

FRESNO OFFICE MARKET

SUSTAINABLE GROWTH

STATE OF THE MARKET

Fresno's office market remained strong in the second quarter of 2018, although a few submarkets experienced minor increases in vacancy rates, most likely because of greater demand for office space in the northern submarkets. The East Shaw submarket recorded the greatest change in vacancy, an increase of 1.3% over the second quarter. East Shaw Avenue also remained the submarket with the highest vacancy rate at 19.1%. The second-quarter vacancy rate decreased to 11%, down 0.7% from the end of 2017. Average asking rents increased \$0.01/SF. Year-to-date absorption ended the second quarter in the positive with 141,747 square feet.

HIGHLIGHTS

The Fresno market saw construction begin on a new, 27,430-square-foot Class B office complex in the Northwest submarket. This new office complex will be divided into three separate buildings ranging from 6,650 square feet to 14,130 square feet in size. Condominiums can be purchased that are as small as 1,990 square feet and as large as 14,130 square feet.

Leasing activity remained in the landlord's favor, induced by the drop in overall vacancy rates, slight upticks in rental rates and minimal new construction. With the increase in competition for quality office space, tenants continue to receive less free rent and tenant improvement money than in the past. As discussed in a previous report, the trend toward triple net leases means tenants are taking greater responsibility for building expenses.

SALES ACTIVITY

The sales market remained very competitive in the second quarter of 2018 for both investors and owner/users. Factors aiding the competition were lack of quality investment product hitting the market, relatively inexpensive financing and the absence of new construction. Investors with 1031 exchange money are looking to off-market deals to fill their requirements. Low vacancy rates and strong rental rates will continue to strengthen values for the foreseeable future.

LOOKING AHEAD

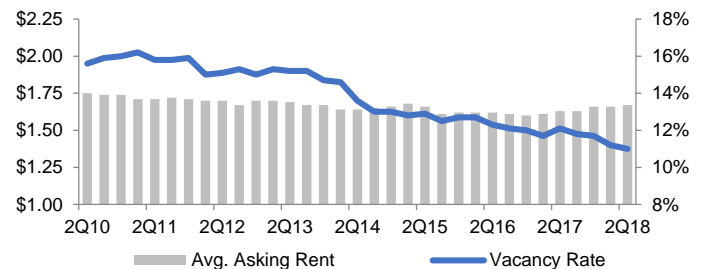
A new, multi-story Class A office building is set to break ground in the third quarter. This planned construction was sparked by a pent-up demand from tenants with requirements for Class A office space greater than 20,000 contiguous square feet. Construction is expected to complete in mid-2019.

CURRENT CONDITIONS

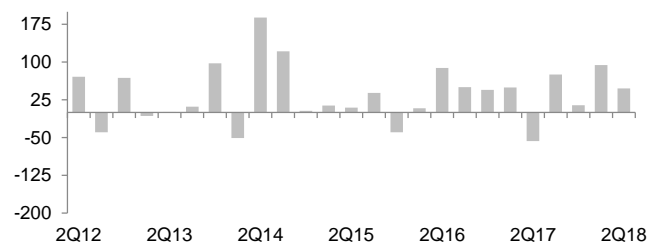
- Overall vacancy rate declines
- New construction in the Northwest submarket
- Good foundation for growth
- Investors search for off-market transactions
- Fresno office market remains healthy

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Thousands)



MARKET SUMMARY

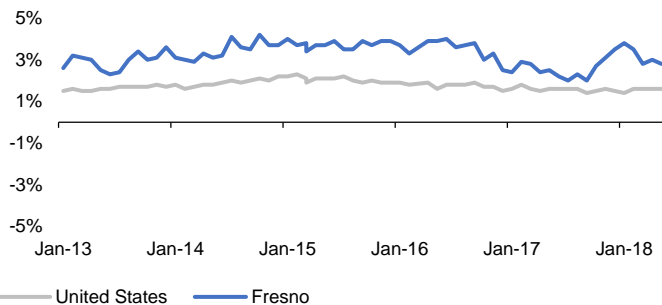
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.8MSF	19.8MSF	19.7MSF	↑
Vacancy Rate	11.0%	11.2%	12.1%	↓
Quarterly Net Absorption	47,719	94,028	-56,745	↑
Average Asking Rent	\$1.67	\$1.66	\$1.63	↑
Under Construction	31,660	36,328	74,436	↑
Deliveries	0	5,885	18,664	↑

LOOKING AHEAD (CONTINUED)

Leasing and sales activity are expected to remain at a steady pace. Competition for quality investment grade product will continue, aided by low interest rates and a lack of listings on the market. The balance between landlord and tenant will remain steady as market growth occurs. Recent successful quarters have laid a stable foundation for market growth in the foreseeable future.

PAYROLL EMPLOYMENT

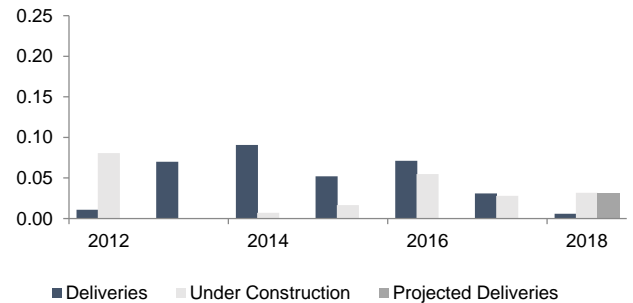
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSTRUCTION AND DELIVERIES

Square Feet, Millions



LEASE/USER TRANSACTIONS

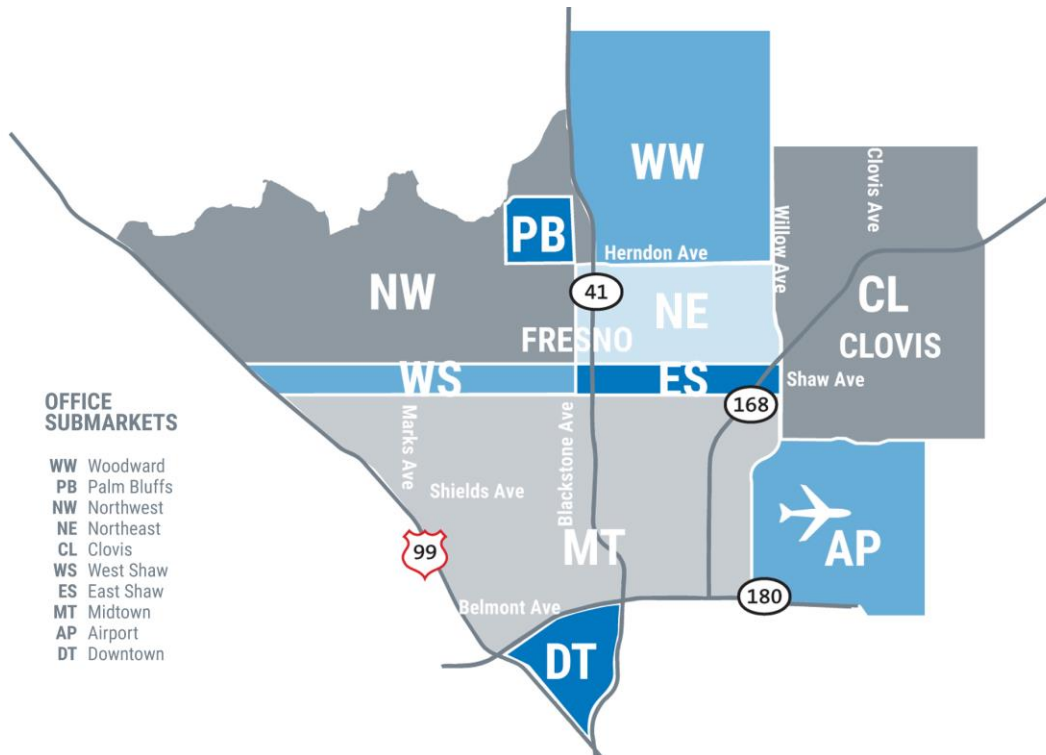
Tenant	Building	Submarket	Type	Square Feet
Kennedy & Coe, LLC	Park View Plaza	Woodward	Direct	9,235
Integrated Prescription Mgmt	Park Place	Palm Bluffs	Direct	9,019
Health Net	7625 N Palm Ave	Palm Bluffs	Expansion	8,013
SCF Holdings Inc	Shaw Forty-One Center	East Shaw	Expansion	6,514
North American Title Insurance Co	7555 N Palm Ave	Palm Bluffs	Direct	5,200

SELECT SALES TRANSACTIONS

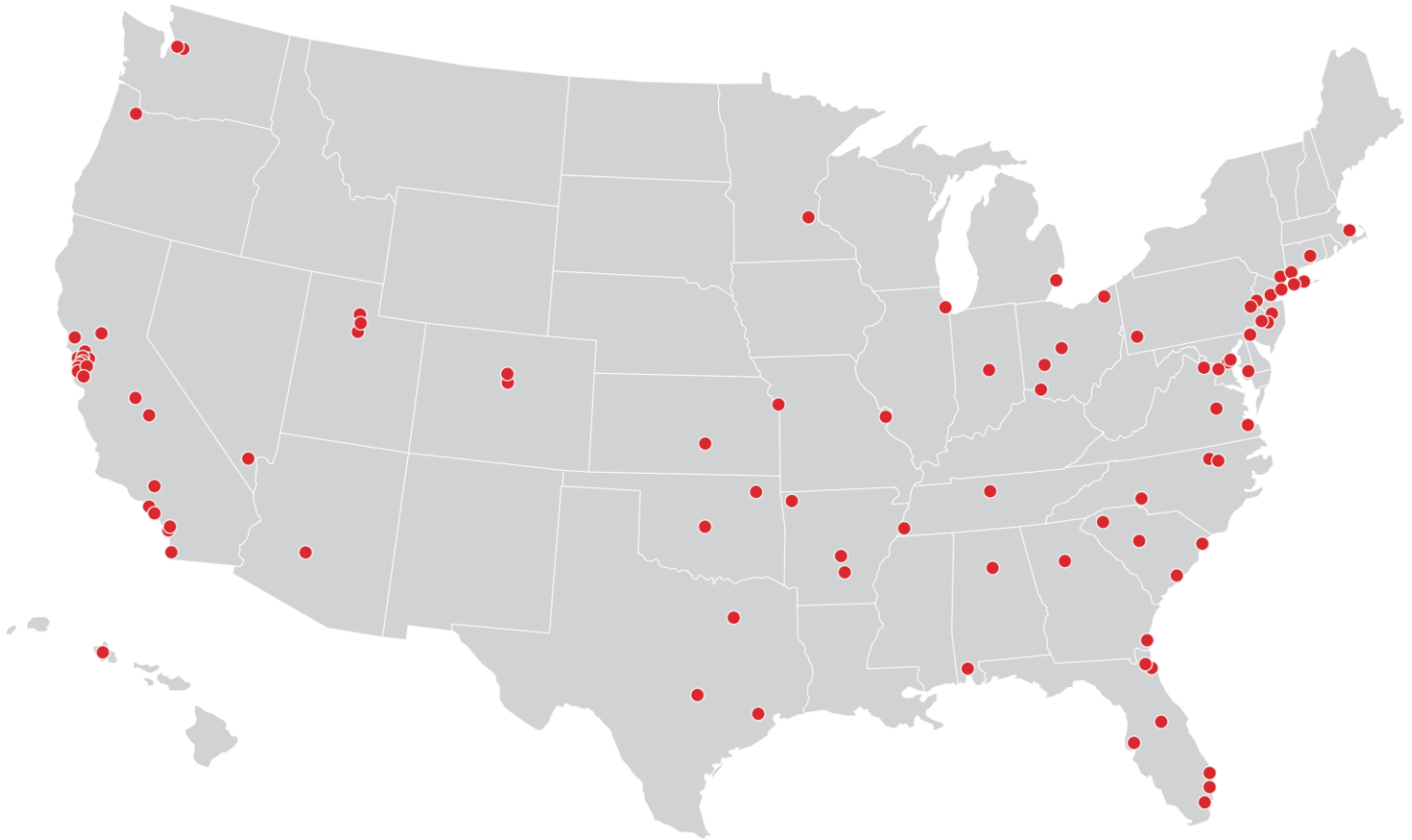
Building	Submarket	Sale Price	Price/SF	Square Feet
1770 Fulton Mall	Downtown	\$10,685,000	\$130	82,000
Fresno Bullard Park	Northeast	\$3,875,000	\$79	48,820
7120 N Whitney Ave	Woodward	\$2,208,500	\$194	11,400
6362 N Figarden Ave	Northwest	\$2,050,000	\$114	18,000
5737 N Fresno St	Northeast	\$1,936,500	\$192	10,066

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	-	11.3%	37,171	56,051	\$2.23	\$1.08	\$1.27
Airport	1,511,834	-	14.0%	1,290	9,108	-	\$1.43	\$1.37
Clovis	1,011,638	4,230	8.0%	10,183	14,077	\$2.48	\$2.00	\$2.03
East Shaw	1,344,438	-	19.1%	-17,300	-6,438	-	\$1.57	\$1.56
Midtown	2,435,655	-	8.9%	-1,172	2,835	-	\$1.69	\$1.32
Northeast	1,218,966	-	13.9%	-2,429	18,677	\$2.15	\$1.77	\$1.80
Northwest	1,723,947	27,430	12.1%	-6,673	-20,488	\$2.50	\$1.91	\$1.93
Palm Bluffs	1,862,058	-	10.1%	13,792	49,746	\$2.49	\$2.32	\$2.35
West Shaw	1,716,083	-	12.0%	-1,228	6,652	-	\$1.40	\$1.29
Woodward	3,665,794	-	7.3%	19,448	23,418	\$2.32	\$2.17	\$2.25
Suburban Total	16,490,685	31,660	11.0%	10,548	85,696	\$2.34	\$1.80	\$1.77
Market	19,790,802	31,660	11.0%	47,719	141,747	\$2.31	\$1.70	\$1.67



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