

YoY Chg 12-Mo. Forecast

14.2%
Vacancy Rate



-48K
Net Absorption, SF



\$2.75
Asking Rent, PSF



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

ECONOMIC INDICATORS Q2 2022

YoY Chg 12-Mo. Forecast

309.2K
North Bay
Employment



2.9%
North Bay
Unemployment Rate



3.6%
U.S.
Unemployment Rate



*Source: BLS, Moody's Analytics
2022Q2 data are based on latest available data.*

Economic Overview

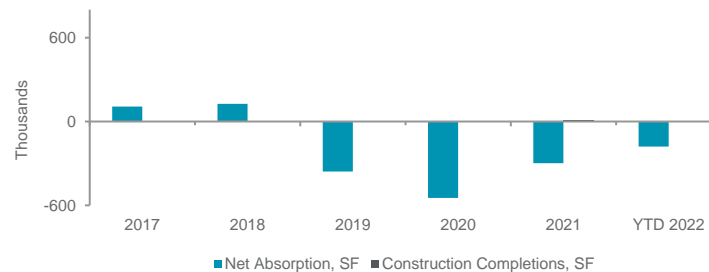
The North Bay, comprised of Marin & Sonoma counties, closed the second quarter with an unemployment rate of 2.9%, down 260 basis points (bps) year-over-year (YOY). This translates to an increase of 10,000 non-farm payroll positions. While a rise in COVID-19 cases late in 2021 threatened the momentum of California's recovery, the first half 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 Slows its Rise

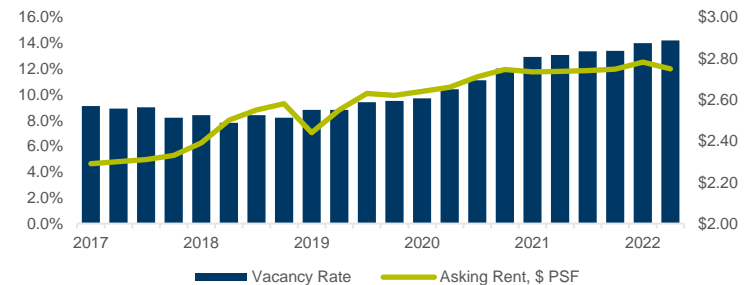
The North Bay vacancy rate closed the second quarter at 14.2%, a quarterly increase of just 20 bps. This indicates a return to the 2021 trend of market stabilization after a larger vacancy bump in the previous quarter. That being said, the overall vacancy rate reached its highest level since the first quarter of 2013. Marin County was the driving force behind slowing the rise, recording over 50,000 square feet (sf) of positive net absorption during the quarter. Northern, Central, and Southern Marin all recorded positive quarterly absorption, with Northern Marin performing the best at over 27,000 sf. Central Marin continued to be a bright spot of the North Bay as it has recorded positive absorption in four of the last five quarters. It also continued to have the lowest vacancy rate by far in the County at 11.6%, down 460 bps from its pandemic high. Marin County did not have any major new availabilities added this quarter, allowing leasing activity to catch up to vacancy and result in positive net absorption.

Sonoma County saw vacancy rise 70 bps to 11.9%, the result of nearly 98,000 sf of negative net absorption. Santa Rosa continued to lead the way in the County as it was the only one of the three submarkets to record positive quarterly absorption at nearly 17,000 sf. It also continued to have the lowest vacancy rate in all of the North Bay at 8.3% while being the region's largest submarket, which has made it a bright spot throughout the pandemic. Petaluma continued to be a weak spot in Sonoma County as it recorded nearly 69,000 sf of negative absorption, bringing the vacancy up 240 bps to 20.2%. Most notably, a 24,000-sf block of space was added to the market at 1400 North McDowell Boulevard.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



North Bay

Office Q2 2022



Rates Slip and Leasing Lags

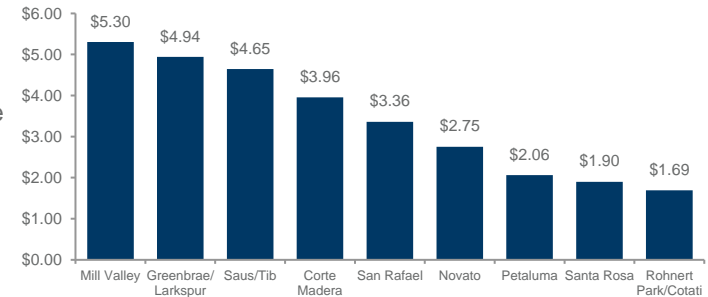
The overall average asking rate decreased \$0.03 to \$2.75 per square foot (psf) on a monthly full-service basis. The drop can be dually attributed to positive absorption in Marin County, the region's more expensive market, and the flight to quality lessening the disproportion of vacancy in Class A properties. Marin County's average asking rent was \$3.50 psf, an increase of just \$0.02 over the previous quarter. Southern Marin contributed the most to the County's rent bump as it saw a quarterly increase of \$0.17 to \$4.95 psf. Sausalito/Tiburon recorded the largest rate jump in the North Bay of \$0.32 while Mill Valley remained the most expensive submarket in the region at \$5.30 psf, the highest rate on record. The average asking rate in Sonoma County ticked down just \$0.01 to \$1.92 psf, virtually unchanged for six consecutive quarters. Petaluma remains the County's priciest market at \$2.06 psf, with several significant Class A availabilities. The disproportionate Class A vacancy remains despite 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.

New leasing totaled almost 192,000 sf during the second quarter in the North Bay, marking the slowest leasing quarter since the third quarter of 2020. This brings the year-to-date (YTD) total to almost 458,000 sf, which is 16.2% behind last year's pace. Marin County's YTD total is outpacing 2021 by 3.3%, led by Novato's nearly 80,000 sf leased. The largest lease of the quarter in that submarket was EDG Architect's 10,876-sf deal at 6 Hamilton Landing. Sonoma County's YTD total is 27.4% behind last year's pace and is led by over 170,000 sf leased in Santa Rosa. Evolve Restorative Center signed the region's largest lease of the second quarter, taking 11,011 sf at 220 Concourse Boulevard. 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.

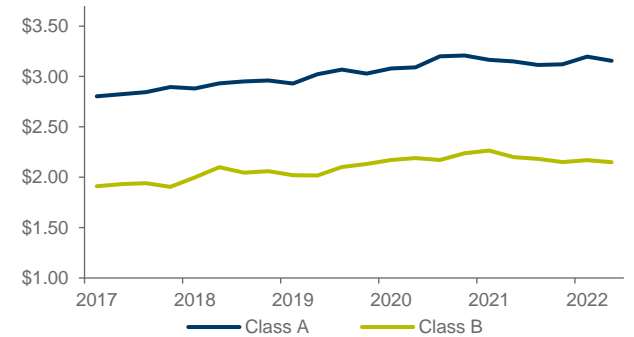
Outlook

- Vacancy is expected to rise in the coming quarters, as employers continue to reevaluate their need for space and leasing remains subdued.
- Average asking rates may decline modestly as a flight to quality take the highest cost spaces off the market.

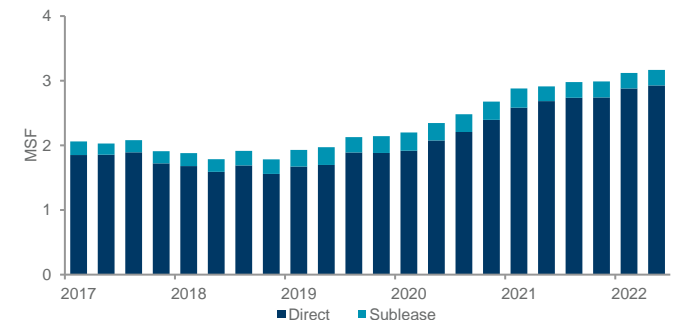
SUBMARKET ASKING RENT



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%	0	-5,477	5,726	0	\$4.65	\$5.03
Mill Valley	442,641	10,551	91,512	23.1%	14,338	18,819	37,250	0	\$5.30	\$5.37
Southern Marin County	1,309,582	13,004	210,029	17.0%	14,338	13,342	42,976	0	\$4.95	\$5.20
Corte Madera	459,161	11,596	46,010	12.5%	0	1,601	10,806	0	\$3.96	\$5.75
Greenbrae/Larkspur	890,945	9,086	89,540	11.1%	8,505	-3,021	40,640	0	\$4.94	\$5.00
Central Marin County	1,350,106	20,682	135,550	11.6%	8,505	-1,420	51,446	0	\$4.58	\$5.08
San Rafael	4,414,808	104,330	661,563	17.3%	363	-82,611	31,105	0	\$3.36	\$3.59
Novato	2,631,893	12,385	503,072	19.6%	26,949	3,134	79,956	0	\$2.75	\$2.83
Northern Marin County	7,046,701	116,715	1,164,635	18.2%	27,312	-79,477	111,061	0	\$3.12	\$3.23
MARIN COUNTY TOTAL	9,706,389	150,401	1,510,214	17.1%	50,155	-67,555	205,483	0	\$3.50	\$3.64
Petaluma	2,857,991	88,139	489,675	20.2%	-68,867	-29,217	58,373	0	\$2.06	\$2.17
Rohnert Park/Cotati	1,958,324	0	277,167	14.2%	-45,876	-70,856	23,742	0	\$1.69	N/A
Santa Rosa	7,810,102	1,711	650,174	8.3%	16,871	-11,133	170,027	0	\$1.90	\$2.21
SONOMA COUNTY TOTAL	12,626,417	89,850	1,417,016	11.9%	-97,872	-111,206	252,142	0	\$1.92	\$2.19
Class Breakdown										
Class A	7,876,099	197,935	1,572,034	22.5%	-7,346	-35,816	N/A	0	\$3.16	\$3.16
Class B	12,540,335	42,316	1,248,145	10.3%	-35,042	-134,023	N/A	0	\$2.15	N/A
NORTH BAY TOTAL	22,332,806	240,251	2,927,230	14.2%	-47,717	-178,761	457,625	0	\$2.75	\$3.16

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

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

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
220 Concourse Blvd	Santa Rosa	Evolve Restorative Center	11,011	New Lease
6 Hamilton Lndg	Novato	EDG Architect	10,876	New Lease
900 Larkspur Landing Cir	Larkspur	Park West Asset Management	7,342	Renewal

KEY SALE TRANSACTIONS YTD 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	50,685	\$36.8M / \$726
3536 Mendocino Ave	Santa Rosa	Pinnacle Capital Management Services, LLC / Teachers Insurance and Annuity Assoc of America	42,148	\$13.8M / \$327
2544 Cleveland Ave	Santa Rosa	Michael Sullivan Family Trust / DeepNet	13,525	\$3.6M / \$266
101 Nellen Ave	Corte Madera	Thomas Jackovics / John Christensen	10,861	\$7.0M / \$645

North Bay

Office Q2 2022



OFFICE SUBMARKETS



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