



FRESNO
1Q17 OFFICE MARKET

BUILDING STABILITY IN 2017

State of the Market

The first quarter of 2017 marked the beginning of another year of stability for the Fresno office market. There was minimal movement in the vacancy rates overall, with the rates for most submarkets moving only a fraction of a percentage up or down. Overall, the vacancy rate dropped to 11.7% from 12.0% in the fourth quarter of 2016. Rents held steady for the most part with a slight uptick. The biggest rent increase occurred in the Clovis submarket, where the weighted average lease rate rose by \$0.24/SF, most likely due to the increase in newer quality office space being built. In most other submarkets, there were average increases of \$.01/SF to \$.02/SF.

As the Fresno office market has stabilized even more over the past few quarters, landlord concessions have slowly been fading, as tenants are receiving increasingly less free rent and fewer incentives. This is especially true with Class B and Class C properties. Another indicator that the market is stabilizing and starting to grow again is the amount of new construction, which increased to 114,955 square feet during the first quarter, up from 72,151 square feet in the prior quarter. Projected deliveries for the year are 125,000 square feet.

Highlights

With new office projects slated to begin construction and the 74,272-square-foot Boardwalk at Palm Bluffs office project nearing completion, the market is definitely growing at a sustainable pace. One of the two largest vacancies in the Palm Bluff submarket, a two-story, 43,000-square-foot shell building, was leased recently, while a growing number of buildings that have sat vacant are slowly being absorbed. On the sale side, all of the buildings in the Boardwalk at Palm Bluff are under contract, showing the strength of the economy, as owner-users are now committing to long-term investments in their own office spaces.

Sales Activity

The market has seen growth in both investment sales and owner/user sales, as good-quality product becomes available on the market. As more buildings fill up, a growing number of owners are putting their properties on the market as investment offerings. Barring any huge increases in interest rates, the Fresno market should continue to see a healthy appetite for quality office product as it comes available.

Conclusion

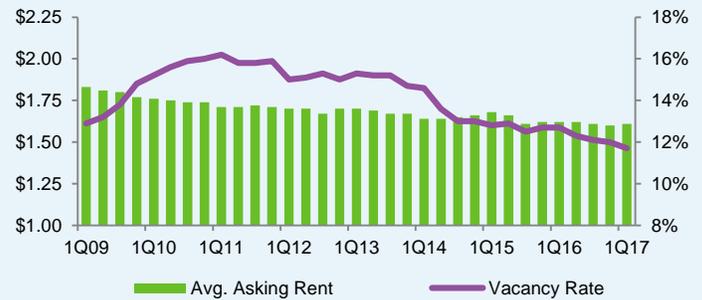
The positive sentiment in the Fresno office market from 2016 is building in 2017. The decline in vacancy can be attributed to expansion and new tenants entering the market as well as new construction being filled upon completion. Expect to see these trends play on throughout the year.

Current Conditions

- Overall vacancy continues to decline
- Sales activity remains stable
- Owner-users continue to look in the market
- Projects are breaking ground, adding more quality product to the market
- Rental rates are increasing slightly

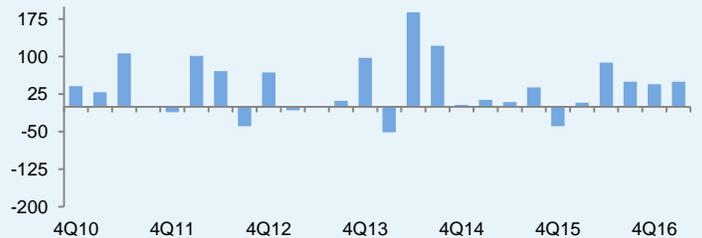
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Thousands



Market Summary

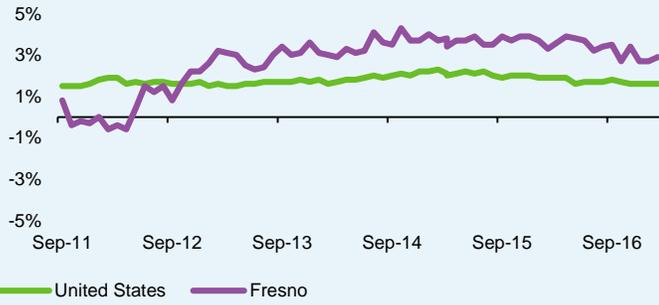
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	19.6MSF	19.6MSF	19.6MSF	↑
Vacancy Rate	11.7%	12.0%	12.7%	↓
Quarterly Net Absorption	49,668	44,792	8,168	↔
Average Asking Rent	\$1.61	\$1.60	\$1.62	↑
Under Construction	114,995	72,151	24,000	↑
Deliveries	0	0	8,410	↑



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Payroll Employment

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



Source: U.S. Bureau of Labor Statistics

Construction and Deliveries

Square Feet, Millions



Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Fidelity Title	7475 N Palm Ave	Palm Bluffs	Direct	9,700
N/A	2743 E Shaw Ave	East Shaw	Direct	7,400
Comcast	5 River Park Place West	Woodward	Direct	5,320
Movoto	677 W Palmdon Dr	Northwest	Direct	5,190
Nationwide	677 W Palmdon Dr	Northwest	Direct	4,835

Select Sales Transactions

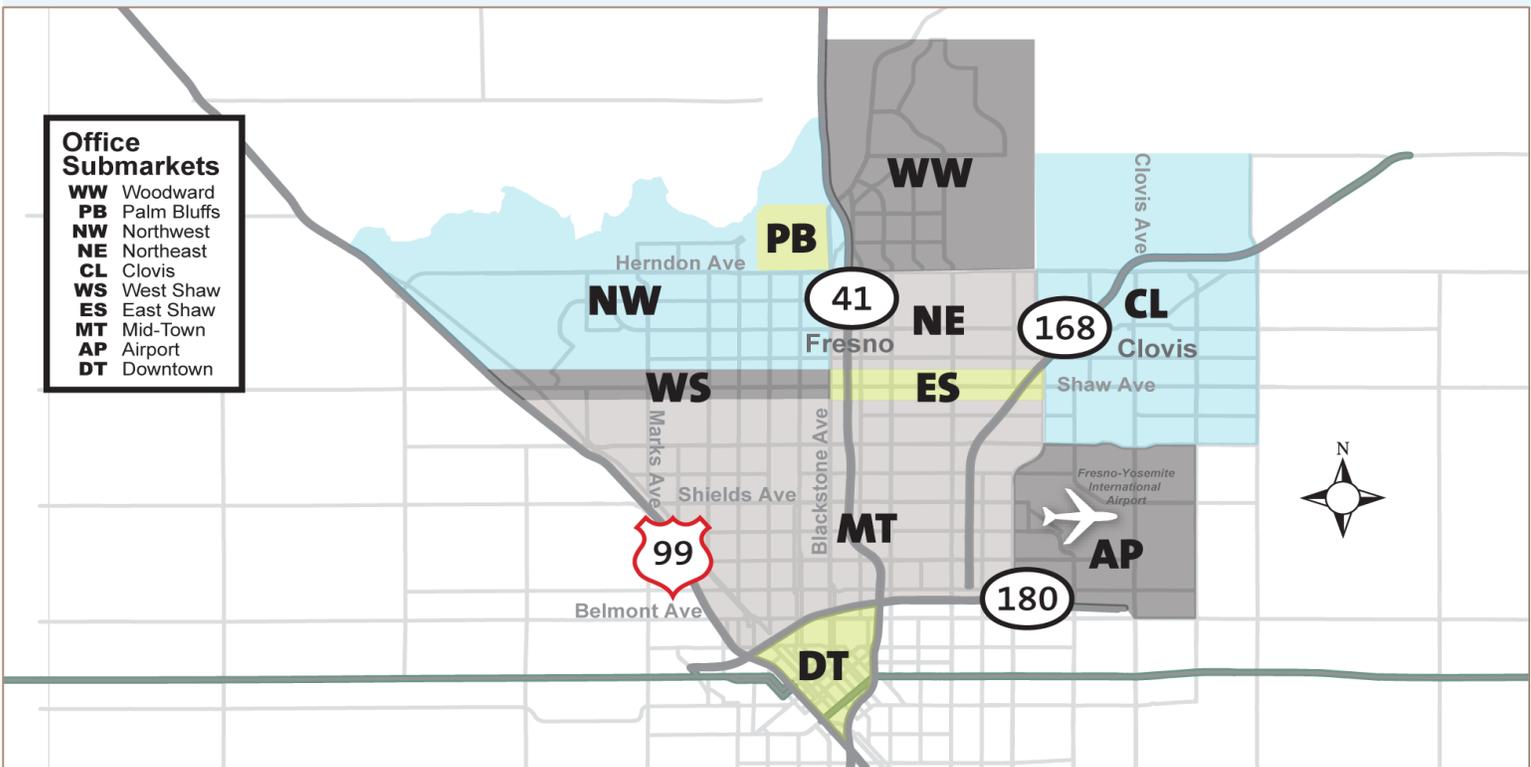
Building	Submarket	Sale Price	Price/SF	Square Feet
2314 Mariposa St	Downtown	\$2,200,000	\$37	60,000
Hendon Clovis Corporate Center	Clovis	\$5,700,000	\$228	25,000
Shaw Westgate	West Shaw	\$694,000	\$33	20,747
Boardwalk at Palm Bluffs	Palm Bluffs	\$2,357,500	\$249	9,480
3248 E Shields Ave	Midtown	\$820,000	\$89	9,185



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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	-	12.6%	5,821	5,821	\$1.97	\$1.00	\$1.14
Airport	1,509,834	-	14.9%	-4,024	-4,024	-	\$1.45	\$1.39
Clovis	937,736	51,804	7.1%	6,029	6,029	\$2.48	\$1.89	\$1.97
East Shaw	1,344,438	-	17.4%	640	640	-	\$1.56	\$1.55
Midtown	2,421,655	-	9.1%	8,000	8,000	-	\$1.48	\$1.24
Northeast	1,218,966	-	13.4%	9,327	9,327	\$2.15	\$1.58	\$1.63
Northwest	1,717,947	-	9.9%	31,967	31,967	\$2.37	\$1.78	\$1.84
Palm Bluffs	1,801,262	55,151	12.2%	-197	-197	\$2.40	\$2.20	\$2.21
West Shaw	1,716,083	-	14.4%	-9,646	-9,646	-	\$1.22	\$1.22
Woodward	3,665,794	-	9.3%	1,751	1,751	\$2.41	\$2.04	\$2.24
Suburban Total	16,333,715	114,995	11.5%	43,847	43,847	\$2.39	\$1.72	\$1.72
Market	19,633,832	114,995	11.7%	49,668	49,668	\$2.29	\$1.62	\$1.61





Fresno

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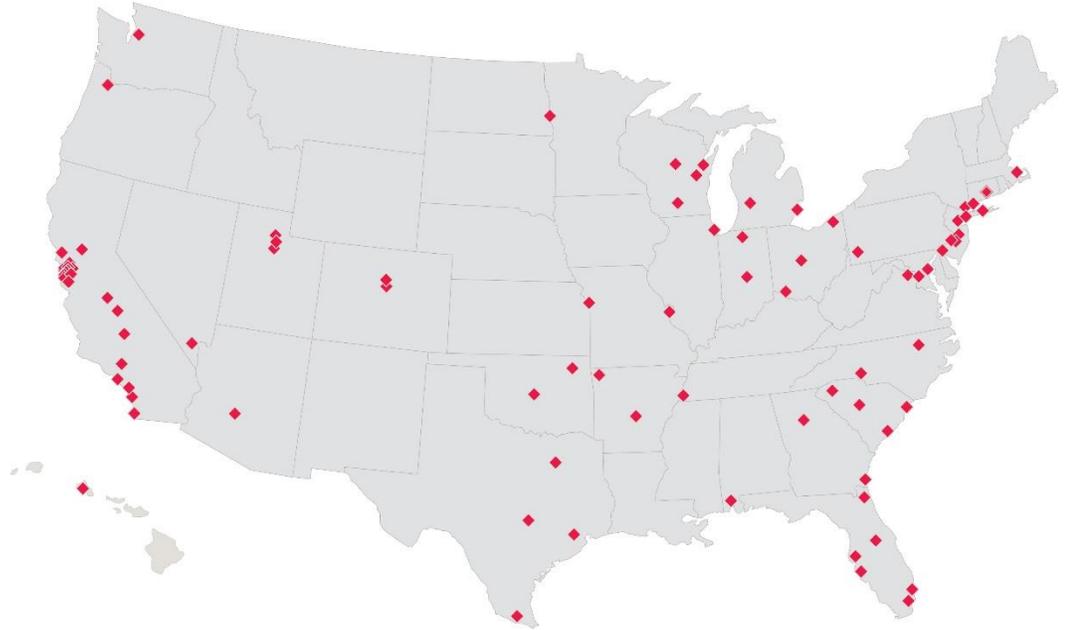
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