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October 20, 2009

Santa Cruz County
Regional Transportation Commission c/o
Madeline Miller, Esq.
Associate Attorney
Miller, Owen & Trost
428 J Street, Suite 400
Sacramento, California 95814

Re: Lease Analysis of the Santa Cruz Branch Rail Line

Dear Ms. Miller:

In accordance with your request, we have conducted the required investigation, gathered the necessary data, and made certain analyses that have enabled us to analyze and estimate the market rental values of future leasing opportunities of those properties that are presently leased, as well as properties within the Santa Cruz Branch Rail Line right-of-way that have no leases.

Market Rent is defined as the most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions, and expense obligations; the lessee and lessor each acting prudently and knowledgeably, and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby:

1. Lessee and lessor are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their best interests.
3. A reasonable time is allowed for exposure in the open market
4. The rent payment is made in terms of cash in U.S. dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract.
5. The rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction.

The subject property is any of the leased properties or any other property within the overall corridor. The "corridor" is defined as all of the property located within the right-of-way between Watsonville Junction in Monterey County and Davenport, Santa Cruz County as shown in the

Santa Cruz Branch Rail Line Informational Right-of-Way Maps prepared by Santa Cruz County Regional Transportation Commission dated November 2005. A copy of said maps is provided in the Addenda of this report. A summary of the existing leases is provided in Table 1. The effective date of this analysis and these rental value estimates is September 9, 2009. The analysis was conducted in July through early September 2009.

The market rental values reported are qualified by certain definitions, limiting conditions, and certifications that are set forth in the attached report. This appraisal has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice. (USPAP) as promulgated by the Appraisal Foundation, the Code of Professional Ethics, and the Standards of Professional Practice of the Appraisal institute. The attached report provides essential data and reasoning employed in reaching our opinions of market rental value.

Based on our analysis, the subject property is currently generating $61,314 of lease income per annum from the existing leases. After reviewing the leases, they are all structured on an absolute triple net basis whereby the tenant pays for any related real estate operating expenses and the landlord is responsible for management and accounting fees. We also found that all of the leases are structured with short term cancellation clauses and that none of them preclude other corridor uses. The existing contractual rent is substantially below market rental levels. The owner is based in Omaha Nebraska and they as well as their predecessor, Southern Pacific, have been in and out of negotiations regarding the sale of the property since the mid 1990s. Consequently, we believe that they have not made much effort with regards to maximizing the property's rental value. Thus, most of the leases are well below market levels.

Based on discussions with a Transportation Agency for Monterey County, they had a similar experience. There annual rental income increased from approximately $40,000 to $218,007 as of July 15, 2009. This is a 455% increase from their acquisition in September 2003. Our analysis indicates potential aggregate market rent of $273,759 per annum for the existing leases or an increase of 346%. This amount is $212,445 greater than the existing contractual rental income.

The average lease rate for the Monterey line is $0.32 per square foot per annum. Omitting the one agricultural lease, which skews the numbers to the low side, the average lease rate for the non agricultural leases is $1.03 per square foot per annum. We estimate an overall market rent of $0.66 per square foot per annum. Please note that six of the twenty leases are for agricultural or rural residential values and sixteen are for commercial or multi-family uses. A summary of this analysis is presented in Table 2. The rent comparables provided in the Addenda of this report illustrate how low the existing rent is for the subject property.

In addition, we identified additional future leasing opportunities along the corridor that would not interfere with other corridor uses. Based on our analysis, the subject property may potentially generate an additional $296,204 of lease income per annum. This amounts to potential income of $0.13 per square foot per annum. This amount is much lower than the Monterey leases but the potential lease income in Santa Cruz involves a large amount of agricultural land. Omitting the potential agricultural rental income leaves a potential commercial rental income of $0.59 per square foot per annum. This amount is in line with the estimated market rent of the existing leases, which included agricultural land, but the potential "new" lease income was discounted heavily to induce a lease. It is important to note that this commercial only lease amount is well below the average commercial rent in Monterey.

As with all real estate rental income, vacancies occur. Illustratively, an industrial tenant may have a need for the land but if they move, the new tenant may not need the land. The existing leases have already exhibited a need for the land and should have higher rental income attainment. The owner will be in a less advantageous negotiating position with the new leases and given the limited marketability with one possible tenant in most cases, would have to discount the lease rate further or let the land remain vacant or idle. The estimated leases are based on deeply discounted rates that should be low enough to induce a rental agreement but all situations will very. Vacancy could fluctuate based on the need of the adjoining property owner and willingness of the owner to discount the rents for higher occupancy or rental attainment.

We have no empirical evidence to support a vacancy rate but feel that it would be substantial. As a point estimate, we apply a 50% vacancy allowance to the above estimated potential income to arrive at a potential effective income of $148,102. The prospective leases are all structured on an absolute triple net basis whereby the tenant pays for any related real estate operating expenses and the landlord is only responsible for management and accounting fees. A summary of this analysis is presented in Table 3.

Thank you for the opportunity to be of service, and please let us know if we can be of any further assistance regarding this matter.

Respectfully submitted,

COLLIERS PINKARD

Gary R. Anglemyer, MAI
Senior Appraiser