



FRESNO  
3Q16 INDUSTRIAL MARKET

STANDING STILL

Midway through 2016, the industrial market is doing well. As with most California industrial markets, the regional marketplace, including Fresno and Visalia, is absorbing space and experiencing increasing values. Demand for existing space across most product types is steady and supply is decreasing. The results are expected: New development is occurring and asking prices are increasing. Concerns about ag-related businesses scaling back operations due to the drought have not materialized, which bodes well for the region, especially if there is a wet winter and spring. Overall, the sentiment in the market is that the local and regional economy is reasonably strong, and there are few concerns that negative changes are on the horizon.

Steady Demand

Many of the same factors that have been positively affecting the area's marketplaces continue to result in steady demand. High-speed rail relocations in Fresno are ongoing and will likely conclude over the next 12 months. Most businesses impacted in the southern part of the Fresno industrial submarkets, where the most relocations have occurred, either have moved or will move soon. Consequently, users and developers have built a number of new buildings to accommodate the strongest businesses. An example is Central Valley Trailer Repair, which recently acquired a prime 12.0-acre site and is building a state-of-the-art, 65,000-square-foot sales and service facility scheduled to open in late 2016. Additionally, small users (those requiring less than 10,000 square feet) represent a significant portion of the activity over the last few years. Siting these small businesses, whether they want to own or lease, is very challenging, since only 20 new small buildings have been constructed in the last 24 months, and the availability of decent alternatives has dramatically decreased.

Ecommerce is Coming

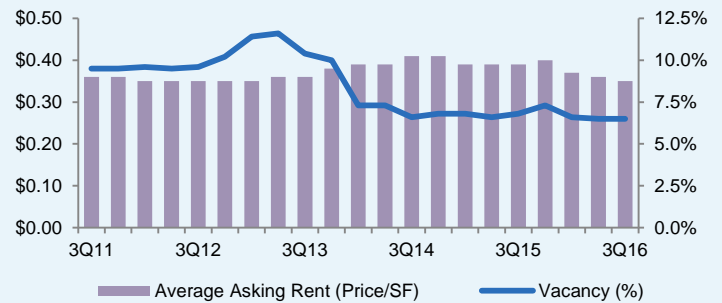
The fast-changing shift to expedited (one or two-day or even same-day) delivery of products purchased online is causing companies to consider locating their newest facilities in the central part of California. Each company has its own distribution model and supply chain, so the Fresno area is not a good location for some companies, an increasing number of users are evaluating the market to locate warehouses. The Fresno area has typically attracted warehouse users needing a regional hub to service regional customers or users reliant on third-party shippers (UPS, FedEx, OnTrac) to reach most of California overnight via ground transport. Generally, these users require less than 200,000 square feet and a moderate number of employees for their bulk storage and occasional pick-and-pack operations. The ecommerce related requirements are much larger (500,000+ square feet) and have much higher employee counts (500+ jobs), even though the operations are highly automated.

Current Conditions

- Availability of quality product continues to decrease
- Demand across all product types remains steady
- E-commerce-related requirements are in the market
- Pricing for leases and sales is gradually rising
- Ready-to-develop industrial land is scarce in Fresno and abundant in Visalia

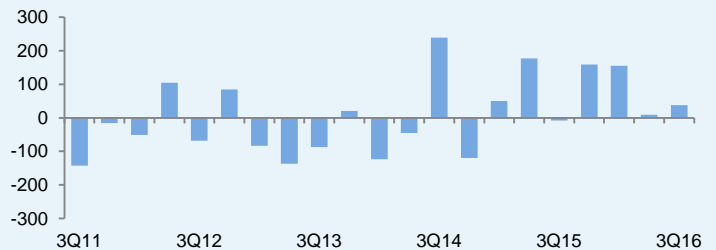
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Thousands



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	65MSF	65MSF	64MSF	↑
Vacancy Rate	6.5%	6.5%	6.8%	↓
Quarterly Net Absorption	38,088	9,044	8,008	↑
Average Asking Rent	\$0.35	\$0.36	\$0.40	↔
Under Construction	15,828	23,970	931,308	↑
Deliveries	0	62,680	139,056	↑



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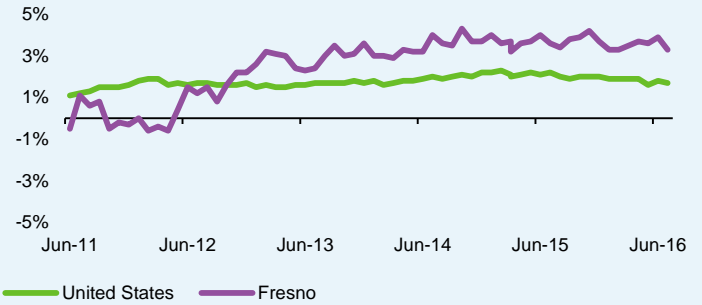
Those considering the area are evaluating sites in Fresno and Visalia, and it is likely that once the first project selects either location, more will follow.

**Tale of Two Cities**

As a result of the ecommerce projects flowing into the area, it has become apparent that Fresno and Visalia are the most likely destination for large, new buildings. These large requirements demand more than 40 acres per building, making ample, developable land a requirement for securing more than a few of these companies. In Fresno, only three sites are available to large users that need to begin construction in under a year, while in Visalia, there are over 400 acres that are readily developable. Historically, each market has absorbed less than 100 acres each year, exclusive of a large requirement like VF's warehouse (40-plus acres) in Visalia. Even though meaningful differences exist between Visalia and Fresno, particularly Fresno's larger labor pool and proximity to more services and amenities, Visalia may be in a position to capture more of these oversized requirements, because it has more land that can be easily developed.

**Payroll Employment**

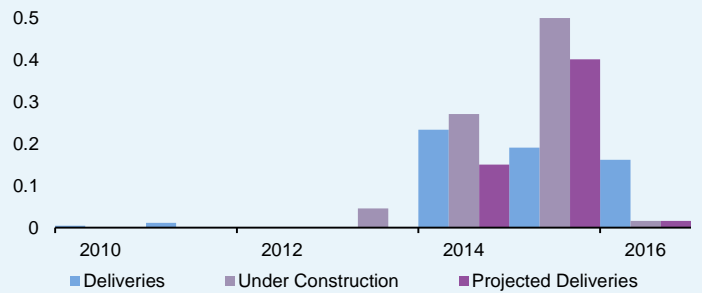
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

**Construction and Deliveries**

Square Feet, Thousands



**Lease/User Transactions**

Tenant	Building	Submarket	Type	Square Feet
GSA	3211 S Northpointe Drive	Southeast	Direct	93,004
American Promotional Events, Inc.	2945 S Elm Avenue	Southwest	Lease Renewal	34,200
Metra Electronics Corp	4333 S Minnewawa Avenue	S. Fresno-Hwy. 99 Corridor	Direct	32,600
Zim Industries	4333 E Jefferson Avenue	S. Fresno-Hwy. 99 Corridor	Direct	30,000
Current Culture H20	4333 S Minnewawa Avenue	S. Fresno-Hwy. 99 Corridor	Direct	28,000

**Select Sales Transactions**

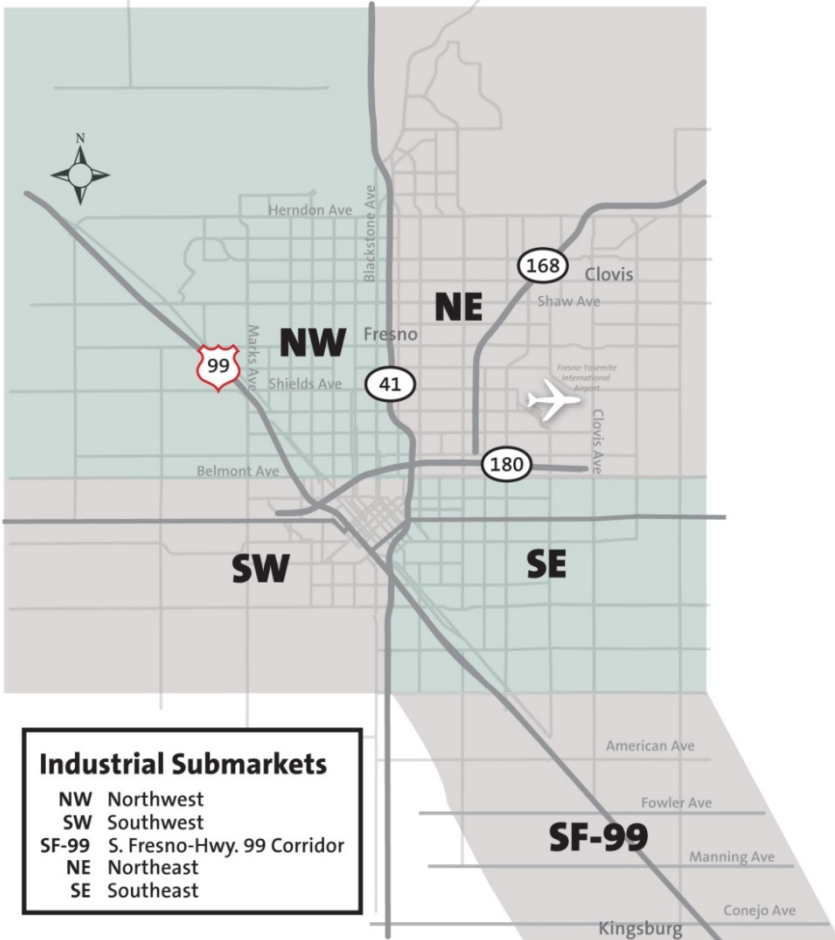
Building	Submarket	Sale Price	Price/SF	Square Feet
300 W Peach Avenue	S. Fresno-Hwy. 99 Corridor	\$2,750,000	\$33	82,213
1600-1650 H Street	Southwest	\$925,000	\$23	40,630
2540 S Sarah Avenue	Southeast	\$890,000	\$44	20,000
5477 E Hedges Avenue	Northeast	\$680,000	\$68	9,800



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**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	13,501,878	15,828	4.0%	7,542	-14,966	\$0.41	\$1.31	\$0.48
Northwest	8,982,501	8,142	7.1%	6,380	-54,663	\$0.46	\$0.89	\$0.53
S. Fresno-Hwy.99 Corridor	6,097,132	-	10.7%	60,600	88,100	\$0.25	-	\$0.26
Southeast	28,924,938	-	6.6%	45,803	280,958	\$0.21	\$0.56	\$0.24
Southwest	7,758,925	-	5.9%	-82,237	-72,177	\$0.10	\$0.80	\$0.30
<b>Totals</b>	<b>65,265,374</b>	<b>23,970</b>	<b>6.5%</b>	<b>38,088</b>	<b>227,252</b>	<b>\$0.28</b>	<b>\$0.93</b>	<b>\$0.35</b>






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**Fresno**

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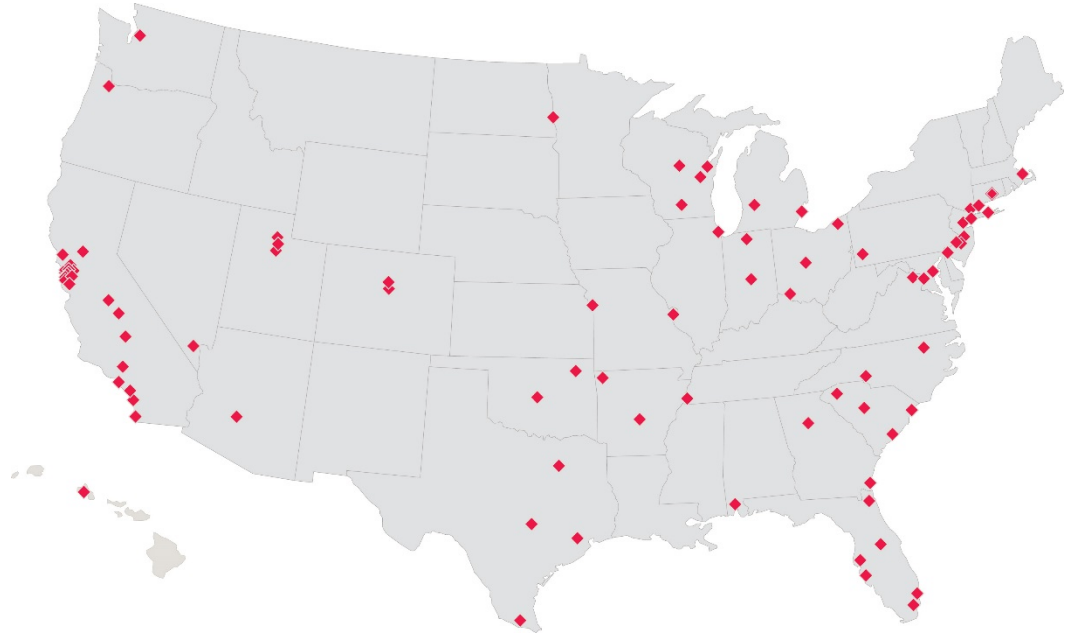
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