

YoY Chg 12-Mo. Forecast

5.7%
Vacancy Rate



40K
Net Absorption, SF



\$1.19
Asking Rent, PSF



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

ECONOMIC INDICATORS Q2 2021

YoY Chg 12-Mo. Forecast

297.5K
North Bay Employment



5.0%
North Bay Unemployment Rate



5.9%
U.S. Unemployment Rate



Source: BLS

Economic Overview

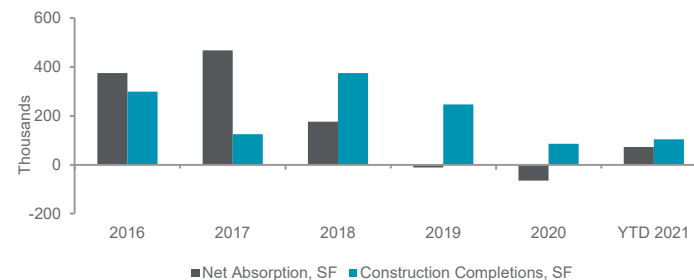
The North Bay, comprised of Marin & Sonoma counties, closed the second quarter with an unemployment rate of 5.0%, down 750 basis points (bps) year-over-year (YOY). This translates to an increase of 23,300 non-farm payroll positions. After a winter surge in COVID-19 cases led to a first quarter increase in unemployment, widespread vaccination efforts have accelerated the economic recovery through the second quarter with 96.5% and 80.3% of residents over 16 having received at least their first dose of a COVID-19 vaccine in Marin and Sonoma counties, respectively. Having proved relatively resilient against the economic pressures of COVID-19, the North Bay industrial market is booming with leasing and sales activity back to and, in some submarkets, outpacing pre-pandemic levels.

Positive Net Absorption Across

The North Bay industrial market closed the second quarter with an overall vacancy rate of 5.7%, recording its third consecutive quarter of positive net absorption. Vacancy declined in Marin County for the first quarter since 2019, shedding 30 bps to 5.6%. While leasing activity was down slightly from the prior quarter, the decline in vacancy was driven by several owner-user sales in the San Rafael and Novato submarkets.

In Sonoma County, vacancy rose modestly to 5.7%, an increase of 20 bps from the prior quarter. Overall net absorption was positive for the quarter but was outweighed by the delivery of new, vacant construction. Completed during the quarter was 201 Business Park Drive, a 69,431-square foot (sf) warehouse in the submarket of Rohnert Park. Partially leased, the property added approximately 53,000 sf of vacancy to the submarket. Driving positive absorption in the county were the Petaluma and Sebastopol submarkets. Petaluma recorded its third consecutive quarter of positive net absorption, as strong leasing activity continued to erode available inventory. Santa Rosa, the county's largest submarket, recorded a 30 bps increase in vacancy to close the second quarter. However, the market saw its highest leasing activity since the first quarter of 2019 and vacancy is expected to decline in the second half of 2021.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Rental Rates Rise

The overall asking rent in the North Bay declined \$0.02, finishing the second quarter at \$1.19 per square foot (psf) on a monthly triple-net basis. In Marin, the asking rate is down 5.8% YOY to \$1.28 psf, as several large availabilities in Novato are priced to draw larger tenants south from Sonoma County. While reported as triple-net, the majority of Marin availabilities are published on an industrial gross (IG) basis. On a gross basis, the average asking rate in Marin is approximately \$1.50 psf.

The overall asking rate in Sonoma County increased \$0.03 to \$1.19 psf, reaching a new market high for the fourth consecutive quarter. Santa Rosa and Petaluma continue to command the highest asking rates of \$1.21 and \$1.19 psf, respectively. Asking rents in Santa Rosa remain slightly inflated by properties marketed to cannabis tenants, but as transactions for traditional space continue to occur at or above \$1.10 psf, it is important to note the strong rental growth occurring at the property level. Asking rates increased in Rohnert Park, Sonoma and Sebastopol, indicative of strong demand throughout the county, not solely in the largest submarkets.

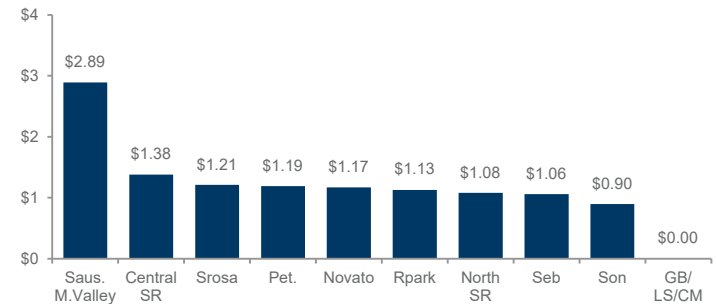
Following a slow start to the year, industrial leasing activity picked up significantly in the second quarter. The largest lease of the quarter was OnTrac signing a 69,900-sf lease at 2249 S. McDowell in Petaluma. In Santa Rosa, a 53,000-sf lease was signed at 3000 Dutton and Sonoma Brinery took 24,060 sf at 256 Sutton Place. Demand continues to be driven by the North Bay's diverse tenant base, as users ranging from artisanal food manufacturers to global logistics companies all vie for space.

Strong demand has caught the attention of investors and after seeing a brief decline during the pandemic, sales activity picked back up in the second quarter. The largest sale of the quarter was DRA Advisors' acquisition of 2277 Pine View Way in Petaluma. The 120,000-sf property, fully leased to Workrite Ergonomics, was sold by a joint venture between Soma Capital and Drake Real Estate Partners for \$25.15 million. Also of note was the sale of 2249 S. McDowell, a 110,000 warehouse in the submarket of Petaluma. The property was acquired by Scannell for \$17.5 million from Hydrofarm, the current user. Hydrofarm plans to vacate the property by the end of the year and Scannell has already secured a lease for the majority of the property with OnTrac. Strong demand and rising rents should lead to continued investment in the latter half of 2021.

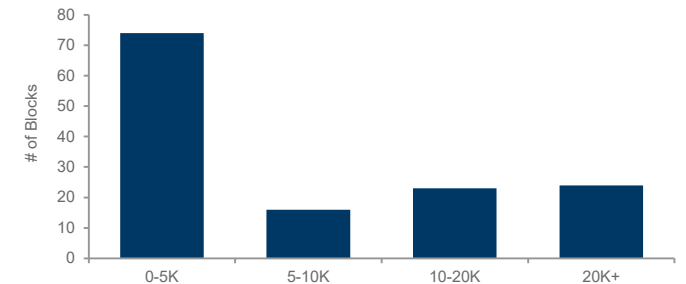
Outlook

- 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%	0	-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	85,044	2.6%	-827	4,389	0	0	\$1.38
North San Rafael	504,864	11,431	2.3%	13,511	11,191	0	0	\$1.08
Novato	2,108,334	256,261	12.2%	5,745	-13,275	40,080	0	\$1.17
MARIN COUNTY	6,585,463	367,949	5.6%	18,429	-1,937	40,080	0	\$1.28
Petaluma	6,629,652	391,079	5.9%	33,554	60,463	0	0	\$1.19
Rohnert Park	2,263,216	228,124	10.1%	616	47,024	0	69,431	\$1.13
Santa Rosa	11,648,315	625,196	5.4%	-31,412	-101,004	214,312	0	\$1.21
Sonoma	2,757,891	67,800	2.5%	0	6,000	0	0	\$0.90
Sebastopol/Graton	1,391,987	90,148	6.5%	18,580	62,729	0	0	\$1.06
SONOMA COUNTY	24,691,061	1,402,347	5.7%	21,338	75,212	214,312	69,431	\$1.19
NORTH BAY TOTALS	31,276,524	1,770,296	5.7%	39,767	73,275	254,392	69,431	\$1.19

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

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

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2249 S. McDowell Boulevard	Petaluma	OnTrac	69,901	New Lease
3000 Dutton Avenue	Santa Rosa	N/A	53,292	New Lease
256 Sutton Place	Santa Rosa	Sonoma Brinery	24,060	New Lease

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2277 Pine View Way	Petaluma	Soma Capital & Drake Real Estate Partners / DRA Advisors	120,480	\$25.15M/\$209
2249 S. McDowell Boulevard	Petaluma	Hydrofarm / Scannell Properties	109,993	\$17.5M/\$159

North Bay

Industrial Q2 2021

INDUSTRIAL SUBMARKETS



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