Market Report

Southern California

Mid-Year 2007

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

NAI Capital
Commercial Real Estate Services, Worldwide.

Committed to Southern California.
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Dear Reader,

We are pleased to present to you this Mid-Year 2007 Market Report for the Los Angeles Basin.

Demand from tenants for most real estate product slowed in the first half of 2007. Reasons for the slowing include what appears to be the beginning of the maturation of the latest economic growth cycle, as well as some resistance by tenants and investors to the strong increase in rents and prices that have taken place in recent years.

Construction completions were limited, however, and vacancy rates remained tight to very tight for industrial, retail and apartments, and healthy for office. Effective-rent growth accelerated for most property types.

Sale prices remained high for all property types. However, a slowing in sales activity and an inching upward in cap rates suggests that the for-sale market has peaked in some segments and areas.

Most economists project the local economy will remain healthy through the remainder of 2007 and into early 2008 and, in fact, there has been a recent up tick in employment growth. Construction activity has picked up, though, and new space is starting to come on-line. Vacancy rates are projected to climb some, but still stay within healthy territory. However, important differences exist by submarket and by property type. For example, virtually no office construction is underway in the Tri-Cities (Glendale/ Burbank/ Pasadena) market, and market conditions there will be very tight over the next 12 to 18 months. Similar dynamics exist for industrial and retail for most of Los Angeles and Orange Counties. Conversely, a large amount of construction is underway for office in South Orange County and for industrial in the Inland Empire East. Market conditions there are projected to soften some over the next twelve months. For apartments, there is a dearth of construction activity in all areas but the Inland Empire, and vacancy rates in most of the region are projected to tighten even further.

Highlights presented in this report include:

- The Basin-wide vacancy rate for office was a healthy 9.8%. Rental rates were up by 8.6% on average year-over-year, including by 19.8% in West Los Angeles.
- Industrial vacancy rates remained very low, just 4.2%, despite the completion of 10.4 million SF in the first half of 2007. Asking rental rates climbed by 9.1% and sale prices per SF by 8.7%.
- Apartment vacancy rates were in the mid-3% range in Los Angeles and Orange Counties, the mid-4% range in Ventura County and the low-5% range in the Inland Empire. Effective rental rates climbed by 5.5%.
- The retail market was very tight, with vacancy rates in the mid-2% range in Los Angeles County, low 3% range in Orange and Ventura Counties, and high 4% range in the Inland Empire. Effective rents climbed by 8.6%.

As always, we hope that the information contained in this report is useful to you. More detailed data can be obtained from our brokers on specific markets and property types.

Sincerely,

Michael Zugsmith Chairman	Robert Scullin Chief Executive Officer	Rachel Howitt Chief Financial Officer

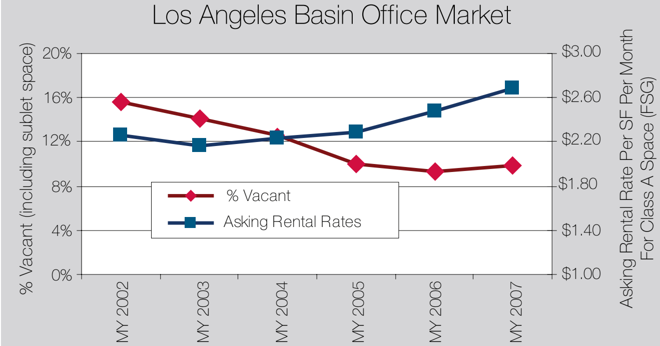
Los Angeles Basin Office Market

Demand Continues to Slow, but Market Remains Tight

Vacancy rate below 10% in most markets

Demand for office space in the Los Angeles Basin continued to slow in the first half of 2007, due to a combination of factors, including the maturation of the economic expansion cycle (which started in 2002 in Orange and Ventura Counties and in 2003 in Los Angeles County), a prolonged downturn in the mortgage-finance industry, limited availability in prime office markets and sharply climbing rental rates. Construction completions picked up and the vacancy rate climbed to 9.8% as of mid-year 2007. However, this remained a healthy vacancy rate. Vacancy rates were 10% or lower in six of the area's eight major markets. Asking rental rates for Class A space were up by 8.6%, on average, over 12 months ago. Sales activity was down, but sale prices per SF remained firm.

Los Angeles Basin Office Market



Demand is expected to pick up some in the remainder of 2007, assuming that the economy remains at least moderately healthy. Construction activity has increased, but much of this space will not come on-line until 2008 or even 2009, and most of this space is also concentrated in just two submarkets, South Orange County and the South Bay. Vacancy rates in most areas are projected to remain below 10%.

In the first half of 2007, net absorption totaled 739,700 SF[1]. This represented annualized growth in the pool of occupied space within the Basin of 0.5% -- a relatively slow pace for the Los Angeles Basin. This was down from 2006, when the Basin absorbed at a pace of 2 million SF per six months (a moderate 1.4% 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).

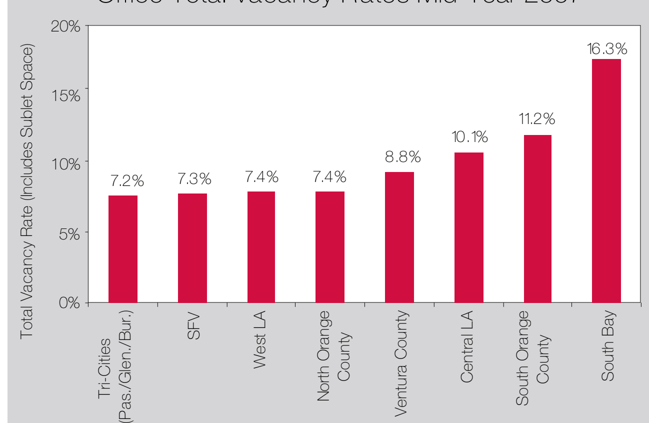
The relatively low level of demand for the first half of 2007 is somewhat surprising given job numbers which show moderate to strong growth. In the 12 month period ending May 2007 (the most recent date for which employment estimates were available as of the time of this writing), the Basin added 109,200 jobs (+1.5%), including 25,700 (+1.5%) in office related sectors[2].

Most of the positive net absorption took place in South Orange County (+248,900 SF), Ventura County (+214,200 SF) and the South Bay (+171,900 SF). Negative net absorption took place in North Orange County (-93,600 SF), West LA (-43,900 SF) and Central LA (-27,600 SF).

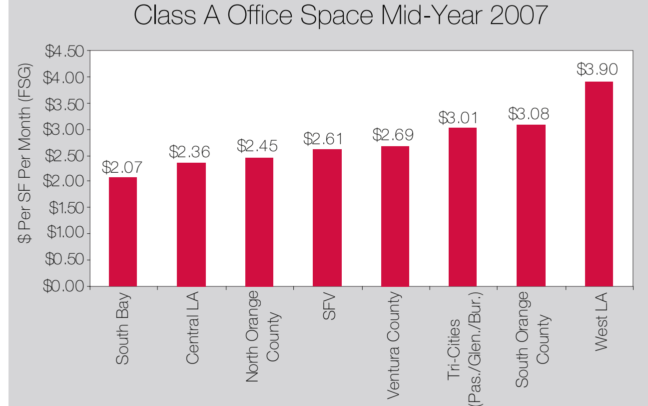
Construction completions in the first half of 2007 totaled 3 million SF, expanding the base by 0.9%. This was significantly higher than growth in demand (+739,700 SF), causing vacancy rates to climb moderately, to 9.8%, up from 9.5% as of year-end 2006 and from 9.4% twelve months ago. If sublet space is subtracted from this statistic, the vacancy rate was 8.8%. Despite the recent increase, these remained healthy rates, among the lowest in the Los Angeles Basin in the past 20 years.

Vacancy rates were lowest in Class C buildings (just 4.5%), followed by Class B (9.3%) and Class A (11.2%). Vacancy rates were 10% or lower in all submarkets except South Orange County (where it was 11.2%) and the South Bay (16.3%). They were particularly low in the Tri-Cities (7.2%), the San Fernando Valley (7.3%), West Los Angeles (7.4%) and North Orange County (also 7.4%).

Office Total Vacancy Rates Mid-Year 2007



Avg. Asking Rental Rate
Class A Office Space Mid-Year 2007



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

Los Angeles Basin Office Market ■ Mid-Year 2007

	Rentable Square Feet	% Vacant Direct	% Vacant Total	Net Absorption (SF) 1st H 2007	Square Feet Completed* 1st H 2007	Square Feet Under-Construction	Average Asking Rental Rate** Class A Space
Ventura County	15,126,200	7.4%	8.8%	214,200	277,000	819,900	$2.69
SFV	28,184,900	6.3%	7.3%	148,600	273,200	804,700	$2.61
Tri-Cities (Pas./Glen./Bur.)	31,522,300	6.3%	7.2%	121,200	-	-	$3.01
Central LA	84,205,000	9.3%	10.1%	(27,600)	-	690,400	$2.36
West LA	51,244,300	6.4%	7.4%	(43,900)	775,500	849,500	$3.90
South Bay	38,651,000	15.9%	16.3%	171,900	-	460,000	$2.07
North Orange County	30,189,600	6.1%	7.4%	(93,600)	25,800	40,000	$2.45
South Orange County	61,143,400	9.7%	11.2%	248,900	1,659,050	2,634,300	$3.08
Total	**340,266,700**	**8.8%**	**9.8%**	**739,700**	**3,010,550**	**6,298,800**	**$2.69**

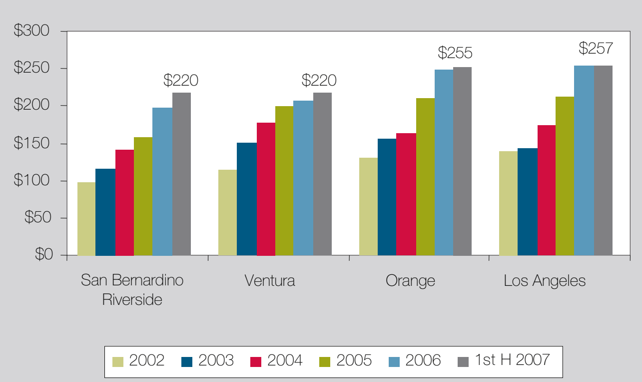
* Includes return-to-market of renovated space less any demolitions
** Per SF per Month, Full Service Gross. Direct lease only.
Data is for all competitive buildings (Classes A, B and C) 20,000 SF or larger. Excludes owner-occupied and medical buildings.

With vacancy rates below 10% in most markets, asking rental rates grew a strong pace. In the 12 month period ending mid-year 2007, they climbed by 8.6% on average. Particularly strong growth was witnessed in West Los Angeles (+19.8%). Rental rates were highest in West Los Angeles and lowest in the South Bay.

Construction activity remained moderate. As of mid-year 2007, 6.3 million SF was underway, down some from 6.7 million SF twelve months ago. However, a significant amount of space (1.9 million SF) was planned to soon start construction. When complete, the space currently under-construction or planned to soon start (a total of 8.2 million SF) will expand the base by 2.4% or approximately 1.2 years worth of demand under normal economic conditions. Since this space will take approximately one to two years to come on-line, Basin wide vacancy rates should remain relatively close to current levels or even drop some, assuming that the economy remains at least moderately strong.

Important differences in market conditions will occur by submarket. Most of the space under-construction or planned to soon start is in just two submarkets, South Orange County (2.6 million SF) and the South Bay (3.1 million SF). In South Orange County, this space will come on-line in more or less a continuous fashion over the next year and a half, causing vacancy rates there to steadily climb. In the South Bay, the 460,000 SF currently under-construction and the 1.9 million SF planned to soon start will not come on-line until mid 2009, and the market will continue to tighten until this space is delivered. In all other submarkets, vacancy rates are projected to remain low or to drop even further, and strong growth in rental rates should be expected.

Median Price Per SF of Office Buildings Sold



Market projected to remain healthy to tight in most submarkets

In the past four and a half years, median prices per SF of office buildings sold have nearly doubled. However, the prices plateaued in the first half of 2007 relative to the last half of 2006, and sales activity dropped significantly.

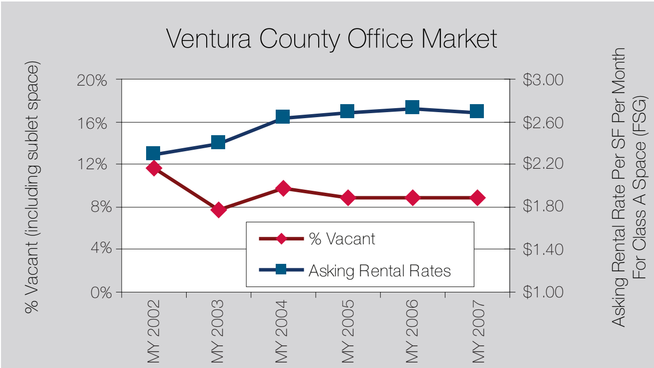
The Medical Office Segment

The medical office segment remains very healthy, with a low Basin-wide vacancy rate of just 5.5%. Rental rates 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 214,200 SF. This was on par with the pace witnessed in 2006 (+208,000 SF per six months). At the same time, a significant amount of space came on-line due to construction completions, 277,000 SF. The vacancy rate stayed flat at a healthy 8.8% (7.4% if sublet space is subtracted from this calculation). Asking rental rates climbed by 9.9% over mid-year 2006. Concessions remained minimal if any.

Vacancy stays at a healthy 8.8%



Construction activity has picked up, and 819,900 SF was underway as of mid-year 2007. Approximately half of this space will come on-line in the remainder of 2007, and the other half in 2008. As the space comes on-line, it will expand the base by a total of 5.4%. Demand is expected to remain strong, driven by the area's attraction to small firms, particularly by those headed by management seeking a high quality living and business environment within close proximity to Los Angeles. The area also has a strong attraction to firms in the fields of insurance, finance and biotechnology. However, given the magnitude of the construction activity, vacancy rates may creep up slightly, approaching 10% over the next two years. Rental rates are projected to climb at a moderate to strong pace.

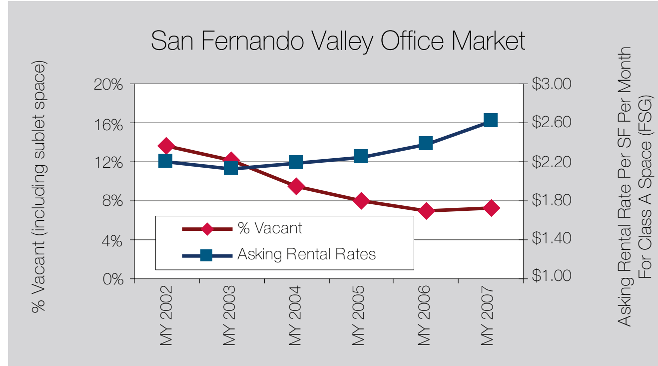
The San Fernando Valley

Vacancy remains in the low 7% range

Market conditions remained tight in the San Fernando Valley in the first half of 2007, with the vacancy rate at a 7.3%, up some from 7.2% six months ago and from 6.9% twelve months ago, but down significantly from 15% just four and a half years ago. The market remains exceptionally tight. Tenants looking for large blocks of contiguous space continued to find it difficult to find space that met their needs. Demand remained strong from firms in insurance and professional services, as well as from high-tech firms, but weak from mortgage-banking firms.

Net absorption in the first half of 2007 totaled 148,600 SF, below the pace of 2006 (202,000 SF per six months) and of the long term average (300,000 SF per six months) witnessed in the area. Construction completions totaled 273,200 SF, exceeding net absorption and causing the vacancy rate to climb slightly. Despite the small up tick in vacancy rates, asking rental rates were up 9.3% over a year ago.

Construction activity is moderately strong, and 804,700 SF was under-way as of mid-year 2007. When complete (approximately over the next 18 months), it will expand the base by 2.7%. This represents approximately 1.3 years worth of supply under average economic conditions, suggesting that market conditions will remain stable. Even if the economy should slow, vacancy rates would climb by approximately only one percentage point or so over the next year and a half. This would remain a healthy vacancy rate, and moderate to strong growth in rental rates should be assumed.



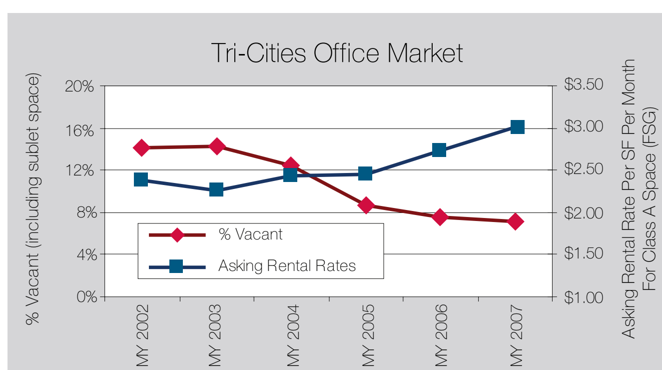
The Tri-Cities (Burbank/ Glendale/ Pasadena)

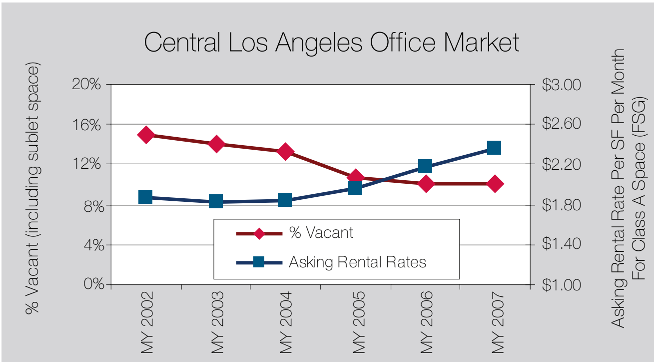
Net absorption totaled 121,200 SF in the first half of 2007, down from the 245,000 SF per six months pace in 2006. It also significantly lagged the average witnessed 1985 to present of approximately 325,000 SF per year. Part of the reason for the low level of net absorption was a general lack of availability. No new space came on-line in the first half of 2007, and as of mid-year 2007, the vacancy rate was 7.2%, the lowest in the Los Angeles Basin. This was down from 7.7% as of year-end 2006 and from 7.5% a year ago. Asking rental rates were up sharply, +10.6 % over a year ago.

No space under-construction; rents projected to continue to escalate

As of mid-year 2007, there was no construction activity underway in the Tri-Cities. This will enable vacancy rates to remain very low or to drop even further over the next year and a half, even if there should be a moderate slowing in the economy. Continued very strong rent growth can be expected, particularly in Pasadena and Burbank, where there is an acute shortage of large blocks of contiguous space.

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





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

Demand for office space in Central Los Angeles also slowed in the first half of 2007, and net absorption was slightly negative (-27,600 SF). This was down from positive net absorption of 210,000 SF per six months witnessed in 2005, as well as from the long term average for the area of 500,000 SF per six months. Demand for the downtown market continued to come primarily from government agencies and firms in law, utilities, accounting and finance; Mid-Wilshire continued to attract small, entrepreneurial, often Asian-owned firms; and Hollywood a mix of firms in professional services, high-tech and entertainment.

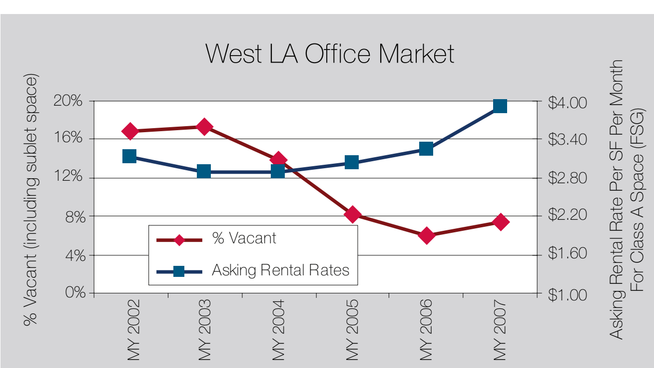
No construction completions took place, and the vacancy rate was flat at 10.1%, the same as both six and twelve months ago. This remained a healthy rate and asking rental rates for Class A space were up 8% over a year ago.

> Vacancy remains a healthy 10.1% in Central Los Angeles

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

West Los Angeles

Net absorption was slightly negative in the first half of 2007 (-43,900 SF), following strong positive net absorption in 2006 (+610,000 SF per six months). It also was down from the 445,000 SF per six month average 1985 to present. A lack of available space limited the amount of activity that could take place, and there was an apparent adjustment to above average net-absorption numbers in 2006.



775,500 SF came on-line, due to the completion of 2000 Avenue of the Stars in Century City. The combination of the small amount of negative net absorption and the completion of a large amount of new space caused vacancy rates to climb to 7.4% from 6.4% six months ago. However, the market remained tight, and asking rental rates shot upward, by 19.8%.

> Asking rents spiked 19.8% in the past 12 months

A moderate amount of construction activity (849,500 SF) was underway as of mid-year 2007. As this space comes on-line over the next 18 months, it will expand the base by 1.7% – a level that can be readily absorbed, assuming that the economy remains healthy.

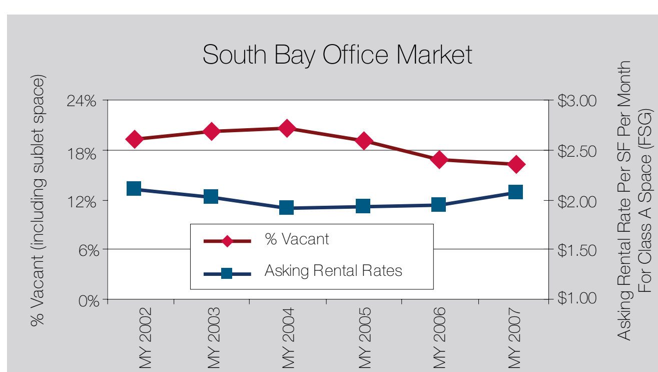
West Los Angeles has a large concentration of high-profile firms (including those in entertainment, computer programming and finance). It also is in the midst of some of the most exclusive residential neighborhoods in the nation, and it commands the highest rents in the Basin. These are positive characteristics,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

The South Bay

Moderate net absorption took place in the South Bay in the first half of 2007, 171,900 SF. However, this was down from a pace of 430,000 SF per six months in 2006 and from the long term average for the South Bay of 310,000 SF per six months. Much of the demand continued to be driven by firms unable to find space that met their needs in the adjacent very tight West Los Angeles market.

No new space came on-line due to construction, and the vacancy rate dropped to 16.3%, still a high rate, but down from 16.8% a year ago and 20.5% three years ago.

Asking rental rates were up 6.1% over a year ago. As of mid-year



2007, the South Bay had the lowest asking rental rates in the Basin, 23% below the regional average.

2.4 million SF of construction in the South Bay

Construction activity has picked up very sharply. 460,000 SF is currently under-construction in Playa Vista, and an additional 1.9 million SF is planned to soon start at the Campus at El Segundo. This space is scheduled to start coming on-line in 2009. By that time, the market is projected to tighten significantly relative to today due to the lack of any other construction completions as well as the expected continued migration of firms from West Los Angeles. However, given the amount of space scheduled to come on-line, vacancy rates appear likely to climb in 2009 once again.

North Orange County

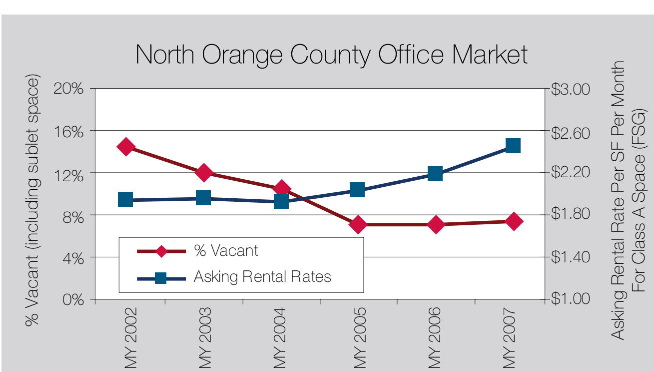
Rental rates up 11.9%

A moderate amount of negative net absorption took place in North Orange County, due to the return of space from mortgage-finance firms as well as a general lack of availability. However, vacancy remained low, at 7.4% (up from 7% a year ago). Asking rental rates for Class A space climbed by a strong 11.9%.

Demand continued to come from a very broad mix of firms, including those in telecommunication, high-tech and professional services. However, as previously stated, it was down significantly from the mortgage-finance industry, which has a large concentration in this area.

While average asking rental rates climbed 11.9% over mid-year 2006, they still 20% lower than rates in adjacent South Orange County.

As of mid-year 2007, just 40,000 SF was under-construction. This will expand the base by only 0.1%. We expect that demand will be moderate over the next 12 months, dampened some by the prolonged downturn in the mortgage-finance industry. North Orange County's vacancy rate is projected to remain in the 7% range over the next twelve months. Rental rates are projected to continue to climb, although at a slower pace than in the past twelve months.



South Orange County

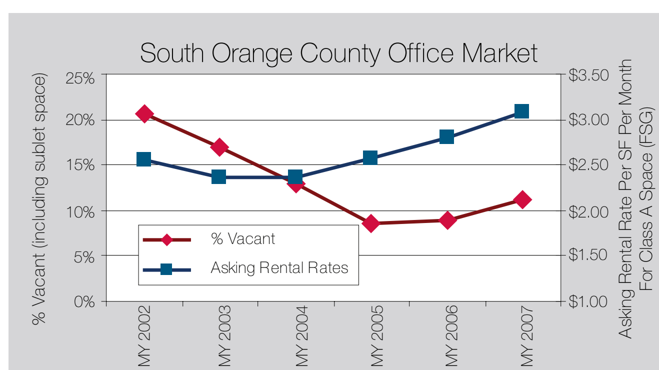
Net absorption in South Orange County in the first half of 2007 totaled 248,900 SF, up from the 128,000 SF per six months pace of 2006, but down from the 800,000 SF per six months average witnessed 1985 to present. It appears that the area is beginning to recover from the downturn in the mortgage-finance industry, which is highly concentrated in this area.

1.7 million SF of space came on-line in the first half of the year due to construction completions, expanding the base by 2.8%. The vacancy rate climbed to 11.2%, up from 9% twelve months ago. Despite the increase in vacancy, the average asking rental rate for Class A buildings climbed by a strong 10%. South Orange County commands the second highest rental rates in the Basin. The area has emerged in recent years to be one of preeminent office locations in the Los Angeles Basin. Firms, particularly those in high-tech, communications, engineering and professional services, are attracted by access to a highly educated labor force, executive housing and planned-community environments. South Orange County also remains a center for the mortgage-finance industry.

Construction activity down, but still at a high level

Construction activity remains high. As of mid-year 2007, 2.6 million SF was underway (down from 4.3 million SF six months ago). As this space comes on-line, it will expand the base by 4.3%. It also represents approximately 1.6 years of supply under normal economic conditions. Vacancy rates in South Orange County appear likely to remain in the low teens over the next one and a half years. The strong growth witnessed in the past twelve months in rental rates appears likely to soon plateau.

Long term, employment projections indicate a need for approximately two to three million SF of additional office space per year in Orange County, and the vast majority of the growth in demand will occur in South Orange County.



The Industrial Market Remains Very Tight

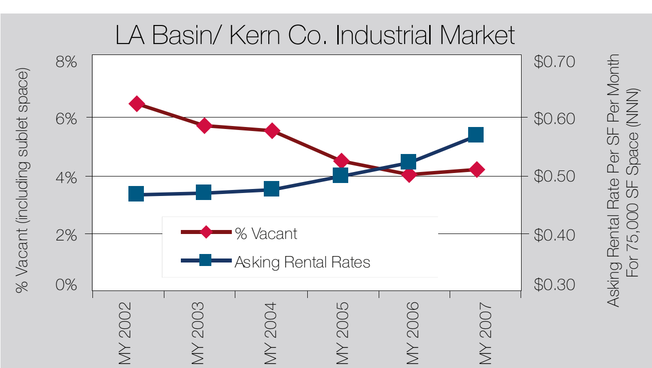
Vacancy rate at just 4.2%

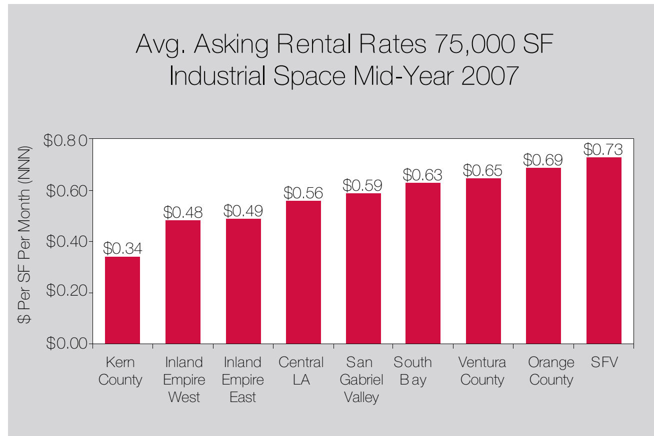
Market conditions in the Los Angeles Basin and Kern County Industrial Market have been exceptionally tight for more than three years. As of mid-year 2007, the vacancy rate in the area was just 4.2% – a very low rate for a market still undergoing rapid expansion. Firms continued to have difficulty finding space that met their needs, particularly in inlying areas, and were forced to make do as best they could. Sale prices per SF continued to climb, and rental-rate growth accelerated.

Net absorption in the first half of the year totaled 7.3 million SF, down significantly from the 13.2 million SF per six months pace in 2006, as well as the 13.4 million SF per six months pace witnessed on average since 1984[3]. The primary reason for the slowing was a lack of available space, particularly in Los Angeles and Orange Counties. Most of the net absorption took place in the Inland Empire, where it totaled 10 million SF. The Inland Empire offered a large supply of new, modern space at relatively low rental rates.

A large amount of new product was completed in the first half of 2007 (10.4 million SF), with most of that in the Inland Empire (8.6 million SF). This expanded the base in the region by 0.7% (1.4% on an annualized basis). Despite the construction completions, vacancy remained low, at 4.2%. The direct vacancy rate (excluding sublet space) was just 3.8%. Vacancy rates were exceptionally low in Los Angeles, Orange and Ventura Counties, in the 2% and 3% range. They were higher in the Inland Empire (6.3% in Inland Empire West and 9.4% in Inland Empire East), due to the large amount of construction activity taking place there.

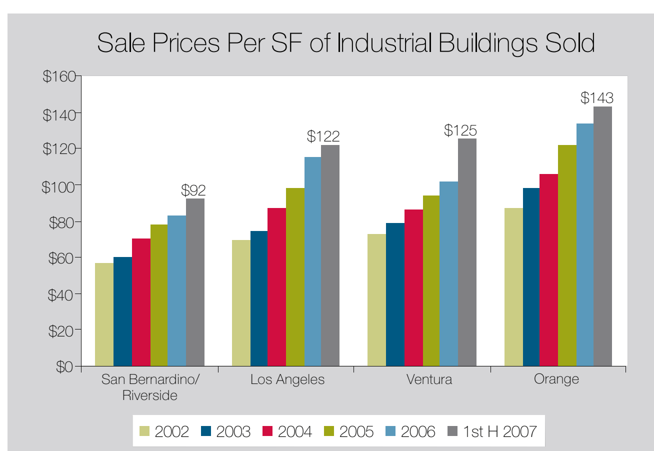
As a result of the overall tight market conditions, asking rental rates climbed by 9.1% in the 12 month period ending mid-year 2007. They became particularly high in Orange County ($0.73 PSF per month NNN, on average) and in the San Fernando Valley ($0.69).





Sale prices per SF climbed at a similar pace, 8.7% over the same time period. This was down, however, from an even faster annual growth rate of 13% in the previous three year period. Prices were particularly high for small buildings, and particularly in South Orange County, where they exceeded $200 per SF.

As of mid-year 2007, 33.1 million SF was under-construction, which, when complete, will expand the base by 2.1%. This is a high level of activity, up from 26.3 million SF as of year end 2006 and above long term average growth in demand in the Basin (approximately 27 million SF per year). As a result, basin-wide



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

Los Angeles Basin and Kern County Industrial Market ■ Mid-Year 2007

	Rentable Square Feet	% Vacant Direct	% Vacant Total	Net Absorption (SF) 1st H 2007	Square Feet Completed 1st H 2007	Square Feet Under-Construction	Average Asking Rental Rate* 75,000 SF Space
Ventura County	60,360,000	3.2%	3.9%	(278,900)	34,400	178,900	$0.65
SFV	147,144,100	2.7%	3.0%	(498,800)	394,000	444,800	$0.69
Central LA	363,745,700	2.0%	2.2%	(1,355,100)	250,000	667,100	$0.56
South Bay	246,430,100	3.2%	3.6%	(982,500)	290,200	141,100	$0.63
San Gabriel Valley	153,249,800	2.2%	2.7%	(193,200)	419,900	1,622,900	$0.59
Inland Empire West	210,551,300	5.7%	6.3%	3,730,500	1,855,700	6,099,200	$0.48
Inland Empire East	175,773,400	9.0%	9.4%	6,315,000	6,733,400	22,776,400	$0.49
Orange County	224,460,200	3.4%	3.9%	326,800	403,200	1,023,000	$0.73
L.A. Basin Subtotal	1,581,714,600	3.8%	4.2%	7,063,800	10,380,800	32,953,400	$0.57
Kern County	28,677,500	3.2%	3.2%	236,000	65,000	142,000	$0.34
Total	**1,610,392,100**	**3.8%**	**4.2%**	**7,299,800**	**10,445,800**	**33,095,400**	**$0.57**

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

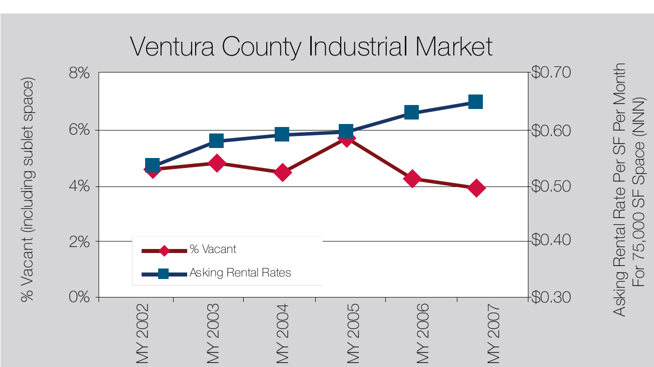
vacancy rates over the next 12 months are projected to climb slightly. However, virtually all of any increase in vacancy is likely to be limited to Inland Empire East, where 69% of the new construction is taking place. Vacancy rates in the rest of the Basin are projected to remain very low.

In the first half of 2007, we began to see demand shifting from buying to leasing. We expect that this trend will continue, given the large discrepancy that has developed between prices and rents. This will continue to slow the upward trend in sale prices and continue to stimulate growth in rental rates.

Ventura County

Net absorption in the first half of 2007 was negative 278,900 SF, down sharply from positive 514,000 SF per six months in 2006 and from the long term average for the County of 600,000 SF per six months. Lack of availability in key segments limited the amount of net absorption that could take place. Just 34,400 SF of space came on-line from construction.

The total vacancy rate climbed slightly to 3.9% from 3.8% as of year end 2006 but down from 4.3% a year ago. The direct vacancy rate (excluding sublet space) was 3.2%. These are low vacancy rates. Asking rental rates for a typical 75,000 SF space



climbed to $0.65 per SF per month NNN - a relatively high rate, and up 3% over a year ago. Rental rates were highest in the eastern portion of the County, particularly in the Conejo Valley, and were lowest on the coastal plain, particularly in the City of Oxnard. Sale prices reached $125 per SF on average, a 23% increase over 2006 levels.

Sale prices per SF up 23%

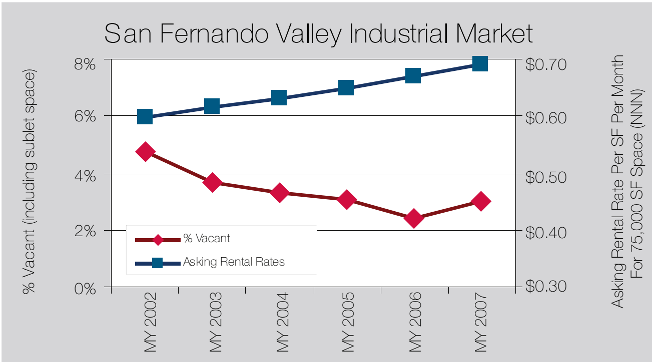
As of mid-year 2007, only 178,900 SF of construction was underway. Demand is expected to be moderately strong, particularly from small manufacturers and distributors. Vacancy rates are projected to drop even lower. The growth rate in asking rental rates is expected to increase, and sale prices are expected to remain high.

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 9.8 million SF. As of mid-year 2007, the vacancy rate was moderate at 7.2%, down from 11.3% as of a year ago and from 16.3% two and a half years ago. The R&D market is projected to continue to tighten as demand continues to grow from high-tech sectors and given the general lack of any significant construction activity (just 56,000 SF was under-construction as of mid-year 2007).

The San Fernando Valley

Net absorption in the San Fernando Valley was negative 498,800 SF in the first half of 2006. This was down from positive 600,000 SF per six months in 2006 and from the long term average for the area of 700,000 SF per six months. As with Ventura County, the reason for the negative net absorption was the lack of available space. Construction activity was light, and just 394,000 SF was completed.



Vacancy at just 3%

The total vacancy rate at mid-year 2007 was a low 3%, up from 2.5% as of year end 2006 and from 2.4% a year ago. The direct vacancy rate was just 2.7%. Responding to the tight market conditions, asking rental rates climbed to $0.66 per SF per month NNN, the second highest average rental rate in the Los Angeles Basin (behind Orange County at $0.73). Average sale prices climbed to $135 per SF - a very high level.

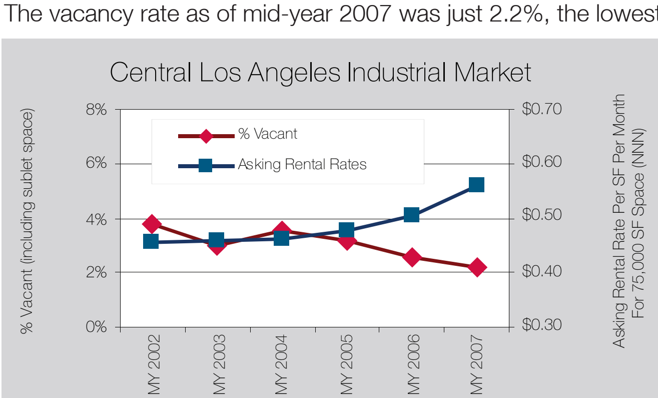
As of mid-year 2007, 444,800 SF was under-construction. When completed, this space will expand the base by just 0.3%. Vacancy rates are projected to remain exceptionally low. This will place upward pressure on rental rates and will serve to keep sale prices high. The area is now largely built-out, yet demand is projected to remain moderate to strong, particularly from the small and medium sized manufacturer and distributor.

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

The lowest vacancy rate in the Basin

As was the case throughout Los Angeles County, net absorption in Central Los Angeles in the first half of 2007 was negative (-1.4 million SF), due to a general lack of availability. This was down from the positive 2.3 million SF per six months pace witnessed in 2006 and from the 1.6 million SF per six months pace long term average for the area. Just 250,000 SF was completed via construction.

The vacancy rate as of mid-year 2007 was just 2.2%, the lowest



in the Los Angeles Basin. Average asking rental rates climbed by 11%. Average sale prices climbed to $112 per SF - a high level for a market with relatively old stock.

As of mid-year 2007, construction activity remained restrained, with only 667,100 SF underway. As this space is completed, it will expand the base by just 0.2%. The market is expected to remain exceptionally tight into the foreseeable future.

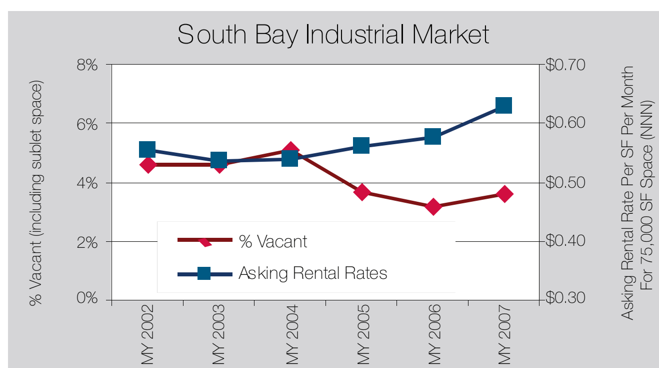
The South Bay

Construction activity remains minimal

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, particularly in key property segments, constrained the amount of absorption that could take place. Net absorption in the first half of 2007 was negative 982,500 SF, down from the positive 900,000 SF per six months pace of 2006 and from the long term average for the area of 1.1 million SF per six months. Only 290,200 SF of new construction came on-line during the period.

The vacancy rate climbed slightly, to 3.6% from 3.3% as of year end 2006, but remained low. Asking rental rates climbed by 9.4%, and average sale prices climbed to $121 per SF.

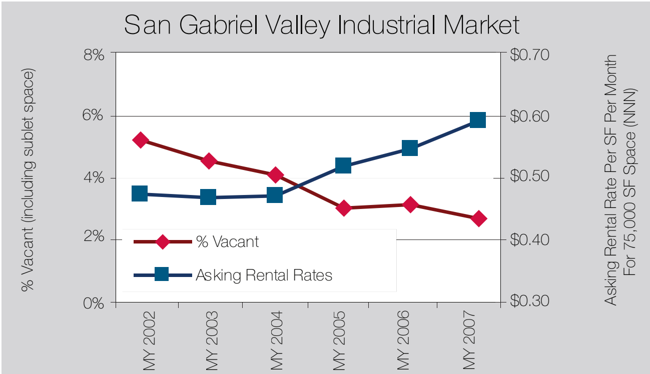
As of mid-year 2007, just 141,100 SF of construction was underway. The market is projected to remain very tight into the foreseeable future. Rental rates appear likely to continue to climb at fast pace, and sale prices to remain firm.



The San Gabriel Valley

Vacancy rate at just 2.7%

Net absorption in the San Gabriel Valley in the first half of 2007 was negative 193,200 SF, down from the positive 900,000 SF per six months pace in 2006 and from the 1.2 million SF per six months pace 1985 to present. Construction activity was light, and only 419,900 SF came on-line, expanding the base by 0.3%.



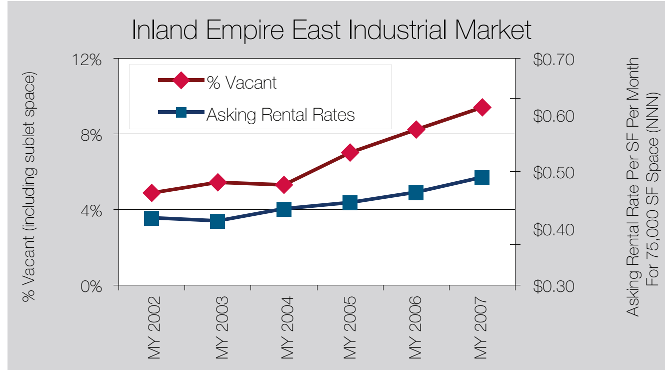
The total vacancy rate as of mid-year 2007 was 2.7%, and the direct vacancy rate was just 2.2%. Asking rental rates climbed upward by 7.9%, and sale prices reached an average of $123 per SF.

As of mid-year 2007, construction activity was moderate, with 1.6 million SF underway. When this space is completed, it will expand the base by 1.1%. This space will likely be rapidly absorbed, and the market is projected to remain very tight. Rental rates appear likely to continue to climb at a fast pace, and sale prices are projected to remain firm.

The Inland Empire

Net absorption in the Inland Empire (Western San Bernardino and Riverside Counties) was exceptionally high in the first half of 2007. It totaled 10 million SF, up from the 7.7 million SF per six months pace of 2006[4]. Demand continued to be particularly strong for big-box product. The Inland Empire has emerged as the premier location in the Los Angeles Basin for big-box distribution facilities.

The Inland Empire captured virtually all of the net absorption that took place in the Los Angeles Basin/ Kern County Market. A number of firms found that they could not find space that met their needs in adjacent Los Angeles, Orange and San Diego Counties - availabilities were just too low. Also, the rental rates and sale prices in the Inland Empire were much more competitive. In recent years, the Inland Empire East (which includes the eastern portion of the San Bernardino Valley as wells as Riverside and Perris Valley) has emerged as a major market. It captured 6.7 million of the 10 million SF absorbed in the Inland



Empire in the first half of 2007. 8.6 million SF of space was completed in the Inland Empire in the first half of 2007, expanding the base by 2.3% (a 4.6% annualized rate).

As of mid-year 2007, vacancy rates were a healthy 6.3% in Inland Empire West and a moderate-to-high 9.4% in Inland Empire East, due to the large amount of construction completions that came on-line there.

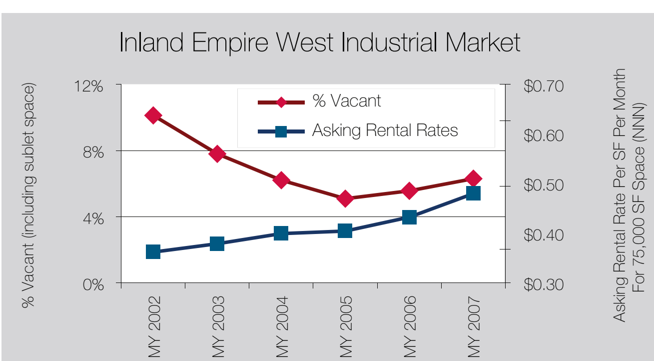
Rental rates climbed by 11% over a year ago in Inland Empire West and by 5.7% in Inland Empire East, but remained the lowest in the Los Angeles Basin. Sale prices climbed to an average of $92 per SF. This was up 11% over 2005 levels and 162% over prices ten years ago.

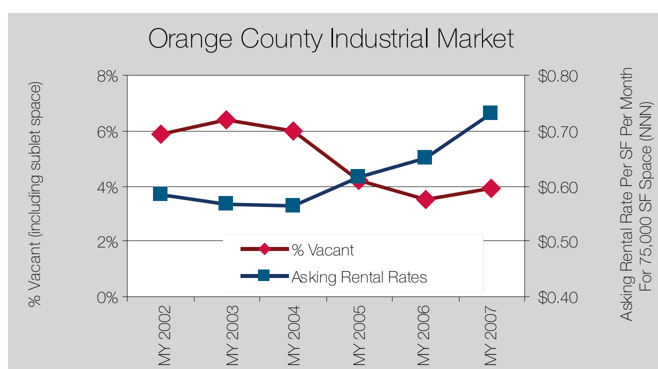
Construction boom underway (28.9 million SF)

The construction boom has continued, and as of mid-year 2007, 28.9 million SF was under-construction (up from 26.1 million SF as of year end 2006). When completed, this space will expand the base by 7.5%. This is a very high level of construction, and could cause vacancy rates to climb by approximately a percentage point or two (unless demand becomes even more super-heated). Most of the construction activity (17.1 million SF) was in Inland Empire East, where ample available land exists.

Orange County

There was a small amount of positive net absorption in Orange County in the first half of 2007, 326,800 SF. This was up from a negative 58,000 SF per six months pace in 2006, but lower than





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

the 1.1 million SF per six months pace that is the long term average for the area. Orange County remains highly attractive to the mid-sized manufacturer and distributor in a wide variety of fields, including high technology, food, apparel and communications. As with Los Angeles County, however, a lack of available space limited the amount of net absorption that could take place. Construction activity was low, and 403,200 SF came on-line, expanding the base by 0.2%.

The highest median sale price per SF ($143) in the Basin

The total vacancy rate as of mid-year 2007 was 3.9%, and the direct vacancy rate was a low 3.2%. Asking rental rates were up 12.2%. Sale prices climbed to a median of $143 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 6.7% over 2006 levels and up 168% over levels ten years ago.

As of mid-year 2007, 1 million SF was under-construction. When completed, it will expand the base by only 0.5%. Land prices in Orange County have risen to the point where they are prohibitive for most speculative industrial projects. The market is projected to tighten even further over the next twelve months.

In addition to the standard industrial market, Orange County has a large flex/ R&D market, with 65 million SF as of mid-year 2007. Vacancy rates were low, at 4.5%, down from 4.8% a year ago and from 10.1% three years ago. Rental rates were climbing sharply. Just 58,500 SF was under-construction as of mid-year 2007.

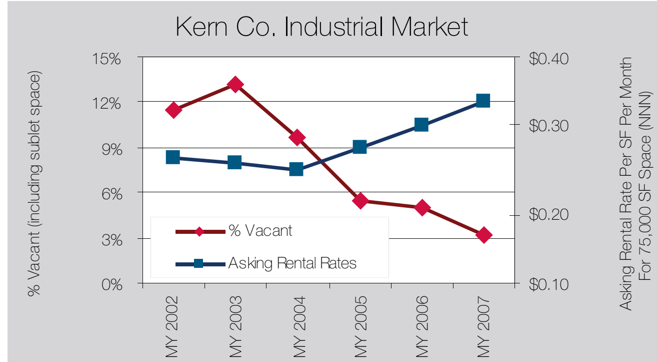
Kern County

Net absorption in the first half of totaled 236,000 SF. This was down some from 2006, when net absorption averaged 317,800 SF per six months and from the average witnessed over the past ten years of 1.25 million SF per six months. In the past two and a half years, there were no big warehouse deals completed, unlike previous years when, for example, IKEA took 1.8 million SF and when Target took 1.7 million SF.

Rental rates 40% lower than in the LA Basin

Construction activity was light, and just 65,000 SF came on-line due to completions. The vacancy rate dropped to 3.2%. Rental rates climbed to $0.34 per SF per month NNN for a typical 75,000 SF space (a 9.7% annual increase). Despite this increase, rental rates in Kern County were 40% lower than the average for the Los Angeles Basin ($0.57 PSF). They also were 29% lower than rates ($0.48 PSF) in the Inland Empire.

As of mid-year 2007, construction activity was low to moderate, and 142,000 SF was underway. As this space comes on-line, it will expand the base by 0.5% – a level that can be readily absorbed.



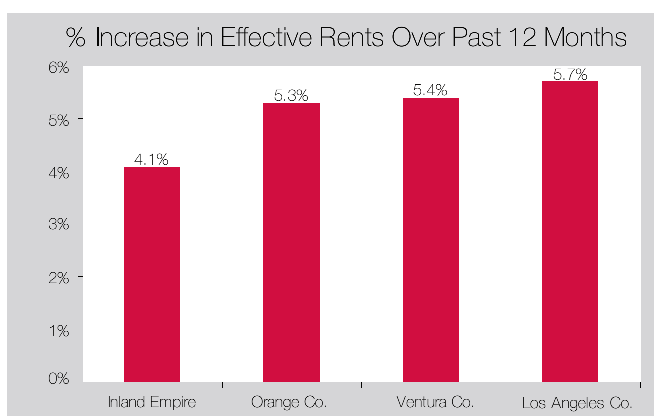
The long-term outlook for the market remains exceptionally strong. The area has reached a critical mass and is on the radar screen of distributors looking to serve both northern and southern California from one site. The area will also benefit from lack of availability and very high rental rates and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

The Apartment Market Remains Tight

Tight market conditions in LA and Orange Counties

The apartment market in the Los Angeles Basin softened slightly in the first half of 2007, yet generally remained in healthy to tight territory. Vacancy rates as of mid-year 2007 were in the mid-3% range in Los Angeles and Orange Counties, the mid-4% range in Ventura County and the low-5% range in the Inland Empire. Effective rental rates climbed by 5.5% on average year-over-year.

Net absorption was down in the first half of the year in all areas except the Inland Empire, where it was steady. This was due to a lack of availability in-lying areas, as well as response by the market to rental rates that have become relatively high in recent years. Construction deliveries were moderate in Los Angeles, Orange and Ventura Counties, and strong in the Inland Empire.

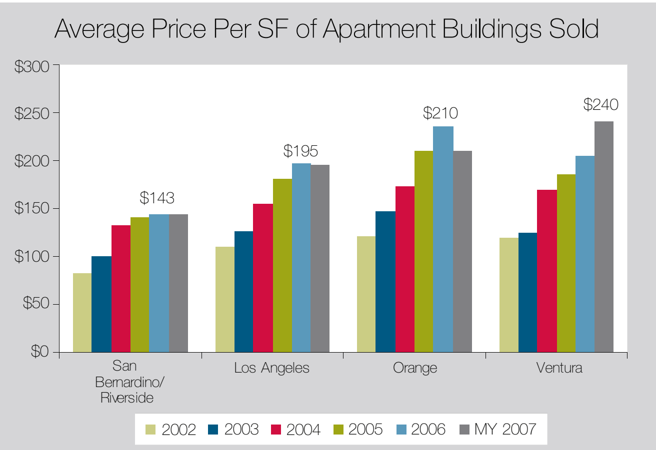


Demand by tenants is projected to pick up in future quarters, due to the combination of a still-strong economy and growing consumer disenchantment with the expensive for-sale market. The Basin is projected to add approximately 100,000 households per year over the next five years (+1.9% per year), and a growing percentage of these households appear likely to be renters. 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 10,000 units per year, falling far short of long-term growth in demand (approximately 15,000 units per year). Ventura County is projected to add approximately 500 units in 2007, Los Angeles County 5,000 units, Orange County County 2,000 units and the Inland Empire 2,800 units. This will increase supply by approximately only 0.9%.

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

Average sales price have generally remained firm. The price of properties sold in the first half of 2007 ranged from an average of $143 PSF in the Inland Empire to $240 PSF in Ventura County. However, the number of transactions, particularly smaller transactions, dropped. The small investor appears to be showing increased resistance to high prices; institutional investors, on the other hand, are still very active. Cap rates inched upward, but still were in the low 5% range on average.

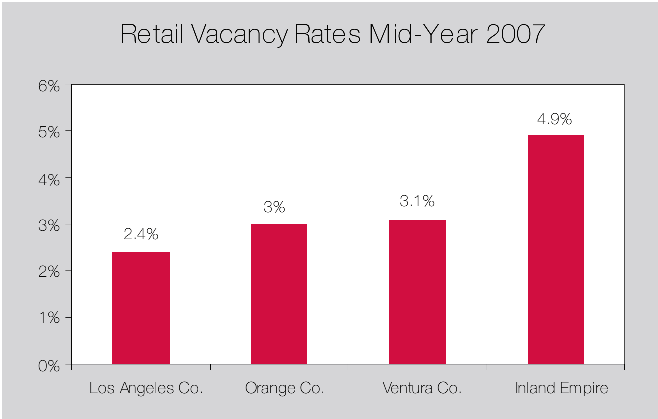


The Retail Market Remains Very Tight

Rental rates up 8.6% in past 12 months

The Los Angeles Basin has a very large retail market, with more than 523 million SF of space[5]. In the first half of 2007, net absorption totaled a moderate 1.8 million SF, representing annualized growth in occupied space of 0.7%. This was down from a pace of 3.4 million SF per six months in 2006. The reason for the slowing was a lack of available space, particularly within inlying areas.

Retailers remained bullish on the LA Basin, with its large and rapidly growing population base (17.1 million persons, growing by 1.5% per year), particularly among high-income households (the number of households earning $100,000 or more per year has been growing by approximately 6% per year). The area generated retail sales of approximately $231 billion in 2006, and has witnessed an average annual growth rate in sales of 5.6% per year 1985 to present.



Supply in much of the Basin has been generally constrained by a lack of available land, although in the first half of 2007 a moderate amount of space came on-line (3.8 million SF, expanding the base by 0.7% or by 1.4% on an annualized basis). The vacancy rate in the Los Angeles Basin as of mid-year 2007 was 3.1%, up slightly from 2.9% as of year-end 2006, but down from 3.3% as of mid-year 2006. The direct vacancy rate was just 2.9%. These are very low levels of vacancy, reflecting a very tight market. Average asking rental rates climbed by a strong 8.6% in the past twelve months.

Construction activity has picked up, and as of mid-year 2007, 19.9 million SF of retail space was under-construction (up from 16.1 million SF as of year-end 2006). As this space comes on-line, it will expand the base by 3.8%. Given the high level of existing pent-up demand, most of this new space will be rapidly absorbed. However, a slight increase in vacancy can be expected, particularly in the areas where most of the construction is taking place.

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

Retail Construction Activity Up

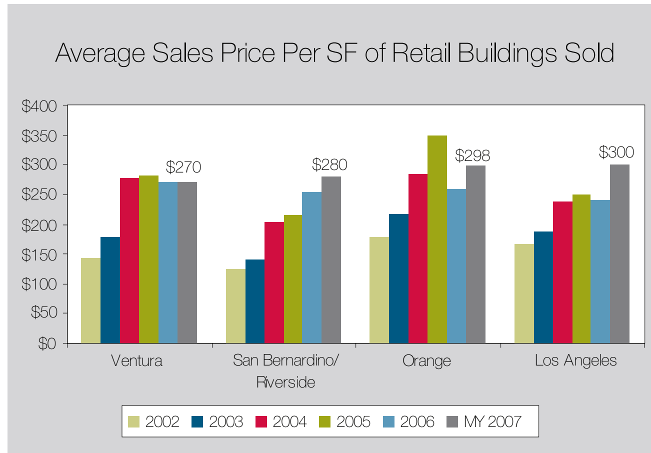
In Ventura County, the vacancy rate is a low 3.1%. 884,000 SF is under-construction there, which will expand the base by 3.3% and should temporarily provide some relief for tenants.

The vacancy rate is exceptionally low in Los Angeles County, just 2.4%. 5.1 million SF is under-construction, which will expand the base by 2%. As with Ventura County, the new space should temporarily provide some relief for tenants. After this space is absorbed, the market should quickly tighten. A lack of available land will constrain the amount of construction that can take place long-term.

In Orange County, the vacancy rate is a low 3%. A moderate amount of space is currently under-construction – 1.8 million SF, which will expand the base by 1.7% when completed. This space is expected to be quickly absorbed, and vacancy rates are projected to remain near current levels.

The Inland Empire is the most rapidly expanding market in the Los Angeles Basin. As a result of a high level of construction activity, the vacancy rate is a moderate 4.9%. 12.1 million SF is under-construction (up from 7.1 million SF as of year-end 2006). As this space comes on-line, it will expand the base by 9.1%. Much of this space will be quickly absorbed, but a moderate increase in vacancy can be expected nevertheless (to approximately the 5% to 6% range).

Demand from investors has been very strong for retail space in the Basin, and average prices have nearly tripled in the past ten years; however, there are some signs of moderation in the past year and a half. Specifically, sales activity is down, and sale prices are flattening in some areas. Cap rates have been steady, generally in the high 5% range.



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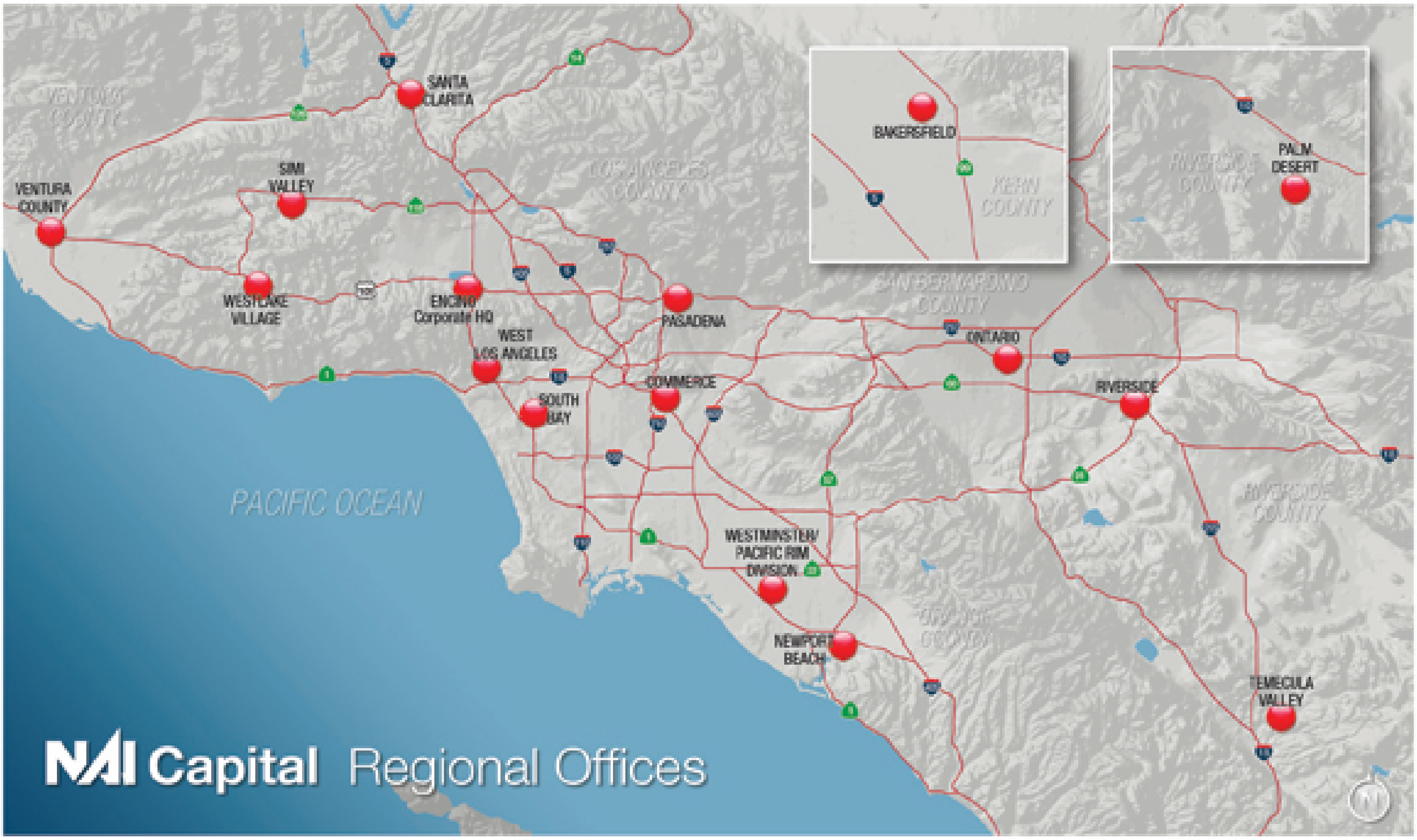

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