

FRESNO OFFICE MARKET

RESILIENT BUT NOT RESISTANT

STATE OF THE MARKET

Fresno's office market experienced its first quarter of positive absorption; however, the year-to-date absorption is still in the red. While some businesses were able to achieve a semblance of normality in the third quarter of 2020, most commercial enterprises are still facing obstacles that keep them from maximizing growth. Despite continuing COVID-19 challenges, Fresno's office market has demonstrated remarkable durability.

The East Shaw submarket ranked at the top in declining vacancy and availability for the second quarter in a row. While this pattern demonstrates positive progress for the East Shaw submarket, the submarket still has the highest overall vacancy rate and availability rate, leading the competition by over 4% and 1%, respectively.

The submarkets with the most significant increase in vacancy were Woodward, Clovis and Palm Bluffs. These submarkets also have the highest average rates out of all the submarkets. The Woodward and Clovis submarkets still have the lowest vacancy rates overall with rates at 8.7% and 6.4%, respectively. The Palm Bluffs submarket has an average vacancy rate of 11.0% and the second-highest availability rate of 15.3%. Regardless of the surge in vacancy and availability, the Palm Bluffs submarket landlords still saw fit to raise the average rental rate by \$0.07/SF, a percentage change from the last quarter of 3.0%.

The Downtown submarket was the only other submarket to see a significant change in the average rate with a decrease of \$0.05/SF, a percentage change from the last quarter of 5.0%. The Downtown submarket still has the lowest average rate, coming in at \$1.15/SF.

HIGHLIGHTS

With the easing of certain restrictions, the Fresno office market saw the completion of 52,166 square feet of space. The Palm Bluffs submarket saw the completion of 42,166 square feet situated in the Palm Bluffs Corporate Center. The Clovis submarket saw the completion of a 10,000-square-foot building located in the Peach Herndon Business Park. Even with the latest edition, the Clovis submarket is still the submarket with the lowest vacancy rate. The Woodward submarket, which has the second to lowest vacancy rate in Fresno, added 37,393 square feet of planned construction located in Fresno's Premier Medical Office Corridor, which should begin construction in fourth-quarter 2020.

SALES ACTIVITY

The Fresno investment and owner/user sales market rebounded slightly during third-quarter 2020, following the more severely pandemic-impacted second quarter. For the fifth quarter in a row, the Woodward submarket had the most substantial sales transaction with the sale of the 10,564-square-foot building located at the Meridian Professional Center for \$1.536 million.

CURRENT CONDITIONS

Total Construction Underway Decreasing

Overall Vacancy Rate Slightly Increasing

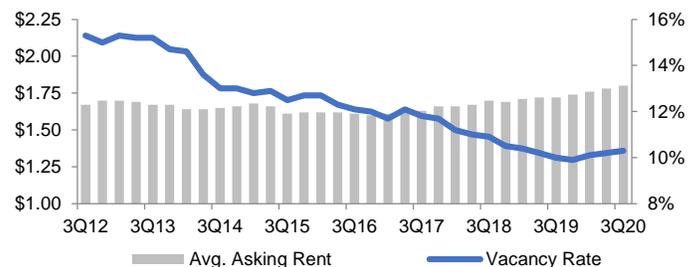
Woodward Continues Trend of Largest Sale

Average Asking Rental Rate Ticking Upward

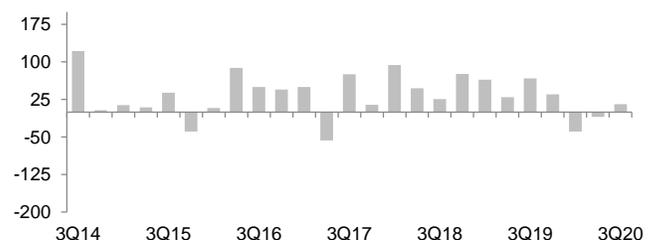
Slightly Negative Quarterly Net Absorption

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	19.9MSF	↑
Vacancy Rate	10.3%	10.2%	10.0%	↑
Quarterly Net Absorption	15,810	-10,008	66,876	↔
Average Asking Rent	\$1.80	\$1.78	\$1.72	↓
Under Construction	111,452	139,426	207,058	↔
Deliveries	52,166	0	27,430	↑

LOOKING AHEAD

Moving forward into the final quarter of 2020, expect COVID-19 to continue to influence all aspects of the economy to a certain degree. While there is still much unknown on the pandemic's long-term impacts on the Fresno office market, this quarter has provided some evidence that the Fresno office market may not thrive under these conditions, but it can certainly survive.

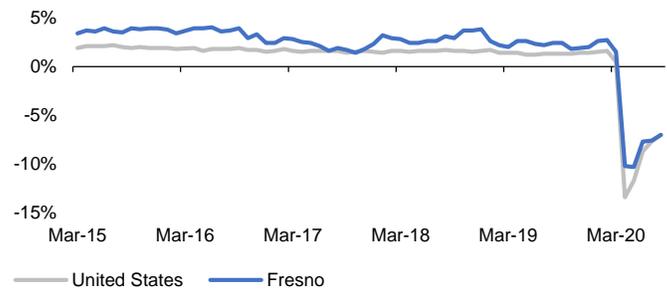
COVID-19 has heavily impacted lending, but those in the position to get financially creative will continue to invest with the most opportunity in the growing and medically-inclined submarkets of Woodward and Clovis.

The local office market isn't home to many large corporations or tech companies, which will continue to protect from the increase in vacancies caused by the rise in remote work seen in some larger metro areas. Tenants may show apprehension at signing long-term renewals with the uncertainty that will continue into the fourth quarter and ultimately 2021.

Expect more of the same in the fourth quarter, with possible marginal decreases in vacancy and availability. With the potential for end-of-the-year growth, the Fresno office market may still see a neutral year-to-date absorption rate, which would be quite an accomplishment, given the impact of COVID-19, and would speak to the office market's stability in Fresno.

PAYROLL EMPLOYMENT

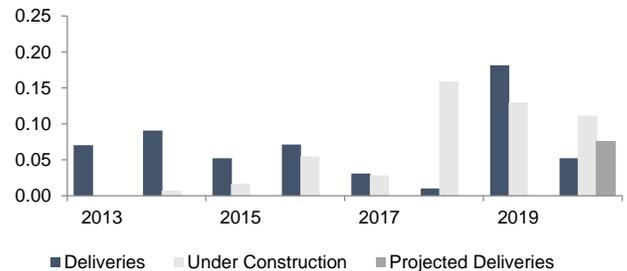
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSTRUCTION AND DELIVERIES

Square Feet, Millions



LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
N/A	Fox Run – 7275 N 1 st St	Woodward	Direct	6,176
Rain & Hail Insurance	499 W Shaw Ave	West Shaw	Renewal	5,650
N/A	340 W Cromwell Ave	Palm Bluffs	Direct	5,500
Fresno EOC	1250-1252 Fulton Mall	Downtown	Direct	5,478
N/A	7643 N Ingram	Palm Bluffs	Direct	5,166

SELECT SALES TRANSACTIONS

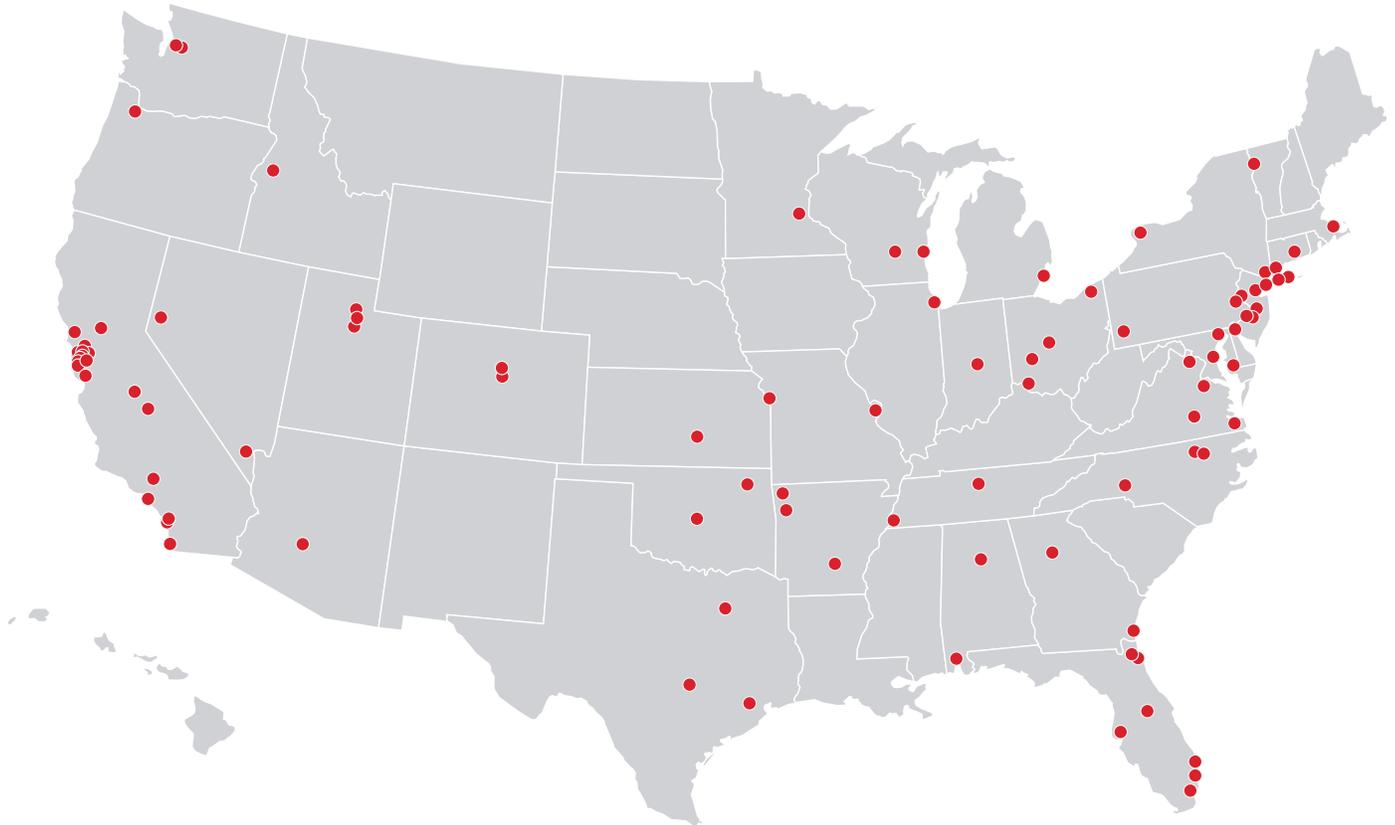
Building	Submarket	Sale Price	Price/SF	Square Feet
Meridian Professional Center	Woodward	\$1,536,000	\$145	10,564
2788 W Bullard Ave	Northwest	\$820,000	\$137	5,976
1630 E Shaw Ave	East Shaw	\$815,000	\$26	31,174
1650 L Street	Downtown	\$665,000	\$79	8,445
4241 E Clinton Ave	Midtown	\$425,000	\$54	7,826

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	9.9%	1,645	-13,127	\$2.24	\$1.03	\$1.15
Airport	1,377,288	-	11.9%	-5,374	-6,685	-	\$1.48	\$1.43
Clovis	1,069,112	20,260	6.4%	4,777	5,863	\$2.73	\$2.04	\$2.04
East Shaw	1,342,618	-	16.3%	13,320	19,951	-	\$1.54	\$1.54
Midtown	2,442,822	-	9.8%	8,273	-231	-	\$1.45	\$1.47
Northeast	1,223,668	-	9.8%	4,256	14,880	\$2.15	\$1.82	\$1.85
Northwest	1,876,405	-	10.7%	-6,735	-9,812	\$2.55	\$2.14	\$2.20
Palm Bluffs	1,922,267	24,192	11.0%	21,001	10,581	\$2.78	\$2.47	\$2.49
West Shaw	1,732,077	-	11.2%	-3,633	-13,307	-	\$1.64	\$1.53
Woodward	3,735,496	-	8.7%	-28,986	-41,591	\$2.39	\$2.29	\$2.34
Suburban Total	16,721,753	44,452	10.4%	14,165	20,351	\$2.44	\$1.93	\$1.91
Market	20,032,870	111,452	10.3%	15,810	-33,478	\$2.40	\$1.82	\$1.80



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