Published November 14, 2011

THE ECONOMY

The economic indicators for the Los Angeles County (Los Angeles Metropolitan Division) economy continue to be mixed, at best. According to Current Employment Survey (CES) data from the U.S. Bureau of Labor Statistics (BLS), total non-farm payroll was 11,000 jobs (0.3%) higher in August 2011 than it had been in August 2010. The gain, however, is explained by an increase of 13,700 jobs (7.1%) in local government education services—a dubious increase given the ongoing fiscal crisis in California. The substantially government-funded Education and Health Services sector added 11,000 jobs (2.2%) August-to-August. Each of these sectors had been much weaker in the previous 12 months. According to household-based data from the BLS on the number of employed residents of Los Angeles County, moreover, employment growth remains in the red. This figure, which includes the self-employed and those commuting out to other counties (but not those commuting in from other counties) fell by 9,645 (0.2%) from August 2010 to August 2011. It had increased in the year to May 2011.

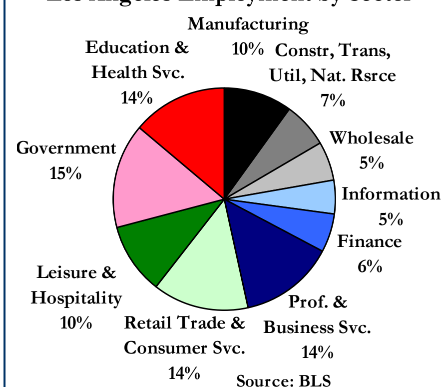
The year-over-year decrease in the Los Angeles County unemployment rate, therefore, is due entirely to a decrease in the county's labor force, by 44,750 (0.9%) in August according to the BLS. Despite this sharp drop, Moody's Economy.com predicts the county's population will rise by 109,300 (1.1%) this year, or about the national average. The county's population, which had boomed for decades until the early 1990's recession, actually fell from 2002 to 2007 as the housing bubble priced people out, but is now approaching peak levels. Household average income, after falling during the recession, has rebounded with a gain of 5.0% from third quarter 2010 to third quarter 2011, according to this source.

Despite this good news, CES data show little evidence of strength in Los Angeles County's private sector. Among office-based sectors, Financial Activities was down by 2,400 jobs (1.1%) year-over-year in August, according to CES data, and Professional and Business Services was down by 4,200 (0.8%). The latter includes a decrease of 4,300 (5.0%) in the Employment Services industry, which includes temporary workers, reversing a gain of 7,500 (9.5%) in the previous 12 months. Temporary workers are often the first hired and first fired, so changes in this industry often foreshadow changes in overall employment. Despite rising income and population, the Retail Trade sector lost 1,200 jobs (0.3%) in the year to August, and the Leisure and Hospitality sector gained just 2,300 (0.6%).

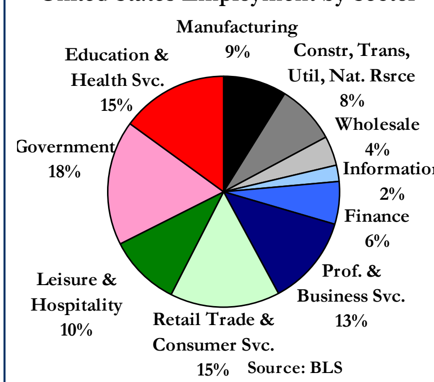
Employment:

- *BLS reports a seasonally unadjusted unemployment rate of 12.6% in August for the Los Angeles Metropolitan Division, down from 13.2% one year earlier.*
- *Total non-farm employment in Los Angeles was up 0.3% year-over-year in August, according the BLS.*
- *Moody's Economy.com reports a third quarter 2011 average household income of $134,191 for Los Angeles. Average household incomes of $122,382 and $127,244 are reported for the top metros in the nation and West region, respectively.*

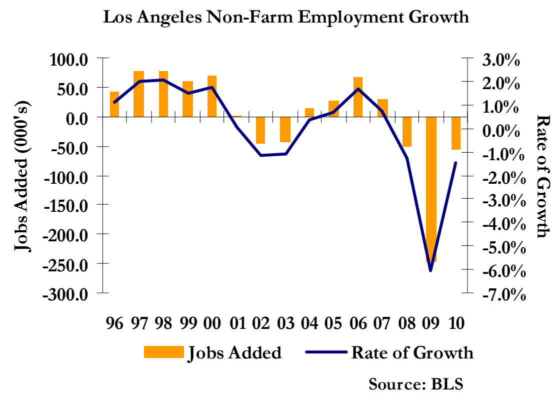
Los Angeles Employment by Sector



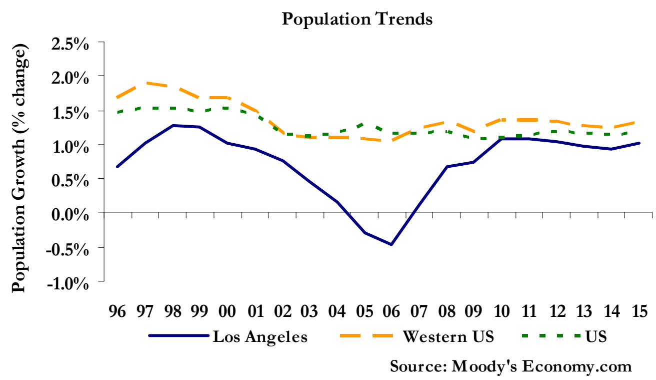
United States Employment by Sector



Within the former sector the Food and Beverage Store industry added 1,500 jobs (1.7%). The big box "Other General Merchandise Stores" added 600 jobs (2.8%).



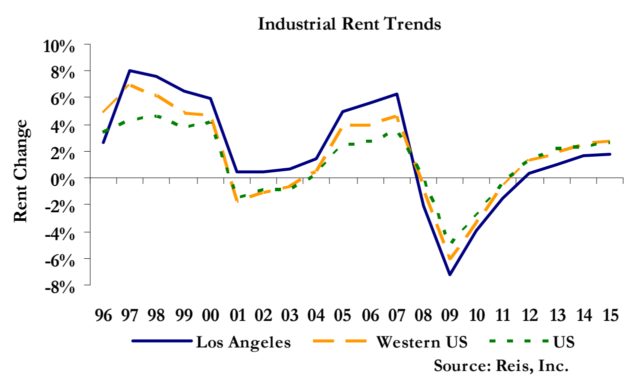
It does not appear that the ports will lead Los Angeles County out of the recession. CES data show Wholesale Trade down by 2,200 (1.1%) and Transportation and Warehousing down by 3,600 (2.6%) year-over-year in August, similar to the losses reported in the previous Observer. The Construction sector lost another 6,300 jobs (6.0%) during the period. The Manufacturing sector received a boost from a gain of 2,600 jobs (5.3%) in the Apparel Manufacturing industry, but still lost 800 jobs (0.2%) overall. The best private sector news in Los Angeles County is the Motion Picture and Sound Recording industry, which was up 12,500 jobs (10.2%) year-over-year in August. It does not seem to be sufficient to pull Los Angeles County out of the recession, however.



OUTLOOK

"In its third quarterly report of 2011, the UCLA Anderson Forecast's outlook for the nation is 'far worse' than it was just three months ago" that source reported. In California, this source predicted "the coastal regions (such as Los Angeles County) continue to grow out of the depths of the recession, while the inland regions suffer from economic 'doldrums.'" But that assumes no national recession.

Reversing course, however, Moody's Economy.com now forecasts a decrease of 5,800 (0.2%) jobs in Los Angeles County for 2011, a notably gloomy revision. The gain for 2012 has been reduced to 24,000 (0.6%). While stronger growth is forecast for later years, the 356,400 jobs lost in 2008 and 2009, according to this source, are not expected to be regained until the very end of 2015. The population, meanwhile, is forecast to continue rising at about 100,000 (1.0%) per year.

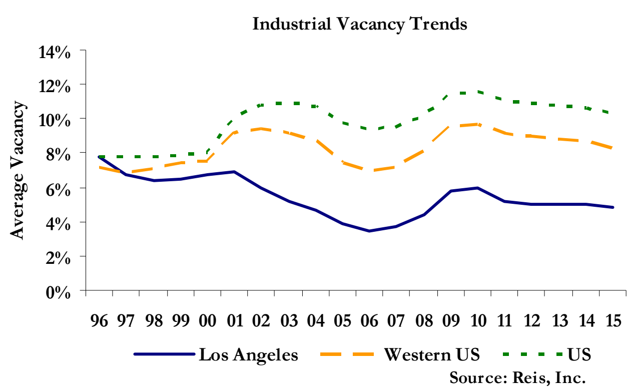


THE REAL ESTATE MARKET

Occupancy is tightening in the Los Angeles industrial market, according to new quarterly data released by Reis, but rents continue to fall. This market has lower vacancy rates and higher rents than the U.S and West region averages for multi-tenant space in both the warehouse/distribution and R&D/flex categories, and is recovering more quickly from the recession. According to Grubb & Ellis, which includes single-tenant and owner-occupied space in its analysis, tenants are looking to lock in low rents for the long term as the market continues to turn.

OCCUPANCY

Reis reports a third quarter 2011 vacancy rate of 9.3% for 443 million square feet of multi-tenant warehouse/ distribution space in Los Angeles County, down 40 basis points from the prior quarter and 120 from the third quarter of 2010.



The national and West region averages were higher at 13.4% and 12.3%. For 38.9 million square feet of multi-tenant R&D/Flex space, Reis reports a vacancy rate of 7.6%, unchanged from the prior quarter but down 130 basis points year-over-year. For this property type the U.S. and West region averages are 15.4% and 14.6%, respectively.

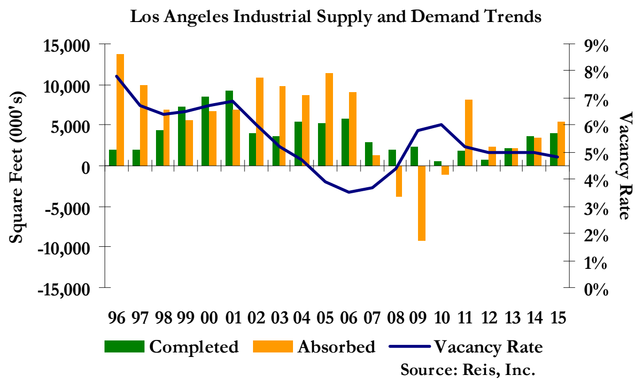
Grubb & Ellis reports a vacancy rate of just 3.1% for all types of space, with an availability rate of 8.0%. "Third quarter sale and lease activity in the Los Angeles industrial market increased roughly 40.0% compared to the previous quarter, and 48.0% on a year-over-year basis," according to this source. Cushman & Wakefield puts the overall vacancy rate at 4.8%, while Voit Commercial reports 4.95% and predicts a 4.6% rate for second quarter 2012. Reis predicts little change in the vacancy rate for either warehouse/distribution space or R&D flex through the end of 2012. From there the warehouse/distribution rate is forecast to fall slightly to 8.8% at year-end 2015, while the R&D/flex rate slides to 7.2%.

Special Real Estate Factors:

- *The Los Angeles industrial market is driven by transportation by air and water, according to Western Real Estate Business. The industrial submarket surrounding LAX airport "has a vacancy rate that is significantly less than that of the overall marketplace. While many of the buildings in this submarket are older and less efficient, the lack of available real estate and the necessity for those companies to be near the airport make them extremely more desirable than those in other submarkets. This is especially true when you consider the airport submarket's ease of access, the current costs of labor, gas and transportation and the major congestion along most Southern California freeways." The same pattern is observed, according to this source, "for a few of Southern California's other metro areas, such as Burbank, San Diego and Ontario—all of which have airports. The industrial submarkets within close proximity to these airports have lower vacancies and higher rental rates than those located farther away. Clearly, the concept of "location, location, location" adds significantly to a property's value. This has been proven true even during struggling real estate markets."*

- *"According to Jones Lang LaSalle's new Port Index, industrial land that surrounds seaports and airports has become a*

SUPPLY AND DEMAND



Warehouse/ distribution net absorption is surging, according to Reis, as the 1.7 million square feet recorded in the third quarter brought the year-to-date total to 4.7 million square feet. With an expected fourth quarter slowdown the 2011 total is forecast at 4.9 million square feet, a strong recovery from the 1.95 million square feet of negative net absorption in 2010. (The previous Reis data series, however, showed far worse negative net absorption for 2008 and 2009, so there remains substantial ground to make up). New supply remains limited, with less than 500,000 square feet added thus far in 2011, and none in the third quarter.

Reis reports just one warehouse/ distribution building under construction, and it has less than 16,000 square feet. Just 235,000 square feet is forecast to be added in 2012, but Reis predicts another downturn in warehouse/ distribution demand and net absorption at minus 260,000 square feet that year. A more long lasting recovery is forecast to begin in 2013, but new supply is forecast to increase nearly as much as net absorption, keeping the market balanced at close to its current vacancy rate.

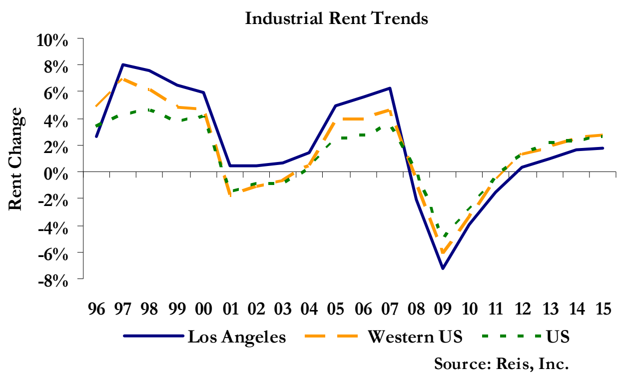
The third quarter saw a slowdown in R&D/Flex net absorption as the plus 15,000-square-foot reading brought the year-to-date total to plus 541,000. Just 90,000 square feet has completed construction thus far in 2011, none in the third quarter, and none is expected to be added in the fourth quarter. No R&D/Flex space is currently under construction. Net absorption is forecast at plus 571,000 square feet for this year, more than reversing the minus 391,000 square feet in 2010. Reis predicts net absorption will remain positive for this type of space, slowing to around 300,000 square feet in 2012, before rising to around 500,000 square feet absorbed in 2015. New construction, however, is forecast to rise nearly as fast as net absorption, limiting the decrease in vacancy. The expected trend, in fact, implies that new space rather than existing space is more likely to be absorbed.

Special Real Estate Factors:
Continued

first indicator of market recovery, garnering higher lease values, higher occupancy rates and stronger activity as compared to infill markets" according to Western. "To quantify this strength, Jones Lang LaSalle evaluated the port-centric properties' key fundamentals, such as TEU volume, growth rate, infrastructure investment, labor costs and service by Class I railroads. The result was the Index that includes a list of the top 10 U.S. ports. Not surprisingly, five of these ports—Los Angeles, Long Beach, Oakland and Seattle/Tacoma—are on the West Coast."

- *"Cargo volumes during the summer months are seen as a bellwether as retailers ready themselves for the upcoming holiday shopping season by replenishing their inventories" according to Grubb & Ellis. "The evidence of continued caution with regards to consumer confidence and spending is made manifest by the slim 1.5% increase in import cargo volumes at the port of Los Angeles and Long Beach. Consumers are not expected to spend significantly as the import activity suggests. However, exports have shown an 8.0% increase over last year. With a weaker dollar, U.S. manufactured goods have become cheaper overseas." As a result, according to this source, manufacturing employment is up in Los Angeles County compared with a year earlier, while distribution was down.*

RENTS



Warehouse/distribution rents remain weak, with the average asking rent falling 0.7% to $5.95 psf and the average effective rent unchanged at $5.45 psf in the third quarter. The year-over-year losses are 2.1% and 0.7%, respectively. The effective average for the U.S. as a whole is much lower at $4.18 psf, while the West region effective average is somewhat lower at $4.92 psf; each is down from both a quarter and a year earlier. The same pattern holds for R&D/Flex. The average asking rent is down 1.5% over three months, and 1.9% over 12 months to $10.87 psf. The losses for the average effective rent are 1.2% and 0.6%, respectively, to $9.72 psf. The U.S. and West region averages for this property type are $9.55 psf and $10.30 psf, according to Reis, each unchanged in recent quarters.

After three consecutive years of decline, according to Cushman & Wakefield, the overall average rent for Los Angeles has "stabilized" at about its third quarter reading of $6.12 psf. "Effective lease rates have stabilized," according to Voit Commerical, and "asking rates have begun to rise in the third quarter." This source puts the average asking lease rate at $6.60 psf for Los Angeles. "Asking rental rates," according to Grubb & Ellis, "remained unchanged from the previous quarter at a decade-low…a sign that the industrial market has reached the bottom." This source reports a rate of $5.64 psf including large single-tenant spaces.

Reis, however, does not expect stability until 2012, when rents are forecast to be flat for both kinds of space. Instead, fourth quarter declines are expected to bring the 2011 average rent losses to 3.3% asking, and 2.5% effective for warehouse/distribution space, and 4.1% asking, and 2.7% effective for R&D/Flex space. Somewhat larger decreases were recorded for 2010. These losses will be slow to be redeemed, as the forecast for both types of space shows limited rent gains in the vicinity of 1.0% for 2013, and 2.0% for the following two years.

Special Real Estate Factors:
Continued

- *"Trucking companies operating at the Port of Los Angeles will not have to hire their drivers as employees, a federal court ruled," according to the Los Angeles Business Journal. "The 9th Circuit Court of Appeals ruled that the port's plan to require companies to hire drivers as employees, part of its Clean Truck Program, is not allowed under federal law. Most port truckers are independent contractors who own their trucks, not employees. The employee mandate has been the most controversial part of the Clean Truck Program, a plan enacted in 2008 aimed at reducing pollution by requiring truckers to buy new rigs. The trucking industry has argued that the mandate was merely a political tool that would allow the International Brotherhood of Teamsters to organize port truckers, who can't unionize as independent contractors."*

- *BNSF Railway released a draft environmental impact statement on its proposed $500 million proposed Southern California International Gateway (SCIG) railroad improvement, intended to speed freight from the docks to mega-warehouses in the Inland Empire, according to GlobeSt.com. SCIG will "remove more than 1.5 million truck trips from the 710 freeway every year, providing significant benefits for local and regional air quality and congestion relief. In building*

SUBMARKETS

The South Bay area is the home of the ports of Los Angeles and Long Beach, and the key to the region's economic prosperity, although distribution centers are located throughout the county and further inland. The San Gabriel Valley contains more traditional manufacturing, along with high-tech and distribution space, while the San Fernando Valley is more tech and local-market oriented. Labor-intensive light manufacturing, including apparel and toys, clusters in central areas.

San Fernando Valley/Ventura County

- Reis reports a vacancy rate of 23.8%, highest among eight submarkets, and an average asking rent of $8.49 psf, also the highest countywide, for 6.6 million square feet of warehouse/distribution space in the San Fernando Valley West submarket.

- The vacancy rate is down 350 basis points year-over-year. Year-to-date net absorption is plus 300,000 square feet. Rents are up despite the high vacancy, with the average asking rent up 5.7% for the quarter and the average effective rent up 6.8% to $7.56 psf. The year-over-year increases are 6.1% and 7.5%, respectively.

- For 22.2 million square feet of warehouse/distribution space in the San Fernando Valley East submarket, Reis reports a vacancy rate of 9.1%, and an average asking rent of $7.16 psf, the second highest among the submarkets.

- The vacancy rate is down 70 basis points from the prior quarter and 210 from a year earlier. The average asking rent is down 2.3% for the quarter but flat year-over-year, while the average effective rent is down 1.7% and up 3.5%, respectively, to $6.55 psf.

- Reis reports a vacancy rate of 9.0%, once again highest among eight submarkets, and an average asking rent of $12.19 psf, the second highest countywide, for 3.1 million square feet of R&D/flex space in the San Fernando Valley West submarket.

- The vacancy rate is rising here, with a gain of 190 basis points for third quarter, and 380 year-over-year. Year-to-date net absorption is minus 112,000 square feet. Rents are up for the quarter but down from a year earlier, with the asking average up 0.7% and down 2.1%

Special Real Estate Factors:
Continued

SCIG, BNSF will clean up an existing industrial site and replace it with a state of the art facility featuring wide-span all-electric cranes, ultra-low emission switching locomotives and low-emission rail yard equipment." BNSF said the SCIG project will be the "greenest" intermodal facility in the nation according to its press release.

- *"Nine months after the Beverly Hills City Council passed an interim ordinance banning oil extraction in the city post-2016, they finally made it permanent, which means an end to drilling at Beverly Hills High School," according to CurbedLA. But there is "at least some public interest in keeping oil drilling in the schools, from Councilmember John Mirisch, 'as well as members of the Board of Education and homeowners who receive royalties from Venoco Inc., which owns the oil well at the high school.'" Beverly Hills High is in an active hydrocarbon zone, and is near the La Brea Tar Pits. For that reason, placing a Red Line station at the site is controversial, as some fear seeping hydrocarbons could cause an explosion.*

and the effective average up 1.0% and down 1.5% to $10.90 psf. The year-over-year increases are 6.1% and 7.5%, respectively.

- The vacancy rate for 2.1 million square feet of R&D/flex space in the San Fernando Valley East submarket is 8.7% according to Reis, the second highest among the submarkets. The average asking rent is $8.60 psf, the second lowest.

- Perhaps R&D/Flex users are being drawn east by lower rents. Here the vacancy rate is down 100 basis points for the quarter and 390 year-over-year. The average asking rent is down 2.6% for the quarter and 5.9% from a year earlier, the average effective rent is down 1.9% and up 3.4%, respectively, to $7.65 psf.

- For a 221 million-square-foot LA North submarket that also includes the Los Angeles County portion of the Inland Empire, Cushman & Wakefield reports an overall vacancy rate of 5.3% and a direct weighted average net rental rate of $6.96 psf for warehouse/distribution space and $9.12 psf for office service.

San Gabriel Valley

- In the San Gabriel Valley, Reis reports a third quarter vacancy rate of 10.3%, and an asking rent of $6.13 psf for 16 million square feet of multi-tenant warehouse/distribution space.

- The vacancy rate is down 40 basis points over three months and 100 year-over-year. The average asking rent fell 2.5% during third quarter, while the average effective rent fell 1.9% to $5.60 psf. The year-over-year losses are 4.5% asking and 1.9% effective.

- This is one of Los Angeles County's largest industrial markets according to other sources, but the Reis inventory is small. This implies that a large share of the space is single-tenant, owner-occupied or general industrial space. The square footage per building in the Reis inventory is less than 38,000 square feet.

- Moreover, Reis breaks out some of the more prominent industrial areas, such as City of Industry, in the separate and adjacent E. Los Angeles/Covina/Pomona Corridor submarket, which has 83.5 million square feet of warehouse/distribution space.

- For 2.4 million square feet of multi-tenant R&D/Flex space in the San Gabriel Valley, Reis reports a vacancy rate of 7.0%, and an average asking rent of $10.86 psf.

- The vacancy rate increased 40 basis points in the third quarter, but it is down 150 from a year earlier. The average asking rent is down 3.9% for the quarter, and 2.1% from a year earlier. The average effective rent is down 4.2% and 1.8%, respectively, to $9.70 psf.

- Cushman & Wakefield reports an overall vacancy rate of 4.2% and a direct weighted average net rental rate of $5.64 psf for warehouse/distribution space, and $14.88 psf for office/service in the San Gabriel Valley.

- The two leading leases of the quarter in this submarket were both renewals, according to Cushman & Wakefield: by Hill's Pet Nutrition for 325,000 square feet at 318 Brea Canyon Road and by CWD for 200,000 square feet at 14528 Bonelli Avenue.

- "The largest new deal of the quarter was Yankee Clipper's sublease of a 128,810-square-foot facility from Pilot Automotive," this source noted. Huy Fung Foods boosted net absorption, according to this source, by occupying its 650,000-square-foot headquarters with related manufacturing and warehouse space.

South Bay

- The South Bay submarket is home to the Ports of Los Angeles and Long Beach. There, Reis reports a third quarter vacancy rate of 10.5%, second highest among the submarkets, and an asking rent of $6.31 psf for 99.5 million square feet of multi-tenant warehouse/distribution space.

- The multi-tenant inventory here, according to Reis, is the second largest among the submarkets behind the adjacent Mid-Cities submarket. The average building size is 65,190 square feet.

- This submarket has racked up 636,000 square feet of positive net absorption in the warehouse/distribution category year-to-date. The vacancy rate is down 50 basis points for the quarter and year-over-year. The average asking rent fell 0.5% during the third quarter but the average effective rent rose 0.3% to $5.78 psf. The year-over-year losses are 2.6% asking and 0.5% effective.

- The largest multi-tenant warehouse/distribution completion thus far in 2011, according to Reis, is the 270,800-square-foot South Bay Distribution Center Building 5, which opened in April in Carson.

- For 9 million square feet of multi-tenant R&D/Flex space in South Bay, the most among the submarkets, Reis reports a vacancy rate of 7.8%, and an average asking rent of $10.30 psf.

- The vacancy rate decreased 10 basis points in the third quarter, and is down 30 from a year earlier. The average asking rent is down 1.6% for the quarter, and 1.8% from a year earlier. The average effective rent is down 1.0% and 0.3%, respectively, at $9.25 psf.

- The 225,000-square-foot Watson Corporate Center is under construction for completion in November 2011 in Carson.

- Cushman & Wakefield reports an overall vacancy rate of 5.4%, and a direct weighted average net rental rate of $6.36 psf for warehouse/distribution space, and $8.64 psf for office/service for 231 million square feet in South Bay.

- CalCartage leased 315,000 square feet at 22351 S. Wilmington Avenue, according to this source. Only nine of 100 transactions were over 50,000 square feet during the quarter according to Cushman & Wakefield.

- The Ports of Los Angeles and Long Beach "create one of the top five port complexes in the world, as well as our nation's trade gateway to Asia" according to *Western Real Estate Business*. "Both ports command premium rents and values, drive employment and spur demand for the metro's 1.6 billion square feet of industrial space. Though rents in the South Bay submarket dipped in 2010, they stabilized in 2011, positioning the area for growth later this year."

- With more than $1 billion in planned capital improvements, this source predicts the LA County ports will maintain their dominance despite the expansion of the Panama Canal, which will allow direct water transportation from Asian to the U.S. Gulf and East Coasts. "High-valued cargo and speed to market" are "still favoring the West

Coast option. This will likely allow Southern California's industrial marketplace to remain among the strongest in the country for many years to come."

- "CenterPoint Properties purchased a 363,000-square-foot warehouse/distribution asset in Torrance, which is 100% occupied by Cedars-Sinai Medical Center, at a 6.4% cap rate," according Grubb & Ellis.

Central Los Angeles

- In Central Los Angeles, the older but intensely-used industrial submarket surrounding Downtown Los Angeles, Reis reports a vacancy rate of 7.9%, lowest among the submarkets, and an average asking rent of $5.78 psf, the second lowest, for 77.3 million square feet of multi-tenant warehouse/distribution space.

- The vacancy rate is down 10 basis points for third quarter, and 100 from a year earlier. Most of the net absorption thus far in 2011 occurred in the second quarter. The average asking rent is down 0.9% over three months, and 2.2% over twelve months. The average effective rent is down 0.6% and 1.8%, respectively, to $5.32 psf.

- For 8.2 million square feet of multi-tenant R&D/flex space, Reis reports a vacancy rate of 7.2%, second lowest among the submarkets, and an average asking rent of $13.94 psf, the highest.

- With 373,000 square feet of net absorption year-to-date, the vacancy rate is down 70 basis points for third quarter, and 570 from a year earlier. Here again much of the net absorption was in the second quarter.

- In May, according to Reis, a 310,000-square-foot manufacturing facility for CR Laurence opened at 2001 E. 55th Street in Vernon.

- Cushman & Wakefield reports a vacancy rate to 2.7% and a direct weighted average net rental rate of $5.28 psf for all industrial space, the latter up 10.0% from a year earlier.

- Door Storage leased 287,680 square feet of warehouse/distribution space at 1340-1360 E. 6th Street, while Conair Corporation leased

213,230 square feet at 9350 Rayo Avenue, according to Cushman & Wakefield.

OUTLOOK

"Although the key drivers of demand for industrial space remain soft, industrial transactions continue to get done in the market place; cap rates remain low; and demand for quality product exceeds supply," according to Grubb & Ellis. "A sense of urgency to grab the good deals while they last will generate an upward pressure on rental rates in 2012." Reis believes industrial weakness will persist through 2012 as warehouse/distribution net absorption turns negative and rents are flat for both segments of the market. A weak recovery will begin to get going in 2013.