

FRESNO OFFICE MARKET

A RACE TO THE FINISH

STATE OF THE MARKET

Fresno's office market remained steady during the fourth quarter of 2019. The most active submarkets were Downtown Fresno and the Airport, where vacancy declined by 0.9% and 0.6%, respectively. Overall vacancy declined 0.1% quarter over quarter and 1.5% year over year. Average asking rents rose \$0.02/SF from the prior quarter and \$0.03/SF per month from one year ago.

Net absorption totaled 35,485 square feet during the final quarter of 2019. The Downtown submarket recorded its highest level of quarterly absorption at 32,955 square feet, which was nearly half of its year-over-year absorption of 68,363 square feet. The Northeast and Airport submarkets reported the second- and third-highest net absorption totals of 5,690 and 9,078 square feet, respectively. The largest transaction of the quarter was an extensive lease transaction of 24,737 square feet to Saint Agnes Medical Center at 1510 East Herndon in the Woodward submarket.

HIGHLIGHTS

Fresno's office market had a strong finish to 2019. New construction projects have already delivered or are expected to deliver early in 2020. Fresno's total office inventory increased by 200,000 square feet over the last year. A large portion of this increase is due to the delivery of Sugar Pine Square, a 60,000-square-foot, multi-story Class A office building leased to Covered California. The absorption of this square footage is a very positive sign for the quality of the local market and provides a sense of stability for developers moving into the New Year.

SALES ACTIVITY

The Fresno investment and owner/user sales market remained highly competitive. The largest total dollar transaction of the quarter occurred in the Woodward submarket, where 1125 East Spruce Avenue sold to Griffin-American Healthcare REIT IV, Inc. for \$10 million (\$304/SF). The 2,941-square-foot building known as "The Medical Pavilion" was delivered in 2007 and has since been home to a variety of medical providers. The current tenant mix includes a surgery center, STAT laboratory, dermatological suite and medical office space. The property sits adjacent to Saint Agnes Medical Center and BSV Medical Plaza. The building was designed and built to augment the surrounding buildings and business, allowing medical care providers and their patients the convenience to offer and receive cutting edge medical treatment on the Saint Agnes Medical Center campus.

CURRENT CONDITIONS

Downtown Vacancy Decreases

Average Asking Rents Increase

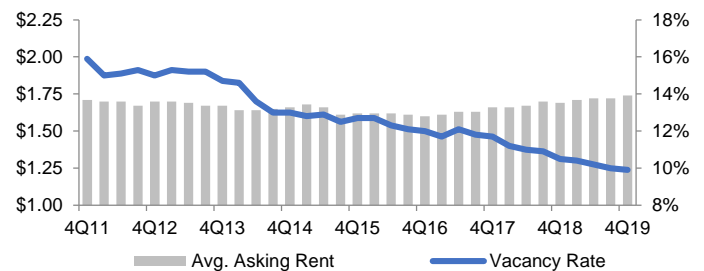
Steady Decline in Overall Vacancy

Strong Sales Activity

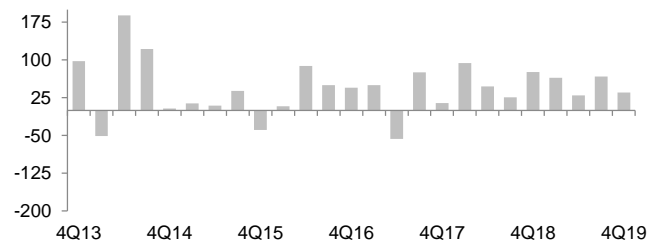
New Deliveries Hit the Market

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Thousands)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.9MSF	19.9MSF	19.7MSF	↑
Vacancy Rate	9.9%	10.0%	11.4%	↓
Quarterly Net Absorption	35,485	66,876	75,906	↔
Average Asking Rent	\$1.74	\$1.72	\$1.71	↑
Under Construction	207,058	207,058	158,844	↑
Deliveries	77,632	27,430	4,230	↑

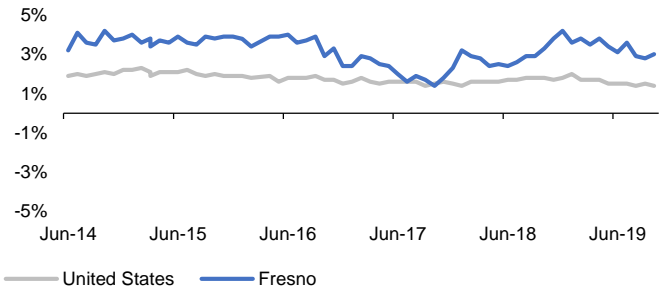
LOOKING AHEAD

Most economists predict 2020 will be another good year for the record-setting U.S. economy, although the upcoming presidential election and recent international trade negotiations have been cause for some uncertainty. The overall economy is expected to grow at a rate of 1.9%, down 0.4% from 2019. Average monthly job growth is expected to average 150,000 new jobs per month.

For Fresno's office market, this means leasing and sales activity should continue to increase in the new year, as should net absorption and rental rates. Investment and owner/user sales will continue to be off market. Ample 1031 exchange money remains in the market, which will strengthen cap rates and cause quality listings to sell quickly. Look for new construction deliveries during the next two quarters.

PAYROLL EMPLOYMENT

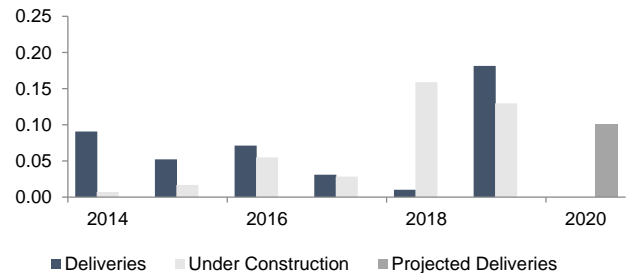
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSTRUCTION AND DELIVERIES

Square Feet, Millions



LEASE/USER TRANSACTIONS

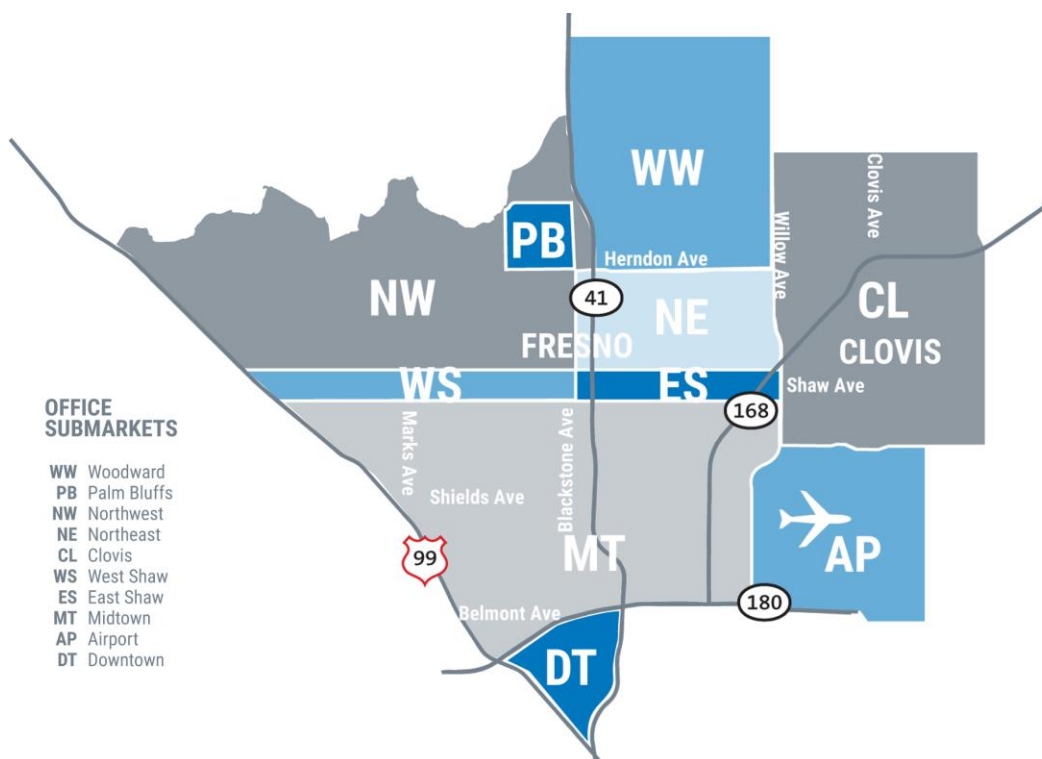
Tenant	Building	Submarket	Type	Square Feet
Saint Agnes Medical Center	1510 E Herndon Ave	Woodward	Direct	24,737
N/A	4944 E Clinton Way	Airport	Direct	8,400
Steven R. Hrdlicka Attorney at Law	555 W Shaw Ave	West Shaw	Direct	8,072
N/A	7471 N Remington	Palm Bluffs	Direct	7,866
LLS Society	7491 N Remington	Palm Bluffs	Direct	5,400

SELECT SALES TRANSACTIONS

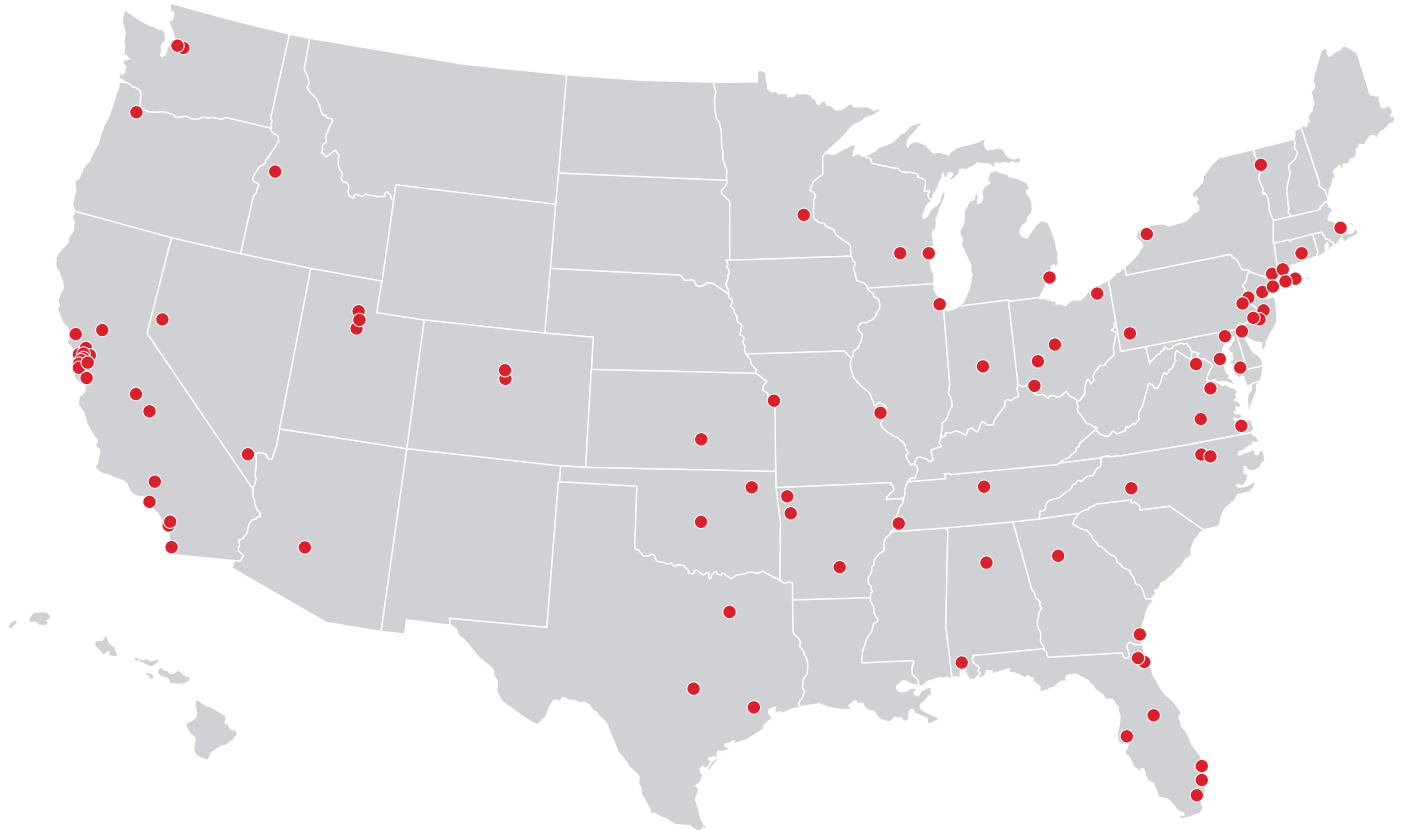
Building	Submarket	Sale Price	Price/SF	Square Feet
Channing Court	West Shaw	\$5,700,000	\$73	78,510
1300 E Shaw	East Shaw	\$3,950,000	\$96	40,966
1125 E Spruce Ave	Woodward	\$10,000,000	\$303	32,941
4720 N Blackstone Ave	Midtown	\$1,500,000	\$50	30,046
Fresno Professional Plaza	Northeast	\$6,057,000	\$418	14,476

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	9.4%	32,955	68,636	\$2.28	\$0.99	\$1.11
Airport	1,377,288	-	11.4%	9,078	14,622	-	\$1.48	\$1.43
Clovis	1,034,112	20,260	5.9%	-2,237	12,597	-	\$1.99	\$1.91
East Shaw	1,342,618	-	17.7%	-10,169	2,117	-	\$1.56	\$1.55
Midtown	2,439,005	-	9.7%	-397	-11,222	-	\$1.53	\$1.48
Northeast	1,223,668	-	11.0%	5,690	34,695	\$2.15	\$1.77	\$1.80
Northwest	1,875,929	-	10.1%	2,989	44,295	\$2.53	\$2.07	\$2.13
Palm Bluffs	1,876,242	42,166	9.6%	2,557	5,356	\$2.74	\$2.33	\$2.35
West Shaw	1,731,629	-	10.5%	7,169	17,747	-	\$1.56	\$1.46
Woodward	3,735,496	-	7.6%	-12,150	6,551	\$2.40	\$2.23	\$2.32
Suburban Total	16,635,987	62,426	10.0%	2,530	126,758	\$2.43	\$1.85	\$1.84
Market	19,947,104	129,426	9.9%	35,485	195,394	\$2.40	\$1.74	\$1.74



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