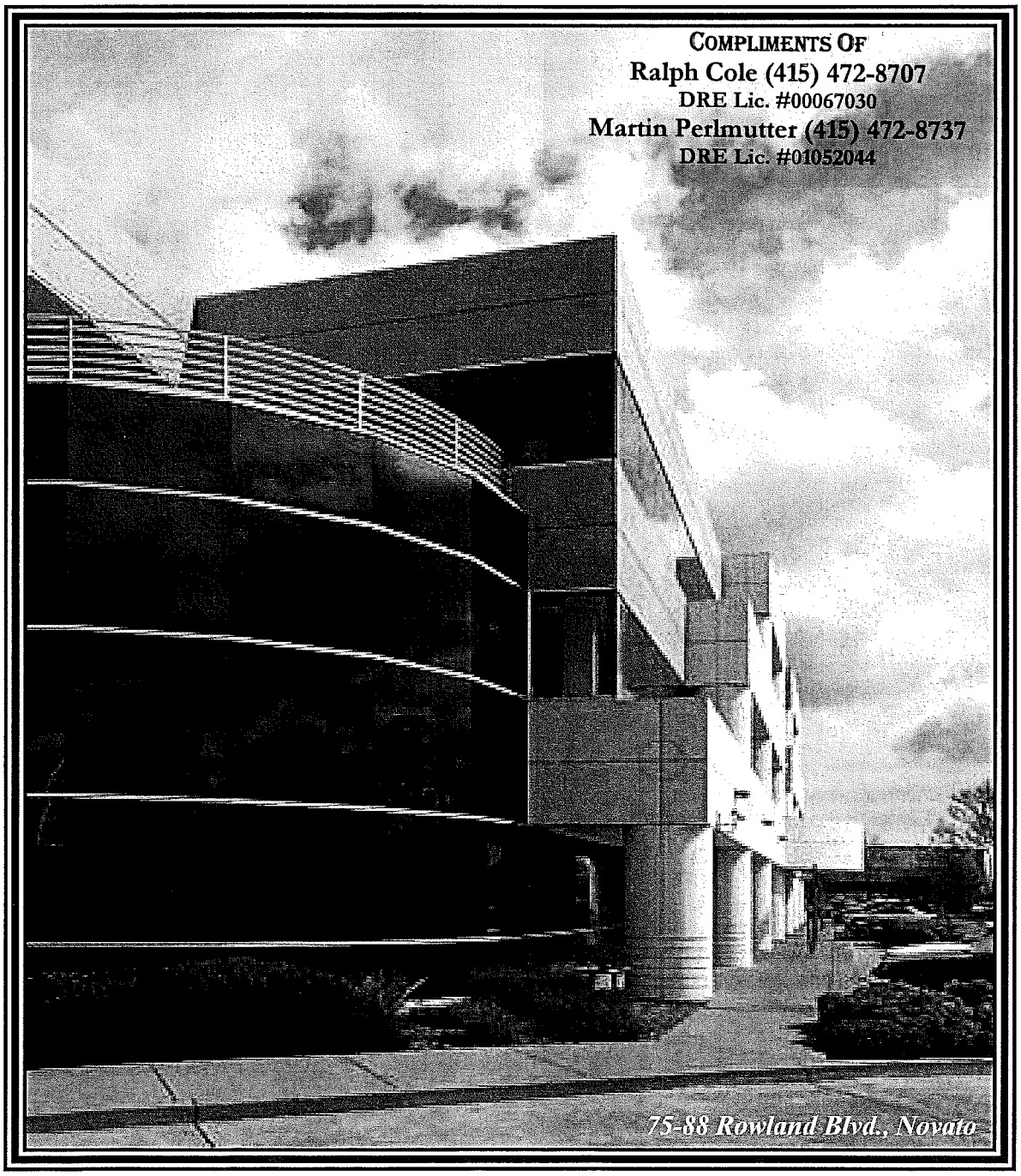
ORION Partners Ltd.

Marin County
Sonoma County

Office Market Report
3rd Quarter 2009



ORION
Commercial Real Estate Services

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Santa Rosa: 2455 Bennett Valley Road, C-200 95404 ▪ 707-543-8300
Sonoma: 470 First Street East 95476 ▪ 707-939-2520

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Marin County

Overview of Marin County Market

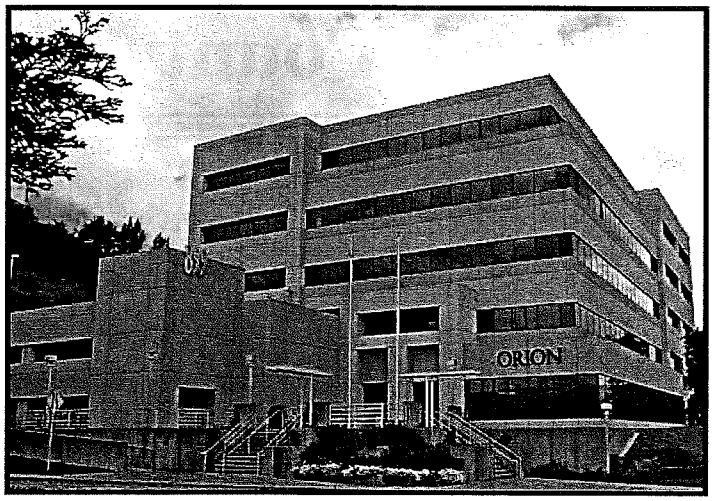
The numbers for the third quarter remained virtually unchanged from those of the second quarter of the year. The vacancy rate for Class A properties increased only slightly to 31.1% while Class B properties came in at 12.5%. The overall rate for Class A and Class B totaled 24.7%, a mere .2% higher than the prior quarter.

The real story, however, is the comparison to the report of the third quarter 2008. The vacancy rate for Class A properties increased in 2009 by 9.4% while Class B properties showed an increase of 7% for the same period. The overall rate increased by 8.7%. Also of note is the fact that the amount of office space available for sublease increased by 64% in 2009 to 374,000± square feet while space available for direct lease increased by more than 560,000± square feet. Another major sign of a changing market is the fact that the total square footage of leases signed for the quarter decreased in 2009 to 105,000± square feet from the 2008 total of 293,000± square feet.

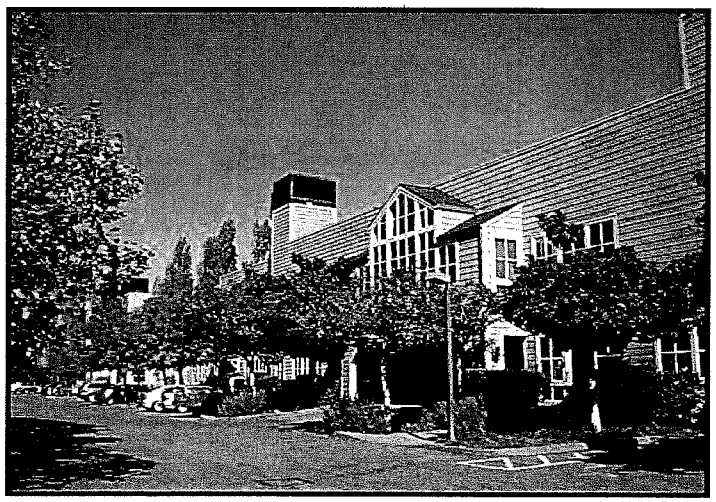
As a result of these changes the upper end of asking full service rental rates have shown a slight decline. Effective full service rates, however, have shown a greater decline as landlords are employing rental concessions such as free rent and larger tenant improvement packages to induce tenant prospects to sign leases.

All sub-markets within Marin County experienced increases in their vacancy rates from 2008. A 10.2% increase in Class B rates for Southern Marin increased the overall vacancy rate 6% to 18.1%. A 10% increase in Class A properties in Central Marin contributed to a doubling of the overall rate to 15.5%. The inclusion of the new buildings at San Rafael Corporate Center to the 2009 report added approximately 160,000 square feet to the market survey. This caused the vacancy rate for Class A properties to double from 2008 to 41% while Class B rates increased from 1.3% to 18.6%. North San Rafael experienced a 11.4% increase in Class A vacancy and a 5.8% increase in Class B for an overall total of 32.3%. Novato showed a slight increase of 3% in the overall vacancy rate for the period.

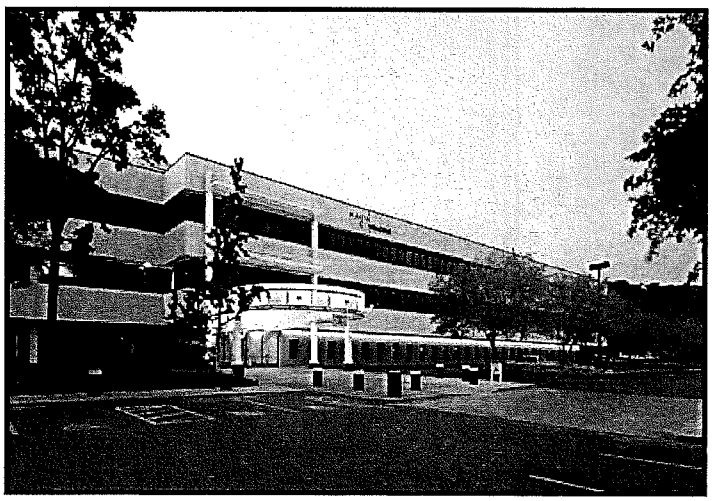
Stronger tenant activity is predicted for the fourth quarter as a number of major leases prepare to close. This should act as a stabilizing factor on vacancy rates for the balance of the year. Aggressive competition for tenants in the market by landlords should maintain the current levels of asking full service rental rates, and in some cases, force effective rates downward.



899 Northgate Drive
San Rafael



100 Meadowcreek Drive
Corte Madera



Marin Commons, 1600/1650 Los Gamos
San Rafael

Sonoma County

Overview of Sonoma County Market

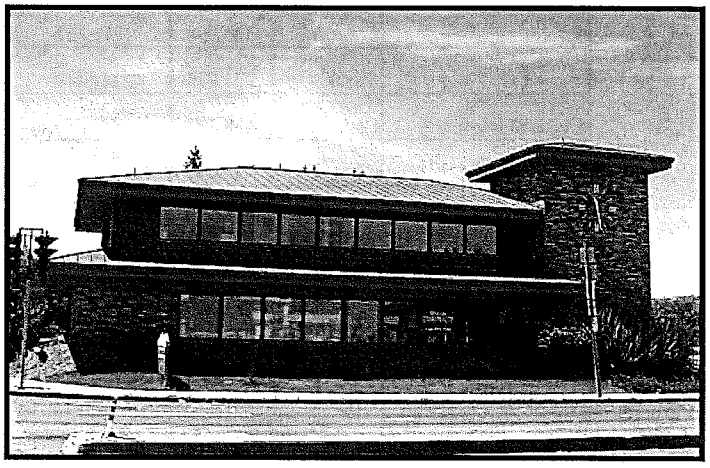
The numbers for the third quarter office market survey illustrated only slight changes from second quarter 2009. The overall vacancy rate for Class A and Class B properties increased by .7% to 23.9%. Class A came in at 30.3% while the Class B vacancy rate stood at 18.2%. Only the flex space market in Santa Rosa showed a decrease as the rate fell from 34.1% in the second quarter to 29.4% for the third quarter. The numbers for direct available space for lease, available sublease space, net absorption, and the total space leased remained virtually the same for each quarter.

Unlike the Marin County market, the comparison of survey numbers for the third quarters 2008 and 2009 showed no dramatic trends. The overall vacancy rate for Class A and Class B properties increased 3% in 2009 to 30.3%. The numbers for sublease space available, net absorption, and the amount of space leased during the quarter remained virtually the same.

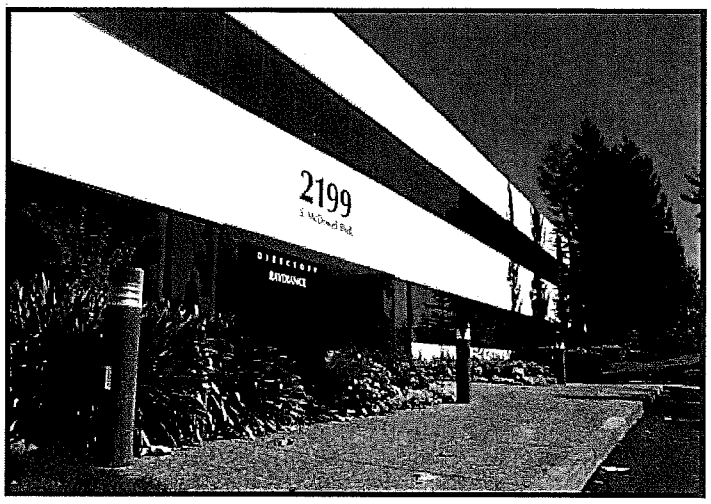
While the Petaluma and Rohnert Park office markets did see a few significant lease transactions in the third quarter, the overall square footage volume of deals done for both of these cities was quite low.

The slowdown in tenant activity, however, has created increased competition among landlords. This has caused a reduction in asking full service rates of 20% to 30% in some Sonoma County submarkets. Effective lease rates attained offer, in some cases, even greater lease rate discounts through lease concessions, such as free rent and generous tenant improvement packages.

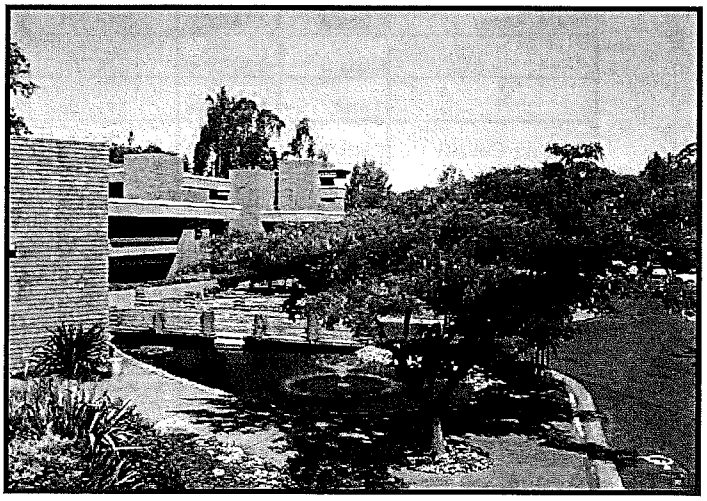
Leases concluded for the quarter included, 10,178± square feet at 3637 Westwind Blvd., Santa Rosa taken by the Sonoma County Tourism Bureau; 20,639± square feet at 3880 Cypress Drive, Petaluma for a Montessori School; 7,920± square feet at 311 Professional Center Drive, Rohnert Park by the Fostering Early Learning Institute; 10,661± square feet at 3660 Laughlin Road, Santa Rosa by Sirrus Technology; and 35,607± square feet at 5550 Skylane Blvd., Santa Rosa by the State Water Resources Control Board.



2135 Armory Drive
Santa Rosa



2199 S. McDowell Blvd.
Petaluma



2455 Bennett Valley Road
Santa Rosa

Office Market Report for 3rd Quarter 2009

MARIN COUNTY								
Submarket	Building Class	Inventory	Direct Available	Sublease Available	Vacancy Rate	3rd Quarter Net Absorption	Rent Range	3rd Quarter Square Footage of Leases Signed
Southern Marin	Class A	516,877	93,571	22,691	22.5%	-13,465	$3.00-$4.25	6,311
	Class B	386,798	37,127	10,512	12.3%	-7,512	$2.00-$2.75	4,839
	Total	**903,675**	**130,698**	**33,203**	**18.1%**	**-20,977**		**11,150**
Central Marin	Class A	638,159	126,828	10,511	21.5%	-12,943	$3.00-$4.25	24,045
	Class B	446,091	30,054	338	6.8%	4,428	$1.95-$3.00	4,757
	Total	**1,084,250**	**156,882**	**10,849**	**15.5%**	**-8,515**		**28,802**
Central San Rafael	Class A	754,416	300,428	10,014	41.1%	4,676	$2.25-$3.25	26,610
	Class B	516,610	79,592	16,703	18.6%	129	$1.75-$2.50	3,839
	Total	**1,271,026**	**380,020**	**26,717**	**32.0%**	**4,805**		**30,449**
North San Rafael	Class A	1,444,766	492,234	128,531	43.0%	5,397	$2.25-$2.65	12,852
	Class B	669,921	62,616	0	9.3%	-9,011	$1.75-$2.30	9,275
	Total	**2,114,687**	**554,850**	**128,531**	**32.3%**	**-3,614**		**22,127**
Novato	Class A	1,821,774	256,436	168,712	23.3%	1,231	$1.75-$2.65	3,500
	Class B	698,973	95,829	5,782	14.5%	-1,054	$1.75-$2.15	8,588
	Total	**2,520,747**	**352,265**	**174,494**	**20.9%**	**177**		**12,088**
Marin County Totals	Class A	5,175,992	1,269,497	340,459	31.1%	-15,104	$1.75-$4.25	73,318
	Class B	2,718,393	305,218	33,335	12.5%	-13,020	$1.75-$3.00	31,298
	Total	**7,894,385**	**1,574,715**	**373,794**	24.7%	**-28,124**		**104,616**

SONOMA COUNTY								
Submarket	Building Class	Inventory	Direct Available	Sublease Available	Vacancy Rate	3rd Quarter Net Absorption	Rent Range	3rd Quarter Square Footage of Leases Signed
Petaluma	Class A	1,610,589	472,610	74,689	34.0%	-2,076	$1.50-$2.25	4,153
	Class B	604,714	130,880	40,200	28.3%	-11,853	$1.00-$1.60	20,639
	Total	**2,215,303**	**603,490**	**114,889**	**32.4%**	**-13,929**		**24,792**
Rohnert Park	Class A	214,918	123,121	1,690	58.1%	7,920	$1.50-$2.00	7,920
	Class B	1,139,824	243,177	0	21.3%	24,317	$1.25-$1.80	3,911
	Total	**1,354,742**	**366,298**	**1,690**	**27.2%**	**32,237**		**11,831**
Santa Rosa	Class A	2,344,426	515,991	73,358	25.1%	-28,593	$1.50-$2.50	42,027
	Class B	2,907,320	375,709	56,462	14.9%	-52,248	$1.25-$1.90	49,345
	Total	**5,251,746**	**891,700**	**129,820**	**19.5%**	**-80,841**		**91,372**
Sonoma County Totals	Class A	4,169,933	1,111,722	149,737	30.3%	-22,749	$1.70-$2.50	54,100
	Class B	4,651,858	749,766	96,662	18.2%	-39,784	$1.00-$1.90	73,895
	Total	**8,821,791**	**1,861,488**	**246,399**	**23.9%**	**-62,533**		**127,995**
SONOMA COUNTY - FLEX								
Petaluma		1,206,842	157,823	106,560	21.9%	-7,850	$1.00-$1.85	8,750
Santa Rosa		1,069,078	297,600	16,533	29.4%	-10,050	$1.15-$1.90	11,230
	Flex Totals	**2,275,920**	**455,423**	**123,093**	**25.4%**	**-17,900**		**19,980**

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