

INVESTMENT MARKET NEWS



SPRING 2006

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THE CENTRAL VALLEY OVERALL should continue to prosper despite increasing interest rates. Historically low mortgage rates have fueled a housing boom during the past 5 years that has supported the U.S. economy's recovery from recession despite uncertain business investments and the steadily increasing interest rates. But is this boom actually a bubble?

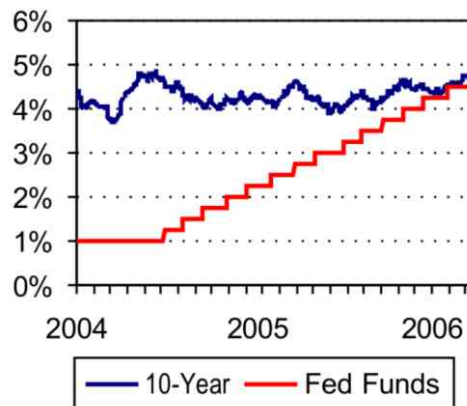
As interest rates continue to rise and the supply of homes for sale in our market increases, this theoretically will lead to a sudden decrease in prices. However, house prices are often "sticky" - that is, even when sales slow, they don't usually drop as quickly as, say, stock prices, because most people can put off selling their home if they can't get the price they want. Analysts differ on whether we are experiencing a "housing bubble", but most agree that the market is cooling off of its record run but should remain strong over the next few years.

Another aspect of our continued growth is the expansion of the job market described as the "Settling-In Phase" in the article, "The Central Valley Economy is Blossoming" (see inside for article). As our economic base broadens, our region will achieve economic stability and rely less on the agricultural sector.

The combination of construction costs and increasing gas prices will also play a significant role in further residential and

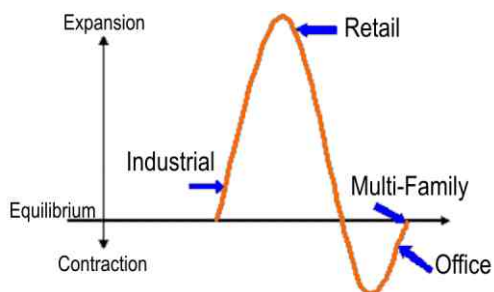
commercial developments as construction costs are expected to increase another 10% this year. A portion of these costs should be off-set by increased attention from state and federal agencies willing to invest in the Central Valley along with an increase in venture capital flowing in.

INTEREST RATES (short-term federal funds rate) were raised again by the Federal Reserve's Open Market Committee (FOMC) in March by a quarter-point for the 15th time in its past 15 meetings. Ten-year Treasury yields also moved higher, ending March at a 21-month high. Most analysts believe the FOMC will add another quarter-point to the fed funds rate when it meets in May, but they are divided on whether short- and long-term rates will move higher later in the year. Ten-year Treasuries above 5.5 percent could begin to impact property values and investor demand.



Source: Grubb & Ellis 2006 & Federal Reserve

REAL ESTATE CYCLE At the beginning of 2006, the office sector continues to recover but has yet to reach equilibrium in the majority of U.S. markets. The multi-family sector is roughly at equilibrium,



while the industrial sector has moved into the expansion cycle, featuring rising construction and rental rates. In the retail sector, consumers haven't thrown in the towel just yet despite fears that a decelerating housing market could drag retail sales down with it. Expect the office, industrial and apartment markets to tighten further in 2006, while the retail market may downshift modestly as high energy prices and slower home price growth impact spending and leasing activity.

Source: Grubb & Ellis 2006

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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.

CENTRAL VALLEY CONTINUES TO GROW

The **SUBURBS** of Fresno are continuing to grow; as the cost of living increases in Fresno more people are looking at the surrounding communities for a place to call home. **SANGER** boasts 4,800± new homes planned to be built in the next five years. Developers and national retailers are also said to have Sanger on the radar screen as a viable market for new retail developments due in part to the 8,000± new homes planned in **SOUTHEAST FRESNO**. **SELMA** to the south and **MADERA** to the north will both soon see thousands of new rooftops along with plans for a Super Wal-Mart, Lowe's and several new car dealerships in Selma.

CHOWCHILLA just 14 miles north of Madera has 6,000± units planned over the next 5-10 years.

MADERA is not far behind with just over 4,000±.

SOUTH VALLEY communities such as **PARLIER**, **EXETER**, **HANFORD AND DINUBA** are being noticed by developers. The land is reasonably priced and the demographics make sense.

MERCED will be home to a 1.1 million square foot Wal-Mart distribution center; Wal-Mart's 10th distribution center in the state. The center will be operational in 2011 and is said will employ 900 people by 2014.

Visalia is the new home of VF Outdoor, Inc's sports expedition gear distribution center. The 800,000 sq ft. building is now the largest in the city with Jo-Ann's Stores, Inc's 600,000 sq ft. distribution center in second place. The city is considering annexing a 640 acre industrial park to attract and accommodate more large companies to the city who is making its name as a distribution hub.

FRESNO METROPOLITAN area continues to expand its borders in all directions. Retail development continues to thrive as it attempts to keep pace with residential growth. North Pointe Business park, a 230 acre industrial park in south Fresno broke ground in February. The park will house 4 million square feet of commercial buildings when built out.

FEATURED LISTINGS



SONIC DRIVE-IN

1855 Herndon Avenue, Fresno, CA

- Single Tenant, NNN
- 20 year Lease with 8% Increases every 5 Years
- Excellent Street Exposure
- Newer Construction - 2001
- Ample Parking
- This property is listed for sale at \$2,900,000

SHELL GAS STATION

1021 E. Shaw Avenue, Fresno, CA

- Single Tenant, NNN
- 20 year Lease
- Exceptional Location by Fashion Fair Mall
- High Traffic Counts
- Excellent Freeway Access
- This property is listed for sale at \$2,030,000



COMPARABLE SALES

Property Address	Sale Date	Sale Price	Cap Rate	Price/sq. ft.	Bldg (sq. ft.)	Land (acres)	Year Built
RETAIL							
7033-7087 N. Cedar Avenue, Fresno, CA Multi-tenant retail shops	02/06	\$3,400,000	6.25%	\$2,101	1,618±	0.82±	2004
2340 N. Blackstone Avenue, Fresno, CA Hollywood Video - Freestanding building	01/06	\$2,255,000	6.50%	\$299	7,546±	0.64±	1998
401 Clovis Avenue, Clovis, CA Old Town Station - Multi-tenant retail	03/06	\$5,700,000	7.2%	\$203	28,062±	0.50±	1999
OFFICE							
7370 N. Palm Avenue, Fresno, CA State Fund - Single-tenant office building	03/06	\$5,650,000	6.7%	\$128	44,064±	3.2±	2003
1095 E. Shaw Avenue, Fresno, CA Single-tenant office building	09/05	\$835,000	8.0%	\$87	9,586±	0.28±	1980
INDUSTRIAL							
2883 E. Calwa, Fresno, CA Multi-tenant industrial building	3/06	\$1,100,000	8.5%	\$37	30,000±	2.14±	1979

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

THE CENTRAL VALLEY ECONOMY IS BLOSSOMING

More affordable housing has attracted both an increase in population and jobs. As the price of homes in the coastal regions became increasingly expensive, the Valley offered more affordable alternatives. Many families moved to the Valley so that they, too, could become homeowners. While the strong relationship between population growth and employment growth is indisputable, economic expansion triggered by a rising population may go through three distinct phases:

1. Building Phase: Before people can relocate, homes must first be built. In early days of economic expansion, job growth tends to be concentrated in the housing sector. Contribution of the building industry to recent growth in the Central Valley has been unmistakable. The construction sector had by far the largest gain over the year, up 10,700 jobs since January 2005. Those construction jobs are well-paying jobs and provide a significant initial boost to the local economy.

2. Settling-in Phase: As new residents settle in, their presence immediately creates the need for certain services, including police and fire protection,

Source: Quoted from Keitaro Matsuda, Senior Economist Union Bank of California, NA 2006

public education, medical care, and food services, just to name a few. During this phase, the local economic base becomes broader and additional employment opportunities benefit both locals and newcomers. Much of the Valley now seems to be moving into this phase. These new opportunities are a welcome relief for a region that has long been dependent on the agricultural sector.

3. Deepening Phase: The settling-in phase can last for years, but as the density of population increases, the need for more specialized services is also created. During this phase, professionals, such as attorneys, tax accountants and medical specialists recognize a greater demand for their services and begin to practice. As Valley home prices continue to rise, the affordability advantage the region originally had over coastal markets will start to wane. In fact, this diminishing affordability is becoming a serious issue for many Valley residents. The pace of population migration will slow eventually and construction activities will also decrease. Still, as the economic base of the region becomes broader and more diverse, there is a good chance that the current economic bloom will last considerably longer than the housing boom.



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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 54 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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