

YoY Chg 12-Mo. Forecast

13.1%
Vacancy Rate



-81K
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
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

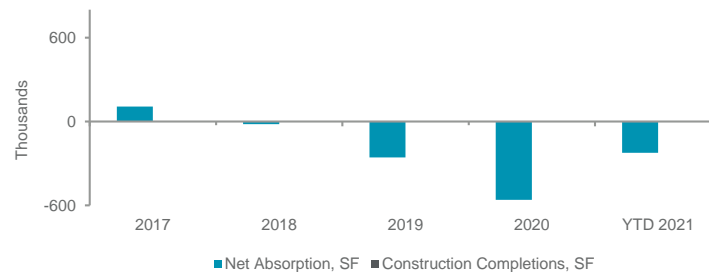
The North Bay, comprised of Marin & Sonoma counties, closed the second quarter with an unemployment rate of 5.0%, down 750 basis points (bps) year-over-year (YOY). This translates to an increase of 23,300 non-farm payroll positions. After a winter surge in COVID-19 cases led to a first quarter increase 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. As a result, the counties have eased social distancing mandates and the market is seeing employees back in the office. Tenants are continuing to gain clarity in their real estate decisions, which should lead to an increase in leasing activity in the coming quarters, slowing the recent rise in vacancy. Access the most recent research on CRE and the state of economy [here](#).

Vacancy Continues to Rise

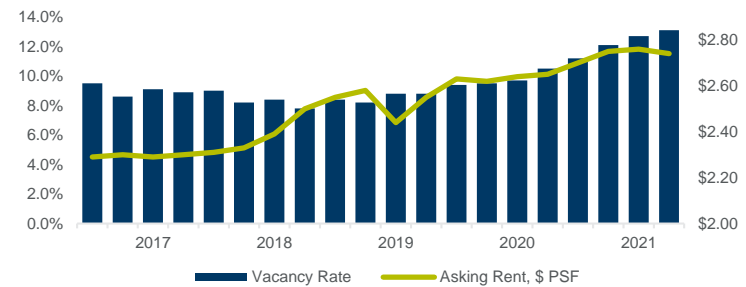
The North Bay vacancy rate closed the second quarter at 13.1%, a quarterly increase of 40 bps. This is the smallest increase since the first quarter of 2020 and a positive indication that demand is slowly returning to the market. Vacancy in Marin County was 16.0%, its highest level since 2011, however the quarterly increase was just 40 bps. This rise was not evenly distributed across the County's submarkets. Central Marin recorded its first positive net absorption since 2019 and vacancy declined 240 bps, closing the quarter at 13.6%. Conversely, Northern and Southern Marin both saw vacancy rise in excess of 80 bps. Central Marin benefited from both its location and the quality of its inventory, recording over 60% of the County's leasing activity while making up just 13.8% of the building base.

Sonoma County saw a modest increase in vacancy of just 30 bps, closing the second quarter at 10.8%. Sonoma has experienced a significantly slower rise in vacancy and in this quarter, vacancy declined in all but the Santa Rosa submarket. Petaluma saw vacancy drop 70 bps, after reaching a market high of 16.4% in the first quarter. Much of this positive net absorption came from the easing of sublease space, with several availabilities being either leased or withdrawn as tenants reevaluated their needs. Santa Rosa, the County's largest submarket, recorded 79,000 square feet (sf) of negative net absorption. This historically stable market outperformed the rest of the North Bay in the early days of the pandemic, but a decline in leasing activity has led to rising vacancy in the past three quarters.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



North Bay

Office Q2 2021



Tenant demand returning in this submarket will be a deciding factor in how quickly vacancy declines for the County as a whole

Asking Rates Slip

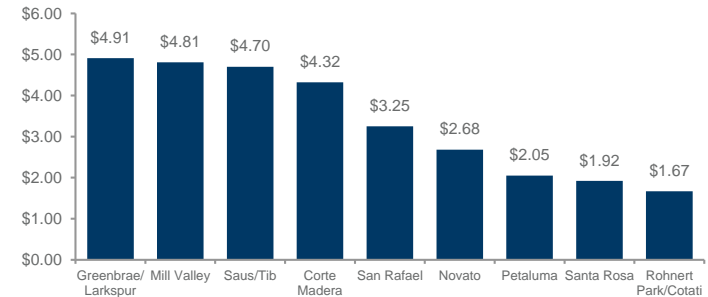
The overall average asking rate decreased \$0.02 to \$2.74 per square foot (psf) on a monthly full-service basis. This decline is dually attributed to a reduction of vacancy in the region's most expensive submarkets and a softening of rents at the property level. Marin County's average asking rate slid to \$3.46 psf as vacancy fell in Central Marin, where recently leased availabilities had been asking upwards of \$6.00 psf. The asking rate in Central Marin declined \$0.15 to \$4.70 psf as leasing activity has largely occurred in the market's quality spaces. Asking rates increased in Northern and Southern Marin as Class A vacancy rose. Sonoma County's average asking rate held level this quarter at the market high of \$1.92 psf. Petaluma remains the most expensive submarket with an average asking rate of \$2.05, buoyed by several large, Class A availabilities. Amidst rising vacancy, landlords are placing a premium on filling their properties. This has led to a decline in published asking rates from 5-15% and an increasing delta between the asking and effective rate. It is unlikely that asking rates will rise again until demand is seen more evenly across submarkets.

Transaction volumes remained down in the second quarter for both leases and sales. Overall leasing activity remained below pre-pandemic levels but is up over both the prior quarter and year. Historically a small tenant market, the North Bay has seen the average transaction become even smaller. In Marin, approximately 75% of office lease transactions in the second quarter were under 2,500 sf. Larger tenants may take longer to return to the market because it is becoming apparent that the ability to go back into the office has not translated into a full-scale return. Many companies are examining the possibility of keeping employees remote in some capacity by adopting a hybrid work model. Leasing activity, particularly in the larger size segments, should improve as companies finalize their plans. Sales activity is yet to return to the market in a meaningful way, without any office sales over 10,000 sf in the second quarter. Sales activity was largely concentrated amongst small owner-users, who took advantage of favorable interest rates to own at a lower per square foot cost basis than they could lease. The investor interest seen in 2019 remains subdued and is unlikely to return until the market can prove sustained tenant demand.

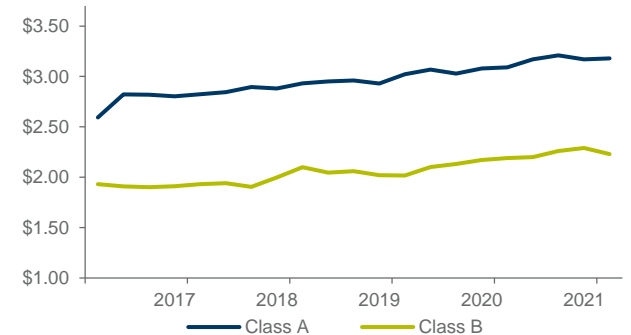
Outlook

- 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. The market rate will largely be dictated by shifting submarket vacancies.
- Investment activity in the office sector will not rise until tenants return to the office.

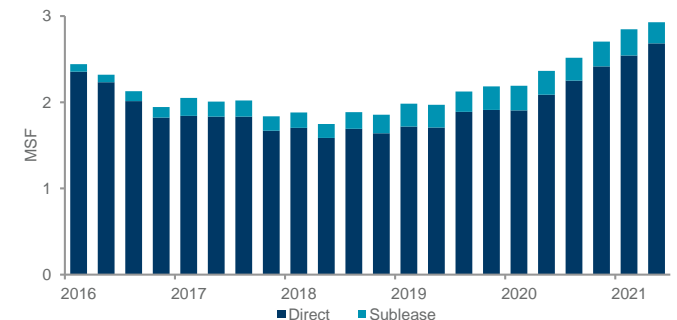
SUBMARKET ASKING RENT



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	818,015	3,828	121,421	15.3%	-4,975	-7,172	11,038	12,517	\$4.70	\$5.08
Mill Valley	459,447	12,955	81,197	20.5%	-8,586	-10,036	2,461	0	\$4.81	\$5.18
Southern Marin County	1,277,462	16,783	202,618	17.2%	-13,561	-17,208	13,499	12,517	\$4.75	\$4.96
Corte Madera	467,301	11,596	56,092	14.5%	9,141	11,224	9,763	0	\$4.32	\$5.26
Greenbrae/Larkspur	890,945	18,007	99,019	13.1%	22,873	6,329	89,481	0	\$4.91	\$4.85
Central Marin County	1,358,246	29,603	155,111	13.6%	32,014	17,553	99,244	0	\$4.70	\$4.94
San Rafael	4,438,264	13,303	672,031	15.4%	-34,296	-106,215	27,599	0	\$3.25	\$3.51
Novato	2,701,558	24,271	450,974	17.6%	-26,067	-40,630	41,257	21,908	\$2.68	\$2.81
Northern Marin County	7,139,822	37,574	1,123,005	16.3%	-60,363	-146,845	68,856	21,908	\$3.01	\$3.16
MARIN COUNTY TOTAL	9,775,390	83,960	1,480,734	16.0%	-41,910	-146,500	181,599	34,425	\$3.46	\$3.64
Petaluma	2,790,682	135,054	303,469	15.7%	18,782	-14,546	25,640	0	\$2.05	\$2.10
Rohnert Park/Cotati	1,962,572	2,280	218,693	11.3%	21,078	67,189	82,984	0	\$1.67	N/A
Santa Rosa	7,847,467	23,198	680,910	9.0%	-78,916	-130,133	157,297	0	\$1.92	\$1.92
SONOMA COUNTY TOTAL	12,600,721	160,532	1,203,072	10.8%	-39,056	-77,490	265,921	0	\$1.92	\$2.02
Class Breakdown										
Class A	7,841,926	204,029	1,250,255	18.5%	-50,207	-102,913		34,425	N/A	\$3.18
Class B	12,935,773	40,463	1,324,795	10.6%	-19,931	-96,305		0	\$2.23	N/A
NORTH BAY TOTAL	22,376,111	244,492	2,683,806	13.1%	-80,966	-223,990	447,520	34,425	\$2.74	\$3.18

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

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

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
700, 900, & 1100 Larkspur Landing Circle	Larkspur	Confidential	27,711	Expansion
101 Glacier Point Road	San Rafael	SpotOn	12,589	New Lease
3333 Mendocino Avenue	Santa Rosa	Keller Williams	8,496	New Lease
300 Drakes Landing Road	Greenbrae	KCM Investments	8,113	New Lease

KEY SALE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
140 Keller Street	Petaluma	E3 Advisors / Fillmore Capital Partners	9,300	\$2.6M/\$280
1120 Lincoln Avenue	San Rafael	Steven James / John Doyle	5,379	\$1.37M/\$254

North Bay

Office Q2 2021



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