



FRESNO
2Q16 OFFICE MARKET

HEALTHIER, GREENER OFFICE MARKET

State of the Market

As the second quarter of 2016 came to a close, the Fresno office market continued its gradual growth, albeit mostly in the submarkets in the northern sector of the city. Overall vacancy dropped nearly half a percentage point from last quarter to 12.3%, which represented a greater decrease than was reported for the entire year in 2015.

The market has more or less fully recovered from the depths of the recession of 2008 and 2009. Effective lease rates continue to inch up, with concessions such as free rent no longer playing a very large role in lease negotiations. There appears to be a good balance between landlords and tenants, which indicates a healthy market.

Historically, the market slows somewhat at the end of the second quarter, as summer begins. However, over the past few years, office activity has remained constant through the season, and it is anticipated to continue in 2016. Most of this activity should be centered on the North Fresno submarkets, which run along the Herndon Avenue Corridor.

Green Impact

Tenants are increasingly likely to make environmental concerns a factor when selecting a location. Environmentally friendly buildings, particularly those that are LEED certified, generally provide the added benefit of lower operating costs. This trend is expected to continue, with landlords gradually retrofitting their properties to reduce operating costs and satisfy tenants' environmental demands.

Sales Activity

Office building sales were active in the second quarter and should remain so for the remainder of the year, barring any cataclysmic events. With Britain's recent exit from the European Union, the stock market should be volatile for the foreseeable future, which should drive more investor dollars into commercial real estate. This, coupled with a low-interest environment, should fuel investor interest in office investment property. Capitalization rates are still at historic lows, driving up property values, which should drive more properties coming onto the market, as sellers take advantage of their assets peaking in value. As has been the case for the past several quarters, there is pent-up demand of investment dollars that have been sitting on the sidelines because of a lack of available product. The confluence of this demand and available product should continue to drive sales activity well into the future.

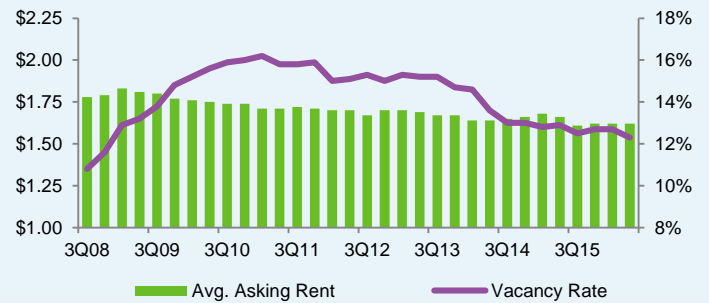
Owner-users are still in the market due to low interest rates, but there is very little product to satisfy their needs. The Boardwalk at Palm and Nees avenues has broken ground on the first phase of a nine-building

Current Conditions

- Overall vacancy down significantly
- Market has recovered from recession of 2008-2009
- Tenants becoming environmentally conscious
- Sales activity continues to be strong
- Construction ramping up to meet demands

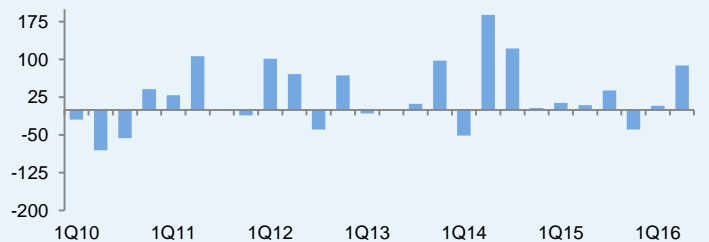
Market Analysis

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	12.3%	12.7%	12.9%	↓
Quarterly Net Absorption	88,378	8,168	9,485	↔
Average Asking Rent	\$1.61	\$1.62	\$1.66	↑
Under Construction	71,792	24,00	16,410	↑
Deliveries	8,000	8,410	44,919	↑



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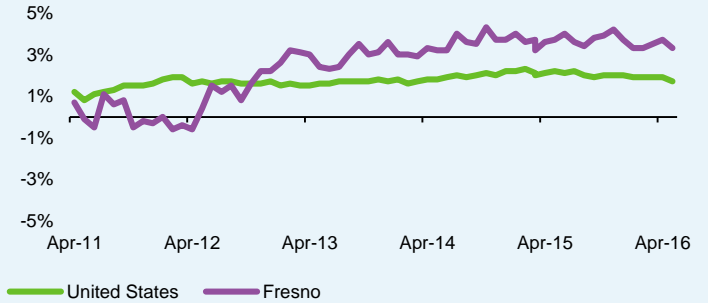
project and has experienced good activity with several buildings under contract.

Looking Ahead

The remainder of 2016 will likely offer a stable interest rate environment, due to economic volatility; the commencement of new office product, due to dropping vacancy rates and a lack of large contiguous space; and increased demand by investors in office product, due to its stability and the instability of the stock market.

Payroll Employment

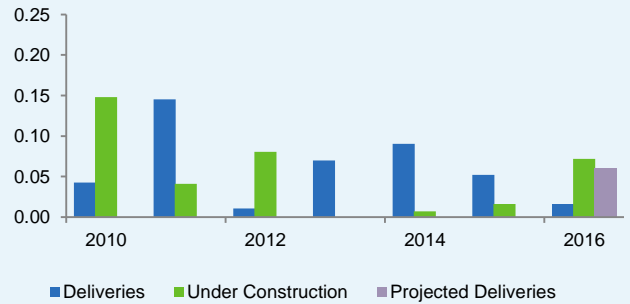
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

Construction and Deliveries

Square Feet, Millions



Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Valley Health Team	1690 W Shaw Ave	West Shaw	Direct	11,141
BCT Consulting, Inc.	7910 N Ingram Ave	Palm Bluffs	Direct	7,729
NA	702-764 P St	Downtown	Direct	7,500
Big Valley Mortgage	7485 N Palm Ave	Palm Bluffs	Direct	5,418
Fresnius Medical Care North Fresno	6733 N Willow Ave	Northeast	Direct	4,732

Select Sales Transactions

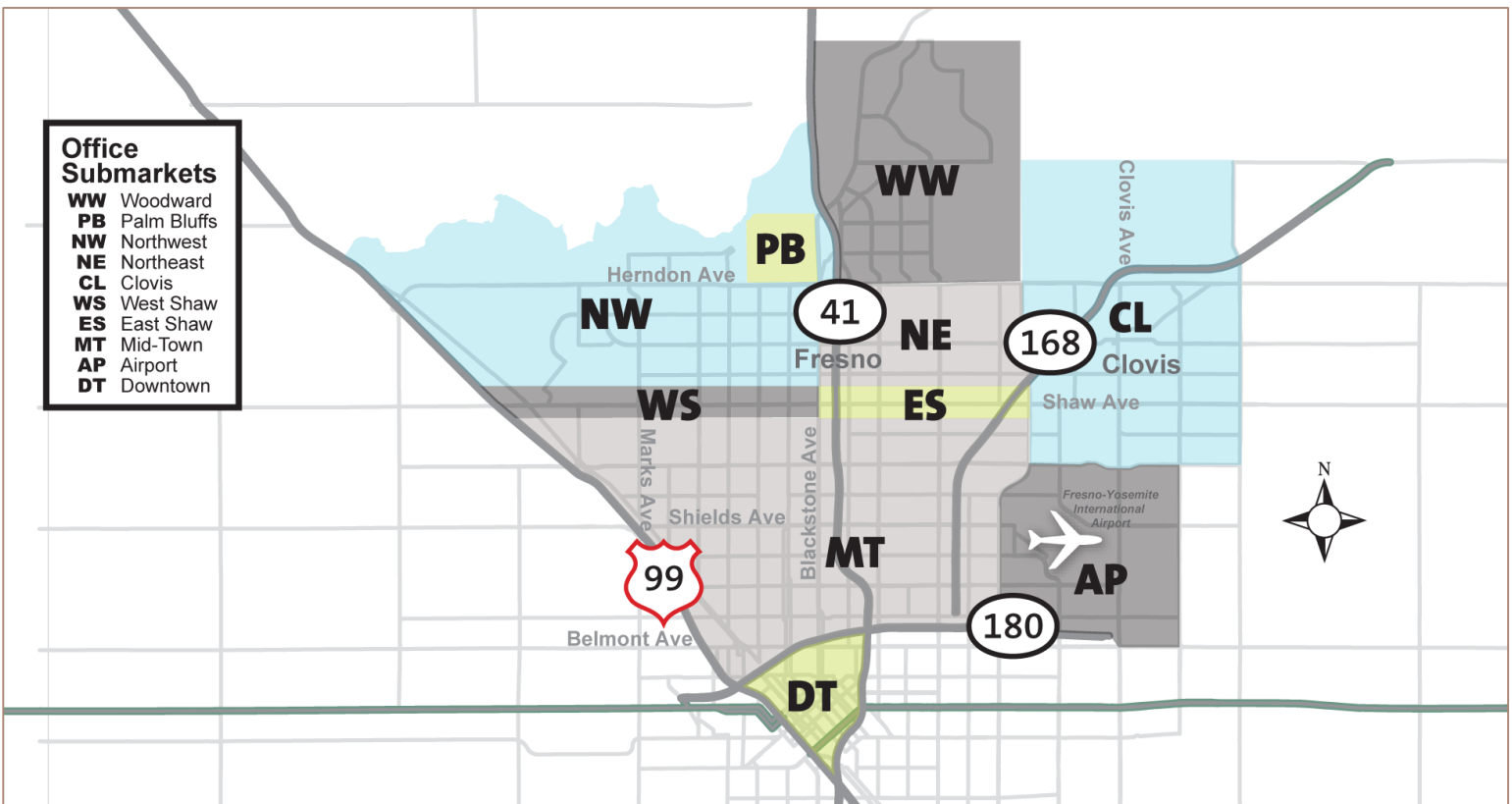
Building	Submarket	Sale Price	Price/SF	Square Feet
1330 E Shaw Ave	East Shaw	\$13,750,000	\$81	168,991
2006 Shaw Ave	Clovis	\$1,700,000	\$283	6,000
4047-4049 N Fresno St	Midtown	\$550,000	\$72	7,656
5550 N Palm Ave	Northwest	\$480,000	\$100	4,800
5100 N 6 th St	East Shaw	\$329,000	\$66	5,000



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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	-	12.9%	31,774	25,980	\$1.96	\$1.02	\$1.16
Airport	1,521,557	-	13.7%	9,323	15,723	-	\$1.44	\$1.38
Clovis	922,736	27,000	8.0%	6,680	9,342	-	\$1.70	\$1.67
East Shaw	1,344,534	-	20.8%	22,194	30,993	-	\$1.56	\$1.55
Midtown	2,421,532	-	9.6%	-1,850	-2,875	-	\$1.44	\$1.28
Northeast	1,228,066	-	14.9%	-4,672	-6,054	\$2.15	\$1.59	\$1.64
Northwest	1,712,983	-	12.2%	1,175	2,778	\$2.37	\$1.88	\$2.00
Palm Bluffs	1,726,114	44,792	11.3%	490	1,382	\$2.21	\$2.12	\$2.13
West Shaw	1,716,083	-	13.5%	7,658	4,929	-	\$1.22	\$1.22
Woodward	3,665,794	-	9.7%	15,606	14,348	\$2.38	\$2.08	\$2.23
Suburban Total	16,264,399	71,792	12.1%	56,604	70,566	\$2.36	\$1.69	\$1.71
Market	19,564,516	71,792	12.3%	88,378	96,546	\$2.26	\$1.60	\$1.61





Fresno

Pearson Commercial
7480 N. Palm Ave., Suite 101
Fresno, CA 93711
559.432.6200

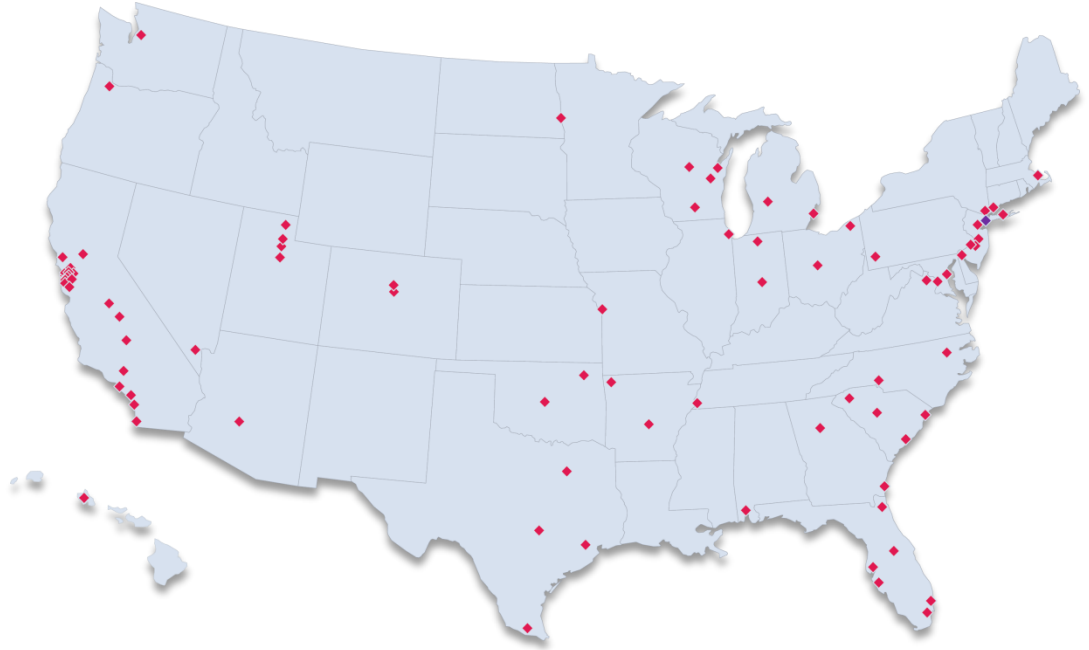
Corporate CA RE #00020875

Aaron Amaral

Office Division Research Manager
559.447.6216
aamaral@pearsonrealty.com

Phil Souza

Senior Vice President
559.447.6283
psouza@pearsonrealty.com

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