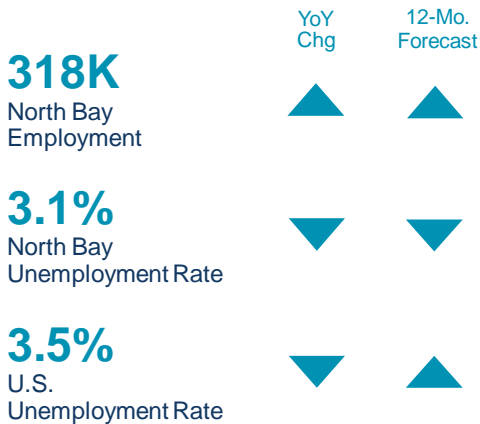


ECONOMIC INDICATORS Q1 2023



Source: BLS, Moody's Analytics
2023Q1 data are based on the latest available data

Economic Overview

The North Bay, comprised of Marin & Sonoma counties, closed the first quarter with an unemployment rate of 3.1%, down 70 basis points (bps) year-over-year (YOY). This translates to an increase of 7,033 non-farm payroll positions. The trend towards remote work and flexible office arrangements is likely to continue as companies seek to optimize their operations and meet the evolving needs of their workforce, sending the market into a moderate recovery, post-pandemic. Venture capital (VC) funding to North Bay-based companies climbed by almost 300% quarter-over-quarter though deal count dropped by one, to 15 from 16. The reason for the sharp jump had to do with two deals - a \$75 million (M) later-stage funding round to organic beverage maker Guayaki, based in Sebastopol followed by a \$37M later-stage funding round to biotechnology company Ophirex, based in Corte Madera.

Vacancy Ticks Up

The North Bay industrial market closed the first quarter with an overall vacancy rate of 5.9%, up 10 bps from the prior quarter. Vacancy in Marin County was 1.8%, increasing from the fourth quarter and up 70 bps YOY. The number of availabilities in Marin have minimally decreased YOY as tenants continue to compete for limited inventory.

In Sonoma County, the overall vacancy rate closed the first quarter at 10.9%, up 20 bps from the prior quarter and 190 bps YOY. This bump translated to 147,591 square feet (sf) of negative net absorption, with the largest markets of Petaluma and Santa Rosa having 2,380 sf and 66,654 sf of negative absorption, respectively. The rise in vacancy in Sonoma can mostly be attributed to a single large block at Victory Station; built in 2018 and leased to a prominent e-commerce company, the space was placed back on the market in the third quarter as the tenant struggled to obtain the necessary use permits from the county.

Rates Hold While Leasing Improves

The overall asking rate in the North Bay inched up \$0.01 from the fourth quarter, finishing the first quarter at \$1.12 per square foot (psf) on a monthly triple-net basis. In Marin, the asking rate was at \$1.60 psf, which is \$0.52 higher than the asking rate in Sonoma County.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



The overall asking rate in Sonoma County decreased \$0.03 from the fourth quarter to \$1.08 psf, down just \$0.09 from the market high of \$1.17 psf recorded in the first quarter of 2021. This decline was not due to any softening of rents, but rather, vacancy has been consistently declining in the region's best product. Petaluma continued to command the highest rates, with a first quarter asking rate of \$1.28 psf. As the southernmost submarket in Sonoma County, Petaluma provides the easiest access to the surrounding metros and labor pools, while still offering larger blocks of space than Marin County.

New leasing in the first quarter for North Bay totaled 285,472 sf compared to 212,918 sf in the first quarter of 2022. Most of the deals were well under 100,000 sf. Sonoma County recorded 235,000 sf of new leasing to start the year, with the largest deal being a 132,241-sf lease at 501 Aviation Blvd in Santa Rosa. Marin County leasing was muted and can partially be attributed to the lack of inventory. Sales activity was healthy with numerous transactions occurring over 10,000 sf. The largest sale of the quarter was 3555 Airway Dr in Santa Rosa, a 25,310-sf warehouse that sold for \$197.55 psf.

Market Looks to Grow

No new construction was delivered in the first quarter but the pipeline for upcoming projects is growing. There is a total of 546,409 sf under construction in Sonoma County with delivery expected later this year. Strong rental growth and limited vacancy have created a favorable environment to develop, and the scarcity of developable land ensures that the market is unlikely to become overbuilt. Major developers like BioMarin Pharmaceutical, Inc and Thompson Builders Corporation and Panattoni Development have entered the market in recent years and are preparing to break ground on new construction as they hope to capitalize on the region's strong fundamentals.

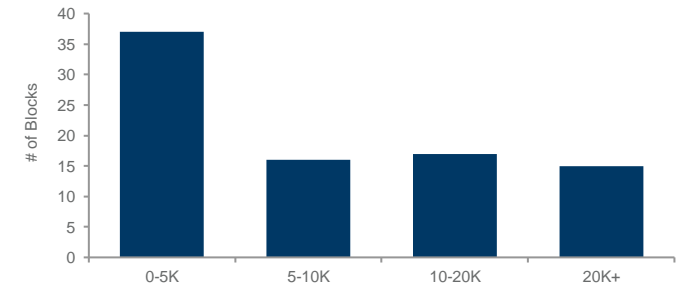
Outlook

- Leasing activity will likely increase in 2023 with room for vacancy rates to push lower. Over 1.8 million sf of industrial product was available in the North Bay.
- In the near-term, the average rent could fall due to less prime space on the market; longer-term as new construction delivers; pricing is likely to rise.
- The sales market is expected to remain active as new product hits the North Bay and vacancies fall in key submarkets.

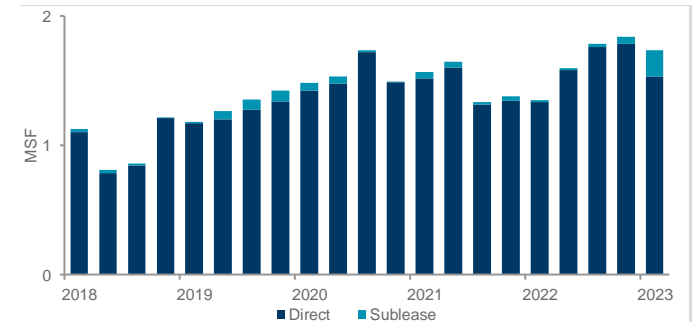
RENT BY MARKET (\$ PSF, NNN)



AVAILABILITIES 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	8,876	2.1%	0	3,174	0	0	\$3.26
Greenbrae/CM/Larkspur	292,133	0	0.0%	0	16,865	0	0	\$2.25
Central San Rafael	3,217,376	55,333	1.7%	-40,134	-6,787	0	0	\$1.68
North San Rafael	504,864	3,004	0.6%	-3,004	8,555	0	0	\$1.66
Novato	2,084,199	52,865	2.5%	-10,870	-4,323	40,080	0	\$1.24
MARIN COUNTY	6,521,452	120,078	1.8%	-54,008	17,484	40,080	0	\$1.60
Petaluma	6,769,332	307,533	4.5%	-2,380	-18,304	40,000	0	\$1.25
Rohnert Park	2,287,332	236,603	10.3%	30,819	-168,515	209,792	0	\$1.02
Santa Rosa	12,064,256	683,036	5.7%	-66,654	-27,926	84,066	0	\$1.12
Sonoma	2,642,545	288,704	10.9%	-10,000	-249,904	172,471	0	\$0.99
Sebastopol/Graton	1,326,106	217,710	16.4%	-99,376	24,076	0	0	\$0.93
SONOMA COUNTY	25,089,571	1,733,586	6.9%	-147,591	-440,573	506,329	0	\$1.08
NORTH BAY TOTALS	31,611,023	1,853,664	5.9%	-201,599	-423,089	546,409	0	\$1.12

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

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
501 Aviation Blvd	Santa Rosa	Jackson Family Wines	132,241	Renewal
5000 Dowdell Avenue (A)	Rohnert Park	Brady	70,000	New Lease
2661 Gravenstein Hwy., S.	Sebastopol	Earthtone Construction	1,968	New Lease

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3555 Airway Dr	Santa Rosa	Sacred Successful Props LLC / Conservation Corps North Bay	25,310	\$5,000,000 / \$197.55
365 Blodgett St	Cotati	Conservation Corps North Bay / Krylon	12,010	\$2,497,975 / \$207.99

North Bay

Industrial Q1 2023



INDUSTRIAL SUBMARKETS



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