
1Q24

North Peninsula Industrial and R&D Market Overview



NEWMARK

Market Observations

Economy

- The Peninsula region’s labor market remained stable to start the year amid shifting macroeconomic conditions. February’s 3.8% unemployment rate remained lower than the 4.1% five-year historical average but is up from 3.4% in the previous quarter.
- Year over year, job gains have been most pronounced in the leisure/hospitality and education/health services industry.
- 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.
- Biotechnology research company Cellanome completed the second-largest deal of the quarter, subleasing 41,600 SF from Illumina on the third floor at 200 Lincoln Centre Dr. in Foster City.
- The largest sale of the quarter was made by the Acme Bread Company, which completed an owner-user purchase of the 23,000-SF industrial building located at 352-362 E. Grand Ave in South San Francisco for \$7.2 million, or \$313/SF. Acme Bread was leasing 100% of the property from LBC Express at the time of acquisition.

Leasing Market Fundamentals

- Market-wide R&D availability increased to 21.2% this quarter, up from 17.4% in the previous quarter. Market-wide R&D vacancy increased to 15.8%, up from 13.1% in the previous quarter.
- The North Peninsula’s industrial market availability rate increased in the first quarter of 2024 to 5.9%, up from 4.7% in the previous quarter. Market-wide vacancy increased to 3.8%, up from 3.8% in the previous quarter.
- The region’s R&D pipeline currently stands at 5.6 million SF of under-construction product. Of that notable ground-up construction, 6.8% is already preleased. The industrial construction pipeline remains obsolete

Outlook

- In the face of a slowing economy, leasing in the industrial and R&D sectors has tapered off as occupiers continue to scale back their expansion plans in the face of higher costs of capital and economic uncertainty. In particular, the recorded amount of industrial and flex space leased this quarter dipped below the lowest level witnessed during the pandemic.
- Average rental rates have held relatively steady over the last 12 months; however, as demand in the industrial sector remains suppressed and R&D supply continues to increase in the face of new deliveries, rental rate growth will likely taper off.

1. Economy
2. Industrial Leasing Market Fundamentals
3. R&D Leasing Market Fundamentals
4. Notable 1Q24 Lease Transactions
5. Appendix / Tables

1Q24

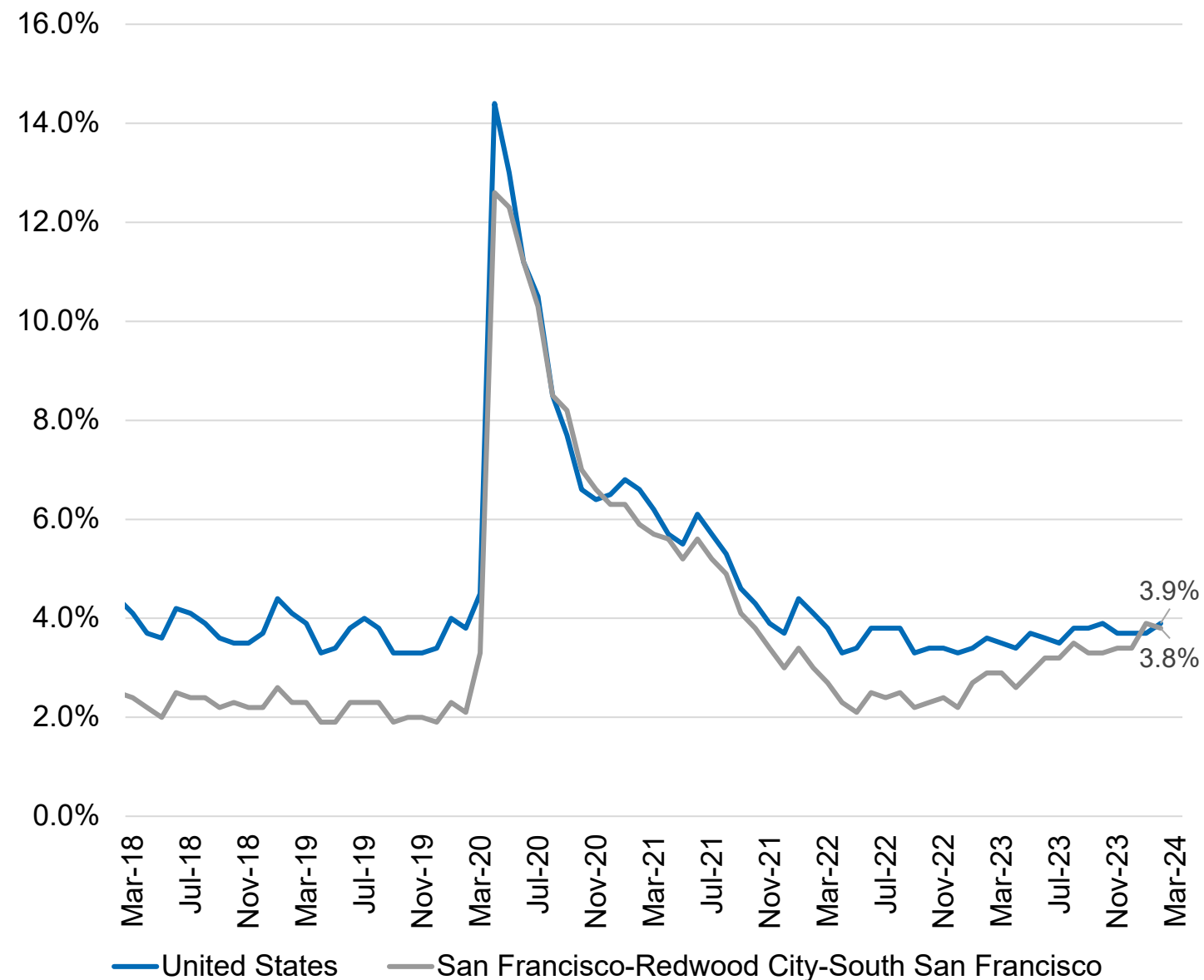
Economy



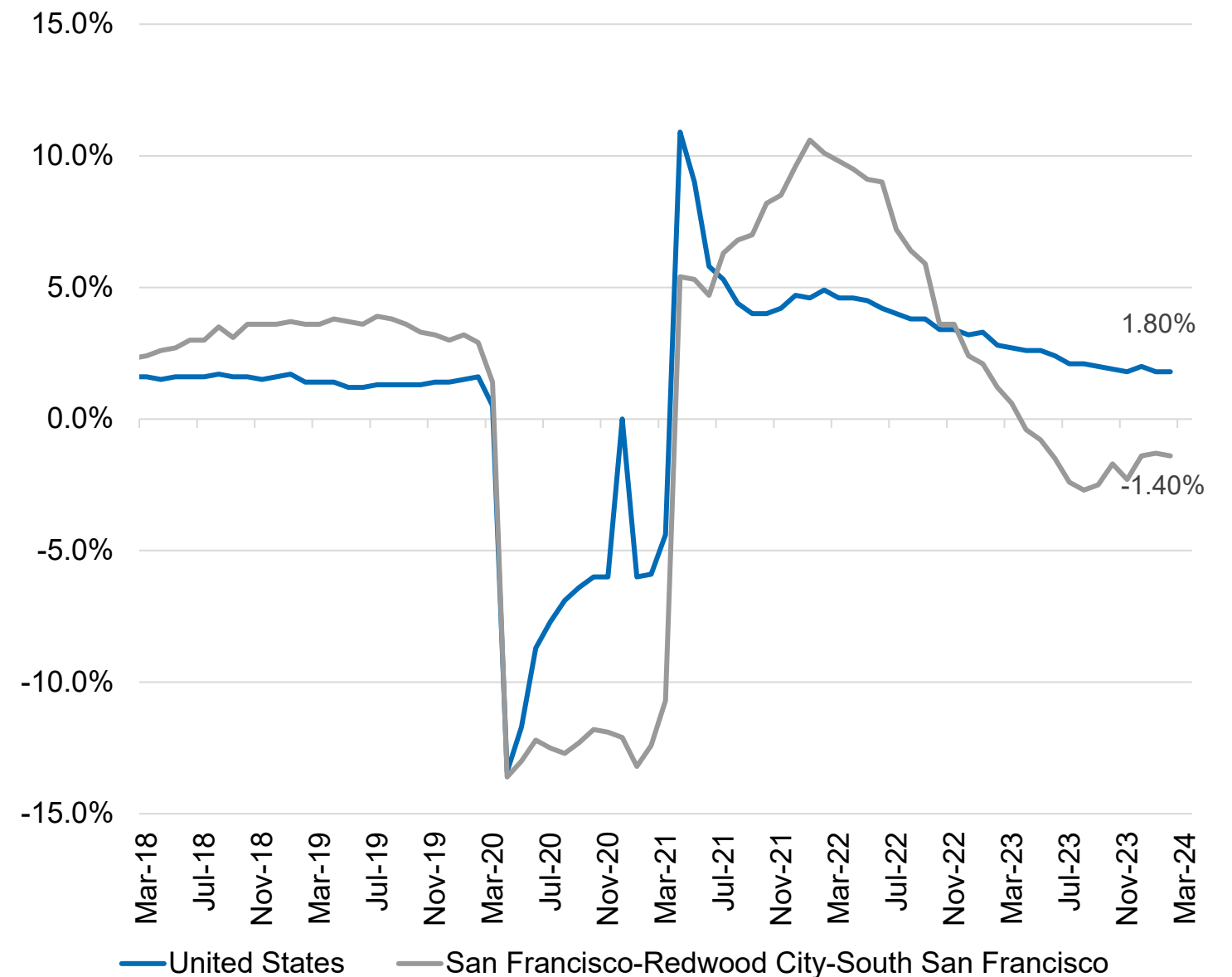
Metro Employment Trends Signal a Slowing, Tighter Economy

The region's unemployment rate rose closer to the national average in recent months. Furthermore, the nonfarm employment in the region is down 1.4% year over year, a stark difference compared with the 1.8% increase nationally.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

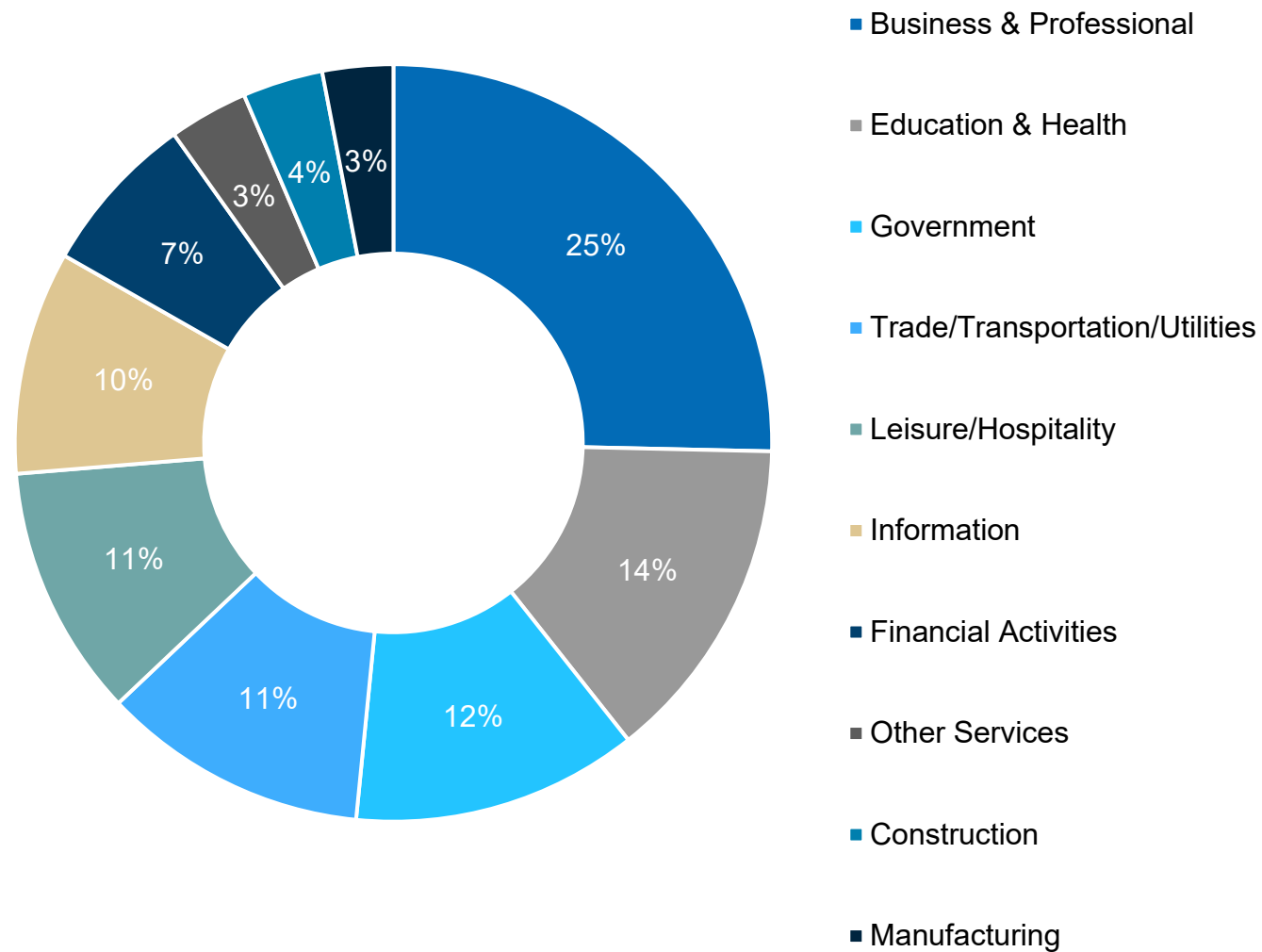


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

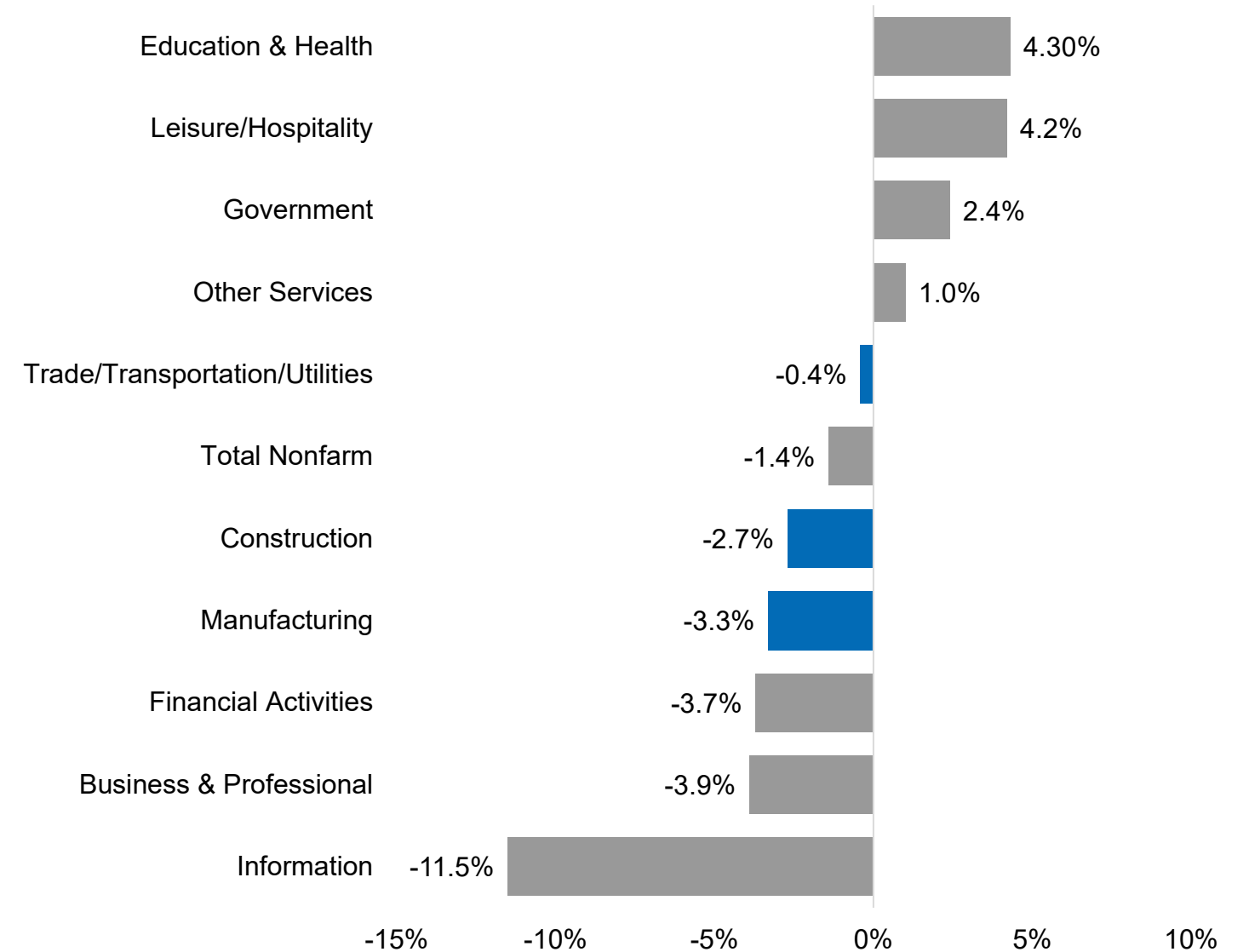
Employment in Information Industry Down 11.5% Year over Year

Leisure and hospitality, as well as education and health, had the largest year-over-year increases of any industry. The Information sector highlighted the largest decline year over year of any industry.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

1Q24

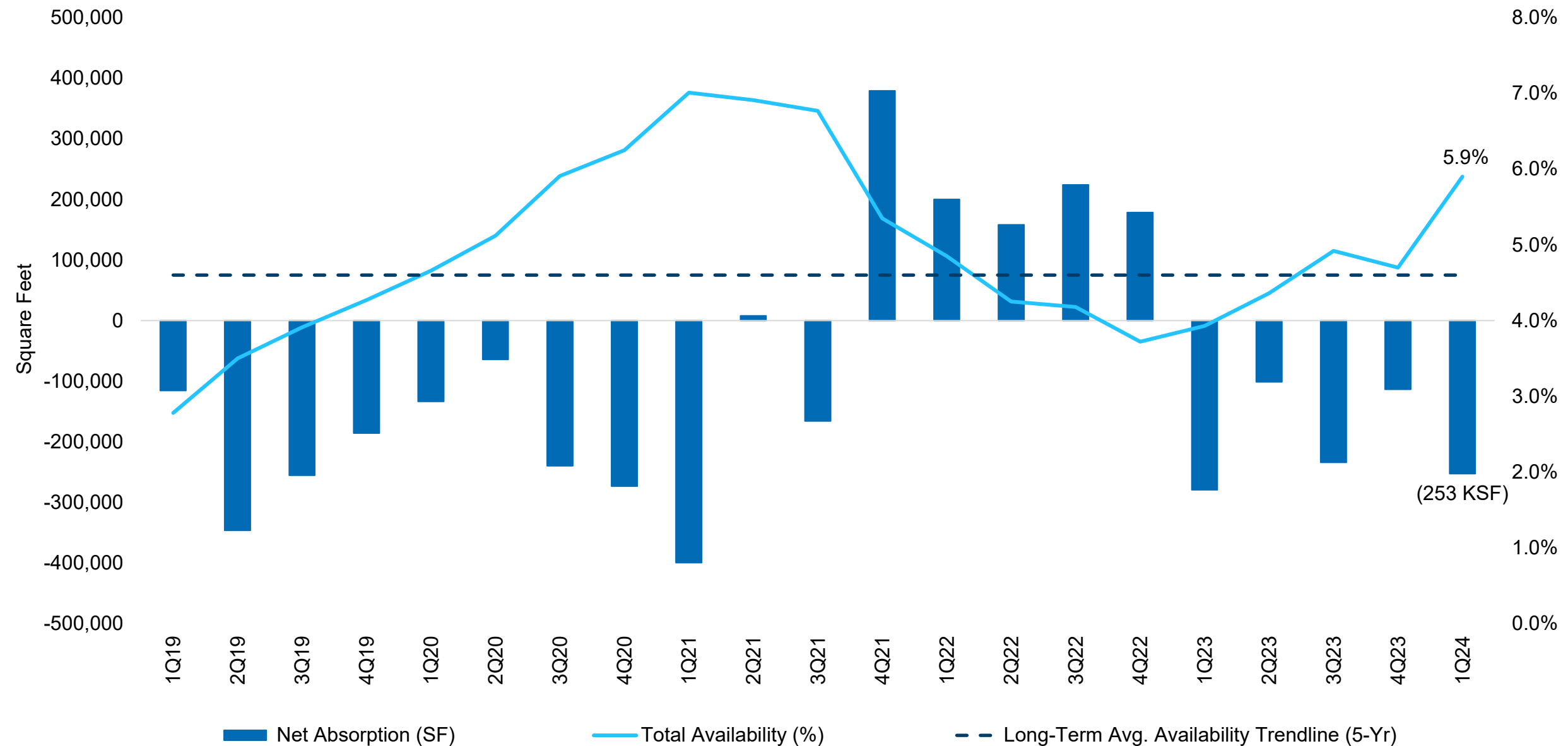
Industrial Leasing Market Fundamentals



Industrial Availability Continues Its Rise above the Five-Year Trendline of 4.6%

Market-wide industrial availability increased to 5.9% this quarter, up from 4.7% in the previous quarter and up from 3.9% one year ago.

Historical Net Absorption, and Availability

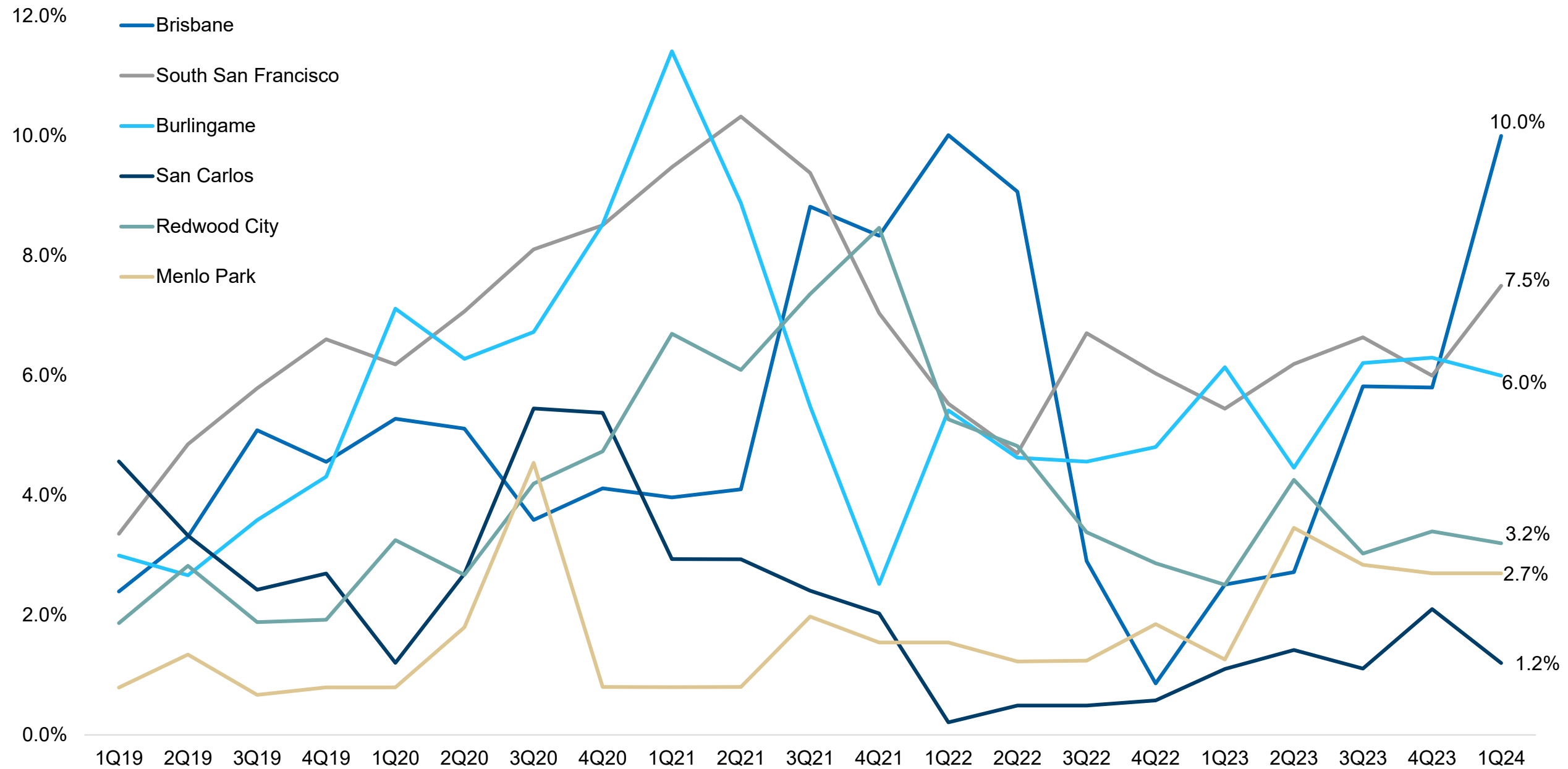


Source: Newmark Research

Brisbane Has the Highest Industrial Total Availability Rate

Brisbane surpassed Burlingame with the highest availability rate out of the major North Peninsula submarkets at 10.0% in the first quarter of 2024. Burlingame led all major markets in total availability in the previous quarter at 6.3% and now stands at 6.0%.

Total IND Availability Rate by Submarket

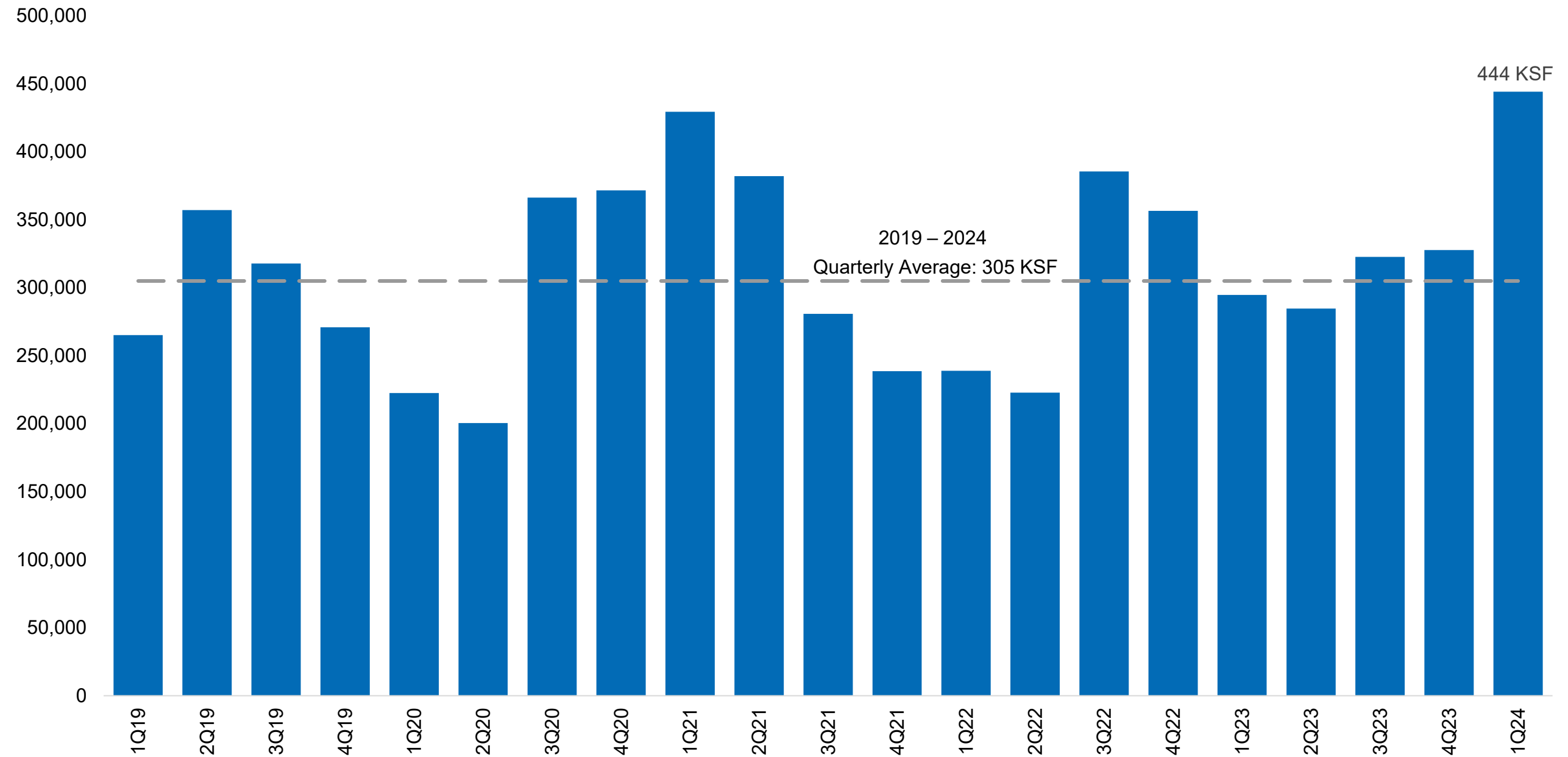


Source: Newmark Research

Industrial Sublease Availability Hits Five-Year Peak

Industrial sublease availability increased by 35.5% during the first quarter of 2024 and stands at a five-year record high of 444,000 SF.

Available Industrial Sublease Volume (SF)

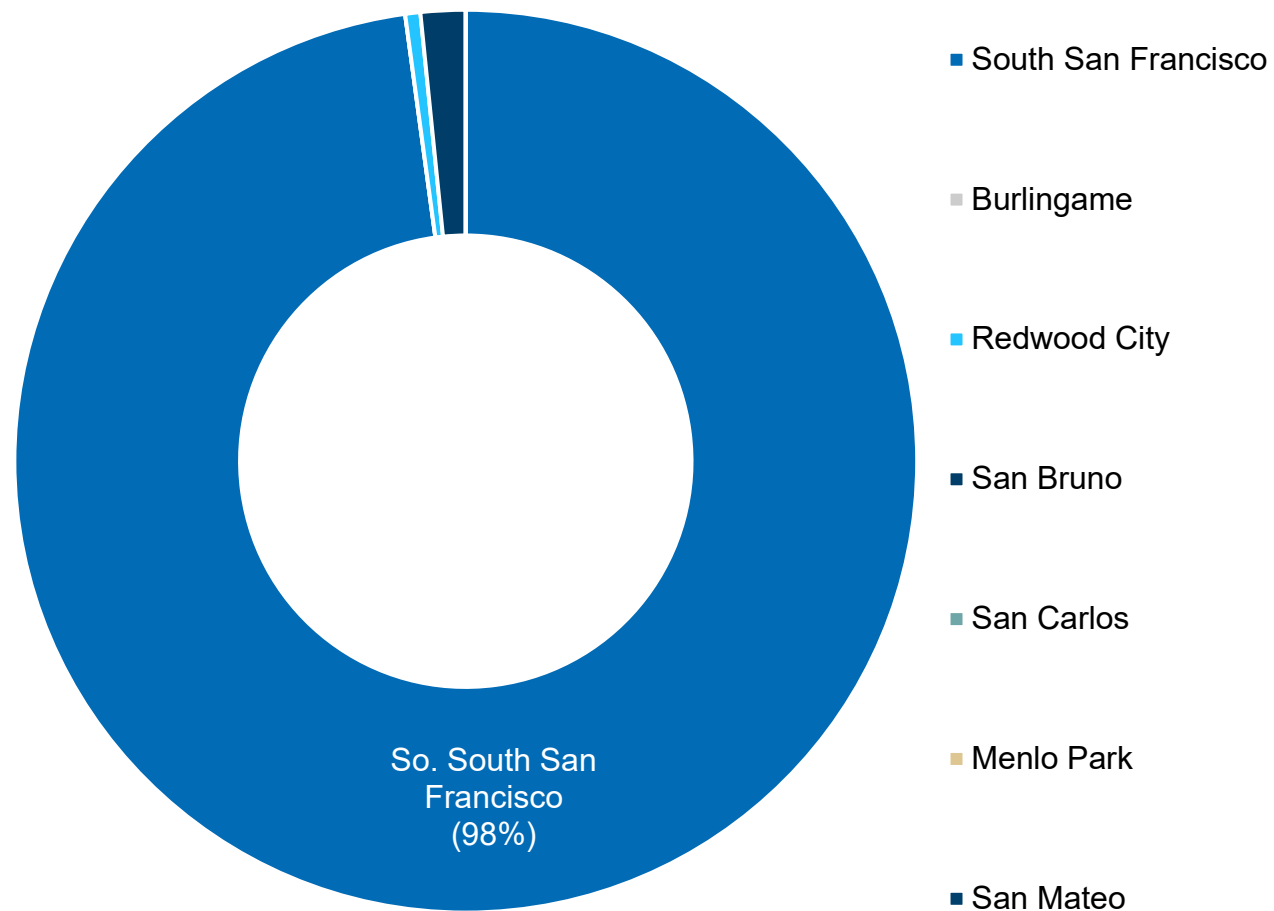


Source: Newmark Research, CoStar

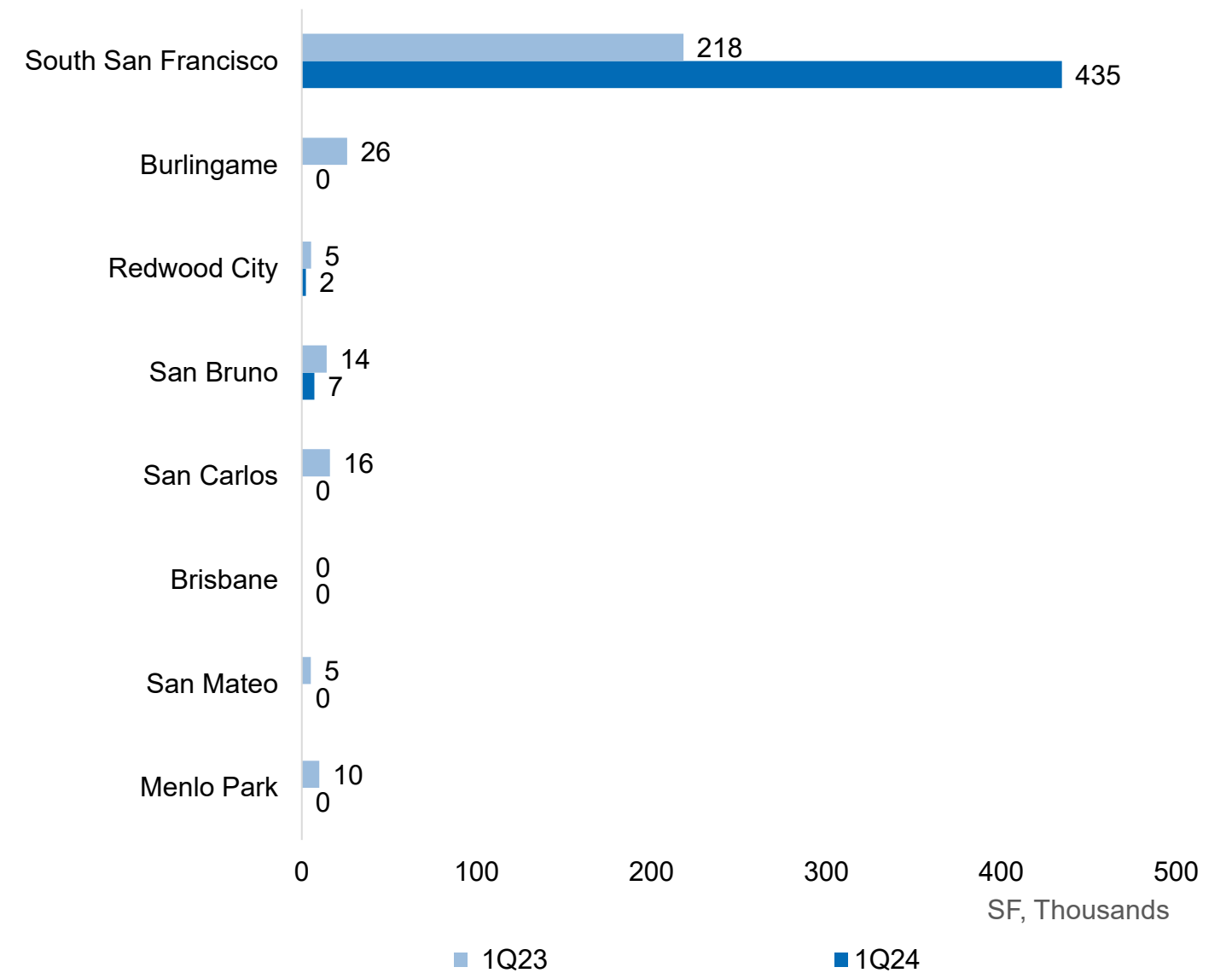
South San Francisco Leads Other Submarkets in Industrial Sublet Availability

South San Francisco continues to be the leading industrial submarket on the North Peninsula, while also accounting for 98.0% of all sublease availability in the major submarkets.

Available IND Sublease Space: Concentration by Major Submarket | 1Q24



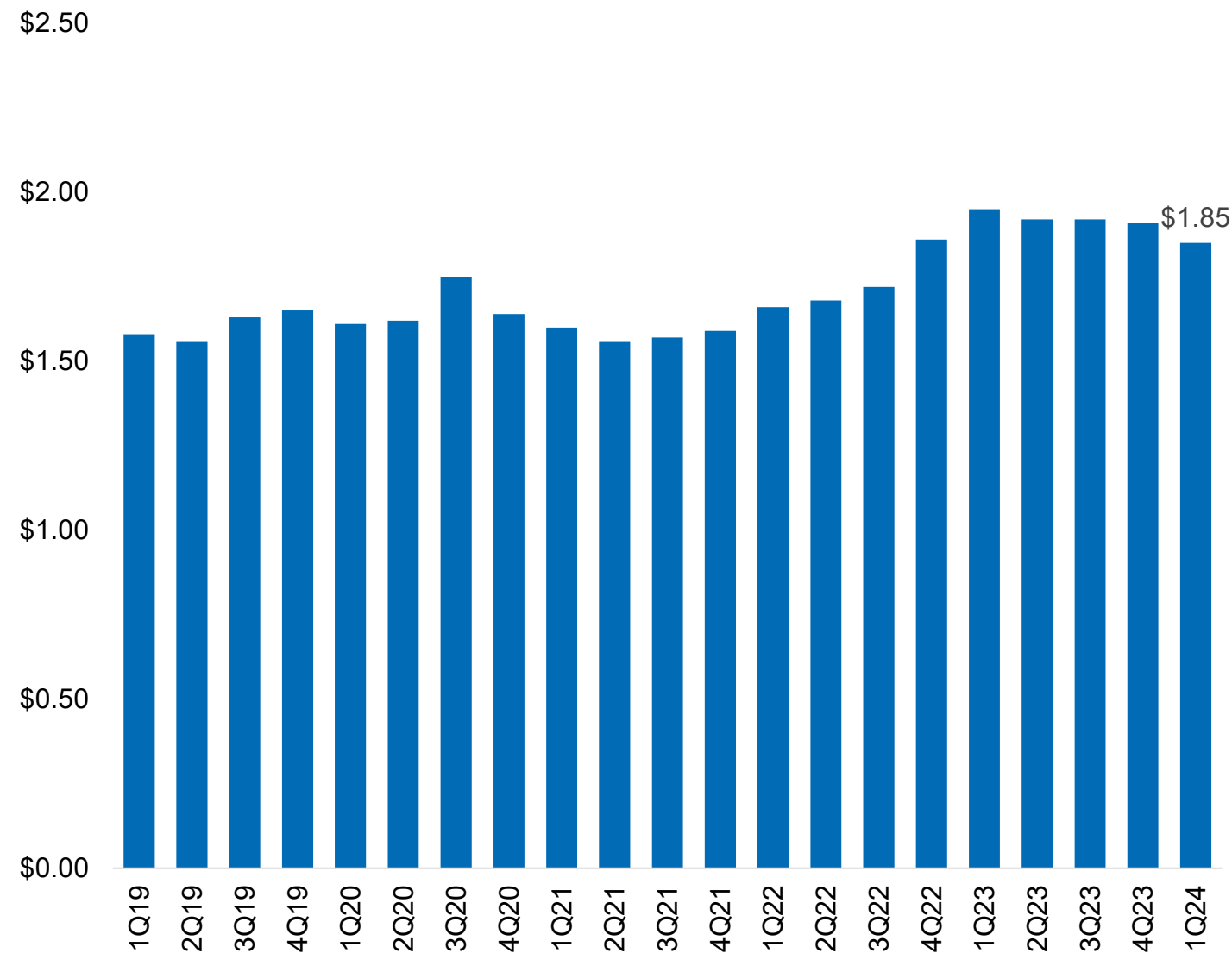
Available Sublease Space for Major Submarkets: One Year Prior vs. Now (SF)



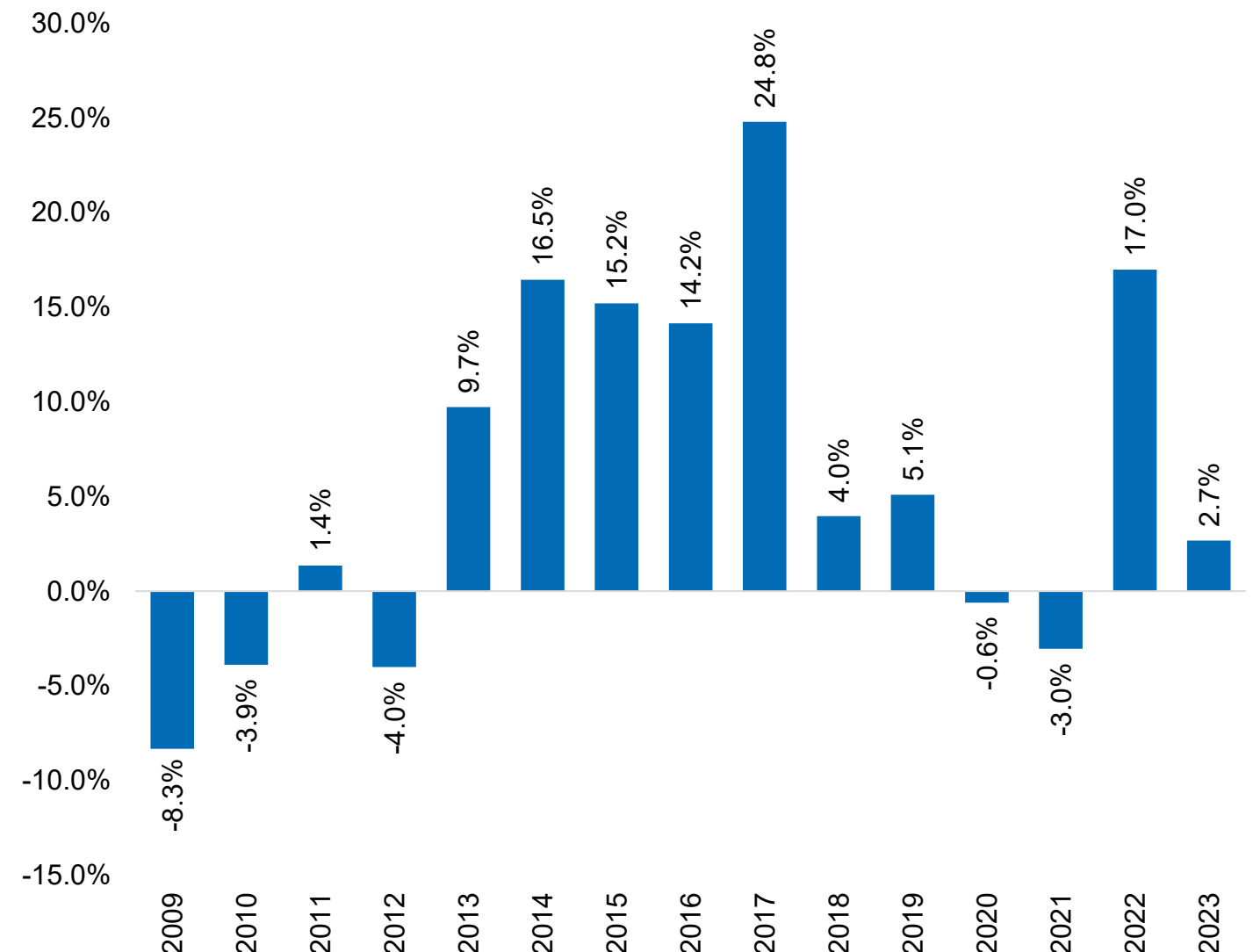
Industrial Rent Growth Continues to Taper Off

The overall average asking rate for industrial space along the North Peninsula decreased from \$1.91/SF in the previous quarter to \$1.85/SF in the first quarter of 2024. Industrial rents remain above pre-pandemic levels; however, have begun to taper off since the second quarter of 2023, going hand in hand with rising availability and suppressed demand.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change

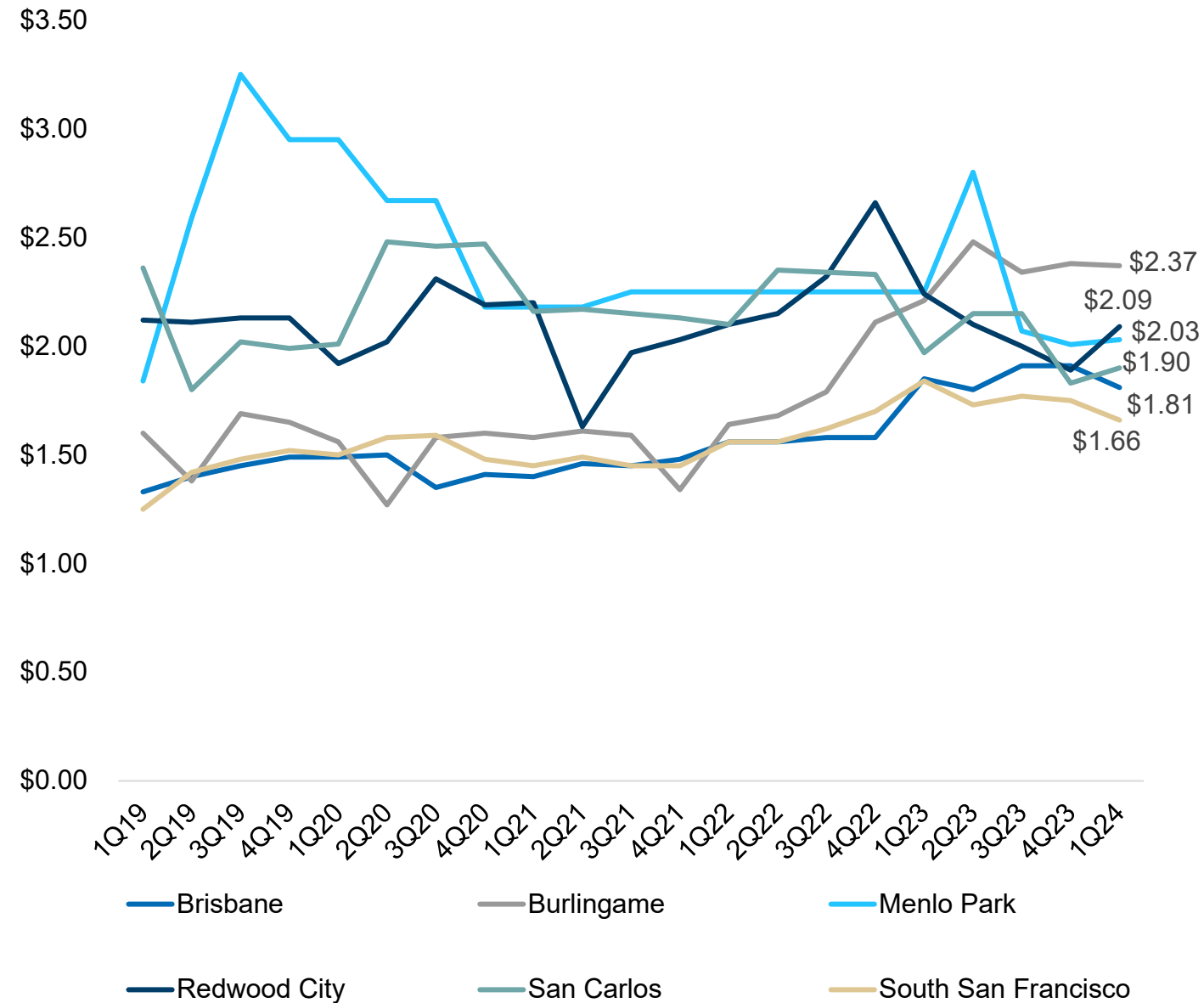


Source: Newmark Research, CoStar

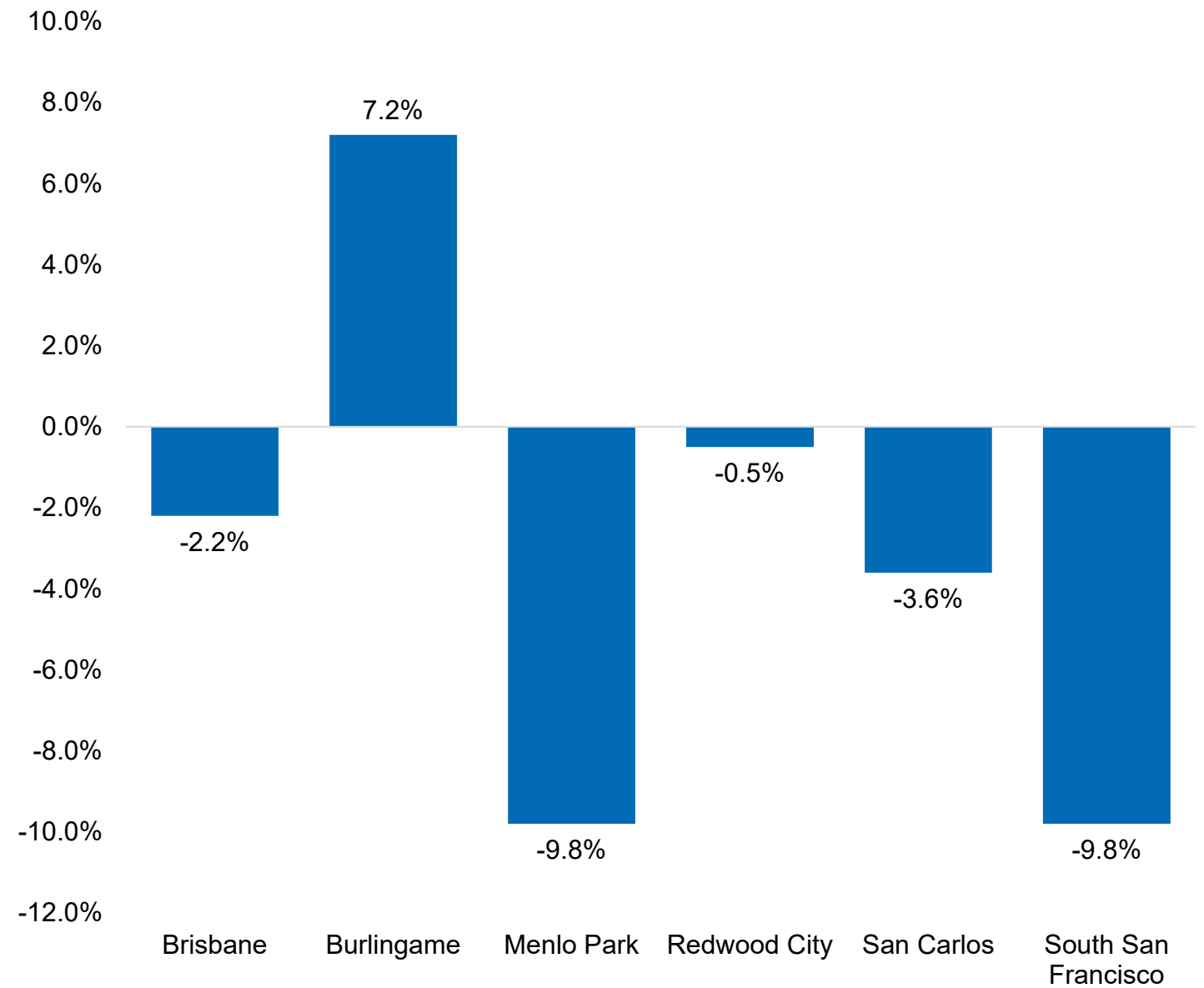
Rent Performance Varies by Major Industrial Submarket

Burlingame led all Peninsula submarkets with the largest year-over-year increase in average asking rate, at 7.2%. The largest year-over-year decreases were in Menlo Park and South San Francisco, at 9.8%

Industrial Average Asking Rent by Submarket



Year-over-year Percent Change in Asking Rate

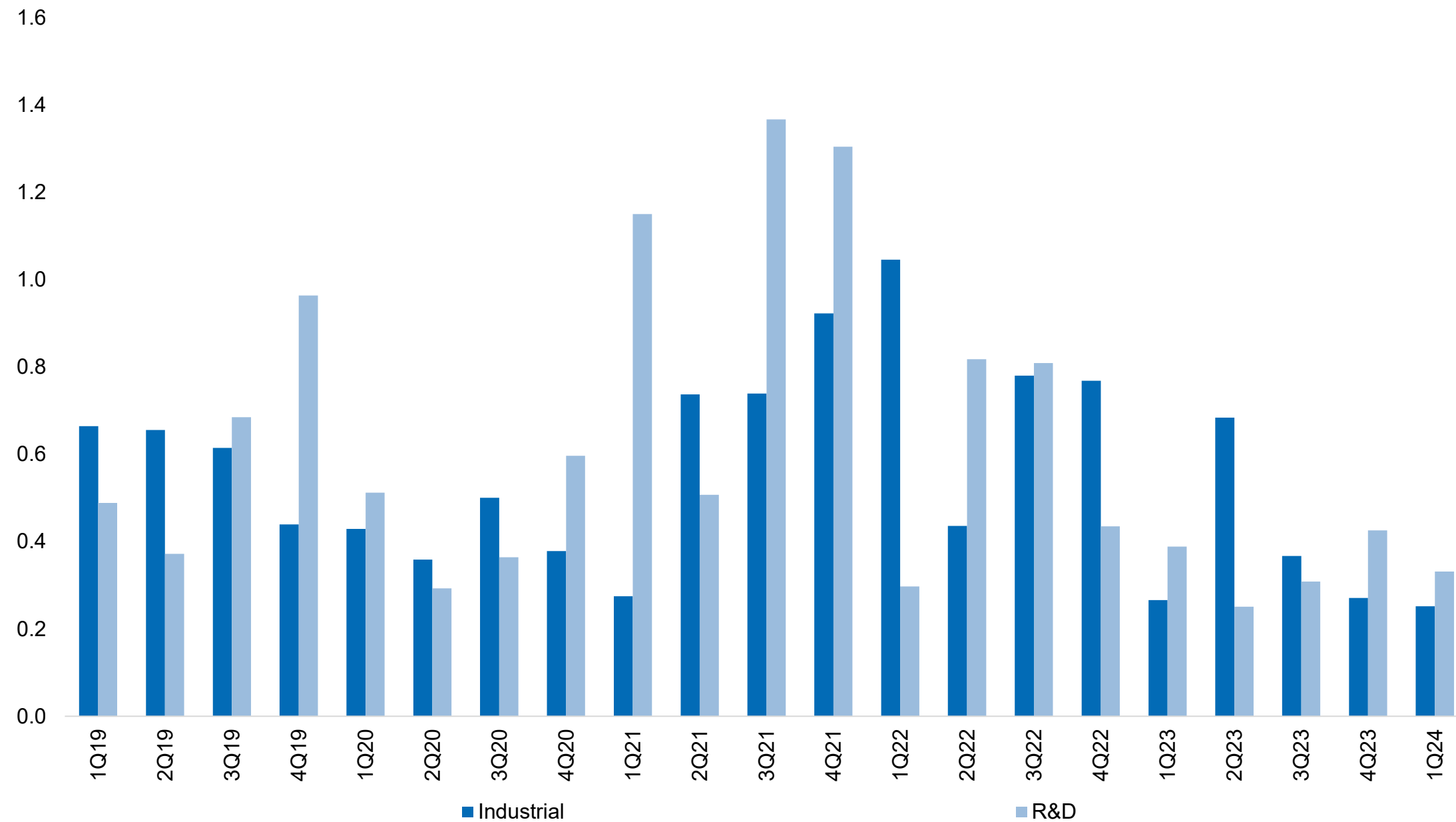


Source: Newmark Research

Industrial and R&D Leasing Both Trend Downwards to Start the New Year

Industrial leasing activity this quarter was recorded at 252,000 SF, compared with 271,000 SF in the previous quarter. R&D leasing activity was recorded at 332,000 SF, compared with 426,000 SF in the previous quarter. Leasing in both the industrial and R&D markets are down severely from their five-year peaks, down 75.9% and 75.7%, respectively.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

1Q24

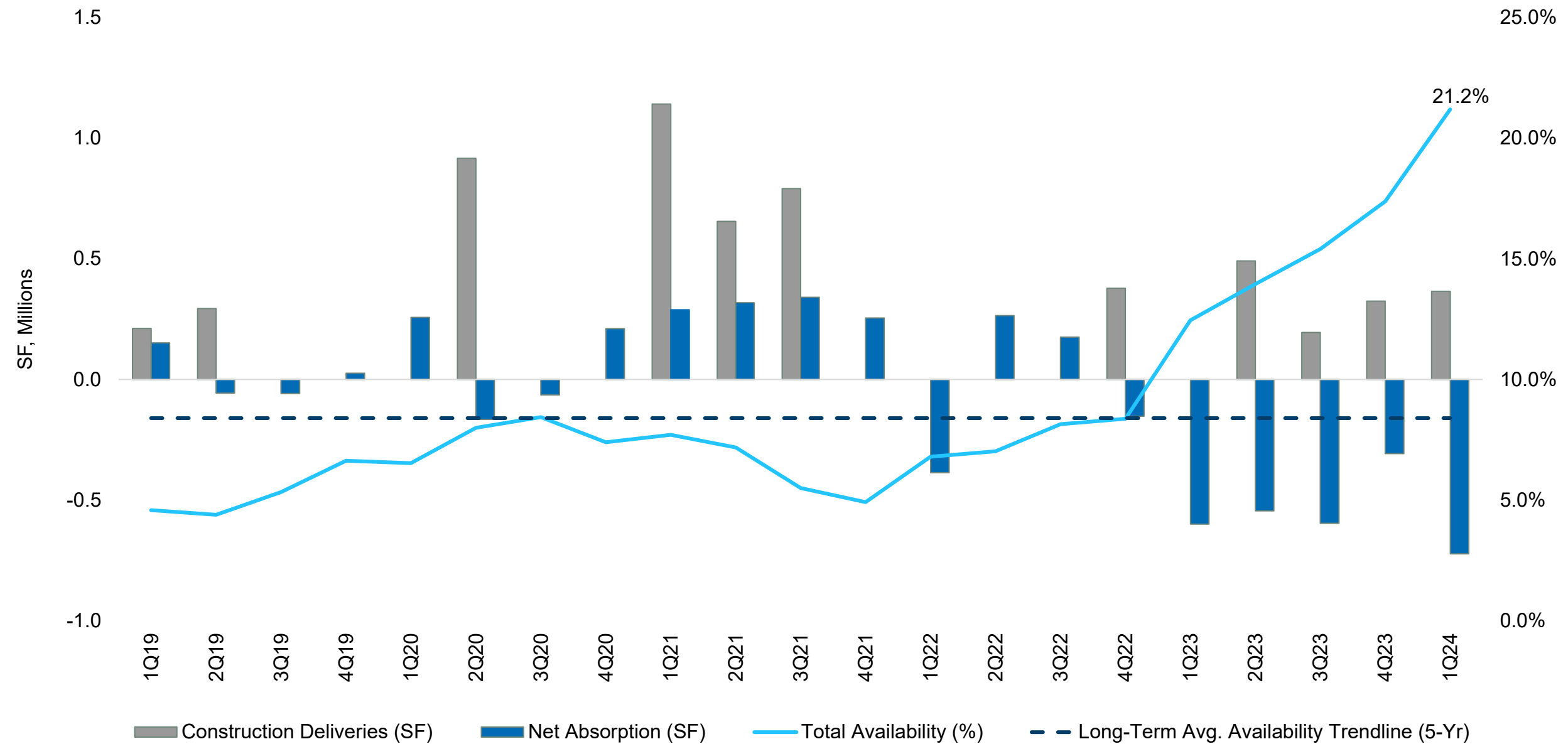
R&D Leasing Market Fundamentals



R&D Availability Continues Upwards Ascension

Market-wide R&D availability increased to 21.2% this quarter, up from 17.4% in the previous quarter and 12.5% one year ago. Availability has been rising since early 2022, which coincides with suppressed leasing activity and delivery of vacant speculative developments.

Historical Construction Deliveries, Net Absorption, and Availability



Source: Newmark Research

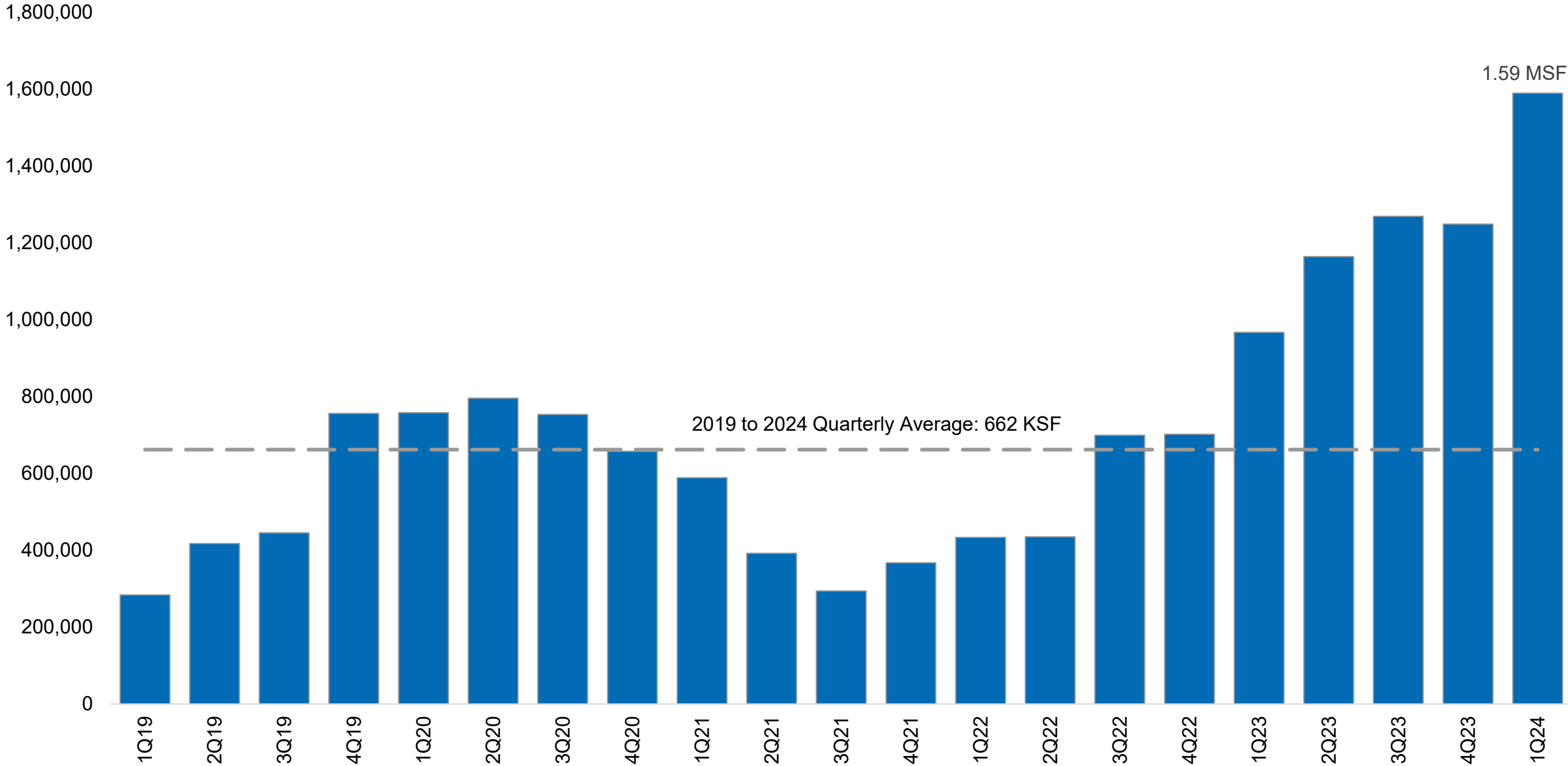


Please reach out to your
Newmark business contact for this information

Sublet Space Reaches New Five-Year High

R&D sublease availability for the quarter of 2024 was recorded at 1.59 million SF, up from 1.25 million SF in the previous quarter and 967,000 SF one year ago. Substantial decreases in life science venture capital funding over the last 18 to 24 months has forced biotech companies to scrap plans for expansion and scale back their footprints, which in turn has hampered leasing velocity and elevated the supply of direct and sublet space on the market.

Available R&D Sublease Volume (SF)



Source: Newmark Research, CoStar

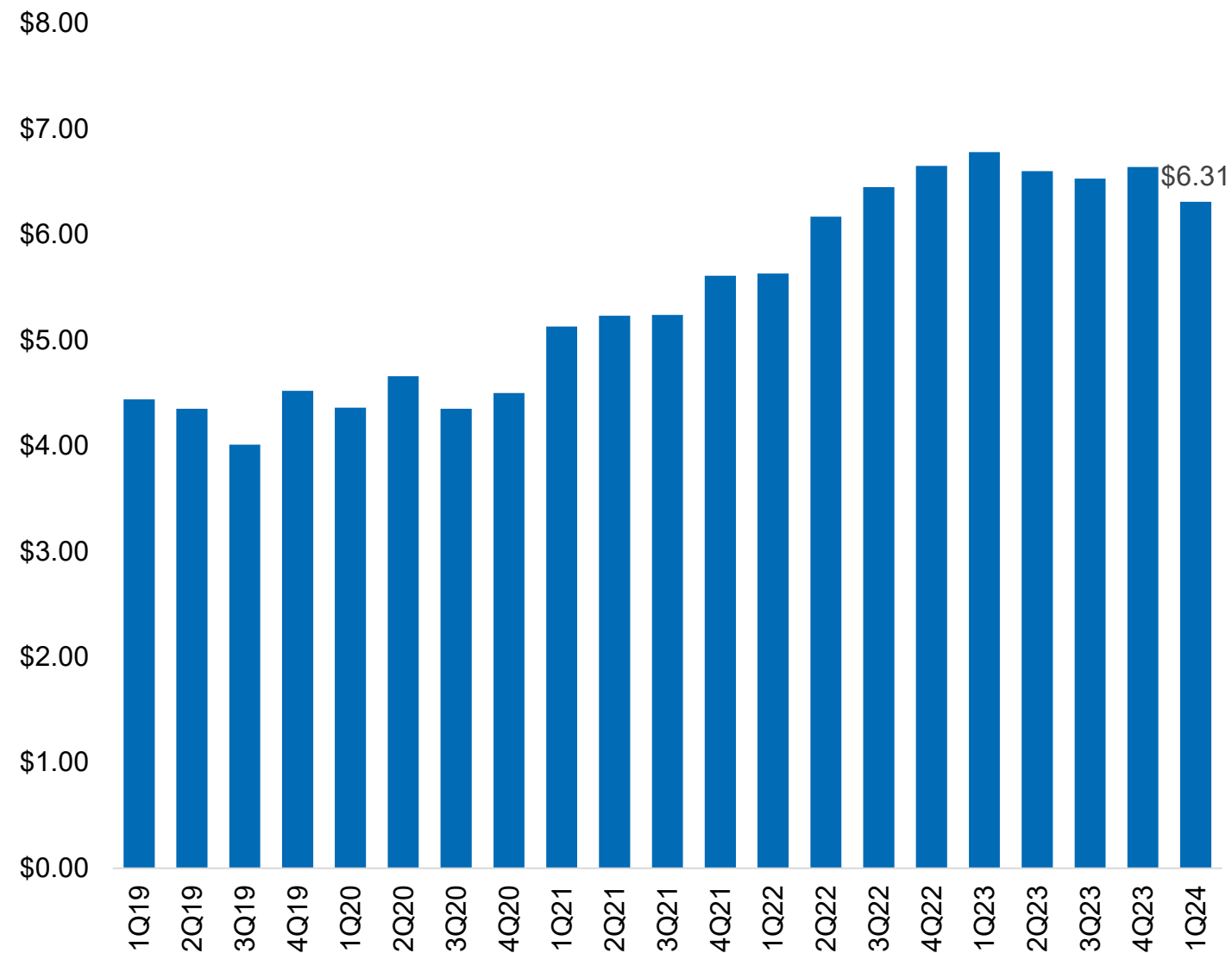


Please reach out to your
Newmark business contact for this information

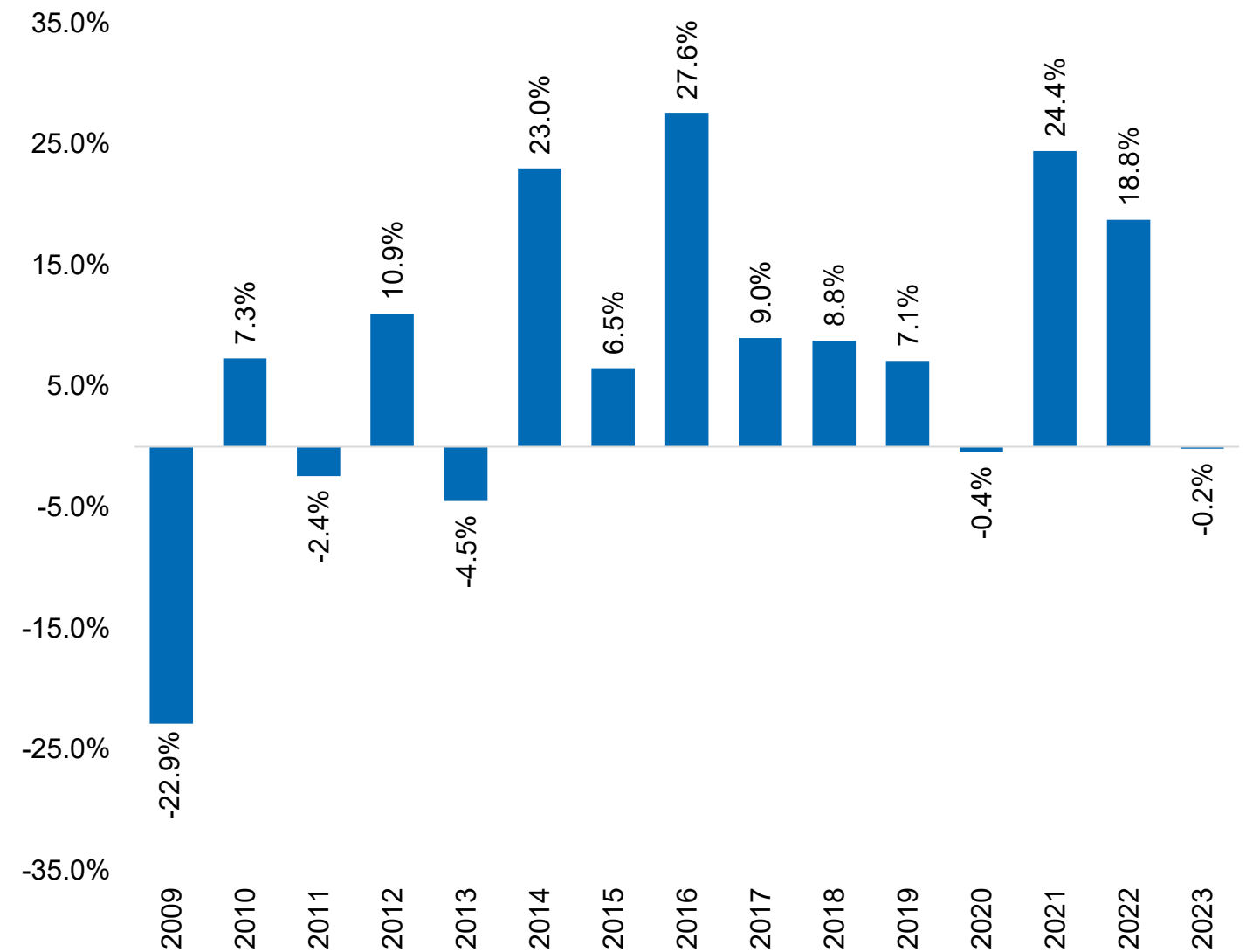
Average R&D Asking Rent Decreases

The overall average asking rent for R&D space along the North Peninsula decreased quarter over quarter from \$6.64/SF in the fourth quarter of 2023 to \$6.31/SF in the first quarter of 2024. Year-over-year rent growth is down 6.9% over the last 12 months.

R&D Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

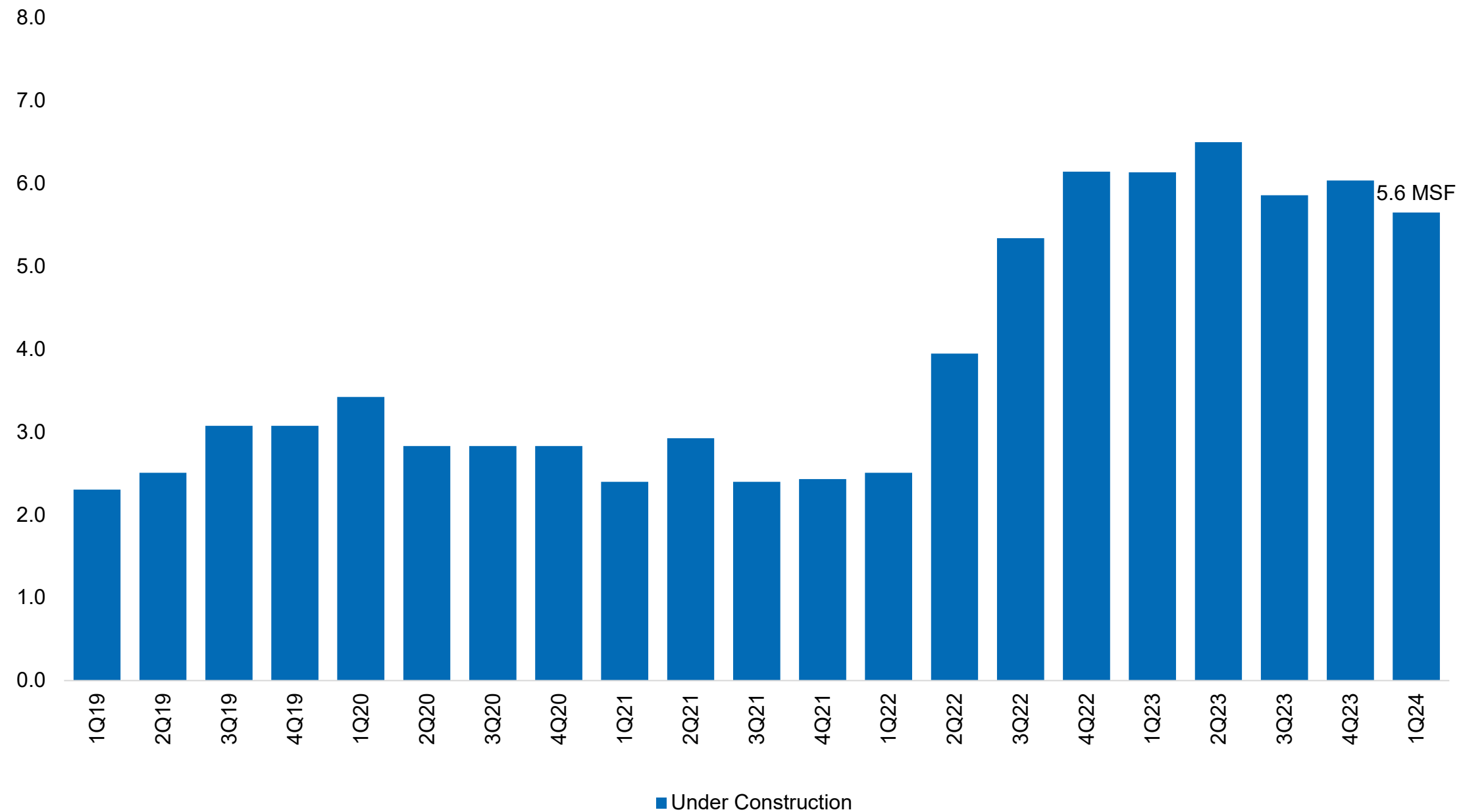


Please reach out to your
Newmark business contact for this information

R&D Pipeline Remains Elevated

The R&D construction pipeline decreased in the first quarter of 2024 and was recorded at 5.6 million SF, with 6.8% of that under-construction figure already preleased. The most notable delivery this quarter was Buildings 2 and 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.

R&D Under Construction (MSF)



Source: Newmark Research, CoStar

Notable 1Q24 Lease Transactions

There were four industrial transactions, 20,000 SF or greater, executed this quarter, on par with the previous quarter. There were three R&D transactions, 20,000 SF or greater, executed this quarter, compared with seven in the previous quarter.

Select Lease Transactions

Tenant	Building	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>				
Cellanome	200 Lincoln Centre Dr- Bldg. B	Foster City	Sublease	43,500
<i>Biotechnology research company Cellanome completed the second-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>				
Ebb Carbon	111 S. Maple Ave	South San Francisco	Direct Lease	27,355
<i>Ebb Carbon completed the third-largest deal of the quarter, leasing the 27,355-square foot freestanding warehouse located at 111 S. Maple Avenue in South San Francisco.</i>				
Zap Surgical Systems	590 Taylor Way	San Carlos	Lease Renewal	23,000
<i>Zap Surgical renewed their 23,000-square foot lease at 590 Taylor Way in San Carlos for the fourth-largest deal of the quarter.</i>				
Raison D'etre Bakery	179 Starlite St.	South San Francisco	Lease Renewal	22,500
<i>Raison completed the fifth-largest deal of the quarter, renewing their 22,500-square foot lease at 179 Starlite Street in South San Francisco.</i>				

1Q24

Appendix / Tables





Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information

For more information:

Chris Teranishi

Senior Market Analyst

North Peninsula Research

Chris.Teranishi@nmrk.com

Newmark San Mateo

2950 South Delaware Street

Suite 125

San Mateo, CA 94403

t 650-341-5800

Corporate CA RE #: 00832933

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK

NEWMARK