

FRESNO OFFICE MARKET

YEAR-END WRAP UP

STATE OF THE MARKET

In spite of the ongoing adjustment to the national economy and the looming government shutdown, Fresno's office market showed no signs of a slowdown in the final quarter of 2018. The Clovis and Woodward submarkets were the most active, with vacancy rates decreasing by nearly 1.4% in both submarkets. The overall vacancy rate dropped 0.4% quarter-over-quarter and 1.2% year-over-year. Average asking rents softened \$0.01/SF this quarter, the result of the slight increase in the amount of product coming on the market in the historically lower-rent sectors of Fresno. Year-to-date asking rental rates increased \$0.03/SF.

Net absorption totaled positive 75,906 square feet in the fourth quarter of 2018. On its own, the Woodward market accomplished 45,478 square feet of net absorption, aided by an extensive lease transaction at the Herndon Professional Office center by Samuel Merritt University. The university, which is new to the Fresno Market, specializes in advanced nursing degrees and physician assistant programs.

HIGHLIGHTS

The Fresno market ended the year strong. Another new construction project broke ground, increasing the total space currently under construction to 158,844 square feet. Many of Fresno's prominent developers believe there is still a very strong demand for new Class A office buildings in the northern sectors of the Fresno market. The majority of these buildings are scheduled to deliver in mid- to late 2019.

SALES ACTIVITY

Fresno's investment and owner/user sales market was very competitive during the final quarter of 2018. With very little quality large office investments on the market, investors with 1031 exchange money as well as new comers continue to rely on off-market deals to fulfill their requirements. The lack of quality product in desirable locations has kept the owner/user market in the seller's favor.

Two very large office investment transactions closed during the fourth quarter of 2018. First, at the San Joaquin Professional Plaza, five of the seven buildings totaling 36,018 square feet of multi-tenant general and medical office space was purchased for \$10.2 million at a capitalization rate of 6.36%. Across the street at 575 East Alluvial Avenue, a 16,925-square-foot, single-tenant general office building sold for \$5.4 million at a 6.2% capitalization rate.

CURRENT CONDITIONS

Fresno's office market ended the year strong

Overall vacancy declined

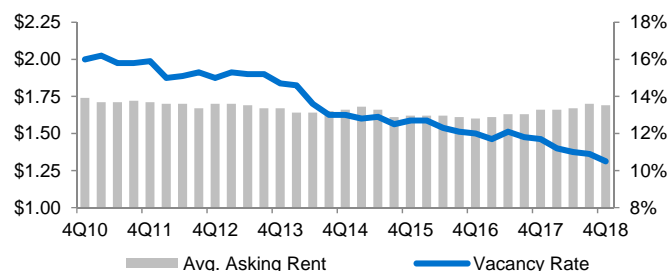
Developers believe there is still demand for Class A space

The investment sales market is competitive

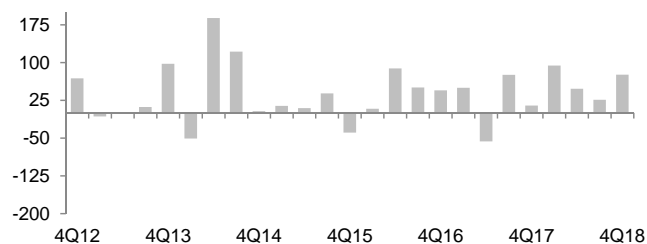
Leasing activity continues at strong pace

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 | 10.5% | 10.9% | 11.7% | ↓ |
| Quarterly Net Absorption | 75,906 | 25,891 | 14,448 | ↑ |
| Average Asking Rent | \$1.69 | \$1.70 | \$1.66 | ↑ |
| Under Construction | 158,844 | 148,660 | 27,983 | ↑ |
| Deliveries | 4,230 | 0 | 30,804 | ↑ |

LOOKING AHEAD

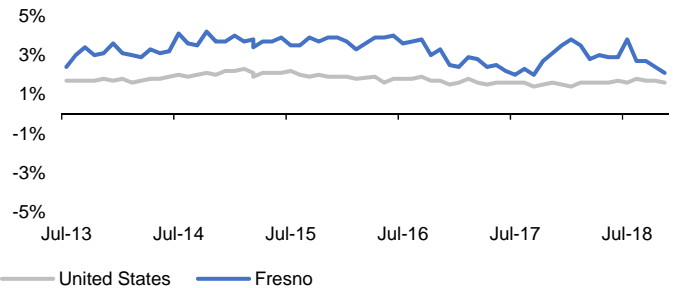
Leasing activity is expected to continue grow at a strong pace into the new year. Sustainable market growth over the past year has allowed the balance between landlords and tenants to remain stable. The majority of investment sales will continue to be off-market. Look for additional new construction projects to break ground during the first quarter of 2019.

ECONOMIC OUTLOOK

With the Congressional Budget Office projecting real disposable income to grow by 2.9% in 2019, and consumer spending to grow by 2.7%, the economy is poised to remain strong in 2019. The strong economy coupled with a more dovish Federal Reserve can help extend the bull market into 2019. The unemployment numbers should stay historically strong at below 4.0%, and the creation of more jobs in 2019 will keep the economy growing along with its demand for real estate.

PAYROLL EMPLOYMENT

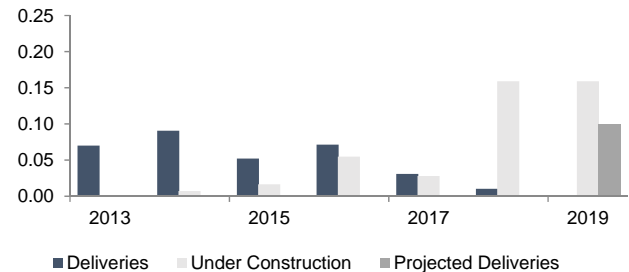
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSTRUCTION AND DELIVERIES

Square Feet, Millions



LEASE/USER TRANSACTIONS

| Tenant | Building | Submarket | Type | Square Feet |
|----------------------------------|-------------------------------|-----------|--------|-------------|
| Samuel Merritt University | Herndon Prof. Office Center | Woodward | Direct | 27,871 |
| CA Dept. of Corrections & Rehab. | 5168 N Blythe Avenue | Northwest | Direct | 13,340 |
| Rivendell Community, Inc. | 4927 E McKinley Avenue | Airport | Direct | 12,640 |
| Valley Unique Electric, Inc. | 75 Park Creek Drive | Clovis | Direct | 7,392 |
| California Commercial Solar | Riverview Professional Center | Woodward | Direct | 5,536 |

SELECT SALES TRANSACTIONS

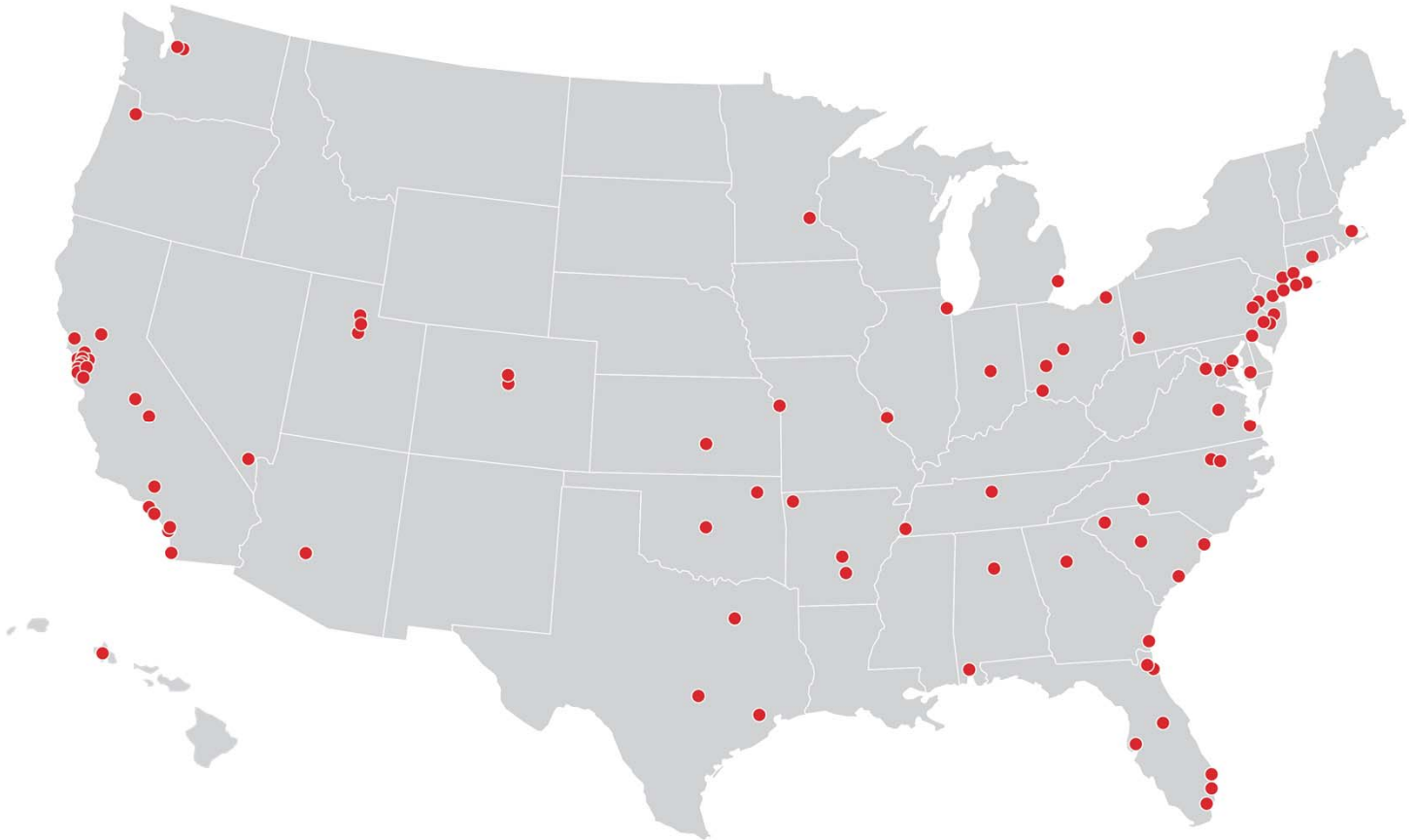
| Building | Submarket | Sale Price | Price/SF | Square Feet |
|-----------------------|-----------|-------------|----------|-------------|
| 575 E Alluvial Avenue | Woodward | \$5,375,000 | \$318 | 16,925 |
| 600 W Shaw Avenue | West Shaw | \$2,750,000 | \$148 | 18,557 |
| 55 Shaw Avenue | Clovis | \$1,650,000 | \$68 | 24,427 |
| 5293 N First Street | Northeast | \$485,000 | \$109 | 4,459 |
| 315 W Shields Avenue | Midtown | \$363,000 | \$94 | 3,872 |

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 | - | 11.5% | -15,210 | 44,580 | \$2.23 | \$1.08 | \$1.26 |
| Airport | 1,511,834 | - | 11.3% | 17,924 | 42,820 | - | \$1.42 | \$1.38 |
| Clovis | 1,015,868 | - | 6.9% | 13,600 | 25,820 | - | \$2.00 | \$1.94 |
| East Shaw | 1,344,438 | - | 17.8% | 788 | 11,736 | - | \$1.53 | \$1.52 |
| Midtown | 2,435,905 | - | 9.2% | -1,438 | -5,397 | - | \$1.54 | \$1.49 |
| Northeast | 1,218,988 | 4,680 | 13.9% | -450 | 19,444 | \$2.15 | \$1.78 | \$1.81 |
| Northwest | 1,723,947 | 84,430 | 11.9% | 6,332 | -16,696 | \$2.50 | \$1.93 | \$1.95 |
| Palm Bluffs | 1,862,058 | - | 9.7% | 1,969 | 58,460 | \$2.69 | \$2.38 | \$2.41 |
| West Shaw | 1,716,083 | - | 10.7% | 6,913 | 28,732 | - | \$1.44 | \$1.38 |
| Woodward | 3,665,794 | 69,734 | 7.0% | 45,478 | 34,783 | \$2.35 | \$2.16 | \$2.27 |
| Suburban Total | 16,494,915 | 158,844 | 10.3% | 91,116 | 198,964 | \$2.38 | \$1.79 | \$1.79 |
| Market | 19,795,032 | 158,844 | 10.5% | 75,906 | 243,544 | \$2.33 | \$1.69 | \$1.69 |



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