VIA EMAIL

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Re: Assessment of the Viability of Lodging Development on Water Island

Dear Ms. Millin Maduro:

In accordance with Components 1 and 2 of our proposal, the following letter summarizes our findings relative to the proposed development of a hotel/resort on Water Island in the United States Virgin Islands (USVI). The designated site on Honeymoon Beach is currently controlled by the *Government of the United States Virgin Islands*.

The reason for preparing the study is to establish the market and financial feasibility of developing a new hotel/resort on the island in anticipation of the Government issuing a Request for Proposal to solicit private sector interest in developing the project over the next few years.

Our conclusions and recommendations are based upon our present knowledge and information with respect to economic and demographic data, room night demand sources, and the status of the competitive hotel market at the completion of our fieldwork in October 2012.

PRELIMINARY CONCLUSION

Based on our analysis of the market area, as well as current and prospective supply and demand trends in the USVI and various regional resort destinations within the Caribbean, we are of the opinion that there is sufficient market support for development of an upper-upscale resort product on Water Island.

The existing hotel market supply on nearby St. Thomas experienced significant declines during the recent economic recession but has since returned to stability relative to room rates and occupancy. Meanwhile, there has been virtually no new hotel supply developed in the USVI over the past 15 years, mostly due to the high cost of construction, energy, and insurance in the USVI. Nonetheless, demand for accommodations has continued to grow, with the noted exception of 2011 when the 478-unit *Marriott Frenchman's Reef* closed a large portion of its inventory for renovation and displaced a significant amount of room night demand.

Specific to Honeymoon Beach, we are of the opinion that it is an excellent site for resort development and comparable to other competitive resort properties on nearby St. Thomas and St. John, including *Marriott Frenchman's Reef* and the *Westin St John*. Indeed, the site's prime attributes include a relatively secluded location, sweeping views of Caribbean Sea, and direct access/proximity to a white sand beach.

While economic conditions indicate market support for new hotel supply, the operating costs within the USVI remain extremely high, particularly for energy and insurance. In addition, development costs are higher than many competitive destinations because of its location. Together, these two factors have hindered the financial viability of many prior projects, which has resulted in a dearth of new hotel development within the USVI for some time now. In an effort to change that and encourage the development of new hotel product in the USVI, the government has put into place the *Hotel Development Act of 2011*, which allows for new hotel projects within the USVI to retain the occupancy tax it generates as long as it has a mortgage. This tax amounts to 10 percent of a hotel's rooms revenue minus a (maximum) contribution of $500,000 to the *Department of Tourism's Tourism Revolving Fund* and $2,500 to the *Department of Labor's Virgin Islanders Living Abroad* database fund. These funds can be used to offset or subsidize the above-average operating costs as identified above. Inclusion of this tax revenue stream in the income statement of the hotel raises the financial feasibility of the project.

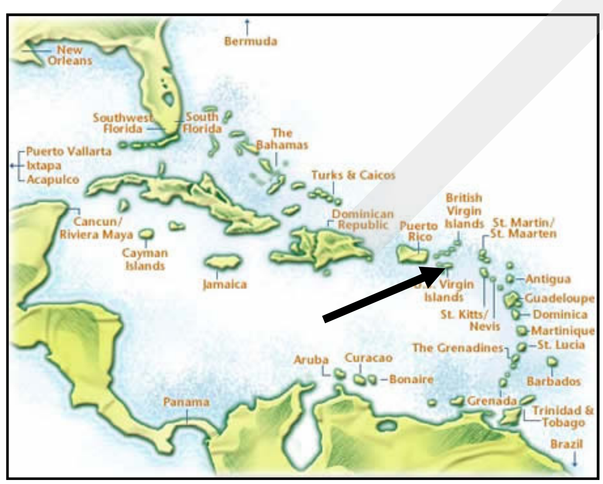
Separately, being sensitive to potential concerns by local residents of Water Island to new commercial development, as well as the sheer dollar amounts an expansive resort development would require, we prepared two sets of projections for a new resort on Water Island. First, a 74-room resort (***Scenario 1***) centered on Honeymoon Beach, while the 2nd scenario represents a larger 125-room resort (***Scenario 2***) split between Honeymoon Beach and a non-waterfront site that was previously home to the former *Water Island Hotel*.

Based on the foregoing, we estimate that the proposed *Scenario 1* - 74-room resort hotel can achieve $11 million in total revenues and an NOI of $2.3 million in a stabilized year (in current value 2012 dollars). This assumes that the subject hotel can achieve a stabilized occupancy level of 63 percent at an average room rate of $415.00 (expressed in 2012 dollars) in a representative year, assumed to be the 3rd year after opening. We estimate that the *Scenario 2* - 125-room resort hotel can achieve $19.4 million in total revenues and an NOI of $4.5 million in a stabilized year (in current value 2012 dollars). This assumes that the subject hotel can achieve a stabilized occupancy level of 68 percent at an average room rate of $370.00 (expressed in 2012 dollars) in a representative year, assumed to be the 3rd year after opening. A six-year projection of the hotel's operating performance under both scenarios is provided in the *Projected Operating Levels* section of this letter, with supporting cash flows contained in the *Addenda*.

The balance of this letter outlines our findings and property projections.

AREA REVIEW

The USVI consists of three main islands of St. Thomas, St. Croix, and St. John, as well as the considerably smaller yet distinct Water Island, along with several other nearby minor islands. The islands are situated roughly 40 miles east of Puerto Rico. St. Croix is the largest and most populated of the three islands, with St. Thomas, St. John and Water Island following, respectively. The capital of the USVI is Charlotte Amalie located on St. Thomas which is also the center of the tourism market that dominates commerce on the islands. A majority of the hotels and the busiest cruise ship port in the USVI are located on St. Thomas. St. John is located roughly four miles to the east of St. Thomas and is easily accessible by ferry. St. Croix is approximately 40 miles to the south of St. Thomas and St. John and is generally its own distinct destination, while Water Island is roughly one-half mile south of St. Thomas' Charlotte Amalie Harbor and accessible by boat only. The map to the right illustrates the location of the USVI within the Caribbean.



Discovered by Columbus in 1493, the Virgin Islands (St. Thomas and St. John) were settled by the *Danish East India Company* in 1672 and 1694, respectively; the islands officially became royal Danish colonies in 1754. The Danish government twice tried to sell the unprofitable colonies to the U.S. before finally unloading them for $25 million in 1917. Since 1927, all the inhabitants of the USVI have been citizens of the U.S., but they are officially an unincorporated territory of the U.S. This territorial status has been an issue of contention for some residents as it has been in nearby Puerto Rico but the benefits seem to outweigh the negatives. As such, there is no strong desire for a change in status (statehood or independence) and the political climate is stable.

The closest main island to Water Island is St. Thomas which is the most popular of the USVIs and has the highest resident and visitor population counts. St. Thomas has much to offer the visitor including a favorable climate, friendly people, and a number of unique attractions. St. Thomas is characterized by a beautiful rugged coast line dotted with white sandy beaches that border clear blue waters and offers a full range of water sports. The climate in St. Thomas is mild (71 to 89 degrees Fahrenheit on average), tempered by trade winds. In addition to being home to the territory's capital, Charlotte Amalie, St. Thomas is also home to two large cruise ports. This has provided St. Thomas with the enviable position of being the epicenter for both government and tourism spending. The area that has experienced the most intense development on St. Thomas is along the South Coast surrounding Charlotte Amalie. In contrast, the West End and North Coast have remained largely undeveloped, with the exception of private homes. The East End/Red Hook area has been growing as a result of its hotels, timeshares, and vacation condominiums and is home to the primary inter-island ferry dock, which offers ferry service between St. Thomas and St. John.

Meanwhile, Water Island is roughly 490-acres and the youngest of the USVIs, having been purchased by the *Federal Government* from *Danish East India Company* in 1944 as a means to protect the submarine base on neighboring St. Thomas, and to test chemical warfare agents. The *Department of Defense* (DOD) relinquished control of it in 1950 to the *Department of the Interior*, who then leased it to a private developer. The initial development of Water Island included the original *Water Island Hotel*, as well as residential homes. In 1965, the master lease of Water Island was sold to another developer, who expanded the hotel and renamed it the *Water Isle Hotel & Beach Club*, and the sub-leased additional private home lots. Sadly, in 1989, the hotel was damaged by Hurricane Hugo, never to be repaired, and the lease was left to expire some three years later. It was not until 1996 that the *Department of the Interior* formally transferred control of Water Island to the *USVI Government,* making it the 4th USVI. During the transfer, the existing residential sublease leaseholds were allowed to acquire their property on a fee simple basis. In its current state, the island functions as a residential community for a population of less than 200 people concentrated in Carolina Point, Flamingo Point, and Sprat Bay, though visitors are able to stay on island in a variety of rental homes and campgrounds. There is little evidence of commercialization and the *Water Island Civic Association*, in conjunction with the *USVI Government*, maintains and provides services to the island and its residents.

Service industries constitute the foundation of the USVI's economy. The major sources of employment are tourism-related businesses, which includes everything from hotels and resorts to independent taxi operators serving cruise ship passengers. Overall, the USVI economy has experienced moderate economic growth since 2002, largely due to the influx in visitors both by plane and cruise ship. It should be noted that much of the local economy is tied to the health of its primary feeder market, the U.S. With that in mind, the USVI economy was profoundly impacted by the world-wide credit crisis, and national recession that began in 2008. This is evidenced by the 7+ percent decline in visitors between 2007 and 2009. At year-end 2011, in line with the improvement of the U.S. economy, the number of visitors to the USVI rebounded by 9.4 percent compounded annually since the low of 2009 to roughly 2.68 million, the highest number of visitors to the USVI over the reporting period. As of June 2012, the total number of visitors to the territory had fallen slightly from to 1,547,883 in 2012, representative of a decrease of 16,823 visitors or roughly one percent. According to representatives from the *Virgin Islands Hotel and*

Tourism Association, this is in part due to the unusually warm weather experienced in the northeastern U.S., a major area of origin of USVI tourists, as well as a reduction in cruise ship visitors by roughly 25 percent year-over-year.

Part of the demand for lodging is related to the economic and demographic growth of the market area. Factors affecting trends into the future include the following:

- The population of the entire USVI has decreased from 114,743 in 2007 to 106,405 in 2010 (latest data available), representing a 2.5 percent negative compound annual growth. Estimates for the population as of July 2012 stood at 105,275.
- The population of St. Thomas decreased at a compound annual rate of 1.5 percent or from 54,070 to 51,634 during this same time frame. The slower negative growth rate in St. Thomas compared to St. Croix and St. John is due to the fact that the majority of the territory's employment opportunities are on St. Thomas.
- The territory, as a whole, has experienced moderate economic growth over the past decade, although the economy did decline in both 2008 and 2009 before rebounding in 2010 (latest data available). Real Gross Domestic Product (GDP) – GDP adjusted to remove price changes – increased from $4.2 billion in 2002 to $4.6 billion in 2010, representing a compound annual growth rate of 1.3 percent. The overall growth has been largely spurred by the private sector, particularly from increased activity within the tourism sector, as well as activity at the *Hovensa Oil Refinery* on St. Croix. Specific to the rebound in 2010, the primary source of overall GDP growth was due to the services-producing industries, including healthcare. Furthermore, the trade balance contributed significantly to economic growth with the importation of goods declining more rapidly than the exporting of goods, as did net foreign travel, increases in private fixed spending (most notably construction), and increased government spending. However, neither the *USVI Bureau of Economic Research* nor the *U.S. Department of Commerce's Bureau of Economic Analysis* has published statistics for 2011. We assume that the GDP increased, largely due to the increase in visitors. Into 2012, we believe that GDP will decline, due to both the decrease in the number of tourists on a year-to-date basis so far, and the *Hovensa Oil Refinery* ceasing operation in February 2012 and laying-of roughly 1,200 employees and 950 subcontractors. This eliminated them as the largest private employer in the territory and impacted the overall value of exports. According to Government, the shutdown of the oil refinery may represent a $580 million reduction in direct gross economic output - approximately 13 percent of the total gross territorial product. It is also expected to result in a loss of more than $92 million in tax receipts. At the current time, the future of the facility is undetermined, although government officials have stated that they would like to see it re-opened or sold to another operator.
- The civilian labor force in the USVI increased modestly between 1990 and 2011 from 48,260 to 50,729, or by 0.2 percent annually. Employment during that same period decreased slightly by 0.1 percent annually from 46,930 to 46,121. The annual unemployment rate reached its highest level in 2003 at 9.4 percent. Since then, the rate declined five years in a row to a low of 5.8 percent in 2008. In 2009, territory-wide unemployment rate spiked to 7.6 percent following layoffs at various tourism-related employers, and has continued to increase to 9.1 percent as of year-end 2011. According to the *USVI Department of Labor*, as of September 2012, the unemployment rate stood at 13.6 percent, up 4.1 percentage points over the same period in 2011. The increase is reflective of a contraction of private sector employment, including the loss of employees from the *Hovensa Oil Refinery*, as well as related to seasonality in the leisure and hospitality sectors. Moreover, this has been compounded by the *USVI Government's* termination of government workers beginning in 1st quarter 2012 in a bid to better control spending and reduce budget deficit, which have contributed to an 8 percent loss of public sector workers in the 1st six months of FY 2012 compared to same period one year earlier. Major employers on St. Thomas include the *Federal Government*, *Ritz Carlton, Marriott Frenchman's Reef Resort, Wyndham Sugar Bay, WICO,* and *Innovative Telephone Corporation,* to name a few. It should be noted that the territorial government remains the largest employer in the USVI.

- In 1994, the territory's industrial development program was created for the purpose of promoting growth, development and diversification of the USVI. The *Economic Development Commission* (EDC) administers the industrial development program under Title 29 Virgin Islands Code, Chapter 12 and Section 934 of the U.S. Internal Revenue Code. Companies eligible for the tax benefits from the EDC represent a broad range of industries including hotels, guesthouses, manufacturing and assembly, major tourist attractions, transportation-related, and export service businesses. The potential tax benefits for member companies include: 90 percent exemption on local income taxes, 90 percent exemption on dividends, 100 percent exemption on gross receipts taxes, 100 percent exemption on property taxes, 100 percent exemption on excise taxes, and one percent custom duties. While the *USVI Government* has publicly stated that these incentives are vital to the local economy, the *Federal Government* has tightened eligibility requirements and increased the number of audits, responding to cases of abuse.
- Two successful examples of these incentives creating investment in the USVI come from the rum industry's *Cruzan* and *Captain Morgan* brands. In 2009, the USVI government signed a 30-year agreement with *Beam Inc.'s* subsidiary *Cruzan VIRIL, Ltd*, the owner of *Cruzan Rum*, to expand their St. Croix rum distillery. The project opened in 2012 and is expected to substantially increase production capacity by 50 percent. The company projects rum production to jump to 16.1 million gallons annually by 2013. So as to continue to promote achievement of threshold level of U.S. rum sales and maximize cover-over revenues for the USVI, the agreement was recently amended in April 2012 via the *USVI Legislature* whereby the level of support from the *USVI Government* to *Cruzan VIRIL, Ltd* pursuant to aggregate rum sale targets, decreased from 31.5 percent to 25 percent rather than the original 18 percent, and will remain in effect through 2018. The amendments were bought about because of the significant changes in the United States bulk rum market, inclusive of competition from new producers, volatility in sugar markets, as well as new incentives that the *Government of Puerto Rico* recently provided its own rum producers. Another 30-year agreement was signed in 2008 for London-based *Diageo PLC's Captain Morgan* to be moved from Puerto Rico to the new expanded distillery on a 26-acre site at *St. Croix Renaissance Park*. Production of the rum also began in 2012, with the distillery supplying all rum used to make *Captain Morgan* branded products of the U.S.-based *Diageo* has the capacity to produce 20 million proof gallons of rum annually, and is projected to return a gross of $100 million annually. Roughly 8.4 million proof gallons of rum were shipped in the first half of fiscal year 2012, representative of a 87 percent increase over the same period in 2011. However, rum excise taxes are currently roughly $2 million under 2011 figures as the cover over rate reverted back in March 2012 to $10.50 from the $13.25 price per proof gallon imposed by the *Federal Government*. However, the *United States Congress* normally reverts the cover rate back to $13.25 every two years, which should see a marked increase in rum excise taxes in 2014.
- Similar to the United States in recent years, St. Thomas had enjoyed significant growth in the development of new residences, fueled by a number of factors including its status as United States Territory, income tax advantages, and non-passport requirements to United States citizens. The aging of the baby boom generation and their quest for second homes in water-based locations also played a significant role. Collectively, these factors have helped drive real estate prices higher through the first part of the last decade. Based on a review of statistics, the local real estate market peaked in 2007 with the average home in St. Thomas selling for $783,000. Subsequent to 2007, St. Thomas experienced a steep decline in residential development activity, transactions and pricing in the wake of the financial crisis that hit the U.S., along with the subsequent worldwide recession. As a result, the average sales price for an existing home on St. Thomas declined to $684,000 in 2011, representing a 3.3 percent decrease over 2007 price levels. The total number of homes sold also decreased from 174 in 2007 to 138 in 2011. These declines put a halt to a number of residential, fractional and timeshare projects that were proposed for USVI; including *Cabrita Point*, *Wyndham Vacation Resorts'* redevelopment of the former *Renaissance Resort*, and *Botany Bay,* to name a few. We understand that the residential market is improving, but will require a few years for pricing to recover and new projects to recommence. There are no specific statistics available for Water Island

regarding its residential market. A review of a number of multiple listing services (MLS) reveal that pricing for homes for sale currently range from $275,000 to $2.5 million.

- Construction has remained flat with only the public sector engaged in infrastructure projects. These projects include the $10 million *University of the Virgin Islands St. Thomas Residence Halls*, the $20 million *Whispering Hills* housing development, the $5 million *Main Street Enhancement Project*, the $5.4 million *Rothschild Francis Square Revitalization*, the $13 million *UVI Research & Technology Park Campus Building* and the 1st phase of the $20 million *Louis Brown Villas* housing development on St. Croix. With regards to new commercial development, St. Thomas has seen little since the opening of *East End Plaza* in late 2008 and the *Yacht Haven Grande* in late 2006. Both projects have struggled to attract and/or maintain tenants. In addition, both projects have proposed hotel components in their 2nd phase of development, although timelines are unknown at this time.
- *Cyril E. King Airport* is located on the West End of St. Thomas and is the primary entry point for visitors to St. Thomas and St. John. Eight major airline carriers serve *Cyril E. King Airport*, with direct flights to 11 major gateway cities in the U.S. *American Airlines*' hub in San Juan currently offers direct connections to six destinations in the U.S. It should be noted that *American Airlines* and *American Eagle* have drastically reduced the number of flights into and out of San Juan, effectively moving its Caribbean hub to Miami. The wind-down of the flights began in September 2008 when *American* cut daily departures from San Juan from 93 to 51, representative of a decrease of roughly 45 percent. In the early 2000's, *American* and *American Eagle* operated more than 100 daily flights from San Juan. Plans are now for a phase-out of the *American Eagle* San Juan base by March 2013 as part of *American's* Chapter 11 restructuring. As a result, intra-Caribbean flights, inclusive of those to *Cyril E. King Airport*, served by *American Eagle*, would be phased out commencing this year and continuing through 2013. *American Eagle* currently serves approximately 12 locations within the Caribbean, inclusive of St. Thomas and St. Croix. *Jet Blue* is attempting to make up for the loss in *American Eagle* flights by adding flights, but their aircrafts offer less seats that *American Eagle* flights offer. The table on the following page details historical passenger movements and the average number of available seats per week at St. Thomas' *Cyril E. King Airport*.

Historical Passenger Movements & Average Available Seats
Cyril E. King Airport

Year	Total Passengers		Available Seats per Week (1)	
	Number	% Change	Number	% Change
Year-End				
2000	482,441	--	12,938	--
2001	469,423	(2.7%)	11,081	(14.4%)
2002	471,233	0.04%	12,147	9.6%
2003	504,322	7.0%	11,740	(3.4%)
2004	526,400	4.4%	11,550	(1.6%)
2005	543,442	3.2%	11,458	(0.8%)
2006	533,419	(1.8%)	11,898	3.8%
2007	561,321	5.2%	11,073	(6.9%)
2008	558,412	(0.5%)	10,503	(11.4%)
2009	533,310	(4.7%)	10,982	4.4%
2010	543,002	1.8%	11,042	0.5%
2011	531,907	(2.0%)	11,084	0.4%
CAG (2)	**0.9%**	--	**(1.4%)**	--
Year-to-Date through August				
2011	387,454	--	12,291	--
2012	431,406	11.3%	13,147	7.0%

Notes: (1) Based on scheduled flights arriving from outside the Caribbean, excludes *American Eagle* and other regional carriers.
(2) Compound Annual Growth.
Source: USVI Bureau of Economic Research; compiled by REV*PAR* International, Inc.

- Total passenger arrivals increased by 0.9 percent compounded annually between 2000 and 2011 or from 482,441 in 2000 to 531,907 in 2011. Despite the fact that airlift to the island decreased an average of 1.6 percent compounded annually, the number of total passengers increased – an indication that planes in the shoulder and off-peak season are arriving with greater load factors. It should also be noted that many of the passenger arriving in St. Thomas head directly to St. John or the British Virgin Islands (BVI), since neither offer direct air service to the United States. The peak year for air travel was 2007 with passenger counts reaching 561,321. Both 2008 and 2009 saw declines in passenger counts, attributed to the recession in the U.S. as well as a slight decline in airlift capacity. Air arrivals bottomed out in 2009, as indicated by the modest 1.8 percent increase in passengers in 2010. This coincides with the beginning of a rebound in travel and room night demand in the U.S. and the end of the recession. However, 2011 saw a reversal in the positive trend by roughly two percent, likely the result of the temporary closure of 300+ rooms at the *Marriott Frenchman's Reef*, as the hotel underwent renovation. Year-to-date August 2012, there has been a significant increase in both total passengers and available seats per week, with an increase of 11.3 percent and 7 percent over the same period in 2011, respectively. This has been, in part, fueled by the addition of flights from Toronto by *Air Canada* as well *JetBlue* from Boston.

- The number of annual cruise visitors to St. Thomas is more than three times the number of air visitors; as such, the cruise ship industry is a central part of the economy in the USVI. The primary cruise ship ports in the region are *Havensight, Crown Bay*, and the *Waterfront*, all of which are located in Charlotte Amalie, St. Thomas. The table to the right details the historical cruise ship calls on St. Thomas. Cruise ship calls into St. Thomas have decreased at a compound annual rate of 3.5 percent from 2000 to 2011, or from 949 to 643; however, due to the increased capacity of newer ships, actual passenger arrivals have increased at a compound annual growth rate of 0.8 percent or from 1,719,827 to 1,887,096. Similar to air passenger counts, cruise passenger counts peaked in 2007, underwent heavy losses in 2008 and 2009, and have rebounded into 2010. For 2012 year-to-date through August, both the number of cruise ship calls and total passenger arrivals were down 5.2 and 5 percent over the same period in 2011, attributable, if only in part, to hesitancy from prospective cruise passengers following the *Costa Concordia* disaster. Both *Carnival Cruise Lines* and *Royal Caribbean*, two of the major cruise companies to visit St. Thomas, saw worldwide bookings decrease by in their mid-teens following the sinking in mid-January. Moreover, with the disaster occurring in "wave season", which is the time of year when roughly one-third of all cruises are reserved, the focus went from advertising campaigns to the reassuring cruisers of the safety of the industry, hurting sales dramatically. Into the future, St. Thomas is expected to remain a primary cruise destination within the Caribbean, given its proximity to the port of San Juan and its convenient location along routes from Florida to the Eastern Caribbean. *Royal Caribbean* has announced plans to include two additional ships to regularly call upon the USVI for the 2013-2104 season, including a total of eight summer calls to St. Thomas alone. That being said, the recent decline in the economy of the United States led many cruise lines to temporarily redeploy some of their ships to other global destinations including the Mediterranean and the South China Sea. These alternative destinations could threaten the Caribbean Basin's dominance of the cruise industry over the longer term.

Historical Cruise Ship Calls on St. Thomas

Year	Calls		Passenger Arrivals	
	Number	% Change	Number	% Change
Year-End				
2000	949	--	1,719,827	--
2001	909	(4.2%)	1,790,452	4.1%
2002	812	(10.7%)	1,671,318	(6.7%)
2003	878	8.1%	1,751,930	4.8%
2004	922	5.0%	1,960,913	11.9%
2005	814	(11.7%)	1,909,984	(2.6%)
2006	776	(4.7%)	1,901,275	(0.5%)
2007	750	(3.3%)	1,917,371	0.8%
2008	685	(9.4%)	1,754,557	(9.2%)
2009	593	(15%)	1,507,623	(16.3%)
2010	631	6.0%	1,751,328	13.9%
2011	643	1.9%	1,887,096	7.8%
CAG [1]	**(3.5%)**	--	**0.8%**	--
Year-to-Date through August				
2011	464	--	1,368,214	--
2012	440	(5.2%)	1,300,079	(5.0%)

Note: [1] Compound Annual Growth
Source: USVI Bureau of Economic Research; compiled by REV*PAR* International, Inc.

- The trend in overall visitor expenditures in the USVI has been negative in recent years, decreasing at an annual rate of 1.7 percent between 2000 and 2010. As the table on the right indicates, total visitor expenditures peaked at a record $1.51 billion in 2007. The 23.5 percent decrease in visitor expenditures between 2008 and 2009 has been attributed to a decline in the number of both air and cruise ship visitors to the island, as well as a decrease in overall spending by both groups during the recession. The *USVI Bureau of Economic Research* has yet to release statistics for 2011. Into the future, we anticipate visitor expenditures will continue to mirror both air and cruise passenger arrivals, both of which are expected to grow modestly.

Historical Visitor Expenditures in USVI		
Year	**Total Expenditures**	**Percent Change**
2000	$1,205,900,000	--
2001	$1,234,100,000	2.3%
2002	$1,195,400,000	(3.1%)
2003	$1,256,500,000	5.1%
2004	$1,356,000,000	7.9%
2005	$1,431,600,000	5.6%
2006	$1,467,600,000	2.5%
2007	$1,512,600,000	3.1%
2008	$1,157,100,000	(23.5%)
2009	$1,021,300,000	(11.7%)
2010	$1,012,500,000	(0.9%)
CAG (1)	**(1.7%)**	--

Note: (1) Compound Annual Growth
Source: USVI Bureau of Economic Research; compiled by: REV*PAR* International, Inc.

- There are currently 47 hotels with 3,759 rooms in the USVI; this includes large resorts like the *Marriott Frenchman's Reef*, small inns, and even the *Maho Bay Tent Camp*. Separately, the USVI had a total of 1,130 condominium, guesthouse and timeshare unit (rooms) as of year-end 2011 that were rented out on a daily or weekly basis. It should be noted that this number reflects only those units registered with the government and excludes those used by the owners, and rented out on a casual or indirect basis. These units typically operate at even lower occupancy levels due to the lack of a cohesive market plan and owner usage; although the addition of professional management companies like *Antilles Resorts* have made the condominiums at *Point Pleasant* and *Sapphire Beach Resort* more competitive in recent years. The following table details the lodging performance (hotels and condominiums) for the entire USVI, as well as St. Thomas and St. John.

Trends in Historical Lodging Performance (Hotels and Condominiums)						
Year	**Entire USVI**			**St. John and St. Thomas**		
	ARN (1)	**ORN (2)**	**Occ %**	**ARN (1)**	**ORN (2)**	**Occ %**
Year-End						
2006	1,718,800	1,040,800	60.5%	1,294,600	823,600	63.6%
2007	1,695,200	1,101,000	64.9%	1,265,400	867,800	68.6%
2008	1,789,600	1,036,200	60.0%	1,340,000	828,200	64.6%
2009	1,815,500	998,400	55.0%	1,368,600	825,300	60.3%
2010	1,828,100	1,042,200	57.0%	1,386,700	839,800	60.6%
2011	1,781,900	928,500	52.1%	1,336,000	727,300	54.4%
CAG(3)	**0.7%**	**(2.3%)**	--	**0.6%**	**(2.5%)**	--
Year-to-Date through June						
2011	891,600	443,400	49.7%	670,300	356,100	53.1%
2012	898,900	415,800	46.2%	680,600	326,100	47.9%
% Change	**0.8%**	**(6.2%)**	--	**1.5%**	**(8.4%)**	--

Notes: (1) Available Room Nights
(2) Occupied Room Nights
(3) Compound Annual Growth.
Source: USVI Bureau of Economic Research; compiled by REV*PAR* International, Inc.

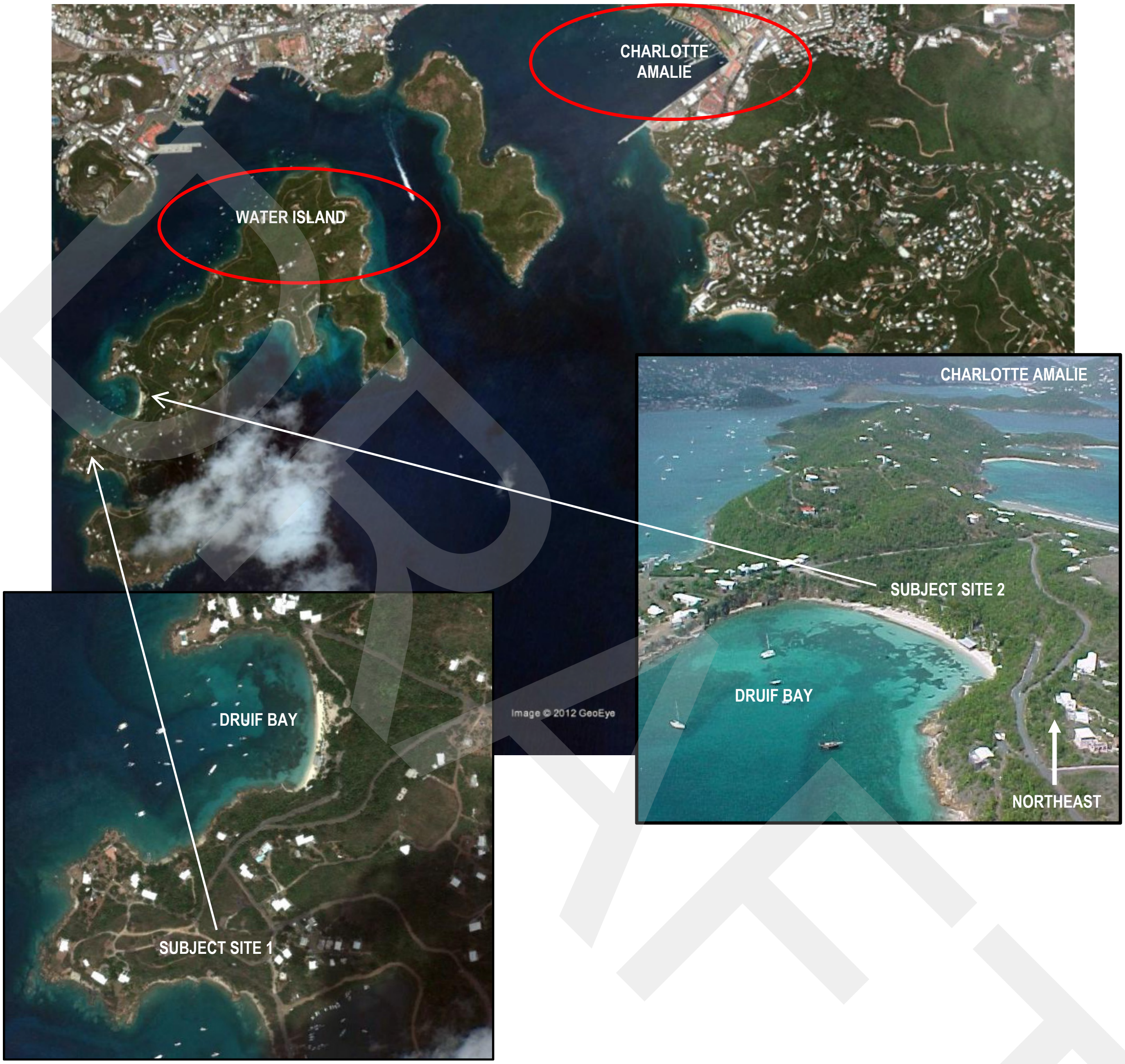
- The lodging accommodation occupancy rate for the entire territory decreased from 60.5 percent in 2006 to 52.1 percent in 2011, with declines in occupancy driven by a combination of increases in supply and a decline in demand, which decreased by roughly 112,300 over the same period. The overall market realized an increase of roughly 77 new lodging units between 2006 and 2011, a result of the opening of *Marriott Vacation Club's* 220-unit *Frenchman's Cove Resort*, and the addition of some residential condominiums to various rental programs. It must be noted that *Marriott Frenchman's Reef* was under renovation during 2011, and thus the available room nights since completion have increased 0.8 percent as of June 2012. In regards to St. Thomas and St. John's lodging occupancy (as St. Croix only represents roughly 25 percent of the territory's lodging supply), occupancy rates mimicked the territory-wide performance, decreasing from 63.6 percent in 2006 to 54.4 percent in 2011, with room night demand or occupied room nights for the St. Thomas and St. John lodging facilities decreasing 2.5 percent compounded annually from 2006 to 2011, reflecting a decrease of roughly 96,300 room nights. As expected, room night demand and lodging occupancies peaked in 2007, prior to the global credit crisis and subsequent worldwide recession. This peak also coincided with a peak in air passenger counts. Declines in demand, coupled with increases in supply in 2008 and 2009, lead to a four point decline in occupancy in both years. As of year-to-date June 2012, the increase of supply and the decrease in the total number of visitors to the USVI have led to a decrease in occupancy levels in St. Thomas and St. John.

Based on the foregoing and discussions with people familiar with the local economy, it is estimated that the local economy is being impacted by the loss of the *Hovensa* refinery and, assuming it remains closed, the economy is likely to contract in 2012. Additionally, a decline in the hospitality and construction sectors, as well as the lay-off of government workers, is expected to further negatively impact the Territory's economy over the short term. On a more positive note, these decreases will be lessened by the aforementioned increases in rum exports due to the presence of both the *Cruzan Rum* and *Captain Morgan* distilleries, the projected reversal and positive increase in cruise passengers, and the continued increase in air travelers. Results for 2012 thus far are mixed, as small increases in air visitors, decreases in cruise visitors, and decreases in occupied room nights offer little clarity; however, most hoteliers we spoke with were bullish on the future tourism prospects for the USVI. The only concern that was consistently noted for the tourism sector was the extremely high cost of energy, equal to roughly five times that paid in the United States, which has led many hotels to switch to self-generation in hopes of keeping costs down, with modest success. Finally, it should be noted that growth in the tourism sector is somewhat tied to supply growth or, in some cases, supply reductions. Since the market is highly seasonal, it is difficult for it to grow without the addition of new supply to accommodate additional demand during the peak and certain shoulder periods. This includes both traditional hotels, timeshare/fractional, and resort condominium units.

SITE REVIEW

REV*PAR* International was presented with two sites for the proposed hotel development; the site on which the original 50-room *Water Island Hotel and Beach Club* occupied until 1989 when Hurricane Hugo damaged the hotel beyond repair, as well as a site located seafront at Honeymoon Beach. REV*PAR* International requested the acreage of the available parcels of land from the *Department of Property and Procurement*, but this has yet to be furnished.

The first site is located on a peninsula between Flamingo Bay and Druif Bay, overlooking Honeymoon Beach. The second site is triangular in nature and situated on Honeymoon Beach between the waterline and the Main Road. The island's main entry point, *Phillips Landing* is located at the southwestern end of Elephant Bay roughly one-half mile south of Crown Bay in Charlotte Amalie West, St. Thomas. The aerial photographs below identify the location of both sites relative to Charlotte Amalie.



We are of the opinion that the second site at Honeymoon Beach presents the most viable option for resort development in light of its direct beachfront access. The original *Water Island Hotel* site offers sweeping views of the sea but has no direct access to the beach, thus making it secondary in our opinion. That being said, it could certainly be developed in conjunction with the Honeymoon Beach site and serve as the central public area for the hotel and even some guest rooms, similar to the split hillside/beachfront layout of the *Marriott Frenchman's Reef and Morning Star Resort*. However, we would not develop any resort on Water Island without the inclusion of Honeymoon Beach as the primary location for most of the guest room inventory.

The majority of land surrounding the subject sites is vacant or sparsely developed with single family homes; the exception being two food service vendors which have concession operations on Honeymoon Beach. The primary reason for the limited development of Water Island is the fact that it was not until 1996 that the local residents gained control of their land leases. Moreover, the only fresh water source on the island is rainwater collected in cisterns and the lack of any type of sewage system, which has eliminated most forms of commercial development. However, electricity and telephone service is available via *Virgin Islands Water and Power Authority* and *Innovative Communication*, respectively.

The following bullets evaluate the subject site's access, visibility and proximity to demand generators and area amenities.

- In order to access to Water Island, the majority of visitors must either initially fly into *Cyril E. King International Airport* (STT), roughly three miles west of *Crown Bay Marina* via Route 302 (Airport Drive) and Route 304 on St. Thomas, or arrive via one of the several ferries or seaplanes that service Charlotte Amalie Harbor. Visitors then would continue to Water Island either by private boat or through the use of the paid *Water Island Ferry* service that operates daily between *Crown Bay Marina* and *Phillips Landing* on Water Island. The majority of visitors and residents choose to use the ferry, with the half-mile journey taking approximately 10 minutes to complete. As such, although not directly accessible via land, access to the island is relatively quick and easy and more proximate to the airport when compared to potential competitors both on St. John or St. Thomas in the case of *Sugar Bay* and the *Ritz Carlton,* which are each a 30+ minute drive from the airport. Once on the island at *Phillips Landing*, the sites are less than three quarters of a mile via Main Road to Druid Road. At the present time, the island does not offer taxi or public transportation services. Thus, we assumed that the resort would offer its own shuttle service to and from Water Island, as well all on island transportation.
- The subject site's visibility from Main Road, the main thoroughfare providing access to the southern portion of the island from *Phillips Landing*, is excellent. That being said, direct visibility of a hotel is not crucial to its success, given that virtually all of a hotel's guests are anticipated to make reservations prior to their arrival on the island. Alternatively, visibility of any resort is more typically achieved through marketing efforts via other channels of distribution.
- Proximity to demand generators is considered excellent largely due to the subject's sea-front location which includes direct access to a white sand beach. Moreover, since the primary generator for leisure travel to Water Island would be Honeymoon Beach, its proximity and direct access is crucial to the resort's success and deemed a necessity when competing against all other hotels located on the islands, all of which have direct oceanfront access and views. With that said, commercial-oriented transient demand would not be a viable source of business given the site's location off St. Thomas and outside of Charlotte Amalie where the local office market is situated. Moreover, the perceived inconvenience of having to take a ferry to gain access to Charlotte Amalie, although many times quicker than moving through town, would eliminate much of this potential demand as a consistent source of business. The other room night demand segment is group-related business, which is generated by a number of sources including large and small government meetings, small corporate meetings, incentive meetings, and social groups with an emphasis on destination weddings and, to smaller degree, regional association meetings. Similar to the local corporate transient segment, it may prove difficult to persuade some of the corporate-related groups from nearby Charlotte Amalie, where majority of this commercial demand originates, to choose the subject given the availability of more proximate options on St. Thomas. Fortuitously, much of the executive-level groups and social groups that visit the USVI are generated by groups from the U.S., who could potentially choose Water Island as the location of their event because of its secluded nature and direct access to Honeymoon Beach. Nonetheless, the USVI remains largely a leisure destination with more than 80 percent of hotel demand coming from leisure transient travelers for which the subject site would be highly competitive.
- The subject site's access to area amenities would be considered excellent if the site is developed with the mix of uses as proposed, including several full-service food and beverage outlets. Water Island does not currently possess any form of retail or food and beverage outlets with the exception of a few quick service establishments at Honeymoon Beach, including *Heidi's Honeymoon Grill*, *Joe's Water Island Beach Bar*, and floating stand *Da Pizza Boat*. The subject is expected to offer a full

complement of resort amenities and services, which would give guests little reason to leave the resort. Moreover, the crystal clear water of Caribbean Sea enables guests to partake in numerous leisure-related activities, including deep sea fishing, scuba diving, snorkeling, kayaking, and pleasure boating.

Overall, we rate the subject site an excellent location for an upper-upscale full-service resort, as it offers the key attribute of excellent proximity to Honeymoon Beach that will attract both leisure transient and group business. Despite its "island off an island" location, the subject sites' proximity to *Cyril E. King Airport* actually provides it with easier access than many of its likely competitors. And, although Water Island currently offers a very limited amount of area amenities, this will be altered with the introduction of the proposed hotel. Furthermore, the proposed hotel will be one of the most proximate hotels to the numerous shopping and dining options in Charlotte Amalie, separated only by a 10 minute ferry ride.

COMPETITIVE LODGING MARKET

In order to establish a benchmark for the lodging component of the project, we reviewed the existing hotel and resort market of the USVI. For purposes of our analysis, we identified six hotels offering a total of 1,444 rooms that would define the competitive set for a hotel located on Water Island. A summary of the competitive set is provided in the following table.

Competitive Set			
Hotel	**Location**	**Number of Rooms**	**Estimated 2011 RevPAR**
Marriott Frenchman's Reef	St. Thomas	478	$130.00
Sugar Bay Resort	St. Thomas	294	$130.00
Ritz-Carlton	St. Thomas	180	$330.00
Westin St. John	St. John	175	$360.00
Caneel Bay Resort	St. John	166	$330.00
Renaissance Carambola Beach	St. Croix	151	$90.00
	Total/Average	**1,444**	**$201.82**
Source: Various hotels; compiled by REV*PAR* International, Inc.			

These hotels are considered competitive to varying degrees based on location, facilities, room rate structure, market orientation, and/or national chain affiliation. Other traditional lodging facilities in the USVI were considered but ultimately not included in the competitive supply due to their size, location, room rate structure, and sources of room night demand and/or market segmentation. The excluded hotels include the *Windward Passage, Best Western Emerald Beach* and *Bolongo Beach,* to name a few. The St. John and St. Croix properties were included due to their similar attributes to the competitive set on St. Thomas and brand affiliation; however, their off-island location does limit their competitiveness with hotels on St. Thomas or, in the subject's case, Water Island. Additionally, it should be noted that there are a number of condominium, timeshare and fractional units that are rented out on a nightly or weekly basis that are loosely competitive with the aforementioned traditional hotels. This can include units that are attached to or affiliated with some of the traditional hotels. Their performance is typically lower than the traditional hotels as they lack a proper sales and marketing department or reservations systems.

A summary of the historical performance of the defined competitive set is provided in the following table.

Trends in Historical Performance – Competitive Supply							
Year	Annual Available Rooms	Occupied Room Nights			Occupancy	Average Daily Rate	RevPAR
		Total	Change	% Change			
2008	527,060	377,807	--	--	71.7%	$286.90	$205.66
2009	527,060	357,275	(20,532)	(5.4%)	67.8%	$260.12	$176.33
2010	527,060	369,428	12,153	3.4%	70.1%	$274.82	$192.63
2011	527,060	341,859	(27,569)	(7.5%)	64.9%	$285.80	$185.37
Proj. 2012	527,060	371,234	29,375	8.6%	70.4%	$297.41	$209.48
CAG (1)	**--**	**(0.4%)**	**--**	**--**	**--**	**0.9%**	**0.5%**

Note: (1) Compound Annual Growth.
Source: REV*PAR* International, Inc.

Between 2008 and 2012, the number of rooms within the competitive set remained unchanged; however, the *Sugar Bay Resort* dropped its *Wyndham* affiliation in late 2011 and *Carambola* became associated with *Marriott's Renaissance* brand in September 2010. The stable supply and decreasing demand lead to a four point decrease in occupancy between 2008 and 2009. Beginning in 2010, demand rebounded by 3.4 percent or 12,200 room nights, which allowed the market occupancy to rebound by 2.3 points, back above 70 percent. In 2011, the rebound in demand and occupancy came to a halt, with the market losing 28,000 room nights and 5.2 points of occupancy. According to area hoteliers, this was a result of the *Marriott* closing a portion of its rooms for renovation, which caused its annual occupancy to decline by 20+ points year over year. The majority of the remaining competitors realized occupancy increases in 2011. Therefore, as evidenced in the estimated year-end 2012 statistics, this decline was temporary as occupancy increased to 70 percent for the competitive set. Through year-end 2012, room night demand for the defined competitive set is projected to decrease by 0.4 percent annually.

Between 2008 and year-end 2012, the competitive set is projected to experience a 0.9 percent increase in average daily rate (ADR), increasing from $286.90 to $297.41. As room night demand softened in the wake of the worldwide recession in 2008 and 2009, numerous hoteliers began to discount heavily in an attempt to protect market share and/or spur room night demand, which led to a 9.3 percent decline between 2008 and 2009. It is also worth noting that, during this period, *Sugar Bay* converted a large portion of its room night demand to all-inclusive pricing. Thus, its average room rate could be manipulated by the allocation given to the rooms portion and food and beverage portion of the total package price. Similar to room night demand, 2010 also saw an increase in ADR of roughly $14.00, or 5.7 percent over the prior year and spiked again in 2011 by over $10.00 or 4 percent, and is projected to again increase by over $10 or 4.1 percent by year-end 2012.

RevPAR (revenue per available room), a statistic that measures the performance of all available rooms, decreased by roughly 3 percent between 2008 and 2011 due to declines in occupancy, which was tempered by growth in ADR. However, the rebound in occupancy and continued growth in ADR projected for year-end 2012 is estimated to yield a 13 percent increase in RevPAR for the market.

HISTORICAL MARKET SEGMENTATION AND SEASONALITY

The market segmentation for the competitive set has shifted within the last five years. In 2008, the market segmentation was approximately 24 percent group and 58 percent leisure transient (wholesale and free independent travelers, FIT – leisure and commercial) demand and 18 percent redemption demand (i.e., complimentary room nights from the brand guest loyalty programs). In 2012, the market segmentation is projected to be 18 percent group, 63 percent leisure transient, and 19 percent brand-redemption. The shift in demand was a result of declines in group which, following the *AIG* scandal and the global recession, has been slow to rebound fully. Additionally, *Marriott's* renovation played a factor in the reduced size of this segment in 2011. A summary of the historical market segmentation is provided in the following table.

Historical Market Mix – Competitive Supply					
Market Segment	2008		Projected 2012		Compound Annual Growth
	Total Occupied Rooms	% of Total	Total Occupied Rooms	% of Total	
Group	90,165	24%	66,642	18%	(7.3%)
Transient	220,593	58%	234,943	63%	1.6%
Redemption	67,048	18%	69,649	19%	1.0%
Total	**377,807**	**100%**	**371,234**	**100%**	**(0.4%)**
Source: REV*PAR* International, Inc.					

Room night demand for the competitive set is seasonal, with the high season beginning in December and ending after Easter (late April). Occupancies typically peak during the Christmas holidays and then again during the months of February and March, with most properties achieving occupancies in the high 80s to low 90s as tourists flock to the Caribbean to escape the colder weather in the north. May, June, July, and August are considered the shoulder-season with more price-conscious leisure demand (transient and wholesale). September, October, and November represent the off-peak or low season, typically experiencing a slump in leisure travel. Group demand follows an almost identical pattern to the leisure segment, with the exception of the summer months, when group demand declines significantly. Alternatively, the local commercial demand follows a typical corporate/government pattern, with strong demand occurring September through the middle of November and again from January through June. The commercial demand also declines during holiday periods. Room rates in the market fluctuate depending on the season, with heavy discounting occurring during the off-peak months.

FUTURE SUPPLY

At the time of our fieldwork, we became aware of several proposed hotel projects, as well as a handful of major renovations, conversions, and redevelopments of lodging facilities anticipated to come about in the future years. A summary of these projects is presented in the following table:

Hotel Development Activity in the United States Virgin Islands			
Proposed Hotel or Project	Developer	# Rooms	Location
aLoft by Starwood at East End Plaza	Ricardo Charaf	100+/-	St. Thomas
Yacht Haven Grande	Island Global Yachting	100+/-	St. Thomas
Botany Bay	Timbers Resorts	84 +/-	St. Thomas
Golden Gaming (Former Wyndham Project)	Paul Golden	400	St. Croix
Robin Bay (Seven Hills Beach Resort and Casino)	C&R Development	300	St. Croix
Amalago Bay	Williams & Punch	322	St. Croix
Embassy Suites	Down Island View Developers	200	St. Thomas
Westin St. John (Long term redevelopment plan)	Starwood Hotels	TBD	St. John
Sugar Bay (Renovation and conversion to a brand)	Fortuna Realty Group	294	St. Thomas
Source: Developers, Franchise representatives and local officials; Compiled by: REV*PAR* International, Inc.			

East End Plaza, a retail center in Red Hook, began investigating the possibility of developing a select-service hotel on a site adjacent to it when the Plaza opened in 2009. According to representatives of *Ambridge Hospitality*, the joint venture partner with local developer, Ricardo Charaf, the site was to be developed with a 100-unit *aLoft by Starwood*, a select-service brand aimed at a younger demographic. However, the project does not have construction financing and, after following up during our fieldwork, this project has been delayed indefinitely. The owners of the *Yacht Haven Grande,* a mixed-use development adjacent to the *Havensight Cruise Terminal* in Charlotte Amalie, have been considering a hotel component to the existing retail and marina operations. An upscale or luxury hotel component was evaluated as part of the initial development, but the project never came to fruition due to weak market support for a hotel there. However, it has resurfaced as part of Phase 2. According to representatives with

Island Global Yachting, they are considering a limited or select-service hotel of 80 to 120 rooms for the site. However, at the time of our site visit, plans have been delayed indefinitely. The *Botany Bay* hotel project still surfaces as a potential addition to supply but remains without financing and, thus, highly speculative. According to representatives of *Timbers Resorts*, *Jumerirah* is no longer involved in the project. Lastly, *Down Island View Developers* are considering the development of a 200-unit *Embassy Suites* on a site adjacent to *Sugar Bay Resort* on St. Thomas. According to representatives, they are currently pursuing financing through the *Government Employee Retirement System* (GERS).

There have been three major hotel development projects proposed on St. Croix for some time now; *Golden Gaming, Robin Bay*, and *Amalago Bay*. The *Golden Gaming* project has been on the books for more than a decade. At different times, this 400-room resort and casino project has been associated with the *Westin* and *Wyndham* brands, but the lack of financing has prevented it from ever breaking ground. The developer, Paul Golden, announced that construction would begin six months following the passage of the *Hotel Development Act.* However, to date there has been not movement on the project. *Seven Hills Beach Resort & Casino* in the Robin Bay area was proposed to be developed in two phases with *C & R Development*. The project was slated for 300 rooms, 100 condominium units, casino, golf course, a water park and 10,000 square feet of meeting space in the initial phase. Similar to Golden Gaming, this project has been proposed for nearly a decade. *Amalago Bay* plans for the development of a 322-room resort, a casino, a marina, and a golf course. After the Hotel Act was passed, developers, *William & Punch,* commented that they planned to break ground in 2012; however, they lack financing and permits.

Separately, according to representatives of *Starwood,* the *Westin* on St. John is investigating a number of options including conversion of more guestrooms to timeshare or residential, but nothing has been decided due to the recent downturn in the economy and capital expenditures for maintaining the pool area due to recent local floods. Separately, it is rumored that *Sugar Bay* has been conversing with major brands, including *Renaissance*, about rebranding the property in the future.

The *Hotel Development Act* could spur some of these stalled projects to fruition over the next 3 to 5 years. However, at this time, only the *Embassy Suites* appears to be actively pursuing financing. As such, we only included the 200-room *Embassy Suites* in our future supply estimates between 2012 and 2017. Should more rooms be developed, it could potentially impact the subject hotel's estimated performance.

FUTURE DEMAND ANALYSIS

Future growth in room night demand for the USVI is based on historical trends, coupled with future growth prospects of the local and economy of the U.S., its primary feeder market. We have also taken into account latent demand associated with the opening of the new branded hotel units (subject). Nearby St. Thomas, from which the vast majority of guests to the subject would have to travel from, has grown beyond being only a leisure destination. Today, it is a group meeting and special event destination as well, albeit a smaller one. Additionally, it is the center for local commercial and government activity within the USVI. Despite this diversification, at its core, the local economy remains highly reliant on leisure transient travelers (both traditional transient customers and brand loyal redemption customers) from the U.S. The rebound in room night demand in 2010 bodes well for the return to a period of modest growth. The projected rebound in 2012 following the renovation at the *Marriott Frenchman's Reef* in 2011 underscores the importance of branding and the high latent factor associated with opening and closing rooms on St. Thomas.

With the foregoing in mind, our overall estimate of future demand growth for the defined set during the period of our analysis, 2012 through 2018, are summarized in the following table.

Summary of Future Supply and Demand Growth					
Year	Supply		Demand		Market Occupancy
	Room Nights	% Change	Room Nights	% Change	
2012	527,100	--	371,200	--	70%
2013	527,100	--	377,300	1.6%	72%
2014	527,100	--	383,400	1.6%	73%
2015	600,100	13.8%	418,500	9.2%	70%
2016	627,100	4.5%	430,700	2.9%	69%
2017	627,100	--	434,200	0.8%	69%
2018	627,100	--	437,700	0.8%	70%
CAG (1)	2.9%	--	2.8%	--	--

Note: (1) Compound Annual Growth.
Source: REV*PAR* International, Inc.

As the preceding table details, we estimate that supply will increase at a compound annual growth rate of 2.9 percent, or 100,000 annual room nights, while room night demand within the defined competitive set will grow at a slower pace of roughly 2.8 percent compounded annually, or 66,500 room nights between 2012 and 2018. In response, occupancies are estimated to stabilize at 70 percent in 2018. The growth estimates include approximately 38,824 room nights of latent demand associated with the opening of the 74-room subject and the *Embassy Suites* on St. Thomas.

FACILITY ASSUMPTIONS/RECOMMENDATIONS

Based on the above noted characteristics of the market area, the nature of the competitive supply and with the locational aspects of the subject site, we believe that any hotel developed at the subject site should be an upper upscale, full-service hotel, slotting between the *Ritz Carlton* and *Marriott*. The hotel would be well positioned to compete primarily for leisure transient demand, coupled with modest amounts of group-related demand.

In our experience, most upper upscale full-service hotels need a minimum of 150 to 200 guest rooms to make the hotel both operationally efficient and financially viable due to the high fixed operating component of running a hotel, along with the high initial development costs associated with such a hotel/resort. However, the seasonal nature of the Caribbean hotel market makes the lower end of this range more attractive as it reduces the carrying cost of unoccupied rooms during the off-peak season. Further supporting the reduced room count is the fact that both the *Ritz Carlton* and the *Westin* reduced their room counts from 220-rooms+ to less than 180 rooms each. Based on this, we would recommend that a resort of a minimum of 125 rooms be developed on Water Island.

As we mentioned earlier, in light of potential concerns of over development by local residents of Water Island, as well as the sheer dollar amounts an expansive resort development would require, we prepared two sets of projections for a new resort on Water Island.

Scenario 1 reflects 74-room resort (***Scenario 1***) centered on Honeymoon Beach and Scenario 2 assumes a larger 125-room resort (***Scenario 2***), split between Honeymoon Beach and the non-waterfront site that was home to the former *Water Island Hotel*. In the case of ***Scenario 1***, given its relatively small inventory of guest rooms, we have assumed it would be operated as an independent resort. An affiliation with one of the marketing representative groups like *Leading Hotels of the World, World Hotels, Small Luxury Hotels, Preferred Hotels*, etc. may be an option. In the case of ***Scenario 2***, with 125-rooms, we assumed the larger hotel could be operated under a boutique brand name such as *Kimpton* or *Marriott's Autograph Collection*.

Scenario 1: 74-room Upper Upscale Independent Hotel

The following outlines the facilities as they are currently proposed along with a handful of recommendations to ensure a successful resort operation:

- 37 villas, all with direct ocean views and each containing two guestrooms for a total key count of 74, comprised of the following:
  - 52 hillside standard guest rooms (70 percent of room inventory);
  - 11oceanfront standard guest rooms (15 percent of room inventory), and
  - 11oceanfront suites (15 percent of room inventory).
- Standard guestrooms would average approximately 500 square feet, while suites would average approximately 850 square feet;
- Each of the guestrooms should offer connecting doors to the adjoining guestrooms in order to create two-bedroom units for larger families. Furthermore, we suggest that approximately 60 percent of the inventory be king-bedded guestrooms and 40 percent be double queen-bedded guestrooms, reflecting the needs of the family-related room night demand in the resort destination. We have assumed all king-bedded rooms will contain a pull-out sofa;
- Roughly 1,500 square feet of indoor meeting space. This equates to 20 square feet of meeting space per guestroom which is below (by 15 square feet per room) the average of the existing competitive hotels;
- One 3-meal restaurant and lounge (indoor/outdoor) with the ability for guests to receive poolside and in-room dining;
- Resort-style pool and spa with swim up bar, opening out onto the beach with a splash zone for children;
- Spa with 5 treatment room and attached fitness center and associated retail;
- A small water sports operation;
- Dedicated beach service operation that offers chair and umbrella set-up;
- Other resort amenities to include a sundry shop, wireless internet;
- A dedicated lounge room for early arriving or late departing guests; the lounge should feature lockers for guests to secure personal items and at least two private bathrooms with a shower;
- Guest transportation around the island via golf cart; and
- Dedicated ferry service for hotel guests from St. Thomas.

Scenario 2: 125-unit Upper Upscale Affiliated Hotel

Based on the limited size of developable land available at the preferred Honeymoon Beach site for a larger complement of rooms, we have assumed that the additional 51 rooms would be located at the original hotel site within the vicinity of Flamingo Bay. Moreover, given the increased size and the necessity to fill the additional rooms, we have assumed that the subject would be affiliated with an upper upscale brand, such as a *Kimpton* or even *Marriott's Autograph Collection*. All the other components of the project have remained the same aside from the addition of 750 square feet of meeting space, an outdoor pool and a dinner-oriented restaurant located adjacent to the additional room inventory, the spa to increase to eight treatment rooms, and golf cart guest transportation between the two hotel sites.

We believe that the foregoing will position the proposed resort to effectively penetrate the competitive market. Please note our facility recommendations are market based, not based on land planning or architectural design, as such the ultimate design and layout the facility may differ from our recommendations.

ESTIMATED OPERATING PERFORMANCE AND FINANCIAL PRO FORMAS

Scenario 1: 74-room Upper Upscale Independent Hotel

REV*PAR* International prepared projected operating results for a proposed 74-unit upper upscale independent hotel as summarized in the following table. For the purpose of this analysis, we assumed that the hotel would open in the 1st quarter of 2016. Although we did not assume branding in preparing the projections, we did assume that it would be of 4-star/diamond quality.

All projections and calculations are based on the financial operating data for comparable hotels and industry statistics for similar properties. Data for the comparable properties is presented in the *Addenda*. Please note these comparable hotels include hotels in the U.S., Grand Cayman, St. Croix and St. Thomas. This allows us to account for local factors such as energy, insurance and labor. In order to provide a common basis of comparison, the comparable properties' statements have been adjusted by the Consumer Price Index to reflect current value dollars (2012). Operating expenses have been grouped to facilitate comparison with other properties, and are reported according to the *Uniform System of Accounts for the Lodging Industry*.

Proposed 74-Unit Upper Upscale Independent Hotel, Water Island, USVI
Projected Operating Results 2016 – 2021

Year	Occupancy	Average Daily Rate (1)	RevPAR	Market Occupancy	Total Revenue	NOI	
						$ Amount	%
Stabilized Year (2)	63%	$415.00	$261.45	--	$10,897,000	$2,569,000	23.6%
2016	52%	$444.00	$230.88	69%	$9,826,000	$1,386,000	14.1%
2017	59%	$481.00	$283.79	69%	$11,839,000	$2,581,000	21.8%
2018	63%	$496.00	$312.48	70%	$13,019,000	$3,058,000	23.5%
2019	63%	$511.00	$321.93	70%	$13,411,000	$3,151,000	23.5%
2020	63%	$526.00	$331.38	70%	$13,806,000	$3,241,000	23.5%
2021	63%	$542.00	$341.46	70%	$14,225,000	$3,342,000	23.5%
CAG (3)	**4.0% (4)**	**4.1%**	**8.1%**	--	**7.7%**	**19.2%**	--

Notes: (1) Average daily rate has been rounded to the nearest dollar.
(2) Presented in 2012 dollars.
(3) Compound Annual Growth.
(4) Compound Annual Growth for occupancy based on occupied room nights.
Source: REV*PAR* International, Inc.

In preparing the financial pro formas, please note the following assumptions:

- The hotel will be operated in a competent and efficient manner, commensurate with industry standards.
- The hotel would commence a sales and marketing program at least six months prior to opening.
- We have included a resort fee of $35.00 per occupied room based on a review of its most direct competitors. The *Ritz-Carlton* charges a resort fee of $58.00 per room per night; the *Marriott Frenchman's Reef* charges $35.00 per room per night; and the *Westin* charges $40.00 per room per night. The resort fee would include the following: access to the fitness center, use of non-motorized water sports, access to the Kid's Club, beach chairs, towels and service, unlimited domestic calls, and complimentary internet. (Please note the resort fee is not part of the ADR but included as other operated departments revenue.) We have deducted the expenses associated with the operation of the resort fee services as part of the other operated departments expense.
- Other miscellaneous revenue sources included in our projections include the following: international telephone charges, sundry shop, and meeting room rental.
- We have included a 4 percent management fee.
- The *USVI EDC Program* allows for the waiver of all real estate or property taxes; therefore, this expense has been excluded.
- Energy and insurance estimates are based on historical expenses at the *Sugar Bay Resort, Carambola Beach Resort,* and the *Ritz-Carlton St. Thomas.*
- We have assumed that the project will qualify for the Hotel Development Act. This allows for the hotel to retain/recoup its lodging occupancy tax (10 percent of rooms revenue) for the purposes of paying its debt service minus a required payment (up to a maximum of $500,000) back to the

Department of Tourism's Revolving Fund and $2,500 to the *Department of Labor's* Virgin Islanders Living Abroad database fund. We have assumed that the Tourism Revolving Fund's portion of the occupancy tax is paid on a pari passu basis with the hotel up to the maximum amount of $500,000. Thereafter, the hotel receives all of the tax revenue. We have included the hotel's portion of the tax rebate under Fixed Charges as "Hotel Development Act Income" net of the payout to the Tourism Revolving Fund.

- Finally, we have included a 4 percent reserve for replacement.

A summary of our market penetration analysis and projected financial pro formas for the subject is located in the Addenda. The resulting "going concern" value of the hotel, as estimated using the Discounted Cash Flow (DCF) technique, is significantly affected by the *Hotel Development Act* income; in fact, this adds roughly $4.6 million to the "going concern" value of the hotel. Thus, if the *Hotel Development Act* income were not available to a developer, it is unlikely that this project would be attractive.

Scenario 2: 125-unit Upper Upscale Affiliated Hotel

In light of the above considerations, we have also prepared an alternative set of projections for the subject hotel with a larger key count of 125 rooms as summarized in the following table.

Proposed 125-Unit Upscale Hotel, Water Island, USVI
Projected Operating Results 2016 – 2021

Year	Occupancy	Average Daily Rate (1)	RevPAR	Market Occupancy	Total Revenue	NOI	
						$ Amount	%
Stabilized Year (2)	67%	$370.00	$247.90	--	$19,162,000	$5,223,000	27.3%
2016	56%	$396.00	$221.76	68%	$17,547,000	$3,212,000	18.3%
2017	64%	$429.00	$274.56	68%	$21,234,000	$5,498,000	25.9%
2018	67%	$442.00	$296.14	69%	$22,887,000	$6,183,000	27.0%
2019	67%	$455.00	$304.85	69%	$23,566,000	$6,376,000	27.1%
2020	67%	$469.00	$314.23	69%	$24,283,000	$6,594,000	27.2%
2021	67%	$483.00	$323.61	69%	$25,009,000	$6,803,000	27.2%
CAG (3)	**3.6% (4)**	**4.1%**	**7.9%**	--	**7.3%**	**16.2%**	--

Notes: (1) Average daily rate has been rounded to the nearest dollar.
(2) Presented in 2012 dollars.
(3) Compound Annual Growth.
(4) Compound Annual Growth for occupancy based on occupied room nights.

Source: REV*PAR* International, Inc.

Appropriate adjustments were made to pertinent line items on both revenue and expenses. Using the Discounted Cash Flow (DCF) technique, the larger hotel yields a higher overall per room value due to the increased efficiency of the larger operation.

In consideration of the generally high development costs associated with a Caribbean island location, where it is not uncommon to see construction costs as high as $1 million per room, as well as the development requirements specific to Water Island including the installment of water and sewage at the subject site, as well as the extremely high operating costs prevalent within the USVI, the relatively small size of the resort and the expected operating performance may make it challenging for a developer to achieve the necessary return on investment to invest in a Water Island resort development. However, given the availability of additional acreage on Water Island, controlled by the *USVI Government*, there is the possibility of including this land in the overall development plan, with an eye towards the sale of residential real estate. The inclusion of the for sale real estate option in the development plan would likely allow the developer a greater return on investment as well as a way to defer some of the resort's infrastructure cost. Furthermore, it may also offer the developer a way of raising capital/equity upfront with the sale of lots or residential units, again making the overall project more attractive. Based on our analysis of the regional market and interviews with other successful resorts, we are of the opinion that this affords the developer the most versatility and the best chance for success. The greatest risk in this model is the cyclical nature of the residential real estate market. As part of the residential component offering, and to allay some of the anticipated resistance from current residents, it may be prudent for the operation to offer outside memberships, providing residents access to the resort's amenities for a nominal fee. In addition to placating the residential base, incremental revenue, albeit minor, would be obtained.

Finally, it may be possible for the hotel to partner with an existing operation in St. Thomas, with one of the more obvious choices being *Marriott Frenchman's Reef* given its location and brand equity. The subject would enjoy synergistic benefits including reduced operation expense burdens, as well as garnering overflow demand from sister properties or from guest loyalty programs.

We are prepared to speak with you concerning the above and answer any questions. Please note that the projections provided in this letter are preliminary in nature and subject to change based on additional or new information. As such, this letter is for ***internal use only*** and may not be distributed to any outside third parties, including any potential sources of financing. We will wait to proceed with the full market study until we hear from you; as such, please let us know when you are ready to proceed.

This concludes Components 1 and 2 of the assignment.

Sincerely,
REV*PAR* International, Inc.

Addenda

SCENARIO 1

Market Penetration Analysis
Proposed 74-Unit Water Island Resort
Water Island, USVI

Year	**2016**		**2017**		**2018**		**2019**		**2020**		**2021**		**2022**	
Available Rooms in Comp. Set	1,718		1,718		1,718		1,718		1,718		1,718		1,718	
Available Room Nights														
Subject Hotel	27,010		27,010		27,010		27,010		27,010		27,010		27,010	
Total Market	627,070		627,070		627,070		627,070		627,070		627,070		627,070	
Subject's Fair Share	4.3%		4.3%		4.3%		4.3%		4.3%		4.3%		4.3%	
Group		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**
Total Segment Demand	78,100		78,500		78,900		78,900		78,900		78,900		78,900	
Fair Share of Demand	3,364		3,381		3,398		3,398		3,398		3,398		3,398	
Penetration Rate	**44%**		**58%**		**73%**		**73%**		**73%**		**73%**		**73%**	
Demand Captured	1,500	11%	2,000	13%	2,500	15%	2,500	15%	2,500	15%	2,500	15%	2,500	15%
Transient														
Total Segment Demand	266,800		269,500		272,200		272,200		272,200		272,200		272,200	
Fair Share of Demand	11,492		11,608		11,725		11,725		11,725		11,725		11,725	
Penetration Rate	**109%**		**121%**		**124%**		**124%**		**124%**		**124%**		**124%**	
Demand Captured	12,500	89%	14,000	88%	14,500	85%	14,500	85%	14,500	85%	14,500	85%	14,500	85%
Redemption														
Total Segment Demand	85,800		86,300		86,700		86,700		86,700		86,700		86,700	
Fair Share of Demand	3,696		3,717		3,734		3,734		3,734		3,734		3,734	
Penetration Rate	**0%**		**0%**		**0%**		**0%**		**0%**		**0%**		**0%**	
Demand Captured	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%	0	0%
Total Demand														
Total Market Demand	430,700		434,200		437,700		437,700		437,700		437,700		437,700	
Fair Share of Demand	18,552		18,702		18,853		18,853		18,853		18,853		18,853	
Penetration Overall	75%	100%	86%	100%	90%	100%	90%	100%	90%	100%	90%	100%	90%	100%
Demand Captured	14,000		16,000		17,000		17,000		17,000		17,000		17,000	
Estimated Subject Occ.	**52%**		**59%**		**63%**		**63%**		**63%**		**63%**		**63%**	
Estimated Market Occ.	**69%**		**69%**		**70%**		**70%**		**70%**		**70%**		**70%**	

SCENARIO 1

Summary Operating Statement (in a Stabilized Year)
Proposed 74-Unit Water Island Resort, Water Island, USVI

For a Representative Year in Current Value Dollars

Number of Rooms:	74
Annual # of Available Rooms:	27,010
Annual occupancy rate:	63%
Annual # of Occupied Rooms	17,016
Average Daily Rate	$415.00
RevPAR	$261.45

	Amount	Ratio	Amount per Avail. Rms.	Amount per Occ. Rms.
DEPARTMENTAL REVENUES				
Rooms	$7,062,000	64.8%	$95,432	$415.01
Food & Beverage	$2,266,000	20.8%	$30,622	$133.17
Other Operated Departments	$1,519,000	13.9%	$20,527	$89.27
Rentals & Other Income	$50,000	0.5%	$676	$2.94
TOTAL REVENUE	**$10,897,000**	**100.0%**	**$147,257**	**$640.39**
DEPARTMENTAL EXPENSES (1)				
Rooms	$1,624,000	23.0%	$21,946	$95.44
Food and Beverage	$1,983,000	87.5%	$26,797	$116.54
Other Operated Departments	$1,038,000	68.3%	$14,027	$61.00
TOTAL DEPARTMENTAL EXPENSES	**$4,645,000**	**42.6%**	**$62,770**	**$272.97**
TOTAL DEPARTMENTAL INCOME	**$6,252,000**	**57.4%**	**$84,487**	**$367.41**
UNDISTRIBUTED OPERATING EXPENSES				
Administrative and General	$1,003,000	9.2%	$13,554	$58.94
Sales and Marketing	$653,000	6.0%	$8,824	$38.37
Property Operations and Maintenance	$445,000	4.1%	$6,014	$26.15
Utilities	$740,000	6.8%	$10,000	$43.49
TOTAL UNDISTRIBUTED EXPENSES	**$2,841,000**	**26.1%**	**$38,392**	**$166.96**
GROSS OPERATING PROFIT	**$3,411,000**	**31.3%**	**$46,095**	**$200.45**
MANAGEMENT FEES	$327,000	3.0%	$4,419	$19.22
INCOME BEFORE FIXED CHARGES	**$3,084,000**	**28.3%**	**$41,676**	**$181.24**
FIXED CHARGES				
Hotel Development Act Income	($365,000)	-3.3%	-$4,932	-$21.45
Property and Other Taxes	$0	0.0%	$0	$0.00
Insurance	$444,000	4.1%	$6,000	$26.09
TOTAL FIXED CHARGED	**$79,000**	**0.7%**	**$1,068**	**$4.64**
NET OPERATING INCOME	**$3,005,000**	**27.6%**	**$40,608**	**$176.60**
LESS: REPLACEMENT RESERVES	$436,000	4.0%	$5,892	$25.62
ADJUSTED NET OPERATING INCOME	**$2,569,000**	**23.6%**	**$34,716**	**$150.97**

Notes:
(1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.
Source: REV*PAR* International, Inc.

SCENARIO 1

Summary Operating Statement
Proposed 74-Unit Water Island Resort, Water Island, USVI

	Year 1	Year 2	Year 3
Year:	2016	2017	2018
Number of Rooms:	74	74	74
Annual # of Available Rooms:	27,010	27,010	27,010
Annual occupancy rate:	52%	59%	63%
Annual # of Occupied Rooms	14,045	15,936	17,016
Average Daily Rate	$444.00	$481.00	$496.00
RevPAR	$230.88	$283.79	$312.48

Year 1

	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES				
Rooms	$6,236,000	63.5%	$84,270	$444.00
Food & Beverage	$2,129,000	21.7%	$28,770	$151.58
Other Operated Departments	$1,410,000	14.3%	$19,054	$100.39
Rentals & Other Income	$51,000	0.5%	$689	$3.63
TOTAL REVENUE	**$9,826,000**	**100.0%**	**$132,783**	**$699.60**
DEPARTMENTAL EXPENSES (1)				
Rooms	$1,551,000	24.9%	$20,959	$110.43
Food and Beverage	$2,021,000	94.9%	$27,311	$143.89
Other Operated Departments	$1,057,000	75.0%	$14,284	$75.26
TOTAL DEPARTMENTAL EXPENSES	**$4,629,000**	**47.1%**	**$62,554**	**$329.58**
TOTAL DEPARTMENTAL INCOME	**$5,197,000**	**52.9%**	**$70,229**	**$370.02**
UNDISTRIBUTED OPERATING EXPENSES				
Administrative and General	$1,163,000	11.8%	$15,716	$82.80
Sales and Marketing	$772,000	7.9%	$10,432	$54.97
Property Operations and Maintenance	$310,000	3.2%	$4,189	$22.07
Utilities	$687,000	7.0%	$9,284	$48.91
TOTAL UNDISTRIBUTED EXPENSES	**$2,932,000**	**29.8%**	**$39,621**	**$208.75**
GROSS OPERATING PROFIT	**$2,265,000**	**23.1%**	**$30,608**	**$161.27**
MANAGEMENT FEES	$295,000	3.0%	$3,986	$21.00
INCOME BEFORE FIXED CHARGES	**$1,970,000**	**20.0%**	**$26,622**	**$140.26**
FIXED CHARGES				
Hotel Development Act Income	($309,000)	(3.1%)	($4,176)	($22.00)
Property and Other Taxes	$0	0.0%	$0	$0.00
Insurance	$500,000	5.1%	$6,757	$35.60
TOTAL FIXED CHARGED	**$191,000**	**1.9%**	**$2,581**	**$13.60**
NET OPERATING INCOME	**$1,779,000**	**18.1%**	**$24,041**	**$126.66**
LESS: REPLACEMENT RESERVES	$393,000	4.0%	$5,311	$27.98
ADJUSTED NET OPERATING INCOME (2)	**$1,386,000**	**14.1%**	**$18,730**	**$98.68**

Year 2

	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES				
Rooms	$7,665,000	64.7%	$103,581	$480.99
Food & Beverage	$2,470,000	20.9%	$33,378	$155.00
Other Operated Departments	$1,648,000	13.9%	$22,270	$103.41
Rentals & Other Income	$56,000	0.5%	$757	$3.51
TOTAL REVENUE	**$11,839,000**	**100.0%**	**$159,986**	**$742.91**
DEPARTMENTAL EXPENSES (1)				
Rooms	$1,779,000	23.2%	$24,041	$111.63
Food and Beverage	$2,220,000	89.9%	$30,000	$139.31
Other Operated Departments	$1,162,000	70.5%	$15,703	$72.92
TOTAL DEPARTMENTAL EXPENSES	**$5,161,000**	**43.6%**	**$69,744**	**$323.86**
TOTAL DEPARTMENTAL INCOME	**$6,678,000**	**56.4%**	**$90,242**	**$419.05**
UNDISTRIBUTED OPERATING EXPENSES				
Administrative and General	$1,163,000	9.8%	$15,716	$72.98
Sales and Marketing	$757,000	6.4%	$10,230	$47.50
Property Operations and Maintenance	$411,000	3.5%	$5,554	$25.79
Utilities	$803,000	6.8%	$10,851	$50.39
TOTAL UNDISTRIBUTED EXPENSES	**$3,134,000**	**26.5%**	**$42,351**	**$196.66**
GROSS OPERATING PROFIT	**$3,544,000**	**29.9%**	**$47,891**	**$222.39**
MANAGEMENT FEES	$355,000	3.0%	$4,797	$22.28
INCOME BEFORE FIXED CHARGES	**$3,189,000**	**26.9%**	**$43,094**	**$200.11**
FIXED CHARGES				
Hotel Development Act Income	($381,000)	(3.2%)	($5,149)	($23.91)
Property and Other Taxes	$0	0.0%	$0	$0.00
Insurance	$515,000	4.4%	$6,959	$32.32
TOTAL FIXED CHARGED	**$134,000**	**1.1%**	**$1,810**	**$8.41**
NET OPERATING INCOME	**$3,055,000**	**25.8%**	**$41,284**	**$191.71**
LESS: REPLACEMENT RESERVES	$474,000	4.0%	$6,405	$29.74
ADJUSTED NET OPERATING INCOME (2)	**$2,581,000**	**21.8%**	**$34,879**	**$161.96**

Year 3

	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES				
Rooms	$8,440,000	64.8%	$114,054	$496.00
Food & Beverage	$2,706,000	20.8%	$36,568	$159.02
Other Operated Departments	$1,813,000	13.9%	$24,500	$106.54
Rentals & Other Income	$60,000	0.5%	$811	$3.53
TOTAL REVENUE	**$13,019,000**	**100.0%**	**$175,933**	**$765.09**
DEPARTMENTAL EXPENSES (1)				
Rooms	$1,939,000	23.0%	$26,203	$113.95
Food and Beverage	$2,368,000	87.5%	$32,000	$139.16
Other Operated Departments	$1,239,000	68.3%	$16,743	$72.81
TOTAL DEPARTMENTAL EXPENSES	**$5,546,000**	**42.6%**	**$74,946**	**$325.92**
TOTAL DEPARTMENTAL INCOME	**$7,473,000**	**57.4%**	**$100,987**	**$439.17**
UNDISTRIBUTED OPERATING EXPENSES				
Administrative and General	$1,198,000	9.2%	$16,189	$70.40
Sales and Marketing	$780,000	6.0%	$10,541	$45.84
Property Operations and Maintenance	$531,000	4.1%	$7,176	$31.21
Utilities	$884,000	6.8%	$11,946	$51.95
TOTAL UNDISTRIBUTED EXPENSES	**$3,393,000**	**26.1%**	**$45,852**	**$199.40**
GROSS OPERATING PROFIT	**$4,080,000**	**31.3%**	**$55,135**	**$239.77**
MANAGEMENT FEES	$391,000	3.0%	$5,284	$22.98
INCOME BEFORE FIXED CHARGES	**$3,689,000**	**28.3%**	**$49,851**	**$216.79**
FIXED CHARGES				
Hotel Development Act Income	($420,000)	(3.2%)	($5,676)	($24.68)
Property and Other Taxes	$0	0.0%	$0	$0.00
Insurance	$530,000	4.1%	$7,162	$31.15
TOTAL FIXED CHARGED	**$110,000**	**0.8%**	**$1,486**	**$6.46**
NET OPERATING INCOME	**$3,579,000**	**27.5%**	**$48,365**	**$210.33**
LESS: REPLACEMENT RESERVES	$521,000	4.0%	$7,041	$30.62
ADJUSTED NET OPERATING INCOME (2)	**$3,058,000**	**23.5%**	**$41,324**	**$179.71**

Notes: (1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REV*PAR* International, Inc.

SCENARIO 1

Summary Operating Statement
Proposed 74-Unit Water Island Resort, Water Island, USVI

	Year 4	Year 5	Year 6
Year:	2019	2020	2021
Number of Rooms:	74	74	74
Annual # of Available Rooms:	27,010	27,010	27,010
Annual occupancy rate:	63%	63%	63%
Annual # of Occupied Rooms	17,016	17,016	17,016
Average Daily Rate	$511.00	$526.00	$542.00
RevPAR	$321.93	$331.38	$341.46

	Year 4 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Year 5 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Year 6 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES												
Rooms	$8,695,000	64.8%	$117,500	$510.98	$8,951,000	64.8%	$120,959	$526.03	$9,223,000	64.8%	$124,635	$542.01
Food & Beverage	$2,788,000	20.8%	$37,676	$163.84	$2,870,000	20.8%	$38,784	$168.66	$2,957,000	20.8%	$39,959	$173.77
Other Operated Departments	$1,867,000	13.9%	$25,230	$109.72	$1,922,000	13.9%	$25,973	$112.95	$1,980,000	13.9%	$26,757	$116.36
Rentals & Other Income	$61,000	0.5%	$824	$3.58	$63,000	0.5%	$851	$3.70	$65,000	0.5%	$878	$3.82
TOTAL REVENUE	**$13,411,000**	**100.0%**	**$181,230**	**$788.13**	**$13,806,000**	**100.0%**	**$186,567**	**$811.34**	**$14,225,000**	**100.0%**	**$192,229**	**$835.96**
DEPARTMENTAL EXPENSES (1)												
Rooms	$1,998,000	23.0%	$27,000	$117.42	$2,058,000	23.0%	$27,811	$120.94	$2,119,000	23.0%	$28,635	$124.53
Food and Beverage	$2,439,000	87.5%	$32,959	$143.33	$2,511,000	87.5%	$33,932	$147.56	$2,587,000	87.5%	$34,959	$152.03
Other Operated Departments	$1,277,000	68.4%	$17,257	$75.05	$1,314,000	68.4%	$17,757	$77.22	$1,353,000	68.3%	$18,284	$79.51
TOTAL DEPARTMENTAL EXPENSES	**$5,714,000**	**42.6%**	**$77,216**	**$335.80**	**$5,883,000**	**42.6%**	**$79,500**	**$345.73**	**$6,059,000**	**42.6%**	**$81,878**	**$356.07**
TOTAL DEPARTMENTAL INCOME	**$7,697,000**	**57.4%**	**$104,014**	**$452.33**	**$7,923,000**	**57.4%**	**$107,067**	**$465.61**	**$8,166,000**	**57.4%**	**$110,351**	**$479.89**
UNDISTRIBUTED OPERATING EXPENSES												
Administrative and General	$1,234,000	9.2%	$16,676	$72.52	$1,271,000	9.2%	$17,176	$74.69	$1,309,000	9.2%	$17,689	$76.93
Sales and Marketing	$803,000	6.0%	$10,851	$47.19	$827,000	6.0%	$11,176	$48.60	$852,000	6.0%	$11,514	$50.07
Property Operations and Maintenance	$547,000	4.1%	$7,392	$32.15	$564,000	4.1%	$7,622	$33.14	$581,000	4.1%	$7,851	$34.14
Utilities	$910,000	6.8%	$12,297	$53.48	$937,000	6.8%	$12,662	$55.06	$966,000	6.8%	$13,054	$56.77
TOTAL UNDISTRIBUTED EXPENSES	**$3,494,000**	**26.1%**	**$47,216**	**$205.33**	**$3,599,000**	**26.1%**	**$48,636**	**$211.50**	**$3,708,000**	**26.1%**	**$50,108**	**$217.91**
GROSS OPERATING PROFIT	**$4,203,000**	**31.3%**	**$56,798**	**$247.00**	**$4,324,000**	**31.3%**	**$58,431**	**$254.11**	**$4,458,000**	**31.3%**	**$60,243**	**$261.98**
MANAGEMENT FEES	$402,000	3.0%	$5,432	$23.62	$414,000	3.0%	$5,595	$24.33	$427,000	3.0%	$5,770	$25.09
INCOME BEFORE FIXED CHARGES	**$3,801,000**	**28.3%**	**$51,366**	**$223.37**	**$3,910,000**	**28.3%**	**$52,836**	**$229.78**	**$4,031,000**	**28.3%**	**$54,473**	**$236.89**
FIXED CHARGES												
Hotel Development Act Income	($432,000)	(3.2%)	($5,838)	($25.39)	($445,000)	(3.2%)	($6,014)	($26.15)	($459,000)	(3.2%)	($6,203)	($26.97)
Property and Other Taxes	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00
Insurance	$546,000	4.1%	$7,378	$32.09	$562,000	4.1%	$7,595	$33.03	$579,000	4.1%	$7,824	$34.03
TOTAL FIXED CHARGED	**$114,000**	**0.9%**	**$1,540**	**$6.70**	**$117,000**	**0.8%**	**$1,581**	**$6.88**	**$120,000**	**0.8%**	**$1,621**	**$7.05**
NET OPERATING INCOME	**$3,687,000**	**27.5%**	**$49,826**	**$216.67**	**$3,793,000**	**27.5%**	**$51,255**	**$222.90**	**$3,911,000**	**27.5%**	**$52,852**	**$229.84**
LESS: REPLACEMENT RESERVES	$536,000	4.0%	$7,243	$31.50	$552,000	4.0%	$7,459	$32.44	$569,000	4.0%	$7,689	$33.44
ADJUSTED NET OPERATING INCOME (2)	**$3,151,000**	**23.5%**	**$42,583**	**$185.18**	**$3,241,000**	**23.5%**	**$43,796**	**$190.46**	**$3,342,000**	**23.5%**	**$45,163**	**$196.40**

Notes: (1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

SCENARIO 1

Summary Operating Statement
Proposed 74-Unit Water Island Resort, Water Island, USVI

	Year 7	Year 8	Year 9
Year:	2022	2023	2024
Number of Rooms:	74	74	74
Annual # of Available Rooms:	27,010	27,010	27,010
Annual occupancy rate:	63%	63%	63%
Annual # of Occupied Rooms	17,016	17,016	17,016
Average Daily Rate	$558.00	$575.00	$592.00
RevPAR	$351.54	$362.25	$372.96

	Year 7 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Year 8 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Year 9 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES												
Rooms	$9,495,000	64.8%	$128,311	$557.99	$9,784,000	64.8%	$132,216	$574.98	$10,074,000	64.8%	$136,135	$592.02
Food & Beverage	$3,046,000	20.8%	$41,162	$179.00	$3,137,000	20.8%	$42,392	$184.35	$3,230,000	20.8%	$43,649	$189.82
Other Operated Departments	$2,040,000	13.9%	$27,568	$119.89	$2,101,000	13.9%	$28,392	$123.47	$2,163,000	13.9%	$29,230	$127.11
Rentals & Other Income	$67,000	0.5%	$905	$3.94	$69,000	0.5%	$932	$4.05	$71,000	0.5%	$959	$4.17
TOTAL REVENUE	**$14,648,000**	**100.0%**	**$197,946**	**$860.82**	**$15,091,000**	**100.0%**	**$203,932**	**$886.86**	**$15,538,000**	**100.0%**	**$209,973**	**$913.12**
DEPARTMENTAL EXPENSES (1)												
Rooms	$2,183,000	23.0%	$29,500	$128.29	$2,248,000	23.0%	$30,378	$132.11	$2,316,000	23.0%	$31,297	$136.10
Food and Beverage	$2,665,000	87.5%	$36,014	$156.61	$2,745,000	87.5%	$37,095	$161.32	$2,827,000	87.5%	$38,203	$166.13
Other Operated Departments	$1,394,000	68.3%	$18,838	$81.92	$1,436,000	68.3%	$19,405	$84.39	$1,478,000	68.3%	$19,973	$86.86
TOTAL DEPARTMENTAL EXPENSES	**$6,242,000**	**42.6%**	**$84,352**	**$366.82**	**$6,429,000**	**42.6%**	**$86,878**	**$377.81**	**$6,621,000**	**42.6%**	**$89,473**	**$389.10**
TOTAL DEPARTMENTAL INCOME	**$8,406,000**	**57.4%**	**$113,594**	**$494.00**	**$8,662,000**	**57.4%**	**$117,054**	**$509.04**	**$8,917,000**	**57.4%**	**$120,500**	**$524.03**
UNDISTRIBUTED OPERATING EXPENSES												
Administrative and General	$1,348,000	9.2%	$18,216	$79.22	$1,388,000	9.2%	$18,757	$81.57	$1,430,000	9.2%	$19,324	$84.04
Sales and Marketing	$878,000	6.0%	$11,865	$51.60	$904,000	6.0%	$12,216	$53.13	$931,000	6.0%	$12,581	$54.71
Property Operations and Maintenance	$598,000	4.1%	$8,081	$35.14	$616,000	4.1%	$8,324	$36.20	$634,000	4.1%	$8,568	$37.26
Utilities	$994,000	6.8%	$13,432	$58.41	$1,024,000	6.8%	$13,838	$60.18	$1,055,000	6.8%	$14,257	$62.00
TOTAL UNDISTRIBUTED EXPENSES	**$3,818,000**	**26.1%**	**$51,594**	**$224.37**	**$3,932,000**	**26.1%**	**$53,135**	**$231.07**	**$4,050,000**	**26.1%**	**$54,730**	**$238.01**
GROSS OPERATING PROFIT	**$4,588,000**	**31.3%**	**$62,000**	**$269.62**	**$4,730,000**	**31.3%**	**$63,919**	**$277.97**	**$4,867,000**	**31.3%**	**$65,770**	**$286.02**
MANAGEMENT FEES	$440,000	3.0%	$5,946	$25.86	$453,000	3.0%	$6,122	$26.62	$466,000	3.0%	$6,297	$27.39
INCOME BEFORE FIXED CHARGES	**$4,148,000**	**28.3%**	**$56,054**	**$243.77**	**$4,277,000**	**28.3%**	**$57,797**	**$251.35**	**$4,401,000**	**28.3%**	**$59,473**	**$258.63**
FIXED CHARGES												
Hotel Development Act Income	($472,000)	(3.2%)	($6,378)	($27.74)	($487,000)	(3.2%)	($6,581)	($28.62)	($505,000)	(3.3%)	($6,824)	($29.68)
Property and Other Taxes	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00
Insurance	$597,000	4.1%	$8,068	$35.08	$615,000	4.1%	$8,311	$36.14	$633,000	4.1%	$8,554	$37.20
TOTAL FIXED CHARGED	**$125,000**	**0.9%**	**$1,690**	**$7.35**	**$128,000**	**0.8%**	**$1,730**	**$7.52**	**$128,000**	**0.8%**	**$1,730**	**$7.52**
NET OPERATING INCOME	**$4,023,000**	**27.5%**	**$54,364**	**$236.42**	**$4,149,000**	**27.5%**	**$56,067**	**$243.83**	**$4,273,000**	**27.5%**	**$57,743**	**$251.11**
LESS: REPLACEMENT RESERVES	$586,000	4.0%	$7,919	$34.44	$604,000	4.0%	$8,162	$35.50	$622,000	4.0%	$8,405	$36.55
ADJUSTED NET OPERATING INCOME (2)	**$3,437,000**	**23.5%**	**$46,445**	**$201.98**	**$3,545,000**	**23.5%**	**$47,905**	**$208.33**	**$3,651,000**	**23.5%**	**$49,338**	**$214.56**

Notes: (1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

SCENARIO 1

Summary Operating Statement
Proposed 74-Unit Water Island Resort, Water Island, USVI

	Year 10	Year 11	Year 12
Year:	2025	2026	2027
Number of Rooms:	74	74	74
Annual # of Available Rooms:	27,010	27,010	27,010
Annual occupancy rate:	63%	63%	63%
Annual # of Occupied Rooms	17,016	17,016	17,016
Average Daily Rate	$610.00	$628.00	$647.00
RevPAR	$384.30	$395.64	$407.61

	Year 10 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Year 11 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Year 12 Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES												
Rooms	$10,380,000	64.8%	$140,270	$610.00	$10,686,000	64.8%	$144,405	$627.99	$11,010,000	64.8%	$148,784	$647.03
Food & Beverage	$3,328,000	20.8%	$44,973	$195.58	$3,427,000	20.8%	$46,311	$201.40	$3,530,000	20.8%	$47,703	$207.45
Other Operated Departments	$2,229,000	13.9%	$30,122	$130.99	$2,297,000	13.9%	$31,041	$134.99	$2,365,000	13.9%	$31,959	$138.98
Rentals & Other Income	$73,000	0.5%	$986	$4.29	$76,000	0.5%	$1,027	$4.47	$78,000	0.5%	$1,054	$4.58
TOTAL REVENUE	**$16,010,000**	**100.0%**	**$216,351**	**$940.86**	**$16,486,000**	**100.0%**	**$222,784**	**$968.84**	**$16,983,000**	**100.0%**	**$229,500**	**$998.04**
DEPARTMENTAL EXPENSES (1)												
Rooms	$2,385,000	23.0%	$32,230	$140.16	$2,457,000	23.0%	$33,203	$144.39	$2,530,000	23.0%	$34,189	$148.68
Food and Beverage	$2,912,000	87.5%	$39,351	$171.13	$2,999,000	87.5%	$40,527	$176.24	$3,089,000	87.5%	$41,743	$181.53
Other Operated Departments	$1,523,000	68.3%	$20,581	$89.50	$1,570,000	68.4%	$21,216	$92.26	$1,617,000	68.4%	$21,851	$95.03
TOTAL DEPARTMENTAL EXPENSES	**$6,820,000**	**42.6%**	**$92,162**	**$400.79**	**$7,026,000**	**42.6%**	**$94,946**	**$412.90**	**$7,236,000**	**42.6%**	**$97,783**	**$425.24**
TOTAL DEPARTMENTAL INCOME	**$9,190,000**	**57.4%**	**$124,189**	**$540.07**	**$9,460,000**	**57.4%**	**$127,838**	**$555.94**	**$9,747,000**	**57.4%**	**$131,717**	**$572.80**
UNDISTRIBUTED OPERATING EXPENSES												
Administrative and General	$1,473,000	9.2%	$19,905	$86.56	$1,517,000	9.2%	$20,500	$89.15	$1,563,000	9.2%	$21,122	$91.85
Sales and Marketing	$959,000	6.0%	$12,959	$56.36	$988,000	6.0%	$13,351	$58.06	$1,017,000	6.0%	$13,743	$59.77
Property Operations and Maintenance	$653,000	4.1%	$8,824	$38.37	$673,000	4.1%	$9,095	$39.55	$693,000	4.1%	$9,365	$40.73
Utilities	$1,087,000	6.8%	$14,689	$63.88	$1,119,000	6.8%	$15,122	$65.76	$1,153,000	6.8%	$15,581	$67.76
TOTAL UNDISTRIBUTED EXPENSES	**$4,172,000**	**26.1%**	**$56,377**	**$245.18**	**$4,297,000**	**26.1%**	**$58,068**	**$252.52**	**$4,426,000**	**26.1%**	**$59,811**	**$260.10**
GROSS OPERATING PROFIT	**$5,018,000**	**31.3%**	**$67,812**	**$294.89**	**$5,163,000**	**31.3%**	**$69,770**	**$303.41**	**$5,321,000**	**31.3%**	**$71,906**	**$312.70**
MANAGEMENT FEES	$480,000	3.0%	$6,486	$28.21	$495,000	3.0%	$6,689	$29.09	$510,000	3.0%	$6,892	$29.97
INCOME BEFORE FIXED CHARGES	**$4,538,000**	**28.3%**	**$61,326**	**$266.69**	**$4,668,000**	**28.3%**	**$63,081**	**$274.33**	**$4,811,000**	**28.3%**	**$65,014**	**$282.73**
FIXED CHARGES												
Hotel Development Act Income	($536,000)	(3.3%)	($7,243)	($31.50)	($566,000)	(3.4%)	($7,649)	($33.26)	($599,000)	(3.5%)	($8,095)	($35.20)
Property and Other Taxes	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00
Insurance	$652,000	4.1%	$8,811	$38.32	$672,000	4.1%	$9,081	$39.49	$692,000	4.1%	$9,351	$40.67
TOTAL FIXED CHARGED	**$116,000**	**0.7%**	**$1,568**	**$6.82**	**$106,000**	**0.6%**	**$1,432**	**$6.23**	**$93,000**	**0.5%**	**$1,256**	**$5.47**
NET OPERATING INCOME	**$4,422,000**	**27.6%**	**$59,758**	**$259.87**	**$4,562,000**	**27.7%**	**$61,649**	**$268.10**	**$4,718,000**	**27.8%**	**$63,758**	**$277.26**
LESS: REPLACEMENT RESERVES	$640,000	4.0%	$8,649	$37.61	$659,000	4.0%	$8,905	$38.73	$679,000	4.0%	$9,176	$39.90
ADJUSTED NET OPERATING INCOME (2)	**$3,782,000**	**23.6%**	**$51,109**	**$222.26**	**$3,903,000**	**23.7%**	**$52,744**	**$229.37**	**$4,039,000**	**23.8%**	**$54,582**	**$237.36**

Notes: (1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

SCENARIO 1

Proposed 74-Unit Water Island Resort, Water Island, USVI

Discounted Cash Flow Analysis - Upon Opening

2016

Year	Net Operating Income	Present Value Factor @ 12.5%	Present Value
1	$1,386,000	0.888889	$1,232,000
2	$2,581,000	0.790123	$2,039,309
3	$3,058,000	0.702332	$2,147,731
4	$3,151,000	0.624295	$1,967,154
5	$3,241,000	0.554929	$1,798,525
6	$3,342,000	0.493270	$1,648,509
7	$3,437,000	0.438462	$1,506,995
8	$3,545,000	0.389744	$1,381,644
9	$3,651,000	0.346439	$1,264,850
10	$3,782,000	0.307946	$1,164,652
Present Value of Cash Flows			$16,151,369
Present Value of Reversion			
$39,851,684	x	0.307946	$12,272,173
Calculation of Reversion			
	11 Year Net Operating Income		
$3,903,000	capitalized @	9.5%	$41,084,211
Less Cost of Sale/Refinance @		3.0%	($1,232,526)
Net Reversion			$39,851,684
TOTAL NET PRESENT VALUE			$28,423,541
Rounded			$28,400,000
Per Room			$383,784

Source: REV*PAR* International, Inc.

Proposed 74-Unit Water Island Resort, Water Island, USVI

Discounted Cash Flow Analysis - Upon Stabilization

2018

Year	Net Operating Income	Present Value Factor @ 12.5%	Present Value
1	$3,058,000	0.888889	$2,718,222
2	$3,151,000	0.790123	$2,489,679
3	$3,241,000	0.702332	$2,276,258
4	$3,342,000	0.624295	$2,086,394
5	$3,437,000	0.554929	$1,907,291
6	$3,545,000	0.493270	$1,748,643
7	$3,651,000	0.438462	$1,600,826
8	$3,782,000	0.389744	$1,474,013
9	$3,903,000	0.346439	$1,352,153
10	$4,039,000	0.307946	$1,243,794
Present Value of Cash Flows			$18,897,274
Present Value of Reversion			
$42,557,474	x	0.307946	$13,105,410
Calculation of Reversion			
	11 Year Net Operating Income		
$4,168,000	capitalized @	9.5%	$43,873,684
Less Cost of Sale/Refinance @		3.0%	($1,316,211)
Net Reversion			$42,557,474
TOTAL NET PRESENT VALUE			$32,002,684
Rounded			$32,000,000
Per Room			$432,432

Source: REV*PAR* International, Inc.

SCENARIO 2

Market Penetration Analysis
Proposed 125-Unit Water Island Resort
Water Island, USVI

Year	**2016**		**2017**		**2018**		**2019**		**2020**		**2021**		**2022**	
Available Rooms in Comp. Set	1,769		1,769		1,769		1,769		1,769		1,769		1,769	
Available Room Nights														
Subject Hotel	45,625		45,625		45,625		45,625		45,625		45,625		45,625	
Total Market	645,685		645,685		645,685		645,685		645,685		645,685		645,685	
Subject's Fair Share	7.1%		7.1%		7.1%		7.1%		7.1%		7.1%		7.1%	
Group		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**		**Market Mix**
Total Segment Demand	79,700		80,100		80,500		80,500		80,500		80,500		80,500	
Fair Share of Demand	5,632		5,660		5,688		5,688		5,688		5,688		5,688	
Penetration Rate	**62%**		**79%**		**88%**		**88%**		**88%**		**88%**		**88%**	
Demand Captured	3,500	14%	4,500	16%	5,000	16%	5,000	16%	5,000	16%	5,000	16%	5,000	16%
Transient														
Total Segment Demand	269,700		272,400		275,100		275,100		275,100		275,100		275,100	
Fair Share of Demand	19,057		19,248		19,439		19,439		19,439		19,439		19,439	
Penetration Rate	**103%**		**112%**		**113%**		**113%**		**113%**		**113%**		**113%**	
Demand Captured	19,500	76%	21,500	74%	22,000	72%	22,000	72%	22,000	72%	22,000	72%	22,000	72%
Redemption														
Total Segment Demand	89,000		89,500		89,900		89,900		89,900		89,900		89,900	
Fair Share of Demand	6,289		6,324		6,352		6,352		6,352		6,352		6,352	
Penetration Rate	**39%**		**47%**		**55%**		**55%**		**55%**		**55%**		**55%**	
Demand Captured	2,500	10%	3,000	10%	3,500	11%	3,500	11%	3,500	11%	3,500	11%	3,500	11%
Total Demand														
Total Market Demand	438,400		442,000		445,500		445,500		445,500		445,500		445,500	
Fair Share of Demand	30,978		31,232		31,480		31,480		31,480		31,480		31,480	
Penetration Overall	82%	100%	93%	100%	97%	100%	97%	100%	97%	100%	97%	100%	97%	100%
Demand Captured	25,500		29,000		30,500		30,500		30,500		30,500		30,500	
Estimated Subject Occ.	**56%**		**64%**		**67%**		**67%**		**67%**		**67%**		**67%**	
Estimated Market Occ.	**68%**		**68%**		**69%**		**69%**		**69%**		**69%**		**69%**	

SCENARIO 2

Summary Operating Statement (in a Stabilized Year)
Proposed 125-Unit Water Island Resort, Water Island, USVI

For a Representative Year in Current Value Dollars

Number of Rooms:	125
Annual # of Available Rooms:	45,625
Annual occupancy rate:	67%
Annual # of Occupied Rooms	30,569
Average Daily Rate	$370.00
RevPAR	$247.90

	Amount	Ratio	Amount per Avail. Rms.	Amount per Occ. Rms.
DEPARTMENTAL REVENUES				
Rooms	$11,310,000	59.0%	$90,480	$369.99
Food & Beverage	$5,045,000	26.3%	$40,360	$165.04
Other Operated Departments	$2,727,000	14.2%	$21,816	$89.21
Rentals & Other Income	$80,000	0.4%	$640	$2.62
TOTAL REVENUE	**$19,162,000**	**100.0%**	**$153,296**	**$626.85**
DEPARTMENTAL EXPENSES (1)				
Rooms	$2,488,000	22.0%	$19,904	$81.39
Food and Beverage	$4,187,000	83.0%	$33,496	$136.97
Other Operated Departments	$1,816,000	66.6%	$14,528	$59.41
TOTAL DEPARTMENTAL EXPENSES	**$8,491,000**	**44.3%**	**$67,928**	**$277.77**
TOTAL DEPARTMENTAL INCOME	**$10,671,000**	**55.7%**	**$85,368**	**$349.08**
UNDISTRIBUTED OPERATING EXPENSES				
Administrative and General	$1,380,000	7.2%	$11,040	$45.14
Sales and Marketing	$958,000	5.0%	$7,664	$31.34
Property Operations and Maintenance	$590,000	3.1%	$4,720	$19.30
Utilities	$1,188,000	6.2%	$9,504	$38.86
TOTAL UNDISTRIBUTED EXPENSES	**$4,116,000**	**21.5%**	**$32,928**	**$134.65**
GROSS OPERATING PROFIT	**$6,555,000**	**34.2%**	**$52,440**	**$214.43**
MANAGEMENT FEES	$575,000	3.0%	$4,600	$18.81
INCOME BEFORE FIXED CHARGES	**$5,980,000**	**31.2%**	**$47,840**	**$195.62**
FIXED CHARGES				
Hotel Development Act Income	($759,000)	-4.0%	-$6,072	-$24.83
Property and Other Taxes	$0	0.0%	$0	$0.00
Insurance	$750,000	3.9%	$6,000	$24.53
TOTAL FIXED CHARGED	**-$9,000**	**0.0%**	**-$72**	**-$0.29**
NET OPERATING INCOME	**$5,989,000**	**31.3%**	**$47,912**	**$195.92**
LESS: REPLACEMENT RESERVES	$766,000	4.0%	$6,128	$25.06
ADJUSTED NET OPERATING INCOME	**$5,223,000**	**27.3%**	**$41,784**	**$170.86**

Notes:
(1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.
Source: REV*PAR* International, Inc.

SCENARIO 2

Summary Operating Statement
Proposed 125-Unit Water Island Resort, Water Island, USVI

	Year 1	Year 2	Year 3
Year:	2016	2017	2018
Number of Rooms:	125	125	125
Annual # of Available Rooms:	45,625	45,625	45,625
Annual occupancy rate:	56%	64%	67%
Annual # of Occupied Rooms	25,550	29,200	30,569
Average Daily Rate	$396.00	$429.00	$442.00
RevPAR	$221.76	$274.56	$296.14

	Year 1				Year 2				Year 3			
	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES												
Rooms	$10,118,000	57.7%	$80,944	$396.01	$12,527,000	59.0%	$100,216	$429.01	$13,511,000	59.0%	$108,088	$441.99
Food & Beverage	$4,781,000	27.2%	$38,248	$187.12	$5,597,000	26.4%	$44,776	$191.68	$6,024,000	26.3%	$48,192	$197.06
Other Operated Departments	$2,565,000	14.6%	$20,520	$100.39	$3,019,000	14.2%	$24,152	$103.39	$3,256,000	14.2%	$26,048	$106.51
Rentals & Other Income	$83,000	0.5%	$664	$3.25	$91,000	0.4%	$728	$3.12	$96,000	0.4%	$768	$3.14
TOTAL REVENUE	**$17,547,000**	**100.0%**	**$140,376**	**$686.77**	**$21,234,000**	**100.0%**	**$169,872**	**$727.19**	**$22,887,000**	**100.0%**	**$183,096**	**$748.71**
DEPARTMENTAL EXPENSES (1)												
Rooms	$2,383,000	23.6%	$19,064	$93.27	$2,767,000	22.1%	$22,136	$94.76	$2,971,000	22.0%	$23,768	$97.19
Food and Beverage	$4,264,000	89.2%	$34,112	$166.89	$4,729,000	84.5%	$37,832	$161.95	$5,000,000	83.0%	$40,000	$163.57
Other Operated Departments	$1,858,000	72.4%	$14,864	$72.72	$2,053,000	68.0%	$16,424	$70.31	$2,169,000	66.6%	$17,352	$70.95
TOTAL DEPARTMENTAL EXPENSES	**$8,505,000**	**48.5%**	**$68,040**	**$332.88**	**$9,549,000**	**45.0%**	**$76,392**	**$327.02**	**$10,140,000**	**44.3%**	**$81,120**	**$331.71**
TOTAL DEPARTMENTAL INCOME	**$9,042,000**	**51.5%**	**$72,336**	**$353.89**	**$11,685,000**	**55.0%**	**$93,480**	**$400.17**	**$12,747,000**	**55.7%**	**$101,976**	**$416.99**
UNDISTRIBUTED OPERATING EXPENSES												
Administrative and General	$1,600,000	9.1%	$12,800	$62.62	$1,600,000	7.5%	$12,800	$54.79	$1,648,000	7.2%	$13,184	$53.91
Sales and Marketing	$1,132,000	6.5%	$9,056	$44.31	$1,111,000	5.2%	$8,888	$38.05	$1,144,000	5.0%	$9,152	$37.42
Property Operations and Maintenance	$416,000	2.4%	$3,328	$16.28	$555,000	2.6%	$4,440	$19.01	$704,000	3.1%	$5,632	$23.03
Utilities	$1,118,000	6.4%	$8,944	$43.76	$1,316,000	6.2%	$10,528	$45.07	$1,419,000	6.2%	$11,352	$46.42
TOTAL UNDISTRIBUTED EXPENSES	**$4,266,000**	**24.3%**	**$34,128**	**$166.97**	**$4,582,000**	**21.6%**	**$36,656**	**$156.92**	**$4,915,000**	**21.5%**	**$39,320**	**$160.79**
GROSS OPERATING PROFIT	**$4,776,000**	**27.2%**	**$38,208**	**$186.93**	**$7,103,000**	**33.5%**	**$56,824**	**$243.25**	**$7,832,000**	**34.2%**	**$62,656**	**$256.21**
MANAGEMENT FEES	$527,000	3.0%	$4,216	$20.63	$637,000	3.0%	$5,096	$21.82	$687,000	3.0%	$5,496	$22.47
INCOME BEFORE FIXED CHARGES	**$4,249,000**	**24.2%**	**$33,992**	**$166.30**	**$6,466,000**	**30.5%**	**$51,728**	**$221.44**	**$7,145,000**	**31.2%**	**$57,160**	**$233.74**
FIXED CHARGES												
Hotel Development Act Income	($509,000)	(2.9%)	($4,072)	($19.92)	($750,000)	(3.5%)	($6,000)	($25.68)	($849,000)	(3.7%)	($6,792)	($27.77)
Property and Other Taxes	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00
Insurance	$844,000	4.8%	$6,752	$33.03	$869,000	4.1%	$6,952	$29.76	$896,000	3.9%	$7,168	$29.31
TOTAL FIXED CHARGED	**$335,000**	**1.9%**	**$2,680**	**$13.11**	**$119,000**	**0.6%**	**$952**	**$4.08**	**$47,000**	**0.2%**	**$376**	**$1.54**
NET OPERATING INCOME	**$3,914,000**	**22.3%**	**$31,312**	**$153.19**	**$6,347,000**	**29.9%**	**$50,776**	**$217.36**	**$7,098,000**	**31.0%**	**$56,784**	**$232.20**
LESS: REPLACEMENT RESERVES	$702,000	4.0%	$5,616	$27.48	$849,000	4.0%	$6,792	$29.08	$915,000	4.0%	$7,320	$29.93
ADJUSTED NET OPERATING INCOME (2)	**$3,212,000**	**18.3%**	**$25,696**	**$125.71**	**$5,498,000**	**25.9%**	**$43,984**	**$188.29**	**$6,183,000**	**27.0%**	**$49,464**	**$202.27**

Notes: (1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REV*PAR* International, Inc.

SCENARIO 2

Summary Operating Statement
Proposed 125-Unit Water Island Resort, Water Island, USVI

	Year 4	Year 5	Year 6
Year:	2019	2020	2021
Number of Rooms:	125	125	125
Annual # of Available Rooms:	45,625	45,625	45,625
Annual occupancy rate:	67%	67%	67%
Annual # of Occupied Rooms	30,569	30,569	30,569
Average Daily Rate	$455.00	$469.00	$483.00
RevPAR	$304.85	$314.23	$323.61

	Year 4				Year 5				Year 6			
	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES												
Rooms	$13,909,000	59.0%	$111,272	$455.01	$14,337,000	59.0%	$114,696	$469.01	$14,765,000	59.0%	$118,120	$483.01
Food & Beverage	$6,205,000	26.3%	$49,640	$202.99	$6,391,000	26.3%	$51,128	$209.07	$6,583,000	26.3%	$52,664	$215.35
Other Operated Departments	$3,354,000	14.2%	$26,832	$109.72	$3,454,000	14.2%	$27,632	$112.99	$3,557,000	14.2%	$28,456	$116.36
Rentals & Other Income	$98,000	0.4%	$784	$3.21	$101,000	0.4%	$808	$3.30	$104,000	0.4%	$832	$3.40
TOTAL REVENUE	**$23,566,000**	**100.0%**	**$188,528**	**$770.92**	**$24,283,000**	**100.0%**	**$194,264**	**$794.37**	**$25,009,000**	**100.0%**	**$200,072**	**$818.12**
DEPARTMENTAL EXPENSES (1)												
Rooms	$3,060,000	22.0%	$24,480	$100.10	$3,152,000	22.0%	$25,216	$103.11	$3,247,000	22.0%	$25,976	$106.22
Food and Beverage	$5,150,000	83.0%	$41,200	$168.47	$5,304,000	83.0%	$42,432	$173.51	$5,464,000	83.0%	$43,712	$178.74
Other Operated Departments	$2,234,000	66.6%	$17,872	$73.08	$2,300,000	66.6%	$18,400	$75.24	$2,369,000	66.6%	$18,952	$77.50
TOTAL DEPARTMENTAL EXPENSES	**$10,444,000**	**44.3%**	**$83,552**	**$341.66**	**$10,756,000**	**44.3%**	**$86,048**	**$351.86**	**$11,080,000**	**44.3%**	**$88,640**	**$362.46**
TOTAL DEPARTMENTAL INCOME	**$13,122,000**	**55.7%**	**$104,976**	**$429.26**	**$13,527,000**	**55.7%**	**$108,216**	**$442.51**	**$13,929,000**	**55.7%**	**$111,432**	**$455.66**
UNDISTRIBUTED OPERATING EXPENSES												
Administrative and General	$1,697,000	7.2%	$13,576	$55.51	$1,748,000	7.2%	$13,984	$57.18	$1,801,000	7.2%	$14,408	$58.92
Sales and Marketing	$1,178,000	5.0%	$9,424	$38.54	$1,214,000	5.0%	$9,712	$39.71	$1,250,000	5.0%	$10,000	$40.89
Property Operations and Maintenance	$726,000	3.1%	$5,808	$23.75	$747,000	3.1%	$5,976	$24.44	$770,000	3.1%	$6,160	$25.19
Utilities	$1,461,000	6.2%	$11,688	$47.79	$1,505,000	6.2%	$12,040	$49.23	$1,550,000	6.2%	$12,400	$50.71
TOTAL UNDISTRIBUTED EXPENSES	**$5,062,000**	**21.5%**	**$40,496**	**$165.59**	**$5,214,000**	**21.5%**	**$41,712**	**$170.57**	**$5,371,000**	**21.5%**	**$42,968**	**$175.70**
GROSS OPERATING PROFIT	**$8,060,000**	**34.2%**	**$64,480**	**$263.67**	**$8,313,000**	**34.2%**	**$66,504**	**$271.94**	**$8,558,000**	**34.2%**	**$68,464**	**$279.96**
MANAGEMENT FEES	$707,000	3.0%	$5,656	$23.13	$729,000	3.0%	$5,832	$23.85	$750,000	3.0%	$6,000	$24.53
INCOME BEFORE FIXED CHARGES	**$7,353,000**	**31.2%**	**$58,824**	**$240.54**	**$7,584,000**	**31.2%**	**$60,672**	**$248.10**	**$7,808,000**	**31.2%**	**$62,464**	**$255.42**
FIXED CHARGES												
Hotel Development Act Income	($888,000)	(3.8%)	($7,104)	($29.05)	($931,000)	(3.8%)	($7,448)	($30.46)	($974,000)	(3.9%)	($7,792)	($31.86)
Property and Other Taxes	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00
Insurance	$922,000	3.9%	$7,376	$30.16	$950,000	3.9%	$7,600	$31.08	$979,000	3.9%	$7,832	$32.03
TOTAL FIXED CHARGED	**$34,000**	**0.1%**	**$272**	**$1.11**	**$19,000**	**0.1%**	**$152**	**$0.62**	**$5,000**	**0.0%**	**$40**	**$0.16**
NET OPERATING INCOME	**$7,319,000**	**31.1%**	**$58,552**	**$239.43**	**$7,565,000**	**31.2%**	**$60,520**	**$247.47**	**$7,803,000**	**31.2%**	**$62,424**	**$255.26**
LESS: REPLACEMENT RESERVES	$943,000	4.0%	$7,544	$30.85	$971,000	4.0%	$7,768	$31.76	$1,000,000	4.0%	$8,000	$32.71
ADJUSTED NET OPERATING INCOME (2)	**$6,376,000**	**27.1%**	**$51,008**	**$208.58**	**$6,594,000**	**27.2%**	**$52,752**	**$215.71**	**$6,803,000**	**27.2%**	**$54,424**	**$222.55**

Notes: (1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

SCENARIO 2

Summary Operating Statement
Proposed 125-Unit Water Island Resort, Water Island, USVI

	Year 7	Year 8	Year 9
Year:	2022	2023	2024
Number of Rooms:	125	125	125
Annual # of Available Rooms:	45,625	45,625	45,625
Annual occupancy rate:	67%	67%	67%
Annual # of Occupied Rooms	30,569	30,569	30,569
Average Daily Rate	$498.00	$513.00	$528.00
RevPAR	$333.66	$343.71	$353.76

	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES												
Rooms	$15,223,000	59.1%	$121,784	$497.99	$15,682,000	59.1%	$125,456	$513.01	$16,140,000	59.0%	$129,120	$527.99
Food & Beverage	$6,781,000	26.3%	$54,248	$221.83	$6,984,000	26.3%	$55,872	$228.47	$7,193,000	26.3%	$57,544	$235.31
Other Operated Departments	$3,664,000	14.2%	$29,312	$119.86	$3,775,000	14.2%	$30,200	$123.49	$3,887,000	14.2%	$31,096	$127.16
Rentals & Other Income	$108,000	0.4%	$864	$3.53	$111,000	0.4%	$888	$3.63	$114,000	0.4%	$912	$3.73
TOTAL REVENUE	**$25,776,000**	**100.0%**	**$206,208**	**$843.21**	**$26,552,000**	**100.0%**	**$212,416**	**$868.60**	**$27,334,000**	**100.0%**	**$218,672**	**$894.18**
DEPARTMENTAL EXPENSES (1)												
Rooms	$3,344,000	22.0%	$26,752	$109.39	$3,444,000	22.0%	$27,552	$112.66	$3,548,000	22.0%	$28,384	$116.07
Food and Beverage	$5,628,000	83.0%	$45,024	$184.11	$5,797,000	83.0%	$46,376	$189.64	$5,970,000	83.0%	$47,760	$195.30
Other Operated Departments	$2,440,000	66.6%	$19,520	$79.82	$2,514,000	66.6%	$20,112	$82.24	$2,589,000	66.6%	$20,712	$84.69
TOTAL DEPARTMENTAL EXPENSES	**$11,412,000**	**44.3%**	**$91,296**	**$373.32**	**$11,755,000**	**44.3%**	**$94,040**	**$384.54**	**$12,107,000**	**44.3%**	**$96,856**	**$396.06**
TOTAL DEPARTMENTAL INCOME	**$14,364,000**	**55.7%**	**$114,912**	**$469.89**	**$14,797,000**	**55.7%**	**$118,376**	**$484.06**	**$15,227,000**	**55.7%**	**$121,816**	**$498.12**
UNDISTRIBUTED OPERATING EXPENSES												
Administrative and General	$1,855,000	7.2%	$14,840	$60.68	$1,910,000	7.2%	$15,280	$62.48	$1,968,000	7.2%	$15,744	$64.38
Sales and Marketing	$1,287,000	5.0%	$10,296	$42.10	$1,326,000	5.0%	$10,608	$43.38	$1,366,000	5.0%	$10,928	$44.69
Property Operations and Maintenance	$793,000	3.1%	$6,344	$25.94	$817,000	3.1%	$6,536	$26.73	$841,000	3.1%	$6,728	$27.51
Utilities	$1,597,000	6.2%	$12,776	$52.24	$1,644,000	6.2%	$13,152	$53.78	$1,694,000	6.2%	$13,552	$55.42
TOTAL UNDISTRIBUTED EXPENSES	**$5,532,000**	**21.5%**	**$44,256**	**$180.97**	**$5,697,000**	**21.5%**	**$45,576**	**$186.37**	**$5,869,000**	**21.5%**	**$46,952**	**$191.99**
GROSS OPERATING PROFIT	**$8,832,000**	**34.3%**	**$70,656**	**$288.92**	**$9,100,000**	**34.3%**	**$72,800**	**$297.69**	**$9,358,000**	**34.2%**	**$74,864**	**$306.13**
MANAGEMENT FEES	$773,000	3.0%	$6,184	$25.29	$797,000	3.0%	$6,376	$26.07	$820,000	3.0%	$6,560	$26.82
INCOME BEFORE FIXED CHARGES	**$8,059,000**	**31.3%**	**$64,472**	**$263.64**	**$8,303,000**	**31.3%**	**$66,424**	**$271.62**	**$8,538,000**	**31.2%**	**$68,304**	**$279.30**
FIXED CHARGES												
Hotel Development Act Income	($1,020,000)	(4.0%)	($8,160)	($33.37)	($1,066,000)	(4.0%)	($8,528)	($34.87)	($1,112,000)	(4.1%)	($8,896)	($36.38)
Property and Other Taxes	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00
Insurance	$1,008,000	3.9%	$8,064	$32.97	$1,038,000	3.9%	$8,304	$33.96	$1,069,000	3.9%	$8,552	$34.97
TOTAL FIXED CHARGED	**($12,000)**	**(0.0%)**	**($96)**	**($0.39)**	**($28,000)**	**(0.1%)**	**($224)**	**($0.92)**	**($43,000)**	**(0.2%)**	**($344)**	**($1.41)**
NET OPERATING INCOME	**$8,071,000**	**31.3%**	**$64,568**	**$264.03**	**$8,331,000**	**31.4%**	**$66,648**	**$272.53**	**$8,581,000**	**31.4%**	**$68,648**	**$280.71**
LESS: REPLACEMENT RESERVES	$1,031,000	4.0%	$8,248	$33.73	$1,062,000	4.0%	$8,496	$34.74	$1,093,000	4.0%	$8,744	$35.76
ADJUSTED NET OPERATING INCOME (2)	**$7,040,000**	**27.3%**	**$56,320**	**$230.30**	**$7,269,000**	**27.4%**	**$58,152**	**$237.79**	**$7,488,000**	**27.4%**	**$59,904**	**$244.96**

Notes: (1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

SCENARIO 2

Summary Operating Statement
Proposed 125-Unit Water Island Resort, Water Island, USVI

	Year 10	Year 11	Year 12
Year:	2025	2026	2027
Number of Rooms:	125	125	125
Annual # of Available Rooms:	45,625	45,625	45,625
Annual occupancy rate:	67%	67%	67%
Annual # of Occupied Rooms	30,569	30,569	30,569
Average Daily Rate	$544.00	$560.00	$577.00
RevPAR	$364.48	$375.20	$386.59

	Year 10				Year 11				Year 12			
	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms	Amount	Ratio	Amount per Available Rooms	Amount per Occupied Rooms
DEPARTMENTAL REVENUES												
Rooms	$16,629,000	59.1%	$133,032	$543.99	$17,119,000	59.0%	$136,952	$560.02	$17,638,000	59.0%	$141,104	$576.99
Food & Beverage	$7,409,000	26.3%	$59,272	$242.37	$7,631,000	26.3%	$61,048	$249.63	$7,860,000	26.3%	$62,880	$257.13
Other Operated Departments	$4,004,000	14.2%	$32,032	$130.98	$4,125,000	14.2%	$33,000	$134.94	$4,248,000	14.2%	$33,984	$138.97
Rentals & Other Income	$117,000	0.4%	$936	$3.83	$121,000	0.4%	$968	$3.96	$125,000	0.4%	$1,000	$4.09
TOTAL REVENUE	**$28,159,000**	**100.0%**	**$225,272**	**$921.17**	**$28,996,000**	**100.0%**	**$231,968**	**$948.55**	**$29,871,000**	**100.0%**	**$238,968**	**$977.17**
DEPARTMENTAL EXPENSES (1)												
Rooms	$3,654,000	22.0%	$29,232	$119.53	$3,764,000	22.0%	$30,112	$123.13	$3,877,000	22.0%	$31,016	$126.83
Food and Beverage	$6,149,000	83.0%	$49,192	$201.15	$6,334,000	83.0%	$50,672	$207.21	$6,524,000	83.0%	$52,192	$213.42
Other Operated Departments	$2,667,000	66.6%	$21,336	$87.25	$2,746,000	66.6%	$21,968	$89.83	$2,829,000	66.6%	$22,632	$92.55
TOTAL DEPARTMENTAL EXPENSES	**$12,470,000**	**44.3%**	**$99,760**	**$407.93**	**$12,844,000**	**44.3%**	**$102,752**	**$420.17**	**$13,230,000**	**44.3%**	**$105,840**	**$432.79**
TOTAL DEPARTMENTAL INCOME	**$15,689,000**	**55.7%**	**$125,512**	**$513.24**	**$16,152,000**	**55.7%**	**$129,216**	**$528.38**	**$16,641,000**	**55.7%**	**$133,128**	**$544.38**
UNDISTRIBUTED OPERATING EXPENSES												
Administrative and General	$2,027,000	7.2%	$16,216	$66.31	$2,087,000	7.2%	$16,696	$68.27	$2,150,000	7.2%	$17,200	$70.33
Sales and Marketing	$1,407,000	5.0%	$11,256	$46.03	$1,449,000	5.0%	$11,592	$47.40	$1,493,000	5.0%	$11,944	$48.84
Property Operations and Maintenance	$866,000	3.1%	$6,928	$28.33	$892,000	3.1%	$7,136	$29.18	$919,000	3.1%	$7,352	$30.06
Utilities	$1,745,000	6.2%	$13,960	$57.08	$1,797,000	6.2%	$14,376	$58.79	$1,851,000	6.2%	$14,808	$60.55
TOTAL UNDISTRIBUTED EXPENSES	**$6,045,000**	**21.5%**	**$48,360**	**$197.75**	**$6,225,000**	**21.5%**	**$49,800**	**$203.64**	**$6,413,000**	**21.5%**	**$51,304**	**$209.79**
GROSS OPERATING PROFIT	**$9,644,000**	**34.2%**	**$77,152**	**$315.49**	**$9,927,000**	**34.2%**	**$79,416**	**$324.74**	**$10,228,000**	**34.2%**	**$81,824**	**$334.59**
MANAGEMENT FEES	$845,000	3.0%	$6,760	$27.64	$870,000	3.0%	$6,960	$28.46	$896,000	3.0%	$7,168	$29.31
INCOME BEFORE FIXED CHARGES	**$8,799,000**	**31.2%**	**$70,392**	**$287.84**	**$9,057,000**	**31.2%**	**$72,456**	**$296.28**	**$9,332,000**	**31.2%**	**$74,656**	**$305.28**
FIXED CHARGES												
Hotel Development Act Income	($1,160,000)	(4.1%)	($9,280)	($37.95)	($1,209,000)	(4.2%)	($9,672)	($39.55)	($1,261,000)	(4.2%)	($10,088)	($41.25)
Property and Other Taxes	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00	$0	0.0%	$0	$0.00
Insurance	$1,101,000	3.9%	$8,808	$36.02	$1,134,000	3.9%	$9,072	$37.10	$1,168,000	3.9%	$9,344	$38.21
TOTAL FIXED CHARGED	**($59,000)**	**(0.2%)**	**($472)**	**($1.93)**	**($75,000)**	**(0.3%)**	**($600)**	**($2.45)**	**($93,000)**	**(0.3%)**	**($744)**	**($3.04)**
NET OPERATING INCOME	**$8,858,000**	**31.5%**	**$70,864**	**$289.77**	**$9,132,000**	**31.5%**	**$73,056**	**$298.74**	**$9,425,000**	**31.6%**	**$75,400**	**$308.32**
LESS: REPLACEMENT RESERVES	$1,126,000	4.0%	$9,008	$36.84	$1,160,000	4.0%	$9,280	$37.95	$1,195,000	4.0%	$9,560	$39.09
ADJUSTED NET OPERATING INCOME (2)	**$7,732,000**	**27.5%**	**$61,856**	**$252.94**	**$7,972,000**	**27.5%**	**$63,776**	**$260.79**	**$8,230,000**	**27.6%**	**$65,840**	**$269.23**

Notes: (1) Departmental ratios reflect a percentage of department expenses to department revenues and will not add to total department expenses.
(2) Net Operating Income defined as income before debt, taxes, depreciation and amortization.
Please note that columns may not add due to rounding.

Source: REVPAR International, Inc.

SCENARIO 2

Proposed 125-Unit Water Island Resort, Water Island, USVI
Discounted Cash Flow Analysis - Upon Opening
2016

Year	Net Operating Income	Present Value Factor @ 12.5%	Present Value
1	$3,212,000	0.888889	$2,855,111
2	$5,498,000	0.790123	$4,344,099
3	$6,183,000	0.702332	$4,342,519
4	$6,376,000	0.624295	$3,980,505
5	$6,594,000	0.554929	$3,659,202
6	$6,803,000	0.493270	$3,355,717
7	$7,040,000	0.438462	$3,086,775
8	$7,269,000	0.389744	$2,833,052
9	$7,488,000	0.346439	$2,594,138
10	$7,732,000	0.307946	$2,381,040
Present Value of Cash Flows			$33,432,157
Present Value of Reversion			
$81,398,316	x	0.307946	$25,066,298
Calculation of Reversion			
	11 Year Net Operating Income		
$7,972,000	capitalized @	9.5%	$83,915,789
Less Cost of Sale/Refinance @		3.0%	($2,517,474)
Net Reversion			$81,398,316
TOTAL NET PRESENT VALUE			$58,498,455
Rounded			$58,500,000
Per Room			$468,000

Source: REV*PAR* International, Inc.

Proposed 125-Unit Water Island Resort, Water Island, USVI
Discounted Cash Flow Analysis - Upon Stabilization
2018

Year	Net Operating Income	Present Value Factor @ 12.5%	Present Value
1	$6,183,000	0.888889	$5,496,000
2	$6,376,000	0.790123	$5,037,827
3	$6,594,000	0.702332	$4,631,177
4	$6,803,000	0.624295	$4,247,079
5	$7,040,000	0.554929	$3,906,700
6	$7,269,000	0.493270	$3,585,581
7	$7,488,000	0.438462	$3,283,206
8	$7,732,000	0.389744	$3,013,503
9	$7,972,000	0.346439	$2,761,815
10	$8,230,000	0.307946	$2,534,397
Present Value of Cash Flows			$38,497,286
Present Value of Reversion			
$86,615,895	x	0.307946	$26,673,031
Calculation of Reversion			
	11 Year Net Operating Income		
$8,483,000	capitalized @	9.5%	$89,294,737
Less Cost of Sale/Refinance @		3.0%	($2,678,842)
Net Reversion			$86,615,895
TOTAL NET PRESENT VALUE			$65,170,317
Rounded			$65,200,000
Per Room			$521,600

Source: REV*PAR* International, Inc.

Breakdown of Comparables from Smith Travel Research 2012 HOST Study
(Reflecting Statements of Operating Income and Expenses for the Year 2011)

With the Following Criterias:

South Atlantic (Full-Service)
Resort (Full-Service)
Luxury (Full-Service)
Under 150 Rooms (Full-Service)

	Ratio to Sales			Per Available Room			Per Occ. Rm. Night		
	Comparables			Comparables			Comparables		
	Min	Max	Average	Min	Max	Average	Min	Max	Average
REVENUE									
Rooms	56.1%	74.0%	63.1%	$28,155	$45,776	$38,895	$120.35	$184.40	$158.65
Food	12.6%	21.2%	18.7%	$4,812	$17,085	$12,361	$20.57	$69.58	$50.18
Beverage	4.7%	7.0%	6.0%	$1,771	$5,678	$3,899	$7.57	$23.12	$15.85
Other F & B	2.8%	4.9%	4.1%	$1,083	$3,740	$2,670	$4.63	$14.91	$10.83
Telecomm	0.1%	0.5%	0.4%	$52	$400	$257	$0.22	$1.59	$1.04
Other Operating Departments	4.4%	8.6%	5.8%	$1,681	$6,916	$3,847	$7.19	$28.16	$15.65
Rentals & Other Income	1.3%	2.6%	1.9%	$500	$2,136	$1,295	$2.14	$8.70	$5.26
Cancellation Fee	0.1%	0.3%	0.3%	$34	$243	$158	$0.15	$0.99	$0.64
Total	**100.0%**	**100.1%**	**100.0%**	**$38,089**	**$80,705**	**$63,381**	**$162.82**	**$328.65**	**$258.11**
DEPARTMENTAL EXPENSES									
Rooms	25.8%	27.8%	26.7%	$7,415	$12,589	$10,418	$31.69	$51.27	$42.49
Food & Beverage	70.7%	82.8%	75.4%	$6,345	$19,282	$14,044	$27.12	$78.52	$57.06
Telecomm	134.4%	392.4%	210.6%	$201	$537	$413	$0.86	$2.15	$1.68
Other Operatings Departments	3.5%	6.4%	4.4%	$1,493	$5,221	$2,943	$6.39	$21.26	$11.99
Total	**40.6%**	**46.6%**	**43.3%**	**$15,454**	**$37,591**	**$27,818**	**$66.06**	**$153.08**	**$113.22**
Total Departmental Profit	53.4%	59.4%	56.7%	$22,636	$43,114	$35,563	$96.76	$175.57	$144.89
UNDISTRIBUTED OPERATING EXPENSES									
Administrative & General	8.6%	10.4%	9.2%	$3,953	$6,949	$5,694	$16.89	$28.30	$23.22
Marketing	6.6%	7.3%	7.1%	$2,784	$5,361	$4,433	$11.90	$21.83	$18.06
Utility Costs	3.7%	4.8%	4.3%	$1,829	$3,585	$2,694	$7.81	$14.60	$10.99
Property Operations & Maintenanc	4.6%	5.5%	5.0%	$2,076	$4,110	$3,130	$8.88	$16.73	$12.76
Total	**23.9%**	**27.9%**	**25.5%**	**$10,642**	**$20,005**	**$15,950**	**$45.49**	**$81.46**	**$65.03**
GROSS OPERATING PROFIT	**28.6%**	**32.8%**	**31.2%**	**$11,994**	**$24,111**	**$19,613**	**$51.27**	**$96.08**	**$79.87**
Franchise Fees	0.3%	1.4%	0.8%	$272	$554	$461	$1.11	$2.31	$1.89
Management Fees	2.7%	3.5%	3.1%	$1,338	$2,293	$1,932	$5.72	$9.14	$7.88
INCOME BEFORE FIXED CHARGES	**25.6%**	**28.6%**	**27.2%**	**$10,115**	**$21,342**	**$17,220**	**$43.24**	**$85.04**	**$70.09**
SELECTED FIXED CHARGES									
Property Taxes	2.7%	3.4%	3.2%	$1,302	$2,574	$1,957	$5.57	$10.25	$7.97
Insurance	1.1%	1.5%	1.3%	$422	$1,250	$817	$1.80	$5.09	$3.33
Reserve for Capital Replacement	2.2%	2.4%	2.3%	$881	$1,754	$1,443	$3.77	$7.15	$5.88
AMOUNT AVAILABLE FOR DEBT SERVICE & OTHER FIXED CHARGES	**19.2%**	**21.8%**	**20.5%**	**$7,511**	**$16,237**	**$13,003**	**$32.11**	**$64.70**	**$52.92**

Notes: (1) Numbers inflated to present value dollar
(2) The line items for the stabilized year are reported according to the Uniform System of Accounts for the Lodging Industry.
Source: Smith Travel Research 2012 HOST Study