

McCLOSKEY, MULET & BONNIN APPRAISERS, P. S. C.

REAL ESTATE APPRAISERS AND CONSULTANTS

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APPRAISAL REPORT

**PARCEL H - CODREMAR
9,628.60 SQ. MT.
FERNANDEZ JUNCOS AVENUE
PUERTA DE TIERRA SECTOR
SAN JUAN, PUERTO RICO**

PREPARED

**For: Mr. Juan Vaquer Castrodad
Vice-President
Government Development Bank for Puerto Rico
PO Box 42001
San Juan, Puerto Rico, 00940-2001**

**By: Robert F. McCloskey Díaz, MAI, CRE, MIE
Certified Real Estate Appraiser**

**Rafael E. Bonnin Surís, MAI, CRE
Certified Real Estate Appraiser**

Effective Date of Value: October 18, 2016

Date of Report: November 1, 2016

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November 1, 2016

Mr. Juan Vaquer Castrodad
Vice-President
Government Development Bank for Puerto Rico
PO Box 42001
San Juan, Puerto Rico 00940-2001

**Re: Parcel H – Codremar Parcel
Fernandez Juncos Avenue, Puerta de Tierra Sector
San Juan, Puerto Rico**

Dear Mr. Vaquer:

At your request, we have completed an appraisal of the property of reference. The subject of this appraisal is an independently recorded 9,628.60 square meter parcel of land currently being used as a passive park and surface parking for “Bahía Urbana” redevelopment project, located adjacent and north of Club Náutico de San Juan, at the southeastern end of the Puerta de Tierra Sector of the San Juan Islet.

The type of value requested is the market value of the fee simple estate of the property, subject to the Extraordinary Assumption¹ that the MOU by which the Puerto Rico Convention Center District Authority uses the subject site as a passive park (green area) part of the Bahía Urbana project in the San Juan waterfront sector be terminated as allowed for in the MOU, and that once terminated the parcel not be encumbered by any development restrictions imposed by the Bahía Urbana master plan, given that Section 8 of the MOU states that “In the event this Agreement is terminated pursuant to Section Twelve hereto, the GDB agrees that it or any third party which may acquire Property from the GDB, will develop Property 817 pursuant to the specific parameters of the master plan of the San Juan Waterfront, including related concept and design guidelines”.

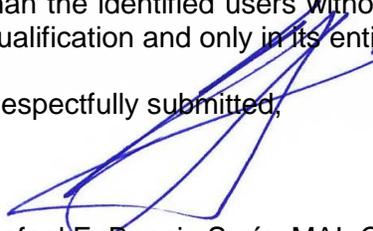
The subject property is identified as Parcels ZDE-C.1 and ZDE C.2 in the Land Use Plan and Special Zoning Regulation for the Entrance to the San Juan Inlet. This zoning allows mixed residential/commercial uses on Parcel ZDE-C.1, and residential uses on Parcel ZDE-C.2. However, according to Site Location Permit 2008-79-0620-JGU, the master plan for Bahía Urbana proposes residential uses with a density 57 square meter per basic living unit (BLU), equivalent to 71 units per cuerda, in addition to an educational park on Parcel C.2, and an open area on Parcel C.1.

The intended use of the report is to establish the asking price for the subject parcel in a Request for Proposals (RFP) process managed by the Department of Housing. The intended users include the Department of Housing and the Government Development Bank for Puerto Rico.

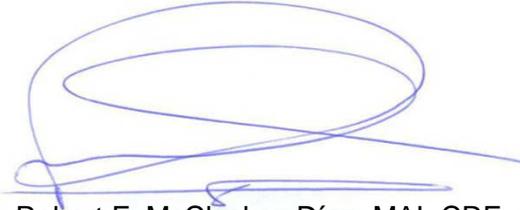
¹ See definition on Page 3 of the accompanying report.

This is a letter of transmittal and should not be relied upon without the accompanying report, which sets forth the description and analysis of the market area and the subject properties, the comparable market data, and the analysis carried out in order for us to arrive at the value opinions reported therein. Possession of the accompanying report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person(s) other than the identified users without our written consent, and in any event, only with proper written qualification and only in its entirety.

Respectfully submitted,



Rafael E. Bonnin Surís, MAI, CRE
Certified General Real Property Appraiser
Certificate No. 11CG
PR License No. 613



Robert F. McCloskey Díaz, MAI, CRE, MIE
Certified General Real Property Appraiser
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**APPRAISAL REPORT
PARCEL H - CODREMAR
9,628.60 SQ. MT.
FERNANDEZ JUNCOS AVENUE
PUERTA DE TIERRA SECTOR
SAN JUAN, PUERTO RICO**



SUBJECT PROPERTY

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SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Subject Property	The subject property is a vacant parcel of land with an area of 9,628.60 square meters, located at Fernández Juncos Avenue, Stop 10, adjacent and north of Club Náutico de San Juan, in the Puerta de Tierra Sector of San Juan, Puerto Rico.
Client	Government Development Bank for Puerto Rico
Property Rights Appraised	Fee Simple Estate
Types of Value Requested	Market value of the subject property.
Intended Use/Users of Appraisal	The intended use is to assist the client in establishing the price for the subject property, which the client intends to sell as part of a Request for Proposal (RFP) process being managed by the Department of Housing of Puerto Rico. The intended users are the Department of Housing of Puerto Rico and the Government Development Bank for Puerto Rico.
Effective Date of Value	October 18, 2016
Date of Report	November 1, 2016
Extraordinary Assumptions	See Page 2
Hypothetical Conditions	None Used
Final Market Value Opinion	\$4,400,000

EXTRAORDINARY ASSUMPTIONS

An extraordinary assumption is defined by USPAP 2016-17 as “an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

This appraisal is subject to the following extraordinary assumption:

That the MOU by which the Puerto Rico Convention Center District Authority uses the subject site as a passive park (green area) part of the Bahía Urbana project in the San Juan waterfront sector be terminated as allowed in the MOU, and that once terminated the parcel not be encumbered by any development restrictions imposed by the Bahía Urbana master plan, given that Section 8 of the MOU states that “In the event this Agreement is terminated pursuant to Section Twelve hereto, the GDB agrees that it or any third party which may acquire Property from the GDB, will develop Property 817 pursuant to the specific parameters of the master plan of the San Juan Waterfront, including related concept and design guidelines”.

The subject property is identified as Parcels ZDE-C.1 and ZDE C.2 in the Land Use Plan and Special Zoning Regulation for the Entrance to the San Juan Inlet. This zoning allows mixed residential/commercial uses on Parcel ZDE-C.1, and residential uses on Parcel ZDE-C.2. However, according to Site Location Permit 2008-79-0620-JGU, the master plan for Bahía Urbana proposes residential uses with a density 57 square meter per basic living unit (BLU), equivalent to 71 units per cuerda, in addition to an educational park on Parcel C.2, and an open area on Parcel C.1.

If the preceding assumption turns out to be untrue, the market value opinion in this appraisal would be impacted and should therefore be considered null and void.

Hypothetical Conditions

A hypothetical condition is defined by USPAP 2016-17 as “a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis”. Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

No hypothetical conditions were used in the preparation of this appraisal.

GENERAL ASSUMPTIONS

This appraisal report has been prepared with the following general assumptions:

1. No responsibility is assumed for the legal description or for matters including legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated. All taxes are assumed to be current.
3. The property is appraised as though under responsible, adequately capitalized ownership and competent property management.
4. The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.
5. All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.
6. It is assumed that there are no hidden or non-apparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
7. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.
8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless any nonconformity has been stated, defined and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
10. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. The availability of capacity and/or connection rights to any or all public utilities has not been determined by us. The value estimate reported herein is contingent upon and limited to said capacity and right of connection.
12. We are not experts in the identification of hazardous substances or detrimental environmental conditions. Our 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. The values estimated in this report are based on the assumption that the property is not negatively affected by the existence of hazardous substances or detrimental environmental conditions.

GENERAL LIMITING CONDITIONS

1. We will not be required to give testimony or appear in court because of having made this appraisal, with reference to the property in question, unless arrangements have been previously made thereof.
2. Any cause of action resulting between the appraiser and the client in conjunction with this appraisal, either directly or indirectly, will be limited in damages to the amount of the appraisal fee received for the assignment. Furthermore, it is agreed that you will indemnify McCloskey, Mulet & Bonnin Appraisers, P.S.C., Robert F. McCloskey Díaz and Rafael E. Bonnin Surís, for any damages, costs, expense, and attorney's fees resulting from any cause of action by any interested party, other than the client, concerning the appraisal or report.
3. The distribution of the total valuation between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.
4. Disclosure of the contents of this report is governed by the By-Laws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales or any other media without our written consent and approval. Nor shall our identity, firm or professional organization of which we are members be identified without prior written consent.
5. The physical condition of the improvements described herein is based on visual inspection only. No liability is assumed for the soundness of structural members including roof (structural soundness, wear and leakage), foundation (settling or leakage), footings, exterior and interior walls, partitions, floors, or any other part of the structure, since no engineering tests were made of same and no termite inspection was conducted. Furthermore, we accept no legal responsibility for the efficiency of the plumbing and electrical systems, the heating and air conditioning equipment, or any major appliances. At the time of inspection all of these items appeared adequate and operational.
6. In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, such as the presence of urea formaldehyde foam insulation or asbestos, and/or existence of toxic waste, which may or may not be present on the property, has not been considered. We are not qualified to detect such substances. The client is urged to retain an expert in this field if desired.
7. The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific compliance survey or analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative impact upon the value of the property. Since there is no direct evidence relating to this issue, we did not consider possible non-compliance with the requirements of ADA in estimating the value of the property.
8. We are not aware of the presence of archaeological deposits and/or artifacts within the subject or in adjacent properties. The physical inspection of the property did not reveal any evidence of such deposits and/or artifacts; however, we are not qualified to detect archeological deposits and/or artifacts and assume no responsibility in this respect. The value reported herein and the estimated construction and/or marketing time for the property are predicated on the assumption that the subject does not have any such archeological artifacts.

SCOPE OF WORK

Problem Identification

In order to define the problem to be solved, we identified the following assignment elements:

- client and any other intended users;
- intended use of the appraisers' opinions and conclusions;
- type and definition of value;
- effective date of the appraisers' opinions and conclusions;
- subject of the assignment and its relevant characteristics;
- assignment conditions

The above assignment elements have been presented in the Summary of Salient Facts and Conclusions and some will be discussed in greater detail in the following sections.

Competency

The appraisers certify that they have the competency to carry out this assignment, gained with the experience in appraising numerous vacant commercial and residential parcels, as well as by having the relevant education and professional credentials.

Property Inspection

In developing the opinions of market value presented in this report, we began with the physical inspection of the subject properties, carried out during October 2016.

We also reviewed the following documents, provided by the client.

- Legal description
- Aerial photograph

Identification of Property Characteristics

The area of the subject property was extracted from the legal description provided by the client, which is assumed correct. Location and topographic features were observed during the property inspection. Regulatory characteristics were identified by examination of the appropriate documentation. Other relevant characteristics were identified and rated from visual inspection.

Extent of Research into Physical and Economic Factors

The property' current physical condition, background, and history were researched with all due diligence expected of a professional real estate appraiser in the course of performing appraisal services. The interests, easements, covenants, restrictions, and other aspects were researched using the appropriate sources. A market analysis was developed in order to estimate the demand for, and the marketability of, the subject property.

Approaches Developed

The subject property consists of a vacant parcel, and thus the only applicable approach in this appraisal is the Sales Comparison Approach.

For the valuation of the property using the Sales Comparison Approach, we performed an analysis of the selected comparable transactions, in order to adjust them for differences with the subject in relevant elements of comparison.

PREMISES OF THE APPRAISAL

STATEMENT OF THE PROBLEM

Premises

Identification of the Property

The subject of this appraisal is a 9,628.60 square meter (2.45 cuerda) parcel of land located at the south site of Fernandez Juncos Avenue, Stop 10, north of Club Náutico de San Juan, and east of the US Food and Drug Administration and the US Army Corps of Engineers property. This location is at the Southeastern end of the San Juan Islet, in the Puerta de Tierra Section of San Juan, Puerto Rico.



The property is an independently recorded lot that currently forms part of the overall “Bahía Urbana” Project being developed by the Government of Puerto Rico along the northern shore of the San Antonio Channel. Bahía Urbana is an ambitious redevelopment project, aimed to convert the former commercial waterfront on the north side of the San Antonio Channel into a mixed-use urban center to complement the Convention Center District to the south of the area.

The project is proposed to extend from Pier 1 in Old San Juan to the subject property at the east end. Divided into four main phases and projected to be developed over a span of at least several decades, the project is currently designed to comprise passive recreational areas, retail and office complexes and a variety of residential alternatives along its four-mile stretch.

The first phase of the project, which consists of a bayfront park with walks, trails, and recreational facilities from Pier 1 to Pier 8 and the passive park at the subject property, has recently been completed.

In this phase, the subject has been improved with a passive park (consisting of a grass surface and surrounding sidewalks) and a gravel surface parking, and serves as the entrance to the Bahia Urbana project from thereon. The property includes a decorative high wall with a lighthouse type structure. In addition, a two-lane driveway has been built along its western boundary to provide access to the parking area on the site and to another at an adjacent property that is not part of this appraisal assignment.

A limiting factor affecting the subject property is that because of its location westbound exit from the property is not available. As it stands today, traffic exiting the subject must drive east towards the Esteves Bridge.



Architectural Conception of Subject Property (Notice Proposed Educational Park)



Current Views of the Subject Property Showing Passive Park Improvements

Type of Value Appraised

The type of value requested is the market value of the fee simple estate of the property, subject to the Extraordinary Assumption on Page 2.

Owner of Record

The Government Development Bank for Puerto Rico

Client

The Government Development Bank for Puerto Rico

Intended Users/Use of the Report

The intended use of the report is to establish the asking price for the subject parcel, in a Request for Proposals (RFP) process managed by the Department of Housing of Puerto Rico. The intended users include the Department of Housing of Puerto Rico and the Government Development Bank for Puerto Rico

Property Rights Appraised

The market value opinion requested is for the fee simple estate.

Effective Dates of Value

The effective date of value is October 18, 2016

Date of the Report

The date of this appraisal report is November 1, 2016.

Reasonable Exposure Time

Reasonable exposure time is one of a series of conditions in most market value definitions. Exposure time is always presumed to precede the effective date of the appraisal. Exposure time is defined as follows: "The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of sale at market value on the effective date of the appraisal; retrospective estimate based upon an analysis of past events assuming a competitive and open market.

Exposure time is different for various types of real estate and under various market conditions. It is noted that the overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable efforts.

Based on the general evidence available and aware of the current market conditions affecting Puerto Rico, and after consultations with professionals active in the vacant land market, an 18-30 month exposure period was concluded with.

Definitions

Definition of Market Value

"Market Value" is defined in the Federal Reserve System, Federal Register, Vol. 55, No. 165, Part 34.43 (f) as follows:

"Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and the seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of the 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 in what they consider their own best interests;
- 3- A reasonable time is allowed for exposure in the open market;
- 4- Payment is made in terms of cash in U.S. 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."

Value Terms

Value in this report is in terms equivalent to cash, U.S. dollars (\$).

Definition of Fee Simple Estate²

An absolute fee; a fee without limitations of any particular class or heirs or restrictions, but subject to the limitations of eminent domain, escheat, police power, and taxation. An inheritable estate.

History of the Property

The Uniform Standards of Professional Appraisal Practice require that in developing a real property appraisal, an appraiser must disclose any transaction of the property being appraised, if it occurred within a three-year period prior to the effective date of the appraisal.

The subject property has been owned by the client for over three years. According to them, no offer for its purchase has been received.

² Dictionary of Real Estate Appraisal, 6th Edition, published in 2015 by the Appraisal Institute.

PRESENTATION OF DATA

PUERTO RICO GENERAL DATA

Puerto Rico is the smallest of the Greater Antilles with a land area of approximately 8,960 square miles and is located about 1,000 miles southeast of Miami, Florida. The Island is 100 miles long and 35 miles wide, and is roughly rectangular in shape. Topography is generally level around the coast, with the central region comprised of several interconnecting mountain ranges. Puerto Rico was a Spanish colony for approximately four centuries, shortly after being discovered by Columbus in 1493.



In 1898, the Island came under sovereignty of the United States as part of the Treaty of Paris, which ended the Spanish-American war. Residents of Puerto Rico have held U.S. citizenship since 1917. In 1952, the Island approved its own constitution and since then it has been a U.S. Commonwealth.

Puerto Rico shares a common defense, economic market, and currency with the United States. The official language is Spanish, although English is widely spoken. Residents of Puerto Rico do not pay federal taxes, except for Social Security taxes and income taxes by federal employees. The following pages contain information about the Island-wide social, economic, governmental, and environmental forces that affect property value.

Population

According to recent publications, the Island's population has decreased to ± 3.5 million people, with about a third residing in the San Juan Metropolitan Area.



According to the 2010 Census, the population of the Island of 3,725,789 decreased for the first time in recent history by 82,800 or -2.2% from the 2000 Census count of 3,808,610.

The reduction in population was brought about by several factors such as a reduction in the birth rate together with a net migration to the United States. Only Puerto Rico and Michigan experienced reductions in the overall population count in the last census.

The population slipping has continued its declining trend, as evidenced by recent statistics released by the US Census Bureau. Reportedly, Puerto Rico's overall population decreased by nearly ±250,000 since the 2010 census count. As shown on the following table, the estimated population for the Island by as of July 2015 was estimated at 3.47-million, for a reduction a 6.7% reduction during the 5-year period.

Annual Estimates of the Resident Population for Puerto Rico: April 1, 2010 to July 1, 2015							
Geographic Area	April 1, 2010	Population Estimate (as of July 1)					
	Census	2010	2011	2012	2013	2014	2015
Puerto Rico	3,725,789	3,721,526	3,678,736	3,634,487	3,593,079	3,534,888	3,474,182
Source: U.S. Census Bureau, Population Division							
Release Date: December 2015							

Other reports indicate population reductions in most of the 78 municipalities. The island's largest cities were among the hardest hit in terms of population loss. San Juan lost the most with 5,912 inhabitants, leaving the capital city with a population of 382,299 or a 1.5% decrease for the year.

The declining trend in population is in fact the greatest percentage loss of any US jurisdiction, which according to experts is mostly composed of young well-prepared professionals. The Census also revealed that the population is also getting older, as the population percentage above 60 years of age now represents 23% of the total. In the 24 years, from 1990 to 2014 (most recent data available), the median age of the Puerto Rican population has increased from 29 years to 38 years.

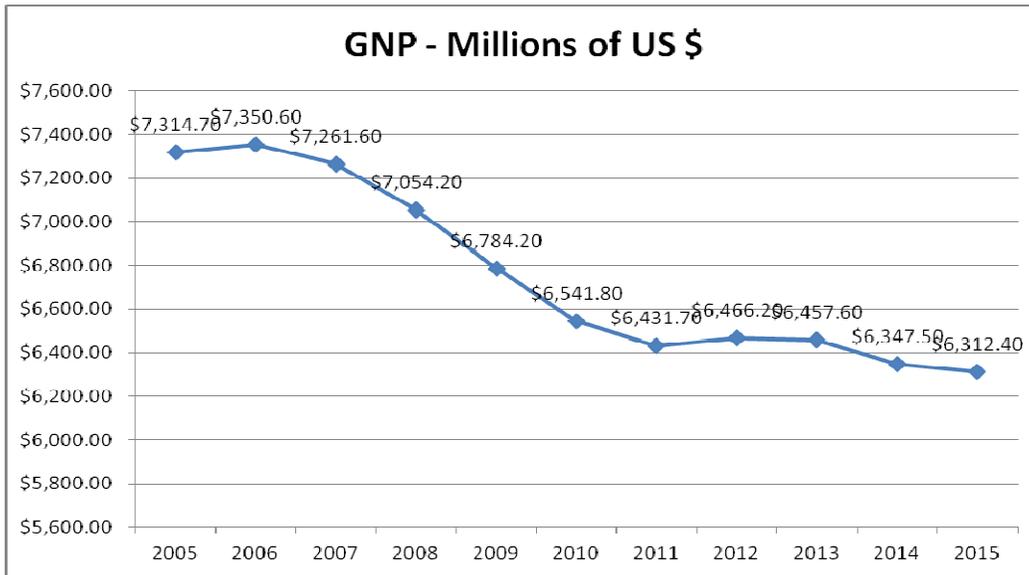
Population Over 60 Years of Age				
Year	1990	2000	2010	2014
Over 60 yrs	465,736	585,701	760,075	800,507
Total Population	3,522,037	3,808,610	3,725,789	3,534,888
% over 60 years	13%	15%	20%	23%
Median Age	29 yrs.	32 yrs.	37 yrs.	38 yrs.

Source: US Census Bureau

Economic Performance

The economy of Puerto Rico has been immersed in one of the longest recessionary periods in its modern history. The Island's economic downfall is now in its tenth year, as statistical facts show that it first went into negative territory in 2006.

The economic slowdown was initially caused in part by the government's fiscal situation that started with the two-week government shutdown at the end of April 2006; which was then followed by an increase in basic commodities and services such as gasoline, electricity, water, tollgate fees, and the implementation of a sales tax. The economic decline was then aggravated by the world economic slowdown and the financial crisis.



The historical data shows that the economy peaked in 2006, and has since in a generally declining trend up to 2011. Year 2012 shows a marginal increase, with marginal decreases from 2013 to 2015. Prior to the latest revision of the 2012 and 2013 figures, it appeared as though the economy had stabilized. However, the most recent figures now show a continued decline.

During early 2014 major rating agencies downgraded bonds from the Puerto Rico government and its public corporations to junk status. This is significant, considering that the Island is heavily leveraged with over \$70 billion in debt, at more than 10 times the per-capita debt than the median in the United States. Currently, the government has defaulted on several bond payments.

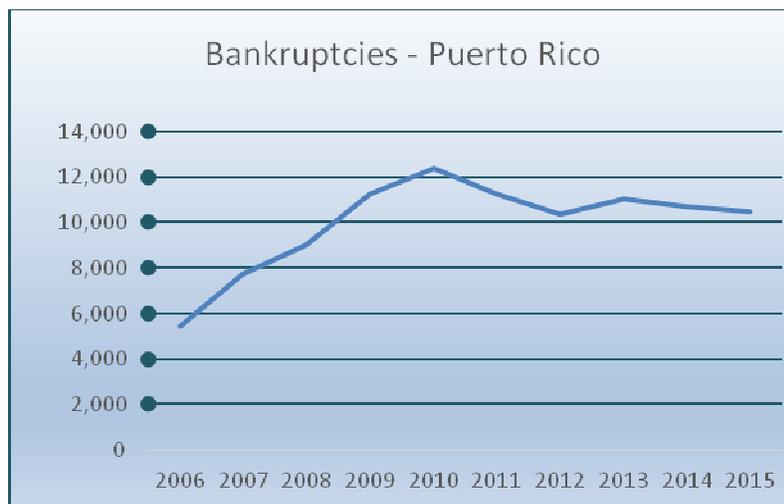
On June 30, 2016, President Barak Obama signed the ‘Puerto Rico Oversight, Management, and Economic Stability Act’ or “PROMESA”. This act establishes an Oversight Board over the Puerto Rico Government, with the intent of assisting the Island in re-structuring all or part of its debt, develop a five-year fiscal plan, and promote economic development.

The Board has had two meetings since it became operational, and a fiscal plan is expected by the end of 2016.

Bankruptcies

The data shows increasing trend in bankruptcies since 2006 to 2010 and then the levelling with a slight reduction up the end of 2015. As shown below, about 100,000 bankruptcies were filed during the past decade. The following table summarizes the historical drift of bankruptcies in Puerto Rico since 2006:

Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	5,436	7,751	9,048	11,293	12,380	11,265	10,362	11,040	10,716	10,469
Absolute Change		2,315	1,297	2,245	1,087	-1,115	-903	678	-324	-247
(%)		42.6%	16.7%	24.8%	9.6%	-9.0%	-8.0%	6.5%	-2.9%	-2.3%



Cement Sales

The following table summarizes cement bags sale of 94 pounds in Puerto Rico during the past 10-year period:

Cement Production (Thousands of 94 pound sacks)										
Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	36,910	32,564	30,429	21,975	16,332	16,814	17,411	13,838	13,572	12,053
Absolute Change		-4,346	-2,135	-8,454	-5,643	482	597	-3,573	-266	-1,519
(%)		-11.8%	-6.6%	-27.8%	-25.7%	3.0%	3.5%	-20.5%	-1.9%	-11.2%

The preceding table shows how the overall construction industry has been greatly affected by the ongoing economic recession. Cement sales show a yearly declining trend up to 2011 and 2012 when moderate improvements of 3% and 3.5% were registered. After that, the statistics show a downward spiral for 2013 to 2015. This situation is confirmed with the following table, showing the value of construction permits, which follows a similar trend as cement sales:

Total Construction Permits										
Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	9,206	8,140	7,507	5,487	5,200	4,358	4,040	3,660	3,855	
Absolute Change		-597	-1,066	-633	-2,020	-287	-842	-318	-380	195
%		-6.1%	-11.6%	-7.8%	-26.9%	-5.2%	-16.2%	-7.3%	-9.4%	5.3%

Value of Construction Permits (Thousand \$)										
Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Año Natural	2,489,579	2,433,764	2,195,638	1,546,865	1,041,132	1,629,172	944,481	919,165	991,208	
Absoluto		-305,372	-55,815	-238,126	-648,773	-505,733	588,040	-684,691	-25,316	72,043
Crecimiento (%)		-10.9%	-2.2%	-9.8%	-29.5%	-32.7%	56.5%	-42.0%	-2.7%	7.8%

Gross National Product and Per Capita Income Data

The following table presents selected income and product statistical facts for the past nine years, as published by the Puerto Rico Planning Board on their *Income and Product* issue of 2014 (last data published).

	2006	2007	2008	2009	2010	2011r	2012r	2013r	2014p
Gross National Product - Current Price	57,854	60,643	62,703	63,618	64,295	65,721	68,086	68,768	69,202
Gross National Product - Constant Price 1954	7,351	7,262	7,054	6,784	6,542	6,432	6,466	6,451	6,392
Per Capita - Current Price	15,172	15,983	16,624	16,962	17,233	17,742	18,580	19,002	19,373
Personal Income - Current Price	13,627	14,030	15,155	15,739	16,078	16,516	16,981	17,755	17,855
Disposable Income	12,707	13,145	14,346	14,959	15,308	15,852	16,336	17,121	17,201
Per Capita - Constant Price 1954	1,928	1,914	1,870	1,809	1,753	1,736	1,765	1,783	1,789
Personal Income	2,595	2,607	2,658	2,653	2,669	2,718	2,733	2,865	2,807

Although the gross national product at current prices reflects a basic steady increase in terms of constant prices (1954 as the base year) they reflect a reduction from year 2006 to 2011, followed by a basic stabilization.

Consumer Price Index

The following table illustrates the behavior of the Consumer Price Index (CPI) for all families in Puerto Rico based on data published by the Department of Labor.

The data shows that the inflation rate has decreased beginning in 2011, from a 2.9% increase in that year and then reflecting a steady decrease to calendar year 2015 when it crossed into a 0.7% decline.

Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	98.041	102.186	107.510	107.809	110.476	113.679	115.209	116.431	117.090	116.212
Absolute Change		4.1	5.3	0.3	2.7	3.2	1.5	1.2	0.7	-0.9
Inflation		4.2%	5.2%	0.3%	2.5%	2.9%	1.3%	1.1%	0.6%	-0.7%

Retail Sales

The following table presents the trend of retail sales from 2006 to 2014, the most recent year available. The source of the data is the Puerto Rico Planning Board

Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total	\$34,808,227	\$34,816,130	\$35,165,796	\$34,453,297	\$34,384,415	\$35,314,085	\$36,190,996	\$37,392,605	\$27,859,914
Absolute Change		\$7,903	\$349,666	-\$712,499	-\$68,882	\$929,670	\$876,911	\$1,201,609	-\$9,532,691
Change (%)		0.0%	1.0%	-2.0%	-0.2%	2.7%	2.5%	3.3%	-25.5%

The data shows mostly stable retail sales over the past years; with slightly decreasing figures reported during 2009 and 2010 as compared to 2008. Sales then rebounded in 2011, and then suffered a catastrophic decline of 25.5% in calendar year 2014. No figures are yet available for 2015.

Employment by Industrial Sector - Work Force Characteristics

The following table presents the industrial composition by employment sector of the entire Island for fiscal years 2006 through 2014 (last data published), as reported by the Department of Labor and Human Resources:

NUMBER OF EMPLOYED PERSONS BY MAJOR INDUSTRIAL SECTORS: FISCAL YEARS																		
In thousands of persons 16 years and over																		
	2006		2007		2008		2009		2010		2011		2012r		2013r		2014p	
Agric., Forestry, and Fishing	22	2%	16	1%	15	1%	18	2%	18	2%	19	2%	20	2%	17	2%	17	2%
Manufacture	135	11%	137	11%	128	11%	111	10%	101	9%	97	9%	95	9%	95	9%	86	9%
Mining	a/		a/		1	0%	a/		a/		1	0%	a/		a/		a/	
Construction	88	7%	98	8%	84	7%	70	6%	57	5%	50	5%	56	5%	47	5%	42	4%
Commerce	269	21%	262	21%	256	21%	242	21%	238	22%	234	22%	228	22%	226	22%	231	23%
Wholesale	24	2%	29	2%	31	3%	28	2%	25	2%	23	2%	22	2%	21	2%	22	2%
Retail	245	20%	233	18%	225	19%	215	19%	211	20%	211	20%	209	20%	208	20%	212	21%
FIRE	46	4%	44	3%	42	3%	42	4%	40	4%	39	4%	34	3%	29	3%	29	3%
Transportation	24	2%	24	2%	23	2%	26	2%	22	2%	18	2%	16	2%	18	2%	20	2%
Communication	15	1%	16	1%	16	1%	16	1%	15	1%	12	1%	14	1%	15	1%	12	1%
Other Public Services	16	1%	15	1%	16	1%	16	1%	14	1%	13	1%	13	1%	13	1%	13	1%
Services	351	28%	363	29%	354	29%	344	30%	325	30%	332	32%	339	33%	342	33%	340	34%
Government	285	23%	290	23%	269	22%	259	23%	256	24%	230	22%	224	22%	213	21%	205	20%
TOTAL	1,254	100%	1,263	100%	1,203	100%	1,144	100%	1,075	100%	1,047	100%	1,035	100%	1,030	100%	1,007	100%

r- Revised figures
p- Preliminary figures.
a/ Less than 1,000.

FIRE stands for Finances, Insurance and Real Estate.

The workforce of Puerto Rico has reflected a declining tendency since 2007 with reductions in the 5% - 6% range from 2008 to 2010 and in the 1% - 3% from 2011 to 2013. According to the data published by the U.S. Bureau of Labor Statistics, the workforce of Puerto Rico as of July 2014 was in the range of 1,007,000, or approximately -2.2% below the reported figure for FY2013. In a broader view, it is evident that the island's workforce has declined by ±250,000 since 2006. The largest employment sectors in Puerto Rico have historically been Service, with a most recent historical average of 33%; followed by Commerce (22%), and Government (20%).

The participation of these three industrial sectors has remained relatively stable over the past 10-year period, although the sectors of Commerce and Service have both increased during the last years. The Government Sector, on the other hand, has reduced itself; an expected result considering the current economic situation of the local government.

The Construction and Manufacturing sectors have reduced during the past years, with both reflecting significant reductions during 2014. Based on the projected additional taxation to multinational manufacturing companies established on the Island; along with the proposed increments in the cost of basic utilities such as water and electricity (reducing the competitiveness and cost effectiveness of keeping operations in Puerto Rico) detract the probability of growth of this industrial sector. Furthermore, the ongoing economic recession on the Island has seriously weakened the construction sector by eroding the effective demand for new developments, and limiting the availability of financing and capital for these ventures.

The agriculture has been neglected since the first half of the past century, and in spite of this administration's efforts to boost this industry; potential real growth is not projected to have a significant impact. Based on the foregoing, the economic distribution of the local workforce is not projected to improve in the near term future.

Employment and Unemployment

In an effort to avert the downgrading of the central government credit, the past administration resorted in 2009 to cut recurring expenses that amounted to \$3,200 million per year. In that same year, approximately 24,000 government employees were laid off, or were offered early retirement packages in order to lower the huge payroll. Additionally, government agencies were consolidated, professional services contracts were cut, and many lease agreements of space occupied by the government were not renewed. In addition to the governmental layoff, private enterprise was also forced to reduce personnel in an effort to cope with the general economic distress. The following chart presents the unemployment rates as reported by Puerto Rico Planning Board for the past 10-year period.

Unemployment Rate										
Fiscal Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Rate	11%	11%	11%	14%	16%	16%	15%	14%	14%	13%
Change		-0.4	0.6	2.5	2.6	-0.1	-1.0	-1.2	0.3	-1.3
Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Rate	11%	11%	12%	15%	16%	16%	15%	14%	14%	
Change		0.7	0.6	3.5	1.1	-0.4	-1.5	-0.2	-0.4	

The unemployment in Puerto Rico has historically been considerably higher than on the Mainland U.S. However, after a stabilized rate in the range of 11% prior to the full impact of the economic recession; the unemployment rate increased to a staggering 16% in FY2010 and remained at that level throughout FY2011. By FY2012 the rate reduced to 15% and in FY 2013 and 2014 it dropped again to 14%. The reduction has continued as evidenced of the 13% reported by 2015 and recent government announcements claiming further reductions into the 12% realm by the end of calendar 2015.

Although this could be interpreted as positive signs, the fact is that little or no progress has been made with regard to new jobs and the published rates are merely a function of a lower workforce, which continues to decline to the present, as evidenced in the table following table:

Labor Force (Thousand People)										
Fiscal Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	1,410	1,415	1,355	1,326	1,285	1,246	1,212	1,182	1,162	1,138
Change		5	-60	-29	-41	-39	-34	-30	-20	-24
%		0.4%	-4.2%	-2.1%	-3.1%	-3.0%	-2.7%	-2.5%	-1.7%	-2.1%
Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total	1,419	1,387	1,345	1,302	1,269	1,223	1,201	1,170	1,146	
Change		39	-32	-42	-43	-33	-46	-22	-31	-24
%		2.8%	-2.3%	-3.0%	-3.2%	-2.5%	-3.6%	-1.8%	-2.6%	-2.1%

Labor Force Participation (%)

Fiscal Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total	48.1%	48.2%	47.4%	46.1%	44.8%	43.1%	41.8%	41.8%	40.7%	39.6%	
Change		0.1	-0.8	-1.3	-1.3	-1.7	-1.3	0.0	-1.1	-1.1	
Fiscal Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fiscal - Average	48.2%	48.6%	46.8%	46.0%	44.5%	43.3%	41.7%	41.3%	40.8%	39.8%	40.1%
Change		0.3	-1.7	-0.8	-1.6	-1.2	-1.6	-0.4	-0.6	-0.9	0.3
Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total	48.9%	47.7%	46.3%	44.7%	43.5%	42.0%	41.5%	40.8%	40.1%		
Change		-1.2	-1.4	-1.6	-1.2	-1.5	-0.5	-0.7	-0.7		

Conclusion

The results released by the Census Bureau for the 2010 Census reveal what some consider being a “demographic chaos”, where the overall population for the Island has dropped by 2.2% from 2000, and the percentage of the senior population has risen over the same period. Alarmingly enough is the fact that this trend appears to continue; with the present population currently reflecting a reduction of 58,705 persons, or about -1.6% from 2010.

In addition, over 200,000 jobs have been lost since 2008, and the local economy continues to face serious challenges that do not portray any potential recuperation in the near-term future. An increase in cost of basic commodities and services such as gasoline, electricity, water, tollgate fees, and the recently implemented business to business expansion of the sales tax is adding to the ongoing deterioration of the local economy. The high level of prices has eroded the savings of many individuals, and weakened the local real estate market as well. The overall perception of the general population is mainly pessimistic; with little to no expectations of an economic recovery in the near future.

REGIONAL AND CITY ANALYSIS

In this section we will evaluate demand drivers for the subject region. After considering the socio-economic and location characteristics of this area, we have concluded that, in addition to San Juan, the region that has influence over the subject properties also includes the municipalities of Bayamón, Carolina, Cataño, Guaynabo and Trujillo Alto. These municipalities comprise the subject's market area. Together, they occupy an approximate 190 square miles of land area and are the center of Puerto Rico's economic activity. Nevertheless, each is politically independent of the other, as they have their own municipal government, mayor, and tax system.



Access

An extensive road network links the San Juan Metropolitan Area. The most important arteries include the Baldorioty de Castro Avenue (Loíza Expressway), the 65th Infantry Highway (Road PR-3), De Diego Expressway (Road PR-22), Las Américas Expressway (Road PR-18), and the Luis A Ferré Expressway (Road PR-52). The Baldorioty de Castro Avenue serves the northern part of San Juan and leads east providing access to the municipality of Carolina. Baldorioty de Castro Avenue eventually connects with the 65th Infantry Avenue to the south.

The 65th Infantry Highway (Road PR-3) leads from the Río Piedras Sector of San Juan towards Carolina and continues east. This artery links the San Juan Metropolitan Area with the northeastern sector of the Island. De Diego Expressway leads from the municipality of San Juan west toward the municipality of Bayamón and continues west. This expressway links the San Juan Metropolitan Area with the northwestern sector of the Island. Las Américas Expressway mainly serves the municipality of San Juan in a north to south direction. It is considered an important artery of the metropolitan area because it converts into the Luis A. Ferré Expressway at its southern end. The Luis A. Ferré Expressway (Road PR-52) leads south from the Río Piedras Sector of San Juan towards the municipality of Caguas, and continues south. This expressway links the San Juan Metropolitan Area with the southern region of the Island.

In essence then, there are three major arteries, which can be conceived to form a “T”. De Diego Expressway leads west, Road PR-3 leads east, and the Luis A. Ferré Expressway leads south. Two of these are expressways, while State Road No. 3 is a multi-lane artery. The Baldorioty de Castro Avenue provides extended access from the municipality of San Juan to Road PR-3, and Las Américas Expressway provides extended access from the municipality of San Juan to the Luis A. Ferré Expressway.

Population

According to data published by the U.S. Census Bureau, the region bore the brunt of the population decrease during the most recent 2000-2010 decade, decreasing by 6.5% as compared to the previous decade. Overall, the San Juan Metropolitan Area accounted for 83.6% of the total island wide population loss during the past decade. The population change in the subject region is summarized in the following table:

REGIONAL POPULATION							
	2010	Annual %Inc.	2000	Annual %Inc.	1990	Annual %Inc.	1980
Bayamón	208,116	-0.8%	224,044	20.5%	220,262	1.2%	196,206
Carolina	176,762	-0.6%	186,076	0.5%	177,806	0.7%	165,954
Cataño	28,140	-0.7%	30,071	-1.4%	34,587	2.8%	26,243
Guaynabo	97,924	-0.2%	100,053	0.7%	92,886	1.4%	80,742
San Juan	395,326	-1.0%	434,374	-0.1%	437,745	0.1%	434,849
Trujillo Alto	74,842	-0.1%	75,728	2.2%	61,120	1.7%	51,839
Region Total	772,994	-0.7%	826,302	0.3%	804,144	0.6%	759,627
Puerto Rico Total	3,725,789	-0.2%	3,808,610	0.8%	3,522,037	1.0%	3,196,520

The following table from the US Census shows that the decreasing trend in population has continued until 2015, the most recent date for which this information is available as of the date of this report.

Geography	April 1, 2010	Population Estimate (as of July 1)						
	(Census)	Estimates Base	2010	2011	2012	2013	2014	2015
Bayamón	208,116	208,396	207,917	204,751	201,311	197,806	193,406	189,159
Carolina	176,762	176,762	176,421	173,836	171,106	168,477	165,269	161,884
Cataño	28,140	28,140	28,083	27,631	27,176	26,754	26,200	25,641
Guaynabo	97,924	97,924	97,798	96,618	95,358	94,170	92,470	90,879
San Juan	395,326	395,196	393,971	386,658	379,239	372,166	363,862	355,074
Trujillo Alto	74,842	74,842	74,759	73,887	73,013	72,097	70,818	69,615
Total Region	981,110	981,260	978,949	963,381	947,203	931,470	912,025	892,252
% Change				-1.6%	-1.7%	-1.7%	-2.1%	-2.2%
Puerto Rico	3,725,789	3,726,157	3,721,527	3,686,771	3,642,281	3,595,839	3,548,397	3,548,398
% Change				-0.9%	-1.2%	-1.3%	-1.3%	0.0%

The fact that population has been and is expected to continue declining, is a negative characteristic.

Population Density

The following table summarizes the population densities of each municipality resulting from the 2014 Census population estimates. The municipality of San Juan, where the subject properties are located, shows a population density of 7,425.2 persons per square mile of land area.

Municipality	Area in Square Miles	2015 Population	2015 Population per Square Mile
Bayamón	44.38	189,159	4,262.3
Carolina	45.33	161,884	3,571.2
Cataño	4.82	25,641	5,319.7
Guaynabo	27.13	90,876	3,349.6
San Juan	47.82	355,074	7,425.2
Trujillo Alto	20.75	69,615	3,354.9
Regional Total	190.23	892,249	4,690.4
Puerto Rico Total	3,425	3,548,397	1,036.0

Median Age / Persons per Household

The next table presents information on household size and median age extracted from the Census for the municipalities in the region. The most recent published information by the US Census is for 2014.

2014 US CENSUS - Median Age - Persons/Household			
Municipality	Median Age	Persons/Household	
		Owners	Renters
Bayamón	38.9	2.74	2.65
Carolina	38.9	2.71	2.61
Cataño	36.2	2.88	2.89
Guaynabo	40.5	2.72	2.65
San Juan	39.9	2.53	2.47
Trujillo Alto	37.3	2.96	2.84
Puerto Rico	38.1	2.93	2.82

Income per Capita

Next, we will look at income per capita in order to ascertain the socio-economic characteristics of the trade area. The most recent data available as of the date of this report is for 2014.

Municipality	2014 Census Data
Bayamón	12,975
Carolina	14,937
Cataño	10,592
Guaynabo	21,992
San Juan	16,931
Trujillo Alto	15,182
Average	92,609
Puerto Rico	11,068

We should underscore that Income per Capita figures released by the Census are considered to be affected for under-reporting, a common practice in Puerto Rico. Economists have in the past state that in order to reflect accurate per capita income, the reported figures should be adjusted upward by between 20% and 25%. As we can see, the average income per capita for the subject region is significantly above the Island average, consistent the fact that the San Juan Area Metropolitan Area is the most important location for employment, especially in the services sector.

Work Force Characteristics

The table that follows illustrates the industrial composition by employment sector of the region, for the First Quarter of 2016 (most recent published data as of the date of this report). FIRE stands for Finances, Insurance and Real Estate. TCPU stands for transportation, communication, and public utilities.

EMPLOYMENT BY SECTOR - First Quarter 2016

Municipality	Agricultural	Construction	Manufacturing	TCUP	Wholesale	Retail	FSBR	Services	Government	Others	Total
Bayamón	20	826	2,269	1,403	3,743	11,412	1,473	25,784	8,456	0	55,386
Carolina	0	1,103	2,959	4,203	1,445	8,917	1,511	21,591	4,140	0	45,869
Cataño	0	140	711	1,498	1,715	708	206	4,333	722	0	10,033
Guaynabo	59	1,446	2,176	5,276	4,999	4,094	3,960	21,224	3,028	46	46,308
San Juan	139	6,087	4,182	13,080	7,707	24,003	22,780	118,027	47,615	0	243,620
Trujillo Alto	35	417	236	141	477	1,980	263	5,391	895	0	9,835
Market Area	253	10,019	12,533	25,601	20,086	51,114	30,193	196,350	64,856	46	411,051
Puerto Rico	13,018	22,286	73,079	46,873	29,127	128,778	42,822	398,748	135,514	500	890,745

% OF EMPLOYMENT BY SECTOR - First Quarter 2016

Municipality	Agricultural	Construction	Manufacturing	TCUP	Wholesale	Retail	FSBR	Services	Government	Others	Total
Bayamón	0.0%	1.5%	4.1%	2.5%	6.8%	20.6%	2.7%	46.6%	15.3%	0.0%	100%
Carolina	0.0%	2.4%	6.5%	9.2%	3.2%	19.4%	3.3%	47.1%	9.0%	0.0%	100%
Cataño	0.0%	1.4%	7.1%	14.9%	17.1%	7.1%	2.1%	43.2%	7.2%	0.0%	100%
Guaynabo	0.1%	3.1%	4.7%	11.4%	10.8%	8.8%	8.6%	45.8%	6.5%	0.1%	100%
San Juan	0.1%	2.5%	1.7%	5.4%	3.2%	9.9%	9.4%	48.4%	19.5%	0.0%	100%
Trujillo Alto	0.4%	4.2%	2.4%	1.4%	4.9%	20.1%	2.7%	54.8%	9.1%	0.0%	100%
Market Area	0.1%	2.4%	3.0%	6.2%	4.9%	12.4%	7.3%	47.8%	15.8%	0.1%	100%
Puerto Rico	1.5%	2.5%	8.2%	5.3%	3.3%	14.5%	4.8%	44.8%	15.2%	0.1%	100%

The largest employment sectors in the region include Services (47.8%), Government (15.8%), and Retail (12.4%). Together, they account for 76.0% of total employment in the area. The large Services Sector component is logical, since the San Juan Metropolitan area is the center of the Island's economic activity.

Labor Force

The following table shows how the labor force has changed in the subject municipality of Carolina, and the rest of the region, since 2010.

Bayamón

Item	Aug-2016	2015	2014	2013	2012	2011	2010
Labor Force	67,200	68,300	68,700	70,000	71,800	75,900	77,600
Employed	61,100	62,000	61,600	62,100	63,200	65,600	66,700
Unemployed	6,100	6,300	7,100	7,800	8,500	10,300	10,900
Unemployment Rate	9.08%	9.22%	10.33%	11.14%	11.84%	13.57%	14.05%

Carolina

Item	Aug-2016	2015	2014	2013	2012	2011	2010
Labor Force	62,500	63,600	63,800	65,300	67,000	70,400	72,500
Employed	57,000	57,900	57,500	58,600	59,500	61,600	62,900
Unemployed	5,500	5,600	6,300	6,700	7,500	8,800	9,700
Unemployment Rate	8.80%	8.81%	9.87%	10.26%	11.19%	12.50%	13.38%

Cataño

Item	Aug-2016	2015	2014	2013	2012	2011	2010
Labor Force	8,000	8,200	8,300	7,700	7,800	8,300	7,500
Employed	7,200	7,300	7,300	6,500	6,600	6,800	6,100
Unemployed	800	900	1,000	1,200	1,200	1,400	1,400
Unemployment Rate	10.00%	10.98%	12.05%	15.58%	15.38%	16.87%	18.67%

Guaynabo

Item	Aug-2016	2015	2014	2013	2012	2011	2010
Labor Force	37,300	37,600	37,400	38,400	39,000	40,700	41,500
Employed	34,900	35,400	35,000	35,100	35,600	36,700	37,100
Unemployed	2,400	2,200	2,400	3,300	3,400	4,000	4,300
Unemployment Rate	6.43%	5.85%	6.42%	8.59%	8.72%	9.83%	10.36%

San Juan

Item	Aug-2016	2015	2014	2013	2012	2011	2010
Labor Force	137,100	138,200	138,400	140,100	143,900	151,700	157,400
Employed	125,900	127,700	127,000	126,300	128,900	134,200	138,100
Unemployed	11,200	10,500	11,500	13,700	14,900	17,500	19,300
Unemployment Rate	8.17%	7.60%	8.31%	9.78%	10.35%	11.54%	12.26%

Trujillo Alto

Item	Aug-2016	2015	2014	2013	2012	2011	2010
Labor Force	27,200	27,400	27,500	27,700	28,200	29,400	33,000
Employed	25,100	25,500	25,300	25,100	25,400	26,200	29,300
Unemployed	2,100	1,900	2,200	2,600	2,800	3,200	3,600
Unemployment Rate	7.72%	6.93%	8.00%	9.39%	9.93%	10.88%	10.91%

Region

Item	Aug-2016	2015	2014	2013	2012	2011	2010
Labor Force	339,300	343,300	344,100	349,200	357,700	376,400	389,500
Employed	311,200	315,800	313,700	313,700	319,200	331,100	340,200
Unemployed	28,100	27,400	30,500	35,300	38,300	45,200	49,200
Unemployment Rate	8.28%	7.98%	8.86%	10.11%	10.71%	12.01%	12.63%

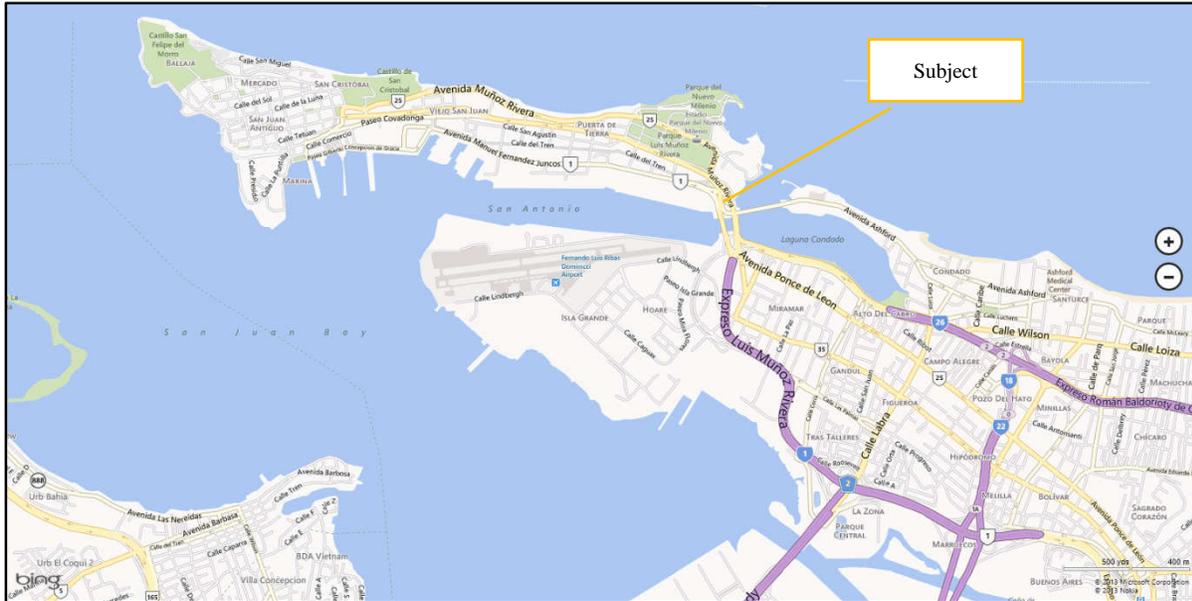
As can be seen the labor force is consistently shrinking, as shown by the trend from 2010 to 2014. The number of employed persons; however, appears to have stabilized since 2013, ranging from a rounded 314,000 to 316,000.

Conclusion

The Greater San Juan Metropolitan Area, as a whole, has the highest population density and the highest income distribution on the Island. The subject region, as defined, includes many of the affluent municipalities of the San Juan Metropolitan Area. The region shows decreasing population and stabilized employment but with a shrinking labor force, consistent with the recessionary conditions impacting the Island since 2007.

NEIGHBORHOOD ANALYSIS

The immediate neighborhood of the subject property is defined by the Atlantic Ocean on the north, the Miramar Sector and the Convention Center District on the south, the Condado Area on the east, and the San Juan Bay on the west.



The neighborhood enjoys a central location within the San Juan urban core at close proximity to the Condado, Old San Juan, and Miramar sectors. It is served by the Muñoz Rivera and Baldorioty de Castro Expressways as well as by Ponce de León and Fernández Juncos Avenues.

The neighborhood is also served with all the necessary and desired government services and utilities. There is daily postal delivery, garbage collection, street cleaning, and fire and police protection. The area also has water, sanitary and storm sewer systems, electricity and telephone. Streets in the neighborhood are in good condition and have adequate illumination. They are either asphalt or concrete paved, and have concrete sidewalks.

Muñoz Rivera Avenue runs north of the neighborhood, parallel to the coast, and is a one-way avenue running westbound to Old San Juan. Ponce de León Avenue starts in Old San Juan and runs one-way eastbound through the middle of the neighborhood towards Condado and Miramar.

Fernández Juncos Avenue runs in two directions from Old San Juan through the southern section of the San Juan Isle and the Convention Center District to the south of the subject. The artery provides access to the pier areas of San Juan prior to crossing through the Bahía Urbana sector, and providing access to the subject. From there, it enters the District, and then up to the southern portion of the Miramar Area, after which it converts to a one way avenue towards the southeast.

To the east of the subject and across from the interchange of the three avenues indicated above, is the Dos Hermanos Bridge, which provides access to the Condado Area a high-density suburb characterized by intensely developed residential-commercial areas.

Condado includes hotels, restaurants, retail stores, plus high-rise condominiums and single family residences. To the south of the subject is the Miramar, a long established residential neighborhood, characterized by a combination of high-rise condominium and single family residences. Commercial activities in Miramar are almost exclusively limited to the main arteries such as Ponce de León and Fernandez Juncos Avenues.

The Puerta de Tierra Sector is to the northwest of the subject at the entrance to the San Juan Isle. This is a mixed-use neighborhood with heterogeneous characteristics. The area fronting Muñoz Rivera Avenue is mostly institutional, including the Hogar Cuna San Juan, the Capitol, the Muñoz Rivera Park, the Escambrón athletic facilities and others. Some of these properties also have frontage to Ponce de León Avenue.

The area fronting Ponce de León Avenue (west of Muñoz Rivera Park) is mostly retail commercial, with some institutional uses. Most of the area along Fernández Juncos Avenue, which runs through the pier areas, is mostly light-industrial. The area in between these two avenues is mostly residential, catering to the low-income sector of the population (San Agustín, Puerta de Tierra, and El Falansterio housing projects).

The strip of upland south of Fernandez Juncos Avenue and bounding to the San Antonio Channel Waterfront comprise the area designated for the San Juan Waterfront / **Bahia Urbana** revitalization development.

This ambitious project includes a mix of housing, retail, services, lodging/hospitality, marine recreation, and outdoor recreational venues. The long term development has two interim developments under way, one of which has recently been completed at its westernmost point closest to the existing cruise ship piers and includes an amphitheater and outdoor recreational facilities.

In future phases, the project is proposed to include slip facilities for yachts and mega-yachts. This development is projected to bring a renewed tourist and urban activity influence into the Puerta de Tierra neighborhood.

The adjacent “Club Náutico de San Juan” is a long-established private fishing club with ±120 wet slip for yachts up to 200± feet in length, club house with restaurant and ballroom, fuel facility, and a marine supply store.

South of the subject is the Isla Grande (Fernando Rivas Dominicci) Airport, a small commercial airport providing local and interisland flights, also used as base for governmental and private airplanes and charter companies. The facility, with direct access to the Convention Center District, has a single 5,500 foot airstrip. Adjacent to the airport, along the southern end of the San Antonio Channel is the Panamerican Dock, a cruise ship docking facility used as compliment to the commercial piers at Old San Juan.

The San Juan Bay is one of the largest navigable bays in the Caribbean and the most active in terms of cargo and cruise ship movement.

The Puerto Rico Convention Center District³

One of the early initiatives of the Golden Triangle Vision Plan was the development of the Puerto Rico Convention Center District on 113 acres of underutilized land in Isla Grande.

³ PRCCD data extracted from Resort Development Consultants, Inc.'s “PRCCD Highest and Best Use Analysis and Proposed Implementation Strategies”, March 2010; and “PRCCD Design and Concept Guidelines” by Colliers International, December 12, 2007.

The District is planned to include a total of 3.9 million square feet of building space, including the existing convention center, hotels, multi-family residential developments, office space development, retail areas, and multi-story parking buildings. More specifically, the current master plan of the PRCCD includes six parcels planned for hotels with a total of 1,772 rooms, comprising 1.3 million square feet, or about 35% of the total District's building area.

Other parcels include 563 residential units with 1.1 million square feet of building area, accounting for 28% of total buildable area; 477,000 square feet of office space, accounting for 12% of total building area; and 245,000 square feet of retail/commercial space. Surface and structured parking is planned for 7,929 vehicles, including 1,959 spaces at the Convention Center. The physical building structures occupy 63.2 acres, comprising 62% of the total site area, while the public realm encompasses 39.4 acres, including 14 acres of parks and open areas.

Convention Center

The Puerto Rico Convention Center is the largest facility of its kind in the Caribbean and the most technologically advanced in the Caribbean and Latin America. Inaugurated in November 2005, the Puerto Rico Convention Center is a new business and tourism destination that hosts a wide range of events and anchors the many attractions and activities in the District. It includes a 158,000 square foot exhibit hall, 40,000 square feet of meeting space with 12 rooms on two levels that subdivide into 25 sections, the largest ballroom in the Caribbean, at 40,000 square feet, and 239,000 square feet of support service and administration. Over 950 parking spaces are located adjacent to the Convention Center. Two contiguous expansions of the convention center are planned in the future and the District Authority has also obtained in recent years a 70+ cuerda parcel adjacent to the southwest of the Convention Center building.

Anchor Hotel

The Sheraton Puerto Rico Hotel & Casino (the subject property), completed during November of 2009, is a mixed use complex integral to the Puerto Rico Convention District. The full-service hotel of 503 guestrooms is designed as an "urban resort". Its guestrooms face views of the San Antonio Canal and San Juan Bay on the west and the Atlantic Ocean on the north. The hotel is managed and licensed by Sheraton Hotels & Resorts, and features the brand's signature amenities and services. The development team is Interlink Group and Starwood Hotels & Resorts, Inc.

Additional Hotels

Two additional hotels currently operate in the district, namely the Hyatt Place with 149 rooms, and the Hyatt House with 126 rooms.

Additional Projects

During 2013, the District signed a Surface Rights Agreement for the development of a Class A office building to be dubbed the "World Trade Center". This building is proposed to eventually total approximately 216,000 square feet of leasable office space, with no less than 500 parking spaces and not more than 32,000 square feet of net retail area on parcel B1d to the east of the Sheraton Convention Center Hotel.

The project was to be built in two phases, the first of which was to consist of a structure with 125,000 square feet of net office space, a 156 space parking structure, and a yet to be finalized amount of net retail space. This development, however, is expected not to come to fruition according to sources.

During 2005, the District sold "Block C", of 9,890.99 square meters, to a local developer for the construction of 100 residential units and 61,640 square feet of retail and office space in two levels, under the horizontal property regime. The project was also to include 250 parking spaces for the residential component, and 130 parking spaces for the retail/office component. This development, however, was halted during the middle of construction amidst cost overruns and financial troubles and has since remained in mid-construction condition, with a partially completed structural steel shell. The property's structural steel shell was removed by the district, who acquired the property. Paulson & Co. had signed a purchase and sale agreement with the intent to build a high rise office building complex focusing on economic incentives from Law 20/22, which provide tax incentives on businesses exporting services and high-worth individuals who move and establish legal residence in Puerto Rico. This agreement, however, has expired and there is no development currently proposed at this time.

Furthermore, the development team that has built the two Hyatt branded hotels is in the initial stages of developing a reported Olive Garden and Longhorn Steakhouse in the remnant Block-G parcel that remained after the development of the Hyatt House.

Finally, a new development on the District, to be known as "District Live!", recently broke ground. The project is to consist of an entertainment focused venue combining a small concert amphitheater, six luxury cinemas, and retail spaces for lounges and entertainment-based activities ala Downtown Disney. The project totals approximately 107,000 square feet, and includes a proposed AC Hotel, a new Marriott brand that results from a joint venture with a Spanish hotelier.

In addition to the developments described herein, a proposed Courtyard by Marriott branded hotel has reportedly finalized negotiations for development on another undisclosed parcel within the district. The developers are in the process of securing financing in order to begin construction.

Neighborhood Trends

The general neighborhood surrounding the subject is considered to be in a general transition period mostly by governmental sponsored redevelopment programs. What was once an area of old deteriorated buildings and facilities at Isla Grande is now partly developed with the Convention Center District, while the neighborhood to the west is now partly redeveloped with the Bahia Urbana Waterfront Development. Certainly, there are still sporadic blight areas with abandoned and dilapidated properties that require extensive effort to bring them back to acceptable levels.

Across the Dos Hermanos interchange, to the east of the subject, the Paseo Caribe mixed-use development was partially completed during 2010 and is currently delivering its retail areas and its last residential components. North and adjacent to Paseo Caribe, the Caribe Hilton Hotel and the associated Condado Lagoon timeshare property have been operating as tourist hotel destinations for several decades.

In 2006, the former Normandie Hotel property, adjacent to the Caribe Hilton, was acquired by the Caribbean Property Group and was proposed for remodeling and renovation for a reported reopening as a Thompson Hotel in the future. However, these plans did not pan out and the property was put up for private auction during May 2013. The results of this auction have yet to be made public.

In the recent past, a light-rail train that was to connect to the Tren Urbano system had been proposed. This light rail system was to be routed via Fernandez Juncos Avenue towards the Puerta de Tierra / Old San Juan area, with a station tentatively proposed at the Convention Center District. The project however, has reportedly been on hold due to lack of funding.

Conclusion

The immediate neighborhood to the subject has been a center for urban revitalization during past decades and continues to be the focus of urban renewal. The location of the subject property is in the middle of redevelopment efforts by several governmental administrations. The subject's neighborhood should continue to benefit from the continued development of the Puerto Rico Convention District and the ongoing long-term development of the San Juan Waterfront / Bahia Urbana development.

LOW-INCOME HOUSING RENTAL MARKET

Public Housing Submarket

The public housing rental market in Puerto Rico is managed by the Puerto Rico Public Housing Administration. According to an inventory report provided by the agency, as of August 1, 2016, there were a total of 294 public housing projects in Puerto Rico comprising a total inventory of available housing units of 62,165. The reported figures exclude demolished projects as well as tax credit projects.

As reported by the personnel from the agency, these projects typically operate at full occupancy with considerably long waiting lists of interested tenants; thus, maintaining year-round nominal frictional vacancies.

As reported by the personnel from the PHA, the current *Fixed Monthly Rates (gross), Utilities Discounts, and Qualifiable Deductions* established for public housing units in the San Juan Region are as follows:

Public Housing Units - San Juan Region						
Unit Type	Fixed Monthly Rate	Utility Deductions		Qualifiable Deductions		
		AAA	AEE	Elderly	Handicaped	Minor
1-bedroom	\$391	\$20	\$30	\$400	\$400	\$480
2-bedroom	\$463	\$20	\$40	\$400	\$400	\$480
3-bedroom	\$601	\$20	\$40	\$400	\$400	\$480
4-bedroom	\$717	\$20	\$50	\$400	\$400	\$480
5-bedroom	\$820	\$20	\$50	\$400	\$400	\$480

Section 8 Submarket

The following table presents the *Fair Market Rents* determined by HUD for FY 2016 for the municipality of San Juan, as extracted from the agencies' webpage.

Final FY 2017 & Final FY 2016 FMRs By Unit Bedrooms					
Year	Efficiency	One-Bedroom	Two-Bedroom	Three-Bedroom	Four-Bedroom
Final FY 2017 FMR	\$430	\$459	\$553	\$743	\$924
Final FY 2016 FMR	\$407	\$456	\$548	\$736	\$895
Percentage Change	5.7%	0.7%	0.9%	1.0%	3.2%

Low Income Housing Tax Projects

The following statements are an extract from the webpage of the Puerto Rico Government Development Bank webpage:

The Puerto Rico Housing Finance Corporation and the Puerto Rico Housing Bank and Finance Agency merged under Act 103 of August 11, 2001, as amended. The name of the entity was changed to Puerto Rico Housing Finance Authority (PRHFA) and its corporate structure remained as that of a subsidiary of the Government Development Bank. The principal mission of this agency is to promote the development of low-income housing and provide financing, subsidies and incentives so that people may acquire or lease a dignified home. The programs available through the PRHFA for those purposes are:

- Mortgage loans to developers for the construction, improvement, operation and maintenance of rental and for-sale housing for low to moderate income families.
- Mortgage loans to citizens of low and moderate income.
- Mortgage Loan Insurance Program (Act No. 87).
- Disposition of repossessed properties.
- Housing subsidy programs aimed at boosting home purchases.
- Section 8 program of the U.S. Housing Act (PHA).

In addition, the PRHFA is:

- Performance Based Contract Administrator (PBCA) for HUD's subsidy contracts for Section 8 projects in Puerto Rico.
- Administrator of the HOME Investment Partnerships Program since 2010.
- Puerto Rico's State Credit Agency for the Low-Income Housing Tax Credit program under Section 42 of the U.S. Internal Revenue Code, as amended.
- Responsible for the Puerto Rico Community Development Fund, a Community Development Entity participating in the New Markets Tax Credits Program of the U.S. Treasury Department. This tax credits program helps to provide funds for for-sale housing projects in the Commonwealth of Puerto Rico.

As indicated in the foregoing extract, the PRHFA is the responsible entity for the development, and or renovation, of low-income housing projects in Puerto Rico. According to the information provided by administrative personnel of the PRHFA, 16 projects with 1,792 units have been awarded LIHTC funds from 2013 to 2015. An additional 24 projects were awarded funds from 2011 to 2012. The following table shows a sample of projects awarded LIHTC projects in recent years.

Project Name	Location	Year of LIHTC Award	Project Cost	Total Units	LIHTC Rents							
					1-bedroom		2-bedroom		3-bedroom		4-bedroom	
The Golden Residence at Floral Park	Floral Park, Hato Rey	2011	\$22.0M	160	\$480	per mth	n/a	per mth	n/a	per mth	n/a	per mth
Metropolis Apartments	Floral Park, Hato Rey	2012	N/A *	185	n/a	per mth	n/a	per mth	\$397	per mth	\$421	per mth
Balserio Elderly	University Gardens, Río Piedras	2012	\$12.4M	74	n/a	per mth	n/a	per mth	n/a	per mth	n/a	per mth
View Point at Domenech	Baldrich, Hato Rey	2012	\$22.5M	120	\$500	per mth	n/a	per mth	n/a	per mth	n/a	per mth
Plaza Gran Victoria	Santurce Sur	2012	\$16.4M	98	\$475	per mth	n/a	per mth	n/a	per mth	n/a	per mth
San Cristobal Apartments **	Old San Juan	2013	\$19.4M	50	n/a	per mth	n/a	per mth	n/a	per mth	n/a	per mth

* The project referred to an almost 100% finished multifamily project converted for low-income housing purposes.

** In construction

Of the six (6) projects above, five (5) have been already developed. As indicated by the administrators, The Golden Residence at Floral Park took approximately 4 months to achieve full occupancy, Viewpoint at Domenech and Plaza Gran Victoria took 3 months each, and Metropolis Apartments took approximately 6 months. However, this last project has a rental unit combination of LIHTC units, Section 8 units, and elderly units under Law 176 of P.R. Also, it has the largest inventory of the sample.

Most of the recently introduced inventory in the market of San Juan refers to homes for the elderly; whose preferred product are 1-bedroom units. These rents basically ranged from \$475 to \$500 per month at the surveyed projects. The Metropolis Apartments project includes 1-bedroom and 2-bedroom units; yet, these are not rent as LIHTC units but rather as elderly units under Law 176. The monthly rents for the 1-bedroom and 2-bedroom units were reported at \$526 and \$585, respectively.

Given the level of occupancy at properties funded with LIHTC, as well as the historical absorption of the most recently developed projects in San Juan; it is evident that there is an unsatisfied demand for this type residential product in San Juan. Currently, there are four (4) proposed projects in San Juan which will include LIHTC units. They are Las Gladiolas (140 units), the Puerta de Tierra (174 units), Golden Residences at The Village (140 units) and the subject Ciudad Lumen (140 units).

Unrestricted-Rent Markets

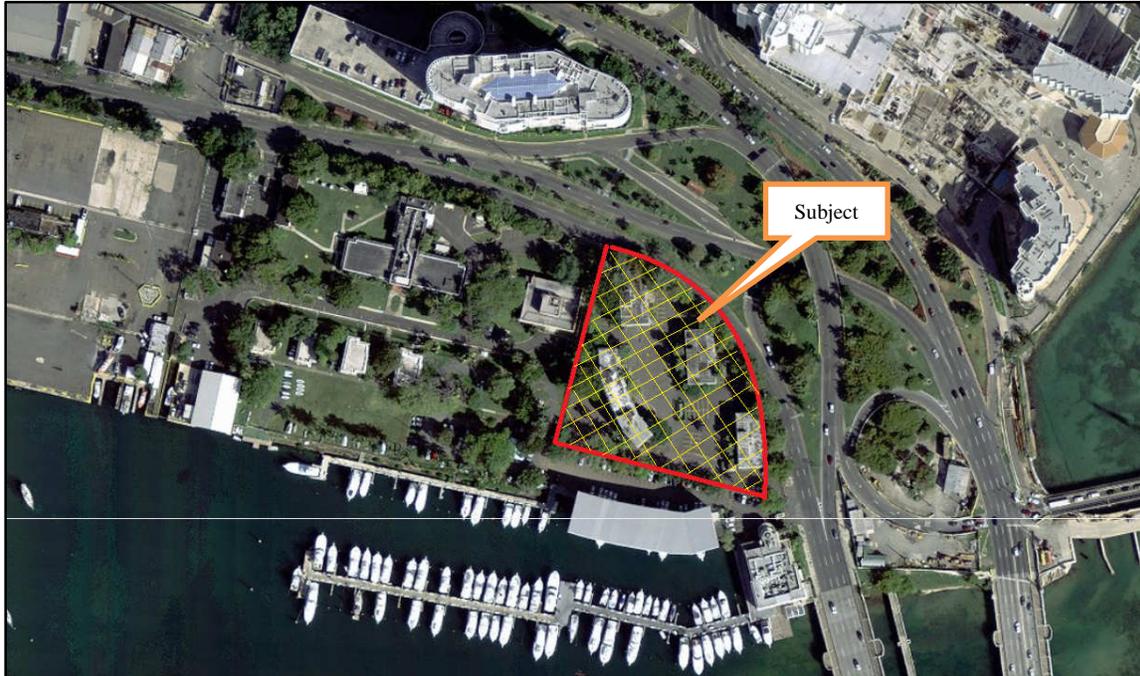
The following table presents the range of unrestricted-rent market survey based on current asking rents at residential units in Hato Rey. The source of our survey was taken from two locally recognized websites (ClasificadosPR.com and CompraoAlquila.com.pr) as of October 14, 2016:

Unrestricted-Rent Market Survey			
Location	Room Count	Parking	Mth Rent
Hato Rey (Floral Park)	1-bed / 1 bth	1	\$475
Baldrich	1-bed / 1 bth	1	\$495
Hato Rey (French Plaza)	1-bed / 1 bth	1	\$600
Hato Rey (Baldrich)	1-bed / 1 bth	1	\$495
Hato Rey (El Monte)	1-bed / 1 bth	1	\$675
Average			\$548
Hato Rey	2-bed / 1 bth	1	\$750
Hato Rey (Baldrich)	2-bed / 1 bth	1	\$720
Hato Rey	2-bed / 1 bth	1	\$625
Hato Rey	2-bed / 1 bth	1	\$600
Hato Rey (Mayaguez Court)	2-bed / 1 bth	1	\$600
Average			\$659
Parque Centro	3-bed / 1 bth	1	\$840
Hato Rey (Centrum Plaza)	3-bed / 1 bth	1	\$850
Jardines de Cuenca	3-bed / 1 bth	1	\$1,000
Jardines de Cuenca	3-bed / 1.5 bth	1	\$955
Parque Centro	3-bed / 1.5 bth	1	\$800
Hato Rey Centro	3-bed / 1.5 bth	1	\$905
Chateau San Juan	3-bed / 1.5 bth	1	\$800
Hato Rey (Teide)	3-bed / 2 bth	2	\$950
Hato Rey (Aranjuez)	3-bed / 2 bth	2	\$850
TH Floral Park	3-bed / 2 bth	2	\$950
Roosevelt 107	3-bed / 2 bth	2	\$900
Hato Rey (Avila)	3-bed / 2 bth	1	\$900
Average			\$892

As seen from the table above, unrestricted-rents of 1-bedroom apartments surveyed in the general Hato Rey area range from approximately \$475 to \$675 per month, with an average of \$548. The lowest rents refer to units at older complexes with less appeal to market; while higher rents refer to condominium units at projects with controlled access and with greater appeal to market. The 2-bedroom units sample ranged from \$600 to \$750 per month, and with an average of \$659. A similar trend was reflected with respect to rents versus market appeal. The largest sample found referred to the 3-bedroom market; where units varied between 1-bathroom, 1.5-bathrooms, and 2-bathrooms room counts. Notwithstanding the bathroom-count difference, overall rents ranged from \$800 to \$950 per month, and with an average of \$892. Again, projects with greater market appeal have the highest rents.

SITE ANALYSIS

The subject property is located north of the Club Náutico de San Juan, at Fernández Juncos Avenue, in the Puerta de Tierra Sector of San Juan. This location is at the southeastern tip of the San Juan Islet to the west of the interchange formed by Ponce de Leon, Muñoz Rivera, and Fernandez Juncos Avenues.



Access to the property location can only be achieved by Fernández Juncos Avenue on the one-way southbound lane leading from the Puerta de Tierra sector towards the Esteves Bridge and into Santurce, as the artery includes a central islet that prevents direct access from the east.

Site Area

The subject property comprises an area of **9,628.5959 square meters** (2.4498 cuerdas), as per the documents submitted by the client for this appraisal. The legal description of the site, as recorded in the Registry of the Property Office of San Juan, Section 1 follows:

---URBANA: Parcela H. Parcela de terreno que radica en el Barrio de San Juan Antiguo del término municipal de San Juan, Puerto Rico, con una cabida superficial de Nueve Mil Seiscientos Veintiocho Punto Cinco Nueve Cinco Nueve Metros Cuadrados (9,628.5959 metros cuadrados), equivalentes a Dos Punto Cuatro Cuatro Nueve Ocho Cuerdas (2.448 cdas.). En lindes, por el NORTE, con la acera de la Avenida Fernández Juncos, que ha sido dedicada a uso público; por el SUR, con el Club Náutico; por el ESTE, con la acera de la Avenida Fernández Juncos que ha sido dedicada a uso público; y por el OESTE, con el "conveyed parcel". -----

Configuration, Topography and Drainage

The configuration of the property resembles $\frac{1}{4}$ of a circle, with its western and southern boundaries connecting at right angles while the front of the property follows the contour of Fernandez Juncos Avenue, as shown below:



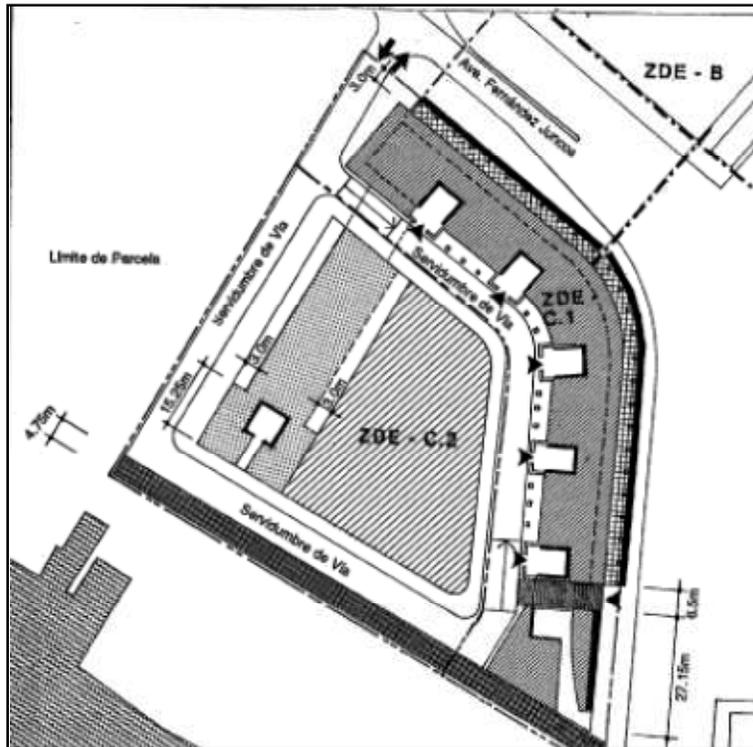
Its topography is level at the grade of the adjacent traffic artery. Drainage appears to be adequate towards the street and into the available rain water drainage system.

Utilities, Services and Man-Made Improvements

The subject property has all utilities and services typical of urban parcels. Utilities include electricity, telephone, potable water, and storm and sanitary sewers. Typical services such as police protection, firefighting, street clean-up, and postal services, are to be provided by the Commonwealth, Federal and Municipal Governments, and are available to the subject.

Zoning

According to Page 2-C of the zoning map of San Juan, the subject property is regulated by the Land Use Plan and Special Zoning Regulation of the Entrance to the San Juan Inlet. This regulation dates from 1993. The subject property is identified as Parcels ZDE-C.1 and ZDE-C.2 of said plan. Uses permitted are residential, commercial and offices in a mixed-use development.



Specifically, Parcel ZDE-C.1 in the regulation appears with an area of 4,731.87 square meters and allows residential (80%), retail (10%) and office uses (10%) with a development density of 55 square meters per BLU (71 units per cuerda), and Parcel ZDE-C.2 appears with an area of 5,326.85 square meters and allows residential uses with a development density of 100 square meters per BLU (39 units per cuerda). This results in a total area of 10,058.72 square meters, and an average development density of 72.2 square meters per unit or 54.4 units per cuerda.

The subject property is currently part of the Bahía Urbana redevelopment project of San Juan. As such, it has been integrated into the master plan for the current phase and the long-term projected development program, which may take decades to complete.

In 2010, by way of the Memorandum of Understanding (MOU) included in the Addenda of this report, the subject property (identified as Property 817) was incorporated into the properties dedicated to the Bahía Urbana project.

Section 12 of the MOU allows for the agreement to be terminated by any time by providing written notice. However, Section 8 of the MOU states: "In the event this Agreement is terminated pursuant to Section Twelve hereto, the GDB agrees that it or any third party which may acquire Property from the GDB, will develop Property 817 pursuant to the specific parameters of the master plan of the San Juan Waterfront, including related concept and design guidelines".

As stated earlier, this appraisal is subject to the Extraordinary Assumption that once the agreement is terminated, there will be no restrictions in developing the subject parcel.

According to Site Location Permit 2008-79-0620-JGU, the master plan for Bahía Urbana proposes residential uses with a density 57 square meter per basic living unit (BLU), equivalent to 71 units per cuerda, in addition to an educational park on Parcel C.2, and an open area on Parcel C.1.

Subsoil

No subsoil studies for the subject site were studied by us in relation to this assignment. It is assumed that the site has no hidden adverse soil conditions and is capable of supporting typical structures without abnormal remedies.

Environmental Impact

No environmental impact studies have been prepared in conjunction with this appraisal. The value estimates contained herein could be affected by subsequent environmental impact studies, research, investigation, and resulting governmental actions.

Hazardous Materials

No obvious evidence of hazardous materials were observed during the property inspection. However, we are not experts in this field so the client is advised to seek an environmental site assessment of the property, if desired. The value reported in this appraisal assumes that there is no contamination in or on the property from any source, and that no contamination has emanated from the subject property to nearby properties or bodies of water.

Flood Zone Classification

According to FIRM Map No. 72000C0355J for the Commonwealth of Puerto Rico in effect since November 18, 2009), the majority of the site (82%) falls within a non-shaded **Zone "X"**, which is an area of minimal flood hazard. The remaining of the site (18%) towards its southern boundary line, falls within a **Zone "AE"**, which is identified as a special flood hazard areas subject to inundation by the 1% annual chance (100-year) flood with base flood elevations determined.



Easements, Expropriation and Encroachments

There were no evident easements and encroachments evidenced during the property inspection or noted on the documentation provided for this assignment. If any easements are present on the subject property, they are assumed typical of this type of property and are not considered to adversely affect its utility. Besides, it is assumed that the property is not subject to any current or proposed expropriation proceedings.

Proximity to Nuisances, Hazards or Detrimental Influences

In order to determine the proximity to nuisances, hazards or detrimental influences, we inspected the subject's immediate vicinity and were unable to perceive any detrimental influences and none are assumed to exist.

Tax Data and Assessed Valuation

Puerto Rico's Real Estate Tax Rates are based on two (2) separate factors, one is the rate fixed by the Legislature of Puerto Rico, standard for all parts of the Commonwealth, and the other, is the rate set by the municipality where the given property is located.

The law in Puerto Rico provides for a 10% discount on the property taxes, which are collected in two (2) yearly payments, if these are paid within 30 days following the mailing of the tax invoice. The Municipal Reform Law of 1991 transferred all property tax responsibilities from the Commonwealth Government's Treasury Department to the individual Island Municipalities, creating the Municipal Income Collection Center (CRIM). The current tax rate for the municipality of San Juan is 10.33%.

Since this property is government owned it has not been assessed for property taxes by CRIM and does not currently pay real property or personal property taxes, which is atypical. This appraisal assignment was developed under the assumption that the property not be subject to payment of any pending tax liabilities.

We are not experts in property tax matters and assume no liability with respect to the current property tax situation of the subject property. We recommend that the client contract the services of a property tax expert if so desired.

Current Improvements

The property is currently a passive park with grass surface, with an area having a gravel surface parking. Other improvements include perimeter sidewalks, a decorative wall, and lighting.

Law 130 of 2016

Law 130 of 2016 allows a developer to claim tax credits of 50% of eligible costs in the development of strategic projects, including the construction of affordable rental housing units in areas adjacent to mass transportation, or in the ports area of the San Juan Inlet, subject to the recommendation by the Department of Housing. The subject parcel is located in the ports area of the San Juan Inlet, and has been recommended by the Department of Housing.

Therefore, if the parcel is developed with affordable rental housing, the tax credits can be claimed. The law requires the tax credits to be amortized in 10 years, and allows their sale to third parties.

Conclusion of Site Analysis

The subject enjoys a general location within the eastern end of the San Juan Islet, specifically north of the Esteves Bridge adjoining to the facilities of the Club Náutico de San Juan and the property occupied by US FDA and the US Army Corps of Engineers. A limiting factor in the utility of the subject is the fact that upon exiting the property, westbound traffic is not possible by the existence of a central isle the forces traffic towards the southeast. Similarly, entrance to the property is only possible to eastbound traffic.

ANALYSIS OF DATA

HIGHEST AND BEST USE ANALYSIS

Highest and Best Use as defined in the *Dictionary of Real Estate Appraisal, Sixth Edition*, published by The Appraisal Institute is as follows:

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

Highest and Best Use of Land or a Site as Though Vacant is defined as follows:

“Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements.”

Highest and Best Use of Property as Improved is defined as follows:

“The use that should be made of a property as it exists. An existing property should be renovated or retained as is so long as it continued to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and construction a new one.”

Highest and Best use of Site as Though Vacant

Legally Permissible Uses

In all cases an appraiser must consider which uses are legally permissible. Private restrictions, zoning, building codes, historic district controls, and environmental regulations must be investigated before since they may preclude many potential uses.

The subject is currently part of Bahía Urbana redevelopment program. As indicated earlier, this appraisal is subject to the Extraordinary Assumption that the MOU assigning the property to the Bahía Urbana project be terminated, and that once terminated there will be no restrictions on development imposed by the master plan.

Legally permissible uses assuming the property unencumbered by restrictions imposed by the Bahía Urbana master plan are residential and commercial (retail and offices), as per the Land Use Plan and Special Zoning Regulation of the Entrance to the San Juan Inlet of 1993.

Physically Possible Uses

The subject site consists of an urban site located at the Puerta de Tierra Sector of San Juan, next to the Club Náutico de San Juan. The site is exposed to abundant traffic although ingress and egress is somewhat restricted by a dividing islet at Fernandez Juncos Avenue which forces traffic to the southeast. The property is at close distance to linkages and major thoroughfares. Its physical amenities, which include level topography and irregular configuration, plus the availability of all utilities, make this property an average competitor in this market. In conclusion, legally permissible uses are considered physically possible at the subject site.

Financially Feasible Uses

The location and physical characteristics of the subject suggest that retail, offices, residential and mixed uses could prove to be feasible in times of economic expansion. However, the persistent recessionary conditions affecting the local economy, combined with the extensive inventory of residential, office, and commercial spaces in the Metropolitan Area would preclude the development of most vacant sites until conditions improve.

Our market analysis reveals the office market in San Juan is soft, and rental rates are at levels that would not permit a financially feasible development.

The subject property is located in an area where in times of economic growth, luxury condominiums were built, including Millenium Condominium, Atlantis, and Paseo Caribe. However, when the market turned soft once recessionary conditions began, prices in those projects decreased to the point that current prices are not at a level that permit financially feasible projects. For this reason, there are no active condominium projects in the area other than the completion of those that were under construction prior to the beginning of the economic crisis, with no new condominium developments breaking ground in recent years. There have been some limited activity in land sales of parcels suitable for development, but these have been purchased for interim uses and not for immediate development. In our opinion, the market evidence shows that current development of a for-sale condominium project targeting the middle- to high-income markets would not be financially feasible at the present time.

On the other hand, the affordable rental market shows ample demand, particularly in projects with tax credits that permit low rents to families and elderly residents. For example, the Metropolis Apartments, a 185-unit former for-sale condominium building converted into a low-income rental apartments project with Federal Low Income Housing Tax Credits (LIHTC), rented its 185 one- to four-bedroom apartments in only five months. The subject parcel can target this market segment, given the benefits of Law 130 of 2016.

Another alternative is commercial use. The fact that the current market is soft is reflected by the fact that only a few selected, well-located parcels are being developed, while the less desirable stay vacant awaiting the improvement of the economy to boost demand for them.

Based on the preceding analysis, we conclude that under current market conditions, only an affordable rental housing project benefiting from the tax credits available under Law 130 of 2016 would be financially feasible at the present time.

Maximally Productive Use – Highest and Best Use Conclusion

The preceding section demonstrates that the only financially feasible use for the subject property as of the effective date of value is an affordable rental housing project, given the benefits of Law 130 of 2016. The other alternative for the subject is to remain vacant until economic conditions improve and it can be developed into a middle- to high-income condominium project.

INTRODUCTION TO THE APPRAISAL PROCESS

There are three approaches that are normally used in the valuation process: The Sales Comparison Approach, the Cost Approach, and the Income Capitalization Approach. These three methods are briefly described below⁴ and, when possible, all should be used in the valuation of a property.

The Sales Comparison Approach is defined as: a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison, and making adjustments to the sales prices of the comparable sales based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when comparable sales data are available.

The Cost Approach is defined as: a set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of, or replacement for, the existing structure; deducting accrued depreciation from the reproduction or replacement cost; and adding the estimated land value plus an entrepreneurial profit. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

The Income Capitalization Approach is defined as: a set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.

Normally, these three approaches will each indicate a different value but should fall within a reasonable range. After the strengths and weaknesses of each of the approaches are considered, the three indications of value are reconciled into a final value estimate.

For this appraisal, the only applicable method is the Sales Comparison Approach.

⁴ Source: The Dictionary of Real Estate Appraisal, 6th Edition, The Appraisal Institute, 2015

THE SALES COMPARISON APPROACH

The Sales Comparison Approach is the process in which a value estimate is obtained by analyzing and adjusting sales of properties similar to the subject. The comparative analysis in this approach focuses on differences in property rights transferred vs. appraised, financing terms, conditions of sale, and market conditions at the time of sale, location, and physical characteristics.

This approach is applicable to all property types and interests when there are sufficient, reliable transactions to indicate value patterns or trends in the market. When data is available, this is the most direct and systematic approach to estimate value. A general outline of the Sales Comparison Approach follows:

1. Research the market to obtain information on sales transactions, listings, and offers to purchase and sell properties that are similar to the subject in terms of property type, date of sale, size, physical condition, location, and zoning.
2. Verify the information by confirming that the data obtained are factually accurate and that the transactions reflect arm's-length, market considerations. Verification may elicit additional information about the market.
3. Select relevant units of comparison (e.g., price per square meter, price per cuerda, etc.) and develop a comparative analysis for each unit.
4. Compare the comparable sale properties with the subject using the elements of comparison and adjust the sale price of each comparable to the subject property or eliminate the sale property as a comparable.
5. Reconcile the various value indications produced from the analysis of the comparable sales into a single value indication or a range of values. In an imprecise market subject to varying occupancies and economies, a range of values may be a better conclusion than a single value estimate.

The following pages contain the comparable sales analyzed and the analysis from which an indication of the market value of the subject property is to be derived.

Summary of Comparable Sales

The following table contains the relevant information on the comparable sales selected for analysis:

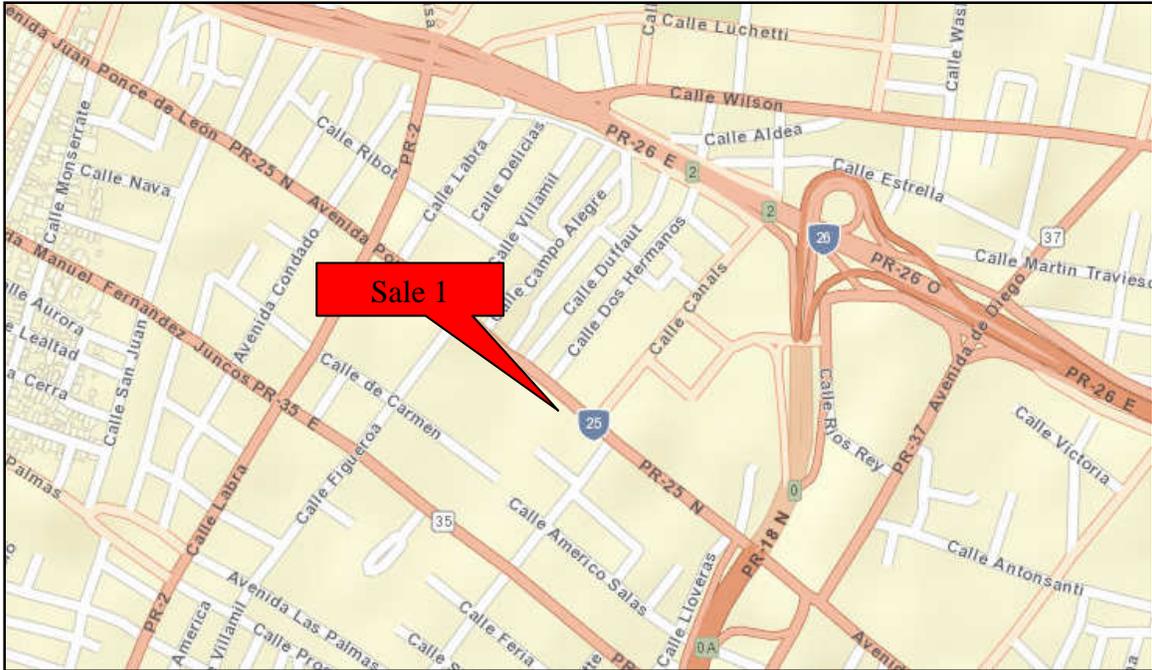
Government Development Bank for Puerto Rico
Re: Parcel H (Codremar), Puerta de Tierra Sector, San Juan, Puerto Rico
November 1, 2016
Page 47

SUMMARY OF COMPARABLE SITE TRANSACTIONS

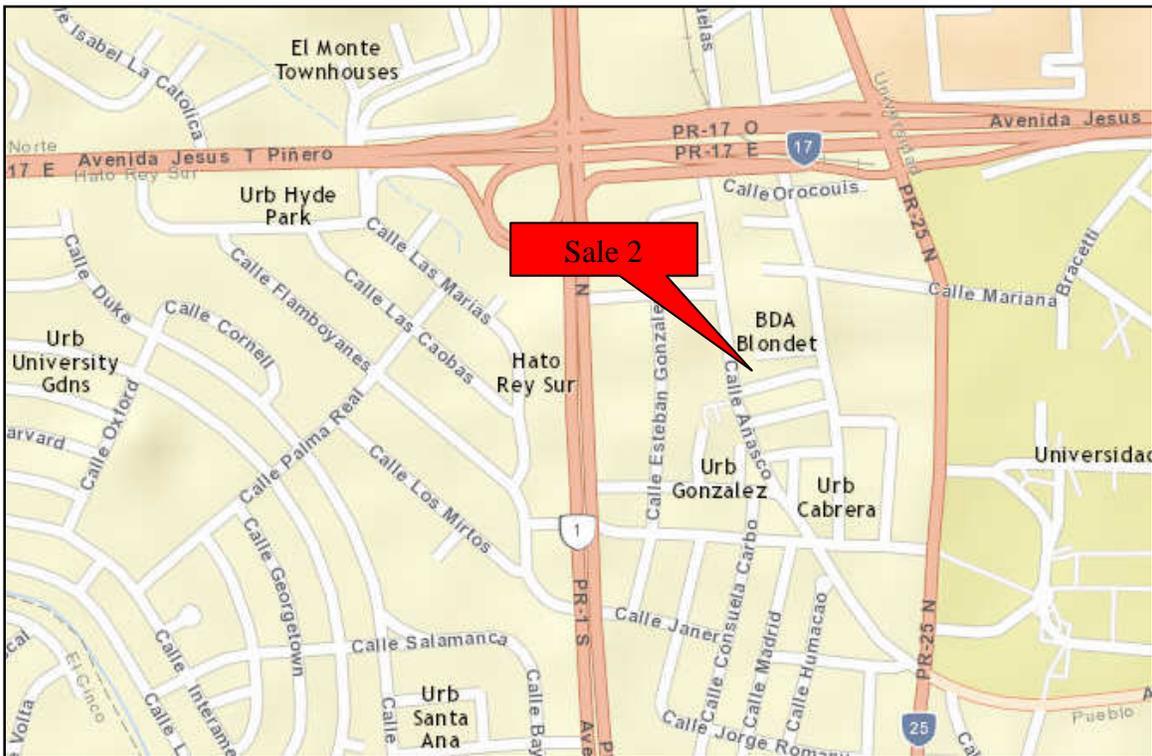
	Transaction 1 - Sale	Transaction 2 - Sale	Transaction 3 - Sale	Transaction 4 - Sale	Transaction 5 - Option
Location	1312 Ponce de León Avenue Santurce Ward San Juan, PR	Site of Balseiro Elderly Río Piedras Sector San Juan, PR	108 Domenech Avenue Río Piedras Sector San Juan, PR	Llorens Torres Street Floral Park Subdivision San Juan, PR	Boulevard Martínez Nadal Monacillos Ward San Juan, PR
Date of Sale	August-13	June-13	December-13	October-11	September-15
Seller	Ponce de León Building	Leopoldo Czeplow odzki	PRHTA	Universidad Politécnica de Puerto Rico	D' Group Development
Buyer	1312 Ponce de León Elderly Housing LLC	Balseiro Affordable Housing LLC	View point at Domenech LLC	The Golden Residence LLC	Ciudad Lumen, LLC
Deed	10	6	29	13	N/A
Notary	Gilberto Oliver	Gilberto Oliver	Gilberto Oliver	Vanessa Muller	N/A
Sale Price	\$860,000	\$740,000	\$1,915,449	\$1,300,000	\$1,782,500
Area of Parcel (Square Meters)	1,657.12	1,210.80	1,744.92	3,763.91	4,128.62
Unit Price (S.P. per SM)	\$518.97	\$611.17	\$1,097.73	\$345.39	\$431.74
Units	98	74	120	160	140
Basic Living Units (BLU)	59	44	72	96	84
Unit Price (\$/BLU)	\$14,626	\$16,667	\$26,603	\$13,542	\$21,220
Unit Price (\$/Unit)	\$8,776	\$10,000	\$15,962	\$8,125	\$12,732
Density (SM/BLU)	28	27	24	39	49
Density (BLU/Cuerda)	139	144	162	100	80
Zoning	Residential	Residential	Residential	Residential	Residential
Topography	Level	Level	Level	Level	Almost Level
Flooding	Zone X	Zone X	Zone X	Zone X	Zone X
Shape	Rectangular	Rectangular	Rectangular	L-Shape	Almost Rectangular
Highest & Best Use	Residential	Residential	Residential	Residential	Residential
Comments	This site was purchased for the construction of Plaza Gran Victoria, a LIHTC project for the elderly.	This site was purchased for the construction of Balseiro Elderly, a LIHTC project for the elderly.	This site was purchased for the construction of View point at Domenech, a LIHTC project for the elderly. This is the same type of project proposed at the subject site.	This site was purchased for the construction of The Golden Residence, a LIHTC project for the elderly.	This site was purchased for the construction of Ciudad Lumen, a LIHTC project for the elderly.

SUMMARY OF COMPARABLE SITE TRANSACTIONS

	Transaction 6 - Sale	Transaction 7 - Sale
Location	Wilson 1359 & Luchetti 1358 Condado Sector San Juan, Puerto Rico	Magdalena 1212 Condado Sector San Juan, PR
Date of Sale	November-14	April-15
Seller	CPG/GS Island Properties	Banco Popular de Puerto Rico
Buyer	Pun's Dominion	Pasarella 1212
Deed	9	4
Notary	Rafael Ramirez	Alejandro Beliver
Sale Price	\$1,300,000	\$750,000
Area of Parcel (Square Meters)	2,050.00	931.98
Unit Price (S.P. per SM)	\$634.15	\$804.74
Units	N/A	N/A
Basic Living Units (BLU)	N/A	N/A
Unit Price (\$/BLU)	N/A	N/A
Unit Price (\$/Unit)	N/A	N/A
Density (SM/BLU)	N/A	N/A
Density (BLU/Cuerda)	N/A	N/A
Zoning	Residential	Residential
Topography	Level	Level
Flooding	Zone X	Zone X
Shape	Rectangular	Rectangular
Highest & Best Use	Interim Use as Parking	Vacant
Comments	This is the site of the once-proposed Luchetti Park luxury condominium. It was later acquired by an investment company from the lender which had foreclosed on it, and later sold to the present owner.	This is the site of a former luxury condominium, which was foreclosed by the lender and sold to an investor.



LAND SALES MAPS



Analysis of Comparable Transactions

Seven transactions were selected for analysis in order to determine the market value of the subject property.

The first five transactions purchased or optioned for the development of Low Income Housing Tax Credit (LIHTC) elderly rental projects, and all are located in different areas of San Juan. This use is one alternatives of highest and best use conclude for the subject parcel, given the benefits that Law 130 of 2016 affords the subject property if developed for affordable rental housing. Of the five sales, Transaction 3 at over \$1,000 per square meter is considered an outlier and will not be considered further.

The last two transactions are located in the Condado Sector, and consist of sites of previously proposed luxury condominiums until the financial crisis hit and the projects were cancelled. The sites were later foreclosed by the lenders, and recently sold to investors which are holding them for future development when market conditions allow for financially feasible developments. This the other alternative highest and best use for the subject parcel.

The adjustment process for the transactions follows:

Adjustment Process

The adjustment process was explained in the preceding section.

Property Rights Conveyed

All sales were for the fee simple estate, so none of them requires an adjustment for this element of comparison.

Financing Terms

All transactions were cash to the seller, so no adjustments for this element of comparison are required.

Conditions of Sale

Transactions 1 to 5 transactions had typical conditions of sale, and do not require an adjustment for this element of comparison. Transaction 6 was sold by an investor that had purchased the property from the former lender. According to the seller, it was sold at what they perceived to be the market value of the property at the time of sale. Therefore, this transaction does not require an adjustment for conditions of sale.

Transaction 7 was sold by the lender, which had foreclosed on the property in August 2013. They marketed the property for over one year, and finally sold it in a multi-property auction.

On one hand, the fact that the property was marketed for over a year points to no adjustment for conditions of sale. On the other hand, the fact that the property was sold at a multi-property auction points to the need of an adjustment. Based on the preceding analysis, we conclude with a 20% adjustment for conditions of sale for Transaction 7.

Buyer Expenditures Immediately after the Purchase

The only transaction that requires expenditures immediately after the purchase is Transaction 7, which requires demolition of a single-family residence. An allowance of \$50,000 will be considered as an adjustment for this condition.

Market Conditions

Transactions 1 to 5 date from 2011 to 2015, and do not show a need for a market conditions adjustment during that time period. They were purchased for residential developments with subsidies and/or tax credits, and this type of development has not been affected by the deteriorated economic conditions in Puerto Rico. Therefore, there is ample demand for said units. Considering this, we conclude that no market conditions adjustments are necessary. Transactions 6 and 7 date from 2014 and 2015, and do not show an adjustment for market conditions. They were purchased for holding for future development, so the prices consider current market conditions. For this reason, they do not require adjustments for market conditions.

Location

Transactions 1 to 5 are located in different areas of San Juan, the same municipality as the subject, so they are considered similar in location to the subject since for affordable rental housing the revenue potential is similar in all San Juan locations. It follows that these transactions do not require an adjustment for market conditions.

Transactions 6 and 7 are located in the Condado Sector of San Juan, perceived by the market as superior to the subject's Puerta de Tierra location. To quantify this adjustment, we compared unit prices at two sets of projects. Set 1 compares the unitary prices of similar-sized units at Atlantis Condominium in Puerta de Tierra and Gallery Plaza Condominium in Condado. Both projects are among the most recently built condominiums in their respective sectors. Set 2 compares the unitary prices of Millenium Condominium in Puerta de Tierra with those of The Grand Royal and Plaza Stella Condominiums in Condado. Here only a limited number of sales were available since these are older condominiums. The two sets, and the differences in unit prices, follow:

Older Condominiums

Condominium	Date	Price	Area (SM)	Area (SF)	Price/SF	Average Price/SF
Millenium	1/27/2016	\$430,000	166.98	1,797	\$239	\$239

Condominium	Date	Price	Area (SM)	Area (SF)	Price/SF	Average Price/SF
The Grand Royal	2/16/2016	\$800,000	270.64	2,912	\$275	\$305
Plaza Stella	8/15/2016	\$779,000	216.09	2,325	\$335	

Puerta de Tierra v. Condado	-22%
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New Construction Condominiums

Condominium	Date	Price	Area (SM)	Area (SF)	Price/SF	Average Price/SF
Atlantis	7/29/2016	\$385,000	104.60	1,125	\$342	\$320
Atlantis	5/27/2016	\$385,000	104.60	1,125	\$342	
Atlantis	4/30/2016	\$276,250	102.65	1,105	\$250	
Atlantis	4/30/2016	\$364,900	102.65	1,105	\$330	
Atlantis	3/31/2016	\$399,900	104.60	1,125	\$355	
Atlantis	3/23/2016	\$350,000	104.60	1,125	\$311	
Atlantis	3/23/2016	\$350,000	104.60	1,125	\$311	

Condominium	Date	Price	Area (SM)	Area (SF)	Price/SF	Average Price/SF
Gallery Plaza	8/24/2016	\$360,000	88.25	950	\$379	\$382
Gallery Plaza	8/18/2016	\$355,000	88.25	950	\$374	
Gallery Plaza	5/7/2016	\$372,500	88.25	950	\$392	

Puerta de Tierra v. Condado	-16%
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Considering this, and also the fact that Transaction 6 is located towards the perimeter of the Condado Sector, (similar to Gallery Plaza), while Transaction 7 is located at the heart of Condado very close to the Antonia Quiñones Plaza (similar to Plaza Stella), we conclude with a location adjustment of -15% for Transaction 6, and -20% for Transaction 7.

Physical Characteristics

All comparable transactions are considered similar in physical characteristics to the subject property, or the market does not recognize a difference in price due to any perceived differences in physical characteristics, except for size. Therefore, no adjustments for physical characteristics other than size are required.

Size Adjustment

The subject's larger size compared to the market range of approximately 900 to 4,200 square meters requires a negative adjustment, since in all likelihood the site would have to be developed in phases. This is demonstrated by the following analysis, in which we compare Transaction 1 to Transaction 5 (the two most recent transactions of sites purchased for affordable rental housing without considering Transaction 3 which as indicated earlier is an outlier), and also Transactions 6 and 7 (the two transactions from the Condado Sector). The results follow.

Comparable	Area (SM)	Adjusted Price/SM
Transaction 1	1,657.12	\$519
Transaction 5	4,128.62	\$432
Adjustment for Larger Size		-17%

Comparable	Area (SM)	Adjusted Price/SM
Transaction 7	931.98	\$665
Transaction 6	2,050.00	\$539
Adjustment for Larger Size		-19%

The preceding table demonstrates that larger residential development parcels sell for lower unitary prices and vice-versa. It also shows that in the affordable rental market, the size adjustment is lower than in the Condado market. Only two paired sales were possible, and no parcels of the subject size were available to compare unitary prices of the comparables against the subject's area of 9,628.60 square meters.

Based on the preceding analysis, we conclude:

- In the affordable rental market (Transactions 1, 2, 4 and 5), the larger parcels (with areas larger than 3,700 square meters) require a negative 5% adjustment for size, and the smaller parcels (with areas smaller than 1,800 square meters) require a 15% higher adjustment, meaning a negative 20% adjustment.
- In the Condado market, (Transactions 6 and 7), the larger parcel (Transaction 6) requires a negative 10% adjustment for size, and the smaller parcel (Transaction 7) requires a 20% higher adjustment, meaning a negative 30% adjustment.

Economic Characteristics, Use, Non-Realty Components of Value

All comparable transactions are considered similar in these elements of comparison to the subject property, so no adjustments are required.

Adjustment Grid

The following table summarizes the adjustment process carried out:

*Government Development Bank for Puerto Rico
 Re: Parcel H (Codremar), Puerta de Tierra Sector, San Juan, Puerto Rico
 November 1, 2016
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COMPARABLE SITE TRANSACTIONS - ADJUSTMENT GRID

Element	Transaction 1 - Sale	Transaction 2 - Sale	Transaction 4 - Sale	Transaction 5 - Option	Transaction 6 - Sale	Transaction 7 - Sale
Sale Price	\$860,000	\$740,000	\$1,300,000	\$1,782,500	\$1,300,000	\$750,000
Property Rights Conveyed	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment	\$0	\$0	\$0	\$0	\$0	\$0
Adjusted Price	\$860,000	\$740,000	\$1,300,000	\$1,782,500	\$1,300,000	\$750,000
Financing Terms	Cash to Seller	Cash to Seller	Cash to Seller	Cash to Seller	Cash to Seller	Cash to Seller
Adjustment	\$0	\$0	\$0	\$0	\$0	\$0
Adjusted Price	\$860,000	\$740,000	\$1,300,000	\$1,782,500	\$1,300,000	\$750,000
Conditions of Sale	Typical	Typical	Typical	Typical	Typical	Liquidation
Adjustment	\$0	\$0	\$0	\$0	\$0	\$150,000
Adjusted Price	\$860,000	\$740,000	\$1,300,000	\$1,782,500	\$1,300,000	\$900,000
Expenditures after Purchase	None	None	None	None	None	Demolition
Adjustment	\$0	\$0	\$0	\$0	\$0	\$50,000
Adjusted Price	\$860,000	\$740,000	\$1,300,000	\$1,782,500	\$1,300,000	\$950,000
Date of Sale	August-13	June-13	October-11	September-15	November-14	April-15
Comparison	Similar	Similar	Similar	Similar	Similar	Similar
Adjustment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Price	\$860,000	\$740,000	\$1,300,000	\$1,782,500	\$1,300,000	\$950,000
Size (SM)	1,657.12	1,210.80	3,763.91	4,128.62	2,050.00	931.98
Basic Living Units (BLU)	59	44	96	84	N/A	N/A
Units/Cuerda	139	144	100	80	N/A	N/A
Adjusted Price/SM	\$519	\$611	\$345	\$432	\$634	\$1,019
Quantitative Adjustments						
Location	0%	0%	0%	0%	-15%	-20%
Size	-20%	-20%	-5%	-5%	-10%	-30%
Net Adjustments	-20%	-20%	-5%	-5%	-25%	-50%
Adjusted Unit Price (Quantitative)	\$415	\$489	\$328	\$410	\$476	\$510
Qualitative Adjustments						
Physical Characteristics	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Economic / Use / Non-Reality Items	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Overall Direction of Adjustments (Qualitative)	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral

Reconciliation

The adjustment process indicates that the unitary price for the subject property ranges from \$330 to \$510 per square meter, with five of the six indicators ranging from \$410 to \$510 per square meter and having a mid-point indication of \$460 per square meter. If the low-end indication (Transaction 4) is eliminated, the affordable rental housing transactions average a rounded \$440 per square meter, and the Condado transactions average \$495 per square meter. The proximity of those indications leads us to conclude that either affordable rental housing or holding vacant until economic conditions allow the construction of a luxury condominium are equally productive and therefore a highest and best use alternative.

Based on the preceding analysis, we conclude with a rounded market value indication of \$460 per square meter. Multiplying this by the subject's area of 9,628.60 square meters results in a market value indication of \$4,428,277, rounded at \$4,400,000.

In conclusion, it is our opinion that the market value of the subject property as of October 18, 2016, subject to the Extraordinary Assumption identified on Page 2 of this report, was a rounded:

-----\$4,400,000-----
-----FOUR MILLION FOUR HUNDRED THOUSAND DOLLARS-----

CERTIFICATION OF THE APPRAISER

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- I have performed an appraisal of the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report, or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant professional appraisal assistance in the preparation of this report.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I, **Robert F. McCloskey Díaz**, have completed the requirements under the continuing education program of the Appraisal Institute.

Robert F. McCloskey Díaz, MAI, CRE, MIE
Certified General Real Estate Appraiser
Certificate No. 17 CG
PR License No. 19

CERTIFICATION OF THE APPRAISER

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
- I have not performed an appraisal of the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report, or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant professional appraisal assistance in the preparation of this report.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I, **Rafael E. Bonnin Surís**, have completed the requirements under the continuing education program of the Appraisal Institute.

Rafael E. Bonnin Surís, MAI, CRE
Certified General Real Estate Appraiser
Certificate No. 11 CG
PR License No. 613

ADDENDA

QUALIFICATIONS OF THE APPRAISERS

PROFESSIONAL QUALIFICATIONS

Robert F. McCloskey Díaz, MAI, CRE, MIE

President, McCloskey, Mulet & Bonnin, Appraisers, P.S.C.

Designations

MAI-	Appraisal Institute
CRE-	The Counselors of Real Estate
SRA-	Appraisal Institute
MIE-	Institute of Evaluators of Puerto Rico

Education

Cornell University, Ithaca, New York

University of Puerto Rico, Río Piedras, Puerto Rico - B.B.A.

Licenses

Puerto Rico Appraiser License No. 19

Certified Real Estate Appraiser

Commonwealth of Puerto Rico

Certificate No. 17

(In Compliance with Title XI of FIRREA)

Government of the Virgin Islands of the United States

Certificate No. 0-13909-2B

Qualified Appraiser

Banco Cooperativo de P. R.

Banco Gubernamental de Fomento de PR

Banco Popular de Puerto Rico

Banco Santander de Puerto Rico

Bank of Boston

Bank of Nova Scotia

Chase Manhattan Bank, N. A.

Chase Manhattan Bank, N. A. - New York

Chase Manhattan Bank, N. A. - St. Thomas, U.S.V.I.

Citibank, N A.

Deutsche Bank

Federal Deposit Insurance Corporation

Federal National Mortgage Association

FirstBank Puerto Rico

First National Bank of Chicago

Independence Bank, Providence, Rhode Island

Knickerbocker Federal Savings
Mellon Bank of Pittsburgh
Mortgage Guaranty Insurance Corporation
Oriental Bank and Trust
Puerto Rico Industrial Development Corporation
Royal Bank of Canada
Scotiabank de P. R.
Wells Fargo Bank

Expert Witness For

Superior Court of Justice
- Expert Qualified Witness

United States Bankruptcy Court for the District of P. R.
- Expert Qualified Witness

United States District Court for the Southern District of Florida

United States District Court for the District of Puerto Rico

United States of America - General Services Administration

Special Certificate

I received a Certificate of Completion for the Valuation of Conservation Easements certificate program, completed on May 11, 2013, as offered by the American Society of Appraisers, the American Society of Farm Managers and Rural Appraisers and the Appraisal Institute and endorsed by the Land Trust Alliance. This certificate indicates that I have the completed the Valuation of Conservation Easements educational requirements and passed the examination.

Real Estate Appraisal Experience

Single Family Residential, Apartment Houses, Condominium Projects, Income Producing Properties, Industrial Properties, Special Purpose Properties, Hotels, Hospitals, Residential Developments, Pharmaceuticals, etc.

Offices Held

Appraisal Institute- 1992-1993, 1997
Puerto Rico Chapter - Board of Directors

Appraisal Institute
President Puerto Rico Chapter 1996

Society of Real Estate Appraisers
Vice Governor
District 13 1976-1978

Society of Real Estate Appraisers
President - Puerto Rico Chapter No. 171 1974-1975

Appointments

Appointed by the Governor of
Puerto Rico to the Real Estate
Appraiser Licensing Board for the
Commonwealth of Puerto Rico

1978-1982

PROFESSIONAL QUALIFICATIONS

Rafael E. Bonnin Surís, MAI, CRE

Vice-President, McCloskey, Mulet & Bonnin, Appraisers, P.S.C.

Professional Designations

MAI – Appraisal Institute (Continuing Education Certified)

CRE - The Counselors of Real Estate

Education

Georgia Institute of Technology
Atlanta, Georgia (1986)
Bachelor Industrial Engineering

Licenses

Real Estate Appraiser
License No. 613

Certified General Appraiser
Certificate No. 11
(Compliance with Title XI of FIRREA)

Qualified Instructor – Appraisal Institute

Real Estate Courses

Basic Appraisal Principles

Basic Appraisal Procedures

Residential Highest & Best Use and Market Analysis

Basic Income Capitalization

Residential Sales Comparison and Income Capitalization Approaches

Residential Site Valuation and Cost Approach

Advanced Income Capitalization

Real Estate Seminars

What Clients would Like their Appraisers to Know

Analyzing Operating Expenses

Understanding and Testing DCF Valuation Models

Appraisal Review – General

Appraisal Review – Single-Family Residential

Analyzing Commercial Lease Clauses

Appraisal Consulting – A Solutions Approach for Professionals
Rates and Ratios – Making Sense of GIMs, OARs, and DCFs
The Road Less Traveled – Special Purpose Properties
Case Studies in Highest and Best Use

Teaching Experience - Other

Universidad Politécnica

Associate Professor

Expert Witness For

Superior Court of Justice
- Qualified Expert Witness

United States Bankruptcy Court for the District of P. R.
- Qualified Expert Witness

Offices Held

President – Unión Panamericana de Asociaciones de Valuación 2011-2012

Chair, Audit Committee – Appraisal Institute 2007

National Director Region X – Appraisal Institute 2004-2006

Chair Region X – Appraisal Institute 2006

President – Puerto Rico and Caribbean Chapter
of the Appraisal Institute 2003

Vice-Chair Instructor Subcommittee – Appraisal Institute 2003-2005

Director – Puerto Rico and Caribbean Chapter
of the Appraisal Institute 1998/1995

Secretary - Puerto Rico and Caribbean Chapter
of the Appraisal Institute 1997/1993

Candidate Liaison - Puerto Rico and Caribbean Chapter
of the Appraisal Institute 1996/1992

Treasurer - Puerto Rico and Caribbean Chapter
of the Appraisal Institute 1994

Young Advisory Council of the Appraisal Institute
March 18-19, 1993 1993

Appointments

Secretary of the Board of Examiners of Real Estate
Appraisers 2000-2002

Appraisal Experience

Valuation of going concerns, specialized industrial facilities, retail properties, proposed residential and commercial projects, healthcare facilities and other complex properties. Preparation of market studies for master planned communities and urban redevelopment projects.

Consulting Experience

Preparation of market studies, feasibility studies and highest and best use studies for residential, resort and commercial developments.

Expert Witness For

Superior Court of Justice
- Expert Qualified Witness

United States Bankruptcy Court for the District of P. R.
- Expert Qualified Witness

United States District Court for the District of Puerto Rico

EXHIBITS

EXECUTION COPY

MEMORANDUM OF UNDERSTANDING
AND LICENSE AGREEMENT

THIS MEMORANDUM OF UNDERSTANDING AND LICENSE AGREEMENT is entered into on this 12 day of April, 2010 by and among the EXECUTIVE COMMITTEE, created under Executive Order OG-2009-016 (the "Executive Order"), comprised of the Secretary of the Department of Economic Development and Commerce of Puerto Rico ("DEDC") and the Executive Director of the Puerto Rico Tourism Company, represented herein by its President and the Secretary of the DEDC, José Ramón Pons-Ribas, the PUERTO RICO CONVENTION CENTER DISTRICT AUTHORITY, duly organized and existing pursuant to Act No. 351 of September 2, 2000, as amended (the "PRCCDA"), represented herein by its Executive Director, Jaime A. López, and the GOVERNMENT DEVELOPMENT BANK OF PUERTO RICO, duly organized and existing pursuant to Act No. 252 of May 13, 1942, as amended, represented herein by its President, Carlos M. García (the "GDB"), and together with the Executive Committee and the PRCCDA, the "Parties" (the "Agreement").

WHEREAS, on April 30, 2009, Governor Lito G. Fortuño issued the Executive Order declaring a new strategic vision for the economic and tourist development of Puerto Rico, which includes the revitalization of the geographic area known as the "Triángulo Dorado", which incorporates the areas of Old San Juan, Puerto de Tierra, Isla Grande, including the Puerto Rico Convention Center District, Miramar, Condado and Santitago, as well as other communities in the vicinity of the historic San Juan Bay;

WHEREAS, the Executive Order entrusted the development and implementation of the strategic plan of Triángulo Dorado to an Executive Committee comprised by the Secretary of the DEDC and the Executive Director of the Puerto Rico Tourism Company;

WHEREAS, under the Executive Order, the Executive Committee is presided by the Secretary of the DEDC;

WHEREAS, as part of the strategic vision declared by the Executive Order is the revision of the development plan for an area of approximately one hundred (100) acres located in the Puerto de Tierra sector of the Isla de San Juan, bounded by Plan 4 to the

West, Intersection 5 to the East, Joséfales Juncos Avenue to the North and the San Antonio Channel to the South (the "San Juan Waterfront");

WHEREAS, the Executive Committee has designated the Puerto Rico Convention Center District Authority (the "PRCCDA") as the agency which shall coordinate the pre development efforts relating to the San Juan Waterfront, including planning, financing, land assembly, design, permitting, construction, marketing, procurement and other development aspects of the San Juan Waterfront (the "Program");

WHEREAS, the Executive Committee selected FC San Juan Waterfront LLC, ("FCSJ"), a limited liability company duly organized and validly existing under the laws of the Commonwealth of Puerto Rico, as the provider of program management services to be furnished in connection with the Program pursuant to a Professional Services Agreement between FCSJ and PRCCDA, dated September 10th, 2009 (the "PSA");

WHEREAS, the PRCCDA's Board of Directors, in an ordinary meeting held on September 2, 2009 and November 9, 2009, respectively, agreed to accept such designation by the Executive Committee and FCSJ's control;

WHEREAS, the GDB is the owner in fee of a parcel of land commonly known as the "DBNA Parcel", recorded at page 110 of volume 24 of Puerto de Tierra, property number 817, Registry of Property of Puerto Rico, First Section of San Juan ("Property 817");

~~WHEREAS, the GDB is the owner in fee of a parcel of land commonly known as the "DBNA Parcel", recorded at page 110 of volume 24 of Puerto de Tierra, property number 817, Registry of Property of Puerto Rico, First Section of San Juan ("Property 817");~~

WHEREAS, PRCCDA, through FCSJ and its qualified sub-consultants, shall design, develop, construct and operate the improvements; and

WHEREAS, PRCCDA, through FCSI and its qualified sub-consultants, shall conduct the procurement process of the Improvements, and shall ultimately defray all soft and hard costs of the Improvements, including operating costs.

NOW THEREFORE, the Parties have agreed to and hereby devise a framework for the design, development and construction of the Improvements under the following:

TERMS AND CONDITIONS

One: The ODB hereby grants the PRCCDA, FCSI and its qualified sub-consultants a license to design, develop, construct and operate the Improvements on Property #17.

Two: The PRCCDA, FCSI or its qualified sub-consultants will design, develop, construct and operate the Improvements at sole cost and expense of the PRCCDA.

Three: The PRCCDA shall manage and control the procurement process for the construction and operation of the Improvements and select the applicable contractors for the Improvements.

Four: The Improvements shall be defined and determined by the PRCCDA and may include the following work and betterments:

- (i) demolition of existing structures on Property #17;
- (ii) clearing and removal of demolition spoils and materials;
- (iii) construction of footpaths across Property #17;
- (iv) construction of an access from Fernside Junction Avenue;
- (v) construction of a children's adventure center, playground, splash park and sailing school; and
- (vi) installation of related project signage, lighting and landscaping.

Any additional works not contemplated by, or inconsistent with, the conceptual plan set forth in Schedule I hereto, shall be subject to GDB's approval, which shall not be unreasonably withheld.

Five: PRCCDA, PCSJ or its qualified sub-consultants will enter into and manage the construction and operations contracts for the Improvements. The PRCCDA shall defray all application for payments under the construction and operations contract for the several Improvements.

Six: PRCCDA, PCSJ or its qualified sub-consultants will file and prosecute all permit applications and carry out all administrative procedures in order to obtain the permits necessary to construct and operate the Improvements in accordance with all applicable laws and regulations.

Seven: All insurance policies required under the construction contract for the Improvements shall name the PRCCDA as the insured, and GDB as an additional insured. Likewise, the payment and performance bonds shall name the PRCCDA as the obligee.

~~PRCCDA, PCSJ and its qualified sub-consultants shall not be permitted to subcontract any portion of the work contemplated by this Agreement to any third party without the prior written consent of GDB. PRCCDA shall be responsible for the performance of the work contemplated by this Agreement and shall be held liable for the performance of the work. PRCCDA shall be responsible for the performance of the work. PRCCDA shall be responsible for the performance of the work. PRCCDA shall be responsible for the performance of the work.~~

Nine: PRCCDA agrees to cause PCSJ and/or any of its qualified sub-consultants' compliance with the terms of this Agreement and will indemnify and hold GDB and any of its qualified sub-consultants harmless from all claims for property damages or personal injury of any nature or death to persons and all losses, liabilities, claims, damages, demands, costs and expenses (including, without limitation, reasonable

attorneys' fees) (collectively, "Damages") that may be caused as a result of PRCCDA's, FCSI's or any of its qualified sub-consultants' negligent acts, errors or omissions, or willful misconduct, in the performance of its / their obligations hereunder.

Ten: The Parties shall obey and comply with all applicable local and federal laws and regulations, including but not limited to environmental laws and regulations, as well as municipal ordinances; and/or any administrative or judicial mandates. In case that GDB receives any fine or penalty as a result of any of the Executive Committee's, PRCCDA's, FCSI's and / or any of its qualified sub-consultants' noncompliance with this obligation, such party will reimburse GDB the total amount imposed by such fine or penalty, as applicable.

Eleven: No agreement, term, covenant or condition hereof to be performed or complied with by the Parties, and no branch thereof, shall be waived, altered or modified except by a written instrument executed by the Parties. No waiver by any of the Executive Committee, the PRCCDA or GDB of any branch shall affect or alter this Agreement, but each and every agreement, term, covenant and condition hereof shall continue in full force and effect with respect to any other then existing or subsequent branch thereof.

~~Twelve: This Agreement shall be null and void if either party is unable to perform its obligations hereunder for a period of ninety (90) days. In the event of such a breach, the Agreement shall be terminated and the party in breach shall be liable for all damages and costs incurred by the other party. The Agreement shall be terminated automatically to commence one (1) year term upon the expiration of the Agreement. The party in breach shall be liable for all damages and costs incurred by the other party. The party in breach may terminate this Agreement at any time by a notice in writing to the other party in the manner set forth in this Agreement.~~

Thirteen: Any and all notices, demands, requests, admissions, approvals, consents, disapprovals, objections, offers or other communications or documents required to be given, delivered or served, or which may be given, delivered or served, under or by the terms and provisions of this Agreement or pursuant to law or otherwise, shall be in

writing and shall be (i) delivered by hand; (ii) sent by registered or certified mail, return receipt requested; (iii) by nationally recognized overnight delivery service; or (iv) facsimile transmitted to the appropriate party or entity at the address specified below, or at such other address of which the other party shall be duly notified:

(a) In the case of notice or communication to the Executive Committee and / or PRCCDA to:

Department of Economic Development and Commerce
P.O. Box 262150
San Juan, Puerto Rico 00925-2150
Attention: Secretary José Ramón Pérez-Rivera, Esq.
Fax: (787) 753-6874

With a copy to:

Puerto Rico Convention Center District Authority
Puerto Rico Convention Center
Third Floor
Miramar, Puerto Rico 00987
Attention: Executive Director, Jaime A. López Díaz
Tel: (787) 722-3309
Fax: (787) 722-3305

or to such other address as the Executive Committee and / or PRCCDA may from time to time designate by written notice to the GDB.

(b) In the case of notice or communication to the GDB to:

Government Development Bank of Puerto Rico
Roberto Sánchez Vilella Government Center
De Diego Avenue, Stop 22
San Juan, Puerto Rico 00907
Attention: President, Carlos M. García
Fax: (787) 721-1443

or to such other address as GDB may from time to time designate by written notice to the Executive Committee and PRCCDA.

All notices shall be deemed received when (i) actually delivered if delivered by hand; (ii) on the receipt confirmation date if transmitted by facsimile; (iii) on the working day following the deposit of the notice with a nationally recognized overnight delivery

service; and (iv) on the fifth (5th) working day following mailing in the event the notice is mailed as provided above.

Fourteen: If any term or provision of this Agreement or the application thereof to any person or circumstances shall, in any extent, be invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by applicable law.

Fifteen: This Agreement constitutes the entire agreement between the Parties pertaining to the subject matter hereof and supersedes all prior negotiations, agreements and understandings of the Parties with respect thereto.

Sixteen: Each Party hereto shall from time to time execute and acknowledge and deliver such further instruments and perform such additional acts as the other Party may reasonably request to effectuate the intent of this Agreement.

Seventeen: Note of the Parties shall request any service or act under this Agreement until it is registered at the Office of the Comptroller of Puerto Rico, in accordance with Act No. 11 enacted on October 30, 1973, as amended.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the date set forth below.

[Signatures Page Follows]

EXECUTIVE COMMITTEE
of the entity leading the development
of the Suburban Center

By: 
Name: José Ramón Perea-Rivera, Esq.
Title: President
Date: 18 / March / 2010

**GOVERNMENT DEVELOPMENT
BANK OF PUERTO RICO**

By: 
Name: Carlos M. García
Title: President
Date: 18 / March / 2010

**PUERTO RICO CONVENTION CENTER
DISTRICT AUTHORITY**

By: 
Name: Jaime Acuña
Title: Executive Director
Date: 18 / March / 2010