SUMMER NEWSLETTER 2026

Insights & **Perspectives**

Information on today's economic landscape and commercial real estate trends, paired with insights from our leadership and stories from clients we're proud to serve.

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A Message From Tim

Tim Myers
President & CEO

At Bank of Marin, we believe strong relationships are built on trust, knowledge, and a shared understanding of the opportunities and challenges facing our communities. That's why we're pleased to bring you the Summer 2026 edition of *Insights & Perspectives*, featuring economic analysis, local market insights, and stories of the entrepreneurs and businesses that help our communities thrive.

In this edition, we share an economic and market outlook from Dr. Sanjay Varshney, founder and principal of Goldenstone Wealth LLC and professor of finance at Sacramento State, who explores the resilience of the U.S. economy, evolving inflation and interest rate expectations, and the continued influence of artificial intelligence on financial markets. He also offers perspective on what investors may expect during the second half of the year, including opportunities and challenges facing the North Bay and Greater Sacramento regions.

Vesa Becam and Matt Storms, partners and broker associates with Keegan & Coppin Company, Inc., take a deep dive into the Marin County commercial real estate market. Their report highlights key trends across office, retail, industrial, and residential development sectors that are helping shape the county's future.

Additionally, we spotlight one of our valued clients, Roy Fong, founder of Imperial Tea Court. His story is one of perseverance, entrepreneurship, and lifelong learning, from immigrating to the United States to building a beloved Bay Area business and growing a successful real estate investment portfolio. Roy's journey reflects the power of strong relationships, hard work, and community—values we proudly share at Bank of Marin.

Finally, I invite you to explore our redesigned website, bankofmarin.com, which features expanded content, including Regional Spotlights and Community pages, as well as access to our Client Resources page.

Thank you for trusting Bank of Marin as your financial partner. We are honored to support your success and look forward to helping you navigate opportunities, challenges, and growth in the months ahead.

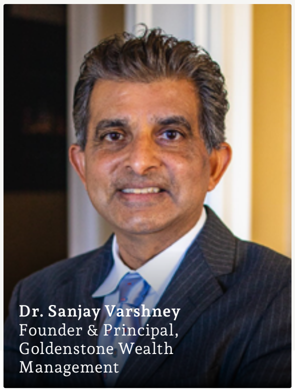
Warm regards,

Tim Myers
President & CEO
Bank of Marin

NEXT ECONOMIC OUTLOOK →

ECONOMIC OUTLOOK

Economy Stays Resilient in the Face of Challenges



Dr. Sanjay Varshney
Founder & Principal,
Goldenstone Wealth
Management

Second quarter real GDP growth surprised to the downside at 1.5%, after growing at 2.1% in the first quarter of this year. Growth was primarily boosted by capital and business investment and consumer spending but weakened by higher capital goods imports.

The economy seems to face a stubborn inflation problem with continued higher input costs, higher energy prices, and a capex boom. The Federal Reserve has a new chair, Kevin Warsh, who has reaffirmed the Fed's 2% inflation target. The year began with expectations of further rate cuts, but the sentiment quickly changed to maintaining the status quo, or perhaps even a rate hike. The labor market has surprised to the upside with job creation staying impressive despite AI related disruptions. Contrary to earlier fears, recent data suggests companies that adopt AI are seeing both productivity gains as well as additional job creation.

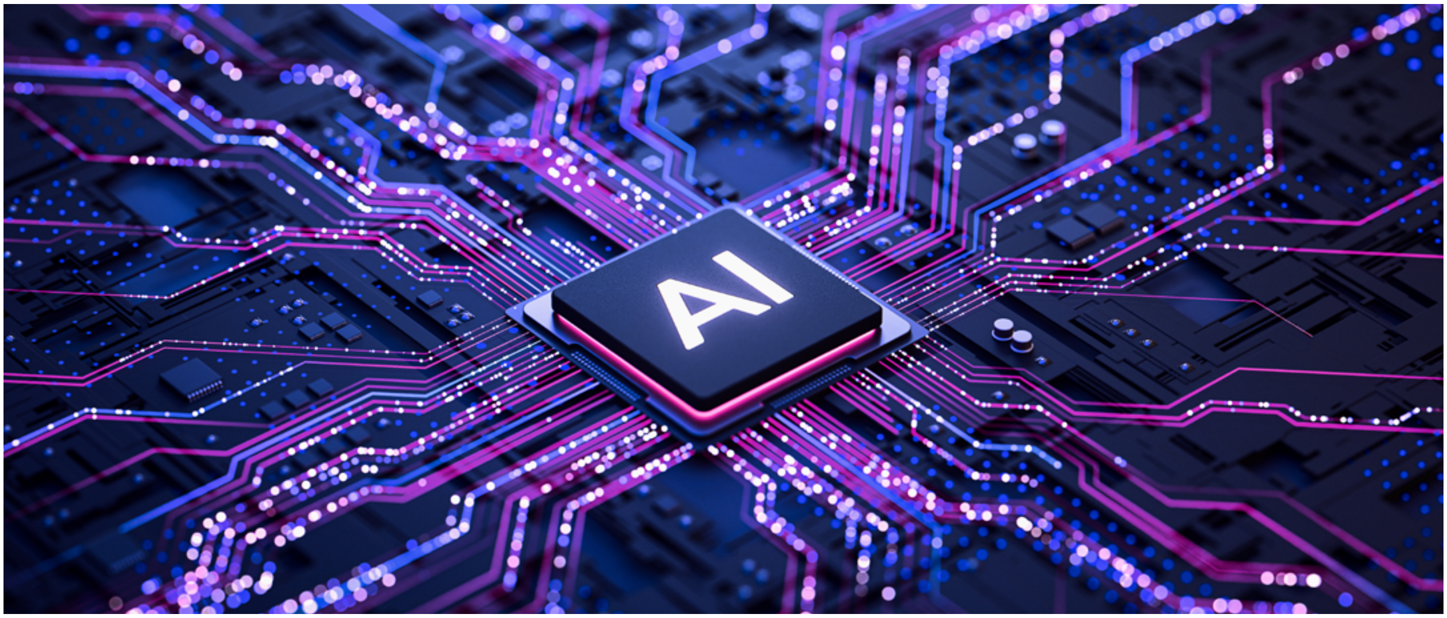
Renewed conflict between the U.S. and Iran resurfaced the same headlines and concerns from earlier in the year, as uncertainty around the Strait of Hormuz once again raised the risk of reduced oil supply. The conflict's status remains fluid and the situation matters for the same reason it did the first time around: energy prices feed directly into inflation, and inflation impacts Federal Reserve policy.

MARKETS ARE HEALTHY AND HIGHER AMIDST MAJOR ROTATION

Global markets rallied in the second quarter, powered by the AI and chip trade. The US stock market started the year on a negative note and high volatility but rallied back strongly in the second quarter with Energy, Industrials, Technology, and Real Estate leading the way as the best sectors. This may finally be the year that small-caps and emerging markets pay off after several years of relative underperformance. We saw a very healthy broadening out of the markets with good performance extending across the board.

AI Stocks traded lower as investors shifted focus from growth to discipline. Second quarter earnings season kicked off in July, with leading AI companies Alphabet, Microsoft, Meta, Apple, and Amazon all reporting.

The group, which is investing heavily in data centers and other AI-related infrastructure, talked about their forecasts and spending plans. For the past two years, the conversation around AI centered on scale. Investors focused on how much companies were spending, how fast they were building, and how big the opportunity could become. This quarter, there was a noticeable shift toward profitability and return on investment.



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Companies whose investments are translating into growth, like Microsoft's cloud business, were rewarded, while others, whose spending has outpaced their cash flow or weighed on profit margins, saw their stocks trade lower. The market is no longer simply rewarding growth and big spending numbers. It's asking whether the spending is profitable, or whether rising expenses are outpacing revenue growth. This is a natural and, in many ways, healthy form of discipline. Every major technological buildout eventually reaches a point where investors stop rewarding growth alone and start looking for it to be matched by results.

Semiconductor stocks, along with other parts of the AI trade, gave back some of their gains from earlier in the year as investors questioned the sustainability of current spending levels. Despite the semiconductor and AI selloff, the volatility was relatively contained. Even after the pullback, semiconductor stocks are still up nearly +60% year-to-date. As for the companies doing the spending, they forecast even higher spending levels in the coming quarters.

SECOND HALF OUTLOOK LOOKS CONSTRUCTIVE AND ENCOURAGING

- Mid-term election years tend to be lack luster – and the second half may bring more uncertainty, volatility, and shifting policy expectations.
- Economic resilience will continue to surprise on the upside, and attention will shift from interest rates and monetary policy to fiscal policy and discipline along with policy issues at the center of the elections.
- The momentum behind the AI trade will continue, and corporate earnings will remain strong and surprise on the upside.
- Long term bond yields have risen sharply due to inflation, capex spending, and fiscal deficit expectations. They should settle close to current levels keeping the yield curve normalized.
- California's economy will remain moderate but below trend and avoid significant fiscal challenges, primarily due to a buoyant stock market and resulting capital gains tax revenue. The strength in AI and technology concentration will offset weakness in manufacturing and commercial real estate.
- The North Bay economy will continue to see resilient residential real estate, stable economic growth from professional services, and a recovery in tourism and hospitality.

SACRAMENTO OUTLOOK: MODEST GROWTH, UNEVEN CONDITIONS

Sacramento's economy is expected to post modest growth in 2026, with employment increasing by less than 1% and unemployment averaging around 5%. While downsizing by major employers such as Intel continues to weigh on the labor market, the region is benefiting from steady job gains in private education and health services, as well as leisure and hospitality.

Economic conditions remain uneven across sectors. Housing affordability challenges and broader economic uncertainty continue to constrain the residential real estate market. In commercial real estate, the industrial sector has moderated following several years of exceptional growth, with softer leasing activity and slower construction levels. The office market, however, is beginning to show signs of improvement as state government return-to-office policies generate renewed demand and increased market activity.

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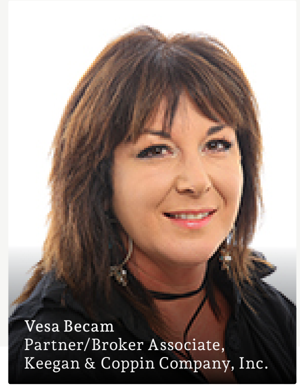
NEXT COMMERCIAL REAL ESTATE →

Marin County Commercial Real Estate: Stability, Demand, and Transformation



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The Marin County commercial real estate market has long been a safe haven, insulated from the vagaries of many other markets, bolstered by its demographics, healthy and educated workforce, and underlying financial strength.

Traditional constraints on development have ensured reliable long-term appreciation and secure income potential for investors. The market reflects the county as a whole, with a dynamic economy, stability, and an atmosphere of innovation. While broader market trends have had an impact on both leasing and sales, Marin County remains a good place to do business and to plan for the future.

LEASING: QUALITY AND LIFESTYLE

Commercial leasing in Marin County demonstrates the value of quality properties and locations.

Office lease rates remain robustly high in the best locations, in proximity to desirable amenities, especially for spaces under 5,000 square feet. Of a total of approximately 500 leases signed within the past 12 months, only 53 were for spaces over 2,500 square feet. Of the larger leases, almost 60% were in Class A or B buildings (Source: CoStar).

The changing demographics of the county, with the growth of the population over age 65 outpacing all other age categories (Source: Marin Independent Journal, July 8, 2025, "Bay Area Data: Seniors' Population Growth Outpaces Other Groups"), has had a clear impact on the county's tenant landscape. The growth of healthcare and wellness services is a direct response to the demands of an aging but highly health-conscious population. Healthcare and wellness businesses dominate office tenant demand, with professional services a close second.

The most successful properties, commanding record-breaking rents, feature contemporary common areas and fresh finishes. Office leasing in peripheral areas or obsolete buildings tends to be more challenging; however, the market is on the cusp of a renaissance, with the reimagination of suburban spaces and the conversion of problematic office projects to residential developments. As less successful office projects are culled from the inventory, creating opportunity for a new suburban landscape, the more desirable office properties will continue to satisfy the changing workplace.

The Marin County retail leasing market is vigorous, with an overall vacancy rate of only 4.5%. There is a disproportionate amount of demand from wellness and fitness tenants. Whether they offer yoga, Pilates, red light therapy, saunas, ice baths, IV treatments, or medical esthetics, these types of tenants continue to be highly active in the market, responding to the demands of an ever more health-conscious population.

A cursory glance at any local shopping center's tenant mix paints a telling picture. At Strawberry Village, for example, traditional retail and restaurant spaces have been converted to fitness and healthcare uses, with a Hydration Room, Club Pilates, Hot Yoga Republic, IVX, Barry's Bootcamp, and even an animal dental clinic replacing traditional retail and restaurant uses, all within the past 12 months or so.

At the same time, new restaurant concepts are flourishing throughout the county, contributing to quality of life and bolstering the local economy.

Finally, the strong industrial leasing market, with a vacancy standing at 3.3%, is largely a function of limited supply. Small light industrial units are being absorbed at a brisk pace. Units under 2,500 square feet are leasing at close to $24.00 per square foot (PSF), with their time on the market measured in mere weeks. Small businesses compete with local storage needs to create exceptionally strong demand.

> In all product types, the trends point toward location, quality, compactness, and the reimagination of places for both work and recreation.

SALES: OPPORTUNITY KNOCKS

The trends revealed in the leasing landscape are further reinforced in sales transactions throughout the county. Iconic properties in the most desirable locations continue to be in demand, with the majority of transactions taking place along the Highway 101 corridor between San Rafael and Sausalito (Source: CoStar).

Of these, there is a preponderance of mid-sized sales. While several notable transactions took place over the course of the past year, such as the sale of 2 and 18 Bon Air Road to Anchor Healthcare for $24,000,000 and the sale of the Novato Birkenstock campus for $36,000,000, the vast majority of sales in the county, 70% of total transactions, were for properties under $5,000,000, with the largest share occurring in the $1,500,000 to $4,900,000 range.

Many of these sales were part of the normal ebb and flow of property acquisition, but some sellers decided to exit the market because

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of inflation or interest rate concerns, creating opportunities for nimble investors. Private investors comprised 62% of buyers and 60% of sellers, while users comprised 35% of both buyers and sellers, indicating a locally engaged and focused pool of market participants.

While private investors and users dominate the county's sales transactions, new dynamics are emerging, spurred by state housing mandates that allow for greater development density and encourage conversion of commercial sites to residential developments. Properties that satisfy the requirements of multifamily developers are seeing high demand. While it remains to be seen how many planned projects reach fruition, it is undeniable that these redevelopments will change the physical landscape and commercial real estate market in the coming years.

RESIDENTIAL DEVELOPMENTS: A POSSIBLE SEA CHANGE

The North Bay has long had a reputation as one of California's most difficult regions for meaningful residential development. Restrictive zoning, complicated entitlement processes, community pushback, and a general sentiment toward slow growth have all contributed.

This is changing, primarily because of state legislation requiring municipalities to comply with new housing quotas. Bills such as SB 330, SB 79, and the Builder's Remedy streamline and significantly limit local control over the entitlement process. Every city has had to revise its General Plan and incorporate a new Housing Element in compliance with state mandates, while identifying sites suitable for redevelopment.

In San Rafael, for example, the rezoning of the downtown commercial districts assigns a housing density coefficient to every parcel, replacing historic General Commercial, Office, and other zoning designations. Every town and city in the North Bay will witness its share of growing pains and controversy, but the amount of new housing entitlement activity, particularly in Marin County, is something the community has not witnessed for generations.

The number of proposed and approved developments is almost too many to list, but a few examples illustrate the trend. Sausalito has a proposed 65-foot residential tower downtown on Princess Street, as well as a six-story, 294-unit apartment project at 1 Harbor Drive. Mill Valley has the redevelopment of the 127-acre Seminary property in Strawberry, which will result in hundreds of new housing units. Corte Madera has the redevelopment of the Best Western hotel into a 150-unit senior living facility, as well as a planned 99-unit affordable housing project at 240 Tamal Vista. Fairfax has a 243-unit apartment project in the works. The list goes on.

Marin's two largest municipalities, Novato and San Rafael, will see the greatest concentration of planned housing projects. Many of these are redevelopments of former office and retail properties. The presence of large cranes already visible in downtown San Rafael offers a glimpse of what is to come.

Novato has more than 2,100 residential units either approved, under construction, or in the entitlement phase. These units consist of a mix of apartment buildings, condominium projects, single-family homes, and assisted living facilities. The most notable is the redevelopment of the former Fireman's Fund campus in San Marin, whose transformation is progressing at a rapid pace.

Of all municipalities, San Rafael may witness the largest expansion of housing in the North Bay, with more than 3,500 residential units in the pipeline. The redevelopment of the former Northgate Shopping Center promises to add more than 1,400 residential units surrounding a central open space and complemented by community-serving retail uses.

There are at least nine projects in the downtown San Rafael core that are either approved, in the entitlement process, or under construction. If all of those projects are built, downtown San Rafael will add more than 1,700 housing units, consisting of apartments, condominiums, and senior housing. The density and visual impact of these multi-story structures will transform the community.

> The 17-story project at 700 Irwin, approved by the City Council in February 2026, and the proposed 24-story tower at 924 3rd Street are of a scale that could fundamentally alter the cityscape.

Time will tell how this all plays out. Economic and political conditions, construction costs, and market fluctuations will determine when and how many of these projects come to fruition. One thing is certain, however: the North Bay's housing stock is poised to increase over the next several years at a pace not seen in decades, creating new opportunities and dynamics throughout the region.

Market Report Links
Sale Comps Map Overview
Q2 2025 to 2026 Marin Industrial Vacancy Graph
Q2 2026 Marin Industrial Vacancy Graph

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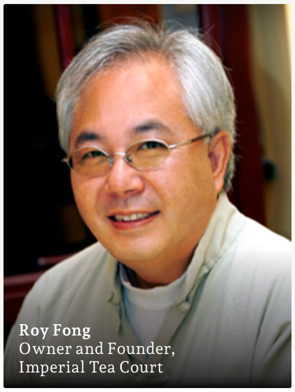
NEXT CLIENT SPOTLIGHT

CLIENT SPOTLIGHT

For the Love of Tea: Roy Fong and a Lifetime of Passion and Purpose



Roy Fong
Owner and Founder,
Imperial Tea Court

When you talk with Roy Fong, you cannot help but be inspired by his positive energy, entrepreneurial spirit, and optimistic outlook.

As the founder of Imperial Tea Court in San Francisco, the first traditional Chinese teahouse in the United States, Roy has spent decades building successful ventures, pursuing new opportunities, and cultivating relationships rooted in trust.

One of those relationships is with Bank of Marin.

"From my experience, being successful in life and business is all about working well with people and learning who you can trust," says Roy. "I've always appreciated working with people who are honest, responsive, and committed to finding solutions. That's what I've experienced with Bank of Marin over the years."

Roy's journey to becoming what he affectionately calls a "crazy tea person" reads like a movie script.

At age 13, Roy and his family immigrated to San Francisco from Hong Kong. His early years in the Bay Area were spent learning English, attending school, and working hard at a variety of jobs. He delivered newspapers, worked in construction, and eventually became a mechanic before managing an auto towing and repair business.

Those experiences taught him the value of discipline, resilience, and hard work, lessons that would shape the rest of his life.

A trip back to Hong Kong at age 21 introduced Roy to what would become a lifelong passion. Drawn into a traditional tea shop by the aroma of oolong tea, he instantly fell in love with tea.

Back in San Francisco, Roy immersed himself in learning everything he could about tea. He began importing rare teas and supplying local dim sum restaurants before opening the first Imperial Tea Court location in Chinatown with his wife, Grace, on July 4, 1993.

"Given it was a big holiday and a day off for most people, I figured we would get some business, which we did," Roy recalls. "But the next day we only had one customer who spent three dollars. It took a lot of time and perseverance to build our company into a thriving business."

His commitment paid off. Over the years, Imperial Tea Court became a destination for tea enthusiasts throughout the Bay Area and beyond, introducing generations of customers to the traditions and artistry of fine Chinese tea.

Today, Roy and Grace no longer work around the clock as they once did, and the business has become a true family endeavor. One daughter manages the family's Imperial Tea Court location in San Francisco's Ferry Building, while the other helps lead the San Francisco International Tea Festival, founded by Imperial Tea Court in 2012. Together, they carry forward the vision, traditions, and entrepreneurial spirit that Roy and Grace have cultivated for more than three decades.

Looking back, Roy sees the business as more than a successful company. It's a reflection of the life he and Grace have built together.

"We've lived the American dream," Roy says. "Both of our daughters graduated from college and now have successful careers and own their own homes. We are so proud and grateful for all that we have."

Throughout his career, Roy has embraced new opportunities. In addition to growing Imperial Tea Court and supporting his family's continued involvement in the business, he has spent the past 15 years building a portfolio of Bay Area real estate investments.

Along the way, he developed a relationship with Bank of Marin's commercial banking team, including Vice President and Relationship Manager Pat Collins in the Bank's Oakland Commercial Banking Office.

"I greatly value a strong work ethic and attention to detail," says Roy. "Pat stays engaged throughout the process, follows through on commitments, and makes sure things are handled efficiently and correctly. That level of accountability gives me confidence."

For Roy, that experience reflects the broader relationship he has built with Bank of Marin through the years.

"When you're evaluating opportunities and growing your investments, you need people you can count on," he says. "That's what I've found at Bank of Marin."

Whether building a business, investing in real estate, or supporting the next generation of his family, Roy believes lasting success is built on trust.

"I am all about looking people in the eye and building trust," Roy says.

"Relationships are built over time through consistency and follow-through. Over the years, as I've pursued different opportunities and investments, Bank of Marin has been there when I've needed them, and that has made a difference."

Imperial Tea Court
experience the tradition...

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