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October 27, 2008

Mr. Randy Gans
Vice President - Development
CUE VI LLC
323 Fifth Street
Eureka, California 95501

Re: Eureka Balloon Track Retail Development Economic Impact and Urban Decay Analysis – Current Economic Conditions Summary Analysis

Dear Randy:

CBRE Consulting, Inc. (CBRE Consulting) is pleased to submit this update of economic conditions for the Eureka Balloon Track planned retail development called Marina Center located in Eureka, California. CBRE Consulting completed an economic impact study for this project in November 2006. In order to reflect current economic conditions and data availability in preparation for the release of the Draft EIR, this letter provides targeted research on key economic and demographic indicators relevant to the analysis, and provides an assessment of the relevancy of the study findings in light of these indicators.

SUMMARY OF FINDINGS

CBRE Consulting finds that although some of the data used in the November report have changed in such a way that would increase the impacts of the Marina Center on the existing retailers, other trends in the data would decrease the impact of the Marina Center on existing retailers. Therefore, CBRE Consulting believes that an update to the report incorporating current economic conditions and data availability would not materially change the conclusions of the November 2006 report.

In reaching this conclusion, CBRE Consulting performed the following tasks:

- Reviewed recent population and average household income estimates and forecasts;
- Analyzed annual and quarterly taxable retail sales trends;
- Compared retailer sales estimates with current estimates by category; and
- Examined the current retail environment relative to store closures and openings.

This letter details the analyses performed to determine how the outcome might change if the November 2006 report were updated today using the most recently available data. Referenced exhibits are included in the Appendix.

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DEMOGRAPHIC ESTIMATES AND PROJECTIONS

Exhibit 1 presents estimated and projected population data prepared by the California Department of Finance Demographic Research Unit (DOF). The estimates are as of May 2008 and the projections are as of July 2007, the most current data available. This exhibit is an update of Exhibit 5 in the November 2006 economic impact report. The forecasts for Humboldt County's population in 2010 and 2020 have increased by 1 to 2 percent. Estimates for the City of Eureka have not changed substantially. The Retail Sales Leakage Analysis in the November 2006 study used Humboldt County as the market area for the planned Marina Center project. The increase in projected population indicates greater demand for retail than was previously estimated.

In the November 2006 economic impact report CBRE Consulting used Claritas, Inc. to project average household income for the Retail Sales Leakage Analysis. At the time, 2010 average household income in Humboldt County was forecasted at $54,347. The most recent Claritas estimates and projections for Humboldt County are an average household income of $53,537 for 2008 and $61,400 for 2013. Interpolating between these two dates results in a forecast of $56,554 in 2010, over $2,200 more than the previous forecast. This increase in projected household income indicates greater demand for retail than was previously estimated.

The two demographic characteristics that are used to estimate retail sales demand are population and average household income. The most recent data for these characteristics indicate that demand in the market area has increased since the November 2006 report was completed.

RETAIL SALES TRENDS

Exhibit 2 illustrates the most recent publicly available annual retail sales data for Humboldt County. This exhibit is an update of Table B-1 in Appendix B of the November 2006 study. In the previous study the most recent annual data were for 2004. Currently the full year of 2006 retail sales data are available as well as the first three quarters of 2007. In the previous study the average annual growth rate from 2000 to 2004 was examined. In Exhibit 2 the time period from 2000 to 2006 is shown. The current downturn in California retail sales shows up in the data starting in the third quarter of 2007. As compared to the third quarter of 2006, California retail sales in the third quarter of 2007 declined by 3.5 percent. Therefore, Exhibit 2 does not reflect the current downturn and, in fact, the trend from 2000 to 2006 is stronger than the trend from 2000 to 2004, with a greater average annual growth rate (5.1 percent as compared to 4.6 percent). When adjusted for inflation the average annual growth rate from 2000 to 2006 is also stronger at 1.2 percent as compared to 1.0 percent from 2000 to 2004.

Exhibit 3 shows the most recent quarterly data for Humboldt County, the City of Eureka, and the State of California. The trend in Humboldt County is similar to the overall trend in California with sales in the second quarter of 2007 flat as compared to the second quarter of 2006 and third quarter sales in 2007 less than the same quarter the previous year. In California the drop in the third quarter of 2007 was 3.5 percent as compared to 2.3 percent in Humboldt County. In the City of Eureka the downturn starts earlier, in the second quarter of 2007, with a 3.7 percent decline as compared to the same quarter of 2006. Eureka's retail sales decline in the

third quarter of 2007 was more severe than the decline in Humboldt County and the State at 4.9 percent.

Although data for the fourth quarter of 2007 and the first three quarters of 2008 are not publicly available yet, given the recent events in the mortgage and financial markets, it is likely that this negative trend continues. The forecasts for Humboldt County retail sales in the November 2006 report, prepared by CBRE Consulting, are lower than actual sales, but if this negative trend continues for several years, then the forecasts for 2010 retail sales may be overestimated. If the retail sales base in 2010 is overestimated then impacts from the proposed retail project could be underestimated. However, if the entire retail market continues to suffer from a downturn, then the sales estimates for Marina Center are likely overestimated as well, with the result being opposing influences on the analysis.

RETAIL SALES ESTIMATES

The sales estimate for the stores at Marina Center presented in the November 2006 report was projected at $139.6 million in 2010 when the center is open. The sales estimate for Home Depot came from that retailer, but the other stores' sales were estimated using Retail MAXIM's *Perspectives on Retail Real Estate and Finance*, July 2004. A more recent edition of this publication is available as of July 2008. The table below shows how the sales per square foot estimates by category from this resource have changed since the previous study. Four out of the six categories have had declines in the estimated sales per square foot as compared to the estimate in the November 2006 report. Apparel, restaurants, home furnishings, and book store sales have dropped from $3 to $72. Two categories, electronics and furniture, have increased by $4 and $56 per square foot respectively.

Marina Center Average Sales Per Square Foot Estimates by Category

	Retail MAXIM Estimates			
Retail Category	2003 (From July 2004 Publication)	2007 (From July 2008 Publication)	Study-based 2007 Projection (Interpolated from 2010 Projection) (1)	Difference Between Current 2007 Estimate and 2007 Projection
Apparel	$371	$416	$419	-$3
Restaurants	$389	$430	$439	-$9
Home Furnishings	$287	$252	$324	-$72
Book Store	$254	$242	$287	-$45
Electronics Store	$484	$550	$546	$4
Furniture Store	$176	$255	$199	$56

Sources: Exhibit 2 from "Eureka Balloon Track Retail Development: Economic Impact and Urban Decay Analysis", November 2006; Retail MAXIM's July 2008 report "Alternative Retail Risk Analysis for Alternative Capital"; and CBRE Consulting.
(1) This is the implied 2007 sales per square foot projection from CBRE Consulting's November 2006 report. This number was determined by interpolating between the 2003 Retail MAXIM estimate and the 2010 projection in the November 2006 report.

Overall, if the analysis was updated using the most recent Retail MAXIM's estimates for 2007 sales per square foot, the sales estimate for Marina Center would be over $1.5 million lower in 2007 dollars. This lower estimate would reduce potential negative impacts on existing retailers.

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STORE CLOSURES AND OPENINGS

Since the November 2006 study was conducted, there have been several major store closings and openings in the City of Eureka. At the Bayshore Mall, two apparel stores, the Gap and Old Navy, closed. At the Eureka Mall, the Hancock Fabrics store closed due to corporate bankruptcy. In Downtown Eureka, McMan's Furniture store closed. However, a furniture store of similar size, Furniture Outlet, opened. Also in Downtown the Northcoast Co-op expanded by 22,000 square feet. A second major expansion was at Eureka Health Foods, which added 14,000 square feet to their Broadway location.

One more closure, the Mervyn's store at the Bayshore Mall, is anticipated to occur within the next few months due to the corporate bankruptcy of the parent company. Mervyn's is categorized by the Board of Equalization as a department store, but much of its merchandise is apparel. The November 2006 report estimated no impacts in the apparel or general merchandise categories, so this closure will not affect the analysis.

The major store losses have been in apparel and the major gains have been in grocery stores. Since no grocery store is planned for Marina Center, that change would not affect the analysis. A decrease in existing apparel stores would result in a lower sales base for that category, unless consumer spending is redistributed among remaining apparel retailers. If all other elements remained the same, a decrease in apparel space and associated sales would increase the leakage in that category. In the November 2006 report it was found that for Humboldt County, $14.7 million in apparel sales dollars left the area, meaning residents did some of their apparel shopping outside of the county. These closed stores would increase the leakage in the apparel category, all else being equal. However, with the downturn in the economy, it is possible that the demand for apparel may have decreased. CBRE Consulting believes that these different trends would counterbalance each other and that the conclusions in the November 2006 report would not materially change if the report were updated today.

In summary, although recent population and income projections for the market area are up, indicating growing retail sales demand, quarterly sales in the market area have started to decline, reflecting the downturn in the economy. Retailers are on average doing worse with lower sales per square foot. This means that the previous sales estimate for the stores at Marina Center was too high and, therefore, estimated impacts on existing retailers was overestimated. These different trends likely counterbalance each other.

CLOSING COMMENTS

The contents of this letter are subject to the appended Assumptions and General Limiting Conditions. It has been a pleasure working with you on this assignment. Please do not hesitate to contact us with any questions.

Sincerely,

Amy L. Herman, AICP
Senior Managing Director

Pipi Ray Diamond
Senior Consultant

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ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

CBRE Consulting, Inc. has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although CBRE Consulting, Inc. believes all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

This report may not be used for any purpose other than that for which it is prepared. Neither all nor any part of the contents of this study shall be disseminated to the public through publication advertising media, public relations, news media, sales media, or any other public means of communication without prior written consent and approval of CBRE Consulting, Inc.

APPENDIX

EXHIBIT 1
POPULATION ESTIMATES AND PROJECTIONS (1)
HUMBOLDT COUNTY (PRIMARY MARKET AREA)
2000 - 2020

	Estimated									Projected				Average Annual Growth Rate (2)		
Primary Market Area	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	'00-'08	'08-'10	'10-'20
City of Eureka	26,128	26,135	26,173	26,291	26,353	26,346	26,205	26,097	26,157	26,350	26,544	27,261	27,998	0.0%	0.7%	0.5%
City of Arcata	16,651	16,867	16,945	17,048	17,163	17,271	17,282	17,417	17,558	17,687	17,818	18,299	18,793	0.7%	0.7%	0.5%
City of Fortuna	10,498	10,558	10,779	10,969	11,114	11,238	11,305	11,329	11,374	11,458	11,542	11,854	12,174	1.0%	0.7%	0.5%
City of Rio Dell	3,174	3,171	3,183	3,203	3,218	3,236	3,249	3,273	3,284	3,308	3,333	3,423	3,515	0.4%	0.7%	0.5%
City of Ferndale	1,382	1,379	1,390	1,403	1,441	1,448	1,427	1,429	1,428	1,439	1,449	1,488	1,528	0.4%	0.7%	0.5%
City of Blue Lake	1,137	1,144	1,169	1,173	1,176	1,177	1,170	1,165	1,166	1,175	1,183	1,215	1,248	0.3%	0.7%	0.5%
City of Trinidad	312	313	314	314	318	317	315	314	314	316	319	327	336	0.1%	0.7%	0.5%
Balance of County	67,236	67,556	68,102	68,934	69,669	70,158	70,622	70,953	71,540	72,067	72,598	74,559	76,574	0.8%	0.7%	0.5%
Total Humboldt County	126,518	127,123	128,055	129,335	130,452	131,191	131,575	131,977	132,821	133,799	134,785	138,427	142,167	0.6%	0.7%	0.5%

Notes:

(1) As reported by the California Department of Finance Demographic Research Unit ("DOF"). Population estimates for 2000 through 2008 provided by DOF as well as Humboldt County projections for 2010 and 2020. Intermediate year 2009 estimated by CBRE Consulting. Since there were no projections for individual cities, it was assumed that their projected growth rates (2008-2010 and 2010-2020) would be the same as the County's projected growth rates.

(2) The compound average annual growth rate between the indicated years. These growth rates are the basis for projections for the intermediary years.

Sources: State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2001-2008, with 2000 Benchmark", May 2008 and "Population Projections for California and Its Counties 2000-2050, by Age, Gender and Race/Ethnicity", July 2007; and CBRE Consulting.

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EXHIBIT 2
HUMBOLDT COUNTY RETAIL SALES TRENDS
2000 - 2006

	2000	2004	2005	2006	Percent Change 2000 - 2006	Average Annual Growth Rate
Retail Sales (1)	$931,847,000	$1,116,853,000	$1,176,032,000	$1,253,920,000	34.6%	5.1%
Population (2)	126,518	130,452	131,191	131,575	4.0%	0.7%
Per Capita Sales	$7,365	$8,561	$8,964	$9,530	29.4%	4.4%
California Inflation Rate (3)		2.6%	3.7%	3.9%	N/A	N/A
Inflation Adjusted Per Capita Sales	$7,365	$7,658	$7,734	$7,914	7.4%	1.2%

Notes:
(1) Data from the California State Board of Equalization.
(2) Population estimates as reported by the California Department of Finance Demographic Research Unit ("DOF").
(3) From the U.S. Department of Labor Bureau of Labor Statistics annual reported inflation rates for California.

Sources: State Board of Equalization "Taxable Sales in California" annual reports; California Department of Finance Demographic Research Unit; U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index; CBRE Consulting.
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EXHIBIT 3

TOTAL RETAIL SALES TRENDS IN EUREKA, HUMBOLDT COUNTY, AND THE STATE (1)

2006 AND 2007

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
City of Eureka				
2006	$164,324,000	$182,347,000	$191,978,000	$196,522,000
2007	$164,500,000	$175,567,000	$182,495,000	N/A
Difference	0.1%	-3.7%	-4.9%	N/A
Humboldt County				
2006	$276,175,000	$314,848,000	$332,019,000	$330,878,000
2007	$281,123,000	$315,702,000	$324,539,000	N/A
Difference	1.8%	0.3%	-2.3%	N/A
California				
2006	$89,602,410,000	$98,399,583,000	$99,066,498,000	$101,998,081,000
2007	$92,040,631,000	$98,312,544,000	$95,630,424,000	N/A
Difference	2.7%	-0.1%	-3.5%	N/A

Notes:

(1) Data from the California State Board of Equalization.

Sources: State Board of Equalization "Taxable Sales in California" annual reports; CBRE Consulting

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