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From Insight to Results

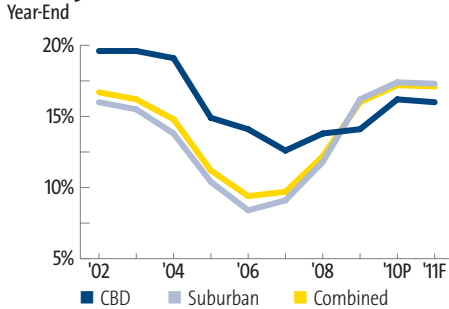
2011 Forecast

Custom Report

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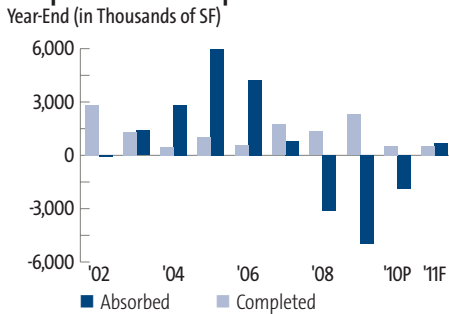


Vacancy Rate



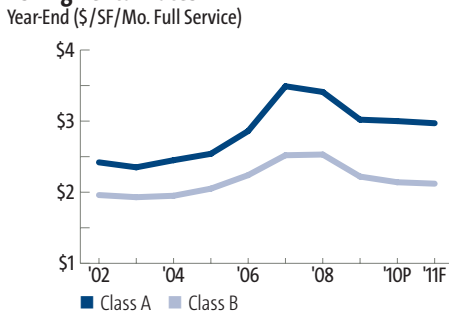
Source: Grubb & Ellis

Completions vs. Absorption



Source: Grubb & Ellis

Asking Rental Rates



Source: Grubb & Ellis

Improvement in office sector employment will contribute to marginal positive net absorption, but delivery of vacant new buildings will keep the vacancy rate at historic highs in 2011.

Market Assessment/Summary

Weak tenant demand led to falling rents and declining occupancy in 2010. However, deterioration in these office market fundamentals slowed from 2009. Vacancy increased 120 basis points in 2010 – slower than the 380 basis point annual jump in 2009 – as landlords struggled with maintaining occupancy. Concessions were widely used to keep existing tenants and attract new ones. Stable businesses with an ability to project future stability and/or growth were able to lock in deals with traditional term lengths. Tenants remained in control of the market by year-end 2010 as they shopped around for the best deal. For the most part, business decisions were driven by cost-savings in the short-term despite the great opportunities to lock in long-term deals at historically low rents. As such, leasing activity remained at a low volume and was dominated by renewals. In some cases, tenants were renewing for short-terms in an attempt to wait for more clarity on the future direction of the economy.

By year-end 2010, Class A and B average asking rents declined 14 and 17 percent, respectively, compared to early 2008. Notably, the rate of decline in asking rents slowed considerably in 2010:

Class A average asking rent declined 70 basis points, while Class B declined 3.6 percent from 2009. This annual decline was less drastic than 2009 when Class A and B asking rents dropped 11.4 and 12.3 percent, respectively, compared to 2008.

An early indicator of future recovery was the decline of sublease availability in 2010. Available sublease space dropped by more than 25 percent from its peak at just under 7 million square feet in the third quarter of 2009 to approximately 5 million square feet by year-end 2010. Approximately 70 percent of this decline was the result of leasing activity.

West Los Angeles

The Westside showed early signs of recovery as the vacancy rate dropped 40 basis points in the first three quarters of 2010. However, delivery of almost 300,000 square feet of vacant space in the Marina/Culver City submarket in the fourth quarter of 2010 brought the vacancy rate on the Westside back above 16 percent. Submarkets such as Santa Monica, Westwood and Beverly Hills have improved occupancy since the beginning of the year as tenants found excellent deals in these markets, but have stagnated more recently as job growth remains elusive. Century City and Miracle/Park Mile submarkets saw the strongest increase in vacancy

Key Leasing Transactions

2010

Lessee	Lessor	Property	Submarket	Size (SF)
Comcast Entnmt.	RREEF Real Estate	5700-5750 Wilshire Blvd. ^R	LA West	355,300
So. Cal. Gas Co.	MPG Office Trust	555 W. 5th St. ^R	LA Downtown	350,000
Farmer's Insurance	JP Morgan Chase	6303 Owensmouth Ave.	LA North	180,000
Univ. of So. Calif.	Brookfield Properties	4676 Admiralty Way ^R	LA West	160,000
City of Los Angeles	Charter Holdings, Inc.	1200 W. 7th St.	LA Downtown	147,000

(R) = Renewal

Source: Grubb & Ellis

in 2010. Some law firms relocated from Century City to Westwood to take advantage of exceptional deals. Class A asking rents declined between 2 and 5 percent for every submarket on the Westside, except Santa Monica and Marina/Culver City. Santa Monica's Class A asking rent found a floor near \$4.15 to \$4.20 per square foot, while Marina/Culver City experienced a decline of over 13 percent. In 2011, there will be a rise in demand for the highly desirable Westside business address at historically great values. However, with the economy still in a jobless recovery, this uptick and demand is likely to be modest at best. Asking rents will bottom out in 2011, and occupancy will slowly rise as the year progresses. However, before that, the looming availability and vacancy of the Northrop Grumman headquarters and MGM space in Century City will increase vacancy on the Westside.

Downtown/Mid-Wilshire

Occupancy in Downtown and Mid-Wilshire was hit extremely hard in 2010 relative to other Los Angeles submarkets. After growing by only 30 basis points in 2009, the vacancy rate in Downtown shot up by more than 200 basis points in 2010. Asking rents on Class A and B have fluctuated in a narrow range while effective rents are being locked in well below asking. This has made asking rents

less meaningful in the current climate. Although vacancy escalated at a quicker rate in 2010 than 2009, it remains well below the 20 percent highs in the 1990s. Improved amenities and a lack of new construction in the submarket will prevent it from returning to those levels in the near future. Mid-Wilshire asking rents remained unchanged through 2010, and, as a result, vacancy spiked by over 400 basis points in the lowest-cost office submarket in Los Angeles. Downtown vacancy is likely to stagnate in 2011 as job growth will not reach the core business services tenants until the end of the year – in an optimistic scenario – or 2012. Mid-Wilshire is likely to see more pain as rents in more attractive submarkets decline more substantially, leaving Mid-Wilshire less competitive for the few tenants in the market.

South Bay

The South Bay had the third highest vacancy rate of all Los Angeles submarkets in 2010, at about 19 percent. The largest office submarket within the South Bay, El Segundo/Beach Cities, saw further increases in vacancy in 2010, keeping pace with the increase in 2009. Long Beach Downtown and Long Beach suburban seem to have reached a peak in vacancy. Asking rents declined modestly across the board with the exception of a steep decline

in Class B space. A major blow in 2010 was Boeing vacating almost 300,000 square feet of office space in El Segundo. The aerospace/defense industry has notably pulled back its office requirements in Southern California during this recession. As job growth remains elusive, the South Bay will likely remain stagnant in 2011.

LA North

Vacancy rose further in 2010, but the pace at which space came back to market slowed. It is likely that the vacancy rate is near its peak now, at just under 20 percent. Watch for vacancy to remain at this heightened level throughout 2011 with some modest improvement in the second half of the year. Asking rents on Class A space fell between 4 and 11 percent among the North submarkets. Overall Class B space performed better with declines between 2 and 8 percent except for the Santa Clarita Valley submarket, which saw a 16 percent decline. Rents will likely reach bottom in late 2011 or early 2012.

Tri-Cities

The Tri-Cities were among the hardest hit in 2010, with Glendale experiencing the swell in vacancy at over 400 basis points from 2009. Vacancy in Burbank and Pasadena rose by 200 basis points. Asking rents seem to have temporarily

Los Angeles Office

continued

reached bottom in Burbank, but effective deals (including concessions) were signed below asking rents.

Glendale and Pasadena saw 6 to 16 percent declines in Class A and B rents. Weakness in the labor market will continue to hinder the Tri-Cities in 2011.

San Gabriel Valley

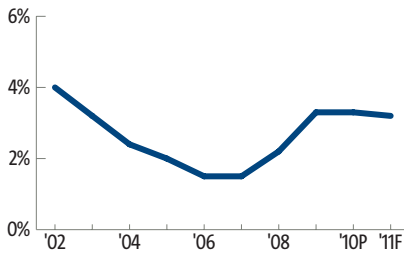
The San Gabriel Valley was among Los Angeles' better performing submarkets in 2010. Owner/ user purchases such as Southern California Edison's acquisition of a 150,000-square-foot office building helped keep the 2010 vacancy rate among the lowest in the region, at just above 10 percent. Asking rents declined between 2 and 10 percent in the submarket and are likely to decline further in 2011 as tenant demand will remain weak through at least mid-year – if not into 2012.

Forecast

Los Angeles County office sector jobs are forecasted to grow by 17,000 new payroll positions in 2011, according to the Los Angeles Economic Development Corporation. This modest growth will translate into improved demand for office space. However, many tenants with leases expiring in 2011 are currently occupying space that is underutilized by as much as 60 percent in some cases. Production efficiencies and further cost-streamlining will likely lead to continued downsizing in 2011. As expected, speculative construction completions delivered in early 2011 will add to the vacancy rate. By year-end 2011, new buildings and growth in tenant demand will keep the vacancy rate virtually unchanged at 17.1 percent. Asking rents will modestly decline 1 percent for both Class A and B rents as they near bottom in late 2011.

Vacancy Rate

All Product Types, Year-End



Source: Grubb & Ellis

After two and a half years of tough economic times, optimism is returning as the industrial market slowly hits bottom and turns the corner.

Los Angeles' economy has technically moved past the recession, but psychologically, the pain of the past few years still lingers. The gray cloud that hovered over the economy has also penetrated the psyche of the local industrial user. The market has witnessed declining property values and asking rental rates, while the vacancy rate has increased moderately. That being said, steep spikes in vacant space and mass amounts of negative net absorption that were predicted at the outset of the economic meltdown never materialized in the Los Angeles industrial market. All things considered, the Los Angeles market held up remarkably well. It now appears the region is in the midst of a soft landing as market conditions bottom out.

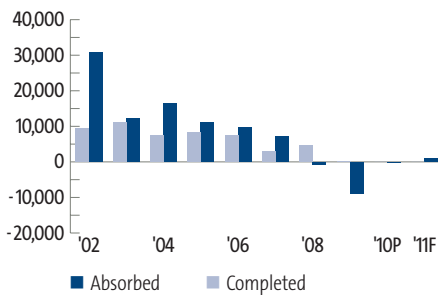
The Twin Ports, which serve as the lifeblood to the Southern California industrial market, and more specifically Los Angeles, maintained their top two national rankings with regards to cargo volume in 2010. The recession did indeed have a large impact on port volumes nationwide as consumer demand dropped, and goods flowing through the ports decreased. However, after a few years of declining volume at the Ports of Los Angeles and Long Beach, trade figures began to turn around in 2010 as retailers restocked their depleted

inventories. This growth is projected to continue increasing well into 2011. Approximately 40 percent of the nation's imported goods flow through the two Southern California ports. Of that 40 percent, about 50 percent of those goods remain in the region, either in local warehouses or on the shelves of area retailers.

Although depressed trade volumes at the ports and weak consumer demand inflicted a measure of discomfort on the counties' industrial market during the recession, Los Angeles was able to meet the challenge from a position of relative strength. Due to a shortage of developable land, Los Angeles did not experience the overbuilding that occurred in neighboring markets such as the Inland Empire. Despite hitting a 7-year high with regards to vacancy in the first quarter of 2010, the vacancy rate stabilized throughout the remainder of the year.

Completions vs. Absorption

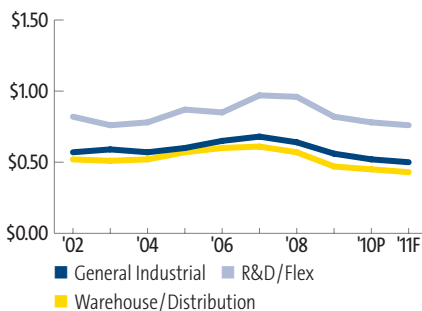
Year-End (in Thousands of SF)



Source: Grubb & Ellis

Asking Rental Rates

Year-End (\$/SF/Mo. Triple Net)



Source: Grubb & Ellis

Key Leasing Transactions

2010

Lessee	Lessor	Property	Submarket	Size (SF)
Price Transfer Group	Watson Land Company	1130 E. 230th St.	South Bay	219,097
Advanced Logistics	First Industrial Realty Trust	19067 S. Reyes Ave.	South Bay	173,000
Alticolor/Access Business Group	Golden Springs Development Co.	12825 Leffingwell Ave.	Mid-Cities	155,484
Louis Vuitton	ING	4775 Irwindale Ave.	San Gabriel Valley	127,440
Orange County Container Group	Hico Spring Air, LLC	111 N. Baldwin Park Blvd.	San Gabriel Valley	114,570

Source: Grubb & Ellis

Los Angeles Industrial

continued

Mid-Cities

After a very mild recovery in the beginning of 2010, the Mid-Cities market contracted in the second half of the year. Activity faltered, posting about half the transactional volume it enjoyed during the year's first half. Brokers reported that activity slowed because many businesses took advantage of the market's low price points at the beginning of the year and locked in lease terms at that time. The vacancy rate remained the highest in the county at 5 percent and absorption turned negative by year-end. Asking rates will continue to drop in 2011's opening months, which will hopefully entice more users into the market as the year unfolds.

North Los Angeles

The North LA market witnessed steady declines in the vacancy rate throughout 2010. This decline occurred in lockstep with the freefall in asking rental rates. Asking rental rates, which stood at levels not seen since the late 1990s, enticed tenants into the market and spurred leasing activity. The falling vacancy rate was also due in part to the submarket's supply constraints, combined with the unique, small scale manufacturing and warehousing outfits found in the San Fernando Valley. Many of the users who call LA North home have been in the area for a number of years and, in many cases, would only leave the valley in the event of having to close up shop. This, paired with a lack of developable land, has and will continue to keep the vacancy rate in the sub 5 percent territory moving forward.

LA East/San Gabriel Valley

After a rough couple of years, it appears the tide is beginning to turn in the San Gabriel Valley market. The vacancy rate declined consistently throughout 2010 as asking rental rates leveled off. Leasing activity stalled in last year's closing months as many import/exporters operating out of the Valley capitalized on the strength of the Asian currency and opted to cash in on the cheap sales market, becoming owners as opposed to tenants in the market. 2011 will be a year of relative stability as users settle down and stay put.

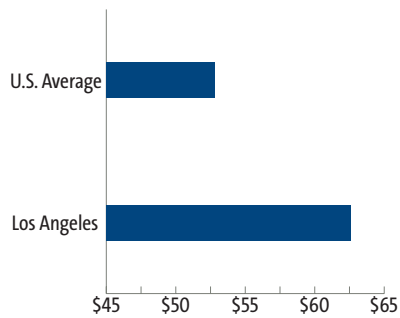
South Bay

The South Bay continues to be a "must location" for logistics companies, many of whom hold surplus space waiting for the rebound to take hold. The vacancy rate hit a 6-year high of 3 percent in the latter half of 2010, but asking rental rates stabilized as many landlords saw value in their high quality, well-located buildings and waited for tenants to come to a similar realization. It is important to remember that this premiere submarket continues to out-perform any other comparable industrial market in the country. The South Bay market's location and strong ties to two of the world's largest ports are what will continue to secure its place as the strongest market in the nation. Looking ahead to 2011, rents will see mild uptick in the second half of the year as absorption turns positive and the vacancy rate decreases.

Forecast

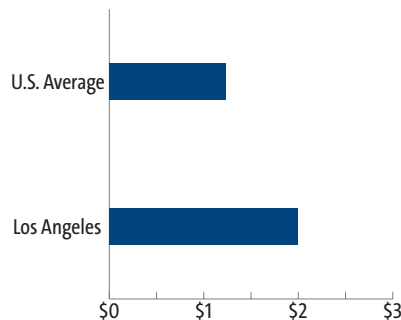
With its strong fundamentals such as its natural deep-water harbor, large-scale logistics industry and export-oriented manufacturing, Los Angeles is well-positioned to recover more rapidly than other industrial markets around the country. Looking ahead to 2011, the vacancy rate will likely decline slightly, reaching 3.2 percent by the year's close, as port activity makes a positive comeback and retailers begin to regain their footing in this uncertain economic climate. Asking rental rates will decline by roughly 3 percent across all property subtypes in the coming year as tenants remain in the driver's seat with regards to pricing. That being said, the overall consensus is that the market is at or near bottom and the worst is now in the past. What remains to be seen is how long the market will remain at these depressed levels, and at what pace the upward growth will occur. Many economists believe a new normal has been reached, and peak levels seen in 2006, may be a thing of the past in the foreseeable future.

Median Household Income 2010 (in Thousands)



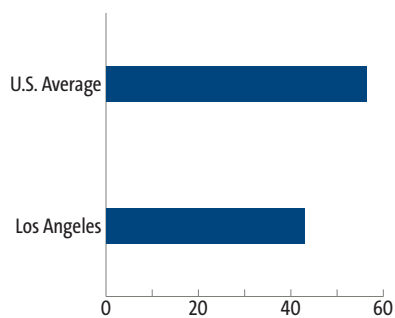
Source: Claritas

Average Asking Rent Shopping Center Space, 2010 (\$/SF/Mo. Triple Net)



Source: Grubb & Ellis

Retail Square Feet Per Capita 2010



Source: CoStar, Claritas, Grubb & Ellis

Tenants Expanding or Downsizing 2011

New to Market/Expanding	Downsizing
Dollar Tree	Starbucks
Wal-Mart	Blockbuster
24 Hour Fitness	Daphne's
Five Guys Burgers and Fries	Borders
Sprouts	Hollywood Video

Source: Grubb & Ellis

Persistent uncertainty in the employment sector is still weighing heavily on the minds of consumers, who remain cost-conscious and have yet to loosen their purse strings.

In the wake of the worst recession in recent history, the Los Angeles retail market has managed to hold its ground. With the vacancy rate hovering around 5 percent for the better part of 2010, it seems the bloodletting of 2009s retail bankruptcies and store closures has subsided. Those who have managed to weather the storm are now looking to reposition themselves and capitalize on the discounted asking rental rates as well as finding new, more desirable space within the vacant pockets created by those who have left the market. That being said, the turmoil that persists in the economy can not go unmentioned.

Los Angeles County's unemployment rate hit record highs in the latter half of 2010, and, in response, consumers continued to curtail their spending habits. Consumer confidence, while improving slightly, remained at historically low levels at the end of the year. Once again, emphasis has been placed on necessary versus discretionary spending. As evidence of this shift, discount retailers have led the way in earnings. Formats like Dollar Tree, Dollar General and the 99 Cents Only stores all outperformed the overall retail industry average in 2010. The dollar store reign also appears to be spreading; stores such as Rite Aid are rolling out new strategies to focus on value-merchandise at some of their existing locations. Discount big-box retailers including Target, TJ Maxx and Wal-Mart also continue to perform well as consumers do what they can to stretch a buck.

Cost-conscious consumers have continued to shy away from fine dining establishments, instead choosing to either dine at home or seek out budget-friendly, value-oriented restaurants. This has translated into positive growth for smaller, neighborhood grocery stores as well as for chain restaurants and fast food eateries.

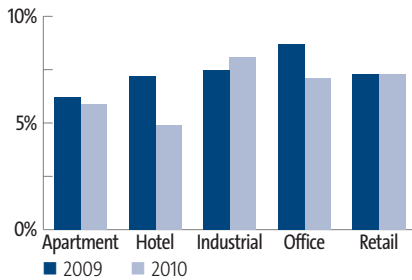
These trends are becoming ever more apparent in the local real estate market as lower-end retailers drive market activity. Many landlords – previously discouraging discount outlets from taking space in their prime retail centers – have come to realize that market conditions do not currently allow such picky discretion.

Looking ahead to 2011, the overall state of the retail market will depend largely on improvements in the local and national economy, and namely on increases in employment. It is clear that consumers need to feel comfortable about their employment status before they loosen the reigns on their spending habits.

Los Angeles Investment

Average Capitalization Rates

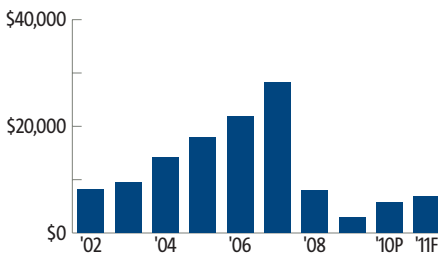
Closed Sales



Source: Real Capital Analytics, Grubb & Ellis

Property Sales Volume

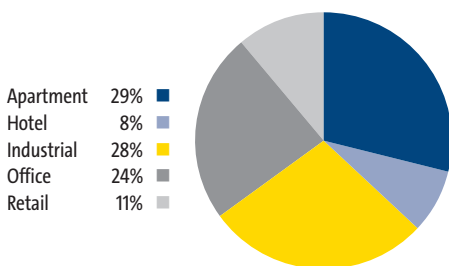
(in Millions)



Source: Real Capital Analytics, Grubb & Ellis

Sales by Property Type

2010



Source: Real Capital Analytics, Grubb & Ellis

Key Investment Transactions

2010

Buyer	Seller	Property Type	Property Name	Submarket	Sale Price (Millions)
Digital Realty Trust	Rockwood Capital JV 365 Main Inc.	Industrial	2260 E El Segundo Blvd.	LA South Bay	\$ 358.2
KBS REIT	Hines Interests LP	Office	445 S. Figueroa St.	LA Downtown	\$ 208.0
UDR, Inc.	BlackRock/CalPERS JV	Apartment	13603 Marina Pointe Dr.	LA West	\$ 157.5
Far East Consort./ New World Dev. JV	Banco Inbursa	Retail	9900 Wilshire Blvd.	LA West	\$ 148.3
Shenzen NW Group	General Electric Cap. Corp.	Hotel	333 S. Figueroa St.	LA Downtown	\$ 62.6

Source: Grubb & Ellis

Demand will rise as a perceived historic buying opportunity comes into focus. A lack of supply, however, will keep transaction volume growth limited.

Los Angeles' investment market began to thaw in 2010. Transaction volume was up from 2009s 10-year low, at between 60 and 400 percent, depending on asset class. Traditional conduits for financing showed early signs of returning to the market with increased lending capacity from insurance companies by year-end. While commercial banks are beginning to exhibit a willingness to lend, tighter underwriting standards and weak asset fundamentals kept deal volume well below the heights recorded four years prior. CMBS financing is coming back to life, but the market for such loans remains weak. Distressed assets in all property types are trickling onto the market with potential buyers pouncing; however, government support through the Treasury, FDIC and Federal Reserve has given banks the power to extend loans and not recognize losses. As a result, distressed assets will come to market more slowly than expected and over a longer period of time. Investors are sitting on the sidelines with lots of cash, patiently waiting to target the right asset purchase. In the end, a lack of attractive available properties to purchase is keeping volume suppressed. Limited property choices have contributed to a developing trend in the purchase of notes at discounts by investors with the intention of foreclosing

on the property and refinancing to reposition it at a healthy valuation. The gap between a limited supply and the demand for distressed properties will narrow in 2011 as asset fundamentals improve and both transaction volume and price per square foot across all property types increases.

Office

The jobless recovery kept demand for non-distressed office properties extremely low. Two major buildings traded hands in 2010 with KBS Realty Advisors taking Union Bank Plaza in Downtown Los Angeles, and Douglas Emmett acquiring 12121 Wilshire Blvd from distressed Namco Capital Group in Brentwood. Opportunity for distressed office purchases did not materialize at the volume some market participants forecasted. This is a reflection of a concerted asset price-stabilization led by the government to keep commercial foreclosures at a manageable level. Distress remains in the office sector and will linger until sustainable job growth improves occupancy and rents. Modest job growth is expected in 2011, and office fundamentals appear to be nearing a bottom with vacancy projected to peak in 2011, but remain elevated into 2012. Rents will slide through 2011. Large amounts of cash are waiting to be deployed and will either be channeled to the few distressed assets and notes available or drive up the price per square foot once fundamentals improve by 2011s end.

Los Angeles Investment

continued

Industrial

The industrial investment market fared better than other Los Angeles product types in 2010. Digital Realty Trust purchased a data center and adjacent industrial building in the South Bay in the largest sale of the year across all asset types. This is a direct result of the local market's relative health compared to the rest of the country. Los Angeles has maintained the lowest vacancy rate of any industrial market in the U.S. due to its proximity to the two largest ports in the country and its lack of developable land. Inventory restocking by retailers in early 2010 contributed to stabilization in vacancy, and rents slowed their decline with a bottom expected to be reached in 2011. As the economy recovers in late 2011 into 2012 there will be even stronger demand for industrial properties in Los Angeles. Demand in 2010 pushed the average price per square foot above 2005 levels to \$106 per square foot. However, buyers will seek excellent deals in the weak economic climate and sellers are unlikely to accept capitalization rates sought by buyers, which will keep sales volume growth modest in 2011.

Retail

Consumer confidence and spending remained at repressed levels in 2010 due to the lack of wage and job growth. Additionally, consumer lending remained tight, helping to keep consumer spending down. Market rents continued to slide as a result of the weakness in the retail sector, despite Los Angeles' local market being healthier than the national average. Local annual sales volume was

up 60 percent in 2010, but remained 13 percent below 2008s volume and 80 percent less than 2007s peak. Cap rates were unchanged at 7.3 percent. As the nascent economic recovery leads to stabilization in consumer spending in 2011, expect investors to sense a pending bottom in the market and increase demand for retail product. A lack of available product for sale will keep volume relatively low with most owners finding no reason to sell in the current climate.

Multi Housing

Apartment investment withstood the economic downturn comparatively better than other commercial property assets. This is primarily the result of ongoing access to financing through government and government-sponsored entity channels. Liquid financing, coupled with underlying population growth fundamentals, increased annual deal volume by 60 percent in 2010. Although volume was 75 percent less than 2007s peak, investor demand and extremely cheap financing pushed the average price per unit for apartments to a new high of \$212,510. Multi housing has benefited from stronger fundamentals more than other commercial real estate assets – despite a lack of wage and job growth constraining cash flow – since the housing market's correction of years past increased the renter pool. Expect improvement in rents in 2011, which will lead to further demand for this product type. Riskier fundamentals on other investments will make apartments desirable, yet a limited supply will keep deal volume relatively low.



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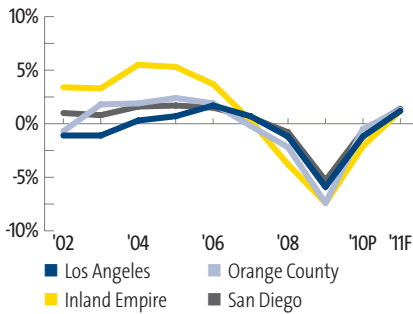
Hotel

Hotel sector investment was resurrected from its 2009 lows during 2010; annual sales volume increased 380 percent to over \$400 million. Fundamentals have begun to improve since demand from business travel and leisure travel is on the rise as the economy slowly recovers. Appreciation in the stock market has backstopped wealth and led to more pronounced increases in REVPAR and occupancy in premiere destinations such as Beverly Hills and Santa Monica. Through 2011, expect further improvement in hotel fundamentals that, in turn, will translate to heightened investor demand. The average cap rate dramatically dropped from the mid-7s to 4.9 percent in 2010. This move was led by the purchase of the Extended Stay portfolio by a joint venture headed by Blackstone: of the total portfolio's assets, \$190 million-worth was located in the Los Angeles market.

Southern California Economic Overview

Nonfarm Employment Growth

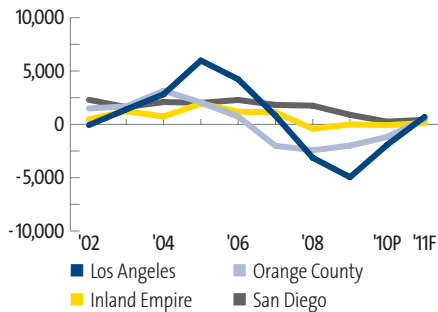
By Region



Source: Claritas

Office Market

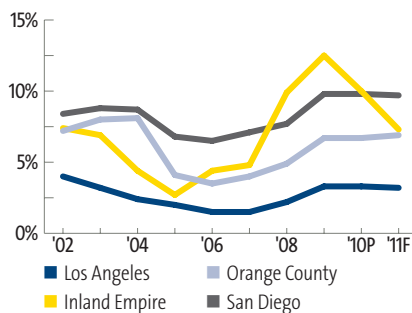
Net Absorption by Region (In Thousands of SF)



Source: Grubb & Ellis

Industrial Market

Vacancy Rate by Region



Source: Grubb & Ellis

The economic recovery will continue in 2011 and become more widespread in the U.S., California and Southern California. However, rates of improvement are expected to be moderate.

As 2010 levels of activity were quite low in most sectors, the coming improvement may not be readily discernible; especially early in the year. Two much-reported sectors will continue to generate negative headlines: housing and state/local governments with budget constraints.

Unemployment rates will remain high in 2011, staying at double digits throughout most of California. The prominence of this indicator in media discussions about the economy exacerbates feelings of uncertainty and economic insecurity and results in low levels of consumer and business confidence. However, high jobless rates mask the underlying changes taking place as the economy moves into recovery mode. These changes will become more visible as 2011 progresses.

The economy's main drivers during 2011 will be consumer spending for goods and services, business investment in equipment and software and exports of U.S. products to the rest of the world. Weakness will persist in nonresidential construction and state/local government spending. Housing activity will increase in 2011 but remain at depressed levels.

Federal government stimulus spending to combat the recession peaked in 2010 and will decline in importance throughout 2011. There will be more calls for additional assistance in 2011, especially from revenue-short state and local governments. However, the November 2010 election results suggest the new Congress will place more emphasis on deficit reduction, limiting the dollars available for additional stimulus. The Federal Reserve will try to step into

the breach to keep short-term interest rates near current ultra-low levels and driving long-term rates down as well. No significant upward movement in rates is expected during 2011 unless the pace of the recovery accelerates considerably more than currently anticipated.

California's economic recovery is underway, though lagging behind the rest of the nation. Encouraging signs of improvement include upturns in personal income and taxable sales in 2010, along with a surge in international trade flows and better performance in the tourism and high-tech sectors. Major concerns surround the state's housing industry, school districts and various local governments (many of which have gaping wounds in their budgets and need to reduce spending).

California's 2011 growth industries will include three carryovers from 2010: international trade, tourism and technology. As the recovery spreads during the year, more industries will start to record positive results. In addition, several heavy construction projects will lend strength, including the Gerald Desmond Bridge Replacement at the Port of Long Beach (\$950 million) and expansion/modernization of Union Pacific's Los Angeles Intermodal Container Transfer Facility (\$300 million). Several Southland airports are expanding capacity and/or modernizing existing facilities.

Nonfarm employment hit bottom in California during 2010, falling by 1.6 percent, a loss of 220,000 jobs. However, job counts will return to growth mode in 2011, increasing by 90 basis points. Thirteen of sixteen major industry sectors recorded lower employment in

Southern California Economic Overview

continued

2010. The largest job losses occurred in construction, manufacturing, retail trade and state/local government. Just two major sectors will continue to lose jobs in 2011: manufacturing and government. The largest growth in job counts during 2011 will come in leisure and hospitality, administrative and support services and retail trade.

Southern California's economy touched bottom during 2010, with a measured recovery expected in 2011. Employment declined by 1.6 percent in Los Angeles County during 2010, a loss of 60,000 jobs. Job counts are expected to grow by 90 basis points in 2011, or by 35,000 job additions. Orange County is performing somewhat better, with employment down by 10,000 jobs during 2010, a decline of 80 basis points. All of those losses will be recouped in 2011, as total nonfarm job counts are expected to rise by 15,000 jobs, a 1.2 percent increase. The Inland Empire posted a comparatively deeper employment decline of 2.7 percent in 2010, a loss of 30,000 jobs. In 2011, nonfarm job counts are expected to increase by 80 basis points, adding 10,000 jobs.

Similar to the statewide industry pattern, the largest employment losses in Southern California during 2010 were recorded by the construction, manufacturing, retail trade and state/local government sectors. In 2011, job losses are expected to continue in the government sector and a few other industries.

The aerospace/defense sector is of special concern. Defense spending peaked in 2010. No growth is expected in 2011, and spending is set to decline in 2012. The Obama Administration plans to reduce procurement in several programs of interest to Southern California in coming years. Aerospace/defense contractors are already reducing overhead and other

costs as they wait for the final decisions to be made in Washington.

What will be the growth industries in Southern California? International trade is rebounding and could return to 2007/2008 levels of activity by the end of 2011. This development impacts not only the ports but goods movement (by truck, rail and air), and warehouses throughout the region. Tourism will continue to improve, especially at the traditional hot spots – theme parks, beaches, etc. Business travel also will increase, benefiting Anaheim and the downtown Los Angeles area. Activity in the entertainment industry turned up in 2010 and should remain healthy through 2011.

After posting gains in Southern California home sales during the first half of 2010, the expiration of the homebuyer tax credits caused potential buyers to take a step back during the year's second half. Not even record low mortgage interest rates were enough to entice buyers into the market. By 2011, however, expect to see modest increases in new home construction and an uptick in resale activity. Much will depend on working through the foreclosure mess. Genuine recovery will only begin to take hold as the overall economic climate improves, but it will be slow, reflecting stricter standards on the part of mortgage lenders and the still-limited availability of larger-than-conforming mortgages.

For commercial real estate, the situation has been mixed, but fundamentals for the major property types in most areas are showing signs of stabilizing. Office vacancy rates remained elevated through the third quarter of 2010, ranging from a high of 23.9 percent in the Inland Empire to 20.7 percent in Orange County and 17 percent in Los Angeles County. On the industrial side, the divergence was even greater. In the

Inland Empire, industrial vacancy rates stood at 10.8 percent in the third quarter of 2010 (but down from 12.8 percent compared to 2009), while in Orange County the rate was 6.9 percent and just 3.3 percent in Los Angeles County.

The good news is that leasing activity and sales are picking up. Demand for office space is up slightly, reflecting the modest uptick in hiring, but lease renewals often involve less space and prospects for positive absorption remain spotty. While some firms remain cautious, signing short-term leases to maintain flexibility, firms with stronger balance sheets are taking advantage of lower rents and concessions to lock in longer-term deals. Looking at sales, traditional buyers are back in the market, but are looking mostly for prime quality, undervalued properties. Also, distribution center activity is increasing as a result of the snapback in international trade – there is no time left to sit on the fence.

Finally, California's budget situation bears close monitoring. The November 2010 elections put new occupants into the Governor's Office, but the problems will be depressingly familiar. During the next two fiscal years, the state's General Fund will be in the red by an estimated \$25 billion. Plugging this gap will involve three types of "solutions" via raising taxes, reducing spending and persuading the federal and/or local governments to send more money. All of these solutions will hurt somebody somewhere in California; the difference is only in the "who" and the "where." Make no mistake; commercial real estate – somewhere – will be affected by any serious attempts to reduce the budget deficit.

Not as Bad as We Thought

2010: What a Difference a Year Makes

The commercial real estate leasing market hit bottom in 2010 while the investment market – segments of it – perked up faster than we thought possible a year ago at this time. Thanks to quick action by the Federal Reserve and, arguably, more than \$1 trillion dollars in stimulus spending, the Great Recession ended in June 2009, and employers added a modest 1 million net new payroll jobs in 2010. This was a fraction of the 8.4 million jobs lost from the peak of the labor market in December 2007 to the trough in December 2009, but it was enough to put a floor under the leasing market and generate some positive net absorption in the second half of the year.

In the investment market, rock-bottom interest rates, which the Federal Reserve aims to reduce even further through its plan to purchase \$600 billion of long-term Treasury securities – a strategy called quantitative easing, launched investors on a quest for better returns

in riskier assets including commercial real estate. In 2010 investors purchased core properties and, at the other end of the quality spectrum, distressed properties priced for a quick sale, but not much in the higher-risk middle. Thus, yield-hungry real estate investors jumped back in the water in 2010, but they stayed in the shallow, low-risk end of the pool.

2011: Getting Better Slowly

Grubb & Ellis expects GDP growth in the range of 2.5 to 3 percent in 2011, still a little below the economy's long-term growth potential of around 3 percent. U.S. companies are sitting on record cash reserves of nearly \$2 trillion, some of which they will deploy as demand from businesses and consumers expands modestly. Employers are likely to add 1.5 million net new payroll jobs, right at the level needed to accommodate the growing labor force, which means that the unemployment rate will remain stubbornly high. Moody's Econometrics forecasts employment growth of 1.4

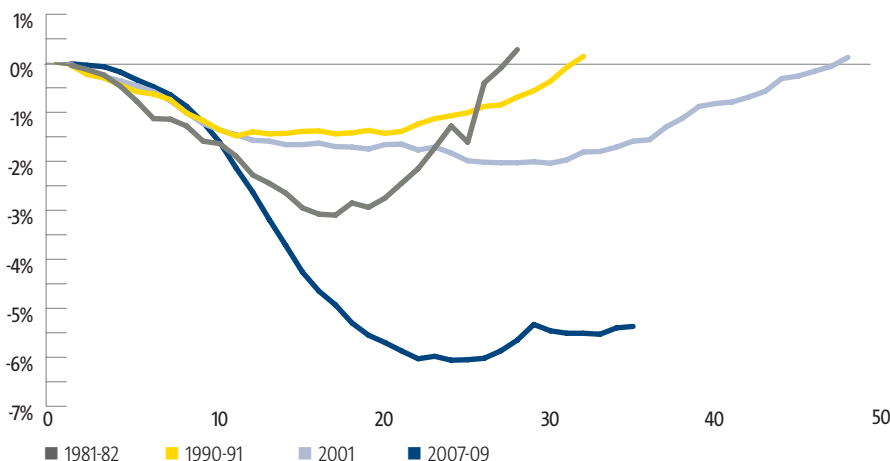
percent in consumer and health services industries, 1.1 percent in finance and business services industries, 80 basis points in commodities industries and 60 basis points in manufacturing industries. Some of the fastest growing sub-sectors will be oilfield services and production at 4.9 percent, environmental services at 4.1 percent, aerospace and defense at 3.3 percent and biotechnology at 2.5 percent. Companies that export will enjoy a strong tailwind in the form of the weak dollar combined with global growth of 4.2 percent according to the International Monetary Fund. Growth will be particularly strong in emerging markets such as China at 9.6 percent, India at 8.4 percent, and in the Western Hemisphere, Brazil at 4.1 percent.

Expect the five major property types to recover in the following sequence:

- 1. Multi housing:** Foreclosures continue to create renters faster than their former houses and condos are being added to the shadow supply of rental units. Modest job growth also is creating new renter households. Home prices remain soft, generating little urgency among renters who could afford to buy while mortgages, though historically cheap, are tough to get as lenders carefully scrutinize borrowers. *Biggest risk: an unforeseen surge in new construction.*

Job Losses Related to Past Four Recessions

Months of Job Declines



Source: U.S. Bureau of Labor Statistics, Grubb & Ellis

Overview

continued

2. Industrial: The weak dollar will spur exports, and moderately stronger consumer spending will boost imports, driving demand for space from tenants and owner/users. Manufacturers, wholesalers and retailers will continue to optimize their supply chains, creating demand for state-of-the-art distribution facilities in key logistics markets. *Biggest risk: rising protectionism in the form of currency devaluations, tariffs and other trade barriers.*

3. Hospitality: Tourism and business travel will increase in 2011 as the economy slowly gains traction. Because rooms and facilities are re-priced daily, the hospitality industry will be among the first property sectors to see revenues increase, particularly in global gateway cities such as New York, Washington DC, Boston and San Francisco where the weak dollar will attract overseas business. *Biggest risk: the economy stalls.*

4. Retail: Hit hard by the housing slump, retail has nonetheless surprised on the upside. Vacancy has come down slightly from its peak as retailers reposition stores, often moving up to better centers that were too pricey before the recession. Nimble retailers have figured out how to operate in “the new normal.” *Biggest risk: consumers are not finished deleveraging, and the housing market is still flat on its back.*

5. Office: Sluggish job growth will generate a half-speed recovery in the office market, meaning that vacancy will decline by about one percentage point in 2011 compared with the two-point annual decline typical for a recovery cycle. Shadow space will accommodate about one-third of the net new demand in 2011, which will weigh on net absorption. *Biggest risk: uncertainty over taxes and employer health care costs could discourage hiring, especially among small businesses; also, a renewed focus among tenants on minimizing occupancy costs.*

In the investment market, look for a gain in transaction dollar volume of around 75 percent in 2011 on top of the doubling recorded in 2010 as activity continues to recover from the unprecedented plunge in 2009. Whereas investors last year focused on minimizing risk, generating activity at the top and bottom of the quality scale, they will broaden their search parameters in 2011, leading to more activity in the higher-risk middle of the scale. Prices for the best properties will stay strong, although the national price indexes may be restrained by a greater volume of riskier properties in the sales mix.

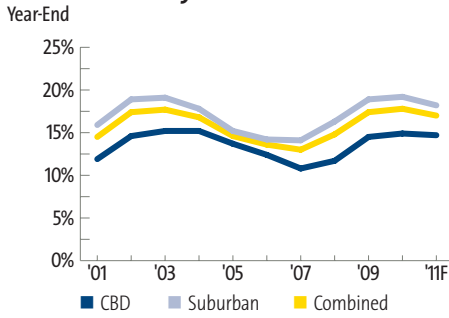
2011 Growth Forecast

Top 10 Industries

Employment Growth	Percent	Revenue Growth	Percent
Oilfield Services & Production	4.9	Oil & Gas Refining & Mktg.	26.3
Environmental Services	4.1	Mfg. Housing & RVs	23.1
Aerospace & Defense	3.3	Steel	19.4
Biotechnology	2.5	Internet	19.4
Restaurants	2.5	Biotechnology	16.7
Computer Software & Services	2.4	Chemicals	16.4
Industrial Machinery	2.4	Medical Services	15.7
Medical Services	1.9	Homebuilding	15.0
Trucking	1.9	Industrial Services	13.2
Industrial Services	1.8	Medical Supplies	13.1

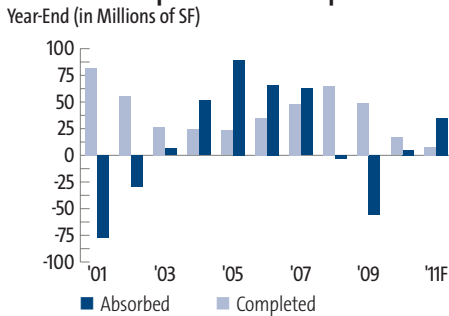
Source: Moody's Economy.com, Grubb & Ellis

U.S. Office Vacancy Rate



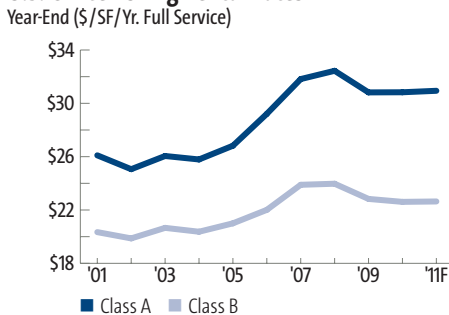
Source: Grubb & Ellis

U.S. Office Completions vs. Absorption



Source: Grubb & Ellis

U.S. Office Asking Rental Rates



Source: Grubb & Ellis

Slow but with upside risk.

In September 2010, the National Bureau of Economic Analysis announced that the Great Recession finally ended in June 2009, making it the longest and deepest since the Great Depression. Job losses continued for another six months, however, bringing total losses to 8.4 million from December 2007 to December 2009, of which 2.5 million were in the office-using sectors of information, finance and professional and business services. As a result, the U.S. office vacancy rate soared to 17.9 percent by the second quarter of 2010, a slim 10 basis points shy of the all-time high in the 24-year history of the Grubb & Ellis database. Yet the actual net absorption of negative 71 million square feet was only one-third of the potential decline indicated by the job losses, suggesting the presence of a substantial amount of shadow space – empty cubes, floors or wings vacated due to layoffs but still counted as occupied. Had the job losses registered right away as negative absorption, the vacancy rate would have sailed above 22 percent. Nevertheless, 2010 ended on a positive note. Employers added about 1 million net new jobs during the year, and the office market recorded three consecutive quarters of positive absorption, enough to push vacancy slightly lower to 17.8 percent at year-end. Asking rental rates for Class A space increased for three consecutive quarters – not by much, but an increase all the same. The increase was driven by tenants moving up from Class B space to take advantage of the bargains available in higher-quality buildings.

Forecast

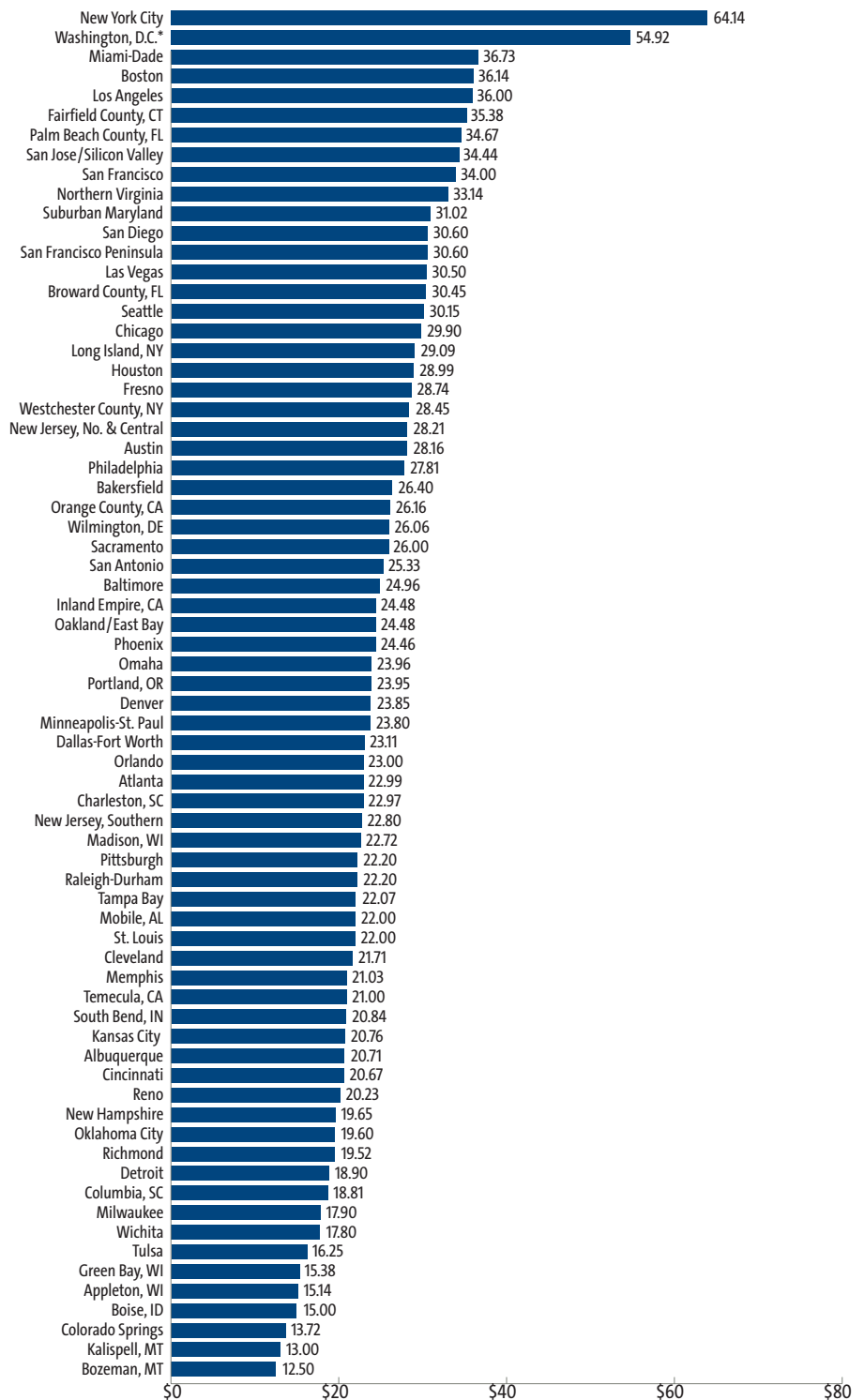
Look for a half-speed recovery in the office market during 2011 and 2012. Job creation is likely to remain subpar at about 1.5 million in 2011 – the level needed just to accommodate the expanding labor force – and 2 million in 2012. About 20 percent of these jobs will be located in office buildings, and a large share of those will be accommodated in shadow space – about one-third in 2011 and one-fourth in 2012. This will generate 35 million square feet of net absorption in the coming year and 47 million square feet in 2012, a moderate performance compared with the 2005 to 2007 expansion when annual absorption ranged from 62 to 89 million square feet. New space completions will be at a minimum during the next two years, meaning that even the modest absorption forecast will drive the vacancy rate down from 17.8 percent at year-end 2010 to 17.0 percent in 2011 and 15.9 percent in 2012 – still above the equilibrium vacancy level of 12 to 14 percent. This rate of tightening – plus-or-minus 1 percentage point in each of the next two years – will be about half the pace of a normal recovery cycle. Asking rental rates have found their floor but will rise only slowly during this period at an expected rate of 40 basis points in 2011 and 1.4 percent in 2012 for Class A space. Class B rates will languish until the market tightens enough to create a meaningful cost differential with Class A rates, which remains several years off. Landlords will continue to compete for tenants in 2011, particularly solid tenants with good credit. Tenants, for their part, will

be more willing to sign long-term leases to lock in a good deal. This will mark a turnaround from recent history when tenants preferred to sign one-year extensions as their leases expired in order to keep their options open.

There is some upside risk to this forecast, meaning that conditions may improve more quickly than expected. Economists revised their growth forecasts upward as a result of the tax agreement reached by Congress in the lame-duck session at the end of 2010. This agreement included a two-year extension of the Bush-era tax cuts, a 13-month extension of federal jobless benefits, a temporary cut in the share of the Social Security payroll tax paid by employees and several other provisions. Some analysts view this as a back-door stimulus. While the bond market swooned on this news, driving interest rates higher, the Federal Reserve's quantitative easing program may help keep interest rates low through 2011, providing more fuel for the economy. Companies are sitting on a record \$1.9 trillion of cash reserves, and they are likely to begin deploying some of this cash in 2011 as the economy strengthens, meaning that the half-speed recovery in the office market could turn out to be more like a three-quarters-speed recovery.

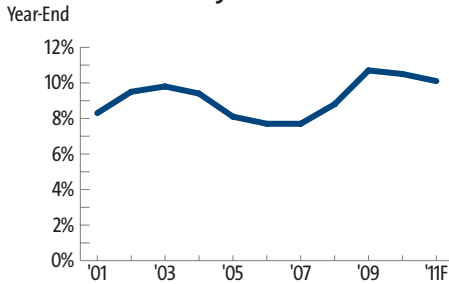
Metro Office Rental Rates

Class A – \$/SF/Yr. FSG



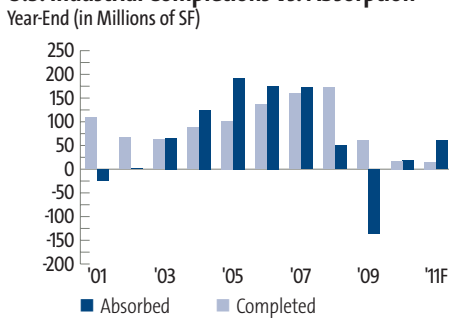
* District of Columbia
Rental rate data refer to average asking rental rates for Class A space that is available on the market at the end of 2010. Rates are per square foot, quoted on an annual, full service gross basis.

U.S. Industrial Vacancy Rate



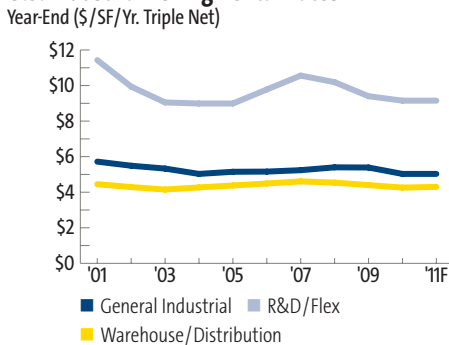
Source: Grubb & Ellis

U.S. Industrial Completions vs. Absorption



Source: Grubb & Ellis

U.S. Industrial Asking Rental Rates



Source: Grubb & Ellis

Expect a gradual recovery in leasing market fundamentals.

The U.S. industrial market bottomed out in the second quarter of 2010 when the vacancy rate peaked at 10.9 percent, one quarter before the office market. This is not surprising because industrial developers are able to shut down the construction pipeline more quickly when demand evaporates due to the shorter construction timeline. On the demand side, the industrial market benefited from an early bounce in two key economic indicators: global trade and the restocking of depleted inventories by retailers, wholesalers and manufacturers. The weak dollar spurred a bounce in exports while a spotty but gradual recovery in consumer spending fueled imports. The recovery in imports boosted demand in Southern California's Inland Empire and other markets that are transfer stations for container shipments headed to the country's interior. Another support for demand: Companies continued to squeeze costs out of their supply chains during the downturn, striving for ever greater efficiencies, which helped put a floor under activity through the lean times.

After peaking in the second quarter at 10.9 percent, the vacancy rate dropped sharply to 10.6 percent in the third quarter – a rapid shift for the billion-square-foot U.S. market – suggesting that a vigorous recovery had taken hold. However, the pace cooled with vacancy dropping by 10 basis points in the third and fourth quarters to end the year at 10.4 percent. In hindsight, the second-quarter drop seemed to be fueled by pent-up demand from the early improvement in the manufacturing sector and the inventory restocking cycle. Asking rental rates, typically the

last market indicator to turn the corner, continued to weaken through 2010, weighed down by large inventories of available space in most markets. Net absorption for the year totaled 20 million square feet, a sign that demand had returned, but the level pales next to the 2005 to 2007 expansion when annual absorption ranged from 172 to 192 million square feet.

Forecast

Expect a gradual recovery in leasing market fundamentals in 2011 with net absorption rising to 60 million square feet followed by a more robust rate of 120 million square feet in 2012. With construction starts mostly confined to build-to-suit projects, even these middle-of-the-road absorption totals will push down the vacancy rate, expected to end 2011 at 10.1 percent and 2012 at 9.3 percent. The average asking rental rate across all U.S. markets, which slipped by 14 percent from the first quarter of 2007 to the fourth quarter of 2010, is expected to increase very gradually over the next two years by 60 basis points in 2011 and 1.0 percent in 2012. Net effective lease rates will rise more quickly as landlords pull back on concessions. Properties in built-out submarkets near major transportation hubs, such as Chicago's O'Hare submarket, the South Bay in Los Angeles and a number of other areas, will see faster rent gains as user demand picks up.

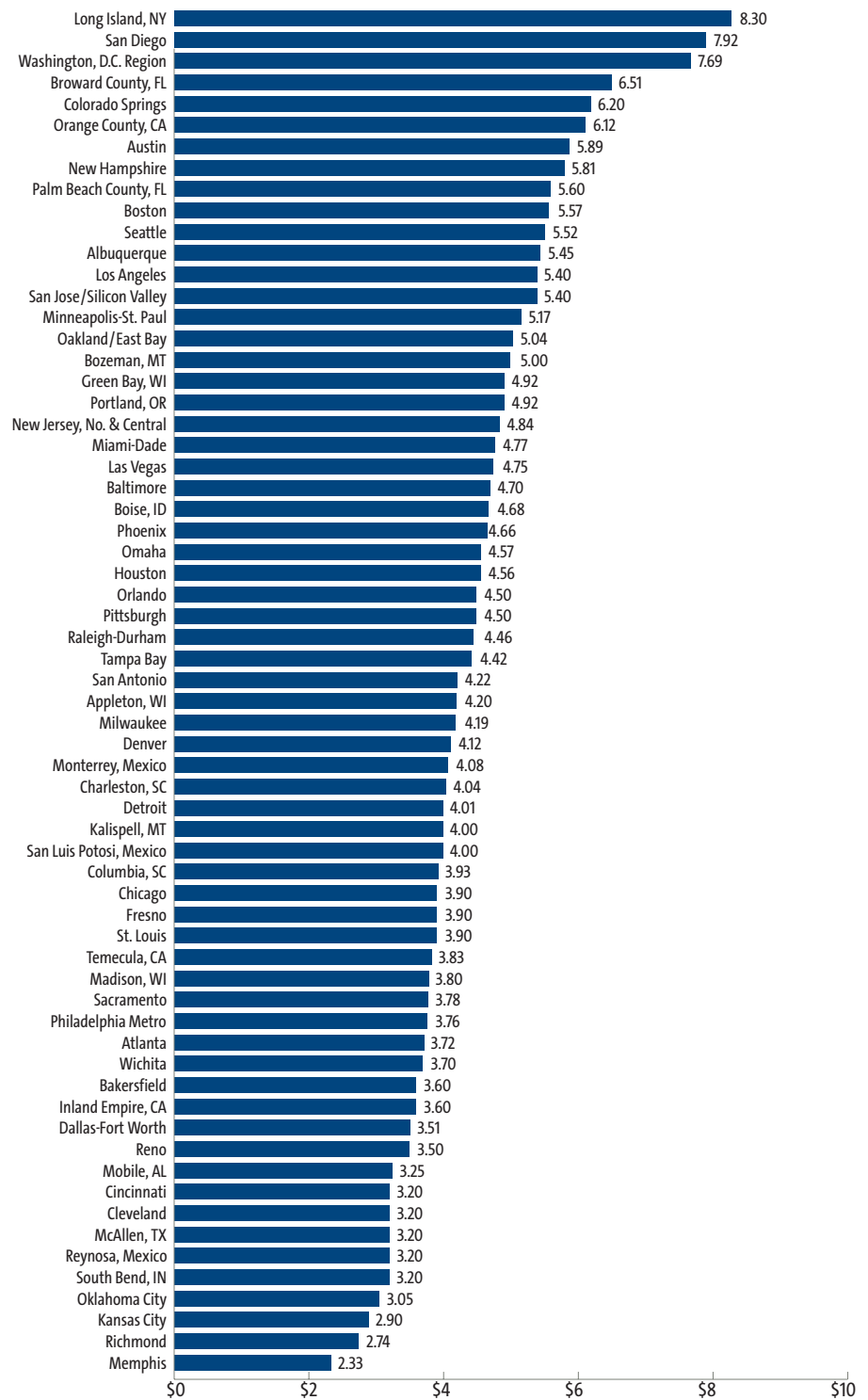
The wild card in the coming expansion cycle will be fuel prices. When prices spiked in 2008, logistics companies and shippers were moving down the path toward more and smaller distribution centers in order to maximize the use of

fuel-efficient rail and minimize trucking costs. This provided a boost to emerging distribution hubs such as Phoenix and Kansas City. The recession and the decline in energy prices put a hold on this strategy. If energy prices rise again – and they are under upward pressure due to the weak dollar and burgeoning demand in China and other growing economies – expect to see demand return for smaller distribution facilities across a larger number of secondary markets.

Demand patterns are already shifting as a result of the Panama Canal expansion that will open in 2014. Ports along the Gulf and East coasts have attracted more container volume from shippers intent on diversifying their supply chains and lowering dependence on the Southern California ports. This trend goes back over five years, but in 2010 was reversed moderately as shippers moved slightly more volume through the West Coast ports to allow speed to market as they restocked warehouses in the West and Midwest. It will be interesting to see if this was an anomaly or more permanent. New York/New Jersey, Norfolk and Charleston will be the only ports able to efficiently handle the majority of post-Panamax ships due to port depth issues. NY/NJ will have air draft issues related to the Bayonne Bridge.

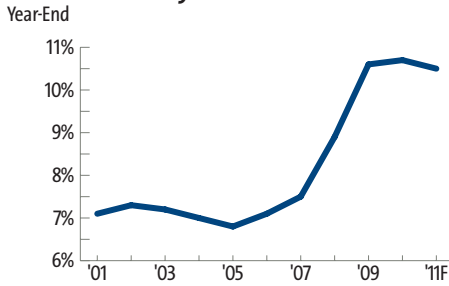
Metro Warehouse/Distribution Rental Rates

\$/SF/Yr. Triple Net



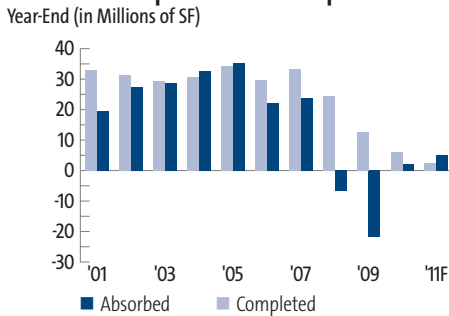
Rental rate data refer to average asking rental rates for warehouse/distribution space that is available on the market at the end of 2010. Rates are per square foot, quoted on an annual, triple net basis.

U.S. Retail Vacancy Rate*



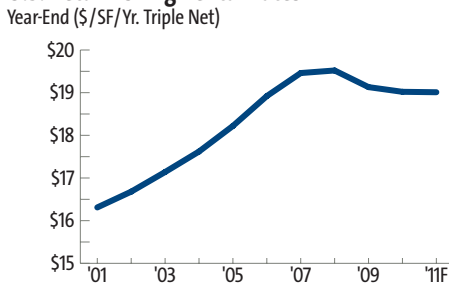
*Neighborhood and community centers
Source: Reis, Inc., Grubb & Ellis

U.S. Retail Completions vs. Absorption*



*Neighborhood and community centers
Source: Reis, Inc., Grubb & Ellis

U.S. Retail Asking Rental Rates*



*Neighborhood and community centers
Source: Reis, Inc., Grubb & Ellis

Some center types and locations out-performed others in 2010.

In the business of real estate market data, it is not unusual to find different sources offering different statistics. It's more unusual to find competing statistics that point in different directions. New York-based Reis, Inc. says that vacancy rates for community and neighborhood shopping centers increased from 10.6 percent at the beginning of 2010 to 11.0 percent at year-end while the average asking rental rate slipped by 60 basis points. Reis forecast a further market contraction in 2011 followed by a slow recovery thereafter. Washington, DC-based CoStar, which tracks a broader set of retail property types than Reis, says the overall vacancy rate peaked in the first quarter of 2010 and retreated slightly toward year-end. CoStar also shows the vacancy rate for neighborhood shopping centers, which appear to conform most closely to the center types tracked by Reis, bottoming out in 2010.

What is certain is that some center types and locations out-performed others in 2010. Sales at neighborhood centers with a strong grocery anchor serving a mature, higher income trade area held up better than unanchored strip centers on the urban fringe where housing construction was halted. During the depth of the recession, discount stores and their respective centers outperformed their more upscale competition as consumers sought to conserve cash. But the stunning rebound in the equity

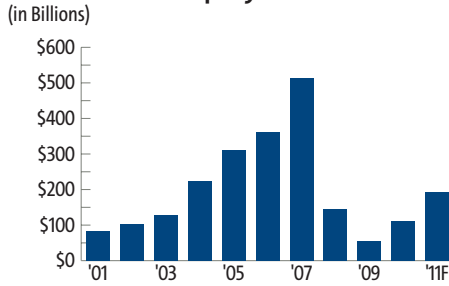
markets emboldened higher income consumers, providing an early rebound for luxury brands while the faltering labor market was especially unkind to those without a college education – and the discount retailers that they frequent.

As 2010 drew to a close, retail sales and consumer spending metrics indicated that consumers were spending again for the necessities and to satisfy some pent-up demand that accumulated during the recession, and they were responding well to the promotional environment. Savings rates stabilized in the 5 to 6 percent range, suggesting that rates were unlikely to return to the 10 percent level of the early 1980s – good news for retailers.

Forecast

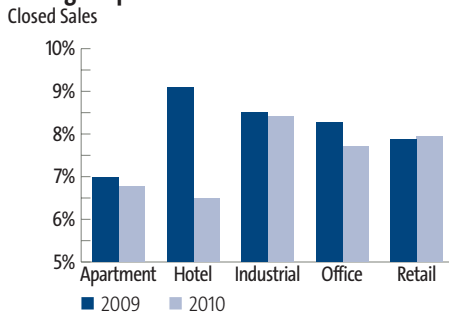
Look for retail sales to ramp up gradually in 2011 and 2012 along with the economy in general and the labor market in particular. If the recovery remains sluggish, consumers will remain cautious. Higher inflation, should it materialize, will act as a tailwind for spending if consumers adopt the mindset that purchases will be more expensive next year. Retailers will continue to reposition their stores to take advantage of the favorable rental rates being offered and the ability, in many cases, to move up to better centers that were simply not available to them during the boom years. At the same time, they will be expanding selectively.

U.S. Commercial Property Sales Volume



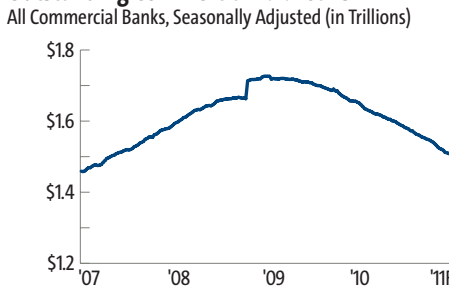
Source: Real Capital Analytics, Grubb & Ellis

Average Capitalization Rates



Source: Real Capital Analytics, Grubb & Ellis

Outstanding Commercial R.E. Loans



Source: Federal Reserve, Grubb & Ellis

Demand for core properties will remain intense, but investors are expected to reach for yield by taking on more risk.

Investor demand for commercial properties bounced back more quickly in 2010 than expected. The Grubb & Ellis forecast, and indeed the general consensus forecast, was for an increase of 20 to 30 percent in the dollar volume of investment sales for 2010 above the record lows of 2009, although we did hold out the possibility for a much larger increase if buyers and sellers could get some clarity on pricing. That is exactly what happened, at least for core properties in primary, supply-constrained markets. Investors bid up the prices of these properties and lenders competed to finance the deals, pushing the year-end total to \$110 billion. The year brought some large transactions albeit not on the scale of the mega-deals done in 2007 before the market crashed. Blackstone Group, Paulson & Co. and Centerbridge Partners acquired the Extended Stay hotel chain out of bankruptcy from Lightstone Group for \$3.93 billion. The deal was notable not only for its size but because Blackstone had sold the 680-property chain to Lightstone for \$8 billion at the top of the market in 2007. Blackstone was involved in another big 2010 deal when the private equity firm paid \$1 billion to ProLogis for a 20 million-square-foot portfolio consisting of 182 industrial properties. Mall giant Simon Property Group picked up the 21-center Prime Outlets portfolio for \$2.3 billion from Lightstone Group, which used the proceeds to pay off debt still owed on its sale of Extended Stay.

To win the bidding for popular core assets, many investors stretched their pro formas, particularly the going-out capitalization (cap) rate. Most analysts expect inflation and interest rates to

increase over the next few years from their recent lows, which would call for higher cap rates at the time of sale. When and by how much interest rates will rise remains highly uncertain.

At the other end of the quality spectrum, demand was strong for distressed assets, those offered by the lender or owner at a deep discount. Lenders were less interested in funding these deals because many already had REO properties that fit this profile, so many buyers paid cash.

The Moody's/REAL commercial property price index fell by about 40 percent from the peak in late 2007 to the trough in late 2009 and then bounced along the bottom in 2010. This disguised pricing strength for core properties and continuing weakness for distressed assets. A study released late in the year by REIT analyst Green Street Advisors said that prices for REIT-owned properties had already increased by 30 percent from the trough, suggesting that the bargains investors had hoped to find for core properties were already in the rear view mirror.

Despite the aggressive return of capital to the core segment of the market, there remains a high level of distress focused on non-core assets with loans maturing in the near term. PPR estimated that maturing loans peaked at \$780 billion in 2010. Although that total is expected to decline over the next few years, commercial mortgage-backed securities (CMBS) – loans that were securitized and sold off in tranches of varying quality – will increase gradually, reaching a peak of \$147 billion in 2017. This is because CMBS lenders were very active during the run-up in prices before the financial markets froze in late 2007.

Forecast

For 2011, Grubb & Ellis expects the dollar volume of transactions to increase another 75 percent to around \$190 billion, a performance last seen in the 2003 to 2004 period before the credit bubble began to inflate to uncontrollable proportions. Demand for core properties will remain intense, but investors are expected to reach for yield by taking on more risk – Class A-/B+ properties in primary markets or Class A properties in secondary markets, for example – particularly as the economy recovers and interest rates rise. The cap rate compression for core properties experienced in 2010 is unlikely to be repeated in a rising-interest-rate environment.

Each year, Grubb & Ellis develops an Investment Opportunity Monitor that identifies the metropolitan markets with the strongest prospects for each major property type over the coming five years. The monitor for each property type consists of 15 to 20 variables divided into three categories – demographics, economics and real estate fundamentals. The variables are assigned weights based on their relative importance. Employment growth and barriers to entry are two of the most important variables, and

to a large extent they represent a trade-off. Rapidly growing markets frequently have low barriers to entry – easier and cheaper for developers to put up new buildings – while markets with high barriers to entry typically see slower job growth precisely because land for new development is scarce and expensive.

For office investors, New York (No. 1) – specifically Midtown Manhattan – and Washington, DC (No. 2) lead all other markets. New York, arguably, offers the strongest development barriers of any U.S. market while Washington, DC offers stronger employment growth and more development opportunities, particularly in its Virginia and Maryland suburbs. The third and fourth positions are occupied by Portland, OR with its Urban Growth Boundary and Boston with high land prices and a strong biotech industry. Coastal California markets take the fifth through eighth slots. Raleigh-Durham, NC (No. 9) and Austin, TX (No. 10) offer few supply constraints but very strong prospects for population and job creation over the next five years, fueled by their superior universities, reasonable business and living costs and their ability to attract a young, educated labor force.

Proximity to seaports or inland ports is an important factor in the industrial market rankings. All 10 markets fit this profile: Houston (No. 1); Los Angeles (No. 2); Oakland-East Bay, CA (No. 3); Dallas-Fort Worth (No. 4); Seattle (No. 5); Inland Empire, CA (No. 6); Chicago (No. 7); Atlanta (No. 8); Portland, OR (No. 9) and Miami (No. 10).

Six markets appear on both the retail and apartment top-10 lists: New York, San Francisco, Long Island, Los Angeles, Washington, DC and San Diego. These markets are characterized by high home prices, high land costs and reasonably solid five-year growth forecasts. Also appearing on the list of top apartment markets are Westchester County, NY plus three California markets: San Jose, Oakland-East Bay and Orange County. Markets filling out the list of top retail markets include Portland, OR; Boston, Chicago and Seattle.

Market Strength Forecast 2010-2015*

Top 10 Markets

Rank	Office	Industrial	Retail	Apartment
1	New York City	Houston	Washington, DC	New York City
2	Washington, DC	Los Angeles	Los Angeles	San Francisco
3	Portland, OR	Oakland-East Bay	New York City	Long Island, NY
4	Boston	Dallas-Fort Worth	San Francisco	San Jose-Silicon Valley
5	Los Angeles	Seattle	Portland, OR	Los Angeles
6	San Diego	Inland Empire, CA	San Diego	Oakland-East Bay
7	San Francisco	Chicago	Boston	Washington, DC
8	Oakland-East Bay	Atlanta	Long Island, NY	Orange County, CA
9	Raleigh-Durham	Portland, OR	Chicago	Westchester County, NY
10	Austin	Miami	Seattle	San Diego

* Markets were ranked from 0 to 100 against 15-20 property, economic and demographic variables.

Source: Grubb & Ellis

Dear Clients and Colleagues:

Commercial real estate is influenced by a broad and complex set of factors that at times can be hard to predict. It's a fact that I've been reminded of frequently over the past several years.

As you'll read in our 2011 forecast reports, the U.S. economy and with it commercial real estate fundamentals are on the road to a sustainable recovery. The dark clouds that have hung over the industry for the past two years have passed, and rays of sunshine are starting to peek through. Over the coming year, one bright spot will be the continued recovery in commercial real estate values. At the same time, we caution that the pace of recovery will be constrained as owners and users continue to grapple with the pace of overall economic growth, with the level of unemployment topping their list of concerns.

Overall vacancy rates for all commercial property types have peaked and are slowly trending downward. Apartments have experienced and will continue to experience the most robust improvement in occupancy, while the industrial market will remain the most unpredictable due to the volatile effect of currency fluctuations on demand for U.S. exports. Retail vacancy rates will continue to firm, with retailers shifting locations to take advantage of lease repricing or even expanding in response to moderate improvement in sales. Absorption in the office sector will continue to trail the pack, although core markets are showing signs of turnaround. With the construction pipeline almost nonexistent, we should see an improvement in overall occupancy.

For investment property, while transaction volume continues to remain low by historic standards, it is clearly recovering. Investors still appear to be limiting their interest primarily to the two extremes of the quality spectrum – core assets in primary, supply-constrained markets and deeply distressed assets moving their way through the system. The ability of buyers and sellers to reach agreement on relative value along with the continued availability of reasonably priced capital will continue to play an important role in overall transaction volume in the coming year. Commercial real estate, in all property sectors, so long as it is properly sourced, underwritten and managed, is a compelling investment opportunity when compared with the alternatives in the broad equity and bond markets.

We hope this year's forecast provides insight into what we are seeing in the markets every day. Uncovering leasing, sale and investment opportunities and maximizing value at times like these is what Grubb & Ellis does best. We'd welcome the opportunity to discuss the factors influencing our views, and assist you in converting current opportunities into measurable results.

Sincerely,



Thomas P. D'Arcy

President and Chief Executive Officer

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Grubb & Ellis is continually evolving to help our clients meet today's real estate challenges.

Real Estate Services

- Agency leasing
- Asset management
- Capital markets
- Consulting
- Disposition services
- Engineering services
- Facility management
- Lease administration
- Portfolio rationalization
- Project/construction management
- Property management
- Site selection
- Strategic planning
- Tenant representation
- Valuation services

Investment Programs

- Public non-traded real estate investment trusts (REITs)
- Private client management
- Reg D private offerings
- Other securities offerings

Overview

Grubb & Ellis Company (NYSE: GBE) was founded in 1958. Over the last half century, the company has grown from a single office in San Francisco into one of the nation's largest and most respected commercial real estate services and investment firms. Its 6,000 professionals in approximately 120 company-owned and affiliate offices draw from a unique platform of real estate services, investment products and specialty practice groups to deliver integrated solutions to real estate owners, tenants and investors. The solutions Grubb & Ellis delivers to its clients are supported by proprietary market research and extensive local expertise.

From Fortune 500 multinational companies, institutional investors and government agencies to small and mid-sized businesses and individual investors, clients look to Grubb & Ellis for real estate solutions that meet their business objectives. We can assist with everything from selecting a location to do business, improving a property or portfolio's operating efficiency, increasing occupancy or otherwise maximizing the return on an investment. Our practice groups bring together professionals who have experience with particular property types and specific industries, seeking to ensure

clients' needs are clearly understood and the most effective solutions are implemented. Through its real estate investment and asset management subsidiaries, Grubb & Ellis is a leading sponsor of commercial real estate investment programs, including public non-traded REITs, private placements and other securities offerings. Grubb & Ellis' investment arm has completed acquisition and disposition volume totaling more than \$12.9 billion on behalf of program investors since its founding in 1998; in excess of \$10 billion of this volume has been transacted since 2005.

Structured Around the Needs of Our Clients

Grubb & Ellis has the people, platform and best-in-class processes to deliver superior service whether a client needs help with a single property or multiple global facilities. Our comprehensive real estate solutions include transaction services, management services, corporate services and a wide range of investment programs.

Possessing one of the largest and most experienced real estate brokerage sales forces in the country, Grubb & Ellis' teams of specialists cover all aspects of commercial real estate and work closely with clients to assess the ways

This is neither an offer to sell nor a solicitation of an offer to buy any security. Such an offer may be made only by means of an offering document. Investors should read the offering materials and review the risks associated with any offering prior to making an investment and should be able to afford the loss of their entire investment.

Company Profile

continued

Our emphasis on specialization means that we are equipped to help clients take advantage of unique market opportunities.

in which real estate issues relate to – and contribute to – an organization’s strategic business objectives. Last year, Grubb & Ellis and its affiliates completed more than 14,000 brokerage transactions throughout the country.

We deliver integrated property, facility and asset management services focused on cost-efficient operations, tenant retention and increasing property values to a host of corporate and institutional clients. In total, Grubb & Ellis and its affiliates manage a diverse portfolio of nearly 300 million square feet of space. This portfolio includes headquarters, facilities and Class A office space for major corporations, as well as industrial, manufacturing and warehouse facilities, data centers, retail properties, medical buildings and multifamily assets for real estate occupants and investors. Additionally, Grubb & Ellis provides consulting services that help clients better understand their real estate portfolio, the current operating environment, and future opportunities that exist through smart, strategic planning.

Recent Platform Enhancements

In 2010, Grubb & Ellis continued to enhance its platform to meet the changing needs of its clients. It announced seven new company-owned offices throughout the country,

significantly strengthened its capital markets offerings with additional institutional sales expertise as well as debt and equity capabilities, and grew its Financial Services Asset Management practice by supporting financial service firms in resolving issues, recovering value and managing risk in dealing with distressed real estate debt and properties.

The company also launched Grubb & Ellis Landauer Valuation Advisory Services in more than a dozen markets throughout the country. The fast-growing business provides clients with their appraisal and valuation needs – services that have become increasingly important in today’s uncertain environment.

To improve the services it offers its Management Services clients, Grubb & Ellis formed a strategic alliance with Manhattan Software, the global leader in enterprise real estate software. This relationship will ensure Grubb & Ellis can offer a true single-source solution when it comes to full-service property management.

These are just some of the ways we continue to evolve our business so that we can help our clients achieve their business objectives – no matter what the market conditions.

The direct or indirect purchase of real property involves significant risks. Investors should consult their own tax advisors and legal counsel. Always remember that each property is unique and past performance is no guarantee of future results.

Securities offered through Grubb & Ellis Securities, Inc. member FINRA/SIPC.

Practice Groups

- Automotive Properties
- Call Centers
- China
- Clean Energy
- Corporate Finance
- Data Centers
- Debt & Equity Finance
- Education
- Financial Services Asset Management
- Food & Cold Storage
- Government Services
- Global Logistics
- Healthcare & Medical Properties
- Hotel, Golf & Leisure
- Industrial Agency
- Institutional Capital Markets
- Institutional Multi Family
- Land
- Law Firms
- Life Sciences
- Manufactured Housing & RV Parks
- Office Agency
- Portfolio Restructure, Chapter 11
- Private Capital Markets
- Private Capital Multi Family
- Petroleum
- Religious Properties
- Retail Agency
- Retail Tenant Representation
- Self Storage
- Senior Housing
- Specialty Manufacturing Properties
- Technology
- Tenant Advisory

Capitalizing on real estate market opportunities starts with a clear perspective of what's happening on a micro and macro level.

Grubb & Ellis believes that sound real estate data and analysis underlies every smart real estate decision. There's little room for error when competition is fierce, margins are tight and organizations are trying to squeeze the most value out of their investments. Sound research helps ensure you are pursuing the most effective real estate strategies and evaluating the best possible solutions to achieve your business objectives.

This approach is nothing new for Grubb & Ellis. Research is part of our legacy, and we're known for delivering some of the highest quality research in the industry. We cover big-picture economic trends as well as specific drivers of local market demand for space. Our professionals regularly provide expert commentary to business organizations, government entities and the media on the forces shaping the commercial real estate landscape. We go beyond standard real estate statistics to explore how significant developments – such as election results, accounting rules or environmental legislation – may affect real estate owners, tenants and investors.

Our comprehensive insights are based on:

- 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 direct the company's research function. Our analysts undergo extensive training to ensure they 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. Education and practical application of market data continues throughout our employees' careers.
- Our systems used to compile, maintain, analyze and disseminate our research. Grubb & Ellis was one of the first in the industry to use computerized market research and analysis and continues to make investments to improve and enhance the information available. In addition to subscribing to the top property databases, Grubb & Ellis maintains 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. This sophisticated system, which is thoroughly audited three times per year, 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 by product type, a Weekly Market Insight electronic communication on a timely economic or real estate-related topic, a biannual Logistics Market Trends report and white papers on issues that are important to our clients.
- Our real estate professionals and extensive network of practice groups, whose familiarity with the people and the property in their submarkets and unique industry segments 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, brokerage sales professionals, practice groups and investment specialists.
- Our strong research platform combined with the knowledge and expertise of our professionals enables us to deliver integrated solutions to our clients – from market to market and around the globe. It is a proven tool that forms the foundation of all the services we provide, allowing us to uncover opportunities when they may not be easily visible. And it's what gives Grubb & Ellis and our clients a competitive advantage in the marketplace.

We'd be happy to discuss the findings in this year's forecast or any of our publications. To keep abreast of research disseminated by Grubb & Ellis, please visit www.grubb-ellis.com/research.

Office Directory



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From Insight to Results

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Peebles & Cameron
251.438.4312

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Tucson
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Arkansas

Bentonville
Solomon Partners
479.271.6118
North Little Rock
Solomon Partners
501.978.4333

California

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714.939.6000
Bakersfield
ASU & Associates
661.862.5454
Fresno
Pearson Commercial
559.432.6200
LA Downtown
213.596.2222
LA East (San Gabriel)
562.364.2000
LA North (Sherman Oaks)
818.332.2000
LA South Bay (Torrance)
310.491.2000
LA West
310.477.3800
Newport Beach
949.608.2000
Ontario
909.605.1100
Roseville
916.770.8900
Sacramento
916.418.6000
San Diego
858.875.3600
San Francisco
415.433.1050
San Francisco Peninsula
650.453.5000
San Jose
408.452.5900
Stockton
209.473.3000
Temecula
WestMar
951.491.6300
Visalia
Pearson Commercial
559.732.7300
Walnut Creek
925.939.3500

Colorado

Colorado Springs
Quantum Commercial
Group
719.590.1717
Denver
303.572.7700

Connecticut

Stamford
203.406.9899

Delaware

Wilmington
302.888.4500

District of Columbia

Washington
202.312.5400

Florida

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561.995.5150
Fort Myers
1st Commercial
239.210.7600
Jacksonville
Phoenix Realty Group
904.399.5222
Melbourne
321.984.1957
Miami
305.982.4100
Orlando
407.423.1200
Tampa
813.639.1111

Georgia

Atlanta
770.552.2400

Hawaii

Honolulu
CBI
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Idaho

Boise
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Illinois

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Rosemont
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Kalispell
Catalyst
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Omaha
Pacific Realty
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Northern New England
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Portsmouth
Northern New England
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New Mexico
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212.759.9700

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WRS
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Myrtle Beach
Wilson Kibler
843.946.7100

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Memphis
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Austin
512.349.1000
Dallas
972.450.3300
El Paso
Best/White
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McAllen
Select
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210.828.5050

Virginia

Richmond
Harrison & Bates
804.788.1000
Tysons Corner
703.448.2000

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Seattle
206.388.3000

Wisconsin

Appleton
Pfefferle
920.968.4700
Milwaukee
Apex Commercial
262.784.7500
Green Bay
Pfefferle
920.884.5000
Madison
Oakbrook
608.238.2600
Waupaca
Pfefferle
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Wausau
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Monterrey

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Reynosa

Select
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San Luis Potosi

Select
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