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CASDEN REAL ESTATE ECONOMICS FORECAST

2011 Industrial/Office Forecast Report

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USC Casden Forecast | 2011 Industrial & Office Market Report

The Casden Real Estate Economics Forecast is pleased to present its 2011 report on the Southern California office and industrial real estate markets. The Casden Real Estate Economics Forecast analyzes fundamentals and forecasts real estate market indicators in the Southern California region. The Forecast issues two annual reports, one covering the region's office and industrial markets and the other covering its apartment markets.

We begin with overviews of the United States and regional economies, which serve as the foundation for the analysis of the Southern California real estate markets. A comprehensive summary of the fundamental trends in the industrial and office markets for Los Angeles County, Orange County, and the Inland Empire as well as individual submarkets make up the main body of the report. The statistical snapshots provide concise summaries of recent movements in quarterly rents, vacancy rates, and net absorption for each county as well as the submarkets. At the end of the report, we present our two-year forecast for rents and vacancy rates in each of the four metro markets. This year, for the first time, we are including statistical confidence bounds on all of our predictions.

A report of this magnitude is only possible through the contributions from many individuals. We thank J.C. Casillas of Grubb & Ellis for providing the fundamental market data. We also thank Skye Tirsbier for her outstanding research assistance and Marilyn Ellis for her help in laying out the report. We are also grateful to the Lusk Center staff for their assistance, especially, Matthew Faulkner, Jennifer Frappier, and Sonia Savoulian. Finally, we gratefully acknowledge our sponsors: Barker Pacific Group, CBRE, Grubb & Ellis and GlobeStreet.com.

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Executive Summary

Although the Southern California region and the nation as a whole are a long way from pre-crisis levels of economic health, a slow recovery seems to have begun. The period Q3 2010 to Q3 2011 was one in which all three major metro markets experienced job growth and increased demand for office and industrial space. Eleven out of 17 office submarkets and 11 out of 14 industrial submarkets saw a decline in the vacancy rate. On the rent side, the performance was somewhat more mixed. Only four of 17 office submarkets and eight of 14 industrial markets witnessed rising rents. On the whole, the declines were smaller than in the previous two years.

We believe that the trend of declining office rents is likely to continue for the next 12 to 24 months. Office demand should continue to improve, but vacancy rates remain so far above "natural" levels that they may continue to improve for many months to come with no accompanying stabilization in rents.

On the industrial side, we anticipate rising rents and declining vacancy in all metro markets, but the magnitude of the changes will be highly dependent upon nearby port and rail activity.

The top performer across all metro markets and both property types was the Inland Empire industrial market, which recorded a 6.4 percent increase in average industrial rents and logged nearly 17 million square feet of net absorption. The weakest performer was the Inland Empire office market, which recorded another 6.3 percent decline in rents and experienced the smallest relative decline in vacancy. The vacancy rate stands at 23.8 percent, 5.5 percentage points higher than the next worst metro area (Orange County).

The path going forward is a tenuous one at best. Sovereign risk in Europe, geopolitical turmoil, and the ongoing debt crisis in the US are undermining consumer confidence. Activity at the Port of Long Beach, one of the region's major economic drivers, is way down year-over-year. And while Southern California is still considered a "gateway" market by institutional capital, investing has become hyper-local and less favored submarkets could face as much of a struggle to recover as secondary and tertiary metro areas around the rest of the US. Only time will tell whether the incremental improvements will continue, or whether the current political and economic challenges will become too much for the fragile real estate markets to bear.

Los Angeles County

Office:

Four out of seven submarkets recorded positive net absorption through Q3 2011, leading to 326,800 square feet of net move-ins for the county as a whole. Los Angeles still has a long way to go, however, in erasing the nearly 6 million square feet of net move-outs that occurred between Q1 2009 and Q3 2010.

The overall vacancy rate declined 0.4 percentage points to 16.6 percent. South Bay, Tri-Cities, and Mid-Wilshire ended Q3 2010 with the highest vacancy rates. For the second year in a row, San Gabriel Valley had the lowest vacancy rate by nearly a 5 percentage-point margin.

Average Class A asking rents for Los Angeles County stood at $2.94 per square foot, down 2.3 percent for the year. Class B asking rents rose about 1 percent to $2.17, a significant improvement over the 5 percent loss experienced between Q3 2009 and Q3 2010. The North Los Angeles submarket experienced the largest rent declines.

No new office product of 20,000 square feet or more was completed anywhere in the county, but 526,000 square feet of new office space is under construction. The majority of the space to be delivered is located in the West Los Angeles submarket. Year-to-date sales volume for 2011, which stood at almost $1.9 billion, was up 14.6 percent from the whole of 2010. Still, cap rates rose from a 6.6 percent average for 2010 to a 7.15 percent average for 2011.

Industrial:

Over the last year, the Los Angeles industrial market experienced a modest increase in demand, with positive net absorption of 3.2 million square feet. Vacancy was down 0.2 percentage points from Q3 2010 to 3.1 percent. The North Los Angeles submarket experienced the highest increase in demand, with positive net absorption of almost 2.1 million square feet.

Countywide average asking rents were off a penny to $0.50 per square foot. With the exception of Central Los Angeles, all submarkets experienced declining rents from Q3 2010 to Q3 2011. The worst performers were the San Gabriel Valley and North Los Angeles, with a 5.1 percent decline.

From Q3 2010 to Q3 2011, around 540,000 square feet of new industrial space came online. About 685,000 square feet of new industrial space are currently under construction across the Mid-Cities, North Los Angeles, and South Bay submarkets. Sales volume through Q3 2011 stood at just under $1.5 billion, and is on track to surpass the 2010 total of $1.63 billion. Cap rates fell from 7.8 percent to 7.3 percent.

Orange County

Office:

Orange County saw positive net absorption in every submarket, which led to nearly 1.5 million square feet of net move-ins for the county overall. Subsequently, the vacancy rate fell 2.4 percentage points to 18.3 percent. The Airport and South County areas were responsible for 92 percent of the total positive net absorption for the county.

After double-digit declines from Q3 2009 to Q3 2010, countywide Class A and Class B asking rents fell only 3.6 percent and 2.2 percent, respectively, over the last year. Class A rents ended Q3 2011 at $2.17 per square foot, while Class B rents ended the quarter at $1.75 per square foot. North County experienced the strongest rent performance, while the Central and South County submarkets took the greatest hits.

As in Los Angeles, no new office space was completed in Orange County between Q3 2010 and Q3 2011, and there is no new space currently under construction. Year-to-date sales volume stood at $656 million, which is just off the pace needed to match the 2010 sales volume of $906 million. Despite the faltering pace of transactions, cap rates fell from 7.81 to 6.52 percent over the last year.

Industrial:

The Orange County industrial market experienced a significant increase in demand over the period Q3 2010 to Q3 2011. All four submarkets recorded positive net absorption of space and combined to produce 2.7 million square feet of net move-ins. The vacancy rate subsequently fell 1.3 percentage points to 5.3 percent. The North County area experienced the greatest improvement in demand; the West County area the smallest.

After falling nearly 14 percent from Q3 2009 to Q3 2010, countywide average asking rents rose 10.2 percent to $0.74 per square foot. This performance was driven primarily by a sharp increase in rents in the Airport submarket.

Between Q3 2010 and Q3 2011, no new industrial space came online and no additional space is currently under construction. Year-to-date sales volume for 2011 stood at $558 million, a 4.2 percent increase over the total for 2010. Average going-in cap rates fell from 7.5 to 5.8 percent.

Inland Empire

Office:

Although demand rose in all Inland Empire submarkets, the market-wide vacancy rate remains the highest in Southern California at 23.8 percent. Between Q3 2010 and Q3 2011, the region reported 189,000 square feet of net move-ins, and a decline in the vacancy rate of 0.1 percent. The Riverside submarket experienced the largest absolute and relative gains in demand.

For the second year in a row, area-wide Class A asking rents fell more than 5 percent. At the end of Q3 2011, rents stood at $1.92, down 6.3 percent from a year earlier. All submarkets experienced year-over-year rent declines, with the Ontario Airport region performing the worst. Class B rents fell 2 percent to $1.47 per square foot.

No new office completions of over 20,000 square feet occurred between Q3 2010 and Q3 2011. Just over 140,000 square feet of new office space is under construction. Year-to-date sales volume stood at $175 million, just off the 2010 calendar-year total. The average going-in cap rate fell slightly from 8.52 to 8.35 percent.

Industrial:

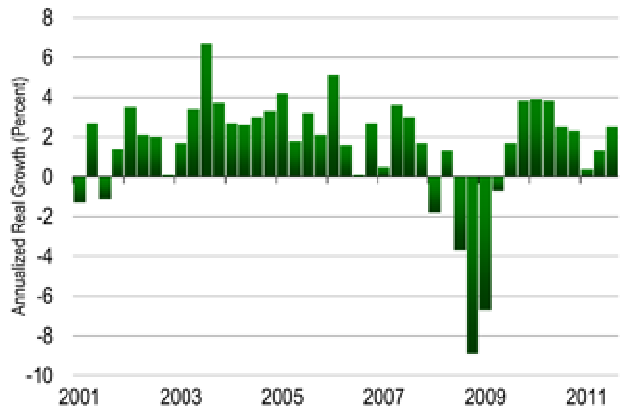
For the second year in a row, the Inland Empire industrial market showed significant improvement in demand. From Q3 2010 to Q3 2011, the region logged 16.7 million square feet of net move-ins. The vacancy rate subsequently fell 4.2 percentage points to 6.6 percent. The West County submarket ended Q3 2011 with the lowest vacancy rate in the region, at 3.4 percent.

Area-wide average asking rents rose 5.7 percent to $0.33 per square foot, erasing most of the decline experienced between Q3 2009 and Q3 2010. The Ontario Airport submarket posted the largest increase in rents among submarket. The South County area was the only submarket to experience a decline.

Just over 3 million square feet of space was added to the area stock across four properties. An additional 4.5 million square feet are currently under construction.

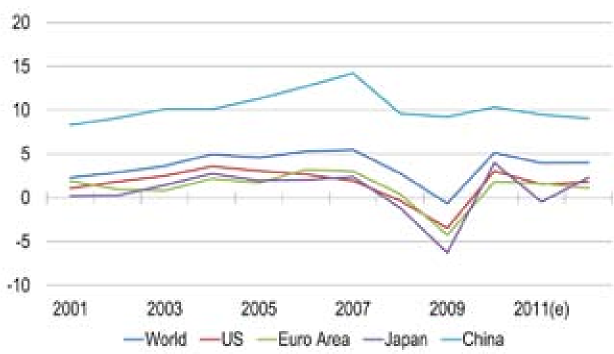
Year-to-date transaction volume stood at just under $1.2 billion. At 6.2 percent, average going-in cap rates are down 0.9 percentage points from 2010 and are closing in on 2007 and 2008 levels. Although both property sectors in all three metro markets took a hit in transactions in 2009, the Inland Empire industrial market has arguably roared back the strongest. Construction has continued, vacancy has declined sharply, and transaction volume is on track to reach its highest levels of the last decade.

GDP Growth



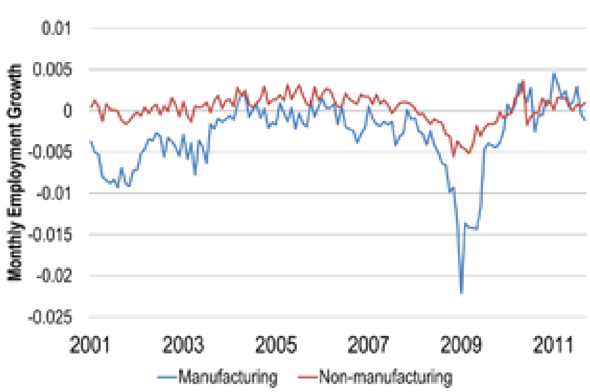
Source | Bureau of Economic Analysis, US Dept of Commerce

Gdp Comparision



Source | Internatinoal Montary Fund

Service and Manufacturing Employment Growth



Source | Bureau of Labor Statistics

Current View of the Economy

The third quarter of 2011 marked the 9th straight quarter of positive annualized growth in Gross Domestic Product (GDP), but the trend witnessed over the past two years has not served to undo much of the economic damage that occurred in the second half of 2008 and first half of 2009. After a somewhat promising period from Q4 2009 to Q3 2010, GDP slipped again, averaging only 1.6 percent annualized growth over the last four quarters.

Corporate America, on the other hand, has stormed back from the recession, recording its highest levels of profitability in 40 years during Q3 2011. Non-financial firms recorded margins of 15 percent, up from 8.7 percent at the official end of the recession in Q2 2009. In short, firms have gotten much better at controlling costs, both on the capital and labor side.

In the last year, California added more than 250,000 jobs, which brought the statewide unemployment rate down to 11.7 percent as of this writing, but it remains the second-highest in the nation. The national unemployment rate, as of this writing, stands at 8.6 percent, its lowest level since March 2009. Despite the increase in hiring, the weakness of the labor market means that firms can offer lower salaries to new hires and do not have to raise wages to keep existing employees.

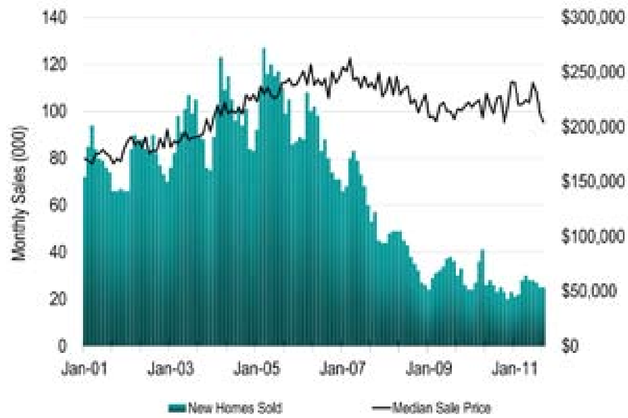
Overall, the US economy still has about 6.5 million fewer jobs since employment peaked in the fourth quarter of 2007 and California alone has lost 1.1 million jobs. The first decade of the 21st century is becoming known as the lost decade because the United States gained no jobs over that period and California actually lost jobs. Furthermore, both the national and California labor forces are considerably larger now than they were at the beginning of the decade. Despite recent job growth in Los Angeles, Riverside, and San Bernardino Counties, unemployment remains above 11 percent. Orange County, with an unemployment rate at the time of writing of 8.5 percent, is the only Southern California county with an unemployment rate below the national average. But taking into account all of the discouraged workers who no longer get counted as unemployed because they have stopped looking for jobs, the numbers are considerably worse than they look.

In November 2011, the Philadelphia Federal Reserve Bank Survey of Professional Forecasters worsened its outlook from August, projecting lower GDP and higher unemployment rates for 2012 and 2013. The forecasters predict 2.6 percent GDP growth for 2012, and predict 8.5 percent or higher unemployment through 2014. Inflation is expected to remain below 2.5 percent over the next two years, which will keep pressure off of interest rates, but it will mean that the real value of debt carried by real estate will remain high.

Despite the persistently high rates of unemployment and low consumer confidence, retail sales have improved significantly, which bodes well for future economic growth. Black Friday 2011 set a record with $11.4 billion in sales and was up 6.6 percent over the same day in 2010. The day capped off 15 consecutive months of retail sales growth.

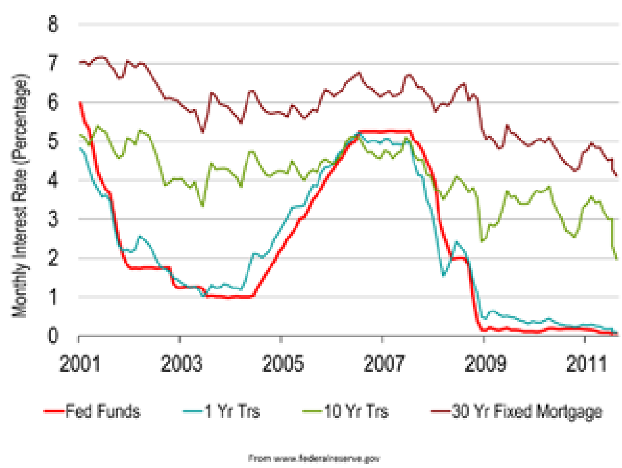
Oil prices continue to be a cause for concern as an obstacle to economic recovery. At the time of writing, crude oil stood at $102 per barrel, up 18 percent from a month earlier. Although the figure is still $30 per barrel below the peak that occurred during the summer of 2008, unprecedented levels of violence in Saudi Arabia, one of the world's greatest exporters of oil, could impact supply and push prices higher. With an average price of $3.63 per gallon, California leads the Continental US in the average price of gasoline. The disparity in California gasoline prices versus the rest of the US is largely a result of higher demand and constrained supply. Local refineries have been running at near-capacity for years and no plans are in place to expand that capacity. The increase in the price of oil/gasoline will

New Home Sales



Source | www.census.gov

Interest Rates

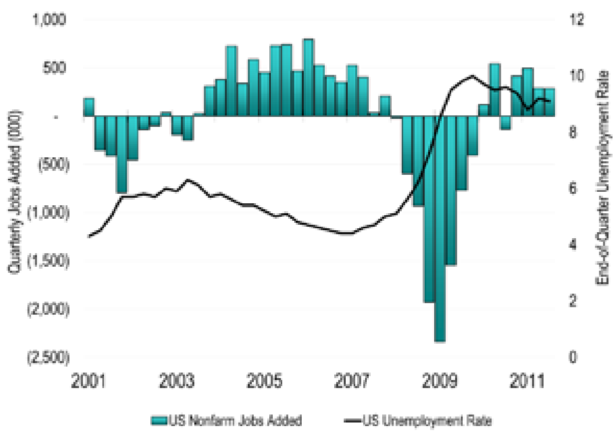


Source | Board of Governors of the Federal Reserve System

Consumer Sentiment

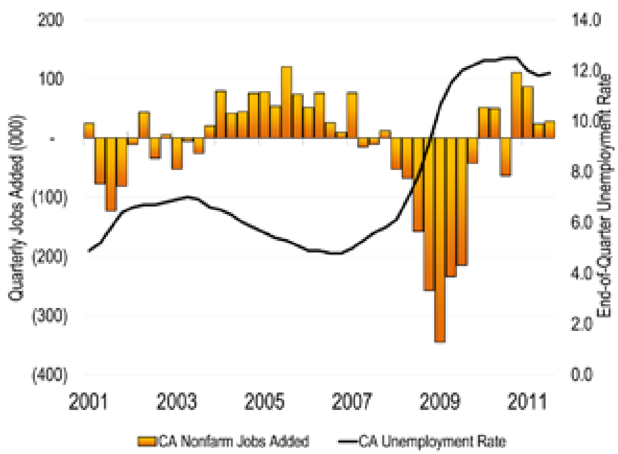
Source | Michigan Survey of Consumer Sentiment

U.S. Unemployment



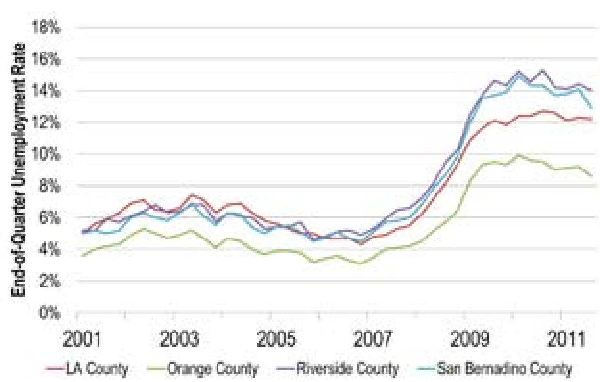
Source | Bureau of Labor Statistics

California Unemployment



Source | Bureau of Labor Statistics

County-Level Unemployment



Source | Bureau of Labor Statistics

no doubt impact the real estate industry, impacting construction costs and reducing the attractiveness of properties/property usage in the outlying areas of major metro markets.

Over the last two years, the federal government has responded to the absence of strong growth with extraordinary monetary policy. The policy measures began with "Quantitative Easing I" (QE1) in November of 2008, in which the Federal Reserve purchased almost $1.5 trillion in agency mortgage-backed securities and $300 billion in Treasury bonds. This program was followed by "Quantitative Easing II" (QE2) in late 2010, which authorized the purchase of nearly $1 billion in longer-term Treasuries in hopes of lowering interest rates. At the time QE2 was initiated, the 10-year Treasury rate was below three percent. The rate hit a high of 3.75 percent in mid-February but has since dropped back to 2.03 percent as of this writing. In September, the Federal Open Market Committee announced its latest stimulus plan, "Operation Twist", which involves selling short-term Treasuries and purchasing long-term ones in an attempt to lengthen the average maturity of the Fed portfolio and flatten the yield curve without enlarging the Fed's balance sheet. Since the actions do not involve printing additional money, it is an attempt to accomplish the same ends as QE2 but without the inflationary pressures. If the Fed is successful in lowering the spread between short-term and long-term interest rates and rates remain low, it will make dollar-denominated assets less attractive to investors. A weakening of the dollar will make US goods more competitive abroad and could incentivize foreign firms to do business in the (relatively) cheaper US market.

Between historically low interest rates and greater affordability of real estate across the board, property markets ought to get a boost – indeed, cap rates have remained relatively low -- but much tighter lending standards have kept a lid on recovery.

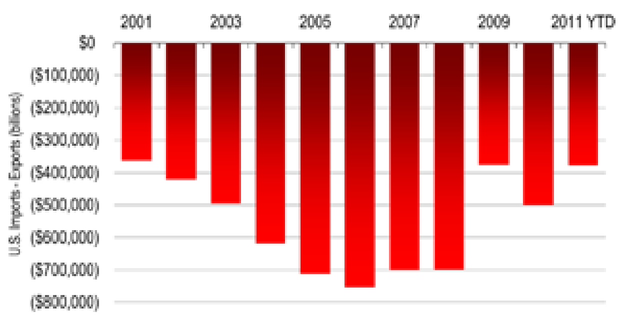
On the housing front, the outlook remains bleak. Year-over-year price declines from Q3 2010 to Q3 2011 increased from the prior four quarters. The most recent Case-Shiller news release showed a 3.3 percent decline within its "Composite 10" sample and a 3.6 percent decline within its "Composite 20" metro-level sample. Los Angeles recorded a 4.2 percent year-over-year decline and a 1 percent drop from August to September of 2011. The median home transaction price for California stood at $240,000 as of October 2011, down 6.3 percent from a year earlier. In retrospect, the Federal and State housing tax credits did very little to stimulate purchases of houses that would not otherwise have been bought; they only served to alter the pattern of sales across time. Distressed sales (foreclosures and short-sales) continued to make up more than half of the home sales in California.

On the bright side, mortgage payments are down. The typical mortgage payment in California as of October 2011 was $924 -- the lowest level since early 1999. Adjusted for inflation, the payment is 66.6 percent less than the typical mortgage payment recorded at the peak of the most recent cycle (June 2006). With persistently low interest rates and lower household debt service-to-income ratios, households have more cash to spend on non-housing items.

As we look forward, let us again consider what will drive economic growth for the United States. The National Income Identity states that total output is equal to the sum of consumption, investment, government spending, and net exports. We examine the outlook for each of these components and ask how they influence Southern California.

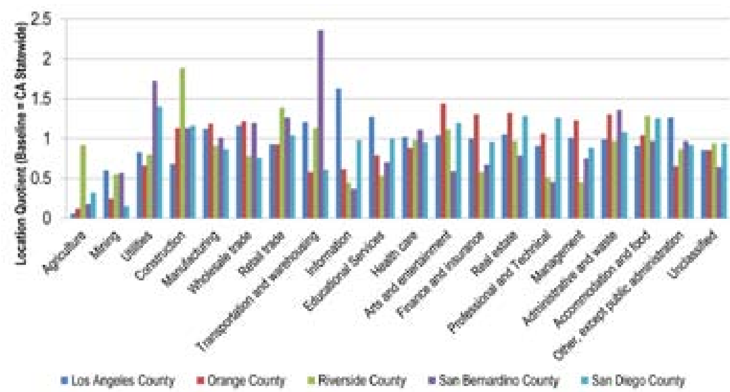
Although retail spending is up, households, firms, and governments are still in the process of de-leveraging, which means that less income is going towards new spending and more towards paying off old debts. Consumer confidence, more generally, took a sharp turn for the worse starting in May 2011. There was a slight uptick in October, but the University of Michigan index is currently at a level equaling that seen in the depths of the 2008 financial crisis. Two important factors

Trade Deficit



Source | Bureau of Economic Analysis, US Dept of Commerce

Location Quotient



Source | Bureau of Labor Statistics

Capcitiy Utilization

Source | Bureau of Economic Analysis, US Dept of Commerce may be playing a role in Americans' bleak view of the economy overall: the ongoing US debt crisis and the sovereign debt crisis in Europe.

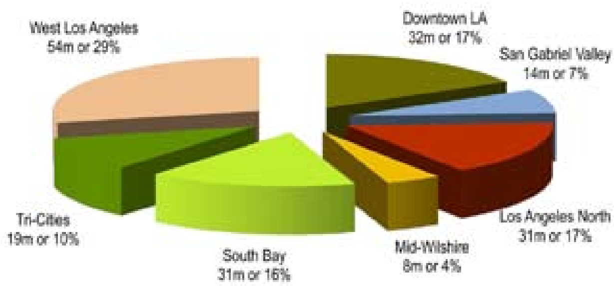
After a summer filled with uncertainty over whether the debt ceiling would be raised and whether the US would default on its interest payments, Congress finally passed the Budget Control Act of 2011 last August. The legislation, in part, led to the creation of the Joint Select Committee on Deficit Reduction (or "Supercommittee") to designate $1.5 trillion in budget cuts over the next 10 years. The legislation produced by the committee would be immune to amendments or filibusters when put to a vote in Congress. On November 21, two days before the legal decision-making deadline, the committee announced that it would not come to an agreement. The failure to produce its own recommendation resulted in a "trigger mechanism" that would enact $1.2 trillion in automatic cuts, mostly to defense spending and entitlement programs, on top of the $917 billion of first-round cuts that were established by the Budget Control Act. Between the political failures surrounding serious fiscal reform, and the US debt downgrade by Standard & Poor's, it is no wonder that Americans remain pessimistic about the long-term economic health of their country.

Outside of the US, the sovereign debt crisis in Europe and the political unrest in the Middle East have served as additional destabilizing factors. High levels of deficit spending in Greece, Italy, Spain and Portugal, and a government bailout of failed banks in response to a housing collapse in Ireland, led the so-called PIIGS to the brink of default and led to widespread uncertainty about the financial health of the Eurozone area as a whole. In spite of Europe's finance ministers approving a rescue package and the IMF granting loans to the most financially troubled nations, the future of the common Euro currency remains in question, and there remains lingering doubt as to whether Europe's financial problems have been dealt with adequately. In the period immediately following the creation of the European Financial Stability Facility in May 2010, the Euro currency and worldwide stock markets surged. Shortly thereafter, however, the Euro fell to a four-year low and has remained weaker relative to the dollar than it had been prior to the announcement of the Greek debt crisis. A recession in Europe would reduce US exports to the region, hurt global financial markets, and further dampen consumer confidence.

The investment and export sectors go hand-in-hand. We believe that the growth in the Chinese and Indian economies combined with the relatively weak US dollar will spur demand for US exports and increase the demand for American workers. But the growth in container traffic from October 2010 to October 2011 at the Port of Los Angeles was not as robust as in the prior one-year period, and fell sharply at the Port of Long Beach. At the port of Los Angeles, total TEUs (20-foot equivalent units) are up 4.4 percent. At the Port of Long Beach, however, inbound, outbound, and empty containers are all down by roughly 20 percent. Some of this decline may be attributable to the departure of California United Terminals, but given that they only represent 10 percent of the total traffic at the Port of Long Beach, their departure only tells part of the story. No matter what the cause, the disappointing port traffic numbers will have a significant impact on the Southern California industrial sector (particularly warehousing and distribution) and could slow the trend of increasing demand for industrial space that we have observed over the last two years.

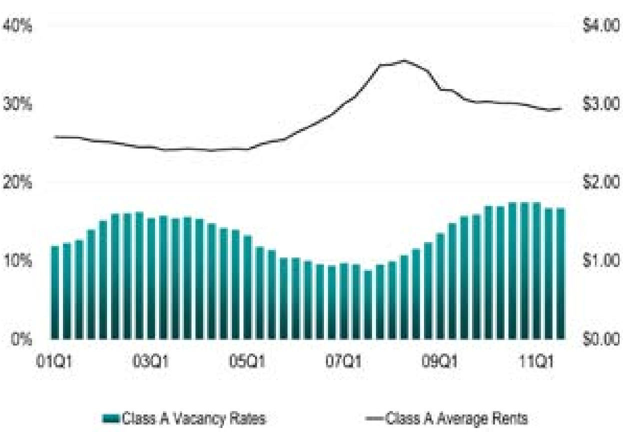
In summary, changes in the major macroeconomic indicators indicate that a slow recovery has begun, but the momentum is low and a number of factors could easily derail any positive trends. The commercial real estate investor should head into the coming year with a continuing sense of very cautious optimism.

Size of Office Submarkets in Los Angeles County



Source | Grubb & Ellis

Class A Rents and Vacancy Rates for LA County



Source | Grubb & Ellis

Class B Rents and Vacancy Rates for LA County

Source | Grubb & Ellis

Los Angeles County Office Market Trends

After three years of worsening or stagnant economic conditions, Los Angeles County is beginning to show some signs of recovery. Since October of 2010, the unemployment rate has fallen 0.7 percentage points to 11.9 percent. Total nonfarm employment increased by 19,000 jobs, with the greatest gains coming in educational and health services, information, and professional and business services. Job losses have continued from previous years in local government, construction, and trade. Given that higher employment in office-oriented sectors tends to spur demand for office space, it's not surprising that Los Angeles County, overall, showed improvement from October 2010 to October 2011 relative to the prior four quarters.

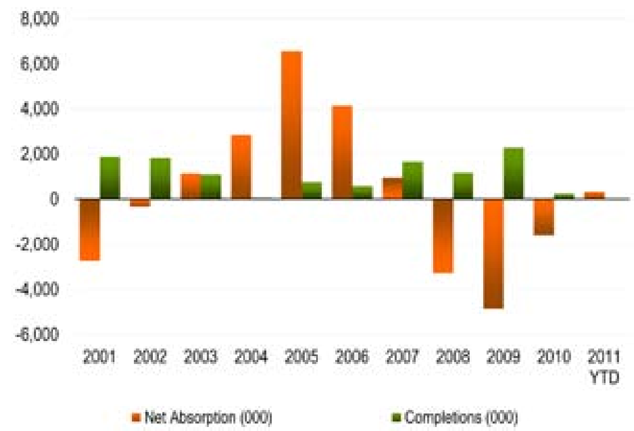
Four out of seven submarkets recorded positive net absorption through Q3 2011, leading to 326,800 square feet of net move-ins for the county as a whole. Los Angeles still has a long way to go, however, in erasing the nearly 6 million square feet of net move-outs that occurred between Q1 2009 and Q3 2010. The strongest absolute performance came from West Los Angeles, which posted 736,000 feet of positive net absorption, while the Tri-Cities submarket posted the strongest increase in demand relative to market size. The South Bay was the worst performer, experiencing 887,000 square feet of net move-outs and doubling its losses from a year earlier.

The overall vacancy rate declined 0.4 percentage points to 16.6 percent. South Bay, Tri-Cities, and Mid-Wilshire ended Q3 2010 with the highest vacancy rates. For the second year in a row, San Gabriel Valley had the lowest vacancy rate by nearly a 5 percentage-point margin.

As of Q3 2011, average Class A asking rents for Los Angeles County stood at $2.94 per square foot, down 2.3 percent for the year. Class B asking rents rose about 1 percent to $2.17, a significant improvement over the 5 percent loss experienced between Q3 2009 and Q3 2010.

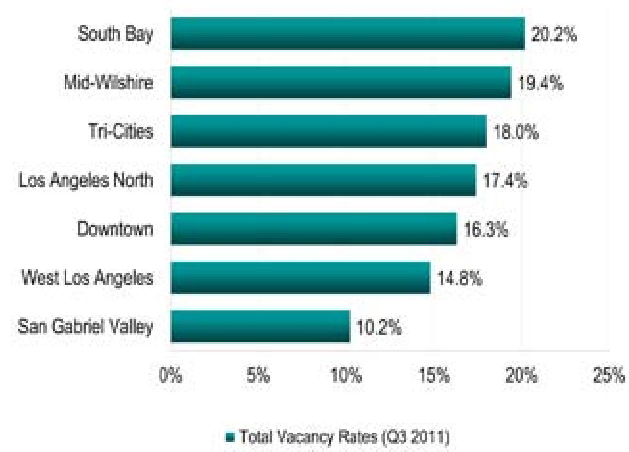
Los Angeles North experienced the largest drop in Class A rents among submarkets at 3.7 percent year-over-year. Mid-Wilshire – the least expensive among Los Angeles submarkets -- was the strongest performer, with a year-over-year increase of 0.5 percent. West Los Angeles held steady over the last four quarters and remained the most expensive submarket, with average asking rents of $3.62 per square foot. Overall, there remains a lot of slackness in the market, which leads to both falling vacancy and falling rents.

Net Absorption and Completions for LA County



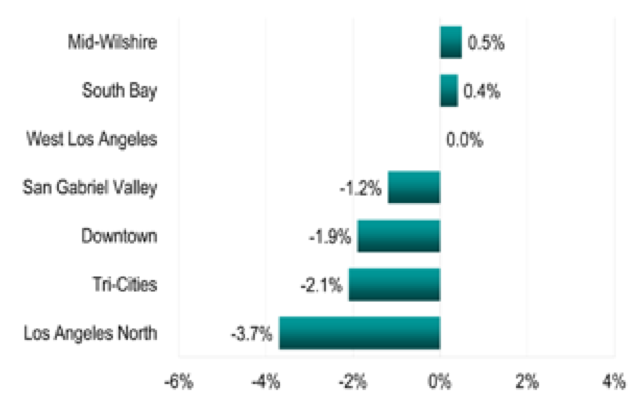
Source | Grubb & Ellis

Office Vacancy Rates for LA County Submarkets



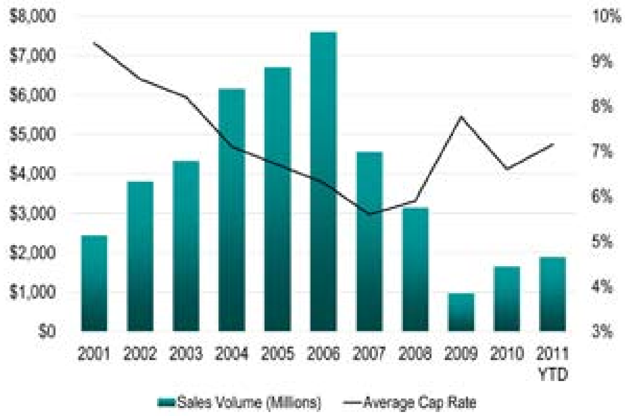
Source | Grubb & Ellis

2011 Year-over-year Class A Rent Increases



Source | Grubb & Ellis

Dollar Value of Office Sales and Cap Rates



Source | Grubb & Ellis

Construction and Investment Activity

Between Q3 2010 and Q3 2011, no new office product of 20,000 square feet or more was completed anywhere in the county. As of Q3 2011, 526,000 square feet of new office space is under construction, 81 percent of which is located in West Los Angeles. The remaining 19 percent is located in the North Los Angeles submarket

Over the last year, the financial markets have remained stable and lending standards have eased. Between lower interest rates and lower levels of equity required to do deals, more investors have had the opportunity to enter the market and transaction volumes have consequently increased. Year-to-date sales volume for 2011, which stands at almost $1.9 billion, is up 14.6 percent from the whole of 2010, and nearly double the dollar volume from 2009. Still, sales volume is only one quarter of the level reached during the peak year of 2006. Cap rates rose from a 6.6 percent average for 2010 to a 7.15 percent average for 2011.

West Los Angeles

West Los Angeles is the largest and most expensive submarket in Los Angeles County, with 28.4 percent of the total office stock and just over 54 million square feet of space. Class A rents held steady over the last 4 quarters, ending Q3 2011 at $3.62 per square foot. Class A rents are off 23.3 percent from the Q1 2008 high of $4.72 per square foot, the largest decline among Los Angeles County submarkets during the last three years.

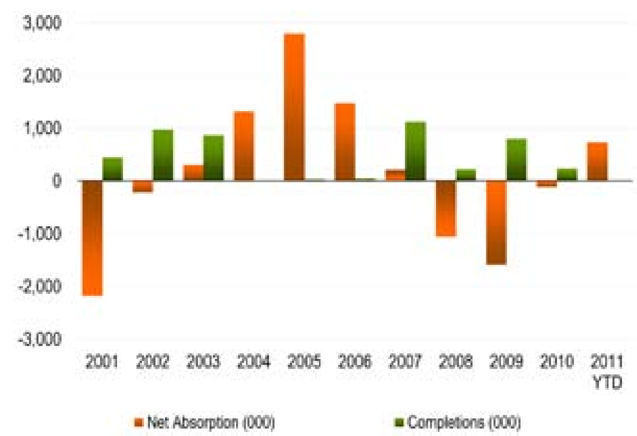
Class B rents fell from $2.82 to $2.65 per square foot over the last year – a decline of over 6 percent. In spite of the decline, Class B rents remain higher than Class A rents in four of the other six submarkets.

Demand for office space rose over the past year, with positive 736,600 square feet of positive net absorption. This was the highest absolute change in demand, and the second highest change relative to market size among submarkets. Vacancy fell 0.9 percentage points, bringing the overall rate to 14.8 percent. West Los Angeles has the second lowest vacancy rate in the county.

Rents and Vacancy Rates for West Los Angeles

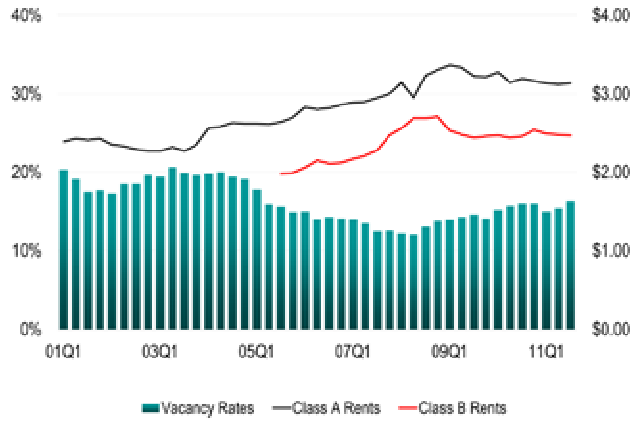
Source | Grubb & Ellis

Net Absorption and Completions for West Los Angeles



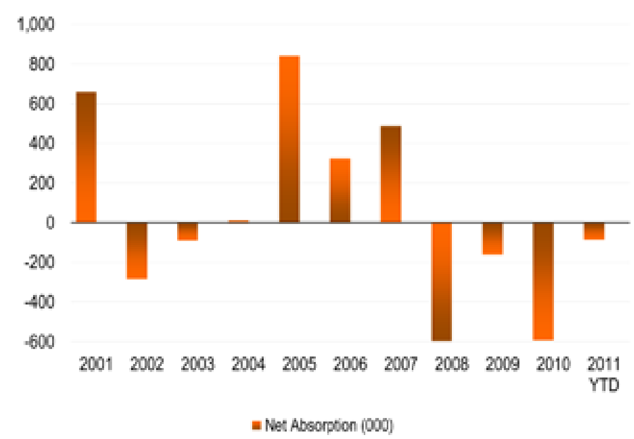
Source | Grubb & Ellis

Rents and Vacancy Rates for Downtown LA



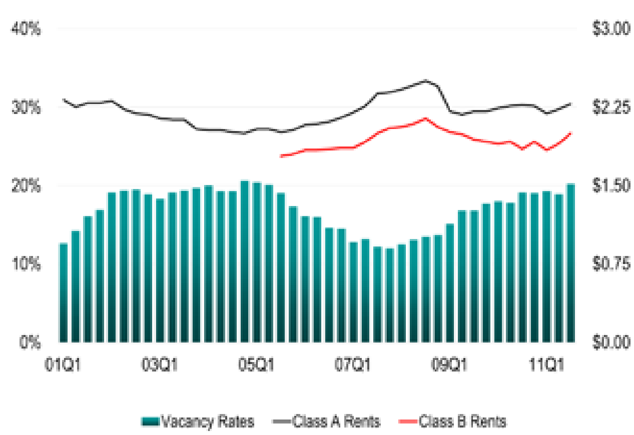
Source | Grubb & Ellis

Net Absorption for Downtown LA



Source | Grubb & Ellis

Rents and Vacancy Rates for South Bay



Source | Grubb & Ellis

Downtown

For the second year in a row, demand in the Downtown submarket fell; the area experienced 85,300 square feet of negative net absorption and saw the vacancy rate rise 0.3 percentage points to 16.3 percent.

Class A rents continued their downward trend from a year earlier, ending Q3 2011 down another $0.06 (0.3 percent) to $3.13 per square foot. Class B rents inched up another penny to $2.47 per square foot. The Downtown submarket remains the second largest and second most expensive office market in the county after West Los Angeles.

South Bay

Prior to the financial crisis, South Bay had been one of the healthiest office markets in Los Angeles due to its comparatively affordable rents. Despite having the second lowest office rents in the county, demand continues to weaken. South Bay recorded 886,900 square feet of negative net absorption in 2011 after experiencing 426,000 and 1.1 million square feet of negative net absorption in 2009 and 2010, respectively. Vacancy subsequently rose 1.2 percentage points to 20.2 percent, the highest level in Los Angeles County.

Despite the submarket's poor performance on the demand side, Class A rents remained relatively stable, ending Q3 2010 at $2.28 per square foot. South Bay was one of only two submarkets in Los Angeles to post a year-over-year gain in Class A rents. Class B rents cracked the $2.00 mark, up 8 percent from Q3 2010.

Los Angeles North

For the second year in a row, Los Angeles North posted a significant increase in demand, experiencing 348,000 square feet of positive net absorption and a decline in vacancy of 1.7 percentage points. The submarket ended Q3 2011 with a vacancy rate of 17.4 percent. The increase in demand may have been aided by the addition of 5,000 new jobs to the motion picture industry, a heavy user of office space in the North submarket.

After declining 3.6 percent from Q3 2009 to Q3 2010, Class A rents fell another 3.7 percent from Q3 2010 to Q3 2011. Rents stood at $2.32 per square foot at the end of Q3 2011. Class B rents fell about 1 percent to $2.13 per square foot.

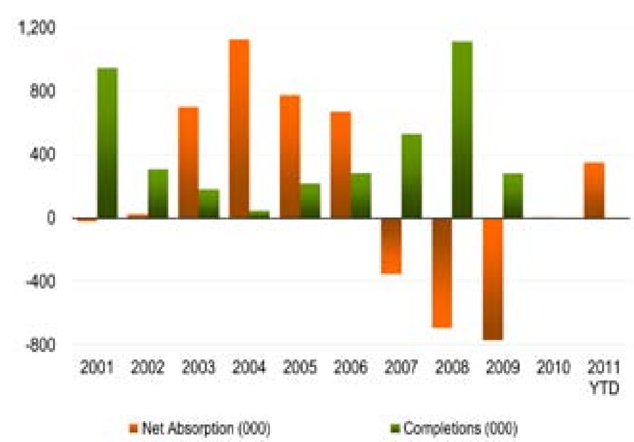
Net Absorption and Completions for South Bay

Source | Grubb & Ellis

Rents and Vacancy Rates for Los Angeles North

Source | Grubb & Ellis

Net Absorption and Completions for Los Angeles North



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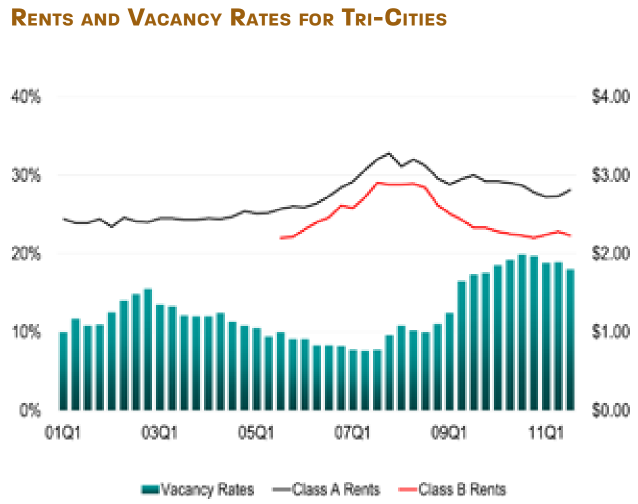
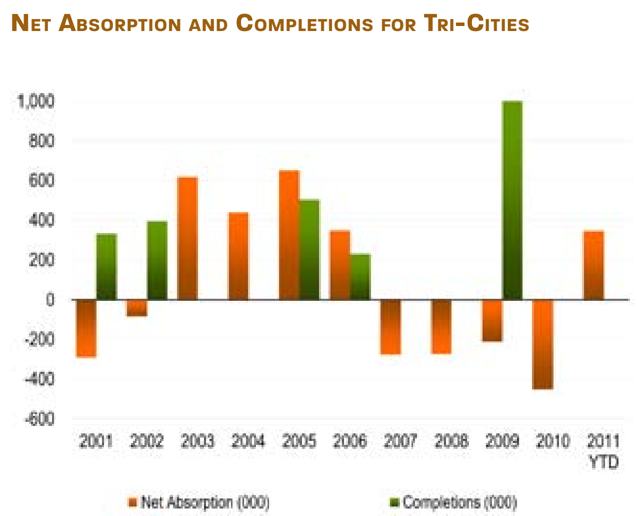


Source | Grubb & Ellis



Source | Grubb & Ellis

TRI-CITIES

After a dismal 2010, Tri-cities showed signs of recovery in 2011 with 345,900 square feet of positive net absorption. This was the third-highest increase in demand in absolute terms and the largest increase in demand relative to submarket size. Vacancy subsequently fell 1.9 percentage points to 18.0 percent, the third-highest vacancy rate among submarkets.

Class A asking rents fell 2.1 percent from Q3 2010 to Q3 2011, compared with 4.3 percent during the prior one-year period. This was the second worst year-over-year rent performance among the Los Angeles County submarkets. Following the decline, Class A asking rents stood at $2.81 per square foot, the third highest among LA submarkets. Class B asking rents remained stable at $2.23 per square foot, a significant improvement over the 4.3 percent and 18 percent declines experienced in 2009 and 2010, respectively.

San Gabriel Valley

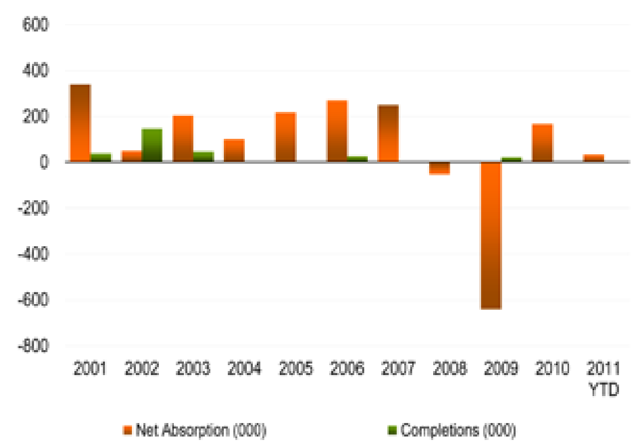
Between Q3 2010 and Q3 2011, San Gabriel Valley experienced a slight increase in demand, with 33,800 square feet of positive net absorption. The vacancy rate fell 0.3 percentage points to 10.2 percent and remains the lowest in Los Angeles County by a significant margin. West Los Angeles is in second place at 14.8 percent vacancy.

Despite the increase in demand, Class A asking rents still fell another 1.2 percent to $2.40 per square foot. After a 9.6 percent decline from Q3 2009 to Q3 2010, Class B rents rose 1.6 percent over the next four quarters, ending Q3 2011 at $1.91 per square foot. This was the second-highest rate of increase among Los Angeles County submarkets in either property class.

Rents and Vacancy Rates for San Gabriel Valley

Source | Grubb & Ellis

Net Absorption and Completions for San Gabriel Valley

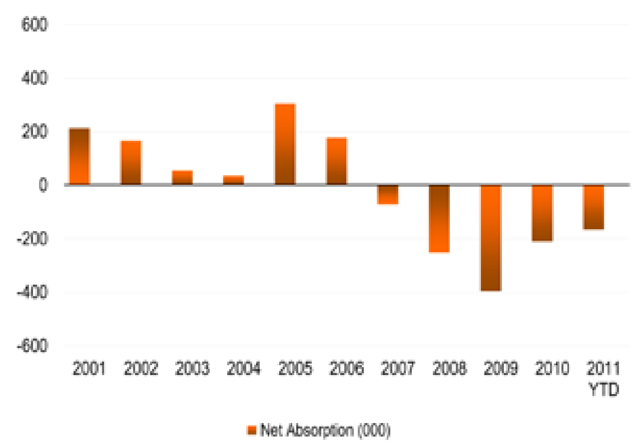


Source | Grubb & Ellis

Rents and Vacancy Rates for Mid-Wilshire

Source | Grubb & Ellis

Net Absorption and Completions for Mid-Wilshire



Source | Grubb & Ellis

Mid-Wilshire

For the second year in a row, the Mid-Wilshire submarket experienced a significant decline in demand, posting negative net absorption of 165,300 square feet. Mid-Wilshire is the smallest of the Los Angeles submarkets with only 8.2 million square feet of office space. Vacancy rose 0.9 percentage points to 19.4 percent – the second highest vacancy rate among submarkets. With ample sublease space available at reduced rents in the West Los Angeles and Downtown submarkets, the Mid-Wilshire area has lost some of its attraction as a low-cost alternative.

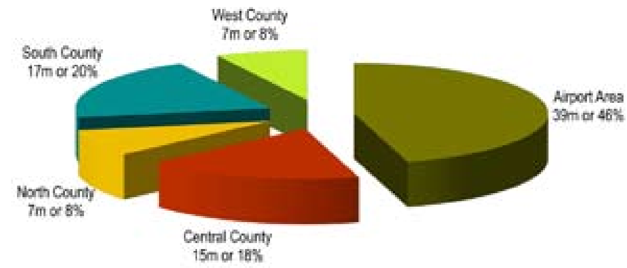
Class A asking rents rose a penny over the past year to $2.00 per square foot, while Class B asking rents remained stable at $1.67. These are the lowest asking rents for Class A and B among the Los Angeles submarkets.

Due to space constraints, there has been very little office construction in the Mid-Wilshire submarket over the last decade and none is expected in the foreseeable future.

Orange County Office Market Trends

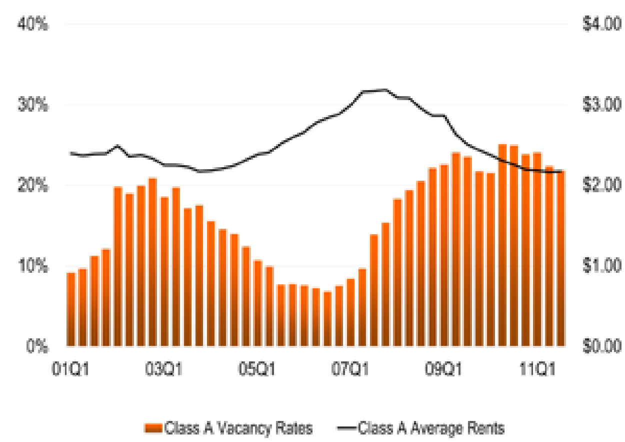
For the second year in a row, Orange County has experienced overall economic improvement; the unemployment rate fell to 8.5 percent in October 2011, which is the lowest among the counties discussed in the report and even with the nation as a whole. Orange County gained 20,400 nonfarm jobs between October 2010 and October 2011, 14,300 of which came in October 2011 itself. Leisure and hospitality, and professional and business services posted the largest gains, while other services saw the greatest losses. As in Los Angeles, the strong performance of the professional and business services sector was a likely driver of the improved performance of the Orange County office market over the last year. Orange County saw positive net absorption in every submarket, which led to nearly 1.5 million square feet of net move-ins for the county overall. Subsequently, the vacancy rate fell 2.4 percentage points to 18.3 percent. Although the Orange County office market is by no means in good shape, its performance from Q3 2010 to Q3 2011 on the demand side was a complete turnaround from the prior four quarters, in which the county experienced 925,000 square feet of negative net absorption.

Size of Office Submarkets in Orange County



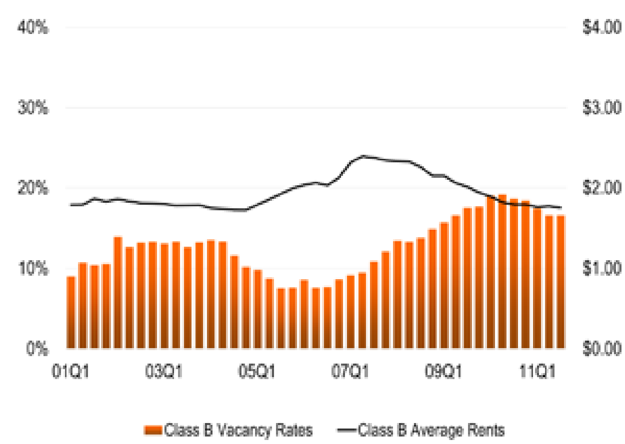
Source | Grubb & Ellis

Class A Rents and Vacancy Rates for Orange County



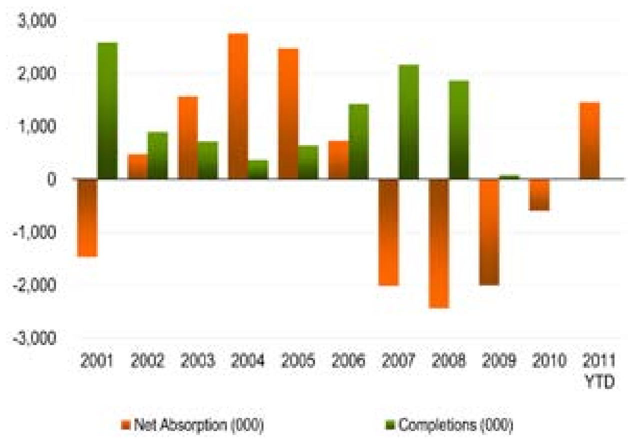
Source | Grubb & Ellis

Class B Rents and Vacancy Rates for Orange County



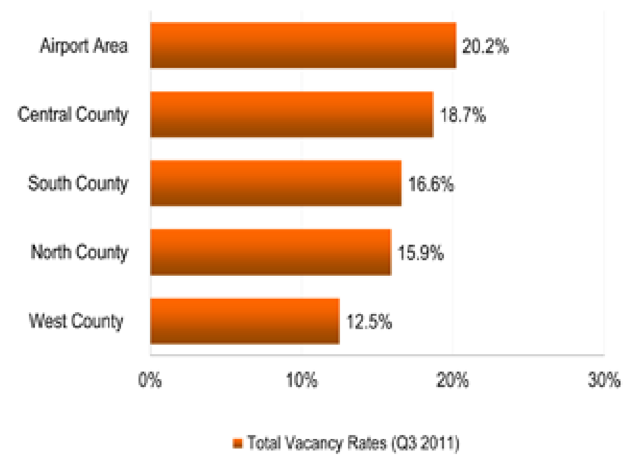
Source | Grubb & Ellis

Net Absorption and Completions for Orange County



Source | Grubb & Ellis

Office Vacancy Rates for Orange County Submarkets



Source | Grubb & Ellis

2011 Year-over-year Class A Rent Changes

Source | Grubb & Ellis

The Airport area logged the highest absolute level of net move-ins, at 725,000 square feet, while the South County submarket recorded the highest level of net move-ins relative to market size. These two submarkets accounted for 92 percent of the total positive net absorption for the county. Although its vacancy rate fell 3 percentage points over the last four quarters, the Airport area continues to have the highest vacancy rate in the county at 20.2 percent. The West County submarket saw an increase in vacancy of 0.7 percentage points, but continues to have the lowest vacancy rate in the county by 3.4 percentage points.

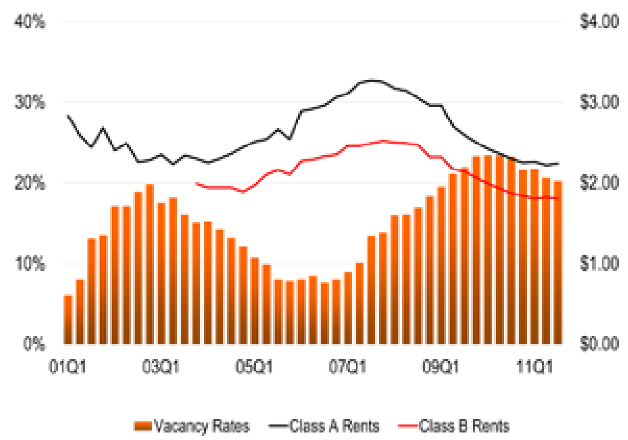
After double-digit declines from Q3 2009 to Q3 2010, countywide Class A and Class B asking rents fell only 3.6 percent and 2.2 percent, respectively, over the last year. Class A rents ended Q3 2011 at $2.17 per square foot, while Class B rents ended the quarter at $1.75 per square foot. North County experienced the strongest rent performance, with an increase of 6.5 percent year-over-year. The Central and South County submarkets took the greatest hits in Class A rents, falling 7.9 and 5.9 percent, respectively.

Construction and Investment Activity

As in Los Angeles, no new office space was completed in Orange County between Q3 2010 and Q3 2011, and there is no new space currently under construction. Year-to-date sales volume stood at $656 million, which is just off the pace needed to match the 2010 sales volume of $906 million. Since witnessing an astonishing $4.7 billion in office transactions in 2007, Orange County has not seen more than $1 billion per year in office sales. Despite the faltering pace of transactions, cap rates fell from 7.81 to 6.52 percent over the last year.

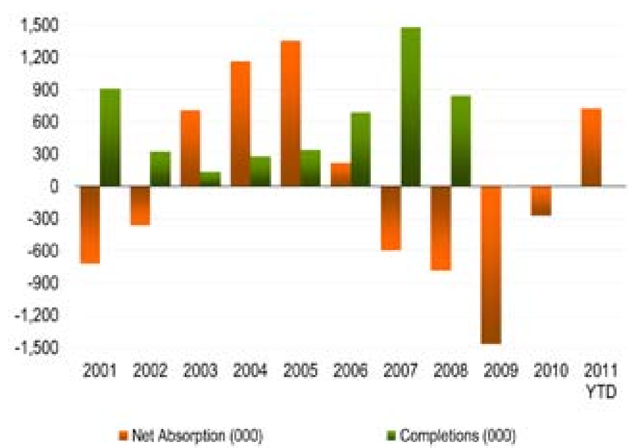
Dollar Value of Office Sales and Cap Rates

Rents and Vacancy Rates for Orange County Airport Area



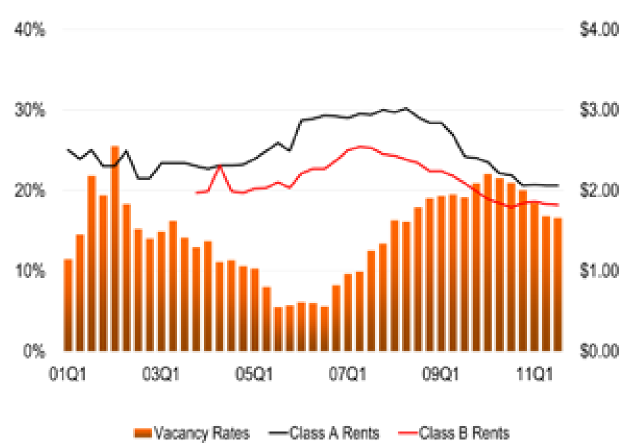
Source | Grubb & Ellis

Net Absorption and Completions for Orange County Airport Area



Source | Grubb & Ellis

Rents and Vacancy Rates for South Orange County



Source | Grubb & Ellis

Airport

The Airport area is the central hub for the Orange County office market. With 39 million square feet, it is the largest submarket and is home to many of the region's most prominent Class A buildings. With 725,000 square feet of positive net absorption, the submarket wiped out the net move-outs experienced from Q3 2009 to Q3 2010. But while the vacancy rate fell 3 percentage points to 20.2 percent, it remains the highest among Orange County submarkets by 1.5 percentage points.

Major companies continued to take advantage of their relative size and strength as renters to lock in lower rates in the Airport area. Rent declines were not nearly as severe as those experienced from Q3 2009 to Q3 2010, however. Class A asking rents fell 2.6 percent from Q3 2010 to Q3 2011, bringing the submarket's total drop in rents since Q3 2007 to 31.5 percent. Rents at the end of Q3 2011 stood at $2.24 per square foot, the highest in Orange County. Class B asking rents fell 3.7 percent to $1.80 per square foot.

South County

The South County submarket accounts for 20 percent of the overall office space in Orange County, or about 17 million square feet. Like the Airport area, Q3 2010 to Q3 2011 was a period of rebound; the submarket experienced 612,000 square feet of positive net absorption and posted a whopping 4.3 percentage-point decline in the vacancy rate.

For the third consecutive year, Class A rents declined. After falling 17 percent in 2009 and 9.5 percent in 2010, class A rents fell another 5.9 percent to $2.06 per square foot. Class B rents rose 1.7 percent from Q3 2010 to Q3 2011 to

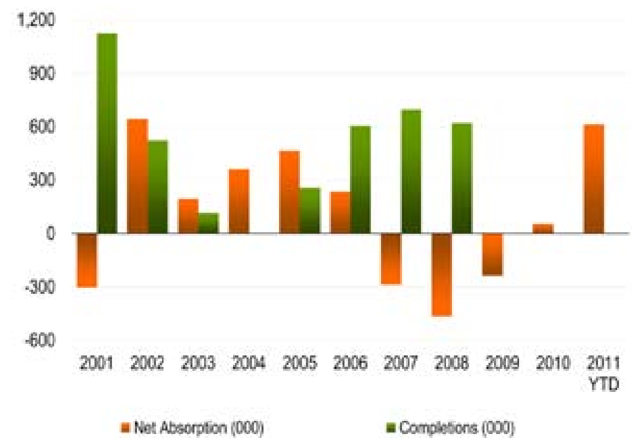
$1.82, a sharp turnaround from the 14.3 percent decline experienced in the prior 4 quarters. South County has the second lowest Class A asking rents and highest Class B asking rents in the County.

North County

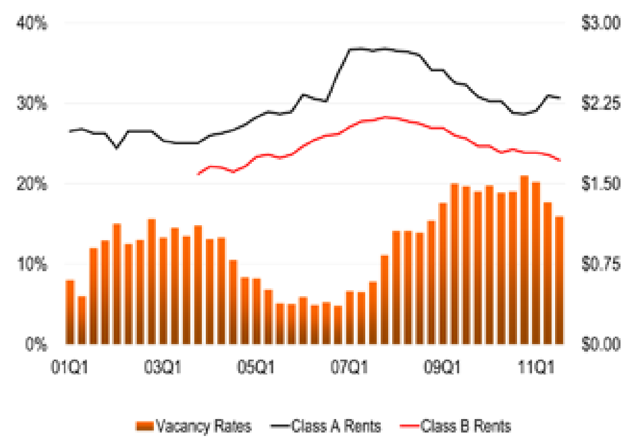
Although faced with many of the same difficulties as other areas, the North County submarket has been doing slightly better than the Airport and South County regions. Demand was up considerably in 2010, with positive net absorption of 165,000 square feet. Meanwhile, the vacancy rate fell 3.1 percentage points to 15.9 percent.

After two years of 10+ percent declines in Class A rents, rents rose 6.5 percent from Q3 2010 to Q3 2011. At the end of Q3 2011, Class A rents stood at $2.30 per square foot, the highest level among Orange County submarkets. North County experienced the smallest peak-to-trough decline among submarkets at 21.7 percent. Class B asking rents fell 5.6 percent to $1.72 per square foot, after experiencing a decline of 5.2 percent from Q3 2009 to Q3 2010.

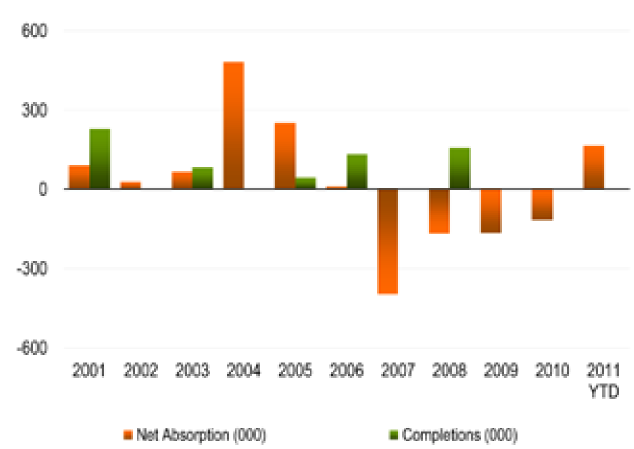
Net Absorption and Completions for South Orange County



Rents and Vacancy Rates for North Orange County



Net Absorption and Completions for North Orange County



Rents and Vacancy Rates for Central Orange County

Source | Grubb & Ellis

Net Absorption and Completions for Central Orange County

Source | Grubb & Ellis

Central County

Demand for office space in Central Orange County remained relatively stable from Q3 2010 to Q3 2011; the submarket posted 28,000 square feet of net move-ins and logged a 0.2 percent increase in the vacancy rate. This was the smallest change in demand among submarkets, in both absolute and relative terms. At 18.7 percent vacancy, Central County has the second highest vacancy rate among Orange County submarkets.

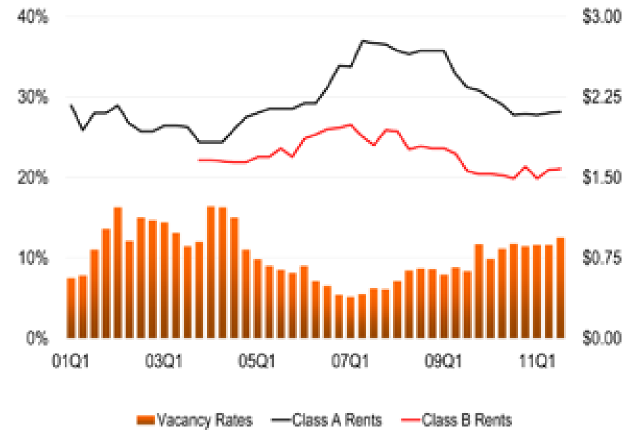
Performance of Class A asking rents was the poorest among Orange County submarkets. Rents ended Q3 2011 at $1.98 per square foot, down 7.9 percent from a year earlier. Class B rents fell 1.8 percent to $1.65 per square foot. Central County has the lowest rents among submarkets and is the only submarket in Orange County with Class A rents below $2.00 per square foot.

West County

The North and West County submarkets were the only two submarkets to experience both positive net absorption and increases in rents over the period Q3 2010 to Q3 2011. This performance was a nice turnaround in the wake of significant declines in both demand and asking rents in the prior four quarters. The area recorded 71,000 square feet of positive net absorption over the last year. Although still the lowest in the county by a significant margin, the vacancy rate actually increased 0.7 percentage points to end Q3 2011 at 12.5 percent.

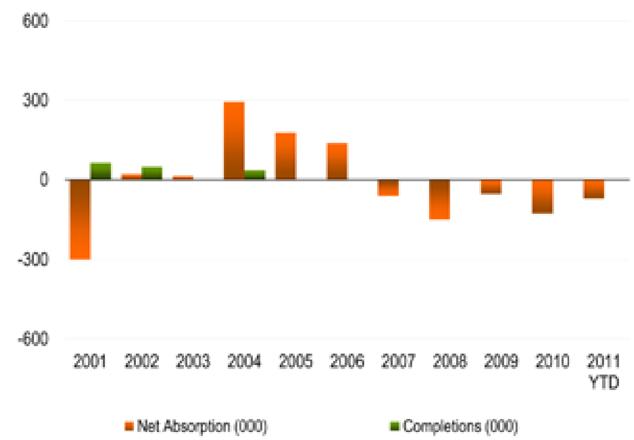
Class A asking rents rose 1.4 percent to $2.08 per square foot, while Class B asking rents rose 6 percent to $1.58 per square foot. Although West County continues to have the lowest Class B rents in the county, Class A rents have moved to the middle of the pack.

Rents and Vacancy Rates for West Orange County



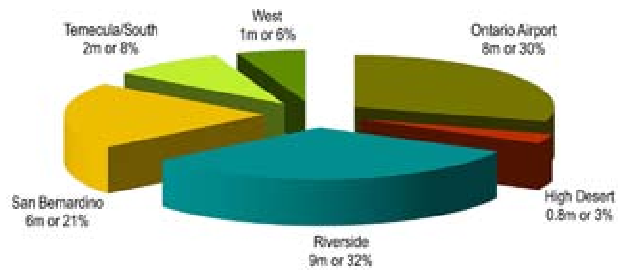
Source | Grubb & Ellis

Net Absorption and Completions for West Orange County



Source | Grubb & Ellis

Size of Office Submarkets in the Inland Empire

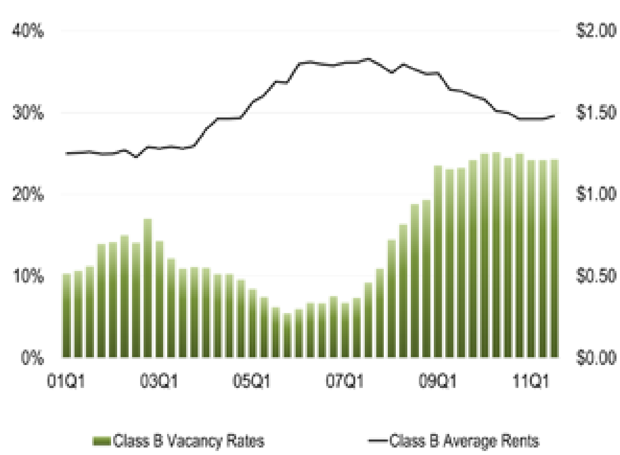


Source | Grubb & Ellis

Class A Rents and Vacancy Rates for Inland Empire

Source | Grubb & Ellis

Class B Rents and Vacancy Rates for Inland Empire



Source | Grubb & Ellis

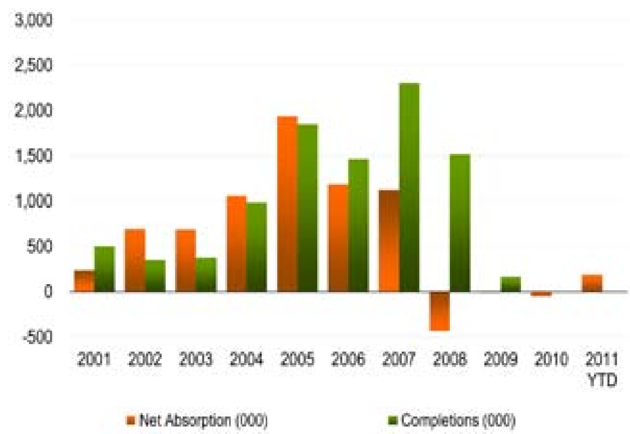
Inland Empire Office Market Trends

Among the Southern California market discussed in this report, Riverside and San Bernardino Counties have struggled the most as a result of the subprime crisis and overall economic downturn. But like the other metro markets, the Inland Empire has begun to show signs of recovery over the last four quarters. As of October 2011, unemployment in the region stood at 13.3 percent, down 1.1 percentage points from a year earlier. Total non-farm employment rose by 15,200 jobs, 9,800 of which came in the month of October itself. The greatest gains came in the sectors of trade, transportation and utilities, government, and professional and business services. The greatest losses came in the leisure and hospitality sector.

Although demand rose in all Inland Empire submarkets, the market-wide vacancy rate remains the highest in Southern California at 23.8 percent. Between Q3 2010 and Q3 2011, the region reported 189,000 square feet of net move-ins, and a decline in the vacancy rate of 0.1 percent. The Riverside submarket experienced the largest absolute and relative gains in demand with 108,000 square feet of positive net absorption. The Temecula/South and Riverside submarkets have the highest vacancy rates among submarkets, at 25.3 and 25.2, respectively. Both submarkets saw the vacancy rate decline from the prior year. With the exception of the tiny West submarket, comprised of Chino, Chino Hills, Montclair, and Upland, all Inland Empire submarkets have vacancy rates above 21 percent as of Q3 2011.

For the second year in a row, area-wide Class A asking rents fell more than 5 percent. At the end of Q3 2011, rents stood at $1.92, down 6.3 percent from a year earlier. All submarkets experienced year-over-year rent declines. The Ontario Airport region performed the worst, posting a decline of 7.5 percent and ending the quarter at $1.97 per square foot. The West and Temecula/South submarkets experienced the smallest year-over-year declines, at 0.5 and 2.8 percent, respectively. Class B rents fell 2 percent to $1.47 per square foot, and vacancy declined by 0.2 percentage points to 24.3 percent.

Net Absorption and Completions for Inland Empire

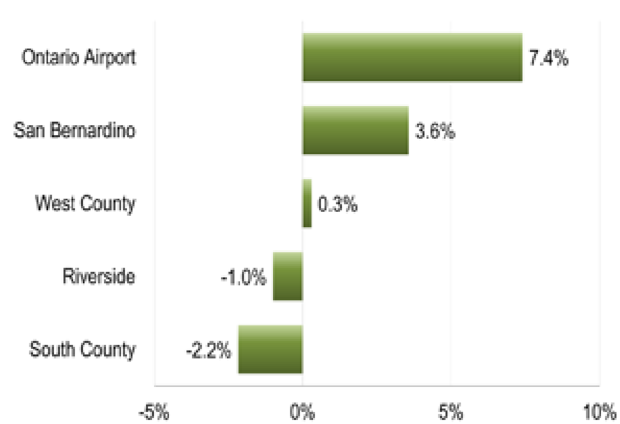


Source | Grubb & Ellis

Office Vacancy Rates for Inland Empire Submarkets

Source | Grubb & Ellis

2011 Year-over-year Class A Rent Changes



Source | Grubb & Ellis

Dollar Value of Office Sales and Cap Rates

Construction and Investment Activity

No new office completions of over 20,000 square feet occurred between Q3 2010 and Q3 2011. Just over 140,000 square feet of new office space is under construction. Year-to-date sales volume stood at $175 million, just off the 2010 calendar-year total. The average going-in cap rate fell slightly from 8.52 to 8.35 percent

Ontario Airport Region

At around 8.5 million square feet, the Ontario Airport submarket comprises 30 percent of the Inland Empire office market and is the second largest submarket after Riverside. The data collection area includes Ontario, Fontana, Mira Loma, and Rancho Cucamonga. For the third year in a row, the submarket recorded an increase in demand, although positive net absorption for 2011 was only about one-third the level of the prior year. The submarket posted 31,000 square feet of net move-ins and saw the vacancy rate decline 0.3 percentage points. The vacancy rate stood at 23.9 percent at the end of Q3 2011.

Class A asking rents fell 7.5 percent to $1.97 per square foot, while class B asking rents held steady at $1.48 per square foot.

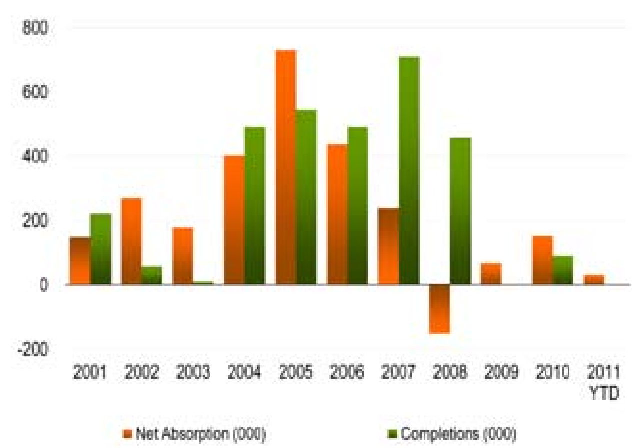
Riverside

The Riverside area is the largest office submarket in the Inland Empire, with 8.85 million square feet of space. The submarket experienced the largest uptick in demand in both absolute and relative terms, recording 108,000 square feet of net move-ins. The vacancy rate fell 1.2 percentage points to 25.2 percent, dropping Riverside out of the top spot for highest vacancy rate among all Southern California office submarkets included in the report.

Rents and Vacancy Rates for Ontario Airport

Source | Grubb & Ellis

Net Absorption and Completions for Ontario Airport

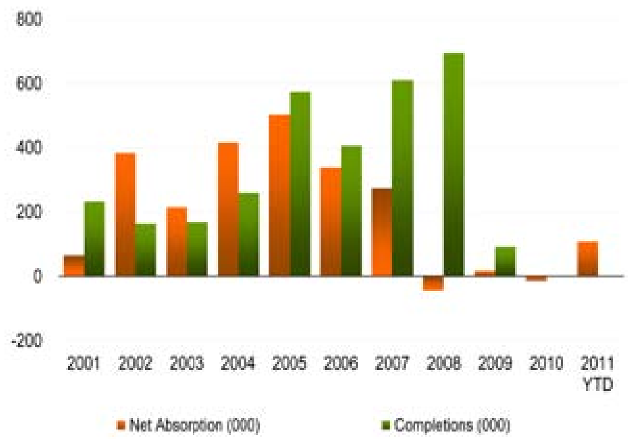


Source | Grubb & Ellis

Rents and Vacancy Rates for Riverside

Source | Grubb & Ellis

Net Absorption and Completions for Riverside

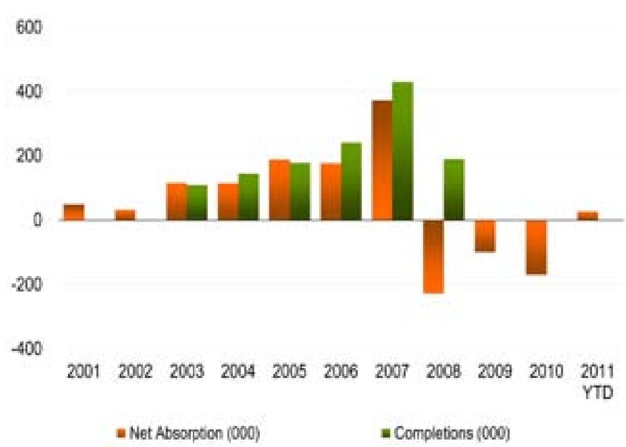


Source | Grubb & Ellis

Rents and Vacancy Rates for San Bernardino

Source | Grubb & Ellis

Net Absorption and Completions for San Bernardino



Source | Grubb & Ellis

Although unemployment in Riverside County is the highest among the four counties discussed in the report, the area has seen some significant improvement in the last year. The unemployment rate fell 1.3 percentage points to 14 percent between Q3 2010 and Q3 2011, and currently sits at 13.7 percent. We should expect to see further improvement in the Riverside office market if the employment picture continues to improve.

From Q3 2010 to Q3 2011, Class A rents fell 4.6 percent to $2.09 per square foot, bringing the total rent decline from the Q1 2009 peak to around 17 percent. Class B rents fell 3.7 percent to $1.53 per square foot, and have fallen around 18 percent total since hitting their peak as well.

San Bernardino

The San Bernardino submarket accounts for 21 percent of the Inland Empire office stock, or 5.8 million square feet. The data collection area includes the city of San Bernardino, Colton, Loma Linda, Redlands, and Rialto. It is the lowest priced submarket and carries the second-lowest vacancy rate at 22.2 percent. After three years in a row of declining demand, San Bernardino posted 25,000 square feet of net move-ins, although the vacancy rate still rose 1.5 percentage points.

Class A asking rents declined 3 percent to $1.61 per square foot, while Class B rents declined 1.4 percent to $1.40 per square foot.

Temecula/South

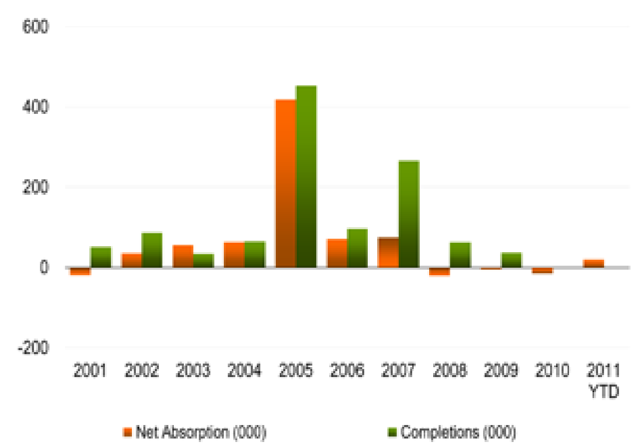
The Temecula/South area accounts for 9 percent of the office space in the Inland Empire, or 2.5 million square feet, and includes the city of Temecula, Lake Elsinore, Murrieta, and Wildomar. Demand for office space increased slightly as the area recorded 19,000 square feet of net move-ins. The vacancy rate fell 0.5 percentage points to 25.3 percent. In spite of the increase in occupancy, the Temecula/South submarket now holds the highest vacancy rate among all Southern California office submarkets included in this report.

Class A asking rents fell 2.8 percent from Q3 2010 to Q3 2011, a significant improvement over the 8.3 and 10.3 percent declines recorded in the prior two years. After remaining stable from Q3 2009 to Q3 2010, Class B rents fell 6.6 percent from Q3 2010 to Q3 2011. Class A and Class B rents stand at $1.72 and $1.40 per square foot, respectively. San Bernardino and Temecula/South submarkets are tied for the lowest Class B rents in the Inland Empire region. The Temecula/South submarket also holds the distinction of experiencing the largest peak-to-trough declines in rents. Class A and Class B rents have fallen 26.9 and 32.6 percent, respectively since Q2 2007.

Rents and Vacancy Rates for Temecula

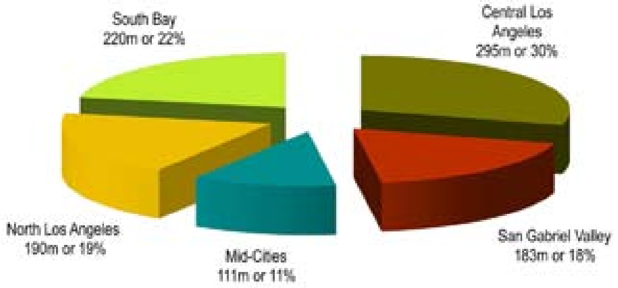
Source | Grubb & Ellis

Net Absorption and Completions for Temecula



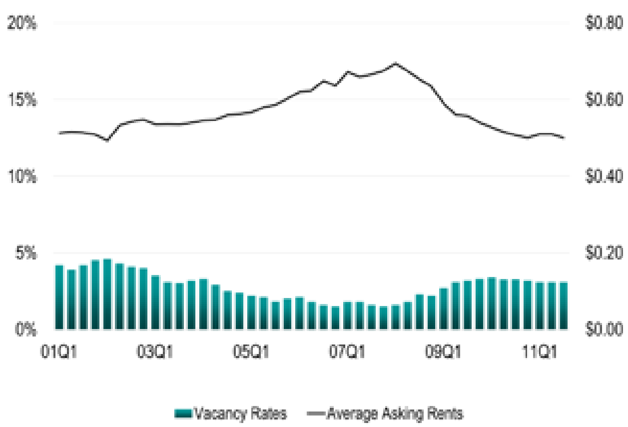
Source | Grubb & Ellis

Size of Industrial Submarkets in Los Angeles County



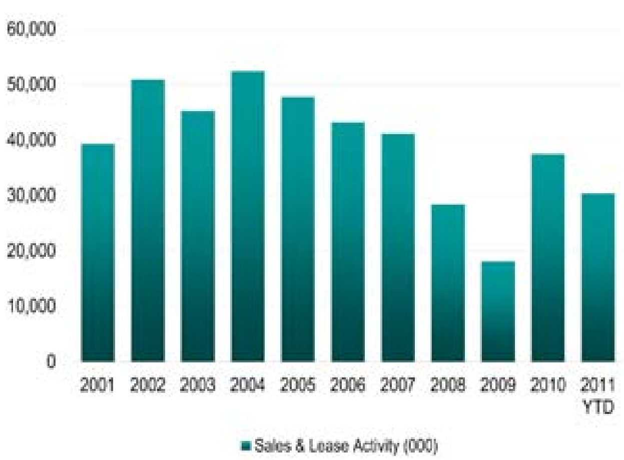
Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for LA County



Source | Grubb & Ellis

Sales & Leasing for LA County



Source | Grubb & Ellis

Los Angeles County Industrial Market Trends

Over the last year, the Los Angeles industrial market experienced a modest increase in demand, with positive net absorption of 3.2 million square feet. Although this level of net move-ins may seem significant, it represents only one-third of one percent of the total Los Angeles industrial stock. Vacancy was down 0.2 percentage points from Q3 2010 to 3.1 percent. Although the vacancy rate is more than double what it was at the market peak in Q4 2007, Los Angeles remains the tightest industrial market in the United States.

The North Los Angeles submarket experienced the highest increase in demand, with positive net absorption of almost 2.1 million square feet. Mid-Cities experienced the largest decline in the vacancy rate. Vacancy fell 0.9 percentage points to 4.1 percent, which remains the highest vacancy rate among Los Angeles submarkets.

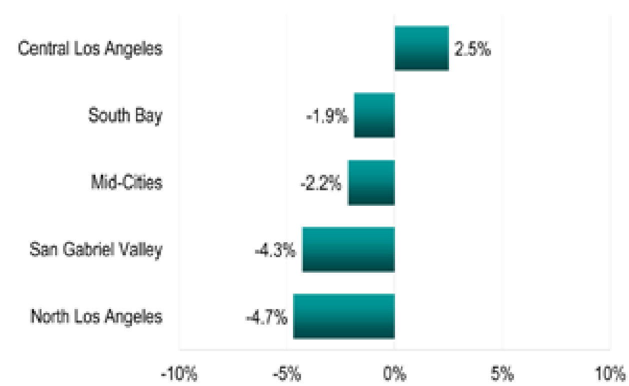
Owner-user purchases and overall leasing activity were up 25 percent from year-to-date totals for 2010, to 30.3 million square feet.

Countywide average asking rents were off a penny to $0.50 per square foot. With the exception of Central Los Angeles, all submarkets experienced declining rents from Q3 2010 to Q3 2011. The worst performers were the San Gabriel Valley, with a 5.6 percent decline, and North Los Angeles, with a 5.1 percent decline. In spite of experiencing the second-largest drop in rents, North Los Angeles remained the most expensive among Los Angeles industrial submarkets at $0.61 per square foot. After falling 6.2 percent from Q3 2009 to Q3 2010, warehouse and distribution rents rebounded by 4.4 percent in the last four quarters to settle at $0.47 per square foot. General industrial space experienced its third straight year of rent declines, falling 3.8 percent to $0.51 per square foot. The Los Angeles industrial market is divided nearly 50-50 between these two property sub-types.

Industrial Vacancy Rates for LA Submarkets

Source | Grubb & Ellis

2011 Year-over-year Average Rent Changes

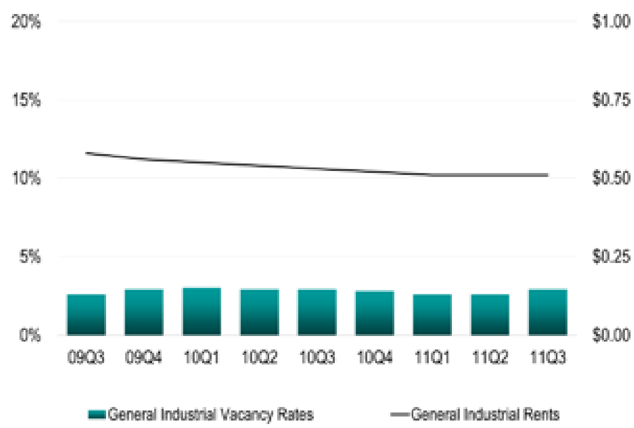


Source | Grubb & Ellis

Warehouse Rents and Vacancy Rates for LA County

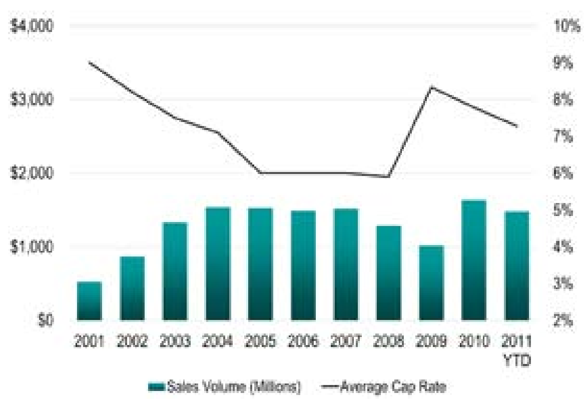
Source | Grubb & Ellis

General Industrial Rents and Vacancy Rates for LA County



Source | Grubb & Ellis

Dollar Value of Industrial Sales and Cap Rates



Source | Grubb & Ellis

Construction and Investment Activity

From Q3 2010 to Q3 2011, around 540,000 square feet of new industrial space came online across six buildings. Completions were divided between the South Bay, North Los Angeles, and San Gabriel submarkets. About 685,000 square feet of new industrial space are currently under construction across the Mid-Cities, North Los Angeles, and South Bay submarkets

Sales volume through Q3 2011 stands at just under $1.5 billion, and is on track to surpass the 2010 total of $1.63 billion. Cap rates fell from 7.8 percent to 7.3 percent. All in all, sales volume in the industrial sector has been far less volatile over the last eight years, averaging about $1.43 billion per year and never falling lower than $1 billion.

Central Los Angeles

With a vacancy rate of 2.5 percent, Central Los Angeles continues to be the tightest submarket in the Los Angeles County industrial market. This rate remains unchanged over the last two years, but is up 1.8 percentage points from the market peak in Q3 2007. With 295 million square feet of industrial space, Central Los Angeles is the largest industrial submarket in Los Angeles County and among the densest industrial zones in the nation.

After seeing rents slip 9.5 percent from Q3 2009 to Q3 2010, Central Los Angeles saw rents rebound 4.9 percent in the last four quarters to $0.41 per square foot and was the only Los Angeles submarket to experience a rent increase. Still, average asking rents are down 32 percent from the peak achieved in Q3 2006 and sit at the lowest level among Los Angeles submarkets.

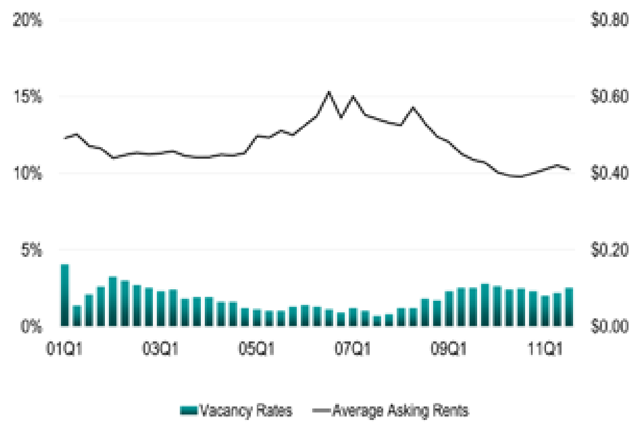
No new industrial space is currently under construction in the area.

North Los Angeles

From Q3 2010 to Q3 2011, demand inched up in North Los Angeles submarket. The area recorded 2,068,000 square feet of net move-ins and saw vacancy fall 0.2 percentage points. The current vacancy rate is up about 1.4 percentage points from its lowest point in Q4 2006.

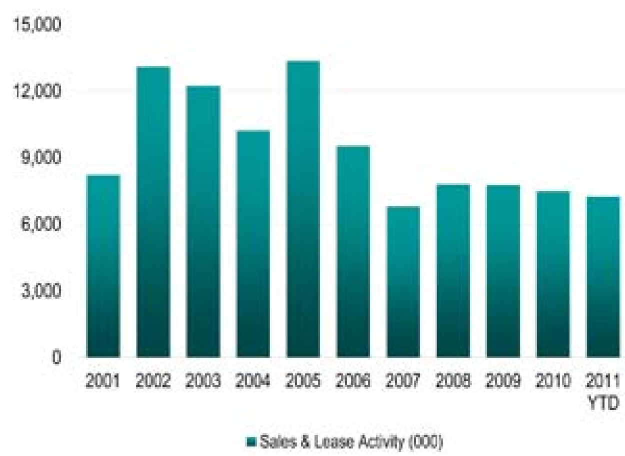
For the second year in a row, North Los Angeles experienced one of the largest rent declines among Los Angeles submarkets. The 5.1 percent year-over-year decline was a significant improvement over the prior four quarters, in which the area saw rents fall 11.4 percent. Average asking rents stood at $0.61 per square foot at the end of Q3 2011, the highest level among Los Angeles submarkets. Rents

Average Asking Rents and Vacancy Rates for Central Los Angeles



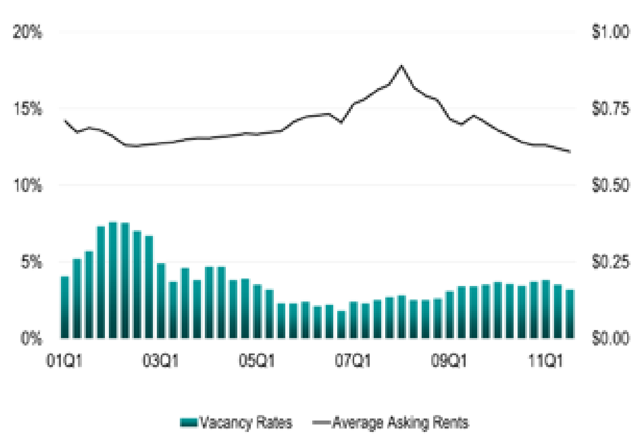
Source | Grubb & Ellis

Sales & Leasing Activity for Central Los Angeles



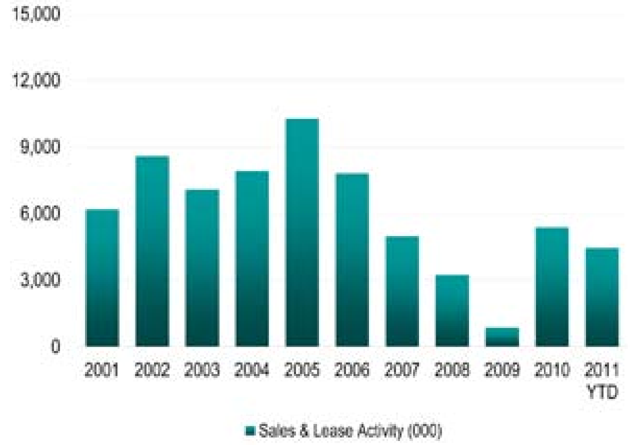
Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for North Los Angeles



Source | Grubb & Ellis

SALES & LEASING ACTIVITY FOR NORTH LOS ANGELES

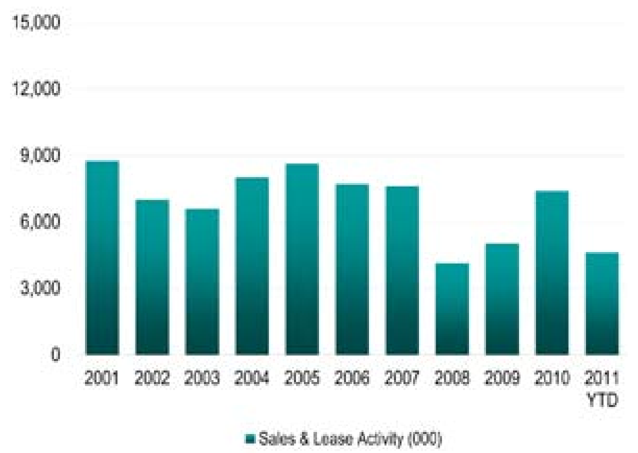


Source | Grubb & Ellis

AVERAGE ASKING RENTS AND VACANCY RATES FOR MID-CITIES

Source | Grubb & Ellis

SALES & LEASING ACTIVITY FOR MID-CITIES



Source | Grubb & Ellis

are off just under 32 percent from the peak achieved in Q1 2008, the second-largest peak-to-trough decline among Los Angeles submarkets.

The North Los Angeles submarket saw the delivery of four new industrial buildings between Q4 2010 and Q3 2011, totaling 72,000 square feet. In the fourth quarter of 2010, Cinmark Company completed a 16,800 square foot, Class A warehouse and distribution building at the corner of Kester Avenue and Keswick Street in Van Nuys. In the second quarter of 2011, a 29,900 square foot industrial building was completed in the Chatsworth Enterprise Zone. The building includes 4,100 square feet of office space. Also in the second quarter of 2011, Avalon Investment finished construction on the first phase of its Hasley Canyon Business Park. The two completed buildings, totaling 25,000 square feet of space, are adjacent to the I-5 freeway in Valencia. Avalon secured Valencia Fulfillment, a printing and packaging service provider, for one of the buildings. While not yet under construction, the second phase is expected to include a 45,000 square foot LEED-certified building.

An additional 21,500 square feet of industrial space is currently under construction. Demand for industrial space in the North Los Angeles submarket has been aided over time by the fact that the buildings tend to be newer and provide more attractive amenities than in other parts of the county.

Mid-Cities

At 4.1 percent, vacancy in the Mid-Cities submarket remains the highest among Los Angeles submarkets. This represented a 0.9 percentage-point decline from a year earlier. The area recorded 179,000 square feet of positive net absorption between Q3 2010 and Q3 2011, making up most of the ground it lost in the prior four quarters. The improvement may be hard to sustain, however, given the recent decline in activity at the Port of Long Beach and its relative proximity thereto.

Rents fell 2.6 percent to $0.45 per square foot, bringing the total decline to 29 percent from the peak achieved in Q3 2007.

San Gabriel Valley

Over the last year, the San Gabriel Valley submarket made up some of the ground it lost in 2009. Net absorption was a positive 632,000 square feet for 2010, leading to a decline in the vacancy rate of 0.2 percentage points. Vacancy stood at 3.5 percent as of Q3 2011, still 2.3 percentage points above the pre-recession low of 1.2 percent, achieved in Q1 2008.

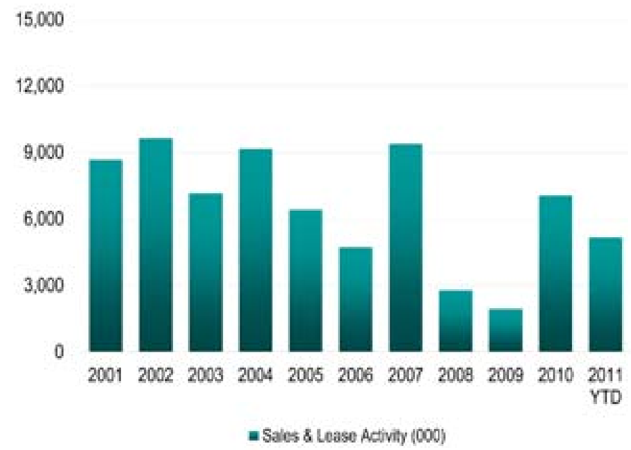
Average asking rents declined 5.6 percent to $0.45 per square foot, which was the worst performance among Los Angeles submarkets. Rents in the San Gabriel Valley submarket have declined more than 34 percent from peak-to-trough, also the worst among Los Angeles submarkets.

In the fourth quarter of 2010, C.E.G. Construction completed a 200,000 square foot warehouse and distribution facility on the 14000 block of Nelson Avenue in the City of Industry.

Average Asking Rents and Vacancy Rates for San Gabriel Valley

Source | Grubb & Ellis

Sales & Leasing Activity for San Gabriel Valley

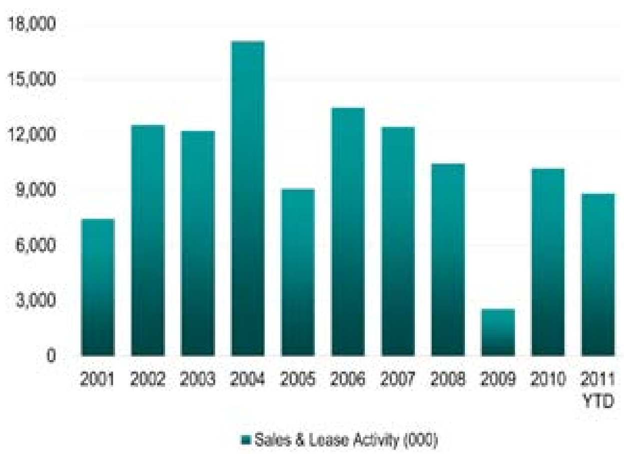


Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for South Bay

Source | Grubb & Ellis

Sales & Leasing Activity for South Bay



Source | Grubb & Ellis

South Bay

The South Bay is the second largest submarket in the county with 220 million square feet of industrial space and enjoys its position as the home of the busiest port in the United States. With the post-recession drop in retail commerce and manufacturing, the industrial market as a whole has suffered. South Bay has been somewhat insulated from these effects due to its role in providing immediate warehousing space for the hundreds of thousands of shipping containers passing through the port each year. The future of this area may be in question with the opening of Panama Canal in 2014 to the world's largest container ships, but for now, it remains one of the stronger submarkets of Los Angeles County and one of the tightest industrial markets in the nation.

From Q3 2010 to Q3 2011, vacancy increased 0.2 percentage points to 3.2 percent. Rents were off 1.7 percent to end Q3 2011 at $0.52 per square foot, the second-highest level among submarkets.

Although the South Bay is the second most expensive industrial submarket in the county, continuing volatility in energy prices and immediate access to the port may lead firms engaged in importing and exporting to prefer warehousing and distribution space in this submarket to the much cheaper but less accessible Inland Empire.

In the second quarter of 2011, the 271,000 square foot ProLogis Park was completed in Carson, just north of the I-405. The warehouse and distribution facility accommodates a single tenant and is in the process of acquiring LEED certification.

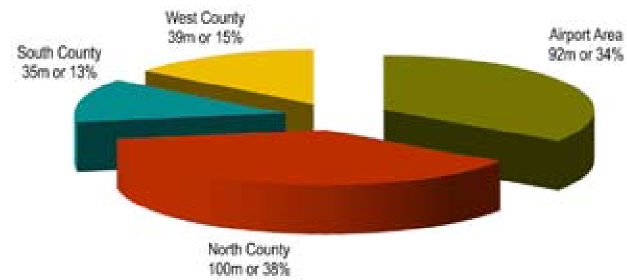
Orange County Industrial Market Trends

The Orange County industrial market experienced a significant increase in demand over the period Q3 2010 to Q3 2011. All four submarkets recorded positive net absorption of space and combined to produce 2.7 million square feet of net move-ins. The vacancy rate subsequently fell 1.3 percentage points to 5.3 percent.

Owner-user purchases and overall leasing activity for 2011 were up 5 percent from the year-to-date totals for 2010, with just under 15 million square feet newly under "contract"

The North County area experienced the largest increase in demand among submarkets, with positive net absorption of 1.34 million square feet. The vacancy rate stood at 4.0 percent at the end of Q3 2011, down 1.8 percentage points from a year earlier. Although still a strong showing, the West County submarket experienced the smallest increase in demand in both absolute and relative terms with 223,000 square feet of positive net absorption

Size of Industrial Submarkets in Orange County



Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for Orange County

Source | Grubb & Ellis

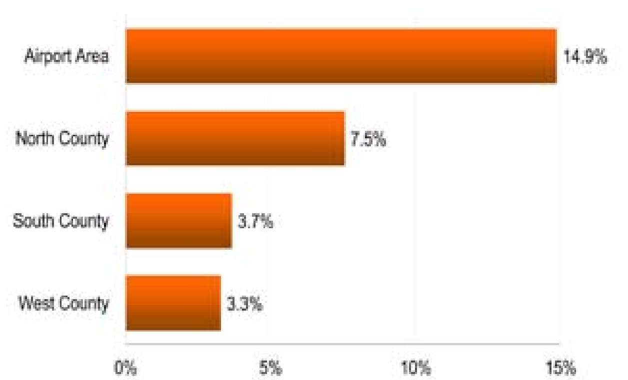
Sales & Lease Activity for Orange County

Source | Grubb & Ellis

Industrial Vacancy Rates for OC Submarkets

Source | Grubb & Ellis

2010 Year-over-year Average Rent Changes

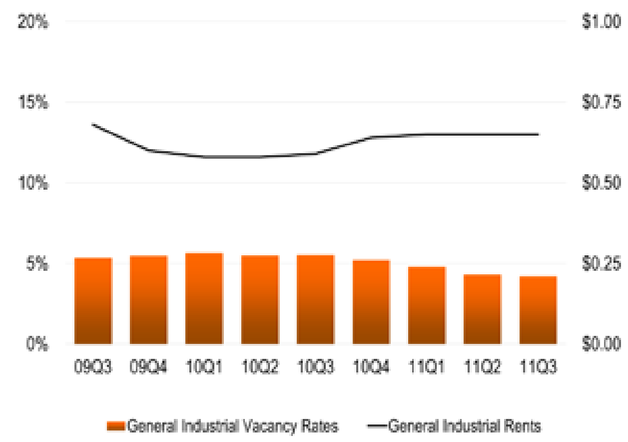


Source | Grubb & Ellis

After falling nearly 14 percent from Q3 2009 to Q3 2010, countywide average asking rents rose 10.2 percent to $0.74 per square foot. This performance was driven primarily by the Airport submarket, which saw a rent increase of 14.4 percent. The area's three other submarkets also experienced rent increases over the last year, in the 3 to 7.5 percent range.

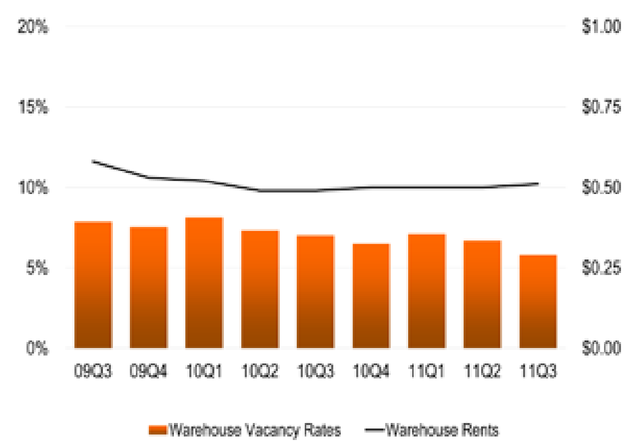
General Industrial properties, which make up 47 percent of the total stock, posted the largest average rent increase among industrial property sub-types, rising 10.2 percent to $0.65 per square foot over the last four quarters. Warehouse properties, which comprise 23 percent of the total industrial stock, posted the smallest average rent increase, rising 4.1 percent to $0.51 per square foot. At 6.5 percent, R&D Flex carries the largest vacancy rate, while General Industrial boasts the smallest at 4.2 percent.

General Industrial Rents and Vacancy Rates for Orange County



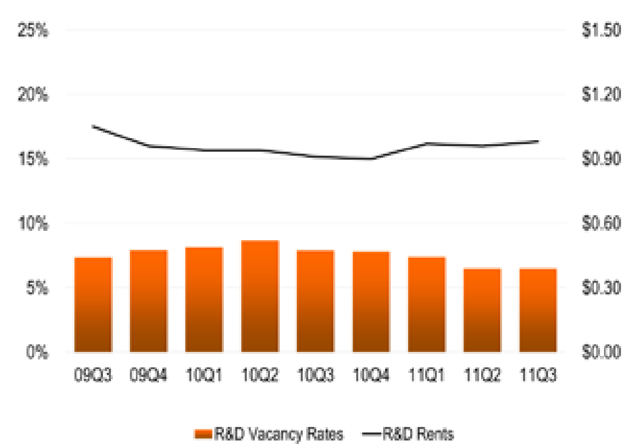
Source | Grubb & Ellis

Warehouse Rents and Vacancy Rates for Orange County



Source | Grubb & Ellis

R&D Rents and Vacancy Rates for Orange County



Source | Grubb & Ellis

Dollar Value of Industrial Sales and Cap Rates

Source | Grubb & Ellis

Construction and Investment Activity

Between Q3 2010 and Q3 2011, no new industrial space came online and no additional space is currently under construction. Year-to-date sales volume for 2011 stands at $558 million, a 4.2 percent increase over 2010 and nearly double the sales volume recorded in 2008. Average going-in cap rates fell from 7.5 to 5.8 percent.

Airport

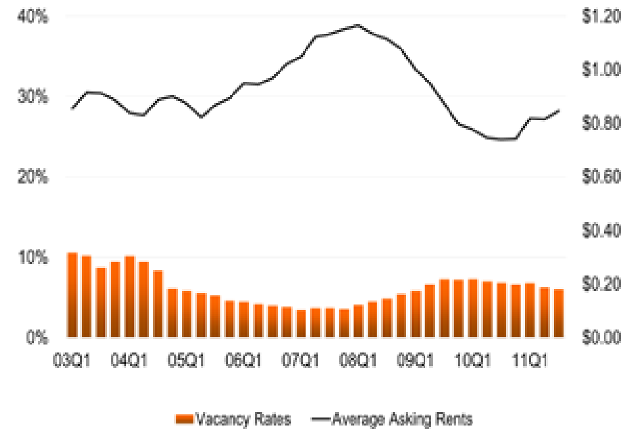
The Airport area is the second largest industrial submarket in Orange County with 92 million square feet of space. Vacancy declined for the second year in a row, falling 0.8 percentage points to 6.0 percent.

After experiencing a decline in rents of more than 15 percent from Q3 2009 to Q3 2010, the Airport area rebounded with a rent increase of 14.3 percent during the last year. This was the largest percentage increase in rents across all submarkets discussed in the survey and both property types. Meanwhile, vacancy declined 0.8 percentage points to 6.0 percent

North

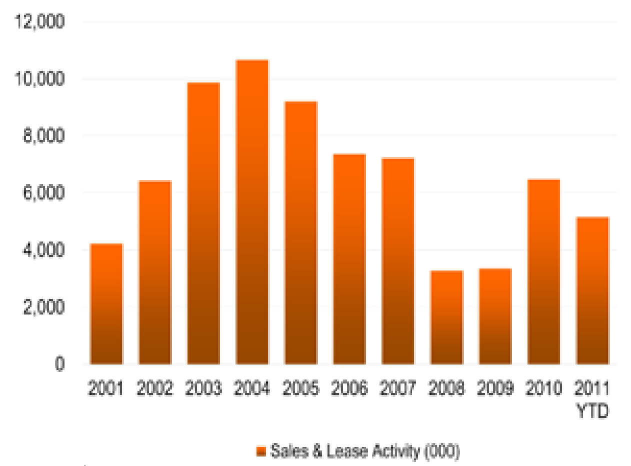
Undoubtedly helped by sharply falling rents from 2008 to 2010, industrial demand improved dramatically over the last four quarters; the vacancy rate fell 1.7 percentage points to 4.0 percent. The vacancy rate in the North County area remains the lowest among Orange County submarkets. Between Q3 2010 and Q3 2011, rents rose nearly 7.5 percent to $0.57 per square foot. The North County area continues to be the most affordable industrial submarket in Orange County, however, and is down 28 percent from its Q2 2008 peak.

Average Asking Rents and Vacancy Rates for Orange County Airport Area



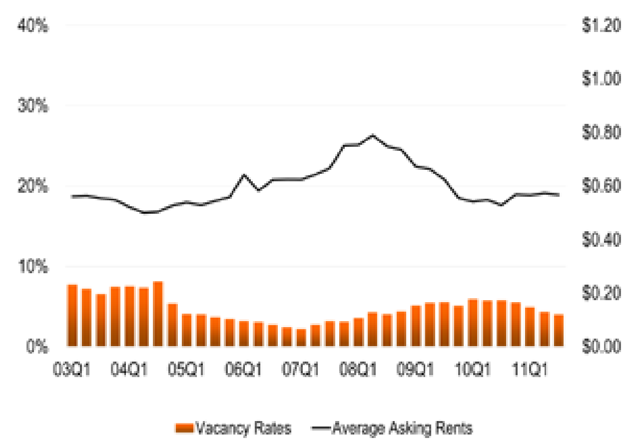
Source | Grubb & Ellis

Sales & Leasing Activity for Orange County Airport Area



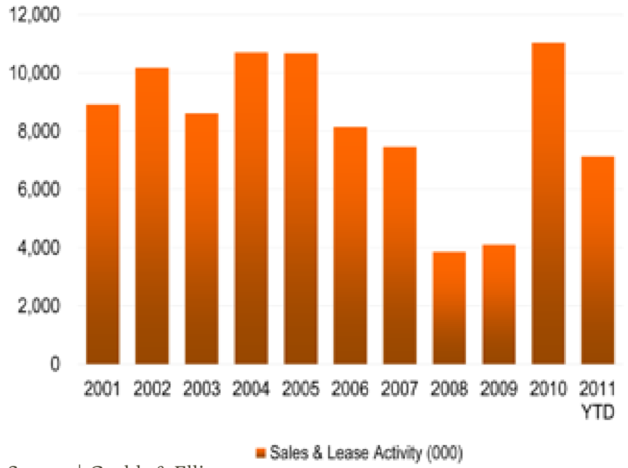
Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for North Orange County



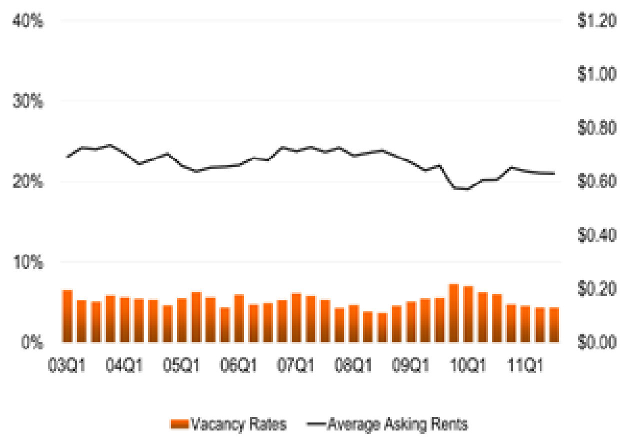
Source | Grubb & Ellis

Sales & Leasing Activity for North Orange County



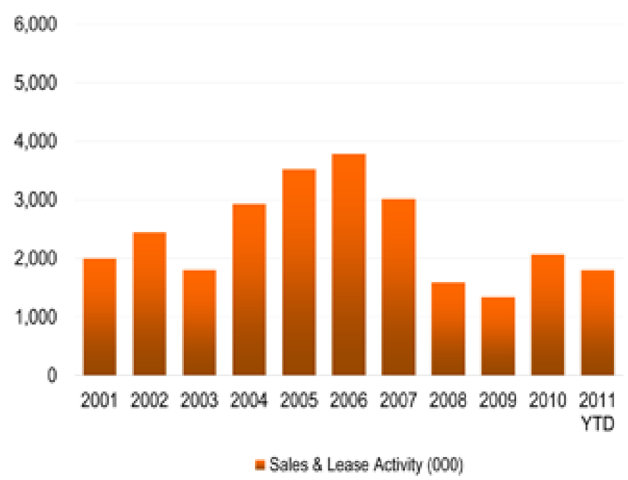
Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for West Orange County



Source | Grubb & Ellis

Sales & Leasing Activity for West Orange County



Source | Grubb & Ellis

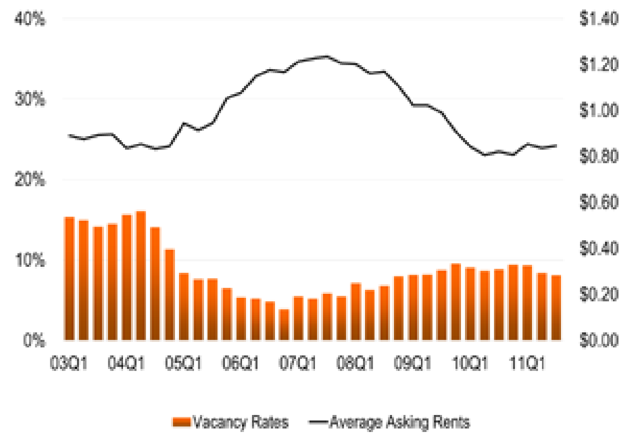
West

Like North County, the West County area experienced a sharp increase in demand between Q3 2010 and Q3 2011; vacancy fell 1.7 percentage points. At 4.3 percent vacancy, the area is off its peak vacancy rate by only 0.6 percent. Rental rates fell short of the performance recorded by the North County area, however, increasing only 3.7 percent. Average rents across all property sub-types stood at $0.63 at the end of Q3 2011. The West area has weathered the economic crisis slightly better than the other industrial submarkets of Orange County; rents fell a total of 19.7 percent peak-to-trough and are currently off only 12 percent from its peak in Q3 2008. The area's greater stability in rents and vacancy may be due to its relative proximity to the Ports of Los Angeles and Long Beach.

South

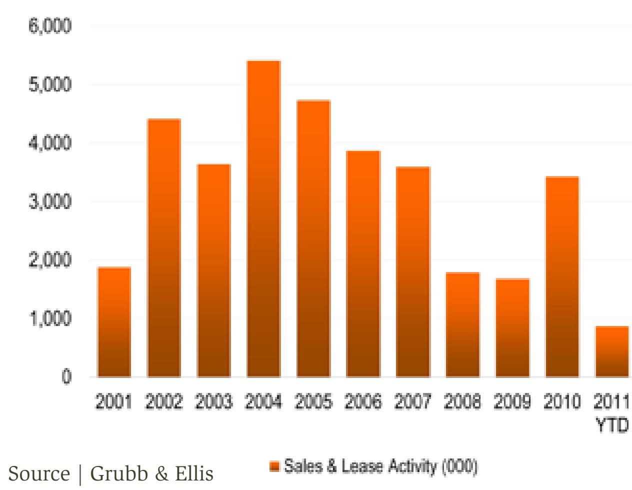
The South area, with 34.5 million square feet of space, is the smallest industrial submarket in Orange County. It has performed the weakest in the post-crisis period by a significant margin and currently has the highest vacancy rate in the county. From Q3 2010 to Q3 2011, vacancy fell 0.7 percentage points to 8.1 percent. Rents, meanwhile, rose 3.1 percent to $0.85 per square foot. Rents remain 31.5 percent below their Q3 2007 peak. The South area has historically been the most expensive industrial market in the county and remains so in spite of the sharp declines in rents over the last three years.

Average Asking Rents and Vacancy Rates for South Orange County



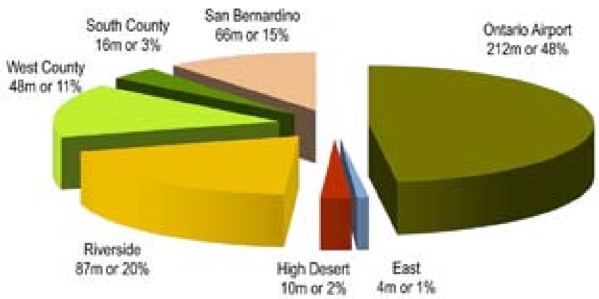
Source | Grubb & Ellis

Sales & Leasing Activity for South Orange County



Source | Grubb & Ellis

Size of Industrial Submarkets in Inland Empire

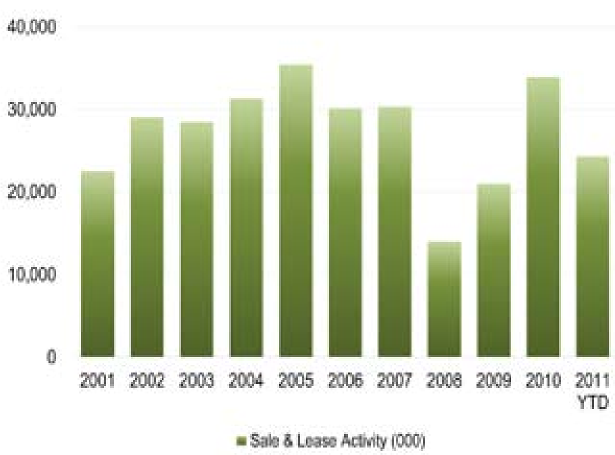


Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for Inland Empire

Source | Grubb & Ellis

Sales & Lease Activity for Inland Empire



Source | Grubb & Ellis

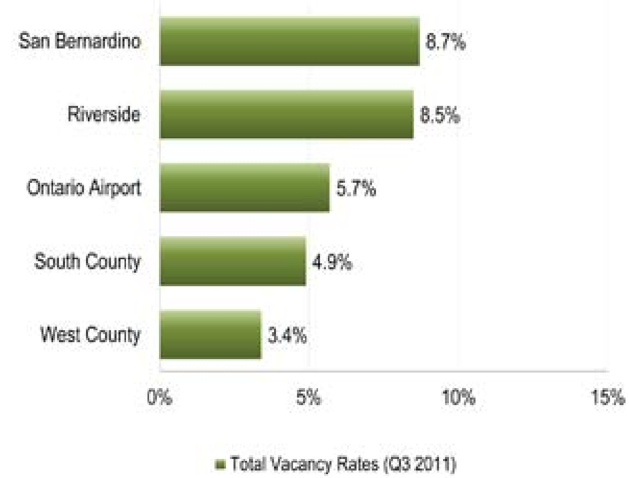
Inland Empire Industrial Market Trends

For the second year in a row, the Inland Empire industrial market showed significant improvement in demand. After posting 9.25 million square feet of positive net absorption from Q3 2009 to Q3 2010, the region logged another 16.7 million square feet of net move-ins from Q3 2010 to Q3 2011. The vacancy rate subsequently fell 4.2 percentage points to 6.6 percent. Owner-user purchases and leasing activity were up about 2 percent from the 2010 year-to-date measure with 24.3 million square feet newly under "contract". The West County submarket ended Q3 2011 with the lowest vacancy rate in the region, at 3.4 percent.

With the exception of South County, all Inland Empire submarkets experienced sharp declines in vacancy. Although San Bernardino still has the highest vacancy rate in the region, its 8.7 percent vacancy rate represents an incredible 11.6 percentage-point decline from Q3 2010. Since Q3 2009, San Bernardino has experienced a total decline in vacancy of over 17 percentage points. Not surprisingly, San Bernardino posted the largest absolute and relative increase in demand over the last four quarters, with nearly 5.8 million square feet of net move-ins. The Riverside submarket came in second with 5.5 million square feet of net move-ins and a decline in vacancy of 4.7 percentage points.

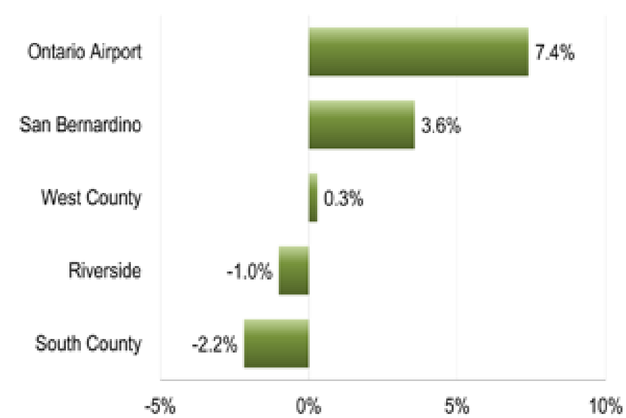
Area-wide average asking rents rose 5.7 percent to $0.33 per square foot, erasing most of the decline experienced between Q3 2009 and Q3 2010. These rents are largely driven by changes in demand for warehouse space, which accounts for 86 percent of the industrial stock. Ontario Airport performed the best among the submarkets, posting a 5.2 percent gain in asking rents and finishing Q3 2011 at $0.34 per square foot. The South County submarket performed the weakest, with rents slipping 1.5 percent to $0.45 per square foot. In spite of being the only submarket with a decline in either demand or rents, it remains the most expensive submarket and boasts the second lowest vacancy rate. The San Bernardino submarket, in spite of posting a 2.5 percent increase in rents, remains the cheapest submarket at $0.29 per square foot.

Industrial Vacancy Rates for IE Submarkets



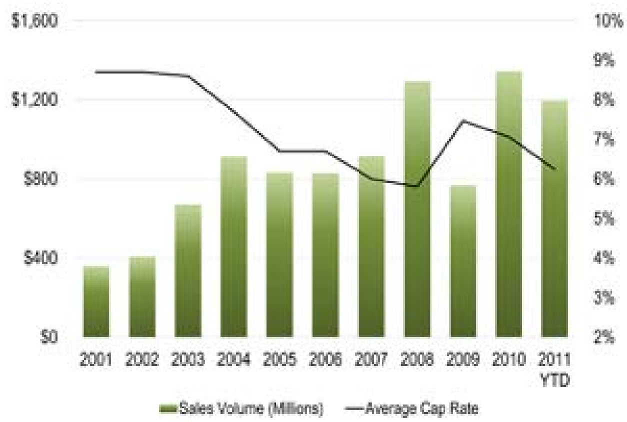
Source | Grubb & Ellis

2011 Year-over-year Average Rent Changes



Source | Grubb & Ellis

Dollar Value of Industrial Sales and Cap Rates



Source | Grubb & Ellis

Construction and Investment Activity

Between Q3 2010 and Q3 2011, the vast majority of industrial completions in Southern California occurred in the Inland Empire. Just over 3 million square feet of space was added to the area stock across four properties. One of these properties, an 80,000 square-foot general industrial property in Corona (Riverside submarket), was owner-built. An additional 4.5 million square feet are currently under construction. Without question, when a developer needs to build big, they go to the Inland Empire to do so.

Year-to-date transaction volume sits at just under $1.2 billion, and is on track to exceed the 2010 total of $1.34 billion. At 6.2 percent, average going-in cap rates are down 0.9 percentage points from 2010 and are closing in on 2007 and 2008 levels. Although both property sectors in all three metro markets took a hit in transactions in 2009, the Inland Empire industrial market has arguably roared back the strongest. Construction has continued, vacancy has declined sharply, and transaction volume is on track to reach its highest levels of the last decade.

Airport

With 212 million square feet of space totaling 48.9 percent of the total market, the Ontario Airport area is the largest industrial submarket in the Inland Empire. Demand increased for the second year in a row, resulting in 4.4 million square feet of positive net absorption and a decline in the vacancy rate of 2.5 percentage points. Rents rose 5.2 percent from Q3 2010 to Q3 2011, after dropping 4.9 percent in the prior four quarters. Average asking rents ended Q3 2011 at $0.34 per square foot.

One new building was added to the Ontario Airport market between Q3 2010 and Q3 2011: a 667,000 square foot built-to-suit distribution center for Home Depot. Master Development Corporation completed the project in December of 2010. Construction of an additional 940,000 square feet of industrial space is currently underway.

Riverside

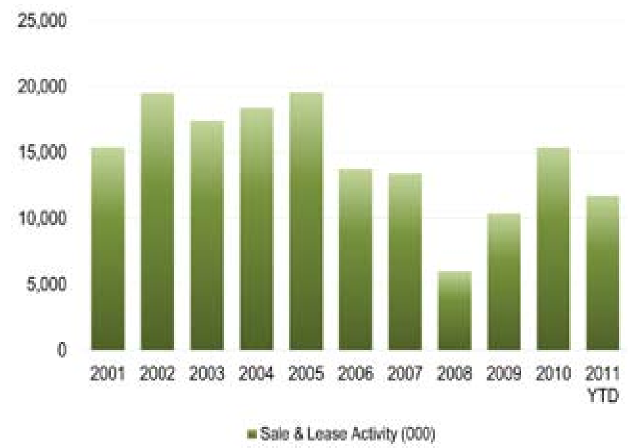
At almost 87 million square feet of industrial space, the Riverside area is the second largest submarket in the Inland Empire. Like the Airport submarket, demand is up for the second year in a row. After logging 2.82 million square feet of net move-ins from Q3 2009 to Q3 2010, the Riverside submarket posted another 5.5 million square feet of positive net absorption in the following four quarters. At the end of Q3, the vacancy rate stood at 8.5 percent, down 4.7 percentage points from Q3 2010.

Asking rents remained stable following the loss posted between Q3 2009 and Q3 2010. Rents stood at $0.32 per square foot at the end of Q3 2010.

Average Asking Rents and Vacancy Rates for Ontario Airport

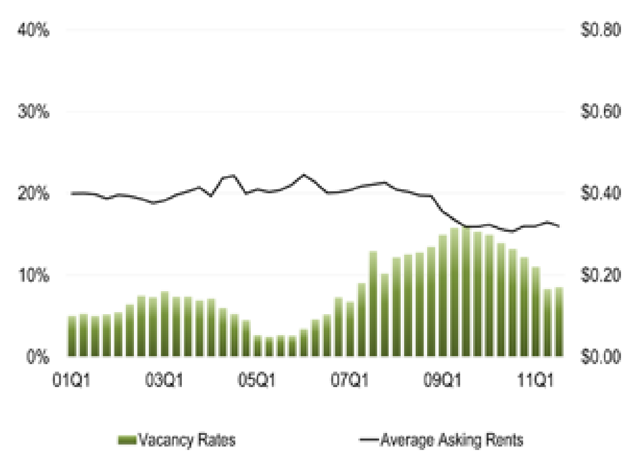
Source | Grubb & Ellis

Sales & Leasing Activity for Ontario Airport



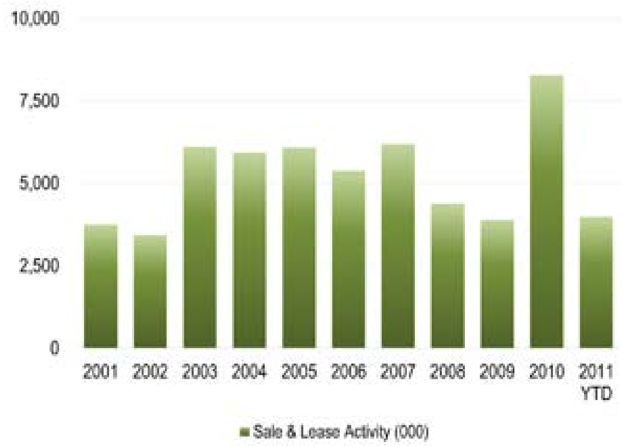
Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for Riverside



Source | Grubb & Ellis

Sales & Leasing Activity for Riverside

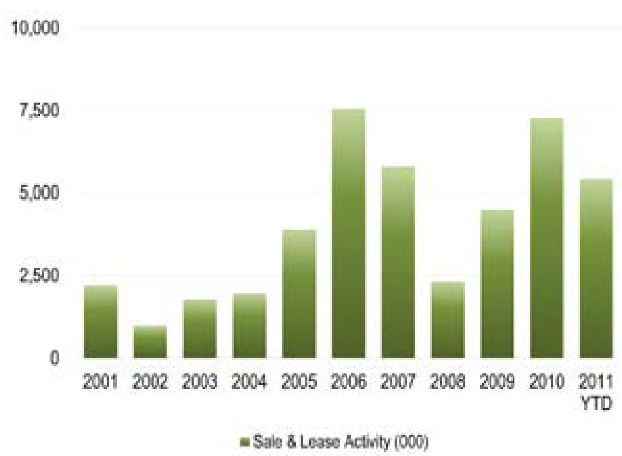


Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for San Bernardino

Source | Grubb & Ellis

Sales & Leasing Activity for San Bernardino



Source | Grubb & Ellis

Two projects totaling 2,316,000 square feet were completed in Riverside between Q4 2010 and Q3 2011. In March 2011, The Dexus Property Group completed a 496,000 square foot cold-storage facility in Riverside's Hunter Park for the operations of Dole and Wal-Mart. This property is one of the largest cold-storage facilities in the world. In September 2011, Skechers finished construction on its 1.82 million square foot warehouse and distribution center in Moreno Valley. The facility will allow Skechers to consolidate its six operations that are currently scattered throughout the Ontario area. Adjacent to the 60 and 215 Freeways, the $250 million distribution center is one of the largest LEED-certified buildings in the United States. Another 1.39 million square feet of industrial space is currently under construction.

San Bernardino

The submarket of San Bernardino, with 65.5 million square feet of industrial space, suffered the most as a result of the economic downturn. Between Q3 2005 and Q3 2010 the vacancy rate increased from 1.7 percent to 20.3 percent and rents fell to $0.27 per square foot. Although rents have remained below $0.30 per square foot over the last four quarters, demand has come roaring back. Between Q3 2010 and Q3 2011, the submarket logged 5.8 million square feet of net move-ins and saw the vacancy rate fall back to 8.7 percent. Average asking rents sit at $0.29 per square foot, an increase of 2.5 percent from a year earlier.

San Bernardino is currently the lowest-priced submarket in the region, down 35.5 percent from its peak in Q1 2007, and still carries the highest vacancy rate.

South County

The South (Riverside) County area, at 15.8 million square feet, is the smallest industrial submarket included in this report by a significant margin. Although a strong performer from Q3 2009 to Q3 2010, it was the only submarket to report a decline in demand and average asking rents during the last four quarters. The submarket posted 148,000 square feet of negative net absorption and saw rents fall 1.5 percent to $0.45 per square foot. These rents remain the highest among submarkets in the Inland Empire region.

No new industrial space was completed in the South County area over the last year.

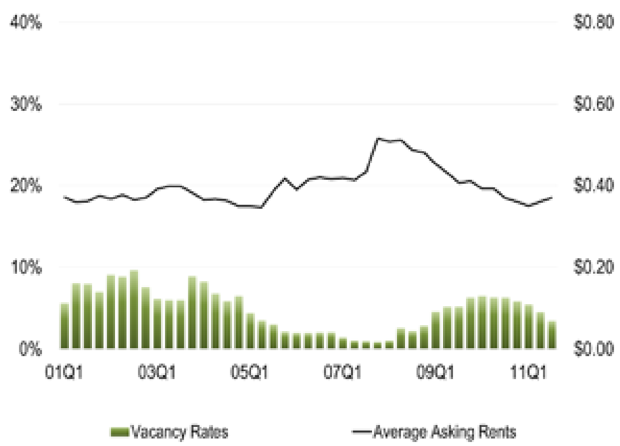
Average Asking Rents and Vacancy Rates for South County

Source | Grubb & Ellis

Sales & Leasing Activity for South County

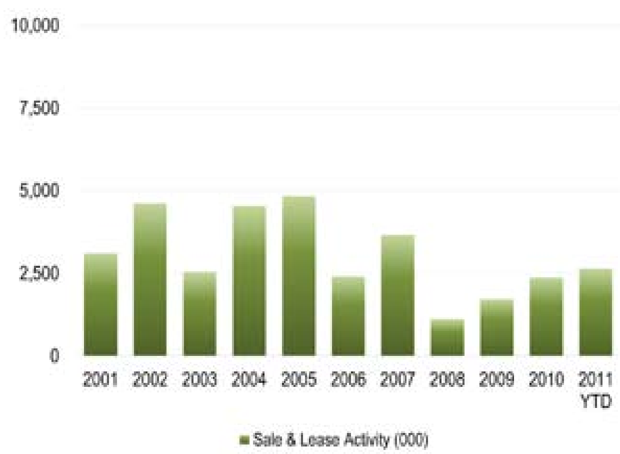
Source | Grubb & Ellis

Average Asking Rents and Vacancy Rates for West



Source | Grubb & Ellis

Sales & Leasing Activity for West



Source | Grubb & Ellis

West

After exhibiting the weakest performance in 2010 among Inland Empire submarkets, the West area came back strong in 2011. The area recorded 1.15 million square feet of positive net absorption and experienced stable rents from Q3 2010 to Q3 2011. The vacancy rate fell nearly in half, from 6.3 percent to 3.4 percent. The West area surpassed the South Riverside County area to achieve the lowest vacancy rate in the Inland Empire region. Asking rents remain the second highest in the region, off 32.6 percent from their peak.

The West area, at 48 million square feet, represents about 10 percent of the total Inland Empire industrial market. No new space was added in the last year, but 398,000 square feet of new industrial space is currently under construction.

Office Market Forecast

For the third straight year, Southern California office markets have experienced negative rent growth, and the trend is likely to continue over the next 12 to 24 months. Demand has improved considerably over the last year, but vacancy rates are still so far above "natural" levels that they may continue to fall for many months to come without any accompanying stabilization in rents. The vacancy rate appears to have peaked in all three metro markets for both Class A and Class B properties. In Los Angeles County the vacancy rate is expected to remain stable for the foreseeable future, while in Orange County and the Inland Empire, vacancy rates are expected to decline considerably across both classes of properties. Overall, the future health of the office market will be dependent on several factors:

The employment picture. Office space is made to be filled with workers. The fewer the number of workers that are needed in office-based industries, the more the office market will suffer. Over the last year, employment has been growing slowly in all three metro markets, with the highest levels of job creation coming in office-focused industries such as information and professional and business services. If this trend continues, we should expect to see further improvement in vacancy and stabilization in rents.

Construction (or lack thereof). From Q3 2010 to Q3 2011 not one office building of more than 20,000 square feet was added to the Southern California office stock. The lack of new construction will undoubtedly help stabilize the office market. Hopefully this trend will continue and development-minded individuals will focus on renovations and "green" retrofits of existing buildings rather than ground-up construction.

Changes in corporate use of office space. In order to cut losses in these difficult times, companies have become more efficient in their use of office space. Although many changes in the use of office space began prior to the crisis, the concern for cutting costs in the post-crisis world has led to greater adoption of space-saving ideas and technologies. Open floor-plans filled with cubicles have replaced the structurally partitioned offices of the past; temporary, hotel-based workspaces for executive road-warriors have replaced permanent, dedicated office space; and telecommuting from a home-based office has become increasingly commonplace. Widespread digitization of documents has largely eliminated the need for filing cabinets; flat screen monitors, laptops, and networked printers have reduced the desk space needed for job productivity; and inexpensive video-conferencing tools have reduced the need for centralized workspaces and face-to-face meetings. With less office space required per worker, greater job creation than what has been lost over the last three years will be required to bring the office market back to health.

"Green" considerations. In recent years, there has been increased interest among tenants in making their companies more "green" – for instance, leasing office space in LEED Certified buildings or locating in transit-oriented districts which allow employees to commute to work easily by rail, bus, or bicycle. Although LEED certification may not automatically lead to higher rents, in buildings with triple-net leases, greater energy efficiency will be passed on to the tenant in the form of lower expenses, which will make the LEED-certified building more attractive to tenants with a choice of whether to go "green" or not. As a result in coming years, the better-performing submarkets of Southern California are likely to be the ones that conform to this desire for "greenification". Submarkets with a higher share of LEED-certified buildings (or buildings that can be inexpensively retrofitted) and submarkets with more green transportation options may recover sooner than ones with higher shares of older, energy-inefficient buildings in more automobile-dominated locations.

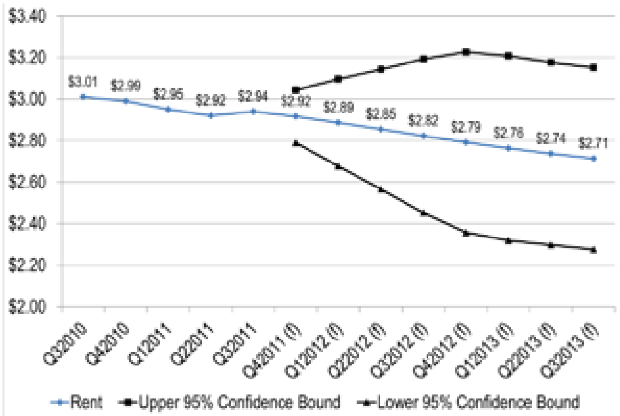
In summary, the interplay of these four factors will help guide the future path of rents and vacancy in the office market. Southern California will not see increases in rents until the greater economic health of the area improves and some of the slackness in the market disappears. Currently, the three markets covered in this report remain 5 to 15 percentage points above their "natural" vacancy rate.

On the Class A front, the Inland Empire is expected to experience the smallest decline. Los Angeles and Orange County are expected to experience slightly larger declines. Among Class B properties, Orange County rents are expected to fare the best, while the Inland Empire is predicted to perform the worst. Vacancy rates are expected to remain stable in Los Angeles over the next two years and decline in both Orange County and the Inland Empire. Class A office vacancy rates in these areas are expected to decrease more sharply than Class B office vacancy rates.

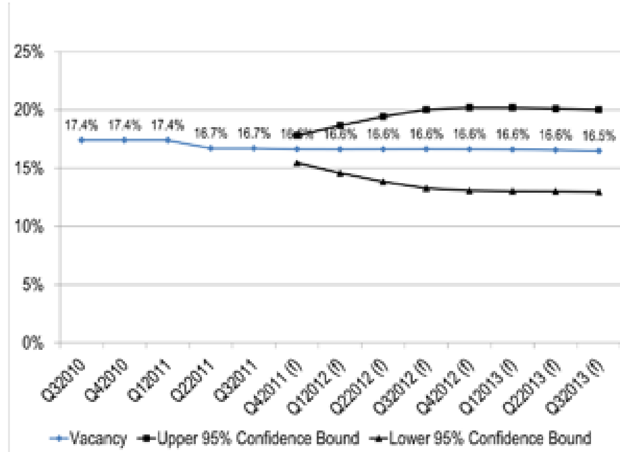
A Note on Confidence Intervals

This year, for the first time, the Casden Forecast is reporting 95 percent confidence intervals on our forecast estimates. These intervals, depicted in the forecast graphs by black lines, represent the upper and lower bounds between which the "true" rent or vacancy rate is likely to fall with 95 percent probability. As the reader will observe, the confidence intervals are relatively narrow for Q4 2011 and Q1 2012 and get wider as we move further into the future. In other words, accurately predicting the next quarter or two of rent is relatively easy; predicting beyond that with much precision is difficult. So even though we can rank the three metro areas in terms of the trends in the actual forecast estimates, the true realization may paint a very different picture.

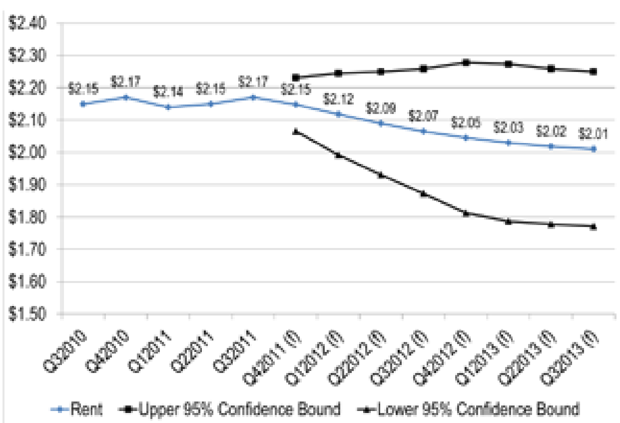
Los Angeles Class A Rent Forecast



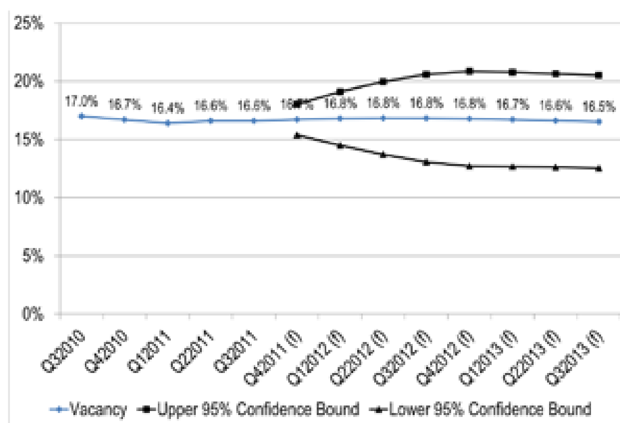
Los Angeles Class A Vacancy Forecast



Los Angeles Class B Rent Forecast



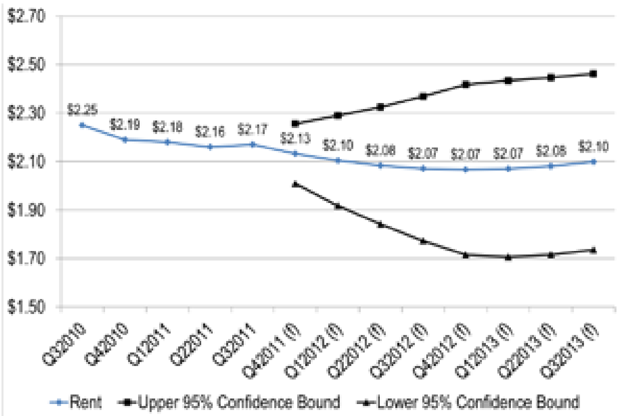
Los Angeles Class B Vacancy Forecast



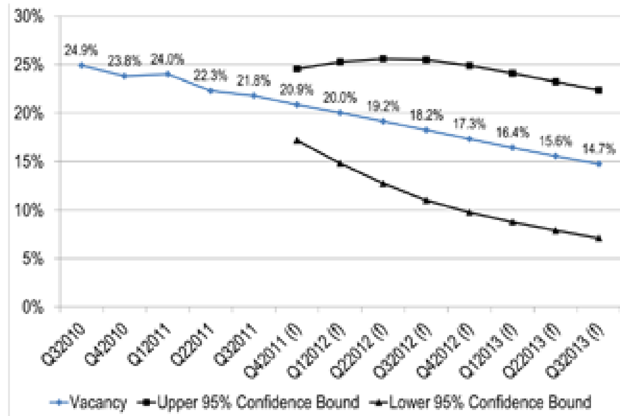
Los Angeles Forecast

Similar to last year's forecast, we expect vacancy rates in Los Angeles County to remain stable across both property classes, while rents continue to decrease. Class A rents are expected to decline an additional 4 percent over the next four quarters and 7.7 percent total over the next two years. Class B rents are expected to decline 4.8 percent over the next four quarters and 7.3 percent total over the next two years.

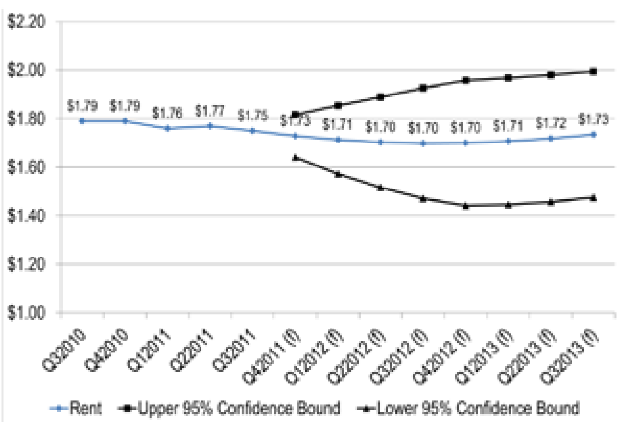
Orange County Class A Rent Forecast



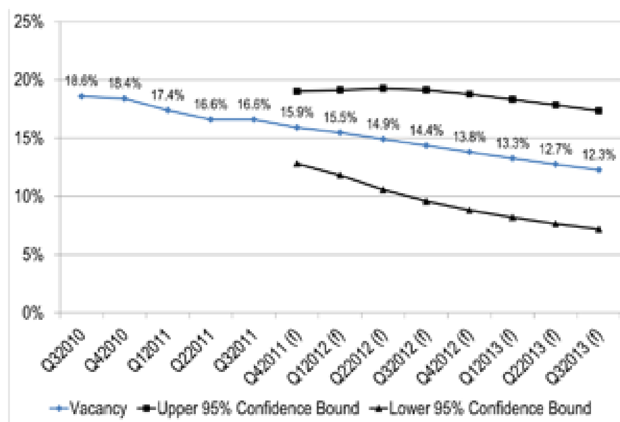
Orange County Class A Vacancy Forecast



Orange County Class B Rent Forecast



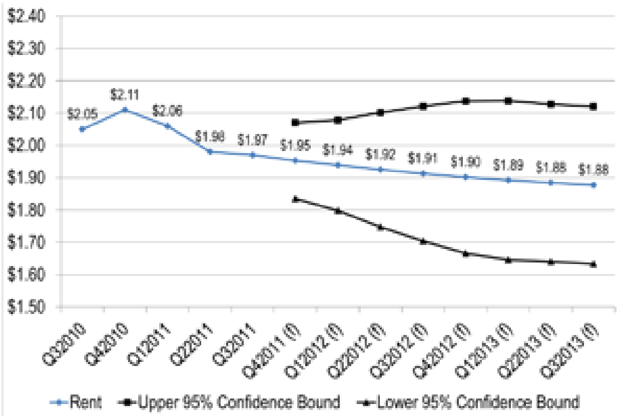
Orange County Class B Vacancy Forecast



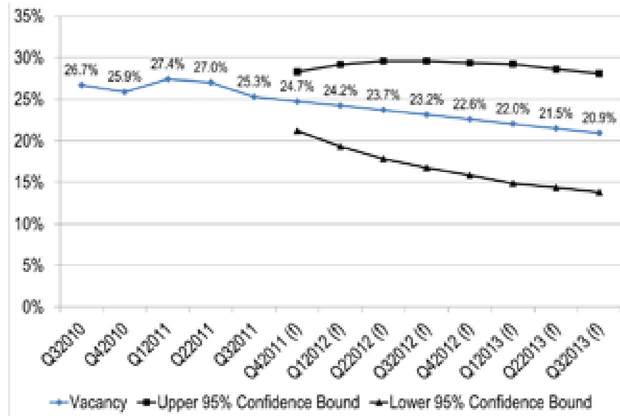
Orange County Forecast

Our model predicts a significant decline in vacancy over the next two years and declining rents through the end of 2012. Class A rents are expected to decline 4.5 percent over the next four quarters and 7.2 percent over the next two years. Class B rents are expected to decline 2.9 percent over the next four quarters and regain most of that loss by Q3 2013. The vacancy rate in Class A properties, which currently sits at 21.8 percent, is expected to decline 3.6 percentage points over the next four quarters and 7.1 percentage points over the next two years. The vacancy rate in Class B properties is expected to decline 2.2 percentage points over the next four quarters and 4.3 percentage points over the next two years from its current level of 16.6 percent.

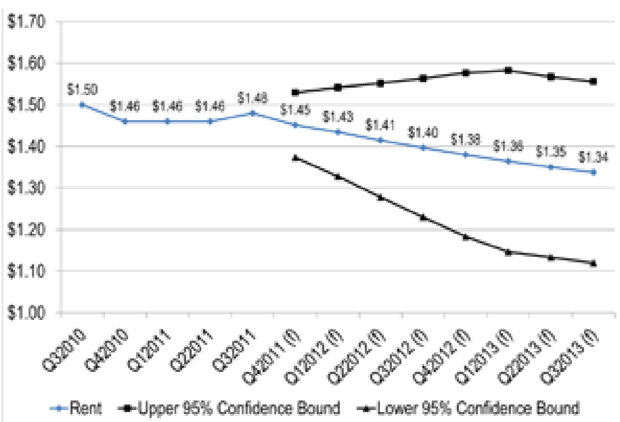
Inland Empire Class A Rent Forecast



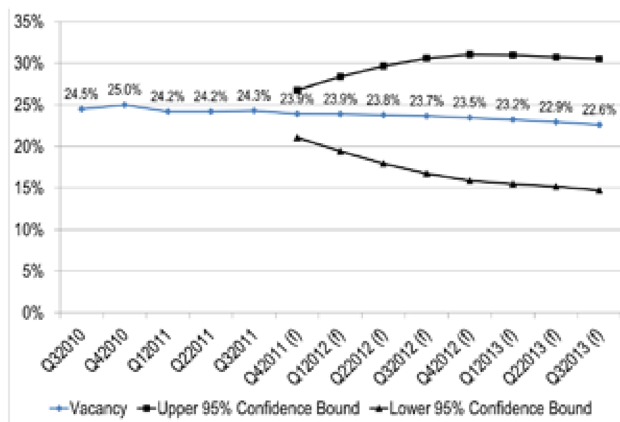
Inland Empire Class A Vacancy Forecast



Inland Empire Class B Rent Forecast



Inland Empire Class B Vacancy Forecast



Inland Empire Forecast

We anticipate a modest decline in Class A rents, and a more moderate decline in Class B rents over the next two years. Class B properties, which make up the majority of the office stock, are expected to decline 5.6 percent over the next four quarters and 9.6 percent total over the next two years. The vacancy rate is expected to decrease 1.6 percentage points over the next two years from its current level of 24.3 percent. Class A properties, which make of 35 percent of the office stock in the region, are expected to experience a 2.9 percent decline over the next four quarters and a 4.7 percent total decline over the next two years. The vacancy rate is expected to decline 2.1 percentage points over the next four quarters and a total of 4.3 percentage points over the next two years from its current level of 25.3 percent.

Industrial Market Forecast

The period Q3 2010 to Q3 2011 was one of great turnaround for the Southern California industrial market. Following a year in which all metro markets saw declines in rents, all three metro markets saw significant rent growth. Furthermore, all three metro markets saw significant increases in demand. For Los Angeles and the Inland Empire, which both experienced positive net absorption from Q3 2009 to Q3 2010, the net move-ins over the last four quarters far exceeded the prior year's performance. Rents remain low, but if absorption continues over the next year at its current speed, we should see rents start to heat up and more speculative development projects get underway.

The future path of rents and vacancy in the industrial sector will be largely determined by the following four factors:

Trade activity. Los Angeles is the second largest industrial market in the nation and one of the tightest due to its position as the home of the nation's largest port. Industrial space in the vicinity of the port is used as temporary storage for both inbound and outbound containers. As port traffic changes, so will demand for industrial space. Areas in close proximity to the port will likely be more sensitive to changes in port activity than those further off the main arteries from the port area, all else equal. Over the last year, traffic at the Port of Los Angeles has increased slightly; total container traffic is up 4.4 percent October to October and up 0.7 percent year-to-date relative to 2010. Traffic at the Port of Long Beach, however, has slipped considerably, due to declining imports and the departure of California United Terminals. Container throughput was down more than 20 percent in October 2011 versus October 2010. If this decline persists through 2012, we would expect less improvement in the Southern California industrial market than our econometric models have predicted.

Another concern for the Ports of Los Angeles and Long Beach (and nearby industrial property) is the completion of the Panama Canal expansion project, which is slated for 2014. The project will ultimately double the canal's traffic capacity and allow for longer and wider ships to pass through. Ships from Asia will be able to reach the east coast of the US more cheaply, but the trip will take about five days longer than it would if it unloaded in Los Angeles and the cargo were shipped to the east coast by truck or rail. There is no doubt that some traffic bound for Los Angeles/Long Beach will be lost, but how much remains to be seen.

Manufacturing output. With the post-crisis rise in unemployment and the de-leveraging of the American household, demand for consumer goods has declined, and along with it, manufacturing activity. This has led to a decline in general industrial space used for manufacturing processes as well as warehousing space used to store raw materials as well as finished products. As employment levels increase and consumer spending picks up (perhaps due to lower interest rates and, in turn, lower debt service-to-income ratios), demand for industrial space will increase and rents will rise. Los Angeles is the largest manufacturing center in the United States, so changes in manufacturing output will have a greater influence on the demand for industrial space there than in areas in which manufacturing is less of an economic driver.

Gasoline prices. If the cost of trucking goods to and from the port area drops, firms engaged in importing and exporting may prefer warehousing and distribution space in the cheaper Inland Empire to the more expensive (but more accessible) Los Angeles County. Particularly high or volatile gasoline prices will favor the areas closest to the port in Los Angeles and Orange Counties.

Speculative Development. With land so plentiful and entitling so easy, the Inland Empire has long attracted developers with an "If you build it, they will come" mentality. Over-exuberance of developers could derail a recovery if too many projects begin construction before a sustained pattern of rent increases has been established. In October 2011, Watson Land Company completed construction on the first of these large-scale, post-crisis, speculative projects: a 616,500 square foot industrial building in Redlands. Located just north of the 10 Freeway, the building is one of four LEED Certified buildings in the Watson Commerce Center, a 2.1 million square foot, 100-acre master-planned center.

We expect vacancy to decline and rents to increase in all metro markets over the next two years. The Inland Empire is expected to post the largest percentage gains in rents and Los Angeles County the smallest. The Inland Empire region is expected to post the largest decrease in vacancy rate, both in absolute and relative terms.

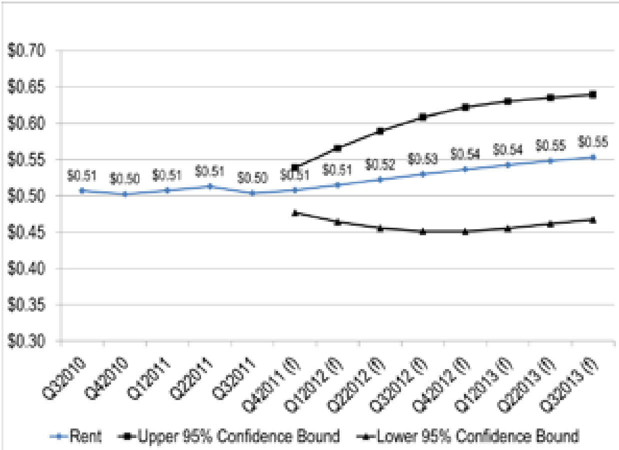
Submarket Forecasts

This year, also for the first time, the Casden Forecast is including rent and vacancy forecasts for individual industrial submarkets. Relative submarket performance is most likely to be influenced by:

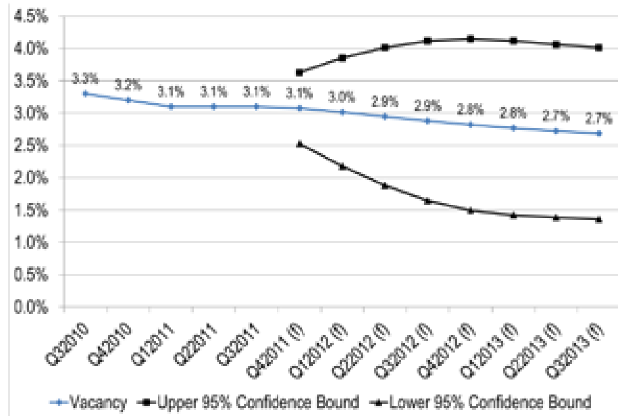
- Relative proximity to the Ports of Los Angeles and Long Beach and transportation corridors
- Relative changes in supply as a percentage of total submarket supply, due to completion of new construction.

Expected best- and worst-performing submarkets in rents and vacancies are listed in the appropriate metro-level sections below.

Los Angeles Industrial Rent Forecast



Los Angeles Industrial Vacancy Forecast



Los Angeles County

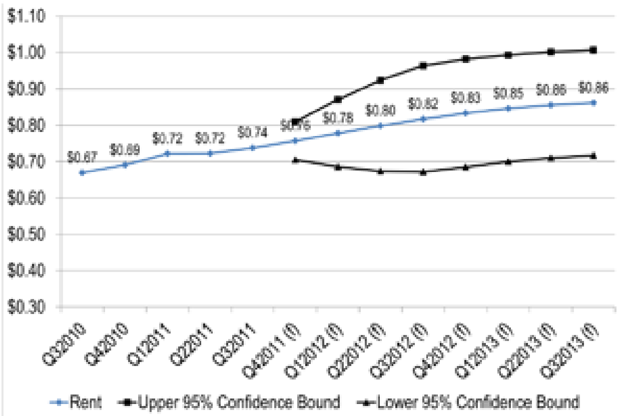
We expect rents to increase 5.2 percent over the next four quarters and 9.8 percent total over the next two years to around $0.55 per square foot. The vacancy rate is expected to decrease by 0.4 percentage points over the next two years to reach a level of 2.7 percent. Because the market is so tight, small changes in vacancy will have an immediate impact on rents. Land scarcity near trade and transportation corridors and the relative difficulty in entitling new industrial buildings will help support a recovery in rents.

Submarket Notes:

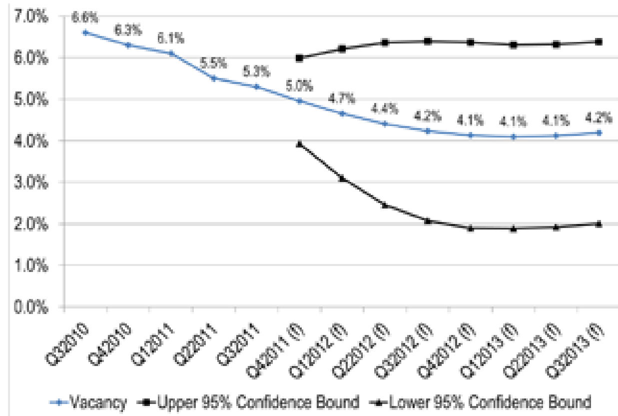
Our models predict gains in rents and stable or slightly declining vacancy in all five submarkets. The Mid-Cities area is expected to see the largest ret growth over the next two years, with an increase of 7.8 percent over the next four quarters and 11.7 percent total over the next two years. As mentioned previously, the recent decline in traffic from the Port of Long Beach could temper this result considerably. The San Gabriel Valley submarket is expected to see the smallest rise in rents, with growth of 4.1 percent over the next four quarters and 6 percent total over the next two years.

On the demand side, the San Gabriel Valley is expected to post the largest decline in vacancy – about 1 percentage point over the next two years.

Orange County Industrial Rent Forecast



Orange County Industrial Vacancy Forecast



Orange County

Our model predicts rents to increase 10.8 percent during the next year and 16.8 percent total over the next two years to reach $0.86 per square foot. R&D/Flex space, which rents for much higher rates than warehouse or manufacturing space is a significant fraction of the market in Orange County (30 percent), and thus has a much larger impact on average industrial rents than in Los Angeles or the Inland Empire, where it represents 5 and 3 percent of the market, respectively. Therefore, any idiosyncratic shock to R&D/Flex rents or vacancy in Orange County will cause average industrial rent and vacancy movements in Orange County that may differ significantly from the performance of the other two metro markets. As Southern California has progressed through the early stages of economic recovery, we have witnessed particular growth in sectors such as professional and business services, various subsets of which make significant use of R&D/Flex space. If this trend continues, the industrial sector of Orange County could witness an extra boost.

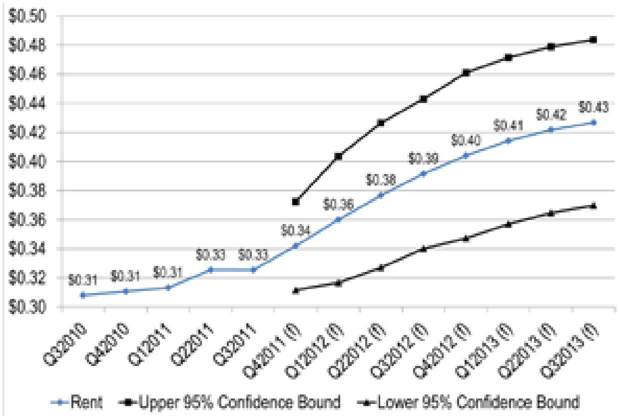
The vacancy rate is expected to fall 1 percentage point over the next four quarters to 4.2 percent and remain stable over the following year.

Submarket Notes:

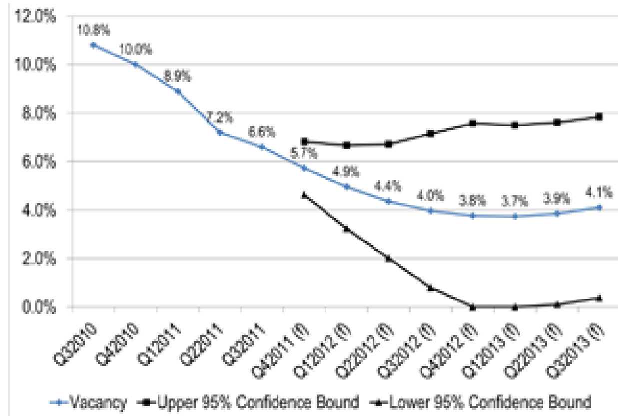
Our models predict rising rents for all four submarkets and stable or declining vacancy for three of the four submarkets. We expect the Airport submarket to log the greatest rent growth, with rents increasing 11.4 percent over the next four quarters and 18 percent total over the next two years. The West submarket is expected to experience the weakest performance, with rent growth of only 0.7 percent over the next four quarters and 1.9 percent total over the next two years.

The South area is expected to witness the largest decline in vacancy; our models predict a drop of 1.5 percentage points over the next four quarters and 2.1 percentage points total over the next two years. Our models predict a slight rise in vacancy over the next year for the West region. The West region, the closest submarket to the Ports of Los Angeles and Long Beach, is most likely to feel the impact of lower traffic over the coming year.

Inland Empire Industrial Rent Forecast



Inland Empire Industrial Vacancy Forecast



Inland Empire

The Inland Empire is expected to experience a 20.3 percent increase in rents during the next four quarters and a 31.2 percent total increase in rents over the next two years to reach $0.42 per square foot. Our model predicts the vacancy rate to decline 2.5 percentage points over the next year and remain stable for the subsequent four quarters. These rent and vacancy levels were last seen around the beginning of 2007, and will likely be tempered by the addition of new space should rents head further upward over the next quarter or two.

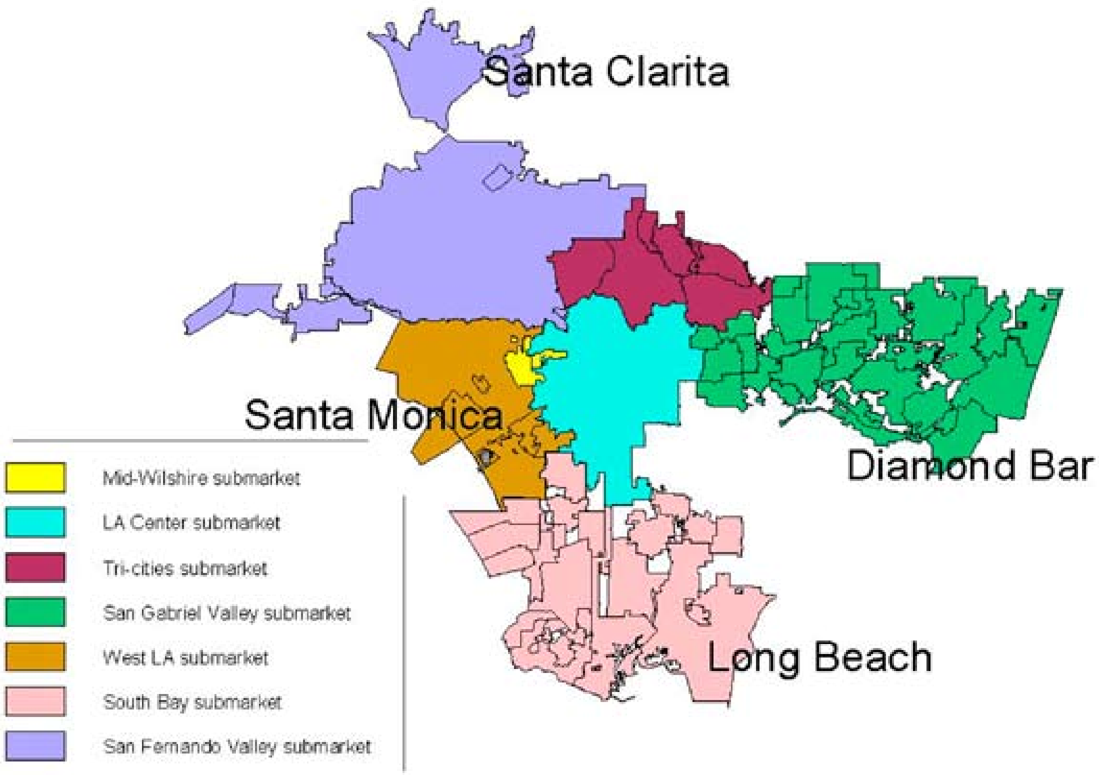
Submarket notes:

Our model predicts large percentage increases in rents and stable or declining vacancy in all five submarkets. The Riverside submarket is expected to record the highest rent growth, with increases of 16.7 percent over the next four quarters and 29.4 percent total over the next two years. The San Bernardino submarket is expected to be the weakest performer over the next two years, with an increase in rents of only 9.1 percent.

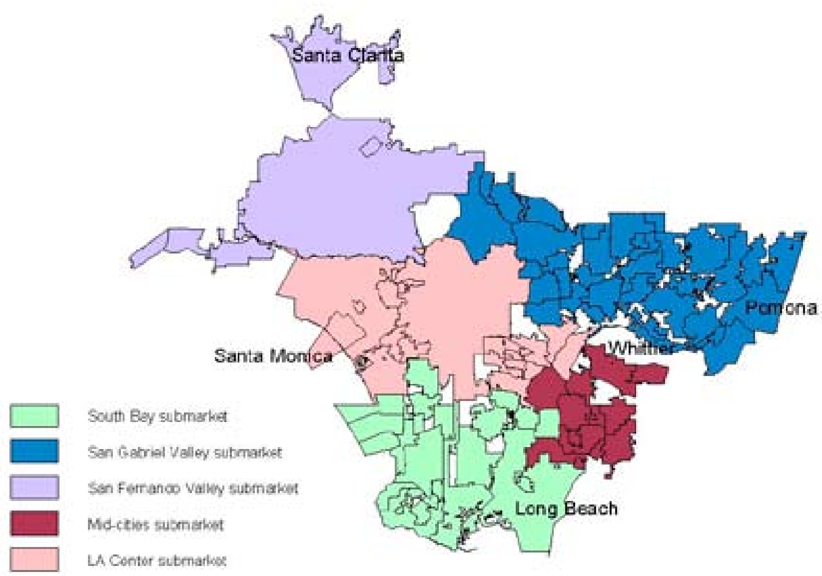
On the demand side, San Bernardino is expected to log the greatest decline in vacancy: 3.9 percentage points over the next four quarters and 4.2 percentage points total over the next two years. Currently, the San Bernardino submarket has the highest vacancy rate at 8.7 percent and thus, the greatest room for improvement.

Current Market Snapshots

Office submarket for Los Angeles County



Industrial submarket for Los Angeles County



Los Angeles County Office Snapshot

Average Monthly Rents PSF	Class A	Class B	Total Vacancy Rate
	Q3 2011		Q3 2011
Downtown	$3.13	$2.47	16.3%
Mid-Wilshire	$2.00	$1.67	19.4%
Tri-Cities	$2.81	$2.23	18.0%
South Bay	$2.28	$2.00	20.2%
San Gabriel Valley	$2.40	$1.91	10.2%
Los Angeles North	$2.32	$2.13	17.4%
West Los Angeles	$3.62	$2.65	14.8%
Los Angeles County	$2.94	$2.17	16.6%

Los angeles County Office Quarter Comparison

Class A Average Monthly Rents PSF	Current Quarter		Previous Quarter		1 Year Ago		Net Absorption YTD (000)	Change in Average Rent
Total Vacancy Rate	Q3 2011		Q2 2011		Q3 2010			2010-2011
Downtown	$3.13	16.3%	$3.12	15.4%	$3.19	16.0%	(85.3)	-1.9%
Mid-Wilshire	$2.00	19.4%	$1.99	18.5%	$1.99	18.5%	(165.3)	0.5%
Tri-Cities	$2.81	18.0%	$2.73	18.9%	$2.87	19.9%	345.9	-2.1%
South Bay	$2.28	20.2%	$2.23	18.9%	$2.27	19.1%	(886.9)	0.4%
San Gabriel Valley	$2.40	10.2%	$2.41	10.1%	$2.43	10.5%	33.8	-1.2%
LA North	$2.32	17.4%	$2.34	18.0%	$2.41	19.1%	348.0	-3.7%
West Los Angeles	$3.62	14.8%	$3.62	15.5%	$3.62	15.7%	736.6	0.0%
Los Angeles County	$2.94	16.6%	$2.92	16.5%	$3.01	17.0%	326.8	-2.3%

Class A Average Rents for LA County Submarkets

Office Vacancy Rates for LA County Submarkets

2011 Year-over-year Class A Rent Increases

Los Angeles County Industrial Subtype

Average Monthly Rents PSF Total Vacancy Rate	Current Quarter Q3 2011		Previous Quarter Q2 2011		1 Year Ago Q3 2010		Change in Average Rent 2010-2011
General Industrial	$0.51	2.9%	$0.51	2.6%	$0.53	2.9%	-3.8%
Incubator	$0.59	3.0%	$0.60	3.2%	$0.62	3.7%	-4.8%
R&D/Flex	$0.69	3.9%	$0.79	3.6%	$0.79	4.0%	-12.7%
Warehouse	$0.47	3.3%	$0.47	3.4%	$0.45	3.5%	4.4%

Los Angeles County Indusrial Quarter Comparison

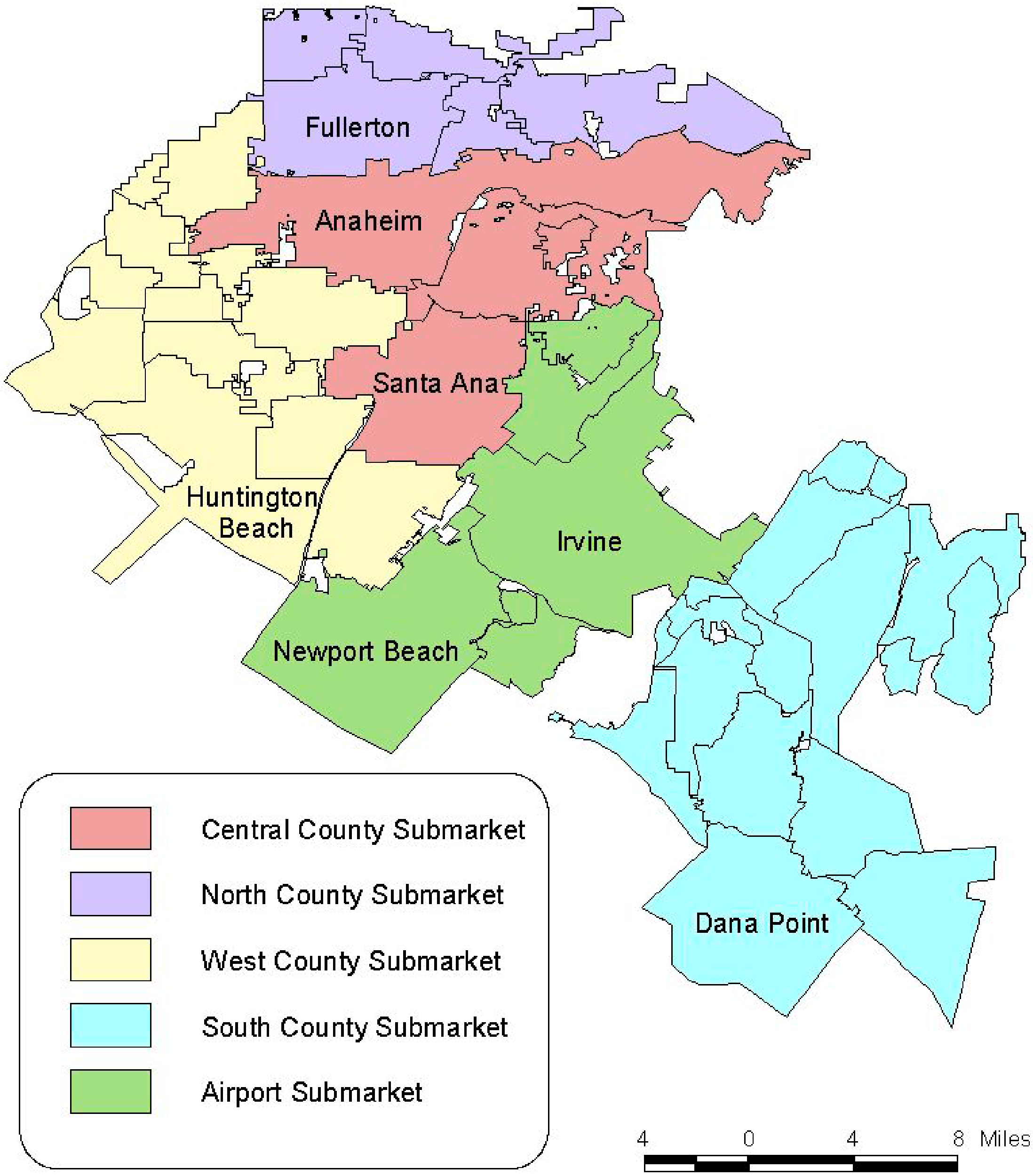
Average Monthly Rents PSF Total Vacancy Rate	Current Quarter Q3 2011		Previous Quarter Q2 2011		1 Year Ago Q3 2010		Net Absorption YTD (000)	Change in Average Rent 2010-2011
Central Los Angeles	$0.41	2.5%	$0.42	2.2%	$0.40	2.5%	274	2.5%
Mid-Cities	$0.45	4.1%	$0.47	4.2%	$0.46	5.0%	179	-2.2%
North Los Angeles	$0.61	3.2%	$0.62	3.5%	$0.64	3.4%	2,068	-4.7%
San Gabriel Valley	$0.45	3.5%	$0.48	3.5%	$0.47	3.7%	632	-4.3%
South Bay	$0.52	3.2%	$0.52	3.0%	$0.53	3.0%	106	-1.9%
Los Angeles County	$0.50	3.1%	$0.51	3.1%	$0.51	3.3%	3,259	-2.0%

Average Rents for LA County

Industrial Vacancy Rates for LA Submarkets

2011 Year-over-year Average Rent Changes

Office and Industrial Submarkets for Orange County



Oramge County Office Snapshot

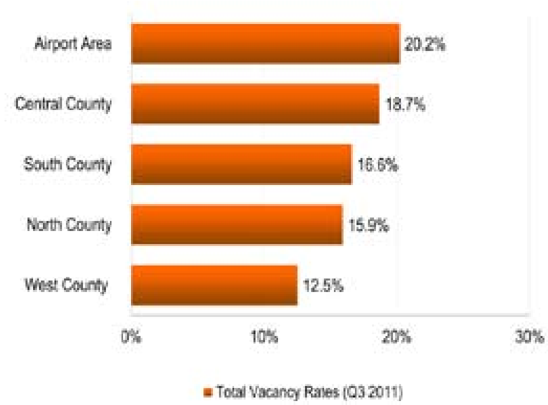
Average Monthly Rents PSF	Class A	Class B	Total Vacancy Rate
	Q3 2011		Q3 2011
Airport Area	$2.24	$1.80	20.2%
Central County	$1.98	$1.65	18.7%
North County	$2.30	$1.72	15.9%
South County	$2.06	$1.82	16.6%
West County	$2.11	$1.58	12.5%
Orange County	$2.17	$1.75	18.3%

Orange County Office Quarter Comparison

Class A Average Monthly Rents PSF	Current Quarter		Previous Quarter		1 Year Ago		Net Absorption YTD (000)	Change in Average Rent
Total Vacancy Rate	Q3 2011		Q2 2011		Q3 2010			2010-2011
Airport Area	$2.24	20.2%	$2.22	20.6%	$2.30	23.2%	725	-2.6%
Central County	$1.98	18.7%	$1.98	17.9%	$2.15	18.5%	28	-7.9%
North County	$2.30	15.9%	$2.32	17.7%	$2.16	19.0%	165	6.5%
South County	$2.06	16.6%	$2.06	16.8%	$2.19	20.9%	612	-5.9%
West County	$2.11	12.5%	$2.10	11.6%	$2.08	11.8%	71	1.4%
Orange County	$2.17	18.3%	$2.16	18.4%	$2.25	20.7%	1,458	-3.6%

Class A Average Rents for Orange County

Office Vacancy Rates for Orange County Submarkets



2010 Year-over-year Class A Rent Changes

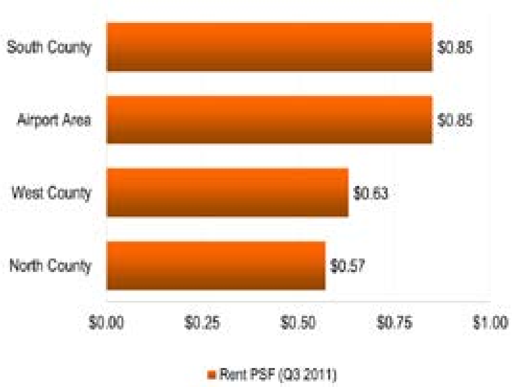
Orange County Industrial Subtype

Average Monthly Rents PSF	Current Quarter		Previous Quarter		1 Year Ago		Change in Average Rent
Total Vacancy Rate	Q3 2011		Q2 2011		Q3 2010		2010-2011
General Industrial	$0.65	4.2%	$0.65	4.3%	$0.59	5.5%	10.2%
R&D/Flex	$0.98	6.5%	$0.96	6.5%	$0.91	7.9%	7.7%
Warehouse	$0.51	5.8%	$0.50	6.7%	$0.49	7.0%	4.1%

Orange County Indusrial Quarter Comparison

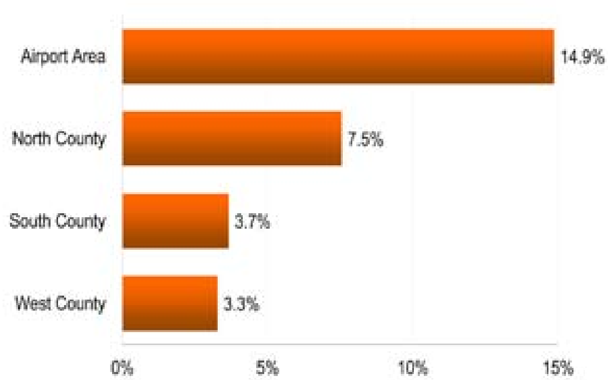
Average Monthly Rents PSF	Current Quarter		Previous Quarter		1 Year Ago		Net Absorption YTD (000)	Change in Average Rent
Total Vacancy Rate	Q3 2011		Q2 2011		Q3 2010			2010-2011
Airport Area	$0.85	6.0%	$0.81	6.2%	$0.74	6.8%	712	14.9%
North County	$0.57	4.0%	$0.57	4.3%	$0.53	5.7%	1,340	7.5%
South County	$0.85	8.1%	$0.84	8.4%	$0.82	8.8%	423	3.7%
West County	$0.63	4.3%	$0.63	4.3%	$0.61	6.0%	223	3.3%
Orange County	$0.74	5.3%	$0.72	5.5%	$0.67	6.6%	2,698	10.4%

Average Rents for for Orange County

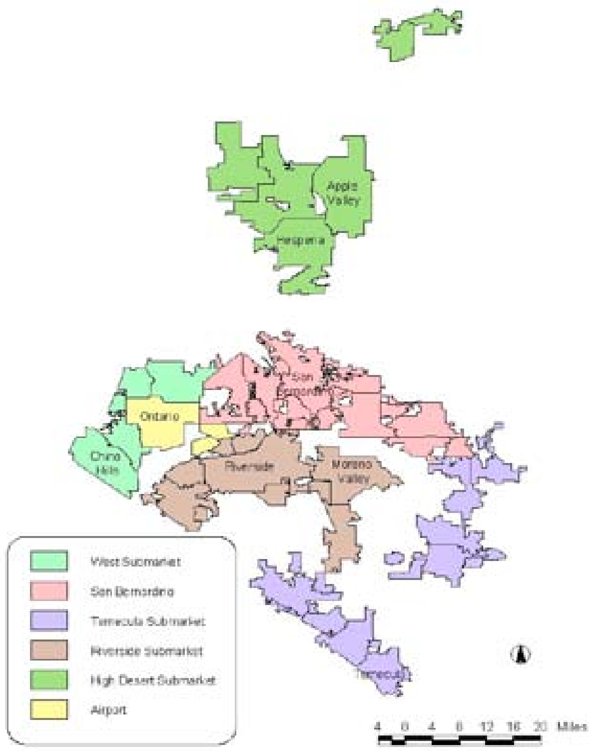


Industrial Vacancy Rates for OC Submarkets

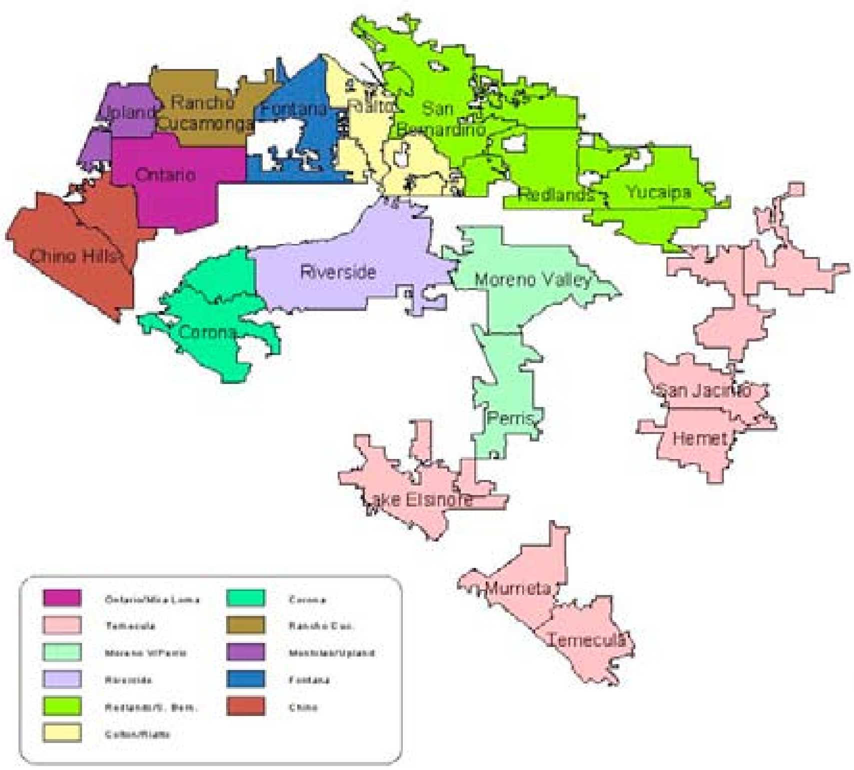
2010 Year-over-year Average Rent Changes



Office Submarkets for Inland Empire



Industrial Submarkets for Inland Empire



Inland Empire Office Snapshot

Average Monthly Rents PSF	Class A	Class B	Total Vacancy Rate
	Q3 2011		Q3 2011
Ontario Airport	$1.97	$1.48	23.9%
Riverside	$2.09	$1.53	25.2%
San Bernardino	$1.61	$1.40	22.2%
Temecula	$1.72	$1.40	25.3%
West	$2.19	$1.46	19.4%
Inland Empire	$1.92	$1.47	23.8%

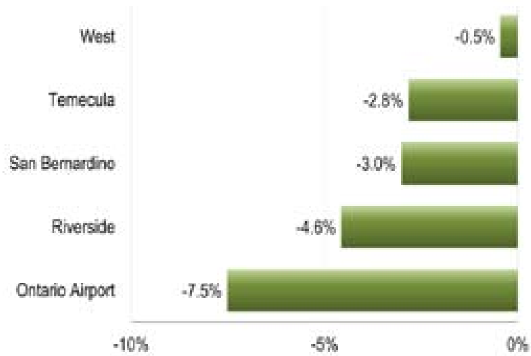
Inland Empire Office Quarter Comparison

Class A Average Monthly Rents PSF	Current Quarter		Previous Quarter		1 Year Ago		Net Absorption YTD (000)	Change in Average Rent
Total Vacancy Rate	Q3 2011		Q2 2011		Q3 2010			2010-2011
Ontario Airport	$1.97	25.9%	$1.98	26.8%	$2.13	32.2%	31	-7.5%
Riverside	$2.09	28.6%	$2.10	30.4%	$2.19	29.0%	108	-4.6%
San Bernardino	$1.61	19.4%	$1.62	18.5%	$1.66	29.0%	25	-3.0%
Temecula	$1.72	28.9%	$1.74	30.0%	$1.77	28.3%	19	-2.8%
West	$2.19	15.5%	$2.19	16.4%	$2.20	17.1%	2	-0.5%
Inland Empire	$1.92	25.3%	$1.94	27.0%	$2.05	26.7%	186	-6.3%

Class A Average Rents for Inland Empire

Office Vacancy Rates for Inland Empire Submarkets

2010 Year-over-year Class A Rent Changes



Inland Empire Industrial Subtype

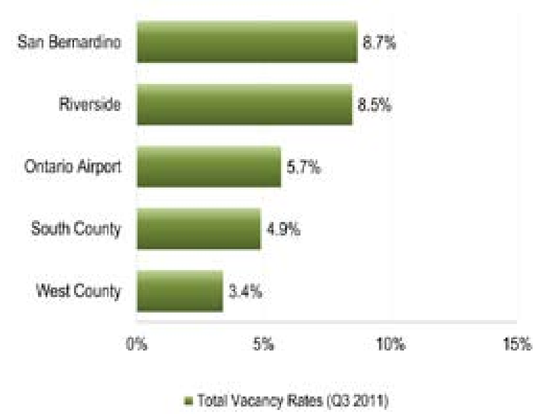
Average Monthly Rents PSF	Current Quarter		Previous Quarter		1 Year Ago		Change in Average Rent
Total Vacancy Rate	Q3 2011		Q2 2011		Q3 2010		2010-2011
General Industrial	$0.37	11.7%	$0.42	11.9%	$0.38	11.6%	-2.6%
R&D/Flex	$0.56	7.2%	$0.60	6.6%	$0.59	7.8%	-5.1%
Warehouse	$0.32	6.2%	$0.31	6.9%	$0.30	10.8%	6.7%

Inland Empire Indusrial Quarter Comparison

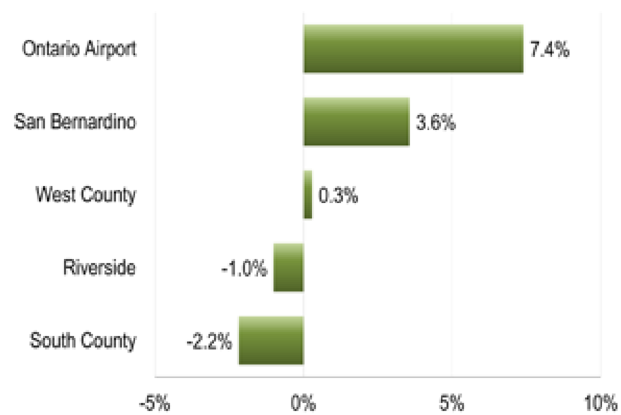
Average Monthly Rents PSF	Current Quarter		Previous Quarter		1 Year Ago		Net Absorption YTD (000)	Change in Average Rent
Total Vacancy Rate	Q3 2011		Q2 2011		Q3 2010			2010-2011
Ontario Airport	$0.34	5.7%	$0.33	6.1%	$0.32	8.2%	4,438	7.4%
Riverside	$0.32	8.5%	$0.33	8.3%	$0.32	13.2%	5,497	-1.0%
San Bernardino	$0.29	8.7%	$0.29	10.3%	$0.28	20.3%	5,756	3.6%
South County	$0.45	4.9%	$0.46	3.4%	$0.46	4.8%	(148)	-2.2%
West County	$0.37	3.4%	$0.36	4.5%	$0.37	6.3%	1,153	0.3%
Inland Empire	$0.33	6.6%	$0.33	7.2%	$0.31	10.8%	16,696	6.5%

Average Rents for for Inland Empire

Industrial Vacancy Rates for Inland Empire Submarkets

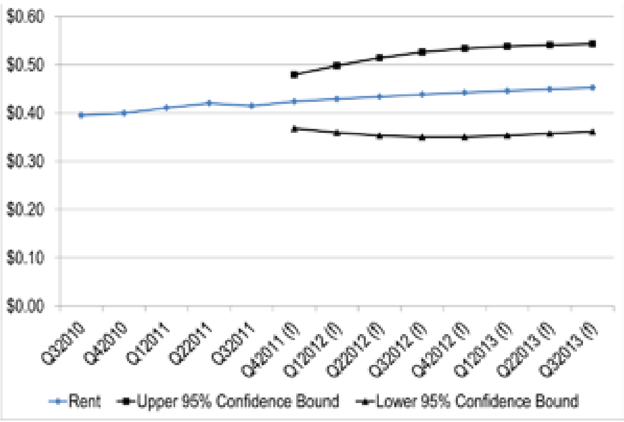


2010 Year-over-year Average Rent Changes

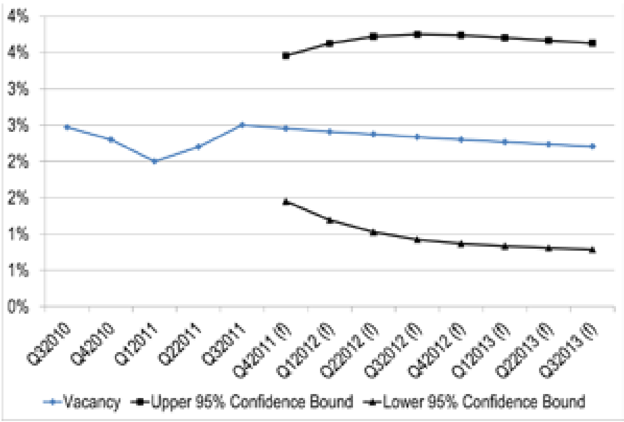


Appendix I Los Angeles County Industrial Forecasted Rents and Vacancy

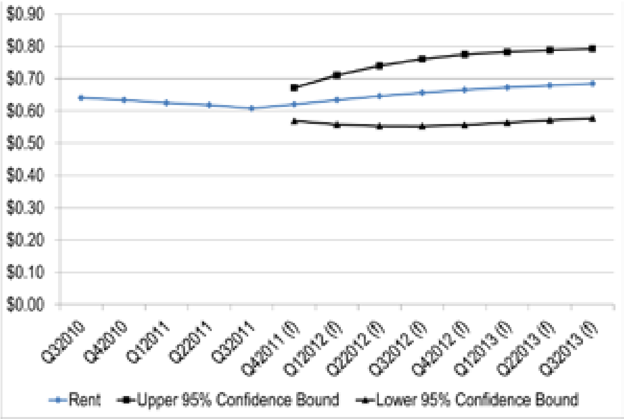
Central Los Angeles Forecasted Rents



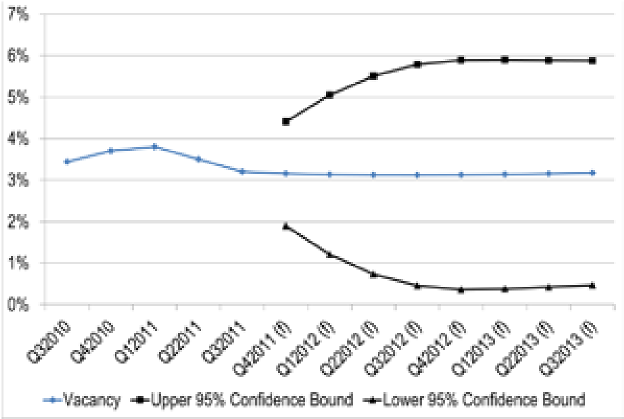
Central Los Angeles Forecasted Vacancy



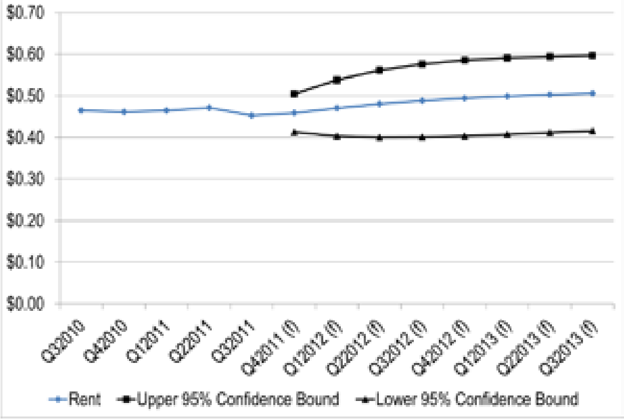
North Los Angeles Forecasted Rents



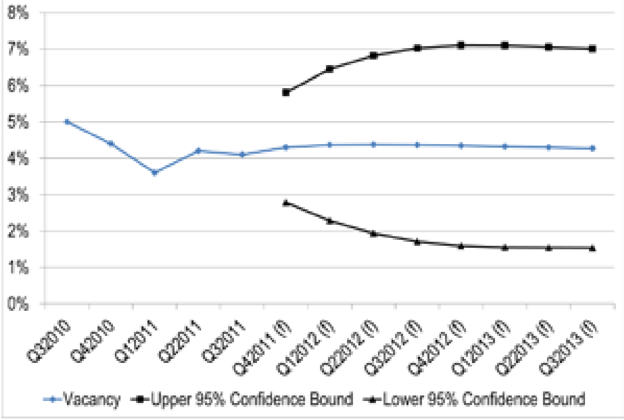
North Los Angeles Forecasted Vacancy



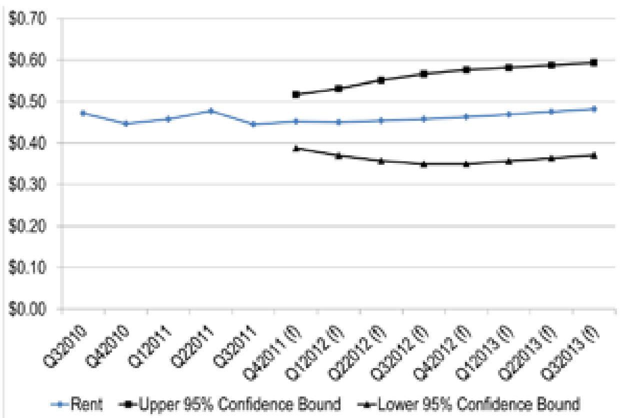
Mid-Cities Forecasted Rents



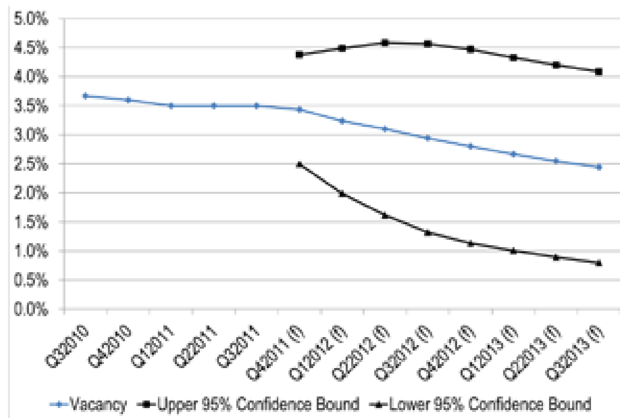
Mid-Cities Forecasted Vacancy



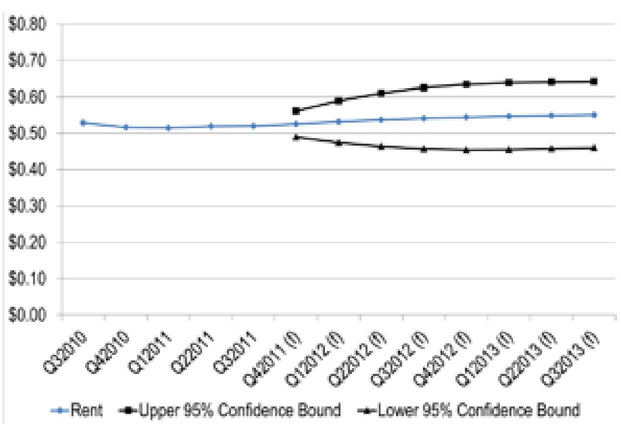
San Gabriel Valley Forecasted Rents



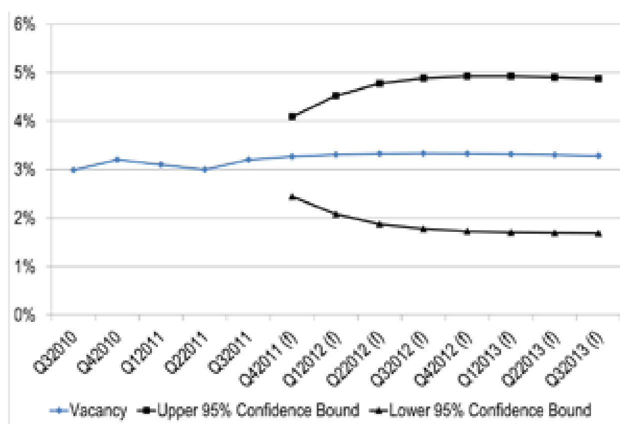
San Gabriel Valley Forecasted Vacancy



South Bay Forecasted Rents

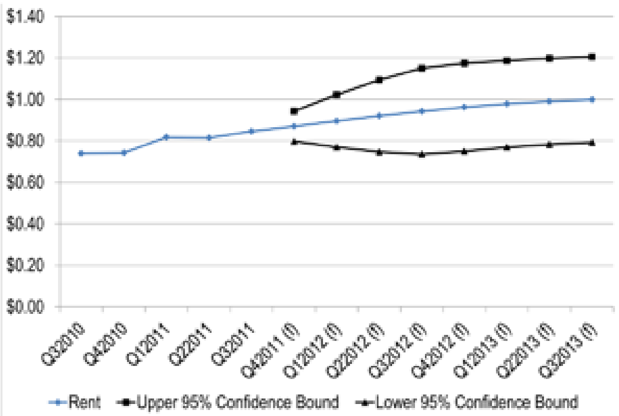


South Bay Forecasted Vacancy

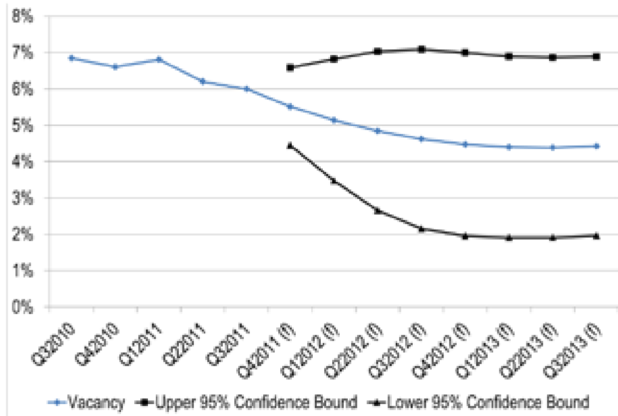


Appendix II Orange County Industrial Forecasted Rents and Vacancy

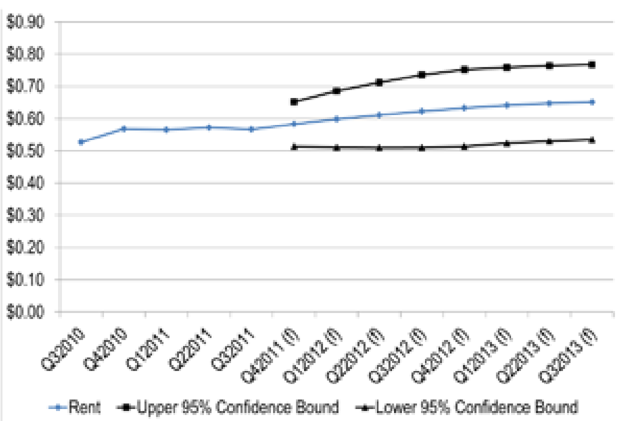
Airport Area Forecasted Rents



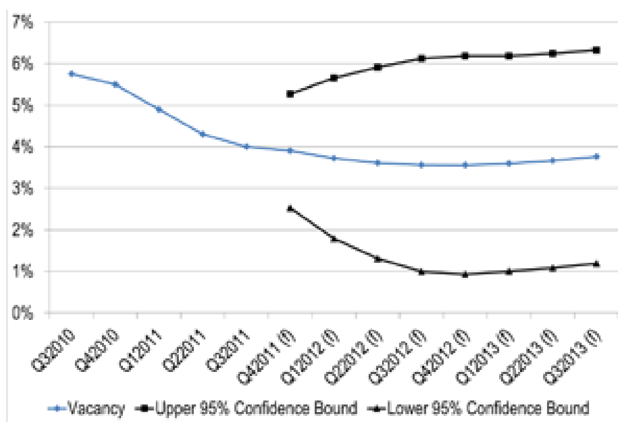
Airport Area Forecasted Vacancy



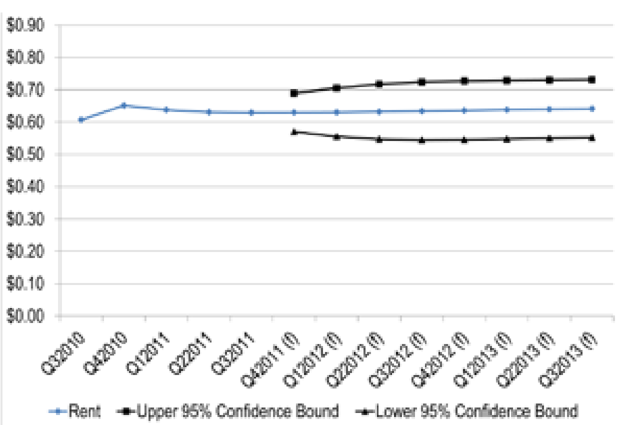
North Orange County Forecasted Rents



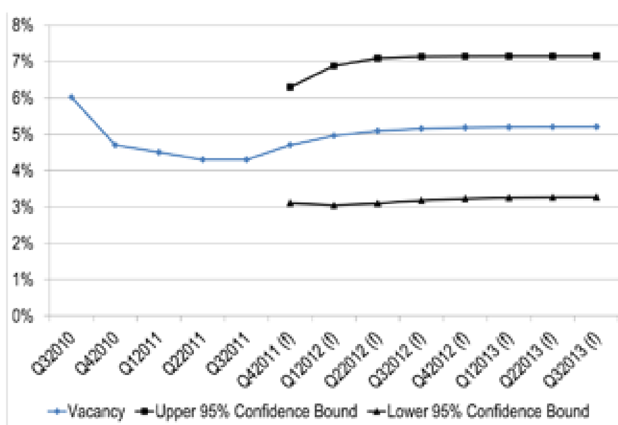
North Orange County Forecasted Vacancy



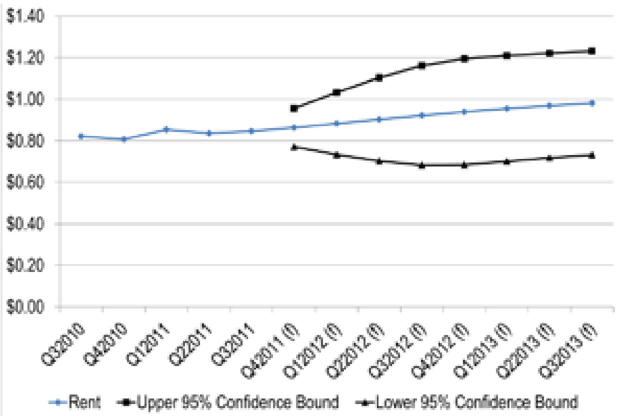
West Orange County Forecasted Rents



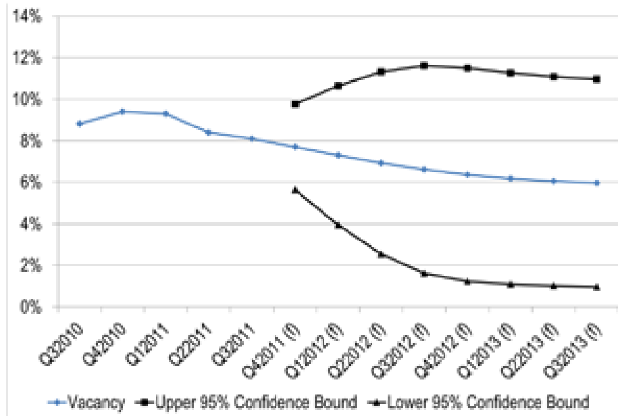
West Orange County Forecasted Vacancy



South Orange County Forecasted Rents

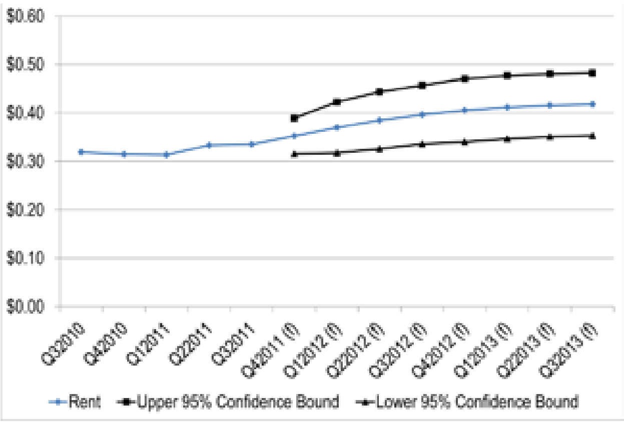


South Orange County Forecasted Vacancy

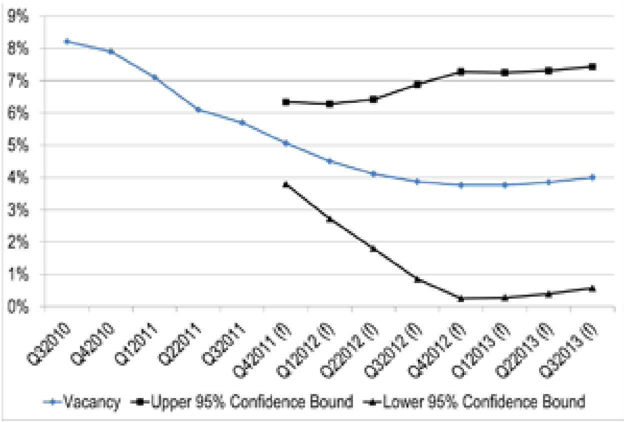


Appendix III Inland Empire Industrial Forecasted Rents and Vacancy

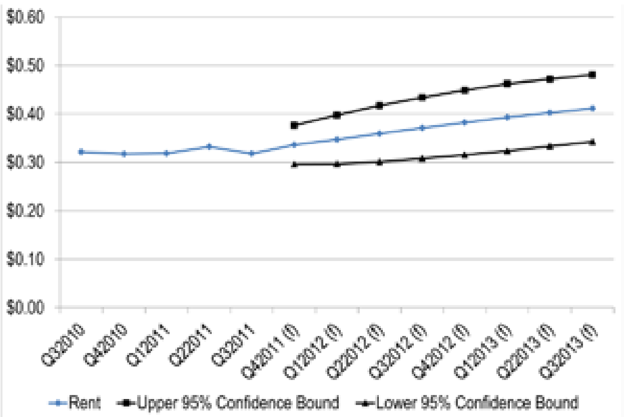
Ontario Airport Forecasted Rents



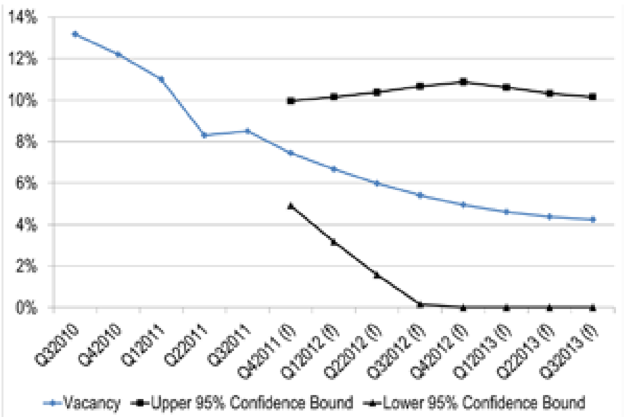
Ontario Airport Forecasted Vacancy



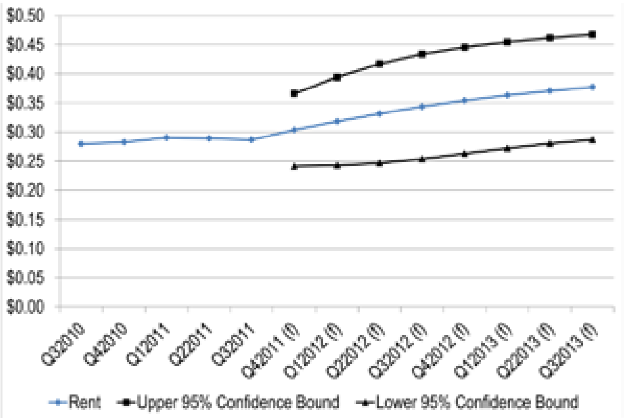
Riverside Forecasted Rents



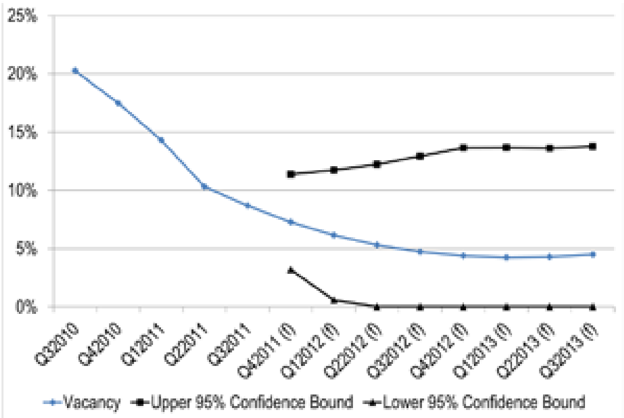
Riverside Forecasted Vacancy



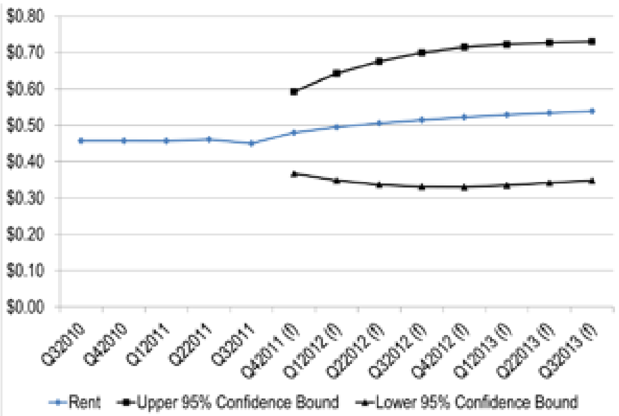
San Bernardino Forecasted Rents



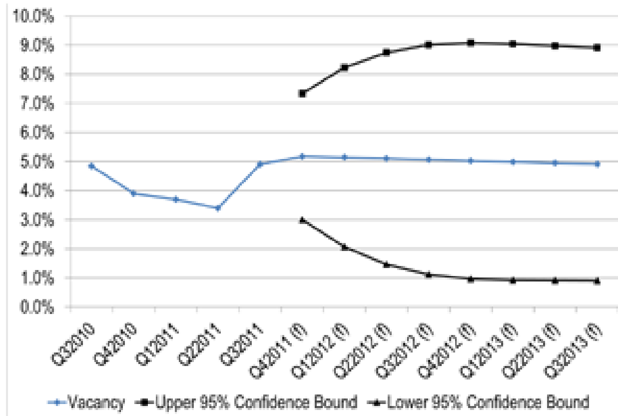
San Bernardino Forecasted Vacancy



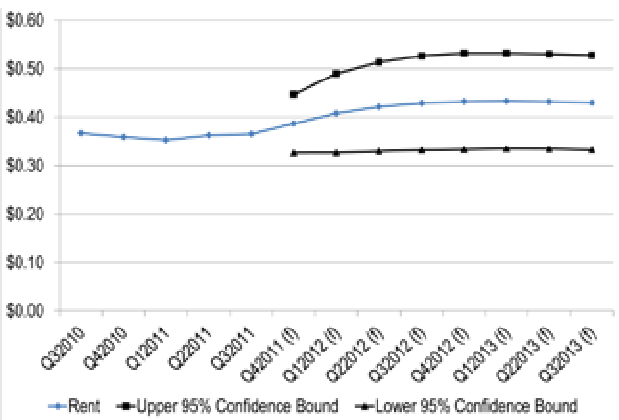
South County Forecasted Rents



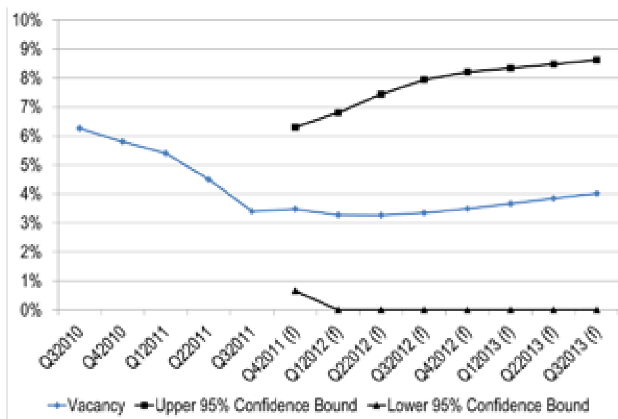
South County Forecasted Vacancy



West Forecasted Rents



West Forecasted Vacancy



Technical Notes

Office Data

Inventory: Office inventory includes all multi-tenant and single tenant buildings with a minimum size threshold of 20,000 square feet. Owner-occupied, government and medical buildings are not included.

Office Building Classifications: Grubb and Ellis adhere to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area… Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per month. Office rents are reported as full service where all costs of operation are paid by the landlord up to a base year or expense stop.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the building size.

Industrial Data

Inventory: Industrial inventory includes all multi-tenant, single tenant and owner-occupied buildings with at least 10,000 square feet and World Ports Industrial Market™ with at least 50,000 square feet.

Industrial Product Types: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

Space Under Construction: Space under construction that includes speculative, build-to-suit for lease and owner-built projects.

Vacant and Available Space: Vacant space is space that is physically unoccupied. It may or may not be available for lease or sublease. Available space is available for lease and may or may not be vacant.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per month. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by amount of available space in the building.

Overall Disclaimer

Some of the data in this report has been gathered from third party sources and has not been independently verified. Neither Grubb & Ellis nor the Casden Forecast make no warranties or representations as to the completeness or accuracy thereof.

Report Authors | Bios

Richard K. Green

Director of the USC Lusk Center for Real Estate

Richard K. Green, Ph.D., is the Director of the USC Lusk Center for Real Estate. He holds the Lusk Chair in Real Estate and is Professor in the Sol Price School of Public Policy and the Marshall School of Business.

Prior to joining the USC faculty, Dr. Green spent four years as the Oliver T. Carr, Jr., Chair of Real Estate Finance at The George Washington University School of Business. He was Director of the Center for Washington Area Studies and the Center for Real Estate and Urban Studies at that institution. Dr. Green also taught real estate finance and economics courses for 12 years at the University of Wisconsin-Madison, where he was Wangard Faculty Scholar and Chair of Real Estate and Urban Land Economics. He also has been principal economist and director of financial strategy and policy analysis at Freddie Mac. More recently, he was a visiting professor of real estate at the University of Pennsylvania's Wharton School, and he continues to retain an affiliation with Wharton. He is or has been involved with the Lincoln Institute of Land Policy, the Conference of Business Economists, the Center for Urban Land Economics Research, and the National Association of Industrial and Office Properties. Dr. Green also is a Weimer Fellow at the Homer Hoyt Institute, and a member of the faculty of the Selden Institute for Advanced Studies in Real Estate. He was recently President of the American Real Estate and Urban Economics Association.

Dr. Green earned his Ph.D. and M.S. in economics from the University of Wisconsin-Madison. He earned his A.B. in economics from Harvard University.

His research addresses housing markets, housing policy, tax policy, transportation, mortgage finance and urban growth. He is a member of two academic journal editorial boards, and a reviewer for several others. His work is published in a number of journals including the American Economic Review, Journal of Economic Perspectives, Journal of Real Estate Finance and Economics, Journal of Urban Economics, Land Economics, Regional Science and Urban Economics, Real Estate Economics, Housing Policy Debate, Journal of Housing Economics, and Urban Studies. His book with Stephen Malpezzi, A Primer on U.S. Housing Markets and Housing Policy, is used at universities throughout the country. His work has been cited or he has been quoted in the New York Times, The Wall Street Journal, The Washington Post, the Christian Science Monitor, the Los Angeles Times, Newsweek and the Economist, as well as other outlets. He recently gave a presentation at the 31st annual Federal Reserve Bank of Kansas City Economic Symposium, where his work was cited by Federal Reserve Chairman Ben Bernanke. The National Association of REALTORS, the Ford Foundation, and the Lincoln Institute for Land Policy have funded grants to support some of Dr. Green's research. He consults for the World Bank.

In 1995, Dr. Green was honored as "Teacher of the Year" by the University of Wisconsin Graduate Business Association, and soon thereafter was inducted into that University's Teaching Academy.

Tracey Seslen
Senior Research Associate
USC Casden Real Estate
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Tracey Seslen received her Ph.D. in Economics from the Massachusetts Institute of Technology in 2003 and has been an Assistant Professor of Clinical Finance and Business Economics since 2006. She currently teaches Real Estate Finance in the Marshall School of Business and the Sol Price School of Public Policy at USC. She is also one of the core finance instructors for the Ross Minority Program in Real Estate. Her past research has focused on housing cycles, the capitalization of risk and return into housing prices, household mobility behavior, and termination risk in commercial mortgages.

For the past year, she has been the co-author of the Casden Real Estate Report and in that role has developed new models for predicting price and vacancy movements for office, industrial and multi-family markets in Southern California. Her expertise in real estate finance has led to quotes in the LA Times, Wall Street Journal, OC Register, LA Business Journal, Long Beach Business Journal, California Real Estate Journal, SmartMoney.com, Downtown News, and other local and national publications. In addition, she has appeared on the Today Show, Marketplace Radio, and various local network news broadcasts. Recently, she has worked as an expert witness on real estate valuation issues.

When not working in the field of real estate, she is an avid international traveler, photographer, and skier. She lives in Marina del Rey with her husband and 2-year-old daughter.

J.C. Casillas
Assistant Vice President,
Client Services Manager
Grubb & Ellis Company

Mr. Casillas has been with Grubb & Ellis since 1998. He is responsible for the management of the firm's Southern California research and marketing operations, overseeing extensive data collection, verification, tracking and analysis of the Southern California market. As part of the Southern California management team, Mr. Casillas works extensively with brokers on business development projects, client presentations and special research assignments. Mr. Casillas' market information and analysis are featured every quarter in the Commercial Real Estate update published by the Los Angeles Business Journal. He is recognized by various organizations and universities, including the Los Angeles County Economic Development Corporation (LAEDC), the San Fernando Valley Economic Research Center, and the Real Estate Research Council of Southern California as the "go-to" person for real estate market information. Mr. Casillas received a Bachelor of Science from USC majoring in Public Policy and Management with a minor in Business.

Skye Tirsbier |
MBA/MPL Candidate
Class of 2011
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Skye Tirsbier is a Master of Business Administration/Master of Planning dual degree candidate at USC. Before attending USC, she worked for New Urban West in Santa Monica for several years as the Entitlements Project Manager. Skye managed the entitlement process and secured approvals for a large mixed-use community in Southern California. Her academic honors include selection as a Marshall MBA Fellow and placement on the graduate Dean's List of the Marshall School of Business. After graduation, Skye is interested in either working for a redevelopment agency or returning to the private sector and working for a real estate development firm in Southern California.

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