

2Q23

San Francisco Bay Area Life Science Market Overview



NEWMARK

Market Observations

Economy

- Over the last 10 years, the San Francisco Bay Area has added more than 54,000 life science jobs to local payrolls, representing 85.0% of cumulative growth.
- Rising interest rates, dips in company valuations and the recent failure in the Silicon Valley Bank have caused venture capital funding in the life science sector to slow and consolidate over the last 12 months. .

Major Transactions

- Federally funded research and development company Lawrence Berkeley National Labs completed the largest deal of the quarter, renewing its 63,507-SF lease at 5885 Hollis St. in Emeryville.
- Clinical-stage precision medicine oncology company Ideaya Biosciences leased a portion of the first and third floor at 5000 Shoreline Ct. in South San Francisco for the second-largest deal of the quarter.
- Clinical-stage biotech company Carmot Therapeutics relocated to Kimia Therapeutic's sublease space via Perfect Day for the third-largest deal of the quarter.

Leasing Market Fundamentals

- Market-wide vacancy increased to 9.5% this quarter, up from 7.5% in the previous quarter, while availability increased to 13.0%, up from 11.8% in the previous quarter. On the sublease front, vacancy counted for 3.4% of the total inventory, up from 3.0% in the previous quarter and up from 2.3% one year ago.
- The region's 8.1-million-SF construction pipeline trended upward for the seventh consecutive quarter. Of the notable ground-up construction, 8.9% is already preleased.
- Demand for lab space was recorded at 3.3 million SF feet this quarter, down from 5.3 million SF in the previous quarter, as larger requirements were put on pause as tenants look to preserve capital in an uncertain macroeconomic environment.

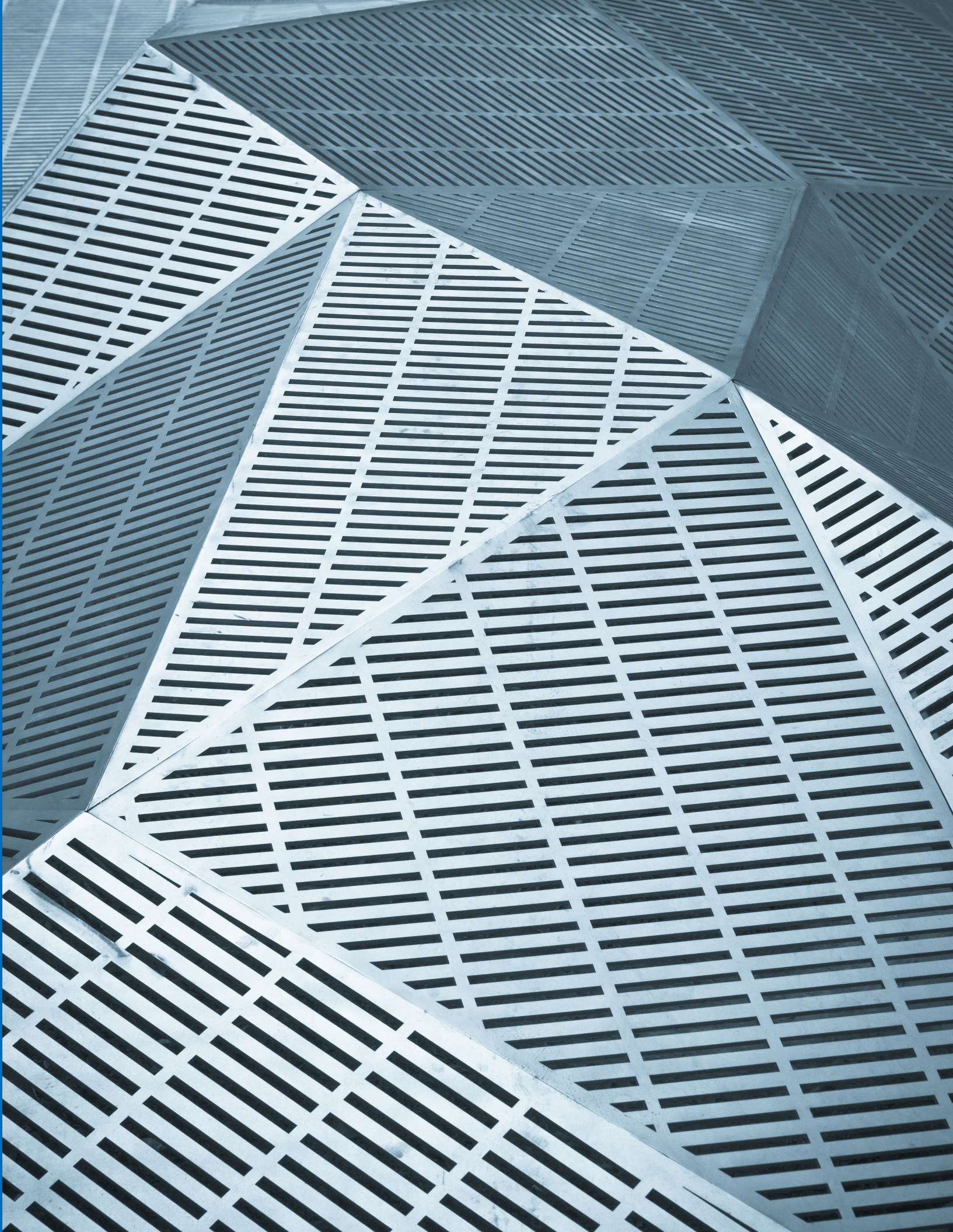
Outlook

- Leasing activity is expected to remain suppressed throughout the rest of 2023 as many negotiations for new lab space are on hold.
- Market availability and vacancy will continue to increase, as record volumes of new construction deliver over the next several quarters, providing prospective tenants with ample opportunity to lease high-quality space in the coming years.
- Positive signs in the market are emerging as core inflation continues to trend downwards and the stock market gradually recovers, which will ultimately bode well for CRE.

1. Economy
2. Leasing Market Fundamentals

2Q23

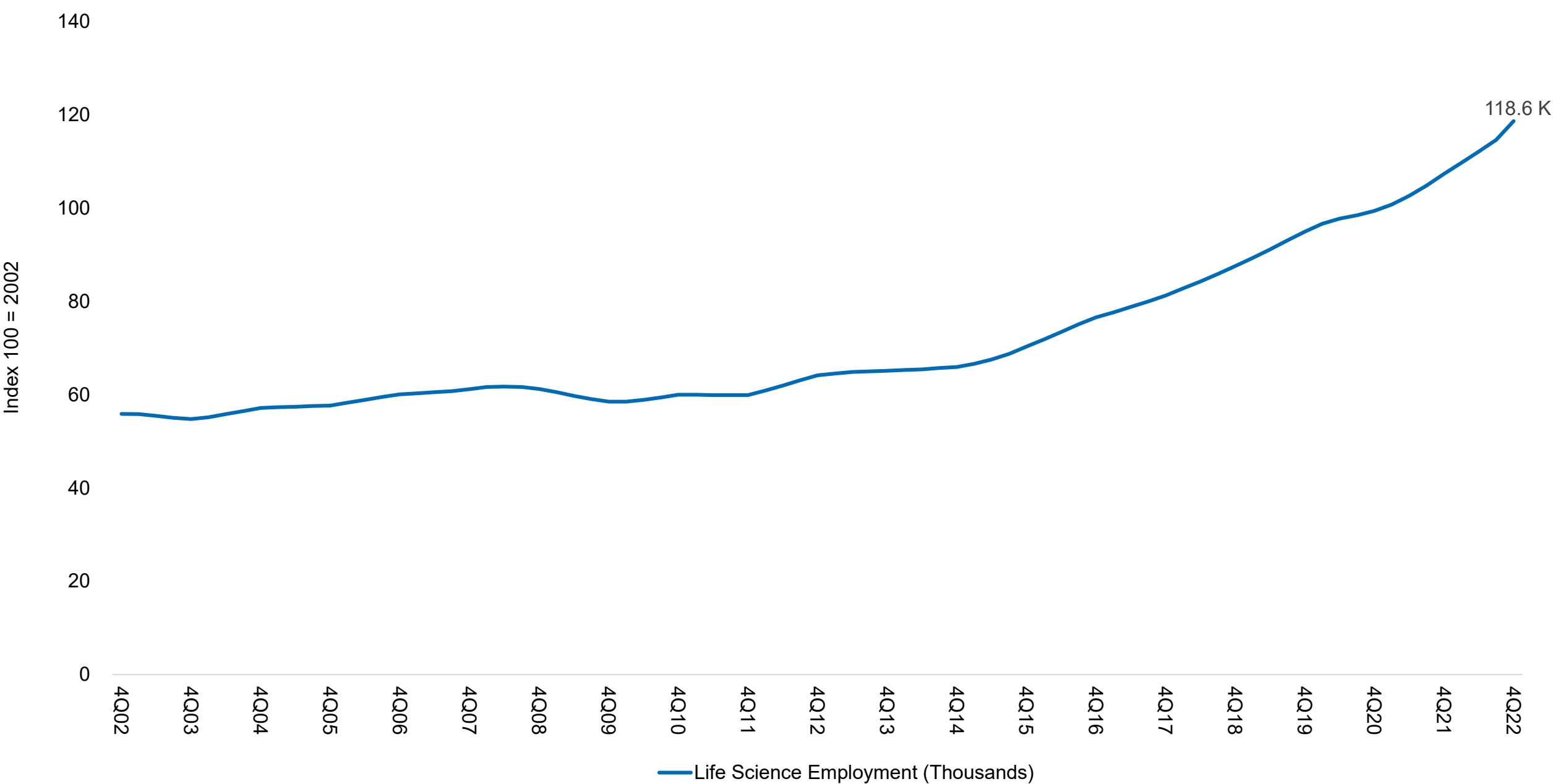
Economy



Bay Area Life Science Employment

Despite recent layoffs within this sector, life science employment has expanded exponentially through year-end 2022 within the San Francisco Bay Area.

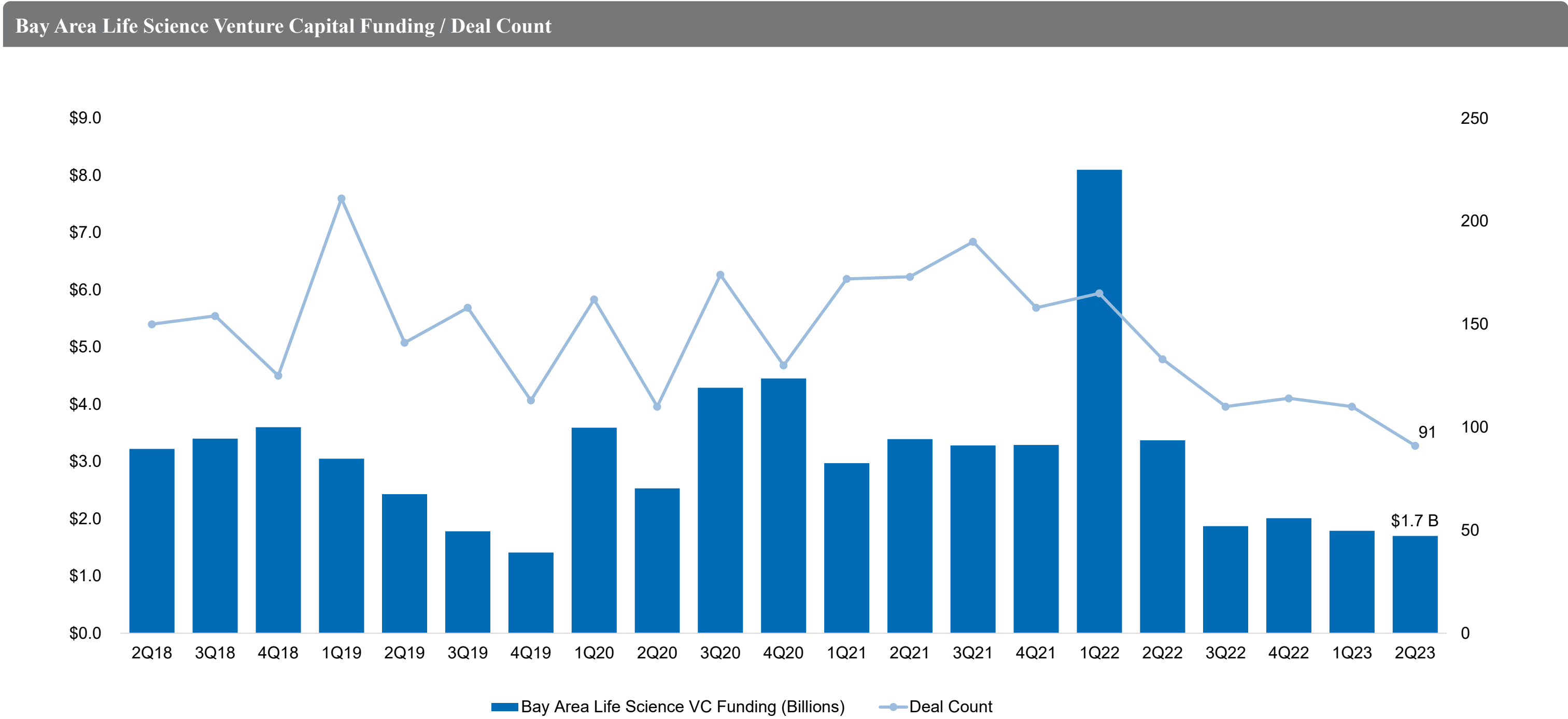
Bay Area Life Science Employment



Source: U.S. Bureau of Labor Statistics, San Francisco-San Mateo-Alameda-Contra Costa- Marin MSA, Pitchbook

Bay Area Life Science Funding and Number of Completed Deals Consolidate

Bay Area-wide, there was a total of 91 completed life science deals, compared with 110 in the previous quarter and 133 one year ago. Biotech venture capital funding in the Bay Area market continued to consolidate in the second quarter of 2023, recording \$1.70 billion capital raised, down from \$1.79 billion in the previous quarter and \$3.37 billion one year ago.

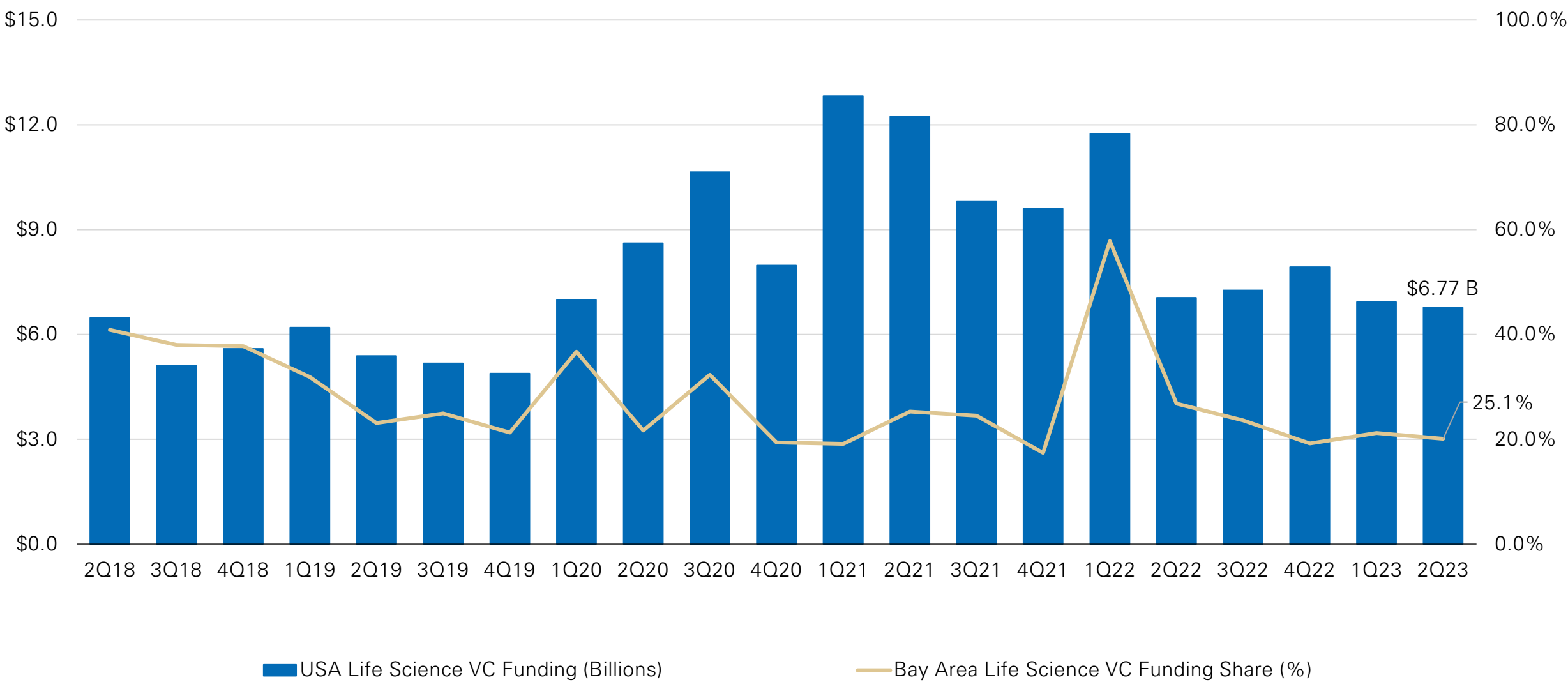


Source: Pitchbook

Nationwide Life Science VC Funding Continues to Consolidate in 2Q23

Nationwide, the life science sector recorded \$6.77 billion of venture capital investment versus \$6.93 billion in the previous quarter. The pullback in funding and continued emphasis on both capital preservation and profitability has meant numerous companies continue to be meticulous in terms of expanding their real estate footprints.

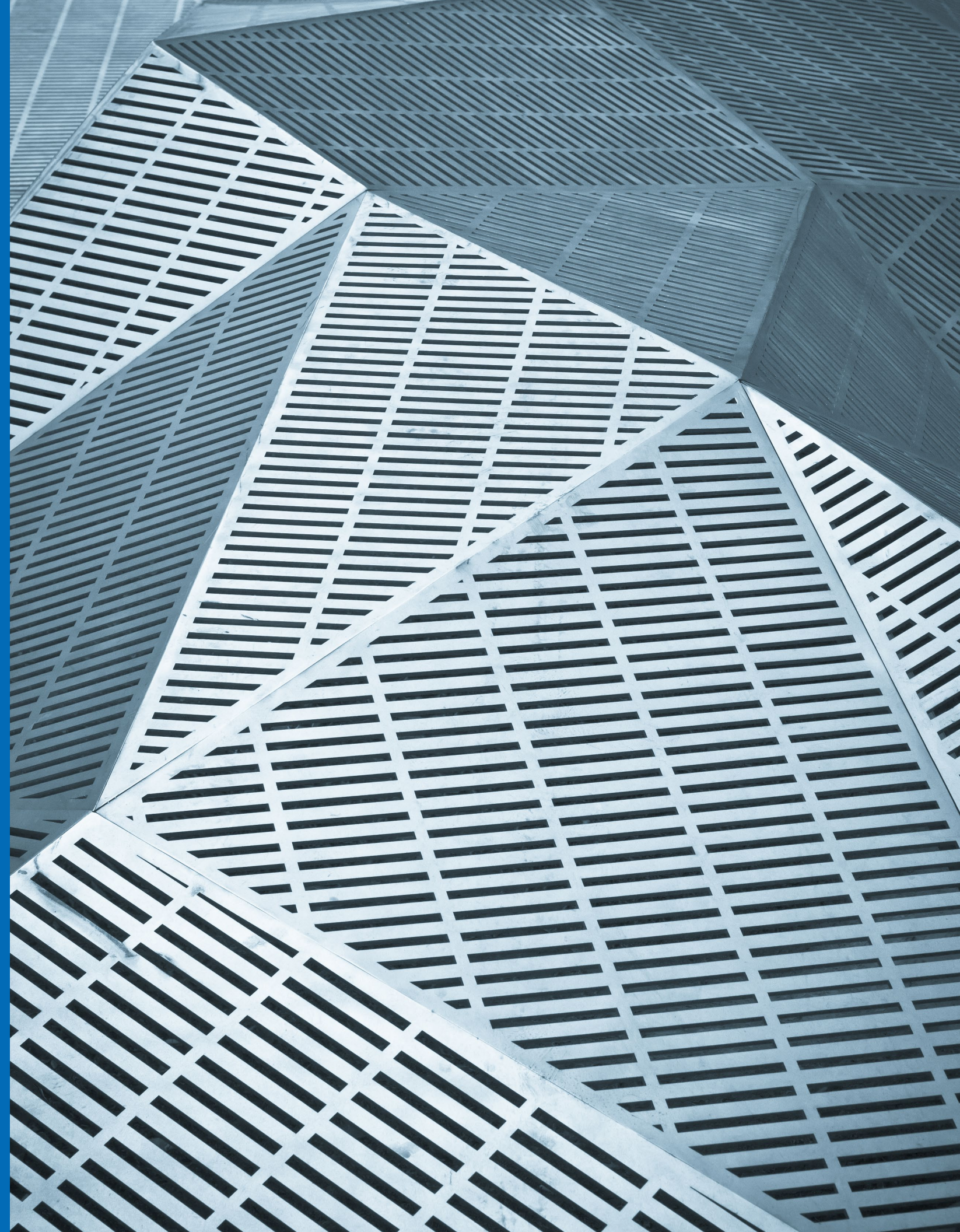
Nationwide Life Science Venture Capital Funding



Source: Pitchbook

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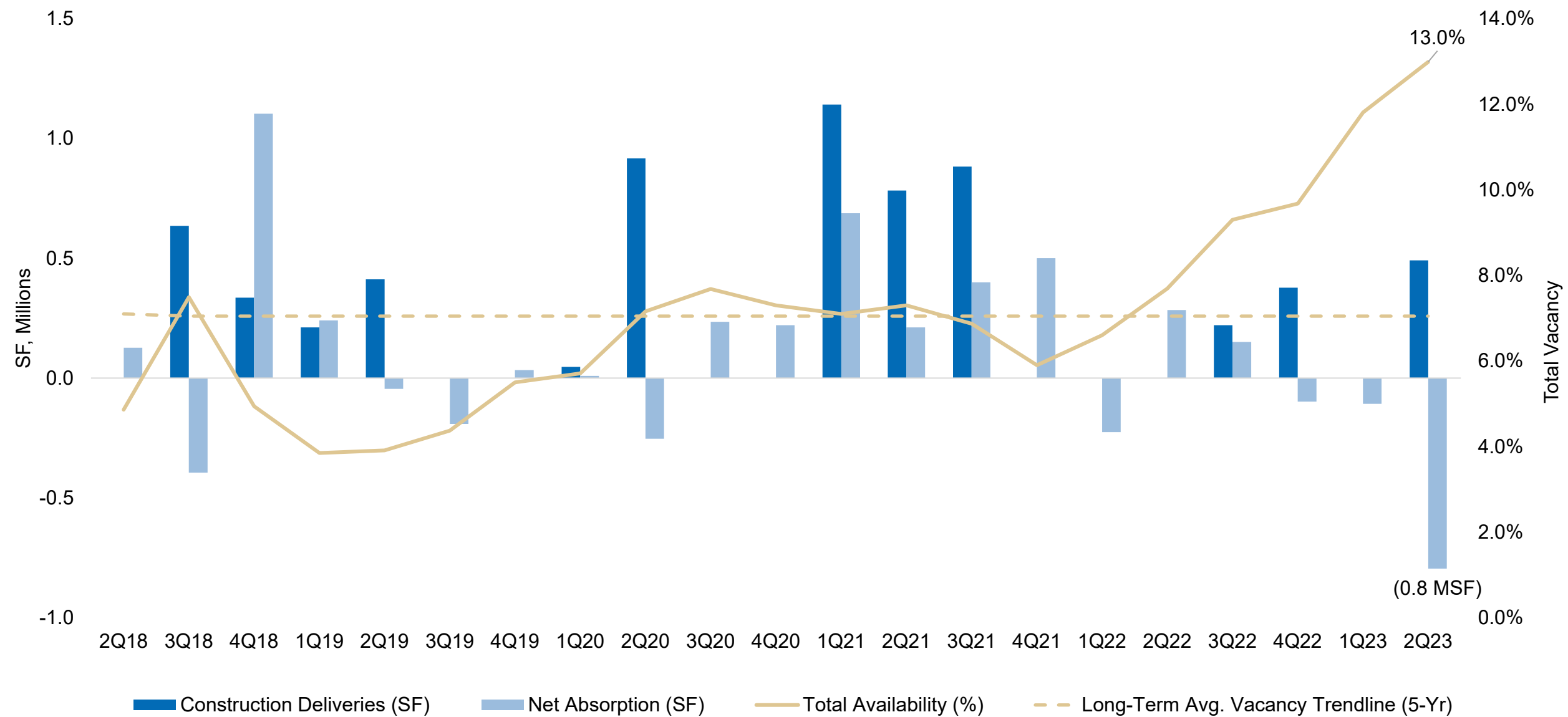
Leasing Market Fundamentals



Availabilities Rises as Construction Deliveries Continue to Surge

Market-wide availability increased to 13.0% this quarter, up from 11.8% in the previous quarter and up from 7.7% one year ago. Availability rates continue to rise from pre-pandemic lows as new life science ground-up and converted developments are delivered to market, further softening market conditions.

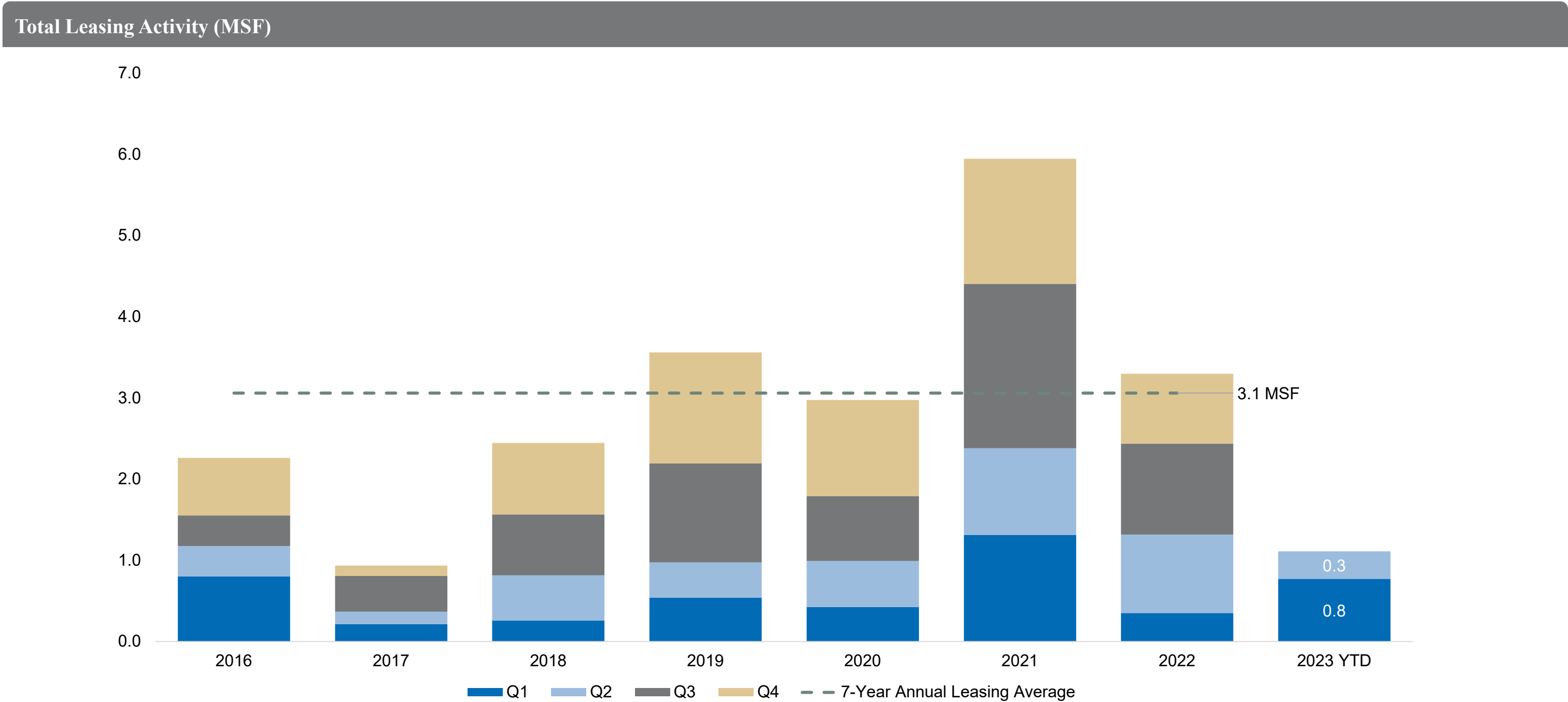
Historical Construction Deliveries, Net Absorption, and Availability



Source: Newmark Research

Leasing Activity Decreases

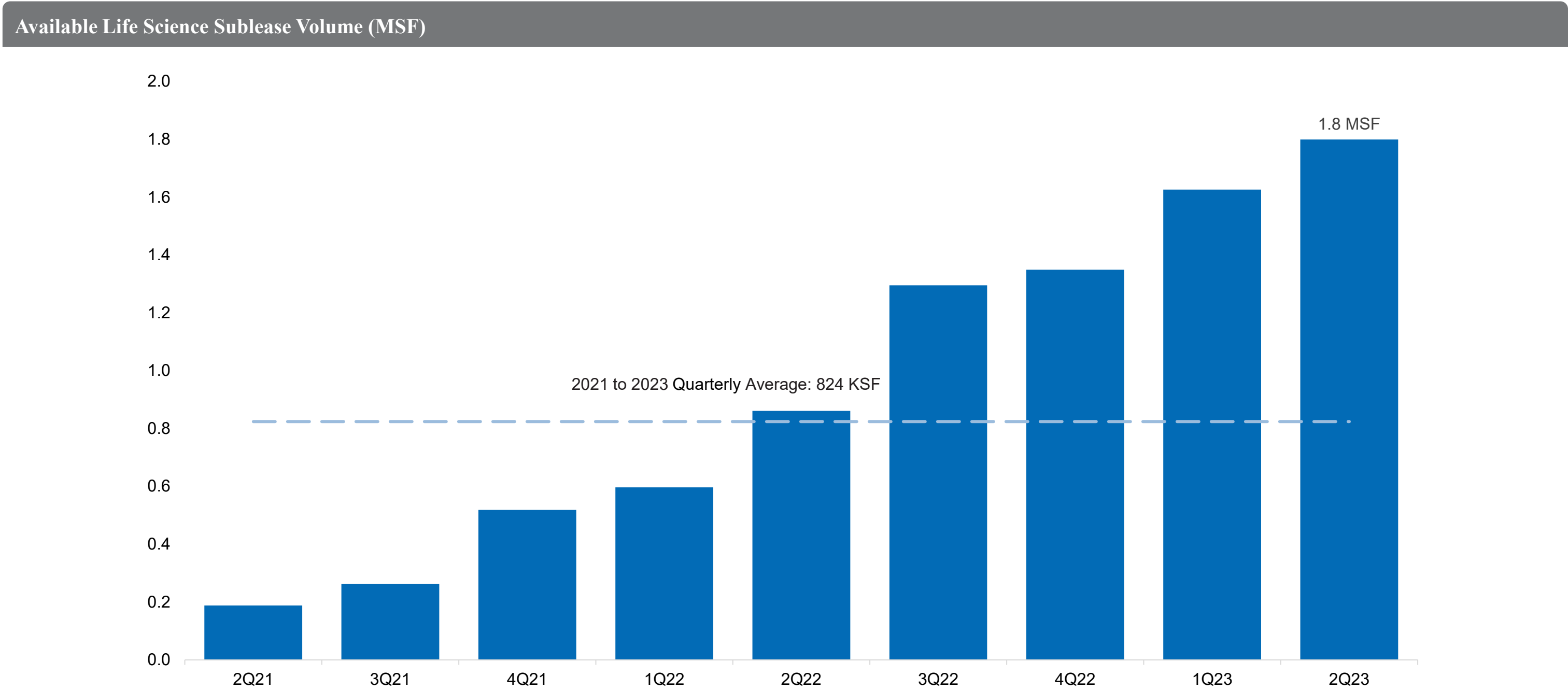
Leasing activity has slowed in the larger life science submarkets throughout the Bay Area as many existing tenants are putting back larger blocks of space for sublease. Total leasing activity for the quarter measured 338,000 SF, marking a 56.2% decline quarter over quarter and 65.0% decline year over year. The average deal size for the quarter was 18,798 SF, reflecting a decline of 17.3% quarter over quarter and 48.9% year over year.



Source: Newmark Research, CoStar

Life Science Sublease Availability Continues to Spike

On the sublease front, availability counted for 4.7% of the total inventory, up from 4.4% in the previous quarter and up from 2.5% one year ago. Current sublease availability (1.8 million SF) throughout the Bay Area remains well above the quarterly average amid numerous biotech firms continuing to downsize their footprints by subleasing portions of their space to reduce annual expenses while profiting from record-high lease rates.

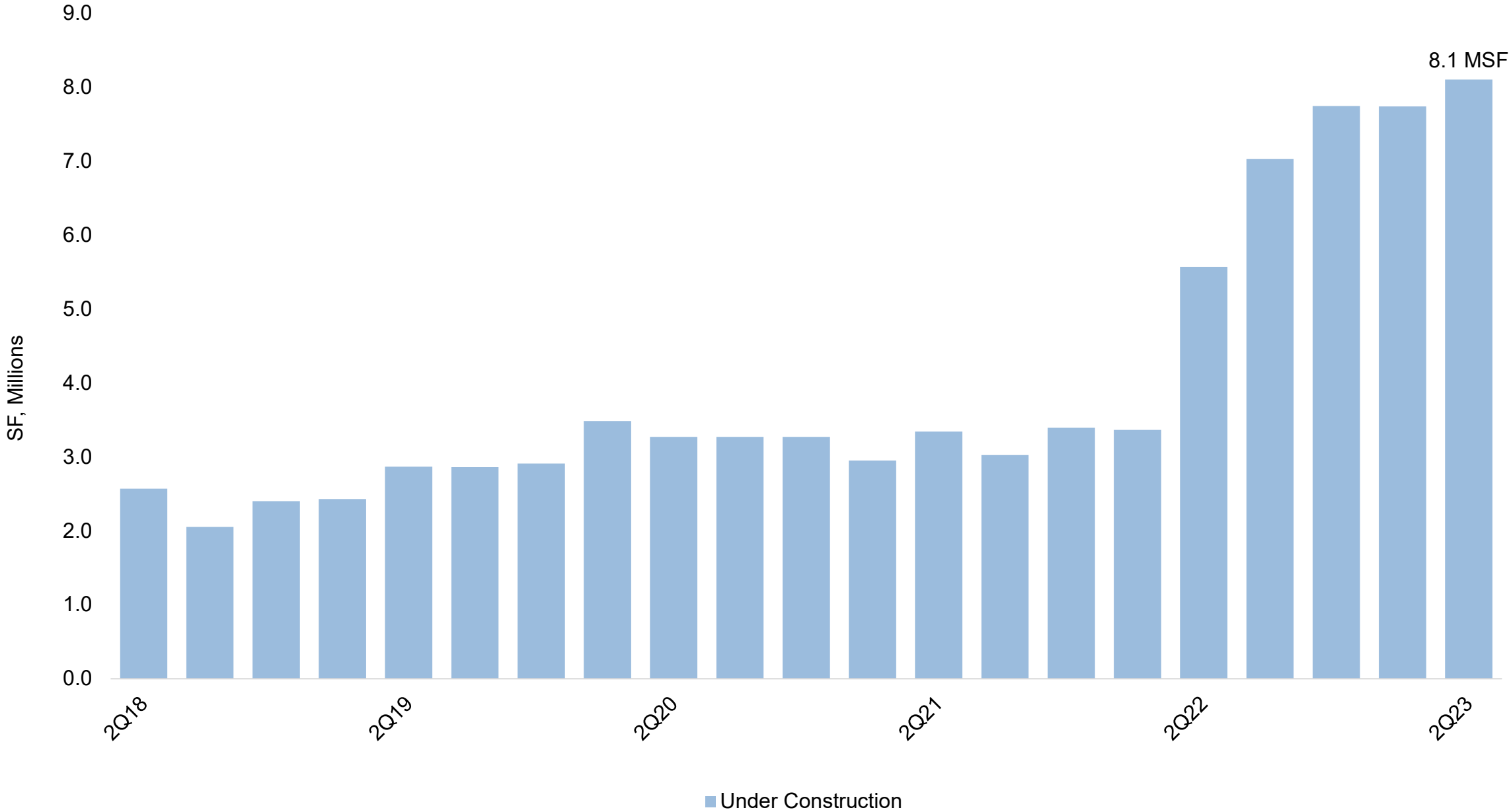


Source: Newmark Research, CoStar

Life Science Development Pipeline Remains Robust

The total volume of under-construction product in the Bay Area market continued to increase in the second quarter of 2023 and was recorded at 8.1 million SF, with 8.9% of that under-construction figure already preleased. The most notable delivery this quarter was Healthpeak’s 342,000-SF Vantage project located on Forbes Boulevard in South San Francisco.

Life Science Under Construction (MSF)

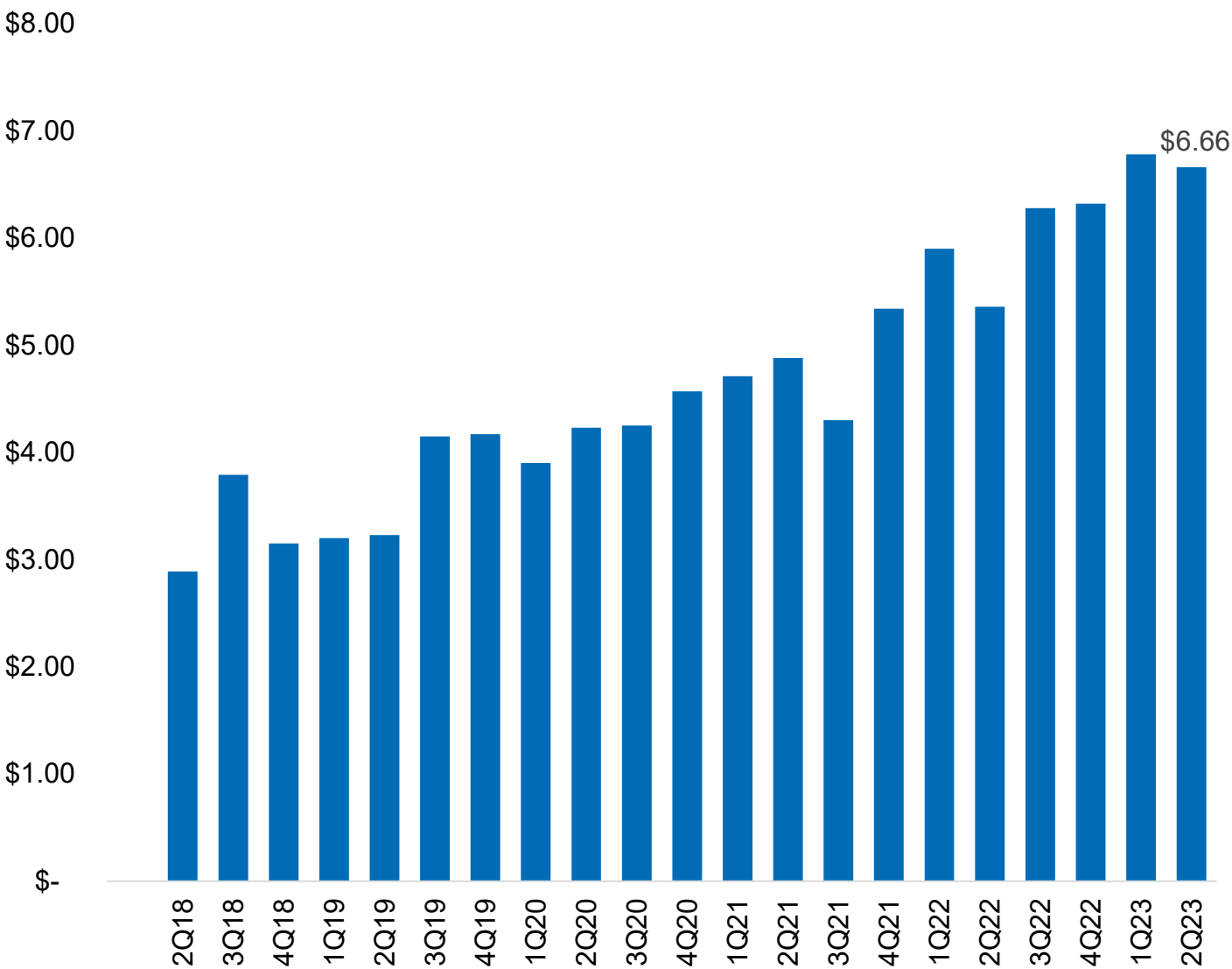


Source: Newmark Research, CoStar

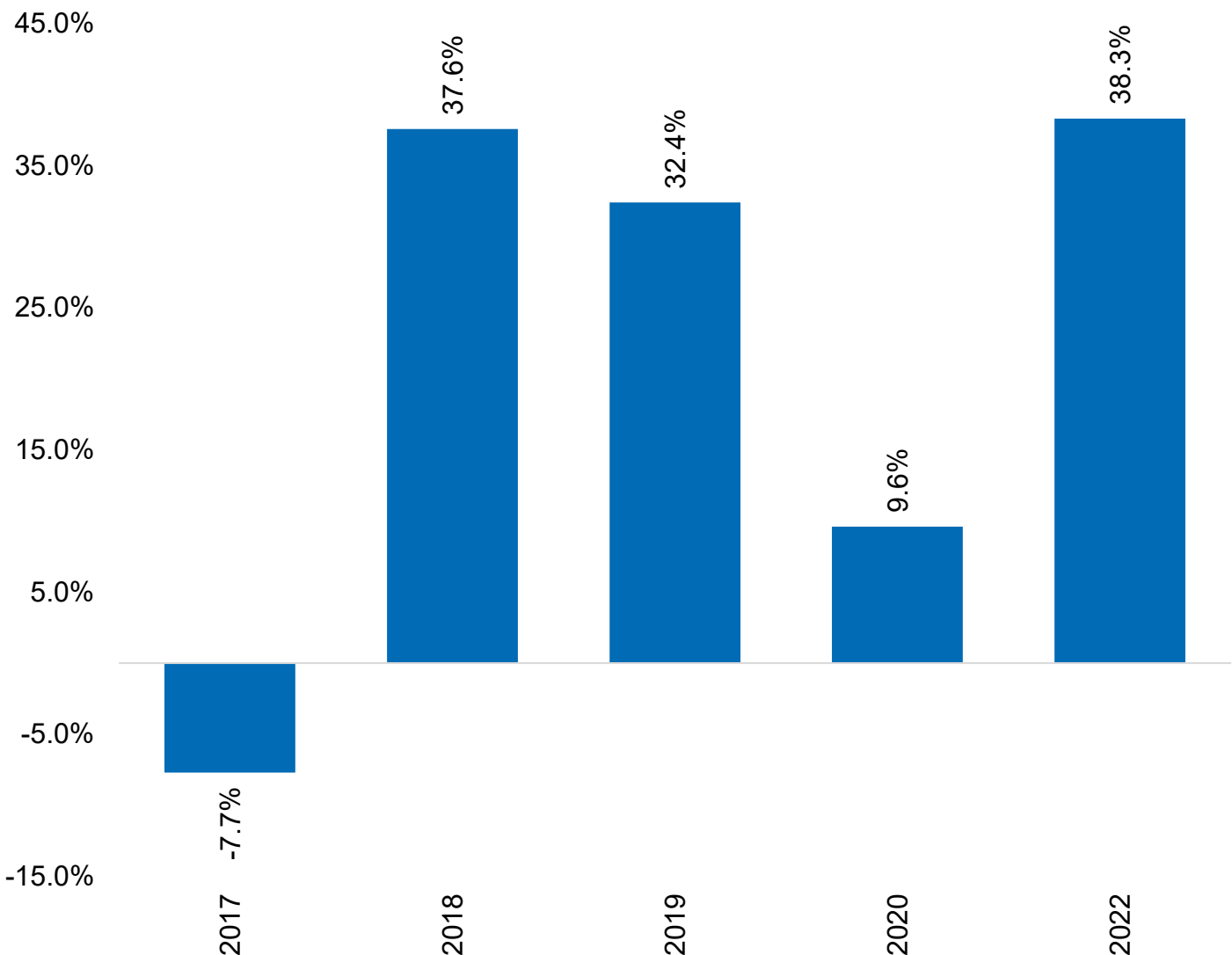
Record-Pace Rent Growth Takes a Breather in 2Q23

The overall average asking rate for life science space throughout the Bay Area decreased from \$6.78/SF NNN in the previous quarter to \$6.66/SF in the second quarter of 2023 but is still up from \$5.36/SF one year ago.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 2Q23 Lease Transactions

There was a total of 8 leases greater than 20,000 SF executed this quarter, compared with 13 in the previous quarter and 13 one year ago.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Lawrence Berkeley National Laboratory	5885 Hollis St.	Emeryville	Lease Renewal	63,507
Federally funded research and development company Lawrence Berkeley National Labs completed the largest deal of the quarter, renewing their 63,507-square foot lease at EmeryStation East.				
Ideaya Biosciences	5000 Shoreline Court	South San Francisco	Direct Lease	43,966
Clinical-stage precision medicine oncology company Ideaya Bio leased a portion of the first and third floor at 5000 Shoreline Court for the second-largest deal of the quarter.				
Verge Genomics	131 Oyster Point Blvd	South San Francisco	Sublease	34,988
Verge Genomics completed the third-largest deal of the quarter, subleasing 34,988 square feet from Harpoon Therapeutics on the third floor at 131 Oyster Point Blvd.				
Carmot Therapeutics	740 Heinz Ave	Berkeley	Sublease/Relocation	29,712
Clinical-stage biotech company Carmot Therapeutics relocated to Kimia Therapeutic's sublease space via Perfect Day for the third-largest deal of the quarter.				
Twelve	1125 Atlantic Ave	Alameda	Lease Expansion	22,905
Carbon transformation company Twelve expanded their footprint in Alameda, leasing an additional 22,905 square feet within the Research Park at Marina Village project.				

Source: Newmark Research

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