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REAL ESTATE INVESTMENT MANAGEMENT, LTD.

Advisory Services for Investors in U.S. Real Estate

U.S. Office Market Report

2nd Quarter 2011

     

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U.S. OFFICE MARKET REPORT – 2ND QUARTER 2011

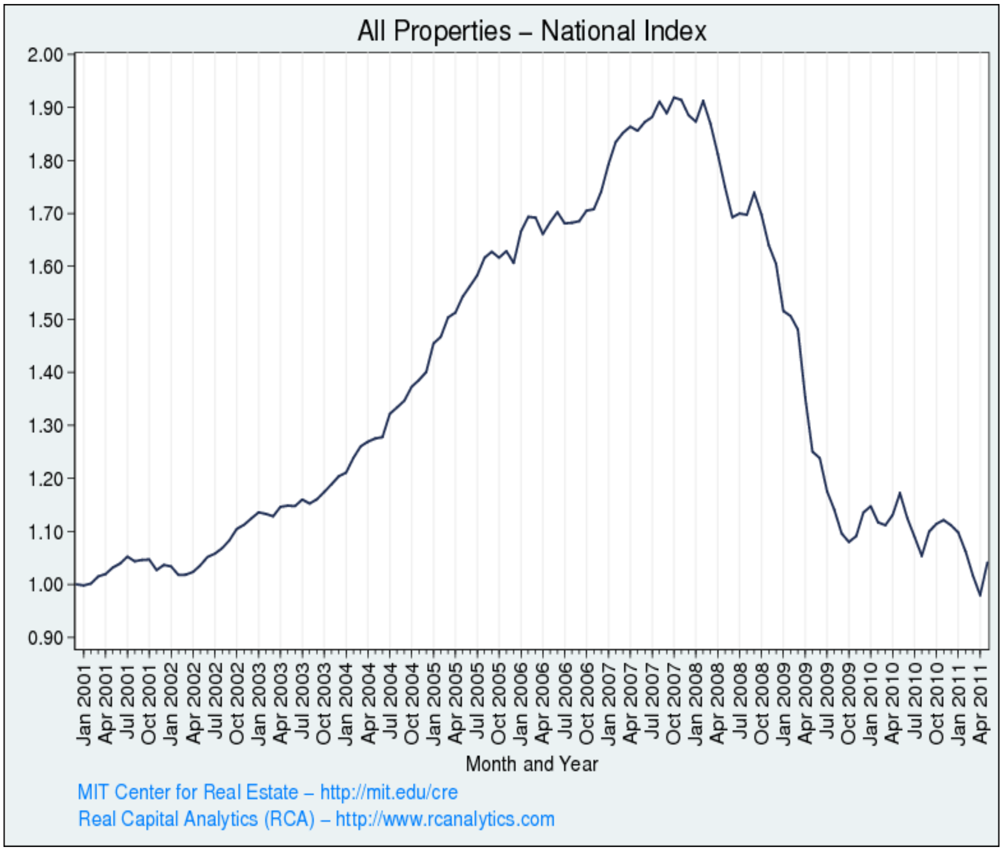
Despite the panicky reaction in the stock markets of the world to the debt crisis in Europe and to the slowdown in the rate of growth of the U.S. economy, the U.S. commercial real estate market is actually enjoying improving fundamentals in most geographic areas of the country. This improvement is occurring both as to occupancy rates and as to rental rates. Jones Lang LaSalle, one of the leading brokerage firms in the U.S., stated in its August newsletter, "The U.S. office sector rings in the summer of 2011 with the strongest quarterly performance in more than four years." And Cushman & Wakefield reported: "Office markets throughout the country continued to show steady signs of improvement through mid-year 20ll." There is clearly an increased corporate demand for space, particularly in high-quality offices, and a reduction in sublease availability. These trends have led either to the stabilization or to an increase in effective rents (asking rents plus concessions) and to lower vacancies. There have been three consecutive quarters of positive net absorption nationally, with rental rates in some core CBD markets, such as New York, San Francisco and Boston, showing increases. At the same time, vacancy rates in a number of major office markets have been declining.

The U.S. commercial market also benefits from a lack of overbuilding in major markets, and this has supported market fundamentals. In Falcon Real Estate's view, new construction cannot be economically justified now and will not be justified in the foreseeable future since rental rates have not yet recovered from the lows reached during the recent recession, and banks are being quite conservative in providing construction financing. In addition, since many quality properties are currently available at prices well below replacement cost, it is more advantageous to buy rather than to build.

Investment activity is increasing in most segments of the market as both domestic and foreign buyers have returned to the U.S. real estate market. As has happened in the past, international investors have once again been among the first to become active in the market following a major market correction. These investors view the U.S. as a stable market in times of economic or political uncertainty. According to an Association of Foreign Investors in Real Estate (AFIRE) survey, foreign investors believe that the U.S. offers the best market for capital appreciation at the present time. In addition, many investors have traditionally looked upon real estate as an effective hedge against inflation. And these investors are also looking to high-quality U.S. commercial real estate since it is the one asset class that is providing relatively attractive cash-on-cash returns, frequently in the 6% to 7% range.

Prices of commercial real estate in the United States have stabilized after falling significantly from the peaks reached in 2006 and 2007. There had been an expectation that with several billion dollars of mortgage expirations facing the market that there would be many foreclosed properties available for purchase and that this would put even more pressure on pricing. This has not happened, since banks have chosen to extend loans rather than foreclose, resulting in an orderly recapitalization of existing deals rather than a flood of available properties.

Moodys/REAL Commercial Property Price Index (CPPI)



Therefore, while pricing has fallen relative to the peaks reached a few years ago, the lack of supply of properties on the market has prevented even larger discounts from materializing. However, as we expect the market to continue to recover, we believe that sellers will become more active, leading to more investment opportunities.

The first wave of buying that has come into the United States has focused on major cities, such as New York, Washington, Boston and San Francisco. These are all, of course, prime cities and we continue to see some opportunities in each of them. However, we believe that there are somewhat more attractive opportunities in many suburban markets and secondary cities, such as Houston, Seattle, Chicago and Orange County, California in particular, where properties can be purchased on attractive bases relative to historical pricing benchmarks.

Chairman

August 2011

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Primary Markets

2nd Quarter 2011

Boston, Massachusetts

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	60,825,929	14.6%		778,011	$45.83
Non-CBD:	122,458,511	20.7%		0	$27.72
Total:	**183,284,440**	**18.7%**	**0.8%**	**778,011**	**$33.73**
Market trends:		↔	▲	↔	▲

Chicago, Illinois

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	120,901,349	14.9%		0	$38.00
Non-CBD:	94,924,490	25.0%		0	$24.41
Total:	**215,825,839**	**19.3%**	**0.1%**	**0**	**$32.02**
Market trends:		▼	▲	↔	▲

Los Angeles, California

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**191,834,950**	**19.2%**	**-0.2%**	**150,000**	**$32.43**
Market trends:		▲	▼	↔	▼

New York, New York

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Midtown:	306,453,288	9.2%		0	$67.35
Downtown:	86,372,509	9.7%		0	$45.10
Total:	**392,825,797**	**9.3%**	**0.5%**	**0**	**$62.46**
Market trends:		▼	▲	↔	▲

San Francisco, California

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	49,261,846	11.0%		0	$42.65
Non-CBD:	166,002,688	17.5%		0	$31.98
Total:	**215,264,534**	**16.0%**	**0.8%**	**0**	**$34.42**
Market trends:		▼	▲	↔	▲

Washington, D.C.

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	104,097,924	11.5%		430,900	$59.27
Non-CBD:	184,997,766	15.8%		94,280	$32.61
Total:	**289,095,690**	**14.3%**	**0.1%**	**525,180**	**$42.21**
Market trends:		▼	▲	↔	▲

Secondary Markets

2nd Quarter 2011

Atlanta, Georgia

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**142,612,075**	**21.9**	**0.4%**	**514,557**	**$23.61**
Market trends:	↑	↑	↔	↑	

Houston, Texas

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**167,223,198**	**16.0%**	**0.7%**	**1,103,818**	**$30.24**
Market trends:	↑	↑	↑	↓	

Miami, Florida

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**78,955,730**	**16.8%**	**0.5%**	**0**	**$33.75**
Market trends:	↓	↑	↔	↑	

Northern New Jersey

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**107,290,754**	**17.3%**	**0.1%**	**30,000**	**$28.70**
Market trends:	↑	↑	↔	↓	

Orange County, California

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**83,231,434**	**19.2%**	**0.9%**	**0**	**$25.89**
Market trends:	↓	↑	↔	↓	

Phoenix, Arizona

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**77,172,789**	**26.1%**	**0.4%**	**165,290**	**$25.30**
Market trends:	↓	↑	↑	↓	

San Diego, California

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**72,577,279**	**16.0%**	**0.0%**	**0**	**$30.12**
Market trends:	↓	↓	↔	↔	

Seattle, Washington

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	41,749,488	20.2%		776,184	$31.26
Non-CBD:	40,170,218	17.6%		223,088	$27.27
Total:	**81,919,706**	**18.9%**	**0.9%**	**999,272**	**$29.30**
Market trends:	↓	↑	↑	↑	

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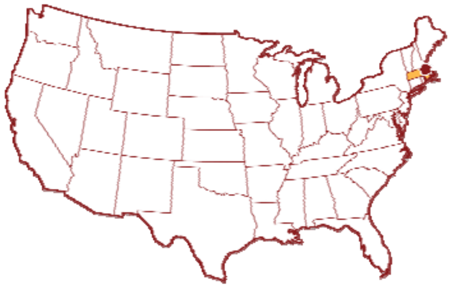

Boston, Massachusetts

2nd Quarter 2011

↔	Capitalization Rates
↔	Boston Unemployment: **6.7%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	60,825,929	14.6%		778,011	$45.83
Non-CBD:	122,458,511	20.7%		0	$27.72
Total:	**183,284,440**	**18.7%**	**0.8%**	**778,011**	**$33.73**
Market trends:		↔	↑	↔	↑

Market Relevance

Greater Boston is the seventh largest metropolitan area in the United States. Boston is one of the most desirable real estate markets in the country due to its 24-hour city environment, strong tenant base, barriers to entry, and overall high quality of life. Boston has a broad economic base with strengths in finance, technology, biology, education and healthcare. Greater Boston is consistently ranked as one of the top five U.S. cities for real estate investment by domestic and foreign investors.

Regional Economy

Boston's economy continues to be among the leaders of the U.S. recovery. Economists expect all office-using jobs lost in the downturn to be regained by the end of 2013, which would be a positive for office vacancy rates. Key indicators including consumer and business confidence, unemployment claims, and housing prices have also begun to show continuous improvement. The unemployment rate in Boston, which was not greatly impacted during the recession, continues to be dramatically below the national average due to the area's exposure to the growing high tech, healthcare, and education industries.

Current Market Conditions

The relatively strong performance of the Boston economy continues to bode well for the commercial office property market. The CBD has shown improved fundamentals for the last four quarters, with rents rising and vacancy falling. Many tenants are acting to secure new leases reflecting their belief that rental rates will continue to rise. The Back Bay submarket continues to be the strongest in the greater Boston area with a 6.6% vacancy rate, the lowest in a decade, down from 12.6% a year earlier. The Financial District's vacancy rate remains much higher at 17.3% due to a surplus of vacant space in older Class B buildings. Overall vacancy rates are beginning to fall and landlord concessions are beginning to shrink, with net effective rents poised for growth, particularly in the supply-constrained Back Bay submarket.

Falcon Perspective

Despite the relative strength of the Boston commercial real estate market, there continues to be a scarcity of investment quality properties on the market. We anticipate that the high demand for quality properties will eventually lead to a greater number of owners testing the sales market. In particular, the low capitalization rates being realized in New York City and Washington DC should serve as an enticement.

Investment Opportunities

Despite the strength of the CBD market, there are only a handful of properties currently for sale. A few are suburban office properties which Falcon is currently hesitant to recommend due to the 20% plus vacancy rate in some of the sub markets in which they are located. Other deals include a mixed-use office/lab property in Cambridge with significant vacancy and a joint venture retail property. All of these properties have significant weaknesses or issues that Falcon feels would be best to avoid while waiting for more attractive investments to materialize.

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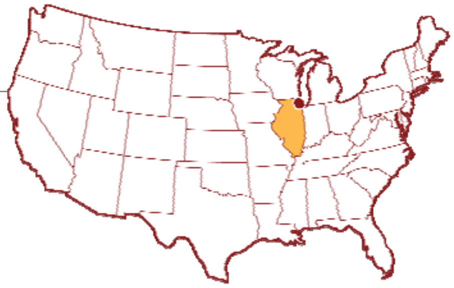

Chicago, Illinois

2nd Quarter 2011

↓	Capitalization Rates
↑	Chicago Unemployment: **8.9%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	120,901,349	14.9%		0	$38.00
Non-CBD:	94,924,490	25.0%		0	$24.41
Total:	**215,825,839**	**19.3%**	**0.1%**	**0**	**$32.02**
Market trends:		↓	↑	↔	↑

Market Relevance

The Chicago office market is the fourth largest in the U.S., consisting of the Central Business District (CBD) and six suburban submarkets. Chicago is a 24-hour city and a leading destination for business and leisure travel. The city's location in the virtual center of the U.S. makes it a key transportation and distribution hub. The city is known for its broad economic base and diversification of industries. The Chicago area is home to one of the largest concentration of corporate headquarters in the U.S., including 28 Fortune 500 companies.

Regional Economy

The Chicago economy continues to be fairly stable due to its diverse professional service base in advertising, accounting, architectural, engineering, financial services and law. Unemployment has increased slightly, and job growth is expected to be modest. Business spending continues to fluctuate quarter to quarter. Manufacturing, construction, and professional services are leading the economy as it continues to emerge from the downturn.

Current Market Conditions

The Chicago CBD market saw a number of large leases signed during the quarter as corporations took advantage of the market bottom. The market experienced a small amount of net positive absorption. In the CBD there continues to be a tightening in the supply of large blocks of space in Class A buildings. In the suburbs, there continues to be evidence of a flight to quality.

Falcon Perspective

Chicago's CBD real estate market is beginning to show signs of life as fundamentals bottom out, leases are signed, and investment sales pick up. After no buildings sold during the first quarter of 2011, two transactions closed in the second quarter and three more are under contract to be sold. Because Chicago has a strong Central Business District and an educated and versatile labor force, better office buildings are benefitting from a flight to quality by stronger firms. Demand for well-leased properties, a trend being seen in the major markets nationally, will continue in Chicago, enticing owners of stabilized properties to sell at advantageous prices.

Investment Opportunities

Two CBD office buildings sold during the second quarter. 233 N. Michigan, a 980,362 square foot building, sold for $165 per square foot while 200 S. Wacker Drive, a 754,751 square foot building, sold for $127 per square foot. Buildings under contract for sale include 22 W. Washington for $426 per square foot, 70 W. Madison for $256 per square foot, and 35 W. Wacker for $358 per square foot. 500 N. Michigan Avenue just hit the market and Falcon will evaluate this property and if suitable, will distribute an offering summary to clients.

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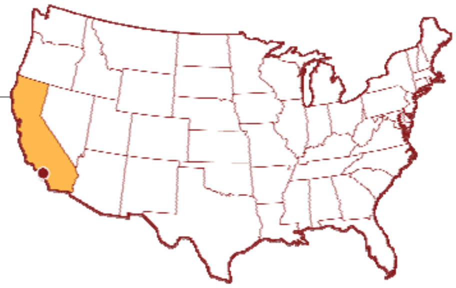

Los Angeles, California

2nd Quarter 2011

▲	Capitalization Rates
▼	Los Angeles Unemployment: **11.8%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**191,834,950**	**19.2%**	**-0.2%**	**150,000**	**$32.43**
Market trends:		▲	▼	↔	▼

Market Relevance

Los Angeles County is the most populous county in the United States with a population in excess of 10.3 million people. Over the past decade the county's population has grown 11.5% and it is projected that by the year 2025 the county's population will increase by an additional 30%. Los Angeles County's office market totals over 191 million square feet in seven distinct office submarkets and is one of the largest office markets in the country.

Regional Economy

The Los Angeles economy showed signs that it is recovering from the recession as job growth during the first half of 2011 resulted in a reduction of the unemployment rate from 13% at the beginning of the year to 11.8% at the end of the second quarter. A substantial number of jobs were added in the Leisure and Hospitality, Education and Health Services and Professional and Business Services sectors of the local economy. While this job growth is a good start for the region, market experts predict that an additional 87,000 office-using jobs will need to be added in Los Angeles for the office market to reach a point of equilibrium.

Current Market Conditions

The greater Los Angeles office market continues to suffer from tenant contractions and limited leasing velocity. This lack of demand caused vacancy in the market to increase slightly during the second quarter to 19.2% from 19.1% at the end of the first quarter. Rental rates fell during the quarter from $33.68 to $32.43 per square foot. Although the overall market performance is not strong, there are pockets of positive activity in some sub-markets which suggests that conditions are stabilizing. Examples of this positive activity include the 320,000 square foot renewal by Northrop Grumman in the Southbay Submarket and the 298,000 square foot renewal by Health Net in the L.A. North submarket. The renewals were for two and ten year terms, respectively. While this positive activity is a good start, a full recovery of the Los Angeles office market fundamentals is not expected for quite some time.

Falcon Perspective

Many market observers expected Los Angeles to be among the first regions of the Western U.S., and in fact the country as a whole, to show signs of economic and office market recovery. In fact, Los Angeles has struggled to regain its economic footing that has delayed fundamental improvement of the office market. The delayed recovery of this important international business center could offer an excellent opportunity for investors to make strategic Los Angeles real estate acquisitions. As has been shown in other major markets of the western U.S., once investors perceive that a market is strengthening, the investment environment will quickly become extremely competitive and very expensive.

Investment Opportunities

There were several major real estate investments that were sold during the second quarter of 2011. Morgan Stanley Real Estate in Partnership with Lincoln Properties purchased the 932,000 square foot Parson Campus in Pasadena for $320 million. Parsons will remain the primary tenant at the property through 2026. LBA purchased 550 South Hope from MPG Office Trust for $157 million or $266 per square foot and GLL Real Estate Partners bought 216 East Grand Avenue from Broadreach Capital for $52 million or $331 per square foot. The majority of the current investment opportunities are located on the West Side of Los Angeles as the premier markets of the region are attracting the most attention from investors.

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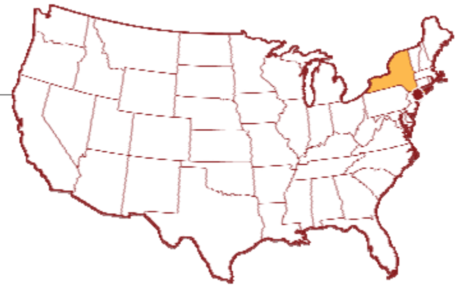

New York, New York

2nd Quarter 2011

↓	Capitalization Rates
↓	New York City Unemployment: **8.3%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Midtown:	306,453,288	9.2%		0	$67.35
Downtown:	86,372,509	9.7%		0	$45.10
Total:	**392,825,797**	**9.3%**	**0.5%**	**0**	**$62.46**
Market trends:		↓	↑	↔	↑

Market Relevance

New York City is the nation's most densely populated city, largest office market, and most expensive in terms of rental rates and sales price. NYC is a leading global city exerting a powerful influence over worldwide commerce, finance, culture, and entertainment. It is home to 42 Fortune 500 firms, major financial institutions including the New York Stock Exchange and NASDAQ, and an array of important international firms as well as the United Nations headquarters. As Manhattan is an island, unimproved land is almost non-existent and new construction is both costly and complex.

Regional Economy

New York City's economy continues to recover, with job growth outpacing the rest of the nation. Office-using employment has increased 3.1% since the trough of the recession compared to 1.9% nationally. This is a particularly good sign as financial services firms represent a disproportionate share of wages and bonuses paid in the City and State. Overall, the unemployment rate remained stable, declining by just 0.1%. The positive news about employment is tempered by expectations of slight declines in Wall Street employment amidst generalized uncertainty in the financial markets.

Current Market Conditions

The Manhattan office market continues to improve across all of the main submarkets, with falling vacancy rates. This has caused rental rates to trend higher, with a high velocity of newly executed leases. The vacancy rate of 9.3% is down from 10.0%, which represents the largest percentage reduction over the last six quarters. Historically as vacancy rates fall below the 10% level, rental rates increase dramatically for every additional 1% in vacancy reduction. Overall, leasing activity continued to be very strong as tenants locked in favorable leasing rates at what is perceived to be close to the market bottom. However, leasing market activity reflects mainly renewals and upgrades rather than significant new demand. Rental rate increases have been driven by trophy properties, with rents in those properties reaching in excess of $100 psf.

Falcon Perspective

Falcon expects the absence of a significant development pipeline to lead to a spike in rents as the economy fully recovers. In expectation of continued market improvement, many sellers are holding onto properties, making transactions relatively scarce. For those properties that are being sold, the scarcity of product and expectations of future rental increases have made capitalization rates for quality buildings relatively low, averaging about 5.5%. Great demand for trophy properties may drive pricing below a 5% cap rate. Bidding processes are very competitive, requiring some due diligence before the final round of bidding and sizable non-refundable deposits. Falcon expects that joint venture opportunities with experienced operators will continue to be a strategic way to enter the Manhattan office market.

Investment Opportunities

One office sale in Manhattan closed during second quarter at a price of $1,015 per square foot. It was a mixed-use property on Fifth Avenue at 54th Street with vacant retail space which could rent in excess of $2,000 per square foot. Falcon is currently analyzing a boutique-sized investment opportunity in the Meatpacking district and if viable, will provide an offering summary to clients.

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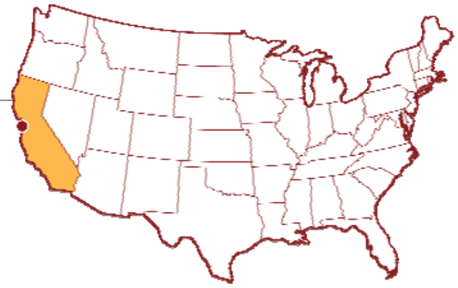

San Francisco, California

2nd Quarter 2011

↓	Capitalization Rates
↓	San Francisco Unemployment: **8.4%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	49,261,846	11.0%		0	$42.65
Non-CBD:	166,002,688	17.5%		0	$31.98
Total:	**215,264,534**	**16.0%**	**0.8%**	**0**	**$34.42**
Market trends:		↓	↑	↔	↑

Market Relevance

San Francisco is the fifth largest metropolitan area in the U.S. and is the business hub of California's Bay Area office market. The city is widely recognized as among the preeminent financial and commercial centers in the world. Many prominent companies have corporate headquarters that are located in San Francisco including Wells Fargo, Gap, Charles Schwab, and McKesson. Companies with headquarters in suburban markets include Chevron, Hewlett-Packard, Apple, Oracle, and Google. The city also serves as the regional headquarters for many other companies.

Regional Economy

The San Francisco economy is among the strongest local economies in the United States. Unemployment in the region peaked at 10.1% in January 2010 and by the end of the 2nd quarter had fallen to 8.4%. A booming technology industry and job gains in the professional and financial services industries have led to significant economic improvement during the first half of 2011. It is expected that the balance of 2011 will be associated with continued economic expansion in San Francisco.

Current Market Conditions

Fundamentally, San Francisco is now one of the top performing office markets in the United States according to Jones Lang LaSalle. Increased demand for office space, primarily from technology companies, and the resulting net absorption has reduced the market's vacancy rate to 16% and has fueled a quarterly rental rate increase of 8% from $31.86 per square foot to $34.42. Farallon's 176,000 square foot, seven-year renewal at 1 Maritime Plaza headlines second quarter leasing activity followed by PG&E's renewal of 78,000 square feet in One Market Plaza. With several tenants in the market for large blocks of CBD office space, continued improvement of office market fundamentals is expected during the coming quarters.

Falcon Perspective

The historical performance of the San Francisco office market and its status as one of the world's most important business centers makes it a prominent target of real estate investors. The strengthened economic conditions in the city are now fully apparent to the real estate investors who are active in the San Francisco market. While San Francisco investment activity is strong, it is not nearly strong enough to satisfy the huge appetite of those wanting to purchase assets in the city. Therefore, competition for buildings that do come to market is fierce. Falcon's opinion is that the reality of the economic recovery is not yet fully priced in the real estate market and, as such, there is still opportunity for investors to achieve strong returns through San Francisco real estate acquisitions.

Investment Opportunities

Significant 2nd quarter building sales in San Francisco include Alexandria Real Estate's $295 million ($650 per square foot) purchase of 409 – 499 Illinois Street from Shorenstein and Sobrato/TMG Partner's $91 million acquisition of the vacant building at 500 Terry Francois from Lionstone. Capitalization rates associated with San Francisco transactions are falling rapidly and have reached below 6%. Investors sense that the substantial rental rate growth that has been associated with past market recoveries in the city is imminent which is fueling stiff competition for San Francisco office assets.

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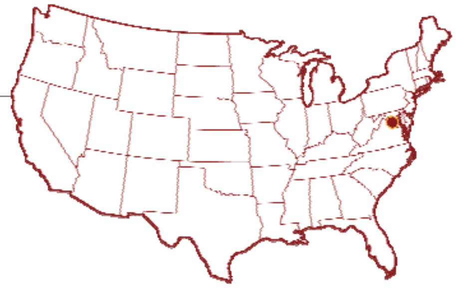
REAL ESTATE INVESTMENT MANAGEMENT, LTD.

U.S. Office Market Report



Washington, D.C.

2nd Quarter 2011

▼	Capitalization Rates
▼	DC Metro Unemployment: **5.7%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	104,097,924	11.5%		430,900	$59.27
Non-CBD:	184,997,766	15.8%		94,280	$32.61
Total:	**289,095,690**	**14.3%**	**0.1%**	**525,180**	**$42.21**
Market trends:		▼	▲	↔	▲

Market Relevance

Home to the United States Federal Government, the Washington, DC Metropolitan Region is the nation's 4th largest regional economy. The Washington, DC metro area leads the nation in median household income, as its highly skilled population possesses one of the highest concentrations of graduate degrees in the country. The Washington, DC economy boasts a diverse range of industries including government, defense, and education. Major employers include the Federal Government, Lockheed Martin, General Dynamics, Northrop Grumman, Capital One, and Marriott International.

Regional Economy

DC employment growth stalled during the second quarter as the ever growing deficit challenges forced government and contractor hiring to slow. Despite the stalled hiring, Washington DC's regional unemployment rate at 5.7% continued to be the lowest in the country among major metropolitan areas.

Current Market Conditions

Federal leasing requirements have slowed as economic conditions force agencies to consider potential future budget cuts. Trophy and Class A buildings continue to perform well. As vacancy in these assets is absorbed, rental rates in less competitive properties should begin to increase. With quality new space options dwindling, rental rates have pushed up in the District and the suburbs have seen slight increases as well. Despite a slowing in leasing activity capital market interest in acquiring DC assets remains high.

Falcon Perspective

As the economic recovery appears to have slowed and budgetary concerns affect the government's growth, professional and business confidence will be needed to maintain any consistent improvements in the leasing market. Developers have started limited speculative development based on the decreasing supply of first generation space and many Landlords are examining the prospects of retrofitting existing buildings as tenants continue to desire new space. Depending on the strength of the broader economy we expect vacancy to continue to decrease as the private sector gains momentum.

Investment Opportunities

Office investment sales continued through the quarter and the typical summer slowdown is expected to be less than last year. Investors seeking security have been attracted to strong metro markets and Washington, DC remains one of the favorites. With recent building sales achieving such high values, cap rates have averaged well below 6 percent for the year and are expected to remain aggressive for well leased Trophy and Class A properties. Even with the increased demand investors have not been buying vacancy and instead have focused almost exclusively on stabilized assets. Following first quarter success, Liberty Place achieved a sales price of $869 per square foot that reflected a sub 5% cap rate. Sensing opportunity, a couple of newly constructed properties in the NOMA submarket that were predominantly GSA leased were sold, with Two Constitution Square coming in at $518 psf, a 6.2% cap, and Capital Plaza at $512 psf, a 6.7% cap. 1100 First Street in NOMA is coming to the market as well as 950 L'Enfant Plaza in SW. Additionally, an 80% JV interest in the Homer Building, a true Trophy asset will be coming to the market soon.

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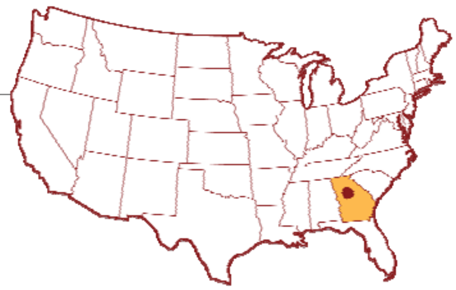

Atlanta, Georgia

2nd Quarter 2011

↔	Capitalization Rates
↓	Atlanta Unemployment: **9.7%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**142,612,075**	**21.9**	**0.4%**	**514,557**	**$23.61**
Market trends:		↑	↑	↔	↑

Market Relevance

Atlanta, the "Capital of the South," is home to twenty-two Fortune 1,000 companies including Coca-Cola, Home Depot, UPS, Delta Airlines, Georgia-Pacific, AT&T and CNN. With a population of over 5.1 million, the city is the 9th largest Metropolitan Statistical Area in the U.S. Employment growth, a reasonable cost of living, a high quality of life and a business-friendly environment fueled significant population growth during the past decade.

Regional Economy

The unemployment rate fell below 10% during Q2 due to moderate increases in manufacturing and construction employment. While not a significant contributor to job growth during the quarter, the professional services sector is expected to be a generator of future job growth, with many tenants in the sector announcing or executing space expansions. Nevertheless, the regional economy remains affected by the surplus of housing and office space as well as the high number of local bank failures in the last two years. While the pace of job growth may continue to be slow, commercial real estate leasing appears to have bottomed out.

Current Market Conditions

Overall, Atlanta's office market continues to be relatively weak. However, some submarkets have outperformed the overall market especially Buckhead, Midtown, and Downtown which are exhibiting some improved fundamentals. Most of the demand is from relatively small users though a handful of tenants continue to look for large spaces. Still, job growth needs to increase markedly before new leasing activity leads to meaningful vacancy rate improvement. Rental rates have been stable over the last few quarters and may be poised for improvement. Buckhead and Midtown continue to lead the market and have drawn tenants from other areas or older buildings with fewer amenities. Tenants are moving to take advantage of attractive concessions. With no new construction on the horizon though, the market can expect to see rental rates and vacancy continue to stabilize and potentially improve this year.

Falcon Perspective

The positive space absorption during Q2 indicates that real estate fundamentals are on the verge of recovering. Large amounts of vacant space are beginning to be absorbed as the unemployment rate declines. Still, rental rates remain depressed and there are a number of space contractions. The relatively higher capitalization rates for the Atlanta market as compared to the rest of the country may present an opportunity for investors to earn higher yields, particularly in the urban and suburban submarkets that have been less impacted by the deterioration in market fundaments. Investors with an appetite for more risk may wish to find attractive opportunities in other submarkets in the Atlanta market in order to obtain even higher yields.

Investment Opportunities

Falcon believes that this is an ideal time in the cycle to purchase quality properties in attractive locations. The best opportunities will continue to be in the urban submarkets of Midtown and Buckhead. Deal flow continues to be limited, mainly because current owners wish to avoid selling quality properties at the bottom of the cycle. Eventually, the number of properties available for sale should increase. There were no major property sales during the second quarter.

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REAL ESTATE INVESTMENT MANAGEMENT, LTD.

U.S. Office Market Report

Houston, Texas

2nd Quarter 2011

↓	Capitalization Rates
↑	Houston Unemployment: **9.0%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**167,223,198**	**16.0%**	**0.7%**	**1,103,818**	**$30.24**
Market trends:		↑	↑	↑	↓

Market Relevance

Known as the Energy Capital of the world, Houston is the fourth largest city in the country and serves as the headquarters location for 11 of the 25 largest public oil and gas corporations. Supplementing the strong energy sector, Houston is also home to the world's largest medical center and a rapidly growing port. Over three times as large as the second largest medical center, the Texas Medical Center employs over 93,500 people and has over 71,500 students enrolled. The Port of Houston is one of the top 5 largest U.S. ports by volume and the largest petroleum port in the world. Houston is home to 26 Fortune 500 corporations, including Conoco Phillips, Marathon Oil, Sysco and Shell Oil.

Regional Economy

Houston, like other metropolitan areas, is a collection of distinct individual sub-markets. Houston's submarkets are defined by the strong industry presences comprising each; Medical Center (health care), Westchase (engineering), Energy Corridor (oil and gas extraction). Houston also benefits from a few diversified submarkets including the CBD, Galleria, Greenway Plaza and Woodlands submarkets. Due to Houston's diversified industry sectors, the local economy has fared quite well relative to the rest of the nation over the past two years. While the twelve month period ending June 2011 places Houston second-highest in the country for job growth overall unemployment still increased. The MSA's unemployment rate remains stubborn, ending June 2011 at 9.0%. However, this trend is a function of the MSA's adding significant new candidates to its labor force. The market's unemployment rate remains below the national rate of 9.2%.

Current Market Conditions

Demand for office space slowed in the second quarter 2011, as the overall economic picture clouded. Rental rates that crept down over the past two years continued this trend but to a lesser extent and in some submarkets have seemed to stabilize. Tightening conditions will eventually give landlords an upper hand over tenants in lease negotiations. In some submarkets tightening vacancies and rental rate growth is starting to foster discussion on new construction. While markets that avoided new deliveries in the last cycle might show promise, tighter lending requirements will most likely keep any speculative projects from commencing.

Falcon Perspective

Houston is one of the stronger markets in the country today and is beginning to see some growth again. New employment growth is aided by the relatively low cost of housing. With the continued national focus on energy and medical services, two areas which tend to dominate the Houston economy, the outlook is promising. Some investors have taken note of the positive signs and we expect this trend to continue.

Investment Opportunities

Pricing for Class A and B properties continued to creep up and qualified institutional-grade buyers remain active. With this active interest pricing for office properties in Houston has been increasing especially for the better quality assets that have been trading. Energy Center II closed at $303 per square foot which is a 7% cap. Wells Fargo Plaza in the CBD recently closed at a 6% cap which is $300 per square foot. Other notable properties recently closing or going under contract include City Centre II (Westchase/Energy Corridor) at $295 psf and Four Allen Center (CBD) at $295psf.

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REAL ESTATE INVESTMENT MANAGEMENT, LTD.

Miami, Florida

2nd Quarter 2011

↔	Capitalization Rates
↔	Miami Unemployment: **13.7%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**78,955,730**	**16.8%**	**0.5%**	**0**	**$33.75**
Market trends:		↓	↑	↔	↑

Market Relevance

Miami is an international city with leading companies in finance, media, entertainment and global trade. The city is home to many company headquarters, international banks, and television studios. Miami's proximity to the fast growing economies of Latin America makes it a preferred headquarters location for the Latin and South American operations of numerous multinational corporations, especially banking institutions with a focus on Central and South America and the Caribbean. The Port of Miami is one of the largest U.S. cargo ports and it also services a huge cruise ship industry.

Regional Economy

While still lagging the recovery of many other markets in the U.S., Miami's economy appears to be on the verge of stabilizing. Unemployment in the Miami-Dade area continues to be a major impediment for the rebound in the commercial real estate market. While the unemployment rate increased to 13.7% from 12.9% in the previous quarter, this was more a reflection of the end of federal census hiring. In fact, 8,600 jobs were added in the private sector during the quarter, with half of the gains coming in the hospitality sector. Miami is expected to benefit from the Panama Canal expansion, as increased trade with South and Central America stimulates demand for office space.

Current Market Conditions

Miami's vacancy rates and rental rates remain well below historical levels and have remained at current levels for the last six months. Leasing activity has been slightly positive, with positive net absorption since 2010. Many tenants with space requirements have taken advantage of the weak conditions to lock in favorable lease terms, albeit with relatively short lease terms, as it is believed that concession packages are beginning to shrink. This is another indication of a market bottom. The upcoming completion of Brickell Financial Centre, the speculative 579,000 square foot office development, will put temporary pressure on vacancy rates as newer properties with better amenities have been attracting tenants mostly at the cost of older buildings.

Falcon Perspective

Historically, South Florida has been a resilient market, recovering impressively and often more quickly than forecast from recessionary periods. With stabilizing market and economic fundamentals, the outlook for Miami is finally looking brighter. As the market improves, we anticipate that investors will again reenter the market in large numbers to initially purchase stabilized properties and later increase exposure to riskier deals. In the meantime, we believe that investors with a higher degree of risk tolerance and a long-term investment strategy should find attractive distressed opportunities. Otherwise we expect to see a few high quality investments that should be considered ahead of market recovery.

Investment Opportunities

Few quality properties are currently for sale in the State of Florida as owners either await improved market conditions to sell properties or are trying to work with lenders to refinance or extend loan maturities. Earlier in 2011, Falcon recommended a well-leased portfolio of two office buildings in the upscale, supply-constrained Palm Beach Market, as well as a boutique retail property in the same market. International and domestic investors showed great interest and bid aggressively for these especially well located properties. Falcon will continue to recommend quality opportunities, such as these when they become available.

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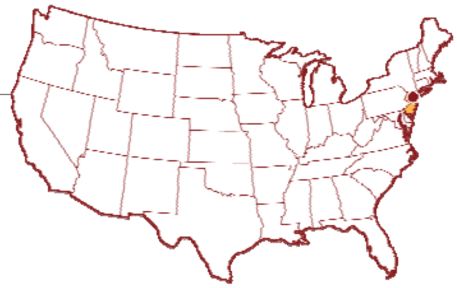

Northern New Jersey

2nd Quarter 2011

↔	Capitalization Rates
↑	New Jersey Unemployment: **9.4%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**107,290,754**	**17.3%**	**0.1%**	**30,000**	**$28.70**
Market trends:		↑	↑	↔	↓

Market Relevance

Northern New Jersey (NNJ) ranks as the 9th largest office market in the U.S. and the 18th largest economy in the world. New Jersey is a leading state in terms of total population, population density and average household income. NNJ offers a diversified tenant base and is the state with the third highest number of corporate headquarters in the U.S. Leading industries include pharmaceuticals, telecommunications, insurance and finance. Fifty-four Fortune 500 companies either have a corporate headquarters or a major facility in New Jersey.

Regional Economy

NNJ's economy continues to stabilize and show signs of slight improvement. The unemployment rate rose slightly to 9.4% during the quarter. However, the state has managed to add 30,100 private sector jobs since the beginning of the year. Growth has continued to be particularly strong in the professional and business services sectors but overall employment is not expected to grow significantly through the end of the year.

Current Market Conditions

NNJ overall rents continue to decline, although results are mixed through the various submarkets. In the Hudson Waterfront, NJ's strongest submarket with the lowest vacancy of 8.9%, large users, mainly financial and insurance firms, continue to sign new leases at higher rents. In the Morristown submarket, pharmaceutical and communications firms drive leasing and unfortunately these fields have not exhibited significant workforce growth yet. The performance of other submarkets is more mixed with declining performance measures. Leasing volume continues to be unimpressive. While there is some evidence of improvement, it has been somewhat marginal and uneven and will remain subdued until job growth improves. Nevertheless, many tenants are making commitments believing the market has bottomed out.

Falcon Perspective

While we do not expect the market to improve dramatically over the immediate term, we do expect slow but steady improvement over the next few years. Specific opportunities should arise in select submarkets that are stronger and generally outperform the greater market. We expect to continue to see opportunities in long-term leased corporate headquarters and strategic assets with top locations. Retail assets also warrant attention due to the State's high population density and relative high wealth. The most recent large leasing transactions involve new headquarter facilities for corporate users which include Panasonic, Evonik DeGussa AG and BASF AG.

Investment Opportunities

There continues to be very few quality new properties on the market at this time and we expect this trend to continue. Falcon is now tracking a small number of off-market opportunities in the form of corporate headquarters buildings. Other investment opportunities should arise over the upcoming quarters through the sale of defaulted loans on better quality properties.

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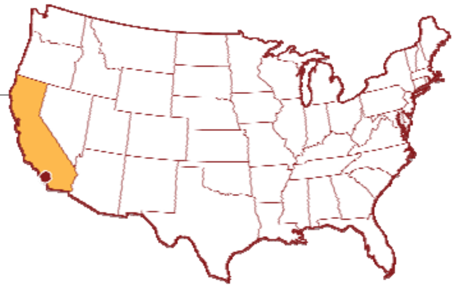

Orange County, California
2nd Quarter 2011

↔	Capitalization Rates
↓	Orange County Unemployment: **8.5%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**83,231,434**	**19.2%**	**0.9%**	**0**	**$25.89**
Market trends:		↓	↑	↔	↓

Market Relevance
Orange County is the sixth most populous county in the U.S. It benefits from an extremely diverse economy led by major employers such as Walt Disney Company, University of California, St. Joseph Health System and Boeing. Orange County's status as one of the most desirable places to live in the nation has attracted a population of just less than 3.1 million that is projected to exceed 3.25 million by 2013. The area has historically ranked among the stronger regions of the U.S. in terms of job growth.

Regional Economy
The momentum of the local economy's recovery slowed during the second quarter. Unemployment was able to dip slightly as the result of hiring in the construction, high-tech and software sectors of the local economy. However, job losses in the financial services sector tempered the gains in the other sectors. This was especially troublesome for the real estate market as job growth in the financial services sector is a key to an office market recovery. There is potential good news for the future of job growth in Orange County. California State University at Fullerton published a business index that reported 34% of Orange County companies intend to add employees during the next year. Only 7% of employers expected to cut jobs.

Current Market Conditions
For the fourth consecutive quarter the Orange County office market posted positive net absorption with an associated decline in the vacancy rate. During the trailing twelve months the Orange County office market has absorbed 1.8 million square feet which suggests that the market is in the early stages of a slow recovery. The improved tenant demand and the absence of new construction should allow for meaningful improvement of market fundamentals assuming that the job market gets stronger. Although the overall vacancy rate has fallen to 19.2% from its peak of 21.8% that was reached one year ago, there is far too much vacancy for rental rates to grow. Landlords continue to cut rates and offer generous concessions in order to maintain occupancy. Rental rate growth in the Orange County office market is not anticipated during 2011.

Falcon Perspective
Orange County boasts a diversified economy that includes almost every economic sector. Historically, Orange County has outperformed the economies and office markets of most major metropolitan areas of the U.S. As such, the region has emerged as a premier target for institutional real estate investment. Decreased vacancy in the Orange County office market and positive net absorption suggest that the region is in the early stages of economic recovery. Investors have returned to the market as evidenced by the increased competition for the view properties that have been presented for sale. Because the region's economy and the office market are still in the early stages of recovery, there is still time for investors with a long-term horizon to find good value in Orange County real estate.

Investment Opportunities
There was very little investment activity in the Orange County office market during the 2nd quarter 2011. The substantially vacant class A office building at 4 Hutton Centre was sold by Legacy Partners to a private investor for $35.9 million or $166 per square foot. The purchase price is a substantial discount to the $61.4 million paid by Legacy to acquire the property in 2007. This transaction is a prime example of how real estate values in Orange County have reset since the recession. More assets such as Hutton Centre should come to market during the later part of 2011 and early 2012 and could represent strong long-term investment opportunities.

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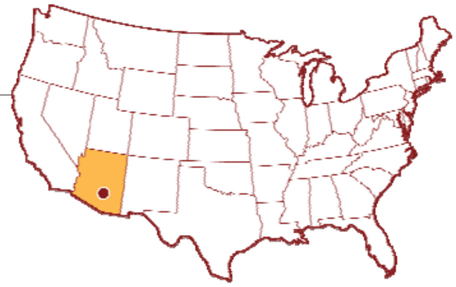

Phoenix, Arizona

2nd Quarter 2011

▲	Capitalization Rates
▼	Phoenix Unemployment: **8.7%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**77,172,789**	**26.1%**	**0.4%**	**165,290**	**$25.30**
Market trends:		▼	▲	▲	▼

Market Relevance

The City of Phoenix is notable for the high quality of life and relatively low cost of living that has attracted a young, well-educated population to the region. Phoenix has been known as a leader in population and job growth among large cities in the United States. Since 1968, Phoenix has added, on average, 68,000 residents annually. In the years immediately prior to the recession, the region's population increased dramatically and job growth was among the best, if not the best, in the U.S.

Regional Economy

The Phoenix economy remains stable as job gains in nine of the last ten months have chipped away at the region's unemployment level. The current unemployment rate in metro Phoenix is 8.7% which is slightly lower than the 8.8% rate reported at the end of the first quarter 2011. Recent job growth has occurred in most of the major employment sectors with the majority of the growth being posted in the professional and business services and leisure and hospitality sectors.

Current Market Conditions

Strong leasing activity in metro Phoenix reduced the market's vacancy rate from 26.9% at the end of the first quarter 2011 to 26.1% at the end of the second quarter. Significant leasing transactions included the 205,130 square foot, ten-year lease to Phoenix School of Law in One North Central Tower in Downtown Phoenix. Toyota Motor Credit renewed 130,074 square feet for five years in the San Tan Corporate Center in Chandler. Bechtel Corporation leased 72,500 square feet in the Glendale Corporate Center for six years. There are many companies that remain in the market to lease space which suggests that market vacancy could continue to improve over the rest of 2011. Landlords continue to adjust rental rates downward to attract tenants. This fact is reflected in the decreasing average per square foot asking rental rate that has fallen from $25.47 at the end of the first quarter to $25.30 at the end of the second quarter. Rental rates are not expected to increase until vacancy falls closer to 15%.

Falcon Perspective

Phoenix is a timing market that exhibits significant fundamental swings during economic cycles. Market fundamentals and property values are significantly reduced from their 2007 peaks. The stabilization of the local economy has caught the attention of opportunistic investors who have once again focused on the region in hopes of positioning themselves to benefit from the pending market recovery. This is evidenced by increased investment activity in Phoenix. This market is a good target for investors who may accept its cyclical instability for the chance to achieve strong overall investment returns.

Investment Opportunities

Investment transactions are up significantly in the Phoenix office market. Through the first six months of 2011 there have been 33 sales of more than 3.4 million square feet as compared with seven transaction totaling 300,000 square feet for the same period in 2010. Notable investment sales include McCarthy Cook/Morgan Stanley's purchase of Viad corporate Center in Midtown Phoenix for $56 million. The deal was completed at just less than half the $106 million purchase price that McCarthy Cook paid for the building in 2006. Lincoln Property Company purchased the 172,690 square foot Camelback Executive Park for $19 million or $110 per square foot. Lincoln had been appointed as the property's receiver and property manager prior to purchasing the asset. It is expected that the renewed focus of investors on the Phoenix market will result in increased investment opportunities being presented in the coming months.

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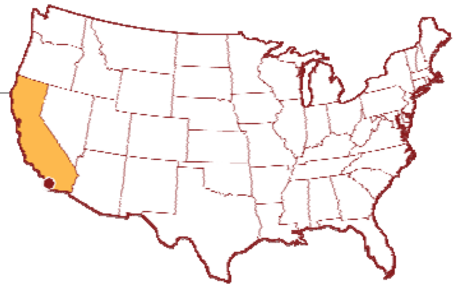

San Diego, California

2nd Quarter 2011

↑	Capitalization Rates
↓	San Diego Unemployment: **9.6%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
Total:	**72,577,279**	**16.0%**	**0.0%**	**0**	**$30.12**
Market trends:		↓	↓	↔	↔

Market Relevance

With more than three million residents, San Diego is one of California's most densely populated regions. San Diego is a popular tourist destination, is home to three significant military installations and benefits from a port that is, among other things, home to the largest naval fleet in the world. San Diego also boasts a remarkable concentration of world-renowned research institutions that make the region an important hub of bio and high-technology.

Regional Economy

The second quarter of 2011 was a good one for the San Diego economy as continued expansion within the healthcare and education sectors of the economy was recorded. During the 12 months ended June 2011, there have been 11,400 non-farm jobs added in San Diego and 6,300 of those were added to the Professional and Business Services sector. Strength in this sector is a key to a recovery of the office market. Although the news has been relatively good for the San Diego economy, the recovery remains slow and confidence in the local recovery's sustainability has been hurt by recent national and global events.

Current Market Conditions

The class A sector of the San Diego office market continues to benefit from a "flight-to-quality" with tenants taking advantage of reduced rental rates to upgrade from lower quality buildings. Fundamentals for class A buildings are improving. Vacancy in the class A sector has fallen to 12.3% down substantially from the 15.5% reported in the second quarter one year ago. This compares favorably with the 16% overall vacancy rate in the market. However, the overall rate has declined only slightly from the 16.1% reported at the end of the first quarter. Market activity has been strong enough to stabilize rental rates at $30.12 per square foot which is unchanged from the previous quarter. Job growth was not strong enough for meaningful improvement of the market's overall fundamentals to occur or specifically for rental rates to begin to increase.

Falcon Perspective

The outlook for San Diego's economy continues to improve and this will be reflected in fundamental gains for the region's office market. Absorption of office space in San Diego remains positive and is driven by tenants that are drawn to high quality buildings at relatively low cost. This trend should quickly generate fundamental improvements market-wide and when this occurs San Diego office investments will again be targeted by core buyers. Investors who want to be ahead of the curve should focus on San Diego now as capital is once again targeting San Diego office buildings.

Investment Opportunities

Kilroy Realty purchased a 176,000 square foot office property in San Diego's Sorrento Mesa office submarket for $32.7 million or $184 per square foot. The property was 96% leased with L3 Communications as the major tenant occupying 123,000 square feet. Several other major San Diego office properties are in escrow and should be reported as completed sales for the third quarter 2011. Although improvement of market fundamentals remains slow, investors are showing that they are anxious to acquire San Diego properties. Continued improvement of market fundamentals could result in increased interest from investors and more investment opportunities are expected to come to market as owners anticipate increasing property values.

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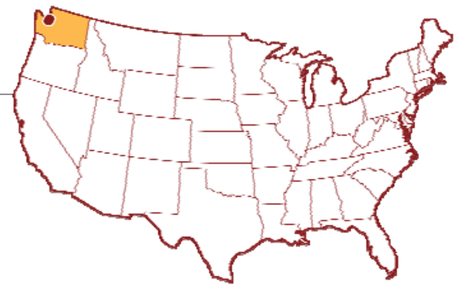

Seattle, Washington

2nd Quarter 2011

↓	Capitalization Rates
↔	Seattle Unemployment: **8.6%**

	Total Inventory (sq. ft.)	Vacancy Rate	Y-T-D Net Absorption (% of inventory)	Y-T-D Construction Completed (sq. ft.)	Avg. Asking Rent (per sq. ft.)
CBD:	41,749,488	20.2%		776,184	$31.26
Non-CBD:	40,170,218	17.6%		223,088	$27.27
Total:	**81,919,706**	**18.9%**	**0.9%**	**999,272**	**$29.30**
Market trends:		↓	↑	↑	↑

Market Relevance

Due in part to its status as a major port city of the western United States and because of its relative proximity to Japan and China, Seattle is a preferred market for real estate investment. The city's attributes have attracted many well known Fortune 500 companies including Microsoft, Costco, Starbucks, Amazon, T-Mobile, Nordstrom and Weyerhaeuser that locate their headquarters in Seattle.

Regional Economy

The Seattle region's economy remained stable during the second quarter with the unemployment rate unchanged at 8.6%. The unchanged unemployment rate represents a drop-off for a metropolitan area that had been steadily adding jobs during the past few quarters. Sectors such as manufacturing and construction remain weak although the manufacturing sector was helped by hiring at Boeing and the company's suppliers. High-tech jobs are also a bright spot in Seattle's job market. However, the overall job performance in the market is sluggish. The Seattle region's economy is expected to continue to strengthen as 2011 progresses.

Current Market Conditions

The second quarter of 2011 was not able to match the strong market activity of the first quarter in Seattle. Leasing activity represented about 50% of typical quarterly activity but did allow for a small drop in vacancy from 19% to 18.9%. A bright spot for the Seattle market is its top tier assets that have seen declining vacancy and for which rental rates are starting to increase. In addition to increasing rents, landlords that control premier assets have been able to reduce concessions as the market for Class A space tightens throughout the region. Although other sectors of the Seattle office market remain an anchor for overall market fundamentals, market performance is expected to improve over the coming quarters.

Falcon Perspective

Seattle was among the cities in the Western U.S. that benefitted most from the burgeoning economy and real estate market of several years ago. The market was characterized by rapidly increasing rental rates, low office vacancy and tremendous tenant demand. As one of the markets to thrive during the strong economy, Seattle was also among the markets hardest hit by the recession. Now the region seems to have weathered the economic storm and conditions in the office market are improving. Falcon considers this an excellent time for investors to focus on this gateway city.

Investment Opportunities

There were several notable sale transactions that closed during the second quarter 2011. Kilroy purchased the 488,470 square foot building at 601 108th Ave. NE in Bellevue from Beacon in a $215 million transaction which equates to a 6.2% capitalization rate. Kilroy also bought a 279,650 square foot building in Kirkland from HAL Real Estate for $100.2 million (6.5% capitalization rate). A 253,769 square foot building in Pioneer Square was sold by Principal Financial to the McCaw family for $38.3 million. This building was substantially vacant so capitalization rate is not applicable.

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Glossary:

Absorption

Net absorption represents the net change in physically occupied space within a given time period for a particular market. This number is calculated by adding all the positive changes in occupancy; for example, new leases, and subtracting all the negative changes in occupancy, such as tenants expiring or otherwise leaving previously occupied spaces.

Average Asking Rental Rates

The annual price per square foot sought by Landlord's in a particular market for a full-service lease. This means the Landlord pays the first year amount of certain expenses like maintenance, real estate taxes, office cleaning, insurance and other items as part of the asking rent. Most often tenants pay for any future increases in these expenses as additional rent. Utilities vary by location but are commonly paid directly by the tenant.

Capitalization Rate (Cap Rate)

Equal to a property's Net Operating Income (net income) divided by the Purchase Price. Sometimes referred to as "gross initial yield".

CBD

Central Business District

New Construction

This number represents the amount of square footage under construction in a particular market that will subsequently be added to inventory and available for lease. Upon completion, new construction becomes part of inventory and, if vacant, will add to the reported Vacancy Rate.

Unemployment

For an individual, unemployment is the state of looking for a paying job, but not having one. The unemployment rate, therefore, is the total of those individuals divided by the total workforce, the sum of all those employed as well as those currently unemployed. Neither the unemployment rate nor those unemployed includes full-time students, the retired, children, or those not actively seeking a paying job.

Vacancy Rate

The percentage amount of the physically vacant space divided by the total amount of existing inventory.

All of the statistical information has been taken from Cushman &Wakefield, Jones Lang LaSalle, Colliers International, CB Richard Ellis, the Bureau of Labor Statistics, and the Federal Reserve Board.

The text of the city reports with a statistical breakdown between CBD and non-CBD covers only CBD, unless otherwise noted. The text of the city reports without that statistical breakdown covers the total market.

Inventory, vacancy rate, net absorption, and YTD Construction Completions are for all classes of property. Rental rate is for Class A only.