

MARIN COUNTY OFFICE MARKET

QUIET OFFICE MARKET

Uncertainty about future market conditions and the post-COVID-19 office environment has caused many tenants to put off making decisions regarding office space. Massive government support in the form of PPP loans has kept the doors to many businesses open. Leasing and investment sales activity are at a fraction of normal, both on a quarterly and year-to-date basis. Asking rents remain comparatively stable but landlords are offering increased concessions to get the attention of the few tenants in the market.

Some tenants have found that employees have been productive while telecommuting but generally see the need to maintain an office to get employees together. Other, mainly professional services firms are finding that younger employees are missing the opportunities to learn at the side of a mentor. San Francisco brokers have been looking at Marin County availability with increased frequency, reflecting a trend of San Francisco tenants looking at suburban markets to establish satellite offices.

OFFICE INVESTMENT SALES

Approximately \$20 million in transactions have taken place year-to-date in Marin County. By this time in 2019, there had been almost \$200 million in transactions. Market capitalization rates appear almost unmoved, with investment properties still trading at an average cap rate of just over 6%. Unit pricing also seems to have been steady at around \$400/SF since early 2019.

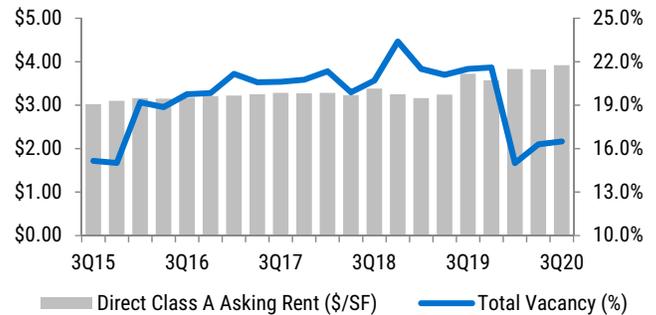
OFFICE LEASING ACTIVITY

Due in part to tenants waiting to see how COVID-19 affects the market and how office workers will be accommodated in the future, touring activity continued to be well below normal levels. Some significant requirements in the market caused tenants to execute short-term extensions of existing leases. However, some tenants that had placed requirements on hold returned to the market in the third quarter of 2020, and more are expected to do so in the final months of 2020.

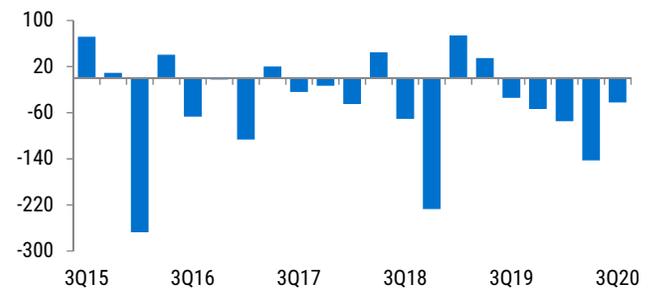
With just over 51,000 square feet of leasing in the third quarter, up from 23,000 square feet in the second quarter, leasing activity is well below the 10-year average of approximately 150,000 square feet per quarter. Brokers representing San Francisco clients inquired about available Marin County office space at a frequency not seen in years. At least one sizeable lease, currently being completed at The Exchange, has resulted from this interest, and more are expected.

MARKET ANALYSIS

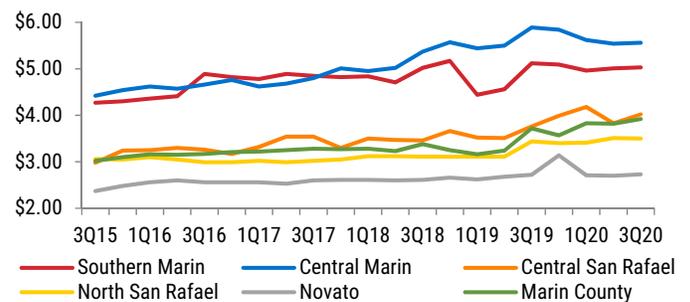
Asking Rent & Availability



Net Absorption (Square Feet, Thousands)



Direct Class A Ask Rents by Submarket (\$/SF, Full Service)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	7.3M SF	7.2M SF	8.0M SF	↔
Availability Rate	16.5%	16.3%	21.0%	↓
Quarterly Net Absorption	-42K SF	-143K SF	-34K SF	↓
Direct FS Asking Rent	\$3.64/SF	\$3.57/SF	\$3.47/SF	↔
Under Construction	0	0	0	↔
Deliveries	0	0	0	↔

RENTAL RATES AND VACANCY

Average asking rates remained very close to second-quarter 2020 levels, with a slight increase in the northern part of the market, which had not experienced the level of rent increase experienced in the south. Average rates have been supported by the fact that there is now more high-end office space on the market.

A few buildings have officially lowered asking rates but in the few transactions that have taken place, landlords have used generous free rent concessions in order to bolster face rates.

Average Class A rents are \$3.92/SF per month with Southern Marin at \$5.03/SF, Central Marin at \$5.56/SF, Central San Rafael at \$3.95/SF, North San Rafael at \$3.50/SF and Novato at \$2.73/SF.

Office occupancy has declined by over 240,000 square feet (3.3%) in 2020. Central Marin has seen the greatest increase in vacancy, with over 70,000 square feet of negative net absorption in 2020, leading to an 4.5% increase in the vacancy rate for the submarket.

Southern Marin added no vacancy in the third quarter and has experienced minor positive absorption in 2020. North San Rafael has also performed well with minor positive absorption in the third quarter and an addition of less than 1% to its vacancy rate in 2020. Central San Rafael and Novato saw vacancy rates increase by 4.5% and 3.7%, respectively.

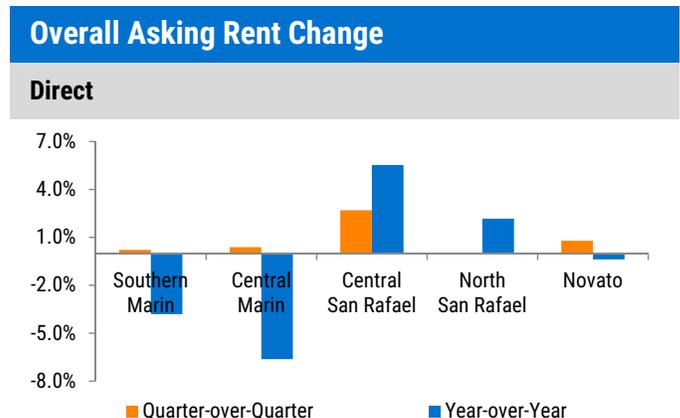
Overall, Marin County is at 16.5% vacancy, with Class A vacancy at 18.8% and Class B vacancy at 12.0%. All submarkets are over 10% vacant, with Novato offering many leasing opportunities at 21.4% vacancy.

OUTLOOK

PPP loan money is running out for struggling businesses. Absent an extension of programs, some businesses will fail, adding to vacancy in the short term. Some businesses will reduce footprints as some employees telecommute on a more permanent basis.

Increased vacancy will be countered in the medium term by an expected increase in the ratio of area per employee and the relocation of some business functions out of San Francisco into the suburbs. Marin County's low-rise office inventory is well-suited to occupancy in a social distancing environment.

Competition for occupancy is expected to lead to a more favorable leasing environment for tenants. Some tenants will come under increased pressure to secure occupancy, leading to an expected increase in leasing activity. Reduced uncertainty and more available financing will stimulate investment sales activity.



SELECT LEASE TRANSACTIONS

Tenant	Building(s)	Submarket	Type	Square Feet
County of Marin	88 Rowland Way	Novato	Direct Lease	10,213
RBC	300 Drakes Landing Rd	Central Marin	Direct Lease	7,804
Keegin Harrison	1000 Fourth St	Central San Rafael	Direct Lease	6,193
Wells Fargo Home Loan	80 E Sir Francis Drake Blvd	Central Marin	Direct Lease	3,043

SUBMARKET STATISTICS – ALL CLASSES

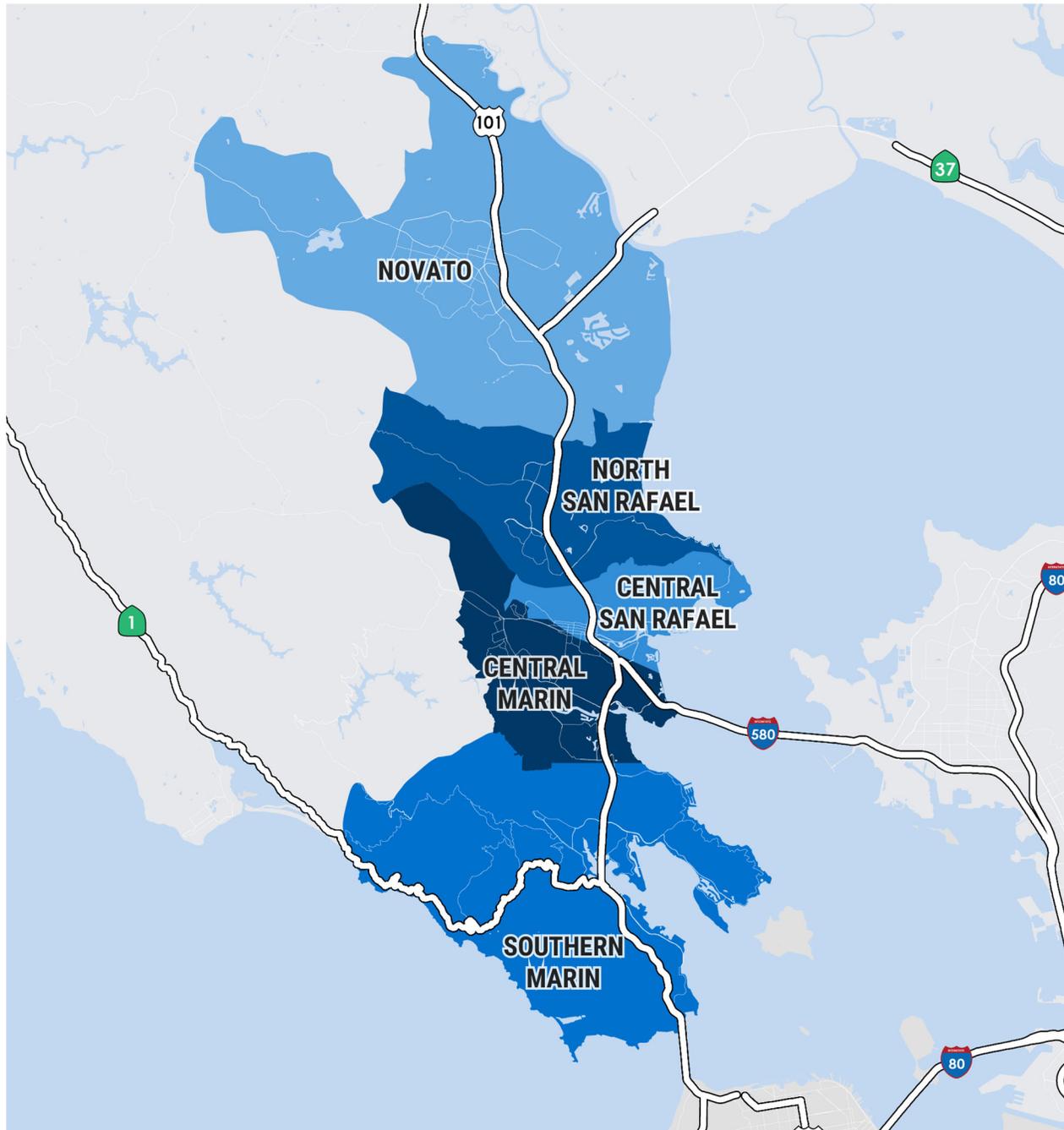
	Total Inventory (RSF)	Total Vacancy (%)	Qtr Gross Absorption (RSF)	Qtr Net Absorption (RSF)	YTD Net Absorption (RSF)	Direct FS Asking Rent (Price/SF)	Sublet FS Asking Rent (Price/SF)	Total FS Asking Rent (Price/SF)
Southern Marin	965,535	12.4%	560	-3,455	-9,504	\$4.80	-	\$4.80
Central Marin	1,033,379	15.8%	14,907	-28,365	-70,409	\$5.21	\$4.67	\$5.17
Central San Rafael	1,351,825	11.0%	10,929	-5,620	-47,098	\$3.44	\$2.77	\$3.43
North San Rafael	2,062,471	17.9%	14,666	5,499	-16,075	\$3.31	\$2.32	\$3.03
Novato	1,880,296	21.4%	10,007	-10,245	-69,488	\$2.58	\$2.88	\$2.63
Marin County	7,332,509	16.5%	51,069	-42,186	-212,574	\$3.64	\$2.67	\$3.51

SUBMARKET STATISTICS – CLASS A

	Total Inventory (RSF)	Total Vacancy (%)	Qtr Gross Absorption (RSF)	Qtr Net Absorption (RSF)	YTD Net Absorption (RSF)	Direct FS Asking Rent (Price/SF)	Sublet FS Asking Rent (Price/SF)	Total FS Asking Rent (Price/SF)
Southern Marin	640,550	14.5%	0	0	6,739	\$5.03	-	\$5.03
Central Marin	678,745	20.8%	14,644	-25,898	-60,698	\$5.56	\$4.67	\$5.48
Central San Rafael	823,753	6.7%	6,193	-2,389	-17,687	\$4.02	\$3.00	\$3.98
North San Rafael	1,530,785	20.2%	5,049	5,049	-20,553	\$3.50	\$2.40	\$3.18
Novato	1,195,409	27.2%	7,756	-8,625	-59,456	\$2.73	\$2.91	\$2.76
Marin County	4,869,242	18.8%	28,137	-31,863	-151,655	\$3.92	\$2.76	\$3.74

SUBMARKET STATISTICS – CLASS B

	Total Inventory (RSF)	Total Vacancy (%)	Qtr Gross Absorption (RSF)	Qtr Net Absorption (RSF)	YTD Net Absorption (RSF)	Direct FS Asking Rent (Price/SF)	Sublet FS Asking Rent (Price/SF)	Total FS Asking Rent (Price/SF)
Southern Marin	324,985	8.1%	560	-3,455	-16,243	\$3.55	-	\$3.55
Central Marin	354,634	9.0%	263	-2,467	-9,711	\$3.76	-	\$3.76
Central San Rafael	528,072	17.8%	4,736	-3,231	-29,411	\$3.04	\$2.50	\$3.03
North San Rafael	531,686	11.3%	9,617	450	4,478	\$2.36	\$1.75	\$2.23
Novato	684,887	11.3%	2,551	-1,620	-10,032	\$2.08	\$2.45	\$2.10
Marin County	2,424,264	12.0%	22,932	-10,323	-60,919	\$2.80	\$1.95	\$2.75



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