

I. Introduction

At the end of 2009 we completed our first full calendar year of operations of LRG Capital Real Estate Partners I, LLC (“LRG REP I”). At the same time, the U.S. made it to the other side of the biggest recession in a century. While our economy is still feeling the impact of the recession, we believe we may have reached the bottom and have reasons for optimism which we will expand on further in this report.

Our 2009 report includes a) a look at the U.S. and Marin County economies, b) the SF Bay Area and Marin real estate markets, c) reasons for optimism in the economy and real estate markets, d) a summary of LRP REP I’s 2009 performance, and e) our outlook for 2010.

II. US Economy Progresses

Recent data suggests economic growth may be nearing a pace at which job losses might give way to modest gains. Growth has been aided by conventional monetary and fiscal policy stimulus efforts and by increased financial flows as once-frozen credit markets continue to thaw. That said, debt deleveraging and tight credit conditions will continue to restrain this economic recovery.

National:

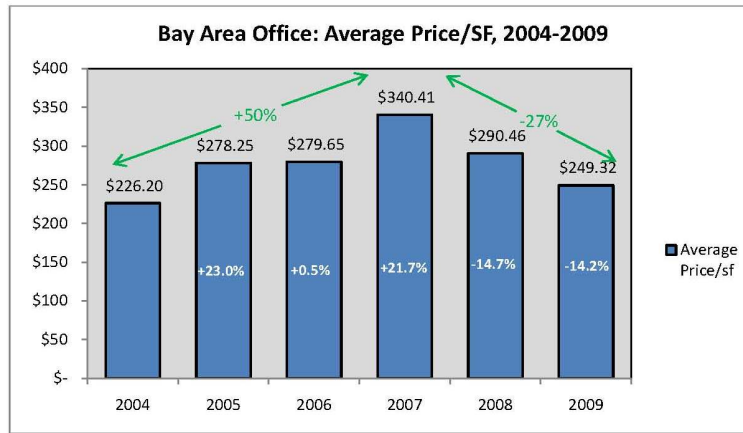
- Real GDP grew at a better-than-expected 5.7% seasonally adjusted annualized rate in the fourth quarter—the fastest since third quarter 2003 and the second consecutive quarter of growth.
- January 2010 labor report showed that unemployment fell from 10.0% to 9.7% nationwide.
- Interest rates are near their 40-year lows - 10-year treasury rate was 3.6% earlier this week.
- Commercial mortgage loans are in the 6-7% range.
- Unprecedented federal deficit – \$1.4 trillion at year end 2009.

Marin County:

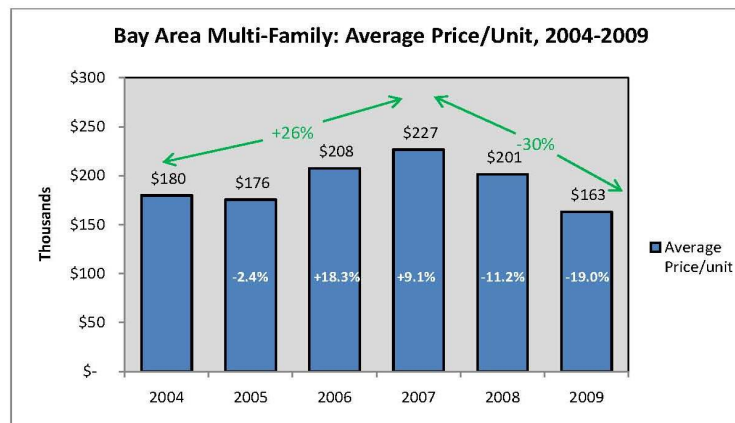
- Unemployment was 7.8% for Dec. 2009. While the lowest in the state, it’s a significant increase from 3.7% in Dec. 2007.
- Revenues from sales tax for the third quarter of 2009, the most recent data available, lagged more than 13% behind the same period in 2008.
- Construction was down 25% in 2009.
- Poor job growth negatively impacted the commercial sector (including office, industrial, retail and multi-family properties):
- Office vacancy rates rose to 20+% in 2009 and from late 2007 to late 2009, rents dropped as much as 40%.

III. SF Bay Area Office and Multi-family Market

The SF Bay Area office market (which includes industrial and retail properties) was over-exuberant between 2004 and 2007, growing 50%. Between 2007 and 2009, the market over-reacted the other way, declining 27%.

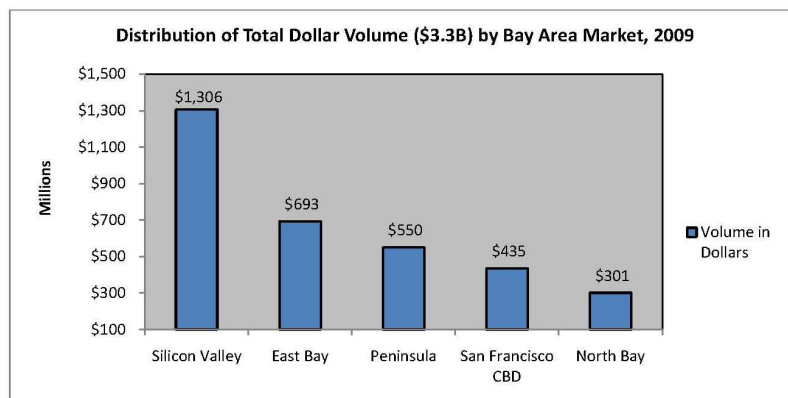


Similar to the office market, sale prices in the Bay Area multi-family market increased by 26% from 2004 to 2007, followed by a 30% drop between 2007 and 2009.

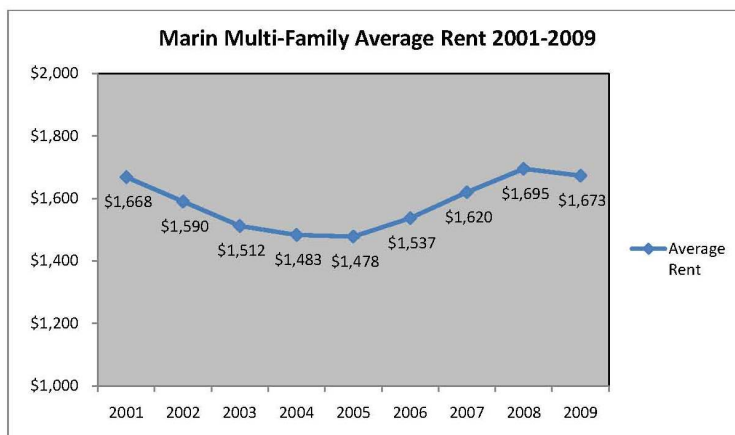


IV. Marin Multifamily Market

The North Bay is a boutique market as shown by the 2009 Bay Area real estate investment dollar volume distribution below. Given its beautiful landscape, 80% of which cannot be developed, and its high income and professional population, Marin is insulated to some degree from economic factors that significantly affect other parts of the state and country.



Between 2001 and 2009, Marin apartment rents varied only slightly from year to year. The percentage drop in average rental prices in Marin in 2009 was only 1/3 that of the Bay Area rental price decline. Steady rental income levels, despite property value declines, represents a strong selling point for the Marin market.



V. A Bottoming Trend and Reasons for Optimism

Despite the economic challenges, the 2nd Half of 2009 saw a bottoming trend and reasons for optimism.

San Francisco Bay Area

Bay Area investment activity strengthened in 2009 and, for the most part, maintained the same level throughout the year.

- Multi-family prices/sq. ft. saw an uptick of 2% between Q3 and Q4 2009.
- Apartments in the East Bay enjoyed a 70 bps decrease in vacancy between Q3 and Q4 2009.
- The rapid decline for office buildings seen in 2008 through the first part of 2009 slowed substantially in the latter half of 2009.
- Office vacancies were unchanged at 17.6% between Q3 and Q4 2009, suggesting a bottoming out.

Marin County

- Total apartment sale activity in the North Bay jumped from \$10.2 million in Q209 to \$42.5 million in Q309 to \$65.2 million in Q409.
- The last two months of 2009 saw an increase in the leasing of larger office and industrial spaces in the North Bay.
- While Marin's office vacancy rate was 21% for Q409, this figure was skewed by two large complexes (450,000 SF in one case) in Central Marin with high vacancies.
- Some smaller office complexes (500 to 2,000 SF), particularly those located in Southern Marin, reported vacancy rates of under 10%.
- The median price of a single family home in Marin as of Dec. 2009 was \$755K, 12% higher than \$675K in Dec. 2008.

VI. LRG REP I Overview

While the commercial real estate sector underperformed in 2009 as a result of economic conditions and severely constrained debt capital, primarily for large properties, this environment provided LRG REP I with a unique opportunity to buy boutique commercial properties at attractive prices in our focused geographic area. Although there were some near-term leasing challenges for certain of our office buildings, we managed well through the obstacles. The majority of our properties have been in the 95-100% occupancy range since acquisition and recently we outperformed short term occupancy rates in our markets.

Unlike SF Bay Area real estate price swings between 2004 and 2009, LRG REP I's projected 5% per year appreciation of real estate prices assumes a steady, conservative growth pattern in line with the 50-year historical growth trend for Bay Area real estate prices.

2009 Completed Acquisitions

- Office: In February, we purchased 851 Irwin Street in San Rafael, a 27,253 sq. ft. office building for \$246/sq ft. The superbly located (right off hwy.101) and maintained 3-story building is 96% occupied and the anchor tenants include long time Marin businesses, Tamalpais Bank and Bradley Real Estate. We negotiated a 2-year gross rent guaranty from the seller.
- Multi-family: In May, we purchased 1244-46 Hearst Avenue, Berkeley, a 23-unit apartment complex near the University of California campus at a price of \$221/sq. ft. The property consists of four 1-story buildings and one 3-story building with 15 parking spaces on a 1/2 acre parcel. Our goal is to achieve considerable upside through remodeling studio units into 1-bedroom units and through gradually increasing below market rents.

Current Portfolio Overview

- Acquisitions: To date we have acquired a solid and diversified portfolio of Marin and Sonoma commercial properties at a total value of \$30M. Of the equity, a significant portion has been invested by the LRG REP I managing partners, putting outside investors side by side with them. Property loans are all fixed rate loans, with most fixed for 7 years at interest rates averaging in the low 6% range.
- Office Properties: Our four Marin office building purchases averaged in the low to mid \$200s/sf, well below prices paid over the last several years, and close to market lows.
 - In the short term, although these buildings are holding their market value, there is downward pressure on office rents.
 - Fortunately, we negotiated rent guarantees from a few office sellers for the first year or two of ownership. We have also worked hard to structure leasing arrangements to retain tenants and maximize long term leasing revenues. At the same time, we are keeping tenants in business at our properties in the short term.
- Multi-family Properties: By contrast, our three apartment buildings have been close to or at 100% occupied since we purchased them. Rental rates have remained stable and we had overall positive cash flow from these properties in 2009.
 - We made considerable improvements to our 36-unit, 3 acre Sonoma apartment complex by upgrading the landscaping, renovating a few units, and replacing two roofs.
 - Our 43-unit San Rafael apartment building had strong positive cash flow in 2009.
 - Our local investment focus on Marin and Sonoma properties enables us to take a very “hands on” approach to leasing and management. We visit each property weekly, we know the market for tenants well -- which is especially important in challenging economic times -- and we supervise vendors and address building issues quickly.

2009 Fund Performance

LRG REP I recorded net positive cash flow from our properties in 2009. We have invested in upgrading and maintaining our properties, a significant portion of which qualifies as capital improvements.

VII. LRG REP I Outlook for 2010

- While 2010 is expected to be difficult for office leasing, we now are seeing some new tenants shopping for space. To secure these tenants in the short term, we will continue to aggressively market our office space and offer a superior product at superior rates.

- As for the Marin and Sonoma apartment markets, most forecasters predict they will remain steady and, if anything, experience only a slight decline in both rental rates and occupancy.
- We expect to be able to maintain close to 100% occupancy and 2009 revenue levels at LRG Capital REP I apartment buildings throughout 2010.
- **LRG Management continues to believe that the current environment presents an excellent opportunity to buy real estate assets. We remain committed to our strategy of buying correctly priced and well-built boutique commercial and multi-family properties in the best locations in the Marin, Sonoma and San Francisco Bay area. And finally, we are highly optimistic about the growth potential for the high quality real estate portfolio we have built to date.**

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