

2Q14 FRESNO OFFICE MARKET

Newmark Grubb
Pearson Commercial

TURNING THE CORNER AND CARRYING ON

Except in a few submarkets, the Fresno office market ended the second quarter of 2014 on a positive note. Vacancy rates fell and net positive space was absorbed, led by activity along the previously struggling East Shaw Corridor submarket. The key indicators suggest that the slow-recovering market has finally turned the corner: A net negative 50,826 square feet was absorbed in the first quarter, but the second quarter saw the market heat up with a net absorption of 188,456 square feet. This is exactly the kind of traction that can restore confidence to a marketplace that had previously sidelined many business owners and decision makers.

Although the East Shaw district had the largest market activity for the quarter, the Woodward and the Northeast submarkets had similar highlights, in which each reduced vacancy rates by an average of 160 basis points, the largest in several quarters. The momentum is reflective and just in time.

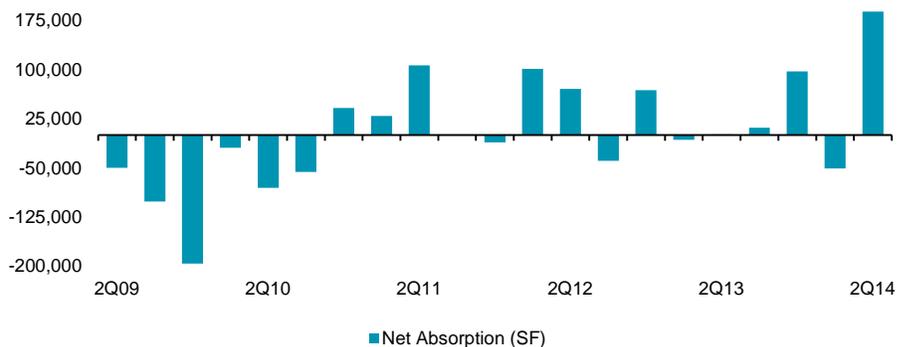
The markets are gradually settling down, vacancies are slowly filling and properties marketed at below-market rents have seen an increase in activity. Although rents are holding with virtually no change, they are firming up, which makes the timing more interesting in terms of the potential for new construction. Although the numbers will need to get to a point that justifies the undertaking, they are assuredly approaching. If timed correctly, those new construction sites stand to produce an upside in the year 2016.

The local market is beginning to see many start-ups testing the marketplace waters for the first time through SBA loans, as small to mid-sized companies strategically plan their business climate change needs and veteran

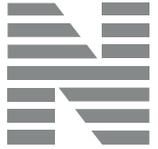
Asking Rent and Vacancy



Absorption



Key Indicators			
Total Inventory (SF)		19,543,752	
	2Q14	1Q14	2Q13
Asking Rent (Price/SF/Mo.)	\$1.64	\$1.64	\$1.69
Vacancy Rate (%)	13.6%	14.6%	15.3%
Under Construction (SF)	29,585	16,500	70,000
	2Q14	1Q14	2014-YTD
Net Absorption (SF)	188,456	-50,826	137,630
Deliveries (SF)	0	61,000	61,000



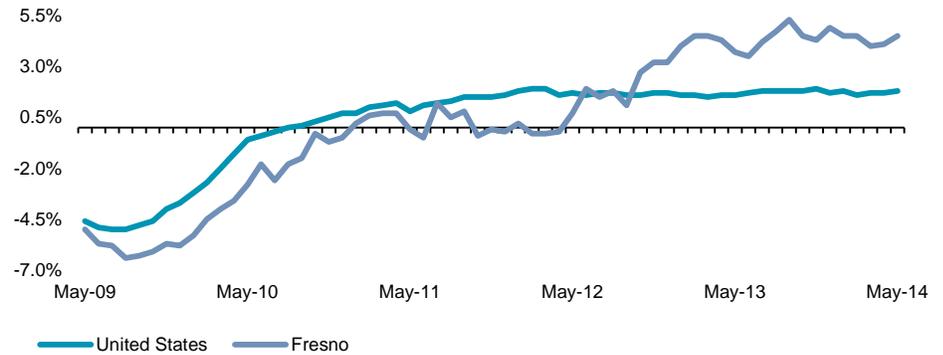
companies expand their services for more market presence through California's Central Valley.

To highlight select transactions this quarter, take a look at the Downtown submarket, which had a pair of sales transactions in excess of \$2.0 million. One of the largest sales during the second quarter was recorded in late June, with the Rowell Building, located at 2100 Tulare Street in Downtown Fresno, was sold for \$2,000,000 (\$33/SF) to a real estate developer. This signifies that the revitalization movement in Downtown may be picking up steam, as investors look to renovate buildings in order to provide the right inventory for underserved and/or outdated office market product.

The positive momentum that was gained in the second quarter is a great indicator that the office market has weathered the storm after staggering for several quarters. As a result of positive net absorption, we should begin to gradually see market rates creep up and capitalization rates stabilize to market levels. These indicators can only serve to produce great results for the third quarter of 2014.

Payroll Employment

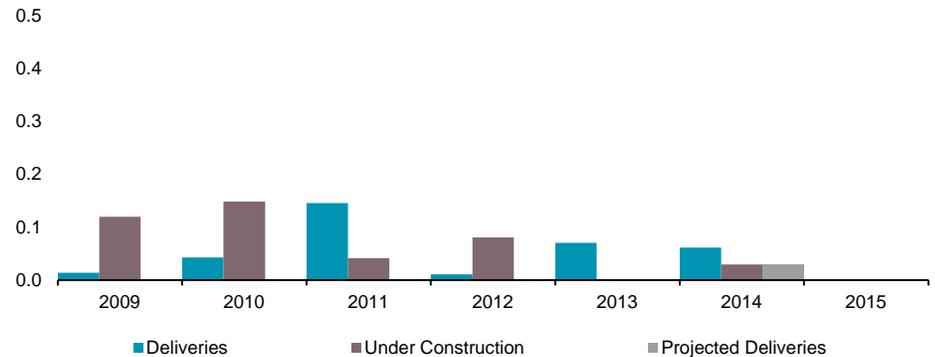
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

Construction and Deliveries

Square Feet, millions

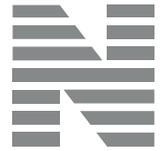


Select Lease Transactions

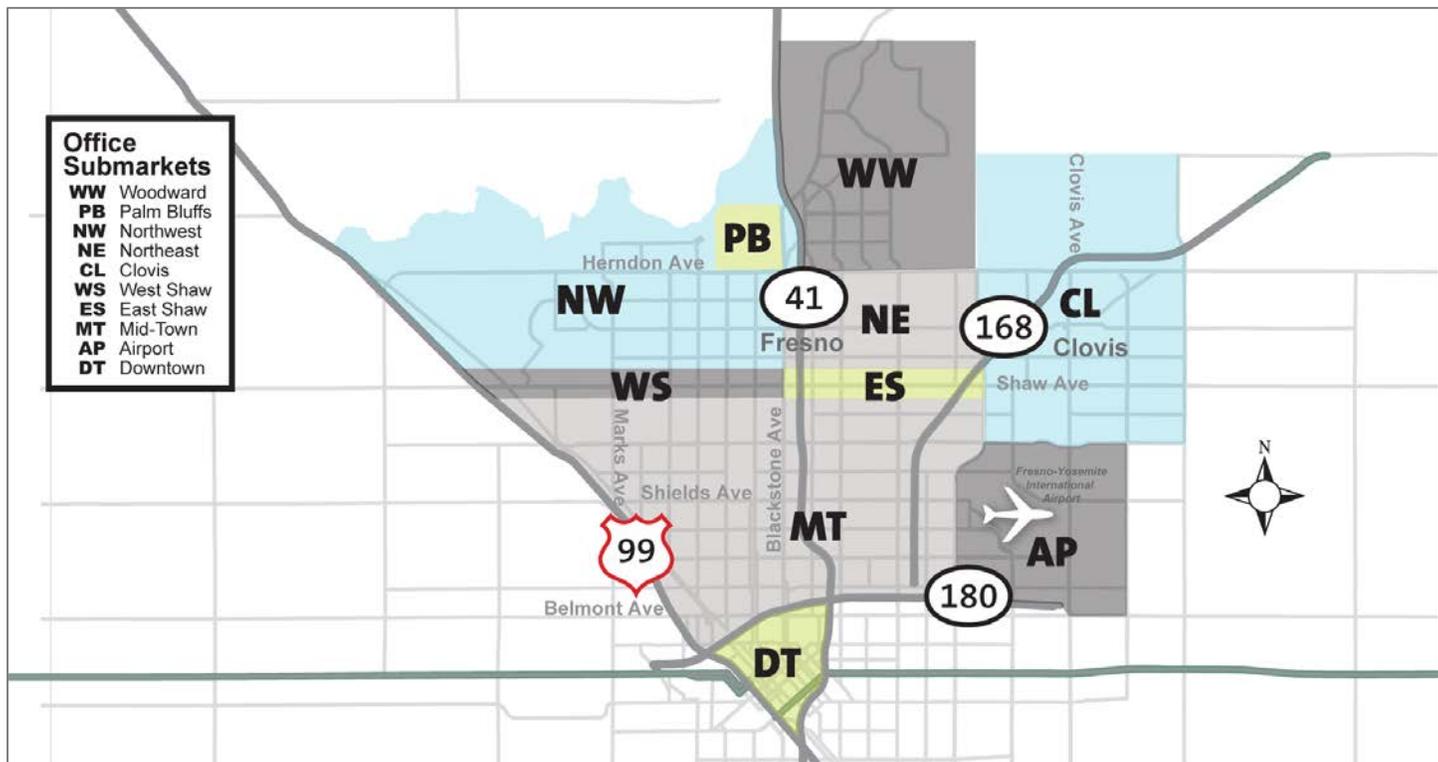
Tenant	Building	Submarket	Square Feet
N/A	Fig Garden Financial	Northwest	8,345
N/A	Park View Plaza	Woodward	7,020
Actagro	The Offices at Palm Crossing	Northwest	6,950
Carrollo Engineers	710 W Pinedale Ave	Northwest	5,960
The Current Church	4960 E University Ave	Airport	5,300

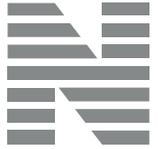
Select Sales Transactions

Building	Submarket	Square Feet	Sale Price	Price/SF
Rowell Building	Downtown	60,000	\$2,000,000	\$33
3240 N Millbrook Ave	Midtown	41,019	\$2,650,000	\$65
575 E Alluvial Ave	Woodward	16,925	\$2,100,000	\$124
1330 L Street	Downtown	11,000	\$375,000	\$34
Herndon Willow Prof Center Bldg 5	Northeast	7,035	\$1,185,397	\$168



Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Per/SF/Mo.)	Class B Asking Rent (Per/SF/Mo.)	Average Asking Rent (Per/SF/Mo.)
Downtown	3,285,208	-	12.7%	-3,547	-12,616	\$1.97	\$1.02	\$1.36
CBD Total	3,285,208	-	12.7%	-3,547	-12,616	\$1.97	\$1.02	\$1.36
Airport	1,521,519	-	14.6 %	38,659	66,680	NA	\$1.32	\$1.28
Clovis	877,817	-	9.3%	9,261	4,105	NA	\$1.70	\$1.68
East Shaw	1,400,608	-	23.2%	35,172	40,734	NA	\$1.55	\$1.55
Midtown	2,420,832	-	9.6%	2,133	-10,196	NA	\$1.45	\$1.17
Northeast	1,214,000	13,085	17.2%	20,998	25,529	\$1.90	\$1.57	\$1.60
Northwest	1,712,983	-	14.4%	17,324	1,525	\$2.36	\$1.74	\$1.91
Palm Bluffs	1,693,091	16,500	12.4%	-7,243	-10,422	\$2.15	\$2.01	\$2.02
West Shaw	1,715,255	-	15.2%	6,059	21,200	NA	\$1.28	\$1.27
Woodward	3,702,439	-	12.3%	26,232	54,499	\$2.38	\$1.98	\$2.17
Suburban Total	16,258,544	29,585	13.8%	192,003	190,003	\$2.33	\$1.65	\$1.70
Totals	19,543,752	29,585	13.6%	188,456	137,630	\$2.22	\$1.59	\$1.64





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Glossary of Terms

Absorption

A measure of the change in occupied space

Availability

Space marketed for lease regardless of when the space will be available or whether the space is vacant or occupied

Deliveries

The total RBA of properties added to the inventory once construction has been completed

Direct Space

Available space offered for lease by the building owner, landlord, or owner representative

Leasing Activity

The volume of leases signed including new leases, direct and sublet leases, extensions and renewals, and leases signed in proposed or under construction buildings

Occupancy

Any space physically occupied by a tenant, regardless of lease status of the space

Rentable Building Area (RBA)

A measurement of the total square feet in a building including the tenant and common areas such as the lobby and hallways

Sublet Space

Available space offered for lease by a building tenant seeking a subtenant to fulfill the remaining lease obligation

Under Construction

Buildings under construction are defined by the time the foundation is poured through the time the building is certified for occupancy

Vacancy

Space not physically occupied by a tenant, regardless of the lease status or availability of space

Weighted Average Rent

The asking dollar amount for the use of available space, weighted by size--the average does not include negotiable or unpublished rates and is reported as full service including operating costs

Office inventory includes all multi-tenant and single tenant buildings at least 5,000 square feet in total rentable building area. Owner occupied buildings are not included in the inventory.

Independently owned and operated

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