

3Q25

North Peninsula Industrial & R&D Market Overview



Market Observations

Economy

- The national unemployment rate rose to 4.3% at the end of August, consistent with prior-quarter forecasts, indicating that while the U.S. economy remains solid, the job market shows signs of stagnation.
- The Peninsula's unemployment rate increased to 4.2% after remaining below 4.0% since October 2021. This remains favorable compared with the national rate of 4.3%.
- The U.S. Consumer Price Index (CPI) inflation rate registered 2.9% in August, up from 2.4% in June.
- Looking ahead, the market anticipates a median estimate of two Federal Reserve rate cuts by year-end 2025. However, inflation readings remain persistent and above the Federal Reserve's 2.0% target.

Major Transactions

- Elon Musk–owned Neuralink completed the largest deal of the quarter, leasing 499 Forbes Blvd. in South San Francisco, totaling 145,852 SF.
- Zipline completed the second-largest deal of the quarter, signing a direct lease for 51,048 SF at 582 Eccles while also expanding into an additional 46,100 SF at 570 Eccles, for a total of 97,148 SF transacted.
- The quarter's most notable acquisition came from LBA Realty, which purchased 868 Cowan Rd. in Burlingame from Link Logistics for \$45.5 million, or \$817/SF. The 55,700-SF property was fully occupied by airline catering and logistics company Gate Gourmet.

Leasing Market Fundamentals

- Market-wide R&D availability edged higher to 34.1% this quarter, up from 31.9% in the previous quarter. R&D vacancy also increased, reaching 31.0% compared with 29.4% over the same period.
- In contrast, market-wide industrial availability decreased to 6.6%, down from 7.2%, while industrial vacancy declined to 5.7% compared with 6.2% in the prior quarter.
- The region's R&D pipeline currently includes 610,000 SF of product under construction, with 37.0% preleased. Industrial construction activity remains paused.
- Industrial and R&D posted \$92.7 million in sales volume in the third quarter, down from \$128.8 million in the prior quarter but up significantly from \$30.5 million a year ago. Owner-users continued to be active, accounting for just over half of total trades.

Outlook

- Major leases and improving net absorption in both the industrial and R&D markets continue to indicate early signs of stabilization in the North Peninsula.
- Downward pressure on asking rents, driven by elevated vacancy levels in the R&D market, is likely to persist until the region records sustained occupancy gains over multiple quarters.
- Investors have remained on the sidelines, biding their time and awaiting interest rate relief. With two rate cuts expected by year-end, more groups are anticipated to reenter the market.

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

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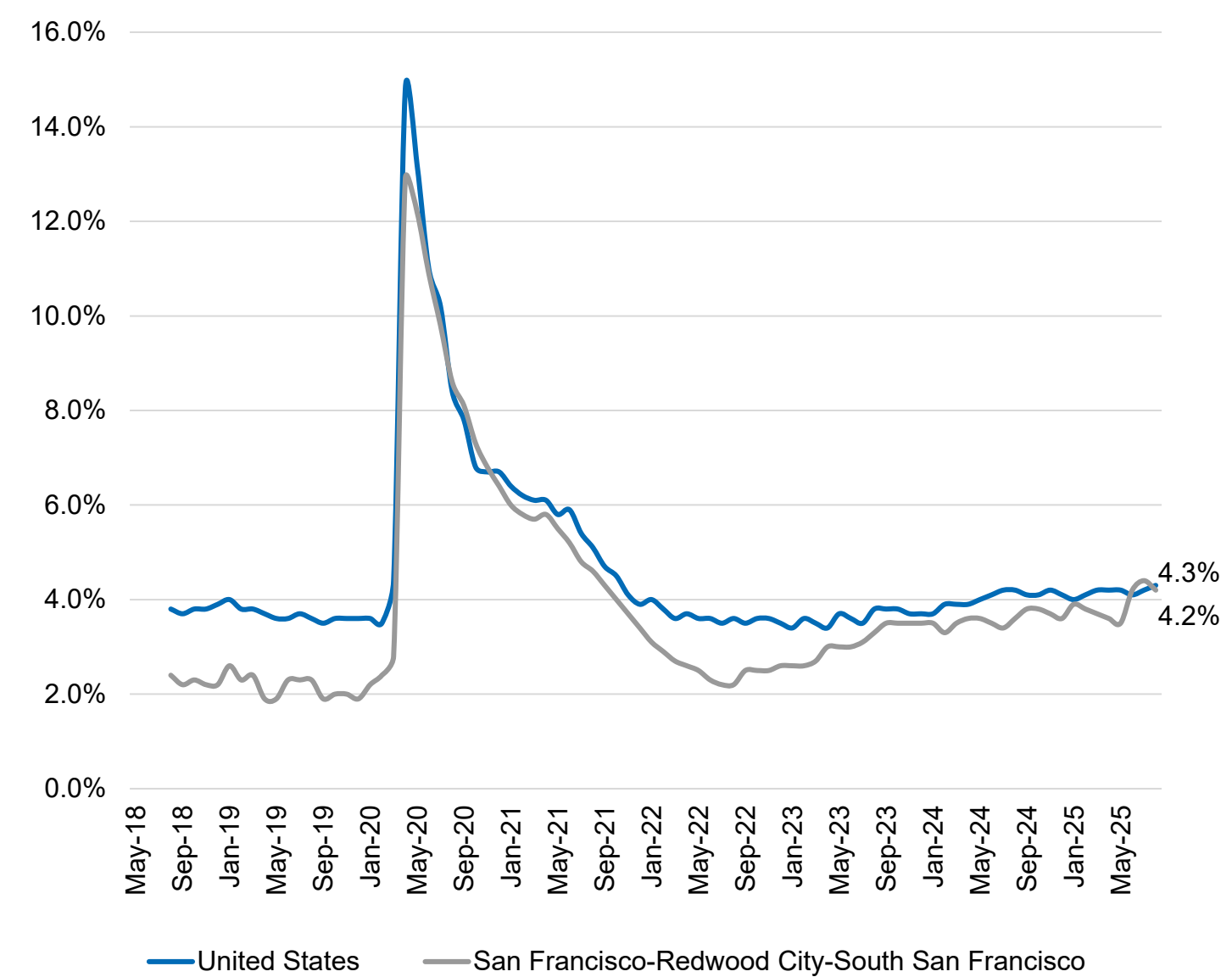
Economy



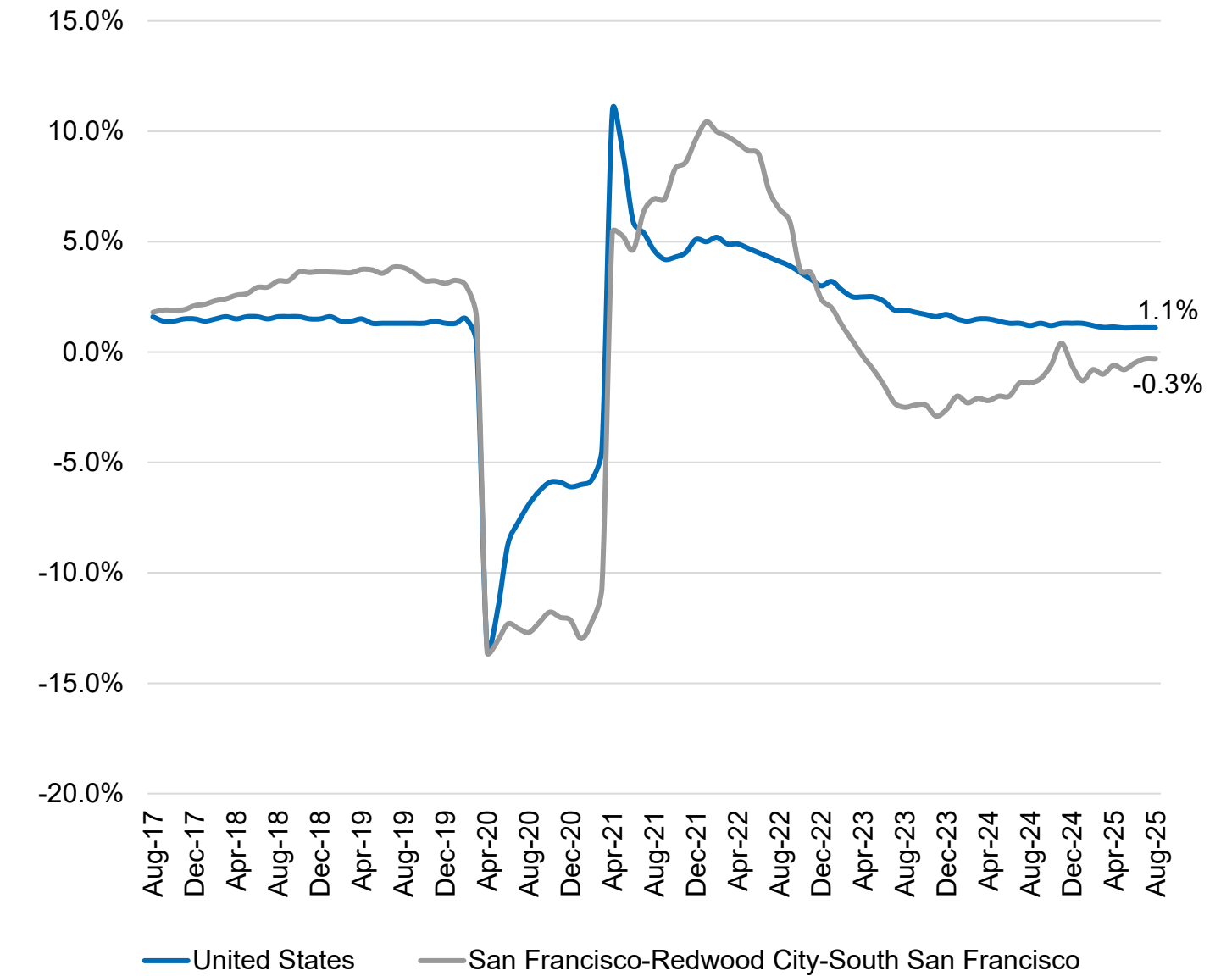
Regional Unemployment Remains Below National Level

While remaining 10 basis points below the national average, the unemployment rate rose to 4.2% at the end of August after holding below 4.0% since October 2021. Year-over-year changes in nonfarm employment across the region have remained relatively stable in negative territory over the past two years.

Unemployment Rate, Seasonally Adjusted



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



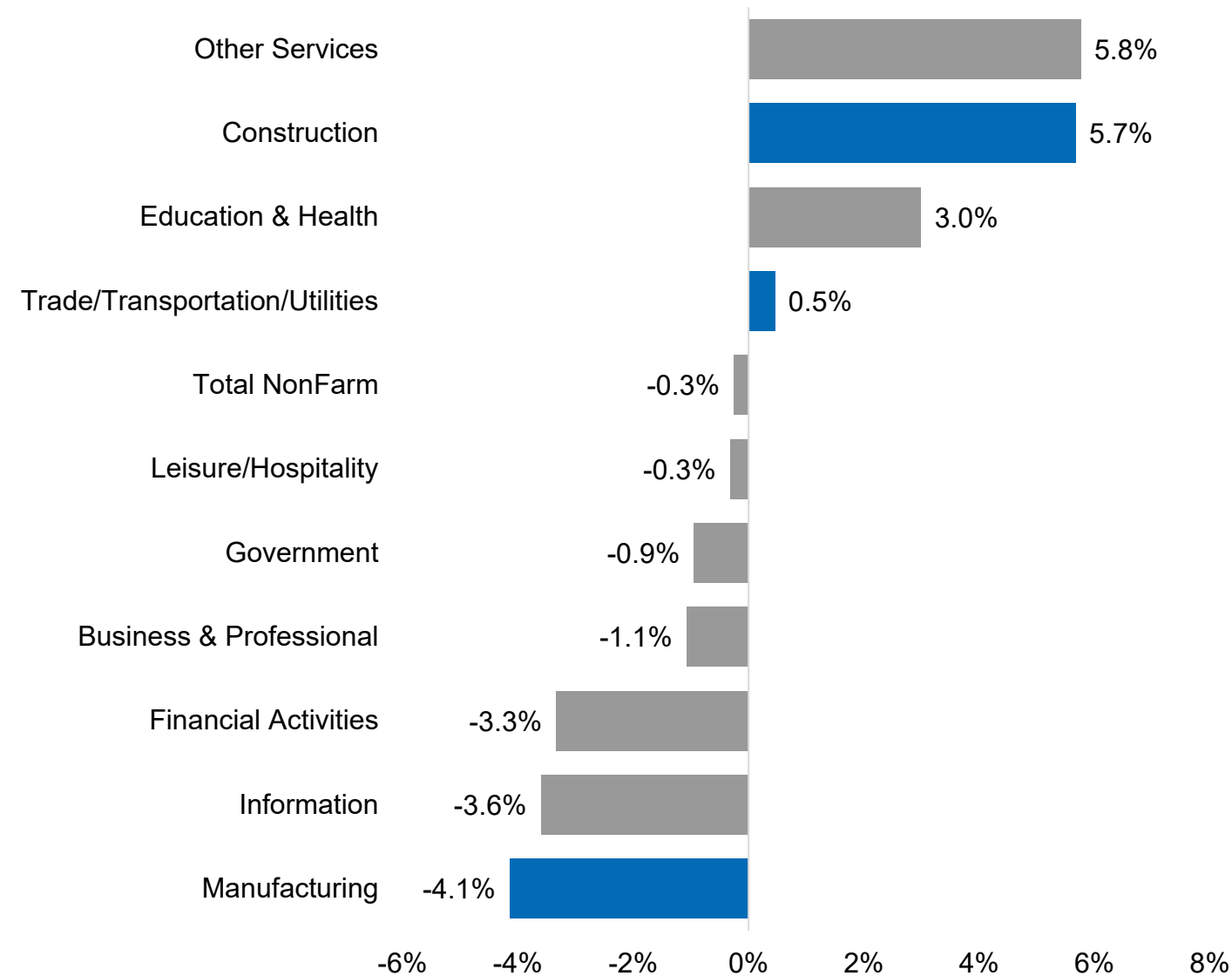
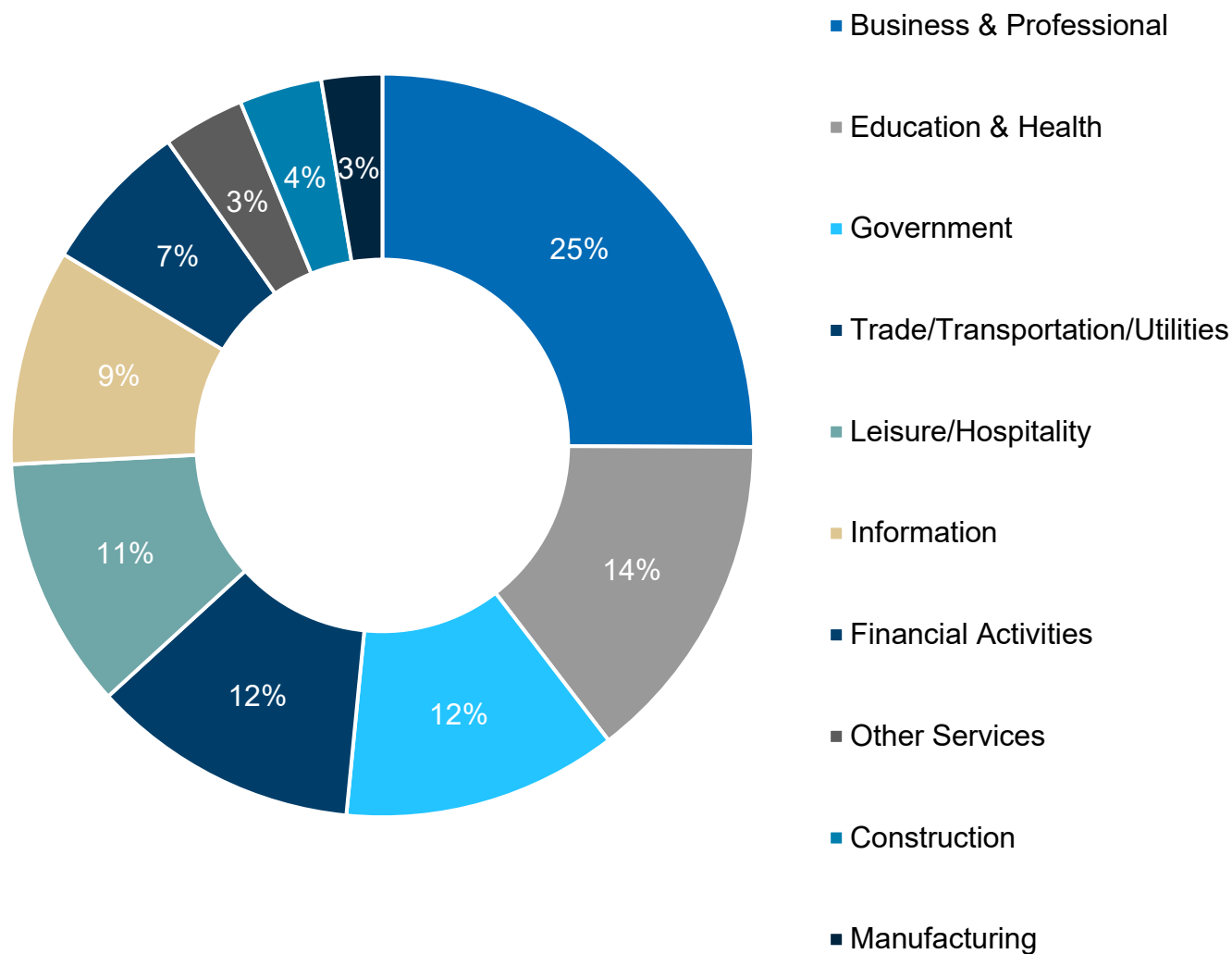
Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

Construction Up 5.7% Year-Over-Year; Manufacturing Down 4.1%

Both the Construction and Manufacturing sectors are small relative to other market sectors, so large percentage changes growth or contraction are tempered by the relatively small size of the sectors. Trade/Transportation/Utilities is a larger sector relative to the market, and that sector was up 0.5% year-over-year.

Employment by Industry, August 2025

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

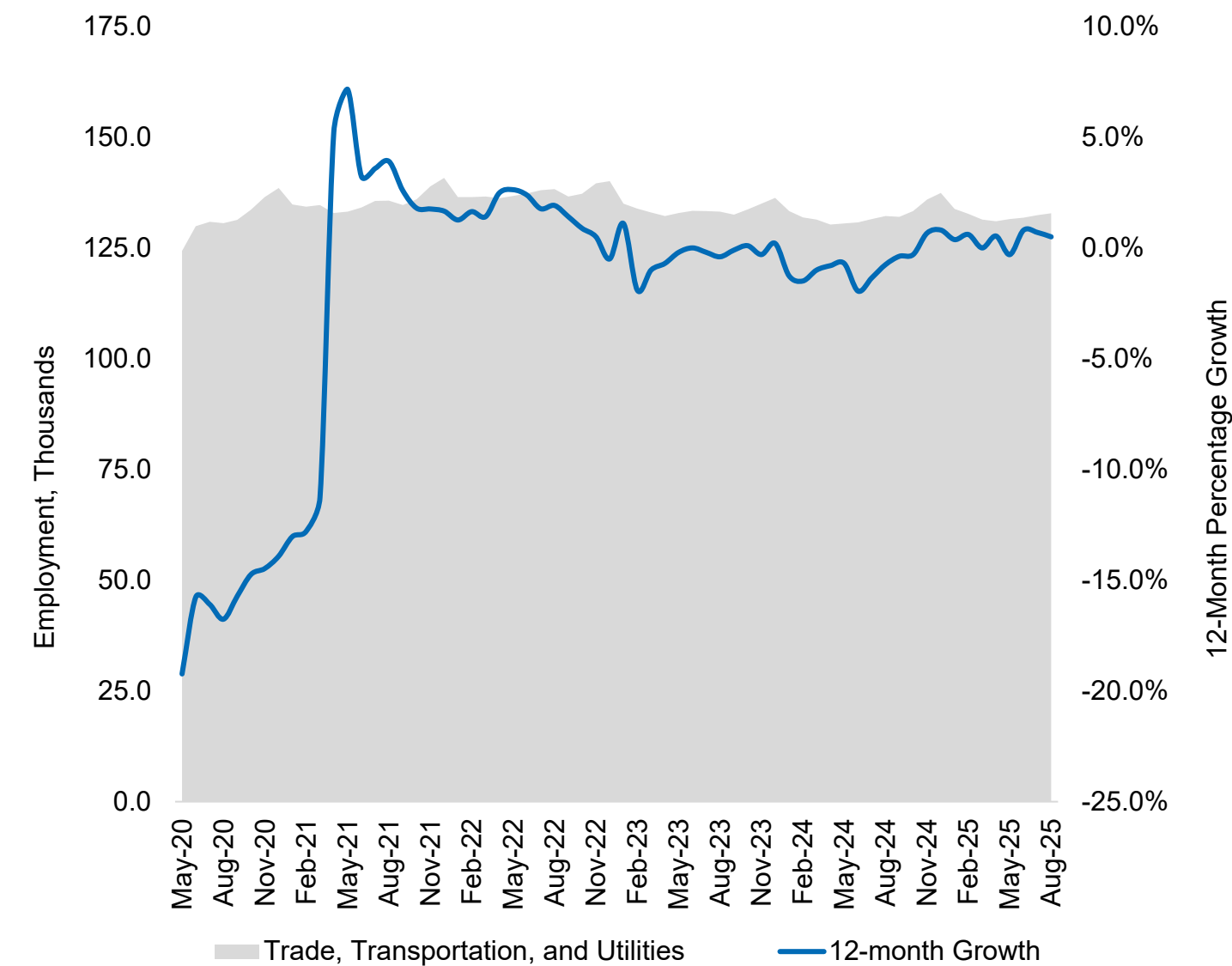


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco. Data is preliminary.

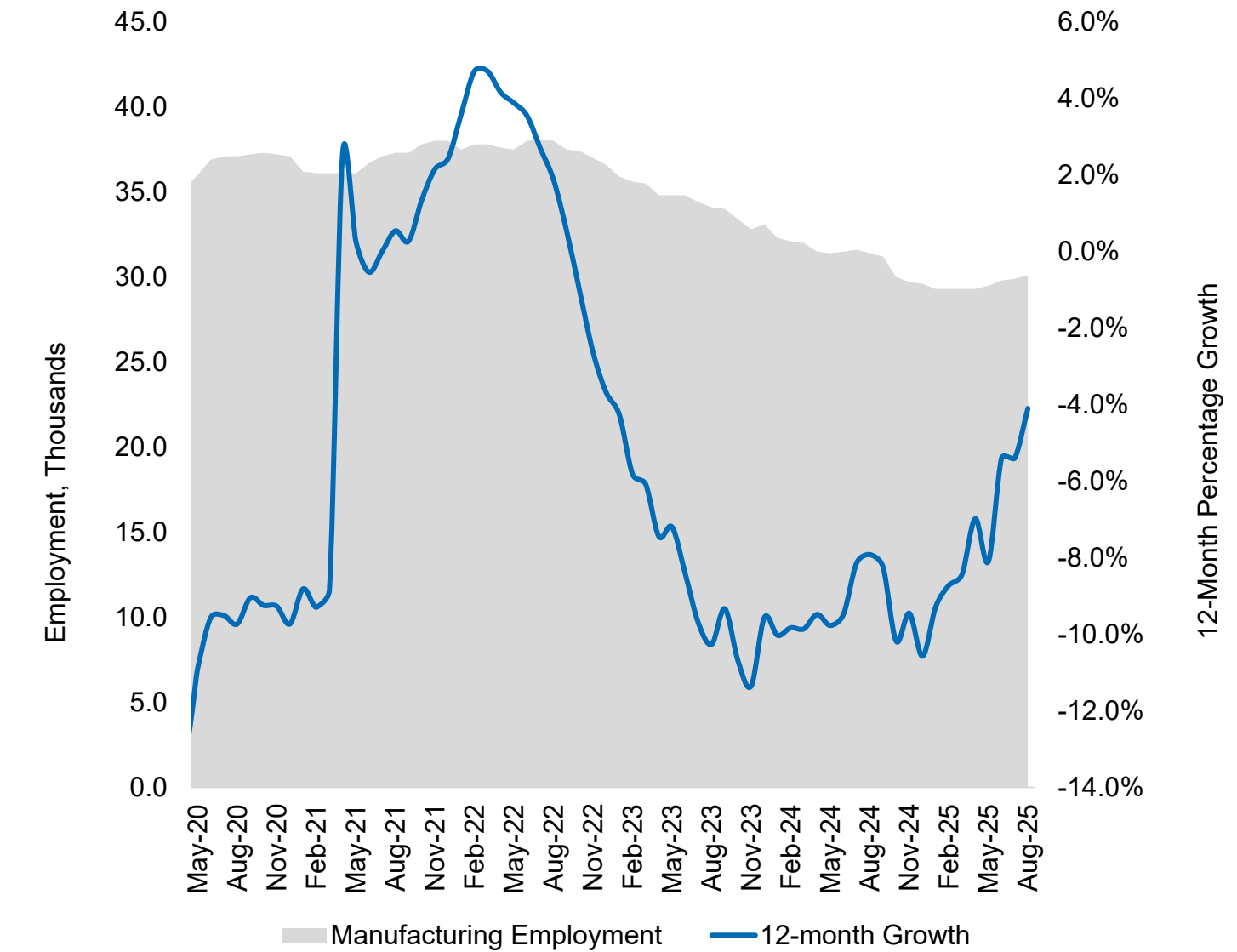
Employment In Industrial Sectors

Jobs in the trade, transportation and utilities sector have remained steady, while the manufacturing sector appears to have found a temporary bottom.

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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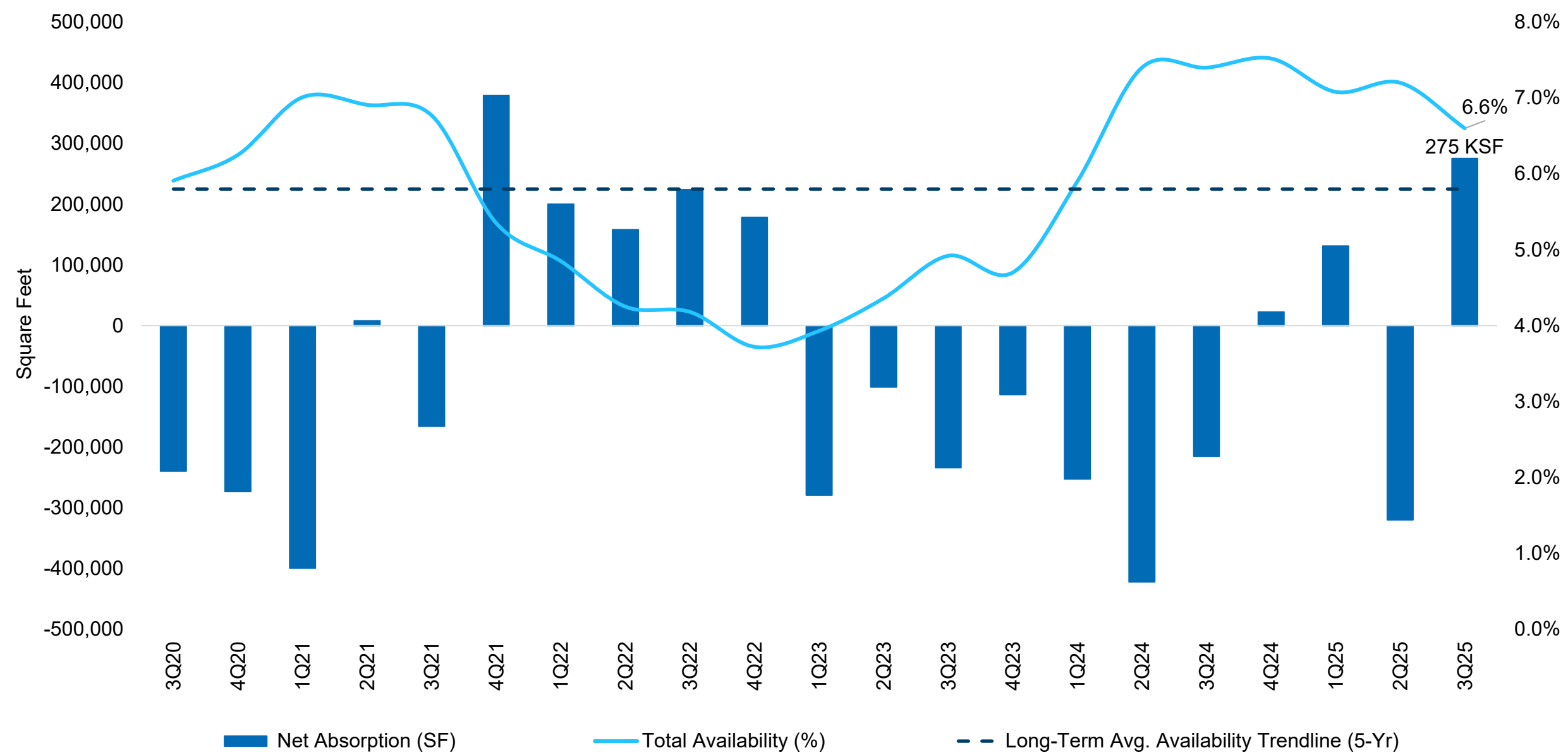
Industrial Leasing Market Fundamentals



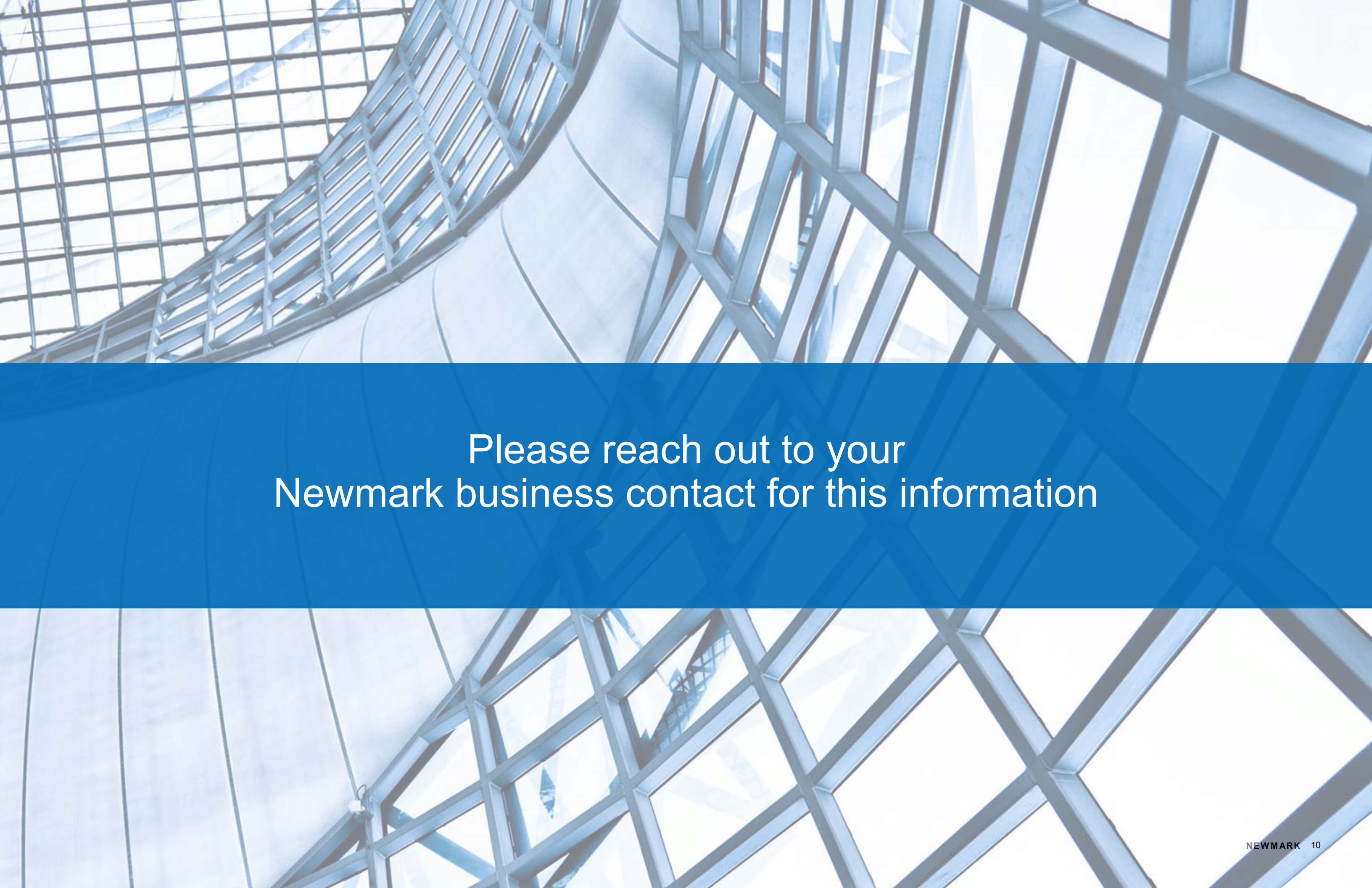
Industrial Market Posted Positive Net Absorption

After two consecutive quarters of negative net absorption, the North Peninsula industrial market took a step forward, closing at positive 275,000 SF. Market-wide industrial availability decreased to 6.6% this quarter, compared with 7.2% in the previous quarter and 7.4% a year earlier. Several quarters of positive net absorption over the past year point to early signs of recovery and a potential shift in tenant sentiment following consecutive quarters of occupancy losses.

Historical Net Absorption, and Availability



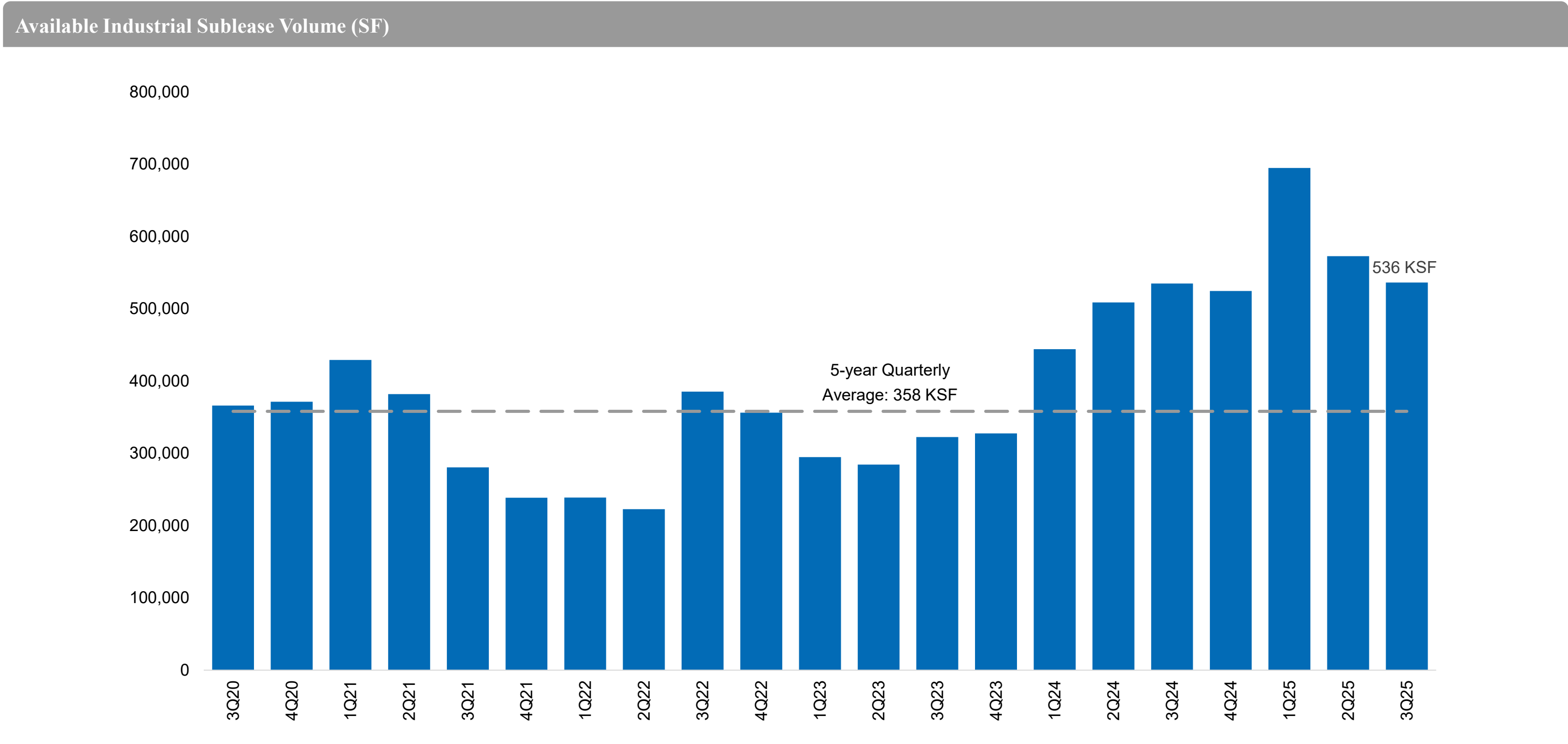
Source: Newmark Research, CoStar



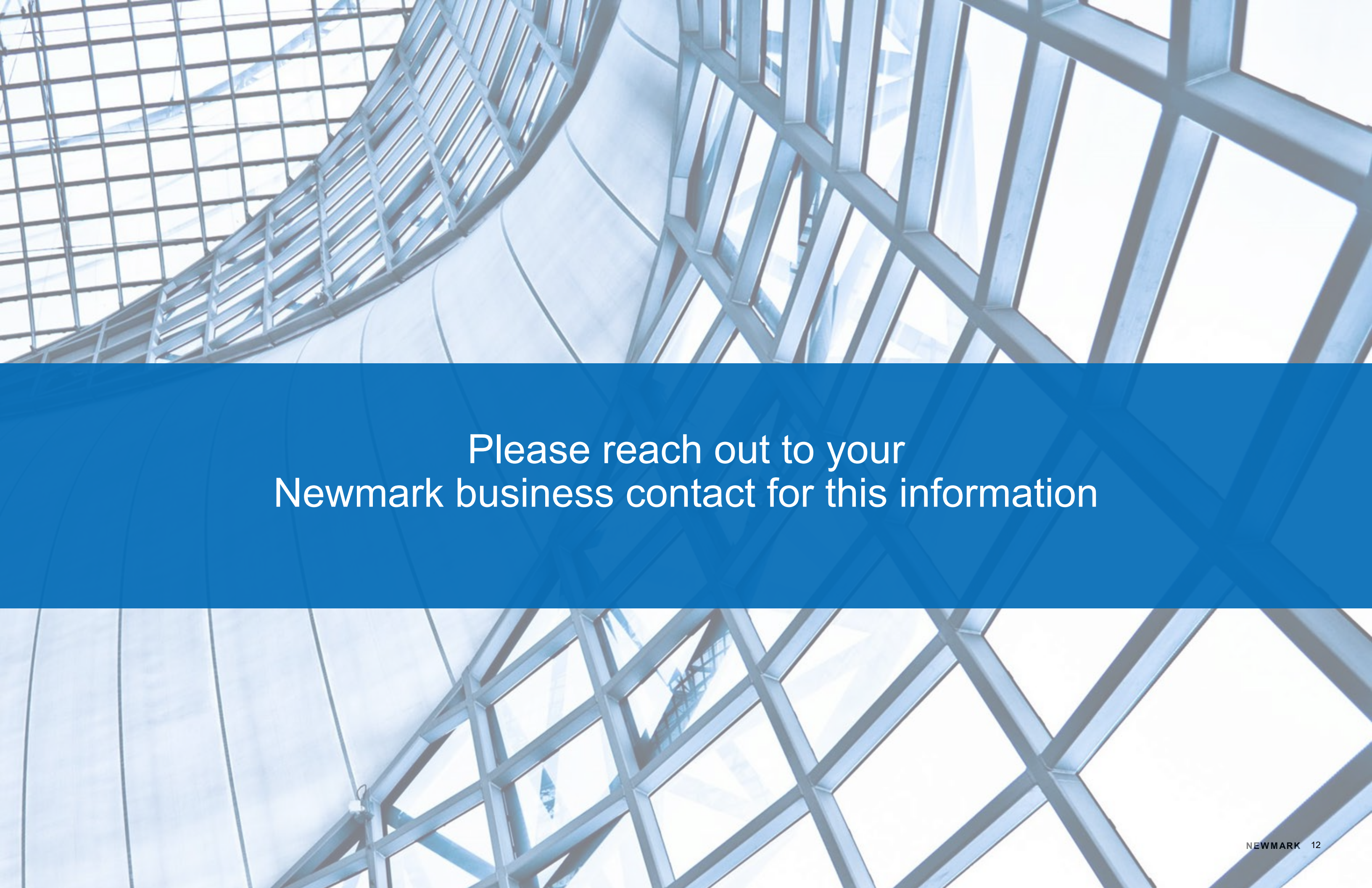
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Industrial Sublease Availability Declines; Still Above Five-Year Average

Industrial sublease availability declined to 536,000 SF in the third quarter of 2025, down from 572,000 SF, yet remains well above the five-year average of 358,000 SF.



Source: Newmark Research, CoStar

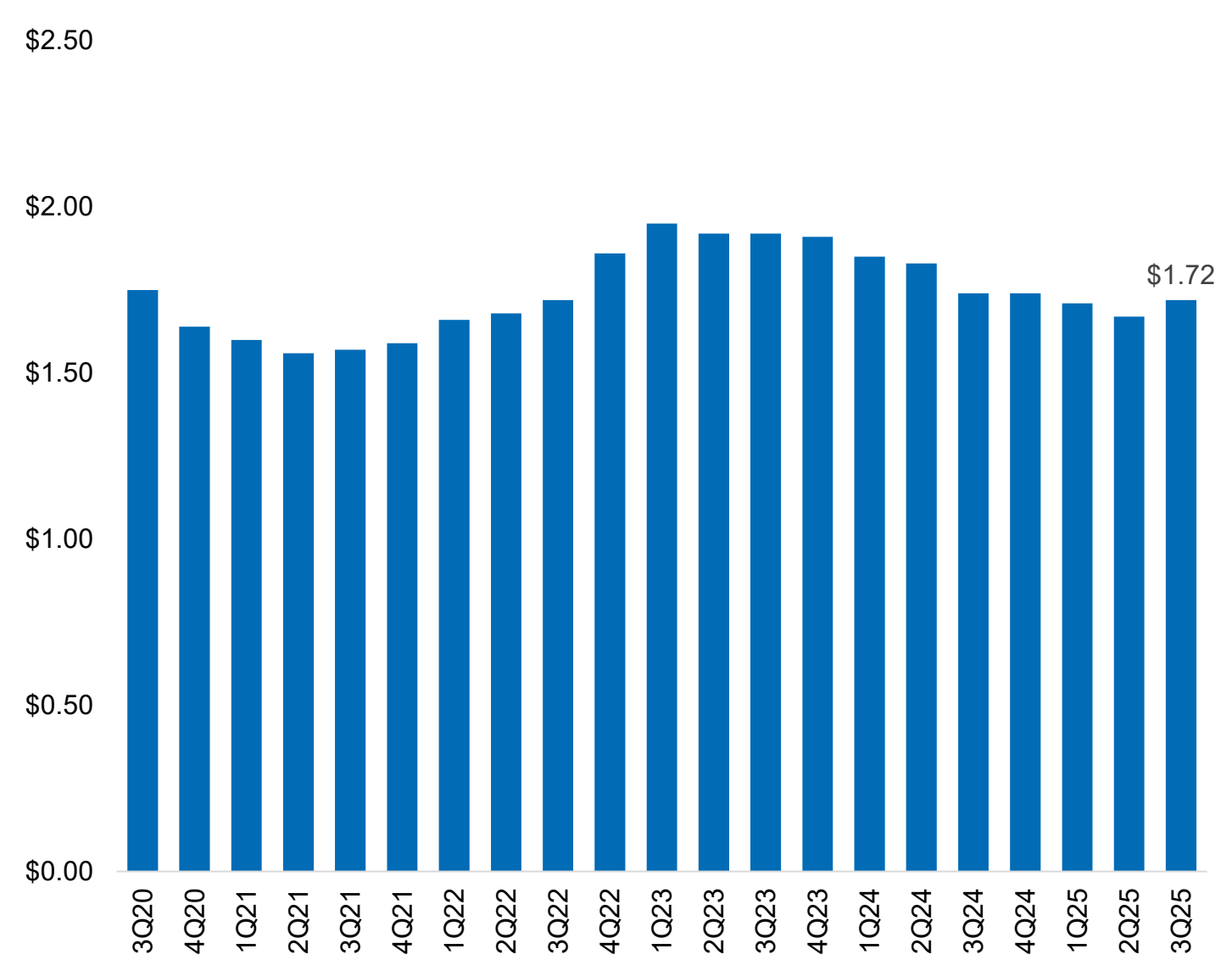


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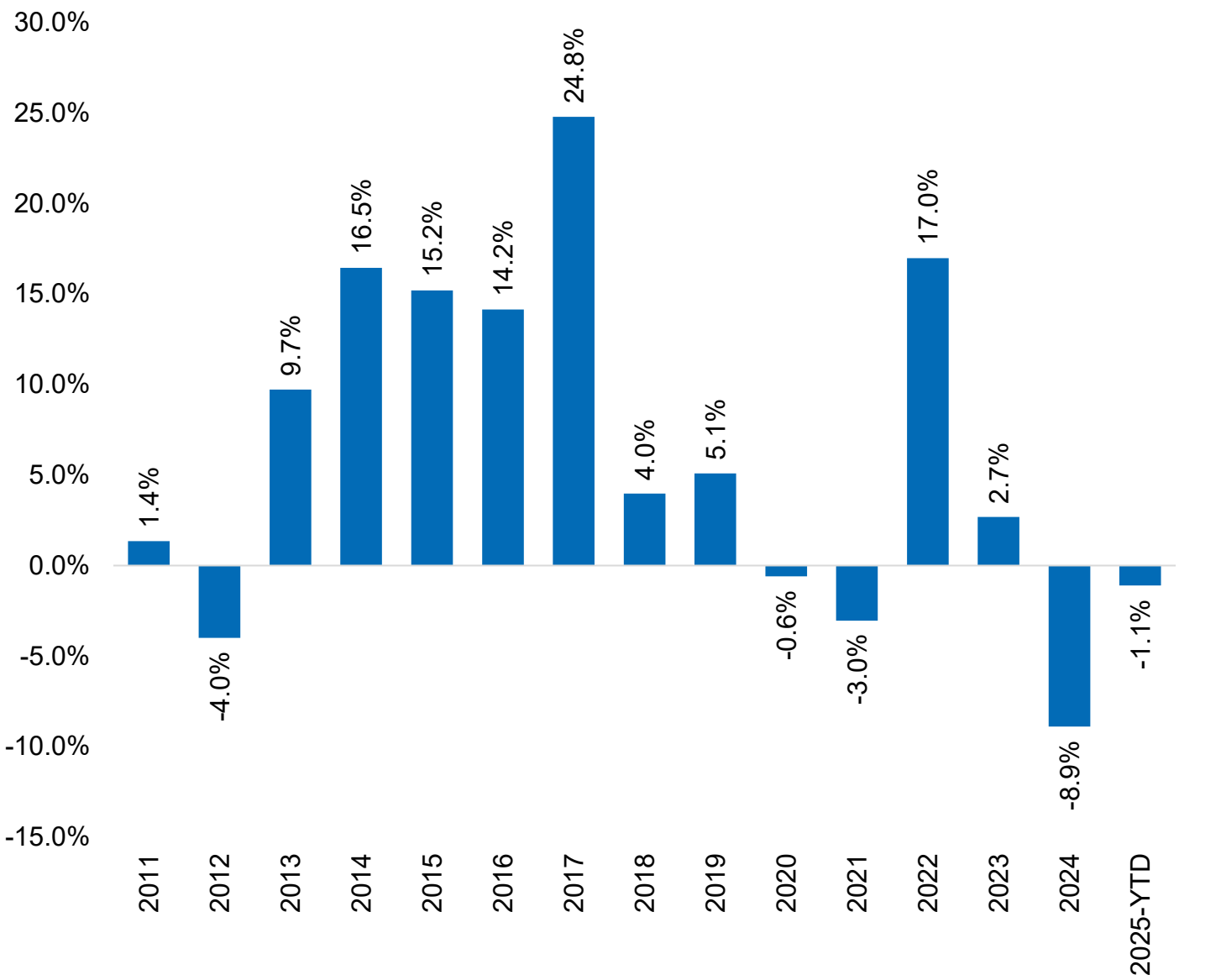
Uptick in Industrial Average Asking Rent

After nine consecutive quarters of overall rent declines, the North Peninsula industrial market recorded an uptick, closing at \$1.72/SF in the third quarter, up from \$1.67/SF in the previous quarter.

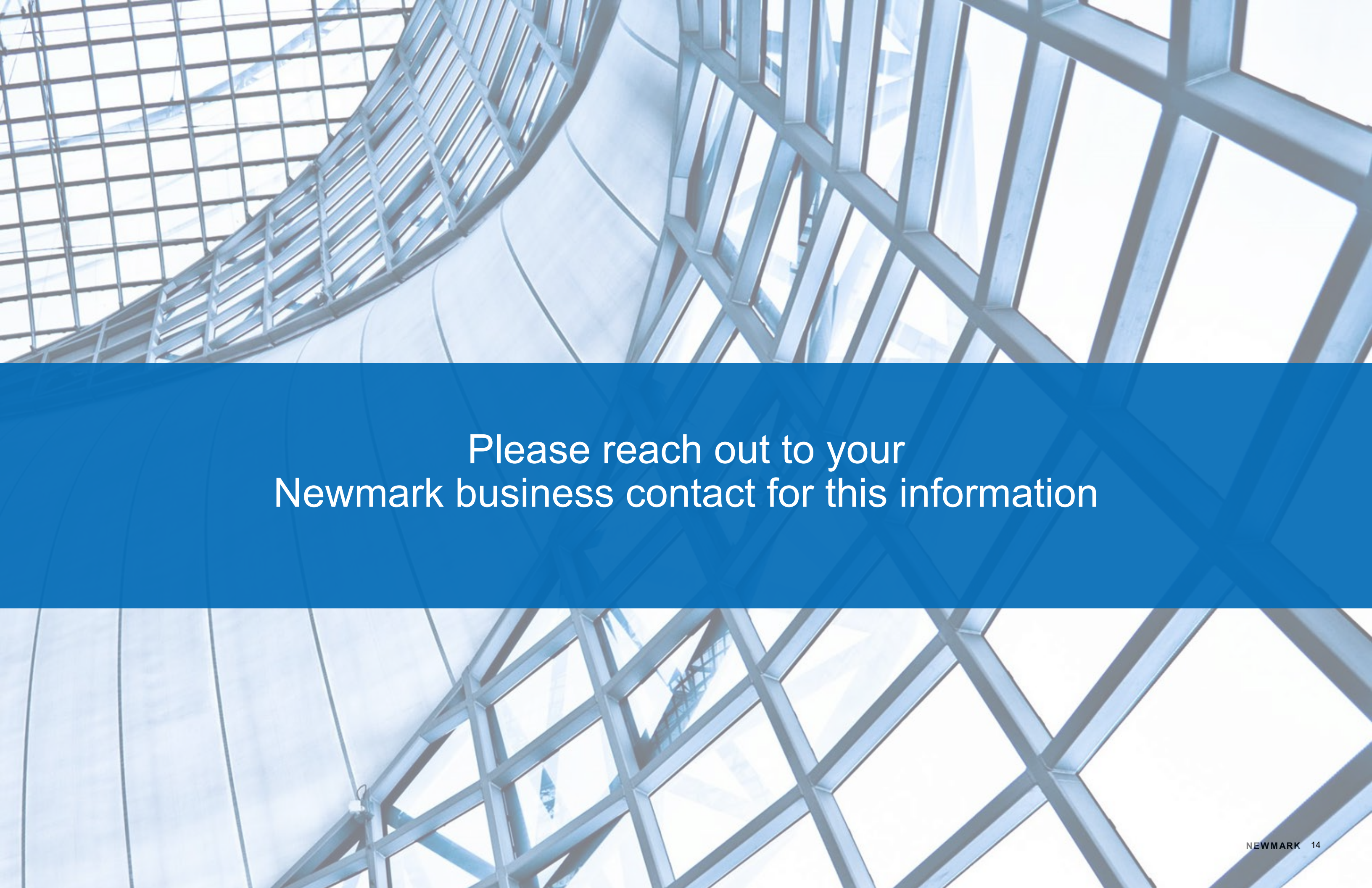
Overall Industrial Average Asking Rent, \$/SF, NNN



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



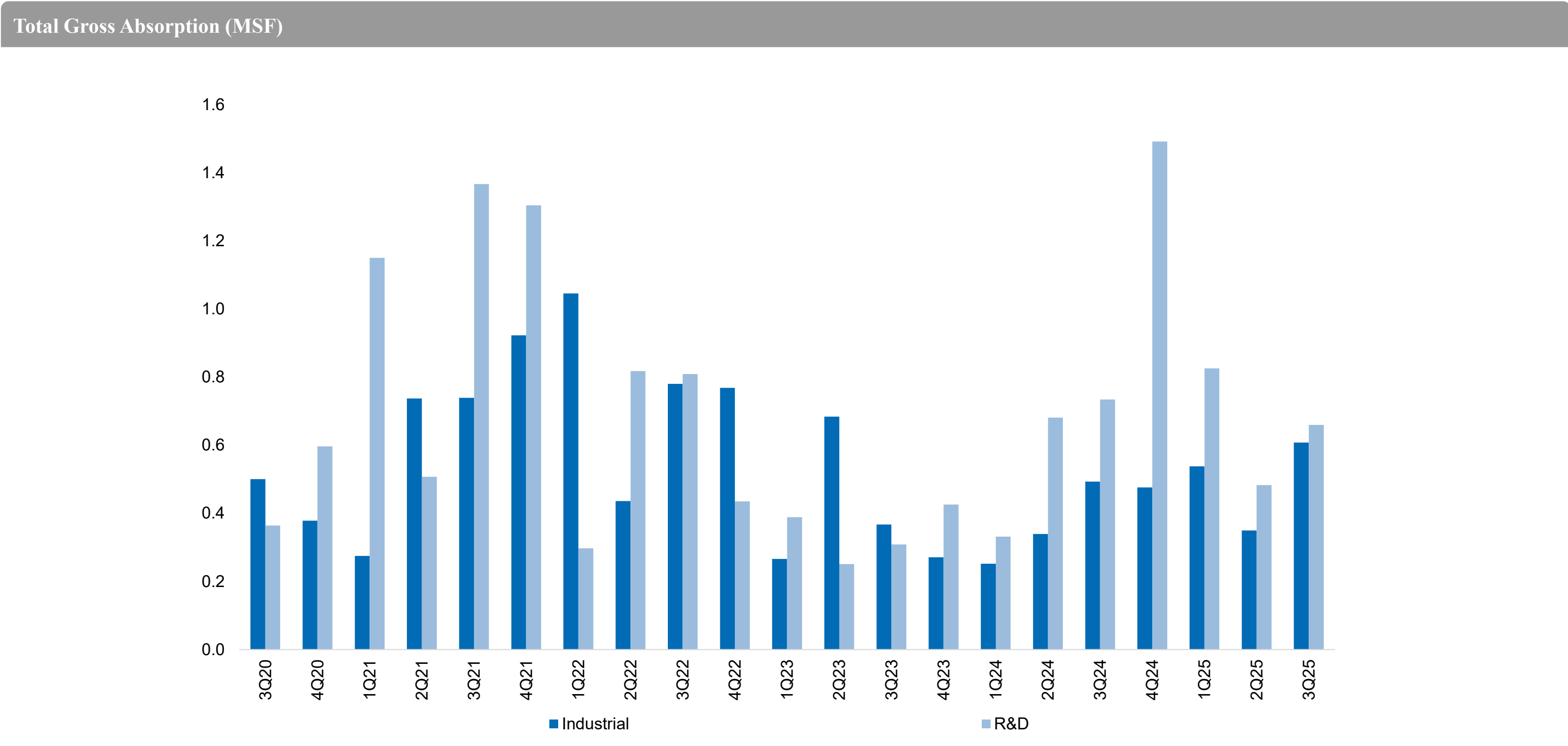
Source: Newmark Research, CoStar



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Uptick in Both Industrial and R&D Leasing

R&D gross absorption increased this quarter to 660,000 SF, up from 482,000 SF in the previous quarter but down from 734,000 SF one year ago. Industrial gross absorption also rose this quarter, reaching 608,000 SF, up from 350,000 SF in the prior quarter and 493,000 SF a year earlier.



Source: Newmark Research, CoStar

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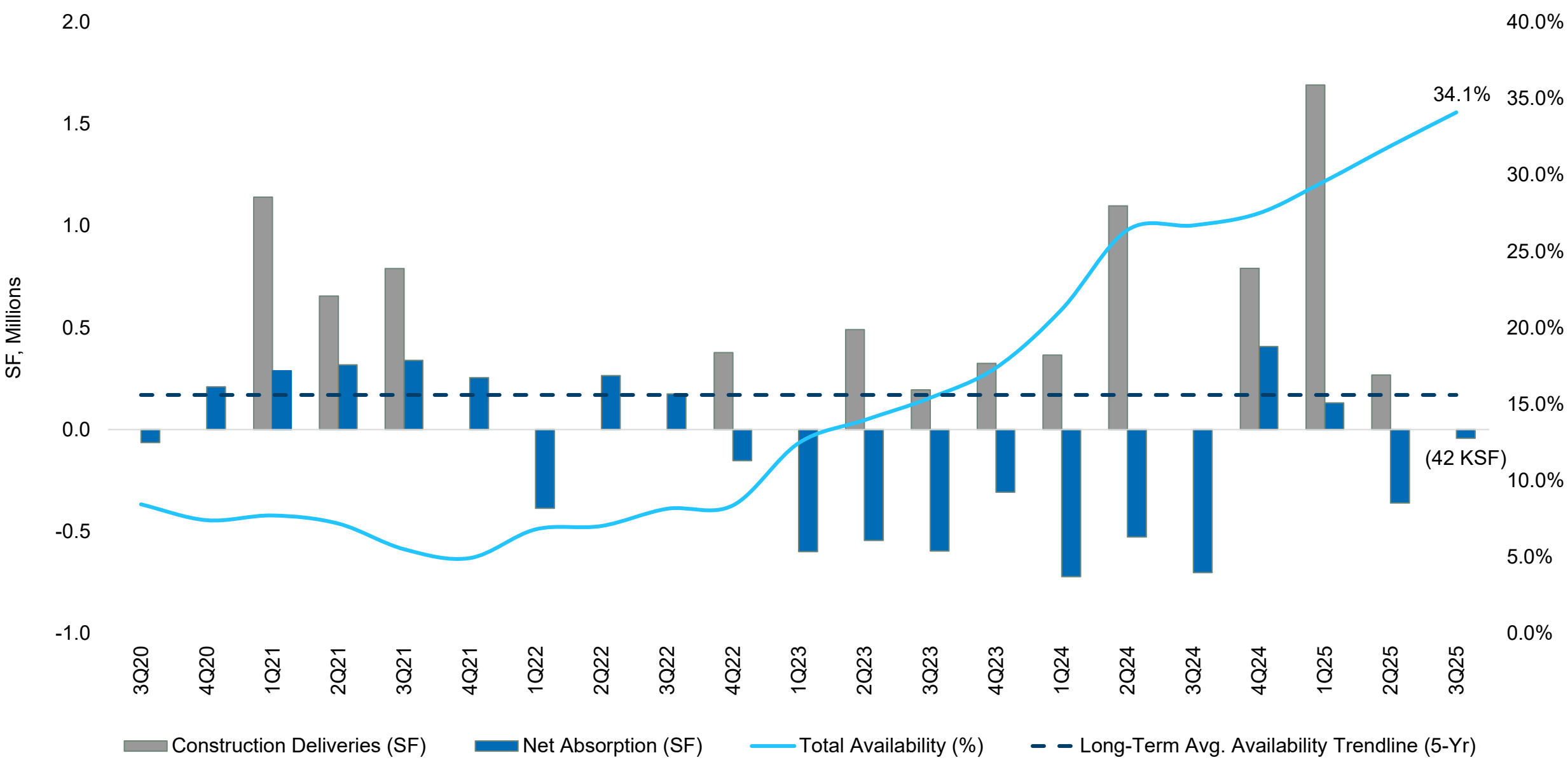
R&D Leasing Market Fundamentals



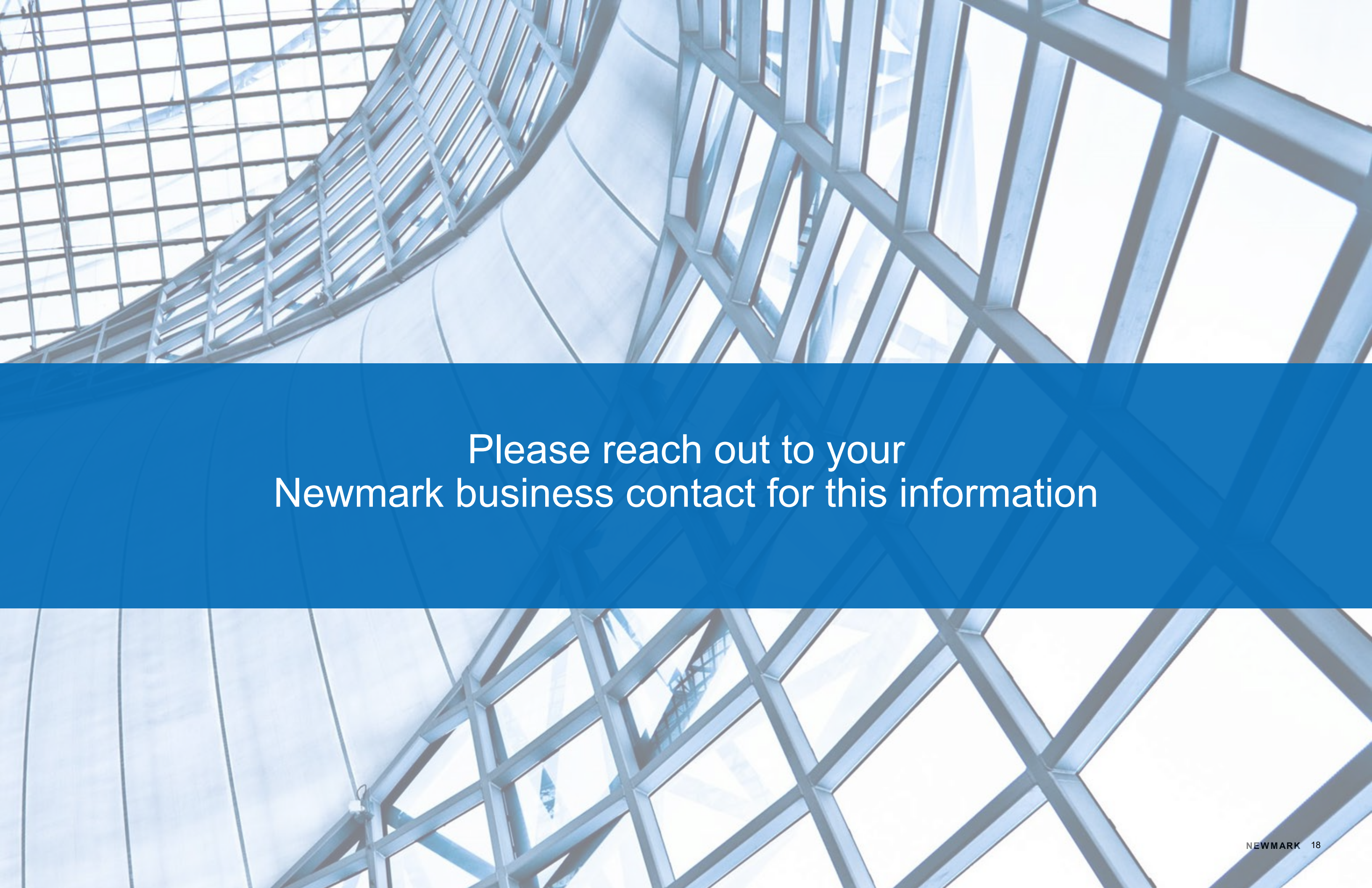
R&D Market Availability Continues to Rise in Third Quarter

Total availability continued to reach record highs in the third quarter, closing at 34.1%, up from 31.9% in the previous quarter. This increase was driven by negative absorption, totaling 272,567 SF in occupancy losses year to date, and the delivery of new projects totaling 1.9 million SF year to date.

Historical Construction Deliveries, Net Absorption, and Availability



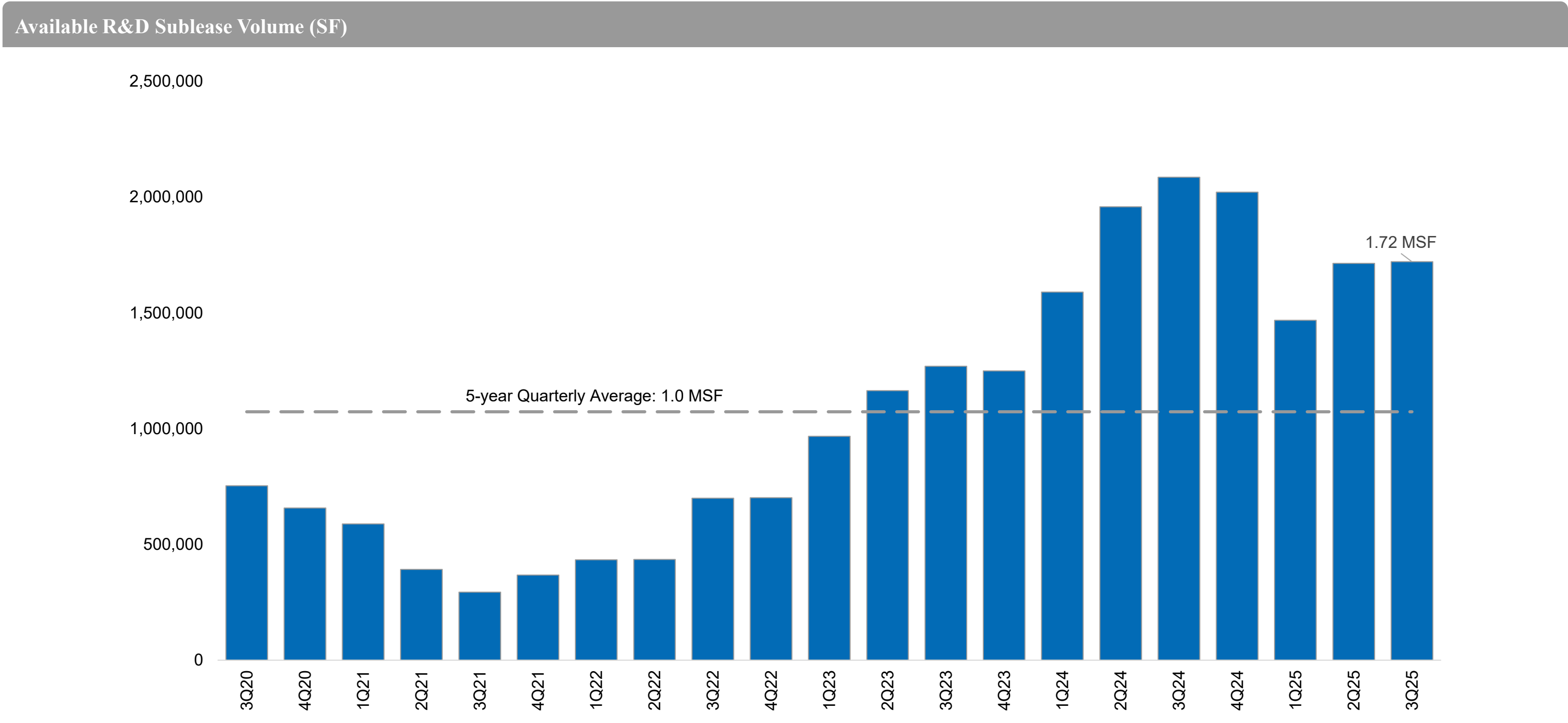
Source: Newmark Research, CoStar



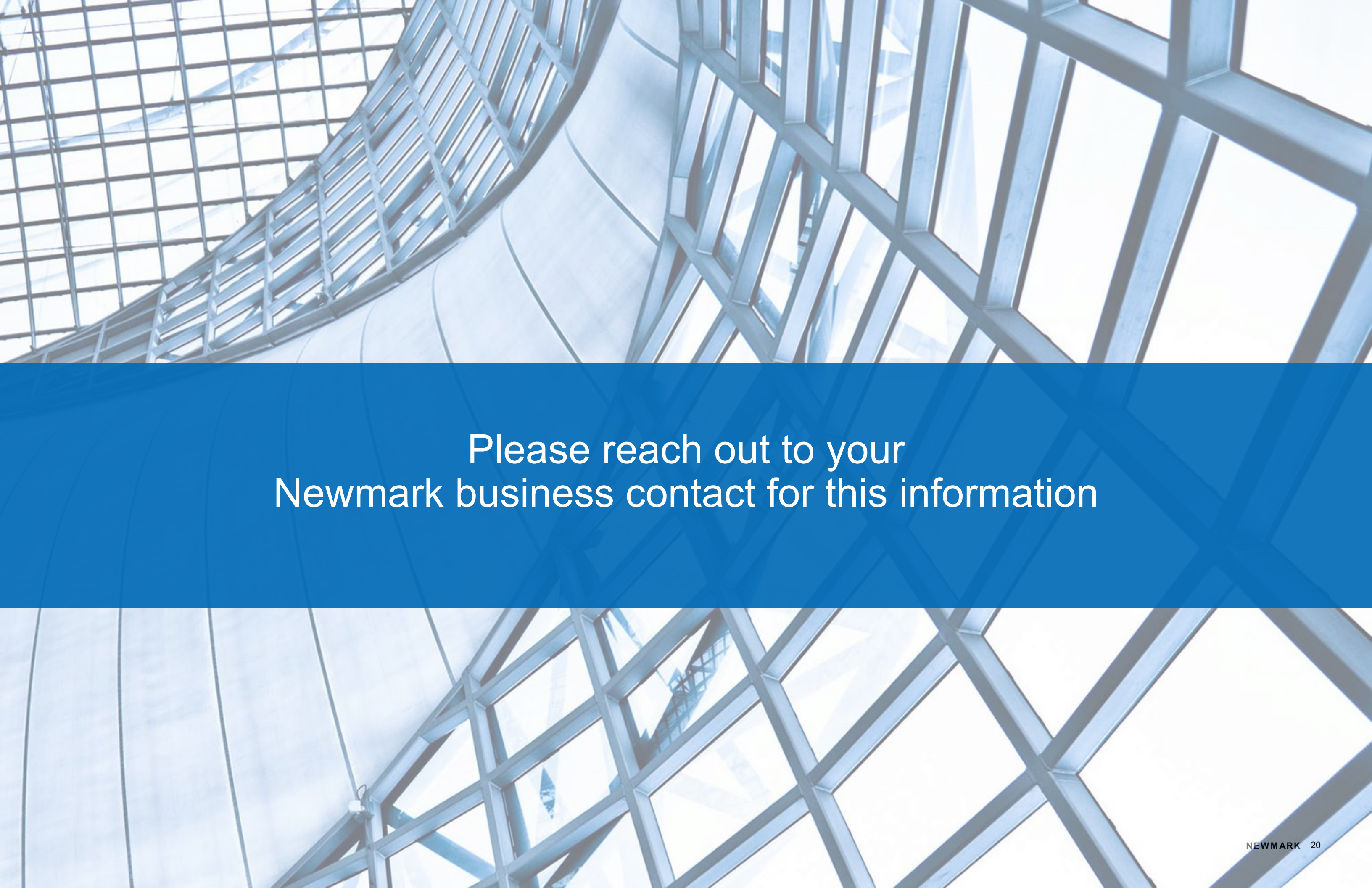
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R&D Sublease Availability Increases for Second Consecutive Quarter

The R&D market recorded a modest uptick in sublease availability in the third quarter, rising to 1.72 million SF, up from 1.71 million SF in the previous quarter, though down from 2.0 million SF one year ago. The increase was largely driven by biopharmaceutical company NGM Bio bringing 91,000 SF in South San Francisco to the sublease market at 333 Oyster Point Blvd.



Source: Newmark Research, CoStar

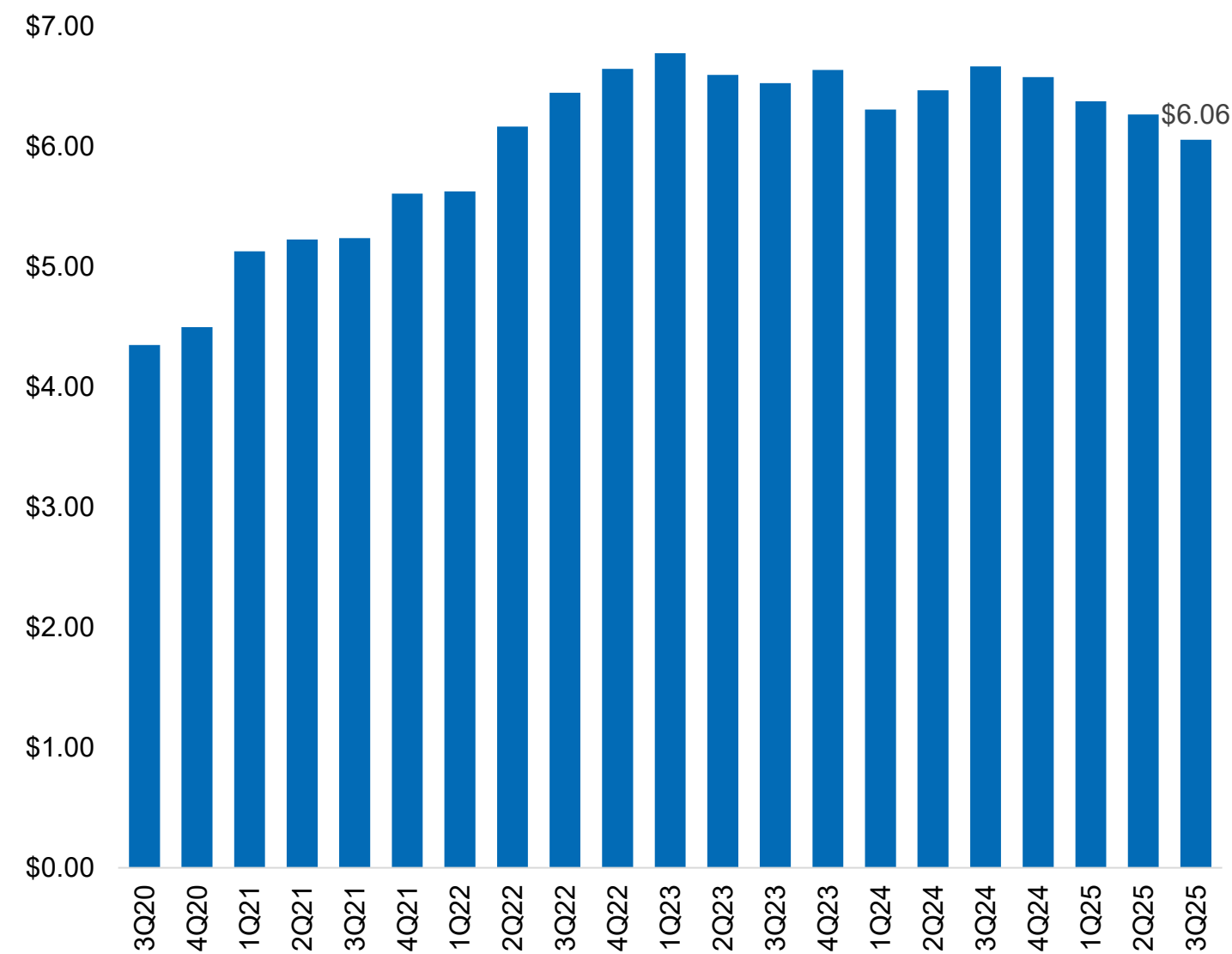


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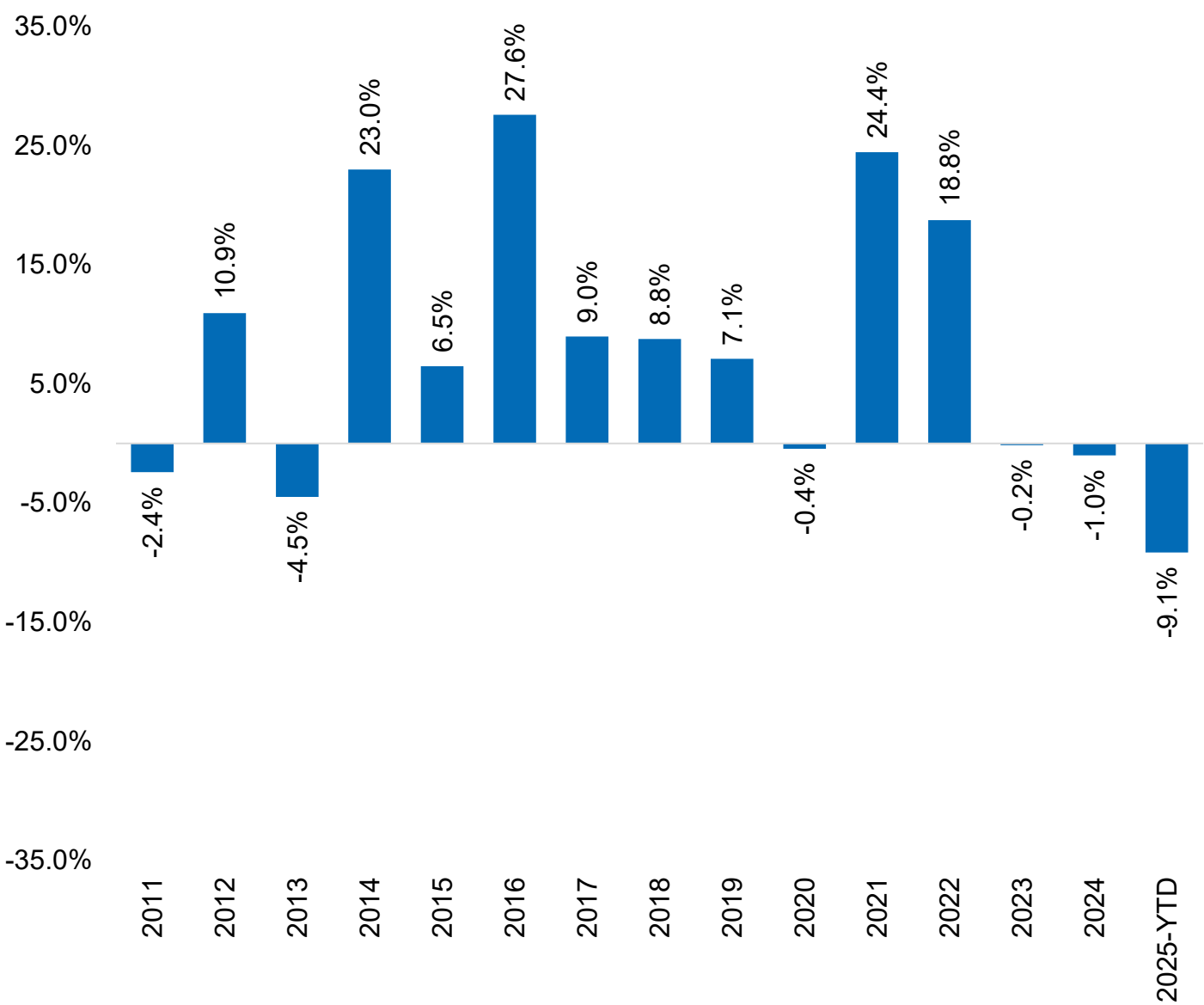
R&D Average Asking Rent Decreases for Fourth Consecutive Quarter

The overall average asking rate for R&D space on the North Peninsula declined to \$6.06/SF in the third quarter of 2025, down from \$6.27/SF in the previous quarter. The average rate decreased 9.1% year over year, as landlords continue to adjust pricing to attract tenants in a slower market.

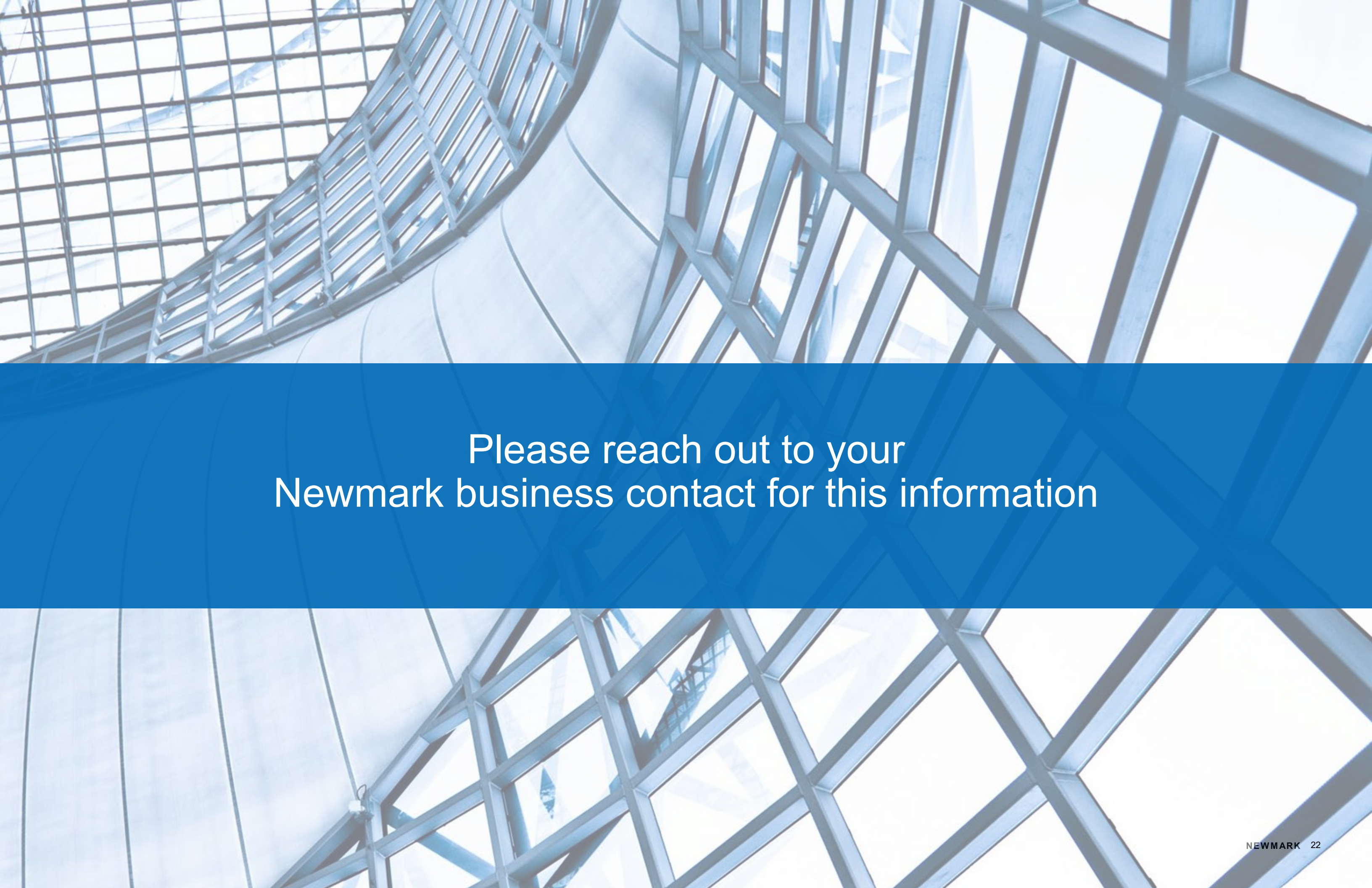
Overall R&D Average Asking Rent, \$/SF, NNN



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



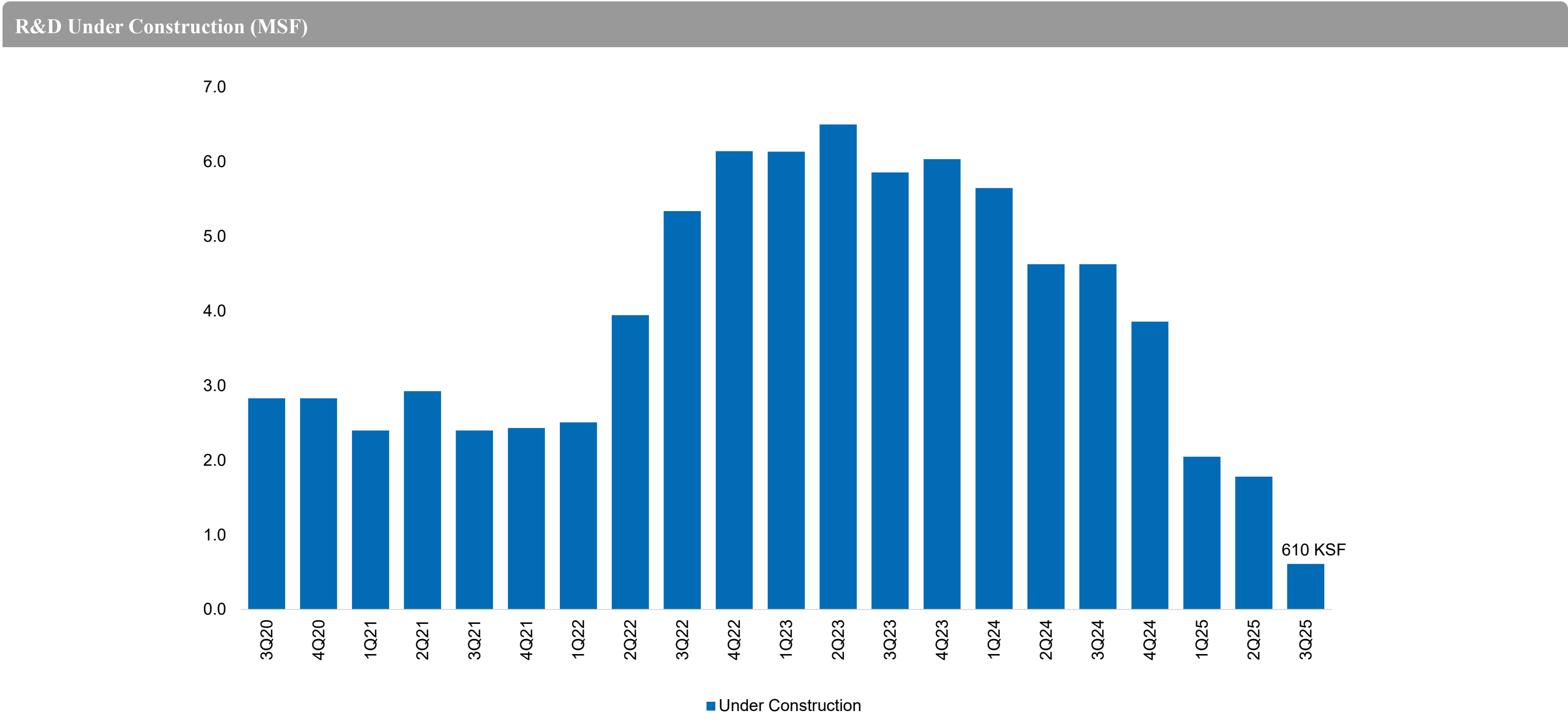
Source: Newmark Research, CoStar



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R&D Construction Pipeline Continues to Level Off

The R&D pipeline continued to contract in the third quarter, totaling 610,000 SF, with 37.0% preleased and no reported deliveries. SteelWave’s Discovery Station development in South San Francisco, totaling 840,000 SF, was paused this quarter as the developer seeks to extend its right to continue building the project for an additional 10 years. Many newly completed lab buildings remain vacant, prompting landlords and developers to consider repositioning assets to accommodate non-biotech tenants in an effort to boost occupancy.



Source: Newmark Research, CoStar

Notable 3Q25 Lease Transactions

This quarter recorded eight industrial transactions of 20,000 SF or more, up from two in the previous quarter. In the R&D sector, ten transactions of 20,000 SF or more were completed, compared with four in the prior quarter.

Select Lease Transactions

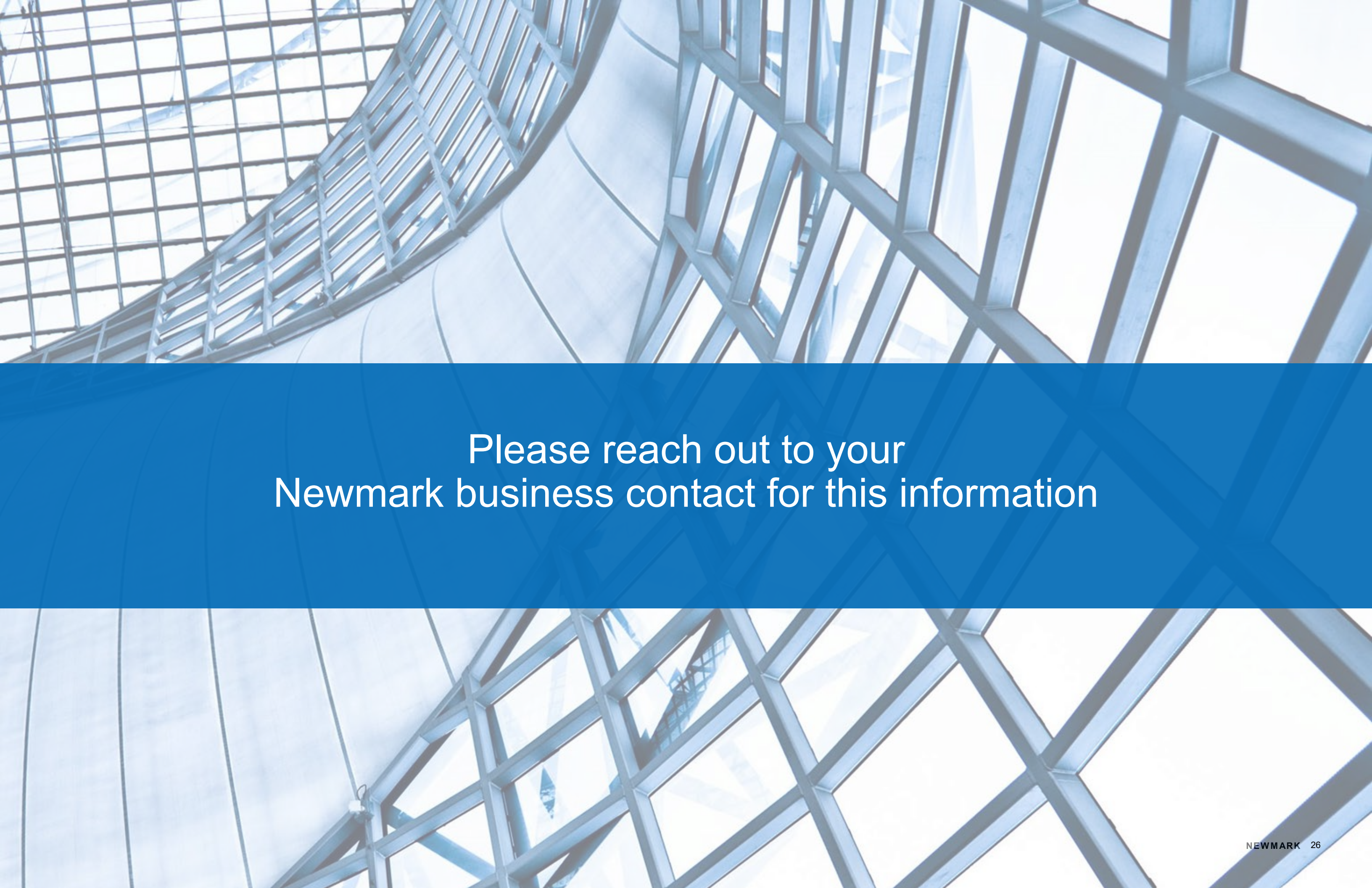
Tenant	Building	Submarket	Type	Square Feet
Neuralink	499 Forbes Blvd.	South San Francisco	Direct Lease	145,852
Elon Musk–owned Neuralink completed the largest deal of the quarter, leasing 499 Forbes Blvd. in South San Francisco, totaling 145,852 SF.				
Zipline	570 & 582 Eccles Ave	South San Francisco	Direct Lease/Expansion	97,148
Zipline completed the second-largest deal of the quarter, signing a direct lease for 51,048 SF at 582 Eccles while also expanding into an additional 46,100 SF at 570 Eccles for a total 97,148 SF transacted.				
Revolution Medicines	Seaport Centre- Healthpeak Properties 400 Saginaw Drive	Redwood City	Lease Expansion	60,841
Clinical-stage precision oncology firm RevMed completed the third-largest deal of the quarter, expanding its footprint within the Seaport Centre Project in Redwood City for a total of 60,841 SF transacted.				
SSF Imported Auto Parts	437 Rozzi Place	South San Francisco	Lease Renewal	60,573
SSF Imported Auto Parts renewed their 60,573-SF lease at 437 Rozzi Place in South San Francisco for the fourth-largest deal of the quarter.				
MBC BioLabs	Kilroy Oyster Point- Bldg. F (Phase II) 365 Oyster Point Blvd.	South San Francisco	Direct Lease	44,199
MBC BioLabs completed the fifth-largest deal of the quarter, leasing 44,199 SF on the fifth floor in Building F in Phase II of Kilroy’s Oyster Point Project in South San Francisco.				

Source: Newmark Research

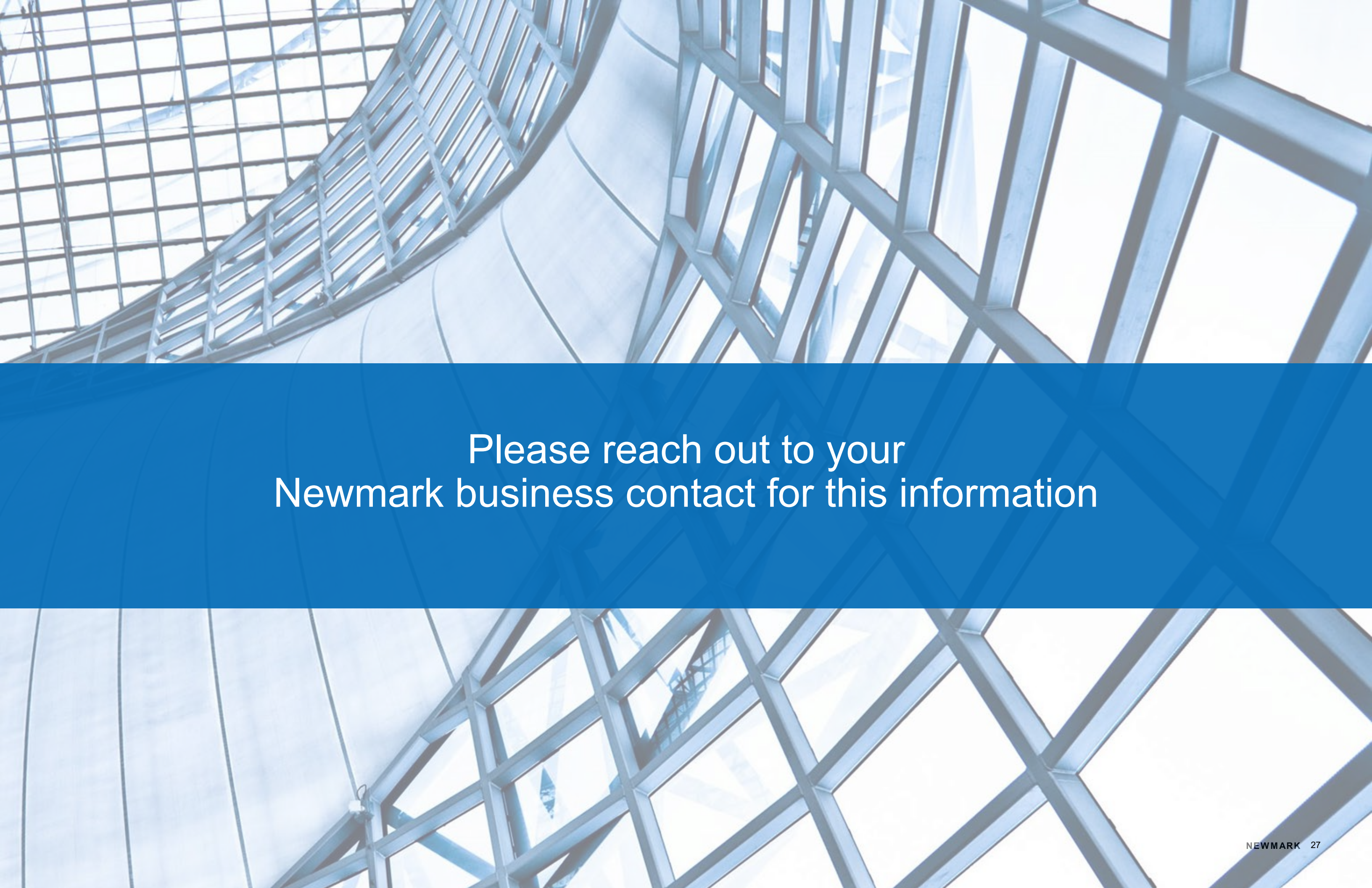
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Appendix / Tables





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