

**A SELF-CONTAINED APPRAISAL REPORT
OF THE**

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

Appraisal No. 11-105

FOR

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

BY

Lighthouse Realty Services, Inc.
4440 PGA Boulevard, Suite 600
Palm Beach Gardens, Florida 33410



LIGHTHOUSE
REALTY SERVICES

Lighthouse Realty Services, Inc
4440 PGA Boulevard, Suite 600
Palm Beach Gardens, Florida 33410
Phone: (561)-691-0353
Fax : (561)-472-8401
Email: Blair@LighthouseRealtySvs.com

May 26, 2011

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

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

Dear Mr. Finigan:

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

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

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

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

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

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

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

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

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The subject property is currently under a long term ground lease to the Pier House and the lease will expire on May 31, 2020, which is approximately nine years from now. This lease is below market and there is a leasehold position. The appraiser requested operational data from the Pier House Resort & Caribbean Spa in order to value the property under several scenarios for the fee simple client, which is the City of Key West. The hotel operator provided the appraiser with only the three year averages of the Caribbean Spa Building (subject property) ADR, (Average Daily Rate), Occupancy and RevPAR. The appraiser requested operating data for the entire hotel operation as well as separate allocations for revenue and expenses from the spa and meetings rooms. This information was not provided to the appraiser. The appraiser was requested to also value the property based as a going concern as a hotel with the benefit of the Pier House Resort and Caribbean Spa as a whole in the fee simple estate. However, this approach was not valued since I was unable to obtain the information.

I have appraised the property in fee simple assuming the subject is a stand alone property of 22 units(transient) and is not affiliated with the Pier House. In order to value the property under this hypothetical assumption, I have allocated capital needed for start up cost as a stand alone hotel. Further, the meeting rooms will be leased to a third party for use as a restaurant or retail use as meeting rooms would not be needed for a small hotel.

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

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

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

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

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

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

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

SEVEN MILLION DOLLARS
(\$7,000,000)

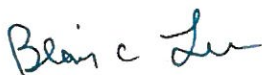
By virtue of our investigation and analyses, it is the opinion of the appraiser that, the Market Value of the subject property, as a leased fee estate, as of April 25, 2011, is:

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

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

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

Respectfully Submitted,



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

EXECUTIVE SUMMARY

Property Type: Caribbean Spa Building.

Report Type: Self-Contained

Intended Use: To aid the client in internal decision making with respect to the possible sale of the property.

Intended User: City of Key West.

Property Information:

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

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

EXECUTIVE SUMMARY (Continued)

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

Census Tract: 9725

Flood Zone: AE

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

Date of Value: April 25, 2011

Date of Report: May 26, 2011

Marketing/Exposure Time: Within 12 months

VALUE INDICATIONS

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