

FRESNO OFFICE MARKET

THE KICK OFF

STATE OF THE MARKET

With the federal government standoff in full swing, Fresno's office market showed zero signs of a shutdown during the first quarter of 2019. The most active submarkets included Downtown Fresno and North East Fresno, where vacancy rates dropped 0.7% and 1.4%, respectively. Overall vacancy was down 0.1% quarter-over-quarter and 0.8% year-over-year. Average monthly asking rents were up \$0.02/SF from last quarter. Year-over-year average asking rental rates increased \$0.05/SF.

Net absorption totaled 64,762 square feet during the first quarter of 2019. Fresno's Downtown, Northeast and Woodward submarkets recorded the highest absorption levels. The largest transaction within the three submarkets was a lease for 23,343 square feet of second-floor office space at Fresno Bullard Park office complex. The space was leased by Uplift Family Serveries, which provides a variety of services to the community, focusing on both mental and basic health needs. Fresno Bullard Park will serve as this non-profit's administrative headquarters for the Fresno region.

HIGHLIGHTS

Fresno's 2019 office market kicked off to a good start. New construction projects are underway. Fresno has a total of 236,370 square feet currently under construction, up 77,426 square feet from last quarter. One of the newest construction projects to break ground is 7700 North Palm. When complete, this multi-story office building will total 41,687 square feet and feature everything a tenant can expect from a new Class A building, including electrical vehicle charging stations, solar and ample on-site parking. This marks the final new development along Palm Avenue in the Palm Bluff submarket. This project is set to be finished late in the first quarter of 2020.

SALES ACTIVITY

The Fresno investment and owner/user sales market remained competitive. The Downtown submarket had the largest total dollar transaction of the quarter, with 1221 Van Ness Avenue selling for \$3.7 million. A lack of desirable office properties in the market has local investors and owner/users looking for off-market product to satisfy their needs. With ample 1031 exchange money in the market, quality available properties are selling quickly.

CURRENT CONDITIONS

Net Absorption Up

Rental Rates Increase

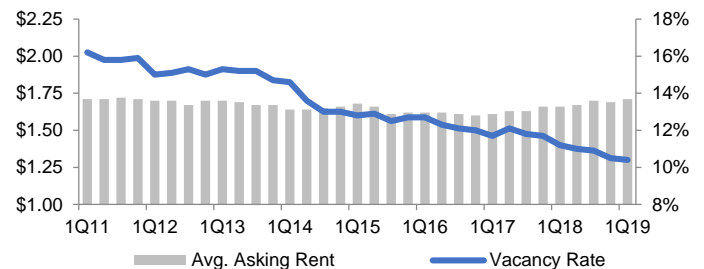
Overall Vacancy Decreasing

Total Construction Underway Increasing

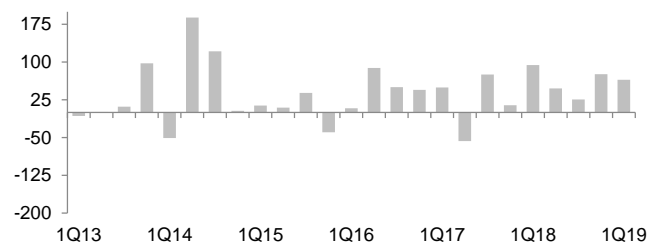
Sales Market Remains Competitive

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Thousands)



MARKET SUMMARY

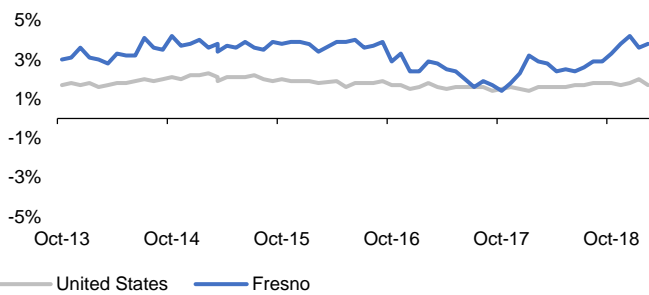
| | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory | 19.8MSF | 19.8MSF | 19.8MSF | ↑ |
| Vacancy Rate | 10.4% | 10.5% | 11.2% | ↓ |
| Quarterly Net Absorption | 64,762 | 75,906 | 94,028 | ↑ |
| Average Asking Rent | \$1.71 | \$1.69 | \$1.66 | ↑ |
| Under Construction | 236,370 | 158,844 | 36,328 | ↑ |
| Deliveries | 14,734 | 4,230 | 5,885 | ↑ |

LOOKING AHEAD

The first quarter of 2019 was a good start to the year for the Fresno office market. Leasing activity is expected to continue to increase as the year matures. Net absorption and rental rates should increase moving forward. Investment and owner/user sales will continue to be off market. Look for new construction deliveries during the next two quarters.

PAYROLL EMPLOYMENT

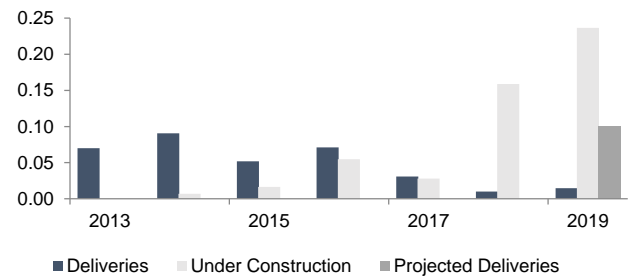
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSTRUCTION AND DELIVERIES

Square Feet, Millions



LEASE/USER TRANSACTIONS

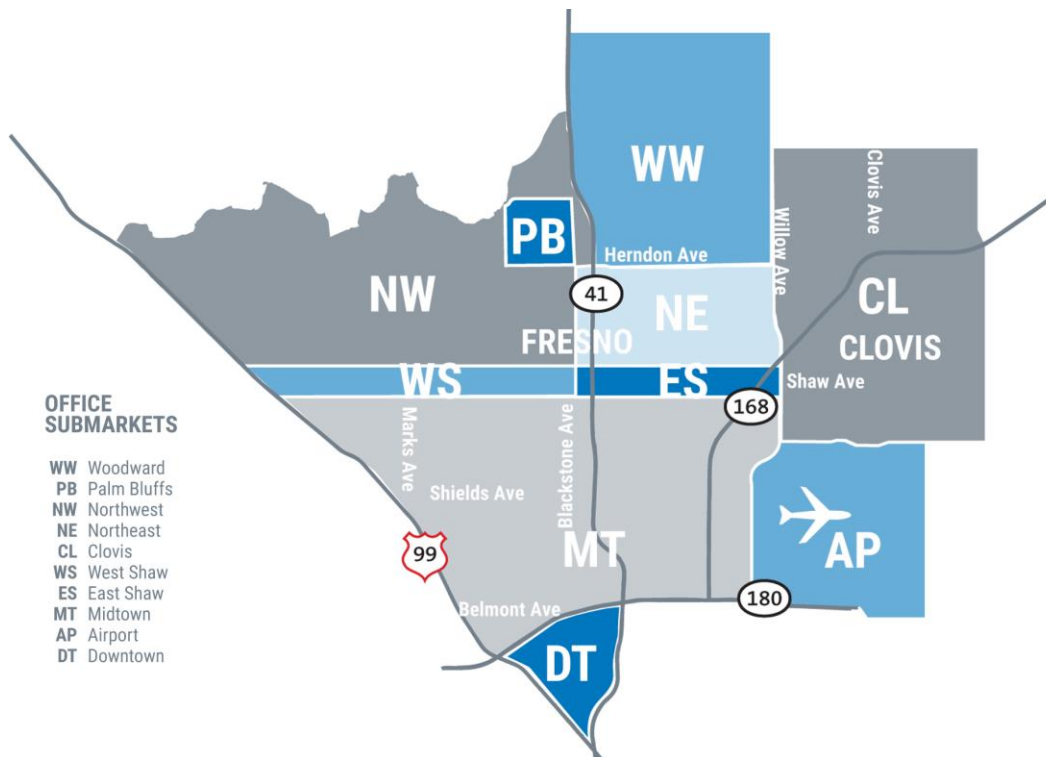
| Tenant | Building | Submarket | Type | Square Feet |
|---------------------------|-------------------------------|-------------|--------|-------------|
| N/A | Fresno Bullard Park | Northeast | Direct | 23,343 |
| The Learning Experience | Shaw Missions Business Center | Clovis | Direct | 10,000 |
| Koinonia Warship Center | 4910 E Ashlan Ave | Midtown | Direct | 8,077 |
| HDL Software, LLC | The Atrium | Woodward | Direct | 6,046 |
| Air Treatment Corporation | 7320 N Remington Ave | Palm Bluffs | Direct | 5,760 |

SELECT SALES TRANSACTIONS

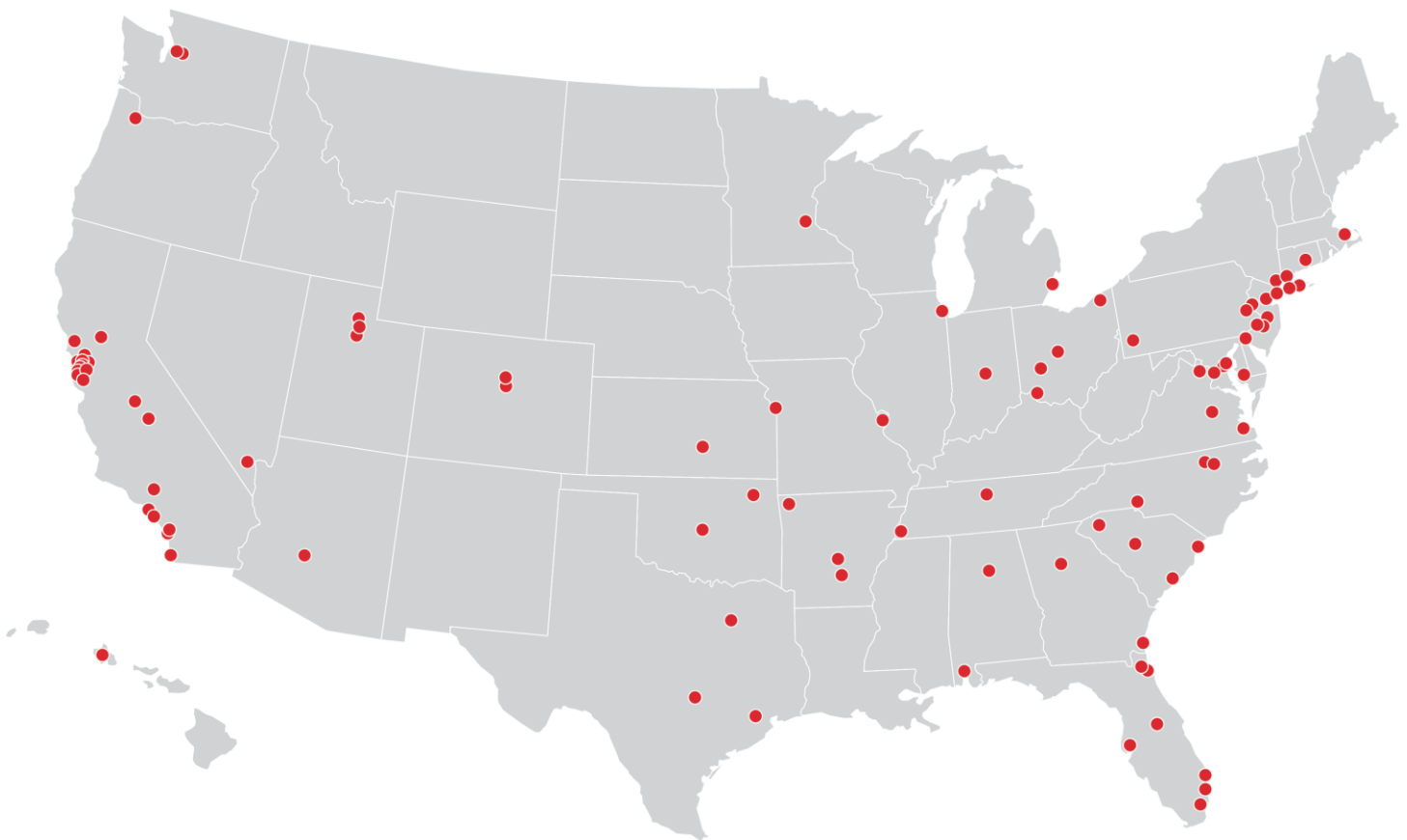
| Building | Submarket | Sale Price | Price/SF | Square Feet |
|-------------------------|-----------|-------------|----------|-------------|
| 1221 Van Ness Ave | Downtown | \$3,675,000 | \$80 | 45,756 |
| 1649 Van Ness Ave | Downtown | \$2,175,000 | \$125 | 17,400 |
| 6145-6153 N Thesta Ave | Northeast | \$1,850,000 | \$201 | 9,200 |
| 1398 W Indianapolis Ave | Midtown | \$445,000 | \$65 | 6,820 |
| 267 N Fulton Lane | Downtown | \$295,000 | \$56 | 5,250 |

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 | 3,311,117 | 67,000 | 10.8% | 23,647 | 23,647 | \$2.14 | \$1.01 | \$1.20 |
| Airport | 1,376,710 | - | 12.8% | -5,950 | -5,950 | - | \$1.47 | \$1.42 |
| Clovis | 1,025,356 | - | 6.7% | 6,252 | 6,252 | - | \$2.03 | \$1.97 |
| East Shaw | 1,341,060 | - | 18.0% | -2,907 | -2,907 | - | \$1.53 | \$1.52 |
| Midtown | 2,438,005 | - | 9.3% | -2,831 | -2,831 | - | \$1.58 | \$1.49 |
| Northeast | 1,218,988 | 4,680 | 12.5% | 17,172 | 17,172 | \$2.15 | \$1.77 | \$1.79 |
| Northwest | 1,791,499 | 84,430 | 11.3% | 4,442 | 4,442 | \$2.50 | \$1.95 | \$1.97 |
| Palm Bluffs | 1,863,818 | - | 9.5% | 3,435 | 3,435 | \$2.65 | \$2.38 | \$2.41 |
| West Shaw | 1,731,629 | - | 11.2% | 4,411 | 4,411 | - | \$1.57 | \$1.48 |
| Woodward | 3,675,528 | 60,000 | 6.8% | 17,091 | 17,091 | \$2.37 | \$2.22 | \$2.30 |
| Suburban Total | 16,462,593 | 169,370 | 10.3% | 41,115 | 41,115 | \$2.39 | \$1.82 | \$1.81 |
| Market | 19,773,710 | 236,370 | 10.4% | 64,762 | 64,762 | \$2.31 | \$1.72 | \$1.71 |



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