



**MARIN COUNTY
3Q15 OFFICE MARKET**

**CLASS A BUILDINGS SELLING
AT UNPRECEDENTED RATE**

Thirty-five percent of Marin County's Class A inventory changed hands during the two-year period from the close of third-quarter 2013 to the close of third-quarter 2015. In 2013, 4.3% of the Class A inventory sold, followed by 14.3% in 2014 and 16.4% in the first three quarters of 2015.

In Novato, the Hamilton Landing office complex sold in July to ScanlanKemperBard Companies. The sale included seven of the built out-hangars, as well as an additional sale of a parcel of land that can accommodate a 54,000-square-foot building. The project was 86.0% leased when it was brought to market and was 95.0% leased at the close of escrow. Also in Novato, 7250 Redwood Boulevard, a 87,268-square-foot office building, was bought by Ellis Partners in early July. The project was 81.0% leased at the time of sale and closed at \$186/SF. This marks Ellis Partners' second major investment in Marin County real estate, after purchasing 4040 Civic Center in North San Rafael for \$34.9 million in fourth-quarter 2014.

Northern San Rafael saw the owner-user purchase of 1650 Los Gamos Drive by Kaiser Permanente. The building, which had 100,355 square feet of space available at the time of sale, will be used by Kaiser for medical office space. Additionally, 899 Northgate Drive sold to Seagate Properties in the third quarter. Seagate has been very active in the Marin County office market in recent years, as they bought 3030 Bridgeway Boulevard in Sausalito in October 2014 and sold 171-181 Third Street in central San Rafael in December 2014.

Projects set to close later this year include 1 Thorndale Drive, 77,084 square feet, and 100 Wood Hollow Drive, 121,527 square feet. Equity Office has brought to market 1-3 Harbor Drive and 700-1100 Larkspur Landing Circle, two office projects totaling 112,343 and 199,761 square feet, respectively. Also coming on the market is 3900-3950 Civic Center Drive, a two-building office complex totaling 93,296 square feet.

Leasing and Positive Net Absorption Continues

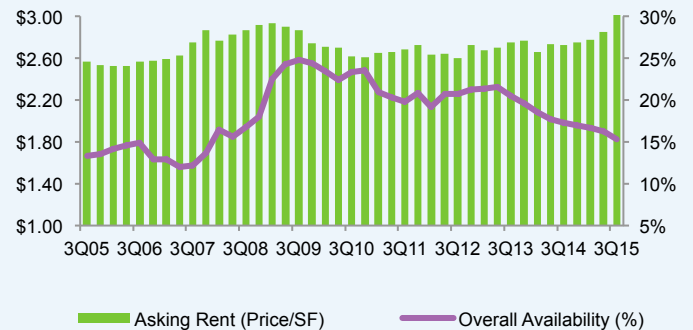
Marin County saw 199,115 square feet of gross absorption in the third quarter of 2015, compared with 188,869 square feet in first quarter and 220,509 square feet in the second quarter. Net positive absorption was greater than in the first quarter, which saw 28,770 square feet, but less than in the second quarter, which saw 96,293 square feet absorbed. Leasing activity was slower, and the majority of net absorption was due to the purchase of 1650 Los Gamos Drive by Kaiser. This net absorption was offset by Fair Isaac Corporation increasing its available sublease to 66,000 square feet at 200 Smith Ranch Road. Notable leasing activity in the third quarter includes Bay Equity subleasing 9,348 square feet at 28 Liberty Ship Way, which was one of the main contributors to the net absorption of Southern Marin. In Central San Rafael, leasing at Class A buildings, such as 900 Fourth Street, the Rafael Town Center and Courthouse Square, helped push the submarket into positive absorption.

Current Conditions

- 35% of Class A Inventory Sold in Last Two Years
- Four Major Class A Projects Close in 3Q15
- Overall Positive Net Absorption Continues
- Asking Rates Continue to Increase
- San Rafael Poised for Development

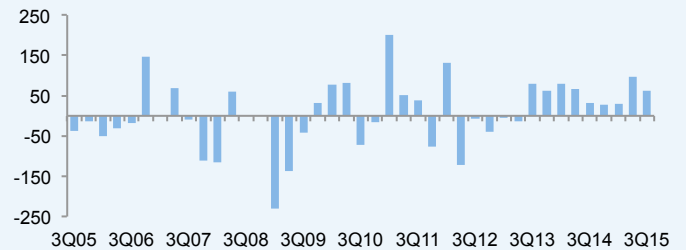
Market Analysis

Class A Asking Rent and Overall Availability



Net Absorption

Square Feet, Thousands



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	7.9M	7.9M	7.9M	↑
Availability Rate	15.29%	16.28%	17.29%	↓
Quarterly Net Abs. (SF)	61,468	96,293	35,512	↑
Average Asking Rent	\$2.72	\$2.68	\$2.46	↑
Under Construction (SF)	86,540	86,540	97,192	↑
Deliveries (SF)	-	10,652	9,239	↑



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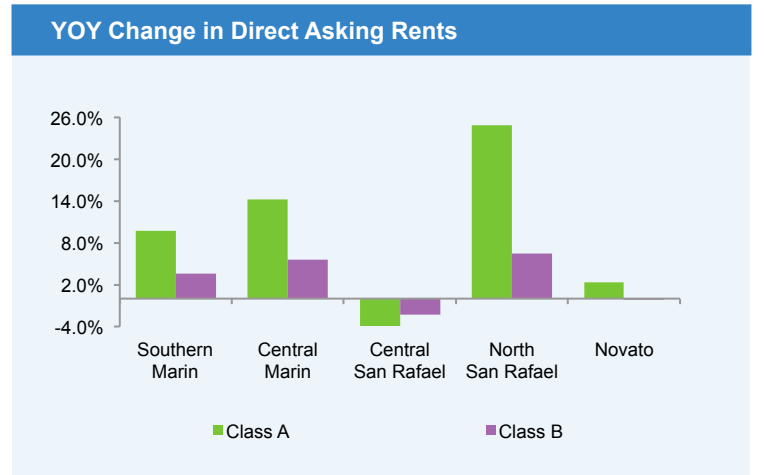
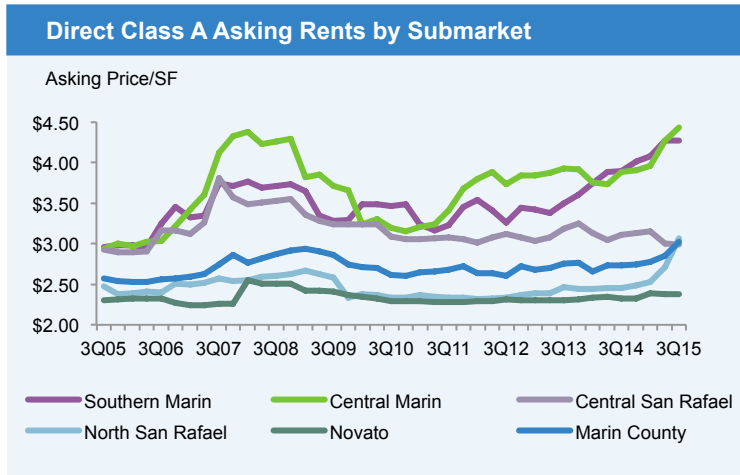
Northern San Rafael Asking Rates Increase

Asking rent increases at 899 Northgate Drive, 4040 Civic Center Drive and 1050 Northgate Drive have driven up average asking rents in the North San Rafael submarket. Coupled with the removal of relatively cheaper space from the market at 1650 Los Gamos Drive, Class A asking rates have increased from second-quarter 2015 by 12.8% in Northern San Rafael and by 9.6% for Class A and B properties combined.

Further Development Planned in Central San Rafael

As asking rates rise and vacancy settles to current levels, new construction has become more feasible in Marin County. Monahan-Parker, Inc. plans to develop a 25,488-square-foot office building at 1201 Fifth Avenue, which currently holds a vacant 9,850-square-foot former

bank. BioMarin Pharmaceutical is looking to further expand the San Rafael Corporate Center, with plans to build a 72,396-square-foot building at 755 Lindaro Street, which is currently used as a parking lot serving the office complex. BioMarin also plans to develop more office space at the former PG&E site at 999 Third Street. The 3.1-acre site sits kitty-corner from the San Rafael Corporate Center, which housed a manufactured gas plant for PG&E dating back to the 1870s. The site must first be cleaned up, as roughly 35,000 cubic yards of contaminated soil needs to be removed. The process would take until late 2016 or early 2017 to complete.



Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Activision Publishing, Inc.	4 Hamilton Landing	Novato	Renewal	23,664
Bay Equity, LLC	28 Liberty Ship Way	Southern Marin	Sublease	9,348
JB&A Distribution, Inc.	1050 Northgate Drive	North San Rafael	Renewal, Expansion	7,246
Compass Education Group, LLC	1100 Larkspur Landing Circle	Central Marin	Direct	5,756
Undisclosed	900 Fourth Street	Central San Rafael	Direct	5,003

Select Investment Sale Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
3-10 Hamilton Landing	Novato	\$84,000,000	\$206.72	406,355
1650 Los Gamos Drive	North San Rafael	\$22,000,000	\$148.11	148,534
7250 Redwood Blvd	Novato	\$16,250,000	\$186.21	87,268
899 Northgate Drive	North San Rafael	\$13,500,000	\$248.13	54,406
7 Mount Lassen Drive	North San Rafael	\$6,848,000	\$240.03	28,530


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Submarket Statistics Overall

	Total Inventory (SF)	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Southern Marin	844,166	11.90%	22,555	13,724	20,317	\$4.01	\$0.00	\$4.01
Central Marin	1,098,054	7.91%	18,184	(1,657)	17,633	\$3.75	\$3.78	\$3.75
Central San Rafael	1,337,725	6.78%	12,361	5,131	9,172	\$2.73	\$2.33	\$2.70
North San Rafael	2,129,347	17.29%	117,523	51,952	87,624	\$2.92	\$2.33	\$2.79
Novato	2,479,907	22.58%	28,492	(7,682)	51,785	\$2.32	\$2.25	\$2.29
Marin County	7,889,199	15.29%	199,115	61,468	186,531	\$2.90	\$2.28	\$2.72

Submarket Statistics – Class A

	Total Inventory (SF)	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Southern Marin	518,658	15.04%	5,948	(1,395)	20,859	\$4.27	\$0.00	\$4.27
Central Marin	661,445	6.38%	16,637	(1,114)	21,217	\$4.43	\$3.78	\$4.40
Central San Rafael	759,638	4.04%	10,105	5,102	6,299	\$2.99	\$0.00	\$2.99
North San Rafael	1,508,105	21.25%	114,651	53,993	81,163	\$3.06	\$2.33	\$2.87
Novato	1,885,742	26.59%	26,539	(2,541)	43,151	\$2.38	\$2.25	\$2.31
Marin County	5,333,588	18.24%	173,880	54,045	172,689	\$3.02	\$2.28	\$2.76

Submarket Statistics – Class B

	Total Inventory (SF)	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Southern Marin	325,508	6.91%	16,607	15,119	(542)	\$3.11	\$0.00	\$3.11
Central Marin	436,609	10.24%	1,547	(543)	(3,584)	\$3.17	\$0.00	\$3.17
Central San Rafael	578,087	10.37%	2,256	29	2,873	\$2.42	\$2.33	\$2.41
North San Rafael	621,242	7.70%	2,872	(2,041)	6,461	\$2.25	\$0.00	\$2.25
Novato	594,165	9.87%	1,953	(5,141)	8,634	\$2.07	\$0.00	\$2.07
Marin County	2,555,611	9.14%	25,235	7,423	13,842	\$2.52	\$2.33	\$2.52



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ECONOMIC CONDITIONS

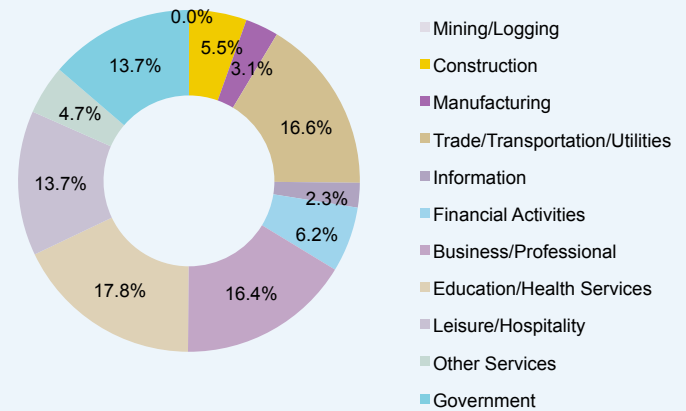
Marin County's unemployment rate has been no less than 1.4% below the national average in any given month for the last five years. The year-to-date monthly average for Marin County is 2.0% lower than that of the United States as a whole.

Over the last 12 months, the construction and manufacturing industries have seen the largest growth, with 4.8% and 11.1% increases, respectively. These industries appear to be bouncing back after the recession and should push job growth not only in California but in the nation as a whole.

According to the Zillow Home Value Index, Marin County median home values have increased by 2.5% since January, from \$903,800 to \$926,500. Over the same time period, Sonoma County, California and United States median home values have increased by 6.6%, 3.6% and 2.2%, respectively.

Employment By Industry

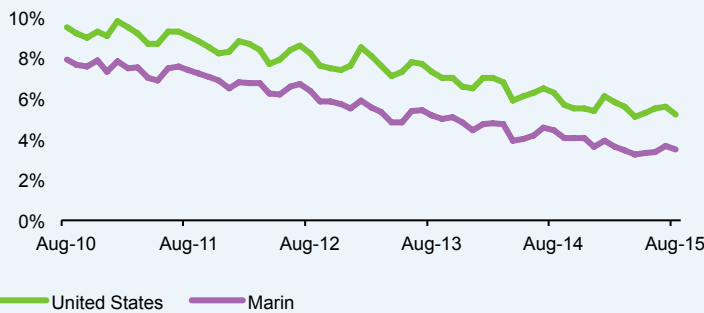
San Rafael, 2015



Source: U.S. Bureau of Labor Statistics

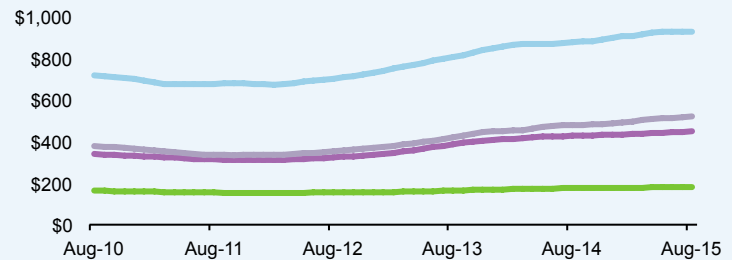
Unemployment Rate

Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, State of CA Employment Dev. Dept.

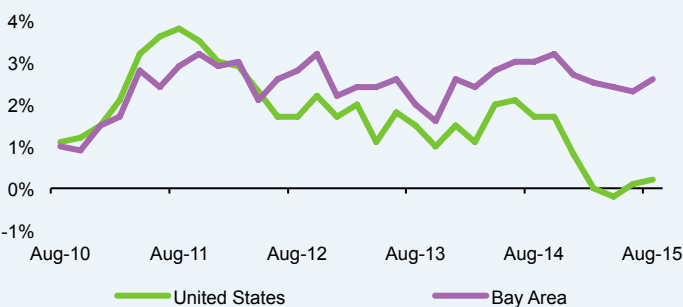
Home Value Index



Source: Zillow Group

Consumer Price Index (CPI)

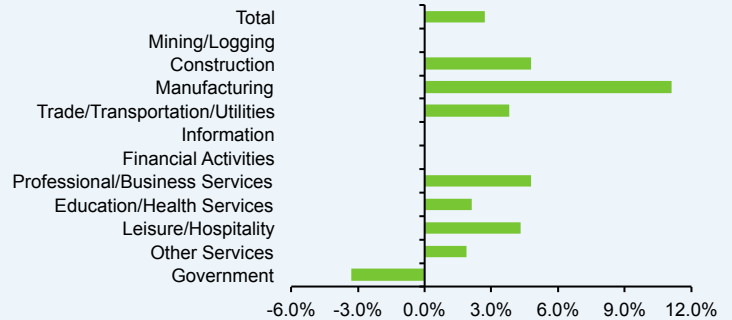
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

San Rafael, August 2015, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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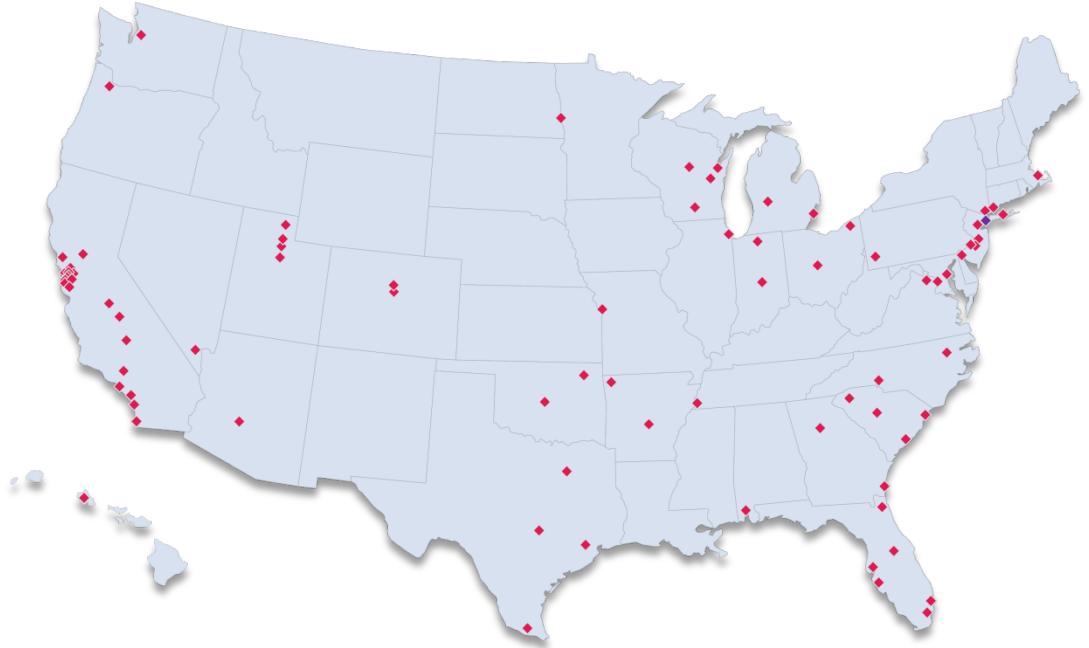
Newmark Cornish & Carey
1101 Fifth Avenue, Suite 230
San Rafael, CA 94901
415.526.7676

CA RE #00832933

Joe McCallum

Market Research Coordinator
415.526.7672
jmccallum@newmarkccarey.com

Newmark Grubb Knight Frank United States Office Locations



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