

# Fresno INDUSTRIAL MARKET

## 2019 STARTS STRONG

### STATE OF THE MARKET

Fresno's industrial market remained active through the end of 2018, as overall vacancy fell to an impressive 1.5%, with some submarkets recording vacancy rates below 1.0%. The end of 2018 also saw a net absorption of 662,000 square feet marketwide, although more than half of the absorption took place in the southeast market sector, where larger distribution buildings are prevalent. The absorption in most of the other market sectors was more modest, at between 70,000 to 100,000 square feet absorbed. Weighted average lease rate was \$0.45/SF marketwide, although a closer look at the different submarkets shows that there was a significant variance between them: For instance, the northeast submarket boasted a \$0.80/SF average lease rate, compared with only \$0.37/SF for the southeast submarket.

Vacancy dropped a tenth of a point to 1.4% marketwide in the first quarter of 2019, while net absorption slowed to only 174,000 square feet marketwide, as 10,000 square feet was negatively absorbed in the South Fresno-Highway 99 Corridor. The South Fresno-Highway 99 Corridor is the only market sector showing negative net absorption. Weighted average lease rates dropped by \$0.02/SF marketwide when compared with the fourth quarter of 2018, which is interesting given that the vacancy rate is still trending downward, albeit slowly.

### HIGHLIGHTS

The first quarter of 2019 saw some significant sales transactions. Most notable was a portfolio of 54 light and bulk industrial buildings that sold for \$1.16 billion. The value-add portfolio includes industrial properties located across 10 markets and six states, including Washington, Pennsylvania, Oregon, Nevada, Illinois and California. One of the properties is the Amazon building, located at 3575 South Orange Avenue in Fresno. This facility, which comprises 855,000 square feet over 71 acres, was acquired for \$97.6 million. On a less grandiose scale, five industrial properties sold for prices ranging from \$1.0 million to \$1.5 million.

### SALES ACTIVITY

The market remains tight, as many owner-users and investors are waiting for quality product. If a functional piece of standing inventory is listed at market rate, it will likely receive multiple offers and its asking price can be achieved. Potential sellers appear reluctant to list property, citing goals of holding out for a better value down the road. Still, the market recorded 50 industrial sales transactions in the first quarter of 2019, compared with almost 60 transactions in the fourth quarter of 2018.

### CURRENT CONDITIONS

Leasing activity remains consistent

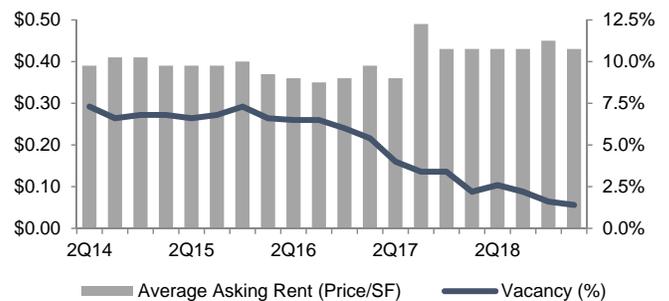
Vacancy rates remain low

Many buyers still searching market

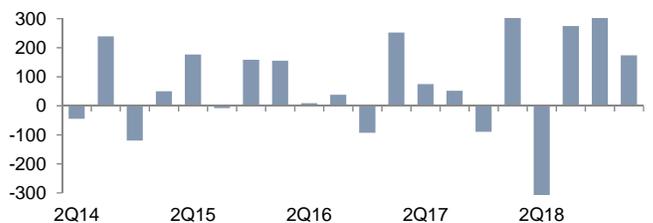
Local zoning and increased regulation slow new development

### MARKET ANALYSIS

#### Asking Rent and Availability



#### Net Absorption (SF, Thousands)



### MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	67.4 MSF	67.2 MSF	64.8 MSF	↑
Vacancy Rate	1.4%	1.6%	2.0%	↑
Quarterly Net Absorption	173,866	413,563	268,106	↓
Average Asking Rent	\$0.43	\$0.45	\$0.43	↓
Under Construction	257,168	74,509	1,545,000	↑
Deliveries	31,527	532,380	65,820	↑

## LOOKING AHEAD

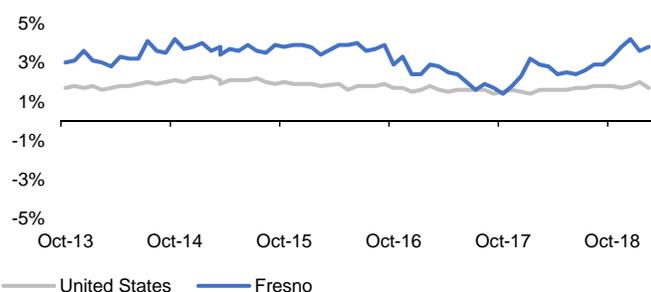
The end of 2018 and first quarter of 2019 saw limited new development, with the bulk of construction underway located in the two southern market sectors. There was effectively no new construction in the two northern market sectors in the first quarter. Recently, a mix of rezoning, new zoning codes and tightening regulations on new construction for industrial property at the city and state levels have begun crippling local developers of industrial real estate. The bulk of market activity will have to come from transactions on standing inventory or inventory already under construction that will be complete by the end of the year. It looks as though inventory will remain low, and prices could continue to increase slowly.

## ECONOMIC OUTLOOK

With the Congressional Budget Office projecting real disposable income to grow by 2.9% in 2019 and consumer spending to grow by 2.7%, the economy is poised to remain strong through the end of the year. Moreover, the strong economy coupled with a more dovish Federal Reserve can help extend the bull market into 2019. The unemployment numbers should stay historically strong at below 4.0%, and the creation of more jobs in 2019 will keep the economy growing along with its demand for real estate.

## PAYROLL EMPLOYMENT

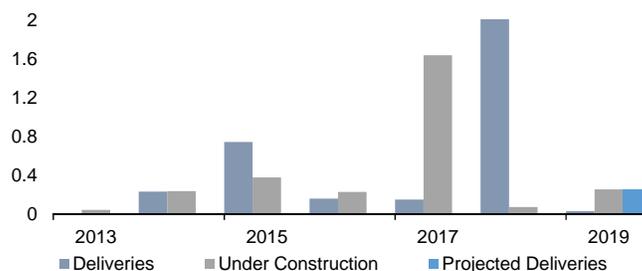
### Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSTRUCTION AND DELIVERIES

### Square Feet, Millions



## LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Taylor	3225 S Orange Ave	Southeast	Renewal	110,500
Fruit Fillings Inc	2875 S Elm Ave	Southwest	Renewal	51,984
N/A	3395 E North Ave	Southeast	Direct	50,000
Joseph T. Ryerson 7 Son	2550 East Ave	Southeast	Direct	45,571
Tire Warehouse	2825 S Elm Ave	Southwest	Renewal	25,992

## SELECT SALES TRANSACTIONS

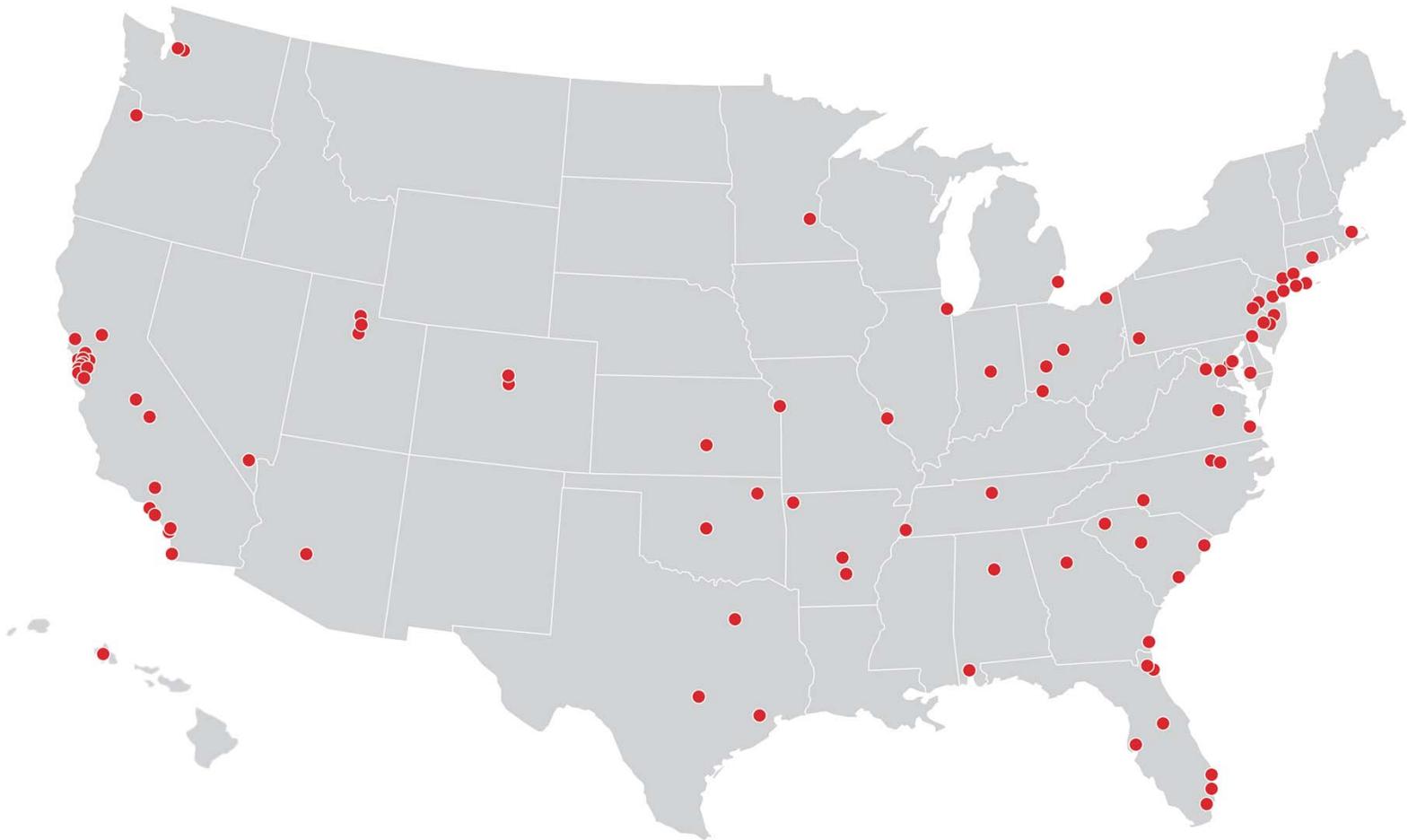
Building	Submarket	Sale Price	Price/SF	Square Feet
3575 S Orange Ave	Southeast	\$97,600,000	\$114	855,000
3705 N Golden State Blvd	Northeast	\$1,750,000	\$400	4,371
3187 E Commerce Ave	Southeast	\$1,575,000	\$99	15,900
2812 N Argyle Ave	Northeast	\$1,250,000	\$64	19,500
5494 E Lamona Avenue	Northeast	\$1,000,000	\$39	26,460

## SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Northeast	13,773,238	30,633	0.6%	22,285	22,285	\$0.72	-	\$0.72
Northwest	8,746,463	-	2.1%	21,241	21,241	\$0.52	\$0.72	\$0.64
S. Fresno-Hwy. 99 Corridor	6,106,403	171,535	1.8%	-9,980	-9,980	\$0.40	-	\$0.45
Southeast	30,569,114	55,000	1.6%	140,320	140,320	\$0.35	-	\$0.36
Southwest	8,202,815	-	1.2%	-	-	\$0.39	\$1.00	\$0.43
<b>Totals</b>	<b>67,398,033</b>	<b>257,168</b>	<b>1.4%</b>	<b>173,866</b>	<b>173,866</b>	<b>\$0.38</b>	<b>\$0.76</b>	<b>\$0.43</b>



## NEWMARK KNIGHT FRANK UNITED STATES OFFICE LOCATIONS



**Aaron Amaral**  
Research Manager  
559.447.6216  
aamaral@pearsonrealty.com

**Daniel Simon**  
Vice President  
559.447.6274  
dsimon@pearsonrealty.com

**Fresno**  
7480 N. Palm Avenue, Suite 101  
Fresno, CA 93711  
559.432.6200

Pearson Commercial  
DRE #00020875

[www.newmarkpearson.com](http://www.newmarkpearson.com)

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