

MARIN COUNTY OFFICE MARKET

OFFICE MARKET RESILIENCE

Having experienced a full quarter of reduced business activity resulting from COVID-19-related restrictions, the Marin County office market is showing itself to be relatively resilient. Government assistance, primarily in the form of PPP loans, has provided some businesses with a lifeline to continue operations.

Quarterly negative net absorption represents less than 2% of tracked inventory and includes new sublease offerings representing less than half of 1%. The majority of these subleases were planned in advance of the pandemic and are not COVID-19 related. Asking rents have generally been unaffected to this point but landlords have been making concessions to both new and existing tenants. Despite the challenges involved, touring activity increased over the first quarter of 2020. There are currently at least 250,000 square feet of current tenant requirements, including over 70,000 square feet of medical-related requirements and over 55,000 square feet from the finance/insurance/real estate and legal sectors.

INVESTMENT SALES

Covid-19 has presented significant challenges to the finance markets with a lack of clarity on how the pandemic will play out, making underwriting difficult. This led to a significant reduction in activity nationally and is reflected in Marin County activity.

There was one recorded office sale transaction in Marin in the second quarter: 45 San Clemente Drive, a 14,750-square-foot, fully-leased office building in East Corte Madera, sold for \$5.433 million, or \$368/SF, in May. The transaction was off market.

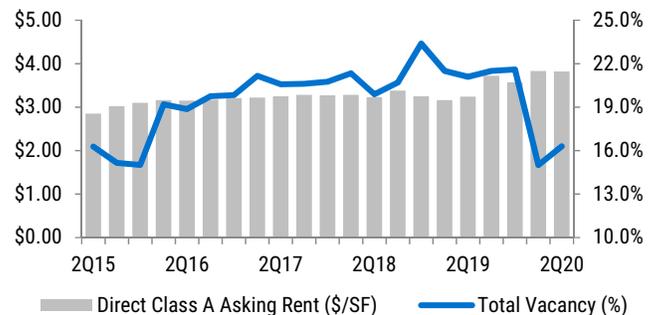
Multi-family investment activity continues with four small sales, including two purchases totaling just under \$8.5 million by Reed McClintock and Associates. Four properties, including three multi-family or mixed-use development opportunities, went into contract.

OFFICE LEASING ACTIVITY

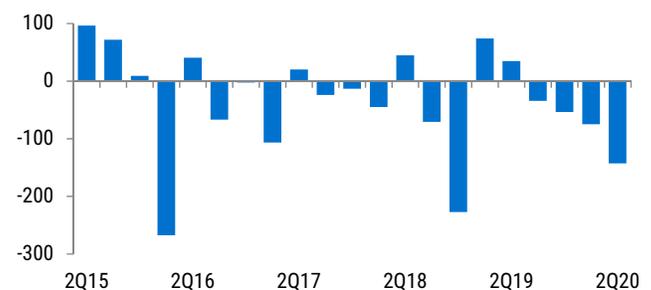
While touring activity increased in second-quarter 2020, leasing activity reflected the lack of significant touring in first-quarter 2020. A couple of lease extensions and a number of small new leases represented the sum total of leases signed in the quarter. Some major lease transactions, with execution projected for second-quarter 2020, have been delayed, with some tenants focused on business operations, rather than real estate. WX Brands did a short-term extension of its 12,000-square-foot lease at 500 Redwood Boulevard.

MARKET ANALYSIS

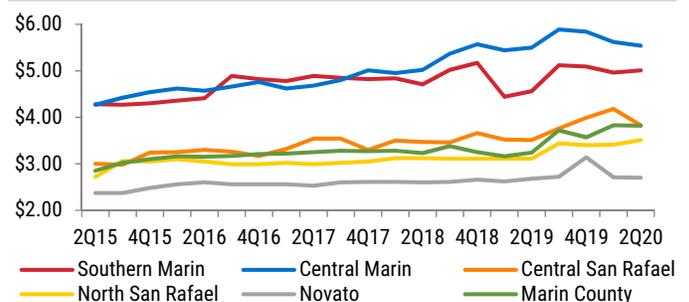
Asking Rent & Availability



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	7.2M SF	7.3M SF	8.0M SF	↔
Availability Rate	16.3%	15.0%	21.4%	↓
Quarterly Net Absorption	-143K SF	-75K SF	35K SF	↓
Direct FS Asking Rent	\$3.57/SF	\$3.56/SF	\$3.09/SF	↑
Under Construction	0	0	17,091	↔
Deliveries	0	0	0	↔

RENTAL RATES AND VACANCY

Few major landlords reduced asking rents in the second quarter. Major exceptions are The Gateway Building at 17 East Sir Francis Drake Boulevard, where asking rates were lowered to \$3.95/SF from \$4.75/SF, and Wood Island Office Complex, where some asking rates were dropped to \$4.95/SF from \$5.25/SF.

Weighted average rental rates increased by a penny. Minor reductions in each submarket were offset by a 3.1% increase in North San Rafael, where the average increased to \$3.31/SF per month full service gross.

The Marin County vacancy rate increased to 16.3% from 15.0% in first-quarter 2020. Southern submarkets, including Southern and Central Marin, continue to experience vacancy in the low teens, while vacancy in North San Rafael and Novato is around 20%. Class B office space continues to be well leased at 11.3%, while some large vacancies push vacancy in Class A buildings to 18.8%.

OUTLOOK

The short-term outlook is heavily dependent on unanswered questions. How long will we continue to operate in a restricted environment? Will additional government funding be available to supplement dwindling PPP resources? How many office-using employees will continue to work from home? Will less dense office environments backfill a lower in-office employee count? Will decentralization lead to demand for suburban office space by current San Francisco office tenants? Given current demand and touring activity, expect continued resilience in the market and a significant increase in leasing activity in third-quarter 2020.

Landlords will continue to offer additional concessions and the competition for tenants, particularly for larger spaces and in the northern part of the market, will lead to some erosion in asking rents.

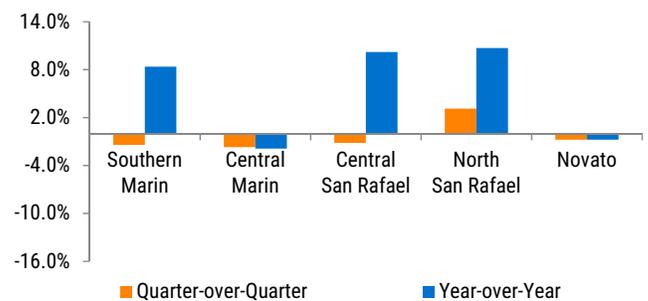
Marin County's predominantly low-rise, stair-accessible office inventory with abundant free parking and proximity to increasingly popular Marin County executive housing should attract some office tenancy out of San Francisco. Many of these properties feature decks and outdoor amenities which are an additional draw. Landlords at 4000 Civic Center and 100 Wood Hollow Drive, among others, have made significant recent investments in providing outdoor areas for tenants' use. Public transportation is a reduced concern in an environment where employees are reticent to share commute space with others.

Professional and financial management firms with principals that are or are planning to become Marin County residents will take a closer look at the quality of life benefits provided by Marin County office properties as a component of a decentralized Bay Area presence. We have already seen interest in Marin properties from San Francisco-based small and mid-size financial and technology companies.

These are challenging times for all, but Marin County's affluent property ownership, lack of new product and stable office-using services sector will provide resilience to some of the economic turbulence expected in the second half of 2020.

Overall Asking Rent Change

Direct



SELECT LEASE TRANSACTIONS

Tenant	Building(s)	Submarket	Type	Square Feet
WX Brands	500 Redwood Blvd.	Novato	Extension	12,000
Volunteer & Nonprofit Leadership Center	75 Rowland Way	Novato	Direct Lease	6,527
Allworth Financial	770 Tamalpais Drive	Central Marin	Extension	3,789
The Hart Family Foundation	1101 Fifth Street	Central San Rafael	Direct Lease	2,356

SUBMARKET STATISTICS – ALL CLASSES

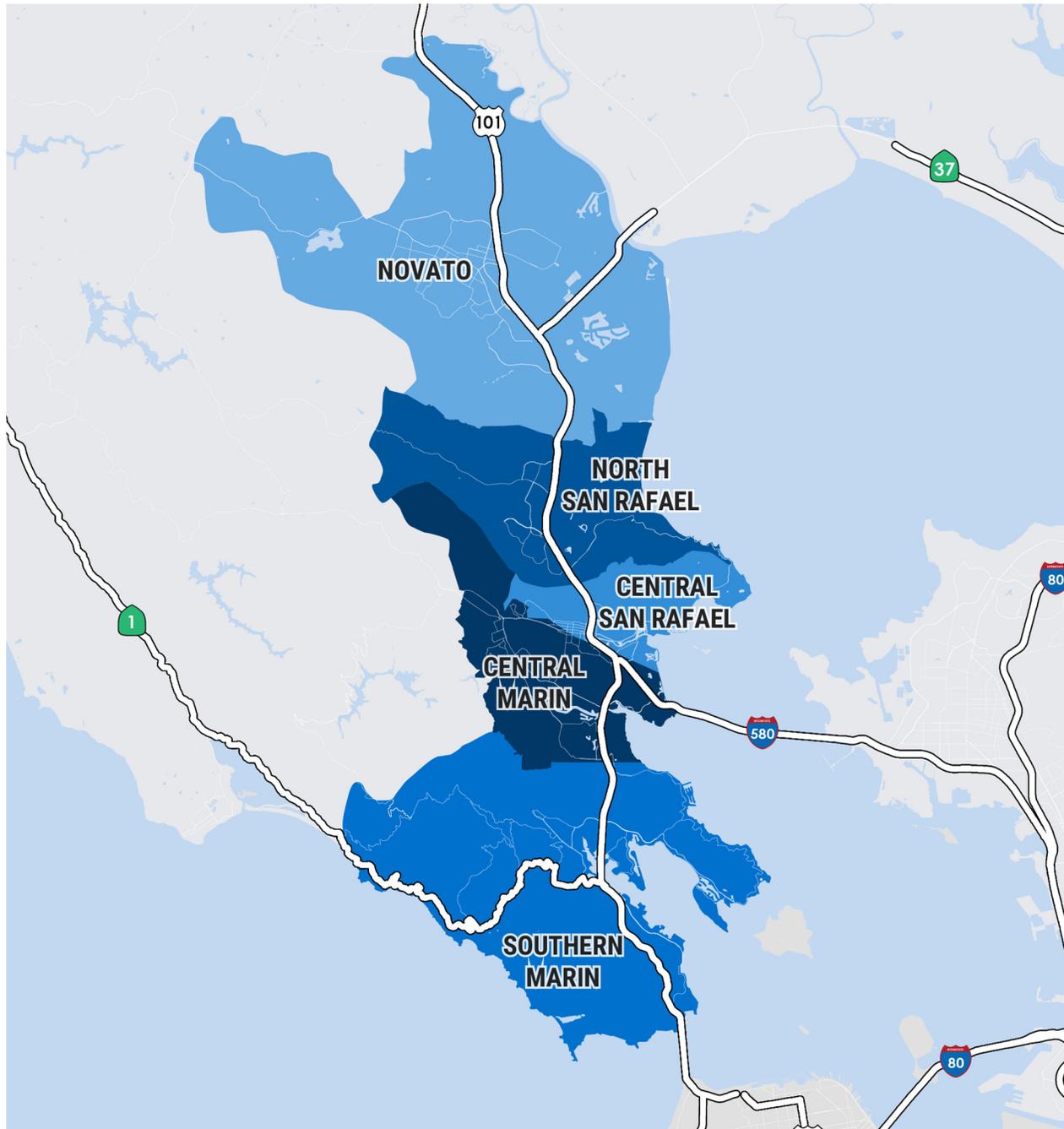
	Total Inventory (RSF)	Total Vacancy (%)	Qtr Gross Absorption (RSF)	Qtr Net Absorption (RSF)	YTD Net Absorption (RSF)	Direct FS Asking Rent (Price/SF)	Sublet FS Asking Rent (Price/SF)	Total FS Asking Rent (Price/SF)
Southern Marin	965,535	12.7%	1,192	-25,056	-8,564	\$4.79	\$4.25	\$4.78
Central Marin	1,033,379	12.7%	5,842	-24,241	-59,858	\$5.19	\$2.83	\$5.18
Central San Rafael	1,351,825	9.9%	2,356	-20,981	-41,478	\$3.35	\$2.83	\$3.32
North San Rafael	2,000,900	18.8%	1,897	-16,244	-20,999	\$3.31	\$2.33	\$3.04
Novato	1,880,296	21.0%	11,609	-34,876	-60,849	\$2.56	\$2.77	\$2.59
Marin County	7,231,935	16.0%	22,896	-121,398	-191,748	\$3.57	\$2.61	\$3.42

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	15.1%	0	-10,553	6,739	\$5.01	\$4.25	\$5.00
Central Marin	678,745	15.9%	4,941	-21,019	-52,614	\$5.54	\$5.02	\$5.51
Central San Rafael	823,753	6.4%	2,356	-9,199	-15,298	\$3.83	\$3.00	\$3.79
North San Rafael	1,530,785	20.7%	1,266	-15,793	-25,053	\$3.51	\$2.41	\$3.19
Novato	1,195,409	26.5%	6,527	-28,453	-50,831	\$2.70	\$2.79	\$2.72
Marin County	4,869,242	18.3%	15,090	-85,017	-137,057	\$3.82	\$2.68	\$3.63

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	7.8%	1,192	-14,503	-15,303	\$3.55	\$0.00	\$3.55
Central Marin	354,634	6.5%	901	-3,222	-7,244	\$3.72	\$0.00	\$3.72
Central San Rafael	528,072	15.3%	0	-11,782	-26,180	\$3.03	\$2.75	\$3.01
North San Rafael	470,115	12.8%	631	-451	4,054	\$2.39	\$1.75	\$2.26
Novato	684,887	11.5%	5,082	-6,423	-10,018	\$2.09	\$2.25	\$2.10
Marin County	2,362,693	11.3%	7,806	-36,381	-54,691	\$2.74	\$2.09	\$2.69



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