



FRESNO
1Q15 OFFICE MARKET

STEADY IMPROVEMENT CONTINUES IN THE FIRST QUARTER

As usual, the first few weeks of the new year started slowly, as people recovered from the holidays. After the hangover wears off, an uptick in leasing velocity is expected that should last until early summer. Based upon current statistics, overall vacancy decreased slightly in the first quarter of 2015, to 12.8% from 13.0% at the end of 2014.

Additionally, the weighted average market rental rate increased to \$1.68 per rentable square foot per month from \$1.66 per rentable square foot per month. Vacancy continued to fall in seven out of 10 submarkets during the first quarter. The biggest reduction occurred in the Clovis submarket, where vacancy dropped by 200 basis points over the last quarter.

Activity Rising

The general consensus among Fresno office brokers is that the first-quarter 2015 market data confirms that market activity is on the rise. Yet if transaction volume is increasing, so are expectations of both tenants and landlords, making the path to closing a deal fraught with obstacles.

Considering current activity, there should be a significant reduction in vacant space by the end of the second quarter. There has been very little new construction over the last few years, but some new construction starts are anticipated by year-end.

Shelved Projects Come Back into Play

Fresno-area developers have blown the dust off many projects shelved in 2008 and 2009. They are also considering starting additional projects. The Zinkin Companies is planning for a small speculative building on North Fresno Street in the Woodward Park submarket. There will also be a small amount of ancillary office space during the first phase of the Fresno 40 development, located on Fresno Street and Friant Avenue. The second phase of that development will include three multi-story office buildings, each comprising four stories, along with two garden office buildings.

Other developers in town are preparing to break ground as well. Although there is no projected timeline to date, the contraction in available office space makes it likely that ground will break prior to year-end.

Fresno Investment Market Meets Expectations

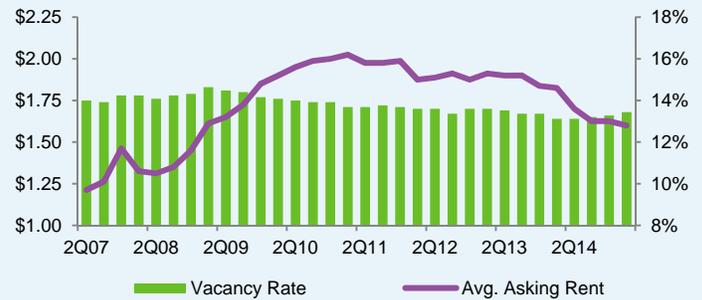
The investment market for the first quarter lived up to economists' expectations for transaction volume and activity. Investors continue to look for higher yield in markets like Fresno, as they are getting priced out

Current Conditions

- Asking rents continue to rise as vacancy rates tick downward
- New construction is anticipated to begin prior to the end of the year
- Fresno Developers are blowing the dust off of old plans
- Investment market meeting expectations

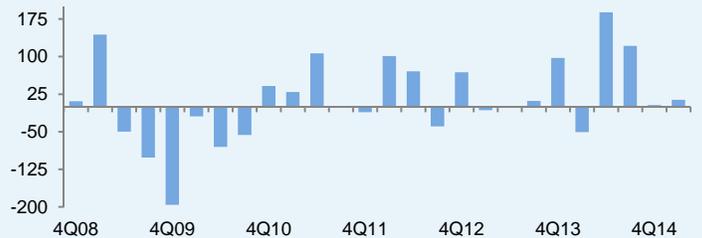
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Thousands



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.6MSF	19.6MSF	19.5MSF	↔
Vacancy Rate	12.8%	13%	14.6%	↓
Quarterly Net Absorption	13,817	3,280	-50,826	↔
Average Asking Rent	\$1.68	\$1.66	\$1.64	↑
Under Construction	51,954	7,035	16,500	↑
Deliveries	7,035	29,585	61,000	↔



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of the Bay Area and Southern California. Although most of the activity is seen in the retail sector, investors are beginning to feel comfortable with office again, as real estate fundamentals improve.

As lease rates increase due to scarce supply and no new construction, investors look to the office market for opportunities. Cap rates have been falling for the last year and the trend is continuing into 2015. One example of this is the new California Highway Patrol office in Fresno that sold in March for \$3,225,000 at a 6.9% cap rate. This is an extremely low cap rate for a state-leased building with only four years firm on the lease term. With little product on the market and a large pool of buyers, it is expected that 2015 will remain a year in which sellers capitalize on high prices for their properties. Look for the office market to see a significant increase in demand from investors, as cap rates in the Fresno market continue to drop.

Payroll Employment

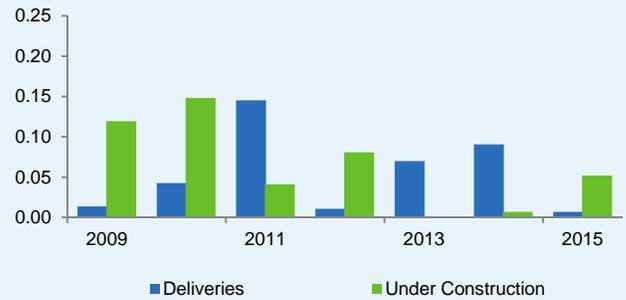
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, New York State Department of Labor

Construction and Deliveries

Square Feet, Millions



Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Eye-Q Vision Care	Clovis Medical Plaza	Clovis	Direct	15,486
N/A	1525 E Shaw Ave	East Shaw	Direct	10,792
N/A	Clovis Medical Plaza	Clovis	Direct	7,613
N/A	1127 E Olive Ave	Midtown	Direct	7,372
Esquire Deposition Services	Shaw Forty-One Center	East Shaw	Renewal	6,593

Select Sales Transactions

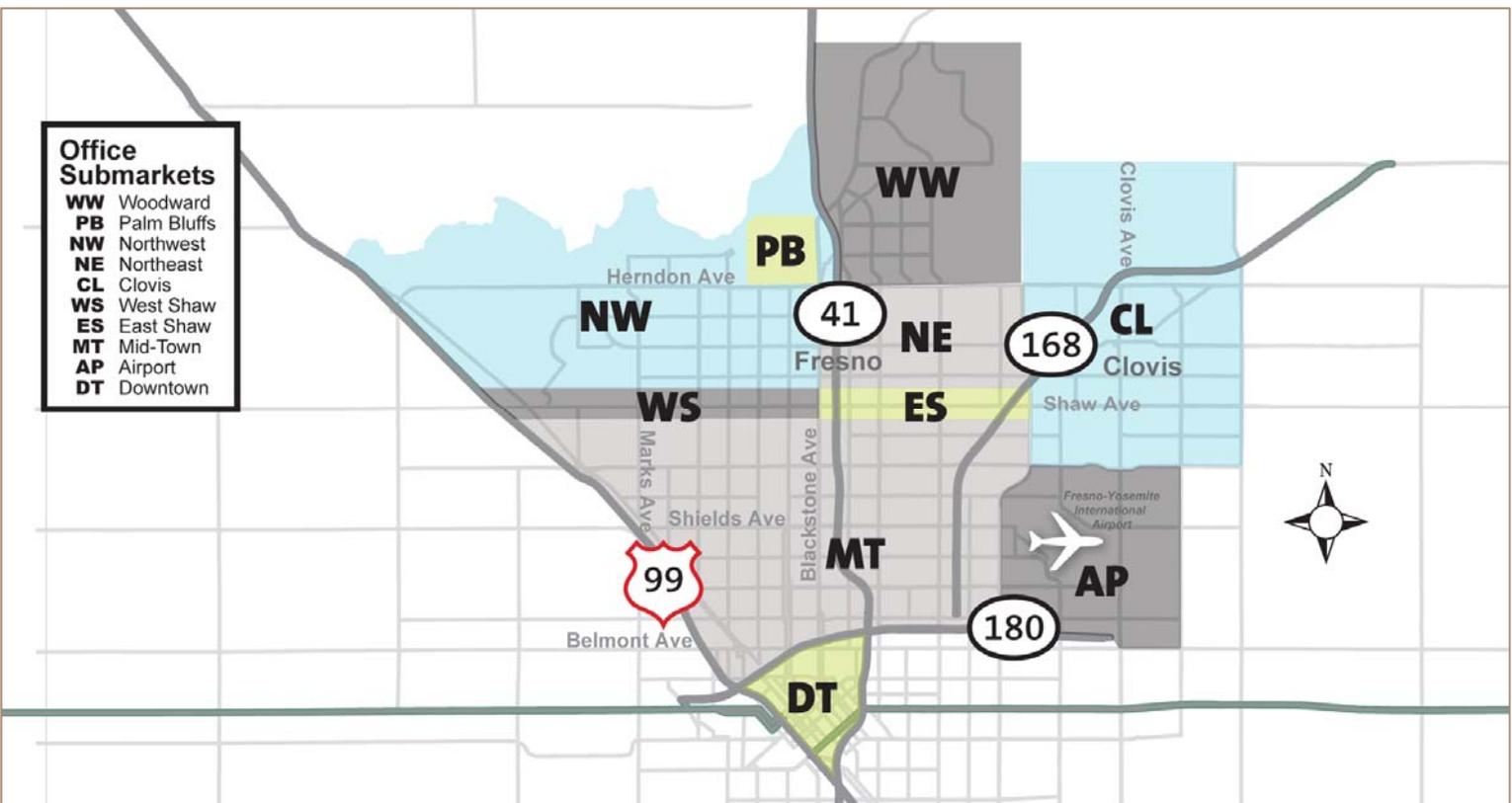
Building	Submarket	Sale Price	Price/SF	Square Feet
Westpark Professional Center	Northwest	\$2,125,000	\$203	10,450
Cambridge Court 102-201	Northeast	\$1,955,000	\$136	14,400
1381 E Herndon Ave	Woodward	\$455,000	\$193	2,325
3355 Shields Ave	Midtown	\$425,000	\$27	15,333
169 N Clark St	Downtown	\$358,000	\$114	3,152



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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	3,300,117	-	12.1%	1,144	1,144	\$2.10	\$0.99	\$1.34
Airport	1,521,557	-	13.5%	3,177	3,177	-	\$1.35	\$1.29
Clovis	877,817	44,919	7.0%	17,039	17,039	-	\$1.61	\$1.59
East Shaw	1,400,788	-	22.0%	3,206	3,206	-	\$1.57	\$1.55
Midtown	2,422,082	-	9.6%	3,653	3,653	-	\$1.40	\$1.27
Northeast	1,221,031	7,035	16.2%	-5,395	-5,395	\$1.90	\$1.64	\$1.66
Northwest	1,712,983	-	12.8%	9,996	9,996	\$2.35	\$1.81	\$1.95
Palm Bluffs	1,709,704	-	11.9%	2,430	2,430	\$2.33	\$2.10	\$2.12
West Shaw	1,715,395	-	15.0%	-5,519	-5,519	\$1.30	\$1.26	\$1.25
Woodward	3,702,439	-	11.6%	-15,914	-15,914	\$2.53	\$2.12	\$2.31
Suburban Total	16,283,796	51,954	13.0%	12,673	12,673	\$2.40	\$1.70	\$1.74
Market	19,583,913	51,954	12.8%	13,817	13,817	\$2.31	\$1.62	\$1.68





Fresno

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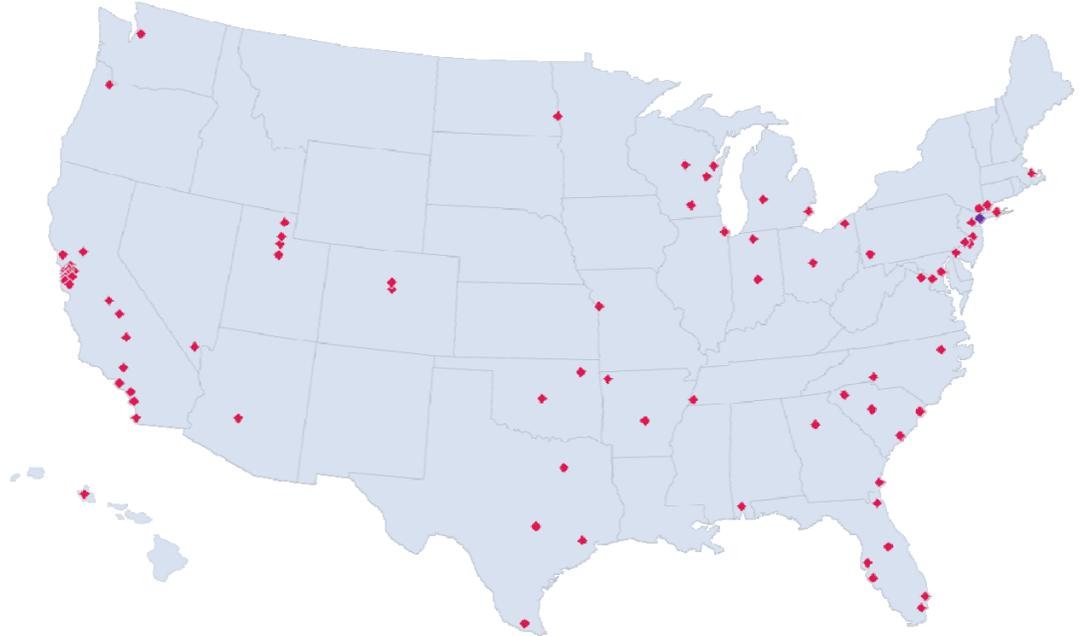
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