

YoY Chg 12-Mo. Forecast

5.2%
Vacancy Rate



161K
Net Absorption, SF



\$1.18
Asking Rent, PSF



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

Economic Overview

The North Bay, comprised of Marin & Sonoma counties, closed the third quarter with an unemployment rate of 4.7%, down 380 basis points (bps) year-over-year (YOY). This translates to an increase of 15,100 non-farm payroll positions. While widespread vaccinations led to California reopening in June of 2021, a summer surge in cases, driven by the new Delta variant, led to the reintroduction of mask mandates and social distancing policies across the Bay Area. While these measures weighed on office occupancy, industrial property markets continued to showcase resilience to the economic effects of COVID-19. The North Bay industrial market recorded its strongest quarter of net absorption since early 2019, and rents remain near historic highs.

Sonoma County Drives Absorption

The North Bay industrial market closed the third quarter with an overall vacancy rate of 5.2%, a decline of 50 bps from the second quarter and the market's fourth consecutive quarter of positive net absorption. Vacancy rose in Marin County, gaining 30 bps to end the third quarter at 6.0%. While vacancy did climb, leasing activity was up as well and is expected to lead to positive net absorption heading into 2022.

In Sonoma County, vacancy recorded its largest single quarter decline since early 2018, shedding 80 bps to close the third quarter at 4.9%. Over 180,000 square feet (sf) were absorbed, the result of several consecutive quarters of strong leasing activity. Santa Rosa was the driving force behind this absorption with vacancy falling 140 bps to 4.1%. This submarket continued to record strong leasing activity, but vacancy will have to contend with speculative construction that is set to deliver in the coming quarters. Vacancy declined in Petaluma as well, down 190 bps year-over-year to close the third quarter at 5.3%. Only the Sebastopol-Graton submarket recorded negative net absorption this quarter, with several new vacancies coming to market. However, vacancy in that submarket is still down year-to-date (YTD) and with only a handful of spaces available, new availabilities are unlikely to remain vacant for long.

Rental Rates Diverge by County

The overall asking rent in the North Bay declined \$0.03, finishing the third quarter at \$1.18 per square foot (psf) on a monthly triple-net basis. In Marin, the asking rate is up 3.8% YOY to \$1.36 psf, with new vacancy this quarter concentrated in the more expensive regions of central and southern Marin.

ECONOMIC INDICATORS Q3 2021

YoY Chg 12-Mo. Forecast

303.0K
North Bay Employment



4.7%
North Bay Unemployment Rate

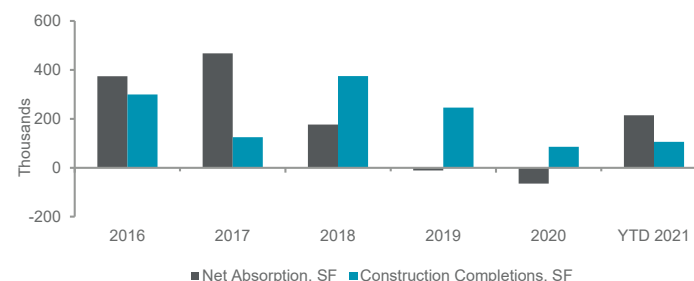


5.2%
U.S. Unemployment Rate



Source: BLS

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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 \$1.55 psf.

The overall asking rate in Sonoma County declined \$0.03 to \$1.13 psf, down from the market high of \$1.19 psf recorded in the first quarter of this year. This decline is not due to any softening of rents, but rather vacancy has been consistently declining in the region's most desirable submarkets. Petaluma and Santa Rosa continue to command the highest asking rates of \$1.19 and \$1.18 psf, respectively. As vacancy declines in these submarkets, so too will the overall asking rate, despite sustained rental growth at the property level. Sonoma County continued to record industrial lease transactions at or above \$1.20 psf, a testament to tenant demand for well located, quality space.

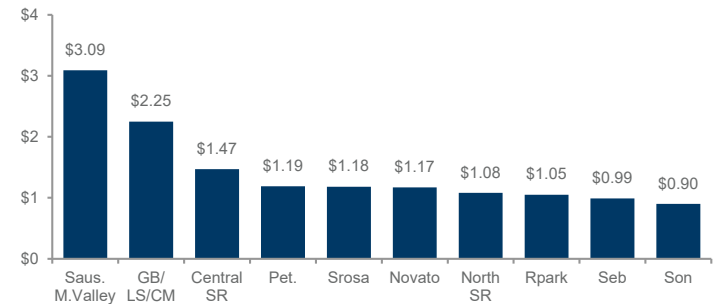
The largest lease of the quarter was a renewal by General Hydroponics for 169,717 sf at 2789 Giffen Avenue, demonstrating large tenant desire to remain in the North Bay. Also, of note was Ferguson Enterprises' 26,309-sf lease at 201 Business Park Drive. 201 Business Park Drive is the newest building in the North Bay's inventory and was delivered in the second quarter on a speculative basis. The property is now approximately two thirds leased, as tenants look to new inventory in a relatively supply constrained market.

Sales activity in the third quarter was driven by owner-users, as several companies took advantage of low interest rates to buy, rather than lease space. The largest sale was NeilMed Pharmaceuticals' purchase of 1415 N. McDowell in Petaluma, paying \$5.85 million for the 31,319-sf flex property. Also in Petaluma was the owner-user purchase of 601 N. McDowell, with the buyer paying \$2.15 million for the 11,692-sf property. In a market like Petaluma that has recorded consistent annual rental growth, there is strong demand to purchase and lock in the cost of space. Owner-user purchases were not limited to existing inventory, with a 3.2-acre industrial land site selling in Rohnert Park for \$2.56 million to a user who plans to construct a facility for their trucking business. Investor activity was muted this quarter after several significant transactions in the prior period. However, given strong market fundamentals, investment sales are expected to accelerate into 2022.

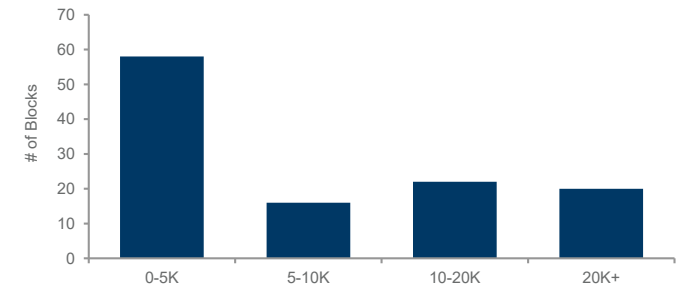
Outlook

- Leasing activity remained elevated this quarter and is expected to hold vacancy level amidst new construction.
- Asking rates may continue to see a modest rise into 2022 as a result of strong demand and new construction
- Inventory is expected to increase into 2022, which could place upward pressure on both vacancy and rents

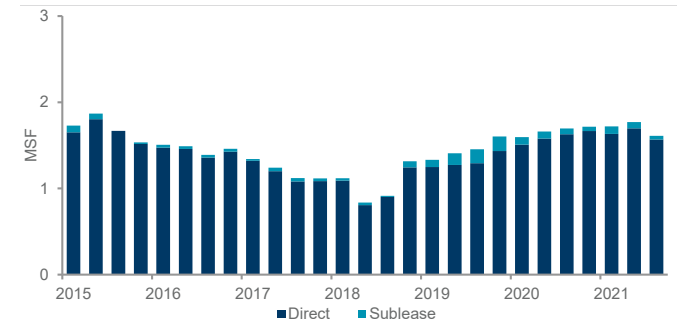
RENT BY MARKET (\$ PSF, NNN)



AVAILIBILITIES 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	422,880	17,550	4.2%	-2,337	-6,579	0	0	\$3.09
Greenbrae/CM/Larkspur	292,133	16,865	5.8%	-16,865	-16,865	0	0	\$2.25
Central San Rafael	3,218,676	83,871	2.6%	5,324	12,788	0	0	\$1.47
North San Rafael	504,864	13,939	2.8%	0	13,511	0	0	\$1.08
Novato	2,084,199	260,497	12.5%	-8,016	-17,511	40,080	0	\$1.17
MARIN COUNTY	6,522,752	392,722	6.0%	-21,894	-19,484	40,080	0	\$1.36
Petaluma	6,605,326	350,708	5.3%	40,371	100,834	0	0	\$1.19
Rohnert Park	2,261,497	175,242	7.7%	43,185	100,025	0	0	\$1.05
Santa Rosa	11,663,278	480,036	4.1%	156,150	15,453	214,312	0	\$1.18
Sonoma	2,759,516	67,800	2.5%	1,625	7,625	0	0	\$0.90
Sebastopol/Graton	1,391,987	143,313	10.3%	-57,599	9,564	0	0	\$0.99
SONOMA COUNTY	24,681,604	1,217,099	4.9%	183,732	233,501	214,312	0	\$1.13
NORTH BAY TOTALS	31,204,356	1,609,821	5.2%	161,838	214,017	254,392	0	\$1.18

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

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

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2789 Giffen Avenue	Santa Rosa	General Hydroponics	169,717	Renewal
201 Business Park Drive	Rohnert Park	Ferguson Enterprises	26,309	New Lease
3490 Regional Parkway	Santa Rosa	CED Greentech	24,178	New Lease

KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1415 N. McDowell Boulevard	Petaluma	NSA Investments / NeilMed Pharmaceuticals	31,319	\$5.85M/\$187
17 Paul Drive	San Rafael	Scott Robert Living Trust / Amboni LLC	19,400	\$3.15M/\$1.62

North Bay

Industrial Q3 2021

INDUSTRIAL SUBMARKETS



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