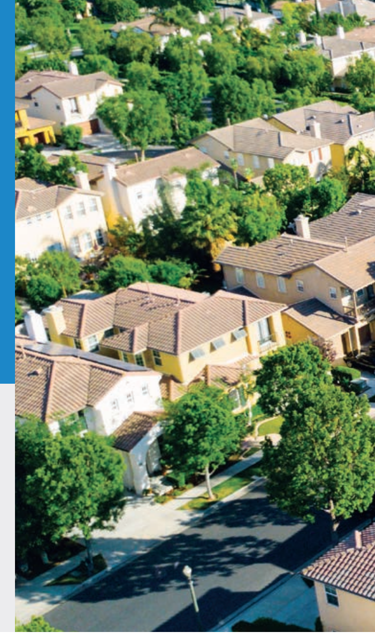
Real Estate *Sentiment Index*



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KEY POINTS

- The overall Real Estate Sentiment Index and those for all sectors except agriculture generally start at a relatively low and mildly negative sentiment in 2012, increase to a mild positive sentiment for the next three years, and then stagnate or even slightly drop in 2016 and 2017.
- The sentiment index for agriculture started with a very positive sentiment in 2012 but declined somewhat in most subsequent years, still remaining mildly positive in 2017.
- The sentiment for six months in the future in most cases, although often still positive, was generally more pessimistic or "worse" than the current sentiment. Yet, the current sentiment in the subsequent year often proved "better" than the prior year's current sentiment.

Sentiment indices, such as the Housing Market Index (HMI) from the National Association of Home Builders, are popular tools to indicate consumer and producer confidence levels in various sectors of an economy. Forecasts from these indices have proven to be significantly accurate. The Gazarian Real Estate Center at the Craig School of Business has been conducting the Real Estate Sentiment Index survey sent to approximately 2,000 local real estate professionals every spring since 2012 with just over a 7 percent response rate. Responses frame an index for various market sectors ranging from 1 to 5, respectively representing a scale of negative, mild negative, neutral, mild positive, and positive.

Overall Sentiment

The first time the Real Estate Sentiment Index was calculated in Spring 2012, the Fresno area was still struggling with the aftermath of the 2007-09 financial crisis. The overall present index reflected a "mild negative" sentiment, while the 6-month index indicated a

Since 2012, both CURRENT AND FUTURE SENTIMENT have become more positive.

"neutral" sentiment. This is the only instance in six years of collected data in which respondents show a considerably more optimistic future market condition than the current sentiment. At the time, respondents were well aware that the local, state, and national economies were in "recovery" and that the future looked "brighter" than the present. The Spring 2013 sentiment index reflected a 36 percent increase in the current sentiment index compared to the previous year, but only a four percent increase in the six-month sentiment expectation. Starting in Spring 2013, the gap between present sentiment and future sentiment reflects a worsening of expectations (Figure 1).

Figure 1
Overall Sentiment Index

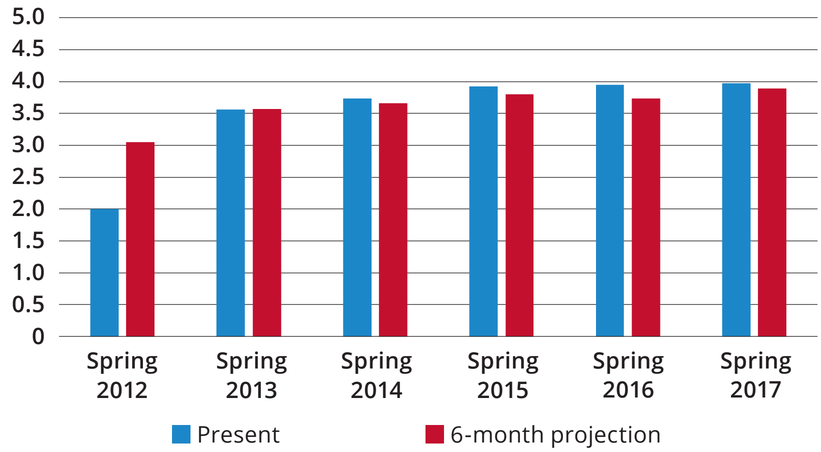
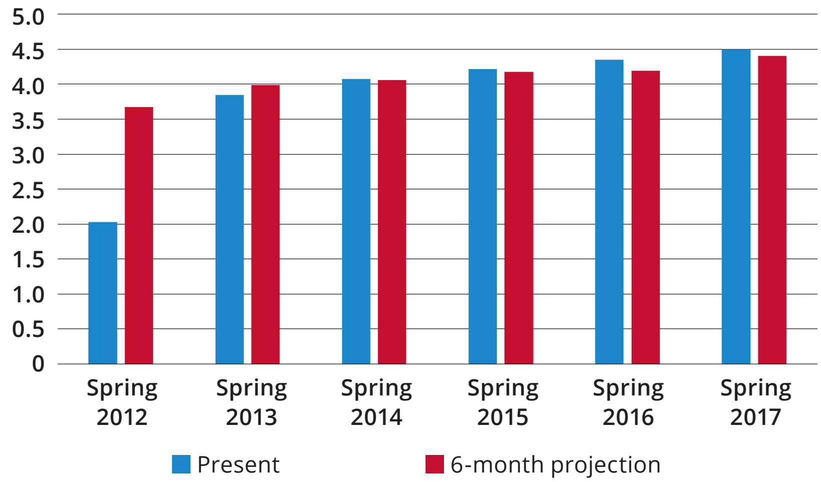


Figure 2
Single-family Residential Sentiment Index



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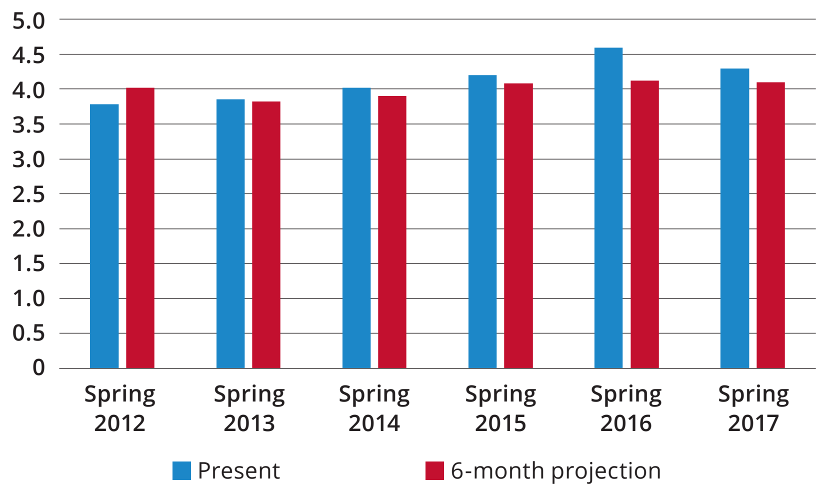
Responses related to both single-family and multi-family residential housing have resulted in a progressively positive present sentiment.

Single-family and Multi-family Residential

Responses related to both single-family and multi-family residential housing have resulted in a progressively positive present sentiment. The single-family residential present index started with a mild negative sentiment in 2012 and progressed to a mild positive in 2017. The majority of respondents do business in these segments, so their optimism is reflective of high expectations in their field. The multi-family residential index started slightly above neutral in 2012 progressing at a smaller rate until a slight decline in 2017.

Similar to the overall sentiment index, the difference between the present and six-month sentiment in both categories was positive in 2012, after which it becomes slightly less optimistic, but still mildly positive. For the Spring 2013 through Spring 2017 period, the multi-family residential future index averages a 4 percent negative gap relative to the present sentiment index, while the single-family residential index averages a 1 percent negative gap (Figures 2 and 3).

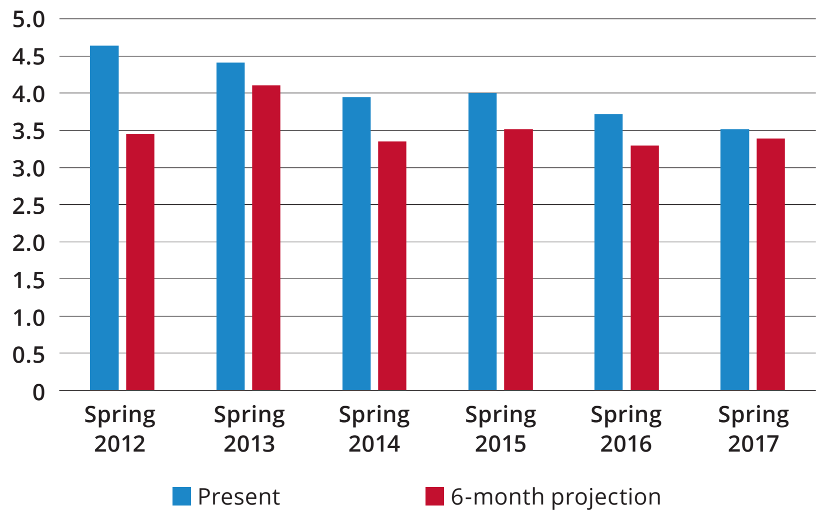
Figure 3
Multi-family Residential Sentiment Index



Agriculture and Land

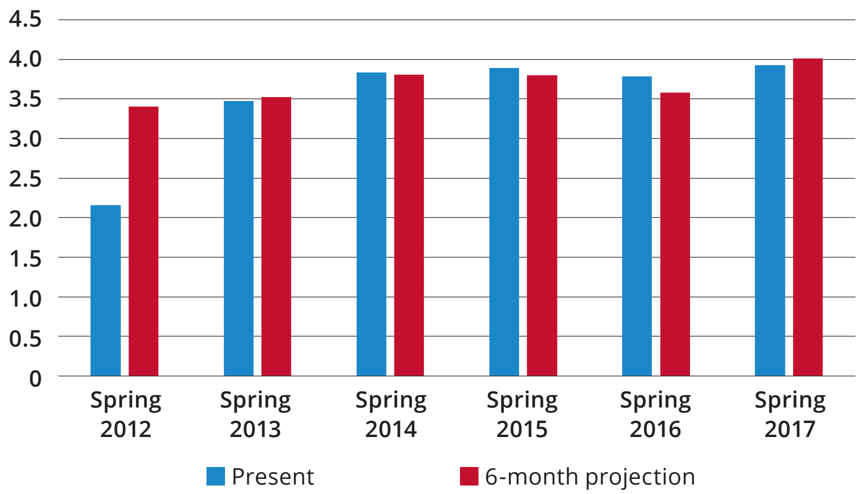
The agriculture sentiment index reflects a different story compared to the other sectors. The present sentiment

Figure 4
Agriculture Sentiment Index



progressively declined over the six-year period at an average of -5 percent , while the six-month projection shows positive and negative annual percent changes. The gap between the current and six-month sentiment is consistently negative at an average of -10 percent difference. The land market, on the other hand, has been progressively more optimistic, with positive annual percentage changes in three out of the five years, while the current versus six-months gap has been negative at an average of -2 percent (Figure 5).

Figure 5
Land Sentiment Index

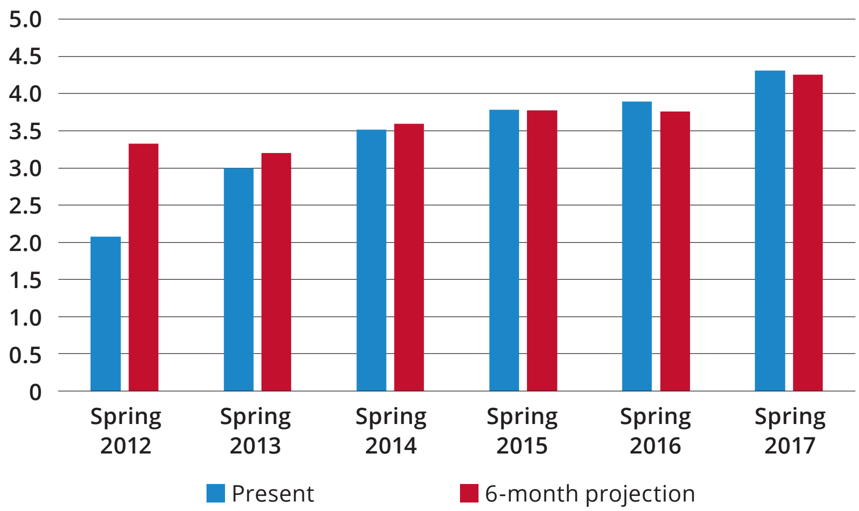


THE INDUSTRIAL SENTIMENT progressed to an almost extreme positive sentiment in 2017.

Industrial

The industrial sentiment index started at a mild negative sentiment in Spring 2012 and progressed to a mild positive (and almost extreme positive!) sentiment in 2017. The rate of growth has been at an average of 17 percent in the six-year period. The six-month sentiment reflects a progressively more optimistic future, but the rate of change has been slower at an average 5 percent compared to the present sentiment. The gap between the two indices was positive for the first four years, and then slightly negative for 2016 and 2017 (Figure 6).

Figure 6
Industrial Sentiment Index



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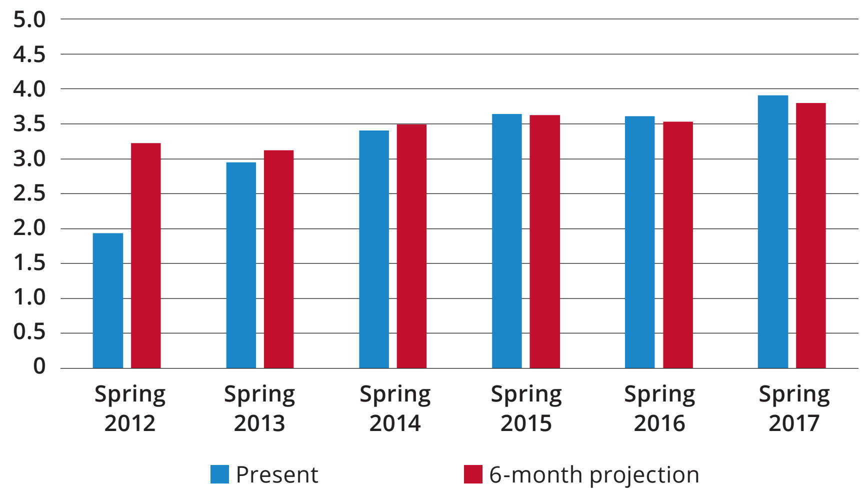
FOR OFFICE AND RETAIL the six-month projection indicates a substantially improved sentiment.

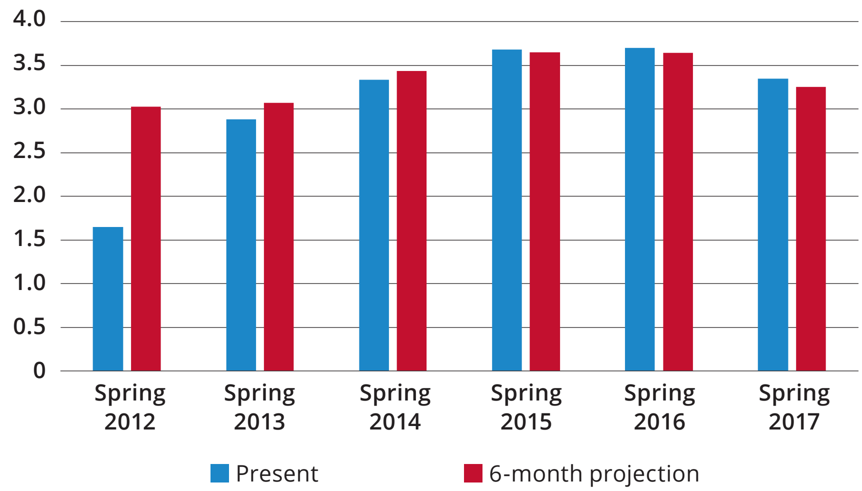
Figure 7
Office Sentiment Index



Office and Retail

The office and retail sentiment indices follow the same pattern as most of the previous indicators. The present index in 2012 is the lowest sentiment, but the six-month projection indicates a substantially improved sentiment. The present sentiment progressed to a "mild positive" in the last two years, but the six-month projection remained more optimistic for the period 2012 through 2014, and then became slightly less optimistic in the last three years (Figures 7 and 8).

Figure 8
Retail Sentiment Index



Conclusions

Sentiment indices are a powerful tool that professionals, public officials, and policymakers can use to gauge the overall conditions of a specific market. Market statistics combined with sentiment measures obtained from surveying local experts can give a more detailed "story" behind a particular market analysis. The Gazarian Center Real Estate Sentiment Index provides an opportunity to realize potential business

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opportunities for local (and outside) investors looking to increase their investment returns.

The sentiment indices for all sectors seem to follow the same pattern except for the agricultural sector. They start at a relatively low sentiment in 2012, increase to a mild positive sentiment for the next three years, and then stagnate or even slightly drop in 2016 and 2017. This period is also consistent with the 2012-16 electoral cycle. Further, the actions of the Federal Reserve Bank related to interest rates at the time were still unclear, creating uncertainty in real estate markets. Since 2013, we asked survey participants to rate their six-month expectations for the single-family residential mortgage rate. Every year, more than 50 percent of respondents expected an increase in interest rates. Further, 73 percent of respondents expected an increase in 2014 and 67 percent expected an increase in 2015. The Fed finally increased the interest rate in December 2015, after almost 10 years of no announced changes.

The starting point in the analysis is a key benchmark to understanding the evolution of the local market sentiment. In the case of the Gazarian Center Real Estate Sentiment Index, our analysis indicates a progressively more optimistic market after the 2007-09 financial crisis. The sentiment indices, including the sub-market indices, follow a similar pattern reflective of the local dynamics in each submarket. We did not find much divergence in the submarket trends, and the sentiment progression was particularly clear. One interesting result of our analysis is that though current conditions always reflected a relatively high positive sentiment, the six-month expected market sentiment usually was "worse" than the present. This is particularly interesting in that the next year's sentiment results still reflected a marginally higher sentiment.

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