

FRESNO OFFICE MARKET

SUSTAINABLE GROWTH

STATE OF THE MARKET

Fresno's office market remained successful through the hot summer months. The Airport and East Shaw submarkets experienced the greatest decrease in vacancy this quarter. Both submarkets saw their vacancy rate decrease nearly 1.5%. Overall vacancy dropped to 10.9%, down 0.01% quarter-over-quarter and 0.09% year-over-year. Asking rental rates strengthened by \$0.03/SF per month from the prior quarter. This increase was sparked by a combination of the costs related to construction of new buildings as well as tenant improvements and the drop in the vacancy rate over the last four quarters. Year-to-date absorption ended the third quarter at approximately 167,638 square feet.

In the third quarter of 2018, the Fresno market saw a net absorption of 25,891 square feet. Although historically less active, extensive lease transactions in the Airport, West Shaw, and East Shaw submarkets kept Fresno's vacancy rate declining. This movement is a positive sign and a result of relatively low lease rates and concessions available to tenants looking to expand

HIGHLIGHTS

The Fresno office market saw multiple new construction projects begin. The first is a 60,000-square-foot multi-story Class A office building located on the southwest corner of Fresno Street and Nees Avenue in a development called Sugar Pine Square. Visible from Highway 41, this 12.4 acre development will feature 181,000 square feet of office and retail shops. Sugar Pine Square has been home to McCormick Barstow Law Firm since 2013.

United Health Centers began construction on a new, 57,000-square-foot office building on the corner of Herndon and Brawley avenues. The building will serve as an administrative hub for the company's senior executives as well as additional administrative departments. United Health Centers has also designated portions of the building for its call center and referral services.

SALES ACTIVITY

Fresno's investment and owner/user sales market remained competitive. Demand for quality investments comes from a surplus of 1031 exchange money in the market and the overall strength of the economy. Owner/users are looking to build new or rehab old offices properties to fit their expansion needs. The decline in vacancy and increase in rental rates combined with increases in interest rates should keep values stable for the foreseeable future.

CURRENT CONDITIONS

More new construction

Overall vacancy rate declines

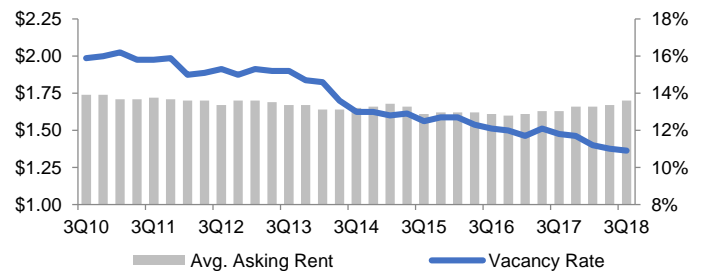
Fresno office market remains healthy

Rental rates ticking upward

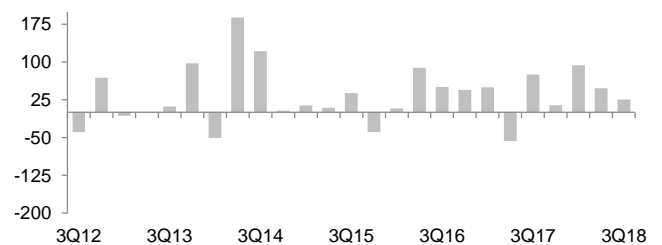
Prepared for a strong fourth quarter of 2018

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Thousands)



MARKET SUMMARY

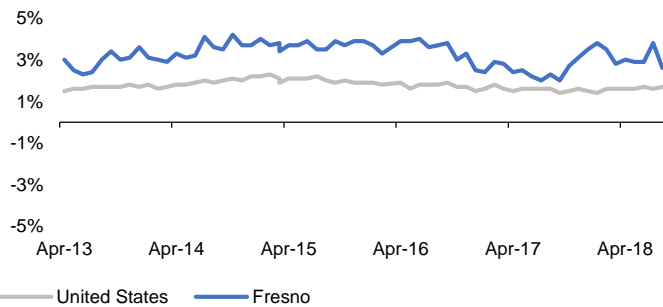
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.8MSF	19.8MSF	19.7MSF	↑
Vacancy Rate	10.9%	11.0%	11.8%	↓
Quarterly Net Absorption	25,891	47,719	75,398	↑
Average Asking Rent	\$1.70	\$1.67	\$1.63	↑
Under Construction	148,660	31,660	60,689	↑
Deliveries	0	0	19,392	↑

LOOKING AHEAD

A new Class A multistory office building is set to break ground in early 2019. This new, 42,000–square-foot office will be built on the northeast corner of Palm and Fallbrook avenues. This project finalizes development along Palm Avenue in the Palm Bluff submarket. Features will include solar panels, electronic vehicle charging stations and a solar system to help mitigate the cost of electricity for tenants.

PAYROLL EMPLOYMENT

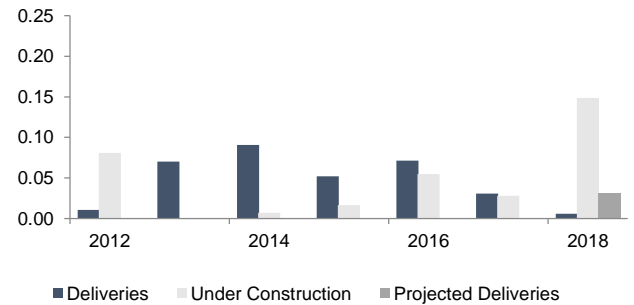
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSTRUCTION AND DELIVERIES

Square Feet, Millions



LEASE/USER TRANSACTIONS

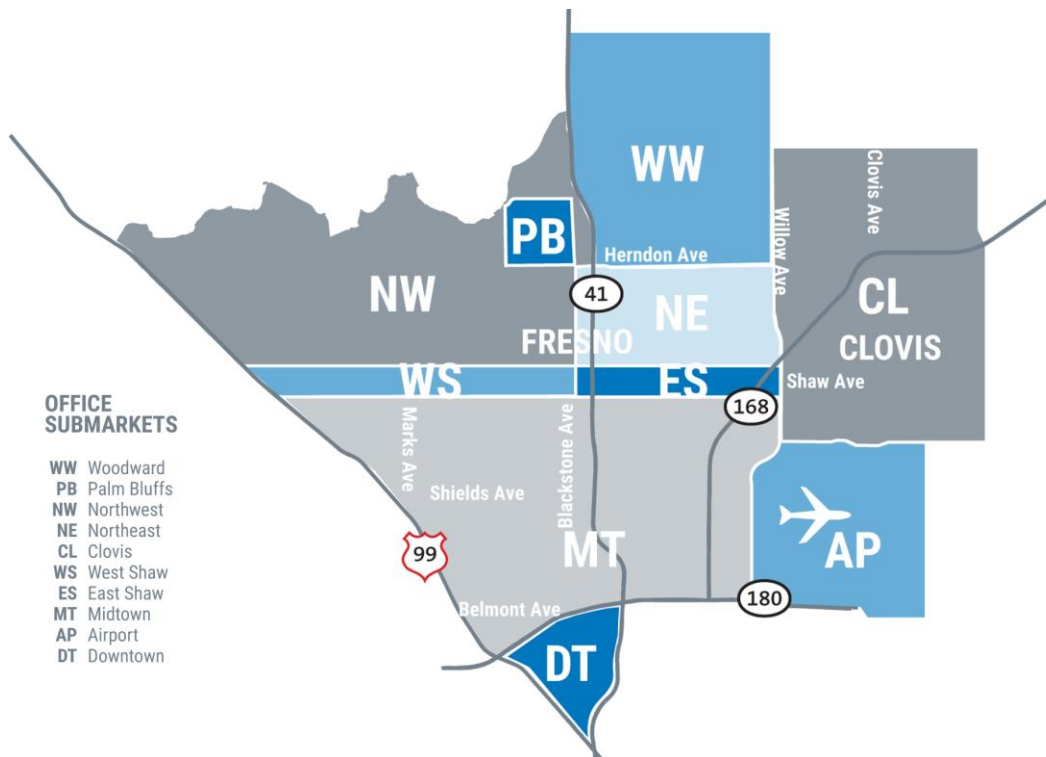
Tenant	Building	Submarket	Type	Square Feet
NA	Shaw Westgate	West Shaw	Direct	9,472
Fresno County Superintendent	Channing Court	West Shaw	Renewal	8,878
Sherriff's Department	770 E Shaw Ave	East Shaw	Direct	8,265
Intercare Holdings, Inc	Fig Garden Financial	Northwest	Direct	7,311
New Beginnings Baptist Church	5104 E Clinton Way	Airport	Direct	6,879

SELECT SALES TRANSACTIONS

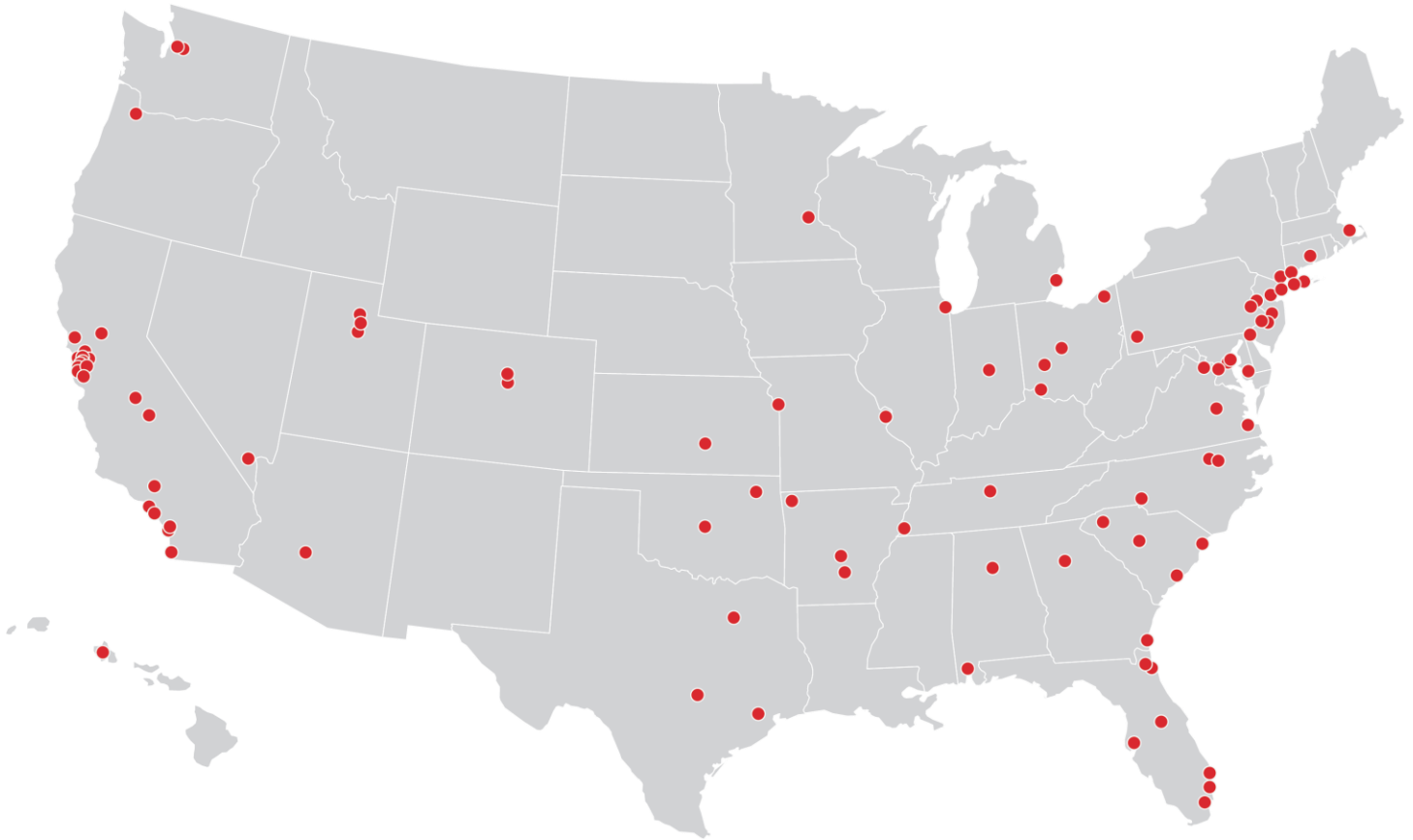
Building	Submarket	Sale Price	Price/SF	Square Feet
Herndon Professional Center	Woodward	\$2,300,000	\$227	10,120
4747 N First Street	Midtown	\$1,100,000	\$108	10,200
1340 Kern Street	Downtown	\$750,000	\$31	24,166
Maroa Gardens	Midtown	\$365,000	\$72	5,085
3585 W Beechwood	Northwest	NA	NA	16,087

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	-	11.2%	3,739	59,790	\$2.23	\$1.08	\$1.27
Airport	1,511,834	-	12.5%	27,679	24,896	-	\$1.43	\$1.39
Clovis	1,011,638	4,230	8.3%	-2,595	11,482	\$2.48	\$2.03	\$2.05
East Shaw	1,344,438	-	17.8%	17,386	10,948	-	\$1.55	\$1.54
Midtown	2,435,905	-	9.1%	-6,794	-3,959	-	\$1.53	\$1.33
Northeast	1,218,988	-	13.8%	1,217	19,894	\$2.15	\$1.78	\$1.80
Northwest	1,723,947	84,430	12.3%	-2,540	-23,048	\$2.50	\$1.90	\$1.92
Palm Bluffs	1,862,058	-	9.8%	6,745	56,491	\$2.57	\$2.38	\$2.41
West Shaw	1,716,083	-	11.1%	15,167	21,819	-	\$1.44	\$1.38
Woodward	3,665,794	60,000	8.3%	-34,113	-10,695	\$2.35	\$2.23	\$2.28
Suburban Total	16,490,685	148,660	10.9%	22,152	107,8448	\$2.38	\$1.81	\$1.79
Market	19,790,802	148,660	10.9%	25,891	167,638	\$2.34	\$1.71	\$1.70



Newmark Knight Frank United States Office Locations



Aaron Amaral

Office Division Research Manager
559.447.6216
aamaral@pearsonrealty.com

Luke Tessman

Sales Associate
559.447.6243
ltessman@pearsonrealty.com

Fresno

7480 N Palm Ave, Suite 101
Fresno, CA 93711
559.432.6200

Pearson Commercial
DRE #00020875

www.newmarkpearson.com

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