



YoY
Chg

12-Mo.
Forecast

9.4%

Vacancy Rate

**-22K**

Net Absorption, SF

**\$2.61**

Asking Rent, PSF



(Overall, All Property Classes)

*These values are not reflective of the U.S. MarketBeat Tables

ECONOMIC INDICATORS Q4 2019

YoY
Chg

12-Mo.
Forecast

332.3KNorth Bay
Employment**2.5%**North Bay
Unemployment Rate**3.6%**U.S.
Unemployment Rate

Source: BLS

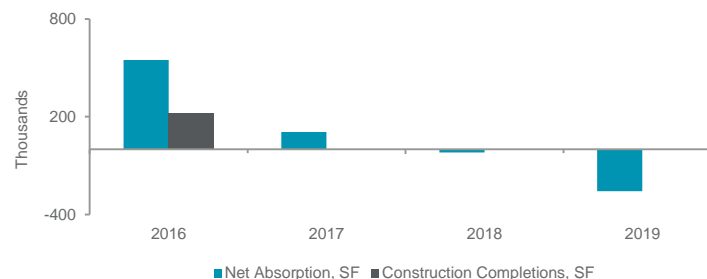
Sublease Space Slowly Raising Vacancy

The North Bay, comprised of Marin and Sonoma counties, kept its economic expansion alive, adding a further 6,900 non-farm payroll positions year-over-year (YOY) taking the total figure to 332,300 jobs at the end of 2019. The unemployment rate was flat over the same period, a scant 2.5% and 110 basis points (bps) below the national average. With one of the lowest unemployment rates in the country, office space is increasingly used to attract and retain talent. As a result, the most desirable spaces continue to lease amidst rising rental rates and the market has seen strong investment activity. However, while some submarkets flourish, a recent uptick in vacant space, subleases specifically, is a trend to watch as we enter the new decade.

The North Bay vacancy rate ticked up to 9.4% at the close of the fourth quarter, the fourth consecutive quarterly increase, which has led to a YOY rise of 120 bps. Quarter-over-quarter change was modest with just a 10-bps increase from the third quarter. Sonoma County has largely stabilized after nearly 250,000 square feet (sf) of negative net absorption in the first six months of the year. The past two quarters have been virtually flat with the fourth quarter recording just 10,917 sf of positive net absorption. The rise in vacancy this quarter was recorded within Marin County, where it increased by 40 bps. After a relatively strong start to the year, the vacancy rate in Marin County has increased by 100 bps over the past six months, driven by a sharp increase in sublease spaces.

Over the three years ending in the fourth quarter of 2018 there have been an average of 10 sublease availabilities in the Marin office market at any one time. At the close of 2019, this number had increased to 21. Of these spaces, many represent large blocks of space including 29,000 sf at Hamilton Landing in Novato and a full building, 36,000-sf offering in Sausalito. The Sausalito space will transition to direct in June 2020. It is too early to fully judge the market's appetite for sublease space but to date, the discount associated with subleases has not been enough to tempt tenants away from direct offerings. Sonoma County, has also recorded an increase in sublease space through 2019. At the close of the fourth quarter, over 20% of available space in Petaluma was being offered on a sublease basis. Like Marin, it's still unclear if tenants will be swayed by these discounted offerings.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



North Bay

Office Q4 2019



CUSHMAN & WAKEFIELD

The fourth quarter was the second in a row with below average new leasing activity and once again, the largest transaction of the quarter was a renewal. Looking back at 2019, many of the largest occupiers demonstrated continued confidence in the North Bay with Autodesk, Kaiser and FICO all executing significant renewals. As we enter a new decade, the volume of new leases will largely depend on how much in-migration can be generated from surrounding markets. Rental rates in San Francisco continue to soar as the inventory of available space dwindles. Additionally, changes such as expanded service of the SMART train and significant housing development are happening in the North Bay to make it increasingly attractive to businesses.

Value Attracts New Investors

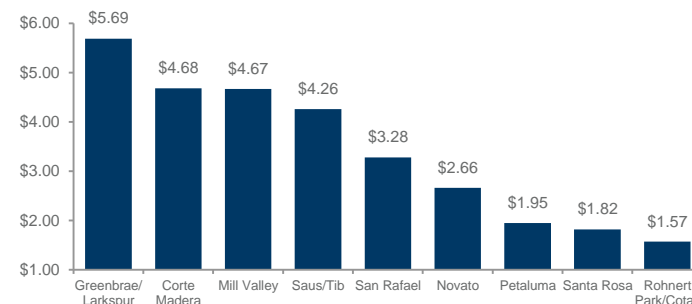
Even amidst an increase in vacancy, asking rents held at their historic highs. Overall, full service asking rents in the North Bay closed the fourth quarter at \$2.61 per square foot (psf) on a monthly full-service basis, unchanged from the previous quarter. In Marin County, overall asking rent decreased slightly to \$3.39 psf, brought down by an increase in sublease space but it was still the second highest quarter on record for the county. As real estate is increasingly used as a tool for talent acquisition, occupiers are willing to spend more to be in the best quality spaces. With little new construction on the way, landlords have been able to update existing inventory and achieve significant rental growth.

It was a blockbuster year for office sales in the North Bay, which both demonstrates confidence in the market and presents an exciting opportunity for new capital to continue improving existing inventory. The largest commercial real estate transaction of the quarter was the sale of the Hamilton Landing project in Novato. Totalling 406,000 sf across seven converted airplane hangars with entitlements for an eighth, this property is one of the largest blocks of Class A space in Marin. It sold for \$115 million or \$283 psf to Beverly Hills-based Kennedy Wilson and is their first acquisition in the market. Also new to the region is Government Investment Partners, a Chicago based investment firm that paid \$10.9 million for 3841 Brickway Boulevard, a 40,000-sf office building in Santa Rosa, with the Department of Veterans Affairs as the anchor tenant. If rental rates continue to rise, 2020 will bring further investor interest in the North Bay.

Outlook

- Vacancy is expected to hold level through the first half of 2020. However, several large availabilities become vacant later in the year and could push the vacancy rate upwards without new tenants in the market.
- Asking Rates will continue their climb through 2020, as tenants continue to place value on quality. We anticipate that landlords will continue to have success by injecting capital into existing inventory. Changing expectations will make obsolete space increasingly difficult to lease.
- As long as the opportunity to add value exists, the North Bay market will continue to see strong sales activity. This is especially true as prices rise in surrounding markets, making significant returns more difficult.

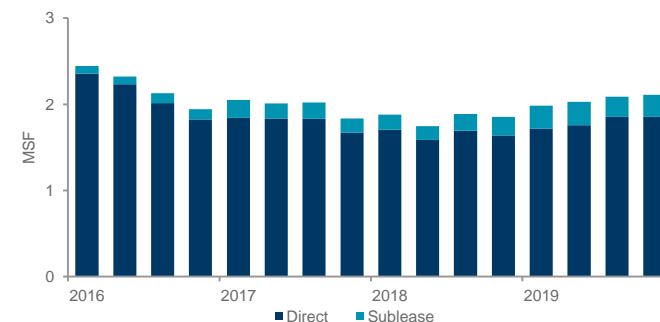
SUBMARKET ASKING RENT



ASKING RENT COMPARISON



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Sausalito/Tiburon	794,661	38,909	60,099	12.5%	1,117	-13,781	45,272	12,517	\$4.26	\$4.31
Mill Valley	459,447	3,411	18,670	4.8%	2,058	13,174	46,236	0	\$4.67	\$4.69
Southern Marin County	1,254,108	42,320	78,769	9.7%	3,175	-607	91,508	0	\$4.33	\$4.38
Corte Madera	467,301	0	32,916	7.0%	-1,521	-12,006	8,180	0	\$4.68	\$5.19
Greenbrae/Larkspur	932,945	12,159	51,713	6.8%	-3,726	-15,733	69,500	0	\$5.69	\$5.57
Central Marin County	1,400,246	12,159	84,629	6.9%	-5,247	-27,739	77,680	0	\$5.35	\$5.46
San Rafael	4,571,003	26,067	488,386	11.3%	-6,339	-707	395,957	0	\$3.28	\$3.58
Novato	2,738,776	54,546	286,997	12.5%	-24,999	1,029	141,132	21,908	\$2.66	\$2.71
Northern Marin County	7,309,779	80,613	775,383	11.7%	-31,338	322	537,089	21,908	\$3.03	\$3.17
MARIN COUNTY TOTAL	9,964,133	135,092	938,781	10.8%	-33,410	-28,024	706,277	34,425	\$3.39	\$3.49
Petaluma	2,850,318	80,818	276,802	12.5%	8,615	-119,336	132,011	0	\$1.95	\$2.09
Rohnert Park/Cotati	1,946,153	0	232,613	12.0%	18,099	-45,859	106,061	0	\$1.57	N/A
Santa Rosa	7,738,122	42,777	404,908	5.8%	-15,797	-63,479	176,346	0	\$1.82	\$1.94
SONOMA COUNTY TOTAL	12,534,593	123,595	914,323	8.3%	10,917	-228,674	414,418	0	\$1.81	\$2.01
Class Breakdown										
Class A	7,757,699	190,480	888,536	13.9%	-66,581	-103,287		34,425	N/A	\$3.05
Class B	12,939,211	68,207	915,353	7.6%	46,050	-142,182		0	\$2.08	N/A
NORTH BAY TOTAL	22,498,726	258,687	1,853,104	9.4%	-22,493	-256,698	1,120,695	34,425	\$2.61	\$3.05

*Rental rates reflect full service asking \$psf/month

*These values are not reflective of the U.S. MarketBeat Tables

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1033 3 rd Street	San Rafael	Kaiser Foundation	34,025	Renewal
1 Mcinnis Parkway	San Rafael	Computershare	13,542	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Hamilton Landing	Novato	Scanlan Kemper Bard / Kennedy Wilson	406,000	\$115M/\$283
3841 Brickway Boulevard	Santa Rosa	R&K Investments / Government Investment Partners	39,540	\$10.9M/\$276
240 Tamal Vista Boulevard	Corte Madera	JP Hunt Investments / PFI Incorporated	24,000	\$9.6M/\$398

North Bay

Office Q4 2019

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