

YoY Chg      12-Mo. Forecast

**11.4%**  
Vacancy Rate      ▲      ▲

**-183K**  
Net Absorption, SF      ▼      ▲

**\$2.66**  
Asking Rent, PSF      ▲      ▼

*(Overall, All Property Classes)  
\*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**

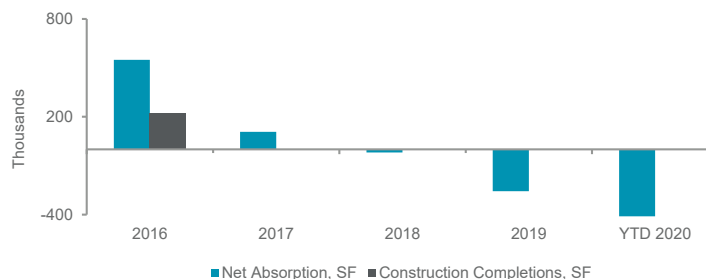
The North Bay, comprised of Marin and Sonoma Counties, closed the third quarter with an unemployment rate of 8.3%, up 600 basis points (bps) year-over-year (YOY). This translates to a loss of 32,000 non-farm payroll positions. While the unemployment rate declined from 12.8% at the close of the second quarter, the market is a long way from the scant 2.3% recorded in late 2019. Additionally, the unemployment rate does not fully capture the affect that COVID-19 has had on the North Bay office market, as both state and local governments continue to mandate that many office using sectors work from home. Long term, there will likely be an increased portion of employees who work remotely, however, working from home on the current scale is anticipated to be temporary as there appears both a desire and a need for many industries to go back to their offices. Access the most recent research on CRE and the state of economy [here](#).

**Vacancy Continues to Rise**

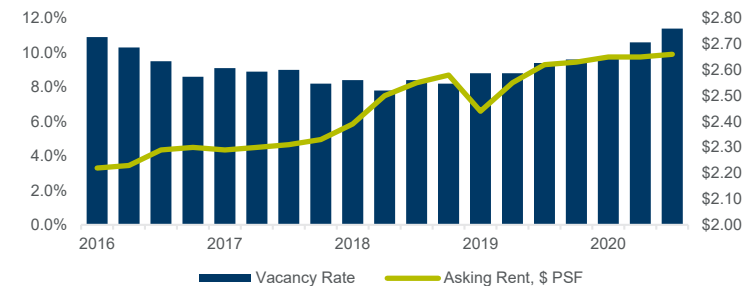
Government mandates and health concerns have put significant downward pressure on the demand for office space and vacancy continued to rise as transaction volumes for both leasing and sales held well below pre-COVID-19 levels. The North Bay vacancy rate closed the third quarter at 11.4%, a quarterly increase of 80 bps. This rise in vacancy was felt across both Marin and Sonoma counties, with vacancy rates up 90 bps and 70 bps respectively. In Marin County, the 87,641 square feet (sf) of negative net absorption continued to be driven by an accumulation of smaller vacancies, a trend unusual for this market. Vacancy in Marin can often swing with a handful of large leases or space give backs, while availabilities below 5,000 sf tend to cycle on and off the market regularly. However, the current negative absorption reflects a lack of demand from tenants of all sizes. Sonoma County saw a similar effect. With leasing activity way down, the regular churn of availabilities is not being back filled, resulting in 95,534 sf of negative net absorption in the third quarter.

After holding firm through the second quarter, asking rates are beginning to fall at the property level. Landlords are lowering asking rates anywhere from 5-15% in hopes of capturing what limited tenants are in the market. This is a major shift, particularly for Marin, where rents had been steadily increasing for several years.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**



# North Bay

Office Q3 2020



While starting to decline for individual properties, the average asking rate for the North Bay increased \$0.01 to \$2.66 per square foot (psf) on a monthly full-service basis. This increase occurred because new availabilities in Marin have been dominated by Class A product in higher priced submarkets. In Marin County, the average asking rate rose to a record high of \$3.44 psf in the third quarter. This was driven by an increase in vacancy in the Central Marin submarket, where the average asking rate was over \$5.00 psf and vacancy jumped 230 bps. In Sonoma County, the asking rate closed the third quarter at \$1.82 psf, a decline of just \$0.01 psf from the previous quarter.

## Looking Elsewhere for Demand

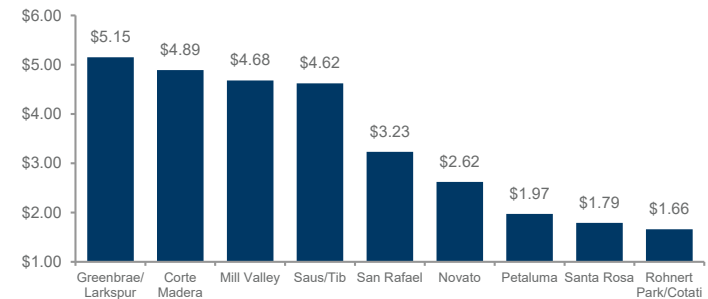
While still well below average, there was a modest increase in leasing activity in the third quarter. The largest new lease of the quarter was signed by Broadcom Corporation for 14,628 sf at 1465 N. McDowell Boulevard in Petaluma. In Marin County some demand was generated by tenants looking to leave or establish secondary locations outside of San Francisco. Public transportation and elevator service are emerging as two of the largest road blocks for employees returning to work in major metros. This has made the North Bay's inventory of low-rise office projects with abundant parking increasingly attractive. Additionally, some companies are exploring the hub-and-spoke system of decentralizing their office space and establishing outposts in suburban markets. While new demand from San Francisco is still a growing phenomenon, it bodes positively for the future of the North Bay office market.

Sales of office product remained almost entirely on hold in the North Bay in the third quarter. Investors and owner-users alike still have a wait-and-see mentality as the effects of COVID-19 on the office sector continue to unfold. Given the extremely low cost of capital, the monthly costs of ownership can be cheaper than renting on a psf basis, but this value has yet to tempt potential occupiers who are placing increasing value on flexibility. Investment activity is likely to remain low until investors and lenders can gain clarity and predictability on absorption and pricing trends.

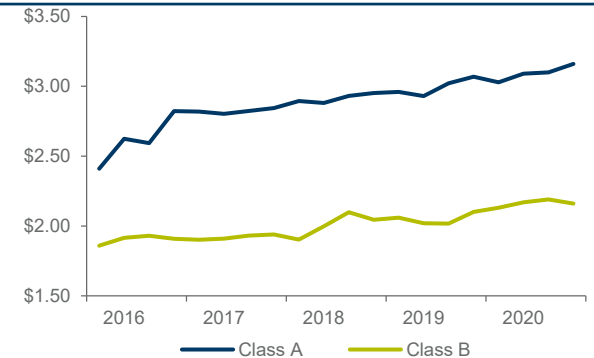
## Outlook

- Vacancy is expected to climb heading into 2021, as several large spaces currently marketed are vacated in the fourth quarter. Additionally, light leasing activity in the current quarter can translate to limited absorption in future quarters.
- Asking rates will continue to decline on the property level as landlords place increasing emphasis on filling space.
- Investment activity in the office sector will remain low into 2021, until tenants are back in the office.

## 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	809,015	1,375	110,872	13.9%	-2,608	-11,913	17,921	12,517	\$4.62	\$5.06
Mill Valley	459,447	6,411	27,665	7.4%	0	-11,995	9,859	0	\$4.68	\$4.75
Southern Marin County	1,268,462	7,786	138,537	11.5%	-2,608	-23,908	27,780	12,517	\$4.63	\$4.97
Corte Madera	467,301	11,596	65,777	16.6%	-20,721	-43,304	7,926	0	\$4.89	\$5.74
Greenbrae/Larkspur	890,945	19,924	82,390	11.5%	-10,601	-39,164	36,529	0	\$5.15	\$4.85
Central Marin County	1,358,246	31,520	148,167	13.2%	-31,322	-82,469	44,455	0	\$5.04	\$5.19
San Rafael	4,506,521	32,701	561,247	13.2%	-39,245	-66,490	74,568	0	\$3.23	\$3.57
Novato	2,729,547	71,861	333,414	14.8%	-14,466	-63,454	93,826	21,908	\$2.62	\$2.71
Northern Marin County	7,236,216	104,562	894,661	13.8%	-53,711	-129,944	168,394	21,908	\$2.98	\$3.15
<b>MARIN COUNTY TOTAL</b>	<b>9,862,924</b>	<b>143,868</b>	<b>1,181,365</b>	<b>13.4%</b>	<b>-87,641</b>	<b>-236,320</b>	<b>240,629</b>	<b>34,425</b>	<b>\$3.44</b>	<b>\$3.59</b>
Petaluma	2,798,959	91,994	336,483	15.3%	-48,475	-79,253	90,788	0	\$1.97	\$2.02
Rohnert Park/Cotati	1,988,130	2,280	261,455	13.3%	-19,755	-35,042	19,661	0	\$1.66	N/A
Santa Rosa	7,865,049	32,546	519,011	7.0%	-27,304	-59,594	190,358	0	\$1.79	\$1.94
<b>SONOMA COUNTY TOTAL</b>	<b>12,652,138</b>	<b>126,820</b>	<b>1,116,949</b>	<b>9.8%</b>	<b>-95,534</b>	<b>-173,889</b>	<b>300,807</b>	<b>0</b>	<b>\$1.82</b>	<b>\$1.98</b>
<b>Class Breakdown</b>										
Class A	7,804,914	270,688	1,009,856	15.5%	-38,503	-89,022		34,425	N/A	\$3.16
Class B	13,025,966	75,501	1,218,361	9.9%	-139,752	-305,530		0	\$2.16	N/A
<b>NORTH BAY TOTAL</b>	<b>22,515,062</b>	<b>270,688</b>	<b>2,298,314</b>	<b>11.4%</b>	<b>-183,175</b>	<b>-410,209</b>	<b>541,436</b>	<b>34,425</b>	<b>\$2.66</b>	<b>\$3.16</b>

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

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KEY LEASE TRANSACTIONS Q3 2020

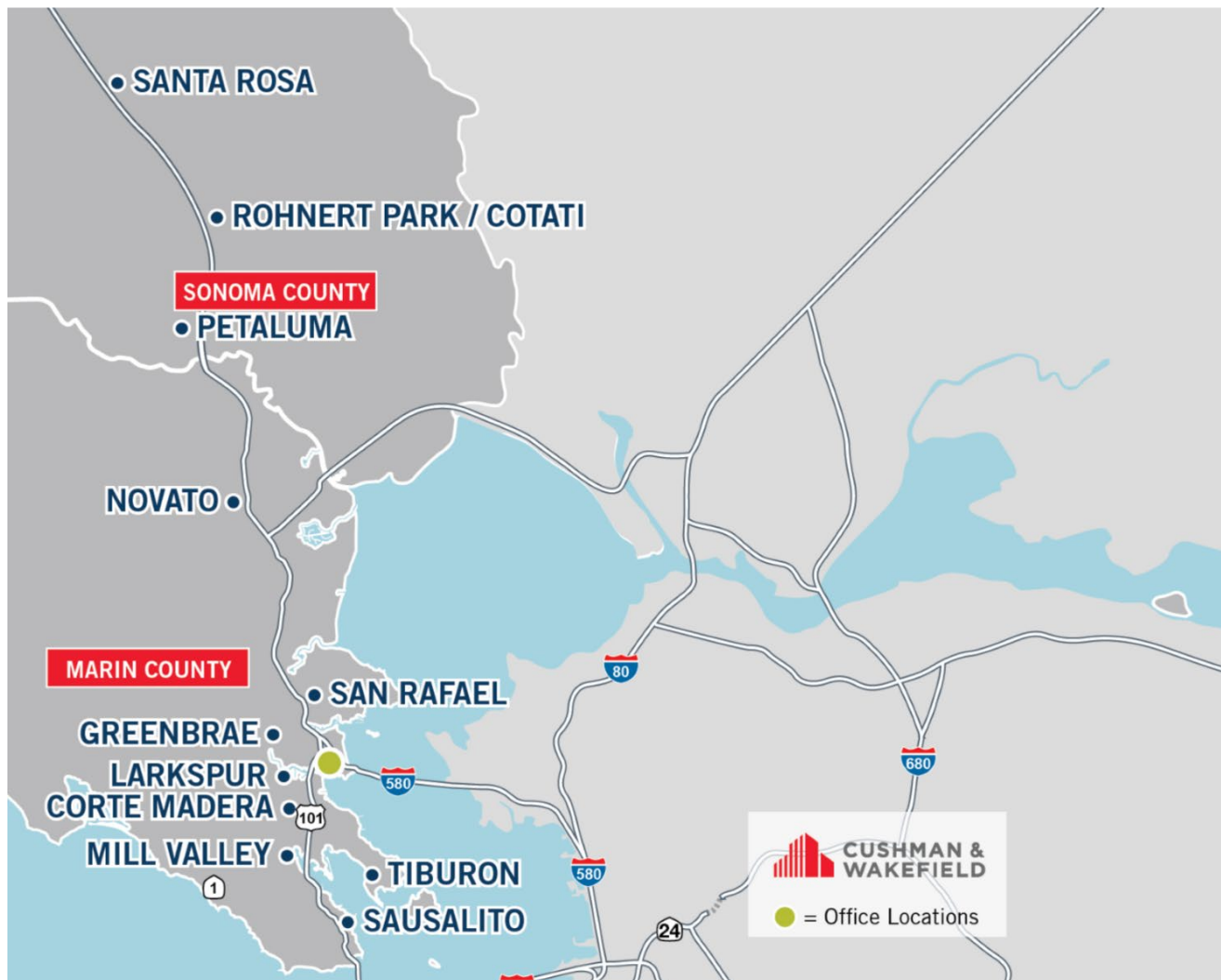
PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1465 N. McDowell Boulevard	Petaluma	Broadcom	14,628	Direct Lease
88 Rowland Way	Novato	County of Marin	10,219	Renewal

\*Renewals not included in leasing statistics

# North Bay

Office Q3 2020

## OFFICE SUBMARKETS



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