Market Report

Southern California

Year-End 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 this Year-End 2005 Market Report for the Los Angeles Basin.

2005 was a great year for landlords. Demand was very strong for all product types, and construction activity was generally restrained. The industrial, retail and apartment markets became very tight, and the office market finally reached healthy conditions in most areas.

2005 was a great year for landlords, as well. Sale prices reached new highs for all property types, and competition from investors to buy properties was intense. Average cap rates fell into the 5% and 6% range—exceptionally low levels.

2006 should also favor landlords. Most economists project the local economy will remain strong for at least another 12 months, and this will drive continued strong growth in demand for real estate in the Southland. Construction activity remained restrained as of year-end 2005. The potential for hyper-tight market conditions and rent spikes exist, particularly in the Los Angeles and Orange County industrial and apartment markets. This will buoy the for-sale market, although the possibility of a considerable slowing in demand from investors exists if interest rates should climb significantly.

2006 will be a difficult year for tenants. Many will find it increasingly difficult to find space that meets their needs, and will be forced to look in areas and at buildings that they previously would not have considered.

Highlights presented in this report include:

- **Net absorption of office space in the Los Angeles Basin in 2005 was 83% higher than normal. Vacancy rates fell to the 8% range in most markets, and office rents climbed once again.**
- **Industrial vacancy rates fell to 4.1% — an exceptionally low level. Sale prices continued to skyrocket.**
- **Apartment vacancy rates fell to the 3% and low 4% range. Conditions are projected to tighten even further in 2006, with construction continuing to greatly lag growth in demand.**
- **The retail market was exceptionally tight, with vacancy rates in the 2% range in Los Angeles and Orange Counties, and in the 4% range in the Inland Empire. Effective rents climbed by 4% to 5% in most markets.**

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,

Michael Zugsmith
Chairman

Robert Scullin
Chief Executive Officer

Rachel Howitt
Chief Financial Officer

NAI Capital
Commercial Real Estate Services, Worldwide.

The Office Market

Booming Demand

Vacancy Drops to 8% in Most Markets

Net absorption up 83% over long-term average

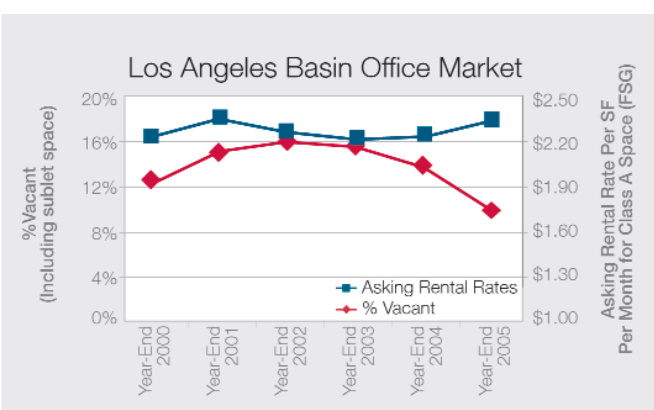
Demand for office space in the Los Angeles Basin grew at a very strong pace in 2005, a pace that was 59% higher than in 2004 and 83% higher than the long-term average for the area. The vacancy rate Basin-wide fell to 10.4%, down significantly from 13.7% a year ago and from 15.5% two years ago. Vacancy rates were in the 8% range or lower in six of the area's eight major markets. Rental rates climbed for the first time in four years.

While construction activity has picked up, it is still significantly less than projected growth in demand. Assuming that the economy remains healthy, the market is projected to continue to tighten over the next 18 months. Tenants will find it increasingly hard in 2006 to find space that meets their needs.

Driving the tightening in market conditions was a combination of:

- **A strong economy:** approximately 136,000 jobs were added in the Los Angeles Basin in 2005 for growth of 1.7%.[1]
- **Relatively low rental rates:** asking rental rates were the same at year-end 2005 as they were at year-end 2001.
- **Limited growth in supply:** in 2005, only 2.8 million square feet (SF) came on-line, expanding the base by just 0.6%.

In 2005, net absorption totaled 11.9 million SF.[2] This represented growth in the pool of occupied space within the Basin of 4.2% —a strong pace. It significantly exceeded the level witnessed in 2004 (+7.5 million SF) and also greatly exceeded the long-term average for the Los Angeles Basin (+6.5 million SF per year, 1985 to present).

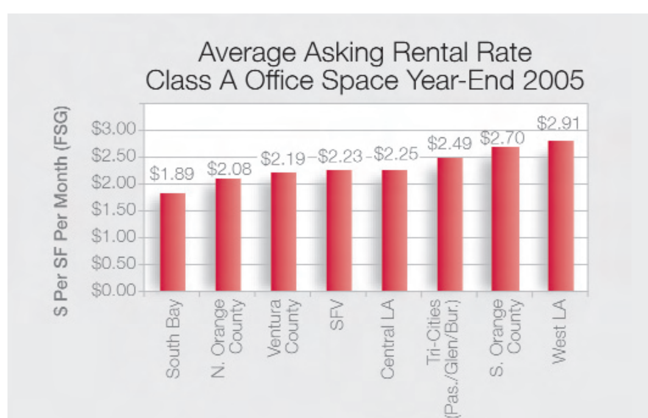


Most (66%) of the net absorption in 2005 was in Class A buildings, reflecting the strong financial position of local firms in 2005 as well as recognition of the value that Class A space offered. There was particularly strong growth in demand in South Orange County and West L.A. (+2.6 million SF each)—both high-rent areas—and in Central Los Angeles (+2.4 million SF). Demand was particularly strong from firms in professional-services and finance, as well as in communication and high-tech.

Basinwide, the total vacancy rate fell to 10.4%, down from 13.7% as of year-end 2004 and 15.5% as of year-end 2003. If sublet space is subtracted from this statistic, the vacancy rate was 9.4%. This is approaching healthy levels (considered to be in the high single-digits).

Vacancy rates as of year-end were highest in Class A buildings (11.3%), followed by Class B buildings (10.3%) and Class C (just 4.6%). This pattern was due to: (1) the fact that most of the new construction in recent years had been in Class A buildings, and this space had not yet filled up; and (2) tenants shifted requirements toward lower-cost space during the economic downturn in 2001 and 2002, and this space had not yet been reabsorbed. Vacancy rates were healthy (in the high-single digit range) in all submarkets except Central Los Angeles and the South Bay. They were also dropping in all submarkets.

After falling in 2001 and 2002 and stabilizing in 2003 and 2004, asking rental rates started climbing once again in 2005.



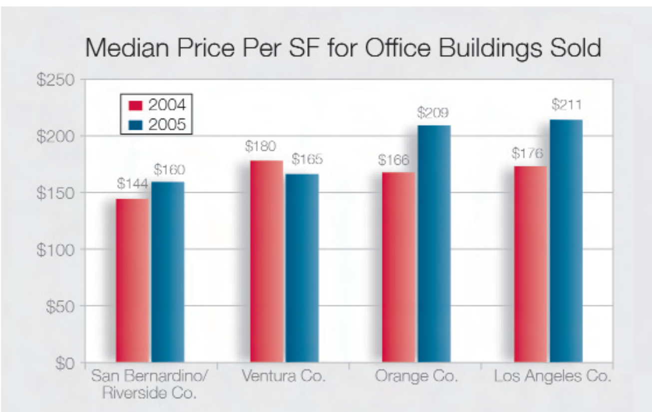
[1] Average of data from the California State Economic Department for employees (survey of firms showing growth of 65,000 jobs) and for employed residents (survey of households showing 208,000 jobs).

[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 Perspective reports.

Los Angeles Basin Office Market ■ Year-End 2005

	Rentable Square Feet	% Vacant Direct	% Vacant Total	Net Absorption (SF) 2005	Square Feet Completed* 2005	Square Feet Under-Construction	Average Asking Rental Rate** Class A Space
Ventura County	7,467,300	7.4%	8.6%	290,900	207,100	92,800	$2.19
SFV	27,996,200	7.1%	8%	650,900	401,100	72,900	$2.23
Tri-Cities (Pas./Glen./Bur.)	31,146,600	7.4%	8.2%	1,570,200	353,600	414,200	$2.49
Central LA	80,475,500	10.2%	11.3%	2,421,500	323,100	38,500	$2.25
West LA	49,295,400	8.2%	8.9%	2,561,400	64,900	885,700	$2.91
South Bay	40,066,700	17.5%	18.8%	909,700	48,800	31,500	$1.89
North Orange County	31,720,500	6.5%	7.6%	915,300	-	153,100	$2.08
South Orange County	58,080,400	7.7%	8.7%	2,591,800	444,900	1,113,300	$2.70
Total	326,248,600	9.4%	10.4%	11,911,700	1,843,500	2,802,000	$2.32

* Includes return-to-market of renovated space less any demolitions
** 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.



Basinwide, the average was up 3.1% over year-end 2004. As of year-end 2005, rates were highest in West Los Angeles and lowest in the South Bay.

Market projected to continue to tighten in 2006

Construction activity has picked up, but is still at a restrained level. As of year-end 2005, only 2.8 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, assuming that the economy remains healthy. The only major blemish on the horizon could be a significant release of space from mortgage banking firms should mortgage rates climb substantially and mortgage-banking business fall off. However, this space would likely be quickly absorbed from firms in other industries.

As of year-end 2005, a number of markets were beginning to witness shortages of large blocks of contiguous space. This situation will be aggravated in 2006. Tenants should act now to lock in space that meets their needs before availability becomes scarce and rental rates high. These are also excellent times for firms to take advantage of relatively low interest rates to purchase office buildings that meet their long-term needs. However, prices are high (up 20% in Los Angeles County and 26% in Orange County 2005 over 2004). Southern California has been identified by a large number of institutional investors as a target market for new office purchases.

The Medical Office Niche

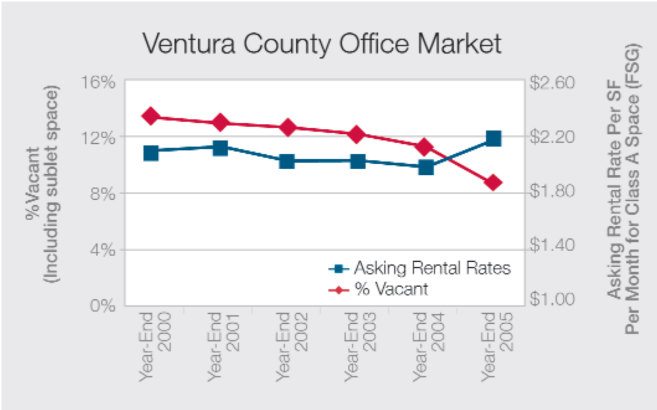
As pointed out in previous Market Perspectives, one segment of the office market that has been the healthiest in recent years is the medical office niche. Demand for this space has remained strong and vacancy rates at year-end 2005 were low (just 5.7%). There was particularly strong demand for medical condominiums. Rental rates and sale prices have climbed sharply 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

Asking rental rates up 9%

Net absorption in 2005 totaled a strong 290,900 SF. This was up from 84,400 SF in 2004. A moderate amount of space came on-line due to construction completions, 207,100 SF. The vacancy rate dropped to 8.6% as of year-end 2005, down sharply from 11.4% the previous year. Asking rental rates, which had been slowly dropping in previous years, climbed by 9%. Concessions remained minimal if any. Interest by owner-users in for-sale product remained very strong.

Construction activity remained restrained, and 92,800 SF was under-construction as of year-end 2005. When this space comes on-line, it will expand the base by 1.2%—a level that can be readily absorbed. Demand is expected to remain strong,



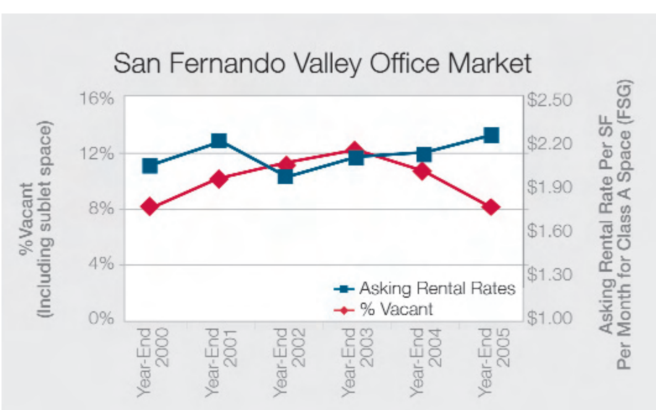
driven by a growing local economy and the area's attraction to small firms, particularly by those headed by management seeking a high quality living and business environment within close proximity to Los Angeles. The area also has a strong attraction to firms in the fields of insurance, finance and biotechnology. Vacancy rates are projected to drop into the 7% range by year-end 2006. As it does, rental rates will continue to climb.

The San Fernando Valley

Market conditions projected to tighten by year-end 2006

Market conditions were healthy also in the San Fernando Valley, with a vacancy rate at year-end of 8.0%. This was down from 10.4% last year and from 11.9% two years ago. The market has shifted from a tenants market to one balanced between the needs of tenants and landlords. Demand remained strong, particularly from firms in finance, insurance and professional services, and picked up from high-tech firms.

Net absorption in 2005 totaled 650,900 SF, a good rate (the long-term average for the area is approximately 600,000 SF per year), but below the pace witnessed in 2004 (1.1 million SF). Construction completions were moderate, with 401,100 SF coming on-line. Asking rental rates were up 6% over year-end 2004.



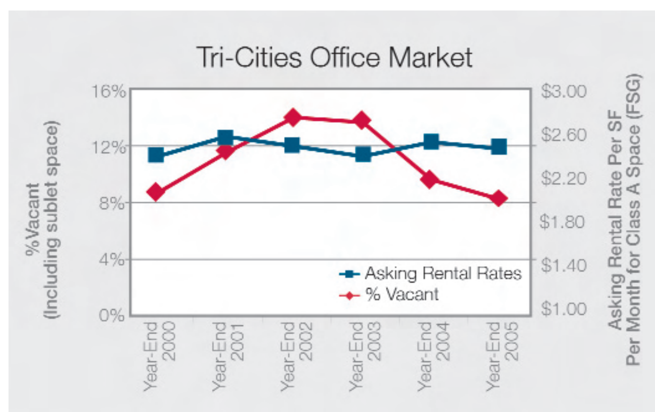
Construction activity remained restrained, and 72,900 SF was under-way as of year-end 2005. When complete, it will expand the base by only 0.3%. This represents just one month of supply under normal economic conditions. Assuming that the economy remains healthy, vacancy rates are projected to drop to 6% or lower by year-end 2006. As it does, we expect that rental rates will start climbing very sharply.

The Tri-Cities (Burbank/ Glendale/ Pasadena)

Demand for space was very strong in the Tri-Cities Submarket. Net absorption in 2005 totaled 1.6 million SF, nearly double the level witnessed in 2004 (+827,00 SF). It also greatly exceeded the average witnessed 1985 to present of approximately 650,000 SF per year. Only 353,600 SF of new space was delivered. This caused vacancy rates to drop to 8.2%, down from 9.3% as of year-end 2004 and a peak of 14.2% as of year-end 2002. Asking rental rates were up 4% over year-end 2004.

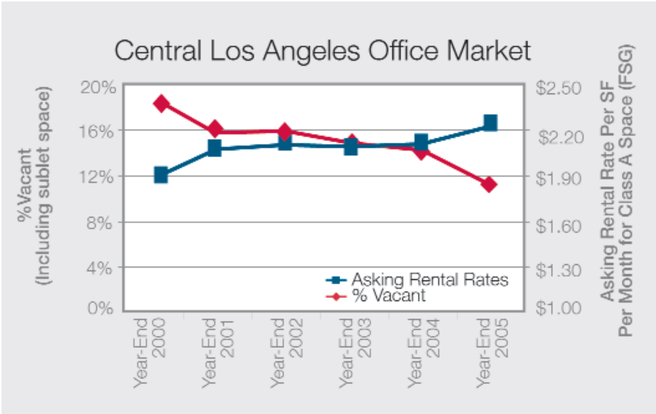
Rental rates projected to climb sharply in 2006

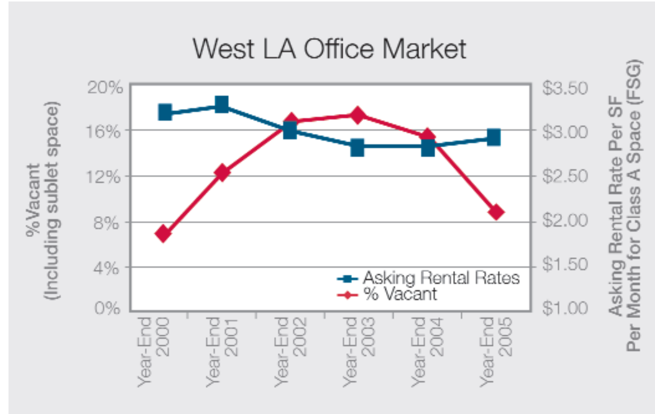
Construction activity remained relatively restrained, and 414,200 SF was underway as of year-end 2005. When completed, it will expand the base by 1.3%. This amount will likely be readily absorbed and vacancy rates are projected to continue to tighten. As they do, rental rates will climb much more quickly 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 2005, driven, in large part, by rental rates that were a bargain compared with those in adjacent areas. Net absorption totaled 2.4 million SF, more than twice the level for 2004 (+858,000 SF), and more than twice the average of 1 million SF per year witnessed 1985 to present. The downtown market continue attract government agencies and firms in law, utilities,





accounting and finance; Mid-Wilshire continued to attract small, entrepreneurial, often Asian-owned firms; and Hollywood a mix of firms in professional services, high-tech and entertainment.

The highest level of net absorption in 14 years

Construction completions totaled 323,100 SF, a relatively small amount for this large market, and the vacancy rate dropped to 11.3%. This was down from 14.3% as of year-end 2004 and from the peak of 18.1% as of year-end 2000. Rental rates were up 6% from year-end 2004.

Construction activity is projected to remain very restrained. We expect that demand will remain strong, driven by a strong economy, availability of quality space at relatively low rental rates and tightening conditions in adjacent markets. Availability in premier buildings will soon become scarce, particularly for large blocks of contiguous space.

West Los Angeles

Demand for office space was exceptionally strong in 2005 in West LA as well. Net absorption totaled 2.6 million SF, surpassing the 1.7-million-SF level of 2004. It also was nearly triple the 890,000 SF per year average 1985 to present. Strong growth in demand continued to come from the entertainment industry and from professional services. It also emerged once again from high-tech firms.

Vacancy rate down 6.5 percentage points in 2005

Just 64,900 SF of space came on-line during 2005. This enabled the vacancy rate to drop to 8.9%, down very sharply from 15.4% as of year-end 2004. Asking rental rates started climbing once again, and were up by 5% over year-end 2004.

As of year-end 2005, construction activity was moderate, 885,700 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 two years. The area has a large concentration of high-profile firms (including those in entertainment, computer programming and finance), and these firms are in 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 approach 7% by year-end 2006. As it does, the area will likely witness a rent spike, much as it did in the late 1990s.

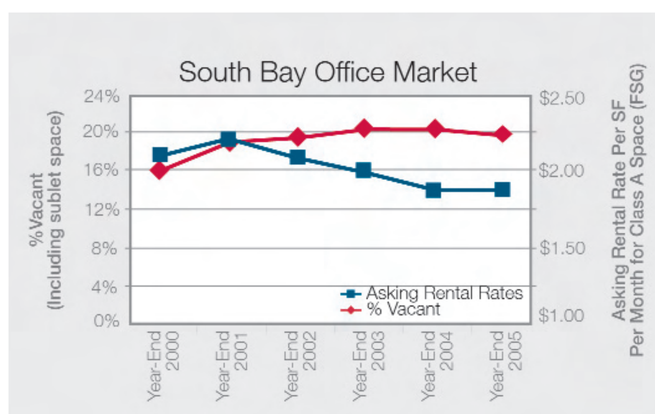
The South Bay

Net absorption climbs to 910,000 SF in the South Bay

Strong demand for office space also occurred in the South Bay. Following four years of anemic demand, net absorption of office space in the South Bay market grew to 909,700 SF, up from 101,000 SF in 2004 and exceeding the long-term average for the South Bay of 620,000 SF per year.

Just 48,800 SF of new construction came on-line in 2005, and the vacancy rate dropped to 18.8%, down from 20.4% as of year-end 2004. This, however, remained a high vacancy rate, the highest in the Los Angeles Basin.

Asking rental rates stabilized, and were up 1% over year-end 2004. As of year-end 2005, the South Bay had the lowest asking rental rates in the Basin, 19% below the regional average.



Construction activity is expected to remain restrained and demand is projected to remain strong for at least another twelve months. Strengths offered by the South Bay market 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 two to three years off, assuming that the economy remains strong.

North Orange County

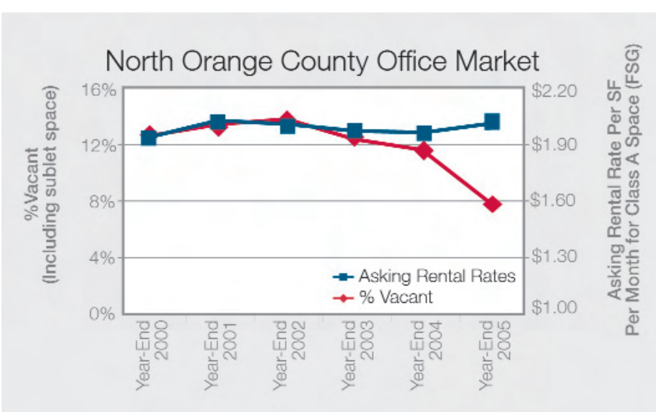
Net absorption in 2005 totaled 915,300 SF, exceeding the total for 2004 (+525,000 SF), as well as the long-time average for the area of 600,000 SF per year. Demand continued to come from a very broad mix of firms, including those in telecommunication, high-tech, professional services and finance. Demand by owner-users to purchase buildings remained very strong in this highly entrepreneurial market.

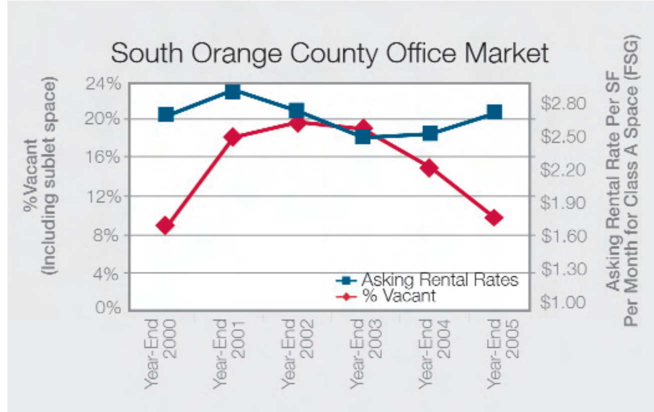
The lowest vacancy rate in the L.A. Basin

No new space came on-line 2005 due to construction activity. This enabled the vacancy rate to drop to 7.6%, down from 11.8% as of year-end 2004. This was the lowest vacancy rate in the Los Angeles Basin.

Asking rental rates climbed 5% over year-end 2004. However, they were still the second lowest in the Basin, 11% below the regional average. It also was 23% 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 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 2005 in South Orange County. It totaled 2.6 million SF, exceeding the 2.3 million SF level 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.

Vacancy rate plummets 11 percentage points in two years

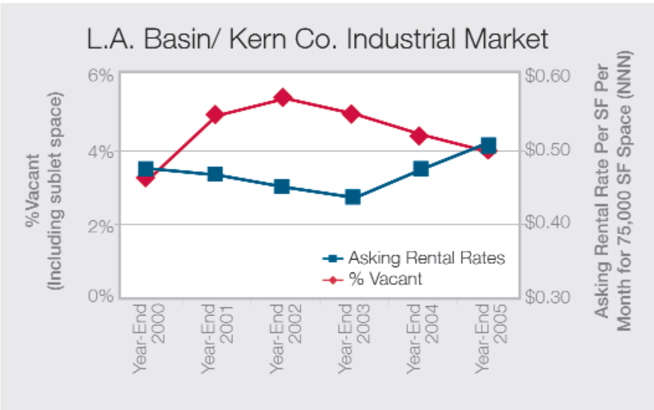
Construction completions totaled 444,900 SF in 2005. The vacancy rate dropped to 8.7%, down very sharply from 15% at year-end 2004 and from 19.7% at year-end 2002. Asking rental rates were up 7.5% over year-end 2004.

Construction activity has picked up. As of year-end 2005, 1.1 million SF was underway. This represents approximately 8 months supply under normal economic conditions, and much less than that if demand remains superheated. Assuming that the economy remains healthy, market conditions are projected to continue to tighten over the next year and a half. However, a downturn in the mortgage brokerage industry could dampen this trend somewhat.

Long-term, employment projections indicate a need for approximately 2-3 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
Hyper-Tight in Most Areas

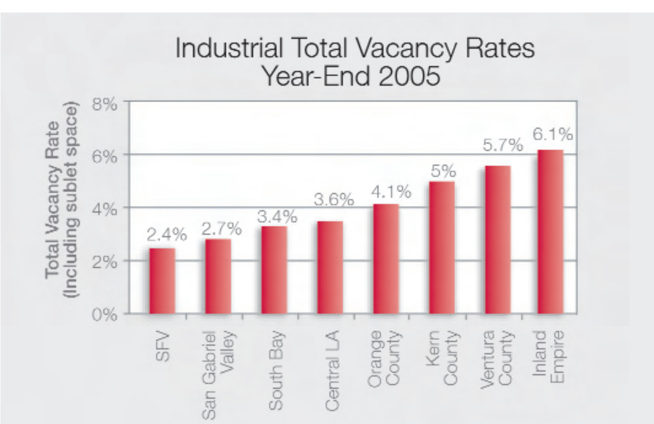
The Los Angeles Basin and Kern County Industrial Market continued to tighten in 2005. Firms found it increasingly difficult to find space that met their needs, particularly in Los Angeles and Orange Counties. Sale prices continued to skyrocket, and rental rates climbed upward.

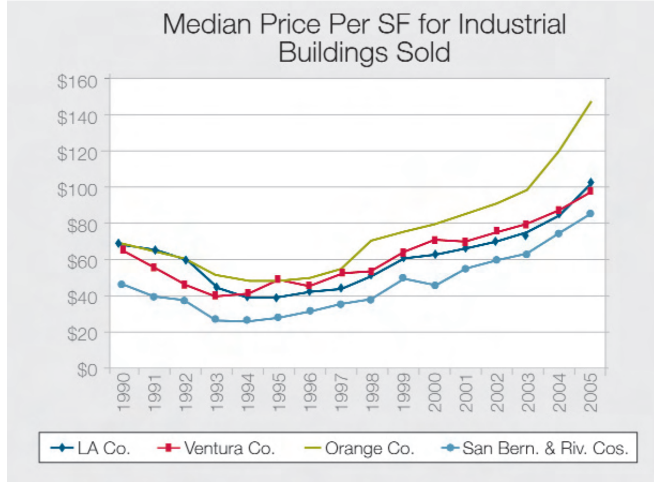


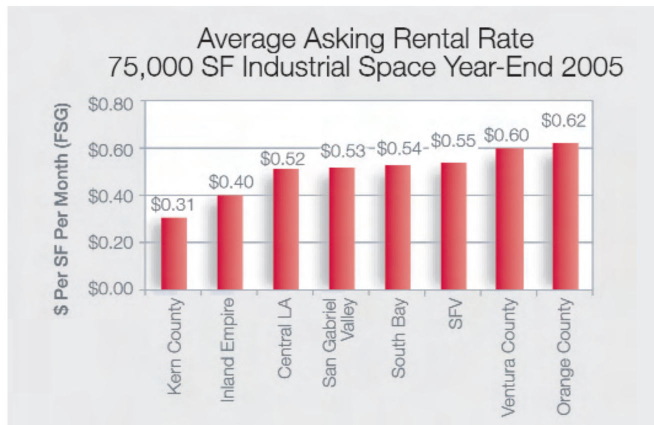
Vacancy falls to 4.1%

Demand for industrial space was very strong in 2005, particularly among owner-users who were stimulated by still relatively-low interest rates. Net absorption totaled 30.6 million SF, almost identical to the 30.5 million SF witnessed in 2004, and above the 26.8 million SF per year pace witnessed on average since 1984.[3] Net absorption was particularly high in the Inland Empire, where it totaled 16.3 million SF or 53% of the area total. The Inland Empire offered a large supply of new, modern space at relatively low rental rates. Net absorption was moderate to strong in all other markets.

A large amount of new product was completed in 2005 (30.1 million SF), with most of that in the Inland Empire (18.8 million







SF). This expanded the base in the region by 2.1%. Despite the large amount of new construction, the vacancy rate fell to 4.1%, down from 4.3% as of year-end 2004. The direct vacancy rate (excluding sublet space) was just 3.8%. These are very low numbers, reflecting tight market conditions. Vacancy rates were 6% 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 4%) in 2005. However, sale prices climbed very sharply and reached an average of $107 per SF. This was up 18% over 2004 levels, and an extraordinary 163% over ten years ago. Prices were particularly high for small buildings, and particularly in South Orange County, where they averaged the high $100 per SF range and occasionally exceeded $200 per SF. Average cap rates ranged from a low of 6.2% to a high of 7.1%

As of year-end 2005, 21.1 million SF was under-construction, which, when complete, will expand the base by 1.4%. 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), considering that this space will come on-line over approximately a nine month period. Vacancy rates are projected to remain very tight for at least another year and a half in Los Angeles and Orange Counties, but "merely healthy" throughout Ventura County,

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

Kern County, 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.

Ventura County

Net absorption in 2005 totaled 563,000 SF, up significantly 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. There was very strong demand from owner-users to buy small buildings, but a lack of buildings for sale constrained this activity.

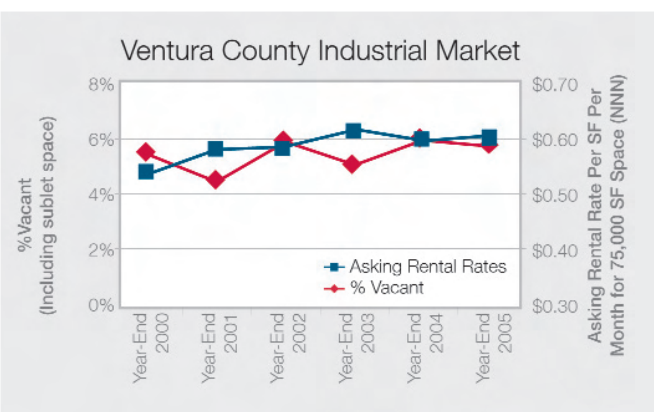
216,700 SF of space came on-line in 2005 from construction. The total vacancy rate dropped to 5.7%, down from 6.2% as of year-end 2004. The direct vacancy rate (excluding sublet space) was 5.2%. These are moderately low vacancy rates. Asking rental rates remained high in 2005, averaging $0.60 per SF per month NNN for a typical 75,000 SF space. This is the second highest average in the Los Angeles Basin (second to Orange County). 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 approached $100 per SF on average, a 12% increase over 2004 levels.

Sale prices per SF up 12%

As of year-end 2005, only 122,400 SF of construction was underway. When complete, this space will expand the base by just 0.2%. Demand is expected to continue to climb, 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 mid-year 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 addition to the standard industrial market, Ventura County, Conejo Valley have a moderate-sized flex/ R&D market, with 8.8 million SF. As of year-end 2005, the vacancy rate was high, at 11.5%. However, this was down from 15.5% as of year-end 2004. The R&D market is projected to continue to tighten, as demand grows from the recovering high-tech sectors.



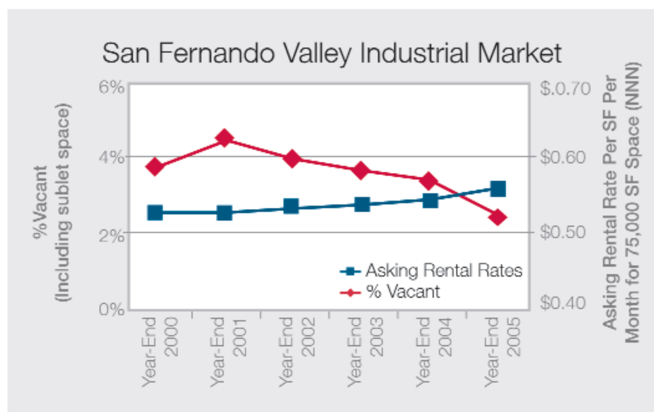
The San Fernando Valley

Net absorption in the San Fernando Valley totaled 2.4 million in 2005. This was up very sharply from 37,900 SF in 2004. It also was significantly higher than the long-term average for the area of 1.4 million SF per year.

Construction activity was relatively restrained, and 1.7 million SF was completed. The total vacancy rate at year-end was just 2.4%, and the direct vacancy rate was 2.2%. These are exceptionally low vacancy rates, the lowest in the Los Angeles Basin and the lowest on record for the area. Despite the exceptionally low vacancy rates, asking rental rates rose very slightly to $0.55 per SF per month (NNN) for a typical 75,000 SF space, up from $0.54 a year ago. Sale prices climbed to $105 per SF—an exceptionally high level.

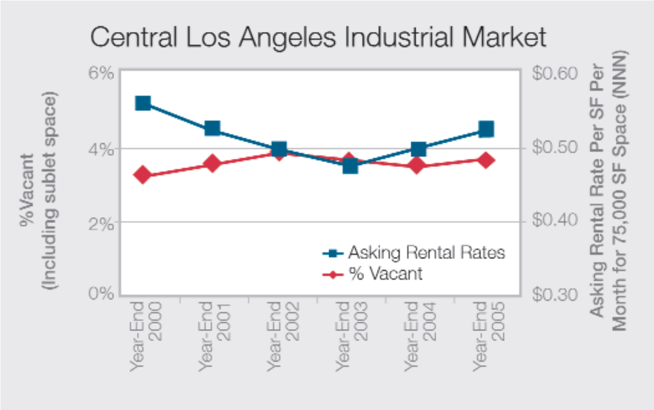
Record low vacancy

As of year-end 2005, only 277,400 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 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.



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

Net absorption in 2005 totaled 2.7 million SF, up from 1.8 million in 2004. This approaches the long-term average for the area of 3.2 million SF per year. 2.8 million SF of completed construction, expanded the base by 0.8%. The vacancy rate climbed slightly to 3.6%, up from 3.5% a year ago. The vacancy rate in Central Los Angeles has hovered in the 3% range for the



past four years. Asking rental rates for a typical 75,000 SF space climbed to $0.52 per SF, up from $0.49 a year ago. Sale prices climbed to $83 per SF—a high level for a market with relatively old stock.

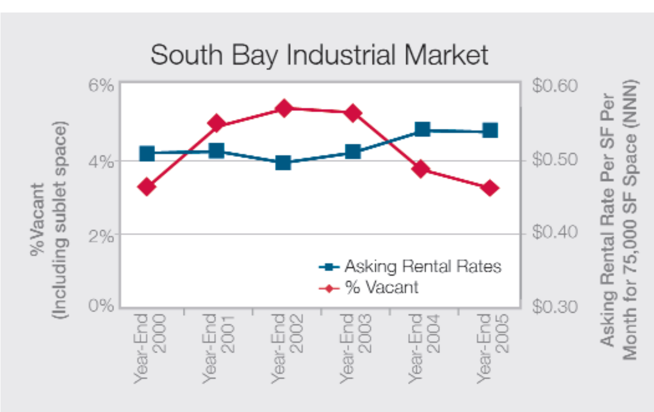
Lack of availability constrains absorption

As of year-end, construction activity was minimal, with only 542,000 SF underway. As this space is completed, it will expand the base by just 0.2%. The market is expected to remain exceptionally tight into the foreseeable future.

The South Bay

Market projected to remain very tight

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 LAX. Net absorption in 2005 totaled 3.4 million SF, down from the 4.6 million SF per year pace in 2004, but higher than the long-term average for the area of 2.2 million SF per year. 2.9 million SF of new construction came on-line during the year, expanding the base by 1.3%. The vacancy rate fell to 3.4%, down from 3.8% a year ago. Asking rental rates remained firm, and average sale prices climbed to $88 per SF.



As of year-end 2005, construction activity was limited, and only 786,200 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 climb, and sale prices to remain firm.

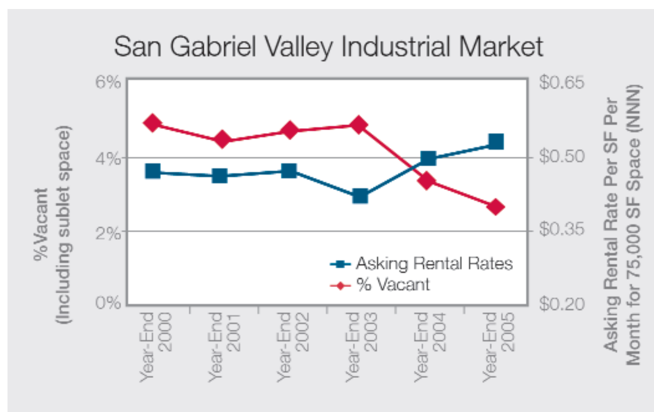
The San Gabriel Valley

Demand for industrial space was also strong in the San Gabriel Valley. Net absorption totaled 2.7 million SF, down from 3.0 million SF in 2004, but up from the 2.4 million SF per year pace 1985 to present.

Vacancy rate of just 2.7%

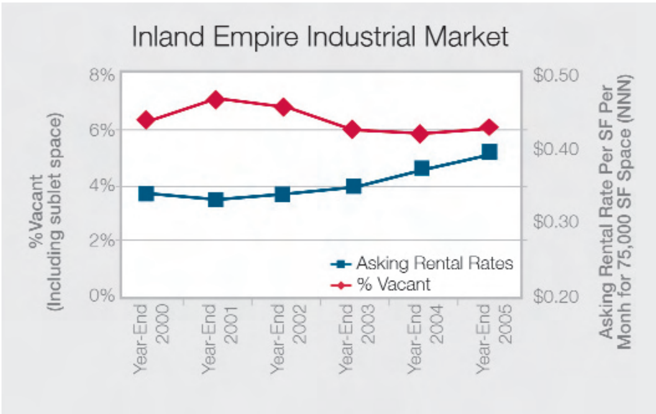
Construction activity was moderate, and 1.9 million SF came on-line. The vacancy rate dropped to 2.7%, down from 3.4% at year-end 2004. The San Gabriel Valley had the second lowest vacancy rate in the L.A. Basin, following the San Fernando Valley. Asking rental rates climbed upward (6%), and sale prices climbed to an average of $96 per SF.

As of year-end 2005, construction activity remained restrained, with 863,600 SF underway. When this space is completed, it will expand the base by 0.6%. This space is less than projected growth in demand, and the market is projected to remain very tight over the next two years. Rental rates appear likely to continue 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) remained at an exceptionally high level in 2005. It totaled 16.3 million SF, up from 15.9 million SF in 2004, and greatly exceeded 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 has emerged as the premier location in the Los Angeles Basin for big-box distribution facilities.



The Inland Empire captured 53% of the net absorption that took place in the Los Angeles Basin/ Kern County Market. A number of firms discovered they could not find space that met their needs 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.

53% of the L.A. Basin's net absorption in 2005 took place in the Inland Empire

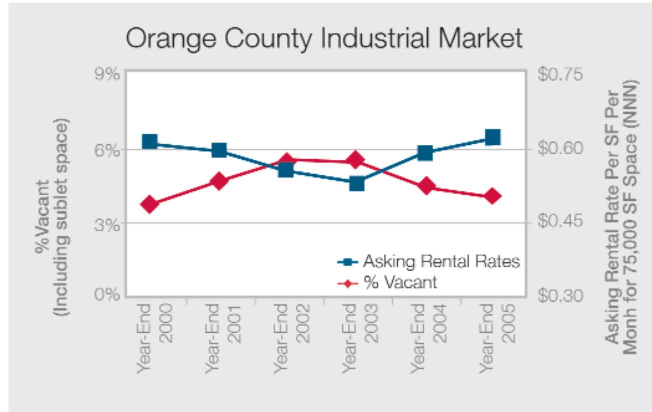
Construction activity also picked up, and 18.8 million SF was added, expanding the base by 6.2%. Due to this very high level of construction, vacancy rates climbed to 6.1%, up from 5.8% at year-end 2004. The direct vacancy rate was 5.6%. While up, these are still healthy vacancy rates, particularly for a rapidly expanding market. Rental rates climbed 7%, but remained the lowest in the Los Angeles Basin. Sale prices climbed to an average of $86 per SF. This was up 15% over 2004 levels and an exceptional 210% over prices ten years ago.

As of year-end 2005, a construction boom was underway, with 17.6 million SF under-construction. When completed, this space will expand the base by 5.5%. This is a very high level of construction activity, and could cause vacancy rates to climb by another one or two percentage points (unless demand remains super-heated). 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

Sale prices up 23% in 2005

Net absorption in Orange County in 2005 totaled 2.1 million SF, down from 3.9 million SF in 2004 and down from the long-term average of 2.8 million SF per year. The main reason for the slowing was a lack of availability, particularly of product for-sale. 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.



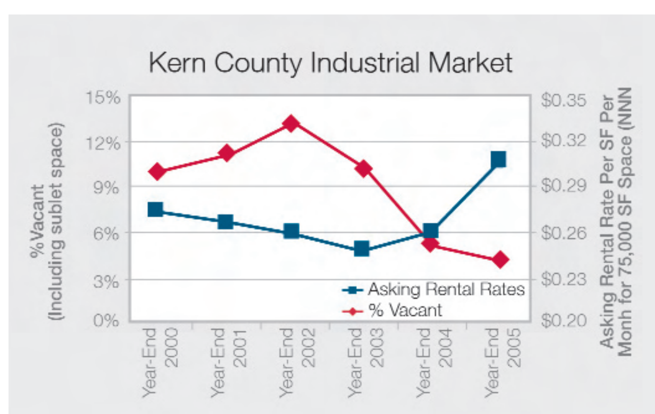
Construction activity was also restrained, and 1.6 SF came on-line. The vacancy rate dropped to 4.1%, down from 4.5% at year-end 2004. The direct vacancy rate was only 3.6%. These are low vacancy rates. Asking rental rates were up 6%. Sale prices climbed to a median of $140 per SF—the highest in the Los Angeles Basin. For small buildings in South Orange County, they reached the high $100 per SF range, and exceeded $200 per SF on occasion. Prices were up 23% over 2003 levels, and up 201% over levels ten years ago.

As of year-end 2005, just 693,000 SF was under-construction. When it is complete, it will expand the base by only 0.3%. 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 in 2006.

In addition to the standard industrial market, Orange County has a large flex/ R&D market, with 63 million SF as of year-end 2005. Vacancy rates were low, at 6%, down from 8.5% at year-end 2004.

Kern County

Net absorption in 2005 totaled 370,000 SF. This was down from 2004, when net absorption totaled 1.4 million SF. It also was down from the average witnessed over the past ten years of 2.5 million SF per year. In 2005, no big warehouse deals were



Los Angeles Basin and Kern County Industrial Market ■ Year-End 2005

	Rentable Square Feet	% Vacant Direct	% Vacant Total	Net Absorption (SF) 2005	Square Feet Completed 2005	Square Feet Under-Construction	Average Asking Rental Rate* Class A Space
Ventura County	52,985,700	5.2%	5.7%	563,000	216,700	122,400	$0.60
SFV	134,807,900	2.2%	2.4%	2,352,200	1,669,100	277,400	$0.55
Central LA	347,207,000	3.5%	3.6%	2,668,200	2,772,300	542,000	$0.52
South Bay	231,379,200	3.2%	3.4%	3,407,800	2,918,400	786,200	$0.54
San Gabriel Valley	147,987,400	2.7%	2.7%	2,739,400	1,857,000	863,600	$0.53
Inland Empire	322,286,200	5.6%	6.1%	16,327,100	18,800,700	17,608,300	$0.40
Orange County	214,685,600	3.6%	4.1%	2,125,600	1,583,200	693,000	$0.62
L.A. Basin Subtotal	1,451,339,000	3.8%	4.1%	30,183,300	29,817,400	20,892,900	$0.50
Kern County	27,747,000	4.5%	5%	370,000	280,000	164,000	$0.31
Total	1,479,086,000	3.8%	4.1%	30,553,300	30,097,400	21,056,900	$0.50

* Per SF per month, triple net. Direct lease only

completed, unlike previous years when, for example, IKEA took 1.8 million SF and Target took 1.7 million SF.

Land prices only 1/6 those in L.A. and Orange County

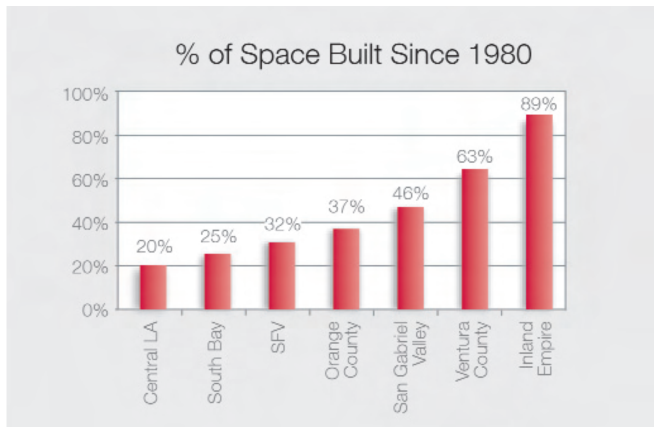
Construction activity was moderate, and 280,000 SF came on-line due to completions, expanding the base by 1%. The vacancy rate dropped to 5%, down from 5.5% at year-end 2004. Rental rates climbed $0.05 to $0.31 per SF per month NNN for a typical 75,000 SF space. Despite this increase, rental rates in Kern County were 38% lower than the average for the Los Angeles Basin ($0.50 PSF). They also were 22% lower than rates ($0.40 PSF) in the Inland Empire. Sale prices climbed significantly in 2005, and averaged $67 per SF for a typical 75,000 SF structure. Land prices also saw a sharp increase, and finished parcels sold for $3.50 to $4.25 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 year-end 2005, construction activity was moderate, and 164,000 SF was underway. As this space comes on-line, it will expand the base by 0.7%—a level that can be readily absorbed.

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, as well as very high rental rates and sale prices in the Los Angeles Basin.

Market Description

The Los Angeles Basin's Industrial Market is the largest in the United States, with 1.5 billion SF of space. The markets in Los Angeles and Orange Counties are starting to mature, with most of the space there built before 1980. The newest markets in the Basin are in Ventura County to the west and in the Inland Empire to the east. A major new market is also emerging to the north of the Basin in Kern County.



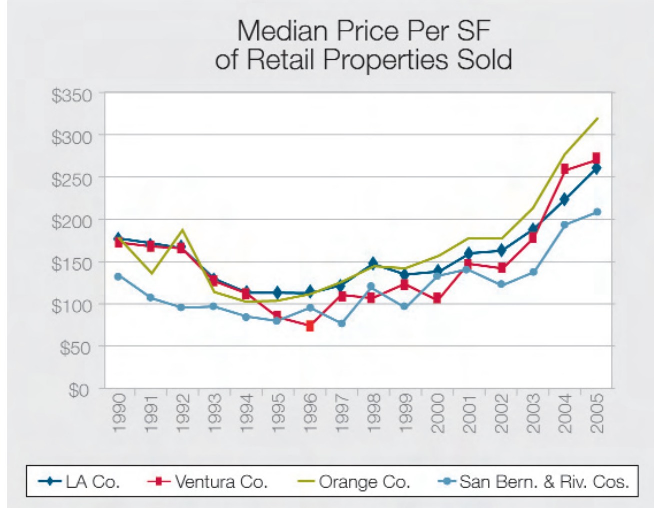
The Retail Market

Hyper-Tight Conditions Reached in L.A. and Orange County

Demand for space remained intense in 2005 from retailers looking to tap into the large, lucrative and rapidly growing Los Angeles Basin market. Retail sales in the area totaled approximately $59.5 billion in 2005, up $4.4 billion or 8% over 2004. Fueling this growth was a combination of strong growth in households (+93,000 or 1.6%), growth in median household income of approximately 4%, including very strong growth among affluent households, and a generally buoyant consumer. Retailers targeting the area included fast-food chains, coffee houses, drug stores, discount warehousers and health clubs. Wal-Mart was particularly active, including expansion in neighborhood markets. Occupied space grew by approximately 2%, and an even greater expansion would have occurred had more space been available, particularly in highly urbanized areas.

Vacancy rate falls into 2% range in L.A. and Orange Counties

Construction activity was moderate, and 2.7 million SF of space came on-line, expanding the base by approximately 1%. This significantly lagged growth in demand, and vacancy rates in all three retail property types (community centers, neighborhood centers and strip retail) dropped into the 2% range in Los Angeles and Orange Counties, and into the 4% range in the Inland Empire. 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 where savvy retailers were able to generate as much $1,000 in retail sales per SF. Effective rents climbed by 4% to 5% in most markets.



Demand from investors was also intense. The average sales price of retail properties sold in 2005 grew to $280 per SF, up 18% over the 2004 average and up a remarkable 170% over ten years ago. Sale prices were particularly high in Orange County, where they averaged $319 per SF. Average cap rates fell into the low 6% range, and a growing number of transactions took place in the 5% cap range.

Demand appears likely to continue to be strong in 2006. Retail sales in the Basin are projected to grow by at least 6%, assuming that the economy remains healthy. Retailers, particularly national chains, appear to be unfazed by the area's high rental rates, and interest in finding space in the Los Angeles Basin is strong. Construction activity remains moderate. Vacancy rates are projected to remain low into the foreseeable future. This will cause rental rates to continue to climb at above-inflation levels.

The number of investors looking to buy retail properties in the Los Angeles Basin remains high, and product limited. This should serve to keep sale prices high. However, given the magnitude of the climb in prices in recent years, we expect prices to stabilize over the next 12 months, particularly if interest rates should climb significantly.

The Apartment Market
Tightens Even Further

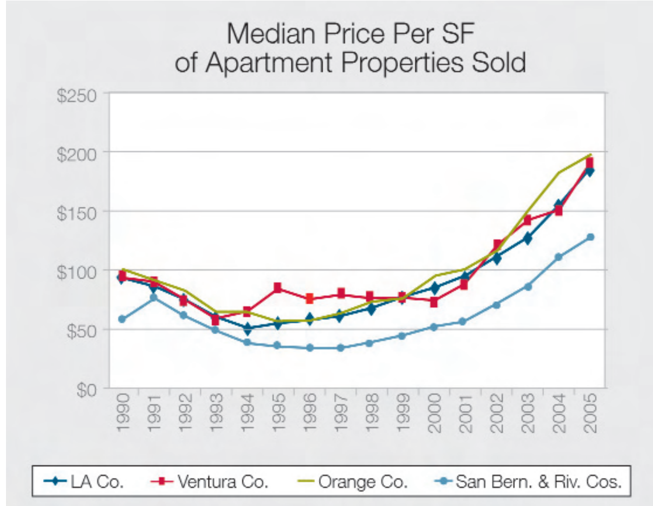
The apartment market in the Los Angeles Basin tightened even further in 2005, with strong demand stimulated by a rapidly growing local economy and supply limited by land economics that favor the building of for-sale product over rental product. In addition, supply was significantly reduced in some areas (in particular Orange County) by the conversion of a large number of apartments into condominiums. The vacancy rate fell to approximately 3% in Los Angeles County, 3.5% in Orange County and the low 4% range in the Inland Empire. These are low vacancy rates, reflecting a landlords market. Effective rents climbed by approximately 4.5% in Los Angeles and Orange Counties and by approximately 5.3% in the Inland Empire.

*Source: Economy.com and Nation Association of Realtors. A low value=low ability to afford housing in the area. Index takes into account home prices, mortgage rates and houshold income in area.

Demand is projected to remain strong in 2006. The local economy is projected to add approximately 140,000 jobs (+1.7%), and the number of households is projected to grow by approximately 100,000 (1.9%). Demand for rental housing will also be stimulated by near record-low levels of housing affordability.

Construction of apartments is running at a pace of only approximately 10,000 units per year, falling far short of demand. Actual net change in supply is significantly less, with approximately 6,000 units converted to condominiums in 2005, and, most likely, an even larger amount in 2006. Apartment construction will continue to be limited by a general lack of vacant land and from fierce competition from for-sale developers over whatever land is available.

As a result, the apartment market is projected to tighten even further in 2006. Hyper-tight conditions will be reached in a number of markets, particularly in Los Angeles County. Rent spikes are possible. Tenants in search of affordable housing will increasingly



turn to second-tier markets and properties, and outlying areas.

Condo conversions significantly reducing apartment supply

Demand from investors is also running strong, and supply limited. The median sales price climbed in 2005 to $174 per SF ($135,000 per unit). This was up 15% over the median for 2004, and an extraordinary 230% over the median ten years ago. Cap rates fell even further, and the average for the Basin was close to 5%, with a large number of transactions taking place in the 4% range. These are exceptionally low cap rates, suggesting that the market is at some risk of a price correction, particularly if interest rates should increase significantly. However, this risk is at least partially offset by market conditions that are tight and projected to become even tighter in 2006.

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