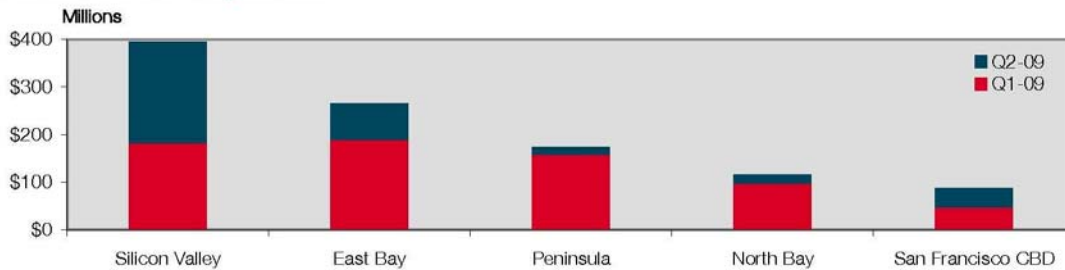


Bay Area Commercial Real Estate (“CRE”) Update

The Bay Area CRE market remains severely weakened by the economic crisis. The latest industry data, through the first half of 2009, recorded a dollar volume for Bay Area office, industrial, retail and multi-family property acquisitions of just US\$1.05 billion. Q2 2009, with \$365 million in acquisitions, slowed considerably relative to Q1 2009. On an annualized basis, the \$1.05 billion figure, which includes institutional, REIT, equity fund, private foreign, and owner/user activity, represents a mere 6% of the \$34.8 billion boom year of 2007. If that sluggish pace continues, 2009 could prove to be the worst year for acquisition activity since the early 1990’s.

CRE Dollar Volume by Bay Area Market, YTD 2009

Total Dollar Volume by Market



Source: NAIBT

CRE Investment Activity by Bay Area Property Type, YTD 2009

Investment Activity by Property Type

Market	Properties Traded	Volume in Dollars	Avg. Price/SF, Unit*		Avg. CAP Rate	
			YTD-09	2008	YTD-09	2008
Office	15	\$386,953,850	\$297	\$295	6.6%	6.6%
Industrial	27	\$314,971,913	\$127	\$126	9.2%	6.5%
Retail	14	\$208,670,907	\$230	\$368	7.8%	6.0%
Multi-Family	11	\$137,172,496	\$165,868	\$201,383	5.8%	5.2%

*Multi-family price/unit, all other price/sf

Source: NAIBT

Bay Area Cap Rates

The average cap rates in the Bay Area ranged from 5.8% for multi-family properties to as high as 9.2% for industrial properties. Industrial and retail property cap rates have moved the most since 2008, up 261 bps and 165 bps, respectively. Office and multi-family properties have remained firm, with small 7 bps and 68 bps moves, respectively, since 2008.

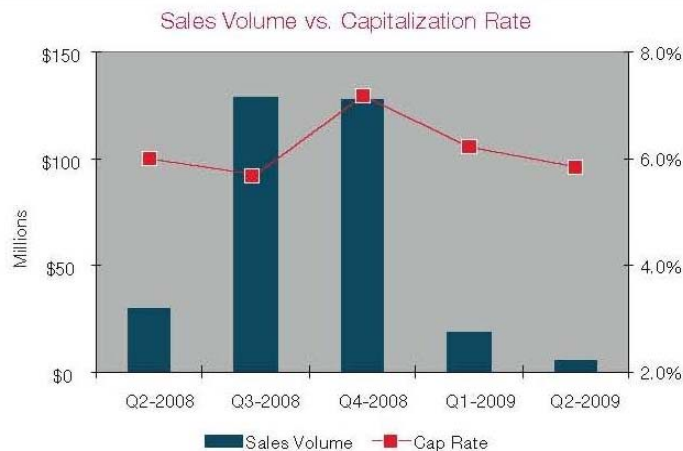
Bay Area Multi-family Report

The average Bay Area vacancy rate for apartment properties with 99 units or less was 5.7% as of Q2 2009. The first half of 2009 sales activity was \$404 million. This is in stark contrast to the record

\$7.9 billion in transactions completed in 2007. Average apartment cap rates were 6.11% for Q2 2009.

Within the North Bay (which includes Marin, Napa, Solano and Sonoma counties), Marin multi-family properties fared the best in terms of vacancy rates with 5.2%, below the Bay Area average rate. The sales volume for Q2 2009 was an anemic \$6 million, down 68% from Q1 2009 and 95% from Q4 2008.

North Bay	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009
Sales Volume	\$29,428,535	\$129.0m	\$127.9m	\$18.9m	\$6.0m
Total Units	241	779	1,103	180	86
Price/Unit	\$148,664	\$175,864	\$112,598	\$105,053	\$69,802
Price/SF	\$303.30	\$232.20	\$255.74	\$229.79	\$209.48
Cap Rate	6.00%	5.70%	7.18%	6.21%	5.87%
GRM	10.87	9.26	8.40	9.33	10.61



Source: NAIBT

Bay Area Office Report

Since falling below the 11% mark in Q3 2007, the Bay Area office vacancy rate rose to 17.2% in Q2 2009, its highest point in 5 years. All Bay Area counties (San Francisco, San Mateo, East Bay, Santa Clara, and Marin) reached 15% or higher during Q2 2009.

As of mid Q3 2009, there was continuing downward pressure on asking rates and an increase in vacancy, with subleases and renewals providing most of the transaction activity. According to CB Richard Ellis' August Report, San Francisco's Class A asking rates dropped 14.9% since the fourth quarter 2008 to \$36.62 per square foot. While that information is negative and certainly favors a buyer's market, it is worth noting that it is 26% above the national asking average for Class A space of \$29.

Average asking rent rates in all Bay Area counties were down \$.07 to \$.09 in Q2 2009, except for Marin which was down only \$.02 per square foot. Prices per square foot by county are shown below:

San Francisco County:	\$3.06/sf
Santa Clara County:	\$2.85/sf
San Mateo County:	\$2.84/sf
Easy Bay County:	\$2.20/sf

Marin County: \$2.57/sf

LRG Capital: Commentary

When the current Bay Area CRE market trend shifts again, CRE investments will benefit from capital appreciation. In the meantime, it is LRG Capital's view that a property's cap rate serves mainly as an assessment and comparison marker of similar investment property types in the same geographic sub-market. Cap rates alone are not a comprehensive indicator for assessing profitability potential. It is our view that the following factors are the best indicators of profitability potential when considering a new investment property: a) vacancy history – check them relative to other similar properties in the area; b) financing terms -- loan terms must be consistent with investment risk and duration objectives; c) future costs such as building repairs, tenant improvements, and environmental corrections; d) the credit worthiness of tenants, e) current supply of the subject property type; and f) lot attributes such as parking in order to maximize property usage.

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