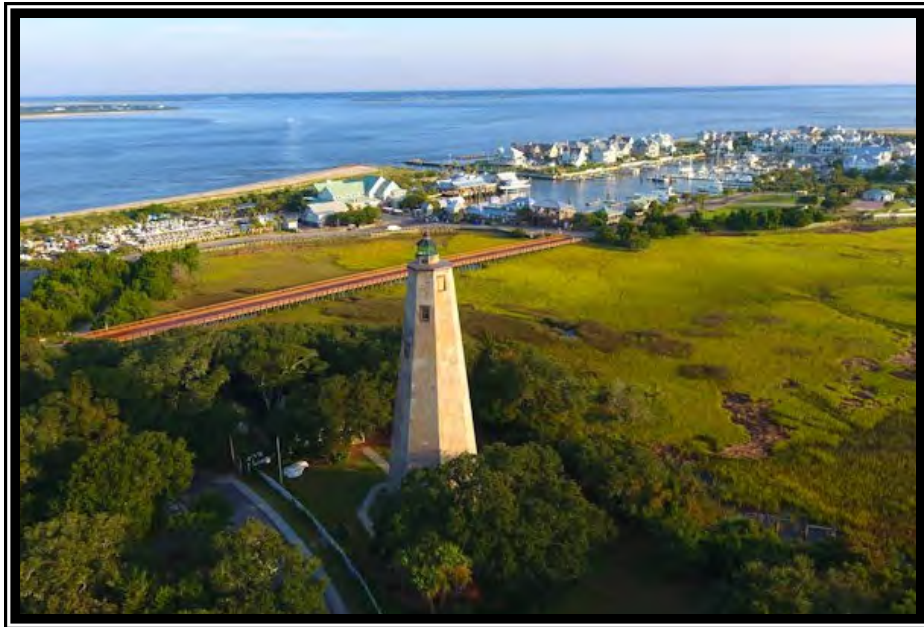


APPRAISAL REVIEW

**DEEP POINT FERRY TERMINAL &
PARKING FACILITY
1301 FERRY POINT ROAD
SOUTHPORT, NC 27461**

**BALD HEAD ISLAND FERRY TERMINAL
PARCEL A
2 MARINA WYND
BALD HEAD ISLAND, NC 27461**



LAC # 521009 – 09.03.2021





**LOFTIS
COMPANIES**

Loftis Appraisal Company

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Ron W. Loftis, Jr., MAI, CRE
rloftis@loftiscompanies.com

D. Richard Brant, MAI
rbrant@loftiscompanies.com

September 3, 2021

Mr. Chris McCall, Village Manager
Village of Bald Head Island
PO Box 3009
Bald Head Island, NC 28641

Re: Review of Appraisal Prepared by
Greg Becker, MAI, MRICS
Newkirk Knight Frank
Deep Point Ferry Terminal & Parking Facility
1301 Ferry Point Road
Southport, NC 28461

Review of Appraisal Prepared by
Greg Becker, MAI, MRICS
Newkirk Knight Frank
Bald Head Island Ferry Terminal-Parcel A
2 Marina Wynd
Bald Head Island, NC 28461

Dear Mr. McCall:

As we agreed, we have completed our desk review of the above referenced appraisal reports and can now communicate our opinion as to the adequacy and appropriateness of the referenced reports. The reports were independently reviewed by both D. Richard Brant, MAI, and Ron W. Loftis, Jr., MAI, CRE. D. Richard Brant was the primary reviewer for the Deep Point Ferry Report with Ron W. Loftis, Jr., as the secondary reviewer. Likewise, Ron W. Loftis, Jr., was the primary reviewer for the Bald Head Island Terminal with D. Richard Brant as the secondary reviewer.

At the time of our engagement, we confirmed our competency to provide an opinion as to whether the Works Under Review followed expected methodology in the development and reporting of appraisals subject to the Uniform Standards of Professional Appraisal Practice (USPAP). We also disclosed our lack of competency to provide an opinion of value for the Works Under Review. As such, this review has been limited to the methodology applied, not to any conclusions as to the market value reported by the Works Under Review.

Since two reports have been reviewed, our analysis and conclusions for each report will be presented separately.

Deep Point Ferry Terminal & Parking Facility

On September 3, 2021, we completed our review of an appraisal report on the referenced subject property prepared by Mr. Greg Becker, MAI, MRICS, of Newkirk Knight Frank. The subject property was inspected by Mr. Becker on July 17, 2021. The effective date of the report is July 17, 2021, for the Market Value As Is. Mr. Greg Becker, MAI, MRICS, who is licensed as a State Certified General Real Property Appraiser in the State of North Carolina, was the inspecting appraiser. Mr. Daniel Stoops was identified in the report and certification as providing significant real property appraisal assistance in the development and reporting of the Work Under Review. We were unable to ascertain if Mr. Stoops is a Registered Trainee and/or licensed or certified appraiser in the State of North Carolina. Our review has been limited to a desk review of the report; therefore, no on-site inspection has been conducted. The scope of our desk review includes a compliance review with USPAP standards, verification of mathematical computations, and application of appropriate tests of reasonableness for adjustments and conclusions as to the appropriateness of the reported value estimates.

CLIENT:	Mr. Chris McCall, Village Manager Village of Bald Head Island PO Box 3009 Bald Head Island, NC 28641
INTENDED USERS:	Village of Bald Head Island
INTENDED USE:	Determine adequacy and appropriateness of the Work Under Review
PURPOSE:	Determine if the Work Under Review provides a Credible Opinion of Value
WORK UNDER REVIEW:	The Work Under Review is an appraisal report prepared by Mr. Greg Becker, MAI, MRICS, with the opinion of value expressed as of July 17, 2021, the effective date of the appraisal. The subject of the report is the Deep Point Ferry Terminal and Parking Facility located at 1301 Ferry Road, Southport, NC 28461.
OWNERSHIP INTEREST:	Fee Simple
DATE OF WORK UNDER REVIEW:	August 31, 2021

EFFECTIVE DATE OF
OPINION OF WORK UNDER
REVIEW

July 17, 2021

APPRAISER REVIEWED:

Mr. Greg Becker, MAI, MRICS

DATE OF REVIEW REPORT:

September 3, 2021

EXTRAORDINARY

ASSUMPTIONS: None

HYPOTHETICAL

CONDITIONS: None

SCOPE OF WORK:

In preparing this appraisal, the Reviewer reviewed the work product provided by the client. The Reviewer compiled information pertaining to construction costs, reviewed any available income and expense data, and reviewed the contract to purchase along with other documents provided by the client or secured from public sources. The Reviewer analyzed the Work Under Review to determine if it provides a credible opinion of value.

REVIEWER'S OPINION OF WORK UNDER REVIEW:

Based upon our desk review of the report, we have concluded that:

- 1) the report has not been prepared in accordance with Scope of Work Rule of the Uniform Standards of Professional Appraisal Practice (USPAP) in existence on the effective date of the report;
- 2) the report does not include sufficient data to support the value conclusions;
- 3) the report did not incorporate the appropriate appraisal methods and techniques to adequately support the value conclusions;
- 4) the analyses, opinions, and conclusions in the report are not considered to be sufficiently supported to provide a credible opinion of value.

Item 1: USPAP Citations and Deficiencies

1. *USPAP Scope of Work Rule - An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.*

In the course of our review, the client provided the Reviewers the following documents for consideration that were not included in the report but assumed to be available to the appraiser of the Work Under Review. These include the following.

The General Assembly of North Carolina

Session 2017, Session Law 2017-120, Senate Bill 391

Draft Asset Purchase Agreement between Bald Head Island Limited, LLC and Bald Head Island Transportation Authority

Right of First Refusal between Bald Head Island Limited, LLC and Bald Head Island Transportation Authority

Further, the Reviewers secured the following documents from public sources that were available to the appraiser of the Work Under Review.

Deed Book 1083, Page 879

Aerial Map from Brunswick County GIS

Floodplain Map from Brunswick County GIS

Property Tax Records from Brunswick County

Property Tax Aerials from Brunswick County

Google Map Aerials from GoogleEarth

Based upon our review of the referenced documents and the Work Under Review, we have concluded that the scope of work forming the basis for the factors that influence value was too limited to appropriately address the appraisal problem.

Article I of the Purchase Agreement clearly states the assets to be acquired and the liabilities to be assumed. These include but are not limited to furniture, fixtures, machinery, equipment, vehicles, other tangible property, owned real properties, intellectual property, supplies and consumables “useful to the Business,” contracts, licenses, records and documentation, claimed reimbursements, inventory and “all of the Seller’s goodwill associated with the Business.” The majority of the liabilities of the Seller have been excluded; however, the

contract does provide for the assumption of any liabilities associated with the contracts assumed, taxes accrued subsequent to the closing date, certain Employee liabilities, and any other liabilities incurred by the Buyer subsequent to the closing date.

While neither of the Reviewers are attorneys, our review of the contract as State Certified General Appraisers would suggest that the assets associated with the Bald Head Island Ferry Service cannot be divorced from the operation of the Going Concern. A Going Concern is defined by the Dictionary of Real Estate Appraisal (6th Edition) as “(1) an established and operating business having an indefinite future life.” Likewise, the Market Value of the Going Concern is defined as “The market value of an established and operating business including the real property, personal property, financial assets and the intangible assets of the business.”

Therefore, it is our opinion that the Scope of Work should have included the valuation of the Going Concern with the allocation of the concluded value to the various asset components including but not limited to Real Property (Land and Improvements), Personal Property (Machinery, Furniture, Fixtures and Equipment, Intellectual Property), Goodwill (Business Enterprise Value).

This is a highly complex appraisal assignment that would be governed by the Real Property Appraisal Standards (One and Two), Personal Property Appraisal Standards (Seven and Eight), and Business Appraisal Standards (Nine and Ten) of the Uniform Standards of Professional Appraisal Practice. Separation of the real estate components does not lead to a credible option of value for the whole. The sum of the parts may or may not equal the value of the whole. As such, failure to consider all of the components of the Agreement to Purchase will likely result in the development and reporting of a misleading report.

Item 2: USPAP Citations and Deficiencies

USPAP 2-2 iv – The content of an Appraisal Report must be appropriate for the intended use of the appraisal and at a minimum: contain information, documents, and/or exhibits sufficient to identify the real estate involved in the appraisal, including the physical, legal and economic property characteristics relevant to the assignment. Reference Advisory Opinion 23.

Reference Appraisal Report: Pages 39 and 45. The report fails to provide a complete legal description for the subject property. The plat provided does not match site area used with no explanation. Improvement analysis fails to provide sufficient description of vertical improvements for a credible analysis. Specific omissions include but are not limited to the following.

- No Metes and Bounds Legal Description to support the recorded plat
- No tax card or tax aerial
- No Floor Plan and/or Building Sketch
- No Narrative Description of the Site Improvements
- No Narrative Description of the Vertical Improvements
- No Discussion of the Income Generating Capacity of the Parking Lots
- No Discussion of the Income Generating Capacity of the Terminal and Maintenance Facilities

Item 3: USPAP Citations and Deficiencies

USPAP 1-1 – In developing a real property appraisal, an appraiser must not commit a substantial error of omission or commission that significantly affects an appraisal.

Reference Appraisal Report: Pages 59 – 61. The appraiser of the Work Under Review added additional 20% indirect costs, included by Marshall Valuation in the cost per square foot. The appraiser utilized Marshall Valuation calculator costs for valuation of the subject property. Section 1 Page 4 of Marshall Valuation indicates that the costs include: architects and engineering costs, normal interest costs during construction, all materials and labors costs, normal site preparation, utilities, and contractors overhead and profit including insurance and liability coverage. Thus, this cost is double counted.

Due Diligence Assessment: Damage and Condition Assessment of the subject report addressed maintenance items associated with the property. This report divided maintenance requirements into six categories ranging from Critical to Good. This report provided a detailed breakdown of the maintenance requirements of the subject property. The conclusions and recommendations of this report indicated that there were no critical items requiring immediate attention. The items addressed were medium to low priority items. These were items that may be addressed over a ten year horizon. The appraiser suggested these items were deferred maintenance and made a deduction in the cost approach. Deferred maintenance is defined as “Curable, physical deterioration that should be corrected immediately, although work has not commenced; denotes the need for immediate expenditures, but does not necessarily suggest inadequate maintenance in

the past” by Dictionary of Real Estate Appraisal 4th Edition. Clearly these items do not rise to that level and no deferred maintenance was present based upon the report presented in the appraisal.

USPAP rule 1-4 In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results. (a) When a cost approach is necessary for credible assignment results, an appraiser must: Develop an opinion of site value by an appropriate appraisal method or technique.

The subject land was valued based on current use as opposed to its highest and best use as if vacant and ready for development.

The descriptive land sales information did not address the land sales characteristic adequately with regard to water frontage. Land sales adjustments did not reflect water frontage or flood plain presence.

USPAP rule 1-4 In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results. (c) When an income approach is necessary for credible assignment results an appraiser must:

- *Analyze such comparable rental data as are available and/or the potential earnings capacity of the property to estimate the gross potential income of the property.*
- *Analyze such comparable operating expense data as are available to estimate the operating expenses of the property.*
- *Analyze such comparable data as are available to estimate rates of capitalization and / or rates of discount Base projections of future rents and / or income potential and expenses on reasonably clear and appropriate evidence.*
- *Weigh historical information and trends, current supply and demand factors affecting such trends, and anticipated events such as competition from developments under construction, when developing income and expense statements and cash flow projections.*

Income and expense information was provided in the addenda of the Work Under Review for the parking operations. The site was improved with an industrial building but no market rent was discussed for this building. The ferry operation was a part of the going concern that

generated income through its operations. The report photos indicate a café in the terminal building; however, no income from operations of the café was addressed.

Item 4: USPAP Citations and Deficiencies

USPAP Rule 1-5: In developing a real property appraisal, an appraiser must (a) reconcile the quality and quantity of the data available and analyzed within the approaches used; and (b) reconcile the applicability and relevance of the approaches, methods and techniques used at the value conclusions.

Reference Appraisal Report: Page 68. The appraiser gives the cost approach strong consideration. The cost approach contained improper use of Marshall Valuation data. Given this error, strong consideration of the cost approach does not lead to a credible opinion of value. The subject improvements appear to suffer from considerable depreciation, based on the subject appraisal, making any estimation of cost somewhat subjective. No attempt was made to use a break down method to value the improvements and address the depreciation in greater detail. It should be noted that the detailed maintenance breakdown included in the addenda of the report provided considerable detail for use in estimating depreciation of the site improvements. No sales comparison approach was presented as the appraiser indicated a lack of sufficiently comparable properties. The income approach has been based on the cost approach and as such does not present an independent approach to value and does not stand on its own. Further, application of a cost based rental analysis is appropriate when a building is new with a clearly defined development cost, which is not the case here. The appraiser fails to note the lack of independence and notes the supportive nature of the income approach.

Therefore, based upon my desk review of the report without benefit of a site inspection or inspection of the comparable sales, it is my opinion that the market value of the Market Value As Is, as of July 17, 2021, in the amount of \$33,000,000 has not been adequately supported.

Item 5: NC Appraisal Board Requirements and Deficiencies

The North Carolina Appraisal Board has issued guidance that any report which is revised must contain language acknowledging the revision and instructing the client to disregard all prior revisions. The original report dated July 26, 2021 was revised on August 31, 2021. The report does not contain any language acknowledging the previous report or instructions for the client to disregard it.

I appreciate the opportunity to provide this service. Should you have questions, concerning the nature of the review or its conclusions, kindly advise.

Sincerely,



Richard Brant, MAI
NC Certified General Real Estate Appraiser [#A6515]



CERTIFICATION OF THE REVIEWER

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

1. The statements of fact and data reported by the reviewer and used in the review process are true and correct.
2. The analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of the Work Under Review, and I have no personal interest or bias with respect to the parties involved.
4. I have not performed services, as an appraiser or in any other capacity, regarding the property that is the subject of the Work Under Review within the three year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of the Work Under Review or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
8. The analyses, opinions, and conclusions were developed, and this review report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Standards Board of the Appraisal Foundation.
9. The use of this review report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
10. As of the effective date of this review report, Richard Brant MAI, has completed the requirements under the continuing education program of the Appraisal Institute.
11. Richard Brant, MAI, has not made a personal inspection of the subject property of the work that is under review.
12. No one except Ron W. Loftis, Jr., MAI, CRE, (A252) provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.



Richard Brant, MAI
NC Certified General Real Estate Appraiser (A6515)



Bald Head Island Ferry Terminal Parcel A

On September 3, 2021, we completed our review of an appraisal report on the referenced subject property prepared by Mr. Greg Becker, MAI, MRICS, of Newkirk Knight Frank. The subject property was inspected by Mr. Greg Becker on July 17, 2021. The effective date of the report is July 17, 2021, for the Market Value As Is. Mr. Greg Becker, MAI, MRICS, who is licensed as a State Certified General Real Property Appraiser in the State of North Carolina, was the inspecting appraiser. Mr. Daniel Stoops was identified in the report and certification as providing significant real property appraisal assistance in the development and reporting of the Work Under Review. We were unable to ascertain if Mr. Stoops is a Registered Trainee and/or licensed or certified appraiser in the State of North Carolina. Our review has been limited to a desk review of the report; therefore, no on-site inspection has been conducted. The scope of our desk review includes a compliance review with USPAP standards, verification of mathematical computations, and application of appropriate tests of reasonableness for adjustments and conclusions as to the appropriateness of the reported value estimates.

CLIENT:	Mr. Chris McCall, Village Manager Village of Bald Head Island PO Box 3009 Bald Head Island, NC 28641
INTENDED USERS:	Village of Bald Head Island
INTENDED USE:	Determine adequacy and appropriateness of the Work Under Review
PURPOSE:	Determine if the Work Under Review provides a Credible Opinion of Value
WORK UNDER REVIEW:	The work under review is an appraisal report prepared by Mr. Greg Becker, MAI, MRICS, with the opinion of value expressed as of July 17, 2021, the effective date of the appraisal. The subject of the report is The Bald Head Island Ferry Terminal – Parcel A located at 2 Marina Wynd, Bald Head Island, NC 28461.
OWNERSHIP INTEREST:	Fee Simple
DATE OF WORK UNDER REVIEW:	July 25, 2021

EFFECTIVE DATE OF
OPINION OF WORK UNDER
REVIEW

July 17, 2021

APPRAISER REVIEWED: Mr. Greg Becker, MAI, MRICS

DATE OF REVIEW REPORT: September 3, 2021

EXTRAORDINARY
ASSUMPTIONS: None

HYPOTHETICAL
CONDITIONS: None

SCOPE OF WORK: In preparing this appraisal, the appraiser reviewed the work product provided by the client. The Reviewer compiled information pertaining to construction costs, reviewed any available income and expense data, and reviewed the contract to purchase and other documents provided by the client or available from public sources. The Reviewer analyzed the Work Under Review to determine if it provides a credible opinion of value.

REVIEWER'S OPINION OF WORK UNDER REVIEW:

Based upon our desk review of the report, we have concluded that:

- 1) the report has not been prepared in accordance with Scope of Work Rule of the Uniform Standards of Professional Appraisal Practice (USPAP) in existence on the effective date of the report;
- 2) the report does not include sufficient data to support the value conclusions;
- 3) the report did not incorporate the appropriate appraisal methods and techniques to adequately support the value conclusions;
- 4) the analyses, opinions, and conclusions in the report are not considered to be sufficiently supported to provide a credible opinion of value.

Item 1: USPAP Citations and Deficiencies

2. *USPAP Scope of Work Rule - An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.*

In the course of our review, the client provided the Reviewers the following documents for consideration that were not included in the report but assumed to be available to the appraiser of the Work Under Review. These include the following.

The General Assembly of North Carolina

Session 2017, Session Law 2017-120, Senate Bill 391

Draft Asset Purchase Agreement between Bald Head Island Limited, LLC and Bald Head Island Transportation Authority

Right of First Refusal between Bald Head Island Limited, LLC and Bald Head Island Transportation Authority

Further, the Reviewers secured the following documents from public sources that were available to the appraiser of the Work Under Review.

Deed Book 532, Page 546

Plat Map 0124, 0091

Topographic Map from Brunswick County GIS

Floodplain Map from Brunswick County GIS

Property Tax Records from Brunswick County

Property Tax Aerials from Brunswick County

Google Map Aerials from GoogleEarth

Based upon our review of the referenced documents and the Work Under Review, we have concluded that the scope of work forming the basis for the factors that influence value was too limited to appropriately address the appraisal problem.

Article I of the Purchase Agreement clearly states the assets to be acquired and the liabilities to be assumed. These include but are not limited to furniture, fixtures, machinery, equipment, vehicles, other tangible property, owned real properties, intellectual property, supplies and consumable “useful to the Business,” contracts, licenses, records and documentation, claimed reimbursements, inventory and “all of the Seller’s goodwill associated with the Business.”

The majority of the liabilities of the Seller have been excluded; however, the contract does provide for the assumption of any liabilities associated with the contracts assumed, taxes accrued subsequent to the closing date, certain Employee liabilities, and any other liabilities incurred by the Buyer subsequent to the closing date.

While neither of the Reviewers are attorneys, our review of the contract as State Certified General Appraisers would suggest that the assets associated with the Bald Head Island Ferry Service cannot be divorced from the operation of the Going Concern. A Going Concern is defined by the Dictionary of Real Estate Appraisal (6th Edition) as “(1) an established and operating business having an indefinite future life.” Likewise, the Market Value of the Going Concern is defined as “The market value of an established and operating business including the real property, personal property, financial assets and the intangible assets of the business.”

Therefore, it is our opinion that the Scope of Work should have included the valuation of the Going Concern with the allocation of the concluded value to the various asset components including but not limited to Real Property (Land and Improvements), Personal Property (Machinery, Furniture, Fixtures and Equipment, Intellectual Property), Goodwill (Business Enterprise Value).

This is a highly complex appraisal assignment that would be governed by the Real Property Appraisal Standards (One and Two), Personal Property Appraisal Standards (Seven and Eight), and Business Appraisal Standards (Nine and Ten) of the Uniform Standards of Professional Appraisal Practice. Separation of the real estate components does not lead to a credible option of value for the whole. The sum of the parts may or may not equal the value of the whole. As such, failure to consider all of the components of the Agreement to Purchase will likely result in the development and reporting of a misleading report.

Item 2: USPAP Citations and Deficiencies

USPAP 2-2 iv – The content of an Appraisal Report must be appropriate for the intended use of the appraisal and at a minimum: contain information, documents, and/or exhibits sufficient to identify the real estate involved in the appraisal, including the physical, legal and economic property characteristics relevant to the assignment.

The report fails to provide a complete legal description of the subject property. The area described on the plat does not agree with the area used in the report. No explanation is provided for the difference. Improvement analysis fails to provide sufficient description of vertical improvements for a credible analysis. Specific omissions included but are not limited to the following.

- No Metes and Bounds Legal Description to support the recorded plat
- No Floor Plan and/or Building Sketch
- No Narrative Description of the Site Improvements
- No Narrative Description of the Vertical Improvements
- No Discussion of the Income Generating Capacity, if any, of the Parking Lots
- No Discussion of the Income Generating Capacity, if any, of the Terminal Landing and Barge Landing

The report includes several descriptive elements that are either inconsistent with the stated scope of work. These include but are not limited to the following.

Page 17: Area Analysis. The appraisal correctly identifies the location of the subject in the Myrtle Beach MSA and indicates that the subject market area is attempting to realign its inclusion with the Wilmington MSA. While noting this, no discussion of the Wilmington MSA or its impact on the market value of the subject tract was included. This is particularly troubling given the Regulatory Requirement of the Ferry System with regard to North Carolina General Statutes.

Page 29: Marina Market Analysis. The appraisal includes several pages to the Marina Market; however, this does not appear to be tied to any subsequent valuation analysis in the report.

Page 36: Valuation Parameters. This section provides a discussion of valuation per slip; however, the subsequent valuation includes no such unit of measure.

Page 41: The table reports the site size to be 5.577 acres with the source being "Survey." However, the plat on the previous page, used as the legal description, cites Parcel A as having 5.586 acres. The property record card shows reports the site to have 5.89 acres. The report makes no attempt to reconcile these differences and identify the source of the area used for valuation of the site. Since the concluded value is predominately land value, this is a serious inconsistency. Further, this table identifies 2.77 acres as excess land but then includes this area in the overall valuation. This methodology is not consistent with accepted appraisal practice. Valuation of the tract as if vacant and ready for development would suggest that there is no excess land. As such, this allocation is misleading or, at best, confusing.

Further, the plat recorded in Map Book 124 Page 91, cited as the Legal Description on page 38 of the Work Under Review, shows a “variable width access easement” along the barge landing access road. There is no reference or discussion of the impact of this easement or its impact upon market value, if any, in the Work Under Review.

Page 44: The description of the vertical improvements has been limited to a tabular presentation. While this may be acceptable for non-complex assignments, the unique characteristics of both the horizontal and vertical improvements warrant a more detailed discussion. The basis for the gross building area is a mystery. There is no building sketch or measurements table to illustrate the basis for the gross building area. Nor is there any discussion as to the interior upfit, if any, of the terminal landing. The table identifies the vertical improvements as a “Specialty Marina”; however, there is no discussion as to the characteristics that make the subject a “Specialty Marina” and if its development entails certain forms of functional and/or external obsolescence.

Page 45: Deferred Maintenance. The Work Under Review provides an excerpt from a Due Diligence Report prepared by Moffatt and Nichol, date March 5, 2019, a copy of which was included in the addenda to the Work Under Review. The excerpt shows about \$910,000 of additional work to be completed. Although, the Moffatt and Nichol report classifies this deferred maintenance as medium priority, the Work Under Review adds 10% profit and overhead allowance and then deducts the full amount from the final value conclusion. Our review of the Due Diligence Report suggests that the deferred maintenance priority was not HIGH. As such the proper treatment of the deferred maintenance would be to develop a sinking fund analysis to address this concern over a longer period, especially since the Due Diligence Report specifically identified the time horizon as ten years.

Page 46: Real Estate Taxes. The Work Under Review misidentifies the tax parcel in the narrative. The PIN in the table is correct. There is a substantial difference in the estimated tax value and the assessed value. The Work Under Review attributes this to the timing and methodology of mass appraisal.

Page 49: The Work Under Review assumes that about 2.77 acres of the site qualifies as excess land suitable for “some form of residential or recreational development.” Additional information is necessary to discuss the impact, if any, of flood plain and regulatory constraints to the development of this area as excess land.

Item 3: USPAP Citations and Deficiencies

USPAP rule 1-4 In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results. (a) When a cost approach is necessary for credible assignment results, an appraiser must: Develop an opinion of site value by an appropriate appraisal method or technique.

Page 50: The selected comparable sales range from 0.84 acres to 3.70 acres as compared to the reported subject size of 5.58 acres. Further, Sales One and Four appear to be out of the primary market area. Gross Adjustments ranged from 19% to 70%. Net adjustments ranged from -56% to +11%. The wide dispersion combined with the magnitude of the adjustments suggests that the selected sales may not be reliable indicators of market value. While it may be likely that there are few comparable land sales, the Work Under Review presents, on Page 28, several residential transactions on Bald Head Island and Southport. However, there appears to be no attempt to apply acceptable extraction techniques from improved sales that might support the selection of sales from outside the primary market area. Given the magnitude of the underlying land value upon the concluded value (97%), a more extensive analysis is necessary, particularly with respect to the impact if any of flood plain and water front characteristics of the comparable land sales as compared to the subject property.

USPAP 1-1 – In developing a real property appraisal an appraiser must not commit a substantial error of omission or commission that significantly affects an appraisal.

Page 53. There is a nominal math error in the Seawall calculation based upon the data presented. The report tabulates to \$449,699 versus \$449,550 (333 x \$1350). The Work Under Review added an additional 20% indirect costs to the site improvements. The noted source of the cost data is Marshall Valuation Service (MVS). MVS data includes the indirect contractor costs in their unit pricing; therefore, the Work Under Review has double counted this valuation element.

Page 55: The text indicates no charge for external obsolescence; however, the table applies a \$122,815 charge for external obsolescence with no explanation.

Page 55: The Work Under Review deducts \$1,000,000 for deferred maintenance. As previously noted, a sinking fund analysis should be developed to determine if this is a reasonable adjustment.

USPAP rule 1-4 In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results. (c) When an income approach is necessary for credible assignment results an appraiser must:

- *Analyze such comparable rental data as are available and/or the potential earnings capacity of the property to estimate the gross potential income of the property.*

- *Analyze such comparable operating expense data as are available to estimate the operating expenses of the property.*
- *Analyze such comparable data as are available to estimate rates of capitalization and / or rates of discount Base projections of future rents and / or income potential and expenses on reasonably clear and appropriate evidence*
- *Weigh historical information and trends, current supply and demand factors affecting such trends, and anticipated events such as competition from developments under construction, when developing income and expense statements and cash flow projections.*

Page 56: The Work Under Review attempts to develop an income approach using a market rent developed as a percentage of depreciated cost new. While this methodology is within accepted body of knowledge, its use is typically based upon new construction where market rental data is not accessible or applicable. The major fault of the methodology is the circular logic required where the methodology is dependent upon the concluded value of the cost approach. Thus, the circular logic reduces the reliability of any conclusions. As a further complication, the Work Under Review develops the percent of cost based upon yield rates, not direct capitalization rates.

Item 4: USPAP Citations and Deficiencies

USPAP Rule 1-5: In developing a real property appraisal, an appraiser must (a) reconcile the quality and quantity of the data available and analyzed within the approaches used; and (b) reconcile the applicability and relevance of the approaches, methods and techniques used at the value conclusions.

Page 62: The Work Under Review devoted most of the valuation section to the cost approach but then concludes that “the cost approach is given limited to no weight in this appraisal.” The income approach which relies upon the conclusions of Cost Approach for its basis of the estimate of market rent, is “considered applicable to the subject and supportive of the cost approach conclusion, thus given secondary weight for that reason.”

Therefore, the Work Under Review concludes that “limited to no” weight was given the Cost Approach. The Sales Comparison Approach was omitted. The Income Approach was “supportive” of the Cost Approach, but was given “secondary weight” to the Cost Approach. As such, the Reviewer must seriously question the basis for the concluded value.

Based upon my desk review of the report without benefit of a site inspection or inspection of the comparable sales, it is my opinion that the market value of the Market Value As Is, as of July 17, 2021, in the amount of \$6,500,000 has not been adequately supported and thus cannot be considered to be a credible opinion of value.

I appreciate the opportunity to provide this service. Should you have questions, concerning the nature of the review or its conclusions, kindly advise.

Sincerely,



Ron W. Loftis, Jr, MAI, CRE
NC Certified General Real Estate Appraiser [#A252]



CERTIFICATION OF THE REVIEW APPRAISER

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

1. The statements of fact and data reported by the reviewer and used in the review process are true and correct.
2. The analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of the Work Under Review, and I have no personal interest or bias with respect to the parties involved.
4. I have not performed services, as an appraiser or in any other capacity, regarding the property that is the subject of the Work Under Review within the three year period immediately preceding acceptance of this assignment.
5. I have no bias with respect to the property that is the subject of the Work Under Review or to the parties involved with this assignment.
6. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. My compensation for completing this assignment is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
8. The analyses, opinions, and conclusions were developed, and this review report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Standards Board of the Appraisal Foundation.
9. The use of this review report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
10. As of the effective date of this review report, Ron W. Loftis Jr. MAI, CRE, has completed the requirements under the continuing education program of the Appraisal Institute.
11. Ron W. Loftis Jr., MAI, CRE has not made a personal inspection of the subject property of the work that is under review.
12. No one except D. Richard Brant, MAI (A6515) provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.



Ron W. Loftis, Jr., MAI, CRE
NC Certified General Real Estate Appraiser (A252)



NC General License

D. Richard Brant



PROFESSIONAL QUALIFICATIONS

D. Richard Brant, MAI

Loftis Appraisal Company, Vice President and Senior Appraiser
160 Kimel Forest Drive, Suite 200 • Winston-Salem, N.C. 27103
Office 336-768-6801 • Fax 336-768-6802
rbrant@loftiscompanies.com • www.loftiscompanies.com

PROFESSIONAL LICENSE

NC State Certified General Real Estate Appraiser – A6515
VA Certified General Real Estate Appraiser – 4001 013034
SC Certified General Real Estate Appraiser – CG 6325

PROFESSIONAL AFFILIATIONS

MAI – Appraisal Institute

FORMAL EDUCATION

Masters of Business Administration, The Bryan School of Business, University of North Carolina

Greensboro, Greensboro, NC, 1998

Bachelor of Science, Physics, West Virginia University, Morgantown, WV, 1984

PROFESSIONAL EDUCATION

Introduction to Real Estate Appraisal	2004
Valuation Principles and Procedures	2004
Applied Residential Property Valuation	2004
National USPAP course	2004
Introduction to Income Property Appraisal	2005
Advanced Income Capitalization Procedures	2005
Applied Income Property Valuation	2005
General Market Analysis and Highest and Best Use	2008
Advanced Sales Comparison and Cost Approach	2008
Report Writing and Valuation Analysis	2008
Advanced Income Capitalization	2009
Advanced Applications	2009

CONTINUING EDUCATION

Condemnation Appraising Principles and Applications	2011
Analyzing the Effects of Environmental Contamination	2011
The Appraiser as an Expert Witness	2012
7-Hour USPAP Update	2016
Online Cool tools for Appraisers	2016
Rural Land Valuation	2017
Uniform Standards of Federal Land Acquisition	2017
Supervisory Appraiser/Trainee Course	2017

Business Practices and Ethics	2017
7-Hour National USPAP Update	2018
Online Rates and Ratios	2018
Commercial Land Valuation	2019
Expert Witness for Commercial Appraisers	2019
On-line Data Verification Methods	2019

EMPLOYMENT HISTORY

2005 – Present	Appraiser, Loftis Companies Responsible for providing valuation and consulting services to clients Properties include a wide range of real estate including: single family, multi-family, Industrial, vacant commercial Land, subdivisions, retail and office properties
2002 – 2004	Thomasville City Schools High Math Instructor
1993 – 2001	Member Technical Staff Philips Electronics
1985 – 1993	Process Engineer Hercules Aerospace Company

EXPERT WITNESS EXPERIENCE

Forsyth County Superior Court

Deposition Forsyth County School Board vs. Edwards, October 2011
 Court Testimony Town of Kernersville vs. Interlandi, May 2014
 Court Testimony NCDOT vs. Modern Machine August 2014
 Commissioner's Hearing Piedmont Natural Gas vs Wilson

Guilford County Superior Court

Court Testimony NCODT vs. Pear Ridge Inc. October 2014
 Court Testimony City of Greensboro vs. Sellars, May 2017

Wilkes County Superior Court

Deposition NCDOT vs. Travis Queen, August 2018

Catawba County

Court Testimony Piedmont Natural Gas vs. Watts, June 2017
 Commissioner's Hearings Piedmont Natural Gas vs. various property owners

NC General License

Ron W. Loftis, Jr.



PROFESSIONAL QUALIFICATIONS

Ronald W. Loftis, Jr., MAI, CRE

Loftis Appraisal Company, President and Principal Appraiser

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rloftis@loftiscompanies.com • www.loftiscompanies.com

PROFESSIONAL LICENSES

NC State-Certified General Real Estate Appraiser - #A252

VA State-Certified General Real Estate Appraiser - # 4001 001426

SC State-Certified General Real Estate Appraiser - #CG 2145

North Carolina Real Estate Broker - License #46179

PROFESSIONAL AFFILIATIONS

CRE - Member of The Counselors of Real Estate

MAI - Member Appraisal Institute (Certificate #8374)

Realtor, Winston-Salem Regional Association of Realtors

FORMAL EDUCATION

Master of Business Administration, The Babcock Graduate School of Management,
Wake Forest University, Winston-Salem, North Carolina, 1976

Bachelor of Arts, Wake Forest University, Winston-Salem, North Carolina, 1974

PROFESSIONAL EDUCATION

AIREA 1A1 Real Estate Principles	1986
AIREA 1A2 Basic Valuation	1986
AIREA 1BA Capitalization Theory A	1987
AIREA 1BB Capitalization Theory B	1987
AIREA 2-1 Case Studies	1987
AIREA 8-2 Residential Valuation	1987
AIREA SPD Standards of Professional Practice	1988
AIREA Valuation and Report Writing	1988
AIREA Demonstration Appraisal Report	1988
AIREA Comprehensive Examination	1988
IREM - #501 Long Range Management	1980
IREM - #401 Managing Real Estate As An Investment	1979
IREM - #301 Managing of Residential Property	1979
WFU Effective Construction Management	1977

CONTINUING EDUCATION

Seminar: USPAP Update (Instructor)	AI	2020
Course: UASFLA (Yellow Book)	MK	2020
Seminar: Land & Site Valuation	MK	2020
Seminar: USPAP Instructor Recertification	AF	2019
Seminar: Online Comparative Analysis	AI	2018
Seminar: Eminent Domain & Condemnation	AI	2018
Seminar: Online: Cool Tools: New Technology	AI	2018

Seminar:	USPAP Update	AI	2018
Seminar:	Supervisor/Trainee Course	BP	2017
Seminar:	Rural Land Valuation (Instructor/Developer)	AI	2017
Seminar:	USPAP Update (Instructor)	AI	2016
Seminar:	Analyzing Effects of Environmental	AI	2015
Seminar:	Residential & Commercial Valuation of Solar	AI	2015
Seminar:	2014 Supervisor/Trainee Workshop	AI	2014
Seminar:	Evaluating Commercial Construction	AI	2014
Seminar:	USPAP Update (Instructor)	AI	2014
Seminar:	An Intro to Vineyard and Winery Evaluation	AI	2013
Seminar:	Valuation Services: BPOs, CMAs and RES	BP	2012
Seminar:	Business Practices & Ethics	AI	2012
Seminar:	USPAP Update (Instructor)	AI	2012
Course:	Fundamentals of Business Valuation	AI	2011
Seminar:	USPAP Update (Instructor)	AI	2011
Seminar:	Analyzing Tenant Credit Risk	AI	2011
Seminar:	USPAP Update (Instructor)	AI	2010
Course:	Appraising Historic Preservation Easements	AI	2009
Course:	Basic Appraisal Procedures (Instructor)	AI	2009
Course:	Basic Appraisal Principles (Instructor)	AI	2009
Seminar:	Appraisal Review – General	AI	2009
Seminar:	USPAP Update (Instructor)	AI	2009
Seminar:	Valuation of Green Buildings	AI	2009
Course:	Business Practices & Ethics	AI	2007
Seminar:	USPAP Update (Instructor)	AI	2007
Course:	NC Exam Review (Instructor/Developer)	NCAI	2007
Seminar:	The Narrative Report (Instructor)	DM	2007
Seminar:	USPAP Update (Instructor)	DM	2007
Seminar:	Residential Appraising (Instructor)	DM	2007
Seminar:	Environmental Hazards (Instructor)	DM	2007
Seminar:	What Clients Like to Know	AI	2007
Seminar:	Appraising the Tough Ones	AI	2006
Course:	Basic Appraisal Principles (Instructor)	AI	2006
Course:	Basic Appraisal Procedures (Instructor)	AI	2006
Course:	Litigation Appraising: Special Topics	AI	2005
Seminar:	Increase Profits & Appraisal Skills	AI	2005
Seminar:	USPAP Update (Instructor)	DM	2005
Seminar:	Narrative Appraisal Report (Instructor)	DM	2005
Course:	AQB Recertification	AF	2005
Seminar:	Road Less Traveled: Special Purpose	AI	2005
Course:	Instructor Leadership Development	AI	2004
Seminar:	Land Valuation Adjustment Procedures	AI	2004
Course:	USPAP - 7 Hour Update Course	TR	2004
Seminar:	Supporting Capitalization Rates	AI	2004
Courses:	R1,R2,R3,R4,G1,G2,G3 (Instructor)	FTCC	2004
Courses:	G1,G2, G3 (Instructor)	DMRS	2004
Course:	USPAP Instructor Certification	AF	2003
Seminar:	Scope Of Work	AI	2003
Seminar:	Appraisal Consulting	AI	2003
Courses:	R1,R2,R3, G1 (Instructor)	FTCC	2003
Course:	Standards of Prof Practice Part C	AI	2002

Seminar:	Analyzing Commercial Leases	AI	2002
Seminar:	Feasibility Analysis, Market Value	AI	2002
Courses:	R3,G1 (Instructor)	FTCC	2002
Courses:	R1,R2,R3, G1,G2,G3 (Instructor)	FTCC	2001
Seminar:	Current with USPAP?	AI	2000
Seminar:	Appraising Manufactured Housing	AI	1999
Seminar:	Internet Search Strategies	AI	1999
Seminar:	Valuation of Detrimental Conditions	AI	1998
Seminar:	Appraisal of Golf Courses & CC.	AI	1998
Seminar:	Matched Pairs/HBU/Report Options	AI	1998
Seminar:	Loss Prevention for RE Appraisers	AI	1998
Seminar:	Eminent Domain & Condemnation	AI	1998
Course:	Standards of Professional Practice - C	AI	1997
Seminar:	Appraisal Office Management	AI	1997
Seminar:	Litigation Skills for the Appraiser	AI	1997
Seminar:	The Internet & Appraising	AI	1997
Seminar:	Highest & Best Use Applications	AI	1996
Seminar:	The Future of Appraising	AI	1996
Seminar:	Dynamics of Office Building Valuation	AI	1995
Seminar:	Appraisal of Retail Properties	AI	1995
Seminar:	Real Estate Evaluation	AI	1995
Seminar:	Analyzing Operating Expenses	AI	1995
Seminar:	Subdivision Analysis	AI	1995
Seminar:	Powerline Easements	AI	1994
Seminar:	Appraiser's Legal Liabilities	AI	1994
Seminar:	Americans with Disabilities Act	AI	1993
Seminar:	Current Issues in Appraisal Process	AI	1993
Course:	Standards of Professional Practice - A	AI	1992
Course:	Standards of Professional Practice - B	AI	1992
Seminar:	Depreciation and Cost Approach	NCAI	1992
Seminar:	Lender Review Process	NCAI	1992
Seminar:	Appraisal Regulations of Federal Banks	AI	1992
Seminar:	Real Estate Law	AI	1992
Seminar:	Environment, Hazardous Materials	AI	1991
Seminar:	Appraisal Regulations of Federal Agencies	AI	1991
Seminar:	Appraising Troubled Properties	AI	1991
Seminar:	Appraisal Guidelines	AI	1990
Seminar:	Review Course for Certification	AI	1990
Seminar:	UCIAR Form	AI	1990

EMPLOYMENT HISTORY

1990 - Present President & CEO, Loftis Companies
Responsible for marketing, management, financial administration, and technology.

Principal Real Estate Appraiser and Consultant responsible for valuation and consulting services.

Broker-In-Charge responsible for brokerage and management services.

Properties include a broad spectrum of real estate types with special expertise in eminent domain, tax appeal, historic tax credits, low income housing, manufacturing, going concerns, vineyards and wineries, farmland, Uniform Appraisal Standards for Federal Land, Acquisitions (Yellow Book) and high value residential.

- 1989 - 1990 Associate, Michael S. Clapp & Associates
Duties included appraising real estate and consulting for residential and commercial properties. Assignments included office buildings, multifamily housing, shopping centers, industrial facilities, single family subdivisions/single family dwellings, motels, mixed use projects and vacant land. Duties also included market studies for retail shopping, office development, and multifamily housing.
- 1986 - 1989 Staff Appraiser, Martin and Associates
Duties included appraising residential and commercial real estate including office buildings, multifamily housing, shopping centers, industrial facilities, single family subdivisions/single family dwellings, and vacant land. Duties also included market studies for retail shopping, office development, and multifamily housing.
- 1985 - 1986 DSG, Inc., Vice President
Duties included real estate consulting and commercial real estate brokerage. Developed and marketed a mortgage insurance program for land acquisition and development loans under the auspices of the Department of Housing and Urban Development. Secured listings for Multifamily, Commercial, and Vacant Land Sales.
- 1982 - 1985 Howard Corporation, Project Manager (Division of ITT)
Duties included managing major real estate acquisitions and negotiating contracts for business development. Project Manager for acquisition team charged with investigation of potential \$40 million real estate acquisition in South Florida. Coordinated legal and engineering investigation and managed presale program. Proposed acquisition involved 2,000 acres of mixed-use property in 7 existing subdivisions. Coordinated project development activity for potential negotiated contracts. Lead volume exceeded \$2.1 billion in 2 years.
- Projects were concentrated in southeastern United States and ranged from residential condominiums to major office park developments. Responsible for construction management of a \$3.1 million educational facility. Project was completed on time and within budget. Developed a detail action plan for the implementation of a new program that generated over \$3.10 million in negotiated contracts.
- 1976 - 1982 Landura Corporation (now Landura Property Management)
Vice President
Duties included property management, construction management, and real estate syndication. Property Management Division consisted of over 40 properties, totaling more than 2,400 apartment units. Responsible for all leasing and management of the portfolio. These units are currently valued

in excess of \$65 million. Directly supervised a staff of 14 full-time employees and indirectly supervised 72 part-time employees. Responsible for maintaining financial relationships with various banks, mortgage lenders, attorneys, government officials, external auditors and investors. Duties also included the supervision of mortgage loan closings, both interim and permanent, supervision of limited partnership audits and tax return preparation, and coordination of six IRS tax audits with external auditors and legal counsel. Performed various functions in the syndication process, including assimilation of the documentation required for due diligence review, preparation of the financial projections, pricing sensitivity analysis, selling of limited partnership subscriptions, and review and coordination of the filing of executed subscription documents.

EXPERT WITNESS

North Carolina Superior Court
Milton L. and Janice J. Kirkland vs City of High Point
LAC#719123, 04 November 2020

North Carolina Superior Court
Morrison Heirs v Piedmont Natural Gas
LAC# 719026, 10 December 2019

North Carolina Superior Court
Hearing: Nelson v. NCDOT 11CVS 8338
LAC#716166, 10 September 2018

North Carolina Property Tax Commission
Hearing: Davidson County v Parkdale Mills
LAC#315155-156, 15 March 2016

Lincoln County Commissioners Hearings
Multiple Owners v Piedmont Natural Gas, June 2019

Federal Bankruptcy Court
Capital Bank v. Greco 12.51497
LAC#313123, 11 February 2014

OTHER EXPERIENCE

Instructor	Appraisal Institute (Current)
Instructor	AQB Certified USPAP Instructor (#44740) (Current)
Past-President	North Carolina Chapter of the Appraisal Institute (1998)
Treasurer	North Carolina Governor's School Foundation (1995-2015)