

By



# NORTHBAY OVERVIEW - 2011

By: Al Coppin



We see increasing optimism among companies as we enter 2011.

Our leasing volume in 2010 was 25% above 2009.

Activity was spread over many sectors including government, healthcare, financial, tech, retail and wine related.

Many companies, either startups or existing, have arranged for their long term space needs by taking advantage of the quality “A” space as rates have dropped to what they were a decade ago.

Recent growth of fledgling tech companies is a significant part of the demand for space and the hope for the economic future of the Northbay region. Enphase, Raydiance, ProSight, Metier, Central Payments, BioMarin, Tri-Access Technologies, Sonoma Orthopedic, as well as the many successful telecom companies in Petaluma are seeds of future business clusters for the Northbay as well as strengthening existing ones.

While companies are choosing prime “A” space alternatives, the “B” space left behind will be in many instances a challenge to rent up quickly. As a result, availability of “A” space is dwindling while “B” space vacancies are ballooning.

On another aspect of the market, we have seen the effects of a 2 tiered equity market in Petaluma for tech, office/ flex buildings, as existing companies and banks put large blocks of space on the market for essentially land values under the buildings while the remaining individual ownerships hold on to pricing which more closely represents the true market. This temporary transitioning condition is being quickly rectified as companies swoop up the bargain priced products.

The biggest problem Petaluma faces is the extraordinary cost of municipal fees to develop any new building. Costs of \$5-\$7 p.s.f. for all combined fees will hamper development of the miniscule land left for industrial/ flex/tech usage in the future.

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Sonoma County over all while having many seeds of intellectual capital sprouting up and growing with new companies covering an array of products and services will be challenged by over burdensome regulations promulgated by local, state and federal governments. The biggest challenge for Sonoma County is not to attract new companies as they will come due to the existing venture seeds and lifestyle, but to redress, negotiate and retrench government regulations. From the onerous and costly process of obtaining use permits for emerging small businesses to the far reaching, illogical and severe development impact of the Fed's Tiger Salamander area.

So much in economic activity and human resource is given up to rescue one species when hundreds of thousands are lost in the rainforests of the world every year that indeed have significant human benefit. No one has ever said why this one species is so important as to cost the Northbay so much in its growth potential. Even the alternate habitats appear to be detrimental to the survival. Why not leave one habitat for them sponsored by the Federal government and let us compete on equal ground with other geographic areas to bring in and retain new companies.

Economic development and sustainment is a function of hard benefit/ cost analysis of regulations. If the benefit does not outweigh the costs included then it needs to be redressed.

With that said, the short term horizon looks promising.

We have plenty of space for a couple of years but we must plan ahead for the new office/industrial development 3-5 years down the road. If we don't preserve our land for high value industrial and tech uses and develop quality business parks, then we will not only fail to attract many of the spinoffs from other Bay Area companies, but we will lose existing quality companies as well.

We are looking forward to increased activity this year in investments as liquidity and search for higher cap rates expands. Opportunities in commercial real estate are excellent as the leasing market improves filling up vacancies in investment buildings. Financing is available at some of the most attractive rates in 45 years.

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Many users have already stepped up and taken advantage of the low priced buildings, many well below replacement costs of a decade ago.

The return of the developers will also invigorate the commercial market with new ideas and opportunities to attract tenants.

So we are forecasting a 25% increase in leasing and sales activity for 2011.