

**ATTACHMENT G**

**AYH: Property Description and Annotations to Financial Projections**

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#### **A) Project Description:**

American Yacht Harbor ("AYH") is strategically located on the eastern side of St. Thomas in an area known as Red Hook, a top-rated scuba and sport fishing destination which is approximately 15 miles from the capital, Charlotte Amalie and 10 miles from Cyril E. King International Airport. The Red Hook area has numerous amenities for tourists and also has a ferry dock in Vessup Bay that serves as a gateway to Cruz Bay and the British Virgin Islands.

AYH is comprised of five docks containing 128 slips ( including 27 slips known as "P-Dock" which is leased from a third party and further described below) and 47,000 square feet of office and retail within seven buildings. The marina and docks are situated on 3.2 acres of both submerged and filled leasehold land and the upland portion is comprised of approximately 2.12 acres held fee simple.

P-Dock is adjacent to "A" dock with 27 slips and is managed and operated via a Management Agreement between St. Thomas Sport Fishing Center, Inc. ("STSFC") and AYH. The current five year term ends on July 31, 2008. Sun is currently in negotiations with STSFC to renew the Management Agreement for another five year term and does not anticipate any problems in doing so. The monthly fee paid to the STSFC is \$9,000 per month. P-Dock generates approximately \$100,000 annually in net operating income to AYH.

As part of this transaction, IGY has retained James Casner, Esq., of Stryker, Duensing, Casner & Dollison to assign and transfer the existing Coastal Zone Management (CZM) permits to IGY-AYH St. Thomas Holdings, LLC, the new entity that will own the AYH assets. An application for this transfer and assignment, signed by both Sun and IGY, was submitted to CZM on December 13, 2006 and is awaiting review and approval to be granted. A hearing at CZM is scheduled for January 12, 2007 regarding this transfer and assignment. It is anticipated that this transfer and assignment will take place immediately after closing.

Additionally, the owner, MOF VI Limited Partnership, was granted a number of Economic Development Corporation (EDC) benefits at AYH which are assumed to be transferred to the new acquiring entity. These benefits include the following:

- 90% exemption from USVI Income Taxes
- 100% exemption from Gross Receipts Taxes
- 100% exemption from excise taxes (raw materials, equipment, and machinery)
- 100% exemption for Real Property Taxes
- Dividend Withholding Tax Exemption

IGY has retained Mr. Casner to assign and transfer the existing EDC benefits to IGY- AYH St. Thomas Holdings, LLC. It has been assumed these benefits will transfer post-closing.

**B) Projected Operations and Financial Analysis:**

It is contemplated that IGY would operate the existing marina facility "as is" for the interim until such a redevelopment/ renovation is pursued regarding the existing retail spaces and marina facility. The 10-year cash flow pro forma reflects a project controlled 100% by IGY upon closing and operated in its current configuration with the assumption that P-Dock continues to be leased by AYH.

Slip rates are projected to increase 5% annually throughout the 10- year holding period. This is based on Sun's historical growth rate of 5% annually between 2002 and 2006. It is also assumed that 2006 occupancy levels will remain constant throughout the 10 year holding period. However, IGY anticipates that occupancy levels for boats under 55 feet may actually increase by 10% to 15%.

Fuel income, which accounts for approximately 42% of total gross income is projected to be slightly lower than 2006 actual sales. This is primarily due to the decline in fuel prices experienced during the latter part of 2006 and this trend is expected to remain the same in 2007.

AYH has approximately 47,000 square feet of office and retail space located within 7 commercial buildings. The currently occupancy will be 100% at closing, pending final negotiation of several leases that expired in December 2006. The weighted average rent per square foot is \$24 and does not include a \$4.25 per square foot CAM charge. Recently, the property manager executed new leases at \$32 per square foot with an annual increase of 5%. As existing leases roll over they will be renewed at this new market rate, barring any existing options to renew at fixed rates. 71% of the total square footage or 34,000 square feet is due to roll within the next 3 years.

Capital expenses are based on a combination of Sun's 5-year capital budget as well as ATM's 10-year capital replacement schedule. A detailed 5-year capital expenditure schedule is attached to this report. See Attachment J to this Memorandum for an Executive Summary of ATM's property condition report.

Estimated acquisition and due diligence costs of approximately \$420,771 have been included as part of the analysis. These costs include an estimated \$100,000 in legal, \$108,271 (50% of the total \$216,543 Conveyance Tax) based on 3.5% of attributed land and building value of \$6,186,993, \$55,000 in Diligence Costs, a 1% acquisition fee totaling \$255,000, payable to IGY (based on the gross purchase price of \$25.5m), A 1% lender fee totaling \$90,000 (lender fee is based on an estimated loan amount of \$9m) and a credit from Sun of \$187,500. Final acquisition costs are subject to true-up of 2006 budgeted capital costs versus spent, applicability of Conveyance Tax to IGY's transaction, legal costs both direct and allocated, and final recording and notary costs, among others.

Under Sun's management, AYH had an NOI (before management fees) of \$1,765,917 in 2005 based on \$5.6 million in gross revenue. Revenue at AYH is derived primarily from four areas: docks, fuel sales, retail leases and other income. The docks, with affiliated utility income, generate 32% of gross revenue and fuel sales provide 42% of gross revenue. The retail space rental provides 23% of gross revenue with the remaining 3% attributable to Other Income. Projections for 2006 (based on actual figures for January - October and projected figures for November - December) indicate an NOI (before management fees) of approximately \$1.91 million based on gross revenues of just over \$6.04 million.

Under IGY ownership, AYH is projected to produce an NOI (before management fees) of \$1.96 million in 2007, an increase of 3% from 2006. NOI is projected to be \$1.60 million in 2007, including IGY's management fee of 6% of gross revenue or \$365,000, resulting in a going-in cap rate of 6.3%.

Within the projected 10-year cash flow pro forma, slip, fuel and lease revenue growth is assumed to be 5% annually and all other income is assumed to be 3% annually. Expense growth is assumed to be 3% per year.

According to ATM, docks and upland buildings are close to the end of their estimated life of 30 years and are in need of repair and near-term replacement. A total of \$1.9 million is capital in expected during the first five years. Approximately \$526,000 has been allocated in year 1 for immediate repairs or life safety issues. The remaining capital expenditures are spread from year 2 to year 5 addressing the repair/ replacement of all or partial buildings and docks except for dock D. Since the majority of buildings and docks are assumed to be repaired and/or replaced during the first 5 years, no major capital expenditures are estimated for years 6 to 10.

Based on a 10-year hold and applying an 8.5% exit cap rate less a 3% cost of sale, the asset is projected to return an internal rate of return of 8.5%, excluding any development opportunities. IGY's return during this time frame would be 10.7% after including the acquisition fee of approximately \$255,000 payable to IGYD and average management fees of \$365,000 per year.

At closing, SRI will pay off the outstanding principal balance of the mortgage note with the Bank of Nova Scotia in the amount of approximately \$7.9 million. IGY is currently in talks with prospective lenders regarding the financing of AYH.

For modeling purposes, IGY assumed financing of \$9 million or 35% LTV. Assuming a fixed rate of 9.25% over the life of the loan and an amortization period of 15 years, annual debt service would be \$1.1 million, or a debt service coverage ratio of 1.44x in year 1.

It is important to note that after discussions with the AYH marina manager regarding the low cost of sales margin for fuel (currently 70%), and the fact that fuel sales constitute 42% of gross revenue, any erosion on the margin could have significant effects on the internal rate of return. For example, increasing the cost of sales margin to 85% would result in a property level return of 3.7% and a return to IGY of 6.2%.

**C) Development and Other Opportunities:**

IGY does not anticipate undertaking any major redevelopment of AYH within the first 18 months of ownership. On a longer term basis, IGY will consider a renovation/ reposition/ redevelopment of the existing retail spaces as buildings become available.

The site is located in the "W-1 Waterfront – Pleasure" zone and is quite broad in the allowed uses. However, the site is too small to be used for condo use given that current code requires multi-family uses in the W-1 district to have a minimum of three acres in size. The upland portion of the property only covers approximately 2.12 acres. The property is allowed by right to have residential dwellings but is restricted to no more than two dwelling units. A re-zoning is unlikely however a "planned development" is permissible as a conditional use. A "planned

development” is intended to provide an opportunity for creative plans which might not otherwise meet the more stringent code requirements.