



KENN HOBSON & ASSOCIATES

*Real Estate Brokerage and Appraisal
Residential and Commercial Appraisals / CRRA, CCRA*

APPRAISAL REPORT

**Whistling Island
Cruz Bay Quarter
St. John, Virgin Islands
*(as of May 21, 2020)***

for

**Government of the Virgin Islands
Department of Property & Procurement
No. 1 Subbase
St. Thomas, VI**



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June 5, 2020

Honorable Anthony D. Thomas
Commissioner
Department of Property & Procurement
No. 1 Subbase
St. Thomas, VI 00802

*Re: Whistling Island
Cruz Bay Quarter
St. John, Virgin Islands*

Dear Commissioner Thomas:

Pursuant to your request, I have conducted the required investigations, gathered the necessary data and made certain analyses that have enabled me to form an opinion of the possible value of the above reference parcel.

Based on an inspection of the property and the investigations and analyses taken, I have formed the opinion that, subject to the assumptions and limited conditions set forth in the report, Whistling Island has an estimated market value between \$1,960,000.00 and \$2,000,000.00.

The narrative appraisal report that follows sets forth the identification of the property, the assumptions and limiting conditions, pertinent facts about the subject property, comparable data, the results of the investigations and analyses, and the reasoning leading to the conclusion.

Respectfully submitted,

Kenn Hobson
Appraiser
License #038

**Whistling Island
Cruz Bay Quarter
St. John, Virgin Islands**

SALIENT FACTS

Purpose of the Appraisal: To form an opinion of the Market Value, in terms of cash, of the real property commonly known as Whistling Island, Cruz Bay Quarter, St. John, Virgin Islands

Property Location: Whistling Island
Cruz Bay Quarter
St. Cruz Bay Quarter, Virgin Islands

Zoning: Public

Land Size: 14+/- acres

Date Valuation: May 21, 2020

Estimated Fair Market Value: \$1,960,000.00 to \$2,000,000.00

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1. Purpose of the Appraisal

To form an opinion of the market value, in terms of cash, of any legal negotiated instrument, of the real property commonly known as Whistling Island or Whistling Cay, Cruz Bay Quarter, St. John, Virgin Islands

2. Effective Date of Appraisal

The effective date of this appraisal is May 21, 2020, the date of the last investigative period.

3. Market Time

It is estimated that the marketing time for the individual partial interests would be between 12 and 18 months.

4. Market Value

Market value is the major focus of most real estate appraisal assignments. Both economic and legal definitions of market value have been developed and refined. A current definition agreed upon by agencies that regulate federal financial institutions in the United States of America is:

The amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would be sold by a knowledgeable owner willing but not obligated to sell to a knowledgeable purchaser who desires but is not obligated to buy. In ascertaining that figure, consideration should be given to all matters that might be brought forward and reasonably be given substantial weight in bargaining by persons of ordinary prudence, but no consideration whatever should be given to matters not affecting market value.

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

1. Buyer and seller are typically motivated;

2. Both parties are well informed or well advised and acting on what they consider their best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. *(Uniform Appraisal Standard for Federal Land Acquisition, 1992).*

5. Use of the Appraisal

The use of this appraisal is to assist the Government of the Virgin Islands and the Department of Property and Procurement in analyzing a purchase decision. There are no intended third parties.

This appraisal report has been prepared for the exclusive benefit of the Government of the Virgin Islands acting through the Department of Property and Procurement, who may use this report to determine the just compensation for the proposed purchase for the property described therein. The report may also be used by the Department of Finance. Other intended users are the Lieutenant Governor's Office and the Bureau of Internal Revenue.

This report may not be used or relied upon by any other party. Any other party who uses or relies upon any information in this report, without the Appraiser's written consent does so at their own risk.

6. Scope of the Investigation

An appraisal is a writer's opinion of value of a thorough investigation of all legally proper factors and elements which affect the value of an adequately described parcel of property as of a specific date. It is therefore fundamental to recognize that an appraisal report is an estimate properly supported by actual facts. As a result, a number of independent investigations and analyses were undertaken to prepare a report in accordance with intended uses and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation.

- The investigation commenced on May 8, 2020, when I was authorized to appraise the island, commonly known as Whistling Cay and continued until May 21, 2020, the date of valuation. The geographical investigation was limited to the Virgin Islands.
- During the above period of time, the appraiser spoke to a number of local St. Johnians who frequently visit Whistling Cay for recreational purposes.
- Public records at the Office of the Tax Assessor show that the size of the island is 609,840 square feet which is equivalent to approximately 14 acres.
- The Cay has no modern improvements and no utilities.
- Other information and imaging were derived from electronic data and persons familiar with the subject. Therefore, the appraiser assumes no responsibility for the accuracy of the information given by those sources.

7. Legal Description

The subject property is commonly known as Whistling Island (Cay), Cruz Bay Quarter, St. John, Virgin Islands – Tax Assessors ID No. 3-01707-0101-00

8. Territorial Data

It is assumed that the reader of this report is familiar with the social, economic and governmental composition of the U.S. Virgin Islands. Information regarding these forces are maintained in the Appraiser's files and can be made available upon request.

9. Neighborhood

There are four forces affecting property value. They are economic, social, governmental and environmental. These forces affect properties within a specific area of the subject property and therefore affect the value of the subject property itself. The area of influence is known as the neighborhood or district. When discussing neighborhoods, the appraiser may interchange the two terms. However, the neighborhood is defined as an area having a group of complimentary land uses whereas, a district is a type of neighborhood is a characterized by homogeneous land uses.

To identify the boundaries of a specific neighborhood or district, the appraiser begins with the subject property, and working outward measures the effect of the four forces as they affect the subject. Where the four forces no longer influence the subject, the appraiser draws a boundary line.

In the Virgin Islands, it is reasonable to believe that the four forces affecting the value would extend outward to the water's edge.

As theoretically correct as this may be, common sense suggests a smaller area would exert a greater social, economic, governmental

and environmental influence on the subject property.

10. Site

The site is located “300 yards west of Mary Point on Saint in the United States Virgin Islands. It is covered with trees and high cliffs in the north, where it reaches a 130-ft. elevation. A gravel beach is located on the southeast side of the island. It is separated from St. John by the Fungi Passage, which has a depth of 21 feet”. (Source: Wikipedia)

11. Zoning

The subject is zoned Public (P).

12. P Public

“Properties which are publicly owned should be shown upon the zoning map as such. To zone public property for residential, commercial or industrial uses, simply because the surrounding properties fall into these categories, gives a false impression of the comprehensive development plan and encourages requests for improper rezoning of properties. A parcel of property may lie adjacent to a park entrance which is zoned industrial and the property owner may request zoning on that basis. On-site examination would indicate that such zoning would be improper. Further, in determining what land is available for private development, it is important to know how much of the Islands is not available because of public ownership; the property owner should be in a position to know the true character of the property adjacent to his own.

Uses permitted - Land and water areas shall be used and buildings or structures shall be erected, altered, enlarged or used only for one or more of the uses indicated in the P section of the TABLE OF PERMITTED USES, subject to such standards as may be referred to in that

section and in the Special Requirements section of said Table and in the section Required Conditions for Permitted Uses.

Permitted accessory uses – Customary accessory uses are permitted.

Required parking and loading areas – Off-street parking and off-street loading shall be provided in accordance with the provisions of section 230 of this subchapter.

Maximum height limit - No requirement except within the historically certified areas the height of any structure shall not exceed three (3) stories.

Usable open space – No building shall exceed the maximum height allowed in the adjoining zoning district. (*Virgin Islands Zoning and Subdivision Law, Title 29, §229, Chapter 3*)

13. Highest and Best Use

The appraisal theory of “highest and best use” suggests that land is valued as if vacant and available. Highest and best use may be defined as “the highest and best use of land which, at the time of appraisal, is legal, and which will yield the highest net return in the reasonable future.”

The four elements of highest and best use implicit in the above definition are:

1. Possible use. What uses of the site are physically possible?
2. Permissible legal use. What uses are permitted by zoning and deed restrictions?

3. Feasible use. Which possible and permissible uses will produce a net return to the owner?
4. Maximum Productiveness. Among the feasible uses, which will produce the highest net return to the land?

The function of the highest and best use study is to provide the foundation for the development of the three approaches to value which are supported by the island's or territory's economic, neighborhood and the subject's property data.

Current appraisal theory suggests that two highest and best use studies be performed. One as if the land was vacant and available for development to its highest and best use; and the other, considering the highest and best use as improved. In both, the study defines the criteria for the selection of comparable sales, rental data and capitalization rates which are derived from properties that conform to the use that has been determined to be the highest and best use of the subject.

The if-vacant analysis begins with the question, "if the site was vacant, what would be its highest and best use?" There are two answers to this question. Leave it vacant or improve it. If the site is to be improved, the appraiser applies the four tests to broad classifications of use. These property classifications are (1) residential, (2) commercial/retail, (3) industrial and (4) hotel and special purpose. The result is the identification of the classification of use that will develop the greatest positive return to the land.

The as-improved analysis begins with three options: (1) leave it as is, (2) improve it or (3) raze the improvements. If the as-vacant use

develops a substantial larger residual to the land, then the improvements are a candidate for demolition. In most cases, however, the existing improvements contribute to the land, and therefore, the study focuses on the obsolescence of the improvements and alternative programs of change, remodeling or conversion. The result of the as-used study is to support the appraiser's selected methodology in the three classical approaches to value.

14. The Appraisal Problem

The valuation problem to be solved is to form an opinion of value of the following real property interests in the property commonly as Whistling Island, Cruz Bay Quarter, St. John, Virgin Islands.

Real estate appraisers do not actually form an opinion of value of the real estate – the land and improvements—but rather, the real property – the rights associated with owning and using real estate. The concept of a bundle of rights is often used to describe the real property rights appraised. Fee simple ownership includes all of the rights of ownership, i.e., to occupy, use, lease sell or do nothing with the land.

15. Value Methodology

Three approaches to value are available to the appraiser. The Cost Approach estimates the replacement value of the improvements then deducts the estimated accrued depreciation. Added to the remainder is the estimated value of the land. The total of these two is the estimate of value. Appraisal theory says that this approach generally will indicate the upper limit of value since one should not pay more for a property than they can pay to reproduce it within a reasonable period of time.

Comparative Market Approach analyzes sales of comparable properties making adjustments for minor differences to arrive at an estimated value. For this approach to have validity, there must be a market of sufficient size for the appraiser to examine. In addition, the adjustments that are utilized to adjust for the differences normally found in the market must not be excessive if this approach is to have any validity.

The Income Approach is the third approach utilized by the appraiser. When valuing income producing properties, it is the preferred approach. The appraiser estimates the current market income, then deducts an estimated vacancy and collection loss to arrive at effective gross income.

From this the estimated operating expenses are deducted arriving at Net Operating Income (NOI). The NOI is capitalized using a rate developed from the market to arrive at an estimated value. Finally, the appraiser analyzes the results of the three approaches weighing their relative merits and arrives at a final estimate of value of the subject property.

16. Income Approach

This approach considers the present worth of the potential future benefits of a property. It estimates the current value of a property on the basis of its present and future income, which a fully informed person warranted in assuming the property will produce during its remaining economic life. Although income alone is not the sole factor used by the appraiser in arriving at their estimated value, it is a major factor in the approach. Consideration must be given, however, to remaining economic life, not only of the building, but of other items within the property in estimating the value.

17. Cost Approach

This approach will be employed to arrive at a depreciated value of the improvement. There are no improvements, therefore this approach will not be utilized.

18. Sales Comparison Approach

This approach compares the subject property to similar properties that have recently sold. During the course of the investigation, there were no recent sale of properties deemed comparable to the subject were discovered. However, there were a number of sales or option on sale of small islands (or cays) within the past twenty (20) years.

Comparable #1 – In 2003, two islands – Green Cay and Sandy Spit, with a combined size of 16± acres were purchased by the Government of the British Virgin Islands for \$1,400,000 from a local family. This sale equated to \$87,500 per acre.

Comparable #2 – In 2007, Mosquito Island was sold to Sir Richard Branson for \$20,000,000. The island consists of 120± acres which makes the sale at approximately \$166,667 per acre.

Comparable #3 – In June of 2011, Hans Lollik Island was conveyed to Liberty Life Service Corporation under the terms of Joint Plan of Reorganization with the U.S. Bankruptcy Court. The island consists of 458± acres. The assessed value was recorded at \$6,411,100. The sale, therefore, equates to approximately \$13,998 per acre.

Comparable #4 – On January 18, 2016, the islands of Great St. James was deeded to Great St. Jim LLC for the some of \$17,500,000. The island consists of 80± acres, which equates the sale to approximately \$218,477 per acre. The Grantee is purported

to be Jeffrey Epstein – owner of Little St. James, the nearest island to Great St. James.

The appraiser listed four (4) transactions that were either sales or conveyances over the period of 2003 to 2016. The cost per acre range from \$13,998 to \$218,477 per acre and the size range from 16± acres to 458± acres.

19. Correlation & Conclusion

In analyzing the comparable sales, the Appraiser must investigate each sale to make adequate adjustments, so that an opinion can be made of the subject versus the comparable sales.

In reviewing Comp. #1, the British Virgin Islands Government purchases two small islands – Green Cay and Sandy Spit – consisting of 16 acres. No further information was given. The question is asked, “Why would a government purchase two islands that is little use to the functioning of a government?” This transaction can be dismissed as an arm’s length one.

Comparable #2 – Mosquito Island was purchased by Sir Richard Branson, a billionaire from the United Kingdom for \$20,000,000. Is this sale a competition between billionaire with Jeffrey Epstein who owns an island in the same vicinity? In Comparable #3, it must be noted that this conveyance was a Joint Plan of Reorganization with the U.S. Bankruptcy and Comparable #4 is another purchase by billionaire– Jeffry Epstein. It is no secret that this purchase was made to annex Great St. James and Little St. James. Both the subject and the comparables are in close proximity to the island of St. John. Land sales in St. John are the highest in the Virgin Islands, therefore, it must be expected the island sales in the area will reflect prices there.

In the appraisal process, there are three classic approaches to value. They are the Market Sales Approach, the Cost Approach and the Income Approach. The Cost Approach utilizes the current cost of construction, deducts the accumulated depreciation, then adds the land value to achieve the estimated value of the subject. The subject is bare land with no improvements, therefore this approach cannot be exercised.

To utilize the Income Approach, one should develop a cap rate. This technique uses the lending rate and the yield required by a knowledgeable investor. The estimated gross expenses are deducted from the Effective Gross Income to arrive at the Net Operating Income. That figure is then divided by the cap rate to arrive at the estimated value of the subject. The subject is not an income-producing property, therefore this approach will not be utilized.

To utilize the Market Approach, there must be sufficient sales data to achieve a comparative sale analysis. The appraiser compared four (4) transactions, make the required adjustment to arrive at the fair market value.

Based on the preceding information in this report, it is the opinion of the appraiser, that the estimated value of Whistling Island on a per acre basis is \$140,000.

The estimated value on May 21, 2020 is \$1,960,000 (14 acres x \$140,000/acre), rounded to \$2,000,000.

ASSUMPTIONS AND LIMITING CONDITIONS

1. That the date of value to which the opinions expressed in this report applies is set forth in the letter of transmittal. The appraiser assumes no responsibility for economic or physical factors occurring at some later date which may affect the opinions herein stated.
2. That no opinion is intended to be expressed for legal matters or that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers, although such matters may be discussed in the report.
3. That no opinion as to title is rendered. Data on ownership and the legal description were obtained from sources generally considered reliable. Title is assumed to be marketable and free and clear of all liens and encumbrances, easements, and restrictions except those specifically discussed in the report. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.
4. That no engineering survey has been made, nor is responsibility assumed for corrections a survey might reveal. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist. Valuation is made without regard to questions of boundary and the property would be legal, located within the limits of the property and have the approval of all necessary authorities.
5. That maps, plats, and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.
6. That no opinion is expressed as to the value of subsurface oil, gas, or mineral rights and that the property is not subject at surface entry for the exploration or removal of such materials except as is expressly stated.
7. That the projections included in this report are utilized to assist in the valuation process and are based on current market conditions, anticipated short term supply and demand factors, and a continued stable economy. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraiser and could affect the future income or value projections.
8. That testimony or attendance in court or at any other hearing is not required by reason of rendering this appraisal unless such arrangements have been previously made therefore.
9. That, because no title report was made available to the appraiser, he assumes no responsibility for such items of record not disclosed by his investigation.

ASSUMPTIONS AND LIMITING CONDITIONS

10. The conclusion presented in this report are not to be constructed as pragmatic fact, rather they are to be viewed as the most indicative estimate(s) of value that could be derived from the available information.

11. Any distribution of the valuation in the report between land and improvements applies only under the existing program if utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

12. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to the property value, the identity of the appraiser, professional designations, reference to any professional organizations, or the firm with which the appraiser is connected), shall be used by anyone but the client specified in the report, without the previous written consent of the appraiser; nor shall it be conveyed by anyone to the public through advertising, public relations, news, sales, or other media, without the written consent and approval of the appraiser.

13. The value estimate in this report is based on the assumption that the property is not negatively affected by the existence of hazardous substances or detrimental environmental conditions. The appraiser is not an expert in the identification of hazardous substances or detrimental environmental conditions. The appraiser's routine inspection of and inquiries about the subject property did not develop any information that indicated any apparent significant hazardous substances or detrimental environmental conditions which would affect the property negatively. It is possible that tests and inspections made by a qualified hazardous substance and environmental expert would reveal the existence of hazardous materials and environmental conditions on or around the property that would negatively affect its value.

14. The appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, or any archaeological finds, which would render it more or less valuable. The appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors.

15. Where the value of the various components of the property are shown separately, the value of each is segregated only as an aid to better estimating the value of the whole; the independent value of the various components may, or may not, be the market value of the component.

APPRAISER'S CERTIFICATION

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

The statements of facts contained in this letter are true and correct.

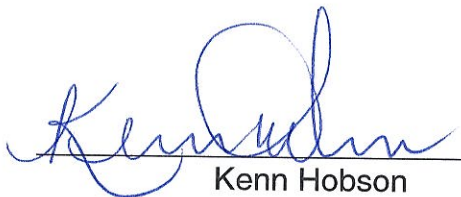
The reported analyses, opinions and conclusions are limited only by reported assumptions and limiting conditions and are my personal, unbiased, professional analyses, opinions, and conclusions.

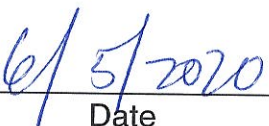
I have no present or prospective interest in the property that is the subject of this letter, and I have no personal interest of bias with respect to the parties involved.

My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions that were developed.

I have made a personal inspection of the property that is the subject of this report.

No person provided significant professional assistance to the person signing this report.


Kenn Hobson


Date

QUALIFICATIONS

Personal Data

Kenn Hobson
P.O. Box 10764
St. Thomas, VI 00801

Education

- | | |
|------|------------------------------------------------------------------------------------------------------------------|
| 1986 | Masters of Public Administration, University of the Virgin Islands;
St. Thomas, U.S. Virgin Islands |
| 1974 | Bachelor of Arts – Business Administration, University of the Virgin
Islands; St. Thomas, U.S. Virgin Islands |
| 1990 | National College of Appraisal |
| 1992 | National Association of Independent Fee Appraisers |

Courses:

- *Principles of Residential Real Estate Appraising*
- *Commercial Appraising*
- *Principles of Residential Appraisals*
- *Introduction of Income Property Appraising;*
- *Professional Standards of Practice*
- *Financial Analysis of Income Properties*
- *Report Writing of Residential Real Estate*
- *Appraising Concepts, Terminology, and Technique: An Overview of the Appraisal
Process Condemnation Appraisal*
- *Capitalization Theory*
- *Federal Land Acquisition*

Licenses

U.S. Virgin Islands Real Estate Broker
U. S. Virgin Islands Certified General Real Estate Appraiser

Employment

1992 – Present	Kenn Hobson & Associates
2008 – 2012	Virgin Islands Port Authority, Executive Director
2007 – 2008	Virgin Islands Port Authority, Deputy Executive Director
1999 – 2007	Virgin Islands Port Authority, Director of Property Management
1988 – 1991	Crown Real Estate
1987 – 1999	Virgin Islands Port Authority, Property Manager
1978 – 1987	Virgin Islands Water & Power Authority

BUSINESS LICENSE



THE GOVERNMENT OF THE VIRGIN ISLANDS
DEPARTMENT OF LICENSING AND CONSUMER AFFAIRS
PROFESSIONAL LICENSE

KNOW ALL BY THIS PRESENT

That, in accordance with the applicable provisions of Title 3 Chapter 16 and Title 27 V.I.C. relating to the licensing of businesses and occupations, and compliance having been made with the provisions of 10 V.I.C. Sec. 41 relating to the Civil Rights Act of the Virgin Islands, the following license is hereby granted.

Licensee:	KENNETH HOBSON		
Trade Name:	KENNETH HOBSON		
Mailing Address	Physical Address		
P.O. BOX 10764 CHARLOTTE AMALIE ST. THOMAS VI 00801	22AB NORRE GADE CHARLOTTE AMALIE ST. THOMAS VI 00802		
Business No: 5745	License No: 1-5745-1B		
Types of License(s) Certified General Real Estate Appraiser			

As provided by law, the authorized licensing authority shall have the power to revoke or suspend any License issued hereunder, upon finding, after notice and adequate hearing, that such revocation or suspension is in the public interest; provided, that any persons aggrieved by any such decision of this office shall be entitled to a review of the same by the Territorial Court upon appeal made within (30) days from the date of the decision; provided, further, that all decisions of this office hereunder shall be final except upon specific findings by the Court that the same was arrived at by fraud or illegal means.

2020

If a renewal is desired, the holder is responsible for making application for same without any notice from this office. It is the responsibility of the Licensee to notify the Department in writing within (30) days, when a license is to be cancelled or placed in inactive status. Failure to do so will result in the assessment of penalties as authorized by law.

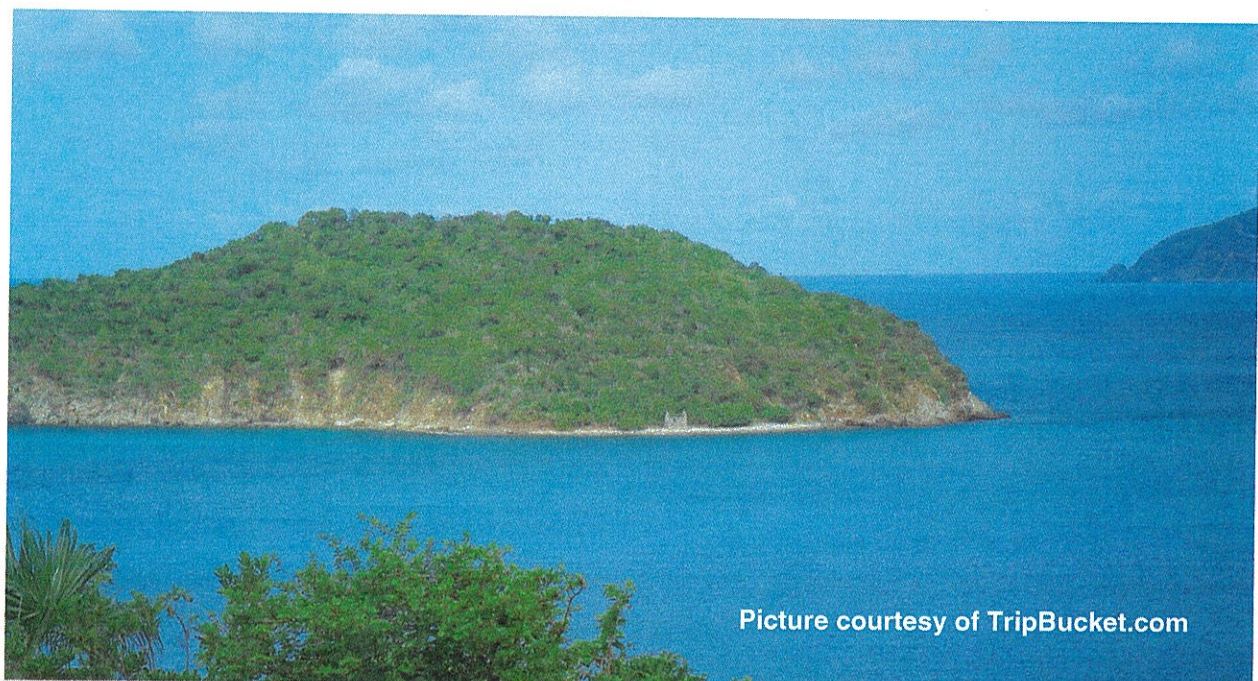
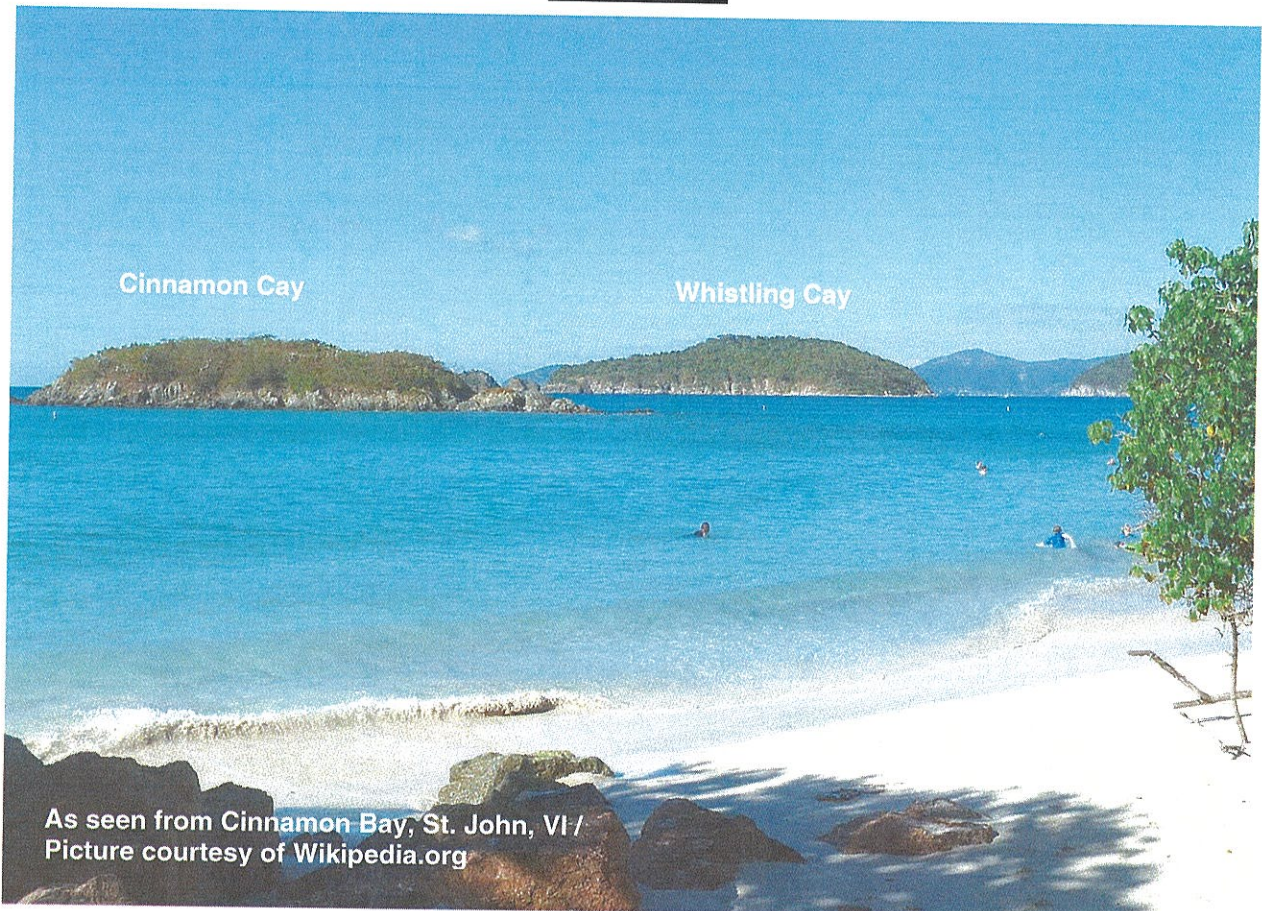
Valid from 01/01/2020 until 12/31/2020
Printed on 03/02/2020
Issued at St. Thomas, V.I.
Fee 525.00

Richard Evangelista

Commissioner, Department of Licensing and Consumer Affairs

THIS LICENSE MUST BE PROMINENTLY DISPLAYED AT PLACE OF BUSINESS

PHOTOS



PHOTOS

