

YoY Chg 12-Mo. Forecast

12.7%

Vacancy Rate



-22K

Net Absorption, SF



\$2.83

Asking Rent, PSF



(Overall, All Property Classes)

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

**ECONOMIC INDICATORS
Q4 2021**

YoY Chg 12-Mo. Forecast

307.1K

North Bay Employment



4.8%

North Bay Unemployment Rate



4.2%

U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2021Q4 data are based on latest available data.

Economic Overview

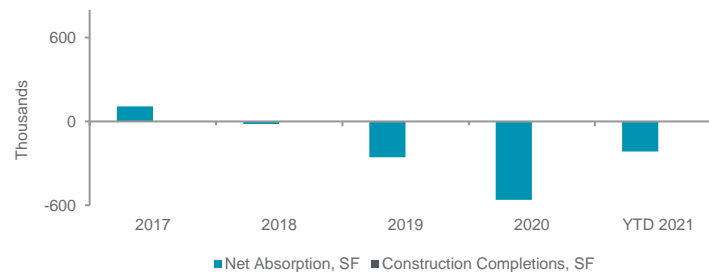
The North Bay, comprised of Marin & Sonoma counties, closed the third quarter with an unemployment rate of 4.8%, down 150 basis points (bps) year-over-year (YOY). This translates to an increase of 17,300 non-farm payroll jobs for the region. While Marin County successfully qualified to remove its mask mandate, the Omicron variant has lead county and state officials to reintroduce mask mandates and social distancing policies across the Bay Area. As Covid surges at the beginning of 2022, return to office policies and related leasing activity may slow in the first quarter. Access the most recent research on CRE and the state of economy [here](#).

Low Vacancy for Quality Product

The North Bay closed the year with an overall vacancy rate of 12.7% -- a slight increase of 10 bps from the third quarter. Overall available space rose in each of the last five quarters, making for a total of 2.6 million sf of available space. The North Bay hasn't seen this amount of available office space since the third quarter 2015. Both in the data and anecdotally, numerous large firms that would otherwise be new entrants into the market are sitting out the pandemic recovery to redetermine their office use. This hesitancy has contributed to an overall flight to quality by lessees in the market where high quality, amenity-laden spaces are in demand to justify return-to-office policies in the wake of the pandemic. Lower quality office developments are seeing higher vacancy rates because mediocre quality office space is failing to attract or retain tenants who can make do with temporary work from home policies.

Marin County has seen vacancy rates rise in each of the last five quarters, reaching 17.1% overall vacancy in the fourth quarter. This is a 230-bps increase YOY, where each of the last four quarters have seen small increases between 50 and 100 bps. In Central Marin County (Corte Madera and Greenbrae/Larkspur Submarkets), there has been a YOY decrease in vacancy of 300bps and North and South Marin County saw YOY vacancy increases around 300 bps. This is accounted for in 20,000+ sf availabilities arriving on the market at Bayview Landing, Marin Business Center, and Hamilton Landing that have remained vacant throughout the year in North and South Marin. Central Marin has experienced a rapid filling of its large inventory of smaller, high-quality office suites.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



North Bay

Office Q4 2021



Sonoma County has maintained a steady vacancy rate throughout the year. The fourth quarter logged 9.4% vacancy – a YOY increase of just 10 bps. The county stayed within a 30-bps range every quarter for each of the last 5 quarters (9.3%-9.7%). The county recorded 16,496 sf of net absorption in the fourth quarter and two of the last four quarters have recorded positive net absorption. The Rohnert Park/Cotati submarket was the singular Sonoma submarket that posted positive absorption with several tenants executing significant expansions in the SOMO village building park.

Rates Maintain and Leasing Slips

The North Bay saw an increase in average overall asking rent, ending the year at \$2.83 per square foot (psf). Asking rents rose in each of the last five quarters for a YOY increase of \$0.05 psf. Class A asking rents are at \$3.22 psf and Class B asking rents are at \$2.19 psf, marking a YOY increase for Class A and a YOY decrease for Class B. Marin County has seen a stagnation in rents at the county level, but North and South Marin submarkets have seen steady increases in asking rents as vacancies continue to creep up – indicative of new office product reaching the market at higher prices on average. Central Marin submarkets have seen steady decreases in asking rents with a \$0.39 decrease YOY due to higher priced spaces getting leased up and lower quality and lower priced spaces remaining on the market.

North Bay office markets saw a dip in leasing volume in both Marin and Sonoma Counties. Submarket level leasing activity was mixed. Petaluma saw the highest leasing volume in a year with Byte taking a large lease at 1465 N McDowell Blvd. Low leasing volume can be attributed to large players sitting out a pandemic recovery that makes returning to office a delicate proposition for larger employers.

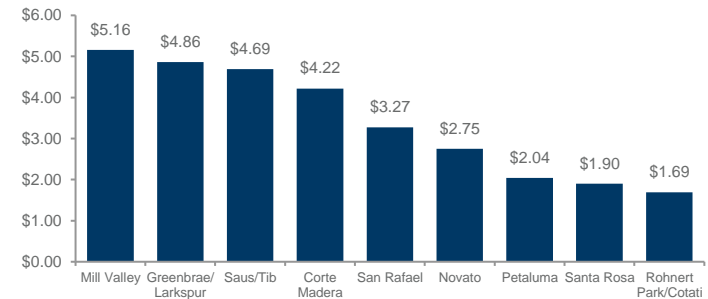
Significant Sales Quarter

Notable sales this quarter include the sale of Professional Financial Investors’ real estate portfolio which included over 560,000 sf of office product. Hamilton Zanze & Associates and their Graham Street Realty division purchased the portfolio of office and multifamily assets for \$434 million. Additionally, 5725 Paradise Dr. in Corte Madera, the headquarters of Restoration Hardware, traded hands this quarter. In a synthetic land lease transaction, the 100,524-sf building was purchased by DRA Advisors from Menlo Equities for \$32 million or about \$318 psf.

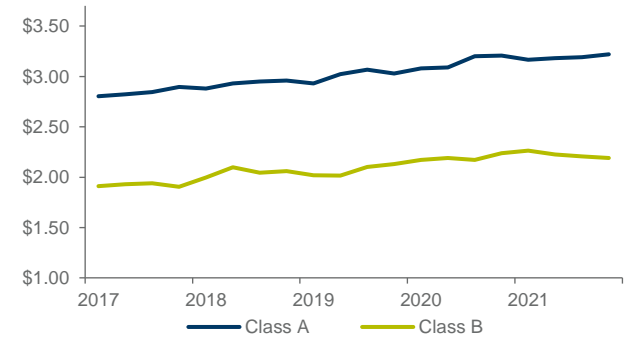
Outlook

- Vacancy is expected remain flat in the near-term as stronger activity among trophy product is somewhat offset by space returning to the market in the commodity category.
- Average asking rates will decline as high-rent spaces fill, leaving low quality office on the market.
- Investment activity is expected to remain buoyant thanks especially for top-tier, well-located product.

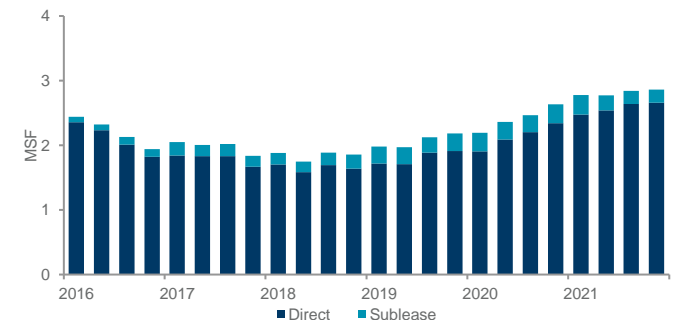
SUBMARKET ASKING RENT



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 | 119,853 | 14.3% | 6,870 | 11,020 | 31,484 | 0 | \$4.69 | \$5.03 |
| Mill Valley | 442,641 | 12,955 | 113,598 | 28.6% | -5,643 | -42,437 | 33,033 | 0 | \$5.16 | \$5.20 |
| Southern Marin County | 1,309,582 | 16,783 | 250,234 | 19.1% | 5,377 | -35,078 | 64,517 | 0 | \$4.93 | \$5.13 |
| Corte Madera | 459,161 | 11,596 | 52,182 | 13.9% | 5,236 | 17,459 | 19,260 | 0 | \$4.22 | \$5.18 |
| Greenbrae/Larkspur | 890,945 | 15,601 | 87,635 | 11.1% | -6,453 | 24,426 | 137,604 | 0 | \$4.86 | \$4.91 |
| Central Marin County | 1,350,106 | 22,890 | 139,817 | 12.1% | -1,217 | 41,885 | 156,864 | 0 | \$4.61 | \$4.97 |
| San Rafael | 4,414,808 | 55,106 | 673,842 | 16.5% | -46,092 | -136,642 | 72,806 | 0 | \$3.27 | \$3.52 |
| Novato | 2,631,893 | 12,385 | 507,417 | 19.8% | 3,447 | -83,682 | 67,590 | 0 | \$2.75 | \$2.85 |
| Northern Marin County | 7,046,701 | 67,491 | 1,181,259 | 17.7% | -42,645 | -220,324 | 140,396 | 0 | \$3.05 | \$3.18 |
| MARIN COUNTY TOTAL | 9,706,389 | 107,164 | 1,554,527 | 17.1% | -38,485 | -213,517 | 361,777 | 0 | \$3.49 | \$3.67 |
| Petaluma | 2,781,207 | 73,139 | 349,658 | 15.2% | 2,307 | -29,830 | 58,732 | 0 | \$2.04 | \$2.09 |
| Rohnert Park/Cotati | 1,948,412 | 2,280 | 203,631 | 10.6% | -15,824 | 79,111 | 128,150 | 0 | \$1.69 | N/A |
| Santa Rosa | 8,109,662 | 18,022 | 554,054 | 7.1% | 30,013 | -50,197 | 248,415 | 0 | \$1.91 | \$1.90 |
| SONOMA COUNTY TOTAL | 12,839,281 | 93,441 | 1,107,343 | 9.4% | 16,496 | -916 | 435,297 | 0 | \$1.91 | \$2.01 |
| Class Breakdown | | | | | | | | | | |
| Class A | 7,983,877 | 166,234 | 1,433,260 | 20.0% | -43,812 | -215,132 | | 0 | N/A | \$3.22 |
| Class B | 12,515,910 | 33,871 | 1,141,413 | 9.4% | 26,944 | 3,900 | | 0 | \$2.19 | N/A |
| NORTH BAY TOTAL | 22,545,670 | 200,605 | 2,661,870 | 12.7% | -21,989 | -214,433 | 797,074 | 0 | \$2.83 | \$3.22 |

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

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

KEY LEASE TRANSACTIONS Q4 2021

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|------------------------|--------------------|---|-------|-----------|
| 1465 McDowell Blvd, N. | Petaluma | Byte | 7,634 | New Lease |
| 1160 Dutton Ave., N. | Santa Rosa | Aces 2020 | 4,915 | New Lease |
| 100 Drakes Landing Rd | Greenbrae/Larkspur | Overlook Investments | 4,415 | Renewal |
| 1 McInnis Pkwy | San Rafael | Center for Volunteer and Nonprofit Leadership | 4,390 | New Lease |

KEY SALE TRANSACTIONS Q4 2021

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/\$PSF |
|-----------------------|--------------|---|---------|-----------------|
| 5725 Paradise Dr | Corte Madera | Menlo Equities / DRA Advisors | 100,524 | \$32M / \$318 |
| 7665 Redwood Blvd | Novato | Redwood Blvd Investments / Bay West Development | 30,584 | \$7.6M / \$248 |
| 825 Gravenstein Hwy N | Santa Rosa | KCCP Charitable Remainder Trust / Govardhan LLC | 14,123 | \$3.05M / \$216 |

North Bay

Office Q4 2021



OFFICE SUBMARKETS



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