Commercial Real Estate Report
Q4 2009

Investment Summary

While San Francisco Bay Area investment activity for all real estate classes (i.e. office, industrial, retail, and multi-family) declined slightly in the fourth quarter of 2009, the positive news was that the second half of 2009 realized a flat lining of year-over-year monthly changes in dollar volume. According to NAIBT, additional signs of a bottoming trend were: access to capital markets loosened for quality assets, a new Federal policy was implemented to encourage lenders to work with borrowers to help alleviate further growth of distressed assets, and foreign interest in core US markets increased. Taken together, these trends point to an increase in market transparency and much less fear in 2010 than we witnessed in 2009.

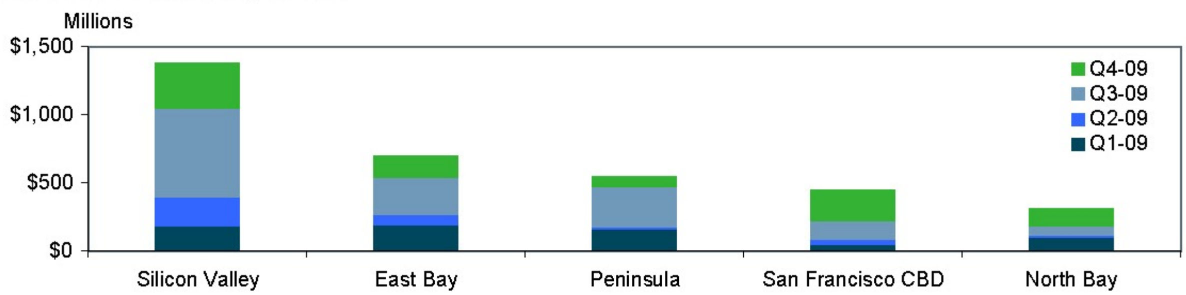
The Bay Area investment market recorded a total dollar volume of just under $3.3 billion for 2009. This amount was 54% less than the previous year and 91% less than the record amount transacted in 2007. The most active quarter of 2009 was the 3rd quarter with $1.4 billion, followed by the 4th quarter with $920 million.

Like many investors, LRG REP I views the multi-family sector as a conservative play amidst the area's economic forces that are negatively impacting the office, industrial and R&D sectors. The multi-family sector has weathered the market correction better than many sectors, as it tends to maintain occupancy rates better than the traditional commercial market, making it a lower beta investment.

Yearend average cap rates for 2009 for the Bay Area ranged from 6.6% for multifamily to 9.1% for office properties.

The Bay Area has weathered the foreclosure pandemic better than its peer U.S. markets. According to Real Capital Analytics' Troubled Asset Radar's December 2009 issue, San Francisco and San Jose are near the bottom of all major markets in terms of distressed assets when scaled to market activity for the year.

Total Dollar Volume by Market



Investment Activity by Property Type

Market	Properties Traded	Volume in Dollars	Avg. Price/SF, Unit* 2009	2008	Avg. CAP Rate 2009	2008
Office	35	$1,476,760,068	$309	$295	9.1%	6.6%
Industrial	50	$557,344,557	$98	$126	8.9%	6.5%
Retail	35	$521,856,708	$194	$368	7.9%	6.0%
Multi-Family	37	$729,472,928	$163,047	$201,383	6.6%	5.2%

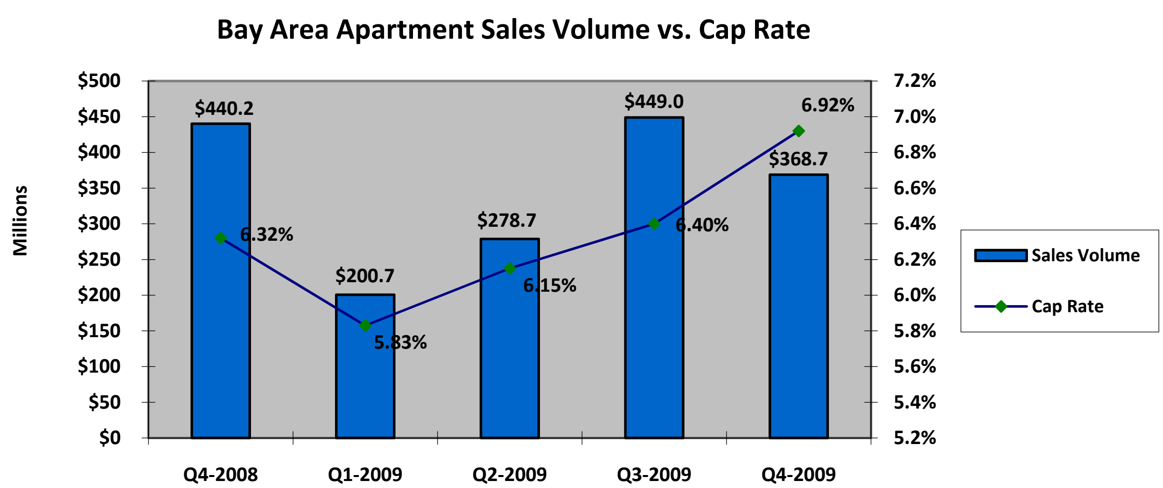
*Multi-family price/unit, all other price/sf

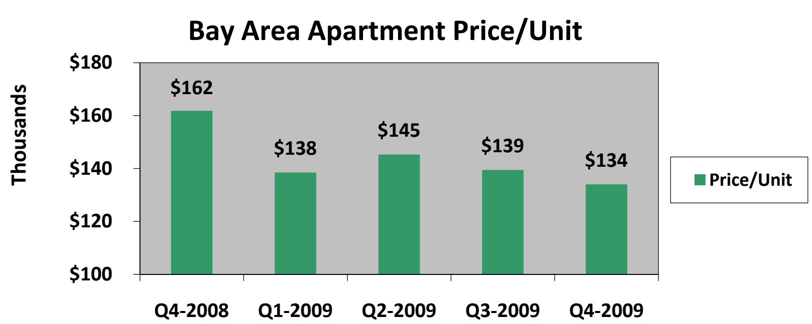
Apartment Rental Market: Bay Area and North Bay

- ✓ Average rental rates across the Bay Area dipped in the final quarter of 2009 by 2+% over the third quarter.
- ✓ The South Bay suffered the biggest hit, decreasing 4%, while rents for the North Bay, including Marin, Napa, Solano and Sonoma counties, decreased only 2.2% from the prior quarter.
- ✓ The average Bay Area vacancy rate for apartment properties with 99 units or less was 5.9% for Q4, up from 5.8% in Q3 2009.
- ✓ Apartment communities in the East Bay enjoyed a 70 basis point decrease in vacancy during Q4 versus Q3 2009, marking the greatest occupancy gain for the quarter.

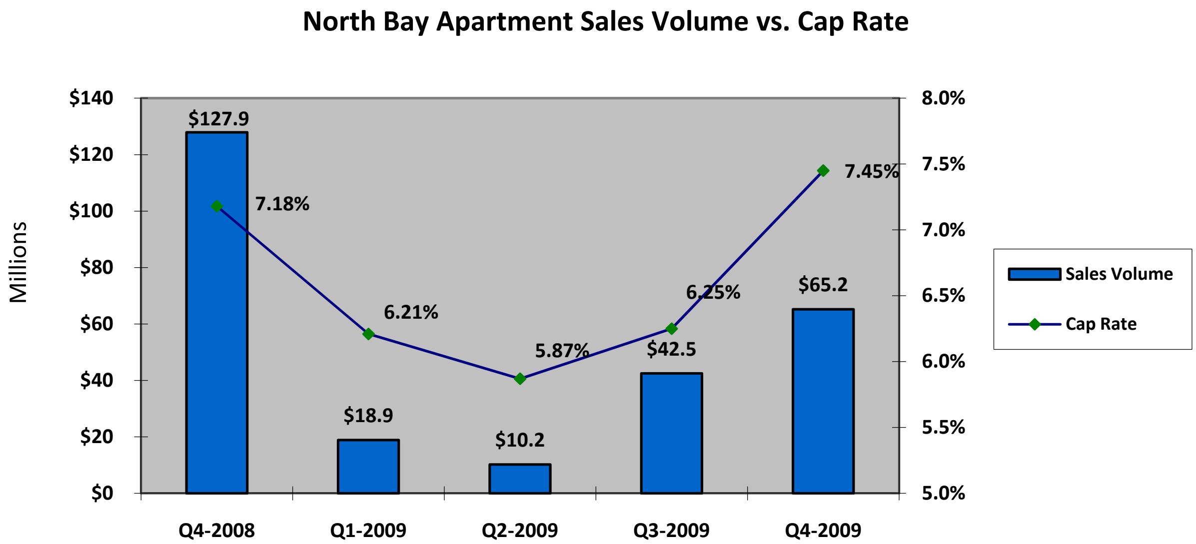
Apartment Sales Market: Bay Area and North Bay

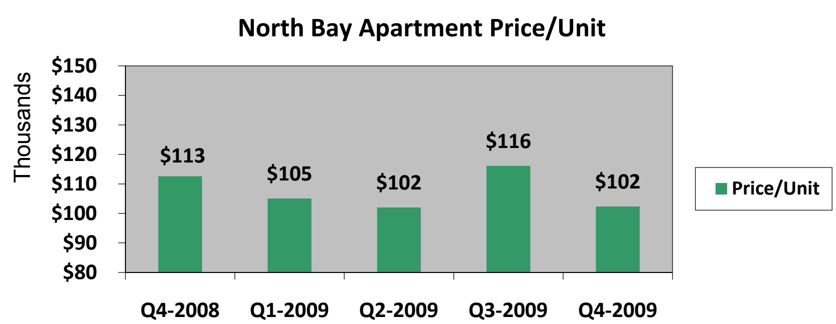
- ✓ Q4 2009 Bay Area apartment sales volume was $368.7 million, 18% lower than the $449 million in Q3 2009. The yearend total for the Bay Area was $1.3 billion, 59% lower than the $3.2 billion for 2008. In Q4, as in Q3, smaller properties made up the majority of Bay Area sales, with 88% having fewer than 30 units.





- ✓ Bay Area apartment cap rates were 6.9% in Q4 2009, up from 6.4% in Q3 2009 and 6.15% in Q2 2009.
- ✓ Total sale activity in the North Bay jumped from $42.5 million in Q3 2009 to $65.2 million in Q4 2009, while the number of transactions in Q4 was about half of Q3.



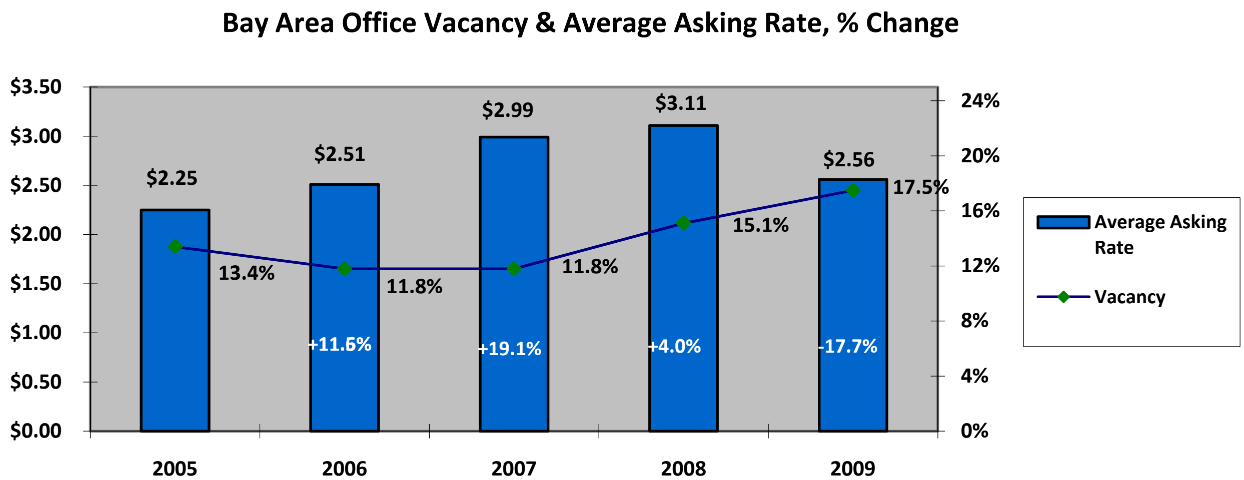


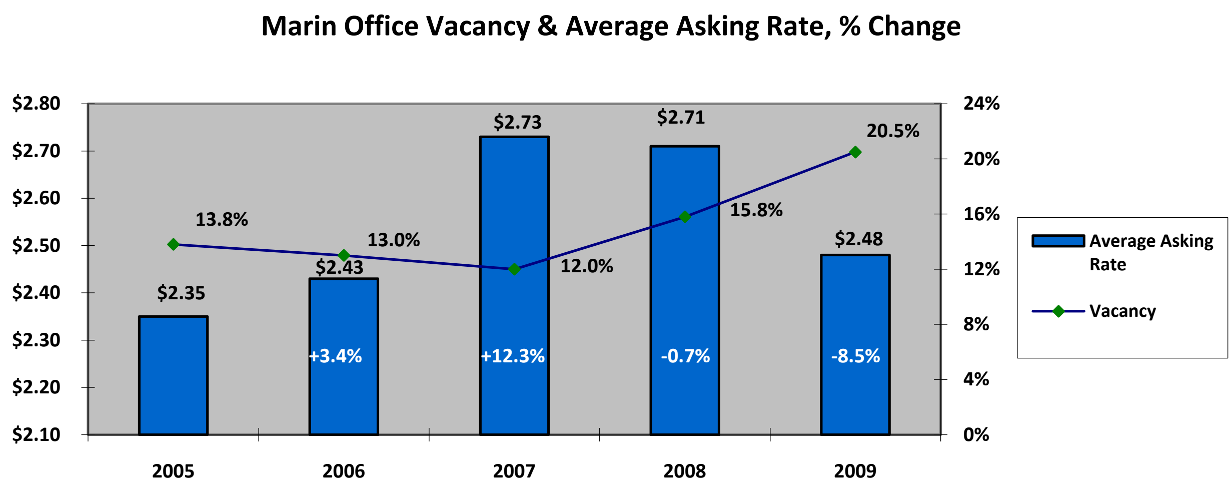
- ✓ North Bay cap rates averaged 7.45%, up from 6.25% in Q3 2009 and 5.87% in Q2 2008.
- ✓ Price per unit for the Bay Area apartment market eroded from $139,406 in Q3 2009 to $133,985 in Q4 2009. Price/sf increased modestly by 1.96%.

Bay Area Office Market Update

- ✓ The rapid decline seen in the Bay Area office market in 2008 through the early part of 2009 slowed substantially in the latter half of 2009 as overall vacancy leveled off. The vacancy rate was unchanged at 17.6% between Q3 2009 and Q4 2009, suggesting it may have hit bottom.
- ✓ Marin County's vacancy rate was 21% for the quarter, up from 15.8% in Q408, however it is important to note that this figure was significantly impacted by two large complexes (450,000 sf in one case) in Central Marin with high vacancies. By contrast, some of the smaller office complexes (500 to 2,000sf), particularly those located in Southern Marin, showed vacancy rates of under 10%. Southern Marin areas like Sausalito, Tiburon and Corte Madera registered vacancy rates of 12% for the quarter.
- ✓ As a result of lower leasing activity and higher than normal vacancy rates, average asking rates for the Bay Area have taken a hit, dipping 18% year-over-year and ending 2009 at $2.56 per sf.
- ✓ The overall health of this market remains significantly compromised by the ongoing effects of the economic recession. Going forward, office market health will depend on company decisions as

management teams weigh occupancy and business development risks against favorable options from the tenant perspective.





LRG Capital: Commentary

Along with many other industry players, we were happy to see 2009 come to a close. Our short term outlook heading into 2010 is cautiously optimistic as the vacancy trend in North Bay apartments was roughly flat from Q3 to Q4 2009, with transaction activity more than doubling in dollar terms, and Marin office vacancies declined by 0.6% from Q3 to Q4 2009. Overleveraged owners, vacancy and discounted rents will continue to force many cash strapped sellers to accept substantially lower purchase prices in order to move cash-draining assets off their books. These conditions benefit LRG Capital as we follow our strategy of acquiring properties at prices not seen since 2000. These properties enjoy cash flow positive results, solid occupancy rates, and we believe them to be the least impacted by the current environment and the quickest to rebound when the economy improves.

We continue to view this market as a buyer's market. We continue to have access to excellent financing rates and terms and are currently reviewing several attractive buying opportunities. As the economic recession begins to reverse course, we believe, now more than ever, that the next 6 months is the time to enter this market before it is too late.

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