

YoY Chg 12-Mo. Forecast

13.8%
Vacancy Rate ▲ ▲

-135K
Net Absorption, SF ▼ ▼

\$2.68
Asking Rent, PSF ▲ ▼

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

**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
2023Q4 data are based on latest available data.*

Economy: VC Funding Rises

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. 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 in 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.

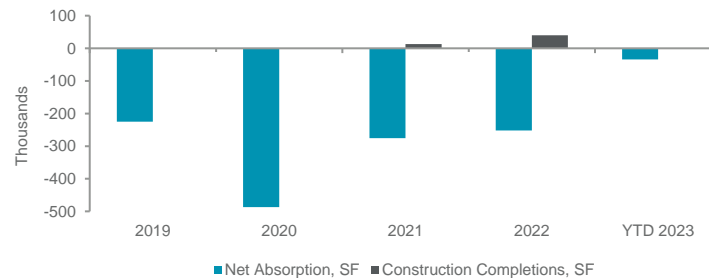
Supply: Vacancy Ticks Higher

The North Bay vacancy rate closed the fourth quarter at 13.8%, increasing 60 bps quarter-over-quarter (QOQ) and up 20 bps YOY. Marin County vacancy rose 100 bps to 16.3% QOQ with 1.6 million square feet (msf) of total available space. Northern Marin, the county's largest office market, closed the year at 18.0% vacant, up 80 bps YOY. This market's 1.3 msf of available space represents 80.5% of the county, split between San Rafael and Novato at 783,228 square feet (sf) and 492,338 sf respectively. Central Marin had the lowest vacancy in the county at 9.0%. Its central location and proximity to retail businesses makes it a prime destination in attracting and maintaining tenants. The Sonoma County vacancy rate had a YOY decrease of 40 bps to 11.9%, primarily attributed to significant reductions in direct vacant space in Petaluma by 129,803 square feet and in Rohnert Park/Cotati by 84,678 square feet. There are two large direct blocks available in Marin County, both exceeding 100,000 sf, that are having a significant impact on statistics. The largest block in Sonoma county is Medtronic's 126,585 sf space at 3850-3880 Brickway Blvd in Santa Rosa. While the supply of available space in the North Bay has seen a slight increase from last year, it remains significantly below the levels observed in the Downtown San Francisco market.

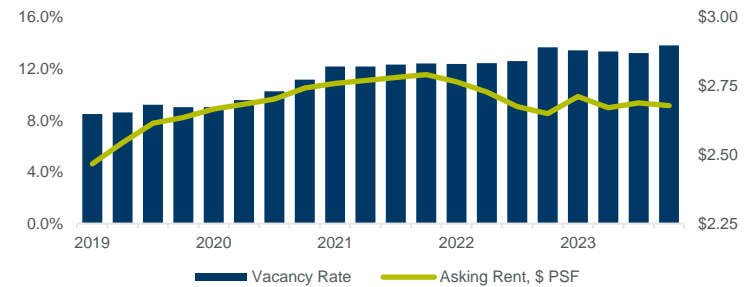
Demand: Leasing Activity Picks Up

North Bay leasing activity totaled 315,382 sf during the fourth quarter and 1.4 msf for the year. Marin County closed 2023 with 586,365 sf of leasing activity, 17.1% higher than the 2022 figure of 500,940 sf. Novato led Marin County in leasing activity at 232,776 sf. Sonoma County recorded 787,495 sf of leasing activity for the year, marking a 59.6% increase to the 2022 total of 493,566 sf. The growth was led by 328,851 sf of leasing in Petaluma. Most of the market's activity was driven by tenants who were rightsizing.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



North Bay

Office Q4 2023



The fourth quarter of 2023 recorded 135,164 sf of negative net absorption in the North Bay, which pushed the total figure for the year into the red at negative 34,237 sf. Marin County recorded 94,475 sf of negative net absorption during the quarter, primarily due to additional vacancies in San Rafael. Sonoma County recorded negative net absorption at 40,689 sf. Santa Rosa contributed to the county's negative net absorption of 124,514 square feet, while Petaluma led with a positive quarterly net absorption of 107,631 square feet.

Rates Remain Steady

The overall average asking rate in the North Bay dropped by just \$0.01 QOQ to \$2.68 per square foot (psf) on a monthly full-service basis, though rates saw a slight increase of \$0.03 YOY. Marin County's average asking rent was \$3.47 psf, a decrease of \$0.03 over the previous quarter but making an increase from \$3.44 psf one year ago. Mill Valley's asking rates remained steady at \$5.06 psf QOQ, maintaining its status as the most expensive market in Marin County. The asking rate was unchanged in Southern Marin County at \$4.85 psf YOY, a reflection of pricing holding or even increasing in desirable Class A buildings. The average asking rate in Sonoma County decreased \$0.03 QOQ to \$1.88 psf and down \$0.04 YOY. Petaluma remained the county's priciest market at \$2.03 psf, with direct Class A pricing at \$2.24 psf. Rohnert Park/Cotati is the most affordable market at \$1.71 psf due to its lack of Class A inventory. The limited supply of sublease space and relatively high price of construction costs for tenant improvements are factors in the firm asking rate trends.

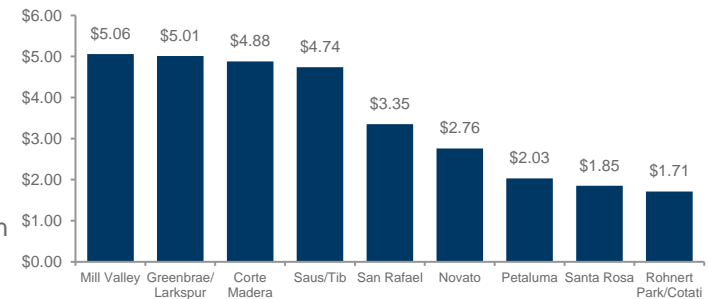
Looking Ahead

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 region is a result of the hybrid/remote work model. 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 and those close to desired amenities will continue to be the most successful in capturing new tenants.

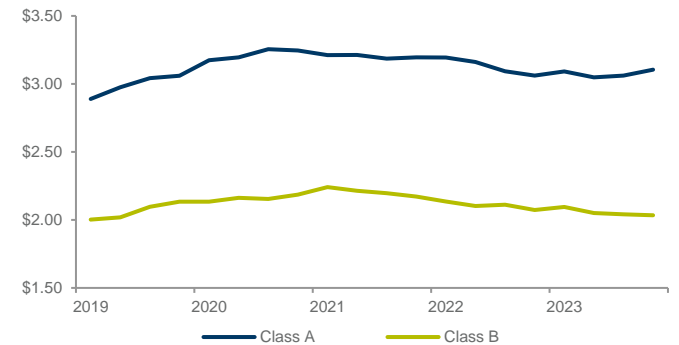
Outlook

- Leasing activity, though improved, will remain below the levels recorded during the years immediately prior to the pandemic.
- Top-tier buildings will continue to experience more robust activity than commodity buildings in 2024.
- Demand will be driven by tenants downsizing or relocating within the North Bay market.

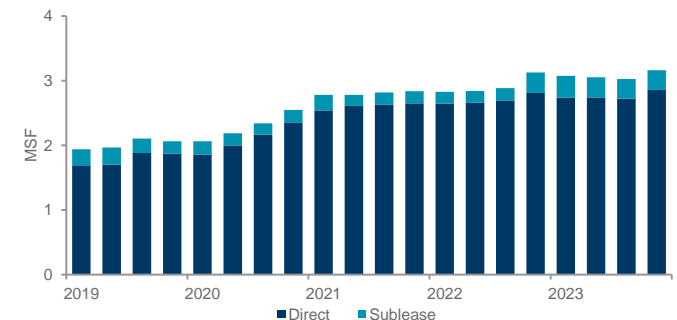
SUBMARKET ASKING RENT



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	18,532	102,465	14.1%	-3,100	-28,232	36,593	0	\$4.74	\$5.00
Mill Valley	442,641	2,540	63,952	15.0%	0	7,564	8,462	0	\$5.06	\$5.38
Southern Marin County	1,299,132	21,072	166,417	14.4%	-3,100	-20,668	45,055	0	\$4.85	\$5.14
Corte Madera	459,161	0	26,968	5.9%	-2,809	9,117	23,626	0	\$4.88	\$7.11
Greenbrae/Larkspur	890,945	13,689	80,995	10.6%	-12,373	-8,310	120,516	0	\$5.01	\$5.13
Central Marin County	1,350,106	13,689	107,963	9.0%	-15,182	807	144,142	0	\$4.98	\$5.39
San Rafael	4,434,593	139,565	643,663	17.7%	-51,506	-71,177	164,392	0	\$3.35	\$3.52
Novato	2,635,728	8,524	483,814	18.7%	-24,687	13,037	232,776	0	\$2.76	\$2.80
Northern Marin County	7,070,321	148,089	1,127,477	18.0%	-76,193	-58,140	397,168	0	\$3.13	\$3.22
MARIN COUNTY TOTAL	9,719,559	182,850	1,401,857	16.3%	-94,475	-78,001	586,365	0	\$3.47	\$3.55
Petaluma	3,077,229	83,946	380,856	15.1%	107,631	120,135	328,851	0	\$2.03	\$2.18
Rohnert Park/Cotati	1,921,410	4,255	256,888	13.6%	-23,806	84,678	155,557	0	\$1.71	\$0.00
Santa Rosa	8,202,684	31,959	819,148	10.4%	-124,514	-161,049	303,087	0	\$1.85	\$2.01
SONOMA COUNTY TOTAL	13,201,323	120,160	1,456,892	11.9%	-40,689	43,764	787,495	0	\$1.88	\$2.08
Class Breakdown										
Class A	8,047,290	233,407	1,620,133	23.0%	-16,239	-69,035		0	\$3.10	\$3.10
Class B	12,806,065	69,603	1,170,082	9.7%	-113,736	44,589		0	\$2.04	
NORTH BAY TOTAL	22,920,882	303,010	2,858,749	13.8%	-135,164	(34,237)	1,373,860	0	\$2.68	

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

*Not reflective of U.S. MarketBeat tables

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
7200 Redwood Blvd	Novato	Kaiser Foundation Health Plan, Inc.	11,912	Renewal
110 Stony Point Rd.	Santa Rosa	National Instruments Corporation	8,940	New Lease
100 Tamal Vista Blvd	Corte Madera	MARK J. SCHILLER, M.D.	7,240	New Lease
1670 Corporate Cir	Petaluma	Bay Alarm	6,971	New Lease
818 Fifth Ave	San Rafael	Radiant Logic Inc.	6,620	New Lease
4000 Civic Center Dr	San Rafael	Raymond James & Associates, Inc.	5,496	Renewal

KEY SALE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$PSF
7200 Redwood Blvd	Novato	NCP Commercial / Confidential	52,019	\$5.7M / \$111
359 Bel Marin Keys Blvd	Novato	Harbert Management Corporation / Sierra Pacific Properties	37,857	\$4.3M / \$114

North Bay

Office Q4 2023



OFFICE SUBMARKETS



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