
1Q24

San Francisco Bay Area Life Science Market Overview



NEWMARK

Market Observations

Economy

- Employment growth in the Bay Area life science sector is expected to remain robust in the coming years, supported by a healthy development pipeline to accommodate tenant space requirements.
- A “higher for longer” view of the interest rate environment has taken hold for investors, as U.S. inflation has remained persistently high over the last few months with core inflation hovering around 3.8%, nearly double the Fed’s long-term target.
- The Fed now sees two to three interest rate cuts in 2024 but forecasts fewer cuts than before in 2025. In comparison, markets were anticipating up to eight rate cuts in 2024.

Major Transactions

- Insitro completed the largest deal of the quarter, renewing its 143,188-SF lease on floors two through five at 279 E. Grand Ave. in South San Francisco through the end of August 2034.
- Medical technology company Science Corp. leased 300 Wind River Way in Alameda through February 2034 for the second-largest deal of the quarter.
- Biotechnology company AnaSpec renewed its 44,010-SF lease at 34801 Campus Dr. in Fremont for the third-largest deal of the quarter.

Leasing Market Fundamentals

- Market-wide vacancy increased to 20.7% this quarter, up from 18.2% in the previous quarter, while availability increased to 23.8%, up from 22.4% in the previous quarter. On the sublease front, vacancy counted for 5.1% of the total inventory, up from 4.0% in the previous quarter and up from 3.0% one year ago.
- Leasing activity for the quarter was up 14% versus the prior quarter but down 34% year over year.
- The region’s 5.6-million-SF construction pipeline continued to trend downwards in the first quarter of 2024. Of the notable ground-up construction, 6.5% is already preleased, compared with 9.4% in the previous quarter.
- Active demand for lab space was recorded at 2.8 million SF this quarter, up from 2.6 million SF in the previous quarter, but down from 5.3 million SF one year ago.

Outlook

- Overall, life science development activity has been sliding over the last few quarters, with construction totals declining from 8.1 million SF in the second quarter of 2023 to 5.6 million SF this quarter. With life science availability continuing to trend higher and construction loans continue to be increasingly difficult to obtain in a high interest rate environment, coupled with flattening demand, project groundbreakings will continue to decelerate in 2024.
- Since there are record levels of existing inventory and future supply on the horizon, continue to expect heightened competition between landlords and sublandlords alike for occupancy by means of tenant-favorable concessions packages and, in some cases, reduction of asking rates.

1. Economy
2. Leasing Market Fundamentals
3. Appendix / Tables

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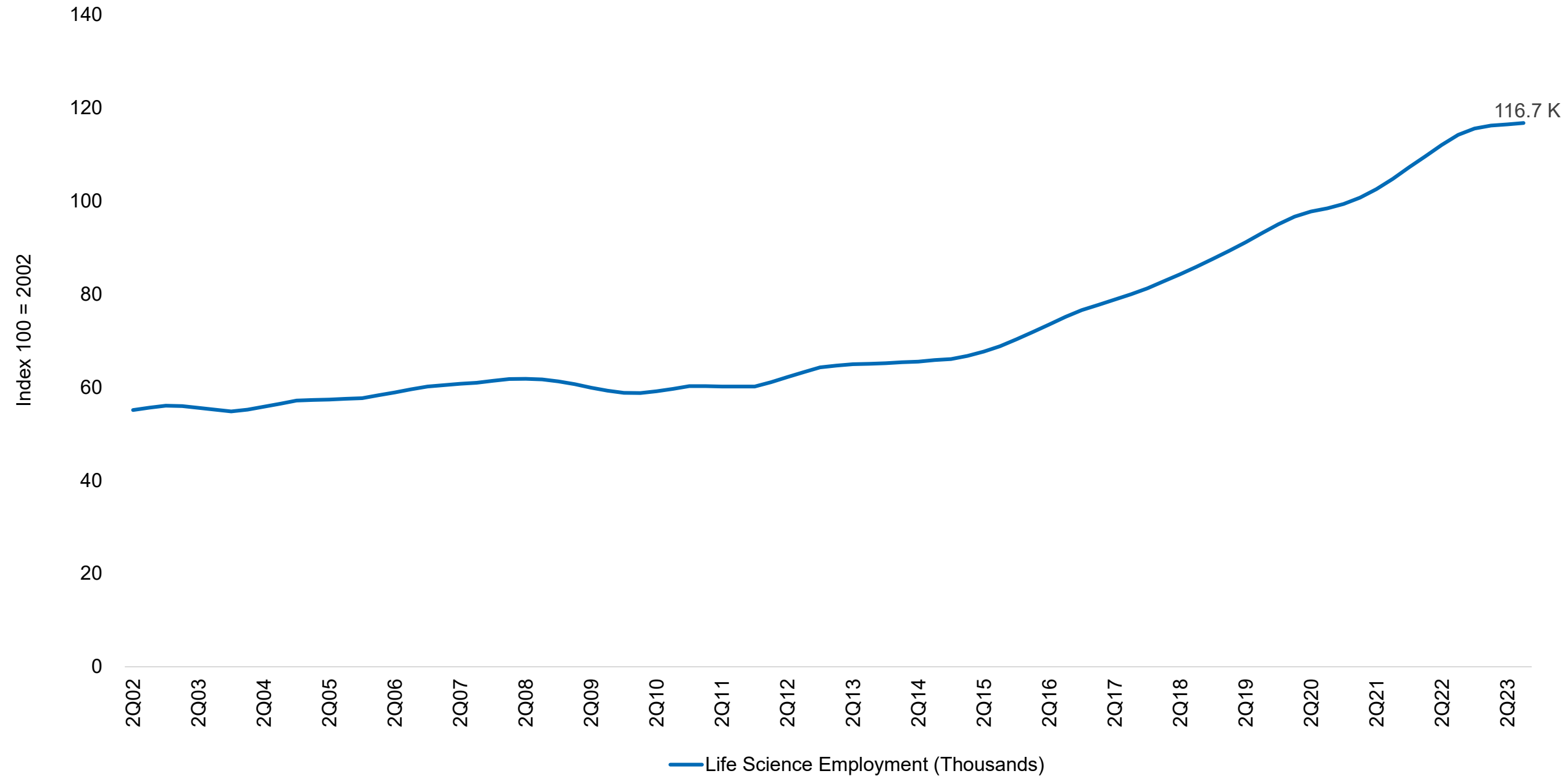
Economy



Bay Area Life Science Employment

Despite recent layoffs within this sector, life science employment continued to expand in 2023 throughout the San Francisco Bay Area, up slightly by 0.23%, reaching 116,720 active employees.

Bay Area Life Science Employment

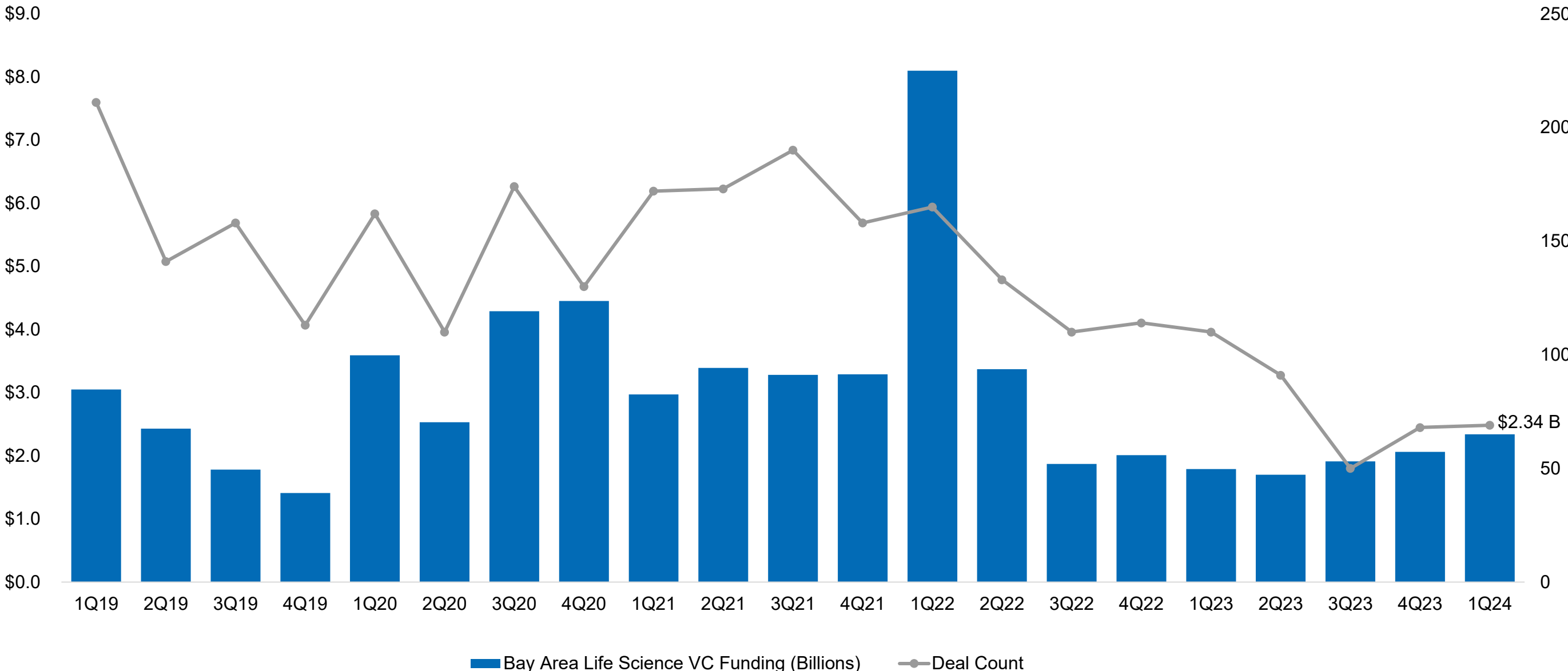


Source: JobsEQ

Slight Increase in Bay Area Life Science Funding and VC Deals Executed

Bay Area-wide, there was a total of 69 completed life science VC deals, compared with 68 in the previous quarter and 110 one year ago. Biotech venture capital funding in the Bay Area market increased in the first quarter of 2024, recording \$2.3 billion in capital raised, up from \$2.1 billion in the previous quarter and \$1.8 billion one year ago.

Bay Area Life Science Venture Capital Funding / Deal Count

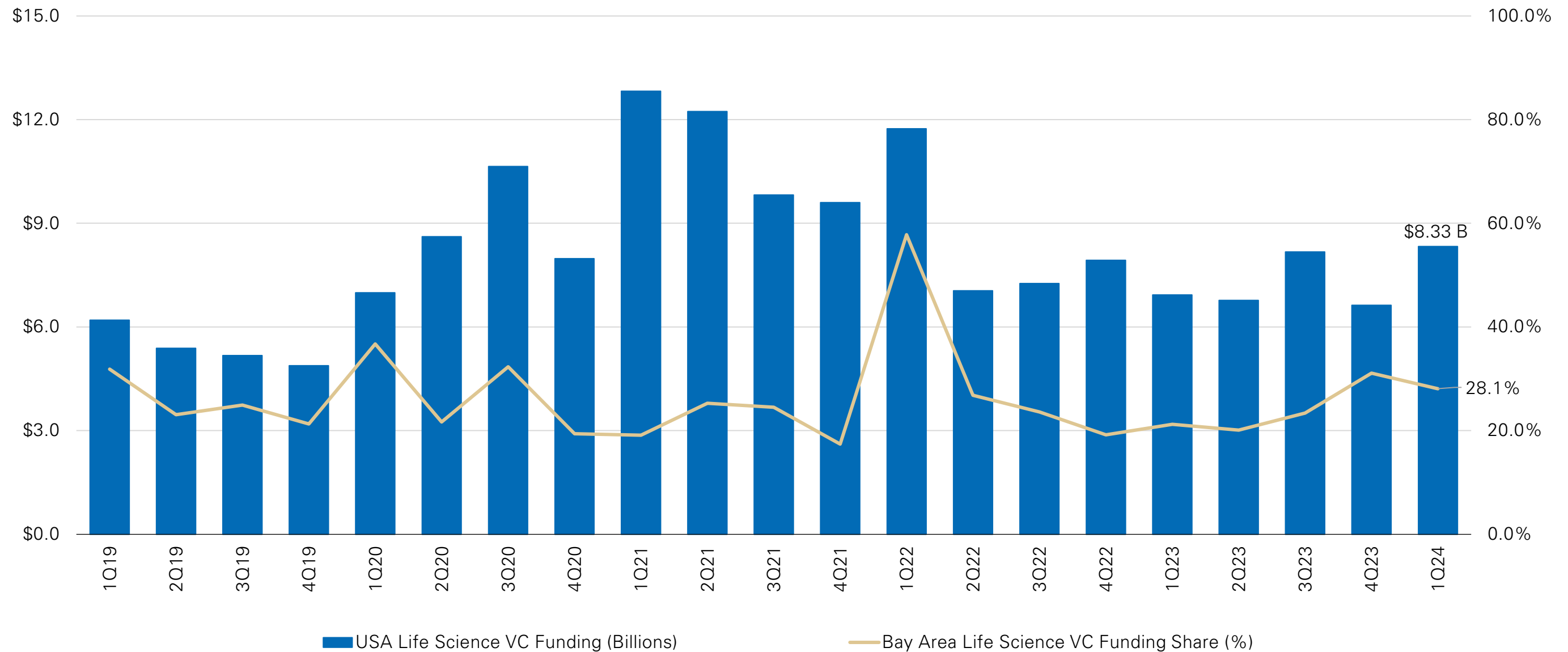


Source: Pitchbook

Nationwide Life Science VC Funding Increases to Start Off the New Year

Nationwide, the life science sector recorded \$8.3 billion of venture capital investment versus \$6.6 billion in the previous quarter and \$6.9 billion one year ago. Nationwide VC funding activity has fallen from pandemic-fueled highs; however, 2024 could be the year that dry powder sitting on the sidelines is strategically deployed in an optimistically improving environment.

Nationwide Life Science Venture Capital Funding



Source: Pitchbook

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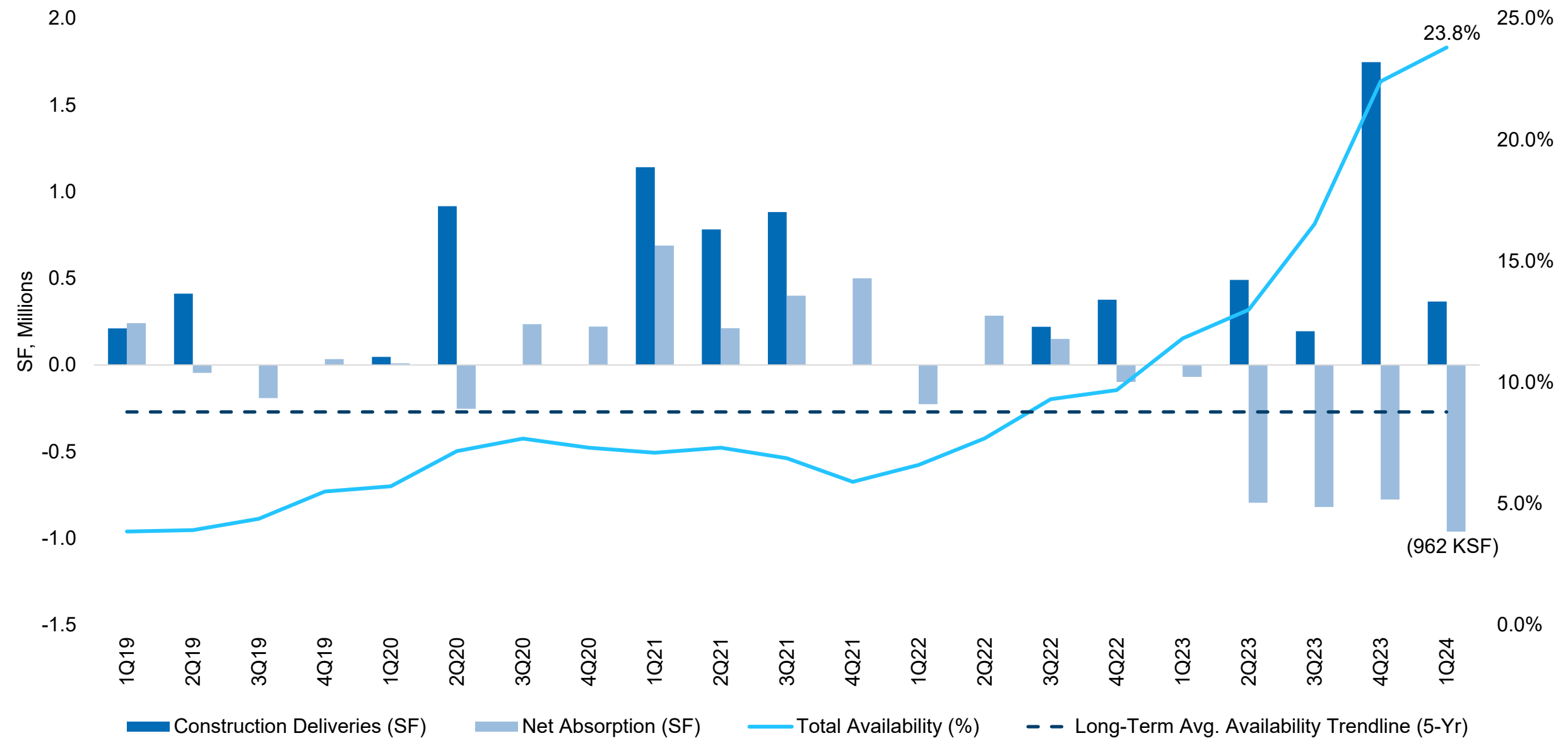
Leasing Market Fundamentals



Market-Wide Availability Nearly Three Times the Five-Year Long-Term Average

Available space has steadily increased over the last 24 months, peaking in the first quarter of 2024 at 23.8%, up from 22.4% in the previous quarter and 11.8% one year ago. Net absorption remained negative for a sixth consecutive quarter, ending at negative 962,000 SF. A robust development pipeline will continue driving the availability rate higher as many of the projects undergoing construction are expected to deliver vacant in 2024, which in turn will only further enhance tenant-favorable market conditions.

Historical Construction Deliveries, Net Absorption, and Availability



Source: Newmark Research

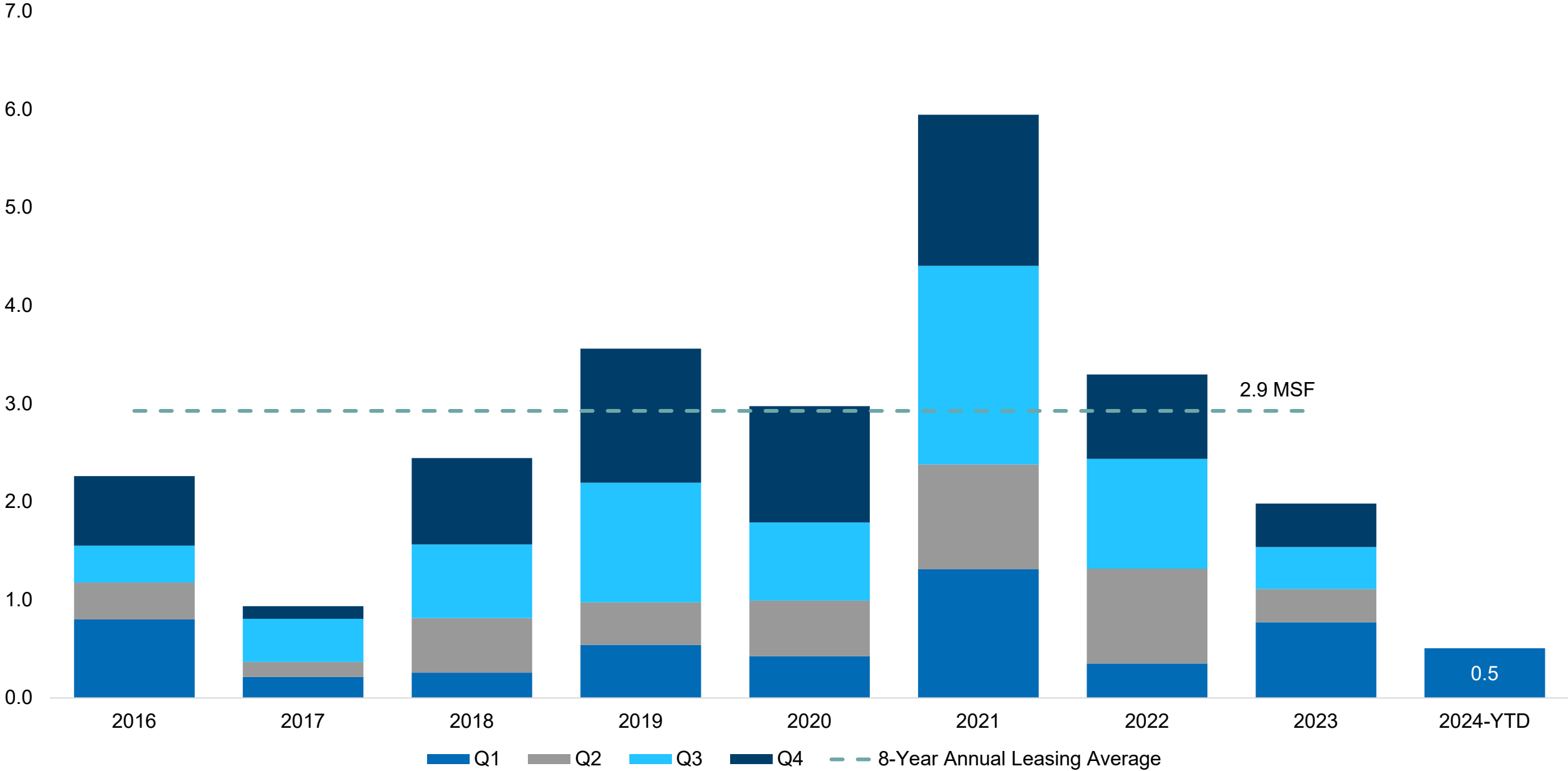


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Slight Uptick in Leasing Activity

Total leasing activity for the quarter measured 507,000 SF, marking a 14% increase quarter over quarter but a 34% decline year over year. The average deal size for the quarter was 26,710 SF, compared with 23,380 SF in the previous quarter.

Total Leasing Activity (MSF)

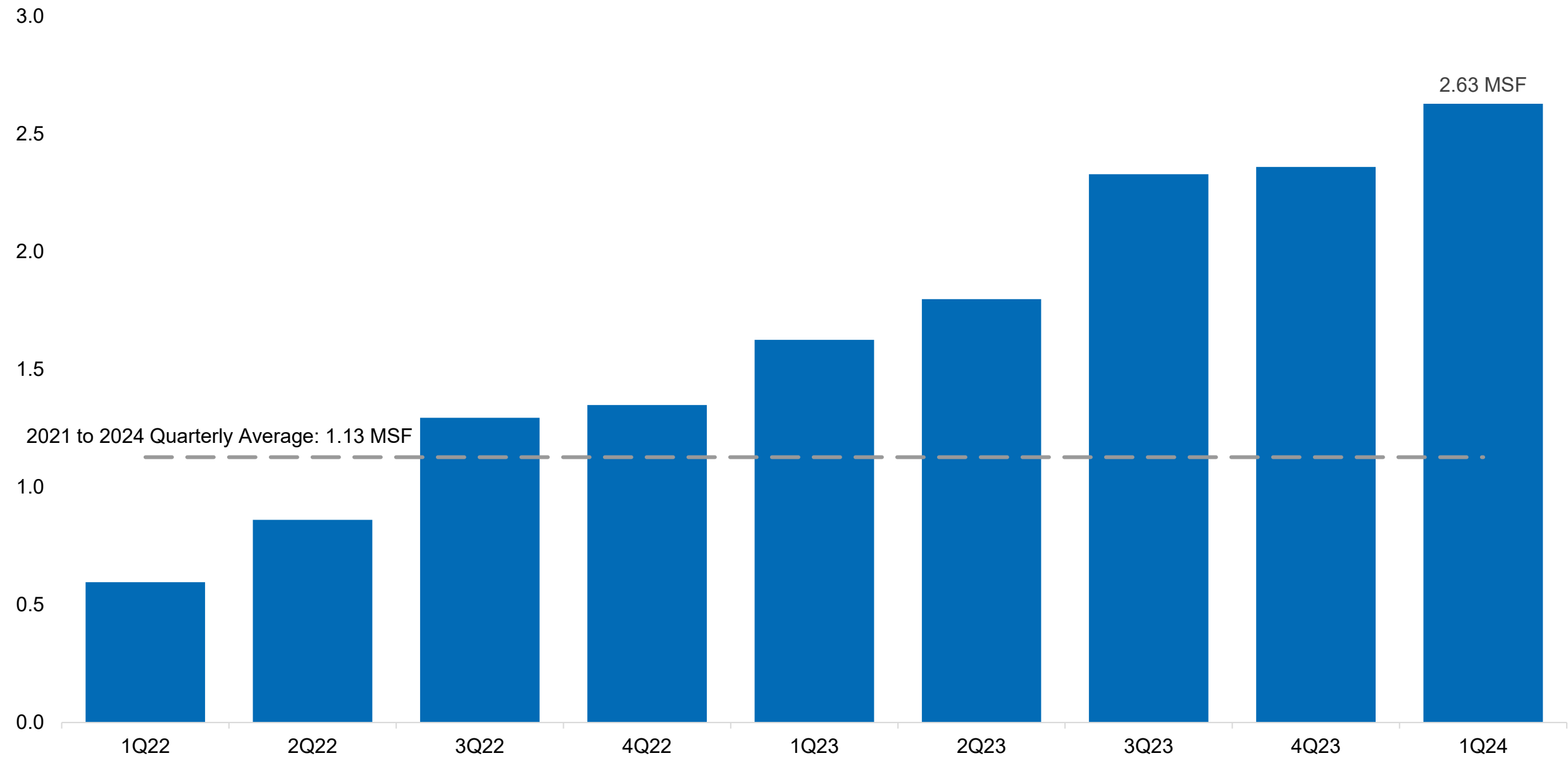


Source: Newmark Research

Life Science Sublease Availability Continues to Increase

The increase in available sublease space continued to apply upward pressure on the total availability rate in the first quarter of 2024. Record levels of available sublease space continue to exert downward pressure on all transactions.

Available Life Science Sublease Volume (MSF)



Source: Newmark Research

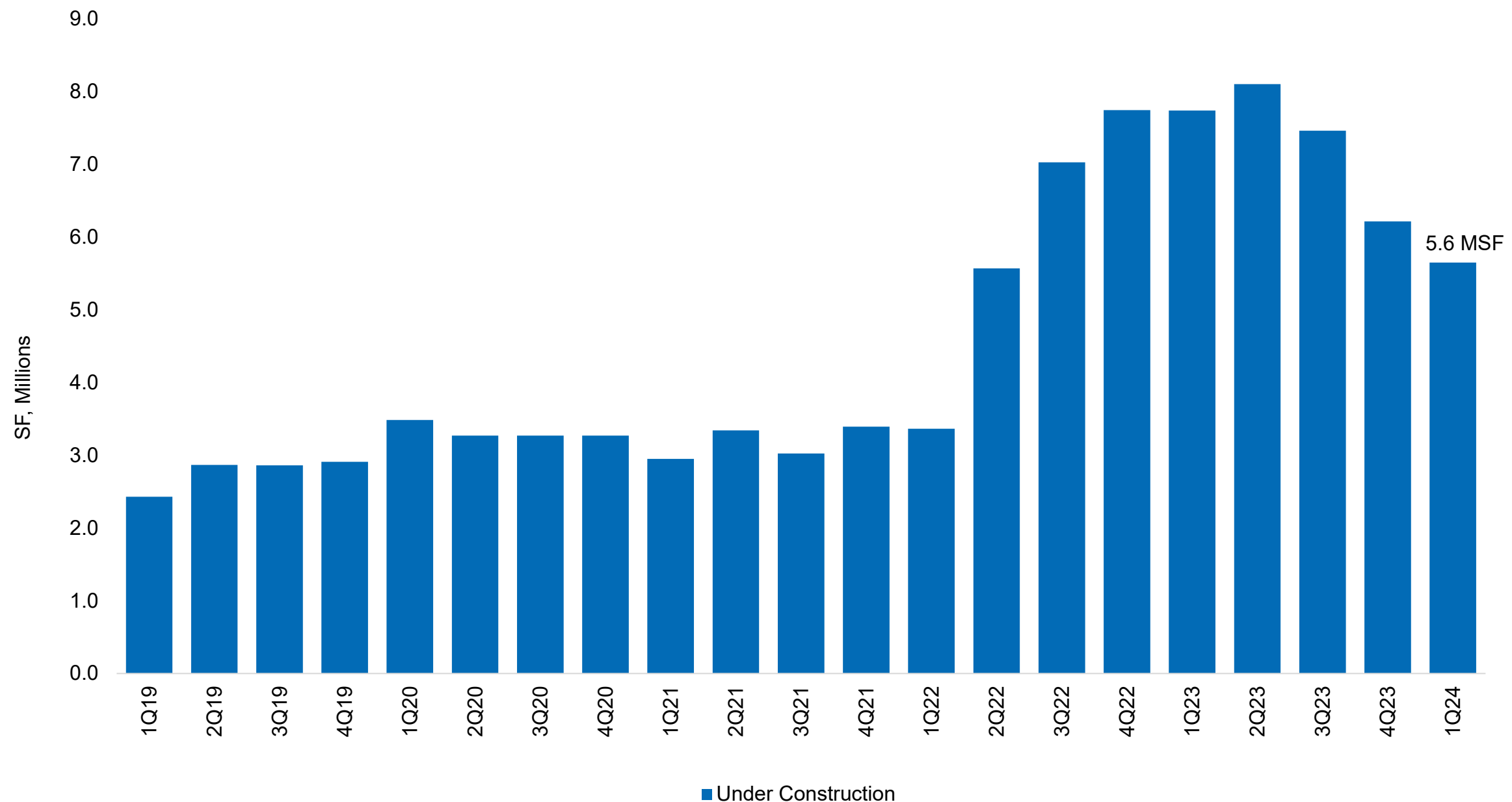


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Construction Pipeline Continues to Decrease to Start the New Year

The Bay Area life science construction pipeline decreased in the first quarter of 2024 and was recorded at 5.6 million SF, with 6.5% of that under-construction figure already preleased. The most notable delivery this quarter was Buildings 2 & 3 in the Genesis Marina project in Brisbane, totaling 366,000 SF. Developers continue to respond to current leasing and demand levels by decelerating construction activity or scrapping proposed projects all together, which, in turn, should provide markets breathing room to absorb newly delivered space.

Life Science Under Construction (MSF)

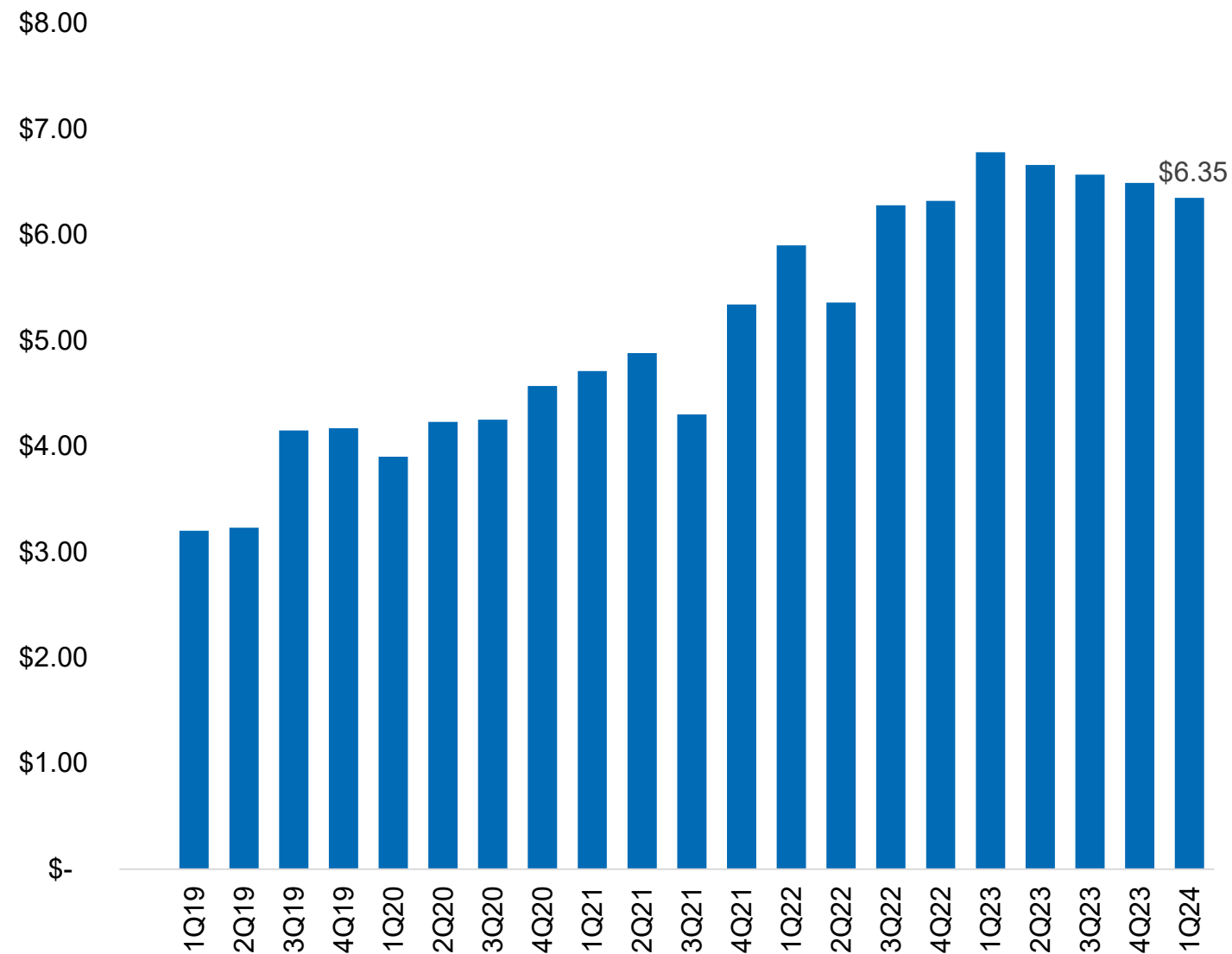


Source: Newmark Research, CoStar

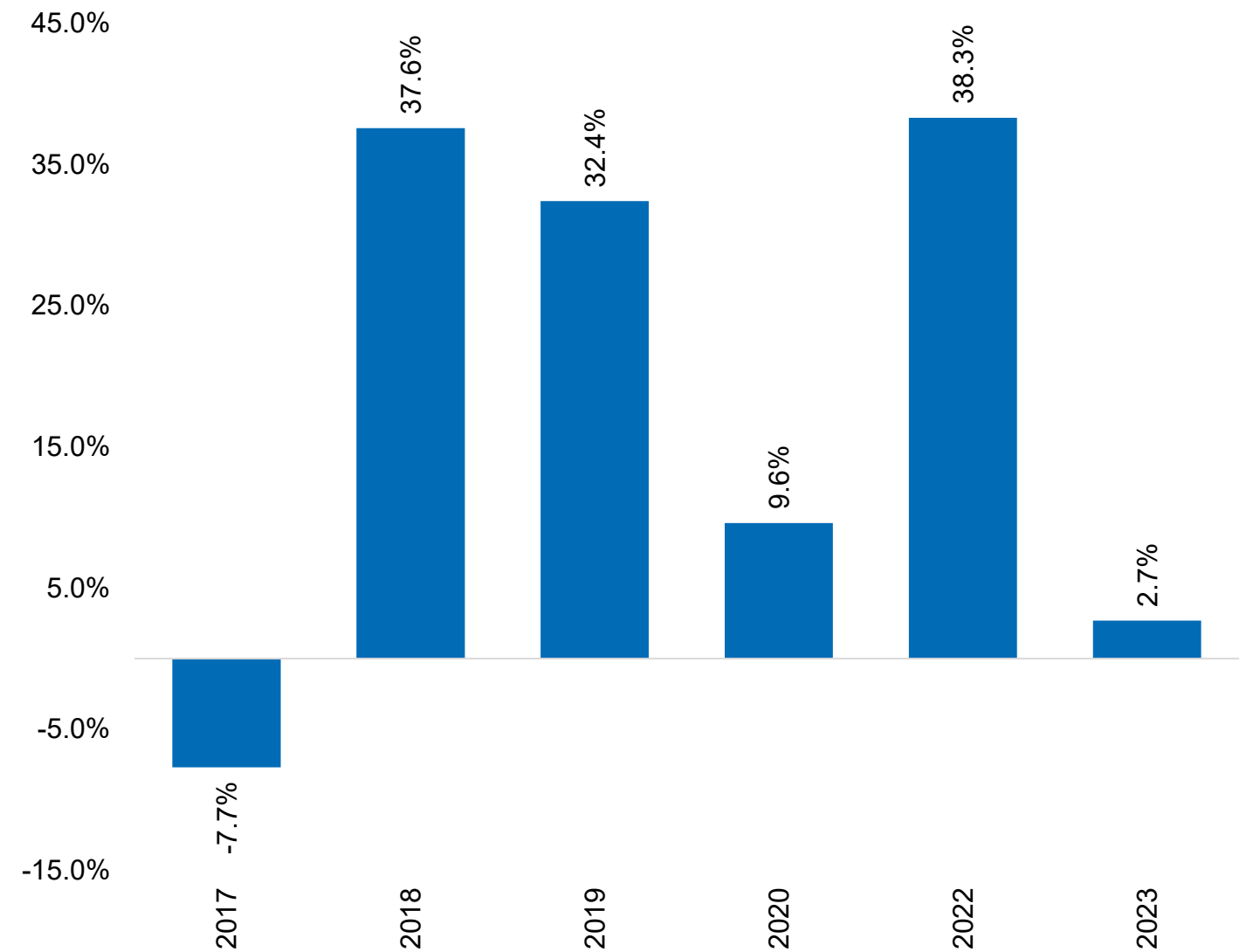
Rent Growth Continues to Decelerate

The overall average asking rate for life science space throughout the Bay Area decreased from \$6.49/SF in the previous quarter to \$6.35/SF in the first quarter of 2024. The market-wide average asking rent has fallen 6.3% over the last 12 months.

Life Science Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change

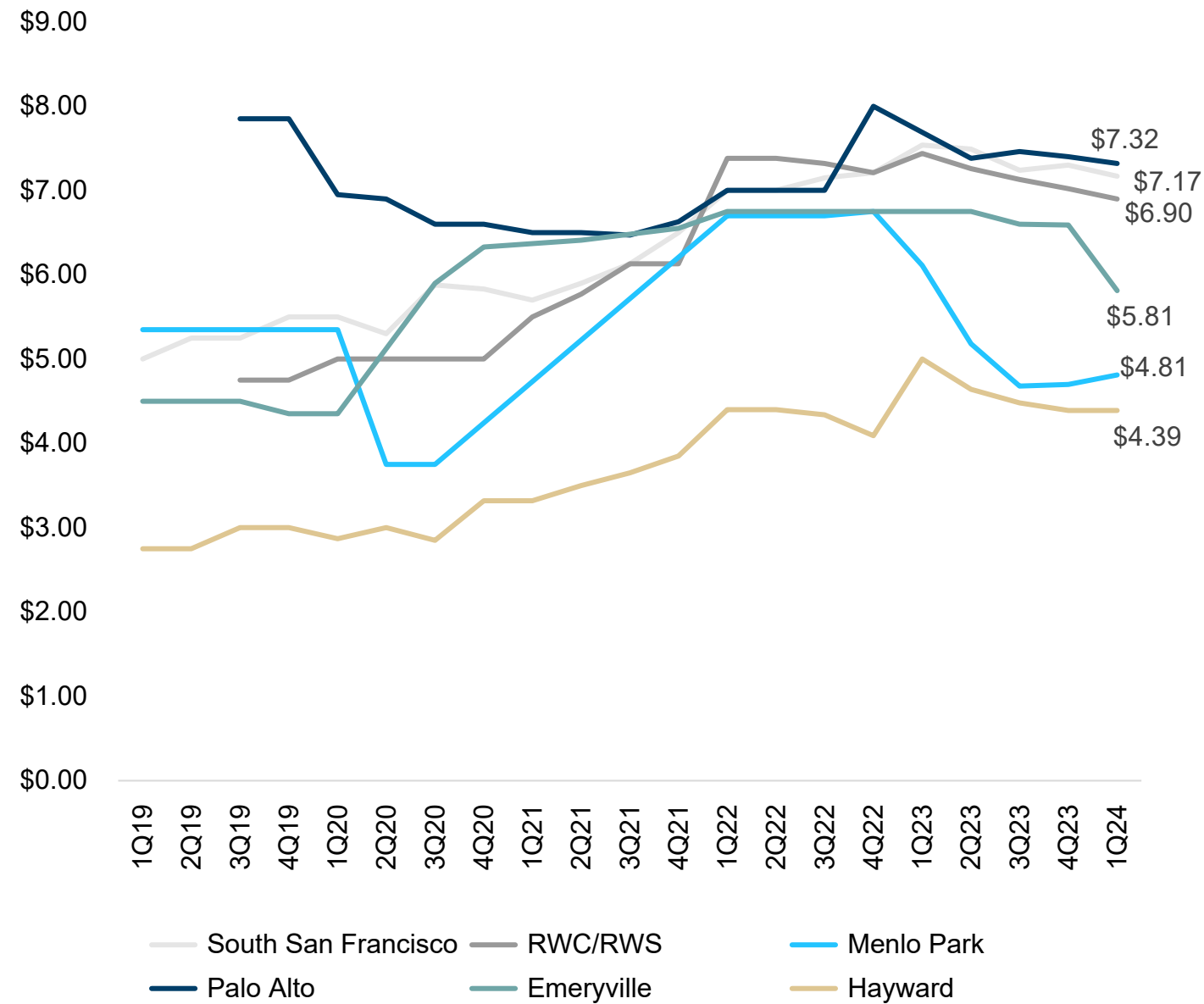


Source: Newmark Research, CoStar

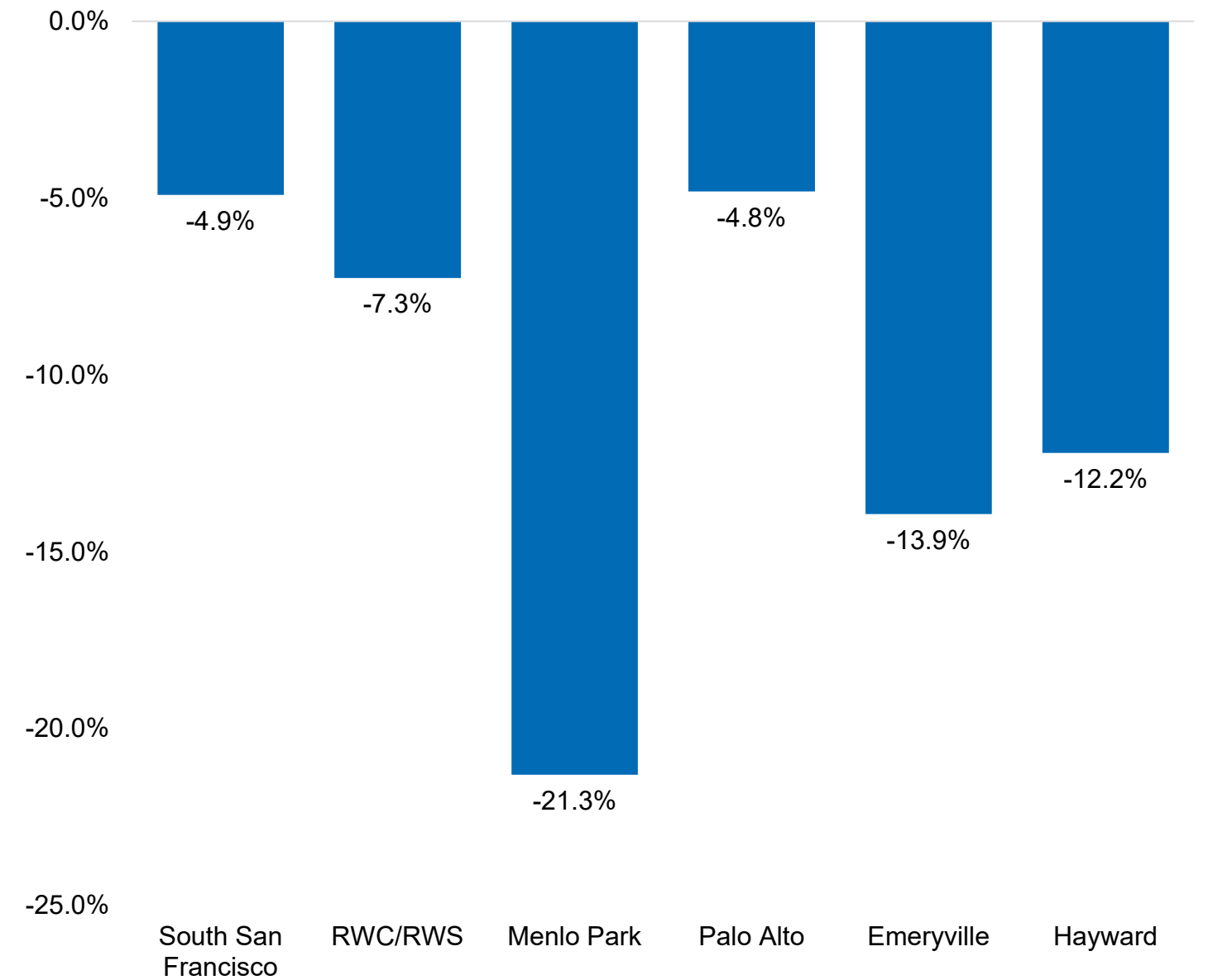
Lab Rents Continue to Flatten in High Inventory Markets

Menlo Park saw the largest year-over-year decline in average asking rate due to the continued influx of discounted sublease and lower-quality lab space coming online. Lab rents remain well above pre-pandemic levels'; however, new inventory coming online, coupled with softening demand, should continue applying downward pressure on prices.

Average Asking Rent (\$/SF, NNN) by Major Submarket



Year-over-year Percent Change in Asking Rate



Source: Newmark Research

Notable 1Q24 Lease Transactions

There was a total of seven leases 20,000 SF or greater executed this quarter, compared with eight in the previous quarter and 13 one year ago.

Select Lease Transactions

Tenant	Building/Project	Submarket	Type	Square Feet
insitro	279 E. Grand Ave	South San Francisco	Lease Renewal	143,188
<i>Insitro completed the largest deal of the quarter, renewing their 143,188-square foot lease on floors two through five at 279 E. Grand Avenue in South San Francisco through the end of August 2034.</i>				
Science Corp.	300 Wind River Way	Alameda	Direct Lease	77,135
<i>Medical technology company Science leased 300 Wind River Way in Alameda through February 2034 for the second-largest deal of the quarter.</i>				
AnaSpec	34801 Campus Dr	Fremont	Lease Renewal	44,010
<i>Biotechnology company AnaSpec renewed their 44,010-square foot lease at 34801 Campus Drive in Fremont for the third-largest deal of the quarter.</i>				
Cellanome	200 Lincoln Centre Dr- Bldg. B	Foster City	Sublease	43,500
<i>Biotechnology research company Cellanome completed the fourth-largest deal of the quarter, subleasing 41,600 square feet from Illumina on the third floor at 200 Lincoln Centre Drive in Foster City.</i>				
Kyverna Therapeutics	5980 Horton St.	Emeryville	Direct Lease	34,789
<i>Clinical-stage biopharmaceutical company Kyverna Therapeutics completed the fifth-largest deal of the quarter, signing a 34,789-square foot lease on the second floor at 5980 Horton Street.</i>				

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Appendix / Tables





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