

Q3 2019

Office Insight

Former Fireman's Fund campus on the market; could bring new development to Marin County

- Total vacancy decreased due to major occupancy gains in Northern Marin.
- Investors continue to express interest in Marin County as two more building projects traded in the third quarter.
- With no new construction underway, landlords continue to remodel existing product to accommodate demand.

Marin County's office market maintained a steady momentum through the third quarter as the economy continues to expand and investors express firm interest in the market. Quarterly net absorption was in positive once again due to major occupancies in Novato and San Rafael. Birkenstocks and BioMarin moved into a combined 36,000 square feet at 100 Wood Hollow Drive in Novato, and Marin Health Ventures occupied 17,775 square feet at 1 Thorndale Drive in North San Rafael. As a result, total vacancy in Marin County dipped to 18.3 percent in Q3 from 19.1 percent last quarter. However, Glassdoor's pending exit out of 100 Shoreline Highway in Mill Valley will release 40,000 square feet to the market.

Additionally, the Fireman's Fund Campus – now known as North Bay Crossings – is on the market and has potential for mixed-use redevelopment. The project would add office, retail, and housing surrounding the new SMART Train station in Novato. The 700,000-square-foot project is currently vacant and has been a non-factor on the true vacancy and health of the Marin County market. Excluding this project, Class A vacancy is 11.6 percent.

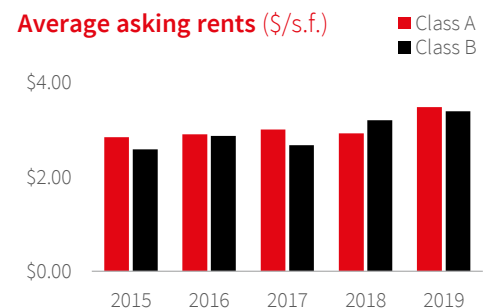
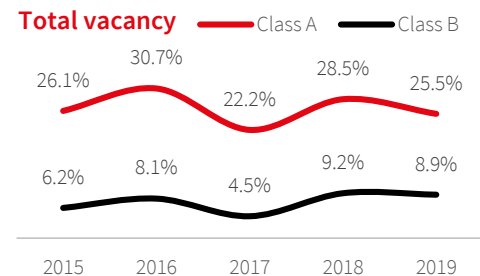
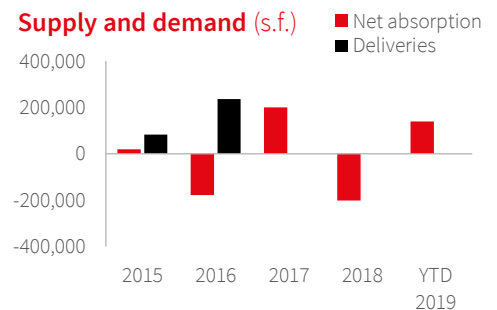
Sales activity carried through in the third quarter as two major transactions occurred. GTIS Partners purchased Belvedere Place from Scanlan Kemper Bard for \$70.7 million or \$641 PSF, a 51.7 percent increase from its prior sale in 2016. Deborah Family Trust purchased 201 Alameda Del Prado from Basin Street Properties for \$8.7 million or \$265 PSF, a 128.9 percent increase from its prior sale in 2014. Overall year-to-date sales are up 80.0 percent in Marin County, a testament to investor confidence in the region. Meanwhile, new landlords are actively improving existing space to accommodate demand for quality Class A product, resulting in continued upward pressure on rents in Southern Marin's core submarkets such as Corte Madera/Larkspur and Sausalito/Mill Valley. Since 2014, average asking rents have increased 31.5 percent, where rates are as much as \$6.75 FSG in select Class A buildings.

Outlook

Marin County leasing activity is expected to continue at a steady pace for the remainder of the year. Expect rents in Southern Marin to remain high as landlords continue to renovate second generation spaces to accommodate demand for high quality product.

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| Fundamentals | Forecast |
|-----------------------------|-----------------|
| YTD net absorption | 138,839 s.f. ▲ |
| Under construction | 0 s.f. ▲ |
| Total vacancy | 18.3% ▲ |
| Average asking rent (gross) | \$3.46 p.s.f. ▲ |
| Concessions | Decreasing ▲ |



Q3 2019

Office Statistics

| | Class | Inventory (s.f.) | Total net absorption (s.f.) | YTD total net absorption (s.f.) | YTD total net absorption (% of stock) | Direct vacancy (%) | Total vacancy (%) | Average direct asking rent (\$ p.s.f.) | YTD Completions (s.f.) | Under Development (s.f.) |
|--|---------------|------------------|-----------------------------|---------------------------------|---------------------------------------|--------------------|-------------------|--|------------------------|--------------------------|
| Southern Marin County | | | | | | | | | | |
| Sausalito/Mill Valley/Tiburon | | | | | | | | | | |
| | A | 442,572 | 26,078 | 12,604 | 2.8% | 10.0% | 10.6% | \$5.11 | 0 | 0 |
| | B | 460,313 | -12,148 | -11,373 | -2.5% | 6.0% | 6.0% | \$4.30 | 0 | 0 |
| | C | 51,639 | 765 | 4,074 | 7.9% | 0.0% | 0.0% | \$0.00 | 0 | 0 |
| | Totals | 954,524 | 14,695 | 5,305 | 0.6% | 7.5% | 7.8% | \$4.86 | 0 | 0 |
| San Rafael, South | | | | | | | | | | |
| | A | 743,846 | -8,312 | -6,215 | -0.8% | 3.5% | 3.5% | \$4.00 | 0 | 0 |
| | B | 723,159 | -3,670 | -1,174 | -0.2% | 11.2% | 11.7% | \$3.28 | 0 | 0 |
| | C | 164,358 | 0 | -10,575 | -6.7% | 4.5% | 7.6% | \$3.00 | 0 | 0 |
| | Totals | 1,631,363 | -11,982 | -17,964 | -1.1% | 7.0% | 7.6% | \$3.42 | 0 | 0 |
| Corte Madera/Larkspur/Greenbrae | | | | | | | | | | |
| | A | 288,139 | -2,500 | 14,767 | 5.1% | 6.5% | 9.0% | \$6.54 | 0 | 0 |
| | B | 781,657 | -8,994 | 11,879 | 1.5% | 7.0% | 7.2% | \$5.33 | 0 | 0 |
| | C | 71,493 | 0 | 0 | 0.0% | 0.0% | 0.0% | \$0.00 | 0 | 0 |
| | Totals | 1,141,289 | -11,494 | 26,646 | 2.3% | 6.4% | 7.2% | \$5.67 | 0 | 0 |
| Southern Marin County | | | | | | | | | | |
| | A | 1,474,557 | 15,266 | 21,156 | 1.4% | 6.0% | 19.0% | \$5.14 | 0 | 0 |
| | B | 1,965,129 | -24,812 | -668 | 0.0% | 8.3% | 5.0% | \$4.09 | 0 | 0 |
| | C | 287,490 | 765 | -6,501 | -2.3% | 2.5% | 58.7% | \$3.00 | 0 | 0 |
| | Totals | 3,727,176 | -8,781 | 13,987 | 0.4% | 7.0% | 7.5% | \$4.45 | 0 | 0 |
| Northern Marin County | | | | | | | | | | |
| San Rafael, North | | | | | | | | | | |
| | A | 1,414,651 | 30,798 | 82,723 | 5.8% | 15.2% | 15.2% | \$3.59 | 0 | 0 |
| | B | 543,959 | 1,734 | -8,307 | -1.5% | 10.3% | 10.3% | \$2.47 | 0 | 0 |
| | C | 31,532 | 512 | 1,167 | 3.7% | 13.9% | 13.9% | \$1.70 | 0 | 0 |
| | Totals | 1,990,142 | 33,044 | 75,583 | 3.8% | 13.9% | 13.9% | \$3.43 | 0 | 0 |
| Novato | | | | | | | | | | |
| | A | 1,883,637 | 33,256 | 52,225 | 2.8% | 47.7% | 47.9% | \$3.14 | 0 | 0 |
| | B | 676,126 | -13,662 | -2,956 | -0.4% | 7.6% | 8.5% | \$2.14 | 0 | 0 |
| | C | 18,588 | 0 | 0 | 0.0% | 0.0% | 0.0% | \$0.00 | 0 | 0 |
| | Totals | 2,578,351 | 19,594 | 49,269 | 1.9% | 36.9% | 37.2% | \$3.06 | 0 | 0 |
| Northern Marin County | | | | | | | | | | |
| | A | 3,298,288 | 64,054 | 134,948 | 4.1% | 33.8% | 33.9% | \$3.29 | 0 | 0 |
| | B | 1,220,085 | -11,928 | -11,263 | -0.9% | 8.8% | 9.3% | \$2.28 | 0 | 0 |
| | C | 50,120 | 512 | 1,167 | 2.3% | 8.7% | 8.7% | \$1.70 | 0 | 0 |
| | Totals | 4,568,493 | 52,638 | 124,852 | 2.7% | 26.9% | 27.0% | \$3.19 | 0 | 0 |
| Marin County | | | | | | | | | | |
| | A | 4,772,845 | 79,320 | 156,104 | 3.3% | 25.2% | 25.5% | \$3.48 | 0 | 0 |
| | B | 3,185,214 | -36,740 | -11,931 | -0.4% | 8.5% | 8.9% | \$3.39 | 0 | 0 |
| | C | 337,610 | 1,277 | -5,334 | -1.6% | 3.5% | 5.0% | \$2.42 | 0 | 0 |
| | Totals | 8,295,669 | 43,857 | 138,839 | 1.7% | 17.9% | 18.3% | \$3.46 | 0 | 0 |
| Sonoma County | | | | | | | | | | |
| Petaluma | | | | | | | | | | |
| | A | 896,646 | 4,030 | -40,604 | -4.5% | 13.2% | 20.1% | \$2.11 | 0 | 0 |
| | B | 1,102,541 | 4,918 | 51,426 | 4.7% | 1.8% | 2.2% | \$1.77 | 0 | 0 |
| | C | 64,322 | 2,738 | 0 | 0.0% | 0.0% | 0.0% | \$0.00 | 0 | 0 |
| | Totals | 2,063,509 | 11,686 | 10,822 | 0.5% | 6.7% | 9.9% | \$2.04 | 0 | 0 |
| Rohnert Park/Cotati | | | | | | | | | | |
| | A | 324,895 | 0 | -9,560 | -2.9% | 23.9% | 23.9% | \$1.70 | 0 | 0 |
| | B | 433,126 | -4,236 | -16,733 | -3.9% | 13.5% | 13.5% | \$1.48 | 0 | 0 |
| | Totals | 776,721 | -4,236 | -26,293 | -3.4% | 17.5% | 17.5% | \$1.65 | 0 | 0 |
| Santa Rosa | | | | | | | | | | |
| | A | 1,752,896 | -6,146 | 20,392 | 1.2% | 11.7% | 11.7% | \$1.90 | 0 | 0 |
| | B | 3,359,123 | 11,627 | 45,785 | 1.4% | 4.7% | 4.8% | \$1.76 | 0 | 0 |
| | C | 259,304 | 2,535 | -692 | -0.3% | 2.0% | 2.0% | \$1.50 | 0 | 0 |
| | Totals | 5,371,323 | 8,016 | 65,485 | 1.2% | 6.8% | 6.9% | \$1.83 | 0 | 0 |
| Sonoma County | | | | | | | | | | |
| | A | 2,974,437 | -2,116 | -29,772 | -1.0% | 13.5% | 15.5% | \$1.93 | 0 | 0 |
| | B | 4,894,790 | 12,309 | 80,478 | 1.6% | 4.8% | 5.0% | \$1.70 | 0 | 0 |
| | C | 1,100,347 | 1,037 | -26,985 | -2.5% | 0.5% | 0.5% | \$1.28 | 0 | 0 |
| | Totals | 8,969,574 | 11,230 | 23,721 | 0.3% | 7.2% | 7.9% | \$1.84 | 0 | 0 |

*As of Q1 2019 the North Bay office inventory was calibrated in order to reflect updated building asset classes and submarket coverage.