

YoY Chg 12-Mo. Forecast

5.9%

Vacancy Rate



33K

Net Absorption, SF



\$1.12

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2023

YoY Chg 12-Mo. Forecast

320.2K

North Bay Employment



3.0%

North Bay Unemployment Rate



3.6%

U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2023Q2 data are based on the latest available data

Economic Overview

The North Bay, comprised of Marin and Sonoma counties, closed the second quarter with an unemployment rate of 3.0%, up 30 basis points (bps) year-over-year (YOY). This translates to an increase of 6,117 non-farm payroll positions. The trend towards hybrid work and flexible office arrangements is likely to continue as companies seek to optimize their operations and meet the evolving needs of their workforce. Venture capital (VC) funding to North Bay-based companies fell in Q2 2023 to \$45.1 million (M) from \$194.8M in Q1 2023. The reason for the substantial drop had more to do with one large funding round in Q1 - \$75M to organic beverage maker Guayaki out of Sebastopol. The deal count for Q2 and Q1 held at 17. The largest deal for Q2 was Dickinson Corporation out of Novato, a manufacturer of protective shields, for \$8.7M.

Vacancy Ticks Up

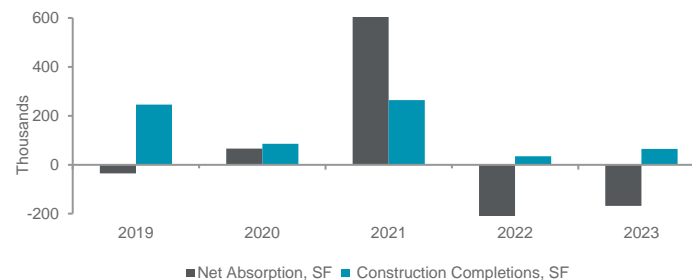
The North Bay industrial market closed the second quarter with an overall vacancy rate of 5.9%, unchanged from the prior quarter. Vacancy in Marin County was 1.5%, decreasing 20 basis points from the first quarter and up 40 bps YOY. The number of availabilities in Marin have minimally decreased YOY as tenants continue to compete for limited inventory.

In Sonoma County, the overall vacancy rate closed the second quarter at 7.1%, up 20 bps from the prior quarter and 170 bps YOY. This registering bump translated to 18,087 square feet (sf) of positive net absorption, with the largest markets of Petaluma and Santa Rosa having 75,830 sf and 56,335 sf of negative absorption, respectively. While the secondary markets Sonoma and Sebastopol/Graton experienced positive net absorption of 78,871 sf and 76,437 sf, respectively.

Rates Hold While Leasing Improves

The overall asking rate in the North Bay ticked up \$0.01 from the first 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 \$1.59 psf, which is \$0.50 higher than the asking rate in Sonoma County at \$1.09 psf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



The overall asking rate in Sonoma County ticked up \$0.01 from the first quarter to \$1.09 psf, down \$0.08 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 second quarter asking rate of \$1.23 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 second quarter for North Bay totaled 240,911 sf compared to 89,533 sf in the second quarter of 2022. Nearly all the deals were well under 20,000 sf. Sonoma County recorded 232,417 sf of new leasing, with the largest deal being a 60,639-sf new lease at 8 W 9th St 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 19410 Redwood Drive in Geyserville, a 221,430-sf warehouse that sold for \$164 psf.

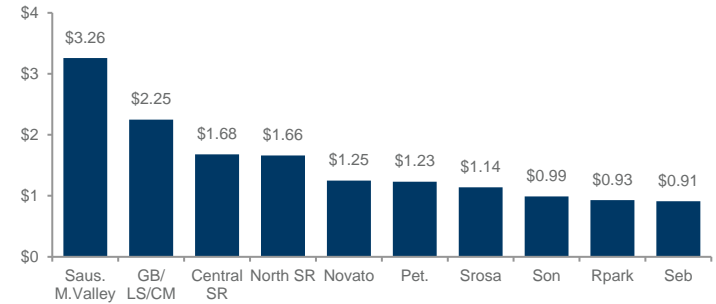
Market Looks to Grow

The construction pipeline is moving with one new warehouse delivered in the second quarter; 1010 Napa Rd in Sonoma is 64,971 sf and occupied by Vineburg Self Storage. There is a total of 481,438 sf under construction in Sonoma County with nine buildings expected to deliver 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.

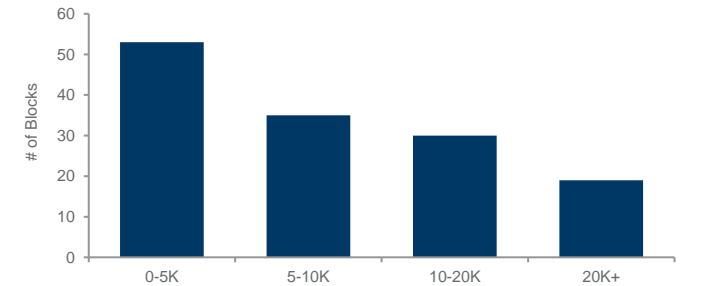
Outlook

- Leasing activity will likely increase in 2023 with room for vacancy rates to push lower in Sonoma County. Over 1.9 million sf of industrial product was available in the North Bay.
- In the near-term, the average rent will marginally change 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.

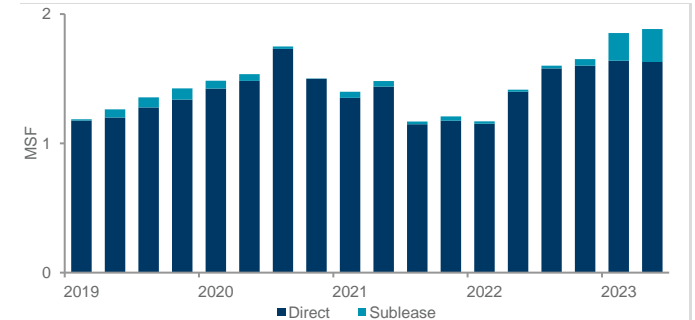
RENT BY MARKET (\$ PSF, NNN)



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	0	0	0	\$3.26
Greenbrae/CM/Larkspur	292,133	0	0.0%	0	0	0	0	\$2.25
Central San Rafael	3,217,376	37,733	1.2%	13,600	-22,534	0	0	\$1.68
North San Rafael	504,864	0	0.0%	3,004	0	0	0	\$1.66
Novato	2,084,199	52,565	2.5%	-1,671	-10,570	40,080	0	\$1.25
MARIN COUNTY	6,521,452	99,174	1.5%	14,933	-33,104	40,080	0	\$1.59
Petaluma	6,797,701	394,094	5.8%	-75,830	-88,941	40,000	0	\$1.23
Rohnert Park	2,288,332	241,659	10.6%	-5,056	25,763	209,792	0	\$0.93
Santa Rosa	12,097,350	744,040	6.2%	-56,335	-127,658	84,066	0	\$1.14
Sonoma	2,707,516	264,804	9.8%	78,871	78,871	107,500	64,971	\$0.99
Sebastopol/Graton	1,326,106	141,273	10.7%	76,437	-22,939	0	0	\$0.91
SONOMA COUNTY	25,217,005	1,785,870	7.1%	18,087	-134,904	441,358	0	\$1.09
NORTH BAY TOTALS	31,738,457	1,885,044	5.9%	33,020	-168,008	481,438	0	\$1.12

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

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
8 W 9 th st	Santa Rosa	Meyers Restaurant Supply	60,639	New Lease
4019 Sebastopol Rd	Santa Rosa	Parker Performance	10,000	New Lease
365 Sutton Pl	Santa Rosa	Flowers Foods	8,000	Renewal

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
19410 Redwood Dr	Santa Rosa	E & J Gallo Winery / Duckhorn Wine Co	221,430	\$36.2M / \$164
1431 Grove St	Santa Rosa	Kisling Trust / 1431 Grove LLC	29,757	\$7.2M / \$243
1441 Grove St	Santa Rosa	Kisling Trust / Mother Rock LLC	21,888	\$4.3M / \$196

North Bay

Industrial Q2 2023

INDUSTRIAL SUBMARKETS



Anna Brehm

Research Analyst

Tel: +1 415 451 2427

Anna.Brehm@cushwake.com

Jason Karbelk

Research Manager

Tel: +1 415 485 3742

Jason.Karbelk@cushwake.com

CUSHMAN & WAKEFIELD

900 Larkspur Landing Circle

Suite 295

Larkspur, CA 94939

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