

The LRG Real Estate Partners I (LRG REP I) management team continues to work hard to ensure that our portfolio properties are well-managed and occupied. Through our diligence and attentiveness we have been able to continue our above market performance with regard to occupancy and rental rates. Our progress in the current quarter is detailed below.

Marin Office Market Report*

In Marin County and the Bay Area, Q3 2010 showed little growth from the second quarter. The CoStar Group reported in the beginning of October that the national office market has begun to enter a slow but early recovery while many local markets have yet to see the same improvements. The Bay Area has begun to see a minor recovery, especially with the announcement of some major sales and leasing activity in San Francisco. In Marin, however, the third quarter office market experienced an increase in vacancy from 20.5% in Q2 to 21.9% this quarter. The average asking rate also decreased about \$0.05 to \$2.46, mostly stemming from an escalation in available Class C space as Class A and B spaces have been leased. These vacancy numbers continue to be plagued by larger office footprints in a market of mostly smaller professional tenants. Our exposure is diversified across property qualities (Classes A and B) and footprint size (currently only one property, 125 East Sir Francis Drake, has slightly larger spaces while most of our buildings are geared towards a smaller tenant). Countywide office vacancy numbers continue to be much higher than we are maintaining in the LRG REP I portfolio and we have not had to lower rental rates significantly to sign new tenants.

Portfolio Overview

Fairfax Center Properties: As you know, on May 4, 2010, we acquired a master lease and option to purchase the Fair-Anselm Plaza located at 700-779 Center Blvd in Fairfax, California. This mixed-use shopping center consists of approximately 66,000 square feet (sf) in four separate buildings, located on 6.7 acres. The shopping center includes two single tenant buildings, one of which is a former supermarket and the other is a U.S. Post Office. There are also two additional buildings with first level retail suites and second level office suites. Current tenants of these buildings include Iron Springs Pub and Brewery, Sunshine Bicycles, Just Carpets, Avatar Business Center and the Fairfax Health Club.

Since closing the Fairfax transaction, we have had a high level of interest in the vacant spaces. We are in continued negotiations for the supermarket building. We are in final negotiations on a 2772 sf first floor space and an upstairs office space, as well as considering options for the only other retail space available. We hope to announce both this smaller tenant and the new supermarket building tenant shortly.

505A San Marin Drive, Novato: The finishing touches on the extensive remodel of the first floor, lobby entrances and landscaping/parking lot to our 19,387 sf, three-story office building at 505A San Marin Drive, Novato will be wrapping up in the next couple of weeks. We continue to see increased leasing interest as a result of these significant upgrades. This quarter we signed a long term (5 year) lease for 1103 sf to a psychotherapy office. The first floor remodel has not only increased leasing activity but added value to the building and we anticipate beginning a remodel of the second floor soon. The second floor renovations will be less extensive than the first floor and will likely wrap up in the beginning of 2011. This property is currently 82% occupied, up from 66% a year ago.

384 Bel Marin Keys, Novato: Our 25,249 sf 384 Bel Marin Keys two story office building continues to be 100% leased. A major existing tenant has a lease is expiring in May 2011, and we are already in negotiations with a new tenant for a 5 year lease on almost half of the soon to be vacant space. Fortunately the large suite being vacated can be easily divided into smaller suites, which are currently in higher demand.

851 Irwin St., San Rafael: This centrally located, three story, 27,000 sf office building has maintained its 100% occupancy level throughout this quarter due to the smaller tenant footprint and strong tenant base. The vacancy numbers for the San Rafael area are heavily weighted due to extensive vacancies (over 200,000 sf) at the San

Rafael Corporate Center just a few blocks from our property. Additionally one of our anchor tenants, Union Bank, has assumed the lease pursuant to its acquisition of Tamalpais Bank.

125 East Sir Francis Drake Blvd, Larkspur: During the third quarter of 2010 we have seen significant levels of interest from credible prospective tenants at the 35,000 sf historical Brick Kiln building. While the building has one large 8,800 vacant suite and one 5,700 sub-lease available, the building is still operating at positive cash flow from operations. As companies cautiously begin to expand we expect that these high quality office spaces will find the right tenants.

220 Canal St, San Rafael: This 43 unit apartment building continues to maintain close to or at 100% occupancy this quarter. The Canal area has been experiencing vacancies, but rental rates at the 220 Canal St. property have remained relatively stable despite market pressures. We continue to make considerable improvements to this apartment complex by upgrading apartments as they are vacated, which will, we believe, play a significant role in our ability to maintain 100% occupancy in the future.

18360 Sierra Dr., Sonoma: Our 3 acre, 31 unit apartment building, located one block from the Sonoma Mission Inn, is currently 100% occupied. Rental rates have been stable during the quarter.

1244 Hearst St., Berkeley: On September 30, LRG REP I purchased a larger stake in this 23 unit apartment property which remained 100% occupied in Q3 2010. During the quarter, a co-investor in this apartment property who was having financial difficulties offered to sell shares at a significant discount. LRG REP I was able to take advantage of this offer to increase its ownership in this quality property to 49.9%, up from 42.5%.

How we maintain high occupancy rates in this difficult market

Our local investment focus on Marin and Sonoma properties has enabled 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. This hands-on management has allowed us to keep units upgraded as turnovers occur and keep our buildings highly occupied. In the office market, our attentive management contributes to low attrition rates as tenants are opting to continue their leases instead of looking for new space.

LRG REP Outlook

The Marin IJ reported on October 21, 2010 that Marin County single-family home sales increased 4% year over year in September while outperforming most of the Bay Area, except Napa. This news coupled with no new increases in the unemployment rate in Marin (8.3%) indicates that Marin remains stable and could be positioned for a significant recovery in 2011, which is consistent with the views we expressed in our Q2 report. With our view of long term real estate investment holdings and diligence in property management, LRG REP I has been able to maintain cash flow throughout the downturn and slow recovery.

As you may recall, we secured portfolio property loans at fixed interest rates. We continue to monitor financial markets for signs of inflation as it is our thesis that LRG REP I will benefit significantly from an inflationary period that resembles anywhere near the historical inflation rates of the last 100 years.

As we announced in our Q2 report, LRG REP I has closed to new investors to avoid any further dilution of our investors’ ownership interests. We continue to believe in our strategy and see that there continues to be opportunities to buy quality commercial properties at great prices within the San Francisco Bay Area and have launched LRG REP II to take advantage of these opportunities.

As both managers and significant investors in LRG REP I, we will continue to manage its properties with the utmost care and attention.

**Source: Cassidy Turley BT Commercial’s Q3 Marin Office Market Report*

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