



TRANSWESTERN

BAY AREA LIFE SCIENCES MARKET

Q2 2023



SOFT DEMAND PUTS PRESSURE ON RENT GROWTH; VC FUNDING REMAINS ELEVATED

▲ **9.1%**
VACANCY RATE

▼ **-323K**
NET ABSORPTION

▲ **4.2 MSF**
UNDER CONSTRUCTION

▼ **\$4.00/SF**
RENTS (NNN)

Note: Arrows indicate change from previous quarter.

While weakness in commercial real estate fundamentals persisted, the life sciences sector in the San Francisco Bay Area has remained active, though normalizing from previously unsustainable levels. Rising interest rates and economic uncertainty have slowed both demand and capital infusion as the market continues to recalibrate.

Net absorption in the Bay Area was negative for the second consecutive quarter, totaling negative 322,734 square feet in Q2 – an improvement from last quarter’s negative 501,523 SF. Slowing demand in the backdrop of rising interest rates, as well as near-record development, pushed vacancy up 90 basis points (bps) to end the second quarter at 9.1%. Rent growth has consequently moderated from the blistering pace set last year and declined 1.3% over the quarter to \$4.00 PSF (NNN).

Venture capital funding for life sciences has downshifted from peak levels during the pandemic but still posted \$2.4 billion in capital flows in Q2 – the strongest performance in a year and a return to pre-pandemic levels. For the year ending in Q2 2023, there was almost \$8.4 billion of capital invested into the sector - comparable to deal activity in 2018 and 2019.

Life sciences employment continues to expand in the Bay Area. In 2022, employment reached 158,500, a growth rate of 4.6% and will continue to expand this year a slightly stronger pace of 4.8%. Over the long term, an aging population, rising healthcare costs and the need for more effective therapies will support stable employment growth.

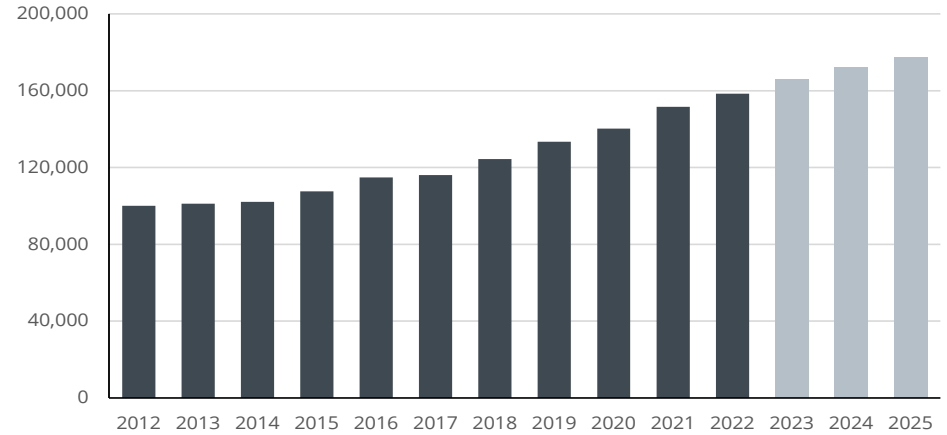


LIFE SCIENCES WORKFORCE TRENDS

Job Growth Regularly Outpaces National Average

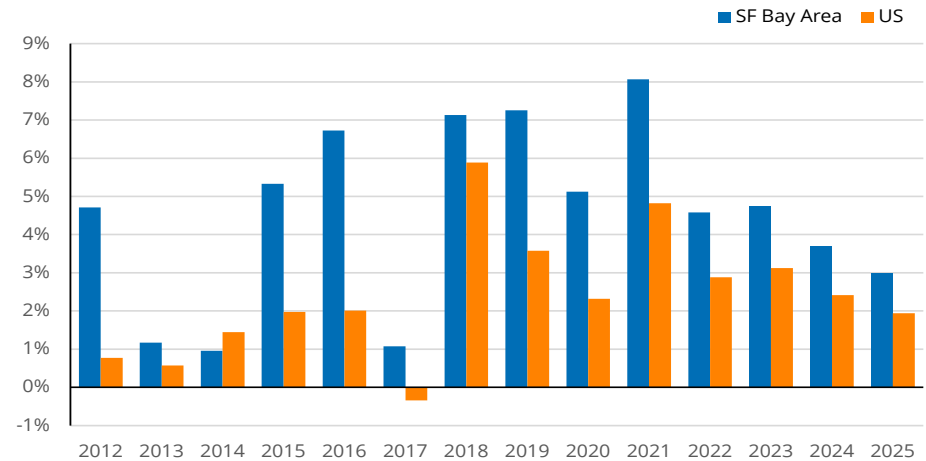
- Academic excellence is crucial to the life sciences sector as an engine for scientific research and innovation. The Bay Area is a leader in education, not only across the U.S., but also across the world. The region ranks as one of the nation’s top life science markets due to its proximity to major research institutions and access to a deep pool of talent, which is critical for growing companies.
- As total employment in the Bay Area rebounded from the pandemic, the life science industry continued to grow at its fastest pace on record. Total life science employment reached 158,500 in 2022, a 4.6% increase from the prior year. This compares with a national rate of 2.9%.
- While demand for lab space tapers off from the blistering levels during the pandemic, job growth in the sector is expected to accelerate to 4.8% in 2023 (an increase of roughly 7,000 jobs). The Bay Area has historically outpaced the nation in life sciences employment growth.

BAY AREA LIFE SCIENCES TOTAL EMPLOYMENT



Source: Transwestern, Emsi, Q2 2023.

LIFE SCIENCES YOY EMPLOYMENT CHANGE



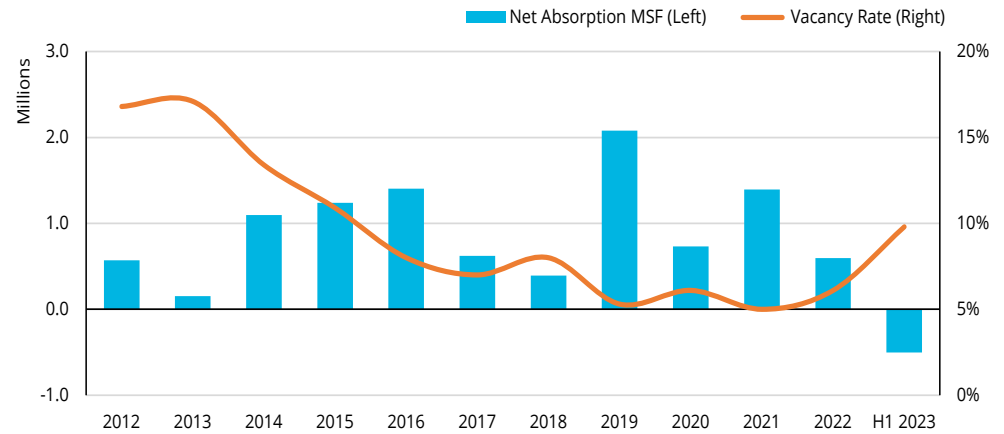
Source: Transwestern, Emsi, Q2 2023.

SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rises as Supply Saturates Market

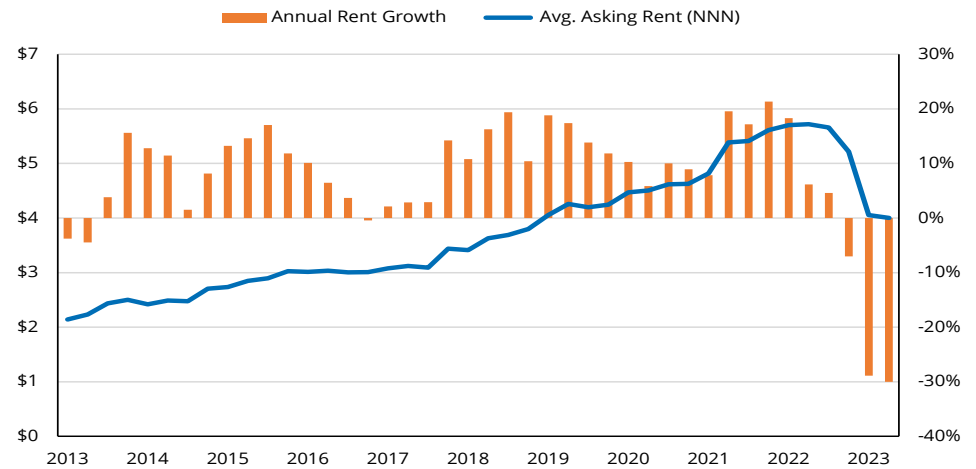
- The vacancy rate for the Bay Area rose from 8.2% in Q1 to 9.1% in Q2 as softening demand for lab space, coupled with a deep development pipeline, pushed vacancy up to pre-pandemic levels.
- As of Q2 2023, the total inventory of life science space in the Bay Area stood at 34.1 MSF, a growth rate of 3.1% from one year ago and 9.9% since the start of the pandemic.
- Rising interest rates and recessionary fears have kept deal volume subdued in Q2. The market ended the quarter with negative 322,734 SF of space absorbed, an improvement from negative 501,523 SF in Q1. For the year ending in Q2 2023, absorption was negative with 441,010 SF of space returned to the market, reflecting a slow capital markets environment.
- As vacancy rose from both weakened deal activity and new product on the market, average rent growth was down considerably, falling 30.0% on an annual basis but just 1.3% on a quarterly basis to finish the quarter at \$4.00 PSF per month.

NET ABSORPTION AND VACANCY



Source: Transwestern, CoStar, Q2 2023.

AVERAGE RENTS



Source: Transwestern, CoStar, Q2 2023.

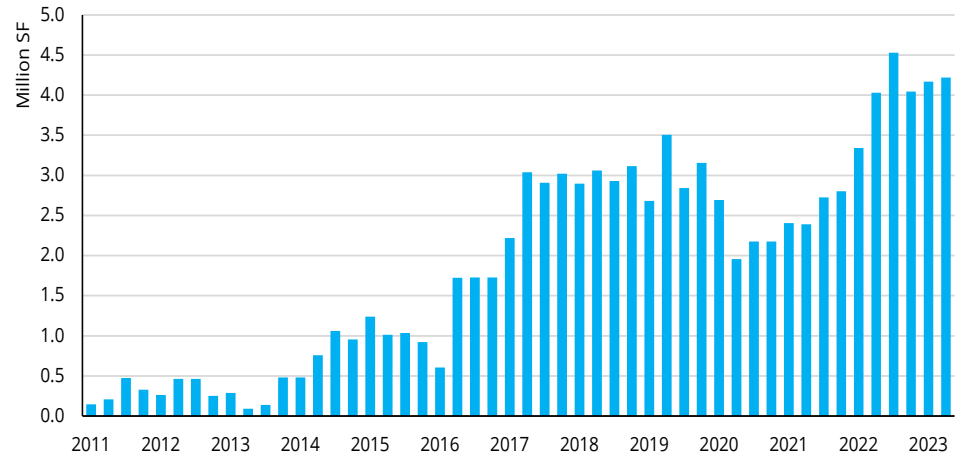


DEVELOPMENT ACTIVITY

Construction Boom in the Bay

- The surge in demand in 2021 helped finance the current development pipeline for both new construction and conversions to lab space, pushing construction to record highs. As of Q2 2023, there was over 4.2 million SF of space under construction in the Bay Area - a 4.6% increase from one year ago, and the second highest level on record.
- Two-thirds of development is concentrated in the San Francisco Peninsula and includes both new construction and lab conversions, with over 2.8 MSF underway in Q2. The East Bay region accounted for 875K SF of construction and San Francisco County recorded 524K SF.

UNDER CONSTRUCTION



Source: Transwestern, CoStar, Q2 2023.

NOTABLE DEVELOPMENTS

PROPERTY	ADDRESS	CITY	RBA	COMPLETION
KILROY'S OYSTER POINT (PHASE II)	379 Oyster Point Blvd	South San Francisco	865,000	2024
GENESIS - MARINA	3000-3500 Marina Blvd	Brisbane	552,000	2023
BERKELEY COMMONS	600 Addison St & 601 Bancroft St	Berkeley	539,000	2024
SIERRA POINT	9000 Marina Blvd	Brisbane	450,000	2025
SOUTHLINE	50 Tanforan Ave - Bldg 1	South San Francisco	345,000	2025
FORBES RESEARCH CENTER	494 Forbes Blvd	South San Francisco	342,000	2023
GATEWAY COMMONS	651 Gateway Blvd	South San Francisco	325,200	2023
MISSION ROCK	1051 3rd St	San Francisco	314,000	2023
GATEWAY OF PACIFIC	475 Eccles Ave	South San Francisco	306,700	2023
EMERY YARDS	5300 Chiron Way	Emeryville	285,000	2024
THELAB	Multiple	Berkeley	284,000	2024
210 ADRIAN RD	210 Adrian Rd	Millbrae	263,000	2024
ALEXANDRIA CENTER FOR LIFE SCIENCE	30 Rollins Rd	Millbrae	200,000	2025

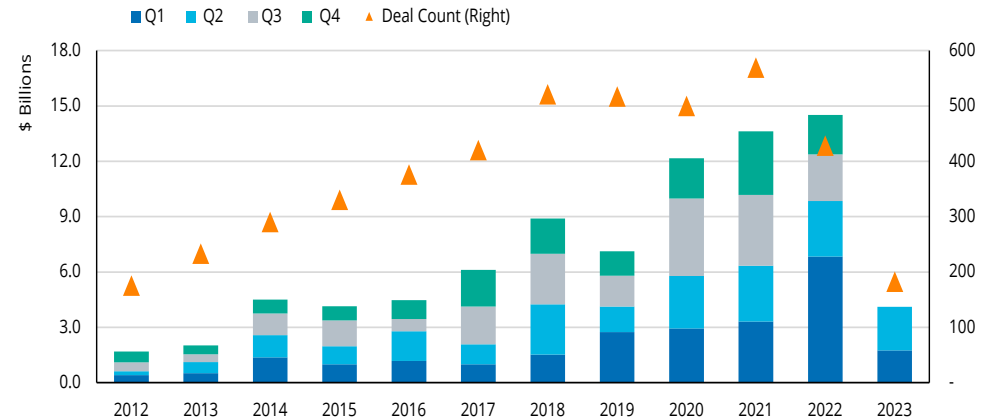
Source: Transwestern, CoStar, Q2 2023.

PRIVATE AND PUBLIC FUNDING

VC Funding Hits \$2.4 Billion in Q2

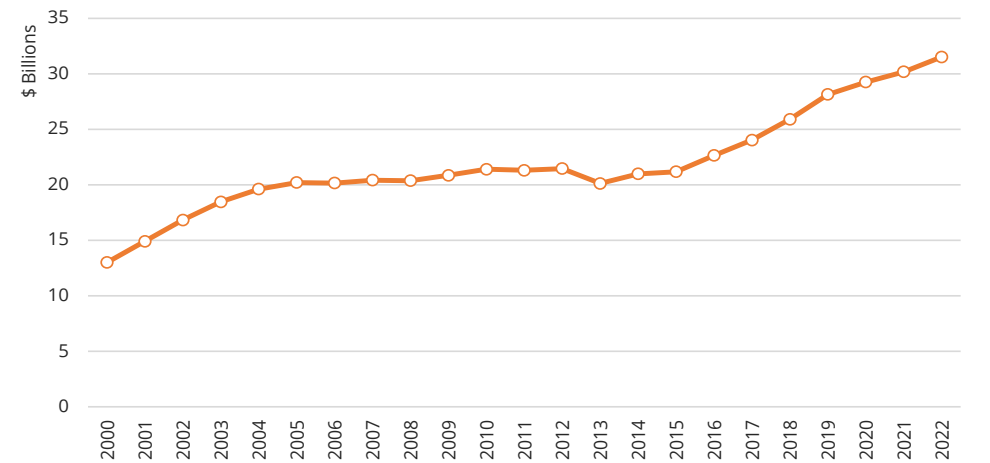
- Venture capital funding to life sciences in the Bay Area reached \$2.4 billion in Q2, a quarterly rise of 35.2% and a return to pre-pandemic levels. Capital flows have tapered off from peak levels as interest rates increased but remain elevated. For the four quarters ending in Q2 2023, the market had nearly \$8.4 billion in capital invested, a 47.5% decline from one year ago and retreating back to 2020 levels.
- In 2022, research grants from the National Institutes of Health (NIH) grew for the eighth year in a row, increasing by 4.5% to \$31.5 billion and was up by 48.8% from 2014 levels. This is critical to the life sciences industry, as the NIH is the largest public funder of biomedical research in the world, contributing substantially to the biomedical knowledge base and economic growth when that foundational research is commercialized by the private sector through investments and partnerships.

VENTURE CAPITAL FUNDING



Source: Transwestern, Pitchbook, Q2 2023.

NATIONAL NIH FUNDING



Source: Transwestern, NIH, Q2 2023.



Q2 MARKET FUNDAMENTALS

SUBMARKET	INVENTORY SF	UNDER CONSTRUCTION SF	NET ABSORPTION SF	NET ABSORPTION SF ANNUAL	AVERAGE VACANCY RATE
SAN FRANCISCO BAY AREA TOTAL	34,102,776	4,219,283	(322,734)	(441,010)	9.1%
EAST BAY	9,197,291	875,044	(50,638)	(82,928)	12.8%
SAN FRANCISCO	1,538,319	523,767	-	(12,031)	6.2%
SAN MATEO	19,913,819	2,820,472	(274,691)	(328,741)	7.8%
SANTA CLARA	2,694,943	0	2,595	(17,310)	8.4%

TOP LEASES

TENANT	ADDRESS	CITY	SF LEASED
LAWRENCE BERKELEY NATIONAL LABORATORY	5885 Hollis St	Emeryville	63,500
IDEAYA BIOSCIENCES	5000 Shoreline Ct	South San Francisco	44,000
VERGE GENOMICS	131 Oyster Point Blvd	South San Francisco	35,000
CARMOT THERAPEUTICS	740 Heinz Ave	Berkeley	29,700
UNKNOWN	1400 & 1470-1480 Industrial Way	Redwood City	23,200

Source: Transwestern, CoStar, Q2 2023.

