

YoY Chg      12-Mo. Forecast

**12.9%**  
Vacancy Rate



**-174K**  
Net Absorption, SF



**\$2.79**  
Asking Rent, PSF



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

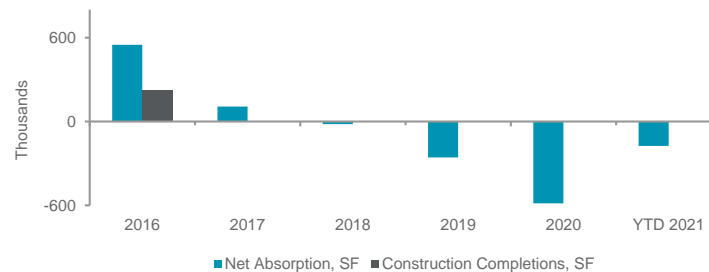
The North Bay, comprised of Marin & Sonoma counties, closed the first quarter with an unemployment rate of 6.5%, up 370 basis point (bps) year-over-year (YOY). This translates to a loss of 38,000 non-farm payroll positions. The unemployment rate declined steadily in the third and fourth quarters of 2020 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 outlook continues to improve as vaccination rates accelerate and some major employers have begun to announce a return to the office. After a year of ever-changing policies and precautions, tenants now have some clarity regarding their need for office space going forward. This will likely create an increase in demand and help stop the recent rise in vacancy. Access the most recent research on CRE and the state of economy [here](#).

**Vacancy Continues to Rise**

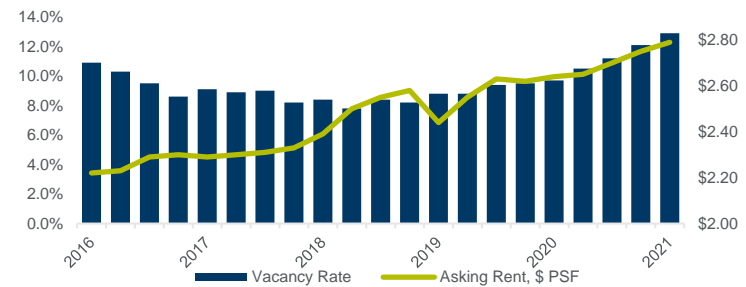
The North Bay vacancy rate closed the first quarter at 12.9%, a quarterly increase of 80 bps. This rise was driven by Marin County, where vacancy climbed 140 bps to 15.8%. This is the highest level recorded in the county since 2011 and represents a YOY increase of 440 bps. Marin had 135,098 square feet (sf) of negative net absorption this quarter, driven by a new 25,000-sf vacancy at Belvedere Place in Mill Valley. The space was vacated by WeWork, who expanded within the project in 2019 after originally leasing 20,000 sf in 2018. WeWork still maintains the original 20,000 sf. This vacancy joins a growing list of large availabilities in the submarket of Southern Marin, where the vacancy rate hit 18.5%. Located just over the Golden Gate Bridge, Southern Marin is best situated to absorb tenants leaving San Francisco for more suburban markets, however the demand for these larger vacancies is yet to materialize.

Sonoma County saw a modest increase in vacancy of just 30 bps, closing the first quarter at 10.6%. The majority of this increase came from the submarket of Petaluma, where vacancy rose to 17.1%. Petaluma's office inventory is some of the highest quality in the county, but it is dominated by large floor plates in office parks built in the early 2000's. These large blocks of space can be difficult to fill, as the North Bay is predominantly a small-mid size tenant market. Petaluma's rise in vacancy has been a slow accumulation of these larger vacancies, which have yet to attract enough big tenants, despite the quality and relative affordability to neighboring markets.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**



# North Bay

Office Q1 2021



## Rates on the Rise

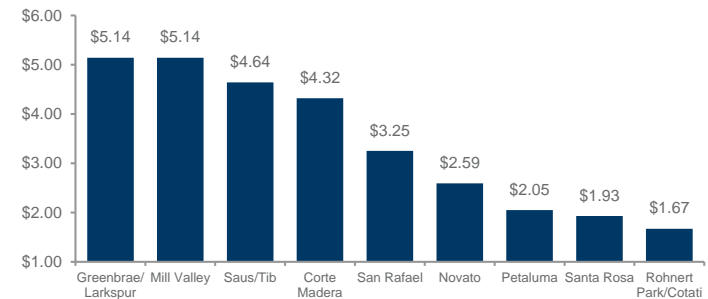
The North Bay continued to see its asking rate climb as vacancy in Marin and Class A product across the market have pulled up the overall average. The overall average asking rate increased \$0.04 to \$2.79 per square foot (psf) on a monthly full-service basis, the highest rate to date. Marin County's average asking rate hit \$3.53 psf as vacancy climbed in the more expensive submarkets of Central and Southern Marin, with asking rates of \$4.85 and \$4.88 respectively. Southern Marin saw its asking rate jump with the previously mentioned vacancy at Belvedere Place asking \$6.25 psf. Sonoma County also reached record pricing, closing the first quarter at \$1.93 psf. Like Marin, it was driven by rising vacancy in its most expensive submarket, Petaluma, where the average asking rate was \$2.05 psf. While the averages have risen, rents have begun to decline on the individual property level, with many landlords lowering pricing from 5-15%. What is more, the delta between asking rents and effective rents has grown as leasing space and preventing vacancy becomes increasingly important to owners.

While the outlook for 2021 continues to improve, transaction volumes in the first quarter were down for both leasing and sales, compared to prior years. With work from home orders still in effect, demand for office space remained muted through the first three months of the year. The largest leases of the quarter were dominated by renewals, but it is expected that new leasing activity will increase as employees return to the office. The lack of sales activity has been one of the more pronounced effects of COVID-19 on the North Bay office market, but transactions gained some momentum in the first quarter of 2021. While not a traditional office sale, the most notable transaction was the sale of the Fireman's Fund Campus in Novato for a recorded \$28 million. This three building, 750,000-sf, campus has been vacant (not included in C&W statistics) since 2015 and sold for land value to a joint venture between Bay West Development and Forum Real Estate Group. While no plans have been submitted, it is expected that the new owners will demolish the existing office buildings to create a mix of housing and neighborhood retail. Also, of note was the sale of 3750 Westwind Boulevard in Santa Rosa for \$9.25 million. As investors and owner-users' certainty about the future grows, so too will their willingness to transact.

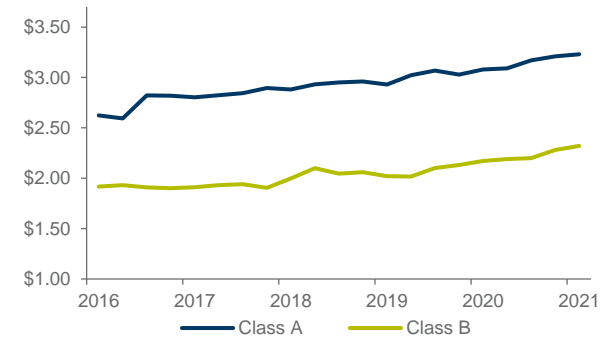
## Outlook

- Vacancy is expected to slow its rise as vaccination efforts lead to a return to office.
- 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 begin to rise through 2021, as tenants begin a return to the office.

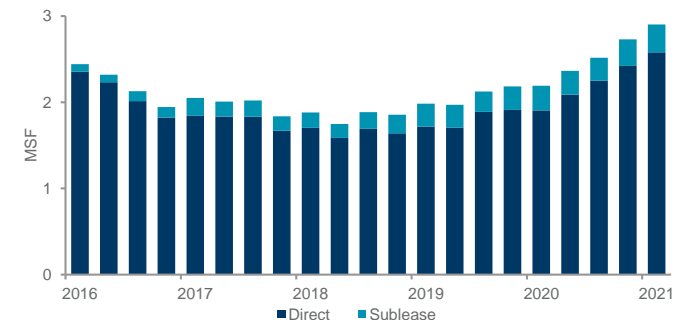
## SUBMARKET ASKING RENT



## 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	122,515	15.3%	-3,413	-3,413	3,090	12,517	\$4.64	\$5.08
Mill Valley	459,447	6,411	104,433	24.1%	-26,728	-26,728	0	0	\$5.14	\$5.18
Southern Marin County	1,268,462	7,786	226,948	18.5%	-30,141	-30,141	3,090	12,517	\$4.88	\$5.13
Corte Madera	467,301	11,596	65,233	16.4%	2,083	2,083	11,775	0	\$4.32	\$5.26
Greenbrae/Larkspur	890,945	16,430	126,783	16.1%	-18,790	-18,790	18,004	0	\$5.14	\$4.91
Central Marin County	1,358,246	28,026	192,016	16.2%	-16,707	-16,707	29,779	0	\$4.85	\$5.01
San Rafael	4,497,630	13,303	655,700	14.6%	-73,687	-73,687	4,867	0	\$3.25	\$3.52
Novato	2,729,695	66,144	382,384	16.4%	-14,563	-14,563	28,447	21,908	\$2.59	\$2.70
Northern Marin County	7,227,325	79,447	1,024,781	15.3%	-88,250	-88,250	33,314	21,908	\$2.98	\$3.11
<b>MARIN COUNTY TOTAL</b>	<b>9,854,033</b>	<b>115,259</b>	<b>1,443,745</b>	<b>15.8%</b>	<b>-135,098</b>	<b>-135,098</b>	<b>66,183</b>	<b>34,425</b>	<b>\$3.53</b>	<b>\$3.69</b>
Petaluma	2,787,099	171,345	305,349	17.1%	-33,328	-33,328	5,578	0	\$2.05	\$2.10
Rohnert Park/Cotati	1,988,130	2,280	242,841	12.3%	43,041	43,041	63,173	0	\$1.67	N/A
Santa Rosa	7,858,939	34,694	588,031	7.9%	-48,750	-48,750	57,806	0	\$1.93	\$1.95
<b>SONOMA COUNTY TOTAL</b>	<b>12,634,168</b>	<b>208,319</b>	<b>1,136,221</b>	<b>10.6%</b>	<b>-39,037</b>	<b>-39,037</b>	<b>126,557</b>	<b>0</b>	<b>\$1.93</b>	<b>\$2.04</b>
<b>Class Breakdown</b>										
Class A	7,843,718	245,748	1,190,307	18.3%	-84,321	-84,321		34,425	N/A	\$3.23
Class B	13,053,075	77,830	1,287,305	10.5%	-72,800	-72,800		0	\$2.32	N/A
<b>NORTH BAY TOTAL</b>	<b>22,488,201</b>	<b>323,578</b>	<b>2,579,966</b>	<b>12.9%</b>	<b>-174,135</b>	<b>-174,135</b>	<b>192,740</b>	<b>34,425</b>	<b>\$2.79</b>	<b>\$3.23</b>

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

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

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
7250 Redwood Boulevard	Novato	Hennessy Advisors	13,728	Renewal
60 E. Sir Francis Drake Boulevard	Larkspur	Gilmartin Group	5,504	New Lease

KEY SALE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3750 Westwind Boulevard	Santa Rosa	Tulloch Corporation / Gatehouse Partners & McNeill Real Estate	70,281	\$9.25M/\$133
585 W. College Avenue	Santa Rosa	Eugene Belogorsky / Hsiang Tseng	8,004	\$3.15M/\$394

# North Bay

Office Q1 2021



OFFICE SUBMARKETS



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