

	YoY Chg	12-Mo. Forecast
5.7% Vacancy Rate	▲	▬
-74K Net Absorption, SF	▼	▲
\$1.18 Asking Rent, PSF	▲	▬

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

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
296.0K North Bay Employment	▼	▲
8.3% North Bay Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS

Economic Overview

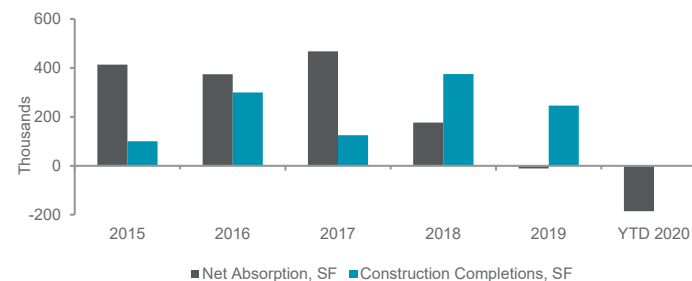
The North Bay, comprised of Marin and Sonoma Counties, closed the third quarter with an unemployment rate of 8.3%, up 600 basis points (bps) year-over-year (YOY). This translates to a loss of 32,000 non-farm payroll positions. While the unemployment rate declined from 12.8% at the close of the second quarter, the market is a long way from the scant 2.3% recorded in late 2019. The North Bay industrial market, while not immune to the economic effects of COVID-19 has proved far more resilient than other property types, such as office and retail, whose tenants are more directly affected by government mandates on working from home and social distancing. The industrial market has also benefited from the recent surge in e-commerce, which has driven demand for warehouse space in markets adjacent to major metros. These factors combined, pushed rents to an all-time high, with only a modest uptick in vacancy. Access the most recent research on CRE and the state of economy [here](#).

Vacancy Rises with Rates

The North Bay industrial market closed the third quarter with an overall vacancy rate of 5.7%, an increase of 20 bps over the second quarter. This equates to negative 73,976 square feet (sf) of net absorption, split evenly across Marin and Sonoma counties. Vacancy climbed 50 bps in Marin, closing the third quarter at 5.8%. Much of this rise in vacancy came from a single new availability, 70 Galli Drive, a 36,000-sf warehouse building in the Novato submarket. Approximately 80% of availabilities in Marin were below 10,000 sf, allowing even a single larger space to have a significant effect on vacancy.

Sonoma County had a vacancy rate of 5.7%, an increase of just 20 bps over the previous quarter. While the county as a whole saw only a modest change, at the submarket level, the swings in vacancy were more pronounced. The city of Sonoma was the only submarket to record positive net absorption this quarter, registering 220,304 sf as a full building tenant occupied the recently constructed, 250,000-sf Victory Station. This took the vacancy rate in that market to just 2.2%. At the other extreme was the Sebastopol-Graton submarket, which had 131,765 sf of negative net absorption this quarter, primarily due to a new vacancy at 9119 Graton Road, 115,000 sf of warehouse, manufacturing, and office space that is currently configured for wine production.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



The remaining submarkets of Petaluma, Rohnert Park, and Santa Rosa all experienced negative net absorption to a lesser degree. The most dramatic change in these markets has been an accumulation of vacancies in the 10,000-20,000-sf size range. Spaces in this range have historically been difficult to find in Sonoma County, as they best accommodate many of the mid-size manufacturing tenants in the market, so their vacancy is a trend to watch closely.

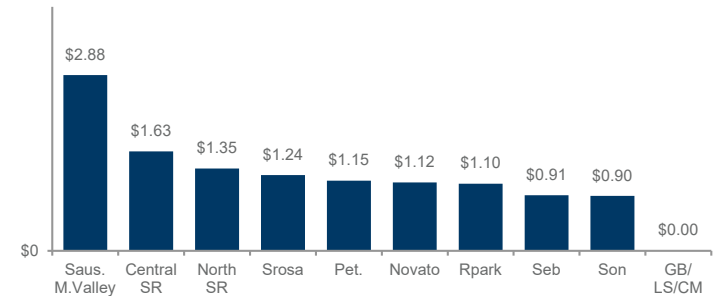
The overall asking rent in the North Bay continued to climb higher, finishing the third quarter at \$1.18 per square foot (psf) on a monthly triple-net basis. Despite falling \$0.03 psf, Marin County continued to command the higher asking rate, closing the quarter with an overall asking rate of \$1.33 psf. Sonoma County had an overall asking rate of \$1.10 psf, driven by recent gains in the Petaluma and Santa Rosa submarkets. Over the past two years, the asking rate in Petaluma has climbed 21%, ending the third quarter at \$1.15 psf. Unlike Santa Rosa, which has had some of its rental gains inflated by landlords marketing to cannabis users, the recent gains in Petaluma appear to be the natural result of strong geography and desirable product. Transactions at or above \$1.15 psf are becoming increasingly common and despite a recent uptick in vacancy, rental rates are anticipated to hold.

Construction activity picked up in the third quarter as investors hope to capitalize on modern tenants' demand for new inventory with large clear heights and well configured staging. Dermody Properties broke ground in July on their new 69,431-sf warehouse building in Rohnert Park. The property is being built on a speculative basis and is expected to deliver in the first quarter of 2021. All of the current projects in the market are being built on a speculative basis, which could lead to a brief rise in vacancy upon their delivery. However, new construction has performed well in the market, with the majority of recently delivered space currently occupied. Amidst strong demand, this trend is expected to hold for the current pipeline and new inventory should not lead to a long-term increase in vacancy.

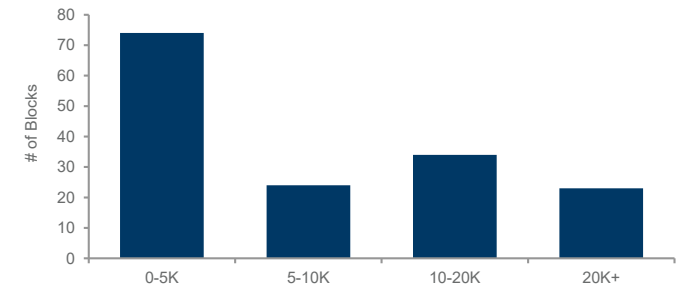
Outlook

- Strong leasing activity this quarter should hold vacancy level going into 2021
- Asking rates will likely remain flat through the end of the year as demand keeps them from falling, despite broader economic uncertainty
- Inventory is expected to increase through 2021, which could place upward pressure on both vacancy and rents

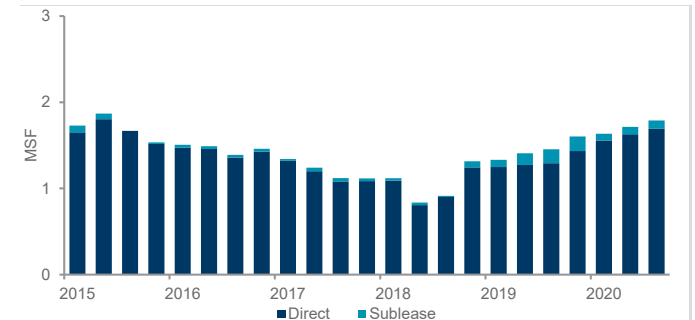
RENT BY MARKET (\$ PSF, NNN)



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	456,132	10,932	2.4%	-8,082	-10,932	0	0	\$2.88
Greenbrae/CM/Larkspur	297,457	0	0.0%	0	0	0	0	N/A
Central San Rafael	3,218,676	108,989	3.4%	-2,730	-40,661	0	0	\$1.63
North San Rafael	504,864	22,622	4.5%	-1,686	2,217	0	0	\$1.35
Novato	2,108,349	242,232	11.5%	-21,323	-41,907	40,080	0	\$1.12
MARIN COUNTY	6,585,478	384,775	5.8%	-33,821	-91,283	40,080	0	\$1.33
Petaluma	6,526,648	527,891	8.1%	-59,483	-155,242	0	0	\$1.15
Rohnert Park	2,192,928	198,887	9.1%	-49,844	-47,057	69,431	0	\$1.10
Santa Rosa	11,931,267	464,118	3.9%	-19,367	-90,926	85,534	0	\$1.24
Sonoma	2,706,719	58,400	2.2%	220,304	329,228	0	0	\$0.90
Sebastopol/Graton	1,405,015	154,915	11.0%	-131,765	-130,205	0	0	\$0.91
SONOMA COUNTY	24,762,577	1,404,211	5.7%	-40,155	-94,202	154,965	0	\$1.10
NORTH BAY TOTALS	31,348,055	1,788,986	5.8%	-73,976	-185,485	195,045	0	\$1.18

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

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

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2190 S. McDowell Boulevard	Petaluma	Resource Label Group	32,719	New Lease
2920 Dutton Avenue	Santa Rosa	Refrigeration Supplies Distributor	15,222	New Lease
9 Pamaron Way	Novato	Owl Vans	11,175	New Lease

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
21900 Carneros Oak Lane	Sonoma	Ganau America / A&C Ventures	38,855	\$7.5M/\$194 PSF

North Bay

Industrial Q3 2020

INDUSTRIAL SUBMARKETS



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