

Keegan & Coppin Company, Inc. ONCOR International

MARIN COUNTY 2011 YEAR-END SUBMARKET REPORT & NEWSLETTER / 2012 FORECAST



INSIDE THIS ISSUE:

Market Highlights,
Transactions and
Vacancy Trends for
Southern Marin
Central Marin
Downtown San Rafael
Northern San Rafael
Novato

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Despite fears of a slow start, we saw renewed activity and increasing stabilization throughout the market in 2011. After two years of somewhat stagnant tenant growth and sluggish investor activity, we are witnessing considerable tenant movement and strong investor interest throughout the market, from the Golden Gate Bridge to northern Novato. Although prices are not at their peak 2007-2008 levels, every indicator shows that the price declines have stopped, and there is a tendency toward tighter lease rates and reduced landlord and seller concessions. Interest rates remain low, and are a factor in keeping sales prices for both investment properties and owner-user properties stable. The attached report provides detailed summaries of activity in each geographical area, and by property subtype.



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www.keegancoppin.com

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*Keystone Building
Mill Valley*



*Belvedere Place
Mill Valley*



*Shoreline Office Center
Mill Valley*

SOUTHERN MARIN

The Southern Marin office market is characterized by office properties along the transportation corridors, and concentrations of multiple office complexes. Tenant sizes in the southern Marin market have traditionally been in the 1,000-2,500 square foot range, mostly professional services and medical uses, although the newer buildings can accommodate larger floor plates of up to 20,000 square feet. At the end of 2010, there were concerns that the southern Marin office market might remain relatively sluggish, however from the early spring of 2011, and throughout the year, leasing activity remained brisk, across all building types and in all size ranges. Prices remain lower than highs in 2008-2009, but class A office lease rates are steadily climbing over the \$3.00 per square foot threshold, while Class B offices are leasing in the \$2.25-\$2.50 per square foot range.

On the sales front, while several properties remain unsold, activity is strong, and prices appear to have stabilized. Well-positioned properties on the market have even sold at pre-recession prices.

The general outlook for 2012 is of a healthy, vibrant market. At this end of the year, tenants and buyers are active in the marketplace. For both newly vacant spaces and spaces that have languished on the market, tours are multiplying, and leases are in negotiation. Landlords and sellers are showing a willingness to negotiate, but are no longer interested in offering the deep discounts seen in 2010. The general tone of the market is of a strengthening economy and better prospects for the new year.



*790 Mission Avenue
San Rafael*



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302 Caledonia Street
Sausalito



Marin Gateway Center
Marin City



1 & 3 Harbor Drive
Sausalito

SOUTHERN MARIN (Cont'd)

TRANSACTIONS

LEASES:

- ◆ January, 2011: 1599 Tiburon Blvd, Tiburon 11,037 square feet leased to CVS
- ◆ February 2011: 100 Shoreline, Mill Valley 6,386 square feet leased to Cascade
- ◆ March 2011: 2 Belvedere Place, Mill Valley 9,869 square feet leased to the Pearson Foundation
- ◆ March 2011: 2320 Marinship Way, Sausalito 5,094 square feet leased to Daglow Entertainment
- ◆ March 2011: 1 Harbor Drive, Sausalito 6,503 square feet leased to Glass Door
- ◆ April 2011: 10 Libertyship, Sausalito 10,125 square feet leased to Serena & Lily
- ◆ September 2011: 3 Harbor Drive, Sausalito 7,688 square feet leased to Human Concepts

SALES:

- ◆ April, 2011: GRI Alto Center, LLC, a Maryland-based institutional buyer purchased the Alto Center Shops in Mill Valley, adjacent to the Whole Foods, for \$12,546,000. This represents a high-water mark at \$627.00 per square foot.
- ◆ June, 2011: 1058 Redwood Highway in Mill Valley was sold for \$1,300,000.00 from one owner-user to another. The difference between this purchase price, and the previous, 2007 purchase price of \$1,675,000.00 is noteworthy.
- ◆ August, 2011: An affiliate of the Gerrity Group, Marin Gateway Group, LLC, purchased the Marin Gateway Center in Marin City for \$36,000,000, or \$198.00 per square foot.



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**101 Larkspur Landing Circle
Larkspur**



**500 Tamal Plaza
Corte Madera**



**1300 South Eliseo
Greenbrae**

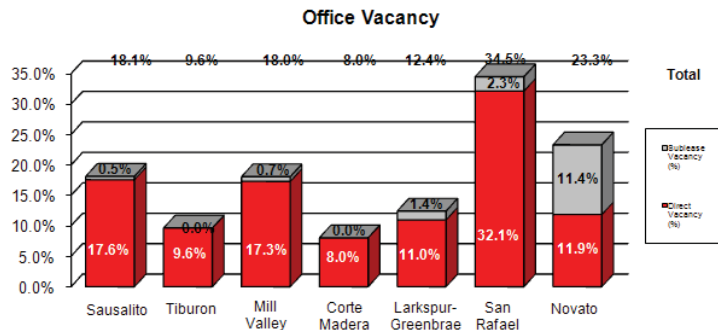
CENTRAL MARIN

2011 ushered in a healthier office environment in the Ross Valley with a 3% net absorption from the first through the fourth quarters through. Starting the year with a historically high 14% Vacancy number, rents have remained somewhat steady in the \$2.00 per square foot range. Much of the absorption was seen in the Equity Office properties that dominate the Larkspur market and represent some of the highest identity buildings in the central Marin corridor. Drake's Landing is still seeking a tenant for the stand alone 500 building but has few other vacancies remaining. Far and away the most action has been seen in recent acquisitions in the market from hopeful developers.

With so many major deals in the market it was easy to lose track of the small deals that were constantly occurring, but much of the activity has continued. 2012 looks like it will be a stable year in central Marin, with some of the major developments driving the construction business countywide. Look for small financial services to continue to dominate the sub market's leasing activity and for small businesses to step into buying mode with historically low interest rates combined with Landlords who are not interested in speculating on whether they will be able to attract tenants with highly competitive properties available.

Office Vacancies 3rd Quarter 2011

	Total Base (Sq.Ft.)	Direct Vacancy (Sq.Ft.)	Direct Vacancy (%)	Sublease Vacancy (Sq.Ft.)	Sublease Vacancy (%)	Total Vacancy (Sq.Ft.)	Total Vacancy (%)	Building Planned (Sq.Ft.)
SAUSALITO	383,855	67,482	17.6%	2,051	0.5%	69,533	18.1%	0
TIBURON	17,715	1,705	9.6%	0	0.0%	1,705	9.6%	0
MILL VALLEY	343,594	59,436	17.3%	2,576	0.7%	62,012	18.0%	0
CORTE MADERA	366,529	29,377	8.0%	0	0.0%	29,377	8.0%	0
LARKSPUR-GREENBRAE	638,442	70,044	11.0%	9,158	1.4%	79,202	12.4%	0
SAN RAFAEL	3,018,657	970,065	32.1%	70,613	2.3%	1,040,678	34.5%	0
NOVATO	2,437,367	288,837	11.9%	278,855	11.4%	567,692	23.3%	0
TOTAL	7,206,159	1,486,946	20.6%	363,253	5.0%	1,850,199	25.7%	0





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*501 Sir Francis Drake Boulevard
Greenbrae*



*1100 Larkspur Landing Circle
Larkspur*



*195-205 Tamal Vista
Corte Madera*

CENTRAL MARIN (Cont'd)

TRANSACTIONS

LEASES:

- ◆ Nissan will be taking over the former Honda dealership in Corte Madera and has already begun work on the façade of the building to reflect the new tenant.
- ◆ June, 2011: US Bank renewed their 15,600 sf master lease in downtown San Anselmo.
- ◆ August, 2011: Digital Domain took 14,212 sf of office space in the 1100 Larkspur Landing Circle building.
- ◆ September, 2011: Whole Earth signed a lease to move from 1966 Sir Francis Drake Blvd. to the 21,172 sf former Albertsons site in Fairfax.

SALES:

- ◆ June, 2011: San Francisco based MacFarlane Partners purchased the former WinCup manufacturing site adjacent to 101 in Corte Madera for nearly \$20,000,000.00. The purchaser plans to create 180 apartment units on the 4.5 acre site. Demolition on the current buildings should begin in March or April, according to current plans.
- ◆ August, 2011: Hapag Lloyd, 100 Meadowcreek \$2,400,000.00 for the 15,000 square foot office complex.
- ◆ September, 2011: Southern California based residential developers The New Home Company purchased the Rose Garden (Niven Nursery) adjacent to Redwood High School for more than \$21,000,000.00. The developer plans to build 85 residences including 29 single family homes, 42 senior homes and 14 cottage style dwellings on the 16.8 acre parcel, and will dedicate a 2.43 acre portion of the site to the city.



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*1101 Fifth Avenue
San Rafael*



*San Rafael Corporate Center
San Rafael*



*900 Mission Avenue
San Rafael*

DOWNTOWN SAN RAFAEL

Central San Rafael, primarily consisting of the downtown area, is considered Marin County's financial and economic center. The office leasing opportunities generally consist of a handful of top quality Class "A" buildings and mix of moderate Class "B" quality, mid century, mixed-use properties. The market is led by four office properties; 1101 Fifth Avenue, San Rafael Town Center, 1000 Fourth Street and the San Rafael Corporate Center. The performance of these flagship assets is the barometer of the overall condition in this specific and very important submarket.

2011, in hindsight, can be described as a relatively stable year. Statistically speaking, there was a very slight negative absorption, and flat lease rates. Class A office rents, on Full Service basis, average from \$2.85 to \$3.25 per square foot with Class B asking rents range from \$2.25 to \$2.75 per square foot.

Much of notable leasing activity included important lease renewals and modest sized new leases.

The overall downtown office vacancy rate nearing 35% is somewhat misleading due to the fact that over 150,000 square feet of vacancy is located in a single, large floor plate property, the San Rafael Corporate Center. At the time of publication of this article, the San Rafael Corporate Center is near completing a 100,000 square foot lease. If this occurs, the downtown vacancy rate should drop as much as 15 percentage points.

2012 looks to be year of continued modest improvement especially if the above mentioned major lease transaction at the San Rafael Corporate Center is finalized. We forecast that lease rates should remain flat until the submarket vacancy rate drops below 15%.

TRANSACTIONS

LEASES:

- ◆ San Rafael Corporate Center - Wells Fargo Advisors - 12,792 sq. ft.
- ◆ 1101 Fifth Avenue - Wells Fargo Bank - 4,000 sq. ft.

SALES:

- ◆ 902 Irwin - 3,600 sq. ft.
-



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*899 Northgate Drive
San Rafael*



*1401 Los Gamos Road
San Rafael*



*101 Lucas Valley Road
San Rafael*

NORTHERN SAN RAFAEL

At the beginning of 2011, northern San Rafael (commonly “the Terra Linda/Northgate area”) was a dismally vacant commercial region. The office vacancy was very high, due largely to nearly 285,000 sq. ft. of vacancy in the Marin Commons project on Los Gamos Drive, as well as to some departing and downsizing powerhouse corporations, such as Autodesk, who vacated one building on Civic Center Drive to expand its workforce in downtown San Francisco. (Don’t worry, Autodesk is doing quite well, and is still headquartered here in Marin.) Many buildings in northern San Rafael already offered cheaper rents than downtown San Rafael properties, but the slight northerly drive, away from Marin’s largest central business district, was not considered as desirable. Even if a property offered \$1.50 per sq. ft. in Terra Linda, many businesses opted for an office suite in downtown San Rafael at or near \$2.00 per sq. ft., to be closer to a multitude of amenities.

At the midpoint of the year, a shift occurred. 20% to 30% cheaper rents north of downtown, the realization that many of San Rafael’s employees were driving south from Sonoma County, in traffic, and the type of available office space in the Northgate area, were all factors that began to entice business owners to this area. The building mentioned above, vacated by Autodesk, is a great example. Ownership completely remodeled the interior of the property and turned a single-tenant property into a multiple-tenant property. A true Class A building, with new floor plans and build-to-suit potential for new tenants, at a savings of \$.25 to \$.75 per sq. ft. versus its competitors a few miles south, caught attention from businesses in higher rent districts. With compelling lease rates, there was a flight to quality buildings by tenants throughout Marin to the Terra Linda area.

By the end of 2011, the previously vacant, and seemingly hopeless, northern San Rafael market rebounded with substantial leasing and sales activity. Our expectation for 2012 is that this submarket of San Rafael will remain an attractive area with cheaper than downtown rents, and very nice available suites. Companies seeking a better drive for their employees coming from Sonoma County will find some wonderful options and excellent incentives in the New Year. We anticipate rent rates to hold in the \$1.50 to \$1.75 per sq. ft. range for Class B space, and \$2.00 to \$2.35 per sq. ft. for Class A properties.



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*65 Mitchell Boulevard
San Rafael*



*3950 Civic Center Drive
San Rafael*



*Marin Commons
San Rafael*

NORTHERN SAN RAFAEL (Cont'd)

TRANSACTIONS

LEASES:

- ◆ July, 2011: A 127,000 sq. ft. class A office building, 4040 Civic Center Drive, sold to Kilroy Realty for approximately \$31 million.
- ◆ August, 2011: Wines & Vines leased 2,850 sq. ft. at 65 Mitchell Boulevard.
- ◆ September, 2011: OnMobile relocated its telecom software company from Petaluma, signing a 6,000 sq. ft. lease at 3950 Civic Center Drive.
- ◆ November, 2011: Thompson, Welch, Soroko & Gilbert LLP signed a lease to relocate its law offices to 3950 Civic Center Drive, occupying 8,200 sq. ft., in early 2012.
- ◆ December, 2011: Lifehouse signed a new lease at 899 Northgate Drive for 6,100 sq. ft.
- ◆ December, 2011: Part of the massive Marin Commons project, 1600 Los Gamos Drive, 315,000 sq. ft., sold to the County of Marin for approximately \$29 million. The county will spend approximately \$50 million to remodel the majority of the building for emergency services and sheriff's headquarters.



*902 Irwin Street
San Rafael*



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*9 Commercial Boulevard
Novato*



*695 DeLong Avenue
Novato*



*505 A San Marin Drive
Novato*

NOVATO

The Novato office market, coming off a strong close of 2010, was relatively stable for the calendar year 2011. Average Class A rents saw a slight reduction from \$1.95 Full Service to \$1.93 Full Service. Vacancy rates showed a steady decrease throughout the first three quarters of the year, with a third quarter vacancy rate of 23.3% down from 28.9% in the third quarter of 2010.

The office market was helped by a zoning change at Barker Pacific's Rowland Plaza property, which allows for medical use in the two buildings adjacent to Sutter's Novato Community Hospital Campus. The office market was further helped by strong leasing activity in the digital arts and health care sectors with Visual Concepts, coming out of North San Rafael, signing a 64,231 square foot lease at Hamilton Landing, Marin Medical Practice Concepts relocating to 100 Wood Hollow and signing a 12,973 square foot lease, bio-tech start up Ultragenyx Pharmaceuticals signing a 19,916 square foot lease at 60 Leveroni Court, and local bio-tech giant BioMarin signing a 41,829 square foot lease with expansion rights at 100 Wood Hollow.

The market is also being helped a bit by Circle Bank's commencement construction at the long vacant 999 Grant redevelopment site at the corner of Grant Avenue and Redwood Boulevard. The bank purchased the property last year and is currently in the construction phase of its new headquarters. The new building is slated to be approximately 20,000 square feet with Class A office space over Class A street retail. The move will give a boost to the steady revitalization that Downtown Novato has enjoyed over the past few years. Additionally West America Bank acquired the former Dimensions in Travel Site at 300 Ignacio for \$1,200,000 or \$400 per square foot for its new Ignacio Valley Branch.

As the local economy continues to improve, so should the Novato office market. There are currently no significant economic indicators that point to a major shift in the market dynamics, so going into 2012 we should continue to see rents stabilize and the market continue to show steady absorption.

TRANSACTIONS

LEASES:

- ◆ Kaiser Health Care, 7200 Redwood Blvd. (Renewal) – 16,548 sq. ft.
 - ◆ Ultragenyx Pharmaceuticals, 60 Leveroni Ct. – 19,916 sq. ft.
 - ◆ Visual Concepts, 10 Hamilton Landing – 64,231 sq. ft.
 - ◆ Marin Medical Practice Concepts, 100 Wood Hollow – 12,973 sq. ft.
 - ◆ BioMarin Pharmaceuticals, 100 Wood Hollow – 41,829 sq. ft.
-



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*Tamal Vista Development Project
Corte Madera*



*Madera Vista Apartments
Corte Madera*



*Alterra Apartments
San Rafael*

APARTMENT MARKET

Rents Up – Vacancies Down

At the end of 2010, the Average Monthly Rent for all Marin County apartments was \$1,667 per unit. By the end of the 3rd quarter of 2011, the Average Monthly Rent had increased by 7.4% to \$1,790 per month. In that same time period, the average Vacancy Rate for all Marin County Apartment Properties dropped from 3.7% to 2.8%.

Cap Rates Decline

The Average Cap Rate for all sales in 2011 was 5.83% versus an Average Cap Rate of 6.35% for 2010.

Transaction Count Down - Dollar Volume Up - Both Well Below Peak 2007 Levels

YEAR	SALES	SALES VOLUME	UNITS SOLD	AVERAGE Px/UNIT	AVERAGE Px/SoFt	AVERAGE GRM	AVERAGE CAP RATE
2011	17	\$100,720,000	440	\$228,910	\$283	11.4	5.83%
2010	19	\$ 48,973,000	292	\$167,716	\$255	10.8	6.35%
2007	38	\$266,306,675	1,028	\$259,053	\$322	13.7	5.37%

Nine of the 17 property sales in 2011 were off-market transactions between principals. The largest off-market transaction by far was the 126-unit Madera Vista Apartments that sold in August for \$43,600,000. The Seller was the Rockpoint Group and Stellar Management and the Buyer was the Apartment Investment Management Group. The other off-market transaction was a portfolio sale of 8 properties in early November totaling \$31,960,000. The Seller was Rutherford Investments and the Buyer was Landmark Realty.

2012 Forecast

In 2012 the number of sales transaction will continue to increase, rents will again move higher (at a slower rate) and vacancy rates will stay close to current levels. Cap Rates will continue to move lower due to historically low interest rates for apartment loans and a pickup in apartment investment activity.



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*444 - 470 DuBois Street
San Rafael*



*4316 Redwood Highway
San Rafael*



*100 Pelican Way
San Rafael*

INDUSTRIAL MARKET

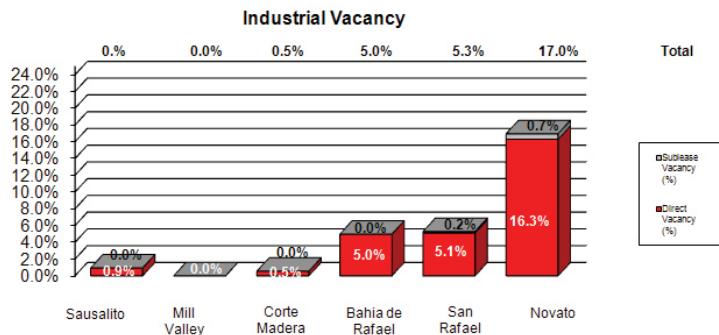
After trending up for the last several quarters the vacancy rate for Marin County is poised to drop for the 4th quarter of 2011. Two leases for 29,982 sq. ft. and 39,500 sq. ft. in the Bahia Industry Park, San Rafael will reduce the San Rafael 4th quarter vacancy by 40%. These larger tenant transactions reflect the lack of availability of larger industrial space needed by a few strong companies in Southern Marin. Activity for smaller space in the 1,000 to 5,000 sq. ft. range continues to be soft reflecting the effects of the economy on smaller tenants. Sales of Industrial Buildings to users is less in 2011 than in 2010. Investor activity has increased in the 4th quarter of 2011 with Keegan & Coppin selling two San Rafael leased multi-tenant investments of 58,695 sq. ft. and 65,400 sq. ft.

The industrial market for Novato has the highest vacancy rate for all of the Marin Industrial submarkets. This is partly due to a continued migration of tenants from Novato to Petaluma. Bio Marin continues to absorb space in Novato and San Rafael as it continues to rapidly expand.

Rates for space during the year continue to be competitive with rates ranging from \$1.25 to \$1.50 per sq. ft. for Southern Marin, \$.75 to \$1.25 per sq. ft. in San Rafael, and \$.65 to \$.95 per sq. ft. in Novato.

Industrial Vacancies 3rd Quarter 2011

	Total Base (Sq.Ft.)	Direct Vacancy (Sq.Ft.)	Direct Vacancy (%)	Sublease Vacancy (Sq.Ft.)	Sublease Vacancy (%)	Total Vacancy (Sq.Ft.)	Total Vacancy (%)	Building Planned (Sq.Ft.)
SAUSALITO	455,000	4,217	0.9%	0	0.0%	4,217	0.9%	0
MILL VALLEY	126,000	0	0.0%	0	0.0%	0	0.0%	0
CORTE MADERA	295,500	1,588	0.5%	0	0.0%	1,588	0.5%	0
BAHIA de RAFAEL	698,000	34,686	5.0%	0	0.0%	34,686	5.0%	0
SAN RAFAEL	3,091,188	158,015	5.1%	5,200	0.2%	163,215	5.3%	0
NOVATO	1,778,659	290,016	16.3%	11,600	0.7%	301,616	17.0%	0
TOTAL	6,444,347	488,522	7.6%	16,800	0.3%	505,322	7.8%	0



RETAIL MARKET



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*755 Bridgeway
Sausalito*



*Bon Air Center
Greenbrae*



*Strawberry Village
Mill Valley*

The Marin County retail landscape has remained stable, despite turnover of some seemingly solid and long-term retailers, particularly in the more mature retail districts. In the face of consumer uncertainty, the demographics of Marin County have continued to bolster local retail sales, and have helped sustain the leasing market. Vacancy rates have remained between 4% and 5% throughout the year. Rents range between \$1.20 per square foot, gross unserviced, in northern Marin, outlying markets, and larger spaces, to an average of \$3.75 per square foot, NNN, in centers and downtown districts with strong consumer cases.

Areas with untapped consumer demand have seen retailers seize opportunities. Early this year, Woodlands Market opened its doors in the former Boardwalk in Tiburon, and CVS is scheduled to open in the summer of 2012, also in Tiburon, at the site of the former Delano's market. The grocery space in the Cove shopping center remains vacant, although rumors about a possible popular grocer taking over abound. Mattress Discounters took over the Party America space in the Cost Plus Plaza, and Sports Authority Elite opened in the former West Elm space in the Corte Madera Town Center, amid much fanfare. TJ Maxx is rumored to be taking over the former Border's space on West Francisco Boulevard in San Rafael.

In the downtown areas, vacancies tend to be more easily absorbed in the southern Marin downtown districts. For example, when the Verde Salon closed its doors at 84 Throckmorton in Mill Valley in October, there were at least a half dozen tenants competing for the space, which was leased within a month. This said, spaces over 1,500 square feet, even in traditionally high-demand areas such as Mill Valley, remain unleased. Many smaller centers, downtown locations, bulk retail and auto dealerships show ongoing vacancies and stagnancy. Several larger spaces are going into their third year of vacancy, a prolonged situation which is a direct function of the effect of the listless economy on outlying or more demographically challenged properties.

The sales of the Marin Gateway Center and the Alto Center have bolstered retail property values. Aggressive pricing has brought forth an active pool of institutional investors, who see a renewed vigor in the investment market.

Generally, the 101 corridor and traditional central business districts have seen a measure of stability. In the past two years, landlords have had to make serious rent concessions, however asking rents are inching back up again, approximately 10% above those of 2010. This phenomenon reflects the office and industrial markets, and is part of a larger positive trend throughout the Bay Area. The high barrier for entry and the relative lack of product have helped the market remain stable despite consumer volatility. The luxury properties are still luxury properties, and absorption will follow in the peripheral locations as the general economic picture brightens.