

# INVESTMENT MARKET NEWS



## FALL 2006

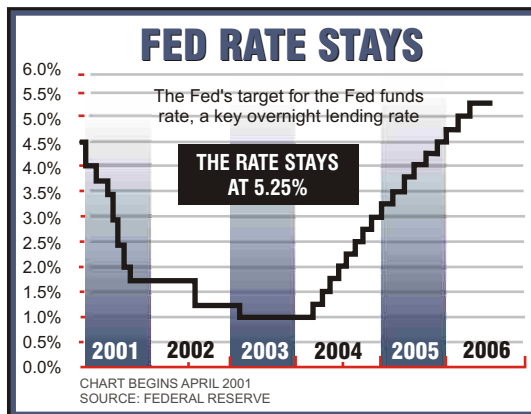
### INSIDE THIS ISSUE:

- EXECUTIVE SUMMARY
- CENTRAL VALLEY IN REVIEW
- COMPANY & TEAM PROFILE
- COMPARABLE SALES
- EXECUTIVE SUMMARY CONTINUED
- U.S. CAPITAL MARKETS UPDATE
- FEATURED LISTINGS

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### EXECUTIVE SUMMARY

**Fed holds key short-term interest rate steady at 5.25%** for the second time in a row, after raising them 17 straight times dating back to June 2004. During that time, the Fed funds rate went from 1% to 5.25%. The Fed funds rate is important because it helps determine overnight bank lending rates and therefore affects how much interest consumers and businesses have to pay when borrowing money for certain types of loans. The Central Bank raised rates as many times as it did during the past two years to keep inflation in check. But some economists think inflation is no longer the biggest risk facing the economy.



**Economic Slowdown vs. Inflation** is now weighing on the minds of the Fed, who alluded to the housing slowdown several times in the minutes from its previous meeting; in addition, Fed chairman Ben Bernanke told Congress in July that he believed inflation was under control. On September 19, 2006, the Census Bureau reported housing starts fell to a three-year low, raising concerns about overall economic weakness. Reports in the previous few weeks for both consumer and producer prices show tame inflation.

At the September meeting, the Fed again alluded in its statement that it's now more concerned with a slowing economy than inflation: "The moderation in economic growth appears to be continuing, partly reflecting a cooling of the housing market," the Fed said,

adding that "inflation pressures seem likely to moderate over time, reflecting reduced force from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions."

The Fed's had a tough job trying to slow the economy enough to keep inflation at bay without killing off growth. But some analysts say the Fed may already have raised rates too far, setting the stage for much slower growth, or even a recession, especially with the housing market slowing. However, the recent drop in oil prices could make things a bit easier for the Central Bankers. It will probably lessen the risk of a pickup in inflation as well as reduce the risk of consumers cutting back on spending due to high energy prices.

Earlier this month, data from the government's second quarter productivity report showed that unit labor costs rose at a much higher rate than expected over the past year. That could be a worrisome sign since wage increases are generally viewed as one of the strongest indications of overall inflation. As such, it may be premature to expect that the Fed will start lowering rates in 2007 and some think that short-term rates will go no higher than where they currently are.

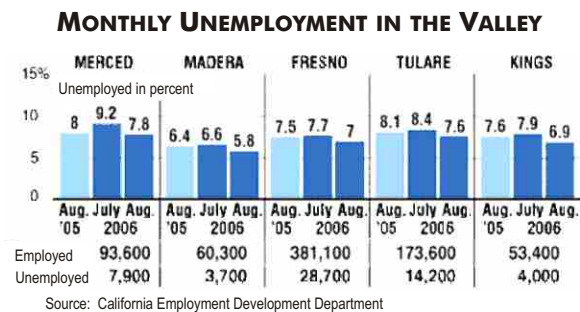
**Rate Hike vs. Rate Cut.** According to federal funds futures contracts listed on the Chicago Board of Trade, investors are now betting on more than a 90% chance that the Fed will keep rates at 5.25% at its next two meetings in October and December. What next year will bring is primarily dependant on how the economy wards off slowing economy and inflation during the next few months. If the housing market continues to deteriorate, Mark Zandi, chief economist at Moody's Economy.com, said the Fed may need to start lowering interest rates in order to make sure the economy doesn't slow down too drastically. He argued that short-term rates of 5.25%, while not high by historical standards, are still high enough to put a crimp in borrowing and consumer spending. (Continued on page 3)

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We believe the information contained herein to be correct. It is obtained from sources which we regard as reliable, but we assume no liability for errors or omissions.

"Rapid growth in the Central Valley, illustrated by a U.S. Census Bureau report issued [June 21, 2006], has local experts predicting the region will outgrow the San Francisco Bay Area by 2020", according to an article in The Fresno Bee. The Central Valley in general is not seeing the drastic softening of the **housing market** as in other areas of the U.S. For example, according to the Fresno County EDC July Investor Newsletter, net home sales in Kings County rose 53% over the first quarter of 2005. Tulare County saw an 8% increase with prices rising by 9%. Visalia is staged to set a new record for the most housing starts for the third consecutive year. These increases in net sales are contrasted, however, by a 39% decrease seen in Fresno County and 22% in Madera County. All the while, **home builders** are still tying up farm and vacant land, but it is rumored that many contracts are being renegotiated and extended in order to see how the market does in the next several months. Builders do not want to have an inventory of houses, they only want to build houses that are already sold. The delay in these land sales, however, will also delay the 1031 Exchange money that will likely be reinvested here, a significant contributor to our successful investment market in the past few years. An increase in **senior housing** can be seen, with the opening of the 117 unit Yosemite Gardens complex in Fresno last fall and the 117 unit Cedar Creek complex in Madera. This trend will continue thru the next 20 years as the Baby Boomers reach their sixties. Currently, over 340 units are on the drawing board, planned to be completed by 2008 in Fresno & Clovis alone.

**The Settling-In Phase:** as the many new residents and homeowners in our area settle into both their new homes and neighborhoods the need for additional government services, education, medical care, food, etc. is created. The addition of these new jobs is reflected by a decrease in the **unemployment rate** in Fresno County to 7% in August, down from 7.7% in July. "Our economy's better balanced," said Dave Spaur, president and chief executive of the Economic Development Corporation serving Fresno County. "We're creating more jobs that are not temporary or part-time, and some of these clusters we're working with are starting to build out and grow."



Government employment posted the strongest gains, rising to 71,000 in Fresno County in May, an increase of 1,700 jobs from the same month last year. Construction jobs, which have fueled job growth in past few years, remain stable as some workers transition from the residential building sector to commercial. A survey by Westhills Community College and the Workforce Investment Board forecasts over 7,000 new jobs in the Valley during the next three years, a 36% increase.

Source: Regional Jobs Initiative, The Fresno Bee

### COMPANY & TEAM PROFILE

The goal of our team is to provide our clients with the commercial real estate expertise to service all of their needs, whether it is with sales, leasing or development. With a proven track record of success, we have earned the reputation of producing timely results while maintaining the highest, professional and ethical standards carrying on a "Tradition In Trust" since 1919.

Our company provides a comprehensive, full-service marketing and information department, and a host of client service amenities enabling us to provide clients with enhanced access to tools and resources essential to commercial real estate. The 60 agents and 17 Administrative professionals working in Fresno, Visalia, and Bakersfield offices make The Pearson Companies the largest commercial and agricultural real estate firm in Central California.



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## COMPARABLE SALES

Property Address	Sale Date	Sale Price	Cap Rate	Price/sq. ft.	Bldg (sq. ft.)	Land (acres)	Year Built
<b>RETAIL</b>							
3515-3171 W. Shaw Avenue, Fresno, CA Times Square - Neighborhood Center	03/06	\$23,000,000	7.16%	\$151	152,236±	13.25±	1983-1987
1221 S. Mooney Boulevard, Visalia, CA Auto Zone - Freestanding Building	03/06	\$2,125,000	5.75%	\$289	7,350±	0.70±	1998
401 Clovis Avenue, Clovis, CA Multi-tenant Retail Building	03/06	\$5,700,000	7.0%	\$203	28,062±	0.5±	1999
<b>OFFICE</b>							
1616 W. Shaw Avenue, Fresno, CA Multi-tenant Office Building	07/06	\$2,650,000	6.0%	\$125	21,186±	1.64±	1969
191 W. Shaw Avenue, Fresno, CA Multi-tenant Office Building	05/06	\$2,450,000	6.0%	\$115	21,208±	1.50±	1969
7480 N. Palm Avenue, Fresno, CA Owner-user/Multi-tenant Office Building	07/06	\$3,400,000	N/A	\$253	13,440±	1.61±	2005

Source: Rick P. Smith, MAI, ASA, Aaron Realty Group; Grubb & Ellis | Pearson Commercial

## EXECUTIVE SUMMARY (CONTINUED FROM PAGE 1)

Eric Dube, an economist with National Bank Financial in Montreal, said that the housing slowdown could be so severe that it may force the Fed to lower interest rates several times next year. Dube believes that by the end of 2007, the Fed Funds Rate could be at 3.25%. The Fed however, has not ruled out more rate hikes in the future. In its September statement, the Fed noted that "readings on core inflation have been elevated" and that "some inflation risks remain." That wording is identical to what the Fed said about inflation in its August statement and sparks concerns that the Fed is not done raising rates even though the economy is slowing. The Fed seems to be keeping its options open.

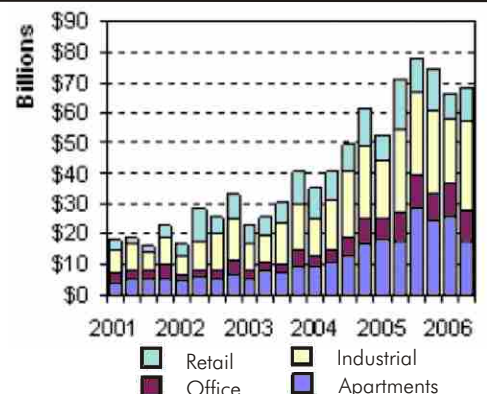
Oscar Gonzalez, economist with John Hancock

Financial, thinks that the Fed will take a wait-and-see attitude towards the economy and hold rates steady. He said that what happens to the housing market is the biggest economic wild card right now. It's time to evaluate information from the housing market and consumer spending trends...the market is a little ahead of itself. In order for the Fed to cut rates, you have to see evidence that the economy is weakening. Yes, it's softer but it's not weak," Gonzalez said. It's premature for the Fed to be talking about lowering rates but it's not premature for us to begin the forecasting game and start talking about the benefits and consequences of current monetary policy.

Source: Paul R. LaMonica, CNNMoney.com, 9/20/06

## U.S. Capital Markets Update

Commercial real estate sales activity appears to be forming a plateau, but at a high level, while cap rates appear to be forming a valley at a low level. Substantial evidence confirms a leveling off in market activity. If long-term interest rates rise further, they will eventually slice into buyer demand and cause cap rates to rise. The Fed has indicated it will raise rates again if inflation data warrants it, but its lack of action at its last two meetings and the accompanying dip in long-term rates are good news for real estate investors – at least for awhile. The Fed will be "data-dependent" for the next few months. Source: Grubb & Ellis, Robert Bach 2006





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## FEATURED LISTINGS



### Freestanding Restaurant Building 690 E. Nees Avenue, Fresno, CA

- 9,366± sq.ft. including 720 sq.ft. patio
- New Construction - 2004
- This property is listed for sale at \$3,200,000

### SHELL GAS STATION 1021 E. Shaw Avenue, Fresno, CA

- Single Tenant, NNN
- 20 year Sale Lease Back with increases
- This property is listed for sale at \$2,030,000



### SONIC DRIVE-IN 1855 Herndon Avenue, Fresno, CA

- Single Tenant, NNN
- 20 year Lease with 8% Increases every 5 Years
- This property is listed for sale at \$2,900,000