

YoY Chg      12-Mo. Forecast

**12.4%**  
Vacancy Rate      ▲      ▲

**-225K**  
Net Absorption, SF      ▼      ▲

**\$2.74**  
Asking Rent, PSF      ▲      ▼

*(Overall, All Property Classes)  
\*These values are not reflective of the U.S. MarketBeat Tables*

## ECONOMIC INDICATORS Q4 2020

YoY Chg      12-Mo. Forecast

**300.3K**  
North Bay Employment      ▼      ▲

**5.7%**  
North Bay Unemployment Rate      ▲      ▼

**6.7%**  
U.S. Unemployment Rate      ▲      ▼

Source: BLS

## Economic Overview

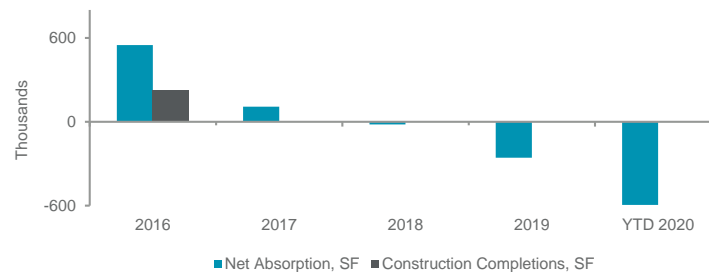
The North Bay, comprised of Marin and Sonoma counties, closed the fourth quarter with an unemployment rate of 5.7%, up 320 basis points (bps) year-over-year (YOY). This translates to a loss of 29,000 non-farm payroll positions. While the unemployment rate has declined from 12.8% at the close of the second quarter, it will take time to return to the scant 2.5% recorded in late 2019. The North Bay continues to outperform the national unemployment rate of 6.7%, but state and local mandates on work from home have affected the office market in ways not captured in unemployment. As some employees began to return to the office in the third quarter, a recent surge in COVID-19 cases has prompted the closure of non-essential offices in both counties. This does not directly affect the unemployment rate but has put significant downward pressure on the demand for office space. Access the most recent research on CRE and the state of economy [here](#).

## Vacancy Continues to Rise

The North Bay vacancy rate closed the fourth quarter at 12.4%, a quarterly increase of 100 bps. This rise was felt across Marin and Sonoma counties with vacancy up 100 bps in both. Marin County had a vacancy rate of 14.5% with 96,570 square feet (sf) of negative net absorption. The rise this quarter was driven by Glassdoor officially vacating their Mill Valley headquarters. In a consolidation announced prior to COVID-19, the space had been on the market for over a year, but officially became vacant this quarter. This alone accounted for roughly half of all negative absorption in Marin. Sonoma County recorded 128,743 sf of negative net absorption and closed the quarter with a vacancy rate of 10.7%. This was Sonoma's worst performing quarter of the year, with vacancy rising approximately the same amount as the first three quarters combined. This rise was concentrated in the North Bay's largest submarket, Santa Rosa, which had maintained a vacancy rate below 7.0%, but several quarters of below average leasing activity has led to over 76,000 sf coming back to market in the last quarter of 2020.

While vacancy has climbed consistently over the past year, the increase has been far more gradual in the North Bay than in surrounding markets. Recent headlines have been dominated by news of major employers leaving the Bay Area and San Francisco has experienced an unprecedented swell in sublease space from its largest occupiers. By contrast, the North Bay has experienced a less dramatic rise in vacancy, with space gradually accumulating as a result of lowered leasing volumes.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# North Bay

Office Q4 2020



Additionally, its inventory of low-rise office projects with abundant parking better position it for a return to the office than many major metros where the reliance on public transport and elevators has emerged as a roadblock to employees' return.

### Rates on the Rise

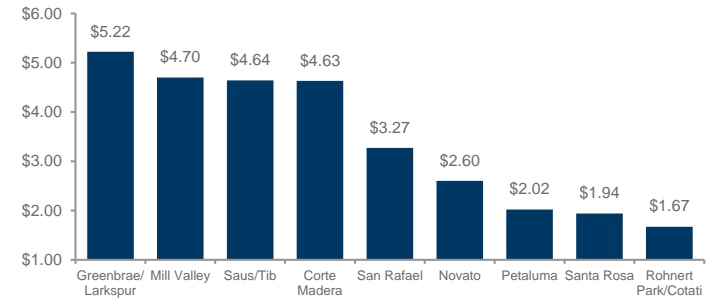
Despite rising vacancy, the North Bay has continued to see asking rates climb as outsized Class A vacancy has pulled up the overall average. The average asking rate for the North Bay increased \$0.05 to \$2.74 per square foot on a monthly full-service basis (psf/mo). In Marin County, asking rates hit a record \$3.51 psf/mo as vacancy climbed in the submarkets of Central and Southern Marin, with asking rates of \$5.00 and \$4.66 psf/mo, respectively. Sonoma County also experienced a record asking rate as a rise in Class A vacancy led to an overall average asking rate of \$1.91 psf/mo. However, on an individual property level, we are seeing landlords continue to lower their pricing from 5-15% and offer increased concessions in an attempt to secure the limited tenants in the market.

Transaction volumes for both leasing and sales remain well below their pre-pandemic levels with gross absorption in 2020 down 49% from the previous five-year average. This is unlikely to change until employees return to the office and occupiers feel more comfortable making real estate decisions. However, a growing bright spot for demand in the North Bay is the relocation or expansion of San Francisco tenants into the suburban market. This trend is unlikely to benefit all submarkets equally, but Central and Southern Marin have begun to benefit from the first wave of new tenants, with TSG Consumer Partners signing a significant lease in Larkspur this quarter. Despite interest rates being at all-time lows, sale transactions of office properties remain largely on hold in the North Bay. This has been true for both investors and owner-users and will likely remain the case until tenants are again allowed to occupy their buildings.

### Outlook

- Vacancy is expected to continue climbing moderately as the market reacts to decreased tenant demand. 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. However, the market rates may rise depending on where vacancy appears.
- Investment activity in the office sector will remain low in 2021, until tenants are back in the office.

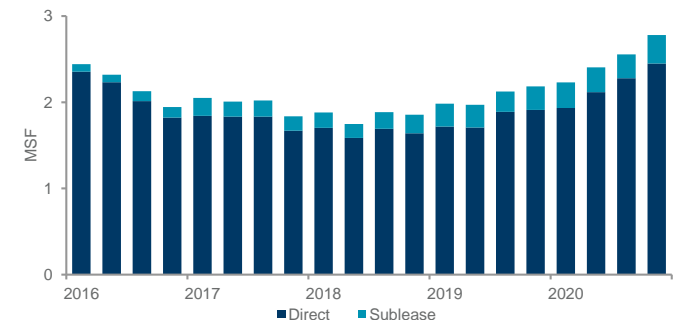
### SUBMARKET ASKING RENT



### 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	120,246	15.0%	-9,769	-21,262	20,071	12,517	\$4.64	\$5.08
Mill Valley	459,447	6,411	84,457	19.8%	-56,792	-68,787	11,647	0	\$4.70	\$4.82
Southern Marin County	1,268,462	7,786	204,703	16.8%	-66,561	-90,049	31,718	12,517	\$4.66	\$4.95
Corte Madera	467,301	11,596	64,990	16.4%	-1,745	-42,517	14,149	0	\$4.63	\$5.40
Greenbrae/Larkspur	890,945	12,180	111,527	13.9%	-12,736	-60,557	73,342	0	\$5.22	\$5.11
Central Marin County	1,358,246	23,776	176,517	14.7%	-14,481	-103,074	87,491	0	\$5.00	\$5.07
San Rafael	4,506,521	15,403	570,261	13.0%	3,795	-55,775	94,169	0	\$3.27	\$3.60
Novato	2,729,547	67,428	366,385	15.9%	-19,323	-90,310	109,585	21,908	\$2.60	\$2.70
Northern Marin County	7,236,216	82,831	936,646	14.1%	-15,528	-146,085	203,754	21,908	\$2.98	\$3.14
<b>MARIN COUNTY TOTAL</b>	<b>9,862,924</b>	<b>114,393</b>	<b>1,317,866</b>	<b>14.5%</b>	<b>-96,570</b>	<b>-339,208</b>	<b>322,963</b>	<b>34,425</b>	<b>\$3.51</b>	<b>\$3.68</b>
Petaluma	2,787,099	181,338	299,756	17.3%	-27,567	-109,949	172,966	0	\$2.02	\$2.06
Rohnert Park/Cotati	1,988,130	2,280	285,882	14.5%	-24,427	-59,469	25,419	0	\$1.67	N/A
Santa Rosa	7,844,109	33,022	545,650	7.4%	-76,749	-86,709	270,255	0	\$1.94	\$1.94
<b>SONOMA COUNTY TOTAL</b>	<b>12,619,338</b>	<b>216,640</b>	<b>1,131,288</b>	<b>10.7%</b>	<b>-128,743</b>	<b>-256,127</b>	<b>468,640</b>	<b>0</b>	<b>\$1.91</b>	<b>\$2.01</b>
<b>Class Breakdown</b>										
Class A	7,844,718	233,415	1,127,004	17.3%	-140,048	-242,232		34,425	N/A	\$3.21
Class B	13,133,445	97,618	1,231,624	10.1%	-73,230	-319,175		0	\$2.25	N/A
<b>NORTH BAY TOTAL</b>	<b>22,482,268</b>	<b>331,033</b>	<b>2,449,154</b>	<b>12.4%</b>	<b>-225,313</b>	<b>-595,335</b>	<b>791,603</b>	<b>34,425</b>	<b>\$2.74</b>	<b>\$3.21</b>

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

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KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1100 Larkspur Landing Circle	Larkspur	TSG Consumer Partners	9,459	New Lease

KEY SALE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3301 Kerner Boulevard	San Rafael	Dennis & Susan Gilardi / County of Marin	25,195	Undisclosed
719 Southpoint Boulevard	Petaluma	Sunhill Corporation / Ongaro & Sons	23,000	\$5.0M/\$216



# North Bay

Office Q4 2020



OFFICE SUBMARKETS



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