



FRESNO  
1Q16 INDUSTRIAL MARKET

POSITIVE OUTLOOK

The year started with the regional industrial market trending in a positive direction for most market participants. Fundamentally, the industrial market has been resilient over the last five years and has begun to exhibit typical signs of growth in the last 24 months. While the other major California markets have experienced significant price increases and positive absorption, pricing increases and absorption in the Fresno area have been more modest. Absorption has caused availability across most product types to decrease, resulting in higher asking and contracted prices for most properties. These higher prices have given the development community the confidence to put more shovels in the ground to meet demand for new, modern space. Finally, since last year, the local industrial market has been responding to current economic growth, broadly and regionally, by adding inventory and attracting new businesses.

Availability Decreases

Even though the overall vacancy rate has not significantly decreased over the last 12 months, the number of available buildings has become much more limited. When companies tour the market looking for small, medium or large buildings for sale or lease, there are generally no more than four or five options. As supply has become more constrained and demand has increased, buildings that might have been passed over are being considered by prospects. When the market was depressed, businesses had many options, and some took advantage of the opportunity to relocate to larger, newer and/or more functional spaces. Currently, the more limited availability means that occupants have to be more flexible in their requirements and focus more on their absolute business needs and less on their wish lists.

Land Availability Decreases

As a consequence of owner-users and developers acquiring developable land over the last 18 months, there are far fewer options for industrial land that is well located, especially along the Highway 99 Corridor. From 2008 through 2015, there were very few industrial land sales, and sellers' willingness to give away their land made virtually no difference, since there was practically no new construction, and there was certainly no land banking occurring. Over the last 12 months, the price of shovel-ready industrial land totaling less than five acres has increased by 20.0%, to 30.0%. In Fresno, land prices have increased from \$3.25/SF to \$4.75/SF, depending on the parcel size, infrastructure and location. While locating near Fresno and the primary transportation corridor is optimal for most users, smaller communities, like Reedley, Sanger, Dinuba, Selma and Kingsburg, have industrial lots available and may be more viable, less expensive options for users needing to build in the near future.

New Development Hits the Market

Since late 2015, a number of new buildings have become available, including DDG's 550,000 square foot multi-building project near Central Avenue and Minnewawa Avenue. Additionally, G3 Development's North Pointe Business Park has added three new buildings, totaling 160,000 square feet, and Don Pickett & Associates' Hydro Business Park delivered eight buildings this year.

Current Conditions

- Overall availability is decreasing across all product types and classes
- Sale prices and lease rates continue to increase
- Ready-to-develop land parcels are in limited supply
- Speculative "for sale" and "for lease" development is occurring and will be delivered throughout 2016
- Potential headwinds as a result of macro-economic challenges and on-going drought-related impact on ag

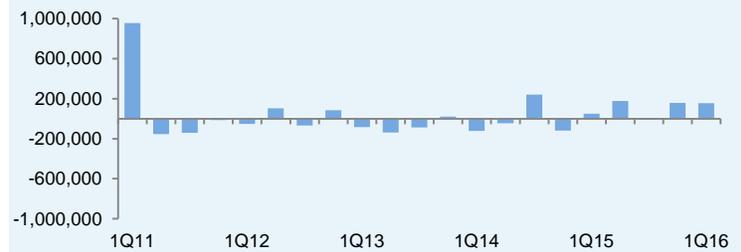
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	65MSF	65MSF	65MSF	↑
Vacancy Rate	6.6%	6.7%	6.9%	↓
Quarterly Net Absorption	155,060	370,017	50,072	↑
Average Asking Rent	\$0.37	\$0.40	\$0.39	↔
Under Construction	293,010	378,708	227,878	↑
Deliveries	99,208	552,600	20,000	↑



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More speculative development is on the horizon at the established parks, as well as in new subdivisions, like Dry Creek Business Park in Clovis and throughout the Fresno marketplace. The aforementioned developments get the headlines, but many more owner-user projects are being constructed throughout the region. Businesses have chosen to build because no existing properties are available that meet their requirements, and financing for these types of projects is available.

**Relocations**

Historically, as industrial markets got more expensive in other parts of California, businesses looked to the central part of the state, where it is generally much less expensive to lease or buy a space or building. However, most companies that relocate to the Fresno area do so to centralize operations, take advantage of third-party shippers (think UPS Ground or FedEx Ground) or expand into California. Some examples of recent relocations are Baker Distributing, Alfa Laval and Move Loot. Furthermore, High-speed rail-related relocations have had a material, positive impact (from the perspective of sellers and landlords) on the market by causing the affected businesses to buy or lease space they otherwise would not.

**On the Horizon**

Looking forward, market sentiment seems cautiously optimistic. Typically, Fresno's industrial market is the tortoise to the hare that is the LA Basin or the Bay Area. This is not a bad thing, however: Speculation does not run rampant in the Fresno market, nor do its prices get too disconnected from fundamentals. With limited new supply and consistent demand, prices are likely to rise again this year, though probably not at the rate of the last 18 months. Barring a systemic problem regionally and/or domestically, Fresno's industrial market should remain healthy and active through 2016.

**Payroll Employment**

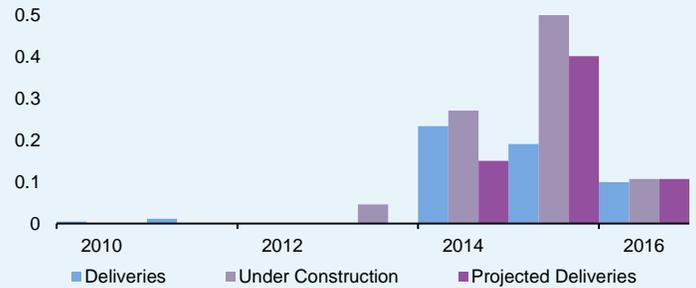
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



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

**Construction and Deliveries**

Square Feet, Thousands



**Lease/User Transactions**

Tenant	Building	Submarket	Type	Square Feet
WestRock	2626 S Maple Avenue	Southeast	Direct	208,300
Quali-T-Ruck Service Inc.	2702 S Maple Avenue	Southeast	Direct	49,500
Veterinary Service Inc.	2892 S Orange Avenue	Southeast	Direct	25,600
Caruthers Raisin Packing Co	2961 S Angus Avenue	Southeast	Direct	24,000
Hill-Rom Company, Inc	2935 S Elm Avenue	Southwest	Direct	22,800

**Select Sales Transactions**

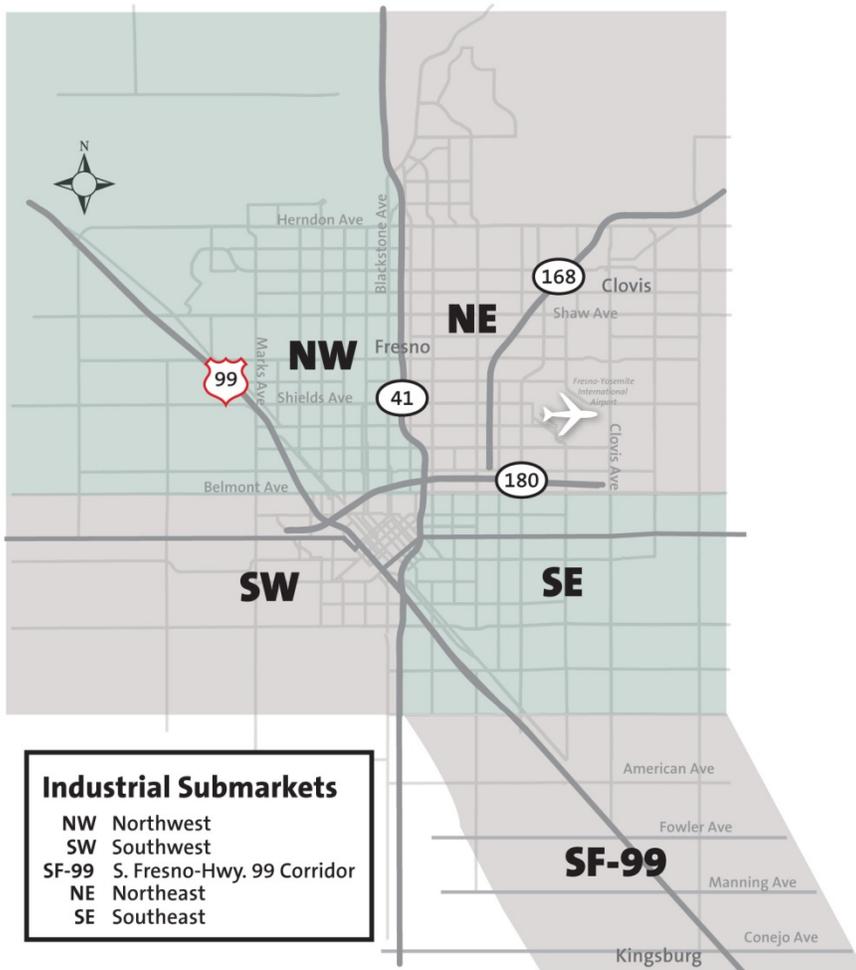
Building	Submarket	Sale Price	Price/SF	Square Feet
3695 S Willow Avenue	Southeast	\$7,800,000	\$52	150,000
2788 S Maple Avenue	Southeast	\$3,775,000	\$46	81,730
3441 S Willow Avenue	Southeast	\$3,600,000	\$43	160,600
4744 N El Capitan Avenue	Northwest	\$495,000	\$123	4,000



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**Submarket Statistics**

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Northeast	13,501,878	15,828	3.9%	-1,046	-1,046	\$0.42	\$1.39	\$0.48
Northwest	8,990,637	8,142	6.8%	-22,333	-22,333	\$0.43	\$0.87	\$0.54
S. Fresno-Hwy.99 Corridor	5,890,772	206,360	12.6%	-	-	\$0.25	-	\$0.29
Southeast	28,873,706	-	7.0%	193,439	193,439	\$0.21	\$0.68	\$0.28
Southwest	7,696,436	62,680	4.9%	-15,000	-15,000	\$0.27	\$0.80	\$0.38
<b>Totals</b>	<b>64,953,429</b>	<b>293,010</b>	<b>6.6%</b>	<b>155,060</b>	<b>155,060</b>	<b>\$0.29</b>	<b>\$0.94</b>	<b>\$0.37</b>






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**Fresno**

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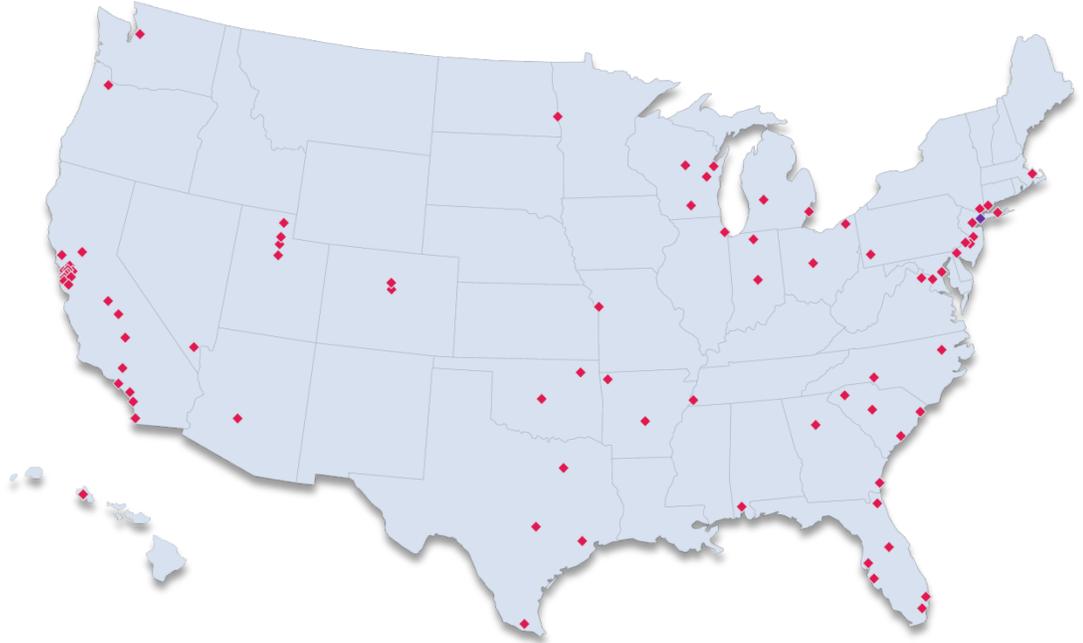
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