Market Report

Southern California

Year-End 2006

- Los Angeles
- Orange
- Riverside
- San Bernardino
- Ventura
- Southern Kern Counties

NAI Capital

Commercial Real Estate Services, Worldwide.

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Dear Readers,

We are pleased to present to you this Year-End 2006 Market Report for the Los Angeles Basin.

With the exception of apartments, demand from tenants for most real estate product slowed in 2006 relative to 2005, but was moderately strong nevertheless. Reasons for the slowing include an inevitable adjustment to the torrid growth in demand that occurred in 2005, as well as what appears to be the beginning of the maturation of the latest economic growth cycle. For apartments, demand from tenants increased, in part driven by a shift away from the for-sale housing market.

Construction completions were limited, and vacancy rates fell for most product types in most areas. Market conditions in the Los Angeles Basin are now the tightest they have been in at least 20 years.

Competition from investors and owner-users to buy properties in the Los Angeles Basin has been intense. Sale prices have reached new highs for all property types, and cap rates have fallen into the 4%, 5% and 6% ranges – historically exceptionally low levels. However, a slight slowing in activity in the last half of the year suggests that the for-sale market may be peaking in some areas.

Most economists project the local economy will slow some in 2007. Construction activity has picked up, and much of the new space will start coming on-line mid-2007. This too suggests that the market may currently be near its peak. However, important differences exist by submarket and by property type. For example, virtually no office construction is underway in the Tri-Cities (Glendale/Burbank/Pasadena) market, and market conditions there will be very tight over the next 12 to 18 months. Similar dynamics exist for industrial and retail for most of Los Angeles County. Conversely, a very large amount of construction is underway for office in South Orange County and for industrial in the Inland Empire East. Market conditions there are projected to soften in 2007. For apartments, there is a dearth of construction activity in all areas but the Inland Empire, and vacancy rates in this market are projected to remain very tight.

Highlights presented in this report include:

- The Basin-wide vacancy rate for office has fallen to 9.5%, its lowest level since the early 1980s. Rental rates were up by 8%, including by 19.5% in Central Los Angeles and 15.1% in West Los Angeles.

- Industrial vacancy rates remained very low, just 4.0%, despite the completion of 32.5 million SF in 2006. Asking rental rates climbed by 7.5%, and sale prices per SF continued to skyrocket (up 18%).

- Apartment vacancy rates fell to the high 2% range in Los Angeles County and the 3% range in Orange and Ventura Counties, and climbed slightly to 5% in the Inland Empire. Effective rental rates climbed by 6%, and sale prices per SF by 8%.

- The retail market was exceptionally tight, with vacancy rates in the 2% range in Ventura, Los Angeles and Orange Counties, and in the 4% range in the Inland Empire. Effective rents climbed by 6% and sale prices per SF by 14%.

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

Los Angeles Basin Office Market

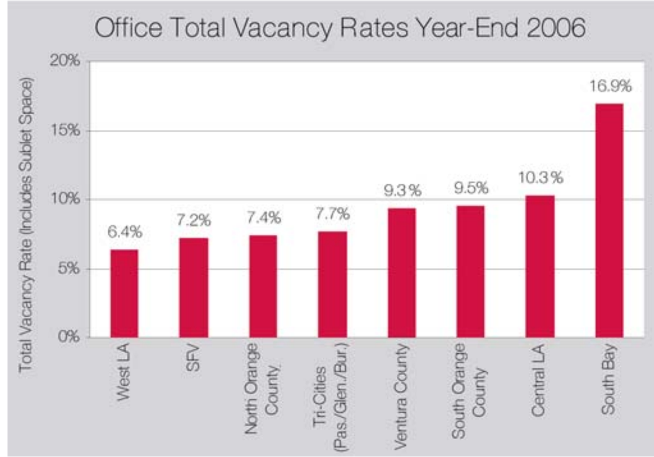
Demand Slows, But Market Remains Healthy

Demand for office space in the Los Angeles Basin slowed in 2006, due to a combination of factors, including the maturation of the economic expansion cycle (which started in 2002 in Orange and Ventura Counties and in 2003 in Los Angeles County), a downturn in the mortgage-finance industry, limited availability in prime office markets, and climbing rental rates. Construction completions, however, were relatively low in 2006, and the vacancy rate fell to 9.5%. Vacancy rates were single-digit in six of the area's eight major markets. Asking rental rates for Class A space climbed by 8%, on average. Investor and owner-user demand was very strong, and median sale prices per SF climbed by 19%.

The slowing in demand is expected to plateau in 2007, assuming that the economy remains at least moderately healthy. In Ventura County, a relatively large amount of space will come on-line due to construction completions, and vacancy rates there are projected to increase slightly. In Los Angeles County, construction completions will be more moderate, and the market is projected to tighten even further in most areas. In Orange County, a large amount of space will come on-line in South Orange County, and vacancy rates are projected to climb moderately.

In 2006, net absorption totaled 4.1 million SF.[1] This represented growth in the pool of occupied space within the Basin of 1.4% — a moderate pace. This was down sharply from 2005, when the Basin absorbed 11.9 million SF (a very strong 4.2% increase). It also lagged the long-term average for the Los Angeles Basin (+6.6 million SF per year, 1985 to present).

The slowing in demand was largely due to a slowing in employment growth. In the 12-month period ending October 2006 (the most recent date for which employment estimates were available as of the time of this writing), the Basin added 83,700 jobs (+1.2%), including 24,300 (+1.5%) in office-related sectors.[2] This was down approximately 30% from 113,500 jobs (+1.6%) for the same time period ending October 2005, including 35,500 (+2.2%) in office related jobs.



Strong net absorption occurred in West Los Angeles (+1.2 million SF), as well as in the South Bay (+757,400 SF). A very sharp slowing in net absorption occurred in South Orange County (+255,800 SF, down from 2.6 million SF in 2005) where there is a large concentration of mortgage-finance firms.

Construction completions in 2006 totaled 2.4 million SF, expanding the base by 0.7%. This was significantly less than growth in demand (+4.1 million SF), enabling vacancy rates to drop moderately to 9.5%, down from 10% twelve months ago. If sublet space is subtracted from this statistic, the vacancy rate was 8.4%. These are the lowest vacancy rates for the Los Angeles Basin in at least 20 years.

> The lowest vacancy rate in at least 20 years

Vacancy rates were lowest in Class C buildings (just 4.4%), followed by Class B (9%) and Class A (10.5%). Vacancy rates were below 10% in all submarkets except Central Los Angeles (where it was10.3%) and the South Bay (16.9%). They were particularly low in West Los Angeles (6.4%).

With vacancy rates below 10% in most markets, asking rental rates grew at a strong pace, finally fully offsetting the losses that occurred in 2001 and 2002. In 2006, they climbed by 8% on

[1] Data for buildings with 20,000 SF or more of office space. Excludes medical and owner-occupied space. NAI Capital's office database and historical records are continuously updated. Therefore, the numbers presented in this report sometimes differ from those presented in previous Market Reports.
[2] Based upon preliminary data from the California State Economic Department for employment by place of work (survey of firms).

Los Angeles Basin Office Market ■ Year-End 2006

	Rentable Square Feet	% Vacant Direct	% Vacant Total	Net Absorption (SF) 2006	Square Feet Completed* 2006	Square Feet Under-Construction	Average Asking Rental Rate** Class A Space
Ventura County	13,614,700	8.2%	9.3%	415,600	452,500	1,082,900	$2.33
SFV	27,155,400	6.7%	7.2%	404,400	127,600	848,000	$2.39
Tri-Cities (Pas./Glen./Bur.)	31,725,000	6.7%	7.7%	491,900	492,700	-	$2.66
Central LA	82,209,800	9.4%	10.3%	421,800	43,000	-	$2.37
West LA	50,205,100	5.7%	6.4%	1,220,700	64,900	1,632,800	$3.33
South Bay	37,858,700	16.1%	16.9%	757,400	-	-	$1.99
North Orange County	31,021,300	6.3%	7.4%	87,000	131,700	190,300	$2.27
South Orange County	58,541,200	7.3%	9.5%	255,800	1,128,600	4,289,400	$2.83
Total	**332,331,200**	**8.4%**	**9.5%**	**4,054,600**	**2,441,000**	**8,043,400**	**$2.47**

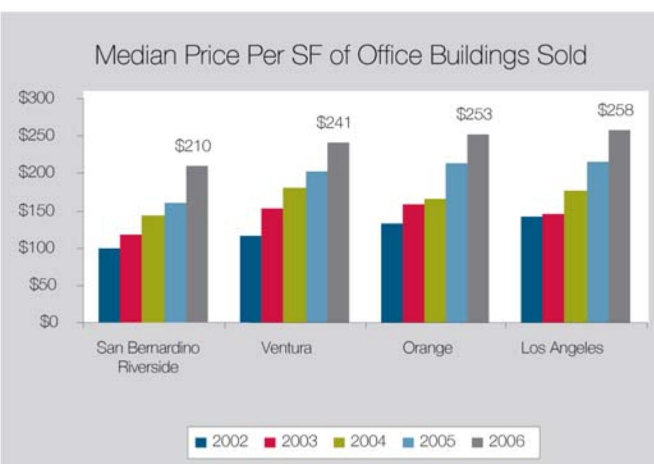
* Includes return-to-market of renovated space less any demolitions
** Per SF per Month, Full Service Gross. Direct lease only.
Data is for all competitive buildings (Classes A, B and C) 20,000 SF or larger. Excludes owner-occupied and medical buildings.

average. Even stronger growth was witnessed in Central Los Angeles (+19.5%) and West Los Angeles (+15.1%). Rental rates were highest in West Los Angeles and lowest in the South Bay.

Market projected to remain healthy in most submarkets

Construction activity has picked up very sharply. As of year-end 2006, 8 million SF was underway, up from 6.6 million SF six months ago and from just 2.8 million SF twelve months ago. When complete, this new space will expand the base by 2.4% or approximately 1.25-years-worth of demand under normal economic conditions. Since this space will take approximately 1.25 years to come on-line, Basin-wide vacancy rates should generally be flat, assuming that the economy remains at least moderately strong. Should the economy weaken some, as many are projecting, Basin-wide vacancy rates may climb by approximately one percentage point, but still generally stay in healthy territory.

Important differences in market conditions will occur by submarket. The vast majority of the space under-construction is in three submarkets, South Orange County (4.3 million SF), West Los Angeles (1.6 million SF) and Ventura County (1.1 million). This will provide some needed relief in the very tight West Los Angeles market, forcing vacancy rates there to climb into the 7% or 8% range (still a low to healthy rate). In Ventura County, only approximately half of the space under-construction will come on-line in 2007, and vacancy rates there are projected to creep up only slightly. In South Orange County, vacancy rates appear likely to climb to the low teens as the new space comes on-line, making for slightly soft conditions. In all other submarkets, vacancy rates are projected to remain low or to drop even further, and strong growth in rental rates should be expected.



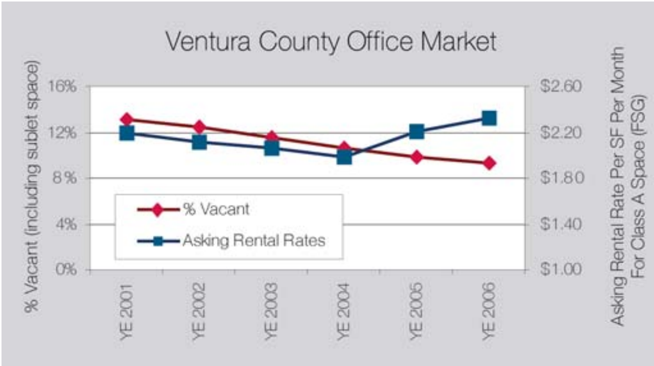
The positive performance of the Los Angeles Basin office market and the still-moderate interest rates has stimulated strong demand from investors and, for small buildings, from owner-users. In the past four years, median prices per SF have nearly doubled, including growth in median price per SF of approximately 20% for properties sold in 2006 relative to 2005. However, the level of activity slowed in the last half of the year, suggesting that the for-sale market may be peaking in some areas.

The Medical Office Segment

The medical office segment remains very healthy, with a low Basin-wide vacancy rate of just 6%. Demand for medical condominiums remains very strong. 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

Net absorption in 2006 totaled 415,600 SF. This was double the level of 207,100 SF witnessed in 2005. At the same time, a large amount of space came on-line due to construction completions, 452,500 SF. The vacancy rate dropped to 9.3%, down slightly from 9.5% twelve months ago. This remained a healthy vacancy rate for the area. Asking rental rates climbed by 5.6%. Concessions remained minimal if any. Interest by owner-users in for-sale product remained very strong.



Construction activity has picked up sharply, and 1.1 million SF was underway as of year-end 2006. Approximately half of this space will come on-line in 2007, and the other half in 2008. As the space comes on-line, it will expand the base by a total of 8%. Demand is expected to remain strong, driven by 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. However, given the magnitude of the construction activity, vacancy rates are projected to creep up slightly, approaching 10% over the next two years. Rental rates are projected to continue to climb at a moderate to strong pace.

Net absorption in 2006 double that of 2005

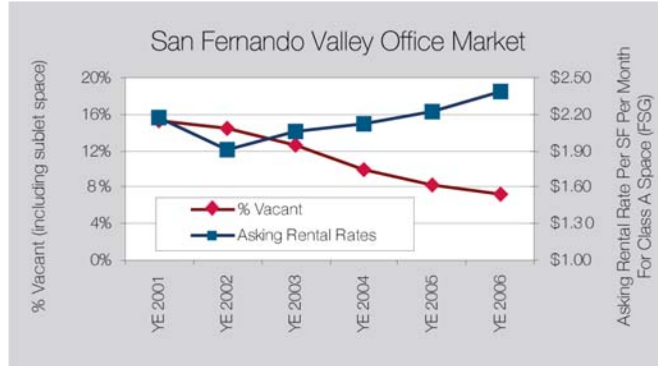
The San Fernando Valley

Market conditions tightened significantly in the San Fernando Valley in 2006, with the vacancy rate dropping to 7.2%, down from 8% twelve months ago and from 15% just four years ago. The market became the tightest it has been since at least the 1980s. Tenants looking for large blocks of contiguous space found it difficult to find space that met their needs. Demand remained strong from firms in insurance and professional services, as well as from high-tech firms.

The lowest vacancy rate (7.2%) since at least the 1980s

Net absorption in 2006 totaled 404,400 SF, approximately two-thirds the pace of 2005 (650,900 SF) and of the long-term average (600,000 SF per year) witnessed in the area. Construction completions were minor, with just 127,600 SF coming on-line. Asking rental rates were up 7.4% over year-end 2005.

Construction activity has picked up significantly, and 848,000 SF was under-way as of year-end 2006. When complete (approximately over the next 12 to 18 months), it will expand the base by 3.1%. This represents approximately 1.5-years-worth of supply under average economic conditions, suggesting that market conditions will remain stable. Even if the economy should slow and/or net absorption should continue to occur at a pace that is two-thirds the norm for the area, vacancy rates would climb by approximately only one percentage point or so over the next year and a half. This would remain a healthy vacancy rate, and moderate to strong growth in rental rates should be assumed.



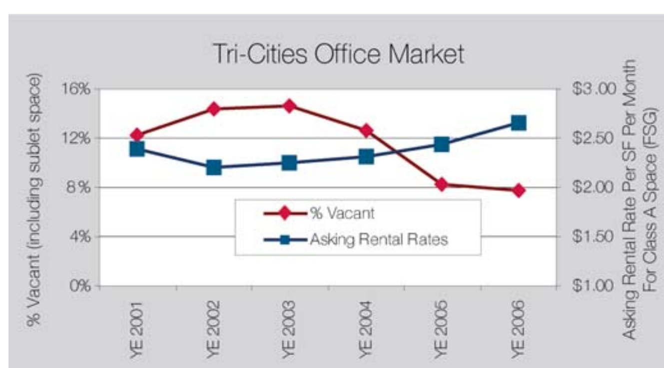
The Tri-Cities (Burbank/ Glendale/ Pasadena)

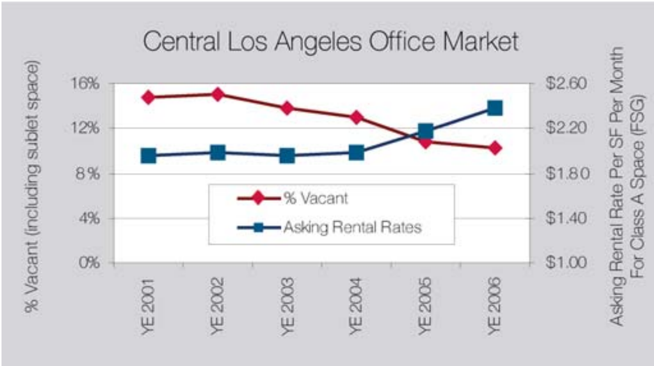
Net absorption totaled 492,000 SF in 2006, down from a very strong 1.6 million SF in 2005. It also somewhat lagged behind the average rate witnessed 1985 to present (approximately 650,000 SF per year). The amount of space that came on-line due to construction activity (493,000 SF) was nearly the same as net absorption (492,000 SF). Since all of the new space was absorbed, vacancy rates dropped moderately, to 7.7% from 8.1%. Asking rental rates were up sharply, +9.1% over a year ago.

As of year-end 2006, there was no construction activity underway in the Tri-Cities. This will enable vacancy rates to drop even further in 2007, even if there should be a moderate slowing in the economy. As the vacancy rate drops toward 7%, rent spikes can be expected, particularly in Pasadena and Burbank, where there is an acute shortage of large blocks of contiguous space.

No space under-construction; rent spike expected

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 also slowed in 2006, and net absorption totaled 422,000. This was down sharply from the exceptionally high level of 2.4 million SF witnessed in 2005, as well as from the long-term average for the area of 1 million SF per year. Demand for the downtown market continued to come primarily from 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.

No construction completions took place, and the vacancy rate dropped to 10.3%. This was down from 10.8% a year ago and from 13% two years ago. The market has finally shifted to one of health. Asking rental rates for Class A space were up 19.5% over a year ago, for the largest percentage increase in the Basin.

19.5% increase in asking rental rates

Construction activity remains non-existent. We expect that demand will be moderately strong, driven by availability of quality space at still relatively low rental rates and by tight conditions in adjacent markets. Availability in premier buildings will become scarce, particularly for large blocks of contiguous space.

West Los Angeles

Demand for office space was strong in 2006 in West Los Angeles. Net absorption totaled 1.2 million SF, surpassing the 990,000-SF-per year average 1985 to present. It was down, however, from the exceptionally strong 2.6 million SF level witnessed in 2005. Good growth in demand continued to come from the entertainment industry, professional services, and high-tech firms. A lack of available space, however, limited the amount of activity that could take place.

Just 64,900 SF of space came on-line in 2006. This enabled the vacancy rate to drop to 6.4%, down from 8.4% one year ago and down very sharply from 14% two years ago. Asking rental rates for Class A space grew by 15.1% over a year ago.

The lowest vacancy rate (6.4%) in the LA Basin

A large amount of construction activity (1.6 million SF) was underway as of the end of the year, including 2000 Avenue of the Stars, with 775,500 SF scheduled to come on-line in early 2007. As the 1.6 million SF comes on-line, it will expand the base by 3.3%, and will provide needed relief for tenants in this very tight market.

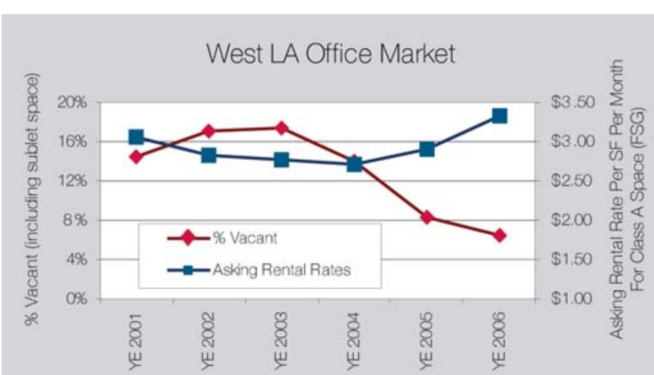
West Los Angeles has a large concentration of high-profile firms (including those in entertainment, computer programming and finance). It also is in the midst of some of the most exclusive residential neighborhoods in the nation, and it commands the highest rents in the Basin. These are positive characteristics, which will drive strong long-term growth in demand. Vacancy rates are projected to remain relatively low (in the 7% to 8% range) for the next year and a half, assuming that the economy remains relatively healthy. Rental rates appear likely to remain high.

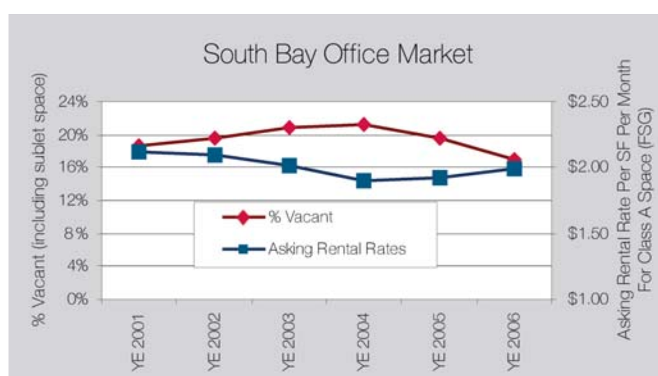
The South Bay

Good net absorption took place in the South Bay in 2006, 757,400 SF, exceeding the long-term average for the South Bay of 620,000 SF. This was the second year in a row of above-average net absorption for the South Bay. In 2005, net absorption totaled 910,000 SF. Much of the demand continued to be driven by firms unable to find space that met their needs in the adjacent very tight West Los Angeles market.

No new space came on-line due to construction. The vacancy rate dropped to 16.9%, still high, but down from 19.6% a year ago.

Asking rental rates were up 4% over a year ago. As of year-end 2006, the South Bay had the lowest asking rental rates in the Basin, 20% below the regional average.





Construction activity is expected to remain restrained and demand is projected to be at least moderate for at least another 12 months. 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 still on the market, complete health is still approximately two years off, assuming that the economy remains positive.

The lowest rental rates in the Basin

North Orange County

The office market in North Orange County remained healthy in 2006. Construction completions (131,700 SF) only slightly exceeded net absorption (87,000 SF), and the vacancy rate remained low at 7.4% (up just 0.1 percentage points from 7.3% last year). Asking rental rates for Class A space climbed by a strong 9%.

Rental rates up 9%

Demand continued to come from a very broad mix of firms, including those in telecommunication, high-tech and professional services. However, it was down significantly from the mortgage-finance industry, which has a large concentration in this area. Demand by owner-users to purchase buildings remained very strong in this highly entrepreneurial market.

While average asking rental rates climbed 9% over mid-year 2005, they still were the second lowest in the Basin, 8.3% below the regional average. It also was 20% lower than rates in adjacent South Orange County.

As of year-end 2006, 190,300 SF was under-construction. This is a small amount, which, when completed, will expand the base by only 0.6%. We expect that demand will be low to moderate over the next 12 months, dampened some by a probable continued downturn in the mortgage-finance industry. North Orange County's vacancy rate is projected to remain in the low 7% range over the next twelve months. Rental rates are projected to continue to climb upward at a strong pace.

South Orange County

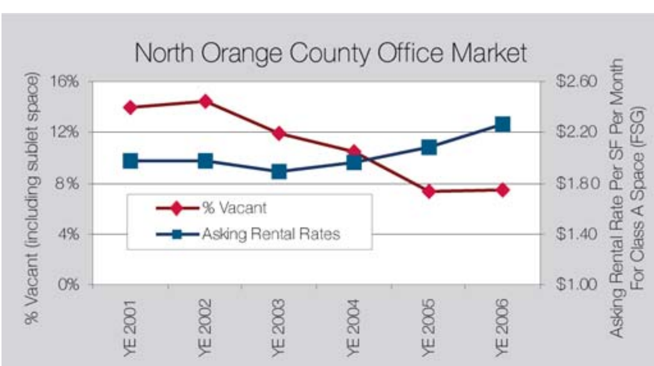
Net absorption in South Orange County in 2006 totaled 255,800 SF, down very sharply from the exceptionally strong 2.6 million-SF level witnessed in 2005, and down from the 1.6 million SF per year average witnessed 1985 to present. Reasons for the sharp slowing include a natural adjustment to the above-average levels of net absorption in 2005 (some of the net absorption that could have taken place in 2006 occurred in 2005), as well as a downturn in the mortgage-finance industry, which is highly concentrated in the South Orange County market.

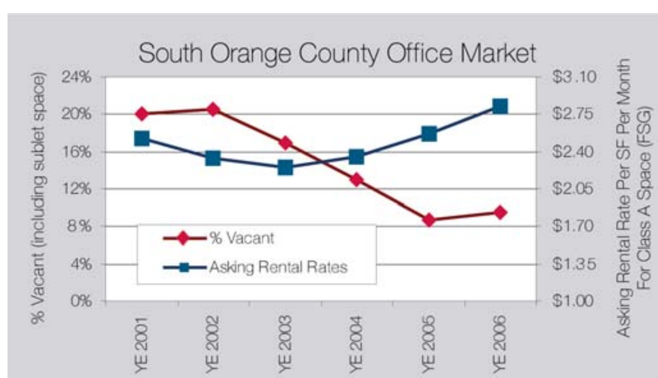
1.1 million SF of space came on-line in 2006 due to construction completions, expanding the base by 2%. The vacancy rate climbed to 9.5%, up from 8.7% twelve months ago. This remained a healthy vacancy rate, and the average asking rental rate for Class A buildings climbed by a strong 9.8%. South Orange County commands the second highest rental rates in the Basin. The area has emerged in recent years to be one of preeminent office locations in the Los Angeles Basin. Firms, particularly those in high-tech, communications, engineering and professional services, are attracted by access to a highly educated labor force, executive housing and planned-community environments. South Orange County also remains a center for the mortgage-finance industry.

Construction activity has picked up very sharply. As of year-end 2006, 4.3 million SF was underway (up from 1.1 million SF just one year ago). As this space comes on-line, it will expand the base by 7.3%. It also represents approximately 2.7 years of supply under normal economic conditions. Vacancy rates in South Orange County appear likely to climb Into the low teens over the next two years, or even higher should the economy slow and/or the downturn in the mortgage-finance industry intensify. The strong growth witnessed in the past twelve months in rental rates appears likely to soon plateau.

Vacancy may climb to the low teens in the next 2 years

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 Remains Very Tight

> 3rd year in a row of tight market conditions

For the third year in a row, vacancy rates in the Los Angeles Basin and Kern County Industrial Market hovered near 4% — very low for a market still undergoing rapid expansion. Firms continued to find it difficult to find space that met their needs, and were forced to make do as best they could. Sale prices per SF continued to skyrocket, and asking rental rates showed the largest increases in at least six years.

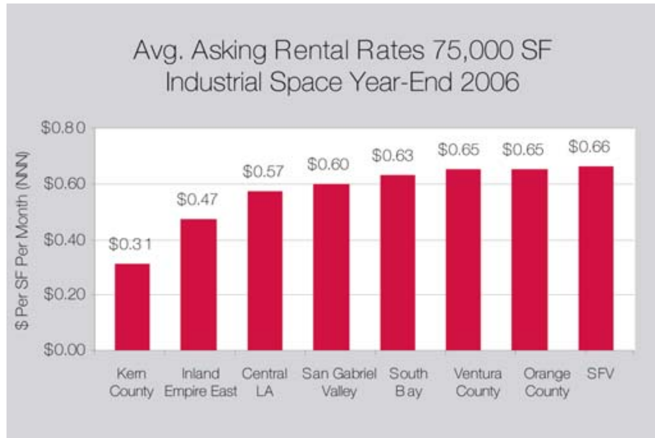
Net absorption totaled 26.4 million SF, down from 30.2 million SF witnessed in 2005, but roughly in-line with the 26.8 million SF per year pace witnessed on average since 1984.[3] Net absorption was particularly high in the Inland Empire, where it totaled 15.4 million SF or 59% of the area total. The Inland Empire offered a large supply of new, modern space at relatively low rental rates. Net absorption in Los Angeles County was constrained due to a lack of available product.

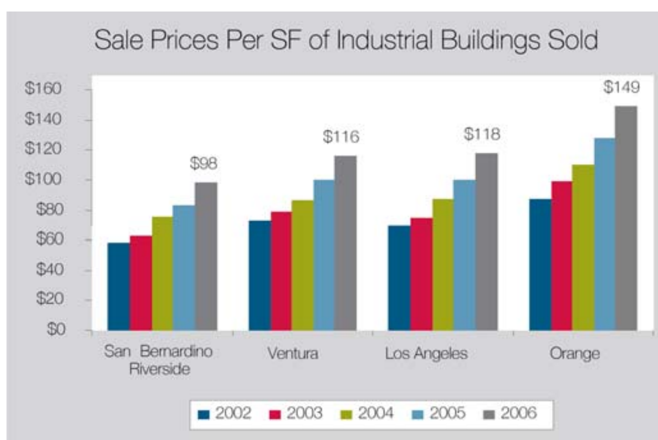
A large amount of new product was completed in 2006 (32.5 million SF), with most of that in the Inland Empire (23.1 million SF). This expanded the base in the region by 2.1%. Despite the large amount of new construction, the vacancy rate was stable at 4%. The direct vacancy rate (excluding sublet space) was just 3.6%. These are very low numbers, reflecting tight market conditions. Vacancy rates were 7% or lower in all submarkets, with the lowest numbers in Los Angeles County (in the 2% and low 3% range).

As a result of the tight market conditions, asking rental rates climbed by 7.5%. Sale prices per SF climbed even more significantly, and reached an average of $123 per SF. This was up 18% over 2005 levels, and an extraordinary 190% over ten years ago. Prices were particularly high for small buildings, and particularly in South Orange County, where they significantly exceeded $200 per SF.

As of year-end 2006, 26.3 million SF was under-construction, which, when complete, will expand the base by 1.7%. This is a high level of activity (up from 21.1 million SF as of year-end 2005), somewhat above long-term growth in demand (26.8 million SF per year), considering that this space will come on-line over approximately a nine-month period. As a result, basin-wide vacancy rates in 2007 are projected to climb slightly. However, virtually all of any increase in vacancy is likely to be limited to Inland Empire East, where 65% of the new construction is taking place. Vacancy rates in the rest of the Basin are projected to remain very low.

If and when interest rates climb significantly, we expect that demand will shift from buying to leasing. This will slow the upward trend in sale prices, but will stimulate rental rates.





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

Los Angeles Basin and Kern County Industrial Market ■ Year-End 2006

	Rentable Square Feet	% Vacant Direct	% Vacant Total	Net Absorption (SF) 2006	Square Feet Completed 2006	Square Feet Under-Construction	Average Asking Rental Rate* 75,000 SF Space
Ventura County	55,131,300	3.4%	3.8%	1,027,100	334,800	24,000	$0.65
SFV	137,551,000	2.2%	2.5%	1,241,100	1,301,000	638,600	$0.66
Central LA	349,087,700	2.5%	2.6%	4,486,000	1,112,400	364,000	$0.58
South Bay	243,958,500	2.9%	3.3%	1,842,400	1,969,800	89,800	$0.63
San Gabriel Valley	152,017,500	2.4%	2.8%	1,814,200	2,250,000	2,196,700	$0.60
Inland Empire West	206,806,800	5.5%	6.4%	5,004,300	9,091,300	4,501,200	$0.47
Inland Empire East	155,915,400	6.5%	6.7%	10,439,900	14,066,500	17,051,900	$0.47
Orange County	217,933,000	3.8%	4.2%	(107,100)	1,659,800	1,213,800	$0.65
L.A. Basin Subtotal	1,518,401,200	3.6%	3.9%	25,747,900	31,785,600	26,080,000	$0.56
Kern County	28,612,500	3.7%	4.5%	635,600	685,500	177,000	$0.32
Total	**1,547,013,700**	**3.6%**	**4%**	**26,383,500**	**32,471,100**	**26,257,000**	**$0.56**

* Per SF per month, triple net. Direct lease only. Total is a weighted average, weighted by vacant SF

Ventura County

Net absorption in 2006 totaled 1 million SF, up sharply from 563,000 SF witnessed in 2005. It also was more in-line with the long-term average for the County of 1.2 million SF per year. Demand from owner-users to buy small buildings remained very strong, but a lack of buildings for sale constrained this activity.

Just 334,800 SF of space came on-line in 2006 from construction. The total vacancy rate dropped to 3.8%, down from 5.6% a year ago. The direct vacancy rate (excluding sublet space) was 3.4%. These are low vacancy rates. Asking rental rates for a typical 75,000 SF space climbed to $0.65 per SF per month NNN – a relatively high rate, and up 3% over a year ago. 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 reached $116 per SF on average, a 16% increase over 2005 levels.

Sale prices per SF up 16%

As of year-end 2006, only 24,000 SF of construction was underway. Demand is expected to continue to be moderately strong, particularly from small manufacturers and distributors. Vacancy rates are projected to continue to fall. The growth rate in asking rental rates is expected to increase, and sale prices are expected to remain high.

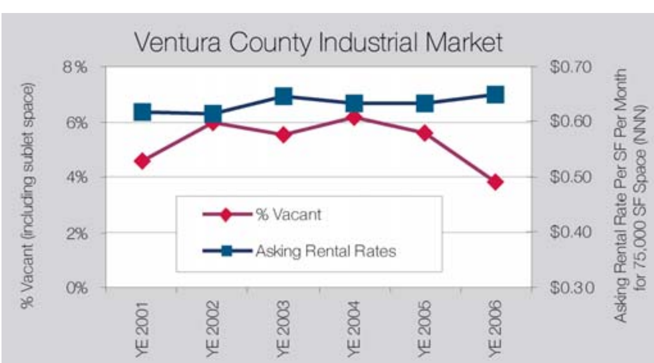
In the long-term, construction activity will be constrained by highly restrictive local growth ordinances.

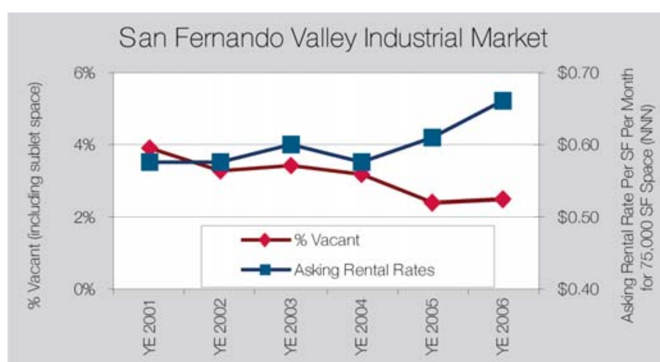
In addition to the standard industrial market, Ventura County/ Conejo Valley have a moderate-sized flex/ R&D market, with 9.1 million SF. As of year-end 2006, the vacancy rate was moderately high, at 9.6%. However, this was down from 11.3% as of a year ago and from 16.3% two years ago. The R&D market is projected to continue to tighten as demand continues to grow from high-tech sectors and given the absence of any construction activity.

The San Fernando Valley

Net absorption in the San Fernando Valley totaled 1.2 million SF in the 2006. This was half the level in 2005 (2.4 million SF), and somewhat below the long-term average for the area of 1.4 million SF per year. It is believed that net absorption would have been higher had more space been available.

The lowest vacancy rate (2.5%) in the Basin





Construction activity was moderate, and 1.3 million SF was completed. Almost all of this space was absorbed, and the total vacancy rate at year-end was a very low 2.5%, up slightly from 2.4% last year. The direct vacancy rate was just 2.2%. These are exceptionally low vacancy rates, the lowest in the Los Angeles Basin. Responding to the tight market conditions, asking rental rates climbed by 8.1%. Average sale prices climbed to $130 per SF – a very high level.

As of year-end 2006, 638,600 SF was under-construction. When completed, this space will expand the base by just 0.5%. 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 moderate to strong, particularly from the small and medium sized manufacturer and distributor.

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

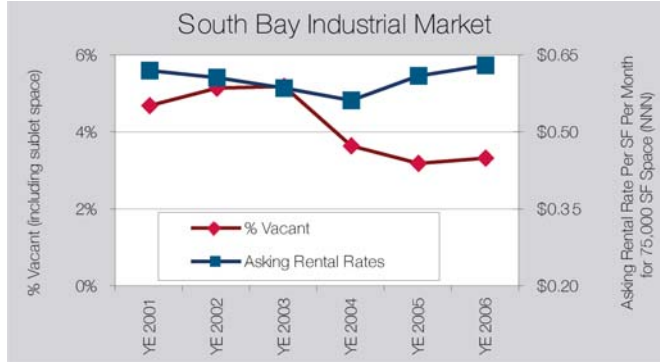
Net absorption in 2006 totaled 4.5 million SF, up significantly from 2.7 million SF in 2005 and exceeding the long-term average for the area of 3.2 million SF per year. Just 1.1 million SF was completed via construction, expanding the base by 0.3%. The vacancy rate dropped to 2.6%, down from 3.2% a year ago. The vacancy rate in Central Los Angeles hovered in the 3% range 2001 through 2005, and this is the first time it dipped below 3%. Asking rental rates for a typical 75,000 SF space climbed to $0.58 per SF, up 9.1% from $0.52 a year ago. Average sale prices climbed to $108 per SF – a high level for a market with relatively old stock.

As of year-end 2006, construction activity was very restrained, with only 364,000 SF underway. As this space is completed, it will expand the base by just 0.1%. The market is expected to remain exceptionally tight into the foreseeable future.

Minimal construction activity

The South Bay

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 availability constrained the amount of absorption that could take place. Net absorption in 2006 totaled 1.8 million SF, down from 3.4 million SF in 2005, and down from the long-term average for the area of 2.2 million SF per year. 2 million SF of new construction came on-line during the period, expanding the base by 0.8%. The vacancy rate climbed slightly, to 3.3% from 3.2%, but remained exceptionally low. Asking rental rates climbed by 3.5%, and average sale prices climbed to $115 per SF.

As of year-end 2006, just 89,800 SF of construction was underway. The market will be very tight in 2007. Rental rates appear likely to climb at fast pace, and sale prices to remain firm.

Market projected to remain exceptionally tight

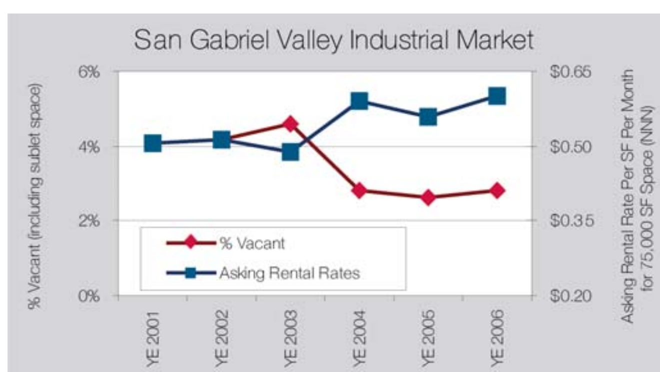
The San Gabriel Valley

Net absorption in the San Gabriel Valley 2006 totaled 1.8 million SF, down from 2.7 million SF in 2005 and down from the 2.4 million SF per year pace from 1985 to present.

Construction activity was moderate, and 2.3 million SF came on-line, expanding the base by 1.5%. The vacancy rate increased slightly to 2.8%, up from 2.6% a year ago. However, this remained a very low rate. Asking rental rates climbed upward by 8%, and sale prices reached an average of $120 per SF.

Asking rental rates up 8%

As of year-end 2006, construction activity was moderate, with 2.2 million SF underway. When this space is completed, it will



expand the base by 1.4%. This space is approximately equal to projected growth in demand, and the market is projected to remain very tight. Rental rates appear likely to continue to climb at a fast pace, and sale prices are projected to remain firm.

The Inland Empire

Net absorption in the Inland Empire (Western San Bernardino and Riverside Counties) remained exceptionally high in 2006. It totaled 15.4 million SF, down slightly from the also exceptionally high level of 16.3 million SF in 2005.[4] 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 59% of the net absorption that took place in the Los Angeles Basin/ Kern County Market. A number of firms found that they could not find space that met their needs in adjacent Los Angeles, Orange and San Diego Counties – availabilities were just too low. Also, the rental rates and sale prices in the Inland Empire were much more competitive. In recent years, the Inland Empire East (which includes the eastern portion of the San Bernardino Valley as wells as Moreno and Perris Valleys) has emerged as a major market. It captured 10.4 million of the 15.4 million SF absorbed in the Inland Empire in 2006.

An extraordinary 23.2 million SF of space was completed in the Inland Empire in 2006, expanding the base by 6.8%. Due to this very high level of construction, vacancy rates climbed to 6.5%, up from 6% a year ago. The direct vacancy rate was 5.9%. While up, these are still healthy vacancy rates, particularly for a very rapidly expanding market.

Rental rates climbed 9% over a year ago, but remained the lowest in the Los Angeles Basin. Sale prices climbed to an average of $98 per SF. This was up 18% over 2005 levels and 211% over prices ten years ago.

As of year-end 2006, a construction boom was underway, with 26.1 million SF under-construction. When completed, this space will expand the base by 5.9%. This is a very high level of construction activity, and could cause vacancy rates to climb by approximately a percentage point or two (unless demand remains super-heated). Most of the construction activity (17 million SF) was in Inland Empire East, where ample available land exists.

Construction boom underway (26.1 million SF)

Orange County

There was a small amount of negative net absorption in Orange County in 2006, -107,100 SF. This was a reversal from 2005, when net absorption totaled 2.1 million SF. It also was down from the long-term average for the County of 2.2million SF per year. The primary reason for the negative net absorption was the lack of available space – when vacancy rates get as low as they did in Orange County in 2006, the general lack of movement in the market can result in negative net absorption one time period, and positive the next.

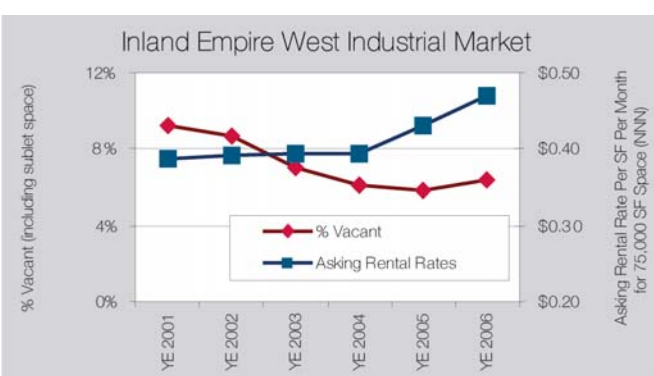
Orange County remains highly attractive to the mid-sized manufacturer and distributor in a wide variety of fields, including high technology, food, apparel and communications.

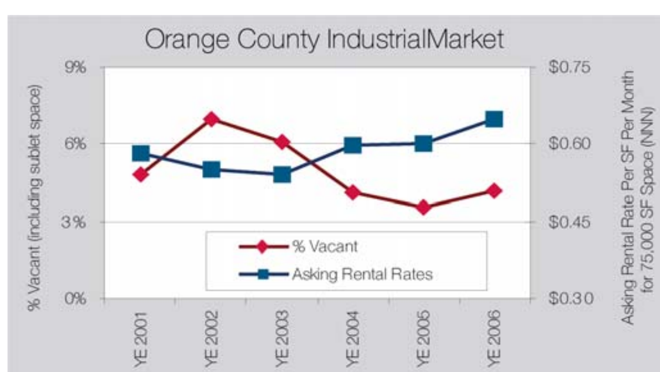
Construction activity was low to moderate, and 1.7 SF came on-line, expanding the base by 0.8%. The vacancy rate climbed to 4.2%, up from 3.6% a year ago. The direct vacancy rate was 3.8%. Despite the recent up-tick, these remain low vacancy rates. Asking rental rates were up 8.3%. Sale prices climbed to a median of $149 per SF – the highest in the Los Angeles Basin. For small buildings in South Orange County, the average price exceeded $200 per SF. Prices were up 16% over 2005 levels and up 193% over levels ten years ago.

The highest median sale prices per SF ($149) in the Basin

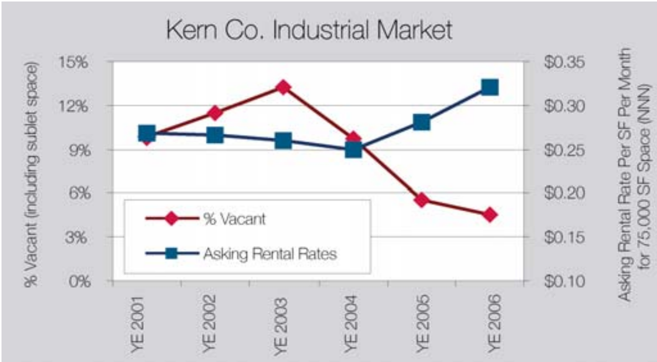
As of year-end 2006, 1.2 million SF was under-construction. When it is complete, it will expand the base by only 0.6%. Land prices in Orange County have risen to the point where they are prohibitive for most speculative industrial projects. The market is projected to continue to tighten over the next twelve months.

In addition to the standard industrial market, Orange County has a large flex/ R&D market, with 63 million SF as of year-end 2006. Vacancy rates were low, at 5.2%, down from 6.2% a year ago and from 10.4% two and a half years ago. Rental rates and sale prices were climbing sharply. Just 89,000 SF was under-construction as of year-end 2006.





[4] Data presented in this discussion is for the combined total of Inland Empire West and Inland Empire East. The data presented in the table separates the two markets. The data presented in the graphic is for Inland Empire West only, since NAI Capital has only recently started to track the Inland Empire East market, and reliable historical data does not exist.



Kern County

Net absorption in 2006 totaled 635,600 SF. This was up from 2005, when net absorption totaled 370,000 SF, but down still from the average witnessed over the past ten years of 2.5 million SF per year. In the past two years, there were no big warehouse deals completed, unlike previous years when, for example, IKEA took 1.8 million SF and when Target took 1.7 million SF.

Construction activity was moderate, and 685,500 SF came on-line due to completions, expanding the base by 2.5%. The vacancy rate dropped slightly, to 4.5% from 5% last year. Rental rates climbed in 2006 by $0.04 to $0.32 per SF per month NNN for a typical 75,000 SF space (a 14.3% increase). Despite this increase, rental rates in Kern County were 43% lower than the average for the Los Angeles Basin ($0.56 PSF). They also were 32% lower than rates ($0.47 PSF) in the Inland Empire. Sale prices continued to climb, and averaged $68.50 per SF for a typical 75,000 SF structure. Land prices also saw a sharp increase, and finished parcels sold for $6.50 per SF, on average. However, this was still approximately half the price of land in the Inland Empire, and one-sixth the price of land in Los Angeles and Orange Counties.

Rental rates 43% lower than in the LA Basin

As of year-end 2006, construction activity was low to moderate, and 177,000 SF was underway. As this space comes on-line, it will expand the base by 0.6% — a level that can be readily absorbed. Inquiries are on a rise.

The long-term outlook for the market remains exceptionally strong. The area has reached a critical mass and is 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.

Apartment Market Remains Tight

The apartment market in the Los Angeles Basin remained very tight in 2006, with the vacancy rate dipping below 3% in Los Angeles County, into the low 3% range in Orange County, the mid 3% range in Ventura County, and near 5% in the Inland Empire. Effective rental rates climbed by 6% on average.

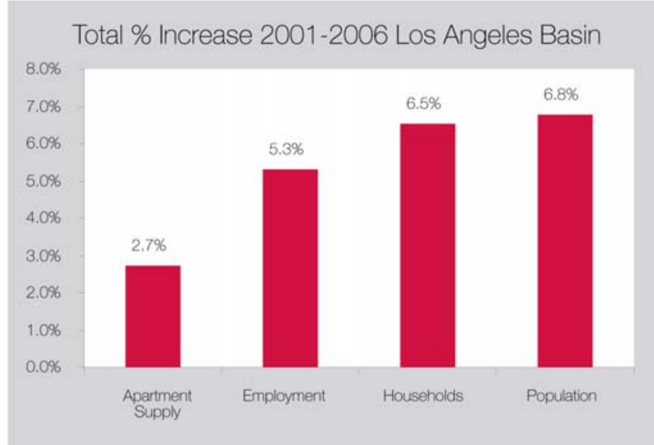
Demand from tenants to rent was strong, stimulated by a growing economy and home prices that became out of reach for most households. Supply was limited by land economics that favored the building of for-sale product over rental product, as well as the conversion of approximately 3,000 apartments to condominiums.

Demand is expected to remain strong into the foreseeable future. The Basin is projected to add approximately 100,000 households per year over the next five years (+1.9% per year), and a growing percentage of these households appear likely to be renters. For-sale housing affordability is projected to worsen due to climbing mortgage rates, and market psychology appears to be shifting from "buy now before home prices climb any further" to "perhaps wait to buy until after a price correction takes place." Additional stimulus will come from the large "baby boomlet", individuals born 1985 – 1992 (the eldest of whom are turning 21 this year and are just now starting to enter their peak renter years, ages 20 – 34).

Favorable demographics and high housing prices will stimulate demand

Construction of apartments continues to run at a pace of approximately only 11,000 units per year, falling far short of demand. Actual net change in supply will likely be somewhat less than this, and some conversion activity still occurring.

Over the next one to two years, the apartment market is projected to remain exceptionally tight in Los Angeles County, and to tighten even further in Ventura and Orange Counties. Strong rent growth in these areas is projected. Tenants looking for housing that they can afford will increasingly look to second-tier markets and properties, and to outlying areas. In the Inland Empire, the vacancy rate is projected to hover near 5% — a healthy rate for that rapidly growing market.



Demand from investors has been strong, and supply limited. The median sales price climbed in the 2006 to $188 per SF ($156,000 per unit). This was up 8% over the median for 2005, and an extraordinary 247% over the median ten years ago. Cap rates fell even further, and the average for the Basin was in the high 4% range, with a large number of transactions taking place in the low 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 greatly offset by market conditions that are tight and projected to become even tighter into the foreseeable future.

The Very Solid Los Angeles Basin Retail Market

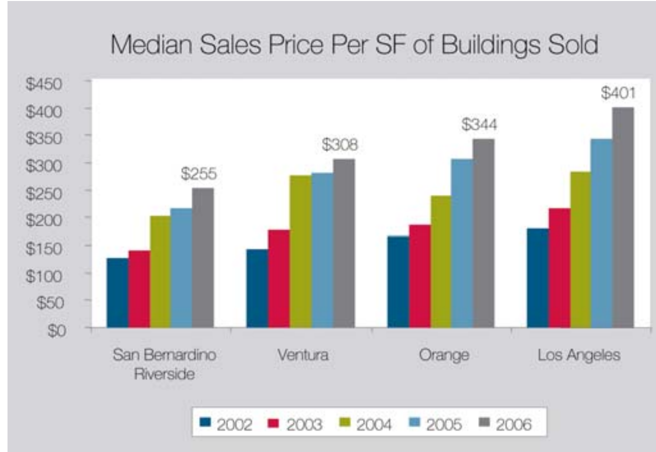
The Los Angeles Basin has a very large retail market, with more than 447 million SF of space.[5] Demand for retail space in the Basin has been strong, although lack of available space has constrained somewhat the amount of net absorption that can take place. In 2006, net absorption totaled a moderate 3.4 million SF, representing growth in occupied space of 0.8%. Driving the growth in demand has been strong growth in the population base (approximately 250,000 persons per year), including very strong growth among high-income households (the number of households earning $100,000 or more per year has been growing at an estimated 5% to 7% per year). This has generated growth in total retail sales of 6.3% per year over the past 10 years, including an estimated 6.0% in 2006.

Retail Sales Growing by 6% Per Year

Supply in much of the Basin has generally been constrained by a lack of available land, although in 2006 a moderate amount of space came on-line (6.2 million SF, expanding the base by 1.4%). The vacancy rate in the Los Angeles Basin as of year-end 2006 was 3%, up from 2.6% as of year-end 2005. These are very low levels of vacancy, reflecting a very tight market. Average asking rental rates climbed by a strong 7.5%.

Vacancy Rate at a Low 3%

Construction activity has picked up, and as of year-end 2006, 16.1 million SF of retail space was under-construction. As this space comes on-line, it will expand the base by an additional 3.6%. Given a high level of existing pent-up demand, most of this new space will be rapidly absorbed. However, a slight increase in vacancy can be expected, particularly in the areas where most of the construction is taking place. Rental rate growth is projected to slow to the 5% to 6% range.



In Ventura County, the vacancy rate is a very low 2.6%. 1 million SF is under-construction there, which will expand the base by 4% and should temporarily provide some relief for tenants.

The vacancy rate is also very low in Los Angeles County, just 2.5%. Only 3.3 million SF is under-construction, which will expand the base by just 1.5%. The Los Angeles County market is projected to remain very tight into the foreseeable future—a general lack of available land will constrain the amount of construction that can take place.

In Orange County, the vacancy rate is a low 2.9%. A large amount of space is currently under-construction, 4.7 million SF, which will expand the base by 5.2% when completed. Much of this space will be absorbed by the release of existing pent-up demand, but a moderate increase in vacancy can be expected nevertheless (to approximately the 4% range).

The Inland Empire is the most rapidly expanding market in the Los Angeles Basin. As a result of a high level of construction activity, the vacancy rate is moderate – 4.3%. 7.1 million SF is under-construction. As this space comes on-line, it will expand the base by 6.3%. As with Orange County, much of this space will be absorbed by the release of pent-up demand, but a moderate increase in vacancy can be expected nevertheless (to approximately the 5% range).

Demand from investors has remained very strong for retail space in the Basin. Median sale prices per SF climbed by 13.5% on average in 2006, and by a very strong 18% in the Inland Empire and 17% in Orange County. In the past ten years, median sale prices per SF have more than tripled (a 236% per SF increase, on average).

[5] Data includes all retail buildings 10,000 SF and larger, with the exeption of large shopping malls.

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