

APPRAISAL REPORT

A Self-Contained Appraisal Report

Property Located At:

CARIBBEAN SPA
529 FRONT STREET, KEY WEST, FLORIDA

Property Type:

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

Prepared For:

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

Valuation Date:

MAY 1, 2011

Prepared By:

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

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

OUR FILE NO.: 148-11



APPRAISAL CO.
OF KEY WEST

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May 27, 2011

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

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

Dear Ms. Wilbarger;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

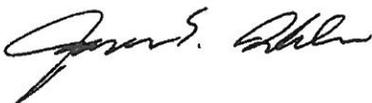
Lastly, based on our site visit, walk-through and research, it is our opinion that the *Leased Fee Interest* of the subject property located at 529 Front Street, Key West, Florida 33040, based on the existing lease terms, plus a new startup as a standalone hotel property at the end of the lease, and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

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

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

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

Respectfully submitted,



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