

YoY Chg 12-Mo. Forecast

6.6%
Vacancy Rate



-16K
Net Absorption, SF



\$1.12
Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2023

YoY Chg 12-Mo. Forecast

325.0K
North Bay Employment



3.4%
North Bay Unemployment Rate



3.7%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics
2023 Q4 data are based on the latest available data

Economic Overview

The North Bay, comprised of Marin and Sonoma counties, closed the fourth quarter with an unemployment rate of 3.4%, up 50 basis points (bps) year-over-year (YOY). However, there was still an increase of 9,100 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 climbed to \$132.6 million (M) in Q4 2023, up 243% from the \$38.7M in Q3 2023. For the year, there was a total of \$409.7M in 73 deals, marking a 39.9% decrease from the \$681.6M across 116 deals in 2022. The largest deal of Q4 2023 was Velo (financial software), based in Sausalito, receiving \$38.2M in an early-stage round. That was followed by Formant (business/productivity software) out of Mill Valley, which received \$21.0M and Paceline (information services) also out of Mill Valley, receiving \$20.3M.

Vacancy Ticks Up

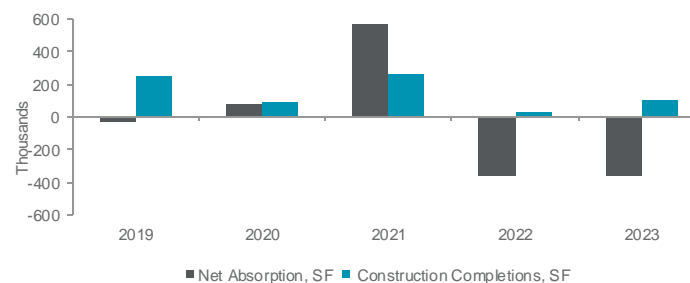
The North Bay industrial market closed the fourth quarter with an overall vacancy rate of 6.6%, up 10 bps from the prior quarter. Vacancy in Marin County was 2.6%, remaining flat from the third quarter and up 160 bps YOY. Direct space in Marin County added 97,771 square feet (sf) YOY, of which are mostly made up of smaller spaces. Meanwhile, tenants continued to compete for the limited inventory.

In Sonoma County, the overall vacancy rate closed the fourth quarter at 7.7%, up 20 bps from the prior quarter and 140 bps YOY. This rise in vacancy translated to 14,642 sf of negative net absorption for the county. Santa Rosa and Petaluma, the largest markets, recorded negative absorptions of 16,387 sf and 13,915 sf, respectively. While the secondary markets, Sonoma and Rohnert Park, experienced positive 14,800 sf and negative 23,851 sf of negative absorption, respectively.

Rates Hold While Leasing Improves

The overall asking rate in the North Bay decreased \$0.05 from the third quarter, finishing the fourth quarter at \$1.12 per square foot (psf) on a monthly triple-net basis. In Marin, the asking rate stood at \$1.49 psf, surpassing Sonoma County's rate by \$0.40 at \$1.09 psf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



The overall asking rate in Sonoma County decreased \$0.05 from the third quarter to \$1.09 psf, down \$0.09 from the market high of \$1.18 psf recorded in the fourth quarter of 2022. While reported asking rates have shown growth in large block availabilities, the market rate is still influenced downward by smaller availabilities. Petaluma continued to command the highest rates, with a fourth quarter asking rate of \$1.23 psf. As the southernmost submarket in Sonoma County, Petaluma provides convenient access to surrounding metros and labor pools, while also offering larger blocks of space compared to Marin County.

In the fourth quarter, new leasing for the North Bay reached 306,252 sf, marking a significant increase from 198,440 sf in the fourth quarter of 2022. Notably, almost all of these deals were well under 20,000 sf. Sonoma County recorded 292,214 sf of leasing activity, a 10.1% increase from the 265,420 sf leased in the previous quarter. Leasing activity in Marin County was muted, partially attributed to a limited inventory.

Sales activity remained healthy within the North Bay market, with numerous transactions occurring over 10,000 sf. The largest sale of the quarter occurred at 26972 Asti Rd in Cloverdale, a 42,278-sf warehouse that sold for \$2.5M. Despite the increase in interest rates, the demand for industrial properties in the North Bay remains strong.

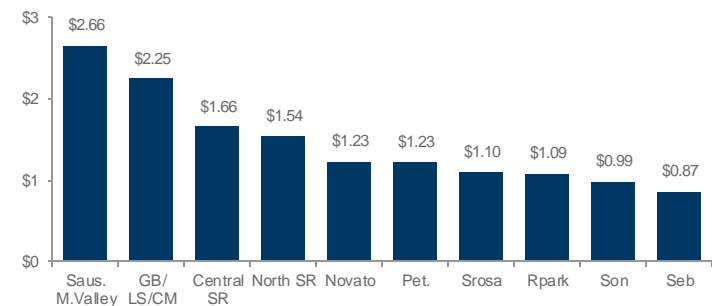
Market Looks to Grow

The construction pipeline is robust, with numerous buildings currently under construction in Sonoma County. There is a total of 303,938 sf under construction, with five buildings expected to deliver throughout 2024. In the fourth quarter, one new warehouse delivered: 1670 Carneros Lake Ln in Sonoma, which is 25,000 sf and part of the Carneros Business Park. Strong rental rate 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 Thompson Builders Corporation and Panattoni Development have entered the market in recent years and are preparing to break ground on new construction, hoping to capitalize on the region's strong fundamentals.

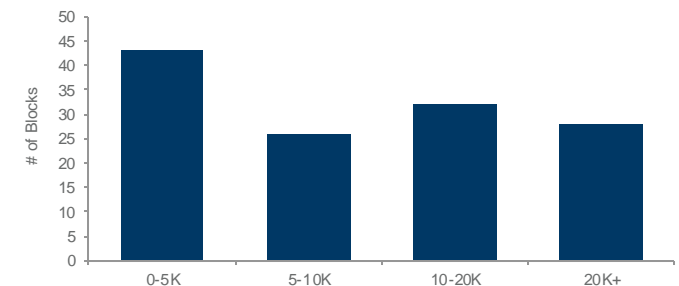
Outlook

- Leasing activity will likely increase in 2024, with room for vacancy rates to push lower in Sonoma County. Despite the rise in vacancy this year, there continues to be consistent demand across all sectors.
- With less differentiated product on the market, the average asking rent is expected to change marginally. However, as new construction delivers, pricing is expected to trend upwards, reflecting the increased quality of available space.
- The development pipeline remains active, with over 100,000 sf delivered in 2023 and an anticipated delivery of over 300,000 sf in 2024.

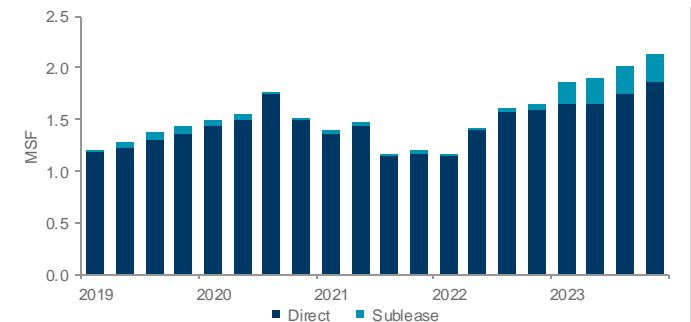
RENT BY MARKET (\$ PSF, NNN)



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	6,617	1.6%	-1,532	2,259	0	0	\$2.66
Greenbrae/CM/Larkspur	292,133	0	0.0%	0	0	0	0	\$2.25
Central San Rafael	3,217,376	109,707	3.4%	-1,809	-94,508	0	0	\$1.54
North San Rafael	504,864	0	0.0%	0	0	0	0	\$1.66
Novato	2,084,199	53,427	2.6%	1,871	-11,432	40,080	0	\$1.23
MARIN COUNTY	6,521,452	169,751	2.6%	-1,470	-103,681	40,080	0	\$1.49
Petaluma	6,814,685	418,555	6.1%	-13,915	-113,402	0	0	\$1.23
Rohnert Park	2,299,455	252,775	11.0%	-23,851	16,611	179,792	0	\$1.05
Santa Rosa	12,160,996	894,156	7.4%	-16,387	-279,174	84,066	0	\$1.10
Sonoma	2,880,102	282,414	9.8%	14,800	103,790	0	25,000	\$0.99
Sebastopol/Graton	1,334,836	106,934	8.0%	24,711	11,400	0	0	\$0.87
SONOMA COUNTY	25,490,074	1,954,834	7.7%	-14,642	-260,775	263,858	25,000	\$1.09
NORTH BAY TOTALS	32,011,526	2,124,585	6.6%	-16,112	-364,456	303,938	25,000	\$1.12

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

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
9119 Graton	Sebastopol/Graton	Trans India Shikai Products	22,122	Sublease
2505 Kerner Blvd	San Rafael	Insight Editions LP	13,157	New Lease
30 Castro Ave	San Rafael	Ceramic Tile Center	10,403	New Lease
915-921 Piner Rd	Santa Rosa	Trevi Systems	10,000	New Lease
3130 Regional Pky	Santa Rosa	Motion Industries	8,773	New Lease

KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
26972 Asti Rd	Cloverdale	Sunflower Asset LLC / Samuel Cohen	42,278	\$2.5M / \$60
3440 Airway Dr	Santa Rosa	Reinepn LLC / McCauley Associates	21,925	\$3.1M / \$143
3466 Brickway Blvd	Santa Rosa	Brickway Enterprises LLC / Benson & Benson	18,766	\$3.0M / \$160
3310 Industrial Dr	Santa Rosa	Dennett Family Trust / Capital Rivers Commercial	12,000	\$3.0M / \$250

North Bay

Industrial Q4 2023

INDUSTRIAL SUBMARKETS



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