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3Q24

# North Peninsula Industrial & R&D Market Overview



**NEWMARK**

# Market Observations

## Economy

- The Peninsula’s labor market experienced a slowdown at the start of the second half of the year, with August’s unemployment rate rising to 4.0%, up from 3.0% in May.
- In mid-September, the Fed initiated its first rate-cutting cycle in four years, reducing interest rates by 50 basis points. The market is now anticipating an additional 50-basis-point cut by year-end, with ongoing 25-point reductions projected through 2025.
- While the Fed emphasizes the economy’s strength and easing inflation risks, it remains cautious, signaling that further rate cuts will depend on future economic data. Current indicators suggest the potential for a soft landing.

## Major Transactions

- Natera, a clinical genetic testing company, completed the largest deal of the quarter, renewing their 136,258 SF lease at 201 Industrial Road in San Carlos, extending through September 2032.
- Wismettac Asian Foods completed the second-largest deal, renewing their 83,891 SF lease at 340 Valley Drive in Brisbane.
- The largest sale of the quarter was an investment acquisition by the San Francisco Baking Institute, purchasing 2575 E. Bayshore Rd. in Redwood City. The fully leased property, totaling 43,250 SF, sold for \$19.27 million, equating to \$445/SF.

## Leasing Market Fundamentals

- Market-wide R&D availability increased to 26.7% this quarter, up from 26.4% in the previous quarter. R&D vacancy also saw a rise, reaching 23.4%, up from 21.0%.
- On the North Peninsula, the industrial market availability rate edged up in the third quarter of 2024 to 7.40%, compared to 7.37% in the prior quarter. Market-wide industrial vacancy increased to 5.8%, up from 5.2%.
- The region’s R&D pipeline stands at 4.6 million SF of under-construction product, with 10.4% of that already preleased. The industrial construction pipeline remains inactive.

## Outlook

- The North Peninsula R&D market showed mixed conditions in the third quarter of 2024. Asking rates increased despite a rise in vacancies. Leasing activity has steadily grown each quarter since Q2 2023, and landlords are responding to the growing demand.
- Net effective transaction rents in both the R&D and industrial markets remain suppressed due to elevated concessions from landlords. This trend is expected to persist as supply and demand pressures continue to rebalance.

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

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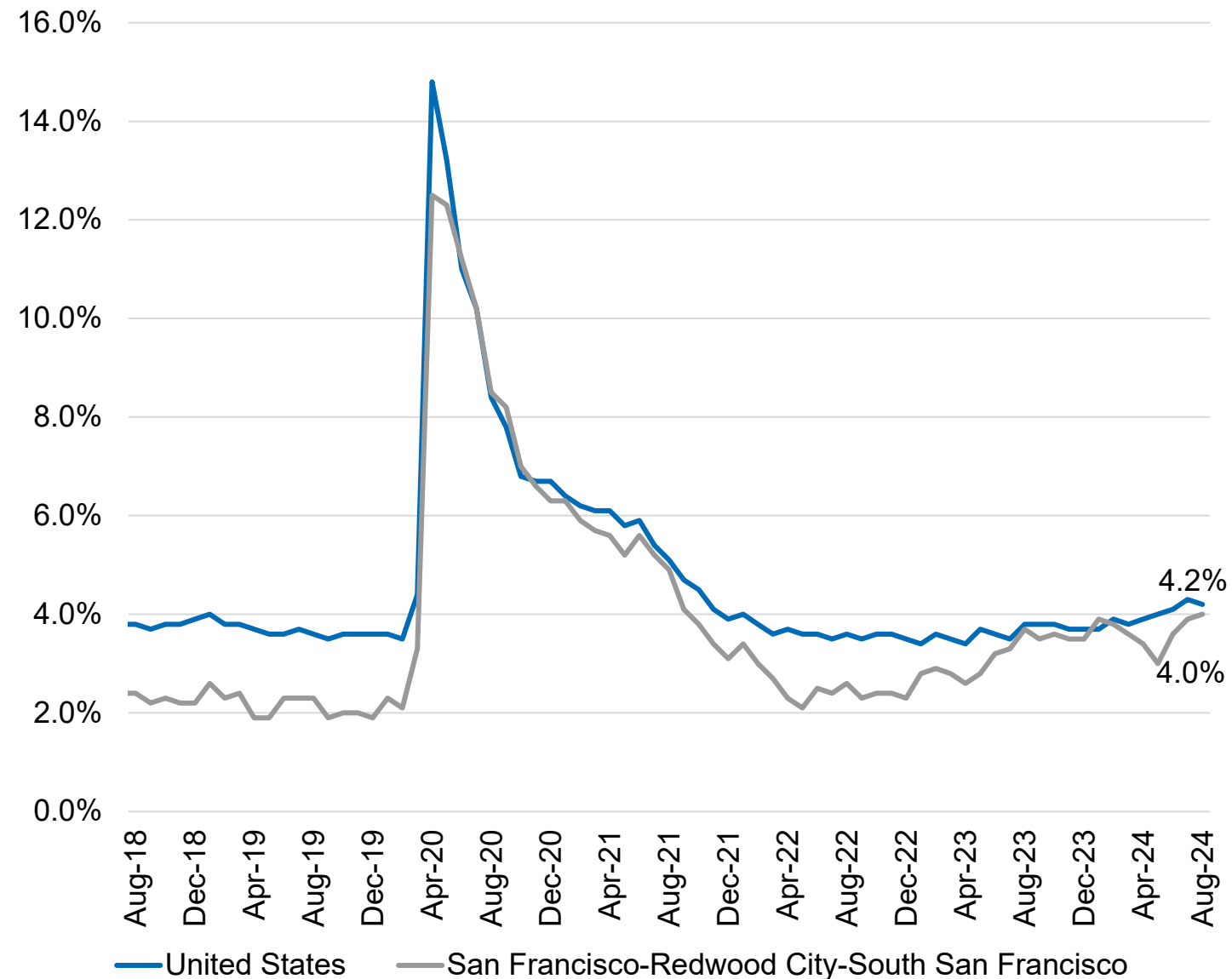
# Economy



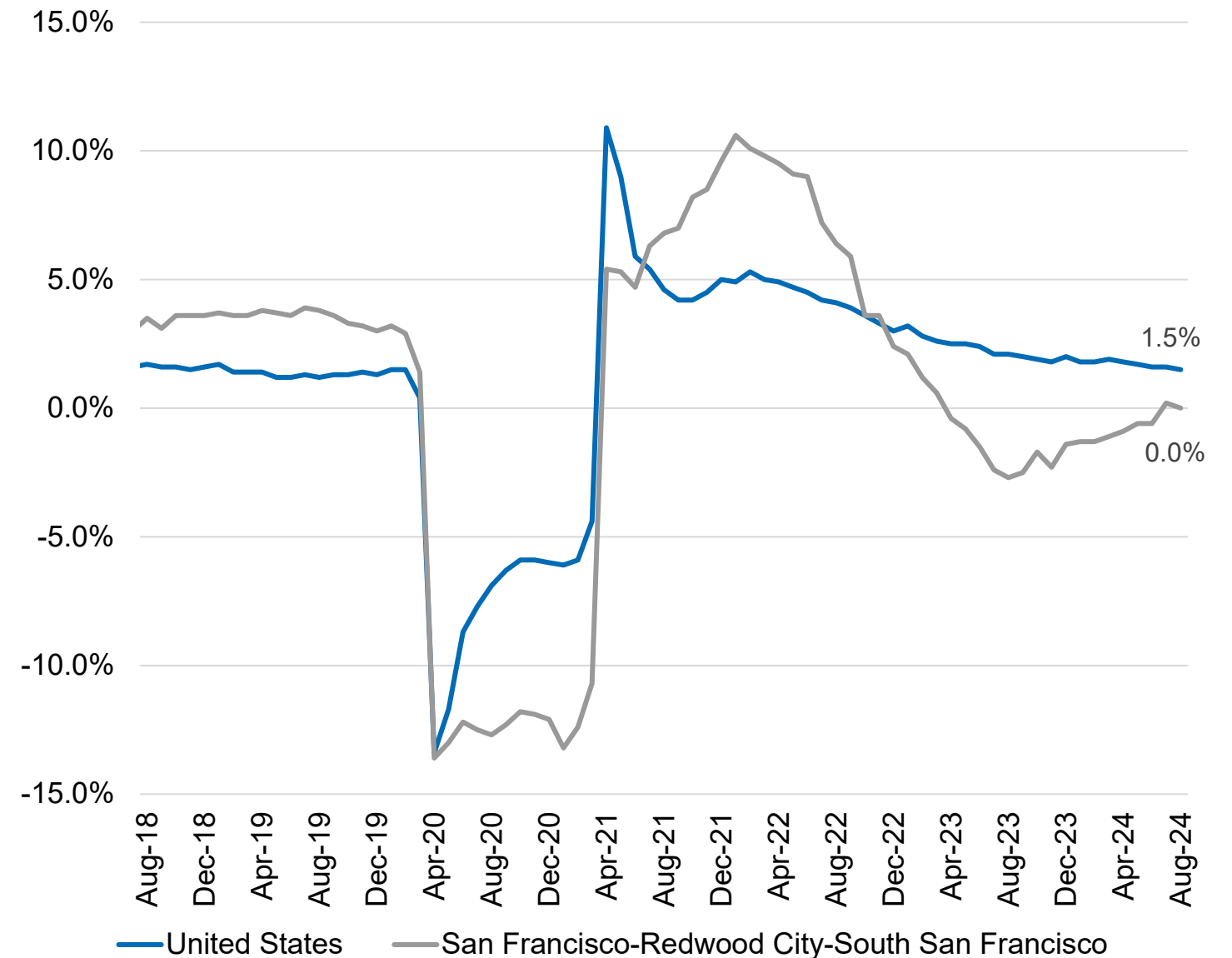
# Regional Unemployment Increases Sharply Over Four-Month Span

The region's unemployment rate rose to 4.0%, an increase of 100 basis points since May, as tech industry layoffs continue. However, regional unemployment remains slightly below the national average, which increased by 20 basis points over the same period. Nonfarm employment in the region was flat year-over-year, while national employment growth continues to decline gradually.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Not Seasonally Adjusted, 12-Month % Change

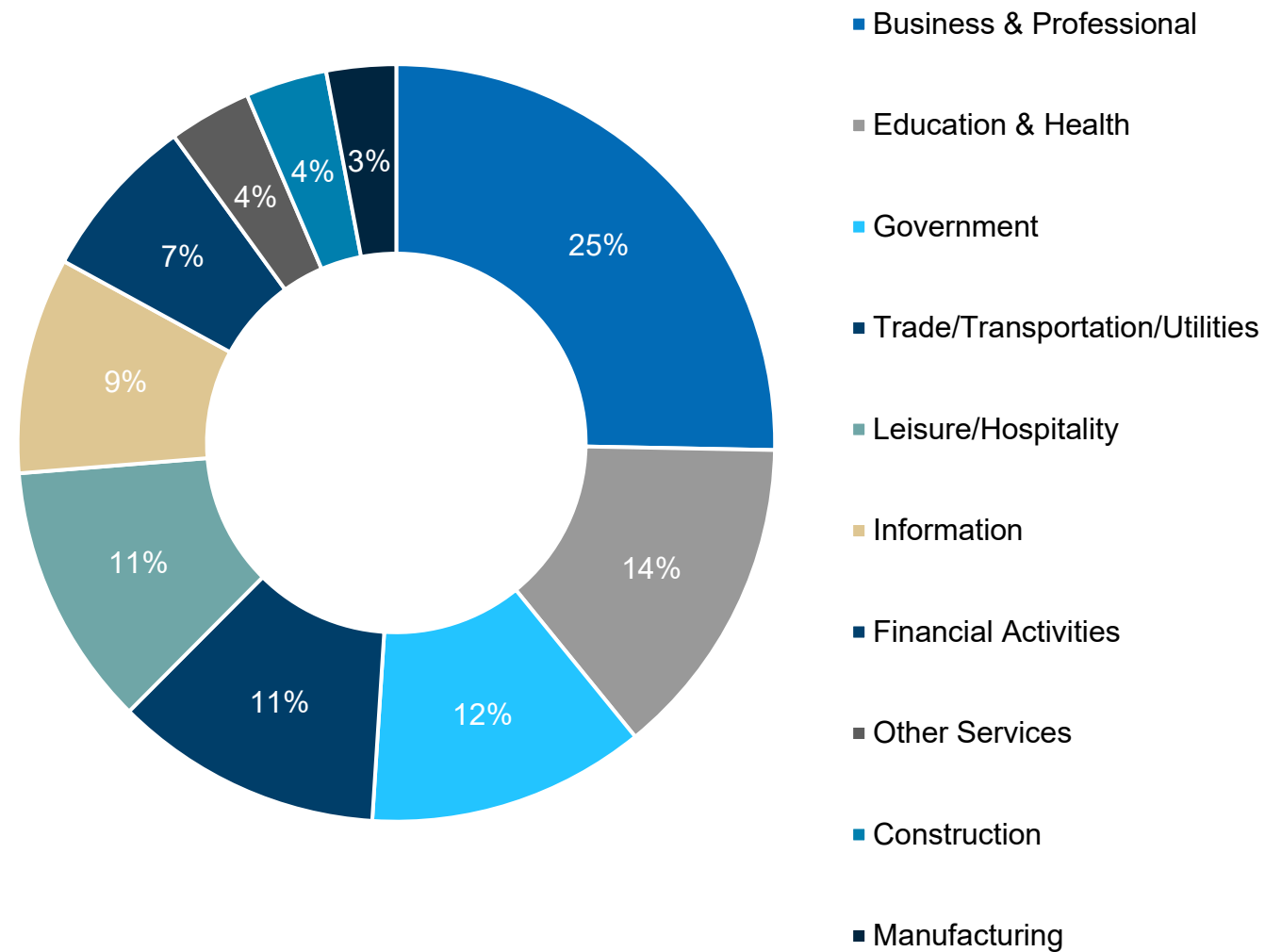


Source: U.S. Bureau of Labor Statistics, San Francisco-Redwood City-South San Francisco, August Data is Preliminary

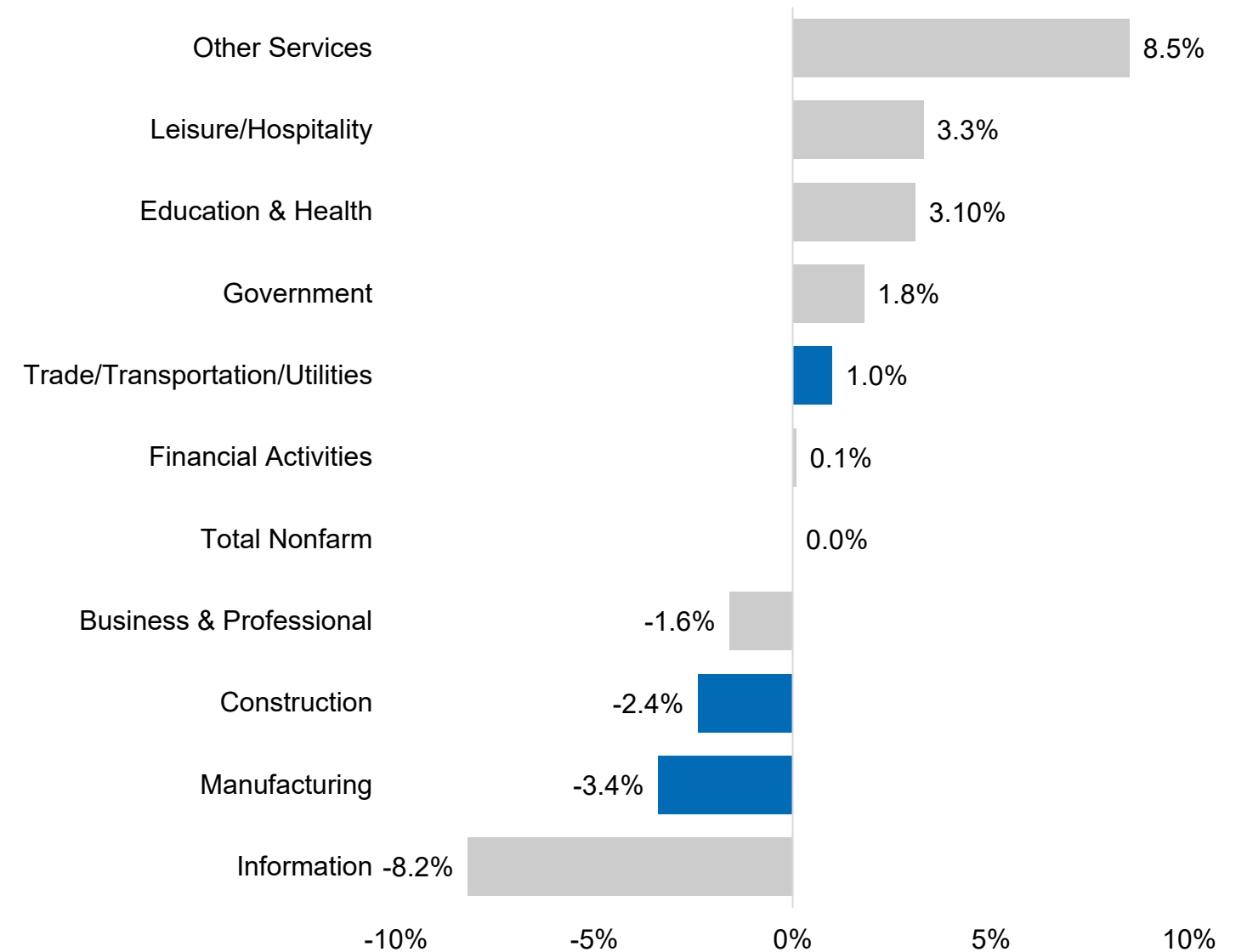
# Employment in Information Industry Down 8.2% Year-Over-Year

The largest year-over-year employment gains were seen in the Other Services, Leisure and Hospitality, and Education & Health sectors.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024



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

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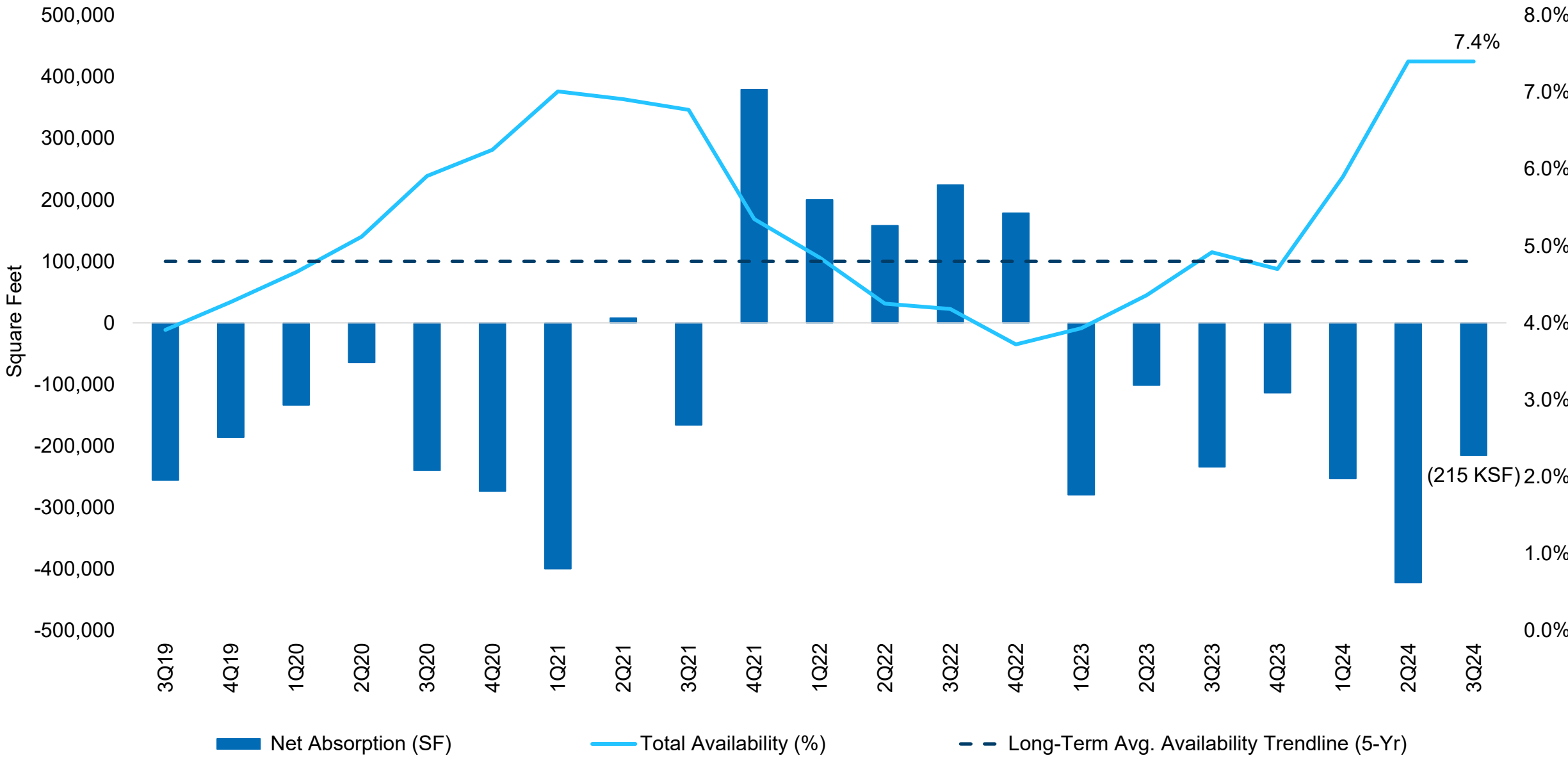
# Industrial Leasing Market Fundamentals



# Industrial Availability Consolidates At Five-Year High

Market-wide industrial availability increased slightly to 7.40% this quarter, up from 7.37% in the previous quarter and from 4.18% one year ago.

## Historical Net Absorption, and Availability



Source: Newmark Research



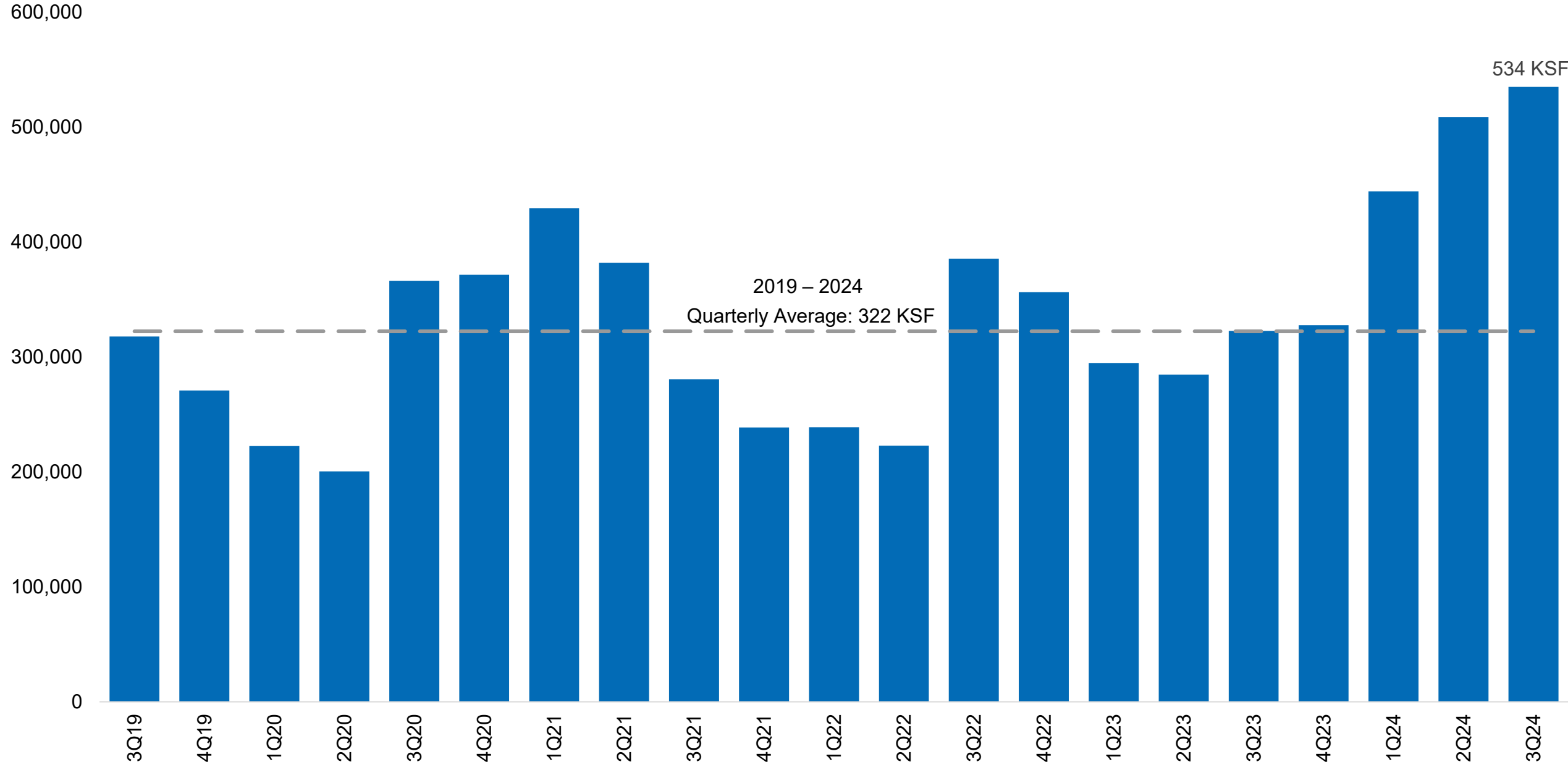


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# Industrial Sublease Availability Hits Five-Year Peak

Industrial sublease availability increased by 5.1% in the third quarter of 2024, reaching a five-year high of 534,000 SF, which is well above the five-year average of 322,000 SF.

Available Industrial Sublease Volume (SF)



Source: Newmark Research, CoStar

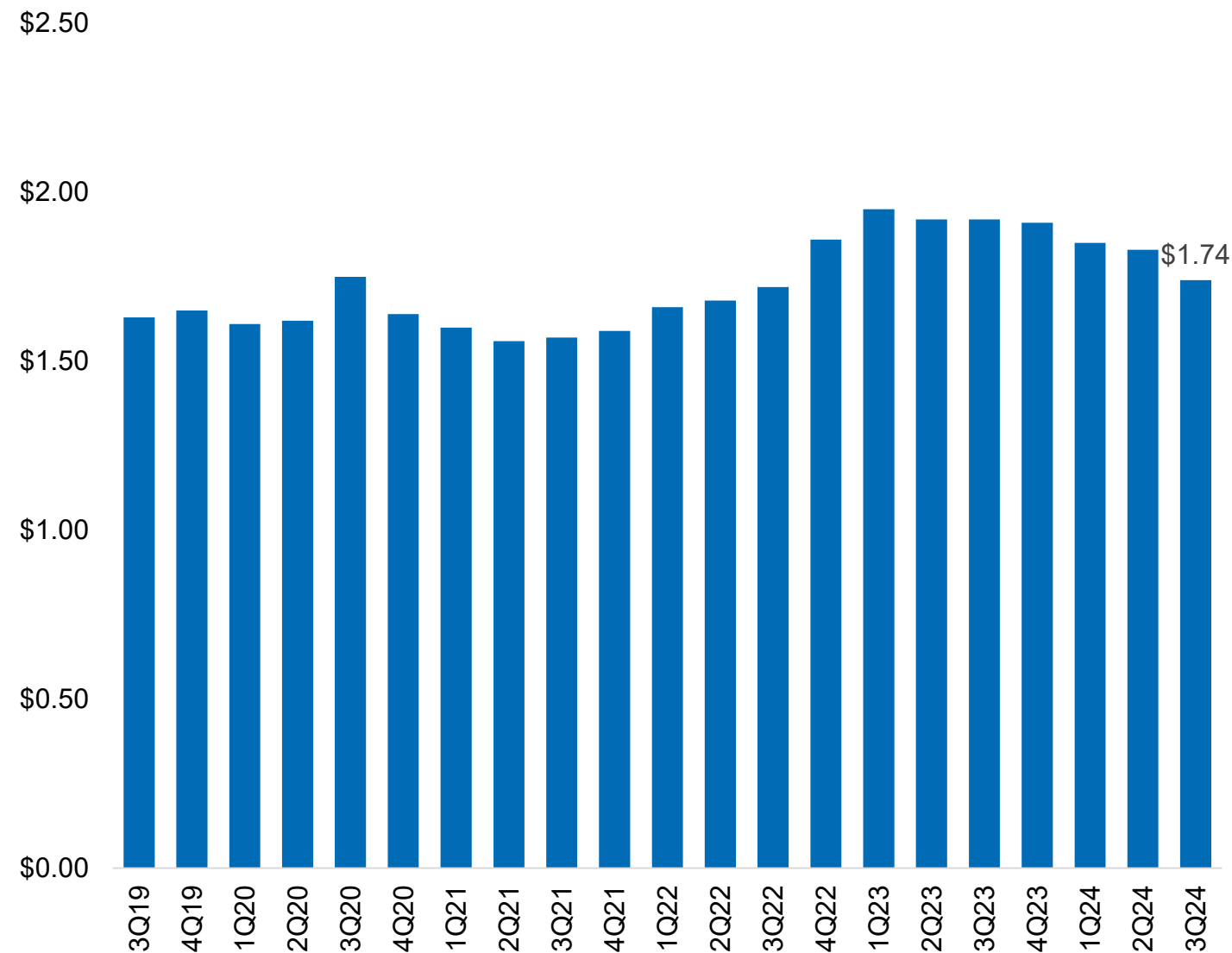


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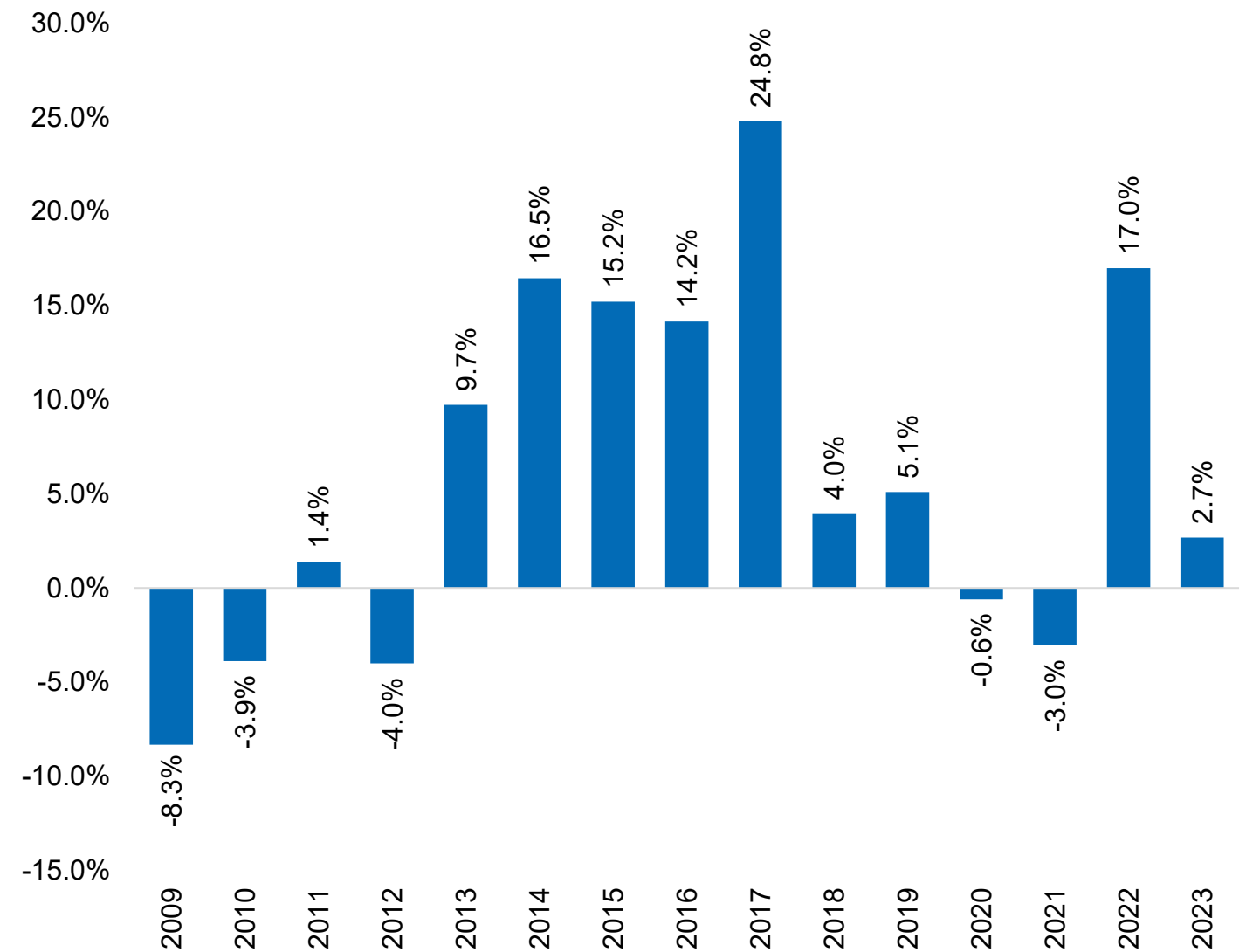
# Industrial Average Rents Decline for Sixth Consecutive Quarter

The overall average asking rate for industrial space on the North Peninsula decreased from \$1.83/SF in the previous quarter to \$1.74/SF in the third quarter of 2024. Landlords continue to lower rates to stay competitive and boost occupancy in a market facing suppressed demand.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

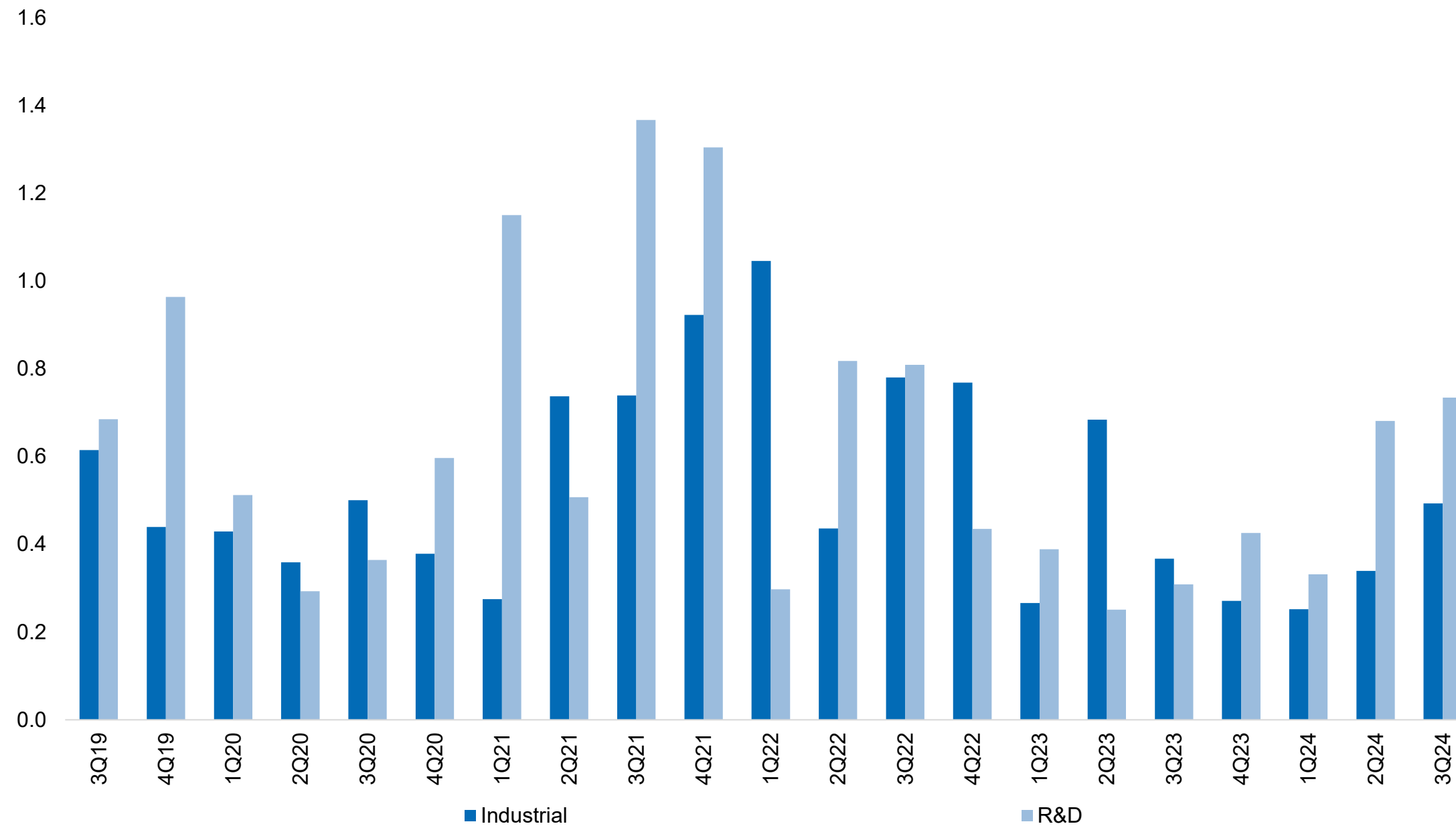


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# Industrial and R&D Leasing Trend Upwards

Industrial leasing activity reached 493,000 SF this quarter, up from 339,000 SF in the previous quarter. R&D leasing activity also increased, recording 734,000 SF compared to 528,000 SF in the prior quarter. Leasing activity in both the industrial and R&D markets continued to rebound this quarter although driven largely by renewals.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

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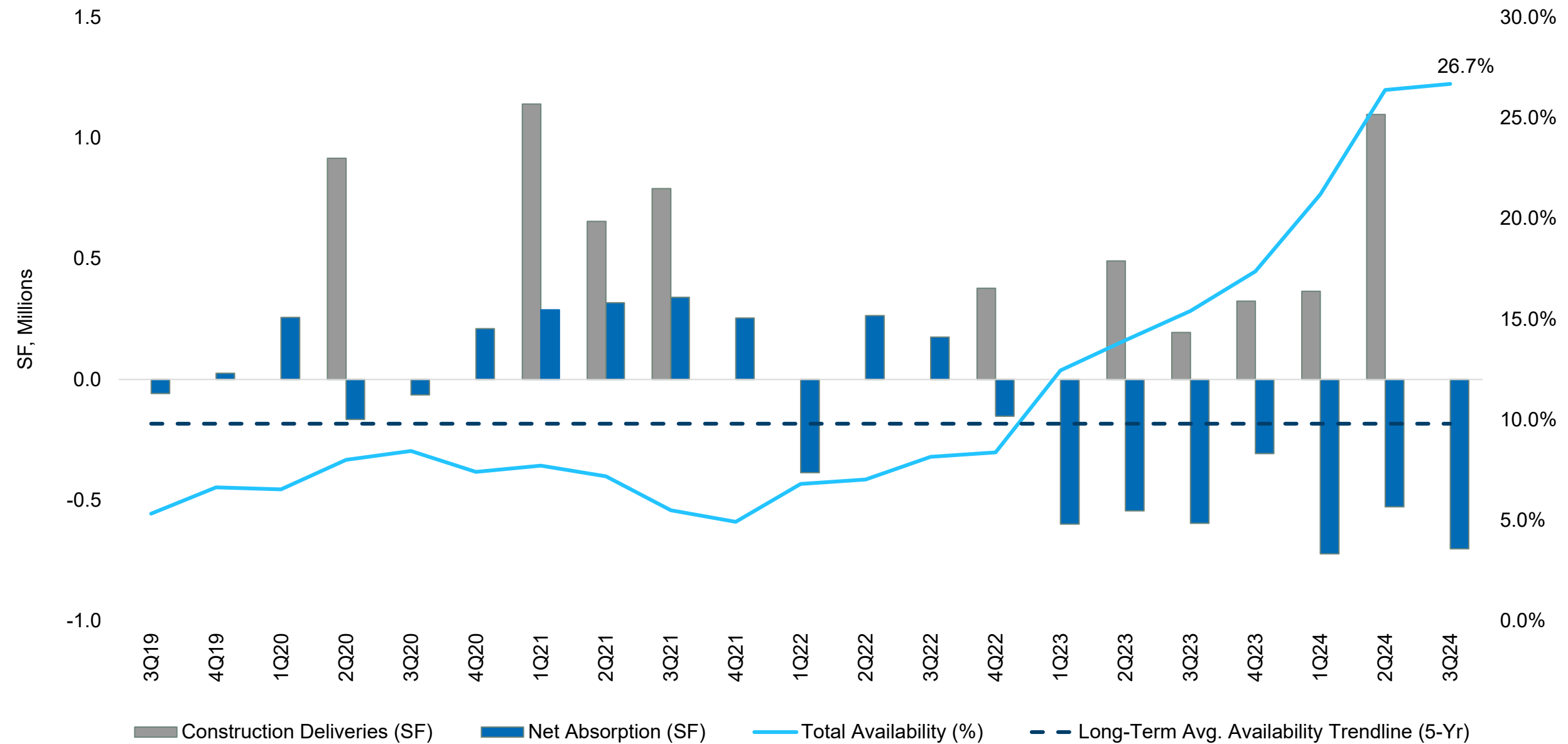
# R&D Leasing Market Fundamentals



# R&D Availability Inches Higher

Market-wide R&D availability increased to 26.7% this quarter, up slightly from 26.4% in the previous quarter and 15.4% one year ago.

## Historical Construction Deliveries, Net Absorption, and Availability



Source: Newmark Research



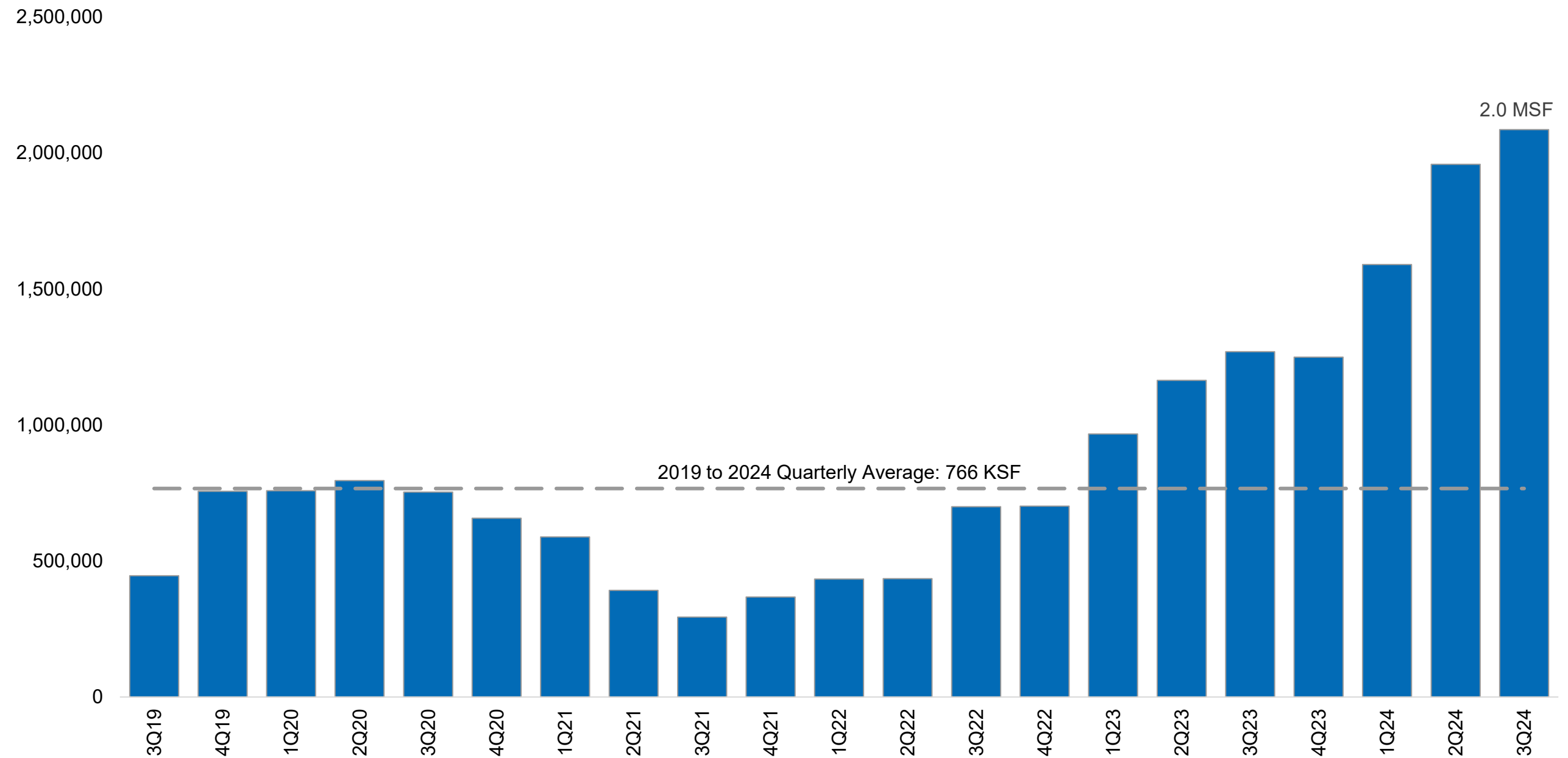


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# R&D Sublease Availability Continues Upward Trajectory

R&D sublease availability in the third quarter of 2024 reached 2.0 million SF, up from 1.9 million SF in the previous quarter and 1.2 million SF one year ago.

Available R&D Sublease Volume (SF)



Source: Newmark Research, CoStar

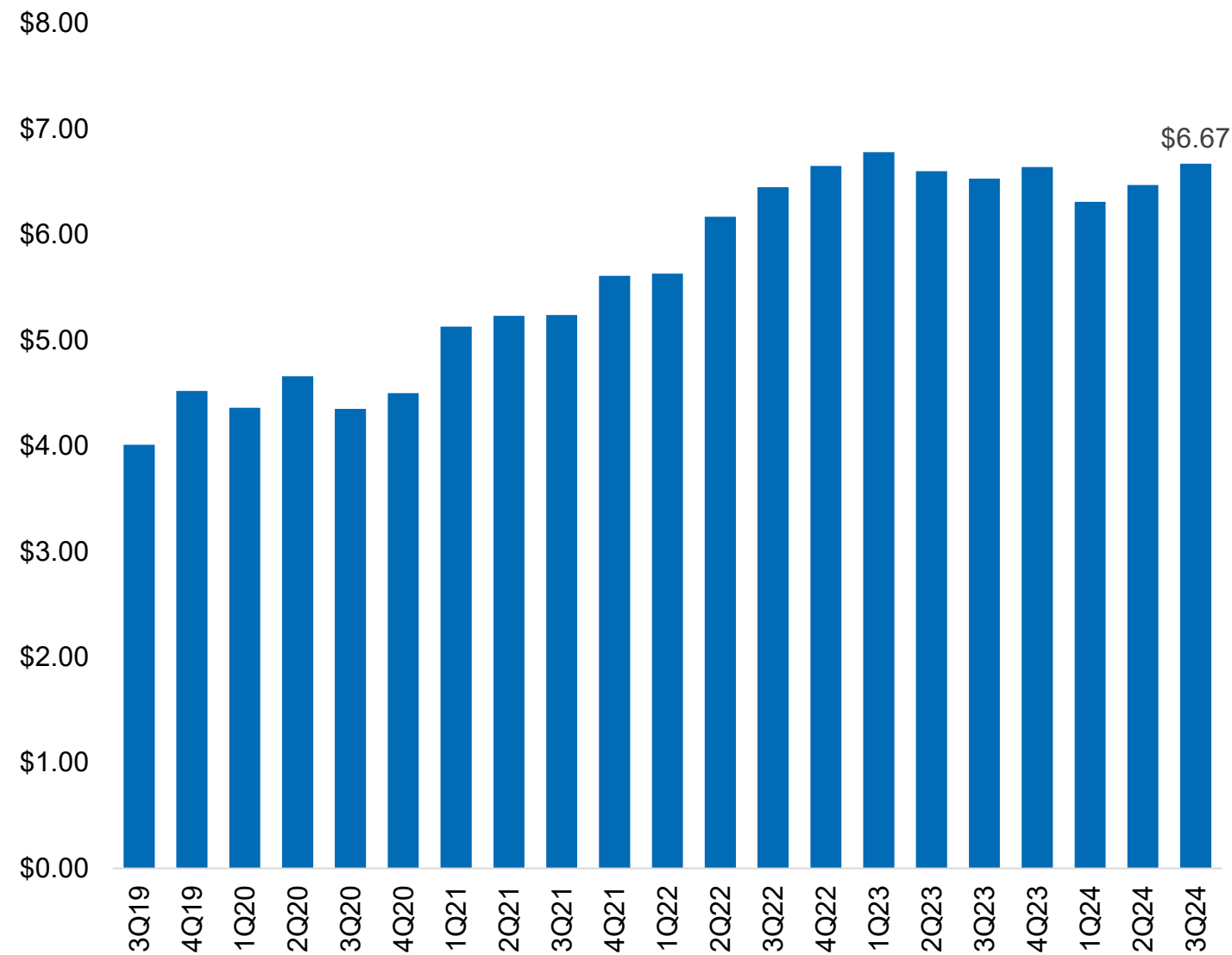


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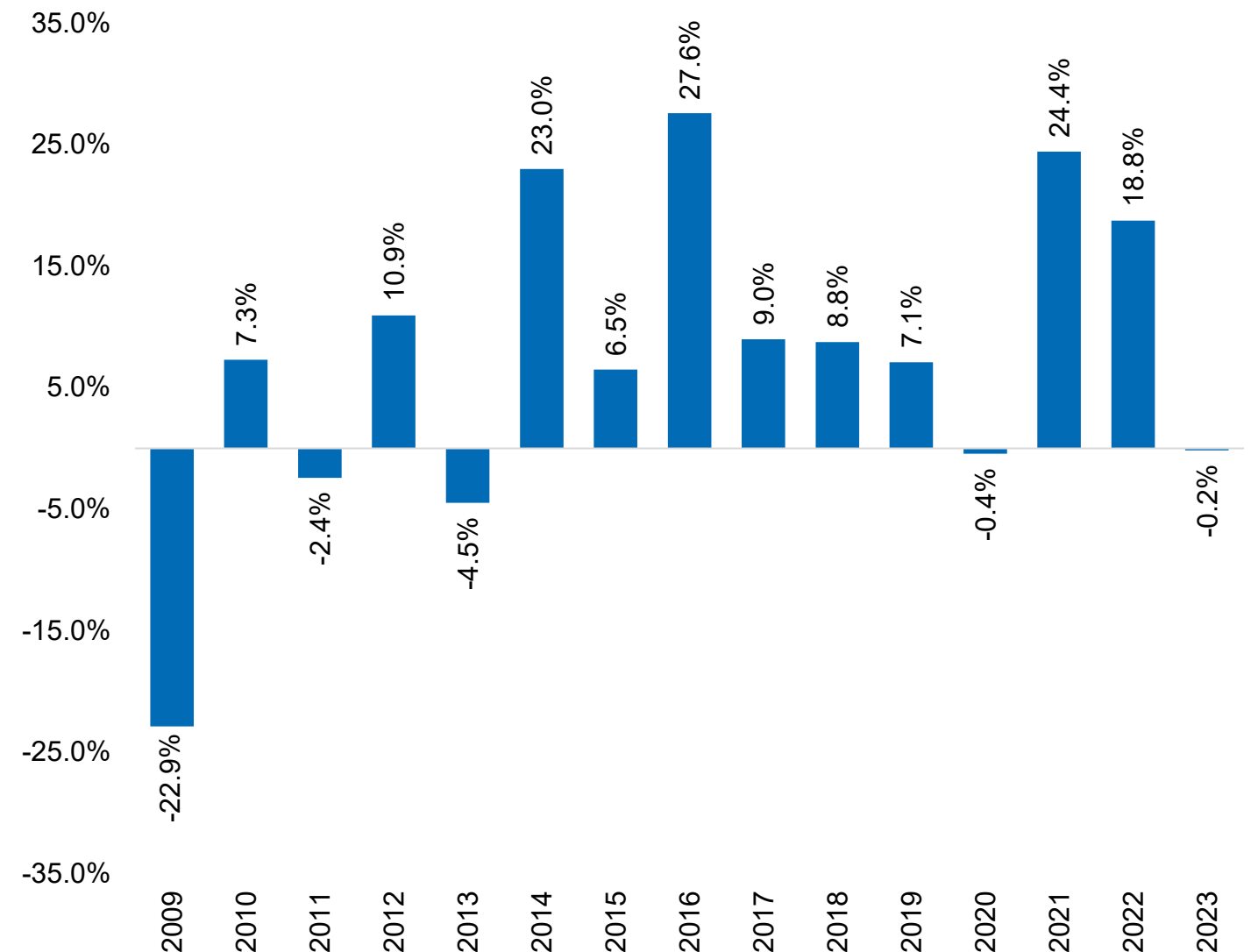
# Overall R&D Asking Rent Rises

The overall average asking rate for R&D space on the North Peninsula increased from \$6.47/SF in the previous quarter to \$6.67/SF in the third quarter of 2024.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

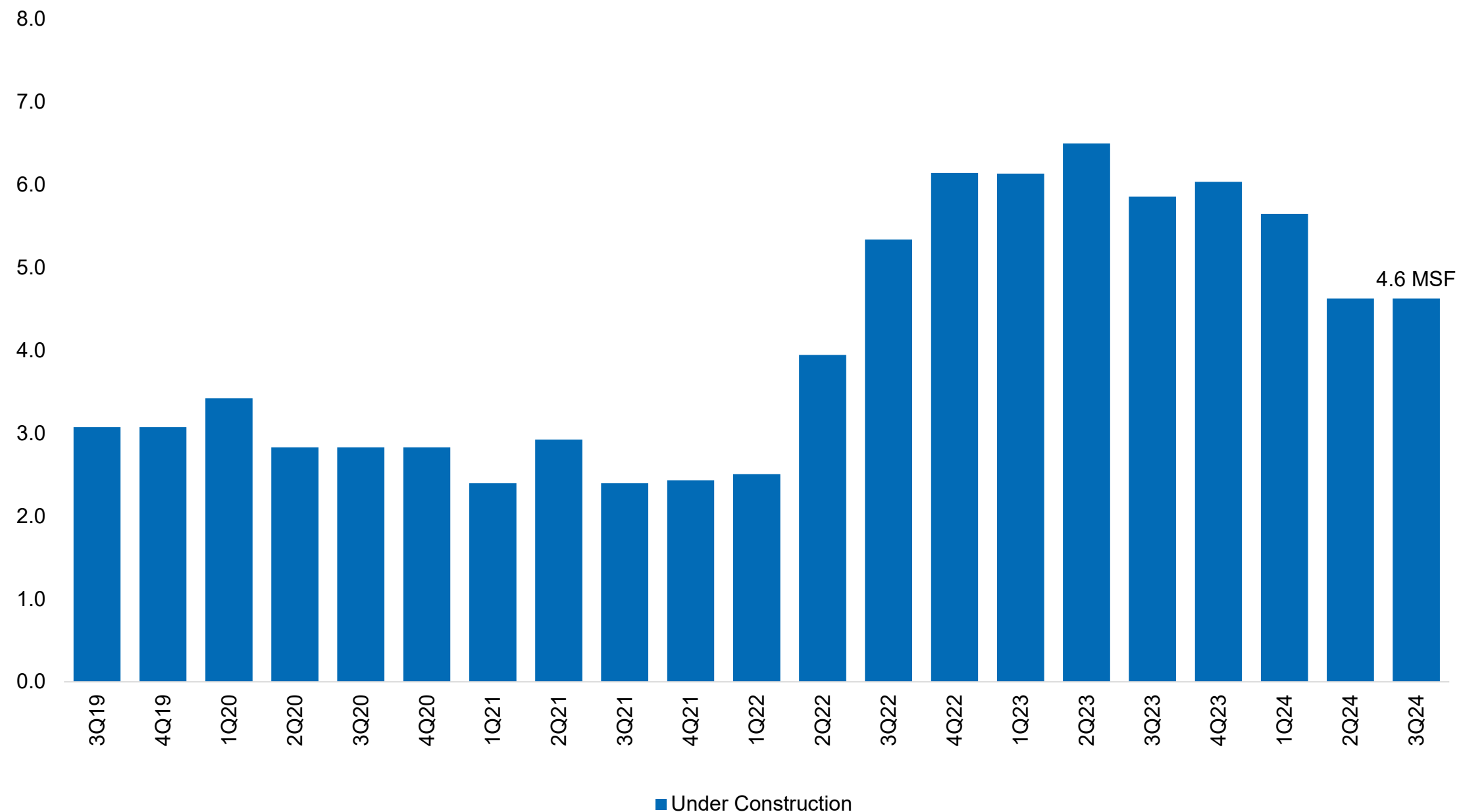


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# Construction Pipeline Remains Stagnant in 3Q24

The R&D construction pipeline remained stagnant in the third quarter of 2024, holding at 4.6 million SF, with 10.4% of that already preleased. No new deliveries were reported this quarter, though approximately 3.5 million SF is expected to deliver over the next 12 months.

## R&D Under Construction (MSF)



Source: Newmark Research, CoStar

# Notable 3Q24 Lease Transactions

This quarter saw seven industrial transactions of 20,000 SF or greater, up from five in the previous quarter. In the R&D sector, thirteen transactions of 20,000 SF or greater were executed, compared to ten in the previous quarter.

## Select Lease Transactions

Tenant	Building	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
Wismettac Asian Foods <i>Wismettac Asian Foods completed the second-largest deal of the quarter, renewing their 83,891-square foot lease at 340 Valley Drive in Brisbane.</i>	340 Valley Dr	Brisbane	Lease Renewal	83,891
Impossible Foods <i>Impossible Foods completed the third-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
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
Xaira Therapeutics <i>Artificial intelligence drug discovery startup company, Xaira Therapeutics, formerly known as Orion Medicines, completed the fifth-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

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# Appendix / Tables







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*For more information:*

**Chris Teranishi**

*Senior Market Analyst*

*North Peninsula Research*

Chris.Teranishi@nmrk.com

**Newmark San Mateo**

2950 South Delaware Street

Suite 125

San Mateo, CA 94403

t 650-341-5800

Corporate CA RE #: 00832933

**[nmrk.com](http://nmrk.com)**

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