

	YoY Chg	12-Mo. Forecast
13.6% Vacancy Rate	▲	▲
-187K Net Absorption, SF	▼	▲
\$2.80 Asking Rent, PSF	▲	▼

*(Overall, All Property Classes)
These values are not reflective of the U.S. MarketBeat Tables

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
308.8K North Bay Employment	▲	▲
4.0% North Bay Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2022Q1 data are based on latest available data.

Economic Overview

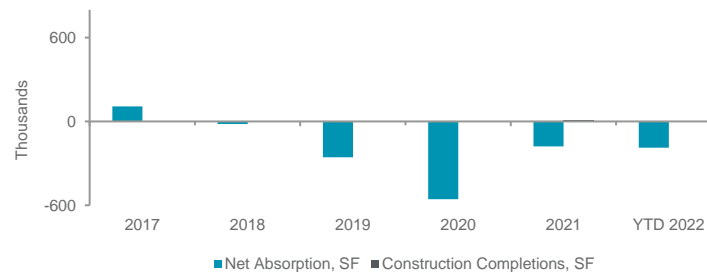
The North Bay, comprised of Marin & Sonoma counties, closed the first quarter with an unemployment rate of 4.0%, down 220 basis points (bps) year-over-year (YOY). This translates to an increase of 17,100 non-farm payroll positions. While a rise in COVID-19 cases late in 2021 threatened the momentum of California's recovery, the first quarter of 2022 has seen conditions improve substantially. In the North Bay, mask and social distancing mandates were dropped and many employers began planning for a return to office. However, while COVID-19 cases fell, employees' desire to work from home lingered, and has continued weighing on occupancy levels. As health concerns begin to fade, 2022 will be a telling year for how the pandemic altered work patterns in more permanent ways.

Vacancy Ticks Up

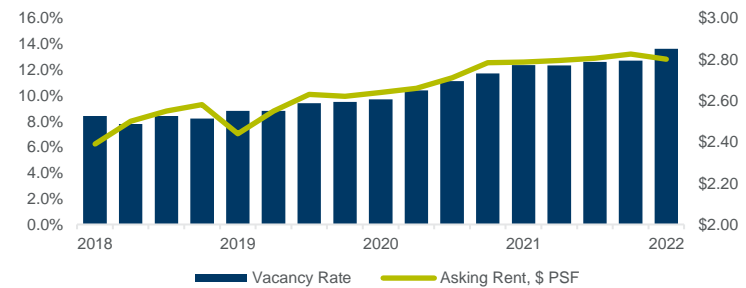
The North Bay vacancy rate closed the first quarter at 13.6%, a quarterly increase of 90 bps. This is a sharp reversal of recent quarters where the rise in vacancy had been slowing, with the market recording positive net absorption in the fourth quarter. Marin County was the driving force behind this change, recording approximately 115,000 square feet (sf) of negative net absorption this quarter. Of note was the rise in sublease space, centered in the submarket of San Rafael. Autodesk, one of the region's largest employers, placed the balance of their space at 3900 Civic Center on the market for sublease, creating a 45,000-sf vacancy. They do still maintain a large footprint in the region. Another large occupier, FICO, placed 20,000 sf of their office space on the market for sublease at 200 Smith Ranch Road. These combined with several additional availabilities to drive vacancy in Northern Marin to 18.6%, the highest of any submarket in the North Bay. A bright spot in the North Bay continued to be Central Marin. Despite recording a modest 10,000 sf of negative net absorption, vacancy in that market was down 400 bps from its pandemic high.

Sonoma County saw vacancy rise 60 bps to 10.5%, the result of approximately 69,000 sf of negative net absorption. All three of its submarkets recorded an increase in vacancy although overall, Sonoma County continued to outperform the region, with a vacancy rate significantly below the rest of the Bay Area. With an extremely diverse range of smaller tenants and several regionally committed major employers, the market has seen relatively little of the large block space give-backs and sublease availabilities that drove vacancy in neighboring regions. Vacancy was just 8.7% in Santa Rosa, the region's largest submarket and the county's stability has made it a bright spot throughout the pandemic.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



North Bay

Office Q1 2022



Rates Maintain and Leasing Lags

The overall average asking rate increased \$0.02 to \$2.80 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. Marin County's average asking rent was \$3.48 psf, an increase of just \$0.01 over the previous quarter. San Rafael recorded its highest overall asking rate on record, up \$0.09 from the prior quarter as Class A vacancy grew this quarter at twice the rate of Class B. The average asking rate in Sonoma County held level at \$1.91 psf, virtually unchanged for six consecutive quarters. Petaluma remains Sonoma County's priciest market at \$2.07 psf, with several significant Class A availabilities. The rise in Class A vacancy has occurred alongside a seemingly contradictory flight to quality, where the majority of leases have been signed for the market's best spaces. Unfortunately, demand has not been able to outpace spaces returning to the market and the large floor plate availabilities that move vacancy are typically found in Class A buildings. Landlords with the highest quality, market-ready spaces have been the most successful in capturing new tenants.

Leasing transaction volumes were roughly level year over year, as the market struggles to reach pre-pandemic levels of activity. While mandates and masks have faded, employers are still struggling to bring employees back into the office, complicating their real estate decisions. The inability to accurately predict their space needs has would-be occupiers dragging their feet. A bright spot in new demand continues to be the implementation of decentralized offices, with occupiers opening new locations in suburban markets. Marin County has seen several new tenants open secondary offices or move completely out of San Francisco. The largest lease of the quarter was signed by Jyzen Labs for approximately 18,000 sf at 100 Shoreline in Mill Valley.

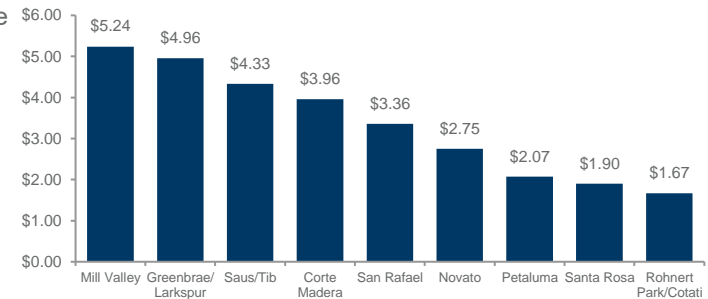
Sales Activity Continued

After 18 months of sluggish activity throughout the pandemic, investment sales have maintained their momentum in 2022. The two largest buildings to trade hands were part of a larger California portfolio with Pinnacle Capital Management disposing of eight properties totaling 382,000 sf to TIAAA and Healthcare Realty Trust. In the North Bay this included 1350 S. Eliseo a 45,000-sf medical office building in Greenbrae that traded for \$813 psf and 3536 Mendocino Avenue, a 42,000-sf medical office building in Santa Rosa that traded for \$246 psf.

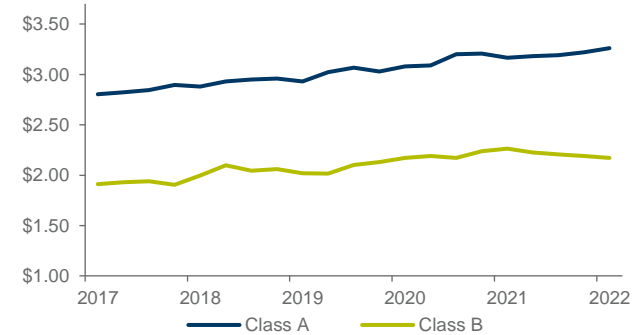
Outlook

- Vacancy is expected remain flat in the near-term as several leases inked this quarter combat new vacancy.
- Average asking rates may decline modestly as a flight to quality takes the highest asking rates off the market.

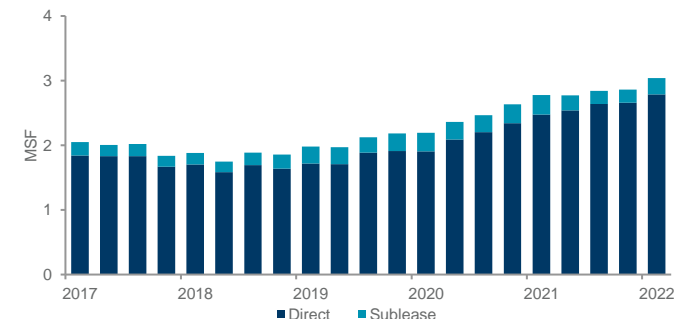
SUBMARKET ASKING RENT



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	2,453	118,517	14.0%	-5,477	-5,477	0	0	\$4.33	\$5.10
Mill Valley	442,641	12,955	103,446	26.3%	4,481	4,481	28,034	0	\$5.24	\$5.27
Southern Marin County	1,309,582	15,408	221,963	18.1%	-996	-996	28,034	0	\$4.78	\$5.19
Corte Madera	459,161	11,596	46,010	12.5%	1,601	1,601	1,090	0	\$3.96	\$5.75
Greenbrae/Larkspur	890,945	9,615	97,516	12.0%	-11,526	-11,526	14,786	0	\$4.96	\$5.03
Central Marin County	1,350,106	21,211	143,526	12.2%	-9,925	-9,925	15,876	0	\$4.61	\$5.10
San Rafael	4,414,808	102,926	663,330	17.4%	-82,974	-82,974	27,414	0	\$3.36	\$3.59
Novato	2,631,893	12,385	530,021	20.6%	-23,815	-23,815	35,333	0	\$2.75	\$2.83
Northern Marin County	7,046,701	115,311	1,193,351	18.6%	-106,789	-106,789	62,747	0	\$3.11	\$3.22
MARIN COUNTY TOTAL	9,706,389	151,930	1,558,840	17.6%	-117,710	-117,710	106,657	0	\$3.48	\$3.65
Petaluma	2,945,452	96,014	326,539	14.3%	-9,388	-9,388	39,055	0	\$2.07	\$2.22
Rohnert Park/Cotati	1,948,412	2,280	229,011	11.9%	-24,980	-24,980	7,280	0	\$1.67	N/A
Santa Rosa	7,809,729	3,068	673,034	8.7%	-35,350	-35,350	68,311	0	\$1.90	\$2.19
SONOMA COUNTY TOTAL	12,703,593	101,362	1,228,584	10.5%	-69,718	-69,718	114,646	0	\$1.91	\$2.20
Class Breakdown										
Class A	7,976,750	193,191	1,480,890	21.0%	-35,816	-35,816	N/A	0	\$3.26	\$3.26
Class B	12,751,357	60,101	1,204,812	9.9%	-134,023	-134,023	N/A	0	\$2.17	N/A
NORTH BAY TOTAL	22,409,982	253,292	2,787,424	13.6%	-187,428	-187,428	221,303	0	\$2.80	\$3.26

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

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

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
100 Shoreline Hwy	Mill Valley	Jyzen Labs	18,034	New Lease
161 Mitchell Blvd	San Rafael	The Helix School	14,989	New Lease
100 Wood Hollow Dr	Novato	North Marin Water District	10,289	New Lease

KEY SALE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$PSF
1350 S Eliseo Dr	Greenbrae/Larkspur	Pinnacle Capital Management Services, LLC / Teachers Insurance and Annuity Assoc of America	45,277	\$36.8M / \$813
3536 Mendocino Ave	Santa Rosa	Pinnacle Capital Management Services, LLC / Teachers Insurance and Annuity Assoc of America	42,148	\$10.0M / \$246
2544 Cleveland Ave	Santa Rosa	Michael Sullivan Family Trust / DeepNet	13,525	\$3.6M / \$266
101 Nellen Ave	Corte Madera	Thomas P Jackovics / John R Christensen Living Trust	10,861	\$7.0M / \$645

North Bay

Office Q1 2022



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