



KEEGAN & COPPIN COMPANY, INC.

ONCOR INTERNATIONAL

Commercial Real Estate Services



2011

COMMERCIAL REAL ESTATE FORECAST



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NORTHBAY OVERVIEW - 2011

By: Al Coppin



We see increasing optimism among companies as we enter 2011.

Our leasing volume in 2010 was 25% above 2009.

Activity was spread over many sectors including government, healthcare, financial, tech, retail and wine related.

Many companies, either startups or existing, have arranged for their long term space needs by taking advantage of the quality “A” space as rates have dropped to what they were a decade ago.

Recent growth of fledgling tech companies is a significant part of the demand for space and the hope for the economic future of the Northbay region. Enphase, Raydiance, ProSight, Metier, Central Payments, BioMarin, Tri-Access Technologies, Sonoma Orthopedic, as well as the many successful telecom companies in Petaluma are seeds of future business clusters for the Northbay as well as strengthening existing ones.

While companies are choosing prime “A” space alternatives, the “B” space left behind will be in many instances a challenge to rent up quickly. As a result, availability of “A” space is dwindling while “B” space vacancies are ballooning.

On another aspect of the market, we have seen the effects of a 2 tiered equity market in Petaluma for tech, office/ flex buildings, as existing companies and banks put large blocks of space on the market for essentially land values under the buildings while the remaining individual ownerships hold on to pricing which more closely represents the true market. This temporary transitioning condition is being quickly rectified as companies swoop up the bargain priced products.

The biggest problem Petaluma faces is the extraordinary cost of municipal fees to develop any new building. Costs of \$5-\$7 p.s.f. for all combined fees will hamper development of the miniscule land left for industrial/ flex/tech usage in the future.

NORTHBAY OVERVIEW - 2011 (continued)

By: Al Coppin



Sonoma County over all while having many seeds of intellectual capital sprouting up and growing with new companies covering an array of products and services will be challenged by over burdensome regulations promulgated by local, state and federal governments. The biggest challenge for Sonoma County is not to attract new companies as they will come due to the existing venture seeds and lifestyle, but to redress, negotiate and retrench government regulations. From the onerous and costly process of obtaining use permits for emerging small businesses to the far reaching, illogical and severe development impact of the Fed's Tiger Salamander area.

So much in economic activity and human resource is given up to rescue one species when hundreds of thousands are lost in the rainforests of the world every year that indeed have significant human benefit. No one has ever said why this one species is so important as to cost the Northbay so much in its growth potential. Even the alternate habitats appear to be detrimental to the survival. Why not leave one habitat for them sponsored by the Federal government and let us compete on equal ground with other geographic areas to bring in and retain new companies.

Economic development and sustainment is a function of hard benefit/ cost analysis of regulations. If the benefit does not outweigh the costs included then it needs to be redressed.

With that said, the short term horizon looks promising.

We have plenty of space for a couple of years but we must plan ahead for the new office/industrial development 3-5 years down the road. If we don't preserve our land for high value industrial and tech uses and develop quality business parks, then we will not only fail to attract many of the spinoffs from other Bay Area companies, but we will lose existing quality companies as well.

We are looking forward to increased activity this year in investments as liquidity and search for higher cap rates expands. Opportunities in commercial real estate are excellent as the leasing market improves filling up vacancies in investment buildings. Financing is available at some of the most attractive rates in 45 years.

NORTHBAY OVERVIEW - 2011 (continued)

By: Al Coppin



Many users have already stepped up and taken advantage of the low priced buildings, many well below replacement costs of a decade ago.

The return of the developers will also invigorate the commercial market with new ideas and opportunities to attract tenants.

So we are forecasting a 25% increase in leasing and sales activity for 2011.

By



Times Are Changing

By: Annette Cooper



The story goes that the ambitious young man was praying to God daily for months, intensely imploring the higher power to help him win the lottery. After many months of praying the man received a message from the Lord, “Sir, if you want to win the lottery, you have to buy a ticket”.

UNPRECEDENTED OPPORTUNITY FOR CAPITAL GROWTH

Investors serious about building wealth and developing a comprehensive strategy to maximize the appreciation and income potential of their investment portfolio will be well served to investigate the opportunities available in today’s commercial real estate market. There exists an almost unprecedented opportunity to position your portfolio for exponential capital growth.

STABILIZED INVESTMENT AT HISTORIC LOWS

Not in recent history have we seen the opportunity to buy stabilized investments at such historic lows. An abundance of inventory, and the availability of relatively inexpensive capital appear to have hit critical mass, and there exists an almost “perfect storm” for investors willing to research and take advantage of the current conditions that exist in the market. Consider the fact that today you can purchase stabilized investments with cap rate returns starting from 7% and up (in most investment categories), and capitalize on the 5.5% - 6.75% lending options to finance the investments. Today’s lending environment offers a comfortable spread for both new purchasing and creating prudent leverage. Multi-family investments may offer an even better return with interest rates for apartments/multi-family quoted as low as 4.5%.

WIDE RANGE OF COMMERCIAL INVESTMENT PROPERTIES

Remember that the options available in purchasing income property run the gambit from multi-family residential investments to facilities to shopping centers, mini-storage or mobile home parks. Whether your comfort level is centered on multi-family apartments, NNN leased opportunities or more aggressive value-added investments, both the inventory levels and income accelerating opportunities are substantial.

Times Are Changing (continued)

By: Annette Cooper



GENEROUS TAX BREAKS

There are other important advantages to consider when investing in commercial real estate:

- Leverage and positioning yourself to take advantage of the “wealth building” capability of the 1031 Exchange Option (eliminate the tax bite of capital gains to keep all your hard earned equity in tact). In addition, you receive of the tax benefits of both depreciation, and interest tax write-off.
- “1% to 4%” annual returns available in the stock and bond market pale when compared to with the multi-dimensional, estate building capability of real estate investments; income, appreciation, leverage, and generous tax advantages.

As one savvy investor once said,

“ONE GOOD INVESTMENT IS WORTH A LIFETIME OF TOIL”.

These words about sum it all up.



NORTH CORRIDOR/WINDSOR OVERVIEW

By: Shawn Johnson



While the Santa Rosa north corridor real estate market saw an increase in vacancy rates in 2009, during 2010 there was a decrease in the industrial vacancy for the region and office vacancy remained flat. Office vacancy rates increased slightly with rates at 16% in the fourth quarter of 2009, and 16.3% in the fourth quarter of 2010. Industrial vacancy rates saw a decrease from 16% in the fourth quarter of 2009 to 14.9% in the fourth quarter of 2010

Office rates are slowly recuperating with Class A rates ranging from \$1.85 per square foot to \$2.15 per square foot, full service, and Class B rates ranging from \$1.55 to \$1.65 per square foot, full service.

The north corridor welcomed a few large office users. Lytton Rancheria of California purchased a 21,120 square foot office building at 437 Aviation Boulevard for their new office headquarters. One of the largest offices leases in the North Corridor was with the Dry Creek Rancheria Band of Pomo Indians who leased 18,810 square feet at 3750 Westwind Boulevard in Santa Rosa. Also of note is L-3 Communication's lease of 14,807 square feet at 420 Aviation Boulevard in Santa Rosa.

Industrial lease rates range from \$0.65 to \$0.75 per square foot, triple net, for new facilities, and as low as \$0.50 per square foot, Gross for older/larger warehouse space. Although industrial activity is sluggish the wine industry is carrying the N. Corridor industrial market.

Industrial activity in the north corridor peaked with Alexander Valley Cellars' sublease of 169,027sf of warehouse space at 1010 Shiloh Road in Windsor. Neilmed Pharmaceuticals expanded its operations into an adjacent building and leased 120,000 square feet at 551 Aviation Boulevard. Sonoma County Vintners Co-op also took 35,000 square feet of warehouse space at 33 Healdsburg Avenue in Healdsburg.

With the economy showing signs of a slow recovery the forecast for 2011 is cautious. Although interest rates are relatively low, other economic factors are affecting the local economy. Unemployment has leveled off of 10.5% in Sonoma County, which is lower than the state average at 12.4%. Job growth is our next obstacle. In the last year the Sonoma County job grow rate declined 1%. Even though we experienced a larger decrease of 7.9% between 2008 and 2009, improvement is still required before the real estate market will rebound.

By

NORTH CORRIDOR/WINDSOR OVERVIEW (cont.)

The north corridor is starting to decrease its industrial and office vacancy rates, and with no new spec construction expected for the foreseeable future, rents should start to rebound.

Overall approximately 381,023 square feet of industrial space and approximately 92,233 square feet of office space was leased in 2010. Most of the industrial space was absorbed in just a few larger leases. Most of the new office leases were in the airport area.

Although we have highlights in the 2010 north corridor market, forecasts of 2011 aren't glowing. A look back at absorption rates in the north corridor over the past few years show that the area is continuing to regain losses it experienced in 2006 and 2007. This is a problem facing every submarket of Sonoma County. Activity in 2010 was a far cry from what we remember before the commercial real estate bubble burst. However I believe the north corridor market is one of the stronger areas in Sonoma County because of the prevalence of newer construction and flexibility in inventory. With leasing activity stabilizing in the market, we are now looking for sales activity to regain momentum in 2011.

SANTA ROSA OVERVIEW

By: Dave Peterson



The free fall of the Santa Rosa office market has slowed and tour activity has picked up substantially in the last few weeks. This increased activity leads us to believe that we have been at the bottom of the market over the past few months and we are cautiously optimistic that we will continue to see signs of recovery throughout the remainder of 2011. However, landlords and sellers continue to lease and sell their properties well below asking rates/prices. This will likely continue for a shorter period of time as many property owners are still struggling to lease their buildings and plug the holes in their net incomes.

The Santa Rosa market showed some signs of improvement in the 3rd quarter of 2010 with vacancy rates dropping rather significantly. This is the result of just over 100,000 s.f. of positive absorption in the 3rd Quarter. Overall Santa Rosa office vacancy rate was down to 14.4% for the 3rd quarter compared to 15.7% for the 2nd quarter. The 4th Quarter vacancy has remained level coming in at 14.5% indicating little growth activity as companies tended to make lateral moves from one property to another. We still have room for improvement as this vacancy rate is 2.5-3 percentage points higher than what we saw during the market peak.

It should be noted that much of the overall market vacancy is centered in the Western and Southwestern quadrants of Santa Rosa which currently sit at 18.2% and 35.3% respectively. The following is a breakdown of various areas of Santa Rosa and their corresponding vacancy rates ranked from lowest to highest:

Area	Base	Total Vacancy	Vacancy %
Southeast	1,154,692 s.f.	80,963 s.f.	7.0%
Fountaingrove	629,701 s.f.	48,731 s.f.	7.74%
Downtown	1,622,771 s.f.	185,888 s.f.	11.5%
College/Mendocino	801,068 s.f.	98,883 s.f.	12.33%
N. Dutton/Cleveland	1,148,164 s.f.	172,829 s.f.	15.05%
Stony Point	550,041 s.f.	99,970 s.f.	18.20%
Southwest	698,764 s.f.	246,671 s.f.	35.30%

The current market condition is one that could swing from tenant favorable to landlord favorable very quickly if we continue to see the level of positive absorption over the next few quarters that we saw in the 3rd Quarter. However, most of the 4th Quarter and current 1st Quarter tenant activity appears to be lateral movements which will impact the vacancy in the specific areas, but not have much impact on an overall market basis in the 1st Quarter. The tightening of the market is on the horizon, but we don't anticipate it in the first six months of 2011.

ROHNERT PARK/COTATI OVERVIEW By: Kevin Doran



Rohnert Park and Cotati offer a wide variety of commercial properties including industrial/warehouse, office, retail and investment property. There is space to accommodate large companies and small businesses alike. In this newsletter we will cover an overview of market trends, some recent transactions and a few reasons to consider locating your business here.

The local market remained fairly steady during the 1st quarter of 2011. Vacancy rates remain similar to the 2010 4th quarter with office at approximately 43%, industrial at approximately 11% and retail at approximately 12%. The first quarter yielded several sales of multifamily units, one sold for over \$3,000,000 at approximately \$124,000 per unit. Keller Supply Co., a pool and plumbing products wholesaler, leased 23,788sf of warehouse with 3,000sf of office space for a 3 year, 7 month term.

There are some factors predicted to influence the market over the next year. State Farm will be vacating their 300,000 sq. ft. space when they consolidate into their Bakersfield Operations Center in July 2011 which will certainly affect the vacancy rate, likely encouraging a favorable tenant and buyer atmosphere. The market will benefit from the completion of widening Highway 101 and within a couple years the inclusion of a Smart train stop making Rohnert Park more attractive to qualified employees throughout the North Bay as well as encouraging residence of those who work elsewhere.

As a tenant or buyer this market offers some of the most eloquent office space, a wide selection of mixed use space, and many retail buildings with high visibility. As an investor, you have an opportunity to purchase at reasonable prices with favorable forecasting of the future.

With the array of options and positive outlook for the future, Rohnert Park/Cotati is an excellent location to consider for your commercial real estate needs.

By



PETALUMA OVERVIEW

By: Chris Castellucci



The first quarter 2011 office vacancy totaled 1,057,027 or 33.8% compared to the end of 2010 office vacancy at the same 33.8% not much change, with companies making modest lateral moves to newer less expensive space.

The first quarter 2011 industrial vacancy totaled 940,069 or 17.5% compared to the end of 2010 industrial vacancy at 16.8% as slight increase, due to tenant lateral moves and building use changes.

During the first 5 months of 2011 especially the second quarter, the Petaluma market has experienced a huge upswing in closed building sales, due to the historic low prices obtained from of the twelve (12) bank REO buildings in Redwood Business Park. The major portfolio buyers flush with cash, bought most of the offered buildings, with several companies purchasing building in Redwood Business Park along with five (5) other building in other Petaluma locations. The newly purchased buildings with lower cost base in theory can offer lower rents making both office and industrial spaces a bargain from where they were previously. Several expanding companies have been able to capitalize on the lower rent base making their decision to move sooner than later.

Petaluma's recent activity in sales and recent lease activity over the last several months is a turning point toward an upward trend in the market absorption, causing increased property values, and higher rents to come. Approximately 900,000 sq. ft. in building space has been sold with estimated average price ranges from mid \$40's to \$95 per sq. ft. The industrial warehouse buildings have actually sold up to \$95 per sq. ft. The buyer of the most recent 3 building project, 210,000 s.f. occupied by Alcatel in Redwood Business Park, sold at distressed prices, will soon be announced. Once all the distressed buildings are sold, the price of buildings in Petaluma will begin to stabilize and rise and rents will begin to increase as well. While the "wait concept" (in which the longer a tenant waits to rent space, the lower the price will be) was true, those days are now gone. The longer a tenant waits today, the higher the price will be tomorrow. There is a very short window of opportunity for tenants to still achieve a great lease deal.

Rental rates for Class A office space is ranging from \$1.35 - \$2.50 per square foot full service depending largely on location, and single story Class B & C space ranging from \$.85 - \$1.10 gross per square foot. Rental rates for Industrial/warehouse space ranges from \$.55 - \$.85 gross per square foot depending on size.

PETALUMA OVERVIEW (cont.)

NOTABLE SALE AND LEASE DEALS IN PETALUMA

- Cornerstone Properties (Investor) - 2 office buildings
- Basin Street Round 2 (Investor) – buys 5 office buildings
- David Brown (Investor) – buys 2 office buildings
- SMK Investments (Xandex/User) – buys 1 office building
- Paul Mitchell (User) – 1 office building
- Natural Comfort (User) – 1 industrial building
- Mountanos Brothers (User) – 1 industrial building
- Dharma Trading Company (User) – 1 industrial building
- Cross Check – Lease
- FICAL Mortgage – Lease
- Workrite Ergonomics – Lease
- Torn Ranch – Lease
- LowPro - Lease

The recent 2011 activity is primarily due to the historic low prices. The purchase activity will soon taper off as there will no longer be the number of distressed properties on the market, as most have been sold. The leasing activity will become more active over the summer months, as tenants begin to realize the commercial real estate market has bottomed and is beginning to rise. Tenant should not wait to get back into the market, now is the time while there is still a great lease opportunity to be had. The commercial market will only go up from here.

By



SONOMA COUNTY OVERVIEW

Retail

By: Rhonda Deringer



The Sonoma County retail market has maintained stability through 2010 and now into 2011. The activity has been flourishing over the past two quarters with retailers taking advantage of the reduced rental rates. Property owners are seeking to fill vacancies and/or secure existing tenants with new leases and stabilize their property. Tenants are in search of exceptional deals and owners are willing to negotiate. Rental rates in the market are absolutely “negotiable”.

The pent up shopping demand seems to have fueled a surge in retail leasing. While leasing and occupancy in the malls, shopping centers and downtowns continue to improve across the County and North Bay, as economists expect demand to accelerate for the next two years as shoppers open their wallets and the economy adds jobs, leading to renewed demand for retail space. With a very low amount of new supply of retail space and strengthening economy, retail vacancy rates are expected to continue to decline. The retail vacancy rate in Sonoma County has remained in the 8% range over the past three quarters, while it had reached the mid 9% range a year ago. Santa Rosa’s fourth quarter vacancy rate was at 7.5%, while it had been up to 9% a year prior. Petaluma and Rohnert Park were in the 12-13% range and maintaining that through the year. Other areas in the County have been averaging 4% vacancy.

The activity level has been quite vigorous with leasing spaces/buildings under 5,000 square feet throughout the County. The well placed shopping centers are experiencing increased activity with leases being signed with national, regional and local retailers. We are now witnessing an increase in the national and regional retailers interested in re-entering the marketplace, whereas they had been taking a break for the last two years.

SONOMA COUNTY OVERVIEW (cont.)

Retail

By: Rhonda Deringer

There have been several notable transactions in the marketplace over the past 12 months, which include the following:

Santa Rosa - Four larger transactions in the former Home Base & Thrifty buildings at the Stony Point Plaza in Santa Rosa: Goodwill Store leasing 28,000 square feet, Ross Dress for Less leasing 28,000 square feet, Fallas Paredes leasing 24,000 square feet and Anna's Linens leasing 8,000 square feet. Additionally, the first floor of the former Mervyn's building was leased to Forever 21 and the former Lucky's market in Coddington Mall leased to Whole Foods Market.

Rohnert Park - 24-Hour Fitness has leased 44,000 square feet in the former Rite-Aid Drugstore building at North Bay Center in Rohnert Park. Wal*Mart will be expanding an additional 35,256 to the North and South of the existing building with plans to open a Wal*Mart Supercenter. Driven Raceway leased 41,000 in the former Linens n' Things late 2009 and Beverly's Fabrics & Crafts leased 18,000 square feet in the former Hub's Gym building on Redwood Drive.

Petaluma - Target has leased the anchor building in the East Washington Place shopping center in Petaluma which is an approved 380,000 square foot power center at the Kenilworth site off East Washington & Highway 101 with plans to open mid 2012. Sleep Train leased the former Silverscreen Video space at Plaza South on N. McDowell Boulevard.

However, there are still noteworthy negatives in the retail marketplace with the previous Gottschalks building and several other vacancies at Coddington Mall, one-half of the former Mervyn's building at the Santa Rosa Plaza, Rohnert Park Expressway Mall & the Southwest Shopping Center in Rohnert Park with several vacancies, Pacific Market (Grocery Store) at the Mt. Shadows Shopping Center in Rohnert Park closing its doors at the end of February, the previous Levitz Furniture building in Rohnert Park, the previous Mervyn's building at Washington Square in Petaluma, the former Shoe Pavilion building at Redwood Gateway Center in Petaluma, the former Yardbirds/Home Depot building in Petaluma and the Petaluma Outlet Stores in Petaluma. However, there are deals being made on some of these buildings with advanced negotiations with national retailers and you will soon see a new thriving business in the place of these vacancies.

After over three years of economic turmoil throughout the entire real estate market, which has taken its toll especially hard in the retail sector, we are now starting to see a glimmer of hope and encouragement with increased activity. The outlook for the retail sector in 2011 is relatively positive as more and more retailers come into the market and the vacancies get absorbed.

NAPA COUNTY OVERVIEW

By: Mike Miller



Not unlike most of the Bay Area and the country in general, 2011 will be a challenging year for the commercial real estate market in Napa County. The current economic downturn and “credit crunch” is clearly still being felt and the main question is how long will it last. Fortunately however, there are some preliminary signs the markets may be coming off the bottom and starting to stabilize.

Growth in Napa County’s residential and commercial real estate markets was significant until the last few years. While the wine industry continued to dominate the growth, new businesses moving into the South County area included pharmaceutical, biotech and software firms. However since then, firms such as Dey Labs, Constellation Brands and Mervyn’s have either gone out of business or left their Napa locations and COPIA (the American Center for Wine, Food and the Arts) a downtown anchor tenant many hoped would help bring back the downtown area declared bankruptcy and is currently on the market for sale.

While many of those projects begun over the last few years were recently completed there also feeling the current impacts of the economic downturn as they look for more tenants and vacancy rates remain high. Projects recently completed include Napa Junction, a mixed use development and super Wal-Mart store in American Canyon; a new 100 room Marriott Suites Hotel in the Napa Gateway Industrial Park; Stravinsky Developments 307,000 and 411,000 square foot warehouses in American Canyon; and in the City of Napa the Oxbow Public Market; the 160 room Westin Verasa hotel; and the Riverfront, a mixed use project which includes 30,000 square feet of office and 44,000 square feet of retail space and 50 residential units. Also, within the last year several new restaurants have been opened in down town Napa (e.g. Morimoto, Fish Story, Rotisserie and Oenotri).

NAPA COUNTY OVERVIEW (cont.)

Projects which were previously planned for 2009-2011 included the Montalcino Resort and Conference Center just north of the Gateway Business Park; Headwater Development/RREEF's 218 acre business park north of American Canyon with up to 2 million square feet of warehouse space; Panattoni Development Company's 50 acre 172,000 square foot complex called Napa Airport Commerce Center; and the 18 acre 364,000 square foot three building Greenwood Commerce Center. However, absent an unexpected upturn in the economy or financially viable users, these projects have all been delayed and appear to be on hold for the foreseeable future.

Like other Bay Area counties, sales and rental prices have been falling and landlord concessions increasing. However, while vacancy rates in Napa County have been rising, they seem to be leveling off and are generally lower than those in other areas and most market segments other than office and retail are not overbuilt.

For example, with a base of over 13.2 million square feet, Napa's year end industrial space vacancy rate was approximately 11.7%. Ranging from, newer Class "A" space in the Business Parks to older, smaller buildings in the downtown area, the vacancy rate for the approximately 2.5 million square feet of office space was around 14.5%. A recent study by Economic Development Systems for the forthcoming Downtown Napa Specific Plan found a 12 % (147,000 square feet) retail vacancy rate.

In summary, as economic activity picks up and job growth returns, Napa County is well positioned to resume its previous growth patterns. In the interim, the Napa commercial market offers investors some interesting opportunities particularly for those properties with positive cash flow and a low vacancy rate. With low to no return on bonds and other fixed interest investments, commercial real estate may prove to be the surprise upside investment over the next few years.

By



MARIN COUNTY OVERVIEW

Office

By: Jeffrey Wilmore



The umpire threw his hands out from his side and yelled “Safe”, the runners advanced but only scored one run to tie the game, similar to the commercial real estate market in 2010, “Safe”, but moving forward slowly.

We are now in our second calendar year of the recovery, the economy has been stabilizing and is rebuilding, some economists say at a slightly faster pace than expected through the end of 2010. This was fueled by double-digit growth in business equipment, rebuilding inventory and software investment and an increase in consumer spending, pushing growth at 2.6 percent through the fourth quarter of 2010. The economy is expected to grow 3.2 percent this year, which is up, compared to a 2.7 percent increase forecasted in October. Goldman Sachs amended its U.S economic growth prediction from 2.0 percent to 3.4 percent for 2011 and the International Monetary Fund (IMF) raised its 2011 global economic forecast from 4.2 percent to 4.4 percent.

A few of the reasons for the economists’ growing optimism are: end of the year stock market gains, workers receiving an additional 2 percent payroll tax holiday which went into effect at the end of 2010, lenders loosening loan restrictions and therefore minimized fire sales, especially for quality assets, and a government that seems more sympathetic to the needs of small businesses, which historically account for two-thirds of new hires.

The Consumer Confidence Index spiked to 70.4 in February, which had wavered throughout 2010, plunging to a 17-month low of 48.6 in mid 2010. An overall reading above 90 indicates the economy is solid and 100 or above indicates strong economical growth. People are finally recognizing that an economic recovery is under way. (This revival of the American spirit is the telltale sign, why Americans were more optimistic about job creation and caused the unemployment rate to decrease in the last quarter.) I believe that these new opportunities will outweigh increases in oil and gasoline prices following the unrest in the Middle East and North Africa and that falling home prices will not pose a major risk to the economy in 2011.

The outlook for the Marin County commercial real estate market is also brightening; the breeze is light but steady and the chill has given way to the sun as it peaks through the clouds. Office rates are stabilizing, and those all time low rental rates are slowly subsiding, which means that property values will start to increase again. The office vacancy rate has changed little in the last three or four quarters, fluctuating slightly one way or the other, but hovering around the 20 percent mark. Percentages can sometimes be misleading, as in this case,

MARIN COUNTY OVERVIEW

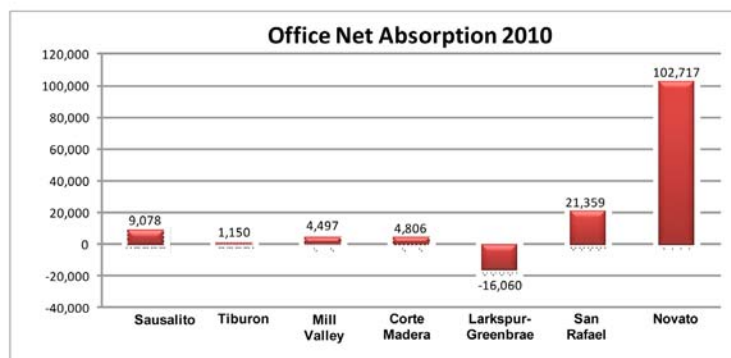
Office (cont.)

738,236+/- square feet of vacant office space out of the total 1,857,608+/- office vacancy is contained in 11 buildings with over 30,000 square feet in each. This indicates that 40 percent of the vacancy comes from a few major properties out of a market of 7,204,351+/- square feet. The Marin office market net absorption recorded 127,547 square feet of positive leasing activity, but the overall year to date figures showed that 2010 was basically flat, which is a significant improvement from 2009.

All the indicators are pointing in an upward direction, a slow but steady economic recovery. Inflation is forecasted to be moderate in Marin County but will increase in two to three years. A great deal of the recovery will depend on the innovation that Marin prides itself on and the availability of new financing, venture capital and investors getting back into the game and taking risks in new and expanding companies and swinging for the fences.

NET ABSORPTION OFFICE SPACE FOURTH QUARTER, 2009 to FOURTH QUARTER, 2010 MARIN COUNTY

	Total Inventory 4th Qtr. 2009 (Sq.Ft.)	Vacant Space 4th Qtr. 2009 (Sq.Ft.)	Occupied Space 4th Qtr. 2009 (Sq.Ft.)	Total Inventory 4th Qtr. 2010 (Sq.Ft.)	Vacant Space 4th Qtr. 2010 (Sq.Ft.)	Occupied Space 4th Qtr. 2010 (Sq.Ft.)	Net Absorption (Sq.Ft.)
Sausalito	383,855	78,037	305,818	383,855	68,959	314,896	9,078
Tiburon	17,715	3,876	13,839	17,715	2,726	14,989	1,150
Mill Valley	343,594	62,537	281,057	343,594	58,040	285,554	4,497
Corte Madera	366,529	25,287	341,242	366,529	20,481	346,048	4,806
Larkspur-Greenbrae	638,442	109,318	529,124	638,442	125,378	513,064	-16,060
San Rafael	3,016,849	965,049	2,051,800	3,016,849	943,690	2,073,159	21,359
Novato	2,312,820	613,504	1,699,316	2,437,367	635,334	1,802,033	102,717
Total	7,079,804	1,857,608	5,222,196	7,204,351	1,854,608	5,349,743	127,547

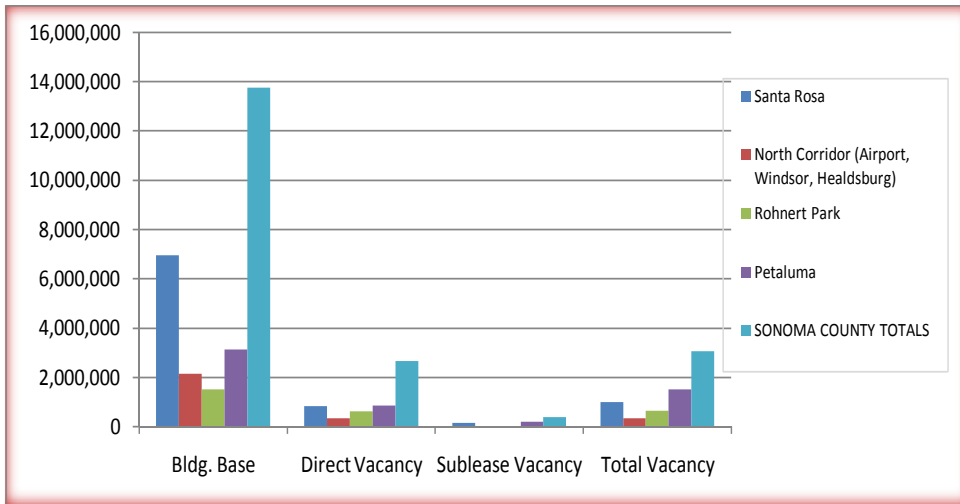


MARKET TRENDS

Sonoma County

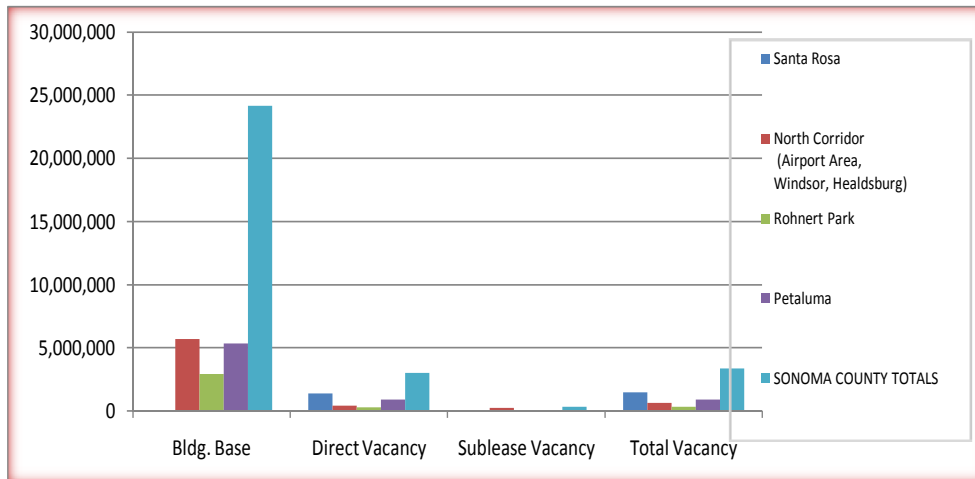
SUBMARKET	AVAILABLE SPACE				BUILDINGS PLANNED (Sq. Ft.)	VACANCY RATE
	Bldg. Base	Direct Vacancy	Sublease Vacancy	Total Vacancy	Buildings Planned	4th Qtr. 2010
Santa Rosa	6,963,966	845,460	161,779	1,007,239	86,800	14.5%
North Corridor (Airport, Windsor, Healdsburg)	2,154,150	345,885	4,364	350,249	467,042	16.3%
Rohnert Park	1,507,052	631,954	18,193	650,147	0	43.1%
Petaluma	3,135,889	851,580	207,585	1,509,165	38,904	33.8%
SONOMA COUNTY TOTALS	13,761,057	2,674,879	391,921	3,066,801	592,746	22.3%

OFFICE



SUBMARKET	AVAILABLE SPACE				BUILDINGS PLANNED (Sq. Ft.)	VACANCY RATE
	Bldg. Base	Direct Vacancy	Sublease Vacancy	Total Vacancy	Buildings Planned	4th Qtr. 2010
Santa Rosa	10,207	1,411,209	87,757	1,498,966	0	14.7%
North Corridor (Airport Area, Windsor, Healdsburg)	5,680,484	403,030	240,000	643,030	0	11.3%
Rohnert Park	2,931,422	308,478	16,400	324,878	0	11.1%
Petaluma	5,357,887	902,780	0	902,780	0	16.8%
SONOMA COUNTY TOTALS	24,176,669	3,025,497	344,157	3,369,654	0	13.9%

INDUSTRIAL



MARKET TRENDS

Marin County

SUBMARKET	Bldg. Base	AVAILABLE SPACE			BUILDINGS PLANNED	VACANCY RATE 4th Qtr. 2010
		Direct Vacancy	Sublease Vacancy	Total Vacancy		
Sausalito	383,855	66,908	2,051	68,959	0	18.0%
Mill Valley	343,594	55,464	2,576	58,040	0	16.9%
Corte Madera	366,529	19,025	1,456	20,481	0	5.6%
Tiburon	17,715	2,726	0	2,726	0	15.4%
San Rafael	3,016,849	875,056	68,634	943,690	0	31.3%
Novato	2,437,367	357,072	278,262	635,334	0	26.1%
Larkspur-Greenbrae	638,442	112,771	12,607	125,378	0	19.6%
MARIN COUNTY TOTALS	7,204,351	1,489,022	365,586	1,854,608	0	25.7%

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SUBMARKET	Bldg. Base	AVAILABLE SPACE			BUILDINGS PLANNED	VACANCY RATE 4th Qtr. 2010
		Direct Vacancy	Sublease Vacancy	Total Vacancy		
Sausalito	455,000	1,730	0	1,730	0	0.4%
Mill Valley	126,000	0	0	0	0	0.0%
Corte Madera	295,500	1,588	0	1,588	0	0.5%
Bahia de Rafael	698,000	30,642	0	30,642	0	4.4%
San Rafael	3,091,188	175,444	8,000	183,444	0	5.9%
Novato	1,778,659	162,412	0	162,412	0	9.1%
MARIN COUNTY TOTALS	6,444,347	371,816	8,000	379,816	0	5.9%

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DEMOGRAPHICS

SONOMA COUNTY

POPULATION	493,285
UNEMPLOYMENT RATE	10.2%
LABOR FORCE	252,200

MAJOR EMPLOYERS

Kaiser Permanente	AT&T
St. Joseph Health Systems	Lucky
Safeway	Wells Fargo Bank
Sutter Home Medical Center	Pacific Gas & Electric
Agilent Technologies	State Farm Insurance
Amy's Kitchen	Hansel Auto Group
Medtronic CardioVascular	JDS Uniphase
River Rock Casino	Korbel
Wal-Mart	Petaluma Poultry Acquisitions
Kendall-Jackson Wine Estates	Exchange Bank

MARIN COUNTY

POPULATION	260,651
UNEMPLOYMENT RATE	8.5%
LABOR FORCE	129,700

MAJOR EMPLOYERS

Kaiser Permanente
 Safeway
 Marin General Hospital
 Fireman's Fund Insurance Company
 Autodesk
 BioMarin Pharmaceutical
 Comcast
 Macy's
 Bradley Real Estate
 MHN
 Dominican University of California
 Wells Fargo Bank
 Guide Dogs for the Blind
 Brayton Purcell
 Frank Howard Allen

NAPA COUNTY

POPULATION	138,917
UNEMPLOYMENT RATE	10.6%
LABOR FORCE	72,800

MAJOR EMPLOYERS

Queen of the Valley Medical Center
 St. Helena Hospital
 Treasury Wine Estates
 Silverado Resort
 Trincherro Family Estates
 Owens Corning Masonry Products
 Meadowood Napa Valley
 Pacific Union College
 Villagio Inn & Spa/Vintage Inn
 Icon Estates
 Wal-Mart
 Auberge du Soleil
 The Carneros Inn
 The Doctors Co.
 Nova Group