




NEWMARK

North Peninsula Industrial & R&D Market Overview

1Q26



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Market Observations



Economy

- In January, the San Francisco–San Mateo region posted an unemployment rate of 3.9%, below the national average of 4.3% and the California state average of 5.4%. Current figures show no discernible impact from geopolitical developments in the Middle East on present employment metrics.
- The U.S. Consumer Price Index (CPI) inflation rate rose to 3.3% in March, up from 2.4% in February, driven largely by a 10.9% increase in energy costs resulting from the conflict with Iran.
- Economists maintain projections for one additional interest rate cut in 2026, noting that the Federal Reserve is expected to look beyond the recent energy-driven inflation spike linked to ongoing geopolitical tensions.



Leasing Market Fundamentals

- Marketwide R&D availability closed marginally lower this quarter at 32.0%, down from 32.1% in the prior quarter. R&D vacancy increased, rising to 29.3% from 28.5% over the same period.
- Marketwide industrial availability increased to 7.8% from 7.3%, while vacancy rose to 6.5% from 6.3% quarter-over-quarter.
- Speculative development in the R&D construction pipeline remained on hold in Q1 and is expected to stay subdued until existing supply is absorbed. Industrial development activity remains paused.



Major Transactions

- 3D bioprinting company CelLink completed the quarter's largest deal, leasing 87,262 SF at 1089 Mills Way in Redwood City.
- Mammoth Biosciences executed the quarter's second-largest transaction, a blend-and-extend at 1000 Marina Blvd. in Brisbane covering floors two, three, five, and six totaling 69,900 SF.
- The most significant sale of the quarter was Gateway Commons, a seven-building office and life science campus in South San Francisco, which traded from Alexandria Real Estate and Boston Properties to Healthpeak for \$600.0 million, or \$444/SF.



Outlook

- Demand from AI and robotics companies continues to extend beyond traditional office space, with leases increasingly landing in industrial and R&D facilities.
- With fundamentals continuing to improve, upward pressure on industrial rents is expected to persist through the remainder of 2026, though the pace of growth may gradually moderate. In the R&D market, rent growth is unlikely to resume until leasing activity catches up with the significant volume of newly delivered space.
- While sublease volume in both the industrial and R&D markets has moderated from its peak, it remains elevated relative to historical norms, signaling that tenant right-sizing persists and continued friction in backfilling excess space.

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Economy

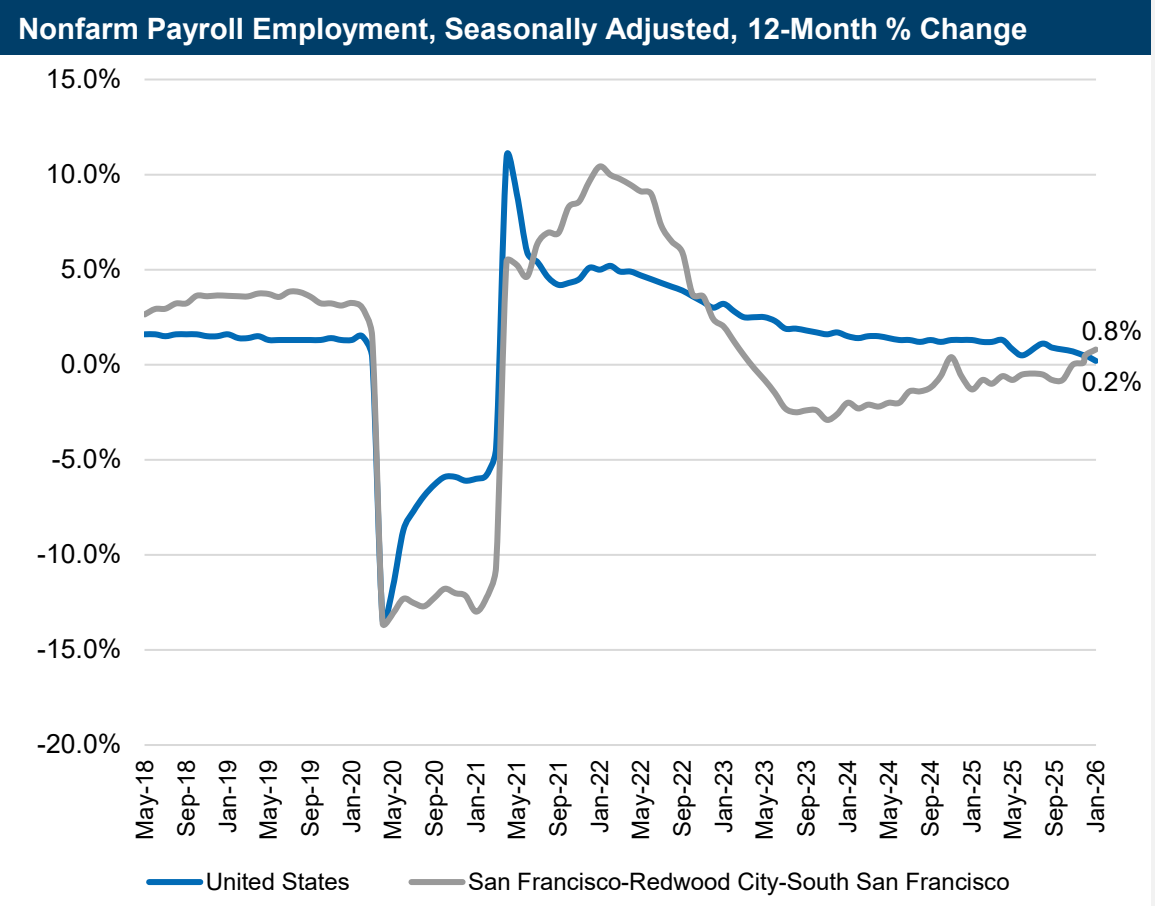
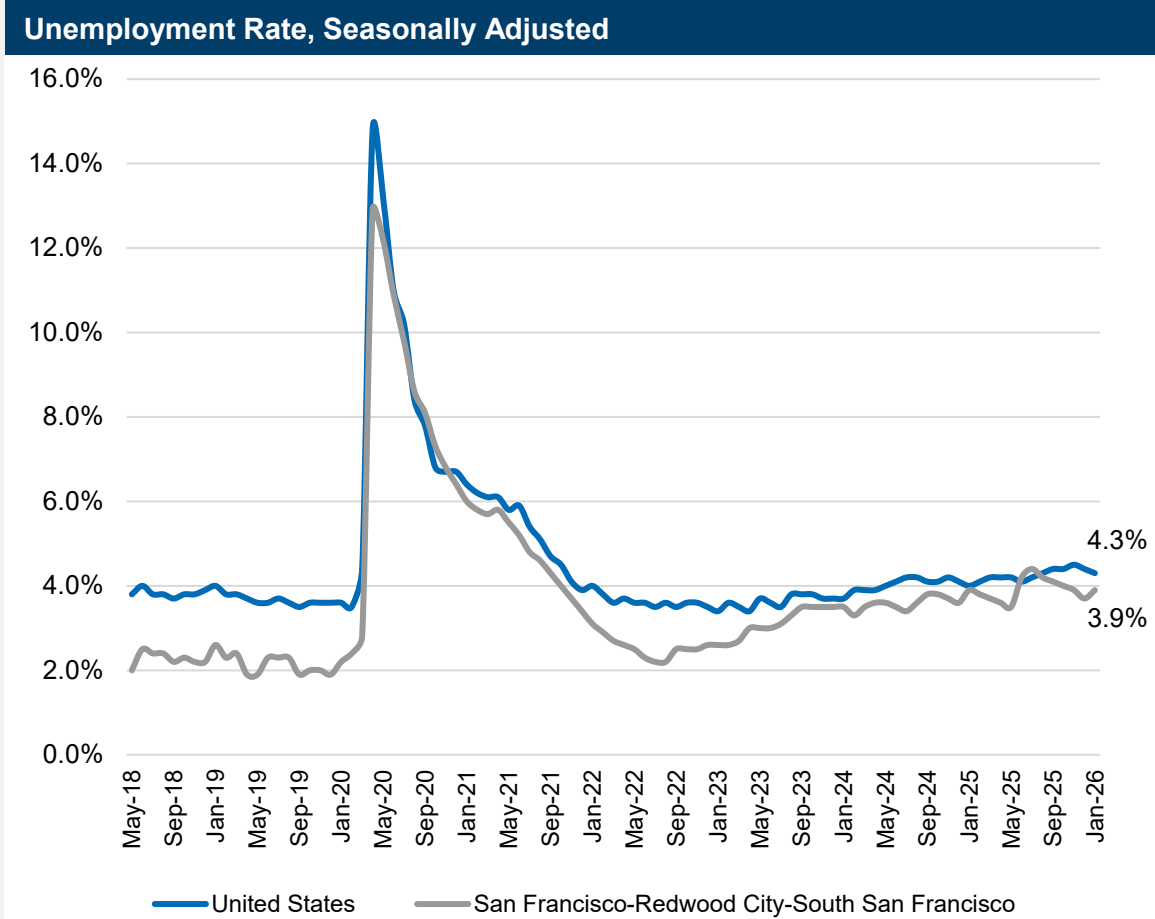
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Regional Unemployment Remains Below National Average

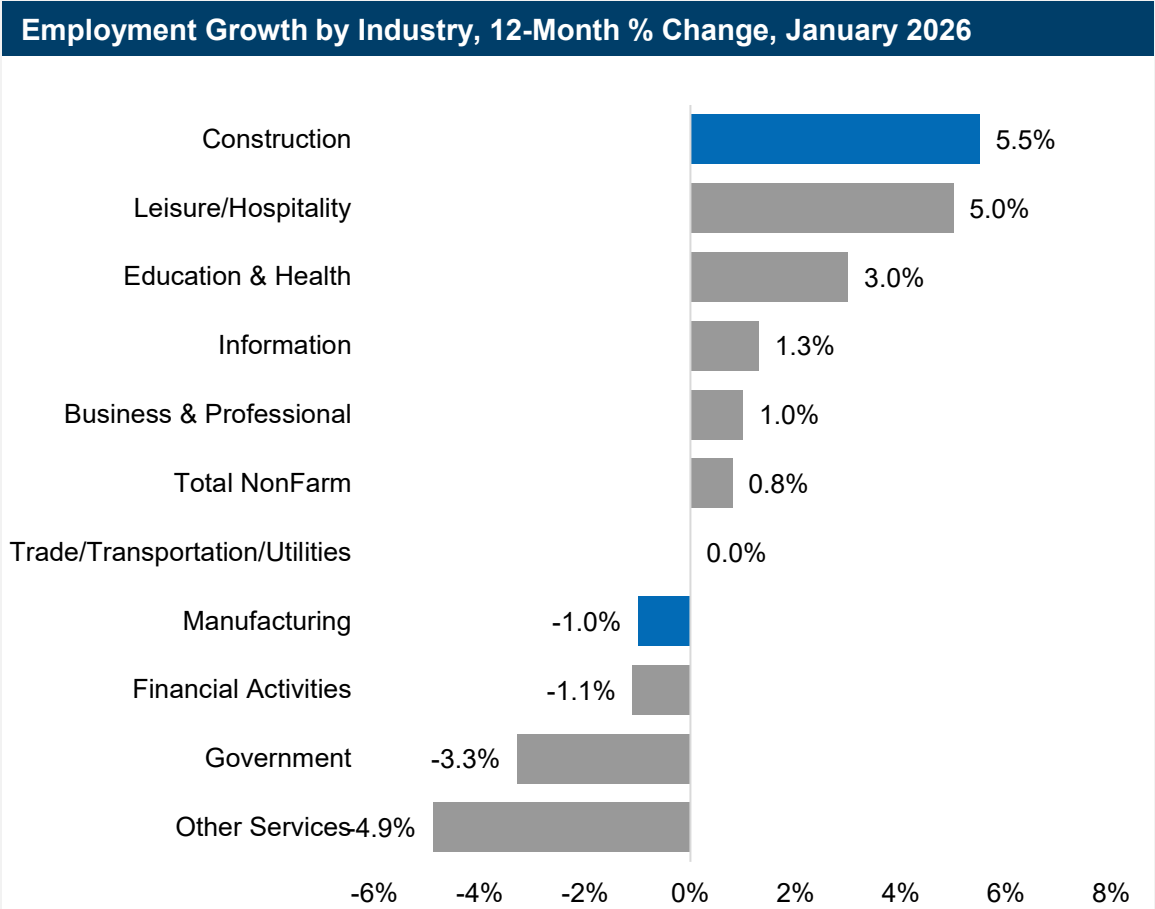
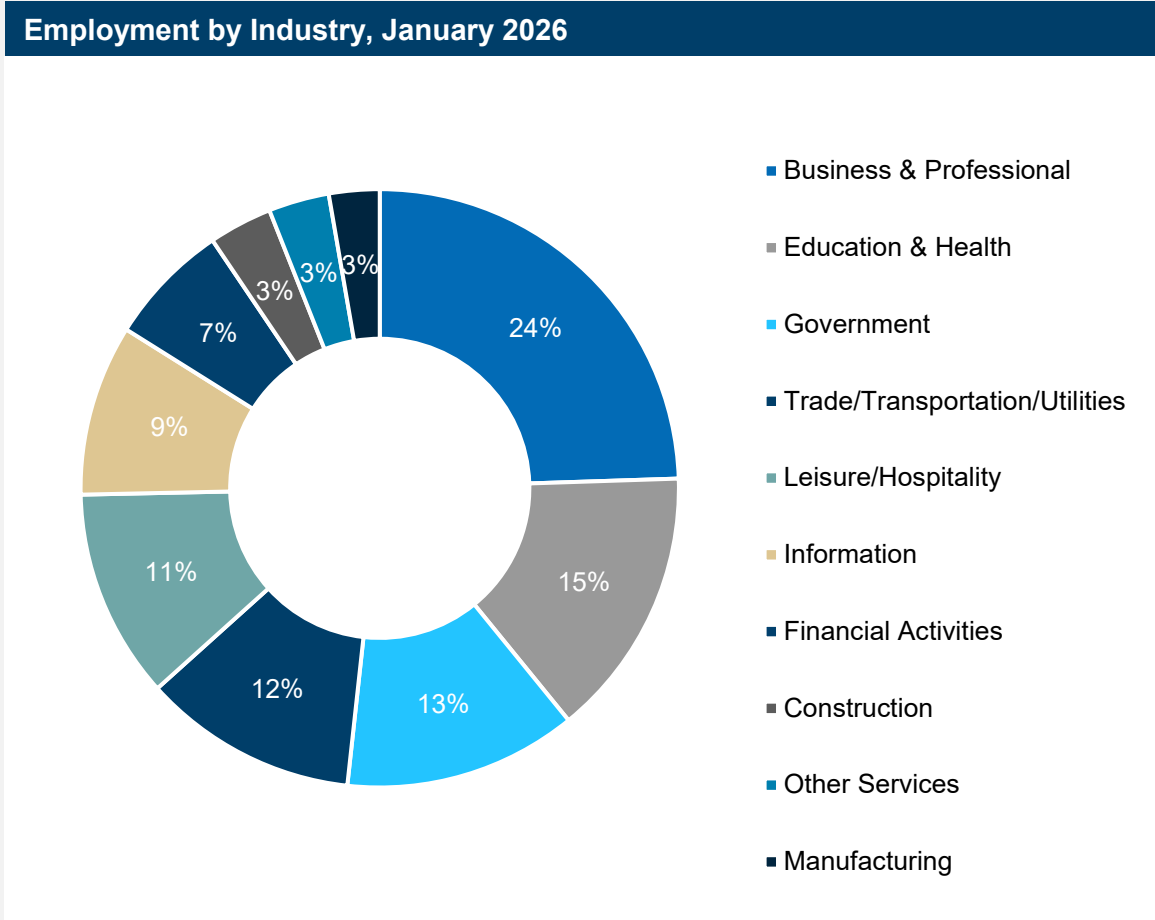
The San Francisco–San Mateo region's unemployment rate declined by 20 basis points between September 2025 and January 2026, while the U.S. rate decreased by 10 basis points during the same period. In January, the region's unemployment rate was 150 basis points below the California average, which stood at 5.4%. Year-over-year nonfarm employment growth in the region has remained consistently negative over the past three years.



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

Construction Posts Highest Year-Over-Year Gains

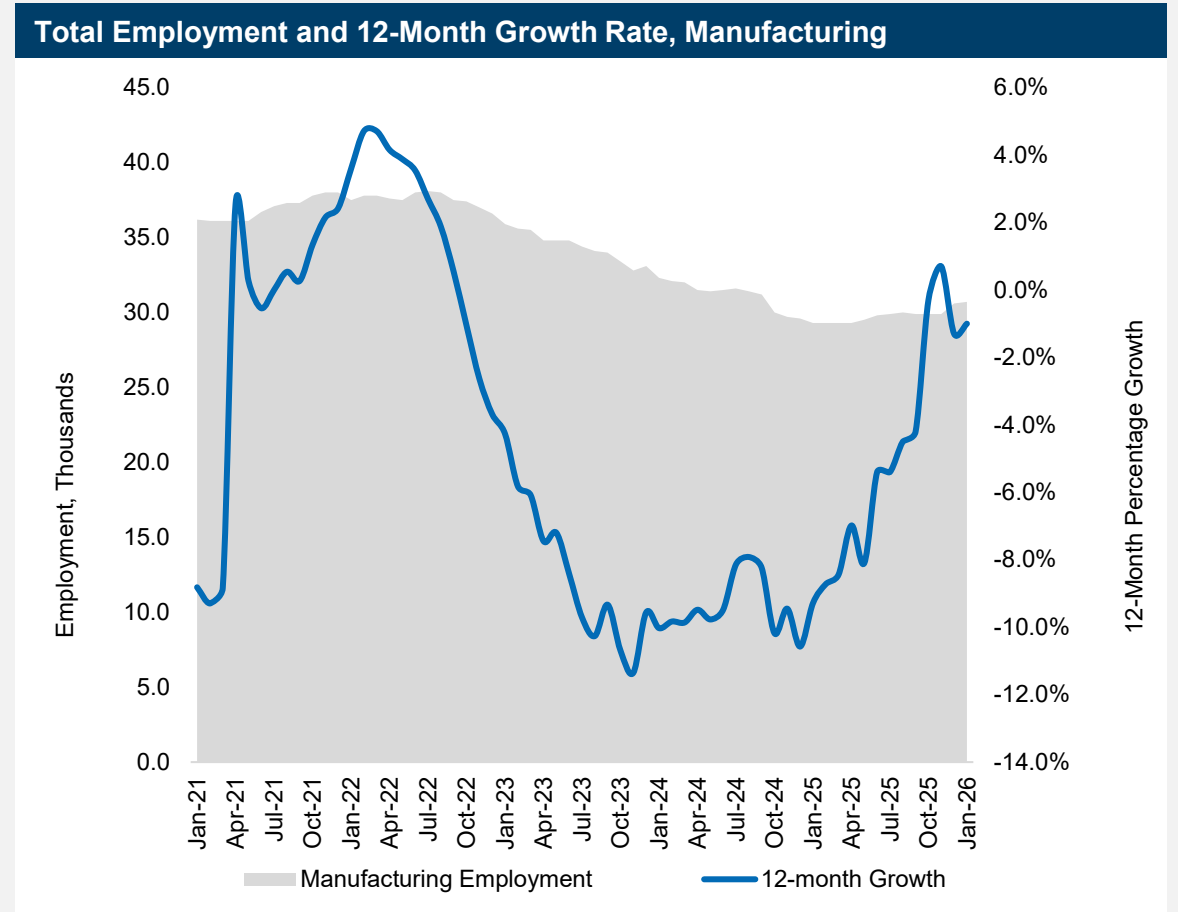
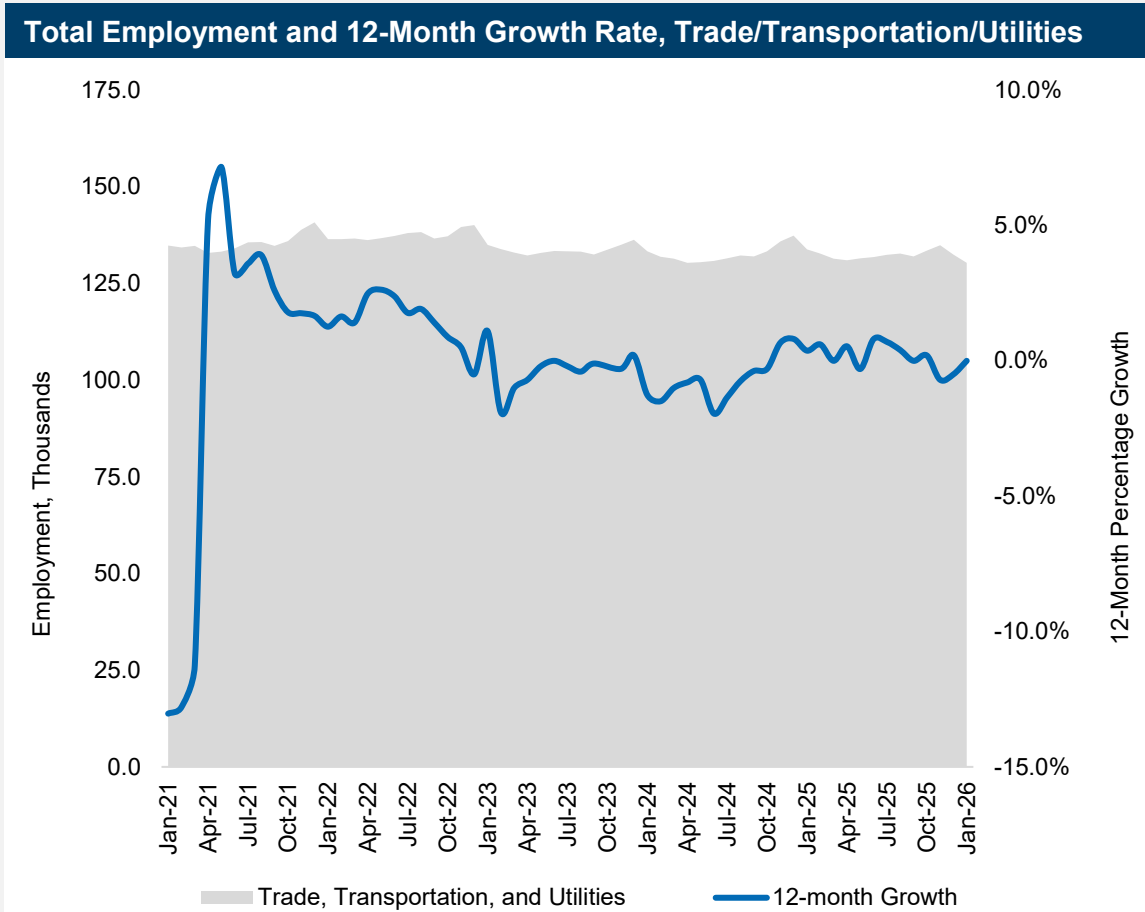
The San Francisco–San Mateo region recorded positive year-over-year growth in construction, although it declined in manufacturing. Robust tech and AI leasing activity should continue to reinvigorate the overall market. Employment is expected to grow, though automation may keep the pace below long-run historical norms.



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

Employment in Industrial Sectors

Employment in the trade, transportation, and utilities sector has remained steady, reflecting stable demand across logistics and distribution networks, while the manufacturing sector continues to bottom out amid persistent headwinds from softening industrial output.



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

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Industrial Leasing Market Fundamentals

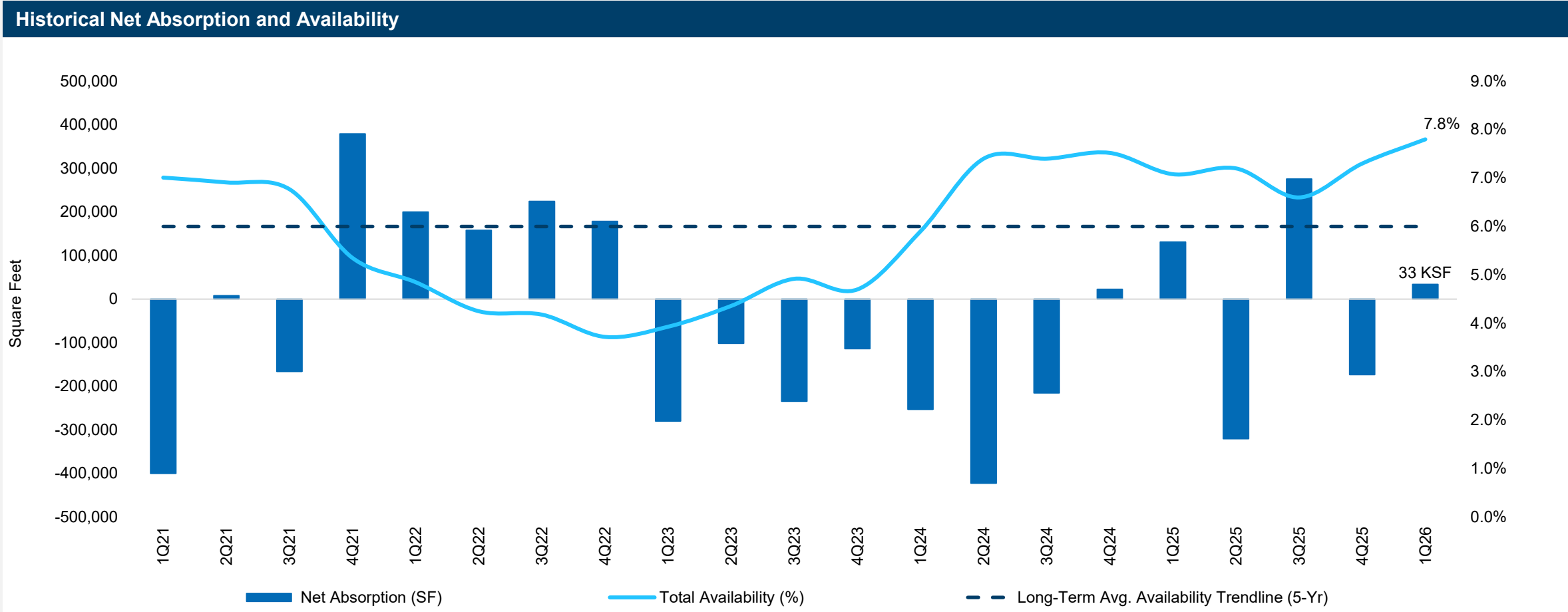
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Industrial Market Records Positive Absorption

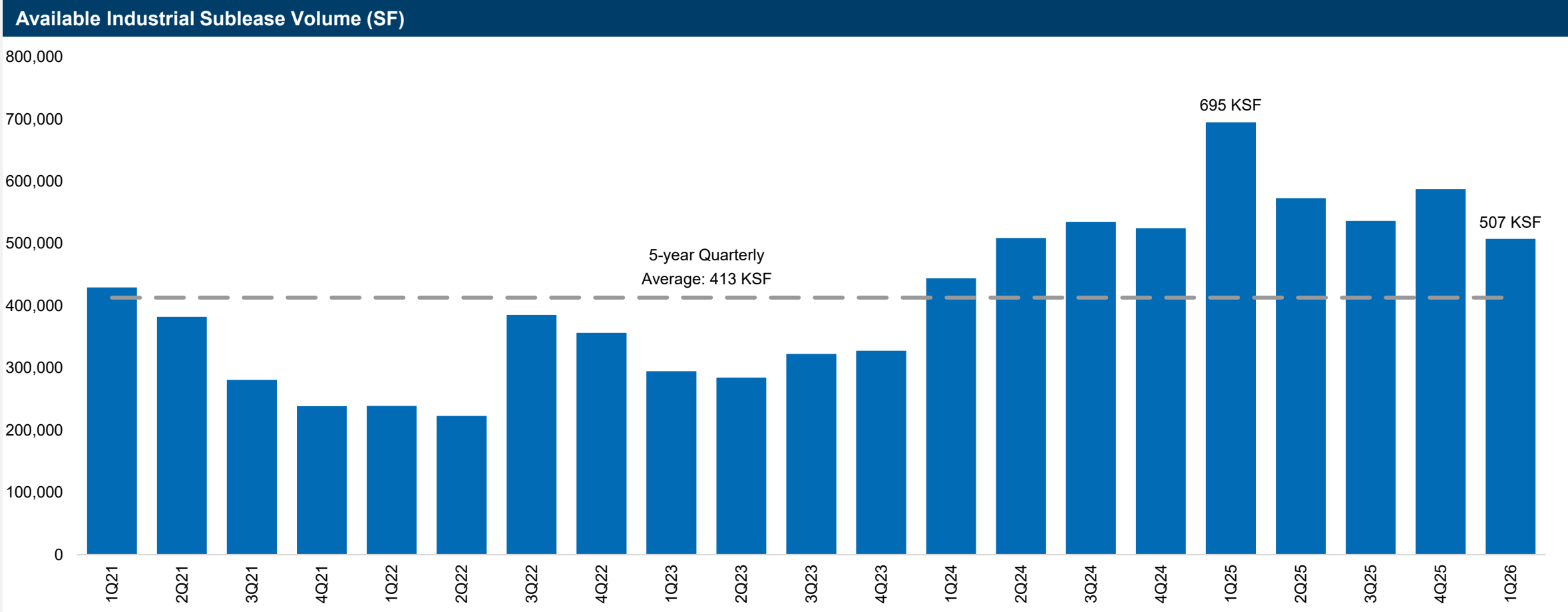
The North Peninsula industrial market posted positive absorption in three of the last five quarters, a streak not seen since 2022. Demand has gradually strengthened over this period while new construction and deliveries have remained muted.



Source: Newmark Research
 *Absorption includes owner-user sales and owner-user constructed deliveries.

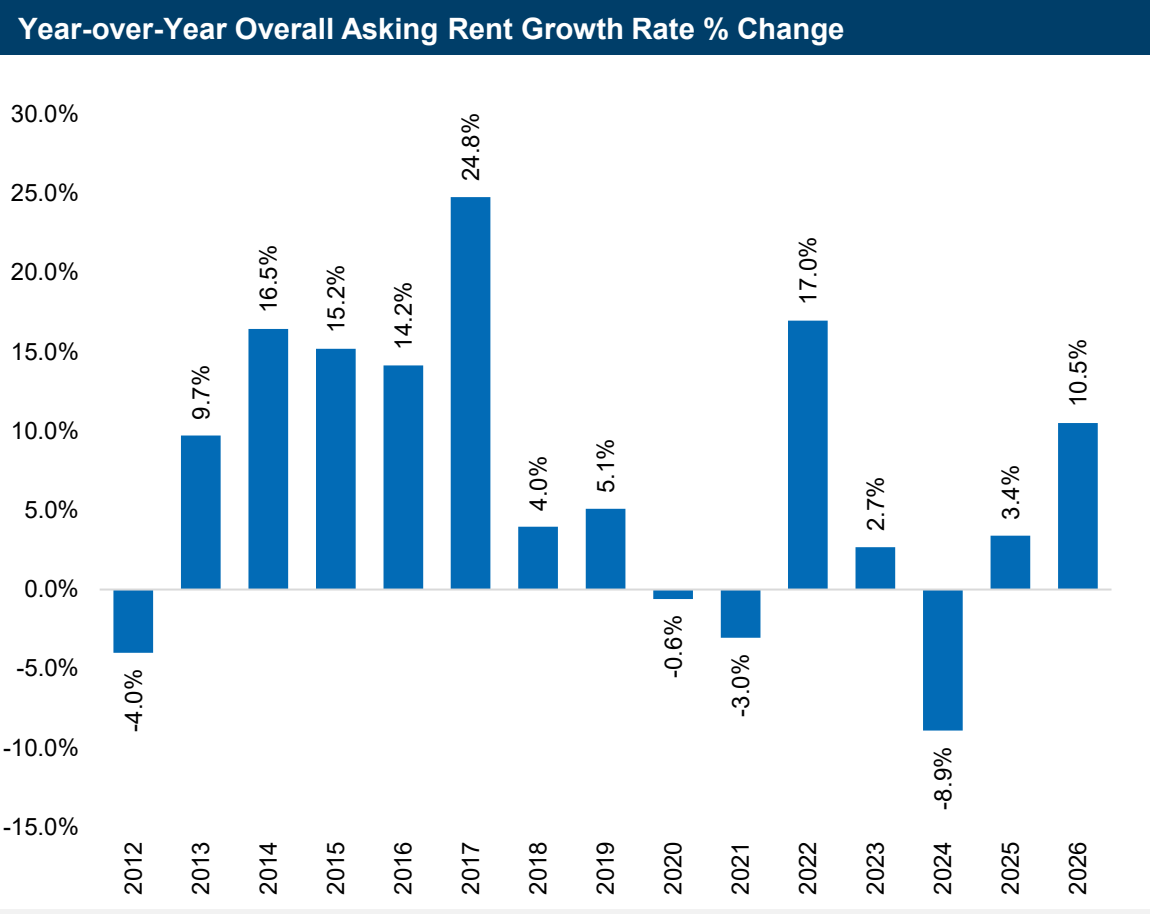
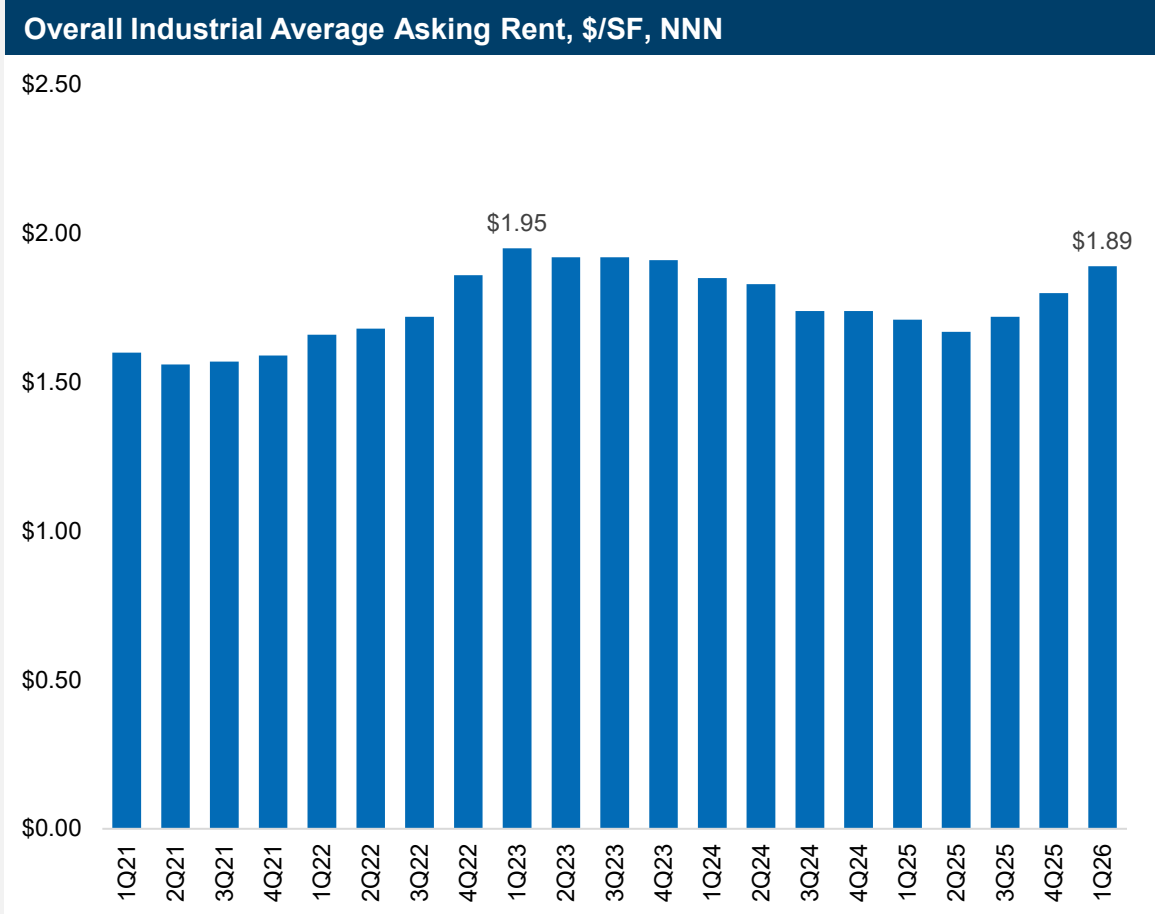
Decline in Sublease Availability

Industrial sublease availability declined to 507 KSF in the Q1, down from 587 KSF in the prior quarter and a peak of 695 KSF one year ago. The reduction in sublease competition has gradually shifted pricing power back to landlords, supporting the recent uptick in average asking rents.



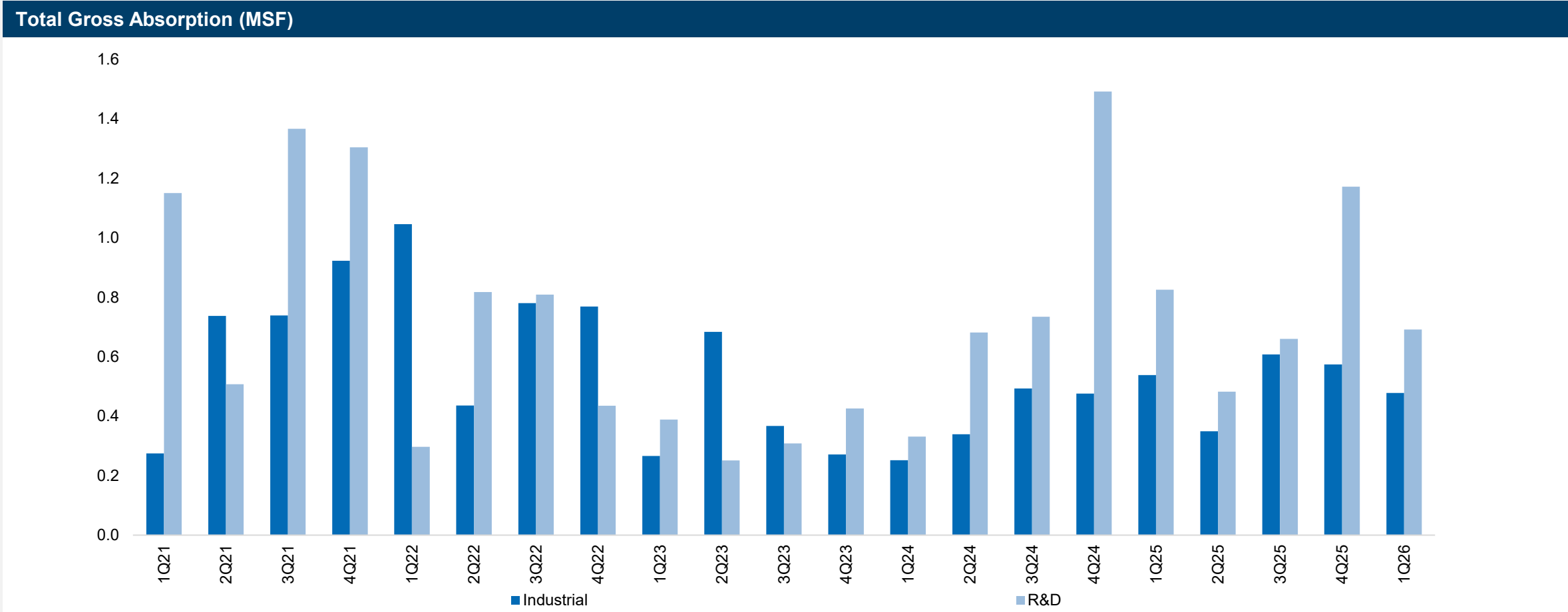
Third Consecutive Quarter of Industrial Average Asking Rent Gains

The North Peninsula industrial average asking rent posted a third consecutive quarterly increase, closing at \$1.89/SF triple net, up from \$1.80/SF in the prior quarter and \$1.71/SF one year ago. Sublease availability has gradually declined since peaking in 1Q25, lending upward support to market rents.



Gross Leasing Activity Declines Quarter-Over-Quarter in Both Markets

R&D gross absorption declined to 692 KSF this quarter, down from 1.1 MSF in the prior quarter and 825 KSF one year ago. Industrial gross absorption followed a similar trend, decreasing to 478 KSF from 574 KSF in the prior quarter and 538 KSF a year earlier.



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R&D Leasing Market Fundamentals

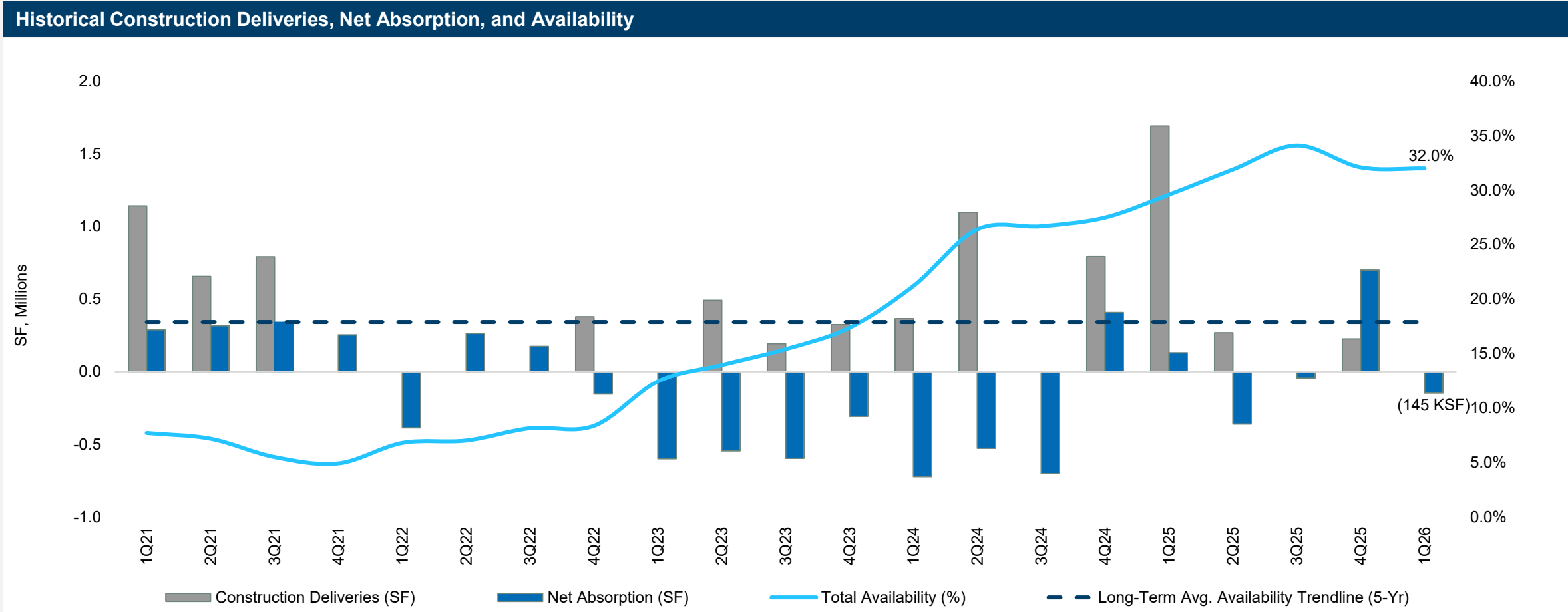
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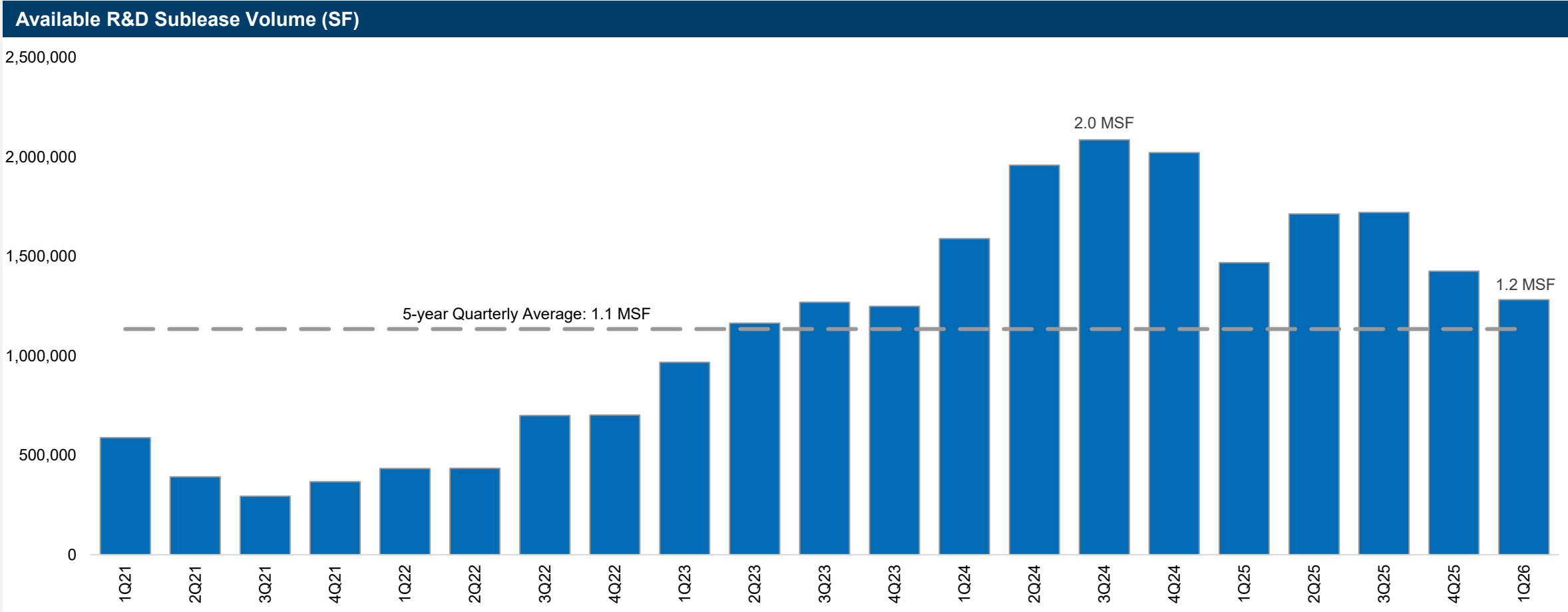
R&D Market Takes a Step Back

The North Peninsula R&D market recorded 145 KSF of negative absorption in Q1, reversing a historically strong close to 2025. Negative absorption was heavily concentrated in Menlo Park, where several tenants vacated full buildings in the 50K–75K SF range within the Tarlton Menlo Park Labs project.



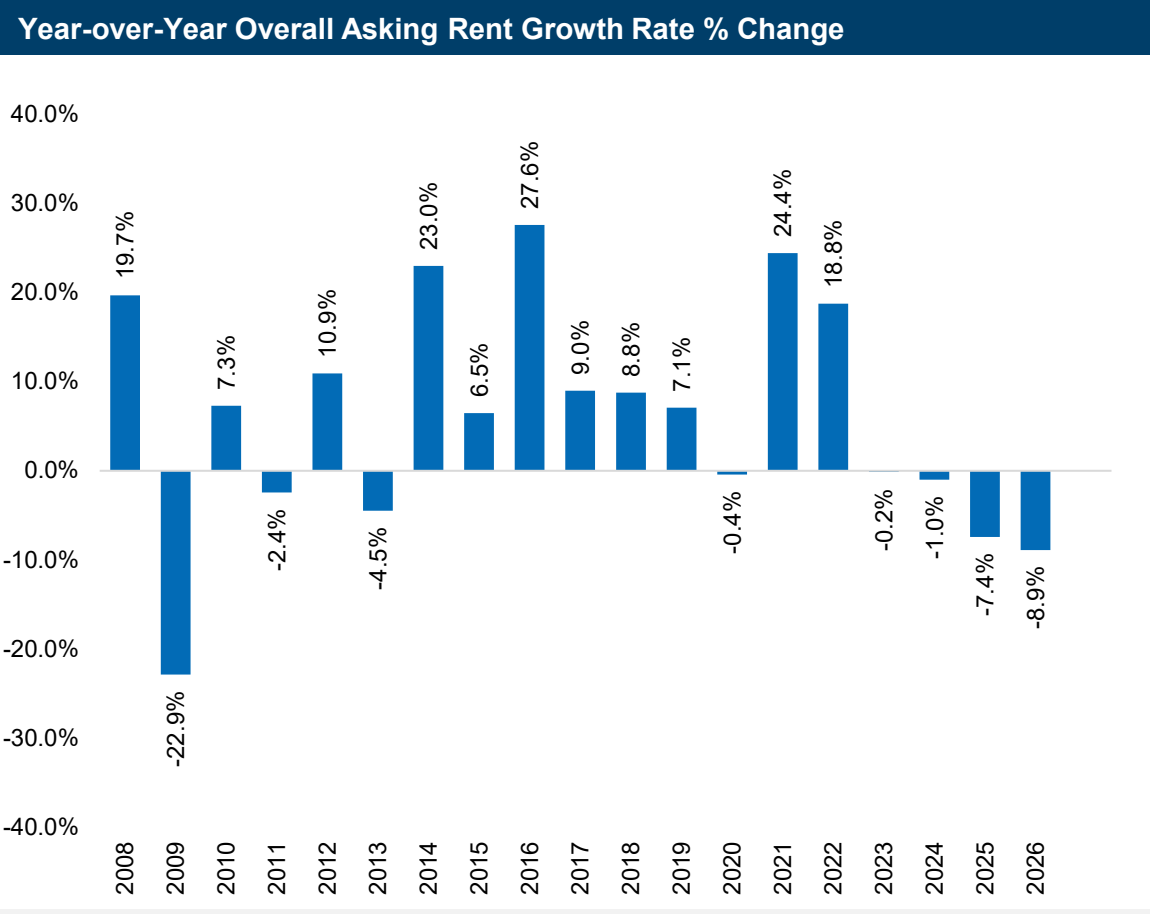
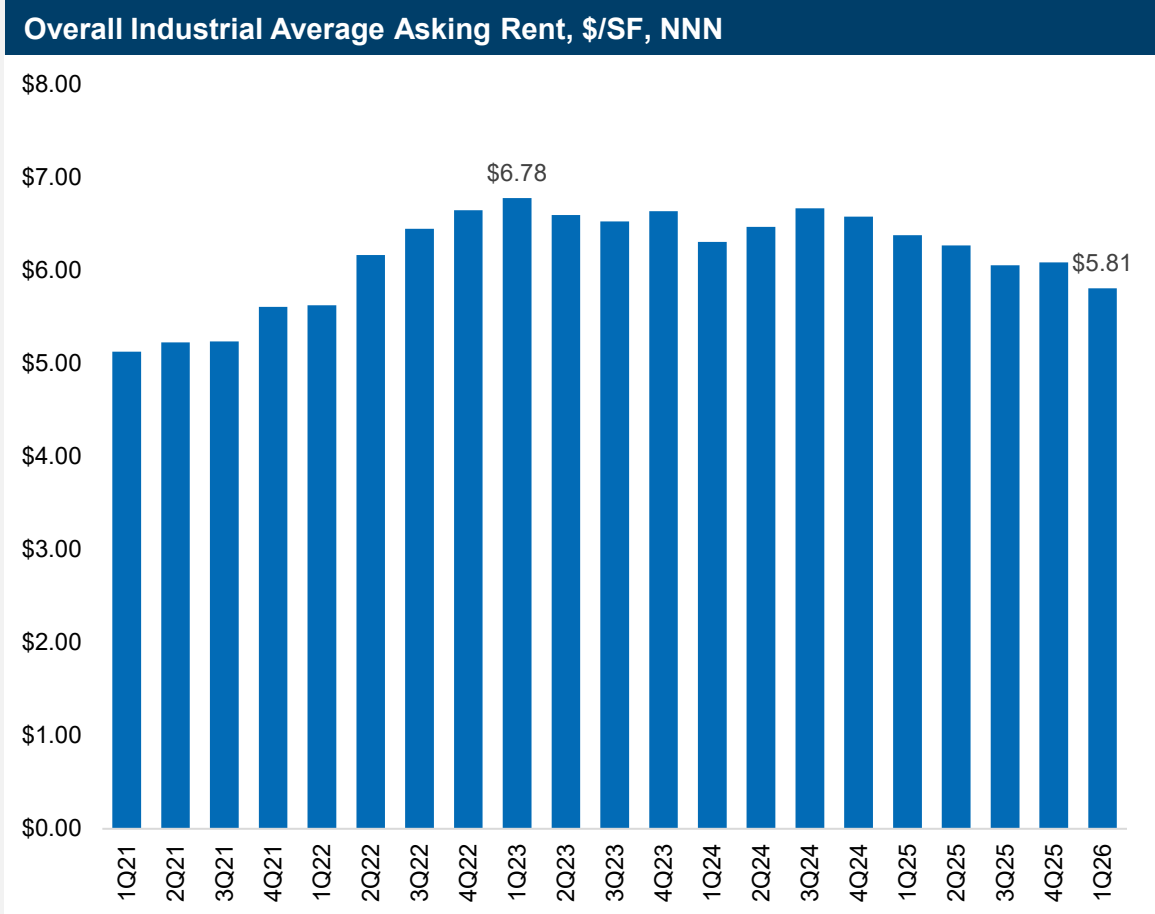
Sublease Volume Declines for Second Consecutive Quarter

Sublease availability declined to 1.2 MSF in the Q1, down from 1.4 MSF in the prior quarter and 1.5 MSF one year ago. Available sublease inventory has continued to contract since peaking in 3Q24, suggesting the peak of the sublease overhang has passed.



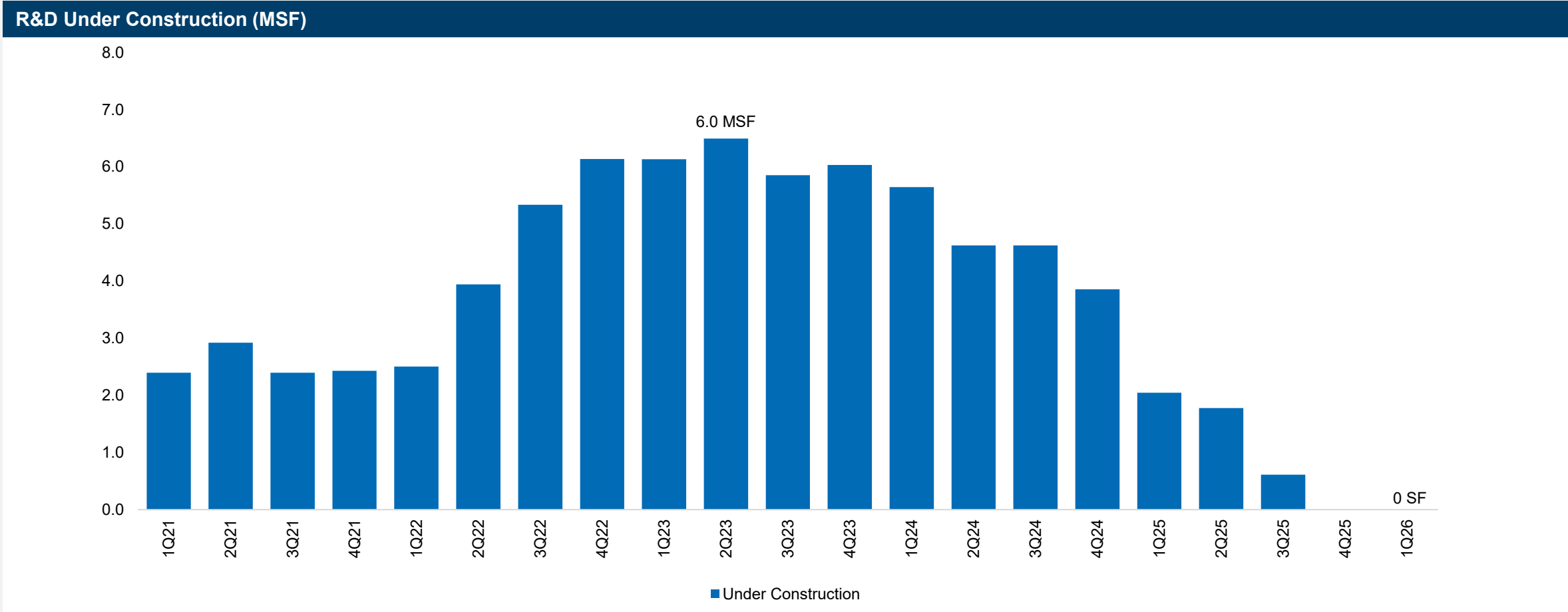
Dip in Average R&D Asking Rate

The North Peninsula R&D market recorded a decline in average asking rates, falling to \$5.81/SF from \$6.09/SF in the prior quarter and \$6.38/SF one year ago. On a year-over-year basis, the average asking rate was down 8.9%, representing the largest annual decrease since 2009.



Construction Pipeline Remained Depleted in Q1

R&D development in the North Peninsula remained at a complete standstill in Q1, with no projects under construction or expected to break ground in the near term. Given historically high vacancy and elevated land and construction costs, new speculative development is not expected in the near term.



Notable 1Q26 Lease Transactions

This quarter recorded six industrial transactions of 20,000 SF or more, down from nine in the previous quarter. In the R&D sector, twelve transactions of 20,000 SF or more were completed, up from ten in the previous quarter.

Notable Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Cellink Technologies	1089 Mills Way	Redwood City	Direct Lease	87,262
<i>3D bioprinting company Cellink completed the largest deal of the quarter, leasing 1089 Mills Way in Redwood City for 87,262 SF.</i>				
Mammoth Bio	1000 Marina Blvd.	Brisbane	Blend/Extend	69,900
<i>Mammoth Biosciences executed the quarter's second-largest transaction, a blend-and-extend at 1000 Marina Blvd. in Brisbane covering floors two, three, five, and six totaling 69,900 SF.</i>				
Natera	Brittan West 1091 Industrial Rd.	San Carlos	Direct Lease	62,969
<i>Clinical genetic testing company Natera leased the second floor of the Brittan West project in San Carlos, totaling 62,969 square feet, in the third-largest deal of the quarter.</i>				
WindBorne Systems	Redwood LIFE 1600 Bridge Pkwy.	Redwood Shores	Sublease	51,822
<i>In the fourth-largest deal of the quarter, WindBorne Systems subleased 51,822 SF from Nevro at 1600 Bridge Pkwy. in Redwood Shores through December 2031.</i>				
ACT 2 Services	229 Littlefield Ave.	South San Francisco	Sublease	45,000
<i>In the fifth-largest deal of the quarter, ACT 2 Services subleased 45,000 SF from Cargo Force at 229 Littlefield Ave in South San Francisco through July 2027.</i>				

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Submarkets

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