

**PIT SLIP MARINA & FISH HOUSE PROPERTY
LEASED FEE VALUATION
600 SOUTH BARRACKS STREET
PENSACOLA, FLORIDA**

PART ONE: INTRODUCTION

APPRAISAL REPORT

TITLE PAGE

PROJECT NAME

Pitt Slip Marina & Fish House Property

LOCATION

600 South Barracks Street
Pensacola, Florida

DATE OF VALUE

June 4, 2018

DATE OF REPORT

June 6, 2018

PREPARED FOR

The City of Pensacola
Attn: Eric Olson, City Administrator
200 East Government Street
Pensacola, Florida 32502

*Fruitticher Lowery Appraisal Group
3000 Langley Avenue, Suite 402
Pensacola, Florida 32504*



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June 6, 2018

The City of Pensacola
Attn: Eric Olson, City Administrator
200 East Government Street
Pensacola, Florida 32502

Letter of Transmittal

RE: An Appraisal Report of the Leased Fee
Ownership Interest in the Pitt Slip Marina and Fish
House Property Located at 600 South Barracks
Street in Pensacola, Florida

Dear Mr. Olson:

At the request of your attorney Nixon Daniel, an inspection has been made of the above referenced property for the purpose of estimating the current market value of the leased fee ownership interest. In compliance with the "Uniform Standards of Professional Appraisal Practice", this letter of transmittal is followed by an appraisal report in which all applicable approaches to value are used and with the value conclusion reflecting all known information about the subject property, current and projected market conditions, and other available data. This report contains to the fullest extent possible and practical, explanations of the data, reasoning and analysis used to develop the opinion of value. It also includes thorough descriptions of the subject property, the property's locale, the market for the property type, and my opinion of highest and best use.

Market value will be defined in the appraisal report, but basically assumes a willing buyer-seller, both knowledgeable of the subject real estate market and with the valuation at the property's highest and best use. Both exposure and marketing time periods are estimated to be between six to twelve months. I have had no other real estate dealings with the property in the previous three years.

RODGER K. LOWERY, MAI
State-Certified General Real Estate Appraiser
FL #RZ0001922 * AL #G00445



TOM FRUITTICHER, MAI
State-Certified General Real Estate Appraiser
FL #RZ0002029 * AL #G00788

Mr. Eric Olson
June 6, 2018
Page Two

Subject to the above and the limiting conditions and certification as set forth herein, it is my opinion that the market value of the Leased Fee Estate of the Pitt Slip Marina and Fish House Property as of the last date of inspection, June 4, 2018, was:

SEVEN HUNDRED TWENTY FIVE THOUSAND DOLLARS
\$725,000
(Leased Fee Market Value)

The above value is the value of the leased fee estate ownership interest considering there are 27 years remaining on the existing lease. This value represents the value a buyer could pay for the City of Pensacola's interest and realize a required return on the investment.

I hereby certify I have no interest, present or contemplated, in the appraised property. This appraisal has been prepared utilizing all of the requirements set forth as Standards for Real Estate Appraisals as established for federally related transactions and the State of Florida. The appraisal conforms to the Uniform Standards of Professional Appraisal Practice (USPAP). The fee for this appraisal was not based on a minimum value nor was the assignment undertaken based on a pre-determined value or guaranteed loan amount.

I appreciate the opportunity of doing this work for you and your client. After your review, should you have questions, please call.

Respectfully submitted,



Tom Fruitticher, MAI
State-Certified General Real Estate Appraiser #2029
Email – Tom@flag1.net
Contact Phone – 850-477-0419

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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 analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or 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.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- I have not performed any other previous appraisals of the subject property, an appraisal review involving the subject property nor an appraisal consulting assignment involving the subject property within the three years prior to this assignment.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute.
- As of the date of this report, I have completed the Standards and Ethics Education Requirement of the Appraisal Institute for Associate Members.
- The subject of this appraisal report is identified as the Pitt Slip Marina and Fish House property located at 600 South Barracks Street in Pensacola, Florida. The estimated leased fee estate value (the value of the City of Pensacola's ownership interest) of the real estate as of the current date of June 4, 2018 under was \$725,000, which considers the lease rate for the next 27 years will remain at the current rates.



Tom Fruitticher, MAI
State-Certified General Real Estate Appraiser RZ#2029

SUMMARY OF IMPORTANT CONCLUSIONS

- PREPARED FOR:** The City of Pensacola
- OWNERSHIP:** The leased fee ownership interest is owned by the City of Pensacola and the leasehold ownership interest is owned by Seville Harbour who has sublet the majority of Parcel 1-A to Merrill Land, LLC.
- USE OF APPRAISAL:** This appraisal is being prepared for the purchase negotiations of the leased fee estate.
- PROPERTY LOCATION:** The subject property is located at 600 South Barracks Street which is just south of Main Street in the City of Pensacola, Florida.
- SITE SIZE:** According to the survey and legal descriptions provided, the property includes a total land area of 10.651 acres or 463,957 square feet, of which approximately 8.529 acres or 371,523 square feet is submerged land and 2.122 acres or 92,434 is uplands.
- IMPROVEMENTS:** The upland area is currently improved with an elevated, two story, mixed use building that includes a total leasable area of 19,743 square feet. There is covered parking below the building and the other areas are improved with asphalt paved and gravel parking areas. The submerged land is currently partially improved with a floating marina facility that is in need of some repair. The building was constructed in 1987 and has a current estimated effective age of about 23 years and is in average condition.
- ZONING:** The site is zoned “SSD” Site Specific Zoning District. The current improvements were approved by the City and are a legally conforming use of the land.
- ENVIRONMENTAL CONCERNS:** The property is located next to the Port of Pensacola, which is an industrial facility. I was not provided with an environmental report but it is suggested that one be conducted to identify any problems that may exist with the property; however, this report is being conducted under the assumption that no problems exist. Should this be shown to be false, the value would be affected.

Summary of Important Conclusions (Cont'd.)

HIGHEST AND BEST USE: The highest and best use of the parcel would be a continued commercial use that would take advantage of the available water front and views.

DATE OF VALUE: June 4, 2018 (Last Date of Inspection)

ASSESSED VALUE: The land is assessed as two parcels with a combined assessed value of \$2,077,523 and the annual taxes are indicated to be \$41,770.08. The 2017 taxes for a portion of the property are currently past due.

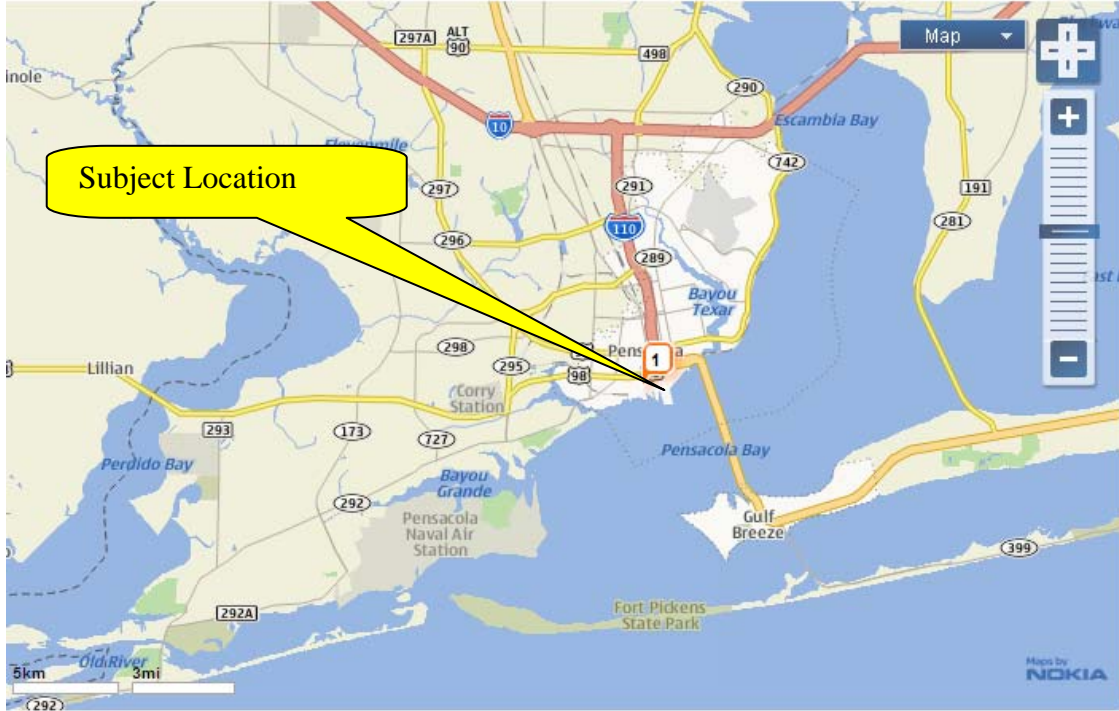
PROPERTY RIGHTS APPRAISED: Leased Fee (City of Pensacola's Ownership Interest)

Subject to the above and the limiting conditions and certification as set forth herein, it is my opinion that the market value of the Leased Fee Estate of the Pitt Slip Marina and Fish House Property as of the last date of inspection, June 4, 2018, was:

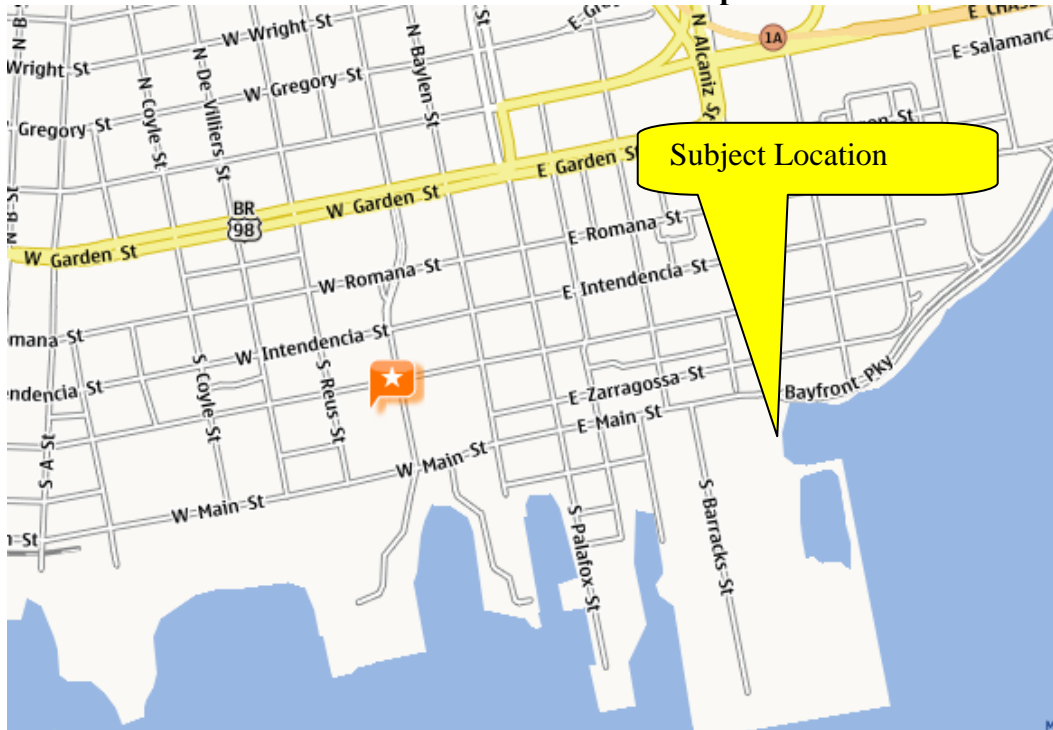
SEVEN HUNDRED TWENTY FIVE THOUSAND DOLLARS
\$725,000
(Leased Fee Market Value)

The above value is the value of the leased fee estate ownership interest considering there are 27 years remaining on the existing lease. This value represents the value a buyer could pay for the City of Pensacola's interest and realize a required return on the investment.

Subject Location Maps



General Pensacola Area Map



Downtown Pensacola

Subject Photos



Aerial Photo



Subject Photo

PART TWO: PREMISES OF THE APPRAISAL

ASSUMPTIONS AND LIMITING CONDITIONS

1. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
2. The property is appraised free and clear of any or all liens and encumbrances unless otherwise stated in this report.
3. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
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. Any 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 otherwise stated in this report.
8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in this appraisal report.
9. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state, or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
10. Any sketch in this report may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.
11. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
12. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.

ASSUMPTIONS AND LIMITING CONDITIONS (Cont'd.)

13. Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility.
14. Any proposed improvements are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations of land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
16. The value indication is based on the extraordinary assumption that there are no environmental problems with the property.

POLICY STATEMENT OF THE APPRAISAL INSTITUTE

1. It is improper to base a conclusion or opinion of value upon the premise that the racial, ethnic or religious homogeneity of the inhabitants of an area or of a property is necessary for maximum value.
2. Racial, religious, and ethnic factors are deemed unreliable predictors of value trends or price variance.
3. It is improper to base a conclusion or opinion of value or a conclusion with respect to neighborhood trends upon stereotyped or biased presumptions relating to the effective age or remaining life of the property being appraised or the life expectancy of the neighborhood in which it is located.

PURPOSE OF APPRAISAL

The purpose of this appraisal is to estimate the current and prospective market value of the leased fee interest of the subject property. The objective of this report is to present the data and reasoning used to form this opinion of value.

USE OF APPRAISAL

This appraisal is being prepared for use by the client and lease fee property owner for sale/purchase negotiation purposes.

MARKET VALUE DEFINITION AND IMPLICATIONS

The following definition of market value is used by agencies that regulate federally insured financial institutions in the United States:

“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 the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- A. Buyer and seller are typically motivated;
- B. Both parties are well informed or well advised and each acting in what they consider their own best interest;
- C. A reasonable time is allowed for exposure in the open market;
- D. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto;
- E. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”¹

¹ Appraisal Institute, *The Appraisal of Real Estate*, 13th Edition. (Chicago, Illinois: Appraisal Institute, 2008), pg. 24-25 & 12 CFR Part 34.42 (g).

DATE OF VALUE AND OF PROPERTY INSPECTIONS

The property was last inspected on June 4, 2018 which is also the current date of value. This report is being prepared on June 6, 2018.

PROPERTY RIGHTS APPRAISED

The property rights appraised are those of a Leased Fee Estate. "Leased Fee Estate" has been defined as:

"An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease"²

² Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 4th Edition. (Chicago, Illinois: Appraisal Institute, 2002), pg. 204.

SCOPE OF THE APPRAISAL

In an effort to meet your requirements as well as conforming to the Uniform Standards of Professional Appraisal Practice (USPAP), a visual inspection was made of the subject land and improvements. Notes were taken of the property for the description write-ups found within this report. Further, I was provided with a survey identifying land size information that is being relied upon as being accurate. I was also provided with the land lease details, which are also being relied on for rental information and building size information.

In addition to the physical inspection, research was conducted on a regional and neighborhood basis in an effort to identify trends and factors, which have an effect on area property values. Once these trends and factors were identified, a highest and best use analysis was conducted.

The City of Pensacola (the land's leased fee owner) has a lease in place for the subject land and Seville Harbour, Inc. is the leasehold owner who has sublet the majority of Parcel 1-A to Merrill Land, LLC. As this is the valuation of the leased fee ownership position, the only approach to value that would result in a reliable value opinion is the income approach. A discounted cash flow analysis will be conducted in the income approach, wherein the City's expected income stream over the next 27 years will be discounted back to a present value utilizing an appropriate present value factor. In addition, the reversion value of the property (the expected fee simple value) at the end of the holding period will also be discounted back to a present value and added to the income stream discounted value resulting in the final value opinion of the leased fee ownership position. This value would be the value that the City of Pensacola could expect to receive if they placed the property on the market for sale. As no reasonable appraiser would utilize the cost and sales comparison approaches to value in the appraisal of the leased fee ownership interest, their elimination would not result in a less reliable value indication.

Scope of the Appraisal (Cont'd.)

This report was prepared for the City of Pensacola, who is also the intended user. The intended use is for sale/purchase negotiations. The date of value is the last date of inspection, which was June 4, 2018. The value opinion is that of the Leased Fee Interest.

PART THREE: PRESENTATION OF DATA

IDENTIFICATION OF THE PROPERTY

PROPERTY ADDRESS: The subject property is located at 600 South Barracks Street which is just south of Main Street in the City of Pensacola, Florida.

CURRENT OWNER OF RECORD: The current owner of the leased fee ownership position is identified as the City of Pensacola and the owner of the leasehold ownership position is Seville Harbour, Inc formally known as South Florida Marine Investors, Inc. who has sublet the majority of Parcel 1-A to Merrill Land, LLC.

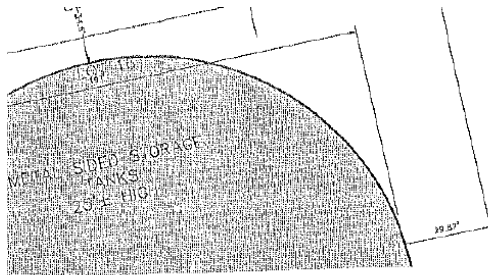
TYPE OF OWNERSHIP: Leased Fee Interest

PHYSICAL: According to the survey and legal descriptions provided, the property includes a total land area of 10.651 acres or 463,957 square feet, of which approximately 8.529 acres or 371,523 square feet is submerged land and 2.122 acres or 92,434 is uplands.

The upland area is currently improved with an elevated, two story, mixed use building that includes a total leasable area of 19,743 square feet. There is covered parking below the building and the other areas are improved with asphalt paved and gravel parking areas. The building was constructed in 1987 and has a current estimated effective age of about 23 years and is in average condition. The submerged land is currently partially improved with a floating marina facility that is in need of repairs.

LEGAL DESCRIPTION: The following legal description was obtained from a survey conducted by Northwest Florida Engineering & Surveying, dated 10/18/96 (Project No. 7900-96).

Legal Description



DESCRIPTION AS FURNISHED:

PARCEL I

Begin at the Southwest corner of Block 8, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906, said point also being the intersection of the Easterly right-of-way line of Barracks Street (60' R/W) and the Northerly right-of-way line of Magnolia Street (60' R/W); thence go North 79 Degrees 25 Minutes 49 Seconds east along the aforesaid Northerly right-of-way line a distance of 175.00 feet; thence go North 10 Degrees 34 Minutes 11 Seconds West a distance of 280.00 feet; thence go North 79 Degrees 25 Minutes 49 Seconds east a distance of 135.00 feet; thence go North 10 Degrees 34 Minutes 11 Seconds West a distance of 30.00 feet; thence go North 79 Degrees 25 Minutes 49 Seconds East a distance of 827.08 feet; thence go South 59 Degrees 34 Minutes 30 Seconds West a distance of 191.38 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 347.08 feet; thence go South 10 Degrees 34 Minutes 11 Seconds East a distance of 95.00 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 123.00 feet; thence go North 10 Degrees 34 Minutes 11 Seconds West a distance of 100.00 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 487.00 feet to the Northwest corner of Block 17, Waterfront Grant, according to the aforesaid map of the City of Pensacola, said point also being the intersection of the Southerly right-of-way line of Magnolia Street (60' R/W) and the aforesaid easterly right-of-way line of Barracks Street (60' R/W); thence go North 10 Degrees 34 Minutes 11 Seconds west along the aforesaid Easterly right-of-way line a distance of 60.00 feet to the point of beginning. The above described parcel of land is situated in Section 46, Township 2 South, Range 30 West, Escambia County, Florida and contains 8.529 acres.

DESCRIPTION AS FURNISHED:

PARCEL I-A

All of Lots 1-10, 21 and 22, and the West 20 feet of Lots 11-20, Block 8, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906. More particularly described as follows:

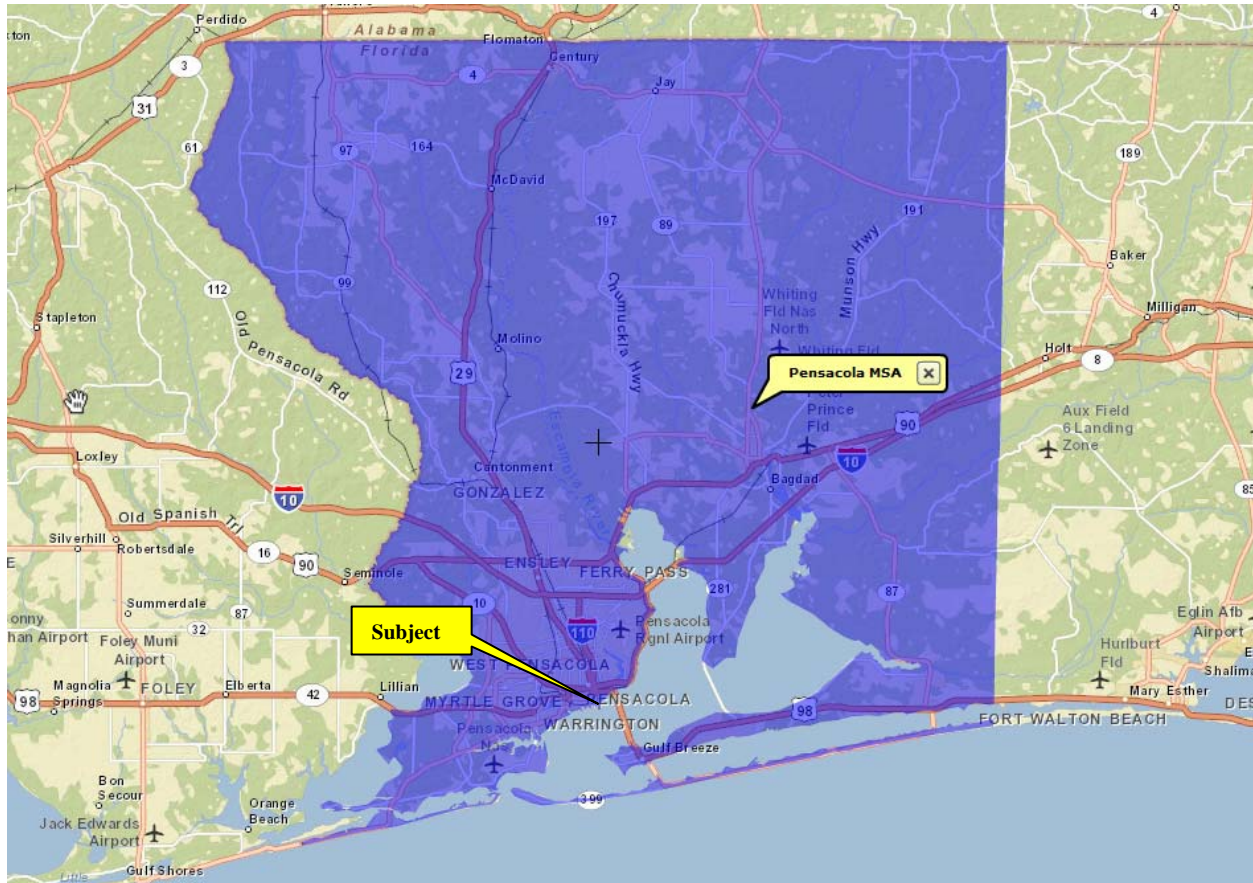
Begin at the Northwest corner Block 8, Waterfront Grant according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906, said point also being the intersection of the Easterly right-of-way line of Barracks Street (60' R/W) and the South right-of-way line of Cedar Street (60' R/W); thence go North 79 Degrees 25 Minutes 49 Seconds East along the North line of the aforesaid Block 8 a distance of 175.00 feet; thence go South 10 Degrees 34 Minutes 11 Seconds East a distance of 250.00 feet to a point on the South line of the aforesaid Block 8; thence go South 79 Degrees 25 Minutes 49 Seconds West along the aforesaid South line a distance of 175.00 feet to a point on the aforesaid Easterly right-of-way line of Barracks Street; thence go North 10 Degrees 34 Minutes 11 Seconds West along the aforesaid Easterly right-of-way line a distance of 250.00 feet to the point of beginning. The above described parcel is situated in Section 46, Township 2 South, Range 30 West, Escambia County, Florida and contains 1.004 acres.

PARCEL III

All of Lots 1-4, 11-14 and a portion of Lot 21, Block 17, all of Lots 1-4 and a portion of Lots 11-14, Block 18, and a portion of Adams Street, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906, more particularly described as follows:

Begin at the Northwest corner of Block 17, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906, said point also being the intersection of the Easterly right-of-way line of Barracks Street (60' R/W) and the Southerly right-of-way line of Magnolia Street (60' R/W); thence go North 79 Degrees 25 Minutes 49 Seconds East along the aforesaid Southerly right-of-way line of Magnolia Street (60' R/W) a distance of 487.00 feet; thence go South 10 Degrees 34 Minutes 11 Seconds East a distance of 100.00 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 487.00 feet to a point on the aforesaid Easterly right-of-way of Barracks Street (60' R/W); thence go North 10 Degrees 34 Minutes 11 Seconds west along the aforesaid Easterly right-of-way line of Barracks Street (60' R/W) a distance of 100.00 feet to the point of beginning. The above described parcel of land is situated in Section 46, Township 2 South, Range 30 West, Escambia County, Florida and contains 1.118 acres.

GENERAL AREA LOCATION MAP



GENERAL AREA DATA

There are four basic interrelated forces that influence the value of a property: Social/population trends; economic changes and adjustments; governmental controls and regulations; and physical or environmental changes. These forces are considered in every phase of the evaluation and valuation process but are best discussed in the General Area Data and Neighborhood Data sections of the report. The subject's general area is considered the Pensacola Metropolitan Statistical Area (MSA), which includes the City of Pensacola and the nearby communities of Cantonment, Pace, Milton, and Gulf Breeze, located in Escambia and Santa Rosa Counties. The interrelated forces influencing this general area, as listed above, follow:

GENERAL AREA DATA (Cont'd.)

SOCIAL/POPULATION

Among the more important factors in a market study are the area population trends and the factors that affect the expected future population. The information obtained for the subject's market area of the Pensacola MSA, which consists of Escambia and Santa Rosa counties, was obtained from the *United States Census Bureau* and updated through the *Site To Do Business*.

The Pensacola MSA has a year 2017 population estimate of 489,423, based on projections by ESRI and quoted by the *STDB (Site to do Business)* which is up from the 2010 Census of 448,991. This average increase per year of 1.3% is expected to continue into the future with current estimates for the year 2022 being 517,438. The average household size is 2.48 people per residence and there currently are an estimated total of 216,059 housing units of which 55.6% are owner occupied, 30.8% are renter occupied and 13.6% are vacant. The number of vacancies may be somewhat misleading, as many of the beach properties are only seasonally occupied. The median household income for 2017 is indicated to be \$50,469.

The population increase for the Pensacola MSA over the next five years is expected to be 28,015 people. This translates to the need for 11,296 new households (2,259/Year) over the next five years. The median house value in the community is \$163,555. Considering the median household income along with the average rule-of-thumb that 25% of the household income can go toward a mortgage, would indicate approximately \$12,617 (\$1,051/month) can be used for mortgage payments in the median household. Considering a 4.5% interest rate, monthly payments of \$1,051 and a 30 year amortization, the median household can afford a mortgage in the amount of \$207,427 and considering a 10% down payment, the median household could afford a home of about \$230,474. As this is well above the currently indicated median home value, there is room for continued home value increases.

GENERAL AREA DATA (Cont'd.)

As stated, the beach area condominium market is largely made up of absentee owners. Looking at a list of owners from a typical development such as the Emerald Isle Condominium shows owners from Indiana, Louisiana, Florida, Virginia, Georgia, Washington, Tennessee, Arkansas, Alabama and Mississippi, to name a few. As the condominium market is made up of such a large segment of the United States population, local single-family housing occupancy statistics would have little impact on condominium prices.

As with most markets, the Escambia County/Santa Rosa County general area experienced a housing bubble between 2004 and 2005. In an effort to demonstrate the current status of the Escambia and Santa Rosa housing market, statistical information was obtained from the Pensacola Association of Realtors' Multiple Listing Service (PARMLS). While the PARMLS does not account for all sales, it is a good representation of what is going on in the local market. PARMLS sales for condominiums, single-family homes, and residential lots (< 1/2 acre) were researched within the two-county area and included in the following chart.

Average Sales Trends						
Year	Condo Sales		Single-Family Sales		Resid. Land (< ½ Acre)	
	# Sales	Average \$	# Sales	Average \$	# Sales	Average \$
2000	382	\$161,598	4,613	\$122,217	401	\$45,957
2001	403	\$168,911	4,985	\$122,912	464	\$46,960
2002	528	\$200,121	5,848	\$130,036	669	\$53,323
2003	693	\$270,403	6,548	\$138,965	776	\$59,831
2004	728	\$362,597	7,145	\$160,720	1,250	\$77,397
2005	581	\$433,302	7,363	\$193,541	933	\$117,890
2006	496	\$466,266	6,181	\$191,681	442	\$74,570
2007	473	\$464,035	5,053	\$189,213	271	\$80,055
2008	352	\$457,653	4,035	\$176,619	181	\$97,985
2009	432	\$320,678	4,213	\$163,707	165	\$68,990
2010	358	\$290,072	3,843	\$155,025	261	\$75,167
2011	494	\$283,460	3,883	\$155,957	235	\$70,922
2012	490	\$287,872	3,918	\$158,090	354	\$61,061
2013	570	\$293,065	5,104	\$165,551	408	\$67,883
2014	629	\$290,572	6,073	\$168,032	318	\$74,700
2015	673	\$325,909	6,881	\$180,663	450	\$76,674
2016	649	\$332,410	7,640	\$187,750	466	\$72,156
2017	749	\$415,904	7,955	\$208,869	570	\$73,913
2018* Active Listings	317	\$490,090	2,688	\$305,741	862	\$80,725

*As of 4/2018

GENERAL AREA DATA (Cont'd.)

Sale prices in all categories peaked around 2005 and 2006 and have begun to rebound. The 2017 average for condos is still about 10% below the peak but there have been three years of steady increases. The 2017 average for single family homes is about 8% above the 2005 peak and there have been 7 years of steady increases, indicating the single family market has fully rebounded. The 2017 average for residential lots under ½ acre in size is still about 37% below the peak and while values have fluctuated in recent years, they are considered to be fairly stable.

According to the PARMLS, as of April of 2018 there were 317 condo units listed in the two-county area, which represents an inventory of about 5 months based on the 2017 monthly absorption of about 62.4 condominiums per month. Area Realtors indicate there is a lack of condominium supply and new inventory is needed. At the present time there are several new condominium developments under construction or planned in the Pensacola MSA to help meet the current demand. With good demand and a limited supply, condo values can be expected to continue to increase.

According to the PARMLS, as of April of 2018 there were 2,688 single-family homes listed in the two-county area, which represents an inventory of about 4 months based on the 2017 absorption of 663 homes per month. Area economists Rick Harper indicated new home construction is necessary once housing inventories reach a nine-month supply, and there is new construction currently taking place in the area to meet the demand, which is aiding in area lot absorption increases. With good demand and a limited supply, home values can be expected to continue to increase.

There were 862 single-family lots (<1/2 acre) listed in the PARMLS as of April of 2018 within the two-county area. The 2017 lot absorption rate was about 47.5 sales per month, and considering the current listings, there is just over a 18 month inventory; however, with the increasing population and the need for 2,259 new homes per year, this inventory is more likely going to be much less than projected based on MLS sales. Area developers have recognized the need for new subdivisions based on the population growth and are actively developing new subdivisions and apartments, with the majority of this growth being in the northwestern Pensacola area near the growing Navy Federal Campus.

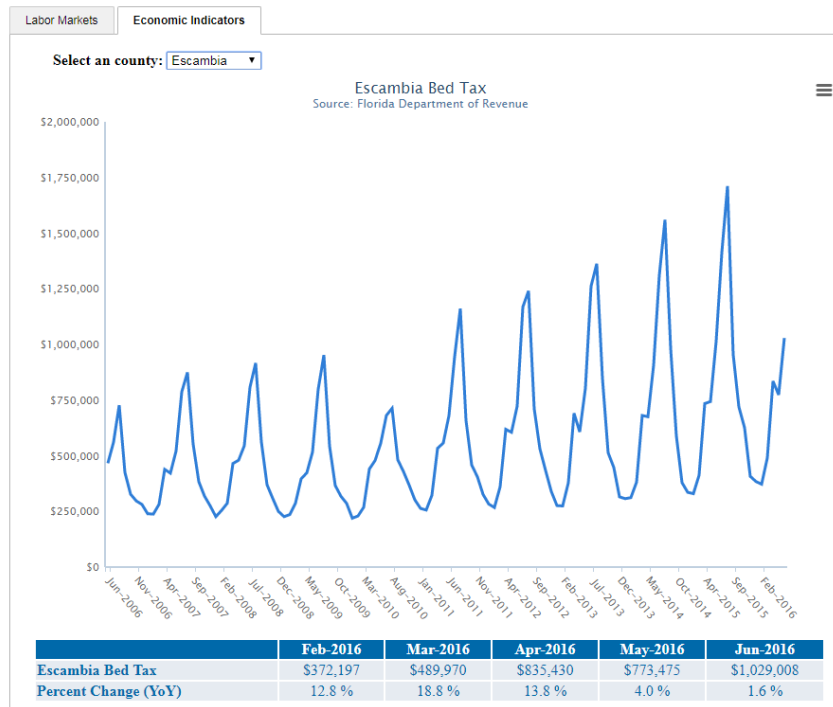
GENERAL AREA DATA (Cont'd.)

Some of the motivation behind the area population growth is the area military bases. The U.S. Government has been downsizing and closing military bases all over the world as well as within this country. Rather than being downsized, the Pensacola area bases have been realizing net gains as departments and personnel from closed bases are being relocated to this area. In 2017, the Santa Rosa Economic Development Council website <http://www.santarosaedo.com/page/military/> stated there were more than 16,000 military personnel and 9,400 civilians working in the Escambia and Santa Rosa County areas and they contribute approximately \$1.2 billion to the local economies annually. The Coast Guard also recently announced that it will be relocating two 210 foot Coast Guard Cutters to the Pensacola Naval Air Station and a 225 foot Seagoing Buoy Tender. These ships will bring with them about 152 new families to the area.

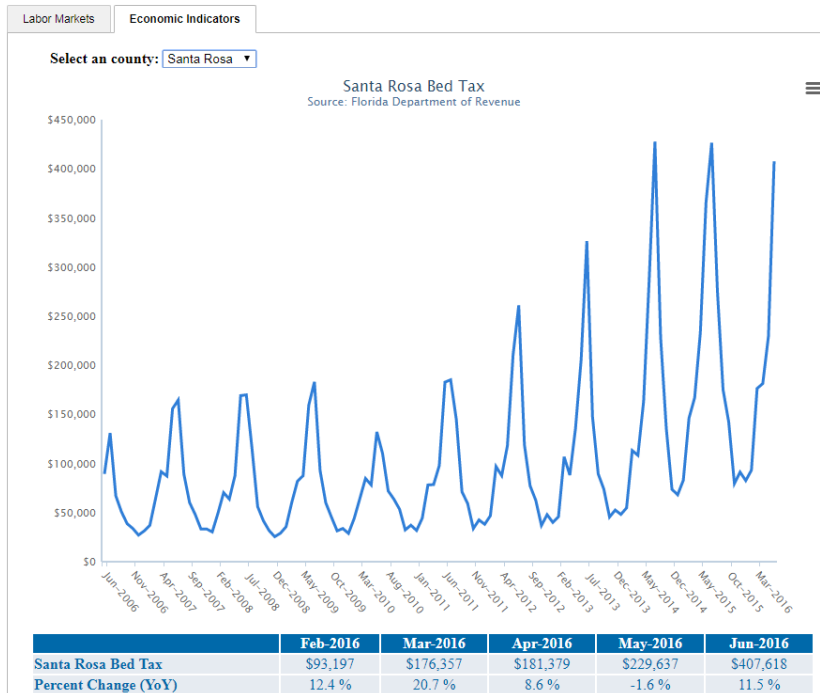
An additional explanation behind the Pensacola area growth is the location in the "Sunbelt" along the Gulf Coast of Florida. The sugar white beaches and clear waters of the Gulf of Mexico attract thousands of visitors every year. Realizing the area benefits (year-round sunshine, warm temperatures, no snow); many of these visitors choose to make Pensacola their permanent home.

Tourism in the general area is one of the largest industries, along with the military. To capitalize from the growing number of tourist, the county has a local "bed tax" that produces additional revenue from the number of tourist staying in the various hotels and motels throughout the county. As reported by the Clerk of the Circuit Court's Office of Escambia County and Santa Rosa County and reported by the Haas Center at UWF, the area has been realizing steady tourism growth since 2010. The 2017 tourism sales are said to be about 8% above the 2016 numbers, indicating a very robust and growing tourist industry. The past years Tourist Development tax Collection Data for the Pensacola MSA follows.

GENERAL AREA DATA (Cont'd.)



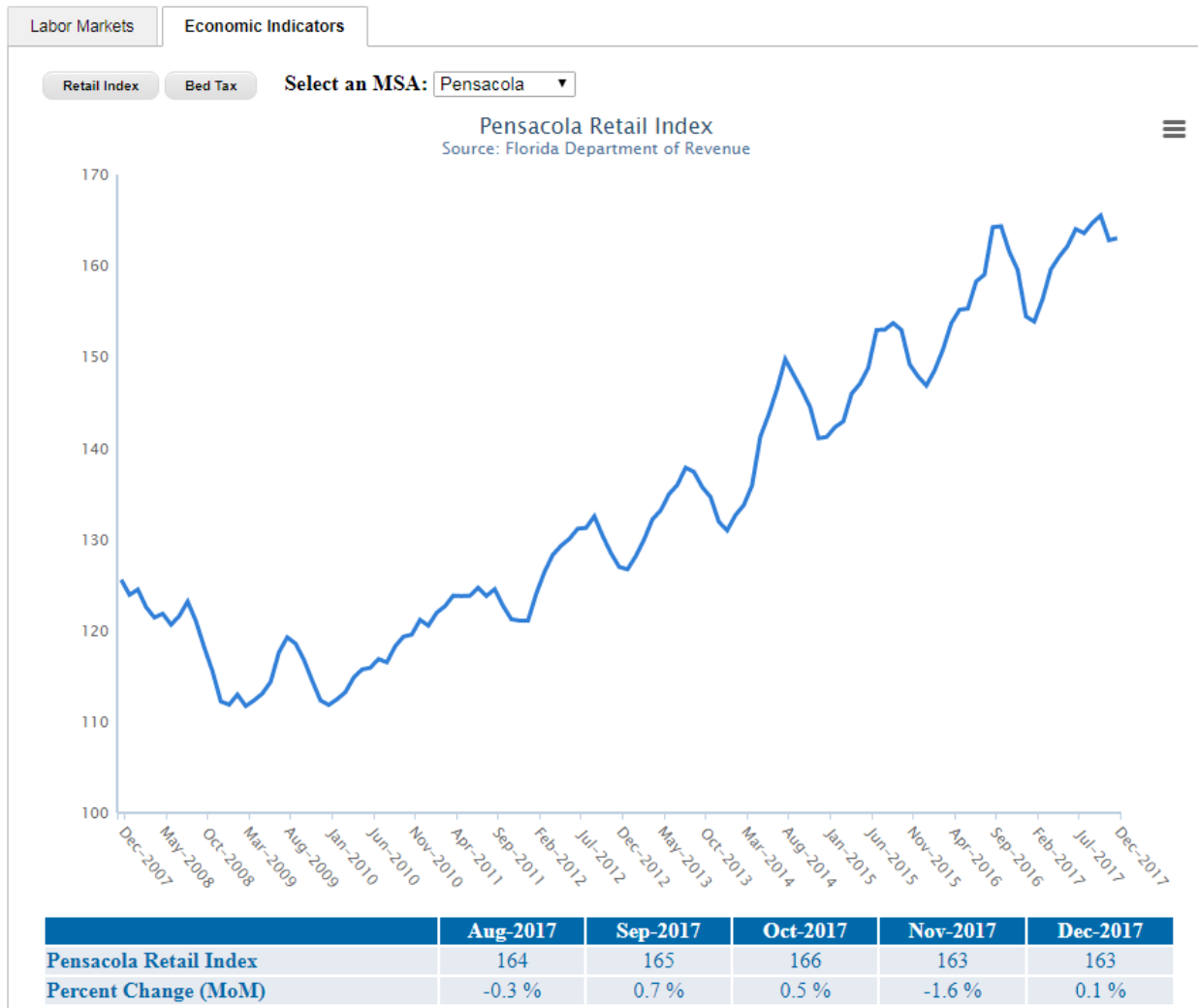
County Level Data



GENERAL AREA DATA (Cont'd.)

As illustrated by graph below, the Pensacola MSA retail index has been increasing since 2009. The average rate of increase is currently about 2% Month over month.

MSA Level Data

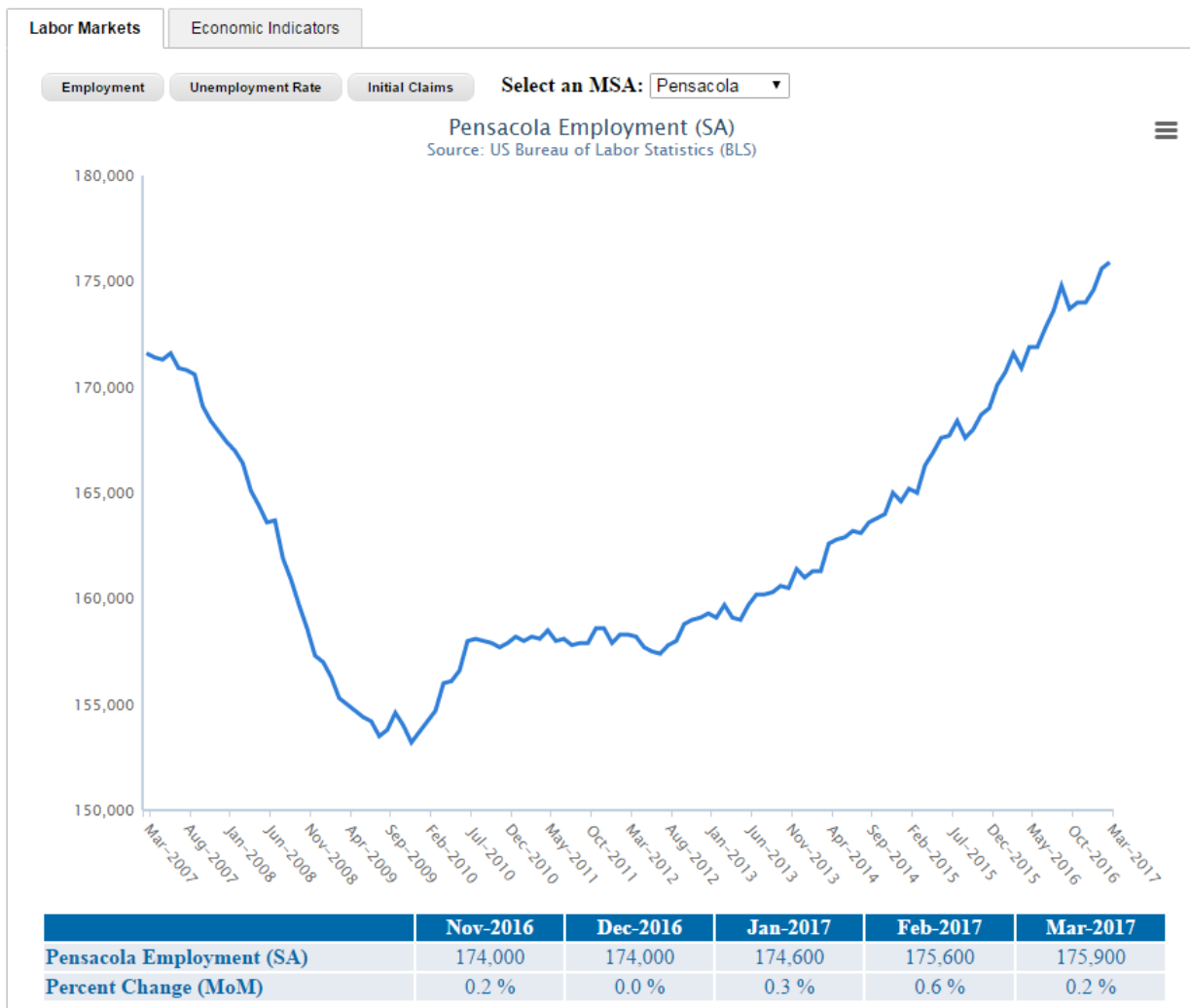


Source: Haas Center for Business Research and Economic Development

GENERAL AREA DATA (Cont'd.)

According to the Haas Center, the business cycle index for the Pensacola MSA appears to be increasing since the recent recession. The following graph also shows that job growth is taking place and has now surpassed the levels prior to the recession. The employment rates graph follows.

MSA Level Data



Source: HAAS Center

GENERAL AREA DATA (Cont'd.)

ECONOMIC CHANGE AND ADJUSTMENTS

In addition to considering the area's population and expected increases, a commercial study should also consider area economics. Even if the population continues to increase, the new population must be able to afford the area goods and services; therefore, it becomes necessary to look at the economic conditions and the projected economic future.

According to the *U.S. Bureau of Labor*, the Escambia County unemployment rate was 3.8% as of November of 2017 and Santa Rosa County was 3%, which is slightly below the most current state average of 3.7%. The services sector is the primary employer in the Pensacola MSA at 39.3%, as reported by the STDB's most recent information (2017). The retail trade is the secondary source of employment with 21.3% of the workforce, construction is 4.5%, finance/ insurance/ real estate is 4.8%, and manufacturing makes up 3.9%.

Area tourism is a component of both the services sector and the retail trade. According to *Florida West*, the top 15 employers in the Pensacola MSA are shown on the following chart.

GENERAL AREA DATA (Cont'd.)



TOP EMPLOYERS

Key Facts:

- Northwest Florida is emerging as a center for manufacturing in the southeast U.S., a region of sustained growth across many business and industry sectors.
- More than 1,000 manufacturing companies¹
- Nearly 250 information technology companies²

Company	Employees	Company Description	NAICS
Baptist Health Care	6,633	Healthcare	621110 Hospitals, general medical and surgical
Navy Federal Credit Union	5,715	Financial Service Center	522130, 522320 Credit Union, Financial Service Center
Sacred Heart Health Systems	4,820	Healthcare	621110 Hospitals, general medical and surgical
Gulf Power Company	1,774	Electric Provider	221122 Electric Power Generation, Transmission & Distribution
West Florida Healthcare	1,200	Healthcare	621110 Hospitals, general medical and surgical
Ascend Performance Materials	888	Manufacturing	325211 Plastics Material and Resin Manufacturing
Alorica (fka West Corporation)	800	Business, Processing, Outsourcing	561422 CRM Solution Provider, Customer Care Center
Innisfree Hotels	750	Hospitality	721110 Hotels and Hospitality
Santa Rosa Medical Center	521	Healthcare	621111 Medical Centers and Clinic
Medical Center Clinic	500	Healthcare	621111 Medical Centers and Clinic
International Paper	450	Manufacturing	322121 Paper (except Newsprint) Mills
CHCS Services/iGate	409	Customer Service Center	524292 Third Party Administration, Insurance
Blackwater Correctional Facility	348	Business Services	561210 Correctional facility operation (contract basis)
Hitachi Cable Florida, Inc	330	Manufacturing	326220 Rubber & Plastics Hoses & Belting Mfg.
Armstrong World Industries	300	Manufacturing	238310 Drywall and Insulation Contractors
MediaCom	300	Communications	517110 Cable Television Distribution Services
American Water	298	Customer Service Center	924110 Water Control and Quality Program Administration

¹ All manufacturing NAICS codes from FPL Powering Florida Resource Center

² NAICS codes 5415, 5182 from FPL Powering Florida Resource Center

GENERAL AREA DATA (Cont'd.)

Recently Navy Federal Credit Union announced its latest and greatest expansion plans to its Pensacola campus, which currently employs over 5,715 people. The Phase I construction costing \$195 million is large enough to add an additional 2,000 jobs. Navy Federal purchased an adjoining 240 acres and is in the process of a Phase II, \$350 million expansion. They are currently the largest Federal Credit Union in the world and this main campus has workers with average salaries of \$44,000. This investment is also estimated to bring around 1,000 new indirect jobs to the regional economy. NFCU announced they expect to have a total of 10,000 employees at their Nine Mile Road, Pensacola location by 2026. Once these planned expansions are completed, Navy Federal will by far be the largest employer for the Pensacola MSA. These announcements will help in the local economic development efforts for recruiting more regional, national and international firms to the area.

Adjacent to the Navy Federal's Heritage Oaks campus is an approximate 640-acre Navy Outlying Landing Field (OLF) being purchased by Escambia County for the development of a commerce park expected to eventually create an additional 4,000 jobs. Escambia County has agreed to purchase a 601-acre parcel in Santa Rosa County to relocate the current OLF. Once the county takes possession of the existing OLF they will spend between \$10 million and \$15 million to develop the commerce park.

Gulf Power, the area's power company, has been actively buying up 4,000 acres of land in the north end of Escambia County for a new power plant that will likely replace the existing coal burning Christie Plant found along the Escambia River in northern Pensacola. It is not yet known if the new plant will be a natural gas plant or a nuclear plant. Replacing the coal plant with a cleaner energy plant will aid in cleaning up Escambia Bay and will help the area's air quality.

Another recent announcement is the new ST Aerospace Pensacola, Inc. ground breaking of a new \$46 million aerospace facility at Pensacola International Airport. They are a Singapore-based company that does maintenance repairs and overhauls for large commercial aircraft.

GENERAL AREA DATA (Cont'd.)

The agreement with the City of Pensacola will provide ST with a \$46 million dollar maintenance and repair facility on 19 acres at Pensacola International Airport's commerce park that is well underway and ST will bring in about 400 high-skill, high-wage jobs. Securing a long-term contract with ST raises Pensacola's profile among domestic and international aerospace parts suppliers. This is particularly important in light of the parts suppliers that eventually will be locating near the \$600 million Airbus Assembly Plant, located at Mobile's Brookley Aeroplex. The first Airbus A-320 passenger jets rolled off the assembly line in 2016 and they are now in full production mode.

Downtown at the Community Maritime Park for Blue Wahoos, Quint Studer recently finished construction on a \$15 million four-story office building and the building is fully leased at \$28.00/SF – full service. Beck Property Company also recently finished construction on its \$4 million-plus, three-story, 26,715 square foot mixed-use building at the corner of Port Royal Way and Main Street. This building includes retail on the ground floor, Beck office space on the second floor and luxury condominiums on the third floor, which are sold out. Just east of the Maritime Park, the newly renamed Bank of Pensacola's new multimillion dollar branch at Palafox and Main Street was completed at the end of 2014.

New apartment developments are also now being constructed in the Pensacola MSA to meet the growing population needs. New projects can be found near the Navy Federal Campus, the University of West Florida Campus, in downtown Pensacola and in the Navarre area. The developments that are newly completed near the Navy Federal Campus, UWF and Navarre realized rapid lease-ups indicating there is pent up demand. The developments that are nearing completion in the downtown area, by UWF, Navy Federal and Navarre will be expected to realize similar rapid lease-ups.

The cost of living in the area is also one of the lowest in the country. National studies, which rate American cities for their desirability, commonly rate Pensacola's MSA near the top of the pack due to the low cost of living and high quality of life. The most recent report for the

GENERAL AREA DATA (Cont'd.)

annual income per capita for the Pensacola MSA was \$27,216 (2017), the median household income was \$50,469 and the average household income was \$67,496.

In conclusion, the Pensacola MSA is considered to have a strong economic base, which is expanding. The area's U.S. Naval and Air Force bases are considered to have a solid future. Tourism is a large factor in the economic success of the area, and in spite of hurricane related setbacks and the oil disaster in the Gulf of Mexico in the past decade, recovery efforts have proven successful and tourism is stronger than ever. Large companies and industries like Navy Federal and the Aerospace industry are moving to the area and bringing many good paying jobs with them that add to the economic base, which is considered healthy.

GOVERNMENTAL CONTROLS AND REGULATIONS

A general area analysis of a growing area would not be complete without considering the area's government and its outlook on future expansion. If the local government is anti-growth, laws can be enacted which would stifle development and population growth. On the other hand, if the government is pro-growth, taxes, zoning, agencies, and personnel can be used by the government to promote new business development, creating a larger economic base and additional population growth, which would support the existing and planned development of income producing properties. The Pensacola MSA governing bodies are pro-growth organizations.

The Escambia County government is a five man Board of Commissioners elected every four years by their district. They appoint a County Administrator who oversees the county budget and operations. Santa Rosa County also has a five person Board of Commissioners. These bodies have been actively obtaining land for new commerce parks and encourages new development.

Pensacola has a City Council with 7 council members elected to four-year terms. It also has a "strong mayor" form of government, which requires the mayor to now be elected by the city residents. The Mayor controls the daily operations of the city government, including overseeing the annual budget of over \$200 million. The city and county currently have zoning ordinances in effect

GENERAL AREA DATA (Cont'd.)

covering the southern region of the county. The county also has a state required Future Land Use Plan which is designed to ensure organized growth over its 20 year life. This plan is reviewed every five years to ensure that it is keeping up with area needs. The plan can also be petitioned for changes. The major topics handled in the plan include consistency, environmental, threatened and endangered species, land use approval on site plans, concurrency, and permitting.

General revenues are raised through an ad valorem tax system. Escambia and Santa Rosa Counties have County Appraisers who assesses the properties at "just value" which is a percentage of market value. This is supposed to be about 85% of market value; however, it commonly range from 20% to more than 85%. The area property taxes are among the lowest in the state, which makes it more affordable for new business development. The City of Pensacola has established a Community Redevelopment Administration (CRA), which is responsible for improving the look of the city. The CRA receives a portion of the taxes collected in the downtown district and utilizes these funds for infrastructure improvements (streets, sewer lines, water lines, parks, etc.). By upgrading the look of the city, the appeal also increases attracting additional business development and tourist dollars increasing the economic and population base.

The County and City governments also work closely with private businesses in efforts to attract additional business to the area. The government's development of structures such as the Pensacola Bay Center, the Saenger Theater and the Creative Arts Center, aid in drawing convention business to the area. Over the past several years, convention traffic has increased bringing new visitors to the area who aid in strengthening the area's economic base. The economic base is also strengthened by the government's development of industrial parks in which the land is sold to "clean air" industries at very low rates in return for the creation of additional area jobs expanding the economic and population base.

The Emerald Coast Utilities Authority (ECUA) relocated their Pensacola downtown wastewater treatment plant to the northern area of Escambia County. This project was a \$316 million development project that started in 2007 and was completed in December of 2010. The new state of the art facility creates the ability for additional industrial development in the north end of

GENERAL AREA DATA (Cont'd.)

the County and the water reclamation will be used for industrial purposes, greatly reducing overall water consumption. No effluent is dumped into the area bays, so area water quality has been increasing in the area due to this new facility. The previous downtown sewer plant has been dismantled and cleared for future development.

On more of a regional basis, there is a new International Airport developed to the east in Bay County near the Walton County line. This project was constructed on about 2,000 acres donated by the Saint Joe Company and was completed in the fall of 2010. This airport provides the region with direct flights that are expected to aid in increasing the tourist populations. Additionally, after a large renovation project, the Pensacola Regional Airport was renamed the Pensacola International Airport. Land surrounding the International Airport is actively being purchased for redevelopment into a clean-air industrial park that will support airport operations.

In conclusion, the local governmental agencies aid in the development of the Pensacola MSA. Zoning, along with the Future Land Use Plan, is used to insure organized, homogeneous growth, which adds to the area's appeal. The low taxes and affordable real estate are also enticing factors for future prospective businesses. The government's willingness to aid in the development of the economic base also creates a stronger population base.

LOCATION AND PHYSICAL FACTORS

The location and physical factors of the area are important, as they are a major impetus in the relocation of Navy personnel, as well as the growth of new businesses and the civilian population. Available land, good weather, water, and recreational aspects are all factors considered by a potential future resident of the area. If these factors are congenial, they will aid in the growth and stability of the area.

GENERAL AREA DATA (Cont'd.)

Escambia County has a land area of approximately 661 square miles and an additional water area of 100 square miles. The altitude ranges from sea level to 120 feet above sea level. The eastern boundary of the county is the Escambia River and Escambia Bay. The western boundary is the Perdido River and Perdido Bay. Neither river is a navigable waterway to the extent of contributing to the economy. Santa Rosa County adjoins Escambia County to the east and has a land size of about 1,174 square miles and offers similar physical characteristics. Escambia and Santa Rosa Counties are located in the extreme northwestern portion of the state, being in what is called the "Panhandle" of Florida. Geographically, this MSA is located approximately 230 miles east of New Orleans, Louisiana; 250 miles south of Birmingham, Alabama; 350 miles southwest of Atlanta, Georgia; and 375 miles east of Jacksonville, Florida.

The City of Pensacola covers approximately 23 square miles of land in the southeastern part of Escambia County and the smaller cities of Gulf Breeze, Milton, and Pace are bedroom communities for Pensacola. The annual mean temperature is 69 degrees with an average rainfall of 62 to 87 inches. With an abundance of clear skies and warm weather, Pensacola is considered part of the "Sun Belt" of the United States. The "Sun Belt" states, especially Florida, have been growing in population faster than other areas of the United States in recent years.

One of the probable reasons for continuous growth of the Pensacola MSA is its accessibility. Pensacola is served by four major highways, which provide access to the north, east, and west. U.S. 90 (which runs from the East Coast of Florida to Texas), Interstate 10 (which runs from the Atlantic Ocean to the Pacific Ocean), U.S. 98 (which runs from the East Coast of Florida to Mississippi) and U.S. 29 (which runs from Pensacola to Washington, D.C.). The Interstate 110 spur connects with Interstate 10 just west of Davis Highway and runs to downtown Pensacola's Business District, connecting with U.S. Highway 98.

Pensacola's International Airport, with the recent completion of a \$30 million modernization, provides air transportation to all parts of the country. The Escambia County Transit

GENERAL AREA DATA (Cont'd.)

System operates bus lines throughout the metropolitan area and Greyhound Bus Lines provides inter-city bus transportation.

The natural deep-water harbor of Pensacola Bay, along with the large expanse of protected waters and the Gulf of Mexico, create an ideal training area for the U.S. Navy. These waterways also add to the area's economy through the Pensacola's Municipal Port Facilities handling cargo shipments to and from all parts of the world. Rail service also aids in the support of the port facilities with spurs running to the docks. While the southern and eastern most areas of Pensacola are nearly fully developed and are blocked from additional growth by the bays and Gulf of Mexico, there is plenty of developable land in the general area. The western and northern land areas of Escambia County and the Pace and Gulf Breeze areas of Santa Rosa County are the locations of the most active development and have proven to be popular among the new residents coming to the area. There is plenty of available land remaining for future growth for years to come.

Overall, the area's physical characteristics are considered a real asset for the general area of Pensacola. There is plenty of available land for additional business and residential development. The beaches and waterways create ideal recreational facilities for newcomers. The moderate temperatures and year-round sunshine also entice a large number of new businesses to the area, which aid in creating a larger population.

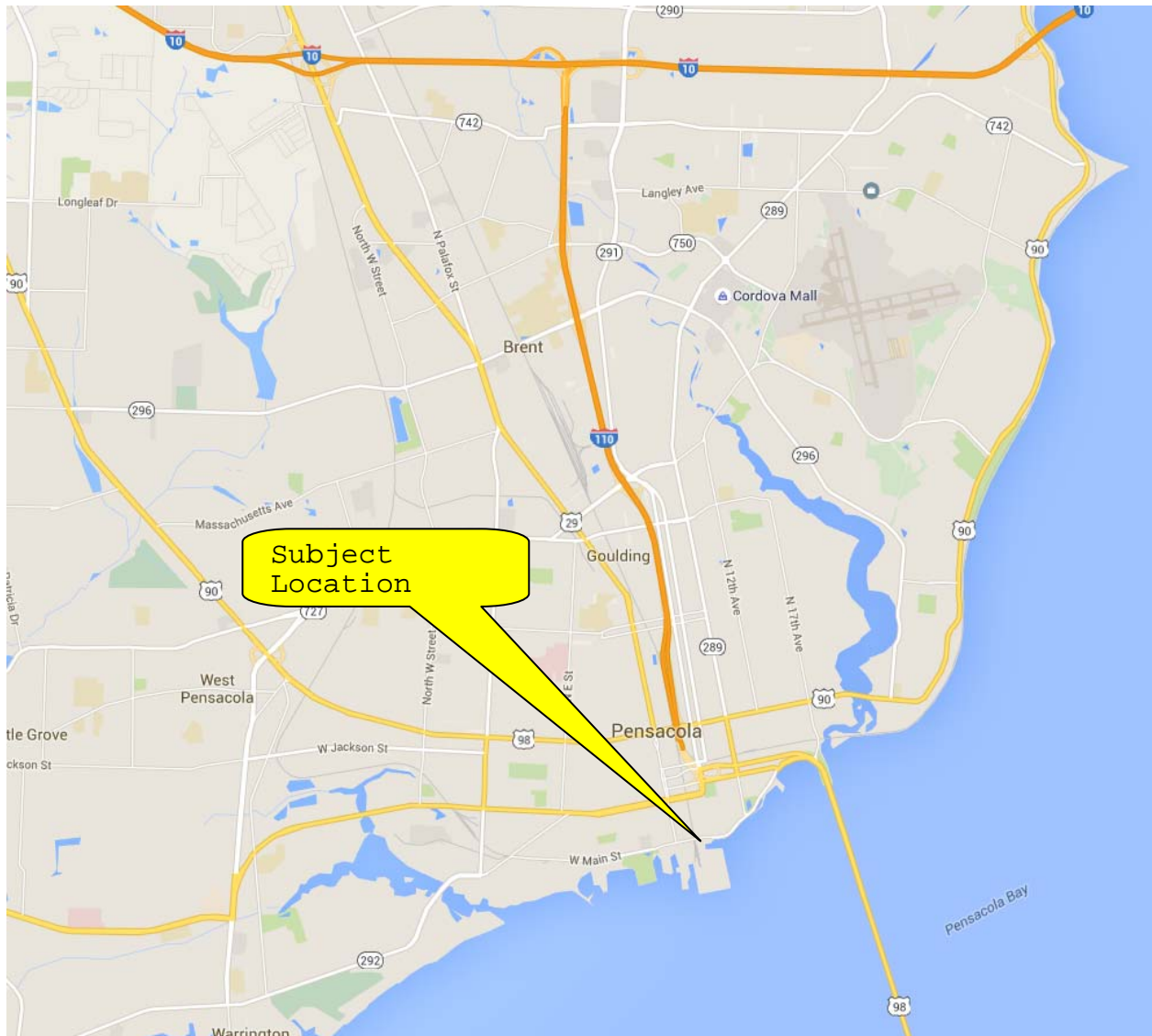
GENERAL AREA DATA CONCLUSION

Overall, the Pensacola MSA is considered to have a steady and positive outlook because of the stable to expanding military bases, tourist industry, and governmental support of private industry expansion and occupancies are increasing as a result. The 2011 through 2017 tourism numbers were among the best of all time and there is an on-going advertisement campaign being paid for by BP that is aiding in increasing the tourist numbers beyond what the area has ever seen. Area hotels are indicating 8% to 10%+ annual increases in revenues and the industry as a whole has expectations of adding employees. The military bases are another market sector that aids in helping the local

GENERAL AREA DATA (Cont'd.)

commercial industry and as of the writing of this report, the area military bases appear to be stable to growing with no cuts planned. Two new 210 foot Coast Guard Cutters will be relocating to Pensacola by August 31 of 2018 and will bring with them 152 new families. New aerospace industry is moving into the area as is Navy Federal creating new jobs, which in turn is driving new home construction. Current estimates indicate the need for about 2,259 new homes per year for the next five years. The commercial markets are also benefiting from this growth, as they keep up with demand. The past trends are expected to continue into the foreseeable future.

Neighborhood Location Map



NEIGHBORHOOD ANALYSIS

A neighborhood is defined in *The Dictionary of Real Estate Appraisal*, Fourth Edition 2002 as: "A group of complementary land uses; a congruous grouping of inhabitants, buildings, or business enterprises."³ Neighborhood boundaries are defined because properties within neighborhoods tend to be similar in characteristics with regard to land use, desirability, and are affected by similar physical, economic, governmental and social forces.

The subject neighborhood is considered to be the portion of the Pensacola area within the Pensacola City limits. This area's boundaries are considered to be, but are not limited to, Fairfield Drive to the west, Pensacola Bay to the south, Escambia Bay to the east, and I-10 to the north.

Major north/south arterials within this area include I-110, Palafox Street, Pace Boulevard, Fairfield Drive, 9th Avenue, and Scenic Highway. Major east/west arterials include Bayou Boulevard, Cervantes Street, Garden Street, Main Street, Brent Lane, Fairfield Drive, Airport Road and Bayfront Parkway. These arterials provide convenient and quick access within the subject neighborhood as well as other portions of the Pensacola MSA.

The downtown Business District of Pensacola includes typical private office buildings, government office buildings, courthouses, restaurants, shops and bars. There is also an historic district that includes a variety of residential and commercial buildings constructed around 200 years ago around several public parks. The majority of the buildings have been completely renovated and act as an historic tourist draw for the community. UWF is proposing to take greater advantage of the area's historic treasures by re-bricking the streets, creating a walking friendly environment and starting an advertising campaign aimed at the historic tourism industry. Festivals are held throughout the year in the many downtown parks. The current main tourist draw is Pensacola Beach, found about four miles to the south and provides white sand beaches, clear water and numerous hotels, shops, condominiums and homes but the new historic tourism industry is projected to increase annual tourism numbers by more than one million visitors per year.

³ The Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 4th ed. (Chicago, Illinois: Appraisal Institute, 2002), pg. 193.

Neighborhood Analysis (Cont'd.)

There have been a number of new developments in the Downtown area of Pensacola, and a summary of the most significant of them follows. The Community Maritime Park is located between Main Street and Pensacola Bay, at the south end of Baylen Street and was recently completed. It includes numerous vacant land sites for future commercial and/or residential development. The project features an expansive public waterfront park; a community multi-use stadium facility suitable for baseball, football and other athletic events, festivals and other community activities. There is also a water front pavilion for music and entertaining events. The water front grassed and walkway areas on the south end of the property were designed for festivals. The other vacant land areas found on the north side of the property can be developed with commercial; office; retail; residential; restaurant and entertainment uses.

Quint Studer recently completed construction on a \$15 million four-story office building directly north of the new Stadium and the building is fully leased at rates of \$28.00/SF, full service. Beck Property Company also recently completed construction on its \$4 million-plus, three-story, 26,715 square foot mixed-use building at the corner of Port Royal Way and Main Street, which is now fully occupied and includes retail on the ground floor, Beck office space on the second floor and luxury condominiums on the third floor. Just east of the Maritime Park, the newly renamed Bank of Pensacola's (previously First Navy Bank) new multimillion dollar branch at Palafox and Main Street was completed around the end of 2014.

Located at 701 South Palafox Street is a newly completed condominium project that was constructed by Ray Russenberger. This development includes 9 luxury condo units that are all sold with prices exceeding \$1,000,000 each. All of the units were pre-sold and have since closed.

Neighborhood Analysis (Cont'd.)

A new YMCA building located at the southwest corner of Taragona Street and Intendencia Street. The building was recently completed and offers an open floor plan with 52,000 square feet, nearly doubling the size of their old downtown building. This building is creating additional demand for new living quarters in the downtown area and will greatly add to the quality of life.



Artist Rendering of the New Downtown YMCA

Located to the northwest of the Maritime Park property is the old sewage treatment facility. The ECUA constructed a new state of the art treatment facility in the northern end of Escambia County and completed the demolition of the old sewer facility. The nearly 20 acre cleared site is now grassed and available to be re-developed, which should further enhance the desirability of the downtown area. The new owner of this site is now in the planning stages of a mixed use development that will include a variety of uses and while they have several conceptual plans, they do not specifically know what will be developed there yet.

Neighborhood Analysis (Cont'd.)

The Palafox Pier Restoration Project is a mixed use development located at the southern end of Palafox Street at the former location of the Municipal Auditorium. This project includes a 92-slip marina, a 7,200 square foot Harbormaster Building that is currently leased, the Icehouse Building with 21,000 square feet of office space currently leased and occupied by Merrill Lynch and EmCare. The City was said to have invested \$1.2 million in public infrastructure improvements with the mixed-use development being a combination of public and private funds.

The Palafox Pier & Yacht Harbour condominium development built in 2002 consists of two 35,206 square foot, four story buildings and a pedestrian plaza (park). Each building includes 7,500 square feet of retail/office space on the ground floor with four parking garages, 10,606 square feet of office space on the second floor and one-story and two-story condo units on the third and fourth floors.

Located immediately south of the Pensacola Bay Center is the new Technology Park development constructed by the City of Pensacola. The streets and all infrastructure necessary for high tech developments are in place and this property is ready for new vertical development. The City of Pensacola, along with Escambia County has provided the land and will sell the land to private individuals who plan to develop the area with buildings designed for companies requiring the latest in technology and the needed infrastructure. In connection with this development, the City of Pensacola created a large regional storm water retention lake located on the north side of Bayfront Parkway and on the east side of 9th Avenue at Admiral Mason Park. This allows for vacant properties to the north to be fully developed without the requirement of storm water run-off on site. The overall water retention design is a public park with the storm water retention lake landscaped and designed for public appeal and there is a walking path surrounding the lake and tasteful landscaping. A vacant site located across 9th Avenue from the Technology park was recently purchased and is proposed to be improved with two new hotels.

Neighborhood Analysis (Cont'd.)

In addition to the new development or redevelopment of this area downtown, several of the older buildings downtown were completely gutted and renovated. All of these renovated buildings are historic structures that are largely found along and nearby Palafox Street, which is the main north/south downtown arterial and the center of much of the new activity. Recently renovated buildings have been converted for restaurants, bars, offices, shops and entertainment venues creating one of the most desirable areas in the MSA. The Studer Group purchased the old Pensacola News Journal building found directly north of the new YMCA building and demolished it to make way for a new upscale mixed use rental building that will include commercial uses on the ground floor and rental apartments on the upper floors, which is now under construction. In association with the mixed use building is a new 7 level parking garage that is nearing completion. The old Rex Theatre building, constructed in 1910, was recently purchased by Harvest Church and went through a \$1.7 million dollar renovation. Now completed, this building hosts live theater events, movies, concerts and other special events. The old YMCA building was purchased by a private developer who has demolished parts of the old building to create new residential lots and other parts of the building will be renovated for restaurant and office uses.

The Blount-Brent Building Complex located at the southwest corner of Palafox Street and Garden Street is also undergoing a massive renovation. This 100,000+ Square foot structure is being completely renovated with boutique retail and restaurant uses on the ground floor and the upper floors are being renovated into a 34 suite boutique hotel and newly renovated office space. A new 110 room Holiday Inn was recently completed on the south side of Main Street just two blocks east of Palafox Street.

Located on the South side of Garden Street is a site that was once improved with a motel but the motel was removed so the site could be re-developed with a condo project; however, the condo development was put on hold due to the recession and the previous over-supply of housing units. The western portion of this site is now being improved with a new

Neighborhood Analysis (Cont'd.)

bank building and the eastern portion is for sale. Similarly, an older liquor store located on the south side of Gregory Street was demolished to make way for a condo development but this was also put on hold at the beginning of the recession and the land is now on the market. With the new demand created by all of the area activity, these two properties will likely come to life again in the foreseeable future.

There are four large multi-story office buildings in the downtown area. These buildings include the Studer Community Institute Building containing approximately 103,955 square feet, Harborview containing approximately 74,240 square feet, Southtrust Bank building containing approximately 77,400 square feet and One Pensacola Plaza containing approximately 108,997 square feet. Average occupancy in three of these buildings is above 90%. The Studer Building was recently vacated by SunTrust and was purchased by the Studer Group for a \$4 million renovation but the specific uses that it will be renovated into have not yet been identified. There are also several other multi-tenant office buildings in the neighborhood that are reflecting occupancies from 80% to 90%.

The Palafox condo project previously identified is the first new residential development planned since the recession and while it is a fairly small project of only 9 units, its rapid sell-out indicates there is good residential demand for the downtown area. The News Journal Apartment redevelopment will be an additional test for new residential demand in the downtown area and the developer has indicated he has a long list of potential tenants. They also indicated that all but one of the commercial spaces are leased. There are numerous other smaller condo, townhouse and single family developments in the area that are being developed and rapidly absorbed, indicating good demand for housing.

The Pensacola Community Redevelopment Agency has been working to promote Pensacola and bring people into the downtown area daily. Among the initiatives recently introduced, are tax incentives that will entice new redevelopment projects. The City also closes Palafox Street one Friday night per month to vehicular traffic and opens it to pedestrian traffic for "Gallery Night". Gallery Night attracts many thousands of people who enjoy the new shops,

Neighborhood Analysis (Cont'd.)

restaurants and bars which are showcased along Palafox. In addition, there are bands found on some of the balconies as well as street performers and musicians found on the street. Open alcohol containers are also allowed creating a festive walkable community.



Photos of a Typical Gallery Night

There is a clean air industrial park area found to the north along the east and west sides of Palafox Street south of Brent Lane and north of Fairfield Drive. Another one is found south of Brent lane between I-110 and Palafox Highway. Located on the west side of Palafox Street north of Fairfield Drive is a super fund site that has been cleaned and capped by the EPA and they indicated that this land is now suitable for additional industrial development. The City of Pensacola is working with the State of Florida and the EPA to create an additional industrial park on the super fund land site. Located north of Brent Lane on Palafox Street is what is known as “Car City”, which is an area with many of the area’s new and used car dealerships. The growing Pensacola Christian College and Pensacola Christian School is found north of Brent Lane between I-110 and Palafox Street and they are actively buying properties to their south in an effort to grow their campus and population.

Neighborhood Analysis (Cont'd.)

The Cordova Mall and surrounding areas are also seeing good commercial growth and new development and redevelopment efforts are under way. ST Aerospace Pensacola, Inc. broke ground on a new \$46 million aerospace facility at Pensacola International Airport. They are a Singapore-based company that does maintenance repairs and overhauls for large commercial aircraft. The maintenance and repair facility is being constructed on 19 acres at Pensacola International Airport's commerce park and ST will bring in about 400 high-skill, high-wage jobs once construction is complete. Construction is also underway on the \$85 million expansion of the Studer Family Children's Hospital at Sacred Heart Hospital found on 9th Avenue. West Florida Hospital will undergo a \$7 to \$10 million expansion to open a new pediatric wing in 2018 as part of a new partnership between Nemours Children's Specialty Care and West Florida Healthcare that will bring in about 40 new staffers.

Overall, the subject's neighborhood is following the path of other downtown locations around the country, which have been revitalized and now project a positive image for the community. These past trends are expected to continue with the help of private developers and the City of Pensacola resulting in the new life cycle of the neighborhood. There are several condominium and apartment buildings planned and under construction in the downtown area, which will aid in the need for additional commercial support facilities. Continued revitalization efforts and increasing populations should place upward pressure on area property values and rents as the national economy recovers. With the past trends expected to continue, the subject neighborhood is considered to have a bright future for commercial and residential properties.

SITE DESCRIPTION

For better visualization of this narration, please refer to the preceding drawings and following photographs.

PHYSICAL LOCATION: The subject property is located at 600 South Barracks Street Pensacola, Florida.

AREA: According to the survey and legal descriptions provided, the property includes a total land area of 10.651 acres or 463,957 square feet, of which approximately 8.529 acres or 371,523 square feet is submerged land and 2.122 acres or 92,434 is uplands.

SHAPE: The site has an irregular shape but offers good utility.

DIMENSIONS: The property has numerous dimensions that can be found in the legal description and includes 350 feet of frontage along the east side of Barracks Street. It also includes a great deal of water frontage along a partially protected area of Pensacola Bay.

INGRESS/EGRESS: As shown by photographs and maps, the property fronts along the east side of Barracks Street, which is the Port of Pensacola's access road and a secondary access street that provides good access to Main Street. The property offers good ingress and egress and has average to good exposure to Main Street.

TOPOGRAPHY: The subject property has a basically level topography.

FLOOD DATA: FEMA Map 12033C 0390G, effective September 29, 2006, Zone "AE" requiring a base minimal elevation of 8 feet.

DRAINAGE: The land appears to be well drained with no standing water or wetlands noted in the upland areas. The submerged land area is under water providing deep water access to the upland areas.

SITE DESCRIPTION (Cont'd.)

SOIL COMPOSITION: The subject site has a sandy soil that is conducive to commercial development, as evidenced by the existing improvements.

UTILITIES ON SITE: All public and private utilities are available to the subject site.

SITE IMPROVEMENTS: The upland area is currently improved with an elevated, two story, mixed use building that includes a total leasable area of 19,743 square feet. There is covered parking below the building and the other areas are improved with asphalt paved and gravel parking areas. The building was constructed in 1987 and has a current estimated effective age of about 23 years and is in average condition. The submerged land is currently partially improved with a floating marina facility that is in need of repair.

EASEMENTS: According to the survey provided, there are no easements that would negatively affect the subject site's value.

ENCROACHMENTS: According to the survey provided, there are no encroachments that would negatively affect the subject site's value.

RESTRICTIONS: The only known restrictions are those imposed by zoning laws by the City of Pensacola.

CONCLUSION OF CONFORMITY:

The subject site is found along a secondary road but has limited exposure to Main Street (aka Bay Front Parkway). Approximately 8.529 acres is submerged land and 2.122 acres is uplands. The submerged land is partially protected and offers deep water access to the uplands; however, due to wave action, it would require a breakwater in order to develop a successful marina. The upland area is improved with a 19,743 square foot, mixed use building that has restaurant/bar and office uses. The additional upland areas are improved with asphalt and gravel parking.

DESCRIPTION OF IMPROVEMENTS

LOCATION:	The subject property is located at 600 South Barracks Street Pensacola, Florida.
SIZE:	According to the last rent roll provided, the subject building includes a total heated and cooled building area of 19,743 square feet.
AGE:	The building has an actual age of 31 years but has been maintained and updated over the years giving it an estimated effective age of about 23 years. According to the Marshall & Swift Cost Handbook, a building of this type has a typical life of 45 years, which would indicate the building has about a 22 year remaining life.
FOUNDATION:	This building has a piling foundation and the heated and cooled areas are above grade with a parking garage located under the building on the ground floor.
EXTERIOR WALLS:	Lapped Wood
ROOF:	Metal
INTERIOR FLOOR:	The interior floors have a combination of floorings that include wood, carpet and tile.
INTERIOR WALLS:	Drywall and wood.
CEILING:	There are a variety of ceiling types ranging from exposed ceilings to drywall.
LIGHTING:	Lighting is provided by incandescent and fluorescent light fixtures.
HEAT/AIR:	Each unit has central heat and air.
RESTROOMS:	There are an adequate number of restrooms for each rental unit in the building and common restrooms are also located on the south end of the building.

DESCRIPTION OF IMPROVEMENTS (Cont'd.)

FENESTRATION: Each unit has wood frame glass entry doors and fixed wood frame windows.

CONDITION/QUALITY: The building is constructed of good quality materials that are in good condition.

EQUIPMENT: All of the equipment is under the ownership of the tenant and since this is the valuation of the leased fee ownership position, no equipment is being considered.

OTHER SITE IMPROVEMENTS

In addition to the building, the property includes asphalt paved and gravel parking areas on the south and west sides of the building. The east side of the building is the water side and the submerged land is partially improved with a floating dock system; however, since there is no break-water protecting the marina area, this dock is largely used for transient boat traffic accessing the restaurant. There are no dock tenants at the marina facility and there are no fuel facilities. For the marina to be fully utilized to its potential, a break-water would be required along the eastern entrance into the marina to cut down on wave action during east and southeast wind times, which are the prevailing wind directions.

PHOTOGRAPHS



View of Subject Property Eastern Building Side and Damaged Marina



View of Subject Property Western Building Side

Photographs



Subject Building Eastern Side View



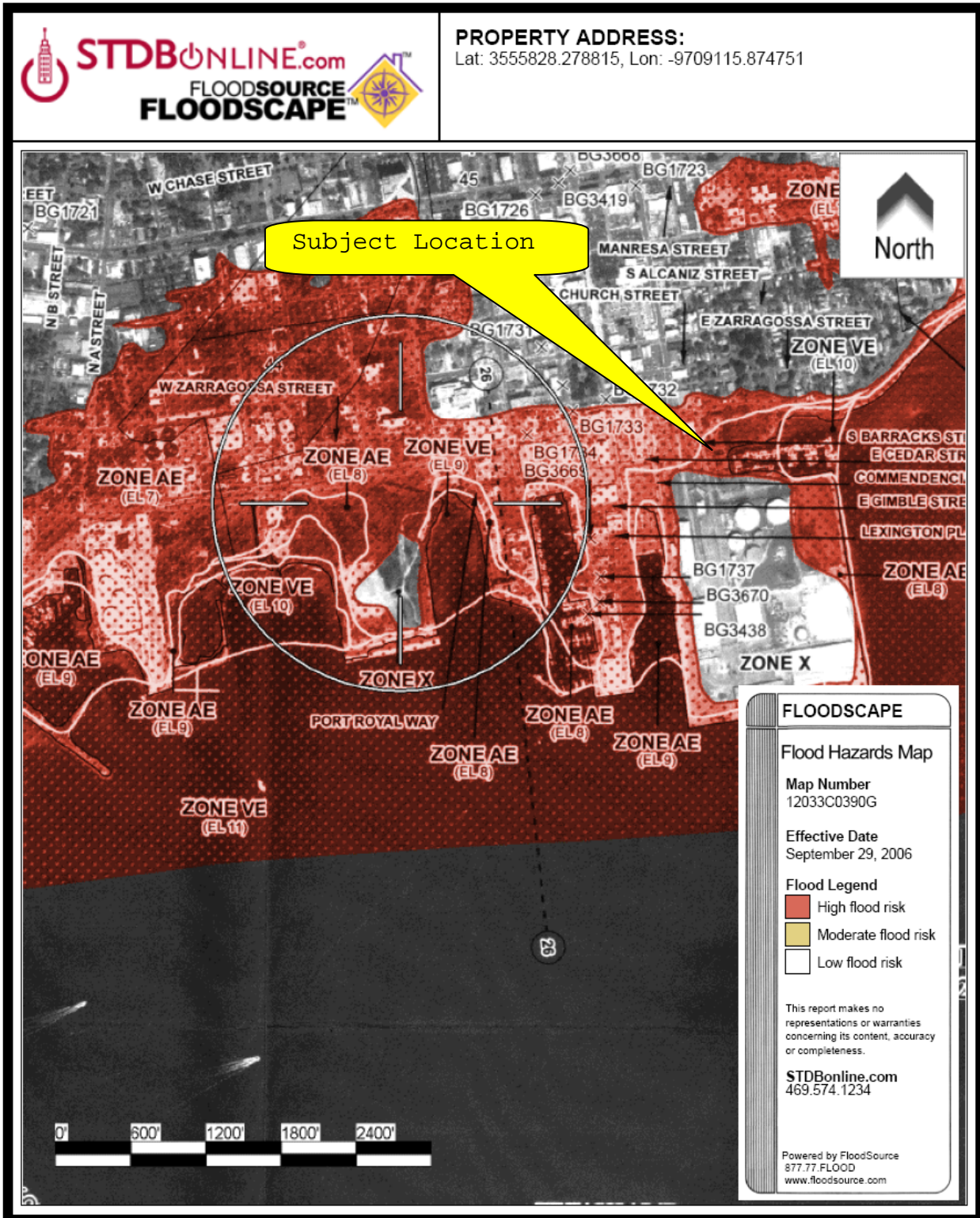
View of Existing Damaged Floating Dock

Photographs

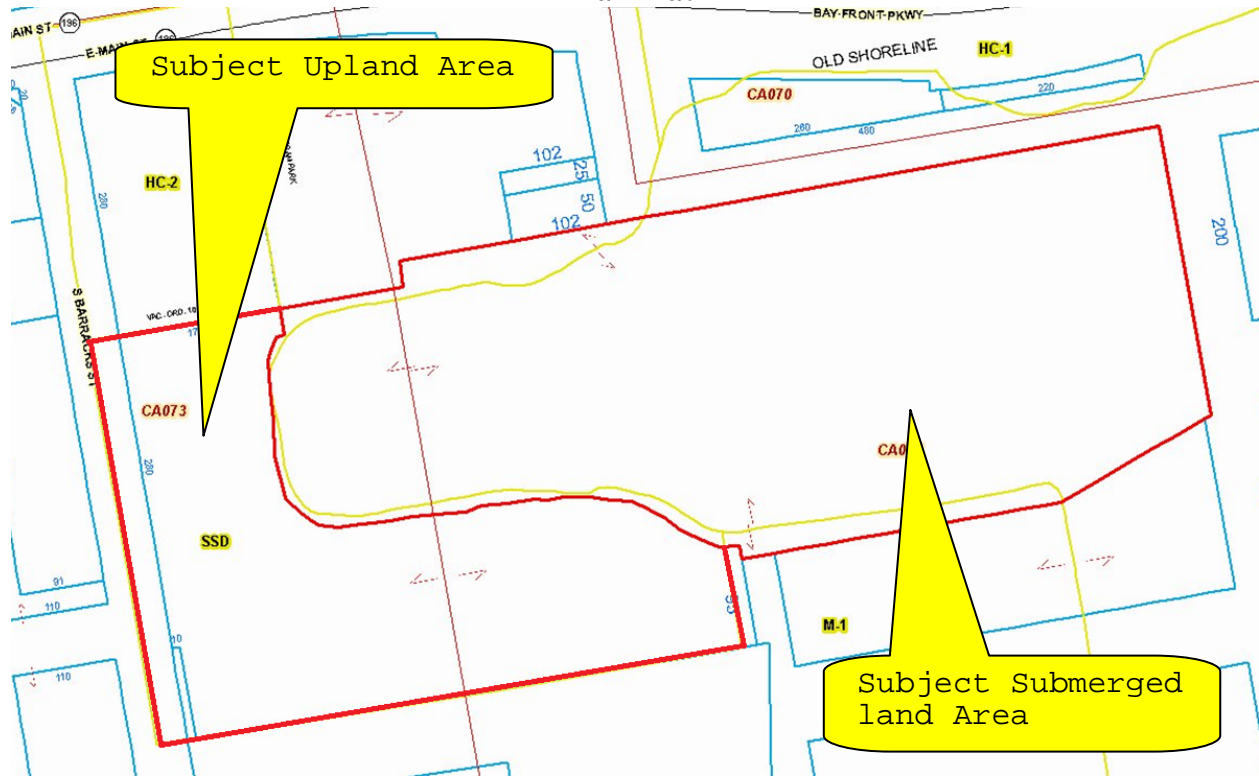


Barracks Street Looking North Toward Main Street

Flood Zone Map



Tax Plat



Subject Aerial Photo



LAND USE PLANNING & ZONING



Properties within the City limits of Pensacola are governed by the City's Zoning Ordinances. The City has typical zoning classifications with the subject property being within the "SSD" Site Specific Zoning District. The specific wording for this district follows.

Purpose of district. The purpose for which this section is enacted is to provide for the option of amending an approved final development plan for any parcel of property which was zoned SSD (site specific development) prior to May 1, 1990. Subsequent to May 1, 1990 no rezonings to SSD have been allowed.

Minor changes to an approved SSD final development plan. Minor changes to a final development plan may be approved by the mayor, city engineer, the city planner and building official when in their opinion the changes do not make major changes in the arrangement of buildings or other major features of the final development plan.

Major changes to an approved SSD final development plan. Major changes such as, but not limited to, changes in land use or an increase or decrease in the area covered by the final development plan may be made only by following the procedures outlined in filing a new preliminary development plan as described in [section 12-2-81](#)

The subject improvements were approved by the City and are a legally conforming use of the site.

PUBLIC AND PRIVATE RESTRICTIONS

Public restrictions as to "use" are discussed within the preceding zoning section. No plat, deed or other private restrictions are known to the appraiser.

ENVIRONMENTAL CONCERNS

I was not provided with an environmental study of the subject property. It is located next to the Port of Pensacola where there are storage tanks. It is an assumption of this report that there are no environmental problems associated with the subject site. The above is a very important assumption and limiting condition to the appraisal.

TAXES AND ASSESSMENT ANALYSIS

The subject is assessed by Escambia County under two property numbers. These assessments are summarized as follows.

Account #	Owner Name	Land Area	Assessed Value	Annual Taxes	Past Due Taxes
00-0S-00-9100-010-008	City of Pensacola - Lessor South Florida Marine Investors Inc. – Lessee	7.4	\$49,383	\$894.60	0
00-0S-00-9100-011-008	City of Pensacola - Lessor Merrill Land LLC – Lessee	3.46	\$2,028,180	\$40,875.48	40,875.48
Totals		10.86	\$2,077,563	\$41,770.08	40,875.48

It is noted that the assessed land size differs from the survey indicated land size, which is fairly typical. The assessor commonly basis land sizes on County plats, which are not as accurate as an actual survey. The survey is being relied upon for this report. The assessed value and associated taxes are considered to be reasonable for fee simple ownership.

FIVE YEAR HISTORY

Past Sales – There have been no sales of the subject property in the past five years.

Listings – The property is currently not listed for sale.

Offers – There are no current offers for the subject property.

Pending Sales – There are no pending sales.

Rents – The subject property was originally leased from the City of Pensacola to Florida Sun International, Inc. who sold their interest to Seville Harbour, Inc many years ago. The annual lease payment is \$0.10/SF of the total land area (463,957 square feet), resulting in a total annual rent payment of \$46,395.70. Seville Harbour has sublet the majority of Parcel 1-A to Merrill Land, LLC at the same rate. Parcel 1-A had an initial term of 30 years with 5 year renewal options up to 30 years. Parcels I & III had an initial 30 year lease with an additional renewal option for 30 more years. The initial term expired in September of 2015 and the renewal period is now in force with just over 27 years remaining at \$46,395.70/year in lease payments.

PART FOUR: ANALYSIS OF DATA AND CONCLUSIONS

HIGHEST AND BEST USE

A brief definition of the term "highest and best use" would be:

"The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability."⁴

Implied within this definition is recognition of the contribution of that specific use to community environment or to community development goals in addition to wealth maximization. Also implied is that the determination of highest and best use results from the appraiser's judgement and analytical skills, i.e., that the use determined represents an opinion, not a fact.

The Highest and Best Use section of this report is the pivotal point in the appraisal process. All previous data is used to test the four criteria of: (1) legally permitted, (2) physically possible, (3) economically feasible, and (4) maximally productive.

LAND AS THOUGH VACANT

Legally Permissible - All legally permissible uses should be analyzed when considering a site's highest and best use. The existing zoning regulations "SSD" Site Specific Development, could allow for a wide variety of uses of the land but the City of Pensacola specifically called for the development of the site with a mixed use restaurant/bar/office building with the submerged land to be used for a marina, which would be the only use currently possible unless the City changes the allowable use.

⁴ American Institute of Real Estate Appraisers, *The Dictionary of Real Estate Appraisal*, Third Edition, 1993, pg. 171.

HIGHEST AND BEST USE (Cont'd.)

Physically Possible - Of the legally permissible adaptations of the site, those physically possible uses require consideration and analysis. The size and location of the parcel are important aspects of value. The appraised site (as a whole) contains 2.122 acres of uplands and 8.529 acres of submerged lands. The upland area is adequate for the City's required use of the land, as evidenced by the existing improvements. The submerged land is of adequate size for a marina but this body of water is susceptible to wave action caused by east and southeast winds, which are the area's prevailing winds. The marina was damaged by the hurricanes in 2004 and 2005 and has never been completely rebuilt because of the wave action and the damage that it causes to boats in the marina. As such, full utilization of the submerged lands would not be expected until a break-water can be approved. As this appraisal is being conducted with the property in its as is condition, I will make no hypothetical condition that a marina break-water could be added to protect the marina. As such, a marina would largely only be good for transient boat traffic accessing the restaurants in the upland improvements.

Financial Feasibility - Of the legally permissible and physically possible adaptations of the site, only those uses which are financially feasible should be considered. Commercial properties in the downtown area are currently experiencing good activity and older buildings are actively being renovated for commercial uses and there are several new developments planned. This would tend to indicate that a commercial mixed use of the upland areas would be financially feasible at this time.

Maximally Productive - The financially feasible use which results in the greatest return to the land is the one which is considered to be the highest and best use of the land. A mixed use commercial development consisting of restaurant, bar and office uses that take maximum advantage of the land and its views would be considered the highest and best use of the subject property, as vacant.

HIGHEST AND BEST USE (Cont'd.)**Conclusion – Highest and Best Use As Vacant**

Probable Use: Mixed Use consisting of restaurant, bar and office commercial uses taking maximum advantage of the available land and views.

Timing for use: Immediately

Probable buyer/user: The probable buyer would be a developer or end user.

HIGHEST AND BEST USE AS IMPROVED

The subject property is improved with a 19,743 square foot building on the uplands and a marina on the submerged lands. The building has an estimated effective age of about 23 years and according to the Marshall & Swift Cost Handbook, this building type has an expected life of 45 years. This would indicate there is a remaining life of about 22 years if the improvements are not updated over the next 22 years. As such, the highest and best use as improved would be the continued current use as a restaurant, bar and office development. The marina in its current configuration would be good for transient traffic accessing the restaurant and bar facilities. As the building would be expected to last only as long as the remainder of the lease or less, it would not be expected to have any value at the end of the holding period and the only remaining value would be that of the value of the land.

EXPOSURE TIME

A brief definition of the term “exposure time” would be:

“The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market.”⁵

Based on the sales found within this report and conversations with local market participants, the subject’s exposure time is estimated to be from 6 to 12 months. This exposure time assumes the sale to have been handled by a knowledgeable real estate broker familiar with the subject real estate market.

⁵ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 3rd ed. (Chicago: Appraisal Institute, 1993), pg. 220.

MARKETING TIME

A brief definition of the term “marketing time” would be:

“The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal.”⁶

Based on the sales found within this report, current listings and conversations with local market participants, the subject’s marketing time is estimated to be from six to twelve months. This marketing time assumes the sale to be handled by a knowledgeable real estate broker familiar with the subject real estate market. It also assumes aggressive real estate sales tactics and readily available contacts active in the subject real estate market.

⁶ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 3rd ed. (Chicago: Appraisal Institute, 1993), pg. 220.

THE VALUATION PROCESS

There are three (3) commonly accepted approaches to value: The Cost Approach, Income Approach, and Sales Comparison Approach. All three utilize market derived information and are “market driven” approaches, as will be shown in the analysis.

The Cost Approach is a summation of land value and improvement value. The land is valued as though vacant and available for its highest and best use. The improvement is valued by first estimating the reproduction costs new from which all forms of depreciation are deducted. Depreciation can be both from deterioration and obsolescence. Obsolescence is further categorized as functional or external. The analysis of obsolescence, based on the highest and best use analysis, accounts for deductions necessary if the improvement is not adequate for the site.

The steps for the Income approach are to first estimate an economic rent for the subject. This analysis is made even if the property is owner occupied. From the gross potential income there is first deducted allowance for vacancy and collection loss with further deductions then made for the expenses applicable to the type property being valued. This net operating income is then capitalized into an indication of value through the use of an appropriate capitalization rate.

The Sales Comparison Approach is an estimation of the property value by comparison with recent sales of similar or competitive properties extracted from the subject’s market. The “market”, rather than being the immediate proximity to the subject, is considered that area, local, regional or even national that would be considered by a prospective buyer of the subject property.

These approaches do not make value. They are merely tools in the hands of the appraiser who must carefully weigh each value indication, give appropriate weight to the approach and reconcile into a final value conclusion. As this is the valuation of the leased fee ownership position, the only applicable approach would be the income approach. The

The Valuation Process (Cont'd.)

cost approach will be eliminated, as it has nothing to do with the current and future rental income that can be realized by the leased fee owner but its elimination would not diminish the reliability of the final leased fee value opinion as it would not typically be considered in the valuation of the leased fee position of lease encumbered land. It should be noted that leased land is purchased and sold but the prices paid are directly tied to the income producing ability that is tied to the lease. As such, the prices paid are more tied to the investors' requirements rather than the market value of the land. All of the land leases that I am aware of have rental prices per square foot that ranged from \$1.15/SF to \$1.95/SF, which is well above the subject's rent of \$0.10/SF. As such, any sale prices would have an over stated value in comparison to the subject land's leased fee value. As such, the sales comparison analysis will also not be conducted.

INCOME APPROACH

The income approach utilizes the principle of anticipation, which states the value is the present worth of all expected future benefits accruing to ownership. These future benefits are generally in the form of income streams.

There are several basic steps involved in this approach. First, the gross market rent for the property is estimated through a comparison of other similar property leases. Next, an allowance for vacancy and collection losses is deducted resulting in the effective gross rent (E.G.R.). From the E.G.R. are deducted fixed expenses such as taxes and insurance, along with variable expenses such as management, maintenance and reserves for replacement of short-lived items such as the roof and floor coverings (when necessary). The resulting figure is the net operating income (N.O.I.). The N.O.I. is then converted into a present dollar estimate which is the property's market value estimate. Converting the N.O.I. into a present dollar estimate is called capitalization.

Capitalization techniques include the direct capitalization analysis and the discounted cash flow analysis. The direct capitalization analysis is typically used on single tenant properties which have very little change in income and expense ratios. This analysis assumes the income stream extends into perpetuity. The discounted cash flow analysis is typically used on more dynamic, multi-tenant properties which have continually changing incomes and expenses. This analysis assumes the property will be held for a specific time period and then sold at the end of the holding period. The property value is based on the net income streams over the holding period, discounted to the present through the use of a present value factor plus the present value of the net reversion or sale of the property at the end of the holding period. The analysis used in this approach follows.

As this is the valuation of the leased fee ownership position, the income valuation approach that will be utilized will be the discounted cash flow analysis. This analysis will consider the cash flow that the City of Pensacola can expect over the next 27 years with these

Income Approach (Cont'd.)

cash flows discounted back to a present value using an appropriate present value factor. The land residual or sale of the land at the end of the holding period will then be considered and the net sale proceeds will also be discounted back to a present value using the same present value factor. The cash flows will then be totaled to indicate the current value of the leased fee ownership position considering the current lease that is in place. This resulting value would be the value that a potential buyer would pay for the leased fee ownership position.

VALUATION ANALYSIS

This analysis will consider the cash flow that the City of Pensacola can expect over the next 27 years with these cash flows discounted back to a present value using an appropriate present value factor. The land residual or sale of the land at the end of the holding period will then be considered and the net sale proceeds will also be discounted back to a present value using the same present value factor. The cash flows will then be totaled to indicate the current value of the leased fee ownership position considering the current lease that is in place. This resulting value would be the value that a potential buyer would pay for the leased fee ownership position. In an effort to determine if the subject's land lease is reasonable the following land rents are offered.

Actual Net Rent Summary				
Property/ Location	Lease Term	Land Size	Annual Net Rent	Net Rent Per Square Foot
Smokey Bones 321 Mary Esther Blvd Fort Walton Beach	30 Years	81,457 SF	\$115,000	\$1.41/SF
Logans Roadhouse 315 Mary Esther Blvd Fort Walton Beach	37.5 Years	79,715 SF	\$123,750	\$1.55/SF
Longhorns 544 Mary Esther Blvd Fort Walton Beach	30 Years	41,026 SF	\$80,000	\$1.95/SF
Smokey Bones 4952 Bayou Blvd Pensacola	12 Years Plus 4 – 5 Year Renewal Options	74,052 SF	\$130,600	\$1.76/SF
Logan's Roadhouse 4958 Bayou Blvd Pensacola	15 Years Plus 4 – 5 Year Renewal Options	65,340 SF	\$121,000	\$1.85/SF
Central Credit Union 4964 Bayou Blvd Pensacola	20 Years Plus 4 – 5 Year Renewal Options	35,000 SF	\$68,040	\$1.94/SF
Texas Roadhouse 6150 Airport Blvd Mobile	13 Years Remaining	87,120 SF	\$100,000	\$1.15/SF

Income Approach (Cont'd.)

The subject property is currently leased from the City of Pensacola to Seville Harbour, Inc. for \$0.10/SF of the total land area (463,957 square feet), resulting in a total annual rent payment of \$46,395.70. Seville Harbour has sublet the majority of Parcel 1-A to Merrill Land, LLC. This rent is level through the holding period. The subject's rent is well below the other area leases, indicating it is favorable to the leasehold owner creating a leasehold value; however, since this is the value of the leased fee ownership position, the actual land rent being realized by the City will be the rent used.

There are 27 years remaining in the renewal period at the same terms as the original period. As such, I will conduct a 27 year discounted cash flow analysis considering the annual lease payments of \$46,395.70 per year, which will have no increases. The current improvements have an expected remaining economic life of about 20 years so they would not be expected to contribute value to the land at the end of the lease period so the only value at the end of the holding period would be the value of the land, less the cost to remove the existing improvements. The land residual is calculated as follows.

LAND RESIDUAL VALUATION

Land Sale No. 1**Property Identification**

Record ID 832
Property Type Commercial
County Escambia County
Location Southwest corner of Garden Street and Alcaniz Street.
Address 223 East Garden Street
Pensacola, FL 32502
Tax ID 00-0S-00-9001-001-217

Sale Data

Grantor Seville Centre, LLC
Grantee Florida Institute For Human and Machine Cognition, Inc.
Sale Date July 21, 2017
Deed Book/Page 7750/33
Property Rights Transferred Fee Simple
Financing Owner Financing Terms Similar to Cash
Conditions of Sale Arm's Length
Sale Price \$2,000,000

Land Data

Zoning C-2A Downtown Retail Commercial
Utilities Available All
Topography Level
Shape Rectangular
Land Dimensions 265.5 x 320
Flood Zone Zone X
Land Size – Acres and SF 1.940 Acres 84,506 SF
Developable Units and FF DU 586 FF
Uplands 1.940 Acres
Wetlands Acres

Indicators

Sale Price/Gross Acre \$1,030,928/Acre
Sale Price/Gross SF \$23.67/SF
Sale Price/Developable Unit /DU
Sale Price/Front Foot \$3,413/FF
Sale Price/Developable Acres \$23.67/SF

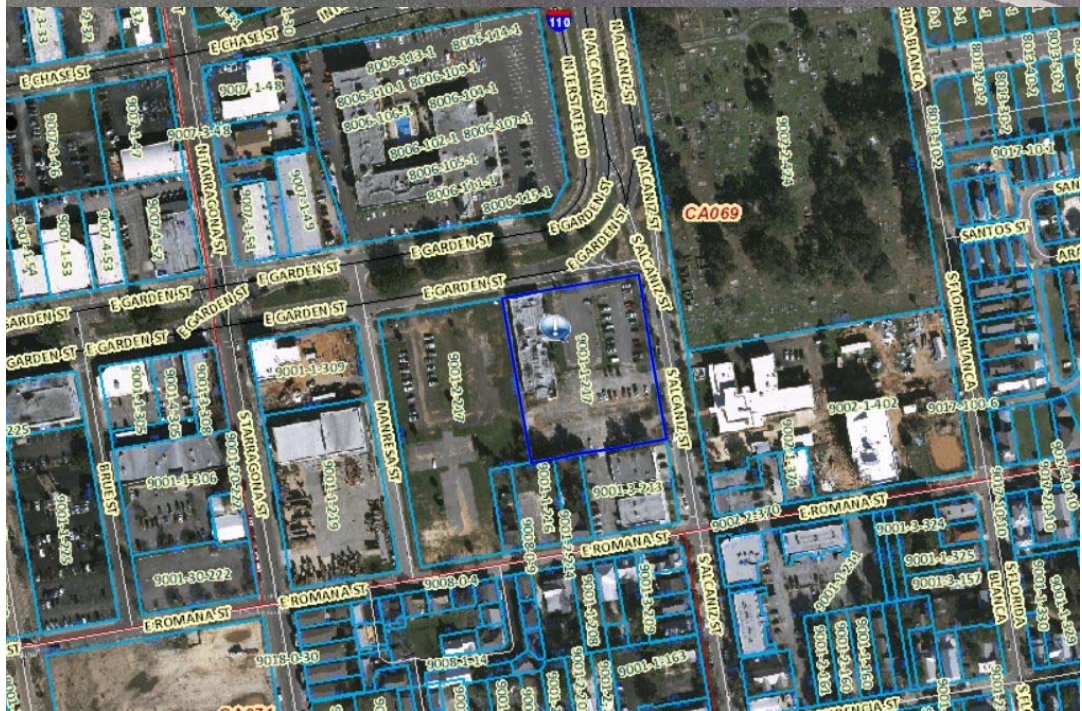
Verification

Confirming Appraiser Tony Terhaar, Seller, , Date April 02, 2018
Tom Fruitticher, MAI
Days On Market 360 DOM
Five Year Sales History No other sales in previous 5 years.
Assessed Value \$726,287 *Year* 2017

Remarks

This is a vacant parcel that was cleared at the time of sale. It offers 265.5 feet of frontage along the south side of Garden Street and 320 feet of frontage along the west side of Alcaniz Street. There are no wetlands associated with this property. The buyer purchased this site for future office development.

Land Sale No. 1
Photograph



Site

Land Sale No. 2**Property Identification**

Record ID 649
Property Type Vacant Land
County Escambia County
Location The property is located along the west side of Baylen Street and the north side of Government Street just west of Palafox Street.
Address 221 South Baylen Street
Pensacola, FL 32502
Tax ID 00-0S-00-9001-002-118

Sale Data

Grantor Theo D. Baars, III et al
Grantee 316, Inc.
Sale Date September 16, 2016
Deed Book/Page 7597/1386
Property Rights Transferred Fee Simple
Financing Cash
Conditions of Sale Arm's Length
Sale Price \$675,000

Land Data

Zoning C-2A Downtown Retail Commercial
Utilities Available All
Topography Level
Shape "L" Shaped
Land Dimensions 77 x 105 x 100.8 x 65 x 169.5 x 170
Flood Zone Zone X
Land Size – Acres and SF 0.451 Acres 19,641 SF
Developable Units and FF DU 142 FF
Uplands 0.451 Acres
Wetlands Acres

Indicators

Sale Price/Gross Acre \$1,497,006/Acre
Sale Price/Gross SF \$34.37/SF
Sale Price/Developable Unit /DU
Sale Price/Front Foot \$4,754/FF
Sale Price/Developable Acres \$34.36/SF

Verification

Confirming Appraiser Theo Baars, Seller, 850-982-3030, Date February 28, 2017
Tom Fruitticher, MAI
Days On Market 1246 DOM
Five Year Sales History No other sales in previous 5 years.
Assessed Value \$492,959 *Year* 2016

Remarks

This is an "L" shaped property that offers 65' of frontage along the west side of Baylen Street and 77' of frontage along the north side of Government Street. At the time of sale, the property was improved with a 5,661 square foot office building with an additional 415 square feet of covered porches that was constructed in 1957. The building has outlived its economic life and the buyer has since demolished it. The estimated cost to remove the structure was \$33,000, which works out to \$1.76/SF of land area.

**Land Sale No. 2
Photograph**



Site

Land Sale No. 3**Property Identification**

Record ID 627
Property Type Downtown Commercial
County Escambia County
Location Southeast Corner of Garden Street and Manressa Street
Address 223 East Garden Street
Pensacola, FL 32502
Tax ID 00-0S-00-9001-002-217

Sale Data

Grantor Seville Centre, LLC
Grantee SFB of Northwest Florida, LLC
Sale Date August 19, 2016
Deed Book/Page 7576/567
Property Rights Transferred Fee Simple
Financing Cash to Seller
Conditions of Sale Arm's Length
Sale Price \$1,984,042

Land Data

Zoning C-2A Downtown Retail Commercial
Utilities Available All public and private.
Topography Level
Shape "L" Shaped
Land Dimensions 241.58' x 480.03' x 161.43' x 159.97' x 80.21' x 320.04'
Flood Zone
Land Size – Acres and SF 2.368 Acres 103,150 SF
Developable Units and FF DU 721 FF
Uplands 2.368 Acres
Wetlands Acres

Indicators

Sale Price/Gross Acre \$837,856/Acre
Sale Price/Gross SF \$19.23/SF
Sale Price/Developable Unit /DU
Sale Price/Front Foot \$2,752/FF
Sale Price/Developable Acres \$19.23/SF

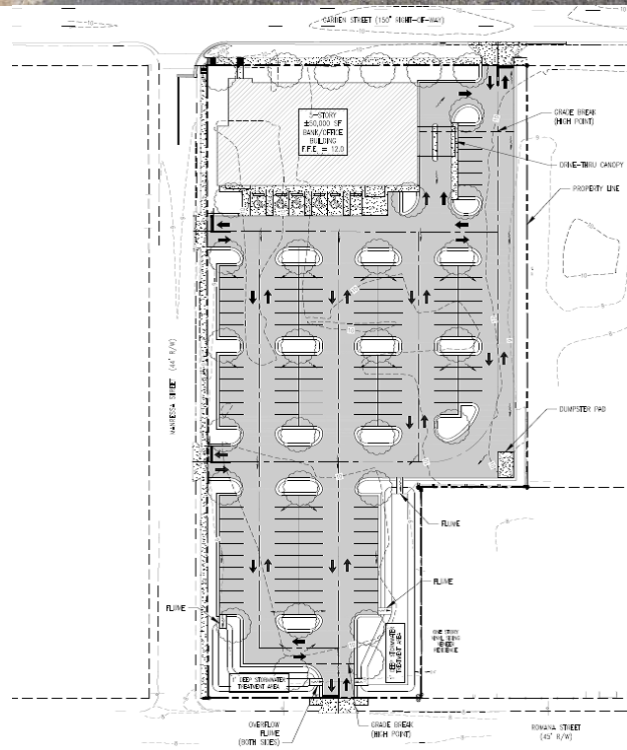
Verification

Confirming Appraiser Bo Carter, Buyer Rep., 850-384-6667, Date November 15, 2016
Days On Market Rodger Lowery, MAI
Unknown
Five Year Sales History None noted three years prior.
Assessed Value \$1,475,268 *Year* 2016

Remarks

The subject property was purchased for the development of a five-story Class "A" Professional Office building anchored by ServisFirst Bank on the ground floor. The improvements will include 139 parking spaces with the rents for floors two through five ranging from \$21.50 to \$24.50, triple-net.

Land Sale No. 3 Photograph



Site

Land Sale No. 4**Property Identification**

Record ID 443
Property Type Waterfront Land
County Escambia County
Location East side of Pensacola Beach Boulevard just south of the Toll Gate.
Address 450 Pensacola Beach Boulevard
Pensacola Beach, FL 32561
Tax ID 28-2S-26-0900-001-004

Sale Data

Grantor Bonifay Water Sports
Grantee Pensacola Beach Yacht Club
Sale Date March 09, 2015
Deed Book/Page 7316/571
Property Rights Transferred Leasehold
Financing Conv.
Conditions of Sale Arm's Length
Sale Price \$500,000

Land Data

Zoning Rec/R-PB
Utilities Available All
Topography Sloping to Water
Shape Rectangular
Land Dimensions 155.6 x 183.11 x 155.6 x 187.7
Flood Zone Zone VE E1 12
Land Size – Acres and SF 0.690 Acres 30,056 SF
Developable Units and FF DU 156 FF
Uplands 0.690 Acres
Wetlands Acres

Indicators

Sale Price/Gross Acre \$724,638/Acre
Sale Price/Gross SF \$16.64/SF
Sale Price/Developable Unit /DU
Sale Price/Front Foot \$3,205/FF
Sale Price/Developable Acres \$16.64/SF

Verification

Confirming Appraiser John Ehrenreich, Seller, , Date August 04, 2015
Tom Fruitticher, MAI
Days On Market Not marketed
Five Year Sales History No other sales in previous 5 years.
Assessed Value Year 2015

Remarks

This site is located on the east side of a service road that extends along the east side of Pensacola Beach Boulevard, just south of the toll booth from the bridge that leads to the island. Adjoining the site to the north is a parasailing business and to the south is a go-kart track and snack shack for the Bonifay Water Sports. Across the street to the west are the water towers for the Island. To the east is the Santa Rosa Sound or Intracoastal Waterway, which provides good water views and unlimited water activities. Numerous restaurants, shops, and public Gulf front beaches can also be found within walking distance. The site was improved with a mini golf course that was given no value and buyers plan to develop the site with a clubhouse building for the Yacht Club.

**Land Sale No. 4
Photograph**



Site

Land Sale No. 5**Property Identification**

Record ID	868
Property Type	Commercial
County	Escambia County
Location	East side of Pensacola Beach Boulevard just south of the toll both.
Address	Pensacola Beach Boulevard Pensacola Beach, FL 32561
Tax ID	28-2S-26-0900-002-008

Sale Data

Grantor	Bonifay Water Sports, Inc.
Grantee	Beach To Bay LLC
Sale Date	March 13, 2017
Deed Book/Page	7684/1080
Property Rights Transferred	Leasehold
Financing	Cash
Conditions of Sale	Arm's Length
Sale Price	\$1,342,000

Land Data

Zoning	Recreational
Utilities Available	All
Topography	Level
Shape	Slightly Irregular
Land Dimensions	Numerous
Flood Zone	Zone VE
Land Size – Acres and SF	1.940 Acres 84,506 SF
Developable Units and FF	DU 503 FF
Uplands	1.940 Acres
Wetlands	Acres

Indicators

Sale Price/Gross Acre	\$691,753/Acre
Sale Price/Gross SF	\$15.88/SF
Sale Price/Developable Unit	/DU
Sale Price/Front Foot	\$2,668/FF
Sale Price/Developable Acres	\$15.88/SF

Verification

Confirming Appraiser	Robert Rinke, Buyer, 850-516-4611, Date June 05, 2018
Days On Market	Tom Fruitticher, MAI
Five Year Sales History	0 DOM
Assessed Value	No other sales noted in the previous 5 years.
	Year 2017

Remarks

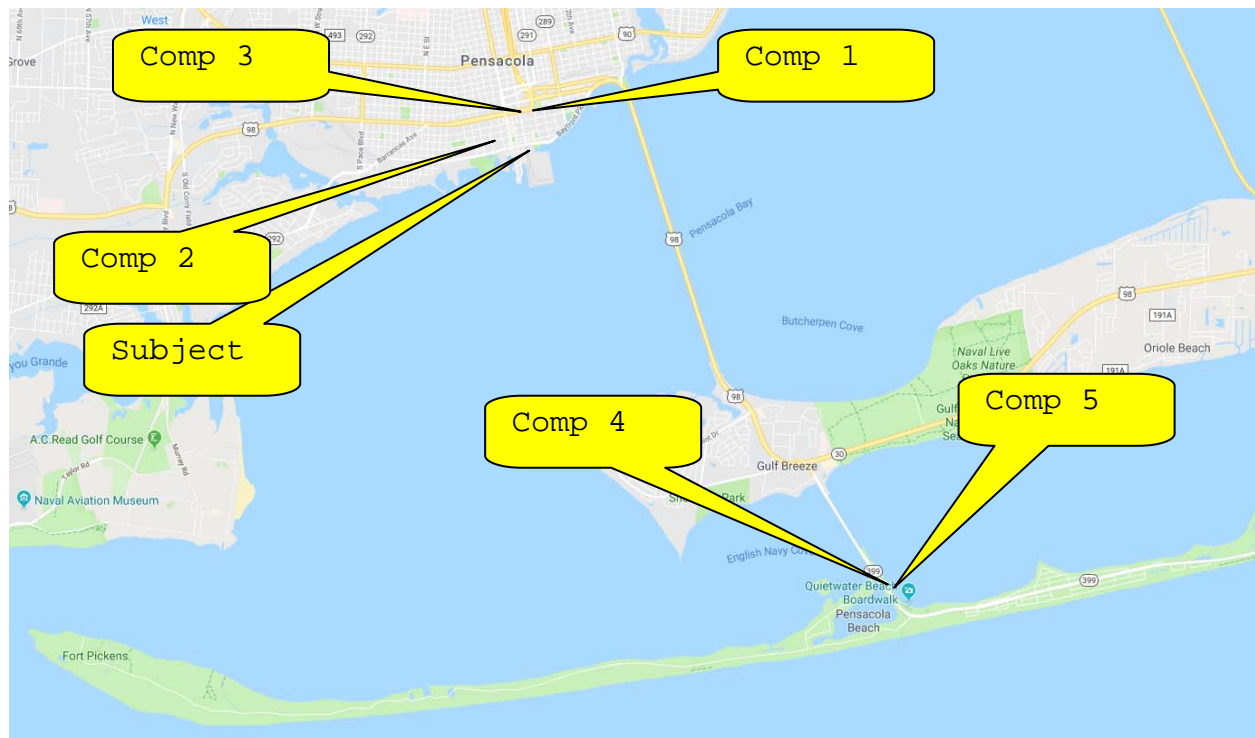
This is a slightly irregular shaped parcel that offers about 503 feet of frontage along Santa Rosa Sound and a similar amount of frontage along Pensacola Beach Boulevard and a service road. In addition to the upland, the sale included a submerged land lease for a boat dock and boat lift. The upland area is fairly level and was improved with a go-cart track and several small gazebo buildings having a total size of about 3,200 square feet but the improvements did not contribute to the value of the land. The buyer purchased this property for future re-development.

**Land Sale No. 5
Photograph**



Site

Sales Location Map



LAND RESIDUAL VALUE ANALYSIS

Land Sales Summary Grid					
	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Location:	223 East Garden Street	221 South Baylen Street	223 East Garden Street	450 Pensacola Beach Boulevard	Pensacola Beach Boulevard
City	Pensacola	Pensacola	Pensacola	Pensacola Beach	Pensacola Beach
Property Rights	Fee Simple	Fee Simple	Fee Simple	Leasehold	Leasehold
Financing	Owner Financing	Cash	Cash to Seller	Conv.	Cash
Conditions of Sale	Arm's Length	Arm's Length	Arm's Length	Arm's Length	Arm's Length
Date of Sale:	7/21/2017	9/16/2016	8/19/2016	3/9/2015	3/13/2017
Sale Price:	\$2,000,000	\$675,000	\$1,984,042	\$500,000	\$1,342,000
Property Type	Commercial Land	Commercial Land	Commercial Land	Waterfront Land	Mixed Use
Utilities Available	All	All	All public and	All	All
Topography	Level	Level	Level	Sloping to Water	Level
Shape	Rectangular	"L" Shaped	"L" Shaped	Rectangular	Slightly Irregular
Land Size Acres	1.940 Acres	0.451 Acres	2.368 Acres	0.690 Acres	1.940 Acres
Land Size Upland Acres	1.940 Acres	0.451 Acres	2.368 Acres	0.690 Acres	1.940 Acres
Land Size FF	586 FF	142 FF	721 FF	156 FF	503 FF
Land Size SF	84,506 SF	19,641 SF	103,150 SF	30,056 SF	84,506 SF
Price/Acre:	\$1,030,928/Acre	\$1,497,006/Acre	\$837,856/Acre	\$724,638/Acre	\$691,753/Acre
Price/FF	\$3,413/FF	\$4,754/FF	\$2,752/FF	\$3,205/FF	\$2,668/FF
Price/SF	\$23.67/SF	\$34.37/SF	\$19.23/SF	\$16.64/SF	\$15.88/SF

LAND RESIDUAL VALUE ANALYSIS (Cont'd.)

SUBJECT SITE DESCRIPTION SUMMARY: The subject site is found within the downtown area of Pensacola, just off a main arterial. The upland area is 2.122 acres or 92,434 square feet in size, offers good utility and is zoned for a mixed use commercial development. The land has a level topography and offers water frontage on Pensacola Bay.

A search of the area was made for land sales that have a similar highest and best use to the subject resulting in the previous sales. These properties will be compared to the subject property on a value per square foot basis as this is a common way for area buyers to consider purchases. There have been very few recent commercial water front sales in this area so interior sales in the immediate area are also being used. It is noted that the two commercial water front sales that were available have values that are in line with the interior downtown sales, indicating the interior land sales are applicable. The adjustments considered are as follows.

PROPERTY RIGHTS SOLD - In all of the comparable sales, the property rights sold were those of the fee simple interest or leasehold interest wherein the terms of the lease equate to ownership similar to fee simple interest. As the interests sold are similar to the interest being appraised at the end of the 27 year holding period, no property rights adjustments are considered to be necessary.

FINANCING - The properties also sold for cash or terms considered to be similar to a cash sale requiring no financing adjustments.

CONDITIONS OF SALE - All of the sales were arms-length transactions requiring no conditions of sale adjustments.

LAND RESIDUAL VALUE ANALYSIS (Cont'd.)

EXPENDITURES IMMEDIATELY AFTER PURCHASE – Sales two and five had improvements on them at the time of sale that either were or will have to be removed prior to re-development. Sale two's removal cost was indicated to be \$1.76/SF of the land area, which will be used as an upward adjustment. Sale five included about 3,200 square feet of buildings that can be removed for about \$5.00/SF or \$16,000, which works out to \$0.19/SF of the land area. This will also be used as an upward adjustment.

MARKET CONDITIONS ADJUSTMENT – Sales one and five are fairly recent having taken place in 2017 and no adjustment is necessary for them but the market conditions have been improving and sales two, three and four would require consideration for the improved market conditions. Sale three adjoins sale one to the west and they are very similar in all respects with the exception of the date in which they took place. Sale three sold on 8/2016 for \$19.23/SF and about 1 year later sale one sold on 7/2017 for \$23.67/SF. This comparison would indicate the 2016 sales would require an upward 23% adjustment to compare to the more recent sales. This is a fairly large adjustment for such a short period of time but considering all of the recent activity in the downtown area, it is considered realistic but will likely not continue to increase at such rates.

Sales four and five are also located next to each other but the same analysis can not be conducted with these two sales, as sale four is so much smaller than sale five. Sale four took place in 2015, or about a year prior to the 2016 sales. As such, it will be adjusted up by 46% considering the two year difference between it and the most recent sales.

LOCATION & PHYSICAL ADJUSTMENTS – The subject site is located in downtown Pensacola in the highly desirable historic district, which is very similar to sales one, two and three. Sales four and five are located on Pensacola Beach in the similarly desirable commercial core of the beach and no location adjustment is necessary.

LAND RESIDUAL VALUE ANALYSIS (Cont'd.)

Sales one, three and five are very similar in size to the subject property and sales two and four are much smaller. Sale four is somewhat in line in value with the larger sales, after the previous adjustments are considered, indicating little or no size adjustments are necessary. Sale two in comparison to the larger sales would indicate a fairly large downward adjustment of about 50% would be required and it is about the same size as sale four. As these two comparisons are so different, no size adjustment will be made but size will be considered in the final reconciliation.

Sales four and five offer water front features, while sales one, two and three do not. Typically, a water front feature would be expected to command a premium but after the previous adjustments are considered, they have values that are similar to the interior sales so no adjustment will be made. The sales are considered similar enough in all other respects that no other adjustments are necessary. The previous adjustments are shown on the following adjustment grid.

Land Sales Adjustment Grid					
	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Sale Price /SF	\$23.67 /SF	\$34.37 /SF	\$19.23 /SF	\$16.64 /SF	\$15.88 /SF
Property Rights Adjustment	0%	0%	0%	0%	0%
Property Rights Adj. \$/SF	\$23.67 /SF	\$34.37 /SF	\$19.23 /SF	\$16.64 /SF	\$15.88 /SF
Financing Adjustment	0%	0%	0%	0%	0%
Financing Adj. \$/SF	\$23.67 /SF	\$34.37 /SF	\$19.23 /SF	\$16.64 /SF	\$15.88 /SF
Conditions of sale Adjustment	0%	0%	0%	0%	0%
Conditions of sale Adj. \$/SF	\$23.67 /SF	\$34.37 /SF	\$19.23 /SF	\$16.64 /SF	\$15.88 /SF
Expenditures Immediately After Purchase Adjustment	\$.00 /SF	\$1.76 /SF	\$.00 /SF	\$.00 /SF	\$.19 /SF
Expenditures Adj. \$/SF	\$23.67 /SF	\$36.13 /SF	\$19.23 /SF	\$16.64 /SF	\$16.07 /SF
Market Conditions Adjustment	0%	23%	23%	46%	0%
Market Conditions Adj. \$/SF	\$23.67 /SF	\$44.44 /SF	\$23.65 /SF	\$24.29 /SF	\$16.07 /SF
Locational & Physical Characteristic Adjustments					
Location Adjustment	0%	0%	0%	0%	0%
Property Type/Zoning Adjustment	0%	0%	0%	0%	0%
Utilities Adjustment	0%	0%	0%	0%	0%
Topography Adjustment	0%	0%	0%	0%	0%
Shape Adjustment	0%	0%	0%	0%	0%
Size Adjustment	0%	0%	0%	0%	0%
Wetlands Adjustment	0%	0%	0%	0%	0%
Value Indiation	\$23.67 /SF	\$44.44 /SF	\$23.65 /SF	\$24.29 /SF	\$16.07 /SF

LAND RESIDUAL VALUE ANALYSIS (Cont'd.)

RECONCILIATION – Sale two is well outside the value of the other sales so it will be given no weight. Sales four and five are the only commercial water front sales available and the value difference between the larger sale five and the similar sized sales one and three may be the requirement to build on pilings due to being located in a flood zone, as this adds greatly to the development costs. Sale four's value is higher than sale five's but this is considered to be a result of the smaller size. As the subject site is also located in a flood zone and improvements would have to be constructed on pilings, more weight will be given to sale five with some upward influence from the other sales to indicate an applicable value of \$19.00/SF. Applying this to the subject's upland area of 92,434 square feet, results in a current land value opinion of \$1,756,246, which can be rounded to \$1,756,000. It should be noted that the subject land includes submerged land that can be used for marina facilities, which is very similar to sale five. As sale five's upland value would have the submerged land potential inherent in its value, the subject's value of \$1,756,000 would also be expected to have this inherent value.

From this value should be deducted the cost to remove the existing improvements, as they would not be expected to have value at the end of the holding period and would need to be removed so the land could be re-developed. According to the Marshall & Swift Cost Handbook, the improvements can be demolished and removed for a cost range of \$3.64/SF to \$5.62/SF. Other appraisals that I worked on where building removal was necessary had costs that ranged from \$4.50/SF to \$5.50/SF. For this analysis I will consider a removal cost of \$5.00/SF. Applying this to the building size of 19,743 square feet indicates a total removal cost of \$98,715, which will be rounded to \$99,000. Deducting the removal costs from the vacant land value of \$1,756,000 would indicate an as is land value of \$1,657,000.

The value of \$1,657,000 is a present value but the land residual or value at the end of the holding period is what should be applied to the cash flow analysis. Property values have risen and fallen over the past but to get an idea of value trends sales and resales of random vacant parcels in the downtown area were researched.

LAND RESIDUAL VALUE ANALYSIS (Cont'd.)

Parcel #00-0S-00-9070-030-056 sold on 11/15/2010 for \$650,000 per O.R. 6649/1649. This same parcel resold 7 years latter for \$737,500 per O.R. 7827/468. Comparing the older sale to the newer sale indicates an overall increase in value of 13.5% or an average annual increase of about 1.9% annually.

Parcel #00-0S-00-9080-280-087 sold on 10/2006 for \$50,000 per O.R. 6011/1120. This same parcel resold 10.5 years latter for \$58,000 per O.R. 7689/728. Comparing the older sale to the newer sale indicates an overall increase in value of 16% or an average annual increase of about 1.5% annually.

Parcel #00-0S-00-9025-001-008 sold on 04/2006 for \$3,900,000 per O.R. 5885/110. This same parcel resold 10 years latter for \$3,000,000 per O.R. 7509/1985. Comparing the older sale to the newer sale indicates an overall decrease in value of 23% or an average annual decrease of about 2.3% annually.

Parcel #00-0S-00-9080-002-136 sold on 07/1989 for \$145,000 per O.R. 2727/837. This same parcel resold 27 years latter on 07/2016 for \$406,600 per O.R. 7554/411. Comparing the older sale to the newer sale indicates an overall increase in value of 180% or an average annual increase of about 6.7% annually.

As shown, values can vary over time. The value changes identified range from a -2.3% annually to a +6.7% annually and averaged about +2% annually. No one knows what will happen in the future but it is a fairly safe estimate that values will increase over the next 27 years. As such, I will consider a 2% average annual compound increases to indicate a land residual value of \$2,828,310 at the end of the 27 year holding period. From this I will deduct 5% for Realtor Commissions and 1% for closing costs to indicate net sale proceeds of \$2,658,611, which will be rounded to \$2,659,000.

The subject's land lease is net to the leased fee owner, indicating the leased fee owner has no responsibility for the taxes, insurance or maintenance on the property. As such, there are no deductions from the annual lease proceeds. The annual lease proceeds of \$46,395.70 will be used for the 27 year discounted cash flow analysis. As was shown above, the net reversion value

LAND RESIDUAL VALUE ANALYSIS (Cont'd.)

of the land at the end of the holding period is \$2,659,000. These future cash flows will be discounted back to a present value using an appropriate present value factor.

Income Approach

Following is the *Fourth Quarter 2017 Investor Survey from Price Waterhouse Cooper*, which shows the National Net Lease market Internal Rates of Return (discount rate) for retail and office buildings ranging from 5% to 11.5% and the average being from 7.05 to 7.6. Typically, national credit tenants command the lower end of this range and less credit worthy tenants command the upper end. As the subject property is not occupied by a national credit tenant but does have a good track record, its' internal rate of return would be expected to be above the average but lower than the upper end of the range. For this analysis, I will consider a rate between the average and the upper end or 9%.

Economic Indicators | PwC Real Estate Investor Survey, Q4 2017

	Regional Mall		CBD Office		Warehouse		Apartment	
	Q4 2017	Q3 2017	Q4 2017	Q3 2017	Q4 2017	Q3 2017	Q4 2017	Q3 2017
Discount Rate (IRR)^a								
Range (%)	5.00 – 11.50	5.00 – 11.50	5.50 – 9.00	5.50 – 9.50	5.50 – 9.00	5.50 – 9.00	5.50 – 10.00	5.50 – 10.00
Average (%)	7.60	7.60	7.05	7.13	6.60	6.65	7.26%	7.28%
Change (bps)		0		-8		-5		-2
Overall Cap Rate (OAR)^a								
Range (%)	4.00 – 10.00	4.00 – 10.00	3.50 – 8.00	3.50 – 7.50	3.30 – 6.90	4.00 – 6.90	3.50 – 7.50	3.50 – 7.50
Average (%)	6.25	6.23	5.73	5.66	5.06	5.22	5.32	5.35%
Change (bps)		+2		+7		-16		-3
Residual Cap Rate								
Range (%)	4.00 – 10.00	4.00 – 10.00	4.75 – 8.00	4.75 – 7.50	5.00 – 7.50	5.00 – 7.00	4.25 – 7.75	4.25 – 7.75
Average (%)	6.68	6.70	6.16	6.11	5.90	5.96	5.74	5.79
Change (bps)		-2		+5		-6		-5

^aRate on unleveraged, all-cash transactions. Definitions: bps, basis points. Discount Rate (IRR), internal rate of return in an all-cash transaction, based on annual year-end compounding. Overall Cap Rate (OAR), initial rate of return in an all-cash transaction. Residual Cap Rate, overall capitalization rate used in calculation of residual price; typically applied to the NOI in the year following the forecast. Survey involves institutional-grade properties. Source: PwC Real Estate Investor Survey; Personal survey conducted by PwC during December 2017. For subscription information, please visit http://bit.ly/pwc_real_estate_survey or call 1-800-654-3387.

A summary of the cash flow analysis follows.

Income Approach (Cont'd.)

27 Year Cash Flow Analysis										
Year	1	2	3	4	5	6	7	8	9	10
Total Annual Income	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396
Present Value Factor @ 7.3%	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470	0.5019	0.4604	0.4224
Present Value Indication	\$42,564	\$39,052	\$35,827	\$32,867	\$30,153	\$27,666	\$25,379	\$23,286	\$21,361	\$19,598
Year	11	12	13	14	15	16	17	18	19	20
Total Annual Income	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396
Present Value Factor @ 7.3%	0.3875	0.3555	0.3262	0.2992	0.2745	0.2519	0.2311	0.2120	0.1945	0.1784
Present Value Indication	\$17,978	\$16,494	\$15,134	\$13,882	\$12,736	\$11,687	\$10,722	\$9,836	\$9,024	\$8,277
Year	21	22	23	24	25	26	27*			
Total Annual Income	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$46,396	\$2,705,396			
Present Value Factor @ 7.3%	0.1637	0.1502	0.1378	0.1264	0.1160	0.1064	0.0976			
Present Value Indication	\$7,595	\$6,969	\$6,393	\$5,864	\$5,382	\$4,937	\$264,047			
*Includes Annual Rent of \$46,396 Plus Land Value Reversion of \$2,659,000										
Total Value of Cash Stream Plus Reversion			\$724,708							

The above cash flow analysis indicates the total present value of the future cash flows to be \$724,708, which can be rounded to **\$725,000**. This is the value to the leased fee ownership position, which is currently owned by the City of Pensacola.

Subject to the above and the limiting conditions and certification as set forth herein, it is my opinion that the market value of the Leased Fee Estate of the Pitt Slip Marina and Fish House Property as of the last date of inspection, June 4, 2018, was:

SEVEN HUNDRED TWENTY FIVE THOUSAND DOLLARS
\$725,000
(Leased Fee Market Value)

The above value is the value of the leased fee estate ownership interest considering there are 27 years remaining on the existing lease. This value represents the value a buyer could pay for the City of Pensacola's interest and realize a required return on the investment.

ADDENDA

QUALIFICATIONS AS AN APPRAISER

TOM FRUITTICHER, MAI

State-Certified General Real Estate Appraiser #0002029 (Florida)
 Certified General Real Property Appraiser #G00788 (Alabama)
 3000 Langley Avenue, Suite 402, Pensacola, Florida – Tom@flag1.net
 Cell Phone 850-982-2470

EDUCATION

B.A. Political Science, University of West Florida, Pensacola, Florida, 1986

APPRAISAL INSTITUTE COURSES SUCCESSFULLY COMPLETED

"Report Writing and Valuation Analysis", Florida State University, 1995; "Advanced Applications", University of Alabama, 1995; "Advanced Sales Comparison & Cost Approach", Orlando College, 1995; "Highest & Best Use and Market Analysis", Kissimmee, Florida, 1995; "Advanced Income Capitalization", University of Alabama, 1994; "General Applications", University of Colorado Boulder, 1994; "Basic Income Capitalization", University of Colorado Boulder, 1994; "Standards of Professional Practice, Part A & B, USPAP", Florida State University, 1993; "Basic Valuation Procedures", University of Alabama, 1990; "Real Estate Appraisal Principles", University of Georgia, 1989

CONTINUING EDUCATION & ADDITIONAL REAL ESTATE RELATED COURSES COMPLETED

Business Practices & Ethics 12/30/2017 (4 Hours), Subdivision Valuation 8/2/2017 (7 Hours), Case Studies in Complex Valuation 4/28/2017 (7 Hours), Advanced Spreadsheet Modeling 5/18/2016 (14 Hours), Staying Out of Trouble 6/19/2015 (7 Hours), USPAP Update 10/10/2016 (7 Hours), Florida appraiser Core Law 10/2016 (3 Hours) Real Estate Finance Statistics 9/25/2014 (14 Hours), Residential Applications: Using Technology to Measure and Support Assignment Results 5/23/2014 (7 Hours), Using Spreadsheet Programs in RE Appraisals 5/22/2014 (7 Hours) Qualitative Analysis 9/13/2012 (4 Hours), IRS Valuation 7/19/2012 (2 Hours), Litigation Appraising 10/17/2011 (15 Hours), Business Practices and Ethics 10/13/2011 (4 Hours), Online Advanced Internet Search Strategies 8/24/2011 (7 Hours), Appraisal Laws and Rules 9/24/10 (3 Hours), Roles/Responsibilities Supervisor/Trainee 9/24/10 (3 Hours), The Appraiser as an Expert Witness 5/19/10 (15 Hours), Condemnation Appraising: Principles & Applications 5/1/09 (17 Hours), The New Residential Market Conditions Form 3/3/09 (3 Hours), Appraisal Laws and Rules 4/24/08 (3 Hours), Roles/Responsibilities Supervisor/Trainee 4/24/08 (3 Hours), Business Practices & Ethics 11/1/07 (8 Hours), Analytics with the Site to Do Business 8/3/07 (7 Hours), A Professional's Guide to Conservation Easements 7/15/07 (4 Hours), Residential Site Valuation & Cost Approach 4/12/07-4/13/07 (15 Hours), Residential Market Analysis & Highest & Best Use 4/10/07-4/11/07 (15 Hours), Appraising Forestland and Timber 2/9/06 (7 Hours), Subdivision Valuation 1/27/06 (7 Hours), Appraising Environmentally Contaminated Properties 1/17/06 (7 Hours), "Uniform Standards for Federal Land Acquisitions" 3/23/04 (16 Hours), "Effective Appraisal Writing" 8/22/03 (7 Hours), Florida State Law & USPAP Review 11/8/02 (7 Hours), Appraisal Strategies 10/29/02-10/30/02 (15 Hours), Florida Broker Post-License – Management 2/14/02-2/16/02 (30 Hours), Florida Broker Post-License – Contracts 3/21/02-3/23/02 (30 Hours), Data Confirmation & Verification 3/30/01 (7 Hours), Multifamily Housing Development 3/8/01-3/9/01 (16 Hours), Florida Broker Pre-License 3/16/00 – 3/31/00 (72 Hours), Valuing Real Property – 3/31/00 (31 Hours), Partial Interest Valuation – Divided & Undivided 1/13/00 – 1/14/00 (14 Hours) 1999 Symposium-Val. & the Evolution of the RE Cap. Mkts. 10/5/99 – 10/6/99 (10 Hours), FHA Homebuyer Protection Plan & The Appraisal Process 10/15/99 (7 Hours), Standards of Professional Practice, Part "C" 4/29/99 - 4/30/99 (16 Hours), Advanced Techniques Using the Marshall Valuation Service: Segregated Method, New Orleans, Louisiana, 1990; Using the Marshall Valuation Service: Calculator Method, New Orleans, Louisiana, 1990; "Real Estate Principles and Practice", Pensacola, Florida, 1986; "Coastal Zone Management and Residential Development", University of West Florida, 1985; "Professional Selling", University of West Florida, 1986; "Real Estate Law", Pensacola Junior College, 1983

EXPERIENCE

- 1997-Present The Fruitticher - Lowery Appraisal Group - Co-Owner and Appraiser (Residential and Commercial Real Estate).
- 1987-1997 Gene Presley & Associates - Independent contractor of commercial and residential appraisals.

Properties Appraised: For over 20 years, I have appraised single-family residential properties in the Pensacola Metropolitan Area and a variety of commercial properties throughout Northwest Florida and South Alabama that includes Apartments, Offices, Strip Shopping Centers, Subdivisions, Condominium Complexes, Restaurants, Industrial Buildings, vacant commercial sites and large acreage tracts (see attached list for notable properties appraised). I have also completed apartment project feasibility studies through the MAP program and office and hotel feasibility studies.

Principal Clients: Past clients include: The U.S. Army Corps of Engineers, The Florida Department of Environmental Protection, The City of Pensacola, The City of Fort Walton Beach, Emerald Coast Utility Authority, B.B.& T, Premier Bank, Peoples First Bank, Trustmark Bank, Gulf South Bank, Bank of North Georgia, Empire Financial, Red Mountain Bank, Atlantic Bank, Deutsche Banc, Bear Sterns, Whitney Bank, First National Bank, Nations Bank, Commerce South Bank, Emerald Coast Bank, Compass Bank, Vanguard Bank, Regions Bank, GMAC Mortgage, Member's First Credit Union, Florida Communities Trust, Resort Mortgage, Bank of Pensacola to name a few.

PROFESSIONAL AFFILIATIONS/LICENSES

Member Appraisal Institute, MAI #11325 (North West Florida Chapter of the Appraisal Institute Ex-Officio – 2010, President 2009 and the 2008 & 2007 Vice President)

Florida State Certified General Appraiser License #RZ 0002029 (Expiration Date 11/30/2018)

Alabama State Certified General Real Property Appraiser #G00788 (Expiration Date 9/30/2019)

Florida Licensed Real Estate Broker License #BK 0491970 (Expiration Date 3/31/2018)

Member - Home Builders Association of West Florida

Member - Pensacola Association of Realtors (Florida & National Association of Realtors)

Member - Pensacola Area Chamber of Commerce

REFERENCES

- | | |
|---|---|
| 1. Mr. Todd Seigle
Trustmark National Bank
Post Office Box 5736
Destin, Florida 32540
Phone (850) 337-0709
Fax (850) 337-0719 | 4. Mr. Karl Nixon, Review Appraiser
U.S. Army Corps of Engineers
P.O. Box 4970
Jacksonville, Florida 32232-0019
Phone (904) 232-2339 |
| 2. Mr. Keith Parks, Vice President
Beach Community Bank
33 West Garden Street
Pensacola, Florida 32501
Phone (850) 202 - 9900
Fax (850) 202-9901 | 5. Mr. Clark Davis
State of Florida. DEP
3900 Commonwealth Boulevard
Tallahassee, Florida 32399-3000
Phone (850) 488-9025
Fax (850) 488-3379 |
| 3. Mr. Perry Palmer, Vice President
Bank of Pensacola
500 South Palafox St.
Pensacola, Florida 32502
Phone (850) 483-6597
Fax (850) 453-2736 | 6. Mr. Rex McKinney - President
Servis 1st Bank
316 S. Baylen Street, Suite 100
Pensacola, Florida 32502
Phone (850) 266-9121
Fax (850) 266-9101 |

EXPERIENCE (Cont'd.)**PARTIAL SUMMARY OF NOTABLE APPRAISAL PROJECTS COMPLETED****Motels**

- Best Western Motel, Via Deluna Dr., Pensacola Beach, Florida
- Wingate Inn Hotel, Destin, Florida
- Hampton Inn, Hwy 98, Fort Walton Beach, Florida
- New World Landing, Pensacola, Florida
- Paradise Motel, Pensacola Beach, Florida
- Hilton Garden Inn (Proposed), Jacksonville Beach, Florida
- Ramada Inn, Highway 98, Fort Walton Beach, Florida
- Comfort Inn, Fort Pickens Road, Pensacola Beach, Florida
- Best Western Motel, Highway 98, Navarre, Florida
- Best Western Motel (Proposed), Santa Rosa Boulevard, Fort Walton Beach, Florida
- Best Western Motel (Proposed), I-10 at Bullard Avenue Exit, New Orleans, Louisiana
- Holiday Inn Express (Proposed), John Sims Parkway, Niceville, Florida
- Ramada Inn Limited (Proposed), I-10 at Highway 185 Exit, Defuniak Springs, Florida
- Ramada Inn Limited, I-10 at Pine Forest Road Exit, Pensacola, Florida
- Residence Inn (Proposed), Chase Street, Pensacola, Florida

Apartments

- Country Wood Apartments MAP Feasibility Study
- Austin Woods Apartments, Pensacola, Florida
- The Reserve Apartments, Gulf Breeze, Florida
- Indian Lakes Apartments, Destin, Florida
- Fairfield Villas Apartments, Pensacola, Florida
- Huntington Arms Apartments, Gulf Breeze, Florida
- Sugar Loaf Apartments, Airport Road, Destin, Florida
- Cayo Grande Apartments, Racetrack Road, Fort Walton Beach, Florida
- Briarwood Apartments, Olive Road, Pensacola, Florida
- Lakeside Apartments (Proposed), Highway 98 West, Pensacola, Florida
- Sandalwood Apartments, Highway 98 West, Pensacola, Florida
- Creekside Apartments, Creekside Drive, Pensacola, Florida

Golf Courses

- The Moors Golf Course, Avalon Boulevard, Pace, Florida
- Heritage Plantation Golf Course & PUD, Crestview, Florida
- Perdido Bay Golf Club, Pensacola, Florida
- Seascape Golf Course and Resort, Highway 98, Destin, Florida

Restaurants

- The Back Porch Restaurant, Old Highway 98, Destin, Florida
- Jubilee's Restaurant & Capt. Funs, Pensacola Beach, Florida
- Pat Obrien's Restaurant & Entertainment, Destin, Florida
- The Boardwalk Entertainment Facility, Fort Walton Beach, Florida
- Dempsey's Restaurant, Highway 182, Orange Beach, Alabama
- Flounder's Restaurant, Quiet Water Beach Boulevard, Pensacola Beach, Florida
- McGuires Irish Pub, Gregory Street, Pensacola, Florida
- Kooter Brown's Sport Bar, Highway 98 West, Pensacola, Florida
- Nobusei's Japanese Restaurant, 9th Avenue, Pensacola, Florida
- Trigger's Seafood Restaurant, Gulf Beach Highway, Pensacola, Florida
- Outrigger Restaurant (Proposed), Orange Beach, Alabama
- The 331 Restaurant, Santa Rosa Beach, Florida

EXPERIENCE (Cont'd.)

Planned Unit Developments/Condominiums

- Emerald Grand mixed use development (287 Units & 82,896 SF Commercial), Destin, Florida
- Lagrange Landing PUD, Freeport, Florida
- River Walk PUD, Freeport, Florida
- Portofino Condominiums (750 Units Proposed), Pensacola Beach, Florida
- Sterling Breeze Condominiums (145 Units), Panama City, Florida
- Water Mark Condominiums (339 Units Proposed), Fort Walton Beach, Florida
- Twin Palms Condominiums (90 Units Proposed), Panama City Beach, Florida
- Gulf Crest Condominiums (151 Units Proposed), Panama City Beach, Florida
- Villas at Seacrest Beach (Proposed) C-30A, South Walton County, Florida
- Celadon Condominiums (193 Units Proposed), Panama City Beach, Florida
- Beach Retreat Condominiums (44 Units Proposed), Destin, Florida
- Saint Martins Condominiums (Proposed), Highway 98, Destin, Florida
- South Harbour Condominiums (Proposed), Fort Pickens Road, Pensacola Beach, Florida
- Terrace Crest Subdivision (Proposed), Shoreline Drive, Gulf Breeze, Florida
- Sunsail Subdivision (Proposed), Indian Trail Drive, Destin, Florida
- Tiger Trace Subdivision (Proposed), Highway 98, Gulf Breeze, Florida

Shopping Centers

- Landmark Center (Proposed), Fort Walton Beach, Florida
- Target Shopping Center on Blue Angel (Proposed), Pensacola, Florida
- Cordova Collections Shopping Center, Pensacola, Florida
- Thursday's Plaza, Pensacola, Florida
- Six Palms at Gulf Place, Santa Rosa Beach, Florida
- Uptown Station Shopping Center, Eglin Parkway, Fort Walton Beach, Florida
- Fort Walton Market Place, Mary Esther Cut Off, Fort Walton Beach, Florida
- Cooper Plaza (Proposed), Highway 98, Navarre, Florida
- Palm Plaza Shopping Center, John Sims Parkway, Niceville, Florida

Industrial Use Properties

- 100,000 SF Manufacturing Warehouse, Ellyson Industrial Park, Pensacola, Fl.
- 33,119 SF Storage Warehouse, 8826 Grow Drive, Pensacola, Fl.
- 36,844 SF Mini Warehouse, 7054 N. Palafox Street, Pensacola, Fl.
- 12,000 SF Warehouse & Showroom, 58 Carson Ave., Fort Walton Beach, Fl
- 27,840 SF Manufacturing Warehouse, 1575 9th Street, DeFuniak Springs, Fl.
- 113,905 SF Climate Controlled Mini-Warehouse, 2999 Gulf Breeze Pkwy, Gulf Breeze, Fl.

R.V. Parks

- A&M Perdido Key R.V. Resort, Perdido Key, Florida
- Pandion Ridge R.V. Resort, Orange Beach, Alabama
- Sugar Sands R.V. Resort, Orange Beach, Alabama
- Doc's R.V. Park, Gulf Shores, Alabama
- Destin West R.V. Resort, Destin, Florida
- Panama City Beach R.V. Resort, Panama City Beach, Florida
- Campers Inn R.V. Park, Panama City, Florida
- Sunset King Lake R.V. Resort, Defuniak Springs, Florida

Special Use Properties

- Portofino Spa, Gulf Breeze, Florida
- Gulf Breeze Stadium Seating Movie Theaters, Gulf Breeze, Florida
- Milton Stadium Seating Movie Theaters, Milton, Florida
- Legendary Marina Dry Storage Facility, Destin, Florida

EXPERIENCE (Cont'd.)**Expert Witness Testimony**

Ward v. Priller (Escambia County Case #2001 CA 001520) - Trial
Antonetti v. Antonetti (Santa Rosa County Case #57-05-1446-DR01-DM-R) - Trial
Kaufmann v. Kaufmann (Santa Rosa County Case #041786) – Hearing
Ferrara v. Landbank Development Corp. (Santa Rosa County Case #2005-621-CA) - Trial
Kotlarz v. Kotlarz (Escambia County Case #2004 DR 2575) - Trial
BB&T v. Michael L. Iovieno, et.al. (Okaloosa County Case #2008 CA 001526s) - Appraisal
Ameris Bank v. W.G. Autrey, Jr. (Franklin County Case #08-000106-CA) - Appraisal
ECUA v. Palafox Partners, LTD (Escambia County Case #2007 CA 002319) - Deposition
Colonial Bank, N.A. v. R&B Construction (Walton County Case #08-CA-653) - Appraisal
Portofino HOA v. Chris Jones (Escambia County Case #2004 CA 2288) - Deposition
American Fidelity v. DKS Investments (Santa Rosa County Case #2008 CA 001335) - Trial
American Fidelity x. Navarre Comm. (Santa Rosa County Case #2008 CA 001583) - Trial
Clark, Partington v. W.W.P., LLC & Buckner Inv. (Okaloosa County Case #2010CA1417)–Trial
Petro, Jr. v Shelter Cove Condo (Escambia County Case #07-CA-1631) – Deposition
Eliason v. Bucklew (Escambia County Case #2008 CA 002112) – Appraisal & Affidavit
Forrest Daniell & Assoc. v. La Vista PK LLC (Escambia County Case #2008-CA-001954) – Trial
Summit Bank v. Highway 77 (Bay County Case #10-CA-237) – Hearing
BDC Capital v. Brookwood Dev. (Okaloosa County Case #2010 CA 006731C) – Hearing
Gulf Power Co. v Perdido Key Oyster Bar (Escambia Case #2012 CA 000836) – Deposition
Charterbank v Bay Island Developers (Okaloosa Case #2012 CA 000573) – Deposition
Bell v Ellzey (Escambia Case #2014 CA 2339) - Deposition

Land Lease

PITT SLIP MARINA LEASE AGREEMENT

THIS LEASE AGREEMENT entered into this the 18th day of September, 1985, by and between the CITY OF PENSACOLA, FLORIDA, a municipal corporation of Florida, hereinafter called the "Lessor," and FLORIDA SUN INTERNATIONAL, INC., a Florida corporation, hereinafter called the "Lessee," whose address is 2828 Edgewater Drive, Post Office Box 7717A, Orlando, Florida 32854.

WITNESSETH:

WHEREAS, the Lessor owns title to certain submerged and upland lands located on the waterfront of Pensacola, Escambia County, Florida, commonly referred to as "Pitt Slip" (hereinafter referred to as the "subject property"), which is more fully described on Exhibit A attached hereto; and

WHEREAS, the Lessee has been selected by the City Council as the top ranked marina firm and City Council has authorized the City Manager to negotiate a Lease Agreement for the construction of a marina at Pitt Slip; and

WHEREAS, the Lessee is desirous of leasing from the Lessor certain submerged and uplands in the waters of Pensacola Bay, Pitt Slip, on a long term basis for the purpose of constructing and operating a marina and docking facility, harbor master office, ships store and related parking; and

WHEREAS, the Lessor is desirous of leasing to the Lessee that certain submerged and uplands in the waters of Pensacola Bay, Pitt Slip, on a long term basis; now therefore,

THE PARTIES HERETO agree as follows:

I. THE PROPERTY

Subject to the terms and conditions set forth herein:

A. The Lessor leases to the Lessee, and the Lessee leases from the Lessor, Parcels I and III, as described on Exhibit A attached hereto.

B. The Lessor subleases to the Lessee, and the Lessee subleases from the Lessor, Parcel IA (owned by the State of Florida), as described on Exhibit A attached hereto.

Exhibit 2

II. LEASE TERMS

A. The term of this lease for Parcels I and III shall be for a period of thirty (30) years, commencing on the date of this agreement first written above.

B. This Lease Agreement may be renewed and extended for an additional thirty (30) years on the terms and conditions contained herein. To renew and extend this lease, Lessee shall give written notice to Lessor at least one (1) year prior to the expiration of the initial thirty (30) year lease term of its desire to renew and extend the term of this lease.

C. The term of this Lease/Sublease for Parcel IA shall be for a period of thirty (30) years, commencing from the date that the State of Florida (through the Governor, Cabinet and Trustees of the Internal Improvement Fund) approves the sublease from the Lessor to the Lessee. Upon expiration of the thirty (30) year term, the Lease/Sublease may be renewed in successive five (5) year increments subject to the Lessee, as the sublessee, complying with all terms and conditions during the preceding lease period and upon payment of a lease fee from the Lessee to the Lessor equal to the appraised rental value as established by a fee appraisal conducted during the last year of the preceding lease term as charged to the Lessor by the State of Florida under its Lease Agreement. The Lessor and the Lessee agree to cooperate in securing renewals of the State lease.

III. LEASE PAYMENTS

Lessee shall pay rent to the Lessor in the amounts and manner set forth herein:

A. Commencing with the date of this Lease Agreement, Lessee shall pay ground rent on a monthly basis in advance at the annual rate of ten (10) cents per square foot of submerged and upland leased property in marina related use. Failure to pay rent within fifteen (15) days of the due date shall constitute a default of this Lease Agreement.

B. In addition to the ground rent payments provided for in paragraph III.A. above, the Lessee shall pay to the Lessor: (a) five percent (5%) of "gross sales," as hereinafter defined, from business

enterprises operated by the Lessee, except that the percentage attributable to marina fuel shall be four-tenth of one percent (0.4%) of sales up to one hundred and fifty thousand (150,000) gallons and one-half of one percent (0.5%) of sales exceeding one hundred fifty thousand (150,000) gallons; and (b) five percent (5%) of "gross rentals," as hereinafter defined, received from sublessees, except that the percentage attributable to office rent shall be two and one-half percent (2.5%).

Commencing with the first anniversary date of this Lease Agreement, the Lessee shall pay to the Lessor the amounts required under both paragraph III.A. above and this paragraph III.B. for the previous year; however, any amount paid by the Lessee as "ground rent" under paragraph III.A. above shall be applied to and shall reduce any amounts due under this paragraph III.B. (Example: If the Lessee owed the Lessor the sum of \$12,000.00 as "ground rent" during any given year, and the above-stated percentages of gross sales would require during that year the payment of \$15,000.00 from the Lessee to the Lessor, then the total amount paid to the Lessor by the Lessee for both "ground rent" and applicable percentages of gross sales would be the sum of \$15,000.00.)

In order to define, calculate and verify the amounts due the Lessor under this paragraph III.B., the following definitions and procedures shall apply:

1. Definitions of Gross Rentals and Gross Sales:

(a) As used herein, the term "gross rentals" shall mean all rents or other monies actually received by the Lessee from all business enterprises (sublessee or tenants -- including any business enterprises operated by the Lessee) within the project, including origination or renewal bonuses, but excluding deposits for damages or performance, and any sums collected and paid out for any sales, excise or other tax.

(b) As used herein, the term "gross sales" shall mean, all monies received by the Lessee, whether wholly or partially for cash or on credit, of all merchandise and services sold and all other receipts by sale or otherwise of all business conducted on or from the subject property by Lessee, its subsidiaries or business

combinations, including without limiting the foregoing, all sales to subsidiaries, business combinations, employees or agents of Lessee, all orders taken in or from the premises by Lessee, its employees or agents, although said orders may be received by telephone or mail, or filed elsewhere, or procured from the premises by house-to-house or other canvassing, and all rentals of boat slips and dry storage areas. Sales to customers on a lay-away basis shall be recognized as "gross sales" within ninety (90) days of the lay-away transaction and in any event must be fully recognized when the merchandise leaves the premises.

The term "gross sales" shall also include, without limitation, all deposits not refunded to purchasers, all service charges for lay-away sales, and all commissions received from vending and game machines on the premises for use by the general public, and other cash receipts resulting from sales transactions on the premises.

There shall be excluded from "gross sales" any sum collected and paid out for any sales, excise or other tax based upon all taxable sales in this definition of "gross sales" as required by law, whether now or thereafter in force. The term "gross sales" shall not include the exchange or transfer of merchandise between the stores of any tenant of Lessee where such exchanges or transfers of merchandise are made solely for the convenient operation of the business of any tenant of Lessee, and not for the purpose of consummating a sale made in, from or upon the premises; the amount of returns to shippers or manufacturers, nor the amount of any cash credit refunds upon any sale where the merchandise sold, or some part thereof, is transferred, returned by the purchaser to and accepted by any tenant; nor sales of fixtures.

There shall also be excluded from the term "gross sales" all fees or service charges for delivery fees and C.O.D. fees. The term "gross sales" shall also exclude finance charges resulting from a tenant's accounts receivable.

2. Verification and Accounting: The Lessee agrees to keep accurate and permanent records of all transactions and make same available for inspection and auditing by the Lessor. The Lessee

further agrees to require in all subleases that tenants maintain the same records and likewise make those available to the Lessor for inspection and auditing.

Within one hundred twenty (120) days after the end of each year during which percentage payments to the Lessor are due hereunder, the Lessee shall provide the Lessor with tax information and other financial data on the results of operations of Lessee from the leased premises, as the Lessor may request. Said data shall show the gross sales as defined herein and shall be accompanied by payment. The Lessor reserves the right to require audited statements if in the Lessor's opinion the tax statements and other financial data are insufficient for purposes of verification and accounting for results of operations from the Leased Premises. In the event the Lessor requests an audited statement and the results indicate that the percentage payments made to Lessor are equal to or greater than 97% of the amount due, Lessor shall be required to bear the cost of the audit.

Such information as Lessee deems confidential to its operation shall be kept confidential by the Lessor; provided, however, that the Lessor may make public disclosure of such information using gross amounts summarizing operations of the entire project and not disclosing results of operations of individual tenants.

C. Lessee shall pay Lessor interest from the date when due on all rent payments that are made by Lessee to Lessor more than fifteen (15) days after the date that same become due and payable. The interest to be paid Lessee shall be the announced commercial prime rate of interest charged by Chemical Bank of New York, or its successor, as that rate may change from day to day.

IV. AUTHORITY TO LEASE PROPERTY

A. By the execution hereof, the parties understand and agree that the Lessor will receive from the Governor and Cabinet of the State of Florida final approval of a lease from the State to the Lessor covering parcel IA and that said lease will contain a provision whereby the Lessor may sublease said parcel to the Lessee

under the terms and conditions set forth herein. This Lease Agreement shall become effective on the date that the Governor and Cabinet give final approval to the sublease.

B. The Lessor has furnished the Lessee with a current survey of the property.

C. The parties understand that a portion of the property described is subject to an existing lease in favor of Southern Chemical Storage & Transit Company and further that certain improvements and storage tanks associated with said lease are located upon the subject property. Lessee, nonetheless, enters into this Lease Agreement notwithstanding the foregoing; however, in the event that Lessee's predecessor in possession of the property upon which said improvements and storage tanks are located abandons the property without having made provision for the removal of said improvements and storage tanks or other material necessary to make the site useable, and should it become necessary for the Lessee to remove same at Lessee's own expense, the Lessor shall offset and reduce lease payments due to it under the terms hereof by an amount equal to the costs incurred by the Lessee in making the site useable. The manner and terms upon which said offset in lease payments shall occur shall be subject to further negotiation between the parties.

The Lessor shall provide the Lessee exclusive possession of Gimble Street and that part of the premises southerly thereof at such time as the current lease with Southern Chemical Storage & Transit Company terminates in January, 1986, or at such earlier date as the Lessor acquires possession of the premises, with the consent of the current Lessee, and the Lessor vacates Gimble Street. Prior to the vacation of Gimble Street, the Lessee may use it for parking purposes, provided that the Lessee provides a reasonable means of ingress and egress for Southern Chemical Storage & Transit Company.

V. USE OF LEASED PROPERTY AND COMMENCEMENT
AND COMPLETION OF CONSTRUCTION

The leased property shall be developed by Lessee as a marina complex of approximately 94 slips and include a harbor master facility, ships store and fuel facilities and related parking. Lessee may use portions of the leased property for restaurants,

lounges or other ancillary, compatible marina uses upon approval by the Lessor's City Council as part of the final Site Specific Development Plan.

Lessee shall commence construction of the planned improvements after Lessor has completed the site work funded through the State of Florida's Department of Natural Resources, Florida Recreation Development Assistance Program Grant. Lessee shall complete construction of the improvements within six (6) months of the date of this Lease Agreement, provided that Lessee may request a reasonable extension of time for the commencement and completion of construction of said improvements, and Lessor agrees not to unreasonably withhold its approval of such request.

VI. CONSTRUCTION OF IMPROVEMENTS AND CONSTRUCTION PLANS

A. Plans and specifications for the development of the leased property, and the parking areas and Lessee's construction of all improvements shall be in conformity with the Redevelopment Plan, the final Site Specific Development Plan submitted and approved by the City Council in accordance with the Site Specific Development Zoning Ordinance, this Lease agreement and all applicable state and local laws and regulations.

B. Within thirty (30) days after the effective date of this Lease Agreement, Lessee shall submit to Lessor, for its review and approval, development concept plans for the construction of the improvements on the leased property, and the parking areas. Within sixty (60) days after the date of the approval of the development concept plans, Lessee shall submit to Lessor, for its review and approval Site Specific Development Plans for the construction of the improvements on the leased property, and the parking areas. Within ninety (90) days after approval by City Council of the final Site Specific Development Plan, Lessee shall submit to Lessor, for its review and approval, plans for the construction of the improvements on the leased property. Should Lessee's architect determine that additional time is required to secure environmental permit modifications and/or complete the construction plans, Lessee may request a reasonable extension of time for the completion of such

plans, and Lessor agrees not to unreasonably withhold its approval of such request. Nothing in the above or this paragraph shall prohibit the Lessee from submitting construction plans for site improvements on an incremental basis, provided the last such submittal shall be made prior to 1 December, 1985. For example, the Lessee may desire to submit for marina, shoreline protection, environmental permitting requirements, bulkhead or foundation permits separately in order to expedite construction, utilize state grants or meet tenant deadlines. In these instances the Lessor shall review the plans and furnish Lessee written approval or disapproval of the plans within thirty (30) days of submission of said plans by the Lessee, as long as the site improvements requested to be permitted have been approved by City Council as part of the Pitt Slip Land Use Plan in the case of the shoreline protection, environmental permit requirements and bulkheading and approved by City Council as part of the Site Specific Development Plan approval in case of the marina, marina supporting facilities and foundation permits.

All reference made to plans for the construction of improvements or construction plans are intended by the parties to include Site Development Plans for the construction of the marina, marina support facilities, street and site utilities, and the construction of all breakwaters, riprap and bulkhead systems, as well as the architectural working drawings for the construction of the improvements, i.e., the proposed buildings on the site.

C. If Lessor rejects any construction plans in whole or in part, as not being in conformity with the Redevelopment Plan, the final Site Specific Development Plan, this Lease Agreement or any applicable state and local laws and regulations, Lessor shall notify Lessee of such rejection in writing specifically setting forth the grounds for such rejection. Lessee shall submit new or corrected construction plans which so conform, within thirty (30) days from written notification to Lessee of the rejection. Lessor shall furnish Lessee written approval or disapproval of corrected plans by Lessee. Failure of Lessor and Lessee to reach agreement on approval of construction plans or new or corrected construction plans within

one hundred and twenty (120) days of the date of submission of the construction plans or new or corrected construction plans shall render this Lease Agreement terminable at the option of either Lessor or Lessee. Lessor shall not unreasonably withhold its approval of Lessee's plans.

D. If an extension of time is granted for the securing of environmental permit modifications and/or submission of construction plans, and/or if the construction plans are rejected by Lessor and Lessee must submit new or corrected construction plans, then the dates and periods set forth in this Lease Agreement for the commencement and completion of construction shall be extended by the period required for the submission of construction plans or new or corrected construction plans.

E. All work with respect to the improvements to be constructed or provided by Lessee on the leased property, shall be in conformity with the construction plans as finally approved by the Lessor. The term "improvements," as used in this Lease Agreement means the improvements indicated in the construction plans as finally approved.

F. In the event, Lessee proposes to make any substantial change in the improvements to be erected on the leased property which change or affect the basic character and nature of the development design from that shown on the final Site Specific Development Plan and construction plans and specifications as approved by Lessor, hereinafter called "design concept changes," it is agreed by Lessee that no such design concept changes will be permitted without Lessor's written approval thereof. Lessee will submit the proposed design concept changes to Lessor for review and approval. Lessor shall furnish Lessee written approval or disapproval of such proposed design concept changes within thirty (30) days of submission of said changes by Lessee.

G. Notwithstanding any provision or implication in this Lease Agreement to the contrary, this Lease Agreement shall be null and void if Lessee does not commence construction of the improvements on the leased property no later than 1 December, 1985, unless Lessee's inability to do so is caused by an act or omission of Lessor or circumstances referred to in paragraph D. above.

VII. TITLE TO IMPROVEMENTS

Title to any building or other improvements of a permanent character that shall be placed upon the leased property by Lessee shall vest in Lessor upon the termination of this Lease Agreement or any renewal or extension hereof, and Lessee acknowledges that it shall have no right to remove such fixed and permanent improvements from the leased property.

VIII. ACCESS TO PROPERTY

During the term of this Lease Agreement and any renewal or extension hereof, Lessee shall permit the representatives of Lessor access to the leased property and licensed area at all reasonable times deemed necessary for the purpose of this Lease Agreement, including inspection of all work being performed in connection with the construction of improvements thereon.

IX. COVENANTS AND RESTRICTIONS

Lessor and Lessee agree that the following restrictions shall be covenants running with the land, and shall be binding on Lessor, Lessee, and the successors and assigns of the parties, and all other successors in interest to the leased property, or any part thereof:

A. That the leased property shall be devoted only to and in accordance with the uses specified in the adopted Site Development Plan.

B. That all utility distribution lines shall be placed underground.

C. That the Lessor shall retain a perpetual easement to be set forth in an appropriate instrument in recordable form for ingress, egress, and right-of-way on and over private street systems and pedestrian paths to be constructed by the Lessee in the project for the purpose of access to the public marina and other public facilities contained in the project.

D. That the Lessor shall retain a perpetual easement over the private street systems for the purpose of access, maintenance, upkeep, and repair of the Lessor's spoil site located within the private street system of the project.

X. INDEMNIFICATION AND HOLD HARMLESS AGREEMENT

A. The Lessee shall defend and indemnify the Lessor and save it harmless from any and all claims, suits, actions, damages, liability and expense in connection with loss of life, bodily or personal injury, or property damage arising from or out of any occurrence in, upon, at or about the leased premises or any part thereof, or occasioned wholly or in part by any act or omission of the Lessee, its agents, contractors, employees, servants, invitees, licensees or concessionaires.

B. Any subleases to be entered into by and between Lessee and its sublessees shall contain an indemnification and hold harmless clause under the terms of which the said sublessees shall also agree to defend and indemnify Lessor and save it harmless from any and all claims, suits, actions, damages, liability and expense in connection with loss of life, bodily or personal injury, or property damage arising from or out of any occurrence in, upon, at or about the sublessee's subleased portion of the leased property or any part thereof occasioned wholly or in part by any act or omission of said sublessee, its invitees or licensees.

XI. INSURANCE REQUIRED

Lessee shall maintain insurance and provide Lessor with certificates of insurance in accordance with Exhibit B attached hereto during the life of this Lease Agreement. The Lessee will not take possession of the property or commence construction activities on the premises until certificates have been approved by the Lessor's Department of Risk Management. The Lessor shall have the right to make reasonable increases to the minimum required limits of liability on Exhibit B during the life of this Lease Agreement.

XII. SPECIAL PROVISIONS

A. The Lessee may assign its interest in this Lease Agreement, provided that the Lessee obtains the prior written consent of the Lessor to such assignments, which consent shall not be unreasonably withheld. The Lessee may assign its interest in the Lease Agreement

without the prior written consent of the Lessor to a limited partnership or other form of business association, provided that the Lessee remain liable for the lease payments to the Lessor under the terms hereof and provided that Lessor is notified of such assignment in writing prior thereto.

B. The Lessee shall have the right to mortgage its interest in the subject property; provided, however, that all rights acquired under the leasehold mortgage shall be subject to all the terms of this Lease Agreement. There shall be no subordination of this Lease Agreement and the Lessor shall otherwise be protected in any financing arrangement. The Lessee agrees that any mortgage if executed in obtaining financing for the construction and development of the project shall contain language incorporating the foregoing provision. The Lessor agrees, in case of Lessee's default on the Lease Agreement, to allow the Lessee's mortgagor to operate the marina complex subject to approval by the Lessor of the method of operation and approval of the firm or entity contemplated by the mortgagor to operate the marina complex.

C. The Lessee shall pay any and all ad valorem real property taxes or other taxes that may be levied against the subject property during the term of this Lease Agreement. In the event that at any time during the period of this Lease, the law of Florida or interpretation of the law of Florida by an appropriate appellate court is altered so that no ad valorem real property taxes are required to be paid on the subject property and no tax or other levy is imposed in lieu of such ad valorem taxation, then, and in that event, the Lessee shall pay to the Lessor on an annual basis, an amount equivalent to what the ad valorem real property taxes on the subject property would have been had the Lessee been required to pay same. Provided, further, that in the event that the subject property is, at any time during the lease term or any extension or renewal thereof, taxed as intangible personal property or any method other than ad valorem real property taxation, then, and in that event, the Lessee shall pay to the Lessor on an annual basis, an amount equivalent to what the ad valorem real property taxes on the subject property would have been had the Lessee been required to pay

same less an amount equal to the amount of intangible personal property taxes paid on the subject property. "Ad valorem taxes" shall mean city, county and school taxes.

D. The Lessee shall be fully responsible for the development of all improvements in Parcels I, IA and III at the Lessee's sole cost and expense, pursuant to the terms and conditions of this Lease Agreement. The Lessor shall proceed with permitted site work to the extent current appropriations allow. The Lessor shall deliver the Lessee a site open to the Bay. The Lessor shall be responsible for providing site improvements only to the extent allowed by current appropriations and grants.

E. The Lessee shall post or cause to be posted a construction bond covering each phase of construction. Each construction bond shall be in an amount to cover all costs of the construction of the improvements on each parcel. Each construction bond shall be posted by the Lessee at the commencement of the construction of any improvements to Parcels I, IA and III as contemplated in Section V. hereto.

F. The Lessor agrees to assist the Lessee in securing any modification to permits and approvals received to construct piers, docks, boat slips, and all other improvements to be constructed by the Lessee at its sole expense as part of the public marina. The Lessee shall submit specific Development Plans for the public marina, piers, docks and boat slips to be constructed as a part of the public marina to the Lessor for review and approval pursuant to the time frame established for the improvements to Parcels I, IA and III established by Section V. hereof.

G. The Lessee shall operate the public marina and the improvements constructed on Parcels I, IA and III on a non-exclusive basis and implement and impose user fees uniformly, without regard to age, sex, race, other conditions, or the political subdivision in which the user may reside.

Lessee agrees that it will not discriminate upon the basis of race, creed, color, national origin, age, or sex in the construction, subleasing, use, occupancy, or operation of the leased property and the licensed area, or in the improvements to be erected

thereon and that each contract, sublease or agreement with respect thereto shall specifically contain the following provision:

*EQUAL OPPORTUNITY PROVISION:

1. In the construction and operation of the improvements, neither the lessee nor any contractor or manager employed by Lessee shall discriminate against any employee or applicant for employment because of race, color, religion, age, sex or national origin, and they shall take affirmative action to ensure that applicants are employed, and that employees are treated during employment without regard to their race, color, religion, age, sex or national origin. Such action shall include, but not be limited to the following: Employment, upgrading, demotion or transfer; recruitment, or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Lessee agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by Lessee setting forth the provisions of this Equal Opportunity Clause, and to cause any contractor, subcontractor or manager to do likewise.

2. The Lessee, its sublessees and any contractor or manager shall, in all solicitations or advertisements for employees placed by them or on their behalf, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, age, sex or national origin. They shall send to each labor union or representative of workers with which they, or any of them, have a collective bargaining agreement or other contract or understanding, a notice, to be provided by Lessee, advising the labor union or workers' representative of their commitments under this Equal Opportunity Clause, and shall post copies of the notice in conspicuous places available to employees and

applicants for employment. Any sublessee, contractor or subcontractor shall comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor and shall furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records and accounts by Lessee and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders."

Lessee certifies it does not maintain or provide for its employees any segregated facilities at any of its establishments and it does not permit its employees to perform their services at any location under its control where segregated facilities are maintained. The Lessee certifies further that it will not maintain or provide for its employees any segregated facilities at any of its establishments, and that it will not permit its employees to perform their services at any location, under its control, where segregated facilities are maintained. As used in this certification, the term "segregated facilities" means any waiting rooms, work areas, rest rooms and wash rooms, restaurants and other eating areas, time clocks, locker rooms and other storage or dressing areas, parking lots, drinking fountains, recreation or entertainment areas, transportation and housing facilities provided for employees which are segregated by explicit directive or are in fact segregated on the basis of race, color, religion or national origin, because of habit, local custom or otherwise. Lessee further agrees that it will obtain identical certificates from proposed sublessees, contractors, subcontractors and managers prior to the award of any contracts or subleases, and that it will retain such certificates in its files.

H. The Lessee agrees to provide the Lessor with annual attendance reports at such time as the marina is opened for use by the general public. Said attendance reports shall be submitted to

the Lessor during the month of July of each year and shall provide marina occupancy for a one-year period beginning on July 1 and ending on June 30 of the previous year, such period constituting one fiscal year.

I. The Lessee shall reserve a perpetual easement and right-of-way over and upon the public marina together with all improvements constructed thereon, including all piers, docks and boat slips, subject to the right of the Lessor to close down the public marina for reasonable periods of time for necessary maintenance dredging which shall not be considered an infringement of the said easement. In addition, the Lessee shall grant a perpetual easement to the Lessor of ingress and egress to the public marina. The Lessor shall retain all rights in adjacent waters, which shall include the right to construct additional piers, docks, boat slips and the like.

J. The Lessor and the Lessee agree to assist each other in securing such further permits as may be necessary to construct additional piers, docks, boat slips and the like.

K. The Lessee, its transferees, grantees, successors and assigns, shall irrevocably release the Lessor, its agents or assigns, from any and all claims for damages of whatever nature resulting from any dredging by the Lessee including the incidental depositing of dredged materials resulting from dredging, bulkheading, and/or riprapping, and other incidental damage resulting from any dredging operations and the like which might occur. The Lessor and the Lessee, their successors and assigns, agree to cooperate with each other in connection with the securing of periodic dredging of the marina, and in this connection, agree to execute such applications, releases and other documents necessary or incidental to the approval of the U.S. Army Corps of Engineers, or other public agency, to undertake and execute such dredging as shall be requested by either party. The Lessor and the Lessee, their successors and assigns, further release each other from any and all claims for damage occasioned or arising from any disturbance of the Bay bottom, which results as a natural consequence, from normal periodic maintenance, bulkheading, riprapping or dredging by their

party, either in the maintenance and repair of the marina or the use, maintenance and employment of the rights of the marina waterways.

It shall be the Lessee's responsibility to provide maintenance dredging within the leased boundaries of the marina as deemed necessary for the operation of the public marina. The Lessee shall dredge only to depths permitted by the DER and ACE Permits. It shall be the Lessor's responsibility to provide maintenance dredging of the Bay approach to the leased boundaries of the marina in accordance with maintenance schedules of the Port of Pensacola, or as otherwise necessary to maintain navigable access to the marina facility. The Lessor's responsibility to maintain navigable access to the marina shall be governed by Permits issued for such work.

L. The Lessee shall be responsible for the installation of all underground utilities, including electrical, gas, sewer and water systems for the development project, at its sole cost and expense, within the boundaries of the development project. The Lessor shall furnish the Lessee with adequate gas and garbage collection services at the Lessee's expense.

M. The Lessor agrees to assist the Lessee in securing the financing necessary for the construction and permanent financing of the project through presentations to financial institutions, and the Lessor agrees to entertain an application for industrial revenue bond financing of the subject property.

N. The Lessor shall cooperate in every respect with the Lessee in securing all required municipal permits and approvals in accord with the Lessor's adopted regulations and procedures.

O. The parties shall participate in all news releases and other presentations to the media for the project. The CRA shall include this project in its public relations program for the overall downtown redevelopment effort.

P. The Lessee shall have the sole discretion over tenant selections and the marketing program, subject only to the Lessor's zoning regulations. The Lessee and the Lessor agree to incorporate public marina guidelines (on a publicly advertised first-come, first served basis) as an addendum, Exhibit C, to this Lease Agreement

prior to the start of marina construction. The Lessee and the Lessor agree that the public marina guidelines will reserve a reasonable number of slips for transient, commercial and special public purpose vessel berthing.

Q. The Lessee agrees that it shall provide to the Lessor the local matching contribution, in the amount of Seventy-One Thousand Dollars (\$71,000.00), required for the Lessor to receive the 1984 Florida Department of Natural Resources, Florida Recreation Development Assistance Program Grant, Contract No. C1376, Project No. 1-01-10, for the project known as Pitt Slip Marina. Since it is a requirement of the Lessor to expend the sum of Seventy-One Thousand Dollars (\$71,000.00) as its required program matching contribution, the Lessee shall furnish the Lessor the sum of Seventy-One Thousand Dollars (\$71,000.00) upon completion of the planned site improvements, but in no event later than December 1, 1985.

R. The Lessee agrees that it shall comply, on behalf of the Lessor, with conditions E and G of the modified Department of the Army Permit 79E-1089 dated August 14, 1984, and all other conditions of this permit and any further modifications to this permit and the Lessee further agrees that it shall comply with the Department of Environmental Regulation Permit Modifications, Permit #170222359 contained in the DER letter dated August 3, 1984, for the project and any future modifications to this permit. The Lessee agrees that it shall be responsible for the cost of complying with the Department of the Army and DER permits and modifications for the Pitt Slip project. Lessee agrees to assist Lessor in its application for any planned or future modification of existing Department of Army or DER permits.

S. The parties have entered into this Lease Agreement recognizing the existence of a binding letter of interpretation between the Lessor and the State of Florida Department of Community Affairs, Division of Local Resource Management (the "Division") dated January 23, 1980, which fixes certain limitations upon the scope of the project.

T. Lessor agrees to give Lessee the first right of refusal on the portions of the subject property not already leased to Lessee for marina related uses subject to satisfactory performance by the Lessee on parcels already leased. The parties agree that satisfactory performance by Lessee for these purposes is defined as the completion of or satisfactory progress toward construction of the marina and related facilities as contained in the final approved Site Specific Development Plan. Parcel II is considered as a portion of the subject property for this purpose.

XIII. ENFORCEMENT OF LEASE; FORFEITURE
DEFAULT; REMEDIES; NONWAIVER

Lessor may enforce the performance of this Lease Agreement in any manner provided by law, and this Lease Agreement shall be void and shall be forfeited on a declaration of forfeiture by Lessor:

- A. If Lessee shall desert or vacate the leased property;
- B. If default shall be made by Lessee in the payment of the rent as specified in this agreement;
- C. If default shall be made by Lessee in the performance of any of the terms or conditions of this agreement that Lessee is to perform, including, but not limited to, the following:
 - (1) Lessee's obligation to timely submit evidence of its financing commitments to Lessor.
 - (2) Lessee's obligation to timely submit its construction plans to Lessor.
 - (3) Lessee's obligation to timely commence construction of the planned improvements on the leased property, the licensed area or the leased property.
 - (4) Lessee's obligation to timely complete construction of the planned improvements on the leased property.
- D. If Lessee shall fail to comply with any of the statutes, ordinances, rules or regulations of any governmental body governing or regulating the Lessee's business;
- E. If Lessee shall file a petition in bankruptcy, or make an assignment for the benefit of creditors, or be adjudicated a bankrupt, or take advantage of any insolvency act.

Lessor shall notify Lessee of any such default and of Lessor's intention to declare this Lease Agreement forfeited. The notice from Lessor shall be sent as specified in this Lease Agreement or may be delivered to Lessee personally, and unless Lessee shall have removed or cured the default or commenced taking action that will result in the default being removed or cured within ninety (90) days from the date of Lessor's notice of intention to declare the Lease Agreement forfeited (unless extended by written agreement of Lessor and Lessee), this Lease Agreement shall come to an end, as if the date established by notice of forfeiture were the day originally fixed herein for the expiration of the term of this Lease Agreement without any further notice from Lessor to Lessee. Lessor's agent or attorney shall have the right, without further notice or demand, to re-enter and remove Lessee and Lessee's property from the leased property without being deemed guilty of any trespass. In consideration of the substantial investment to be made by Lessee in improvements on the leased property, Lessor agrees that Lessee shall not be liable for any rent for the unexpired portion of the terms of this Lease Agreement if Lessor declares this Lease Agreement forfeited pursuant to the terms hereof, except for any rent and other payments which are currently due and payable. However, Lessee shall be liable to Lessor for any other damages suffered by Lessor on account of Lessee's default, including the expense of clearing any improvements which are damaged or destroyed and which Lessor elects to clear on account of Lessee's refusal or failure to repair or rebuild them as required hereinabove.

Notwithstanding the foregoing provisions of this Paragraph, if Lessee should default under the terms of this Lease Agreement and Lessor should declare this Lease Agreement forfeited, Lessor shall not disturb any sublessee's possession of any subleased premises if such sublessee pays rent to Lessor, in accordance with, and otherwise complies with the sublease agreement. Upon Lessor's entering into a lease agreement with a substitute Lessee for the leased property, the sublease shall be assigned to the substitute Lessee and the sublessee shall become a sublessee of the substitute Lessee and shall pay rent directly to the substitute Lessee.

The failure of Lessor to insist, in any one or more instances, on a strict performance of any of the terms or conditions of this Lease Agreement or to exercise any option set forth in this Lease Agreement shall not be construed as a future waiver or a relinquishment of the provision or option, but it shall continue and remain in full force and effect. The receipt by Lessor of rent, with knowledge of the breach of any term or condition hereof, shall not be deemed a waiver of the breach and no waiver by Lessor of any provision hereof shall be deemed to have been made unless expressed in writing and signed by Lessor.

XIV. ATTORNEY'S FEES

If default be made by Lessor or Lessee in the performance of any of the terms, covenants, agreements or conditions set forth in this Lease Agreement so that it becomes necessary to place the enforcement of this Lease Agreement or any part of this Lease Agreement or the collection of any rent due or to become due hereunder or the recovery or possession of the leased property in the hands of an attorney or to file suit upon this Lease Agreement, the prevailing party shall be entitled to recover all the costs incurred in such action, including a reasonable attorney's fee.

XV. NOTICES

All notices provided in this Lease Agreement shall be deemed sufficient when sent to U.S. Certified Mail, Return Receipt Requested, postage prepaid, to the following addresses:

Lessor: CITY OF PENSACOLA
c/o City Manager
City Hall
Pensacola, Florida 32501

Lessee: Florida Sun International, Inc.
2828 Edgewater Drive
Post Office Box 7717A
Orlando, Florida 32854

XVI. PROVISIONS BINDING

The terms and provisions of this Lease Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their successors and assigns, respectively.

XVII. AMENDMENT

This Lease Agreement may not be altered, changed or amended except by an instrument in writing approved by Lessor's City Council, signed by the parties hereto.

XVIII. SEVERABILITY

If any provision of this Lease Agreement shall be declared in contravention of law or void as against public policy, such provisions shall be considered severable and the remaining provisions of this Lease Agreement shall continue in full force and effect.

XIX. PARAGRAPH HEADINGS

The paragraph headings in this Lease Agreement are intended for convenience only and shall not be taken into consideration in any construction or interpretation of this Lease Agreement or any of its provisions.

XX. ENTIRE AGREEMENT

This instrument constitutes the entire agreement between Lessor and Lessee on the subject of this Lease Agreement and all prior or contemporaneous oral or written agreement or representations of any nature with reference to the subject matter of this Lease Agreement are cancelled and superseded by the provisions of this Lease Agreement.

XXI. WAIVER

Failure on the part of Lessor to complain of any action or non-action on the part of Lessee, no matter how long it may continue, shall never be deemed to be a waiver by Lessor of any of its rights under this Lease Agreement. Further, it is covenanted and agreed that no waiver at any time of any of the provisions of this Lease Agreement by Lessor shall be construed as a waiver at any subsequent time of the same provisions. The consent or approval by Lessor to or of any action by Lessee requiring Lessor's consent or approval shall not be deemed to waiver or render unnecessary

Lessor's consent or approval to or of any subsequent similar act by Lessee.

XXII. TIME OF THE ESSENCE

Time is of the essence of each and every provision, covenant and condition of this Lease Agreement on the part of Lessor and Lessee to be done and performed.

XXIII. GOVERNING LAW

This Lease Agreement is subject to and shall be governed by the laws of the State of Florida.

EXECUTED in multiple original copies to be effective as of the day and year first above written.

CITY OF PENSACOLA, a municipal corporation, Lessor

By: Rodney L. Kendig, City Manager

Attest:

Attest: Shirley F. Law, City Clerk

FLORIDA SUN INTERNATIONAL, INC. a Florida corporation for profit LESSEE

By: Pauline A. Johns (SEAL), Executive Vice President

Attest:

Attest: [Signature], Assistant Secretary

STATE OF FLORIDA COUNTY OF ESCAMBIA

The foregoing instrument was acknowledged before me this 18th day of September, 1985, by RODNEY L. KENDIG and PAULINE JOHNS, the City Manager and City Clerk, respectively, of the CITY OF PENSACOLA, a municipal corporation, for and on behalf of the City.

GIVEN under my hand and official seal this 18th day of September, 1985.

Notary Public My Commission Expires: [Signature]

APPROVED AS TO FORM AND EXECUTION BY: [Signature], City Attorney Dated: 18 Sep 85

EXHIBIT "A"

PARCEL I

Begin at the Southwest corner of Block 8, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906, said point also being the intersection of the Easterly right-of-way line of Barracks Street (60' R/W) and the Northerly right-of-way line of Magnolia Street (60' R/W); thence go North 79 Degrees 25 Minutes 49 Seconds east along the aforesaid Northerly right-of-way line a distance of 175.00 feet; thence go North 10 Degrees 34 Minutes 11 Seconds West a distance of 280.00 feet; thence go North 79 Degrees 25 Minutes 49 Seconds east a distance of 135.00 feet; thence go north 10 Degrees 34 Minutes 11 Seconds West a distance of 30.00 feet; thence go North 79 Degrees 25 Minutes 49 Seconds East a distance of 827.08 feet; thence go South 10 Degrees 34 Minutes 11 Seconds East a distance of 310.00 feet; thence go South 59 Degrees 34 Minutes 30 Seconds West a distance of 191.38 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 347.08 feet; thence go South 10 Degrees 34 Minutes 11 Seconds East a distance of 95.00 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 123.00 feet; thence go North 10 Degrees 34 Minutes 11 Seconds West a distance of 100.00 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 487.00 feet to the Northwest corner of Block 17, Waterfront Grant, according to the aforesaid map of the City of Pensacola, said point also being the intersection of the Southerly right-of-way line of Magnolia Street (60' R/W) and the aforesaid easterly right-of-way line of Barracks Street; thence go North 10 Degrees 34 Minutes 11 Seconds west along the aforesaid Easterly right-of-way line a distance of 60.00 feet to the point of beginning, the above described parcel of land is situated in Section 46, Township 2 South, Range 30 West, Escambia County, Florida and contains 8.529 acres, Less and Except that portion of a Department of Transportation drainage easement in a portion of Cedar and Alcaniz Street.

PARCEL I-A

All of Lots 1-10, 21 and 22, and the West 20 feet of Lots 11-20, Block 8, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906. More particularly described as follows:

Begin at the Northwest corner Block 8, Waterfront Grant according to map of City of Pensacola by Thomas C. Watson copyrighted in 1906, said point also being the intersection of the Easterly right-of-way line of Barracks Street (60' R/W) and the South right-of-way line of Cedar Street (60' R/W); thence go North 79 Degrees 25 Minutes 49 Seconds East along the North line of the aforesaid Block 8 a distance of 175.00 feet; thence go South 10 Degrees 34 Minutes 11 Seconds East a distance of 250.00 feet to a point on the South line of the aforesaid Block 8; thence go South 79 Degrees 25 Minutes 49 Seconds West along the aforesaid South line a distance of 175.00 feet to a point on the aforesaid Easterly right-of-way line of Barracks Street; thence go North 10 Degrees 34 Minutes 11 Seconds West along the aforesaid Easterly right-of-way line a distance of 250.00 feet to the point of beginning. The above described parcel is situated in Section 46, Township 2 South, Range 30 West, Escambia County, Florida and contains 1.004 acres.

Parcel II

Begin at the Southeast corner of Block 4, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson copyrighted in 1906, said point also being the intersection of the Northerly right-of-way line of Cedar Street (60' R/W) and the Westerly right-of-way line of Barracks Street (60' R/W); thence go South 10 Degrees 34 Minutes 11 Seconds East along the aforesaid Westerly right-of-way line a distance of 286.00 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 91.00 feet; thence go North 10 Degrees 34 Minutes 11 Seconds West to a point on the aforesaid Northerly right-of-way line of Cedar Street a distance of 286.00 feet; thence go North 79 Degrees 25 Minutes 49 Seconds East along the aforesaid Northerly right-of-way line a distance of 91.00 feet to the point of beginning. The above-described parcel is situated in Section 46, Township 2 South, Range 30 West, Escambia County, Florida and contains 0.597 acres.

Parcel III

All of Lots 1-4, 11-14 and a portion of Lot 21, Block 17, all of Lots 1-4 and a portion of Lots 11-14, Block 18, and a portion of Adams Street, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906, more particularly described as follows:

Begin at the Northwest corner of Block 17, Waterfront Grant, according to map of City of Pensacola by Thomas C. Watson, copyrighted in 1906, said point also being the intersection of the Easterly right-of-way line of Barracks Street (60' R/W) and the Southerly right-of-way line of Magnolia Street (60' R/W); thence go North 79 Degrees 25 Minutes 49 Seconds East along the aforesaid Southerly right-of-way line of Magnolia Street (60' R/W) a distance of 487.00 feet; thence go South 10 Degrees 34 Minutes 11 Seconds East a distance of 100.00 feet; thence go South 79 Degrees 25 Minutes 49 Seconds West a distance of 487.00 feet to a point on the aforesaid Easterly right-of-way of Barracks Street (60' R/W); thence go North 10 Degrees 34 Minutes 11 Seconds west along the aforesaid Easterly right-of-way line of Barracks Street (60' R/W) a distance of 100.00 feet to the point of beginning. The above described parcel of land is situated in Section 46, Township 2 South, Range 30 West, Escambia County, Florida and contains 1.118 acres.

EXHIBIT "B"

MINIMUM INSURANCE REQUIREMENTS

1. Workers' Compensation - Coverage to apply for all employees for Statutory Limits in compliance with the applicable state and federal laws. In addition, the policy must include:
 - a) Employers' Liability with a limit of not less than \$500,000 each accident.
 - b) Notice of Cancellation and/or Restriction - The policy must be endorsed to provide the City with thirty (30) days notice of cancellation or material change.
 - c) If any operations are to be undertaken on or about navigable waters, coverage must be included for the U.S. Longshoremen and Harbor Workers Act and Jones Act during any period of exposure.

2. Comprehensive General Liability - Coverage must be afforded on a form no more restrictive than the latest edition of the Comprehensive General Liability policy filed by the Insurance Services Office and must include:
 - a) Minimum limits of \$5,000,000 per occurrence combined single limit for Bodily Injury Liability and Property Damage Liability.
 - b) Premises and Operations.
 - c) Independent Contractors.
 - d) Products and Completed Operations.
 - e) Liquor Liability.
 - f) XCU Coverage.
 - g) Broad Form Property Damage.
 - h) Broad Form Contractual Coverage applicable to this specific lease, including any hold harmless and/or indemnification agreement.
 - i) Marina operators.

Exhibit B

2. Comprehensive General Liability - (continued)

- i) Additional Insured - The City of Pensacola is to be specifically included as an additional insured for all coverages. Except with regard to limits of liability, this insurance shall apply separately to the City. This insurance shall be primary and not contributory with the City's insurance.
- j) Notice of Cancellation and/or Restriction - The policy must be endorsed to provide the City with thirty (30) days notice of cancellation or material change.

3. Business Auto Policy - Coverage must be afforded on a form no more restrictive than the latest edition of the Business Auto Policy filed by the Insurance Services Office and must include:

- a) Minimum limits of \$500,000 per occurrence combined single limit for Bodily Injury Liability and Property Damage Liability;
- b) Owned Vehicles.
- c) Hired and Non-Owned Vehicles.
- d) Employee Non-Ownership.
- e) Notice of Cancellation and/or Restriction - The policy must be endorsed to provide the City with thirty (30) days notice of cancellation or material change.

AMENDMENT TO PITT SLIP MARINA LEASE AGREEMENT



 OCT 21 1985
 RECEIVED
 BY
 CITY MANAGER

THIS AMENDMENT TO PITT SLIP MARINA LEASE AGREEMENT dated September 18, 1985, entered into this the 17th day of October, 1985, by and between the CITY OF PENSACOLA, FLORIDA, a municipal corporation of Florida, hereinafter called the "Lessor," and FLORIDA SUN INTERNATIONAL, INC., a Florida corporation, hereinafter called the "Lessee" whose address is 2828 Edgewater Drive, Post Office Box 1717 A, Orlando, Florida 32854.

WITNESSETH:

WHEREAS, Lessor and Lessee entered into that certain "Pitt Slip Marina Lease Agreement" on September 18, 1985, whereby the Lessor leased to the Lessee and the Lessee leased from the Lessor certain submerged and upland lands commonly referred to as "Pitt Slip"; and

WHEREAS, Lessor and Lessee desire to amend a particular provision of the aforesaid Pitt Slip Marina Lease Agreement in order to conform the term of the agreement to the term of that certain Lease Agreement, dated May 18, 1983 between Lessor and the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida for a portion of the Pitt Slip property, NOW, THEREFORE,

FOR AND IN CONSIDERATION OF the mutual obligations and benefits hereunto pertaining and other good and valuable consideration, Lessor and Lessee agree as follows:

1. Paragraph II.C. of that certain Pitt Slip Marina Lease Agreement, dated September 18, 1985, between Lessor and Lessee is amended to read as follows:

C. The term of this Lease/Sublease for Parcel 1A shall be for a period of twenty-seven (27) years, commencing from the date that the State of Florida (through the Board of Trustees of the Internal Improvement Trust Fund) approves the sublease from the Lessor to the Lessee. Upon expiration of the twenty-seven (27) year term, the Lease/Sublease may be renewed in successive five (5) year increments subject to the Lessee, as the sublessee, complying with all terms and conditions during the preceding

Exhibit 3

lease period and upon payment of a lease fee from the Lessee to the Lessor equal to the appraised rental value as established by a fee appraisal conducted during the last year of the preceding lease term as charged to the Lessor by the State of Florida under its Lease Agreement. The Lessor and the Lessee agree to cooperate in securing renewals of the State lease.

2. The terms and conditions of the aforesaid Pitt Slip Marina Lease Agreement shall otherwise remain in full force and effect as though they were set forth fully herein.

IN WITNESS WHEREOF, the Lessor and the Lessee have caused this agreement to be executed by their authorized representatives on the day and year first written above.

CITY OF PENSACOLA,
a municipal corporation, Lessor

By: Rocky L. Kendig
City Manager

Attest:

Pauline Johns
City Clerk

FLORIDA SUN INTERNATIONAL, INC.
a Florida corporation for profit,
Lessee

By: Wm. C. Bradley (SEAL)
Executive Vice President

Attest:

Chick C.
Assistant Secretary

STATE OF FLORIDA
COUNTY OF ESCAMBIA

Before the subscriber personally appeared Rodney L. Kendig and Pauline Johns, known to me to be the individuals described by said names, who executed the foregoing instrument, and to be the City Manager and City Clerk, respectively, of the City of Pensacola, a municipal corporation, and acknowledged and declared that they as City Manager and City Clerk of said corporation and being duly authorized by it, signed its name and affixed its seal to and executed the said instrument for it and as its act and deed.

Given under my hand and official seal this 17th day of October, 1985.

Thomas D. Laster
NOTARY PUBLIC
State of Florida at Large
My Commission Expires:

STATE OF FLORIDA
COUNTY OF ESCAMBIA

Before the subscriber personally appeared William A. Headley, Jr. and Charles K. Coleson, known to me to be the individuals described by said names, who executed the foregoing instrument, and to be the Executive Vice President and Assistant Secretary, respectively, of FLORIDA SUN INTERNATIONAL, INC., a Florida corporation for profit, and acknowledged and declared that they as Executive Vice President and Assistant Secretary of said corporation and being duly authorized by it, signed its name and affixed its seal to and executed the said instrument for it and as its act and deed.

Given, under my hand and official seal this 17th day of October, 1985.

James D. Lupton
NOTARY PUBLIC
State of Florida at Large
My Commission Expires:

MY COMMISSION EXPIRES: 10/1/86

JWF/jln 10/7/85

STATE OF FLORIDA
COUNTY OF ESCAMBIA

Before the subscriber personally appeared William A. Headley, Jr. and Charles K. Coleson, known to me to be the individuals described by said names, who executed the foregoing instrument, and to be the Executive Vice President and Assistant Secretary, respectively, of FLORIDA SUN INTERNATIONAL, INC., a Florida corporation for profit, and acknowledged and declared that they as Executive Vice President and Assistant Secretary of said corporation and being duly authorized by it, signed its name and affixed its seal to and executed the said instrument for it and as its act and deed.

Given under my hand and official seal this 17th day
of October, 1985.

James A. Lantz
NOTARY PUBLIC
State of Florida at large
My Commission Expires:
MY COMMISSION EXPIRES 10/31/88

JWF/jln 10/7/85