

- The City of Key West engages the appraisal services of two (2) appropriately experienced appraisers. The estimates of value reached by each of the two (2) appraisers are as follows:

Appraisal Company of Key West:

- Fee Simple Interest \$6,300,000
- Leasehold Interest \$3,600,000
- Leased Fee Interest \$3,200,000

Lighthouse Realty Services, Inc.:

- Fee Simple Estate \$7,000,000
- Leasehold Interest \$3,550,000
- Leased Fee Estate \$4,700,000

- A Public Notice is placed in the Key West Citizen declaring the intent of the City of Key West to offer its interest in the real property located at **529 Front Street in Key West, Florida** for sale in accordance with City Charter and Code of Ordinances Section 2-931 through 2-937, Real Property Disposition.
- The City Clerk receives sealed bids for the subject property for sale up through 3:00 p.m., Friday, September 2, 2011. The City Commission opens properly received bids at 5:00 p.m. at a publicly noticed meeting on September 6, 2011 at 525 Angela Street, Key West, Florida. Two (2) bids are received:

City of Key West Police and Fire Pension Board of Trustees

- Bid Price: \$2,100,000
- Conditions placed on Method of Payment and Development Rights.

Pier House Joint Venture, a Florida general partnership

- Bid Price: \$6,300,000
- No Conditions or Contingencies.
- Appraisal Company of Key West and Lighthouse Realty Services, Inc. are engaged to review the bid received from the Pier House Joint Venture and the bid offered by the City of Key West Police and Fire Pension Board of Trustees. Such reviews are made part of the Legistar file.
- City of Key West Police and Fire Pension Board of Trustees withdraw bid on January 20, 2012.

Recommendation:

Both appraisers provided a very sound analytical approach towards their recommendation of sale and both conclude the offer made by the Pier House Joint Venture is reasonable - with stipulation from both appraisers that further negotiation of the \$6,300,000 offered bid is both fair and reasonable. The Pier House Joint Venture submitted a bid which was higher than the current value of their leasehold interest (that estimated value the Pier House could sell the lease today based on the net present value of estimated future cash flows through the lease term). The Pier House Joint Venture's offer of \$6,300,000 was consistent with the value derived by the Appraisal Company of Key West for the subject property when appraised on the basis of *Market Value of the Going-Concern of the Fee Simple Interest*. A \$7,000,000 *Market Value of the Going-Concern of the Fee Simple Interest* was arrived at by Lighthouse Realty Services, Inc. It should be emphasized a major assumption made under a *Market Value of the Going-Concern of the Fee Simple Interest* approach is the subject property is unencumbered and available to market for sale without restriction. Again, this property is unfortunately encumbered by an underperforming \$3,600 per year lease and is not available for sale by the City of Key West without survival of the lease.

Each of the two appraisers provided an excellent explanation for their recommendations based on objective appraisal outcomes. As for Staff's recommendation, it is imperative to consider the recommendations of the two appraisers as well as consider two variables which should factor into the determination of a fair and reasonable price.

- Local commercial real estate brokers will point to current depressed commercial values which show signs of improvement, as evidenced by the strong 2011 room revenue rates and high occupancy numbers. Will commercial value growth over the next eight years be appreciable enough to warrant not moving forward with a sale to the Pier House Joint Venture? Lighthouse Realty Services, Inc. established an appraised market value of \$4,700,000 for the property as encumbered by the lease (Lease Fee Estate). Again, the question then becomes, does the City believe growth in the property's value will exceed the \$6,300,000 offer by Pier House Joint Venture when deciding not to sell and abiding by the lease terms for the term balance. Or, is the premium being offered, the difference between the \$6,300,000 versus the current marketable value of the lease to the lessor (Lease Fee Estate) sufficient to compensate for the varied market risks and rewards that both parties share? Think of it this way. Lighthouse Realty Services, Inc. considered a 2 percent annual growth factor and a 6 percent annual reversion factor when arriving at a \$4,700,000 Lease Fee Estate value. An annual growth factor of better than 5 percent would need to be realized over the balance of the lease for the premium being offered to exceed the bid of \$6,300,000. Is that plausible? The unknowns are the "market risks and rewards that both parties share".
- The Pier House Joint Venture faces the loss of room revenue for 22 rooms in eight years as well as the loss of several critical amenities – most importantly a spa and conference space; amenities which are integral to the overall "Pier House" experience and could not be duplicated on site without the possible

loss of other revenue generating activities. As both appraisers pointed out, financial history for the entire Pier House project – by department/division - was requested in an attempt to understand the dependency and benefit of the 529 Front Street property as it relates to overall project performance. Unfortunately, the Pier House deemed such information proprietary and therefore did not release. Room revenue data was released for the 22 rooms and the appraisers made income/expense estimates for the amenities. Still, without financial information for the balance of the property it was difficult to determine if the \$6,300,000 offered by the Pier House Joint Venture is without question the current *Market Value of the Going-Concern of the Fee Simple Interest for 529 Front Street* – as part of a larger financial activity.

Therefore, the recommendation of Staff is to establish a minimum bid acceptance of \$7,000,000. This amount is the higher of the two appraisals with respect to the current *Market Value of the Going-Concern of the Fee Simple Interest* for 529 Front Street and recognizes the potential upside value of the property over the next eight years as well as the current and future intrinsic and synergistic value of the 529 Front Street property to the entire Pier House project.

Pursuant to Code of Ordinances Section 2-934, Staff is also recommending reimbursement of appraisal fees estimated at \$30,000, provided an agreement is reached with Pier House Joint Venture. Additionally, Staff is recommending all closing costs be paid for by the buyer, Pier House Joint Venture.