

2Q24

# 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 stable in the coming years, supported by a healthy development pipeline to accommodate new tenant space requirements.
- During the mid-June Fed meeting, interest rates were kept unchanged, signaling that there will be 25 basis points of rate cuts this year, down from its previous forecast of 75 basis points of cuts. In comparison, markets were anticipating up to eight rate cuts in 2024.
- The Fed has reiterated its stance that it is more confident that inflation has eased substantially and is moving down towards the 2% goal; however, more data over the coming months must be analyzed before being confident enough to start the process of reducing or loosening policy. Higher rates for longer due to inflation volatility and uncertainty will continue to have implications on real estate investment strategies.

## Major Transactions

- A confidential tenant preleased 115,061 SF at the ELCO Yards project in Downtown Redwood City in the largest deal of the quarter.
- Pulmonx completed the second-largest deal, renewing its 25,254-SF sublease at 200 Chesapeake Dr., while simultaneously signing a direct deal in the same building that commences upon expiration of its sublease term. In addition, Pulmonx renewed its existing 24,591-SF lease at 700 Chesapeake Dr., which is now coterminous with its direct lease at 200 Chesapeake Dr. Total square feet transacted was 75,099 SF.
- Protagonist Therapeutics completed the third-largest deal, renewing its 42,877-SF lease at 7707 Gateway Blvd., while also expanding into an additional 17,700 SF at 7575 Gateway Blvd. Total square feet transacted was 60,577 SF.

## Leasing Market Fundamentals

- Market-wide vacancy increased to 24.6% this quarter, up from 20.7% in the previous quarter, while availability increased to 27.8%, up from 23.8% in the previous quarter. On the sublease front, vacancy counted for 5.4% of the total inventory, up from 5.1% in the previous quarter and up from 3.4% one year ago.
- Leasing activity for the quarter was up 31.0% versus the prior quarter and up 97.0% year over year.
- The region's 4.6-million-SF construction pipeline continued to trend downwards in the second quarter of 2024. Of the notable ground-up construction, 10.4% is already preleased, compared with 6.5% in the previous quarter.
- Active demand for lab space was recorded at 3.0 million SF this quarter, up from 2.8 million SF in the previous quarter, but down slightly from 3.3 million SF one year ago.

## Outlook

- The Bay Area life science Market is currently exhibiting signs of a correction, as leasing activity has notably decreased from the height of the pandemic era. Asking rates are expected to continue to soften in the near term as landlords continue to offer elevated concessions to boost occupancy rates.
- A continued heightened focus on capital preservation by life science companies throughout the region in addition to a noticeable slowdown in demand for lab space has led to mass layoffs and footprint rightsizing across the Bay Area.
- Look for supply-side pressure to continue driving the availability rate upwards towards new record highs over the next few quarters and market conditions to remain favorable for new and existing tenants.

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



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# Economy

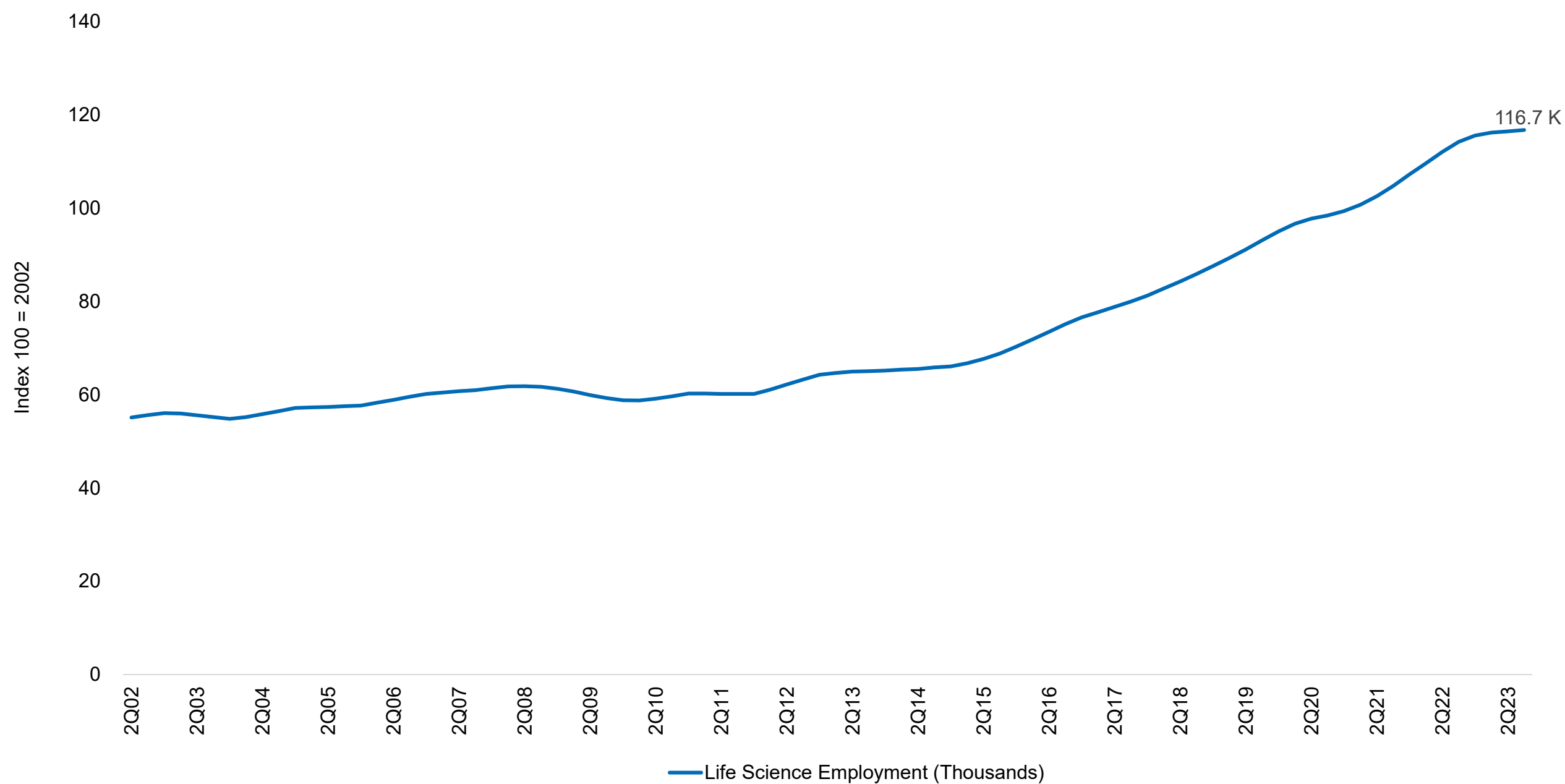




# Bay Area Life Science Employment

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.

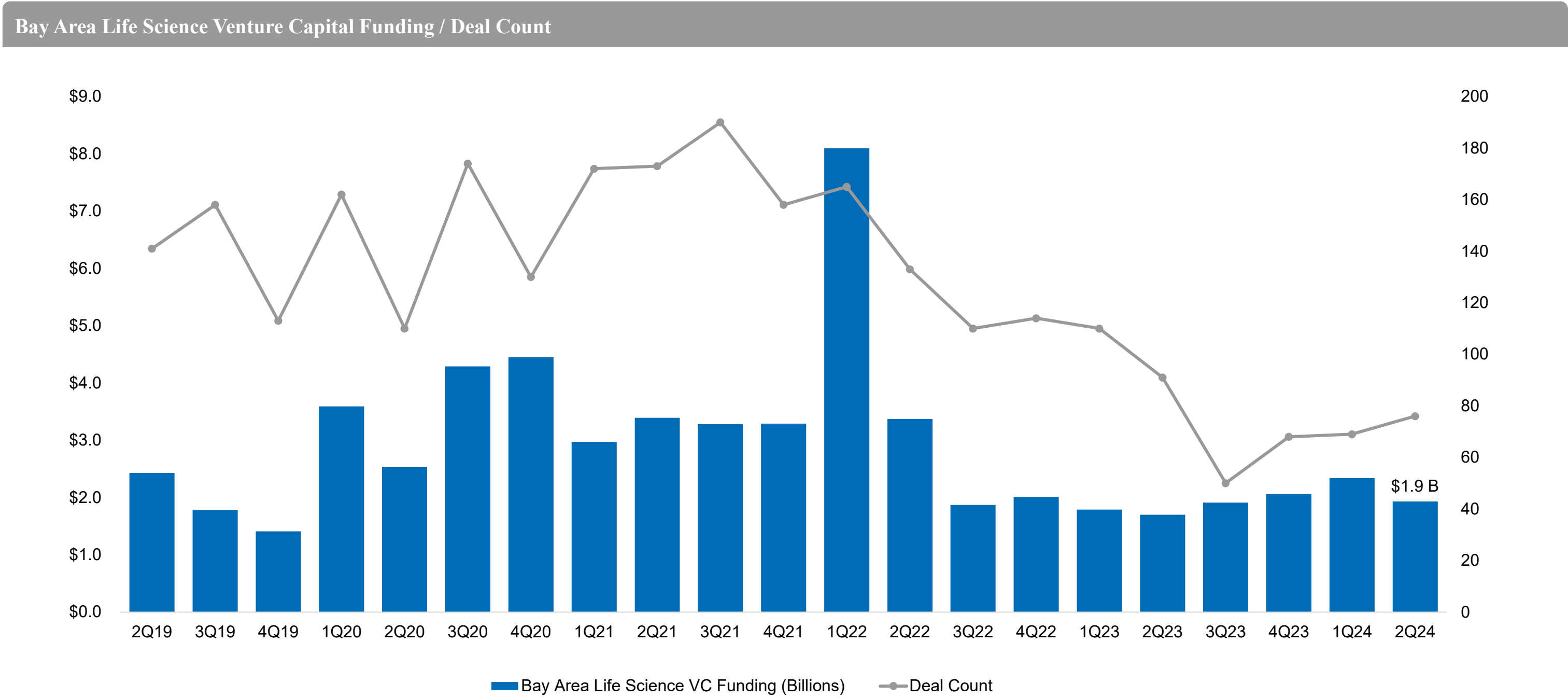
Bay Area Life Science Employment



Source: JobsEQ

# Decrease in Bay Area Life Science Funding but Small Uptick in VC Deals Executed

Bay Area-wide, there was a total of 76 completed life science VC deals, compared with 69 in the previous quarter and 91 one year ago. Biotech venture capital funding in the Bay Area market decreased in the second quarter of 2024, recording \$1.9 billion in capital raised, down from \$2.3 billion in the previous quarter but up from \$1.7 billion one year ago. The number of Bay Area biotech VC deals executed has risen for three consecutive quarters.

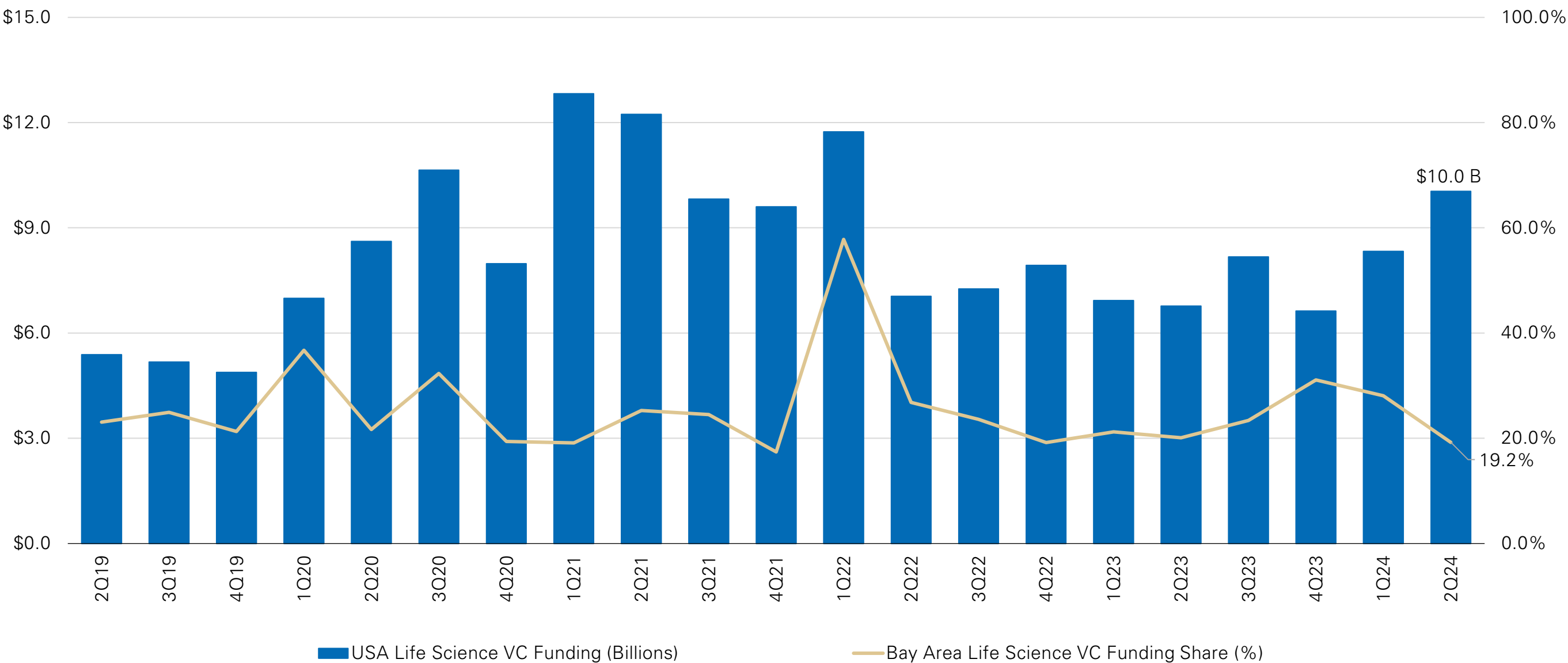


Source: Pitchbook

# Nationwide Life Science VC Funding Continued to Rise in 2Q24

Nationwide, the life science sector recorded \$10.0 billion of venture capital investment versus \$8.3 billion in the previous quarter and \$6.8 billion one year ago. Life science funding from venture capital sources is up over 48.0% from one year ago as companies look towards a future lower interest rate environment.

Nationwide Life Science Venture Capital Funding



Source: Pitchbook



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# Leasing Market Fundamentals

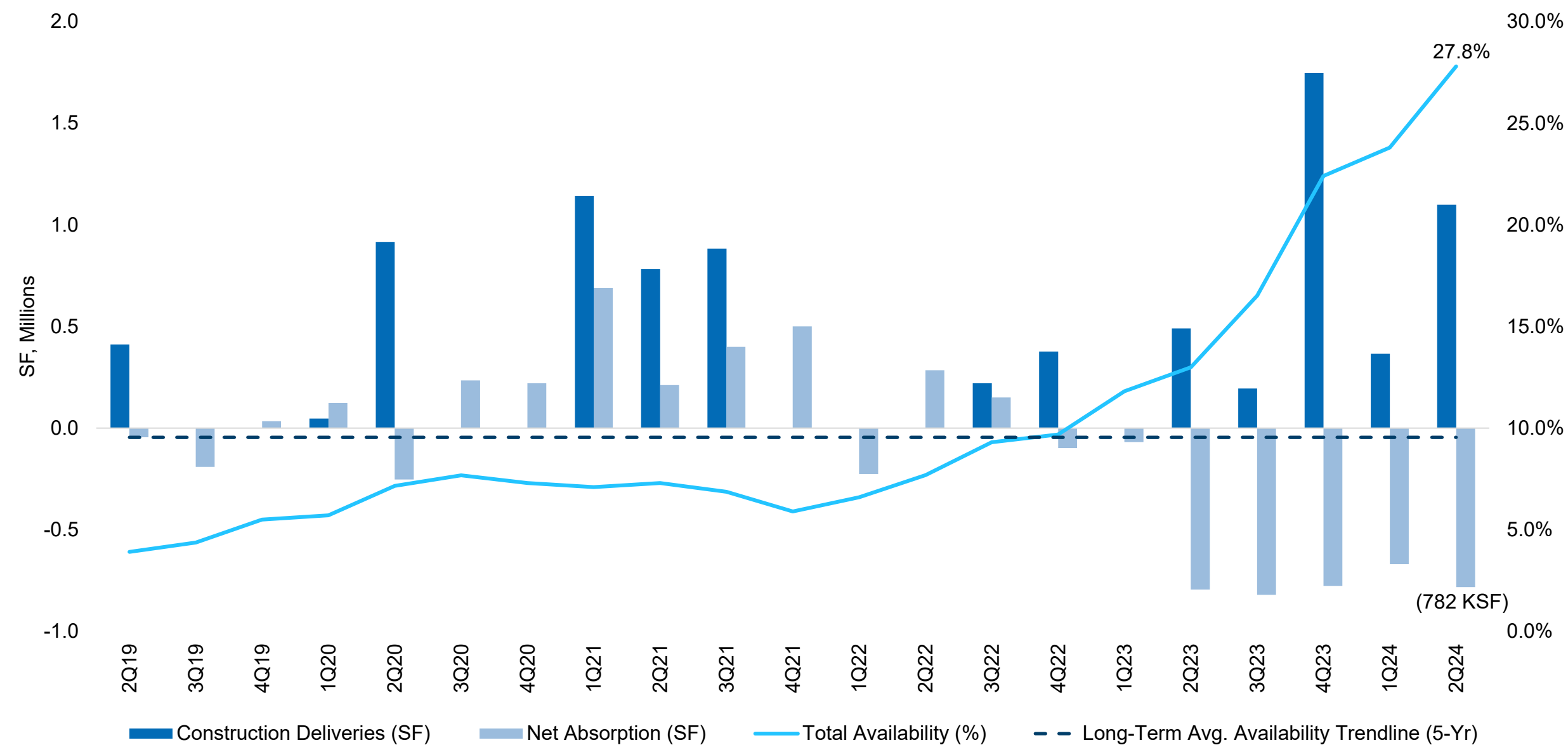




# Market-Wide Availability Continued to Hit Record New Highs

Life science availability hit another record high in the second quarter of 2024, closing at 27.8%, up from 22.4% in the previous quarter and 11.8% one year ago. Net absorption remained negative for a seventh consecutive quarter, ending at negative 782,000 SF. A robust development pipeline will continue driving the availability rate towards record highs as new ground-up construction and conversion product is expected to deliver over the course of the next several quarters.

Historical Construction Deliveries, Net Absorption, and Availability

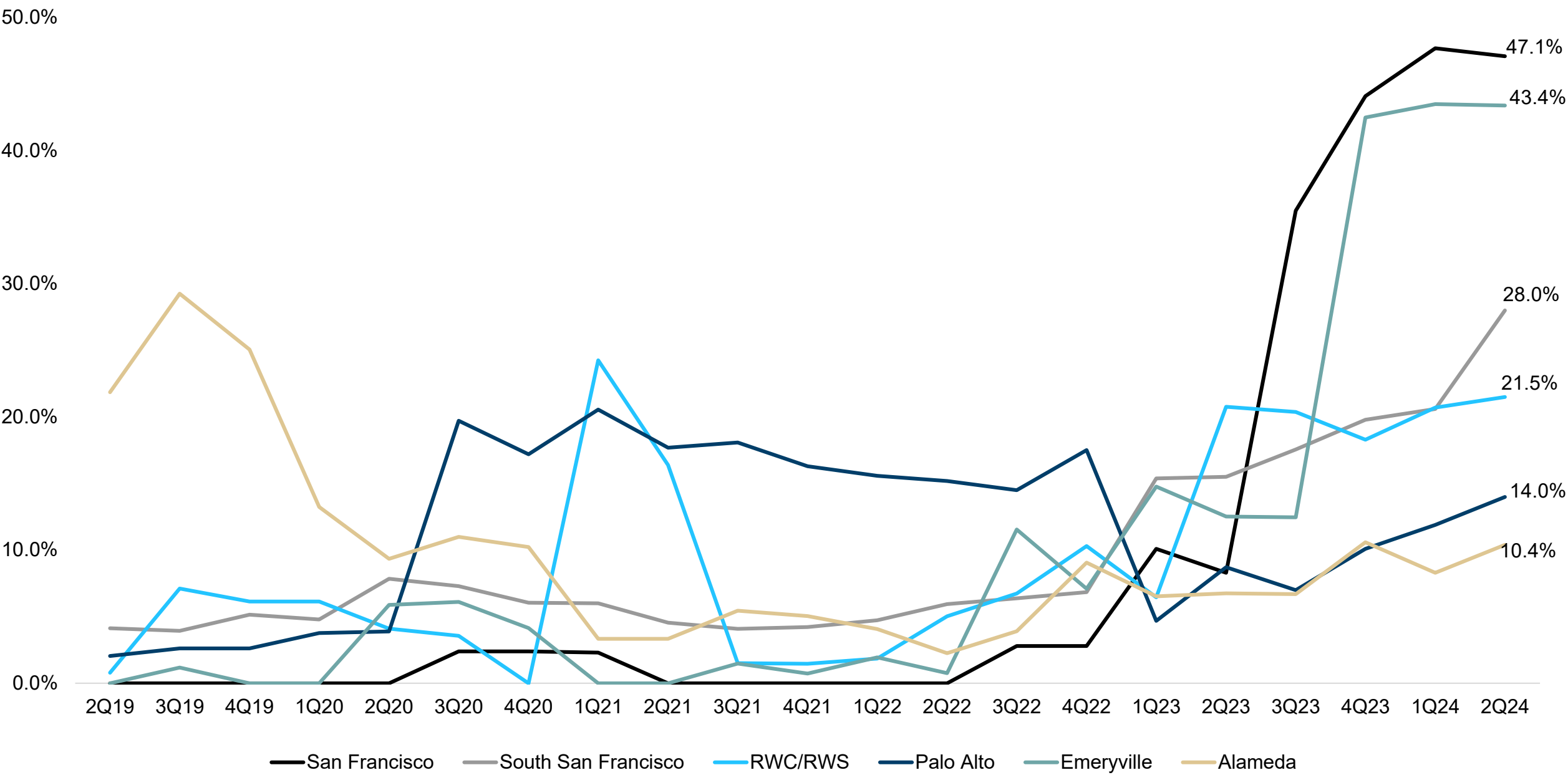


Source: Newmark Research

# Continued Increase in Availability Across the Region

Among the six markets analyzed in the graph below, four experienced increases in total availability quarter over quarter. San Francisco recorded the only decline in availability, recording 47.1% in the second quarter of 2024, down slightly from 47.7% in the previous quarter, due to a 10,000-SF lease being signed at 1500 Owens St. in Mission Bay.

Total Availability Rate by Major Submarket

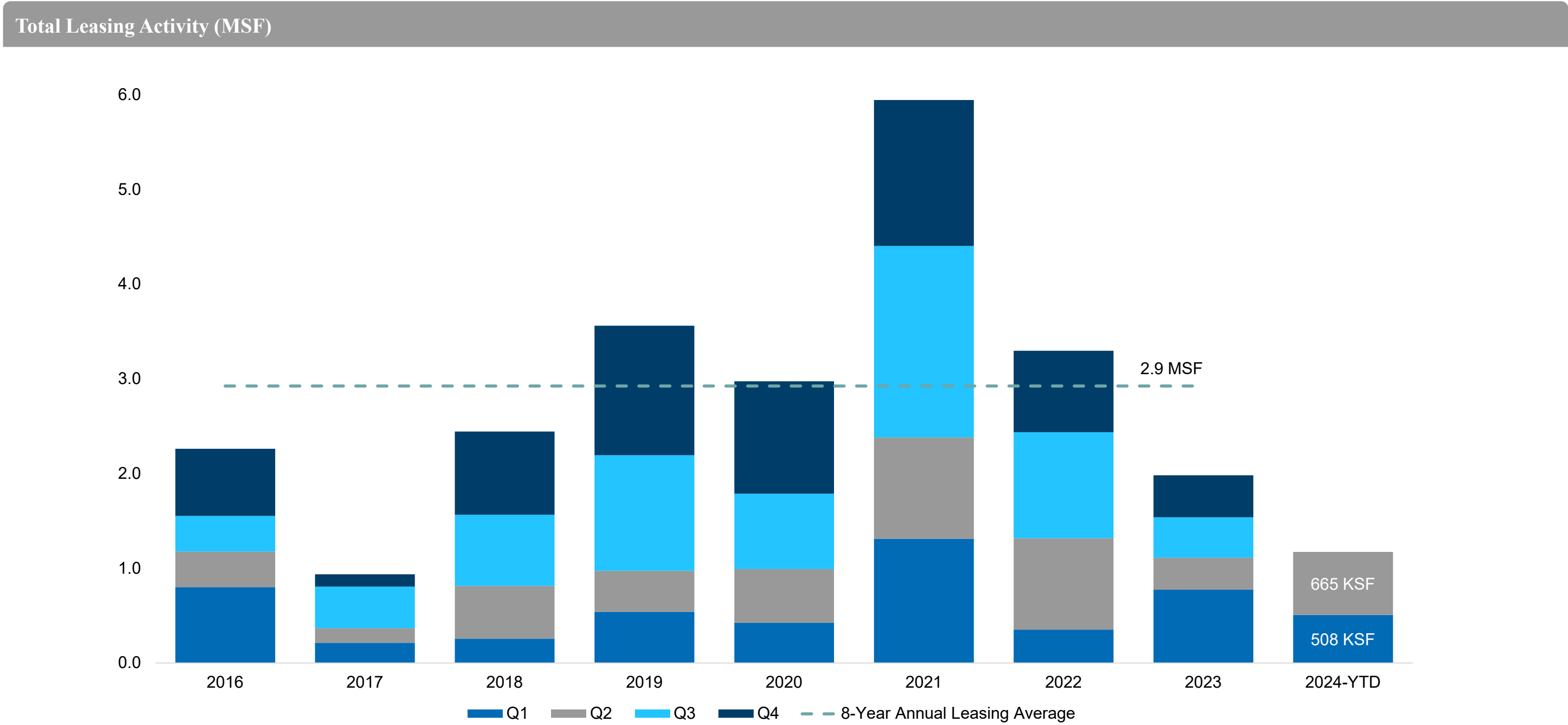


Source: Newmark Research



# Leasing Activity Up Quarter-over-Quarter and Year-over-Year

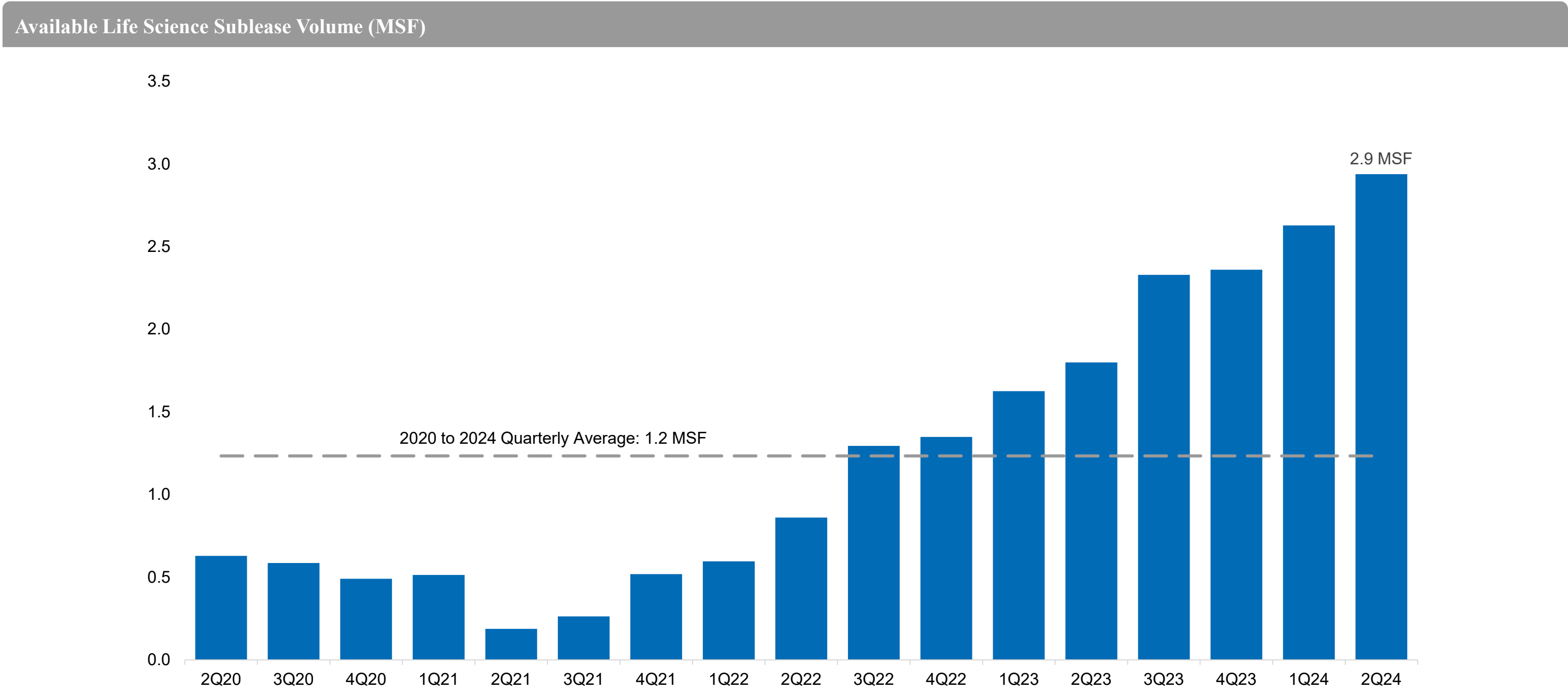
Total leasing activity for the quarter measured 665,000 SF, marking a 31.0% increase quarter over quarter and 97.0% increase year over year. The average deal size for the quarter was 19,577 SF, compared with 26,710 SF in the previous quarter.



Source: Newmark Research

# Life Science Sublease Availability Continued Upward Trajectory

Bay Area biotech companies continued to offload space in the second quarter of 2024, pushing the total amount of sublet space on the market to another record high of 2.9 million SF. A historically high interest rate environment has reduced the attractiveness of life science investments, resulting in a noticeable decrease in life science VC funding, which has forced companies to hold off on expansion plans or sublet underutilized space to recoup capital.



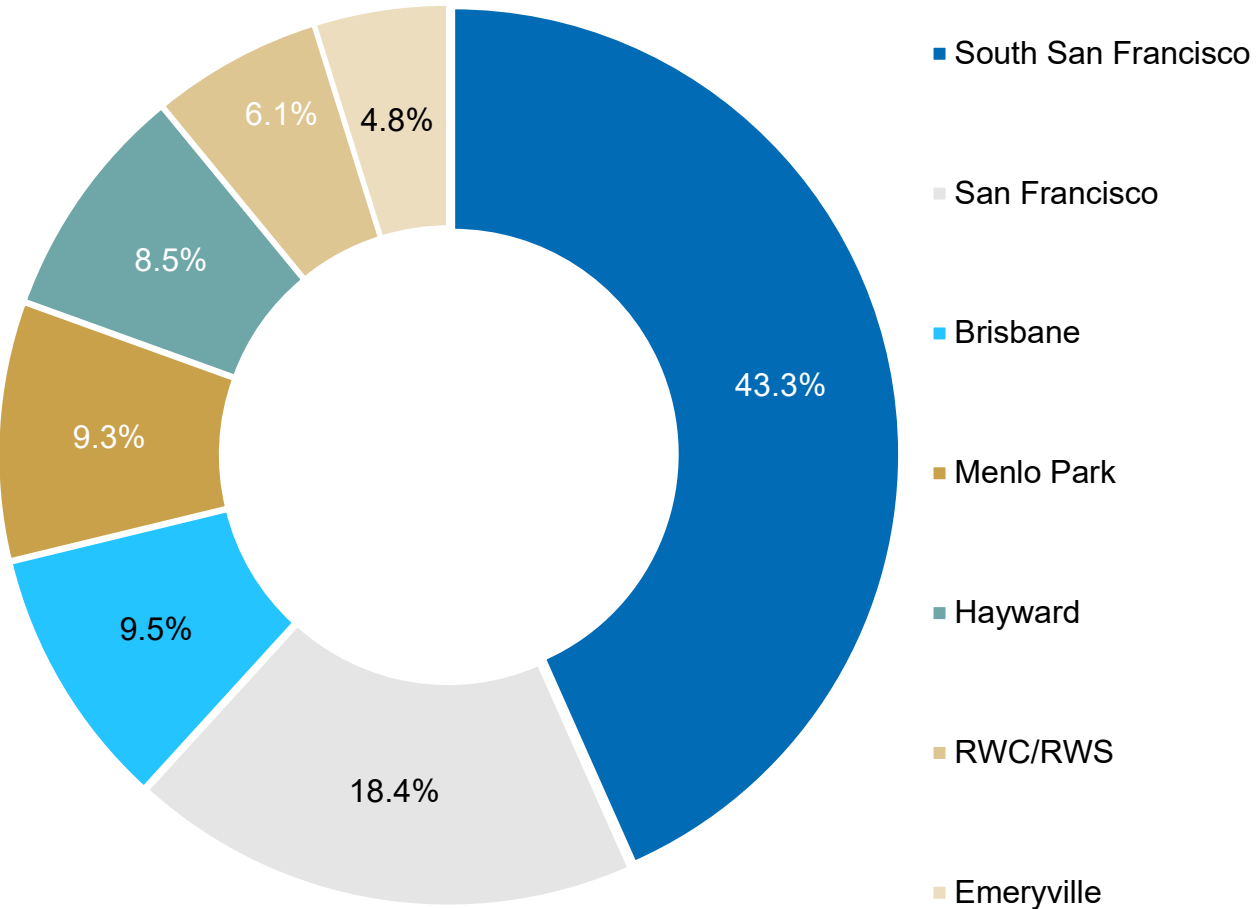
Source: Newmark Research



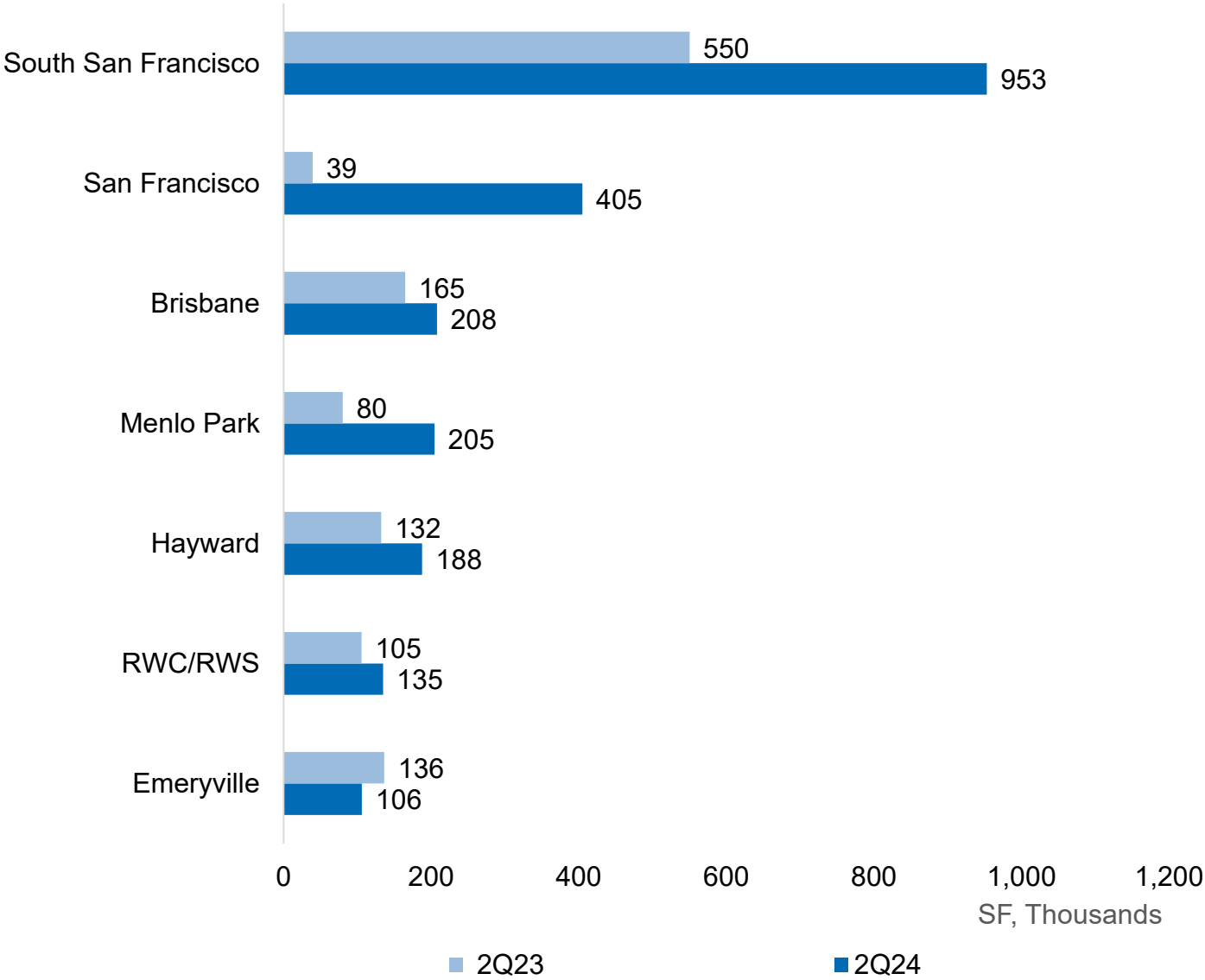
# South San Francisco Continues to Lead Other Submarkets in Sublet Availability

South San Francisco continues to be the leading life science market in the Bay Area, while also accounting for 43.3% of all sublease availability in the major notable markets.

Available Sublease Space: Concentration by Major Submarket | 2Q24



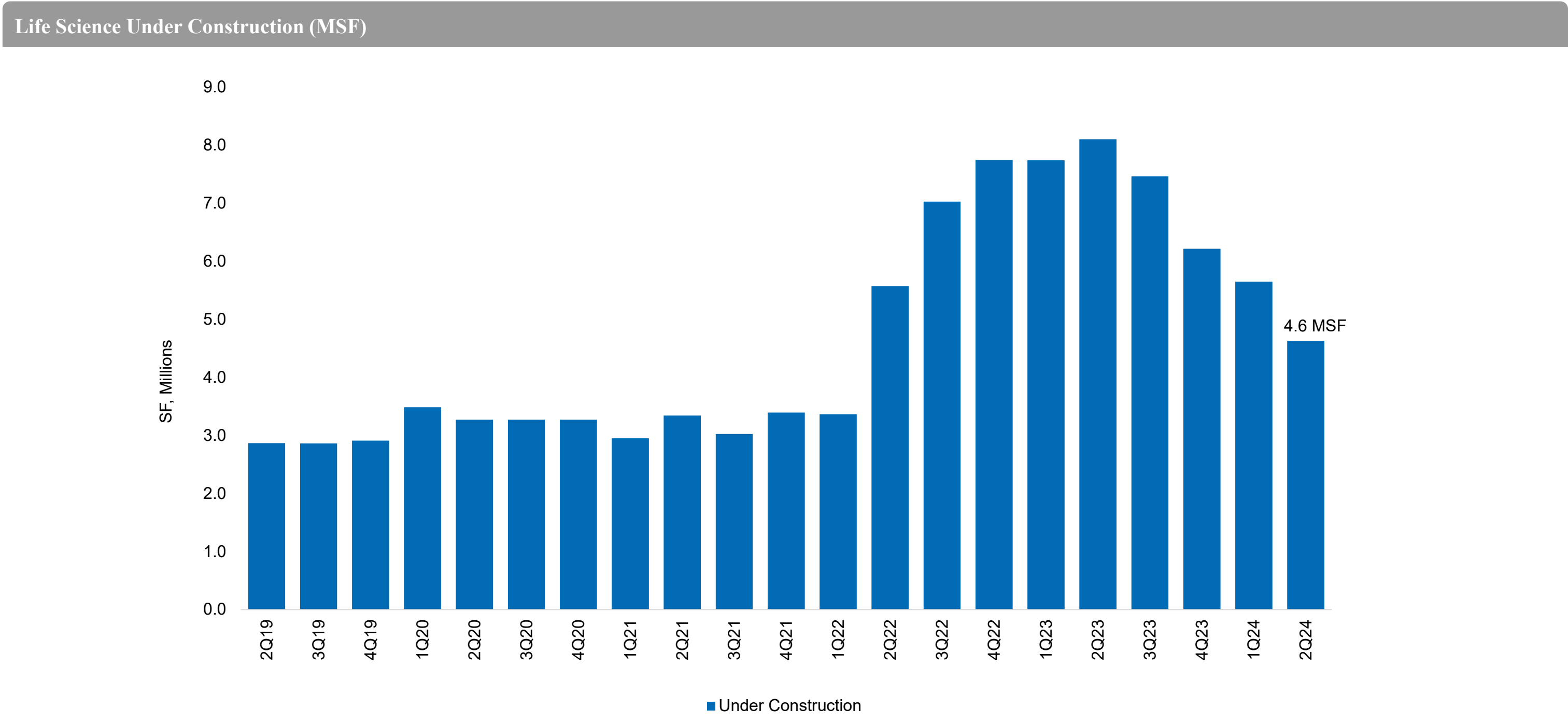
Available Sublease Space for Major Submarkets: One Year Prior vs. Now (SF)



Source: Newmark Research

# Construction Pipeline Continues to Decrease in 2Q24

The Bay Area life science construction pipeline continued to decrease in the second quarter of 2024 and was recorded at 4.6 million SF, with 10.4% of that under-construction figure already preleased. The most notable deliveries this quarter were Buildings D and F in Phase II of Kilroy’s Oyster Point project in Brisbane, totaling 577,000 SF. Rising costs of capital and uncertain future demand have resulted in a dramatic decline in construction activity, down nearly 50.0% from the peak in mid-2023.



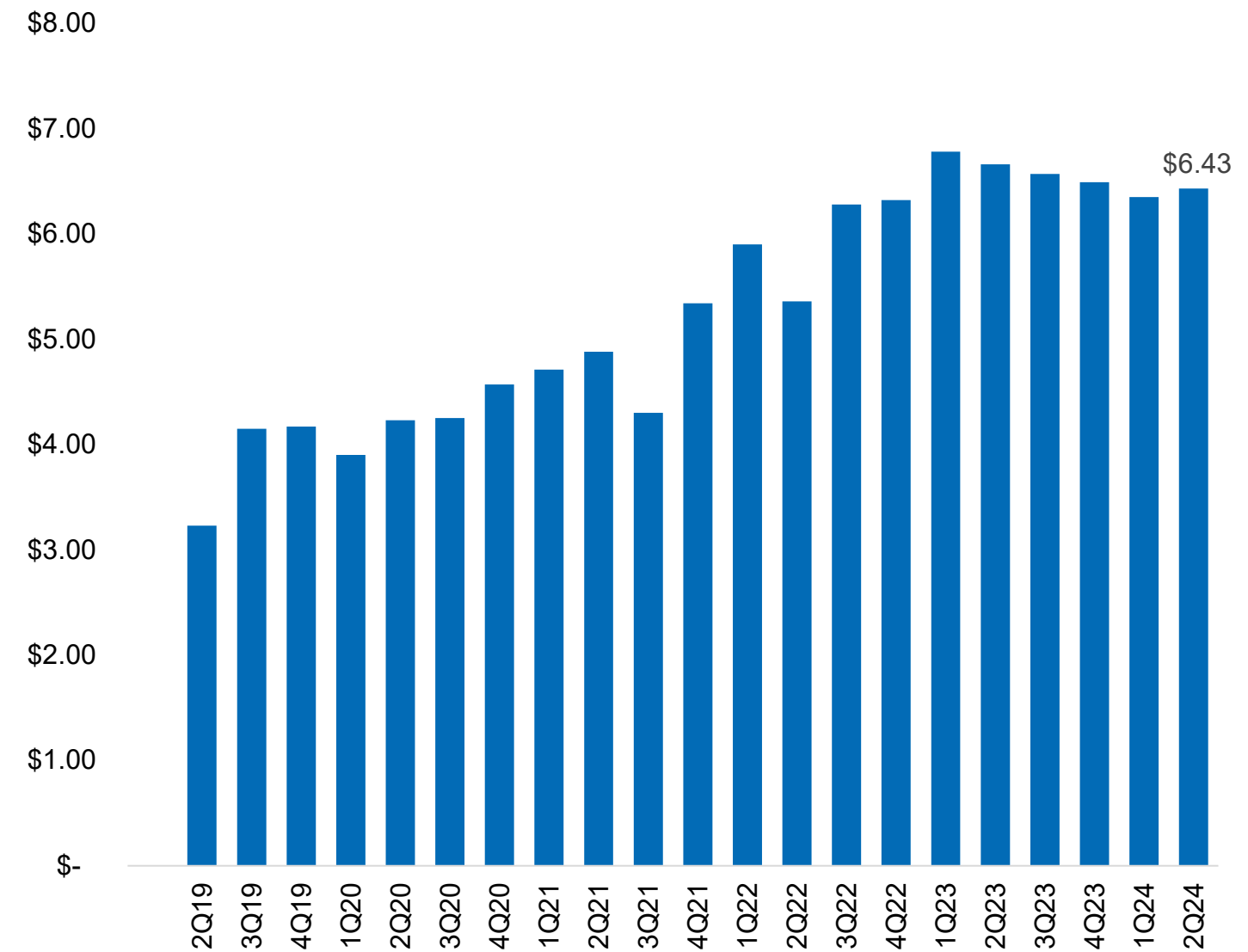
Source: Newmark Research, CoStar



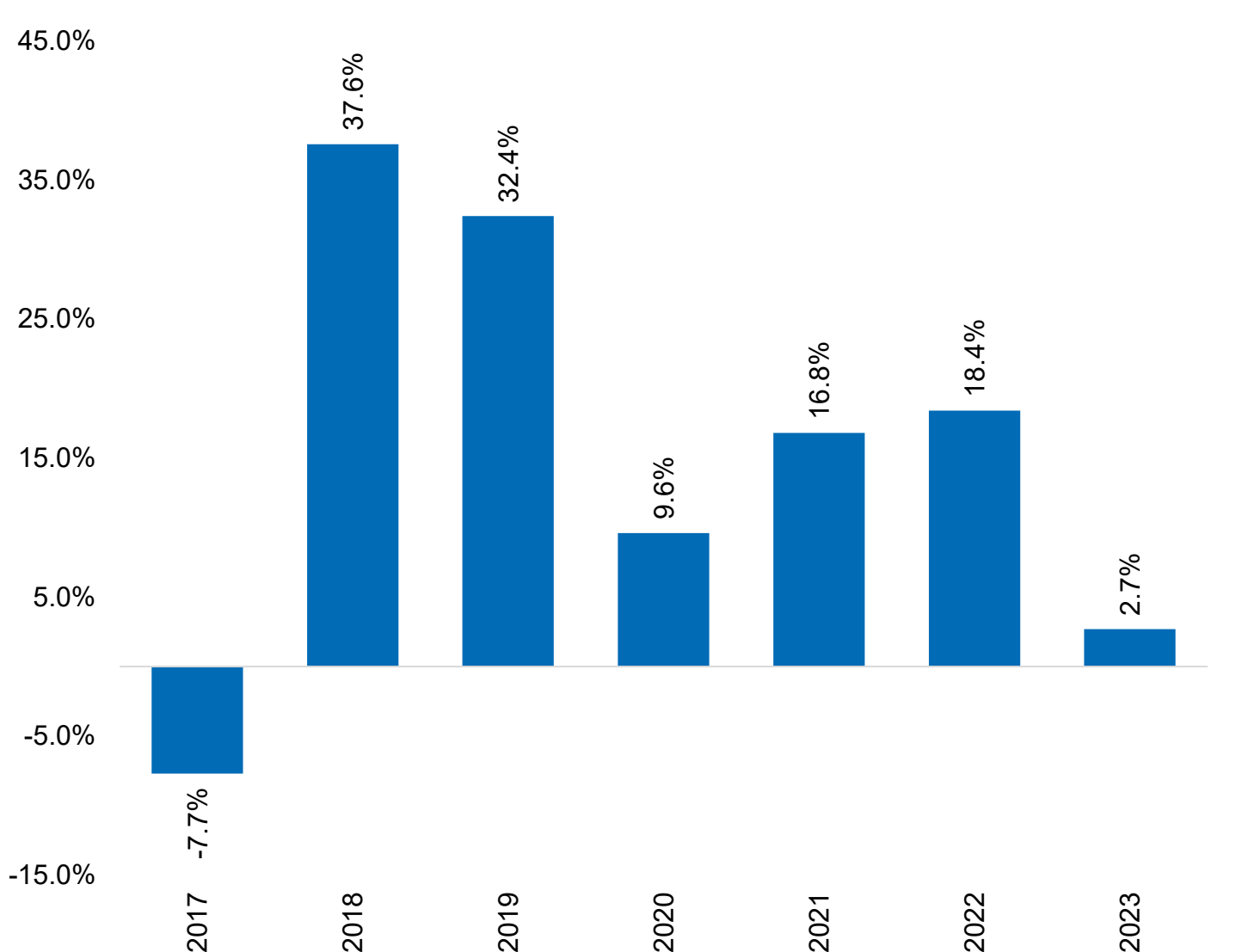
# Slight Uptick in Overall Asking Rent

The overall average asking rate for life science space throughout the Bay Area increased from \$6.35/SF in the previous quarter to \$6.43/SF in the second quarter of 2024, however, the market-wide average asking rent has fallen 3.5% over the last 12 months. Recently delivered Class A spec lab and high-end ground up construction was responsible for the increase in overall asking rent across the Bay Area region in the second quarter of 2024.

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



Year-over-Year Asking Rent Growth Rate % Change

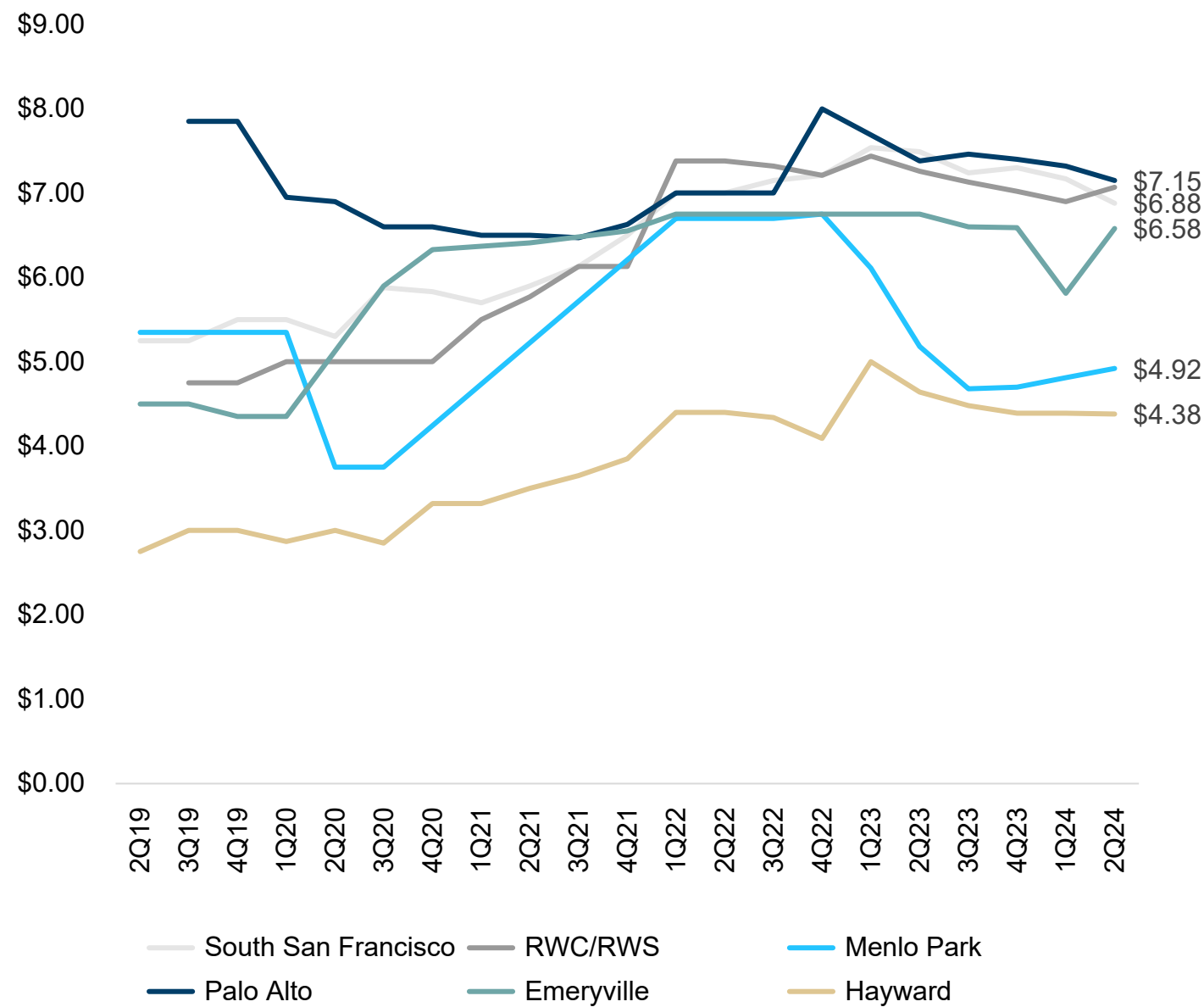


Source: Newmark Research, CoStar

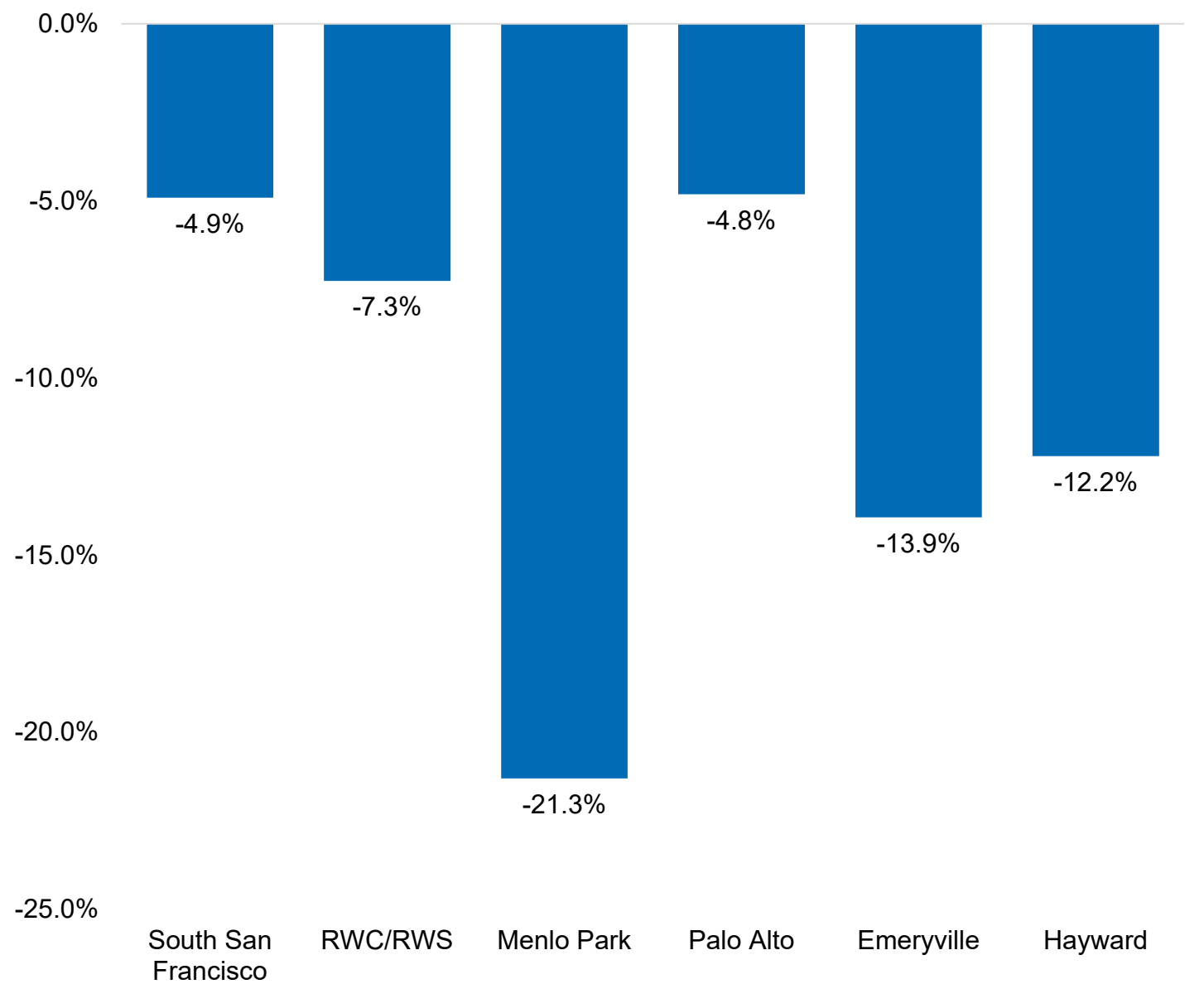
# Lab Rents Continued to Flatten in Markets with Elevated Sublease Availability

Menlo Park led all Bay Area submarkets with the largest year-over-year decrease in average asking rate, at 21.3%. Approximately 67.0% of Menlo Park’s total availability consists of discounted sublease space, down from 83.0% in the previous quarter but up from 66.0% one year ago.

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



Year-over-year Percent Change in Asking Rate



Source: Newmark Research



# Notable 2Q24 Lease Transactions

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

Select Lease Transactions

Tenant	Building/Project	Submarket	Type	Square Feet
Confidential Tenant	1300 Main St. (ELCO Yards- The Shop)	Redwood City	Direct Lease	115,061
A confidential tenant preleased 115,061 square feet in the ELCO Yards project in Downtown Redwood City in the largest deal of the quarter.				
Pulmonx	200 & 700 Chesapeake Dr.	Redwood City	Sublease Renewal/Direct Lease/Renewal	75,099
Lung disease treatment company Pulmonx completed the second-largest deal of the quarter; renewing their 25,254-square foot sublease from Genomic Health at 200 Chesapeake Drive while simultaneously signing a direct deal in the same building, which commences upon expiration of their sublease term. In addition, Pulmonx renewed their existing 24,591-square foot lease at 700 Chesapeake Drive, which is now coterminous with their direct lease at 200 Chesapeake Drive. Total square feet transacted from this deal was 75,099 SF.				
Protagonist Therapeutics	7575 & 7707 Gateway Blvd.	Newark	Renewal/Expansion	60,577
Clinical-stage biotech company Protagonist Therapeutics completed the third-largest deal, renewing their 42,877-square foot lease on the first and second floor at 7707 Gateway Blvd. while also expanding into an additional 17,700 square feet on the ground floor at 7575 Gateway Blvd. Total square feet transacted from this deal was 60,577 SF.				
Tenaya Therapeutics	171 Oyster Point Blvd.	South San Francisco	Lease Renewal	32,370
Heart disease treatment company Tenaya Therapeutics renewed their 32,370-square foot lease on the fifth floor at 171 Oyster Point Blvd. in the fourth-largest deal of the quarter.				
Retro Biosciences	3150 Bay Rd.	Redwood City	Direct Lease	31,370
In the fifth-largest deal of the quarter, Retro Biosciences leased the newly renovated purpose-built spec lab building at 3150 Bay Rd. for 31,370 square feet.				

Source: Newmark Research

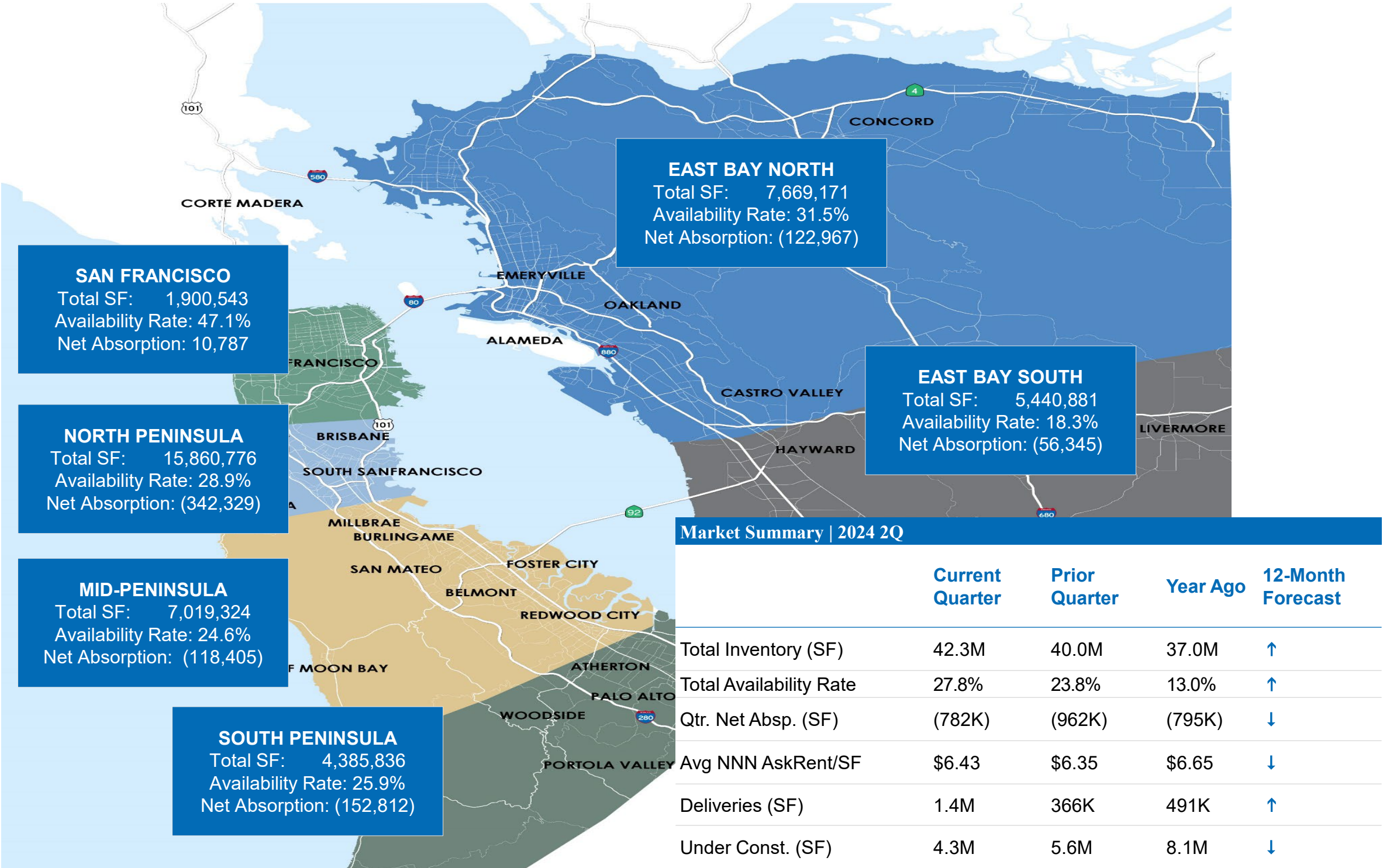


# Appendix / Tables





# Submarket Map and High-Level Statistics



Source: Newmark Research

# Bay Area Life Science Market Overview (page 1 of 3)

Overall Submarket Statistics							
	Total Inventory (SF)	Total Lab Vacancy (SF)	Total Lab Vacancy Rate	Total Lab Availability (SF)	Total Lab Availability Rate	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
San Francisco	1,900,543	760,004	24.1%	895,825	47.1%	10,787	\$6.76
North Peninsula	15,860,776	4,032,750	25.4%	4,589,391	28.9%	(342,329)	\$6.78
Daly City	383,123	213,551	55.7%	213,551	55.7%	(28,692)	\$6.25
Brisbane	1,652,488	396,431	24.0%	499,520	30.2%	13,642	\$6.24
South San Francisco	13,825,165	3,422,768	24.8%	3,876,320	28.0%	(327,279)	\$6.88
Mid-Peninsula	7,019,324	1,345,150	19.2%	1,724,291	24.6%	(118,405)	\$6.78
San Bruno	18,000	18,000	100.0%	18,000	100.0%	0	\$6.00
Millbrae	300,000	0	0.0%	0	0.0%	0	\$7.50
Burlingame	216,025	31,802	14.7%	44,904	20.8%	1,140	\$5.97
San Mateo	877,791	386,688	44.1%	462,988	52.7%	(138,268)	\$7.39
Foster City	1,813,191	4,472	0.2%	49,472	2.7%	0	\$5.39
Belmont	13,727	13,727	100.0%	13,727	100.0%	0	\$6.67
San Carlos	1,511,687	509,256	33.7%	648,456	42.9%	(88,841)	\$6.30
Redwood City/Redwood Shores	2,268,903	381,205	16.8%	486,744	21.5%	107,564	\$7.07

Source: Newmark Research



# Bay Area Life Science Market Overview (page 2 of 3)

Overall Submarket Statistics							
	Total Inventory (SF)	Total Lab Vacancy (SF)	Total Lab Vacancy Rate	Total Lab Availability (SF)	Total Lab Availability Rate	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
South Peninsula	4,385,836	1,003,171	22.9%	1,134,417	25.9%	(152,812)	\$6.24
Menlo Park	1,148,882	261,891	22.8%	302,369	26.3%	(44,353)	\$4.92
Palo Alto	2,376,539	306,857	12.9%	331,726	14.0%	(19,292)	\$7.15
Mountain View	860,415	434,423	50.5%	500,322	58.1%	(89,167)	\$6.44
East Bay North	7,669,171	2,349,928	30.6%	2,413,179	31.5%	(122,967)	\$6.51
Richmond	562,008	0	0.0%	0	0.0%	0	-
Berkeley	2,195,937	947,832	43.2%	958,114	43.6%	(26,994)	\$6.62
Emeryville	2,856,798	1,208,849	42.3%	1,240,887	43.4%	(7,857)	\$6.58
Alameda	2,054,428	193,247	9.4%	214,178	10.4%	(88,116)	\$4.67

Source: Newmark Research

# Bay Area Life Science Market Overview (page 3 of 3)

Overall Submarket Statistics							
	Total Inventory (SF)	Total Lab Vacancy (SF)	Total Lab Vacancy Rate	Total Lab Availability (SF)	Total Lab Availability Rate	Qtr Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
East Bay South	5,440,881	923,177	17.0%	998,177	18.3%	(56,345)	\$4.00
San Leandro	576,684	66,333	11.5%	66,333	11.5%	(32,990)	\$3.71
Hayward	1,508,671	395,499	26.2%	395,499	26.2%	(6,740)	\$4.38
Union City	378,066	0	0.0%	0	0.0%	0	\$4.50
Newark	1,094,595	218,563	20.0%	218,563	20.0%	(32,710)	\$4.69
Ardenwood	928,872	87,314	9.4%	87,314	9.4%	0	\$4.29
Central/South Fremont	953,993	155,468	16.3%	230,468	24.2%	16,095	\$2.68
SAN FRANCISCO BAY AREA	42,276,531	10,414,180	24.6%	11,755,280	27.8%	(782,071)	\$6.43

Source: Newmark Research

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*For more information:*

**Chris Teranishi**  
*Senior Market Analyst*  
*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](http://nmrk.com)**

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