

3Q24

San Francisco Bay Area Life Science Market Overview



NEWMARK

Market Observations

Economy

- Layoffs persist in the Bay Area Life Science sector and employment growth expectations will likely remain tempered throughout much of the year.
- In mid-September, the Fed initiated its first easing campaign in four years, cutting interest rates by 50 basis points. The market now anticipates an additional 50-basis-point cut before year-end, followed by a series of 25-point reductions extending through 2025.
- While the Fed maintains that the overall economy remains strong and inflation risks have subsided, it emphasizes that future rate adjustments will be based on incoming economic data, rather than on a predetermined timeline. Current indicators suggest the economy is on track for a soft landing.

Major Transactions

- Natera, a clinical genetic testing company, completed the largest deal of the quarter by renewing its 136,258-SF lease at 201 Industrial Road in San Carlos.
- Impossible Foods followed with the second-largest deal, renewing its 60,841-SF lease at 400 Saginaw Drive in Redwood City.
- Xaira Therapeutics completed the third-largest deal of the quarter, leasing 56,233 SF in BioMed's Gateway of Pacific campus in South San Francisco.
- Circle Pharma secured the fourth-largest deal by leasing 50,977 SF at 169 Harbor Way in South San Francisco.

Leasing Market Fundamentals

- Market-wide vacancy rose to 27.0% this quarter, up from 24.6% last quarter. Availability also increased, reaching 29.6% from 27.8%. Sublease availability, after twelve consecutive quarters of growth, declined slightly to 6.6%, down from 6.9% last quarter.
- Leasing activity surged, up 35.0% compared to the prior quarter and 110.0% year-over-year. The region's 4.6-million-SF construction pipeline remained unchanged during the third quarter of 2024, with 10.4% of ground-up construction preleased.
- Active demand for lab space decreased to 2.7 million SF, down from 3.0 million SF in the prior quarter and slightly below the 2.8 million SF recorded one year ago.

Outlook

- As 2024 enters its final stretch, attention remains on the Fed and the possibility of further interest rate cuts, which potentially bodes well for demand drivers.
- Despite a renewed sense of optimism, the Bay Area Life Science Market is expected to face continued challenges in the near term, as market fundamentals remain challenged.
- Net effective transaction rents remain suppressed, driven by elevated concessions from landlords—a trend likely to persist as supply and demand pressures work toward rebalancing.
- Future demand will be a key factor in shaping asking rents, particularly for lower-tier assets and in tertiary markets.

1. Economy
2. Leasing Market Fundamentals
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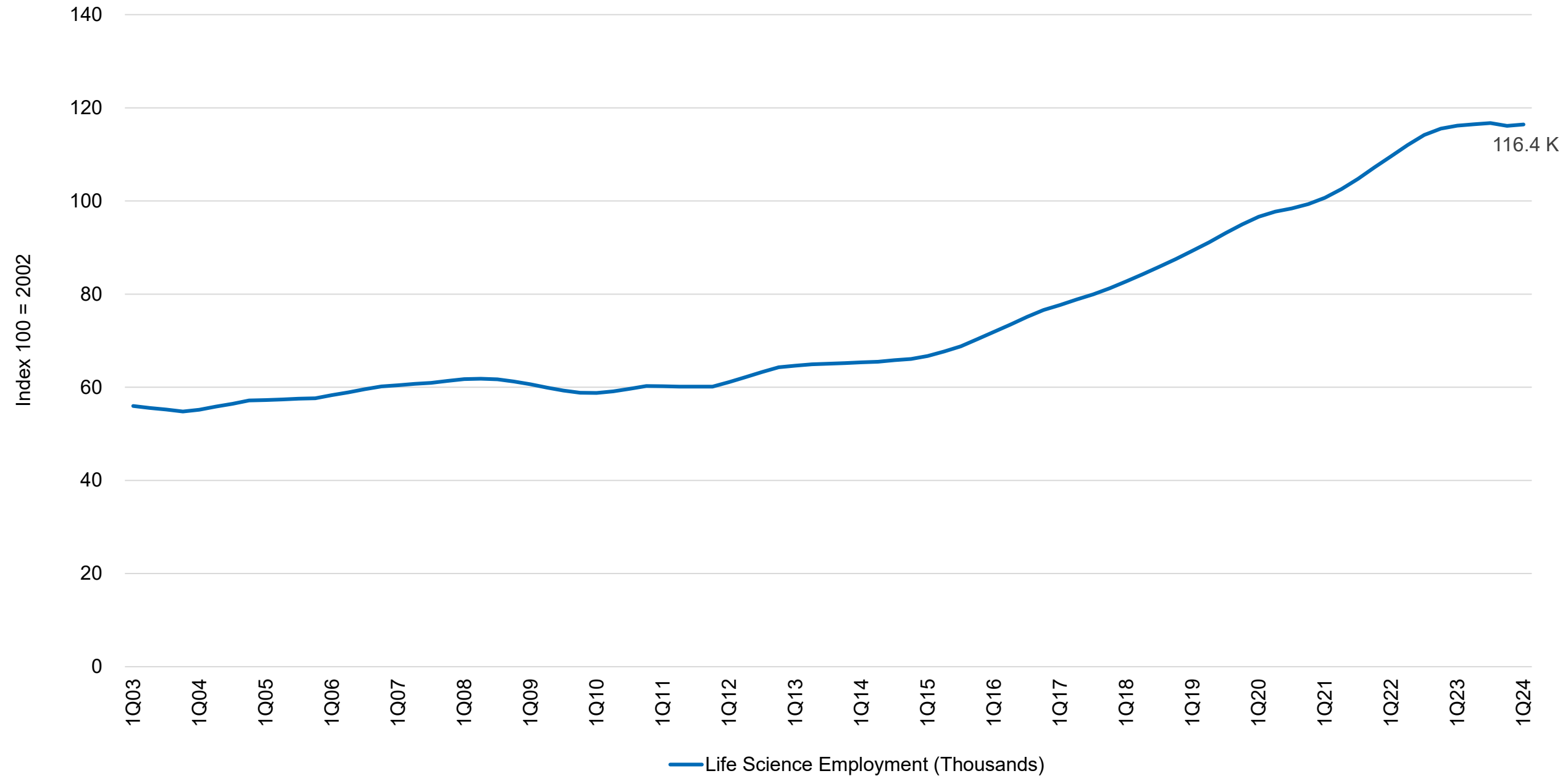
Economy



Bay Area Life Science Employment Off High

Life science employment in the San Francisco Bay Area reached 116,407 active employees in the first quarter of 2024, a slight contraction of 0.3% from the all-time high in 2023, as key growth drivers have slowed.

Bay Area Life Science Employment

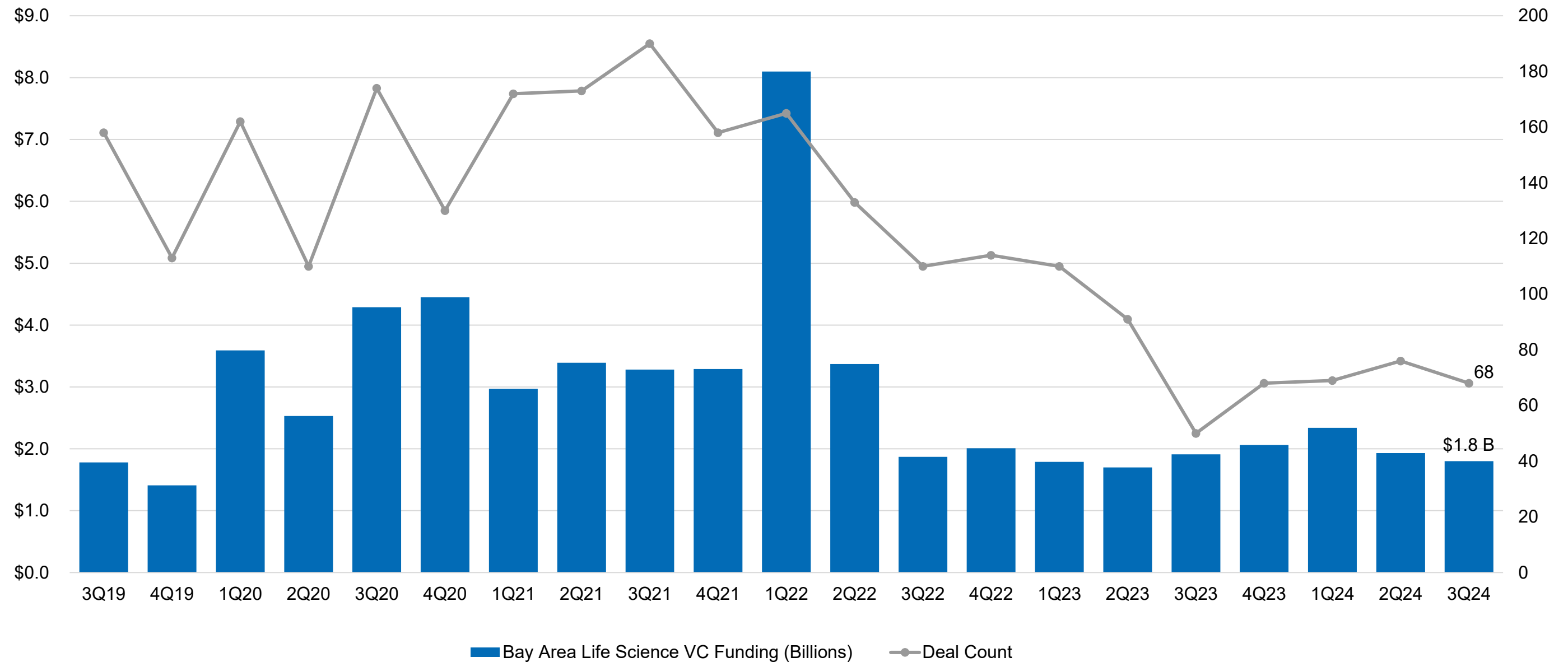


Source: JobsEQ

Bay Area Life Science Funding & VC Deals Decline

Across the Bay Area, a total of 68 life science VC deals were completed, down from 76 in the previous quarter but up from 50 one year ago. Biotech venture capital funding in the Bay Area decreased in the third quarter of 2024, with \$1.8 billion raised, compared to \$1.9 billion in the previous quarter as well as one year ago. Year-to-date, life science funding has risen gradually, totaling \$6.1 billion, compared to \$5.4 billion over the same period last year.

Bay Area Life Science Venture Capital Funding / Deal Count

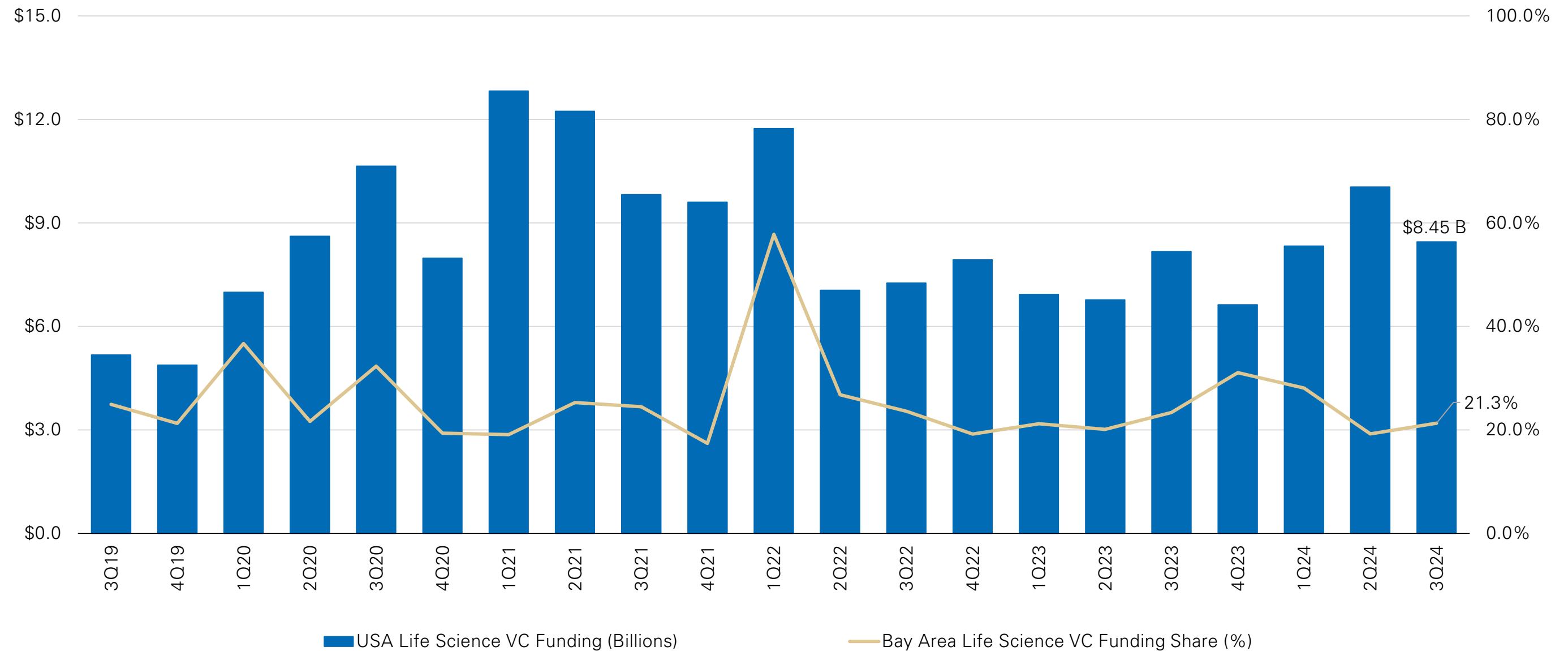


Source: Pitchbook

Lower Life Science VC Funding Nationwide

Across the country, the life science sector recorded \$8.5 billion in venture capital investment, down from \$10.0 billion in the previous quarter but up from \$8.2 billion one year ago. Year-to-date, life science venture capital funding has increased to \$26.8 billion, compared to \$21.9 billion during the same period last year.

Nationwide Life Science Venture Capital Funding



Source: Pitchbook

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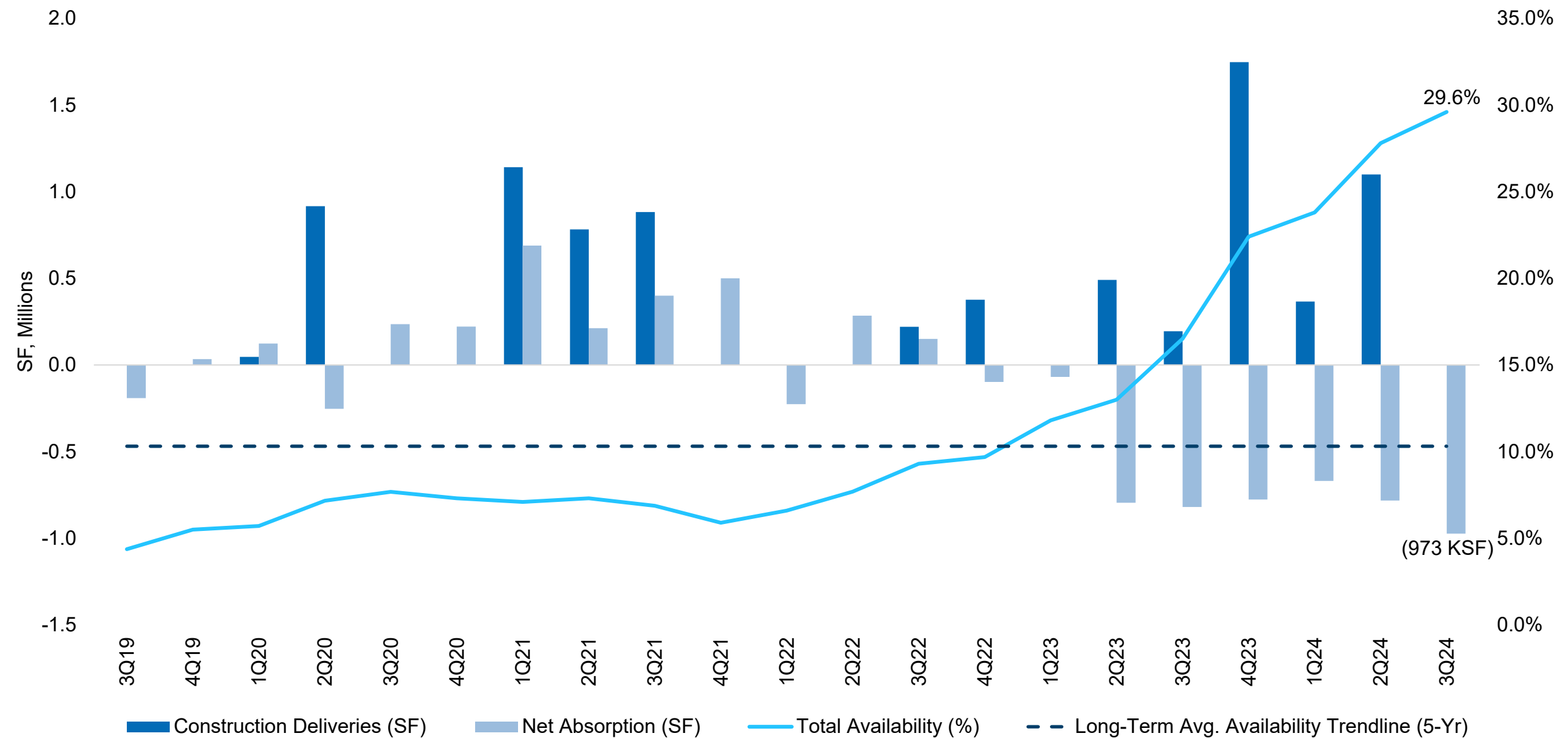
Leasing Market Fundamentals



Market-Wide Availability At New High

Life science availability reached a new record high in the third quarter of 2024, closing at 29.6%, up from 27.8% last quarter and 16.5% one year ago. Net absorption remained negative for the eighth consecutive quarter, totaling negative 973,000 SF. With approximately 4.6 million SF of ground-up construction set to deliver over the next 12 months, availability is expected to continue climbing to new record highs.

Historical Construction Deliveries, Net Absorption, and Availability



Source: Newmark Research

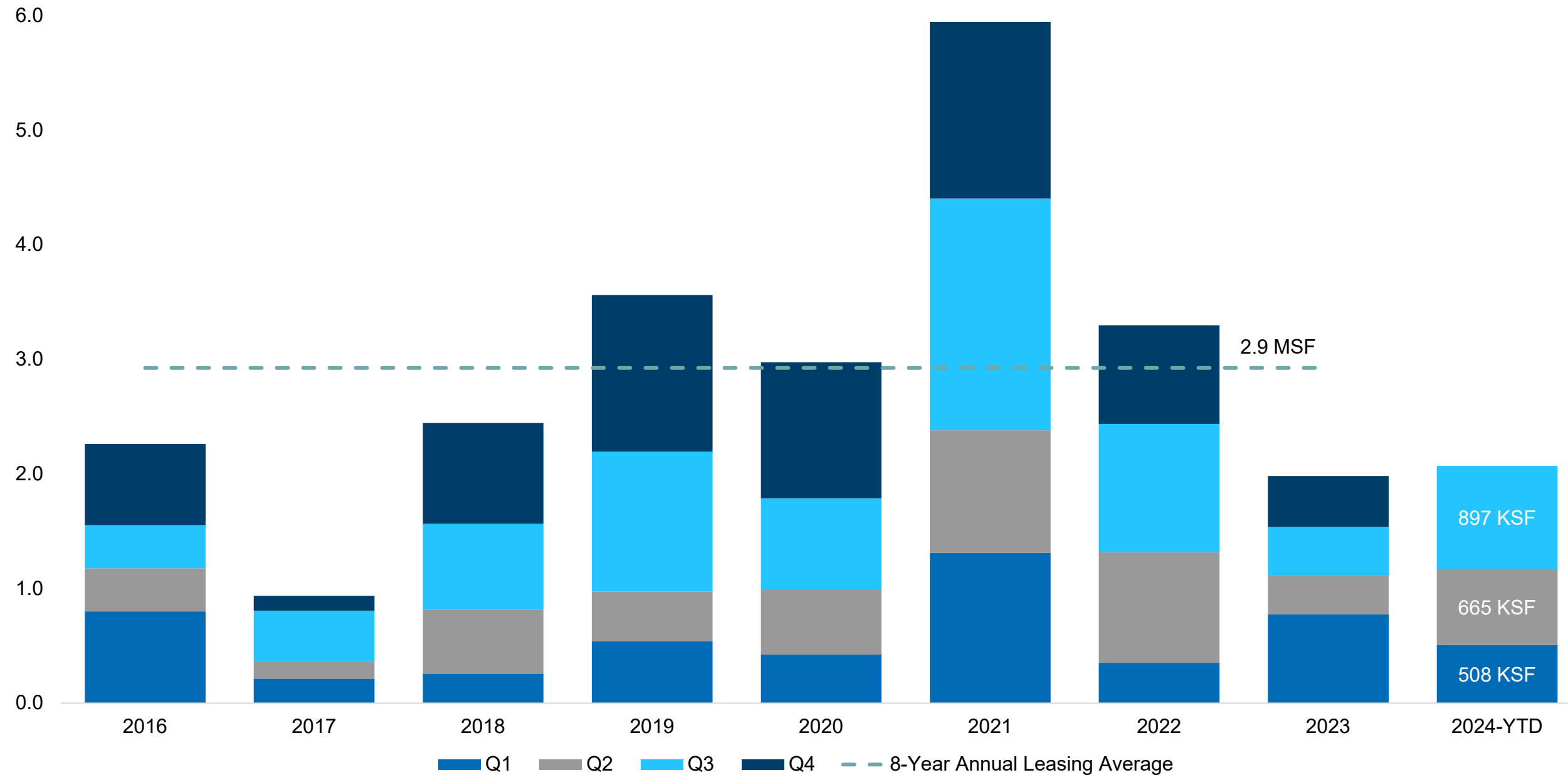


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Leasing Activity Up Quarter-over-Quarter & Year-over-Year

Total leasing activity for the quarter reached 897,000 SF, representing a 35.0% increase quarter over quarter and a 110.0% increase year over year. The average deal size for the quarter was 23,754 SF, up from 19,577 SF in the previous quarter.

Total Leasing Activity (MSF)

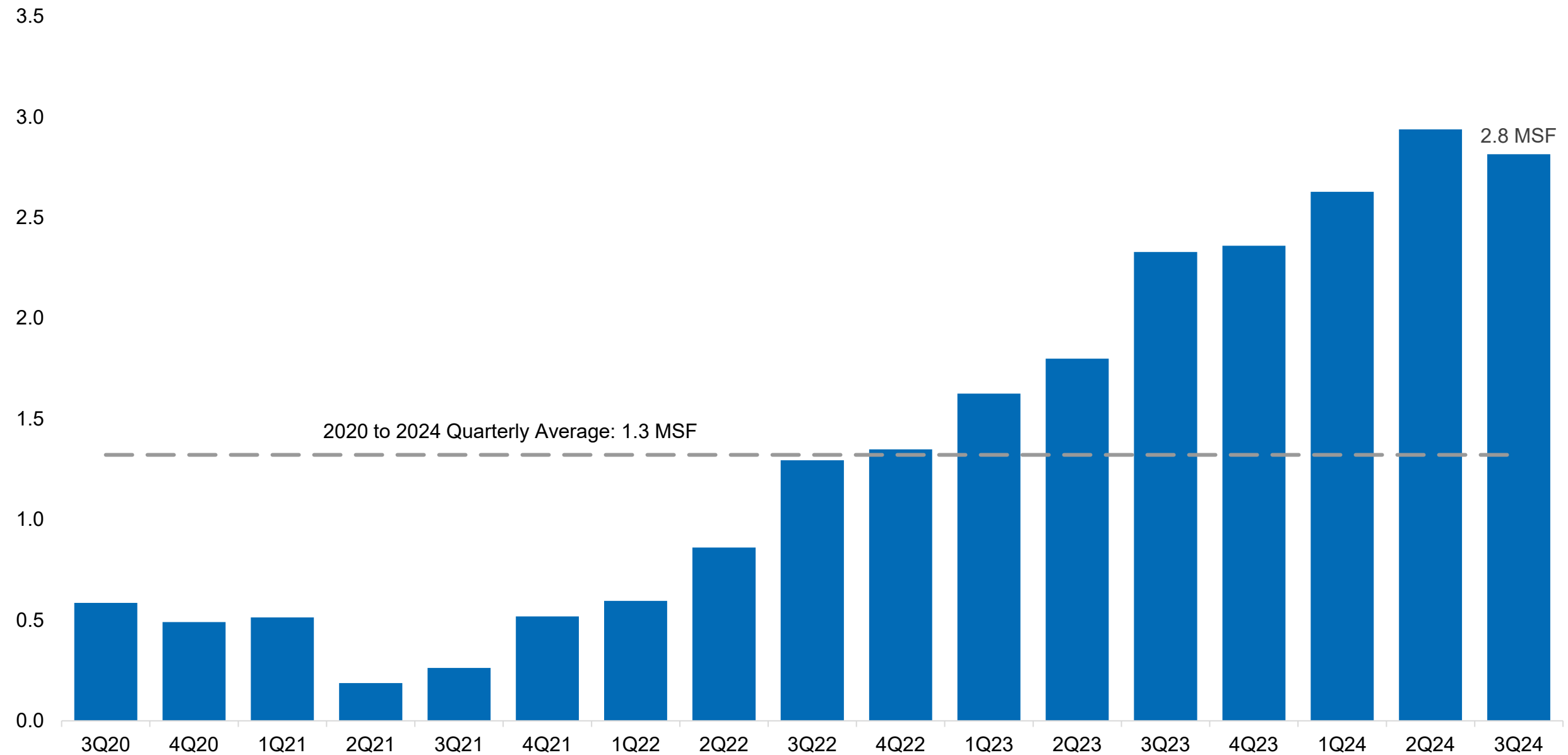


Source: Newmark Research

Bay Area Sublease Availability Falls

The Bay Area Life Science market recorded 2.8 million SF of sublease availability in the third quarter, down from 2.9 million SF last quarter. The decline was driven by several listings either being transacted or taken off the market as sublessors reoccupied spaces. Sublease availability, now more than double the five-year quarterly average, had steadily increased for twelve consecutive quarters prior to this decline.

Available Life Science Sublease Volume (MSF)



Source: Newmark Research

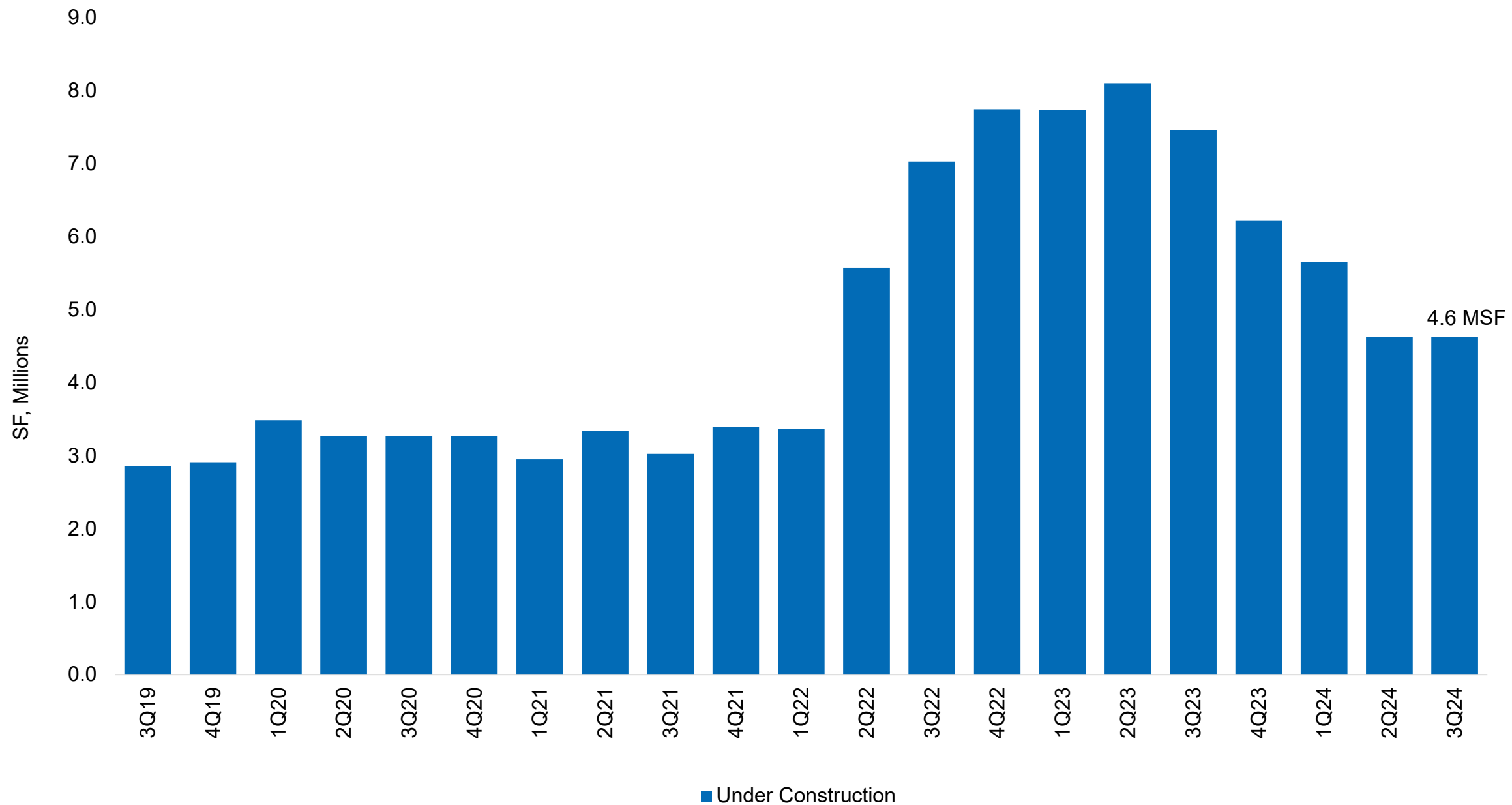


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Life Science Construction Pipeline Stagnant

The Bay Area life science construction pipeline remained unchanged in the third quarter of 2024, totaling 4.6 million SF, with 10.4% preleased. No new deliveries were reported this quarter, but approximately 3.5 million SF is scheduled to deliver over the next twelve months.

Life Science Under Construction (MSF)

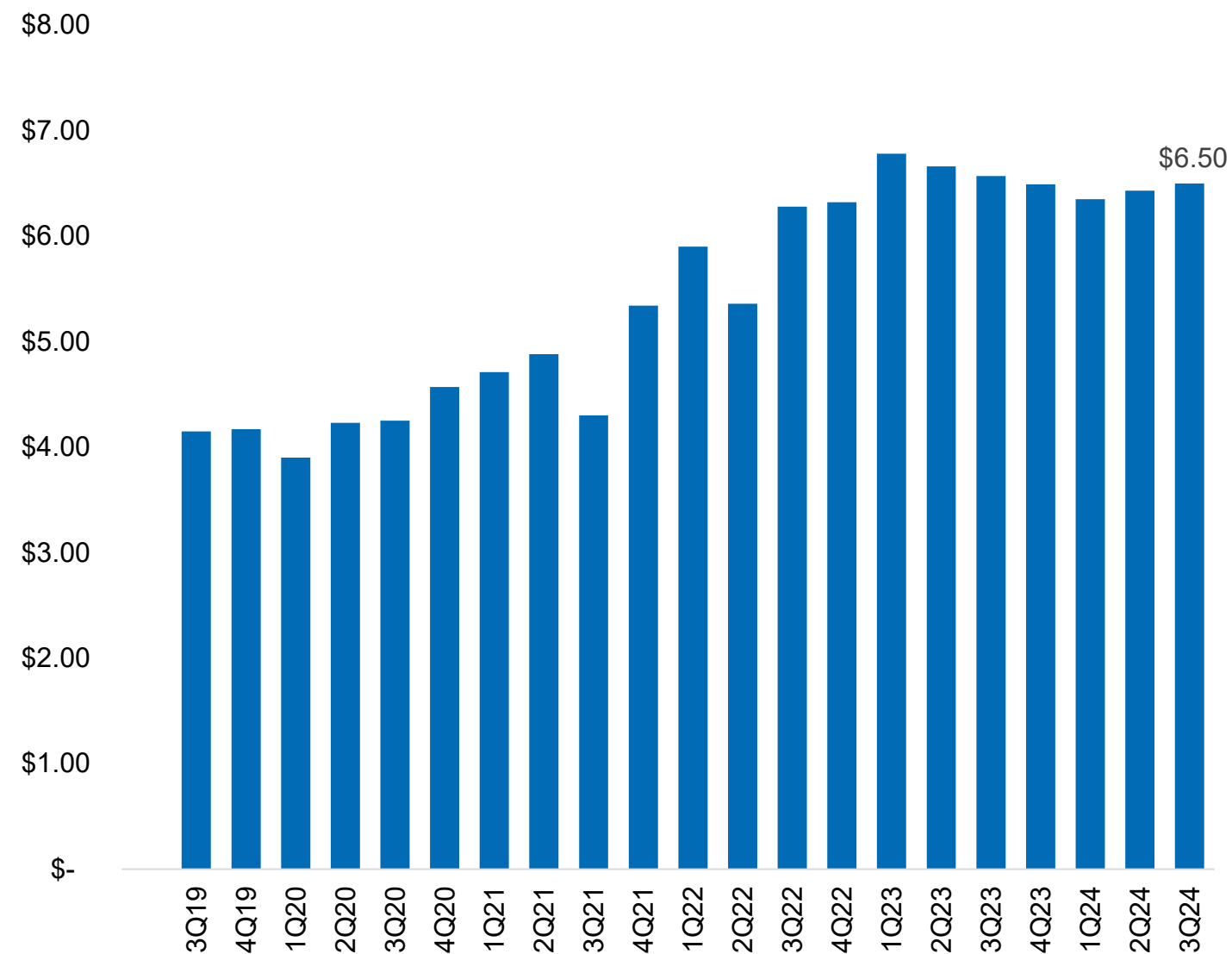


Source: Newmark Research, CoStar

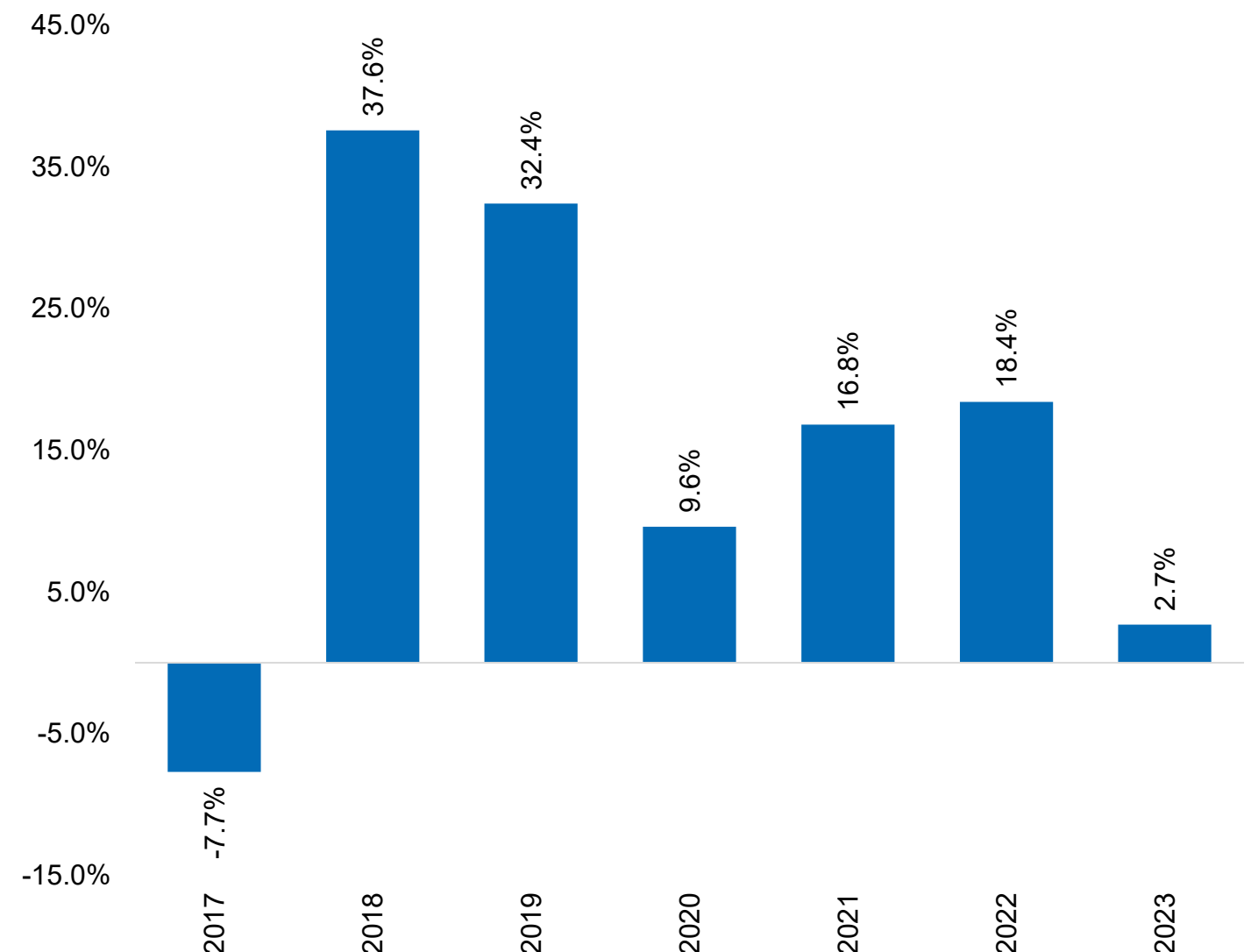
Bay Area Asking Rent Ticks Up Modestly Amid National Decline

The overall average asking rate for life science space in the Bay Area rose from \$6.43/SF last quarter to \$6.50/SF in the third quarter of 2024. However, the market-wide average asking rent has declined by 1.1% over the past 12 months. Notably, the gap between average asking rents and actual achieved rents has continued to widen for several quarters, as landlords prioritize occupancy over rental rates in a challenging economic environment.

Life Science Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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Notable 3Q24 Lease Transactions

A total of 14 leases of 20,000 SF or greater were executed this quarter, compared with 10 in the previous quarter and 9 one year ago.

Select Lease Transactions

Tenant	Building/Project	Submarket	Type	Square Feet
Natera <i>Clinical genetic testing company Natera completed the largest deal of the quarter, renewing their 136,258-square foot lease at 201 Industrial Road in San Carlos through the end of September 2032.</i>	201 Industrial Rd	San Carlos	Lease Renewal	136,258
Impossible Foods <i>Impossible Foods completed the second-largest deal of the quarter, renewing their 60,841-square foot lease at 400 Saginaw Drive in Redwood City.</i>	400 Saginaw Dr	Redwood City	Lease Renewal	60,841
Xaira Therapeutics <i>Artificial intelligence drug discovery startup company, Xaira Therapeutics, formerly known as Orion Medicines, completed the third-largest deal of the quarter, leasing space on the fourth and fifth floor at 700 Gateway Blvd in South San Francisco for 56,233 square feet..</i>	700 Gateway Blvd (GOP Phase III)	South San Francisco	Lease Expansion	56,233
Circle Pharma <i>Circle Pharma leased 169 Harbor Way in South San Francisco for 50,977 square feet for the fourth-largest deal of the quarter.</i>	169 Harbor Way	South San Francisco	Direct Lease	50,977
Revolution Medicines <i>Revolution Medicines completed the fifth-largest deal of the quarter, expanding into an additional 43,283 square feet at 500 Saginaw Drive in Redwood City, increasing their footprint within Healthpeak's Seaport Centre business park to 186,000 square feet.</i>	500 Saginaw Dr	Redwood City	Lease Expansion	43,283

Source: Newmark Research

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Appendix / Tables





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