

4Q23

North Peninsula Industrial and R&D Market Overview



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Market Observations

Economy

- The region’s labor market remained strong amid shifting macroeconomic conditions. November’s 3.3% unemployment rate remained lower than the 4.1% five-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 and education/health led all sectors in job gains, while construction experienced the largest drop over the last 12 months.

Major Transactions

- Cancer treatment firm Cargo Therapeutics completed the largest deal of the quarter, leasing 99,557 SF on the third and fourth floor at 835 Industrial Rd. in San Carlos.
- Biotechnology company Altos Labs completed the second-largest deal of the quarter, renewing a portion of its lease and expanding into additional space in two buildings in the Redwood LIFE project in Redwood Shores.
- The largest sale of the quarter was made by Genentech, which acquired the 40,000-SF industrial building located at 333 Point San Bruno Blvd. in South San Francisco for \$25.0 million, or \$625/SF.

Leasing Market Fundamentals

- Market-wide R&D availability increased to 17.4% this quarter, up from 15.4% in the previous quarter. Market-wide R&D vacancy increased to 13.1%, up from 10.4% in the previous quarter.
- The North Peninsula’s industrial market availability rate slightly decreased in the fourth quarter of 2023 to 4.7%, down from 4.9% in the previous quarter. Market-wide vacancy decreased to 3.0%, down slightly from 3.1% in the previous quarter.
- The region’s R&D pipeline currently stands at 6.0 million SF of under-construction product. Of that notable ground-up construction, 9.7% is already preleased. The industrial construction pipeline remains obsolete.

Outlook

- The continued trend of negative net absorption illustrates the ongoing lack of demand for industrial, R&D and lab space in the current market environment. Absorption in the R&D market especially will likely remain negative as existing and future supply continues to outpace demand.
- Sentiment from investors and dealmakers moving forward into 2024 is expected to improve as inflation has exhibited signs of easing and interest rate cuts are predicted, which will lead to cap rate compression. However, until there is more clarity in the economic environment, delays in leasing activity and development decisions are expected to continue in 2024.

1. Economy
2. Industrial Leasing Market Fundamentals
3. R&D Leasing Market Fundamentals
4. Notable 4Q23 Lease Transactions
5. Appendix / Tables

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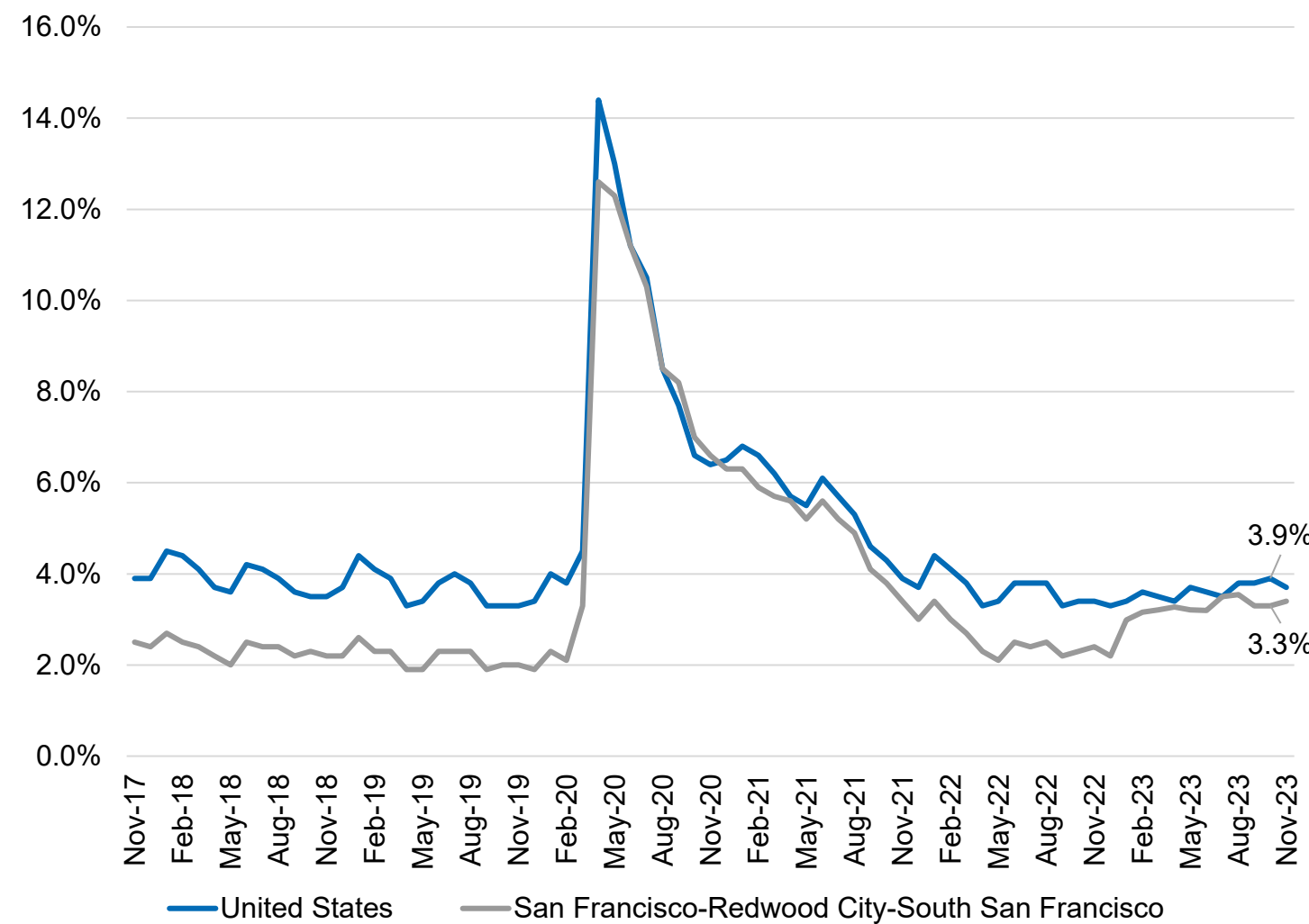
Economy



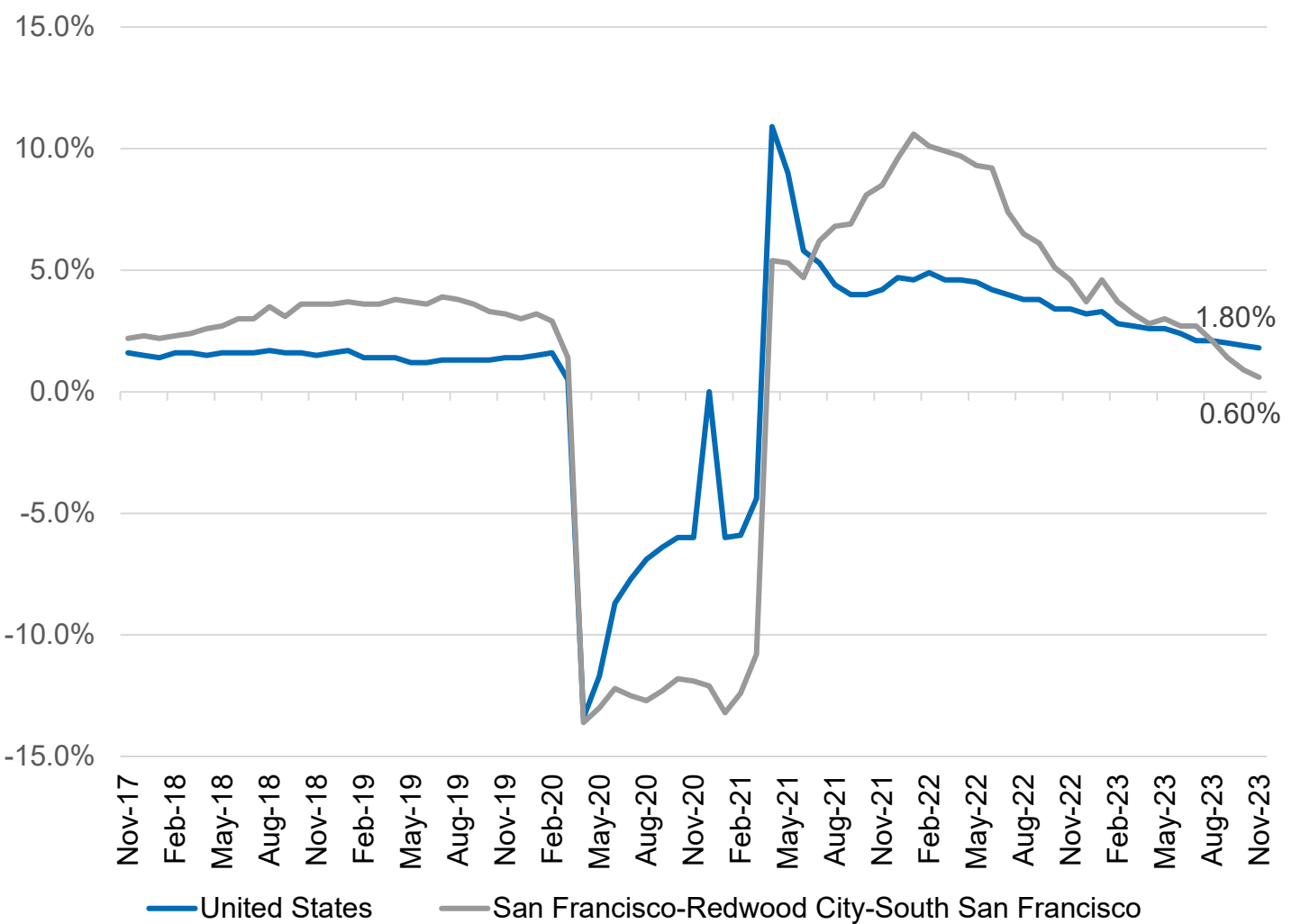
Metro Employment Trends Signal a Slowing, Tighter Economy

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

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

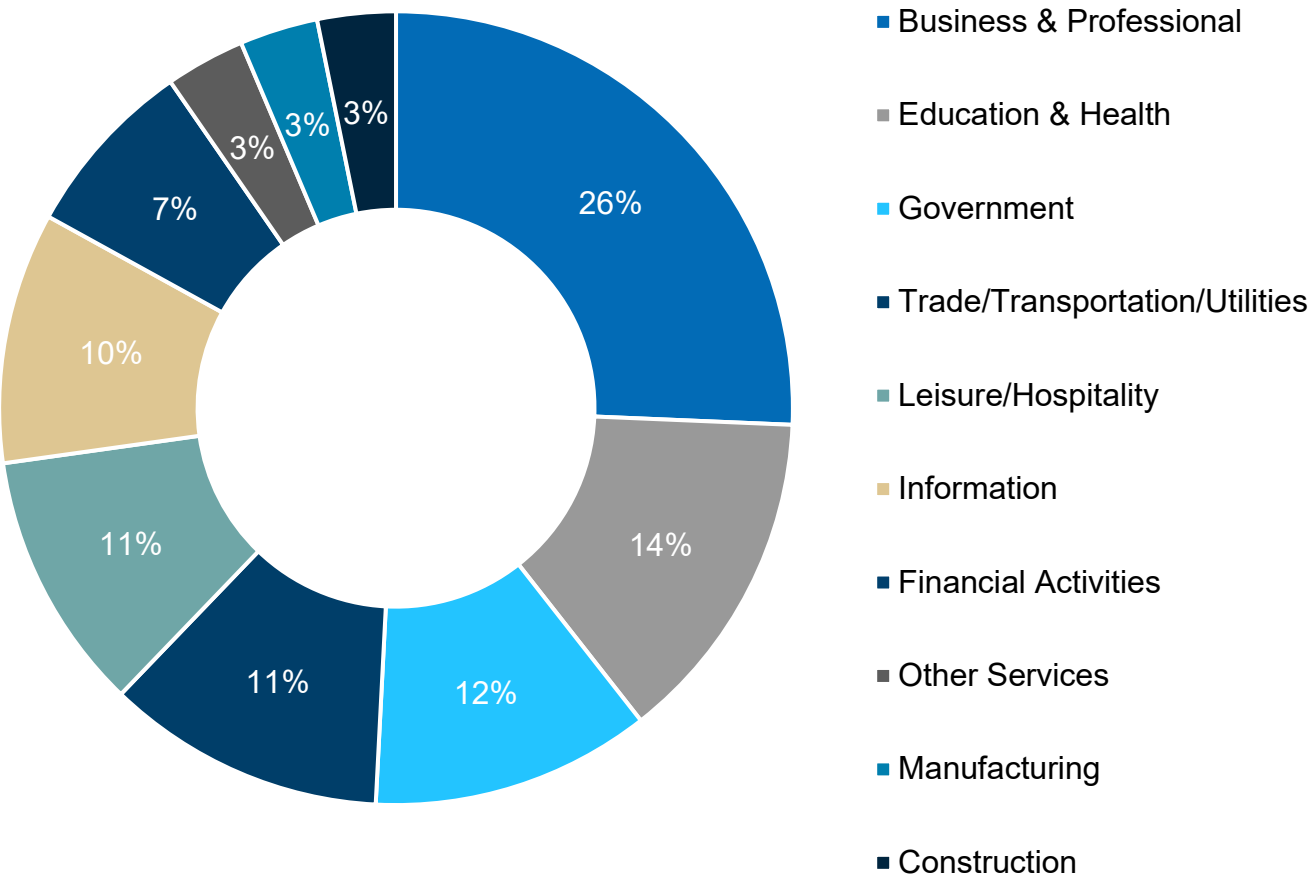


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

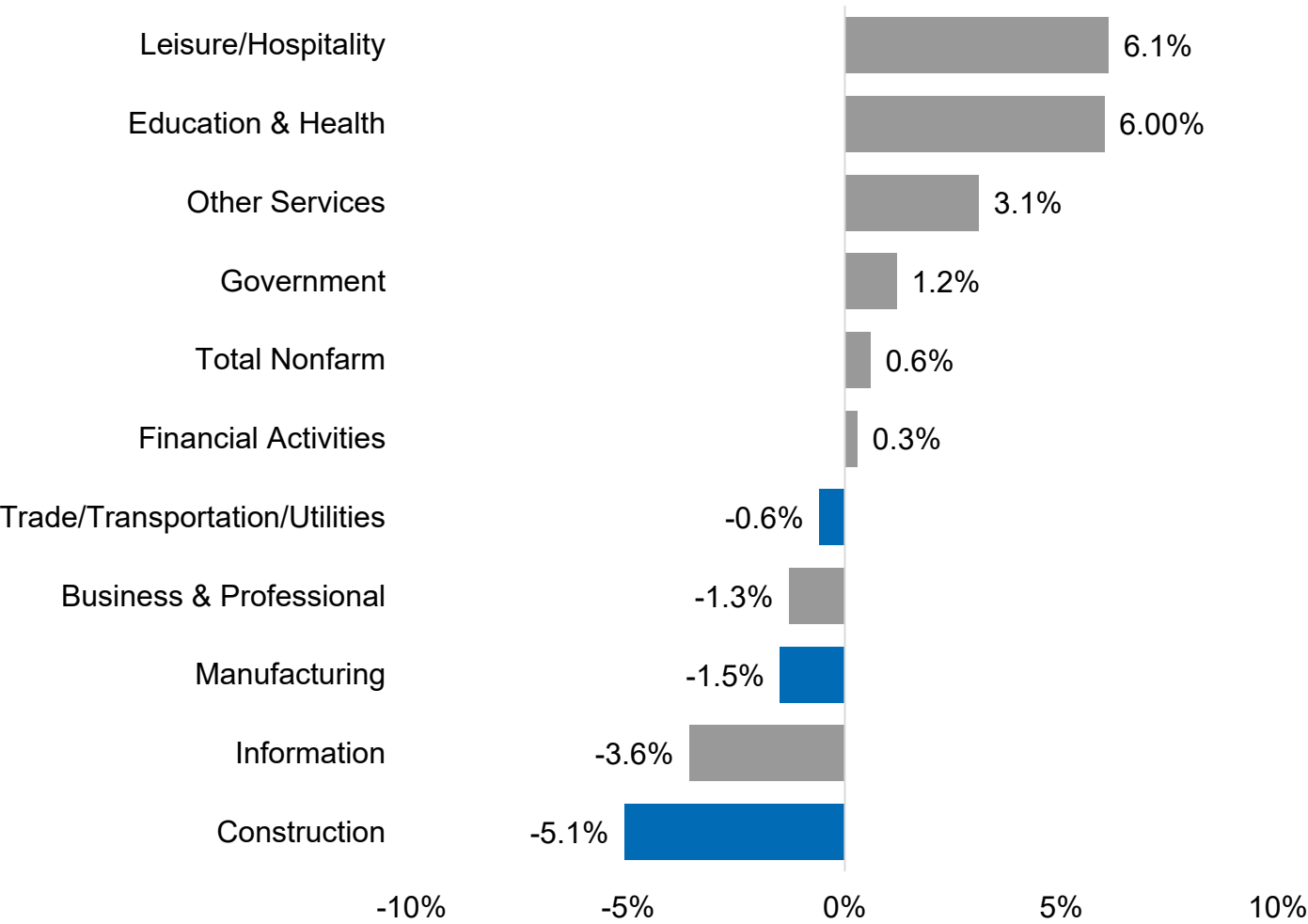
Employment Growth Bolstered by Hospitality, Education and Health Industries

The education and health and leisure/hospitality sectors led all industries in regional year-over-year job growth, while the information sector had the largest percentage change in employment.

Employment by Industry, November 2023



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

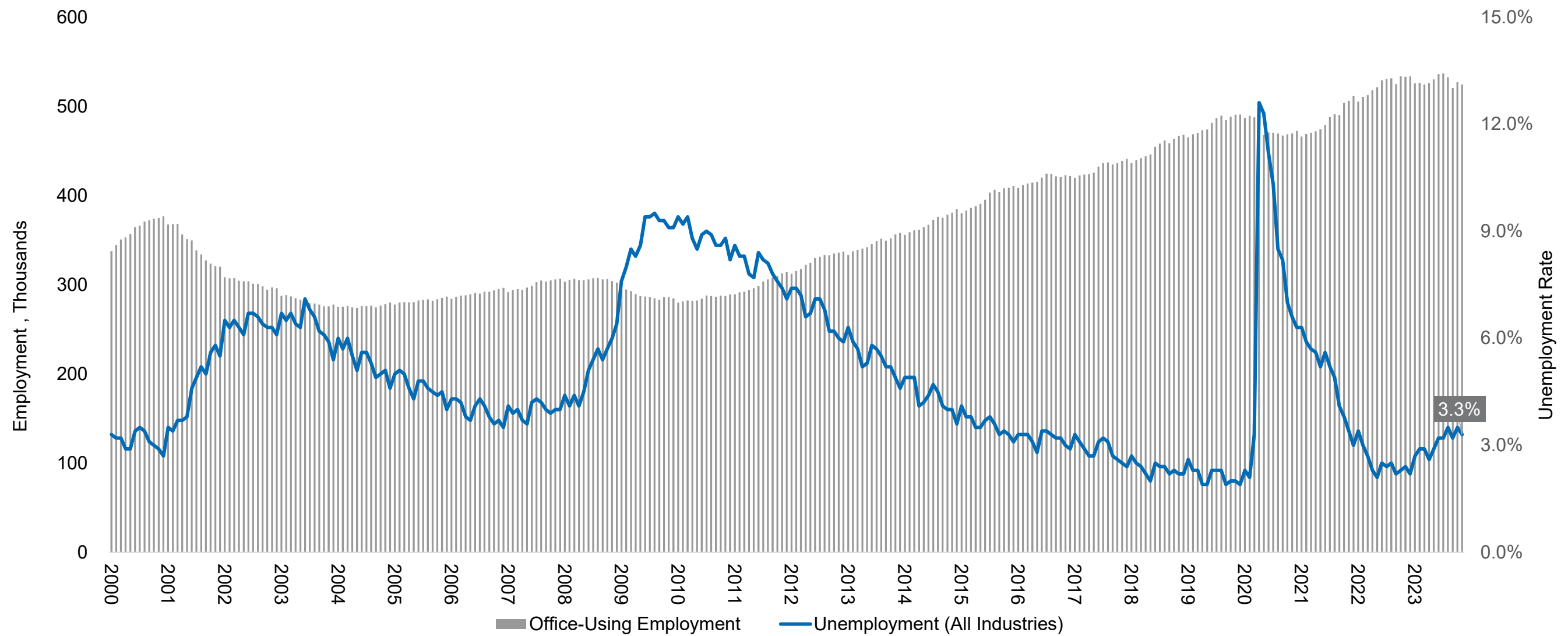


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

Overall Office-Using Employment Continues to Rebound Post Pandemic

The number of office jobs continues to rebound to above pre-pandemic levels, while the overall unemployment rate remains above the pre-pandemic mark. Companies located on the North Peninsula continue to adjust to reduced space requirements.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco
Note: November 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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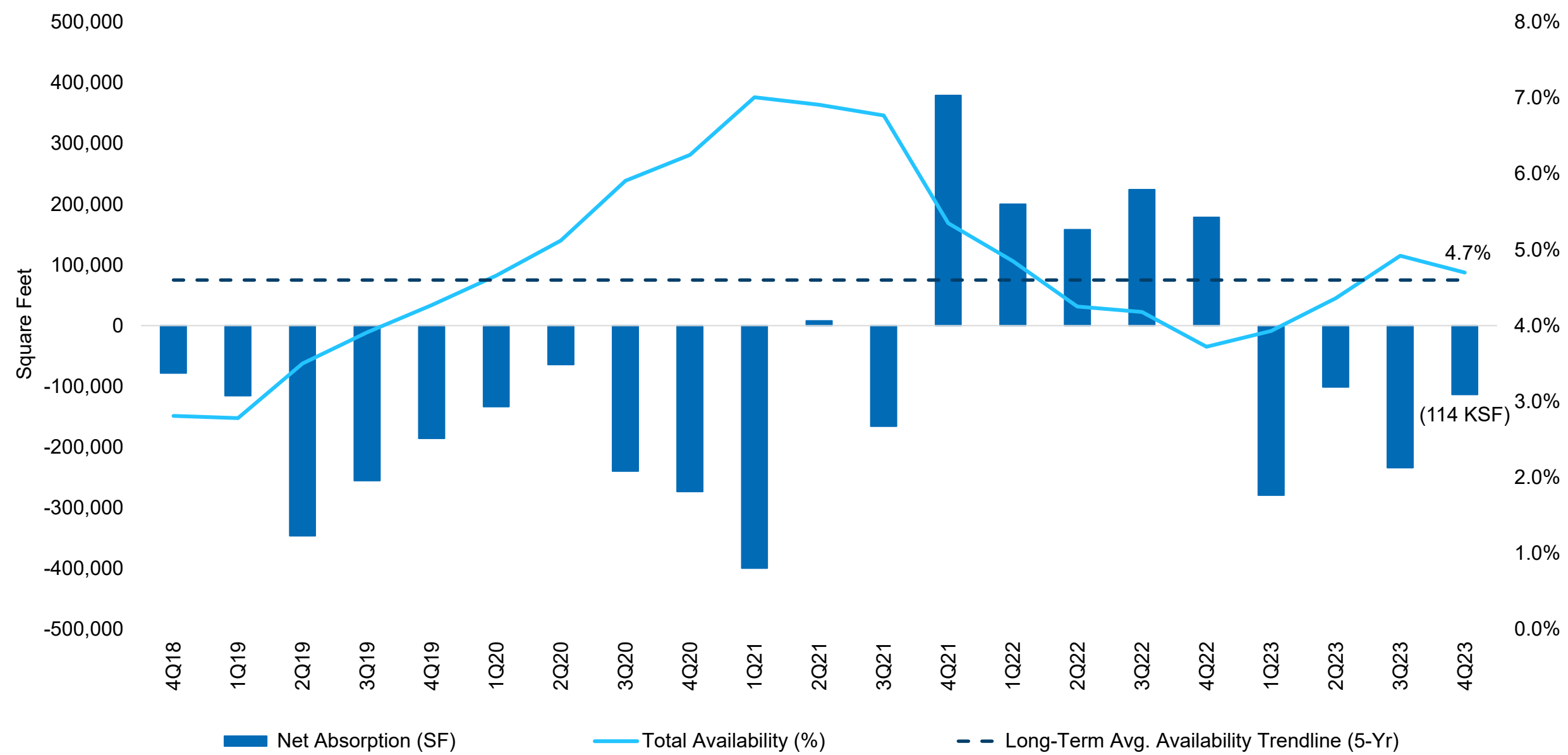
Industrial Leasing Market Fundamentals



Industrial Availability Slightly Above the Five-Year Average

Market-wide industrial availability decreased to 4.7% this quarter, down slightly from 4.9% in the previous quarter and up from 3.7% one year ago.

Historical Net Absorption, and Availability



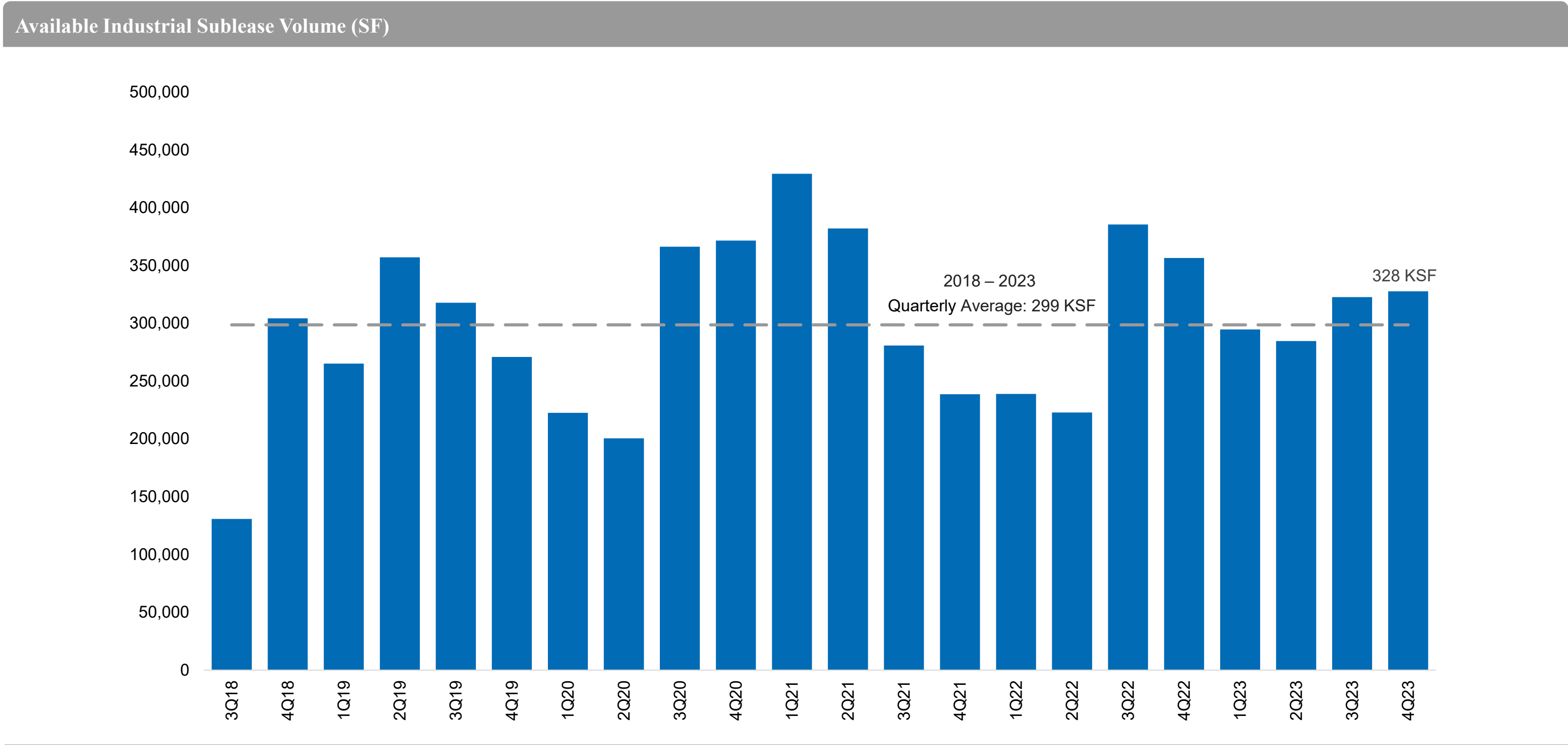
Source: Newmark Research



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Industrial Sublease Availability Slightly Increases

Industrial sublease availability increased by 1.6% during the fourth quarter of 2023 and is slightly above the five-year quarterly average.



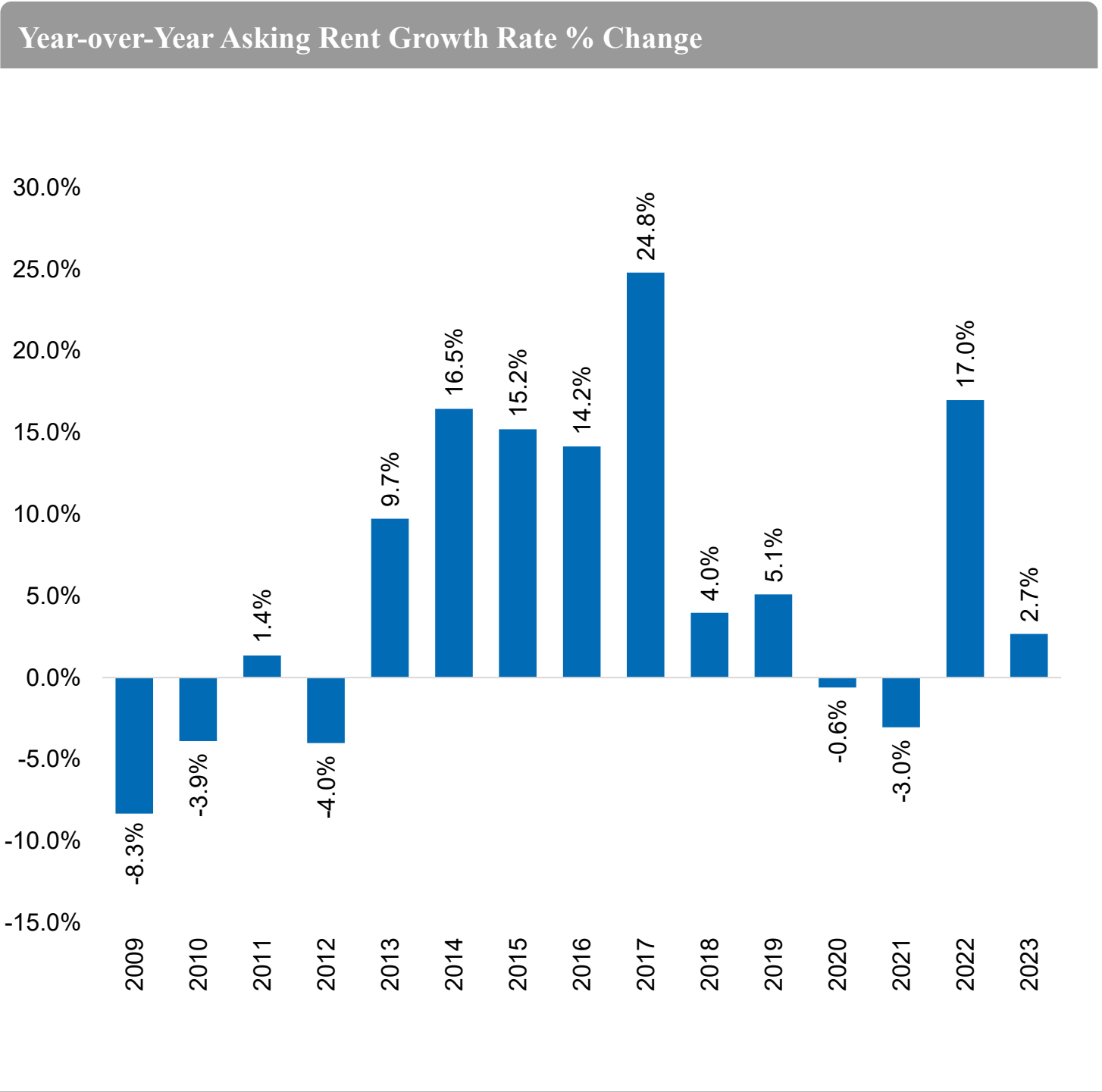
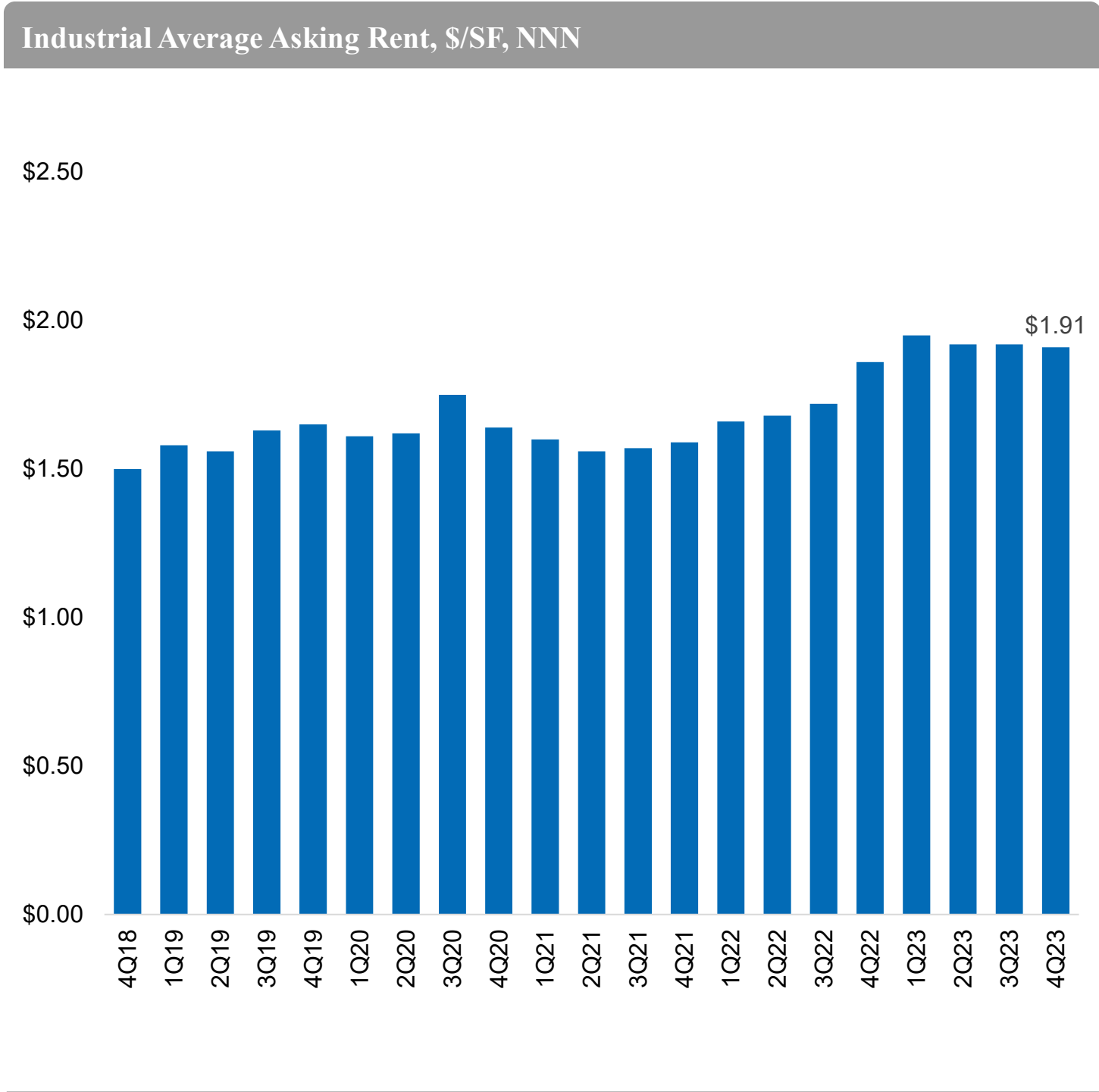
Source: Newmark Research, CoStar



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Average Industrial Asking Rent Decreases

The overall average asking rate for industrial space along the North Peninsula slightly decreased from \$1.92/SF in the previous quarter to \$1.91/SF in the fourth quarter of 2023.



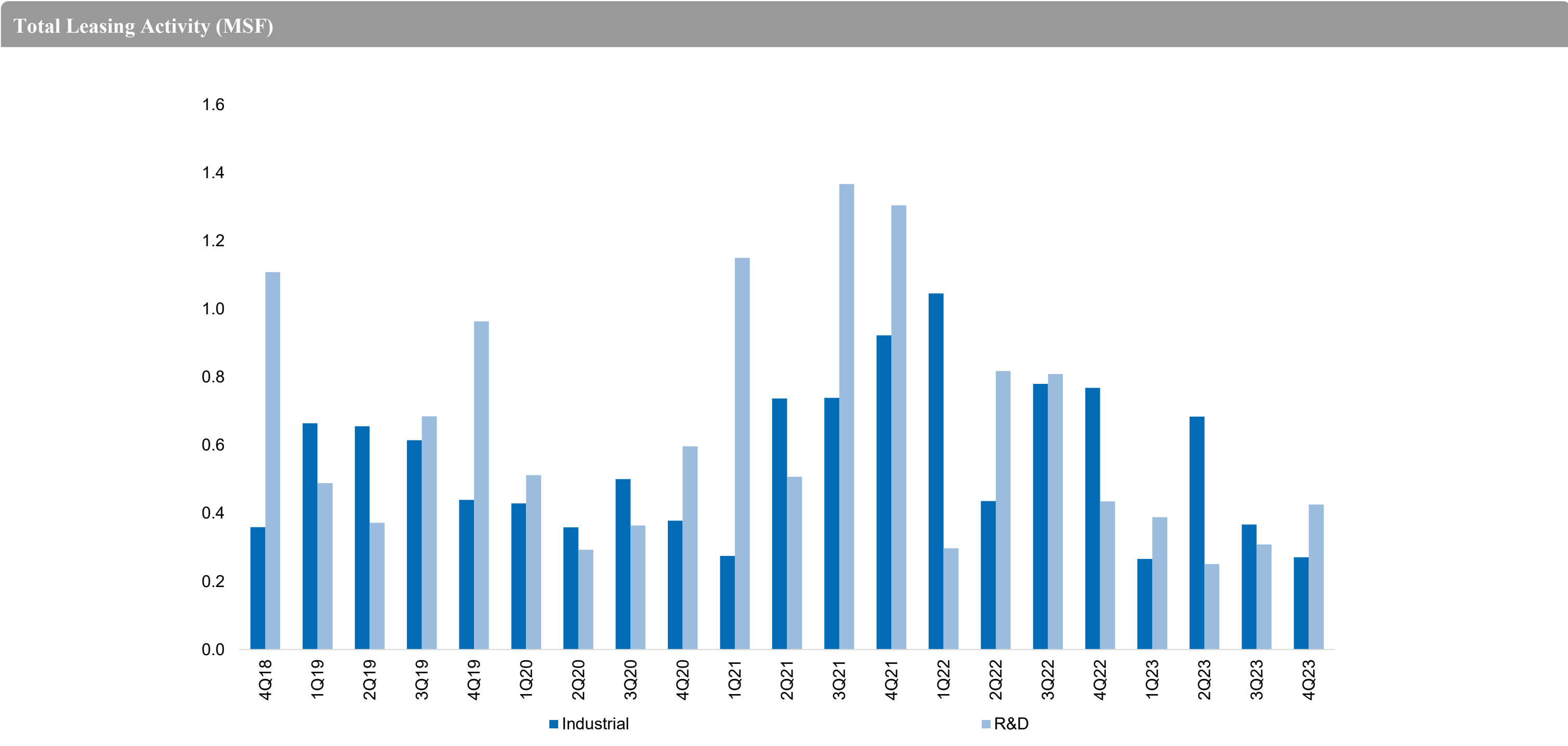
Source: Newmark Research, CoStar



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Industrial Leasing Trends Downwards for a Third Consecutive Quarter

Industrial leasing activity this quarter was recorded at 271,000 SF, compared with 368,000 SF in the previous quarter. R&D leasing activity was recorded at 426,000 SF, compared with 309,000 SF in the previous quarter. Leasing may continue to slow in 2024 due to the economy and the presidential election.



Source: Newmark Research, CoStar

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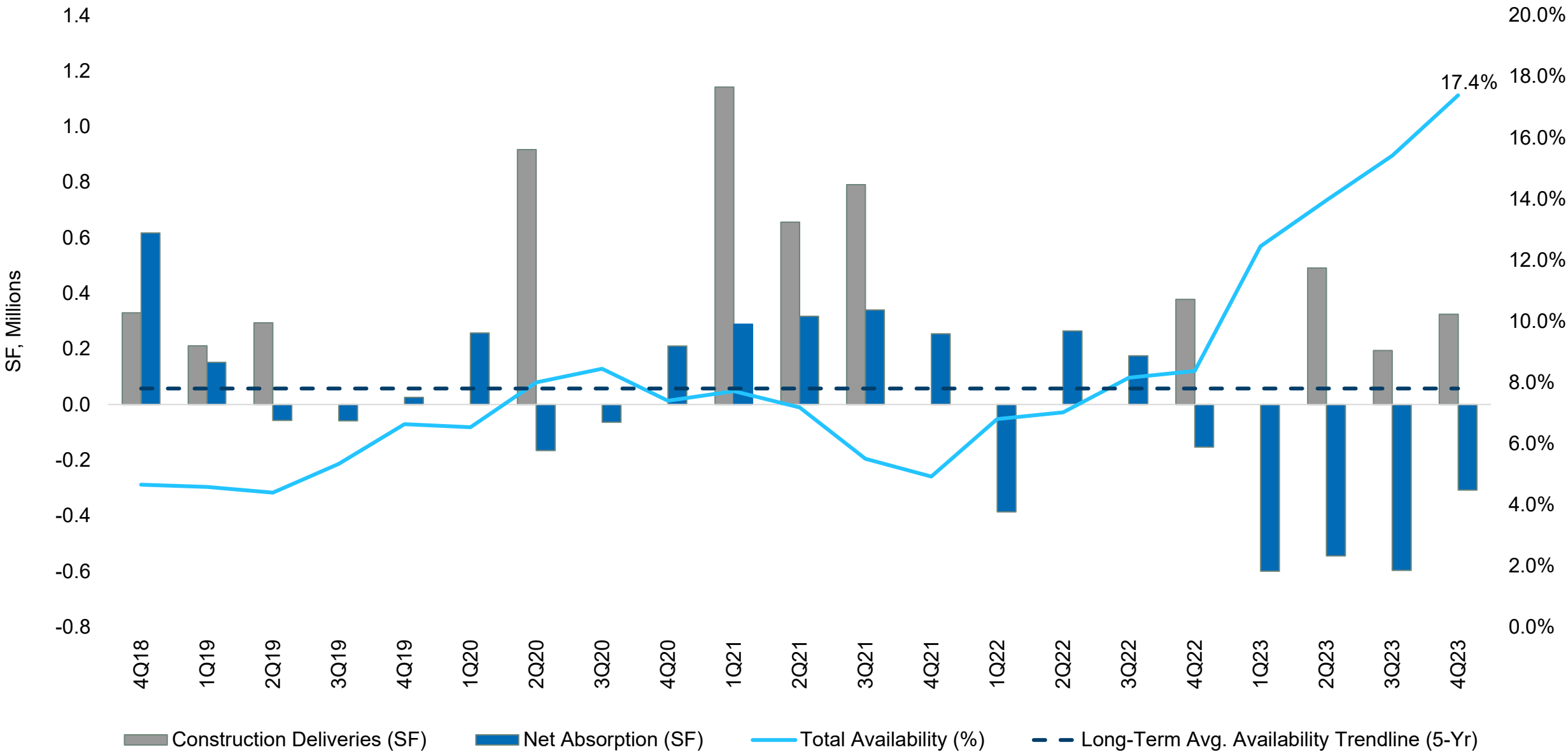
R&D Leasing Market Fundamentals



R&D Availability Continues Upwards Trend

Market-wide R&D availability increased to 17.4% this quarter, up from 15.4% in the previous quarter and up from 8.4% 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



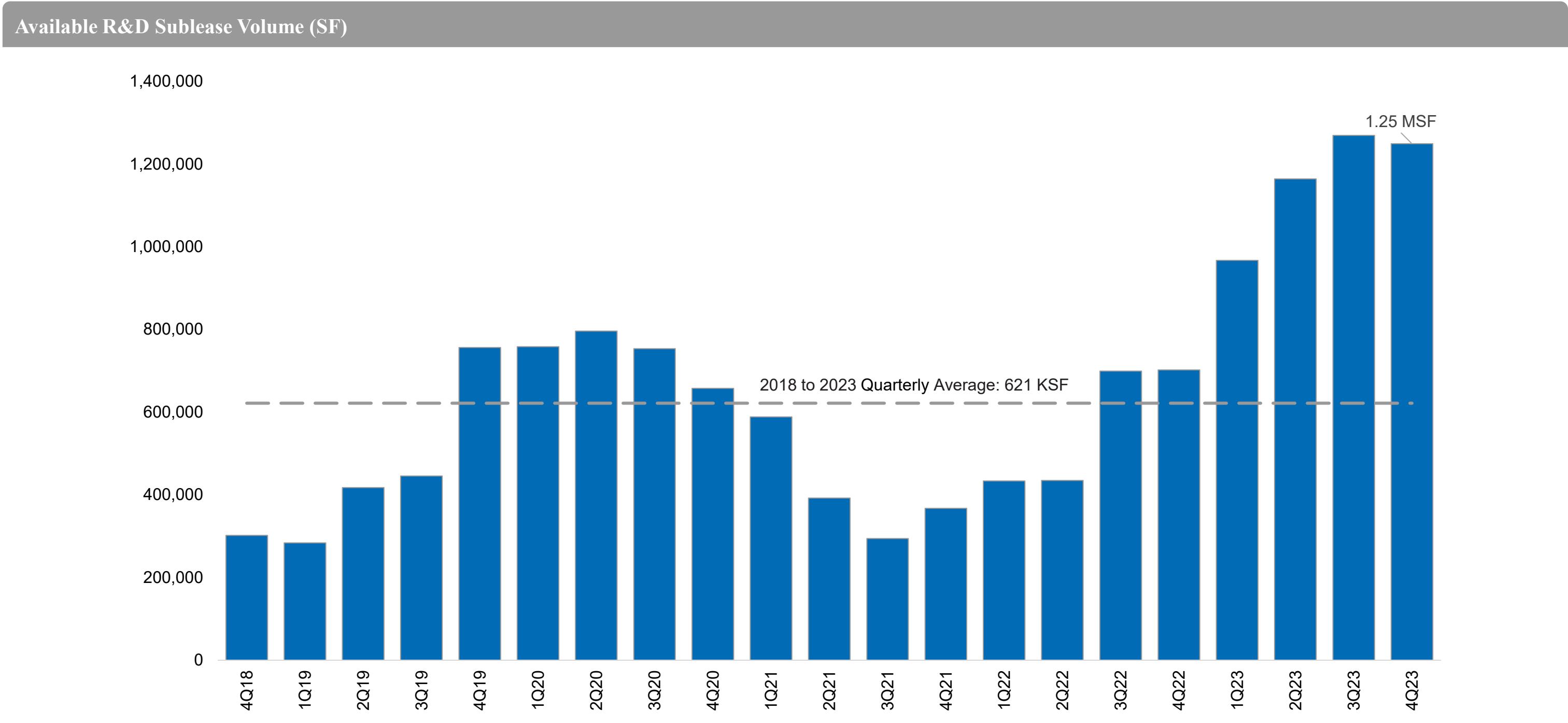
Source: Newmark Research



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Sublet Space Declines but Still More than Double the Five-Year Quarterly Average

R&D sublease availability for the quarter was recorded at 1.25 million SF, down from 1.27 million SF in the previous quarter but up from 702,000 SF one year ago. Downsizing decisions, cash preservation and plans to shrink real estate footprints among some of the region’s prominent life science companies has contributed to the elevated supply of sublet space on the market.



Source: Newmark Research, CoStar

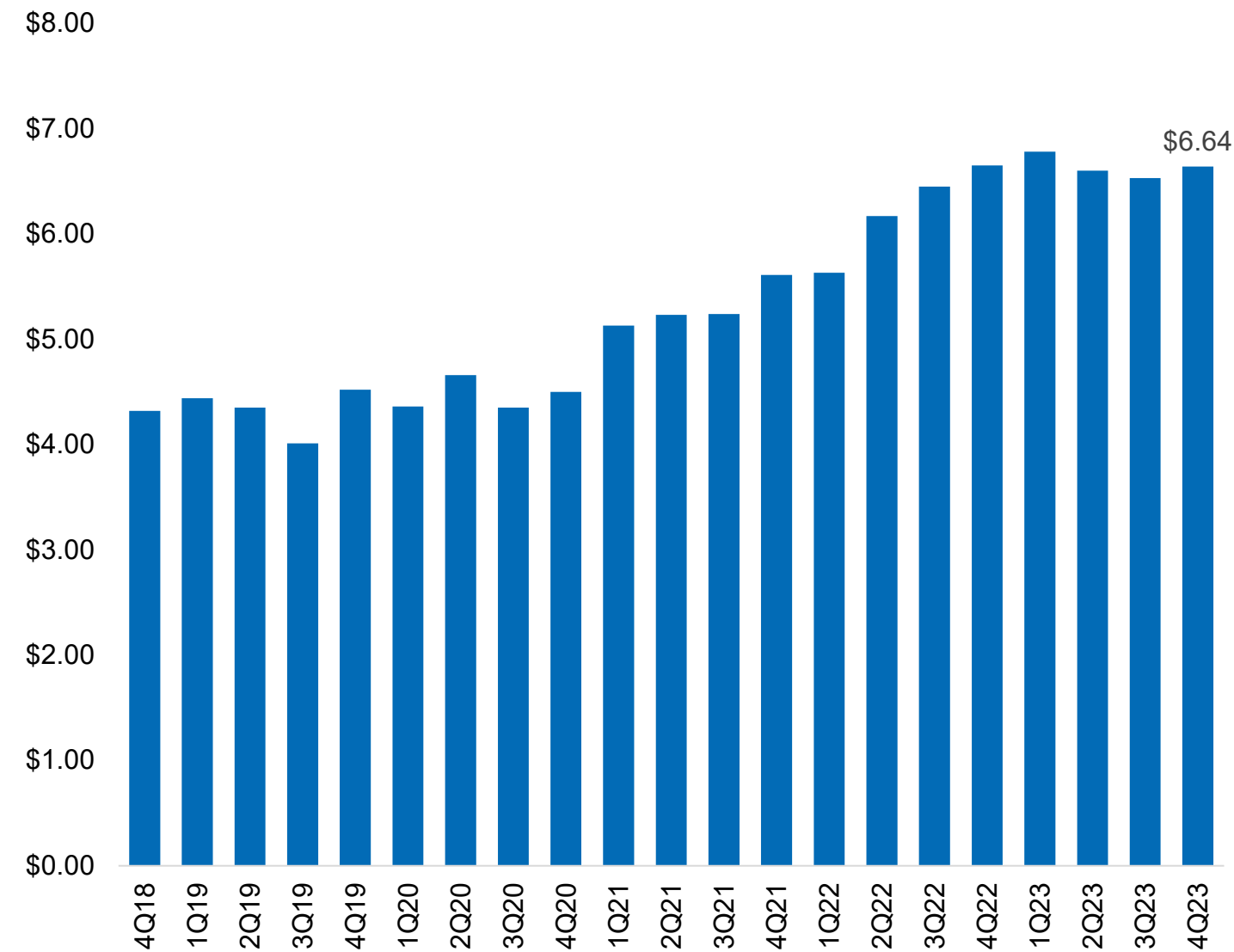


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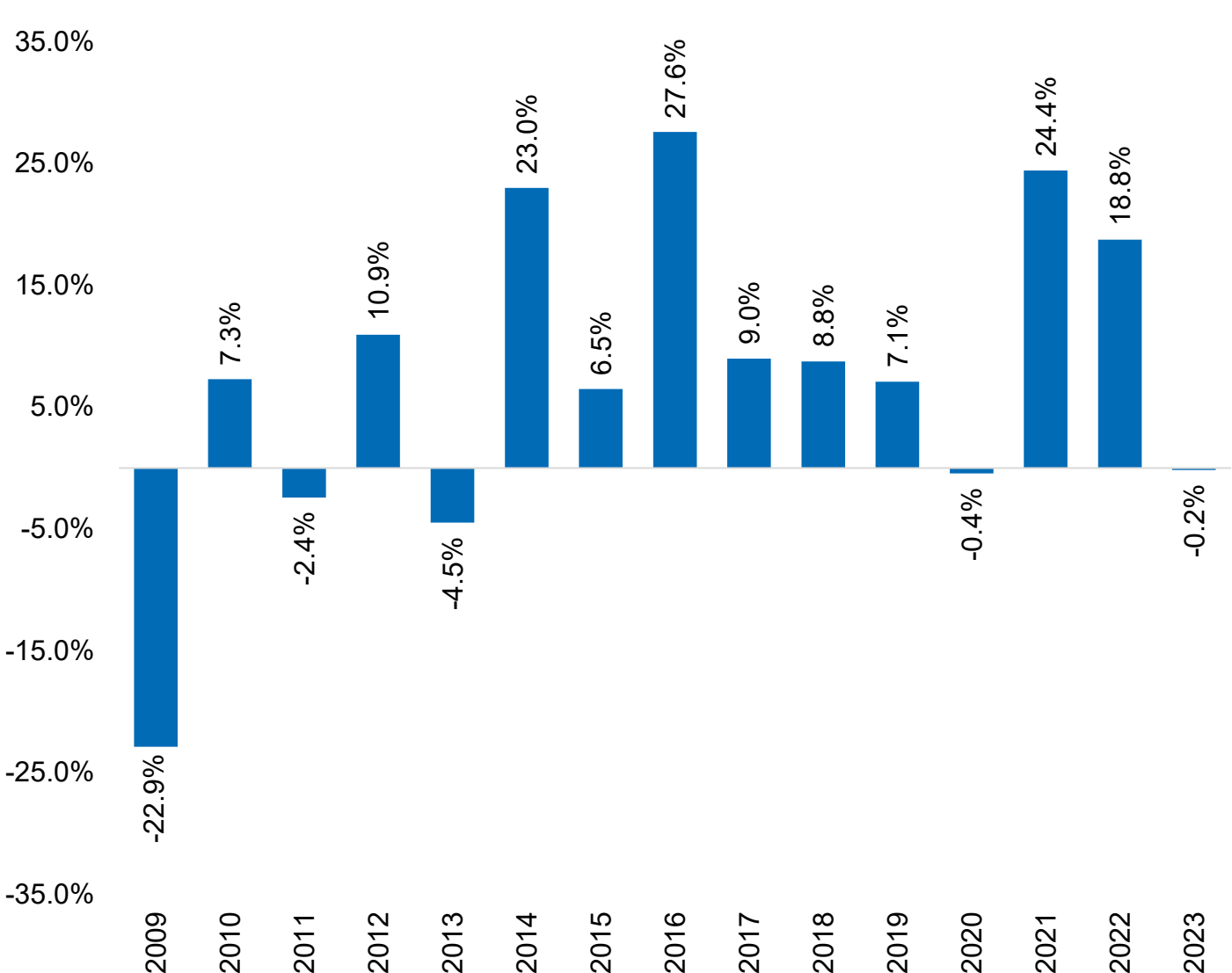
Average R&D Asking Rent Increases

The overall average asking rent for R&D space along the North Peninsula increased quarter over quarter from \$6.53/SF in the third quarter of 2023 to \$6.64/SF in the fourth quarter of 2023. Year-over-year rent growth is down 0.2% over the last 12 months.

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



Year-over-Year Asking Rent Growth Rate % Change



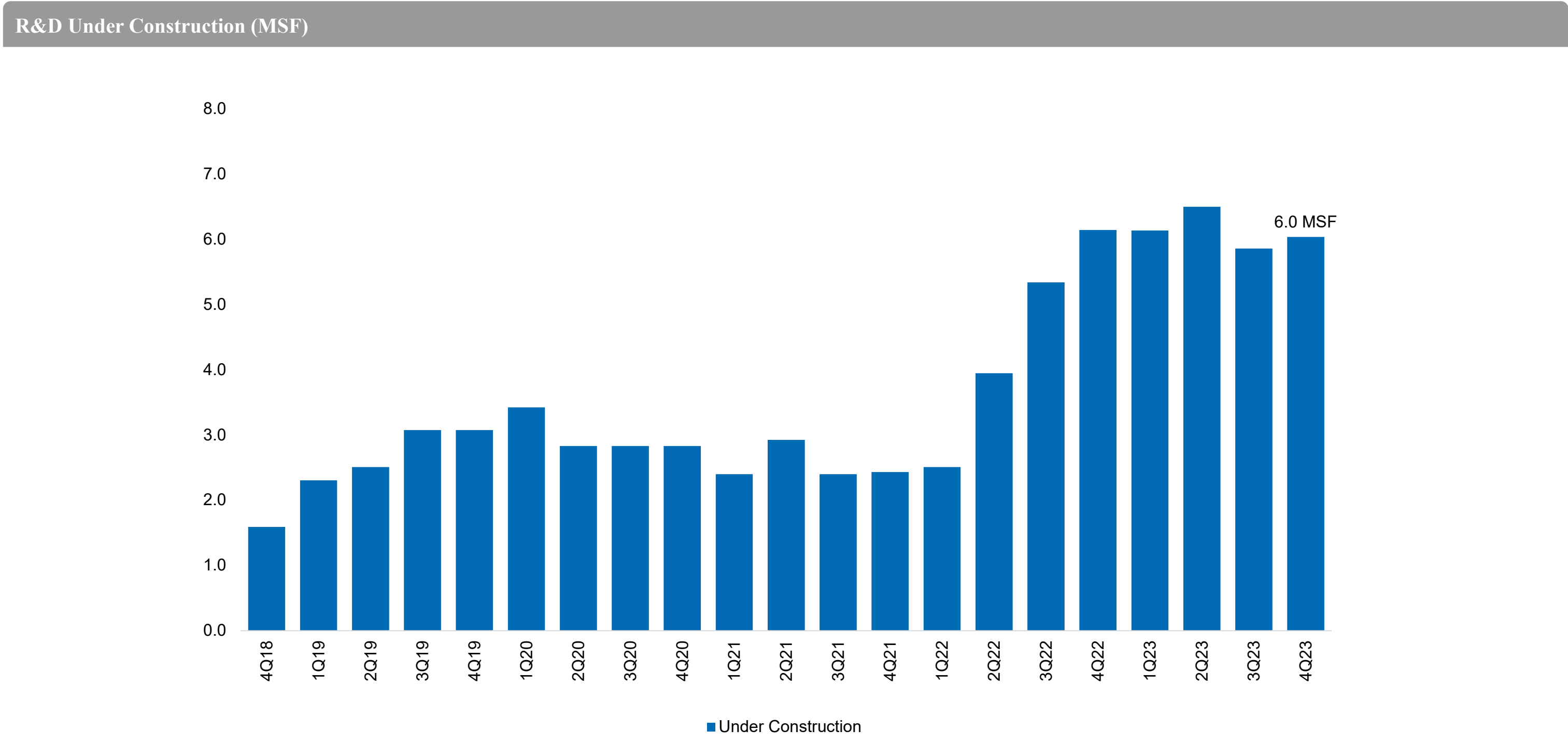
Source: Newmark Research, CoStar



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R&D Pipeline Remains Elevated

The total volume of under-construction R&D product increased in the fourth quarter of 2023 and was recorded at 6.0 million SF, with 9.7% of that under-construction figure already preleased. The most notable delivery this quarter was Phase V of BioMed Realty’s Gateway of Pacific Project in South San Francisco, totaling 325,000 SF.



Source: Newmark Research, CoStar

Notable 4Q23 Lease Transactions

There were four industrial transactions greater than 20,000 SF executed this quarter, compared with five 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
Cargo Therapeutics <i>Cancer treatment firm Cargo Therapeutics completed the largest deal of the quarter, leasing 99,557 square feet at 835 Industrial Road.</i>	835 Industrial Rd	San Carlos	Direct Lease	99,557
Altos Labs <i>Biotechnology company Altos Labs completed the second-largest deal of the quarter, renewing a portion of their lease and expanding into additional space in two buildings in the Redwood LIFE project.</i>	Redwood LIFE	Redwood Shores	Renewal/Expansion	72,557
SIXT rent a car <i>SIXT rent a car completed the third-largest deal of the quarter, leasing the 70,328-square foot warehouse at 220 Shaw Road.</i>	220 Shaw Rd	South San Francisco	Direct Lease	70,328
CableCom <i>Cable and telecommunications service provider company CableCom completed the fourth-largest deal of the quarter, renewing their 40,000-square foot lease at 137 Utah Avenue.</i>	137 Utah Ave	South San Francisco	Lease Renewal	40,000
Soleil Labs <i>Biotechnology company Soleil Labs completed the fifth-largest deal of the quarter, subleasing 32,113 square feet from Graphite Bio on the second floor at 233 E. Grand Avenue.</i>	233 E. Grand Ave	South San Francisco	Sublease	32,113

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Appendix / Tables





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