



QUARTERLY REPORT

FOURTH QUARTER 2013

• MARIN COUNTY OFFICE SPACE

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Submarket	Building Class	Inventory*	Direct Available	Sublease Available	Vacancy Rate	Leasing Activity	4q13 Net Absorption	2013 Net Absorption	Average Asking Rent	2013 Direct Asking Rate Change
Southern Marin	Class A	516,877	115,438	4,378	23.2%		-2,278	12,293	\$3.80	10.1%
	Class B	386,798	23,172	0	6.0%		-3,883	-6,418	\$2.61	4.6%
	Total	903,675	138,610	4,378	15.8%	11,666 sf	-6,161	5,875	\$3.60	
Central Marin	Class A	638,159	67,583	4,799	11.3%		9,265	15,066	\$3.87	1.8%
	Class B	457,804	34,107	0	7.5%		2,172	2,172	\$2.70	5.5%
	Total	1,095,963	101,690	4,799	9.7%	11,260 sf	11,437	17,238	\$3.48	
Central San Rafael	Class A	751,544	103,049	1,500	13.9%		-13,329	-3,122	\$3.11	1.3%
	Class B	516,610	82,204	5,095	16.9%		-1,002	-9,330	\$2.29	1.2%
	Total	1,268,154	185,253	6,595	15.1%	7,563 sf	-14,331	-12,452	\$2.75	
North San Rafael	Class A	1,363,766	302,255	39,225	25.0%		-3,960	29,713	\$2.55	5.5%
	Class B	679,663	59,033	3,254	9.2%		0	-4,448	\$1.96	-3.8%
	Total	2,043,429	361,288	42,479	19.8%	78,520 sf	-3,960	25,265	\$2.45	
Novato	Class A	1,873,774	312,123	272,504	31.2%		14,664	64,257	\$2.30	-0.3%
	Class B	607,840	86,259	3,843	14.8%		-3,639	-21,647	\$1.82	1.3%
	Total	2,481,614	398,382	276,347	27.2%	95,130 sf	11,025	42,610	\$2.20	
Marin County	Class A	5,144,120	900,448	322,406	23.8%		4,362	118,207	\$2.79	2.6%
	Class B	2,648,715	284,775	12,192	11.2%		-6,352	-39,671	\$2.15	1.8%
	Total	7,792,835	1,185,223	334,598	19.5%	204,139 sf	-1,990	78,536	\$2.64	

Rents are based on a weighted average of direct available space for each class and submarket.

*Buildings over 15,000 square feet. **Leasing activity reflects activity from 9/2013 through 11/2013.

Notable Transactions

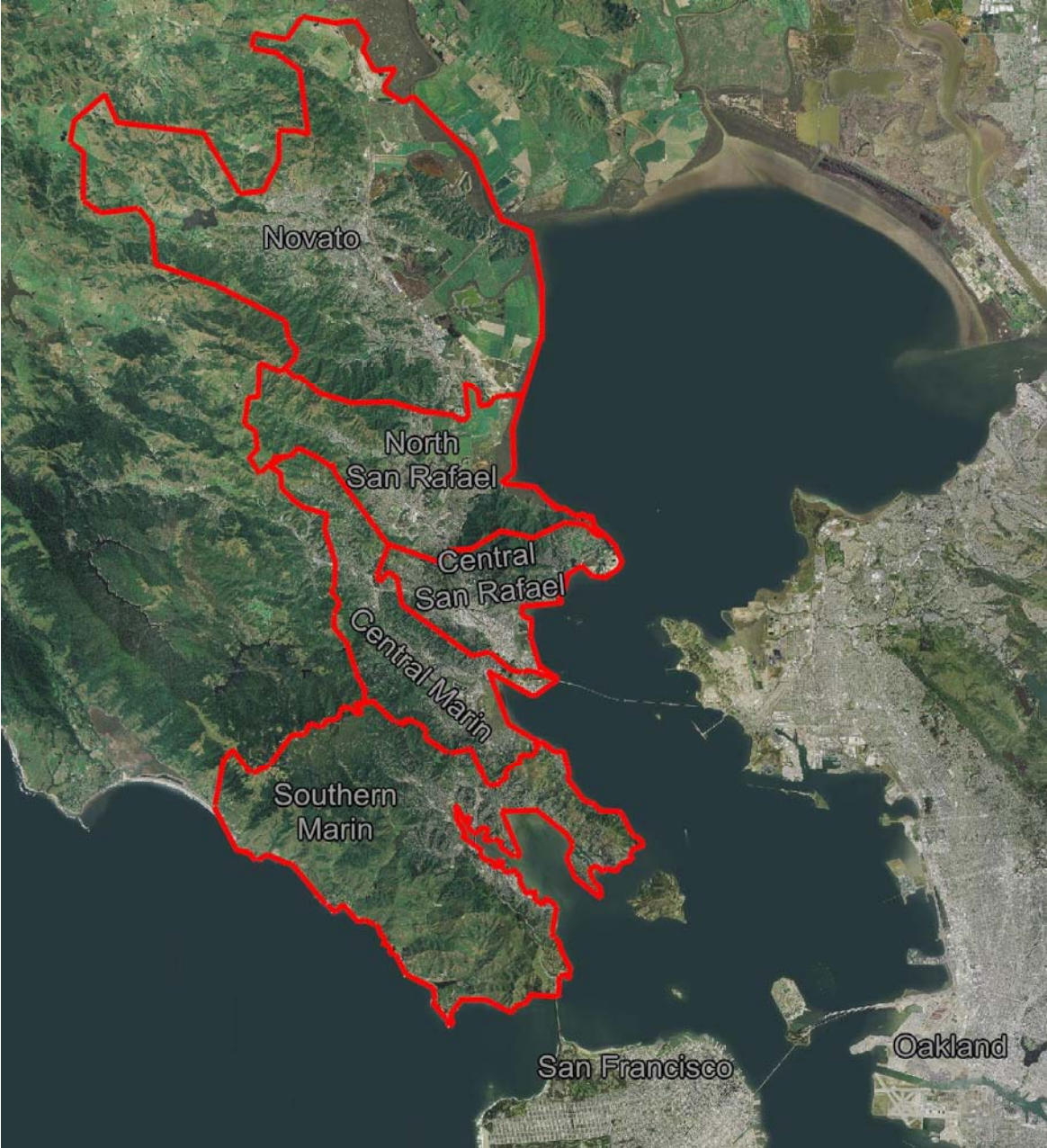
Building	Tenant	Size	Date Signed
9 Hamilton Landing (C)	Take 2 Interactive (E)	45,692 sf	10/13
111 Smith Ranch Road (C)	Kaiser (R)	27,200 sf	9/13
100 Smith Ranch Road	Kaiser (R)	24,996 sf	9/13
7 Hamilton Landing (C)	Engstrom Design Group	18,813 sf	11/13
7 Hamilton Landing (C)	Raptor Pharmaceutical (C)(E)	10,892 sf	11/13
100 Smith Ranch Road	Kaiser (E)	10,225 sf	9/13
6 Hamilton Landing (C)	Touchfactor (C)(R)	9,562 sf	10/13

(C) Cornish & Carey Representation (E) Expansion (R) Renewal

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MARIN SUBMARKET COVERAGE MAP

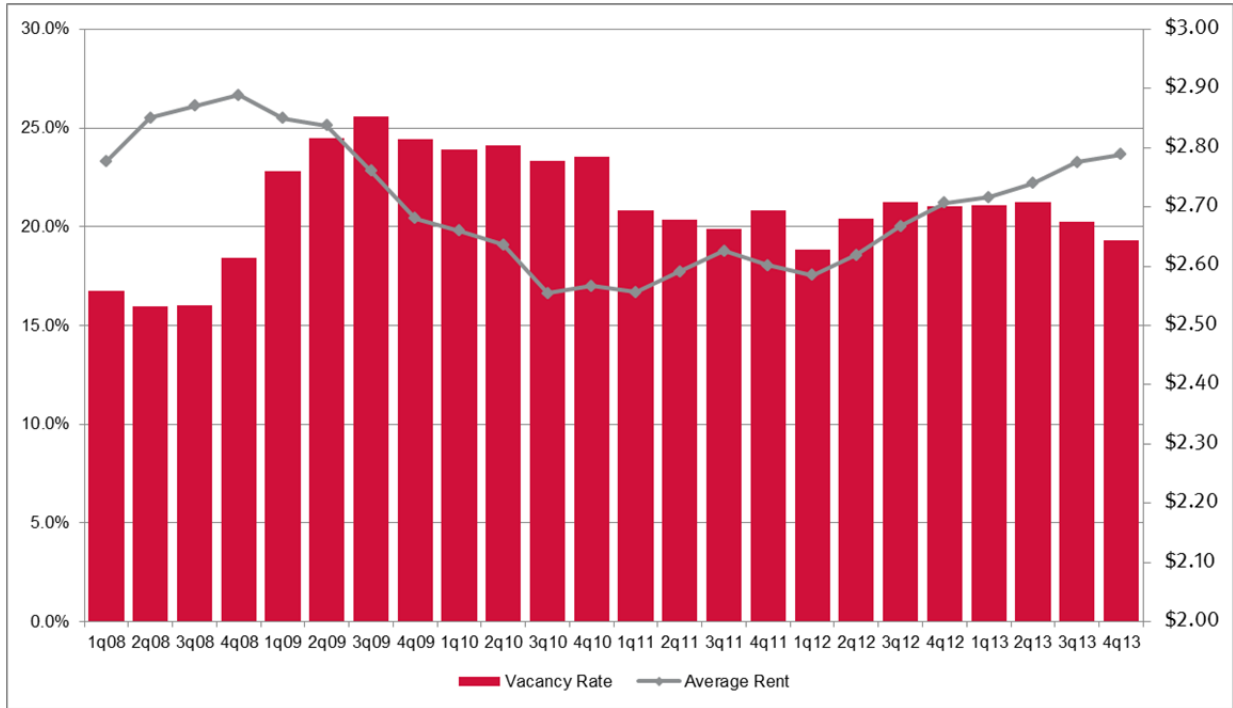




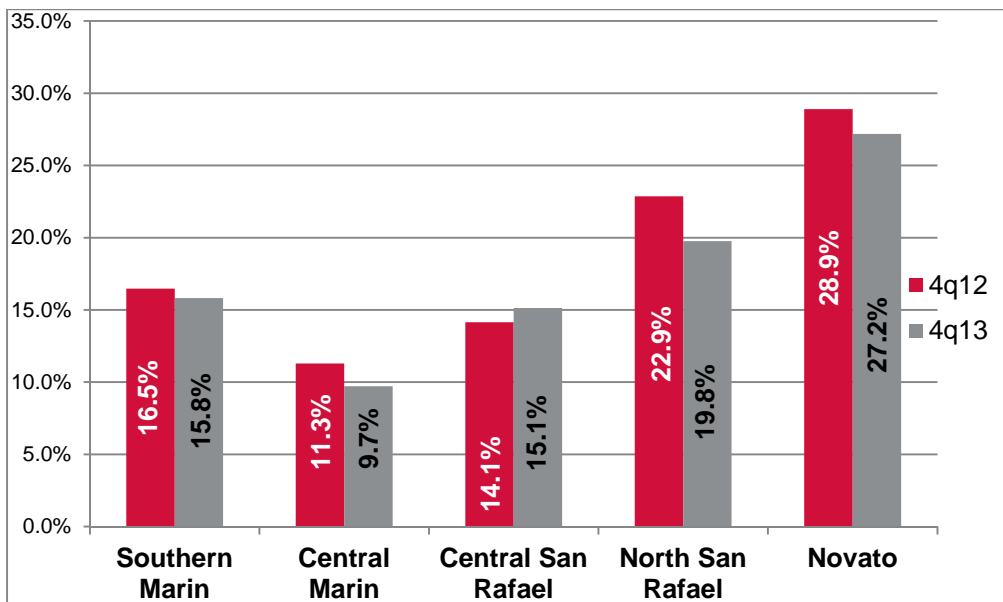
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Marin County Historical Vacancy Rate vs. Class A Average Asking Rent



Marin County Comparative Vacancy Analysis by Submarket – 4q2012 vs 4q2013

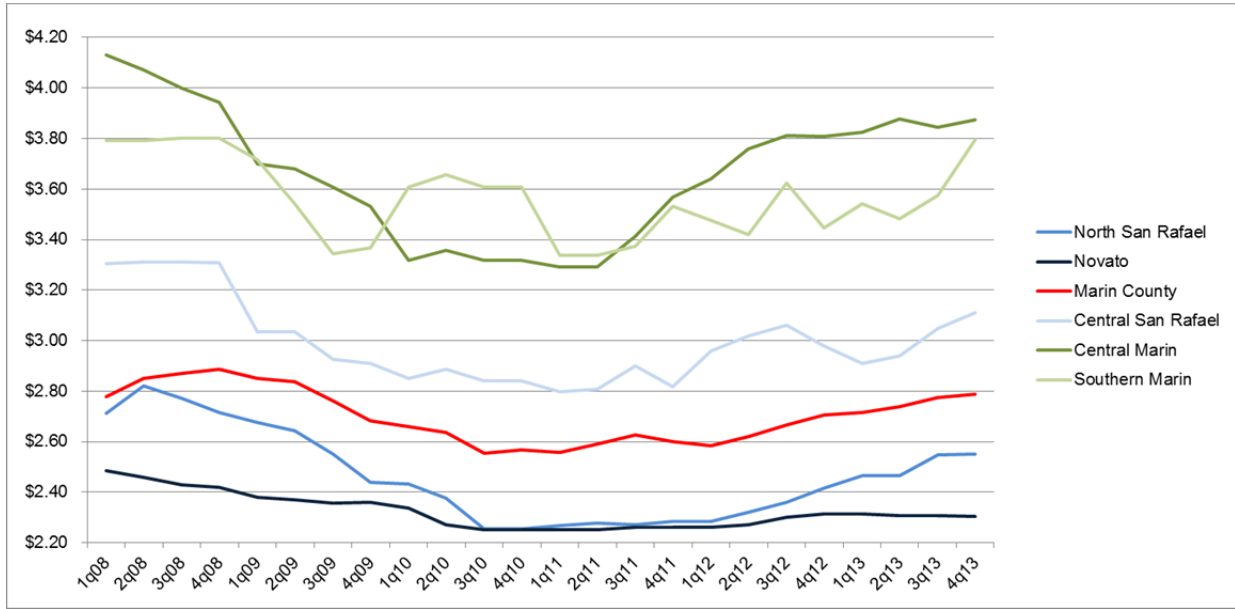




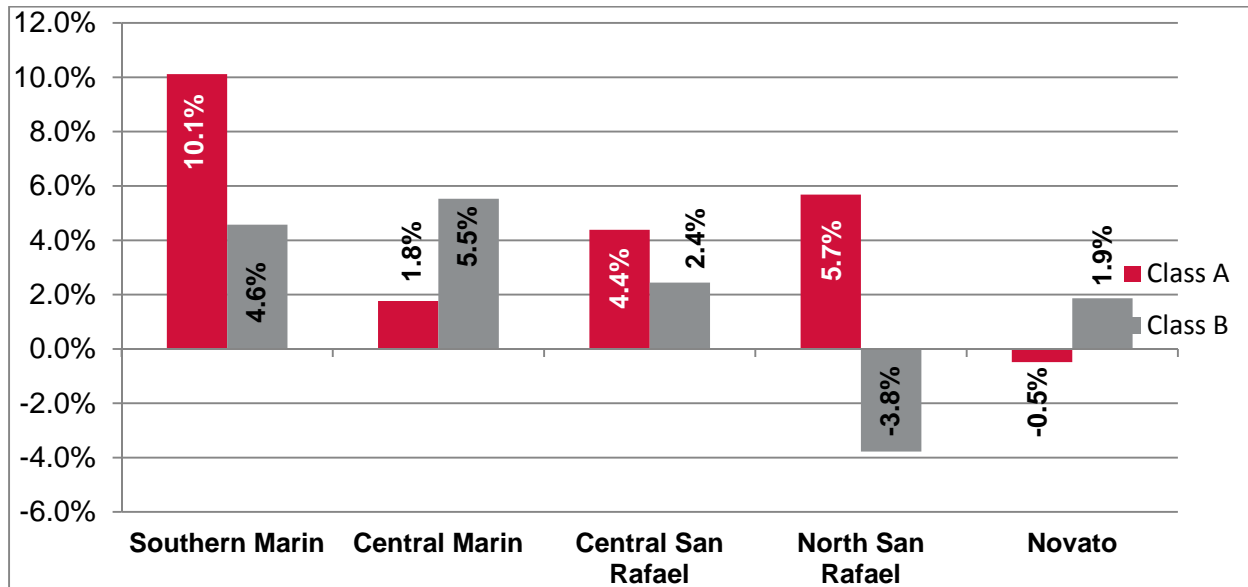
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Marin County Office Market • Fourth Quarter 2013

Marin County Historical Average Class A Asking Rental Rates by Submarket



Change in Average Asking Rents in 2013





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Marin County Office Market • Fourth Quarter 2013

Marin County Office Market Overview

By Mark Carrington

Leasing activity in Marin County in 2013 was dominated by large established tenants renewing and expanding. Over half of the activity in the County can be attributed to seven tenants. The County's two major health care providers, Kaiser and Sutter, extended just over 170,000 square feet of leases. Restoration Hardware's continued growth in Corte Madera, led the Pasha Group to relocate to North San Rafael and absorb Autodesk's sublease space. Glass Door outgrew One and Three Harbor Drive and moved to 100 Shoreline, where it has expanded into the entire building. At Hamilton Landing, the looming threat of Disney's lease expiration was mitigated by major expansion by Take 2 Interactive and Raptor Pharmaceutical. BioMarin's need to secure its continued growth has led it to negotiate a purchase of San Rafael Corporate Center, with plans to occupy additional space in the project and construct an additional building.

Despite the continued pressure on San Francisco tenants, the potential of a wave of migration across the Golden Gate Bridge did not materialize to any significant extent. Instead, investment capital is making its way across the Bay. With enormous capital competing for assets regionally, investor interest in Marin County has led to an unprecedented wave of investment activity in the County in late 2013. Two major assets have changed hands. Drakes Landing was purchased by New York Life for \$468 per square foot and Shoreline (located on a ground lease), was added to Basin Street's Portfolio for \$226 per square foot. In addition to BioMarin's imminent purchase of San Rafael Corporate Center for \$370 per square foot, 4000 Civic Center Drive, Wood Island and Rafael Town Center are currently in contract. One Thorndale Drive is about to go into contract with a senior housing developer and has been removed from office inventory.

Vacancy

Marin County's overall vacancy rate ended 2013 at 19.5 percent. The direct vacancy rate is 15.2 percent. The overall vacancy for Class A space was 23.8 percent and Class B was 11.2 percent. Major blocks of space in large floor plate buildings continue to represent a significant proportion of available space in Novato and North San Rafael where overall vacancy is 27.2 percent and 19.8 percent respectively. Central Marin continues to tighten with overall vacancy of 9.7 percent. In Southern Marin and Central San Rafael the overall vacancy rate is 15.8 percent and 15.1 percent. In both submarkets the vacancy is concentrated in a handful of buildings. Expansion by Glass Door (in Southern Marin) and BioMarin (in Central San Rafael) is expected to significantly reduce vacancy in these submarkets in the short term.

Leasing Activity and Absorption

There was just less than 700,000 square feet of leasing activity in Marin County in 2013, leading to net absorption of 78,536 square feet. As indicated above, much of the activity was attributable to lease renewals and expansion. In North San Rafael, Sutter (74,000 sf) and Kaiser (96,000 sf) extended major leases. At Hamilton Landing in Novato Take 2 Interactive renewed and expanded a total of 45,000 square feet and Raptor Pharmaceutical leased 31,000 square feet and expanded by an additional 11,000 square feet. Engstrom Design Group also leased 20,000 square feet. These three transactions absorbed all but 13,000 square feet of the 120,000 square foot vacancy left by Disney in Hangars 7 and 9.

Leasing activity in the fourth quarter was just over 200,000 square feet with negligible net absorption. Class B absorption was slightly negative for the year, extending the trend of increasing occupancy in Class A buildings and decreasing occupancy in Class B buildings. This trend is likely the result of low levels of activity among smaller (more traditionally Class B) tenants in the market.

Rental Rates and Concessions

Asking rents continue to rise from North San Rafael southwards while rents in Novato have remained flat. Class A rents increased 2.6 percent in 2013 while Class B rents rose by 1.8 percent. Class A space in Southern Marin saw the most significant increase in asking rates with a 10 percent increase in 2013 largely attributable to a 12.3 percent increase in the asking rates by new ownership at 100 Shoreline.

Outlook

Expect rental rates to increase further in 2014, particularly in Central Marin where Drakes Landing and Wood Island will have a higher cost basis. Touring activity in the 5-10,000 square foot range indicates decreasing vacancy in the Central and North San Rafael submarkets.

Light touring activity in late 2013 indicates a quiet start to the year, but continued positive growth is expected through 2014. SMART rail is set to begin service in 2015. As that date nears, properties located near the planned stations will become even more attractive to prospective tenants. None of the few planned significant new office buildings will come online in 2014 and vacancy is expected to continue to decline.



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