JANUARY 2008

ALLEN MATKINS/UCLA ANDERSON FORECAST

California Commercial Real Estate Survey

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More detail on the construction and methodology behind this survey can be found in the Allen Matkins/UCLA Anderson Forecast California Commercial Real Estate Survey Support Document available at www.uclaforecast.com.

Welcome to the Allen Matkins/UCLA Anderson California Commercial Real Estate Survey

Our ability to predict the real estate markets helps us make better business decisions. Understanding the timing of markets is critically important to our decisions. Because of the long lead times for real estate development, general economic conditions, such as job and income growth, are not generally in phase with the real estate business cycle.

Allen Matkins and UCLA Anderson Forecast have partnered to create a Commercial Real Estate Survey and Index to better predict future California commercial rental rates and vacancy rates. This new tool surveys supply-side participants – commercial developers and financers of commercial development – for their insights into their markets. The Survey and the resulting Index will provide a measure of the commercial real estate supply-side participants' view of current and future conditions. Since participants will be taking investment actions based upon these views, it will provide a leading indicator of changing supply conditions.

Through an analysis of the Index and the incorporation of the Index into other economic forecasting models, the survey is designed to provide more accurate information on future office, retail and industrial space in major California geographical markets. The second survey installment covers the Los Angeles, Orange County and San Diego area commercial office markets. Follow-on surveys will cover other commercial asset types, including retail and industrial development, and other major California markets.

The Allen Matkins and UCLA Anderson Forecast partnership

At Allen Matkins, the top-ranked California-based law firm servicing the real estate industry according to Chambers & Partners, we have been fortunate to work with and assist leading institutions, developers and lenders in the real estate industry. We have prospered, along with our clients, in this vital sector of the California economy. We are sponsoring this Survey to provide value to the industry. We have partnered with UCLA Anderson Forecast, the leading independent economic forecast of both the U.S. and California economies for over 50 years, and have tapped the knowledge of the leading developers in the state to provide what we believe will become the best, clear-sighted forecast of the California commercial real estate industry.

We hope you will find this new Survey to be helpful.

John M. Tipton
Partner, Real Estate Department
Allen Matkins Leck Gamble Mallory & Natsis, LLP

Southern California Office Markets Begin To Weaken

The Allen Matkins/UCLA Anderson Forecast Commercial Real Estate Survey and Index completes its first year with panels of real estate professionals from three markets (Los Angeles, Orange County, and San Diego) providing forward looking estimates of Office Space market conditions. In each market, the panels see office space markets in 2010 as weaker than today's market. The factors driving the weakness are changes in the near term economic conditions and the inability of the supply pipeline of new office stock to respond rapidly enough to those changes. In particular, the weak housing sector and the meltdown in the home mortgage and residential real estate industries are having both a direct and indirect negative impact on demand.

The three markets are not alike however. In L.A. an office building boom will continue and the market will remain strong, while Orange County and San Diego will see a sharp reduction in new projects and soft markets through 2010. The difference between them can be traced to the lack of building in L.A. after the aerospace contraction of the early 1990s. From 1993 to 2006, the average amount of net new square footage per quarter completed in Los Angeles amounted to .15% of the 2006 stock. In Orange County and San Diego, the average amounts were .31% and .43% respectively. The pent up demand in Los Angeles is large enough to overcome weaker near term economic conditions and is driving a seller's market. There is no such excess demand in the other markets to counteract the contraction in real estate and finance employment. The panels believe that the amount of new office space which is in process and beyond the point of delay or cancellation is greater in San Diego relative to its market than in Orange County.

The Allen Matkins/UCLA Anderson Forecast California Commercial Real Estate Survey and Index Research Project was initiated by Allen Matkins in 2006 to improve the quality of current information and forecasts of commercial real estate. The first Los Angeles Office Space survey was taken in May 2007. The surveys reported here are the first Orange County and San Diego Surveys and the second Los Angeles survey, each taken in the second half of 2007. Each survey asks a panel of experts for their forecasts of a series of measures describing the state of the market three years out. This allows for the completion of those projects already in the pipeline, and the initiation or delay of those which are being contemplated at the time of the survey. The survey results are compared with economic models of the market for calibration and validation. Additional surveys on office space markets and on other commercial real estate markets will be initiated throughout California in the coming months.

Jerry Nickelsburg
Economist
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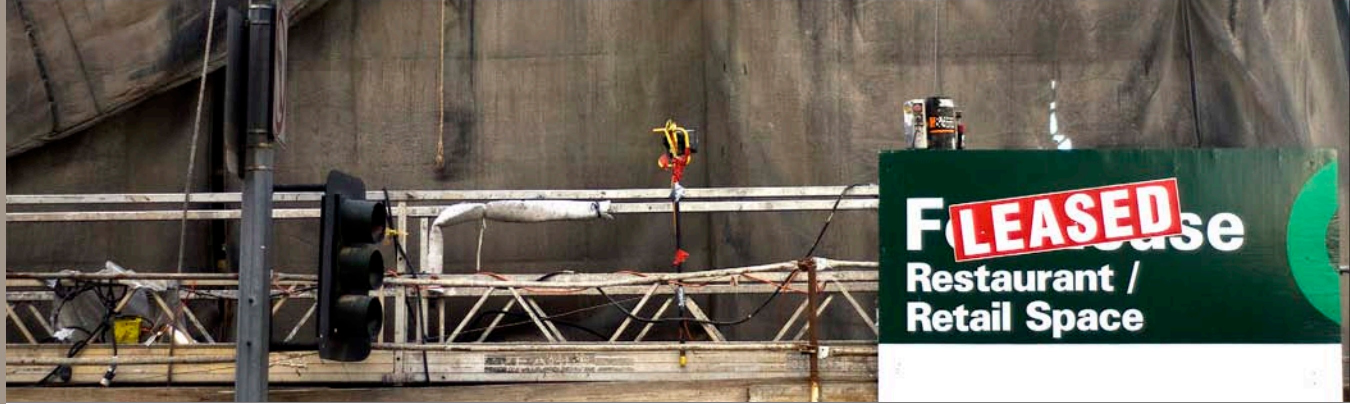
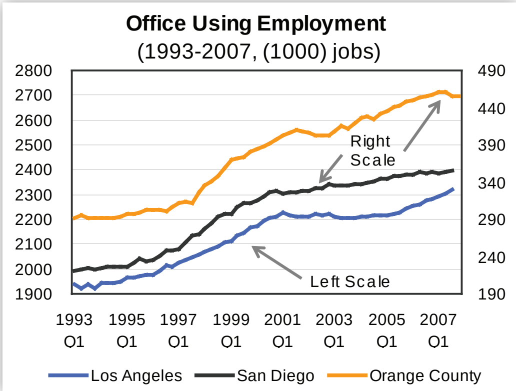
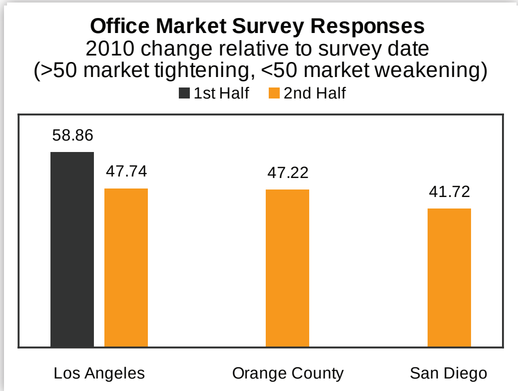
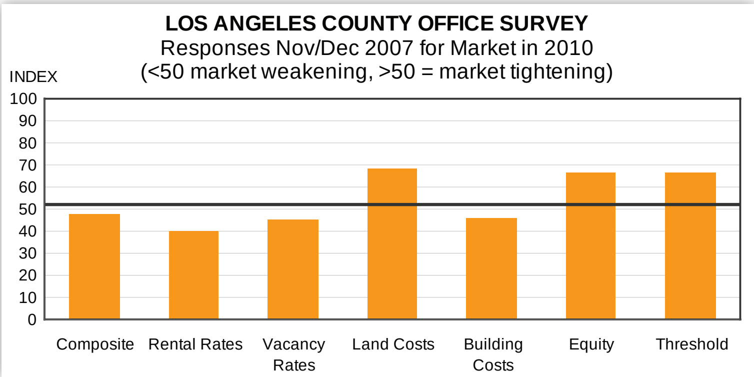


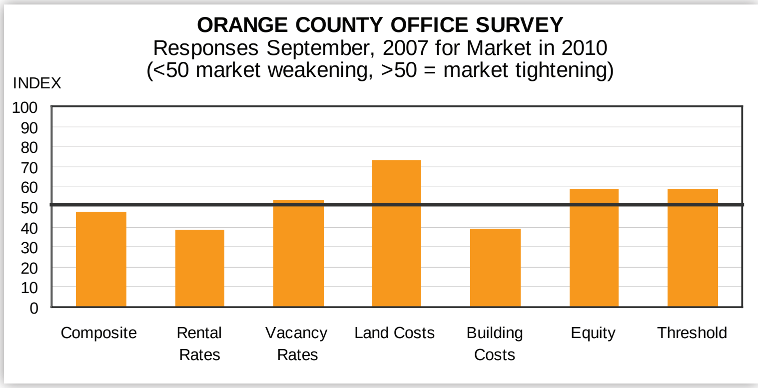


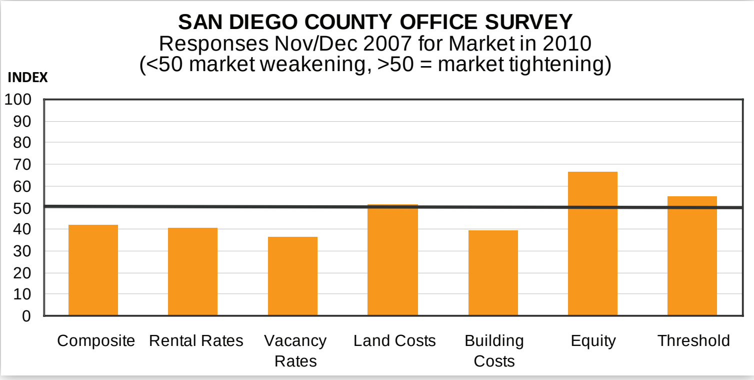


Los Angeles: Feeling the Pinch, but Still Strong

In June, we reported that the Los Angeles Office Space market was expected to be tight through 2010. The Los Angeles market had recently tightened due to a combination of over a decade of very low growth in supply and more rapid growth in demand for office space. The data reflected this and our forecast, which was a combination of the Anderson Forecast's economic model and the Allen Matkins/UCLA Anderson Forecast Survey, was for a continued tight market through 2010. The office building boom continues in Los Angeles, but markets have changed somewhat since June. The most important change is the spillover of the residential mortgage market meltdown to overall financial liquidity and the concomitant reduction in growth of the financial services sector. Thus, there is an increase in the cost of developing new properties, and a decrease in the growth of demand. The June Survey was more bullish on the L.A. market than the current survey. Nevertheless, the forecast for Los Angeles is for continued rental rate growth and relatively high occupancy rates. The composite score for the L.A. survey was 47.74. A number lower than 50 indicates that the market at the end of the time horizon will be weaker than it is today in the sense that rental rates will be lower or vacancy rates will be higher or both. Nevertheless, the market for Office Space in Los Angeles will remain favorable for sellers over the next three years.







Orange County: Softness to Continue

The Orange County Office Space Market has been hard hit lately. As the center of mortgage financing for the U.S., the contraction in financial services continues to throw vacant office space on the market. In addition, a building boom was underway when the housing market began to collapse. The forecast for the growth of office using employment from 2007 to 2009 is a sluggish 0.3%. The Orange County survey picks up the impact of current events on planned construction projects which are not yet beyond the point of cancellation or delay. The composite score for the index of responses was 47.22 and is indicative of a weaker market relative to today's already weak market over the 2007-2010 time horizon. Taken together, the survey questions (development costs, financing costs, and market evolution questions) indicate conditions have deteriorated for further development of existing office space and investment in new office space. The market questions, rental rates and vacancy rates forecasts indicate the panel's sentiment that vacancy rates will stay approximately the same while rental rates increase at a slower rate. This is consistent with the view that markets are weak, forcing down rents, but that costs are high retarding the arrival of new supply and causing landlords to hold out for demand to catch up and provide rents at rates which will cover costs.

San Diego: The End of the Boom

The San Diego economy has been hit hard by the slowdown in housing. As in Orange County, reductions in real estate and finance employment have increased the supply on the market. Overall growth in office space using employment is positive but has slowed dramatically. For the first 11 months of 2007 it has been at 0.75%. In addition, San Diego has been in an office space building boom since early 2006. More supply and anemic growth in demand yields lower rental rates and higher vacancy rates. Not surprisingly the panel felt that financing costs would be higher over the time horizon, but overall the panel felt that by the time 2010 rolls around, the expanding U.S. economy would not be sufficient to overcome the excess supply in the local market. In other words, the panel, as they look at what is in the pipeline, estimates that new construction will add too much capacity to the market and San Diego will be weaker than expected. The composite score for San Diego is 41.72, the lowest of the three surveys.

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FORECAST

Founded in 1952, the UCLA Anderson Forecast is one of the most widely watched and often-cited economic outlooks for California and the nation. Award-winning for its accuracy, the UCLA Anderson Forecast has a long tradition of breaking with the consensus forecast to be among the first to spot turning points in the economy.

The forecasting team is credited as the first major U.S. economic forecasting group to predict the most recent recession in 2001. The team was also ahead of the pack in predicting both the seriousness of the early-1990s downturn in California, and the strength of the state's rebound since 1993.

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Allen Matkins Leck Gamble Mallory & Natsis LLP, founded in 1977, is a California law firm with approximately 230 attorneys practicing out of seven offices in Los Angeles, Orange County, Century City, Del Mar Heights, San Diego, San Francisco, and Walnut Creek. The firm's broad based areas of focus include corporate, real estate, construction, real estate finance, business litigation, taxation, land use, environmental, bankruptcy and creditors' rights, and employment and labor law. The firm has also been ranked as the #1 real estate firm in California by Chambers & Partners for the last five years.

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