NOVOGRADAC & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

May 17, 2006

Ms. Lisa Rhine
Economic & Planning Systems, Inc.
2501 Ninth Street, Suite 200
Berkeley, CA 94710

Re: Ninth Avenue Pier Renovation
Impact of Rehabilitation Tax Credits and
New Markets Tax Credits on Project Feasibility

Dear Ms. Rhine:

Oakland Harbor Partners, LLC ("OHP") is contemplating redeveloping the shed building and pier ("Shed") located at the Ninth Avenue Terminal in Oakland, California (the "Project"). You have asked Novogradac & Company LLP to provide information concerning the economic impact that federal rehabilitation tax credits provided under Internal Revenue Code ("IRC") Section 47 ("Rehab Credits") and federal new markets tax credits under IRC Section 45D ("New Markets Credits") would have on the economic feasibility of the Project.

Background

The Project consists of a one-story pile supported building enclosing 180,000 square feet. The building was used as a transit shed and built in two phases. Approximately 90,000 square feet of the Shed was built in 1927 and the remaining square footage was added-on in the 1950's. A diagram of the Shed is attached as Exhibit B. This building sits on the site as shown in the site plan attached as Exhibit C. The Ninth Avenue Terminal was designated historic by the City of Oakland's Landmarks Preservation Advisory Board in December 2003.

Reuse Analysis

A technical memorandum was prepared by Economic & Planning Systems dated February 21, 2006 ("EPS Memo"). The EPS Memo analyzes the reuse feasibility of the Project including five options proposed by a group of students from the University of California Berkeley. The impact of the Rehab and New Markets credits on the Project's feasibility relies on the estimated cost of development shown in EPS Memo with adjustments described herein. The EPS Memo has the following three major scenarios: Scenario 1 - maintaining the entire Shed in its current condition; Scenario 2 - removing the 1950 Shed building addition and only rehabbing the original 1927 portion of the Shed; Scenario 3 - reducing the Shed back to 15,000 square foot visitor's center.

Rehabilitation Tax Credits

IRC Section 47 allows owners of qualifying buildings to obtain federal tax credits, calculated as a percentage of qualifying costs, which can be used to reduce federal income taxes. There are two types of rehabilitation tax credits allowed under the IRC, a 10% credit and a 20% credit. Each of these two credits has its own separate requirements for a building to be able to qualify for the credits.

The attached analysis assumes that the Shed meets all requirements to qualify for the 20% credit. This means that all the building age, shell retention, registration, and construction requirements are met. The 20% credit is used, because if the Project is not economically feasible using the 20% credit then it will be less economically feasible using the 10% credit.

In order to obtain a rehabilitation tax credits on a building, the rehabilitation costs must exceed the greater of $5,000 or the tax basis of the building. It is assumed that this threshold requirement will be met.

The development costs of a project are higher on a rehabilitation tax credit project. This is due to the necessity of maintaining the existing exterior shell of the building. This necessitates rebuilding existing exterior wall systems or building a new building within the existing building in order to get the necessary earthquake load requirements and weatherproofing. These additional costs can sometimes double or triple the cost of construction. For purposes of this analysis, it is assumed that the total development costs will increase by 20% of the non-pier costs.

Assuming that threshold requirements discussed above are met, then the operating partnership controlling the building either through fee ownership or a long term leasehold interest may obtain a credit equal to 20% of the rehabilitation costs of the building. Costs that are incurred for landscaping, sidewalks or enlargement of the exterior walls of the building do not qualify. It has been assumed that 100% of all costs incurred qualify for the 20% credit except for landscaping, the portion of the Pier Retrofit Costs not under the building and an allocable portion of the soft costs. In reality, additional portions of the costs will likely not qualify for the Rehab Credit because they are for work done outside the building envelope.

The Shed building will have to be owned by a limited partnership with both the owners and tenants not being governmental entities. If the City of Oakland wishes to own the fee interest in the Shed, then it will have to lease the Shed on a long term basis (in excess of 35 years) to the limited partnership owned and controlled by a for profit entity.

Once a limited partnership generates the credits from the rehabilitation of the building, then the credits must be "sold" to an equity investor. The usual "buyers" of the credits are large Fortune 500 corporations. In actuality, the credits are not technically sold or purchased, because a corporation becomes a limited partner in an investment partnership that owns the building that generates the Rehab Credits. The corporation makes a cash capital contribution to the limited partnership and the losses from the operations of the building along with the credits are allocated to the corporate investor. The amount of money that a corporation is willing to invest in such a partnership usually equals around 90 cents on every dollar of Rehab Credits allocated. This amount will go up or down in the equity markets.

New Markets Tax Credits

In addition to obtaining Rehab Credits, the Project may be eligible to obtain federal New Markets tax credits under IRC Section 45D. This program is relatively new and has numerous requirements. Major threshold requirements include that the Project must be located in a qualified census track and the use of the building must qualify. Assuming that all requirements of the IRC Section 45D are met then it is possible to obtain a loan from a qualified lender that is potentially interest only. The principal amount of this loan generates an equal amount of tax credits that will be passed through to an equity investor. Again, the equity investor will be a corporation. Generally, the investor will invest equity equal to 25 to 30 cents on the dollar of the credits. In other words, they will invest 25 to 30 percent of the credit amount as equity. The loan is assumed to be an interest only loan due in 7 years.

The major part of the structure of a New Markets Tax Credit investment is that the investment will be in the form of a loan to the entity that will own the Shed. The loan comes from a Community Development Entity ("CDE"). The principal amount of the loan is the amount that will be supported by the cash flow assuming that the loan is interest only and typically due in seven years. The example assumes that there will be sufficient cash flow at the end of seven years to support a refinance of the interest only loan at market interest rates and with sufficient cash to increase the debt payment to amortize the principal balance. The attached calculation assumes that the project is able to demonstrate this during its underwriting. In reality, the property will not be able to demonstrate that it can repay the loan unless there is a substantial increase in net operating income over a seven year period to allow the property to support a conventional loan with a market interest rate, a 1.25 debt coverage ratio and amortization of the principal.

The attached Exhibit A provides a calculation maximizing the potential New Markets Credits available to the project and the amount of equity that would be generated from investor purchasing these credits.

There are additional costs associated with finding the corporate investor and structuring the partnership. It is assumed that the syndication and structuring costs are $400,000.

Conclusion

The attached Exhibit A shows that assuming that the Shed qualifies for the Rehab Credits and the development costs shown qualify for the credits, and the maximum amount of New Markets tax credits are generated, there is still a funding shortfall of approximately $19.6 million to $28.9 million. Again, this is the best case scenario. The actual shortfalls will most likely be materially worse because the reduction in Rehab Credits due to costs not qualifying, increased costs to make sure that the Shed qualifies for the Rehab Credits, substantial structuring and sales costs of the credits, the lack of ability to demonstrate the New Markets loan can be refinanced at the end of 7 years, etc.

The EPS study shows the economic shortfall on an annual basis of negative cash flow. The attached analysis is shown on a net present value basis because this will be the amount required to be funded at the start of the Project in order to obtain the debt financing shown.

Therefore, the amount of equity infusion into the Project is not enough to compensate for the projected shortfall. In conclusion, maintaining the Shed as is or reducing it down to the 1927 size of the building is not economically feasible with use of the federal Rehabilitation Tax Credits and New Markets Tax Credits.

Very truly yours,
Novogradac & Company LLP

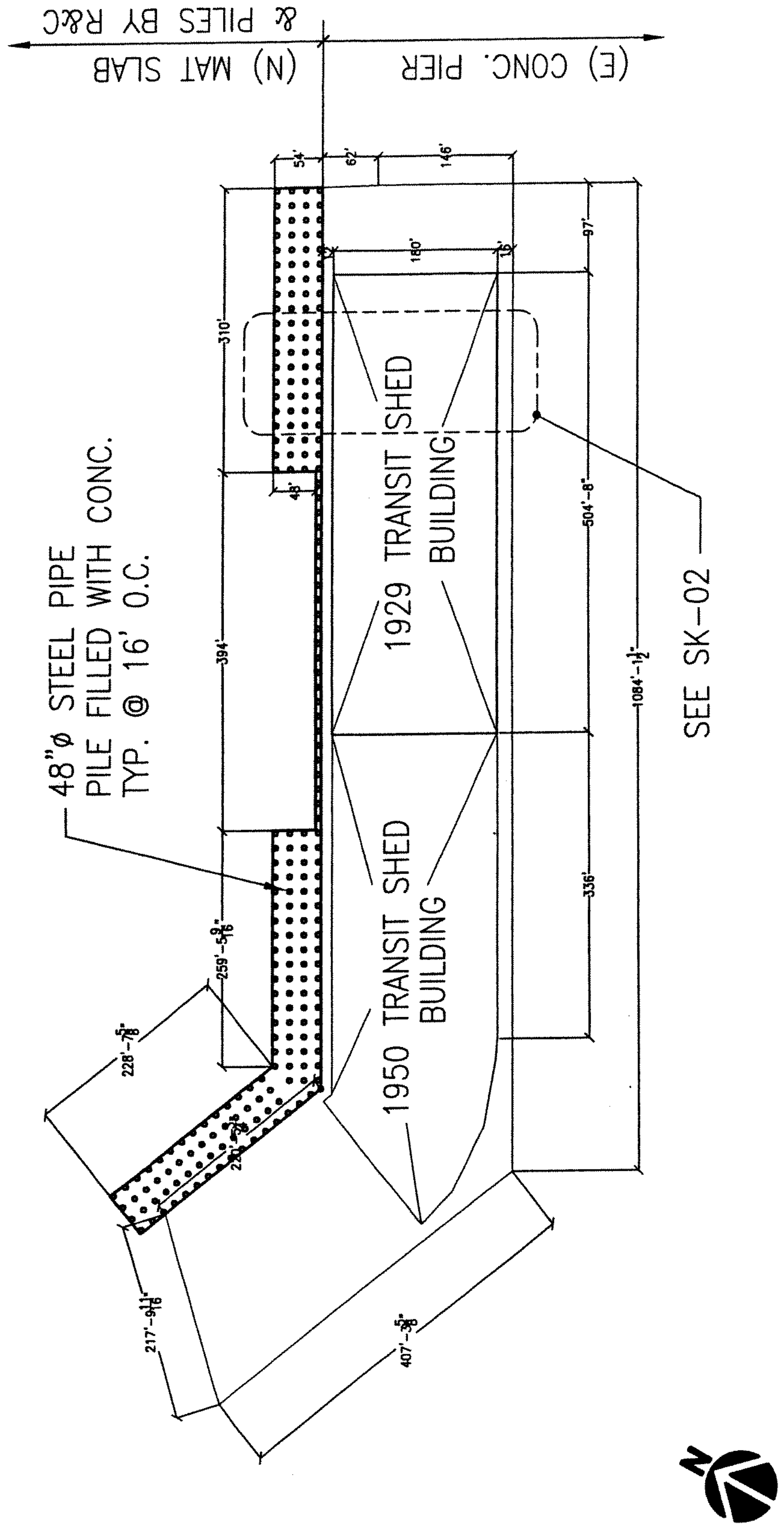
By
Jon Krabbenschmidt

Enclosures

Ninth Avenue Commercial Reuse
Simplified Approach
Best Case Scenario Actual Results Will Be Less

	1927 Reuse Assumption	Fort Mason Assumption	Conference Facility Assumption
Rehabilitation Tax Credits			
Total Rehabilitation Costs Per EPS	34,953,349	48,996,073	51,823,683
Estimated Additional Costs to Qualify Building for Rehab Credits	4,875,470	7,684,015	8,249,537
Portion of Costs Not Qualifying for Credit			
Landscaping	(720,000)		
Pier Retrofit Related to Exterior	(6,345,600)	(2,115,200)	(2,115,200)
Allocated Portion of Soft Costs	(2,004,847)	(615,866)	(606,445)
Net Eligible Costs	30,758,372	53,949,021	57,351,574
Credit Rate	20%	20%	20%
Potential Federal Tax Credits	6,151,674	10,789,804	11,470,315
Sale of Credits at $.90 per Dollar	90%	90%	90%
Proceeds from Sale of Credits	5,536,507	9,710,824	10,323,283
New Markets Tax Credit			
Net Operating Income	1,036,800	1,382,100	1,473,390
Debt Coverage Ratio	1.25	1.25	1.25
Cash Flow Available for Interest	829,440	1,105,680	1,178,712
Assumed Interest Rate on Loan	7%	7%	7%
Total Potential Value of Loan From CDE Fund	11,849,143	15,795,429	16,838,743
Equity Investment From Investor	30%	30%	30%
Total Potential Equity From Investor	3,554,743	4,738,629	5,051,623
Net Development Costs			
Sources of Cash			
Net Equity From Rehabilitation Tax Credits	5,536,507	9,710,824	10,323,283
Net Equity From New Markets Tax Credits	3,554,743	4,738,629	5,051,623
Loan Proceeds	11,849,143	15,795,429	16,838,743
Total Sources	20,940,393	30,244,881	32,213,649
Uses of Cash			
Development Costs	39,828,819	56,680,088	60,073,220
Cost of Structuring and Selling Credits	400,000	400,000	400,000
Total Uses	40,228,819	57,080,088	60,473,220
Funding Shortfall	(18,888,426)	(26,435,207)	(27,859,571)
Estimated Additional Cash Infusion Required At Time of Refinance	(750,000)	(999,783)	(1,065,820)
Total Funding Shortfall	(19,638,426)	(27,434,990)	(28,925,391)

Exhibit B



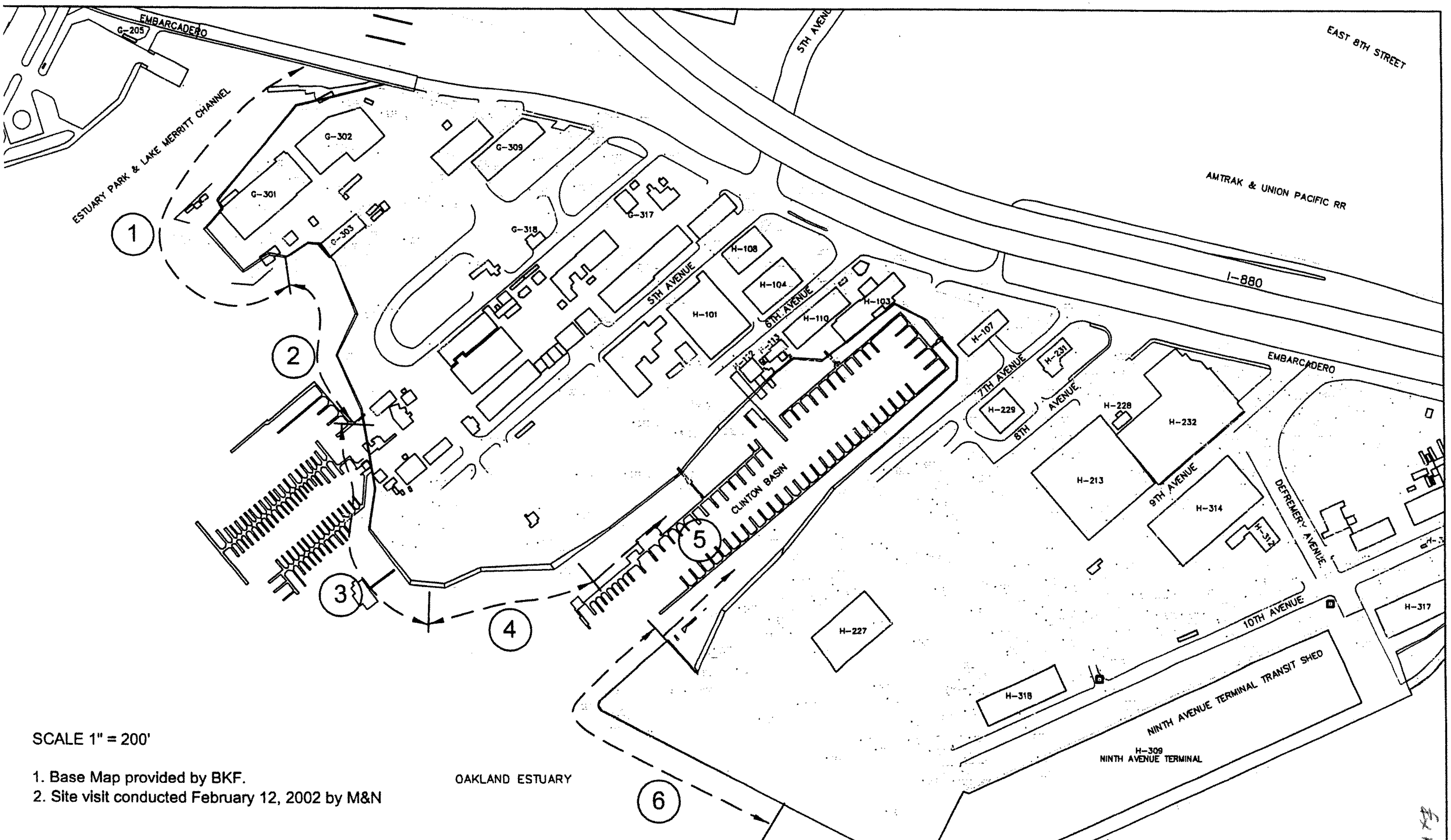
RUTHERFORD & CHEKENE
CONSULTING ENGINEERS
564 Howard Street, San Francisco CA 94105
Tel: 415.495.4222 Fax: 415.546.7536

9TH AVENUE TERMINAL

PLAN OF NEW/EXISTING CONCRETE PIER AND TRANSIT SHED BUILDING

SK01A

JOB No.: 2001142S	BY: DSB	SCALE: 1"=200'	DATE: 02-22-02



SCALE 1" = 200'

1. Base Map provided by BKF.
2. Site visit conducted February 12, 2002 by M&N

MOFFATT & NICHOL ENGINEERS
VALNUT CREEK, CALIFORNIA

SIGNATURE PROPERTIES
Oak to Ninth St. Development Project