

# FRESNO OFFICE MARKET

## SLOWED BUT STEADY; MARKET EXPERIENCES LITTLE CHANGE, DESPITE PANDEMIC CHALLENGES

### STATE OF THE MARKET

Fresno's office market managed to remain steady, despite facing the changing tides of COVID-19 during the second quarter of 2020. The Fresno market saw marginal increases in the overall vacancy rate, availability rate and rental rates consistent with the previous quarters' changes. The submarkets with the greatest decreases in the vacancy rate and availability rate were Northeast and East Shaw. The Northeast submarket experienced a decrease in vacancy by 0.8% and in availability by 0.7%. The East Shaw submarket experienced a decrease in vacancy by 0.7% and in availability by 0.6%. The submarkets with the greatest increase in availability rate were Palm Bluffs and Woodward. The Palm Bluffs submarket experienced an increase in availability by 1.1%. The Woodward submarket experienced an increase in availability by 0.9%.

The two submarkets with the highest rental rates saw the highest increase in availability. The two submarkets with the greatest decreases in vacancy and availability have average rental rates that place them in the center of the average rental rates out of the ten office submarkets in Fresno.

### HIGHLIGHTS

As can be expected considering lockdown restrictions, Fresno's office market did not see the completion of any under-construction projects. A new Class A office building moved from proposed to under construction as ground broke on the 10,000-square-foot building located in the Clovis submarket. As lockdown restrictions begin to ease, the next quarter could see the completion of up to 77,000 square feet of Class A office space and 62,426 square feet of Class B office space.

### SALES ACTIVITY

The Fresno investment and owner-user sales markets saw a decrease in activity as investors and business owners waited to see what long-term effects COVID-19 would leave on the office market. The Woodward submarket saw the largest sale in terms of price and square footage with the sale of an 8,561-square-foot medical office in the Meridian Professional Center.

### LOOKING AHEAD

Moving forward into the rest of 2020, there is still an abundance of unanswered questions that will impact the office market.

### CURRENT CONDITIONS

Slightly Negative Quarterly Net Absorption

Strong Sales Activity

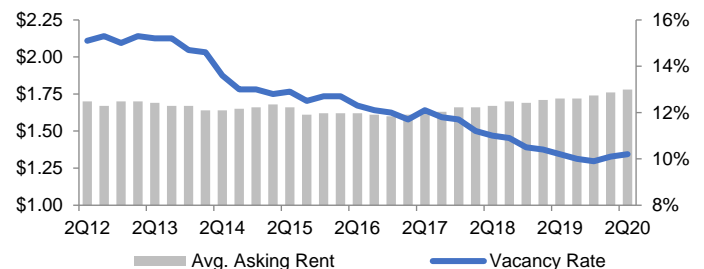
Vacancy Rate Increases

New Deliveries Coming Soon

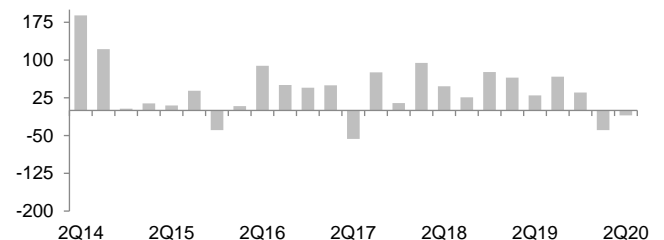
Average Asking Rents Increase

### MARKET ANALYSIS

#### Asking Rent and Vacancy



#### Net Absorption (SF, Thousands)



### MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	20.0MSF	20.0MSF	19.8MSF	↑
Vacancy Rate	10.2%	10.1%	10.2%	↑
Quarterly Net Absorption	-10,008	-39,280	29,515	↔
Average Asking Rent	\$1.78	\$1.76	\$1.72	↓
Under Construction	139,426	129,426	225,612	↔
Deliveries	0	0	61,680	↑

With lockdown measures and office guidelines still changing, it is hard to determine the long-term impacts of the pandemic on the Fresno office market.

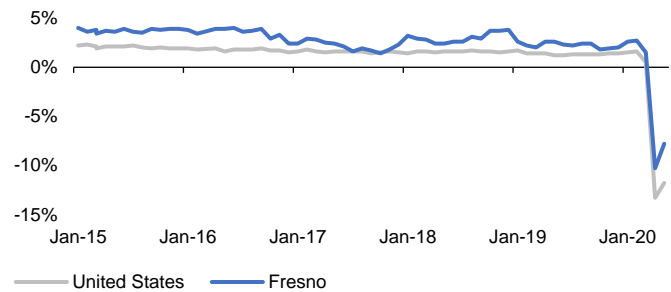
An increase in remote work would theoretically cause a decrease in demand for office space; however, the need for greater space per employee may balance out this shift. An example of this dilemma in the Fresno office market would be some of the local call centers. Previously, some of these offices used the hoteling concept, in which employees did not have an assigned workspace and would instead work at a different desk each shift. While this concept greatly decreases real estate cost through reduced square footage requirements, this setup also greatly increases the risk of infectious spread. These offices will likely need to either increase remote work or increase office square footage. At first glance, remote work may seem like the more cost-effective answer, but there are efficiency, culture, and security risks that may have higher long-term costs for the company.

While some urban areas are seeing a shift to more permanent remote work, the Fresno office market carries some protection against these changes, as Fresno has less tech industry offices that are more easily equipped to remote work, fewer coworking office spaces and a smaller amount of employees impacted by changes in public transit use.

Moving forward, expect to see an increased demand for medical and life science spaces. An increase in vacancy and a decrease in investment sales are expected to continue as the economy slowly rebounds from the impacts of the pandemic.

## PAYROLL EMPLOYMENT

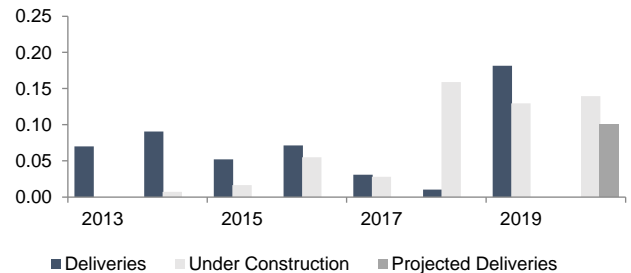
### Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSTRUCTION AND DELIVERIES

### Square Feet, Millions



## LEASE/USER TRANSACTIONS

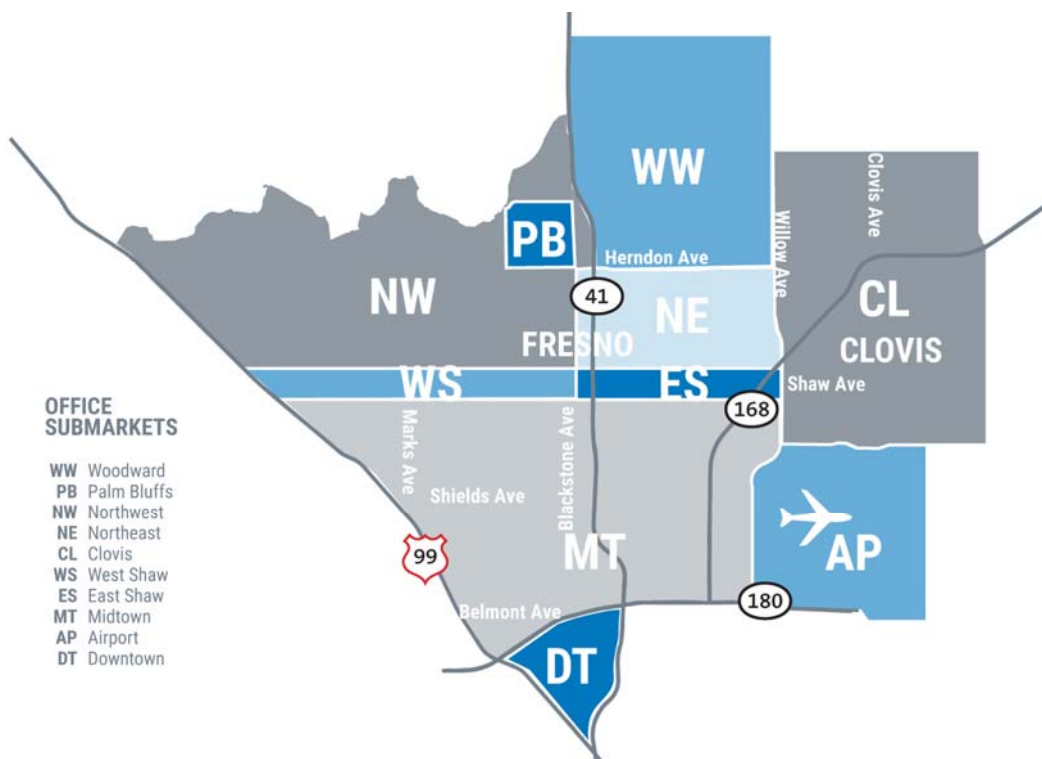
Tenant	Building	Submarket	Type	Square Feet
Financial Services	7700 N Palm Ave	Palm Bluffs	Direct	8,000
N/A	5756 N Marks Ave	Northwest	Direct	6,749
N/A	855 N Abby St	Midtown	Direct	4,500
Osborne Homes	7388 N Remington Ave	Palm Bluffs	Sublease	4,470
Summit Financial	1044 E Spruce Ave	Woodward	Direct	4,240

## SELECT SALES TRANSACTIONS

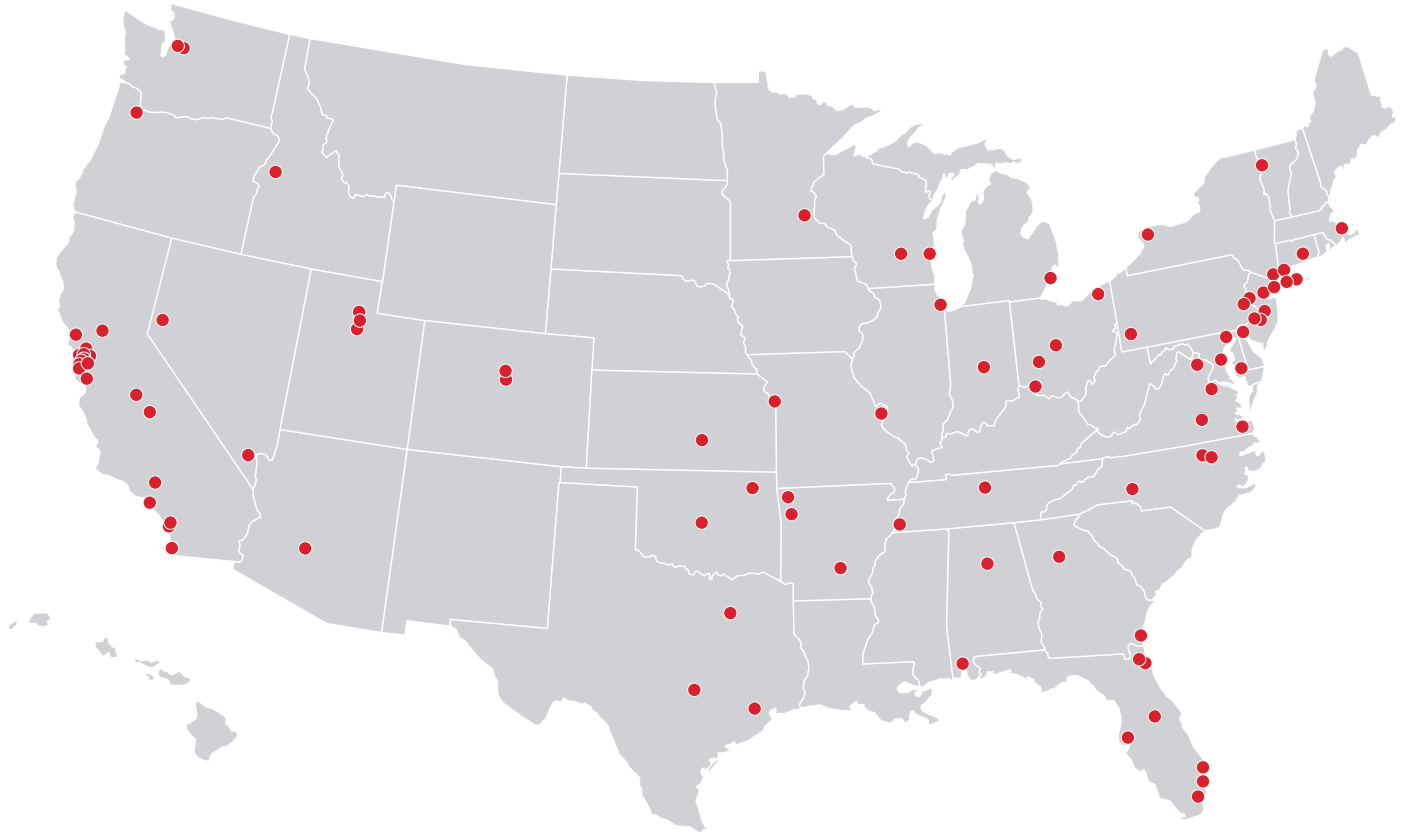
Building	Submarket	Sale Price	Price/SF	Square Feet
Meridian Professional Center	Woodward	\$660,000	\$274	2,405
1386-1390 N Wishon Ave	Midtown	\$660,000	\$122	5,388
2513 W Shaw Ave	West Shaw	\$380,000	\$75	5,040
4685 N Cedar Ave	Midtown	\$365,000	\$151	2,407
5100 N 6 <sup>th</sup> Ave	East Shaw	\$258,000	\$86	2,985

## 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)
<b>Downtown/CBD</b>	<b>3,311,117</b>	<b>67,000</b>	<b>9.9%</b>	<b>-10,211</b>	<b>-14,772</b>	<b>\$2.39</b>	<b>\$1.01</b>	<b>\$1.10</b>
Airport	1,377,288	-	11.5%	884	-1,311	-	\$1.47	\$1.43
Clovis	1,059,112	30,260	5.9%	3,642	1,086	-	\$2.11	\$2.02
East Shaw	1,342,618	-	17.2%	8,609	6,631	-	\$1.55	\$1.55
Midtown	2,442,822	-	10.1%	-1,305	-8,504	-	\$1.45	\$1.46
Northeast	1,223,668	-	10.1%	9,338	10,624	\$2.15	\$1.80	\$1.83
Northwest	1,876,405	-	10.3%	-3,805	-3,077	\$2.55	\$2.13	\$2.19
Palm Bluffs	1,880,101	42,166	10.2%	2,215	-10,420	\$2.76	\$2.39	\$2.42
West Shaw	1,732,077	-	11.4%	-3,306	-16,940	-	\$1.67	\$1.56
Woodward	3,735,496	-	7.9%	-16,069	-12,065	\$2.38	\$2.29	\$2.33
<b>Suburban Total</b>	<b>16,669,587</b>	<b>72,426</b>	<b>10.2%</b>	<b>203</b>	<b>-34,516</b>	<b>\$2.42</b>	<b>\$1.91</b>	<b>\$1.89</b>
<b>Market</b>	<b>19,980,704</b>	<b>139,426</b>	<b>10.2%</b>	<b>-10,008</b>	<b>-49,288</b>	<b>\$2.42</b>	<b>\$1.80</b>	<b>\$1.78</b>



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