APPRAISAL Co.
OF KEY WEST

3144 Northside Drive, Ste 201
Key West, FL 33040
Office: (305) 296-4563
Fax: (305) 922-2119

Website: fla-keysappraisals.com
E-mail: jim@fla-keysappraisals.com

November 11, 2015

Mr. James K. Scholl, City Manager
City of Key West
P.O. Box 1409
Key West, FL 33040

Subject: Appraisal Report of:
Peary Court At Key West
541 White Street
Key West, Monroe County, Florida 33040
Our File No.: 220-15

Dear Mr. Scholl:

I have performed an Appraisal Report and formed my opinion of the "As Is" Market Value of the above referenced property as of September 18, 2015. The assumptions and the real estate referenced above are more clearly defined in the General and Extraordinary Assumptions and Limiting Conditions plus in the Property Description section of this report. The attached Appraisal Report has been prepared to comply with my understanding of the requirements of the Uniform Standards of Professional Appraisal Practice.

The subject property is located in the "Old Town" section of Key West. The subject property is surrounded mostly by residential uses with some commercial uses nearby on White Street and the Garrison Bight Marina on Palm Avenue and Eisenhower Drive to the Southeast. The subject improvements are located on a polygon, irregular-shaped, corner parcel fronting along the southerly side of Palm Avenue, the southeasterly side of Eaton Street, the easterly side of White Street and the southwesterly side of Eisenhower Drive for a total site size of 1,053,434 square feet or 24.1835 acres. The subject site, however, does not include 2+ acres in the middle of the site, which will be retained by the seller for development of 48 affordable housing units. As a result, the net subject site area is approximately 22 acres, or 958,320 square feet. A survey, performed by F.H. Hildebrandt, Island Surveying 3152 Northside Drive, Key West, FL 33040 dated August 1, 2013 (last revision) and a site plan performed by Allen E. Perez, P.E., Perez Engineering and Development, 1010 East Kennedy Drive Suite 201, Key West, FL 33040, dated July 29, 2015, were utilized for site size, dimensions and building measurements. Any deviations from these sizes would could result in a change in value.

The subject property consists of 49, 2-story wood frame townhouse buildings containing 157, 2-bedroom nontransient residential units. The total gross rentable building area of the entire complex is 200,382 square feet. Each unit has one carport with enclosed storage area measuring 351 square feet. The multi-family dwellings were constructed in 1996, according to the Monroe County Tax Appraiser's records. On the table below, a summary of the subject buildings, unit mix and grossing building areas are

depicted:

| Peary Court at Key West<br>Gross Living Area Calculations and Unit Mix | | | | | | |
|---|---|---|---|---|---|---|
| Building # | Building and Bed/Bath Description | No. of Bldgs. | No. of Stories | No. of Units | Bldg. G.B.A. | Gross Rentable |
| Bldg. Type A | 4 Unit Townhouse-2/1.5 | 10 | 2 | 40 | 51,440 | 51,440 |
| Bldg. Type B | 3 Unit Townhouse-2/1.5 | 28 | 2 | 84 | 108,024 | 108,024 |
| Bldg. Type C | 2 Unit Townhouse-2/1.5 | 3 | 2 | 6 | 7,716 | 7,716 |
| Bldg. Type D | 4 Unit Townhouse w/1 H.C.-2/1.5, 2/1 | 3 | 2 | 12 | 14,862 | 14,862 |
| Bldg. Type E | 3 Unit Townhouse w/1 H.C. -2/1.5, 2/1 | 5 | 2 | 15 | 18,340 | 18,340 |
| | **Totals:** | **49** | | **157** | **200,382** | **200,382** |

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

This report contains the results of my investigation and analysis made in order to furnish an estimate of the *Market Value of the Fee Simple Interest* of the property described herein. The Fee Simple Interest is the unencumbered value of the subject property; basically, market rents and terms are considered with no regard to existing leases and terms. Since there are no long-term leases encumbering the subject property, and as the tenants are renting on an annual basis or less, a Leased Fee valuation was not applicable in the case at hand. Forty-eight of the existing 157 units are deed restricted as moderate affordable housing units; however, these restrictions will be removed once the new 48 affordable units are constructed (not part of this assignment). Per the City's request, I have valued the subject as an apartment complex with 157 market rate units and also as 157 units leased as moderate affordable (work-force) housing. In addition, I have included the "As Is" Market Value (Bulk-Sale) of the subject property units based on all units being market rate units. Furthermore, in addition to the 157 existing units, the subject includes entitlements to replace three units as the building was destroyed by a fire. As a result, I have also considered the value of the three entitlements. The reader is cautioned that a title search was not made; thus, no other encumbrances are considered herein.

Based on analysis of market data, inspection, and research, it is my opinion that the *"As Is" Market Value of the Fee Simple Interest* of Subject Property commonly known as the Peary Court At Key West, 541 White Street, Key West, Monroe County, Florida, based on 157 market rate rental units, plus land including redevelopment entitlements for three additional units (destroyed by fire, that can be rebuilt) and also subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY SEVEN MILLION DOLLARS**
**($57,000,000)**

In addition, based on analysis of market data, inspection, and research, it is my opinion that the *"As Is" Market Value of the Fee Simple Interest* of Subject Property commonly known as the Peary Court At Key West, 541 White Street, Key West, Monroe County, Florida, subject to moderate affordable housing rental restrictions for all 157 units, plus land including redevelopment entitlements for three additional units (destroyed by fire, that can be rebuilt) and also subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY THREE MILLION DOLLARS**
**($53,000,000)**

Finally, based on research analysis of market data, site visit and research, it is my opinion that the *"As Is " Market Value (Discounted Sellout/Bulk Sale)* of the Subject Property known as Peary Court At Key West, 541 White Street, for the 157 existing units, plus land including redevelopment entitlements for three additional units (destroyed by fire, that can be rebuilt) subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY EIGHT MILLION DOLLARS**
**($58,000,000)**

The valuation herein does <u>not</u> consider any fixtures and equipment other than the typical residential kitchen appliances within the apartments, which I have estimated to have a contributory value of $120,000.

A Summary of Facts and Conclusions is provided in the front of this report in Part I. The Assumptions and Limiting Conditions, as well as the Certification of Value may also be found in Part I.

If you have any questions regarding this appraisal report, feel free to contact me. Thank you for giving me the opportunity to provide this service for you.

Respectfully submitted,

James E. Wilson, MRICS, President
State-certified general real estate appraiser
RZ2164

# A P P R A I S A L  R E P O R T

**Property Type:**
157 UNIT RESIDENTIAL MULTI-FAMILY APARTMENT COMPLEX

**Commonly Known As:**

Peary Court At Key West
541 WHITE STREET
Key West, Florida 33040

**Prepared For:**

Mr. James K. Scholl, City Manager
City of Key West
P.O. Box 1409
Key West, FL 33041-1409

**Valuation Date:**

September 18, 2015

**Prepared By:**

James E. Wilson, MRICS, President
State-certified general real estate appraiser
RZ2164

**APPRAISAL COMPANY OF KEY WEST**
**3144 Northside Drive, Suite 201**
**Key West, Florida 33040**

**OUR FILE NO.:** 220-15

# TABLE OF CONTENTS

TABLE OF CONTENTS . . . . . 1

**Part I**
SUMMARY OF SALIENT FACTS & CONCLUSIONS . . . . . 4

**Part II**
FACTUAL DATA . . . . . 7
A. Purpose and Intended Use of Appraisal . . . . . 7
B. Definitions . . . . . 7
C. Property Rights Appraised: . . . . . 8
D. Legal Description: . . . . . 9
E. Ownership . . . . . 10
F. Sales History: . . . . . 10
G. Effective Date of Appraisal: . . . . . 10
H. Date of this Report: . . . . . 11
I. References: . . . . . 11

A. MARKET AREA & DEMOGRAPHICS . . . . . 14

PROPERTY DATA ANALYSIS . . . . . 25
A. General Site Description: . . . . . 25
B. Access: . . . . . 25
C. Topography: . . . . . 25
D. Easements: . . . . . 25
E. Flood Zone: . . . . . 26
F. Utilities: . . . . . 28
G. Zoning: . . . . . 29
H. Real Estate Taxes & Assessment: . . . . . 29
I. Census Tract: . . . . . 31
J. Analysis of Improvements: . . . . . 32

**Part III**
ANALYSIS, VALUATION AND CONCLUSIONS . . . . . 38
STATEMENT OF HIGHEST AND BEST USE . . . . . 38
A. Definition of Highest & Best Use: . . . . . 38
B. As Vacant & Available: . . . . . 39

C. As Presently Improved . . . . . 42
D. Conclusion of Highest & Best Use: . . . . . 43
E. Methodology . . . . . 44
F. Cost Approach . . . . . 48
G. Sales Comparison Approach . . . . . 91
1. Market Data . . . . . 92
2. Units of Measure & Valuation . . . . . 106
3. Value Conclusion for Subject Property . . . . . 107
4. Gross Sellout Valuation . . . . . 108
5. Market Data . . . . . 108
H. Income Approach . . . . . .
1. Actual Income Analysis . . . . . 112
2. Potential Rental Income . . . . . 113
3. Vacancy and Collection Loss . . . . . 127
4. Other Income . . . . . 128
5. Expense Analysis . . . . . 128
6. Projected Operating Statements . . . . . 130
7. Capitalization . . . . . 131
8. Value . . . . . 136
9. Conclusion . . . . . 137
10. Discounted Sellout Analysis . . . . . 137
11. Expenses . . . . . 138
12. Discount Rate . . . . . 141

RECONCILIATION AND FINAL ESTIMATE OF VALUE . . . . . 143
CERTIFICATION OF VALUES . . . . . 146
STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS . . . . . 149

**Part IV**
ADDENDA . . . . . 153
SUBJECT PHOTOS . . . . . 159
LOCATION MAP . . . . . 168
PLAT MAP . . . . . 169
AERIAL MAP . . . . . 170
SITE PLAN . . . . . 172
SURVEY . . . . . 173
LEGAL DESCRIPTION . . . . . 179
FLOOR PLANS . . . . . 180

TAX INFORMATION . . . . . 184
FLOOD MAP . . . . . 185
ENDNOTES . . . . . 186

## SUMMARY OF SALIENT FACTS & CONCLUSIONS

**Location:** Peary Court At Key West
541 White Street
Key West, Monroe County, Florida 33040

**Site Descriptions:** The subject site is a polygon, irregular-shaped, corner along the southerly side of Palm Avenue, the southeasterly side of Eaton Street, the easterly side of White Street and the southwesterly side of Eisenhower Drive for a total site size of 1,053,434 square feet or 24.1835 acres. The subject site, however, does not include 2+ acres in the middle of the site, which will be retained by the seller for development of 48 affordable housing units. The net subject site area is approximately 22 acres, or 958,320 square feet.

**Building Description:** The subject property consists of forty-nine, 2-story, wood frame townhouse buildings containing 157, 2-bedroom residential, non-transient units. The subject property is licensed with the City of Key West for an estimated 152 non-transient units and with the county and state for 157 non-transient units. The total gross building area of the entire complex is 200,382 square feet with a gross rentable area of 200,382 square feet. Each unit has one carport with enclosed storage area measuring 351 square feet. The multi-family dwellings were constructed in 1996, according to the Monroe County Tax Appraiser's records. A summary of the subject buildings, unit mix and grossing building areas are depicted as follows:

**Peary Court at Key West**
**Gross Living Area Calculations and Unit Mix**

| Building # | Building and Bed/Bath Description | No. of Bldgs. | No. of Stories | No. of Units | Bldg. G.B.A. | Gross Rentable |
|---|---|---|---|---|---|---|
| Bldg. Type A | 4 Unit Townhouse-2/1.5 | 10 | 2 | 40 | 51,440 | 51,440 |
| Bldg. Type B | 3 Unit Townhouse-2/1.5 | 28 | 2 | 84 | 108,024 | 108,024 |
| Bldg. Type C | 2 Unit Townhouse-2/1.5 | 3 | 2 | 6 | 7,716 | 7,716 |
| Bldg. Type D | 4 Unit Townhouse w/1 H.C.-2/1.5, 2/1 | 3 | 2 | 12 | 14,862 | 14,862 |
| Bldg. Type E | 3 Unit Townhouse w/1 H.C. -2/1.5, 2/1 | 5 | 2 | 15 | 18,340 | 18,340 |
| | **Totals:** | **49** | | **157** | **200,382** | **200,382** |

**Zoning:** HSMDR, Historic Special Medium Density Residential

**Highest and Best Use:** As Improved

**"As Is" Fee Simple Value for Subject Property**:

| Subject Property - Market Rate<br>Peary Court at Key West, Key West, Florida | |
|---|---|
| **Valuation Method:** | **"As Is" Value in Fee Simple Estate** |
| **Cost Approach:** | **$62,000,000** |
| **Income Approach:** | **$57,000,000** |
| **Sales Comparison Approach:** | **$55,000,000** |
| **"As Is" Market Value of the Fee Simple Estate of the Subject Property, (All Market Rate Units), as of September 18, 2015 (Rounded):** | **$57,000,000** |

| Subject Property - Affordable<br>Peary Court at Key West, Key West, Florida | |
|---|---|
| **Valuation Method:** | **"As Is" Value in Fee Simple Estate** |
| **Cost Approach:** | **$58,000,000** |
| **Income Approach:** | **$53,000,000** |
| **Sales Comparison Approach:** | **$51,000,000** |
| **"As Is" Market Value of the Fee Simple Estate of the Subject Property, (All Affordable Moderate Rate Units), as of September 18, 2015 (Rnd):** | **$53,000,000** |

| Subject Property - Market Rate - Bulk Sale<br>Peary Court at Key West, Key West, Florida | |
|---|---|
| **Valuation Method:** | **"As Is" Value in Fee Simple Estate** |
| **Cost Approach:** | **$62,000,000** |
| **Sales Comparison Approach (Gross Sellout):** | **$91,000,000** |
| **Income Approach (Discounted Sellout):** | **$58,000,000** |
| **"As Is" Market Value (Bulk-Sale) of the Fee Simple Estate of the Subject Property, (All Market Rate Units), as of September 18, 2015 (Rounded):** | **$58,000,000** |

**Date of Valuation:** September 18, 2015

**Date of Report:** November 12, 2015

**Marketing Time:** A marketing period between 6 and 18 months would be a reasonable estimate for the subject property based on an asking price within five percent of appraised value and based on stable economic conditions.

**Exposure Time:** The subject's exposure time would have been equal to the marketing time estimate, due to stable market conditions for similar sites.

**Special Assumptions:** Forty-eight of the existing 157 units are deed restricted as moderate affordable housing units; however, these restrictions will be removed once the new 48 affordable units are constructed (not part of this assignment). Per the City's request, I have valued the subject as an apartment complex with 157 market rate units and also as 157 units leased as moderate affordable (work-force) housing. The reader is cautioned that a title search was not made; thus, no other encumbrances are considered herein.

The reader is instructed to review the Statement of Assumptions and Limiting Conditions on Page 148.

# FACTUAL DATA

A. Purpose, Intended Use and Intended User of Appraisal:

The *purpose* of this appraisal is to give my opinion of the *"As Is" Market Value of the Fee Simple Interest* of Subject Property, based on the existing rental operation as 157 non-transient residential units. I have estimated the subject's value based on all of the units being leased at market rates, Scenario 1, plus all of the units rented based on moderate affordable rental guidelines, Scenario 2. Furthermore, I have estimated the market value based on a discounted sellout (bulk-sale) of the subject's townhouse units, Scenario 3.

The *intended use* of this appraisal is to reportedly provide general information to the client possible purchase of the subject property by the City of Key West. The *intended user* of this report is Mr. James K. Scholl, City Manager, City of Key West.

B. Definitions:

1. Appraisal is the act or process of estimating value; an estimate of value.[1]

2. Appraisal Report is the written or oral communication of an appraisal; the document transmitted to the client upon completion of an appraisal assignment. The reporting standards are set forth in the Standards Rules relating to Standards 2 and 5 of the Uniform Standards of Professional Appraisal Practice.[2]

3. Cash Equivalency Analysis is a method in which the sales prices of comparable properties, which sold with atypical financing for the market area are adjusted to reflect typical market terms.[3]

4. Extraction is a method of estimating land value where in the depreciated cost of the improvements on the improved property is estimated. The estimated depreciated value of the improvements is then deducted from the total sale price to arrive at an estimated sale price for the land.[4]

5. Fee Simple Estate is absolute ownership unencumbered by any other interest, subject only to the governmental limitations including: eminent domain, escheat, police power, and taxation.[5]

6. Market Value is defined by the regulatory agencies of federal financial institutions, as follows.

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

   a) buyer and seller are typically motivated;

   b) both parties are well informed or well advised, and each acting in what he considers his own best interest;

   c) a reasonable time is allowed for exposure in the open market;

   d) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto;

   e) The price represents the normal consideration for the property sold unaffected by special or creative financing or sale concessions granted by anyone associated with the sale."[6]

C. Property Rights Appraised:

The *Fee Simple Estate* valuation is made with the understanding that the present ownership of the property includes all the rights that may lawfully be held under a Fee Simple Estate. These rights are sometimes referred to in appraisal literature as the "bundle of rights". It includes the right to use, keep others from using, sell, rent or otherwise dispose of the property. The apartments are presently leased to individual tenants on a month-to-month basis or on an annual basis. Since there are no long-term leases encumbering the subject property, a Leased Fee valuation was not applicable in the case at hand. The reader is cautioned that a title search was not made; thus, no other encumbrances are considered herein.

D. <u>Legal Description of the Subject Property:</u>

**EXHIBIT A**

Legal Description; Peary Court:
Prepared by undersigner:
Note: Legal based on Physical properties:
A parcel of land situated in the City of Key West, Monroe County, Florida and being more particularly described as follows: COMMENCING at the intersection of the Northwesterly Right–of–Way Line of Newton Street and the Northeasterly Right–of–Way Line of White Street (Florida State Plane Coordinates East Zone NAD 83/90, Northing = 82591.01, Easting = 392639.41): thence N 34°08'30" W along the said Northeasterly Right–of–Way Line of White Street for 310.39 feet; thence N 55°51'30" W for a distance of 0.05 feet to the back edge (Northeast side) of a concrete sidewalk and the Point of Beginning; thence N.34°08'00"W., and along the Northeast edge of a concrete sidewalk a distance of 289.66 feet; thence S 55°51'30" W for a distance of 0.10 feet to the Northeasterly Right–of–Way Line of White Street; thence N 34°08'30" W along the said Northeasterly Right–of–Way Line of White Street for a distance of 31.83 feet; thence N 55°51'30" E for a distance of 0.10 feet to the said back of the sidewalk of White Street; thence N 34°08'00" W along the said Northeasterly edge of a sidewalk for a distance of 853.03 feet to an existing fence; thence N.55°36'56"E., and along the said fence, which lies on Eaton Street a distance of 194.19 feet to a point lying 0.5 feet (6 inches) Northeast of a fence corner; thence S.79°06'43"E., and along a line lying 0.5 feet (6 inches) Northeasterly of a existing fence and wall a distance of 1206.74 feet; thence N 10°44'48" E for a distance of 8.75 feet to the Southeasterly Right–of–Way Line of Palm Avenue; thence S 79°15'12" E along the said Southeasterly Right–of–Way Line of Palm Avenue for a distance of 55.00 feet; thence S 10°44'48" W for a distance of 8.88 feet to the extension of a line lying 0.5 feet (6 inches) Northeasterly of the existing fence and wall; thence S 79°06'43" E and along a line lying 0.5 feet (6 inches) Northeasterly of the existing fence and wall for a distance of 325.66 feet to a point lying 0.5 feet (6") from the corner of the fence on Eisenhower Drive; thence S 40°23'08" E along the fence on Eisenhower for a distance of 20.90 feet; thence S 14°07'44" E and being partially along a fence line for 167.37 feet to Angela Street; thence S.56°24'46"W., and along a line lying 0.5 feet (6 inches) Southeasterly of the fence line of Angela Street a distance of 1080.22 feet; thence N.19°36'43"W., and along the edge of an existing fence a distance of 72.01 feet; thence S.68°44'44"W., and along the edge of an existing fence a distance of 204.28 feet to the Northeast side of a concrete sidewalk and the Point of Beginning.
Parcel contains 1053433.77 square feet or 24.1835 acres, more or less.

The reader should note that the legal description details the entire site area. The scope of work, herein, considers a newt site area of 22 acres or 958,320 square feet of site area.

E. Ownership and History of the Subject Property:

According to the Monroe County Tax Appraiser's Records, the subject property is owned by the Peary Court Holdings, LP, 2828 Coral Way Suite 303, Coral Gables, Florida 33145-3214.

The subject property was constructed to serve as military housing. The complex consists of 13 quadraplexes, 33 triplexes, and three duplex buildings containing a total of 157 nontransient units. There are 149 townhouse units with two bedrooms and one and one-half bathrooms, plus eight flats (one-level units), which have two bedrooms and one bathrooms plus they are ADA handicap accessible. According to the Monroe County Property Appraiser's records, the subject buildings were constructed in 1996; however Atkins Engineers, Inc. prepared a Property Report which indicated that the buildings were built between 1992 and 1994.

The property was sold to a private developer in August 2013 for $35 million. The developer had originally planned on razing the structures and totally redeveloping the property with new residences; however, the plan later changed to renovate the existing units and build 48 new townhouse units, which will be deed restricted as moderate affordable housing units. As a result, the existing 48 units of the 157 will be available for rental (unrestricted) at market rates and the current affordable deed restrictions will be terminated. Subsequently, the City of Key West is presently negotiating with the property owners in order to purchase the subject property for a preliminary price of $55 million. The City wants to preserve the subject complex for affordable housing. Peary Court is one of three large apartment complexes on the entire island of Key West. The subject property does have entitlements to replace three additional units as one building was destroyed by fire.

F. Sales History, Contract for Sale and Active Listings:

The subject property transferred ownership August 30, 2013. According to the Special Warranty Deed recorded in Monroe County Public Records in Official Book 2648, Page 155, the Grantor (Seller) was: Southeast Housing, LLC. The Grantee (Buyer): Peary Court Holdings, LLC, purchased the subject property with doc stamps paid of $245,000 indicating a recorded sales price of $35 million.

Prior to the 2013 transfer, there are no recorded transfers of the subject property. There is presently no contract for sale and purchase according to the client. Furthermore, the subject property has not been listed for sale. However, the subject property owners and the City of Key West are in preliminary negotiations with the City potentially buying the subject property for $55 million. A referendum approved by the voters is required to go through with the transaction.

G. Effective Date of Appraisal: September 18, 2015

H. Date of this Report: November 12, 2015

I. References:

Information, estimates and opinions furnished to the Appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished to the Appraiser is assumed by the Appraiser. Relevant income and expense information for the subject property was provided by the City of Key West, Mr. James K. Scholl, Mr. Everett Atwell for the property owner, and Mr. J. Manuel Castillo, Sr., Executive Director, Housing Authority of the City of Key West, plus the City of Key West Planning Department. Additional information was provided in the verification process by various real estate agents, buyers, sellers and market participants.

## SUBJECT'S MARKET AREA (NEIGHBORHOOD) ANALYSIS

The subject property is located within the downtown commercial business district in the northwesterly quadrant of the City of Key West with frontage along the southerly side of Palm Avenue, the southeasterly side of Eaton Street, the easterly side of White Street, the northwesterly border of the City of Key West Cemetery, the northwesterly side of Angela Street, and the southwesterly side of Eisenhower Drive. The "Old Town", area represents an area where the architecture and building construction are protected within the Historical Preservation District. In addition, it is about six blocks easterly from Duval Street, a two-lane main thoroughfare leading the tourists to major attractions at the harbor area and connects north and south side of the island stretching from the Gulf of Mexico to the Atlantic Ocean. Furthermore, the subject property is located approximately 10 blocks from Mallory Square, the cruise port into the City of Key West. The subject property is locate about four blocks from Truman Avenue, which is an extension of North Roosevelt Boulevard, a major thoroughfare to downtown Key West. Both Truman Avenue and North Roosevelt Boulevard provide good access and exposure to vehicular and pedestrian traffic.

The subject neighborhood can be described as being bordered on the north by the Gulf of Mexico (Key West Harbor, the main shipping channel into Key West waters), on the east by Palm Avenue, on the south by the Atlantic Ocean, and on the west Fort Zachary Taylor State Park. The general commercial uses surrounding the subject property are: office uses, convenience stores, local grocery stores, restaurants, guest houses, boutique hotels, motels, resort waterfront hotels, retail uses, marina and boat yard, school board administration and bus parking, city transportation, and commercial/residential mixed-use properties. There has been active with increasing sales activity, in addition to absorption of the commercial rental units. The subject property is ideally situated just one and one half blocks easterly from Duval Street, the main shopping, dining and entertainment corridor and the Key West Historic Seaport.

General Economic Conditions: The Florida Keys and specifically Key West have flourished over the past three decades with tourism developing as the County's primary economic base. The County has had tremendous success with its advertising efforts and attraction of tourists of all Nationalities. We experienced a decrease in tourism during the very active hurricane seasons of 2004 and 2005, followed by the national decline in the housing market, recession, financial crisis, and the BP Gulf of Mexico Oil Spill; however, tourism has begun to rebound. A review of the TDC, Tourist Development Council's, records indicate that this "season" has slightly shifted and expanded to include the summer months (January through July). In fact, June and July of 2011 were exceptional for most lodging facilities with room revenues exceeding the 2007 levels. The 2012 through 2014 room revenues and occupancy rates were even greater than the prior years. In fact, the City of Key West has experienced about six years of higher Average Daily Rates (ADRs) and Revenue Per Available Room (RevPAR) over the same month of the prior years. As a result, a significant increase in lodging sales prices and volume has been evident

since 2012. A large portion of this shift has resulted from the marketing efforts of the Tourist Development Council and additional annual events, as well as the deflated dollar abroad, stimulating travel within the United States.

Monroe County has ranked No. 1 in the State of Florida in terms of occupancy and average daily rate over the past number of years with the City of Key West being the dominating factor. The first half of 2008 was strong until a few storms during the hurricane season forced evacuations and the national economy experienced a large decline in the housing sector, stock market, and employment. Bed Tax collections for the fiscal years in District I, Key West City Limits, were up 14.9% in 2009 (including 4th penny added in June), up 22.4% in 2010, up 18.9% in 2011, 9.6% in 2012, 9.8% in 2013, and 9.1% in 2014.

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

**AVERAGE DAILY TRAFFIC COUNTS**

**Average Daily Traffic Count (Both Directions)**

| D.O.T. Station | Location | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 5004 | US-1/Truman Ave., 200' W. First St. | 21,500 | 22,500 | 22,500 | 21,000 | 18,600 | 13,700 | 18,100 | 18,500 | 19,600 | 22,000 | 20,500 | 19,500 | 19,600 | 15,500 |
| 5008 | SR-5/US-1/Truman Ave., 200' W. White St. | 17,000 | 14,500 | 14,000 | 14,300 | 14,000 | 14,800 | 16,800 | 15,200 | 16,800 | 17,700 | 14,700 | 13,600 | 14,700 | 16,100 |
| 5011 | SR-5/US-1/Truman Ave., 200' E. Duval St. | 12,000 | 8,800 | 9,000 | 10,400 | 8,200 | 7,600 | 8,600 | 8,600 | 9,300 | 9,700 | 9,000 | 8,100 | 8,500 | 9,300 |

In terms of demographic trends taking place in Key West, Florida the following information has been compiled by the Key West Chamber of Commerce:

## Key West and Monroe County Demographics and Economy (as of July 2015)

Key West is an island city some 4 miles long by 1.5 miles wide. The island is located at the southern end of U. S. Highway 1, 153 miles southwest of Miami, Florida and 93 miles northwest of Havana, Cuba, at 24.5 degrees north of the equator. Key West is the county seat of Monroe County. The city occupies the entire island as well as a portion of neighboring Stock Island to the northeast. The principal industry is tourism, and the U. S. Navy and Coast Guard maintain a presence here as well.

### Florida Keys Visitor Person-Trip Estimates

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Key West Overnight Visitors | 1,094,647 | 1,112,978 | 1,165,300 | 1,517,600 | 1,577,500 | 1,588,607 | 1,588,845 | 1,556,340 |
| Key West Day Trippers | 202,510 | 205,901 | 238,400 | 299,100 | 313,300 | 311,337 | 314,915 | 309,200 |
| Cruise Ship Passengers | 816,919 | 739,218 | 859,409 | 850,270 | 811,458 | 813,713 | 765,132 | 796,960 |
| Total Key West Visitors | 2,114,076 | 2,058,097 | 2,263,109 | 2,666,970 | 2,702,258 | 2,713,658 | 2,668,892 | 2,662,500 |
| Key West Lodging Occupancy %: | 75.3% | 74.2% | 76.9% | 78.0% | 82.5% | 82.6% | 86.3% | 87.1% |
| All Keys Overnight Visitors | 2,089,021 | 2,169,565 | 2,103,100 | 2,502,200 | 2,742,500 | 3,026,165 | 3,090,267 | 3,131,500 |
| All Keys Day Trippers | 386,469 | 401,369 | 404,400 | 473,300 | 519,400 | 565,785 | 580,667 | 588,000 |
| Cruise Ship Passengers | 816,919 | 739,218 | 859,409 | 850,270 | 811,458 | 813,713 | 765,132 | 796,960 |
| Total All Keys Visitors | 3,292,409 | 3,310,152 | 3,366,909 | 3,825,770 | 4,073,358 | 4,405,662 | 4,436,066 | 4,516,400 |
| Monroe County Lodging Occupancy %: | 68.1% | 67.5% | 69.4% | 70.3% | 74.3% | 75.0% | 78.1% | 79.5% |

*Sources: Monroe County Tourist Development Council; Smith Travel Research*

### Population (as of July 1st)

| Year | Monroe County | Key West |
|---|---|---|
| 1970 | 52,543 | 29,312 |
| 1980 | 63,188 | 24,382 |
| 1990 | 78,024 | 24,832 |
| 2000 | 79,589 | 25,478 |
| 2005 | 75,750 | 23,935 |
| 2010 | 73,090 | 24,649 |
| 2011 | 74,028 | 24,873 |
| 2012 | 74,849 | 25,119 |
| 2013 | 76,351 | 25,550 |
| **2014** | **77,136** | **25,704** |

*Source: US Census Bureau, American Fact Finder*

### Military - Uniform Personnel (as of October 2014)

| | |
|---|---|
| Navy | 618 |
| Coast Guard | 671 |
| Army/Air Force/Marines | 115 |
| Total Uniform Personnel..... | 1,404 |
| Civilian Support Staff | 933 |
| Contractors | 327 |
| Total Payroll..... | 2,664 |
| Family Members | 2,457 |
| Military Present for Training | No Data |
| Retired Military Recreating | No Data |
| **Grand Total** | **5,121** |

*Source: U. S. Dept. of Defense, Key West for Military Data*

Page 1 of 7

| Population Age Breakdown: | Key West 2013 | Monroe County 2013 | Florida 2013 | United States 2013 |
|---|---|---|---|---|
| 0-19 | 16% | 17% | 24% | 27% |
| 20-34 | 21% | 17% | 19% | 21% |
| 35-44 | 18% | 13% | 13% | 13% |
| 45-54 | 17% | 17% | 14% | 14% |
| 55-64 | 14% | 18% | 13% | 12% |
| 65-74 | 8% | 11% | 9% | 7% |
| 75+ | 6% | 7% | 8% | 6% |
| Median Age: | **41.7** | 46.5 | 41.0 | 37.3 |

*Source: US Census Bureau, American FactFinder*

| Population Racial Breakdown: | Key West 2013 | Monroe County 2013 | Florida 2013 | United States 2013 |
|---|---|---|---|---|
| White | 67.8% | 70.3% | 57.2% | 63.3% |
| Black | 11.0% | 6.3% | 15.3% | 12.2% |
| Hispanic | 17.7% | 21.1% | 22.9% | 16.6% |
| Other | 3.5% | 2.3% | 4.6% | 7.9% |

*Source: US Census Bureau, American FactFinder*

## Registered Voters (as of May 28, 2015)

| Affiliation | Key West | Monroe County |
|---|---|---|
| Democrat: | 6,618 | 16,629 |
| Republican: | 3,285 | 18,767 |
| Other: | 4,886 | 15,890 |
| Total: | 14,789 | 51,286 |

*Source: Monroe County Supervisor of Elections*

## Key West Income (2009-2013 Five-Year Estimate)

**Median Household Income……$53,796**
*(Median income is the amount that divides the income distribution into two equal groups, half having income above that amount, and half having income below that amount.)*

**Per Capita Income……$31,700**
*(Per capita income, also known as income per person, is the mean income of the people in an economic unit such as a country or city. It is calculated by taking a measure of all sources of income in the aggregate (such as GDP or Gross national income) and dividing it by the total population.)(The arithmetic mean (or simply "mean") of a sample is the sum of the sampled values divided by the number of items in the sample.)*

**Average Household Size……2.56 Persons**

**Per Capita Personal Income……$57,829**
**including Dividends, Interest**
**& Rent (Monroe County)**
*(Per capita personal income is the broadest measure of individual economic well-being available by county. Personal income includes earnings (consisting of wages and salaries of workers, other labor income, and proprietors' income), dividends, interest, and rent, and transfer payments (such as retirement benefits, food stamps, and unemployment compensation). Per capita personal income is calculated by dividing personal income by population.)*

*Source: U. S. Census Bureau; American Fact Finder; U. S. Dept. of Commerce; Bureau of Economic Analysis; University of Florida, Bureau of Economic and Business Research*

Page **2** of **7**

## Economy - Gross Sales

| | |
|---|---|
| Monroe County (2009): | $3,352,780,910 |
| Monroe County (2010): | $3,428,421,285 |
| Monroe County (2011): | $3,787,980,413 |
| Monroe County (2012): | $3,950,239,774 |
| Monroe County (2013): | $4,127,027,833 |
| **Monroe County (2014):** | **$4,493,971,903** |

*Source: Florida Department of Revenue*

## 2014 Tax Roll Ad Valorem Millage Rate

| | |
|---|---|
| Monroe County: | 3.35400 |
| Monroe County School District: | 3.62600 |
| City of Key West: | 2.77430 |
| South Florida Water Management District: | 0.15770 |
| Mosquito Control: | 0.48240 |
| **Total per $1,000 Assessed Value:** | **10.39440** |

*Source: Monroe County Property Appraiser*

| **Employment** *(Not Seasonally Adjusted)* | **Key West** | Monroe County | Florida | United States |
|---|---|---|---|---|
| Per Capita Income (2013): | **$31,700**[1] | $33,974[1] | $26,236[1] | $28,155[1] |
| Civilian Labor Force (2014): | **17,467**[2] | 50,044[2] | 9,610,098[2] | 155,922,000[2] |
| Civilian Employment (2014): | **16,866**[2] | 48,231[2] | 9,022,315[2] | 146,305,000[2] |
| Unemployment Rate (2014): | **3.4%**[2] | 3.6%[2] | 6.1%[2] | 6.2%[2] |

[1] *U. S. Dept. of Commerce; Bureau of Economic Analysis* [2] *U. S. Bureau of Labor Statistics*

## Monroe County Florida Price Level Index for School Personnel (Florida Population – Weighted Average = 100)

| | |
|---|---|
| **Monroe County:** *(including housing)* | 2008 = 100.85 |
| | 2009 = 102.15 |
| | 2010 = 103.16 |
| | 2011 = 104.03 |
| | 2012 = 102.96 |
| | **2013 = 100.24** |
| | **2014 = 103.03** |

*Source: EFlorida.com reporting: University of Florida; Bureau of Economic & Business Research* ; Florida Polytechnic University

Page **3** of **7**

## Key West Housing Profile (2008 – 2012 Five-Year Estimate)

| | Key West | Monroe County |
|---|---|---|
| Total Housing Units: | **17,735** | 52,827 |
| Occupied Housing Units: | **11,739 (66.2%)** | 29,241 (55.4%) |
| Average Number of Rooms: | **4.1** | 4.4 |
| Average Number of Vehicles: | **1.9** | 2.0 |
| Median Household Income: | **$52,660** | $53,418 |
| **Owner Occupied Housing Units:** | **5,869** | 17,696 |
| Percent of Occupied Units: | **50%** | 61% |
| Average Number of Household Members: | **2.58** | 2.34 |
| Median Value Occupied Unit: | **$432,600** | $357,200 |
| Median Monthly Housing Cost with Mortgage: | **$2,584** | $2,084 |
| **Renter Occupied Housing Units:** | **5,870** | 11,545 |
| Percent of Occupied Units: | **50%** | 39% |
| Average Number of Household Members | **2.71** | 2.72 |
| Median Monthly Housing Cost | **$1,409** | $1,390 |

*Source: U. S. Census Bureau; American Fact Finder; CLResearch.com*

## Key West Median Property Sales *(The median value represents that value at which one-half of the unit sales are above and one-half of the unit sales are below the value.)*

| | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Key West Single Family Home: | **$509,000** | $532,000 | $425,000 | $420,000 | $375,000 |
| Key West Condominium: | **$390,000** | $375,000 | $330,000 | $325,000 | $316,000 |

*Source: Monroe County Property Appraiser, Qualified Sales (not including short sales and bank sales)*

## Key West Business Licenses
(as of May 2014)

| **Number of Lodging Licenses** | **Number of Licenses** | **Units** |
|---|---|---|
| Hotels | 25 | 2,307 |
| Motels | 26 | 1,531 |
| Bed and Breakfasts | 47 | 453 |
| Transient Multi-Unit Complexes | 127 | 1,073 |
| Sub-Total Lodging (without vacation rentals) | 225 | 5,364 |
| Vacation Rentals | 262 | 843 |
| **Grand Total Lodging** | **487** | **6,207** |

| **Other Licenses** | **Number of Licenses** |
|---|---|
| Retail: | 738 |
| Motorized Rentals (Autos, Scooters, and Jet Skis): | 60 |
| Non-Motorized Rentals (Bikes, Kayaks, and Paddleboards): | 71 |
| Charter Boats: | 192 |
| Food Services: | 311 |

*Source: City of Key West; Florida Dept. of Business & Professional Regulation*

Page 4 of 7

**Monroe County Employees by Industry for 2013:**
(last updated November 20, 2014)

| Industry | Number of Jobs | Percentage of Total |
|---|---|---|
| Forestry, Fishing and Related Activities | 1274 | 2.19% |
| Mining | 328 | 0.56% |
| Utilities | 173 | 0.30% |
| Construction | 3,409 | 5.86% |
| Manufacturing | 429 | 0.74% |
| Wholesale Trade | 793 | 1.36% |
| Retail Trade | 6,414 | 11.02% |
| Transportation and Warehousing | 1,468 | 2.52% |
| Information | 614 | 1.05% |
| Finance and Insurance | 1,969 | 3.38% |
| Real Estate and Rental and Leasing | 5,355 | 9.20% |
| Professional, Scientific, and Technical Services | 2,657 | 4.57% |
| Management of Companies and Enterprises | 248 | 0.43% |
| Administrative and Waste Management Services | 3,252 | 5.59% |
| Educational Services | 680 | 1.16% |
| Health Care and Social Assistance | 3,101 | 5.33% |
| Arts, Entertainment, and Recreation | 2,531 | 4.35% |
| Accommodation and Food Service | 12,827 | 22.04% |
| Other Services, except Public Administration | 3642 | 6.26% |
| Total Private Non-Farm Employment<br>*(Farm Employment in Monroe County is Zero.)* | 51,164 | 87.91% |
| Federal, Civilian Workers | 1,194 | 2.05% |
| Military | 1,426 | 2.45% |
| Local Government | 3,821 | 6.57% |
| State Government | 597 | 1.03% |
| Total Government and Government Enterprises | 7,038 | 12.09% |
| Total Employment in Monroe County: | **58,202** | **100.00%** |

*Source: U. S. Department of Commerce; Bureau of Economic Analysis*

Page **5** of **7**

## Key West Schools, Worship, Shopping, & Activities

**Schools**

| | |
|---|---|
| Public Elementary: | 3 |
| Elementary Parochial: | 2 |
| Public Elementary & Middle School: | 1 |
| Public High School: | 1 |
| Charter Schools: | 3 |
| Key West City Enrollment in the Monroe County School District: (October 2014) | **4,583** |

**Places of Worship**

| | |
|---|---|
| Churches: | 38 |
| Synagogues: | 2 |

**Shopping & Activities**

| | |
|---|---|
| Large Grocery Stores: | 5 |
| Public Beaches: | 5 |
| Movie Theaters: | 2 |
| Dramatic Theaters: | 3 |
| Hospitals: | 1 |
| Colleges: | 3 |
| Public Parks: | 7 |
| State Park: | 1 |
| National Park | 1 |
| Playing Fields: | 9 |
| Stadium: | 1 |
| Airport: | 1 |
| Restaurants: | 350 |
| Museums: | 18 |
| Art Galleries | 38 |

*Sources: Wikipedia; WhitePages; City-Data.com (7/2015)*

Page **6** of **7**

## Key West Climate

Due to the proximity of the Gulf Stream in the Straits of Florida, and the tempering effects of the Gulf of Mexico, Key West has a notably mild, tropical-maritime climate.

Daily temperature variations throughout the year range about 10 degrees. Winter cold fronts tend to be modified by the warm water as they move in from the north, keeping monthly average temperatures typically only 15 degrees lower in the winter than during the summer. There is still no record of frost, ice, sleet, or snow in ever occurring in Key West, but ice has been reported in the Upper Keys.

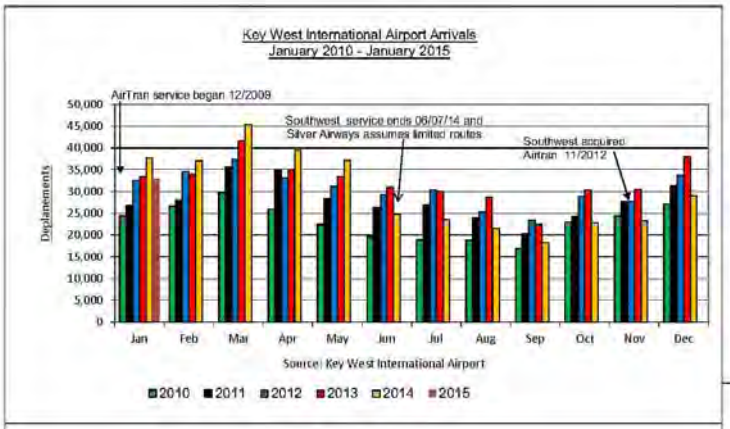
December through April, referred to as the dry season, receives roughly 25 percent of the annual rainfall, usually ahead of cold fronts. June through October is considered the wet season, receiving approximately 60 percent of the yearly total in showers and thunderstorms.

| | Average High | Average Low | Mean | Average Precipitation (inches) | Record High (1873–2014) | Record Low (1873–2014) |
|---|---|---|---|---|---|---|
| January | 75°F | **65°F** | **70°F** | 2.22 | 90°F (1877) | **41°F(1981)** |
| February | 76°F | 66°F | 71°F | 1.51 | 87°F (1874) | 44°F (1917) |
| March | 79°F | 69°F | 74°F | 1.86 | 89°F (1874) | 47°F (1986) |
| April | 82°F | 72°F | 77°F | 2.06 | 91°F (1881) | 48°F (1987) |
| May | 85°F | 76°F | 81°F | 3.48 | 93°F (1881) | 63°F (1877) |
| June | 88°F | 79°F | 83°F | 4.57 | 96°F (1881) | 65°F (1932) |
| July | 89°F | 80°F | **85°F** | 3.27 | **97°F (1880)** | 68°F (1888) |
| August | **90°F** | 79°F | 84°F | 5.40 | **97°F (1956)** | 68°F (1913) |
| September | 88°F | 79°F | 83°F | **5.45** | 95°F (1956) | 69°F (1985) |
| October | 85°F | 76°F | 80°F | 4.34 | 93°F (1962) | 59°F (1910) |
| November | 81°F | 72°F | 76°F | 2.64 | 91°F (1876) | 49°F (1959) |
| December | 77°F | 67°F | 72°F | 2.14 | 88°F (1876) | 44°F (1989) |

*(All-time records in **bold**)*

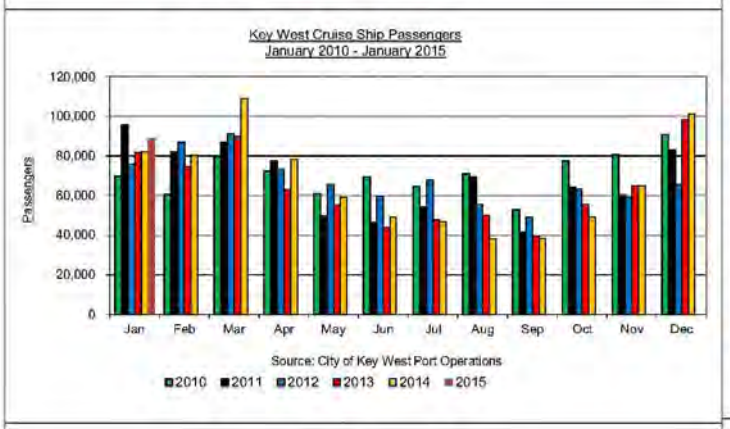
*Source: NOAA, National Weather Service*

Page 7 of 7




Passenger arrivals to Key West International Airport in January 2015 totaled 32,909. **This is a decrease of 12.6% when compared to January of 2014.**

2014 saw increases from all airlines as Southwest service ended in June. American's totals were up 7%, Silver's totals were up 20%, Delta's totals were up 8%, and US Air's totals were up 8% over 2013. Excluding Southwest from the comparison, the remaining aggregate passenger arrivals are up 7.5% over 2013 totals. And remember, while Cape Air service ended in November 2013, they had arrivals of 7,400 or 2% of the 2013 totals for the Key West airport.

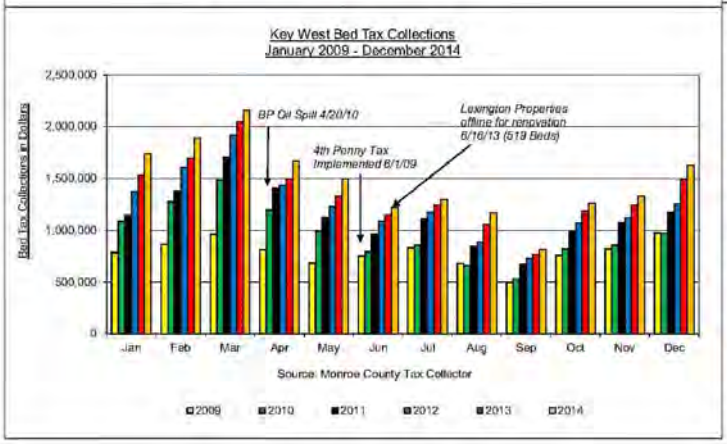



A total of 88,918 cruise ship passengers disembarked in Key West during January 2015. **This was 8.5% higher than January of 2014**, which saw 81,986 passengers disembark.

2014 saw a total of 336 ships in port, an 8% overall increase. However, not every month saw an increase and we continue to see shifts in the yearly pattern from one month to the next; even though our seasons can still generally be seen in the monthly pattern throughout the year.

The cruise ship schedule for the next three months is shown below:

| | Number of Ships | |
|---|---|---|
| | 2014 | 2015 |
| March | 47 | 48 |
| April | 32 | 34 |
| May | 24 | 12 |



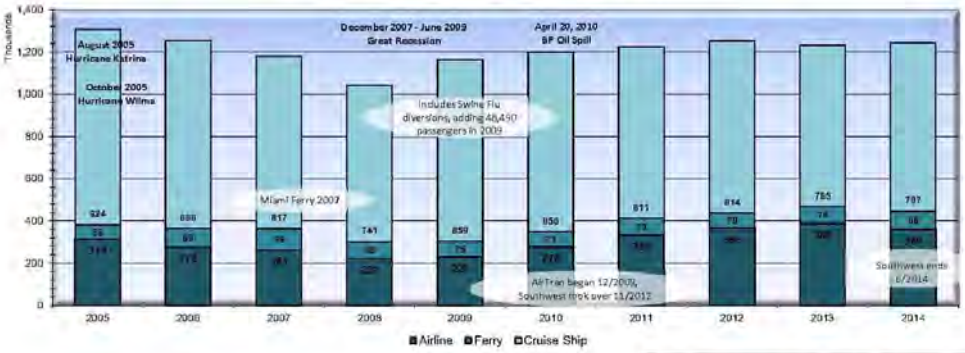

Reported Bed Tax Collections for Key West were **$1,628,408 for December 2014, an increase of 9.5% compared to December 2013.**

**According to Smith Travel, December 2014 occupancy was 84.7%, a 0.9 percentage point decrease from the December 2013 occupancy rate of 85.6%.**

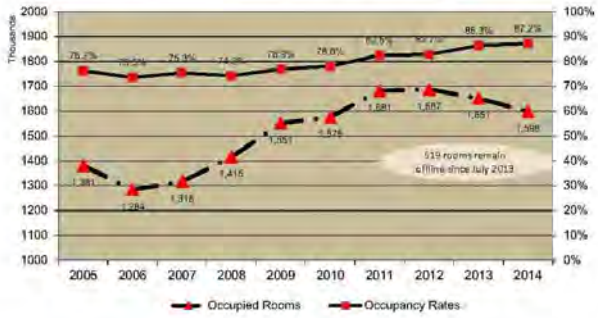
**The Average Daily Rate (ADR) was reported at $312.32 for December 2014, an increase of 8.3%** from the ADR of $288.34 posted for December 2013. This ADR of $312.32 is the highest recorded for the month of December. This continues the record of 59 months where the ADR has been higher than the previous year. In fact, **the last 45 months are all-time records for each month.**

# 2014 Tourism in Review

**Key West Visitor Arrivals**
**Passenger Volume in Thousands**
*Source Data: City of Key West Port Operations and Historic Seaport; Key West International Airport*




**Key West Occupancy Rates & Room Nights**
**("Available Rooms" x "Occupancy Rates" x "Nights in the Period")**
*Source Data: Calculated Based upon Smith Travel Research & TDC Statistics*

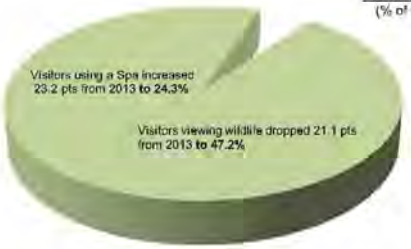



**Highlights from 2014 TDC Visitor Profile Survey**
**(600 Key West Visitors during January - June)**
*Source Data: Monroe County Tourist Development Council*

69.5% of Visitors drove to Key West down from 79.1% in 2013

4.13 Nights was the average stay in Key West up from 3.53 nights in 2013

**Activities while in Key West:**
(% of visitors taking part in)




**95.0%** Attractions
**92.2%** Nightlife
**88.3%** Cultural Events
**51.0%** Boating
**19.3%** Fishing
**8.0%** Scuba Diving

**Cruise Ship passenger arrivals introduced 796,960 visitors in 2014. There were 336 ships that docked in Key West during 2014, an increase of 25 vessels from the 311 that docked in 2013.** Last year reversed the slow downward trend in the number of ships and passengers visiting Key West. However, a downward trend is likely to continue as the cruise industry phases out smaller ships in the coming years and Key West cannot accommodate the larger cruise ships due to channel restrictions.

**Ferry passenger arrivals introduced 85,973 arriving passengers, an increase of 9.7% compared to 2013.** The whale's share of the volume comes from Fort Myers, as both Fort Myers and Marco Island are ferry departure points for Key West. Marco Island is served as a seasonal route, December through April.

**Airline passenger arrivals introduced 360,168 visitors in 2014, a decrease of 23.8% compared to 2013**. From 2005 thru 2008, arrivals at Key West had been declining at a compound annual rate of almost 11%. At the same time the estimate of Key West overnight visitors by the TDC had been increasing at a 2.1% rate indicating that more visitors were driving into Key West; either from their homes or from airports in Miami and Ft. Lauderdale.

**Overnight visitors stayed a projected 1.6 million nights in Key West during 2014** (as measured by room nights rented). While the number of rooms available within Key West has suffered by significant number of properties being renovated starting in 2013, occupancy rates have continued to rise. Highest occupancy rate in 2014 was 94.8% in February.

The Tourism Development Council surveys visitors throughout the year, revealing shifts in travel demographics, patterns and interests. Even with higher room rates, people are staying longer and patronizing what our city has to offer.

## Survey of Market Participants

I interviewed various commercial real estate brokers and property managers in preparing this report. Buyers are placing more weight on cash flows, projecting conservative models, while estimating conservative appreciation. All the brokers communicated the same comment, that credit was becoming more available to new buyers, especially for lodging within the Florida Keys, and Key West market area. Typical financing for similar uses has been institutional, however, there has been quite a bit of cash transactions within Old Town, Key West. The marketing times for properties within the subject's neighborhood and competing projects have significantly decreased due to the rebound in the commercial and residential markets throughout Key West, but especially in Old Town, Key West. REITs and insurance companies are typical buyers for the large resort hotels. Most of the brokers interviewed felt that we had reached the bottom in 2011. January, 2012 to the first quarter been very strong for the lodging sector and tourism. The residential market has stabilized to increased noted in Key West, as inventory has greatly decreased and sales activity has been robust. In addition, real estate agents indicated a five to six percent real estate commission is typical. The commercial real estate market is still stabilizing as most of the distressed sales have been absorbed. The lodging market appears to be leading the recovery in the Key West market.

In analyzing the active listings, it appears that interest in the hospitality category has become more active with eight closed sales in 2014, seven closed sales in 2013 and five closed sales in 2012, as compared to 2010 when there was only one sale and no sales in 2009. Hence, this segment of the market has rebounded to the 2006 and 2007 levels due to record ADR and Occupancy statistics for at least the last few years. In fact, there have been a large number of recent sales of large, waterfront, full service resort hotels such as: Pier House Resort and Carribean Spa $90 million, Hyatt Key West Resort $100 million, Southernmost Hotel Collection $172 million, the Parrot Key Hotel and Resort $100 million and most recently the Double Tree Grand Key Resort for $79 million.

About 500 hotel rooms have been offline for the past year due to the redevelopment of the budget and lower-end older hotels at the entrance of Key West in the New Town section of the City. No new bed and breakfast or hotels are expected to be built within the City of Key West, except for the 100 units on the Key West Bight noted previously, as the City is about 98% built out, and there is a moratorium on transient licenses. Demographics have been stable over the past 20 or more years with a growth in dollars and revenue, but the influx of tourist has remained steady to recent increase except for the deepest part of the recession. Therefore, the demand has been relatively stable. Market shares for each of the competitive sets should remain stable over the near future.

Research indicated a real lack of comparable listings as there are only three large comparable apartment complexes in the City of Key West, and two have recently sold in 2014 and the subject is the remaining

complex. I have included comparable listings and sales of similar townhouse and attached individual units with the Sales Comparison Approach section of this report.

Conclusion:

The market area indicates stable economic conditions within the City of Key West generally catering to tourists and second home dwellers. The climate and atmosphere of the City is conducive to such. The success of the advertising efforts by the Monroe County Tourist Development council is reflected in the County's above average occupancy rates and average daily room rates as compared to the State of Florida with recent surveys indicating that the average vacationer in the Florida Keys had an average family income in excess of $100,000.

Our conclusion is that the subject property is located in the downtown, "Old Town" Historic Preservation District, in the Downtown District, which is undergoing a dramatic increasing in values for lodging properties due to over five and one-half years of continuous months of increasing Average Daily Rates (ADRs) above the same month of the prior year. Additionally, nontransient rentals have substantially increased since 2013, as the rental inventory has been completely absorbed. Many single family residences and attached units have been purchased by second home (or more), out -of-town owners, and are not rented, when vacant or rented as vacation rentals. The surrounding structures, with very few exceptions, are generally well-maintained with many remodeled and rehabilitated properties in the neighborhood. I anticipate continued improvement in the general quality of the neighborhood, particularly due to the City of Key West's waterfront development efforts.

**Marketing Time:** Based on sales of comparable apartment complexes in the subject's market area, I estimated a 6 to 18-month marketing time if listed within 5.0 percent of the appraised value. The marketing time estimate is based on interviews of real estate agents and days on market (DOM) for the comparable properties. This marketing time could be negatively affected by competition from similar projects; however, there are no new comparable development projects pending.

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

**Absorption Period:** Based on competing projects and the subject project, the appraiser has conservatively projected an absorption period of five years or 60 months, if the subject’s individual units were sold at retail.

## PROPERTY DATA

A. General Site Description:

The subject improvements are located on a polygon, irregular-shaped, corner parcel containing a total site size of 1,053,434 square feet or 24.1835 acres. However, the subject site does not include 2+ acres in the middle of the site, which will be retained by the seller for development of 48 affordable units. As a result, the net site area is approximately 22 acres, or 958,320 square feet.

B. Access:

The subject property is located four blocks westerly from N. Roosevelt Boulevard/ U. S. Highway No. 1, a four lane, two-way asphalt paved street and the main thoroughfare into and out of the City of Key West and the Florida Keys. At the intersection of Eisenhower Drive, N. Roosevelt Boulevard becomes Truman Avenue, a two lane, two-way street. Truman Avenue provides excellent access to Whitehead Street, Duval Street and Mallory Square, the cruise port into the City. Mallory Square is popular for its panoramic view of the sunset, with a sunset celebration taking place each evening. Duval Street is the main street through downtown Key West, and its most desirable shopping area. It is a two-way asphalt paved street extending northerly and southerly from the Gulf of Mexico to the Atlantic Ocean.

C. Topography:

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

D. Easements and Encroachments:

A survey performed by F.H. Hildebrandt, 3152 Northside Drive, Key West, FL 33040 dated August 1, 2013, (last revision) was utilized for site size, dimensions and building measurements. Any deviations from these sizes would likely result in a change in value. The survey provided by the client and previously referenced, indicated no encroachments on the subject site. There is a Public Utility Easement recorded in Monroe County Official Record Book G-56, Page 449, a Bell South Easement Deed No. N62467-98-RP-00114, and a Florida Keys Aqueduct Authority Easement Deed No. N69450-08-RP-00011.

No responsibility is taken by this office for the accuracy or in regard to any questions on the nature of encroachments, encumbrances, or dissimilarities in measurement. Any maps or plats reproduced and included in this report are intended only for the purpose of showing spatial relationships. They are not measured surveys nor measured maps, and no responsibility for cartographic or surveying errors is assumed. The Appraiser reserve the right to amend the final

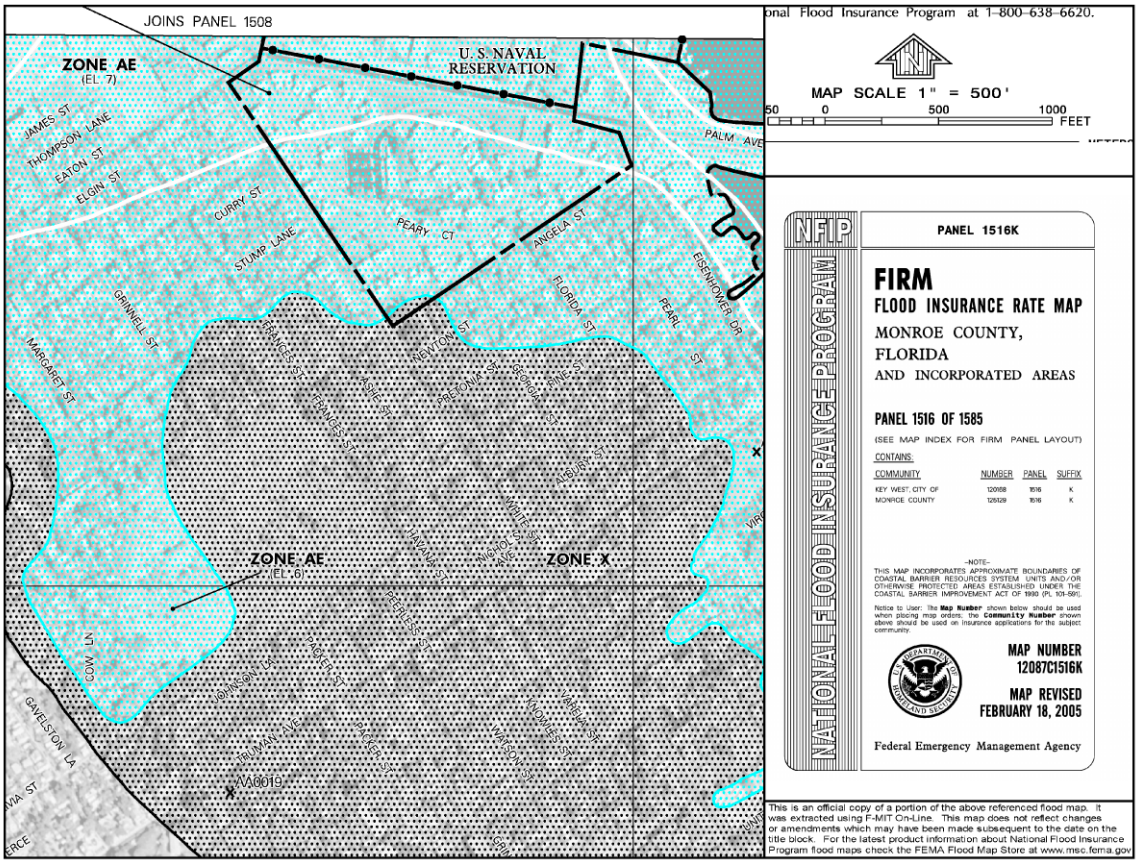
indicated values if and when any discrepancies are noted or due to site dimensions or sizes, encroachments or easements on the subject property.

E. Flood Zone:

The subject site is located in within a Special Flood Area, Zone AE, Elevation 7 and Zone AE Elevation 6, as defined by the Federal Emergency Management Agency, Flood Insurance Rate Maps of Monroe County, Florida, Map Number 12087C1516K, dated February 18, 2005. Monroe County does participate in a National Flood Insurance Program and is covered by a regular program.

The subject structures are located within a special Flood Hazard Area. Current elevation certificates were not made available for the subject buildings. The survey provided indicates finished floor elevations of more than seven feet with most buildings having more than 8 feet of elevation. If the subject improvements did not meet flood regulations and if the improvements were destroyed beyond 49.9% of their market value (improvements only), then the structures would be required to meet flood elevation regulations in effect at the time of reconstruction.

## FLOOD MAP FOR SUBJECT PROPERTY



F. Utilities:

Municipal services available and currently serving the property include electricity, water and sewer. Additional utility services including: telephone, cable television and LP bottled gas are available with the private sector. All utilities appeared to be adequate and typical for the area and use. At the time of inspection, each of the 157 units was serviced by an individual electric meter. There is one water meter, one sewer account and one solid waste account for the complex.

G. Zoning:

The subject property is zoned HSMDR, Historic Special Medium Density Residential. The HSMDR district allows single family, two family and multi-family non-transient residential uses. The permitted density for residential units is 8.6 units per acre. The subject property is currently a legal conforming use with respect to lot coverage requirements and density.

Note: The reader is referred to the Highest and Best Use Section X for further details on current zoning regulations.

H. Real Estate Taxes & Assessment:

Monroe County Property Appraiser's records indicate the following assessments of the subject property for the last two years. It is anticipated that active market conditions will continue in the near future due to the demand for residential units. Therefore, tax assessments and burdens are expected to increase accordingly.

Over the past five years the Key West millage rate has been relatively stable with recent declines noted. However, in most cases, tax assessments have drastically increased during this period in the private sectors; thus, resulting in generally increasing tax burdens. The overall tax history for the subject is noted as follows:

**Peary Court Housing Complex - Parcel No. 00006730-000200 - Alternate Key 9100458**

| Year | Land | Improvements | Misc. Imp. | Assessment | Tax Burden | Millage |
|---|---|---|---|---|---|---|
| 2013 | $0 | $3,661,022 | $0 | $22,565,521 | $237,716.47 | 10.5345 |
| 2014 | $27,850,142 | $3,482,435 | $0 | $29,250,000 | $304,036.20 | 10.3944 |

Additional assessments in 2013 in the amount of $10,760.62 and $65,619.72, in 2014 for

Stormwater and Solid Waste have been assessed. There appear to be no outstanding delinquent taxes on the subject property. A title search was not made for the subject property parcel.

Based on a 2014 millage rate of 10.3944 per $1,000 of assessed value and the total assessed value, $29,250,000, the tax burden for the entire subject property is $304,036.20 or $1.51 per square foot of gross building area. In addition, the subject property is assessed a Non-Ad Valorem burden of $65,619.72 for Key West Stormwater and Key West Solid Waste.

Real Estate Tax Analysis:

In order to determine the reasonableness of the subject's real estate tax assessment and tax burden, I analyzed a few large apartment complexes.

At this time, a tax appeal does not appear to be feasible. A copy of the property tax information provided by the tax collector's office is detailed on the following page.

## PROPERTY TAX INFORMATION SHEET

**DANISE D. HENRIQUEZ, C.F.C.**
MONROE COUNTY TAX COLLECTOR

**2014 Paid Real Estate**
**NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS**

| ALTERNATE KEY NUMBER | ESCROW CD | | | | MILLAGE CODE |
|---|---|---|---|---|---|
| 9100458 | | | | | 10KW |

Paid 11/13/2014 $354,869.71

Receipt # 000-14-00002289

PEARY COURT HOLDINGS LP
2828 CORAL WAY STE 303
CORAL GABLES, FL 33145-3214

ORIGINAL TAX BILL RETURNED

541 WHITE ST PEARY COURT

SQRS 30 AND 43 PER WM WHITEHEAD MAP OF 1829 AND PARCEL IDENTIFIED AS UNITED STATE CANTONMEN

**AD VALOREM TAXES**

| TAXING AUTHORITY | MILLAGE RATE | ASSESSED VALUE | EXEMPTION AMOUNT | TAXABLE VALUE | TAXES LEVIED |
|---|---|---|---|---|---|
| SCHOOL STATE LAW | 1.8780 | 29,250,000 | 0 | 29,250,000 | 54,931.50 |
| SCHOOL LOCAL BOARD | 1.7480 | 29,250,000 | 0 | 29,250,000 | 51,129.00 |
| GENERAL REVENUE FUND | 0.9485 | 29,250,000 | 0 | 29,250,000 | 27,743.63 |
| F&F LAW ENFORCE JAIL JUDICIAL | 2.1213 | 29,250,000 | 0 | 29,250,000 | 62,048.03 |
| HEALTH CLINIC | 0.0577 | 29,250,000 | 0 | 29,250,000 | 1,687.73 |
| FLORIDA KEYS MOSQUITO CONTRC | 0.4824 | 29,250,000 | 0 | 29,250,000 | 14,110.20 |
| CITY OF KEY WEST | 2.7743 | 29,250,000 | 0 | 29,250,000 | 81,148.28 |
| SO FL WATER MANAGEMENT DIST | 0.1577 | 29,250,000 | 0 | 29,250,000 | 4,612.73 |
| OKEECHOBEE BASIN | 0.1717 | 29,250,000 | 0 | 29,250,000 | 5,022.23 |
| EVERGLADES CONSTRUCTION PRJ` | 0.0548 | 29,250,000 | 0 | 29,250,000 | 1,602.90 |
| TOTAL MILLAGE | 10.3944 | | AD VALOREM TAXES | | $304,036.23 |

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

**NON-AD VALOREM ASSESSMENTS**

| LEVYING AUTHORITY | RATE | AMOUNT |
|---|---|---|
| KEY WEST STORMWATER | | 15,109.68 |
| KEY WEST SOLID WASTE | | 50,510.04 |
| | NON-AD VALOREM ASSESSMENTS | $65,619.72 |

PAY YOUR BILL

| COMBINED TAXES AND ASSESSMENTS | $369,655.95 | See reverse side for important information. |
|---|---|---|

| If Postmarked By | Nov 30, 2014 |
|---|---|
| Please Pay | $0.00 |

IF PAID BY...

**DANISE D. HENRIQUEZ, C.F.C.**
MONROE COUNTY TAX COLLECTOR

**2014 Paid Real Estate**
**NOTICE OF AD VALOREM TAXES AND NON-AD VALOREM ASSESSMENTS**

| ALTERNATE KEY NUMBER | ESCROW CD | | | | MILLAGE CODE |
|---|---|---|---|---|---|
| 9100458 | | | | | 10KW |

RETURN WITH PAYMENT

PEARY COURT HOLDINGS LP
2828 CORAL WAY STE 303
CORAL GABLES, FL 33145-3214

ORIGINAL TAX BILL RETURNED

00006730000200326725

541 WHITE ST PEARY COURT

SQRS 30 AND 43 PER WM WHITEHEAD MAP OF 1829 AND PARCEL IDENTIFIED AS UNITED STATE CANTONMEN

CHECKS ON U.S. BANKS ONLY TO DANISE D. HENRIQUEZ, C.F.C. TAX COLLECTOR P.O. BOX 1129, KEY WEST, FL 33041-1129

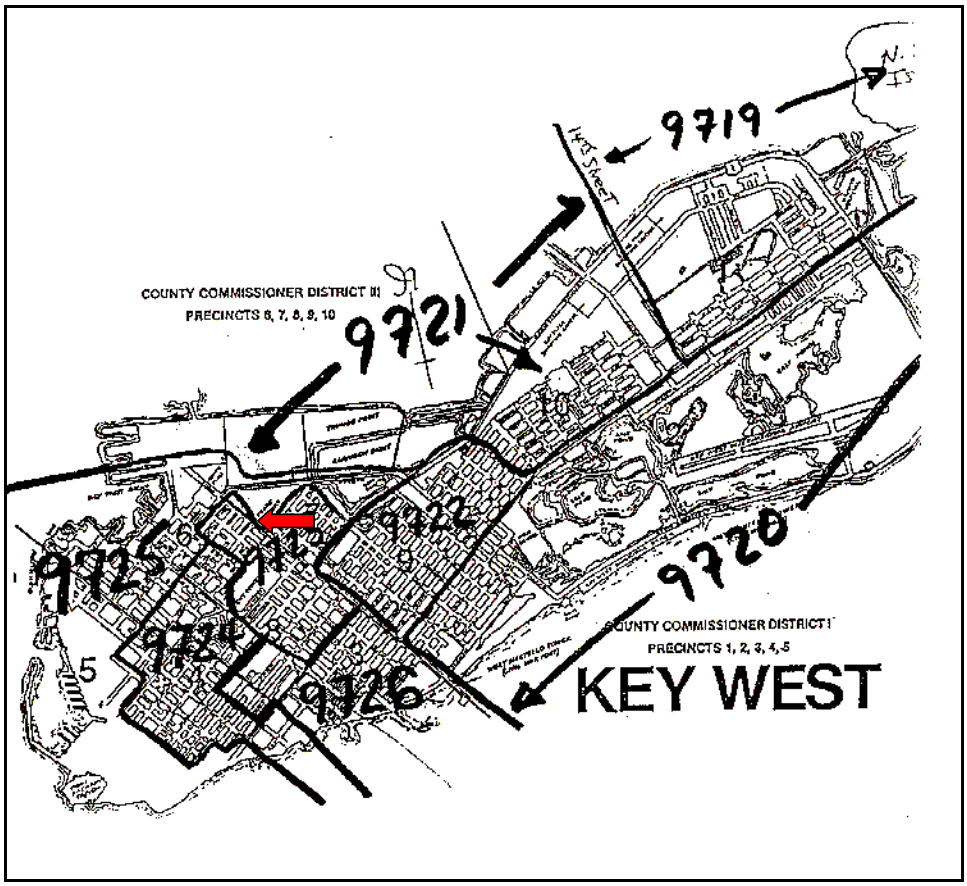
| If Postmarked By | Nov 30, 2014 |
|---|---|
| Please Pay | $0.00 |

Paid 11/13/2014 000-14-00002289 $354,869.71

I. Census Tract:

According to Mr. Jim Anderson of the Tallahassee, Florida Division of the United States Census Bureau, Monroe County is not divided into Census Tracts; but rather "Block Numbering Areas". According to 1990 Census Maps, the subject property is located within Block Number 9725.[7]

**CENSUS TRACT MAP**



J. Improvements:

The subject property consists of forty-nine, 2-story wood frame buildings containing 157 non-transient residential units. The total gross living area of the entire complex is 200,382 square feet with a gross rentable area of 200,382 square feet. Each unit includes one off-street parking space and one 351 square foot carport with enclosed storage. The multi-family dwellings were constructed in 1996, according to the Monroe County Tax Appraiser's records. However a Property Report performed by Atkins Engineers, Inc. indicates the subject buildings were constructed between 1992 and 1994.

Each of the apartment units has an individual exterior entrance and 2 covered porches. There are 2 basketball half-courts, 2 racquetball courts, 6 playgrounds and guest parking. The property has approximated 121 open parking spaces, plus 157 covered spaces (carports) for a total of approximated 278 spaces. Current zoning regulations require two parking spaces per unit or 314 spaces; therefore, the number of parking spaces may not comply with current zoning. A survey performed by F.H.Hildebrandt, 3152 Northside Drive, Key West, FL 33040 dated August 1, 2013 (last revision) was utilized for site size, dimensions and building measurements. Any deviations from these sizes would likely result in a change in value.

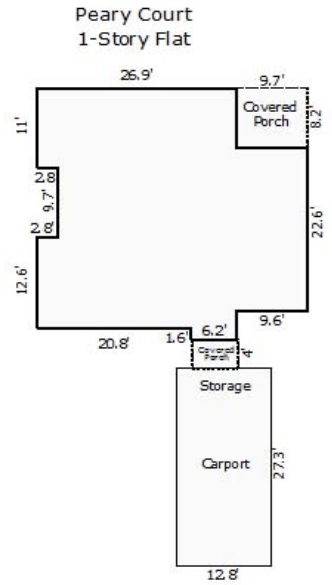
Building Area calculations and the subject's unit mix is as follows.

**Peary Court Housing Complex**
**Gross Living Area Calculations and Unit Mix**

| Building # | Building and Bed/Bath Description | No. of Bldgs. | No. of Stories | No. of Units | Bldg. G.B.A. | Gross Rentable |
|---|---|---|---|---|---|---|
| Bldg. Type A | 4 Unit Townhouse-2/1.5 | 10 | 2 | 40 | 51,440 | 51,440 |
| Bldg. Type B | 3 Unit Townhouse-2/1.5 | 28 | 2 | 84 | 108,024 | 108,024 |
| Bldg. Type C | 2 Unit Townhouse-2/1.5 | 3 | 2 | 6 | 7,716 | 7,716 |
| Bldg. Type D | 4 Unit Townhouse w/1 H.C.-2/1.5, 2/1 | 3 | 2 | 12 | 14,862 | 14,862 |
| Bldg. Type E | 3 Unit Townhouse w/1 H.C. -2/1.5, 2/1 | 5 | 2 | 15 | 18,340 | 18,340 |
| | **Totals:** | **49** | | **157** | **200,382** | **200,382** |

The subject property floor plans may be found on the following page. A construction summary of the building improvements follow the floor plans.

## SUBJECT PROPERTY FLOOR PLANS




Sketch by Apex Medina™

Comments:

**AREA CALCULATIONS SUMMARY**

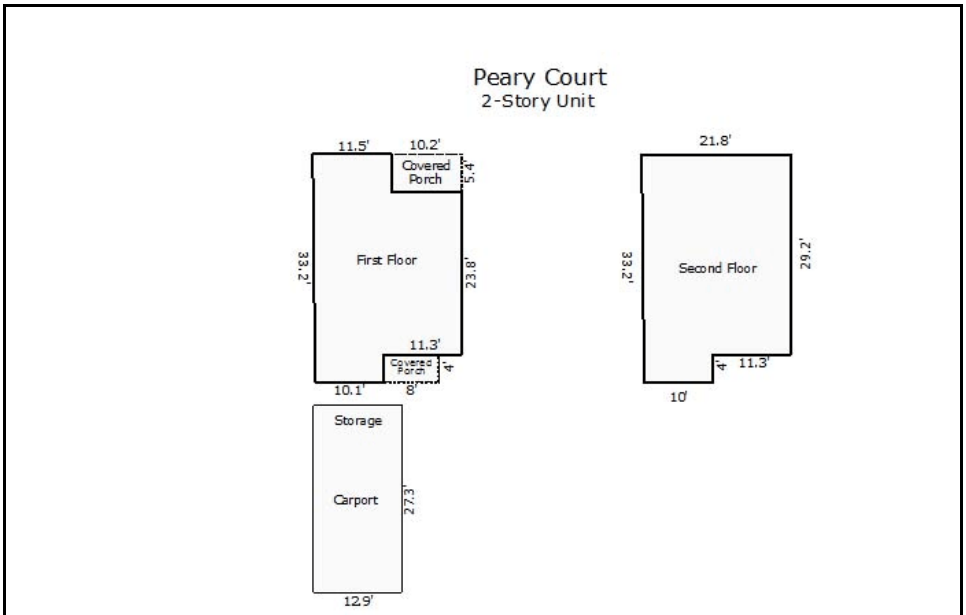
| Code | Description | Net Size | Net Totals |
|---|---|---|---|
| GLA1 | First Floor | 1095.9 | 1095.9 |
| GAR | Carport/Storage | 350.8 | 350.8 |
| P/P | Porch | 79.5 | |
| | Porch | 24.8 | 104.3 |
| Net LIVABLE Area | | (rounded) | 1096 |

**LIVING AREA BREAKDOWN**

| Breakdown | | | Subtotals |
|---|---|---|---|
| First Floor | | | |
| 6.2 | x | 1.6 | 9.9 |
| 27.0 | x | 2.4 | 64.8 |
| 9.7 | x | 33.9 | 326.7 |
| 10.1 | x | 36.6 | 371.5 |
| 36.6 | x | 2.8 | 102.5 |
| 8.2 | x | 26.9 | 220.6 |
| 6 Items | | (rounded) | 1096 |

**SUBJ** **ECT**

## PROPERTY FLOOR PLANS




Sketch by Apex Medina™
Comments:

**AREA CALCULATIONS SUMMARY**

| Code | Description | Net Size | Net Totals |
|---|---|---|---|
| GLA1 | First Floor | 615.6 | 615.6 |
| GLA2 | Second Floor | 670.6 | 670.6 |
| GAR | Carport/Storage | 350.8 | 350.8 |
| P/P | Porch | 55.1 | |
| | Porch | 32.0 | 87.1 |
| Net LIVABLE Area | | (rounded) | 1286 |

**LIVING AREA BREAKDOWN**

| Breakdown | | | | Subtotals |
|---|---|---|---|---|
| First Floor | | | | |
| 0.5 x | 5.4 | x | 0.1 | 0.2 |
| 0.5 x | 23.8 | x | 0.3 | 3.2 |
| | 11.5 | x | 5.4 | 62.0 |
| | 4.0 | x | 10.1 | 40.2 |
| | 21.4 | x | 23.8 | 509.9 |
| 0.5 x | 4.0 | x | 0.0 | 0.1 |
| Second Floor | | | | |
| 0.5 x | 29.2 | x | 0.3 | 4.8 |
| | 4.0 | x | 10.0 | 40.2 |
| | 21.4 | x | 29.2 | 625.6 |
| 0.5 x | 4.0 | x | 0.0 | 0.1 |
| 10 Items | | | (rounded) | 1286 |

The following description of the improvements was based upon an inspection of the interior and exterior

of the buildings, Monroe County Tax Assessor's records, and previously mentioned survey.

**Multi-Family Structures**

**Basic Structures:** 49, Two-Story Wood Frame Structures

**Foundation & Floors:** Wood Frame Buildings with Oriented Strand Board (OSB) exterior sheathing with vinyl siding. Concrete Slab with Wood Joist Floors between the first and second floor levels.

**Exterior Walls:** Vinyl Siding

**Roof:** Modified Gabled Roof Structures with Standing Seam Metal Covers

**Interior Finish:** The subject units are all finished similarly with vinyl tile flooring in the entry, living and dining area, bathrooms, kitchen and bedrooms with painted drywall walls, and painted drywall ceilings. A small percentage of units have linoleum floor coverings in the kitchen. There are metal exterior doors and aluminum sliders, plus aluminum sash windows with screens. Ceramic tile tub/shower units were noted in the bathrooms. Wood cabinets with laminate countertops were noted throughout the kitchens.

**Electrical Service:** The electrical service to the buildings appeared to be adequate. Each unit is serviced by an individual meter.

**Restrooms/Bathrooms:** Each apartment unit contained one three-fixture bathroom, most of which were finished with vinyl tile flooring and tile wainscoting with tub/shower facilities. Some units contain ceramic tile flooring. The 2-story units also contained one 2-fixture bathroom on the first level with vinyl tile flooring.

**Air Conditioning:** Each of the units contained central air conditioners and ceiling fans. Heating is not necessary in the Florida Keys due to the year-round tropical climate.

**Construction Quality:** Above Average

**Improvement Condition:** The subject buildings are in overall average to above-average condition as they have been well maintained. In addition, each unit has been painted and attended to when any minor repairs were needed. No functional or external obsolescence was noted nor any deferred maintenance. Several of the units inspected had minor damage to kitchen cabinets from leaks in the refrigerator, dishwasher and ice-maker systems. Repairs were in progress at the time of inspection.

**Condition of Roofs:** Roof construction is modified hip wood truss system with metal standing seam cover. According to an engineer's report provided by the client, the roofs appear to be original and in good condition. The report provided was performed by Atkins Engineers, Inc. 228 Atlantic Blvd. Suite 400, Key Largo, FL 33037 and dated July 17, 2013.

**Building Ages:** The buildings were built in 1996, according to the Monroe County Tax Assessors Records. The actual age of the buildings is 19 years. Each building has an effective age of approximately 10-12 years. The total economic lives are estimated at 60 years; thus a remaining economic life of 48 to 50 years. However, the previously mentioned engineering report indicated the buildings were constructed between 1992 and 1994.

## Overall Subject Complex

**Environmental Issues**: In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the buildings, such as the presence of radon, asbestos insulation and/or existence of toxic waste, which may or may not be present on the property, has not been considered. The appraiser is not qualified to detect hazardous substances, and an expert in the field is recommended. No responsibility is taken by the appraiser or The Appraisal Company of Key West for matters regarding environmental concerns. I urge the client to retain an expert in this field if desired. I reserve the right to change my value conclusion, if and when an updated environmental audit is performed.

**ADA Compliance:** The Americans with Disabilities Act ("ADA") became effective January 26, 1992. The appraiser has not made a specific survey or analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. The appraiser recommends that a Contractor or Engineer be hired to determine compliance or

noncompliance, if so desired. The appraiser is not a contractor and are not qualified to make a determination if the building adheres to the requirements. The property, together with a detailed analysis of the requirements of the ADA, could reveal that the property may or may not be in compliance with one or more of the requirements of the Act. If so, this fact could have an effect upon the value of the property.

**Personal Property:** The valuation herein does not consider any fixtures and equipment other than typical residential kitchen appliances within each apartment and my estimate of the contributory value is $120,000.

**Amenities:** The subject site has green space, 2 basketball half-courts, 2 racquetball courts, 6 playgrounds, and 121 open parking spaces, plus 157 covered spaces (carports) for a total of approximately 278 spaces.

**Lot Coverage Ratio:** The subject's lot coverage ratio is calculated by dividing the first floor building footprints including any covered porches by the land size. Therefore, the subject's lot coverage ratio based on net site size of 958,320 square feet is:

10.5% (100,492 s.f./ 958,320 s.f.)

The Lot Coverage Ratio for HSMDR zoning is 40% for multi-family dwellings thus the lot coverage ratio is within the zoning requirements.

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

0.209:1.00 (200,382 s.f./ 958,320 s.f.)

The maximum FAR is 1.0 in the HSMDR district; thus, the subject is well below this maximum requirement based on Exhibit N “Site Date Sheet” FAR= Max 1.0.

## ANALYSIS, VALUATION AND CONCLUSIONS

# STATEMENT OF HIGHEST AND BEST USE

A. Definition of Highest & Best Use:

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

> The reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. [8]

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

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

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

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

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

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

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

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

Since the appraisal of the subject property is based on a particular premise of use, the Highest

and Best Use analysis determines just what this premise of use should be. A Highest and Best Use analysis consists of considering the Highest and Best Use of a property under two assumptions: (1) with a vacant and available site and (2) with the property as improved. These two assumptions on Highest and Best Use are correlated into one final estimate of Highest and Best Use.

B. As Vacant & Available:

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

Possible Use - The physical aspects of the land impose the first constraints on any possible use of the property. The subject improvements are located on a polygon, irregular-shaped, corner parcel for a total site size of 1,053,434 square feet or 24.1835 acres. However, the scope of work herein considers a net site area of 22 acres or 958,320 square feet. The remaining 2+ acres are to be retained by current subject property owner. The subject site is relatively level having excellent access from two major streets, Palm Avenue and White Street. Based on the above physical facts, various land uses are possible.

Permissible Use - The subject property is located within the recently designated HSMDR, Historic Special Medium Density Residential zoning district. A description of this zoning district follows. Historically, the subject site was formerly zoned M, Military due to its prior military housing use.

Subdivision III. - Historic Special Medium Density Residential District

Sec. 122-611. - Intent.

(a) The historic special medium density residential district (HSMDR) is established to implement comprehensive plan policies for areas designated "HSMDR" on the comprehensive plan future land use map. The HSMDR district shall accommodate historic special Old Town medium density residential development for permanent residents, including single-family, duplex, and multiple-family residential structures.

(b) Accessory uses and structures, including approved home occupations conducted within the residential structure, and customary community facilities can be located in the HSMDR designated area. This district shall not accommodate transient residential lodging uses, including guest homes, motels or hotels, time-shares, transient apartment, vacation rental, and gated transient communities.

(c) Freestanding commercial offices, retail or other commercial or industrial uses of any kind shall not be permitted.

(d) The historic preservation planner shall have the discretion to review redevelopment and new development impacts for mass, scale, size, proportion and screening to ensure compatibility with the existing commercial fabric.

(e) Any development plan approval submitted for a property in the HSMDR zoning district shall be accompanied by a concurrent application for a development agreement.

(Ord. No. 12-33, § 2, 9-18-2012)

Sec. 122-612. - Permitted uses.

Uses permitted in the historic medium density residential district (HSMDR) are as follows:

(1) Single-family and two-family residential dwellings.
(2) Multiple-family residential dwellings.
(3) Accessory uses and structures.
(4) Approved home occupations.

(Ord. No. 12-33, § 2, 9-18-2012)

Sec. 122-613. - Conditional uses.

Conditional uses in the historic medium density residential district (HSMDR) are as follows:

(1) Community centers, clubs and lodges accessory to residential uses.
(2) Cultural and civic activities.
(3) Parks and recreation active and passive.
(4) Public and private utilities.
(5) Parking lots and facilities.
(6) Educational institutions and day care facilities.

(Ord. No. 12-33, § 2, 9-18-2012)

Sec. 122-614. - Prohibited uses.

In the historic special medium density residential district (HSMDR), all uses not specifically or provisionally provided for in this subdivision are prohibited.

(Ord. No. 12-33, § 2, 9-18-2012)

Sec. 122-615. - Dimensional requirements.

The dimensional requirements in the historic special medium density residential district (HSMDR) are as follows; however, construction may be limited by proportion, scale and mass considerations as expressed through the Historic Architectural Review Commission Design Guidelines, for additions and alterations and new construction, dated and effective January 5, 2010, and administered by the historic preservation planner, and/or the HARC commission, who shall have the responsibility to review and approve or deny all applications for improvements, redevelopment and new development.

(1) Maximum density: 8.6 dwelling units per acre (8.6 du/acre).
(2) Maximum floor area ratio for all development including residential: 1.0.
(3) Maximum height: 30 feet.
(4) Maximum lot coverage:
    a. Maximum building coverage: 40 percent.
    b. Maximum impervious surface ratio: 60 percent.
(5) Minimum lot size: 5,000 square feet.
    a. Minimum lot width: 50 feet.
    b. Minimum lot depth: 100 feet.
(6) Minimum setbacks:
    a. Front: 10 feet.
    b. Side: 5 feet.
    c. Rear: 15 feet.
    d. Street side: 7.5 feet.

(Ord. No. 12-33, § 2, 9-18-2012)

Sec. 122-616. - Affordable housing requirements.

Affordable housing shall be required for all existing residential, redeveloped residential and new residential development at a ratio of 30 percent of the total units existent, redeveloped and/or created on properties located within the HSMDR zoning district per chapter 122, article V, division 10, sections 122-1465 through 122-1472. Except that applications for rezoning of the property to HSMDR zoning received before September 6, 2012, shall have the 30% ratio adjusted such that the requirement shall be not less, but not more than 30 percent of the units existent on site at the time of application.

(Ord. No. 12-33, § 2, 9-18-2012)

Secs. 122-617—122-625. - Reserved.

The appraiser has referenced some building criteria above. For further details, the reader is referred to the City of Key West Planning Department. The subject's existing use is considered a conforming use.

Feasible Use - The uses which meet the Legally Permissible and Physically Possible criteria are further analyzed to determine which uses are likely to produce an income or return in excess of construction costs, operating expenses, typical financial obligations and capital amortization. This criterion limits the uses to those which are financially feasible, and those which produce a positive net return to the land. For the subject site, the financially feasible use would be for development of maximum residential units as permitted by zoning and density.

In the final analysis, a determination must be made as to which feasible use is the Highest and Best Use of the parcels as if vacant. Based on the current zoning, coupled with the permissible uses as of right, it is my opinion that the Highest and Best Use of the subject site "As If Vacant" is for development of nontransient multi-family market rate units with 30% of the units built as workforce housing with affordable housing deed restrictions. The current density of 8.6 units allows development of a total of 208 units (160 market rate units, plus 48 workforce housing, moderate affordable units). According to Mr. Patrick Wright of the City of Key West Planning Department, the subject's density might be able to be increased to adjacent HMDR levels at 16 d/v per acre, but it would require a text and map amendment to the code. This would require approval from the Planning Board and two readings in front of the City Commission. Frankly, this change could be more of a process due to politics.

C. As Presently Improved:

The subject site is presently improved with forty-nine, two-story wood frame buildings containing a total of 157 residential units and a total gross building area of 200,382 square feet. The subject buildings contain 149 two-story, two-bedroom/one and one half bathroom units and 8 one-story, two-bedroom /one bathroom units. Each unit has one off-street and one covered parking space; the covered parking also contains enclosed storage. The subject property has a density of 7.14 units per acre, based on net area of 22 acres. If the entitlements for three additional units is considered the density would be 7.27 units per acre. The permissible density of 8.6 unit per acre, allows for the 48 additional new affordable housing units that are proposed development. The buildings were built in 1996 according to the Monroe County Tax Appraiser's records. Based on analysis, the existing improvements make a substantial contribution to the total property in excess of the value of the site ($35 million). The existing use should be preserved as a multi-unit residential apartment complex as it provides the highest "As Is" value at $58 million. Per the client's request, I also estimated the market value of the subject property if the individual units were sold at market rates, based on their current condition and finishes. The five-year discounted sellout model took into consideration the sales absorption over time,

while still renting the unsold units. This analysis indicated a value of $58 million. Therefore, a sellout of the existing units is probably not feasible at this point, unless the units are substantially renovated thus increasing the sales prices and possibly decreasing the absorption period. Since the land value has grown by about 70% since 2013, it is quite possible that future highest and best use would be for total redevelopment and sellout with 70% of the units at market rates and 30% subject to the affordable guidelines, especially if the density can be increased to 16 units per acres or approximately 387 total units. The reader should note that the existing project has a large amount of green space between buildings; therefore in order to maximize the density, it is likely that many of the existing buildings would have to be demolished or razed. Analysis of a proposed total redevelopment of the subject property is beyond the scope of this assignment.

D. Conclusion of Highest & Best Use:

Based on the preceding analysis of the subject site as if it was vacant and available for development and also as improved, it is my opinion that the Highest and Best Use is the continued use as multi-family apartment complex. Development of the new affordable housing units appears to be beneficial to the overall project (analysis is not part of this assignment). The subject's present use is a legal, conforming use.

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

E. Methodology:

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

All appraisals begin by identifying the subject property (property to be appraised) and the appraisal problem. Data relevant to the subject property is obtained from various sources including but not limited to: the Monroe County Tax Assessor's office, surveys, building plans and specifications and the property owner. If possible, more than one source is utilized to confirm information. Improvements, if applicable, are inspected and measured by the appraiser. If and when building plans or sketches are made available, the measurements are verified for accuracy. Land size is based on recorded plat maps, Monroe County public records, legal descriptions or surveys (when available).

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

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

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

report and is utilized in supporting the indicated value.

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

The Cost Approach:

The Cost Approach is determined by taking the value of the land and adding to it the depreciated value of the present improvements. A separate land analysis is done to determine the value of the land. This approach is also based on the Principle of Substitution, which states that a purchaser will not pay more for an existing property than the cost to reproduce it, in a similar area, assuming that it could be reproduced without delay.

This could be restated as:

Replacement Cost New (-) Depreciation (+) Land Value (=) Cost Approach Value.

Depreciation can be categorized into the following groups:

a. Physical deterioration. This is an element of accrued depreciation, which can be curable or incurable. Curable physical deterioration is a curable defect caused by deferred maintenance. Incurable physical deterioration is an incurable defect caused by physical deterioration that is impractical or uneconomic to correct.

b. Functional obsolescence. This is a loss in value caused by factors inherent within a building or building equipment unit. Factors include changes in construction materials and techniques, which result in excess capital costs in existing facilities; lack of full use of space; and an inability to expand or update the property.

c. Economic obsolescence. This is caused by external factors such as general economic conditions, availability of financing, or disharmonious property uses.

In the case at hand, the Cost Approach was deemed applicable due to the subject property consisting of fairly recently (by Key West standards) constructed structures. In addition, there have been some recent vacant land sales in the Old Town market area. This approach was lightly weighted in the final reconciliation.

The Income Approach:

The Income Approach is based on the amount of income the subject property is capable of producing. The market is researched to determine the rental rates of comparable properties. The Direct Capitalization Approach was utilized for the subject property. The estimated net income is capitalized in accordance with prevailing rates of return on similar properties or investments of comparable risk to indicate the price that a prudent and knowledgeable investor would be justified in paying for ownership of the real property. This approach has greatest application when the property being appraised is a type that purchasers buy for investment purposes. The Income Approach represents the value an investor may consider paying in order to gain the benefits and profits of the real estate.

I have utilized a Discounted Sellout Approach. An estimate of the Sellout Value of the individual units is considered, as well as the rate at which the units can sell (absorption period). Then, rental income from the un-sold units, plus deductions are made for holding and selling expenses, including developer's profit or incentive, which results in net operating income. The Discounted Sellout Approach tests the highest and best use of the subject property. This approach considers the sales, holding and selling expenses, plus development costs over the estimated sellout period.

In valuing the subject property, analysis of the market for similar properties indicated that these properties are typically purchased for their income production as well appreciation expectations. Reliable income and expense data for the subject and similar multi-family facilities was considered. Therefore, this approach was considered and was given heavy weight in my valuation.

Sales Comparison Approach:

The Sales Comparison Approach is based upon the Principle of Substitution. When applied, it states that when similar (comparable) properties in similar locations are adjusted for any dissimilarities, the value from these comparable properties can indicate an estimate of value. This approach was considered and applied in valuing the subject property due to recent market activity for similar properties.

The comparable sales are researched utilizing Real Estate Data Inc. (REDI) and ARIS, a computerized MLS (Multiple Listing System). Both sources use data from the Monroe County Property Appraiser's office, as well as from the public records. The data is verified and compiled into sale sheets located within the Sales Comparison Approach of this report. Additional data sources include: newspaper clippings and the National Multiple Listing Service. Real estate agents in the market area are interviewed for the most current information on sales and listings. All of the information is analyzed in preparing the report and is utilized in supporting the indicated value.

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

I considered four closed sales of large multi-family, apartment complex sales and one pending sale within the subject property's market area. Though none of the sales were truly similar to the subject in all respects, the comparables were analyzed and considered representative of the market for competing properties. The comparables indicated a fairly tight range of values when analyzed on an effective gross income multiplier basis. This approach was considered applicable and was given light weight in the final valuation.

This approach was utilized in the valuation of the individual subject residential units, in supporting the sellout prices (value) for the existing subject townhouse development.

Valuation Conclusion

Each approach to value has varying degrees of applicability and weight under a given set of circumstances. This is especially true in the appraisal of income-producing properties, which are typically bought and sold on the basis of their income-producing potential. While a property might be new, provide all desirable amenities, and have a prestigious location, failure to produce a satisfactory income detracts from the ultimate sale price. After consideration of each applicable approach, the valuation methods are weighted according to reliability.

F. Cost Approach:

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

The current costs to construct the improvements can be obtained from cost estimators, cost estimating publications, builders and contractors. Depreciation is measured through market research and the application of specific valuation procedures. Land value is estimated separately in the cost approach."[9] The land value is determined by analyzing recent sales of vacant tracts within the subject property market area.

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

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

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

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

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

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

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

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

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

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

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

- The Fee Simple Value is adjusted to reflect the property interest being appraised, if necessary, to arrive at an indicated value of the interest in the subject properties being appraised.[10]

The subject property consists of a 157-unit, multi-family apartment complex with entitlements for another three units, which were destroyed by fire, but can be rebuilt. This type of property is typically purchased for income producing ability. The Sales Comparison and Income Approaches were considered. The Cost Approach consists of combining the estimated value of the land, based on comparable sales, with the depreciated value of the improvements. In the case at hand, the subject complex consists of structures, which were built in the mid 1990's that result in reliable depreciation estimates.

## Land Valuation for Subject Property

The subject property, commonly known as "Peary Court at Key West", is an existing downtown nontransient residential project. The subject project has entitlements to a total 160 units, 157 existing units, plus three units which were destroyed by fire. A thorough search was conducted for sales of similar sites with entitlements within the City of Key West. The land sales are summarized as follows.

**Resume of Comparable Land Sales for Redevelopment**

| Comp. No. | Address | Redevelopment or Project Name | City/Key | Sales Date | Sales Price | Adjusted Sales Price | Upland Size SF | No. Units | Upland Size SF/ Unit | Unadj. Price/ $ / Unit | Adj. Price/ $ / Unit | Adj. Price/ SF | Zoning |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1315 Whitehead St. | N/A | Key West | 05/04/15 | $1,750,000 | $1,750,000 | 19,775 | 7 | 2,825 | $250,000 | $250,000 | $88.50 | HHDR |
| 2 | 119-135 Simonton St. | Old Town Villas | Key West | 01/19/15 | $6,800,000 | $5,850,000 | 52,385 | 20 | 2,619 | $340,000 | $292,500 | $111.67 | HRCC-1 |
| 3 | 625 South Street | Ocean Breeze Inn | Key West | 09/03/14 | $4,050,000 | $3,525,000 | 16,368 | 15 | 1,091 | $270,000 | $235,000 | $215.36 | HRO |
| 4 | 1212 Simonton St. | Spindrift Motel | Key West | 09/03/14 | $6,462,500 | $5,692,500 | 14,120 | 22 | 642 | $293,750 | $258,750 | $403.15 | HNC-1 |
| 5 | 1321 Simonton St. | Southwinds Motel | Key West | 09/03/14 | $5,287,500 | $4,692,500 | 24,800 | 17 | 1,459 | $311,029 | $276,029 | $189.21 | HCT |
| 6 | 1015-1027 Simonton St. | Cabana Resort | Key West | 01/30/14 | $4,551,535 | $4,551,535 | 42,225 | 21 | 2,011 | $216,740 | $216,740 | $107.79 | HNC-1 |
| **Subject** | **541 White Street** | **N/A** | **Key West** | **N/A** | **N/A** | **N/A** | **958,320** | **160** | **5,990** | **N/A** | **N/A** | **N/A** | **HSMDR** |
| | | **Valuation Date:** | | **09/18/15** | | **Average** | **28,279** | **17** | **1,774** | **$280,253** | **$254,837** | **$185.95** | |
| | | | | | | **Median** | **22,288** | **19** | **1,735** | **$281,875** | **$254,375** | **$150.44** | |
| | | | | | | **Minimum** | **14,120** | **7** | **642** | **$216,740** | **$216,740** | **$88.50** | |
| | | | | | | **Maximum** | **52,385** | **22** | **2,825** | **$340,000** | **$292,500** | **$403.15** | |

Details of the comparable land sales follows.

## COMPARABLE SALE NO. 1

**PROJECT NAME:** N/A

**LOCATION:** 1315 Whitehead Street, Old Town, Key West

**COUNTY PARCEL NO:** 00036180-000000 **ZONING:** HHDR

**ALTERNATE KEY NO.:** 1037044

**GRANTOR:** South Whitehead, LLC

**GRANTEE:** PP KW, LLC.

**DATE OF SALE:** 5/4/15 **DAYS OF MARKET:** 623 days

**OFFICIAL RECORD BOOK:** N/A **PAGE:** N/A

**VERIFICATION:** Inspection, Realtor, Seller, Appraisals, MLS

**LAND SIZE:** Rectangular Shaped Lot, 100 Feet on Whitehead Street and extends 197.5 feet in depth

**AREA:** 19,775 square feet

**PURCHASE PRICE:** Purchase Price (Incl. 7 Nontransient ROGOs (TDRs)) $1,750,000

**PRICE PER SQUARE FOOT LAND:** $88.50

**PRICE PER FRONT FOOT LAND:** $ 17,500

**PRICE PER UNIT:** $250,000

**HIGHEST AND BEST USE:** Luxury Residential Detached, Single Family Dwelling Redevelopment

**TERMS OF SALE:** Short-Sale, Conventional Bank Financing (91.4% LTV)

**INTEREST CONVEYED:** Fee Simple

## COMPARABLE SALE NO. 1 (CONTINUED)

**COMMENTS:** This comparable consists of 19,775 square foot rectangular-shaped interior site within the HHDR Historic High Density Residential District. The site was improved with a two-story CBS dilapidated office structure. The approved redevelopment plan consisted of demolishing the structure and site improvements, then constructing seven, two-story detached single-family residences. The homes will be of high-end construction and finishes with some limited view of the Atlantic Ocean at the upper levels. At the time of sale, the subject had entitlements for seven market-rate nontransient residences This is a short-sale transaction. The prior sale price was $2,950,000 in 2005, plus $925,000 paid to assign the contract. My office recently appraised this property and in the past.

## COMPARABLE SALE NO. 2

**PROJECT NAME:** Old Town Villas at Key West

**LOCATION:** 119-145 Simonton Street, Old Town, Key West

**COUNTY PARCEL NO:** 00000240-000000 **ZONING:** HRCC-1

**ALTERNATE KEY NO.:** 1000230

**GRANTOR:** Key West '07, LLC

**GRANTEE:** Brytrex, LLC

**DATE OF SALE:** 01/19/15 **OFFICIAL RECORD BOOK:** 2721 **PAGE:** 1202

**VERIFICATION:** Inspection, Public Records, Realtor, Seller, Past Appraisal

**LAND SIZE:** Irregular Shaped Lot, 298.1 Feet on Simonton Street and 141.83 Feet on Greene Street

**AREA:** 52,385 square feet

| | | |
|---|---|---|
| **PURCHASE PRICE:** | Purchase Price (Incl. 20 ROGOs (TDRs)) | $6,800,000 |
| | Less 3 Boat Slips at Conch Harbor | $ 950,000 |
| | Adjusted Sales Price: | $5,850,000 |

**PRICE PER SQUARE FOOT LAND:** $ 111.67

**PRICE PER FRONT FOOT LAND:** $ 13,298

**PRICE PER UNIT:** $292,500

**HIGHEST AND BEST USE:** Luxury Residential Town House Redevelopment

**TERMS OF SALE:** Short-Sale, Conventional Bank Financing

**INTEREST CONVEYED:** Fee Simple

## COMPARABLE SALE NO. 2 (CONTINUED)

**2014 TAX ASSESSMENT:**

| | |
|---|---|
| 2014 Land Assessment: | $3,342,060 |
| 2014 Total Assessment: | $4,467,100 |
| 2014 Tax Burden: | $49,031 |
| 2014 Tax Burden: | $0.94/ S.F. |

**COMMENTS:** This is the recent sale of vacant land with entitlements. The property consists of two individual contiguous parcels. The southerly portion of the subject fronts 298.1 linear feet along the easterly side of Simonton Street and 141 linear feet along the northerly side of Greene Street; the parcel is situated at the northeast corner of Simonton and Greene Streets. The second parcel was improved with open lumber storage buildings and three enclosed warehouses. The entire site is slightly irregular shaped and contains an estimated 144 parking spaces available at the time. The buyer purchased this lot for future development of 20 luxury townhouses. The property sold with entitlements for the 20 units, plus three wet boat slips at the nearby Conch Harbor Marina. The estimated value of the slips was deducted herein to extract the land value. The prior sale of this property was for $10 million on March 1, 2007. According to the prior seller, the property was sold with no residential development entitlements. Thus, the prior buyer/developer (Mr. Richard Jones) purchased the required residential ROGO permits on the open market for an additional $3,522,000 or $160,091 per unit. Therefore, the total cost was about $676,000 per unit. The prior sale was an arm's length transaction with conventional financing. The recent sale at $6.8 million or $5,850,000 without the boat slips was a short-sale. The prior developer is still involved in the new project. This property was appraised by my office in the past.

Note: The building and site improvements have been demolished, subsequent to the purchase.

## COMPARABLE SALE NO. 3

**PROPERTY NAME:** Ocean Breeze Inn

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

**PROPERTY LOCATION:** 625 South Street, Key West, FL

**DATE OF SALE:** 09/03/14 **DAYS ON MARKET:** 1

**SALE PRICE:** $4,050,000 **LISTING PRICE:** $4,050,000 **RATIO:** 100%

**ADJUSTED SALES PRICE:** $3,525,000 This comparable has 15 transient licenses, the estimated value of the transient licenses($35,000 x 15 units) was deducted in order to result in a better analysis.

**GRANTOR:** 625 South Street, LLC

**GRANTEE:** Meisel Holdings Fl-1321

**DOCUMENT TYPE:** Warranty Deed

**LEGAL DESCRIPTION:** KW Lots 6-7, Square 5, Tract 17 & Lots 1 & 2, Sqr 18, Tr 17

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

**VERIFICATION:** MLS, Public Records, Listing Agent, Seller, Confid., JW 5/16/14, Prior Appraisal

## COMPARABLE NO. 3 (CONTINUED)

**FINANCING:** Conventional Bank Financing

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

**HIGHEST AND BEST USE:** Part of Assemblage for Hotel Redevelopment, All Building & Site Improvements will be demolished

**PRIOR SALES LAST 3 YEARS:** 05/24/07 Price $4,000,000 OR Bk2297, Page 1118, 09/02/99 Price $1,125,000 OR Bk. 1595, Page 2152

**LAND SIZE:** 16,368 Square Feet

**GROSS BUILDING AREA:** 5,567 Square Feet

**FLOOR AREA (BUILDING TO LAND) RATIO:** 34.0%

**ZONING:** HRO

**BUILDING DESCRIPTION:** 3 One-Story Buildings

**CONSTRUCTION:** CBS/Masonry

**CONDITION:** Good to Very Good

**YEAR BUILT:** 1958

**PARKING:** On Site Parking

**PRICE PER SQUARE FOOT OF GBA:** $727.50

**EFFECTIVE GROSS INCOME:** $816,277

**NOI - NET OPERATING INCOME:** $326,510 (Est)

**EGIM - EFFECTIVE GROSS INCOME MULTIPLIER:** 5.0

**COMPARABLE SALE NO. 3 (CONTINUED)**

**OPERATING EXPENSE RATIO:** 60% (ESTIMATED)

**OVERALL RATE:** 8.1%

**NUMBER OF LICENSED UNITS**: 15 **SALES PRICE PER UNIT:** $270,000

**COMMENTS:** This property is licensed by the City of Key West for 15 transient units. This comparable was appraised by our office at the time of the prior sale. This property is part of a multi-parcel assemblage that is a proposed upscale hotel redevelopment project. All of the building and site improvements will be razed or demolished.

**APPRAISED BY OUR OFFICE:** Yes

**DATE:** 4/25/07 **Our File No.:** 133-07

## COMPARABLE SALE NO. 4

**PROPERTY NAME:** Spindrift Motel

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

**PROPERTY LOCATION:** 1212 Simonton Street, Key West, Florida

**DATE OF SALE:** 09/03/14 **DAYS ON MARKET:** 1

**SALE PRICE:** $6,462,500 **LISTING PRICE:** $6,462,500 **RATIO:** 100%

**ADJUSTED SALES PRICE:** $5,692,500 This comparable has 22 transient licenses, the estimated value of the transient licenses($35,000 x 22 units) was deducted in order to result in a better analysis.

**GRANTOR:** Harborside Motel and Marina, Inc.

**GRANTEE:** Casa Marina-1220 Simonton Street

**DOCUMENT TYPE:** Warranty Deed

**LEGAL DESCRIPTION:** KW Lots 23, 24 & 27 Square 8, Tract 11

**PARCEL ID: RE #** 00028730-000000 **ALTERNATE KEY#** 1029513

**VERIFICATION:** Confidential

**FINANCING:** Conventional Bank Financing

## COMPARABLE SALE NO. 4 (CONTINUED)

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

**HIGHEST AND BEST USE:** Part of Assemblage for Hotel Redevelopment, All Building & Site Improvements will be demolished

**PRIOR SALES LAST 3 YEARS:** 05/01/87 Price $1,325,000 OR Bk1010, Page 2043

**LAND SIZE:** 14,120 Square Feet

**GROSS BUILDING AREA:** 6,871 Square Feet

**FLOOR AREA (BUILDING TO LAND) RATIO:** 49.9%

**ZONING:** HNC-1

**BUILDING DESCRIPTION:** 2, One-Story Buildings and One-Story Building

**CONSTRUCTION:** CBS/Masonry

**CONDITION:** Average

**YEAR BUILT:** 1948, 1958, 1947

**PARKING:** On Street Parking

**PRICE PER SQUARE FOOT OF GBA:** $940.55

**EFFECTIVE GROSS INCOME:** $1,053,536

**NOI - NET OPERATING INCOME:** $421,414 (Est)

**EGIM - EFFECTIVE GROSS INCOME MULTIPLIER:** 6.1

**OPERATING EXPENSE RATIO**: 60% (Est)

**COMPARABLE SALE NO. 4 (CONTINUED)**

**OVERALL RATE:** 6.5%

**NUMBER OF LICENSED UNITS:** 22 **SALES PRICE PER UNIT:** $293,750

**COMMENTS:** Property is licensed by the City of Key West for 22 transient rooms. This property is part of a multi-parcel assemblage that is of a proposed upscale hotel redevelopment project. All of the building and site improvements have been razed or demolished subsequent to the purchase.

**APPRAISED BY OUR OFFICE:** No

**DATE:** N/A **Our File No.:** N/A

## COMPARABLE SALE NO. 5

**PROPERTY NAME:** Southwinds Motel

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

**PROPERTY LOCATION:** 1321 Simonton Street, Key West, Florida

**DATE OF SALE:** 09/03/14 **DAYS ON MARKET:** 1

**SALE PRICE:** $5,287,500 **LISTING PRICE:** $5,287,500 **RATIO:** 100%

**ADJUSTED SALES PRICE:** $4,692,500 This comparable has 17 transient licenses, the estimated value of the transient licenses($35,000 x 17 units) was deducted in order to result in a better analysis.

**GRANTOR:** Harborside Motel and Marina, Inc.

**GRANTEE:** Meisel Holdings Fl-1321 Simonton Street

**DOCUMENT TYPE:** Warranty Deed

**LEGAL DESCRIPTION:** KW Filer Boyle Sub N-476, Lot 3, Square 1, Tract 16

**PARCEL ID: RE #** 000594000-000000 **ALTERNATE KEY#** 1036803

**VERIFICATION:** MLS, Public Records, Listing Agent, Seller, Confid., JW 5/16/14, Prior Appraisal

## COMPARABLE SALE NO. 5 (CONTINUED)

**FINANCING:** Conventional Bank Financing

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

**PRIOR SALES LAST 3 YEARS:** 12/1/87 Price $775,000 OR Bk1036, Page 538, 08/01/85 Price $570,000 OR Bk.950, Page 1898

**LAND SIZE:** 24,800 Square Feet

**GROSS BUILDING AREA:** 5,320 Square Feet

**FLOOR AREA (BUILDING TO LAND) RATIO:** 21%

**ZONING:** HCT

**BUILDING DESCRIPTION:** 5, One-Story Buildings

**CONSTRUCTION:** CBS/Masonry

**CONDITION:** Average

**YEAR BUILT:** 1953

**PARKING:** On Site Parking

**PRICE PER SQUARE FOOT OF GBA:** $993.89

**EFFECTIVE GROSS INCOME:** $698,063

**NOI - NET OPERATING INCOME:** $279,225 (Est)

**EGIM - EFFECTIVE GROSS INCOME MULTIPLIER:** 7.6

**OPERATING EXPENSE RATIO:** 60% (Est)

## COMPARABLE SALE NO. 5 (CONTINUED)

**OVERALL RATE:** 5.3%

**NUMBER OF LICENSED UNITS:** 17 **SALES PRICE PER UNIT:** $270,000

**COMMENTS:** Property is licensed by the City of Key West for 17 transient rooms. This property is part of a multi-parcel assemblage that is of a proposed upscale hotel redevelopment project. All of the building and site improvements will be razed.

**APPRAISED BY OUR OFFICE:** No

**DATE:** N/A **Our File No.:** N/A

## COMPARABLE SALE NO. 6

(Architect Rendering of Project, Not constructed as of yet)

**PROJECT NAME:** Cabana Resort

**PROPERTY TYPE:** Proposed 21 Unit Non-Transient Residential Project

**LOCATION:** 1015-1027 Simonton Street, Key West, Monroe County, Florida

**COUNTY ASSESSORS PARCEL NO.:** 00027070-000000

**ZONING:** HNC-1

**GRANTOR:** Southernmost Cabana Resort, LLC (100% of certificates of membership of company sold)

**GRANTEE:** KWEST, LLC

**DATE OF SALE:** 01/30/14 **OFFICIAL RECORD BOOK:** None Recorded

**LAND AREA**: 42,225 sq. ft./0.97 Acres **VERIFICATION:** Buyer, Appraisal, Inspection, J.E.W

**SALES PRICE:** $4,550,000 (Total Acquisition Price)

**PRICE PER SQ. FT.**: $ 107.76

**UNITS TO BE DEVELOPED:** 21 **PRICE PER UNIT**: $ 216,667

**COMPARABLE SALE NO. 6 (Continued)**

**HIGHEST AND BEST USE:** Proposed Development of 21 Non Transient Residential Units

**TERMS OF SALE:** Cash to Seller

**INTEREST CONVEYED:** Fee Simple

**Comments:** This property has historically been a mobile home and permanent RV park which provided permanent non-transient housing. The prior transaction occurred April 29, 2009, whereby The Most Reverend John C. Favalora, as Archbishop of the Archdiocese of Miami, his successors in office, a corporation sole, the Grantor sold the property to Cabana Resort, LLC, a Florida limited liability company, as the Grantee for $2,400,000. The transaction was recorded via a Warranty Deed within the Monroe County Public Records, Official Book 2413, Page 1501.

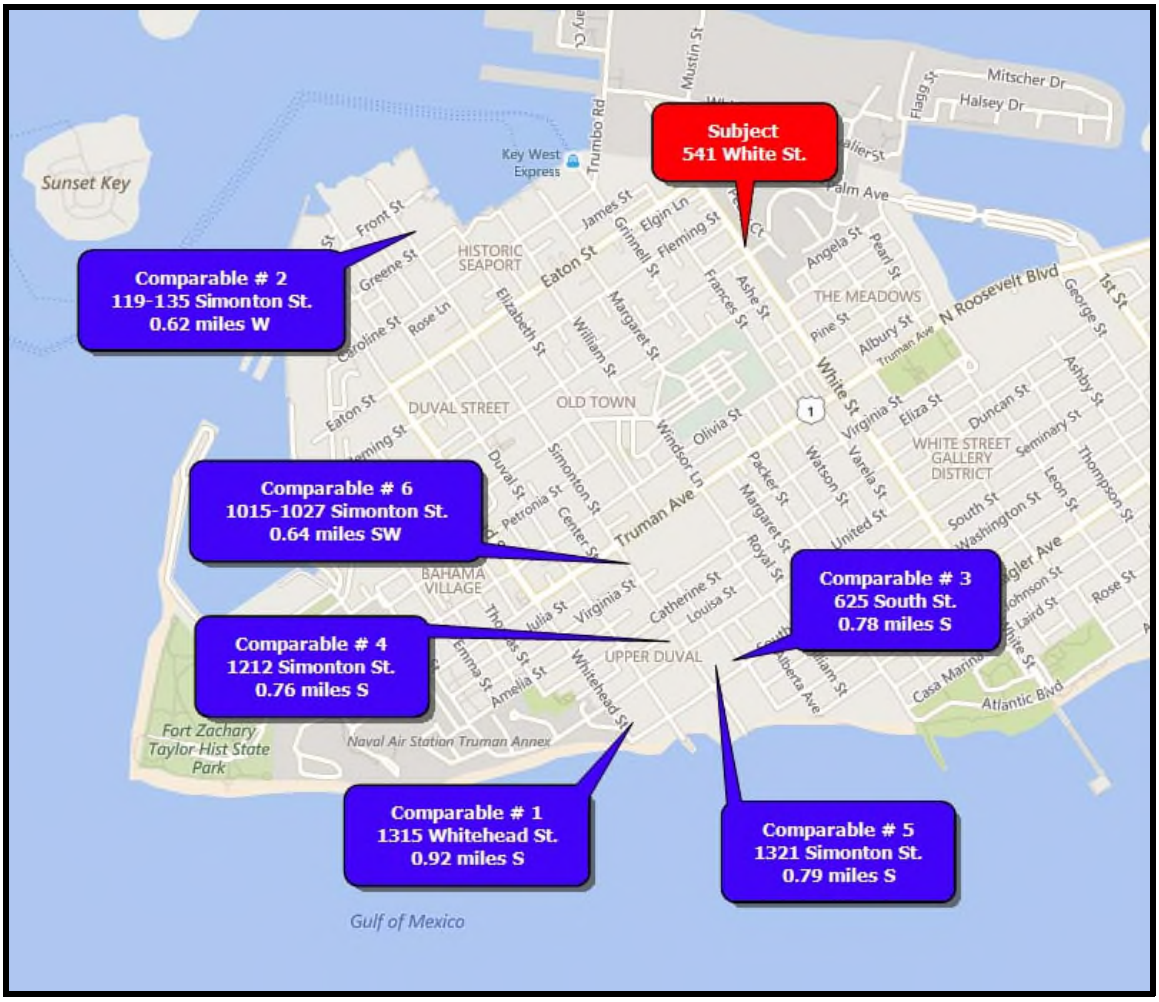
My office was provided with an Agreement for Purchase and Sale of Southernmost Cabana Resort, LLC for this property. The agreement is between Joseph D. Cleghorn, Jr. Trustee of the 1999 Cleghorn Marital Trust and Kimberly A. Parker, Sellers and KWEST, LLC, Purchaser, dated July 19, 2013. Furthermore, the agreement states that the sellers own 100 certificates of membership of Southernmost Cabana Resort, LLC and that they agree to sell to Purchaser 100% of certificates of membership of the Company for $1,580,000. In addition, the agreement states that the 100% of the LLC membership interest (including all assets and disclosed encumbrances) shall be conveyed to Purchaser, free and clear of all liens, pledges, security interest, charges, claims, restrictions and encumbrances of any nature, except the following:

1) First Mortgage Deed and Promissory Note in favor of the Archdiocese of Miami, executed by the LLC with no personal guaranty of the members in the approximate principal balance of $1,920,000. The buyer shall assume this existing mortgage.

2) Second Mortgage Deed and Promissory Note in favor of Kimberly Parker in the approximate principal balance of $550,000, as in the mortgage recorded in Official Records Book 2417, Page 265 of the Monroe County Public Records. The buyer shall assume this existing mortgage.

This property's buyer, Mr. Robert C. Pabian, indicated that an additional $500,000 will be transferred to Southernmost Cabana Resort. In conclusion, the total land acquisition price of the property is $4,550,000. This property was appraised by this office at the time of sale.

## COMPARABLE LAND SALES MAP



Market Conditions:
Analysis of the comparable sales and historical sales data indicates that the market has stabilized with recent appreciation noted. Since the comparable sales are all recent, no adjustments for market conditions were warranted herein.

Financing/Condition of Sale:
All of the comparable sales were considered cash equivalent, either cash or owner financing at market rates. Thus, none of the comparables required adjustment for financing. The sales were arm's length transactions, hence, no adjustments were required for conditions of sale.

Location:
The subject property is located on a corner lot, at the easterly boundary of Old Town, Key West about six blocks from Duval Street, the main shopping and entertainment district. In addition it is located about three blocks northwesterly of the Key West Seaport which features numerous waterfront restaurants/bars and small rustic retail spaces. All of the sales are located in Old Town, Key West and are similar in location, except for Sales No. 1 and No. 2, which are located just one block from Duval Street.

Site Size and Number of Units:
Since price per unit is the most reliable unit of measure, the disparity of number of units and land sizes of the comparables is reflected in the price per unit. The sales data indicates a tight range on a price per unit basis. Due to the subject's large amount of units, I have estimated a price per unit at the lower-end of the spectrum.

Zoning/Development Rights:
The subject has entitlements for 160 nontransient residential units, per the development agreement with the City of Key West and the current zoning district. Comparable Nos. 1, 2 and 6 have nontransient development plans. The remaining sales were purchased for hotel redevelopment with smaller units. Sale Nos. 1, 2, and 6 received more weight. All of the land sales, sold with entitlements.

Land Value Conclusions:

The land comparables presented herein indicate an adjusted price range between $216,740 to $292,500 per unit, with a mean and median of $254,837 and $254,375 per unit, respectively. After considering the similarities and differences of the comparables compared to the subject property, it appears that the most similar overall comparable is Sales No. 6, which indicated an adjusted price per unit of $216,740. This comparable is being developed with luxury townhouse units. Sale No. 1 is located near the Southernmost Point marker and will have some water views. Sale No. 6 is presently being developed with 21 town house units (one is detached) with a current listing price of $759,375 to $934,600 for upscale smaller modular construction units. As a result, I conservatively estimated a price of $220,000 per unit for the subject property land value based upon the entitlements. This value is near the lower-end of the spectrum due to the large amount of entitlement units at the subject property. This results in the following value:

| LAND VALUE CONCLUSION: | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **No. of Units** | **Multiplied By** | **$/Unit** | **Equals** | **Est. Land Value (Rnd)** | **Divided By** | **Site Area** | **Equals** | **$/SF** |
| **160** | **X** | **$220,000** | **=** | **$35,200,000** | **/** | **958,320** | **=** | **$37** |
| *Note : The subject property has entitlements for three extra units (one building was destroyed by fire and can be rebuilt).* | | | | | | | | |

**LAND VALUE OF SUBJECT PROPERTY AS INDICATED BY THE SALES COMPARISON APPROACH, AS OF SEPTEMBER 18, 2015 IS (Rounded): . . . . . $35,200,000**

The former acquisition price (August 30, 2013) of the subject was about $220,000 per unit (including entitlements for three additional units). Market activity for land redevelopment has significantly increased since 2013 with a rebound noted in prices of the subject's current land value on a price per square foot is quite reasonable at $37. A table of land sales from the 2013 time period indicate the following land redevelopment sales below. The lower end of the sales was about $120,000; therefore, over two years the subject's land value increased by $100,000 per unit or about a 76% increase.

**Resume of Comparable Land Sales for Redevelopment**

| Comp. No. | Address | Redevelopment or Project Name | City/Key | Sales Date | Sales Price | Adjusted Sales Price | Upland Size Acres | Upland Size SF | No. Units | Upland Size SF/ Unit | Unadjusted Price/ $ / Unit | Adjusted Price/ $ / Unit | Adjusted Price/ SF | Zoning |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 7 | 5950 Peninsular Avenue | Oceanside Marina | Stock Island | 06/13/13 | $4,750,000 | $4,000,000 | 8.02 | 349,262 | 32 | 10,914 | $148,438 | $125,000 | $11.45 | MU |
| 8 | 5020 5th Avenue | Islander Estates | Stock Island | 04/11/13 | $2,150,000 | $2,810,000 | 4.14 | 180,195 | 22 | 8,191 | $97,727 | $127,727 | $15.59 | MU |
| 9 | 223 Elizabeth Street | Harborside | Key West | 12/18/12 | $12,167,500 | $12,167,500 | 1.90 | 82,624 | 96 | 861 | $126,745 | $126,745 | $147.26 | HRCC-1 |
| 10 | 529 Front Street | Pier House Spa | Key West | 11/07/12 | $7,500,000 | $3,000,000 | 0.50 | 21,643 | 22 | 984 | $340,909 | $136,364 | $138.61 | HRCC-1 |
| 11 | 1300-1313 Atlantic Dr., Etc. | Atlantic Estates | Key West | 07/26/11 | $2,083,333 | $2,083,333 | 1.39 | 60,409 | 17 | 3,553 | $122,549 | $122,549 | $34.49 | SF |
| 12 | 510 South & 1420 Simonton Sts. | Somo Hotel Col. | Key West | 05/31/07 | $19,500,000 | $19,500,000 | 1.93 | 84,243 | 77 | 1,094 | $253,247 | $253,247 | $231.47 | HCT |
| **Subject** | **541 White Street** | **N/A** | **Key West** | **N/A** | **N/A** | **N/A** | **22.00** | **958,320** | **160** | **5,990** | **N/A** | **N/A** | **N/A** | **HSMDR** |
| | | **Average** | | | | | **2.98** | **129,729** | **44** | **4,266** | **$181,602** | **$148,605** | **$96.48** | |
| | | **Median** | | | | | **1.92** | **83,434** | **27** | **2,324** | **$137,591** | **$127,236** | **$86.55** | |
| | | **Minimum** | | | | | **0.50** | **21,643** | **17** | **861** | **$97,727** | **$122,549** | **$11.45** | |
| | | **Maximum** | | | | | **8.02** | **349,262** | **96** | **10,914** | **$340,909** | **$253,247** | **$231.47** | |

**Valuation Date:** **09/18/15**

**Depreciation Rate from 2005 to End of 2011:** **-5.00%**

**Loc.:** **Dry/Inland = 0.0** **Market Bottom:** **12/31/11**

**Canal/Partial Waterfront = 0.5**

**Canal/Open Water = 1** **Superior Open Waterfront = 1.5**

Estimate of Improvement Costs and Summary:

The existing land and building improvements were described earlier in this report, the replacement cost of improvements has been estimated using the Marshall & Swift/Boeckh, LLC and my knowledge of actual cost to construct in the area. These costs are continuously updated and adjusted for local differences.

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

The subject property's replacement cost estimate utilizing the Marshall & Swift/Boeckh, LLC developed by Marshall and Swift may be found on the following pages. This Cost Manual is updated on a continuous adjusted for local conditions. The replacement cost new for the subject buildings has been considered herein.

The Citizens Property Insurance Company has recently requested when utilizing the BVS worksheet format for Replacement Cost Estimates that the substructure/foundation costs be excluded from the Replacement Cost. In this case, these exclusions for the subject buildings result in the following amounts:

| | | | | |
|---|---|---|---|---|
| Type “A” Buildings: | $54,254 | x 10 Buildings | = | $542,540 |
| Type “B” Buildings: | $44,183 | x 28 Buildings | = | $1,237,124 |
| Type “C” Buildings: | $33,361 | x 3 Buildings | = | $100,083 |
| Type “D” Buildings: | $47,390 | x 3 Buildings | = | $142,170 |
| Type “E” Buildings: | $41,922 | x 5 Buildings | = | $209,610 |

In estimating the quality of the various structures, I utilized the BVS quality system which ranges from 2.0 Average to 2.6 Superior. Even though the default of the program is set at 2.0 Average, not all buildings are equal in construction quality. Therefore, the appraiser must utilize his/her judgement and experience in ranking the quality of construction of the subject structures within the Florida Keys. Further, these are Replacement Cost New estimates, not Reproduction Costs, which must meet local Building Codes and current requirements. I utilized a (2.3) Average+ Quality for the subject property.

I included the Marshall & Swift Resort Area Multiplier. The "Resort" multiplier has been used in the Florida Keys for many years as a method to adjust for the difficulty to obtain skilled, construction labor and access to materials. Marshall & Swift, Section 99, Page 1, states that Special Local conditions require certain Local Multipliers and adjustments for Resort Locations, ie: "require higher freight charges on materials, noncompetitive conditions for labor or materials, disproportionate crewing or labor per

diem charges. Examples are island, mountain, desert or resort locations..."The subject property's Resort multiplier has been compared against actual construction costs on an ongoing basis. I feel the 1.4 multiplier is an accurate measure for the subject's Key West location (Southernmost in the Continental U.S) at this time**.**

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | |
|---|---|---|---|
| **INSURED** | Peary Court Holdings, LP | Effective Date: | 9/18/2015 |
| | 2828 Coral Way Suite 303 | Expiration Date: | |
| | Coral Gables, FL 33145 | Cost as of: | 06/2015 |

**BUILDING 1** Type A - 4 Unit 2-Stry Townhouse
Peary Court Housing Complex
Key West, FL 33040

**Location Adjustments**

| | |
|---|---|
| Climatic Region: | 1 - Warm |
| High Wind Region: | 3 - Major Damage |
| Seismic Zone: | 0 - No Damage |

**SECTION 1**

**SUPERSTRUCTURE**

| | | | |
|---|---|---|---|
| Occupancy: | 100% Row House | Story Height: | 8 ft. |
| Construction Type: | 100% Frame (ISO 1) | Number of Stories: | 2 |
| Gross Floor Area: | 5,144 sq. ft. | Irregular Adjustment: | None |
| Construction Quality: | 2.3 - Average + | | |
| Year Built: | 1996 | | |

**Adjustments**

| | | | |
|---|---|---|---|
| User Adjustment Factor: | 1.40 Resort Location Multiplier | | |
| Hillside Construction: | Degree of Slope: Level | Site Accessibility: | Good |
| | Site Position: Unknown | Soil Condition: | Good |

**Fees**

| | |
|---|---|
| Architect Fees: | 7% is included |
| Profit and Overhead: | 20% is included |

| SUMMARY OF COSTS | User Specified | System Generated | Replacement | Exclusion |
|---|---|---|---|---|
| SUPERSTRUCTURE | | | | |
| Site Preparation | | | | 859 |
| Foundations | | | 19,811 | 32,562 |
| Foundation Wall | | | | |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 1 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | | |
|---|---|---|---|---|
| Interior Foundations | | | | |
| Slab On Ground | | | | |
| Exterior | | | 237,723 | |
| Exterior Wall | 20% Wall Openings | | | |
| Exterior Wall | 100% Siding, Metal or Other on Frame | | | |
| Structural Floor | | | | |
| Roof | | | | |
| Material | 100% Steel | | | |
| Pitch | 100% Medium (8:12 to 12:12 pitch) | | | |
| Interior | | | 178,228 | |
| Floor Finish | 5% Hardwood | | | |
| | 5% Linoleum | | | |
| | 5% Tile, Ceramic | | | |
| | 85% Tile, Vinyl Composite | | | |
| Ceiling Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Partitions | | | | |
| Length | | 643 ft. | | |
| Structure | | 100% Studs, Girts | | |
| Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Mechanicals | | | 279,361 | 20,833 |
| Heating | 100% Forced Warm Air | | | |
| Cooling | 100% Forced Cool Air | | | |
| Fire Protection | 100% Automatic Fire Detection | | | |
| Plumbing | 28 Total Fixtures | | | |
| Electrical | | 100% Average | | |
| Built-ins | | | 48,236 | |
| SUBTOTAL RC | | | $763,358 | $54,254 |
| ADDITIONS | | | | |
| Misc. Additional Features: | | | | |
| | Carport/Storage - 4 @351 sf each | | 30,888 | |
| | Porches - 349 sf | | 9,772 | |
| Total Additions | | | $40,660 | |
| **TOTAL RC SECTION 1** | | | **$804,018** | **$54,254** |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 2 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | |
|---|---|---|---|
| **TOTAL RC BUILDING 1** | **Type A - 4 Unit<br>2-Stry Townhouse** | **$804,018** | **$54,254** |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 3 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

**BUILDING 2** Type B - 3 Unit 2-StyTownhouse
Peary Court Housing Complex
Key West, FL 33040

**Location Adjustments**

| | |
|---|---|
| Climatic Region: | 1 - Warm |
| High Wind Region: | 3 - Major Damage |
| Seismic Zone: | 0 - No Damage |

**SECTION 1**

**SUPERSTRUCTURE**

| | | | |
|---|---|---|---|
| Occupancy: | 100% Row House | Story Height: | 8 ft. |
| Construction Type: | 100% Frame (ISO 1) | Number of Stories: | 2 |
| Gross Floor Area: | 3,858 sq. ft. | Irregular Adjustment: | None |
| Construction Quality: | 2.3 - Average + | | |
| Year Built: | 1996 | | |

**Adjustments**

| | | | |
|---|---|---|---|
| User Adjustment Factor: | 1.40 Resort Location Multiplier | | |
| Hillside Construction: | Degree of Slope: Level | Site Accessibility: | Good |
| | Site Position: Unknown | Soil Condition: | Good |

**Fees**

| | |
|---|---|
| Architect Fees: | 7% is included |
| Profit and Overhead: | 20% is included |

| SUMMARY OF COSTS | User Specified | System Generated | Replacement | Exclusion |
|---|---|---|---|---|
| SUPERSTRUCTURE | | | | |
| Site Preparation | | | | 644 |
| Foundations | | | 14,858 | 27,914 |
| Foundation Wall | | | | |
| Interior Foundations | | | | |
| Slab On Ground | | | | |
| Exterior | | | 192,534 | |
| Exterior Wall | | 20% Wall Openings | | |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 4 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | | |
|---|---|---|---|---|
| Exterior Wall | 100% Siding, Metal or Other on Frame | | | |
| Structural Floor | | | | |
| Roof | | | | |
| Material | 100% Steel | | | |
| Pitch | 100% Medium (8:12 to 12:12 pitch) | | | |
| Interior | | | 134,832 | |
| Floor Finish | 5% Hardwood | | | |
| | 5% Linoleum | | | |
| | 5% Tile, Ceramic | | | |
| | 85% Tile, Vinyl Composite | | | |
| Ceiling Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Partitions | | | | |
| Length | | 482 ft. | | |
| Structure | | 100% Studs, Girts | | |
| Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Mechanicals | | | 209,521 | 15,625 |
| Heating | 100% Forced Warm Air | | | |
| Cooling | 100% Forced Cool Air | | | |
| Fire Protection | 100% Automatic Fire Detection | | | |
| Plumbing | 21 Total Fixtures | | | |
| Electrical | | 100% Average | | |
| Built-ins | | | 36,177 | |
| SUBTOTAL RC | | | $587,923 | $44,183 |
| ADDITIONS | | | | |
| Misc. Additional Features: | | | | |
| | Carport/Storage - 3 @351 sf each | | 23,166 | |
| | Porches - 262 sf | | 7,336 | |
| Total Additions | | | $30,502 | |
| **TOTAL RC SECTION 1** | | | **$618,425** | **$44,183** |
| **TOTAL RC BUILDING 2** | **Type B - 3 Unit 2-StyTownhouse** | | **$618,425** | **$44,183** |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 5 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

**BUILDING 3** Type C - 2-Unit 2-StyTownhouse
Peary Court Housing Complex
Key West, FL 33040

**Location Adjustments**

| | |
|---|---|
| Climatic Region: | 1 - Warm |
| High Wind Region: | 3 - Major Damage |
| Seismic Zone: | 0 - No Damage |

**SECTION 1**

**SUPERSTRUCTURE**

| | | | |
|---|---|---|---|
| Occupancy: | 100% Row House | Story Height: | 8 ft. |
| Construction Type: | 100% Frame (ISO 1) | Number of Stories: | 2 |
| Gross Floor Area: | 2,572 sq. ft. | Irregular Adjustment: | None |
| Construction Quality: | 2.3 - Average + | | |
| Year Built: | 1996 | | |

**Adjustments**

| | | | |
|---|---|---|---|
| User Adjustment Factor: | 1.40 Resort Location Multiplier | | |
| Hillside Construction: | Degree of Slope: Level | Site Accessibility: | Good |
| | Site Position: Unknown | Soil Condition: | Good |

**Fees**

| | |
|---|---|
| Architect Fees: | 7% is included |
| Profit and Overhead: | 20% is included |

| SUMMARY OF COSTS | User Specified | System Generated | Replacement | Exclusion |
|---|---|---|---|---|
| SUPERSTRUCTURE | | | | |
| Site Preparation | | | | 429 |
| Foundations | | | 9,905 | 22,515 |
| Foundation Wall | | | | |
| Interior Foundations | | | | |
| Slab On Ground | | | | |
| Exterior | | | 144,284 | |
| Exterior Wall | | 20% Wall Openings | | |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 6 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | | |
|---|---|---|---|---|
| Exterior Wall | 100% Siding, Metal or Other on Frame | | | |
| Structural Floor | | | | |
| Roof | | | | |
| Material | 100% Steel | | | |
| Pitch | 100% Medium (8:12 to 12:12 pitch) | | | |
| Interior | | | 91,179 | |
| Floor Finish | 5% Hardwood | | | |
| | 5% Linoleum | | | |
| | 5% Tile, Ceramic | | | |
| | 85% Tile, Vinyl Composite | | | |
| Ceiling Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Partitions | | | | |
| Length | | 321 ft. | | |
| Structure | | 100% Studs, Girts | | |
| Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Mechanicals | | | 139,680 | 10,417 |
| Heating | 100% Forced Warm Air | | | |
| Cooling | 100% Forced Cool Air | | | |
| Fire Protection | 100% Automatic Fire Detection | | | |
| Plumbing | 14 Total Fixtures | | | |
| Electrical | | 100% Average | | |
| Built-ins | | | 24,118 | |
| SUBTOTAL RC | | | $409,165 | $33,361 |
| ADDITIONS | | | | |
| Misc. Additional Features: | | | | |
| | Carport/Storage - 2 @351 sf each | | 15,444 | |
| | Porches - 175 sf | | 4,900 | |
| Total Additions | | | $20,344 | |
| **TOTAL RC SECTION 1** | | | **$429,509** | **$33,361** |
| **TOTAL RC BUILDING 3** | **Type C - 2-Unit 2-StyTownhouse** | | **$429,509** | **$33,361** |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 7 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

**BUILDING 4** Type D - 3 2-Stry, 1 1-Stry T.H.
Peary Court Housing Complex
Key West, FL 33040

**Location Adjustments**

| | |
|---|---|
| Climatic Region: | 1 - Warm |
| High Wind Region: | 3 - Major Damage |
| Seismic Zone: | 0 - No Damage |

**SECTION 1**

**SUPERSTRUCTURE**

| | | | |
|---|---|---|---|
| Occupancy: | 100% Row House | Story Height: | 8 ft. |
| Construction Type: | 100% Frame (ISO 1) | Number of Stories: | 2 |
| Gross Floor Area: | 4,954 sq. ft. | Irregular Adjustment: | None |
| Construction Quality: | 2 - Average | | |

**Adjustments**

| | | | |
|---|---|---|---|
| User Adjustment Factor: | 1.40 Resort Location Multiplier | | |
| Hillside Construction: | Degree of Slope: Level | Site Accessibility: | Good |
| | Site Position: Unknown | Soil Condition: | Good |

**Fees**

| | |
|---|---|
| Architect Fees: | 7% is included |
| Profit and Overhead: | 20% is included |

| SUMMARY OF COSTS | User Specified | System Generated | Replacement | Exclusion |
|---|---|---|---|---|
| SUPERSTRUCTURE | | | | |
| Site Preparation | | | | 753 |
| Foundations | | | 17,361 | 29,035 |
| Foundation Wall | | | | |
| Interior Foundations | | | | |
| Slab On Ground | | | | |
| Exterior | | | 210,362 | |
| Exterior Wall | | 20% Wall Openings | | |
| Exterior Wall | 100% Siding, Metal or Other on Frame | | | |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 8 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | | |
|---|---|---|---|---|
| Structural Floor | | | | |
| Roof | | | | |
| Material | 100% Steel | | | |
| Pitch | 100% Medium (8:12 to 12:12 pitch) | | | |
| Interior | | | 156,322 | |
| Floor Finish | 5% Hardwood | | | |
| | 5% Linoleum | | | |
| | 5% Tile, Ceramic | | | |
| | 85% Tile, Vinyl Composite | | | |
| Ceiling Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Partitions | | | | |
| Length | | 619 ft. | | |
| Structure | | 100% Studs, Girts | | |
| Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Mechanicals | | | 240,011 | 17,602 |
| Heating | 100% Forced Warm Air | | | |
| Cooling | 100% Forced Cool Air | | | |
| Fire Protection | 100% Automatic Fire Detection | | | |
| Plumbing | 26 Total Fixtures | | | |
| Electrical | | 100% Average | | |
| Built-ins | | | 42,270 | |
| SUBTOTAL RC | | | $666,327 | $47,390 |
| ADDITIONS | | | | |
| Misc. Additional Features: | | | | |
| | Carport/Storage - 4 @351 sf each | | 30,888 | |
| | Porches - 366 sf | | 10,248 | |
| Total Additions | | | $41,136 | |
| **TOTAL RC SECTION 1** | | | **$707,463** | **$47,390** |
| **TOTAL RC BUILDING 4** | **Type D - 3 2-Stry, 1 1-Stry T.H.** | | **$707,463** | **$47,390** |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 9 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

**BUILDING 5** Type E - 2 2-Stry 1 1-Stry T.H.
Peary Court Housing Complex
Key West, FL 33040

**Location Adjustments**

| | |
|---|---|
| Climatic Region: | 1 - Warm |
| High Wind Region: | 3 - Major Damage |
| Seismic Zone: | 0 - No Damage |

**SECTION 1**

**SUPERSTRUCTURE**

| | | | |
|---|---|---|---|
| Occupancy: | 100% Row House | Story Height: | 8 ft. |
| Construction Type: | 100% Frame (ISO 1) | Number of Stories: | 2 |
| Gross Floor Area: | 3,668 sq. ft. | Irregular Adjustment: | None |
| Construction Quality: | 2.3 - Average + | | |
| Year Built: | 1996 | | |

**Adjustments**

| | | | |
|---|---|---|---|
| User Adjustment Factor: | 1.40 Resort Location Multiplier | | |
| Hillside Construction: | Degree of Slope: Level | Site Accessibility: | Good |
| | Site Position: Unknown | Soil Condition: | Good |

**Fees**

| | |
|---|---|
| Architect Fees: | 7% is included |
| Profit and Overhead: | 20% is included |

| SUMMARY OF COSTS | User Specified | System Generated | Replacement | Exclusion |
|---|---|---|---|---|
| SUPERSTRUCTURE | | | | |
| Site Preparation | | | | 612 |
| Foundations | | | 14,126 | 27,173 |
| Foundation Wall | | | | |
| Interior Foundations | | | | |
| Slab On Ground | | | | |
| Exterior | | | 185,637 | |
| Exterior Wall | | 20% Wall Openings | | |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 10 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | | |
|---|---|---|---|---|
| Exterior Wall | 100% Siding, Metal or Other on Frame | | | |
| Structural Floor | | | | |
| Roof | | | | |
| Material | 100% Steel | | | |
| Pitch | 100% Medium (8:12 to 12:12 pitch) | | | |
| Interior | | | 128,372 | |
| Floor Finish | 5% Hardwood | | | |
| | 5% Linoleum | | | |
| | 5% Tile, Ceramic | | | |
| | 85% Tile, Vinyl Composite | | | |
| Ceiling Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Partitions | | | | |
| Length | | 458 ft. | | |
| Structure | | 100% Studs, Girts | | |
| Finish | | 100% Drywall | | |
| | | 100% Paint | | |
| Mechanicals | | | 193,932 | 14,137 |
| Heating | 100% Forced Warm Air | | | |
| Cooling | 100% Forced Cool Air | | | |
| Fire Protection | 100% Automatic Fire Detection | | | |
| Plumbing | 19 Total Fixtures | | | |
| Electrical | | 100% Average | | |
| Built-ins | | | 34,396 | |
| SUBTOTAL RC | | | $556,462 | $41,922 |
| ADDITIONS | | | | |
| Misc. Additional Features: | | | | |
| | Carport/Storage - 3 @351 sf each | | 23,166 | |
| | Porches - 279 sf | | 7,812 | |
| Total Additions | | | $30,978 | |
| **TOTAL RC SECTION 1** | | | **$587,440** | **$41,922** |
| **TOTAL RC BUILDING 5** | **Type E - 2 2-Stry 1 1-Stry T.H.** | | **$587,440** | **$41,922** |

| | Replacement | sq. ft. | $/sq. ft. |
|---|---|---|---|
| **VALUATION GRAND TOTAL** | **$3,146,856** | 20,196 | **$155.82** |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 11 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 12 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | |
|---|---|---|---|
| **INSURED** | Peary Court Holdings, LP | Effective Date: | 9/18/2015 |
| | 2828 Coral Way Suite 303 | Expiration Date | |
| | Coral Gables, FL 33145 | Cost as of: | 06/2015 |

| **BUILDING1 : SUPERSTRUCTURE** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
|---|---|---|---|
| Section 1: 100% Row House | $763,358 | 5,144 | $148.40 |

| **BUILDING1 : SUBSTRUCTURE** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
|---|---|---|---|
| SECTION 1: | $0 | 0 | $0.00 |

| **Section Totals** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
|---|---|---|---|
| SECTION 1: 100% Row House | $763,358 | 5,144 | $148.40 |
| Total Additions: | $40,660 | | |
| **BUILDING 1 TOTAL, Type A - 4 Unit 2-Stry Townhouse** | **$804,018** | **5,144** | **$156.30** |

**BUILDING1 INSURANCE SUMMARY**

**100% Co-insurance Requirement** **$804,018**

| **BUILDING2 : SUPERSTRUCTURE** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
|---|---|---|---|
| Section 1: 100% Row House | $587,923 | 3,858 | $152.39 |

| **BUILDING2 : SUBSTRUCTURE** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
|---|---|---|---|
| SECTION 1: | $0 | 0 | $0.00 |

| **Section Totals** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
|---|---|---|---|
| SECTION 1: 100% Row House | $587,923 | 3,858 | $152.39 |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 13 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | |
|---|---|---|---|
| Total Additions: | $30,502 | | |
| **BUILDING 2 TOTAL, Type B - 3 Unit 2-StyTownhouse** | **$618,425** | **3,858** | **$160.30** |
| **BUILDING2 INSURANCE SUMMARY** | | | |
| **100% Co-insurance Requirement** | **$618,425** | | |
| **BUILDING3 : SUPERSTRUCTURE** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
| Section 1: 100% Row House | $409,165 | 2,572 | $159.08 |
| **BUILDING3 : SUBSTRUCTURE** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
| SECTION 1: | $0 | 0 | $0.00 |
| **Section Totals** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
| SECTION 1: 100% Row House | $409,165 | 2,572 | $159.08 |
| Total Additions: | $20,344 | | |
| **BUILDING 3 TOTAL, Type C - 2-Unit 2-StyTownhouse** | **$429,509** | **2,572** | **$166.99** |
| **BUILDING3 INSURANCE SUMMARY** | | | |
| **100% Co-insurance Requirement** | **$429,509** | | |
| **BUILDING4 : SUPERSTRUCTURE** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
| Section 1: 100% Row House | $666,327 | 4,954 | $134.50 |
| **BUILDING4 : SUBSTRUCTURE** | **Replacement** | **sq. ft.** | **$/sq. ft.** |
| SECTION 1: | $0 | 0 | $0.00 |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 14 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| Section Totals | Replacement | sq. ft. | $/sq. ft. |
|---|---|---|---|
| SECTION 1: 100% Row House | $666,327 | 4,954 | $134.50 |
| Total Additions: | $41,136 | | |
| **BUILDING 4 TOTAL, Type D - 3 2-Stry, 1 1-Stry T.H.** | **$707,463** | **4,954** | **$142.81** |
| **BUILDING4 INSURANCE SUMMARY** | | | |
| **100% Co-insurance Requirement** | **$707,463** | | |

| BUILDING5 : SUPERSTRUCTURE | Replacement | sq. ft. | $/sq. ft. |
|---|---|---|---|
| Section 1: 100% Row House | $556,462 | 3,668 | $151.71 |

| BUILDING5 : SUBSTRUCTURE | Replacement | sq. ft. | $/sq. ft. |
|---|---|---|---|
| SECTION 1: | $0 | 0 | $0.00 |

| Section Totals | Replacement | sq. ft. | $/sq. ft. |
|---|---|---|---|
| SECTION 1: 100% Row House | $556,462 | 3,668 | $151.71 |
| Total Additions: | $30,978 | | |
| **BUILDING 5 TOTAL, Type E - 2 2-Stry 1 1-Stry T.H.** | **$587,440** | **3,668** | **$160.15** |
| **BUILDING5 INSURANCE SUMMARY** | | | |
| **100% Co-insurance Requirement** | **$587,440** | | |
| **VALUATION GRAND TOTAL** | **$3,146,856** | **20,196** | **$155.82** |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 15 BVS-C

# Commercial Building Valuation Report

Policy : 220-15 11/09/2015

| | | | |
|---|---|---|---|
| **INSURED** | Peary Court Holdings, LP | Effective Date: | 9/18/2015 |
| | 2828 Coral Way Suite 303 | Expiration Date: | |
| | Coral Gables, FL 33145 | Cost as of: | 06/2015 |

**Equipment: BUILDING ITEM, AND SITE IMPROVEMENT BREAKDOWN**

| | |
|---|---|
| **BUILDING 1SECTION 1** | |
| Misc. Additional Features | |
| Carport/Storage - 4 @351 sf each | 30,888 |
| Porches - 349 sf | 9,772 |
| **BUILDING 2SECTION 1** | |
| Misc. Additional Features | |
| Carport/Storage - 3 @351 sf each | 23,166 |
| Porches - 262 sf | 7,336 |
| **BUILDING 3SECTION 1** | |
| Misc. Additional Features | |
| Carport/Storage - 2 @351 sf each | 15,444 |
| Porches - 175 sf | 4,900 |
| **BUILDING 4SECTION 1** | |
| Misc. Additional Features | |
| Carport/Storage - 4 @351 sf each | 30,888 |
| Porches - 366 sf | 10,248 |
| **BUILDING 5SECTION 1** | |
| Misc. Additional Features | |
| Carport/Storage - 3 @351 sf each | 23,166 |
| Porches - 279 sf | 7,812 |
| **TOTAL:** | **$163,620** |

MS/B costs include labor and material, normal profit and overhead as of date of report. Costs represent general estimates which are not to be considered a detailed quantity survey. These costs include generalities and assumptions that are common to the types of structures represented in the software.

© 2011 Marshall & Swift/Boeckh, LLC and its licensors

Detailed Page 16 BVS-C

**The Replacement Cost New for the Subject Building without Exclusions is $31,704,196 rounded to:**
**. . . . . $31,704,000**

**The Replacement Cost New for the Subject Building with Exclusions is $33,936,723 rounded to:**
**. . . . . $33,936,000**

In addition, the depreciation has been based upon effective age estimates for the subject buildings. I utilized the Age-Life method of physical depreciation according to the following formula:

$$\text{Depreciation} = \frac{\text{Effective Age}}{\text{Total Life}}$$

The building depreciation rates for the subject structures are noted in the following chart.

## Cost Approach For Subject Property

***Peary Court at Key West, 541 White Street, Key West, Florida***

| Detailed Cost Estimate | No. of Bdgs. | Quantity/ Size/Bldg. | Total Size | Unit Cost | Effective Age | Total Life | Depreciation | Replacement Cost New/Bldg. | Total Replacement Cost New | Total Depreciation | Total Deprec. Value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cost New for Type "A" Quadraplex Buildings: | 10 | 5,144 | 51,440 | $148 | 15 | 50 | 30.0% | $763,358 | $7,633,580 | $2,290,074 | $5,343,506 |
| Cost New Covered Porches: | 10 | 349 | 3,490 | $28 | 15 | 50 | 30.0% | $9,772 | $97,720 | $29,316 | $68,404 |
| Cost New Carport/Storage: | 10 | 1,404 | 14,040 | $22 | 15 | 50 | 30.0% | $30,888 | $308,880 | $92,664 | $216,216 |
| Cost New for Type "A" Quadraplex Buildings: | | | | | | | | $804,018 | $8,040,180 | $2,412,054 | $5,628,126 |
| Plus Exclusions for Wind Insurance (Foundations, Etc.) | 10 | 5,144 | 51,440 | $11 | 15 | 50 | 30.0% | $54,254 | $542,540 | $162,762 | $379,778 |
| Total Cost New for Type "A" Quadraplex Buildings: | | | | | | | | $858,272 | $8,582,720 | $2,574,816 | $6,007,904 |
| Cost New for Type "B" Triplex Buildings: | 28 | 3,858 | 108,024 | $152 | 15 | 50 | 30.0% | $587,923 | $16,461,844 | $4,938,553 | $11,523,291 |
| Cost New Covered Porches: | 28 | 262 | 7,336 | $28 | 15 | 50 | 30.0% | $7,336 | $205,408 | $61,622 | $143,786 |
| Cost New Carport/Storage: | 28 | 1,053 | 29,484 | $22 | 15 | 50 | 30.0% | $23,166 | $648,648 | $194,594 | $454,054 |
| Cost New for Type "B" Triplex Buildings: | | | | | | | | $618,425 | $17,315,900 | $5,194,769 | $12,121,130 |
| Plus Exclusions for Wind Insurance (Foundations, Etc.) | 28 | 3,858 | 108,024 | $11 | 15 | 50 | 30.0% | $44,183 | $1,237,124 | $371,137 | $865,987 |
| Total Cost New for Type "B" Triplex Buildings: | | | | | | | | $662,608 | $18,553,024 | $5,565,906 | $12,987,117 |
| Cost New for Type "C" Duplex Buildings: | 3 | 2,572 | 7,716 | $159 | 15 | 50 | 30.0% | $409,165 | $1,227,495 | $368,249 | $859,247 |
| Cost New Covered Porches: | 3 | 175 | 525 | $28 | 15 | 50 | 30.0% | $4,900 | $14,700 | $4,410 | $10,290 |
| Cost New Carport/Storage: | 3 | 702 | 2,106 | $22 | 15 | 50 | 30.0% | $15,444 | $46,332 | $13,900 | $32,432 |
| Cost New for Type "C" Duplex Buildings: | | | | | | | | $429,509 | $1,288,527 | $386,559 | $901,969 |
| Plus Exclusions for Wind Insurance (Foundations, Etc.) | 3 | 2,572 | 7,716 | $13 | 15 | 50 | 30.0% | $33,361 | $100,083 | $30,025 | $70,058 |
| Total Cost New for Type "C" Duplex Buildings: | | | | | | | | $462,870 | $1,388,610 | $416,584 | $972,027 |
| Cost New for Type "D" Quadraplex Buildings: | 3 | 4,954 | 14,862 | $135 | 15 | 50 | 30.0% | $666,327 | $1,998,981 | $599,694 | $1,399,287 |
| Cost New Covered Porches: | 3 | 366 | 1,098 | $28 | 15 | 50 | 30.0% | $10,248 | $30,744 | $9,223 | $21,521 |
| Cost New Carport/Storage: | 3 | 1,404 | 4,212 | $22 | 15 | 50 | 30.0% | $30,888 | $92,664 | $27,799 | $64,865 |
| Cost New for Type "D" Quadraplex Buildings: | | | | | | | | $707,463 | $2,122,389 | $636,716 | $1,485,672 |
| Plus Exclusions for Wind Insurance (Foundations, Etc.) | 3 | 4,954 | 14,862 | $10 | 15 | 50 | 30.0% | $47,390 | $142,170 | $42,651 | $99,519 |
| Total Cost New for Type "D" Quadraplex Buildings: | | | | | | | | $754,853 | $2,264,559 | $679,367 | $1,585,191 |
| Cost New for Type "E" Triplex Buildings: | 5 | 3,668 | 18,340 | $152 | 15 | 50 | 30.0% | $556,462 | $2,782,310 | $834,693 | $1,947,617 |
| Cost New Covered Porches: | 5 | 279 | 1,395 | $28 | 15 | 50 | 30.0% | $7,812 | $39,060 | $11,718 | $27,342 |
| Cost New Carport/Storage: | 5 | 1,053 | 5,265 | $22 | 15 | 50 | 30.0% | $23,166 | $115,830 | $34,749 | $81,081 |
| Cost New for Type "E" Triplex Buildings: | | | | | | | | $587,440 | $2,937,200 | $881,160 | $2,056,040 |
| Plus Exclusions for Wind Insurance (Foundations, Etc.) | 5 | 3,668 | 18,340 | $11 | 15 | 50 | 30.0% | $41,922 | $209,610 | $62,883 | $146,727 |
| Total Cost New for Type "E" Triplex Buildings: | | | | | | | | $629,362 | $3,146,810 | $944,043 | $2,202,767 |
| **Total Cost New for Bldg. Improvements:** | **49** | | **200,382** | | | | | | **$33,935,723** | **$10,180,716** | **$23,755,006** |
| Plus: Site Improvements & Extras: | | | | | | | | | | | |
| Roadway/Sidewalks | | 357,345 | | $4 | 8 | 12 | 66.7% | | $1,429,380 | $953,396 | $475,984 |
| Handball - Racquetball Courts | | 2 | | $25,000 | 12 | 20 | 60.0% | | $50,000 | $30,000 | $20,000 |
| Half Court - Basketball Courts | | 2 | | $25,000 | 12 | 20 | 60.0% | | $50,000 | $30,000 | $20,000 |
| Playgrounds | | 6 | | $4,000 | 5 | 10 | 50.0% | | $24,000 | $12,000 | $12,000 |
| Fencing & Gates | | 554 | | $25 | 12 | 20 | 60.0% | | $13,850 | $8,310 | $5,540 |
| Fabric Hurricane Shutters | | 1 | | $200,000 | 2 | 10 | 20.0% | | $200,000 | $40,000 | $160,000 |
| Landscaping & Signage: | | 1 | | $300,000 | 15 | 30 | 50.0% | | $300,000 | $150,000 | $150,000 |
| Total Site Improvements & Extras: | | | | | | | | | $2,067,230 | $1,223,706 | $843,524 |
| Plus: Furniture, Fixtures & Equipment: | | | | | | | | | | | |
| Residential Kitchen Appliances | | 157 | | $1,500 | 6 | 12 | 50.0% | | $235,500 | $117,750 | $117,750 |
| Total Furniture, Fixtures & Equipment: | | | | | | | | | $235,500 | $117,750 | $117,750 |
| Estimated Value before Entrepreneurial Profit and Indirect Costs: | | | | | | | | | $36,238,453 | $11,522,172 | $24,716,280 |
| Plus Indirect Costs*: | | | | | | | 68% | | $3,624,000 | $2,476,049 | $1,147,951 |
| Plus Entrepreneurial Incentive**: | | | | | | | 68% | | $3,624,000 | $2,476,049 | $1,147,951 |
| **Replacement Cost New ( Rounded):** | | | | | | | | | **$43,486,453** | $16,474,270 | **$27,012,182** |
| **Plus Land Value:** | | | | | | | | | | | **$35,200,000** |
| **Estimated Value Via the Cost Approach as Market Rate Rentals (Rounded):** | | | | | | | | | | | **$62,000,000** |
| **Less Adjustment for Rent Loss Due to Affordable Rentals (Rnd):** | | | | | | | | | | | **($4,000,000)** |
| **Estimated Value Via the Cost Approach as Affordable Rate Rentals (Rounded):** | | | | | | | | | | | **$58,000,000** |

Indirect Costs: The Indirect Costs in the Replacement Cost New are based on expenditures for items other than labor and materials, such as professional fees, financing costs, and taxes and insurance during construction. Because of the construction expenses incurred in City of Key West, including impact fees for similar use residential structures, plus permit fees, these Indirect Costs are a necessary part of our Cost Approach analysis. It is based on estimated impact fees, plus a percentage of the Replacement Cost New which I have found to be consistent.

Entrepreneurial Incentive: Entrepreneurial Incentive is a market-derived figure that reflects the amount an entrepreneur expects to receive for his or her contribution. This amount is in addition to the costs of the project. There are a couple of methods which can be utilized in order to estimate a market entrepreneurial incentive rate. Recently constructed properties in the market area could be analyzed by estimating the difference between their sales price and the total costs (direct and indirect) plus land value. This method of estimating entrepreneurial incentive was not available, due to the lack of comparables. Upon interviews of several local developers, it is my opinion that a profit of 10% is reasonable for most commercial apartment projects. It should be noted that some developers require larger profit margins and attain them. However, I utilized what appears to be typical in the market area (10% to 20%). Actual returns can and do vary widely from project to project.

| | | | | | |
|---|---|---|---|---|---|
| **Subject GBA:** | **200,382** | **Value Per** | **Value Per** | **Value Per** | **Value Per** |
| **Subject Site Size (SF):** | **958,320** | **SF of GBA** | **SF of Site** | **Unit** | **Bedroom** |
| **Total No. of Units:** | **157** | | | | |
| **Total No. of Bedrooms:** | **314** | | | | |
| **Value Via Cost Approach - Market Rate (Rounded):** | **$62,000,000** | **$309** | **$65** | **$394,904** | **$197,452** |

| | | | | | |
|---|---|---|---|---|---|
| **Subject GBA:** | **200,382** | **Value Per** | **Value Per** | **Value Per** | **Value Per** |
| **Subject Site Size (SF):** | **958,320** | **SF of GBA** | **SF of Site** | **Unit** | **Bedroom** |
| **Total No. of Units:** | **157** | | | | |
| **Total No. of Bedrooms:** | **314** | | | | |
| **Value Via Cost Approach - Affordable (Rounded):** | **$58,000,000** | **$289** | **$61** | **$369,427** | **$184,713** |

**ESTIMATED "AS IS" VALUE OF SUBJECT PROPERTY VIA THE COST APPROACH, BASED ON ALL MARKET RATE RENTALS AS OF SEPTEMBER 18, 2015 (ROUNDED) . . . . . $62,000,000**

Adjustment for Rent Loss:

I have estimated the "As Is" Value via the Income Approach, based on all 157 existing units being rented at market rates at $57 million. I have also estimated the value of the subject by the Income Approach if all of the units were leased at the maximum moderate affordable rental rate at $53 million. Thus, the difference in value is $4 million. As a result, I deducted $4 million from the Market Value based on market rate, via the Cost Approach in order to arrive at the value by the Cost Approach, subject to

affordable housing guidelines.

**Estimated "As Is" Value of Subject Property via the Cost Approach, Based on Moderate Rate Affordable Housing Guidelines as of September 18, 2015 (Rounded) . . . . . $57,000,000**

G. Sales Comparison Approach-Valuing the Subject as an Apartment Complex:

The Sales Comparison Approach is an appraisal technique in which the market value estimate is based on the prices paid in actual market transactions and current listings. It is a process of correlation and analysis of similar properties that recently sold in the subject's market area.

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

1. Market Data for the Subject Property:

A thorough search was conducted for recent sales of similar multi-family, apartment complex properties. A survey of the market area resulted in four closed comparable property sales similar to the subject in use. The subject property is located at the in the Old Town area of Key West, Monroe County, Florida. This market area (City of Key West) consists of few apartment complexes comparable in size (number of units) to the subject property. The following summarizes the comparables utilized:

**Resume of Multi-Family, Large Apartment Complex Sales**

| Comp. No. | Project | Address | Sales Date | Sales Price | Adjusted Sales Price | No. of Units | GBA (SF) | Land Area (SF) | FAR | Year Built | Price/SF of Land | Price/SF of GBA | Price Per Unit | OAR | EGIM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Ocean Walk | 3900 S. Rsvlt. Blvd., Key West | 09/04/14 | $75,350,000 | $75,350,000 | 297 | 237,424 | 745,399 | 31.9% | 1989 | $101.09 | $317.36 | $253,704 | 4.8% | 13.5 |
| 2 | West Isle | 3333 Duck Ave., Key West | 06/18/14 | $39,500,000 | $39,500,000 | 192 | 152,920 | 271,535 | 56.3% | 1989 | $145.47 | $258.30 | $205,729 | 5.0% | 11.0 |
| 3 | Peary Court | 541 White Street, Key West | 08/30/13 | $35,000,000 | $35,000,000 | 157 | 200,382 | 1,053,434 | 19.0% | 1996 | $33.22 | $174.67 | $222,930 | 4.6% | 10.9 |
| 4 | Poinciana Plaza | 3500-3600 Duck Ave., Key West | 01/06/04 | $15,100,000 | $15,100,000 | 144 | 198,164 | 941,316 | 21.1% | 1966 | $16.04 | $76.20 | $104,861 | 5.7% | 7.7 |
| **Subject** | **Peary Court** | **541 White Street, Key West** | **N/A** | **N/A** | **N/A** | **157** | **200,382** | **958,320** | **20.9%** | | **N/A** | **N/A** | **N/A** | **N/A** | **N/A** |
| | | Current Date: | 09/18/15 | **Mean** | **$41,237,500** | **198** | **197,223** | **752,921** | **32.1%** | | **$73.96** | **$206.63** | **$196,806** | **5.0%** | **10.8** |
| | | Apprec.Deprec. Rate | 0.00% | **Median** | **$37,250,000** | **175** | **199,273** | **843,358** | **26.5%** | | **$67.16** | **$216.49** | **$214,330** | **4.9%** | **11.0** |
| | | | | **Minimum** | **$15,100,000** | **144** | **152,920** | **271,535** | **19.0%** | | **$16.04** | **$76.20** | **$104,861** | **4.6%** | **7.7** |
| | | | | **Maximum** | **$75,350,000** | **297** | **237,424** | **1,053,434** | **56.3%** | | **$145.47** | **$317.36** | **$253,704** | **5.7%** | **13.5** |

Note: SF = Square Feet
GBA = Gross Building Area
FAR = Floor Area Ratio (GBA ÷ Site Size)

EGIM = Effective Gross Income Multiplier
OAR = Overall Rate

## IMPROVED SALE NO. 1

**LOCATION:** Ocean Walk Apartments, 3900 S. Roosevelt Blvd; Key West, Florida 33040

**LEGAL DESCRIPTION:** Lengthy Metes and Bounds Description

**TYPE OF PROPERTY:** Multi-Family Residential, 297-Unit Apartment Complex

**COUNTY ASSESSOR PARCEL NO.:** 00066180-000200

**COUNTY ALTERNATE KEY NO.:** 8749996

**ZONING:** HDR High Density Residential District- City of Key West

**GRANTOR:** Crico of Ocean Walk Limited Partnership

**GRANTEE:** Ocean Walk Key West Owner, LLC.

**DATE OF SALE:** 09/04/14 **OFFICIAL RECORD BOOK: 2702, PAGE:** 198

**PURCHASE PRICE:** $ 75,350,000

**VERIFICATION:** Public Records, Listing Agent, Monroe County Property Appraiser's Records

**INTEREST CONVEYED:** Fee Simple

**TERMS OF SALE:** Conventional Financing (66%LTV)

**LAND SIZE:** Irregular Shaped **AREA:** 745,399 sq. ft.

**BUILDING AREA:** 237,424 sq. ft. **NO UNITS:** 297

**CONSTRUCTION TYPE:** Concrete/Stucco Finish

**NO. BEDROOMS:** 1,189

**IMPROVED SALE NO. 1 (Continued)**

**PRICE PER GROSS BUILDING AREA:** $317.36

**PRICE PER UNIT:** $ 253,704

**PRICE PER ROOM:** $ 63,373

**YEAR BUILT:** 1989

| Annual Income Analysis (Estimated 2014) | |
|---|---|
| Potential Gross Income | $6,083,736 |
| Effective Gross Income | $5,601,360 |
| Expenses (Estimated) | $2,512,541 |
| Expense Ratio | 41.7 % |
| Net Operating Income | $3,634,075 |
| Capitalization Rate (OAR) | 4.8% |
| Actual Occupancy | 93.7% |
| Economic Occupancy (Employee Housing) | 92% |
| Effective Gross Income Multiplier: | 13.5 |

| 2014 Real Estate Tax Analysis | |
|---|---|
| Total Assessment | $27,900,000 |
| Assessment/Unit | $93,939 |
| Assessment/SF GBA | $117.51 |
| Tax Burden | $123,716 |
| Tax Burden per S.F. | $ 0.52 |

**COMMENTS:** This comparable is located within New Town area of Key West just northeasterly of the Key West airport. The site is an irregular-shaped inferior parcel containing 17.11 acres of land. The site is improved with a total of 297 nontransient residential units, ranging from one bedroom/one bathroom, two bedrooms/one or two bathrooms and three bedroom/ two bathroom units. The total gross building area for the property is 237,424 square feet with an average unit size of 799 square feet. Common tennis courts, basketball court and swimming pool. In addition, the property offers ample green space, open parking plus limited recreational facilities. The rents and occupancy were substantially increased after the time of sale.

## IMPROVED SALE NO. 2

**LOCATION:** West Isle Club Apartments, 3333 Duck Avenue, Key West, Florida 33040

**LEGAL DESCRIPTION:** Lengthy Metes and Bounds Description

**TYPE OF PROPERTY:** Multi-Family Residential, 192-Unit Apartment Complex (As recognized by Monroe County and State of Florida)

**COUNTY ASSESSOR PARCEL NO.:** 00054270-000000

**COUNTY ALTERNATE KEY NO.:** 1054895

**ZONING:** MDR Medium Density Residential District- City of Key West

**GRANTOR:** Key West Polo Club Apartments

**GRANTEE:** M-3333 Duck Avenue Owner, LLC

**DATE OF SALE:** 06/18/14 **OFFICIAL RECORD BOOK:** 2690, **PAGE:**1374

**PURCHASE PRICE**: $ 39,500,000

**VERIFICATION:** Seller (Rohdie Group) Public Records, Inspection, Former Appraisal

**INTEREST CONVEYED:** Fee Simple

**TERMS OF SALE:** Conventional Financing (69% TV)

**LAND SIZE:** Irregular Shaped **AREA:** 271,535 sq. ft.

**BUILDING AREA:** 152,920 sq. ft. **NO UNITS:** 192

**CONSTRUCTION TYPE:** Wood Frame Construction

**NO. OF BEDROOMS:** 384

**IMPROVED SALE NO. 2 (Continued)**

**PRICE PER GROSS BUILDING AREA:** $ 258.30

**PRICE PER UNIT:** $ 205,729

**PRICE PER BEDROOM:** $102,865

**YEAR BUILT:** 1989

| Annual Income Analysis | |
|---|---|
| Effective Gross Income | $3,590,000 |
| Expenses (Estimated) | $1,615,000 |
| Expense Ratio | 45.0 % |
| Net Operating Income | $1,975,000 |
| Capitalization Rate (OAR) | 5.0% |
| Effective Gross Income Multiplier: | 11.0 |

| 2014 Real Estate Tax Analysis | |
|---|---|
| Total Assessment | $23,839,555 |
| Assessment/Unit | $124,164 |
| Assessment/SF GBA | $155.90 |
| Tax Burden | $279,146 |
| Tax Burden per S.F. | $ 1.83 |

**COMMENTS:** This comparable is located in "new town" section of Key West, specifically on the easterly side of Fifteenth Court, the westerly side of the Poinciana Plaza Apartment Complex and the northerly side of Duck Avenue. The rear of the complex is bordered by the Poinciana Trailer Park. The improvements are located on a polygon, irregular-shaped, corner parcel with a total site size of 271,535 square feet or 6.23 acres. A survey performed by R.E. Reece, PA, 5 Ships Way, Big Pine Key, FL 33043 dated June 12, 2002 was utilized for site size, dimensions and building measurements. The property consists of twelve, 2-story wood frame buildings containing 192, residential, nontransient units. One of the 3-bedroom units is currently utilized as the office. The subject property is licensed with the City of Key West for 191 non-transient units and with the county and state for 192 non-transient units. The total gross building area of the entire complex is 152,920 square feet with a gross rentable area 147,660 square feet. The multi-family dwellings were constructed in 1989, according to Monroe County Tax Appraiser's records. According to Resolution No. 87-181, the property received a variance for development of 192 dwelling units, subject to affordable housing rental guidelines for 20 years; however, it appears that the rental restrictions expired in 2009. This property features on-site parking, green areas and common swimming pool. This comparable has been appraised by my office in the past. The rents were substantially increased at the time of sale.

## IMPROVED SALE NO. 3

**LOCATION:** Peary Court Apartments, 541 White Street; Key West, Florida 33040

**LEGAL DESCRIPTION:** Lengthy Metes and Bounds Description

**TYPE OF PROPERTY:** Multi-Family Residential, 157-Unit Apartment Complex, Plus Entitlements for Three Units (demolished due to fire)

**COUNTY ASSESSOR PARCEL NO.:** 00067300-000200

**COUNTY ALTERNATE KEY NO.:** 9100458

**ZONING:** HSMDR, Historic Medium Density Residential District-City of Key West

**GRANTOR:** Southeast Housing LLC

**GRANTEE:** Peary Court Holdings, LP

**DATE OF SALE:** 08/30/13 **OFFICIAL RECORD BOOK: 2648, PAGE:** 155

**PURCHASE PRICE:** $ 35,000,000

**VERIFICATION:** Public Records, Buyer, Inspection

**INTEREST CONVEYED:** Fee Simple

**TERMS OF SALE:** Conventional Financing

**LAND SIZE:** Irregular Shaped **AREA:** 1,053,434 sq. ft. **or** 24.1835 acres

**BUILDING AREA:** 200,382 sq. ft. **NO UNITS:** 157

**CONSTRUCTION TYPE:** Wood Frame

**NO. BEDROOMS:** 314

## IMPROVED SALE NO. 3 (Continued)

**PRICE PER GROSS BUILDING AREA:** $174.66

**PRICE PER UNIT:** $ 222,930

**PRICE PER BEDROOM:** $111,465

**YEAR BUILT:** 1996

| Annual Income Analysis (Estimated 2014) | |
|---|---|
| Effective Gross Income | $3,200,000 |
| Expenses (Estimated) | $1,600,000 |
| Expense Ratio | 50.0 % |
| Net Operating Income | $1,600,000 |
| Capitalization Rate (OAR) | 4.6% |
| Effective Gross Income Multiplier: | 10.9 |

| 2014 Real Estate Tax Analysis | |
|---|---|
| Total Assessment | $29,250,000 |
| Assessment/Unit | $186,306 |
| Assessment/SF GBA | $145.97 |
| Total Tax Burden | $369,656 |
| Tax Burden per S.F. | $ 1.84 |

**COMMENTS:** This comparable is the former sale of the subject property located within the Old Town area of Key West. The site is an irregular-shaped inferior parcel containing 24.18 acres of land. The site is improved with a total 157 non-transient residential units, consisting of two bedroom/one and one-half bathrooms. The total gross building area for the property is 200,382 square feet. Common amenities include: racquetball courts, basketball courts, playgrounds, but no swimming pool. In addition, the property offers ample green space covered and open parking. The rental rates have been substantially increased, over 20%, subsequent to the sale.

## IMPROVED SALE NO. 4

**LOCATION:** Poinciana Plaza Family Housing, 3500-3600 Block Duck Avenue, Westerly side of 19th Street (1300 Block), and southerly side of Donald Avenue (3500-3600 block), Key West, Florida

**LEGAL DESCRIPTION:** Lengthy Metes and Bounds Description

**TYPE OF PROPERTY:** Multi-Family Residential, 144-Unit Apartment Complex Plus 16 Affordable Housing units

**COUNTY ASSESSOR PARCEL NO.:** 00054250-000000

**COUNTY ALTERNATE KEY NO.:** 1054879

**ZONING:** MDR-1 Medium Density Residential District- 1 City of Key West

**GRANTOR:** United States of America, Department of Navy

**GRANTEE:** City of Key West, Key West Housing Authority

**DATE OF SALE:** 01/06/04 **OFFICIAL RECORD BOOK: 1965, PAGE: 912**

**PURCHASE PRICE**: $ 15,100,000

**VERIFICATION:** Mark Rosch, Public Records, Inspection

**INTEREST CONVEYED:** Fee Simple

**TERMS OF SALE:** Government Financing

**LAND SIZE:** Irregular Shaped **AREA:** 941,316 sq. ft.

**BUILDING AREA:** 198,164 sq. ft. NO UNITS: 144

**CONSTRUCTION TYPE:** Various Buildings/ Frame Construction

**NO. OF BEDROOMS:** 392

## IMPROVED SALE NO. 4 (Continued)

**PRICE PER GROSS BUILDING AREA:** $ 76.20

**PRICE PER UNIT:** $ 104,681

**PRICE PER ROOM:** $ 38,520

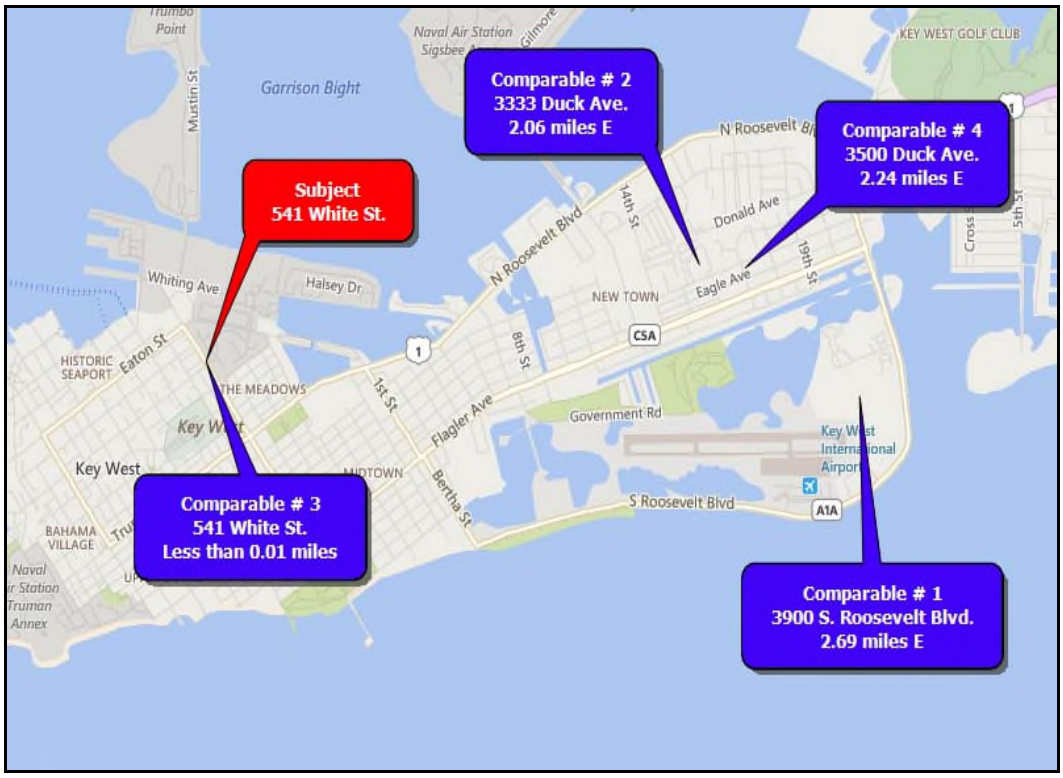
**YEAR BUILT:** 1966

| Annual Income Analysis (Estimated 2014) | |
|---|---|
| Potential Gross Income | $1,291,200 |
| Effective Gross Income | $1,964,385 |
| Expenses (Estimated) | $1,358,350 |
| Expense Ratio | 69.1 % |
| Net Operating Income | $865,893 |
| Capitalization Rate (OAR) | 5.7% |
| Effective Gross Income Multiplier: | 7.7 |

| 2014 Real Estate Tax Analysis | |
|---|---|
| Total Assessment | $4,170,444 |
| Assessment/Unit | $289,612 |
| Assessment/SF GBA | $210.45 |
| Tax Burden | $63,593 |
| Tax Burden per S.F. | $ 0.32 |

**COMMENTS:** This comparable is located within the New Town area of Key West. This property is a split-out of about two-thirds of the Poinciana Housing Complex, which had historically served as military housing until mid-1997. It has been recently utilized as affordable housing by the City of Key West through a license agreement with the United States Navy. The site is an irregular-shaped corner parcel containing 21.61 acres of land. The site is improved with a total of 144 units, ranging from two bedroom/one and one-half bathrooms, three bedroom/one and one-half bathrooms and four bedroom/ two and one-half bathroom units. The total gross building area for the property is 198,164 square feet. In addition, the property offers ample green space, open parking plus limited recreational facilities. This comparable was purchased to secure affordable housing. This property was appraised by my office just prior to the purchase.

# COMPARABLE IMPROVED SALES MAP



2. Units of Measure & Valuation:

The subject consists of 49, two-story wood frame multi-family buildings containing a total of 157 residential apartment units and a complex gross living area of 200,382 square feet. The multi-family dwellings were constructed in about 1996, according to the Monroe County Tax Appraiser's records. The subject buildings are situated on an irregular-shaped 22 acre corner parcel by residential and commercial uses. Therefore, analysis of the four most recent larger multi-family residential apartment complex properties was made in the subject market area. Though none of the sales were truly similar to the subject in all respects, the comparables were analyzed and considered representative of competing properties. The comparables indicated a fairly tight range of values when analyzed on a price per square foot of gross building area, a price per unit and per room basis; however, due to the subject's large unit sizes, and large site size, an Effective Gross Income Multiplier method was deemed the most applicable. Furthermore, Comparable Sales Nos. 1-2 have had substantial increases in occupancy and rental income; thus, the EGIM is more reliable.

3. Effective Gross Income Multiplier:

The comparable sales also indicated a relatively tight effective gross income multiplier range. As a result, the appraiser considered the effective gross income multiplier (EGIM) method in estimating a value for the subject. The Income Approach and the EGIM method takes the unit mix and corresponding income production into account.

The effective gross income multiplier (EGIM) is an accepted income approach method which indicates an estimate of value. This involves an estimate of the effective gross operating income (based on market or contract rents) for the subject property and an estimate of the applicable effective gross annual income multiplier. The effective gross income multiplier is derived by dividing the sales price by the annual effective gross operating income (income after vacancy and losses, but before reimbursable, expenses, debt service and taxes) for each of the comparables. To estimate the effective gross income multiplier for the appraised property, the comparable sales were analyzed, when actual or potential effective gross operating income was available. Information was secured from similar properties in the competing areas as the property being appraised. This valuation method was utilized in the sales comparison approach as the effective gross income multiplier for the subject property (rental income) is based on EGIM's of the comparable sales.

The sales indicated an EGIM range from 7.7 to 13.5 with a mean at 10.8 and a median at 10.0. Based on the most similar comparables, an estimated effective gross income multiplier of 11.0 is deemed appropriate and is most likely conservative. The indicated value by Effective Gross Income Multiplier for Subject Property based on all 157 units

rented at market is calculated as follows.

| | | | | |
|---|---|---|---|---|
| **Effective Gross Rental Income:** | **$4,907,030** | **Value Per** | **Value Per** | **Value Per** |
| **X Effective Gross Income Multiplier (EGIM):** | **11.0** | **SF of GBA** | **Unit** | **SF Land** |
| **Value Via the Sales Comparison Approach:** | **$53,977,330** | | | |
| **Plus Adj. for Entitlements 3 ROGOS (Rnd):** | **$660,000** | | | |
| **Adj. Value Sales Comparison Approach:** | **$54,637,330** | | | |
| **Sales Comparison Approach Value (Rounded):** | **$55,000,000** | **$274.48** | **$350,318** | **$57** |

**"AS IS" VALUE BY THE SALES COMPARISON APPROACH, BASED ON MARKET RATE RENTALS AS OF September 18, 2015 (Rounded) . . . . . $ 55,000,000**

In addition, per the client's request, I have estimated the subject's value based on the assumption that all of the 157 subject units will be rented in accordance with the moderate affordable housing restrictions. The indicated value by the Effective Gross Income Multiplier for the Subject Property is calculated as follows.

| | | | | |
|---|---|---|---|---|
| **Effective Gross Rental Income:** | **$4,573,934** | **Value Per** | **Value Per** | **Value Per** |
| **X Effective Gross Income Multiplier (EGIM):** | **11.0** | **SF of GBA** | **Unit** | **SF Land** |
| **Value Via the Sales Comparison Approach:** | **$50,313,274** | | | |
| **Plus Adj. for Entitlements 3 ROGOS (Rnd):** | **$660,000** | | | |
| **Adj. Value Sales Comparison Approach:** | **$50,973,274** | | | |
| **Income Approach Value (Rounded):** | **$51,000,000** | **$254.51** | **$324,841** | **$53** |

**"AS IS" VALUE BY THE SALES COMPARISON APPROACH, BASED ON MODERATE AFFORDABLE HOUSING RENTALS AS OF September 18, 2015 (Rounded) . . $ 51,000,000**

Adjustment for Entitlements: I have included the value of the land and entitlements for the three units which were destroyed by fire and can be replaced. Earlier in the Cost Approach Section, I estimated that the subject land value is $220,000 per unit. Therefore, these extra entitlements and land are valued at $660,000 ($220,000 x 3 units).

4. Analysis of Subject Unit Sales Price - Gross Sellout Values:
Per the client's request, I have also valued the subject as a bulk-sale, discounted sellout of the individual units in the current condition and layout. The subject property includes 157 non-transient residential units. The residential units vary in size from 1,286 square feet of gross living area for the 149 townhouse units to 1,096 square feet of gross living area for the eight flat units.

5. Market Data:
This approach considers active listings and recent sales of residential non-transient attached homes which have recently sold. In addition, some condominium properties were analyzed due to the their proximity to the subject property. These comparables were analyzed, in order to estimate a Sellout Value for the individual units. The Gross Sellout Value should not be confused with Market Value, as it does not consider absorption of the units, holding or selling expenses.

A thorough analysis of recent residential town home/condominium sales within the Old Town market area of the City of Key West with greatest emphasis placed on the newest sales. In my sellout analysis, I utilized the most recent and representative sales of two bedroom units. The sales utilized were considered to be the best indicators of value and considered representative of the subject property in location and size. I have included a resume of these comparable sales. I have separated the sales by year 2013, 2014 and year-to-date 2015.

**Resume of Two Bedroom Townhouse Units in Old Town, Key West**

| No. | Address | Project | Bed Bath | Sale Date | Asking Price | Sale Price | SP/LP Ratio | Land SF | GBA SF | Year Built | Attached | Pool | DOM | Loc. | Cond. | Adjusted $/SF GBA | $/SF Land |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 606 Truman Ave. #4 | Windward Park HOA | 2/2 | 07/10/13 | $695,000 | $650,000 | 94% | 1,113 | 1,260 | 1988 | Yes | Shared | 47 | 1.50 | 1.50 | $515.87 | $584.01 |
| 2 | 634 Louisa St. #4 | Townwalk Villas HOA | 2/1.5 | 07/05/13 | $425,000 | $400,000 | 94% | 1,054 | 850 | 2007 | Yes | None | 154 | 0.50 | 1.50 | $470.59 | $379.51 |
| 3 | 1007 United St. #B | Compound on United HOA | 2/2 | 06/12/13 | $564,900 | $547,000 | 97% | 2,323 | 1,152 | 1984 | Yes | Shared | 323 | 1.00 | 1.00 | $474.83 | $235.47 |
| 4 | 1209 Grinnell St. #G | Grinnell Gardens HOA | 2/2.5 | 06/03/13 | $749,000 | $700,000 | 93% | 1,210 | 1,360 | 1993 | Yes | Shared | 57 | 1.00 | 1.50 | $514.71 | $578.51 |
| **Count** | **Closed Sales in 2013** | | | | **Average** | **$574,250** | **94%** | **1,425** | **1,156** | | | | **145** | | | **$494.00** | **$444.37** |
| **4** | | | | | **Median** | **$598,500** | **94%** | **1,162** | **1,206** | | | | **106** | | | **$494.77** | **$479.01** |
| | | | | | **Minimum** | **$400,000** | **93%** | **1,054** | **850** | | | | **47** | | | **$470.59** | **$235.47** |
| | | | | | **Maximum** | **$700,000** | **97%** | **2,323** | **1,360** | | | | **323** | | | **$515.87** | **$584.01** |
| 5 | 828 White St. #4 | White Street Condominium | 2/2 | 02/21/14 | $489,000 | $480,000 | 98% | N/A | 1,187 | 1938 | Yes | None | 309 | 1.00 | 2.00 | $404.38 | N/A |
| 6 | 1106 Angela St. #101 | Pegasus House-Condo | 2/1 | 02/28/14 | $469,000 | $445,000 | 95% | N/A | 926 | 1928 | Yes | Private | 25 | 1.00 | 1.50 | $480.56 | N/A |
| 7 | *1075 Duval St. #R2 | Duval Square-Condo | 2/2.5 | 03/18/14 | $635,000 | $585,000 | 92% | N/A | 1,225 | 1987 | Yes | Shared | 107 | 1.50 | 1.00 | $477.55 | N/A |
| 8 | 213 TrumanAve. #C | Truman Ave. Condos | 2/2.5 | 07/09/14 | $429,000 | $390,000 | 91% | N/A | 1,083 | 2007 | Yes | None | 57 | 1.50 | 1.00 | $360.11 | N/A |
| 9 | 1110 Fleming St. #2 | Fleming St. Condominium | 2/2 | 08/14/14 | $415,000 | $410,000 | 99% | N/A | 688 | 1928 | Yes | None | 2 | 1.50 | 1.00 | $595.93 | N/A |
| 10 | 908 Frances St. #B | Maxwell Gables HOA | 2/2 | 11/05/14 | $379,900 | $401,000 | 106% | 2,065 | 1,012 | 1939 | Yes | Shared | 154 | 1.50 | 0.00 | $396.25 | $194.19 |
| 11 | 906 Truman Ave. #2 | Leeward Isle Condominium | 2/2 | 11/14/14 | $404,000 | $390,000 | 97% | N/A | 750 | 1933 | Yes | Shared | 526 | 1.00 | 1.00 | $520.00 | N/A |
| **Count** | **Closed Sales in 2014** | | | | **Average** | **$443,000** | **97%** | **2,065** | **982** | | | | **169** | | | **$462.11** | **$194.19** |
| **7** | | | | | **Median** | **$410,000** | **97%** | **2,065** | **1,012** | | | | **107** | | | **$477.55** | **$194.19** |
| | | | | | **Minimum** | **$390,000** | **91%** | **2,065** | **688** | | | | **2** | | | **$360.11** | **$194.19** |
| | | | | | **Maximum** | **$585,000** | **106%** | **2,065** | **1,225** | | | | **526** | | | **$595.93** | **$194.19** |
| 12 | 634 Louisa St. #5 | Townwalk Villas HOA | 2/1.5 | 03/16/15 | $399,000 | $380,000 | 95% | 565 | 765 | 2007 | Yes | None | 146 | 0.50 | 1.00 | $496.73 | $672.57 |
| 13 | 1220 Grinnell St. #2 | Turtle Cove-Condo | 2/1 | 03/16/15 | $449,000 | $449,000 | 100% | N/A | 730 | 1953 | No | None | 828 | 1.00 | 1.50 | $615.07 | N/A |
| 14 | 818 Whitehead St. #6 | Village on Whitehead-Condo | 2/2 | 04/20/15 | $570,000 | $565,000 | 99% | N/A | 970 | 1928 | No | Shared | 8 | 1.50 | 1.50 | $582.47 | N/A |
| 15 | 914 Packer St. #1 | Packer St. Condo | 2/1 | 05/18/15 | $399,000 | $390,500 | 98% | N/A | 726 | 1928 | Yes | Shared | 526 | 1.00 | 1.00 | $537.88 | N/A |
| 16 | 714 Elizabeth St. #A | Hilltop Condominium | 2/1 | 05/25/15 | $399,000 | $399,000 | 100% | N/A | 601 | 1982 | Yes | None | 366 | 1.50 | 1.00 | $663.89 | N/A |
| 17 | 806 Frances St. #B | Maxwell Gables HOA | 2/2 | 07/29/15 | $415,000 | $400,000 | 96% | 1,213 | 841 | 1987 | Yes | Shared | 734 | 1.00 | 1.50 | $475.62 | $329.76 |
| 18 | 808 Virginia St. #4 | Conch Town Villas HOA | 2/1.5 | 09/08/15 | $579,000 | $525,000 | 91% | 1,749 | 896 | 1984 | Yes | Private | 45 | 1.00 | 1.50 | $585.94 | $300.17 |
| 19 | 606 Truman Ave. #8 | Windward Park HOA | 2/2 | 09/08/15 | $625,000 | $595,000 | 95% | 951 | 1,152 | 1988 | Yes | Shared | 704 | 1.50 | 1.00 | $516.49 | $625.66 |
| **Count** | **Closed Sales Year-to-date** | **2015** | | | **Average** | **$462,938** | **97%** | **1,120** | **835** | | | | **420** | | | **$559.26** | **$482.04** |
| **8** | | | | | **Median** | **$424,500** | **97%** | **1,082** | **803** | | | | **446** | | | **$560.18** | **$477.71** |
| | | | | | **Minimum** | **$380,000** | **91%** | **565** | **601** | | | | **8** | | | **$475.62** | **$300.17** |
| | | | | | **Maximum** | **$595,000** | **100%** | **1,749** | **1,152** | | | | **828** | | | **$663.89** | **$672.57** |
| **Subj:** | **541 White Street** | **Peary Court** | **2/1 or 2/1.5** | | | | | | | **1996** | **Yes** | **None** | | **1.50** | **1.00** | **NA** | **NA** |
| | **Sales Overall** | **Effective Date:** | | **09/18/15** | **Average** | **$479,026** | **96%** | **1,360** | **957** | | | | **269** | | | **$509.73** | **$433.32** |
| **Condition: 0=Average; 1=Good** | | | | | **Median** | **$445,000** | **96%** | **1,210** | **926** | | | | **154** | | | **$514.71** | **$379.51** |
| | **1.5=V. Good; 2=Excellent** | | | | **Minimum** | **$380,000** | **91%** | **565** | **601** | | | | **2** | | | **$360.11** | **$194.19** |
| **Location: New Town=0, Old Town=1** | | | | | **Maximum** | **$700,000** | **106%** | **2,323** | **1,360** | | | | **828** | | | **$663.89** | **$672.57** |
| | **High Rent District = 2** | ***Transient Licensed** | | | | | | | | | | | | | | | |

Overall, the sales indicate a sales price range per square foot of gross living area from $360.11 to $663.89 with a mean at $502.07 and a median at $494.77 for 2013 thru 9 months of 2015. In the prior chart, I segmented the sales by year. The median price per square foot

was 3.5% lower in 2014 compared to 2013 and 17.3% increase for 2015 above 2014. The sales activity increased every year.

Analysis of Comparables:
Due to the lack of paired sales data, percentage adjustments and/or comparisons were not utilized. Additional analysis of days on the market was considered, when available, the sales indicate the days on market range from 2 to 828 days, with a mean and median of 242 days and 146 days, respectively for the two bedroom units over the three years of data, which I analyzed herein. The subject units must be well priced to sell within that time period.

In addition, the appraisers have included active listings of properties for the reader to consider, as they would be competitive residences. They are generally superior to the subject's existing conditions.

**Resume of Active Two Bedroom Units in Key West**

| Listing | Address | Unit Type | Sales Price | DOM | Land SF | GBA SF | Pool | Attached | Condition | Location | Adjusted $/SF GBA | $/SF Land |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | 800 Fleming St. #B-2 | Two Bedroom/Two Bath | $895,000 | 200 | N/A | 1,400 | Shared | Yes | 1.50 | 1.50 | $639.29 | N/A |
| B | 800 Fleming St. #1B | Two Bedroom/Two Bath | $815,000 | 28 | N/A | 1,281 | Shared | Yes | 1.50 | 1.50 | $636.22 | N/A |
| | *: Transient License | Average | $855,000 | 114 | N/A | 1,341 | | | | | $637.75 | $0.00 |
| | Condition: 0=Average; 1=Good | Median | $855,000 | 114 | N/A | 1,341 | | | | | $637.75 | $0.00 |
| | 1.5=V. Good; 2=Excellent | Minimum | $815,000 | 28 | N/A | 1,281 | | | | | $636.22 | $0.00 |
| | Location: New Town=0, Old Town=1 | Maximum | $895,000 | 200 | N/A | 1,400 | | | | | $639.29 | $0.00 |
| | High Rent District = 2 | | | | | | | | | | | |

**Resume of Active Three Bedroom Units in Key West**

| Listing | Address | Unit Type | Sales Price | DOM | Land SF | GBA SF | Pool | Attached | Condition | Location | Adjusted $/SF GBA | $/SF Land |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| C | 807 Washington St. #102 | Three Bedroom/3.5 Bath | $949,000 | 152 | 1,697 | 1,876 | Private | No | 2.00 | 1.00 | $505.86 | $559.22 |
| D | 1220 Grinnell St.-Rear | Three Bedroom/2.5 Bath | $749,000 | 630 | 4,082 | 1,700 | None | No | 1.50 | 1.50 | $440.59 | $183.49 |
| | Effective Date: | Average | $849,000 | 391 | 2,890 | 1,788 | | | | | $473.23 | $371.36 |
| | Condition: 0=Average; 1=Good | Median | $849,000 | 391 | 2,890 | 1,788 | | | | | $473.23 | $371.36 |
| | 1.5=V. Good; 2=Excellent | Minimum | $749,000 | 152 | 1,697 | 1,700 | | | | | $440.59 | $183.49 |
| | Location: New Town=0, Old Town=1 | Maximum | $949,000 | 630 | 4,082 | 1,876 | | | | | $505.86 | $559.22 |
| | High Rent District = 2 | | | | | | | | | | | |

The following sellout values have been estimated for the subject property units based on my research and analysis of the competitive market data.

**Peary Court at Key West**
**Residential Units Sellout Values (All Market Rate)**
***Valuation Date September 18, 2015***

| Unit Type | Bedroom/ Bath | Unit Size G.L.A. | Proj. Sales Price/Unit | Estimated Price/SF G.L.A. | Number of Units | Total Estimated Sellout (Rnd) |
|---|---|---|---|---|---|---|
| 2 BR Townhouse | 2/1.5 | 1,286 | $525,000 | $408 | 149 | **$78,225,000** |
| 2 BR Flat | 2 | 1,096 | $500,000 | $456 | 8 | **$4,000,000** |
| **Residential Units Sellout Values** | | **200,382** | | | **157** | **$82,225,000** |

| | |
|---|---|
| **Average Unit Size-Sq.Ft.** | **1,276** |
| **Average Price Per Unit** | **$523,726** |
| **Average Price SF of GLA** | **$410.34** |
| **Total Gross Living Area** | **200,382** |

The subject property sellout values have been established at $82,225,000, however, to account for the increased projected sales prices of the units in Years 2 to 5, I have utilized $90,893,752, as noted in the Discounted Sellout chart within the Income Approach. The sellout prices were conservatively increased by 5% every period.

**Subject Property Gross Sellout Value (Rounded): . . . . . $91,000,000**

H. Income Approach:

The Income Approach to value presumes that no prudent buyer will pay more for the subject property than the capitalized rental value attainable through ownership of the property. The buyer will only be willing to pay the present value of what he considers those future benefits to be. This approach is considered to be the strongest indicator of current fair market value when the property is purchased as an income-producing property having a reliable historical cashflow. In the case at hand, similar properties are typically purchased for investment or income producing purposes. However, investors may also consider the potential for appreciation as a driving factor based on the lack of potential for development or availability of similar facilities. The subject property consists of a 157 unit, tenant-occupied, multi-family, apartment complex property, plus it has entitlements for redevelopment of three additional units.

Since there are no long-term leases encumbering the subject property, and as the tenants are leasing with an annual lease or less, a Leased Fee valuation was not applicable in the case at hand. Forty-eight of the existing 157 units are deed restricted as moderate affordable housing units; however, these restrictions will be removed once the new 48 affordable units are constructed (not part of this assignment). Per the City's request, we have valued the subject as an apartment complex with 157 market rate units and also as 157 units leased as moderate affordable (work-force) housing. I have also included the value of the land with entitlements for redevelopment of three units, which were destroyed by fire, but can be rebuilt. The reader is cautioned that a title search was not made; thus, no other encumbrances are considered herein.

I have been instructed to value the property, based on the potential rental at market rates for all 157 units, plus also subject to the moderate affordable housing rental guidelines. In other words, the value estimate is of the Fee Simple Interest in the property (ownership position). Therefore, a one-year stabilized net income is estimated for the property based on the subject's historical income and the most comparable data available, and will be capitalized into value at a market extracted overall capitalization rate (OAR). This rate was estimated by using three methods: Band of Investment Method, Comparable Sales Analysis, and Debt-Coverage Ratio Technique.

In short, the Direct Capitalization Method utilizes the processed net annual income that the property is expected to produce. This estimated net income is capitalized, according to prevailing rates of return on similar property or investments of comparable risk, to indicate the price an investor would be justified in paying for ownership.

The following profit and lost statement is an actual and pro-forma for 2015, plus the trailing 12 months ending July 31, 2015.

| PCH | | | | | | |
|---|---|---|---|---|---|---|
| Profit & Loss | | | | | | |
| | | | | 7/31/2015 | | |
| | 2015 | % | $/Unit | TTM | % | $/Unit |
| Ordinary Income/Expense | | | | | | |
| Income | | | | | | |
| 4000 · RENTAL INCOME | | | | | | |
| 4000.01 · Base Rental Income | 4,203,425 | | | 4,137,050 | | |
| 4000.03 · Concessions | (27,944) | | | (39,969) | | |
| 4000.04 · Bad Debt Expense | (1,099) | | | (4,529) | | |
| 4000.05 · Loss / Gain to Lease | 67,630 | | | 159,390 | | |
| 4000.07 · Vacancies | (208,454) | | | (279,090) | | |
| 4000 · RENTAL INCOME - Other | - | | | - | | |
| Total 4000 · RENTAL INCOME | 4,033,558 | 96.0% | 25,691 | 3,972,851 | 96.0% | 25,305 |
| 4001 · OTHER OPERATING INCOME | | | | | | |
| 4005 · Deposit Forfeit Income | 9,075 | | | 9,000 | | |
| 4006 · Late Charges / NSF Fees | 8,321 | | | 6,225 | | |
| 4008 · Tenant Application Fee | 4,543 | | | 6,400 | | |
| 4009 · Miscellaneous | - | | | 1,000 | | |
| 4012 · Pet Fee Income | 6,429 | | | 7,750 | | |
| 4013 · Damages Fee | 2,475 | | | 1,462 | | |
| 4001 · OTHER OPERATING INCOME - Other | - | | | - | | |
| Total 4001 · OTHER OPERATING INCOME | 30,843 | 0.8% | 196 | 31,837 | 0.8% | 203 |
| Total Income | **4,064,400** | 100.8% | 25,888 | **4,004,688** | 100.8% | 25,508 |
| Expense | | | | | | |
| OPERATING EXPENSES | | | | | | |
| 6005 · Utilities | | | | | | |
| 6005.01 · Electricity | 15,037 | 0.4% | 96 | 31,651 | 0.8% | 202 |
| Water & Sewer Tenant Pass-Through Pmt | (66,700) | | | (28,700) | | |
| 6005.02 · Water & Sewer | 186,558 | | | 185,185 | | |
| 6005.05 · Trash / StormWater | 12,368 | | | 13,929 | | |
| 6005 · Utilities - Other | - | | | - | | |
| Total 6005 · Utilities | 147,263 | 3.7% | 938 | 202,066 | 5.1% | 1,287 |
| 6010 · Janitorial Expense | | | | | | |
| 6010.03 · Unit Turnover | 82,927 | | | 90,074 | | |
| 6010 · Janitorial Expense - Other | - | | | - | | |
| Total 6010 · Janitorial Expense | 82,927 | 2.1% | 528 | 90,074 | 2.3% | 574 |
| 6015 · Landscaping & Groundskeeping | | | | | | |
| 6015.02 · Pest Control Services | 359 | | | 1,031 | | |
| 6015.03 · Lawn & Groundskeeping | 73,958 | | | 78,240 | | |
| 6015.05 · Shutter Storage Fees | 3,900 | | | 3,900 | | |
| 6015 · Landscaping & Groundskeeping - Other | - | | | - | | |
| Total 6015 · Landscaping & Groundskeeping | 78,216 | 1.9% | 498 | 83,171 | 2.1% | 530 |

| | | | | | |
|---|---|---|---|---|---|
| **6030 · Repairs and Maintenance** | | | | | |
| **6030.01 · Bulbs & Ballasts, Lighting R&M** | 2,756 | | | 3,905 | | |
| **6030.02 · Plumbing R&M** | 54,238 | | | 53,086 | | |
| **6030.03 · Misc R&M Supplies** | 1,911 | | | 9,285 | | |
| **6030.04 · Painting R&M** | - | | | 120 | | |
| **6030.05 · Doors/Window (Glass) R&M** | 656 | | | 870 | | |
| **6030.07 · Signage R&M** | - | | | 90 | | |
| **6030.09 · Appliance Repairs & Supplies** | 30,142 | | | 31,034 | | |
| **6030.13 · HVAC R&M and Supplies** | 34,381 | | | 39,547 | | |
| **6030.18 · Fire Safety R&M** | 48 | | | 151 | | |
| **6030.22 · Keys & Locks R&M** | 386 | | | 282 | | |
| **6030 · Repairs and Maintenance - Other** | - | | | - | | |
| **Total 6030 · Repairs and Maintenance** | 124,517 | 3.1% | 793 | 138,370 | 3.5% | 881 |
| **6035 · RE Tax Expense** | 358,959 | 8.9% | 2,286 | 394,703 | 9.9% | 2,514 |
| **6040 · Insurance Expense** | 258,211 | 6.4% | 1,645 | 272,623 | 6.9% | 1,736 |
| **6060 · Administrative Expenses** | | | | | | |
| **6060.01 · Bank Service Charges** | 8 | | | 699 | | |
| **6060.02 · Postage and Delivery** | 612 | | | 962 | | |
| **6060.03 · Office Supplies & Office Exp** | 4,473 | | | 6,102 | | |
| **6060.04 · Printing and Reproduction** | - | | | 157 | | |
| **6060.07 · Computer / Internet** | 1,643 | | | 1,601 | | |
| **6060 · Administrative Expenses - Other** | - | | | - | | |
| **Total 6060 · Administrative Expenses** | 6,736 | 0.2% | 43 | 9,522 | 0.2% | 61 |
| **6065 · Other Administrative** | | | | | | |
| **6065.01 · Property Management Fees** | 133,312 | 3.3% | 849 | 140,961 | 3.5% | 898 |
| **6065.04 · Computer Software** | 2,031 | | | 1,877 | | |
| **6065.06 · Marketing & Advertising** | 24,644 | | | 24,287 | | |
| **6065.07 · Legal & Professional Fees** | 759 | | | 3,180 | | |
| **6065 · Other Administrative - Other** | - | | | - | | |
| **Total 6065 · Other Administrative** | 160,747 | 4.0% | 1,024 | 170,306 | 4.3% | 1,085 |
| **OPERATING EXPENSES - Other** | - | | | - | | |
| **Total OPERATING EXPENSES** | 1,217,577 | | | 1,360,834 | | |
| **Total Expense** | **1,217,577** | 30.2% | 7,755 | **1,360,834** | 34.3% | 8,668 |
| **Net Ordinary Income** | **2,846,823** | | | **2,643,854** | | |
| **Vacant Renovation Units** | **100,800** | | | **100,800** | | |
| **Adj. NOI*** | **2,947,623** | 73.1% | 18,775 | **2,744,654** | 69.1% | 17,482 |

A Profit & Loss Statement from the recent sale of the Ocean Walk Apartments is noted as follows. This serves as an excellent local revenue and expense comparable for the subject project.

**TRAILING 12-MONTH INCOME STATEMENT**

| | *T12 FEB-14* | | | *T3 Annualized Income / T12 Expenses FEB-14* | | | *T1 Annualized Income / T12 Expenses FEB-14* | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | Per Unit | Percent | Total | Per Unit | Percent | Total | Per Unit | Percent |
| INCOME | | | | | | | | | |
| **Effective Rental Income** | | | | | | | | | |
| Gross Market Rents | $5,810,695 | $19,565 | | $6,033,348 | $20,314 | | $6,083,736 | $20,484 | |
| Loss / Gain to Lease | $0 | $0 | 0.0% | $0 | $0 | 0.0% | $0 | $0 | 0.0% |
| Gross Potential Income | $5,810,695 | $19,565 | | $6,033,348 | $20,314 | | $6,083,736 | $20,484 | |
| Vacancy & Collection Losses | ($306,291) | ($1,031) | -5.3% | ($331,952) | ($1,118) | -5.5% | ($377,400) | ($1,271) | -6.3% |
| Concessions | ($31,731) | ($107) | -0.5% | ($12,200) | ($41) | -0.2% | ($11,592) | ($39) | -0.2% |
| Bad Debt Allowance | ($26,657) | ($90) | -0.5% | ($34,736) | ($117) | -0.6% | $40,020 | $135 | 0.7% |
| Model Units | $0 | $0 | 0.0% | $0 | $0 | 0.0% | $0 | $0 | 0.0% |
| Employee Units | ($124,617) | ($420) | -2.1% | ($131,860) | ($444) | -2.2% | ($133,404) | ($449) | -2.2% |
| **Effective Rental Income** | $5,321,399 | $17,917 | 91.6% | $5,522,600 | $18,595 | 91.5% | $5,601,360 | $18,860 | 92.8% |
| Actual Occupancy | | 94.7% | | | 94.5% | | | 93.7% | |
| Economic Occupancy | | 92% | | | 92% | | | 92% | |
| Effective In-place Rent | | $1,621 | | | $1,689 | | | $1,704 | |
| Effective In-place Rent/sf | | $2.03 | | | $2.11 | | | $2.13 | |
| **Other Income** | | | | | | | | | |
| Misc Income | $290,707 | $979 | 5.0% | $319,624 | $1,076 | 5.3% | $311,256 | $1,048 | 5.2% |
| Laundry Income | $59,835 | $201 | 1.0% | $61,232 | $206 | 1.0% | $60,276 | $203 | 1.0% |
| Utility Reimbursements | $173,782 | $585 | 3.0% | $173,696 | $585 | 2.9% | $173,724 | $585 | 2.9% |
| **Total Other Income** | $524,324 | $1,765 | 9.0% | $554,552 | $1,867 | 9.2% | $545,256 | $1,836 | 9.0% |
| **EFFECTIVE GROSS INCOME** | **$5,845,723** | **$19,683** | **100.6%** | **$6,077,152** | **$20,462** | **100.7%** | **$6,146,616** | **$20,696** | **101.9%** |
| EXPENSES[1] | | | | | | | | | |
| **Controllable Expenses** | | | | | | | | | |
| Salaries / Payroll | $365,270 | $1,230 | 6.3% | $365,270 | $1,230 | 6.1% | $365,270 | $1,230 | 6.1% |
| Repairs & Maintenance | $126,224 | $425 | 2.2% | $126,224 | $425 | 2.1% | $126,224 | $425 | 2.1% |
| Turnover / Make Ready | $86,550 | $291 | 1.5% | $86,550 | $291 | 1.4% | $86,550 | $291 | 1.4% |
| Contract Services | $132,863 | $447 | 2.3% | $132,863 | $447 | 2.2% | $132,863 | $447 | 2.2% |
| Advertising & Marketing | $21,087 | $71 | 0.4% | $21,087 | $71 | 0.3% | $21,087 | $71 | 0.3% |
| General & Administrative | $32,063 | $108 | 0.6% | $32,063 | $108 | 0.5% | $32,063 | $108 | 0.5% |
| Utilities | $274,568 | $924 | 4.7% | $274,568 | $924 | 4.6% | $274,568 | $924 | 4.6% |
| **Total Controllable Expenses** | **$1,038,625** | **$3,497** | **17.9%** | **$1,038,625** | **$3,497** | **17.2%** | **$1,038,625** | **$3,497** | **17.2%** |
| **Non-Controllable Expenses** | | | | | | | | | |
| Management Fee | $233,001 | $785 | 4.0%EGI | $233,001 | $785 | 3.8%EGI | $233,001 | $785 | 3.8%EGI |
| Real Estate Taxes[2] | $795,415 | $2,678 | 13.7% | $795,415 | $2,678 | 13.2% | $795,415 | $2,678 | 13.2% |
| Insurance[3] | **$356,400** | **$1,200** | **6.1%** | **$356,400** | **$1,200** | **5.9%** | **$356,400** | **$1,200** | **5.9%** |
| **Total Non-Controllable Expenses** | **$1,384,816** | **$4,663** | **23.8%** | **$1,384,816** | **$4,663** | **23.0%** | **$1,384,816** | **$4,663** | **23.0%** |
| TOTAL EXPENSES | $2,423,441 | $8,160 | 41.7% | $2,423,441 | $8,160 | 40.2% | $2,423,441 | $8,160 | 40.2% |
| Expense Ratio | | 41% | | | 40% | | | 39% | |
| **NET OPERATING INCOME** | **$3,422,282** | **$11,523** | **58.9%** | **$3,653,711** | **$12,302** | **60.6%** | **$3,723,175** | **$12,536** | **61.7%** |
| CAPITAL EXPENDITURES | | | | | | | | | |
| Recurring Replacements | $89,100 | $300 | 1.5% | $89,100 | $300 | 1.5% | $89,100 | $300 | 1.5% |
| **CASH FLOW FROM OPERATIONS** | **$3,333,182** | **$11,223** | **57.4%** | **$3,564,611** | **$12,002** | **59.1%** | **$3,634,075** | **$12,236** | **60.2%** |

*NOTES:*

*[1] T-3 Expenses are equal to the T-12 expenses for purposes of comparison, save for taxes and insurance as explained in notes [2] and [3]*

*[2] T-12 and T-3 taxes equal pro forma taxes after an 80% tax reassessment*

*[3] Insurance has been made equal to a pro forma due to current below market rates*

52

**The following is a summary of the current rent roll for the subject property.**

## Rent Roll

### As of 8/20/2015

**Peary Court**

| Unit Name | Lease Expiration | Term | Move-in Date | Vacate Date | Security Deposit | Rent |
|---|---|---|---|---|---|---|
| 101 A | 6/30/2016 | 16 | 3/21/2014 | | $4,600.00 | $2,350.00 |
| 101 B | 11/30/2015 | 12 | 12/6/2013 | | $4,500.00 | $2,250.00 |
| 101 C | 7/31/2016 | 12 | 7/17/2015 | | $4,600.00 | $2,300.00 |
| 101 D | | | | | $0.00 | $0.00 |
| *102 A | | | 9/1/2015 | | $0.00 | $2,400.00 |
| 102 B | | 16 | 3/28/2014 | | $2,250.00 | $2,350.00 |
| 102 C | 9/30/2015 | 12 | 9/5/2014 | | $4,600.00 | $2,350.00 |
| 103 A | 6/30/2016 | 16 | 9/16/2014 | | $4,600.00 | $2,350.00 |
| 103 B | 12/31/2015 | 12 | 12/10/2014 | | $4,850.00 | $2,450.00 |
| 103 C | 10/31/2015 | 12 | 10/1/2013 | | $1,950.00 | $1,950.00 |
| 103 D | 1/31/2016 | 7 | 8/1/2015 | | $883.34 | $2,450.00 |
| 104 A | 1/31/2016 | 12 | 1/26/2012 | | $2,150.00 | $2,350.00 |
| 104 B | 12/31/2015 | 12 | 10/19/2012 | | $2,150.00 | $2,250.00 |
| 104 C | 9/30/2015 | 12 | 9/10/2014 | 9/30/2015 | $4,600.00 | $2,350.00 |
| 105 A | 1/31/2016 | 7 | 8/1/2015 | | $1,233.33 | $2,450.00 |
| 105 B | 1/31/2016 | 7 | 8/1/2015 | | $883.33 | $2,450.00 |
| 105 C | 6/30/2015 | MTM | 12/13/2013 | | $4,500.00 | $2,250.00 |
| 106 A | 7/1/2015 | MTM | 4/1/2013 | | $625.00 | $2,450.00 |
| 106 B | 11/30/2016 | 16 | 6/1/2013 | | $2,150.00 | $2,375.00 |
| 106 C | 4/30/2016 | 12 | 5/27/2015 | | $5,000.00 | $2,550.00 |
| 107 A | 7/31/2016 | 12 | 8/1/2015 | | $0.00 | $2,350.00 |
| 107 B | 8/31/2015 | 12 | 8/26/2011 | | $0.00 | $2,250.00 |
| 108 A | 7/31/2016 | 12 | 8/1/2015 | | $2,400.00 | $2,400.00 |
| 108 B | 4/30/2016 | 12 | 5/27/2015 | | $4,830.00 | $2,440.00 |
| 108 C | 7/31/2016 | 12 | 8/1/2015 | | $4,700.00 | $2,400.00 |
| 109 A | 12/31/2015 | 7 | 10/6/2014 | | $4,550.00 | $2,350.00 |
| 109 B | 11/30/2016 | 16 | 7/11/2014 | | $4,550.00 | $2,300.00 |
| 109 C | 7/31/2016 | 12 | 8/7/2015 | | $4,750.00 | $2,400.00 |
| 110 A | 5/31/2016 | 12 | 6/23/2014 | | $0.00 | $2,250.00 |
| 110 B | 3/31/2016 | 12 | 10/1/2014 | | $4,550.00 | $2,300.00 |
| 110 C | 11/30/2016 | 16 | 8/14/2015 | | $2,300.00 | $2,300.00 |
| 111 A | 4/30/2016 | 12 | 5/15/2015 | | $0.00 | $2,440.00 |
| 111 B | 12/31/2014 | MTM | 1/31/2014 | | $4,500.00 | $2,250.00 |
| 111 C | 5/31/2016 | 12 | 6/1/2015 | | $0.00 | $2,440.00 |
| 112 A | 1/31/2016 | 12 | 6/5/2010 | | $1,995.00 | $2,250.00 |
| 112 B | 10/31/2015 | 12 | 10/8/2014 | | $4,550.00 | $2,300.00 |
| 112 C | 4/30/2016 | 12 | 5/22/2015 | | $0.00 | $2,440.00 |
| 112 D | 5/31/2016 | 12 | 5/31/2014 | | $4,550.00 | $2,350.00 |
| 113 A | 10/31/2015 | | 8/27/2014 | | $4,600.00 | $2,350.00 |
| 113 B | 7/31/2016 | 12 | 8/9/2013 | | $500.00 | $2,350.00 |
| 113 C | 4/30/2016 | 16 | 1/3/2014 | | $4,500.00 | $2,250.00 |
| 114 A | 8/31/2014 | MTM | 9/7/2010 | | $1,995.00 | $2,250.00 |
| 114 B | 7/31/2016 | 12 | 8/1/2015 | | $0.00 | $2,300.00 |
| 114 C | 12/31/2016 | 7 | 11/7/2014 | | $4,550.00 | $2,350.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 114 D | 10/31/2015 | 12 | 11/18/2013 | | $4,500.00 | $2,250.00 |
| *115 A | | | 9/1/2015 | | $0.00 | $2,550.00 |
| 115 B | 9/30/2015 | 12 | 9/10/2012 | | $4,300.00 | $2,250.00 |
| 116 A | 8/31/2015 | 7 | 8/29/2014 | | $4,600.00 | $2,350.00 |
| 116 B | 1/31/2016 | 12 | 2/26/2014 | | $4,500.00 | $2,350.00 |
| 116 C | 8/31/2015 | 12 | 8/7/2014 | | $4,600.00 | $2,350.00 |
| *117 A | | | 9/1/2015 | | $0.00 | $2,300.00 |
| 117 B | 12/31/2015 | 12 | 1/9/2012 | | $2,150.00 | $2,250.00 |
| 117 C | 7/31/2016 | 12 | 8/1/2015 | | $2,350.00 | $2,450.00 |
| 118 A | 4/30/2016 | 12 | 5/20/2015 | | $5,000.00 | $2,550.00 |
| 118 B | 12/31/2015 | 12 | 11/20/2012 | | $0.00 | $2,250.00 |
| 118 C | 12/31/2015 | 12 | 1/17/2014 | | $4,500.00 | $2,250.00 |
| 118 D | 5/31/2016 | 12 | 6/11/2014 | | $4,600.00 | $2,475.00 |
| 119 A | 1/31/2016 | 12 | 2/4/2015 | | $4,950.00 | $2,550.00 |
| *119 B | | | 8/28/2015 | | $0.00 | $2,500.00 |
| *119 C | | | 8/24/2015 | | $0.00 | $2,500.00 |
| 120 A | 2/29/2016 | 12 | 11/29/2013 | | $4,500.00 | $2,250.00 |
| *120 B | | | 8/21/2015 | | $0.00 | $2,450.00 |
| 120 C | 3/31/2015 | MTM | 9/17/2014 | | $4,600.00 | $2,350.00 |
| 121 A | 5/31/2016 | 12 | 6/4/2015 | | $5,000.00 | $2,550.00 |
| 121 B | 6/30/2016 | 16 | 11/29/2010 | | $1,995.00 | $2,350.00 |
| 121 C | 11/30/2016 | 16 | 8/24/2011 | | $2,100.00 | $2,250.00 |
| 122 A | 6/30/2016 | 12 | 6/27/2014 | | $4,600.00 | $2,375.00 |
| 122 B | 7/30/2016 | 12 | 8/1/2015 | | $5,000.00 | $2,550.00 |
| *123 A | | | 8/21/2015 | | $0.00 | $2,400.00 |
| 123 B | 5/31/2016 | 12 | 6/19/2015 | | $4,950.00 | $2,500.00 |
| 123 C | 12/31/2015 | 12 | 1/8/2014 | | $4,500.00 | $2,250.00 |
| 123 D | 5/31/2016 | 12 | 6/1/2015 | | $0.00 | $2,500.00 |
| 124 A | 3/31/2016 | 12 | 4/8/2015 | | $3,725.00 | $2,550.00 |
| 124 B | 4/30/2016 | 12 | 10/1/2012 | | $2,150.00 | $2,250.00 |
| 124 C | 3/31/2016 | 12 | 4/14/2015 | | $5,000.00 | $2,550.00 |
| 125 A | 11/30/2015 | 16 | 8/1/2014 | | $2,250.00 | $2,350.00 |
| 125 B | 11/30/2016 | 16 | 1/7/2015 | | $4,850.00 | $2,450.00 |
| 125 C | 5/31/2016 | 12 | 11/5/2014 | 8/31/2015 | $2,300.00 | $2,450.00 |
| 125 D | 11/30/2015 | 12 | 12/2/2013 | | $4,500.00 | $2,250.00 |
| 126 A | 4/30/2016 | 12 | 12/11/2013 | | $4,500.00 | $2,250.00 |
| 126 B | 11/30/2015 | 12 | 11/18/2014 | | $4,849.98 | $2,450.00 |
| 126 C | 10/31/2015 | 12 | 10/10/2014 | | $4,550.00 | $2,300.00 |
| 127 A | 7/31/2016 | 16 | 12/21/2012 | | $2,175.00 | $2,375.00 |
| 127 B | 9/30/2016 | 16 | 10/1/2007 | | $0.00 | $2,350.00 |
| 127 C | 9/30/2015 | 12 | 9/26/2014 | | $4,550.00 | $2,300.00 |
| 127 D | 5/31/2016 | 16 | 12/21/2012 | | $2,675.00 | $2,350.00 |
| 128 A | 12/31/2015 | 12 | 12/19/2014 | | $4,900.00 | $2,500.00 |
| 128 B | 7/31/2016 | 12 | 10/18/2013 | | $2,660.50 | $2,250.00 |
| 128 C | 8/31/2015 | 12 | 8/29/2013 | | $2,875.00 | $2,250.00 |
| 128 D | 5/31/2016 | 16 | 2/19/2014 | | $4,500.00 | $2,350.00 |
| 129 A | 11/30/2015 | 12 | 11/24/2010 | | $0.00 | $2,250.00 |
| 129 B | 5/31/2015 | MTM | 11/14/2011 | | $2,100.00 | $2,350.00 |
| 129 C | 2/29/2016 | 12 | 10/29/2014 | | $2,300.00 | $2,400.00 |
| 130 A | 5/31/2016 | 12 | 6/15/2015 | | $3,725.00 | $2,550.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 130 B | 5/31/2016 | 16 | 2/15/2013 | | $500.00 | $2,350.00 |
| 130 C | 2/29/2016 | 16 | 10/17/2013 | | $4,625.00 | $2,250.00 |
| 131 A | 8/31/2015 | 12 | 8/8/2014 | | $2,250.00 | $2,350.00 |
| 131 B | 9/30/2015 | 12 | 9/27/2013 | | $0.00 | $2,250.00 |
| 131 C | 6/30/2016 | 12 | 7/1/2013 | | $0.00 | $2,350.00 |
| 132 A | 1/31/2016 | 12 | 2/27/2015 | | $4,150.00 | $2,550.00 |
| 132 B | 2/29/2016 | 12 | 3/26/2015 | | $4,950.00 | $2,500.00 |
| 132 C | 11/30/2015 | 12 | 12/20/2013 | | $4,500.00 | $2,250.00 |
| 133 A | 4/30/2016 | 16 | 2/10/2010 | | $1,995.00 | $2,250.00 |
| 133 B | 5/31/2016 | 12 | 6/15/2015 | | $4,950.00 | $2,500.00 |
| 133 C | 7/31/2016 | 12 | 8/1/2015 | | $2,400.00 | $2,400.00 |
| 133 D | 3/31/2016 | 12 | 4/1/2015 | | $5,050.00 | $2,600.00 |
| 134 A | 1/31/2016 | 16 | 10/1/2012 | | $1,995.00 | $2,250.00 |
| 134 B | 6/30/2016 | 12 | 7/1/2015 | | $2,450.00 | $2,450.00 |
| 134 C | 8/31/2015 | 12 | 8/18/2014 | | $2,250.00 | $2,300.00 |
| *134 D | 11/30/2014 | MTM | 12/5/2013 | 8/22/2015 | $4,500.00 | $2,250.00 |
| 135 A | 1/31/2016 | 12 | 10/24/2014 | | $4,700.00 | $2,400.00 |
| 135 B | 12/31/2014 | MTM | 1/17/2014 | | $4,500.00 | $2,250.00 |
| 135 C | 4/30/2016 | 12 | 1/13/2014 | | $2,250.00 | $2,250.00 |
| 135 D | 10/31/2015 | 7 | 4/11/2014 | | $2,250.00 | $2,375.00 |
| 136 A | 3/31/2016 | 16 | 11/12/2014 | | $4,700.00 | $2,400.00 |
| 136 B | 2/29/2016 | 12 | 11/14/2013 | | $0.00 | $2,150.00 |
| 136 C | 8/31/2016 | 16 | 5/1/2014 | | $4,600.00 | $2,375.00 |
| 137 A | 6/30/2016 | 12 | 6/13/2014 | | $4,600.00 | $2,350.00 |
| 137 B | 7/31/2016 | 16 | 11/22/2010 | | $1,995.00 | $2,350.00 |
| 137 C | 8/31/2015 | 12 | 8/13/2014 | 8/31/2015 | $4,550.00 | $2,300.00 |
| 137 D | 2/29/2016 | 12 | 3/12/2014 | | $4,500.00 | $2,350.00 |
| 138 A | 10/31/2015 | 12 | 10/3/2013 | | $0.00 | $2,250.00 |
| 138 B | | | 9/1/2015 | | $0.00 | $2,300.00 |
| 138 C | 11/30/2015 | 12 | 11/29/2012 | | $2,150.00 | $2,250.00 |
| 139 A | 11/30/2015 | 12 | 10/15/2013 | | $1,075.00 | $2,150.00 |
| 139 B | 12/31/2015 | 12 | 1/31/2014 | | $4,500.00 | $2,250.00 |
| 139 C | 6/30/2016 | 12 | 7/1/2015 | | $5,000.00 | $2,550.00 |
| 140 A | 6/30/2016 | 12 | 7/27/2015 | | $2,550.00 | $2,550.00 |
| 140 B | 6/30/2016 | 12 | 8/7/2015 | | $4,750.00 | $2,400.00 |
| 140 C | 3/31/2016 | 12 | 4/15/2015 | | $5,000.00 | $2,550.00 |
| 141 A | 11/30/2015 | 12 | 6/22/2011 | | $1,995.00 | $2,250.00 |
| 141 B | 7/31/2016 | 12 | 8/1/2015 | | $4,950.00 | $2,500.00 |
| 141 C | 2/29/2016 | 12 | 11/15/2013 | | $500.00 | $2,250.00 |
| 142 A | 5/31/2016 | 12 | 5/30/2014 | | $200.00 | $2,375.00 |
| 142 B | 3/31/2016 | 12 | 4/15/2015 | | $4,950.00 | $2,500.00 |
| 142 C | 7/31/2016 | 12 | 8/13/2013 | | $0.00 | $2,250.00 |
| 143 A | 7/31/2016 | 12 | 8/10/2015 | | $2,300.00 | $2,300.00 |
| 143 B | 4/30/2016 | 12 | 5/16/2014 | | $2,250.00 | $2,350.00 |
| 143 C | 1/31/2015 | MTM | 2/19/2013 | 9/30/2015 | $4,875.00 | $2,250.00 |
| *144 A | | | 10/1/2015 | | $0.00 | $2,550.00 |
| *144 B | | | 11/2/2015 | | $0.00 | $2,350.00 |
| *144 C | | | 10/1/2015 | | $0.00 | $2,550.00 |
| *145 A | | | 10/1/2015 | | $0.00 | $2,550.00 |
| 145 B | | | | | $0.00 | $0.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| *145 C | | | 10/1/2015 | | $0.00 | $2,550.00 |
| 146 A | 8/31/2015 | 7 | 9/24/2012 | | $3,350.00 | $2,350.00 |
| *146 B | 10/31/2015 | 12 | 10/24/2014 | 10/24/2015 | $4,450.00 | $2,300.00 |
| 146 C | 4/30/2016 | 12 | 9/19/2014 | | $4,550.00 | $2,300.00 |
| 147 A | 6/30/2016 | 16 | 11/30/2011 | | $2,100.00 | $2,350.00 |
| 147 B | 11/30/2015 | 12 | 11/21/2014 | | $4,830.00 | $2,440.00 |
| 147 C | 12/31/2015 | 12 | 12/29/2011 | | $2,100.00 | $2,250.00 |
| 148 A | 1/31/2016 | 12 | 8/22/2012 | | $0.00 | $2,350.00 |
| 148 B | 12/31/2015 | 12 | 1/1/2015 | | $0.00 | $2,350.00 |
| 148 C | 11/30/2013 | MTM | 11/1/2010 | | $1,995.00 | $2,150.00 |
| 149 A | 6/30/2016 | 12 | 7/8/2015 | | $4,900.00 | $2,450.00 |
| 149 B | 2/28/2017 | 24 | 2/25/2013 | | $625.00 | $2,250.00 |
| 149 C | 10/31/2015 | 12 | 2/7/2013 | | $2,225.00 | $2,250.00 |
| * New Leases in place | | | | **Total:** | **$444,052.98** | **$365,825.00** |

Note: Names have been removed from the rent roll.

It should be noted that the current rent roll includes 48 of the 157 units are rented at affordable housing levels. Per the client's request, our assumption is that 1) all of the units will be rented at market rate levels, and 2) all of the units are leased at moderate income affordable levels. In general, rental rates for affordable housing units are capped by a formula based on the Median Income for Monroe County. In addition, the income of the prospective tenant cannot exceed certain guidelines based on the median income for Monroe County.

In determining the subject's potential rents, I considered the subject rates currently being charged to new tenants, the overall rental guidelines established by the City of Key West for this property and the rent comparables utilizing both affordable and market rate projects.

There are five levels of affordable housing rental prices:

"Very Low Income" - 60% of the median income
"Low Income" - 80% of the median income
"Medium Income" - 100 % of the median income, and
"Moderate Income" - 120% of the median income
"Middle Income" - 140% of the median income

The lowest rental rates correspond to the lowest factor of median income. Peary Court

Housing Complex is rented at the higher-end or "Moderate Income" - 120% of median income for 48 of the 157 existing units. However, 48 newly developed units will be developed on the former Credit Union portion of the site, approximately two acres (not part of this assignment). Therefore, the affordable deed restrictions will be moved to that new affordable development.

The affordable rental guidelines are as follows.

**CITY OF KEY WEST**
**Work Force Housing**
**Income and Rental Limits**
**2015**

**Based on Monroe County Annual Median Income (AMI) for a family of four of $70,400**

| Household Size | Low 80% | Median 100% | Moderate 120% | Middle 140% |
|---|---|---|---|---|
| 1 Person | $ 48,900 | $ 61,200 | $ 73,440 | $ 85,680 |
| 2 Persons | $ 55,850 | $ 69,900 | $ 83,880 | $ 97,860 |
| 3 Persons | $ 62,850 | $ 78,600 | $ 94,320 | $ 110,040 |
| 4 Persons | $ 69,800 | $ 87,300 | $ 104,760 | $ 122,220 |
| 5 Persons | $ 75,400 | $ 94,300 | $ 113,160 | $ 132,020 |
| 6 Persons | $ 81,000 | $ 101,300 | $ 121,560 | $ 141,820 |
| 7 Persons | $ 86,600 | $ 108,300 | $ 129,960 | $ 151,620 |
| 8 Persons | $ 92,150 | $ 115,300 | $ 138,360 | $ 161,420 |

| Income Limits for Married or Domestic Partners | | | | |
|---|---|---|---|---|
| Household Size | Low 80% | Median 100% | Moderate 120% | Middle 140% |
| 2 Persons | $ 74,467 | $ 93,200 | $ 111,840 | $ 130,480 |
| 3 Persons | $ 83,800 | $ 104,800 | $ 125,760 | $ 146,720 |
| 4 Persons | $ 93,067 | $ 116,400 | $ 139,680 | $ 162,960 |
| 5 Persons | $ 100,533 | $ 125,733 | $ 150,880 | $ 176,027 |
| 6 Persons | $ 108,000 | $ 135,067 | $ 162,080 | $ 189,093 |
| 7 Persons | $ 115,467 | $ 144,400 | $ 173,280 | $ 202,160 |
| 8 Persons | $ 122,867 | $ 153,733 | $ 184,480 | $ 215,227 |

Per City Ord. Sec.122-1469(13)

| Maximun Monthly Rental Rates | | | | |
|---|---|---|---|---|
| Uint Size | Low 80% | Median 100% | Moderate 120% | Middle 140% |
| Efficiency | 1,223 | 1,530 | 1,836 | 2,142 |
| 1 Bedroom | 1,396 | 1,748 | 2,097 | 2,447 |
| 2 Bedrooms | 1,571 | 1,965 | 2,358 | 2,751 |
| 3 Bedrooms | 1,745 | 2,183 | 2,619 | 3,056 |
| 4 Bedrooms | 1,885 | 2,358 | 2,829 | 3,301 |

Per City Ord. Sec.122-1466 Definitions

Income limits are based upon figures provided by the
United States Department of Housing and Urban Developmwent and
published by Florida Housing Finance Corporation

The current starting workforce housing rental prices for Peary Court At Key West is as follows:

Two Bedroom/1.5 Bathroom 2-Story - $2,358 per month
Two Bedroom/1 Bathroom Flat - $2,358 per month

Note: The affordable deed restrictions for Peary Court due allow for 10% increase in rental prices above the current moderate affordable rent restrictions.

Market rental comparables are summarized as follows. Since the subject units are larger, especially for the Old Town Market, I have included three bedroom rent comparables that serve as the upper-limit.

| Two Bedroom Non Transient Residential Rent Comparables | | | | | | |
|---|---|---|---|---|---|---|
| Location | Unit Type | Gross Rentable Area | Monthly Base Rent | Annual Rent | Annual Rent/SF | Terms |
| R-1: Islander Village Existing Units, Stock Island, 120% Affordable | 2 Bed/2.5 Bath | 1,148 | $2,025 | $24,300 | $21.17 | Modified Gross |
| R-1: Islander Village Proposed Units, Stock Island, 120% Affordable | 2 Bed/2.5 Bath | 1,148 | $2,100 | $25,200 | $21.95 | MG (Pre-leased) |
| R-2: West Isle Club, New Town, Key West, Market Rate (Low-end) | 2 Bed/2 Bath (Low-end) | 850 | $2,275 | $27,300 | $32.12 | Modified Gross |
| R-2: West Isle Club, New Town Key West, Market Rate (High-end) | 2 Bed/2 Bath (High-end) | 850 | $2,380 | $28,560 | $33.60 | Modified Gross |
| R-3: Ocean Walk, New Town, Key West, Market Rate | 2 Bed/1 Bath | 768 | $2,055 | $24,660 | $32.11 | Modified Gross |
| R-3: Ocean Walk, New Town, Key West, Market Rate | 2 Bed/2 Bath | 840 | $2,285 | $27,420 | $32.64 | Modified Gross |
| R-4: KW Handprint, 605 Dey Street, Old Town, Key West, Mrk. Rt. | 2 Bed/2 Bath | 1,228 | $2,300 | $27,600 | $22.48 | Modified Gross |
| R-4: KW Handprint, 605 Dey Street, Old Town, Key West, Mrk. Rt. | 2 Bed/2.5 Bath | 2,115 | $3,200 | $38,400 | $18.16 | Modified Gross |
| | **Mean** | | **$2,328** | **$27,930** | **$26.78** | |
| | **Median** | | **$2,280** | **$27,360** | **$27.29** | |
| | **Minimum** | | **$2,025** | **$24,300** | **$18.16** | |
| | **Maximum** | | **$3,200** | **$38,400** | **$33.60** | |

| Three Bedroom Non Transient Residential Rent Comparables | | | | | | |
|---|---|---|---|---|---|---|
| Location | Unit Type | Gross Rentable Area | Monthly Base Rent | Annual Rent | Annual Rent/SF | Terms |
| R-1: Islander Village Existing Units, Stock Island, 120% Affordable | 3 Bed/2.5 Bath | 1,260 | $2,225 | $26,700 | $21.19 | Modified Gross |
| R-1: Islander Village Proposed Units, Stock Island, 120% Affordable | 3 Bed/2.5 Bath | 1,260 | $2,300 | $27,600 | $21.90 | MG (Pre-leased) |
| R-2: West Isle Club, New Town, Key West, Market Rate (Low-end) | 3 Bed/2 Bath (Low-end) | 1,050 | $2,585 | $31,020 | $29.54 | Modified Gross |
| R-2: West Isle Club, New Town Key West, Market Rate (High-end) | 3 Bed/2 Bath (High-end) | 1,050 | $2,755 | $33,060 | $31.49 | Modified Gross |
| R-3: Ocean Walk, New Town, Key West, Market Rate | 3 Bed/2 Bath | 1,075 | $2,560 | $30,720 | $28.58 | Modified Gross |
| R-4: KW Handprint, 605 Dey Street, Old Town, Key West, Mrk. Rt. | 3 Bed/3 Bath | 2,000 | $3,500 | $42,000 | $21.00 | Modified Gross |
| | **Mean** | | **$2,654** | **$31,850** | **$25.62** | |
| | **Median** | | **$2,573** | **$30,870** | **$25.24** | |
| | **Minimum** | | **$2,225** | **$26,700** | **$21.00** | |
| | **Maximum** | | **$3,500** | **$42,000** | **$31.49** | |

## RENT COMPARABLE NO. 1

### ISLANDER VILLAGE AFFORDABLE HOUSING COMPLEX
**5030 5th Avenue, Stock Island, Florida 33040**

This comparable is located within Stock Island, an unincorporated commercial/residential mixed-use community located adjacent southeasterly to the city limits of Key West. This area is considered more affordable than Key West and is inferior to the subject's Old Town location. This project is known as Islander Village, which consists of 8.8 acres of gross area with upland area of 8.58 acres. The buildable area of site is 6.87 acres. There are 22 "modified" market rate lots comprised of a total of 129,467 square feet and 89 affordable lots comprised of 169,790 square feet. The project irregular-shaped site fronts 1,050 linear feet along the southerly side of 5th Avenue and is bounded on the east by Cross Street and on the west by the Cow Key Channel and extends southerly into the Florida Straits. Currently, 28 units of the affordable housing units within the project have been completed and rented. The 22 market rate lots have been sold to another private developer, who in turn has constructed modular detached homes (many with water views) with most of the units already sold to third party, Monroe County residents. Presently, the existing 28 affordable town homes are 100% tenant-occupied with a waiting list of 24 prospective renters. Furthermore, the remainder of the affordable units are being constructed in phases with all of the units pre-leased except one. Since mid 2013 the average rents for the existing affordable units have increased by about 12%. This project has been appraised by my office.

## RENT COMPARABLE NO. 2

### WEST ISLE CLUB, APARTMENT COMPLEX
**3333 Duck Avenue, Key West, Florida 33040**

This comparable is located within New Town area of Key West and is inferior to the subject's Old Town location. The property consists of a polygon, irregular-shaped, corner parcel with a total site size of 271,535 square feet or 6.23 acres. The property consists of twelve, 2-story wood frame buildings containing 192, residential, nontransient units. The total gross building area of the entire complex is 152,920 square feet with a gross rentable area 147,660 square feet. The multi-family dwellings were constructed in 1989, according to Monroe County Tax Appraiser's records. According to Resolution No. 87-181, the property received a variance for development of 192 dwelling units, subject to affordable housing rental guidelines for 20 years; however, it appears that the rental restrictions expired in 2009. Therefore, the units are rented at market rates. This property features on-site parking, green areas and common swimming pool. This comparable has been appraised by my office in the past. The rents were substantially increased since its most recent acquisition in 2014. The complex features one, two and three bedroom apartments. It currently has a 92.31% occupancy rate due to renovations with a waiting list of 50 to 100 prospective renters. Historically, it has an occupancy rate closer to 100%.

## RENT COMPARABLE NO. 3

**OCEAN WALK APARTMENTS**
**3900 S. Roosevelt Blvd., Key West, Florida 33040**

This comparable is located within New Town area of Key West, just northeasterly of the Key West airport and is also inferior to the subject's Old Town location. The site is an irregular-shaped parcel containing 17.11 acres of land. The site is improved with a total of 297 nontransient residential units, ranging from one bedroom/one bathroom, two bedrooms/one or two bathrooms and three bedroom/ two bathroom units. The total gross building area for the property is 237,424 square feet with an average unit size of 799 square feet. Common area recreational facilities include: tennis courts, basketball court and swimming pool. In addition, the property offers ample green space, open and covered parking. The rents were substantially increased since its most recent acquisition in 2014. It currently has an 88% occupancy rate as 40 units are off line for renovations. It has had a stabilized occupancy rate of about 96% in recent history. The rents were increase about 18% from 2012 to 2014.

## RENT COMPARABLE NO. 4

### KEY WEST HAND PRINT COMPLEX
**605 Dey Street, Key West, Florida 33040**

This comparable is located within Old Town area of Key West, overlooking Simonton Street. The property is part of an overall mixed-use complex consisting of a total of 42,018 square feet of site area. The overall complex includes 201-213 Simonton Street, 605-619 Dey Street, and 602-610 Greene Street. The two parcels have a total of four structures that are located within the Historic Preservation District in "Old Town," Key West, Florida. The property has a total of 48,292 square feet of gross building area. The complex has a total of ten apartments above the first level commercial uses. The apartments are 100% occupied. There are no significant common areas; however, the apartments are adjacent to the main shopping, dining, and entertainment corridor, Duval Street.

2. Potential Rental Income:

The Potential Rental Income for the subject is detailed as follows, based on all units at rented at market rent and also at the 120% moderate income rental.

| **Peary Court, Key West, Florida** *Affordable - Potential Rent Schedule* | | | | |
|---|---|---|---|---|
| **Units** | **Unit Size (SF)** | **No. Units** | **Monthly Rent** | **Yearly Rent Rent** |
| 2 Bedroom/1.5 Bath - Two-Story | 1,286 | 149 | $2,358 | $4,216,104 |
| 2 Bedroom/1 Bath - Flat | 1,096 | 8 | $2,358 | $226,368 |
| **Gross Leasable Area:** | **200,382** | **157** | | **$4,442,472** |

| **Peary Court, Key West, Florida** *Market - Potential Rent Schedule* | | | | |
|---|---|---|---|---|
| | | | **Year 1** | |
| **Units** | **Unit Size (SF)** | **No. Units** | **Monthly Rent** | **Yearly Rent Rent/SF** |
| 2 Bedroom/1.5 Bath - Two-Story | 1,286 | 149 | $2,600 | $4,648,800 |
| 2 Bedroom/1 Bath - Flat | 1,096 | 8 | $2,500 | $240,000 |
| **Gross Leasable Area:** | **200,382** | **157** | | **$4,888,800** |

Current rents for market rate units are $2,550 per month base rent with a $50 per month premium for end units. The new base rent will increase to $2,650 in January 2016. Additional rent of $50 per unit per month is charged for reimbursement for water/sewer and solid waste charges.

3. Vacancy and Collection Losses:

Vacancy & Collection losses include allowances for vacancy due to tenant turnover or loss of rents from a tenant who vacates the unit or is late with payments. Typically, the market is experiencing a minimal to 2% vacancy and collection losses on residential units on an annual basis. According to the subject's on-site property manager, the subject typically has an occupancy rate of 95% to 98% depending on the number of move outs. Usually units are turned around in less than a month or much faster. The rent comparables indicated an occupancy rate of 92% to 100%. The rental market especially in Old Town is extremely tight with limited inventory. The subject has a waiting list. I utilized a vacancy and collection rate of 4% for the market rate scenario and 3% for the affordable rate model.

4. Other Income:
The subject property receives additional income from vending machines, late charges, pet deposits, application fees, interest income, bad debt recovery, damages and deposit forfeitures. According to the financial information provided to the appraiser, the projected "other income" for the past trailing months and projected year-end 2015 was 0.8% of Effective Rental Income. Based on the subject's historical operation, I have projected 0.8% for the market rate and affordable housing models.

5. Expense Analysis:
I considered the landlord's expenses for the property, which include real estate taxes, building hazard insurance, property management, repairs and building maintenance, utilities, and reserves for replacement.

a. Real Estate Taxes: The subject's 2014 tax burden is $304,036.23. The tax comparables indicate a tax assessment per unit range of $93,939 to $289,612 per unit range with a mean at $173,505 and a median at $155,235. The tax comparables indicate a tax burden range of $0.32 to $1.84 per square foot of gross building area with a mean at $1.13 and a median at $1.18. The subject property's total tax burden is $304,036.23 or $1.52 per square foot of total gross building area which is at the upper-end of the range of comparables. I have projected a total real estate tax assessment of approximately 80% of my market value estimate with a resulting tax burden of $473,985 for the market rate model and $440,723 in the affordable rate model.

b. Solid Waste & Stormwater: This expense is based on the actual annual assessment by the City for these services at a total of $65,620.

c. Building Insurance: This expense is for fire, windstorm and flood insurance for the building improvements. Typical insurance rates in the market area indicate $1,200 to $1,800 per unit for properties similar to the subject. The subject property historical expense per unit was $1,736 for the last 12 months and $1,695 for projected 2015. This actual expense is well-supported by market data from comparable properties (Ocean Walk and West Isle Club). The insurance expense was increased by five percent per annum thereafter.

d. General and Administration: The subject property historical expense was 0.2% of Effective Rental Income for the past 12 months and projected year-end 2015. Ocean Walk apartment indicated this expense at 0.5% for 2014. My projection for the subject property is 0.5% of Effective Rental Income.

e. Management: This is the expense for an on-site property manager and staff, who collect rents, lease units, and keep the property in good condition. The historical income and expense information was 3.5% and 3.3% of Effective Rental Income. Ocean Walk indicated an expense at 3.8% for 2014. Based on the subject's historical operation and management, I projected 4% of Effective Rental Income in both models. Management expense based on market data typically indicates a range from 3% to 5% (larger apartment complexes).

f. Advertising, Office, etc: This expense includes advertising, rental marketing, office expenses, and fees. Historically, this expense was about 0.7% for the subject and 0.3% for Ocean Walk apartments. This expense appears slightly low and was increased to 1% of Effective Gross Rental Income.

g. Repairs & Maintenance: This expense is for ongoing maintenance required to keep the subject units in good rentable condition. This expense has ranged from 7.3% to 9.8% of Effective Rental Income for the subject, which is approximately $1,819 to $1,985 per unit per year. This expense for Ocean Walk was 8.2% or $1,655 per unit. I projected a Repairs and Maintenance expense at 8% (rounded) or Effective Gross Income in both models.

h. Utilities: This expense includes: electricity, water/sewer (not separately metered) and solid waste charges for all of the units, as well as common area electricity and water charges. The subject property historical expense was $1,287 per unit or 5.1% of Effective Rental Income and Market data indicates 4.7% to 5.1% Based on historical and market data, I projected this expense at $1,500 per unit or 4.8% and 5.1% of Effective Gross Rental Income for market rate and affordable models, respectively.

I. Reserves for Replacement Expense: Fixtures and equipment are necessary in an apartment complex, and their quality often influence the property class. Included in this category are all items that are typically capitalized rather than expended. The fixtures and equipment of apartment complexes are moderately used and must be replaced at typical intervals. Their useful life is based on their quality, durability, and the amount of wear and tear due to the tenants. Historically the subject property's "replacements" expense was not included in the profit and loss statements of Effective Rental. Based on the market data (1.5% Ocean Walk and other comparisons), my projection for the subject property is 1.5% (rounded) of Effective Rental Income for both models, which appears to be reasonable.

6. Projected Operating Statements: The Projected Operating Income and Expenses Statements is depicted as follows for the Market Rate and then the Affordable Market Scenario.

| **Projected Stabilized Operating Statement**<br>**Peary Court, Key West, Florida**<br>**All Units Leased at Market Rental Rates** | | | | |
|---|---|---|---|---|
| | **$** | **% TOI** | **$/ Unit** | **$/SF GBA** |
| **Income:** | | | | |
| Potential Annual Rental Income | $4,888,800 | | $31,139 | $24.40 |
| Plus: Utilities Reimbursement Income: | $235,500 | | | |
| Gross Income: | $5,124,300 | | | |
| Less: Vacancy & Collection Loss | ($256,215) | 5.3% | ($1,632) | ($1.28) |
| **Effective Gross Rental Income** | **$4,868,085** | | $31,007 | $24.29 |
| Plus: Other Income | $38,945 | 0.80% | | |
| **Total Operating Income** | **$4,907,030** | | $31,255 | $24.49 |
| | | | | |
| **Less Expenses:** | | | | |
| Real Estate Taxes | $473,985 | 9.66% | $3,019 | $2.37 |
| Solid Waste & Stormwater | $65,620 | 1.34% | $418 | $0.33 |
| Insurance | $280,245 | 5.71% | $1,785 | $1.40 |
| General & Administrative | $24,535 | 0.50% | $156 | $0.12 |
| Management | $196,281 | 4.00% | $1,250 | $0.98 |
| Advertising, Marketing, Office & Fees | $49,070 | 1.00% | $313 | $0.05 |
| Repairs & Maintenance | $389,447 | 7.94% | $2,481 | $1.94 |
| Utilities | $235,500 | 4.80% | $1,500 | $1.18 |
| Reserves | $73,605 | 1.50% | $469 | $0.37 |
| Total Expenses: | $1,788,288 | 36.44% | $11,390 | $8.92 |
| | | | | |
| **Net Operating Income:** | **$3,118,742** | 63.56% | $19,865 | $15.56 |

| Projected Stabilized Operating Statement<br>Peary Court, Key West, Florida<br>All Units Leased at Moderate Affordable Rental Rates | | | | |
|---|---|---|---|---|
| | $ | % TOI | $/ Unit | $/SF GBA |
| **Income:** | | | | |
| Potential Annual Rental Income | $4,442,472 | | $28,296 | $22.17 |
| Plus: Utilities Reimbursement Income: | $235,500 | | | |
| Gross Income: | $4,677,972 | | | |
| Less: Vacancy & Collection Loss | ($140,339) | 3.1% | ($894) | ($0.70) |
| **Effective Gross Rental Income** | **$4,537,633** | | $28,902 | $22.64 |
| Plus: Other Income | $36,301 | 0.80% | | |
| **Total Operating Income** | **$4,573,934** | | $29,133 | $22.83 |
| | | | | |
| **Less Expenses:** | | | | |
| Real Estate Taxes | $440,723 | 9.64% | $2,807 | $2.20 |
| Solid Waste & Stormwater | $65,620 | 1.43% | $418 | $0.33 |
| Insurance | $280,245 | 6.13% | $1,785 | $1.40 |
| General & Administrative | $22,688 | 0.50% | $145 | $0.11 |
| Management | $181,505 | 3.97% | $1,156 | $0.91 |
| Advertising, Marketing, Office & Fees | $45,376 | 0.99% | $289 | $0.05 |
| Repairs & Maintenance | $363,011 | 7.94% | $2,312 | $1.81 |
| Utilities | $235,500 | 5.15% | $1,500 | $1.18 |
| Reserves | $68,064 | 1.49% | $434 | $0.34 |
| Total Expenses: | $1,702,732 | 37.23% | $10,845 | $8.50 |
| | | | | |
| **Net Operating Income:** | **$2,871,202** | 63.28% | $18,288 | $14.33 |

7. Capitalization:

Capitalization can be defined as a method of converting an income stream into a capital sum by measuring the present worth of the future income stream. The result should be the indicated value of the total property or the income-producing package.

There are three ingredients essential to capitalization: the income, the capitalization rate, and the methods and techniques of capitalization.

The appraiser projects potential gross income, effective gross income, expenses, and finally, net income. The calculation of net annual income is to be capitalized. The appraiser analyzes the amount, quantity, and the probable duration of the income stream.

The net annual income is capitalized at an appropriate rate of return for the estimated duration of the income stream. The investor requires not only a return of his capital investment in the property but also a return on the investment, which is commensurate with risk.

In one form of capitalization, an income stream is converted into a capital sum or indicated property value by dividing net annual income by an appropriate capitalization rate. The variety of capitalization procedures used in the income approach relates to differing concepts, known data, projections, quality, and durability of the income stream. In each valuation, the appraiser selects the method and technique he considers best suited to the problem at hand.

In considering the subject property, I am capitalizing the projected net operating income for multi-family residential property. Based on the availability of market data, I utilized the mortgage equity method, comparable sales market analysis, and debt coverage ratio technique in developing an overall rate for the subject property.

a. Mortgage Equity Method:

In estimating an overall capitalization rate by the mortgage equity method, the debt and equity portions of the overall capitalization rate are summed to yield an overall capitalization rate ($R_o$). This method considers the debt (lender's position) and equity capital positions since most properties are purchased with debt and equity.

The rate for the debt portion of the capitalization rate is the mortgage constant ($R_m$). The mortgage constant is a function of the interest rate, amortization frequency and loan term. The mortgage constant is calculated by dividing the annual debt service by the mortgage loan balance. After each payment the constant changes, thus the mortgage constant is a changing variable (not a true "constant"). The debt portion of the overall capitalization rate is calculated by multiplying the loan-to-value ratio by the mortgage constant ($R_m$).

Since the mortgage equity method considers both debt and equity, an equity capitalization rate ($R_e$) must be determined for the equity position. The equity capitalization rate is calculated by dividing the pre-tax cash flow (net operating income) by the total equity investment (down payment). In appraising, a property's equity capitalization rate is the anticipated return to the investor for the first year holding period.

The mortgage equity Method is a market derived method. Therefore, if the market data is reliable and sufficient, this technique is considered a good indication for an overall capitalization rate.

The data utilized in calculating the overall capitalization rate is detailed below.

The appraiser consistently survey local lenders and national surveys in an effort to keep up-to-date with current lending rates and terms. Interest rates fluctuate on a daily basis. Interest rates are typically available on fixed and adjustable schedules. Following is a summary of current local and national lending rates and terms commercial lending institutions.

Market Commercial Lending Rates and Terms:
At present commercial loans are being quoted within a range dependent on property and borrower. Loan to value ratios range from 60% to 90% with an average of 75%. Fixed rates range from 2% to 7.3% with a mid-point 4.5%. Amortization periods of from 15 years to 40 years with an average of 28 years. Three and five-year balloons are typical. Debt coverage ratios depend on the lending institution's position as well as the borrower and property type; however, a range of from 1.10 to 1.70 with the mid-point of 1.36, according to national apartment data.

Equity Capitalization Rate:
Equity capitalization rates are more difficult to extract from the market, especially in this market where a large number of commercial and mixed-use properties are purchased by owner-users who profit from ownership of the property as well as the profits of the business. Interviews of investors in the market indicate an expected return of 10% to 12%; however, this is not a true cash-on-cash return (equity capitalization rate) due to the fact that management, replacement reserves and other expenses are not typically considered resulting in a decreased return to the investor. Investments in market areas that expect greater than average appreciation will have lower equity capitalization rates, while areas that expect lower appreciation rates will have higher equity capitalization rates. Often an investor anticipating a 10% to 12% return is really achieving a true 6% to 8% cash on cash return. An analysis of national data from RealtyRates.com indicated equity capitalization rates from 6.56% to 14.63% with a mean at 10.19% for garden/suburban townhouse apartment complexes, while student housing complexes were about one-half point higher. Therefore, based on market data, I have utilized an equity capitalization rate of 7.0% in my Band of

Investment model, at the lower-end of the spectrum due to the subject's location and lack of competition. The Mortgage Equity Method also known as the Band of Investments Method is shown as follows.

b. COMPARABLE SALES ANALYSIS:

In the Sales Comparison section, four property transactions of multi-family residential properties large apartment complexes were considered herein. Income and expense data was available for all the sales, as my office appraised three of the sales and personally inspected most of the comparables. These sales indicated overall rates (OAR) between 4.6% and 5.7% with a mean at 5.0% and a median at 4.9%, while the most recent sale is at 4.8 percent. RealyRates.com indicates national surveyed overall rates from 4.2% to 11.8% with a mean at 8.0% (garden/suburban townhouse apartments). Further, indicates overall rates for the major cities or regions in Florida from 7.5% to 8.0%. Since Key West has only four major apartment complexes, which all were analyzed in the sales comparison approach, the amount of supply or inventory is inelastic as no new development is anticipated due to strict rate of growth regulations. As a result, high growth in revenues are anticipated. Ocean Walk, West Isle Club, and Peary Court have all experienced incredible growth in Effective Gross Income and Net Operating Income since they were purchased, which explains the lower capitalization rates a the time of purchases. Since the subject is leased at near market, I estimated a conservative overall rate of 5.5%.

c. DEBT COVERAGE ANALYSIS:

After analysis of current financing availability for similar properties with quoted rates ranging from 2.9% to 7.3% and loan-to-value ratios of from 60% to 90%, I estimated a 4.5% interest rate for the subject property with a loan-to-value ratio at 80.0%. A debt coverage ratio of 1.25 was considered appropriate for the subject with a 30-year loan term. Thus, based on the above financing considerations, an overall rate of 6.1 percent was calculated. This method is considered a market-derived rate based on current available lending rates and terms for similar properties.

d. Correlation: The three methods utilized in estimating an OAR for all of the subject properties indicate the following Overall Rates:

## Development of Capitalization Rate

| | |
|---|---|
| Loan Ratio | 80.0% |
| Loan Term (Years) | 30 |
| Loan Rate | 4.50% |
| Equity Yield Rate | 7.0% |

### Band of Investment Method

| Capital Source | Portion | Rate | Cap. Rate |
|---|---|---|---|
| Mortgage Loan | 80.00% | 6.08% | 4.86% |
| Equity Funds | 20.00% | 7.00% | 1.40% |
| Overall Rate | | | 6.26% |

**Overall Rate Via Band of Investment Method (Rounded): 6.3%**

### Debt Coverage Analysis

| | |
|---|---|
| Debt Coverage Ratio | 1.25 |
| X Loan to Value Ratio | 80.0% |
| X Mortgage Constant | 0.0608 |
| Overall Rate | 6.08% |

**Overall Rate Via Debt Coverage Analysis (Rounded): 6.1%**

### Market Derived Capitalization Rates:

| | Local Market | Realty Rates Survey, 3rd Qtr. 2015 Miami | Tampa Bay |
|---|---|---|---|
| Mean | 5.0% | 7.8% | 7.9% |
| Median | 4.9% | N/A | N/A |
| Minimum | 4.6% | N/A | N/A |
| Maximum | 5.7% | N/A | N/A |
| | | (Reserves not Incl. in Above Rates) | |

**Overall Rate Via Comparable Sales Method (Rounded): 5.50%**

**Reconciled Overall Rate: 5.50%**

| Local Comparable Sales | OAR |
|---|---|
| West Isle | 5.0% |
| Ocean Walk | 4.8% |
| Prior Sale of Subject | 4.6% |
| Poinciana Plaza | 5.7% |

I have correlated an overall capitalization rate of 5.5% for the subject property, as it is most reflective of local market trends.

8. Value via the Income Approach:

An OAR of 5.5% has been estimated for the subject property, which is reflective of the actual localized market. The indicated value via Direct Capitalization is developed as follows:

| | | | | |
|---|---|---|---|---|
| **Subject GBA:** | **200,382** | | | |
| **No. of Units:** | **157** | | | |
| **Subject Site Size (SF):** | **958,320** | | | |
| **Net Operating Income:** | **$3,118,742** | **Value Per** | **Value Per** | **Value Per** |
| **NOI Divided by Cap Rate:** | **5.50%** | **SF of GBA** | **Unit** | **SF of Land** |
| **Value Via the Income Approach:** | **$56,704,400** | | | |
| **Plus Adj. for Entitlements 3 ROGOS (Rnd):** | **$660,000** | | | |
| **Adj. Value Via the Income Approach:** | **$57,364,400** | | | |

**"AS IS" VALUE IN FEE SIMPLE ESTATE OF THE SUBJECT PROPERTY AS INDICATED BY THE INCOME APPROACH, BASED ON LEASING ALL UNITS AT MARKET RENTAL RATES (Rounded) . . . . . $ 57,000,000**

| | | | | |
|---|---|---|---|---|
| **Subject GBA:** | **200,382** | | | |
| **No. of Units:** | **157** | | | |
| **Subject Site Size (SF):** | **958,320** | | | |
| **Net Operating Income:** | **$2,871,202** | **Value Per** | **Value Per** | **Value Per** |
| **NOI Divided by Cap Rate:** | **5.50%** | **SF of GBA** | **Unit** | **SF of Land** |
| **Value Via the Income Approach:** | **$52,203,673** | | | |
| **Plus Adj. for Entitlements 3 ROGOS (Rnd):** | **$660,000** | | | |
| **Adj. Value Via the Income Approach:** | **$52,863,673** | | | |

**"AS IS" VALUE IN FEE SIMPLE ESTATE OF THE SUBJECT PROPERTY AS INDICATED BY THE INCOME APPROACH, BASED ON LEASING ALL UNITS AT MODERATE AFFORDABLE RENTAL RATES**

**(Rounded) . . . . . $ 53,000,000**

The values herein also include the vacant land and entitlements to replace 3 units at $220,000 per unit or $660,000 total.

9. Conclusion:
The Income Approach stresses analysis of the income stream which the property is capable of producing. This approach is considered to be the strongest indicator of current fair market value when the property is purchased as an income-producing property having a reliable historical cashflow. In the case at hand, similar-use properties are typically purchased by investors as income producing. Reliable income and expense data for similar apartment complexes was available and applied herein. Therefore, this approach was considered and totally weighted in my affordable and market rent valuation scenario.

10. Market Value - Discounted Sellout (Bulk-Sale) Approach for Subject Property:
A Discounted Sellout Approach was utilized in the valuation of the Subject Property which considers the holding and selling expenses. An estimate of the Sellout Value of the individual residential units is considered, as well as, the rate at which the properties can sell (absorption period). Then, deductions are made for holding and selling expenses, including developer's incentive, which results in net operating income converted to a present value. The Discounted Sellout Approach assumes the highest and best use of the Subject Property is the sellout of the units sold at piecemeal, at retail. I found this approach to be the most useful in estimating the *Bulk-Sale Market Value of the Fee Simple Interest* of Subject Property, especially due to reliable market sales data, absorption data and redevelopment plan for the subject based on its entitlements or development rights and layout.

The Discounted Sellout (Bulk-Sale) Method involves the following steps:

(1) Estimating the sum of the market values of the various salable units projected for the subject property;

(2) Estimating the absorption rate for the units and projecting residential sales over time;

(3) Deducting an amount which represents typically anticipated profit on ventures having similar risk;

(4) Apply a discount rate, a rate representative of the market for similar risk.

Sellout Values:
The Sellout Values for the individual units were previously detailed in the Sales Comparison Approach. I anticipated that the sales would occur at the end of the period, which was considered on an annual basis; therefore, in the year of sale, the owner/developer would be responsible for the real estate taxes, solid waste & stormwater assessments, hazard insurance, general and administrative, management advertising, marketing, office fees, repairs and maintenance, utilities and reserves until the units are sold. I have projected that the sales would take place in Phases or clusters, and since the subject is occupied, the units would continue to be rented until sold. The sellout prices were increased by 5% for each period (12 months). Residential condominiums and town homes are experienced a six percent increase in average sales price for the first quarter of 2015 as compared to the first quarter of 2014. Thus, my estimate is probably conservative, especially considering the subject's Old Town location. According to Local Board of Realtors Multiple Listing Service, for the first quarter of 2015, the number of sales is up 36%, average sales price is up 4% ($622K), sales volume is up 42%, sales price/listing price is 96% (3 points higher), plus the number of pending transactions is up 64% (so the remainder of the year for sales volume should be strong), while the months of inventory has declined to 10 months.

Estimated Sellout Period (Absorption):
Previously, I detailed numerous residential projects which were considered in estimating the Sellout Values of the subject units. Based upon the historical market data and days on market information of current listings, it is anticipated that the individual units will be sold within 60 months or 5 years. An analysis of the most similar sales indicates a sales rate of about one per month. However, there has not been a release of a substantial amount of units at once. The property owner shared a Rental and Sale Analysis of the subject property recently prepared by The Concord Group. After thorough fundamental demand analysis, the consultant estimated an absorption rate of 1.7 per month to 3.5 per month. In my model, due to drastic decline in inventory, I estimated an absorption rate of 2 per month in Year 1, 3 per month for Years 2 through 4 and 2.08 per month in the last period, Year 5.

Expenses: Expenses associated with holding the units and selling them must be estimated for the Discounted Sellout Approach, as detailed below.

Sales Administrative: This expense includes the costs of managing the property, office and general expenses for the sales office. This expense was estimated at 0.25% of the Gross Sellout Value or $227,235 ($90,893,752 X 0.25%/5 periods) per period. Typically this expense ranges from 0.25% to 1.5% depending on the duration and complexity of the project. Since the subject complex is existing project at the lower-end to mid-range of the sales spectrum, I projected an expense at the low-end of the spectrum.

Selling Costs: Generally, real estate sales commission for single-family dwellings and residential units ranges from 5% to 7%, with sales cost estimated at about 1%; however, similar projects have discounted sales commissions due to salable units.

In the case at hand, I have projected a 4.0% sales commission, plus 1% additional closing costs expense. I have estimated a slightly lower percentage sales commission due to the number of subject units and the high selling prices. This rate is well-supported and considered reasonable for the subject project. It is anticipated, the listing broker will bring the buyers, thus, will have both sides and the commission would likely be less.

Discount Rate: It is my opinion that a discount rate of 20.0 percent per (Developer Incentive is not separated and charged as an expense) per annum would be appropriate for discounting the net income to a present value. The discount rate takes into account the providing of a return on and returns of investment funds, and for compensation to the developer for liquidity, risk and appreciation.

The surveyed developer's rates of return for Florida and the Caribbean by RealtyRates.com are as follows. These rates do not include developer's incentive as an expense.

**RealtyRates.com DEVELOPER SURVEY - 2nd Quarter 2015***
**Florida/Caribbean - Subdivisions & PUDs**

| | Actual Rates | | | Pro-Forma Rates | | |
|---|---|---|---|---|---|---|
| | Min | Max | Avg | Min | Max | Avg |
| **Site-Built Residential** | 22.39% | 53.92% | 35.34% | 21.49% | 51.76% | 33.92% |
| -100 Units | 22.39% | 46.48% | 33.75% | 21.49% | 44.62% | 32.40% |
| 100-500 Units | 22.95% | 51.13% | 35.56% | 22.03% | 49.09% | 34.14% |
| 500+ Units | 23.51% | 53.46% | 36.17% | 22.57% | 51.32% | 34.73% |
| Mixed Use | 24.07% | 53.92% | 35.87% | 23.10% | 51.76% | 34.44% |
| **Manufactured Housing** | 22.82% | 56.21% | 36.61% | 21.91% | 53.96% | 35.15% |
| -100 Units | 22.82% | 48.87% | 35.13% | 21.91% | 46.92% | 33.73% |
| 100-500 Units | 23.39% | 53.76% | 37.03% | 22.46% | 51.61% | 35.55% |
| 500+ Units | 23.96% | 56.21% | 37.68% | 23.00% | 53.96% | 36.17% |
| **Business Parks** | 22.64% | 53.46% | 35.28% | 21.73% | 51.32% | 33.87% |
| -100 Acres | 22.64% | 46.48% | 33.87% | 21.73% | 44.62% | 32.51% |
| 100-500 Acres | 23.20% | 51.13% | 35.68% | 22.28% | 49.09% | 34.25% |
| 500+ Acres | 23.77% | 53.46% | 36.30% | 22.82% | 51.32% | 34.84% |
| **Industrial Parks** | 23.04% | 45.90% | 32.07% | 22.12% | 44.07% | 30.79% |
| -100 Acres | 23.04% | 39.91% | 30.85% | 22.12% | 38.32% | 29.62% |
| 100-500 Acres | 23.62% | 43.91% | 32.41% | 22.68% | 42.15% | 31.12% |
| 500+ Acres | 24.20% | 45.90% | 32.95% | 23.23% | 44.07% | 31.63% |

**RealtyRates.com DEVELOPER SURVEY - 2nd Quarter 2015***
**Florida/Caribbean - Condominiums & Co-Ops**

| | Actual Rates | | | Pro-Forma Rates | | |
|---|---|---|---|---|---|---|
| | Min | Max | Avg | Min | Max | Avg |
| **Primary Residential** | 14.56% | 29.64% | 21.42% | 13.97% | 28.45% | 20.47% |
| Hi-Rise/Urban Townhouse | 15.74% | 29.64% | 22.24% | 15.11% | 28.45% | 21.35% |
| Garden/Suburban Townhouse | 14.56% | 28.01% | 20.43% | 13.97% | 26.89% | 19.62% |
| Mixed Use | 15.47% | 29.52% | 21.60% | 14.24% | 28.34% | 20.44% |
| **Resort & Second Home** | 16.84% | 32.27% | 22.80% | 16.17% | 30.98% | 21.89% |
| Hi-Rise | 17.05% | 32.27% | 24.17% | 16.37% | 30.98% | 23.20% |
| Garden/Townhouse | 16.84% | 27.81% | 21.43% | 16.17% | 26.70% | 20.58% |
| **Commercial/Industrial** | 12.19% | 30.34% | 19.64% | 11.70% | 29.13% | 18.86% |
| Urban Office | 13.66% | 26.96% | 19.90% | 13.11% | 25.88% | 19.11% |
| Suburban Office | 12.19% | 26.58% | 18.61% | 11.70% | 25.52% | 17.87% |
| Retail | 13.38% | 30.34% | 20.99% | 12.85% | 29.13% | 20.15% |
| Industrial | 12.34% | 27.38% | 19.07% | 11.84% | 26.29% | 18.30% |

*1st Quarter 2015 Data

Copyright 2015 RealtyRates.com™

According to RealtyRates.com, a national survey, developers of The Garden/Suburban Townhouses in the Florida/Caribbean market indicated actual discount rates of 14.5% to 29.5% with an average of 20.4%, while the Pro-Forma Rates were 19.0% to 26.9% with a mean 19.6% . As a result my estimate of a discount rate at 20% is well supported and likely conservative based on the subject's location.

Explanation of Columnar Calculations:
The column within the spreadsheet represents two, one year periods. Typical holding and selling expenses are then deducted from the Sales Revenue. Next, Net Income is estimated on an annual basis by deducting the projected expenses from the revenue from sale of the units.

The Net Income after expenses times the Discount Factor, yields a present value. Finally, all of the present values are added together resulting in our opinion of the *Market Value (Discounted Sellout/Bulk Sale) of the Fee Simple Interest* of the subject property, subject to definitions, assumptions and limiting conditions, as of September 18, 2015.

The Discounted Sellout Analyses is detailed:

| **Peary Court at Key West**<br>**541 White Street, Key West, Florida 33040**<br>**Sellout of Residential Units**<br>***Discounted Sellout Approach*** | | | | | | |
|---|---|---|---|---|---|---|
| **Dates: Month/Year** | **09/15-08/16** | **09/16-08/17** | **09/17-08/18** | **09/18-08/19** | **09/19-08/20** | **TOTALS** |
| **Period: 12 Mo. Periods** | **1** | **2** | **3** | **4** | **5** | |
| **Income from Residential Unit Sales:** | | | | | | |
| No. of Units Available for Sale: | 157 | 133 | 97 | 61 | 25 | |
| Average Price per Unit: | $523,726 | $549,912 | $577,408 | $606,278 | $636,592 | |
| No. of Units Sold This Period: | 24 | 36 | 36 | 36 | 25 | 157 |
| **Gross Income From Sales:** | **$12,569,424** | **$19,796,832** | **$20,786,688** | **$21,826,008** | **$15,914,800** | **$90,893,752** |
| **Income from Residential Units:** | | | | | | |
| **Effective Residential Rental Income:** | **$4,907,030** | **$4,364,757** | **$3,342,485** | **$2,207,074** | **$949,765** | **$15,771,111** |
| **Total Income:** | **$17,476,454** | **$24,161,589** | **$24,129,173** | **$24,033,082** | **$16,864,565** | **$106,664,863** |
| **Less Operating & Sellout/Holding Expenses:** | | | | | | |
| Real Estate Taxes | $473,985 | $413,575 | $310,678 | $201,236 | $84,948 | $1,484,422 |
| Solid Waste & Stormwater | $65,620 | $57,257 | $43,011 | $27,860 | $11,760 | $205,508 |
| Insurance | $280,245 | $246,901 | $187,274 | $122,481 | $52,205 | $889,106 |
| General & Administrative | $24,535 | $21,824 | $16,712 | $11,035 | $4,749 | $78,855 |
| Management | $196,281 | $174,590 | $133,699 | $88,283 | $37,991 | $630,844 |
| Advertising, Marketing, Office & Fees | $49,070 | $43,648 | $33,425 | $22,071 | $9,498 | $157,712 |
| Repairs & Maintenance | $392,562 | $349,181 | $267,399 | $176,566 | $75,981 | $1,261,689 |
| Utilities | $235,500 | $205,485 | $154,361 | $99,985 | $42,207 | $737,538 |
| Reserves | $73,605 | $65,471 | $50,137 | $33,106 | $14,246 | $236,565 |
| Sales Adminstrative Costs | $45,447 | $45,447 | $45,447 | $45,447 | $45,447 | $227,235 |
| Selling and Closing Expenses | $628,471 | $989,842 | $1,039,334 | $1,091,300 | $795,740 | $4,544,687 |
| Total Operating & Selling Expenses | $2,465,321 | $2,613,221 | $2,281,477 | $1,919,370 | $1,174,772 | $10,454,161 |
| **Cash Flow Before Developers Incentive** | **$15,011,133** | **$21,548,368** | **$21,847,696** | **$22,113,712** | **$15,689,793** | **$96,210,702** |
| Discount Factor @ 20%/Year | 0.833333 | 0.694444 | 0.578704 | 0.482253 | 0.401878 | |
| **Present Value:** | **$12,509,278** | **$14,964,144** | **$12,643,343** | **$10,664,406** | **$6,305,376** | **$57,086,547** |
| **Plus Adj. for Entitlements 3 ROGOS (Rnd):** | | | | | | **$660,000** |
| **Total Value:** | | | | | | **$57,746,547** |
| **"As Is" Market Value (Bulk-Sale) Based on Discounted Sellout as of September 18, 2015 (Rounded):** | | | | | | **$58,000,000** |

**Market Value of the Fee Simple Interest of the Subject Property Upon Completion as Indicated by the Income Approach as of September 18, 2015 (Rounded): . . . . . $ 58,000,000**

## RECONCILIATION AND FINAL ESTIMATE OF VALUE

The following Fee Simple value indications have been developed in my analysis of Market Data.

| Subject Property - Market Rate<br>Peary Court at Key West, Key West, Florida | |
|---|---|
| Valuation Method: | "As Is" Value in Fee Simple Estate |
| Cost Approach: | $62,000,000 |
| Income Approach: | $57,000,000 |
| Sales Comparison Approach: | $55,000,000 |
| "As Is" Market Value of the Fee Simple Estate of the Subject Property, (All Market Rate Units), as of September 18, 2015 (Rounded): | $57,000,000 |

| Subject Property - Affordable<br>Peary Court at Key West, Key West, Florida | |
|---|---|
| Valuation Method: | "As Is" Value in Fee Simple Estate |
| Cost Approach: | $58,000,000 |
| Income Approach: | $53,000,000 |
| Sales Comparison Approach: | $51,000,000 |
| "As Is" Market Value of the Fee Simple Estate of the Subject Property, (All Affordable Moderate Rate Units), as of September 18, 2015 (Rnd): | $53,000,000 |

| Subject Property - Market Rate - Bulk Sale<br>Peary Court at Key West, Key West, Florida | |
|---|---|
| Valuation Method: | "As Is" Value in Fee Simple Estate |
| Cost Approach: | $62,000,000 |
| Sales Comparison Approach (Gross Sellout): | $91,000,000 |
| Income Approach (Discounted Sellout): | $58,000,000 |
| "As Is" Market Value (Bulk-Sale) of the Fee Simple Estate of the Subject Property, (All Market Rate Units), as of September 18, 2015 (Rounded): | $58,000,000 |

The Cost Approach is based on the estimated value of the land (developed through comparison), and the estimated cost of the site improvements. There can be complications in applying this approach, because identifying sales of vacant land to develop a value indication for the subject property can be difficult. In the case at hand, the Cost Approach was deemed as applicable and quite reasonable as the subject

property consists of fairly recently constructed (by Key West standards) structures, thereby making depreciation estimates more reliable, and due to the availability of recent land sales and the reality that most of the subject' value is comprised of land value. As a result, this approach was lightly weighted in the final reconciliation value.

The Income Approach is most applicable to properties that are typically purchased for their income-producing capabilities. Multi-family residential properties and large apartment complexes usually do fall within this category, as it is purchased by investors who hold it for its potential income. Reliable income and expense data for the subject and similar multi-family facilities was available and applied herein. Therefore, this approach was considered and totally heavily in my valuation.

The Sales Comparison Approach is a direct measure of the buying and selling behavior of the participants in the real estate market. This approach directly measures what sellers are accepting and buyers are paying for property. Therefore, if a significant number of comparable sales have occurred and are available for analysis, then the Sales Comparison Approach becomes an important method in developing a value indication. The appraiser has considered four closed sales of multi-family, apartment complex comparable sales within the subject property's market area. Though none of the sales were truly similar to the subject in all respects, the comparables were analyzed and considered representative of competing properties. The comparables indicated a fairly tight range of values when analyzed on effective gross income multiplier method. Therefore, this approach was considered applicable, but weighted moderately in the final valuation.

The Sales Comparison Approach was used as a basis for the Gross Sellout Value in order to utilize the Discounted Sellout Approach for subject property. The Gross Sellout Value should not be confused with the Market Values, as it does not consider absorption of the units.

Based on analysis of market data, inspection, and research, it is my opinion that the *"As Is" Market Value of the Fee Simple Interest* of Subject Property commonly known as the Peary Court At Key West, 541 White Street, Key West, Monroe County, Florida, based on 157 market rate rental units, plus land including redevelopment entitlements for three additional units (destroyed by fire, that can be rebuilt) and also subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY SEVEN MILLION DOLLARS**
**($57,000,000)**

In addition, based on analysis of market data, inspection, and research, it is my opinion that the *"As Is" Market Value of the Fee Simple Interest* of Subject Property commonly known as the Peary Court At Key West, 541 White Street, Key West, Monroe County, Florida, subject to moderate affordable housing rental restrictions for all 157 units, plus land including redevelopment entitlements for three additional

units (destroyed by fire, that can be rebuilt) and also subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY THREE MILLION DOLLARS**
**($53,000,000)**

Finally, based on research analysis of market data, site visit and research, it is my opinion that the *"As Is " Market Value (Discounted Sellout/Bulk Sale)* of the Subject Property known as Peary Court At Key West, 541 White Street, for the 157 existing units, plus land including redevelopment entitlements for three additional units (destroyed by fire, that can be rebuilt) subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY EIGHT MILLION DOLLARS**
**($58,000,000)**

The valuation herein does <u>not</u> consider any fixtures and equipment other than the typical residential kitchen appliances within the apartments, which I have estimated to have a contributory value of $120,000.

# CERTIFICATION OF VALUE

I HEREBY CERTIFY THAT UPON APPLICATION FOR VALUATION BY:

**Mr. James K. Scholl, City Manager**
**City of Key West**
**P.O. Box 1409**
**Key West, FL 33041-1409**

I have personally examined the following property:

Commonly Known as:

**Peary Court At Key West**
**541 White Street**
**Key West, Monroe County, Florida 33040**

Based on analysis of market data, inspection, and research, it is my opinion that the *"As Is" Market Value of the Fee Simple Interest* of Subject Property commonly known as the Peary Court At Key West, 541 White Street, Key West, Monroe County, Florida, based on 157 market rate rental units, plus land including redevelopment entitlements for three additional units (destroyed by fire, that can be rebuilt) and also subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY SEVEN MILLION DOLLARS**
**($57,000,000)**

In addition, based on analysis of market data, inspection, and research, it is my opinion that the *"As Is" Market Value of the Fee Simple Interest* of Subject Property commonly known as the Peary Court At Key West, 541 White Street, Key West, Monroe County, Florida, subject to moderate affordable housing rental restrictions for all 157 units, plus land including redevelopment entitlements for three additional units (destroyed by fire, that can be rebuilt) and also subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY THREE MILLION DOLLARS**
**($53,000,000)**

Finally, based on research analysis of market data, site visit and research, it is my opinion that the *"As Is " Market Value (Discounted Sellout/Bulk Sale)* of the Subject Property known as Peary Court At Key

West, 541 White Street, for the 157 existing units, plus land including redevelopment entitlements for three additional units (destroyed by fire, that can be rebuilt) subject to definitions, assumptions and limiting conditions, as of September 18, 2015 is:

**FIFTY EIGHT MILLION DOLLARS**
**($58,000,000)**

The valuation herein does not consider any fixtures and equipment other than the typical residential kitchen appliances within the apartments, which I have estimated to have a contributory value of $120,000.

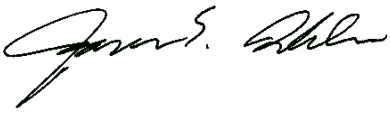
**I ADDITIONALLY CERTIFY** that, to the best of my knowledge and belief:

- The analyses, opinions and conclusions were developed based on, and this report has been prepared in conformance with, my interpretation of the guidelines and recommendations set forth in The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).
- The statements of fact contained in this report are true and correct.
- The reported analyses, opinion, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- 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.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or a direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
- James E. Wilson has made a personal inspection of the property that is the subject of this report

on September 18, 2015.

- No one has provided significant professional assistance to the person signing this report.
- The use of this report is subject to the requirements of the State of Florida relating to review by the Florida Real Estate Appraisal Board of the Department of Professional Regulations, Division of Real Estate.
- The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice.
- No other appraisals, feasibility analysis, nor professional services were rendered by my office in connection to the subject property over the last three years.
- James E. Wilson has completed the Standards and Ethics education requirement of the Appraisal Institute for Associate Members.

APPRAISAL COMPANY OF KEY WEST



James E. Wilson, MRICS, President
State-certified general real estate appraiser
RZ2164

## STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This is an Appraisal Report. The assumptions and the real estate referenced above are more clearly defined in the General and Extraordinary Assumptions and Limiting Conditions plus in the Property Description section of this report. The attached Appraisal Report has been prepared to comply with my understanding of the requirements of the Uniform Standards of Professional Appraisal Practice.

The analyses, opinions and conclusions were developed based on, and this report has been prepared in conformance with, my interpretation of the guidelines and recommendations set forth in The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA).

Typically, the Cost Approach can be employed when valuing similar multi-family use properties. However, due to the age of the structures, the estimate of depreciation rates can become difficult to judge and not considered reliable. However, the subject property buildings were built in the mid 1990's and have been well maintained. In addition, some recent land sales have transpired within the market area. As a result, I have deemed the Cost Approach applicable and given light weight in the reconciliation.

**THIS VALUATION IS CONTINGENT UPON THE FOLLOWING CONDITIONS:**

No termite inspection was made available. A condition report, performed by Atkins Engineers, Inc., 228 Atlantic Boulevard, Suite 400, Key Largo, FL 33037 and dated July 17, 2013 was provided. According to the report, the subject's roof appears to be original and in good condition with "minimal observed required repairs". The appraiser does not warrant the structural integrity, condition of the plumbing, electrical, and HVAC systems of the subject buildings without the benefit of a current engineer's or property inspector's report.

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

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

The property has been appraised as though free of liens and encumbrances. Charges for solid waste collection are a special assessment in Monroe County; delinquent charges for solid waste collection, or

other liens against the subject property, have not been considered in the valuation contained herein as a title search was not made available or conducted by the Appraiser.

The management of the property is assumed to be competent and the ownership in responsible hands. A survey, performed by F.H. Hildebrandt, Island Surveying 3152 Northside Drive, Key West, FL 33040 dated August 1, 2013 (last revision) and a site plan performed by Allen E. Perez, P.E., Perez Engineering and Development, 1010 East Kennedy Drive Suite 201, Key West, FL 33040, dated July 29, 2015, were utilized for site size, dimensions and building measurements. Any deviations from these sizes would likely result in a change in value. Valuation is reported without regard to questions on boundaries. No encroachments were noted in the survey. There is a Public Utility Easement recorded in Monroe County Official Record Book G-56, Page 449; a Florida Keys Aqueduct Authority Easement Deed No. N69450-08-RP-00011; and a Bell South Easement deed No. N62467-98-RP-00114. No responsibility is taken by this office for the accuracy or in regard to any questions on the nature of encroachments, encumbrances, or dissimilarities in measurement. Any maps or plats reproduced and included in this report are intended only for the purpose of showing spatial relationships. They are not measured surveys nor measured maps, and no responsibility for cartographic or surveying errors is assumed. The Appraiser reserves the right to amend the final indicated values if and when any discrepancies are noted or due to site and building dimensions or sizes, encroachments or easements.

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

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

Information, estimates and opinions furnished to the Appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished to the Appraiser is assumed by the Appraiser. Relevant income, expense, and repair costs information for the subject property was provided by the client, Mr. James K. Scholl, City Manager, City of Key West, P.O. Box 1409 Key West, FL 33041-1409. Additional information was provided in the verification process by various real estate agents, buyers, sellers and market participants as well as from the Key West Planning Department.

This report contains the results of my investigation and analysis made in order to furnish an estimate of the *Market Value of the Fee Simple Interest* of the property described herein. The Fee Simple Interest is the unencumbered value of the subject property; basically, market rents and terms are considered with no regard to existing leases and terms. Since there are no long-term leases encumbering the subject property, and as the tenants are renting on an annual basis or less, a Leased Fee valuation was not

applicable in the case at hand. Forty-eight of the existing 157 units are deed restricted as moderate affordable housing units; however, these restrictions will be removed once the new 48 affordable units are constructed (not part of this assignment). Per the City's request, I have valued the subject as an apartment complex with 157 market rate units and also as 157 units leased as moderate affordable (work-force) housing. In addition, I have included the "As Is" Market Value (Bulk-Sale) of the subject property units based on all units being market rate units. Furthermore, in addition to the 157 existing units, the subject includes entitlements to replace three units as the building was destroyed by a fire. As a result, I have also considered the value of the three entitlements. The reader is cautioned that a title search was not made; thus, no other encumbrances are considered herein.

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

The undersigned Appraiser has no present or contemplated future interest in the property and the compensation is in no manner contingent upon the value reported.

Possession of this report does not carry with it the right of publication or advertisement of any of its conclusions, nor may any except the applicant use the same for any purpose without the previous written consent of the Appraiser.

In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the buildings, such as the presence of radon, asbestos insulation and/or existence of toxic waste, which may or may not be present on the property, has not been considered. The appraiser is not qualified to detect hazardous substances, and an expert in the field is recommended. No responsibility is taken by the appraisers or The Appraisal Company of Key West for matters regarding environmental concerns. I urge the client to retain an expert in this field if desired. I reserve the right to change my value conclusion, if and when an environmental audit is performed.

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

ACCORDINGLY NOTICE IS HEREBY GIVEN that neither the Appraiser conducting this appraisal,

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

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