

FRESNO
1Q18 OFFICE MARKET

STRONG START TO THE YEAR

State of the Market

The first quarter of 2018 saw plenty of tenant movement and lower vacancy rates in almost all submarkets of Fresno. Most major submarkets experienced a drop in vacancy rates ranging from 0.1% to almost 2.0% in the Palm Bluff submarket, where Schneider Electric moved more than 1,000 employees into a new, 46,000-square-foot office building at the beginning of the quarter. However, the second of the two buildings at the Palm Bluff Circle complex comprised a majority of the vacancy, as its 46,000 square feet remain empty. There was also a drop in vacancy of nearly 2.0% in the Northeast submarket, which has been welcoming a large number of medical tenants looking for a location that is central to the two major hospitals in North Fresno.

Overall, the market saw a drop in vacancy, from 11.7% in the fourth quarter of 2017 to 11.2% in the first quarter of 2018.

Highlights

2018 started off strong, with a focus on Downtown Fresno, which is receiving attention from tenants due to revitalization efforts and incentives from the City of Fresno. The Fulton Mall corridor saw vehicle traffic for the first time in decades thanks to a \$16.0 million federal grant to the city, which hopes to entice tenants with more readily accessible buildings, walkways and bike paths as well as increased two-way traffic in the area. The new ownership of the Fresno Grizzlies, the minor league affiliate of the Houston Astros, is looking to pitch in with more community-centered events and stadium upgrades.

The year also started off with strong lease rates and tenants winning fewer concessions, much to the delight of landlords. Lease rates had been trending toward triple net in past years, with tenants on the hook for the majority of expenses, which has slowly become more the norm than the exception in the Greater Fresno market. With rates holding steady, landlords hope to fill any remaining vacancy as supply and demand tighten up.

Sales Activity

With very little quality investment listings available, the sales market has become competitive. The supply of quality investment property has dwindled, leaving buyers looking hard for 1031 exchanges and attempting to find off-market deals. Owner-user sales remain strong, with limited supply for the smaller users under 10,000 square feet.

Looking Ahead

Lease and sales activity are both expected to continue at a steady pace with vacancy continuing to decrease in the submarkets, particularly for Class A space in the northern submarkets. The balance between tenants and landlords should remain stable, as the overall market grows at a sustainable pace. Sales activity will depend slightly on any new developments breaking ground or any investment properties coming to market.

Current Conditions

- Vacancy rates continue to decrease
- Lease rates remain strong, and concessions are sparse
- Class A space in northern submarkets is being absorbed
- Buyers are taking advantage of low interest rates
- Overall office market remains healthy

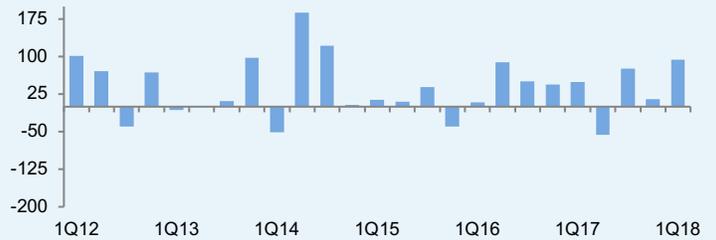
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Thousands



Market Summary

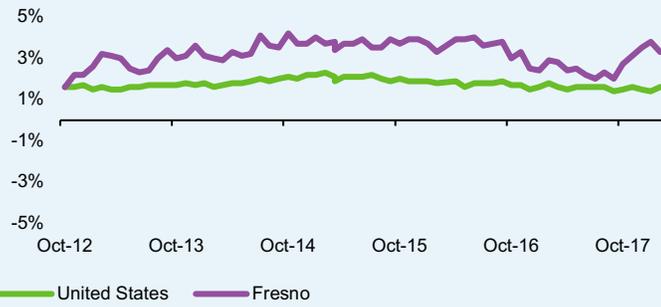
| | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory | 19.8MSF | 19.8MSF | 19.6MSF | ↑ |
| Vacancy Rate | 11.2% | 11.7% | 11.7% | ↓ |
| Quarterly Net Absorption | 94,028 | 14,448 | 49,668 | ↔ |
| Average Asking Rent | \$1.66 | \$1.66 | \$1.61 | ↑ |
| Under Construction | 36,328 | 27,983 | 114,995 | ↑ |
| Deliveries | 5,885 | 30,804 | 0 | ↑ |



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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 |
|-----------------------------------|------------------------------------|-----------|--------|-------------|
| N/A | West Shaw Place II | West Shaw | Direct | 10,732 |
| VA Human Resources Mgmt. & Fiscal | The Tower at Convention Center Ct. | Downtown | Direct | 7,324 |
| Family Leadership | 2490 W Shaw Ave | West Shaw | Direct | 6,617 |
| HM Services of CA | 6041 N First St | Northeast | Direct | 5,107 |
| California Endowment | Civic Center Square | Downtown | Direct | 5,085 |

Select Sales Transactions

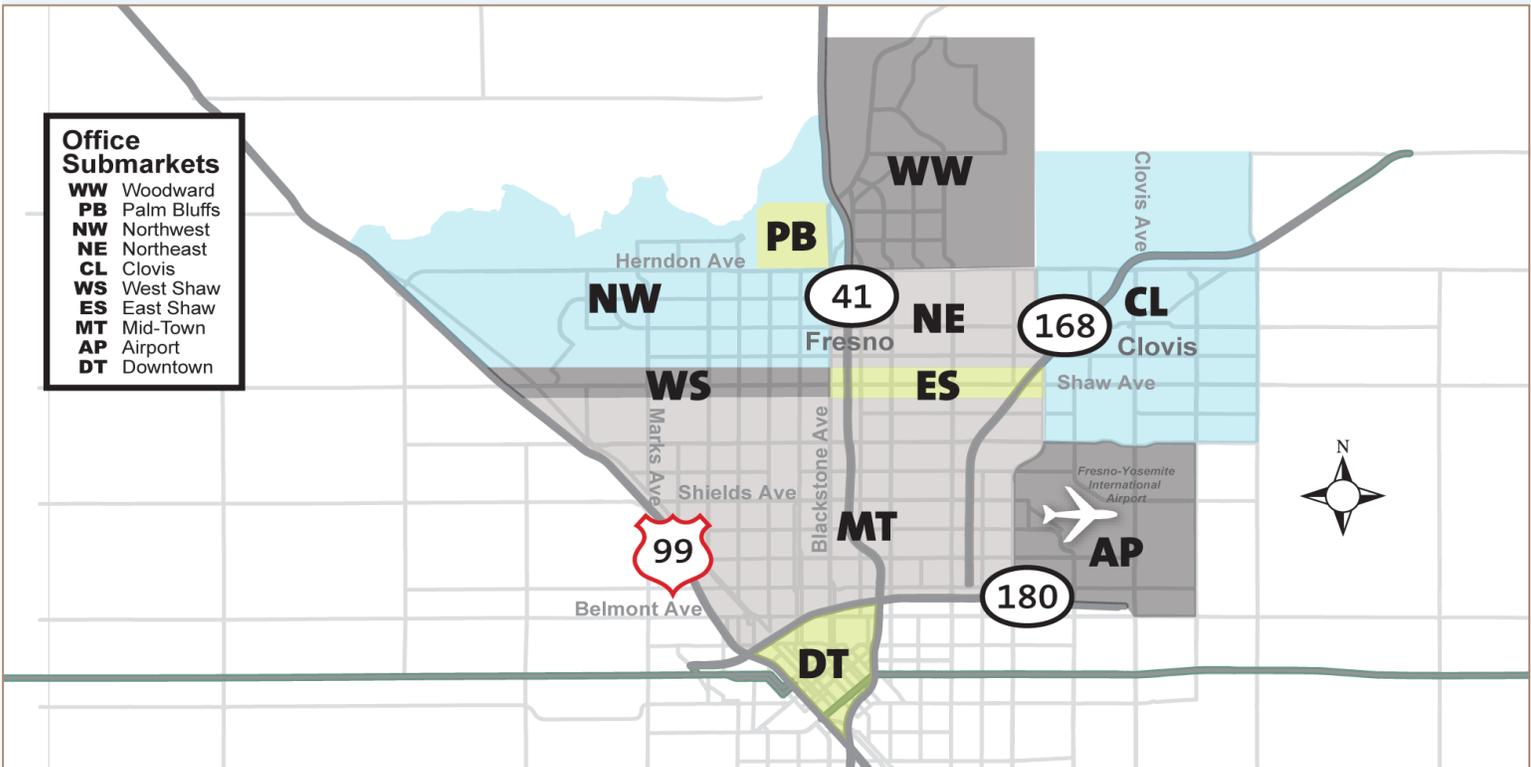
| Building | Submarket | Sale Price | Price/SF | Square Feet |
|----------------------------------|-----------|-------------|----------|-------------|
| 470 E Herndon Ave | Woodward | \$2,450,000 | \$169 | 14,480 |
| 1250 Van Ness Ave | Downtown | \$2,400,000 | \$119 | 20,090 |
| Ashbrook Professional Center | Midtown | \$1,300,000 | \$44 | 29,481 |
| 3636 N First St | Midtown | \$1,000,000 | \$31 | 32,565 |
| 5709 N West Ave – Pavillion West | Northwest | \$860,000 | \$213 | 4,047 |



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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 | - | 12.4% | 18,880 | 18,880 | \$2.04 | \$1.08 | \$1.27 |
| Airport | 1,511,834 | - | 14.0% | 1,290 | 9,108 | - | \$1.43 | \$1.37 |
| Clovis | 989,540 | 26,328 | 7.3% | 3,894 | -52,379 | \$2.48 | \$1.83 | \$1.90 |
| East Shaw | 1,344,438 | - | 17.8% | 10,862 | -16,118 | - | \$1.61 | \$1.60 |
| Midtown | 2,435,655 | - | 8.8% | 4,007 | 9,604 | - | \$1.73 | \$1.32 |
| Northeast | 1,218,966 | - | 13.7% | -21,106 | -15,619 | \$2.15 | \$1.74 | \$1.78 |
| Northwest | 1,723,947 | - | 11.8% | -13,815 | 13,258 | \$2.50 | \$1.82 | \$1.84 |
| Palm Bluffs | 1,862,058 | - | 10.9% | 35,954 | 26,576 | \$2.61 | \$2.35 | \$2.37 |
| West Shaw | 1,716,083 | - | 11.9% | 7,880 | 26,167 | - | \$1.37 | \$1.26 |
| Woodward | 3,665,794 | - | 7.9% | 3,970 | 48,864 | \$2.30 | \$2.14 | \$2.23 |
| Suburban Total | 16,468,587 | 26,328 | 11.0% | 75,148 | 49,461 | \$2.33 | \$1.80 | \$1.76 |
| Market | 19,768,704 | 26,328 | 11.2% | 94,028 | 33,573 | \$2.24 | \$1.69 | \$1.66 |





Fresno

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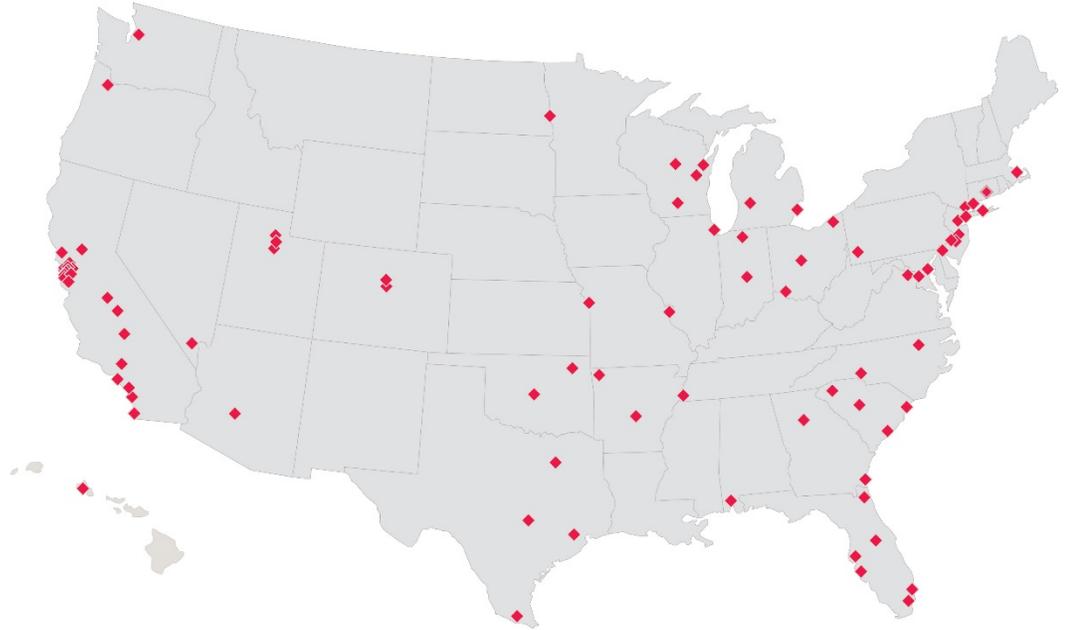
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