



FRESNO
4Q15 OFFICE MARKET

YEAR ENDS,
STILL HEALTHY

Historically, the Fresno office market slows during the fourth quarter due to the holidays and the postponement of transactions until after the first of the year. The fourth quarter of 2015 proved no different, with a slight uptick in vacancy from 12.5% to 12.7%. For the entire year, vacancy dropped only three-tenths of 1.0%.

State of the Market

Even with the slight increase in vacancy, the market remained healthy at the end of 2015, with lease rates gradually increasing. This is due in part to the lack of new construction, which has created a balanced market and greater equilibrium between tenants and landlords. Concessions, once a part of nearly every lease negotiation, are becoming increasingly scarce.

As has been the case for the last several years, most fourth-quarter activity occurred in the submarkets north of Herndon Avenue. This was precipitated by the arrival of newer ancillary services, such as shopping, banking and food services, and of newer executive housing developments that together enable decision makers to office near their residence.

Going Greener

An emerging trend of the last several months is that tenants are becoming environmentally as well as economically conscious in determining office locations. Particularly with national credit firms, tenants are showing more interest in buildings that are LEED certified. Many of the items that produce points in achieving LEED status are directly related to cost savings for tenants, i.e., energy reduction and alternate energy sources, such as solar.

Sales Activity

Sales activity remained strong in the fourth quarter, due to a combination of a low-interest environment, volatile stock market and pent-up investment dollars that have been on the sidelines for several quarters. Capitalization rates are at historical lows, driving up values for owners and prompting them to put their properties on the market before projected rate increases in 2016. The increase in available property has reignited interest among 1031 Exchange buyers. CAP rates for well-positioned quality properties are hovering in the 6.5 to 7.5% range.

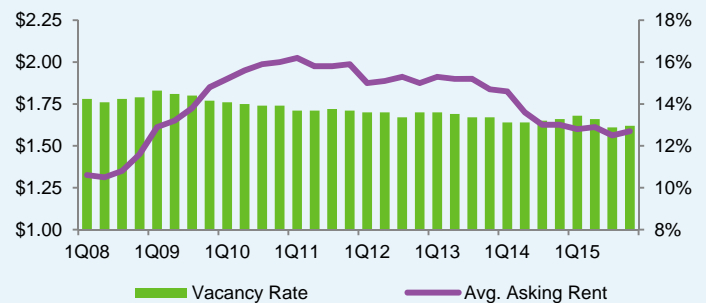
Owner/users trying to take advantage of the current low interest rates are finding it difficult to locate available properties. Speculative building has ceased for some time now, although there are a few quality existing alternatives in the market. The Boardwalk, the planned speculative project located at the southeast corner of Palm and Nees avenues, should provide some new owner user product in the 6,000 to 10,000-square-foot range.

Current Conditions

- Historical slowing in the quarter due to the holidays
- Market remains stable with rates rising gradually
- Tenants demanding environmentally friendly buildings
- Sales activity remains strong
- Good activity should continue into 2016

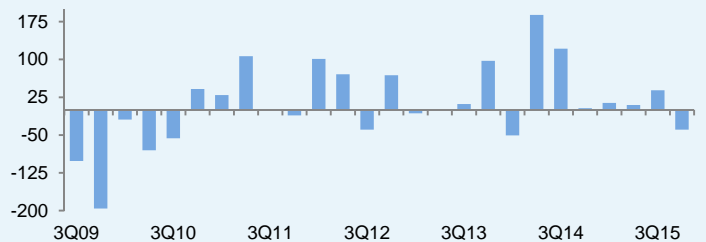
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Thousands



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.6MSF	19.6MSF	19.5MSF	↔
Vacancy Rate	12.7%	12.5%	13.0%	↓
Quarterly Net Absorption	-39,269	38,715	3,280	↔
Average Asking Rent	\$1.62	\$1.61	\$1.66	↔
Under Construction	16,410	16,410	7,035	↑
Deliveries	0	0	29,585	↔



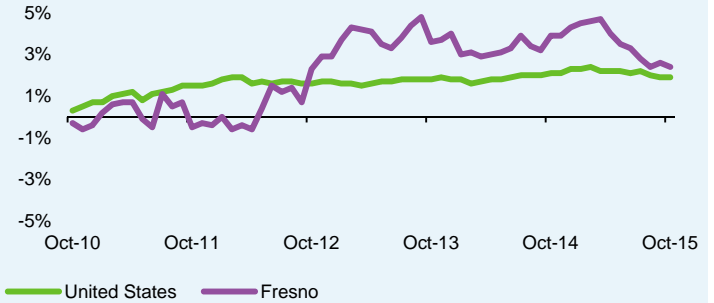
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Looking Ahead

Expect interest rates to tick upward throughout 2016, albeit only slightly due to the fragile state of the economy. A number of new Class A buildings are planned for this year, but will not hit the market until 2017. The overall market can best be described as stable and healthy, and there are no indications that this should not continue into 2017.

Payroll Employment

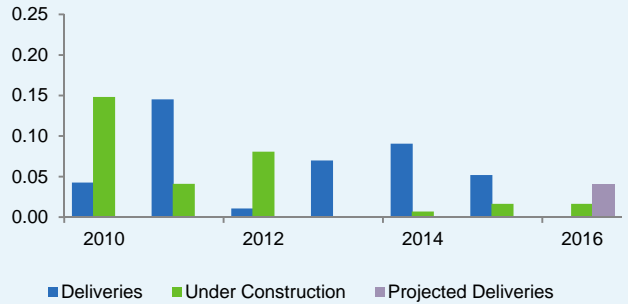
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, New York State Department of Labor

Construction and Deliveries

Square Feet, Millions



Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Wood Smith Henning & Berman LLP	Woodward Centre	Woodward	Expansion	6,821
N/A	3747 E Shields Ave	Midtown	Direct	4,870
Insurance Group	7647 N Fresno St	Woodward	Sublease	4,072
New Town Church	2743 E Shaw Ave	East Shaw	Direct	3,800
Community Housing Council of Fresno	2560 W Shaw Ln	West Shaw	Direct	3,714

Select Sales Transactions

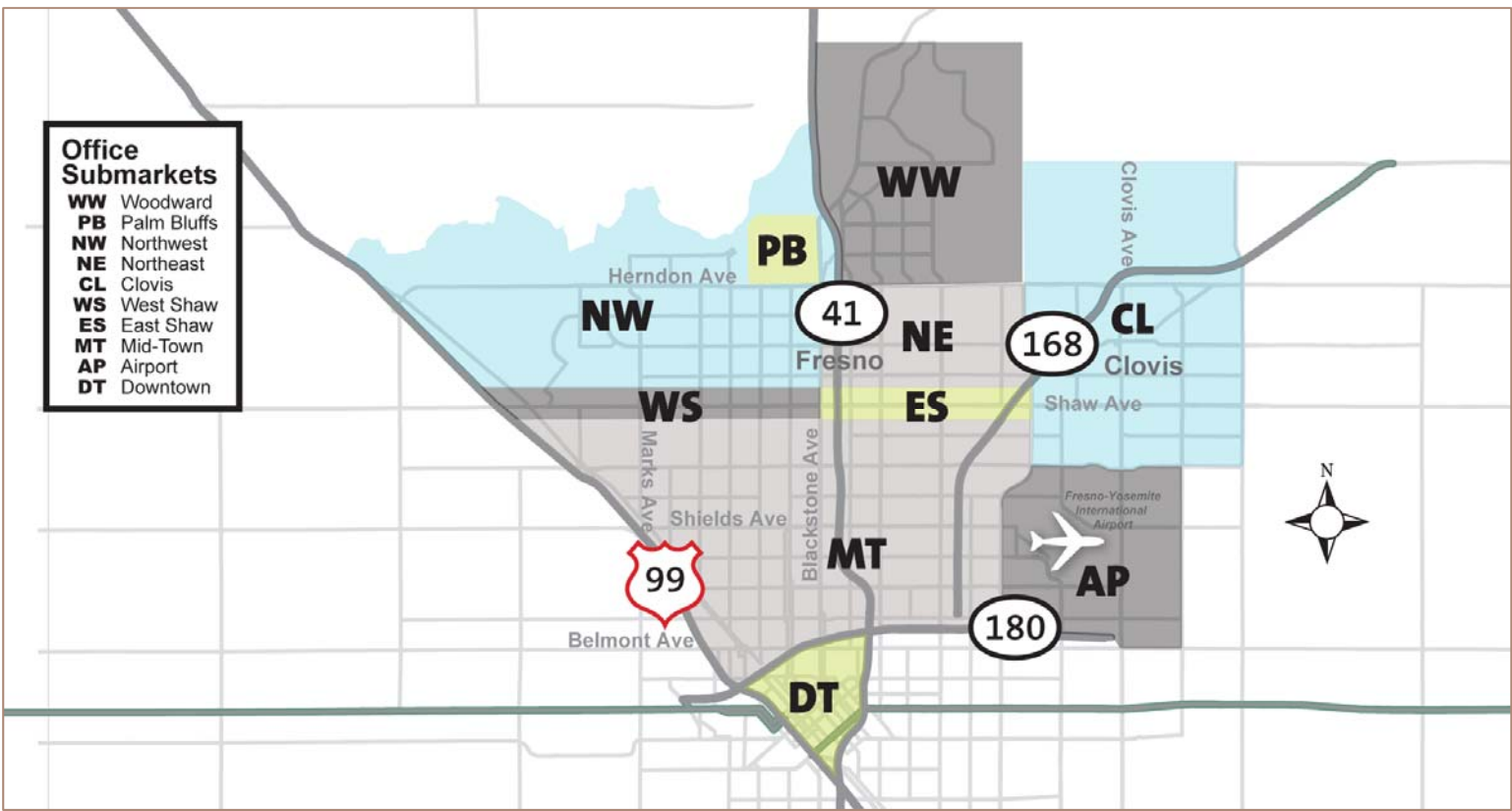
Building	Submarket	Sale Price	Price/SF	Square Feet
7625 N Palm Ave	Palm Bluffs	\$11,026,000	\$220	50,083
7065 N Maple Ave – Meridian	Woodward	\$3,471,000	\$327	10,612
334 W 5 th Street	Airport	\$3,225,000	\$289	11,149
2002 N Fine Ave	Airport	\$920,000	\$52	17,700
6045 N First St	Northeast	\$420,000	\$83	5,292



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Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Downtown/CBD	3,300,117	-	13.7%	578	-51,868	\$2.10	\$1.01	\$1.25
Airport	1,521,557	-	14.8%	-16,075	-16,653	-	\$1.43	\$1.38
Clovis	922,736	-	8.7%	8,856	20,688	-	\$1.69	\$1.66
East Shaw	1,400,788	-	22.2%	-3,347	1,386	-	\$1.56	\$1.55
Midtown	2,422,082	-	9.5%	2,787	5,415	-	\$1.44	\$1.29
Northeast	1,228,066	-	14.4%	-	15,116	\$2.25	\$1.90	\$1.62
Northwest	1,712,983	-	12.4%	-23,410	17,506	\$2.37	\$1.89	\$2.00
Palm Bluffs	1,709,704	16,410	11.0%	2,069	17,128	\$2.21	\$2.14	\$2.15
West Shaw	1,716,083	-	13.8%	-6,716	15,120	\$2.00	\$1.26	\$1.26
Woodward	3,665,794	-	10.1%	-4,551	4,910	\$2.37	\$2.07	\$2.22
Suburban Total	16,299,793	16,410	12.5%	-39,847	80,616	\$2.30	\$1.69	\$1.71
Market	19,599,910	16,410	12.7%	-39,269	28,748	\$2.23	\$1.60	\$1.62





Fresno

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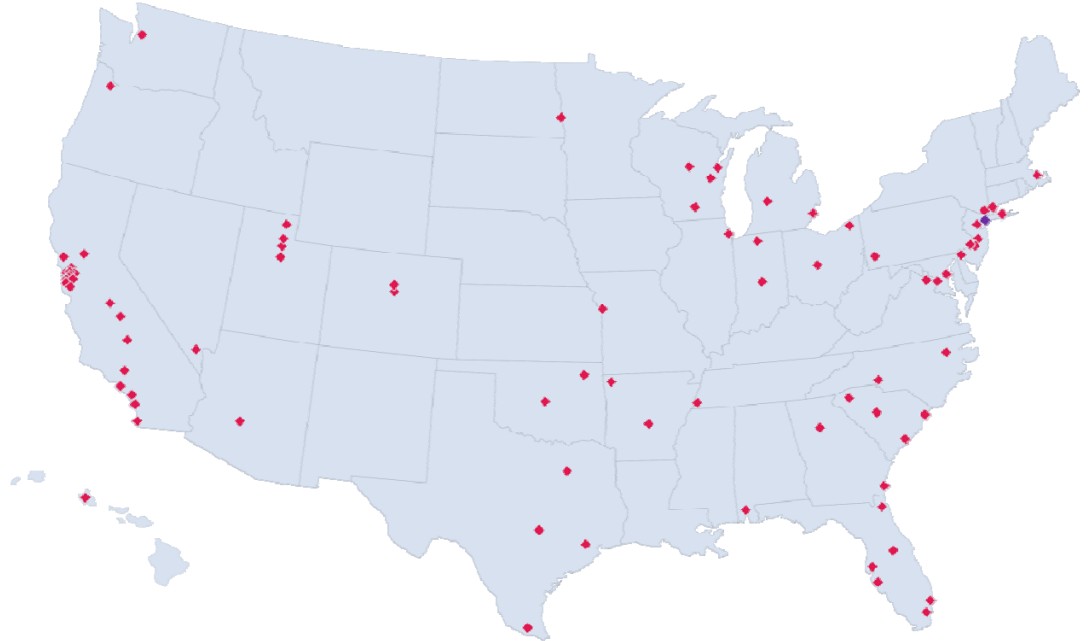
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