MARKETBEAT
NORTH BAY
OFFICE Q2 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
13.3% Vacancy Rate	▲	▲
-77K YTD Net Absorption, SF	▼	▼
$2.84 Asking Rent, PSF	▼	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS

	YOY Chg	Outlook
325.0K North Bay Employment	▲	▲
4.0% North Bay Unemployment Rate	▲	▼
4.2% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMY

The North Bay, comprising of Marin and Sonoma counties, closed the second quarter of 2025 with an unemployment rate of 4.1%, up from 4.0% one year ago. Non-farm jobs increased by 0.5% or 1,700 positions, bringing the total to 316,800. Venture capital (VC) funding for start-ups headquartered in the North Bay was $48.0 million (M) (nine deals), a 50.2% decrease from the revised $96.4M (15 deals) in the first quarter of 2025. The largest deal of the quarter was Sebastopol-based Astro Mechanica (aerospace and defense/jet engine design business) in a later-stage round of $27.1M. That was followed by Petaluma-based Abstract Ice (food tech business) in a later-stage round of $11.2M.

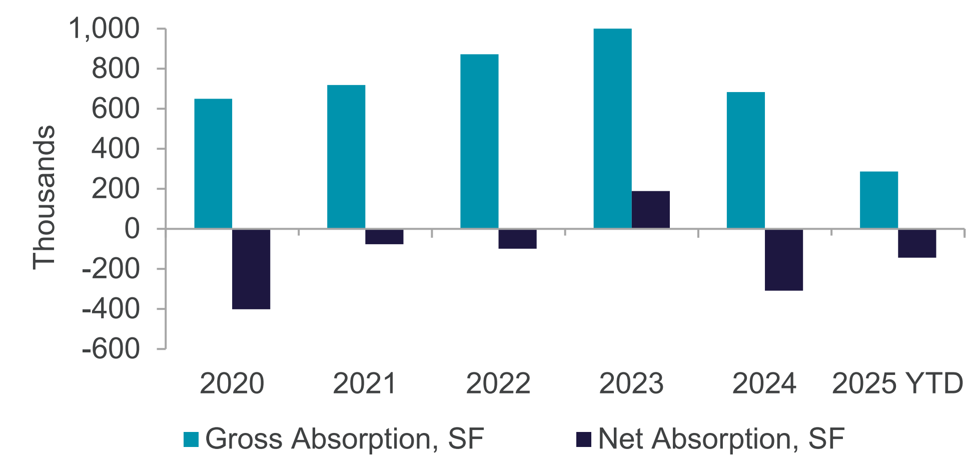
SUPPLY: Vacancy Ticks Up

The North Bay vacancy rate closed the second quarter of 2025 at 13.3%, reflecting a 40-basis-point (bps) increase from the previous quarter. The increase in vacancy in Marin County was partly driven by the increased availability at 100 Larkspur Landing Circle in San Rafael. Marin County's vacancy rate rose 70 bps quarter-over-quarter (QOQ), reaching 15.5%, which translates to 1.5 million square feet (msf) of total space. Northern Marin, the county's largest office submarket, closed the quarter with a 16.6% vacancy rate, up 40 bps year-over-year (YOY), primarily due to the addition of new direct space. This submarket accounted for 77.8% of Marin County's total vacancy, with 660,494 square feet (sf) in San Rafael and 508,787 sf in Novato. Meanwhile, Sonoma County ended the quarter with an 11.4% vacancy rate, marking a 200-bps increase YOY, largely due to newly vacated space in Petaluma and Santa Rosa.

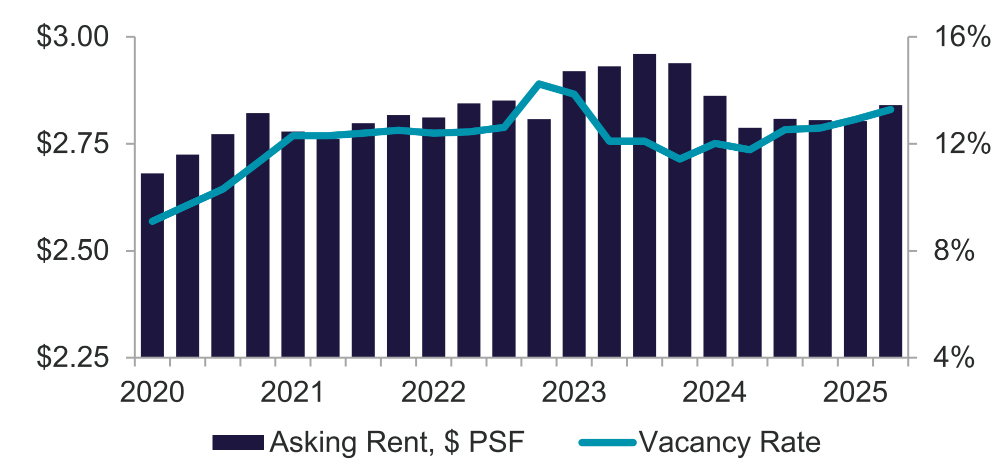
DEMAND: Leasing Activity Declines

North Bay leasing activity totaled 109,870 sf in the second quarter, marking a 30.8% YOY decline. Marin County, recorded 66,296 sf in leasing volume, reflecting a 45.3% decrease YOY. Activity was mainly driven by smaller deals under 10,000 sf, underscoring softer market conditions around larger tenants. Greenbrae and Larkspur led activity within the county, contributing 30,217 sf, driven by a lease of 7,091 sf signed by the KHP Capital Partners, marking the largest transaction this quarter. Meanwhile, Sonoma County recorded 43,574 sf of leasing this quarter, representing a notable 16.4% increase YOY.

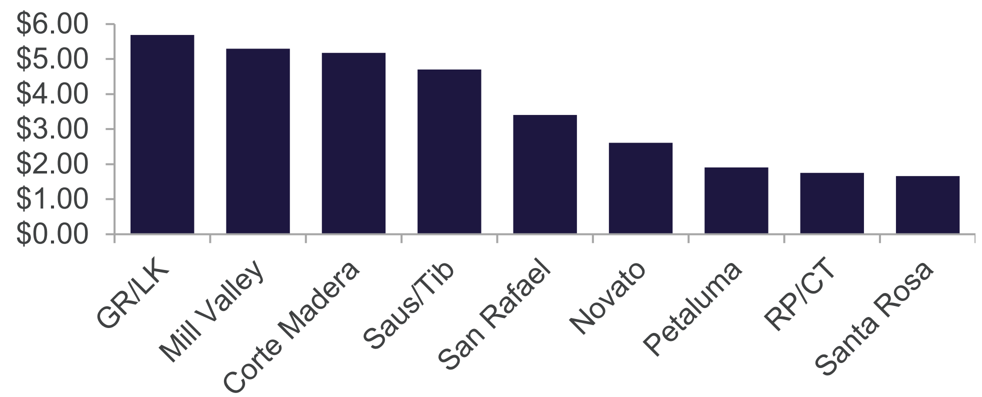
SPACE DEMAND / LEASING ACTIVITY



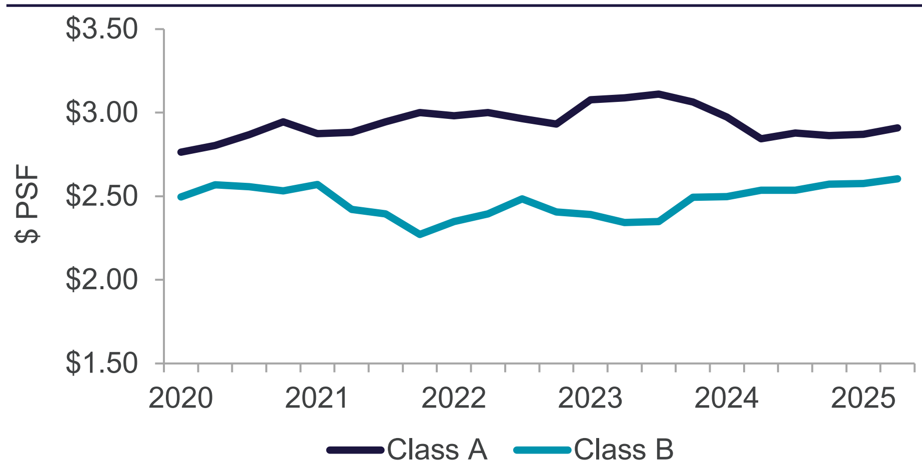
OVERALL VACANCY & ASKING RENT



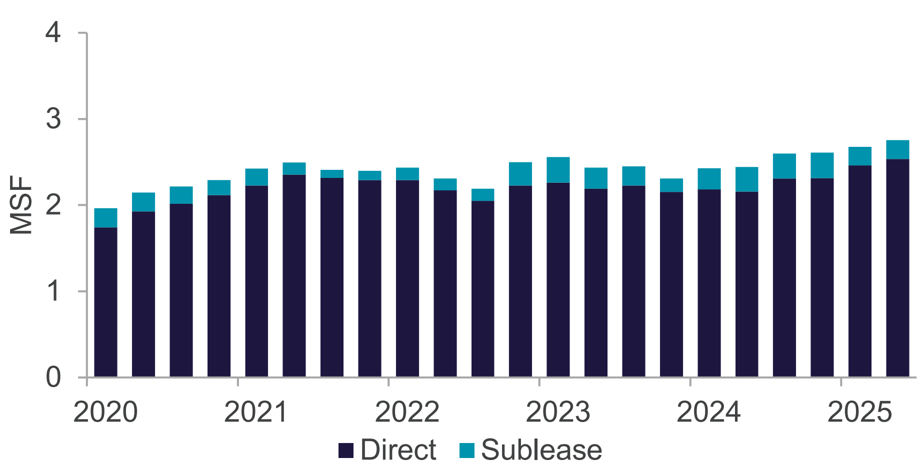
SUBMARKET ASKING RATE



ASKING RENT COMPARISON



DIRECT VS. SUBLEASE VACANT SPACE COMPARISON



Smaller occupiers have been returning to office environments more readily than larger firms. For their space needs, they have had a rising preference for workspaces that offer superior office experience. Tenants have increasingly sought out well-located space that provide upscale finishes, modern layouts, and easy access to retail, dining, and transit, all contributing to a more engaging and productive work atmosphere.

Net absorption in the North Bay was negative 77,500 sf in the second quarter, a decline from negative 66,514 square feet in the previous quarter. Marin County recorded negative 66,223 sf of net absorption during the quarter, while Sonoma County posted negative 11,277 sf.

RATES: Rents Slightly Increase

The overall average asking rate in the North Bay increased by $0.04 QOQ to $2.84 per square foot (psf) on a monthly full-service basis. Greenbrae/Larkspur had the highest asking rate in Marin County at $5.69 psf. Marin County's average asking rent was $3.55 psf, increasing $0.05 from the previous quarter, and $0.07 YOY. Corte Madera, Greenbrae and Larkspur were the markets commanding premium rents, each exceeding $5.00 psf. The average asking rate in Sonoma County decreased by $0.03 QOQ and $0.06 YOY to $1.78 psf. Petaluma has the county's highest average asking rate at $1.91 psf, with a limited supply of sublease space and direct Class A pricing at $2.00 psf. Rohnert Park/Cotati and Santa Rosa had the lowest average asking rates at $1.75 psf and $1.66 psf, respectively, due to their limited Class A inventory.

LOOKING AHEAD

The North Bay office market is expected to remain under pressure through the second half of this year, with higher vacancy rates likely as tenants continue to downsize and competition among landlords intensifies. With vacancies remaining high and tenant demand soft, owners are expecting to adjust their pricing further, possibly boosting investment sales activity. All that said, there will continue to be added interest in quality office space. However, the high cost of tenant improvements (TI) will pose a notable challenge for owners seeking to reposition and market their space competitively.

OUTLOOK

- Throughout 2025, vacancies are likely to persist, with tenant demand still constrained, signaling that landlords may need to adopt greater flexibility to secure and maintain tenants.
- Sales activity is expected to pick up throughout the rest of the year, as pricing softens and more owners become willing to adjust their expectations.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET 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	13,743	97,965	13.0%	-3,299	14,922	31,602	0	$4.70	$5.05
Mill Valley	442,641	0	75,486	17.1%	1,719	-10,379	26,682	0	$5.30	$5.43
Southern Marin County	1,299,132	13,743	173,451	14.4%	-1,580	4,543	58,284	0	$4.95	$5.22
Corte Madera	459,161	801	28,256	6.3%	-6,853	-4,539	734	0	$5.18	$6.30
Greenbrae/Larkspur	897,635	8,415	109,161	13.1%	-40,834	-36,066	46,357	0	$5.69	$5.60
Central Marin County	1,356,796	9,216	137,417	10.8%	-47,687	-40,605	47,091	0	$5.52	$5.87
San Rafael	4,427,604	11,892	648,602	14.9%	-2,676	-49,029	67,560	0	$3.41	$3.64
Novato	2,636,386	17,195	491,592	19.3%	-14,280	-4,417	20,875	0	$2.61	$2.65
Northern Marin County	7,063,990	29,087	1,140,194	16.6%	-16,956	-53,446	88,435	0	$3.08	$3.19
MARIN COUNTY TOTAL	9,719,918	52,046	1,451,062	15.5%	-66,223	-89,508	193,810	0	$3.55	$3.64
Petaluma	3,065,972	115,993	340,985	14.9%	18,477	-20,493	24,603	0	$1.91	$1.94
Rohnert Park/Cotati	878,984	0	107,559	12.2%	1,232	309	9,735	0	$1.75	$1.75
Santa Rosa	6,497,533	52,375	628,740	10.5%	-30,986	-37,143	55,522	0	$1.66	$1.61
Sonoma County Other	578,085	0	6,360	1.1%	0	3,232	0	0	$1.95	$2.50
SONOMA COUNTY TOTAL	11,020,574	168,368	1,083,644	11.4%	-11,277	-54,095	92,444	0	$1.78	$1.79
NORTH BAY TOTALS	**20,740,492**	**220,414**	**2,534,706**	**13.3%**	**-77,500**	**-143,603**	**286,254**	**0**	**$2.84**	**$2.91**

**Rental rates reflect full service asking*

KEY LEASE TRANSACTIONS Q2 2025

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1100 Larkspur Landing	Larkspur	KHP Capital Partners	7,091	New Lease
300 Drakes Landing Rd	Greenbrae	Fairview Capital Investment	5,861	Renewal
990 Fifth Ave	San Rafael	Bok Modern	5,199	New Lease
7200 Redwood Blvd	Novato	Tangram Insurance	4,200	New Lease

KEY SALES TRANSACTIONS Q2 2025

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $ PSF
1425 McDowell Blvd	Petaluma	NCP Commercial LLC / Rajesh Commercial Properties	30,054	$3.5M / $90
1660 Tiburon Blvd	Tiburon	Robert Cappelloni / Sixteen Sixty LLC	8,250	$4.8M / $579

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