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Appraisal Report
Waterfront Site
Shipyards Parcel
Barnes Street, Moscrip Area,
Former Naval Station Roosevelt Roads (NSRR),
Machos Ward,
Ceiba, Puerto Rico

Prepared For
Mr. José A. Cuevas
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Prepared By
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688-EPA/ 151-GC

Effective Date
August 29, 2014

Report Date
October 6, 2014



The appraisal was developed and reported conforming to Standards 1 and 2 of Uniform Standards of Professional Appraisal Practice (USPAP). The analysis, opinions and conclusions were developed based on, and this report has been prepared in conformance with, our interpretation of the guidelines and requirements set forth in the Uniform Standards of Professional Appraisal Practice (USPAP), the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, the Code of Ethics and Standards of Practice of the CCIM Institute and the laws and regulations of the United States of America and the Commonwealth of Puerto Rico.

The effective date of the appraisal is August 29, 2014. Property and neighborhood inspections, review of current economic and market conditions and development of the applicable valuation techniques indicated the following value opinion conclusion:

**Market Value, Fee Simple Rights,
---\$3,390,000.00---
(THREE MILLION THREE HUNDRED NINETY THOUSAND DOLLARS)**

No land survey plan was submitted. The land area for the subject site was provided by personnel from the Roosevelt Roads Local Redevelopment Authority (RRLRA) and was assumed correct for appraisal analysis purposes. Then, the appraisal was made with the extraordinary assumption the land area comprising the subject site is 37.80 *cuerdas*. If the extraordinary assumption is found to be false or incorrect, the reported value opinion would be invalid.

The reported market value opinion is based on an estimated typical exposure and a marketing time of 24 months.

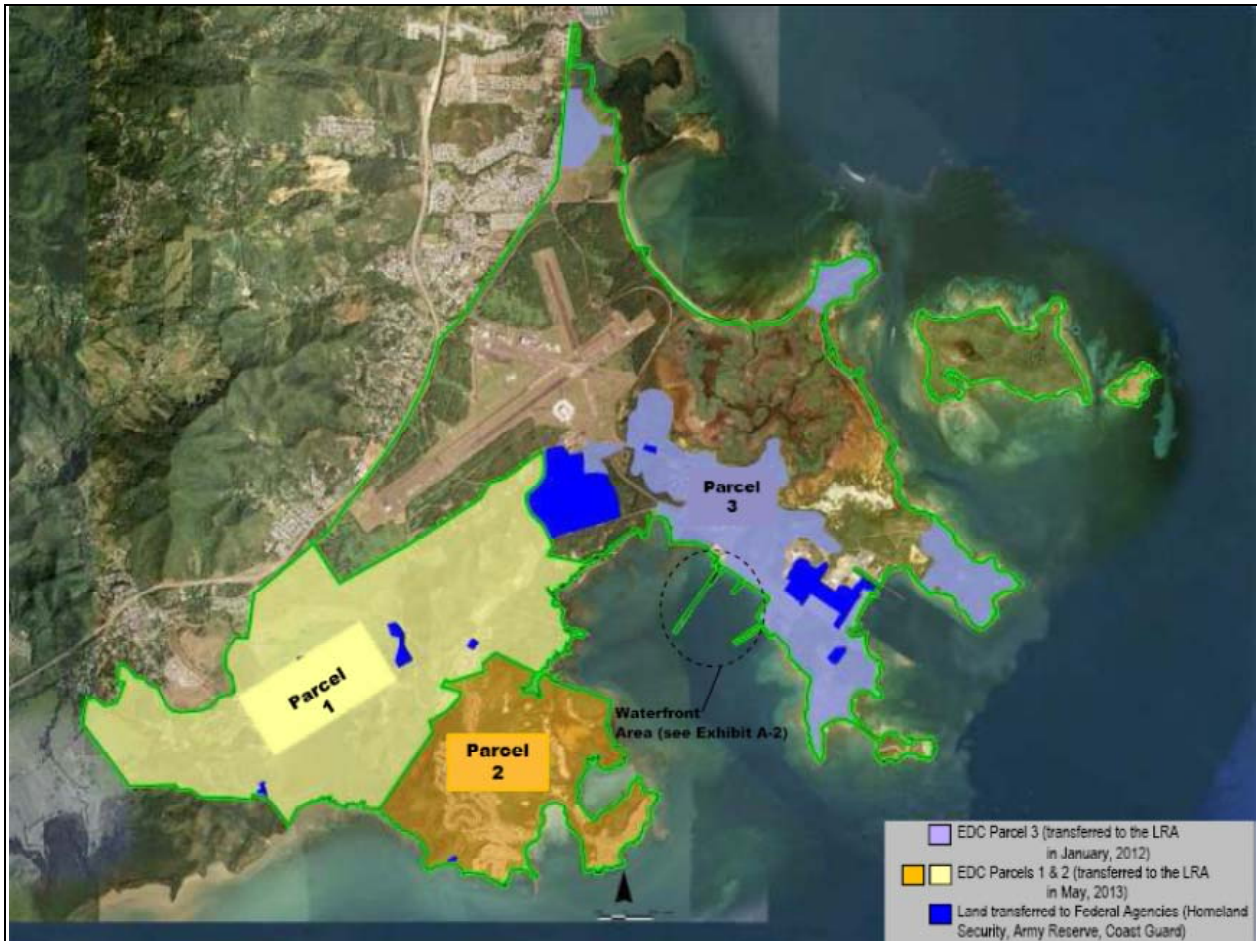
The enclosed self-contained report presents the facts analyzed and reached conclusions. The report, in its entirety, including all assumptions and limiting conditions, will be an integral and inseparable part of this letter. It has been a privilege to assist you in this assignment. If you have questions concerning the analysis or the report, or if **ODV Appraisal Group, P.S.C.** can be of further service, please contact us.

Respectfully submitted,



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NSRR Map –Parcels Transferred to LRA



Aerial View of Subject Property



Subject Property Delineation



INTEGRAL
14825 TRU. SUITE 270 S.C. 41

PROJECT:
RE-DEVELOPMENT FOR FORMER NAVAL STATION ROOSEVELT ROADS
 Ceiba & Naguabo, Puerto Rico
 Autoridad para el Redesarrollo Local
 Roosevelt Roads

TITLE:
PROPOSED PARCEL FOR ASTIVENCA

SCALE: 1:5,000 **DATE:** FEBRUARY 19, 2014

NOTES:
 1. SURVEY DATA OBTAINED FROM PLANS PREPARED BY BAKER ANGUS TRANSSYSTEMS FOR NAVAL ACTIVITY PUERTO RICO
 2. COORDINATES IN PUERTO RICO VIRGIN ISLANDS NAD 83 SYSTEM (METERS)

FOMENTO ECONÓMICO DE PUERTO RICO



ROOSEVELT ROADS

INTEGRAL
 architects & engineers, P.S.C.
 (787) 767-2111 www.integral.com

Location Map

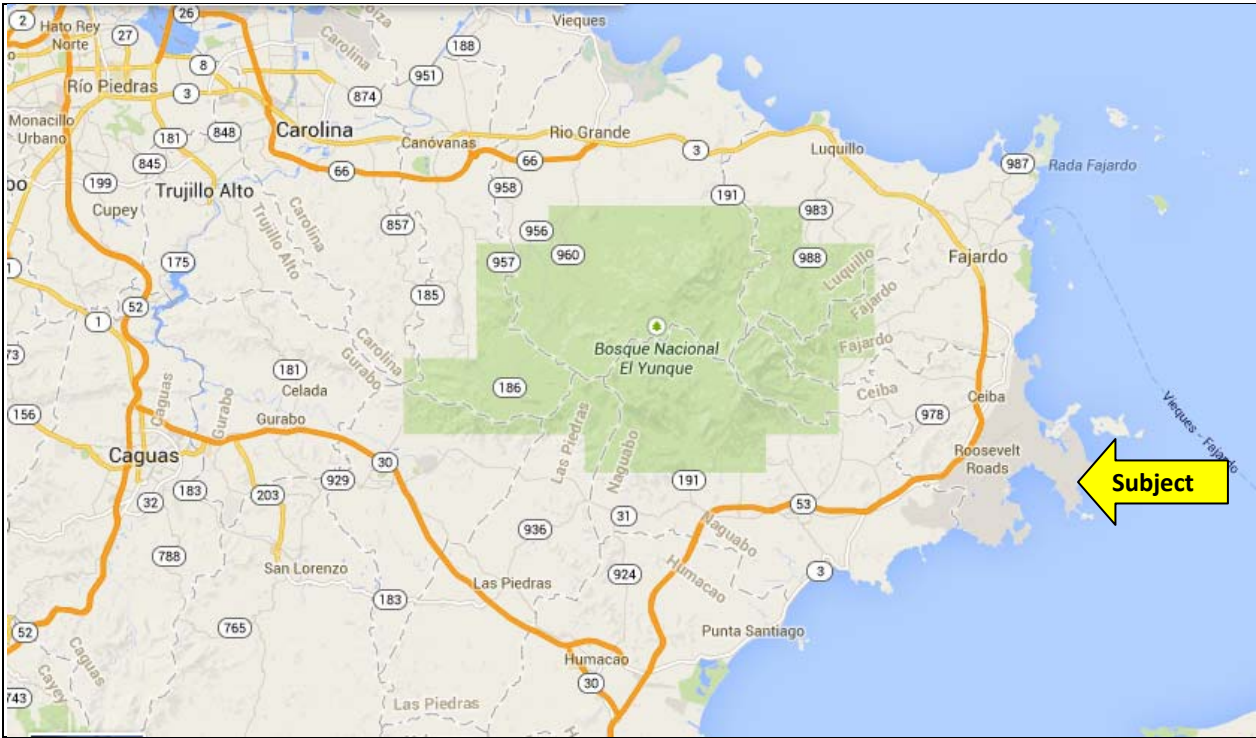


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SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

PROPERTY TYPE	Waterfront site
REPORT FORMAT	Appraisal report
LOCATION	Shipyards Parcel, Barnes Street, Moscrip Area, Former Naval Station Roosevelt Roads (NSRR), Machos Ward, Ceiba, Puerto Rico
RIGHTS APPRAISED	Fee simple rights
PURPOSE OF THE APPRAISAL	To report our professional opinion of the market value of the fee simple rights in the subject real estate as of the appraisal effective date.
INTENDED USE OF THE APPRAISAL	This report will be used to assist Astivenca Shipyards Corporation in an internal decision making process.
INTENDED USER(S) OF THE APPRAISAL	Astivenca Shipyards Corporation.
PROPERTY OWNER	Roosevelt Roads Local Redevelopment Authority (RRLRA)
EXTRAORDINARY ASSUMPTION	No land survey plan was submitted. The land area for the subject site was provided by personnel from the RRLRA and was assumed correct for appraisal analysis purposes. Then, the appraisal was made with the extraordinary assumption the land area comprising the subject site is 37.80 <i>cuerdas</i> . If the extraordinary assumption is found to be false or incorrect, the reported value opinion would be invalid.
NEIGHBORHOOD	The subject property is part of the former Naval Station Roosevelt Roads (NSRR) in the Municipality of Ceiba. Parcel 3 of the former base, mainly waterfront industrial clusters, was transferred to the

Roosevelt Roads Local Redevelopment Authority on January, 2012. Parcels 1 and 2, mainly former residential and institutional areas, were transferred on May, 2013. Refer to the base map.

As of the appraisal effective date, former NSRR presents a special situation. Except for the airport, private marina, and several properties still owned and managed by the US Army or other US Agencies, the base is basically unoccupied without efficient maintenance and in a very poor state.

The Roosevelt Roads Local Redevelopment Authority (LRA) has developed a Development Zones Master Plan and, in addition, its Board of Directors just selected four entities to move to the final round of the process to choose one Master Developer. The Roosevelt Roads redevelopment project encompasses approximately 3,000 acres of developable lands and facilities of high value for a mixed-use development with opportunities in tourism, commercial, recreational, residential, educational and light industrial projects.

However, as of the appraisal date, most of the land owned and controlled by the Roosevelt Roads Local Redevelopment Authority (RRLRA) is, during the planning stages of the proposed redevelopment, un-occupied and in neglected condition. Then, what we observed is a mostly un-occupied former base with scattered well maintained parcels (those still owned by the US).

The area is formed by several smaller zones separated by topography, wetlands or land use; each dominated by a common land use with supporting adjacent facilities adaptable for reuse and/or appropriate for redevelopment.

SITE AREA

The economic outlook of former NSRR clearly depends on the successful execution of the LRA Master Plan. This project is essential to the general economic growth of the overall region.

Overall real estate values and rents within the Ceiba Municipality have declined since the base closure and due to the general economic recession since 2006 and are expected to slightly decline and/or to remain stable with possible slight increases at superior locations.

37.80 *cuerdas*; approximately equal to 148,568.9915 square meters and/or 36.67 acres.

IMPROVEMENTS

About thirty buildings and structures totaling approximately 230,000 square feet in abandoned-neglected condition are scattered through the site. After thorough analysis it was concluded that the improvements have reached the end of their economic life and no longer contribute to the overall property value.

The property includes the main dry dock of the waterfront industrial cluster of the former base. The wet slip has a depth of 40 feet.

ZONING

The Shipyard site is within a CT-1; Commercial-tourist district and within a Subzone B-1-Waterfront Industrial. Allowed uses include dry-dock for boat building and repairs, and office space to support industrial tenants as per the 2014 Development Zones Master Plan by the LRA.

HIGHEST AND BEST USE

As vacant

To hold for future waterfront industrial re-development until market conditions become favorable.

As improved

To hold for future re-development for industrial cluster occupancy as per the 2014 Development

Zones Master Plan for former NSRR.

VALUATION APPROACHES

MARKET VALUE INDICATION BY THE SALES COMPARISON APPROACH	\$3,390,000.00
MARKET VALUE INDICATION BY THE INCOME CAPITALIZATION APPROACH	\$3,300,000.00

CONCLUSIONS

CONCLUDED MARKET VALUE OPINION	\$3,390,000.00
CONCLUDED MARKETING TIME	24 months
CONCLUDED EXPOSURE TIME	24 months
EFFECTIVE DATE OF APPRAISAL	August 29, 2014
REPORT DATE	October 6, 2014
APPRAISER	J. Javier Ortiz del Valle, MAI, CCIM State Certified Real Estate Appraiser Certificate 151 CG State License 688 EPA

DEFINITION OF THE APPRAISAL PROBLEM

USPAP Compliance and Report Format

This appraisal report complies with all the requisites of the Uniforms Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, the Code of Ethics and Standards of Practice of the CCIM Institute and the laws and regulations of the United States of America and the Commonwealth of Puerto Rico.

Purpose of the Appraisal

This appraisal estimates the market value of the fee simple rights in the subject property as of the appraisal effective date.

Intended Use of the Appraisal

This report will be used to assist Astivenca Shipyards Corporation in an internal decision making process.

Intended User of the Appraisal

As instructed by the client the intended users of the appraisal is Astivenca Shipyards Corporation.

Effective Date of the Appraisal

The property was last inspected on August 29, 2014, the effective date of the appraisal.

Definitions of Appraisal Terms

Market Value is defined in the *Standards of Professional Appraisal Practice* as promulgated by the *Appraisal Standards Board of the Appraisal Foundation* as follows:

Market Value

“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 and 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:

4. Buyer and seller are typically motivated.
- 2) Both parties are well informed or well advised, and acting in what they consider their best interests.
- 3) A reasonable time is allowed for exposure in the open market.

- 4) Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- 5) 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.”

The Dictionary of Real Estate Appraisal, 5th edition, published by the Appraisal Institute, defines exposure and marketing time as follows:

Exposure

- “1) The time a property remains on the market.
- 2) 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. Exposure time is always presumed to occur prior to the effective date of the appraisal. The overall concept of reasonable exposure encompasses adequate, sufficient and reasonable effort. Exposure time is different for various types of real estate and value ranges and under various market conditions.”

Marketing Period

- “1) The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal.
- 2) Reasonable marketing time is an estimate of the amount of time it might take to sell an interest in real property at its estimated market value during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by current market conditions. Marketing time differs from exposure time, which is always presumed to precede the effective date of the appraisal.”

Property Rights Appraised

As specified by the client, this appraisal report addresses the market value of the fee simple rights in the subject property. The subject property is subject to twenty lease contracts.

The *Dictionary of Real Estate Appraisal*, 5th edition, published by the Appraisal Institute defines fee simple rights as follows:

Fee Simple Estate

“Absolute ownership unencumbered by any other interest or estate; subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power and escheat.”

Extraordinary Assumptions

No land survey plan was submitted. The land area for the subject site was provided by personnel from the RRLRA and was assumed correct for appraisal analysis purposes. Then, the appraisal was made with the extraordinary assumption the land area comprising the subject site is 37.80 *cuerdas*. If the extraordinary assumption is found to be false or incorrect, the reported value opinion would be invalid.

General Assumptions and Limiting Conditions

This appraisal report has been made with the following *general* assumptions:

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised, free and clear of any or all liens or encumbrances, unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies are assumed to be correct. The plot plans and illustrative material in this report are included only to help the reader visualize 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 obtaining the engineering studies that may be required to discover them.
7. It is assumed that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.

8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless nonconformity has been identified, described and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained.
10. It is assumed that the use of the land and improvements is confined to the boundaries or property lines of the property described, and that there is no encroachment or trespass unless noted in the report.
11. The appraiser did not observe the existence of hazardous materials, which may or may not be present on the property. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, and other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.

This appraisal report has been made with the following general limiting conditions:

1. Possession of this report, or a copy thereof, does not carry with it the right of publication.
2. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been previously made.
3. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser and/or otherwise stated in the report.
5. The liability of ODV Appraisal Group PSC and/or subcontractors of ODV Appraisal Group PSC is limited to the fee collected. There is no liability to unauthorized third parties.
6. The forecasts, projections, or operating estimates contained herein are based on

current market conditions, and anticipated short-term supply and demand factors. These forecasts are, therefore, subject to changes with future conditions.

7. Any property inspection was made for the purpose of analyzing factors that contribute or affect property value. The appraisers are not certified or licensed property inspectors. No liability is assumed for unobserved site deficiencies.

Competency

Our qualifications are included in the addenda of this report. These reflect that we have the knowledge and experience required to complete this engagement. Our knowledge and experience is appropriate for the complexity of this assignment.

Scope of the Assignment

This appraisal is an estimate or opinion of value of the fee simple rights in the subject property reached by analysis of relevant factors. In completing this assignment, the appraiser:

- Requested and obtained all pertinent information about the property from the client and/or property owner.
- Inspected the subject neighborhood and property. Property inspection, conducted on August 29, 2014, included observations of elements that affect value.
- Examined neighborhood maps to identify access to the area and principal uses. Government published maps were examined to identify physical and legal attributes of the properties. These included flood maps prepared by the Federal Emergency Management Agency and zoning maps prepared by the Puerto Rico Planning Board. General data pertaining to Puerto Rico and the Ceiba Municipality was gathered from different sources including quarterly reports prepared by private institutions as well as by government agencies.
- Developed an inferred market analysis and proceeded to determine the highest and best use of the property (as though vacant and as improved) after analyzing its physical, location and economic characteristics.
- Based on the highest and best use conclusion, the market was surveyed in order to identify comparable data for the applicable valuation techniques.
- Gathered information at the Property Registry, the Municipal Revenue Collection Center (CRIM for its Spanish acronym), and from actual market participants based on the results of the market survey.
- Developed the sales comparison and income capitalization approaches to derive value indications. An income capitalization analysis was developed as part of the highest and best use analysis to support the highest and best use as improved conclusion.
- Reconciled the appraisal process into a final estimate and, finally,
- Wrote the appraisal report.

To develop the opinion of value, the appraisers performed an appraisal process in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). This report is intended to include all the data pertinent to the analysis and value conclusion. After a thorough market

analysis, we concluded that the present buildings and structures do not contribute to the overall property market value at this time. The highest and best use as improved is to hold for future port waterfront industrial redevelopment.

IDENTIFICATION AND HISTORY OF THE SUBJECT PROPERTY

Identification and History of Subject Property

Identification

The appraised property is a waterfront site identified as the Shipyard Parcel in the Moscrip Area within the former Naval Station Roosevelt Roads (NSRR) in the Machos Ward of San Juan, Puerto Rico. It has a land surface area of 37.80 *cuerdas*. The subject site is part of Parcel 3 of former NSRR. Parcel 3 of NSRR, also known as Forrestal, has a total of 1,370 acres (1,412.37 *cuerdas*) and comprises the industrial “heart” of the former base and includes all office, shops, warehouses, and housing of the industrial the port area.

No land survey plan for the subject site was submitted. The land area for the subject site was provided by personnel from RRLRA and was assumed correct for appraisal analysis purposes. The appraisal was made with the extraordinary assumption the land area comprising the subject site is 37.80 *cuerdas*. If the extraordinary assumption is found to be false or incorrect, the reported value opinion would be invalid.

About thirty buildings and structures totaling approximately 230,000 square feet in abandoned-neglected condition are scattered through the site. After thorough analysis it was concluded that the improvements no longer contribute to the overall property value. As agreed with the client, a detailed description of these improvements is beyond the scope of this appraisal.

History

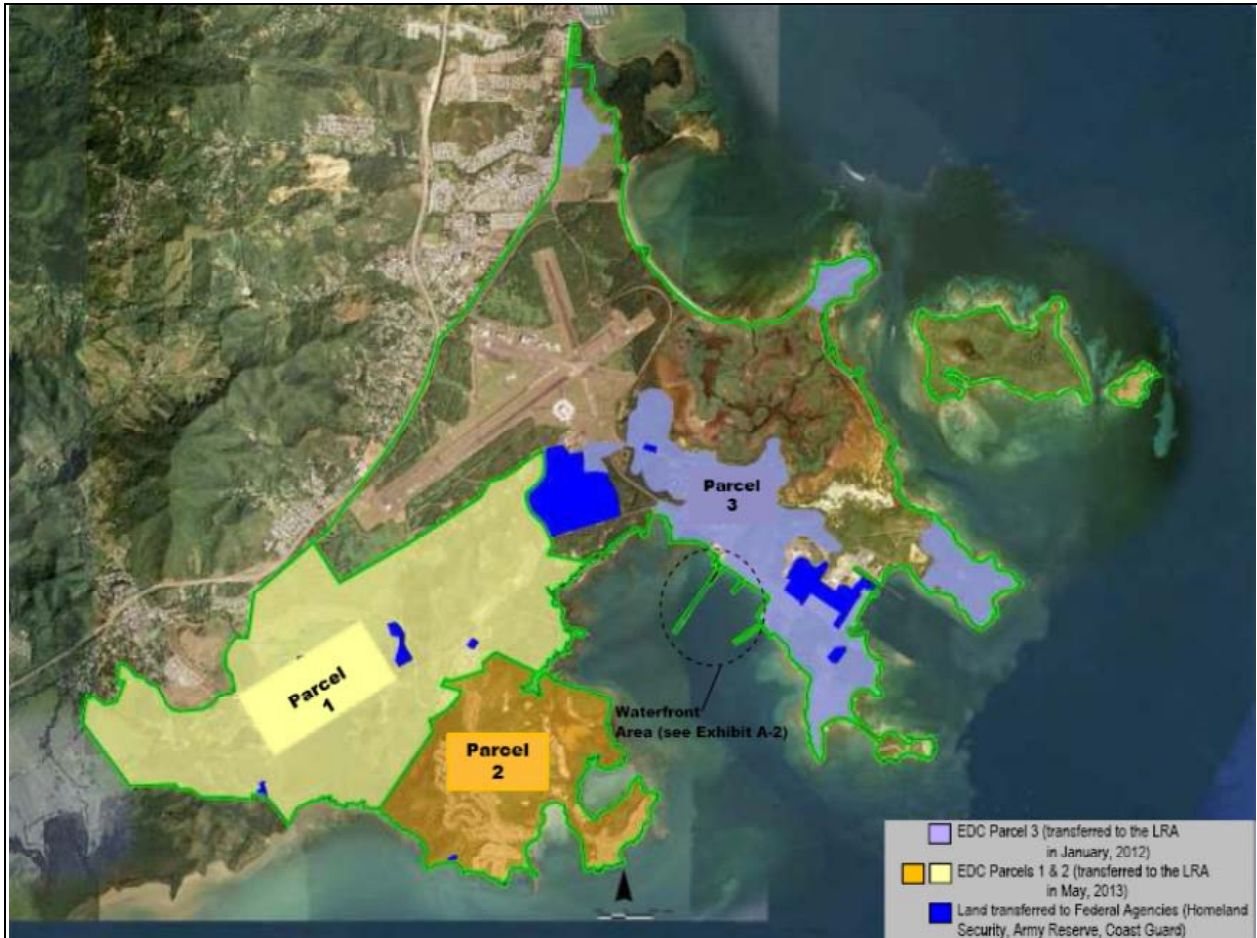
Standards 1 and 2 of the Uniform Standards of Professional Appraisal Practice (USPAP) promulgate analysis and disclosure of any sale transaction of the property being appraised, if it occurred within a three-year period prior to the effective date of the appraisal.

As per submitted documentation Parcel 3 was transferred to the RRLRA on January 2012. No recording data was submitted or available to the appraiser. The purchase price for Parcel 3 was \$8,040,000.00 payable as follows; \$200,000.00 at closing, \$7,840,000.00 with annual payments of \$523,000.00 starting in 2015. The transaction was for 1,020 acres of “clean” land. The remaining 350 acres are to be leased until the cleaning process by the US Navy concludes as per EPA regulations; at which point title will be transferred.

The acquisition price results in a price per *cuerta* of approximately \$5,694.05. The acquisition price was slightly higher than the acquisition price for Parcels 1 and 2; at \$4,043.65 per *cuerta*. Besides Parcels 1 and 2, there are no other comparable sales to assess the acquisition price.

The subject property is subject to a land lease agreement in which Astivenca Shipyards Corporation has agreed to pay a rent of \$15,000.00 per *cuerta* per year for a term of 20 years. The lease calls for no rent for the first year or until use permits for operation are granted, 100% rent abatement for all off-site infrastructure, and a 50% rent abatement for all necessary on-site infrastructures and new buildings.

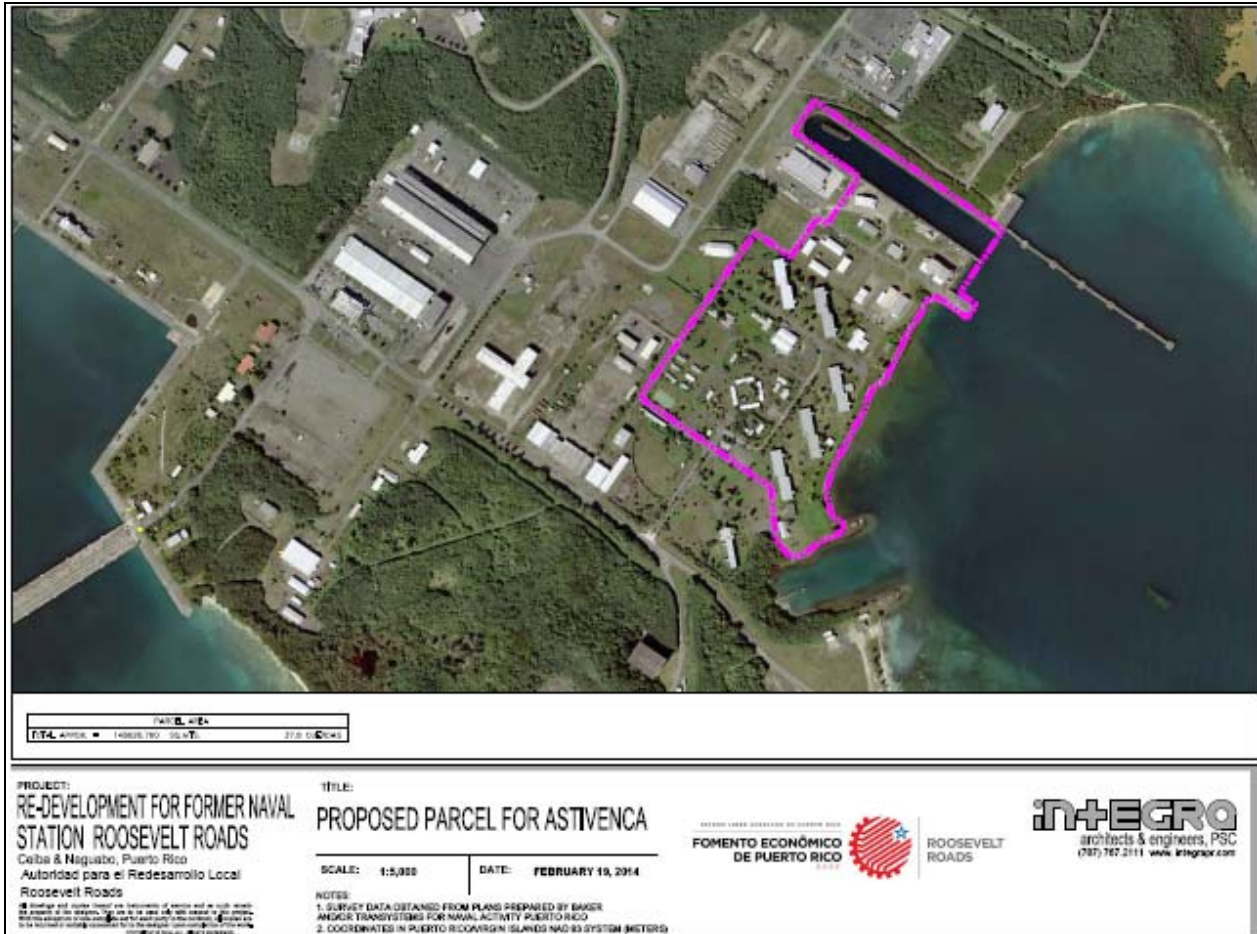
NSRR Map –Parcels Transferred to LRA



Aerial View of Subject Property



Subject Property Delineation



REGIONAL AND CITY ANALYSIS

The Island of Puerto Rico

General Data – Puerto Rico

Puerto Rico is the easternmost of the Greater Antilles (18 15 N, 66 30 W), and the fourth largest island in the Caribbean after Cuba, Hispaniola (which comprises the Dominican Republic and Haiti), and Jamaica. The Island is located at the crossroads between North and South America, at just 3.5 hours airtime from New York, 60 minutes from Caracas, and at only 4 days sailing from Atlantic ports in the U.S. and ports in the Gulf of Mexico. The Puerto Rican territory includes other three small islands, Vieques, Culebra and Mona, as well as numerous islets.

Three million and seven hundred twenty five thousand (3,725,000) people lived in Puerto Rico in 2010; approximately one third of them within the San Juan metropolitan area. The Island, with an area of 3,435 square miles (9,000 sq. km)—110 miles long by 39 miles wide—has a mountainous interior and is surrounded by a wide coastal plain where the majority of the population lives. Rainfall averages 69 inches (175 cm) per year and year-around temperatures range from 74°F (23°C) in the winter to 81°F (27°C) in the summer.

Puerto Rico's Government

In 1917 the people of Puerto Rico became U.S. citizens and in 1952 Puerto Rico ratified its Constitution, which established the Commonwealth of Puerto Rico, a political status placing Puerto Rico within the United States constitutional system.

Politically, Puerto Rico is a hybrid between a federated state of the United States of America and a Latin American country. The island's governmental body politic is known as the Commonwealth of Puerto Rico. Under the 1950 Puerto Rico Federal Relations Act, the Federal Government agreed to treat Puerto Rico as a state of the Union, for the most part. While the island technically remained a U.S. territory, self-governing authority, in the model of a federated state, with sovereignty over local affairs not delegated to the U.S. constitution, was allowed. The Commonwealth's Constitution is similar to that of the United States and provides for a governor and bicameral legislature subject to elections every four years. The currency, banking, and postal systems of Puerto Rico are within the U.S. system. As in U.S. states, Puerto Rico has a local judicial system.

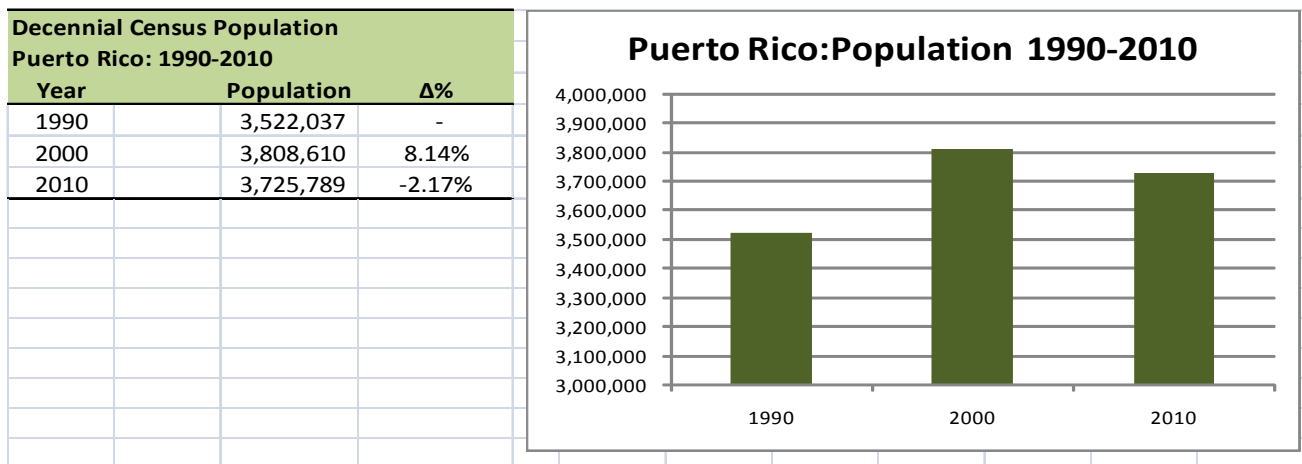
Federal laws apply to the island except in those cases where a law is deemed not applicable. As in the federated states, U.S. citizenship extends to all those born in Puerto Rico. Most federal programs extend to Puerto Rico, although with varying degrees of participation, and U.S. courts and most federal agencies operate on the island. Total federal spending in Puerto Rico, including transfers and administrative expenses, reaches approximately \$13 billion each year. Federal income and excise taxes are not imposed on Puerto Rico residents, although Puerto Ricans participate in the Federal Social Security Program and must pay into the trust fund through a Social Security tax.

Puerto Rico constitutes a District in the Federal Judiciary and has its own U.S. district court. The U.S. Armed Forces, Internal Revenue Service, Small Business Administration, Veterans' Affairs Department, Bureau of Tobacco, Alcohol and Firearms, Customs Service, Immigration and Naturalization Service, Drug Enforcement Administration, Federal Bureau of Investigation and the Postal Service are among the federal agencies with offices in Puerto Rico. As in the federated states, the federal government controls customs and immigration, interstate trade, licensing of radio and television stations and regulates financial institutions. The U.S. Navy maintains a major presence in the Caribbean although its largest naval base, Roosevelt Roads Naval Air Station, at the east coast of the island, closed in March, 2004. The U.S. Army South, formerly located in the Panama Canal, relocated in 1999 to the Fort Buchanan Post in metro San Juan.

Among the similarities between the government of a federated state and Puerto Rico's commonwealth is the separation of powers: an executive branch run by a governor, elected every four years, a legislative branch also elected every four years, and a judicial branch with judges appointed by the governor. Mayors and municipal assemblies run the island's 78 municipalities and their election coincides with the gubernatorial and legislative elections every four years. Spanish and English are the official languages of Puerto Rico.

Puerto Rico's Population and Economic Trends

The population of Puerto Rico exhibited the following decennial growth pattern from 1990 to 2010, per the US Census Bureau:



For 2010, Puerto Rico population decreased to 3,725,789 persons from 3,808,610 in 2000; a 2.17% decline. The following tables summarize the most important economic indicators as reported by the Puerto Rico Government Development Bank as of August 1, 2014.

PUERTO RICO

UPDATED as of AUGUST 1, 2014

ECONOMIC INDICATORS

				14 FY	13 FY	
LABOR FORCE (thds., n.s.a.) 1/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Civilian Population	2,874.1	2,878.6	2,897.4	2,885.6	2,905.9	-0.7
Labor Force	1,140.1	1,146.4	1,178.6	1,175.2	1,197.0	-1.8
Participation Rate	39.7	39.8	40.7	40.7	41.2	-1.1
Employment, Total	994.2	987.8	1,016.3	1,006.6	1,029.5	-2.2
Non-farm Wage & Salary Employment	833.2	825.1	851.6	838.6	854.3	-1.8
Self-Employment 1a/	147.2	149.6	146.9	150.9	158.5	-4.8
Unemployed, Total	145.9	158.6	162.3	168.5	167.4	0.7
Unemployment Rate (%)	12.8	13.8	13.8	14.3	14.0	2.6
Employment Rate	34.6	34.3	35.1	34.9	35.4	-1.5
				14 FY	13 FY	
LABOR FORCE (thds., s.a.) 2/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Labor Force	1,141.0	1,151.8	1,179.7	1,178.8	1,197.1	-1.5
Employment, Total	991.6	992.7	1,018.5	1,007.5	1,029.7	-2.2
Unemployed, Total	149.4	159.1	161.2	171.3	167.4	2.3
Unemployment Rate (%)	13.1	13.8	13.7	14.5	14.0	3.9
				14 FY	13 FY	
PAYROLL EMPLOYMENT (thds., n.s.a.) 3/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Total	918.8	931.4	929.7	924.9	937.4	-1.3
Government	237.6	242.1	254.1	241.6	255.2	-5.3
Private	681.2	689.3	675.6	683.3	682.3	0.2
Construction & Mining	31.3	30.9	29.7	29.7	33.7	-11.9
Trade	161.2	161.1	161.8	162.8	162.2	0.4
Transportation & Utilities	14.0	15.0	14.2	14.7	14.6	0.5
Information	19.1	19.2	18.9	19.0	19.1	-0.6
Finance, Insurance & Real Estate	43.5	43.5	44.2	43.7	44.4	-1.7
Services	337.2	344.4	331.0	337.9	329.6	2.5
Manufacturing	74.9	75.2	75.8	75.6	78.6	-3.9
Durable Goods	31.3	31.4	32.5	31.9	32.8	-2.6
Nonmetallic Mineral Product	1.7	1.7	1.9	1.8	2.0	-11.4
Fabricated Metal Product	3.2	3.2	3.5	3.4	3.6	-6.3
Computer and Electronic Product	4.4	4.4	4.5	4.4	4.7	-5.5
Electrical Equipment, Appliance & Components	5.1	5.2	5.2	5.2	5.2	-0.8
Other	16.9	16.9	17.4	17.2	17.3	-0.5
Nondurable goods	43.6	43.8	43.3	43.7	45.9	-4.8
Food	11.3	11.2	11.3	11.2	11.2	-0.1
Apparel	4.2	4.4	4.5	4.4	6.6	-32.5
Chemical	18.4	18.5	18.8	18.6	19.1	-2.4
Other	9.7	9.7	8.7	9.4	9.1	4.2
				14 FY	13 FY	
PAYROLL EMPLOYMENT (thds., s.a.) 4/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Total	909.3	928.6	923.2	925.0	937.1	-1.3
Government	227.2	241.0	242.5	241.6	255.1	-5.3
Private	682.1	687.6	680.7	683.4	682.0	0.2
Construction & Mining	31.4	30.8	29.7	29.8	33.7	-11.5
Trade, Transportation & Utilities	174.9	177.5	177.7	177.7	176.8	0.5
Information	18.8	19.0	18.8	18.9	19.1	-0.8
Finance, Insurance & Real Estate	43.0	43.2	44.1	43.7	44.4	-1.5
Services	338.7	341.4	334.4	337.7	329.3	2.5
Manufacturing	75.3	75.7	76.0	75.6	78.7	-3.9

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO



PUERTO RICO

UPDATED as of AUGUST 1, 2014

ECONOMIC INDICATORS

	Preliminary			14 FY	13 FY	
PROMOTION ACTIVITIES 5/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Number of Projects	13	7	7	113	73	54.8
Employment Committed	923	109	863	6,705	3,796	76.6
Payroll Committed (\$ thds.)	15,464	2,345	63,375	137,578	152,075	-9.5
Investment Committed (\$ thds.)	5,279	5,834	210,042	403,310	491,532	-17.9
Number of Plant Openings	8	6	0	31	36	-13.9
Employment at Beginning Operation	271	139	0	834	1,112	-25.0
Plant Shutdowns	3	2	5	63	45	40.0
Employment Lost in Shutdowns	5	1	5	640	537	19.2
				14 FY	13 FY	
TOURISM (thds.) 6/	Apr-14	Mar-14	Apr-13	Jul - Apr	Jul - Apr	% Ch.
Total Hotel Registrations	198.9	223.2	186.3	1,906.5	1,887.7	1.0
Residents	51.2	44.1	42.7	574.2	585.6	-1.9
Nonresidents	147.7	179.0	143.6	1,332.3	1,302.1	2.3
Tourist Hotel Registrations	189.4	210.9	177.9	1,820.7	1,796.1	1.4
Residents	48.8	41.6	40.7	553.2	566.0	-2.2
Nonresidents	140.7	169.3	137.2	1,267.4	1,230.2	3.0
Occupancy Rate Tourist Hotels (%)	72.6	80.6	73.4	72.0	72.4	-0.6
				14 FY	13 FY	
CONSUMER PRICE INDEX (% ch.) 7/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	
Index Base: Dec 2006=100						
All Families	0.4	-0.1	-0.1	0.9	0.9	
Food and beverage	0.2	0.2	0.0	1.6	1.4	
Housing	0.3	-0.3	0.0	-0.1	0.5	
Apparel	-0.8	-2.0	-0.3	-1.4	-0.7	
Transportation	0.9	0.1	-0.5	0.5	0.6	
Medical care	0.3	0.0	0.2	3.7	4.1	
Recreation	0.2	0.0	0.1	-0.3	1.9	
Education and communications	0.0	0.0	0.3	1.0	0.5	
Others goods and services	0.0	-0.1	0.0	2.7	1.1	
				14 FY	13 FY	
GASOLINE	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Average retail price (dollars per gallon) 8/	3.58	3.55	3.29	3.54	3.46	2.4
Consumption (millions of gallons) 9/	78.0	90.0	76.9	1,023.0	1,040.7	-1.7
				14 FY	13 FY	
ELECTRIC ENERGY CONSUMPTION (mm kWh) 10/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Total	1,459	1,465	1,498	17,561	18,221	-3.6
Residential	518	534	545	6,271	6,656	-5.8
Commercial	710	697	701	8,497	8,635	-1.6
Industrial	201	200	222	2,434	2,578	-5.6
Other	29	33	30	359	352	1.9
				14 FY	13 FY	
ELECTRIC ENERGY GENERATION (mm kWh) 10/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Total	1,832	1,784	1,797	21,363	21,954	-2.7
				14 FY	13 FY	
CEMENT DATA (thds.) 11/	Jun-14	May-14	Jun-13	Jul - Jun	Jul - Jun	% Ch.
Domestic Production (94lb. bags)	1,220	1,115	1,160	13,792	15,335	-10.1
Total Sales (94lb. bags & bulk)	1,262	1,251	1,210	15,232	17,500	-13.0

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO



PUERTO RICO

UPDATED as of AUGUST 1, 2014

ECONOMIC INDICATORS

				14 FY	13 FY	
CONSTRUCTION PERMITS 12/	Apr-14	Mar-14	Apr-13	Jul - Apr	Jul - Apr	% Ch.
Number of Construction Permits	330	309	373	3,005	3,796	-20.8
Private	323	286	349	2,854	3,497	-18.4
Public	7	23	24	151	299	-49.5
Value of Construction Permits (thds. \$)	66,359	67,778	94,499	737,967	836,245	-11.8
Private	62,092	54,786	83,417	643,804	633,514	1.6
Public	4,267	12,992	11,082	94,163	202,731	-53.6
Number New Dwelling Units	130	376	242	2,109	2,888	-27.0
Private	130	352	238	2,036	2,682	-24.1
Public	0	24	4	73	206	-64.6
				14 FY	13 FY	
RETAIL SALES (MILLION \$) 13/	Apr-14	Mar-14	Apr-13	Jul - Apr	Jul - Apr	% Ch.
Total	2,966.1	3,078.9	2,927.1	30,370.3	30,126.3	0.8
Building Materials, Hardware, Garden Supplies & Mobile Home Dealers	153.0	150.2	146.6	1,461.7	1,457.0	0.3
General Merchandise Stores	524.3	559.1	531.9	5,653.0	5,825.0	-3.0
Department Stores	470.0	502.0	472.8	5,049.3	5,236.1	-3.6
Food Stores	441.9	452.9	438.8	4,532.9	4,390.3	3.2
Automobile Dealers, Supplies & Gasoline Service Stations	767.6	825.9	772.9	7,733.9	7,643.1	1.2
Motor Vehicle Dealers (New & Used)	277.3	320.2	305.6	3,030.0	3,133.1	-3.3
Gasoline Service Stations	355.6	363.6	342.2	3,361.1	3,166.9	6.1
Apparel, Shoe & Accessory Stores	56.8	60.9	51.2	656.2	605.2	8.4
Home Furniture, Furnishings & Equipment Stores	121.9	133.0	126.8	1,349.0	1,474.2	-8.5
Eating & Drinking Places, (Cafeterias & Restaurants)	336.3	344.9	321.5	3,266.8	3,208.1	1.8
Miscellaneous Retail	367.6	348.2	345.5	3,566.0	3,509.1	1.6
Drug Stores	334.8	311.6	312.6	3,190.9	3,113.0	2.5
Jewelry Stores	13.1	13.6	12.9	158.0	157.1	0.6
Other	196.8	203.8	191.9	2,150.7	2,014.2	6.8
				14 FY	13 FY	
EXTERNAL TRADE (million \$) 14/	Apr-14	Mar-14	Apr-13	Jul - Apr	Jul - Apr	% Ch.
Exports	5,810	5,424	5,714	50,421	50,240	0.4
United States	4,174	4,011	3,992	36,024	36,061	-0.1
Foreign Countries	1,618	1,391	1,698	14,147	14,004	1.0
Virgin Islands	18	21	24	250	176	42.4
Imports	3,437	3,457	4,003	34,974	37,823	-7.5
United States	1,614	1,678	1,615	16,646	17,008	-2.1
Foreign Countries	1,817	1,779	2,387	18,320	20,808	-12.0
Virgin Islands	6	0	1	8	7	7.0
Trade Balance	2,373	1,966	1,711	15,448	12,417	24.4
				13 FY	12 FY	
TRANSPORTATION & CARGO 15/	May-13	Apr-13	May-12	Jul - May	Jul - May	% Ch.
Air Passenger Traffic (thds.)						
Inbound	359	365	378	4,218	4,121	2.4
Outbound	387	398	405	4,266	4,175	2.2
Net Balance	-28	-32	-27	-48	-54	-11.0
Air Cargo (thds. of lbs.)						
Inbound	24,749	24,290	26,010	291,849	292,599	-0.3
Outbound	21,354	20,016	21,694	225,107	242,367	-7.1
Net Balance	3,395	4,274	4,316	66,742	50,232	32.9

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO



PUERTO RICO

UPDATED as of AUGUST 1, 2014

ECONOMIC INDICATORS

COMMERCIAL BANKING (million \$) 16/	Quarterly Change			Outstanding Balance		
	I 14	IV 13	I 13	I 14	I 13	% Ch.
Total assets	1,092.2	-410.6	-477.8	64,427.0	66,389.8	-3.0
Cash & Balances due from Depository Institutions	1,005.2	-228.9	-160.6	5,001.1	4,046.9	23.6
Investment & Securities	409.8	666.6	-50.1	6,350.2	5,878.1	8.0
Loans & Leases, Net of Unearned Income & Allowances	-731.3	-313.7	-642.3	43,023.7	46,465.7	-7.4
Other Assets	408.6	-534.6	375.2	10,052.0	9,999.2	0.5
Total Liabilities and Capital	1,092.2	-410.6	-477.8	64,427.0	66,389.8	-3.0
Total Liabilities	693.9	-880.5	-312.1	56,730.7	59,585.9	-4.8
Deposits	841.3	304.4	197.1	48,854.9	49,263.0	-0.8
Non Interest-bearing	111.2	47.9	-770.1	10,574.6	9,902.8	6.8
Interest-bearing	730.1	256.5	967.1	38,280.3	39,360.3	-2.7
Other Liabilities	-147.4	-1,184.9	-509.2	7,875.9	10,322.8	-23.7
Capital	398.3	469.8	-165.7	7,696.2	6,804.0	13.1
Selected Loan Activity						
Real Estate	-602.3	-249.0	-669.9	26,873.0	30,514.4	-11.9
Commercial, Indust. & Agr.	-61.9	32.8	-8.6	9,217.7	8,878.3	3.8
Individuals	65.3	1.8	-15.7	6,544.7	6,403.3	2.2
Leases	-2.1	0.3	-3.9	339.3	344.5	-1.5
Other Loans	-137.5	-93.6	-46.1	1,152.3	1,551.4	-25.7
			Preliminary	14 FY	13 FY	
GOVERNMENT REVENUES (million \$) 17/	Jun-14	May-14	Jun-14	Jul - Jun	Jul - Jun	% Ch.
General Fund Gross Revenues	1,059.0	802.1	1,154.2	9,624.9	9,101.2	5.8
Less: Reserve for Tax Refunds	-49.0	-49.0	0.0	-588.0	-539.0	9.1
General Fund Net Revenues	1,010.0	753.1	1,154.2	9,036.9	8,562.2	5.5
Tax Revenues	860.4	668.3	931.9	8,303.4	7,641.5	8.7
Income Taxes	535.9	265.9	612.7	4,846.1	4,373.2	10.8
Individuals	159.5	132.5	214.3	1,979.4	2,054.7	-3.7
Corporations	314.2	79.5	291.8	1,914.3	1,286.5	48.8
Withheld to Nonresidents	55.0	51.1	101.9	899.9	982.9	-8.4
Tollgate	0.3	0.0	1.3	7.1	8.9	-19.8
Sales & Use Tax	106.4	99.3	95.6	595.3	539.9	10.2
Excise Taxes, Total	214.6	299.1	181.3	2,821.0	2,592.8	8.8
Alcoholic Beverages	24.9	15.8	29.7	266.5	282.3	-5.6
Motor Vehicles	30.3	28.7	40.6	392.0	419.2	-6.5
Foreign (Act. 154)	140.1	237.6	84.1	1,902.2	1,632.5	16.5
Licenses, Total	1.7	2.3	7.5	19.8	81.1	-75.5
Nontax Revenues	142.3	68.2	204.8	485.5	672.9	-27.9
From Non-Commonwealth Sources	7.3	16.6	17.4	248.0	247.8	0.1
Excise on Offshore Shipments	7.3	16.6	17.4	248.0	247.8	0.1
				14 FY	13 FY	
ECONOMIC ACTIVITY INDEX 18/	Jun-14	May-14	Jun-14	Jul - Jun	Jul - Jun	% Ch.
GDB Economic Activity Index (Jan 1980=100)	126.1	127.0	127.4	127.0	130.8	-2.9

SOURCES: 1/ Dept. of Labor and Human Resources, Household Survey. Not seasonally adjusted. 1a/ Includes self-employment & family without payment. 2/ United States Department of Labor, Bureau of Labor Statistics, Household Survey, Seasonally Adjusted. 3/ Dept. of Labor and Human Resources, Establishment Survey, Industry Classification: NAICS, Not seasonally adjusted. 4/ United States Department of Labor, Bureau of Labor Statistics, Establishment Survey, Industry Classification: NAICS, Seasonally Adjusted. 5/ P.R. Industrial Development Company. 6/ P.R. Tourism Company. 7/ Dept. of Labor and Human Resources. 8/ Department of Consumer Affairs. 9/ P.R. Highways and Transportation Authority. The monthly gasoline consumption is estimated by the GDB from the Treasury Department's monthly gasoline excise tax collections paid by importers which are transferred to P.R. Highways and Transportation Authority. These collections fluctuate due to changes in inventories and purchases, which do not necessarily reflect the actual monthly consumption reported by retailers. 10/ P.R. Electric Power Authority. 11/ Production: CEMEX Puerto Rico & ESSROC San Juan. Sales: CEMEX Puerto Rico, ESSROC San Juan & Antilles Cement Corporation. Imports by Antilles Cement began in 1996. 12/ P.R. Planning Board. 13/ Puerto Rico Trade and Export Company. 14/ P.R. Planning Board. 15/ P.R. Ports Authority. 16/ Commissioner of Financial Institutions. 17/ P.R. Department of the Treasury. Sales & Use Tax began in Nov. 2006. 18/ Government Development Bank for Puerto Rico. NOTE: percent changes reflect actual values (no rounding). <http://www.gdbpr.com>

Puerto Rico Employment

According to the Puerto Rico Human Resources Department, total employment reached 1,006,600 persons during July to June of fiscal 2014 for an 85.65% of the work force. Unemployment amounted to 168,500 persons or 14.34%. The average unemployment level remains well above the United States average.

Local Consumer Price Index

The table shows the CPI % change for the months of July to June of fiscal year 2014 (Index Base is Dec. 2006=100).

Consumer Price Index (% Change)	
Jul-June 14 FY	%
All Families	0.9
Food & Beverage	1.6
Housing	-0.1
Apparel	-1.4
Transportation	0.5
Medical Care	3.7
Recreation	-0.3
Education & Communications	1.0
Other Goods & Services	2.7

Local Money and Interest Rates, and Mortgage Interest Rates

Following tables show selected interest rates as published by US Federal Reserve for August 25 to 29, 2014.

FEDERAL RESERVE statistical release



H.15 (519) SELECTED INTEREST RATES

For use at 2:30 p.m. Eastern Time

Yields in percent per annum

September 2, 2014

Instruments	2014	2014	2014	2014	2014	Week Ending		2014
	Aug 25	Aug 26	Aug 27	Aug 28	Aug 29	Aug 29	Aug 22	Aug
Federal funds (effective) ^{1 2 3}	0.09	0.09	0.09	0.09	0.07	0.09	0.09	0.09
Commercial Paper ^{3 4 5 6}								
Nonfinancial								
1-month	0.08	0.07	0.07	0.07	0.06	0.07	0.10	0.08
2-month	0.09	0.10	0.09	0.10	0.09	0.09	0.10	0.09
3-month	0.11	0.12	0.11	0.12	0.11	0.11	0.11	0.11
Financial								
1-month	0.09	0.07	0.07	0.08	0.07	0.08	0.09	0.09
2-month	0.12	0.11	0.12	0.11	0.12	0.12	0.12	0.11
3-month	0.13	0.13	0.14	0.13	0.13	0.13	0.13	0.13
Eurodollar deposits (London) ^{3 7}								
1-month	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
3-month	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
6-month	0.36	0.36	0.36	0.36	0.36	0.36	0.36	0.36
Bank prime loan ^{2 3 8}	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Discount window primary credit ^{2 9}	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
U.S. government securities								
Treasury bills (secondary market) ^{3 4}								
4-week	0.02	0.04	0.02	0.02	0.02	0.02	0.03	0.03
3-month	0.04	0.03	0.04	0.03	0.03	0.03	0.03	0.03
6-month	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.05
1-year	0.10	0.11	0.10	0.10	0.09	0.10	0.10	0.10
Treasury constant maturities								
Nominal ¹⁰								
1-month	0.02	0.04	0.02	0.02	0.02	0.02	0.03	0.03
3-month	0.04	0.03	0.04	0.03	0.03	0.03	0.03	0.03
6-month	0.05	0.05	0.05	0.05	0.05	0.05	0.06	0.05
1-year	0.11	0.12	0.11	0.11	0.09	0.11	0.11	0.11
2-year	0.53	0.52	0.51	0.50	0.48	0.51	0.48	0.47
3-year	0.99	0.98	0.97	0.95	0.94	0.97	0.93	0.93
5-year	1.69	1.68	1.65	1.63	1.63	1.66	1.63	1.63
7-year	2.09	2.08	2.05	2.04	2.05	2.06	2.07	2.08
10-year	2.39	2.39	2.37	2.34	2.35	2.37	2.41	2.42
20-year	2.88	2.89	2.85	2.82	2.83	2.85	2.93	2.94
30-year	3.13	3.15	3.11	3.08	3.09	3.11	3.20	3.20
Inflation indexed ¹¹								
5-year	-0.09	-0.15	-0.15	-0.14	-0.13	-0.13	-0.19	-0.21
7-year	0.18	0.16	0.18	0.19	0.21	0.18	0.14	0.15
10-year	0.24	0.25	0.23	0.21	0.23	0.23	0.24	0.22
20-year	0.58	0.64	0.61	0.58	0.61	0.60	0.65	0.64
30-year	0.86	0.88	0.85	0.82	0.84	0.85	0.91	0.90
Inflation-indexed long-term average ¹²	0.61	0.63	0.60	0.57	0.60	0.60	0.64	0.63
Interest rate swaps ¹³								
1-year	0.34	0.34	0.33	0.34	0.34	0.34	0.32	0.32
2-year	0.72	0.73	0.71	0.72	0.72	0.72	0.68	0.68
3-year	1.17	1.17	1.15	1.16	1.15	1.16	1.11	1.12
4-year	1.54	1.53	1.51	1.52	1.51	1.52	1.48	1.49
5-year	1.82	1.80	1.78	1.78	1.78	1.79	1.77	1.77
7-year	2.19	2.17	2.16	2.14	2.14	2.16	2.17	2.18
10-year	2.55	2.53	2.52	2.48	2.49	2.51	2.56	2.56
30-year	3.14	3.12	3.12	3.05	3.06	3.10	3.18	3.18
Corporate bonds								
Moody's seasoned								
Aaa ¹⁴	4.01	4.03	3.99	3.94	3.95	3.98	4.08	4.08
Baa	4.64	4.65	4.61	4.57	4.58	4.61	4.70	4.69
State & local bonds ¹⁵				4.17		4.17	4.21	4.23
Conventional mortgages ¹⁶				4.10		4.10	4.10	4.12

See overleaf for footnotes.

The following table summarizes typical permanent financing mortgage terms by property type as reported in www.realtyrates.com.

RealtyRates.com INVESTOR SURVEY - 3rd Quarter 2014*											
PERMANENT FINANCING											
	Apt.	Golf	Health Senior Housing	Ind.	Lodging	RV/Camp Mfg Hsg MH Park	Office	Restaurant	Retail	Self Storage	Special Purpose
Spread Over Base**											
Minimum	0.67%	1.19%	1.19%	0.94%	0.94%	0.99%	0.94%	2.19%	0.75%	0.94%	1.19%
Maximum	5.88%	11.50%	7.22%	5.85%	11.26%	8.22%	5.85%	11.52%	7.22%	5.96%	12.00%
Average	2.55%	5.04%	3.02%	2.68%	3.36%	3.64%	2.90%	4.32%	2.81%	3.77%	4.41%
Interest Rate											
Minimum	3.23%	3.75%	3.75%	3.50%	3.50%	3.55%	3.50%	4.75%	3.31%	3.31%	3.75%
Maximum	8.44%	14.06%	9.78%	8.41%	13.82%	10.78%	8.41%	14.08%	9.78%	9.78%	14.56%
Average	5.11%	7.60%	5.58%	5.24%	5.92%	6.20%	5.46%	6.88%	5.37%	5.37%	6.97%
Debt Coverage Ratio											
Minimum	1.10	1.20	1.12	1.15	1.00	1.15	1.15	1.15	1.05	1.15	1.15
Maximum	1.96	2.25	2.30	2.15	3.00	2.05	2.25	2.25	2.25	2.75	2.10
Average	1.43	1.60	1.57	1.50	1.60	1.41	1.70	1.66	1.43	1.67	1.70
Loan-to-Value Ratio											
Minimum	50%	50%	50%	50%	50%	50%	50%	50%	50%	90%	50%
Maximum	90%	80%	90%	90%	80%	90%	90%	75%	90%	50%	80%
Average	73%	66%	71%	70%	67%	70%	73%	64%	70%	69%	64%
Amortization (Yrs.)											
Minimum	15	15	15	15	15	15	15	15	15	40	15
Maximum	40	40	40	40	40	40	40	30	40	15	40
Average	26	22	25	24	23	25	30	21	25	28	22
Term (Yrs.)											
Minimum	3	5	3	3	5	5	3	3	3	3	3
Maximum	40	30	25	30	30	30	30	15	10	10	20
Average	20.50	9.00	13.65	11.46	7.80	9.15	8.00	7.45	6.20	6.10	7.85
** 10-Year Treasury											

*2nd Quarter 2014 Data

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The following table summarizes interim construction financing terms by property type.

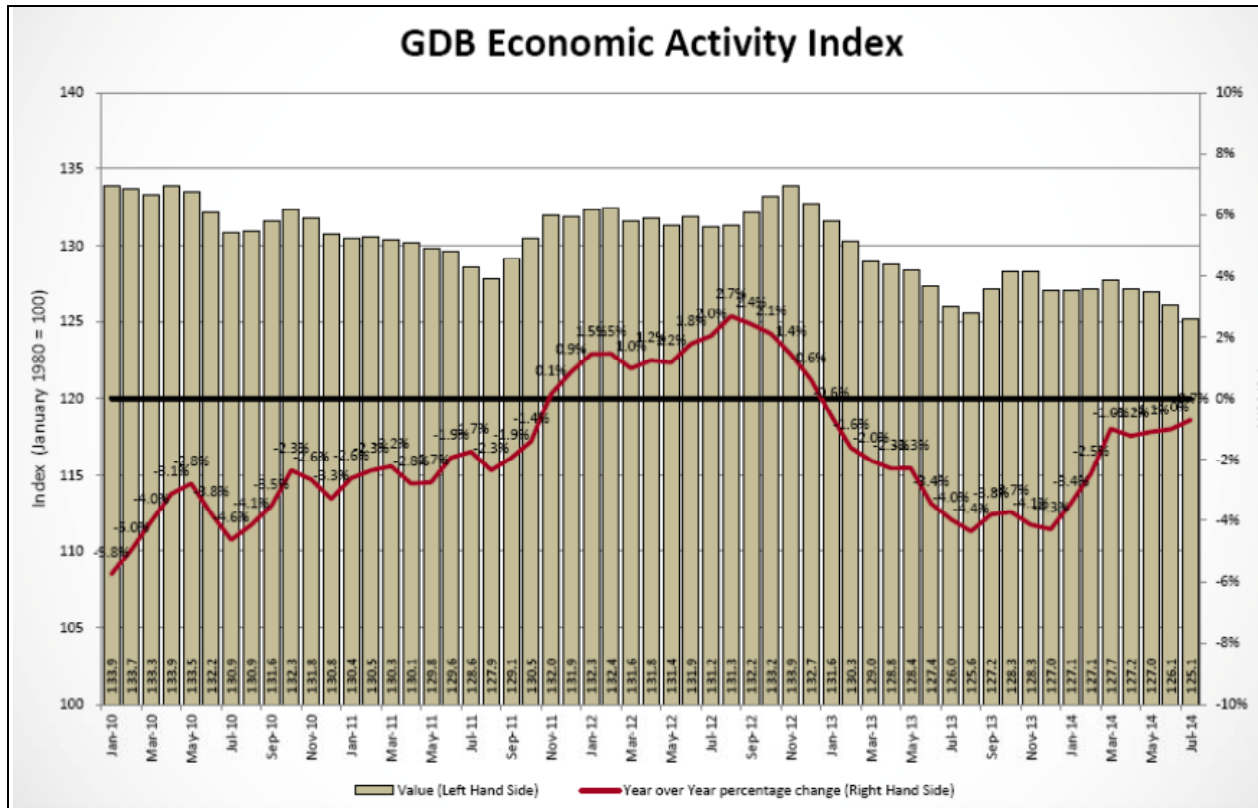
RealtyRates.com INVESTOR SURVEY - 3rd Quarter 2014*							
INTERIM FINANCING - CONSTRUCTION							
PROPERTY TYPE	SPREAD OVER BASE (Prime)	INTEREST RATE	LOAN FEES	LOAN-TO- VALUE RATIO	LOAN-TO- COST RATIO	LOAN TERM (Mos.)	AMORTIZATION
Apartments							
Minimum	0.45%	3.70%	1.00%	60%	75%	12	Interest Only
Maximum	6.45%	9.70%	5.00%	100%	100%	40	Interest Only
Average	3.30%	6.55%	2.85%	80%	87%	26	Interest Only
Golf							
Minimum	1.56%	4.81%	1.00%	60%	65%	12	Interest Only
Maximum	7.00%	10.25%	5.50%	100%	100%	24	Interest Only
Average	4.23%	7.48%	3.14%	78%	82%	18	Interest Only
Health Care/Senior Housing							
Minimum	0.96%	4.21%	1.50%	50%	60%	12	Interest Only
Maximum	6.85%	10.10%	5.50%	100%	100%	24	Interest Only
Average	3.76%	7.01%	3.36%	78%	80%	18	Interest Only
Industrial							
Minimum	0.95%	4.20%	1.50%	50%	60%	12	Interest Only
Maximum	6.85%	10.10%	5.00%	100%	100%	24	Interest Only
Average	3.79%	7.04%	3.11%	80%	80%	18	Interest Only
Lodging							
Minimum	1.25%	4.50%	1.50%	50%	60%	12	Interest Only
Maximum	7.05%	10.30%	5.70%	100%	100%	24	Interest Only
Average	4.04%	7.29%	3.46%	80%	80%	18	Interest Only
Mobile Home/RV Parks							
Minimum	0.96%	4.21%	1.50%	50%	60%	12	Interest Only
Maximum	6.85%	10.10%	5.00%	100%	100%	24	Interest Only
Average	3.21%	6.46%	3.11%	80%	80%	18	Interest Only
Office							
Minimum	0.96%	4.21%	1.50%	50%	60%	12	Interest Only
Maximum	6.50%	9.75%	5.00%	100%	100%	24	Interest Only
Average	3.62%	6.87%	3.11%	83%	80%	18	Interest Only
Restaurants							
Minimum	1.46%	4.71%	2.00%	50%	60%	12	Interest Only
Maximum	8.15%	11.40%	5.70%	100%	100%	24	Interest Only
Average	4.70%	7.95%	3.71%	75%	80%	18	Interest Only
Retail							
Minimum	0.96%	4.21%	1.50%	50%	60%	12	Interest Only
Maximum	6.85%	10.10%	5.05%	100%	100%	24	Interest Only
Average	3.79%	7.04%	3.14%	80%	80%	18	Interest Only
Self-Storage							
Minimum	0.96%	4.21%	1.50%	50%	60%	12	Interest Only
Maximum	6.85%	10.10%	5.00%	100%	100%	24	Interest Only
Average	3.76%	7.01%	3.11%	80%	80%	18	Interest Only
Special Purpose							
Minimum	1.36%	4.61%	2.00%	50%	60%	12	Interest Only
Maximum	8.15%	11.40%	6.00%	100%	100%	24	Interest Only
Average	4.65%	7.90%	3.90%	73%	80%	18	Interest Only
All Properties							
Minimum	0.45%	3.70%	1.00%	50%	60%	12	Interest Only
Maximum	8.15%	11.40%	6.00%	100%	100%	40	Interest Only
Average	4.18%	7.43%	3.40%	73%	80%	26	Interest Only

*2nd Quarter 2014 Data

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Puerto Rico Economic Trends

The PR Government Development Bank Economic Activity Index (GDB-EAI) for the month of July 2014 registered a decrease of 0.7% on a year-over-year basis after showing a 1.0% y-o-y decrease in June 2014.



The GDB-EAI July 2014 report key statistics include the following:

1. The July 2014 figure for the EAI was 125.1, a 0.7% reduction compared to July 2013.
2. Total non-farm payroll employment for July 2014 averaged 904,300, an annual increase of 0.2%.
3. Electric power generation for July 2014 totaled 1,869.9 million kWh, an annual decrease of 0.2%.
4. The preliminary number for gasoline consumption in July 2014 was 81.9 million gallons, 7.2% below July 2013.
5. Cement sales for July 2014 totaled 1.25 million bags, registering an annual decrease of 6.9%.

The Municipality of Ceiba

Geographic Location and Physical Environment

The appraised property lies at the former NSRR in the *Machos* Ward of the Municipality of Ceiba, Puerto Rico. Ceiba boundaries are:

North	<i>Municipality of Fajardo</i>
South	<i>Municipality of Naguabo</i>
East	<i>Atlantic Ocean</i>
West	<i>Municipality of Río Grande</i>



Ceiba is a small municipality in northeast Puerto Rico. It is named after the famous Ceiba tree. Ceiba lies along the northeast coast of the island, bordering the Atlantic Ocean, north of Naguabo, south of Fajardo, and east of Río Grande. It is located about one hour's driving distance from San Juan. Ceiba is spread over 7 wards and Ceiba Pueblo (The downtown area and the administrative center of the city). It is part of the Fajardo Metropolitan Statistical Area. It has a total territorial extension of 27.2 square miles. Ceiba was founded on April 7, 1838 by Luis de la Cruz.

The following wards form Ceiba: Ceiba Pueblo, Chupacallos, Daguao, Guayacán, Machos, Quebrada Seca, Río Abajo and Saco.

Ceiba is home of the Ceiba Forest (787) which extends along the coastline between Ceiba and Fajardo. 95% of the forest is classified as mangrove. Various species of birds can be seen as well as turtles and manatees. Its rivers includes; Río Daguao, Río Demajagua and Río Fajardo.

The municipality extends northwest into the seas between Fajardo and Culebra and thereby includes the reefs and islets named Arrecifes Hermanos and Arrecifes Barriles. The reef are closest to the coastal *barrio* (ward) of Machos, but *barrio* boundaries are not defined in that

area.

Government

The administrative political unit is the Municipal Government of Ceiba. The mayor and a legislative body known as the Municipal Assembly form it. Among the administrative responsibilities of the municipal government not provided by the central government are the implementation of municipal ordinances approved by the Assembly, real estate and municipal tax collection, trash collection and city cleaning, community and urban improvements and management of municipal hospitals and clinics. The current mayor of Ceiba is Angelo Cruz Ramos, of the New Progressive Party (PNP). He was elected at the 2012 general elections. The city belongs to the Puerto Rico Senatorial district VIII, which is represented by two Senators. In 2012, Pedro A. Rodríguez and Luis Daniel Rivera were elected as District Senators.

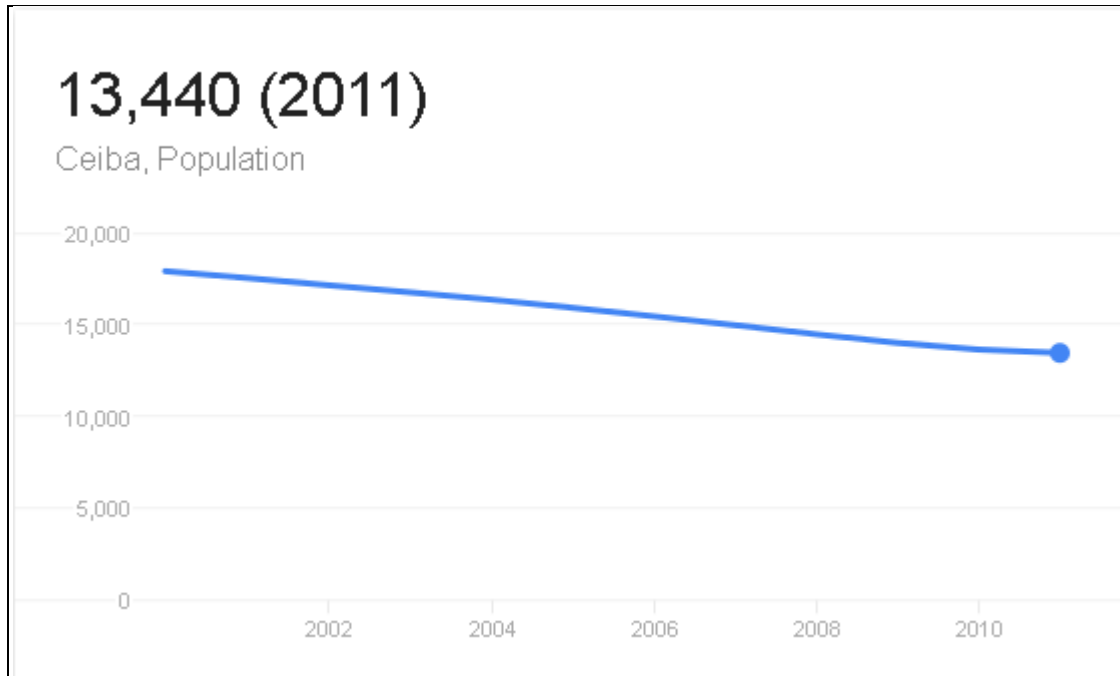
Although in 1991 the Government of Puerto Rico approved a law to transfer all land use planning powers to the municipal governments, as of the appraisal date land use planning and enforcement was the responsibility of the Puerto Rico Planning Board and the Permits and Regulations Administration Agency, both central government's agencies.

The Puerto Rico Planning Board is responsible for the development of land use and urban development policy and regulations in the Ceiba municipality. The government agency developed a zoning code classifying and regulating uses, densities and constructions. The enforcement and management of the land use policies is the function of the Permits and Regulations Administration Agency. The Municipal Revenue Collection Center (MRCC) establishes and collects taxes on personal and real property. The municipality also collects taxes on business revenues.

The Puerto Rico Police Department and the Municipal Police provide property and life protection in San Juan. Fire protection is offered by the Puerto Rico Fire Department. The Puerto Rico Electric Power Authority supplies electrical service. The Puerto Rico Telephone Company and other private suppliers offer telephone services. The Puerto Rico Aqueducts and Sewers Authority is responsible for water and sanitary sewer services. The municipal government provides trash collection service, although private collectors provide trash collection services to commercial, industrial and institutional facilities.

Population and Social Trends

As per the Census of Population, the total population of Ceiba was 13,440 persons for 2011; a 24.93% decline from 17,903 persons in 2000. The population of Ceiba has exhibited the following decline pattern as per the US Census:



The population is expected to continue a slight decline. About 25% of the population was concentrated between the ages of 25 and 44 years in 2011. The 45 to 64 years group represents 24% and the elderly or over 65 years population represents 20%. The median age of Ceiba for 2011 was 38.4 years. There were a total of 4,355 households and 3,073 families as of 2012. The average household and family sizes for 2012 were 3.14 and 3.86.

City Economy

During the first half of the last century, agriculture and livestock farming were the main economic activities throughout the island. Today major economic activities in Ceiba include services, manufacturing and retail trade.

As of 2012, the median household income for Ceiba was \$20,455. It should be noted that island's economists and planners recognize that income information accounted by censuses is well underestimated due to a low census participation rate and a large an important informal economic sector.

The average unemployment rate for Ceiba was 5.6. Average employment for 2012 was 4,131 persons. The following table shows Ceiba's average employment by industry category.

Industry Employment: Ceiba 2012		
Industry Group	Average Employment Level	%
Agriculture, forestry, fishing and hunting, and mining	21	0.51%
Construction	344	8.33%
Manufacturing	460	11.14%
Wholesale trade	106	2.57%
Retail trade	306	7.41%
Transportation and warehousing, and utilities	129	3.12%
Information	39	0.94%
Finance, insurance, real estate, and rental and leasing	308	7.46%
	540	
Professional, scientific, management, administrative, and waste management services		13.07%
Educational, health and social services	973	23.55%
Arts, entertainment, recreation, accommodation and food services	391	9.47%
Other services (except public administration)	157	3.80%
Public administration	357	8.64%
All industries	4131	100.00%

As is reflected in the table the industry groups contributing more to the municipality employment level are educational, professional management and administration, manufacturing, retail trade, and public administration.

Puerto Rico's foreign capital import strategy for the second half of the last century was dependent on federal corporate income tax incentives. However, these were eliminated in 1996. The Commonwealth Government is continuously seeking new incentives to promote capital investment and the economy.

Urban Growth Trend

The municipality followed both a co-centric and a sectorial urban growth trend. The following wards form Ceiba: Ceiba Pueblo, Chupacallos, Daguao, Guayacán, Machos, Quebrada Seca, Río Abajo and Saco.

Former Naval Station Roosevelt Roads (NSRR) was the largest and most significant development within the municipality. NSRR was first commissioned as a U. S. Naval Operations Base in 1943. The idea of a naval base in Puerto Rico was the result of a tour of Puerto Rico by the then Assistant Secretary of the Navy in 1919 and future U.S. President, Mr. Franklin D. Roosevelt, who expressed its liking for the Ceiba terrain where the base now is after returning to Washington, D.C. This was during the World War I era, and the United States could benefit from an air field in Ceiba. While Puerto Rico is a commonwealth, its territorial rights belong to the United States, which made it perfectly feasible, and ideal, for the American government to build an airplane base in Ceiba.

It took many years, however, for the United States Government to become convinced of the need for an air base to be constructed in Ceiba. It was not until Adolf Hitler and Nazi-led Germany began to invade other European countries, that the United States Government, led by then President Roosevelt, entertained the idea of a Naval air station in Ceiba.

The base had been inaugurated, but scaled down to a maintenance status with a public works

office in 1944; from that moment on and until 1957, the base went through many shifts, being opened seven times and closed eight times. Meanwhile, it continued being a source of work for the citizens of Ceiba as well as for American military pilots and soldiers as a consequence of the airbase's operations, when it was operating.

In 1957, it was upgraded to Naval Station status. Fort Bundy was set there, but it crossed over to parts of Vieques, a fact which would later become important in the history of the base. An American military mission, the N3, was also set there. It was part of the "Naval Computer and Telecommunications Station, Puerto Rico Base Communication Department". "N3" had a fleet center, a technical control facility and a Tactical support communications department, among other things. The "N3" was designated to help Puerto Rico, the United States and other Caribbean and Latin American countries that were members of NATO to deal with drug trafficking, illegal immigration and other, much more complex subjects such as enemy airplanes during war, terrorism, etc. For the next 47 years, the base would be utilized by military airplanes for landings and take-offs, as well as for other missions and control of the area's air-space.

On September 30, 2003, the President of the United States signed into law the Fiscal Year 2004 Defense Appropriations Act. The legislation required the Navy to close the Naval Station Roosevelt Roads no later than six months after enactment of the act. In January of 2004 The Navy decided to relocate U.S. Naval Forces Southern Command (USNAVSO) from Naval Station Roosevelt Roads, Puerto Rico, to Naval Station Mayport, Florida. The Naval Station became inoperative on March 31, 2004. Shortly after operations ended at the NSRR the Puerto Rico Department of Economic Development and Commerce was appointed as the Local Redevelopment Authority (LAR). The base closing has contributed to a decline in demand for commercial, industrial, and residential real estate.

Rents and values in Ceiba are slightly declining. Commercial land values range from \$50.00 to over \$100.00 per square meter varying mostly with differences in size and specific location or exposure to a major road. Industrial land ranges from \$30.00 to \$60.00 per square meter for smaller lots; or from \$40,000.00 to \$150,000.00 per *cuerda* for large industrial tracts.

Improved commercial-industrial properties have sold from \$30.00 per square foot (i.e., large old buildings in fair condition) to over \$80.00 per square foot for buildings in good conditions. Commercial occupancy levels at functional facilities in use range from 75% to 100%. Rents range from \$5.00 per square foot for larger or poor conditioned or storage spaces to over \$18.00 per square foot for good conditioned retail and office space. Typical marketing time for commercial real estate could range from 12 to 36 months depending to property size, location and condition. Special financing concessions from private bank institutions or from sellers to buyers are becoming typical.

In conclusion, the base closing contributed to a decline in demand for commercial, industrial, and residential real estate. In general, real estate values and rents are expected to slightly decline or to remain stable only at superior locations.

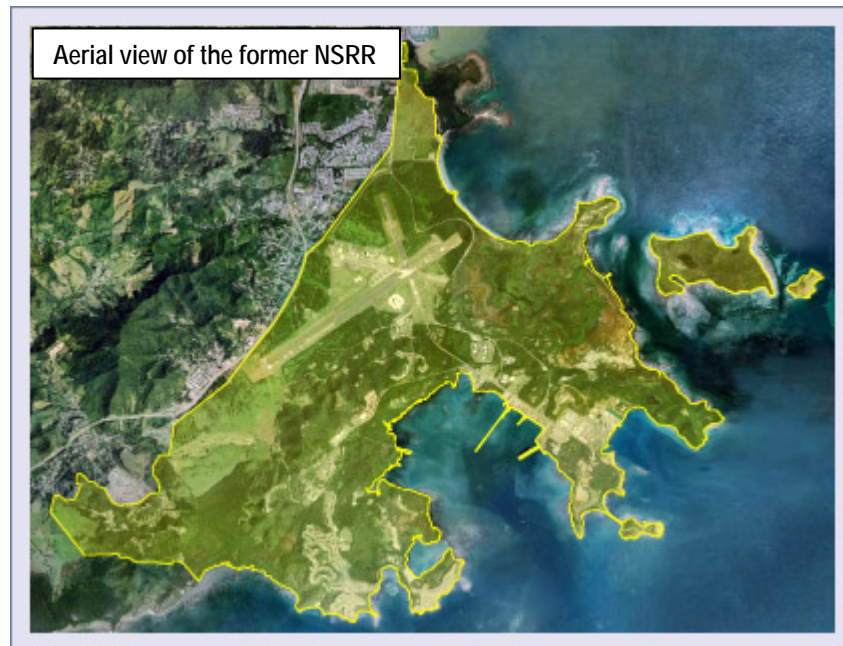
NEIGHBORHOOD ANALYSIS

Adequate analysis of subject's neighborhood provides a framework in which property value is estimated. It identifies the area of analysis and establishes the physical boundaries from within the appraisers search market data to be used in the approaches to value.

Location, Boundaries and Access

The subject of this appraisal is a waterfront site known as the Shipyard Parcel within the Moscrip Area of former Naval Station Roosevelt Roads (NSRR). The former NSRR constitutes the subject neighborhood. It lies east of State Road 3 in the Guayacán, Machos and Quebrada Seca Wards of the Municipality of Ceiba. Please refer to the location map. Neighborhood boundaries are:

North:	Fajardo Municipality
South:	Naguabo Municipality
East:	Atlantic Ocean
West:	Expressway 53



NSRR is approximately 40 miles southeast of the San Juan Metropolitan Area, and about a one-hour drive away from the City of San Juan. Access to the NSRR from the SJMA can be either traveling along State Road 3 through northeastern farms and beaches and descending from Fajardo on Expressway 53, or through lush mountains and green valleys going first south on Expressways 52, east on 30 and north on 53. The Property is situated just 10

miles south of the El Conquistador Resort & Golden Door Spa in nearby Fajardo. Additionally, the Property sits in the shadow of El Yunque and the Caribbean National Forest.

Physical Environment

The subject's neighborhood encompasses a sweeping 8,300 acres on mainland Puerto Rico plus three smaller islands, Isla Piñeros, Isla Piñenta and Cabeza de Perro that together represent some 300 additional acres. The site geographically is the easternmost extension of the foothills of El Yunque; forming notable twin booted peninsulas that together frame Ensenada Honda;

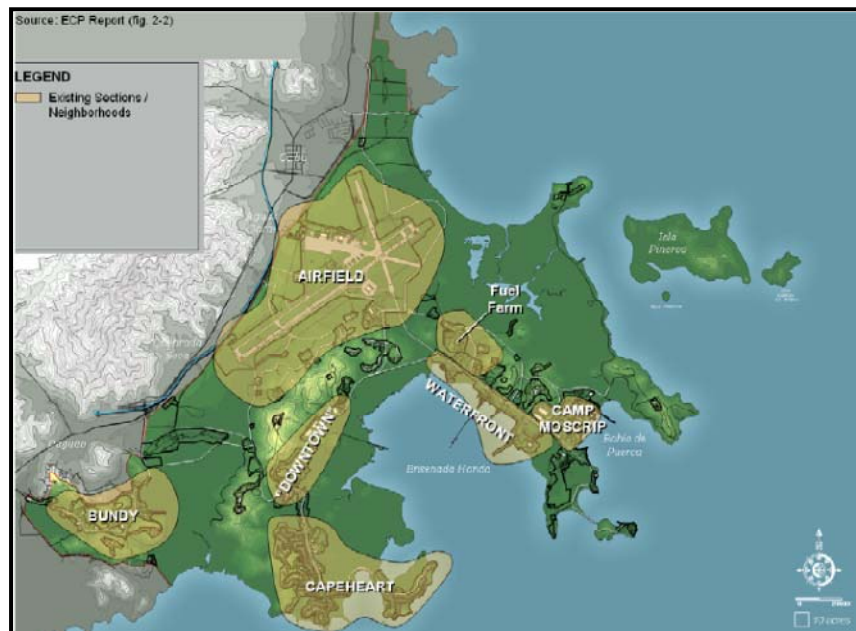
the large and well-protected harbor at the center of the former NSRR with a distinctive ring of hills, nearly 300 feet at the highest point.

At the foothills of El Yunque and at the edge of the sea, the former NSRR is intrinsically linked to its regional ecology of rainforests, marine habitat, migratory birds, and coastal flora. The richness of natural diversity, of natural flora, extensive wetlands, mangrove forests and surrounding sea grass beds, underscores the existing multiple ecologies and biodiversity within the neighborhood. The former NSRR is an important coastal resource and potential habitat for a number of threatened and endangered species including the Yellow Shouldered Blackbird and the West Indian Manatee. Additionally, there are a number of listed archeological sites potentially warranting future investigation.

While the overall extension of the neighborhood is approximately 8,600 acres, including the three islands, up-land terrain available for new development and/or redevelopment opportunities are limited to approximately 3,868 acres. This is due to the presence of significant wetland areas, the 100-year floodplain, and areas with relatively steep slopes (i.e. greater than 15% gradient).

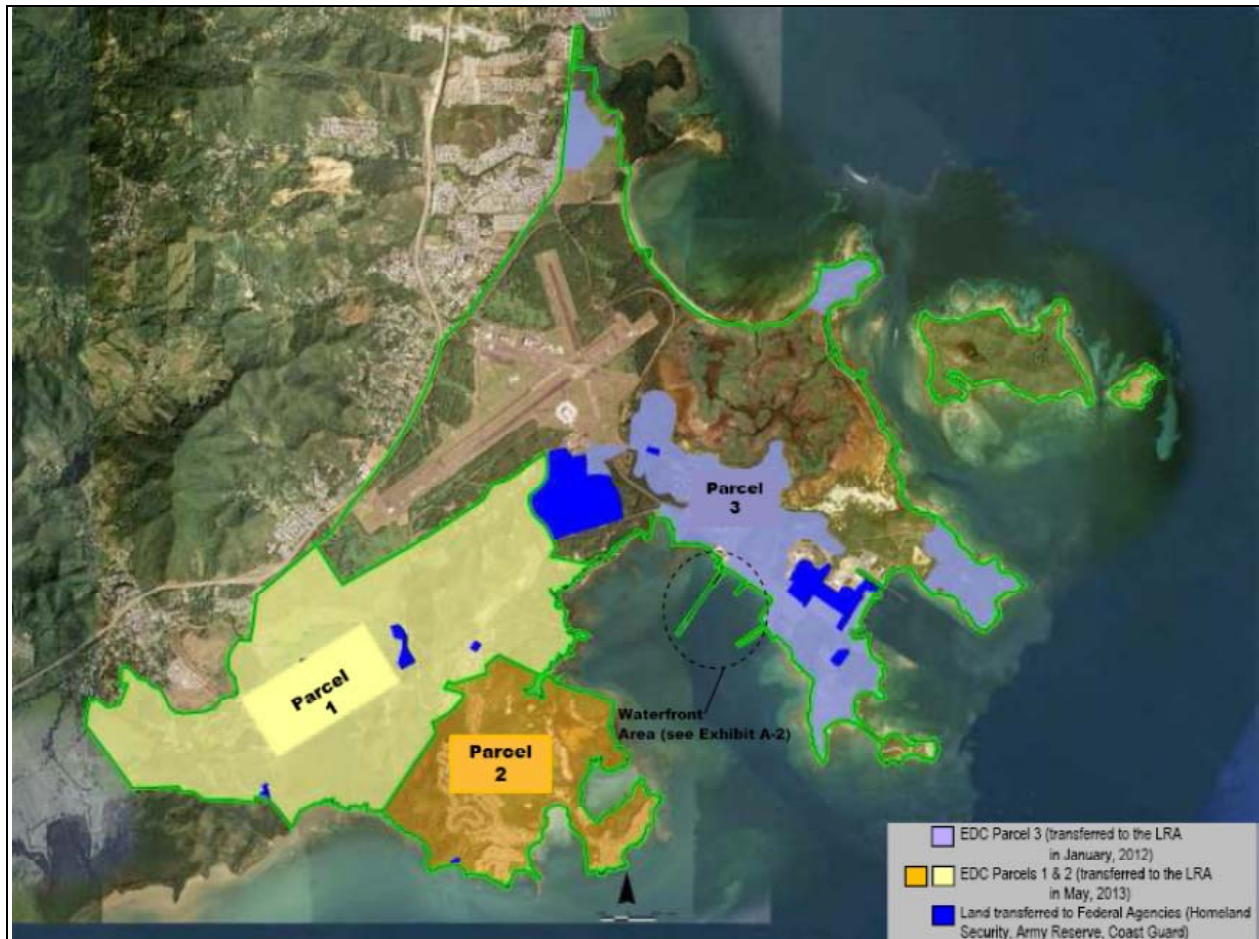
Urban Contour and Trends

Existing infrastructure within the former NSRR falls within several fragmented zones separated by topography, wetlands or land use: Airfield; Bundy to the southwest; Downtown at the center of the neighborhood; Capehart (residential neighborhoods on the southern peninsula); Waterfront along the northern bulkhead of Ensenada Honda, and Camp Moscrip at the edge of Bahia de Puerca. Each area is dominated by a single land use with supporting adjacent facilities; each is adaptable to reuse or appropriate for redevelopment. The following is an aerial map of the former NSRR.



Parcels 1, 2 and 3 of the base were transferred to the Roosevelt Roads Local Development Authority in January, 2012 (Parcel 3) and May, 2013 (Parcels 1 and 2). Some of the land was transferred to Homeland Security, Army Reserve and the Coast Guard. Please refer to the Station Map.

NSRR Map –Parcels Transferred to LRA



As of today, former NSRR presents a special situation. Except for the airport, private marina, and properties still owned and managed by the US Army or other US Agencies, the base is basically unoccupied without maintenance and in a very poor state. Most of the land owned and controlled by the Roosevelt Roads Local Redevelopment Authority is un-occupied and in neglected condition. Then, what we observed is sort of a ghost town with scattered well maintained parcels (those still owned by the US).

Infrastructure at the NSRR was developed in support of specific land uses and zones, and while adequate to support some degree of reuse, it is likely that with reuse of the former NSRR, elements of existing infrastructure will require updating and modification. In particular, the

roads, which were not designed to service significant traffic generated by private vehicles, and the piers, which were sized to service naval and tanker vessels rather than passenger ferries or private charter boats, will need to be addressed.

Moscrip Area

The Moscrip area was classified as Waterfront/Industrial land use while the area operated as a naval station (Department of the Navy 2005). The Moscrip area is in the eastern portion of the NAPR, along the Atlantic Ocean waterfront. It is bounded by Antietam Road on the north, Breton Street to the west, and Barnes Street to the south (Figure 2-2). The proposed footprint's eastern edge borders a dry dock. The 346th Transportation Battalion uses the facilities in the northern portion of the property (a large building with associated parking north of the dry dock and east of Barnes Street). A new Navy SEAL barracks near the beach and east of the 346th Transportation Battalion building has never been used. Building 2034, a rectangular building at the northwest tip of the footprint property, functioned as a Pest Control building. Building 27 is empty and proposed to be demolished to make room for the new AFRC. The parcel has a large parking lot and a Defense Reutilization and Marketing Office (DRMO) scrap metal recycling yard. A small building adjacent to Building 27 is Building 2335. It was the DRMO office and is now unoccupied. A very small former paint storage facility is at the edge of the DRMO lot near the tree line. The northwestern and northeastern portions of the parcel are vegetated.

Social and Economic Factors

The Naval Station has been closed since March of 2004. In terms of economic and social profiles, the subject's neighborhood will be most probably formed by existing and/or migrating residents to the overall Ceiba Region.

The Roosevelt Roads Local Redevelopment Authority (LRA) has developed a Development Zones Master Plan and, in addition, its Board of Directors selected on August, 2014 four entities to move to the final round of the process to choose one Master Developer. The Roosevelt Roads redevelopment project encompasses approximately 3,000 acres of developable lands and facilities of high value for a mixed-use development with opportunities in tourism, commercial, recreational, residential, educational and light industrial projects.

However, as of the appraisal date, most of the land owned and controlled by the Roosevelt Roads Local Redevelopment Authority is, during the planning stages of the proposed redevelopment, un-occupied and in neglected condition. Then, what we observed is a mostly un-occupied former base with scattered well maintained parcels (those still owned by the US).

Conclusion

In conclusion, the subject property is part of the former Naval Station Roosevelt Roads (NSRR) in the Municipality of Ceiba. The area is formed by several smaller zones separated by topography, wetlands or land use; each dominated by a single land use with supporting adjacent infrastructure adaptable to reuse or appropriate for redevelopment. The economic outlook of the neighborhood is directly dependent on the successful implementation of the

NSRR 2014 Development Zones Master Plan. The general economic growth of the overall region is entirely reliant on the success of the base re-development. The intended re-development presents an opportunity for a positive outlook for the overall eastern region of the Island. Nonetheless, overall real estate values and rents within the Ceiba Municipality are expected to slightly decline and/or to remain stable at superior locations.



View south along NSRR access road. Poor maintenance observed in picture.



View of access roads within NSRR.

SITE DESCRIPTION AND ANALYSIS

Location, Access and Linkages

The appraised property is a waterfront site with a land surface area of 37.80 *cuerdas* known as the Shipyard Parcel within Moscrip Area at the waterfront industrial cluster subzone B1 as per the 2014 Development Zones Master Plan for former Naval Station Roosevelt Roads (NSRR) in Ceiba, Puerto Rico.

The former NSRR has three entrances; all with adequate accessed from Expressway 53 through State Road 3 and other interior streets of the Ceiba urban area.

In terms of linkages, the former NSRR is approximately 40 miles southeast of the San Juan Metropolitan Area, and about a one-hour drive away from the City of San Juan. The Property is situated just 10 miles south of the El Conquistador Resort and Spa in nearby Fajardo. Additionally, NSRR sits in the shadow of El Yunque and the Caribbean National Forest.

Size, Boundaries and Frontage

In Puerto Rico, industrial sites are typically measured in *cuerdas* and/or square meters. A *cuerta* is a Spanish unit of land area measurement equal to 0.97 acres. According to the submitted documentation, the site from which the subject property forms part has an area 1,370 acres, equal to 1,412.37 *cuerdas*.

No land survey plan for the subject site was submitted. The land area for the subject site was provided by personnel from RRLRA and was assumed correct for appraisal analysis purposes. The appraisal was made with the extraordinary assumption the land area comprising the subject site is 37.80 *cuerdas*, approximately equal to 36.67 acres. If the extraordinary assumption is found to be false or incorrect, the reported value opinion would be invalid.

The site is bounded as follows:

North:	Parcel 63 (US Gov)
South:	Main tract
East:	Puerca Bay
West:	Parcels 52, 63 and main tract

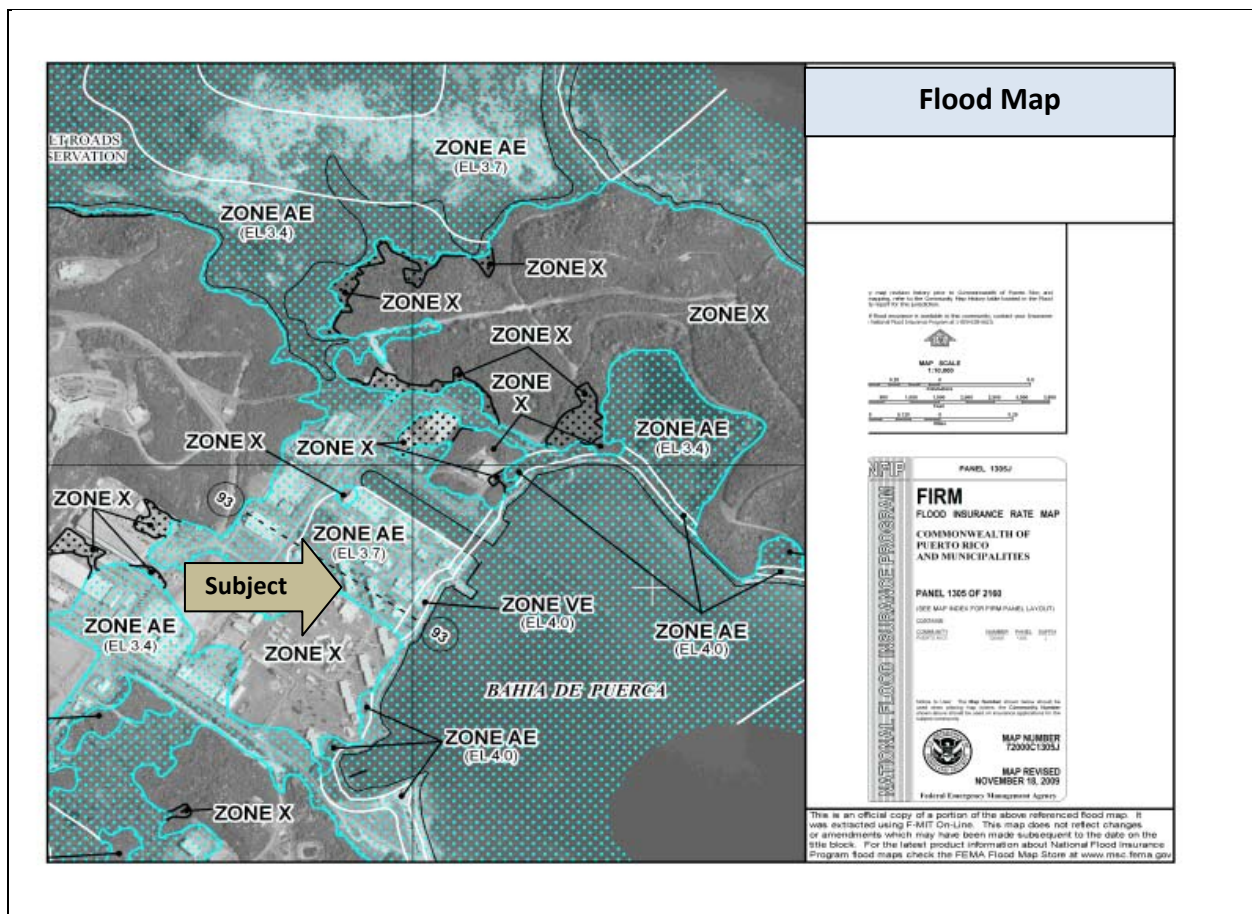
The site has frontage to the Barnes and Main Port Streets within NSRR. It comprises a dry dock that is gated and has been un-used since prior to the base closing, and bounds to the east the Puerca Bay.

Topography, Shape and Drainage

The site has an irregular configuration with a leveled topography typical of developed lots of this size within the NSRR. Based on the physical inspection drainage seems adequate towards the site boundaries.

Flood Classification

According to FEMA Flood Map No. 72000C0365J, last revised on November 18, 2009, part of the site appears to lie within the flood prone area (Zone AE) and part outside (Zone X). Zone AE are areas subject to inundation by the 1-percent-annual-chance flood event determined by detailed methods. Base Flood Elevations (BFEs) are shown. Mandatory flood insurance purchase requirements and floodplain management standards apply.



Soils

No recent soils studies were submitted to the appraisers. Nonetheless, based on the visual inspection and since most the sites within the immediate neighborhood have been developed, this appraisal was made under the general assumption that no detrimental soil conditions exist that could affect the lot's development potential.

Utilities

The neighborhood enjoys all services provided by the state and municipal governments. In terms of utilities, the subject site reportedly lacks utility facilities typical of urban areas (i.e., water distribution and disposal, electric power distribution and telephone service) to support

urban industrial uses.

Condemnations, Easements and Encroachments

The appraiser has no knowledge of easements, encroachments and contemplated condemnations that could have a negative impact upon property value.

Zoning

The appraised property lies within a CT-I, intermediate commercial-tourist district. The purpose of this district is to promote orderly development and to classify commercial and residential areas in tourist interest zones. Allowed uses include parking, hotel, retail, recreation, services, gas stations, night entertainment, residential-tourist.

Minimum lot size and frontage are 1,000 square meters and 20 meters respectively. Maximum lot occupancy ratio is 85%. Maximum gross building area is 560%. Maximum building height is 40 meters. Minimum front setback is 3 meters. Lateral and rear setbacks are 2 meters. The following table summarizes the regulatory parameters of the CT-I zoning district.

Regulatory Parameters: CT-I Zoning District	
Parameter	Regulation
Allowed uses	Parking, hotel, retail, recreation, services, gas stations, night entertainment, residential-tourist and other uses according to Section 26 of the Code
Maximum height and stories	40 meters
Minimum lot size	1,000 square meters
Minimum frontage	20 meters
Maximum lot occupancy	75% (interior lots), 85% (corner lots)
Maximum building area	500% (interior lots), 560% (corner lots)
Minimum front patio	3 meters
Minimum lateral patio	2 meters or 1/5 building's height
Minimum rear patio	3 meters or 1/5 building's height
Minimum parking requirements	1: 5 res units; 1:70 sm (industrial), 1:15 sm (retail), 1: 25 sm (office), 1:70 sm (storage),

Based on the on-site visual inspections, the site seems to be under a legal conforming use.

The Shipyard site also lies within a Subzone B-1-Waterfront Industrial. Allowed uses include dry-dock for boat building and repairs, and office space to support industrial tenants as per the 2014 Development Zones Master Plan by the LRA.

Environmental Impact

No environmental impact studies have been made in conjunction with this appraisal report. The reported value opinion could be affected by subsequent environmental impact studies, assessments and/or resulting governmental actions.

Hazardous Materials

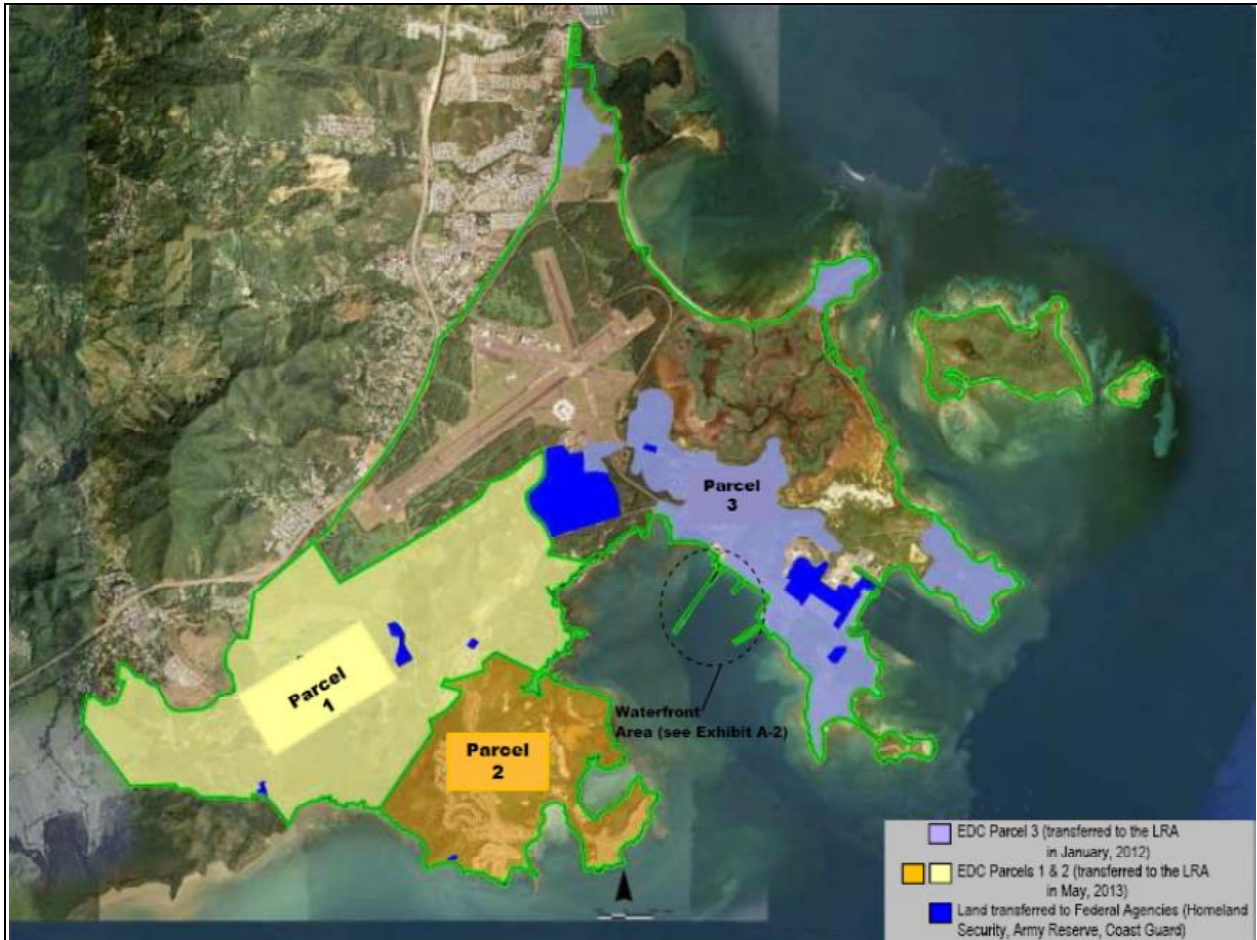
The appraisers have no knowledge of the existence of hazardous materials that could have a significant negative impact on the subject site. The appraiser, however, is not qualified to

detect such substances. The appraisal was made with the general assumption there is no hazardous materials or contamination affecting the subject site.

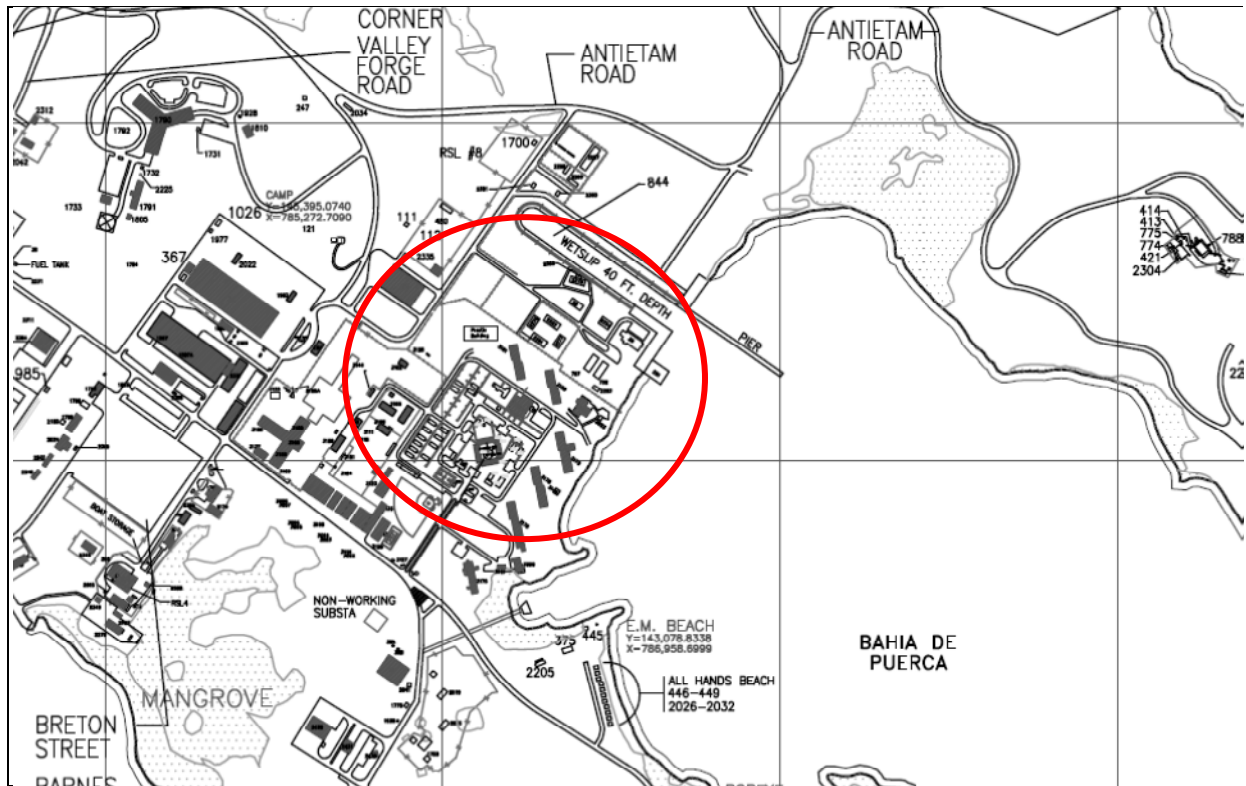
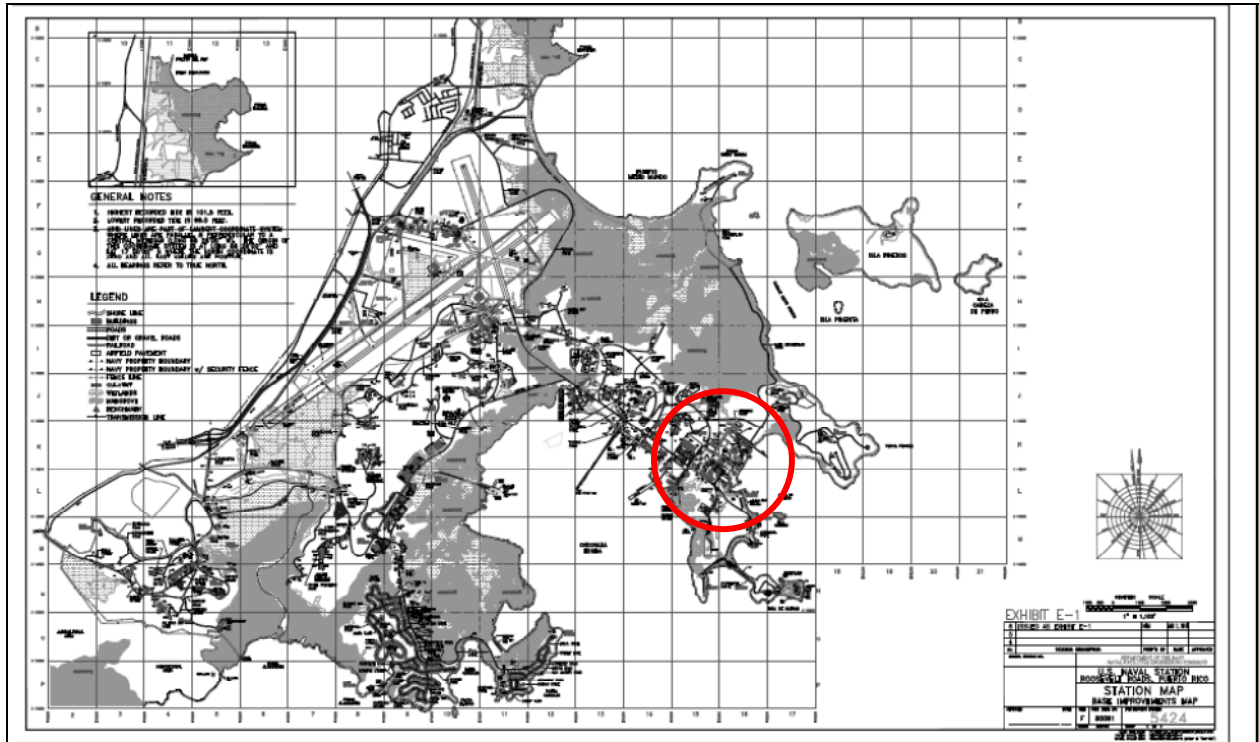
Site Analysis Conclusion

The appraised site lies in the waterfront industrial cluster of former NSRR in Ceiba. The appraised site is functional for the legally allowed waterfront industrial use. No physical, location or legal factors were observed that could detract from the site market value. Nevertheless, reportedly the site lacks the necessary off-site on-site utility infrastructure for its re-development. Its most important attribute is the water frontage location and the dry dock facility amenity.

NSRR Map –Parcels Transferred to LRA



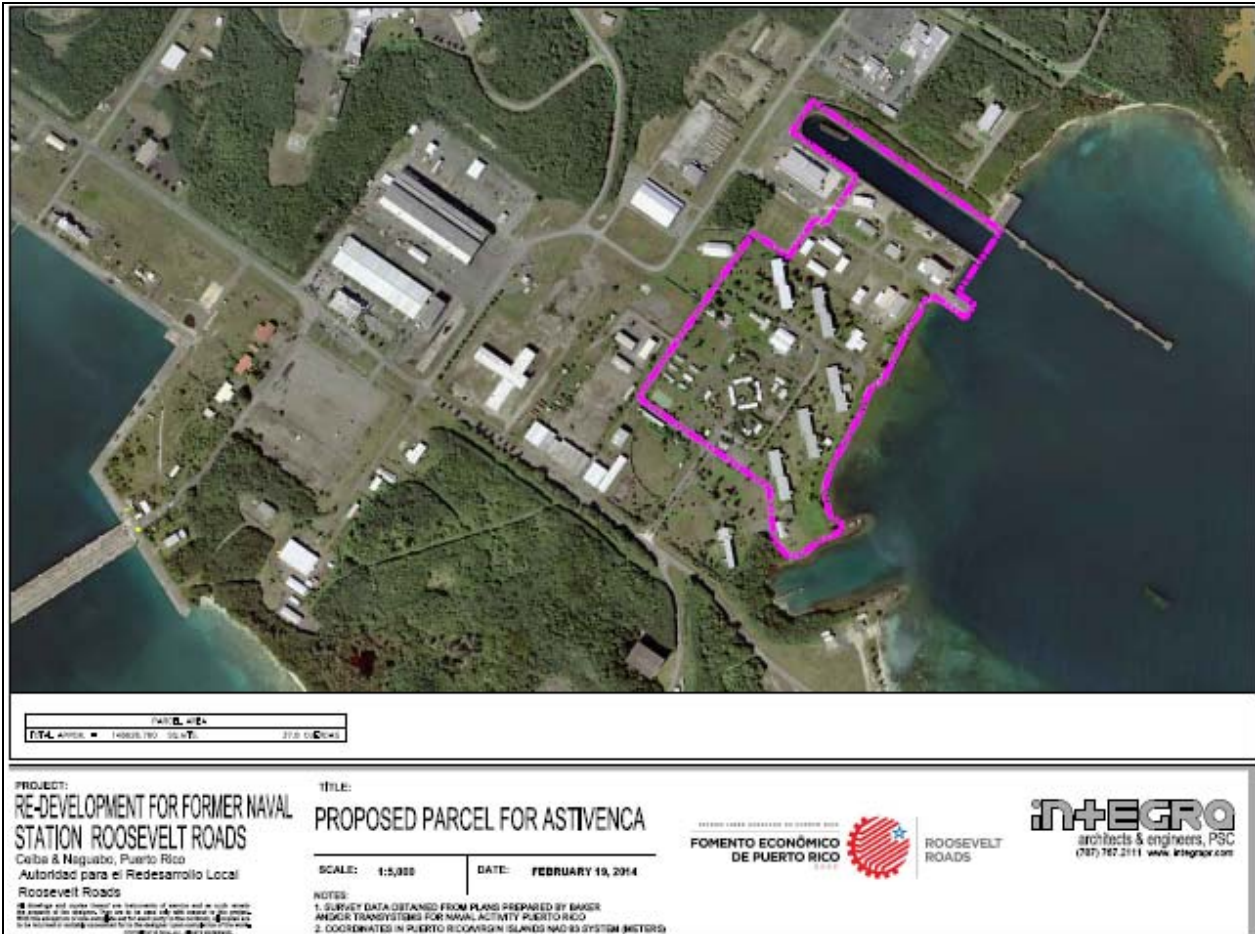
Former NSRR Map



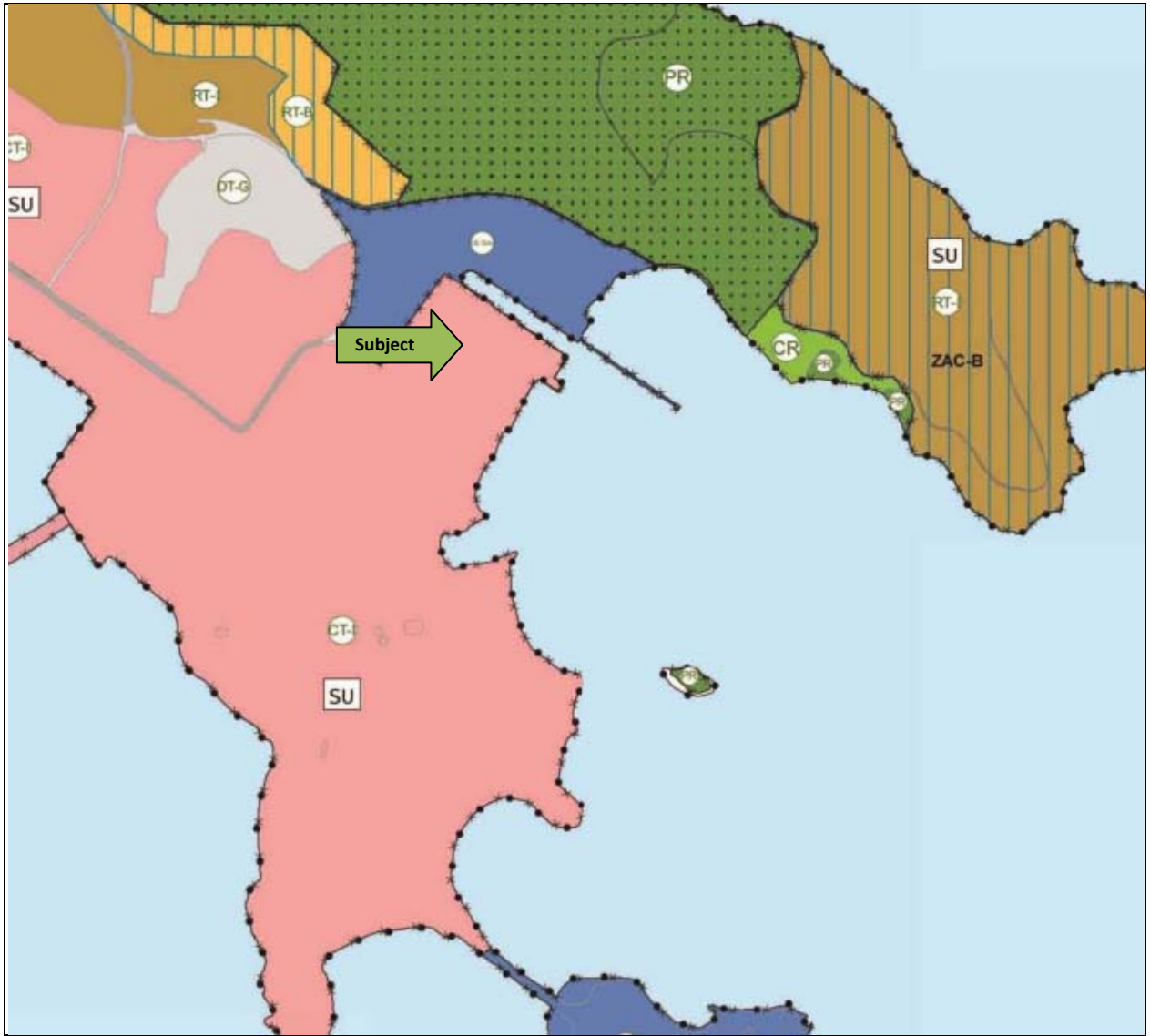
Aerial View of Subject Property



Subject Property Delineation



Zoning Map

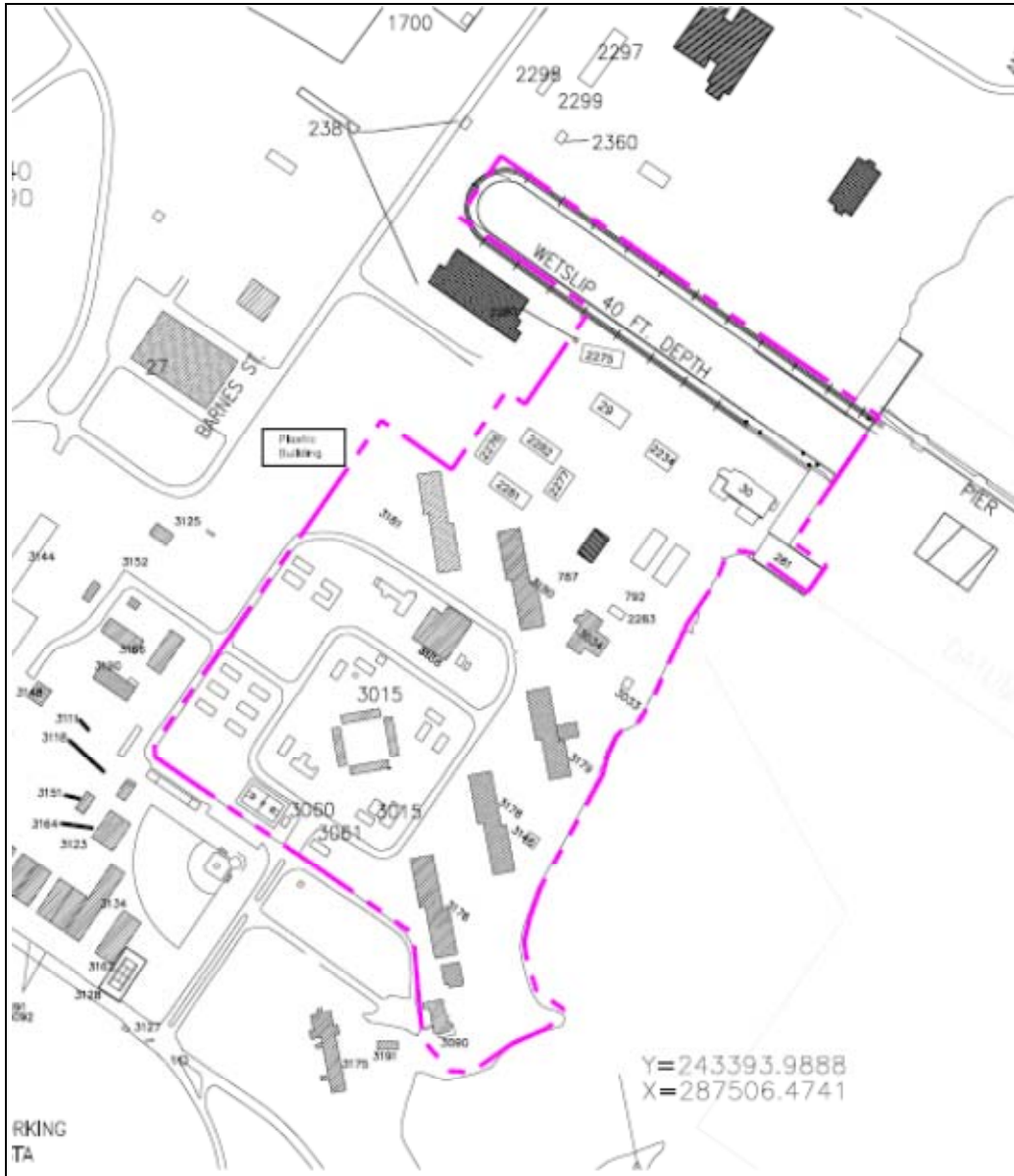


IMPROVEMENTS DESCRIPTION AND ANALYSIS

About thirty buildings and structures totaling approximately 230,000 square feet of gross area in abandoned-neglected condition are scattered through the site. After thorough analysis it was concluded that the improvements have reached the end of their economic life and no longer contribute to the overall property value. As agreed with the client, a detailed description of these improvements is beyond the scope of this appraisal.

The property includes the main dry dock of the waterfront industrial cluster of the former base. The wet slip has a depth of 40 feet.

Building ID Map



Site-Improvements Photos



Site-Improvements Photos



Site-Improvements Photos



Site-Improvements Photos



Site-Improvements Photos



Site-Improvements Photos



ASSESSED VALUATION AND TAX DATA

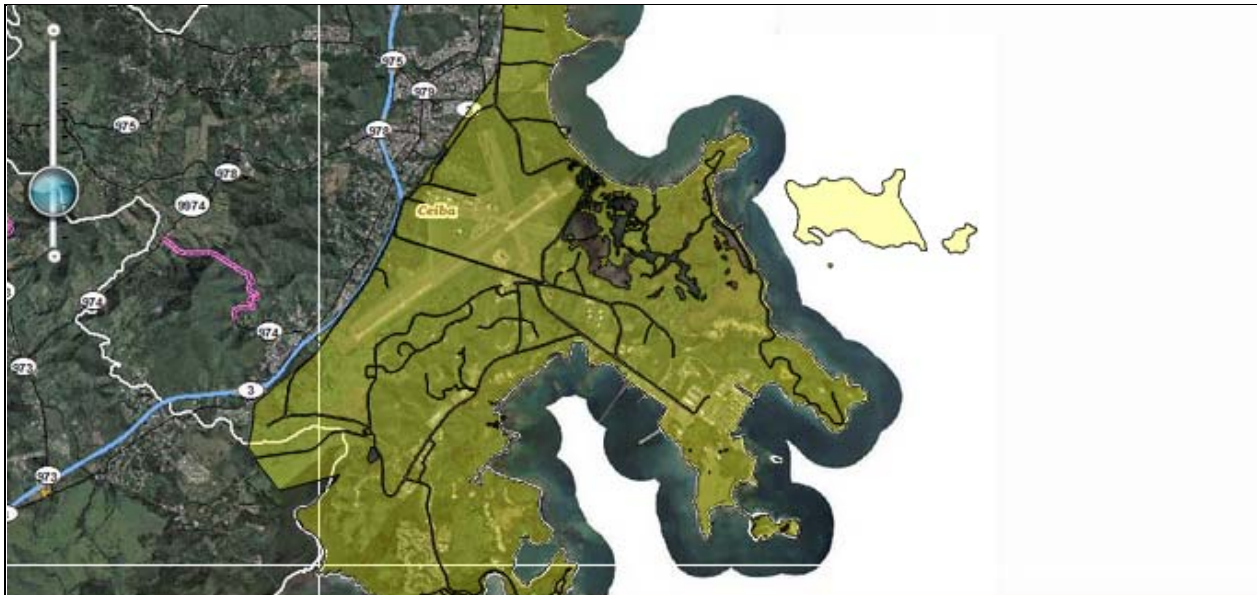
The Municipal Revenue Collecting Center (CRIM for its Spanish acronym) is responsible for assessing property and collecting real estate taxes. The current tax rate for the Ceiba Municipality is 9.33%.

Real estate assessments are made at 1957-58 values based on a cost based mass appraisal methodology. After January 2009, assessments are multiplied by a factor of 10 and the tax rate is divided by 10. The law in Puerto Rico grants property tax exemption for the first \$150,000.00 of assessed valuation on one (1) residence, if owner occupied. In addition, the law also provides for a 10% discount on the property taxes, which are collected in two (2) yearly payments, if these are paid within the 30 days following the mailing of the tax invoice. Special real estate tax exemptions are often granted to some type of commercial properties as an incentive for job creation.

The tax rates of most municipalities are periodically increased.

The entire base is identified with assessor's pin numbers 232-00-001-04. No assessment or annual tax data was provided.

Planning Board Geolocator Map



Ubicación

Catastro 232-000-001-04

Coordenadas Lambert 284618.5491, 244719.4365 (Lat: 18.235702, Lon: -65.63325)
(X, Y)

Area Aprox. (m.c.) 30767428.0095

Municipio [Ceiba \[Ceiba \(97.5%\), Naquabo \(2.4%\)\]](#)

Barrio Machos [Machos (50.1%), Guayacán (36.5%), Quebrada Seca (10.7%), Daquao (2.4%), Barrio Pueblo (0.1%)]

Características Ambientales

Zona Inundabilidad X (50.8%), AE (31.2%), VE (9.1%), A (4.6%), 0.2 PCT (4.3%)

Panel Inundabilidad [72000C1285J](#), [72000C0820J](#), [72000C1305J](#), [72000C0840J](#)

Floodway FLOODWAY

Suelo Geológico Ts (20.2%), Md (17.7%), DeE2 (14.3%), MaB (12.6%), DgF2 (10.6%), RrB (5.1%), JaC2 (5.1%), Co (2.2%), Bc (1.7%), (0.6%), VeB (0.4%), VVa (0.3%), CdB (0.2%), Tt (0.2%), G.P. (0.2%), SaE2 (0.1%), Rs (0.0%), SNS (0.0%)

MARKET ANALYSIS

The Dictionary of Real Estate Appraisal, 5th edition, published by the Appraisal Institute defines market analysis as “the identification and study of the market of a particular economic good or service”. Similarly, the *Uniform Standards of Professional Appraisal Practice (USPAP)*, 2014 edition, published by the Appraisal Standards Board of the Appraisal Foundation defines market analysis as “a study of market conditions for a specific type of property”. An appropriate market analysis aids in estimating the property’s highest and best use and helps to identify comparable data for the approaches to value. The appraised property is an improved industrial site.

Inferred Market Analysis

The Puerto Rico economy has been in a recession since the first quarter of 2006. In the SJMA institutional-commercial rents and values are slightly declining and/or stable only at superior or prime locations. Past federal tax incentives that used to promote the local Institutional sector were gradually eliminated during the past 10-15 years.

Improved industrial properties show moderate occupancy levels in the 75-90% range. Industrial land sales outside the SJMA in general range from \$20.00 to \$50.00 per square meter, or from \$80,000.00 to \$150,000.00 per *cuerda* varying according to size, location, access and exposure. Land leases for industrial land range from \$5,000.00 to \$15,000.00 per *cuerda* per year.

Prices of improved properties range from \$40.00 to slightly over \$100.00 per square foot varying according to location, size, quality and condition. The reluctance of local property owners to disclose income and expense information makes it difficult to extract overall capitalization rates and yield-rates from actual transactions. Nonetheless, the small amount of data available reflects overall capitalization rates for investment grade properties in the 8%-11% range.

Typical marketing time for commercial-industrial real estate could range from 6 to 36 months depending to property size, location and condition. Marketing times of over 36 months for inferior locations are not un-common.

There appears to be an oversupply of office and industrial space within and outside the San Juan Metropolitan Area (SJMA). Our search of active industrial land listings in the island eastern region resulted in three (3) large sites for sale with prices ranging from \$1,500,000.00 to \$1,800,000.00, or from \$50,000.00 to \$150,000.00 per *cuerda*.

Vacancy rates at stabilized multi-tenant properties are in the 5-20% range. However, the availability of space for lease and sales is in line with the observation of many vacant buildings in this market.

In conclusion, the local commercial-industrial market has been and seems declining. With the

prospect of a continued slow economy, a slower pace in the rental and sale activity persists. No detailed analysis was developed for demand for new facilities, this exercise being beyond the scope of this appraisal. However, as per the availability of space for lease and sale there appears to be an oversupply of space and a slowing of lease and sale activity, both signs of a declining market. Prices and rents are expected to decline and/or to remain stable or to slightly decline only at superior locations.

HIGHEST AND BEST USE ANALYSIS

The *Dictionary of Real Estate Appraisal*, 5th edition, defines highest and best use as “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”.

Economic considerations and market forces as applied to the appraised property dictate its highest and best use. Results of the analysis provide the foundations for selecting and developing applicable appraisal techniques. A property highest and best use indicates its potential market, effective demand, absorption or rent up period and possible obsolescence; and sets the basis for selecting; adequate units of comparison, and comparable sales and rental properties used to estimate market value.

In the case of improved properties, two highest and best use analyses are performed, the highest and best use of land as though vacant, and the highest and best use of property as improved. For vacant land, however, the highest and best use of the parcel in its “as is” vacant condition is the only analysis conducted.

Highest and best use of a property must meet four criteria: *legally permissible, physically possible, financially feasible and maximally productive*. This section of the report selects a highest and best use for the appraised property by adequately supporting these four criteria. The physical, legal and location attributes described in the preceding sections of this report show a limited number of legally permissible and physically possible uses. A *market analysis* supports financial feasibility and maximum productivity and leads to the conclusion of highest and best use.

Highest and Best Use as Vacant

The *Dictionary of Real Estate Appraisal*, 5th edition, defines the highest and best use of land or a site as though vacant as “among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements”.

The subject site is currently within a CT-I, intermediate commercial-tourist district. The purpose of this district is to promote orderly development and to classify commercial and residential areas in tourist interest zones. Allowed uses include parking, hotel, retail, recreation, services, gas stations, night entertainment, residential-tourist.

The Shipyard site also lies within a Subzone B-1-Waterfront Industrial. Allowed uses include dry-dock for boat building and repairs, and office space to support industrial tenants as per the 2014 Development Zones Master Plan by the LRA.

Thus, the legal attributes of the sites point to its development for waterfront industrial purposes.

The previously described physical characteristics of the appraised site including location, size, shape, topography, flooding, accesses and soil conditions suit the legally permissible waterfront industrial development.

As of today, former NSRR presents a special situation. Except for the airport, private marina, and properties still owned and managed by the US Army or other US Agencies, the base is basically unoccupied without maintenance and in a very poor state. Most of the land owned and controlled by the Roosevelt Roads Local Redevelopment Authority is un-occupied and in neglected condition. Then, what we observed is sort of a ghost town with scattered well maintained parcels (those still owned by the US).

Infrastructure at the NSRR was developed in support of specific land uses and zones, and while adequate to support some degree of reuse, it is likely that with reuse of the former NSRR, elements of existing infrastructure will require updating and modification. In particular, the roads, which were not designed to service significant traffic generated by private vehicles, and the piers, which were sized to service naval and tanker vessels rather than passenger ferries or private charter boats, will need to be addressed.

Nevertheless, the appraised site enjoys a unique location bounding the deep dry dock within former NSRR. Therefore, the physical and location attributes of the site suit waterfront industrial development.

Demand for industrial uses within the eastern region has declined over the past five years. In fact, there appears to be a cyclic oversupply of office-industrial space. NSRR has been closed since March of 2004.

The Roosevelt Roads Local Redevelopment Authority (LRA) has developed a Development Zones Master Plan and, in addition, its Board of Directors selected on August, 2014 four entities to move to the final round of the process to choose one Master Developer. The Roosevelt Roads redevelopment project encompasses approximately 3,000 acres of developable lands and facilities of high value for a mixed-use development with opportunities in tourism, commercial, recreational, residential, educational and light industrial projects. In terms of economic and social profiles, the subject's neighborhood will be most probably formed by existing and/or migrating residents to the overall Ceiba Region.

Due to currently weak market conditions, however, waterfront industrial development is not financially feasible at this time. As of the appraisal date, most of the land owned and controlled by the Roosevelt Roads Local Redevelopment Authority is during the planning stages of the proposed redevelopment. The NSRR 2004 Reuse Plan and, more specifically, the Addendum 2004 Reuse Plan prepared on 2010, entails a 25-years time frame for the project. Many of the projects in the zones where the subject property lies are programmed to be completed between

10 to 20 years after the commencement of the plan. Considering as of the appraisal date the LRA is still in the process of selecting a master developer, we can reasonably assume that notable waterfront industrial development will not be completed until at least 10 years. Nevertheless, the Shipyard parcel is already under land lease negotiations with an operator. Then, for appraisal analysis purposes, we considered there will be no demand for waterfront industrial development until at least 5 years from the appraisal effective date.

Nevertheless, in terms of profitability, since the waterfront industrial use is the one legally permissible and physically possible, it also brings the highest return to the land. Therefore, to hold the site for port related waterfront industrial development until market conditions become favorable is the concluded highest and best use of the appraised site as though vacant.

Ideal Improvements

The ideal improvements at the appraised site would conform to the maximum parameters allowed by zoning parameters and market standards. The ideal improvements would be designed and built to conform to the permits granted. Their design should be functional and must be constructed with market-accepted materials. Finally, the ideal improvements would be new constructions based on the commonly accepted perception that new properties are better than older ones.

Highest and Best Use as Improved

About thirty buildings and structures in abandoned-neglected condition are scattered through the site. After thorough analysis it was concluded that the improvements have reached the end of their economic life and no longer contribute to the overall property value.

The property includes the main dry dock of the waterfront industrial cluster of the former base. The wet slip has a depth of 40 feet.

The following table compares the existing improvements with the ideal improvements at the subject site based on its characteristics and concluded highest and best use “as though vacant”.

Comparison of Ideal with Existing Improvements		
Parameter	Ideal	Existing
<i>Use</i>	Waterfront industrial	Waterfront industrial
<i>Building’s zoning compliance</i>	CT-I Commercial Tpurist and B-1 Waterfront Industrial District.	I-2, Industrial
<i>Improvements</i>	Functional waterfront industrial facilities conforming to market accepted design and materials / Concrete/steel construction / Good condition	30 scattered buildings / Concrete-steel construction / Abandoned neglected condition
<i>Age</i>	New	+30 years

The improvements suffer from considerable physical depreciation due to above typical wear and tear. They reflect abandoned-total neglect condition. After thorough analysis they have reached the end of their economic life and no longer contribute to the overall market value.

To hold the site for its redevelopment until market conditions become favorable would result in a higher return to the land than what could be achieved by re-habilitating the current buildings for the former occupancies. To hold the site for its redevelopment until market conditions become favorable is legally permissible, physically possible, economically feasible, and result in the highest return for the property as improved. Therefore, the concluded highest and best use as improved of the property is to hold it for future re-development for industrial cluster occupancy as per the 2014 Development Zones Master Plan for former NSRR.

The most probable buyer for the property is an occupier/end user.

APPROACHES TO VALUE

The physical, legal and location attributes of the appraised property have been analyzed. The following sections select and develop the appropriate valuation tools and reconcile them into a final value estimate.

The Appraisal Foundation defines Appraisal as *the act or process of estimating value*. There are three (3) basic approaches that may be used by appraisers in the estimation of market value. These approaches provide data from three (3) different areas of the market, when data is available. These three (3) approaches are the **Cost Approach**, the **Sales Comparison Approach** and the **Income Approach**.

Based on factual data, these approaches reflect typical market behavior. Analysis of subject's physical, legal and location attributes contribute to the highest and best use conclusion that in turns determines the approaches applicable to each valuation assignment. Development of these approaches evolves into separate indications later reconciled into a final value estimate. The *13th edition of The Appraisal of Real Estate* defines the three approaches to value as follows:

Cost Approach

"In the cost approach, an estimated reproduction or replacement cost of the building and land improvements as of the date of appraisal is developed together with an estimate of the losses in value that have taken place due to wear and tear, design and plan deficiencies, or neighborhood influences. To the depreciated building cost estimate, entrepreneurial profit and the estimated value of the land are added. The total represents the value indicated by the cost approach".

Income Approach

"In the income capitalization approach, the current rental income to the property is calculated and deductions are made for vacancy and collection loss and expenses. The prospective net operating income of the property is then estimated. To support this estimate, operating statements for the subject property in previous years and for comparable properties are reviewed along with available operating cost estimates. An applicable capitalization method and appropriate capitalization rates are developed and used in computations that result in an indication of value".

Sales Comparison Approach

"In the sales comparison approach, the subject property is compared to similar properties that have sold recently or for which listing prices or offers are known. Data from generally comparable properties are used and comparisons are made to demonstrate a probable price at which the subject property would be sold if offered on the market".

Applying the Value Approaches to the Appraised Property

The concluded highest and best use as of the appraisal date was to hold the site for its redevelopment until market conditions become favorable. After thorough analysis, it was concluded that the present improvements do not contribute to the overall property value. To derive a value opinion for the fee simple rights in the real estate in its "as is" condition, the sales comparison and income capitalization approaches to value produce credible results. The sales comparison approach was applied to estimate the value of the site "as though vacant".

SALES COMPARISON APPROACH

The *Dictionary of Real Estate Appraisal, 5th edition*, defines the sales comparison approach as “a set of procedures in which a value indication is derived by comparing the property being appraised to similar property that sold recently, applying appropriate units of comparison, and making adjustments to the sales prices of the comparable properties based on the elements of comparison.”

The sales comparison approach applies to the valuation of all kinds of real property interests as long as there are sufficient transactions to indicate value or market trends. The reliability of this technique depends on the number of recent transactions, adequate means of verifying the data, degree of similarity and absence of non-typical conditions.

After thorough analysis, we concluded the present improvements do not contribute to the overall market value. The concluded highest and best use as improved was the demolition and clearing of the existing improvements for the redevelopment of the site for commercial/light-industrial occupancy. Then, an “as is” value opinion was derived by deducting estimated improvements demolition and removal costs from the value indication of the site “as vacant” by the sales comparison approach.

In an effort to obtain the most relevant sales to appraise subject property, the appraisers researched the records at the Property Registry, Treasury Department and office files, and in addition interviewed brokers, property sellers and buyers, and other appraisers. Four (4) land sales transactions and one (1) listing were analyzed. The comparable sales are within similar and competitive industrial subdivisions within the southeastern region. The comparable sales used are presented in a summarized format in the following pages.

Land Sale 1				
Location	South of Km. 15.5, State Road 127, Punta Pepillo Sector, Guayanilla Industrial Port Area, Guayanilla, Puerto Rico	Rights	Fee simple	
		Financing	Typical	
		Shape	Irregular	
		Topography	Varied	
		Utilities	Available	
Seller	Chevron PR, LLC	Flood Hazard	Zone X	
Buyer	Peerless Oil & Chemical Inc.	Waterfrotage/Port	Yes	
Sales Date	11/14/06	Zoning	I-2, heavy Industrial	
Sales Price	\$3,500,000.00	HABU	Port industrial	
Improvements	-\$2,170,000.00			
Land	\$1,330,000.00	Registry and/or legal data	P:12, B:45, T:1568 Deed 23 before Libardo Hernandez Perez, Esq	
Size (Cds)	10.49	Tax ID No	386-000-010-01-001	
Sales Price/Cd \	\$126,787.42	Verification source	Seller and broker	
Comments:	Improvements include a harbor manufacturing facility with bay frontage including 10 buildings and 3 shed structures totaling 51,836 square feet, a private dock with an area of 12,995 square feet, and 8,553 square feet of canopies including a parking carport. Additional site improvements include asphalted areas, loading areas, a gate, and fences.			



Land Sale 2				
Location	State Road 511, Coto Laurel Ward Ponce, Puerto Rico		Rights Financing Shape Topography Utilities	Fee simple Typical Rectangular Level Available
Seller	Martex Farms SE		Flood Hazard	X (89.7%), 0.2 PCT (8.6%), AE (1.7%)
Buyer	Puerto Rico Steel Products		Waterfrontage/Port	No
			Zoning	AP.4 (Agro-industrial)
Sales Date	09/15/11		HABU	Light-industrial dev
Sales Price	\$1,315,000.00			
			Registry and/or legal data	P:78, B:1628, T:29883 Deed 127 before Manuel A. Frau Catusus, Esquire
Size (Cds)	15.00		Tx ID No	366-000-001-23-000
Sales Price/Cd	\$87,666.67		Verification source	Seller & buyer



Land Sale 3				
Location	Marina Puerto Del Rey State Road 3, Quebda Vueltas, Demajaguas & Los Machos Wds, Fajardo-Ceiba, Puerto Rico		Rights Financing Shape Topography Utilities	Fee simple Typical Irregular Varied Available
Seller	Denison M. W Shelley Diaz - Daniel W. Shelley Puerto del Rey, Inc - Inversiones Cacimar - Jose E. Piovaneti		Flood Hazard Waterfrotage/Port Marina	X (35.0%), AE (34.1%), VE (30.9%) Yes Yes
Buyer	PDR Acquisition LLC			
Sales Date	05/30/13	*	Zoning	CT-L, Commercial-tourist
Sales Price	\$25,082,000.00		HABU	Marina
Improvements	-\$8,000,000.00			
Land	\$17,082,000.00		Registry and/or legal data	40 Deeds before Vanessa Lopez, Esq
Size (Cds)	115.2904		Tax ID No	178-079-158-05 & others
Sales Price/Cd	\$148,164.98		Verification source	Buyer and appraiser
Comments:	Improvements include a full service marina facility including 11,426 sf of commercial condo space, a 2,700 sf off building, a 9,871 sf comm building, a 4,930 sf wood building, a 768 sf DNER bldg, a 6,250 sf boatyard bldg, 190 sf fuel dock office, a 1,304 sf ldry/baths bldg, a 3,167 sf dock center bldg, a 600 sf dry stack office, and complementary structures. Site improvements include apprx508 surface pkg spaces, about 36,759 sf of conc paved areas, graded gravel areas, 8,500 feet of fences, plaza and sidewalks, and an electrical substation. The marina has 1,000 wet slips, 400 dry stack racks, and 4 forklifts.			



Land Sale 4				
Location	South off State Road 127, Tallaboa Alta Ward, Peñuelas, Puerto Rico		Rights	Fee simple
			Financing	Typical
			Shape	Irregular
			Topography	Level
			Utilities	Available
Seller	Banco Popular de PR		Flood Hazard	Zone AE
Buyer	Re-Synth New Horizons, LLC		Waterfrontage/Port	No
			Zoning	I-P; Heavy industrial
Sales Date	03/27/14		HABU	Port-industrial dev
Sales Price	\$780,000.00			
			Registry and/or legal data	P:1001, D:353 Deed 20/2014 before Ricard Melendez Sauri, Esquire
Size (Cds)	10.00		Tx ID No	410-000-002-11-000
Sales Price/Cd	\$78,000.00		Verification source	Seller & buyer

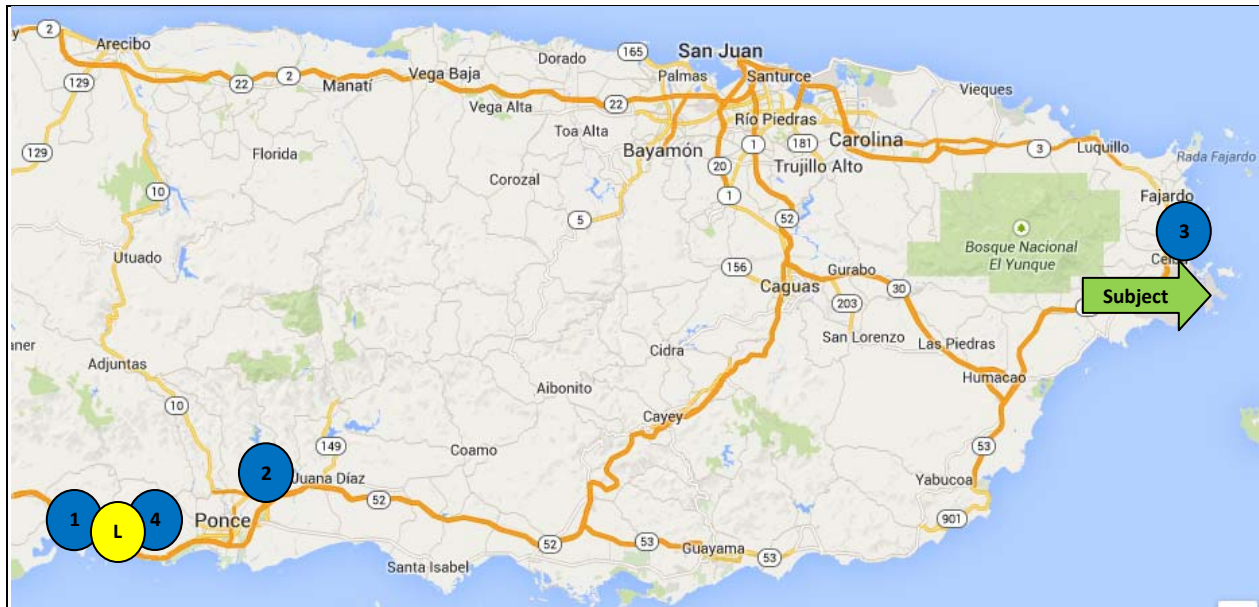


Listing 1

Location	Intersection of State Roads 127 and 385, Peñuelas Port Area, Tallaboa Ward, Peñuelas, Puerto Rico	Rights	Fee simple
		Financing	Typical
		Shape	Irregular
		Topography	Mostly level
		Utilities	Available
Broker	Christiansen Commercial Ryan Christiansen	Flood Hazard	A (90.7%), VE (9.3%)
Date	Current	Waterfrotage/Port	Yes
DOM	Over 2 years	Zoning	I-P, heavy Industrial
Asking Price	\$4,000,000.00	HABU	Port industrial
Improvements	-\$1,900,000.00 *		
Land	\$2,100,000.00	Registry and/or legal data	N/A
			N/A
Size (Cds)	16.15	Tax ID No	410-000-002-07
Sales Price/Cd	\$130,030.96	Verification source	Broker (787-778-7000)
Comments:	Improvements include an industrial facility with bay frontage including 4 buildings totaling 10,922 sf, electric substation 8 storage tanks with a total capacity for 80,000 barrels, and a mixing tank with a capty of 1,785 barrels.		



Comparable Sales Map



Description and Analysis of the Land Sales

The following table summarizes the land sales analyzed.

Land Sales Summary Table							
Sale	Date	Sales Price	Improvements	Land	Area (Cds)	Waterfrontage/Port	Price/SM
1	11/14/2006	\$ 3,500,000.00	\$ (2,170,000.00)	\$ 1,330,000.00	10.49	Yes	\$ 126,787.42
2	9/15/2011	\$ 1,315,000.00	\$ -	\$ 1,315,000.00	15.00	No	\$ 87,666.67
3	5/30/2013	\$ 25,082,000.00	\$ (8,000,000.00)	\$ 17,082,000.00	115.2904	Yes	\$ 148,164.98
4	3/27/2014	\$ 780,000.00	\$ -	\$ 780,000.00	10.0000	No	\$ 78,000.00
Listing	Current	\$ 4,000,000.00	\$ (1,900,000.00)	\$ 2,100,000.00	16.15	Yes	\$ 130,030.96
Subject	8/29/2014	-	-	-	37.80	Yes	-
Min							\$ 78,000.00
Max							\$ 148,164.98
Average							\$ 114,130.00
Median							\$ 126,787.42
Std. Deviation							\$ 29,904.50

The locally accepted unit of comparison to analyze vacant industrial sites is the sales price per *cuerda*. A *cuerda* is a Spanish unit of comparison that equals .97 acres. The selected sample shows a range of unadjusted prices from \$78,000.00 to \$148,164.98 per *cuerda* with an average of \$114,130.00 and a standard deviation of \$29,904.50. A brief description of each sale follows.

Land sale 1, the oldest of the sample, refers to a an industrial manufacturing facility located south of kilometer 15.5 of State Road 127 in the Guayanilla Bay Industrial Sector of the Municipality of Guayanilla, Puerto Rico. The property comprised a harbor manufacturing facility including ten (10) buildings and three (3) open shed structures totaling 51,836 square feet of gross area, a private dock with an area of 12,995 square feet and 8,553 square feet of canopies

including a parking carport structure standing on a 47,874.31 square meters bay frontage site. Facility storage tanks included a hill-top cluster at the site's north section of 6 tanks with capacities ranging from 50,000 to 1,800,000 gallons, and 25 smaller tanks of varied gallonage. Many of the tanks had been emptied and cleaned. The complex is connected through pipelines to dock facilities at the Guayanilla Bay and to the non-operating Corco complex.

The complex was originally established in the 1950's as a gasoline distribution facility; subsequently it was retrofitted for the former lube blending operation. The facility is strategically located and was functional for the former lube blending operation. It ceased operations during 2005. Many of the on-site tanks and fixtures did not contribute to the overall property market value as some did not conform to applicable environmental quality regulations and, thus, would not have a functional use for any potential buyer.

The facility sold for \$3,500,000.00 on November of 2006. An appraisal was commissioned for establishing the price. The value contribution of the improvements was estimated at \$2,170,000.00 leaving a price allocated for the land of \$1,330,000.00, equal to \$126,787.42 per *cuerda*. This site compares similar in location and water frontage/port amenity to the subject.

Comparable 2 refers to a 15 *cuerdas* agro-industrial site at the Coto Laurel Ward of Ponce, Puerto Rico. The vacant site sold on September, 2011 for \$87,666.67 per *cuerda*. This is not a water frontage/port site. The location is inferior to that of the subject for industrial development.

Sale 3 refers to the Puerto Del Rey Marina in Fajardo-Ceiba, Puerto Rico. This comparable refers to 40 transactions in total as the marina facility is comprised by several parcels and some of the buildings are condominium units. The 40 transactions total a price of \$25,082,000.00. 39 transactions closed on May 30, 2013. One of the condominium units was purchased on August 14, 2013. Improvements include a full service marina facility including 11,426 square feet of commercial condo space, a 2,700 square foot office building, a 9,871 square foot commercial building, a 4,930 square foot wood building, a 768 square foot building occupied by the DNER, a 6,250 square foot boatyard building, 190 square foot fuel dock office, a 1,304 square foot laundry-bathrooms building, a 3,167 square foot dock center building, a 600 square foot dry stack office, and complementary structures. Site improvements include approximately 508 surface parking spaces, about 36,759 square feet of concrete paved areas, graded gravel areas, 8,500 feet of fences, plaza and sidewalks, and an electrical substation. The marina has 1,000 wet slips, 400 dry stack racks, and 4 forklifts.

News reports at the time pointed at an overall transaction price of between \$80 and 100 million. However, the recorded real estate transaction sums \$25,082,000.00. The property appraiser understands that the difference was presumably the amount paid for the slip licenses, machinery and equipment, and business intangibles. With the detailed description of the improvements, we estimated the value contribution of the improvements at \$8,000,000.00; leaving a price allocation for the land of \$17,082,000.00, or \$148,164.98 per *cuerda*. The site is within a commercial-tourist zoning district; appropriate for marina use. This site was deemed

superior to that of the subject in location, use and economic considerations.

The most recent comparable of the sample is a 10 cuerdas vacant industrial site within the port area of the Tallaboa Ward in Peñuelas. Although within the port industrial area, the site lacks water frontage or direct dock-port access. It was purchased for \$78,000.00 per cuerda on March 27, 2014; the lowest unitary price of the sample. The site is zoned heavy-industrial; appropriate for port industrial development. The site compares inferior for port-industrial development as it lacks water frontage or direct dock-port access. This location compares similar to that of the subject.

A listing of a waterfront industrial facility was also analyzed. It refers to an industrial facility with bay frontage including 4 buildings totaling 10,922 square feet, electric substation, 8 storage tanks with a total capacity for 80,000 barrels, a mixing tank with a capacity of 1,785 barrels. The current asking price is \$4,000,000.00. The property has been listed for over 2 years and currently negotiations are under way with a serious potential buyer. With a detailed description of the improvements by the broker, their value was estimated at \$1,900,000.00; yielding an asking price allocation for the land of \$2,100,000.00; or \$130,030.96 per *cuerda*. The site was considered very similar in location, water frontage/dock-port facilities and land area.

Adjustments

The *13th edition of The Appraisal of Real Estate*, published by the *Appraisal Institute*, defines comparative analysis as “the general term used to identify the process in which quantitative and/or qualitative techniques are applied to derive a value indication in the sales comparison approach.” The qualitative analytical technique identifies which elements of comparison require adjustment and compares the subject and the comparable sales without measuring the dollar amount of the adjustments. When the differences can be quantify, a quantitative comparison is made and a monetary adjustment is applied.

The elements of comparison included, property rights, financing terms, sales conditions, market conditions (sale date), location, and physical characteristics. Physical characteristics included utilities, topography, shape, water frontage/port and land area.

Rights conveyed

All transactions included the fee simple rights. No adjustments for rights conveyed were deemed necessary.

Financing terms

All sales reflected typical financing terms. No adjustments were necessary.

Sales conditions

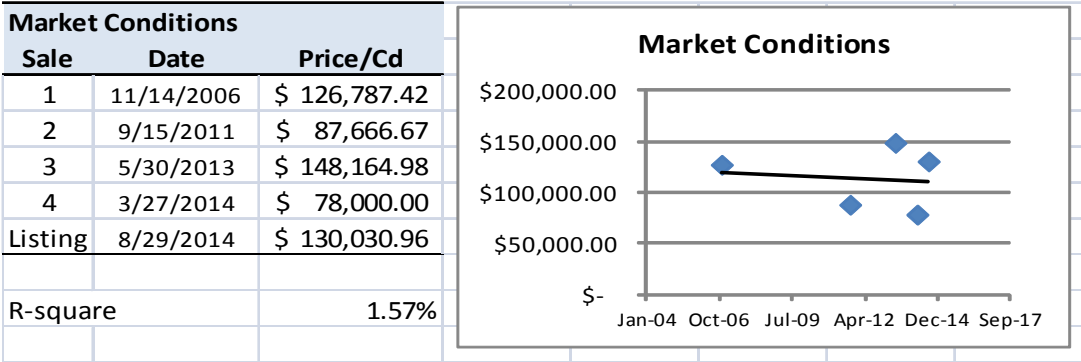
All comparables reflected typical sales conditions. Again no adjustments were necessary.

Improvements contribution

Comparables 1 and 3, and the listing, refer to improved port industrial sites. The value contribution of the improvements was estimated with the help of the properties’ appraisers and/or brokers. Refer to the land sales summary table for the improvements contribution adjustments.

Market conditions

The comparable sales cover a span of approximately a little more than a year. As the Market Conditions Table and Graphic shows, which sort the sales in order of occurrence, a decline trend is evident although no significant correlation was found.



The sales differ in other elements of comparison; most importantly water frontage/port facilities. Nevertheless, there is a general consensus among market participants that marketing times and absorption periods are longer and slower respectively. Nonetheless, the graphic suggests the industrial land market in the south-eastern region has stabilized in terms of prices. No monetary market conditions adjustments were applied. Only qualitative analysis was applied.

Location

All comparable sales lie within the general south-eastern region. In terms of neighborhood economic characteristics Sales 1 and 4, and the listing, all from the Guayanilla-Peñuelas port industrial area are the most similar. Sale 3 was deemed superior in immediate neighborhood amenities and economic characteristics. No monetary adjustments were made. On a qualitative basis, more weight was given to the most similar sales.

Zoning and highest and best use

The subject site is within a CT-I district and a B-1 Waterfront Industrial district. Allowed uses include dry-dock for boat building and repairs, and office space to support industrial tenants as per the 2014 Development Zones Master Plan by the LRA.

Sales 1 and 3, and the listing, lie within heavy industrial zoning districts allowing for a similar range of port industrial uses. Sale 2 is zoned agro-industrial. Sale 3 is zoned commercial-tourist. Except Sale 3, which is better suited for marina development, all share similar industrial

development highest and best uses. No adjustments were deemed necessary. On a qualitative bases Sale 3 compares superior to the subject.

Shape and topography

All sales had functional configurations and leveled or mostly level topography. The subject site has an irregular but functional shape and a leveled topography. No monetary adjustments for these elements were necessary.

Flood condition

The subject lies partially within and outside the FEMA flood prone area. Some of the sales are partially or entirely within the flood prone area. However, all are developable and no adjustments were deemed necessary for this element.

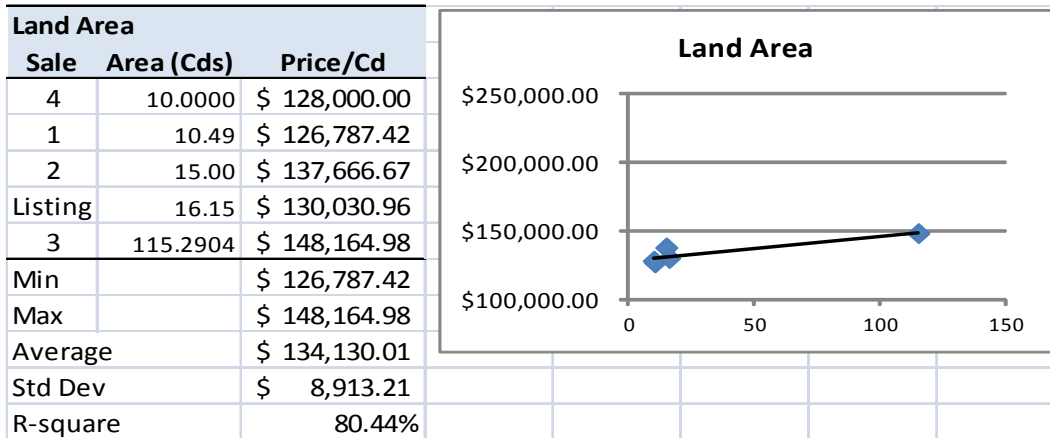
Water Frontage/Dock-port Facilities

The appraised site comprises a 40 feet deep dry dock that is gated and has been un-used since prior to the base closing, and to the east the Puerca Bay. Sales 1, 3 and the listing are waterfront sites with dock-port facilities. In this regard, they are very similar to the subject. Sales 2 and 4 do not have water frontage nor dock-port facilities. A grouped data analysis clearly showed that in average, the comparables with water frontage and/or dock-port facilities sell about \$50,000.00 more per *cuerda* than the sales lacking water frontage and/or dock-port facilities. Then, a positive \$50,000.00 per *cuerda* adjustment was applied to sales 2 and 4.

Water Frontage/Dock-Port Facility Adjustment Table				
Sale	Price/Cd	Water Frontage	Adjustment	Price/Cd
1	\$126,787.42	Yes	\$ -	\$126,787.42
2	\$ 87,666.67	No	\$50,000.00	\$137,666.67
3	\$148,164.98	Yes	\$ -	\$148,164.98
4	\$ 78,000.00	No	\$50,000.00	\$128,000.00
Listing	\$130,030.96	Yes	\$ -	\$130,030.96

Size-Land Area

Typically a direct correlation exists between the size of the sites and their unitary prices. The larger the parcel, lower the unitary price indication. The sales were sorted from the smaller to the largest in the following table and graphic.



Although a direct correlation is reflected and a simple lineal regression analysis indicated a correlation factor (R-square) of 80.44%, Sale 3 has a superior location to the subject and the rest of the sample. No quantitative size adjustments were applied. Only qualitative analysis was applied. More weight was given to the most similar comparables in terms of land area, Sales 1, 2, 4 and the listing.

Utilities

Reportedly, the site lacks adequate off-site and on-site utility infrastructure for the intended re-development. Nevertheless, utility connections cost are similar throughout the general south east region. All sales have neighborhood utilities available at typical hook-up costs. Thus, no utility adjustments were applied.

Site “As Is” Value Conclusion by Sales Comparison Approach

Both quantitative and qualitative comparisons were made. The value range is from \$126,787.42 to \$148,164.98 per *cuerva* with an average of \$134,130.01 and a standard deviation of \$8,913.21.

Sale 3 at \$148,164.98 per *cuerva* was deemed superior to the subject in location and economic characteristics. Sale 1 and the listing were deemed the most similar in location and water frontage/dock-port facilities. These had unadjusted indications ranging from \$126,787.42 to \$130,030.96 per *cuerva*.

No monetary adjustments for market conditions were made, but on a qualitative basis, Sale 1 is superior in this regard as 2006 market conditions were superior.

A serious offer for the current listing is under negotiation with a formal potential buyer. Nevertheless, a similar listing in a challenging market conditions environment clearly establishes an upper value limit. Then, the indication of the listing at \$130,030.96 per *cuerva* sets an upper value limit for the subject.

Based on the indication of the most similar comparables in terms of location, water frontage/dock-port facilities and land area, a rounded value of \$120,000.00 per *cuerva* was concluded for the subject site.

As explained in the Highest and Best Use Section of the report the present building improvements do not contribute to the overall property value. Typically, to obtain an “as is” value indication in this cases, estimated improvements demolition and removal costs are deducted from the “as vacant” indication. Total gross area for all buildings and structure is approximately 230,000 square feet. The Interviews with local contractors validate a demolition and site clearing cost in the range of \$5.00 per square foot. Then demolition and site clearing costs were estimated at \$1,150,000.00.

Subject site “as is” value was calculated as follows.

“As Vacant” Site Value Indication			
37.80 <i>cuervas</i>	@	\$120,000.00/SM	= \$4,536,000.00
Less Demolition and Site Clearing Costs			<u>(\$1,150,000.00)</u>
“As Is” Value Indication			\$3,386,000.00
Rounded to			\$3,390,000.00

Market Value Indication by the Sales Comparison Approach
---\$3,390,000.00---
(THREE MILLION THREE HUNDRED NINETY THOUSAND DOLLARS)

Land Sales Adjustment Table						
	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Listing
Sales Price	-	\$ 3,500,000.00	\$ 1,315,000.00	\$ 25,082,000.00	\$ 780,000.00	\$ 4,000,000.00
Element						
Rights	F. simple	F. simple	F. simple	F. simple	F. simple	F. simple
Financing	Typical	Typical	Typical	Typical	Typical	Typical
Sales Cond.	Typical	Typical	Typical	Typical	Typical	Typical
Improvements	Yes	Yes	None	Yes	None	Yes
Market Cond.	08/29/14	11/14/06	09/15/11	05/30/13	03/27/14	Current
Location	Good	Similar	Similar	Superior	Similar	Similar
Zoning	CT-I/B-1	I-2	AP.4	CT-L	I-P	I-P
HABU	Port Industrial	Port Industrial	Industrial	Marina	Port Industrial	Port Industrial
Shape	Regular	Irregular	Regular	Irregular	Regular	Irregular
Topography	Leveled	Varied	Level	Leveled	Leveled	Leveled
Water Frontage/Port	Yes	Yes	No	Yes	No	Yes
Size (Cds)	37.80	10.49	15.00	115.2904	10.00	16.15
Utilities	Limited	Available	Available	Available	Available	Available
Lump Sum Adjustments						
Rights	-	\$ -	\$ -	\$ -	\$ -	\$ -
Financing	-	\$ -	\$ -	\$ -	\$ -	\$ -
Sales Cond.	-	\$ -	\$ -	\$ -	\$ -	\$ -
Improvements Contribution	-	\$ (2,170,000.00)	\$ -	\$ (8,000,000.00)	\$ -	\$ (1,900,000.00)
Buyer's Expenditures	-	\$ -	\$ -	\$ -	\$ -	\$ -
Total Lump Sum Adjustments	-	\$ (2,170,000.00)	\$ -	\$ (8,000,000.00)	\$ -	\$ (1,900,000.00)
Partially Adjusted Prices	-	\$ 1,330,000.00	\$ 1,315,000.00	\$ 17,082,000.00	\$ 780,000.00	\$ 2,100,000.00
Adjusted Prices/SM	-	\$ 126,787.42	\$ 87,666.67	\$ 148,164.98	\$ 78,000.00	\$ 130,030.96
Unitary Adjustments						
Market Cond.	-	\$ -	\$ -	\$ -	\$ -	\$ -
Location / Exposure	-	\$ -	\$ -	\$ -	\$ -	\$ -
Zoning/HABU	-	\$ -	\$ -	\$ -	\$ -	\$ -
Shape	-	\$ -	\$ -	\$ -	\$ -	\$ -
Topography	-	\$ -	\$ -	\$ -	\$ -	\$ -
Water Frontage/Port	-	\$ -	\$ 50,000.00	\$ -	\$ 50,000.00	\$ -
Size (Cds)	-	\$ -	\$ -	\$ -	\$ -	\$ -
Utilities	-	\$ -	\$ -	\$ -	\$ -	\$ -
Total Unitary Adjustment	-	\$ -	\$ 50,000.00	\$ -	\$ 50,000.00	\$ -
Adjusted Unitary Price	-	\$ 126,787.42	\$ 137,666.67	\$ 148,164.98	\$ 128,000.00	\$ 130,030.96
Net Adj. %	-	0.00%	57.03%	0.00%	64.10%	0.00%

INCOME CAPITALIZATION APPROACH

The Dictionary of Real Estate Appraisal, 5th edition, defines the income capitalization approach as “a set of procedures through which an appraiser derives a value indication for an income producing property by converting anticipated benefits (cash flows and reversion) into property value. The conversion can be accomplished in two ways. One year’s income expectancy can be capitalized at a market derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the investment holding period and the reversion can be discounted at a specified yield rate.”

Investors purchase income producing real estate based on the property’s income earning power. In essence, the buyer trades present dollars for the expectation of future monetary benefits. The income capitalization approach analyzes and estimates these benefits and converts them into property value. A market oriented analysis results in a property value estimate that reflects the decision making process performed by a typical, well-informed potential buyer. A summary of the income approach to value follows:

- Select the appropriate capitalization technique.
- Estimate the potential gross income (PGI).
- Estimate the effective gross income (EGI). (PGI less a vacancy and collection loss allowance).
- Estimate the operating expenses.
- Estimate the net operating income (NOI). (EGI less the total operating expenses).
- Convert the estimated net operating income into a value indication using either the direct or yield capitalization technique.
- Add or subtract any final lump sum adjustment to the value indication to account for unconsidered factors in the income capitalization analysis.

Selection of the Capitalization Technique

Capitalization is the process of converting income into value. *Direct capitalization* converts a single year’s income while *yield capitalization* discounts forecasted future cash flows over a projection or holding period into present property value. Market characteristics and present or projected rental conditions of a property suggest which process to apply. *Direct capitalization* best suits the appraisal of properties where income is difficult to forecast into the future, or properties with present or expected stabilized income and occupancy. *Yield capitalization* best applies to the appraisal of multi-tenant properties where future cash flows can be accurately forecasted.

The concluded highest and best use as of the appraisal date was to hold for port industrial development. The most probable buyer for the property is an owner-occupant or a local investor to rent the facility to a single-tenant port industrial developer/operator.

The best approach to derive a market value indication for the property is to develop direct capitalization to a stabilized year occupancy net income.

Potential Gross Income

Potential gross income is the total capable income attributable to the real property at full occupancy before vacancy and operating expenses are deducted. Market rent is defined¹ as the rental income that a property most probably command in the open market as indicated by the current rents paid and asked for comparable space as of the date of the appraisal.

The appraised property is a waterfront site with a land surface area of 37.80 acres within the waterfront industrial cluster subzone B1 as per the 2014 Development Zones Master Plan for former NSRR. About thirty buildings and structures totaling approximately 230,000 square feet of gross area in abandoned-neglected condition are scattered through the site. After thorough analysis it was concluded that the improvements have reached the end of their economic life and no longer contribute to the overall property value.

The property includes the main dry dock of the waterfront industrial cluster of the former base. The wet slip has a depth of 40 feet.

In order to estimate a market rent a market rent survey was conducted. A lease regarding a waterfront site, and one of a non-waterfront site but within the port area of NSRR were analyzed. The following table summarizes the analyzed leases.

Market Rent Survey Summary Table										
Rental	Location	Landlord	Tenant	Waterfront	Area (Cds)	Improvements	Start Date	Term	Annual Rent/Cuerda	
1	Marina Parcel, NSRR, Ceiba PR	LRA	Municipio de Ceiba	Yes	8.56	Neglected	Nov-14	4 yrs	\$	7,012.05
2	Tennis Courts, NSRR, Ceiba PR	LRA	Nautas	No	2.6	Neglected	Aug-14	4 yrs	\$	9,238.10
									\$	11,547.62
										1-2 yrs
										3-4 yrs

Rental 1 is the former NSRR commercial marina facilities. The lease is for a 4 years term and calls for a rent of \$7,012.05 per *cuerda* per year. As with rental 1, this is basically a land or master lease, net to the landlord.

Rental 2 refers to a site across the main port street from the marina facility. The premises comprise tennis courts and a building in neglected conditions. The land lease for a term of 4 years calls for a net annual rent of \$9,238.10 per *cuerda*.

The most relevant comparable is clearly Rental 1 at about \$7,000.00 per *cuerda*. However,

¹ The Dictionary of Real Estate Appraisal, 5th edition. Appraisal Institute.

Rental 1 may reflect atypical considerations from LRA as the tenant is the Ceiba Municipality. This comparable sets a lower rental limit for the subject. Rental 2, at \$9,238.10 per *cuerda*, refers to a site without water frontage or direct port access. To account for subject’s water frontage and dock-port amenity, this comparable rent merits a positive consideration.

In our opinion, subject market rent per year should be higher than \$9,000.00 per *cuerda* per year. A market rent of \$10,000.00 per *cuerda* per year was concluded to be reasonable for the subject site.

Subject’s potential gross income was calculated as follows.

Income						
			37.8 cds @	\$ 10,000.00	=	\$ 378,000.00
Potential Gross Income						\$ 378,000.00

Effective Gross Income

The effective gross income (EGI) is estimated by deducting a vacancy and collection loss allowance from the potential gross income (PGI). This allowance accounts for probable rent loss, vacancy, and unexpected tenant turnovers. For single-tenant industrial land stabilized occupancy vacancy and collection loss ratios range between 0% and 5%. When occupied, a collection loss allowance then becomes a more important factor to consider than vacancy. A stabilized occupancy collection loss allowance of 3% was selected for analysis purposes. It should be noted that the subject valuation assumes stabilized occupancy. The EGI was calculated as follows:

Potential Gross Income						\$ 378,000.00
Vacancy & Collection Loss			3.00%			\$ (11,340.00)
Effective Gross Income						\$ 366,660.00

Operating Expenses

Operating expenses are periodic expenditures required to maintain the property in conditions capable of producing the effective gross income. Typical leases of single-tenant industrial land are usually collected on a net basis with tenants paying all expenses except for management. Only management was considered in the analysis.

Management: Net land leases command annual management expenses in the 1-5% of EGI range due to property monitoring and rent collecting efforts. Typical management expenses for single-tenant industrial properties amount approximately from 1% to 5% of the effective gross

income. Annual management expenses were estimated at 3% of the EGI. They were calculated as follows:

$$\$366,660.00 \times 3\% = \$10,999.80$$

Net Operating Income

The EGI less the operating expenses equals the net operating income (NOI). It was calculated for each property in the following reconstructed operating income statements.

Reconstructed Operating Income Statement

Income					
		37.8 cds @	\$ 10,000.00	=	\$ 378,000.00
Potential Gross Income					\$ 378,000.00
Vacancy & Collection Loss		3.00%			\$ (11,340.00)
Effective Gross Income					\$ 366,660.00
Expenses					
Management		3.00%	\$ (10,999.80)		
Total Expenses					\$ (10,999.80)
Net Operating Income					\$ 355,660.20

Capitalization Rate

The Dictionary of Real Estate Appraisal, 5th edition, defines an overall capitalization rate as “an income rate for a total real property interest that reflects the relationship between a single year’s net operating income expectancy and the total property price or value; used to convert net operating income into an indication of overall property value.”

An overall capitalization rate is a ratio that converts the estimated net operating income into value. The market data available allowed the development of the band of investment and debt coverage ratio techniques to derive a capitalization rate. These techniques were applied after surveying several banking institutions to obtain typical financing terms for this type of property.

No data was available as to extract a capitalization rate from an actual sale (i.e., sales data and the NOI for the year subsequent to the sale). However, sales of similar or competitive water

front port industrial sites are in the range from \$120,000.00 to \$150,000.00 per cuerda (refer to the Sales Comparison Approach Section). Net incomes for the port-industrial land market range from \$7,000.00 to \$15,000.00 per *cuerda*. Assuming the lower rental rates correlate to the sales with the lower unitary sales prices and vice versa, it can be inferred that overall capitalization rates should range from 5.8 to 10%.

The debt coverage ratio technique is commonly known as the underwriters' method. Using this formula, typical financing parameters for similar property type are used. The indicated mortgage constant (R_m) is multiplied by the loan to value ratio (M) and the result multiply by the indicated debt coverage ratio (DCR) to estimate an overall capitalization rate.

Local financing institutions were surveyed with the following results.

Typical Financing Terms for Commercial-Industrial Land Like Subject					
Institution	Interest Rate	Amortization Term	R_m	M	DCR
Popular	3.00 points over prime	20 years	.08771	.60-.70	1.30 – 1.45
Oriental	3.25 point over prime	20 years	.08947	.60-.70	1.30 – 1.45
AVERAGE/Predominant	-	-	.08859	.65	1.45

As of the appraisal date the prime rate was at 3.25%.

Typical commercial mortgage loan components for a property such as the subject ranges from 70% to 80% loan to value ratios, annual interest rate at 3-3.25% over the federal prime rate (currently at 3.25%), and an amortization term of 20 years with a balloon payment at the end of the fifth year. The average mortgage constant (R_m) based on terms provided by the surveyed financial institutions was 0.08859. Typical debt coverage ratios for this type of investment grade properties range from 1.25 to 1.50. Using the predominant loan parameters, an overall capitalization rate was calculated as follows.

Debt Coverage Formula					
R_m	x	M	x	DCR	= R_o
0.08859	x	.65	x	1.45	=.0835
Rounded to					.0835

As shown, the derived overall rate using the DCR formula was 8.35%.

The 3rd quarter of 2014 edition of the RealtyRates.com Investor survey reported surveyed capitalization rates for land leases according to property type/use. The results are presented in the following table.

RealtyRates.com INVESTOR SURVEY - 3rd Quarter 2014*						
LAND LEASES						
Property Type	Capitalization Rates			Discount Rates		
	Min.	Max.	Avg.	Min.	Max.	Avg.
Apartments	2.63%	10.44%	6.61%	5.23%	10.94%	7.61%
Golf	3.15%	16.06%	8.85%	5.75%	16.56%	9.85%
Health Care/Senior Housing	3.15%	11.78%	7.08%	5.75%	12.28%	8.08%
Industrial	2.90%	10.41%	6.74%	5.50%	10.91%	7.74%
Lodging	2.90%	15.82%	7.42%	5.50%	16.32%	8.42%
Mobile Home/RV Park	2.95%	12.78%	7.70%	5.55%	13.28%	8.70%
Office	2.90%	10.41%	6.96%	5.50%	10.91%	7.96%
Restaurant	4.15%	16.08%	8.38%	6.75%	16.58%	9.38%
Retail	2.71%	11.78%	6.87%	5.31%	12.28%	7.87%
Self-Storage	2.90%	10.52%	7.83%	5.50%	11.02%	8.83%
Special Purpose	3.15%	16.56%	8.47%	6.46%	18.55%	9.43%
All Properties	2.63%	16.56%	7.54%	5.23%	16.58%	8.44%

*2nd Quarter 2014 Data

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As can be seen, for industrial land leases, surveyed capitalization rates range from 2.90 to 10.41% with an average of 6.74%. For special purpose land leases capitalization rates range from 3.15 to 16.56% with an average of 8.47%.

The following table compares the derived rates with the published *realtyrates.com* results.

Comparison of Derived Rates with Published Surveys	
Inferred Rate Range with Sales and Rental Levels	5.8 to 10%
Derived Rate (DCR Formula)	8.35%
Surveyed Rate (Industrial Land) – RealtyRates.com	2.90 to 10.41%; 6.74% Avg
Surveyed Rate (Special Purpose Land) – RealtyRates.com	3.15 to 16.56%; 8.47% Avg

Most weight was given to the derived rate since the techniques better reflect local financial and investment conditions. Based on current market conditions and subject property characteristics, a rounded capitalization rate of 8%, as indicated by the DCR technique and supported by the published national surveys, was concluded for the subject property.

Value Indication by the Income Approach

The site “as vacant” market value via the direct capitalization method is estimated by dividing the resulting net operating income by the derived capitalization rate. However, the present building improvements do not contribute to the overall property value. Typically, to obtain an “as is” value indication in this cases, estimated improvements demolition and removal costs are deducted from the site “as vacant” indication. Total gross area for all buildings and structure is approximately 230,000 square feet. The Interviews with local contractors validate a demolition and site clearing cost in the range of \$5.00 per square foot. Then demolition and site clearing costs were estimated at \$1,150,000.00.

For the appraised property, the value indication by the income capitalization approach was calculated as follows.

Net Operating Income	\$ 355,660.20
÷ Overall Capitalization Rate	÷ <u>.080</u>
Site "As Vacant" Value Indication	\$4,445,752.50
Less Demolition and Site Clearing Costs	<u>(\$1,150,000.00)</u>
"As Is" Value Indication	\$3,295,752.50
Rounded to	\$3,300,000.00

Market Value Indication via Income Approach
---\$3,300,000.00---
(THREE MILLION THREE HUNDRED THOUSAND DOLLARS)

The income approach is summarized in the following table.

Income Approach Summary Table						
Income						
			37.8 cds @	\$ 10,000.00	=	\$ 378,000.00
Potential Gross Income						\$ 378,000.00
Vacancy & Collection Loss		3.00%				\$ (11,340.00)
Effective Gross Income						\$ 366,660.00
Expenses						
Management		3.00%		\$(10,999.80)		
Total Expenses						\$ (10,999.80)
Net Operating Income						\$ 355,660.20
Capitalization Rate						8.00%
Site "As Vacant" Value Indication						\$ 4,445,752.50
Less Demolition and Site Clearing Costs						\$ (1,150,000.00)
"As Is" Value Indication						\$ 3,295,752.50
Rounded to						\$ 3,300,000.00

RECONCILIATION AND FINAL VALUE CONCLUSION

The Dictionary of Real Estate Appraisal, 5th edition, published by the Appraisal Institute, defines reconciliation as “the last phase of any valuation assignment in which two or more value indications derived from market data are resolved into a final value estimate, which may be either a final range of value or a single point estimate.” In this appraisal the reconciliation process included a review of the highest and best use analysis and the applied value approaches, the establishment of a reconciliation criteria and a comparative analysis to form a meaningful, defensible conclusion of the defined market value of the appraised property.

The purpose of the appraisal was to estimate the market value of the fee simple rights in the real estate as of the appraisal effective date.

This report will be used to assist Astivenca Shipyards Corporation in an internal decision making process. Then, intended user of this report is Astivenca Shipyards Corporation.

The appraised property is a waterfront site with a land surface area of 37.80 *cuerdas* identified as the Shipyard Parcel within the waterfront industrial cluster subzone B1 as per the 2014 Development Zones Master Plan for former NSRR. About thirty buildings and structures totaling approximately 230,000 square feet in abandoned-neglected condition are scattered through the site. After thorough analysis it was concluded that the highest and best use of the site is to hold it for future re-development for industrial cluster occupancy as per the 2014 Development Zones Master Plan for former NSRR.

After thorough analysis, it was concluded that the present improvements do not contribute to the overall property value. To derive a value opinion for the fee simple rights in the real estate in its "as is" condition, the sales comparison and income capitalization approaches to value produce credible results.

The sales comparison approach resulted in a value indication of \$3,390,000.00. The result of the income capitalization approach was \$3,300,000.00. The most probable buyer for the property is an occupier/end user. Then, the sales comparison approach was deemed the most relevant. Based on the quantity and quality of the data used and the appropriateness of the sales comparison approach, the market value conclusion for the fee simple rights in the subject property as of August 29, 2014 was:

**Market Value, Fee Simple Rights,
---\$3,390,000.00---**
(THREE MILLION THREE HUNDRED NINETY THOUSAND DOLLARS)

No land survey plan was submitted. The land area for the subject site was provided by personnel from RRLRA and was assumed correct for appraisal analysis purposes. Then, the appraisal was

made with the extraordinary assumption the land area comprising the subject site is 37.80 *cuerdas*. If the extraordinary assumption is found to be false or incorrect, the reported value opinion would be invalid.

Estimated Exposure and Marketing Time of Subject Property

Based on the sales of competitive properties, the physical and economic characteristics of the subject property, and current market conditions, both exposure and marketing time were estimated at 24 months at the reported market value.

APPRAISERS' CERTIFICATION

I hereby 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, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- I have not appraised the subject property in the past 3 years.
- My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, that amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant professional assistance to the persons signing this report.
- The report analyzes, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute and all applicable laws and regulations of the United States of America and the Commonwealth of Puerto Rico.
- 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 report date, J. Javier Ortiz del Valle, MAI, CCIM has completed the continuing education program of the Appraisal Institute and the CCIM Institute.

Appraisal Report

Waterfront Site

Shipyards Parcel

Barnes Street, Moscrip Area,

Former Naval Station Roosevelt Roads (NSRR),

Machos Ward,

Ceiba, Puerto Rico



J. Javier Ortiz del Valle, MAI, CCIM

688-EPA

151-GC

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QUALIFICATIONS OF THE APPRAISER

J. Javier Ortiz del Valle, MAI, CCIM

LICENSES

- **Certified General Real Property Appraiser, #151.**
- **Puerto Rico Licensed Professional Appraiser, EPA #688.**
- **Puerto Rico Licensed Professional Planner, #061.**
- **Puerto Rico Licensed Real Estate Broker, #12353.**

PROFESSIONAL DESIGNATIONS AND AFFILIATIONS

- **MAI** Member of the Appraisal Institute.
- **CCIM** Member of the CCIM Institute.
- Member of the Puerto Rican Planning Society.

EDUCATION

Master in Planning 1995

UNIVERSITY OF PUERTO RICO
SAN JUAN, PUERTO RICO

Specialty: Urban and Environmental Planning.

Accomplishments: 4.00 G.P.A. - Selected for the 1995 Who is Who Directory of American Universities and Colleges. Winner of the Marcos A. Tió Award for the most outstanding student in Environmental Planning.

Bachelor in Science 1992

UNIVERSITY OF PUERTO RICO
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Major: Biology.

EMPLOYMENT

Senior Partner
ODV Appraisal Group

August, 1998 - Present

Specialized in commercial, industrial, vacant land, residential projects, single family residential and special purpose properties.

Associate Real Estate Appraiser

October, 1995-August, 1998

PEDRO A. PONS, MAI
ENGINEERS & APPRAISERS
SAN JUAN, PUERTO RICO

Specialized in commercial, industrial, vacant land, residential projects,
single family residential and special purpose properties.

Assistant Appraiser

1992-October, 1995

FRANCISCO FRANCO & ASSOCIATES
SAN JUAN, PUERTO RICO

Specialized in commercial and all type of residential properties.

REAL ESTATE APPRAISAL EDUCATION

COURSES

- 7 Hour National USPAP Equivalent Course – Appraisal Institute, February, 2014
- International Financing Reporting Standards for the Real Property Appraiser – Appraisal Institute, April, 2013
- 7 Hour National USPAP Equivalent Course – Appraisal Institute, March, 2012
- “Leyes y Reglamentos que Rigen la Profesión del Tasador en Puerto Rico” – Appraisal Institute, February 2012
- Fundamentals of Separating Real, Personal Property, and Intangible Business Assets– Appraisal Institute, December 2011.
- Advanced Spreadsheet Modeling for Valuation Applications – Appraisal Institute, August 2011.
- Business Practices & Ethics - Appraisal Institute, August 2010.
- National USPAP Course Update - Appraisal Institute, August 2010.
- ILDC – Advanced Income Approach, Advanced Market Analysis and Highest and Best Use & Advanced Case Studies, Appraisal Institute, August 2010.
- Requirements of UASFLA (Yellow Book)- American Society of Farm Manager’s & Rural Appraisers, May 2010.
- National USPAP Course Update – Appraisal Institute, September 2009.
- Valuation of Conservation Easements – Appraisal Institute, June 2008.
- ILDC – General Appraiser Income Approach I, General Appraiser Income Approach II, General Appraiser Site Valuation and Cost Approach & General Appraiser sales Comparison Approach, Chicago, December 2007.
- National USPAP Course Update – Appraisal Institute, April 2007.

- “Leyes y Reglamentos que Rigen la Profesión del Tasador en Puerto Rico” – Appraisal Institute, March 2007.
- Computer Enhanced Cash Flow Modeling, Course 810 – Appraisal Institute, October 2005.
- Investment Analysis for Commercial Investment Real Estate, Course CI 104 – CCIM Institute, March 2004.
- Market Analysis for Commercial Investment Real Estate, Course CI 102 – CCIM Institute, August 2003.
- User Decision Analysis for Commercial Investment Real Estate, Course CI 103 – CCIM Institute, June 2003.
- Financial Analysis for Commercial Investment Real Estate, Course CI 101 – CCIM Institute, February 2003.
- Apartment Appraisal: Concepts and Applications, Course 330 – Appraisal Institute, June 2002.
- Standards of Professional Practice, Part C, Course 430 – Appraisal Institute, January 2000.
- Condemnation Appraisal: Basic Principles and Applications, Course 710 – Appraisal Institute, May 1999.
- Condemnation Appraisal: Advanced Topics and Applications, Course 720 – Appraisal Institute, May 1999.
- Litigation Valuation Overview, Course 700 – Appraisal Institute, May 1998.
- Advanced Sales Comparison and Cost Approaches, Course 530 – Appraisal Institute, December 1997.
- Advanced Applications, Course No. 550 - Appraisal Institute, August 1997.
- Appraisal Procedures, Course No. 120 - Appraisal Institute, March 2002.
- Appraisal Principles, Course No. 110 - Appraisal Institute, July 1997.
- Report Writing & Valuation Analysis, Course No. 540 - Appraisal Institute, May of 1997.
- Standards of Professional Appraisal Practice, Part A (USPAP), Course No. 410 - Appraisal Institute, June of 1996.
- Standards of Professional Appraisal Practice, Part B (USPAP), Course No. 420 - Appraisal Institute, June of 1996.
- Highest and Best Use and Market Analysis, Course No. 520 - Appraisal Institute, May of 1996.
- Commercial Cost Approach - Marshall and Swift, May of 1996.
- Residential Cost Approach - Marshall and Swift, May of 1996.
- Basic Income Capitalization, Course No. 310 - Appraisal Institute, November of 1995.
- Advanced Income Capitalization, Course No. 510 - Appraisal Institute, August of 1995.

- Condemnation - Evaluators Institute of Puerto Rico, April of 1995.
- Uniform Standards of Professional Appraisal Practice (USPAP) - Evaluators Institute of Puerto Rico, June of 1993.
- Appraisers' Mathematics - University of Puerto Rico, May of 1993.
- Condemnation - University of Puerto Rico, April of 1993.

SEMINARS AND RELATED EDUCATION

- Instructor Webinar – Appraisal Institute, May, 2014
- Financial Analysis Tools for Commercial Real Estate – CCIM Institute, March, 2014
- Instructor Webinar – Appraisal Institute, October, 2013
- Instructor Webinar – Appraisal Institute, April, 2013
- Knowledge Center for Instructors – Appraisal Institute, October, 2012
- The Lending World in Crisis-What Clients Need Their Appraisers to Know Today – Appraisal Institute, May 2011.
- Valuation for Financial Reporting – Appraisal Institute, November 2010.
- Commercial Appraisal Engagement and Review Seminar – Appraisal Institute, December 2009.
- Appraisal of Local Retail Properties (FAST) – Appraisal Institute, October 2008.
- Subdivision Valuation (FAST) – Appraisal Institute, October 2008
- Quality Assurance in Residential Appraisals (FAST) – Appraisal Institute, October 2008.
- Forecasting Revenue (FAST) – Appraisal Institute – Appraisal Institute, October 2008.
- Appraisal Challenges (FAST) – Appraisal Institute, October 2008.
- Office Building Valuation (FAST) – Appraisal Institute, October 2008.
- Valuation of Conservation Easements – Appraisal Institute, June 2008.
- Office Building Valuation: A Contemporary Perspective – Appraisal Institute, September 2007.
- Rates and Ratios: Making Sense of GIMS, OARs, and DCF – Appraisal Institute, July 2007.
- Cool Tools – Appraisal Institute, July 2007.

- What Clients Would Like Their Appraisers to Know – Appraisal Institute, May 2006.
- The Professionals Guide to the Uniform Residential Appraisal Report – Appraisal Institute, June 2005.
- Valuation of Hotels in Puerto Rico – Appraisal Institute, August 2004.
- Analyzing Distressed Real Estate – Appraisal Institute, May 2004.
- Valuation for Financial Reporting: The Emerging Market – Appraisal Institute, May 2004.
- New Technology for the Real Estate Appraiser – Appraisal Institute, May 2004.
- Appraisal Consulting – Appraisal Institute, December 2003.
- Appraisal of Local Retail Properties – Appraisal Institute, March 2003.
- Appraisal Institute Instructor Leadership & Development Conference, February 2002.
- Appraising Environmentally Contaminated Properties – Appraisal Institute, June 2001.
- Subdivision Analysis – Appraisal Institute, June 2001.
- GIS: A powerful tool for the real property appraiser – Appraisal Institute, June 2001.
- Institutional Investment in Real Estate – Appraisal Institute, June 2001.
- FHA Inspection from the Ground Up – Appraisal Institute, October 2000.
- Cased studies in Residential Highest and Best Use – Appraisal Institute, May 2000.
- The FHA and the Appraisal Process – Appraisal Institute, October 1999.
- Appraising from Blueprints and Specifications – Appraisal Institute, August 1999.
- Environmental Risk and the Real Estate Appraisal Process – Appraisal Institute, September 1997.
- Alternative Residential Reporting Forms – Appraisal Institute, September 1997.
- Demo Report Writing Seminar - Appraisal Institute, September 1997.
- Shopping Center Leases - Appraisal Institute, August 1997.
- The Puerto Rico Planning Board's Geographic Information System - Puerto Rico Planning Board, February 1996.
- Puerto Rico's Environmental Laws and Agencies - Environmental Quality Board, March of 1996.
- Appraisal of Retail Properties - Appraisal Institute, February of 1996.

- Dynamics of Office Building Valuation - Appraisal Institute, November of 1995.
- Professional Environmental Management and Auditing - National Registry of Environmental Professionals, February of 1994.

OFFICES HELD AND FACULTY POSITIONS

- Instructor for Appraisal Institute Courses *Basic Appraisal Principles, Basic Appraisal Procedures, Residential Sales Comparison and Income Capitalization Approaches, Residential Site Valuation and Cost Approach and Residential Market Analysis and Highest and Best Use, General Appraiser Site Valuation & Cost Approach, General Appraiser Sales Comparison Approach, General Appraiser Income Capitalization Approach Part I, and General Appraiser Income Capitalization Approach Part II.*
- Instructor for Appraisal Institute Seminars *Appraisal of Local Retail Properties, Subdivision Valuation, Quality Assurance in Residential Appraisals, Forecasting Revenue, Appraisal Challenges, and Office Building Valuation.*
- President of the Puerto Rico & Caribbean Chapter of the Appraisal Institute - 2001.
- Member of the Board of Directors, Puerto Rico & Caribbean Chapter of the Appraisal Institute, 1998-2003.
- Treasurer, Puerto Rico Chapter of the Appraisal Institute – 1999-2000.
- Member of the Young Advisory Council (i.e., now known as Leadership Advisory Council) of the Appraisal Institute 1998-99.

HAS PERFORMED WORK AS AN APPRAISER FOR:

FINANCIAL INSTITUTIONS & ORGANIZATIONS

- Oriental Bank, Doral Bank, Federal Deposit Insurance Corporation (FDIC), Bayview Financial Services, Kennedy Funding, Colliers International-Valuation & Advisory Services, Banco Popular de Puerto Rico, Popular Mortgage, Banco Santander de Puerto Rico, Santander Mortgage Corporation, Eurobank, Euro Mortgage, Scotiabank, Banco Bilbao Vizcaya, First Bank, First Mortgage, R&G-Premier, R&G-Mortgage, Westernbank, Equity Mortgage, First Equity Mortgage, FEMBI Mortgage, Security Mortgage, Pan-American Financial Corp., Master Mortgage, Money House, Mortgage One Group, Mortgage Store, Mortgage House, National Mortgage, Golden Mortgage, Hispania Mortgage, Preferred Mortgage, Professional Mortgage, JT Mortgage, R & D Mortgage, RBS Mortgage, plus other distinguished independent mortgage brokers.

PRIVATE INSTITUTIONS & ORGANIZATIONS

- Wal-Mart Puerto Rico, Inc., Universidad Interamericana de Puerto Rico, Hospital Interamericano de Medicina Avanzada (HIMA Hospitals), Centro Médico del Turabo, Inc., Bella Vista Hospitals, Hyatt Development & Hyatt Resorts, Puerto Rico Telephone, Matsuchita Electric of Puerto Rico (Panasonic), Inmobiliaria Chabemil, Homedical Inc., Multiplazas de Puerto Rico, Inc., Omega Engineering, S.E., Star Management Corporation, Capitol Transportation, Unión de Inversiones I & II, Millenium Properties, Wometco de Puerto Rico Inc., San Juan Star Inc., American Parking Systems, Inc., De Diego Ambulatory Clinic, Tommy Realty Inc., HJ Investment, S.E., New Century Investments, S.E., Texaco de Puerto Rico, Inc., Knight Enterprises Inc., Tropical Distributors Inc., Model Offset Printing, Sanfiorenzo Engineering Group, Land Acquisition & Management Corp., plus other distinguished institutions, corporations and real estate developers.

FEDERAL AND LOCAL GOVERNMENT

- Government Development Bank for Puerto Rico, US General Administration Service, Puerto Rico Industrial Development Company, Puerto Rico Roads Authority (*Autoridad de Carreteras*), Puerto Rico Commerce and Export Corporation (PR Trade), Puerto Rico Housing Finance Bank, U.S. Department of Housing and Urban Development, Puerto Rico Department of Correction, Puerto Rico Department of Justice, State Insurance Fund of Puerto Rico, Puerto Rico Department of Labor and Human Resources, Puerto Rico Department of Education, Office of the Governor of Puerto Rico, US Marshall Service, Municipality of Toa Baja, Municipality of Rincón, Municipality of Manatí and Municipality of San Juan. Registered in the US Central Contractor Registration (D & B DUNS Number 16-892-6843).

EXPERT WITNESS FOR

- Puerto Rico Roads Authority, Puerto Rico Department of Environmental and Natural Resources, Puerto Rico Department of Justice, Puerto Rico Infrastructure Finance Authority, Municipality of Manatí, Municipality of Rincón and United States Army Corps of Engineers.

