NAI CAPITAL

Market Perspective | Fall 2009

EXCELLENCE 30 Years

NAI Capital

Commercial Real Estate Services, Worldwide.

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California Lutheran University

Fall 2009 Economic Outlook

For the past eight years NAI Capital has surveyed its Los Angeles Basin brokers. The survey consists of a variety of questions meant to gauge their expectations for the next twelve months regarding issues such as rent, vacancy, construction and sales.

The data contained in this report is unique. It comes from our brokers: men and women who work in commercial real estate on a daily basis. It represents the collective knowledge and experience of professionals who talk to current and prospective tenants and landlords. This exposure to all the players provides our brokers with firsthand knowledge of the market place.

This report is not about historical data. It is about current data. These are the trends and conditions present in the market place right now.

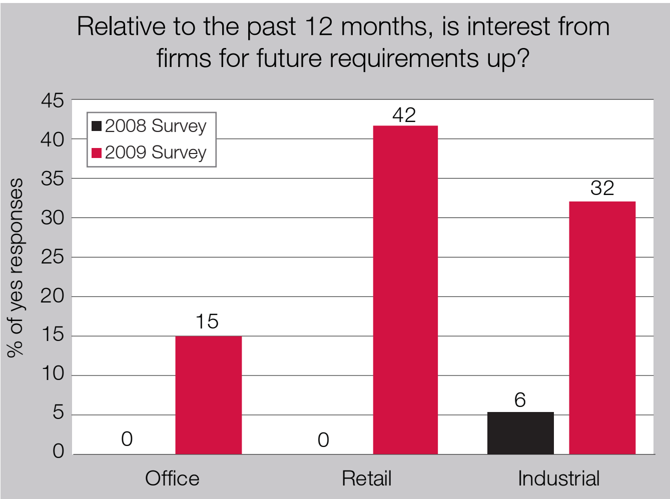
For the past eight years NAI Capital has been proud to present its broker survey to our clients. This year is no exception.

Highlights

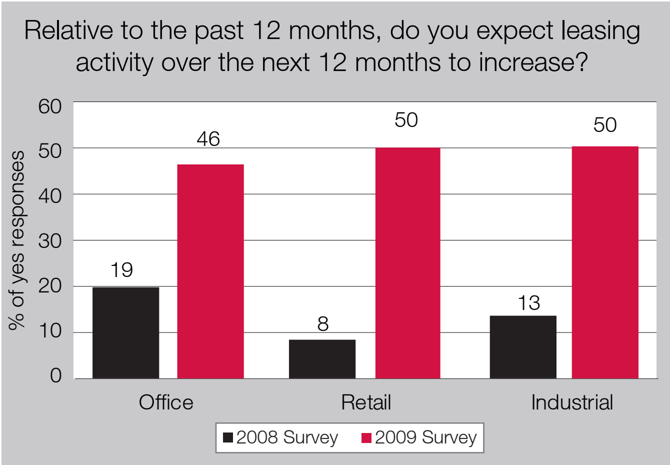
Commercial real estate markets in the Los Angeles Basin have been under considerable pressure the past twelve months. Rents have declined. Vacancy rates have increased. New construction has nearly ground to a halt. Little to no financing has derailed sales.

While the news may seem bleak there is reason to hope. In many areas our brokers see positive change taking place:

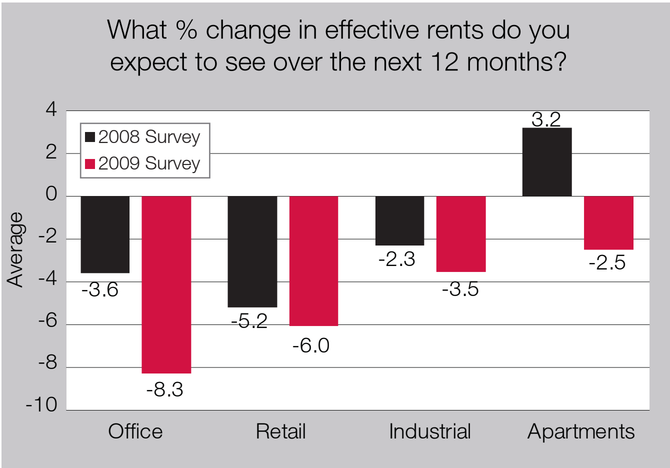
- Interest from firms regarding future requirements is up in all three commercial markets. This is a significant improvement relative to last year. In 2008 not one of our office or retail specialists indicated that firms were interested in future requirements. Last year firms were in retrenchment mode. They were shedding space not leasing it. According to our office brokers, firms in the medical and debt consolidation industries are the most active seekers of future office space. Retail brokers indicated that discount retailers are looking for new retail space. In most cases this is coming at the expense of high-end retailers. A majority of our industrial brokers indicated that the increase in future requirements is coming from distribution and logistics firms. This is further evidence that international trade is increasing.



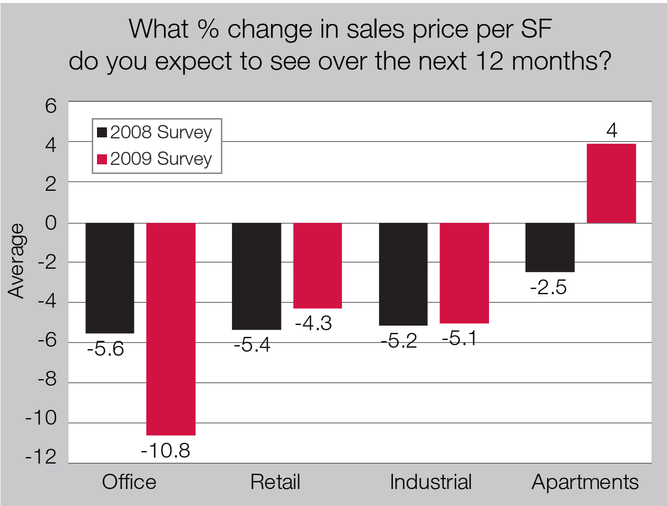
- Interest in future requirements is driving up expectations regarding future leasing activity. Nearly half of our brokers, across all three segments, believe that leasing activity will increase during the next twelve months. This is a marked improvement from last year when less than 20 percent of our brokers thought leasing activity would increase.



- While NAI Capital brokers expect leasing activity to increase, they expect it to be at the expense of rents. On average, our brokers expect rents to decline 8.3, 6.0, and 3.5 percent in the office, retail and industrial markets, respectively. Landlord preference to lease space rather than let it sit vacant is the driving force behind declining rents. Current market conditions (high vacancy rates) are such that landlords prefer to reduce rents in order to lease space. NAI Capital's apartment market specialists also expect a decline in rent. The decline is not expected to be severe. Yet, compared to last year this is a reversal of expected fortunes for apartment landlords. A lack of demand for apartments is the primary reason for the pessimism. Poor economic conditions in California are forcing many people to relocate to other states to look for employment.



- Our brokers expect sales prices to decline further in three of the four segments. A lack of credit and declining rents are the most often cited reasons for the pessimism. On average, our brokers expect prices per square foot to decline 10.8, 4.3 and 5.1 percent in the office, retail and industrial segments, respectively. Compared to last year, the office market is likely to see a larger decline in prices. Retail and industrial properties are expected to see declines similar to last year. Although declining rents and lack of credit apply to the apartment market, our brokers foresee a slight increase in the price per square foot. A likely explanation for this optimism is the lack of new construction over the past several years.



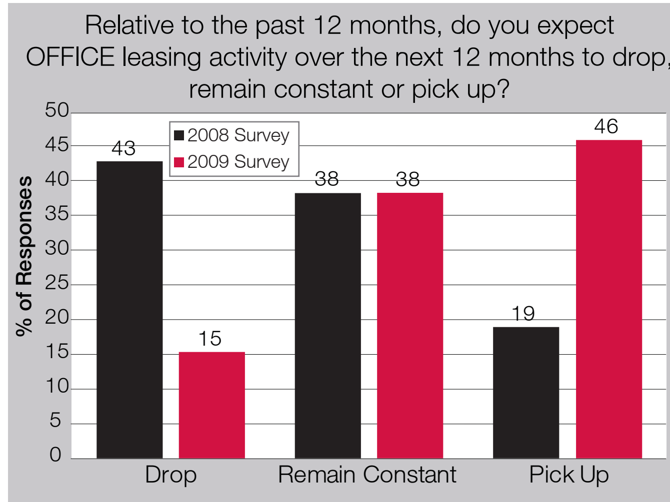
In general, market conditions remain weak. Rents and sales prices are expected to decline even though leasing activity is expected to increase. Excess capacity in all three markets is the cause of this seemingly paradoxical result. We view these results as encouraging. Before commercial markets can recover, excess capacity must be reduced. The expected increase in leasing activity may signal the start of a recovery. In the short term rents will decline as landlords fight to keep space leased. This in turn will keep prices down. As vacancy rates decline over time, rents and prices will rebound.

Leasing Activity

Poor economic conditions in the Los Angeles Basin caused a significant reduction in leasing activity over the past year. Rather than looking to expand, most companies were downsizing. Although weak economic conditions remain they are not as severe as last year. As a result, a larger percentage of NAI Capital brokers are expecting an increase in leasing activity in the next 12 months.

In the office market, nearly 50 percent of brokers expect leasing activity to increase. This is a substantial increase from the 19 percent who thought leasing activity would increase last year. In total, 84 percent of NAI Capital office brokers expect leasing activity to remain constant or increase. This compares favorably to the 81 percent of brokers who expected leasing activity to decrease or remain constant last year.

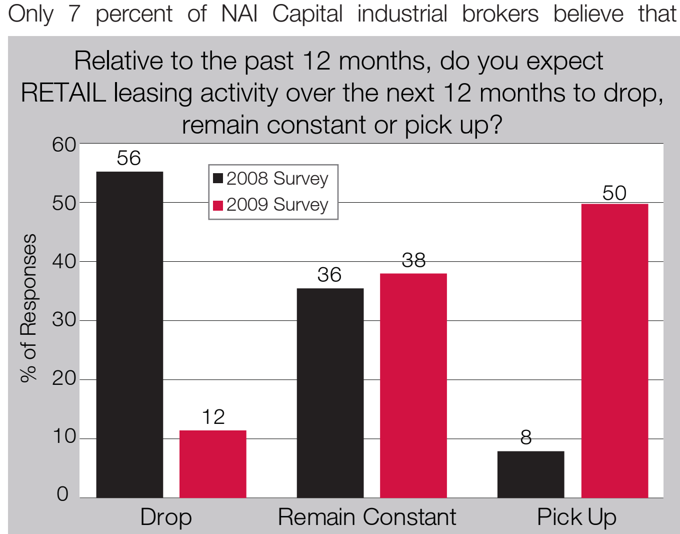
According to our brokers, firms in the medical, debt reduction, law, accounting, entertainment and high tech industries are inquiring about additional space. Additionally, several brokers commented that schools are looking to expand. The types of schools most often mentioned were charter and technical schools. Demand for charter schools is growing due to budget cuts in public education. Enrollment in technical schools is increasing as the unemployed retrain themselves for new careers.



The same trend exists in the retail market, although somewhat more pronounced. Half of NAI Capital's retail brokers expect leasing activity to increase. Last year, only 8 percent of these brokers were optimistic. Furthermore, only 12 percent of retail brokers expect leasing activity to decline in the next 12 months. This is significantly better than the 56 percent of a year ago.

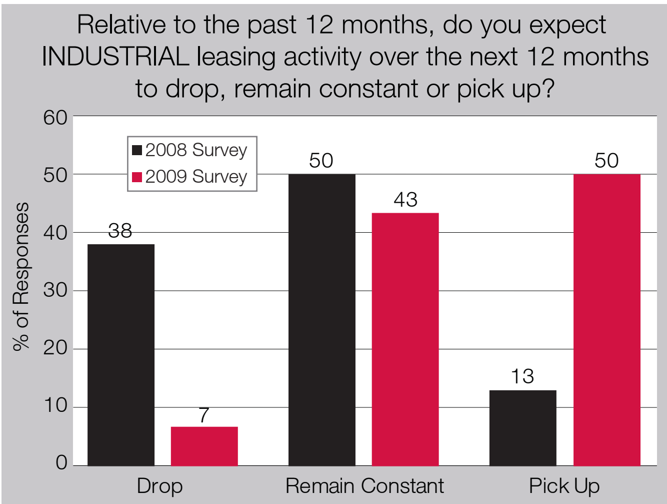
A majority of NAI Capital retail brokers indicated that demand for retail is likely to come from discount retailers and fast food chains. Brokers also indicated that luxury retailers and luxury service providers, such as spas, are still in retrenchment mode. Several brokers indicated that non-retailers are looking to secure retail space for location purposes.

Leasing actitivity in industrial markets is also expected to increase. Only 7 percent of NAI Capital industrial brokers believe that



leasing activity will decline over the next 12 months. The majority of brokers think leasing activity will pick up.

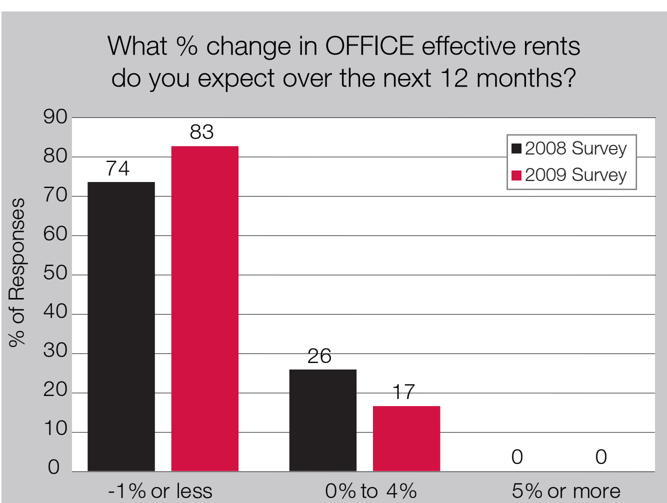
The majority of our industrial brokers indicated that logistic and warehouse/distribution companies are seeking new space. This is no surprise considering that world trade appears to be increasing. Brokers also indicated that some manufacturing is returning. Most notably, one broker commented on the desire of Tesla Motors to locate a manufacturing site in Long Beach or Downey.



Effective Rents

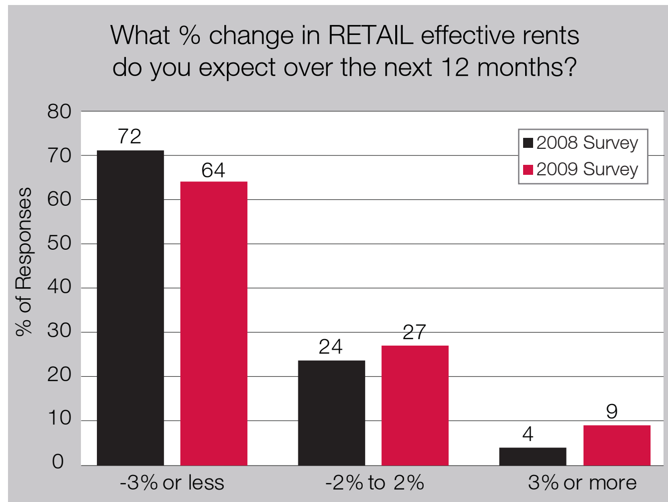
Any increase in leasing activity will come at the expense of rent. This is primarily due to the amount of excess capacity in all three commercial markets. High vacancy rates are limiting the amount landlords can charge. At the moment, this is still a renters market.

The relationship between increased leasing activity and decreasing rents is most pronounced in the office market. A full 83 percent of office brokers believe rents will decline. This represents a 9 percentage point increase from last year. Of the 17 percent that expect rents to rise between 0 and 4 percent, most indicated

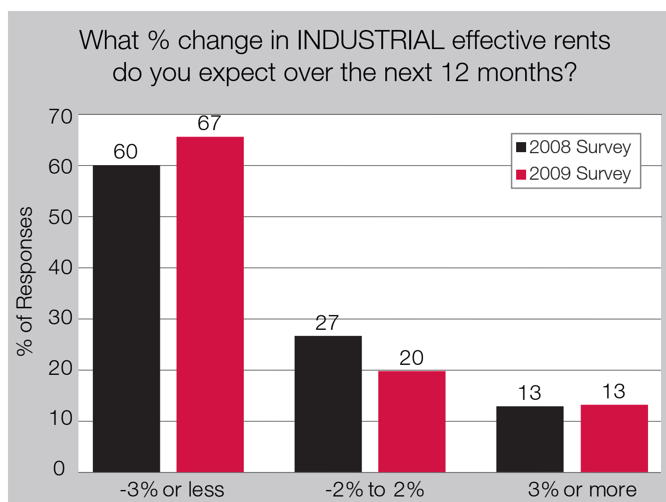


that rents would remain flat. Only two brokers predicted rents would increase. None of our brokers predict rents rising above 5 percent. On average, our brokers predict office rents will decline a further 8 percent.

The same story exists in the retail market, although not quite as bad. In this market there is some optimism, albeit very little. Only 9 percent of brokers think rents will increase 3 percent or more. Of the 27 percent that make up the -2 to 2 percent category, all predict rents will remain unchanged. Compared to last year, fewer retail brokers expect rents to decline 3 percent or more. Unfortunately, this category comprises 64 percent of our retail brokers. On average, retail brokers expect rents to decline another 6 percent.

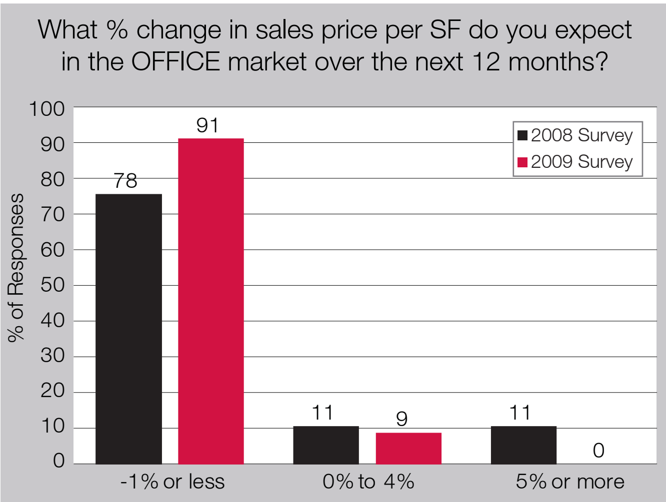


Brokers in the industrial market are more pessimistic this year regarding rent. Compared to last year, more brokers expect rents to decline 3 percent or more. Only 13 percent of brokers think rents will rise 3 percent or more. This is the same percent as last year. On average, industrial brokers expect rents to fall 3.5 percent.



Sales Price per Square Foot

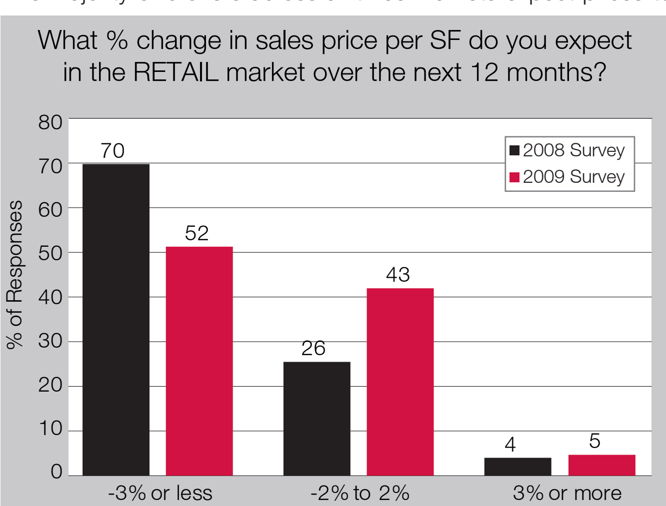
Prices for commercial property declined over the last 12 months and are likely to continue this trend according to our brokers. There were three reasons given for this pessimistic outlook. First, the decline in rent has put downward pressure on sales prices. Properties are generating less cash flow today than they were 12 months ago. To compensate owners are reducing prices.



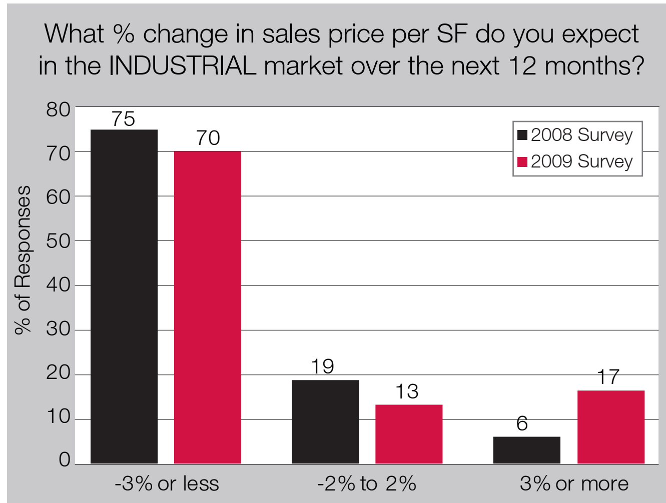
Second, most brokers commented on the lack of financing. Several indicated that a lack of financing derailed potential deals. As capital remains constricted we expect this to further reduce both prices and sales activity.

Finally, several brokers expressed concern regarding unrealistic expectations from buyers and sellers. It seems that numerous deals have been cancelled because the buyer and seller could not agree on a price. The lack of sales activity will continue to create unrealistic expectations from market participants. There is not enough comparable sales data to guide buyers and sellers during the negotiating process.

The majority of brokers across all three markets expect prices to fall in the next 12 months. Of the brokers, office specialists are the most pessimistic. The vast majority, 91 percent, expect prices to decline at least 1 percent. Only one office broker predicts prices to rise. That same broker expects a meager 3 percent increase.



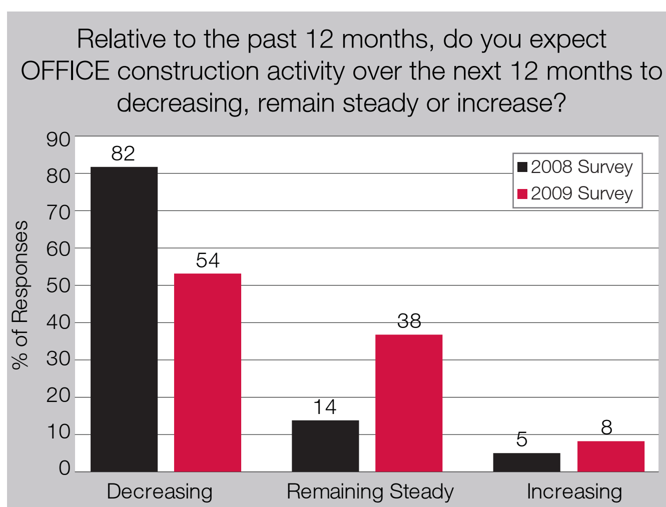
There is a little more optimism in the retail market. Fewer brokers expect prices to fall 3 percent or more.



Construction Activity

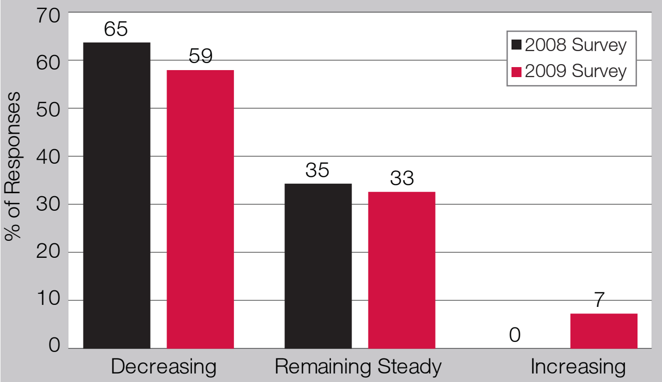
Commercial construction activity is at an all-time low and is likely to remain low into the foreseeable future. Regardless of the market, the vast majority of our brokers expect construction activity to decrease or remain the same. Only 8 percent of office brokers, 7 percent of retail brokers, and 3 percent of industrial brokers expect construction to rise. There are several reasons for this pessimistic outlook.

Excess capacity is negating the need for new construction. Until vacancy rates decline the need for new construction will be limited. Financing is also playing a role. Banks and other financial

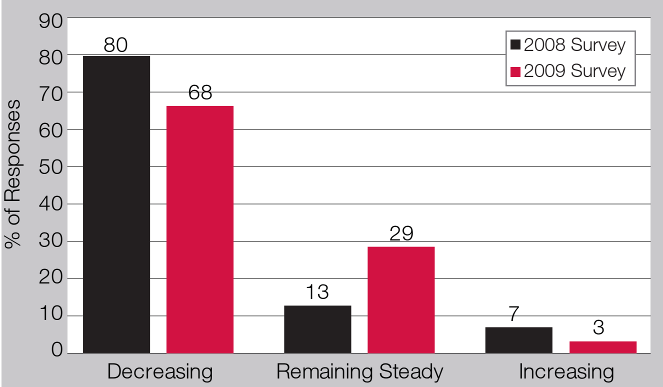


institutions are under duress from rising default rates among residential and commercial loans. In consequence, they are unwilling to lend money for new construction. Finally, falling prices lead to lower returns on investment which increases risk. Given these conditions, developers are choosing to stay out of the market.

Relative to the past 12 months, do you expect RETAIL construction activity over the next 12 months to decreasing,remain steady or increase?



Relative to the past 12 months, do you expect INDUSTRIAL construction activity over the next 12 months to decreasing,remain steady or increase?

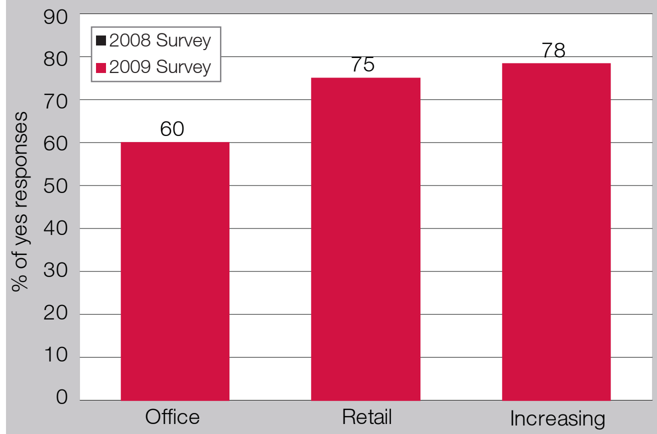


Tenant Improvements

This year we decided to ask our brokers another set of questions to gauge the impact of market conditions on tenant improvement monies. We were interested to know if landlords are increasing tenant improvement money to attract tenants. Not surprisingly, they are.

The majority of brokers across all markets indicated that landlords are increasing tenant improvement money. The brokers who indicated that landlords were not increasing tenant improvement money noted that landlords were offering free rent instead. In any case, it does appear that landlords are doing what they can to sign tenants.

Are landlords increasing tenant improvement monies?



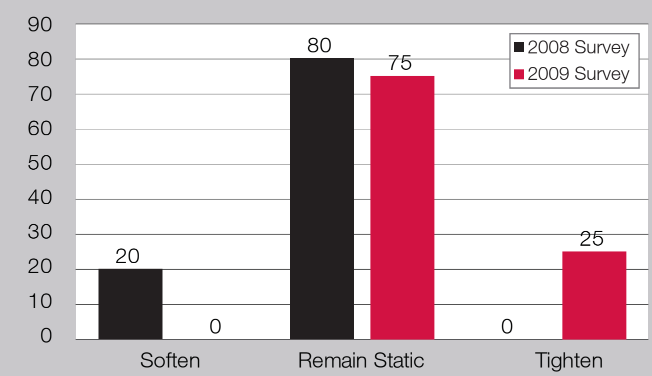
Apartment Market

In addition to the three traditional markets, office, retail, and industrial, NAI Capital has several brokers who concentrate on the apartment market. This section details the findings from these brokers.

During the housing boom a significant number of renters and first time buyers traded longer commutes for affordable housing and left the Los Angeles Basin for the inland areas of Riverside, San Bernardino and Kern Counties. This migratory process led to a weak apartment market in the Basin. Several years later the housing bubble burst and a majority of these home owners were forced into foreclosures. Instead of staying in the inland areas they moved closer to the job centers in the Los Angeles Basin. This reversed migratory process led to improved conditions in the apartment market.

Currently, this reverse migratory process is being offset by the unemployed who are leaving the state to look for employment

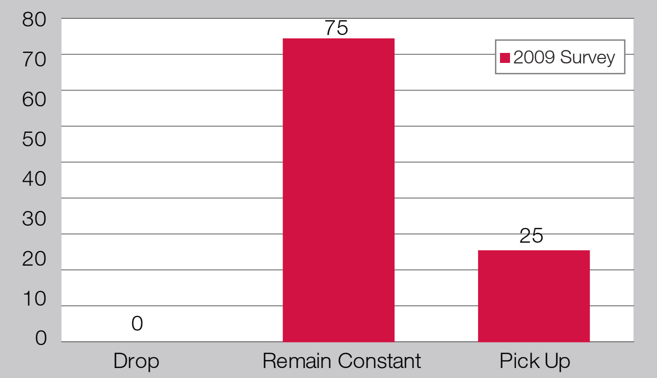
Relative to the past 12 months, do you expect APARTMENT market conditions over the next 12 months to soften, remain static or tighten?



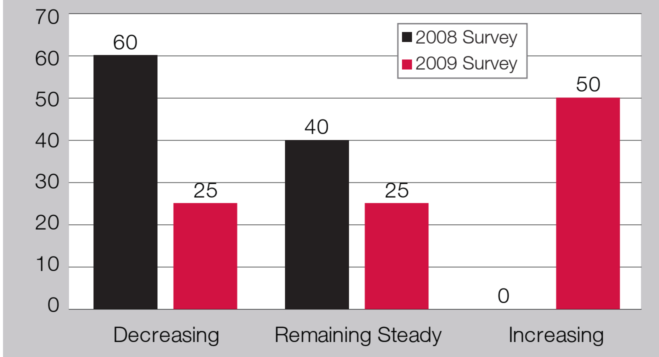
elsewhere. As a result of these offsetting forces, a majority of our apartment specialists expect market conditions to remain static over the next twelve months.

Sales activity is expected to remain constant in the near future. Static market conditions and a lack of credit are the two primary reasons given for this view. Expected vacancy rates of 8 percent are leading our brokers to predict a small decrease in rents of 2.5 percent.

Relative to the past 12 months, do you expect APARTMENT sales activity over the next 12 months to drop, remain constant or pick up?



Relative to the past 12 months, do you expect APARTMENT construction activity over the next 12 months to decrease, remain steady or increase?



A majority of our brokers expect construction activity to increase over the next 12 months. We find this result surprising given their expectations of increasing vacancy rates and lower rental rates. Furthermore, the lack of available capital would seem to preclude much construction activity.

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