

# MARKETBEAT

## North Bay

### Office Q3 2019



#### NORTH BAY OFFICE

##### Economic Indicators\*

	Q3 18	Q3 19	12-Month Forecast
North Bay Employment	326K	332K	▲
North Bay Unemployment	2.6%	2.6%	▲
U.S. Unemployment	3.8%	3.7%	▲

\*2019 Q3 data are based on latest available data  
Source: BLS, Moody's Analytics, C&W Research

##### Market Indicators

	Q3 18	**Q3 19	12-Month Forecast
Overall Vacancy	8.3%	9.1%	▲
Overall Net Absorption (SF)	-129K	-58K	■
Under Construction (SF)	0k	52k	■
Average Asking Rent*	\$2.57	\$2.61	▲

\*Rental rates reflect full service asking \$PSF/month  
\*\*These values are not reflective of the U.S. MarketBeat Tables

##### Overall Net Absorption/Asking Rent (Full Service)



##### Overall Vacancy



## Mixed Bag in the Third Quarter

The North Bay, comprised of Marin and Sonoma counties, continued strong employment growth, adding 5,700 non-farm payroll positions year-over-year (YOY) taking the total figure to 332,000 jobs at the end of the third quarter. The unemployment rate remained flat at 2.6% YOY, 110 basis points (bps) below the national average. Despite growing uncertainty in the global economy, the North Bay and markets across the Bay Area, continued to record some of the lowest unemployment rates in the country.

With workers in short supply, employers are increasingly relying on quality office space and amenities to attract and retain talent. Those items, along with a reasonable commute time, all factor into an employee's decision making. The result has been lower vacancy and rising rents for top-tier, centrally located office product. However, while some submarkets are flourishing, the vacancy rate is starting to tick up in secondary markets where large floor plates are coming to market faster than they lease up.

The North Bay office vacancy rate recorded a modest increase in the third quarter, closing at 9.1%, an increase of 20 bps over the second quarter and 80 bps YOY. Leasing activity was down for this quarter in most submarkets. However, this can largely be attributed to a "summer slowdown" that has come to be expected each year. While this slowdown is not unique to the North Bay, it was compounded this quarter by several large availabilities coming to market.

The North Bay is a predominantly small and middle size tenant market, driven by a strong base of professional services companies, with larger occupiers entering the market less frequently. The result is two increasingly different markets, based on the size of space. Submarkets that cater to smaller tenants have seen the lowest vacancy and highest asking rates. Central Marin, made up of Corte Madera, Larkspur, and Greenbrae had no single availability over 7,500 square feet (sf) and a vacancy rate of just 6.2%. It also had the highest asking rent in the market, \$5.41 per square foot (psf) on a full-service basis. Conversely, Northern Marin, comprised of Novato and San Rafael, has been unable to drop below 10% vacancy since 2017 due to a lingering supply of large floor plates. In the third quarter, a new sublease in the Hamilton Landing project put 29,000 sf back on the market and contributed to the 41,073 sf of negative net absorption seen this quarter in Northern Marin. Despite this new availability, year to date (YTD) net absorption in Marin remained positive.

Sonoma County, Petaluma in particular, has seen vacancy rise in 2019 as more large blocks of space hit the market than can be absorbed. Petaluma has some of the highest quality space in the county, but it mostly exists across large floor plates in office parks built in the early 2000's, when the region was a hot bed of technology and telecom companies.

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After experiencing vacancy rates over 30% in the recent recession, office space was steadily absorbed over the 10-year expansion period, bringing vacancy to a historic low of 8.2% in the fourth quarter of 2018. However, in the three quarters since, Petaluma has seen approximately 130,000 sf of negative net absorption. This has been a gradual process, with one or two large spaces coming to market each quarter but the result is a 12.8% vacancy rate. Landlords must now wait and see if the value and quality of the space is enough to draw large tenants from markets where the cost per square foot (psf) can be higher by several multiples.

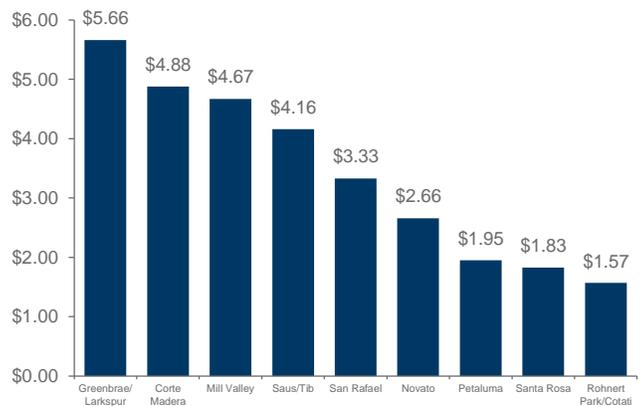
### Coworking companies are changing tenants' expectations of what an office space looks like...

While vacancy ticked up this quarter, so too did asking rents. Overall, full service asking rents in the North Bay increased \$0.10 psf over the previous quarter to \$2.61. Marin continued to be the driving force behind this gain as rates hit an all-time high of \$3.40 psf, a 3.0% increase from the second quarter. Comparatively, asking rents in Sonoma grew a modest 1.7% to \$1.81 psf over the same period. Occupiers throughout Marin are proving that they are willing to spend more to be in the quality spaces and landlords have taken notice. From Sausalito to Novato, ownership groups have recognized that higher asking rates allow them to better position a space or property for success. It allows them to build out move-in ready suites, renovate common areas, and provide the amenities that office workers have come to expect. Even long vacant spaces have recorded rising asking rates in recent months because the higher rent allows for better buildouts, making the spaces more competitive in the market. Coworking companies are changing tenants' expectations of what an office looks like and price is no longer the top consideration for a growing segment of users. As a result, we anticipate asking rates to continue to climb as capital flows into existing product to meet modern demands. Price sensitive tenants will likely be pushed North, where Novato and much of Sonoma county can still provide quality office space for half the price of nearby markets to the South.

### Outlook

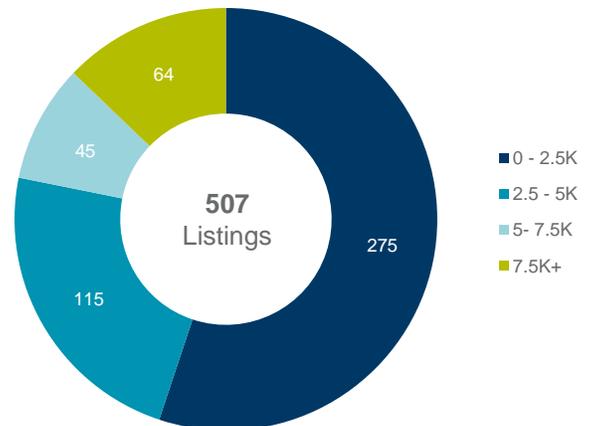
- Vacancy is currently 9.1% and expected to increase modestly as large spaces struggle to lease
- Overall rents stand at \$2.61 and are forecast to continue their increase as tenants demand higher quality
- Landlord investment is expected to remain strong as long as rents have room to grow

Average Asking Rate by Submarket (Full Service)



Availabilities by Size Segment

MARKET DOMINATED BY SMALLER BLOCKS



Average Asking Rate by Class (Full Service)

CLASS A RENTS CONTINUE TO CLIMB



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	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTR	AVERAGE ASKING RENT (All Classes)	AVERAGE ASKING RENT (Class A)
<b>Submarket</b>									
Sausalito/Tiburon	794,661	39,384	56,011	12.0%	-4,377	-10,168	12,517	\$4.16	\$4.24
Mill Valley	453,267	3,411	19,888	5.1%	-4,021	11,956	0	\$4.67	\$4.63
Southern Marin County	1,247,928	42,795	75,899	9.5%	-8,398	1,788	12,517	\$4.26	\$4.32
Corte Madera	467,301	0	27,289	5.8%	-2,653	-9,075	0	\$4.88	\$5.39
Greenbrae/Larkspur	932,945	12,159	47,297	6.4%	-13,787	-11,317	0	\$5.66	\$5.53
Central Marin County	1,400,246	12,927	74,586	6.2%	-16,440	-20,392	0	\$5.41	\$5.49
San Rafael	4,603,335	19,766	492,639	11.1%	5,242	10,484	17,000	\$3.33	\$3.59
Novato	2,847,776	43,336	282,360	11.4%	-46,315	17,362	21,908	\$2.66	\$2.73
Northern Marin County	7,451,111	63,102	774,999	11.2%	-41,073	27,846	38,908	\$3.07	\$3.20
<b>Marin County Total</b>	<b>10,099,285</b>	<b>118,056</b>	<b>925,484</b>	<b>10.3%</b>	<b>-65,911</b>	<b>9,242</b>	<b>51,425</b>	<b>\$3.40</b>	<b>\$3.50</b>
Petaluma	2,834,476	75,579	286,837	12.8%	-31,311	-128,748	0	\$1.95	\$2.11
Rohnert Park/Cotati	1,946,153	2,019	248,693	12.9%	23,997	-63,958	0	\$1.57	N/A
Santa Rosa	7,885,810	37,756	382,904	5.3%	15,111	-45,581	0	\$1.83	\$1.96
<b>Sonoma County Total</b>	<b>12,666,439</b>	<b>115,354</b>	<b>918,434</b>	<b>8.2%</b>	<b>7,797</b>	<b>-238,287</b>	<b>0</b>	<b>\$1.81</b>	<b>\$2.04</b>
<b>Class Breakdown</b>									
Class A	7,856,316	168,565	845,726	12.9%	-27,596	-38,520	51,425	\$3.09	
Class B	13,150,386	69,866	1,021,811	8.3%	-64,918	-228,805	0	\$2.05	
<b>Total</b>	<b>22,765,724</b>	<b>233,410</b>	<b>1,843,918</b>	<b>9.1%</b>	<b>-58,114</b>	<b>-229,045</b>	<b>51,425</b>	<b>\$2.61</b>	

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### Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
200 Smith Ranch Road	40,342	FICO	Pell Development	Renewal	San Rafael
28 Liberty Ship Way	9,348	Southern Marin Fire District	Kimber Management Company	New Lease	Sausalito

### Key Sale Transactions Q3 2019

PROPERTY	SF	BUYER	SELLER	SALE PRICE / \$PSF	MARKET
1 & 2 Belvedere Place	104,000	GTIS Partners	SKB Companies	\$67,063,000 / \$645	Mill Valley
201 Alameda Del Prado	32,353	Gary Willard	Basin Street Properties	\$8,700,000 / \$269	Novato
1099 D Street	27,556	PFI Incorporated	Theodore Kniesche	\$11,000,000 / \$399	San Rafael

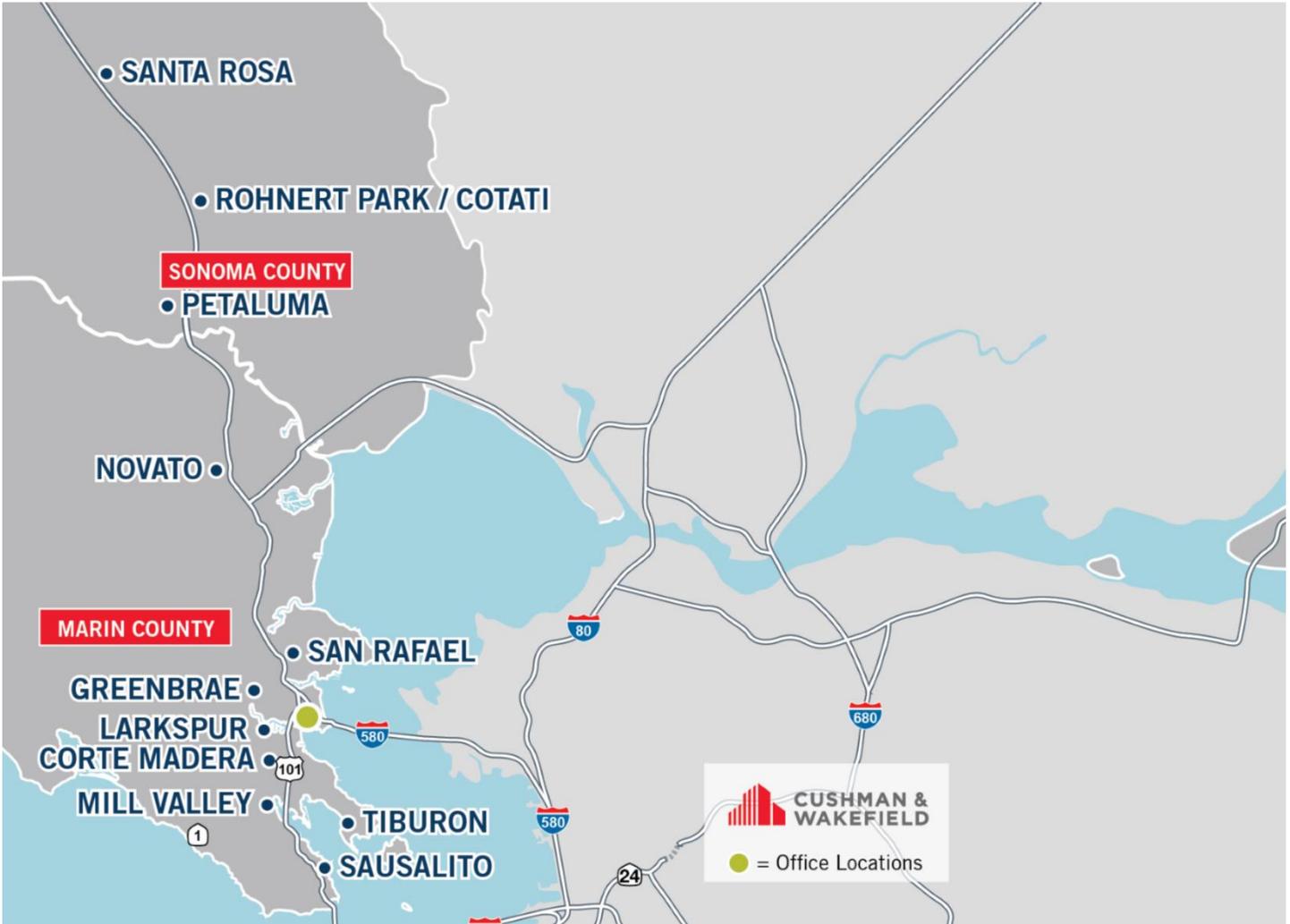
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#### Office Submarkets North Bay



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