

FRESNO 1Q16 OFFICE MARKET

BUILDING A FOUNDATION FOR THE REMAINDER OF THE YEAR

State of the Market

The first quarter of 2016 laid a firm foundation for the remainder of the year, as the Fresno office market witnessed vacancy rates increase in five out of its 10 submarkets rise and decrease in the other five. No vacancy rate increased or decreased by more than 0.5%. East Shaw Avenue has far and away the most vacancy within the entire market place with 22.4%, which equates to just over 300,000 square feet. The vacancy rate for the first quarter was flat and remained at 12.7%. Additionally, the average asking rent and total inventory within the market were also flat.

The first quarter is a “foundation” because broker sentiment toward the market is very positive. Showings are increasing in number, which, while not yet translating into leases, are expected to in the short term. Also, about half of the showings have been for tenants new to the market, which would also mean an increase in the market’s currently positive absorption. As these lease transactions come to fruition as expected, owners will begin to increase rents. The market has already witnessed a lack of concessions for the Class A properties in the Palm Bluffs and Woodward submarkets.

Highlights

One high point of first-quarter 2016 was the groundbreaking of the Boardwalk at Palm Bluffs. The 74,272-square-foot complex, which will comprise nine buildings ranging from 6,000 to 10,000 square feet, marks the first time the market has seen spec construction on a large scale since 2011. The project has been met with great enthusiasm. Currently five of the nine buildings are under contract to be sold once construction is completed. The developer has embraced the “going green” initiative with covered parking stalls, upgraded roof system to accommodate solar panels, elaborate landscaping and electric vehicle charging stations. The buildings were offered at \$220-\$240/SF for a raw shell. In addition to Boardwalk, a couple of local developers are also making plans to begin construction on new projects.

Sales Activity

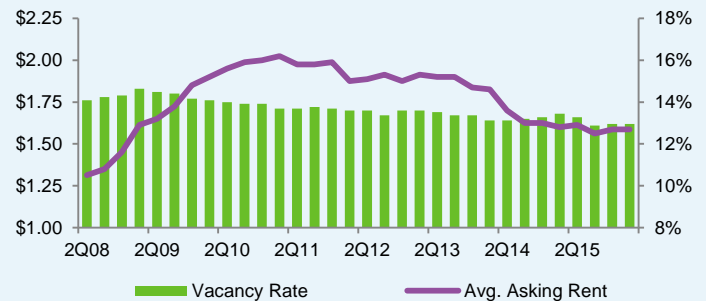
Sales of investment properties continued in first-quarter 2016 and showed no signs of stopping. Most properties, if priced correctly, have been receiving multiple offers at or near asking price. Location and tenancy always plays a significant role in increasing values. This trend should continue for the foreseeable future, as long as interest rates remain low. The market has also seen investors from Southern California and the Bay Area looking to invest in Fresno. These potential buyers are looking for higher returns and less competition outside of their markets.

Current Conditions

- Market remains stable, with rates rising gradually
- Landlords building environmentally friendly buildings
- Investment sales activity remains strong and should continue throughout 2016
- Activity from new tenants from outside the Fresno market

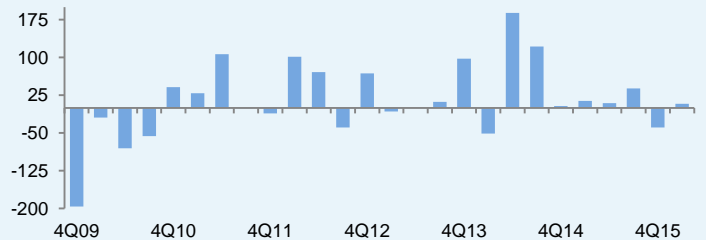
Market Analysis

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	12.7%	12.7%	12.8%	↓
Quarterly Net Absorption	8,168	-39,269	19,817	↔
Average Asking Rent	\$1.62	\$1.62	\$1.68	↑
Under Construction	24,000	16,410	7,035	↑
Deliveries	8,410	0	29,585	↔



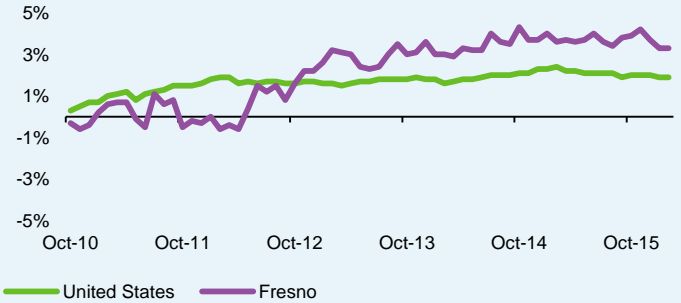
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Looking Ahead

In conclusion, the first quarter of 2016, while not very robust, has laid the groundwork for an exciting remainder of the year. With the recent showings and tenant activity, vacant space is destined to be leased soon. Fresno will continue to see new construction, new tenants and positive absorption.

Payroll Employment

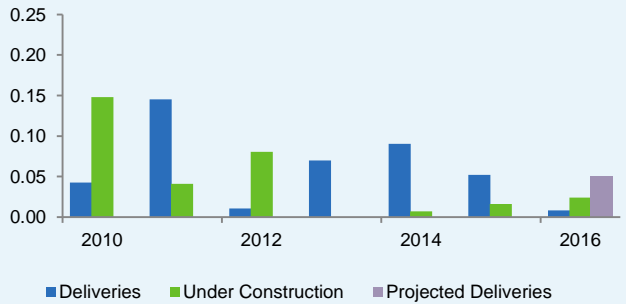
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



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
DeVry Education Group Inc	7575 N Fresno	Woodward	Renewal	16,000
California Conservation Corp	2536 N Grove Industrial Dr	Airport	Direct	10,021
Aperio Communications, LLC	1066 E Shaw Ave	East Shaw	Sublease	8,931
Bradford & Barthel, LLP	Shaw Forty-One Centre	East Shaw	Direct	7,369
MMR Power Solutions	730 W Pinedale Ave	Palm Bluffs	Direct	5,132

Select Sales Transactions

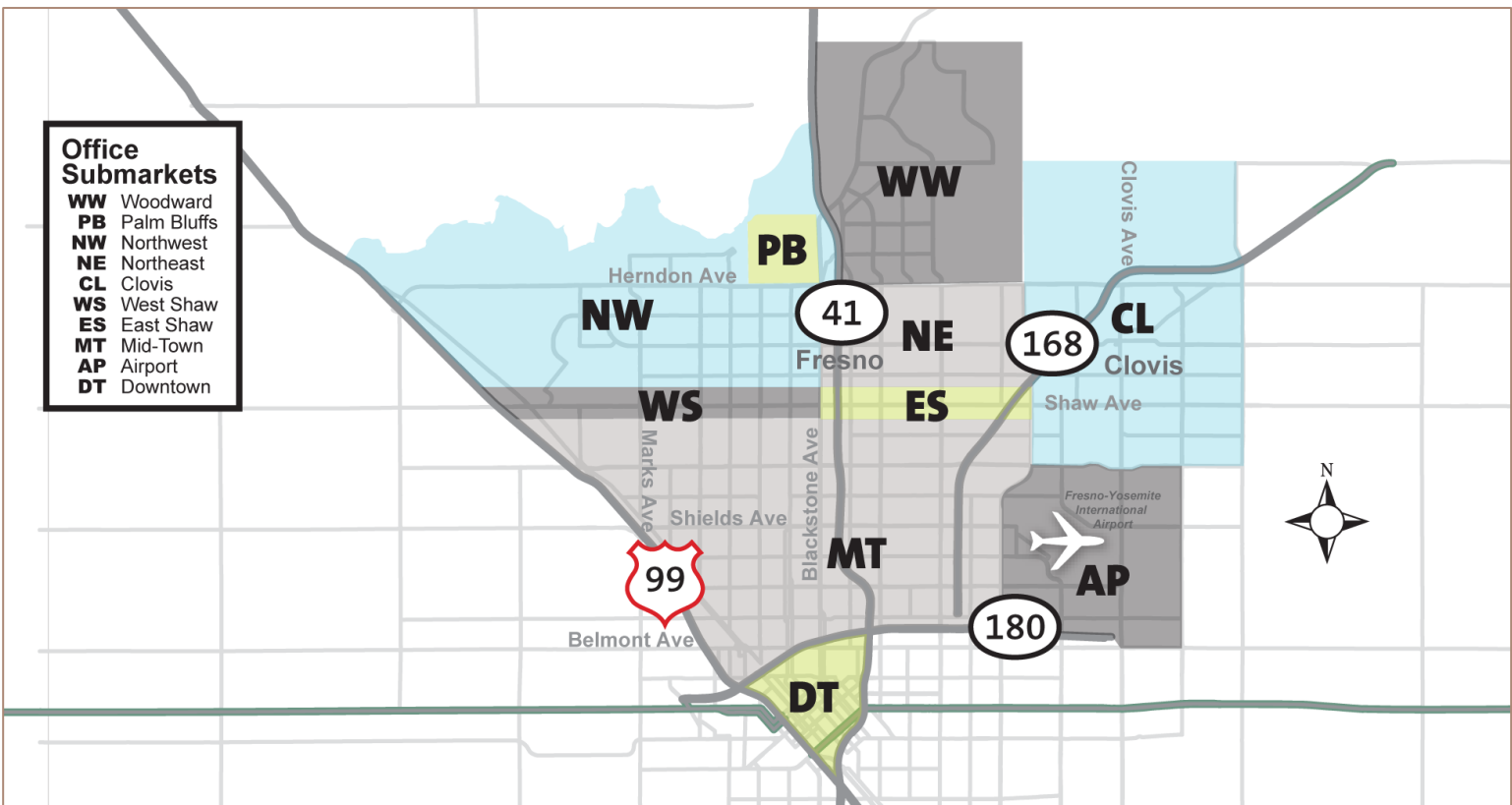
Building	Submarket	Sale Price	Price/SF	Square Feet
7576 N Ingram Ave	Palm Bluffs	\$5,400,000	\$208	25,945
2011 Fresno Street	Downtown	\$4,200,000	\$84	50,000
1455 E Shaw Ave	East Shaw	\$3,940,000	\$194	20,303
Virginia Hotel	Downtown	\$3,250,000	\$118	27,643
6323 N Fresno St	Northeast	\$830,000	\$148	5,600



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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	-	13.9%	-5,794	-5,794	\$2.10	\$1.02	\$1.26
Airport	1,521,557	-	14.3%	6,400	6,400	-	\$1.41	\$1.36
Clovis	922,736	-	8.4%	2,662	2,662	-	\$1.66	\$1.63
East Shaw	1,344,534	-	22.4%	8,799	8,799	-	\$1.56	\$1.55
Midtown	2,421,532	-	9.6%	-1,025	-1,025	-	\$1.44	\$1.28
Northeast	1,228,066	-	14.5%	-1,382	-1,382	\$2.15	\$1.58	\$1.61
Northwest	1,712,983	-	12.3%	1,603	1,603	\$2.37	\$1.89	\$2.00
Palm Bluffs	1,718,114	24,000	10.9%	892	892	\$2.21	\$2.15	\$2.15
West Shaw	1,716,083	-	14.0%	-2,729	-2,729	-	\$1.28	\$1.26
Woodward	3,665,794	-	10.2%	-1,258	-1,258	\$2.38	\$2.05	\$2.22
Suburban Total	16,251,399	24,000	12.4%	13,962	13,962	\$2.34	\$1.69	\$1.71
Market	19,551,516	24,000	12.7%	8,168	8,168	\$2.26	\$1.60	\$1.62





Fresno

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559.432.6200

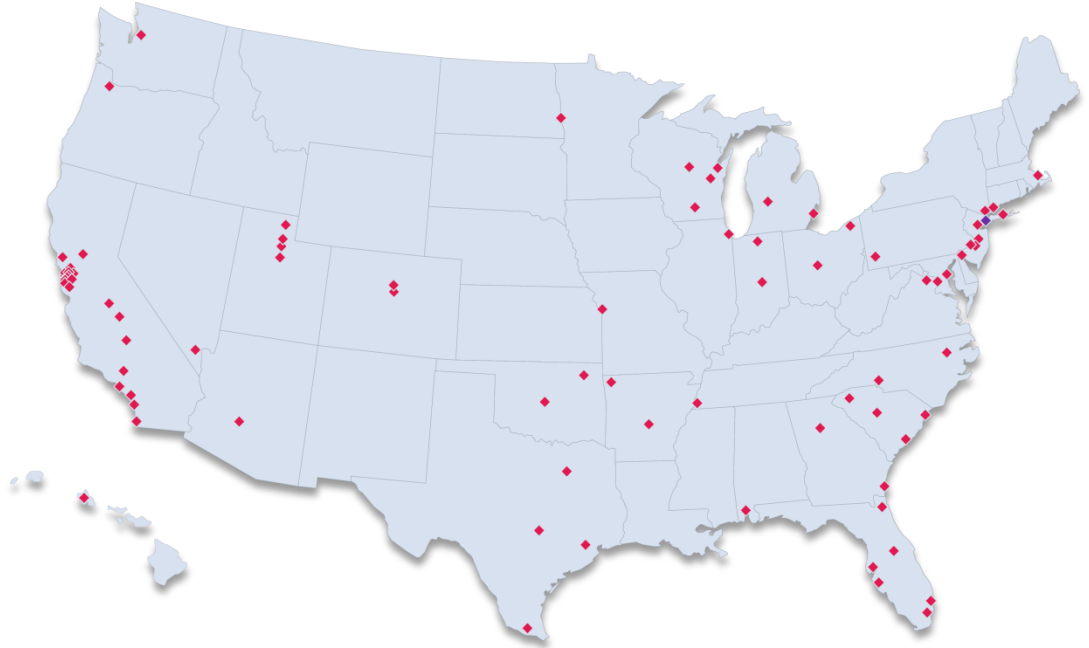
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