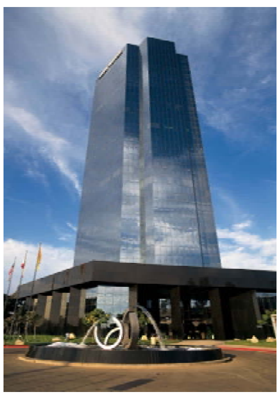
Regional Industrial Market Overview

Orange, San Bernardino, Los Angeles, Riverside, and Ventura Counties



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Real Estate Market Review & Forecast
Orange County

	INDUSTRIAL/FLEX	OFFICE
Overall Vacancy Rates	7.10%	20.2%
2009 Net Absorption	-7,382,250	-2,940,594
Overall Average Lease Rates All Sizes	$0.65 NNN	$2.16 FSG
Average Lease Rates Spaces > 50,000 K	$0.54 NNN	$2.15 FSG
Average Sales Price < 50,000 K	$149.00 psf	$218.39 psf
Average Sales Price > 50,000 K	$92.40 psf	$169.72 psf
Average Land Price	$28.00 psf	N/A

Re-Cap of 2009:

Vacancy is at its highest level since 2003

Overall asking rate down 17.7% year over year

Average price for 50K+: $92.40 psf down 30% from last year

Net absorption is negative for the third consecutive year.

There is a slight but noticeable increase in activity, particularly from user/buyers

Notable Transactions:

Empire Warehouse & Distibution leased 234,763 at 6550 Katella in Cypress

Northgate Gonzalez Market signed a BTS at 1201 Magnolia in Anaheim for 375,000 SF

Santa Ana Distribution Center @ 296,00 SF sold for $86.14 to KTR Capital Partners

2323 Main Street @ 26,000 sf sold to a Chinese investor for $107.69 psf

Forecast for 2010:

Increased buyer activity will lead to stabilization in sale prices.

Average rental rates will continue to decline for the first half of the year as landlords compete for tenants.

The asking rate "gap" will diminish and corporate supply chain slack will reduce, leading to increased transaction activity and a bottoming of the market in the fourth quarter.

Real Estate Market Review & Forecast
Central Los Angeles

	INDUSTRIAL	R/D (FLEX)	OFFICE
Vacancy Rates	4.20%	3.50%	9.90%
Absorption of Space (over previous calendar year)	-2,463,269	11,313	-159058
Average Lease Rates < 50,000 K	$.52 NNN	$1.40 NNN	$2.05 FSG
Average Lease Rates > 50,000 K	$.46 NNN	$1.56 NNN	$2.47 FSG
Average Sales Price < 50,000 K	$80.93	N/A	N/A
Average Sales Price > 50,000 K	$65.50	N/A	N/A
Average Land Price	$20 PSF	N/A	N/A

Re-Cap of 2009:

Western Realco's 400,000 square foot Randolph Business Center, the last building under construction in Central Los Angeles, delivered vacant this quarter bringing total U/C to zero. Vacancy rates are at their highest level since 3Q02. Roughly 16% of the Total Availability Rate lies within 10 buildings, totaling 2.5 msf. Large users that have put space on the market include: Mosaix Studio, Tree of Life Inc and Sears.

Only the San Gabriel Valley has felt a steeper decline in rental rates in LA County. Sublease rates in Vernon have fallen to as low as $.25 GRS, bringing down the overall average as direct blocks struggle to compete

Notable Transactions:

American Apparel @ 747 Warehouse Street. 800,000 SF Renewal.

Church of Scientology new lease @ 6130 E Sheila. 185,000 SF.

Aaron Brothers renewal @ 1270 Goodrich. 175,000 SF.

Forecast for 2010:

While vacancy rates are expected to continue their upward trend in the foreseeable future, the Los Angeles industrial market will not see as sharp of a downturn as other markets nationally due to its diverse tenant base. Activity will remain slow but consistent with short term leases and renewals comprising the bulk of lease transactions. Recent renewals in Commerce have averaged $.35 - $.39 NNN; an attractive bargain in the market. The variance between ask and bid in LA Central has widened significantly. Average asking rates dropped significantly during the fourth quarter from $.56 NNN to $.47 NNN. Recent lease comparables point to even lower start rates closer to $.42 NNN. Conservative consumer spending and decreased trade flows through the San Pedro ports have negatively impacted demand and rental rate appreciation is not expected to occur until this trend reverses significantly.

Real Estate Market Review & Forecast
San Fernando/Santa Clarita Valley

	INDUSTRIAL	R/D	OFFICE
Vacancy Rates	11.95	12.5	14
Absorption of Space (over previous calendar year)	unknown	unknown	unknown
Average Lease Rates < 50,000 K	0.57	0.58	2.00
Average Lease Rates > 50,000 K	0.55	0.54	1.75
Average Sales Price < 50,000 K	142.00	133.00	216.00
Average Sales Price > 50,000 K	105.00	112.00	191.00
Average Land Price	44.00	49.00	unknown

Re-Cap of 2009:
In 2009, we experienced a significant growth in the number of industrial properties available setting a new high in the vacancy factor that averages approximately 11.95% for the San Fernando Valley and Valencia/Santa Clarita Valley area. It is important to note the average rental rates and prices did show a marginal drop in 2009; however, looking at the prices at the end of 2009, it sets a clear picture that we are and will continue to see prices fall in both sale and lease rates. The actual drop in lease rates is closer to 18% if you look to the actual change at year end from the prior year.

Notable Transactions:
7800 Woodley Avenue, Van Nuys. This is without a doubt the most notable transaction in the area for 2009. The total area leased was 313,142 square feet for a ten (10) year term, completed by Lee and Associates. The asking rate was $174,815 /Mo ($.52nnn psf.). The property was not on the market very long and was taken by Munchkin who required the space for expansion as the recession has created a baby boom. Good news! There is always someone who benefits even in tough times; we just need to figure out who that is. **15815 – 15870 W. Monte, Sylmar.** The reason why I chose this, is it clearly shows our change in market. As in year 2007, a project like this would have sold out quickly at full price and now they have had to make drastic price reductions and concessions, and even after 18 months of marketing, they still have discounted space on the market with prices approx. $60 per foot less than original asking rate.

Forecast for 2010:
It is my opinion the vacancy factor will increase and prices will continue to lower but less drastically in 2010. The brokerage community will experience more tenant movement as companies have passed the "9/11 wait and see mode" and will get in motion to make positioning moves that best position them for the future. We can expect the sale of land and development to be almost none existent due to lack of financing. The good news is I believe conduit financing will possibly come back at year end and we are close to the bottom if not there. I expect it will take a good five (5) years for our market to come back and reduce the vacancy factor created.

Real Estate Market Review & Forecast
East SGV

	INDUSTRIAL	R/D	OFFICE
Vacancy Rates	10.50%	5.50%	10.30%
Absorption of Space (over previous calendar year)	-2,306,229 SF	-25,672 SF	-289,757 SF
Average Lease Rates < 50,000 K	$0.65	$1.10	$1.86
Average Lease Rates > 50,000 K	$0.44	$1.34	$2.12
Average Sales Price < 50,000 K	$118.37	$132.29	$255.60
Average Sales Price > 50,000 K	$103.05	NA	$251.58
Average Land Price	$23.00	$34.00	$44.00

Re-Cap of 2009:

Manufacturing will continue to see job losses in 2010. This is an important sector because it creates good middle class jobs.

Looming environmental regulation is not helping this sector of the market.

Import/Export: Space is being leased but right sizing and consolidation prevails. Transactions geared towards cheaper rent and smaller footprints.

Sectors showing stability: Health Care, Food Processing and Distribution, Asian Businesses locating in SGV and Manufacturing/Processing that requires FDA oversight (cannot be handled offshore).

Notable Transactions:

Lease

21901 Ferrero Pkwy, City of Industry: 129,600 SF, $0.24/SF IG; Shan Lee, Daum Commercial (lessor/lessee)

408-488 Brea Canyon Rd, City of Industry: 400,000 SF; $0.40/SF Kent Valley, Hank Darnell, Majestic Realty

Sale

440 N Baldwin Park Blvd, City of Industry: $13,800,000 ($60.81/SF); Michael McCrary, Tony Phu, Bret Hardy, Colliers International

333 S Turnbull Canyon Rd, City of Industry; $7,912,224 ($61.70/SF); Trustee Sale Zions National Bank

Forecast for 2010:

Proposed football stadium will create positive economic impact
International trade forecast to see an increase in 2010
Retail spending expected to increase after previous decreases
More federal infrastructure funds available
The rate of job losses predicted to decrease in 2010

Real Estate Market Review & Forecast
Ventura County

	INDUSTRIAL	R/D	OFFICE
Vacancy Rates	7.1%	6.5%	25.9%
Absorption of Space (over previous calendar year)	1,049,465 sf	194,185 sf	1,099,475 sf
Average Lease Rates < 50,000 K	$0.79	$0.91	$2.01
Average Lease Rates > 50,000 K	$0.52	$0.56	$2.24
Average Sales Price < 50,000 K	$131.04	$170.74	$273.94
Average Sales Price > 50,000 K	$89.72	$122.03	$295.00
Average Land Price	$15.00	$15.00	N/A

Re-Cap of 2009:

Vacancy increased from 4.29% to 7.09%

Lease rates decreased by 10 to 15 percent.

SBA lending still attractive.

Few foreclosures.

Notable Transactions:

ETS Express 51,848 sq.ft. user sale, Seller was Helman Group, Helman then leased a 22,000 sq.ft. building.

Test Equities leased 86,412 sq.ft. in Moorpark, consolidating three different facilities in Newbury Park.

Forecast for 2010:

More activity - Lateral Movement.

Lower lease rates and sale prices.

No New Construction.

Slow Investment Activity.

No Land Sales.

Source: 2009-2010 AIR Commercial Real Estate Association

Real Estate Market Review & Forecast
SE-Mid Cities

	INDUSTRIAL	R/D	OFFICE
Vacancy Rates	Approaching 5%	N/A	N/A
Absorption of Space (over previous calendar year)	3,910,906 SF	N/A	N/A
Average Lease Rates < 50,000 K	$0.52	N/A	N/A
Average Lease Rates > 50,000 K	$0.42	N/A	N/A
Average Sales Price < 50,000 K	$124	N/A	N/A
Average Sales Price > 50,000 K	$101	N/A	N/A
Average Land Price	N/A	N/A	N/A

Re-Cap of 2009:

Vacancy and availability are up.

Building sales are down.

No speculative development.

Investment sales down.

No land sales.

Notable Transactions:

1. 9236 Hall Road, Downey | 193,709 SF of new industrial condos. Short sale @ $56 psf; sold to Rexford Industrial.
2. 132,000 SF renewal at Golden Springs, Santa Fe Springs | 10-year term at $.52 psf NNN. Tenant is Beltman | Landlord is Golden Springs.
3. 6545 Caballero Boulevard, Buena Park | 167,217 SF modern building; sold for $100.00 psf. Auto Parks Seller | Furniture Buyer.

Forecast for 2010:

Keep you money! Less transaction in 2010.

Flat on reduced lease rates with increased concessions.

Building sale prices down 20%-45%.

Not many brokers leaving business.

Vacancy and availability up.

Real Estate Market Review & Forecast
Inland Empire

	INDUSTRIAL	R/D	OFFICE
Vacancy Rates	15.20%	14.50%	24.50%
Absorption of Space (over previous calendar year)	-6,043,100 SF	-1,402,100 SF	-288,700 SF
Average Lease Rates < 50,000 K	$0.42 PSF NNN	$0.71 PSF MG	$1.93 FSG PSF
Average Lease Rates > 50,000 K	$0.31 PSF NNN	$0.49 PSF MG	$2.04 FSG PSF
Average Sales Price < 50,000 K	$79 PSF	$135 PSF	$214 PSF
Average Sales Price > 50,000 K	$51 PSF	$103 PSF	$118 PSF
Average Land Price	$4.10 PSF	$6.25 PSF	$8.50 PSF

Re-Cap of 2009:

The vacancy rate for industrial space in the Inland Empire increased this year, up 1.9% to end at 15.20%, the highest level recorded since Colliers has been tracking this market. The unemployment rate for the region is another reminder of how bad things are, currently standing at 14.2% in November, the most recent date available. The unemployment rate has started to level off, although it will take 6-9 months for any significant recovery in employment to have a noticeable impact on real estate demand. Port volume has continued to decrease, down 15.5% over the previous year. Port activity is a major economic driver for the region and is expected to remain low as much broader economic forces are at work, the weak American dollar and low consumer spending being a few. Land prices continue to fall as development demand is non existent. Construction activity would be zero, except for a Home Depot build to suit that was started this quarter.

Notable Transactions:

There were many notable Big Box transaction this year with 28 user leases or sales greater than 200,000 SF. Some of the notable leases were Watson land Company's 517,346 SF lease in Redlands with Kenco Logistics, AMB's 645,311 SF lease in Mira Loma with IDS USA, and Prologis' 606,925 SF lease in Mira Loma with ACT Fullfillment. The largest sale deal was a owner-user deal, Peng Cheng Aluminum who purchased 1.1 million SF of space at $44 PSF. The building was originally occupied by Galleria Furniture. On the investment front, there were only three Big Box leased investment sales in the Inland Empire. All of these assets were located in the West IE and were purchased by KTR Capital Partners in the $46-$52/SF price range.

Forecast for 2010:

2010 is expected to be a better year as market forces continue to force a recovery upon us. Vacancy rates are projected to level out and rents will stabilize. The Inland Empire has been very successful in drawing demand from other regions in the Los Angeles Basin and this trend will continue in 2010. Unemployment will continue to decline, but this will not have a serious impact on real estate demand. Imports will remain weak, and while nobody expects exports to be a panacea, LA / Long Beach is suited as a major exporting hub to Asian economies. Land and development will remain dead, with development deals few and far between. Landlords are going to be seeking out stabilized cash-flow from operations and rather than another vacant speculative development project. The V shaped recovery people have been very quiet lately as everything seems to be taking longer than hoped.

Real Estate Market Review & Forecast
South Bay

	INDUSTRIAL	R/D	OFFICE
Vacancy Rates	5.70%		
Absorption of Space (over previous calendar year)	-3,556,500 SF		
Average Lease Rates < 50,000 K	$0.57 PSF NNN		
Average Lease Rates > 50,000 K	$0.51 PSF NNN		
Average Sales Price < 50,000 K	$111 PSF		
Average Sales Price > 50,000 K	$117 PSF		
Average Land Price	$27 PSF		

Re-Cap of 2009:

Vacancy rates in the South Bay have steadily increased over the past year in the South Bay, more so in 2009 over 2008. Rental rates have adjusted as increased competition and decreased demand have put downward pressure on rates. There has been an increase in sublease space and the few large deals that occurred were subleases, consolidations or both. Sales prices have come down as sellers have readjusted their expectations.

Notable Transactions:

The largest lease deal of the year was Hitachi Transport Services subleasing 338,300 SF from ServiceCraft in Carson. This deal was a multi-property consolidation. The largest sale deal of the year was Kroger exercising their purchase option on 551,900 SF of space in a build-to-suit from Bircher Development.

Forecast for 2010:

2010 is expected to be another tough year for the South Bay. Conditions did not improve in 2009 and poor industrial fundamentals will carry over through 2010. Lease rates will flatten out, they will continue to be downward pressure on rents but not at the levels seen in 2009. Tenants will still be drawn to lower priced markets, but new tenants will replace them, and these tenants choose location over price. We saw this as DeWell Shipping Container, a Chinese based shipping company, purchased a 65,600 SF building in Rancho Dominguez rather than a cheaper building elsewhere. As economic conditions improve, we should see more transactions occurring in 2010, especially investment transactions for quality space.

Real Estate Market Review & Forecast
Westside/Greater LAX Industrial

	INDUSTRIAL	R/D	OFFICE
Vacancy Rates	9% including direct/sublease/shadow space		
Absorption of Space (over previous calendar year)	Less than 50% absorbed in 2009 vs 2008		
Average Lease Rates < 50,000 K	$0.60 -$1.10 PSF, Net		
Average Lease Rates > 50,000 K	$0.60-$0.85 PSF, Net		
Average Sales Price < 50,000 K	$135-$180 PSF		
Average Sales Price > 50,000 K	N/A		
Average Land Price	$25-$40 PSF		

Re-Cap of 2009:

The first eight (8) months of 2009 were characterized by fear, little demand for lease or sale opportunities, companies shedding space and accelerating negative net absorption. Sale and lease rates dropped anywhere from 15-40% and inventory of available space increased dramatically. By Labor Day, limited demand started to re-enter the market. All transactions include generous concessions.

Notable Transactions: Same as PowerPoint Presentation

Park One - Sepulveda - 865,102 SF of parking lot. Sale Price: 126,502,000 or $146/sf

550 N. Oak Street - 61,663 SF of Industrial. Contract Lease Rate: $0.80/sf/mo

12530 S. Prairie Ave. - 127,845 SF. Sale Price $17,500,000 or $137/sf

12901 Coral Tree Place - 26,414 SF. Lease Rate: $0.98/sf/mo

Jack Northrop Way - 1,413,875 SF or 43 acres of land. Lease Rate: $0.21/sf/mo

Forecast for 2010:

Preliminary signs of price stabilization in Leases and Sales.

Negative net absorption will decelerate

Transaction volume will continue to build through the year

Return to transaction valuations in investment arena

Source: 2009-2010 AIR Commercial Real Estate Association

Real Estate Market Review & Forecast
West Los Angeles - Office

	INDUSTRIAL	R/D	OFFICE
Vacancy Rates			14.75$
Absorption of Space (over previous calendar year)			-1,873,634
Average Lease Rates A and B >25,000			$3.50 to $3.55
Average Sales Price A and B buildings >25,000			$328
Average Land Price			n/a

Re-Cap of 2009:

Weak Capital Markets

Lease Rate Compression. Sales Price Compression (for the limited transactions).

Ample supply traditional office. Limited creative office supply in certain size ranges. WEAK DEMAND ACROSS MARKETS

Aggressive renewals, low capital deals, term flexibility, blend and extend, sharp rate reductions, free rent/parking concessions.

Westside only had 4 new leases over 50K SF

Notable Transactions:

Sale - Lantana Entertainment Campus - 530,000 SF - Approximately $200 million

Sale - Lindblade Street - Westwood One - 32,000 SF - $8.25 million at over 10 cap

Lease - Campus at Playa Vista - 72,000 SF - 10 years - Tishman Speyer/Walton Street -USC

Lease (Renewal) - Yahoo Center - Rubin Postaer - 15 years - 153,000 SF

Forecast for 2010:

Continued Price Compression.

Thawing in Capital Markets

Acceleration in foreclosure/short sales.

Value add opportunities for stockpiled cash on sidelines.

Aggressive lease deals/with greater concessions from newer, lower cost basis owners.

Owner/user purchases become more and more attractive to those with leases rolling.