

YoY Chg 12-Mo. Forecast

12.9%

Vacancy Rate



-23K

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 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, Moody's Analytics

2021Q3 data are based on latest available data.

Economic Overview

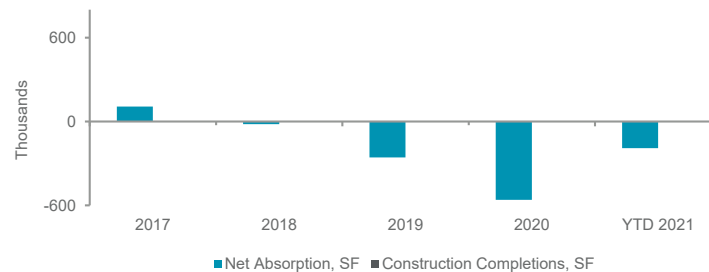
The North Bay, comprised of Marin & Sonoma counties, closed the third quarter with an unemployment rate of 4.7%, down 380 basis points (bps) year-over-year (YOY). This translates to an increase of 15,100 non-farm payroll positions. While widespread vaccinations led to California reopening in June of 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. In the North Bay, this created a slowdown in leasing activity as companies again pressed pause to reevaluate their office needs. Case numbers began falling in September, but it may take several quarters before market confidence is restored. Access the most recent research on CRE and the state of economy [here](#).

Vacancy Slows its Rise

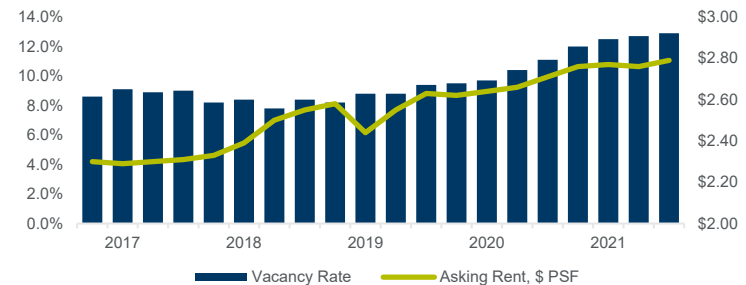
The North Bay vacancy rate closed the third quarter at 12.9%, a quarterly increase of just 20 bps. This is the smallest increase since the fourth quarter of 2019 and a sign that certain segments of the market may be beginning to stabilize. The total market has also seen available sublease space decline for two consecutive quarters, reversing one of the major trends of the pandemic. Vacancy in Marin County was 16.6%, its highest rate in over a decade. The county recorded 42,163 square feet (sf) of negative net absorption, driven by significant new vacancies in the submarkets of Mill Valley and Novato. In Mill Valley, approximately 25,000 sf became available at 2 Belvedere Place. This drove vacancy in this small submarket to 27.3%. The space was leased by WeWork in 2019 but is again being offered on a direct basis. WeWork still maintains 20,000 sf in 1 Belvedere Place. A bright spot in the North Bay continues to be Central Marin. The submarket recorded its second consecutive quarter of positive net absorption and vacancy was 11.8%, down 420 bps from the pandemic high.

Sonoma County saw vacancy decline 20 bps to 9.9%, the result of approximately 20,000 sf of positive net absorption. The submarket of Rohnert Park was responsible for this absorption with several tenants executing significant expansions in the SOMO village building park. Negative net absorption was highest in Petaluma, where 1420 N. McDowell added an additional 24,000 sf to the market, making the full building, 72,000-sf availability the largest contiguous space in Sonoma County. Vacancy was unchanged in Santa Rosa at 8.2%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



North Bay

Office Q3 2021



After recording 194,000 sf of negative absorption in the previous three quarters, level vacancy this quarter is a positive sign of stabilization in the region’s largest submarket. However, it may take some time before that market returns to the scant, 4.6% vacancy seen in early 2019.

Quality Space Lifts Rates

The overall average asking rate increased \$0.03 to \$2.79 per square foot (psf) on a monthly full-service basis. The rise can be dually attributed to negative absorption in Marin, the region’s more expensive market, and disproportionate vacancy in Class A properties. However, as the market average rises, rents at the property level have softened across most submarkets. Marin County’s average asking rent was \$3.46 psf, an increase of just \$0.01 over the previous quarter. Driving this was the previously mentioned vacancy at 2 Belvedere Place, which had an asking rate of \$6.25 psf. This pushed the average in Southern Marin up to \$4.94 psf, beating out Central Marin for the region’s most expensive submarket. The average asking rate in Sonoma County held level for the third consecutive quarter at a market high of \$1.92 psf. Petaluma remains Sonoma County’s priciest market at \$2.04 with several significant Class A availabilities. While some landlords have lowered their published asking rates, the real value for tenants has been the increase in lease concessions, where landlords are offering increasing amounts of free rent and buildout to maintain starting rent.

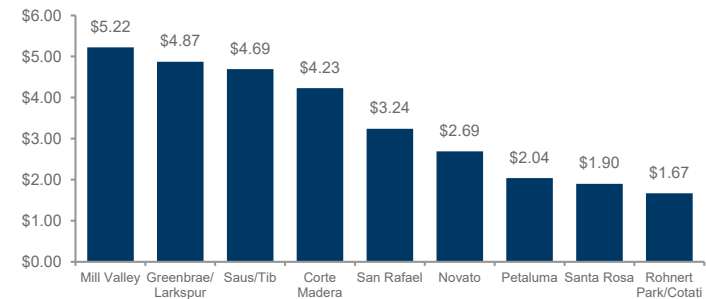
Leasing transaction volumes were up 15% year over year, despite a moderate slowdown from the second quarter. The largest lease of the quarter was Santa Rosa Community Health’s new lease for 19,404 sf at 120 Stony Point Road in Santa Rosa. Also of note were two leases signed this quarter at 100 Shoreline in Mill Valley. The first was for approximately 15,000 sf to Club Evexia, which plans to convert the Class A office space into a fitness facility. The second was Every Man Jack, signing a new lease for 11,934 sf. In a small tenant market like Marin, two leases over 10,000 sf are significant and will put downward pressure on vacancy when they occupy in the coming quarters.

Office sales volume picked up in the third quarter, with the market recording its first office sale over \$10 million since 2019. 101 Larkspur Landing Circle sold for \$17.75 million to O’Neill Vintners, a current tenant in the project. The 35,131-sf office building had a price per foot of \$505. A lack of sale transactions has been the most dramatic effect of COVID-19 on the North Bay office market, but as sections of the market begin to stabilize, investor interest is expected to return.

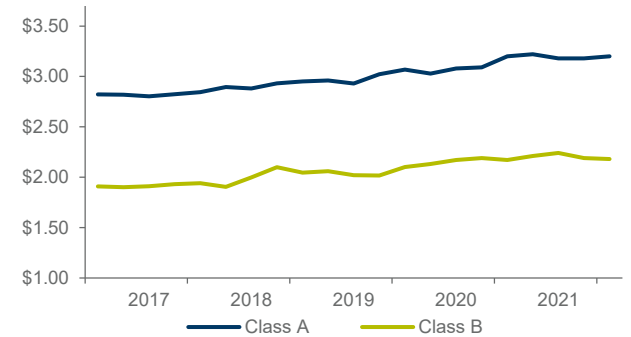
Outlook

- 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 may increase in select markets.

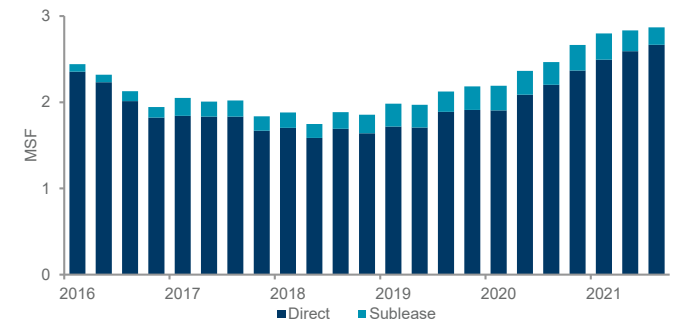
SUBMARKET ASKING RENT



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	866,941	3,828	127,514	15.2%	6,870	-302	24,077	0	\$4.69	\$5.01
Mill Valley	442,641	12,955	107,955	27.3%	-26,758	-36,794	33,033	0	\$5.22	\$5.28
Southern Marin County	1,309,582	16,783	235,469	19.3%	-19,888	-37,096	57,110	0	\$4.94	\$5.15
Corte Madera	459,161	11,596	54,354	14.4%	-817	12,223	13,367	0	\$4.23	\$5.18
Greenbrae/Larkspur	890,945	15,601	78,173	10.5%	23,252	29,581	107,538	0	\$4.87	\$4.81
Central Marin County	1,350,106	27,197	132,527	11.8%	22,435	41,804	120,905	0	\$4.61	\$4.89
San Rafael	4,414,808	18,175	655,991	15.3%	10,998	-95,047	45,697	0	\$3.24	\$3.50
Novato	2,631,892	26,271	503,471	20.1%	-55,708	-94,725	48,522	21,908	\$2.69	\$2.80
Northern Marin County	7,046,701	44,446	1,159,462	17.1%	-44,710	-189,772	94,219	21,908	\$3.00	\$3.13
MARIN COUNTY TOTAL	9,706,389	88,426	1,527,458	16.6%	-42,163	-185,064	272,234	21,908	\$3.46	\$3.65
Petaluma	2,780,487	83,726	352,760	15.7%	-17,109	-7,882	47,407	0	\$2.04	\$2.10
Rohnert Park/Cotati	1,962,572	2,280	167,708	8.7%	41,288	118,174	101,188	0	\$1.67	N/A
Santa Rosa	7,869,625	28,680	618,533	8.2%	-4,540	-116,174	180,507	0	\$1.90	\$2.19
SONOMA COUNTY TOTAL	12,612,684	114,686	1,139,001	9.9%	19,639	-5,882	329,102	0	\$1.92	\$2.15
Class Breakdown										
Class A	7,909,300	137,953	1,446,265	20.0%	-74,769	-197,195		21,908	N/A	\$3.20
Class B	12,551,686	64,659	1,138,989	9.6%	25,404	3,970		0	\$2.18	N/A
NORTH BAY TOTAL	22,319,073	203,112	2,666,459	12.9%	-22,524	-190,946	601,336	21,908	\$2.79	\$3.20

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

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

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
120 Stony Point Road	Santa Rosa	Santa Rosa Community Health	19,404	New Lease
100 Shoreline Highway	Mill Valley	Club Evexia	15,528	New Lease
100 Shoreline Highway	Mill Valley	Every Man Jack	11,934	New Lease
101 Caledonia Street	Sausalito	Tolleson Design	6,705	New Lease

KEY SALE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
101 Larkspur Landing Circle	Larkspur	Savoy Corporation / O'Neill Vintners & Distillers	35,131	\$17.75M / \$505
416 B Street	Santa Rosa	Flynn Investments / Koch Investment Co.	25,646	\$3.8M / \$148
101 Brookwood Avenue	Santa Rosa	Matthew Smith / Accretive Realty Advisors	13,079	\$5.0M / \$382

North Bay

Office Q3 2021



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