

YoY Chg      12-Mo. Forecast

**13.3%**

Vacancy Rate



**33K**

Net Absorption, SF



**\$2.69**

Asking Rent, PSF



(Overall, All Property Classes)

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

**ECONOMIC INDICATORS  
Q3 2023**

YoY Chg      12-Mo. Forecast

**321.5K**

North Bay Employment



**3.3%**

North Bay Unemployment Rate



**3.7%**

U.S. Unemployment Rate



Source: BLS, Moody's Analytics

2023Q3 data are based on latest available data.

**Economic Overview**

The North Bay, comprised of Marin and Sonoma counties, closed the third quarter with an unemployment rate of 3.3%, up 60 basis points (bps) year-over-year (YOY). However, there was still an increase of 6,683 non-farm payroll positions. The trend towards hybrid work and flexible office arrangements will 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 eased to \$44.3 million (M) in Q3 2023 from \$48.1M in Q2 2023. It had reached \$119.4M in Q1 2023 due to one large funding round in - \$75M to organic beverage maker Guayaki out of Sebastopol. The deal count for Q3 was 7, down from 20 in both Q2 and Q1. The largest deals for Q3 were Aulos (\$20.0M), a drug discovery company based in Larkspur followed by Yurts (\$16.0M), a company using AI to create large model architecture based in San Rafael.

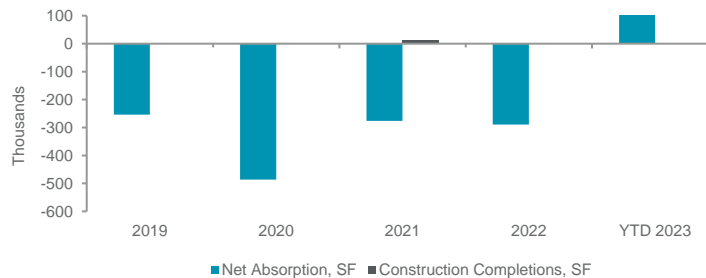
**Vacancy Remains Unchanged**

The North Bay vacancy rate closed the third quarter at 13.3%, unchanged from the prior quarter. Marin County recorded 58,380 square feet (sf) of negative net absorption during the quarter. San Rafael was responsible for most of the negative net absorption in Marin County due to diminishing leasing activity that cannot outpace new spaces hitting the market. Many of these new availabilities sit in Class A buildings, which are primarily occupied by large companies and are the slowest to mandate employees back to the office.

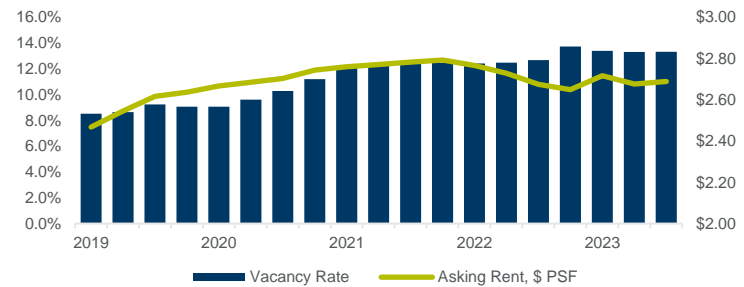
Northern Marin recorded 67,704 sf of negative net absorption, largely due to new spaces becoming vacant in San Rafael, and a vacancy rate at 17.0%, up 100 bps from Q2 2023. Southern Marin saw the largest drop in vacant space, recording 6,075 sf of positive net absorption and a vacancy rate at 14.3%. Despite being the lowest performing submarket in Marin County year-to-date, the positive absorption came from an uptick in leasing in Sausalito. Central Marin had the lowest vacancy in the county at 8.0%, due to its proximity to other markets and nearby businesses.

Sonoma County vacancy dropped 50 bps to 11.7%, the result of nearly 92,000 sf of positive net absorption. All markets in Sonoma County recorded positive net absorption, caused by nearly an 85% increase in leasing activity from the previous quarter. Petaluma led the way in Sonoma County as it recorded positive quarterly net absorption at over 37,000 sf. However, it continued to have the highest vacancy rate in Sonoma County at 18.0%, as the influx of direct spaces continues to rise.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**



# North Bay

Office Q3 2023



## Rates Remain Steady and Leasing Picks Up

The overall average asking rate in the North Bay increased \$0.01 to \$2.69 per square foot (psf) on a monthly full-service basis, a \$0.03 decrease from the start of the year. Marin County’s average asking rent was \$3.50 psf, a decrease of \$0.03 over the previous quarter and an increase of \$0.02 from Q3 2022. Corte Madera contributed the most to the County’s quarter-over-quarter (QOQ) rise in asking rates of \$0.22 to \$5.08, making it the most expensive market in Marin County. Central Marin has seen a \$0.24 increase in rents YOY, a reflection of rents holding or even increasing in desirable Class A vacancies. The average asking rate in Sonoma County remained steady at \$1.90 psf, virtually unchanged for eight consecutive quarters. Petaluma remains the County’s priciest market at \$2.07 psf, with several significant Class A availabilities.

The disproportionate Class A vacancy remains despite a seemingly contradictory flight to quality, where most of the 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.

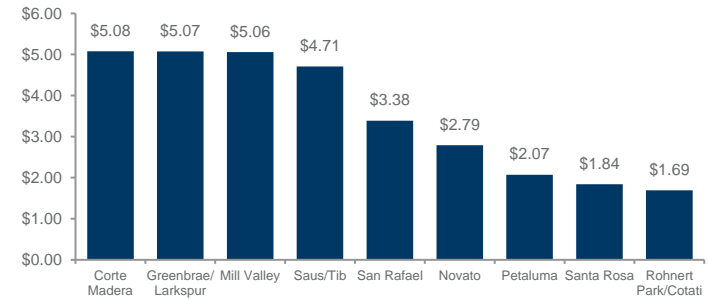
Leasing activity totaled 395,779 sf during the third quarter in the North Bay, a 61% increase QOQ. Marin County rose 60% YOY for a total of 171,789 sf. Novato led Marin County in leasing activity by securing nearly 208,000 sf of leased space, primarily through a large renewal deal with BioMarin. Sonoma County’s year-to-date total was 65% ahead of last year’s pace and was led by over 234,000 sf leased in Petaluma. Most of the activity is driven by tenants who are resizing or downsizing in the market.

Occupiers are still facing challenges when it comes to bringing their employees back to the office. This complexity is further affecting their decision-making regarding real estate. The shift towards experimenting with employees working outside the company’s region is a result of the hybrid/remote work model. Consequently, this trend reduces the demand for expanding office space, as the local workforce remains constant.

## Outlook

- In the present financial climate, owners face challenges in securing the necessary funding to develop spaces that meet occupiers' needs.
- Activity remains strong at top tier buildings, forcing rents to remain stable.
- Demand will continue to be driven by tenants downsizing or relocating within the North Bay market.

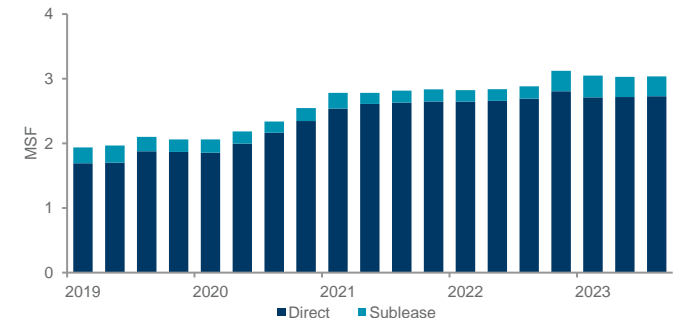
## SUBMARKET ASKING RENT



## 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	856,491	17,357	102,290	14.0%	6,075	-26,882	24,117	0	\$4.71	\$4.97
Mill Valley	442,641	2,540	63,952	15.0%	0	7,564	7,954	0	\$5.06	\$5.38
Southern Marin County	1,299,132	19,897	166,242	14.3%	6,075	-19,318	32,071	0	\$4.83	\$5.12
Corte Madera	459,161	0	25,323	5.5%	-611	10,762	15,573	0	\$5.08	\$7.11
Greenbrae/Larkspur	890,945	5,274	77,037	9.2%	3,860	4,063	112,261	0	\$5.07	\$5.26
Central Marin County	1,350,106	5,274	102,360	8.0%	3,249	14,825	127,834	0	\$5.08	\$5.53
San Rafael	4,434,593	139,565	594,984	16.6%	-54,386	-22,498	126,176	0	\$3.38	\$3.52
Novato	2,635,728	8,524	459,117	17.7%	-13,318	37,734	207,735	0	\$2.79	\$2.82
Northern Marin County	7,070,321	148,089	1,054,101	17.0%	-67,704	15,236	333,911	0	\$3.15	\$3.22
<b>MARIN COUNTY TOTAL</b>	<b>9,719,559</b>	<b>173,260</b>	<b>1,322,703</b>	<b>15.4%</b>	<b>-58,380</b>	<b>10,743</b>	<b>493,816</b>	<b>0</b>	<b>\$3.50</b>	<b>\$3.57</b>
Petaluma	3,015,003	84,961	458,785	18.0%	37,915	77,327	234,787	0	\$2.07	\$2.24
Rohnert Park/Cotati	1,923,909	4,255	232,002	12.3%	22,845	109,564	150,110	0	\$1.69	\$0.00
Santa Rosa	8,165,799	43,873	715,421	9.3%	30,456	-69,796	175,789	0	\$1.84	\$1.99
<b>SONOMA COUNTY TOTAL</b>	<b>13,104,711</b>	<b>133,089</b>	<b>1,406,208</b>	<b>11.7%</b>	<b>91,216</b>	<b>117,095</b>	<b>560,686</b>	<b>0</b>	<b>\$1.90</b>	<b>\$2.10</b>
<b>Class Breakdown</b>										
Class A	8,010,027	232,374	1,609,824	23.0%	6,745	-19,625		0	\$3.06	\$3.06
Class B	12,668,214	73,975	1,054,504	8.9%	61,911	193,303		0	\$2.04	
<b>NORTH BAY TOTAL</b>	<b>22,824,270</b>	<b>306,349</b>	<b>2,728,911</b>	<b>13.3%</b>	<b>32,836</b>	<b>127,838</b>	<b>1,054,502</b>	<b>0</b>	<b>\$2.69</b>	

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

\*Not reflective of U.S. MarketBeat tables

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Lakepoint Business Park	Novato	BioMarin	100,483	Renewal
1351 Redwood Wy	Petaluma	Body English Health & Performance	19,813	New Lease
4 Hamilton Landing	Novato	Winery Exchange	11,562	New Lease
1425 N McDowell Blvd	Petaluma	Environmental Science Associates	8,845	Renewal
1410 Neotomas Ave	Santa Rosa	Regus	10,904	New Lease
3750 Westwind Blvd	Santa Rosa	County of Sonoma	9,070	New Lease

KEY SALE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$PSF
1682 Novato Blvd	Novato	NCP Commercial LLC / The Giannini Family Trust	32,510	\$4.8M / \$148
311 Professional Center Dr	Rohnert Park	Robert & Cynthia Oates Trust / KRCB	24,150	\$5.0M / \$205

# North Bay

Office Q3 2023



OFFICE SUBMARKETS



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