

1Q25

North Peninsula Industrial & R&D Market Overview



Market Observations

Economy

- The Peninsula's labor market lost momentum in the first quarter of 2025, with the unemployment rate increasing to 3.8%, up from 3.6% in December.
- The most recent U.S. Consumer Price Index (CPI) inflation rate registered at 2.4%, its lowest level since 2020.
- A turbulent start to the year has introduced uncertainty across the broader economy, driven by tariff-related tensions, persistent inflation and an unpredictable new administration. In commercial real estate, this has led more tenants to focus on renewals rather than expansions.
- Looking ahead, the market anticipates the Federal Reserve will hold interest rates steady through mid-2025 to reduce the risk of tariff-driven inflation, with a possible rate cut of another half percentage point by year-end.

Major Transactions

- Genomics company Pacific BioSciences completed the largest deal of the quarter, renewing its 180,231-square-foot lease at 1305 O'Brien Drive in Menlo Park.
 - Nurix, a clinical-stage biopharmaceutical company, finalized the second largest deal by subleasing 159,959 SF from Johnson & Johnson at 1600 Sierra Point Parkway in Brisbane.
- The largest acquisition of the quarter came from Longpoint Realty Partners, who purchased 179 Starlite Street in South San Francisco from Terreno Realty for \$8.0 million, or \$359/SF.

Leasing Market Fundamentals

- Market-wide R&D availability rose to 29.6% this quarter, up from 27.5% in the previous quarter. R&D vacancy also increased, reaching 28.5%, compared to 25.3% in the same time frame.
- In contrast, market-wide industrial availability decreased to 7.0%, down from 7.5%, while industrial vacancy decreased to 5.4%, compared to 5.7% in the prior quarter.
- The region's R&D pipeline currently includes 2.0 million SF of under construction product, with 11.0% preleased. Industrial construction activity remains inactive.
- Industrial and R&D sales volume fell to \$19.5 million in the first quarter, marking a 57.7% quarter-over-quarter decrease and a 64.7% drop year-over-year.

Outlook

- Looking ahead to 2025, the industrial and R&D market will likely be shaped by evolving trade policy and persistently high inflation. Stricter trade measures and tariffs may drive up consumer prices and contribute to further supply chain disruptions.
- In the near term, average asking rates are expected to continue trending downward, as older assets entering the market often command lower lease rates compared to newer, high-quality buildings.

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

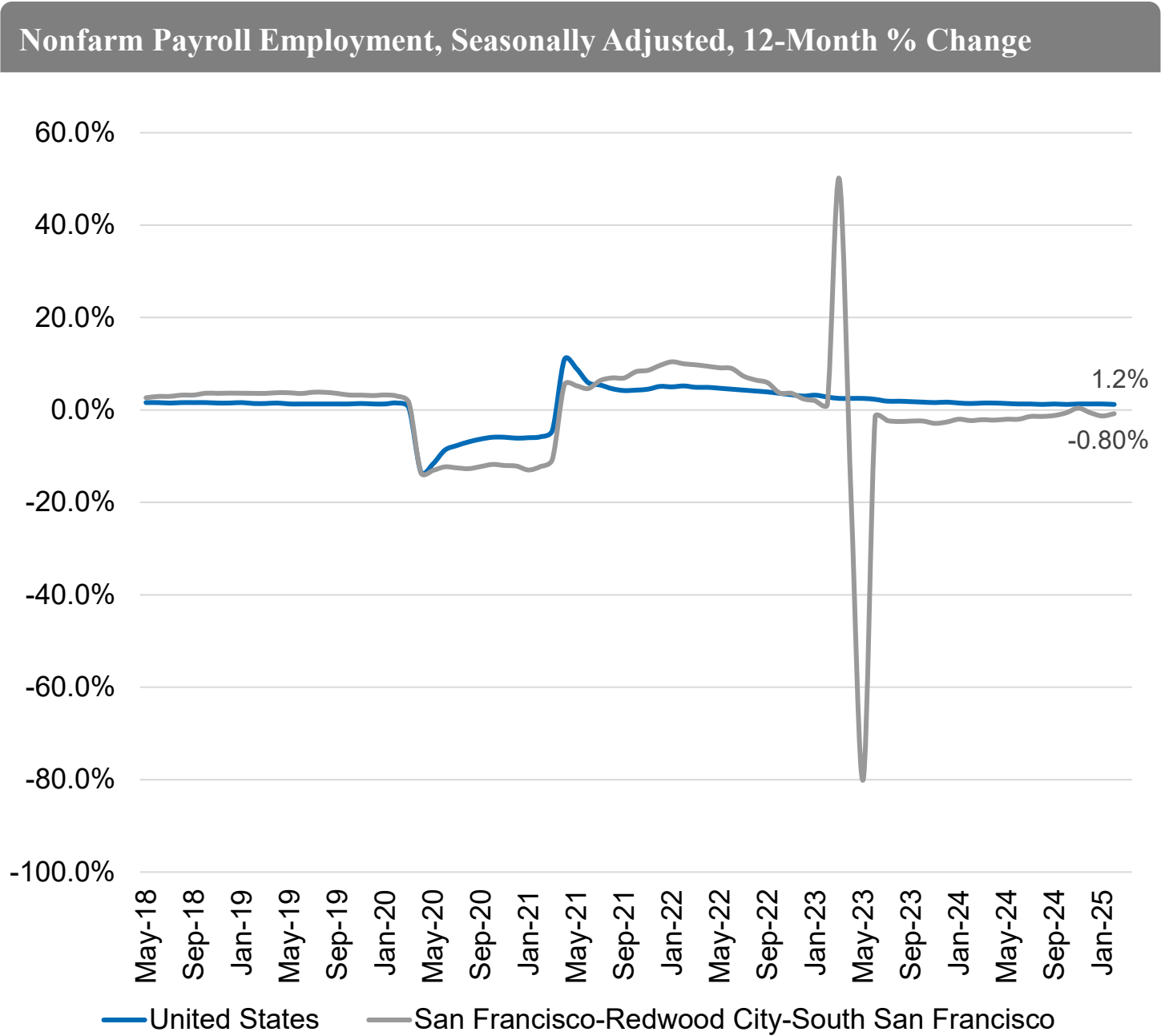
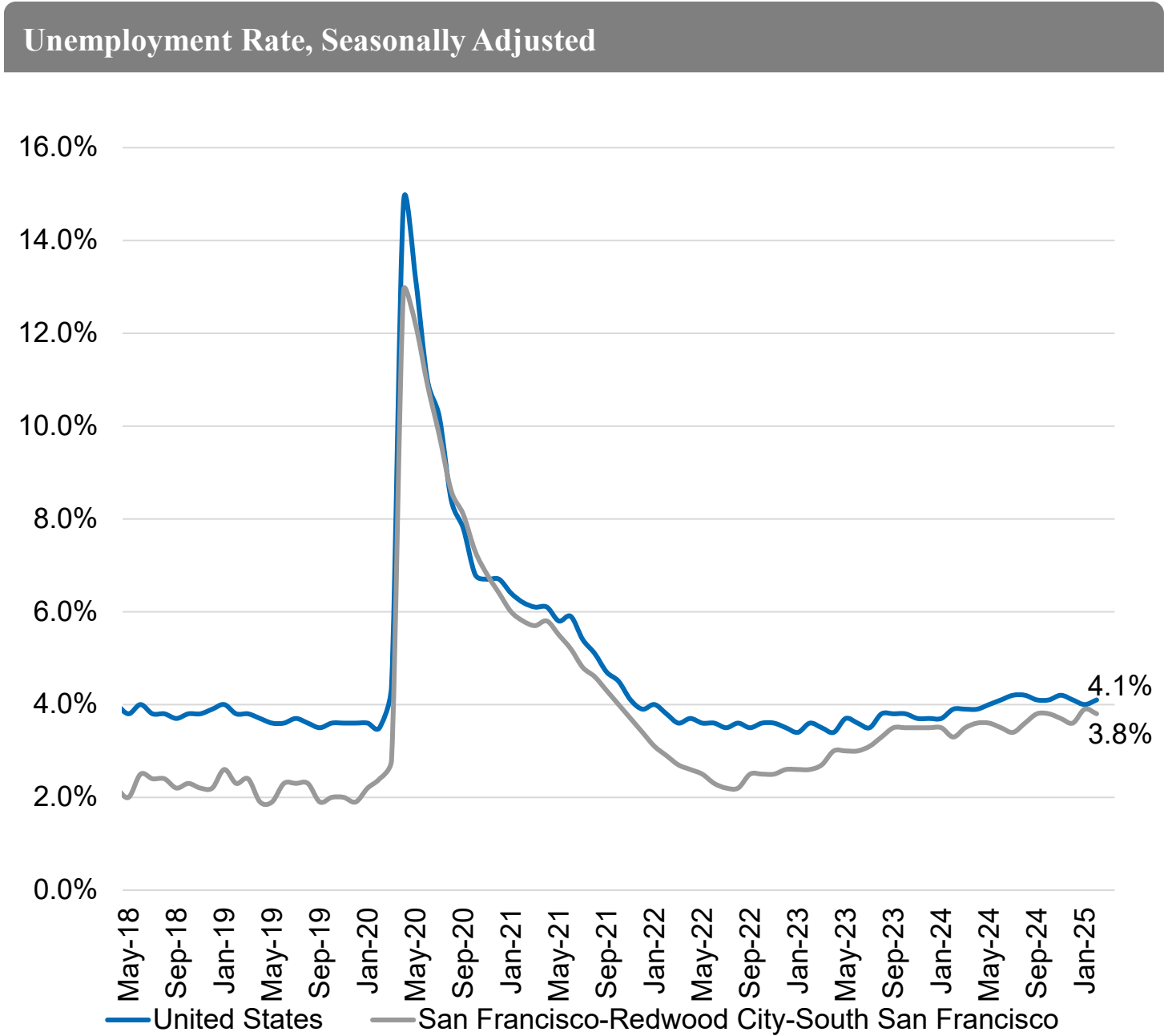
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Economy



Regional Unemployment Remained Below National Level

The region's unemployment rate stood at 3.8%, 30 basis points below the national average. Nonfarm employment in the region declined slightly, while national job growth continued to decelerate.



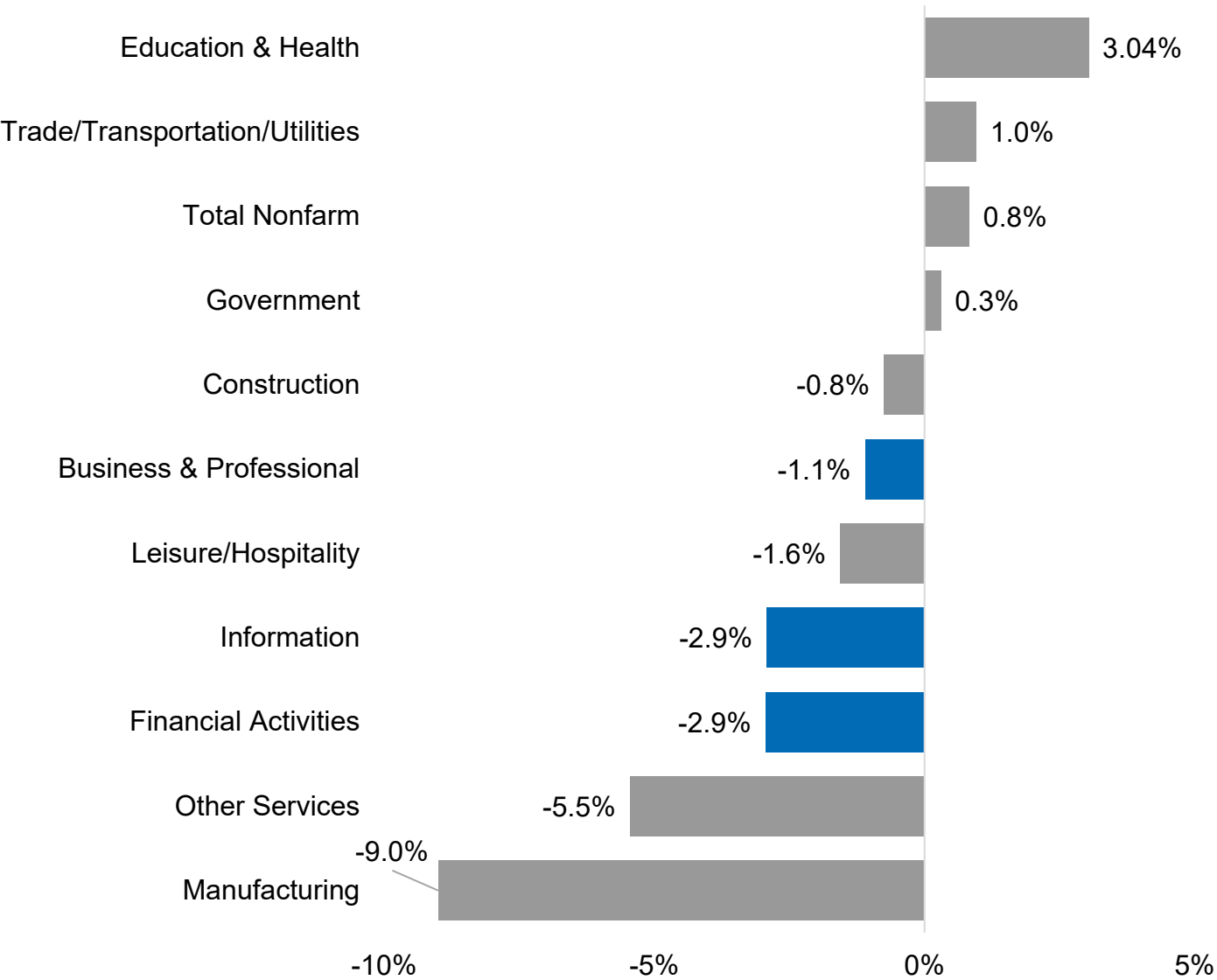
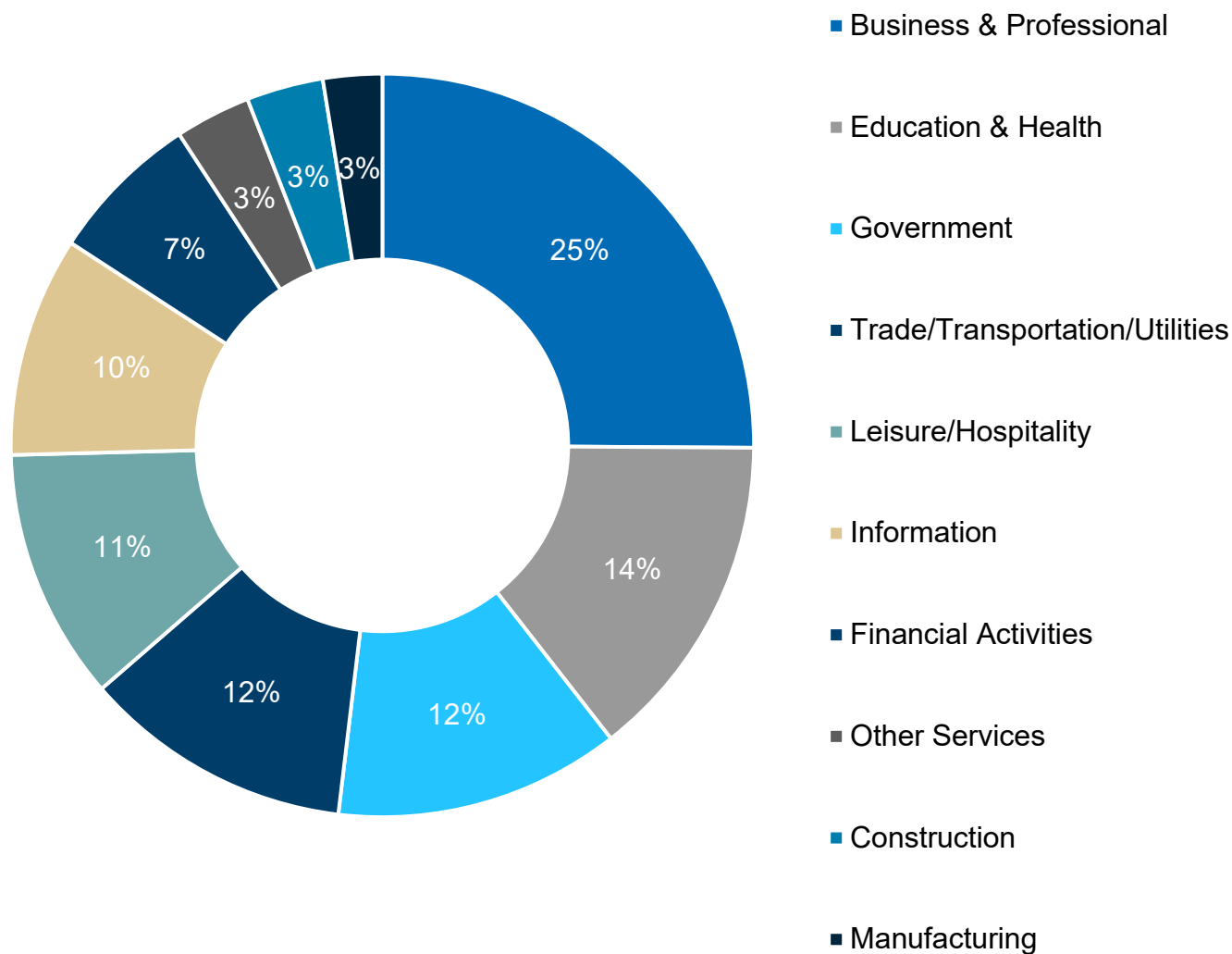
Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

Office Using Employment Down 1.8% Year-Over-Year

Other Services and Trade, Transportation and Utilities recorded the largest year-over-year gains in employment. In contrast, all three office-using industries contracted over the past year, with a combined decline of 1.8%.

Employment by Industry, Feb 2025

Employment Growth by Industry, 12-Month % Change, Feb 2025

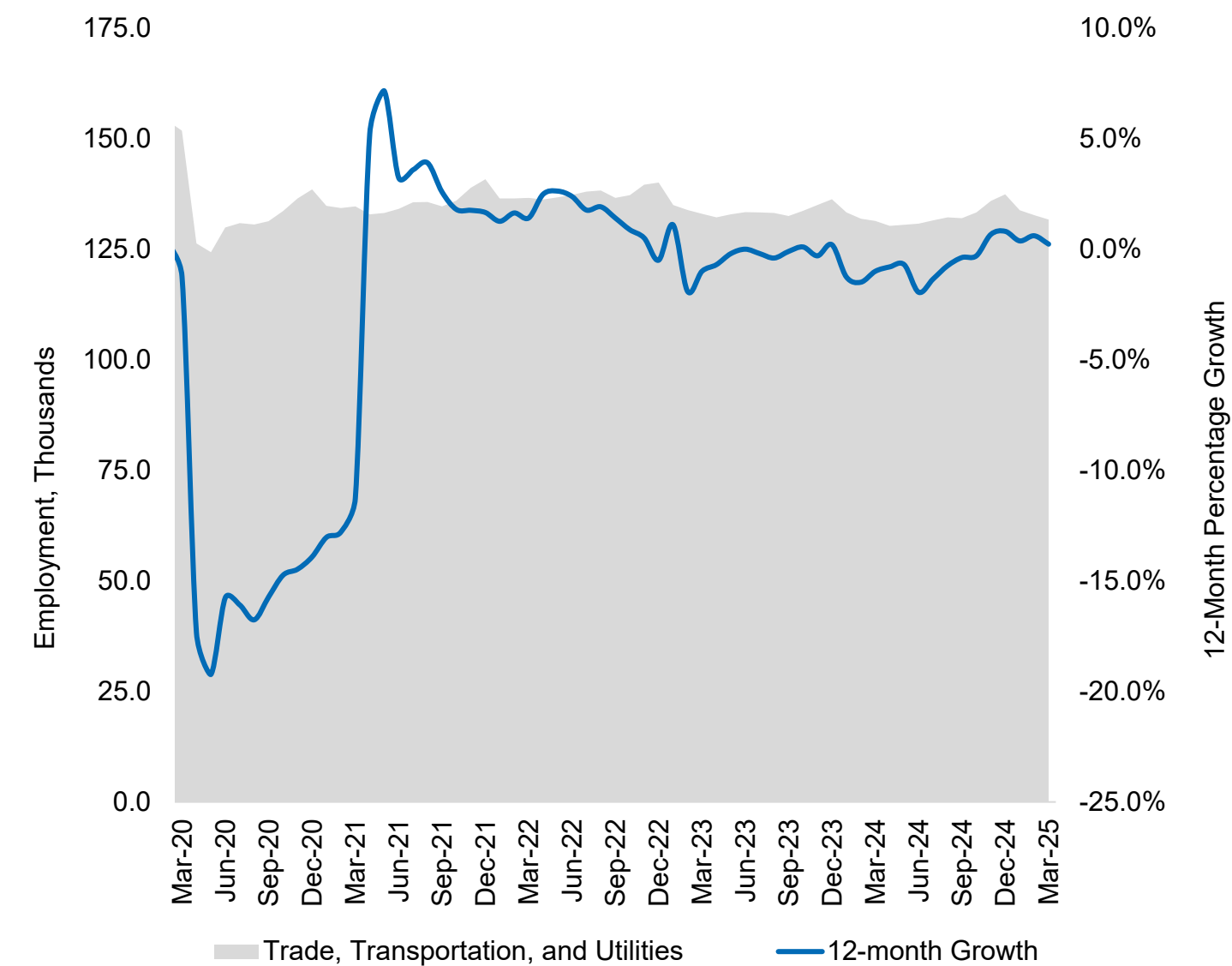


Source: U.S. Bureau of Labor Statistics

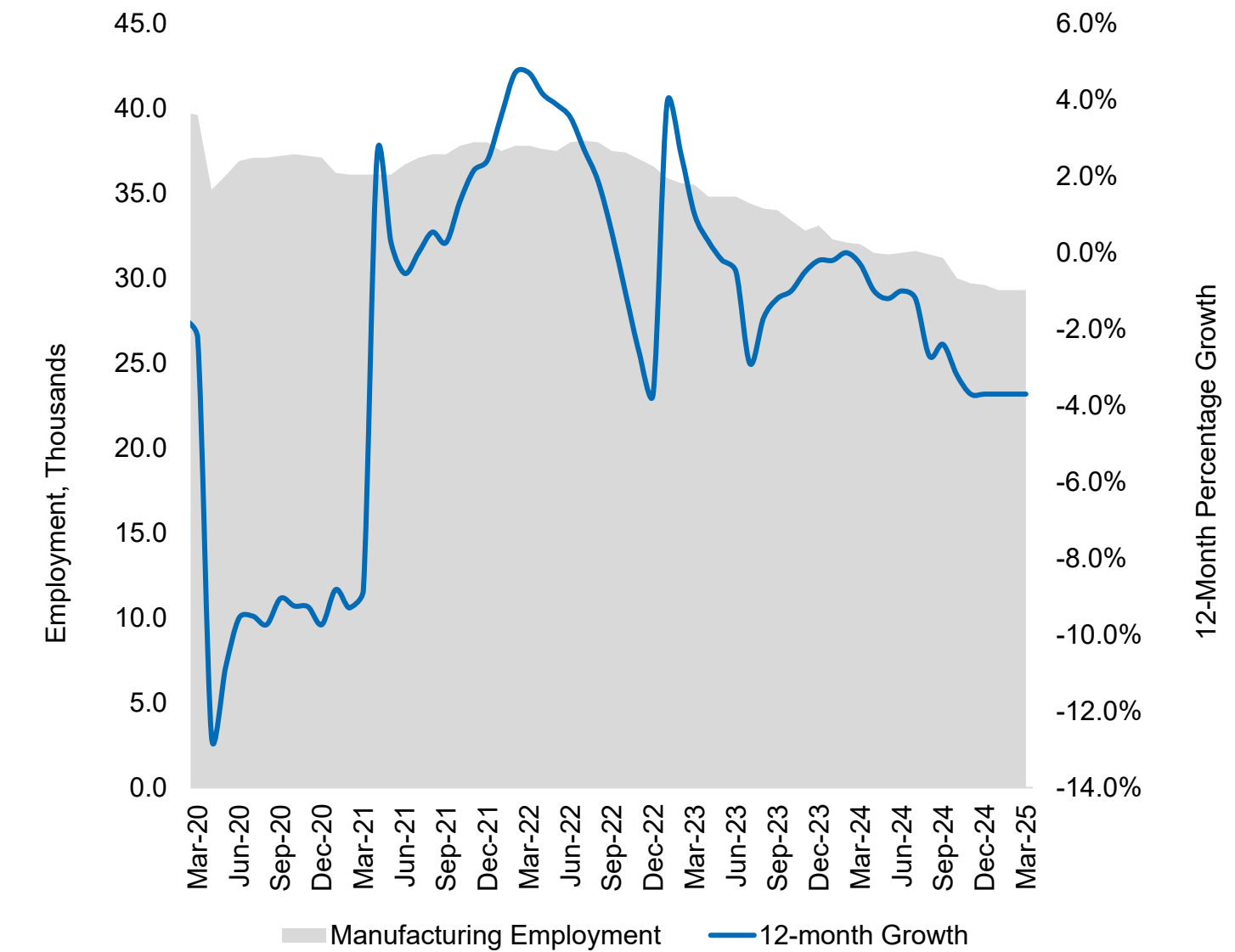
Employment in Industrial Sectors

Jobs in the Trade, Transportation and Utilities sector have remained steady since early 2023, while the manufacturing sector continues to lose ground after peaking at the end of 2019.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, San Francisco-San Mateo-Redwood City, CA Metropolitan Division, CA MSA

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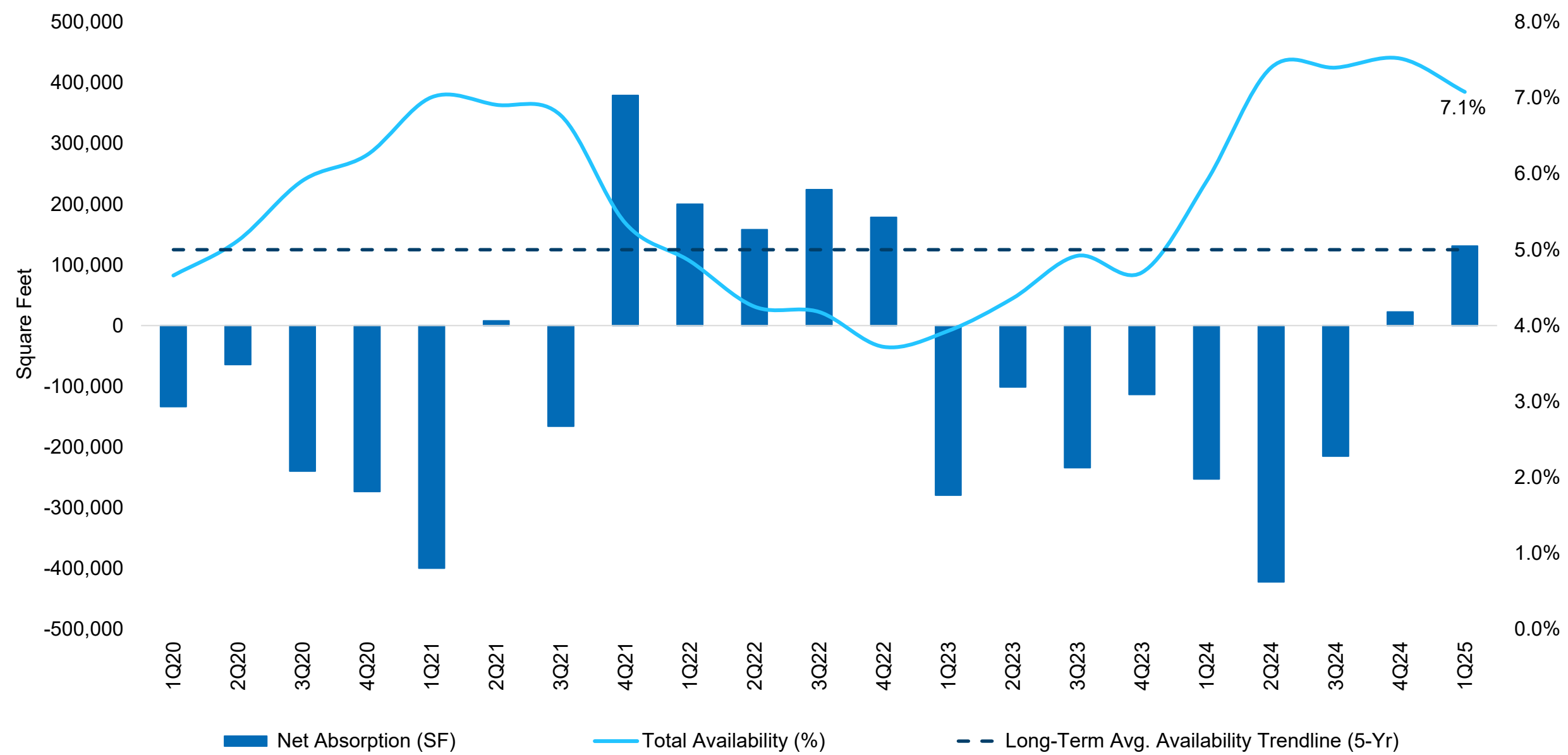
Industrial Leasing Market Fundamentals



Industrial Market Posted Second Straight Quarter of Positive Net Absorption

The North Peninsula industrial market recorded 131,000 SF of positive net absorption in the first quarter of 2025, a notable rebound from negative 252,000 SF one year ago. Market-wide industrial availability edged down to 7.1% this quarter, compared to 7.5% in the previous quarter and 5.9% a year earlier.

Historical Net Absorption, and Availability



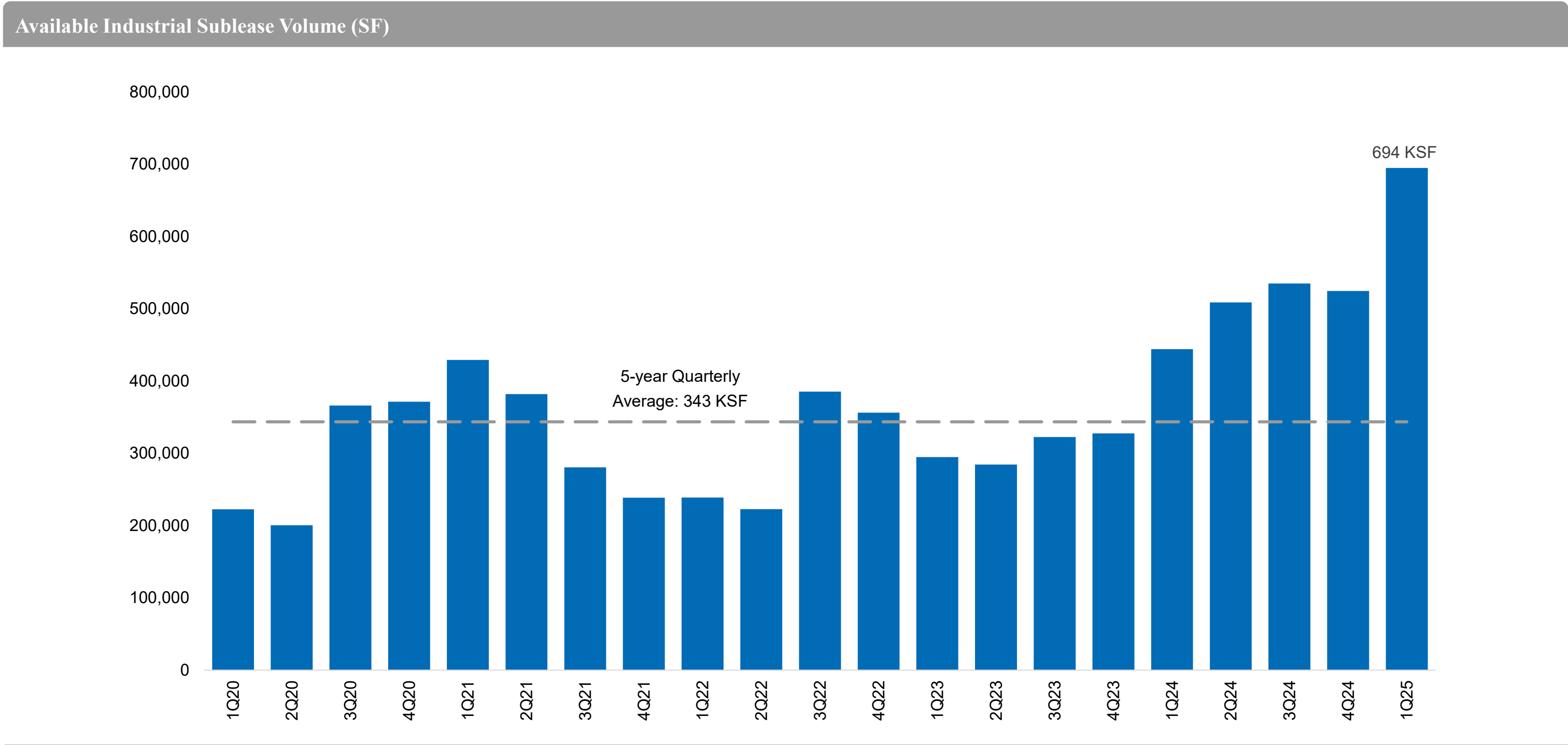
Source: Newmark Research, CoStar



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Industrial Sublease Availability Reached New All-Time High

Industrial sublease availability reached 694,000 SF in the first quarter of 2025, up from 524,000 SF in the previous quarter. Sublease availability remained well above the five-year average of 343,000 SF.



Source: Newmark Research, CoStar

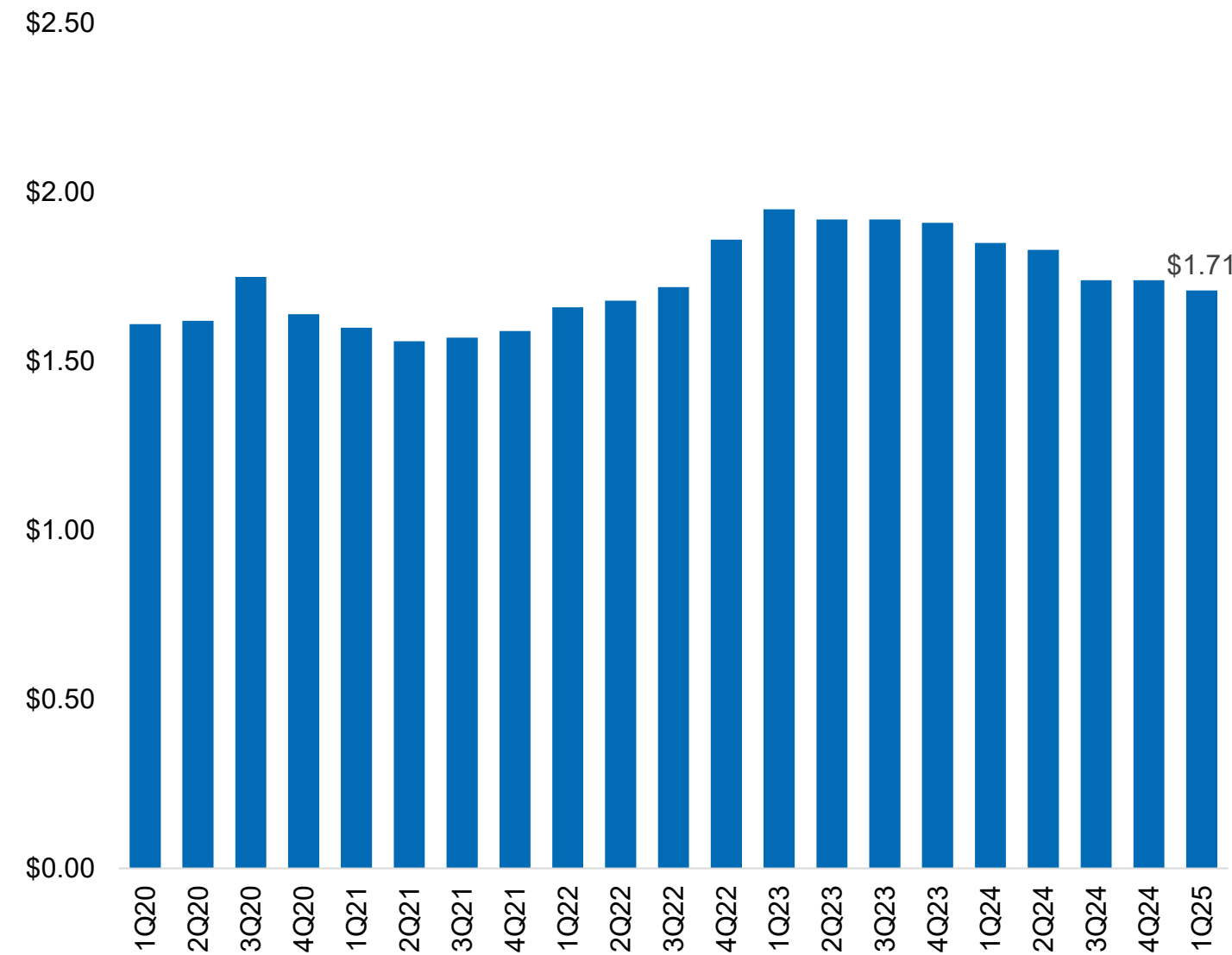


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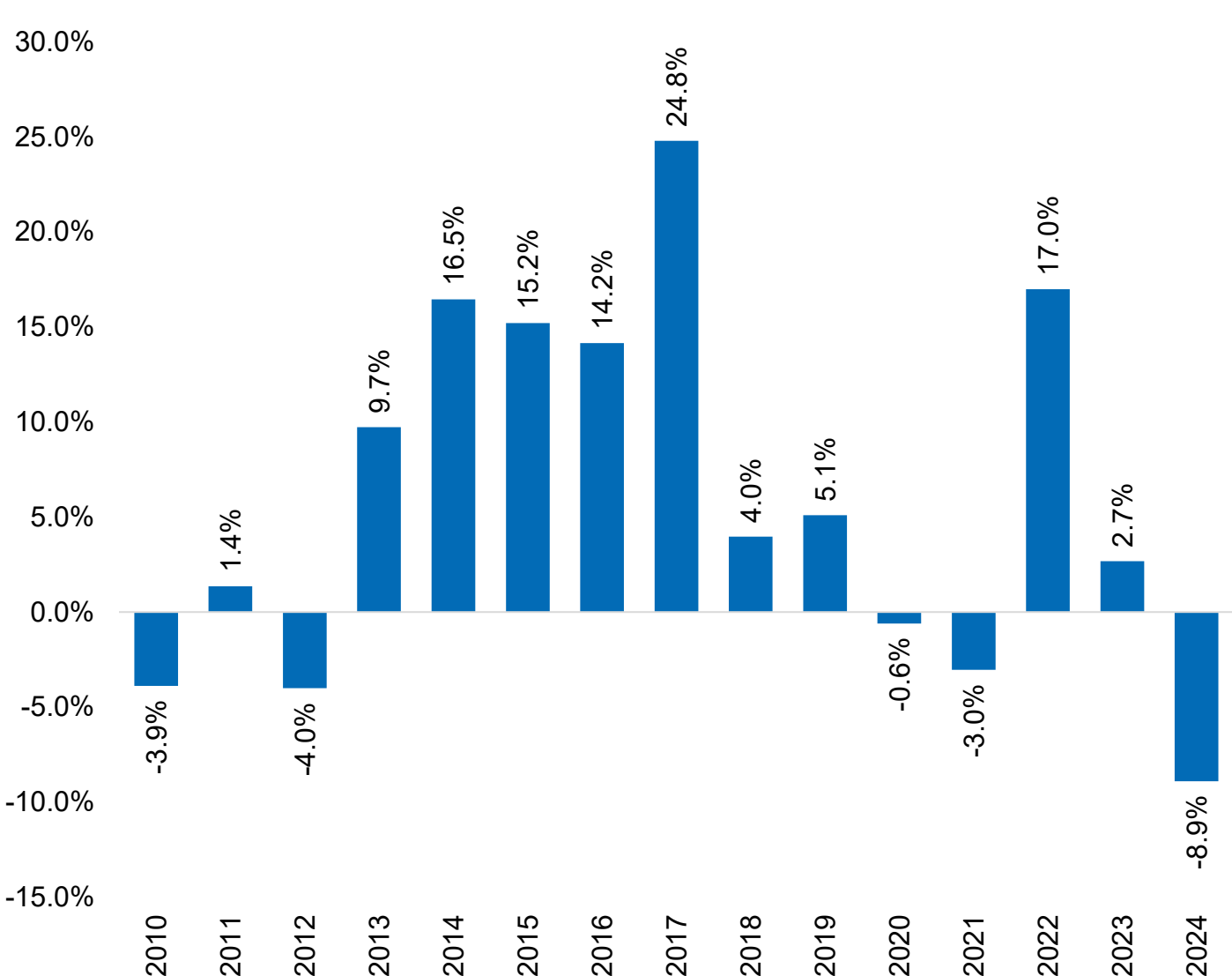
Industrial Average Asking Rent Declined in First Quarter

The overall average asking rate for industrial space on the North Peninsula declined to \$1.71/SF in the first quarter, down from \$1.74/SF in the prior quarter. Softer demand and elevated sublease availability continue to pressure regional asking rates, which are now down 12.3% from peak levels in the first quarter of 2023.

Overall Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Overall Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

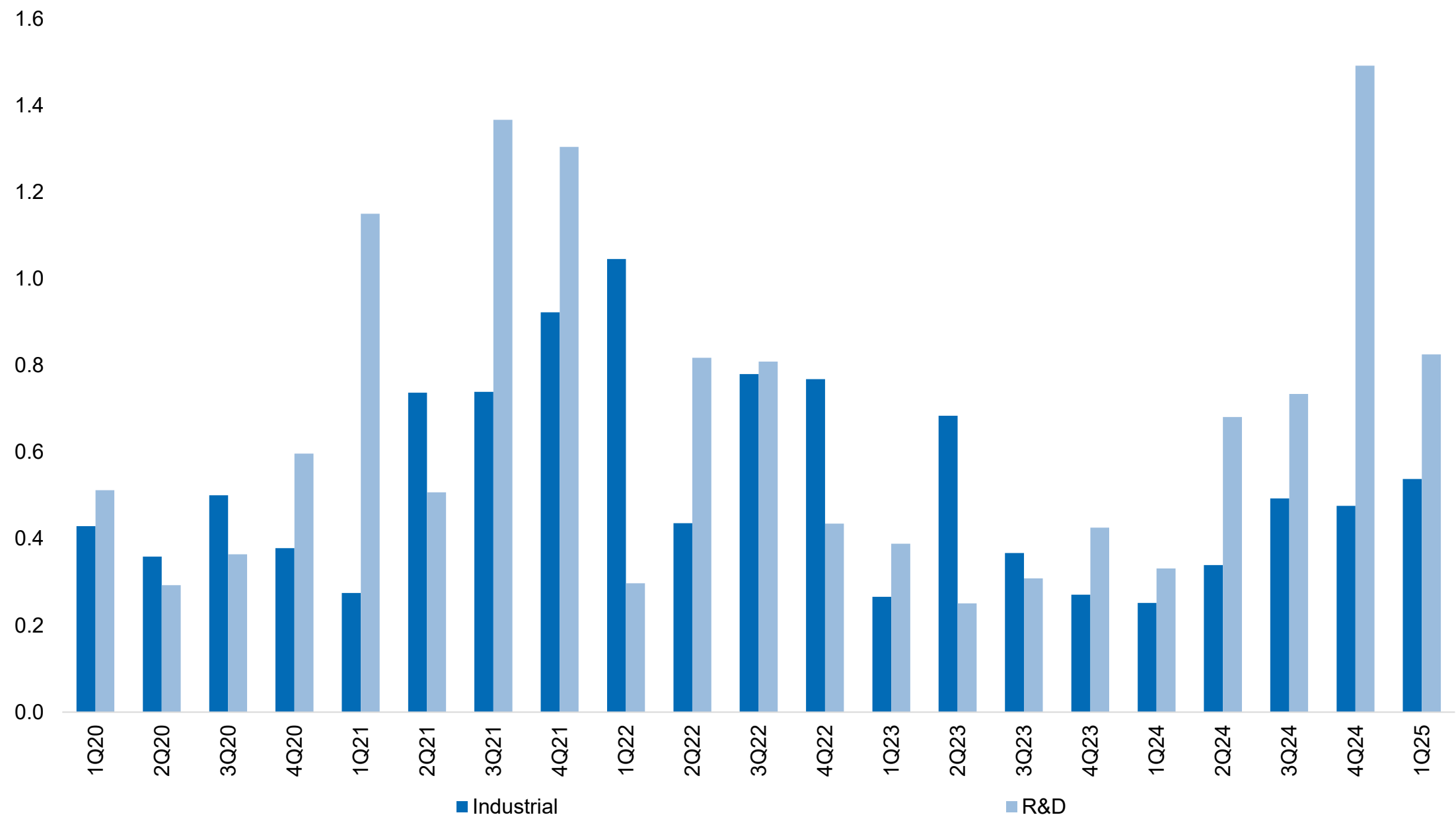


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Industrial Leasing Rose as R&D Activity Slows

R&D gross absorption declined this quarter from 1,492,000 SF in the previous quarter but remained well above the 332,000 SF recorded one year ago. Meanwhile, industrial gross absorption increased to 538,000 SF, up from 476,000 SF in the prior quarter and 252,000 SF a year earlier.

Total Gross Absorption (MSF)



Source: Newmark Research, CoStar

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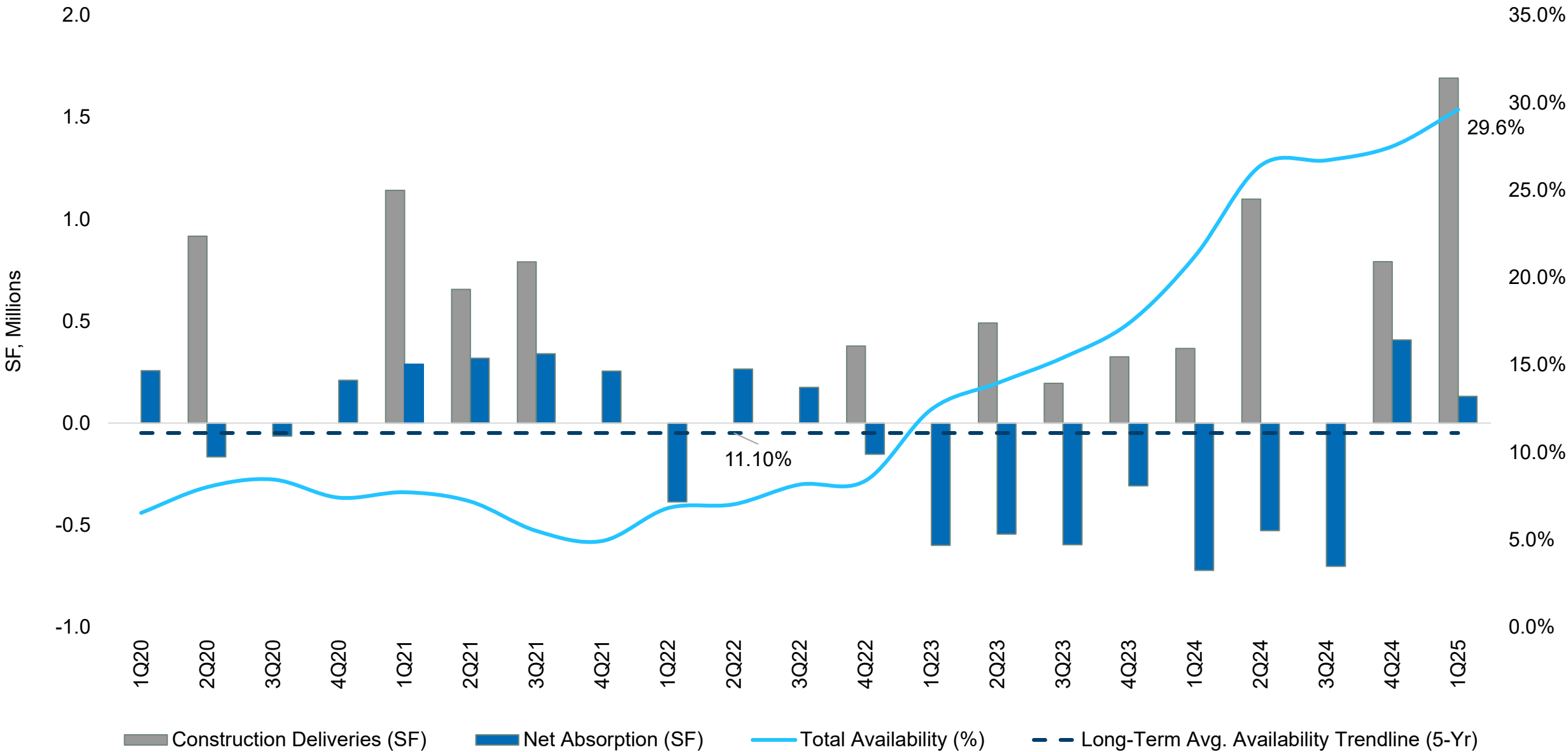
R&D Leasing Market Fundamentals



R&D Market Recorded Second Consecutive Quarter of Positive Net Absorption

The North Peninsula R&D market posted its second consecutive quarter of positive net absorption, recording 131,000 SF. Total availability rose to 29.6%, up from 27.5% in the previous quarter.

Historical Construction Deliveries, Net Absorption, and Availability



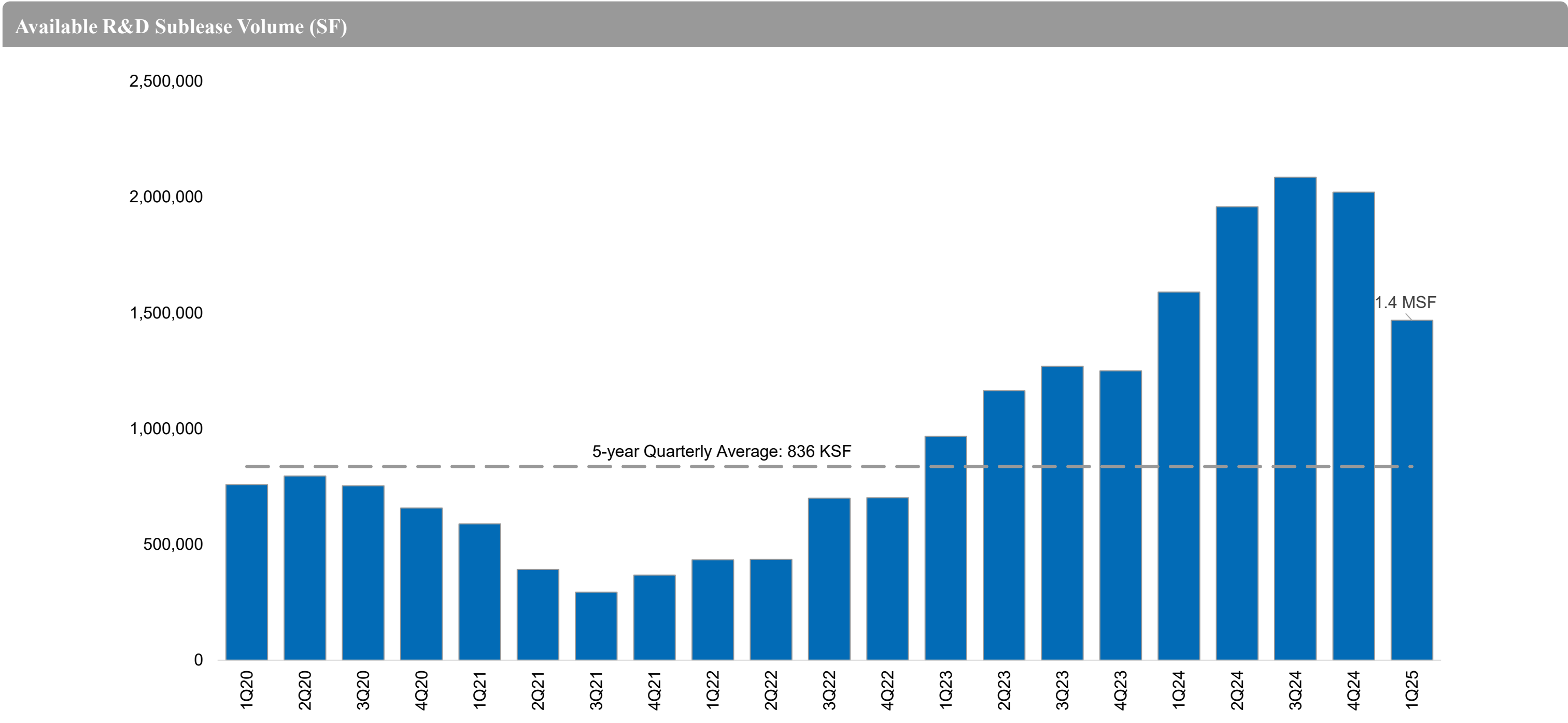
Source: Newmark Research, CoStar



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R&D Sublease Availability Fell for Second Consecutive Quarter

R&D sublease availability totaled 1.4 million SF in the first quarter, down from 2.0 million SF in the previous quarter. The decrease was driven by several listings either transacting or sublease terms expiring and spaces transitioning to direct availability. Sublease availability, now less than double the five-year quarterly average, had previously increased for twelve consecutive quarters before this decline.



Source: Newmark Research, CoStar

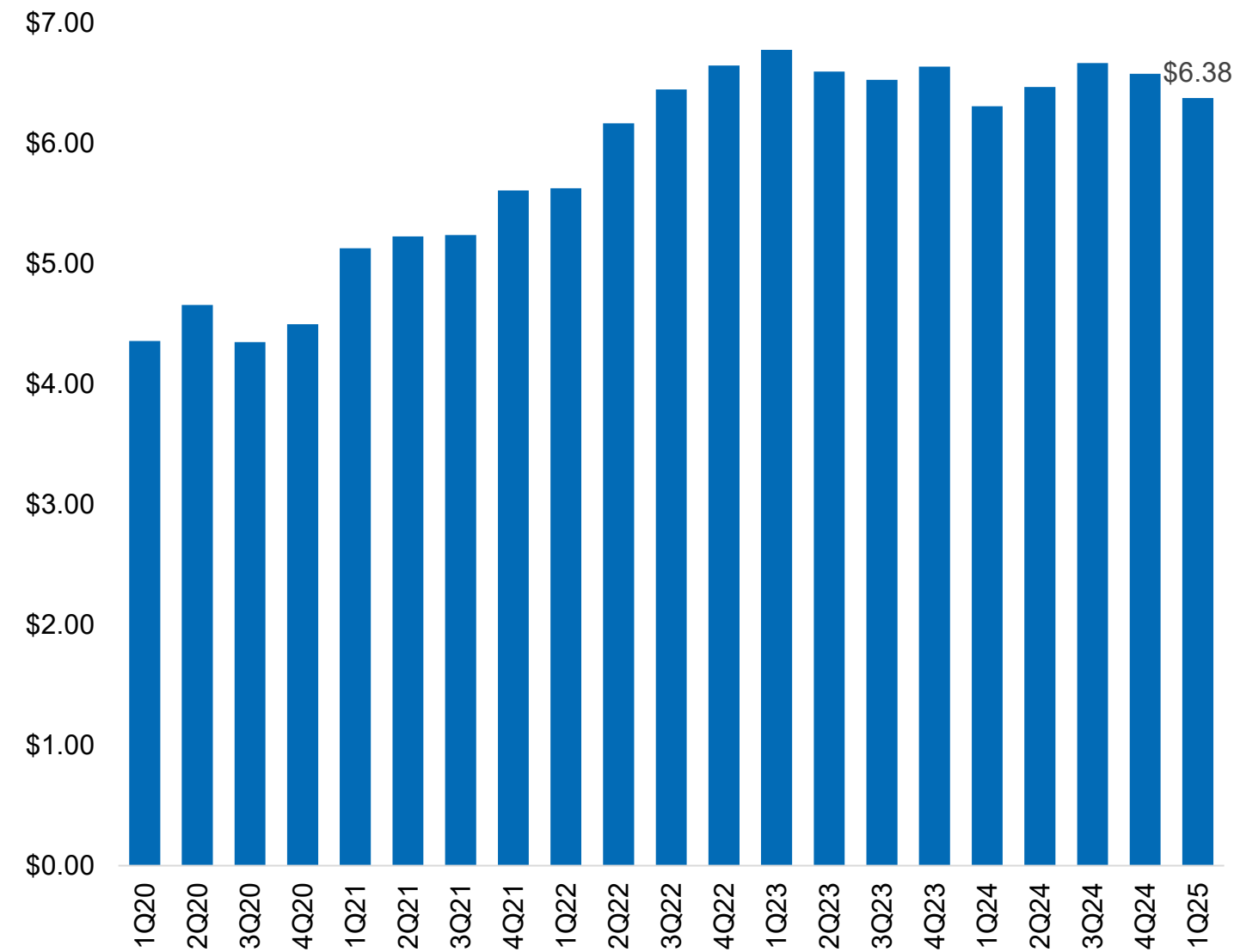


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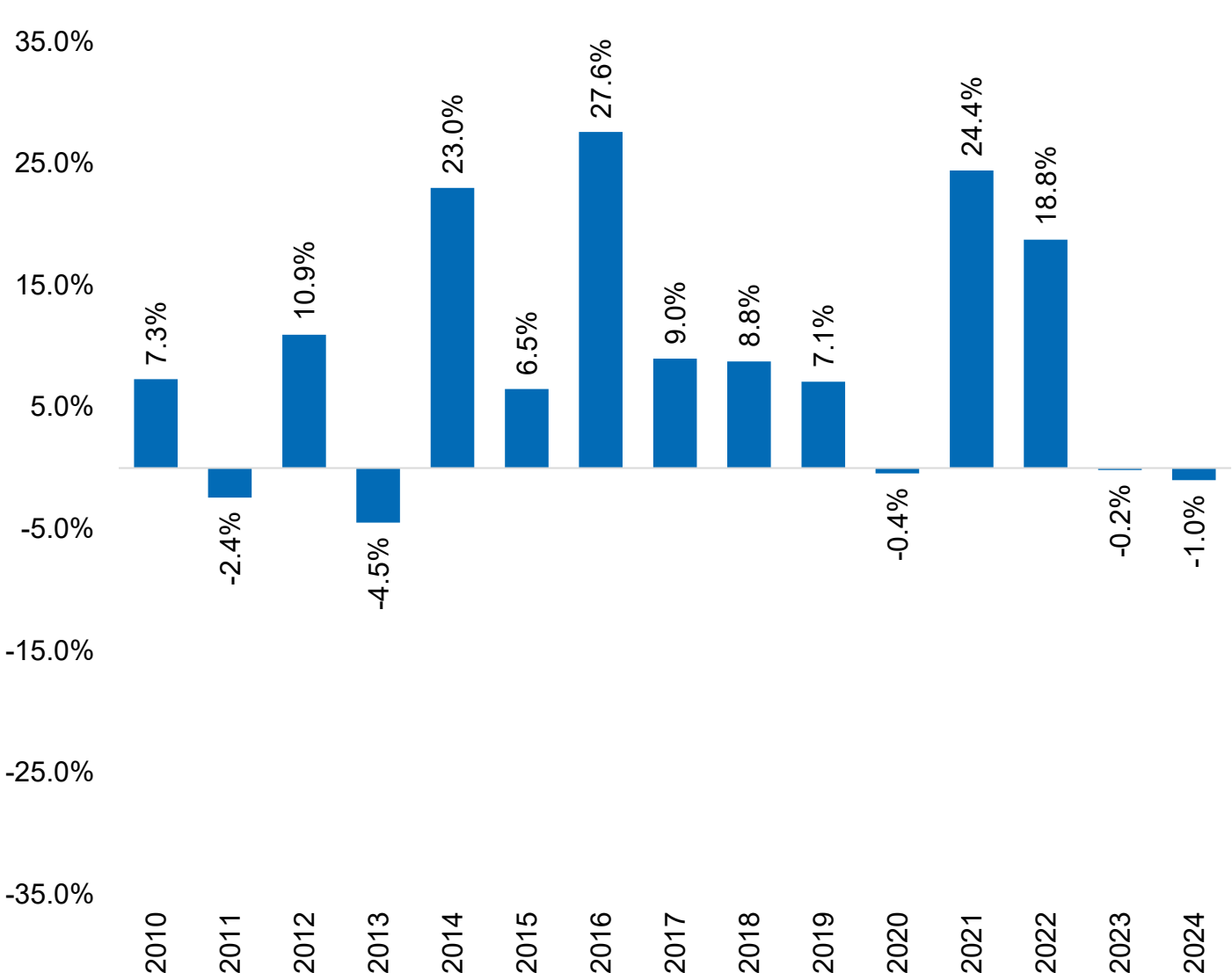
Overall R&D Asking Rents Decrease

The overall average asking rate for R&D space on the North Peninsula declined to \$6.38/SF in the first quarter of 2025, down from \$6.58/SF in the previous quarter. The average rate has decreased 1.0% year-over-year. Softer demand, elevated sublease availability and ongoing asking rate adjustments continued to drive regional rent declines.

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



Year-over-Year Overall Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

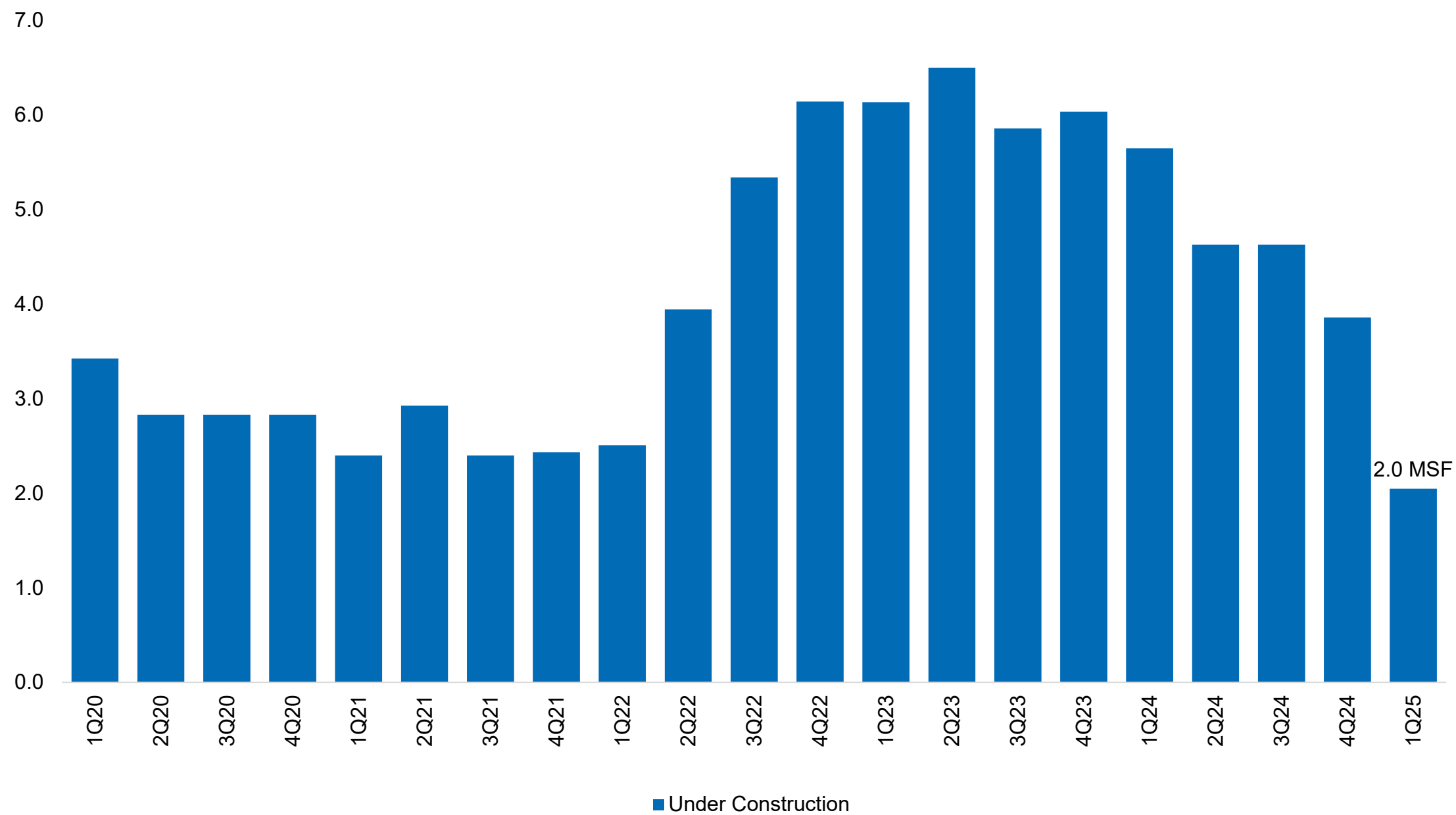


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R&D Construction Pipeline Stabilizes Amid New Deliveries

The R&D construction pipeline continued to contract in the first quarter of 2025, totaling 2.04 million SF, with 11.0% preleased. The most notable delivery this quarter was Phase I of IQHQ’s SPUR development in South San Francisco, totaling 340,000 SF.

R&D Under Construction (MSF)



Source: Newmark Research, CoStar

Notable 1Q25 Lease Transactions

This quarter saw seven industrial transactions of 20,000 SF or more, up from four in the previous quarter. In the R&D sector, 13 transactions of 20,000 SF or more were completed, a slight decline from 14 in the prior quarter.

Select Lease Transactions

| Tenant | Building | Submarket | Type | Square Feet |
|--|--|---------------------|-------------------|-------------|
| Pacific Biosciences <i>Genomics company PacBio completed the largest deal of the quarter, renewing their 180,000-square foot lease at 1305 O'Brien in Menlo Park.</i> | Menlo Park Labs 1305 O'Brien Dr. | Menlo Park | Lease Renewal | 180,231 |
| Nurix Therapeutics <i>Clinical stage biopharmaceutical company Nurix completed the second-largest deal of the quarter, subleasing 159,959 SF from Johnson & Johnson at 1600 Sierra Point Parkway in Brisbane.</i> | The Shore @ Sierra Point 1600 Sierra Point Pkwy. | Brisbane | Lease Renewal | 159,959 |
| Mytra Robotics <i>Warehouse robotics company Mytra completed the third-largest deal of the quarter, leasing 101,350 SF at 427 Valley Drive in Brisbane.</i> | 427 Valley Dr. | Brisbane | Direct Lease | 101,350 |
| BeiGene <i>Oncology company BeiGene completed the fourth-largest deal of the quarter, subleasing 96,463 SF from Amgen on the fifth and sixth floor at 835 Industrial Road in San Carlos.</i> | Alexandria District for Science & Technology 835 Industrial Rd. | San Carlos | Sublease | 96,463 |
| Veracyte <i>Genomics diagnostics company Veracyte completed the fifth-largest deal of the quarter, renewing its existing 57,627-square foot lease on the first, second, and third floors at 6000 Shoreline Court, while also expanding into an additional 8,075 SF on the ground floor.</i> | 6000 Shoreline Court | South San Francisco | Renewal/Expansion | 65,702 |

Source: Newmark Research

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Appendix / Tables





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