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2025 COMMERCIAL REAL ESTATE FORECAST



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NORTH BAY OVERVIEW - 2024

By: Al Coppin



The markets and politicians and business owners are all waiting to see what the new administration executes on all the promises made prior to the election. What disruptions to markets and consumer expectations are we going to experience with actual imposed tariffs and right leaning cabinet members leading our democratic institutions? The markets need a stable U.S. business and government and worldwide stability for economic growth to continue. Otherwise, disruptions and lack of security will keep inflation high and expectations for future growth at risk here as well as the rest of the world.

We have had significant drops in sales of commercial buildings while leasing has stayed relatively flat in the last two years. In order to get confidence back in the commercial market, we need stability nationally and internationally and lower interest rates to increase valuations and demand for commercial space. On a positive note, the 1031 exchange model is secure under a republican administration. This is one standout positive that will encourage sales and liquidity in the CRE market.

The CRE finance market has a lot of uncertainty. It's been quoted that there are over \$400 billion of CRE loan maturing coming up in 2025 and regional banks hold about 27% of bank capital in CRE loans, thus limiting future funding supply. Interest rates for CRE remain high as a result and loan activity is low.

Business investment drives leasing. We have seen a gradual increase in leasing in 2024. The new administration tends to encourage less regulation, so perhaps new business formations and expansions will increase in 2025. The high expectation of a better regulatory environment would be offset by too many tariffs and disruptive leadership in our democratic institutions.

NORTH BAY OVERVIEW

(cont.)

The overall confidence in the commercial real estate market shows signs of life: our leasing activity is 1.1 million s.f. for 2024 but recent increased showings reflect confidence is building. Our total sales value for 2024 is \$50 million, dropping slightly from 2023. However, confidence in this sector has been recently inching up as well.

So our forecast for 2025 is, we portend the commercial real estate sales investment market will finally recover, provided lending gets more competitive. The commercial real estate leasing market has held up fairly well and will grow substantially this year with pent up demand.



NORTH CORRIDOR/WINDSOR OVERVIEW

By: Shawn Johnson



The North Santa Rosa Corridor real estate office market had a significant increase in office vacancy primarily due to the availability of two large flex buildings totaling 126,585 sq ft previously occupied by Medtronic propelling the overall vacancy rate to 11.8% up from 6.4% in the 4th Quarter of 2023. If these two Medtronic buildings are removed from the equation, the office vacancy is actually reduced slightly to 5.9%. The most significant office lease was to the County of Sonoma who leased approximately 73,000 sq ft of the former American Ag Credit office building at 400 Aviation Blvd. The County also leased a 40,000 sq ft 2 story office building at 463 Aviation in late 2023 and took possession in 2024. Excluding these two County leases the preponderance of office leasing was either renewals or space sizes under 5,000 square feet. Rents range from \$1.80 psf FS to \$2.25 psf FS. Laminar Inc leased 5,208 sq ft at 1745 Copperhill Hill Parkway, NV5 Global, Inc expanded their offices by signing for an additional 4,500 sq ft. at 3843 Brickway Blvd.

There were several office building sales, one of which was American Ag Credit purchasing a former building they owned prior to their expansion to 400 Aviation Blvd. Once the lease was executed to the County of Sonoma, American Ag Credit purchased 4841-4845 Old Redwood Highway which is approximately 8,600 sq ft. Another office building sale was to Dh Wine Compliance, which purchased 800 Edgewood Place in Windsor, a 2 story 9,950 sq ft building.

Industrial real estate in the North Santa Rosa Corridor has seen some significant activity over 2024 both positive and negative. Industrial vacancies nearly triple with an increase to 9.1% up from 3.3% in the 4th quarter of 2023. Leasing activity, however, has picked up which should result in significant improvement in 2025. The most significant leases included the lease of the former La Tortilla Factory to One Up Sales and Marketing for a food processing facility at 300 Westwind Blvd. Platt Electric Supply leased 31,626 sq ft at 3541 Regional Parkway, Neilmed leased 27,790 sq ft of a newly constructed spec industrial building at 5496 Skylane Blvd., and Stoesser Industries expanded their operation by leasing an adjacent facility, approx. 18,885 sq ft at 3162 Regional Parkway.

NORTH CORRIDOR/WINDSOR OVERVIEW (cont.)

The most significant sale was the former Syar industrial plant at 13611 and 13666 Healdsburg Ave. which consisted of over 88 acres of industrial zoned land and over 15,000 sq ft of warehouse buildings. This site is the southern gateway into Healdsburg and although it is currently an industrial zoned property it has potential for rezoning to commercial/residential uses in the future.

Another significant sale was 40.57 acres zoned industrial park from Airport Business Center to OSL Properties LLC who is proposing to develop a residential project called Airport Village, a multi-building rental project consisting of approximately 1,400 affordable housing units. Another sale is the commercial fuel depot at 3530 Regional Parkway which is 1.46 acres to the current operator. Platinum Finishing Systems Inc. acquired the former Santa Rosa Stainless Steel facility at 1400 Airport Blvd. - approx. 3.87 acres and 24,279 sq ft of warehouse manufacturing space. Sigal Electric purchased 1911 Airport Blvd., a 27,565 sq ft office/industrial building, to further expand its operations.

It continues to be very challenging to develop new industrial projects due to the cost of new construction and extremely long time periods to process plans through the County planning and permit departments. An ongoing challenge facing new development is the current uncertainty of available electrical power. As PG&E is assessing what is available for new developments, it continues to be unclear as to what service is immediately available or delayed while waiting for PG&E to upgrade the infrastructure to the entire area. PG&E continues to extend the date when the needed infrastructure upgrades will be completed. This is affecting both existing facilities, which need power, and new construction.

Even with this uncertainty, Neilmed expanded their operations by completing a 55,000 sq ft two story industrial facility at 685 Aviation Blvd. and Dermody Properties is under construction of one of the largest spec buildings in our market, a Class A distribution facility of approx. 129,000 sq ft planned for completion in 2025. Rental rates are softening for older established properties but holding firm for new construction with rental rates ranging from a low of \$1.15 psf gross to \$1.25 psf NNN. Industrial Build-to-Suits are becoming less of an opportunity with the lack of available sites in the region.

NORTH CORRIDOR/WINDSOR OVERVIEW (cont.)

A portion of the old Standard Structures property off Shiloh Road in Windsor, which is approximately 45 acres, sold to Brennan Investment Group in 2022. The group plans to build 3 industrial buildings totaling 477,093 sq ft of Class A industrial space and this project is in the permitting stage.

Sonoma County planning department continues to process the Sonoma County Airport Area Specific Plan update which has been delayed but expected to resume processing later this year or possibly in 2026. The update was well underway when it stalled several years ago, and property owners are advised to be part of the process, otherwise it is possible their properties could have important zoning changes which could have negative effects on their current property use as well as long term property values.

The Sonoma County airport continues to increase ridership and destinations. Currently ALASKA AIRLINES has flights to Burbank, Los Angeles, Orange County, Portland, San Diego, and Seattle. AMERICAN AIRLINES has destinations to Dallas and Phoenix, and AVELO AIRLINES has destinations to Burbank, Las Vegas, Palm Springs, and Bend OR.



SANTA ROSA OVERVIEW

By: Dave Peterson



The Santa Rosa Office Market has remained relatively flat over the past 24 months with 2024 Q4 vacancy at 13.5%, 2023 Q4 vacancy at 13.3% and Q4 2022 at 13.6%. Remarkably, this represents a swing of only 3,000sf over a three year period in a market made up of just over 1M square feet. Similarly, the Sonoma County vacancy remained unchanged between 2022 Q4 and 2024 Q4 at 16.1%.

While vacancy percentages have remained flat demonstrating a relatively healthy market, so have the rental rates being achieved on new transactions. The highest quality buildings are priced in the \$1.95-\$2.35psf full service range with Class B office in the \$1.65-\$1.85psf full service range. As in the past, free rent is often used to keep contract rates at a higher level while providing lower “effective” rents from a tenant’s perspective.

Mortgage interest rates have remained stubborn over the past 12 months. We have seen some easing on long term rates, but mortgage rates are typically tied to a lender’s spread above the 10-year treasury. These treasury rates have remained relatively high due to inflationary risks in the overall economy. The results are mortgage rates that are at or more than double those of 2021 leading to reduced demand for owner/user investors of office space.

Historically, lease and purchase demand in Sonoma County has coincided with interest rates where lower rates increase owner/user demand and higher interest rates lead those companies towards leasing their real estate. However, over the past three years of being in a higher interest rate period, we are witnessing something slightly different from past cycles. We are seeing companies continuing to evaluate and implement work structures that are providing more flexibility to their employees via hybrid work models. This is leading to lower lease transaction sizes given many choosing to reduce their office footprints. Overall, this is keeping leasing demand at a lower level than what we normally would have expected during a higher interest rate climate. This downsizing mentality coinciding with the previously mentioned lower owner/user demand has made the overall office market feel a bit quiet.

SANTA ROSA OVERVIEW (cont.)

Going forward, we anticipate the 2025 office market to be similar to the last 24 months. Tenants will likely continue to right size their footprints as their leases expire, but we don't anticipate sublease opportunities to escalate. Furthermore, we believe rents and vacancies are likely to hold at or near current levels. Meanwhile, we have begun to see some consistency in the consumer price index at annualized levels below 3%. While this is still above the Fed benchmark of 2%, we are cautiously optimistic that over the next 12 months it'll lead to lower inflationary concerns, lower 10 year treasury bonds and ultimately lower SBA and bank interest rates. This would all lead to more interest in owner/user purchases and confidence in the overall marketplace.

Most office building rents are at or below levels that we saw 20 years ago. Meanwhile operating expenses have doubled over that same period. In order to remain healthy, the Sonoma County office market needs to see some growth in full service rental rates as increases in expenses and the cost of tenant improvements are eating away at investors' net income. A small up-tick in demand and the dwindling supply of the best quality spaces could be the catalyst that leads the market to a 10%-20% bump in rental rates. This level of increase is needed by the Class A multi-tenant office building investors to be able to absorb the increased operating costs and to stabilize the values of their properties.



ROHNERT PARK/COTATI OVERVIEW

By: Kevin Doran



We are on our way to a slower start in 2025. The markets have not recovered from inflation or higher interest rates, and potential global tariff wars have not helped commercial real estate demand.

The market is relatively flat and is showing signs of reduced demand for most sectors of the market. Again with inflation coupled with higher interest rates, the market continues to soften. This environment will allow more options for tenants and favorable terms for tenants and buyers alike.

Some sectors in the commercial real estate market in the Rohnert Park/Cotati areas are showing modest to flat growth. Leasing activity and occupancy levels continue to remain relatively flat. Vacancy rose throughout 2024. However, the trend of occupants acquiring their own buildings continues to be attractive to owner/users.

Rohnert Park/Cotati sales and rental prices, like many other Sonoma County cities, have been relatively flat and landlord concessions remain steady. 2025 will remain a competitive year for investors for key well-positioned/well-located commercial property investments. The quality of low inventory in the investment market allows key sellers to have the advantage of selling their property in a hot market over many properties. The top property types are multi-tenant industrial or strong retail properties. These will continue to be in low supply and high demand. Multi-family apartments and other housing related properties are still strong, stable investments with low return on investments.

Rents continue to be flat. The market for office rents is in the range of \$1.45 - \$1.90 psf for full service. The rents for industrial space remained flat from \$.90 - \$1.05 to \$1.05 - \$1.25 per square foot. It's a great time for sellers to take advantage of well-located/quality real estate to potentially sell at a high price point.

ROHNERT PARK/COTATI OVERVIEW (cont.)

There were some significant sale transactions in Rohnert Park. Two large projects were sold in the calendar year 2024:

- The Dollar Tree retail building located at 6285 Commerce Boulevard, Rohnert Park sold for \$4,525,000 or \$331 psf. The cap rate was slightly above market at 8.2%.
- Citadel Apartments located at 6500 Country Club Drive sold for \$7,075,000 (\$321,591 per door/unit).
- The Santero Way - Cotati Station Apartments is an apartment development project. The lot size is 2.42 acres and is still under contract to be sold. The list/asking price is \$5,250,000 or \$2,169,421 per acre.

The following are the year-end vacancy rates for the Rohnert Park/Cotati submarket: Retail submarket vacancy rose during 2024, ending the year at 7.4%. Office property vacancy remains high at approximately 24.9%; industrial property vacancy rose to 10.9%.

Demand is still high for smaller industrial incubator units, industrial space ranging between 3,000 and 10,000 square feet, and smaller retail space. Vacancy rates in industrial and retail are firming and remain flat. There will continue to be demand for small industrial units in the near and foreseeable future.

The office market has remained relatively flat and is experiencing minimal positive absorption; the office market will continue to underperform the industrial and retail market due to lack of new jobs coming into this submarket. We will continue to see tenants test the market or exercise other landlords for a flight to new space with more favorable terms.

With the array of opportunities, options, and a positive outlook, Rohnert Park/Cotati is an excellent location to consider for your commercial real estate requirements.



PETALUMA OVERVIEW

By: James Manley



Petaluma's Industrial Market Overview:

Currently, Petaluma has 31 industrial properties available for lease. The market is notably top-heavy, with six properties exceeding 80,000 square feet. These larger properties collectively account for approximately 618,000 square feet, representing about 7.6% of our total industrial base of 5,753,210 $\pm$ square feet. If these spaces were fully leased, the actual industrial vacancy rate would drop to 6.6%, rather than the current 14.2%. Notably, five of the available properties are also for sale, suggesting that owners and brokers may be favoring one option over the other.

In 2024, 14 industrial leases were signed, totaling less than 62,000 square feet. The largest deal was at 2210 Pine View, where 15,580 $\pm$ square feet is being repurposed for a family-oriented recreation concept.

On the sales side, industrial transactions were steady compared to 2023, with six properties closing in 2024. The largest sale was the former Fishman Supply building on Industrial Avenue, which sold for \$219 per square foot (\$5,056,000).

Office Leasing Trends:

Office leasing volume saw a notable increase in 2024, with 52 transactions (including two renewals) compared to 39 in 2023. The majority of these deals were small user leases (10 desks or fewer), indicating optimism for growth over the next three years. The largest office lease was for 15,000 square feet at 860 Lindberg. Despite a slight decrease in prices—necessary to activate demand—office vacancy decreased by 9 basis points, bringing it to 24.1%. Currently, there are 150 office lease opportunities available in Petaluma, with plenty of options to choose from. While the “perfect” space may be rare, the abundance of opportunities increases your chances of finding a good fit.

PETALUMA OVERVIEW (cont.)

Office and Flex Sales Activity:

The volume of office and flex space sales increased in 2024, with 9 closings compared to 7 in 2023. The largest sale was Calvary Chapel's \$8 million purchase of 1650 Corporate Circle (56,500 ± square feet). Several "White Elephant" properties, such as 422 Petaluma Blvd. North and 181 Lynch Creek Way, also sold. This trend signals that buyers are broadening their search criteria, moving beyond specific aesthetics and considering the full range of available properties.

Market-Wide Recovery:

Across the broader market, including retail, office, industrial, medical, and flex spaces, 91 leases were signed in 2024. While the majority of deals were smaller in size, this is consistent with current market trends. We're seeing a clear recovery pattern emerging, though smaller deals continue to dominate.

Looking Ahead:

The 2024 general election cycle may have been contentious, but it didn't trigger a dramatic shift in the economy. While we are still waiting for concrete data on new economic policies, it's clear that the predicted apocalyptic outcomes haven't materialized. It's easy to get caught up in conflicting predictions from pundits, but now is not the time to speculate. The most valuable thing you can do for your peace of mind is to ignore the noise and focus on the opportunities in front of you.

The market is what it is today. As always, there will be fluctuations—ups and downs, rumors of IPOs, and talk of future commodities. But real estate remains one of the few tangible assets that you can actually see and touch. This is the market we have, and it's ripe with opportunity.



MARIN COUNTY OVERVIEW

By: Jeffrey Wilmore



Marin County commercial real estate outlook for 2025 is relatively upbeat, albeit “the glass is half full.” We’re looking at a stronger economy based on most economic indicators. The interest rate cuts, particularly the 50 basis point reduction followed by two smaller cuts, have positively impacted on investor sentiment that the future will be better than it is today. The economy has seen some resiliency as consumers continue to spend and businesses continue to invest. That type of sentiment shift should lead to increased transactions with the realization that the uncertainty in the market is narrowing and should help incentivize investors of commercial real estate to step off the sidelines. Additionally, the election results have created a more optimistic outlook for business overall, with some companies expanding their space requirements. This shift is contributing to greater confidence in the market.

Marin County had a 3.7% unemployment rate in December, the state’s fourth lowest, but decreased from Q3 and Q4 of 2024 by 60 basis points and 120 basis points lower than that of California’s 5.4% unemployment. Marin’s unemployment is headed in the right direction and should continue to fall as the uncertainty of the past several years wears off. Many investors and real estate professionals see a pro-business environment ahead, many economists expect at least three rate cuts in 2025, with the next interest rate cut coming at or before the May 2025 Fed meeting.

The typical Marin office tenant (business) occupies less than 4,000 square feet, in an office market composed of 7,070,020 square feet where the current vacancy rate hovers around 21%. This vacancy rate is pending on how you calculate direct and sublease office space and if the office space is vacant, and up for sublease, but the tenant is still paying rent, it’s vacant, but generating revenue for the landlord at the same time. There is not a set standard between brokerages on what determines true vacancy. So, market observations can be varied.

MARIN COUNTY OVERVIEW (cont.)

Companies are experiencing an interesting challenge as office utilization is starting to shift from the hybrid working environment created by the pandemic. In a hybrid model, teams are scheduled to come into the office only on selected days a week, which means the office environment needs to be redesigned to not only optimize operational costs but also maximize on site productivity and proficiency. Many employers are wanting their employees to come back into the office on a traditional basis, which is getting resistance. The hybrid work model, where 63% of high growth companies have adopted hybrid work models and 83% of those employees say they fare better in a hybrid work environment that deliver both on-site and remote working conditions, according to Accenture. This challenge also pertains to how much office space the company needs to lease which at the same time affects the landlords. Companies, by embracing this new way of working, have more flexibility to scale and can potentially reduce real estate and operating costs by up to 50%, a double edged sword.

Marin County, with more smaller companies and smaller offices, is not as affected by the hybrid work environment as larger cities, like San Francisco across the Bay, which posted an office vacancy of almost 30%. The downsizing of Marin County companies using the hybrid work model will still be a concern for landlords and may create office vacancy in 2025.

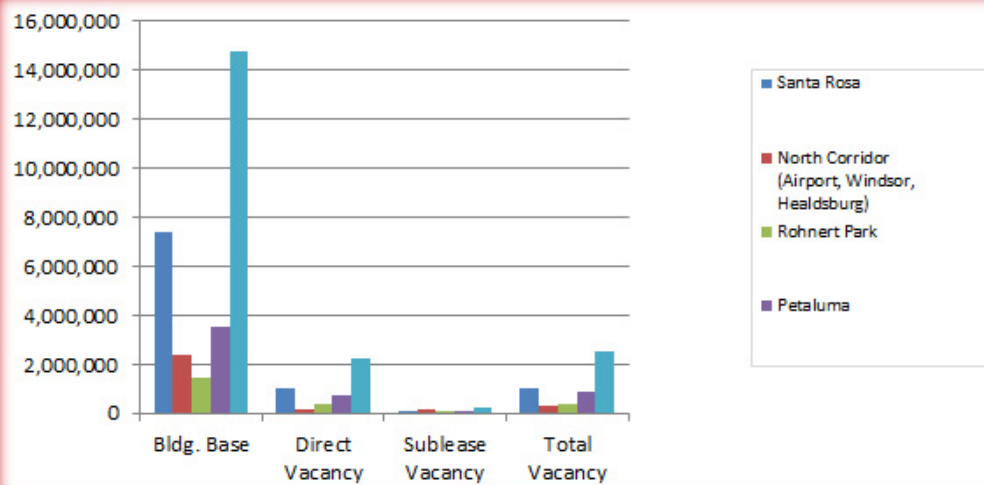
The San Francisco office market is rising from the bottom; the total number of office buildings sold in downtown San Francisco in 2024 doubled the total for the previous two years combined. Granted, most of the deals were bargain basement prices, but the pricing average is heading up. The average office deal was \$310 per square foot, up from \$253 in 2023. Before the pandemic, 25 downtown office buildings were sold in 2018 in San Francisco for an average of \$861 per square foot. This is another indication the market in general is heading in the right direction.

So, “the glass is half full,” with the combination of a stronger economy, a pro-business environment ahead, mixed with uncertain working condition, the commercial real estate market has its challenges, but with Marin County’s entrepreneur spirit, it will prevail and outperform others California counties and as a result, a decrease in office vacancy in 2025.

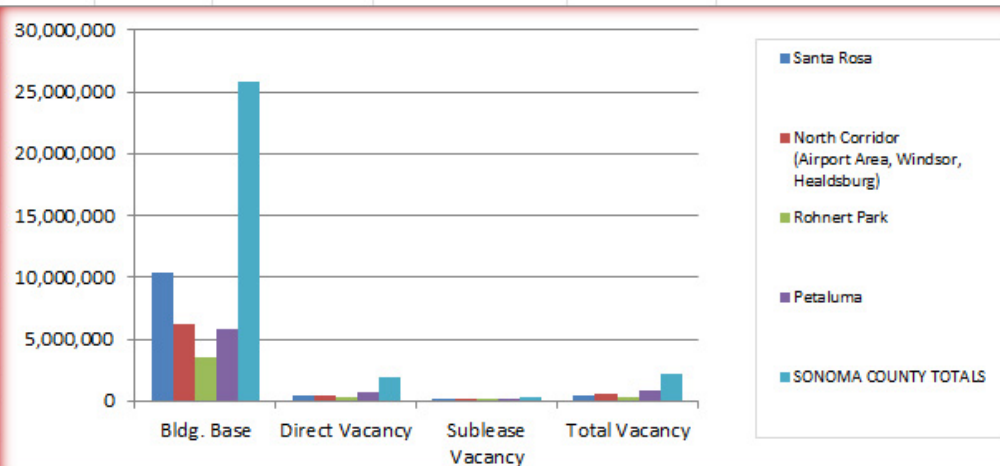
MARKET TRENDS

Sonoma County

SUBMARKET	AVAILABLE SPACE-OFFICE				BUILDINGS PLANNED (Sq. Ft.)	VACANCY RATE
	Bldg. Base	Direct Vacancy	Sublease Vacancy	Total Vacancy		
Santa Rosa	7,416,352	997,607	3,401	1,001,008	0	13.5%
North Corridor (Airport, Windsor, Healdsburg)	2,356,506	140,196	139,035	279,231	90,343	11.8%
Rohnert Park	1,470,355	361,782	3,915	365,697	0	24.9%
Petaluma	3,538,962	772,763	80,982	853,745	38,904	24.1%
SONOMA COUNTY TOTALS	14,782,175	2,272,348	227,333	2,499,681	129,247	16.9%



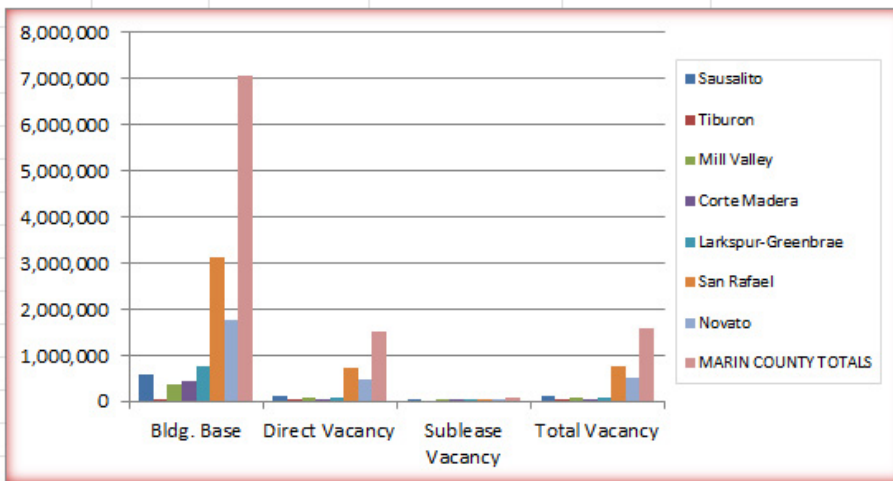
SUBMARKET	AVAILABLE SPACE-INDUSTRIAL				BUILDINGS PLANNED (Sq. Ft.)	VACANCY RATE
	Bldg. Base	Direct Vacancy	Sublease Vacancy	Total Vacancy		
Santa Rosa	10,382,781	447,925	23,757	471,682	276,644	4.5%
North Corridor (Airport Area, Windsor, Healdsburg)	6,259,865	496,058	74,600	570,658	292,000	9.1%
Rohnert Park	3,483,026	370,251	8,000	378,251	179,792	10.9%
Petaluma	5,753,210	674,760	140,138	814,898	0	14.2%
SONOMA COUNTY TOTALS	25,878,882	1,988,994	246,495	2,235,489	748,436	8.6%



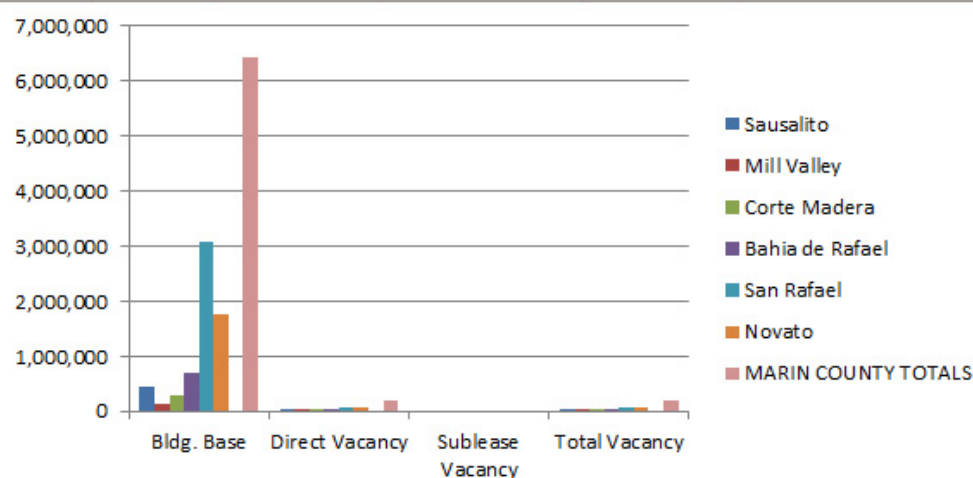
MARKET TRENDS

Marin County

SUBMARKET	AVAILABLE SPACE-OFFICE				BUILDINGS PLANNED	VACANCY RATE
	Bldg. Base	Direct Vacancy	Sublease Vacancy	Total Vacancy		
Sausalito	576,196	116,790	13,743	130,533	0	22.7%
Tiburon	31,993	4,186	0	4,186	0	13.1%
Mill Valley	375,272	67,213	2,540	69,753	0	18.6%
Corte Madera	434,187	43,450	801	44,251	0	10.2%
Larkspur-Greenbrae	759,950	72,207	17,284	89,491	0	11.8%
San Rafael	3,122,372	713,342	37,739	751,081	0	24.1%
Novato	1,770,050	492,760	17,150	509,910	0	28.8%
MARIN COUNTY TOTALS	7,070,020	1,509,948	89,257	1,599,205	0	22.6%



SUBMARKET	AVAILABLE SPACE				BUILDINGS PLANNED	VACANCY RATE
	Bldg. Base	Direct Vacancy	Sublease Vacancy	Total Vacancy		
Sausalito	455,000	8,091	0	8,091	0	1.8%
Mill Valley	126,000	3,012	0	3,012	0	2.4%
Corte Madera	295,500	1,040	0	1,040	0	0.4%
Bahia de Rafael	698,000	48,927	0	48,927	0	7.0%
San Rafael	3,091,188	74,374	0	74,374	0	2.4%
Novato	1,778,659	75,172	0	75,172	0	4.2%
MARIN COUNTY TOTALS	6,444,347	210,616	0	210,616	0	3.3%



DEMOGRAPHICS

SONOMA COUNTY

POPULATION: 478,152
UNEMPLOYMENT RATE: 4.0%

MAJOR EMPLOYERS:

Kaiser Permanente
Providence – Sonoma County
Amy's Kitchen
Oliver's Market
Redwood Credit Union
Hansel Auto Group
Ghilotti Construction Company Inc.
Jackson Family Wines
Friedman's Home Improvement
Exchange Bank

MARIN COUNTY

POPULATION: 252,844
UNEMPLOYMENT RATE: 3.5%

MAJOR EMPLOYERS:

MarinHealth Medical Center
Kaiser Permanente San Rafael
Marin Community Clinics
Novato Community Hospital
Ghilotti Bros, Inc.
Community Action Marin
Dominican University of California
Mollie Stones Market
W. Bradley Electric LLC
Vivalon