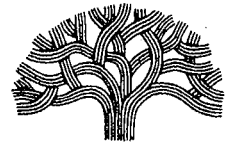


CITY OF OAKLAND



250 FRANK H. OGAWA PLAZA, SUITE 5313 • OAKLAND, CALIFORNIA 94612-2034

Community and Economic Development Agency
Redevelopment Division

June 2, 2010

(510) 238-3015
FAX (510) 238-3691
TDD (510) 839-6451

Mr. James B. Terrell
Vice President Real Estate
Sears Development Co.
c/o Sears, Roebuck and Co.
3333 Beverly Road
Hoffman Estates, Illinois 60179

Dear Mr. Terrell:

This is in response to your letter of January 26, 2010, in which you request a 36-month extension to the "Completion of Construction" date as stated in Section 9.1 of the Lease Disposition and Development Agreement (LDDA) dated October 18, 2005 between the Redevelopment Agency ("Agency") of the City of Oakland and Sears Development Co ("Sears") for the property located at 2000-2016 Telegraph Avenue and 490 Thomas L. Berkeley Way (the "Property") in Oakland.

While we appreciate the effects of the generally adverse economic conditions on your ability to develop a Sears Auto Center on the Property, as well as your desire to devise a comprehensive solution to the parking needs of your store, we regret to inform you that we are not prepared to recommend a 36-month extension to the "Completion of Construction" deadline to the City Council at this time.

However, we are prepared to recommend a 24-month extension, if you provide a detailed description of the efforts that Sears has initiated to evaluate the repositioning of the department store and how this relates to the Property, and a schedule indicating when these studies will be completed.

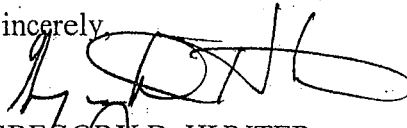
The information you provide will be used by Agency staff to explain to the City Council the circumstances that have prevented Sears from developing the subject property per the terms of the LDDA. Once we have received this requested information, we will submit a recommendation to the City Council to approve a 24-month extension. This extension, if approved by the City Council/Redevelopment Agency in its sole and absolute discretion, will include a provision requiring Sears to submit quarterly progress reports, in such detail as may be reasonably requested by the Agency, describing its efforts to develop the Property in conjunction with the department store, if applicable, per the terms of the LDDA.

Mr. James B. Terrell
June 2, 2010
Page 2

In a related matter, we were pleased to learn that you are initiating a collaborative effort with the Oakland School for the Arts to enhance the window displays of your department store. Moreover, we enthusiastically support your plans to improve the Sears store in our downtown and look forward to your response.

If you have any questions, please do not hesitate to contact Jens Hillmer at 510.238.3317.

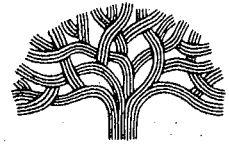
Sincerely,



GREGORY D. HUNTER
Deputy Director
Community and Economic
Development Agency

cc: Jens Hilmer

CITY OF OAKLAND



250 FRANK H. OGAWA PLAZA, SUITE 5313 • OAKLAND, CALIFORNIA 94612-2034

Community and Economic Development Agency
Redevelopment Division

April 22, 2010

(510) 238-3015
FAX (510) 238-3691
TDD (510) 839-6451

Mr. James B. Terrell
Vice President Real Estate
Sears Development Co.
c/o Sears, Roebuck and Co.
3333 Beverly Road
Hoffman Estates, Illinois 60179

Dear Mr. Terrell:

This is in response to your letter of January 26, 2010, in which you request a 36-month extension to the "Completion of Construction" date as stated in Section 9.1 of the Lease Disposition and Development Agreement dated October 18, 2005 between the Redevelopment Agency ("Agency") of the City of Oakland and Sears Development Co ("Sears") for the property located at 2000-2016 Telegraph Avenue and 490 Thomas L. Berkeley Way (the "Property") in Oakland.

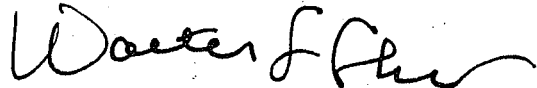
It is our understanding that Sears is evaluating a repositioning of the Sears store located in downtown Oakland that also involves development scenarios for the Property. While we appreciate the effect of the generally adverse economic conditions, as well as your desire to address the parking needs of your store, we regret to inform you that we are not prepared to recommend a 36-month extension to the "Completion of Construction" deadline to the City Council at this time. However, we are generally inclined to recommend a 24-month extension subject to the following conditions:

1. A detailed description of the efforts that you have initiated to evaluate the repositioning of the department store, and a schedule indicating when these studies will be completed.
2. A commitment by Sears to enhance the current exterior appearance of the department store on Broadway and Telegraph Avenue. In this regard, we would like to request that you submit a plan and schedule describing any improvements that you would initiate.

3. Once we have received this information and deemed it acceptable, we will submit a recommendation to the City Council to approve a 24-month extension. This extension, if approved by the City Council/Redevelopment Agency in its sole and absolute discretion, will include a provision requiring Sears to submit quarterly progress reports, in such detail as may be reasonably requested by the Agency, describing its efforts to develop the Property in conjunction with the department store, if applicable, per the terms of the LDDA.

If you have any questions, please do not hesitate to contact Jens Hillmer at 510.238.3317.

Sincerely,



WALTER S. COHEN
Director
Community and Economic
Development Agency



Sears Development Co.
C/o Sears, Roebuck and Co.
3333 Beverly Road
Hoffman Estates, Illinois 60179
James B. Terrell
Vice President Real Estate

January 26, 2010

City of Oakland
Community and Economic Development Agency
Redevelopment Division
Attention Gregory D. Hunter, Deputy Director

Re: Lease Disposition and Development Agreement

Dear Mr. Hunter:

I received a copy of your letter dated December 17, 2009 to John Guillory regarding our store. We are excited to again be working with the City of Oakland to examine opportunities to further the positive resurgence in downtown Oakland. However, I think the study begs both Sears and the Agency to take a look at the LDDA since there have been two significant events that have transpired since this agreement was signed in 2005:

1. Sears has obtained control of the entire building. As you may recall, Sears did not control the upper floors of the building when we consummated our transaction in 2005. We have since terminated that lease and possess full control of the building.
2. As we both know, the economic downturn has made the viability of new development challenging. The profitability of an auto center given the challenges in the economy would be suspect at this point in time and the ability to underwrite financing of something more comprehensive is certainly questionable.
3. The downtown Oakland resurgence is taking a toe-hold and the availability of parking for residents, shoppers and workers is a critical need.
4. The infrastructure for mass transit supports reinforcing and maximizing the retail density within the CBD.

We are proposing that we incorporate the land governed by the LDDA and ground be incorporated in any study of our building in as much the parcels complement one another and would be necessary as a component of any renovation of our facility. Please consider this a request to extend the relevant due dates under the LDDA by 36 months so that collectively we can make sure we are achieving each other's goals, which I believe are compatible.

If there is something I need to do beyond this, please advise.

Sincerely,

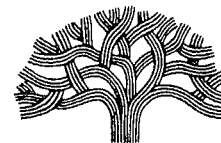
James B. Terrell
Vice President Real Estate

Cc: Redevelopment Agency of the City of Oakland
One Frank H. Ogawa Plaza 3rd Floor
Oakland, CA 94612
Attn: Agency Administrator

Community and Economic Development Agency
City of Oakland
250 Frank H. Ogawa Plaza 5th Floor
Oakland, CA 94612
Attn: Director of Redevelopment

Oakland City Attorney's Office
City of Oakland
One Frank H. Ogawa Plaza 6th Floor
Oakland, CA 94612
Attn: Dianne M. Millner

CITY OF OAKLAND



250 FRANK H. OGAWA PLAZA, SUITE 5313 • OAKLAND, CALIFORNIA 94612-2034

Community and Economic Development Agency
Redevelopment Division

December 17, 2009

(510) 238-3015
FAX (510) 238-3691
TDD (510) 839-6451

Mr. John Guillory
6352 Ridgmont Dr.
Oakland, CA 94619

RE: Sears Department Store

Dear Mr. Guillory:

As a follow-up to our meeting of December 4, 2009, I would like to inform you that we are interested in exploring further a proposal from the Strategic Urban Development Alliance's (SUDA) to maximize the retail and office components of the Sears Department Store located at 1954 Telegraph Avenue in the Central Business District. Accordingly, the Agency will enlist one of its on-call consultants to obtain preliminary feasibility verification of SUDA's proposal upon submission of all relevant documents by SUDA. In this regard, the Agency's consultant will seek to verify that the proposed development is financially feasible at the conceptual level, which will require a review of SUDA's proposed development budget, finance structure and preliminary operating cash flow projections.

If the initial review of the development scenario indicates that the redevelopment proposal for the Sears Store is financially feasible, Agency staff would recommend to the City Council that the Agency and Sears enter into an agreement for further in-depth analysis. The nature and content of any additional feasibility studies will be determined after the Agency consultant's initial review and recommendations.

If the parties to the agreement conclude that the redevelopment of the Sears department store is financially feasible after completion of further analysis, Agency staff would request authorization from the Agency's governing body to execute an Owner-Participation Agreement (OPA) with Sears once all regulatory requirements have been satisfied (CEQA).

We anticipate the following tentative schedule if we proceed after a satisfactory completion of the preliminary feasibility analysis:

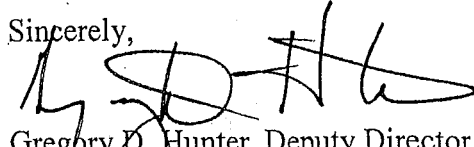
1. Obtain Council approval for agreement with Sears for further project analysis – April 2010.

2. Obtain Council approval for an OPA between Sears and the Agency – April 2011.

The 12-month period between the first agreement and approval of the OPA must include completion of all CEQA requirements for the project. This time-frame may be modified after the parties have fully assessed all CEQA requirements for the project. Please be aware that the Agency's governing body must authorize the execution of any such agreements in order to legally bind the Agency to any such contracts.

If you have any questions, please do not hesitate to contact Jens Hillmer at (510) 238-3317.

Sincerely,



Gregory D. Hunter, Deputy Director
Economic Development and
Redevelopment

Memo

*All, Wheel if S
tells to forward skid -
take the property back*

To: Walter Cohen, Gregory Hunter, Patrick Lane

From: Jens Hillmer

CC:

Date: April 22, 2010

Re: Lease Disposition and Development Agreement between Agency and Sears Development Corporation

On October 18, 2005, the Agency and Sears Development Co. ("Sears") entered into a Lease Disposition and Development Agreement ("LDDA") for a property located at 2000-2016 Telegraph Avenue and 490 Thomas L. Berkeley Way (the "Property"). The LDDA with Sears was part of the purchase of a Sears-owned property located at 1911 Telegraph Avenue by the Agency for the development of the Uptown Project. Specifically, the Property was exchanged for a portion of the property at 1911 Telegraph Avenue, which was valued at \$1.6 million at the time of the transaction.

Staff entered into the LDDA with Sears for the Property because they insisted that the Auto Center that was located at 1911 Telegraph had to be rebuilt at the Property with additional retail or residential uses, if feasible. Pursuant to the terms of the LDDA, Sears was supposed to complete construction of the Auto Center project within 60 months (or by October 17, 2010) of executing the LDDA.

At this time, Sears has requested an extension of 36 months to complete construction of the Auto Center project. Sears is evaluating a major renovation/repositioning of the Sears Department Store that could involve attracting additional retailers to the building, as well as addressing the need for a parking facility to serve the store, which could be developed on the Property. Sears' evaluation will likely not be completed for several more months.

If the Agency elects to declare Sears in default due to their failure to complete construction of the Auto Center Project per the Schedule of Performance of the LDDA, the Agency would have to exercise its repurchase right and pay Sears \$1.6 million to get back the Property.

Recommendation: Recommend a 24-months extension to the LDDA with Sears with the requirement that Sears report on a quarterly basis about its progress in developing the Property. While we have the funds available to exercise our repurchase right, we should give Sears the opportunity to complete the evaluation of the future of their department store. It is my sense, however, that Sears' evaluation will indicate that substantial funding is needed to reposition the department store. This may not be available. Moreover, Sears has indicated that they would like to receive funding assistance from the Agency to develop parking for the store. Also, Sears' parking problem may not be solved on the Property since initial studies indicate that development of the Property into a public parking garage is not economically feasible based on development costs and anticipated revenues. Giving Sears another 24 months will provide them with additional time needed to complete their analysis of the existing store and delay our required payment for the repurchase right by the same period. If the Agency were to exercise its repurchase rights, it is unlikely at this time, given the state of the Real Estate market, that the Agency could solicit another developer to build on the Property, unless it is an affordable housing development which would involve significant financing assistance from the Agency and City.