Market Report

Southern California

Mid-Year 2006

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 Mid-Year 2006 Market Report for the Los Angeles Basin.

Market conditions in the Los Angeles Basin are the tightest they have been since at least the 1980s, and competition from investors to buy properties has been intense. Sale prices have reached new highs for all property types, and cap rates have fallen into the 4% and 5% ranges - historically exceptionally low levels. The question on most observers' minds is, "How much longer can this last?"

Most economists project the local economy will remain strong through at least the remainder of 2006, and this will drive continued demand for real estate in the Southland. Construction activity has picked up, but most of the new space will not come on-line for another 12 to 18 months. The markets are projected to remain tight or to tighten even further through Spring 2007. The next nine months will be difficult times 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.

Thereafter, much will depend upon the economy. A growing number of economists expect a slowing in the economy, starting in 2007. Should this occur, vacancy rates would climb once again in mid-2007 particularly in the areas of recent aggressive construction - for industrial, apartments and retail, this is primarily the Inland Empire, and for office, primarily South Orange County. In the other areas of the Basin, construction is still relatively restrained, and the risks are minimized. Should the slowing also occur at the same time that interest rates climb, we would expect the upward swing in prices to finally plateau, and perhaps correct slightly downward.

Highlights presented in this report include:

- Following booming demand in 2005, net absorption of office space in the Los Angeles Basin slowed sharply in the first half of 2006 in most areas. However, construction completions were minimal, and vacancy rates Basinwide fell to 10%, the lowest since 1990. Asking rental rates climbed by 8.4%, mid-year 2006 over mid-year 2005. Median sale prices per SF shot up by 19% over the same time period.

- Industrial vacancy rates remained very low, just 4.1%, despite the completion of 24.5 million SF of new construction in the first half of 2006. Asking rental rates climbed by 6.6%, and sale prices per SF continued to skyrocket (up 17%).

- Apartment vacancy rates fell to the low 3% range in Los Angeles and Orange Counties, and climbed slightly to 5% in the Inland Empire. Effective rental rates climbed by 5%, and sale prices per SF by 4%. Conditions are projected to tighten even further over the next twelve months, 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 5% range in the Inland Empire. Effective rents climbed by 5%, and sale prices per SF by 8.5%.

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.

Los Angeles Basin Office Market

Growth in Demand Slows, but Market Continues to Tighten

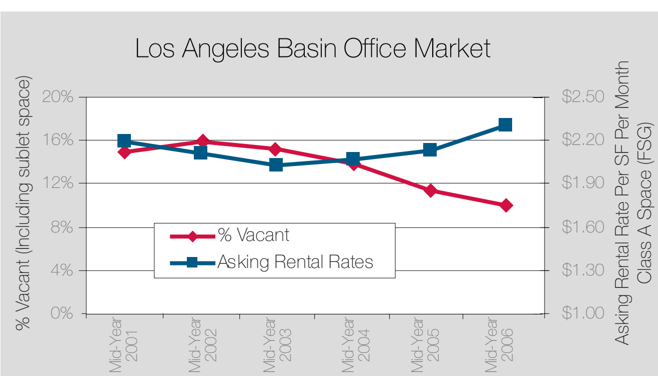
Demand for office space in the Los Angeles Basin slowed in the first half of 2006, due to a combination of factors, including an inevitable cooling in the super-heated pace of 2005, a downturn in the mortgage-finance industry, limited availability in prime office markets, and climbing rental rates. Construction completions, however, were limited, and the vacancy rate fell to 10%. Vacancy rates were single-digit in six of the area's eight major markets. Asking rental rates for Class A space shot up by 8.4%, on average. Median sale prices climbed by 19%.

Construction activity has picked up sharply. However, most of this space will not come on-line for another 12 to 18 months. Assuming that the economy remains healthy, the market is projected to continue to tighten over the next 12 months. It is then projected to stabilize, or even to soften some if the economy should slow, as is projected by a growing number of economists.

In the first half of 2006, net absorption totaled 2.3 million SF.[1] This represented growth in the pool of occupied space within the Basin at an annualized rate of 1.5% -- a moderate pace. This was down sharply from 2005, when the Basin absorbed at a pace of 6 million SF per six months (a very strong 4.2% annual growth rate). It also lagged the long-term average for the Los Angeles Basin (+3.3 million SF per six months, 1985 to present).

The slowing in demand occurred despite moderately strong employment growth. In the 12-month period ending May 2006 (the most recent date for which employment estimates were available as of the time of this writing), the Basin added 96,800 jobs (+1.4%), including 30,300 (+1.8%) in office-related sectors.[2] Ordinarily, this level of employment growth would have generated net absorption of at least 3.3 million SF in the first half of 2006, not the 2.3 million SF witnessed.

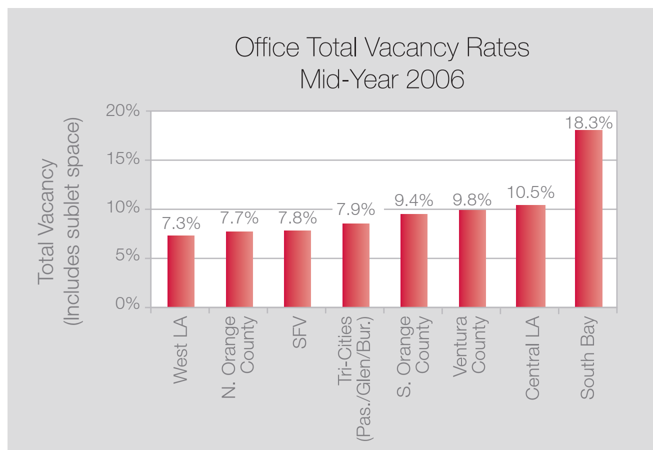
Relatively strong net absorption occurred in West Los Angeles (+648,800 SF), as well as in Central Los Angeles (+512,500 SF), the San Fernando Valley (+330,300 SF) and the South Bay (+335,900 SF). A very sharp slowing in net absorption occurred in South Orange County (+35,800 SF) where there is a relatively large concentration of mortgage-finance firms.



Construction completions during the first half of 2006 were relatively few - just 801,300 SF came on-line, expanding the base by 0.2%. The combination of moderate growth in demand and modest growth in supply enabled vacancy rates to drop, to 10%, down from 10.4% six months ago and from 11.4% 12 months ago. If sublet space is subtracted from this statistic, the vacancy rate was 9%. These are the lowest vacancy rates since 1990, when they also reached approximately 10% basinwide.

The lowest vacancy rate since 1990
10%

Vacancy rates were lowest in Class C buildings (just 4%), followed by Class B (10%) and Class A (10.9%). This pattern was due to: (1) the fact that most of the new construction in recent years was in Class A buildings, and this space has not yet filled up; and (2) tenants shifted requirements toward lower-cost space during the economic downturn in 2001 and 2002, and this space had not yet been fully reabsorbed. Vacancy rates were in the high-single digit range in all submarkets except Central Los Angeles (where it was10.5%) and the South Bay (18.3%).



With vacancy rates below 10% in most markets, asking rental rates grew at a strong pace, partially offsetting the losses that occurred in 2001 and 2002. In the past 12 months, they climbed by 8.4%. Even stronger growth was witnessed in Central Los Angeles (17.4%) and the Tri-Cities Market (Burbank, Glendale/ Pasadena) (10.7%). Rental rates were highest in West Los Angeles and lowest in the South Bay.

Construction activity has picked up very sharply. As of mid-year 2006, 6.7 million SF was underway, up from 2.8 million SF just six months ago. When complete, this new space will expand the base by 2% or approx-

Market projected to continue to tighten over next 12 months, and then stabilize

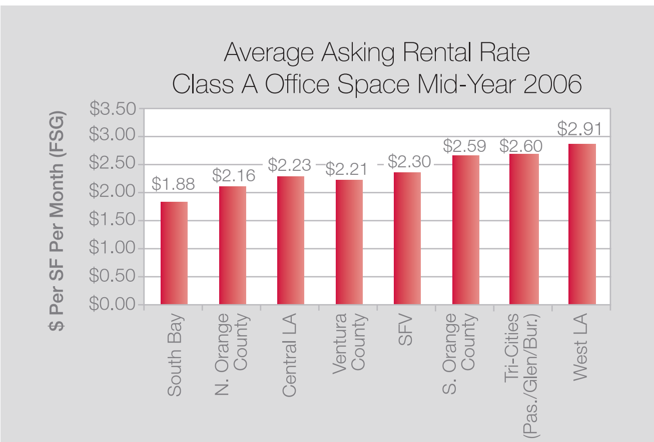
[1] Data for buildings with 20,000 SF or more of office space. Excludes medical and owner-occupied space. NAI Capital's office database and historical records are continuously updated. Therefore, the numbers presented in this report sometimes differ from those presented in previous Market Reports.

[2] Based upon preliminary data from the California State Economic Department for employment by place of work (survey of firms). EDD's estimates of employed residents (from a survey of households) indicates that even greater growth may have occurred. This survey shows growth of 141,400 employed residents (+1.7%).

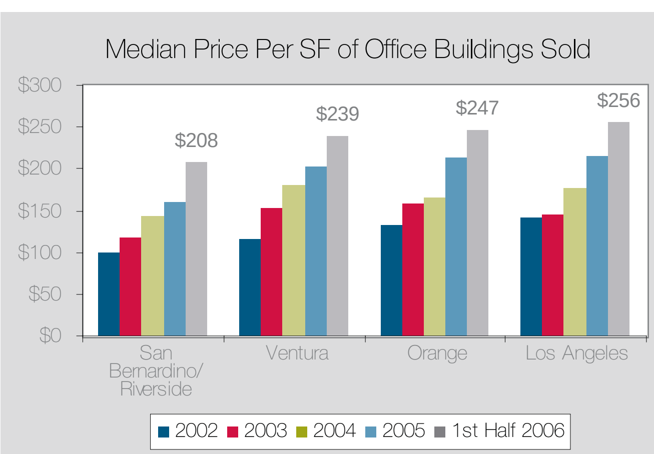
Los Angeles Basin Office Market ■ Mid-Year 2006

	Rentable Square Feet	% Vacant Direct	% Vacant Total	Net Absorption (SF) YTD 2006	Square Feet Completed* YTD 2006	Square Feet Under-Construction	Average Asking Rental Rate** Class A Space
Ventura County	12,050,100	8.7%	9.8%	87,100	68,100	473,600	$2.21
SFV	27,899,400	7.1%	7.8%	330,300	72,900	828,900	$2.30
Tri-Cities (Pas./Glen./Bur.)	30,897,900	7%	7.9%	199,900	—	225,000	$2.60
Central LA	83,744,300	9.6%	10.5%	512,500	—	—	$2.23
West LA	49,781,600	6.6%	7.3%	648,800	40,700	1,234,600	$2.91
South Bay	38,421,400	17.4%	18.3%	335,900	—	—	$1.88
North Orange County	30,740,500	6.3%	7.7%	124,000	131,700	—	$2.16
South Orange County	58,314,000	8%	9.4%	35,800	487,900	3,911,100	$2.59
Total	331,849,200	9%	10%	2,274,300	801,300	6,673,200	$2.31

*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.



imately 12-months worth of demand under normal economic conditions. Since most of this space will not come on-line for another 12 to 18 months, it means that market conditions are likely to continue to tighten through the remainder of 2006 and into early 2007. Over this time period, space will become increasingly difficult for tenants to find, particularly for large blocks of contiguous space, and particularly in the premier submarkets (including West Los Angeles, the Tri-Cities and South Orange County). Rent spikes in these areas



appear likely. Starting in mid-2007, however, vacancy rates are projected to plateau as the new space starts coming on-line. They may even increase slightly if there is a slowing in the economy, as projected by a number of economists. A softening starting in mid-2007 is also projected in South Orange County, where most of the construction is underway (3.9 million SF).

Tenants should act now to lock in space that meets their needs before availability becomes scarcer and rental rates higher. These also are excellent times for firms to take advantage of still relatively low interest rates to purchase office buildings that meet their long-term needs. However, prices are high (up 90% over 2002). Southern California office product remains highly targeted by institutional investors.

Construction activity up sharply

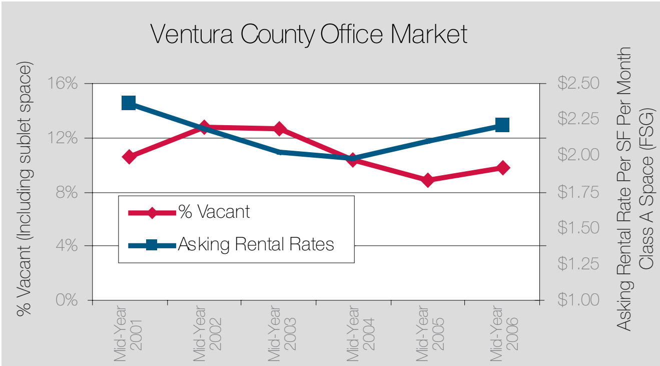
The Medical Office Niche

As pointed out in previous Market Reports, one segment of the office market that has been the healthiest in recent years is the medical office niche. Demand for this space has remained strong and vacancy rates are low (just 6.1%). There is 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

Net absorption in the first half of 2006 totaled 87,100 SF. This was down from a pace of 146,000 SF per six months in 2005. A modest amount of space came on-line in the first half of 2006 due to construction completions, 68,100 SF. The vacancy rate as of mid-year

Vacancy at 9.8%



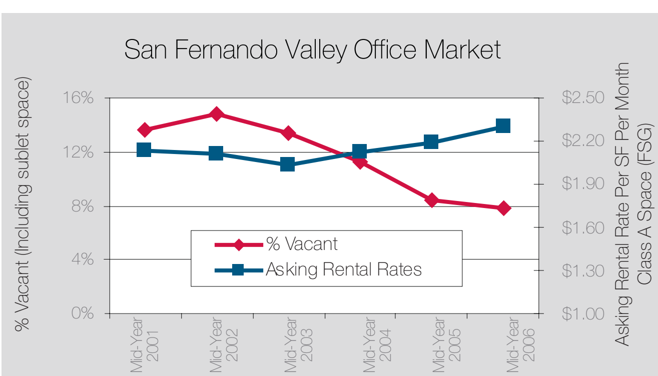
2006 dropped to 9.8%, down slightly from 10% six months ago, but up from 8.9% twelve months ago. This remained a healthy vacancy rate for the area. Asking rental rates climbed by 5.2%. Concessions remained minimal if any. Interest by owner-users in for-sale product remained very strong.

Construction activity has picked up sharply, and 473,600 SF was underway as of mid-year 2006. When this space comes on-line, it will expand the base by 3.9%. Demand is expected to increase, 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 a percentage point or so over the next 12 months, but then climb back to current levels as the new space currently under-construction comes on-line. Rental rates are projected to continue to climb at a strong pace (5% to 8% over the next 12 months).

The San Fernando Valley

Market conditions were healthy also in the San Fernando Valley, with a vacancy rate as of mid-year 2006 of 7.8%. This was down from 8% six months ago, from 8.4% twelve months ago, and from 15% just three years ago. It also was the lowest it had been since at least the late 1980s. The market has shifted from a tenants market to one slightly tilted toward landlords.

The lowest vacancy rate (7.8%) since at least the late 1980s



Demand remained strong, particularly from firms in insurance and professional services, and continued to pick up from high-tech firms.

Net absorption in the first half of 2006 totaled 330,300 SF, a good rate (the long-term average for the area is approximately 300,000 SF per six months, and the pace in 2005 was 325,000 SF per six months). Construction completions were minor, with 72,900 SF coming on-line. Asking rental rates were up 5.1% over mid-year 2005.

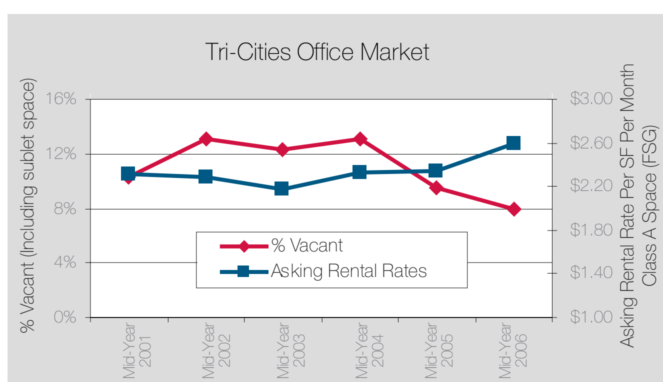
Construction activity has picked up significantly, and 828,900 SF was under-way as of mid-year 2006. When complete (in approximately 12 to 16 months), it will expand the base by 3%. This represents approximately 17 months of supply under normal economic conditions. Assuming that the economy remains healthy, vacancy rates are projected to drop to approximately 6% by year-end 2006, but then start climbing in mid-2007 as the new space comes on-line. We expect that rental rates will climb very sharply over the next 12 months, and then stabilize.

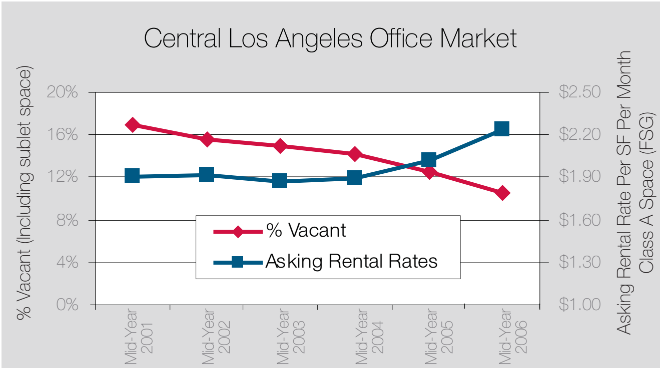
The Tri-Cities (Burbank/Glendale/Pasadena)

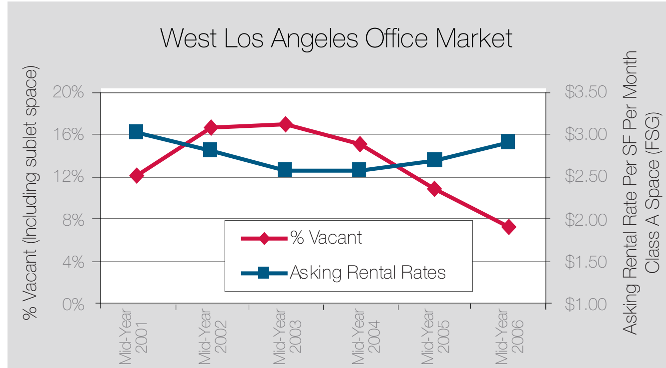
Net absorption slowed significantly in the first half of 2006, totaling 199,900 SF (down from a very strong pace of 785,000 SF per six months in 2005). It also lagged the average witnessed 1985 to present of approximately 325,000 SF per six months. No new space was delivered via construction activity, however, enabling the vacancy rate to drop, to 7.9%, down from 8.2% six months ago, and from 9.5% twelve months ago. Asking rental rates were up very sharply, +10.7% over a year ago.

Asking rents up 10.7% in past 12 months

Construction activity remained relatively restrained, and 225,000 SF was underway as of mid-year 2006. When completed, it will expand the base by just 0.7%. This amount will likely be readily absorbed and vacancy rates are projected to continue to tighten. As they do, rental rates will continue to climb at a fast pace. 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 remained strong in the first half of 2006, driven by rental rates that were a bargain compared with those in adjacent areas, as well as lack of availability in adjacent markets. Net absorption totaled 512,500 SF, on-par with the long-term average for the area (500,000 SF per six months), but down from the exceptional pace of 1.2 million SF per six months witnessed in 2005. The downtown market continued to be attractive to government agencies and to firms in law, utilities, accounting and finance; Mid-Wilshire continued to be attractive to small, entrepreneurial, often Asian-owned firms; and Hollywood to a mix of firms in professional services, high-tech and entertainment.

No construction completions took place, and the vacancy rate dropped to 10.5%. This was down from 11.3% six months ago, and from 12.5% twelve months ago. The market has finally shifted from being soft to one of health. Asking rental rates for Class A space were up 17% over a year ago, for the largest percentage increase in the Basin.

17% increase in asking rental rates

Construction activity remained non-existent. We expect that demand will remain strong, driven by a strong economy, availability of quality space at still relatively low rental rates and 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 remained very strong in the first half of 2006 in West Los Angeles. Net absorption totaled 648,800 SF, surpassing the 445,000 SF per six month average 1985 to present. It was down, however, from the exceptionally strong 1.3 million SF per six month pace witnessed in 2005. Strong growth in demand continued to come from the entertainment industry and from professional services. Demand also increased from high-tech firms.

The lowest vacancy rate (7.3%) in the LA Basin

Just 40,700 SF of space came on-line during the first half of 2006. This enabled the vacancy rate to drop to 7.3%, down sharply from 8.9% six months ago and from 10.9% twelve months ago. Asking rental rates for Class A space grew by 7.6% over a year ago.

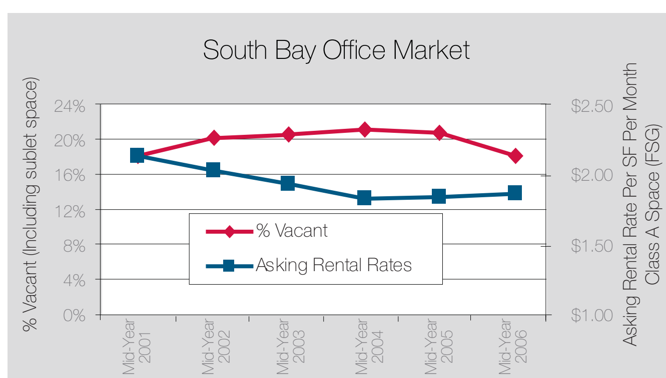
Construction activity has picked up significantly, and as of mid-year 2006, 1.2 million SF was underway (including 2000 Avenue of the Stars, with 775,500 SF scheduled to come on-line near the end of 2006). As the 1.2 million SF comes on-line, it will expand the base by 2.5%, and will provide needed relief for tenants in this 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 6% to 8% range) for the next year and a half, assuming that the economy remains healthy. Rents appear likely to climb sharply.

The South Bay

Good net absorption took place in the South Bay in the first half of 2006—335,900 SF, slightly exceeding the long-term average for the South Bay of 310,000 SF per six months. This extended the up cycle that started in 2005, when net absorption averaged 455,000 per six months. Much of the demand was driven by firms unable to find space that met their needs in the adjacent West Los Angeles market.

No new space came on-line due to construction, and the vacancy rate dropped to 18.3%, still a high rate, but down from 18.8% six months ago and from 20.9% twelve months ago.



Asking rental rates were up 1% over a year ago. As of mid-year 2006, 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 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 currently on the market, health is still approximately two to three years off, assuming that the economy remains strong.

North Orange County

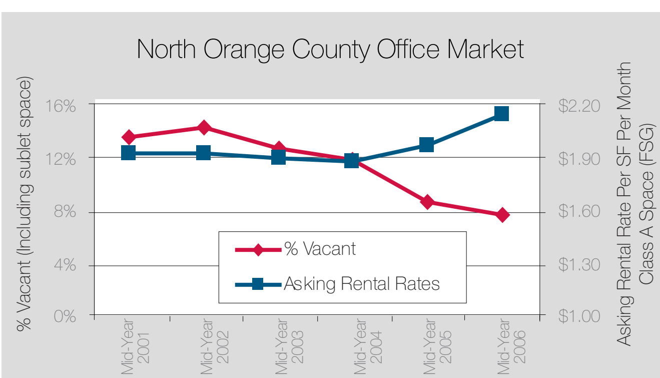
The office market in North Orange County remained healthy in the first half of 2006. Construction completions (131,700 SF) approximately equaled net absorption (124,000 SF), and the vacancy rate remained flat at 7.7%. Asking rental rates for Class A space climbed by a strong 9%.

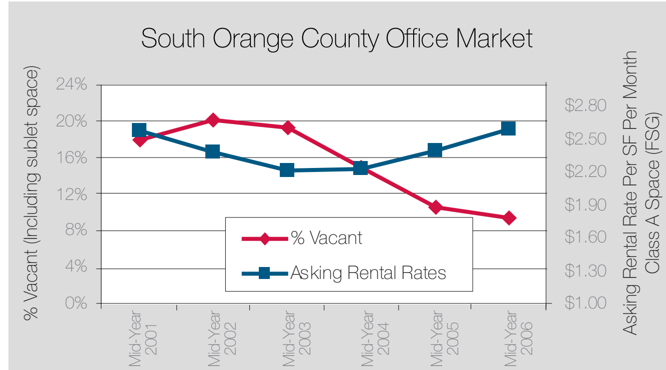
Rental rates up 9%

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, 6.5% below the regional average. It also was 17% lower than rates in adjacent South Orange County.

As of mid-year 2006, no space was under-construction. We expect that demand will remain at least moderate for the next 12 months due to the still-strong economy, despite a probable continued downturn in the mortgage-finance industry. North Orange County's vacancy rate is projected to drop to approximately 7% over the next 12 months. Rental rates are projected to progressively climb upward.





South Orange County

Net absorption in South OC turned negative in 2Q 2006 for the first time since 2002. Net absorption in the first half of 2006 totaled 35,800 SF, down very sharply from the very strong pace of +1.3 million SF per six months witnessed in 2005, and from the +800,000 SF per six month average 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 this market.

3.9 million SF of construction underway

487,900 SF of space came on-line in the first half of 2006, expanding the base by 0.8%. The vacancy rate climbed to 9.4%, up from 8.7% six months ago, but down from 10.6% twelve months ago. This remained a healthy vacancy rate, and the average asking rental rate for Class A buildings climbed by 7.9%. South Orange County commands the second highest rental rates in the Basin. The area has emerged in recent years as one of preeminent office locations in the Los Angeles Basin. High-tech, communication, engineering and professional service firms are attracted by a highly educated labor force, executive housing and planned-community environments. The area also remains a center for the mortgage-finance industry.

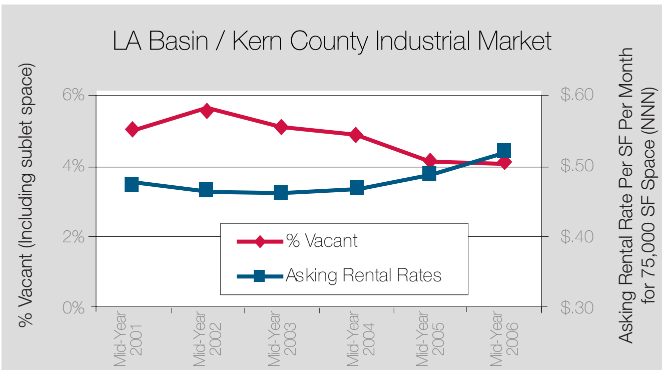
Construction activity has picked up very sharply. As of mid-year 2006, 3.9 million SF was underway (up from 1.1 million SF just six months ago). As this space comes on-line, it will expand the base by 6.7%. It also represents approximately 2.4 years of supply under normal economic conditions. Assuming that the economy remains healthy and that net absorption returns to its normal pace, market conditions are projected first to tighten over the next twelve months, but then to soften starting in mid-2007 as the large amount of space currently under-construction comes on-line. Although fluctuation is common in this rapidly developing market, the large amount of space currently under-construction places the area at risk should the economy slow and/or the downturn in mortgage-finance intensify.

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 Hyper-tight

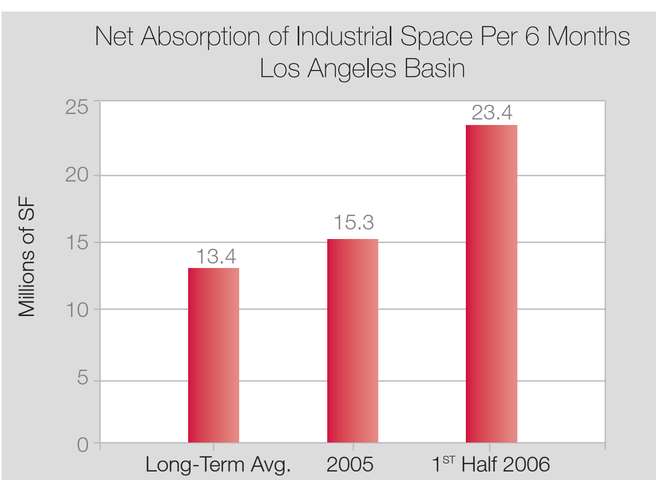
The Los Angeles Basin and Kern County Industrial Market remained exceptionally tight, particularly in Los Angeles and Orange Counties. Firms found it increasingly difficult to find space that met their needs, and were forced to make do as best they could. Sale prices per SF continued to skyrocket (up 17%, year over year), and rental rates climbed steadily upward (up 6.6%, YOY).

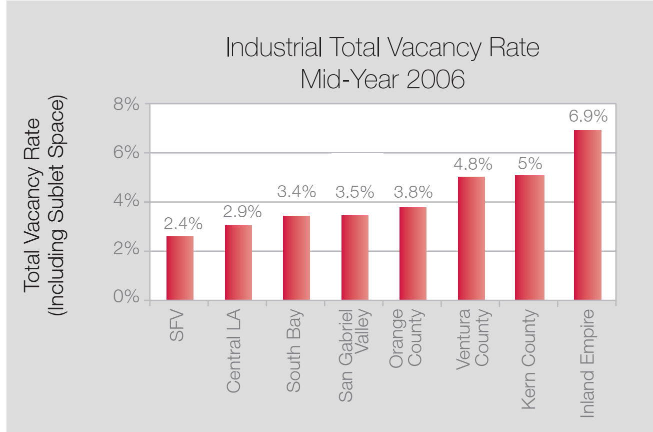
Vacancy rate remains very low at 4.1%



Demand for industrial space was exceptionally strong in the first half of 2006, particularly among owner-users who were stimulated by still-relatively-low interest rates. Net absorption totaled 23.4 million SF, 53% above the 15.3 million SF per six months pace witnessed in 2005, and 75% above the 13.4 million SF per six months pace witnessed on average since 1984.[3] Net absorption was particularly high in the Inland Empire, where it totaled 12.3 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, despite very low levels of availability.

A very large amount of new product was completed in the first half of 2006 (24.5 million SF), with most of that in the Inland

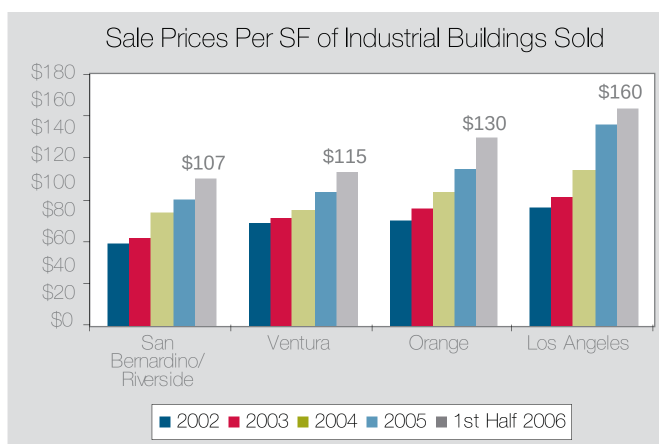




Empire (15.5 million SF). This expanded the base in the region by 1.9%. Despite the large amount of new construction, the vacancy rate was stable at 4.1%. The direct vacancy rate (excluding sublet space) was just 3.8%. These are very low numbers, reflecting tight market conditions. Vacancy rates were 7% or lower in all submarkets, with the lowest numbers in LA County.

As a result of the tight market conditions, asking rental rates climbed by 6.6%. Sale prices per SF climbed even more significantly, and reached an average of $133 per SF. This was up 17% over 2005 levels, and an extraordinary 209% over ten years ago. Prices were particularly high for small buildings, and particularly in South Orange County, where they exceeded $200 per SF.

As of mid-year 2006, 24.6 million SF was under-construction, which, when complete, will expand the base by 1.8%. This is a high level of activity (up from 21.1 million SF as of year-end 2005), but a level that is roughly in-line with demand (approximately 30 million SF per year during average economic-growth years), considering that this space will come on-line over approximately a nine-month period. Vacancy rates are projected to remain very low for at least another year in most of the Basin. The only possible exception is the Inland Empire, where the very large amount of space under construction (19.8 million SF) increases the possibility that that market could soften should the economy falter. However, if the economy remains strong,



[3] Data is 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 ■ Mid-Year 2006

	Rentable Square Feet	% Vacant Direct	% Vacant Total	Net Absorption (SF) YTD 2006	Square Feet Completed YTD 2006	Square Feet Under-Construction	Average Asking Rental Rate* 75,000 SF Space
Ventura County	53,367,200	4.4%	4.8%	767,400	355,600	104,300	$0.60
SFV	136,188,400	2.2%	2.4%	1,161,800	1,166,400	555,900	$0.63
Central LA	348,368,700	2.8%	2.9%	4,107,200	1,293,000	937,800	$0.54
South Bay	234,466,700	2.9%	3.4%	987,500	1,391,100	1,360,500	$0.59
San Gabriel Valley	149,632,400	3.1%	3.5%	1,205,100	2,598,000	453,800	$0.54
Inland Empire	343,176,400	6.5%	6.9%	12,278,400	15,531,700	19,801,900	$0.42
Orange County	216,492,100	3.3%	3.8%	2,496,000	1,777,500	1,213,800	$0.65
L.A. Basin Subtotal	1,481,691,900	3.8%	4.1%	23,003,400	24,113,300	24,428,000	$0.52
Kern County	28,324,500	4.5%	5%	377,600	397,500	180,000	$0.31
Total	1,510,016,400	3.8%	4.1%	23,381,000	24,510,800	24,608,000	$0.52

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

market conditions even in the Inland Empire would remain tight. 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.

Ventura County

Net absorption in the first half of 2006 totaled 767,400 SF, up from a 281,500 per six months pace witnessed in 2005. It also exceeded the long-term average for the County of 600,000 SF per six months. There was particularly strong demand from owner-users to buy small buildings, but a lack of buildings for sale constrained this activity.

355,600 SF of space came on-line in the first half of 2006 from construction, which was significantly less than the growth in demand (767,400 SF). The total vacancy rate dropped to 4.8%, down from 5.2% six months ago and from 6.3% twelve months ago. The direct vacancy rate (excluding sublet space) was 4.4%. These are low vacancy rates. Asking rental rates inched upward, averaging $0.61 per SF per month NNN for a typical 75,000 SF space - a relatively high rate. Rental rates were highest in the eastern portion of the County, particularly in the Conejo Valley, and were lowest on the coastal plain, particularly in the City of Oxnard. Sale prices reached $115 per SF on average, a 15% increase over 2005 levels.

As of mid-year 2006, only 104,300 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 continue to fall. The growth rate in asking rental rates is expected to increase, and sale prices are expected to remain high.

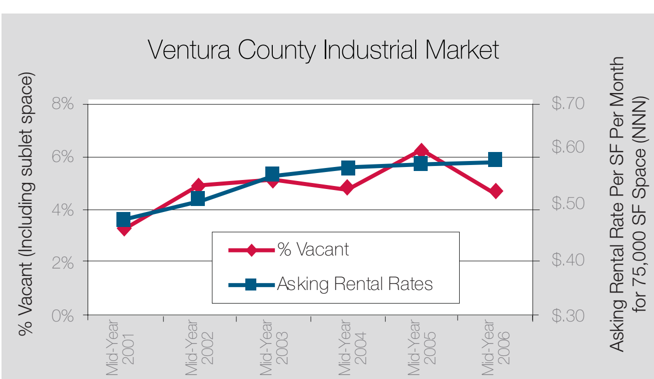
Sale prices per SF up 15%

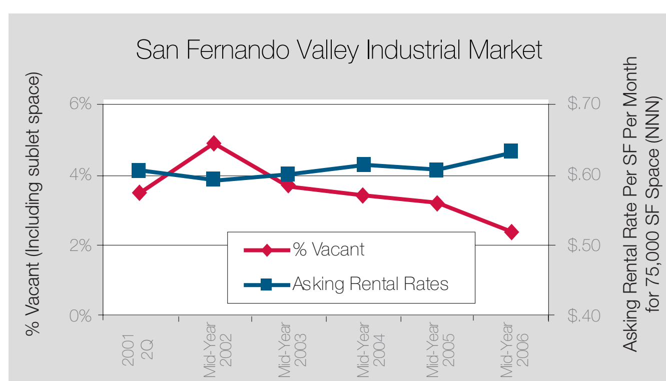
Long-term, construction activity will be constrained by highly restrictive local growth ordinances.

In addition to the standard industrial market, Ventura County/ Conejo Valley have a moderate-sized flex/ R&D market, with 8.7 million SF. As of mid-year 2006, the vacancy rate was moderately high, at 11.6%. However, this was down from 16.2% as of two years ago. The R&D market is projected to continue to tighten, as demand grows from the high-tech sectors.

The San Fernando Valley

Net absorption in the San Fernando Valley totaled 1.2 million SF in the first half of 2006. This was on-par with the pace in 2005





(also 1.2 million SF per six months), but significantly higher than the long-term average for the area of 700,000 SF per six months. It is believed that net absorption would have been even higher had more space been available.

Construction activity was moderate, and 1.2 million SF was completed. All of this space was absorbed, and the total vacancy rate at mid-year remained a very low 2.4%. The direct vacancy rate was just 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 merely climbed by 4.6% to $0.63 per SF per month (NNN) for a typical 75,000 SF space, up from $0.60 a year ago. Sale prices climbed to $150 per SF—a very high level.

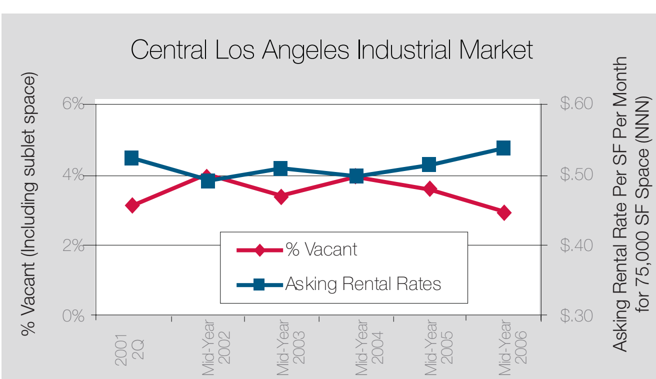
As of mid-year 2006, only 555,900 SF was under-construction. When completed, this space will expand the base by just 0.4%. Vacancy rates are projected to remain exceptionally low. This will place upward pressure on rental rates and will serve to keep sale prices high. The area is now largely built-out, yet demand is projected to remain strong, particularly from the small and medium sized manufacturer and distributor.

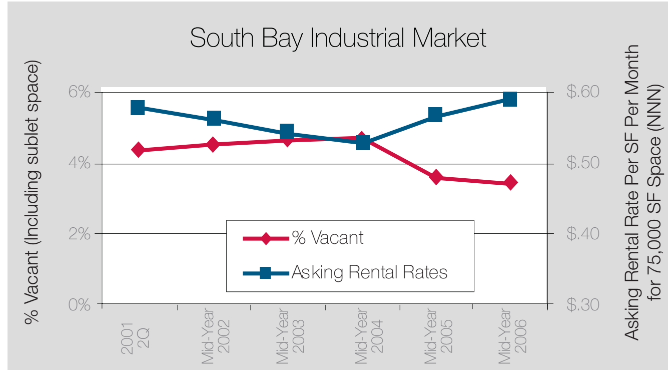
The lowest vacancy rate (2.4%) in the Basin

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

Net absorption in the first half of 2006 totaled 4.1 million SF, up sharply from the 1.3 million SF per six months pace witnessed in 2005 and significantly exceeding the long-term average for the area of 1.6 million SF per six months. Just 937,800 SF was completed via construction, expanding the base by 0.4%. The vacancy rate dropped sharply, to 2.9%, down from 3.6% six months ago as well as from 3.6% twelve months ago. The vacancy rate in Central Los Angeles has hovered in the 3% range for the past five years, and this is the first time it dipped below 3%. Asking rental rates for a typical 75,000 SF space climbed to $0.54 per SF, up 5.1% from $0.51 a year ago. Sale prices climbed to $108 per SF - a high level for a market with relatively old stock.

Strong net absorption despite low levels of availability





As of mid-year 2006, construction activity was restrained, with only 937,800 SF underway. As this space is completed, it will expand the base by just 0.3%. The market is expected to remain exceptionally tight into the foreseeable future.

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 the first half of 2006 totaled 987,500 SF, down from the 1.7 million SF per six months pace witnessed in 2005, but only slightly below the long-term average for the area of 1.1 million SF per six months. 1.4 million SF of new construction came on-line during the period, expanding the base by 0.6%. The vacancy rate was flat, at a low 3.4%. Asking rental rates climbed by 3.5%, and average sale prices climbed to $115 per SF.

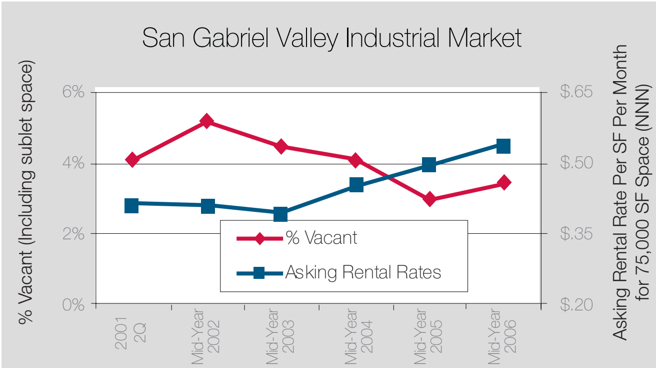
As of mid-year 2006, construction activity remained relatively restrained, and 1.4 million SF was underway (which, when completed, will expand the base by 0.6%). This is substantially less than demand, and the market is expected to remain very tight. Rental rates appear likely to climb at fast pace, and sale prices to remain firm.

Market projected to remain very tight

The San Gabriel Valley

Net absorption in the San Gabriel Valley in the first half of 2006 totaled 1.2 million SF, down from the 1.9 million SF per six months pace in 2005 but in-line with the 1.2 million SF per six months pace 1985 to present.

Construction activity was moderate-to-strong, and 2.6 million SF came on-line, expanding the base by 1.8%. The vacancy rate increased to 3.5%, up from 2.7% six months ago and from 3% twelve months ago. However, this remained a very low rate. Asking rental rates climbed upward by 10%, and sale prices reached an average of $120 per SF.



As of mid-year 2006, construction activity was minimal, with only 453,800 SF underway. When this space is completed, it will expand the base by just 0.3%. This space is significantly less than projected growth in demand, and the market is projected to tighten even further. Rental rates appear likely to continue to climb at a fast pace, and there could be continued upward movement in sale prices.

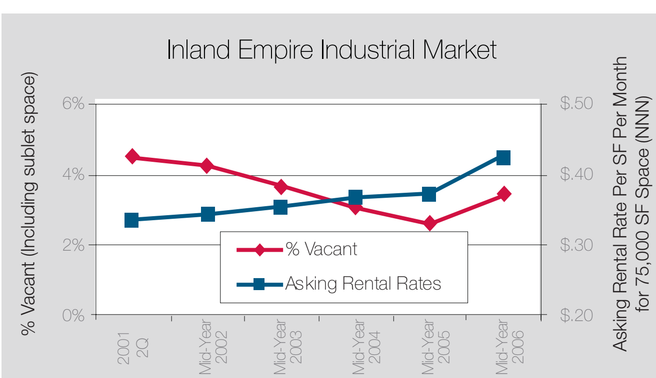
Asking rental rates up 10%, year over year

The Inland Empire

Net absorption in the Inland Empire (Western San Bernardino and Riverside Counties) picked up to an extraordinary level in the first half of 2006. It totaled 12.3 million SF, up from a pace of 8.2 million SF per six months in 2005, and was more than double the long-term average for the area of 5.5 million SF per six months. 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 found that 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.

Firms unable to expand in LA and OC are moving to the Inland Empire



Construction activity also picked up, and 15.5 million SF was added, expanding the base by 4.7%. Due to this very high level of construction, vacancy rates climbed to 6.9%, up from 6.1% six months ago and from 5.2% twelve months ago. The direct vacancy rate was 6.5%. While up, these are still healthy vacancy rates, particularly for a rapidly expanding market. Rental rates climbed 14% over a year ago, but remained the lowest in the Los Angeles Basin. Sale prices climbed to an average of $107 per SF. This was up 20% over 2005 levels and 239% over prices ten years ago.

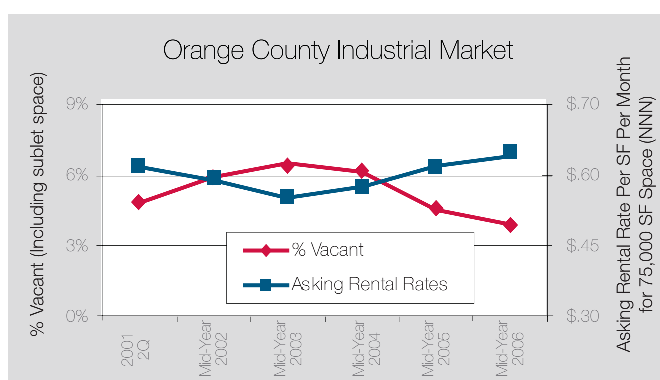
As of mid-year 2006, a construction boom was underway, with 19.8 million SF under-construction (up from 17.6 million SF as of year-end 2005). When completed, this space will expand the base by 5.8%. This is a very high level of construction activity, and could cause vacancy rates to climb by another 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

Net absorption in Orange County in the first half of 2006 totaled 2.5 million SF, up substantially from the 1.1 million SF per six months pace in 2005 and up from the long-term average of 1.4 million SF per six months. Orange County remained particularly attractive to the mid-sized manufacturer and distributor in a wide variety of fields, including high technology, food, apparel and communications. The County also benefited from even tighter market conditions in the adjacent Los Angeles County markets.

Construction activity was moderate, and 1.8 million SF came on-line, expanding the base by 0.8%. The vacancy rate dropped to 3.8%, down from 4.1% six months ago and from 4.5% twelve months ago. The direct vacancy rate was only 3.3%. Asking rental rates were up 5.3%. Sale prices climbed to a median of $161 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 7% over 2005 levels, and up 216% over levels ten years ago.

The highest sale prices per SF ($161) in the Basin



As of mid-year 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.

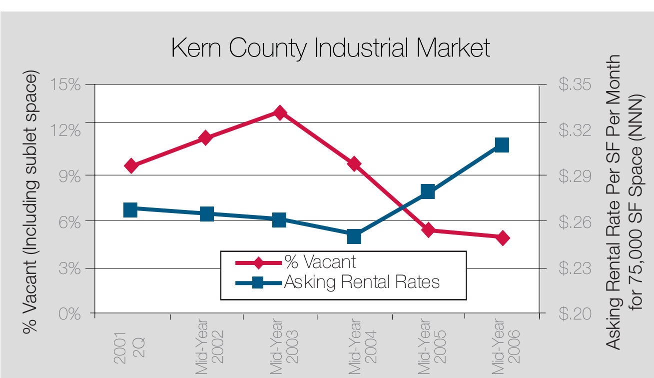
Kern County

Net absorption in the first half of 2006 totaled 377,600 SF. This was up from 2005, when net absorption totaled just 185,000 per six months, but down still from the average witnessed over the past ten years of 2.5 million SF per year. In the past year and a half, 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 397,500 SF came on-line due to completions, expanding the base by 1.4%. The vacancy rate remained flat, at a healthy 5%. Rental rates climbed in the past twelve months by $0.03 to $0.31 per SF per month NNN for a typical 75,000 SF space (a 10.7% increase). Despite this increase, rental rates in Kern County were 40% lower than the average for the Los Angeles Basin ($0.52 PSF). They also were 27% lower than rates ($0.42 PSF) in the Inland Empire. Sale prices continued to climb, and averaged $68 per SF for a typical 75,000 SF structure. Land prices also saw a sharp increase, and finished parcels sold for $4.75 to $6.00 per SF. 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 40% lower than in the LA Basin

As of mid-year 2006, construction activity was moderate, and 180,000 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.

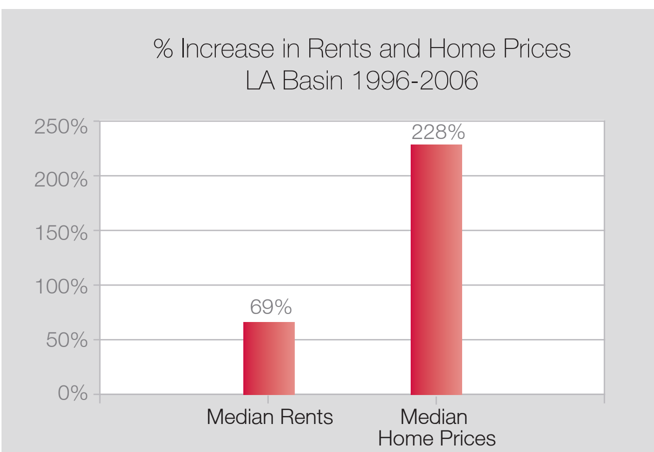


The long-term outlook for the market remains exceptionally strong. The area has reached a critical mass and is now on the radar screen of distributors looking to serve both northern and southern California from one site. The area will also benefit from lack of availability and very high rental rates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

Apartment Market Remains Tight

The apartment market in the Los Angeles Basin remained very tight in the first half of 2006, with vacancy rates in the low 3% range in both Los Angeles and Orange Counties, and near 5% in the Inland Empire. Effective rental rates climbed by 5% on average, year over year.

Demand from tenants to rent was strong, stimulated by a rapidly 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 7,500 apartments to condominiums in the past 12 months (reducing the apartment stock by approximately 0.7%). In fact, conversions exceeded construction completions in both Los Angeles and Orange Counties, and a net reduction in supply occurred in those areas (particularly in Orange County, where approximately 4,000 conversions took place, and construction completions totaled only 1,200 units). In the Inland Empire, a large amount of conversion activity took place (approximately 1,300 units), but an even larger amount of construction completions occurred (approximately 4,000 units), bringing about a modest increase in vacancy rates.

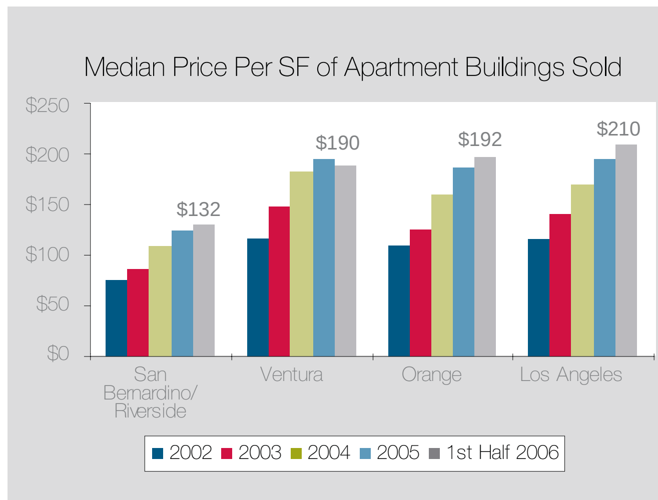


Demand is projected to remain strong into the foreseeable future. The Basin is projected to add approximately 100,000 households per year over the next five years (+1.9% per year), and a growing percentage of these households appear likely to be renters. For-sale housing affordability is projected to 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).

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 significantly less than this, with market economics still favoring conversion activity.

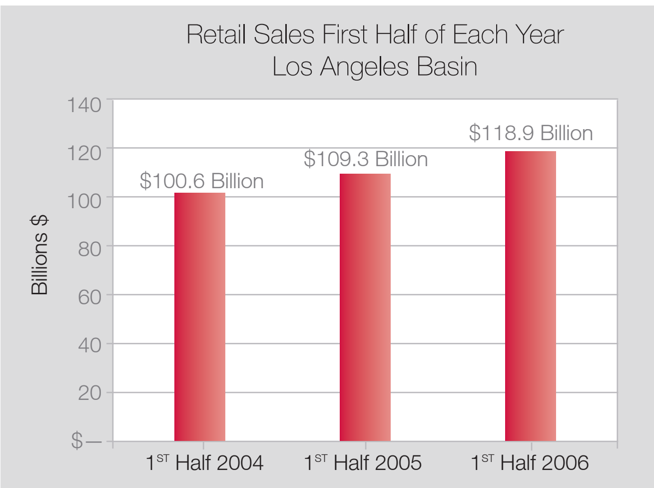
Construction greatly lagging demand in LA and Orange Counties

The apartment market is projected to tighten even further over the next one to two years in Los Angeles and Orange Counties, with rent spikes possible. 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, demand is projected to increase, but so is supply (4,000 units are currently under-construction, which, when complete, will expand the apartment base by 3.2%). Market conditions there are projected to remain moderate, with vacancy rates in the 5% range.



Retail Market Remains Hyper-Tight in Los Angeles and Orange Counties

Retail sales continued to grow at a fast pace in the Los Angeles Basin in the first half of 2006, expanding by an estimated 8.8% over the same period in 2005. Fueling this strong growth rate was a combination of a buoyant consumer, strong household growth (+95,000, or 1.7%, year over year), growth in household income (estimated at 4%, YOY), including very strong growth among affluent households, and inflation. Demand for space remained intense from retailers looking to tap into the large, lucrative and rapidly growing Los Angeles Basin market. Retailers targeting the area included fast-food chains, coffee houses, drug stores, discount warehousers and health clubs. Wal-Mart remained particularly active, including expansion in neighborhood markets. Occupied space grew by approximately 2.3%, and an even greater expansion would have occurred had more space been available, particularly in highly urbanized areas.

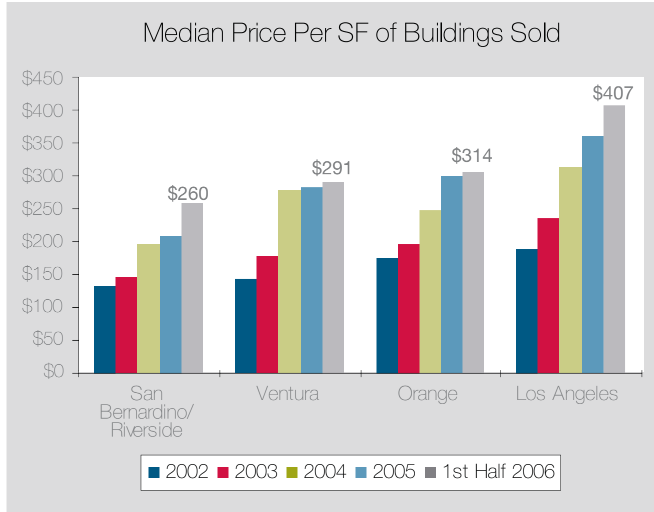


Construction activity continued to lag growth in demand in Los Angeles and Orange Counties, and vacancy rates there in all three retail property types (community centers, neighborhood centers and strip retail) dropped into the mid to high 2% range. Effective rents climbed by approximately 4.5% in Los Angeles County and by 5% in Orange County.

In the Inland Empire, approximately 4 million SF of new space came on-line, roughly matching the area's very strong growth in demand. Vacancy rates hovered in the high 4% / low 5% range. Effective rents, which had been under-priced, grew by approximately 7%.

Sale prices reach $400 Per SF in Orange County

Demand from investors remained intense, and the average sales price of retail properties sold in the first half of 2006 grew to $327 per SF, up 8.5% over the 2005 average and up a remarkable 215% over ten years ago. Sale prices were particularly high in Orange County, where they averaged $407 per SF. Average cap rates fell into the 5% range in Los Angeles, Orange and Ventura Counties, and the low 6% range in the Inland Empire.



Demand appears likely to continue to be strong through the remainder of 2006 and into 2007. 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.

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