

YoY Chg      12-Mo. Forecast

**5.7%**  
Vacancy Rate



**-14K**  
Net Absorption, SF



**\$1.21**  
Asking Rent, PSF



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

### ECONOMIC INDICATORS Q1 2021

YoY Chg      12-Mo. Forecast

**289.4K**  
North Bay Employment



**6.5%**  
North Bay Unemployment Rate



**6.0%**  
U.S. Unemployment Rate



Source: BLS

### Economic Overview

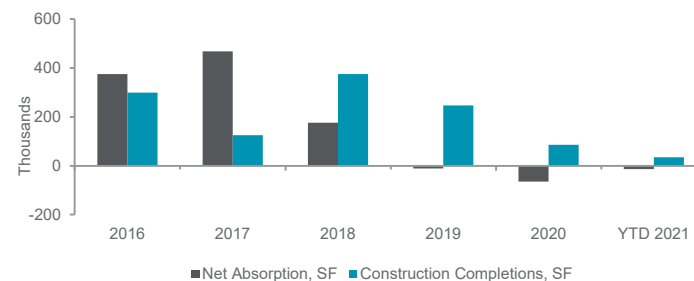
The North Bay, comprised of Marin & Sonoma counties, closed the first quarter with an unemployment rate of 6.5%, up 370 basis point (bps) year-over-year (YOY). This translates to a loss of 38,000 non-farm payroll positions. The unemployment rate declined steadily in the third and fourth quarters of 2020 after peaking at 12.8% in the second quarter. However, it rose again in the first quarter of 2021 as a winter surge in COVID-19 cases prompted a new wave of state mandates and business closures. Despite this uptick, the economic forecast is improving as vaccination efforts ramp up and employees across industries are returning to work. Among commercial property sectors, industrial has proven more resilient to the economic effects of COVID-19 with business closures and distancing policies weighing heavily on office and retail. This is particularly true in the North Bay, where industrial vacancy saw just a modest rise over the past year and asking rates hit their all-time high.

### Vacancy Diverges by County

The North Bay industrial market closed the first quarter with an overall vacancy rate of 5.7%, up just 10 bps from the previous quarter. Total net absorption for the quarter was negative 13,844 square feet (sf), driven by the Marin County market. Vacancy rose 30 bps in Marin to 5.9%, the result of 22,663 sf of negative net absorption. This negative absorption largely came from a new, full building vacancy in Novato.

In Sonoma County, vacancy rose just 10 bps to 5.7% as the delivery of new, vacant construction slightly outweighed positive net absorption. Net absorption was positive in every submarket but Santa Rosa where vacancy rose 120 bps, from 108,757 sf of negative net absorption. Despite this increase, vacancy in Santa Rosa, the North Bay's largest submarket, is just 5.4% and below both the county and market totals. Half of this newly vacant space came from several subleases, which is significant as the industrial market has seen relatively little sublease space available, despite the economic pressures of COVID-19. Net absorption was in the black for the second consecutive quarter in Petaluma where strong demand is expected to keep lowering vacancy.

### SPACE DEMAND / DELIVERIES



### OVERALL VACANCY & ASKING RENT



## Rental Rates Rise

The overall asking rent in the North Bay rose \$0.03, finishing the first quarter at \$1.21 per square foot (psf) on a monthly triple-net basis. After two quarters of decline, the asking rate in Marin County increased \$0.05 to close the quarter at \$1.30 psf. This is still down 3.8% YOY as several large availabilities are priced to compete with the lower asking rates in Sonoma County. However, as the asking rate in Sonoma continues to increase, the premium that was once paid for Marin is beginning to disappear.

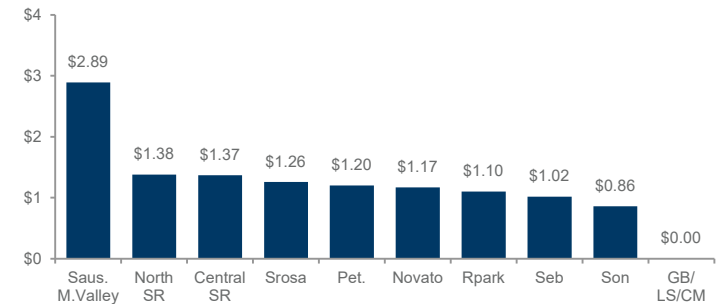
The overall asking rate in Sonoma County increased \$0.02, to a record high of \$1.16 psf. This increase continues to be driven by the submarkets of Petaluma and Santa Rosa. Petaluma's average asking rent held at \$1.20 psf, as its central geography and quality inventory make it the preferred submarket for tenants ranging from logistics to artisanal food manufacturing. Santa Rosa's overall average of \$1.25 psf continues to be mildly inflated by properties seeking cannabis tenants, with asking rates nearly double those of traditional space. However, the submarket has seen natural rental growth as well, with transactions occurring at or above \$1.10 psf on a regular basis, 20.9% above the asking rate from the first quarter of 2019. The market may also experience upward pressure on pricing as a robust pipeline of new construction increases the quality of inventory.

Leasing activity was down slightly in the first three months of the year but began building significant momentum into the second quarter. Several large leases have been signed in the days since the quarter closed, with more tenants still in the market looking for space. This is expected to lead to positive net absorption in the coming quarters, if it can outpace new supply, with speculative construction underway throughout the market. While leasing activity began the year slightly muted, sales activity was up, particularly amongst owner-users. The largest sale of the quarter was 84 Galli Drive in Novato. The 32,000-sf building was purchased for \$8.4 million by Prima Fleur, the sole tenant in the property. Low interest rates have made it possible for would be tenants to own at or below the cost of leasing comparable space. While sales this quarter were dominated by owner-users, a positive economic outlook is expected to increase investor demand for well positioned industrial space. Access the most recent research on CRE and the state of economy [here](#).

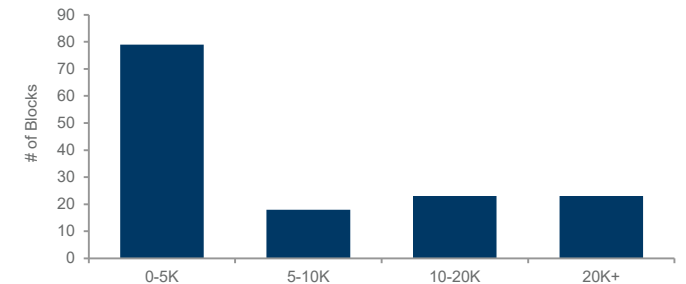
## Outlook

- Leasing activity gained momentum this quarter and is expected to hold vacancy level amidst construction deliveries.
- Asking rates may continue to see a modest rise through 2021 as a result of strong demand and new construction
- Inventory is expected to increase through 2021, which could place upward pressure on both vacancy and rents

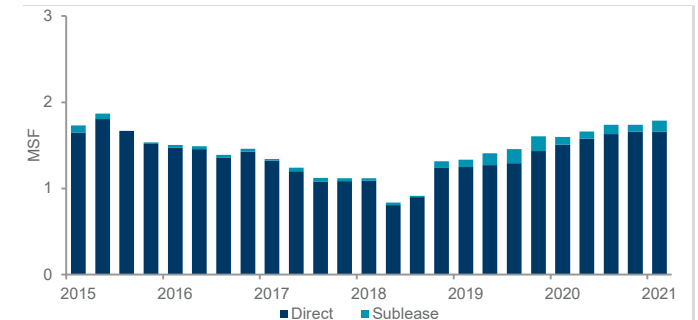
## RENT BY MARKET (\$ PSF, NNN)



## 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	15,213	3.3%	-4,242	-4,242	0	0	\$2.89
Greenbrae/CM/Larkspur	297,457	0	0.0%	0	0	0	0	N/A
Central San Rafael	3,218,676	86,514	2.7%	2,919	2,919	0	0	\$1.37
North San Rafael	504,864	24,942	4.9%	-2,320	-2,320	0	0	\$1.38
Novato	2,108,769	262,006	12.4%	-19,020	-19,020	40,080	0	\$1.17
<b>MARIN COUNTY</b>	<b>6,585,898</b>	<b>388,675</b>	<b>5.9%</b>	<b>-22,663</b>	<b>-22,663</b>	<b>40,080</b>	<b>0</b>	<b>\$1.30</b>
Petaluma	6,644,728	424,633	6.4%	26,909	26,909	0	0	\$1.20
Rohnert Park	2,193,785	165,199	7.5%	40,518	40,518	69,431	0	\$1.10
Santa Rosa	11,677,009	632,949	5.4%	-108,757	-108,757	214,312	35,000	\$1.26
Sonoma	2,757,891	67,800	2.5%	6,000	6,000	0	0	\$0.86
Sebastopol/Graton	1,391,987	108,728	7.8%	44,149	44,149	0	0	\$1.02
<b>SONOMA COUNTY</b>	<b>24,665,400</b>	<b>1,399,309</b>	<b>5.7%</b>	<b>8,819</b>	<b>8,819</b>	<b>283,743</b>	<b>35,000</b>	<b>\$1.16</b>
<b>NORTH BAY TOTALS</b>	<b>31,251,298</b>	<b>1,787,984</b>	<b>5.7%</b>	<b>-13,844</b>	<b>-13,844</b>	<b>323,823</b>	<b>35,000</b>	<b>\$1.21</b>

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

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

## KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1129 Industrial Avenue	Petaluma	North Coast Logistics	14,280	New Lease
345 Sutton Place	Santa Rosa	Core & Main	14,028	New Lease

## KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
84 Gallii Drive	Novato	Violich Trust / Prima Fleur	32,000	\$8.4M/\$263
2707 Dowd Drive	Santa Rosa	The Marital Trust / Destruel Properties LLC	22,450	\$4.15M/\$185

# North Bay

Industrial Q1 2021

## INDUSTRIAL SUBMARKETS



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