



South Peninsula R&D Market

Overall Leasing Activity Slows on South Peninsula in the R&D Sector

In the first quarter of 2022, the South Peninsula’s overall gross absorption was almost 50.0% less than the fourth quarter of 2021, where the South Peninsula closed the year with approximately 775,000 square feet of gross absorption and positive net absorption for the third straight quarter. The total leasing activity for the quarter was approximately 390,000 square feet leased. There was approximately 45,000 square feet of negative net absorption. Demand on the South Peninsula remained solid, due in large part to healthy diversity. Tech, life science and automotive tenants are seeking over 2 million square feet of R&D space in the South Peninsula.

The overall vacancy rate decreased for the fourth straight quarter, from an overall of 9.3% in the third quarter of 2021 to 8.5% this quarter, remaining in the single digits after spending almost all of 2021 in double digits. The most significant decreases in the vacancy rate for the quarter once again occurred in Palo Alto. The availability rate ticked up slightly from 9.9% to just over 10.0%. That rate was above 13.0% just a year ago.

Current Conditions

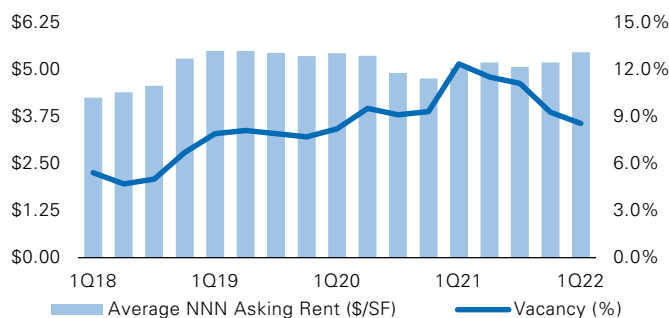
- The South Peninsula showed negative absorption for the first time in a year.
- R&D users pulled back, negatively affecting valuations as the US economy takes a significant hit to start the year.

Market Summary

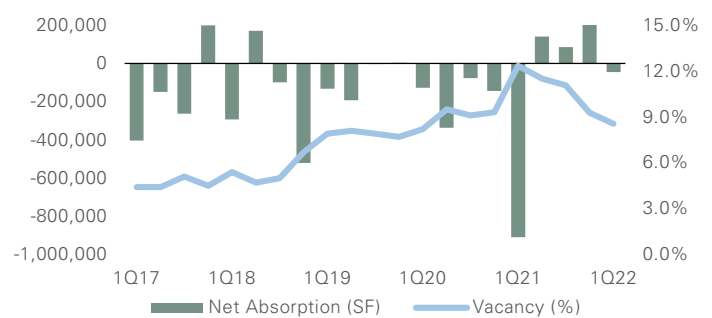
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	27.3M	27.1M	26.9M	→
Vacancy Rate	8.6%	9.3%	12.4%	↓
Qtr Net Abs (SF)	- 45K SF	412K SF	- 909K SF	↑
Avg NNN Ask Rent/SF	5.45/SF	\$5.18/SF	\$5.04	→
Under Const (SF)	22K SF	0 SF	0 SF	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH 1Q 2022

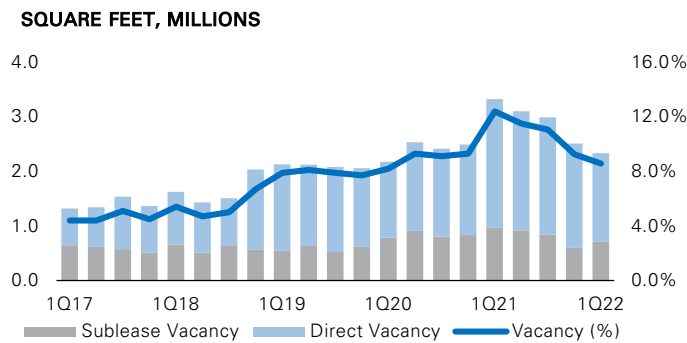
This quarter saw only 16 transactions above 5,000 square feet; 11 of those 16 transactions were over 10,000 square feet. The most notable transaction of the quarter came from Nuro in Mountain View. At over 170,000 square feet, its lease renewal and expansion on Terra Bella was the largest transaction of the quarter and gives hope that the R&D sector will bounce back with higher volumes, larger transactions and momentum for the remainder of 2022.

South Peninsula asking rates increased only slightly but were relatively flat for the last 12 months. The overall average asking rent of \$5.45/SF was up from \$5.18/SF in the previous quarter.

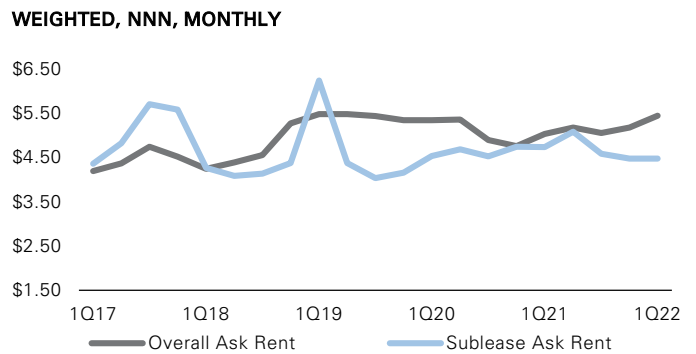
Outlook Remains the Same

The Bay Area has long boasted the lion's share of venture funding and IPOs with record years in 2020 and 2021. 2022 is not off to the same feverish pace. As a result, the blistering pace of hiring in the R&D and tech sectors may slow. The country and the Bay Area region are facing some challenges that were unexpected just four weeks ago; it is too early to tell the full extent of the effects as it relates to slower hiring, inflation, rising interest rates and the ongoing war in Ukraine. Good demand is still evident; look for a sense of urgency as the challenges subside, more certain ground is found and tenants are increasingly comfortable making significant real estate decisions as they plan for success in 2022 and beyond.

Vacancy Breakdown



Average Asking Rents



Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Nuro	1290 & 1330 Terra Bella Ave	Mountain View – Central Expressway	Renewal/Expansion	163,575
Wipro Technologies	425 National Ave	Mountain View – South Middlefield	Lease Renewal	35,117
SummerBio	181 Constitution Dr	Menlo Park – Highway 101	Direct Lease	28,589
LevitasBio, Inc.	1505 Adams Dr	Menlo Park – Highway 101	Direct Lease	17,195
Anduril Industries, Inc.	385 Ravendale Dr	Mountain View – South Middlefield	Direct Lease	16,095
Cellanome, Inc.	1810 Embarcadero Rd	Palo Alto – Bayshore	Direct Lease	15,151
Engine Biosciences	1400 Bridge Pkwy	Redwood Shores	Direct Lease	13,886
Synthego Corporation	3698 Haven Ave	Redwood City – Southern	Lease Extension	11,609
Strateos	3565 Haven Ave	Menlo Park – Highway 101	Lease Renewal	10,026

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
400 Logue Ave	Mountain View	\$52,800,000	\$1,251	42,210
57 & 67 E Evelyn Ave	Mountain View	\$18,100,000*		104,239 SF Land 32,518 SF Bldg.

*Sold for land value.

Overall Submarket Statistics									
	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
Menlo Park	3,506,803	58,756	4,500	1.68%	3.06%	59,998	20,490	20,490	\$4.15
Middlefield Road	257,981	13,100	2,000	5.08%	5.08%	1,650	-2,000	-2,000	-
Highway 101	3,248,822	45,656	2,500	1.41%	2.90%	58,348	22,490	22,490	\$4.15
Mountain View	10,809,901	946,005	204,255	8.75%	9.63%	262,375	-27,067	-27,067	\$4.42
Central Expressway	1,787,024	112,475	19,080	6.29%	6.34%	176,635	59,173	59,173	\$4.11
Shoreline	4,405,432	23,774	13,776	0.54%	0.54%	18,700	4,924	4,924	\$2.73
South Middlefield	4,617,445	809,756	171,399	17.54%	19.60%	67,040	-91,164	-91,164	\$4.48
Palo Alto	9,484,804	1,116,103	486,674	11.77%	14.64%	21,136	-19,778	-19,778	\$6.05
Bayshore	2,080,620	85,261	19,261	4.10%	4.39%	21,136	9,330	9,330	\$3.06
California Avenue	383,837	110,194	46,468	28.71%	28.71%	0	-21,961	-21,961	\$7.15
Stanford Research Park	7,020,347	920,648	420,945	13.11%	16.91%	0	-7,147	-7,147	\$6.28
Redwood City	2,504,284	100,358	20,593	4.01%	4.98%	29,121	-20,593	-20,593	\$4.67
Downtown	61,192	3,500	0	5.72%	5.72%	0	0	0	\$2.25
Seaport	1,433,571	16,115	0	1.12%	1.12%	17,512	0	0	\$6.00
Southern Area	1,009,521	80,743	20,593	8.00%	10.40%	11,609	-20,593	-20,593	\$4.49
Redwood Shores	1,007,648	117,537	0	11.66%	12.34%	13,886	1,677	1,677	\$7.30
SOUTH PENINSULA	27,313,440	2,338,759	716,022	8.56%	10.20%	386,516	-45,271	-45,271	\$5.45

RESEARCH 1Q 2022

Historical Vacancy Rates								
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
South Peninsula	9.33%	9.05%	9.28%	12.35%	11.52%	11.06%	9.30%	8.54%
Menlo Park	5.79%	3.85%	3.03%	4.54%	4.48%	2.67%	1.74%	1.68%
Mountain View	6.87%	8.28%	7.77%	8.79%	8.57%	9.88%	9.03%	8.75%
Palo Alto	13.87%	11.88%	13.17%	18.66%	18.03%	17.44%	14.17%	11.77%
Redwood City	2.20%	1.79%	3.54%	6.04%	1.67%	1.67%	1.65%	4.01%
Redwood Shores	20.68%	25.02%	24.24%	32.99%	29.97%	15.99%	11.66%	11.14%

Historical NNN Asking Rents								
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
South Peninsula	\$5.36	\$4.90	\$4.76	\$5.04	\$5.18	\$5.06	\$5.18	\$5.45
Menlo Park	\$3.09	\$3.26	\$3.11	\$3.39	\$3.40	\$3.34	\$3.61	\$4.15
Mountain View	\$4.67	\$4.34	\$4.41	\$4.41	\$4.62	\$4.41	\$4.41	\$4.42
Palo Alto	\$6.31	\$5.76	\$5.28	\$5.52	\$5.49	\$5.49	\$5.86	\$6.05
Redwood City	\$2.50	-	\$2.25	\$4.72	\$4.83	\$4.34	\$4.45	\$4.67
Redwood Shores	\$4.11	\$4.27	\$4.88	\$5.76	\$6.35	\$6.50	\$6.33	\$7.30

Historical Net Absorption								
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
South Peninsula	-335,883	-76,557	-143,595	-909,844	140,958	85,939	411,834	-45,271
Menlo Park	-15,107	-37,000	15,445	-53,349	2,156	26,441	30,612	20,490
Mountain View	-121,099	-211,460	2,382	-150,114	14,244	-98,632	65,690	-27,067
Palo Alto	-221,991	163,400	-125,111	-557,794	5,844	17,727	302,223	-19,778
Redwood City	8,676	6,607	-44,092	-44,065	93,112	0	0	-20,593
Redwood Shores	13,638	1,896	7,781	-104,522	25,602	140,403	13,309	1,677

Historical Gross Absorption								
	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
South Peninsula	314,171	436,326	205,871	451,652	948,475	1,103,012	760,370	386,516
Menlo Park	81,619	0	125,557	2,538	23,700	96,899	41,712	59,998
Mountain View	13,650	63,940	30,362	114,755	587,034	336,162	113,857	262,375
Palo Alto	196,588	294,055	3,088	296,859	132,502	241,180	410,825	21,136
Redwood City	8,676	71,646	39,083	0	179,637	180,125	102,361	29,121
Redwood Shores	13,638	6,685	7,781	37,500	25,602	248,646	91,615	13,886

For more information:

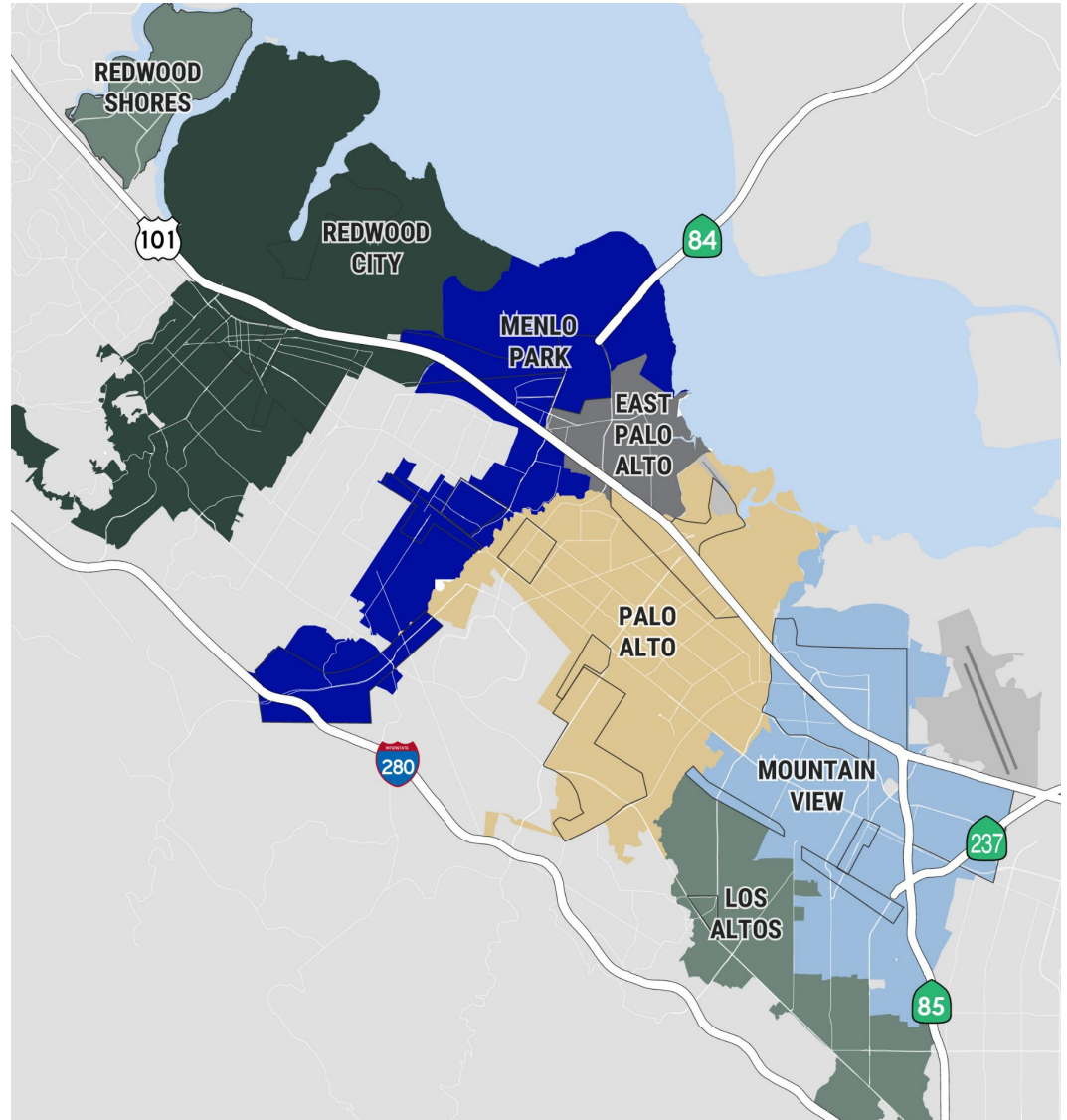
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