

Q3 2019

Office Insight

## Developers focus on building mixed-use projects near transit

- Sonoma County market held steady as changes in fundamentals were minimal.
- Increased build-out costs may give landlords leverage to push rents in the near future.
- New mixed-use projects will further energize Sonoma County and attract commuters to the area.

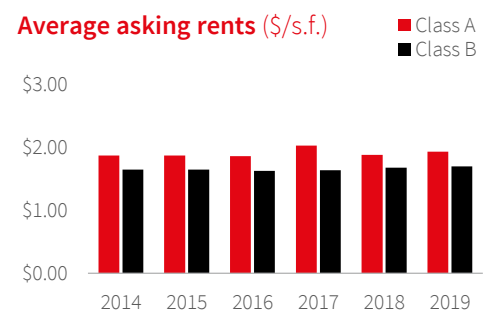
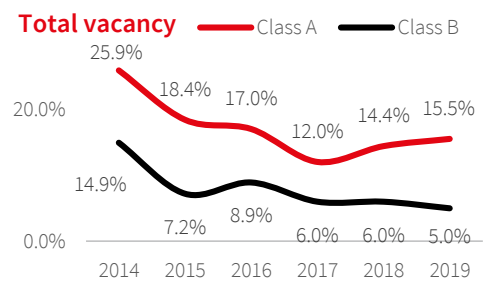
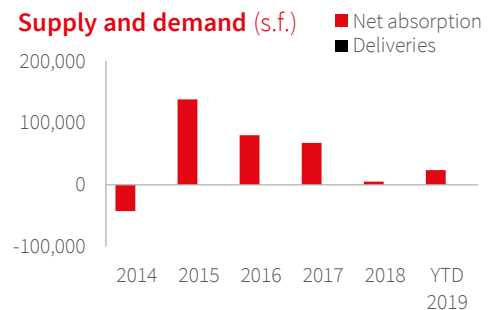
Sonoma County market activity was stable throughout the third quarter. Overall market fundamentals were virtually unchanged from last quarter, though small occupancy gains in Petaluma and Santa Rosa nudged year-to-date net absorption into positive territory.

Unemployment remains extremely low at 2.7 percent, attributable to the increased employment in manufacturing and construction since the wildfires in late 2017. Vacancy rates are relatively low at 7.9 percent and there is no new offices under construction at this time. As a result, landlords may be inclined to increase rents and offer less concessions moving forward, especially while build-out costs have increased nationwide due to a shortage of skilled labor and rising tariffs on construction materials. Prices could moderate as residential projects near completion within the next 12-24 months.

### Outlook

Developers are focused on building new mixed-use projects around the SMART Train, which will attract a large commuter population to Sonoma County. New development is sparse in the region but tenants are looking forward to the ground-breaking of Station Avenue in Rohnert Park in 2020, including 130,000 square feet of Class A office space. In addition, Petaluma's Riverfront project is set to bring another 60,000 square feet of office space along the river by 2021. These projects will bring much needed mixed-use transit oriented development and further energize Sonoma County and surrounding North Bay markets.

Fundamentals	Forecast
YTD net absorption	23,721 s.f. ▲
Under construction	0 s.f. ►
Total vacancy	7.9% ▼
Average asking rent (gross)	\$1.84 p.s.f. ▲
Concessions	Decreasing ▼



For more information, contact: Katherine Billingsley | k.billingsley@am.jll.com

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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.)
<b>Southern Marin County</b>										
<b>Sausalito/Mill Valley/Tiburon</b>										
	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
	<b>Totals</b>	<b>954,524</b>	<b>14,695</b>	<b>5,305</b>	<b>0.6%</b>	<b>7.5%</b>	<b>7.8%</b>	<b>\$4.86</b>	<b>0</b>	<b>0</b>
<b>San Rafael, South</b>										
	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
	<b>Totals</b>	<b>1,631,363</b>	<b>-11,982</b>	<b>-17,964</b>	<b>-1.1%</b>	<b>7.0%</b>	<b>7.6%</b>	<b>\$3.42</b>	<b>0</b>	<b>0</b>
<b>Corte Madera/Larkspur/Greenbrae</b>										
	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
	<b>Totals</b>	<b>1,141,289</b>	<b>-11,494</b>	<b>26,646</b>	<b>2.3%</b>	<b>6.4%</b>	<b>7.2%</b>	<b>\$5.67</b>	<b>0</b>	<b>0</b>
<b>Southern Marin County</b>										
	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
	<b>Totals</b>	<b>3,727,176</b>	<b>-8,781</b>	<b>13,987</b>	<b>0.4%</b>	<b>7.0%</b>	<b>7.5%</b>	<b>\$4.45</b>	<b>0</b>	<b>0</b>
<b>Northern Marin County</b>										
<b>San Rafael, North</b>										
	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
	<b>Totals</b>	<b>1,990,142</b>	<b>33,044</b>	<b>75,583</b>	<b>3.8%</b>	<b>13.9%</b>	<b>13.9%</b>	<b>\$3.43</b>	<b>0</b>	<b>0</b>
<b>Novato</b>										
	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
	<b>Totals</b>	<b>2,578,351</b>	<b>19,594</b>	<b>49,269</b>	<b>1.9%</b>	<b>36.9%</b>	<b>37.2%</b>	<b>\$3.06</b>	<b>0</b>	<b>0</b>
<b>Northern Marin County</b>										
	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
	<b>Totals</b>	<b>4,568,493</b>	<b>52,638</b>	<b>124,852</b>	<b>2.7%</b>	<b>26.9%</b>	<b>27.0%</b>	<b>\$3.19</b>	<b>0</b>	<b>0</b>
<b>Marin County</b>										
	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
	<b>Totals</b>	<b>8,295,669</b>	<b>43,857</b>	<b>138,839</b>	<b>1.7%</b>	<b>17.9%</b>	<b>18.3%</b>	<b>\$3.46</b>	<b>0</b>	<b>0</b>
<b>Sonoma County</b>										
<b>Petaluma</b>										
	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
	<b>Totals</b>	<b>2,063,509</b>	<b>11,686</b>	<b>10,822</b>	<b>0.5%</b>	<b>6.7%</b>	<b>9.9%</b>	<b>\$2.04</b>	<b>0</b>	<b>0</b>
<b>Rohnert Park/Cotati</b>										
	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
	<b>Totals</b>	<b>776,721</b>	<b>-4,236</b>	<b>-26,293</b>	<b>-3.4%</b>	<b>17.5%</b>	<b>17.5%</b>	<b>\$1.65</b>	<b>0</b>	<b>0</b>
<b>Santa Rosa</b>										
	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
	<b>Totals</b>	<b>5,371,323</b>	<b>8,016</b>	<b>65,485</b>	<b>1.2%</b>	<b>6.8%</b>	<b>6.9%</b>	<b>\$1.83</b>	<b>0</b>	<b>0</b>
<b>Sonoma County</b>										
	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
	<b>Totals</b>	<b>8,969,574</b>	<b>11,230</b>	<b>23,721</b>	<b>0.3%</b>	<b>7.2%</b>	<b>7.9%</b>	<b>\$1.84</b>	<b>0</b>	<b>0</b>

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