

COPY

MONTEREY COUNTY

RESOURCE MANAGEMENT AGENCY, Wayne K. Tanda, P.E., Director

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June 17, 2008

East Garrison Partners 1, LLC
24571 Silver Cloud Court, Suite 101
Monterey, CA 93940

Re: Invocation of Enforced Delay Provisions of the East Garrison Disposition and Development Agreement and Development Agreement

Gentlemen:

Your letter, dated May 28, 2008, and received June 2, 2008, has been referred to me. This letter asserts the invocation of the Enforced Delay provisions of the Disposition and Development with the Redevelopment Agency of the County of Monterey ("DDA") and of the Development Agreement ("DA") with County of Monterey.

The terms of the DDA and DA allow the assertion of Enforced Delay for a number of different reasons. Among them is "a drop of twenty-five percent (25%) or more (based on the most current edition of the Ryness report for Monterey County or comparable market report if the Ryness Report is not available) in market demand and absorption rate for sales of residential lots or homes in those market demand and absorption assumptions made in the Developer's financial projections reviewed and accepted by the Agency prior to close of escrow." We believe your intent is to use this basis to justify your assertion.

Although the County acknowledges the general downturn of the residential housing market, it is incumbent upon you to provide us with a more detailed and factual basis for your contention. A document which (a) identifies the assumed base market rate absorption at the time of the DDA's approval, (b) provides documentation of the current market rate for Monterey County (not a tri-county area as shown in the Ryness Report cover sheet you provided earlier), and (c) demonstrates the 25% reduction, should be sufficient to allow the Agency to verify the proper triggering of Enforced Delay. This information is important, not only to permit the Agency to demonstrate to the public that such a delay is warranted, but also to set the time parameters of delay.

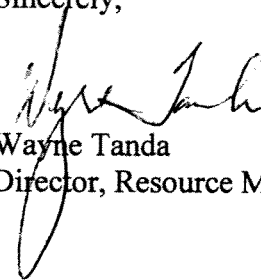
Your letter also asserts that the invocation of Enforced Delay excuses EGP's obligations to make payments under separate agreements with the County and Agency, including reimbursement agreements, as well as other agreements with other entities, including the Fort

Ord Reuse Authority. We question the validity of that assertion and seek an explanation for your position.

Additionally, given the extent to which you seek to apply the Enforced Delay provisions, please provide us with confirmation that your ongoing obligations to maintain the site in a safe condition, as well as any bonds related to performance under the DDA, DA or Conditions of Approval of the Combined Development Permit, and to make timely property tax payments, are – and will remain – in force throughout any period of Excused Delay.

The Agency and County stand ready to discuss these and other matters relating to the development of the East Garrison Project with you and your lender at the earliest opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read "Wayne Tanda", is written over the typed name and title.

Wayne Tanda
Director, Resource Management Agency

cc: Members of the Board of Supervisors
Lew Bauman