

	YoY Chg	12-Mo. Forecast
5.4% Vacancy Rate	▲	▼
-81K Net Absorption, SF	▼	▲
\$1.15 Asking Rent, PSF	▲	▬

Overall, Net Asking Rent
*These values are not reflective of the U.S. MarketBeat Tables

Industrial Market Proves Resilient

The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

In the North Bay, comprised of Marin and Sonoma counties, it has led to a loss of 48,100 non-farm payroll positions year-over-year (YOY) dropping the total figure to 276,600 jobs at the close of the second quarter. The unemployment rate for the region increased 1,030 basis points (bps) from a year earlier, ending the quarter at 12.8%. While this crisis has had a dramatic effect on retail, hospitality, and increasingly office property markets, industrial has proven more resilient. In the North Bay, industrial saw just a modest rise in vacancy and asking rates remained at record highs.

The North Bay industrial market closed the second quarter of 2020 with an overall vacancy rate of 5.4%, a modest increase of 20 bps over the first quarter. This equates to 80,680 square feet (sf) of negative net absorption. In Marin County, the vacancy rate ticked up 30 bps, ending the quarter at 5.5%. Much of Marin's vacancy comes from a single project, a 144,000-sf manufacturing building in Novato, vacated by Birkenstock in 2018. However, new vacancy is largely occurring in the smaller segments of the market, with the total number of availabilities up 37% since the close of 2019. Small industrial spaces in Marin are rarely vacant and this new inventory could provide an opportunity for new or growing tenants to lease in a market where vacancy was below 2.0% as recently as 2017.

Sonoma County industrial vacancy closed the second quarter at 5.4%, an increase of just 20 bps over the first quarter. Given the dramatic changes in the current economic environment, this modest increase in vacancy showcases the strength of the Sonoma industrial market. Nationally, industrial has not been immune to COVID-19, with markets dependent on port traffic or warehousing for traditional retailers feeling the brunt. However, Sonoma County's diverse tenant base of manufacturers and role in last mile delivery have left it relatively well positioned.

ECONOMIC INDICATORS Q2 2020

	YoY Chg	12-Mo. Forecast
276.6K North Bay Employment	▼	▲
12.8% North Bay Unemployment Rate	▲	▼
13.0% U.S. Unemployment Rate	▲	▼

Source: BLS

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



The vacancy rate in the largest submarket of Santa Rosa remains a scant 3.7%, unchanged from the prior quarter. A disproportionate amount of vacancy exists in the Sonoma submarket where just four vacancies account for roughly 25% of total vacancy for the County.

The overall asking rent in the North Bay continued its upward trend, finishing the second quarter at \$1.15 per square foot (psf) on a monthly triple-net basis. Marin County commands the higher rental rate, closing the second quarter at \$1.36 psf, an increase of \$0.01 psf over the previous quarter. In Sonoma County, the overall asking rate was \$1.09 psf, flat from the previous quarter. While Marin County has always had a higher asking rate than Sonoma, that margin has been shrinking in recent quarters, as Sonoma has registered strong rental growth. This increase is largely generated by the submarkets of Petaluma and Santa Rosa.

Santa Rosa asking rents are up 26% YOY, driven largely by an increase in cannabis spaces. Landlords focused on cannabis users have asking rents upwards of \$2.00 psf and the marketing to this specific type of tenant is responsible for shifting the overall asking rate in Santa Rosa to \$1.20 psf this quarter. This overshadows the less dramatic but persistent increases occurring for traditional industrial space, where asking rates are closer to \$1.00 psf.

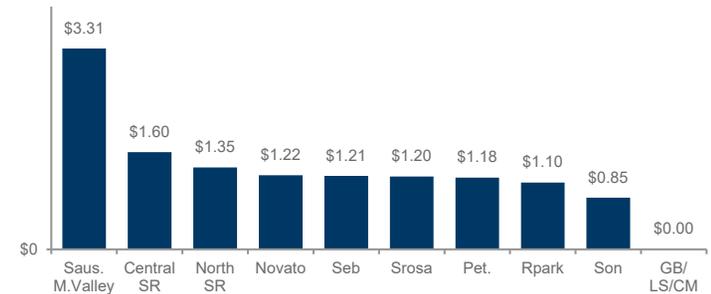
Leasing activity remained strong this quarter, particularly in Sonoma County, where the largest lease was the full building, 249,904-sf lease of 22801 E. 8th Street in Sonoma. The property was built on a speculative basis and delivered vacant in the fourth quarter of 2018. Since then, it has been the largest block on the market, making up 14.7% of all vacancy in the North Bay. The overall market can expect significant positive net absorption once the tenant occupies.

The most dramatic symptom of COVID-19 on the North Bay industrial market has been a lack of sales activity. Throughout 2019 and the first quarter of 2020, investment sales had been soaring. Well positioned industrial properties were selling, in some markets, for more than office on a dollar psf basis. This frenzy of activity was largely paused in the second quarter, as buyers and sellers alike took a wait and see approach to the current economic situation and how it will affect property values. While the market fundamentals remain strong, investor interest will be something closely monitored in the coming quarters.

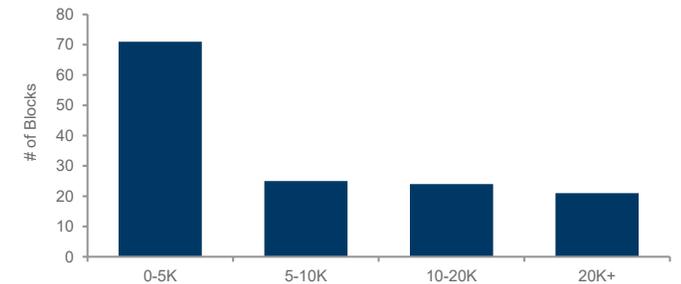
Outlook

- Strong leasing activity in the current quarter should lead to positive absorption and a decline in vacancy in the latter half of 2020.
- Asking rates will likely remain flat through the end of the year, as economic uncertainty slows down the recent rental growth.

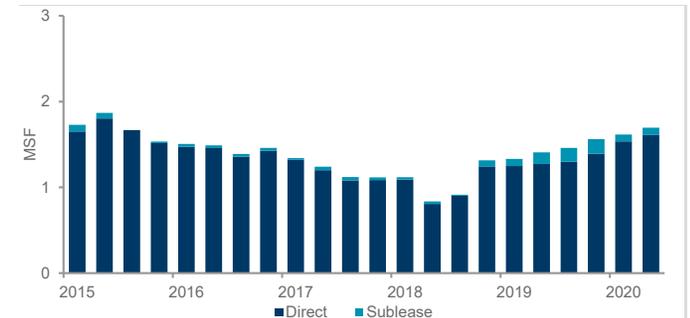
RENT BY MARKET (\$ PSF, NNN)



AVAILABILITIES BY SIZE SEGMENT



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT
Sausalito/Mill Valley	440,132	2,850	0.6%	-2,850	-2,850	0	0	\$3.31
Greenbrae/CM/Larkspur	297,457	0	0.0%	0	0	0	0	N/A
Central San Rafael	3,218,676	115,375	3.6%	-19,170	-47,047	0	0	\$1.60
North San Rafael	504,864	25,320	5.0%	-1,190	-481	0	0	\$1.35
Novato	2,108,349	220,909	10.5%	-1,789	-20,584	40,080	0	\$1.22
MARIN COUNTY	6,569,478	364,454	5.5%	-24,999	-70,962	40,080	0	\$1.36
Petaluma	6,546,122	339,361	5.2%	-69,974	-25,377	0	0	\$1.18
Rohnert Park	2,163,388	177,880	8.2%	4,729	-26,050	0	0	\$1.10
Santa Rosa	11,968,626	443,951	3.7%	-1,090	-71,959	85,534	0	\$1.20
Sonoma	2,721,337	347,304	12.8%	10,654	59,270	0	0	\$0.85
Sebastopol/Graton	1,364,067	23,150	1.7%	0	1,560	0	0	\$1.21
SONOMA COUNTY	24,763,540	1,331,646	5.4%	-55,681	-62,556	85,534	0	\$1.09
NORTH BAY TOTALS	31,333,018	1,696,100	5.4%	-80,680	-133,518	125,614	0	\$1.15

*Rental rates reflect weighted net asking \$psf/year

**These values are not reflective of the U.S. Overview

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
22801 E. 8 th Street	Sonoma	Confidential	249,904	New Lease
256 Sutton Place	Santa Rosa	LEG	24,060	Renewal
256 Sutton Place	Santa Rosa	Bottleprint Inc.	23,111	New Lease

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3812 Santa Rosa Avenue	Santa Rosa	Nase Werner / Melvin Dagovitz	11,250	\$2.3 million / \$204

North Bay

Industrial Q2 2020

INDUSTRIAL SUBMARKETS



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