

As LRG REP I winds down and we gear up for LRG REP II, which will follow the same investment strategy as the first fund, we will continue to provide updates of the LRG REP I portfolio as we anticipate that the next few months will prove to be noteworthy. While the commercial real estate sector in Marin and neighboring counties remains unsettled, LRG REP I has made considerable progress in the first half of 2010 on the acquisitions front, as well as in the improvement and leasing of our existing properties, as detailed below.

Market Report*

In Marin County and the Bay Area, Q2 2010 continued to stabilize and show modest growth. For the apartment sector in the North Bay the price per square foot increased from \$158.35 to \$176.92 this quarter while the vacancy rate stayed relatively level and rental rates in the greater Bay Area increased slightly. Office market asking rents in Marin County also increased slightly from \$2.46 to \$2.50 with Class A space accounting for the increase by going from \$2.48 last quarter to \$2.75 this quarter. Vacancy rates in Marin County on average increased 100 basis points from 19.5% to 20.5%, although both numbers are much higher than those we are seeing at our properties. In Northern Marin (San Rafael and Novato) where most of our office buildings are located a significant portion of available spaces are 7,500+ square feet while our buildings in the area are geared towards smaller footprints.

Portfolio Overview

Fairfax Center Properties: On May 4, 2010, we acquired a master lease and option to purchase the Fair-Anselm Plaza located at 700-779 Center Blvd in Fairfax, California. This mixed-use shopping center consists of approximately 66,000 square feet (sf) in four separate buildings, located on 6.7 acres. The shopping center includes two single tenant buildings, one of which is a former Albertsons supermarket and the other is a U.S. Post Office. There are also two additional buildings with first level retail suites and second level office suites. Current tenants of these buildings include Iron Springs Pub and Brewery, Sunshine Bicycles, Just Carpets, Avatar Business Center and the Fairfax Health Club.

Since closing the Fairfax transaction, we have had a high level of interest in the vacant spaces. We have received multiple attractive offers for the former supermarket building and are on plan to finalize a lease in the next 45 days. We have cleaned up a 2900 square foot retail space and an offer on that space is in negotiation. We will begin receiving guaranteed rent for the former Broadway Video space beginning October 1, 2010 from the master lessors of the property. If all of these negotiations are concluded, this would leave us with only two small office suites vacant.

505A San Marin Drive, Novato: We are putting the finishing touches on an extensive remodel of the first floor, lobby entrances and landscaping/parking lot to our 19,387 sf, three-story office building at 505A San Marin Drive, Novato. We are already seeing a jump in leasing interest as a result of the significant upgrades.

We have secured ADP Payroll as a tenant for 1883 sf on the first floor. We also leased 2025 sf to Mandlebrot Law Firm on the second floor. We divided a 2,575 suite into Executive Suites with four tenants. We renewed leases with anchor tenant Western Pacific Renal Network (4,561 sf), and with five other tenants. On the new leases we gave tenants attractive rates in the first year, with escalations in the later years of their leases. Accordingly, there are significant built in increases to the rents in the next two years. This property is now 82% occupied, up from 66% a year ago.

384 Bel Marin Keys, Novato: Our 25,249 sf 384 Bel Marin Keys two story office building is now 100% leased. New tenants secured by LRG REP I since we have purchased this building include Eugene Burger Management

Corp., ET Water Systems, L&L Business Services and PrimaDesk, Inc. We have renewed our lease with the flagship tenant, McKesson Corp. As with our other recent office leases, several Bel Marin Keys leases have built in increases over the next few years. We have upgraded the landscaping, air conditioning and electrical systems and refinished the roof at this building.

851 Irwin St., San Rafael: This centrally located, three story, 27,000 sf office building has maintained its 100% occupancy level throughout this quarter despite over 200,000 sf of vacant office space available within blocks, most notably at the San Rafael Corporate Center. The reason is we have 25 tenants in the building, many who are small professional businesses and have been there for several years. We have renewed leases with Robert Chin, Attorney; Judy Dennings, CPA; and J.R. Hastings, Attorney. Bradley Real Estate has extended their lease and took additional upstairs office space. We have entered into new leases with Zebeta Software, Brightline Bags, Norm Davis, Charles Chalmers, Susan Irwin, and Diana Bauer. Tamalpais Bank was closed down but Union Bank acquired the branch office, and will continue its lease for the foreseeable future.

125 East Sir Francis Drake Blvd, Larkspur: The 35,000 sf historical Brick Kiln building has one large 8,800 vacant suite and one 5,700 sub-lease available. Despite this large vacancy, this building is still operating at positive cash flow from operations. The sub-market of high quality, large professional office spaces in southern Marin has less than 10% vacancy presently. Given the current economy, there are very few prospective tenants for this space presently. Fortunately, with current cash flow and large operating cash reserves to use for tenant improvements, we are in a position to patiently wait for the right tenant for this outstanding office suite.

220 Canal St, San Rafael: This 43 unit apartment building has maintained close to or at 100% occupancy in 2010. This is despite increased vacancy rates in the Canal area of San Rafael. For example, the adjacent 63 unit apartment building has had vacancy of over 20% from time to time these past months. Rental rates have remained relatively stable despite these market pressures. We have made considerable improvements to 220 Canal in upgrading apartments, along with the plumbing and sewer lines this past year.

18360 Sierra Dr., Sonoma: Our 3 acre, 31 unit apartment building, located one block from the Sonoma Mission Inn, is currently 100% occupied. Rental rates have been stable. We have now tiled the floors in about one third of the apartment units. We have invested considerably in landscaping by planting redwood trees, plants and have even built a small vegetable garden for the tenants to use. We have upgraded the laundry room and re-roofed two buildings.

1244 Hearst St., Berkeley: This 23 unit apartment complex is also 100% occupied. There has been some downward pressure on apartment rental rates in Berkeley over the past year as several new residential buildings have come on the market. However, due to our excellent location in a quiet neighborhood and the community feel of this complex, we have maintained overall rental revenue at above our targeted \$300,000 per year. Older buildings comprise this Berkeley complex and much of the upside in this property will be realized by upgrading and improving the apartments and buildings. There is also upside to be achieved from converting studio apartments to one bedroom apartments over time. Accordingly, we have invested significantly in these improvements and upgrades over the past year and will continue to do so for the next couple of years.

How we maintain high occupancy rates in this difficult market

Our local investment focus on Marin and Sonoma properties enables us to take a very “hands on” approach to leasing and management. We visit each property weekly, we know the market for tenants well -- which is especially important in challenging economic times -- and we supervise vendors and address building issues quickly. This hands-on management has allowed us to keep units upgraded as turnovers occur and keep our buildings highly occupied.

LRG REP Outlook

While economic data has indicated significant inflation in local residential real estate prices, it appears that a recovery in Marin commercial real estate is still a good year away. Our approach continues to be with a view to long term real estate investment. For that reason, we secured our property loans at fixed rates, with most fixed

for 7 years, at interest rates averaging in the low 6% range. Fortunately, so far we have been able to keep our buildings leased at significantly higher occupancy rates than the overall market rates, while maintaining comparable or better lease rates.

We believe that if we continue to manage and wisely upgrade our properties, over the long term the market will reward us for our efforts. If we also benefit from an inflationary period anywhere near the historical inflation rates of the last 100 years, our rewards will be even greater.

At this time, we believe it is prudent to bring investment into LRG REP I to a close, as we have accomplished our objective of purchasing a well diversified portfolio of commercial real estate properties with considerable upside potential. We prefer to avoid any further dilution of our own, as well our investors, ownership interests.

We still believe that there are opportunities to buy quality commercial properties at great prices within the San Francisco Bay Area and are going to actively search for new opportunities to launch LRG REP II. In any event, as both managers and significant investors in LRG REP I, we will continue to give this Fund our complete focus and attention.

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**Source: Cassidy Turley/BT Commercial Q2 2010 Market Reports*