

# 3Q14 FRESNO OFFICE MARKET

**Newmark Grubb**  
**Pearson Commercial**

## UNDERSTANDING THE “NEW NORMAL”

The overall vacancy rate of the Fresno office market fell 6 basis points in the third quarter of 2014 to 13.0% from 13.6% in the second quarter. Each submarket experienced a slight drop in vacancy except East Shaw, which recorded a 24.3% vacancy rate, 1.0% higher than in the previous quarter and nearly double the third-quarter vacancy rate of all the other submarkets in Fresno. Rental rates changed little or not at all for the third consecutive quarter, indicating they have bottomed out and will remain where they are.

Rental activity was slow and steady during the third quarter, and is no longer affected by any sort of decrease in rental rates as a means of enticing prospective tenants to rent new space.

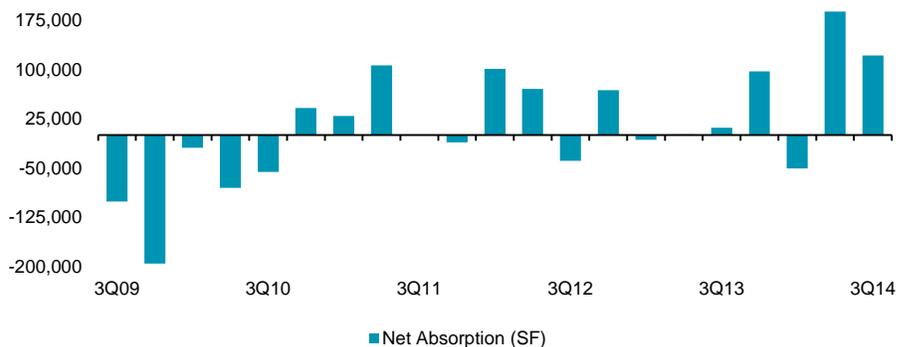
Investors are able, ready and anxious to buy income properties. The difficulty lies in finding quality properties for sale with stable, long-term leases. Of the five sale transactions referenced herein, two are located within the prestigious Palm Bluffs submarket and are considered quality income investments, with both selling near the \$250.00 per square foot price range. The remaining sales transactions involve properties that are priced right and will provide much upside in income as the market continues to improve.

The Fresno office market is greatly influenced by employment conditions. The unemployment rate in Fresno County was 10.1% in August 2014, down from 10.8% in July 2014 and below the 11.8% of a year ago. While government reported a loss of 2,500

**Asking Rent and Vacancy**



**Absorption**



### Key Indicators

Total Inventory (SF)	19,543,949		
Asking Rent (Price/SF/Mo.)	3Q14	2Q14	3Q13
	\$1.65	\$1.64	\$1.67
Vacancy Rate (%)	13.0%	13.6%	15.2%
Under Construction (SF)	29,585	29,585	70,000
Net Absorption (SF)	3Q14	2Q14	2014-YTD
	121,486	188,456	259,116
Deliveries (SF)	0	0	61,000

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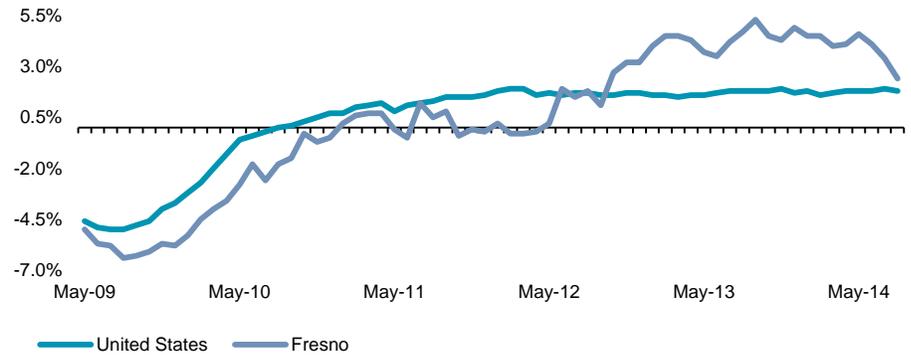
jobs leisure and hospitality lost 300 jobs, the Educational and Health Services expanded by 800 jobs. Major industries including Manufacturing, Professional and Business services edged up by 500 jobs.

The select lease transactions listed below are a good indicator of an office market as a whole. The participants in these transactions include national tenants, Fresno County Schools and the medical/hospital sector, along with strong local businesses.

These new quality leases prove that stability and confidence is growing and in turn improving the Fresno office market as a whole.

## Payroll Employment

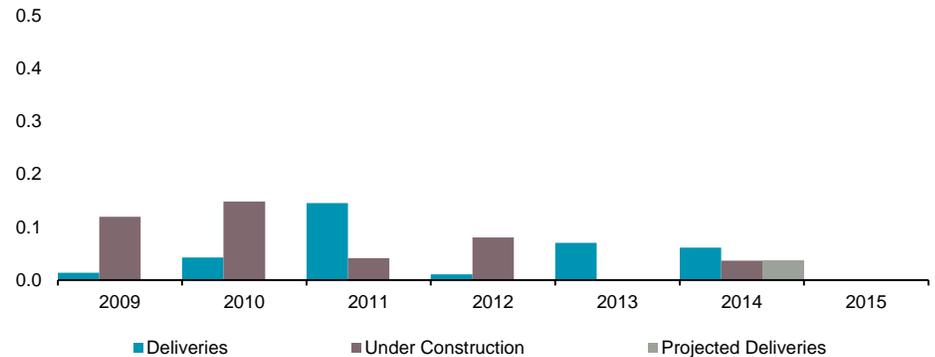
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## Construction and Deliveries

Square Feet, millions

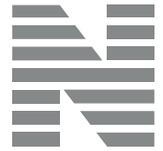


## Select Lease Transactions

Tenant	Building	Submarket	Square Feet
Paychex North America, Inc	Park View Plaza	Woodward	20,180
Fresno County Superintendent of Schools	Channing Court	West Shaw	8,878
Elmore Medical Laser Center	7131 N 11 <sup>th</sup> St	Woodward	8,650
Saint Agnes Medical Center	FSC West	Northeast	6,056
Intercare Holdings, Inc	Fox Run	Woodward	4,222

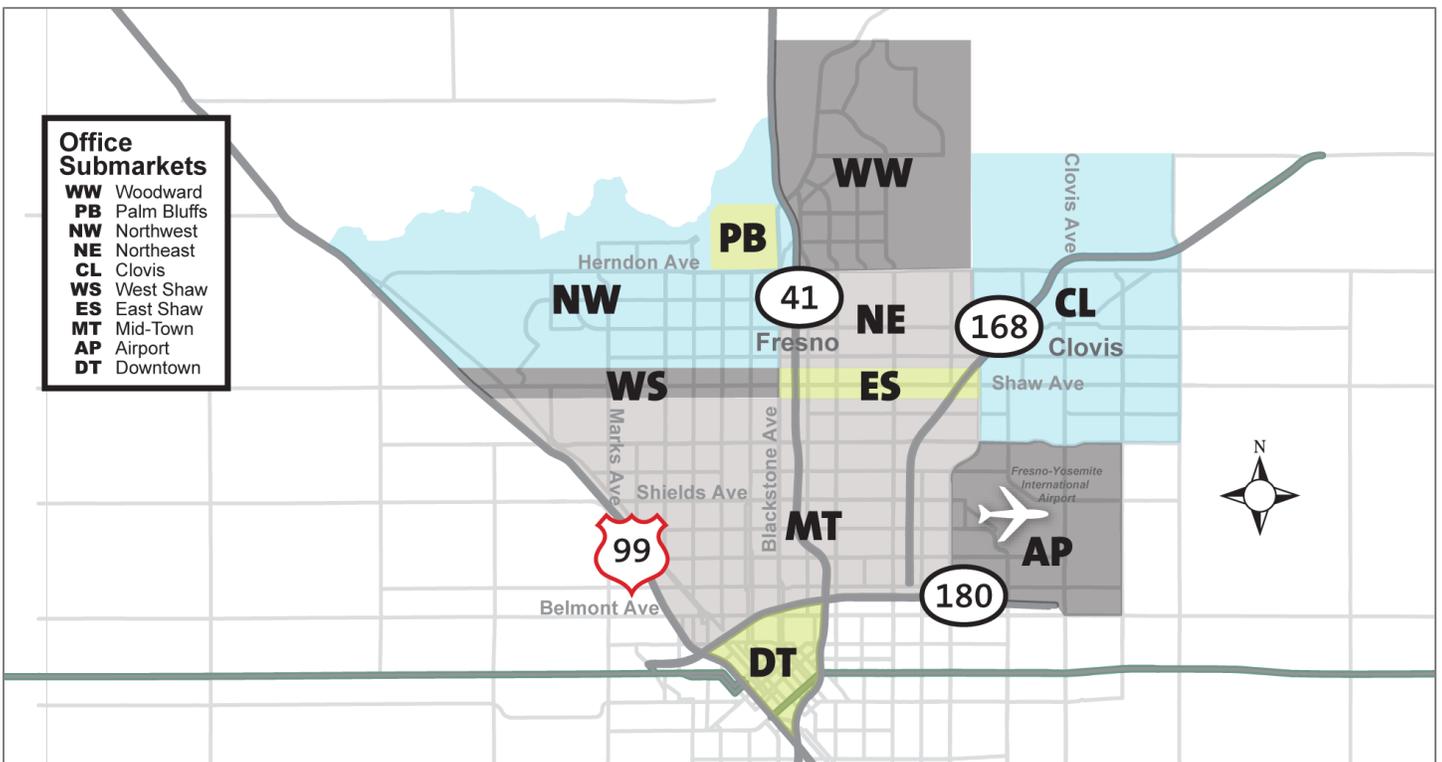
## Select Sales Transactions

Building	Submarket	Square Feet	Sale Price	Price/SF
1477 E Shaw Ave	East Shaw	22,590	\$1,750,000	\$77
7643 Ingram Ave	Palm Bluffs	9,184	\$2,200,000	\$240
711 W Alluvial Ave	Palm Bluffs	7,950	\$1,950,000	\$245
4940 N Cedar Ave	East Shaw	6,600	\$545,000	\$83
199 W Shields Ave	Midtown	5,220	\$400,000	\$77



**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	-	12.5%	5,936	-6,680	\$1.97	\$0.99	\$1.34
<b>CBD Total</b>	<b>3,285,208</b>	<b>-</b>	<b>12.5%</b>	<b>5,936</b>	<b>-6,680</b>	<b>\$1.97</b>	<b>\$0.99</b>	<b>\$1.34</b>
Airport	1,521,519	-	13.6 %	15,673	82,353	NA	\$1.31	\$1.27
Clovis	877,817	-	8.8%	4,450	8,555	NA	\$1.70	\$1.68
East Shaw	1,400,608	-	24.3%	-15,566	25,168	NA	\$1.58	\$1.56
Midtown	2,420,832	-	9.6%	733	-9,463	NA	\$1.45	\$1.26
Northeast	1,214,106	20,120	15.4%	22,632	48,161	\$1.90	\$1.57	\$1.60
Northwest	1,712,983	-	13.4%	17,390	18,915	\$2.35	\$1.76	\$1.91
Palm Bluffs	1,693,091	16,500	12.0%	5,975	-4,447	\$2.19	\$2.04	\$2.05
West Shaw	1,715,346	-	14.3%	16,618	22,677	\$1.30	\$1.27	\$1.25
Woodward	3,702,439	-	11.1%	47,645	73,877	\$2.49	\$2.02	\$2.23
<b>Suburban Total</b>	<b>16,258,741</b>	<b>36,620</b>	<b>13.1%</b>	<b>115,550</b>	<b>265,796</b>	<b>\$2.37</b>	<b>\$1.67</b>	<b>\$1.71</b>
<b>Totals</b>	<b>19,543,949</b>	<b>36,620</b>	<b>13.0%</b>	<b>121,486</b>	<b>259,116</b>	<b>\$2.24</b>	<b>\$1.60</b>	<b>\$1.65</b>





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## Fresno

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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

**Newmark Grubb Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.**

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