



FRESNO
2Q15 OFFICE MARKET

CAUTIOUS OPTIMISM CONTINUES IN 2015

After taking a couple steps forward to begin the year, the Fresno office market took a slight step back in the second quarter of 2015. The overall market experienced slightly higher vacancy rates, with both “direct space available” and “sublease space available” on the rise. The obvious effects of these increases are slight declines in weighted average rental rates, decreased net office space absorption and developers’ continued reluctance to start new office construction projects, some of which have been in the planning stages since before the Great Recession.

Class Activity

Class A office space continued to outpace Class B and Class C space in terms of absorption, as it was the only category to show a quarterly decrease in vacancy rates, albeit only a marginal one. Class B office vacancy remained relatively flat, while Class C vacancy rose slightly.

The Submarkets

The Clovis and Downtown Fresno submarkets had the most severe setbacks in the second quarter, due to increases in the amount of available office space. Clovis led the way with a 2.6% increase in quarterly vacancy, partly due to the completion of around 45,000 square feet that is only partially leased, while vacancy in Downtown Fresno was up 1.3% from the first quarter. Submarkets with vacancy rates that fell during the second quarter included both the Northwest and Northeast areas of Fresno. Northwest Fresno experienced the greatest reduction in availability, with a decrease in vacancy of 1.7%, while Northeast Fresno was not far behind with a decrease of 1.6%. Interestingly enough, the Northwest submarket was also the second-quarter market leader in sublease space available, as almost 13,000 square feet was added to the 8,433 square feet of sublease space carried over from the first quarter.

Going Forward

Office tenants will still feel the effects of weak economic fundamentals in the Central San Joaquin Valley, where the unemployment rate is above the national average, credit markets are tight, lenders are facing greater scrutiny and new industry continues to bypass the area. The anticipation of increased interest rates and inflation are also looming in the minds of business decision makers. Local developers are waiting for vacancy rates to decline to the point of healthy equilibrium before beginning new office projects. There were only two buildings under construction in the office sector during the second quarter of 2015, both approximately 8,000 square feet in the Palm Bluffs submarket.

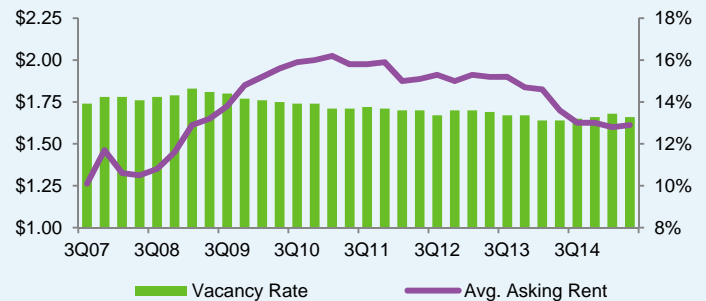
The Fresno market continues to languish in a tenants' market, with over 2.7 million square feet of office vacancy in the Fresno/Clovis direct and sublease markets combined. Landlords/property owners continue to offer incentives to the relatively small pool of tenants that are actively seeking space in the area in order to attract attention to their office vacancies.

Current Conditions

- Class A office space continues to outpace Class B and C
- Local developers are still sitting on the sidelines
- The Fresno market continues to languish in a Tenant's market
- Investment in the office property asset class seeing success
- Fresno office market continuing to heal

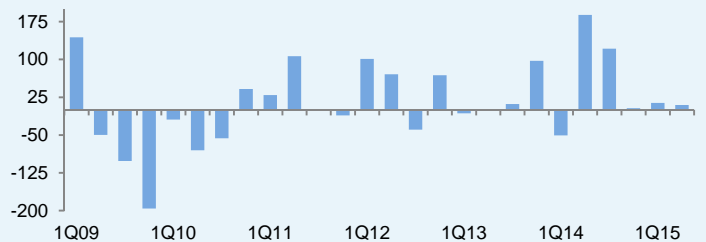
Market Analysis

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	12.9%	12.8%	13.6%	↓
Quarterly Net Absorption	9,485	13,817	188,456	↔
Average Asking Rent	\$1.66	\$1.68	\$1.64	↔
Under Construction	16,410	51,954	29,585	↑
Deliveries	44,919	7,035	0	↔



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Investment Success

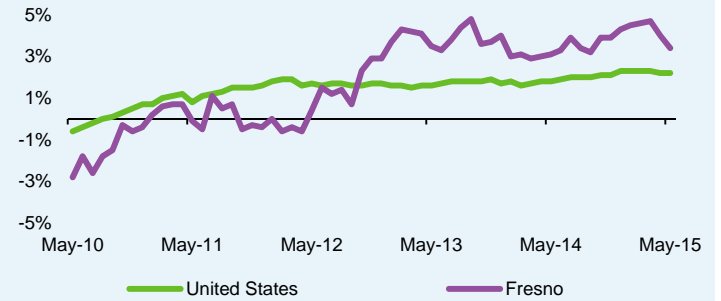
Investment in the office property asset class had some minor success during the quarter, even as cap rates for Class A assets remained at the lower end of the pricing spectrum. Class B and Class C assets stay on the market longer and with only slightly higher cap rates, as a lack of build quality, short-term tenants and deferred maintenance issues hinder their potential value for investors. Look for more investment activity and opportunity in the coming months, as the Valley continues to attract attention from more expensive markets in the West, where investors may be priced out of the market or come to Fresno in search of more reasonable cap rates.

Continuing to Heal

All in all, the Fresno office market continues to heal from the Great Recession, albeit at a much slower pace than the other, more diverse, tier-one markets in California: San Francisco, Silicon Valley, Los Angeles, Orange County and San Diego.

Payroll Employment

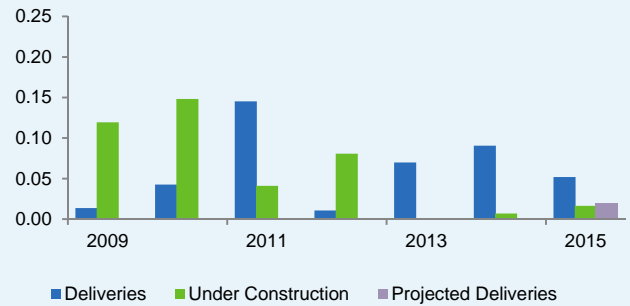
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



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
Northwest Medical Group	7355 N Palm Ave	Palm Bluffs	Direct	26,759
Comprehensive Youth Services Inc	4545 N West Ave	Midtown	Direct	14,557
Xerox Business Services LLC	660 W Locust	Palm Bluffs	Direct	8,947
Kings View Corporation	4910 E Ashlan Ave	Midtown	Direct	5,600
Omni Women's Health Medical Grp. Inc	7005 N Milburn Ave	Northwest	Direct	5,344

Select Sales Transactions

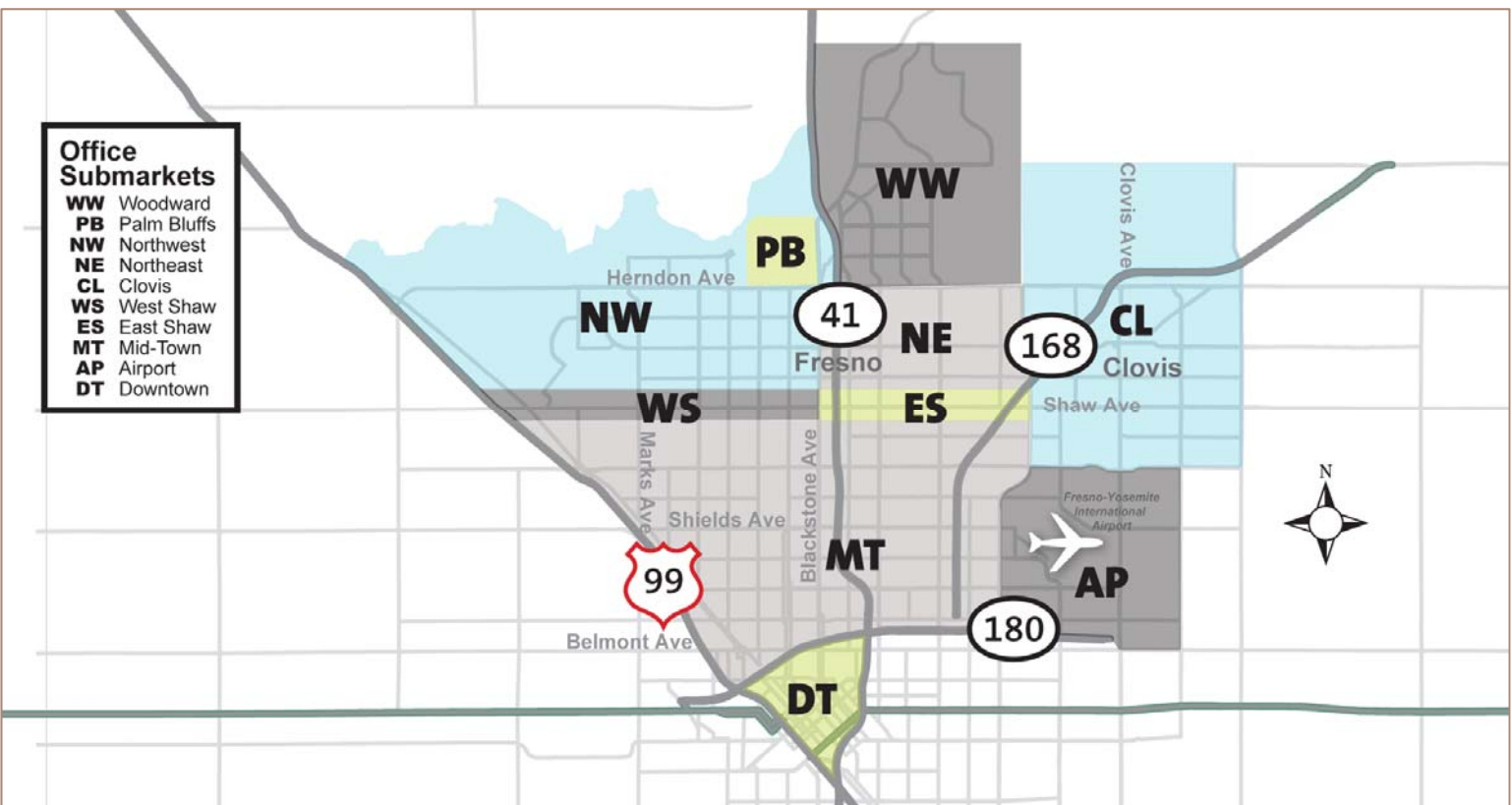
Building	Submarket	Sale Price	Price/SF	Square Feet
7440 N Palm Ave	Palm Bluffs	\$6,700,000	\$207	32,344
7519 N Ingram Ave	Palm Bluffs	\$2,8605,000	\$202	14,144
2425 W Shaw Ave	West Shaw	\$2,300,000	\$105	21,792
Herndon Willow Professional Center	Northeast	\$1,310,000	\$67	9,100
2547 W Shaw Ave	West Shaw	\$610,000	\$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	-	13.4%	-43,392	-42,248	\$2.10	\$1.01	\$1.33
Airport	1,521,557	-	13.9%	-7,066	-3,889	-	\$1.40	\$1.35
Clovis	922,736	-	9.6%	-4,704	12,335	-	\$1.61	\$1.59
East Shaw	1,400,788	-	22.0%	-5,874	3,332	-	\$1.56	\$1.54
Midtown	2,422,082	-	9.7%	-3,170	483	-	\$1.42	\$1.28
Northeast	1,228,066	-	14.6%	18,693	13,298	\$1.90	\$1.65	\$1.68
Northwest	1,712,983	-	11.1%	28,828	38,824	\$2.38	\$1.87	\$1.98
Palm Bluffs	1,709,704	16,410	11.5%	6,928	9,358	\$2.46	\$2.11	\$2.13
West Shaw	1,715,395	-	14.7%	4,739	-780	\$1.30	\$1.27	\$1.26
Woodward	3,713,108	-	11.4%	14,503	-1,411	\$2.43	\$2.12	\$2.26
Suburban Total	16,346,419	16,410	12.8%	52,877	71,550	\$2.34	\$1.71	\$1.73
Market	19,646,536	16,410	12.9%	9,485	29,302	\$2.27	\$1.62	\$1.66





Fresno

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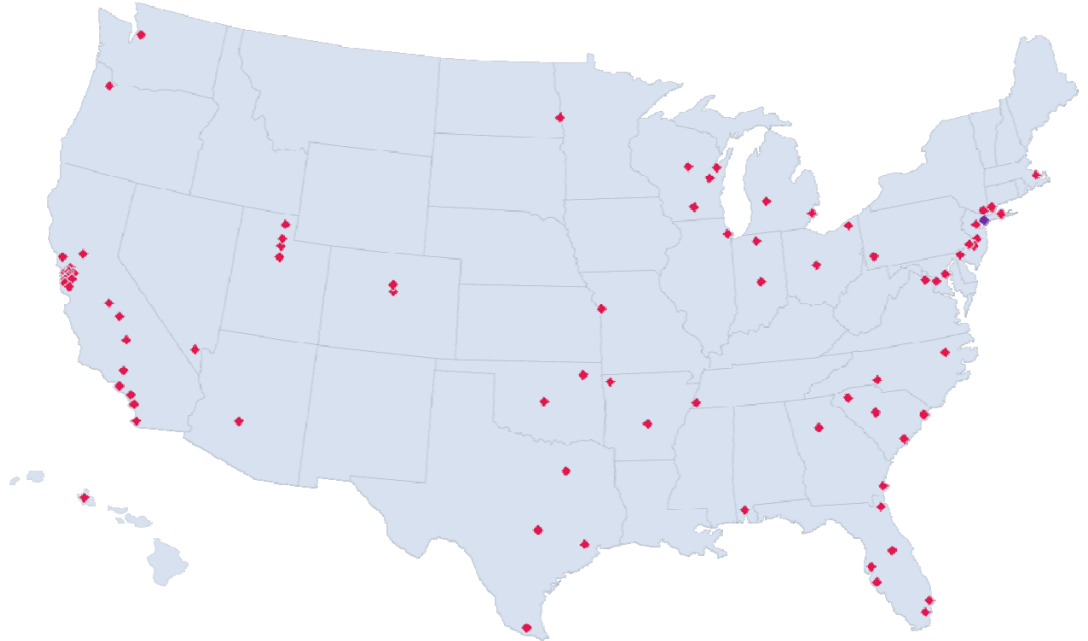
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