

FRESNO  
2Q17 OFFICE MARKET

## MARKET REMAINS HEALTHY

### State of the Market

The Fresno office market recorded little movement in its lease rates during the second quarter of 2017 but experienced its highest increase in overall vacancy in several quarters. This was largely due to a fairly sizeable downtown office building being vacated, which resulted in vacancy increasing 2.4% in the submarket and 0.4% in the overall market. Conversely, most of the other submarkets saw a slight decrease in vacancy.

Even with the increased vacancy, the market remains healthy with lease rates gradually increasing. Concessions are increasingly rare in negotiations, and the market appears to be balanced between tenants and landlords. There is little new construction either underway or planned for the near future. This contrasts with the first quarter, when large projects were under construction in the Clovis and Palm Bluffs submarkets. Due to the previously mentioned large vacancy in the downtown submarket, year-to-date net absorption is actually in negative territory. The northern submarkets remain the most active, as has been the case for the past several years. This is due in part to all of the ancillary services in the area including shopping, banking and food service. Additionally, most new high-end residential projects are being developed in the north Fresno area, which enables “decision makers” to lease offices near their residences.

### Highlights

Two new, Class A, multi-story office buildings may commence construction by the end of the year. Both projects would be located within the Woodward Park submarket. With Class A vacancy, particularly for large contiguous space, becoming increasingly scarce, there appears to be a need for this new product. One interesting trend that the Fresno market is experiencing is that tenants are comparing properties based on “occupancy costs” rather than lease rates. Occupancy costs take into consideration not only the quoted lease rate but also the tenant responsible operating expenses and common area load factors. Those items provide a tenant a more accurate picture of what their actual lease costs would be in a building and allow them to more accurately compare properties under consideration. As mentioned in a past report, tenants are demanding greener buildings as they become environmentally as well as economically conscious, since greener buildings tend to have lower operating costs.

### Sales Activity

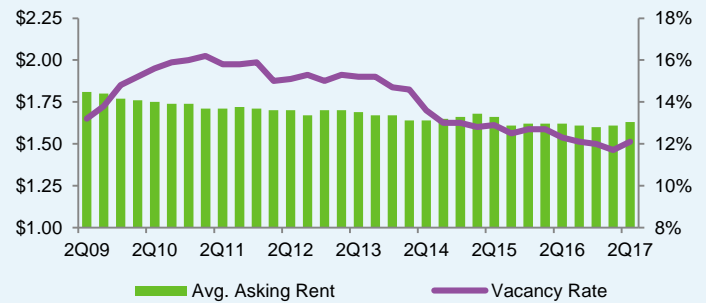
Sales activity continued to be very strong during the second quarter. Several factors, including low interest rates and a substantial amount of 1031 exchange money, appeared to drive this activity. Capitalization rates are at historic lows, which propel values upward, prompting owners to put their properties on the market to capture this spike in values. The only limiting factor that can be anticipated is the lack of new product coming on the market.

### Current Conditions

- Lease rates holding steady with slight increases
- Vacancy up-tick should be short lived
- Additional Class A product needed
- Sales continue strong pace
- Good equilibrium between landlords and tenants

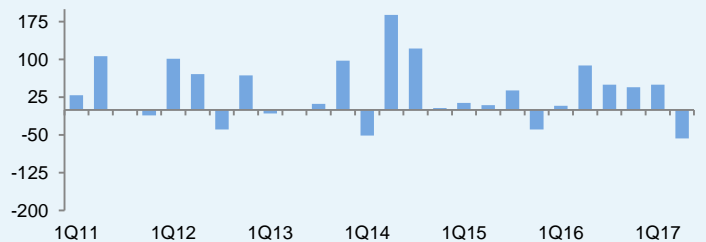
### Market Analysis

#### Asking Rent and Vacancy



#### Net Absorption

Square Feet, Thousands



### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.7MSF	19.6MSF	19.6MSF	↑
Vacancy Rate	12.1%	11.7%	12.3%	↓
Quarterly Net Absorption	-56,745	49,668	88,378	↔
Average Asking Rent	\$1.63	\$1.61	\$1.61	↑
Under Construction	74,436	114,995	71,792	↑
Deliveries	18,664	0	8,000	↑



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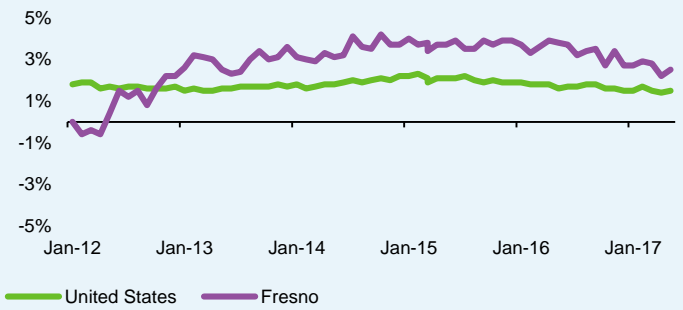
Owner/user sales activity has slowed due to the lack of product on the market except for the Boardwalk at Palm Bluffs office project. It was reported in the prior quarter that the nine-building development experienced a rapid absorption of the product, which illustrates the pent-up demand of owner/users for well-located property.

**Looking Ahead**

Expect both lease and sales activity to continue at a moderate pace with vacancy decreasing in most of the submarkets, particularly for Class A space in the northern submarkets. The balance between tenants and landlords should remain stable as the overall market grows at a sustainable pace.

**Payroll Employment**

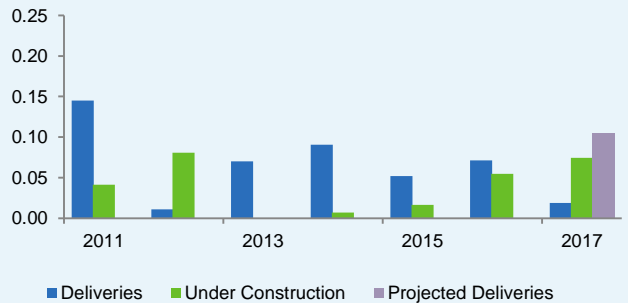
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

**Construction and Deliveries**

Square Feet, Millions



**Lease/User Transactions**

Tenant	Building	Submarket	Type	Square Feet
State of California - Dept. of Justice	1645-1685 E Street	Downtown	Renewal	35,400
N/A	4491 W Shaw Ave	West Shaw	Direct	18,280
California Health Collaborative	Channing Court	West Shaw	Renewal	9,315
Valley Regional Insurance Services	7576 N Ingram Ave	Palm Bluffs	Direct	7,926
Vivek Mittal, & Manisha Mittal, M.D.	Meridian Professional Center	Woodward	Direct	5,148

**Select Sales Transactions**

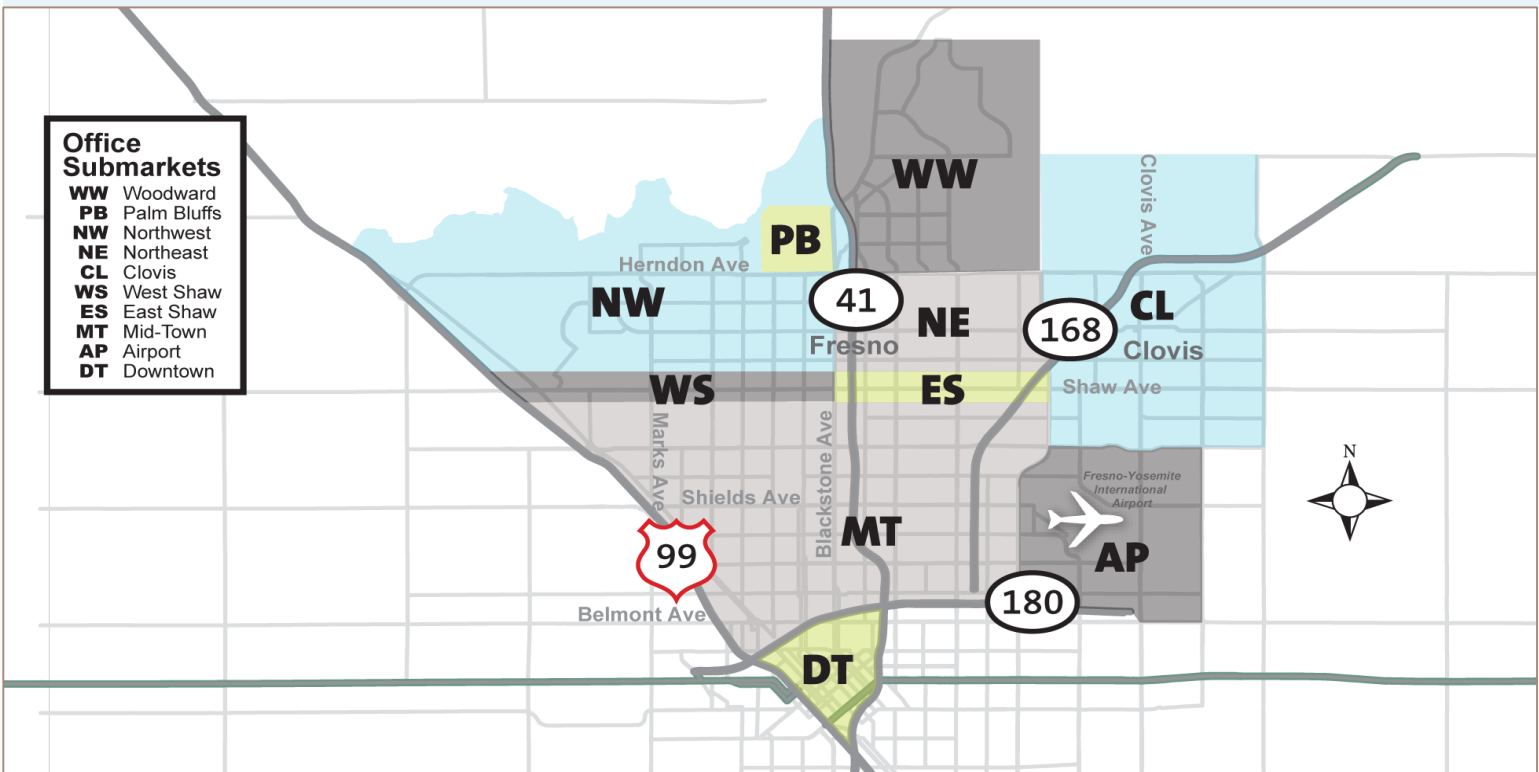
Building	Submarket	Sale Price	Price/SF	Square Feet
120 & 180 N Clovis Ave	Clovis	\$8,100,000	\$250	32,400
1551 E Shaw Ave	East Shaw	\$1,200,000	\$42	28,487
334 Shaw Ave	Clovis	\$1,750,000	\$82	21,376
Shaw Sixth Square 100-113	East Shaw	\$383,520	\$47	8,160
Boardwalk at Palm Bluffs, Bldg. K	Palm Bluffs	\$1,725,960	\$285	6,056



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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	-	15.0%	-77,809	-71,988	\$2.05	\$1.00	\$1.24
Airport	1,509,834	2,000	14.6%	3,821	-203	-	\$1.45	\$1.40
Clovis	954,736	34,804	6.9%	513	6,542	\$2.48	\$1.84	\$1.92
East Shaw	1,344,438	-	17.8%	-5,139	-4,499	-	\$1.48	\$1.47
Midtown	2,421,655	14,000	8.9%	5,491	13,491	-	\$1.48	\$1.27
Northeast	1,218,966	-	13.3%	1,359	10,686	\$2.15	\$1.65	\$1.69
Northwest	1,717,947	6,000	11.7%	-30,909	1,058	\$2.36	\$1.77	\$1.93
Palm Bluffs	1,838,781	17,632	12.8%	12,287	12,090	\$2.61	\$2.30	\$2.32
West Shaw	1,716,083	-	13.7%	13,341	3,695	-	\$1.40	\$1.34
Woodward	3,665,794	-	8.7%	20,300	22,051	\$2.24	\$2.01	\$2.16
<b>Suburban Total</b>	<b>16,388,234</b>	<b>74,436</b>	<b>11.6%</b>	<b>21,064</b>	<b>64,911</b>	<b>\$2.28</b>	<b>\$1.73</b>	<b>\$1.74</b>
<b>Market</b>	<b>19,688,351</b>	<b>74,436</b>	<b>12.1%</b>	<b>-56,745</b>	<b>-7,077</b>	<b>\$2.23</b>	<b>\$1.63</b>	<b>\$1.63</b>






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**Fresno**

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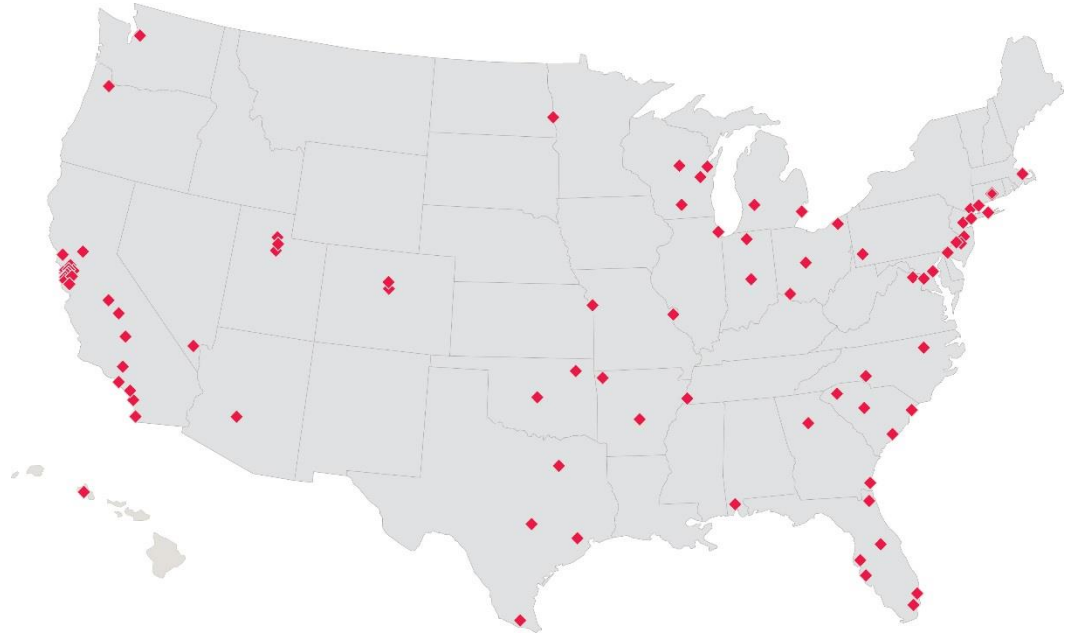
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