Southern California

Market Report

Mid-Year 2005

Los Angeles

Orange

Riverside

San Bernardino

Ventura

Southern Kern Counties

NAI Capital

Commercial Real Estate Services, Worldwide.

Dear Reader,

We are pleased to present to you our 2005 Mid-Year Market Report for Southern California.

At some point in the future, we may look back at this period of time and say, “It was as good as it gets.” Demand remains very strong for all product types, and vacancy rates continue to fall. Sale prices continue to climb, stimulated by the positive market trends and still-low interest rates. A growing number of institutional and non-institutional investors have targeted Southern California for acquisitions and properties have become hard-to-find.

The outlook remains positive — jobs are increasing, companies are expanding, interest rates continue to remain low and construction remains restrained. The window for tenants to lock in space at moderate rates, and for buyers to lock in aqcuisitions at reasonable prices is rapidly closing in a number of markets and property segments. These also appear opportune times for investors to leverage still-low interest rates, although some caution is warranted given current high prices.

Some of the highlights presented in this report are:

- Office vacancy rates have fallen to 11.4%, and office rents are starting to climb again for the first time in four years.
- Industrial vacancy rates have fallen to 3.8% – an exceptionally low level. Sale prices have continued to skyrocket.
- Apartment vacancy rates have fallen to the 3% and 4% range, and rents are up 5% to 6% in the past twelve months. Construction continues to lag projected growth in demand.
- The retail market remains exceptionally healthy, and investor demand has intensified.

As always, we hope that the information contained in this report is useful to you. More detailed data can be obtained from our brokers on specific markets and property types.

Sincerely

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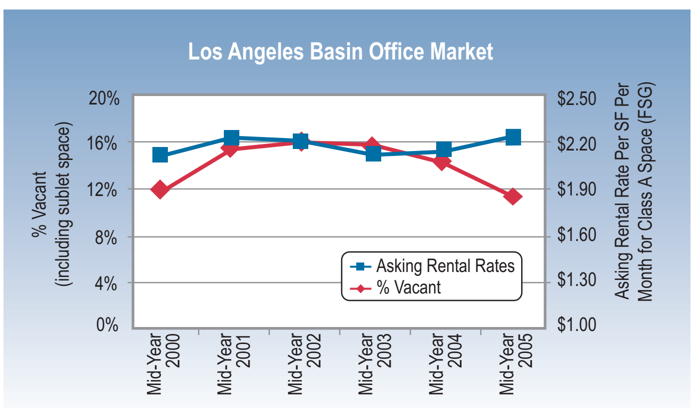
THE OFFICE MARKET

Rapidly Tightening

Window to lock in space at low rents rapidly closing

The Los Angeles Office Market is rapidly tightening. The vacancy rate has fallen to 11.4%, down sharply from 14.3% a year ago. Vacancy rates are 10% or lower in six of the area's eight major markets, and have dropped to the seven-percent range in the San Fernando Valley and in North Orange County. Rental rates are starting to climb for the first time in four years. While construction activity is picking up, it is still significantly less than projected growth in demand, and the market is projected to continue to tighten over the next 18 months. Tenants with unique requirements will soon start to find space that meets their needs hard-to-find in a number of key markets. A general shortage of available space is projected to emerge starting in about 12 months. The window for tenants to lock in space before availability becomes limited and rents climb sharply is rapidly closing. The strong market dynamics also offer a number of investment opportunities, although prices are relatively high at this time.



Driving the tightening in market conditions is a combination of:

- A strengthening economy: approximately 160,000 jobs were added in the Los Angeles Basin in the 12-month period ending June 2005 for growth of 2.1%.[1]
- Relatively low rental rates: rates were the same at mid-year 2005 as they were at mid-year 2001.
- Limited growth in supply: in the 12-month period ending mid-year 2005, only 705,900 square feet (SF) came on-line, expanding the base by just 0.2%.

In the first half of 2005, net absorption totaled 7.5 million SF.[2] This represented growth in the pool of occupied space within the Basin at an annualized pace of 5.3% — a very strong pace. It was more than double the level witnessed in 2004 (+7.5 million SF for the entire year) and also greatly exceeded the long-term average for the Los Angeles Basin (+6.5 million SF per year, 1985 to present).

Most (68%) of the net absorption in the first half of 2005 was in Class A buildings, reflecting the strengthening financial position of local firms as well as recognition of the value that Class A space offered. There also was particularly strong growth in demand in South Orange County (+1.8 million SF) and West L.A. (+1.5 million SF) both high-rent areas and in Central Los Angeles (+1.1 million SF). Demand was particularly strong from firms in professional services and finance, including mortgage banking.

Basinwide, the total vacancy rate fell to 11.4%, down from 14.3% as of mid-year 2004 and 15.6% as of year-end 2003. If sublet space is subtracted from this statistic, the vacancy rate was 10.5%. These are still slightly high numbers, but are approaching healthy levels (considered to be in the high single digits).

Vacancy rates as of mid-year 2005 were highest in Class A buildings (12.3%), followed by Class B buildings (10.9%) and Class C (just 4.9%). This pattern was due to: (1) the fact that most of the new construction in recent years was in Class A buildings, and this space has not yet filled up; and (2) tenants shifted requirements toward lower-cost space during the economic downturn in 2001 and 2002, and this space has not yet been reabsorbed. Vacancy rates were lowest in the San Fernando Valley and North Orange County, and highest in the South Bay. They were dropping in all submarkets.

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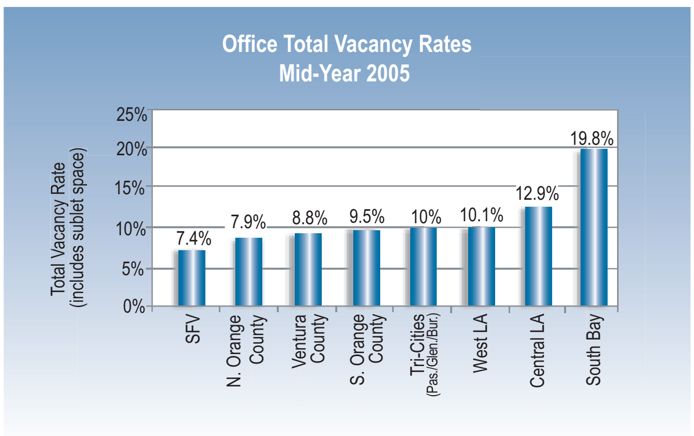
[1]*Average of data from the California State Economic Department for employees (survey of firms showing growth of 63,000 jobs) and for employed residents (survey of households showing growth of 250,000 jobs).*

[2]*Data is for buildings with 20,000 SF or more of office space. Excludes medical and owner-occupied space. NAI Capital's office data base and historical records are continuously updated. Therefore, the numbers presented in this report sometimes differ from those presented in previous Market Reports.*

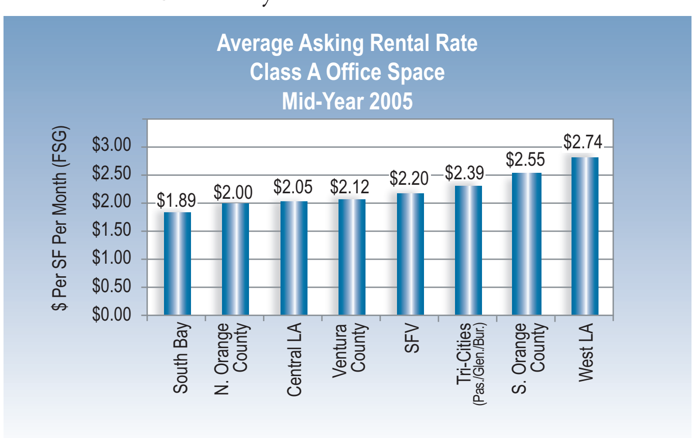
Los Angeles Basin Office Market — Mid-Year 2005

	Rentable Square Feet	%Vacant Direct	%Vacant Total	Net Absorption (SF) YTD 2005	Square Feet Completed* YTD 2005	Square Feet Under Construction	Average Asking Rental Rate** Class A Space
Ventura County	7,207,200	7.2%	8.8%	188,300	60,000	95,200	$2.12
SFV	27,192,700	6.8%	7.4%	665,500	179,300	97,900	$2.20
Tri-Cities (Pas./Glen./Bur.)	31,361,200	9.3%	10%	983,900	233,600	305,000	$2.39
Central LA	80,974,600	11.9%	12.9%	1,129,200	55,000	38,500	$2.05
West LA	49,343,500	9.2%	10.1%	1,540,700	20,000	896,400	$2.74
South Bay	38,947,900	18.4%	19.8%	277,300	—	—	$1.89
North Orange County	31,772,400	7.2%	7.9%	895,400	73,400	153,100	$2.00
South Orange County	56,412,400	8.6%	9.5%	1,773,900	84,600	1,309,200	$2.55
Total	**323,211,900**	**10.5%**	**11.4%**	**7,454,200**	**705,900**	**2,895,300**	**$2.22**

*Includes return-to market of renovated space. **Per SF per Month, Full Service Gross. Direct lease only.
Data is for all competitive buildings (Classes A, B, and C) 20,000 SF or larger. Excludes owner-occupied and medical buildings.



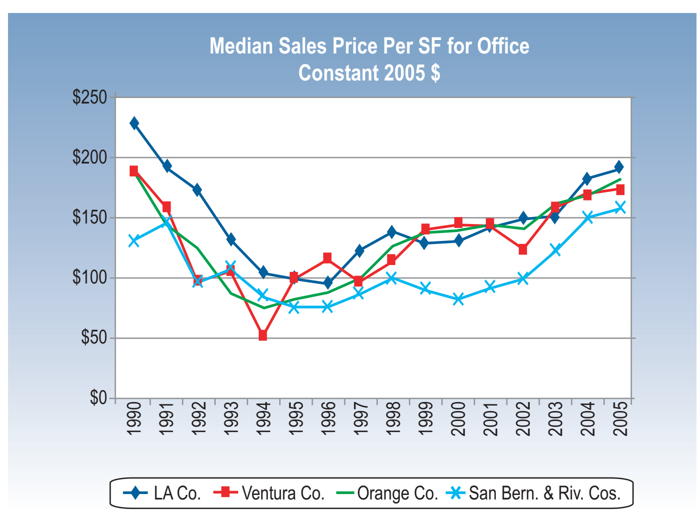
Asking rental rates have begun to climb in almost all markets. Basinwide, the average was up 3.1% over mid-year 2004. As of mid-year 2005, rates were highest in West Los Angeles and lowest in the South Bay.



Construction activity has picked up, but is still at a restrained level. As of mid-year 2005, only 2.9 million SF was underway. When complete, this new space will expand the base by just 0.9% or 5-months worth of demand under normal economic conditions. Market conditions are projected to tighten substantially over the next eighteen months.

Construction activity picking up, but is still restrained

From a tenant's perspective, the window of opportunity to lock in low rental rates will soon be closing. These also are excellent times for firms to take advantage of low mortgage rates to purchase office buildings that meet their long-term needs. However, prices are now relatively high. Southern California has been identified by a large number of institutional investors as a target market for new office purchases.



The Medical Office Niche

As pointed out in previous Market Reports, one segment of the office market that has been the healthiest in recent years is the medical office niche. Demand for this space has remained strong and vacancy rates at mid-year 2005 were low (just 6.2%). There was particularly strong demand for medical condominiums. Rental rates and sale prices have climbed in almost all submarkets. Demand is projected to grow at a strong pace in future years (approximately 3% to 4% per year), and supply will be limited, given the unique requirements of this product type (at least 5 parking spaces per 1,000 SF of office space, locations near other medical providers, and a high level of tenant improvements).

Ventura County

Vacancy rate dropped to a healthy 8.8%

Net absorption in the first half of 2005 totaled a strong 188,300 SF. This was up from 84,400 SF for the entire year of 2004. Only 60,000 SF space came on-line due to construction completions. The vacancy rate dropped to 8.8%, down from 10.4% a year ago. Asking rental rates continued to creep upward. Concessions remained minimal if any. Interest by owner-users in for-sale product remained very strong.

Construction activity remained restrained, and 95,200 SF was under-construction as of mid-year 2005. When this space comes on-line, it will expand the base by 1.3% — a level that can be readily absorbed. Demand is expected to remain strong, driven by a growing local economy and the area's attraction to small firms, particularly by those headed by management seeking a high quality living and business environment within close proximity to Los Angeles. The area also has a strong attraction to firms in the fields of insurance, finance and biotechnology. Vacancy rates are projected to drop to approximately 7% within the next twelve months.

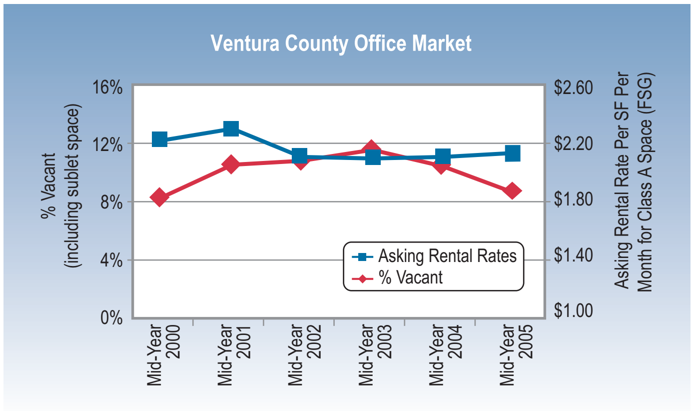
The San Fernando Valley

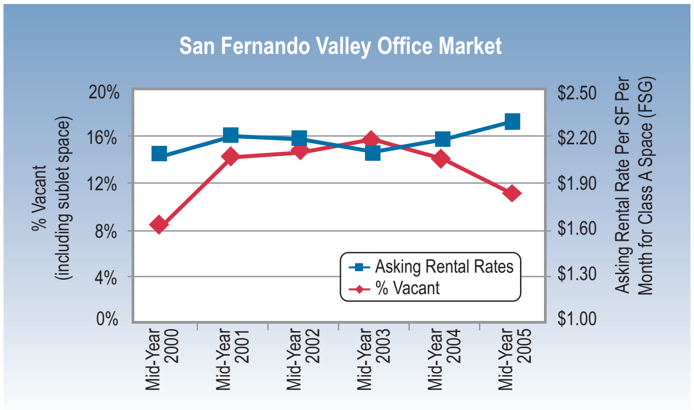
As of mid-year 2005, the San Fernando Valley had the tightest office market in the Los Angeles Basin, with a vacancy rate of just 7.4%. Demand remained strong, particularly from tenants in finance, insurance and professional services. In the western Valley, demand from high-tech tenants was positive, although the level still paled in comparison with levels in the late 1990s.

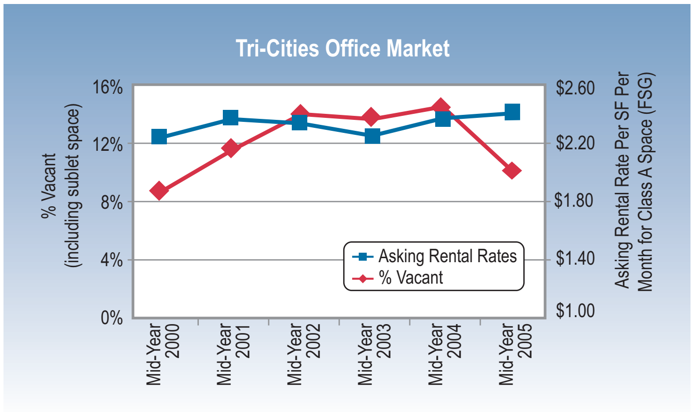
Lowest vacancy rate in the Los Angeles Basin

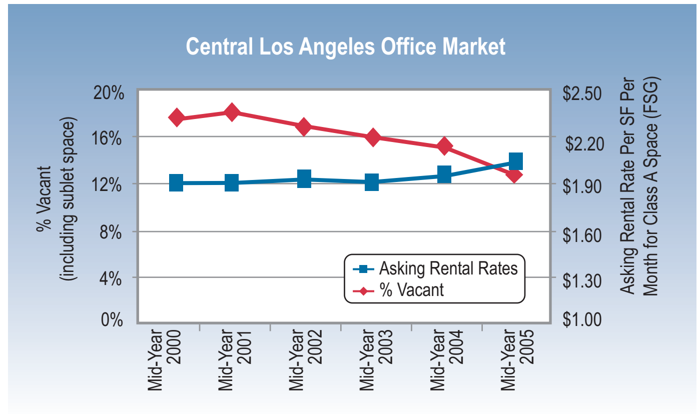
Net absorption in the first half of 2005 totaled 665,500 SF, surpassing the pace witnessed in 2004 (1.1 million SF for the year). It also was twice the long-term average for the area of approximately 600,000 SF per year. Construction completions remained low, and only 97,900 SF came on-line. This enabled the vacancy rate to drop to 7.4%, down sharply from 10.4% as of mid-year 2004 . Asking rental rates were up 6% over mid-year 2004.

Construction activity remained restrained, and 97,900 SF was under-way as of mid-year 2005. When complete, it will expand the base by only 0.4%. This represents just two months of supply under normal economic conditions. Vacancy rates are projected to drop below 7% by year-end 2005. As it does, we expect that rental rates will start climbing very sharply.









The Tri-Cities (Burbank/ Glendale/ Pasadena)

Vacancy down 4.4 percentage points in past 12 months

Demand for space was also very strong in the Tri-Cities Submarket. Net absorption in the first half of 2005 totaled 983,900 SF, exceeding the total for 2004 of 827,00 SF. It also greatly exceeded the average witnessed 1985 to present of approximately 650,000 SF per year. Only 233,600 SF of new space was delivered. This caused vacancy rates to drop to 10%, down sharply from 14.4% as of mid-year 2004. Rental rates were up 2% over mid-year 2004.

Construction activity was restrained, and 305,000 SF was underway as of mid-year 2005. When completed, it will expand the base by 1%. This amount will likely be readily absorbed and vacancy rates are projected to continue to tighten. As they do, rental rates will climb much more quickly than they have in recent years. The long-term outlook for the Tri-City area remains very positive - the area is amenity-rich and the concentration of firms in the area (including entertainment, professional services and engineering) is a good mix for long-term expansion

Central Los Angeles (Downtown/ Hollywood/ Mid-Wilshire)

Demand for office space in Central Los Angeles was exceptionally strong in the first half of 2005, driven, in large part, by rental rates that were a bargain compared with those in adjacent areas. Net absorption totaled 1.1 million SF, more than twice the pace for 2004 (+858,000 SF for the entire year), and more than twice the pace of 1 million SF per year witnessed 1985 to present. The downtown market continued to be attractive to government agencies and to firms in law, utilities, accounting and finance; Mid-Wilshire continued to be attractive to small, entrepreneurial, often Asian-owned firms; and Hollywood to a mix of firms in professional services, high-tech and entertainment.

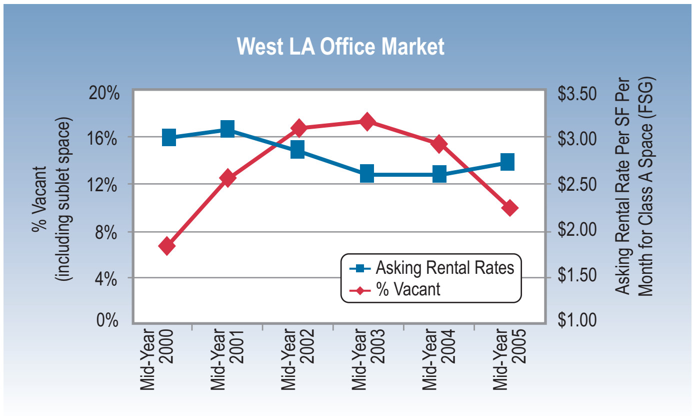
Rental rates up 6%

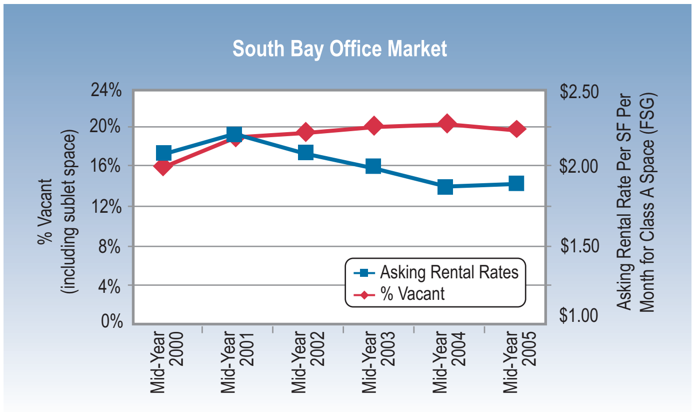
Construction completions totaled only 38,500 SF, and the vacancy rate dropped to 12.9%. This was down from 15.2% as of mid-year 2004 and from the peak of 18.2% as of year-end 2000. Rental rates were up 6% from mid-year 2004.

Construction activity is projected to remain very restrained. We expect that demand will remain strong, driven by the strengthening economy, availability of quality space at low rental rates and tightening conditions in adjacent markets. Vacancy rates in premier buildings are projected to reach single-digits within the next one to two years, and marketwide (including in second-tier buildings) within the next two to three years.

West Los Angeles

Demand for office space continued to be exceptionally strong in the first half of 2005 in West Los Angeles. Net absorption in the first half of the year totaled 1.5 million SF, nearly matching the total for 2004 of 1.7 million SF. It also was more than triple the 890,000 SF per year average 1985 to present. Strong growth in demand continued to come from the entertainment industry, as well as from professional services. Net demand from high-tech firms was also positive.





Just 20,000 SF of space came on-line in the first half of the year. This enabled the vacancy rate to drop to 10.1%, down very sharply from 15.4% as of mid-year 2004. Asking rental rates are no longer dropping, and were up by 5% over mid-year 2004.

Rent spike appears likely

As of mid-year 2005, construction activity was moderate, 896,400 SF, which will expand the base by 1.8%. Demand is likely to remain strong, although perhaps not at the exceptional level witnessed in the past year and a half. The area has a large concentration of high-profile firms (including those in entertainment, computer programming and finance), and these firms appear to be entering an expansion cycle. West LA is in the midst of some of the most exclusive residential neighborhoods in the nation, and it commands the highest rents in the Basin. These are positive characteristics during expansion years. Vacancy rates are projected to fall to the 7% to 9% range over the next two years. As it does, the area will likely witness a rent spike, much as it did in the late 1990s.

The South Bay

Following nearly five years of the doldrums, demand for office space in the South Bay market picked up in the first half of 2005. Net absorption totaled 277,300 SF, up from 101,000 SF for all of 2004, and approaching the long-term average for the South Bay of 620,000 SF per year.

No new construction came on-line in the first half of 2005, and the vacancy rate dropped to 19.8%, down from 20.4% as of mid-year 2004. This, however, remained a high vacancy rate, the highest in the Los Angeles Basin.

Asking rental rates finally stabilized, and were up 1% over mid-year 2004. As of mid-year 2005, the South Bay had the lowest asking rental rates in the Basin, 15% below the regional average.

Net absorption picking up in the South Bay as well

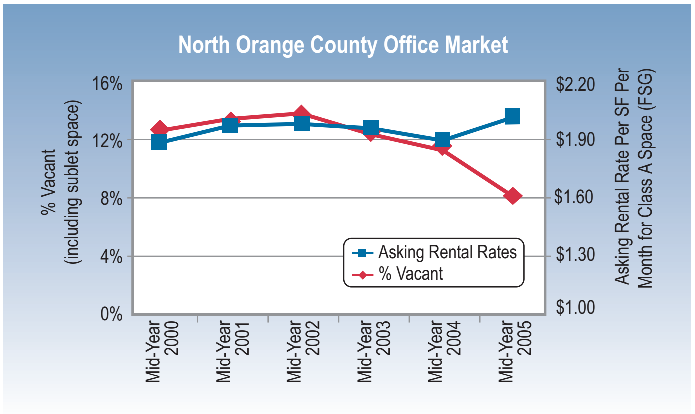
Construction activity is expected to remain restrained and demand is projected to continue to increase. Strengths that the South Bay market offers include access to a highly skilled labor force, very competitive rental rates, and a good mix of firms in automobile design, telecommunication, high-tech and professional services. However, given the amount of vacant space currently on the market, health is still approximately three years off, assuming moderately strong growth in occupied space of approximately 3% per year.

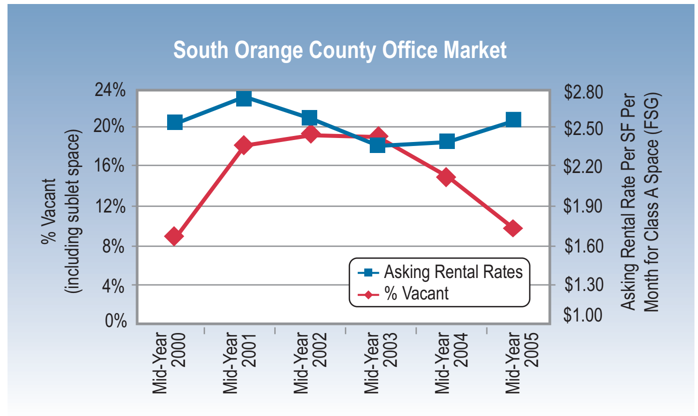
North Orange County

Net absorption in the first half of 2005 totaled 895,400 SF, exceeding the total for 2004 (+525,000 SF), as well as the long-time average for the area of 600,000 SF per year. Demand continued to come from a very broad mix of firms, including those in telecommunication, high-tech, professional services and finance. Demand by owner-users to purchase buildings remained very strong in this highly entrepreneurial market.

Market is the tightest it has been in years

Only 73,400 SF of new space came on-line in the first half of 2005 due to construction activity. This enabled the vacancy rate to drop to 7.9%, down from 11.8% as of mid-year 2004. This was the second lowest vacancy rate in the Los Angeles Basin.





Asking rental rates climbed 4% over mid-year 2004. However, they were still the second lowest in the Basin, 10% below the regional average. It also was 21% lower than rates in adjacent South Orange County.

Construction activity remained restrained, and only 153,100 SF was underway as of year-end. We expect that demand will remain strong for at least the next 12 months due to the strong economy and the tightening market in adjacent South Orange County. North Orange County's vacancy rate is projected to drop into the 6% range over the next 12 months. Rental rates are projected to progressively climb upward.

South Orange County

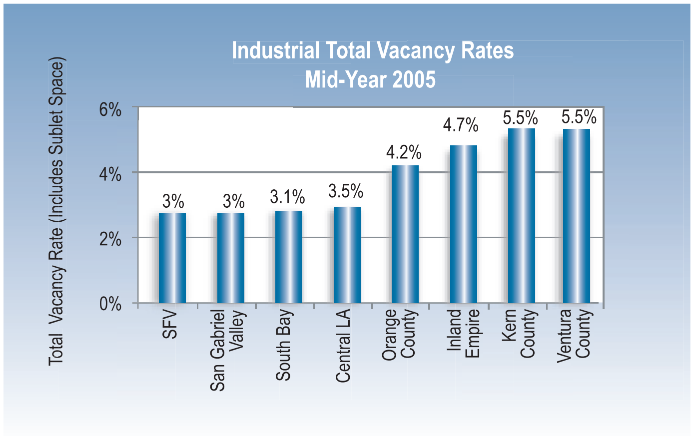
Net absorption remained exceptionally strong in the first half of 2005 in South Orange County. It totaled 1.8 million SF, exceeding the strong pace of 2.3 million SF per year witnessed in 2004 and up from a 1.6 million SF per year pace 1985 to present. It also represented the largest amount absorbed of any submarket in the Basin. South Orange County has emerged in recent years to be one of preeminent office locations in the Los Angeles Basin. Firms are attracted by access to a highly educated labor force, executive housing and planned-community environments. Firms attracted to the area include those in high-tech, communications, engineering and professional services. It also has emerged to be a center for the mortgage-finance industry.

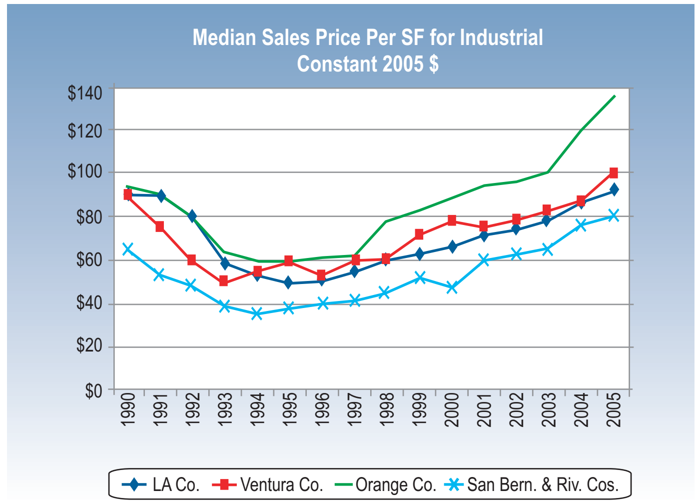
Rental rates up 7.5%

Construction completions slowed to 84,600 SF in the first half of 2005. The vacancy rate dropped to 9.5%, down very sharply from 15% at mid-year 2004 and from 20.2% at year-end 2002. Asking rental rates were up 7.5% over mid-year 2004.

Construction activity has picked up significantly. As of mid-year 2005, 1.3 million SF was underway, which represents approximately 10-months supply under normal economic conditions, and much less than that if demand remains superheated. Assuming that the economy remains strong, market conditions are projected to continue to tighten over the next year and a half.

Long-term, employment projections indicate a need for approximately two to three million SF of additional office space per year in Orange County, and the vast majority of the growth in demand will occur in South Orange County.





THE INDUSTRIAL MARKET

Tight and Getting Even Tighter

The Los Angeles Basin and Kern County Industrial Market continued to tighten in the first half of 2005, and reached hyper-tight conditions in Los Angeles and Orange Counties. Demand for owner-user buildings continued to be very strong, and prices continued to skyrocket. This was somewhat at the expense of the rental side of the market, and rental rates only inched upward during this time period.

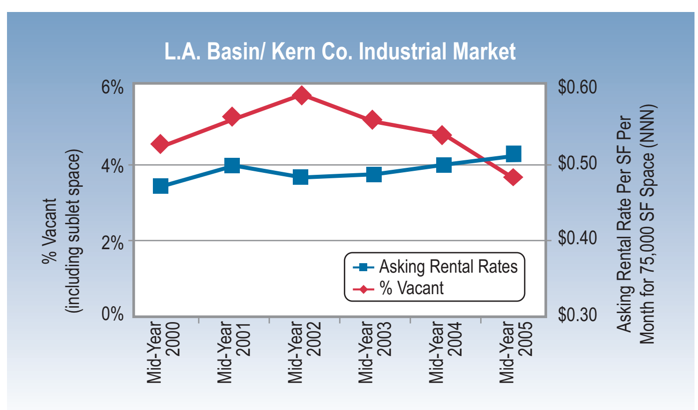
Hyper-tight conditions in Los Angeles and Orange Counties

Demand for industrial space was very strong in the first half of 2005, particularly among owner-users wanting to take advantage of still low interest rates. Net absorption totaled 17.5 million SF, higher than the 30.5 million SF per year pace witnessed in 2004 and above the 26.8 million SF per year pace witnessed since 1984. Net absorption was particularly strong in the Inland Empire, where it totaled 9.5 million SF or 54% of the regional total. The Inland Empire offers a large supply of new, modern space at relatively low rental rates. Net absorption was moderately strong in all other markets, but was constrained in these areas by a general lack of available space, particularly of product-for-sale.

A moderate amount of new product was completed in the first half of 2005 (7.5 million SF), with most of that in the Inland Empire (4.8 million SF). This expanded the base in the region by 0.5%. Construction failed to keep pace with demand, and the vacancy rate fell to 3.8%, down from 5% as of mid-year 2004. The direct vacancy rate (excluding sublet space) was just 3.5%. These are very low numbers, reflecting tight market conditions. Vacancy rates were 5.5% or lower in all submarkets, with the lowest numbers in Los Angeles County.

Despite the very tight market conditions, rental rates moved upward only moderately (by 2%) in the first half of 2005. However, sale prices climbed very sharply and reached an average of $100 per SF - 13% above 2004 levels (for an annualized appreciation rate of 26%). Prices were particularly high for small buildings, and particularly in South Orange County, where they averaged the high-$100 per SF range and increasingly exceeded $200 per SF.

As of mid-year 2005, 18.5 million SF was under-construction, which, when complete over the next approximately nine months, will expand the base by 1.3%. This is a moderate-to-high level of activity, but a level that is roughly in-line with demand (approximately 30 million SF per year). Vacancy rates are projected to remain very low for at least another year and a half in Los Angeles and Orange Counties, and "merely



[3]Data is for buildings with 10,000 SF or more of office space. Includes owner-occupied space, and excludes R&D space.

healthy" in Ventura and Kern Counties and in the Inland Empire. If and when interest rates climb, sale prices are projected to plateau. However, rental rates are projected to continue to climb upward in most markets, barring any economic downturn.

Ventura County/Conejo Valley

Net absorption in the first half of 2005 in Ventura County/ Conejo Valley was 342,200 SF, up sharply from negative 112,000 SF in 2004. However, it remained down from the long-term average for the County of 1.2 million SF per year. Part of the reason for the moderate absorption numbers in the first half of 2005 was only modest demand from high-tech companies. Also, while there was very strong demand from owner-users to buy small buildings, a lack of buildings for sale constrained this activity.

Sale prices up 16%

No new space came on-line in the first half of 2005 from construction. Vacancy rates dropped to 5.5%, down from 6.2% as of year-end 2004, but above where they were a year ago (5.3%). This is considered a moderately low vacancy rate. Asking rental rates inched upward in the first half of 2005, and averaged $0.59 per SF per month NNN for a typical 75,000-SF space, a high rate. Rental rates were highest in the eastern portion of the County, particularly in the Conejo Valley, and were lowest on the coastal plain, particularly in the City of Oxnard. Sale prices climbed to approximately $100 per SF on average, a 16% increase over 2004 levels.

As of mid-year 2005, only 137,900 SF of construction was underway. When complete, this space will expand the base by just 0.3%. Demand is expected to continue to pick up, particularly from small manufacturers and distributors, given the strong economy and the very tight market conditions in adjacent San Fernando Valley. Vacancy rates are projected to fall to approximately 5% by year-end 2005. Rental rates and sale prices are expected to remain high.

Long-term, construction activity will be constrained by highly restrictive local growth ordinances in the area.

In addition to the standard industrial market, Ventura County/ Conejo Valley have a moderate-sized flex/ R&D market, with 8.7 million SF. As of mid-year 2005, the vacancy rate in this segment was slightly high, at 10.6%. However, this was down sharply from 16% as of mid-year 2004.

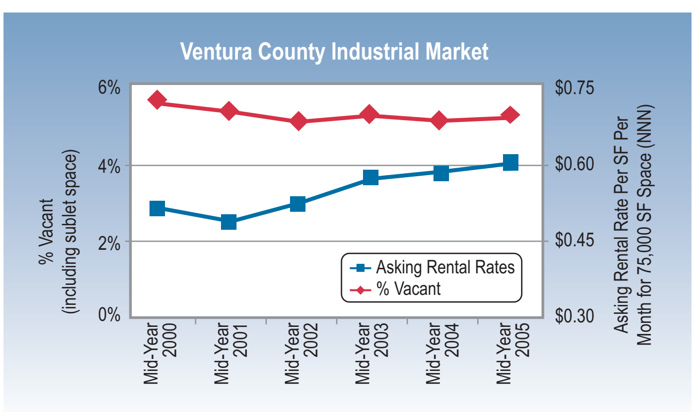
The San Fernando Valley

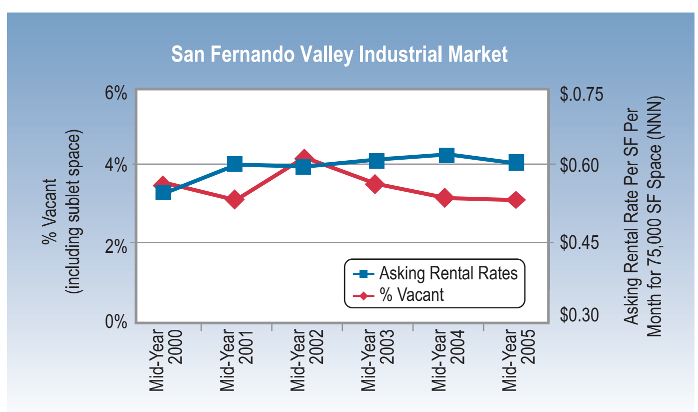
Net absorption in the San Fernando Valley totaled 1.5 million in the first half of 2005. This was up very significantly from 37,900 SF in 2004. It also was double the long-term average for the area of 1.4 million SF per year.

An exceptionally tight market

Construction activity was low, and only 93,300 SF was completed. The total vacancy rate at mid-year 2005 was just 3%, and the direct vacancy rate (excluding sublet space) was 2.8%. These are exceptionally low vacancy rates, the lowest in the Los Angeles Basin (tied with the San Gabriel Valley). Despite the exceptionally low vacancy rates, asking rental rates remained "merely firm" at $0.60 per SF per month (NNN) for a typical 75,000 SF space, a high rate. Sale prices, however, climbed to $104 per SF - a very high level.

As of mid-year 2005, only 241,000 SF was under-construction. When completed, this space will expand the base by just 0.2%. Vacancy rates are projected to remain exceptionally low. This will place upward pressure on rental rates and will serve to keep sale prices high. The area is now largely built-out, yet demand is projected to remain strong, particularly from the small and medium sized manufacturer and distributor.





Los Angeles Basin Industrial Market — Mid-Year 2005							
	Rentable Square Feet	%Vacant Direct	%Vacant Total	Net Absorption (SF) YTD 2005	Square Feet Completed* YTD 2005	Square Feet Under Construction	Average Asking Rental Rate* 75,000 SF Space
Ventura County	51,855,400	4.9%	5.5%	342,200	—	137,900	$0.59
SFV	133,782,500	2.8%	3%	1,470,700	93,300	241,100	$0.60
Central LA	345,428,000	3.3%	3.5%	1,958,500	560,400	502,100	$0.58
South Bay	230,148,800	3.1%	3.1%	1,045,500	305,000	661,800	$0.55
San Gabriel Valley	147,464,000	2.8%	3%	1,278,300	1,167,700	109,000	$0.48
Inland Empire	307,033,100	4.4%	4.7%	9,510,600	4,777,200	15,375,100	$0.36
Orange County	212,753,100	3.6%	4.2%	1,250,500	213,100	920,800	$0.61
LA Basin Subtotal	**1,428,464,900**	**3.5%**	**3.8%**	**16,856,300**	**7,116,700**	**17,947,800**	**$0.51**
Kern County	27,338,000	5.4%	5.5%	670,000	365,000	505,000	$0.28
Total	**1,455,802,900**	**3.5%**	**3.8%**	**17,526,300**	**7,481,700**	**18,452,800**	**$0.51**

**Per SF per Month, Triple Net. Direct lease only.*

Central Los Angeles (Central Los Angeles City, Vernon, Commerce and Santa Fe Springs)

Net absorption in the first half of 2005 totaled 2 million SF, up significantly from 1.8 million for all of 2004 and up from a long-term average pace of 3.2 million SF per year. 560,400 SF was completed via construction, expanding the base by just 0.2%. The vacancy rate dropped to 3.5%, down from 4.2% a year ago. The vacancy rate in Central Los Angeles has hovered in the 3% to low-4% range for the past five years. Average asking rental rates remained in the $0.55 to $0.60 range where they have also hovered for the past five years. Sale prices continued to climb, and by mid-year 2005 averaged $92 per SF - a high level for a market with relatively old stock.

Construction remains very limited

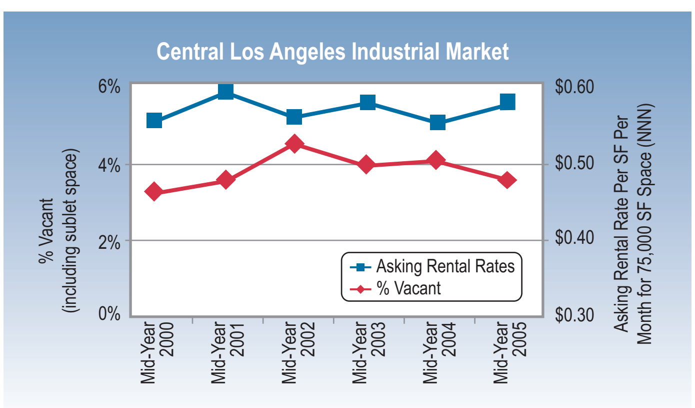
As of mid-year 2005, construction activity was minimal, with only 502,100 SF underway. As this space is completed, it will expand the base by just 0.1%. The market is expected to remain very tight into the foreseeable future.

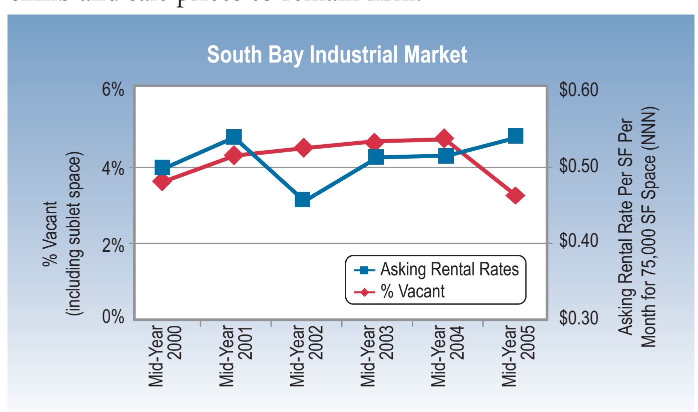
The South Bay

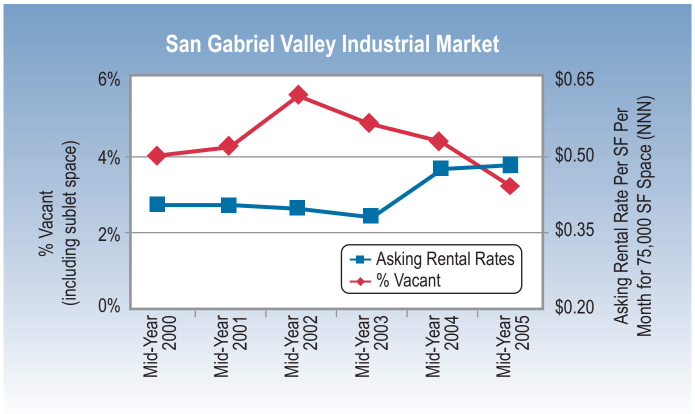
Vacancy at just 3.1%

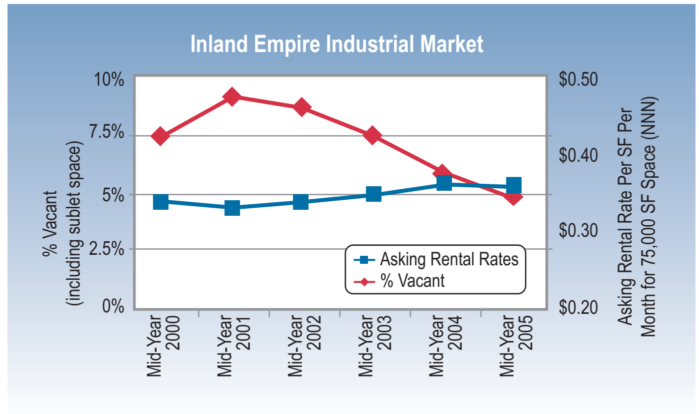
Demand remained strong in the South Bay, largely driven by firms oriented toward trade with the ports of Los Angeles and Long Beach and/or with Los Angeles International Airport. However, lack of available space limited the amount of net absorption that could take place. Net absorption in the first half of 2005 totaled 1 million SF, down from the 4.6 million SF per year pace in 2004, but in-line with the long-term average for the area of 2.2 million SF per year. Construction was restrained, and only 305,000 SF came on-line during the first half of the year. The vacancy rate fell to 3.1%, down significantly from 4.8% a year ago. Asking rental rates climbed by 6% over mid-year 2004, and average sale prices climbed to $85 per SF.

As of mid-year 2005, construction activity was limited, and only 661,800 SF was underway (which, when completed, will expand the base by just 0.3%). This is substantially less than projected growth in demand, and the market is expected to remain very tight. Rental rates appear likely to continue to climb and sale prices to remain firm.









The San Gabriel Valley

Market appears poised for a rent-spike

Demand for industrial space was strong also in the San Gabriel Valley, but a severe shortage of space limited the amount of net absorption that could take place. Net absorption totaled 1.3 million SF, which was down from the 3 million SF pace in 2004. This was, however, roughly consistent with the long-term average of 2.4 million SF per year 1985 to present. Demand remained particularly strong from Asian-owned firms that were expanding in the area.

Construction activity was moderate, and 1.2 million SF came on-line. The vacancy rate dropped to 3%, down from 4.3% a year ago. The San Gabriel Valley was tied with the San Fernando Valley as having the lowest vacancy rate in the L.A. Basin. Asking rental rates climbed by 2% over mid-year 2004, and sale prices reached an average of $99 per SF.

As of mid-year 2005, construction activity was minimal, with only 109,000 SF underway. When this space is completed, it will expand the base by just 0.1%. The market is projected to remain very tight for at least the next year and a half. Rental rates appear poised to climb sharply, and there could be continued upward movement in sale prices.

The Inland Empire

Net absorption in the Inland Empire (Western San Bernardino and Riverside Counties) picked up to an extraordinary level in the first half of 2005, 9.5 million SF. This was greater than the very strong 15.9 million SF pace of 2004. It also was nearly double the long-term average for the area of 11 million SF per year. Demand continued to be particularly strong for big-box product. The Inland Empire is the premier location in the Los Angeles Basin for new big-box distribution facilities.

Net absorption equaled the pace witnessed in the late 1990s

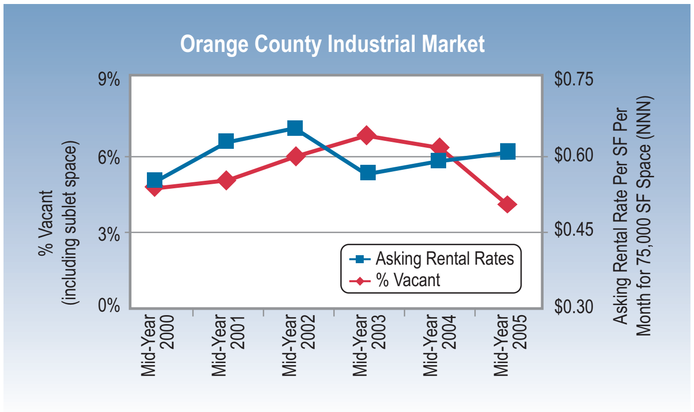
The Inland Empire captured slightly more than half (52%) of the net absorption that took place in the Los Angeles Basin/ Kern County Market. A number of firms found that they could not expand in adjacent Los Angeles and Orange Counties - availabilities were just too low. Also, the rental rates and sale prices in the Inland Empire were much more competitive.

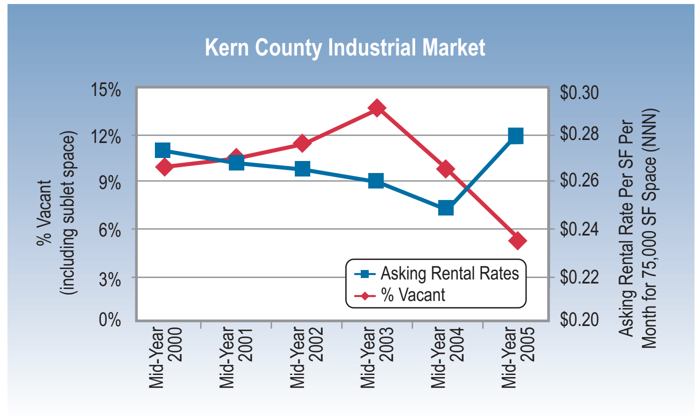
Construction completions slowed during the first half of the year, and "only 4.8 million SF" was delivered. Vacancy rates dropped to 4.7%, down from 6.2% a year ago. The direct vacancy rate was 4.4%. These are low vacancy rates, particularly for a rapidly expanding market. Rental rates were firm, but still remained the lowest in the Los Angeles Basin. Sale prices climbed to an average of $80 per SF. This was up 7% over 2004 levels (14% on an annualized basis) and an exceptional 190% over prices ten years ago.

As of mid-year 2005, a construction boom was underway, with 15.4 million SF under-construction. When completed, this space will expand the base by 5%. This is a high level of construction activity, but a level that can be absorbed if the economy remains strong. The western end of the Valley is starting to run out of land, and construction activity (and absorption) is shifting to the east Valley and to the south to Perris Valley in Riverside County.

Orange County

In the first half of 2005, the Orange County industrial market remained a landlord's and a seller's market. Demand for space was strong, particularly for small buildings for sale. Net absorption totaled 1.3 million SF, down from the 3.9 million SF per year pace in 2004, but roughly consistent with the





long-term average for the County of 2.8 million SF per year. Orange County remained particularly attractive to the mid-sized manufacturer and distributor in a wide variety of fields, including high technology, food, apparel and communications.

The highest sale prices in the Basin

Construction activity was minimal, and only 213,000 SF came on-line. The vacancy rate dropped to 4.2%, down from 6.3% a year ago. The direct vacancy rate was only 3.6%. These are low vacancy rates. Asking rental rates were up 3% over mid-year 2004. Sale prices climbed to a median of $136 per SF - the highest in the Los Angeles Basin. For small buildings in South Orange County, they reached the high $100 per SF range, and increasingly exceeded $200 per SF. Prices were up 15% over 2004 levels (+30% on an annualized basis), and up 180% over the average ten years ago.

As of mid-year 2005, only 920,800 SF was under-construction. When it is complete, it will expand the base by just 0.4%. Land prices in Orange County have risen to the point where they are prohibitive for most speculative industrial projects. The market is projected to continue to tighten over the next year and a half.

In addition to the standard industrial market, Orange County has a large flex/ R&D market, with 63 million SF as of mid-year 2005. Vacancy rates have dropped precipitously in the past 12 months, and were 6.5%, down from 10.1% at mid-year 2004.

Kern County

Demand was moderate in the first half of 2005. Net absorption totaled 670,000 SF. This was consistent with the pace for 2004, when net absorption totaled 1.4 million SF. However, it was down from the average witnessed over the past ten years of 2.5 million SF per year. Demand continued to come from firms in the Los Angeles Basin, who were looking for available space at reasonable rates and prices. There also was an increase in demand from San Francisco Bay Area firms. Demand was particularly strong from owner-users looking to buy small and mid-size buildings, and this accounted for most of the absorption.

Vacancy rate stabilized at 5.5%

Construction activity was moderate, and 365,000 SF came on-line due to completions, expanding the base by 1.4%. The vacancy rate dropped to 5.5%, down from 9.7% at mid-year 2004. Rental rates climbed $0.02 to $0.28 per SF per month NNN for a typical 75,000 SF space. This rate was 45% lower than the average for the Los Angeles Basin ($0.51 PSF). It also was 22% lower than rates ($0.39 PSF) in the Inland Empire. Sale prices climbed, and averaged $60 per SF. For small buildings, they averaged $70 PSF. Land prices also saw a sharp increase, and finished parcels sold for $3.35 to $5.00 per SF. However, this was still half the price of land in the Inland Empire, and one-sixth the price of land in Los Angeles and Orange Counties.

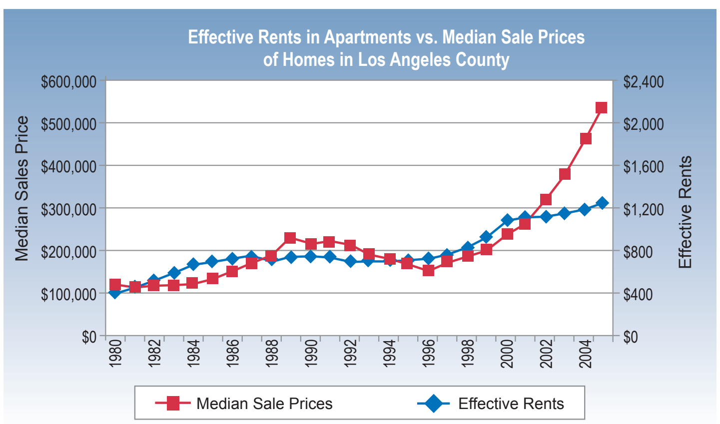
As of mid-year 2005, construction activity was moderate, and 505,000 SF was underway or planned. As this space comes on-line, it will expand the base by 1.8% — a level that can be readily absorbed. Plans for a more significant expansion were in the works, as was interest in future requirements.

The long-term outlook for the market remains exceptionally strong. The area has reached a critical mass and is now on the radar screen of distributors looking to serve both northern and southern California from one site. The area will also benefit from lack of availability and very high rental rates and sale prices in the Los Angeles Basin.

APARTMENTS

The apartment market in the Los Angeles Basin continued to tighten, with strong demand from tenants stimulated by a rapidly growing local economy and supply limited by land-economics that favor the building of for-sale product over rental product. Vacancy rates fell to the mid-3% range in Los Angeles and Ventura Counties, approximately 4% in Orange County, and mid-4% range in San Bernardino and Riverside Counties. Effective rents climbed approximately 5% in Los Angeles, Orange and Ventura Counties, and by 6% in San Bernardino and Riverside Counties in the past 12 months.

Demand is projected to continue to be very strong, due the addition in the Basin of approximately 105,000 households (+1.9%) per year. It also will be stimulated by housing prices that have more than doubled in the past five years, far outstripping growth in income and placing home-ownership out-of-reach for a growing number of households. The discrepancy between home prices and rents has also increased dramatically in the past three years, making the decision to rent rather to buy increasingly attractive.

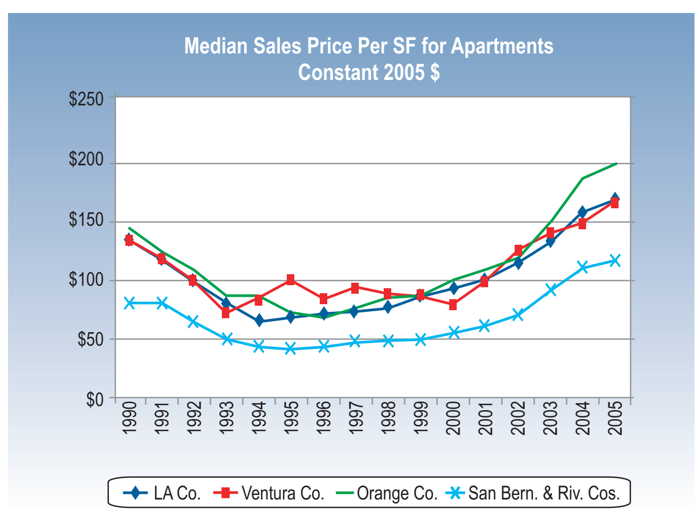


Construction of apartments is running at a pace of approximately only 10,000 units per year, falling far short of projected demand. Apartment developers are increasingly finding themselves outbid by developers of product for-sale. In prime areas, residential land is selling for upwards of $8 million per acre, which makes sense for condominium development in this era of high home prices, but does not make sense for most rental development. Supply is also starting to be diminished by conversion of apartments into condominiums. Given the magnitude of the discrepancy between rents and sale prices, this trend is expected to accelerate rapidly over the next year and a half.

Condominium conversions expected to accelerate over next year and a half

As a result, the apartment market is projected to continue to tighten, and the potential for a rent spike is increasing. The investment community is well aware of this situation, and is eager to capitalize upon still-low mortgage rates. Institutional investors have targeted Southern California for acquisition, and individuals and partnerships remain very active. Existing owners look at the cash flow that they are receiving from their investment and the low returns they see in alternative investments, and remain reluctant to sell. As a direct result of too many buyers and not enough sellers, prices continue to escalate. The average sales price in the first half of 2005 was up 8.5% over the average for 2004, for a rate of 17% in appreciation on an annualized basis. Cap rates have fallen to the 5% to 6% range. These trends are not sustainable in the long run, and a slowing in appreciation appears inevitable. However, barring a sudden and large increase in mortgage rates, we do not see a large correction occurring in prices - the underlying dynamics in the Southern California apartment market (tenant demand far exceeding growth in supply) are simply too powerful.

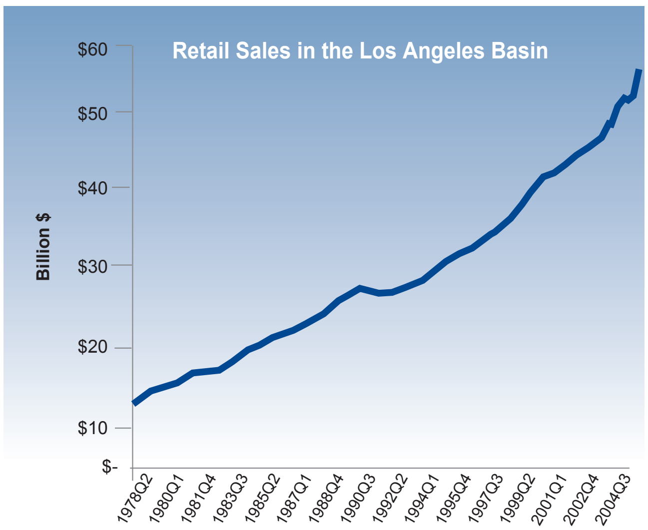
In the meantime, investors who find properties in inlying areas too scarce and too expensive will increasingly look to opportunities in outlying areas, including the high deserts. Prices in these areas are already on the increase.



THE RETAIL MARKET

Tight Market Conditions, Strong Investor Demand

The Los Angeles Basin's retail market is one of the largest and most dynamic markets in the world. Retail sales in the area total approximately $56 billion, and grew by an estimated $2.1 billion (8%) in the 12-month period ending mid-year 2005. Fueling this growth was a combination of strong growth in households (106,000, or 1.9%), growth in median household income of approximately 4.4%, including very strong growth among affluent households, still-low interest rates enabling a wave of refinancing activity, and a generally buoyant consumer.

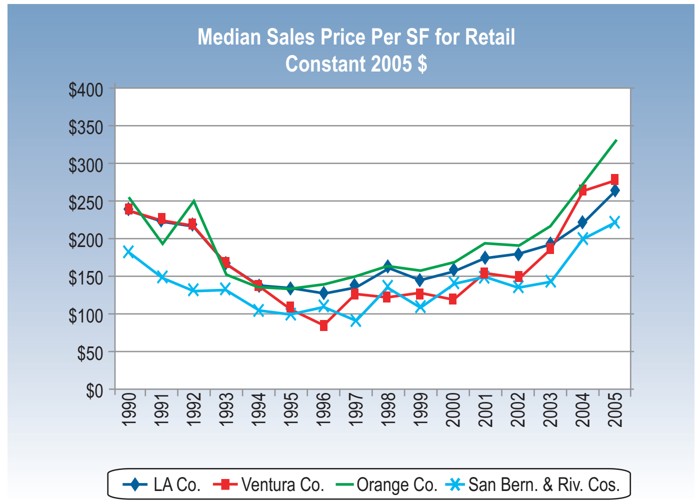


Not surprisingly, the Los Angeles Basin is at or near the top of the target list for expansion by the nation's major retailers. This has generated very strong growth in demand for retail space in the area. Occupied retail space grew by approximately 2.4% in the past 12 months. Demand continued to be particularly strong from fast-food chains, coffee houses, drug stores, discount warehousers and health clubs.

Construction activity picked up, but still lagged growth in demand. Vacancy rates dropped to the mid-3% range, and effective rental rates climbed by 4% to 5% in most areas. Conditions were particularly tight in high-income areas of Los Angeles and Orange Counties, as well as in a number of under-served ethnic areas.

Sale prices up 17% in first half of year

Demand from investors for retail properties intensified, particularly for high credit, single-tenant properties. Median sale prices climbed to $275 per SF, up 17% over the median in 2004. Cap rates fell to the 6%-range for solid, grocery-anchored centers, and to the 7%-range for older or outlying centers.



The outlook remains continued strong growth in demand, particularly by Wal-Mart, who is expanding in the area, including in neighborhood markets. The impact of Wal-Mart's expansion is already strongly felt in a number of markets. Some competitors may soon respond by closing their least profitable store locations.

Construction activity remains roughly in-line with projected growth in demand for the next 12 months. Vacancy rates are projected to remain tight. Effective rents are projected to grow by at least the rate of inflation, and possibly by one or two additional percentage points.

The investment market will be influenced by any changes in interest rates. We expect prices will stabilize over the next 12 months, in response to an assumed increase in interest rates of approximately 75 to 100 basis points. However, as of mid-year 2005, demand from investors was still growing, and product was difficult to find.

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