



NEWMARK

North Peninsula Industrial & R&D Market Overview

4Q25



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Market Observations



Economy

- The San Francisco–San Mateo region continued to post an unemployment rate below both the national and California state averages, with the state rate at 5.6% in September.
- The Federal Reserve enacted one 25-basis-point cut in October and another in December, bringing the benchmark rate to a range of 3.50% to 3.75%. Economists expect only one additional rate cut in 2026.
- The U.S. Consumer Price Index (CPI) inflation rate registered 2.7% in December, down from 3.0% in September, reinforcing expectations that inflation is moderating as the Federal Reserve weighs its next move on interest rates.



Leasing Market Fundamentals

- Marketwide R&D availability closed lower this quarter at 32.1%, down from 34.1% in the prior quarter. R&D vacancy also declined, falling to 28.5% from 31.0% over the same period.
- In contrast, marketwide industrial availability increased to 7.3%, up from 6.6%, while industrial vacancy rose to 6.3% from 5.7% in the prior quarter.
- The region's R&D development pipeline bottomed out in the fourth quarter after delivering 4.3 MSF to the market over the past two years. Industrial construction activity remains paused.



Major Transactions

- UCSF completed the largest deal of the quarter, leasing Building E in Phase II of the Kilroy Oyster Point project in South San Francisco for 280,472 SF.
- Robotics startup 1X Tech completed the second-largest deal of the quarter, leasing 150 Industrial Road in San Carlos for 230,700 SF. The lab and manufacturing facility was previously occupied by Novartis, Nektar Therapeutics and Mylan.
- The quarter's most notable sale was completed by Prologis, which acquired an 11-building portfolio in Brisbane from the California State Teachers Retirement Fund for \$314.5 million, or \$330/SF. The 1.0 MSF portfolio was approximately 95.0% leased at the time of acquisition.



Outlook

- The North Peninsula industrial market is in a period of transition, driven by expanding demand from the AI, robotics and electric vehicle sectors and a relatively tight supply base to accommodate these evolving requirements.
- Breakthroughs in biotechnology, growth in the AI industry and employers' continued enforcement of return-to-office policies remain positive catalysts supporting the R&D market's ongoing recovery.
- Average asking rent growth across the industrial and R&D markets is expected to remain tempered, as upward pressure may be offset by further increases in sublease inventory and the return of older assets to the market.

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Economy

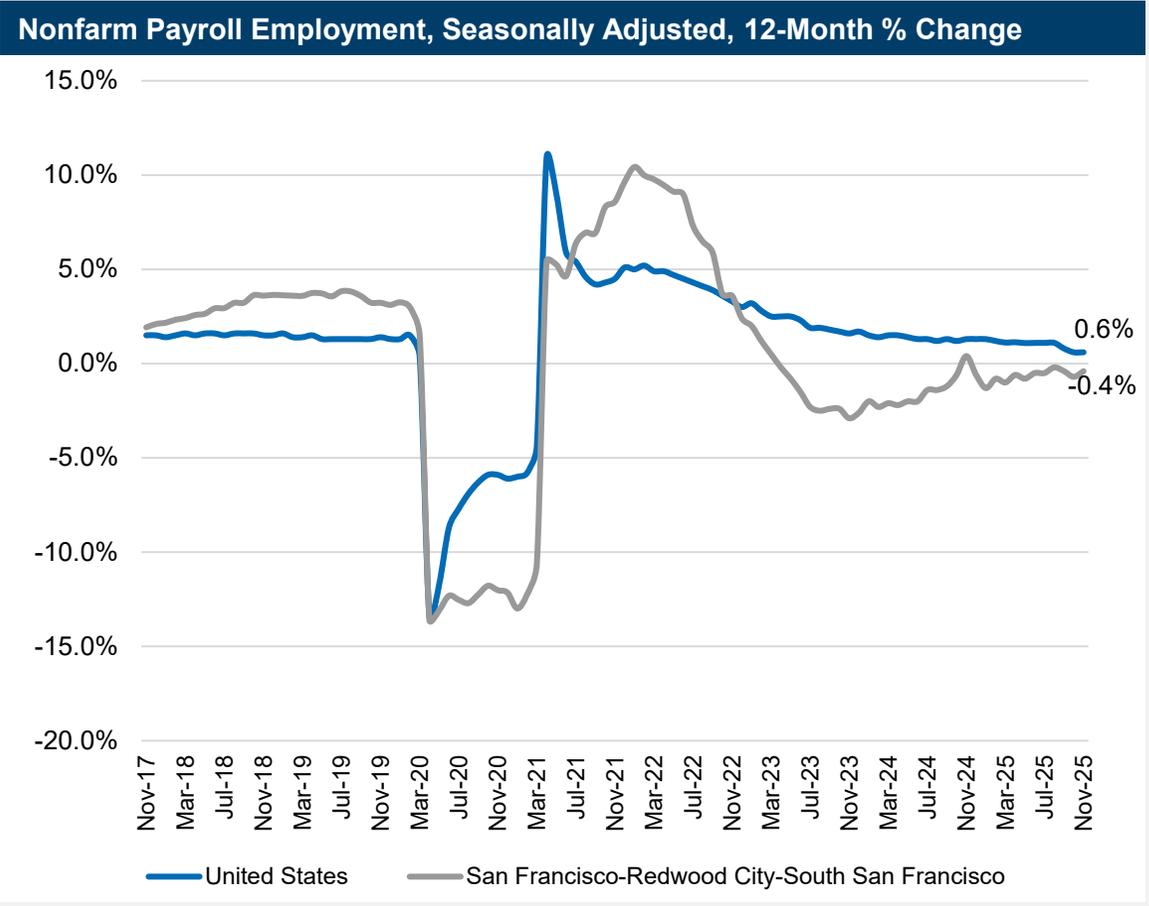
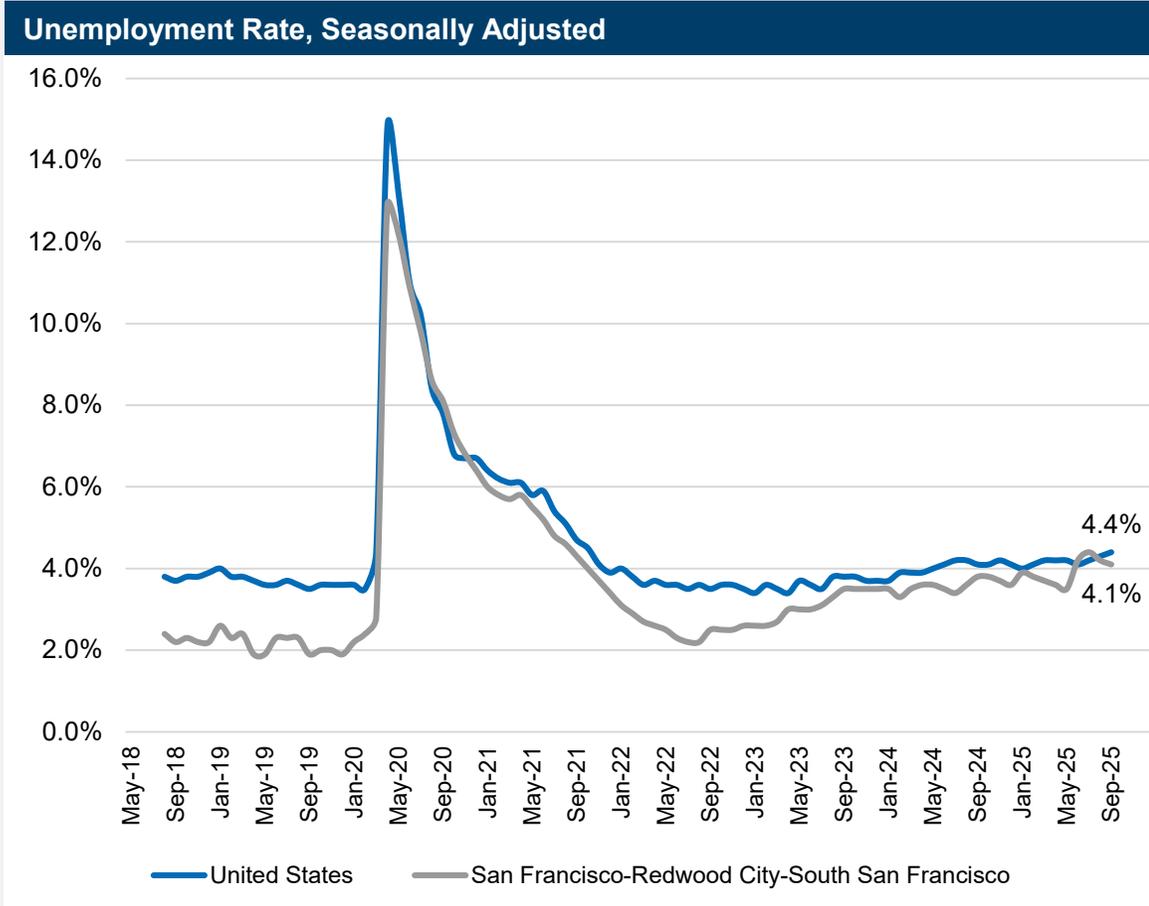
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Regional Unemployment Remains Below National Level

Despite a slight rise in the national rate, the San Francisco–San Mateo region continued to maintain an unemployment rate below both the national and California state averages, with the state rate reaching 5.6% in September. Year-over-year changes in nonfarm employment in the region have remained steadily negative over the past three years.

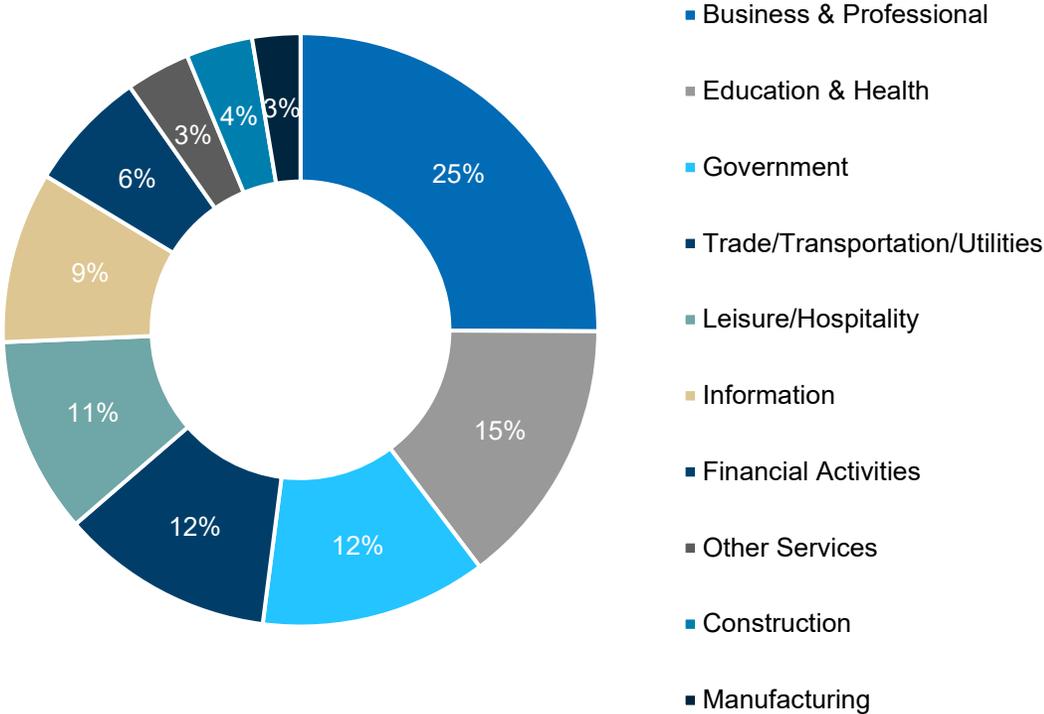


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco

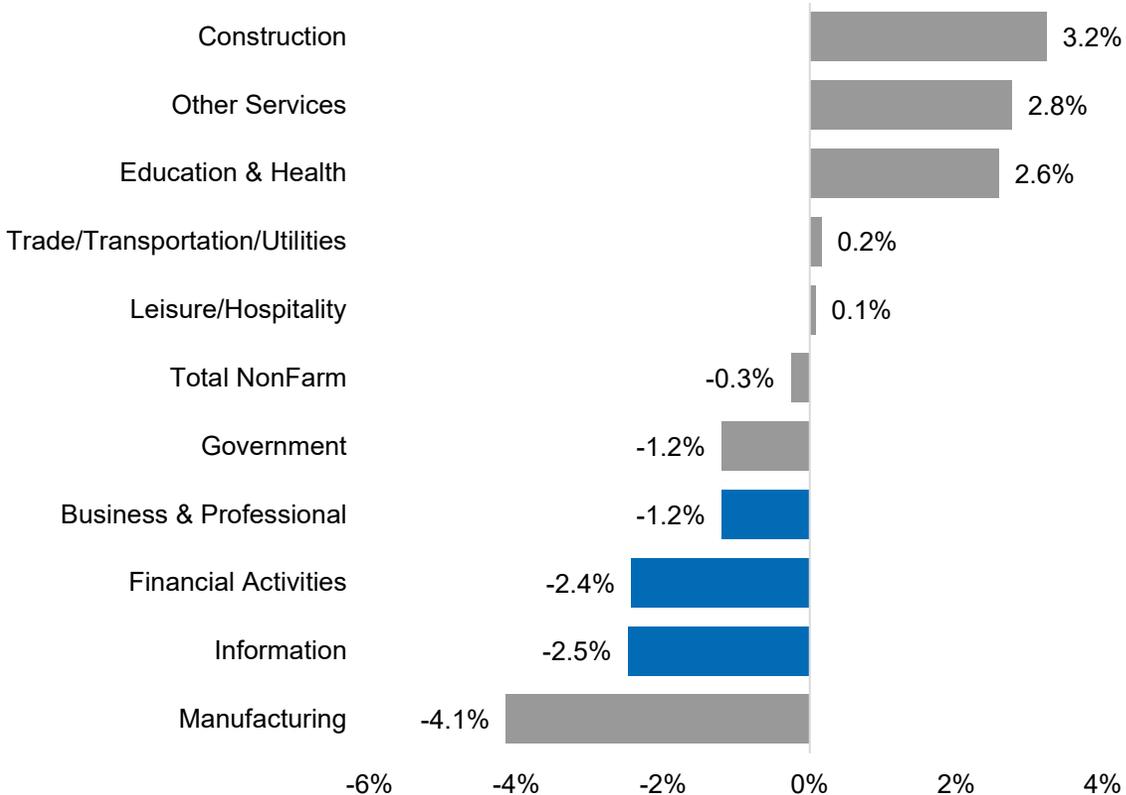
Office Using Employment Down 2.0% Year-Over-Year

Nationally, the final quarter of 2025 was widely characterized as hitting an “air pocket.” While the broader economy avoided a full stall, office-using sectors slowed as companies prioritized cost control and AI-driven efficiency over headcount growth. Some sectors, such as leisure and hospitality, experienced seasonal gains; however, office-using sectors continued to contract. Despite ongoing enthusiasm around artificial intelligence, new AI hiring has not yet been sufficient to offset broader layoffs among legacy technology firms.

Employment by Industry, November 2025



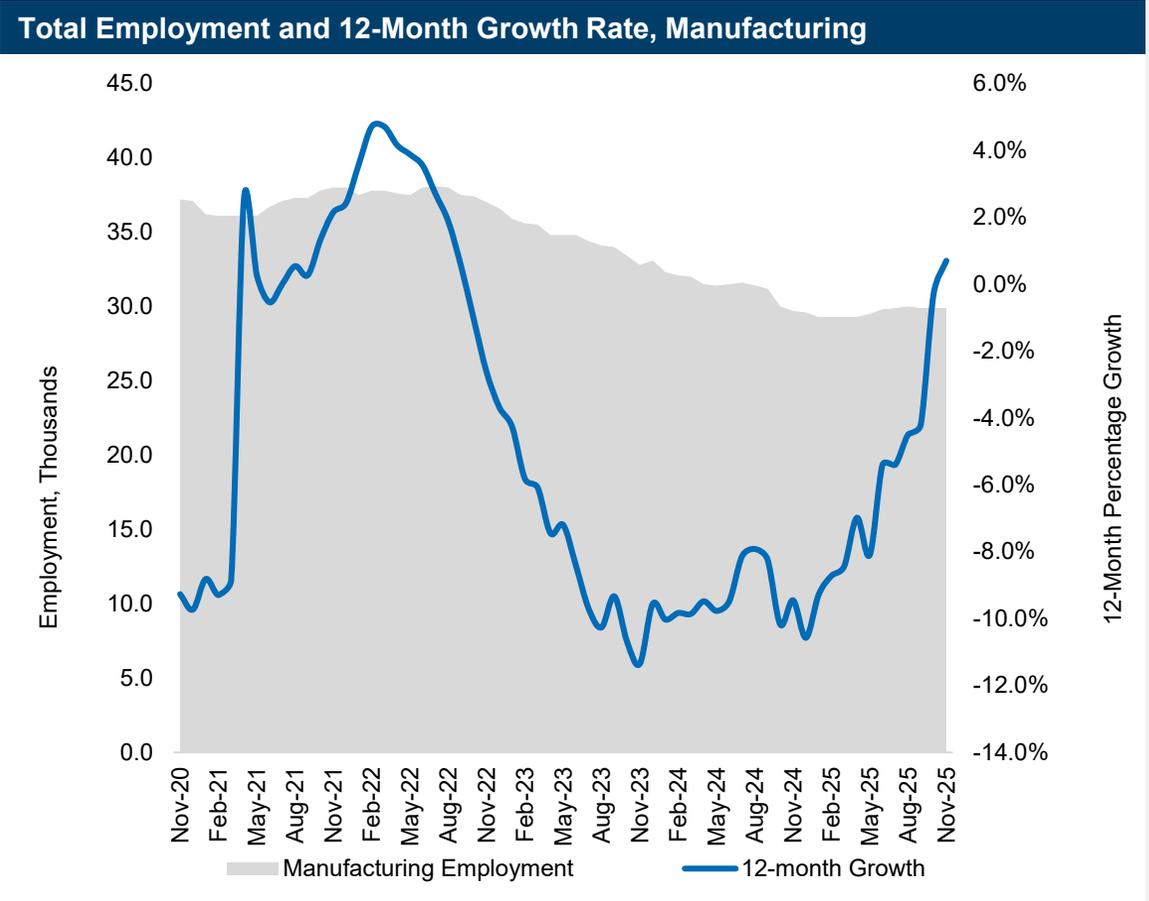
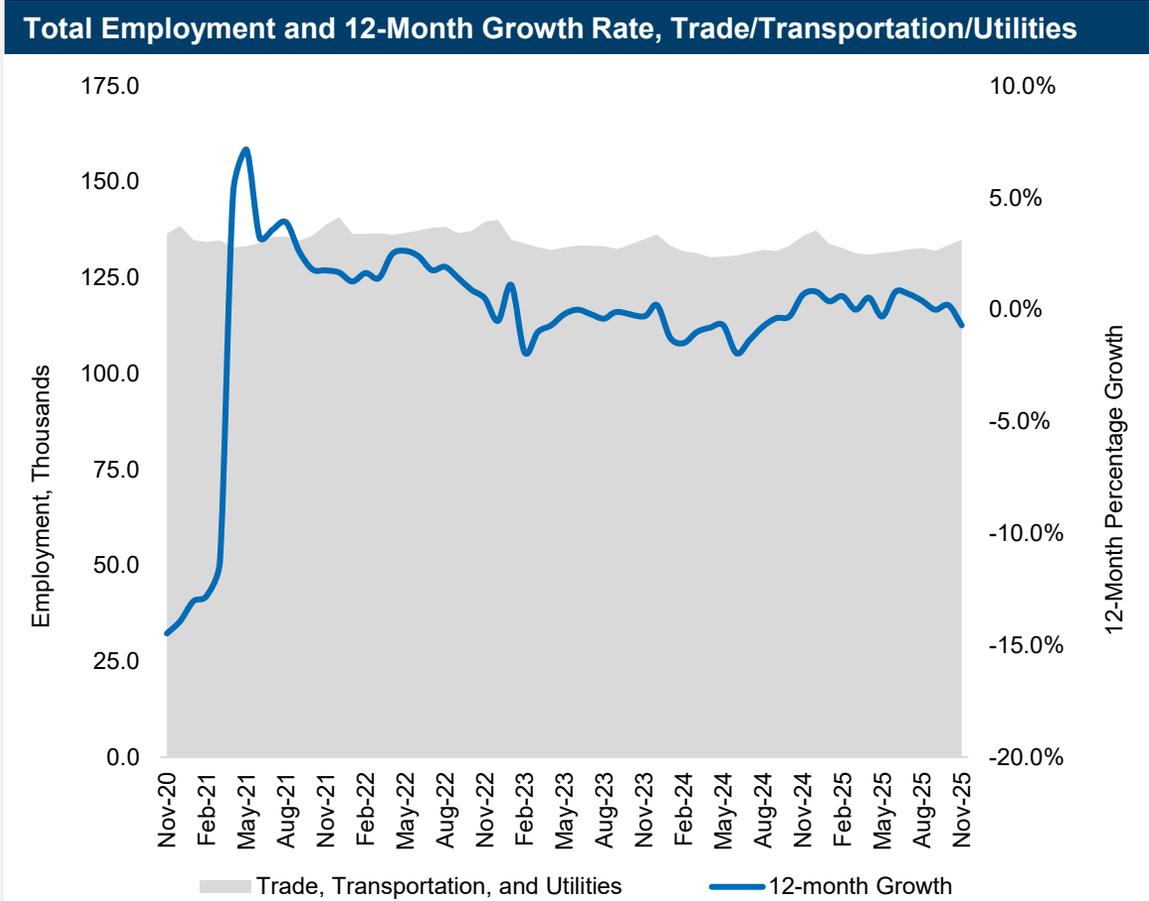
Employment Growth by Industry, 12-Month % Change, November 2025



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

Employment In Industrial Sectors

Jobs in the trade, transportation and utilities sector have remained steady, while the manufacturing sector continues to bottom out.



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

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Industrial Leasing Market Fundamentals

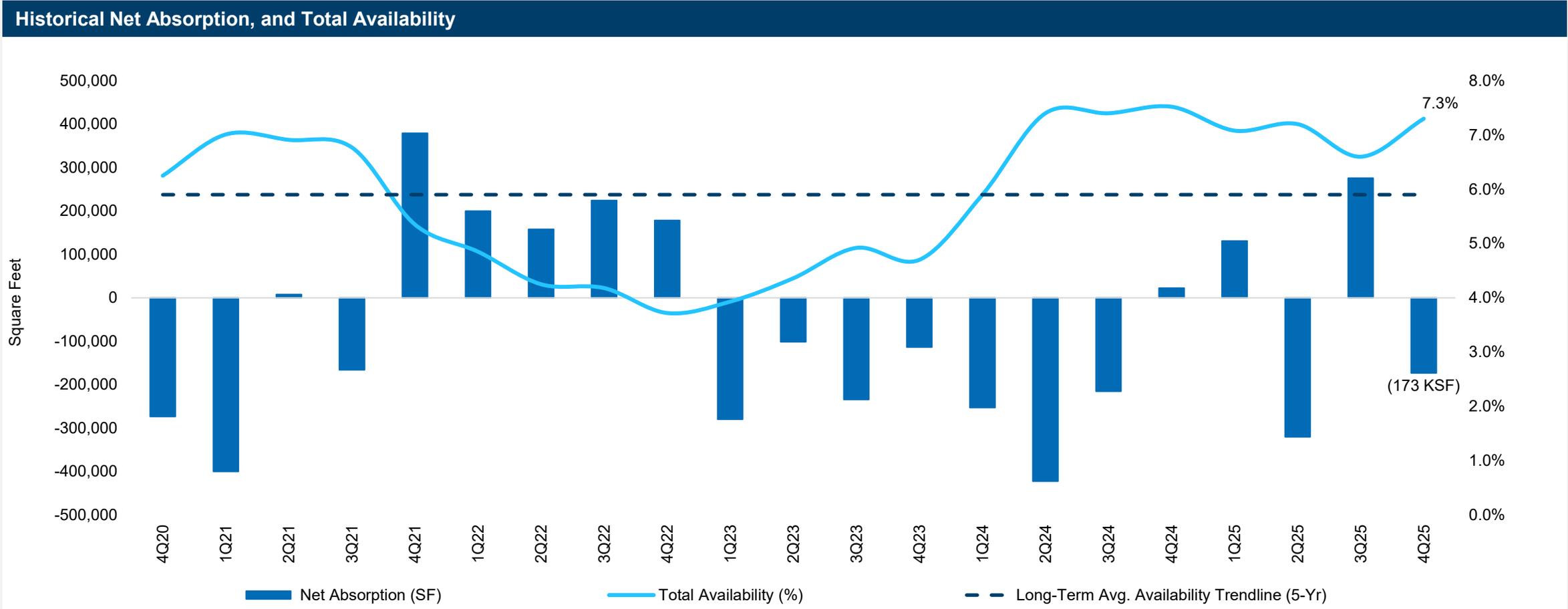
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Industrial Market Posts Negative Net Absorption

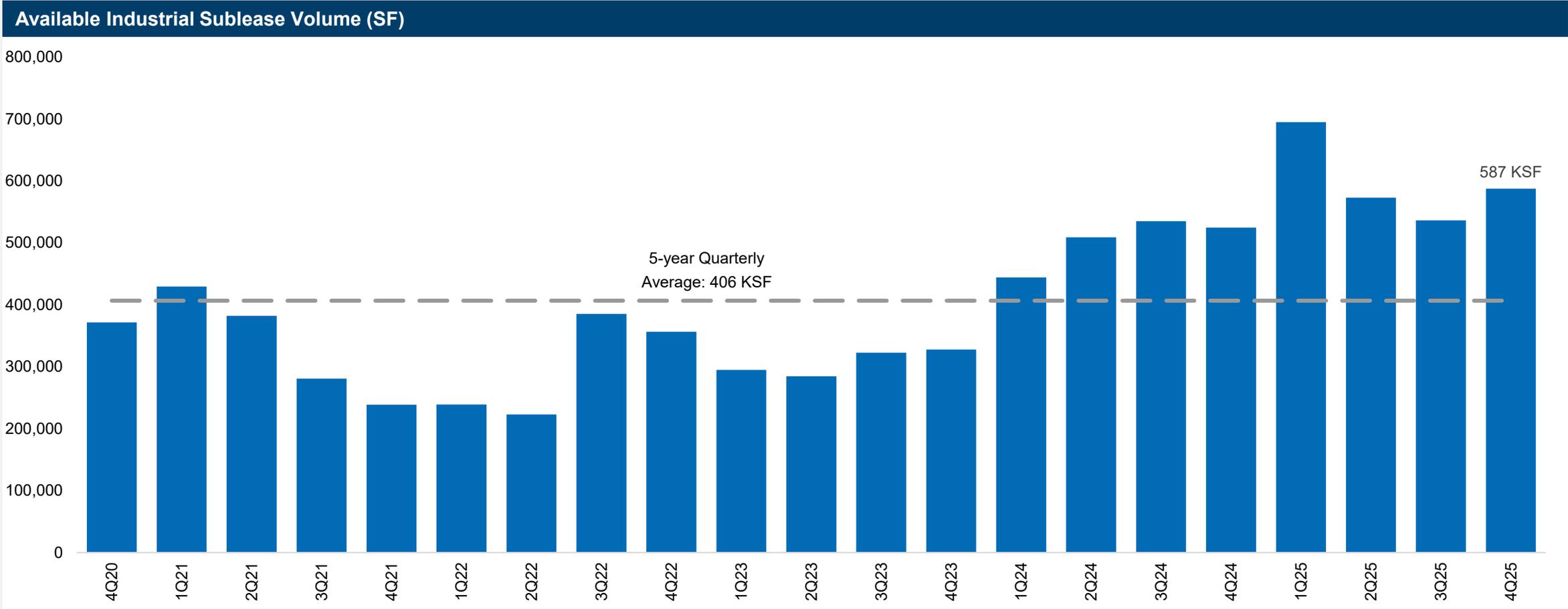
The North Peninsula industrial market took a step backward in the fourth quarter, closing with negative 137 KSF of net absorption. Marketwide industrial availability increased to 7.3%, up from 6.6% in the prior quarter and compared with 7.5% one year earlier. The decline in net absorption and increase in total availability were largely driven by the 152,000-SF warehouse and manufacturing facility at 1649 Adrian Road in Burlingame coming to market for lease on a direct basis.



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

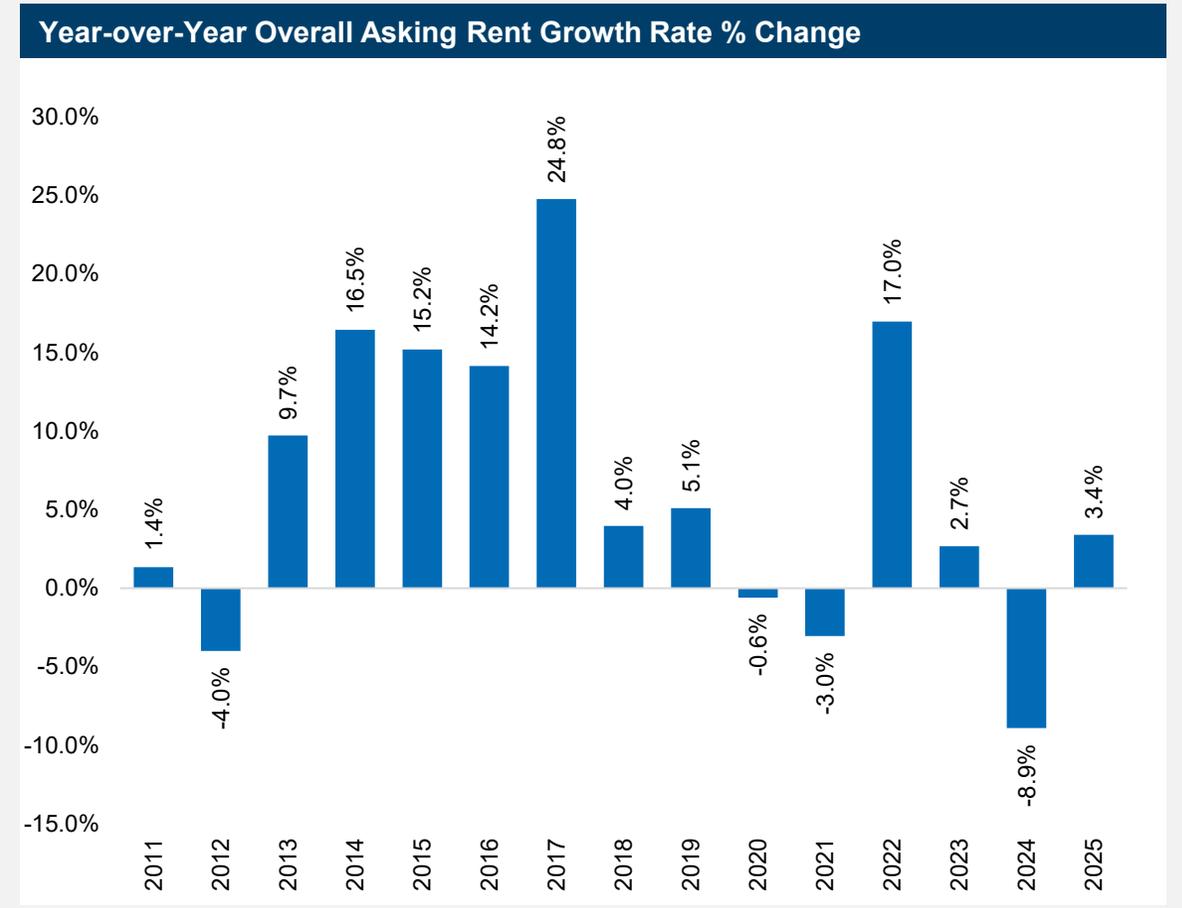
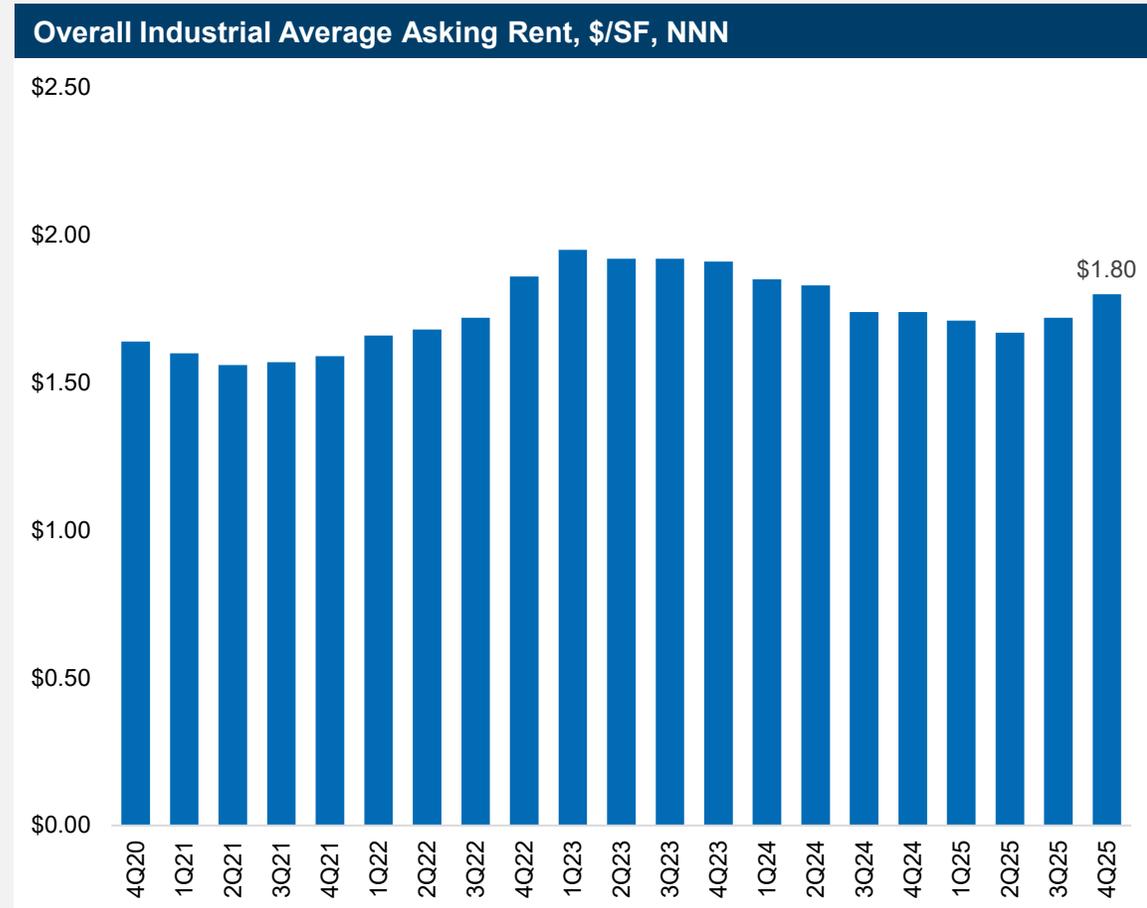
Slight Uptick in Sublease Availability

Industrial sublease availability increased to 587 KSF in the fourth quarter, up from 536 KSF in the prior quarter and 524 KSF one year earlier.



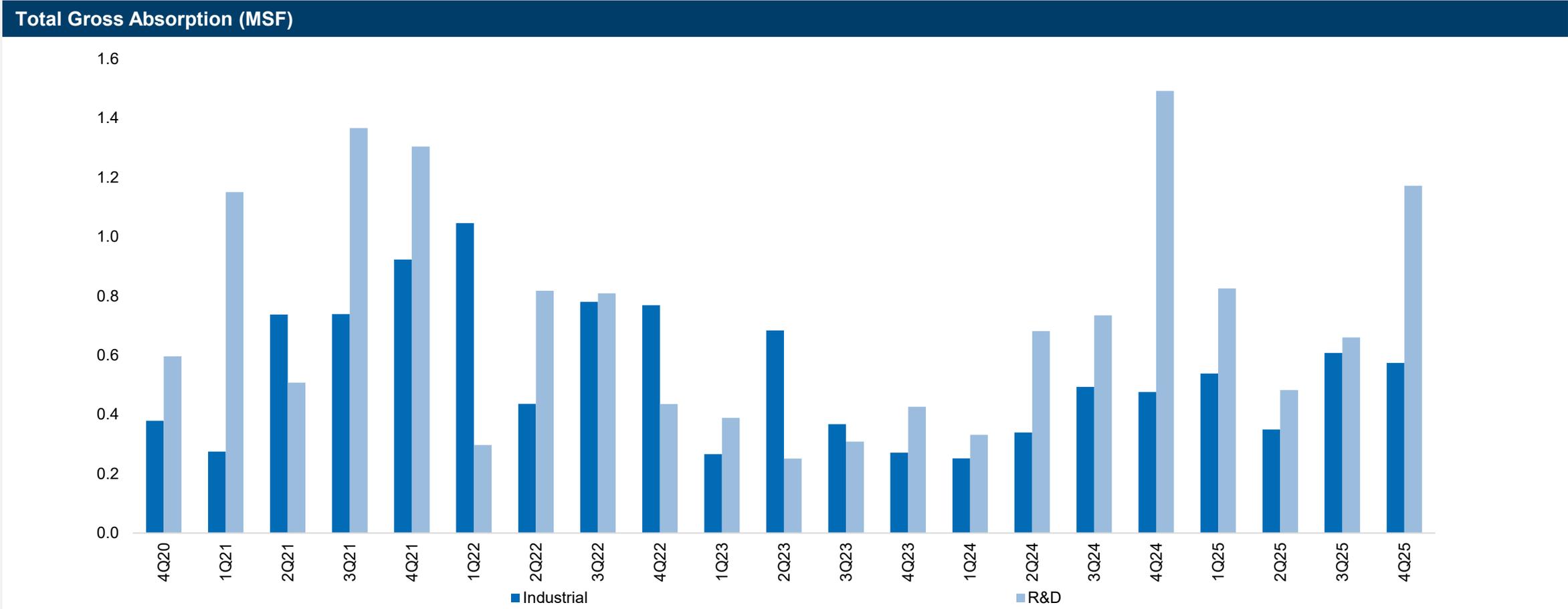
Second Consecutive Quarter of Industrial Average Asking Rent Gains

The North Peninsula industrial average asking rent recorded a second consecutive quarterly increase, closing at \$1.80/SF, up from \$1.72/SF in the prior quarter and \$1.74/SF one year earlier.



Decrease In Industrial Leasing; Uptick in R&D

R&D gross absorption increased this quarter to 1.1 MSF, up from 659 KSF in the prior quarter but down from 1.4 MSF one year earlier. Industrial gross absorption declined this quarter to 574 KSF, down from 608 KSF in the prior quarter but up from 476 KSF a year earlier.



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R&D Leasing Market Fundamentals

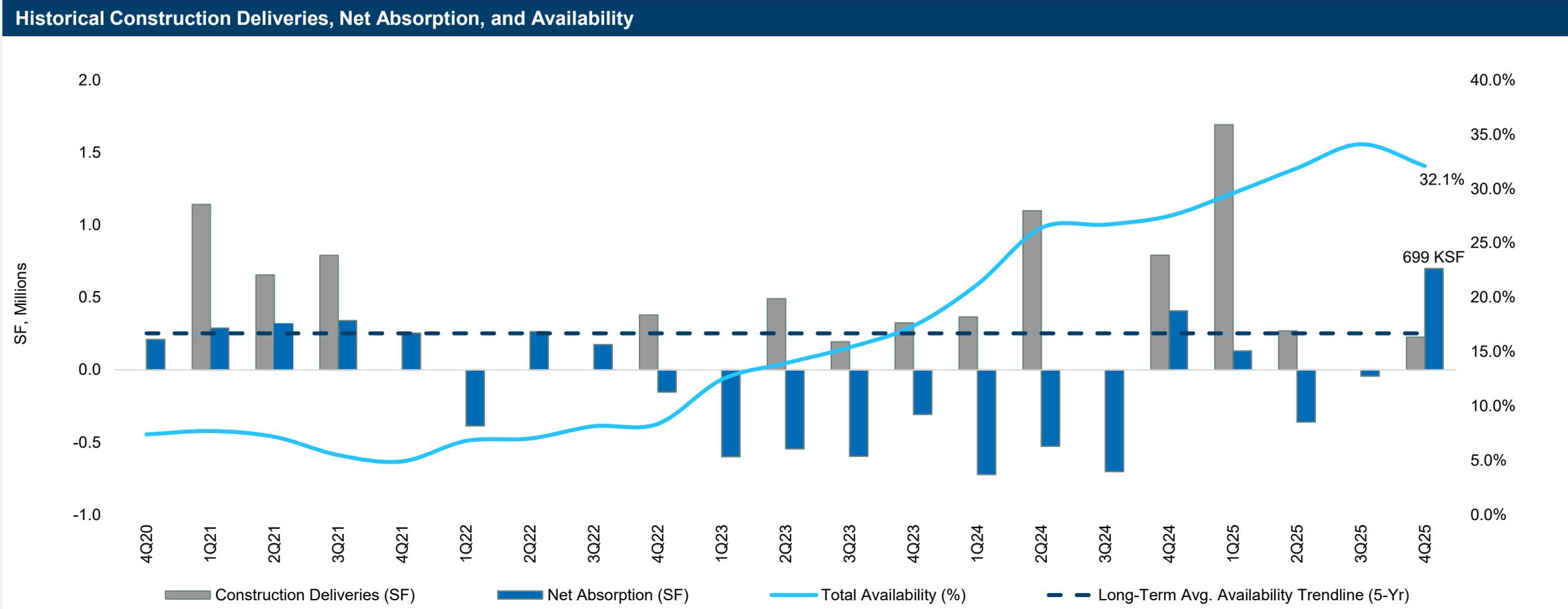
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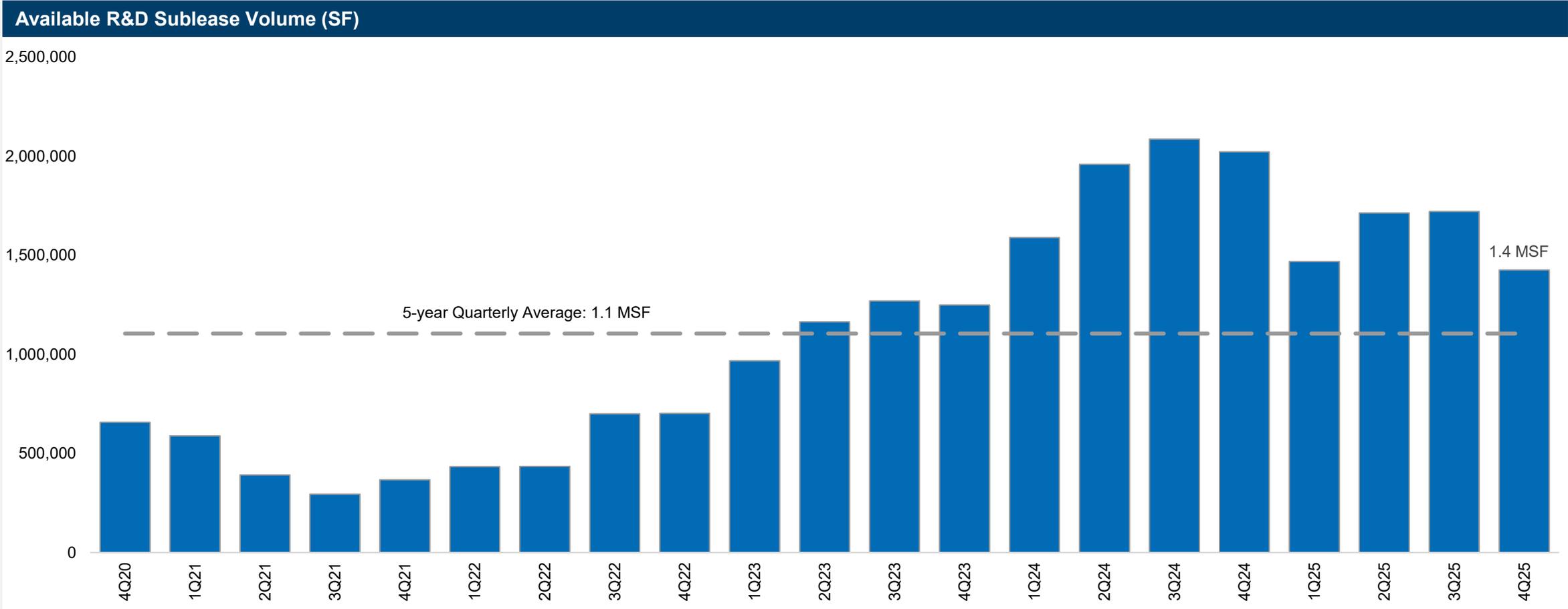
Notable Record Positive Net Absorption

After consecutive quarters of negative absorption, the market closed the fourth quarter with 699 KSF of positive net absorption, the highest level in more than ten years. The total availability rate of 32.1% in the fourth quarter also marked a high point for the North Peninsula R&D market, which has largely treaded water since the start of the year.



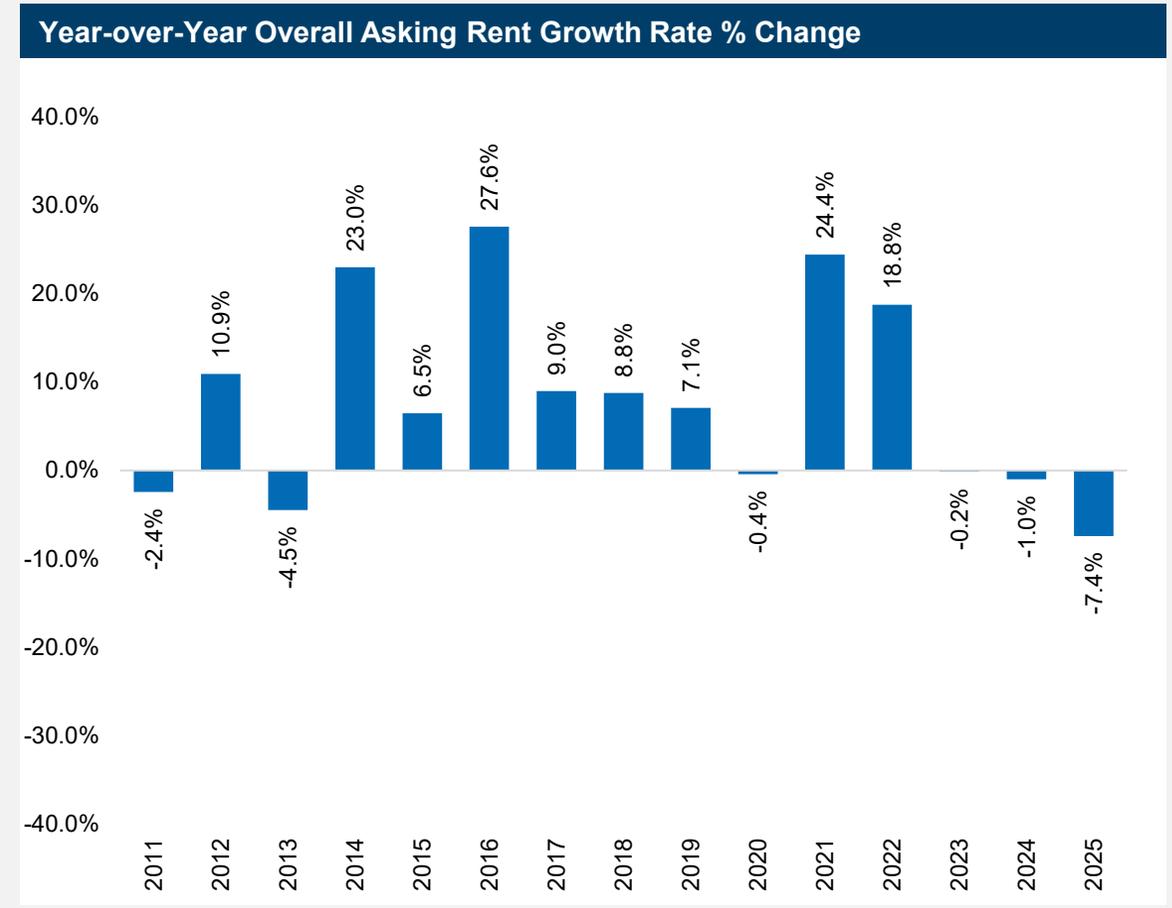
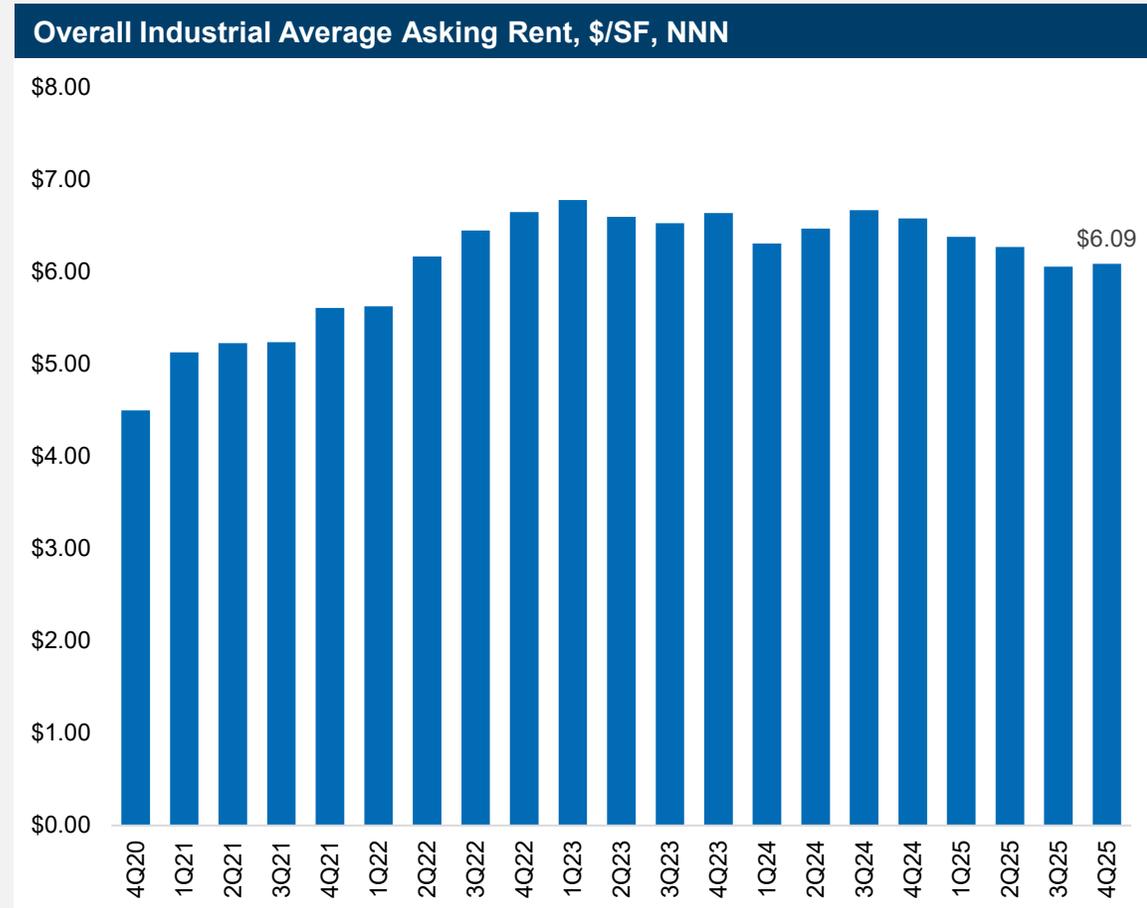
R&D Sublease Availability At Two-Year Low

Sublease availability declined to 1.4 MSF in the fourth quarter, down from 1.7 MSF in the prior quarter and 2.0 MSF one year ago. Available sublease inventory is nearing the five-year quarterly average of 1.1 MSF as existing subleases are recaptured by landlords and converted to direct space, or as tenants sublease move-in-ready, plug-and-play space with favorable terms.



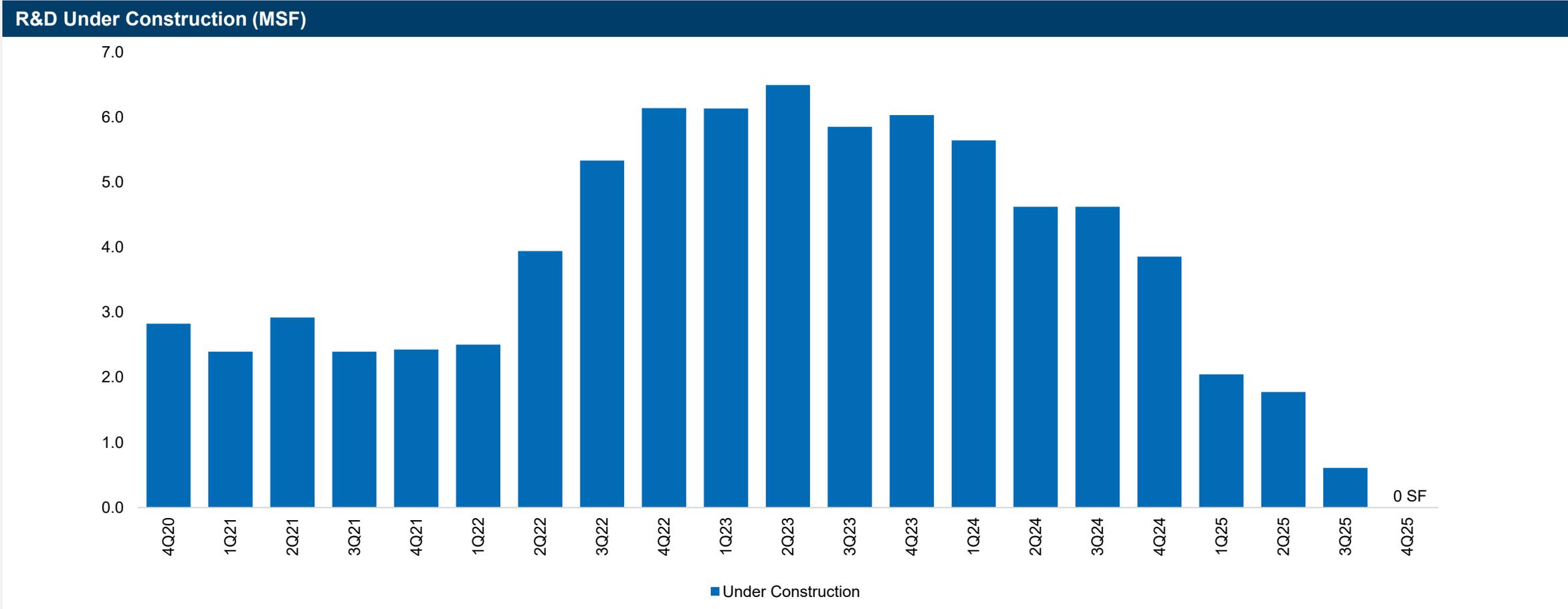
Slight Increase in Average R&D Asking Rate

After four consecutive quarters of declining average asking rents, the North Peninsula R&D market recorded a slight uptick to \$6.09/SF, up from \$6.06/SF in the prior quarter. On a year-over-year basis, the average asking rate declined 7.4%, marking the largest annual decrease in the past fifteen years.



R&D Construction Pipeline Bottoms Out

The North Peninsula R&D development pipeline fully cleared in the fourth quarter after delivering 4.3 MSF to the market over the past two years. The most notable delivery this quarter was The Shop at IQHQ’s ELCO Yards project in Downtown Redwood City, totaling 225 KSF. After several years of oversupply, construction levels are expected to remain tempered until existing product is absorbed, boding well for a further reduction in vacancy rates.



Notable 4Q25 Lease Transactions

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

Notable 4Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
UCSF Health	Kilroy Oyster Point- Phase II 369 Oyster Point Blvd.- Bldg. E	South San Francisco	Direct Lease	280,472
<i>UCSF completed the largest deal of the quarter, leasing Building E in Phase II of the Kilroy Oyster Point Project in South San Francisco for 280,472 square feet.</i>				
1X.Technologies	San Carlos Research Center 150 Industrial Rd.	San Carlos	Direct Lease	230,700
<i>Robotics startup 1X Tech completed the second-largest deal of the quarter, leasing 150 Industrial Road in San Carlos for 230,700 square feet. The lab and manufacturing facility had previously been occupied by notable tenants Novartis, Nektar Therapeutics, and Mylan.</i>				
Lilly Gateway Labs	259 E. Grand Ave	South San Francisco	Direct Lease	179,466
<i>Lilly completed the third-largest deal of the quarter, leasing the entire 179,466-square foot building at 259 E. Grand Ave in South San Francisco.</i>				
Twist Bioscience	Gateway Commons 681 Gateway Blvd.	South San Francisco	Lease Renewal/Expansion	93,971
<i>Synthetic biology company Twist Bio completed the fourth-largest deal of the quarter, renewing their existing lease on the second and third floor at 681 Gateway Blvd. while expanding into the first floor for a total 93,971 square feet transacted.</i>				
Tesla	175 Sylvester Rd	South San Francisco	Direct Lease	74,562
<i>Tesla leased the 74,562-square foot warehouse facility at 175 Sylvester Road in South San Francisco for the fifth-largest deal of the quarter.</i>				

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Submarkets

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