

RESOLUTION NO. 12-171

**A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF KEY WEST, FLORIDA, APPROVING THE SALE OF REAL PROPERTY COMMONLY KNOWN AS 529 FRONT STREET (RE NUMBER 00072082-000600); PROVIDING CONDITIONS; PROVIDING FOR AN EFFECTIVE DATE**

WHEREAS, Charter Section 7.03 requires a referendum for a sale of property owned by the City of Key West; and

WHEREAS, the City of Key West owns a parcel of real property commonly known as 529 Front Street (RE Number 00072082-000600), which parcel is the subject of a ground lease between the City and Pier House Joint Venture; and

WHEREAS, on November 2, 2010, the electors of the City of Key West voted to allow the City to consider the sale of such real property in accordance with Key West Code of Ordinances section 2-931 through 2-937 and upon terms and conditions in the best interest of the City; and

WHEREAS, following appraisals of the property and in response to advertised notice of its intent to consider offers for the sale of real property, the City received two bids; and

WHEREAS, at a public meeting held on January 24, 2012, the City Commission reviewed the appraisals, bid responses, referendum language and comments from staff, the public and the appraisers who performed independent bid reviews.

NOW THEREFORE BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF KEY WEST, FLORIDA, AS FOLLOWS:

Section 1: That the City Commission authorizes the sale of the real property commonly known as 529 Front Street (RE Number 00072082-000600) to Pier House Joint Venture in a minimum amount of \$ 7,500,000.00, subject to an acceptable purchase and sale agreement.

Section 2: That the City Manager and City Attorney are authorized to negotiate a final purchase and sale agreement for City Commission consideration.

Section 3: That this Resolution shall go into effect immediately upon its passage and adoption and authentication by the signature of the presiding officer and the Clerk of the Commission.

Passed and adopted by the City Commission at a meeting held this 15th day of May, 2012.

Authenticated by the presiding officer and Clerk of the Commission on May 29, 2012.

Filed with the Clerk May 29, 2012.

ATTEST:

  
CHERYL SMITH, CITY CLERK

  
CRAIG CATES, MAYOR



- 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.



APPRAISAL CO.  
OF KEY WEST

3229 Flagler Avenue, Suite #101  
Key West, Florida 33040  
Telephone: (305) 296-4568  
Fax: (305) 296-0493

Website: [fla-keysappraisals.com](http://fla-keysappraisals.com)  
Email: [jim@fla-keysappraisals.com](mailto:jim@fla-keysappraisals.com)

November 28, 2011

Mr. Mark Finigan, Assistant City Manager  
City of Key West  
525 Angela Street  
Key West, Florida 33040

Subject: Consulting Report:  
Caribbean Spa  
529 Front Street  
Key West, Florida 33040  
Our File No.: 335-11

Dear Mr. Finigan:

The purpose of this report is to provide guidance to the City of Key West with regard to the bid proposals submitted to the City for the purchase of 529 Front Street, Key West, Florida, commonly known as the Caribbean Spa. On May 1, 2011, our firm appraised the subject property and render our opinion of value of the various components 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 to the end of the lease term, and finally (3) *Leased Fee Value* of the subject property, the value to the City of Key West, based on the startup of a new stand-alone hotel operation at the end of the current lease term.

The following paragraphs explain each of the above indicated values in order to better understand the evaluation process and to make a more informed decision. The first value is the "As Is" Market Value of the Fee Simple Interest of the subject property based on the current Highest and Best Use. This is the value of the property assuming that there is no existing lease in place. Simply stated the value of the subject property as though the Pier House owned the real property. Based on our appraisal, we estimated this value at \$6,300,000. Another appraisal was prepared by Mr. Blair Lee, MAI, with an "As Is" Market Value of \$7,000,000. The City of Key West requested an additional 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 and would not provide it to the appraisers. Therefore, this analysis was not possible. Nevertheless, the Pier House Joint Venture did provide us with the three-year average of the Occupancy Rate and Average Daily Rates for the Caribbean Spa parcel.

The second value considered is the Leasehold Value. This is the value of the subject property to the Pier House Joint Venture group for the duration of the lease term. The value assumes that upon expiration

Mark Finigan, Assistant City Manager  
City of Key West  
November 28, 2011  
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of the lease, the Caribbean Spa ceases operations and the property reverts to the City. In our appraisal the Leasehold Value was \$3,600,000.

The third and final evaluation included the Leased Fee Value. This is the value to the City of Key West, which includes the present value of the lease payment of \$3,600.00 per year for the remaining nine years remaining on the lease, plus the present value of the reversion (net sales price upon the sale of the property) at the end of the lease. The reversion value is based on the startup of a new stand-alone hotel operation at the end of the current lease term. In our appraisal, we estimated the future reversion value at the end of the lease to be \$6,800,000. The assumption in this scenario includes an estimated cost of \$449,000 for renovation cost, refurbishing cost and equipment cost needed to make the property suitable for use as a stand-alone hotel operation. The reversion value is speculative because of the current economic conditions and uncertainty over the remaining term of the lease. next nine years into the future. The foregoing explains the evaluations in our appraisal report of May 1, 2011.

Subsequently, the appraisers were provided with two bid proposals for the purchase of the subject property that were submitted to City. Our firm has been hired to review and comment on these proposals. The first proposal is from the Pier House Joint Venture group. Their proposal to purchase the subject property, 529 Front Street, is for \$6,300,000 with a 5% bid bond. This is a cash offer with no conditions or contingencies. The second bid is from City of Key West Police and Fire Pension Board of Trustees. Their proposal to purchase the subject property is for \$2,100,000 with a 5% bid bond. Their bid is conditioned upon the City of Key West and the Board of Trustees negotiating acceptable payments terms.

The Pier House Venture group bid is consistent with the subject property's market value. The purpose of this consulting assignment is to provide you with guidance regarding the following questions.

- Should the City of Key West accept the Pier House Venture group offer "as is" or negotiate it?
- If the City chooses to negotiate, what should the price and terms be?
- If the City chooses not to sell at this time, what is the future value of the property and other issues of concern?

In our opinion, if the City chooses to sell the subject property at this point in time, the Pier House Venture group offer is very realistic as the offer price is consistent with our previously estimated "As Is" Market Value of the Fee Simple Interest. However, Mr. Blair Lee's appraisal was for \$7,000,000 or \$700,000 more than the offer. Because of this divergency in value, we suggest that the City should negotiate the price somewhere between the two value estimates (\$6,300,000 and \$7,000,000), which is typical.

The Pier House Venture group is the best potential buyer, as they would receive the greatest benefit from the purchase of the property, verses any other purchaser that would be buying the existing lease with the



Mark Finigan, Assistant City Manager  
City of Key West  
November 28, 2011  
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potential conversion the property at the end of the lease in May 2020. Another buyer would consider or subtract costs to convert and renovate/retrofit the property into an alternative use. Additionally, a potential buyer would be speculating on the future value in an uncertain economy.

In our appraisal, we estimated the prospective value with considering the above mentioned assumptions at \$6,800,000 in May 2020. This value assumes that the City holds the property until the end of the lease term. There is a difference of \$500,000 between the fee simple value and the estimated value at the end of the lease, without considering the time value of money or the risk factor. If you considered the time value of money at a 3% inflation rate, the net present value, (value today) would be \$5,000,000 (rounded) which does not consider the risk or liquidity factor. This is further support to counter and/or accept the Pier House Venture group offer.

The positive features of the subject property are its location being adjacent to many of the high-end lodging facilities, its proximity to the water and frontage on Front Street near many tourist attractions. The negative factors are as follows: the property does not have off-street parking; it is not directly on the water as the other hotels in the neighborhood; the existing 22 transient licenses and ROXO's were assumed to go with the overall resort property; and finally the Highest and Best Use is as part of a luxury hotel facility. In regards to the licensing, if the subject transient licensing ROXO's do not convey with the property, a potential buyer would have to purchase these licenses and rights at an additional cost, if they are available and if the subject is a suitable receiving site. Furthermore, the appraisers explained that the Highest and Best Use of the subject property "As Is" is as a luxury hotel facility in our appraisal report. Any other alternative use would likely produce a lower return or yield to the land.

The potential buyer of the subject property would probably be either the current lessee or another adjacent or nearby existing lodging owner that would use this property as an annex or extension to their present operation. Hence, this really limits the number of potential buyers, especially with the current economic conditions and uncertainty.

In our opinion, you would receive a greater economic benefit by selling now, rather than waiting till the termination of the lease. This opinion is strictly based on the greatest monetary return and does not take public or social issues into account, as social benefits are very difficult to measure.

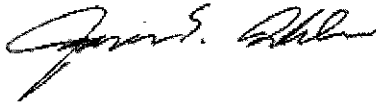
This is a consulting assignment report which is intended to comply with the reporting requirements set forth under Standard Rule 5 of the Uniform Standards of Professional Appraisal Practice for a consulting report. As such, it presents limited discussion of the data, reasoning, and analyses. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

Mark Finigan, Assistant City Manager  
City of Key West  
November 28, 2011  
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This consulting report is prepared for the sole use of and benefits of Mark Finigan, Assistant City Manager, City of Key West and is based, in part, upon documents, writings, and information owned and possessed by the client. This report is provided for informational purposes only to third parties authorized to receive it. The appraiser-client relationship is with the City of Key West, as the client. This report should not be used for any purpose other than as guidance for the City of Key West concerning this property.

If you have any questions regarding this consulting report, please feel free to contact us. Thank you for giving me the opportunity to provide this service for you. This transmittal letter must remain attached to the report, which contains 18 pages including related exhibits, in order for the value opinion set forth to be considered valid.

Respectfully submitted,



James Wilson, MRICS, President  
St. Cert. Gen. REA  
RZ 2164



Richard Padron, CCIM, MSA  
St. Cert. Gen. REA  
RZ 544

Report Attached: R:\Comm-11\335-11\Comm-335-11.wpd

# CONSULTING REPORT

**Property Commonly Known as:**

*CARIBBEAN SPA*  
529 FRONT STREET, KEY WEST, FLORIDA

**Property Type:**

A 22-UNIT HOTEL WITH HEALTH SPA & CONFERENCE CENTER FACILITY

**Prepared For:**

MR. MARK FINIGAN, ASSISTANT CITY MANAGER  
CITY OF KEY WEST  
525 ANGELA STREET  
KEY WEST, FLORIDA 33040

**Report Date:**

NOVEMBER 18, 2011

**Prepared By:**

James Wilson, MRICS, President  
St. Cert. Gen. REA  
RZ 2164

Richard Padron, CCIM, MSA  
St. Cert. Gen. REA  
RZ 544

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

**OUR FILE NO.: 335-11**

**SUMMARY OF FACTS AND CONCLUSIONS**

**Subject Property Address:** 529 Front Street  
Key West, Florida 33040

**Client/Intended User:** Mr. Mark Finigan, Assistant City Manager  
City of Key West  
525 Angela Street  
Key West, Florida 33040

**Property Type:** Leased Fee 22-Unit Hotel with Health Spa & Conference Center Facility

**Land Size:** 21,643 Square Feet or 0.50 Acres

**Zoning:** HRCC-1, Historic Commercial Core District, City of Key West

**Flood Hazard Zone:** Map No.: 12087C1516K, 2/18/05; Zone "AE", Elevation 7-9 feet

**Highest and Best Use:**  
"As Improved" As a transient hotel with a maximum of 22 units, as currently licensed, plus accessory uses obtaining maximum utilization of the land.

**Gross Building Area & Improvement Description:**

Subject Property Improvement Description Caribbean Spa 529 Front Street, Key West, FL 33040									
Floor Level	No. Units	Type Construction	Year Built	Description	First G.B.A. Sq. Ft.	Open Porch Sq. Ft.	Unfin. Porch Sq. Ft.	Utility/ Storage Sq. Ft.	Patio Area Sq. Ft.
First	7	CBS/masonry	Approx. 1968, Last Renovated 2008	Rooms, Spa, Fitness Center, Conference Rooms	12,985	1,673	525	650	835
Second	15	CBS/masonry	Approx. 1968, Last Renovated 2008	Rooms / Suites	11,203	1,903	596		
<b>Total</b>	<b>22</b>				<b>24,188</b>	<b>3,576</b>	<b>1,121</b>	<b>650</b>	<b>835</b>

**Number of Units:** 22 transient Guest Units with off-site Office

**Date of Report:** November 28, 2011

**Hypothetical Assumptions:** It should be noted that the Fee Simple valuation in our appraisal of the subject property dated May 1, 2011, Our File Number 148-11, is based on a hypothetical condition, that the subject property is currently owned in fee simple estate, when in fact there is an existing long-term lease encumbering the property.

## CONSULTING REPORT

This is a consulting assignment report which is intended to comply with the reporting requirements set forth under Standard Rule 5 of the Uniform Standards of Professional Appraisal Practice for a restricted appraisal report. As such, it presents limited discussion of the data, reasoning, and analyses. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report. The reader is referred to the appraisal report prepared by our office, File Number 148-11, with a valuation dated of May 1, 2011. The reader is referred to the Scope of Work section of this report for details regarding the assignment herein.

### CLIENT/

**INTENDED USER:** Mr. Mark Finigan, Assistant City Manager  
City of Key West  
525 Angela Street  
Key West, Florida 33040

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

Richard Padron, CCIM, MSA  
St. Cert. Gen. REA  
License No. RZ 544

**SUBJECT:** Caribbean Spa  
529 Front Street  
Key West, Florida 33040

## **PURPOSE AND INTENDED USE OF THE CONSULTING REPORT**

The *purpose* of this consulting report is to provide guidance to the City of Key West with regard to bid proposals submitted to the City for the purchase of 529 Front Street, Key West, Florida, commonly known as the Caribbean Spa. Furthermore, to evaluate the offers on the subject property based on the appraisal prepared by our office dated May 1, 2011, of the various components 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 to the end of the lease term, and finally (3) *Leased Fee Value* of the subject property, the value to the City of Key West, based on the startup of a new stand-alone hotel operation at the end of the current lease term.

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 *intended use* of this consulting assignment is to provide general information and guidance to the City Officials to help them evaluate and make an informed decision on whether or not to sell the subject property. The *intended user* of the appraisal report is Mr. Mark Finigan, Assistant City Manager, City of Key West, 525 Angela Street, Key West, Florida 33040.

## **MARKET VALUE DEFINITION**

Market Value, in the definitions of the Uniform Standards of Professional Practice, is 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. Implicit in this definition is 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; and
- e) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

### **MORE DEFINITION**

According to The Dictionary of Real Estate Appraisal, Fourth Edition, Fee Simple Estate is absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Leased Fee: 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.

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

### **DESCRIPTION OF THE SUBJECT PROPERTY**

Please refer to our appraisal report dated May 1, 2011, Our File Number 148-11, for details of the physical real estate.

### **SCOPE OF WORK, DEVELOPMENT AND REPORTING PROCESS**

The appraisers' opinion in preparing this consulting report is based on the appraisal report prepared by our office dated May 1, 2011, Our File Number 148-11. The subject property information in that report is the basis of our opinion and analysis herein. Furthermore, our guidance is based the assumptions and limiting conditions in that report.

This consulting report is a brief recapitulation of the appraiser's analyses and conclusions. Supporting documentation is retained in the appraiser's file.



## SUMMARY AND CONCLUSION

In our opinion, if the City chooses to sell the subject property at this point in time, the Pier House Venture group offer is very realistic as the offer price is consistent with our previously estimated "As Is" Market Value of the Fee Simple Interest and did not have any contingencies or conditions. However, because of this divergency in value between the two appraisals, we suggest that the City should negotiate the price somewhere between the value of the two appraisals, \$6,300,000 (our appraisal) and \$7,000,000 (appraisal prepared by Mr. Blair Lee).

The Pier House Venture group is the best potential buyer, as they would receive the greatest benefit from the purchase of the property, verses any other purchaser that would be buying the existing lease with the potential conversion of the property at the end of the lease in May 2020. Another buyer would consider or subtract costs to convert and renovate/retrofit the property for an alternative use. Additionally, a potential buyer would be speculating on the future value in an uncertain economy.

If you choose not to sell at this time, but rather at the end of the lease term, in our appraisal we estimated the prospective value with the above mentioned speculative assumptions at \$6,800,000 in May 2020. There is a difference of \$500,000 (\$6,800,000 - \$ 6,300,000) between the Fee Simple value and the prospective value at the end of the lease, without considering the time value of money or the risk factor. If you considered the time value of money at a 3% inflation rate, the net present value (value today) would be \$5,200,000 (rounded), which does not consider the risk or liquidity factors. Hence, this further support to counter and/or accept the Pier House Venture group offer.

Other factors that need to be considered are the property does not have off-street parking; its proximity to the water as the other hotels in the neighborhood; the existing 22 transient licenses ROXO's were assumed to go with the overall resort property; and finally the Highest and Best Use is as part of a luxury hotel facility. In regards to the licensing, if the subject transient licensing and ROXO's does not convey with the property, a potential buyer would have to purchase these licenses and rights at an additional cost, if they are available and if the subject is as a suitable receiving site. Furthermore, the appraisers explained that the Highest and Best Use of the subject property "As Is" as a luxury hotel facility. Any other alternative use would likely produce a lower return or yield to the land. Thus, a potential buyer of the subject property would probably be either the current lessee or some other existing hospitality owner that would use this property as an annex or extension to their present operation. This really limits the number of potential buyers, especially with the current economic conditions and uncertainty.

In conclusion, economically speaking, you would receive a greater benefit selling now, rather than waiting till the termination of the lease. This opinion is strictly based on the greatest monetary return and does not take public or social issues or benefits into account, as social values are very difficult to measure.

**CERTIFICATE OF CONSULTING ASSIGNMENT**

We have personally examined the following described property:

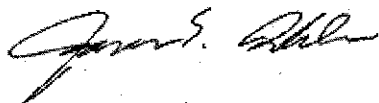
COMMONLY KNOWN AS:           **CARIBBEAN SPA**  
                                                          **529 FRONT STREET**  
                                                          **KEY WEST, FLORIDA 33040**

**AND DO HEREBY CERTIFY** that, to the best of our knowledge and belief:

- 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.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our 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.
- Our 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 and Richard Padron have made a personal walk through and site visit of the property that is the subject of this report on April 7, 2011. Our office has previously appraised the subject property with an effective valuation date of May 1, 2011.
- No one has provided significant professional assistance to the persons 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 of the Appraisal Institute.
- James E. Wilson has completed the Professional Standards and Ethics Education of the Appraisal Institute for Associate Members.

APPRAISAL COMPANY OF KEY WEST



James Wilson, MRICS, President  
St. Cert. Gen. REA  
RZ 2164



Richard Padron, CCIM, MSA  
St. Cert. Gen. REA  
RZ 544

### ASSUMPTIONS AND LIMITING CONDITIONS

APPRAISAL DEVELOPMENT AND REPORTING PROCESS: In preparing this report, the appraiser performed a site visit to the subject site. Information on comparable improved sales, rents and expenses was gathered, confirmed, and analyzed. This is a consulting report which is intended to comply with the reporting requirements set forth under Standard Rule 5 of the Uniform Standards of Professional Appraisal Practice. As such, it might not include full discussions of the data, reasoning, and analyses. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this 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 consent and approval of the appraiser.

The distribution of value between land and building applies only under the present program of utilization and is invalidated if used in making a summation appraisal. The value of the whole is not necessarily the sum of the estate or parts.

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, except as herein described. 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 appraisers.

The management of the property is assumed to be competent and the ownership in responsible hands.

Our appraisal report, File No. 148-11, dated May 1, 2011, 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 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 possessor interest created by a lease" which could be either positive or negative.

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 herein.

A survey of the entire Pier House property which the subject property parcel is included was made available. The survey was prepared by 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, the appraiser reserves 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.

At the time of inspection, the appraisers were given interior access to the various unoccupied units, each was represented as a typical unit type. We have assumed that these were good samples of the subject's transient units and are representative of the current condition of the uninspected units.

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 can be assumed by the Appraiser. Subject information used in the preparation of this report was provided by Ms. Joy Smatt, General Manager, Mr. Ken Marsh, Chief Engineer and The Richard E. Jacobs Group, Inc. of the Pier House Resort, City of Key West Assistant City Manager, Mr. Mark Finigan, Senior Property Manager, Ms. Marilyn Wilbarger and Planning Department Staff, Local Developers and Real Estate Brokers.

The Americans with Disabilities Act ("ADA") became effective January 26, 1992. The appraisers have 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. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser have no direct evidence relating to this issue, possible noncompliance with the requirements of the ADA in estimating the value of the property has not been considered.

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 Appraisers have no present or contemplated future interest in the property and the compensation is in no manner contingent upon the value reported.

The appraiser does not assume the responsibility for the condition of the roofs, termite damage, nor the physical condition of the structures without the benefit of a complete engineering report. However, the roof was replaced in 2008 and the building was totally renovated.

In the appraisal assignment, our File No. 148-11, the existence of potentially hazardous material used in the construction or maintenance of the building, 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. As the subject building was originally built before 1978, it is possible that the building contains lead-based paint, although it was completely renovated in 1989 and 2008. The appraiser is not qualified to detect such substances. I urge the client to retain an expert in this field if desired. The subject property had been utilized for light manufacturing up until 1987. It is unknown if there has been

any environmental concerns. An environmental site assessment report was not made available to the appraiser.

This appraisal report has been made in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the appraisal organizations with which the Appraiser is affiliated.

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 has 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 appraisers 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.

We do hereby certify that to the best of our 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 included in this report; also this report has been made in conformance with the National Association of Real Estate Boards and the Appraisal Institute.



## PROFESSIONAL QUALIFICATIONS

### JAMES E. WILSON, III

James E. Wilson has been a resident of South Florida since 1976. His education includes a Bachelor of Science in Business Administration with a Major in Economics from the University of Florida, 1987-1991. His experience in the real estate industry began in early 1992 as a residential real estate appraiser in Pompano Beach, Florida. He appraised a wide variety of single and multi-family residential properties in Dade, Broward, and Palm Beach counties over a two-year period. In the search of advancement and challenge, James Wilson moved to the City of Key West, Monroe County, Florida in order to obtain experience and practice commercial real estate appraisal valuation techniques in a demanding and somewhat unique market area. Over the past 18 years James has been exposed to a wide-range of appraisal projects, including highest and best use studies, complex property appraisals, and wetland and environmentally sensitive valuations including transferrable development rights. His appraisal experience includes financial and investment analysis, appraisal review, feasibility and planning analysis, as well as market research and analysis. James Wilson has strived from a State Registered Real Estate Appraiser (apprentice) to a State Certified Residential Real Estate Appraiser to a State Certified General Real Estate Appraiser (licensed to perform residential and commercial appraisals) and a General Associate Member of the Appraisal Institute. He has passed the General Comprehensive Test of the Appraisal Institute and is completing the Demonstration Report, in order to fulfill the remaining requirements to become a Member of the Appraisal Institute (MAI). He is a recent member of RICS (Royal Institution of Chartered Surveyors), which is an international member organization for professionals in property, land, real estate, construction and related environmental issues.

**Education:** **SOUTH BROWARD HIGH SCHOOL**, Hollywood, FL, 1987.

**UNIVERSITY OF FLORIDA**, Gainesville, Florida - Bachelor of Science in Business Administration - Major in Economics, 1987-1991.

#### APPRAISAL INSTITUTE

Appraisal Reporting of Complex Residential Properties, October, 1993.

Persuasive Style in Narrative Appraisal Reports, May, 1994.

ACE 1779 - "Special Purpose Properties - The Challenge of Real Estate Appraising in Limited Markets", September, 1996.

410 Standards of Professional Practice, Part A (USPAP), 8/97.

420 Standards of Professional Practice, Part B, August, 1997.

520 Highest & Best Use and Market Analysis, October, 1997.

Non-Conforming Uses Seminar, January, 1998.

510 Advanced Income Capitalization, May, 1998.

530 Advanced Sales Comparison & Cost Approach, May, 1998.

540 Report Writing & Valuation Analysis, August, 1998.

550 Advanced Applications, February, 1999.

Regression Analysis in Appraisal Practice: Concepts & Applications, Seminar, March, 2000.

General Demonstration Appraisal Report Writing Seminar, March, 2000.

800 Separating Personal & Real Property from Intangible Business Assets, March, 2002.

Successful Completion of the General Comprehensive Examination for the Appraisal Institute

Uniform Appraisal Standards for Federal Land Requisitions, March, 2007

General Demonstration Appraisal Report Writing Seminar, August, 2007

Valuation of Conservation Easements, January, 2008.

Appraising Distressed Commercial Real Estate, June, 2009

Oil Spills and Property Values, Webinar, August, 2010

Business Practices and Ethics, September, 2010

Appraisal Curriculum Overview (2-day General) May, 2011



**Professional Qualifications of James E. Wilson, III (Continued)**

**GOLD COAST SCHOOL OF REAL ESTATE (Continued)**

Real Estate Principles, Practices, and Law - FREC Course I, May, 1992.  
Salesman Post-License Program, February, 1994.  
Mortgage Broker, Exam-Prep Program, September, 1992.  
AB I - Appraisal Board - Fundamentals of R.E. Appraising, 5/92.  
AB II - Appr. Board - Appraising Resid. & Income Properties, 2/94.  
AB IIIb - Appraisal Board - Cert. Resid. Appraisal Course, 7/94.  
AB III - Appraisal Board - Certified General Appraisal Course (Income Capitalization Course),  
February, 1995.  
USPAP - Uniform Standards of Professional Appraisal Practice, 6/92.  
USPAP Course, September, 1995.  
A-102 - Plan Reading for Appraisers, September, 1995.  
National USPAP Update Course, June 2006  
Techniques of Income Property Appraisal, June 2006

**McKISSOCK DATA SYSTEMS**

Automated Valuation Models, October, 2000.  
Uniform Standards of Professional Appraisal Practice, October, 2000.  
Factory Built Housing, October, 2000.  
Appraiser Liability, September, 2002.  
Appraising Nonconforming & Difficult Properties, September, 2002.  
Appraiser Liability, USPAP, September, 2002.  
Appraising for the Secondary Market, October, 2004.  
Appraising High-Value Residential Properties, October, 2004.  
Florida Laws and Regulations, October, 2004.  
Limited Appraisals and the Scope of Work Decision, October, 2004.  
National USPAP Equivalent, October, 2004.  
Florida Laws and Regulations, September 2006.  
Disclosures and Disclaimer, September, 2006.  
Appraisal Trends, September 2006.  
National USPAP Update Equivalent(2008-2009), November, 2008.  
Introduction to Expert Witness Testimony, November 2008.  
Mortgage Fraud-Protect Yourself, November, 2008.  
Florida Appraisal Supervisor-Trainee Roles and Relationships, November, 2008.  
Florida Laws and Regulations, November, 2008.  
National USPAP Update Equivalent (2010-2011), August, 2010.  
Risky Business: Ways to Minimize Liability, August, 2010.  
Florida Laws and Regulations, August 2010.  
Florida Appraisal Supervisor-Trainee Roles and Relationships, August, 2010.  
The Changing World of FHA Appraising, August, 2010.

**VALUE INFORMATION TECHNOLOGY, INC.**

"Perspectives on Appraisals" FREAB Course ACE#1591, June, 1995.

**NORTH BROWARD BOARD OF REALTORS**

ACE 591 - Basics of Construction - How a Florida Home is Built II, January, 1994.

**Certification:**

State certified general real estate appraiser, as designated by the Department of Professional Regulation, State of Florida; Registration No. RZ 2164.

Licensed Real Estate Salesperson, as designated by the Department of Professional Regulation, State of Florida; License No. SL 0589552 (currently inactive).

**Professional Associations:**

Key West Board of Realtors  
General Associate Member of the Appraisal Institute  
Member of RICS (Royal Institute of Chartered Surveyors), October, 2010 Member#1299389

**Affiliations:**

Past President of the Key West Gator Club (Alumni Organization of the University of Florida)  
Member of Class VIII, Leadership Monroe County  
Board Member of the Rotary Club of Sunset Key West  
2009 Treasurer, 2010 Vice President, 2011 President-Elect, Board of Directors of the Key West Chamber of Commerce

**Experience:**

**WILCO VALUATIONS, P.A. d/b/a APPRAISAL COMPANY OF KEY WEST**, James Wilson, President and his wife, Maria Virginia Wilson, also a State Certified General Real Estate Appraiser purchased the Appraisal Company of Key West from Mr. Richard Padron in April, 2004. Mr. Padron has continued to be a Fee Commercial Real Estate Appraiser with the Appraisal Company of Key West, which has ensured continuity and quality control.

**APPRAISAL COMPANY OF KEY WEST, INC.**, Fee Commercial Real Estate Appraiser, April, 1994 to April, 2004.

**F.C.P. APPRAISAL SERVICES, INC.**, Senior Real Estate Appraiser and Trainer, May, 1992 to April, 1994.

Appraised various types of properties in the Florida Keys, including:

- |                       |                                          |
|-----------------------|------------------------------------------|
| Retail Stores         | Commercial/Residential Condominiums      |
| Restaurants           | Full-Service Marinas/Boat Yards          |
| Strip Centers         | Environmentally Sensitive Acreage        |
| Office Buildings      | Industrial Uses                          |
| Mixed-Use Properties  | Guest Houses /Hotels/Motels              |
| Service Stations      | Mobile Home and RV Parks                 |
| Multi-family Projects | Warehouse (including mini-storage)       |
| Proposed Developments | Special-Use Properties including Schools |
| Single-family Estates | Seafood Processing Plants                |

**APPRAISER CERTIFICATION**

ADP 5171203

STATE OF FLORIDA  
DEPARTMENT OF BUSINESS AND PROFESSIONAL REGULATION  
FLORIDA REAL ESTATE APPRAISAL BOARD SEQ# D10092703406

DATE	BATCH NUMBER	LICENSE NBR
09/07/2010	160117199	R22154

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

WILSON, JAMES E  
3229 FLAGLER AVE #101  
KEY WEST FL 33045-2152

CHARLIE CRIST GOVERNOR  
CHARLIE LIEM SECRETARY

DISPLAY AS REQUIRED BY LAW

## Professional Qualifications

### Richard Padron, CCIM, MSA, AAR, SRC

Richard Padron has a diverse background in the real estate industry. His experience and education in the real estate profession have continually excelled. He has been affiliated in residential construction, real estate development and the real estate brokerage business for more than 28 years. During this time, he has managed construction projects, marketed, and sold several hundred homes in various subdivisions in the Florida Keys and Key West, and has appraised thousands of single family, multi-family and commercial properties. His real estate career has involved the entire development process from acquisition to project sellout, including the permitting and operation of wastewater treatment systems, as well as dealing with environmental concerns.

Prior to founding the firm, Appraisal Company of Key West, Inc., Mr. Padron formed the corporation of Richard Padron & Associates, Inc., a real estate brokerage corporation. These corporations have been in existence since 1984, providing all types of real estate services, including brokerage; market, financial and investment analysis; expert witness testimony; appraisals; property operation review, and planning and feasibility analysis.

**Education:** Real Estate Certificate from Florida Keys Community College

### Professional Activities:

MSA: Master Senior Appraiser, (1984). Certificate No. 00883.  
CCIM: Certified Commercial-Investment Member, (1986). Certificate No. 2765.  
AAR: Accredited in Appraisal Reviewer, (1987). Certificate No. 77.  
SRC: Senior Real Estate Councilor, (1993). Certificate No. 89.

**Certification:** State-Certified General Real Estate Appraiser, License No. 0000544, (1990).  
Licensed Real Estate Broker, State of Florida.  
Licensed Class A Wastewater Treatment Plant Operator, State of Florida.

**Associations:** National Association of Realtors  
Florida Association of Realtors  
Key West Board of Realtors  
Marathon and Lower Keys Board of Realtors.  
National Association of Master Appraisers  
Commercial-Investment Real Estate Council.  
Accredited Review Appraisers Council  
National Association of Counselors

**Experience:** Appraisal Company of Key West, Inc. (Since 1987)  
 Richard Padron & Associates, Inc. (Since 1984)  
 Michael A. Padron, Inc. (1978-1984)  
 Riviera Enterprises, Inc. (1968-1984)

**Area of Expertise:**

- Analysis and evaluation of many types of real estate
- Assessment of project feasibility including:
  - Market research, investment analysis, and feasibility study
  - Highest and Best Use Analysis
- Litigation support and expert witness testimony
- Types of properties appraised, evaluated, and analyzed:
  - Hotels, Motels & Guesthouses
  - Retail/Office and/or Specialty Stores
  - Shopping Centers & Malls
  - Warehouses (Mini, Storage & Distribution)
  - Restaurants
  - Highest & Best Use Study
  - Theaters
  - Mobile Home & Recreation Vehicle Parks
  - Marinas, Boat Storage & Repairs
  - Single Family Residential & Condominiums
  - Seafood Packing House
  - Multi-Family & Income Properties
  - Multi-Family Projects
  - Environmentally Sensitive Tracts
  - Proposed Development Projects

**APPRAISER CERTIFICATION**

AG# 5249160		STATE OF FLORIDA	
		DEPARTMENT OF BUSINESS AND PROFESSIONAL REGULATION FLORIDA REAL ESTATE APPRAISAL BD	
		SEQ# 110093806962	
DATE	BATCH NUMBER	LICENSE NBR	TITLE SP.
09/30/2010	100162762	RZ544	
The CERTIFIED GENERAL APPRAISER Named Below IS CERTIFIED Under the provisions of Chapter 475 FC. Expiration date: NOV 30, 2012			
PADRON, RICHARD 3229 FLAGLER AVE #101 KEY WEST		FL 33040	
CHARLIE CRIST GOVERNOR		CHARLIE LIEM SECRETARY	
DISPLAY AS REQUIRED BY LAW			

**Lighthouse Realty Services, Inc.**

4440 PGA BOULEVARD, SUITE 600  
PALM BEACH GARDENS, FL 33410  
PHONE: (561) 691-0353

December 3, 2011

City of Key West  
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:

I have prepared a letter at your request in response to an offer that was made on September 2, 2011 of the above referenced property. This assignment is considered a consulting assignment and the purpose of this letter was to determine if the offer price was reasonable. The effective date of this consulting assignment is November 30, 2011.

The property is located at 529 Front Street within the City of Key West, Monroe County, Florida. It 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 good condition. The property was upgraded and the FF & E (Furniture, Fixture & Equipment) was replaced in 2008. The land 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. 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, which is well below market rates.

I was engaged earlier in the year by the current client to appraise the property for possible sale purposes. The effective date of that appraisal was as of April 25, 2011. Since that appraisal the client received an offer dated September 2, 2011 from the lessee to purchase the property.

The prior appraisal estimated: 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, the Market Value of the subject property as a Leased Fee Estate, and the Market Value of the Leasehold Interest.

As discussed earlier, the property is under a long term ground lease to the Pier House and the lease will expire on May 31, 2020. 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. In the appraisal performed as of April 25, 2011, 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 utilized since I was unable to obtain the information. In the prior appraisal, under a hypothetical assumption, I valued the property in fee simple assuming the subject was a stand-alone property of 22 units (transient) and is not affiliated with the Pier House. The property was appraised under a hypothetical assumption in which I had allocated capital needed for startup cost as a stand-alone hotel. Further, the meeting rooms would 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.

For the fee value, the appraiser's projections of revenue and expenses, was 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.

To recap, the appraisal concluded that there was significant leasehold value in the property due to the below market lease. The concluded values relevant to this consulting assignment are the Fee Simple and Leased Fee values. The conclusion of the subject as a stand-alone property based on the total assets of the business or a going concern as a hotel under the Fee Simple Estate was \$7,000,000. The Market Value of the subject property as encumbered by the existing lease (Leased Fee Estate) was \$4,700,000.

I was provided a letter of intent from the City of Key West to consider for this assignment. The lessee, Pier House Joint Venture submitted a letter of intent dated September 2, 2011 for the purchase of the property for \$6,300,000. The offer had no conditions or contingencies with this bid.

The offer price is well above the Leased Fee value and below the concluded hypothetical fee value. In the prior appraisal the FF& E (Furniture Fixtures & Equipment) was allocated \$425,000, which would reduce the property fee value for the real estate only at \$6,575,000. Since the property is under a current lease, the Leased Fee value would be more appropriate for most investors. The current lease impacts the fee simple value significantly due to the fact the lease payments are well below market. The leaseholder has a vested interest in the property and is offering to pay a premium due to the additional benefits to their adjacent resort operation.

This report has been prepared for the City of Key West. The intended use was to assist the client in determining if a recent offer from the lessee is considered reasonable. The scope of work performed is specific to the needs of the intended user and the intended use. No other use is intended, and the scope of work may not be appropriate for other uses.

As a result of my investigation and analysis of the information obtained therefrom the client as well as the prior appraisal, the offer made to the City of Key West appears to be reasonable based on the fact they are paying well above the appraised Leased Fee Value since there is a significant below market lease in place. I would also recommend that the City of Key West make a higher counter offer as the lessee has a desire to prohibit any others from purchasing the property.

Your attention is directed to the Limiting Conditions and underlying assumptions upon which the analysis and conclusions are contingent. It is my opinion that the following consulting report has been prepared in conformity with the Uniform Standards of the appraisal practice (UAPAP).

Should you have any questions regarding this report, please do not hesitate to contact me.

Respectfully submitted,



Blair C. Lee, MAI  
State Certified General Real  
Estate Appraiser, No. RZ2125

BCL (File 11-201)



### **Purpose of Assignment**

The purpose of the letter is to determine if the recent offer made by the lessee was reasonable.

### **Intended Use**

The client, City of Key West is considering a recent offer for possible sale purposes on the property and has requested an opinion from the appraiser based on the fact it was appraised in April 2011.

### **Market Value**

According to the agencies that regulate federal financial institutions in the United States of America (FIRREA), *Market Value* is defined as "the most probable selling price in terms of money which a property should bring in a competitive and open market under all conditions requisite to be fair sale, the buyer and seller, each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus".

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

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

### **Property Rights Definitions**

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

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

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

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

The subject parcel is encumbered by a long term ground lease that began in 1965. The current tenant (lessee) assumed the lease in August 1987. The current lease is under the ownership of the Pier House Lease Joint Venture. The lease calls for annual payments of \$3,600 per year and the tenant is responsible for all expenses and upkeep. The lease expires on May 31, 2020. Due to the low rent payment there is a leasehold position of the tenant or lessee.

#### Extraordinary Assumptions

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

None.

#### Hypothetical conditions

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

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

### **Legal Description**

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

Beginning at the intersection of the westerly line of Simonton Street and the northerly line of front street; thence run westerly along the northerly line of Front Street, 88 feet 4 inches to Lot 2 of said Square; thence run at right angles Northerly and parallel with Simonton Street a distance of 245 feet; thence run at right angles and parallel with front street a distance of 88 feet, 4 inches back to said westerly line of Simonton Street; thence run along the said westerly line of Simonton Street, a distance of 245 feet to the point of beginning, containing .0497 acres, more or less.

### **Preface to Value/Scope of the Assignment**

In preparing this letter, I have relied upon the offer provided by the client, and used information that was contained in an appraisal that I performed on this property in April 2011. I have complied with Standards Rule 4 in regards to consulting assignments. The information in regards to the offer was presented earlier in the body of the letter.

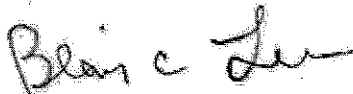
## CERTIFICATION

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

- \* the statements of fact contained in this report are true and correct.
- \* the reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, conclusions and recommendations.
- \* I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- \* I have no bias with respect to any property that is the subject of this report or to the parties involved in this assignment.
- \* My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- \* My compensation for completing this consulting assignment is not contingent upon the developing or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this assignment or appraisal.
- \* My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Practice adopted by the Appraisal Standards Board of Appraisal Foundation.
- \* No one provided significant professional assistance to the person signing this report.
- \* I currently hold an appropriate state license or certification allowing the performance of real estate appraisals in connection with federally related transactions.
- \* I appraised this property for the current client with an effective date as of April 25, 2011.

As of the date of this appraisal I have completed the continuing education program of the Appraisal Institute.

Respectfully submitted,



Blair C. Lee, MAI  
State Certified General Real  
Estate Appraiser, No. RZ2125

## ASSUMPTIONS AND LIMITING CONDITIONS

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

- 1) No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be good and marketable.
- 2) All existing liens and encumbrances, (except the existing leases if any) have been disregarded, and the property is appraised as though free and clear.
- 3) Responsible ownership and competent property management are assumed.
- 4) The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
- 5) All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
- 6) It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
- 7) It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless non-compliance, is stated, defined, and considered in the appraisal report.
- 8) It is assumed that all applicable zoning and use regulations and restrictions have been complied with, except where non-conformity has been stated, defined, and considered in the appraisal report.
- 9) It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

**ASSUMPTIONS AND LIMITING CONDITIONS** (Continued)

- 10) It is assumed that the utilization of the land and improvements is within the boundaries of property lines or the property described and that there is no encroachment or trespass unless noted in this report.
- 11) Subsurface rights were not considered in making this appraisal.
- 12) The distribution, if any, of the total valuation of this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
- 13) Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event only with proper written qualification and only in its entirety.
- 14) The appraiser herein by reason of this appraisal is not required to give further consultation, testimony, or be in attendance in court with reference to the property in question unless arrangements have been previously made.
- 15) Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or any reference to the MAI or SREA designations) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser.
- 16) The existence of any environmental hazard such as the presence of hazardous wastes, toxic substances, radon gas, asbestos containing materials, ureaformaldehyde insulation, etc., which may or may not be present in or on the subject property or any site within the vicinity of the property was not observed and knowledge of any such environmental hazard is not assumed. The appraiser is not qualified to detect such substances. The concluded market value is predicated on the assumption that there is no such material on the property that would cause a loss in value.

**ASSUMPTIONS AND LIMITING CONDITIONS** (Continued)

- 17) Unless specifically stated to the contrary in the report, no independent evaluation of concurrency matters were made for the subject or any sales comparables. In the event concurrency is found to affect subject property or any of the sales comparables, we reserve the right to reconsider the value conclusion.
- 18) This appraisal was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- 19) The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, he did not consider possible noncompliance with the requirements of the ADA in estimating the value of the property.



**BID BY PIER HOUSE JOINT VENTURE  
TO PURCHASE 529 FRONT STREET IN KEY WEST, FLORIDA**

**Project Title:** 529 Front Street  
**Due Date:** September 2, 2011 – 3 p.m.  
**Company:** Pier House Joint Venture

Pier House Joint Venture ("Pier House") submits a bid in the amount of:

Six Million Three Hundred Thousand Dollars (\$6,300,000.00)

to purchase the above referenced property located at 529 Front Street, Key West, Florida.

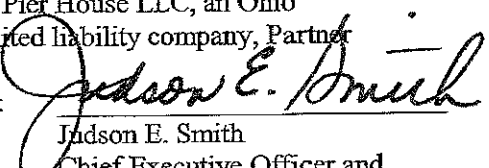
Enclosed is a bid bond in the amount of Three Hundred Fifteen Thousand Dollars (\$315,000.00), which represents five percent (5%) of the amount of the bid, as required by the Ordinances of the City of Key West (the "City"). The bid bond is in the form of an Official Bank Check drawn by KeyBank National Association, as issued by Citibank, N.A., payable to the order of the City of Key West, Florida. Pier House is prepared to deliver the balance of the purchase price, plus other costs and expenses, as required by City Ordinances, within the thirty (30) day period required by law. This is also to confirm that there are no conditions or contingencies to this bid.

Please contact the undersigned or our General Counsel, William R. Hansen, at (440) 871-4800, if you have any questions concerning this bid.

PIER HOUSE JOINT VENTURE, a Florida  
general partnership

By: JG Pier House LLC, an Ohio  
limited liability company, Partner

By:

  
Judson E. Smith  
Chief Executive Officer and  
President

Date:

August 26, 2011



031 - Westlake  
Westlake, Ohio

**OFFICIAL CHECK**

Customer Copy

024413236

Date 08/25/2011

Remitter PIER HOUSE JOINT VENTURE

\$ 315,000.00 \*\*\*

Pay To The Order Of CITY OF KEY WEST FLORIDA

Drawer: KeyBank

**TERMS**

KEEP THIS COPY FOR YOUR RECORD OF THE TRANSACTION. TO REPORT A LOSS OR FOR ANY OTHER INFORMATION ABOUT THE INSTRUMENT, CONTACT THE INSTITUTION FROM WHICH YOU RECEIVED THE INSTRUMENT.

FORM NO. 80-0811-T21 (4/08)

THE ORIGINAL DOCUMENT HAS A WHITE REFLECTIVE WATERMARK ON THE BACK. HOLD AT AN ANGLE TO VIEW. DO NOT CASH IF NOT PRESENT.

**OFFICIAL CHECK**



031 - Westlake  
Westlake, Ohio

Remitter PIER HOUSE JOINT VENTURE

024413236

Date 08/25/2011

B2-20  
311

\$ 315,000.00 \*\*\*

Pay To The Order Of CITY OF KEY WEST FLORIDA

Drawer: KeyBank

Pay THREE HUNDRED FIFTEEN THOUSAND  
DOLLARS AND 00 CENTS

*Ben E. Mooney*  
AUTHORIZED SIGNATURE

Issued by: Citibank N.A. One Penn's Way, New Castle, DE 19720  
For information about this instrument, call 1-888-556-5142

⑈024413236⑈ ⑆031100209⑆ 38774212⑈

**CITY OF KEY WEST  
POLICE & FIRE PENSION  
BOARD OF TRUSTEES**

*Susy Pita, Plan Administrator  
Post Office Box 490837  
Leesburg, FL 34749-0837  
Phone 352-787-9795*



August 30, 2011

City Clerk  
City of Key West  
525 Angela Street  
Key West, Florida 33040

Re: 529 Front Street, Key West, Florida

To Whom it May Concern;

I am submitting this bid for the purchase of the above referenced property on behalf of The Key West Police and Fire Pension Board of Trustees ("The Board").

The Board is interested in purchasing the property from the City pursuant to the terms of the bid proposal set forth herein. The Board believes that it is possible for The City and The Board to both benefit from the sale of the property to the Board as a result of the existing relationship between the Board and the City, particularly as a result of possible exchanges of value related to the City's ongoing obligation to the Board's pension plan. As a result of this bid, the Board is requesting the opportunity to negotiate with the City regarding the method of payment and manner of payment of the bid price.

**Price:** The bid price for the property is \$2.1 million dollars. This price assumes the City does not own the 22 transient/motel unit development rights currently assigned to the property. The Board would negotiate a higher price to be paid should the city be determined to have the right to sell the referenced development rights with the property.

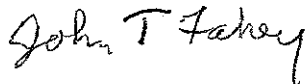
**Method of Payment, Manner of Payment:** The Board would propose that the City and the Board enter into negotiations regarding

the method and manner of payment with the opportunity for the Board and the City to reach agreement allowing the City to reduce its obligation to the Board's pension plan in exchange for credit to the Board against the bid price.

**Bond:** The Board hereby places a cash bond with this bid in the amount of 5% of the bid price (\$105,000.00). In the event that the bid is rejected, or in the event that the parties' negotiations do not result in an agreement to move forward with the purchase, the cash bond shall be immediately returned to the Board. If the parties' negotiations result in an agreement to move forward with the purchase, the date of said agreement shall be considered the "date of bid acceptance" as referenced in the Public Notice advertising the property for sale.

Thank you for your consideration of the Board's bid.

Sincerely,



John T. Fahey, Chairman  
The City of Key West Police and Fire Pension  
Board of Trustees

14-7214

NOTICE TO CUSTOMER  
THE PURCHASE OF AN INDEMNITY BOND WILL BE  
REQUIRED BEFORE AN OFFICIAL CHECK OF THIS BANK  
WILL BE REPLACED OR REFUNDED IN THE EVENT IT IS  
LOST, MISPLACED OR STOLEN.



P.O. BOX 968  
CONWAY, AR 72033

369757

81-275/829  
2000040

DATE 02/01/11

\$105,000.00

REMITTER

FELDMAN KOENIG HIGHSMITH & VAN LOON, PA

PAY TO THE ORDER OF CITY OF KEY WEST

One Hundred Five Thousand Dollars and 00 Cents

THIS DOCUMENT HAS A MICRO-PRINT SIGNATURE LINE, WATERMARK AND A THERMOCHROMIC ICON; ABSENCE OF THESE FEATURES WILL INDICATE A COPY  
PIER HOUSE PROPERTY BID

CASHIER'S CHECK

*Margdale Pad*  
*Nichole Hita*

⑈ 369757⑈ + ⑈ 082902757⑈

2000040⑈ \$105,000.00



# PUBLIC NOTICE – PROPERTY FOR SALE

## 529 Front Street in Key West, Florida

To all concerned be it known that the City of Key West intends 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.

### **Legal Description**

That Part of Lot One (1) in Square Two (2) according to William A. Whitehead's map of the Island of Key West, delineated in February A.D. 1829, more particularly described as follows: Beginning at the intersection of the Westerly line of Simonton and the Northerly line of Front Street, run hence westerly along the Northerly line of Front Street 88 feet 4 inches to Lot 2 of said Square; thence run at right angles Northerly and parallel with Simonton Street a distance of 245 feet; thence run at right angles and parallel with Front Street a distance of 88 feet 4 inches back to said Westerly line of Simonton Street; thence run along the said Westerly line of Simonton Street a distance of 245 feet back to the point of beginning.

The estimates of value reached by each of the two (2) appraisals completed 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

All appraisal costs shall be paid by the successful bidder at the time of agreement.

The City Clerk will receive sealed bids for the subject property for sale up through 3:00 p.m., Friday, September 2, 2011.

Bids should be submitted to the submittal address by the date and time listed in the submission details. The City will not be responsible for submittals that are delinquent, lost, mismarked, and sent to an address other than that given below, or sent by mail or courier service. The City reserves the right to reject any or all bids, or to accept the bid that in its sole judgment is (are) in the best interest of

the City. Also, the City will not be responsible for responses submitted after the specified date and time.

**Submission Details:**

City Clerk  
City of Key West  
525 Angela Street  
Key West, FL 33040

**Date/Time:**

September 2, 2011  
3:00 PM

**Identification of Responses:**

Responses shall be submitted in a two (2) sealed envelopes, one within the other, each clearly marked on the outside: "**529 Front Street**" along with the due date, and the respondent's name.

Project Title: 529 Front Street

Due Date:

Company/Individual:

A bid bond in the amount of five percent of the bid price must accompany each bid for the property. The bond may be in the form of cash, certified check, money order or other negotiable instrument.

The City Commission will open such bids at or around 5:00 p.m. at a publicly noticed meeting scheduled for September 6, 2011 at 525 Angela Street, Key West, Florida. The City Commission reserves the right to consider the highest responsive and responsible bid at the meeting on September 6, 2011 or defer such consideration until a subsequent City Commission meeting.

Any person may be present for the opening of bids. The highest qualified and responsible bidder shall be accepted, except for reasons which shall be stated upon the City Commission meeting record. A bid may be rejected for failure to file a bid bond. All bids may be rejected. Bid bonds will be returned to unsuccessful bidders within five days after selection of a successful bid by the City Commission.

The successful bidder shall have 30 calendar days from the date of bid acceptance by the City Commission during which to deliver the balance of the

purchase price plus appropriate closing costs to the City or its escrow agent for closing. Should the successful bidder fail to deliver such funds within 30 calendar days, the bid bond shall be forfeited to the city without recourse, and the City Commission may elect to accept the next highest bidder or may elect to re-advertise for bids. If the city commission elects to accept the next highest bidder, that bidder will be required to file a bid bond in the amount provided for herein.

For more information please contact the City Manager, City of Key West, 525 Angela Street, Key West, FL 33040.

A copy of the two aforementioned appraisals can be found on the City of Key West web site: [keywestcity.com](http://keywestcity.com).

# 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

Richard Padron, CCIM, MSA  
St. Cert. Gen. REA  
License No. RZ 544

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

**OUR FILE NO.: 148-11**





**APPRAISAL CO.**  
OF KEY WEST

3229 Flagler Avenue, Suite #101  
Key West, Florida 33040  
Telephone: (305) 296-4568  
Fax: (305) 296-0493

Website: [fla-keysappraisals.com](http://fla-keysappraisals.com)  
Email: [jim@fla-keysappraisals.com](mailto:jim@fla-keysappraisals.com)

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

Ms. Marilyn Wilbarger, RPA, CCIM  
City of Key West  
May 26, 2011  
Page 2

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

Ms. Marilyn Wilbarger, RPA, CCIM  
City of Key West  
May 26, 2011  
Page 3

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:

Ms. Marilyn Wilbarger, RPA, CCIM  
City of Key West  
May 26, 2011  
Page 4

**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 )**

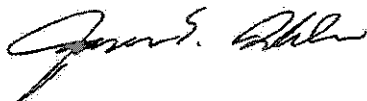
Lastly, based on our site visit, walk-through and research, it is our opinion that the *Leased Fee Interest* of the subject property located at 529 Front Street, Key West, Florida 33040, based on the existing lease terms, plus a new startup as a standalone hotel property at the end of the lease, and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

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

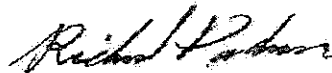
The Market Value of the Total Assets of the Business considers the intangible business assets, as well as furnishings, fixtures and equipment necessary for the continued operation of a hotel. The estimated contributory value of the furniture, fixtures and equipment is \$157,000 (rounded). However, it 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,



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



Richard Padron, CCIM, MSA  
St. Cert. Gen. REA  
License No. RZ 544

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

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

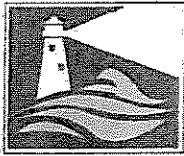
**Appraisal No. 11-105**

**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](mailto: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.

City of Key West  
c/o Mr. Mark Finigan  
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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)**

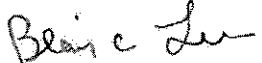
By virtue of our investigation and analyses, it is the opinion of the appraiser that, the Market Value of the subject property, as a leased fee estate, as of April 25, 2011, is:

**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**

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



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

Ms. Marilyn Wilbarger, RPA, CCIM  
City of Key West  
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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:

Ms. Marilyn Wilbarger, RPA, CCIM  
City of Key West  
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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 )**

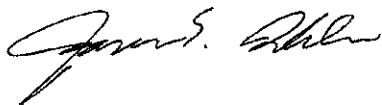
Lastly, based on our site visit, walk-through and research, it is our opinion that the *Leased Fee Interest* of the subject property located at 529 Front Street, Key West, Florida 33040, based on the existing lease terms, plus a new startup as a standalone hotel property at the end of the lease, and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



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



Richard Padron, CCIM, MSA  
St. Cert. Gen. REA  
License No. RZ 544