

Forecast: Fresno County a growing target for investment dollars

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Written by George Lurie

This was a strong year for Fresno County — the economy expanded, new jobs were created, the real estate market continued to rebound and despite the state’s historic drought, agriculture, the lifeblood of the Valley, appears on track to have one of its best years ever.

So what to expect in 2016?

Experts say more of the same — only better, especially if a predicted El Nino weather pattern drenches the area this winter and begins to replenish the Valley’s depleted water table and storage facilities.

While the historic four-year drought continues to dominate the headlines, county ag operators have employed a constantly evolving array of new technologies, irrigation techniques and precision-perfect crop management to keep Fresno County’s fields, orchards and farms humming.

An increasing number of farmers and ranchers are utilizing alternative energy sources like wind and solar and some are even incorporating drones into their daily management practices.

In 2014, for the first time ever, Fresno County’s total ag output exceeded \$7 billion. Although the 2015 crop report won’t be released until next summer, County Agricultural Commissioner Les Wright expects it to be another banner year.

That hinges on seeing more of the wet stuff.

“Water is still a huge influence on the health of our Valley,” said Al Smith, president and CEO of the Fresno Chamber of Commerce.

Smith said that going into 2016 “there’s a fairly positive feeling around the county and in Fresno about where we are economically right now.”

“From a retail standpoint, things are picking up and I think that indicates people are in a fairly good mood. But there are always things looming on the horizon that could derail our economy.”

For one, Smith sees the increasing trend in ag toward mechanization as a threat to the Valley economy.

“We can’t ignore the fact that the ag community is adjusting and becoming less labor intensive,” he said. “As a result, farmers are relying less and less on manual labor and so our unemployment rate is likely to increase and a lot of people who have worked in ag will be out looking for a job.”

One area that could see more hiring is manufacturing and distribution.

A major uptick in manufacturing activity that began in 2013 and 2014 and continued on through this year has helped boost the local economy, creating thousands of new jobs and also fueling a resurgence in industrial development that added more than a million square feet of new warehouse and distribution facilities around the county.

“Despite high costs and a difficult business climate, the distribution warehousing industry is soaring in California” right now, said John Boyd, one of the country’s leading corporate site location consultants.

A recent report produced by Boyd’s New Jersey firm named Fresno as one of the most-affordable and “hottest” warehousing sites in the nation right now.

Commercial Realtors say Fresno industrial vacancy rates are currently hovering at 6.7 or 6.8 percent, a sharp drop from the 12 to 13 percent rates registered in 2008.

“The sheer size and wealth of the California consumer market makes it imperative for big box and ecommerce retailers like Walmart, Target, Costco, Kohls, QVC and Amazon to maintain major distribution facilities in the state,” Boyd said.

“It used to be that many cities in California were resistant to new warehousing projects and viewed them with a degree of skepticism,” he added. “Now, cities are viewing distribution centers as much better employers and actively courting these same projects because the economic benefits are becoming much more appreciated.”

Dr. Ernie Goss, a research faculty at Fresno State’s Craig School of Business, keeps a close eye on the area economy, compiling a monthly business-conditions index that has registered strong gains for nearly two years running.

“According to our survey results over the last several months, economic growth will remain positive but slow in the months ahead,” Goss said.

Noting there's been a "moderate slowdown" beginning in September for manufacturing and construction firms, Goss was still bullish on the overall regional economy, pointing out that "wholesale trade firms and business services are experiencing healthy growth" as 2015 comes to a close.

Meanwhile, the real estate sector, another mainstay of the Valley economy, is in full-blown recovery mode and once again experiencing healthy growth, according to area real estate professionals.

Residential real estate is likely to see moderate but steady appreciation in 2016, somewhere in the range of 5 to 7 percent, according to Colleen Wiginton, outgoing president of the Fresno Association of Realtors.

J.P. Shamshoian, president of Realty Concepts, is also bullish on the residential market but tempers his optimism a bit.

"We have a fixed supply of earth and an ever-increasing demand for it [so] real estate has to go up over time," he said.

But Shamshoian points out that interest rates are poised to rise — "which will lower purchasing power." He also worries about "destabilizing" events like the recent terror attack in Paris. "We may see far reaching ripple effects touch our housing market" from things like that, he added.

Like their counterparts on the residential side, commercial Realtors around the county also are predicting 2016 will be a stellar year.

"We haven't seen a market this strong since the recession started," said Nick Audino, senior vice president at Newmark Grubb. "Vacancies around the Valley are almost zero for large Class A distribution space."

The uptick in commercial activity also was reflected in the large number of area shopping centers that changed hands in 2015, including Fig Garden Village, Via Montana and the Marketplace at El Paseo.

Industry insiders say the trend is likely to continue into 2016 as real estate investors seek out larger, quality commercial properties around the Valley that are still undervalued compared to properties in Southern and Northern California.

"The market is at the part of the business cycle where prices are getting overheated in the coastal areas," said Robin Kane, senior director of investment sales at Berkadia. "Properties there aren't providing good enough yields."

Kane said out-of-area investors are turning their attention to places like Sacramento, the Inland Empire and the Central Valley.

“The current trend reflects capital coming out the primary markets to the tertiary markets chasing yields,” Kane said. “It’s hard to say how much runway we have left in this cycle but I think it’s longer than we thought.”

Kane, whose company sold more than \$100 million worth of multi-family properties in the Fresno area this year, thinks 2016 also will be a strong year for the multi-family segment of the real estate market.

“I think next year will be as good a year as this year,” he said. “We thought we would start running out of steam in 2015 and clearly we haven’t. During an election year, there should be a strong interest in keeping interest rates down. And that should be favorable for the entire real estate market. But after the election, all bets are off.”