

NAI CAPITAL

Market Report | Year End 2008



Dear Reader,

We are pleased to present to you this Year-End 2008 Market Report for the Los Angeles Basin.

2008 has turned out to be a difficult year for investors, developers and brokers. Not only did the economy enter a much-anticipated recession, which slowed or reversed demand from tenants for all property types, the credit and investment markets froze in the last third of the year. Some correction to the over-heated markets was needed, but it appears that an over-correction is taking or is about to take place. It is unclear at this time the degree to which the various stimulus and bail-out efforts will help, but we are optimistic that an economic recovery will begin perhaps sometime in mid to late 2009. In the mean time, these will be challenging times, but also times of opportunities for cash-rich contrarian investors as well as for tenants.

Demand for **office** space continued to shrink in 2008, and the tail-end of the construction pipeline started in 2006 and 2007 came on-line. Vacancy rates climbed to 13.1%.

Demand also shrank for **industrial** space, and construction completions were significant. Fortunately, the industrial market entered the downturn with exceptionally low vacancy rates, and at year-end 2008, the Basin's vacancy was a moderate 5.8%.

Demand for **retail** space slowed in 2008 (slowed, not shrank), and a large amount of space came on-line due to construction completions. The vacancy rate climbed to 4.4% overall.

Demand for **apartment** units from tenants also shrank, and the Basin's vacancy rate climbed to the mid-4% range in most areas and into the mid-6% range in the Inland Empire.

We anticipate that demand for space will continue to shrink in 2009. The outlook varies by product type and by market:

■ **Office** vacancy rates are projected to climb into the mid-to-high teens in most areas. As it does, effective rents appear likely to fall. Fortunately, construction activity is low, which will enable the market to start tightening once the economy starts growing again. In the meantime, the likelihood of a significant correction in prices appears to have increased.

■ **Industrial** vacancy rates may climb by another couple of percentage points in 2009 due to the economic downturn. However, they are projected to remain single-digit in all areas except the Inland Empire, where a significant amount of construction activity is taking place. Asking rental rates may drop some and sale prices per SF may drop significantly in a number of areas.

■ **Retail** vacancy rates may climb by another two to three percentage points in 2009, but still stay single-digit in most areas. Given the severity of the current recession and its impact on retail sales, as well as the moderate amount of space under-construction, it appears as though rental rates will continue to drop and sale prices will witness a significant correction.

■ **Apartment** vacancy rates in 2009 appear likely to climb by another 1.0 to 1.5 percentage points (to the low 5% range in Los Angeles, Orange and Ventura Counties and to the 8% range in the Inland Empire). As they do, asking rental rates are expected to flatten and concessions to increase. There also will likely be a shift in demand toward lower-rent units. The risk of a price correction appears to have increased.

Construction starts have dropped significantly for all product types, and we are entering this downturn with only low-to-moderate vacancy rates in most product types and markets. Once the economy starts growing again, we anticipate a relatively quick regional recovery. The fundamentals underlying the Los Angeles Basin markets remain very strong due to continued positive population growth, a substantial increase in the sale of existing homes and (in a contrarian sense) an easing of concerns about affordable housing due to declining home values and apartment rents.

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 Continued to Soften in 2008

Demand for office space in the Los Angeles Office Market continued to shrink in 2008. Initially, the contraction started in 2007 with the mortgage-finance industry, but it spread in 2008 to encompass nearly all sectors of the economy. At the same time, a moderate amount of construction completions came on-line from projects that were started in 2006 and 2007. The Basin's vacancy rate climbed to 13.1% as of year-end 2008, and rental rates dropped moderately in most markets. Sales activity dropped very sharply, particularly in the last half of the year, although sale prices per SF remained surprisingly firm.

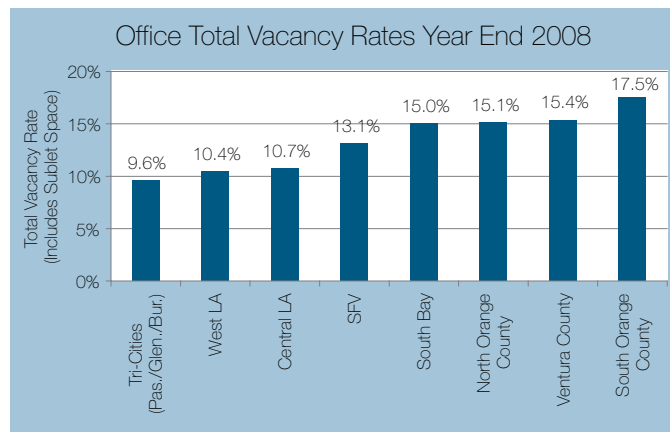
Negative net absorption six quarters in a row

Demand is expected to contract further in 2009, due to the projected prolonged recession. A moderate amount of construction completions is expected, and vacancy rates are projected to continue to climb, into the mid-to-high teens. Rental rates are projected to continue to drop, at an accelerated speed in some markets. A turnaround in market conditions is not expected until the economy starts growing once again, perhaps in 2010.

In 2008, net absorption was -5.9 million SF¹. This represented shrinkage in occupied space within the Basin of 1.9%—a significant loss. This was an even greater contraction than in 2007, when net absorption was -1.2 million SF. It also represented a reversal of the long-term trend for the Los Angeles Basin (average net absorption of +4.6 million SF per year, 1996 to 2007). Most (67%) of the negative net absorption took place in the first half of the year.

The negative net absorption reflected the contraction that was taking place in the economy. In the 12-month period ending November 2008 (the most recent date for which employment estimates were available as of the time of this writing), the total number of jobs in Los Angeles, Orange and Ventura Counties shrank by 65,500 (-1.1%), including -19,500 (-1.3%) in office-related sectors². The financial sectors accounted for most of the losses, -17,100 jobs (-4.4%).

Negative net absorption took place in all eight of the major markets within the Basin. Relative to the size of each market, the greatest losses took place in Ventura County (which saw shrinkage in

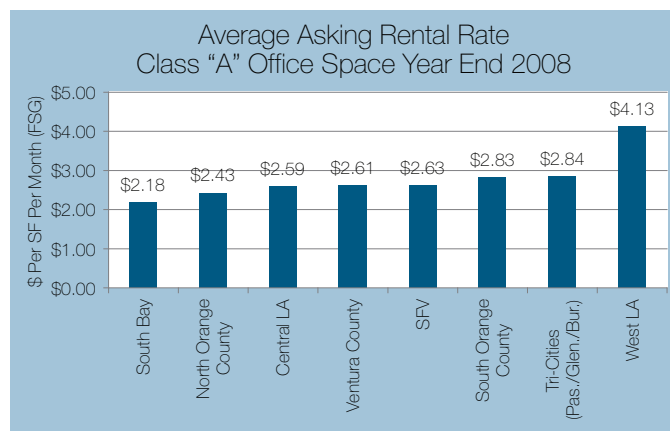
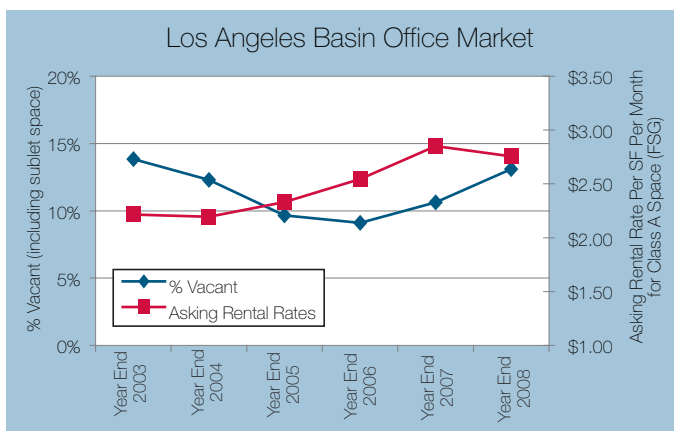


occupied space of 4.4%), closely followed by North Orange County (-4.3%). Both these markets had large concentrations of mortgage-finance firms. West Los Angeles experienced the smallest percentage loss in occupied space (-0.8%).

Construction completions in 2008 totaled 3.2 million SF, expanding the base by 0.9%. The combination of significant negative net absorption and moderate construction completions caused vacancy rates to climb significantly, to 13.1%, up from 10.6% as of year-end 2007. If sublet space is subtracted from this statistic, the vacancy rate was 11.7%. This was above the range considered balanced between tenant and landlord needs (8% to 11%, total vacancy), and the overall market tilted toward the tenant, particularly in South Orange County (vacancy rate of 17.5%), Ventura County (15.4%), North Orange County (15.1%) and the South Bay (15%). However, vacancy rates were still relatively moderate in the Tri-Cities (9.6%), West Los Angeles (10.4%) and Central Los Angeles (10.7%). Vacancy rates were lowest in Class C buildings (just 5.2%), and highest in Class A buildings (14.4%), with Class B buildings in-between (13.2%).

Vacancy climbs to 13.1% on average

Given the softening in market conditions that took place in 2008, average asking rental rates dropped by 3.2% on average, reversing the strong upward trend that was witnessed in 2007 (+12%). Particularly strong declines in took place in Orange County (-7.8%). At the end of the year, rental rates were highest in West Los Angeles and lowest in the South Bay.



¹ Data is for buildings with 20,000 SF or more of office space. Excludes medical and owner-occupied space. NAI Capital's office data base and historical records are continuously updated, therefore, the numbers presented in this report sometimes differ from those presented in previous Market Reports.
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 2008

| | Rentable Square Feet | % Vacant | | Net Absorption (SF) 2008 | Square Feet Completed* 2008 | Square Feet Under-Construction | Average Asking Rental Rate** Class A Space |
|------------------------------|-------------------------|--------------|--------------|-----------------------------------|-----------------------------------|-----------------------------------|---|
| | | Direct | Total | | | | |
| Ventura County | 17,386,400 | 12.4% | 15.4% | (682,400) | 494,700 | 140,900 | \$2.61 |
| SFV | 27,650,100 | 11.5% | 13.1% | (460,700) | 493,600 | 103,500 | \$2.63 |
| Tri-Cities (Pas./Glen./Bur.) | 32,901,500 | 7.9% | 9.6% | (514,000) | 160,500 | 1,652,000 | \$2.84 |
| Central LA | 84,722,900 | 9.7% | 10.7% | (1,113,700) | — | 215,000 | \$2.59 |
| West LA | 52,269,600 | 8.4% | 10.4% | (401,100) | 821,100 | 382,400 | \$4.13 |
| South Bay | 39,889,300 | 14.6% | 15.0% | (859,500) | 20,200 | 73,600 | \$2.18 |
| North Orange County | 31,068,500 | 13.7% | 15.1% | (1,184,600) | 177,500 | 170,500 | \$2.43 |
| South Orange County | 63,422,700 | 16.0% | 17.5% | (686,000) | 1,060,700 | 25,600 | \$2.83 |
| Total | 349,311,000 | 11.7% | 13.1% | (5,902,000) | 3,228,300 | 2,763,500 | \$2.76 |

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

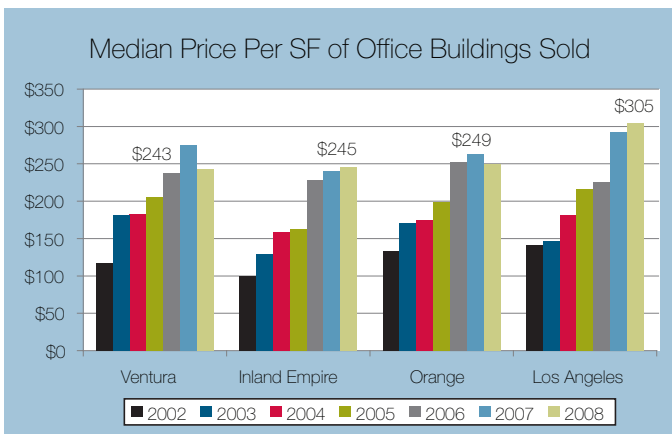
** Per SF per month, Full Service Gross. Direct lease only. Total is weighted by available space.

Data is for all competitive buildings (Classes A, B and C) 20,000 SF or larger. Excludes owner-occupied and medical buildings.

Construction activity has dropped significantly. As of year-end 2008, 2.8 million SF was underway, down from 5 million a year ago and 8 million SF two years ago. When complete, the space under-construction will expand the base by 0.8% or approximately just half-a-year's-worth of demand under normal economic conditions. However, since the economy is generally projected to continue to contract in 2009, it appears as though overall vacancy rates will climb into the mid-to-high teens by year-end. The market is projected to become even more of a tenant's market in 2009.

Further
softening in
2009 projected

Median prices per SF of office buildings sold more than doubled 2002 through 2007. Prices remained generally firm in 2008, but sales activity dropped very sharply, indicating that prices have probably reached their peak. The likelihood of a significant correction in prices appears to have increased, given the combination of the projected softening in market conditions as well as the sharp tightening of credit requirements that has taken place.



The Medical Office Segment

The medical office segment remains generally healthy, with a Basin-wide vacancy rate of 8.8%, although this is up from 5% just a year and a half ago. Rental rates, which had been climbing through early 2008, have since dropped slightly in most markets.

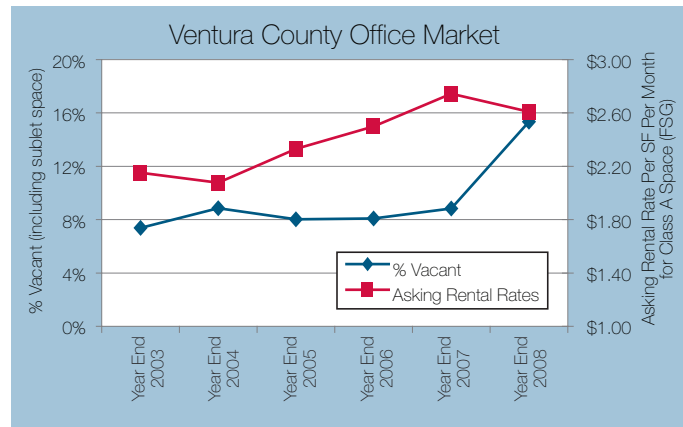
Due to the downturn in the economy, demand is projected to remain low in 2009 but to pick up to a relatively strong pace (approximately 3% per year) once the economic recovery begins. Supply will likely be limited, given the unique requirements of this product type (at least 5 parking spaces per 1,000 SF of office space, locations near other medical providers, and a high level of tenant improvements).

Ventura County

Demand for office space in Ventura County shrank sharply in 2008. Net absorption totaled -682,400 SF, representing shrinkage in occupied space of 4.4%. This was a reversal of the trend witnessed in 2007 (+187,200 SF) and of the long-term average for the area (+247,000 SF per year, 1997 – 2007). Demand was limited due to the severe downturns in the mortgage-finance and bio-tech industries, both of which are heavily concentrated in Ventura County, particularly in East County, as well by as the general contraction in the economy.

At the same time, a large amount of space, 494,700 SF, came on-line due to construction completions. The vacancy rate climbed very sharply from 8.8% a year ago to 15.4% as of year-end 2008 (this includes a relatively large amount of sublet space, 3% of the total market). Asking rental rates shrank by 4.9%, on average.

Vacancy up
very sharply to
15.4%



Construction activity has slowed, and 140,900 SF was underway as of year-end 2008. As the space comes on-line, it will expand the base by 0.8%. Assuming that the economy will continue to contract in 2009, vacancy rates appear likely to climb into the high teens, reflective of a very soft market. Rental rates appear likely to continue to decline in 2009.

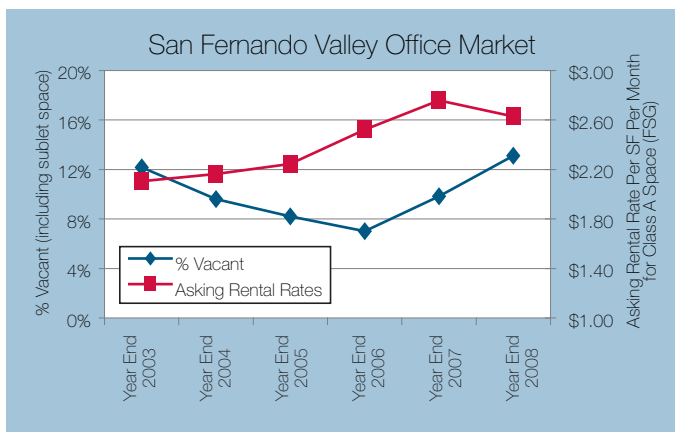
The long-term outlook, however, remains positive. Ventura County remains highly attractive to small firms and to back-office operations, particularly by those headed by management seeking a high quality living and business environment within close proximity to Los Angeles.

The San Fernando Valley

Market conditions also softened in the San Fernando Valley in 2008, with the vacancy rate climbing from a relatively healthy 9.8% a year ago to a moderately high 13.1% as of year-end 2008. Net absorption was -460,700 SF, representing shrinkage in occupied space of 1.9%. This was the second year in a row of negative net absorption (-228,600 SF in 2007) and was well below the long-term average for the area (+443,000 SF per year, 1997-2007). Construction completions totaled 493,600 SF, expanding the base by 1.8%. Asking rental rates were down -4.7% over a year ago.

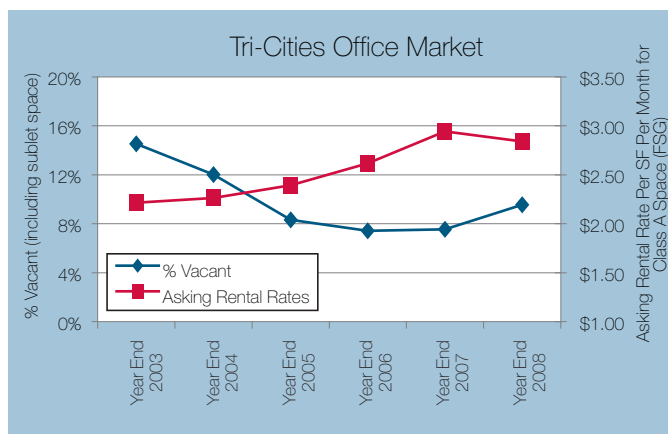
Vacancy rate climbs to 13.1%

Construction activity has slowed, and 103,500 SF was under-way as of year-end 2008. When complete, it will expand the base by 0.4% – a modest amount. We expect net absorption in 2009 to remain negative, and vacancy to climb into the mid-teens. Continued declines in rental rates are expected.



The Tri-Cities (Burbank/ Glendale/ Pasadena)

Net absorption was -514,000 SF in 2008, representing shrinkage in occupied space of 1.7%. This was the second year in a row with negative net absorption (-40,000 in 2007), and was well below the average witnessed 1997 to 2007 of approximately +446,700 SF per year. A relatively small amount of space came on-line in 2008 due to construction completions (160,500 SF). The vacancy rate as of year-end 2008 was 9.6%, still a relatively healthy level and the lowest vacancy rate in the Los Angeles Basin. Asking rental rates, however, dropped by 3.5%, a strong reversal of the upward trend (+12.3%) witnessed in 2007.



As of year-end 2008, 1 million SF of space was underway. The vast majority of this space is scheduled to come on-line in 2009. As it does, it will expand the base by 5%, a large amount, particularly in a recessionary year. Vacancy rates appear likely to climb into the mid-teens and rental rates to continue to drop.

Construction boom underway

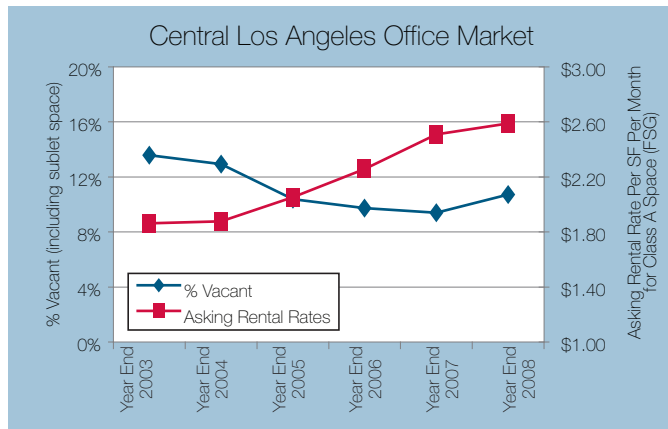
The long-term outlook for the Tri-City area, however, remains very positive. The area is amenity-rich, and the concentration of firms in the area (including entertainment, professional services and engineering) is a good mix for long-term expansion.

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

Net absorption in Central Los Angeles in 2008 was -1.1 million SF, representing shrinkage in occupied space of 1.5%. This was a reversal from +270,700 SF in 2007 as well as from the long-term average for the area of approximately +920,000 SF per year (1997 to 2007).

No construction completions took place. The vacancy rate climbed to 10.7%, up from 9.4% the year before. Despite this increase in vacancy rates, asking rental rates for Class A space climbed by 3.2% over a year ago, due in large part to the discrepancy between the relatively low rental rates in Central Los Angeles vs. high rental rates in the adjacent West Los Angeles and Tri-Cities markets.

Rental rates up 3.2% despite drop in vacancy



As of year-end 2008, a small amount of construction was underway, 215,000 SF. In 2009, we expect that demand will remain low, due to the economic downturn, and that vacancy rates will climb into the mid-teens.

Once the economy recovers, perhaps in 2010, demand for space in the downtown market will likely come primarily from government agencies and firms in law, utilities, accounting and finance; Mid-Wilshire will likely continue to attract small, entrepreneurial, often Asian-owned firms; and Hollywood a mix of firms in professional services, high-tech and entertainment. The area will also be attractive to firms looking for more affordable rental rates than in the adjacent West Los Angeles and Tri-Cities markets.

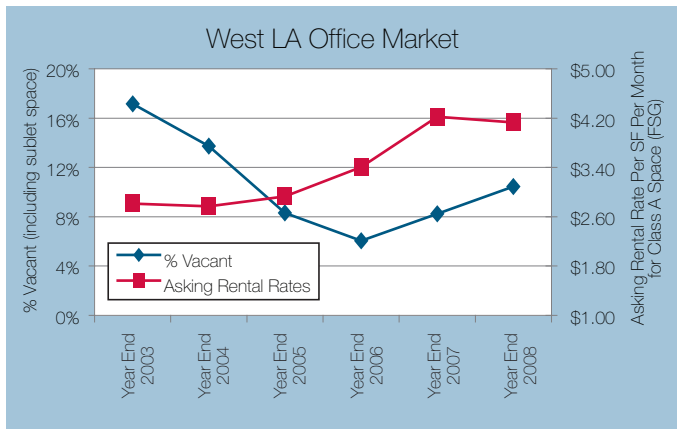
West Los Angeles

Net absorption was also negative in 2008 in West Los Angeles (-401,100 SF), although in percentage terms, the amount of shrinkage in occupied space was the lowest of any market in the Basin (-0.8%). Moderate growth in demand from entertainment and professional service firms offset some the contraction in demand from financial firms. This was the second year in a row of negative net absorption in West LA (-87,700 SF in 2007). It also was down from the long-term average for the area of +625,000 SF per year, 1997 to 2007.

821,100 SF came on-line in 2008, expanding the base by 1.6%. The combination of the moderate negative net absorption and the completion of a large amount of new space caused vacancy rates to climb to 10.4% from 8.2% a year ago. Rental rates, which had been growing very sharply (+24% in 2007), dropped in 2008, by 2.2% on average. Nevertheless, asking rental rates in West Los Angeles remained the highest in the Basin.

Asking rental rates no longer climbing

Construction activity has slowed, although a moderate amount still remains underway (382,400 SF). As this space comes on-line, it will expand the base by 0.7%—a level that could be readily absorbed if the economy were healthy, but in this era of recession, it will likely cause vacancy rates to climb further. We anticipate that vacancy rates in West Los Angeles will climb into the mid-teens by year-end 2009, and that asking rental rates will drop at significantly greater pace than in 2008.



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, once the economy begins its recovery.

The South Bay

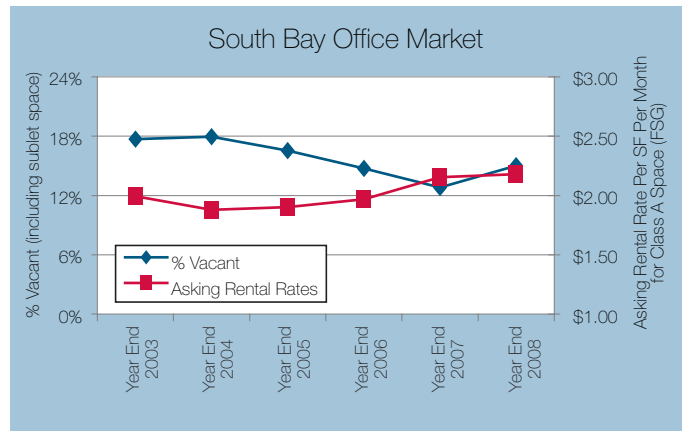
In 2008 net absorption in the South Bay turned negative, -859,500 SF, representing shrinkage in occupied space of 2.5%. This was in sharp contrast with 2007, when net absorption of +800,700 SF took place. It also was down from the long-term average of the market of +285,000 SF per year, 1997 – 2007.

While virtually no new space came on-line due to construction, the negative net absorption caused the vacancy rate to climb to 15%, up from 12.8% a year ago. Asking rental rates, which were exceptionally low in 2007, inched upward by 1.2% on average. As of year-end 2008, the South Bay still had the lowest asking rental rates in the Basin, 21% below the regional average, and approximately half that of rates in the adjacent West Los Angeles market.

Still the lowest rental rates in the Basin

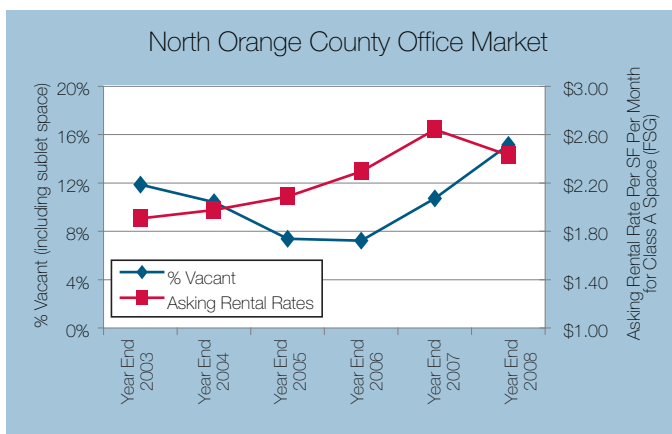
73,600 SF of construction is currently underway, a modest amount. However, vacancy rates are projected continue to climb in 2009, due to the weak economy.

Long-term, the South Bay will benefit from its location along the coast and its good access to a highly educated workforce. It also will benefit from rental rates that are substantially lower than in adjacent markets.



North Orange County

North Orange County, with its large concentration of firms in the mortgage-finance industry, was hit the hardest of any market in the Los Angeles Basin in 2008. Occupied office space shrank by 1.2 million SF, or by 4.3%. This followed negative net absorption of 1.1 million SF in 2007. In addition to the negative net absorption, 177,500 SF of space came on-line due to construction completions.



Vacancy climbed to 15.1% from 10.7% a year ago, and asking rental rates dropped by 8% on average. This was the largest decline in rental rates of any of the markets in the Basin.

Asking rental rates drop by 8%

As of year-end 2008, 170,500 SF was under-construction. As this space comes on-line, it will expand the base by 0.5%. It is unclear how much more space will be released by the mortgage-finance industry, as well as by other sectors in the area, but we expect the worse is not yet over. Vacancy rates may climb into the high teens in 2009, and asking rental rates appear likely to fall even further.

Long-term, good growth in demand will be driven by a broad mix of firms in the area, including those in telecommunication, high-tech and professional services. The long-term average for the area is net absorption of +373,000 SF per year, 1997-2007.

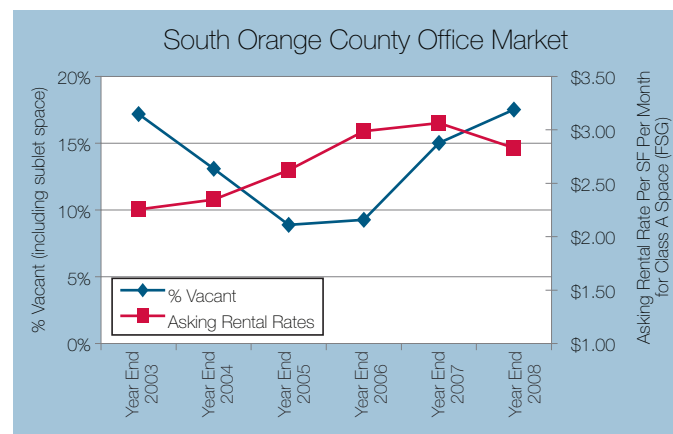
South Orange County

Net absorption in South Orange County in 2008 was -686,000 SF, representing shrinkage in occupied space of 1.3%. This was the second year in a row of negative net absorption (-540,700 SF in 2007), and a strong reversal from the long-term average for the area of +1.3 million SF per year, 1997 - 2007. As with North Orange County, the market was initially hit by the downturn in the mortgage-finance industry, but the downturn then spread to other sectors.

The tail-end of a construction boom delivered 1.1 million SF of space in 2008, expanding the base by 1.7%. The vacancy rate climbed to 17.5% as of year-end 2008, up from 15% a year ago. The average asking rental rate for Class A buildings dropped by 7.6%.

The highest vacancy rate in the Basin, 17.5%

Just 25,600 SF of construction activity was underway as of year-end 2008. However, given the severity of the economic downturn, we anticipate that vacancy rates in the area will climb into the low 20% range. Rental rates will likely continue to drop, perhaps at an even steeper pace than in 2008.



Long-term, employment projections indicate a need for approximately 2 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, once the economy recovers. The area has emerged 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.

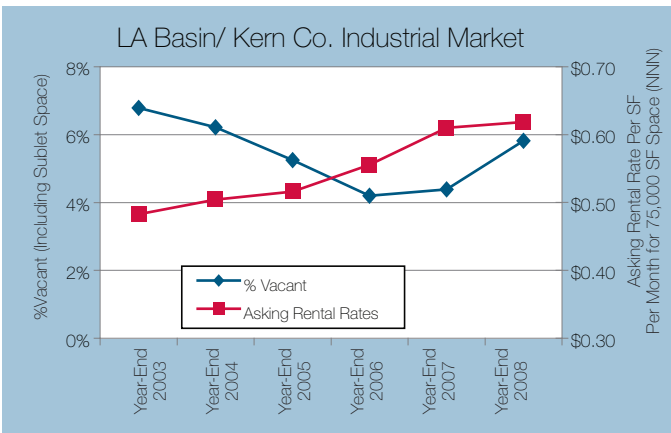
The Industrial Market Also Softens

The Los Angeles Basin and Kern County Industrial Market entered the current economic downturn with exceptionally tight market conditions. Those conditions softened some in 2008, due to a moderate contraction in demand as well as significant construction completions, particularly in the Inland Empire. As of year-end 2008, the vacancy rate in the area was 5.8%, still a generally healthy rate, but up significantly from 4.1% just 12 months ago. Rental-rates and sale prices per SF were generally flat (following strong growth in prior years), and sales activity plummeted.

Vacancy rate climbs to 5.8%

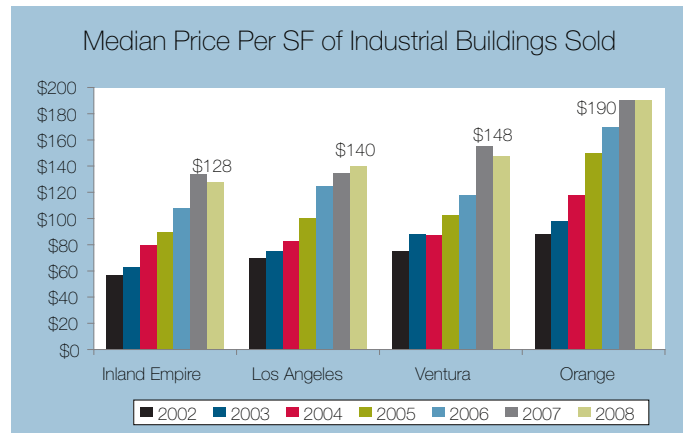
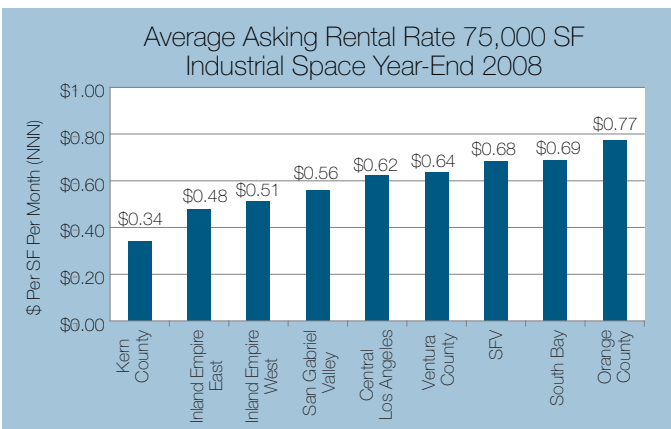
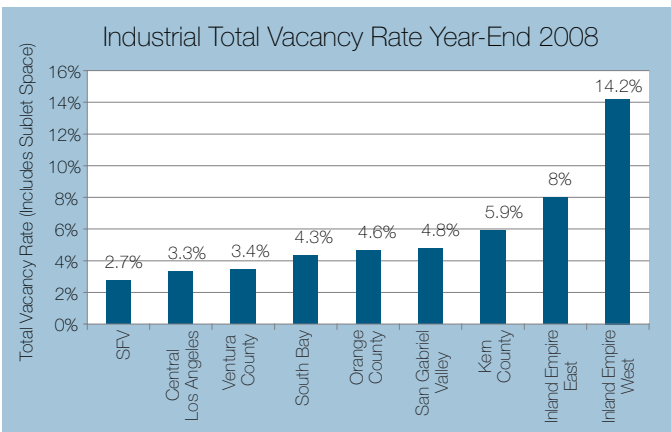
Net absorption in 2008 was -9.2 million SF, representing shrinkage in occupied space of 0.6%. This was in contrast with net absorption of +27.8 million SF in 2007 as well as the +25.4-million-SF-per-year pace witnessed on average 1997-2007³. The primary reason for the downturn was the contraction in the economy. In the 12-month period ending November 2008 (the most recent date for which employment estimates were available as of the time of this writing), the total number of jobs in the Los Angeles Basin and in Kern County shrank by 96,900 (-1.3%). Significant positive net absorption took place in the Inland Empire East (+2.3 million SF), but this was more than offset by negative net absorption in most of Los Angeles, Orange and Ventura Counties, as well as in Inland Empire West.

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



A large amount of new product was completed in 2008 (25.2 million SF), with most of that in the Inland Empire (20.7 million SF). This expanded the base in the region by 1.5%.

Vacancy climbed to 5.8% from 4.1% a year ago. The direct vacancy rate (excluding sublet space) was 5.4%. Vacancy rates remained generally low in Los Angeles, Orange and Ventura Counties, below 5%. They were higher in the Inland Empire (8% in Inland Empire West and 14.2% in Inland Empire East), due to the large amount of construction activity that has taken place there. In Kern County, they were moderate, at 5.9%.



Asking rental rates were generally flat, following strong increases in prior years (for example, +8% in 2007). They remained particularly high in Orange County (\$0.77 PSF per month NNN, on average) and were lowest in Kern County and in the Inland Empire.

Sale prices per SF were generally flat in 2008, following exceptionally strong growth 2004-2007. However, sales activity plummeted. The downturn in activity was due to a combination of sharply tightening credit requirements, the softening market and economy, and prices which had become high relative to rents and relative to historical levels.

Construction activity has dropped sharply. As of year-end 2008, 7.1 million SF was under-construction, down from 25 million SF 12 months prior. When complete, the space currently under-construction will expand the base by 0.4%, a modest amount.

Construction activity has dropped sharply

Vacancy rates may climb by another couple of percentage points in 2009 due to the economic downturn. However, they are projected to remain single-digit in all areas except the Inland Empire, where most (68%) of the construction activity is taking place. Asking rental rates may drop some due to the difficult economic times, and sale prices per SF appear likely to drop significantly in a number of areas.

Ventura County

Net absorption in 2008 was -76,600 SF, representing minor shrinkage in occupied space of 0.1%. This was down from +210,000 SF in 2007 and from the long-term average for the County of +1 million SF per year (1997 through 2007). The downturn in the economy took its toll. Also, lack of availability in key segments limited the amount of net absorption that could take place. Just 227,900 SF of space came on-line from construction.

The total vacancy rate climbed to 3.4% from a very low 3% as of year-end 2007. Asking rental rates for a typical 75,000 SF space dropped \$0.01 to \$0.64 per SF per month NNN – still a relatively high rate. Rental rates were highest in the eastern portion

Los Angeles Basin and Kern County Industrial Market ■ Year-End 2008

| | Rentable Square Feet | % Vacant | | Net Absorption (SF) 2008 | Square Feet Completed 2008 | Square Feet Under-Construction | Average Asking Rental Rate* 75,000 SF Space |
|----------------------------|----------------------|-------------|-------------|--------------------------|----------------------------|--------------------------------|---|
| | | Direct | Total | | | | |
| Ventura County | 68,748,400 | 2.9% | 3.4% | (74,600) | 227,900 | 246,900 | \$0.64 |
| SFV | 142,655,900 | 2.5% | 2.7% | 379,900 | 369,600 | 110,500 | \$0.68 |
| Central LA | 367,841,400 | 3.1% | 3.3% | (3,656,100) | 830,500 | 494,300 | \$0.62 |
| South Bay | 239,661,700 | 3.9% | 4.3% | (2,849,600) | 930,800 | 676,500 | \$0.69 |
| San Gabriel Valley | 158,300,100 | 3.6% | 4.8% | (2,968,000) | 706,700 | 612,800 | \$0.56 |
| Inland Empire West | 218,837,600 | 7.4% | 8.0% | (1,901,500) | 6,017,800 | 1,271,200 | \$0.48 |
| Inland Empire East | 218,360,300 | 13.6% | 14.2% | 2,263,200 | 14,736,000 | 3,589,700 | \$0.51 |
| Orange County | 224,662,300 | 4.3% | 4.6% | (761,700) | 814,900 | — | \$0.77 |
| L.A. Basin Subtotal | 1,639,077,700 | 5.3% | 5.8% | (9,568,400) | 24,634,200 | 7,001,900 | \$0.62 |
| Kern County | 28,726,500 | 5.8% | 5.9% | 327,800 | 551,000 | 126,700 | \$0.34 |
| Total | 1,667,804,200 | 5.4% | 5.8% | (9,240,600) | 25,185,200 | 7,128,600 | \$0.61 |

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

of the County, particularly in the Conejo Valley, and were lowest on the coastal plain, particularly in the City of Oxnard. The median sales price per SF was \$148 per SF, a 4.5% drop from 2007 levels. However, this too was still a relatively high level, up 44% over the median in 2005.

Vacancy rate remains low, just 3.4%

As of year-end 2008, 246,900 SF of construction was underway. As this space comes on-line, it will expand the base by 0.4%, a relatively modest amount. Vacancy rates may climb some, due to the downturn in the economy, but market conditions are still expected to generally stay in healthy territory. Asking rental rates may continue to inch downward in response to the economic conditions, but sale prices per SF may drop more significantly.

Long-term, construction activity will be constrained by highly restrictive local growth ordinances, as well as by high land prices.

In addition to the standard industrial market, Ventura County/Conejo Valley have a moderate-sized flex/R&D market, with 8.1

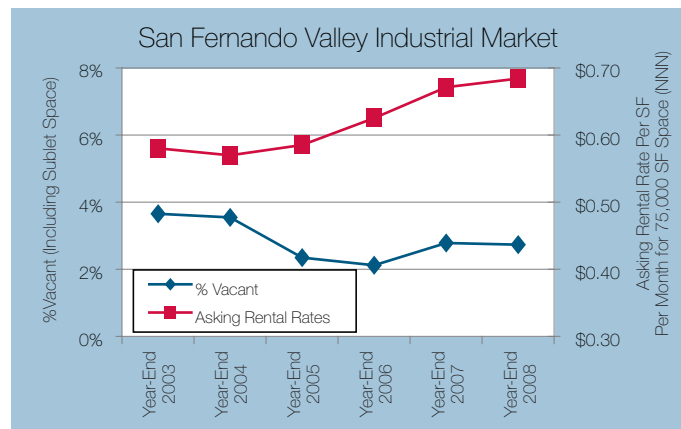
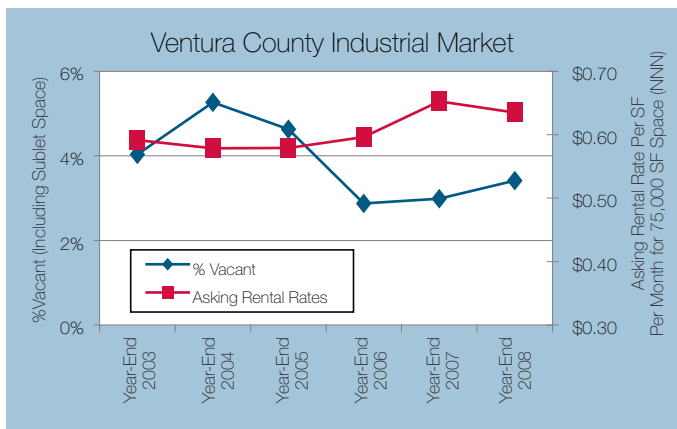
million SF. As of year-end 2008, the vacancy rate was moderate to slightly high at 9.8%, up from 8.7% a year ago. The R&D market is projected to continue to soften some in 2009 due to the economic downturn. However, no space is currently under-construction.

The San Fernando Valley

Net absorption in the San Fernando Valley in 2008 was +379,900 SF, representing growth in occupied space of 0.3%, despite the downturn in the economy and exceptionally low vacancy rates. This was a reversal from 2007, when net absorption was -269,600 SF, but down from the long-term average for the area of +1.2 million SF per year, 1997 through 2007. Construction activity remained light, and just 369,600 SF was completed.

The total vacancy rate at year-end 2008 was a very low 2.7%, down slightly from 2.8% as of year-end 2007. Responding to the tight market conditions, asking rental rates climbed \$0.01 to \$0.68 per SF per month NNN, despite the economic downturn. Median sale prices remained high, at \$160 per SF.

The lowest vacancy rate in the Basin: only 2.7%



As of year-end 2008, 110,500 SF was under-construction. When completed, this space will expand the base by just 0.1%. Vacancy rates may inch upward, but are projected to remain low. This will place upward pressure on rental rates despite the recession, and may serve to keep sale prices relatively high. The area is now largely built-out, yet long-term demand is projected to remain moderate to strong, particularly from the small and medium sized manufacturer and distributor.

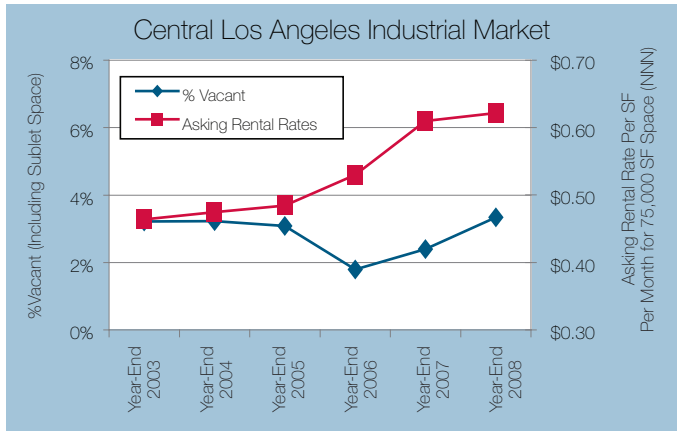
Central Los Angeles (Central Los Angeles City, Vernon, Commerce and Santa Fe Springs)

As was the case throughout much of Los Angeles County, net absorption in Central Los Angeles in 2008 was negative (-3.7 million SF, or 1% shrinkage in occupied space), primarily due to the economic downturn, but also due to a general lack of availability. This was the second year in a row of negative net absorption (-631,800 SF in 2007), in contrast with the long-term trend of positive net absorption (+2.2 million SF per year 1997 through 2007). 830,500 SF was completed via construction, expanding the base by a modest 0.2%.

The vacancy rate as of year-end 2008 was a low 3.3%, up from an even lower 2.4% a year ago. Average asking rental rates inched upward by \$0.01 to \$0.62 per SF, a relatively high rate for a market with relatively old stock. Average sale prices were firm, at \$130 per SF, although the amount of activity was down significantly.

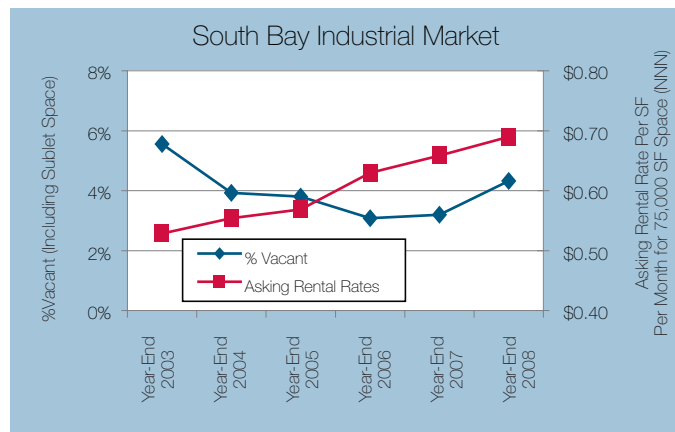
As of year-end 2008, construction activity remained restrained, with only 494,300 SF underway. As this space is completed, it will expand the base by just 0.1%. Vacancies may climb some due to the recession, but they are projected generally to remain in healthy territory nevertheless.

A mature market with generally low vacancy rates



The South Bay

Net absorption was negative also in the South Bay, -2.8 million SF, representing shrinkage in occupied space of 1.2%. This was in contrast with 2007, when net absorption totaled +1.1 million SF, and with the long-term average for the area of +1.9 million SF per



year. 930,800 SF of new construction came on-line during the period, expanding the base by 0.4%.

The combination of the negative net absorption and the construction completions caused the vacancy rate to climb to 4.3%, up from 3.2% a year ago. This remained, however, a generally healthy vacancy rate, and asking rental rates climbed by \$0.03 to \$0.69 PSF NNN and median sale prices climbed to \$155 per SF.

As of year-end 2008, 676,500 SF of construction was underway. When complete, this space will expand the base by just 0.3%. As with the other markets in Los Angeles County, some increase in vacancy appears likely, but rates are expected to generally stay in healthy territory.

Long-term, demand is projected to be strong, largely driven by firms oriented toward trade with the ports of Los Angeles and Long Beach and/or with Los Angeles International Airport. Supply will be constrained by a lack of vacant land.

Construction activity remains minimal

The San Gabriel Valley

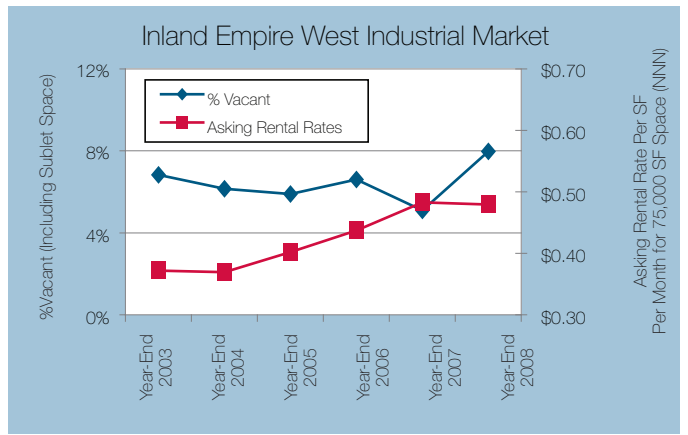
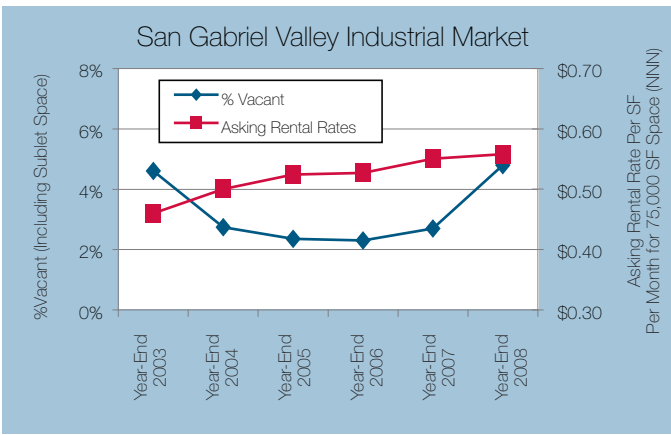
Net absorption in the San Gabriel Valley was -3 million SF, representing shrinkage in occupied space of 1.9%. This was down from +1.9 million SF in 2007 and from the long-term average of +2.1 million SF per year. Construction activity was moderate, and 706,700 SF came on-line, expanding the base by 0.4%.

The total vacancy rate as of year-end 2008 was 4.8%, up significantly from 2.7% a year ago. Despite this increase in vacancy, asking rental rates inched upward by \$0.01 to \$0.56 PSF NNN, and sale prices remained relatively firm at a median of approximately \$130 per SF.

Vacancy rate climbs to 4.8%

As of year-end 2008, construction activity was modest, with 706,700 SF underway. When this space is completed, it will expand the base by 0.4%.

As with most other markets, a moderate increase in vacancy is expected in 2009. Rental rates may slip some as vacancy climbs above 5%, and sale prices per SF may drop at least moderately.



The Inland Empire

Net absorption was moderate in the Inland Empire East (+2.3 million SF), but weak in the Inland Empire West (-1.9 million SF), for a total of +361,700 SF. This was an unusually low number for the Inland Empire. In 2007, net absorption totaled an exceptional +24.7 million SF, and the long-term average for the market was +14 million SF per year (1997 through 2007).

20.8 million SF of space was completed in the Inland Empire in 2008, expanding the base by 5%. Vacancy rates climbed to 8% in the Inland Empire West (up from 5.1% the previous year) and to a high 14.2% in the Inland Empire East (up from 10.2%), where most of the construction activity took place.

Asking rental rates remained flat in the Inland Empire West, but dropped by 8.4% in the Inland Empire East. Rental rates in these two markets average \$0.48 to \$0.51 PSF NNN, and are the lowest in the Los Angeles Basin. Median sale prices dropped to \$128 PSF from \$134 PSF the previous year.

Construction activity has slowed significantly, and as of year-end 2008, 4.9 million SF was underway, down sharply from 20 million SF a year ago. When completed, this space will expand the base by 1.1%. Vacancy rates appear poised to continue to climb, unless demand picks up unexpectedly.

Construction boom slows

When the economy recovers, demand will likely be strong once again, particularly for big-box product. The Inland Empire has emerged as the premier location in the Los Angeles Basin for big-box distribution facilities. This is one of the few locations near the urbanized core with ample land (particularly in the Inland Empire East) at still-affordable prices.

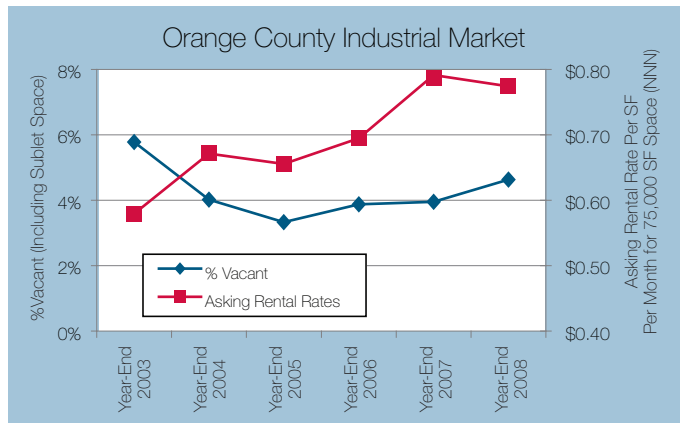
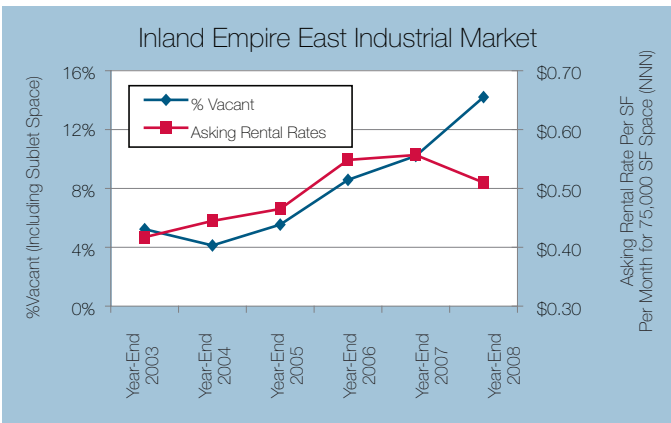
Orange County

Net absorption in Orange County in 2008 was -761,700 SF, representing shrinkage in occupied space of 0.4%. This was down from +632,300 SF in 2007 and from a +2.1 million SF per year average 1997 through 2007. Construction activity was low, and 814,900 SF came on-line, expanding the base by 0.4%.

The total vacancy rate as of year-end 2008 was 4.6%, up from 4% as of year-end 2007. Asking rental rates dropped by \$0.01 PSF, but remained the highest in the Los Angeles Basin, at \$0.77 PSF NNN. Despite a sharp drop in activity, median sale prices per SF remained flat at \$190 PSF—the highest in the Los Angeles Basin.

Sale prices remain high despite sharp downturn in activity

As of year-end 2008, there was no industrial construction activity underway. This should help the market weather some the upcoming recession. Vacancy rates appear likely to climb into the 5% to 6% range in 2009, higher than current levels, but still in generally healthy territory. Given their current high levels, significant declines in rental rates and in sale prices are possible.



Long-term, Orange County will remain highly attractive to the mid-sized manufacturer and distributor in a wide variety of fields, including high technology, food, apparel and communications. Lack of vacant land and very high land prices will likely constrain construction activity.

In addition to the standard industrial market, Orange County has a large flex/ R&D market, with 65 million SF as of year-end 2008. Vacancy rates were healthy, at 6.7%, although this was up from 4.6% a year ago. Asking rental rates, which had been climbing rapidly in 2006 and 2007, declined in 2008, by 6.5% on average. Just 37,200 SF was under-construction as of year-end 2008.

Kern County

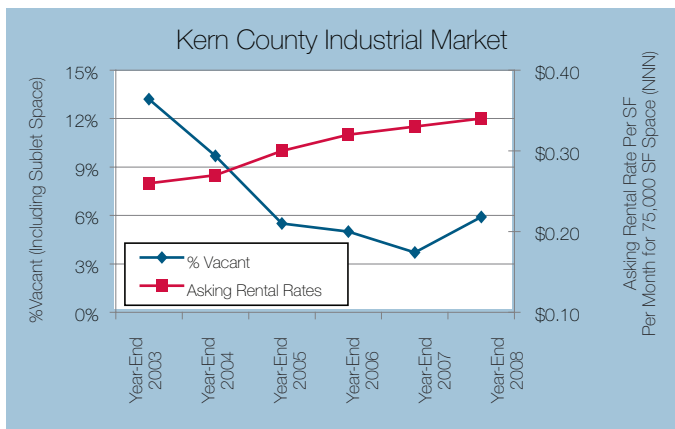
Net absorption in 2008 totaled +327,800 SF, representing growth in occupied space of 1.2%. This was down from 2007, when net absorption totaled +678,000 SF, and down also from the average of +2.5 million SF per year witnessed 1997-2007. It was positive net absorption nevertheless.

Construction activity was significant, and 556,000 SF came on-line due to completions, including Famous Footwear's 350,000-SF distribution facility. The vacancy rate climbed to 5.9% from 3.7% a year ago. Vacancy rates climbed particularly sharply in the small-building segment (under 25,000 SF). Rental rates climbed \$0.01 to \$0.34 per SF per month NNN for a typical 75,000 SF space. However, they were down for the small building segment. Rental rates in Kern County were 45% lower than the average for the Los Angeles Basin (\$0.62 PSF). They also were 29% lower than rates (\$0.48 PSF) in the Inland Empire.

Construction activity as of year-end 2008 was modest (126,700 SF), but a large amount of space is expected to soon commence, including Paramount Farm's 2,300 acre rail-served industrial park in Shafter.

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.

Rental rates
45% lower than
in the LA Basin



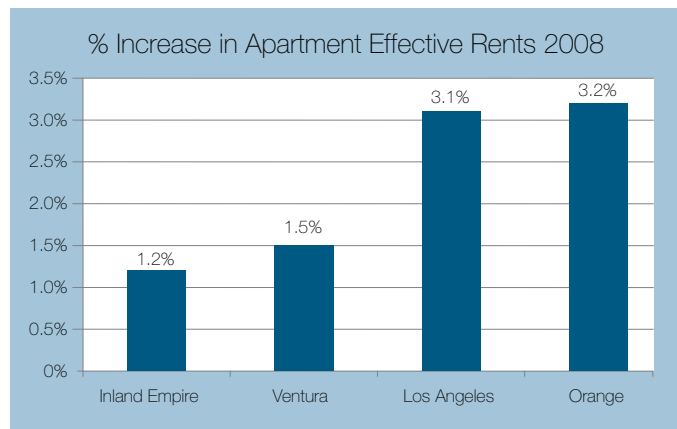
Vacancies Creep Upward in Apartment Market

Vacancy rates in the Los Angeles Apartment Market have been creeping upward, due to a combination of contracting tenant demand and moderate construction activity. Vacancy rates as of year-end 2008 were in the mid-4% range in Los Angeles, Orange and Ventura Counties and in the mid-6% range in the Inland Empire, approximately one percentage point higher than where they were a year ago. Despite the increase in vacancy, effective rental rates climbed by approximately 3% year-over-year in Los Angeles and Orange Counties. In Ventura County and the Inland Empire, more modest rent growth was seen—in the 1% to 2% range.

Demand by tenants has been negatively impacted by the downturn in the economy. Households are doubling up and a growing number of tenants are finding space in “shadow-market” units (rentals in single-family homes and condominiums). The pool of apartment renters in the Los Angeles Basin shrank by an estimated 0.4% in 2008. Note, however, that some boost in demand is taking place due to the downturn in the for-sale market. Large numbers of households are choosing renting over owning. Without this factor, the shrinkage in the pool of apartment renters would have been greater.

Construction of apartments has slowed, and 6,000 units are projected to come on-line in 2009, expanding the base by only 0.5%. Nevertheless, an increase in supply of 0.5% is significant when demand is shrinking. Vacancy rates in 2009 appear likely to climb by another 1 to 1.5 percentage points. As they do, asking rental rates are expected to flatten and concessions to increase. There also will likely be a shift in demand toward lower-rent units.

Median sales price generally remained firm in Los Angeles and Orange Counties, despite a very significant drop in activity. Median prices dropped some, however, in the Inland Empire and in Ventura County. The median prices of properties sold in 2008 ranged from an average of \$130 PSF in the Inland Empire to \$218 PSF in Orange County. Cap rates inched upward, but still were in the high 5% range on average.



Demand Slows for Retail Space

The Los Angeles Basin has a very large retail market, with nearly 500 million SF of space⁴. In 2008, net absorption totaled +2.2 million SF, representing growth in occupied space of 0.5%—a relatively modest amount. This was significantly below the level as witnessed in 2007, +7.2 million SF, as well as below the long-term average for the Basin of +6.7 million SF per year. The primary reason for the slowing in demand was the recession and drop in retail sales, which caused a number of stores to close or to consolidate, and others to postpone any expansion plans.

Supply in much of the Basin has been generally constrained by a lack of available land, although in 2008 a large amount of space came on-line (8.9 million SF, expanding the base by 1.8%). The vacancy rate in the Los Angeles Basin at year-end 2008 was 4.4%, up from 3.5% as of year-end 2007. The direct vacancy rate was 4.2%. While up, these remain relatively healthy numbers. Average asking rental rates dropped by approximately 3% in 2008, following a strong 10% increase in 2007. Market conditions were particularly tight in West Los Angeles and the Tri-Cities area, but softer in the Inland Empire.

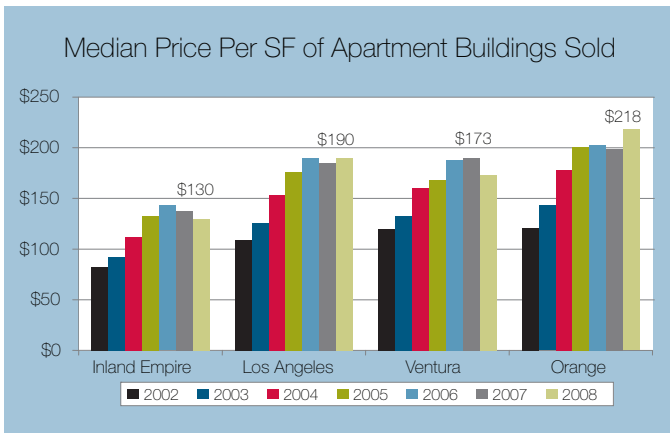
The median price per SF of retail properties that sold in 2008 remained firm relative to prices in 2007. However, as with the other property types, activity plummeted, suggesting that prices have peaked. Cap rates inched upward, into the high 5% / low 6% range.

Construction activity has slowed significantly, and as of year-end 2008, 5.7 million SF of retail space was under-way, down significantly from 11 million SF a year ago. As this space comes on-line, it will expand the base by 1.2%—a moderate amount.

Given the severity of the current recession and its impact on retail sales, as well as the moderate amount of space under-construction, it appears as though vacancy rates may climb by another two to three percentage points in 2009. Rental rates appear likely to

Vacancy remains generally healthy at 4.4%

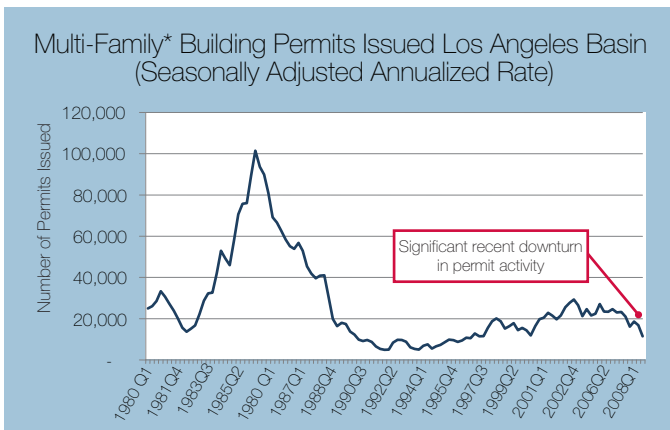
Sales activity plummeted, but prices remained firm



The risk of a price correction appears to have increased, due to the combination of the projected general softening in market conditions and a tightening in lending criteria.

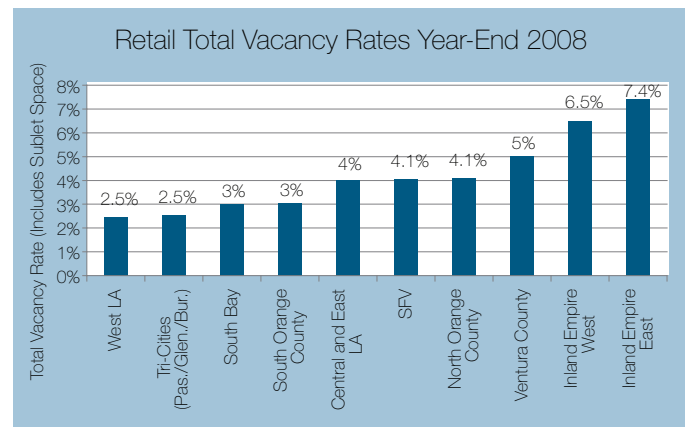
While most of the recent trends are negative, the fundamentals underlying the Los Angeles Basin Apartment Market remain very strong. The Basin is projected to add approximately 100,000 households per year over the next five years (+1.9% per year), and many of these households will be renters. Additional stimulus will come from the large “baby boomlet”, individuals born 1985-1992 (the eldest of whom are turning 24 this year are in their peak renter years, ages 20 – 34). Current construction activity is falling far short of underlying demographic growth in demand. Once the economy recovers and households begin to unbundle, vacancy rates will likely drop very quickly.

Construction activity greatly lags long-term growth in demand



*Multi-family permits include condominiums as well as apartments.

⁴ Data includes all retail buildings 10,000 SF and larger.



Los Angeles Basin Retail Market ■ Year-End 2008

| | Rentable Square Feet | % Vacant | | Net Absorption (SF) 2008 | Square Feet Completed 2008 | Square Feet Under-Construction | Average Asking Rental Rate* |
|------------------------------|----------------------|-------------|-------------|--------------------------|----------------------------|--------------------------------|-----------------------------|
| | | Direct | Total | | | | |
| Ventura County | 29,466,300 | 4.8% | 5.0% | (250,400) | 288,000 | 1,057,600 | \$2.00 |
| SFV | 43,021,100 | 3.5% | 4.1% | (332,900) | 289,700 | 860,200 | \$2.22 |
| Tri-Cities (Pas./Glen./Bur.) | 32,860,800 | 2.3% | 2.5% | 500,800 | 754,800 | 47,000 | \$2.75 |
| Central and East LA | 77,602,900 | 3.9% | 4.0% | (622,200) | 631,900 | 1,451,300 | \$2.23 |
| West LA | 23,484,900 | 2.4% | 2.5% | (38,000) | 153,400 | 23,400 | \$3.83 |
| South Bay | 46,901,900 | 2.7% | 3.0% | 1,900 | 442,000 | 0 | \$2.06 |
| North Orange County | 56,793,300 | 3.9% | 4.1% | (96,000) | 634,600 | 446,800 | \$2.03 |
| South Orange County | 46,955,000 | 3.0% | 3.0% | (75,300) | 181,100 | 10,800 | \$2.72 |
| Inland Empire West | 47,225,300 | 6.2% | 6.5% | 940,900 | 1,813,700 | 722,500 | \$1.83 |
| Inland Empire East | 93,211,100 | 7.0% | 7.4% | 2,164,300 | 3,717,000 | 1,128,600 | \$1.70 |
| Total | 497,522,600 | 4.2% | 4.4% | 2,197,500 | 8,906,200 | 5,748,200 | \$2.19 |

* Per SF per month, triple net. Direct lease only. Data is for all competitive buildings 10,000 SF or larger.

continue to drop and sale prices appear likely to witness a significant correction.

Long-term, retailers are likely to remain generally bullish on the LA Basin, with its large and rapidly growing population base (17.9 million persons, growing by 1.5% per year), including a relatively large affluent segment. The area generated retail sales of approximately \$245 billion in 2008, despite the recession, and has witnessed an average annual growth rate in sales of 5.4% per year 1985 to present. Once the economy begins to grow again, the market will likely tighten quickly.

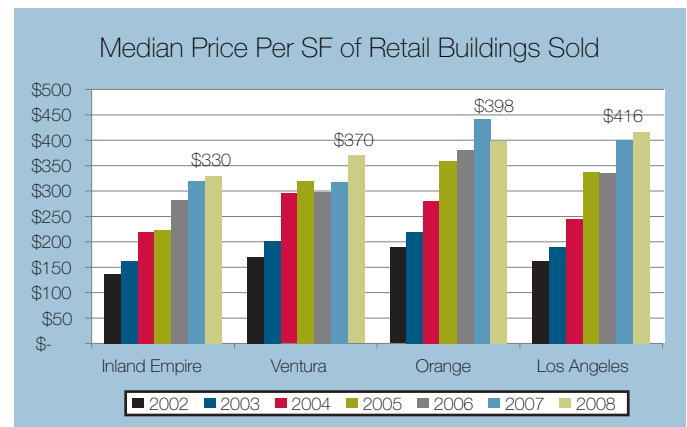
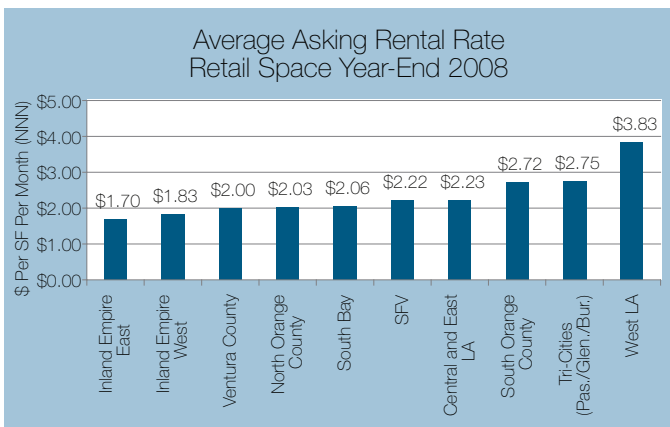
In Ventura County, the vacancy rate at year-end 2008 was a moderate 5%, up significantly from 3.2% a year ago. A large amount of space was under-construction, 1.1 million SF, which will expand the base by 3.6%. Vacancy rates appear likely to continue to climb in 2009. Thereafter, a tightening is expected.

The vacancy rate was relatively low in Los Angeles County, just 3.4%, although this was up from 2.7% as of year-end 2007. The rates were particularly low in West Los Angeles and in the Tri-Cities, both at 2.5%. As of year-end 2008, 2.4 million SF was under-construction, which will expand the base by 1.1% when

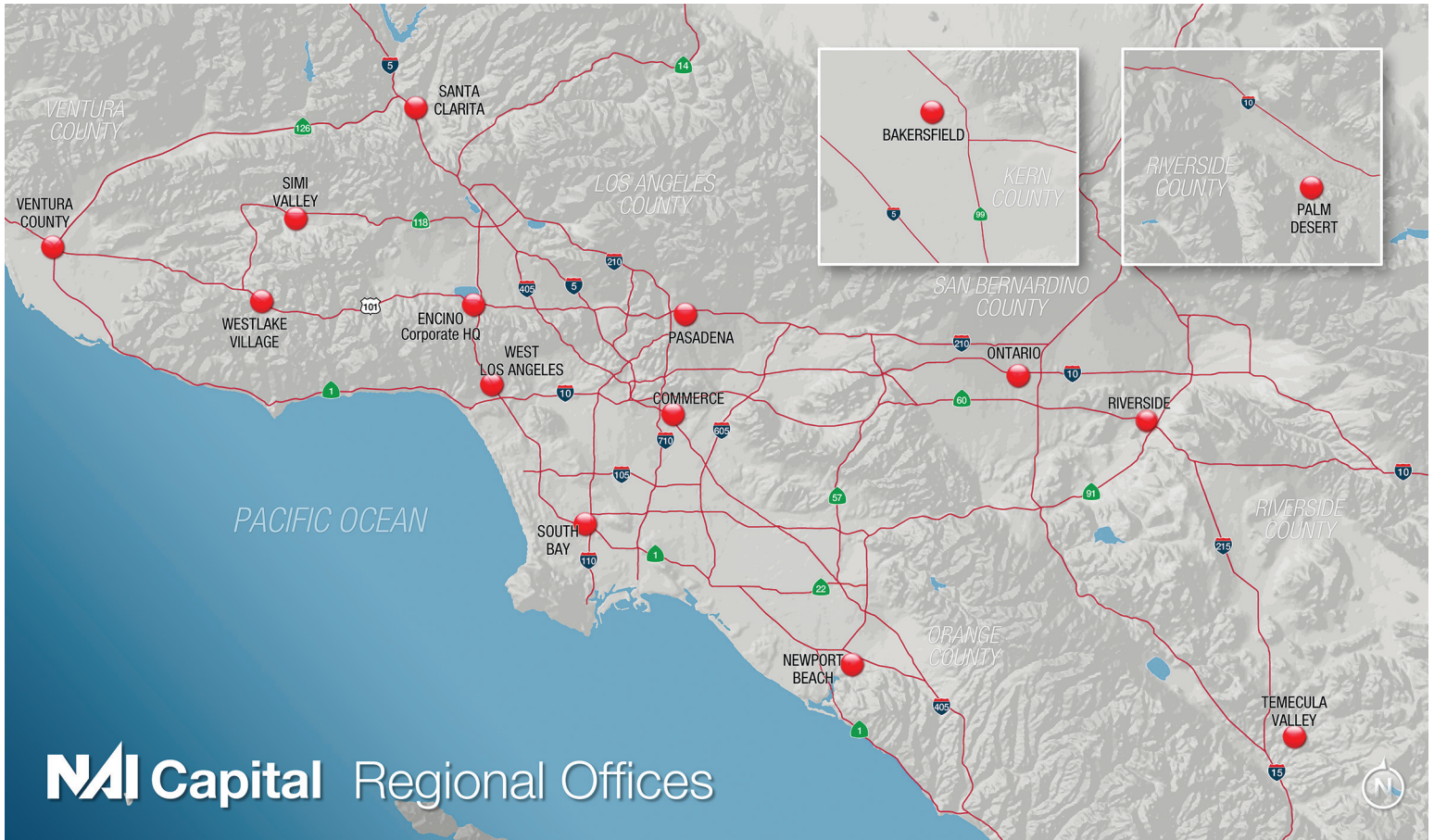
complete. Countywide vacancy may climb into the 4% to 5% range in 2009, but this still would be a generally healthy rate. A lack of available land will constrain the amount of construction that can take place long-term.

In Orange County, the vacancy rate was also low (3.6%) although this was up from 2.8% as of year-end 2007. The rate was significantly lower in South Orange County (3%) than it was in North Orange County (4.1%). A moderate amount of space was under-construction in North Orange County, 446,800 SF, which will expand the base by 0.8% there when completed. Minimal construction activity was taking place in South Orange County. Vacancy rates in 2009 are projected to climb into the 5% - 6% range in North Orange County and into the 4% range in South Orange County.

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 as of year-end 2008 was relatively high—7.1% overall. 1.9 million SF was under-construction. As this space comes on-line, it will expand the base by 1.3%. Vacancy rates may climb by another one to three percentage points in 2009, but then drop quickly once the economy starts growing once again.



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