

# North Peninsula Industrial and R&D Market Overview



# Market Observations

## Economy

- The region’s labor market remained strong amid shifting macroeconomic conditions. August’s 3.5% unemployment rate was significantly lower than the 4.5% 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.

## Major Transactions

- Clinical-stage drug development company Pliant Therapeutics completed the largest deal of the quarter, leasing 100,904 SF at Healthpeak Properties’s 331 Oyster Point Blvd. building in South San Francisco, which will serve as its new corporate headquarters.
- Pneumonia vaccine company Vaxcyte completed the second-largest deal of the quarter, subleasing 36,593 SF from Codexis at 825 Industrial Rd. in San Carlos.
- The largest sale of the quarter was made by the Trammel Crow Company, which acquired 145 Sylvester Rd. in South San Francisco from Richard Jones for \$26.3 million, or \$685/SF.

## Leasing Market Fundamentals

- Market-wide R&D availability increased to 15.4% this quarter, up from 14.0% in the previous quarter. Market-wide R&D vacancy increased to 10.4%, up from 8.6% in the previous quarter.
- The cooling in the North Peninsula’s industrial market continued in the third quarter of 2023 as the availability rate rose for a third consecutive quarter, recorded at 4.9%, up from 4.4% in the previous quarter. Market-wide vacancy increased to 3.1%, up from 2.7% in the previous quarter.
- The region’s R&D pipeline currently stands at 5.8 million SF of under-construction product. Of that notable ground-up construction, 10.0% is already preleased. The industrial construction pipeline remains obsolete.

## Outlook

- Industrial and R&D rent growth projections are expected to decelerate in the short term as demand continues to slow and new supply continues to hit the market.
- Peak interest rates and the pullback in venture capital funding will continue to cause uncertainty for occupiers in the immediate future; however, the Fed is expected to pause on future rate hikes, given the recent surge in long-term interest rates, which should provide relief for decision makers.

1. Economy
2. Industrial Leasing Market Fundamentals
3. R&D Leasing Market Fundamentals
4. Appendix / Tables



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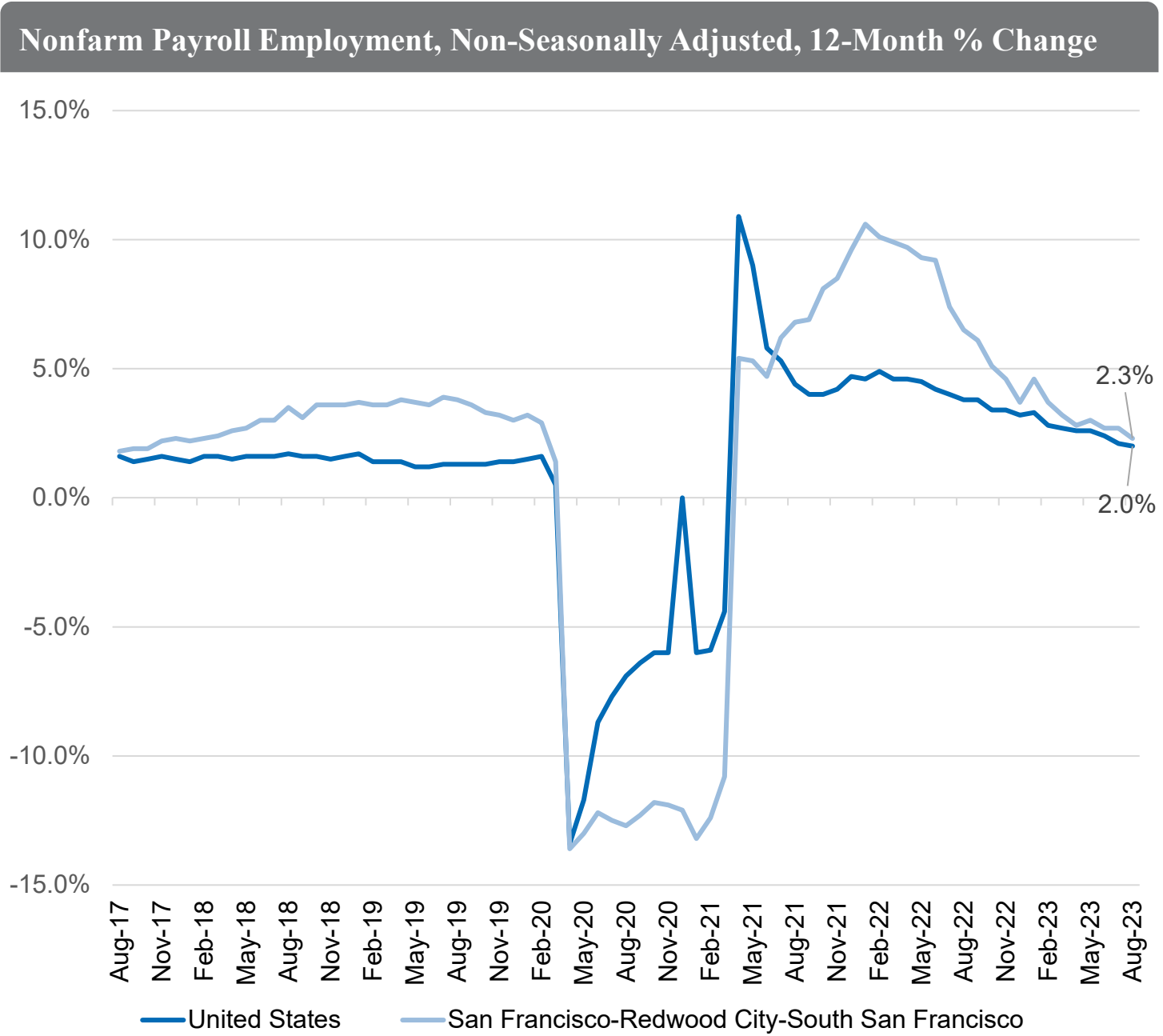
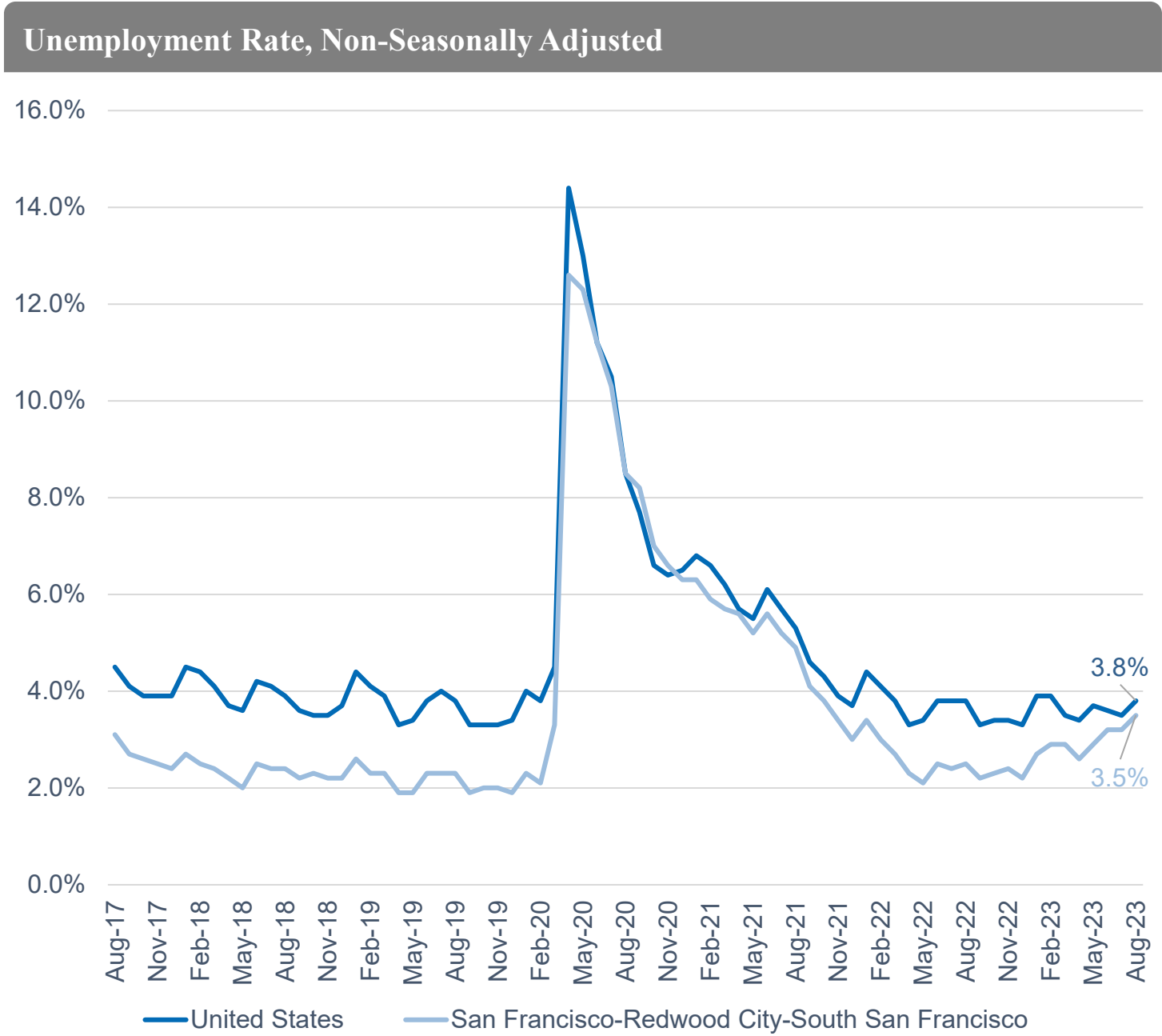
# Economy





# Metro Employment Trends Signal a Slowing, Tighter Economy

The region's labor market remains on relatively solid footing, while the annual job growth rate has slowed to near the national average.



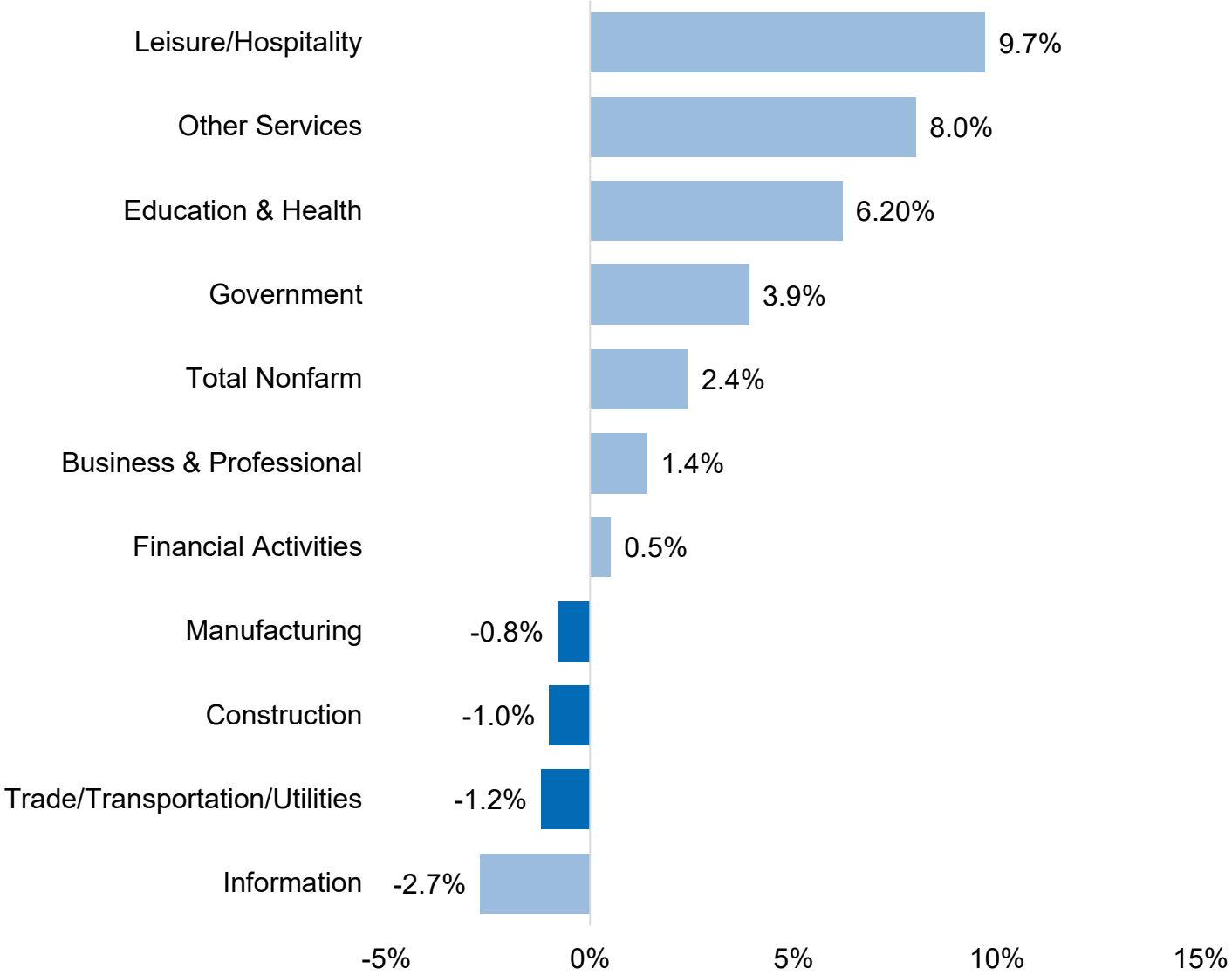
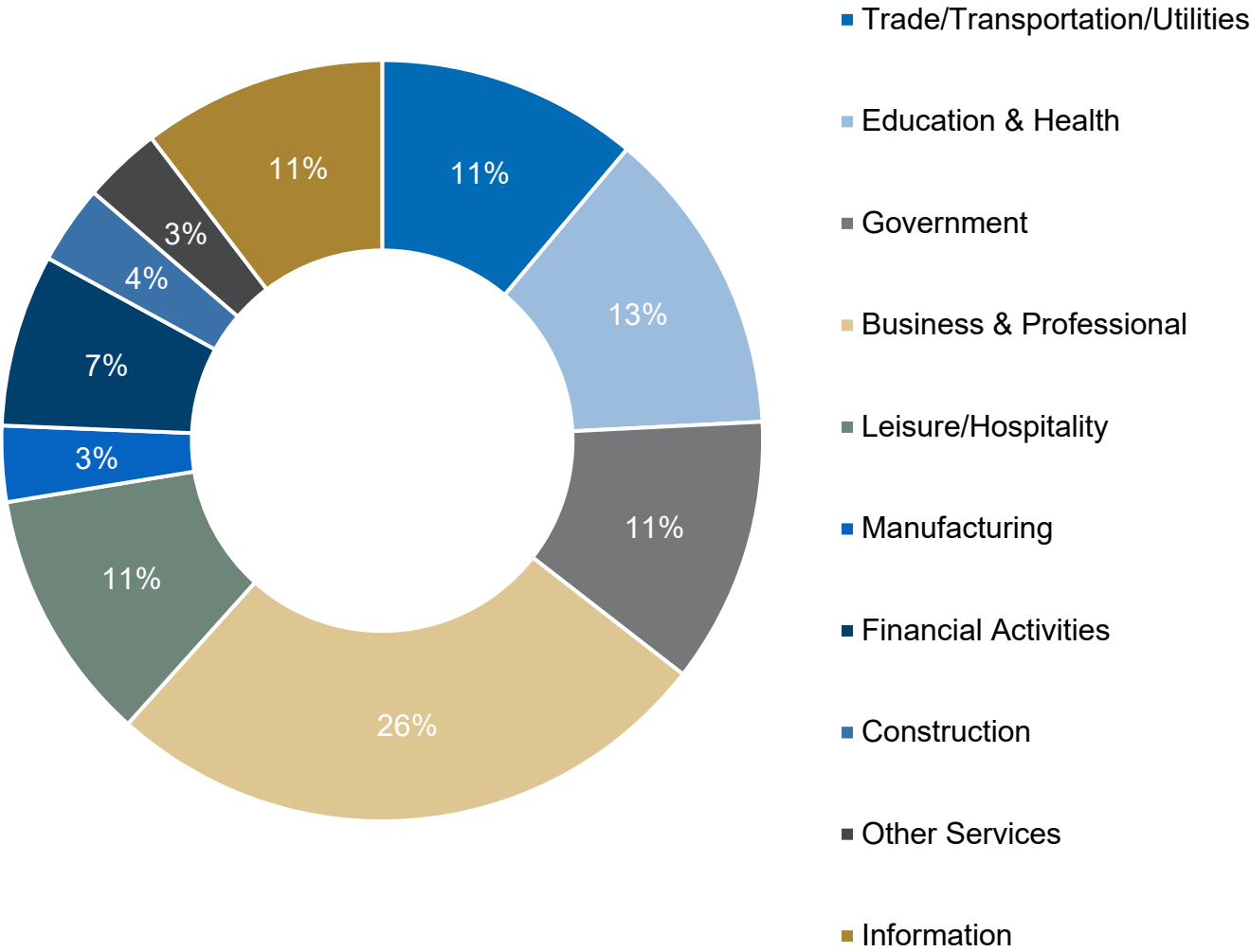
Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

# Job Growth Driven in Large Part by Services Still Making Up for 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. The construction, manufacturing and trad/transportation/utilities sectors all recorded a decrease in growth over the past year.

Employment by Industry, August 2023

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



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



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# Industrial Leasing Market Fundamentals

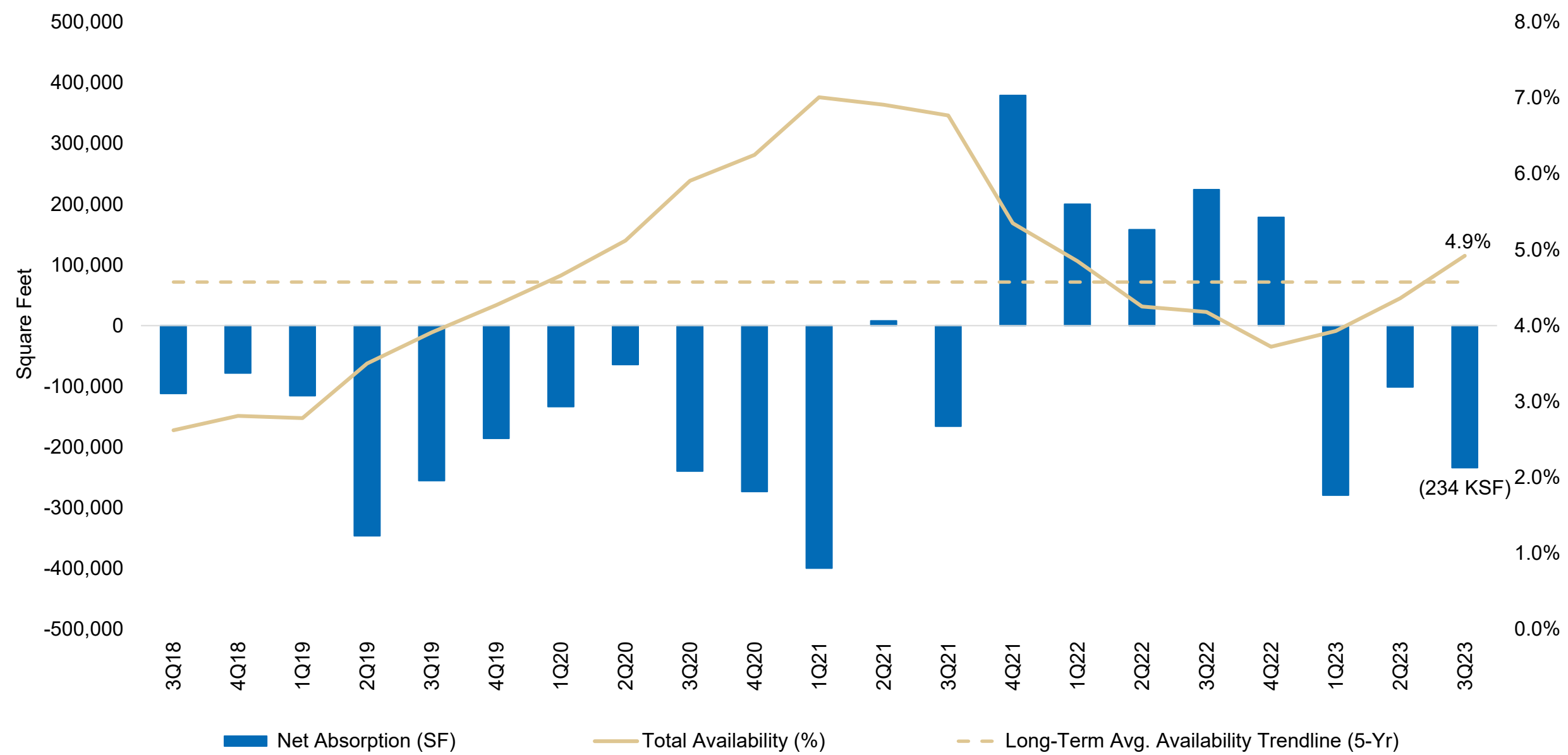




# Industrial Availability Slightly Above the Five-Year Average

Market-wide industrial availability increased to 4.9% this quarter, up from 4.4% in the previous quarter and up slightly from 4.2% one year ago. Even though the North Peninsula’s industrial availability rate has increased over the past three quarters, it remains only slightly above the five-year average of 4.6% and remains an exceptionally tight market.

Historical Net Absorption, and Availability



Source: Newmark Research



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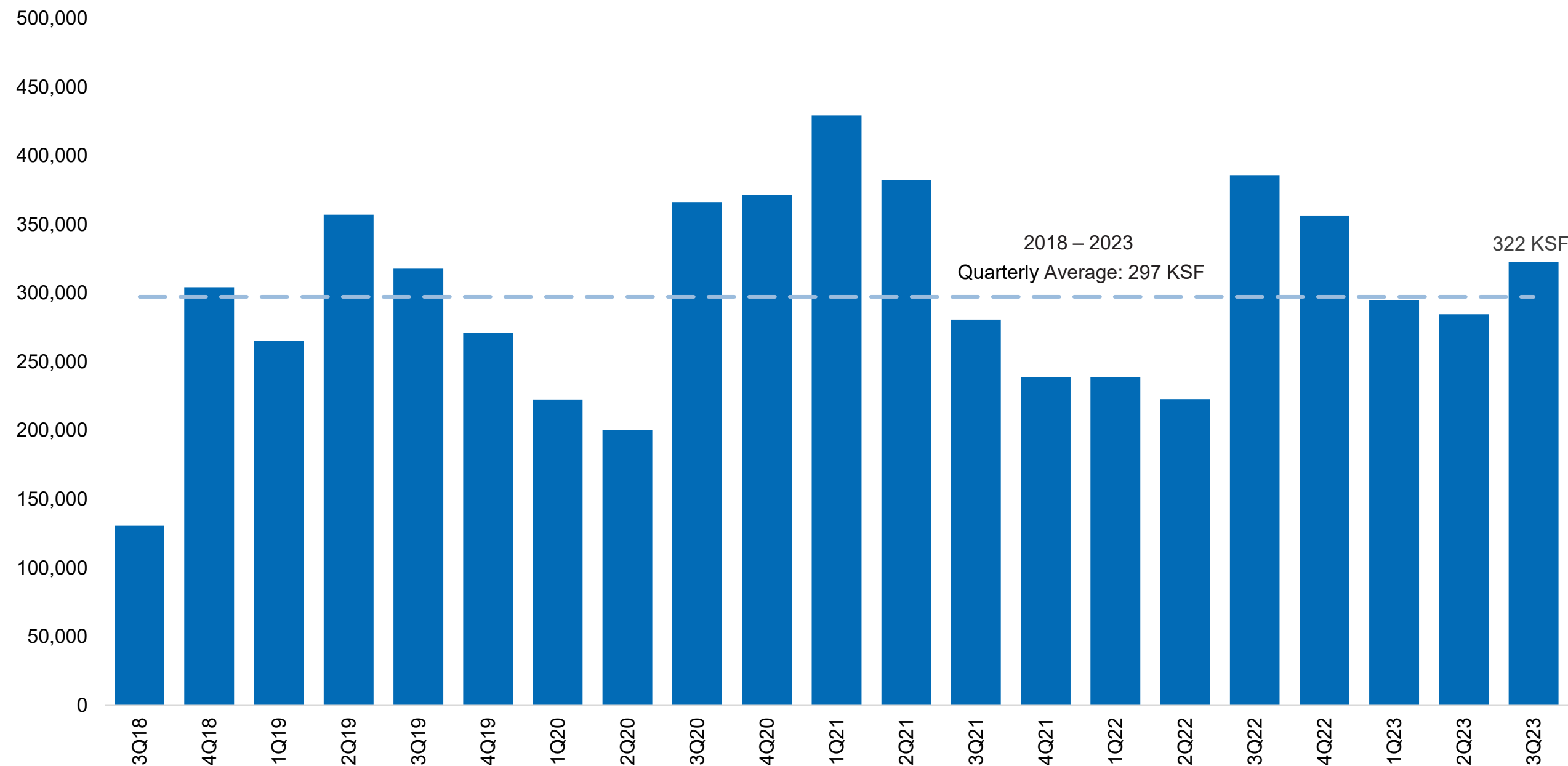
## South San Francisco Has the Highest Industrial Average Availability Rate

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# Industrial Sublease Availability Increases

Industrial sublease availability increased by 13.3% during the third quarter of 2023 and is slightly above the five-year quarterly average.

Available Industrial Sublease Volume (SF)



Source: Newmark Research, CoStar



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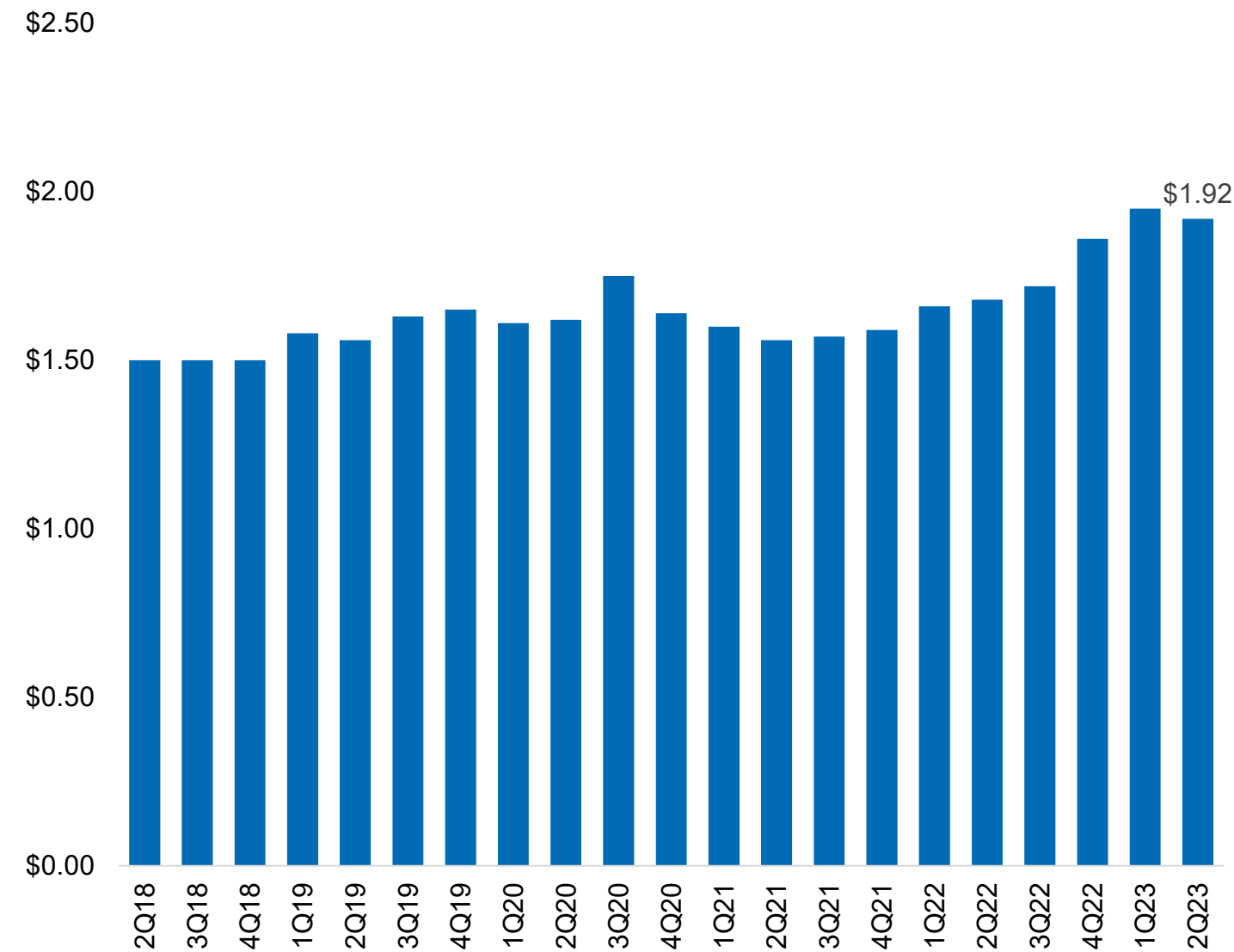
## South San Francisco Leads Other Submarkets in Industrial Sublet Availability

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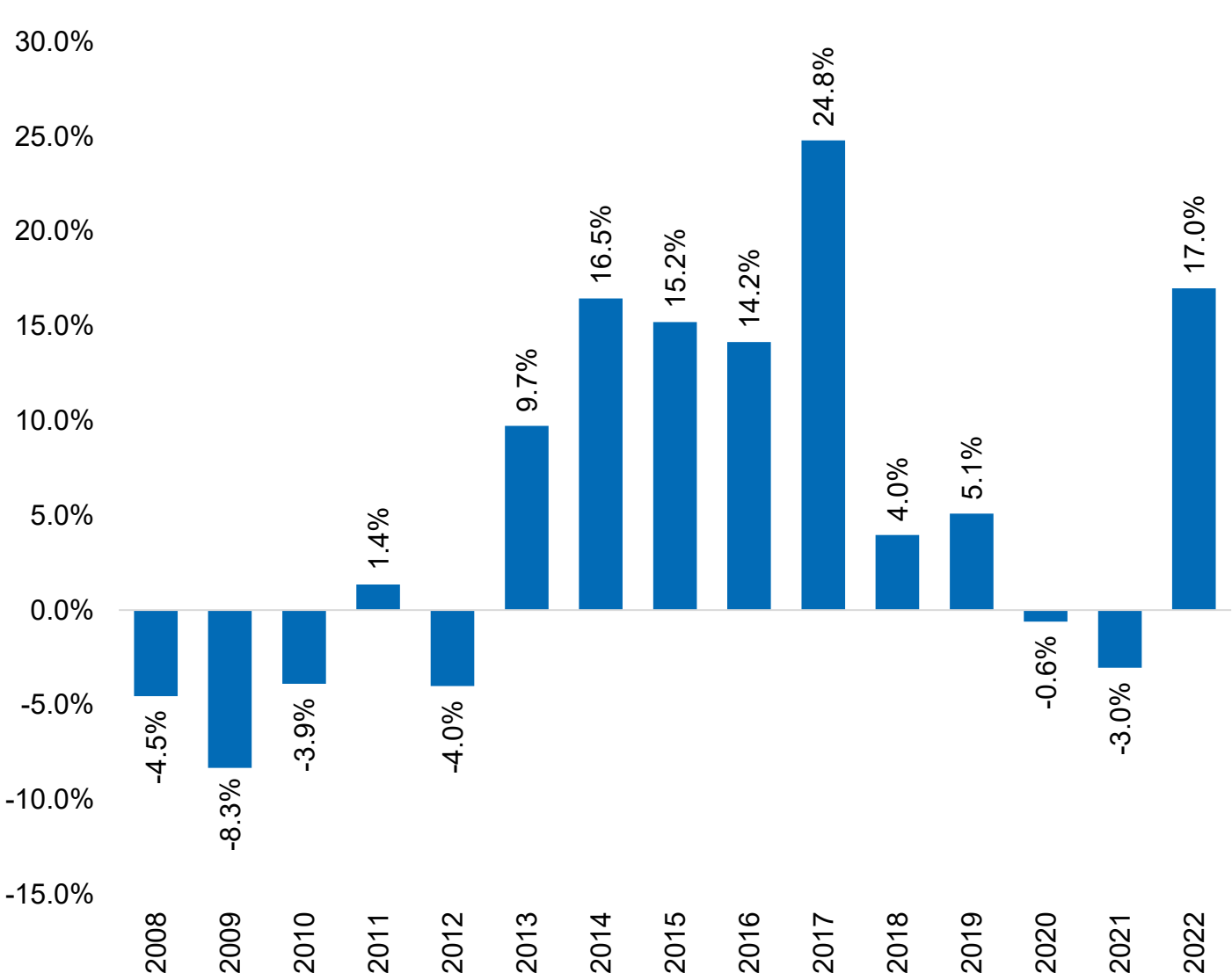
# Average Industrial Asking Rent

The overall average asking rent for industrial space along the North Peninsula didn't change from the second quarter and stands at \$1.92/SF.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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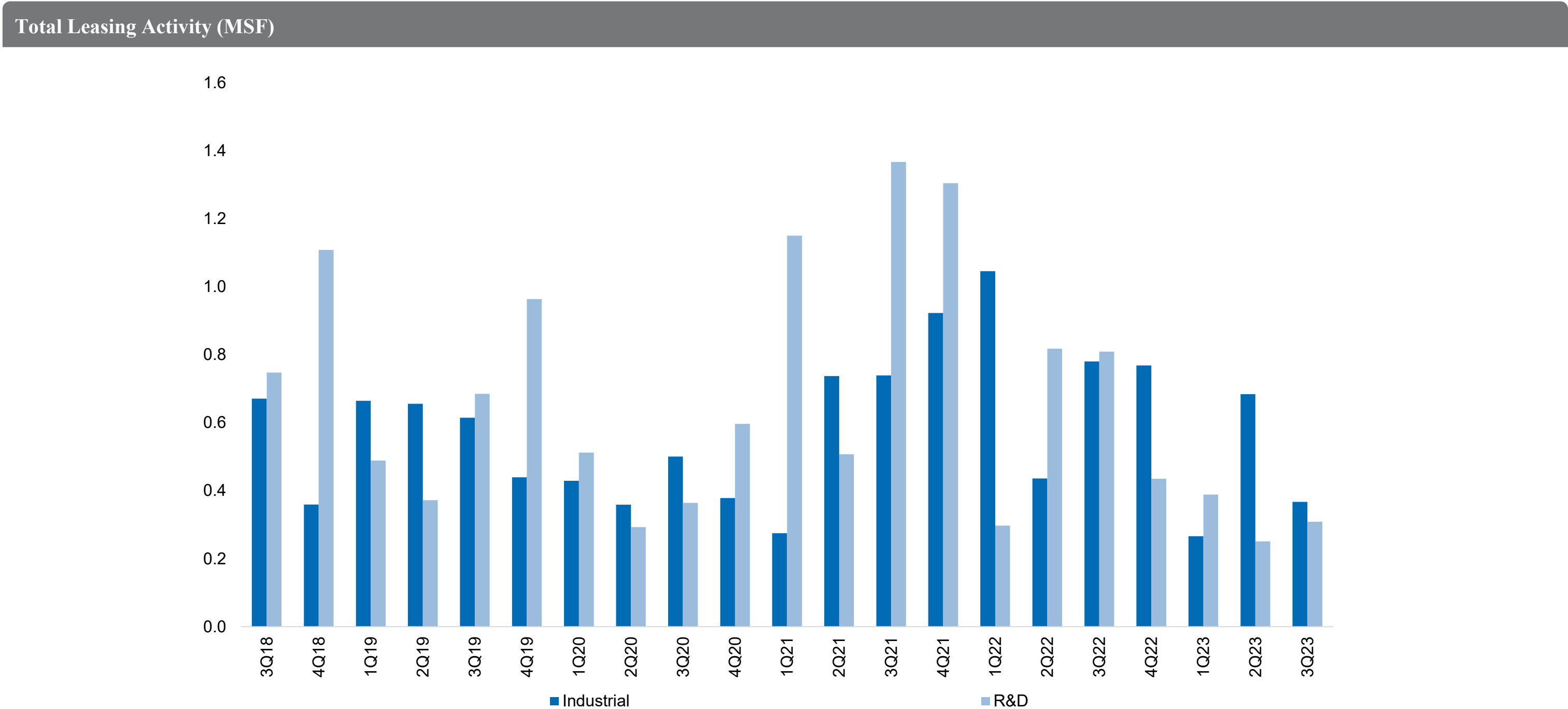
## Rent Performance Varies by Major Industrial Submarket



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# Uptick in R&D Leasing While Industrial Leasing Declines

Industrial leasing activity this quarter was recorded at 368,000 SF, compared with 684,000 SF in the previous quarter. R&D leasing activity was recorded at 309,000 SF, compared with 251,000 SF in the previous quarter. In 2023, tenants continue to take a cautious approach in the face of economic uncertainty, while landlords continue to grapple with softness in the market.



Source: Newmark Research, CoStar



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# R&D Leasing Market Fundamentals

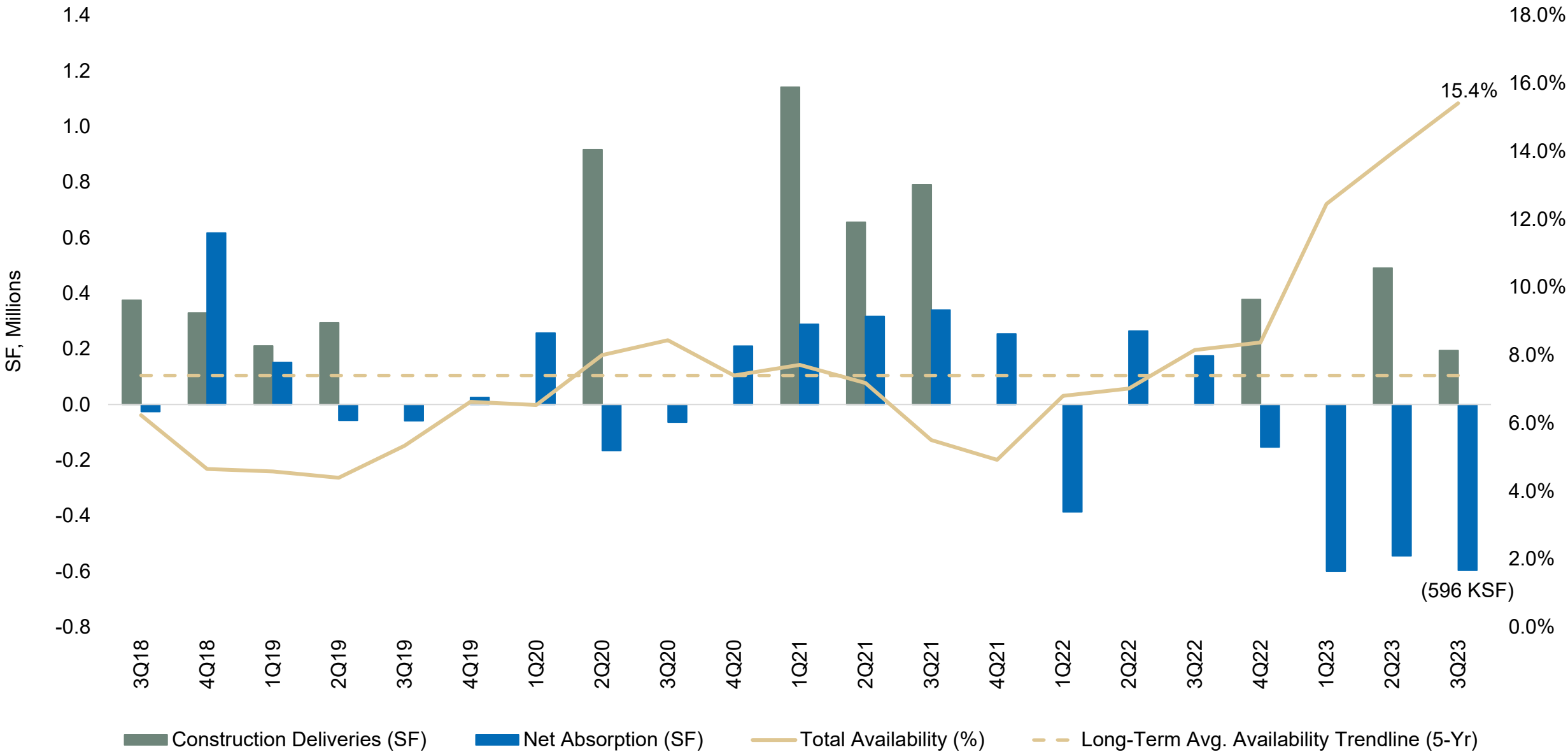




# R&D Availability Continues Upwards Trend

Market-wide R&D availability increased to 15.4% this quarter, up from 14.0% in the previous quarter and up from 8.1% one year ago. Availability has been rising since mid-2022, which coincides with record levels of new project deliveries and declining tenant demand.

Historical Construction Deliveries, Net Absorption, and Availability



Source: Newmark Research



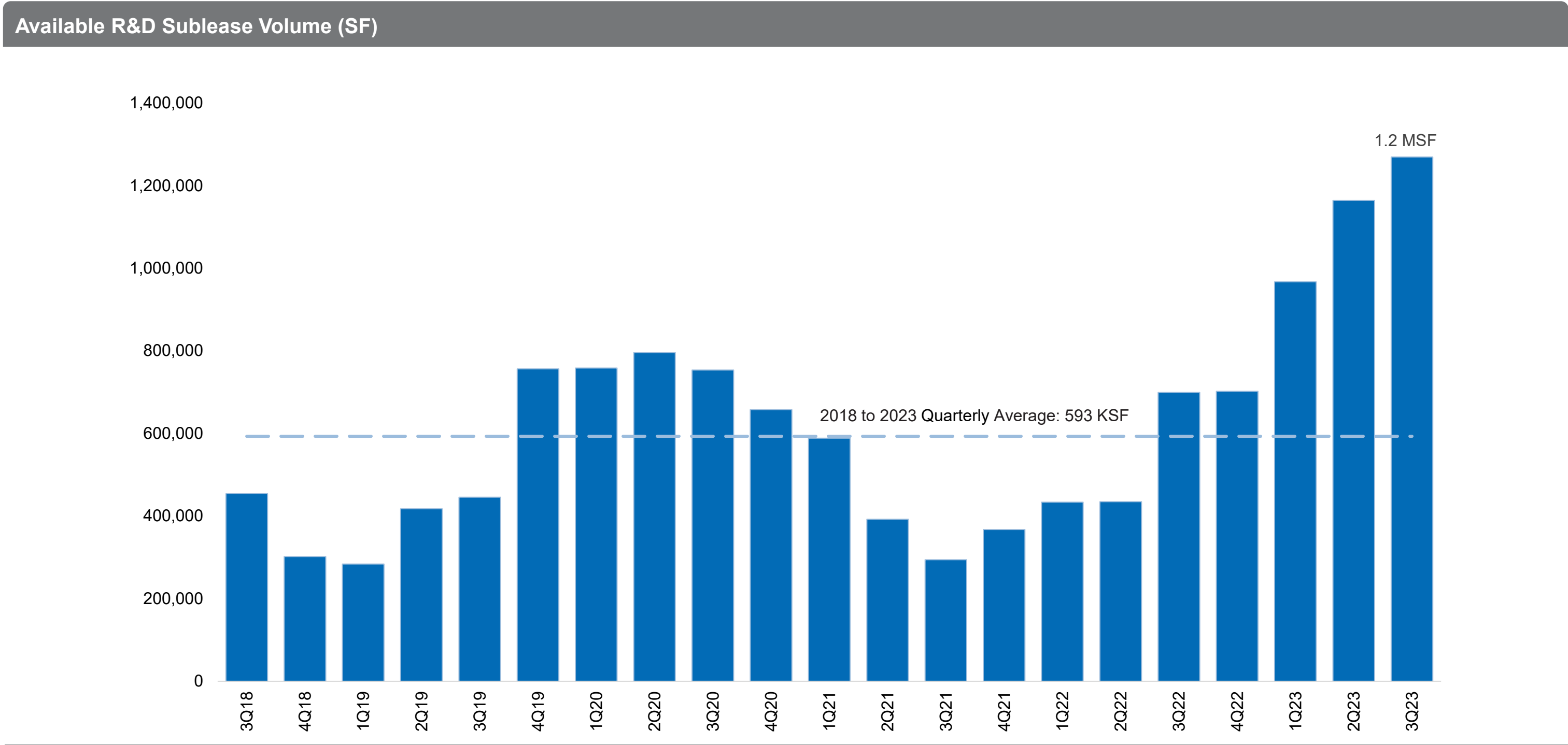
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## Brisbane Has the Highest R&D Average Availability Rate

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# R&D Sublease Availability Continues Trending Higher

R&D sublease availability for the quarter was recorded at 1.2 million SF, up from 1.1 million SF in the previous quarter and up from 700,000 SF one year ago.



Source: Newmark Research, CoStar

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## South San Francisco Leads Other Submarkets in R&D Sublet Availability

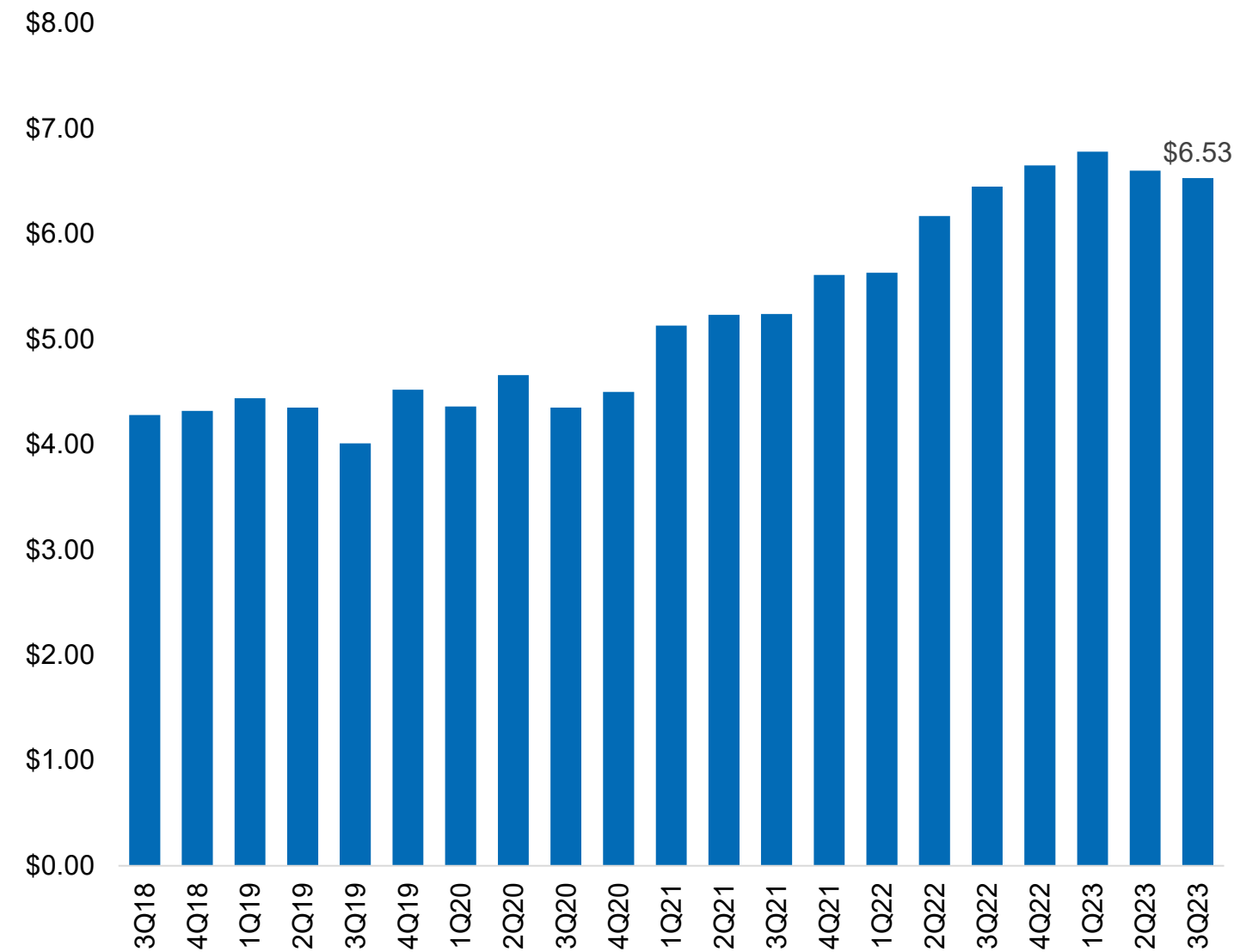
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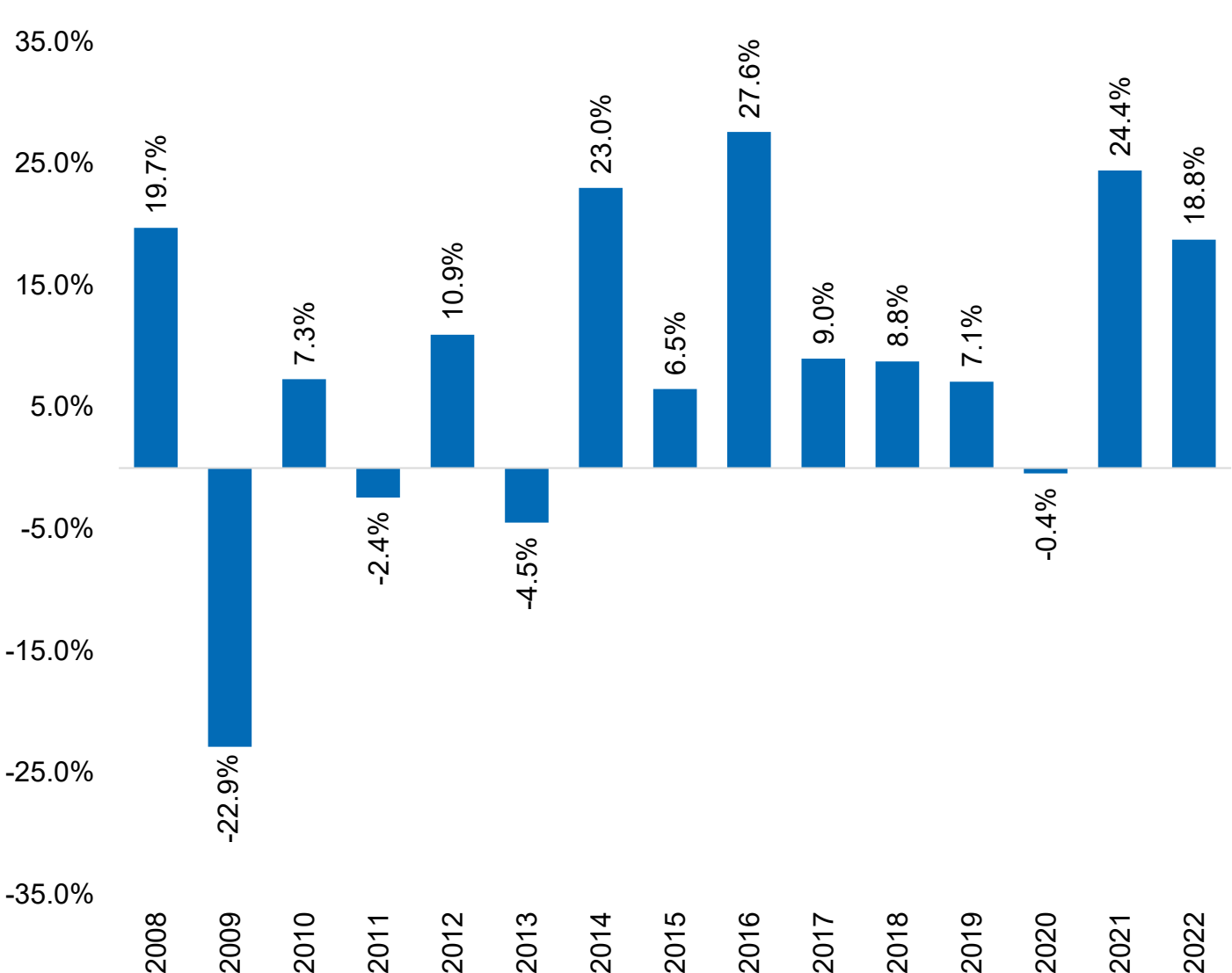
# Average R&D Asking Rent Decreases

The overall average asking rent for R&D space along the North Peninsula decreased quarter over quarter from \$6.60/SF in the second quarter of 2023 to \$6.53/SF in the third quarter of 2023.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

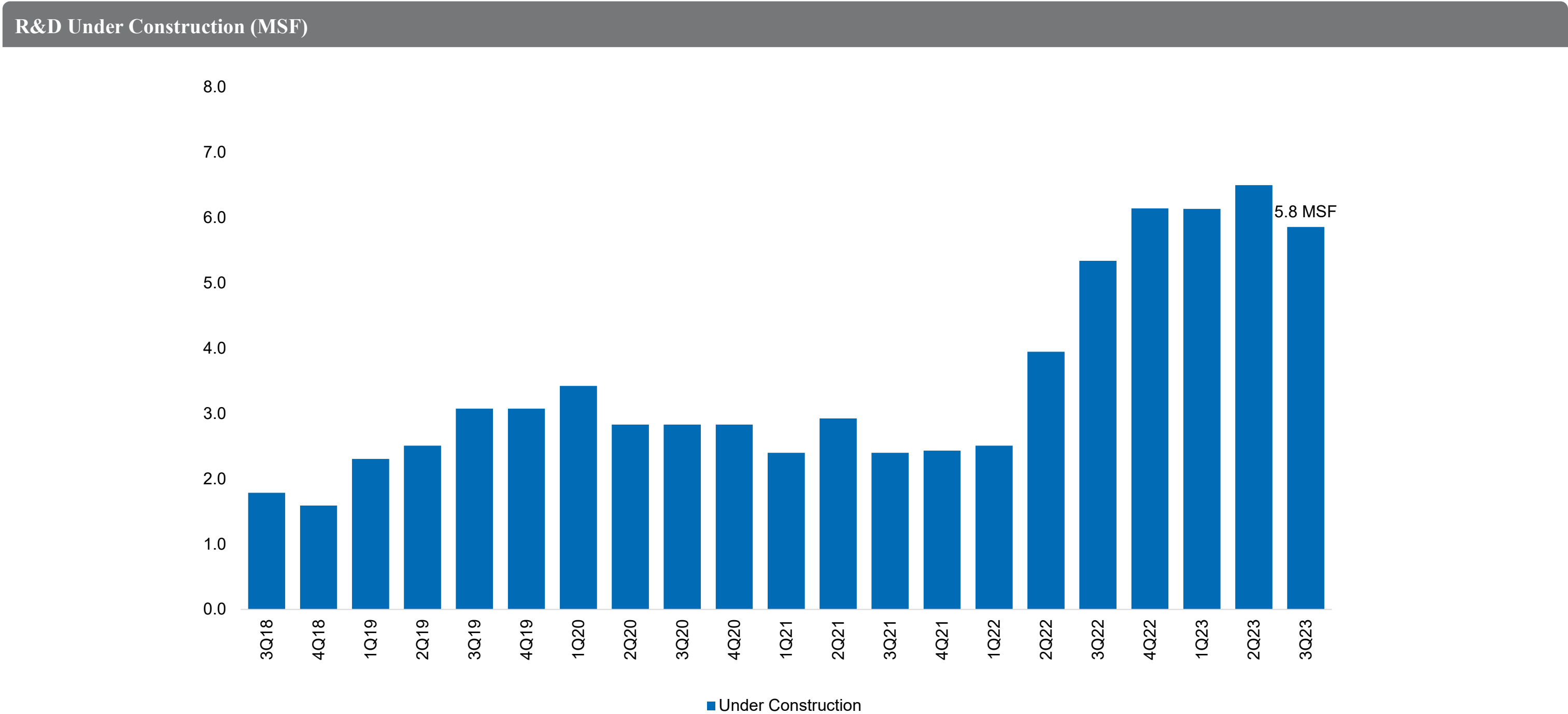
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## Rent Performance Varies by Major R&D Submarket

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# R&D Pipeline Remains Robust; Expected to Normalize in the Coming Months

The total volume of under-construction R&D product decreased in the third quarter of 2023 and was recorded at 5.8 million SF, with 10.0% of that under-construction figure already preleased. The most notable delivery this quarter was Building 1 in Phase 3 Real Estate’s Genesis Marina Project in Brisbane, totaling 194,700 SF. As projects are scheduled to deliver in the next 12 to 18 months, fewer new projects are expected to move forward in the face of industry layoffs and a noticeable slowdown in leasing.



Source: Newmark Research, CoStar



# Notable 3Q23 Lease Transactions

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

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Pliant Therapeutics <i>Clinical-stage drug development company Pliant Therapeutics completed the largest deal of the quarter, leasing 100,904 square feet at Healthpeak Properties’ 331 Oyster Point Blvd. building, which will serve as their new corporate headquarters.</i>	331 Oyster Point Blvd	South San Francisco	Direct Lease	100,904
Vaxcyte <i>Pneumonia vaccine company Vaxcyte completed the second-largest deal of the quarter, subleasing 36,593 square feet from Codexis at 825 Industrial Road.</i>	825 Industrial Rd	San Carlos	Sublease	36,593
Culture Biosciences <i>Culture Biosciences renewed their 35,000-square foot sublease through Verily Life Sciences at 269 E. Grand Ave for the third-largest deal of the quarter.</i>	269 E. Grand Ave	South San Francisco	Sublease Renewal	35,000
Walking Fish Therapeutics <i>Regenerative cell-based therapeutics company Walking Fish completed the fourth-largest deal of the quarter, terminating their previous sublease and extending on a direct basis at 450 E. Jamie Court.</i>	450 E. Jamie Court- Bldg. 2	South San Francisco	Lease Renewal	29,745
Mina Metals Corporation <i>HVAC supply and manufacturing company Mina Metals signed the fifth-largest lease of the quarter at 231 Maple (S) in South San Francisco.</i>	231 Maple Ave (S)	South San Francisco	Direct Lease	27,360

Source: Newmark Research



# Appendix / Tables





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## North Peninsula- Submarket Map

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# North Peninsula Industrial Overview



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## North Peninsula R&D Overview

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