

2Q23

South Peninsula R&D Market Overview



NEWMARK

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. February’s 3.2% unemployment rate was lower than the 4.3% 10-year historical average.
- Year-over-year, job gains have been most pronounced in the services industry, which is still making up for lost ground during the pandemic. Leisure/hospitality led all sectors in job gains during the past 12 months, and the business/professional service sector are the largest employment industry in the region.
- Technology firms are continuing to adjust labor needs. Locally, employment growth across all office-occupying sectors continue to subside in the second quarter of 2023.

Major Transactions

- Google took part in the largest R&D transaction in the South Peninsula this quarter, renewing a full-building lease for 67,000 SF, reflecting a consolidation strategy for the tech giant whose stock price has been increasing in the past two quarters.
- The second quarter of 2023 has seen several R&D tenants shedding space due to current economic conditions, with notable new vacancies, including ±176,000 SF from JD.com, ±165,000 SF from Impossible Foods, and ±155,000 SF from Woven Planet.
- Developers like IQHQ and Sobrato Organization continue to increase their R&D footprints in the South Peninsula with R&D developments currently under construction totaling over ±760,000 SF.

Leasing Market Fundamentals

- Net absorption in the second quarter of 2023 totaled negative 544,348 square feet. Though occupancy losses were not as severe as the office sector, the R&D market saw several large vacancies as well as a diminished amount of leasing, with just five deals over 10,000 SF.
- The vacancy rate in the overall South Peninsula market rose to 11.6% from 9.7% quarter-over-quarter and from 7.6% year-over-year.
- Rents have steadily decreased for the third straight quarter, settling at \$5.29/SF in the second quarter of 2023 as the market adjusts to newly added R&D spaces.
- Venture capital has become tight. According to Crunchbase, VC funding in the first quarter of 2023 fell 53% year-over-year to \$76 billion.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Rent growth, aggressive through all of 2022, has decelerated and will continue to cool throughout the year. This will vary on submarket, size-range, and asset-type bases.
- Despite pullbacks from some life science companies, demand for R&D space will likely remain at similar levels due to persistent demand from life science occupiers for specialized lab space.

- 1. Economy (pg. 4-7)
- 2. Leasing Market Fundamentals (pg. 8-14)

2Q23

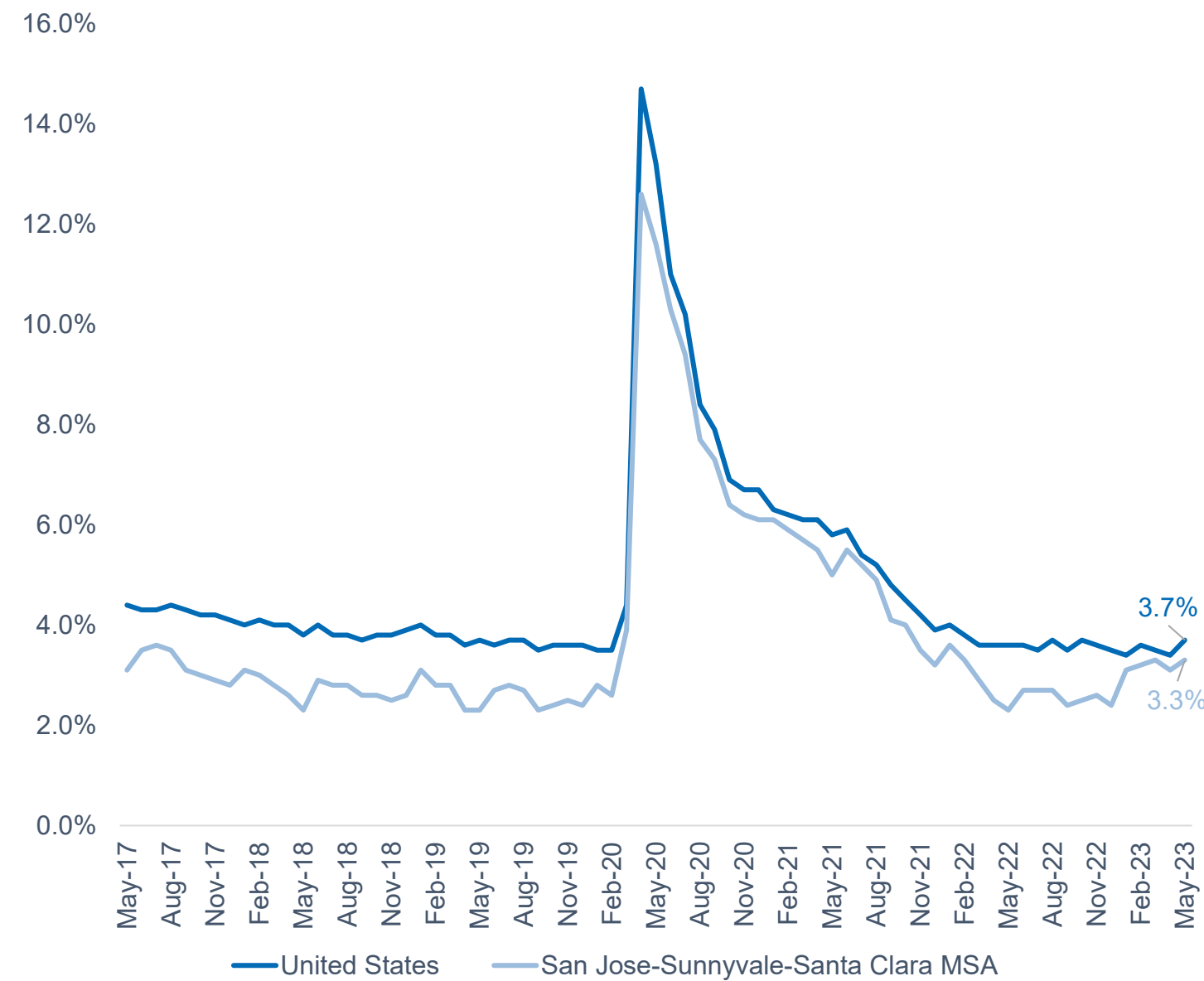
Economy



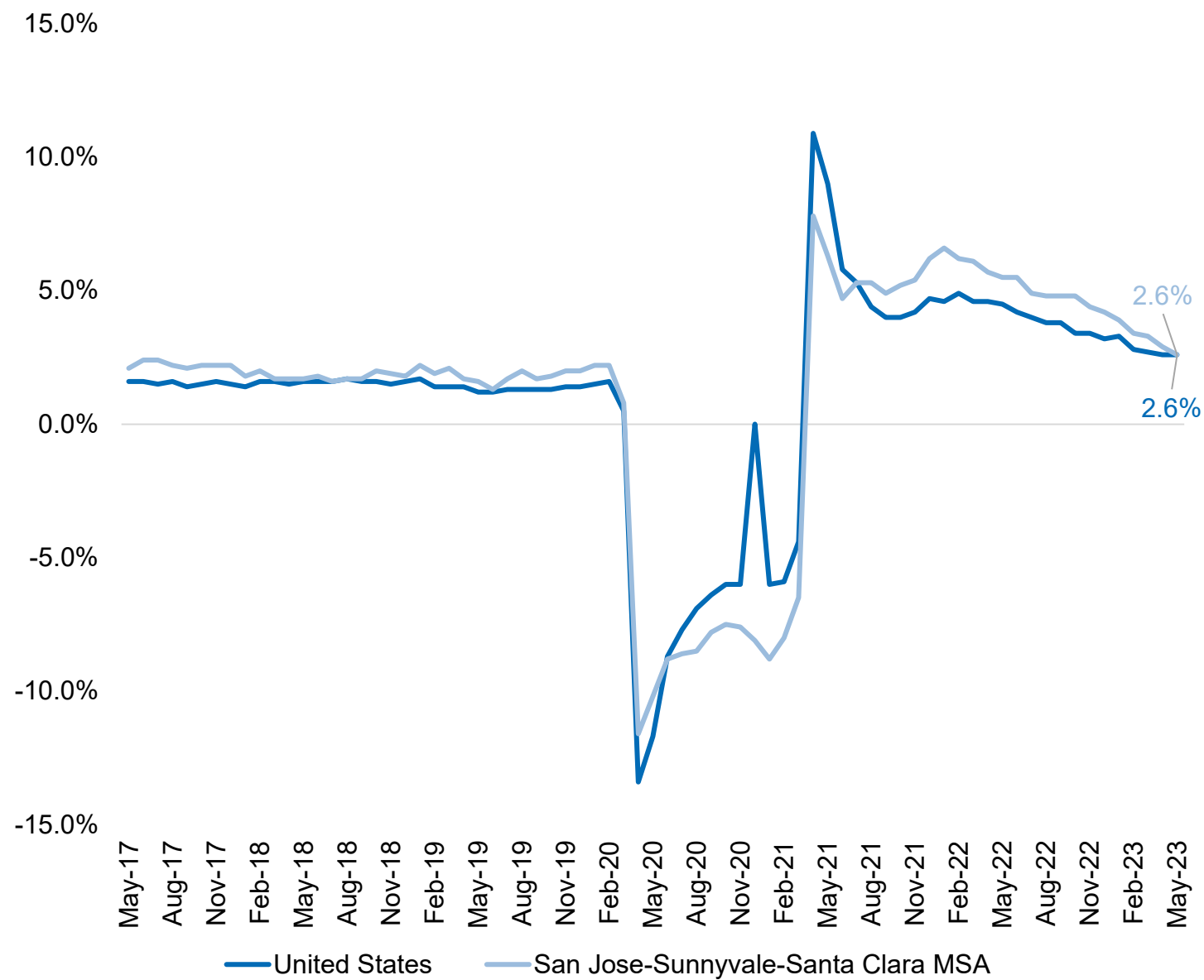
Metro Employment Trends Signal a Slowing Economy

While the region’s labor market remains on relatively solid footing and the annual job growth rate has exceeded the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment has crept up in the Corridor, with several large layoffs announced in the first three months of the year.

Unemployment Rate, Seasonally Adjusted



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

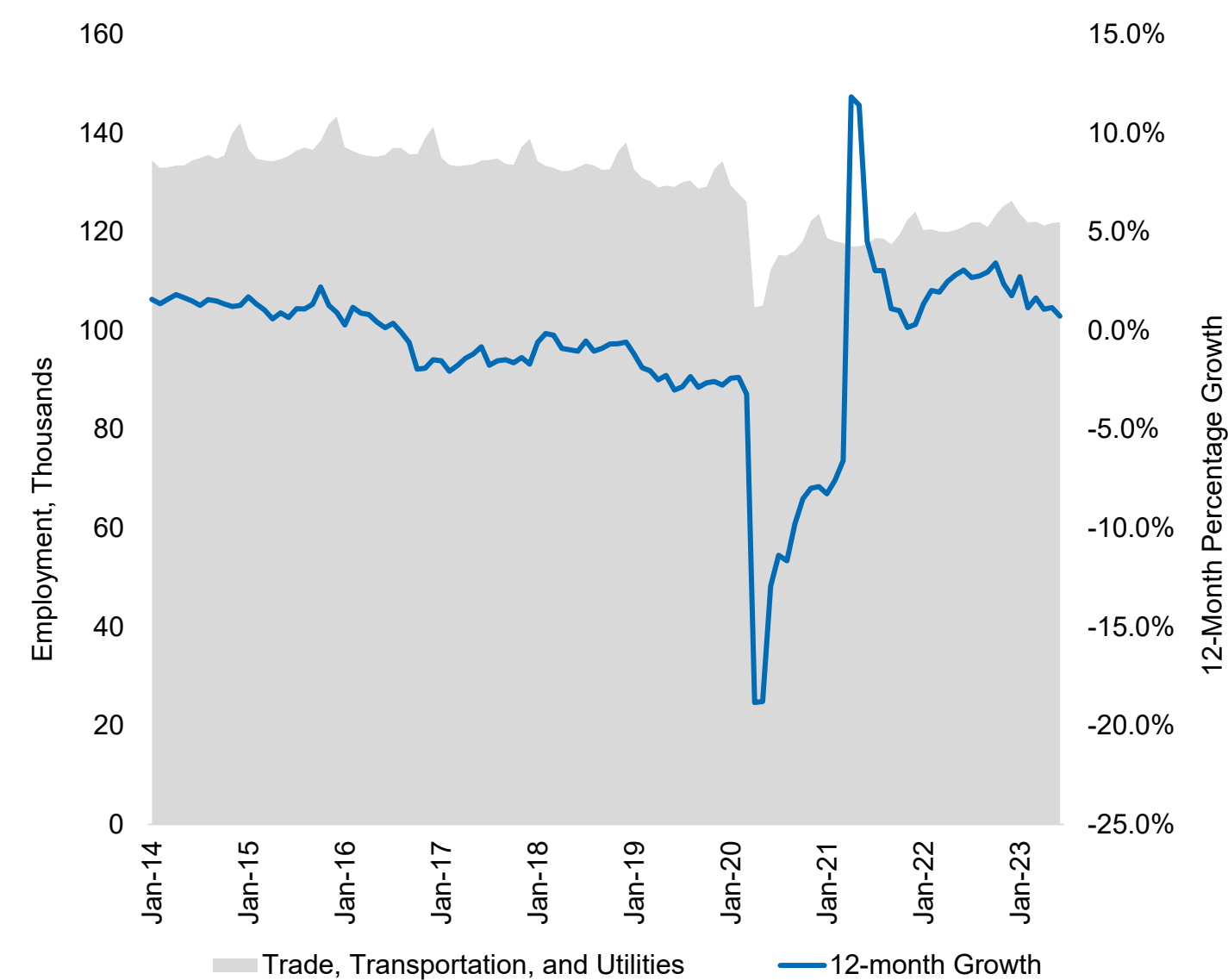


Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

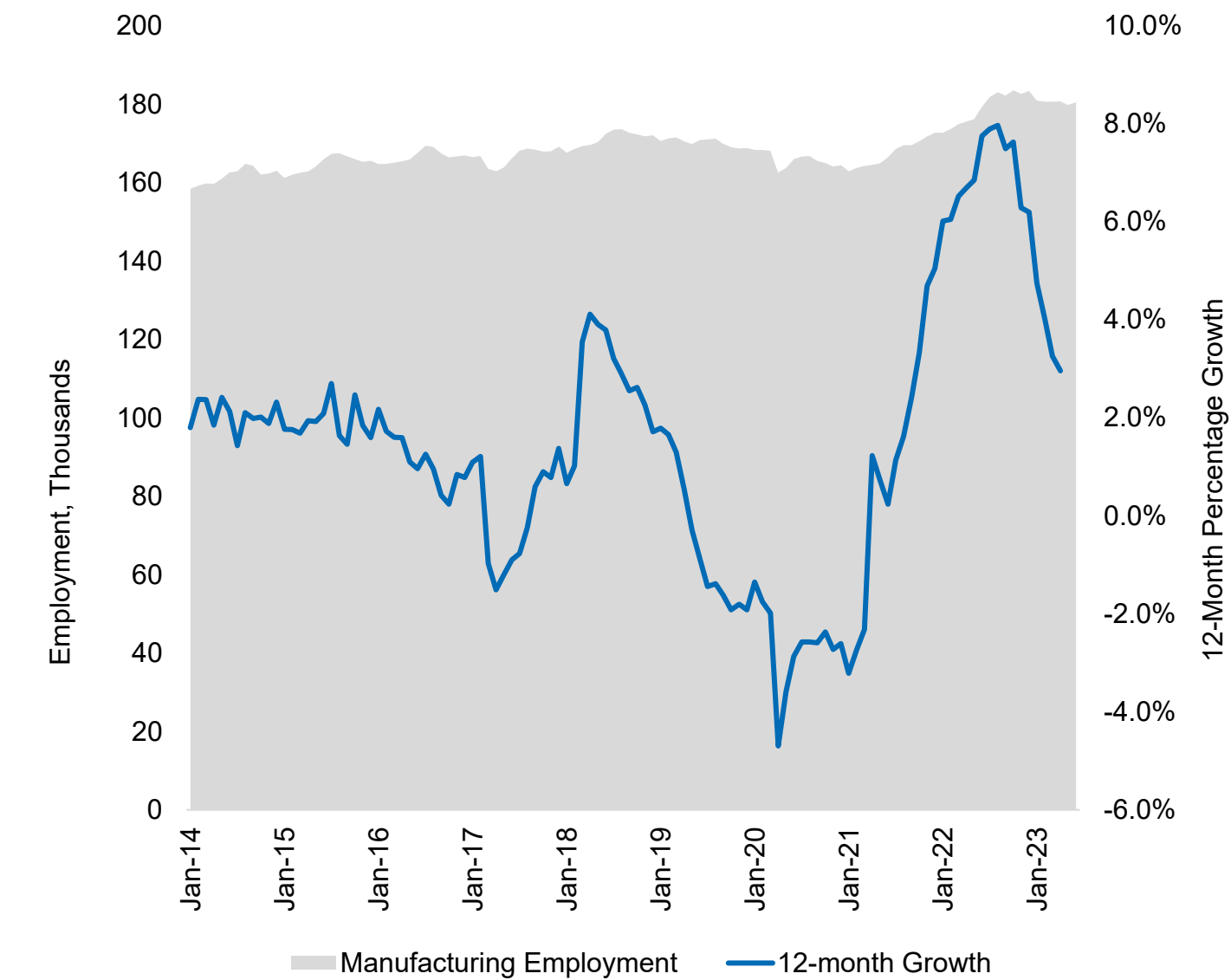
Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs; however, competition for labor is still a challenge for many occupiers in the market.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



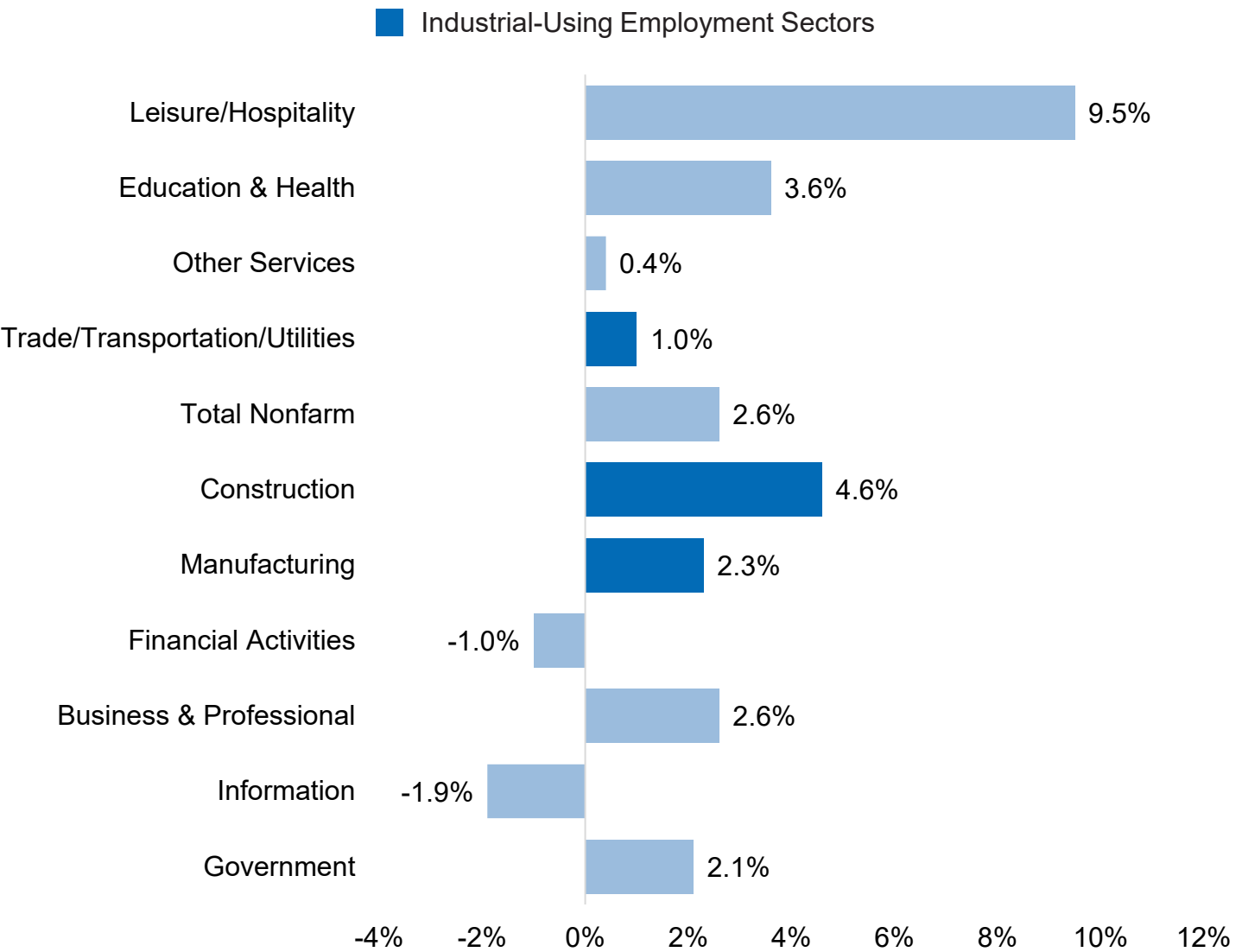
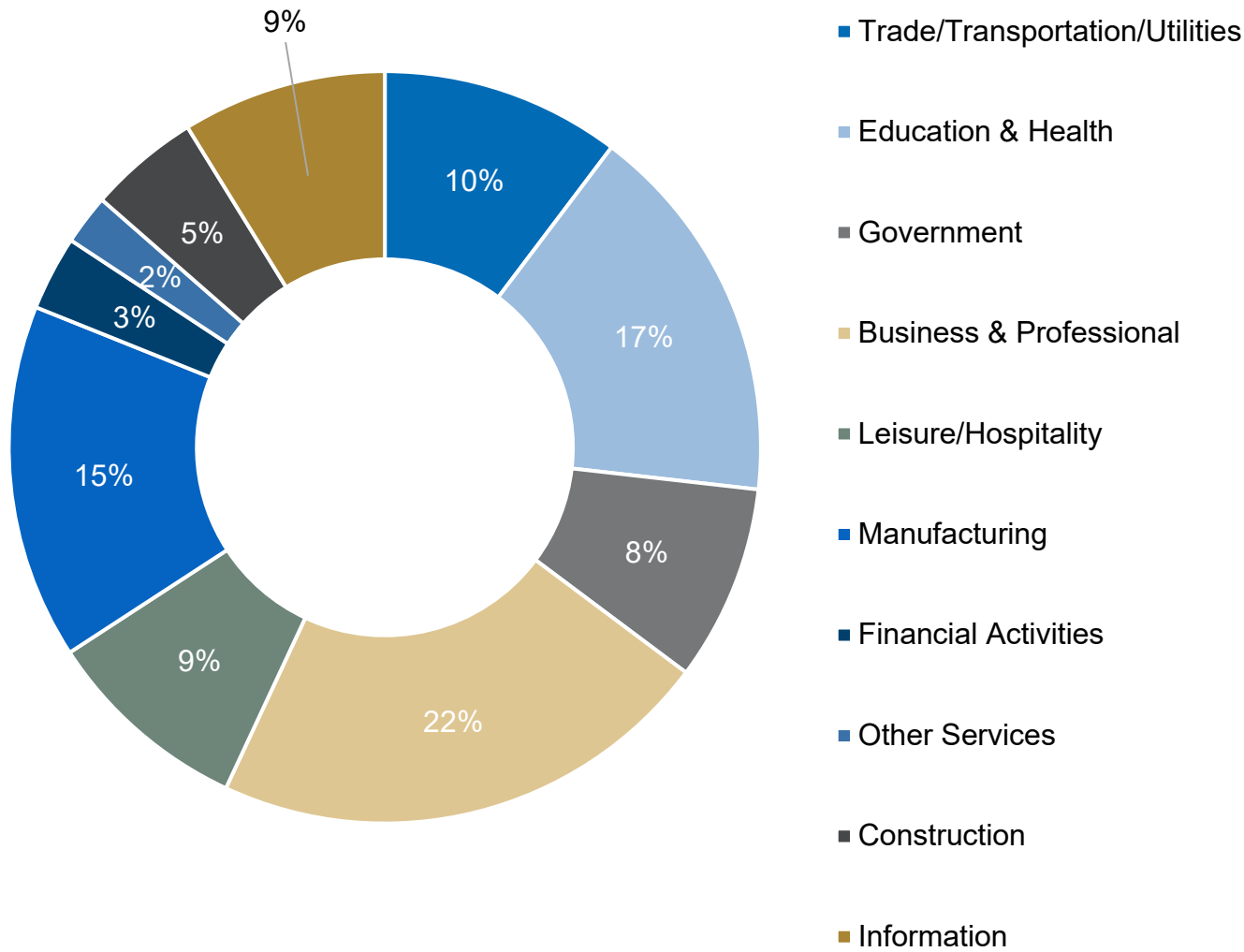
Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

Job Growth Driven in Large Part by Services Still Making upfor Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth, underlining an industry still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services. Industrial-occupying or adjacent industries all saw annual job gains but at a decelerating pace from 2022.

Employment by Industry, May 2023

Employment Growth by Industry, 12-Month % Change, May 2023



Source: U.S. Bureau of Labor Statistics, San Jose-Sunnyvale-Santa Clara MSA

2Q23

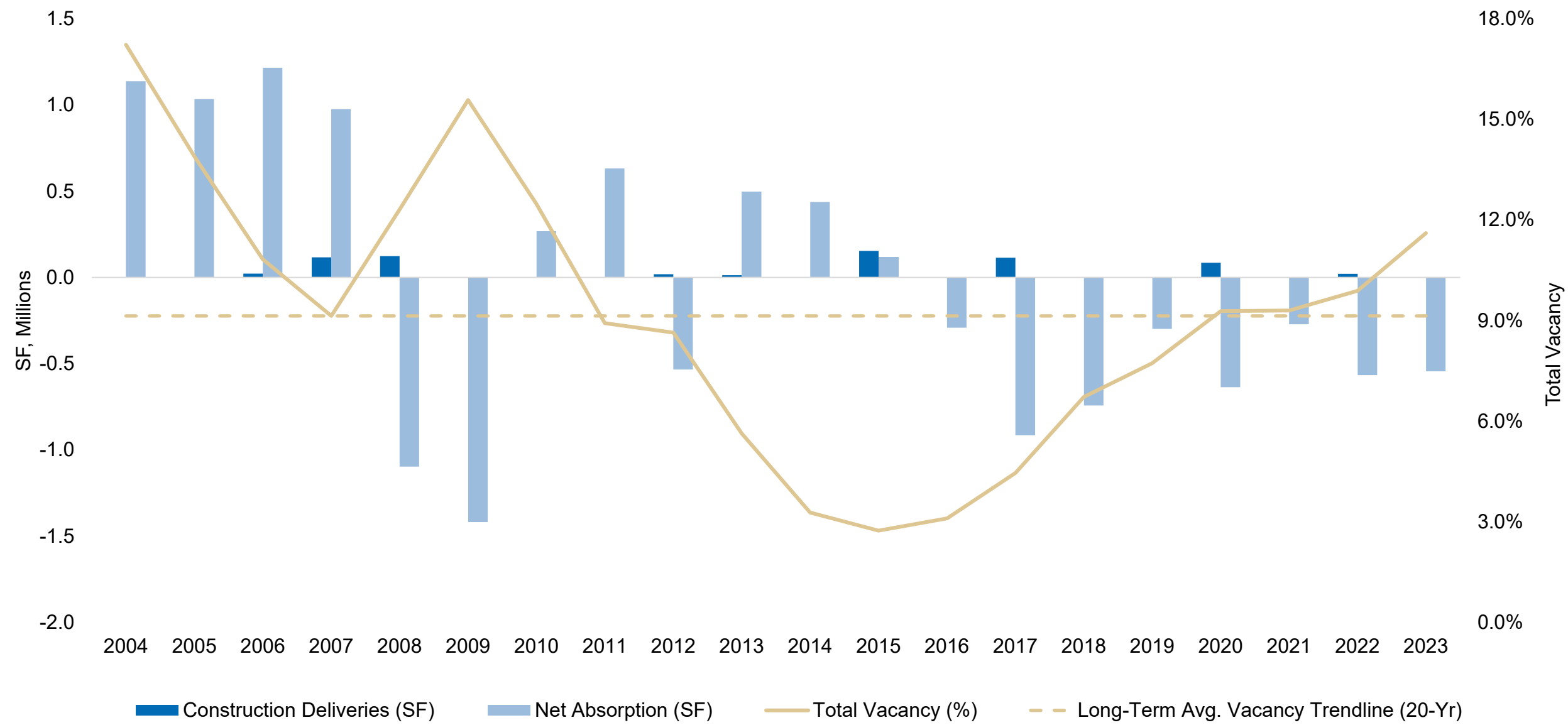
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

The vacancy rate increased to 11.6% in the second quarter of 2023 from 9.7% % in the first quarter of 2023. Several large-block availabilities became vacant this quarter, contributing to this rise. The market is currently recalibrating, with vacancy expected to continue to rise over the next few quarters as the economy and tenant leasing slows due to uncertain economic conditions.

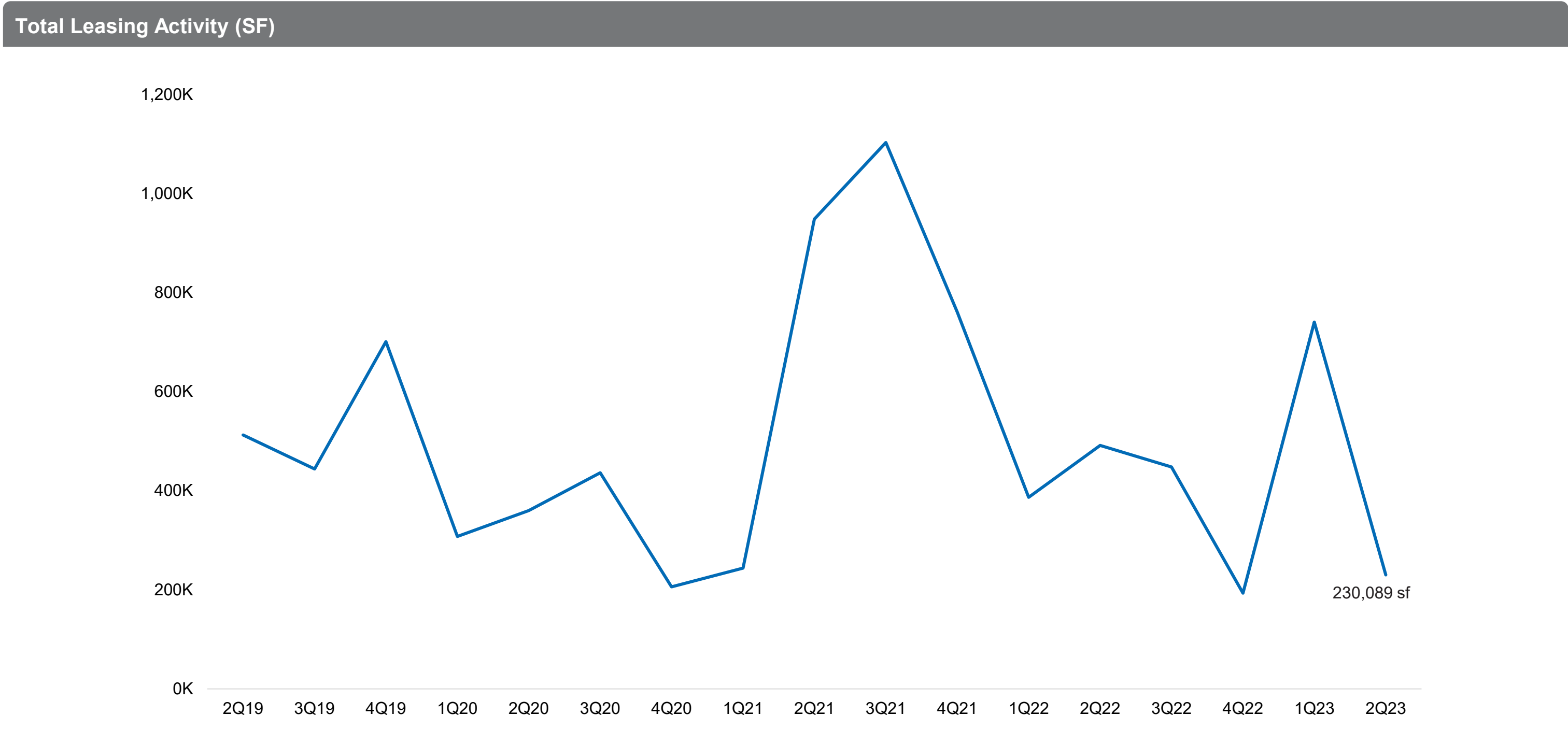
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Decelerates Below Pre-Pandemic Levels

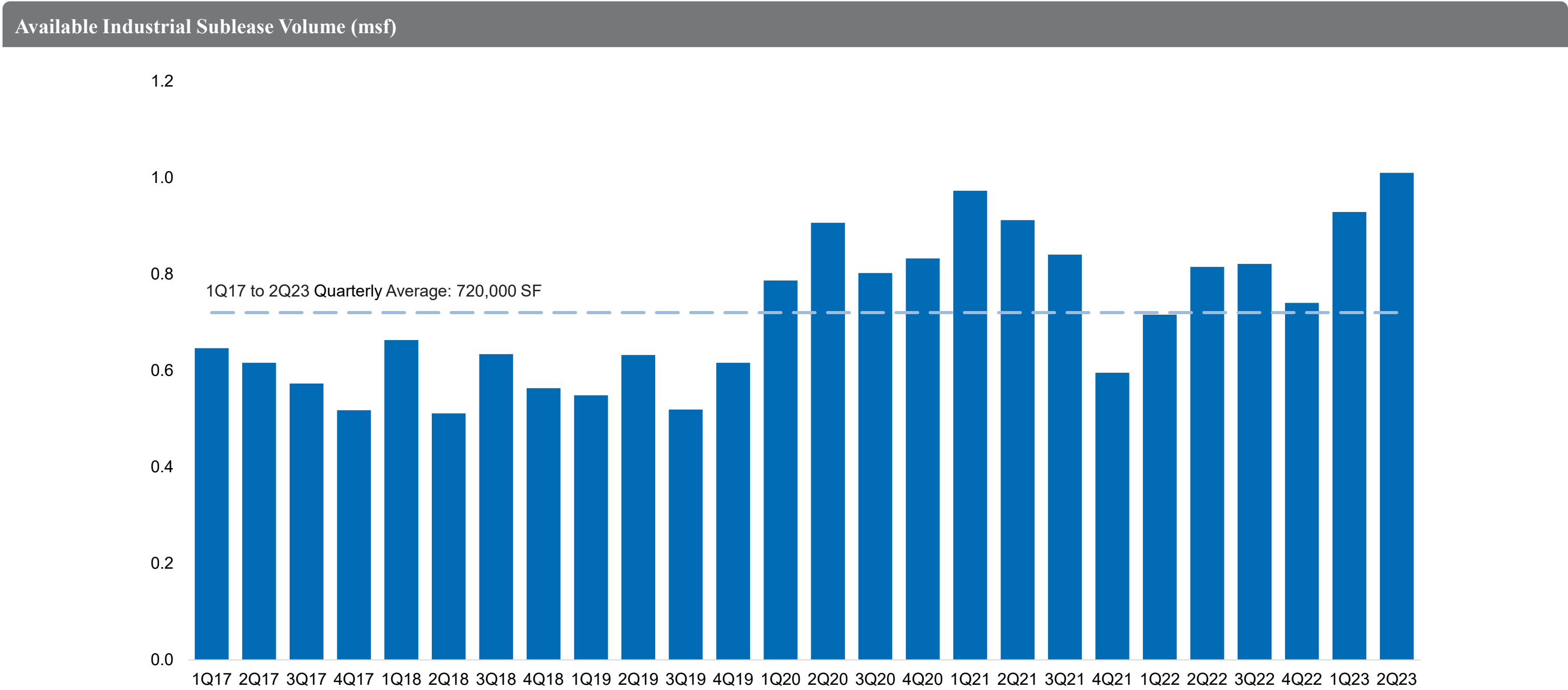
In the second quarter of 2023, R&D leasing took a significant hit as demand fell below levels seen immediately following when COVID-19 measures took place. Although it seemed like R&D would rebound in 2022, significant pullback among technology and life science tenants reassessing their space has resulted in the current levels of leasing seen below.



Source: Newmark Research, CoStar

R&D Sublease Vacancy Spikes above Pre-Pandemic Levels

Sublease space in the second quarter of 2023 rose significantly, with several large block spaces hitting the market. This amount exceeds the volume seen during the height of the pandemic and is significantly above the long-term pre-pandemic average. Since the start of 2023, the rate at which subleases were added to the market has accelerated as tenants consolidate operations to save costs as VC funding grows thinner in the region.

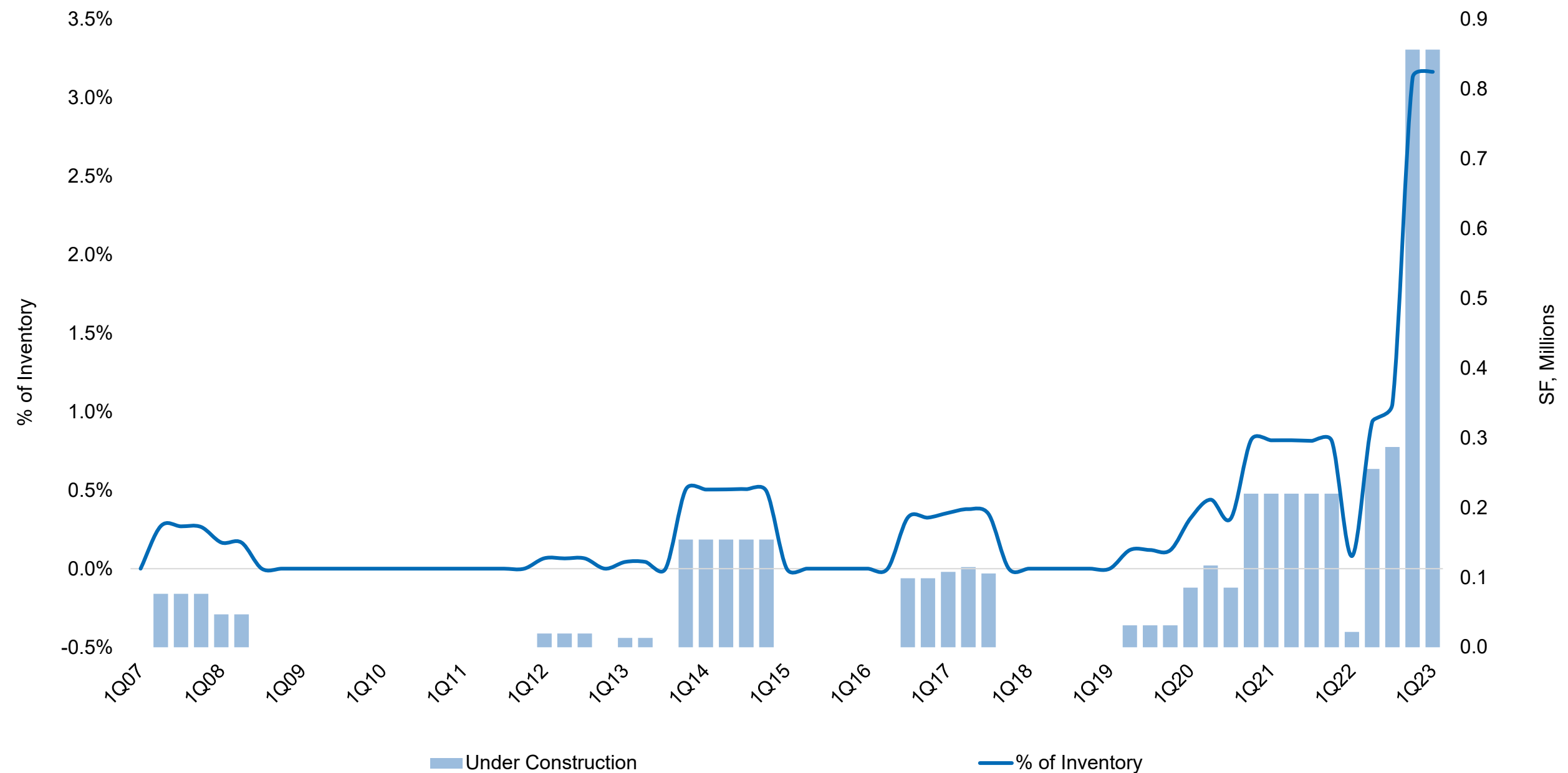


Source: Newmark Research, CoStar

R&D Supply on the Rise Due to Life Science

No new projects broke ground in the second quarter of 2023, though two new R&D projects, Elco Yards and Pear Village, will likely impact total inventory in the region. Despite some tenant pullback in the region, developer interest remains strong and projects such as these will likely continue to dot the landscape in an effort to capture life science tenants.

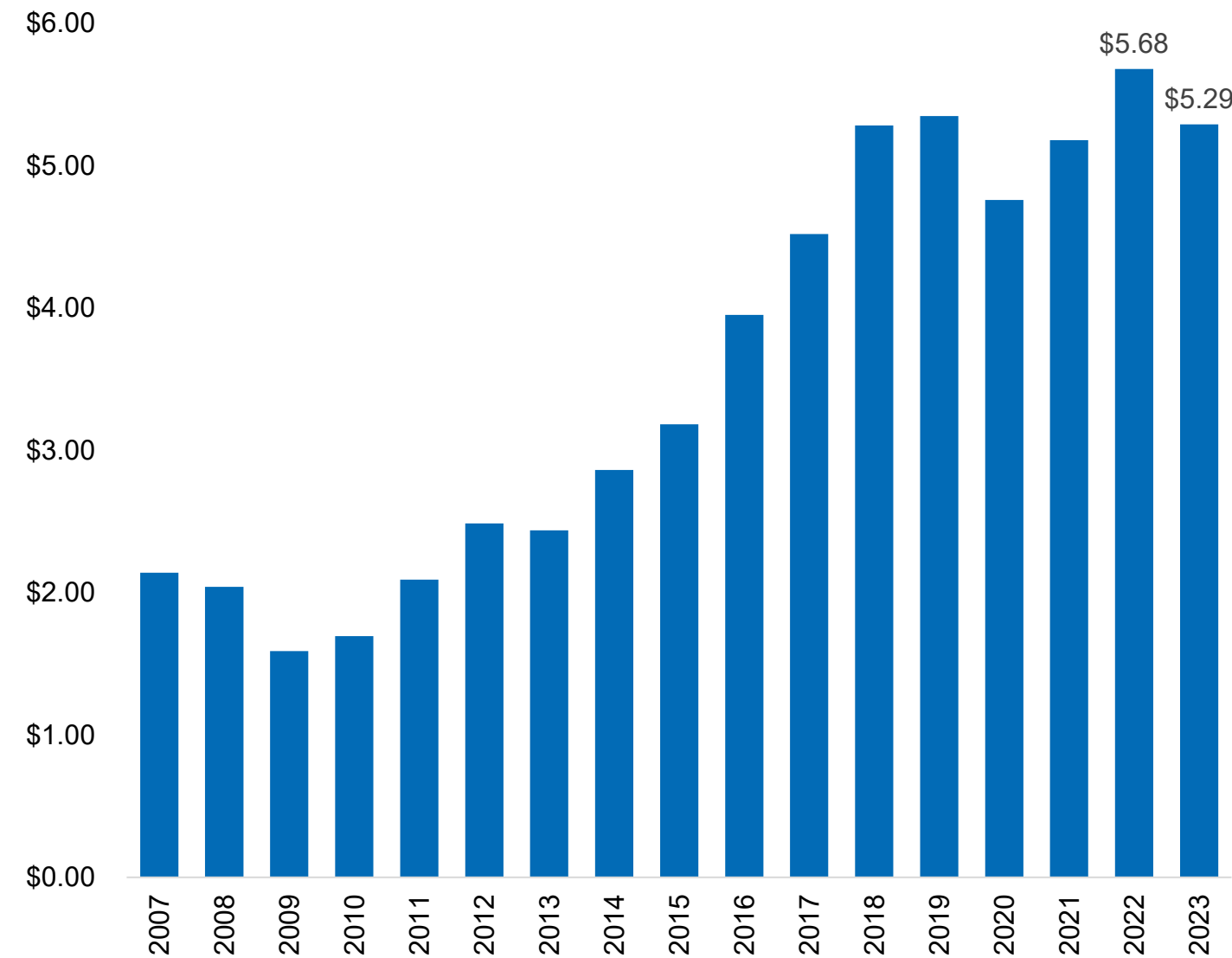
Industrial Under Construction and % of Inventory



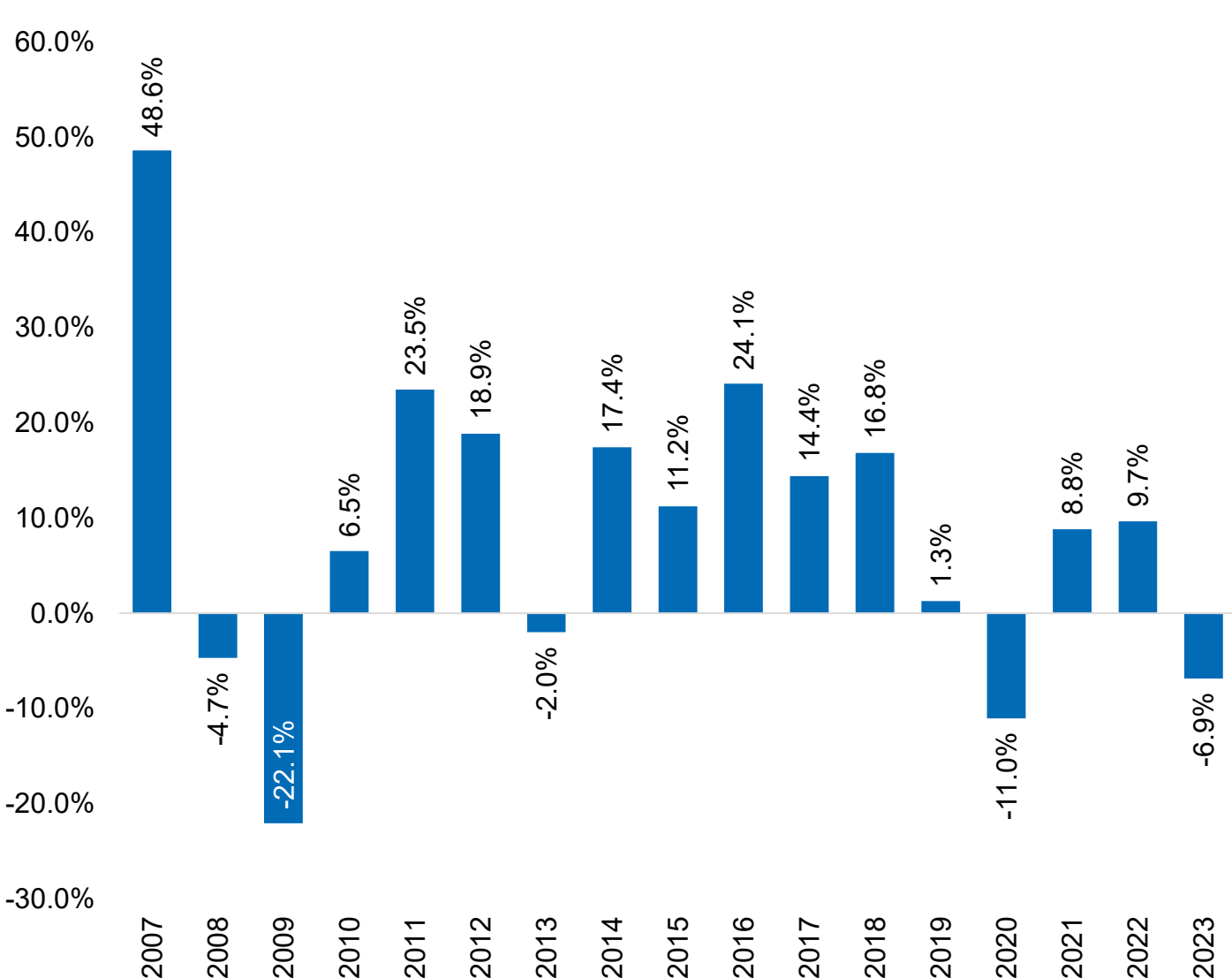
Record High R&D Rents Take a Step Back

R&D rents fell from \$5.68/SF at the end of 2022 to \$5.29/SF in the second quarter of 2023, reversing the trend of rent growth set in the previous two years. This is the second consecutive quarter where overall asking rates have fallen in the region, primarily due to an increase in sublease space pulling down rates in the region.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research

Notable 2Q23 Lease Transactions

Leasing volume was lower than usual in the second quarter of 2023, with just five leases above 10,000 SF. As tenants are forced to reassess their space needs due to shrinking venture capital, leasing is expected to be limited to renewals or smaller deals in the immediate future.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Google	475 Ellis Street	Mountain View-South Middlefield	Renewal	67,000
Renewal. Google has been in this location since 2015. Google additionally renewed in ±411,000 square feet of office space this quarter at 1900-2000 Charleston Road.				
Tecan Genomics	900 Chesapeake Drive	Redwood City-Seaport	Renewal	20,974
Renewal. Life Science tenant specializing in next-generation sequencing (NGS) products; renewed lease on second floor.				
IGM Biosciences	500 Ellis Street	Mountain View-South Middlefield	Renewal	18,100
Renewal. Biotechnology company pioneering the development of IgM antibodies; extension of initial lease on building starting 2021.				
Muon Space Inc.	2250 Charleston Road	Mountain View-Central Expressway	Renewal	18,000
Private space technology company, extending existing lease on building.				
Inceptive Nucleics	3440 Hillview Avenue	Palo Alto-Stanford Research Park	New Lease	12,633
New lease. This lease in Stanford Research Park highlights the versatility of R&D product as well as another datapoint for life science conversions in the region.				

South Peninsula Overview

Research 2Q 2023

Overall Submarket R&D Statistics

	Total Inventory (SF)	Total Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Total Availability Rate	Qtr Net Absorption (SF)	Qtr Gross Absorption (SF)	Total NNN Asking Rent (Price/SF)
Menlo Park	3,500,139	5.22%	250,186	123,490	7.15%	5,674	9,075	\$4.51
Middlefield Road	257,981	3.28%	8,473	2,000	3.28%	3,000	4,835	\$4.76
Highway 101	3,242,158	5.38%	241,713	121,490	7.46%	2,674	4,240	\$4.50
Mountain View	10,684,539	10.26%	1,281,579	264,451	11.99%	-157,380	144,963	\$4.34
Central Expressway	1,718,474	9.83%	168,951	49,400	9.83%	-9,008	28,200	\$3.63
Shoreline	4,337,568	0.18%	7,623	0	0.18%	0	0	\$2.22
South Middlefield	4,628,497	19.87%	1,105,005	215,051	23.87%	-148,372	116,763	\$4.50
Palo Alto	9,377,386	13.83%	1,614,989	692,295	17.22%	-125,789	49,494	\$5.81
Bayshore	2,057,053	21.48%	514,971	12,928	25.03%	-108,173	3,333	\$7.07
California Avenue	380,848	13.12%	49,962	34,876	13.12%	6,063	17,825	\$5.63
Stanford Research Park	6,939,485	11.59%	1,050,056	644,491	15.13%	-23,679	28,336	\$5.59
Redwood City	2,547,855	16.48%	484,019	171,997	19.00%	-253,434	26,557	\$5.16
Downtown	38,000	29.54%	11,226	0	29.54%	-2,550	0	\$2.99
Seaport	1,433,571	22.40%	360,848	151,404	25.17%	-251,967	20,974	\$6.49
Southern	937,728	5.37%	74,698	20,593	7.97%	-4,500	0	\$4.80
Other	138,556	26.88%	37,247	0	26.88%	5,583	5,583	\$3.46
Redwood Shores	1,016,453	15.11%	153,570	1,250	15.11%	-13,419	0	\$7.77
SOUTH PENINSULA	27,126,372	11.61%	3,784,343	1,253,483	13.95%	-544,348	230,089	\$5.29

Source: Newmark Research

For more information:

Mike Pham
Associate Research Director
Palo Alto Research
Mike.Pham@nmrk.com

Kalani Lucas
Research Analyst
Palo Alto Research
Kalani.Lucas@nmrk.com

Palo Alto Office
258 High Street
Palo Alto, CA 94301
t 650-322-2600

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

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