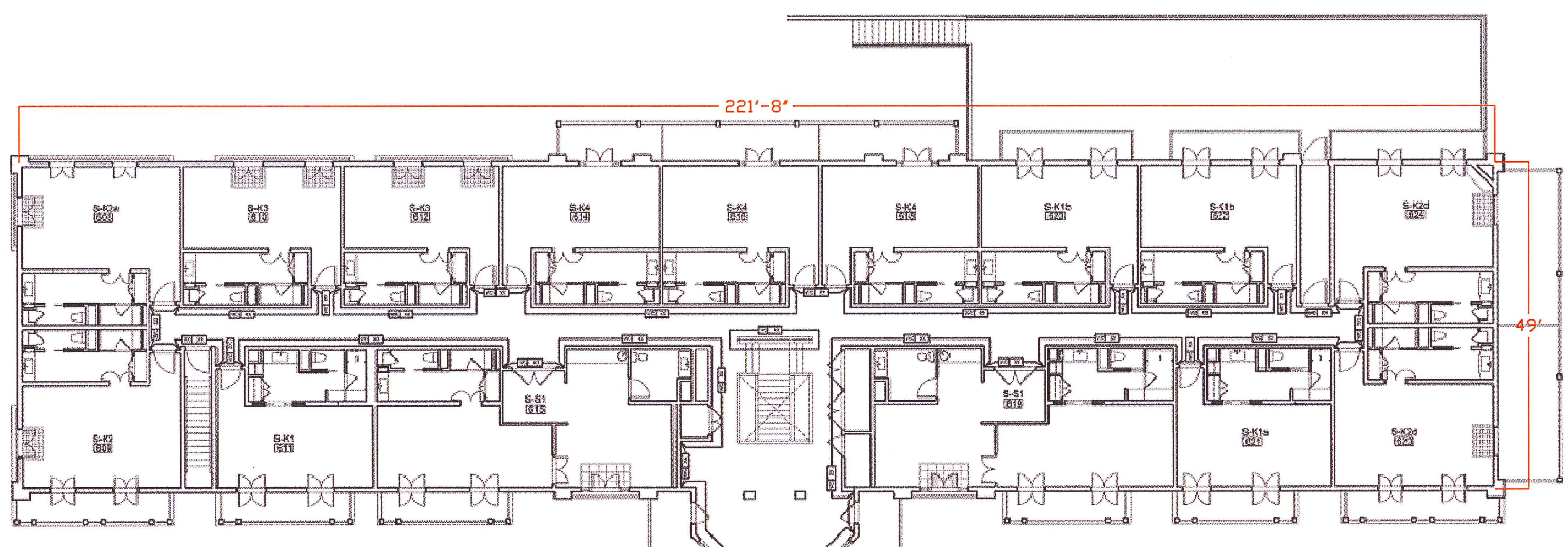
1/8" = 1'-0"

1. ALL TRIM AND DOORS TO BE PAINTED PT-30
2. ALL CEILINGS TO BE PAINTED PT-30
3. ACCESS PANELS TO BE PAINTED TO MATCH ADJACENT SURFACE.

1st Floor Square Footage = 12,985 SF

2nd Floor Square Footage = 11,203 SF

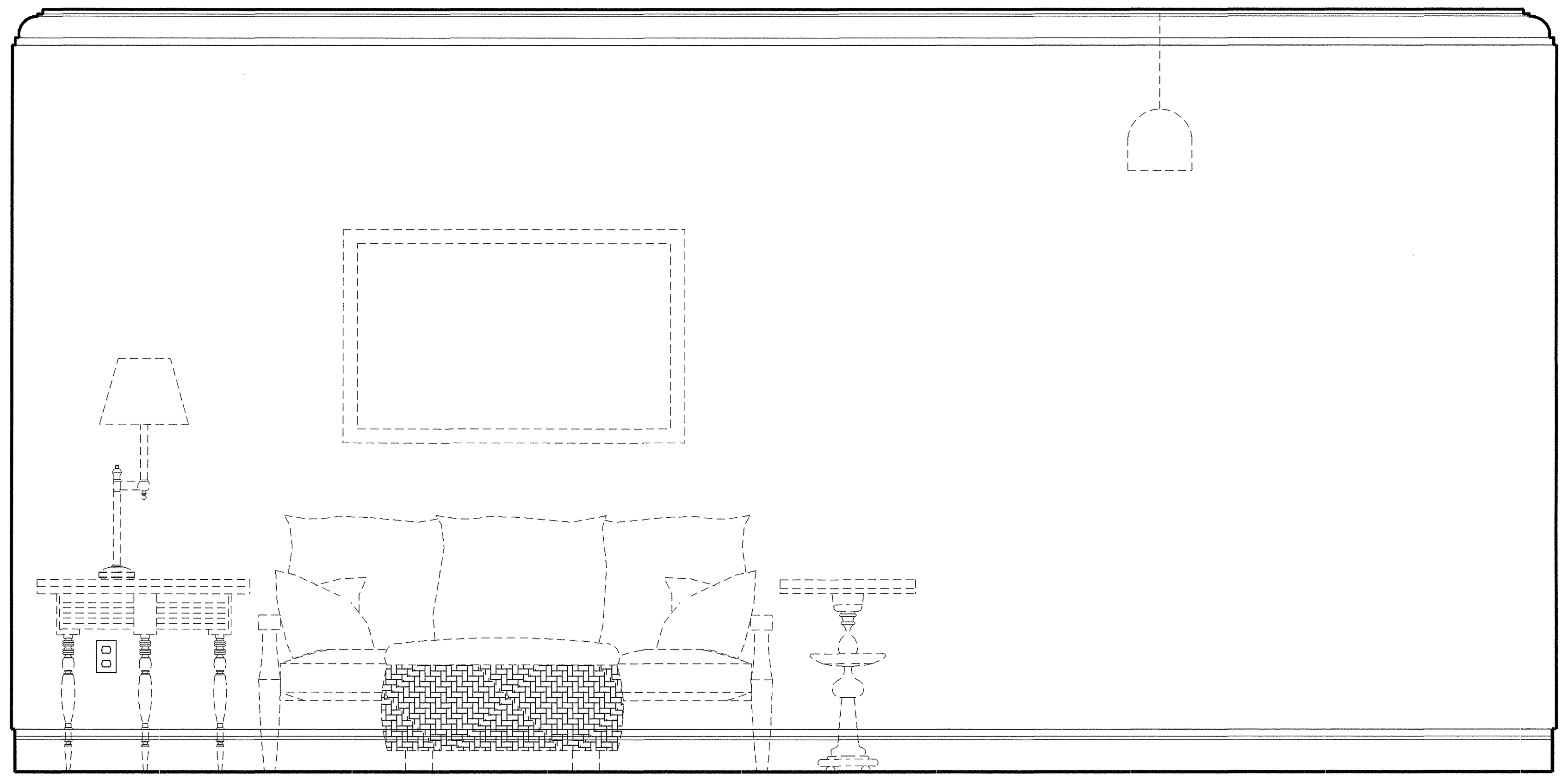
Total Square Footage = 24,188 SF



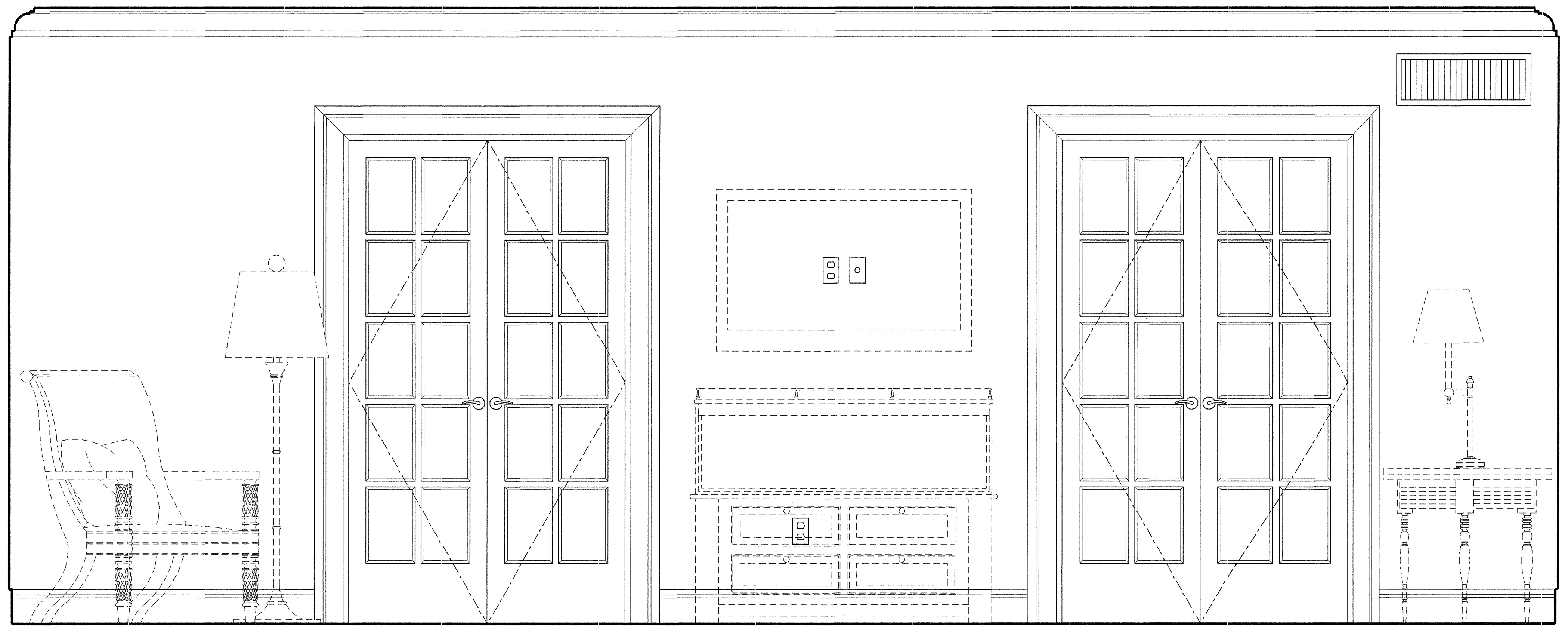
2 A6.4 SPA BUILDING SECOND FLOOR CORRIDOR FINISH PLAN

1/8" = 1'-0"

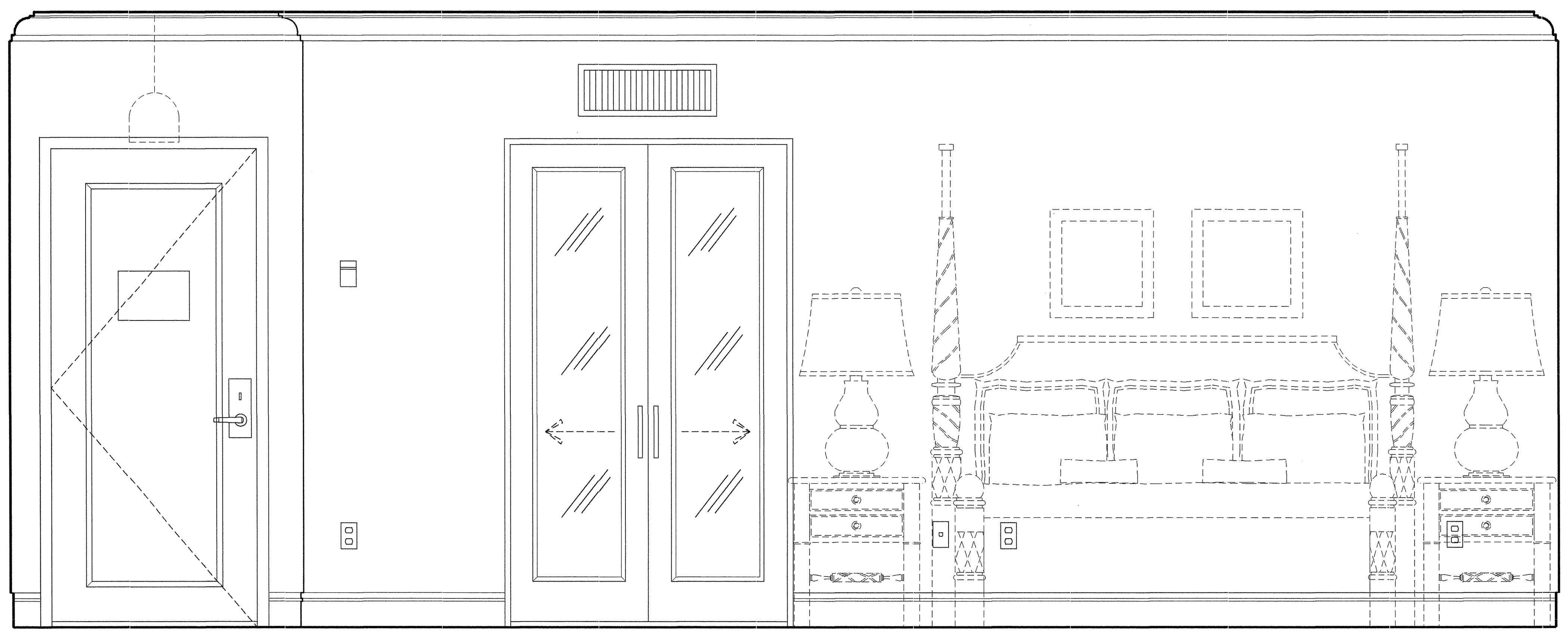
pier house dimension plan 012109



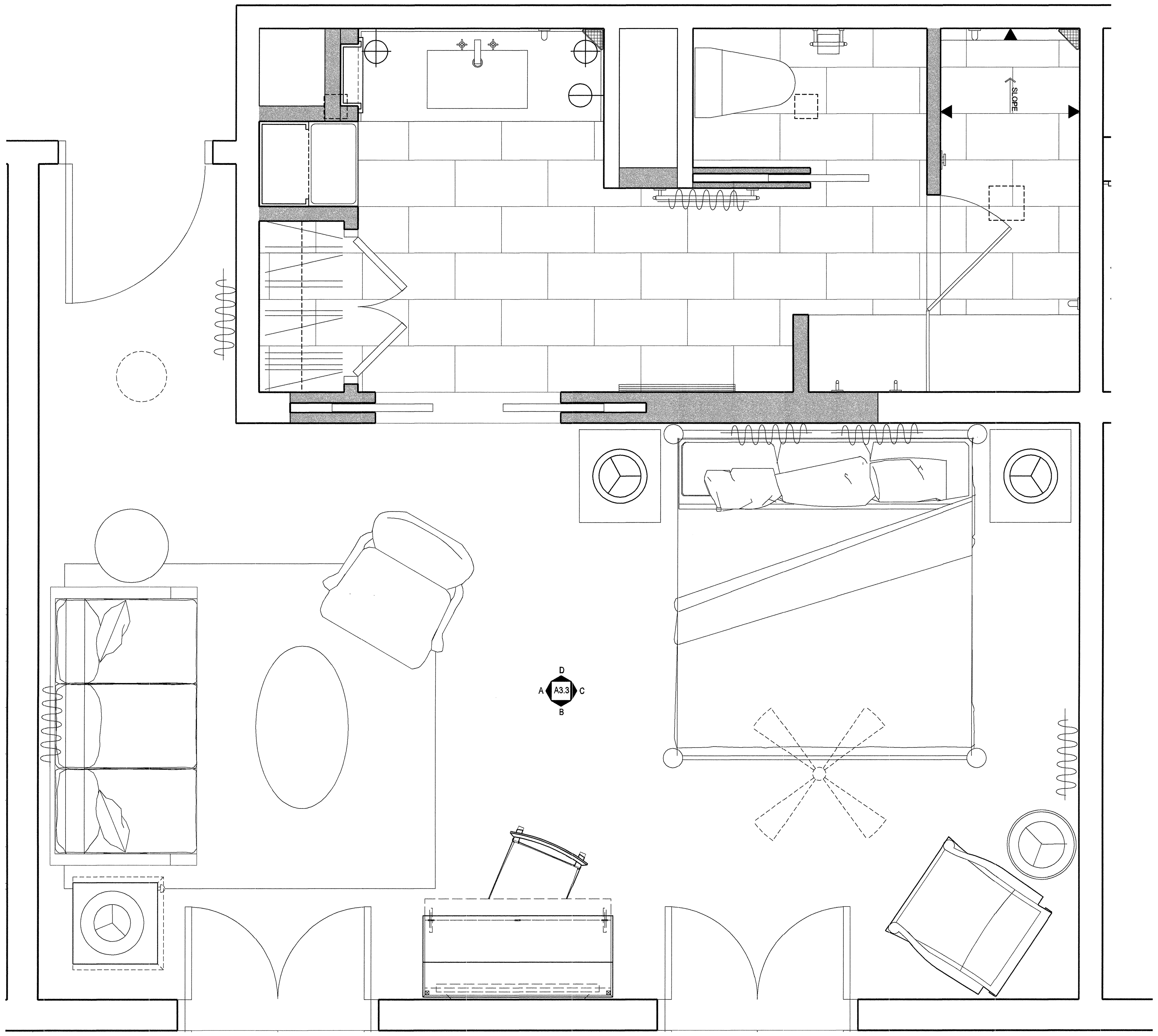
A ELEVATION
A4.3 3/4" = 1' - 0"

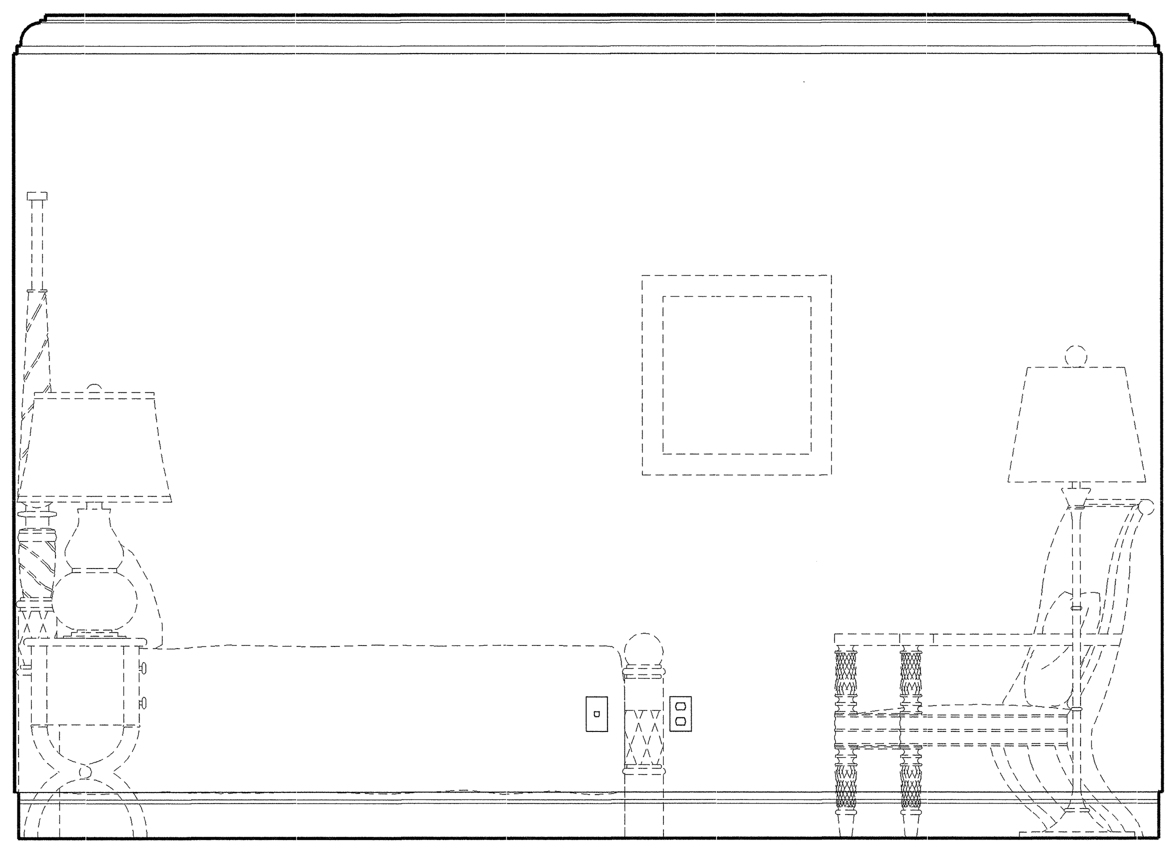


B ELEVATION
A4.3 3/4" = 1' - 0"



C ELEVATION
A4.3 3/4" = 1' - 0"





D ELEVATION
A4.3 3/4" = 1' - 0"

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(404)266-9955 FAX (404)266-9935
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Pier House
Resort and Caribbean Spa
KEY WEST, FLORIDA
ONE DUVAL STREET

ISSUE ▪ DATE	
PRELIMINARY SET	12.12.07
PERMIT SET	01.31.08
RELEASE FOR CONSTRUCTION	03.31.08

SPA BUILDING
MODEL ROOM ELEVATIONS

DATE 08.20.2007

A4.3
SHEET NUMBER
0716.00
PROJECT NUMBER

RELEASED FOR CONSTRUCTION 01.31.08

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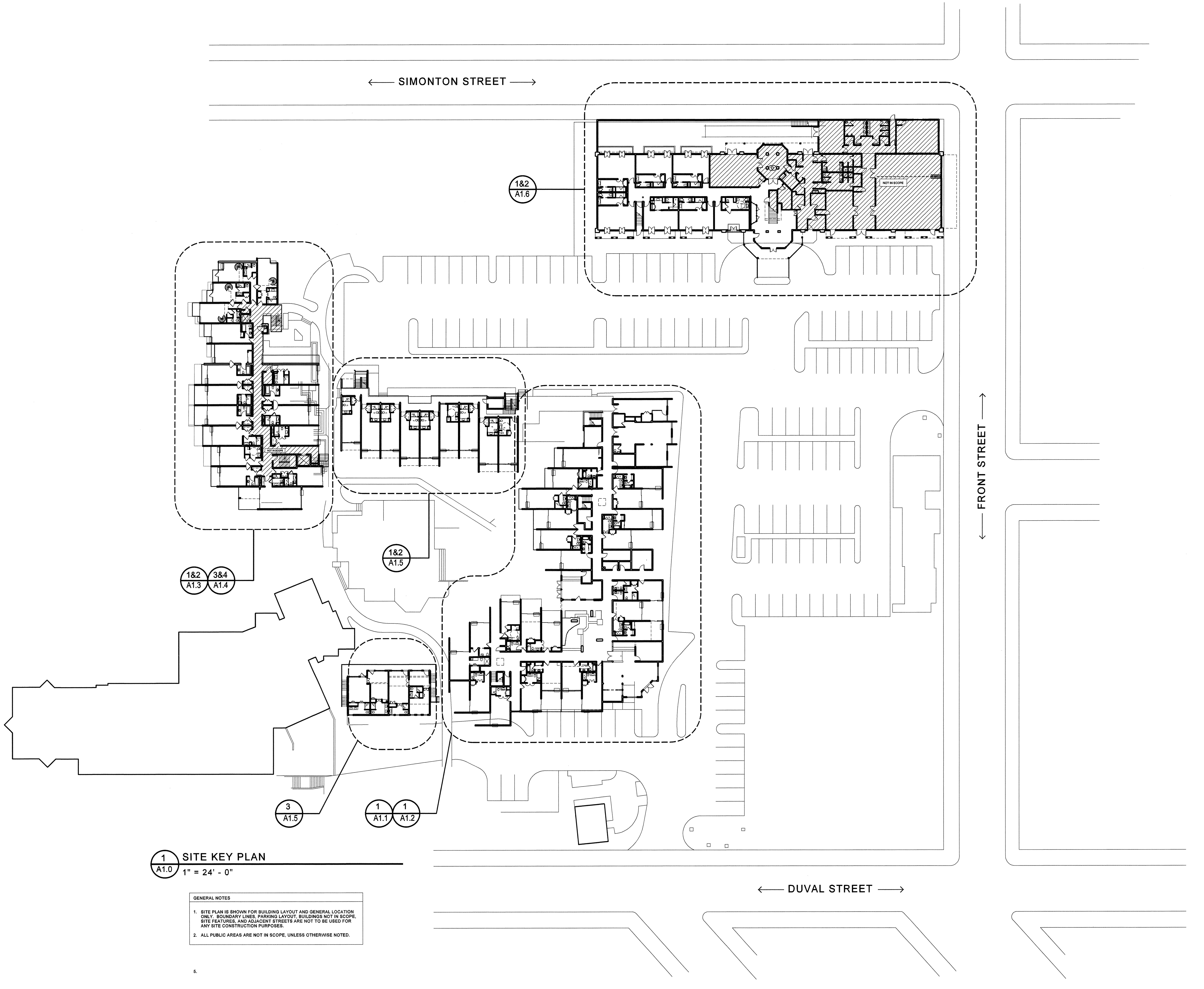

1 A1.0 SITE KEY PLAN

1" = 24' - 0"

GENERAL NOTES

1. SITE PLAN IS SHOWN FOR BUILDING LAYOUT AND GENERAL LOCATION ONLY. BOUNDARY LINES, PARKING LAYOUT, BUILDINGS NOT IN SCOPE, SITE FEATURES, AND ADJACENT STREETS ARE NOT TO BE USED FOR ANY SITE CONSTRUCTION PURPOSES.
2. ALL PUBLIC AREAS ARE NOT IN SCOPE, UNLESS OTHERWISE NOTED.

5.

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Pier House
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ISSUE	DATE
PRELIMINARY SET	12.12.07
PERMIT SET	01.31.08
RELEASE FOR CONSTRUCTION	03.31.08

SITE KEYPLAN

DATE 08.20.2007

A1.0

SHEET NUMBER

0716.00

PROJECT NUMBER

RELEASED FOR CONSTRUCTION 01.31.08

DISCOUNTED CASH FLOW - AS STAND ALONE HOTEL - CARIBBEAN SPA, KEY WEST

Room Statistics:											
Total Rooms	22		22		22		22		22		22
Available Room Nights	8,030		8,030		8,030		8,030		8,030		8,030
Occupied Room Nights	4,015		5,220		6,023		6,023		6,023		6,023
Occupany Rate	50.0%		65.0%		75.0%		75.0%		75.0%		75.0%
Average Daily Rate	$235.00		$242.05		$249.31		$256.79		$264.49		$272.43
RevPAR	$117.50		$157.33		$186.98		$192.59		$198.37		$204.32
Year	**1**		**2**		**3**		**4**		**5**		**Reversion 6**
	Amount	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**
REVENUES											
Rooms	$943,525	97.09%	$1,263,380	97.09%	$1,501,479	97.09%	$1,546,523	97.09%	$1,592,919	97.09%	$1,640,706
Misc/Other Income	$28,306	2.91%	$37,901	2.91%	$45,044	2.91%	$46,396	2.91%	$47,788	2.91%	$49,221
Total Gross Revenues	$971,831	100.00%	$1,301,281	100.00%	$1,546,523	100.00%	$1,592,919	100.00%	$1,640,706	100.00%	$1,689,927
OPERATING EXPENSES											
Start Up Cost	$350,000										
Departmental Expenses											
Rooms & Other	$242,958	25.00%	$325,320	25.00%	$386,631	25.00%	$398,230	25.00%	$410,177	25.00%	$422,482
Departmental Profit	$728,873	75.00%	$975,961	75.00%	$1,159,892	75.00%	$1,194,689	75.00%	$1,230,530	75.00%	$1,267,445
Undistributed Expenses											
Administrative	$68,028	7.00%	$91,090	7.00%	$108,257	7.00%	$111,504	7.00%	$114,849	7.00%	$118,295
Sales & Marketing	$58,310	6.00%	$78,077	6.00%	$92,791	6.00%	$95,575	6.00%	$98,442	6.00%	$101,396
Repairs & Maint.	$48,592	5.00%	$65,064	5.00%	$77,326	5.00%	$79,646	5.00%	$82,035	5.00%	$84,496
Energy	$68,028	7.00%	$91,090	7.00%	$108,257	7.00%	$111,504	7.00%	$114,849	7.00%	$118,295
Management Fee	$29,155	3.00%	$39,038	3.00%	$46,396	3.00%	$47,788	3.00%	$49,221	3.00%	$50,698
Total Undistributed Exp.	$272,113	28.00%	$364,359	28.00%	$433,026	28.00%	$446,017	28.00%	$459,398	28.00%	$473,180
Fixed Expenses											
Real Estate Taxes	$52,000	5.35%	$53,560	5.51%	$55,167	5.68%	$56,822	5.85%	$58,526	6.02%	$60,282
Insurance	$29,155	3.00%	$30,030	3.09%	$30,930	3.18%	$31,858	3.28%	$32,814	3.38%	$33,799
Total Fixed Expenses	$81,155	8.35%	$83,590	8.60%	$86,097	8.86%	$88,680	9.13%	$91,341	9.40%	$94,081
Total Operating Expenses	$946,225	61.35%	$773,269	61.60%	$905,754	61.86%	$932,927	62.13%	$960,915	62.40%	$989,742
NET OPERATING INCOME	$25,606		$528,013		$640,768		$659,992		$679,791		$700,185
Net Operating Income - Commercial	$92,500		$95,275		$98,133		$101,077		$104,110		$107,233
Total NOI	$118,106		$623,288		$738,902		$761,069		$783,901		$807,418
REVERSION									$8,466,977		
NOI + Rev (Year 1):	$118,106										
NOI + Rev (Year 2):	$623,288										
NOI + Rev (Year 3):	$738,902										
NOI + Rev (Year 4):	$761,069										
NOI + Rev (Year 5):	$9,250,878										
Discount Rate:	12.00%										
Terminal Cap Rate:	9.25%										
Brokerage Fee:	3.0%										
Net Present Value:	$6,861,137										
Round To:	**$6,900,000**										
Price per Key	**$313,636**										

LEASEHOLD DISCOUNTED CASH FLOW - CARIBBEAN SPA, KEY WEST

Room Statistics:																		
Total Rooms	22		22		22		22		22		22		22		22		22	
Available Room Nights	8,030		8,030		8,030		8,030		8,030		8,030		8,030		8,030		8,030	
Occupied Room Nights	4,015		5,220		6,023		6,023		6,023		6,023		6,023		6,023		6,023	
Occupany Rate	50.0%		65.0%		75.0%		75.0%		75.0%		75.0%		75.0%		75.0%		75.0%	
Average Daily Rate	$235.00		$242.05		$249.31		$256.79		$264.49		$272.43		$280.60		$289.02		$297.69	
RevPAR	$117.50		$157.33		$186.98		$192.59		$198.37		$204.32		$210.45		$216.77		$223.27	
Year	**1**		**2**		**3**		**4**		**5**		**Reversion 6**		**7**		**8**		**9**	
	Amount	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**	**Amount**	**% of Gross**
REVENUES																		
Rooms	$943,525	97.09%	$1,263,380	97.09%	$1,501,479	97.09%	$1,546,523	97.09%	$1,592,919	97.09%	$1,640,706	97.09%	$1,689,927	97.09%	$1,740,625	97.09%	$1,792,844	97.09%
Misc/Other Income	$28,306	2.91%	$37,901	2.91%	$45,044	2.91%	$46,396	2.91%	$47,788	2.91%	$49,221	2.91%	$50,698	2.91%	$52,219	2.91%	$53,785	2.91%
	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Total Gross Revenues	$971,831	100.00%	$1,301,281	100.00%	$1,546,523	100.00%	$1,592,919	100.00%	$1,640,706	100.00%	$1,689,927	100.00%	$1,740,625	100.00%	$1,792,844	100.00%	$1,846,629	100.00%
OPERATING EXPENSES																		
Start Up Cost	$350,000																	
Departmental Expenses																		
Rooms & Other	$242,958	25.00%	$325,320	25.00%	$386,631	25.00%	$398,230	25.00%	$410,177	25.00%	$422,482	25.00%	$422,482	25.00%	$422,482	25.00%	$422,482	25.00%
Departmental Profit	$728,873	75.00%	$975,961	75.00%	$1,159,892	75.00%	$1,194,689	75.00%	$1,230,530	75.00%	$1,267,445	75.00%	$1,318,143	75.00%	$1,370,362	75.00%	$1,424,147	75.00%
Undistributed Expenses																		
Administrative	$68,028	7.00%	$91,090	7.00%	$108,257	7.00%	$111,504	7.00%	$114,849	7.00%	$118,295	7.00%	$118,295	7.00%	$118,295	7.00%	$118,295	7.00%
Sales & Marketing	$58,310	6.00%	$78,077	6.00%	$92,791	6.00%	$95,575	6.00%	$98,442	6.00%	$101,396	6.00%	$101,396	6.00%	$101,396	6.00%	$101,396	6.00%
Repairs & Maint.	$48,592	5.00%	$65,064	5.00%	$77,326	5.00%	$79,646	5.00%	$82,035	5.00%	$84,496	5.00%	$84,496	5.00%	$84,496	5.00%	$84,496	5.00%
Energy	$68,028	7.00%	$91,090	7.00%	$108,257	7.00%	$111,504	7.00%	$114,849	7.00%	$118,295	7.00%	$118,295	7.00%	$118,295	7.00%	$118,295	7.00%
Management Fee	$29,155	3.00%	$39,038	3.00%	$46,396	3.00%	$47,788	3.00%	$49,221	3.00%	$50,698	3.00%	$50,698	3.00%	$50,698	3.00%	$50,698	3.00%
Total Undistributed Exp.	$272,113	28.00%	$364,359	28.00%	$433,026	28.00%	$446,017	28.00%	$459,398	28.00%	$473,180	28.00%	$473,180	28.00%	$473,180	28.00%	$473,180	28.00%
Fixed Expenses																		
Real Estate Taxes	$52,000	5.35%	$53,560	5.51%	$55,167	5.68%	$56,822	5.85%	$58,526	6.02%	$60,282	6.20%	$62,091	6.39%	$63,953	6.58%	$65,872	6.78%
Insurance	$29,155	3.00%	$30,030	3.09%	$30,930	3.18%	$31,858	3.28%	$32,814	3.38%	$33,799	3.48%	$34,813	3.58%	$35,857	3.69%	$36,933	3.80%
Total Fixed Expenses	$81,155	8.35%	$83,590	8.60%	$86,097	8.86%	$88,680	9.13%	$91,341	9.40%	$94,081	9.68%	$96,903	9.97%	$99,810	10.27%	$102,805	10.58%
Total Operating Expenses	$946,225	61.35%	$773,269	61.60%	$905,754	61.86%	$932,927	62.13%	$960,915	62.40%	$989,742	62.68%	$992,565	62.97%	$995,472	63.27%	$998,466	63.58%
NET OPERATING INCOME	$25,606		$528,013		$640,768		$659,992		$679,791		$700,185		$748,060		$797,372		$848,163	
Net Operating Income - Commercial	$92,500		$95,275		$98,133		$101,077		$104,110		$107,233		$110,450		$113,763		$117,176	
Total NOI	$118,106		$623,288		$738,902		$761,069		$783,901		$807,418		$858,510		$911,135		$965,339	
Less Rent Payment	$3,600		$3,600		$3,600		$3,600		$3,600		$3,600		$3,600		$3,600		$3,600	
Adjusted NOI	$114,506		$619,688		$735,302		$757,469		$780,301		$803,818		$854,910		$907,535		$961,739	

NOI Year 1	$114,506
NOI Year 2	$619,688
NOI Year 3	$735,302
NOI Year 4	$757,469
NOI Year 5	$780,301
NOI Year 6	$803,818
NOI Year 7	$854,910
NOI Year 8	$907,535
NOI Year 9	$961,739
Discount Rate:	12.00%
Net Present Value:	$3,551,079
Round To:	**$3,550,000**

Lighthouse Realty Services, Inc
4440 PGA Boulevard, Suite 600
Palm Beach Gardens, Florida 33410
Phone: (561)-628-6683
Fax : (561)-472-8401
Email: Blair@LighthouseRealtySvs.com

January 24, 2011

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

Via Email: mwilbarg@keywestcity.com

Re: Pier House Resort and Caribbean Spa located at 529 Front Street in Key West Florida

Dear Marilyn,

It is my understanding the intended use is to render various values based on both a fee simple and leased fee basis as the subject property is under a lease. Further, the intended use to assist the City of Key West in internal decision making for the possible sale of the subject property. The intended user is the City of Key West (Lessor/Landlord/Owner).

During the appraisal of this property, the following ownership interest will be valued and/or considered. These are the Fee Simple Estate, Leased Fee Estate and Leasehold Interest is defined as follows: (The Dictionary of Real Estate Appraisal, 5th Edition, Appraisal Institute 2010):

Fee Simple Estate: Absolute ownership subject only to limitations imposed by the State; also called a freehold.

Leased Fee Estate: A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship (i.e., a lease).

Leasehold Interest: The tenant's possessory interest created by a lease.

Appraisal Assignment

1) The appraiser will value the "As Is" Market Value of the Subject Property in the Fee Simple Estate based on its existing use and current licensing. During this process the appraiser will also test the Highest and Best Use in order to determine if a possible alternative use may exist that would generate a greater value.

2) The appraiser will also estimate the Leased Fee Value considering the existing lease in place. A reversion value after the lease expires will be included based on the existing use of the subject property. If an alternative use if found appropriate in the Highest and Best Use section than these values will be included.

3) During the course of the assignment it may be appropriate to allocate separate values in the reversion between the land and the improvements of the property. Once again this will be tested in the Highest and Best Use analysis. In order to fully understand this scenario, the current lessee (tenant) would need to provide income and expense information pertaining to the subject in order to accurately test the Highest and Best Use. If this information cannot be obtained, than the subject property will be valued on its own merit.

4) Lastly, the appraiser proposes a value of the subject property to the Pier House (Leasehold), which would consider the value of the overall Pier House Resort with and without the use and operation of the subject property. To value the property under this scenario, we would need complete financial and historical operations from the owner.

The fee will be based on two scenarios. The first scenario will value the property "As Is" based on both a Fee Simple and Leased Fee basis. Consideration will also be given to the Highest and Best Use, which could also alter or provide additional values. The second scenario is more complex and will require the valuing the entire project of the Pier House Resort that would include and not include the subject property. This will also require financial information from the current tenant.

We propose to furnish you a Self-Contained Appraisal Report setting forth the "as is" market value for the above referenced property, as a fee simple estate and leased fee estate as discussed above. The report will contain all of the data and analysis utilized in making the value estimate and will be made according to the Standards of Practice and Code of Ethics of the Appraisal Institute and the guidelines according to USPAP and FIRREA.

We will have the appraisal report ready for delivery within four to five weeks of your acceptance. The fee for this assignment for Scenario One is $8,400. The second scenario fee will be $13,400. You may indicate your acceptance by returning a signed copy of this letter. Please do not hesitate to contact me if you have any questions.

Respectfully submitted,

Blair C. Lee, MAI
State Certified General Real
Estate Appraiser, No. RZ 2125

I hereby authorize you to proceed with the appraisal.

_____________________________ __________________
Signature Date

PROFESSIONAL QUALIFACTIONS

BLAIR C. LEE, MAI

Blair Lee is a native born Floridian that has lived in South Florida since 1976. His education includes a Bachelor of Science in both Real Estate and Business Management from the Florida State University. Mr. Lee's real estate career began in 1990 as a researcher for Callaway and Price, Inc in West Palm Beach, Florida. Since 1992, he has been a commercial appraiser and has valued properties all over the state from Jacksonville to Key West. During this time he has appraised numerous types for properties that ranged in complexity from land to multi-tenant properties that required cash flow modeling and projections. Further, Mr. Lee spent over four years in acquisitions in obtaining a wide array of properties in Florida and Texas. During his career he obtained his State Certified General Real Estate Appraiser License and is a Florida Licensed Real Estate Broker. In 2004 he became a designated Member of the Appraisal Institute (MAI).

Education: Palm Beach Community College (Formerly Palm Beach Junior College), Palm Beach Gardens, Florida, Associate Arts Degree, 1985-1987.

Florida State University, Tallahassee, Florida, Bachelor of Science in Real Estate and Business Management, 1987-1990.
Core Real Estate Courses
Real Estate Principles and Practice
Real Estate Law
Real Estate Finance
Real Estate Feasibility
Real Estate Appraisal I & II

APPRAISAL INSTITUTE

Principles of Income
Advance Income 510
Report Writing and Analysis 540
Advance Applications 550
Standards of Professional Practice, A, B, & C
Separating Real and Personal Property from Tangible Business Assets, Course 800
FHA & the New Residential Appraisal Reports
Supervisor Trainee Roles & Rules seminar

Professional Designations/Licenses/Certifications:

Member of the Appraisal Institute, Number 12271
Florida State Certified General Real Estate Appraiser RZ2125
Florida Licensed Real Estate Broker BK0570280

Professional Affiliations:

Member of the Palm Beach Board of Realtors
Member of the International Council of Shopping Centers (ICSC)

Professional Experience:

Lighthouse Realty Services, Inc., President of this full service real estate firm that specializes in appraisals, consultation, acquisitions, and due diligence. March 2009 to Current

Ashkenazy & Agus Ventures, LLC, Boca Raton, Florida
Vice-President of Acquisitions for a private real estate family
2005 to March 2009

Callaway & Price, Inc of West Palm Beach, Florida
Researcher from 1990 to 1992
Independent fee senior commercial appraiser 1992 to 2005

Appraising/Consulting Experience:

Agricultural Acreage	Marinas	Shopping Centers
Apartment Buildings	Mobile Home Parks	Subdivisions/Residential
Automobile Dealerships	Multifamily Projects	Special Purpose Property
Commercial Property	Office Buildings	Vacant Commercial Property
Condominiums	Restaurants	Vacant Residential
Day Care centers	Retail Buildings	Vacant Waterfront Property
Eminent Domain	RV Parks	Vacant Industrial Property
Golf Courses	Single Family Homes	Warehouses
Hotels	Parking Garages	Wetlands
Industrial uses	Proposed Projects	

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APPRAISAL INSTITUTE

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Report Writing and Analysis 540
Advance Applications 550
Standards of Professional Practice, A, B, & C
Separating Real and Personal Property from Tangible Business Assets, Course 800
FHA & the New Residential Appraisal Reports
Supervisor Trainee Roles & Rules seminar

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Florida Licensed Real Estate Broker BK0570280

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Eminent Domain	RV Parks	Vacant Industrial Property
Golf Courses	Single Family Homes	Warehouses
Hotels	Parking Garages	Wetlands
Industrial uses	Proposed Projects	

AC# 5143906

STATE OF FLORIDA

DEPARTMENT OF BUSINESS AND PROFESSIONAL REGULATION
FLORIDA REAL ESTATE APPRAISAL BD

SEQ# L10083004170

DATE	BATCH NUMBER	LICENSE NBR
08/30/2010	108054373	RZ2125

The CERTIFIED GENERAL APPRAISER
Named below IS CERTIFIED
Under the provisions of Chapter 475 FS.
Expiration date: NOV 30, 2012

LEE, BLAIR C
4440 PGA BLVD
SUITE 600
PALM BEACH GARDENS FL 33410

CHARLIE CRIST
GOVERNOR

CHARLIE LIEM
SECRETARY

DISPLAY AS REQUIRED BY LAW