



RESEARCH 4Q 2020

South Peninsula R&D Market

Life Science and R&D sector continues to be the darling of South Peninsula tenant demand

The South Peninsula R&D market continues to be buoyed by life science activity, which makes up over 50% of this quarter's completed transactions over 5,000 square feet. R&D users have less capability to work in a distributed fashion, and it bodes well for the market to see sustained demand throughout 2020 and beyond. The fourth quarter added approximately 810,000 square feet of R&D demand, mostly tenants in the life science sector.

Continue to look for continued R&D conversion from general industrial and Class A offices in the near future as the life science sector shows signs of strong demand.

Vacancy rate in the fourth quarter ended at 9.3%. This is a 1.6% increase from the year before and a light increase from the previous quarter. Larger subleases hitting the market pushed average asking rents down by approximately 2.9%, to \$4.76/SF. The South Peninsula now sees rents below \$5.00/SF, and vacancy close to 10.0% produces ripe market conditions for the substantial tenants in the market. Look for increased concessions to increase demand as landlords continue to fight to maintain rental values. Most expect continued softening, but given a strong demand outlook for R&D product type, there may be only incremental changes in the current economics for the remainder of the year.

Current Conditions

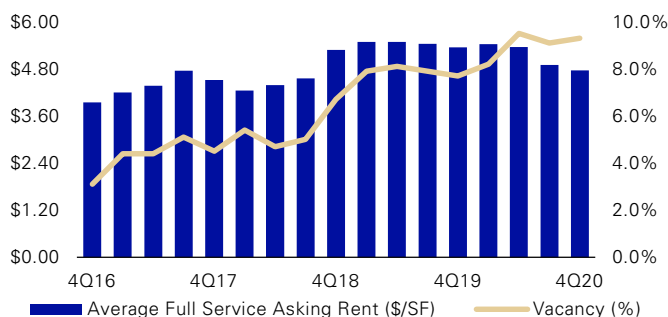
- East Menlo Park submarket shows positive signs with great leasing activity.
- Large R&D users still active as the sector remains resilient through the pandemic.
- Gross absorption declines off the third quarter of 2020, likely due to a step backwards to more restrictive shelter-in-place orders which have an effect on market velocity.

Market Summary

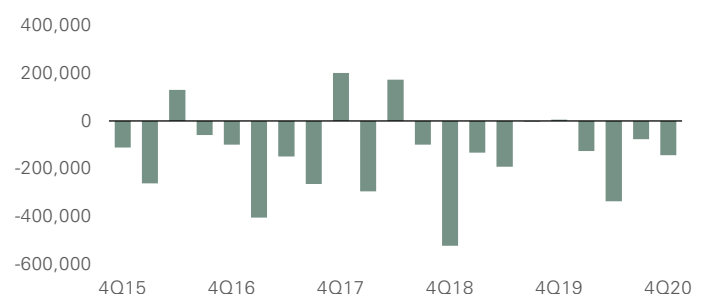
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	26.8M	26.7M	26.4M	↑
Vacancy Rate	9.3%	9.1%	7.9%	↓
Qtr Net Abs (SF)	-144K	-77K	-3K	↑
Avg NNN Ask Rent/SF	\$4.76	\$4.90	\$5.44	↓
Under Const (SF)	0	0	579K	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



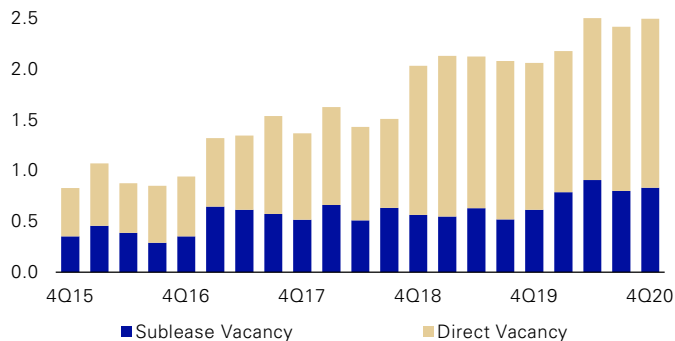
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This quarter saw eight transactions above 10,000 square feet and five transactions over 20,000 square feet. The largest transaction was a 50,000-square-foot lease extension done at 1555 Adams Drive, Menlo Park. A great deal for the market is the sublease of the 39,000-square foot space at 500 Saginaw Drive. Hexagon Bio leased 31,000 square feet at 1490 O'Brien Drive, Menlo Park while Google renewed its lease at 1808 Shoreline Boulevard in Mountain View.

High-tech job growth and economic growth in the region remain above the national average. This trend will continue as reopening efforts become more urgent. Large funding rounds, IPOs and acquisitions continue to buoy the Bay Area R&D sector.

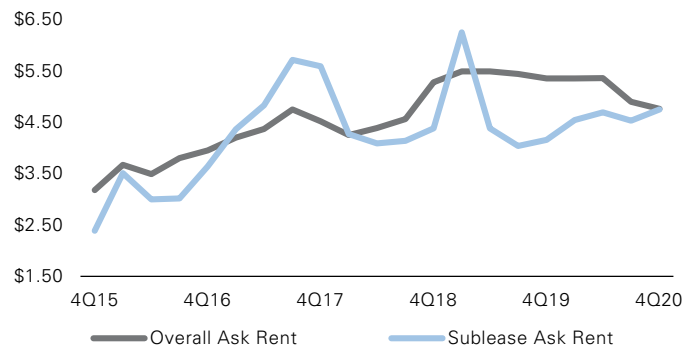
Vacancy Breakdown

SQUARE FEET, MILLIONS



Average Asking Rents

WEIGHTED, NNN, MONTHLY



Select Lease/User Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
IntersectENT	1555 Adams Dr	Menlo Park (Hwy 101)	Lease Extension	50,373
Impossible Foods	500 Saginaw Dr	Redwood City (Seaport)	Sublease	39,083
Hexagon Bio	1490 O'Brien Dr	Menlo Park (Hwy 101)	Direct Lease	31,088
Google	1808 Shoreline Blvd	Mountain View (Shoreline)	Lease Renewal	21,862
Artio Medical, Inc.	127 Independence Dr	Menlo Park (Hwy 101)	Direct Lease	14,500
Finance of America Mortgage	1390 Willow Rd	Menlo Park (Hwy 101)	Lease Renewal	12,902

Select Investment Sale Transactions

Building(s)	Market	Sale Price	\$/SF	Square Feet
3380 Coyote Hill Rd	Palo Alto (SRP)	\$123,000,000	\$1,440	85,420
331 Fairchild Dr	Mountain View (S. Middlefield)	\$75,900,000	\$867	87,565
3450 & 3460 Hillview Ave	Palo Alto (SRP)	\$40,506,500	\$526	76,951

Overall Submarket Statistics								
	Total Inventory (SF)	Total Vacancy (SF)	Sublease Vacancy (SF)	Total Vacancy Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
Menlo Park	3,543,667	107,549	20,346	3.03%	125,557	15,445	-24,409	\$3.11
Middlefield Road	257,981	11,878	0	4.60%	5,345	5,345	-4,253	\$3.80
Highway 101	3,285,686	95,671	20,346	2.91%	120,212	10,100	-20,156	\$3.00
Mountain View	10,546,361	819,857	288,009	7.77%	30,362	2,382	-419,415	\$4.41
Central Expressway	1,728,265	111,147	50,214	6.43%	1,500	-19,080	-69,218	\$3.86
Shoreline	4,371,110	63,910	44,210	1.46%	21,862	21,862	-63,910	\$5.17
South Middlefield	4,446,986	644,800	193,585	14.50%	7,000	-400	-286,287	\$4.41
Palo Alto	9,414,341	1,240,308	314,335	13.17%	3,088	-125,111	-259,187	\$5.28
Bayshore	2,057,040	257,154	66,731	12.50%	3,088	-52,111	-159,956	\$3.76
California Avenue	375,457	120,554	0	32.11%	0	0	-88,972	\$7.03
Stanford Research Park	6,981,844	862,600	247,604	12.35%	0	-73,000	-10,259	\$5.54
Redwood City	2,346,841	83,175	79,675	3.54%	39,083	-44,092	16,881	\$2.25
Downtown	61,192	3,500	0	5.72%	0	-3,500	5,176	\$2.25
Seaport	1,433,571	79,675	79,675	5.56%	39,083	-40,592	11,705	-
Southern Area	852,078	0	0	0.00%	0	0	0	-
Redwood Shores	998,483	242,020	130,198	24.24%	7,781	7,781	115,184	\$4.88
SOUTH PENINSULA	26,849,693	2,492,909	832,563	9.28%	205,871	-143,595	-570,946	\$4.76

Historical Vacancy Rates								
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
South Peninsula	8.05%	7.87%	7.73%	8.17%	9.3%	9.3%	9.05%	9.28%
Menlo Park	2.93%	3.19%	2.79%	2.40%	5.79%	5.79%	3.85%	3.03%
Mountain View	6.65%	5.71%	5.37%	6.22%	6.87%	6.87%	8.28%	7.77%
Palo Alto	11.13%	11.11%	10.26%	11.56%	13.9%	13.9%	11.88%	13.17%
Redwood City	1.87%	4.49%	3.97%	3.97%	2.20%	2.20%	1.79%	3.54%
Redwood Shores	24.57%	23.37%	31.86%	26.60%	20.68%	20.68%	25.02%	24.24%
Historical NNN Asking Rents								
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
South Peninsula	\$5.49	\$5.49	\$5.44	\$5.35	\$5.43	\$5.36	\$4.90	\$4.76
Menlo Park	\$3.77	\$4.00	\$3.27	\$4.25	\$3.80	\$3.09	\$3.26	\$3.11
Mountain View	\$4.56	\$4.42	\$4.18	\$4.16	\$4.57	\$4.67	\$4.34	\$4.41
Palo Alto	\$6.65	\$6.70	\$6.87	\$6.62	\$6.36	\$6.31	\$5.76	\$5.28
Redwood City	\$3.90	\$3.44	\$3.51	\$3.00	\$3.78	\$2.50	-	\$2.25
Redwood Shores	\$4.07	\$4.01	\$4.24	\$3.92	\$3.96	\$4.11	\$4.27	\$4.88
Historical Net Absorption								
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
South Peninsula	-132,633	-191,967	-2,785	4,116	-126,308	-335,883	-76,557	-143,595
Menlo Park	-18,440	1,860	-17,665	14,100	12,253	-15,107	-37,000	15,445
Mountain View	-49,780	-63,308	99,018	25,160	-104,918	-121,099	-211,460	2,382
Palo Alto	-15,595	-74,757	-39,593	43,861	-125,512	-221,991	163,400	-125,111
Redwood City	2,706	-22,963	-57,173	11,388	0	8,676	6,607	-44,092
Redwood Shores	-51,524	-32,799	12,628	-90,393	91,869	13,638	1,896	7,781
Historical Gross Absorption								
	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
South Peninsula	354,032	512,465	443,804	700,834	307,612	314,171	436,326	205,871
Menlo Park	19,275	21,695	29,893	106,135	16,477	81,619	0	125,557
Mountain View	132,154	335,537	235,377	74,738	73,878	13,650	63,940	30,362
Palo Alto	53,049	98,133	165,906	269,841	100,797	196,588	294,055	3,088
Redwood City	137,638	19,600	0	11,388	24,591	8,676	71,646	39,083
Redwood Shores	11,916	37,500	12,628	58,072	91,869	13,638	6,685	7,781

For more information:

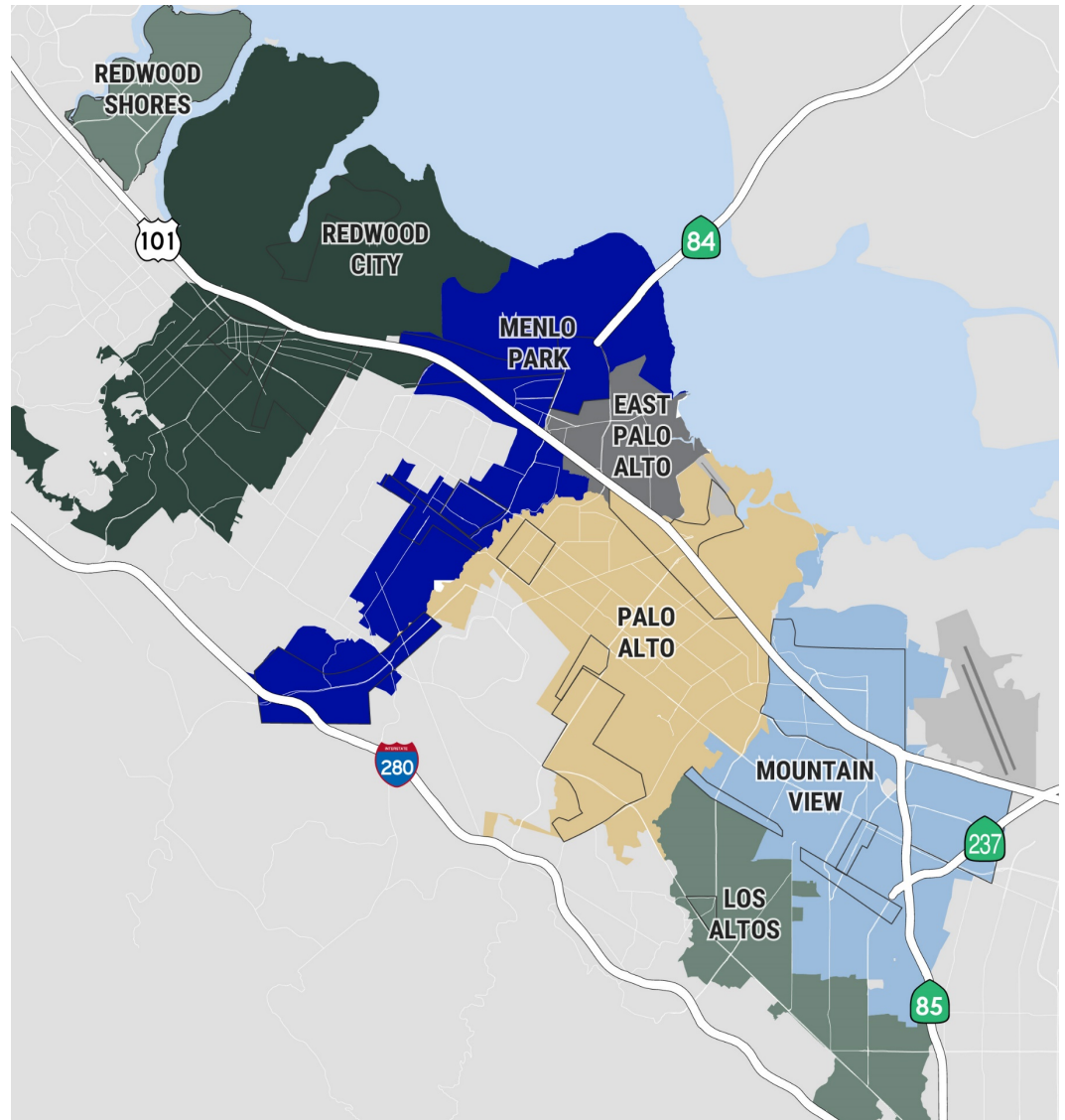
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