



May 13, 2021

WESTERN REGION RESEARCH INSIGHTS



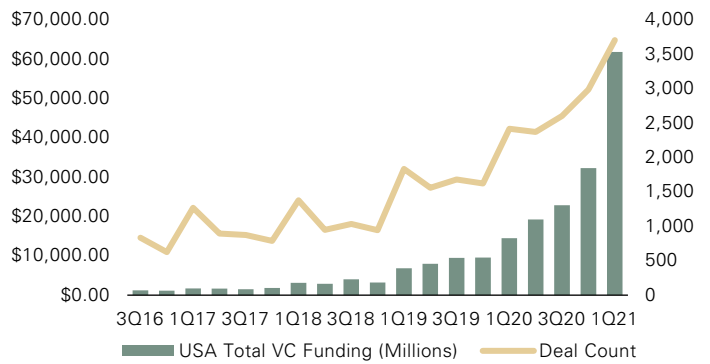
The Golden Age of Venture Capital

While the venture capital (VC) industry has roots going back to the postwar era, it was the tech boom of the early 1990s that created the modern industry of today. This form of private equity financing has since become ubiquitous with technology; funding startups, early-stage and emerging companies deemed to have high growth potential. And, just as most technology companies thrived during the pandemic, VC funding has accelerated vastly during the Coronavirus crisis—breaking all previous records in 2020 and on pace to surpass those metrics in 2021.

According to the latest data from capital markets research firm, PitchBook, VC funding in the United States approached \$90 billion in 2020. This was nearly triple 2019's previous record of \$32.8 billion and continuing a trend of accelerated VC investment that had been gradually ramping up since 2013. Keep in mind that VC funding levels only first surpassed the billion-dollar mark in 2016. It had averaged roughly \$360 million a year between 2010 and 2015. That trajectory has only intensified heading into 2021; VC funding in Q1 reached a whopping \$61.8 billion.

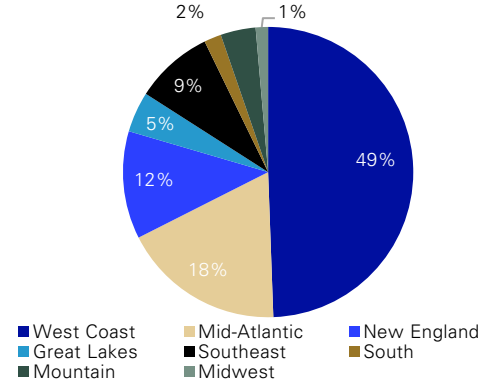
VC funding has been dominated by tech hub markets (Bay Area, Boston, DC, New York, San Diego, Seattle). While the current wave of funding has expanded to include rising new hotspots (Austin, Denver, Miami, etc.), this has not fundamentally changed. From 2015 to 2019 the West Coast accounted for 44% of all funding; since 2020 that has increased to 52%. In that same period, New England grew its share from 10% to 12%.

USA Total VC Funding



Source: PitchBook

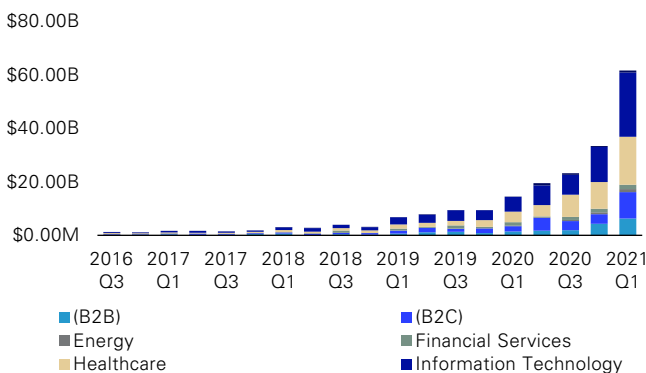
USA Total VC Funding by Region Q1 2021



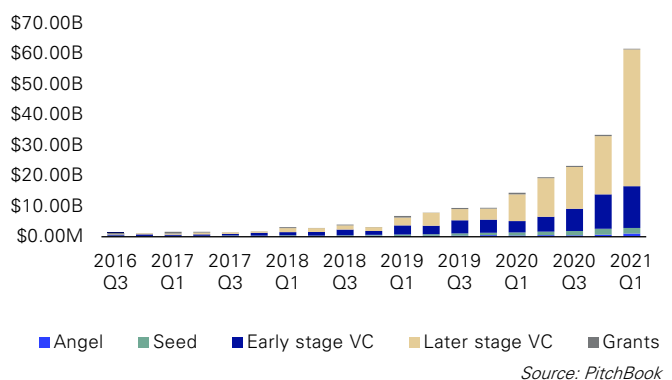
Source: PitchBook

VC Funding by Industry and Stage

USA VC Funding by Industry



USA VC Funding by Stage



Source: PitchBook

The Groundwork for a Roaring 20s Scenario?

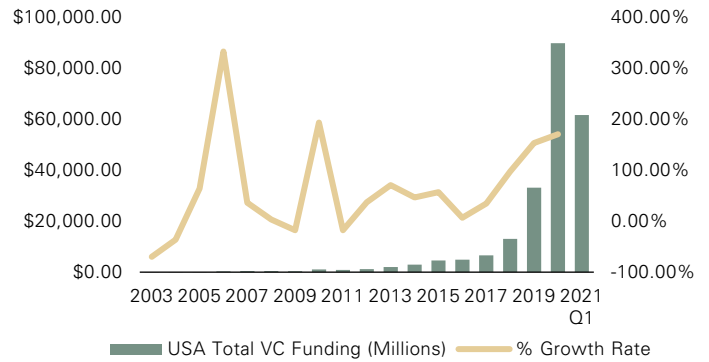
Over half of the VC funding raised so far in 2021 has gone towards smaller organizations. This bodes well for commercial real estate since these are the firms most likely to use that investment to expand and increase hiring. Organizations with less than 60 employees accounted for 39% of all funding; those with 61 to 150 workers accounted for an additional 20% of all VC investment.

From digital health to autonomous vehicles and in virtually every category of industry, new tech verticals have risen over the past few years. PitchBook currently tracks 133 emerging verticals; some 34 of which have garnered \$1 billion or more in investment since 2019.

While the uneven economic impacts of the pandemic are certainly a factor in the acceleration of VC funding, it would be a mistake to assume that this was the only factor behind the recent surge. VC funding has been posting double digit growth since 2017.

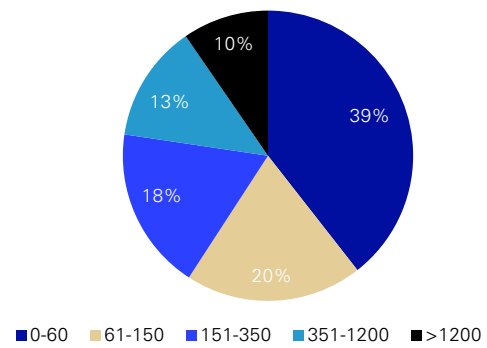
For those that have suggested a Roaring 20s economic scenario coming out of the pandemic, the current surge in VC funding may represent the framework for this to occur. This ramp up is about the next wave of technologies that will drive the economy heading deeper into the 2020s and beyond. New and fast-growing technologies like blockchain, the internet of things (IoT), artificial intelligence (AI) magnified by the network effect (we are moving towards trillions of connected devices globally) will likely dwarf past tech surges in adoption, scale and disruption. This is what is driving unprecedented VC investment which will prove to be transformative to the economy in the years ahead.

USA VC Funding by Year/Growth Rate



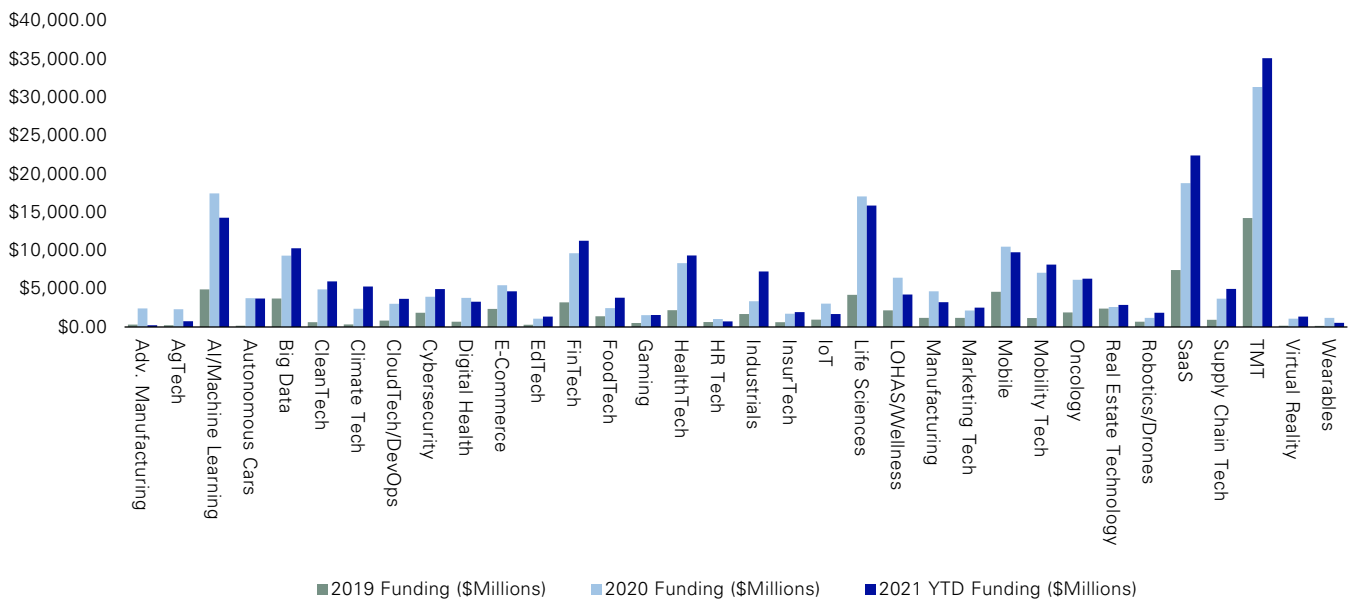
Source: PitchBook

USA Total Funding by Company Size Q1 2021



Source: PitchBook

VC Funding: Billion Dollar Verticals



Source: PitchBook

VC Funding and Commercial Real Estate Demand

The VC industry serves a vital role by funding entrepreneurship and innovation. While the popular perception is that VC funding is about initial research and development (this certainly does occur), most of it goes to support companies as they commercialize their innovations and grow. They provide fixed assets and working capital for all manners of infrastructure; from manufacturing to marketing—and critically, to employment and real estate.

Without deeply granular data, there is no easy formula for calculating the impact that VC funding has directly on office demand. Recipient companies are privately-held and they spend invested funds in a myriad of ways. But because VC investment is always about growth, expanding the workforce is usually involved—thus driving commercial real estate demand. Besides the issue of funded companies using those funds to expand in ways that may preclude real estate, VC investment raised within a region where a company is headquartered is frequently used to fund expansion elsewhere. So, while we know that VC funding often directly impacts real estate demand, quantifying exactly how much is a challenge.

To attempt to create some potential guideposts for this conundrum, we analyzed the data for both VC funding and commercial real estate deal flow in the Bay Area (the most dominant VC market over the past 20+ years). Between 2008 and 2019, total leasing volume (gross absorption) for office space in the Bay Area (San Francisco, San Jose and Oakland Metros) totaled 350.4 million square feet (MSF). A total of \$19.9B in VC funds were raised during this time. Until recently, these two metrics tracked on similar paths.

If we were to make the conservative assumption that within the Bay Area just 5.0% of the deal activity during this period had its roots in VC-funded growth (anecdotal evidence from our brokers suggests this estimate is low), it would equate to roughly 880 square feet (SF) of office demand per \$1 million raised. Until the pandemic...

Since 2020 (including Q1 2021), VC investments in the Bay Area has reached a whopping \$57.2B. But virtually none of this has translated into commercial real estate demand. Instead, against a backdrop of uncertainty, lockdowns and work-from-home (WFH) contingencies, the opposite happened. Roughly 18 MSF of space came back to the market; much of it sublease space. Tenants that had been in growth mode (including many that realized record profits in 2020) largely postponed real estate moves.

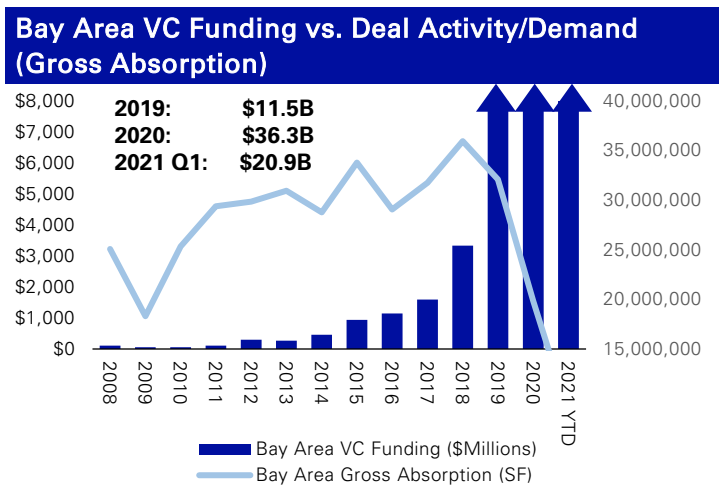
Q1 2021 will prove to be the turning point. Regional office leasing activity has been gradually picking up as the pace of vaccinations

has accelerated. Meanwhile, as of May 2021 active tenant requirements in San Francisco (one of the nation’s most impacted markets during the pandemic) had reached 6.2 MSF. While still 15% below the pre-pandemic peak, this is greater than the region’s five-year average for active requirements of 6.1 MSF.

But what of the \$57.2B in VC funds raised since 2020 that hasn’t translated into real estate demand? Utilizing the previous conservative ratio would suggest as much as 57.5 MSF of deal flow that simply didn’t happen in the Bay Area. At least, not yet. We doubt that the pandemic has permanently changed the correlation between VC-funded growth driving real estate demand. The real question is the impact of WFH and greater workplace flexibility that we will see coming out of the pandemic. But even if we make another extremely conservative assumption that WFH reduces user footprints in the long run by 33% (not something we view as likely) , this still equates to roughly 33.2 MSF of potential pent-up deal activity in the Bay Area alone.

If you use the same assumptions for the entire US (nearly \$150.5B in VC funding raised in the past five quarters), this translates into over 87.3 MSF of potential pent-up office demand nationally (though the primary concentrations would be in tech markets).

These are just potential guideposts; the near and longer-term impacts of WFH are not fully clear and timetables remain wholly dependent upon the pandemic’s timing. But within strong tech markets, VC funding has been a major driver of real estate demand over the past three decades. With record levels of VC investment (which continues to accelerate—2021 totals will far surpass last year’s record totals), it is difficult to imagine any scenario where tech-driven office markets won’t be the beneficiaries of a significant wave of pent-up and new demand. To what extent remains unclear. But we anticipate it will be substantial.



Source: Newmark, Costar Group, PitchBook

Bay Area VC

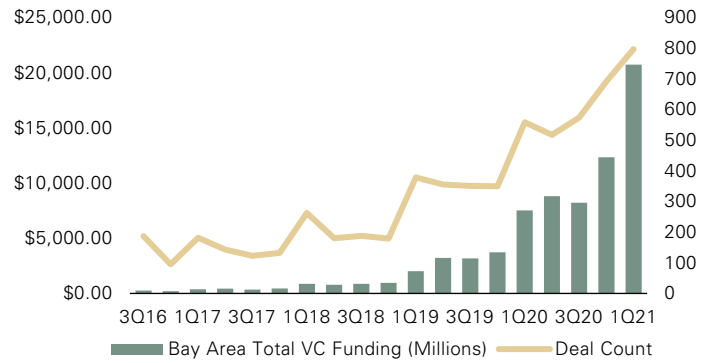
The Bay Area remains the most dominant of all US markets when it comes to VC funding. Just under \$40.7B was raised across over 2,600 deals in 2020. Funding was even more robust in Q1 2021; amounting to over \$20.7B across nearly 800 deals.

Information technology companies led the charge; raising nearly \$16.1B in 2020 and another \$10.2B in Q1 2021. Healthcare (including Life Sciences) companies recorded an influx of over \$8.5B in 2020 investment. They raised another \$4.1B in the first quarter of this year. The Business-to-Consumer sector raised \$6.8B in 2020 and an additional \$2.4B in Q1. Nearly \$3.3B was raised by Business-to-Business (B2B) tech verticals in 2020. B2B companies nearly surpassed that in the first three months of 2021 alone, raising over \$2.9B. Financial services (including FinTech) companies respectively raised \$1.7B and \$424 million during this period. Materials and Resources verticals raised over \$276 million in 2020 and have garnered an additional \$14 million in investment in the first three months of the year. The Energy sector raised \$228 million in 2020 but have far surpassed that total in the first quarter of 2021 with an additional \$743 million in investment.

In what bodes well for likely employment growth and real estate demand, nearly half of the funds raised in Q1 went to smaller companies. Organizations with less than 60 employees accounted for 30% of all funding; those with 61 to 150 workers accounted for 19% of all VC investment.

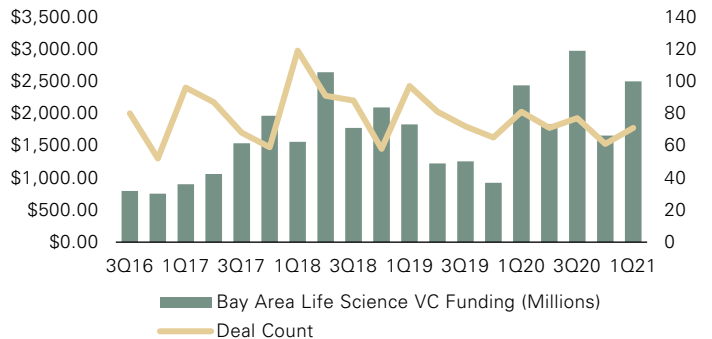
Later-stage VC took centerstage; driving nearly \$25.2B in investment in 2020 and another \$16.3B in Q1. Early-stage VC deals accounted for nearly \$9.5B in 2020 investment and over \$3.8B so far this year. Seed and Angel investment deals raised roughly \$2B in 2020 and have accounted for another \$666 million in funding through the end of March 2021.

Bay Area Total VC Funding



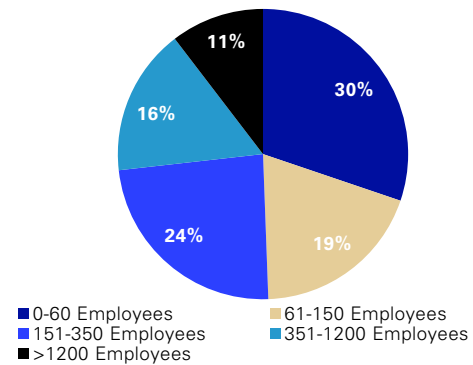
Source: PitchBook

Life Sciences: Bay Area VC Funding



Source: PitchBook

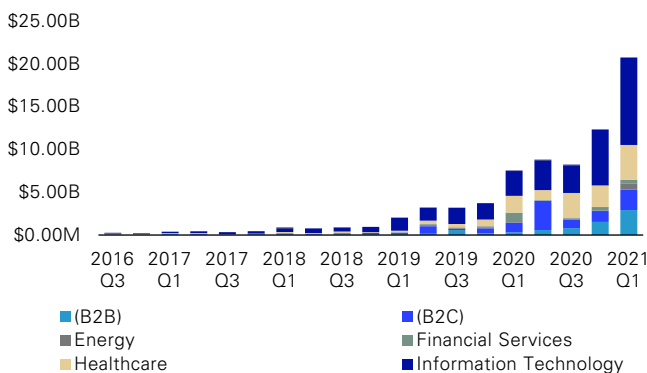
Bay Area Funding by Company Size Q1 2021



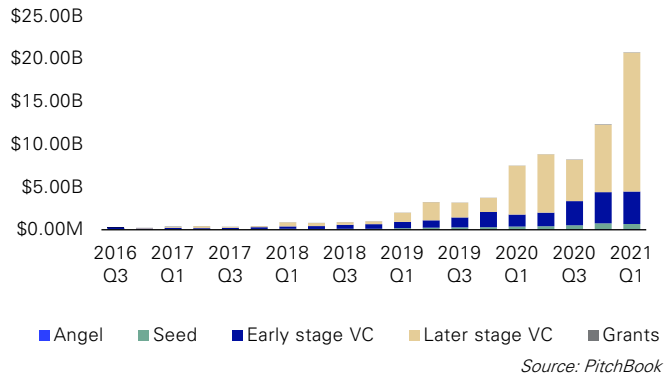
Source: PitchBook

VC Funding by Industry and Stage

BAY AREA VC Funding by Industry



BAY AREA VC Funding by Stage



Source: PitchBook

Southern California VC

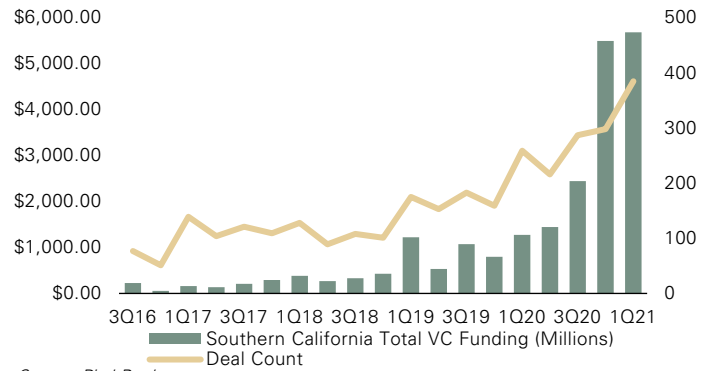
Historically, Southern California VC activity has been dominated by San Diego’s formidable biotech cluster. But the emergence of Los Angeles’ Silicon Beach over the past decade has changed that. Nearly \$10.7B was raised across 1,060 deals in 2020. Southern California is on pace to significantly exceed that in 2021; through Q1 \$5.7B in additional VC funding had been raised across 385 deals.

Healthcare companies drove the greatest level of VC investment in Southern California; raising over \$3.7B in 2020 funding and over \$2.0B in Q1 2021. Information technology followed closely behind, nearly \$3.1B in 2020 funding and an additional \$1.9B in Q1 2021. The Business-to-Consumer sector followed; raising \$1.6B in 2020 and nearly \$719 million through March 2021. Over \$1.4B was raised by Business-to-Business (B2B) tech verticals in 2020. Funding fell just short of \$500 million in Q1. The Energy sector raised nearly \$600 million in 2020; so far this year VC funding has topped \$62 million. Financial services verticals raised \$106 million in 2020. They have more than doubled that (over \$222 million) in the first three months of the year. That same pattern played out for the Materials & Resources sector; it raised just \$71 million last year, but Q1 funding is approaching \$233 million.

Local VC investment has overwhelmingly focused on smaller companies; 45% of the funds raised in Q1 went to organizations with less than 60 employees while those with payrolls in the 61 to 150 worker range drove 24% of all VC investment. Smaller firms tend to drive the highest levels of job creation; this bodes well for likely commercial real estate demand.

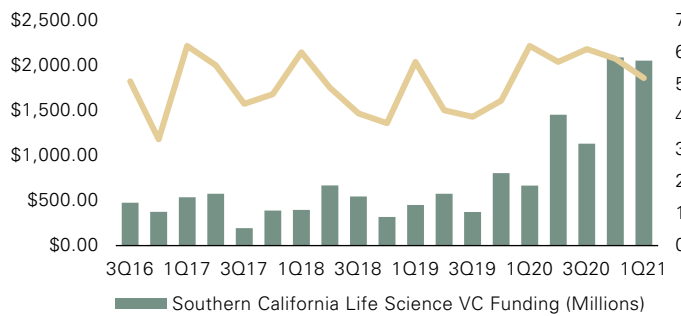
Later-stage drove activity in Southern California; driving nearly \$5.3B in investment in 2020 and an additional \$3.4B in the first three months of 2021. Early-stage VC deals accounted for nearly \$4.0B in 2020 investment and another \$1.9B in Q1. Seed and Angel investment deals raised roughly \$880 million in 2020 and have generated close to \$40 million in Q1 2021 funding.

So. California Total VC Funding



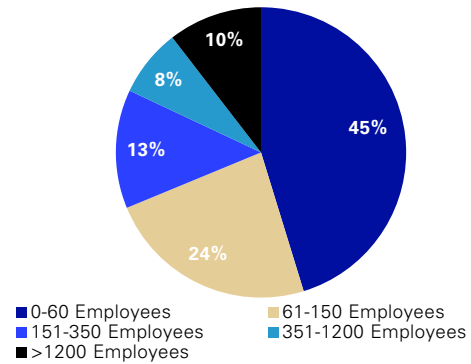
Source: PitchBook

Life Sciences: So. California VC Funding



Source: PitchBook

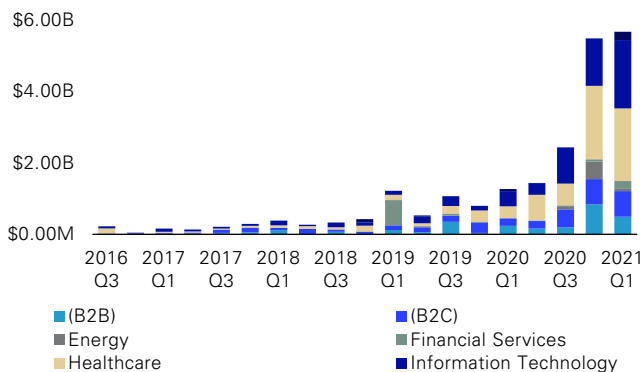
So. California Funding by Company Size Q1 2021



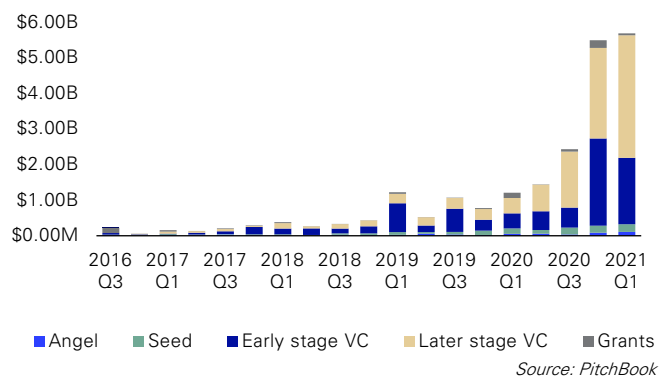
Source: PitchBook

VC Funding by Industry and Stage

SOUTHERN CALIFORNIA VC Funding by Industry



SOUTHERN CALIFORNIA VC Funding by Stage



Source: PitchBook

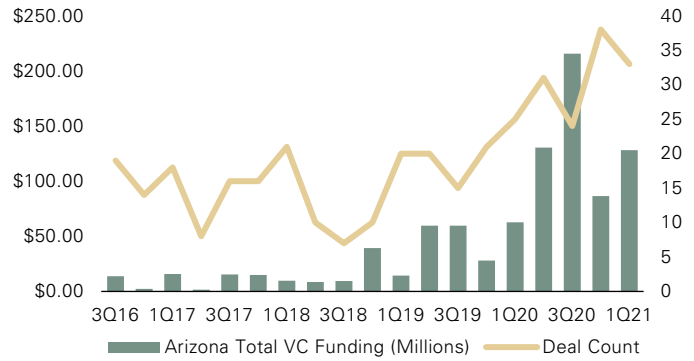
Arizona VC

Arizona, primarily the Phoenix market, has never been known as a VC hotspot. Regardless, that notion is changing; thanks both to continued robust population growth (accelerated by the pandemic) and the ongoing explosion of VC funding nationally. The state amassed over \$495 million in VC funding in 2020 across 118 deals and the Q1 2021 total of \$128 million (via 33 deals) suggests it may break records once again. While traditional VC markets increased their market share of VC funding during the pandemic, what were considered secondary VC prior to CoVid-19 have all posted exponential growth.

While this remains far from a billion-dollar VC market, multiple verticals have posted substantial growth. The Business-to-Consumer sector registered the greatest growth; raising over \$126 million in 2020 and over \$26 million through March 2021. Nearly \$118 in new funding was raised by the Information Technology sector in 2020; this sector raised over \$61 million during the first three months of 2021. Business-to-Business (B2B) tech verticals followed; raising nearly \$92 million last year and driving over \$18 million in additional support in Q1. Meanwhile, Healthcare (which includes Life Sciences) saw a handful of local companies landing investors to the tune of \$84 million in 2020, with an additional infusion of \$10 million in Q1. The Energy sector raised nearly \$55 million in 2020; funding in Q1 2021 hit the \$10.2 million mark. Financial Services and the Materials & Resources sectors were the local laggards. Local FinTech raised just under \$10 million in 2020 and an additional \$2 million in Q1. Materials & Resources scored less than \$1.5 million in 2020 investments and no Q1 funding.

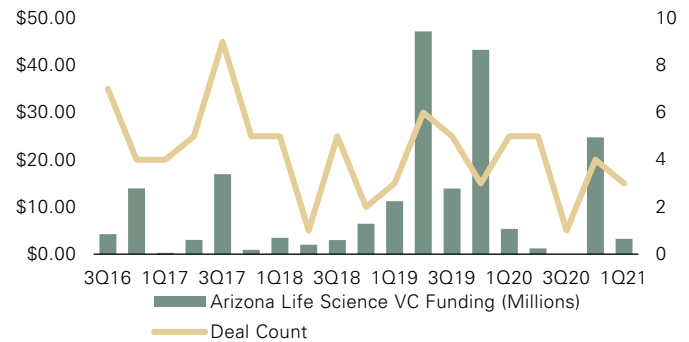
Arizona VC investment has overwhelmingly focused on smaller companies; 50% of the funds raised in Q1 went to organizations with less than 60 employees while those with payrolls in the 61 to 150 worker range drove 24% of all VC investment.

Arizona Total VC Funding



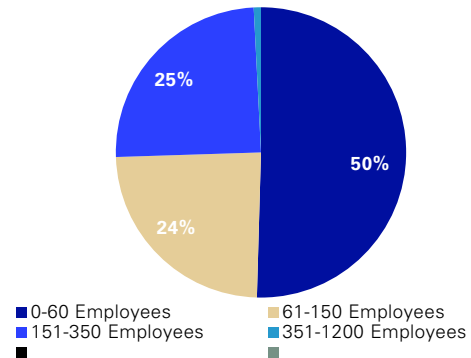
Source: PitchBook

Life Sciences: Arizona VC Funding



Source: PitchBook

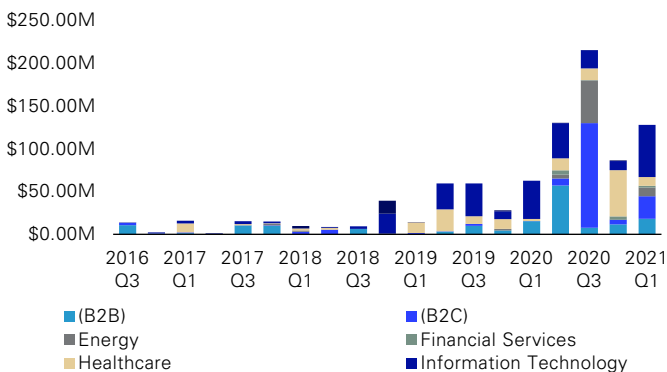
Arizona Funding by Company Size Q1 2021



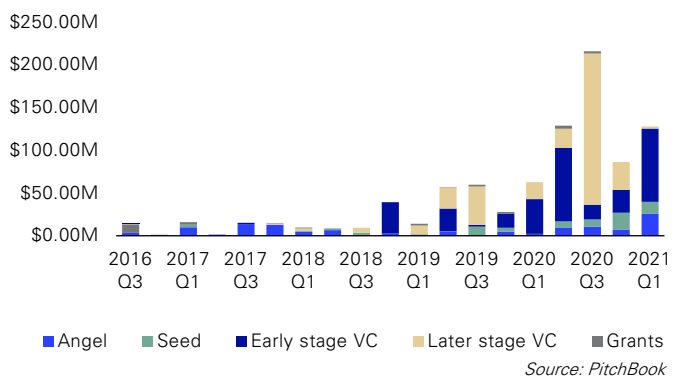
Source: PitchBook

VC Funding by Industry and Stage

ARIZONA VC Funding by Industry



ARIZONA VC Funding by Stage



Source: PitchBook

Nevada VC

Nevada, primarily Las Vegas, is another market where VC funding has traditionally been a non-factor in driving commercial real estate demand. That said, the Silver State has recently set records for VC investment—though that could be said for virtually every market where there is a tech or life science presence.

VC investment here has almost exclusively been driven by smaller organizations; 87% of the funds raised in Q1 went to organizations with less than 60 employees while the remaining 13% went to those with payrolls in the 61 to 150 worker range.

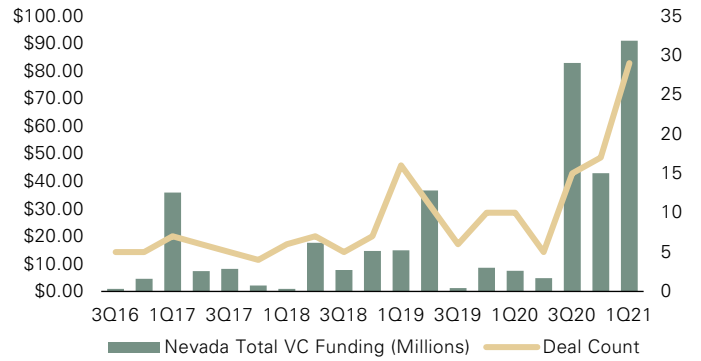
All told, the state amassed over \$138 million in VC funding in 2020 across 47 deals and just \$3 million in Q1 2021. Regardless, 2020 tallies set a record for a state where VC investment has never been a major driver of economic growth.

Local Information Technology players drove most of this investment; accumulating \$59 million in funding in 2020, though this sector nearly matched these levels with a robust Q1 that saw over \$57 million in additional investment raised.

Healthcare (including Life Sciences) was the runner-up; garnering over \$42 million in 2020 funding with an additional \$18 million over the first three months of the year.

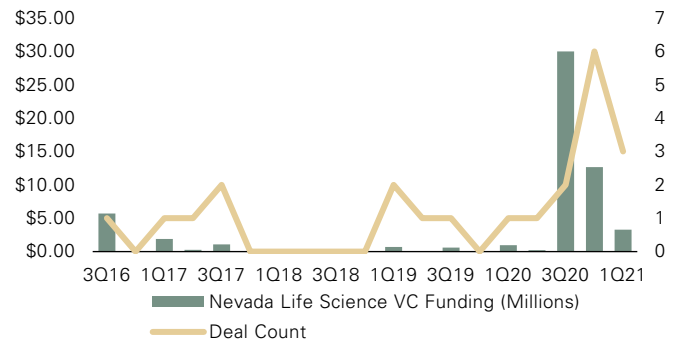
No other tech industry vertical drew more than \$25 million in funding last year; but that shouldn't come as a major surprise for a market that traditionally has had little tech presence. Despite this, early 2020 Census numbers indicate that, despite Nevada's traditional dependence on the hospitality industry as a major economic driver (perhaps the hardest hit of all by the pandemic), it benefited from accelerated population growth during the crisis.

Nevada Total VC Funding



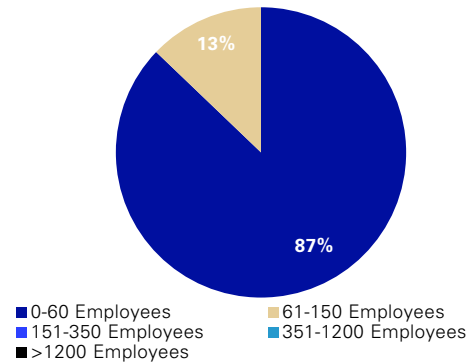
Source: PitchBook

Life Sciences: Nevada VC Funding



Source: PitchBook

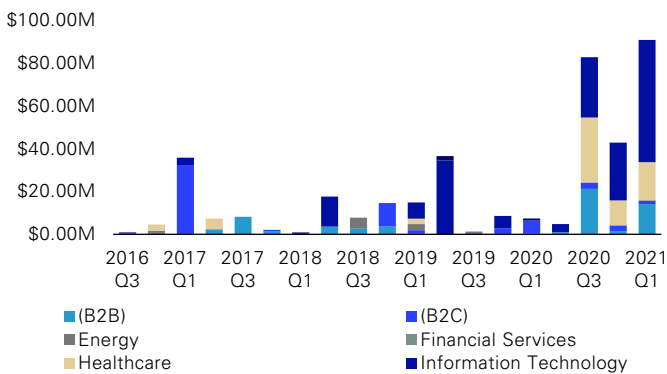
Nevada Funding by Company Size Q1 2021



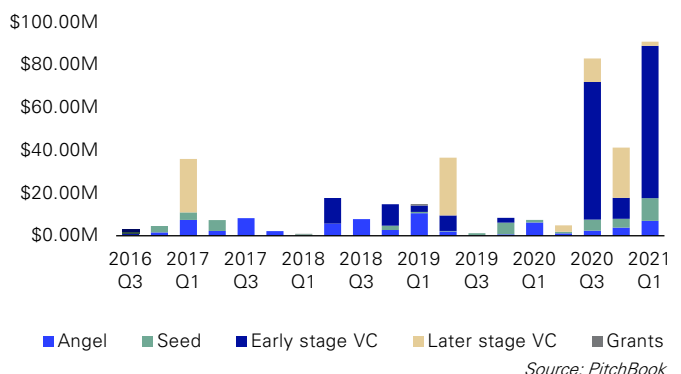
Source: PitchBook

VC Funding by Industry and Stage

NEVADA VC Funding by Industry



NEVADA VC Funding by Stage



Source: PitchBook

Utah VC

The most recent wave of VC funding in Utah demonstrates the emergence of Salt Lake City’s burgeoning tech sector. In 2020, Utah firms raised nearly one billion dollars in VC funding. All told, over \$958 million was raised across 133 deals. That momentum has only accelerated. Local firms have nearly matched that total in the first three months of 2021 alone. Q1 2021 VC funding reached \$956 million in the Beehive State.

One factor that bodes well for commercial real estate demand is that the lion’s share of funding has been driven by smaller companies looking to grow; 47% of the funds raised in Q1 went to organizations with less than 60 employees while an additional 15% went to those with payrolls in the 61 to 150 worker range.

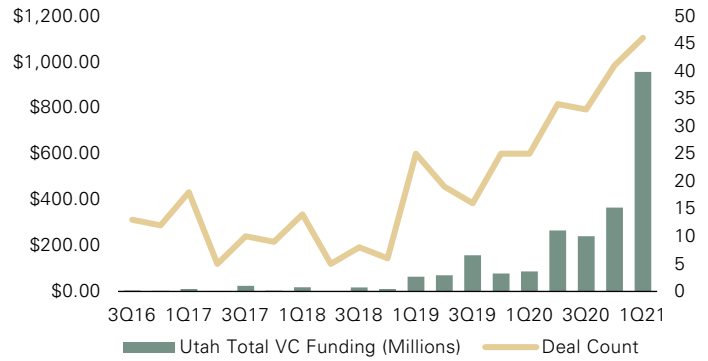
Local Information Technology players accounted for most of the action, garnering \$553 million in new VC investment in 2020 and surpassing that with an additional \$847 million in funding in Q1.

Healthcare (including Life Sciences) was the runner-up; landing over \$147 million in 2020 funding with an additional \$6 million so far this year. The Business-to-Consumer sector posted \$130 million in new VC investment last year and is on pace to significantly surpass that in 2021; this segment raised an additional \$74 million in Q1.

the greatest growth; raising over \$126 million in 2020 and over \$26 million through March 2021. Nearly \$118 in new funding was raised by the Information Technology sector in 2020; this sector raised over \$61 million during the first three months of 2021.

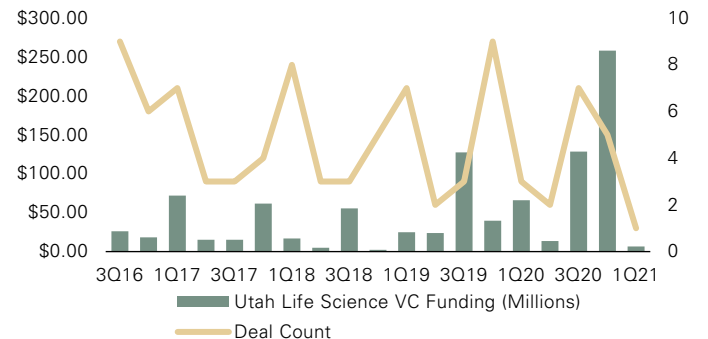
Business-to-Business (B2B) tech verticals followed; raising over \$83 million last year and driving over \$14 million in additional support in Q1. Financial Services and Fintech players reported \$35 million in new VC funding for 2020 and an additional \$15 million in Q1. The Energy sector saw a modest investment of \$10 million in 2020, but no new deals had closed as of the end of Q1 2021.

Utah Total VC Funding



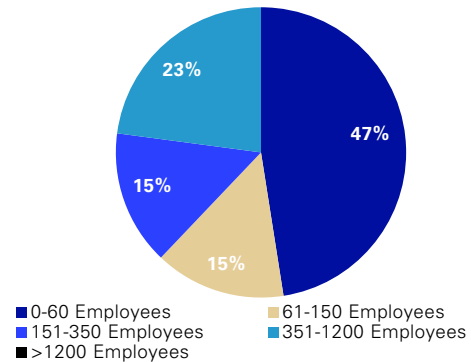
Source: PitchBook

Life Sciences: Utah VC Funding



Source: PitchBook

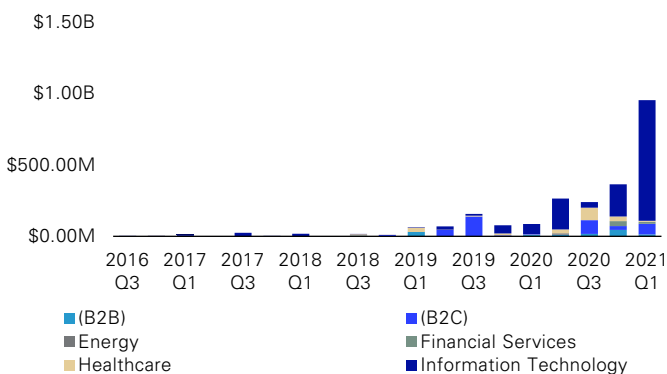
Utah Funding by Company Size Q1 2021



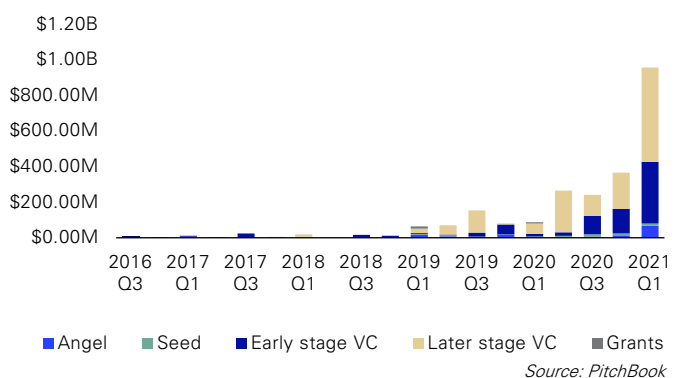
Source: PitchBook

VC Funding by Industry and Stage

UTAH VC Funding by Industry



UTAH VC Funding by Stage



Source: PitchBook

Oregon VC

Oregon firms raised nearly \$612 million in VC funding across 137 deals in 2020 but will likely far surpass that total in 2021. In Q1 2021, an additional \$372 million of VC investment poured into the state, overwhelmingly to Portland's maturing tech sector.

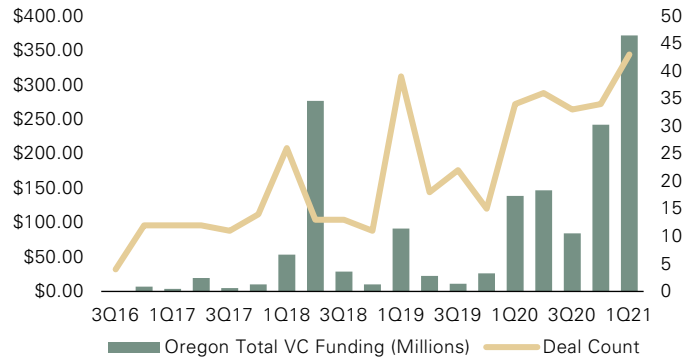
This wave of funding was overwhelmingly targeted to smaller companies and startups; 59% of the funds raised in Q1 went to organizations with less than 60 employees while an additional 9% went to those with payrolls in the 61 to 150 worker range.

Local Information Technology players were the big winners, surpassing \$260 million in new VC investment in 2020 and raising an additional \$39 million in funding in Q1. The Business-to-Consumer sector followed, posting \$153 million in new VC investment last year and has already surpassed that total in 2021; this segment raised an additional \$228 million in Q1.

Business-to-Business (B2B) tech verticals raised over \$138 million last year and landed just under \$26 million in additional funding in Q1. Healthcare and Life Science companies recorded over \$42 million in 2020 VC activity. They have already surpassed that in 2021, raising an additional \$65 million in investment in Q1.

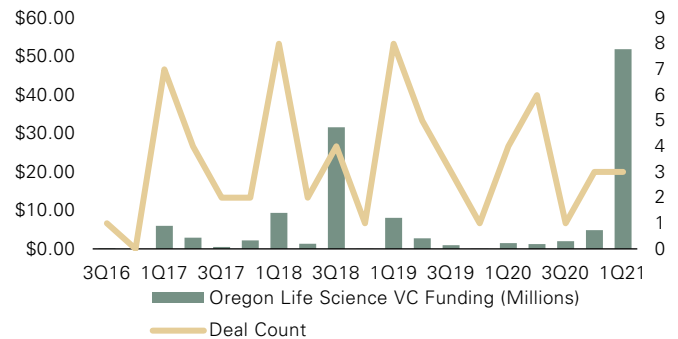
The Materials and Resources sector raised \$15 million last year and has been modestly active in 2021 with just \$1 million in new VC funding. Energy companies have also been active; raising \$3 million in 2020 but nearly \$13 million in Q1. Over 85% of the VC deals transacted so far this year have been for later-stage funding.

Oregon Total VC Funding



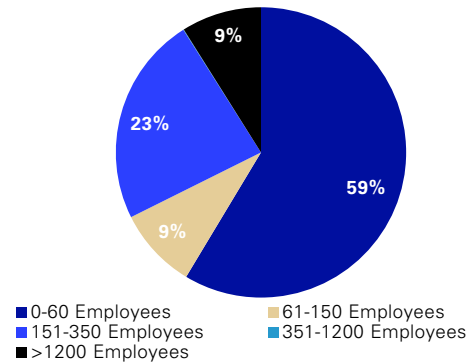
Source: PitchBook

Life Sciences: Oregon VC Funding



Source: PitchBook

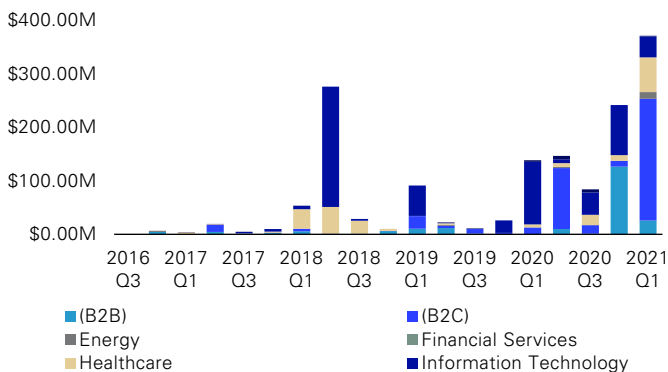
Oregon Funding by Company Size Q1 2021



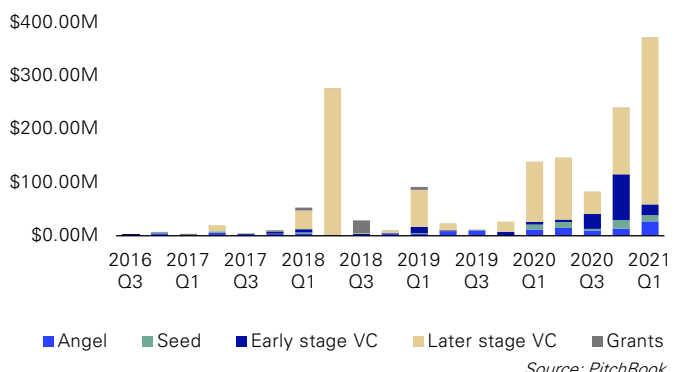
Source: PitchBook

VC Funding by Industry and Stage

OREGON VC Funding by Industry



OREGON VC Funding by Stage



Source: PitchBook

Washington State VC

Washington firms have raised over \$2 billion in VC funding across 118 deals in just the first three months of 2021. This is in addition to the more than \$2.5 billion that was raised in 2020, making it one of the most active VC markets in the US. Roughly 75% of that has been later-stage funding, with early stage, angel and startup/seed deals accounting for the remainder.

Nearly half (48%) of Q1 funding was landed by smaller companies and startups with less than 60 employees while an additional 17% went to those with payrolls in the 61 to 150 worker range.

Information Technology players remain the dominant players in this market; they surpassed \$883 million in new VC investment in 2020 and have nearly matched that total (\$882 million) in the first three months of 2021. The Business-to-Consumer sector followed, posting \$645 million in new VC investment last year and an additional \$252 million has flowed to this sector so far in 2021.

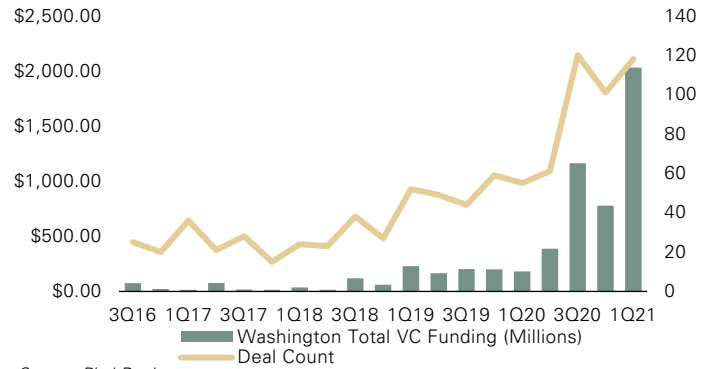
The Healthcare and Life Sciences sector has also been robust; garnering over \$601 million in VC investment last year and on pace to surpass those totals in 2021. In Q1 the Healthcare sector raised another \$488 million in VC funding.

The Financial Services/Fintech sector has been particularly active; these companies raised just under \$100 million in 2020 but have seen robust investment in 2021; raising over \$171 million in Q1.

Business-to-Business (B2B) tech verticals raised over \$58 million last year but have nearly quadrupled that in 2021; over the first three months of the year this sector has landed over \$231 million in additional investment.

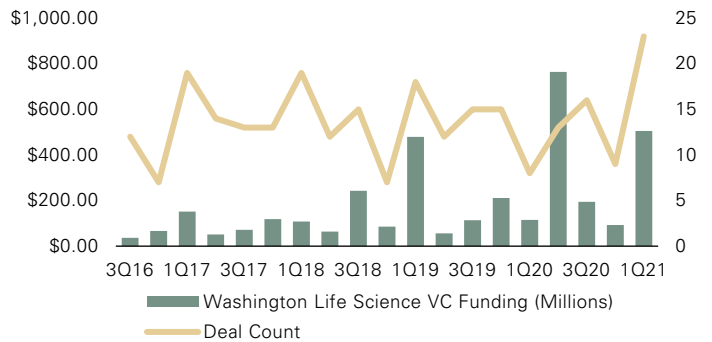
Energy sector players raised over \$175 million in 2020 and just over \$1 million so far in 2021. Materials and Resources verticals posted roughly \$47 million in VC investment for 2020 and landed an additional \$4 million in funding in Q1.

Washington Total VC Funding



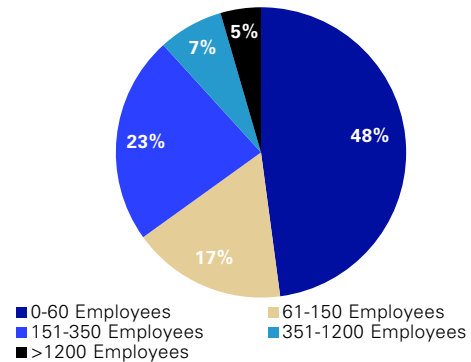
Source: PitchBook

Life Sciences: Washington VC Funding



Source: PitchBook

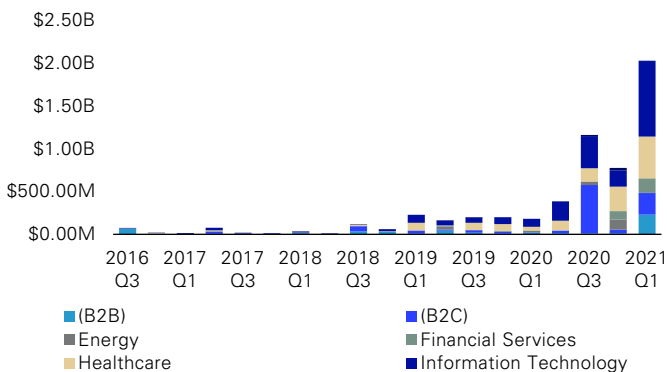
Washington Funding by Company Size Q1 2021



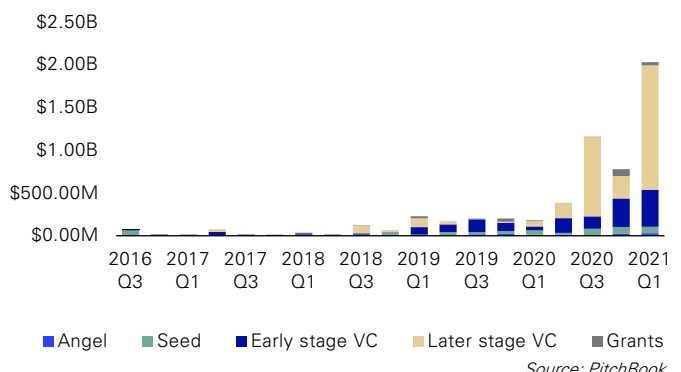
Source: PitchBook

VC Funding by Industry and Stage

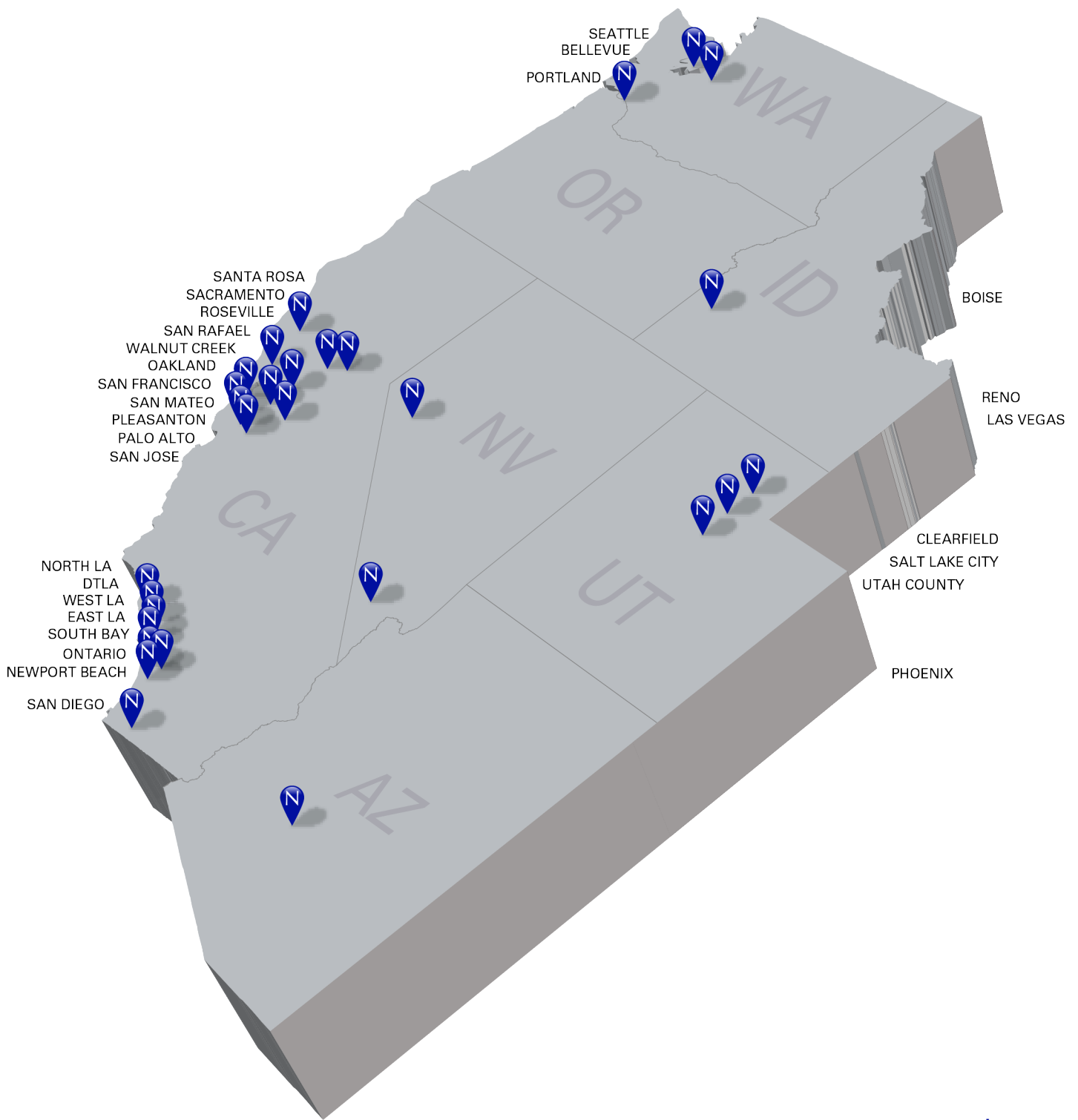
WASHINGTON VC Funding by Industry



WASHINGTON VC Funding by Stage



Source: PitchBook



Garrick Brown

Managing Director of Western Region Research

Garrick.brown@nmrk.com

nmrk.com

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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