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Fresno
Reno

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Note: Year-end 2006 numbers include estimates for the fourth quarter that were derived in November. Final published numbers may vary slightly. Totals may not add precisely due to rounding.

To Grubb & Ellis Clients and Colleagues:

As we end 2006, what we know with certainty is that the market for commercial real estate is strong. Throughout 2006, leasing demand exceeded supply as vacancy rates tightened and rental rates increased. Investor demand also exceeded supply, measured by higher sales volumes and lower capitalization rates.

We have become more optimistic about the outlook for 2007 now than we were just six months ago. The Federal Reserve appears to be successfully engineering the elusive soft landing, taking the pressure off inflation and interest rates while allowing the economy to keep growing at a slower rate. The Fed has had some help in applying the brakes from the housing market, which is retrenching after years of predictions from economists that this would happen.

And therein lies the greatest risk to commercial real estate in 2007—particularly for shopping centers and retail space—that the housing correction could continue and worsen, frightening consumers away from the malls and halting the economy in its tracks. But this is a worst case scenario. A more probable outcome is that the economy will continue to grow at a below-trend rate through 2007, and if it slows enough, the Federal Reserve will reduce the federal funds rate. This is a likely scenario and should keep tenants leasing space and investors buying property in 2007.

We expect you will continue to see positive messages for your business in this outlook, but whether the markets are up or down, the professionals of Grubb & Ellis offer the deep market knowledge and broad expertise that can help you solve your most complex real estate issues. From more than 100 offices throughout the United States as well as operations abroad, our experienced brokerage, management and consulting professionals can help interpret precisely how these trends will affect your requirements.

Many factors can impact the timing and structure of your real estate decisions. We look forward to discussing the specifics of our 2007 Forecast with you, and to helping you meet your real estate goals now and into the future.

Sincerely,



Mark E. Rose

*Chief Executive Officer
Grubb & Ellis Company*

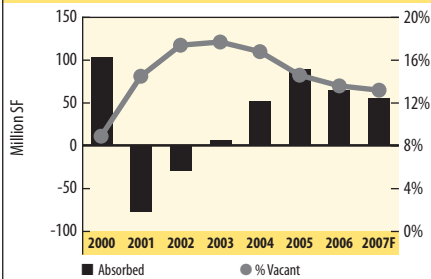
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National Overview

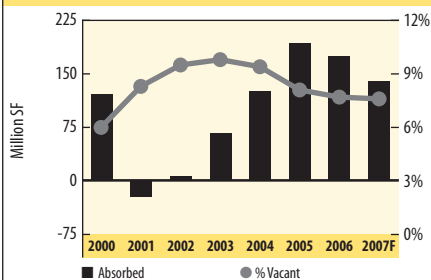
We expect the economy to find a middle ground between an outright recession and inflationary growth—the elusive soft landing—thereby striking a balance between the commercial real estate leasing and investment markets.

U.S. Office Vacancy and Absorption



Source: REIS, Grubb & Ellis

U.S. Industrial Vacancy and Absorption



Source: REIS, Grubb & Ellis

Office and Industrial Review and Forecast Year-End

Office Market	2006 Actual	2007 Forecast
Vacancy rate	13.6%	13.2%
Class A CBD rental rate ¹	\$40.93	\$44.21
Class A suburban rental rate ¹	\$26.34	\$27.92
Net absorption	65M SF	55M SF
Space completed	35M SF	45M SF
Industrial Market	2006 Actual	2007 Forecast
Vacancy rate	7.7%	7.6%
Warehouse/distribution rental rate ²	\$4.45	\$4.58
R&D/flex rental rate ²	\$9.58	\$9.86
Net absorption	170M SF	140M SF
Space completed	130M SF	150M SF

¹ Asking rental rate per square foot per year full service

² Asking rental rate per square foot per year triple net

2006: Just Right

The year 2006 was “just right” for commercial real estate, featuring economic growth warm enough to generate demand from tenants but cool enough to keep interest rates from bubbling over. Our forecast is beginning to sound like a broken record because we expect these benign conditions to extend well into 2007, which would be the third consecutive year of moderate growth paired with moderate interest rates.

Although our forecast for 2006 was largely on target, there were some surprises. Payroll employment growth will likely end the year about 300,000 shy of our forecast for 2 million net new jobs. This is a result of the weaker-than-expected housing market and the Federal Reserve’s two-year campaign to raise the federal funds rate back to a neutral level, which the Fed suspended as the economy cooled in the late summer and fall.

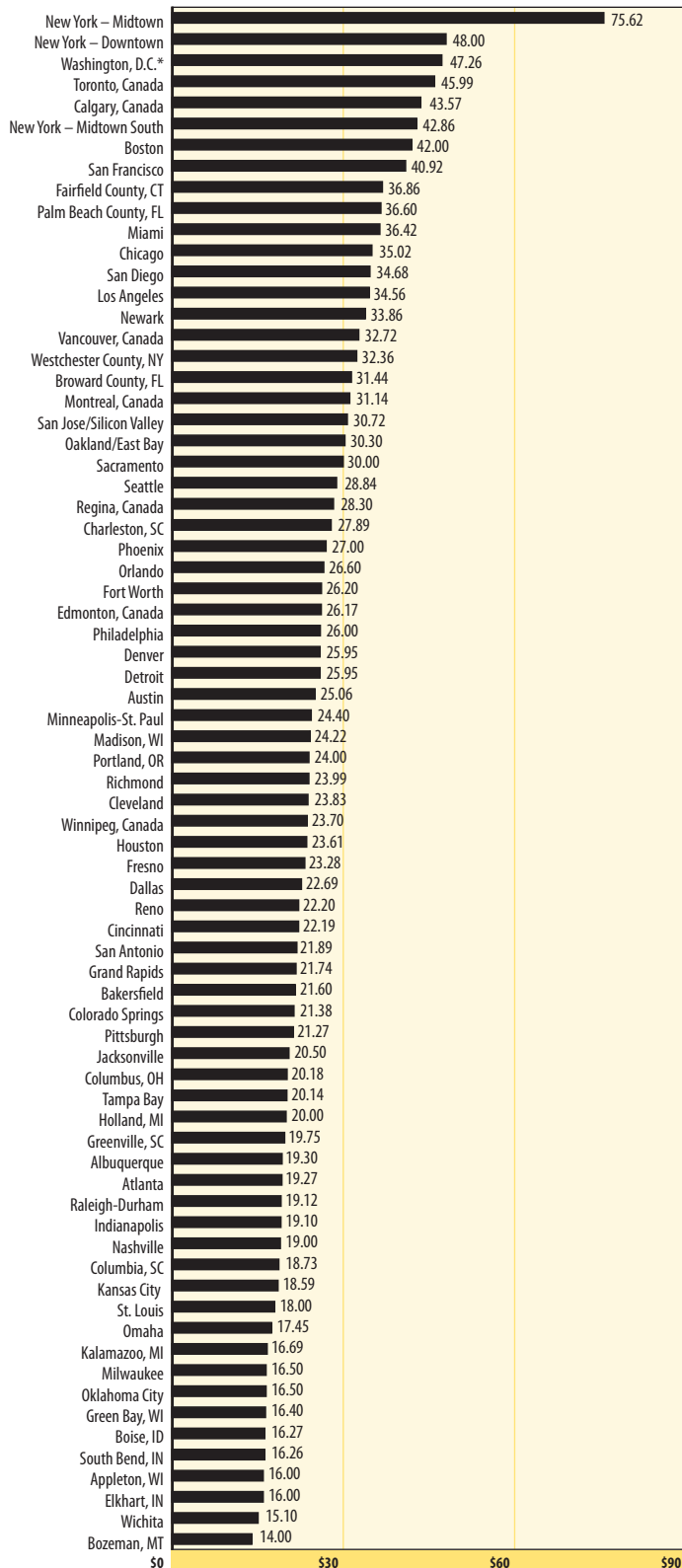
Strong corporate profits plus moderate job growth kept the office market humming in 2006. However, net absorption was down 27 percent compared with 2005 owing to the economic slowdown in the second half of 2006 and also the absence of pent-up demand, which boosted absorption in 2005. The office market continued to tighten, but the pace of tightening eased; the vacancy rate fell by 1 percentage point in 2006 versus a decline of 2.2 percentage points in 2005. The pace of tightening, though below our expectations, was enough to propel rental rates higher by an average of 7 percent, ranging from the mid-teens to no increase at all depending on the market.

The industrial market followed much the same course as the office market, benefiting from business capital spending and surging global trade. Demand was strong for distribution centers near major seaports and inland ports and also for warehouse and general industrial space in secondary markets beyond the logistics hotbeds. The vacancy rate fell 0.4 percentage points in 2006 versus a decline of 1.3 percentage points in 2005. The average asking rental rate for warehouse/distribution space increased 2 percent, slightly below our forecast, due to the volume of new construction, its composition (weighted toward large buildings where per-square-foot rents are lower) and its location (favoring distant exurbs where land is cheaper).

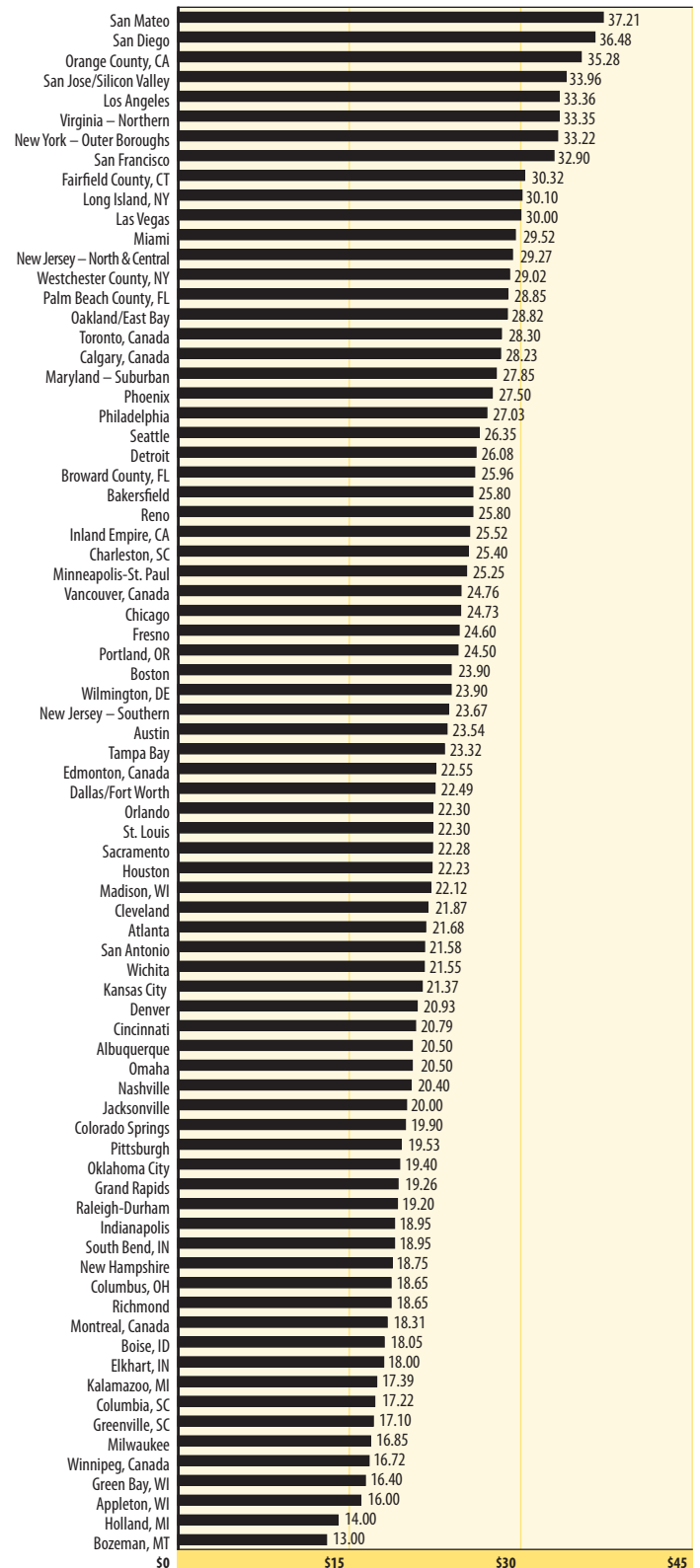
Unlike the office and industrial markets, retail vacancies remained low through the lean years during and after the 2001 recession thanks to steady consumer spending fueled by low interest rates and rising home prices. With home sales and housing starts down by double-digit percentages in 2006, retailers felt the chill, pushing net absorption in neighborhood and community shopping centers down 14 percent even as deliveries of new space rose 6 percent. Still, supply and demand remained largely in balance at year-end.

The outlook for multi housing improved in 2006 as the residential sales market slammed on the brakes. Households decided to rent in hopes that prices would fall further, boosting absorption of apartments from a very low

CBD Class A Office Rental Rates, North America Year-End 2006



Suburban Class A Office Rental Rates, North America Year-End 2006



* District of Columbia

Rental rate data refer to average asking rental rates for Class A space that is available on the market at the end of 2006. Rates are per square foot, quoted on an annual, full service gross basis. Canadian data are courtesy of Avison Young. Canadian rental rates are in U.S. dollars using the exchange rate of \$1 Canadian = \$0.88445 U.S., the rate as of November 9, 2006.

National Overview

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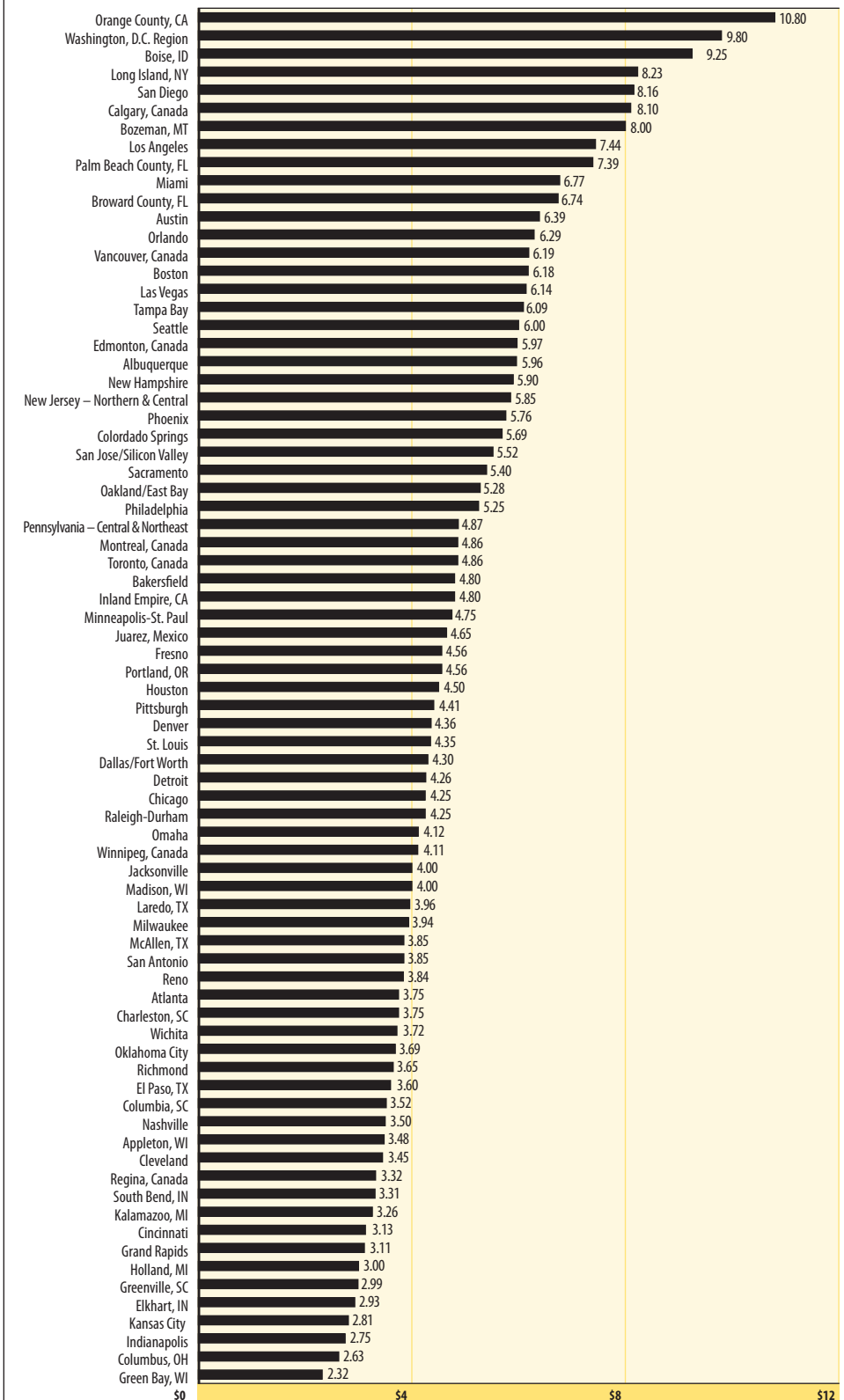
volume in 2005. Growth in population, jobs and wages also fueled demand for rental units.

The volume of commercial property investment sales has set a new record every year since 2001 and is likely to end 2006 at another new high. Office and industrial transaction volume is up substantially through the third quarter, apartment transactions are generally flat, and retail transactions are down markedly. This is related to the drivers of tenant demand for office and industrial space (the healthy business sector of the economy) versus retail space (the questionable consumer sector). Capitalization rates fell slightly during the year for office, industrial and apartment properties while remaining stable for retail, evidence of the overhang of capital still chasing assets.

2007: Another Solid Year

Expect gross domestic product to grow in the range of 2 to 3 percent annualized during the first half of 2007, weighed down by the faltering housing market. The Federal Reserve is likely to hold the federal funds rate steady through early 2007, but the outlook is murky for the second half of the year. Pessimists expect home sales and prices to fall further in 2007, dragging down consumer spending and weakening the economy enough to force the Fed to reduce interest rates in an attempt to forestall a recession. Optimists think the housing market will find its bottom by mid-2007, creating a foundation for the economy to grow faster in the second half of the year. We expect the economy to find a middle ground between an outright recession and

Metro Warehouse/Distribution Rental Rates, North America
Year-End 2006



inflationary growth—the elusive soft landing—thereby striking a balance between the commercial real estate leasing and investment markets.

Office assets have rotated to the top of investors' buy lists and with good reason. Businesses will use their record profits to add staff and lease more space in 2007. Absorption has exceeded space completions for three consecutive years and shows every sign of repeating its performance in 2007. Developers and lenders will remain cautious in starting new projects. Expect the average Class A asking rental rate to rise 8 percent for CBD space and 6 percent for suburban space in 2007, more in supply-constrained markets and submarkets. Greatest risk: The next recession triggers a repeat of the massive wave of corporate downsizings that followed the 2001 recession.

Global trade and the expanding economy will fuel another year of robust demand for industrial space. Beyond the extraordinarily tight Los Angeles market, more prosaic warehouse and general industrial space in expanding secondary markets could see the biggest gains in rental rates. Expect the average asking rent for both warehouse/distribution and R&D/flex space to increase by 3 percent in 2007. Greatest risk: It's a tie between overbuilding (not evident yet) and restrictions on global trade.

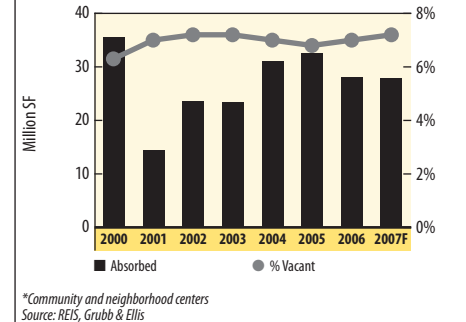
The weak housing market could deal shopping centers a double blow in 2007: reduced consumer spending and reduced development opportunities for neighborhood centers as housing projects are canceled. But never underestimate American consumers. If they can find a way to keep spending, they will, and they will be aided in their quest by the creation of 100,000 net

new payroll jobs per month in 2007 along with modestly rising wages. Expect slightly lower retail construction and absorption with the market remaining in equilibrium. Greatest risk: The housing market slowdown accelerates into a freefall, dragging consumer spending down with it.

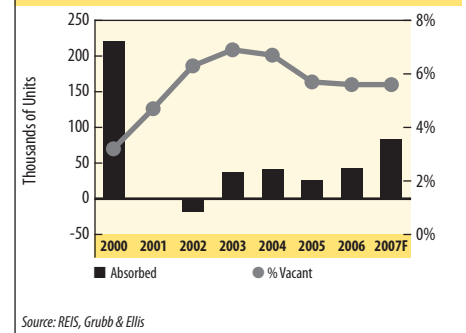
Apartment landlords are waking up from a bad dream. This perennial star performer of investment real estate had several lean years as households fled apartments for the chance at substantial appreciation in the for-sale housing boom. But the boom has turned into a bust, removing the incentive for renters to rush into home ownership. And with home prices still high, housing affordability remains a problem in many markets. Renting is in vogue again. Greatest risk: "Re-partments"—stalled condo conversion projects that are returning to the rental inventory.

The volume of investment transactions is likely to stabilize in 2007 following five consecutive years of gains, but it will stabilize at a high level. If interest rates and cap rates remain stable in 2007, as we expect, then the income component of the total return equation will once again eclipse the appreciation component, and real estate will return to its historic role as a solid income-producing investment with a small appreciation kicker. Greatest risk: A spike in interest and cap rates could lead to one or two years of negative appreciation even as the income returns move higher.

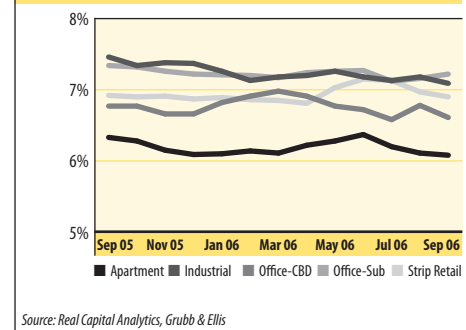
U.S. Retail Vacancy and Absorption*



U.S. Apartment Vacancy and Absorption



Capitalization Rates

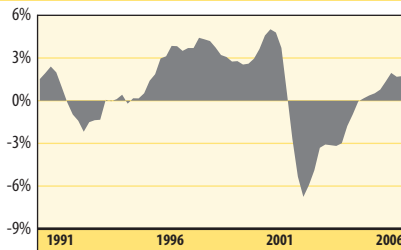


Northern California/Northern Nevada

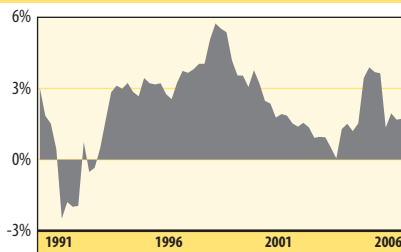
Overview

Real estate thrived in 2006 as market expansions began and further strengthened in the region. Another good year is ahead, but housing may bring more cooling than expected.

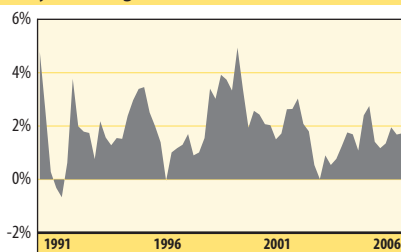
San Francisco Bay Area Job Growth
Quarterly % Change from Prior Year



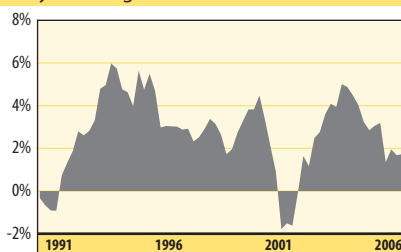
Sacramento Metro Area Job Growth
Quarterly % Change from Prior Year



Fresno Metro Area Job Growth
Quarterly % Change from Prior Year



Reno Metro Area Job Growth
Quarterly % Change from Prior Year



Interest rate concerns one year ago turned out to be a non-factor for commercial real estate markets that thrived once again in 2006. Yes, it's now clear that 2005 marked the cyclical peak for overall real estate investment activity and that moderation in total sales volumes will continue in the year ahead as it did in 2006. However, there's still an enormous amount of uncorked capital seeking placement in real estate and that should keep the flow high and make for yet another good year by any measure. This will be especially true in markets where fundamentals are rising at a rapid pace and investors must still compete for available product.

The one major concern looking forward is the cooling housing market and its impact on local economies and commercial markets. That will be played out in 2007 and has the potential to impact markets whose growth was largely driven by new housing development. Of the major product types, new retail centers relying on surrounding housing and population growth may be the most vulnerable. Industrial product should stay as steady as ever with imports still on the rise and available space inventories quite low. Apartments are already benefiting from the home sales pullback; rents and occupancies are rising at their fastest rate in many years.

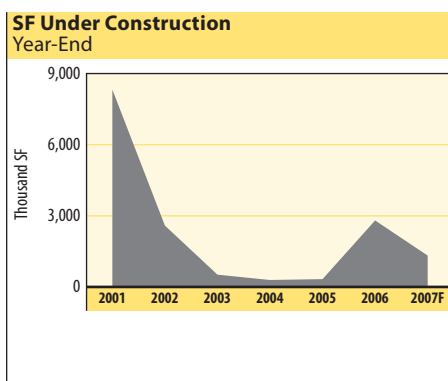
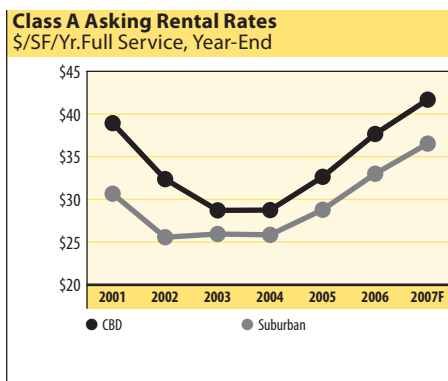
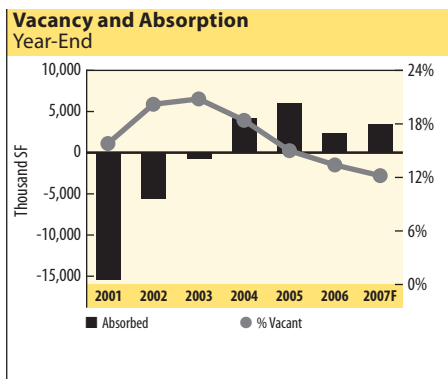
The clouds created by what's in store for the housing market may not turn out to be much of a factor, but weary buyers may blow up such concerns to create some advantage and boost returns that will not have the benefit of rapid appreciation.

If that scenario is played out and income generation at the property level will have to carry total returns. Look for those playing on the fringe or in emerging markets to return to core areas where stability provides downside protection.

Leasing markets improved virtually across the board as economies grew and added new jobs. The most explosive growth occurred in the inland regions, with California's Central Valley and Northern Nevada leading the way. Housing, retail and industrial development were the catalysts in these areas as the migration of people and business away from the coast and major metro areas toward more affordable and accommodating inland locations continued. The same could be said for Sacramento, which experienced an improved year across the board. On the coast, office markets experienced the best performance with rents rising double digits and vacancies falling toward single digits in many areas.

One trend that can be counted on for years to come is the path of growth toward inland markets. There's simply no place else to go. Affordability is driving housing growth inland, and the local serving and regional back-office jobs are following. Industrial growth is being driven by the need to deal with overburdened ports and logistical operations. It's creating incredible demand for inland ports and efficient warehouse and distribution centers. Sexy no, but steady yes, so if you've not gone inland yet, it's worth a look.

Rapidly advancing fundamentals spurred nearly 3 million square feet of new construction, ushering in an expansion that's gaining momentum.



Market Overview

On the heels of the best year since 2000, the Bay Area beat expectations and experienced a stellar year of leasing market performance in 2006. While the pace of improvement moderated in parts of the Bay Area, a better year is anticipated for 2007. New construction starts are popping up throughout the region, with nearly 3 million square feet under construction at year-end 2006. It's indicative of developers' confidence in a market that must still rise to meet their financial expectations.

Improvement throughout the Bay Area over the past two years has been the result of a number of factors. Strong growth in select sectors of the technology industry, new company formations backed by venture capital, organic local company growth and relocations from outside the area have combined to boost demand. Furthermore, dwindling space supplies have encouraged existing tenants to reposition themselves for future expansion, taking advantage of current rents and securing the most favorable business addresses.

The result of positive performance in 2006 was an overall vacancy rate decline of 1.4 percentage points for the year. This decline added favor to landlords who now feel they have gained pricing power. Even Oakland/East Bay, which lagged somewhat behind the rest of the market in 2006, has made strides in catching up and leveled the playing field between landlords and tenants.

San Francisco continues to lead the recovery. While markets such as the Mid-Peninsula and Oakland/East Bay experienced little to negative growth, respectively, both markets are positioned for a much improved year ahead. The Mid-Peninsula, in particular, is set for a spectacular 2007, as large tenants have returned to the market, and many who have already inked deals are scheduled to take occupancy.

Rents, perhaps the most watched market indicator, are up across the region. While rent growth did not reach the level attained in 2005, a nearly 12 and 15 percent increase for Class A and Class B space, respectively, is still quite healthy. Interestingly, Class B rents took the lead in 2006 after lagging the year earlier, presumably as Class A rents hit a resistance level for some tenants.

Expect office market indicators such as absorption, occupancy and rents to remain on their upward trajectory in the year ahead. However, there may be a rotation in the pace of recovery, with slower improvement in leading markets and faster improvement in lagging ones. Supply will tighten as major tenants inking deals now take occupancy and new construction is not yet available.

The Bay Area remains the nation's leader in intellectual property and venture capital spending. That will only continue to support and grow existing businesses and create new ones, thus driving demand for additional space in the future.

San Francisco Bay Area

Office

continued

San Francisco

The second blowout year in a row has made even the most aggressive prognosticators look conservative. Occupancies are up by nearly 3 million square feet and rents have surged by 40 percent. As a result, market dynamics have changed and landlords are tightening their grip, holding out for and getting shorter lease terms, making more profitable deals despite soaring tenant improvement costs and achieving higher tenant retention rates due to tight availabilities and high relocation costs.

Perhaps the most telling indicator of market health is the initiation of speculative new construction that requires above market rents. While some space has been preleased, close to a million square feet is up for grabs. Clearly, more upside is expected in occupancies and rents. Tenants will feel more squeeze until new inventory eases the pressure late in the year and into 2008.

San Jose/Silicon Valley

An upswing market in the Valley cut vacancy nearly in half from its high point three years ago. Tenant demand proved to be strong last year with approximately 800

transactions totaling 5.8 million square feet, granting landlords more opportunity to increase rental rates market-wide. One surprise this past year was the strength of Class A activity in choice markets in north Santa Clara County. Tight supplies there have begun to permeate in adjacent submarkets as demand ripples outward. Tenants will find fewer incentives next year and will soon be faced with escalating rents over their new lease terms. Owners with tired buildings should refurbish to remain competitive in the market. With 14 out of 17 submarkets already reveling in single-digit vacancies, look for these areas to continue to accelerate the Valley into further recovery.

San Francisco Mid-Peninsula

Large lease commitments during the second half of 2006 averted what could have been a major growth misstep resulting from the 650,000 square feet of space dumped by Oracle when it bought Siebel Systems. Ironically, the publicity and new space opportunity actually stimulated demand that will continue into 2007. It's expected that over a million square feet will be absorbed in 2007, driving vacancy down to a 6.5-year low. Thus, don't be surprised

if dwindling supply results in another sharp increase in rents. Albeit, topping 2006's 27-percent rise is unlikely.

Expect the emergence of new companies and an upsurge in leasing dynamics to lead to a vibrant 2007. Landlords will continue to stiffen their stance, so tenants should expect fewer choices and more out of pocket expenses. Look for even more venture capital investment in local companies providing an impetus for increased employment and occupancies.

Oakland/East Bay

Despite vacancy edging slightly upward during the latter portion of 2006, overall market conditions strengthened in the East Bay. Sublease space declined from its 2002 peak for the fourth consecutive year, dropping the sublease rate four percentage points to 2.5 percent. Meanwhile, rents remained firm with Class A rents in ever-tightening submarkets, such as the CBDs of Oakland and Walnut Creek, experiencing significant increases.

Positive rent growth and tightening vacancies have spurred over half a million square feet of new construction that's due for completion in 2007. It's indicative of a new state of balance, putting landlords on higher ground and more in line with tenants. The challenge ahead for both will be retention—existing tenants in quality locations will find it tougher to renew at favorable rents and landlords of lesser quality buildings will need to invest in upgrades to keep quality tenants from fleeing.

Market at a Glance

2006 Year End

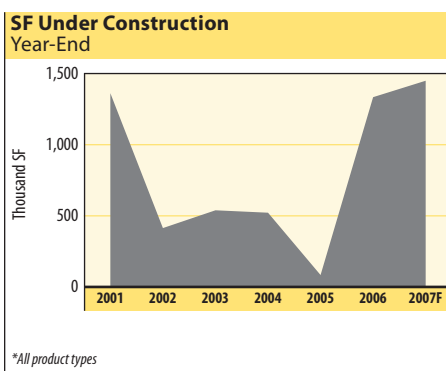
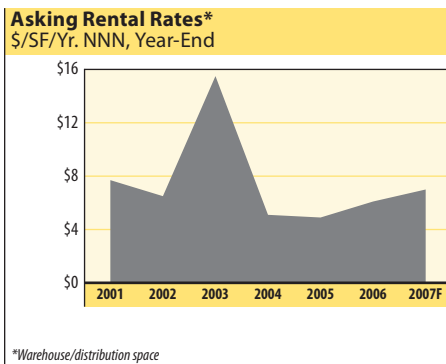
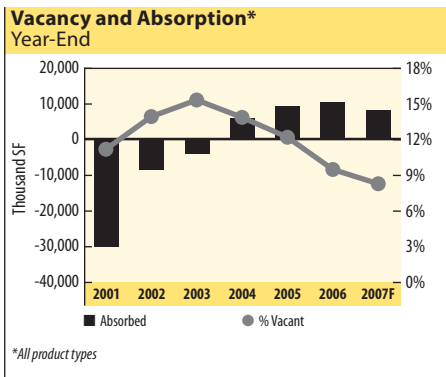
	San Francisco	San Jose/Silicon Valley	Mid-Peninsula	Oakland/East Bay	Totals
Rentable*	62,061	60,096	33,623	56,829	212,609
Vacant*	8,356	6,550	6,417	7,084	28,406
Vacancy Rate	13.5%	10.9%	19.1%	12.5%	13.4%
Absorbed*	1,556	747	165	-70	2,398
Under Construction*	1,354	928	0	522	2,805
Rental Rate**					
Class A	\$39.55	\$33.00	\$37.21	\$29.12	\$34.54
Class B	\$28.65	\$25.56	\$36.11	\$22.37	\$27.28

* Square feet in thousands; excludes owner-occupied, medical, government

** Weighted average asking rent/SF/year Full Service

San Francisco Bay Area Industrial

Strong leasing and sales activity fueled by a healthy economy produced multi-sector job growth. Pressure is expected to build in high demand space categories and submarkets.



Market Overview

A strong performance throughout the Bay Area's industrial markets resulted in decreasing vacancies and rising rental rates. Large amounts of leasing and user sale activity during 2006 produced positive net absorption in the majority of submarkets. This caused tenant flight-to-quality to wane due to decreasing amounts of top-grade space. 2006 also witnessed high levels of venture capital funding that spurred market activity by feeding new growth in the biotech, nanotechnology and green technology industries. It's a harbinger of potential new job growth that will supplement the Bay Area's traditional computer technology-based economy.

The Silicon Valley fared well in 2006 with across-the-board reductions in vacant space, robust leasing, record investment sales and positive net absorption within critical areas such as Palo Alto, Mountain View and Sunnyvale. Mid-Peninsula also performed well, reducing its overall available industrial product and experiencing substantial growth in occupancies from biotech industry users. The Oakland/East Bay market is thriving as a result of tenant demand for warehouse space in Hayward and Union City. This product type should remain this region's driver in 2007. Landlords are raising rents along the I-80/I-880 corridor and are growing more confident every quarter. Sublease space has diminished to pre-2001 levels, signifying strengthening market vigor.

An overall tightening of the Bay Area industrial market should persist throughout 2007.

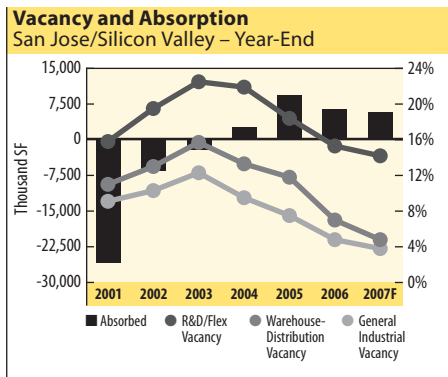
Job creation in the Silicon Valley and Mid-Peninsula was strong in the technical and professional sectors and showed improvement in manufacturing as well. The Oakland/East Bay region, which is the Bay Area's fastest growing economy, managed to generate significant job growth in manufacturing, an important sector that makes up 39 percent of its industrial inventory. The Bay Area market will continue to see persistent offshore competition next year from India and Asia. However, companies entering into new growth cycles will hopefully continue to counter losses and absorb existing availabilities. Expect computer industry-related companies to drive positive absorption in Silicon Valley and both the computer and biotech sectors for the Mid-Peninsula.

With the expected vacancy drop, increasing landlord confidence will drive rents up throughout the majority of Bay Area submarkets. Although speculative construction is just now being contemplated, the lack of top-quality space is putting pressure on tenants to consider other options. Eventually, rents will be high enough to entice developers to begin building. Until this happens, expect to see refurbishment of non-premium buildings. Given the current movement toward a landlord's market in 2007, tenants looking to expand into new space should consider locking in lower rents.

San Francisco Bay Area

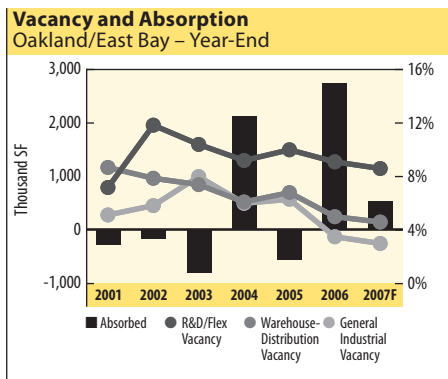
Industrial

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San Jose/Silicon Valley

Another active year for the Valley produced consistent positive net absorption, decreasing vacancies and increasing rental rates. Silicon Valley's unemployment rate fell by nearly a full percentage point in 2006 to 4.7 percent, spurred by new job growth that occurred over the majority of sectors. Sublease space was reduced to its lowest level in more than five years and is expected to further diminish in 2007. Aside from some large build-to-suit projects, speculative construction remains flat due to rent levels not being high enough to justify new projects plagued by soaring development costs. That's not to say rental rates are not up. Warehouse and general industrial rents jumped over 15 percent and should follow an upward trend next year due to lack of supply, especially in the most desirable areas.



As the market tightened last year, landlord confidence progressively grew and they boosted rents and reduced concessions. That trend will carry on as will the frustration of tenants seeking to upgrade while top-tier accommodations become scarcer. Anticipate renovation of lower grade buildings to fill the void to meet tenant demand. Prospective tenants are advised to lock in current rates in lieu of impending rent hikes. Palo Alto, Cupertino, West Sunnyvale, Santa Clara, and West San Jose will be the hot markets for leasing and sales activity throughout the coming year, primarily driven by the computer industry.

Oakland/East Bay

Flourishing leasing activity in 2006 helped return vacancy to record low levels. Consistent demand during the past year translated into approximately 3 million square feet of positive net absorption and helped the vacancy rate shed over 2 percentage points. While all three product types contributed to demand, warehouse space accounted for over half of it and was the driving force behind the strong performance in 2006. Sublease space shrunk as well, dropping to under 1 million square feet for the first time in six years and taking the sublease rate to under 1 percent. Not surprisingly, overall rents are rising and keeping investor confidence high. Even the long-dormant new construction market is picking up steam. The Waterfront at Harbor Bay had a very successful first phase and expects to jump-start its second phase of that new development project.

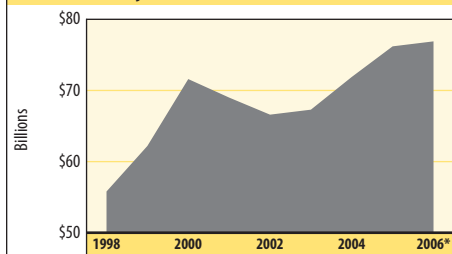
With the Port of Oakland and the expanding Oakland International Airport anchoring the East Bay, look for more positive momentum in 2007. Owner-user, trade buyer, as well as institutional interest, will remain strong as the market heats up. Expect renewal activity to stay high as well in 2007. In particular, warehouse space is a hot commodity and its scarcity in the 100,000 plus square footage block size will have tenants patiently waiting for opportunities or getting creative regarding placement of their operations, even considering a move into the Central Valley.

San Francisco Bay Area

Retail

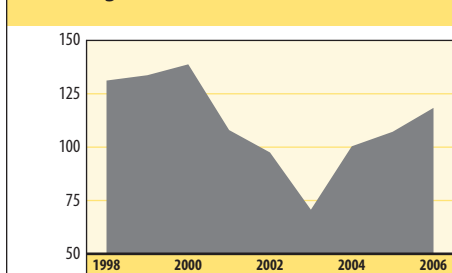
The consumer remains confident and that should make for another favorable year in 2007, but much hinges on the cooling housing market's impact on spending.

San Francisco Bay Area Retail Store Sales
\$ Billions, Subject to Sales Tax



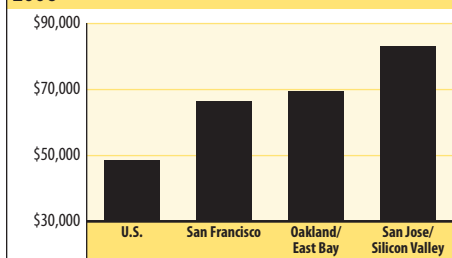
*Estimate
Source: California Board of Equalization

Pacific Region Consumer Confidence Index



Source: The Conference Board

San Francisco Bay Area Median Household Income 2006



The wave of growth that retail has been riding in the Bay Area over the past few years has crested and may present some challenges in 2007. Consumer demand is still strong, but after recording a fourth consecutive year of retail sales growth in 2006, the pace of increase has slowed considerably and is vulnerable to what may play out in the cooling housing market. In 2006, the median household income throughout the Bay Area remained relatively flat except for a slight increase in the East Bay market. Despite the lack of growth in household income and a slowing of the housing market, consumer confidence continued to rise in the Pacific Region in 2006. Watch for consumer confidence as well as retail sales to plateau in 2007 if interest rates continue to rise and the housing market experiences a slump.

The housing boom and massive wave of refinancing was fueling the retail boom. While housing was "king" in 2006, it looks to be dethroned in 2007 due to unsustainable sales gains and price increases. Weaker capitalized retailers in "commuter" residential markets, such as outlying areas of San Jose, the Central Valley and along Highway 4, which have blown up over the past few years, will start to struggle in 2007. Additionally, the slowing of the housing market has caused mixed-use developments to come to a screeching halt, except in more urban locations. Expansion will likely come in

the form of big-box retailers such as Lowe's, Costco, Target and Wal-Mart. Meanwhile, smaller centers in 2007 are likely to experience an uptick in vacancy.

The Bay Area retail market has experienced a flurry of activity. The opening of the 1.5 million-square-foot mixed-use Westfield San Francisco Centre featuring the West Coast flagship store for Bloomingdale's was a major milestone. Pleasanton's Stoneridge Mall in the East Bay plans to build a new 149,000-square-foot Nordstrom store by the fall of 2007, convert their existing building to 89,000 square feet of specialty retail space, build a 75,000-square-foot movie theater complex and add 56,000 square feet of additional retail and restaurant space. Additionally, Whole Foods Market announced plans to open a 55,000-square-foot store in Dublin and will open the highly anticipated 51,000-square-foot store in Oakland in 2007. On the flipside, the struggling grocer Albertsons closed numerous stores and consolidated operations in 2006.

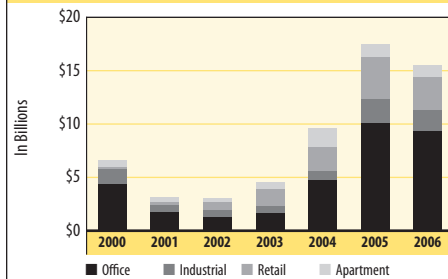
Watch for the Bay Area retail market to moderate in 2007. Look for rental rates to hold steady with landlords willing to give strong tenants more concessions via tenant improvements. Meanwhile the overall investment market will remain active due to high demand and large amounts of capital waiting to be placed.

San Francisco Bay Area

Investment

Surging fundamentals overpowered flat cap rates to push pricing levels into the clouds. The year ahead stills favors sellers, but fatigued buyers may cool their aggressiveness.

San Francisco Bay Area Total Property Sales
Sales Over \$10 Million



Source: Real Capital Analytics, Grubb & Ellis

Market Overview

Capital flow into real estate last year was superb by any measure, but the water once again rose behind the dam. Frustrated buyers kept sharpening their pencils and chasing surging fundamentals to win deals, elevating seller expectations above the clouds and setting up the coming year for some pause. Still, sellers will start the year in the lead if their pricing and asset quality is in line. But, if the already noticeable decline in property quality on the market persists, typical just before and after a cyclical peak, buyers may gain some advantage and the ability to ease aggressive underwriting. Either way, investment activity should make another strong showing propelled by improving fundamentals that have more upside.

The key in the year ahead will be leveraging leasing market gains to boost income generation. Rapid rates of appreciation have peaked, and total returns will have to be achieved through property level operations that face higher expenses and construction costs. After all, recent buyers have high expectations to meet and existing owners a higher bar to clear now that real estate is a benchmark investment.

Investment sales volume remained at lofty levels in 2006 after all known records were broken in 2005. Nearly \$16 billion was placed into Bay Area real estate, representing a modest decline over 2005's high water mark of \$18 billion. San Jose/Silicon Valley was the only market to post a gain in sales volume, growing by over \$500 million. By product type, office led the pack in 2006 and accounted for 60 percent of total sales volume. Apartments came in a distant second at 20 percent, with industrial and retail trailing at 13 and 7 percent, respectively—almost identical to 2005. The reading here is that hot investment markets favor the more cyclical office and apartment products and less active periods, such as 2002 to 2003, favor the more stable industrial and retail products. The implication is that changing selling conditions will have less impact on industrial and retail.

The investment market is poised to perform well once again, but it will get tougher on both buyers and sellers. Buyers promising high yields to investors may have to scale back those expectations, appreciation and leverage just won't do the trick anymore. Sellers still trying to ride the wave that's already crested may need to accept slightly higher cap rates or hold and focus on generating better earnings. Look for bidding frenzies to ease, properties to remain on the market longer, underwriting to stiffen and "value-added" to regain meaning.

Key Investment Transactions

San Francisco-Mid-Peninsula, 2006

Buyer	Property Type	Property Name	City	Size	Sales Price (millions)
Hudson Waterfront Associates	Office	555 California Street	San Francisco	1,800,000 SF	\$1,050.0
Principal Real Estate Investors	Office	333 Market Street	San Francisco	646,474 SF	\$370.0
Beacon Capital Partners	Mixed-Use	Rincon Cetner	San Francisco	757,000 SF	\$310.0
RREEF	Office	555 & 575 Market Street	San Francisco	770,044 SF	\$254.2
Archstone Smith	Apartment	Jefferson at Bay Meadows	San Mateo	575 Units	\$220.0
Walton Street Capital	Office	4100-4700 Bohannon Drive	Menlo Park	374,139 SF	\$156.5
ING Clarion Partners	Office	2882-2884 Sand Hill Road	Menlo Park	139,500 SF	\$131.5
TMG Partners	Office	75 & 95 Hawthorne Plaza	San Francisco	422,131 SF	\$125.0
Essex Property Trust	Apartment	Hillsdale Garden Apartments	San Mateo	697 Units	\$97.3

Investment Advice for 2007

San Francisco

Sell office properties while there's still froth in the market and no noticeable weakness in future expectations. As selling conditions change and buyers gain some advantage, lower quality assets will be challenged to meet lofty pricing expectations. At the same time, top-tier financial district office properties should be held for increased income generation. Yes, new supply is building in the pipeline and represents competition, but high construction and relocation costs provide an advantage to existing product. Softening for-sale housing market conditions make holding apartments and positioning them for a future sale quite attractive. Rents are finally beginning to show meaningful rise as would-be homeowners stay put or enter the rental market. Additionally, residential development sites that become idled may be attractive buys for patient investors or those seeking commercial uses. Urban retail remains a buy with the right tenant base and location.

San Jose/Silicon Valley

Many investor eyes are now focused on property in the Valley where activity is less frenzied and there's still more upside. Sellers have an opportunity to sell into a rising tale while interest rates are holding steady and cap rates remain low, but act early in the year. Trophy Class A office and R&D buildings will sustain greater demand and increased pricing, there's simply a limited selection.

Great opportunity exists for local operators to joint venture with institutional investors in purchasing bargain properties to refurbish and resell while cap rates remain low. The Valley's transition out of high-tech manufacturing in combination with very low supply and dramatic increase in rents, make warehouse the hottest commodity in town. Renting apartments will become more enticing and thus worth holding onto while the housing market shakes out.

San Francisco Mid-Peninsula

With large users finally making a showing, office and R&D properties with substantial blocks of available space or large enough rollovers are buy candidates. Retail is still difficult to source and should perform well in the high-income and stabilized Mid-Peninsula market. A further slide in home sales, increased debt service and the potential of a price dip are all concerns for consumer spending, but should have limited impact on retail property fundamentals. Rather, it may create some buying opportunities. This same concern for home sales is a plus for apartments. Rents are on the rise,

creating an environment for increased income and new development. The biotechnology industry still has strong growth potential and venture capitalists keep pouring in funding. Thus, highly leased assets are sell candidates for owners seeking to cash in gains.

Oakland/East Bay

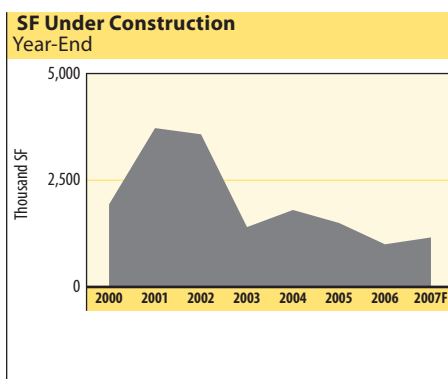
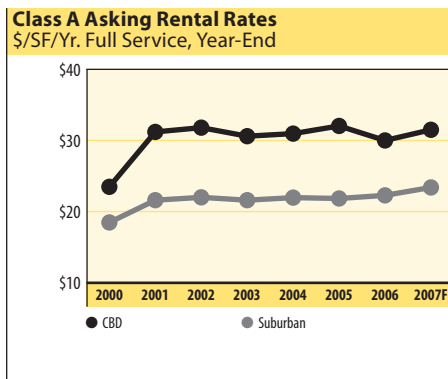
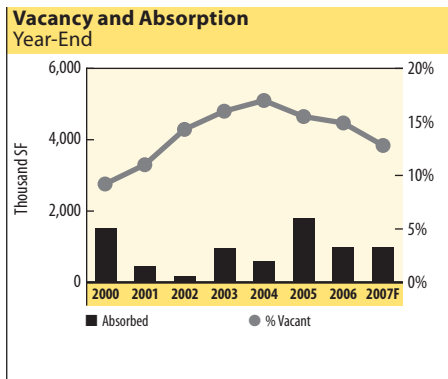
Buyers take pause in the marketplace, but investment demand will remain strong throughout 2007. To capture best value, watchful buyers will look for increased supply to result in lower asking prices and greater differentiation in what defines a good investment. Thus, overpriced "dogs" that once elicited a frenzy of buyers due to lack of product will need to adjust to their true value. Wandering investors will return to look at California opportunities. Cap rates are expected to be on the rise in 2007, a percentage point increase for office and retail product. Industrial product, specifically warehouse, will remain a sought after investment. The best buys in the coming year appear to be top quality industrial and retail in high demand, stabilized areas.

Key Investment Transactions

San Jose/Silicon Valley-Oakland/East Bay, 2006

Buyer	Property Type	Property Name	City	Size	Sales Price (millions)
RREEF	Office/Industrial	Peery Arrillaga Portfolio	Silicon Valley	5,300,000 SF	\$1,100.0
Hines	Mixed-Use	Westcore Portfolio	Silicon Valley	1,600,000 SF	\$352.5
Google Inc.	Industrial	1600 Amphitheatre Parkway	Mountain View	978,066 SF	\$319.0
BioMed Realty Trust	Office	7777 Gateway Boulevard	Newark	1,400,000 SF	\$214.0
Beacon Capital Partners	Office	1999 Harrison Street	Oakland	516,380 SF	\$156.0
RREEF	Apartment	Harbor Island Apartments	Alameda	615 Units	\$124.5
TMG Partners	Industrial	47131 Bayside Parkway	Fremont	718,624 SF	\$116.5
Grosvenor International	Retail	5255 Prospect Road	San Jose	235,000 SF	\$70.0
L&B Realty Advisors	Retail	McCarthy Ranch Marketplace	Milpitas	265,554 SF	\$63.2

Significant net absorption and limited completions fueled a prosperous 2006 for local landlords. Vacancy's recession into the single digits decreased concessions, and true rent increases are expected in 2007.



The market's health returned in 2006 and will strengthen in 2007. While the Downtown central business district is the epicenter for high-profile litigators and lobbyists, the different suburban submarkets have each come to serve their own niche, functioning as the respective sites for other office users. The Highway 50 Corridor has been the traditional locale of choice for blue-chip finance and insurance uses. The South Natomas submarket has been ideal for users seeking access to the amenities of downtown without requiring walking access to the capitol or the courthouse. This submarket also offers free parking and has become home to several technology firms. Roseville has enjoyed being the new high-profile submarket over the last several years, attracting almost anyone seeking a second, and for many, their primary location; Douglas Boulevard constitutes a second Capitol Mall. Laguna/Elk Grove is now the new, fledgling "in" location; several mortgage companies and financial companies are positioning themselves in this area. While Downtown will thrive in 2007, the benefits offered by the suburban submarkets will resurge this year, with substantial net absorption occurring in these four submarkets.

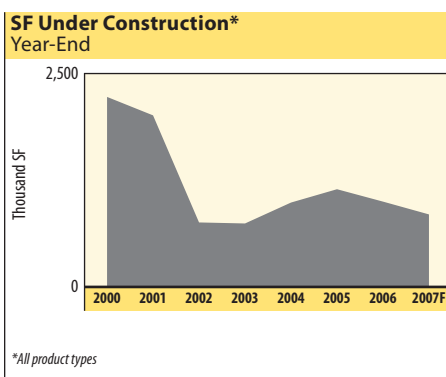
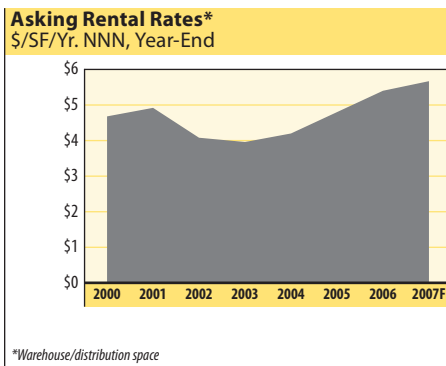
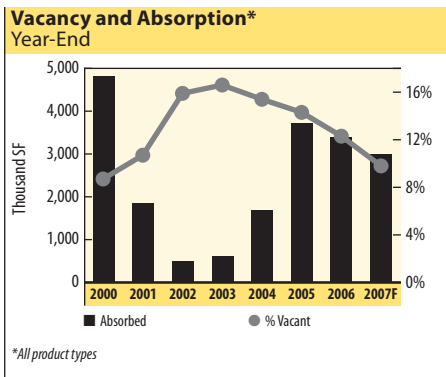
Office condos came and went in 2006, receiving more lip service at cocktail parties than developers' design meetings. Virtually none of the projects touted in the local press

as the next big office condominium project came into existence. While the trend was successful for developers that foresaw the phenomenon and positioned themselves to ride the short-lived wave, demand for product was thinly spread over the market and could not be sustained once interest rates rose.

The number of mortgage companies should decrease in 2007. Again, though the topic has generated substantial discussion, and the slowdown in the local residential market will affect the office leasing market, no devastating loss is expected. Available sublease space did increase in 2006. However, the cause is more accurately tied to several large companies downsizing or vacating specific spaces over the course of the year, rather than a mass exodus of mortgage companies or residential design centers from the market.

621 Capitol Mall broke ground during the year. Local developer David Taylor secured the Downey Brand law firm to occupy space in the greatly anticipated 28-story, 370,000-square-foot Class A office tower currently scheduled for completion in late 2008; this project represents the first new high rise to rival the Wells Fargo Center or Library Galleria in 15 years. Meridian Plaza on L Street was the last project to be completed downtown in recent memory.

Industrial activity increased and vacancy decreased significantly in 2006. Competitive completions waned and construction costs increased from prior years, contributing to a potentially banner year for owners in 2007.



Vacancy declined steadily through the course of 2006, ultimately receding over 2 percentage points. The I-80/McClellan Park submarket was the highest-ranking submarket in terms of net absorption. One primary factor is the sheer size of McClellan Park and some of its facilities which, render this location the definitive submarket for some very large tenants. The Power Inn/South Watt submarket was another largely sought after location in 2006; space in this region is available for largely the same cost as the I-80 submarket rates.

Judging by leasing activity recorded during the second half of the year, the momentum gained in 2006 will easily be carried through mid-2007. While the I-80/McClellan and Power Inn/South Watt submarkets will remain heavy hitters in 2007, look for renewed activity in Woodland and West Sacramento. Northgate/Natomas, situated at the hub of the I-5 and I-80 freeways, will also prove a heavy-hitter.

While very large tenants began a comeback last year, a mix of both medium and large tenants will drive the performance in 2007. The new business park model, which offers its tenants a mix of retail amenities and personal services in addition to its predominantly flex-type product and roll-up doors will gain greater popularity in 2007. As developers and owners are able to charge higher, more office-like rental rates for this type of product, and because these developments

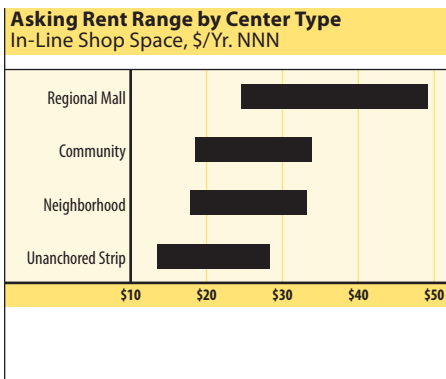
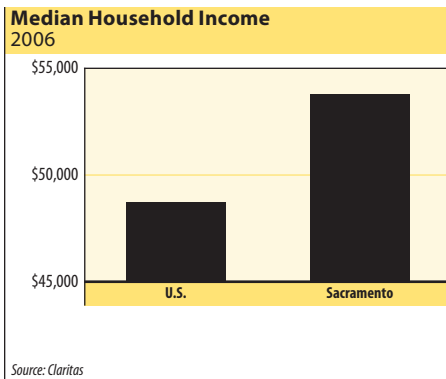
were constructed in response to the demand for them 20 to 24 months ago, the largest tenant uses are seeking space in alternate markets. San Joaquin County, for example, has seen a dramatic increase in the amount of industrial construction underway.

Construction completions will stay comparatively lower in 2007, as the inventory of projects currently under way and just ready to commence is low. Responsible factors include construction costs, which mandate unrealistic rental rates to achieve acceptable returns, and Sacramento's rapidly declining land availability. While new home releases slowed dramatically in 2006, the land upon which to build them is still in the hands of residential developers. Although residential developers may put their plans on ice for some local releases in 2007 or sell their land holdings, this is not widely anticipated. Therefore, even though most large development sites are in the hands of residential builders, don't count on these sites coming back to the market for alternative uses. Metro Air Park in the Natomas/Northgate submarket is currently the largest planned industrial site in the market

The Port began its transformation to a potentially profitable institution in 2006, with ownership transferring from Sacramento County to West Sacramento and Yolo County in early 2006. However, the obstacles in the way of the Port's development are hardly gone.

Sacramento Retail

Retail leasing maintained a strong growth rate in 2006, despite the measurable slowdown in new home sales. Look for a pause in local construction and a plateau in net absorption as the saturation point for retail uses is determined.



The suburban residential markets will continue to reign as the hottest retail locales in 2007. Laguna/Elk Grove, Folsom/El Dorado Hills and North Natomas, in particular, enjoy incredibly vibrant retail markets. These three submarkets also stand as the three highest rent districts in the Sacramento market, each asking an average of \$3 per square foot per month triple net. With redevelopment and infill sites providing the only opportunities for growth, the Carmichael, Fair Oaks, Citrus Heights areas and South Sacramento north of Laguna/Elk Grove will continue to lag.

The market is expanding. The City of Lincoln is becoming a second Laguna/Elk Grove for retailers and is quickly becoming the second "it" location. Virtually every inch of non-residential frontage on Highway 65 is occupied by a new retail center. Recent sales figures indicate the sales per square foot for Lincoln will rival those of Roseville/Rocklin, which have elevated Placer County to one of the highest consumer spending regions in the state.

Roseville/Rocklin is currently seeing the most retail construction in the market. Right now, over 1 million square feet of new product is under way, which promises to make the

largest of the suburban submarkets even larger. As a majority of the new construction is in community and grocery-anchored neighborhood centers, it appears that the lifestyle and power center quotient may have been realized in this area.

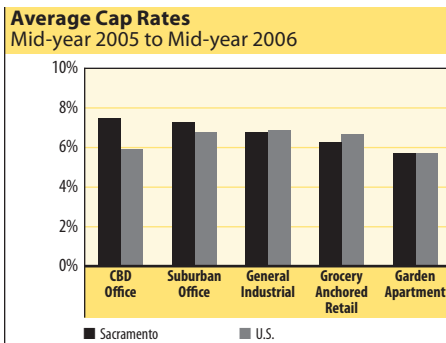
West Sacramento and Davis in Yolo County are taking distinct but deliberate growth paths. While the politically liberal enclave of Davis prefers slow growth that's tightly controlled, West Sacramento has adopted a more retailer-friendly strategy, using tax incentives and negotiation to lure some retail to the area. The presence of IKEA in West Sacramento and the struggle for Target in Davis is testament to these scenarios.

The departure of Ralph's supermarket from several sites in the market rendered the first single quarter of negative net absorption in recent history during 2006. Look for several old Ralphs locations to become Nugget Stores in 2007. Sacramento County officials are moving forward with plans to adopt design standards for retail uses along major county thoroughfares. The plan mandates that open-air, pedestrian-friendly designs be incorporated into any new structures on these streets to encourage residents' use.

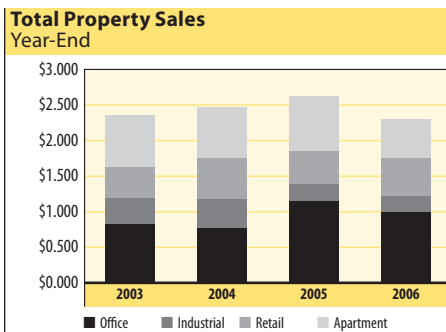
Shopping Centers Under Construction 2006 Year-End

Center Name	Center Type	Location	Size (SF)	Developer
The Promenade at Natomas	Retail Power Center	Truxel Rd @ I-80	663,000	Opus West Corporation
Blue Oaks Towne Center--II	Community Center	Blue Oaks Blvd & Highway 65	600,000	John Aiassa and Michael Smythe
The Fountains at Roseville	Lifestyle Center	Roseville Parkway & Galleria Blvd	340,000	Inter-Cal Real Estate Corp.
Capital Village Community S.C.	Community Center	Zinfandel Drive and International Drive	302,964	DSL Service Company
Parkway Plaza	Community Center	NEC Hwy 65 & E Lincoln Pky	223,074	Catlin Properties

While some hint of downward pressure on pricing, sellers have not flinched and still have the upper hand. If things go as well as expected in 2007, increased fundamentals will outpace any rise in cap rates.



Source: Real Capital Analytics, Grubb & Ellis



Source: Real Capital Analytics, Grubb & Ellis

The office investment market is still enjoying the ride that began more than two years ago. A decrease in the office market vacancy rate and subsequent increase in income on most properties has led to even higher prices and greater competition for the same offering. TICs, REITs and investors with 1031 exchange dollars to place are still leading the charge into the local office market. Although there's no perceptible price weakness affecting Class A trophy properties, there seems to be a chink in the armor of suburban Class B properties. The cap rate premium for suburban over CBD office properties has increased since the close of 2005.

Sales volume and average pricing for local industrial assets was down in 2006, most likely the result of two late 2005 portfolio sales that elevated sales significantly. Private, long-term and local investors are still the primary source of capital behind local industrial investments; institutional dollars are competing more for office product than this property type. While newer, more sophisticated amenities are becoming prevalent among flex properties, look for pricing to increase in the coming year.

Multi housing investment activity slowed in 2006. While the sheer number of transactions and volume was down significantly by all accounts, price per unit remained firm, ending 2006 at over \$105,000 per door. The late 2006 decline in interest rates was not anticipated or realized early enough to convince buyers to seal deals. Asking prices for this property type seem to be edging downward as sellers realize they are no longer trading in 2005's frenzied climate. In spite of this trend, the volume of listings was up over 2005, further increasing demand for sellers to price competitively and buyers to seek more favorable terms.

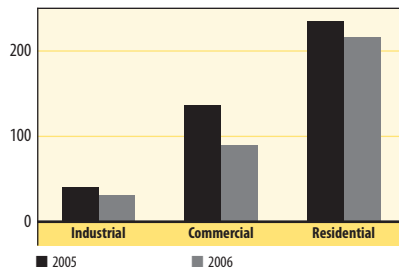
While the volume of retail investments traded in 2006 is quite close to that of the prior year, several significantly different factors came to bear on the national market during the year and will exert force in 2007. While the office market expects to see rents and income rise in 2007, retail rates are not expected to appreciate dramatically, thereby making retail a secondary investment product choice.

Key Investment Transactions 2006

Buyer	Seller	Property Type	Property Name	Size	Sales Price (millions)
RREEF	ALLRC	Suburban Office Portfolio		581,248 SF	\$128.0
DL Capital Center, LP	Hines	Suburban Office Park	Capitol Center	531,775 SF	\$93.0
LaeRoc Partners, Inc	Arizona Partners Retail Investment	Regional Retail Center	Country Club Plaza Mall	432,000 SF	\$58.0
Kennedy Wilson	H & W Enterprises	Multi Family	ShorePark at Riverlake	354,515 SF	\$51.0
BAR Pointe West Acquisitions	San Marcos Plaza	Industrial Park	Pointe West Business Park	142,611 SF	\$18.0

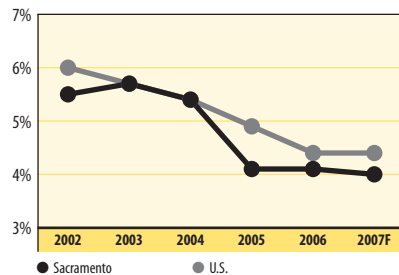
The dramatic decline in single-family home sales ruled the media in 2006. To many, this has brought the debate of highest and best use back to round table discussions.

Land Sales Volume By Type
2005 and 2006



Source: Real Capital Analytics, Grubb & Ellis

Civilian Unemployment Rate 2002-2006
Sacramento MSA vs. Nation



Houses, houses everywhere—literally. Many more of them are available than at this same time last year. The phenomenon that actually started at the end of 2005 gained momentum in 2006 and will constitute the norm in 2007. The housing market has indeed endured the “check” that residential analysts predicted. While average new home prices did not fall far from the high seen in mid 2004, the volume of sales has fallen.

Over 3,000 fewer new homes were sold in 2006 than in 2005. However, it is expected that the home market in the red-hot suburbs of Elk Grove, Folsom, North Natomas, South Placer County and West Sacramento will continue to be active.

The following are a few of the new developments in the planning stages for the different submarkets:

- **Davis:** Cannery Park is a proposed master planned neighborhood of 100 acres within the northern city limits of Davis. The property, on the former location of the Hunt-Wesson tomato cannery, is north of Covell Boulevard and east of the Southern Pacific Railroad line and the F Street drainage channel. Cannery Park would

provide a mix of single-family homes, open space, neighborhood parks, bikeways and a small neighborhood-oriented retail/office use within a mixed-use core area. Approximately 600 residential units are planned.

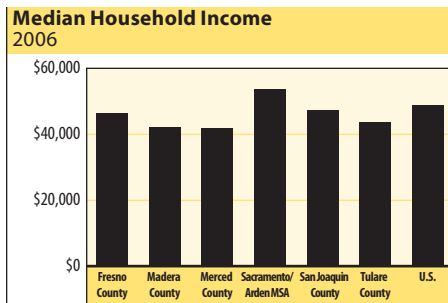
- **Woodland:** Spring Lake. Spring Lake is a 1,100-acre planned community which would include homes, schools, a Community College and shopping immediately off Highway 113. During the proposed ten-year development period, over 4,000 homes would be built.
- **Lincoln:** Joiner Village, Lincoln Crossing and Twelve Bridges, areas A and C, among numerous others in Lincoln are all under development. These three developments alone would provide 4,500 residential units, as well as commercial uses, schools and parks on over 3,000 acres.
- **El Dorado Hills:** Blackstone, a 990-acre master-planned community close to the El Dorado Hills Business Park will offer a 12-acre Village Center site — future home to retail, dining and business opportunities, an elementary school, parks, trails and thousands of homes.

Key Land Sales Transactions
2006

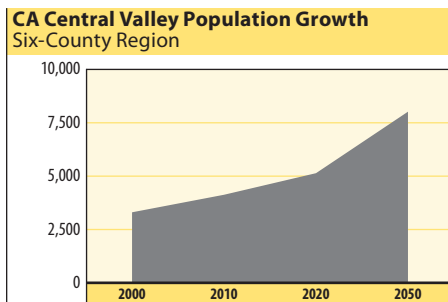
Buyer	Seller	Location	Acres	Sales Price (millions)
Pardee Homes	North Market Center LLP	Sacramento	95.6	\$60.00
Dunmoore Croftwood	Alleghany Properties, Inc.	Loomis	59.0	\$29.00
Family Real Property	Gibson-Tsakoupoulos	Elverta	316.0	\$16.00
Westwood Montserrat Ltd	Sacramento Land Investments LP	Loomis	313.5	\$10.00
Parkbridge, LLC	City of Sacramento	Natomas	25.0	\$8.00

Central Valley Overview

As California's Central Valley makes the transition from agricultural to commercial center, the journey down Highway 99 and Interstate 5 takes decidedly new turns.



Source: Claritas



Source: CA Dept. of Finance

Major Central Valley Employers

Company Name	City	Industry
Fresno Unified School District	Fresno	Education
Community Medical Center	Fresno	Health Care
St. Joseph's Health Care	Stockton	Health Care
Foster Farms Inc.	Fresno	Poultry Processing
Summit Logistics (Safeway Distribution)	Tracy	Distribution
University of the Pacific	Stockton	Education
San Joaquin Defense Depot	Tracy	Government
Cigna	Visalia	Insurance
Merced Color Press	Merced	Printing
Pelco	Clovis	Video Security Systems

While not completely forsaking its agricultural roots, the Interstate 5/Highway 99 corridor has transitioned from an unending view of vineyards, orchards and hay fields to towns nearly touching one another as one traverses the valley. From Sacramento to Bakersfield, one only has to count the Starbucks locations to notice the change.

The city of Lodi is successfully using tax benefits and strategic economic planning to attract several agriculture-based support companies to the area. New residential construction is on the rise in the area just south of the very popular Laguna/Elk Grove submarket in Sacramento. Wine, processed foods, nuts and several fruits are just a few of Lodi's commodities. City officials predict a population of 70,000 residents in 2007.

Stockton is now an even stronger competitor to both Sacramento and the Inland Empire in its efforts to recruit companies. Tremendous industrial construction is under way in Stockton as developers begin to reap the benefits the City's labor availability, land/facility pricing, employee housing affordability and diverse distribution capabilities. The city currently boasts a population of over 250,000 and is growing rapidly.

Tracy is also expanding its tax base through recruiting retail and industrial users. Tracy's location, just south of Sacramento and east of San Francisco and San Jose, renders this affordable community particularly well suited to commuters undeterred by heavy traffic. The city boasts a retail trade base of over 200,000 people from the surrounding

areas of Mountain House and River Islands. Tracy is rapidly becoming a science and technology hub as well as a major business services provider due to its highly educated workforce.

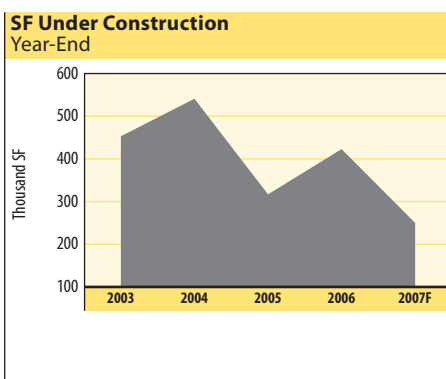
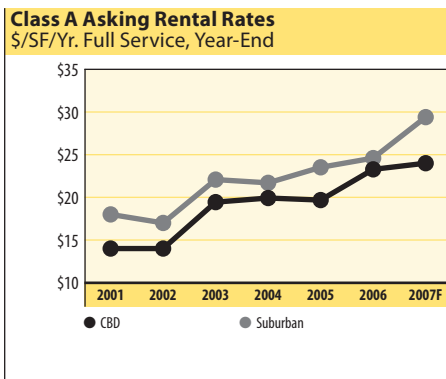
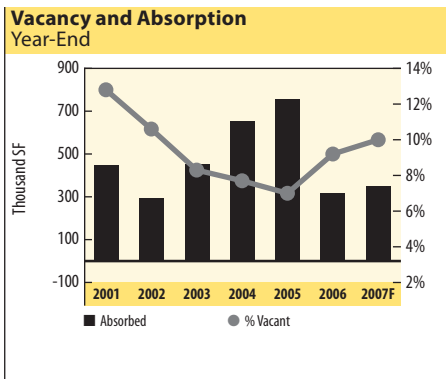
Merced hit its peak in 2006 with national rankings in real estate appreciation and population growth. However, as the residential market started slowing, Merced was quick to feel the effects. With the Housing Affordability Index at 3.6 percent, change was inevitable. While the Merced residential market is in a state of equalization, its economic outlook is bolstered by the opening of UC Merced.

Madera is on the verge of explosive growth. From Chowchilla on the northern end of the county to the Madera-Fresno County line, there are literally tens of thousands of new homes planned. Master-planned communities such as Gateway Village along the Highway 41 corridor are just a part of 30,000 homes planned for this area of the county, which is destined to become an incorporated city of its own within the not-so-distant future.

Fresno County continues to grow its population as well as jobs. Unemployment rates are at all-time lows. Fresno County is on the verge of the "magic million" in population, half of that within the city's boundary.

Tulare County is also growing at a tremendous rate. The cities of Visalia and Tulare remain very active with residential, commercial and industrial projects.

Demand for owner-user buildings and high-end Class A space has spurred development of more than 3.8 million square feet since 2001. The construction pipeline contains another 1.1 million square feet.



The Fresno office market finished 2006 with rents on the rise, a healthy vacancy rate, 1.5 million square feet added to the inventory and net absorption of more than 300,000 square feet. All in all, it was another good year for the office market; expect 2007 to follow the same trend.

Demand for owner-user buildings and high-end Class A space has spurred development of more than 3.8 million square feet since 2001; another 1.1 million square feet is in the construction pipeline. Two, three and six-story office buildings are under construction in the northeast and northwest submarkets. These areas, also known as “the new Fresno,” have not only attracted national tenants, such as National University, DR Horton and Centex Homes, but also pushed developers to consider bringing to the market single and multi-tenant projects targeted toward owner-users.

The medical office segment is big along the Herndon Corridor. Proximity and access to three major medical facilities, Saint Agnes, Clovis Community and Kaiser Permanente Hospitals, make this area very attractive to medical practitioners. Doctors and other medical users have taken advantage of low interest rates and purchased buildings. Many of these owners are using a portion of the building and leasing the balance to similar or complimentary tenants. With the addition of 2,400 health care jobs in Fresno County between 2002 and 2005, demand comes as no surprise.

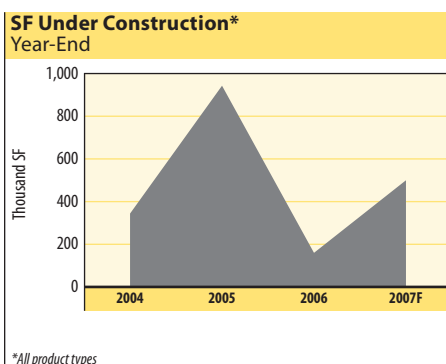
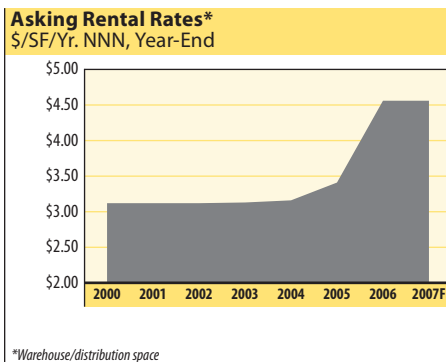
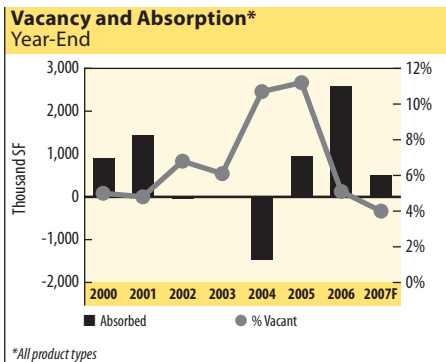
Overall, according to the State of California, 4,600 total jobs have been added between 2002 and 2005. This is a 27.2 percent gain resulting in record low unemployment numbers for the county.

A slowdown in the housing market raises some concern that office vacancies will be affected by cutbacks and layoffs in real estate-related industries. While locally there does seem to be some evidence that downsizing in mortgage and title companies is occurring, the general consensus is that unless the housing market suffers a severe and prolonged slump, the office market will not be significantly affected. On the flipside, the housing slowdown may actually be beneficial to commercial real estate as it may keep the Federal Reserve from hiking interest rates.

Reportedly, the largest office investment sale of the year was the sale of North Pointe Center. Consisting of four buildings totaling approximately 120,000 square feet, the center sold for \$26 million at a 7.35 percent cap rate. Additionally, approximately 50 office buildings less than 10,000 square feet traded hands during the year, predominantly to local buyers. This activity mirrors that of 2005.

As more Class A space comes on the market in 2007, expect rates to continue to rise for this product type. Vacancy may also rise slightly as absorption of new space lags behind completions.

The strategic location of the Central San Joaquin Valley has kept demand high for warehouse/distribution facilities. Tight conditions caused a 34-percent jump in rents.



The industrial market in Fresno can only be described as tight. There is little on the market and even less under construction. Even though more than 1.1 million square feet was added to the inventory in 2006, 2.5 million square feet was absorbed, resulting in a vacancy rate of 5.1 percent at year end. Rental rates took a 34-percent jump during the same period but are expected to level off in 2007.

2005 led the way into the development cycle, but a short supply of and high cost of land has stalled development in Fresno. However, many smaller towns up and down Highway 99 are proactively positioning land for industrial use.

Madera County, located 12 miles north of Fresno, has 95 acres of build-to-suit land that is partially rail-served, has an infrastructure in place and is located within the Enterprise Zone, Foreign Trade Zone and Recycling Market Development Zone. Two 72,000-square-foot speculative buildings are under construction in the Airport Industrial Park with additional buildings planned for development. Madera County is business friendly and is aggressively pursuing commercial growth.

Visalia, a very active industrial development market 30 miles south of Fresno, is now land-constrained. Applications for the annexation of 640 acres are in progress but have been bogged down by political and governmental issues.

The City of Tulare, 40 miles south of Fresno, has plans to annex 2,000 acres which are

anticipated to be "ready to go" within 18 months. Tulare County has also committed to work with smaller municipalities within the county to assist in the development of industrial projects.

As the Central San Joaquin Valley is strategically located to service the entire state, as well as portions of Arizona, Oregon and Nevada with overnight deliveries, demand is high for warehouse/distribution facilities.

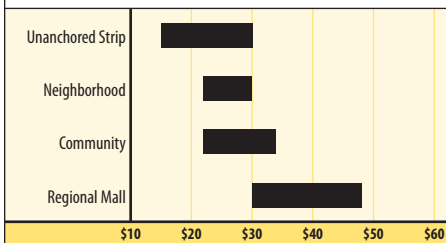
Industrial investment sales for the year were strong. The weighted average cap rate at year-end 2006 was 6.9 percent, down 1.2 percentage points from the same time last year.

Owner-users of smaller buildings continue to actively search for properties to buy. This trend has persisted for the last few years, as owners have taken advantage of a favorable buying environment with low interest rates rather than renting. Annually, 45 to 50 industrial properties under 20,000 square feet have sold in Fresno since 2001.

The slowdown in the housing market raises some concern that industrial vacancies may be affected by layoffs in construction-related industries. However, locally, there is no evidence of downsizing. The focus of construction is shifting from residential to commercial projects. The general consensus is that unless the housing market suffers a severe and prolonged slump, the commercial market in general will not be significantly affected.

A wave of metro-refugees has changed demographics in the Valley, resulting in a more sophisticated consumer. Many quality retailers have obliged and experienced great success.

Asking Rent by Center Type
In-Line Shop Space, \$/SF/Yr. NNN



New/Expanding Retail Tenants
2006/2007

	Store Type	Location
CVS Pharmacy	Drug Store	Fresno
REI	Sporting Goods	Fresno
Lowe's	Home Improvement	Tulare
Kumfs	Shoe Store	Fresno
Target	Department Store	Fresno/Clovis
Walgreens	Drug Store	Fresno/Clovis
Trader Joe's	Grocery	Clovis
Orchard Supply Hardware	Hardware	Fresno
Blimpie	Restaurant	Fresno/Visalia
Jimboy's Taco	Restaurant	Fresno/Clovis
Taco Del Mar	Restaurant	Fresno
Marble Slab Creamery	Restaurant	Fresno
zpizza	Restaurant	Fresno
It's a Grind	Coffee Shop	Fresno
Strings Italian Cafe	Restaurant	Fresno
Famous Dave's	Restaurant	Fresno

As the housing market goes, so goes retail. That's been the theme of the last several years. The housing boom in the Central Valley has led to several million square feet of newly constructed retail space and several million more in the planning stages. With the housing market slowdown, one would think that retail would follow. However, a lag between the two sectors is anticipated. More than 3 million square feet of retail space is in the construction pipeline in the Fresno/Clovis area alone.

Land and construction costs coupled with demand for space in new centers drove rental rates up across all product types. However, rents are projected to level out and remain steady in 2007.

Retail is still hot, and 2007 looks to be another strong year, but what will happen in the balance of the decade? Several major retail developments are planned up and down the Central Valley, but if the pace of new home building slows more than anticipated, these projects may be delayed.

The good news for Fresno and the rest of the Central Valley is that population growth is

projected to keep the Valley growing at one of the fastest rates in California. This fact alone will not sustain residential development at the levels of the last few years, but it should help perpetuate at least some demand for new housing in the foreseeable future.

The influx of metro-refugees over the first half of this decade has changed the demographics of the Valley resulting in a more sophisticated consumer that demands quality retailers. As a result, retailers such as Coach, Banana Republic, Pottery Barn, Cheesecake Factory and Fleming's Steakhouse have all come to Fresno with great success.

In last year's forecast report, it was mentioned that REI, an upscale sporting goods store, and CVS Pharmacy both had interest in Fresno locations. REI will soon be under construction and CVS is in the process of securing multiple locations throughout the Central Valley.

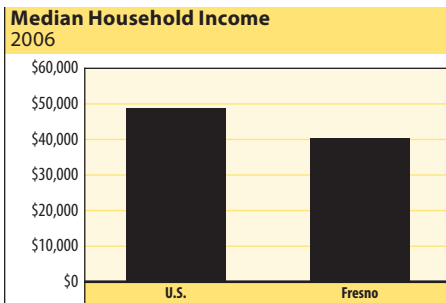
It has been said that the Central Valley is the "New California," and it's now on every upscale retailer's map.

Key Retail Centers Under Construction in 2007

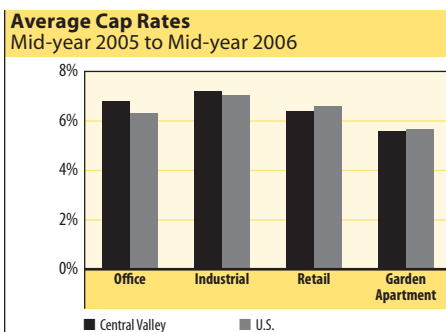
Center Name	Center Type	Location	Major Tenants	Size
Clinton & Marks	Neighborhood	Fresno	NA	110,000 SF
Herndon & Willow	Neighborhood	Fresno	Walgreens	76,000 SF
Kings Canyon & Fowler	Neighborhood	Fresno	NA	74,000 SF
Olive Mill	Neighborhood	Fresno	NA	148,155 SF
River Park Expansion	Regional	Fresno	REI	165,000 SF

Fresno Investment

Investment volume rose in 2006, led by the retail and apartment product types. Industrial sales volume increased a whopping 145 percent. Long-term, staggering growth projections should keep developers and investors quite busy.



Source: Claritas



Source: Real Capital Analytics, Grubb & Ellis

Another robust year for the Central Valley investment market occurred in 2006. The total dollar volume of \$5 million plus properties sold increased significantly when compared to 2005.

- Retail led the way in total volume, up by 6 percent. Office sales were up 50 percent, and industrial sales increased a whopping 145 percent. Apartments, while in second place, were down 2 percent.
- Cap rates were down slightly across all product types.
- For-sale offerings were down slightly for office and industrial, but apartment offerings increased by 27 percent and retail by 45 percent.

While the housing market has cooled significantly with much doom and gloom in the media, projected population growth for the Central Valley is staggering. Growth is projected to more than double the population to nearly 8 million people by 2050. And, naturally, as population increases, demand for homes will follow. The market may be pulling back to the levels experienced during the 2003 to 2005 period, but keep in mind that those levels were once record highs in the not-too-distant past.

The Central Valley is being referred to as the “New Orange County,” the “New California” and the “Last Frontier in California” for development. In 2006, there were 3,677 single-family residential building permits issued within the cities of Fresno and Clovis, 3,250 for Merced, Chowchilla and Madera combined, and 1,300 for Visalia, Selma and Reedley combined. There are over 38,000 units planned, under construction or recently completed within Fresno/Clovis and Visalia alone.

The California State Employment Development Department reports that 4,600 jobs have been added in Fresno County between 2002 and 2005. This is a 27.2 percent gain resulting in record low unemployment numbers for the county. The Regional Jobs Initiative (RJI), which is a collaborative group of community leaders from Fresno and Madera Counties, is midway through its five-year commitment to create 25,000 to 30,000 jobs by 2010. The group has achieved much success and has clearly been a catalyst to take this region to a new economic level.

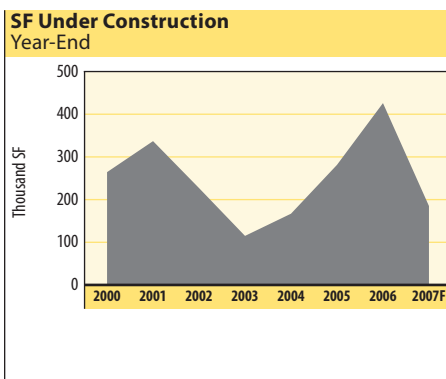
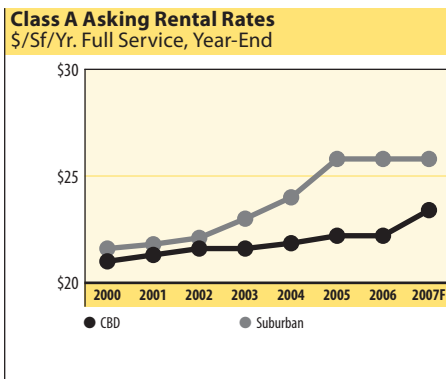
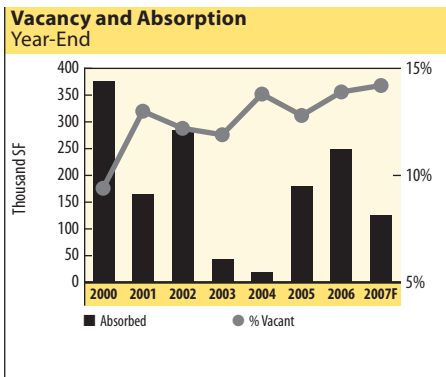
The Central Valley has always been heavily dependent upon agriculture-related industry for its economy, which in part tends to buffer the effects of economic conditions that may more heavily influence other regions. On the other hand, the RJI’s focus on developing new job growth in key non-agriculture-related sectors can only strengthen the Central Valley’s economic future.

Key Investment Transactions 2006

Buyer	Seller	Property Type	Property Name	Size	Sales Price (millions)
Guardian Equity Growth	Palm & Herndon Ventures	Office Complex	North Pointe Center	119,457 SF	\$26.0
Doctors Medical Plaza	Hands Equity	Neighborhood Shopping Ctr.	Time Square Shopping Ctr.	152,000 SF	\$23.0
TC Prop., LLC	Dynamic Redundancy	Industrial	7370 N. Palm	44,064 SF	\$11.4
New Plan Asset Mgmt.	Prado	Multi Housing	Orchard Square	120 units	\$8.5
LD Cobb Family Cal 2 LLC	Nova Nevada Devel.	Multi-Tenant Retail	Old Town Station	26,499 SF	\$5.7
Kalwant Dhillon, Etal	11th St. Partners, LLC	Multi-Tenant Retail	7033-7087 N. Cedar Ave.	12,890 SF	\$3.4

Source: Grubb & Ellis

Weakening tenant demand will increase vacancy in the first half of 2007.



Leasing activity remained constant throughout 2006, but its expected to slow in the first half of 2007. The cooling housing market was a cause for concern among office owners as vacancy rates crept up to 14.5 percent at year-end. It's unclear how the housing market will unwind, but further slowing is inevitable as dependent businesses respond to this change. Expect an early rise in the vacancy rate in 2007, with some improvement possible later in the year.

Development is showing signs of a pullback with some suburban Class A product on hold, pending lease-up of already completed buildings. Developers and lenders alike are expressing concern with the lack of tenant demand and limited pricing power. The price of land and cost of construction continue to make penciling a new project difficult. These factors combine to allow only new projects with substantial preleasing and strong prospects to receive final approval from developers and lenders. The majority of new construction in 2007 will be the continuation of garden-style projects currently in progress and completion of projects that were put on hold in late 2006.

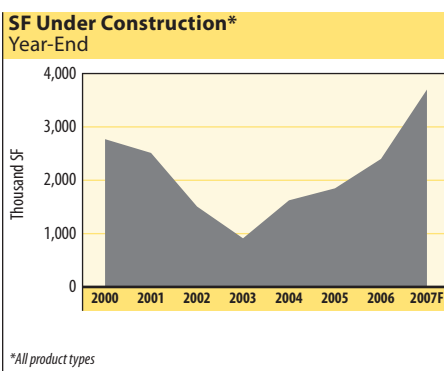
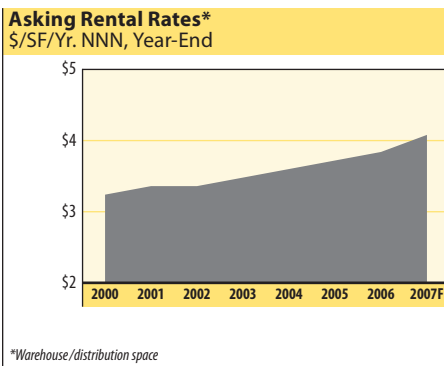
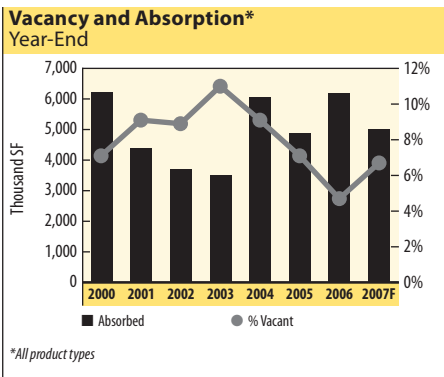
Concessions will continue to be the key in acquiring tenants. With tenants holding the cards, landlords need to be flexible while courting the few tenants currently in the market. A key concession in securing tenants is landlords' willingness to accommodate their required improvements. Average tenant improvement costs are close to \$60

per square foot and few tenants are willing to dip into their own pockets to fund short-falls. Landlords who have won tenant business have had to either increase the improvement allowance, amortize additional improvement costs into the lease, or both. The year ahead will hopefully bring a reduction in improvement costs as construction labor supply increases due to the slowdown in residential construction.

The Central Business District saw all the major properties change hands in late 2005 and 2006, and new owners have already begun to reap the rewards of the City of Reno's redevelopment efforts as rents rise and vacancies decline. Tenant demand in the Central Business District will remain strong as tenants find asking rates more attractive than those of suburban submarkets. However, expect rents to inch further upward should vacancy decline in 2007.

Investment demand has cooled from the beginning of 2006, but remains high by historical measures. The low cap rates Reno experienced during the latter part of 2005 and the first half of 2006 are a thing of the past for the time being as investors look for positive leverage now that they face interest rates above 7 percent for standard loans. Cap rates for Class A properties are ranging from 7.25 to 7.75 percent while cap rates for Class B properties now stand between 8 and 9.5 percent. These cap rates and strong demand should remain intact for 2007.

Large user arrivals coupled with already strong demand boost absorption and significantly cut vacancy. New development growth will provide much needed relief.



Bigger Boxes in Demand

The Northern Nevada industrial market welcomed an 890,000-square-foot Wal-Mart food distribution center to the Tahoe-Reno Industrial Center at the start of 2006. By the end of the second quarter the market's vacancy rate dipped below 5 percent for the first time in 13 years. Consistent demand, evenly distributed between new users and local company expansions, finally put upward pressure on rental rates. Warehouse/distribution space rents rose by 10 percent, setting the stage for new speculative development projects.

Construction Finally Kicks Off

The development community has taken its cue from the tightening market and embarked on over 3.7 million square feet of speculative and built-to-suit construction. Three million square feet of that total is actively under construction. Speculative boxes, the size of which Reno has not been accustomed to seeing, are now becoming commonplace. Speculative development projects ranging from 200,000 to 600,000 square feet commenced construction in the Stead, Patrick and Tahoe-Reno Industrial areas.

Spec-to-Suit Projects

Many of these speculative projects are presently being pursued by large mega users. This dynamic essentially tweaks a true speculative project to a "spec-to-suit" project as RFPs and letters of intent are put forth and agreed upon early in the development process. These mega requirements, targeting full buildings, or at least a major portion of the premises, will undoubtedly have a significant positive impact on the market in 2007.

It is certain that a significant amount of supply will hit the market in early 2007, however, the question is how much will be spoken for prior to completion. Expect consistent demand coupled with larger lease requirements to help keep vacancy in check; it dropped at the tail end of 2006 and should rise modestly in early 2007 as new product is brought online.

With no end in sight to upward pressure on construction costs, thus impacting replacement costs, and historically low vacancy rates, expect industrial buildings for sale to continue to remain in favor for both owner-users and investors in 2007.

As the spread of retail chases residential sprawl throughout the area... quality retail will surely be “coming to a neighborhood near you.”

Spreading swiftly throughout Northern Nevada, new retail development is changing the landscape in response to growing consumer demand and new shopping preferences. For years, the desired location for retailers has been centered in Reno’s “retail hub,” anchored by the Meadowood Regional Mall. But, it’s now shifting to locations within the greater Reno/Sparks area, the area convenient to the ever-growing residential neighborhoods. Prime new retail centers in these areas are welcoming a slew of nationally recognized tenants that are catering to more sophisticated and value-oriented consumer tastes.

In South Reno, Summit Sierra, a 700,000-square-foot open-air center anchored by Dillard’s, opened its first phase in Spring 2006 and soon several restaurants will open, to be followed by a 16-screen movie theater. Also completing additional phases are Damonte Ranch Town Center and The Commons, which will build their out parcels and in-line shops, respectively.

Spanish Springs continues its 1.4 million-square-foot massing of the contiguous retail space with Sparks Galleria, Sparks Crossing, Spanish Springs Town Center and the Rialto, all nearing completion.

Home Depot, Costco, Kohl’s and Super Wal-Mart are open with additional large and mid-size users on the way by early 2007. There’s more to come, including Kiley Ranch (450,000 sf), Los Altos Crossing (56,000 sf) Eagle Landing (131,000 sf), Stonebrook (450,000 sf) and Pioneer Meadows (125,000 sf).

In Sparks, “The Legend of the Marina” is set to break ground on a 1.35 million-square-foot regional tourist-oriented center. This project will feature family entertainment, recreation and much more. Additionally, Olympia Gaming purchased 12 acres to build a casino resort and spa, which will also include a minor league baseball stadium to enhance its family-oriented appeal.

In Northwest Reno, Ridgeview Plaza is adding a second 81,000-square-foot phase, featuring Ross and PetSmart. A new 136,000-square-foot redeveloped power center, Keystone Commons, is planned for the corner of Keystone and I-80.

In both downtown Reno and Sparks, there are currently about 2,250 condo units in various stages of construction or conversion. Retail opportunities are coming available in most developments to accommodate these new urban dwellers.

Retail Centers Opened in 2006, Under Construction or Planned for 2007

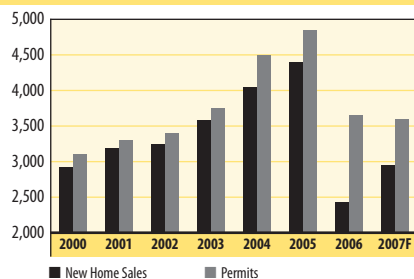
Center Name	Center Type	Size (SF)	Status	Anchors	Area
Legends at the Marina	Open-Air	800,000	Planned	Casino Spa & Resort, Scheels All-Sports, T-Rex Family Adventure, Dave & Buster’s, Saddle Ranch Chop House	Sparks
Sparks Galleria	Power	643,000	Phase 1 Complete	Costco, Home Depot, Gold’s Gym, World Market	Spanish Springs
Damonte Ranch Town Center	Power	527,000	Phase 1 Complete	RC Willey, Home Depot, Mattress World	South Reno
Sparks Crossing	Power	340,000	Under Const.	PetSmart, Bed Bath & Beyond, Best Buy, Old Navy	Spanish Springs
Longley Town Center	Neighborhood	138,300	Completed	Gold’s Gym, Shear Bliss	Southeast Reno
Summit Sierra (Phase 2)	Open-Air	97,200	Under Const./Completed	Century Theaters, BJ’s Brewhouse, Cortina’s, Tin Star, Buffalo Wild Wing’s, Johnny Carino’s	South Reno
Ridgeview Plaza (Phase 2)	Power	81,000	Under Const.	PetSmart, Ross Dress for Less	Northwest Reno

Reno

Land and Investment

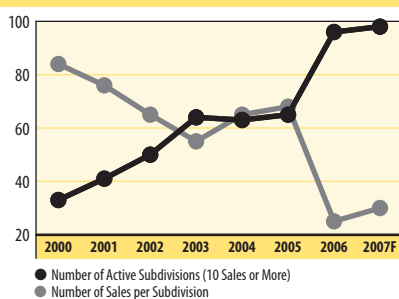
New home sales were down by over 40 percent last year and it impacted all submarkets and product types. The land and investment markets will feel the effects in 2007.

Supply and Demand New Homes

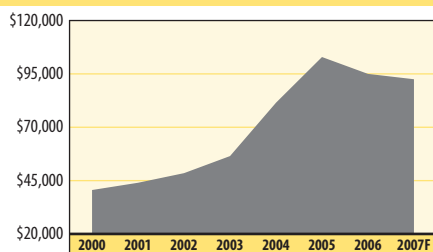


Source: Permits-BANN

New Home Subdivisions



Land Prices*



*Based upon a blended average of 5,000-square-foot lots

Land

As the number of new home sales declined in 2006, the number of active communities grew—from 69 in mid-2005 to 96 at the close of 2006. This sudden cooling of demand in the market has caught builders off guard. The aggressive pace of construction created standing inventory in most communities, a major red flag. In an attempt to eliminate this inventory, builders have offered base price reductions, free upgrades, broker co-op fees and interest rate buy-downs. Incentive packages in the market range from \$20,000 to \$100,000.

The new-home market is faced with additional downward pressure from the resale market; the number of active listings in 2006 doubled that of 2005, while closings were cut in half.

The slowdown in home sales has directly impacted the residential land market. Land opportunities ranging from raw land to finished home sites are abundant and available in all submarkets. Consequently, prices dropped over 10 percent and terms are considerably more favorable for buyers.

Conditions will remain extremely competitive throughout 2007 until the necessary price adjustments can reestablish better supply-demand equilibrium. Nevertheless, land will continue to be a valuable asset in the region as Reno's long-term prospects are bright along with its consistent job growth, great climate and high quality of life.

Investment

The investment market remained strong in 2006, although some cooling may be on the horizon. This will mean opportunity for those shut out of the market and challenge to others with lower quality assets. Although capital is still plentiful and inventory limited, higher lending rates and a better performing stock market should level cap rates.

Due to a shortage of available office properties and an uptick in vacancy, cap rates remained in the mid-6's, a trend that is expected to continue into 2007.

Retail investment opportunities are in short supply. The low vacancy, increasing rental rates and subsequent property appreciation has convinced most owners to hold for now. However, a slowdown in residential development may affect occupancy of newer retail centers. Cap rates for retail should remain low through 2007.

Industrial property demand remains strong. Low vacancy and increasing rental rates in 2006 encouraged speculative development that's still not enough to meet demand. Cap rates for "institutional grade" investment properties will stay in the low to mid-6's.

Multifamily investment is limited and investor demand is strong. High land and construction costs and demand for condo projects have limited new development. Low vacancy at 4 percent and increased rental rates will keep cap rates steady in 2007, expect high 5's and low 6's.

Company Profile

For nearly 50 years, Grubb & Ellis has built a reputation for providing high quality service and innovative solutions to our clients.

Grubb & Ellis Company is one of the world's leading full-service commercial real estate organizations, providing innovative, customized solutions and seamless service to owners, corporate occupants and investors throughout the globe. Research plays an integral role in our business, and our professionals have earned a reputation for providing informed solutions that combine local market knowledge with detailed analysis. We have the people, resources and best-in-class processes to deliver superior service whether a client needs help with a single location decision, or with complex business issues and multiple global facilities.

Service Delivery to Meet Client Needs

With one of the industry's most extensive office networks, Grubb & Ellis continues to broaden its resources and structure itself around the needs of our clients. We tailor our services to offer clients specific real estate expertise combined with sophisticated coordination and integration capabilities. Our comprehensive services platform includes three core business lines: transaction services, management services and consulting.

Transaction Services

Grubb & Ellis' transaction performance has enabled us to grow into one of the largest and most experienced real estate brokerage firms in the country, with more than 100 offices in the United States alone. Our teams of specialists cover all aspects of commercial real estate, including office, industrial, retail, investment, multi housing and land. These teams work closely with

owners, occupants and investors to assess the ways in which real estate issues relate to—and contribute to—an organization's strategic business objectives.

Transaction services include:

- Site selection
- Space expansion and consolidations
- Sale and lease negotiations and renewals
- Subleases/dispositions
- Facility relocations and acquisitions
- Build-to-suits
- Real estate needs analysis
- Thorough assessment of leasing opportunities
- Interpretations of market trends
- Occupancy projections and budgeting
- Qualification of prospects
- Recommendations on pricing and positioning for long-term value
- Competitive analysis
- Maximization of occupancy levels

Management Services

Grubb & Ellis delivers integrated property, facility and asset management services to a diverse corporate and institutional client base. We provide customized programs that focus on reducing operating costs, retaining tenants and securing long-term income streams that add value to properties. Our management professionals are experienced in many asset types—from manufacturing and

warehouse facilities, to data centers, retail outlets, medical office and multi housing properties. We've earned a reputation for consistent quality service, demonstrated by the fact that nearly one-third of all new property and facility management assignments come from existing clients.

Clients also count on us for:

- Business and fulfillment services
- Engineering services
- Energy management
- Call center support
- Emergency preparedness planning

Accurate and timely financial reporting, leading-edge mobile technology solutions, and standardized, documented policies and procedures designed to satisfy Sarbanes Oxley requirements and the most demanding internal controls are critical components of our value-added management services.

Consulting Services

As broader business goals increasingly meld with site-specific real estate issues, Grubb & Ellis has assembled a team of professionals dedicated to helping clients think through critical issues and create detailed real estate strategies that complement business goals. Changes in ownership, market shifts, new regulations, expansions, consolidations and procurement and outsourcing initiatives all have a significant impact on your specific real estate plans. Acting as a partner, or as the adjunct real estate department, we help our clients examine the range of issues

associated with their needs and build detailed real estate strategies to complement their short- and long-term objectives. Our professionals understand industry trends and business needs and how to translate them into real estate assets and operations.

Specific solutions include:

- Strategic portfolio planning
- Business location services
- Valuation and appraisal issues
- Due diligence
- Financial and investment analysis/cost reduction

Depth of Specialized Expertise

Through Grubb & Ellis' Global Client Services, our Corporate Services and Institutional Investment groups provide specialized teams of professionals that are dedicated to solving multi-market and multi-service line real estate issues for the largest corporate and investment clients. Offering expertise in office, industrial and retail properties, as well as investments of all types, our professionals deliver effective real estate solutions through a single point of contact, ensuring effective communication between clients and the vast resources of the Grubb & Ellis network. Clients, in turn, gain immediate access to real estate professionals with the highest level of experience.

Solutions for the Corporate Client

When it comes to corporate clients, Grubb & Ellis has a deep understanding of the procurement processes, diversity requirements, financing needs and reporting challenges of today's corporations. Global support resources, advanced technology and internal networking via sponsored specialty practices bring best-in-class execution to every assignment.

Areas of expertise include:

- **Tenant Representation Services:** Tenants with both single and multi-market needs capitalize on Grubb & Ellis' proprietary market research and extensive local market knowledge. Professionals assist throughout the space procurement process, from evaluating space needs and recommending creative solutions, to lease negotiation and move management.
- **Facility Management:** A pioneer in outsourced facility management services, Grubb & Ellis has the expertise to handle the most sophisticated facility requirements, including engineering services, transition support, centralized purchasing and financial reporting, technology evaluation and support, environmental and OSHA compliance, and 24x7 call centers.
- **Project Management:** Utilizing best practices in design and construction are additional ways Grubb & Ellis helps clients optimize value and improve operating efficiency. We understand development and tenant improvement projects. Smart, sound management following a systematic process ensures that projects progress on schedule and within defined cost criteria. Our project management professionals provide expert advice in the areas of planning, design management, construction and post construction.
- **Real Property Administration Services:** Through a dedicated service center, Grubb & Ellis provides comprehensive real property administration services for both leased and owned properties. Utilizing our proprietary database and trained professionals, we offer clients value-added services including lease abstracting, audit and database development, rent and

operating expense processing, lease escalation and CAM processing, and lease maintenance and reporting.

Solutions for the Institutional Investor

Grubb & Ellis assists institutional investors in the acquisition and disposition of institutional-grade assets across all property types on a local, national and global basis. The strength of the Institutional Investment Group lies in its collaborative platform, collectively sharing its knowledge and resources to benefit its individual clients.

In addition to many of the services we provide our corporate clients, institutional owners also look to Grubb & Ellis to maximize their investment returns through:

- **Property Management:** Our experience with a broad spectrum of property types enables us to provide customized solutions for some of the most prestigious corporate headquarters and Class A offices, as well as retail, manufacturing, warehousing and data centers.
- **Asset Management:** Grubb & Ellis develops and implements tailored asset management strategies that integrate proactive property management, focused marketing and leasing, and aggressive tenant retention efforts to achieve our clients' investment goals and objectives, for a single property or portfolio of assets.
- Financial reporting, including cash flow analysis, proforma analysis and financial modeling
- General service and contract administration

For more information on our integrated service platform and to view our locations, please visit us at www.grubb-ellis.com.

Grubb & Ellis is one of the most widely quoted sources when it comes to real estate market trends and their implications.

Over nearly half a century, our Company has built a reputation for delivering some of the most consistent, reliable real estate research and analyses in the industry, providing our clients the information they need to make sound business decisions and establishing Grubb & Ellis as one of the most widely quoted sources when it comes to market trends and their implications. "According to Grubb & Ellis..." is heard consistently in board rooms and in the press, forming the basis of smart real estate decisions and overall business strategy. Respected business and trade publications, admired multi-market corporations and the industry's savviest owners and investors rely on us for timely, in-depth reports on both big-picture trends and significant local developments. *The Wall Street Journal, Bloomberg Business News, The New York Times, The San Francisco Chronicle, The Los Angeles Times, The Washington Post, The Miami Herald* and *Crain's* are just a few of the publications that look to Grubb & Ellis for expert commentary on the forces shaping today's commercial real estate landscape.

A network of 125 research professionals in more than 100 local offices leverage four components to achieve our unique and comprehensive research insights:

- ***Our professional research managers and their staff***, whose critical function it is to build the base of market intelligence in each office and provide published reports and custom analyses to our clients. Grubb & Ellis pioneered the concept of hiring professional research managers to build

the Company's research function, which is widely viewed as having the most accurate grass-roots level data in the industry. Incoming research analysts and brokers are trained to understand the nuances of the real estate cycle, inflection points in the cycle, leading indicators, and the actions and advice that are appropriate for each phase of the cycle.

- ***Our systems*** used to compile, maintain, analyze and disseminate our research. Grubb & Ellis was a pioneer in the field of computerized market research and analysis. Most of the Company's offices have been tracking data for more than two decades. In addition to subscribing to the top property databases in the industry, since 1999 Grubb & Ellis has used a proprietary, centralized Web-resident data warehouse to track its property-specific data, including property details, images, available space, leasing and sales comparables, and tenant information, all in an easy-to-use format. The system is based on a rigorous set of research standards designed to ensure that data are consistent across markets.
- ***Our reports and publications*** through which we translate our extensive databases into analysis, insights and actionable recommendations for our clients. In addition to our annual national and local forecast reports, Grubb & Ellis produces quarterly *Market Trends* reports that analyze local and national market conditions throughout North America by product

type, quarterly capital markets reports and white papers on timely topics.

- ***Our real estate sales professionals***, whose familiarity with the people and the property in their submarkets yields a daily, in-the-trenches grasp of changing market conditions. The creation of market intelligence is a team effort, with knowledge flowing constantly between our research teams and our sales professionals. This knowledge is integrated with our professionals' insight and experience, forming a solid foundation from which to advise clients, and giving Grubb & Ellis and its clients a competitive edge.

The field of real estate research is changing as rapidly as the industry itself, which is demanding more accurate data and sharper analysis, fueled by increasing market transparency, the securitization of real estate and the need for accountability to investors. And it's not just institutional investors who are driving the demand for stronger research. Corporations in all sectors of the economy are re-thinking their real estate strategies to free resources that can be more wisely invested in core business segments. They need timely, accurate and insightful market research to guide decisions. To meet this need, Grubb & Ellis will continue to invest in research with the goal of ensuring that our clients have access to the very best market intelligence in the industry.

For ongoing research information, please visit www.grubb-ellis.com/research.

Grubb & Ellis research teams across the country work together to ensure our clients have the most up-to-date market knowledge.

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Grubb & Ellis, IREN, Real Capital Analytics, State of California, Claritas, CoStar Group, Crittenden, The Conference Board, U.S. Census Bureau, U.S. Department of Commerce, *Mercury News*, *San Francisco Business Times*, *San Jose Business Journal*

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