

North Peninsula Industrial Market

Industrial Market Takes a Step Back While R&D Catches Fire

The North Peninsula industrial market took a step backwards to close out the year in the face of the ongoing pandemic. Total vacancy continued to increase in the fourth quarter of 2020, ending at 6.3%, up from 5.9% in the previous quarter, with sublease vacancy remaining stable at 0.9%. Net absorption for the quarter was recorded at negative 273,390 square feet, making this the 10th consecutive quarter of negative net. The market wide average asking rate decreased to \$1.64/SF NNN this quarter, down from \$1.75/SF in the previous quarter. The pandemic has upset the tenant dynamic, not only in the North Peninsula but the entire San Francisco Bay Area over the last 10 months. Demand for new space has substantially decreased as companies continue to reevaluate not only their needs for additional space but also the space they were already occupying. As a result, tenants have saturated the market with sublease availability due to downsizing and deal velocity has noticeably decreased, which consequently has caused downward pressure on average rents. The choppy waters in the industrial market are expected to smooth out in 2021, however, after months of being pummeled by the pandemic, with surges in logistics and the ecommerce industry being the main catalysts to drive the market.

Current Conditions

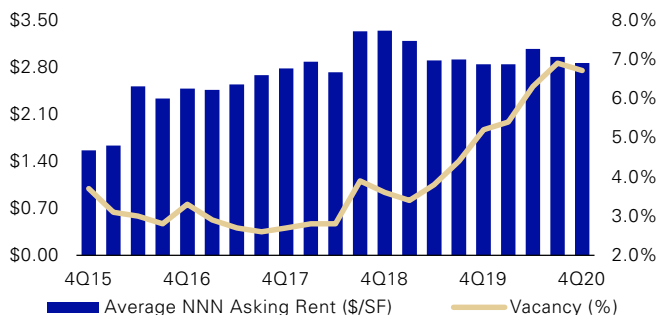
- Industrial average asking rates decreased or remained stagnant in ten out of the 12 major submarkets.
- R&D average asking rates increased or remained stagnant in six out of the 10 major submarkets.
- Five industrial transactions greater than 20,000 square feet executed this quarter compared to six in the previous. Eleven R&D transactions greater than 20,000 square feet executed this quarter compared to four in the previous.

Market Summary

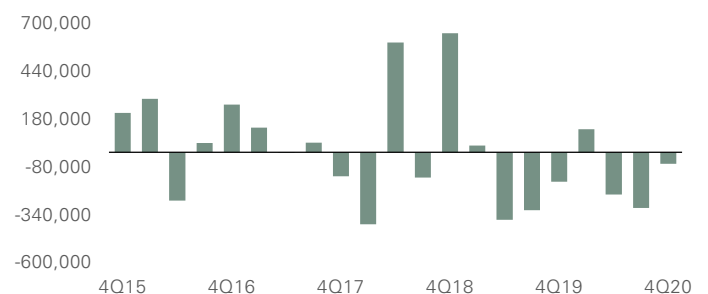
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	62.7M	62.2M	61.6M	↑
Vacancy Rate	6.7%	6.9%	5.1%	↓
Qtr Net Abs (SF)	-63K	-303K	-159K	↑
Avg NNN Ask Rent/SF	\$2.86	\$2.95	\$2.84	↓
Under Const (SF)	2.8M	2.8M	3.1M	↑
Deliveries (SF)	0	0	0	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH 4Q 2020

With a foot on the brake in the industrial and tech industry over the last ten months, tremendous growth and opportunity in the R&D sector remains prevalent in the North Peninsula. After appearing to be heading towards another monotonous quarter, a rush of significant life science transactions were executed to close out the year. Fourth-quarter R&D leasing velocity jumped 63.7% in comparison to the third quarter and 103.5% from the second quarter when the pandemic was first confirmed. The county-wide average R&D asking rate increased to \$4.50/SF NNN this quarter, up from \$4.35/SF in the previous quarter, while total vacancy dropped to 7.4%, down from 8.4% in the previous quarter. On the North Peninsula alone, life science continues to be a top-performing sector as relentless demand for space continues to outpace existing supply. That demand gap has fueled developer and investor interest in converting traditional industrial and flex space into biotech and lab uses. Currently, the R&D pipeline holds approximately 2.8 million square feet awaiting completion with 2.2 million square feet expected to be delivered next quarter. Of that 2.2 million square feet of expected deliverables, 70.1% has already been preleased. Demand for lab

and medical space, which has only accelerated through the pandemic, is fully expected to carry over into next year and the years to come as vaccine research and drug manufacturing continue to drive the market.

Notable Lease and Sale Activity

The industrial market recorded 378,717 square feet of gross absorption, compared with 500,660 square feet in the previous quarter. The R&D market recorded 596,715 square feet of gross absorption this quarter, compared with 364,447 square feet in the previous quarter. A confidential tenant who signed a nondisclosure agreement to remain nameless completed the largest transaction of the quarter, preleasing 109,237 square feet at 1800 Sierra Point Parkway in Healthpeak's Shore at Sierra Point project in Brisbane. The sale highlight of the quarter was made by Ventas, Inc., which acquired the three life science properties located at 1 and 2 Tower Place and 4000 Shoreline Court in South San Francisco from Phase 3 Real Estate. The three properties totaling 796,572 square feet sold for \$1.02 billion, or \$1,280/SF.

Select Lease Transactions

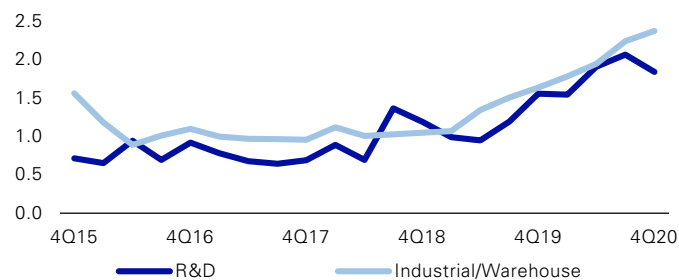
Tenant	Building(s)	Submarket	Type	Square Feet
Confidential Tenant	1800 Sierra Point Parkway	Brisbane	Direct Lease	109,237
Annexon, Inc.	1400 Sierra Point Parkway	Brisbane	Direct Lease	65,818
Room & Board	450 Valley Dr	Brisbane	Lease Renewal	63,775
East Star Building Supply	437 Rozzi Place	South San Francisco	Lease Renewal	60,573
Confidential Tenant	1555 Adams Dr	Menlo Park	Lease Renewal	50,373

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
Genesis SSF & 4000 Shoreline Ct.	South San Francisco	\$1,020,000,000	\$1,280	796,572
180 Constitution Dr	Menlo Park	\$21,700,000	\$723	30,000
1303 Elmer St	Belmont	\$6,400,000	\$400	16,000
66 21 st Ave (E)	San Mateo	\$3,800,000	\$292	13,030
2232-2260 Palm Ave	San Mateo	\$3,200,000	\$500	6,400

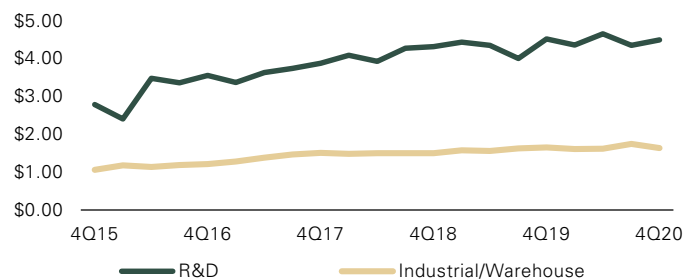
Vacancy Breakdown

SQUARE FEET, MILLIONS



Average Asking Rents

WEIGHTED, NNN, MONTHLY



Submarket Statistics							
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
North Peninsula R&D	24,833,537	2,827,536	7.40%	596,715	210,415	238,695	\$4.50
Belmont	289,294	0	2.07%	0	0	-6,000	\$2.75
Brisbane	1,071,587	270,404	5.91%	175,055	175,055	441,900	\$3.95
Burlingame	520,116	0	9.41%	0	0	-59,168	\$2.50
Foster City	2,554,193	0	4.19%	58,386	43,000	-107,000	-
Menlo Park	3,543,667	0	3.03%	125,557	15,445	-24,409	\$3.11
Redwood City	2,346,841	0	3.54%	39,083	-44,092	16,881	\$2.25
Redwood Shores	998,483	0	24.24%	7,781	7,781	115,184	\$4.88
San Carlos	1,587,167	560,000	20.40%	4,794	-4,040	-297,157	\$5.32
San Mateo	113,285	0	100.00%	0	-113,285	-113,285	-
South San Francisco	11,808,904	967,132	6.30%	186,059	130,551	257,749	\$5.99
North Peninsula IND/WHS	37,923,936	0	6.25%	378,717	-273,390	-711,249	\$1.64
Belmont	1,488,353	0	2.96%	52,618	-2,234	-38,874	\$1.47
Brisbane	4,299,138	0	4.12%	63,775	-21,186	16,232	\$1.41
Burlingame	4,528,616	0	8.53%	48,518	-81,452	-179,602	\$1.60
Daly City	1,099,777	0	1.22%	0	0	-7,444	-
Foster City	453,866	0	0.95%	0	-4,300	-4,300	\$1.35
Menlo Park	1,871,814	0	0.80%	37,537	27,515	6,552	\$2.18
Millbrae	171,372	0	0.00%	0	0	0	-
Redwood City	3,800,536	0	4.74%	21,672	-9,902	-102,854	\$2.19
Redwood Shores	567,456	0	2.67%	14,150	-6,330	-7,340	\$1.83
San Carlos	3,382,128	0	5.38%	10,634	2,400	37,925	\$2.47
San Mateo	1,150,680	0	5.86%	7,185	-3,153	-29,898	\$2.20
South San Francisco	15,110,200	0	8.51%	122,628	-174,748	-401,646	\$1.48
NORTH PENINSULA TOTAL	62,757,473	2,827,536	6.71%	975,432	-62,975	-472,554	\$2.86

For more information:

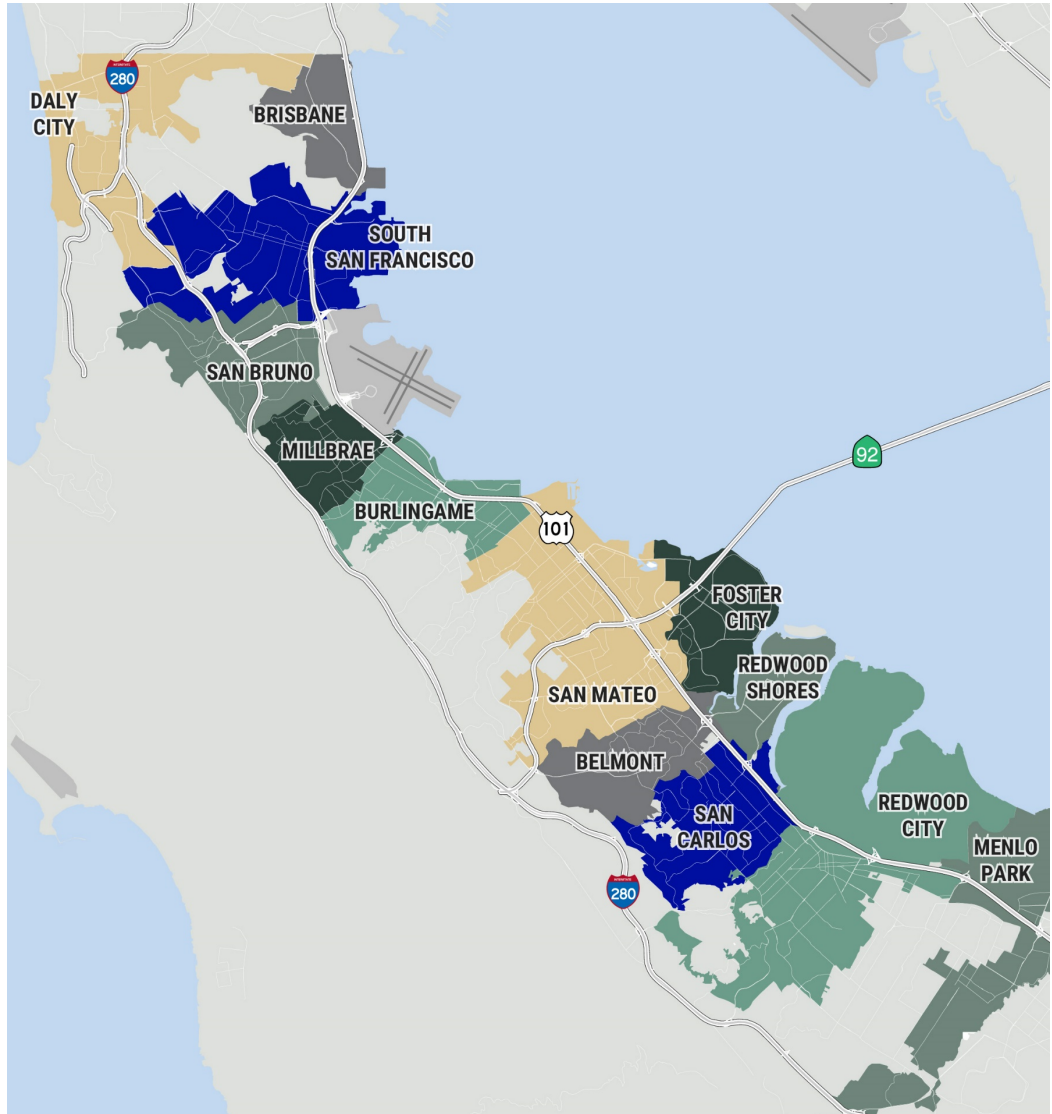
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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective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

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