TRANSWESTERN

BAY AREA LIFE SCIENCES MARKET

Q3 2023

DEVELOPMENT PIPELINE PUSHES VACANCY UP; VC FUNDING ACTIVE

▲ **15.3%**
VACANCY RATE

▼ **-588K**
NET ABSORPTION

▼ **4.4 MSF**
UNDER CONSTRUCTION

▲ **$5.17/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 demand was sluggish. The market continues to recalibrate as economic uncertainty from higher interest rates and inflation have triggered a slowdown in demand for research and development space across the country.

Net absorption in the Bay Area was negative 587,909 square feet in Q3 following last quarter's 77,446 SF. Slowing demand in the backdrop of high interest rates, as well as near-record development, pushed vacancy up 270 basis points (bps) to end the second quarter at 15.3%. Rent growth was up 2.0% over the quarter to $5.17 PSF (NNN) in the first positive reading in four quarters.

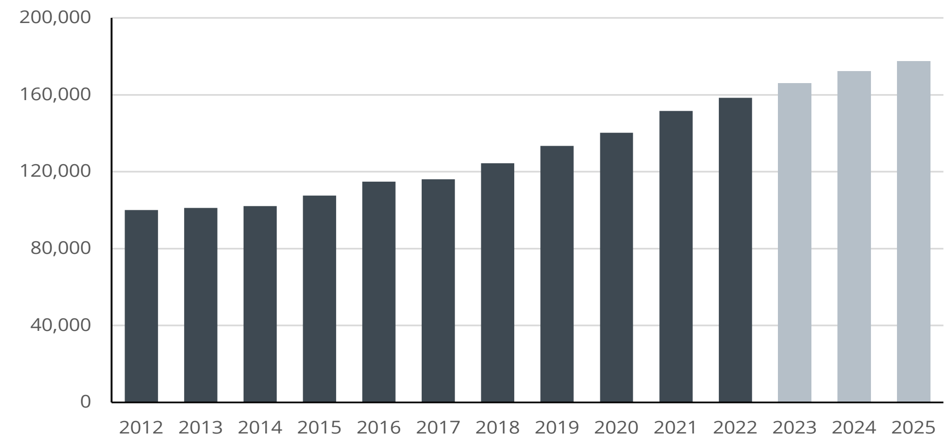
Venture capital funding for life sciences has downshifted from peak levels during the pandemic but still posted $3.8 billion in capital flows in Q3 – in line with pre-pandemic levels. For the year ending in Q3 2023, there was $15.0 billion of capital invested into the sector - comparable to deal activity in 2018 and 2019. The most dynamic sources of demand over the last decade are now focused on profitability, cost reduction and capital preservation.

LIFE SCIENCES WORKFORCE TRENDS

Job Growth Regularly Outpaces National Average

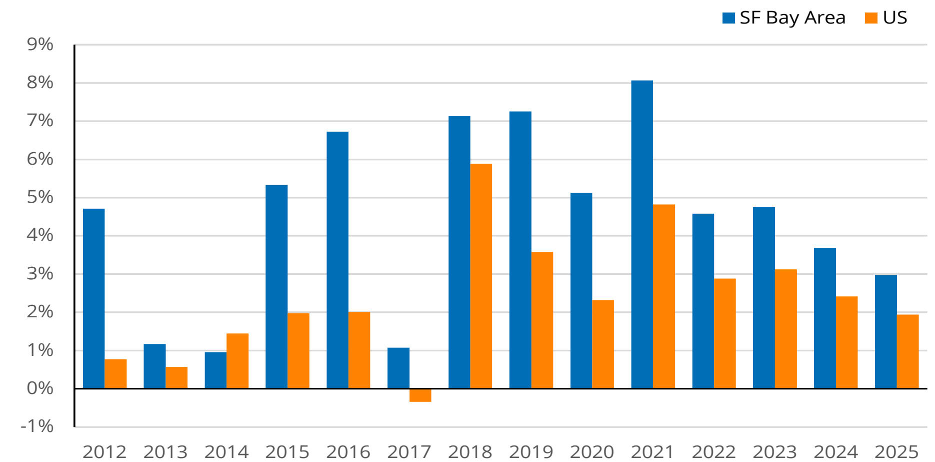
- Academic excellence is crucial to the life sciences sector as an engine for scientific research and innovation. The Bay Area is a leader in education, not only across the U.S., but also across the world. The region ranks as one of the nation's top life science markets due to its proximity to major 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, Q3 2023.

LIFE SCIENCES YOY EMPLOYMENT CHANGE



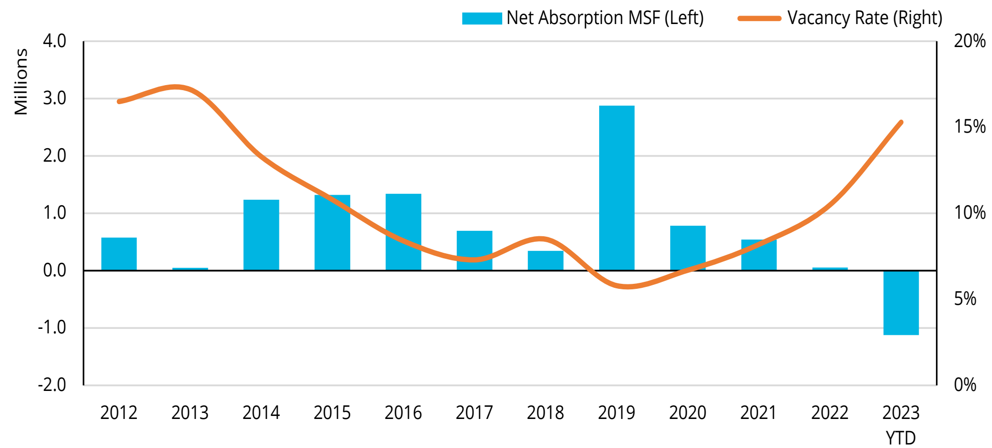
Source: Transwestern, Emsi, Q3 2023.

SUPPLY AND DEMAND FUNDAMENTALS

Vacancy Rises as Supply Saturates Market

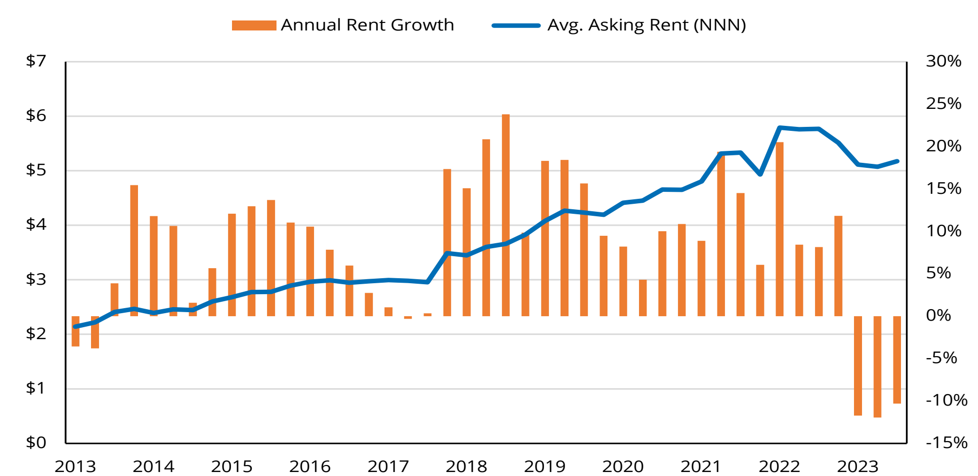
- The vacancy rate for the Bay Area rose from 12.6% in Q2 to 15.3% in Q3 as softening demand for lab space, coupled with a deep development pipeline, pushed vacancy up to pre-pandemic levels.
- As of Q3 2023, the total inventory of life science space in the Bay Area stood at 38.7 MSF, a growth rate of 1.3% from one year ago and 8.1% since the start of the pandemic.
- Rising interest rates and recessionary fears have kept deal volume subdued in Q3. The market ended the quarter with negative 587,909 SF of space absorbed, a decline from 77,446 SF in Q2. For the year ending in Q3 2023, absorption was negative with 1.2 MSF 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 remained negative, falling 10.3% on an annual basis but up 2.0% on a quarterly basis to finish the quarter at $5.17 PSF per month.

NET ABSORPTION AND VACANCY



Source: Transwestern, CoStar, Q3 2023.

AVERAGE RENTS



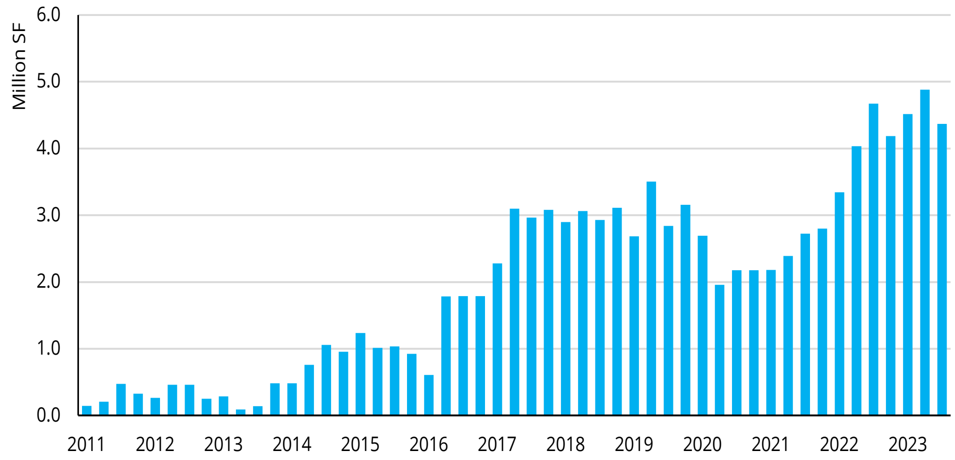
Source: Transwestern, CoStar, Q3 2023.

DEVELOPMENT ACTIVITY

Deep Development Pipeline 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 Q3 2023, there was over 4.3 million SF of space under construction in the Bay Area - a 6.5% decline from one year ago, but one of the highest levels on record.
- Two-thirds of development is concentrated in the San Francisco Peninsula and includes both new construction and lab conversions, with over 3.3 MSF underway in Q3. The East Bay region accounted for 824K SF of construction and San Francisco recorded 213K SF.

UNDER CONSTRUCTION



Source: Transwestern, CoStar, Q3 2023.

PROJECTS UNDER CONSTRUCTION, 250K+ SF

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	2024
BERKELEY COMMONS	600 Addison St & 601 Bancroft St	Berkeley	539,000	2024
THE LANDING	1699-1701 Bayshore Hwy	Burlingame	503,500	2025
ELCO YARDS	Multiple	Redwood City	456,200	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	327,000	2023
GATEWAY OF PACIFIC	475 Eccles Ave	South San Francisco	306,700	2024
EMERY YARDS	5555 Hollis St - Bldg 1	Emeryville	285,000	2024
THELAB	Multiple	Berkeley	284,000	2024
210 ADRIAN RD	210 Adrian Rd	Millbrae	263,000	2024
1350 ADAMS CT	1350 Adams Ct	Menlo Park	255,000	2024

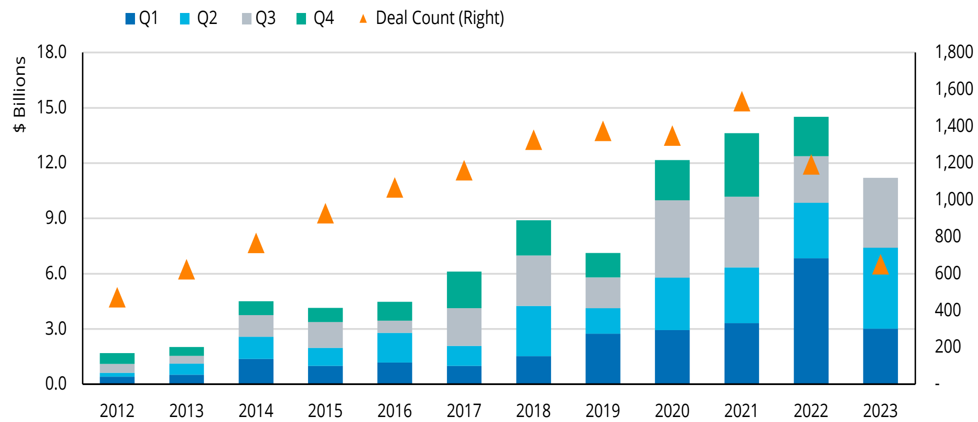
Source: Transwestern, CoStar, Q3 2023.

PRIVATE AND PUBLIC FUNDING

VC Funding Reaches $3.8 Billion in Q3

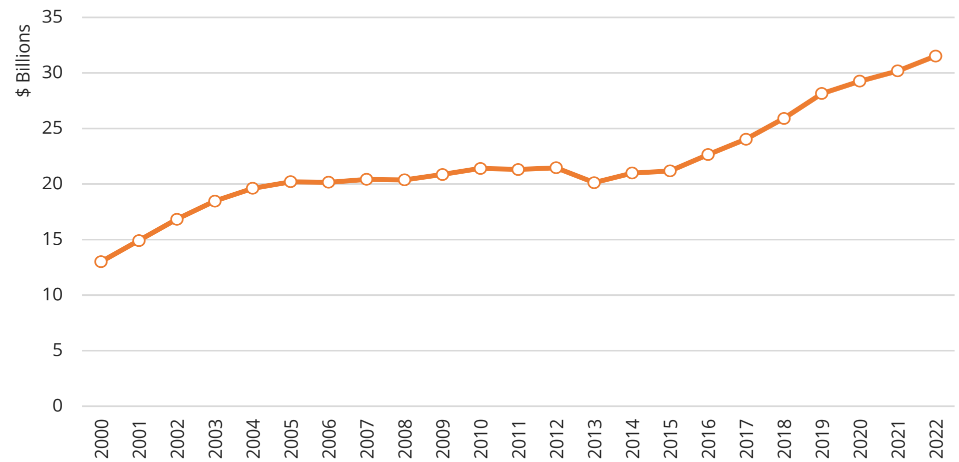
- Venture capital funding to life sciences in the Bay Area reached $3.8 billion in Q3, a quarterly decline of 13.7%. Capital flows have tapered off from peak levels as interest rates remained high. For the four quarters ending in Q3 2023, the market had $15.0 billion in capital invested, a 45.8% fall from one year ago and retreating back to pre-pandemic 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, Q3 2023.

NATIONAL NIH FUNDING



Source: Transwestern, NIH, Q3 2023.

Q3 MARKET FUNDAMENTALS

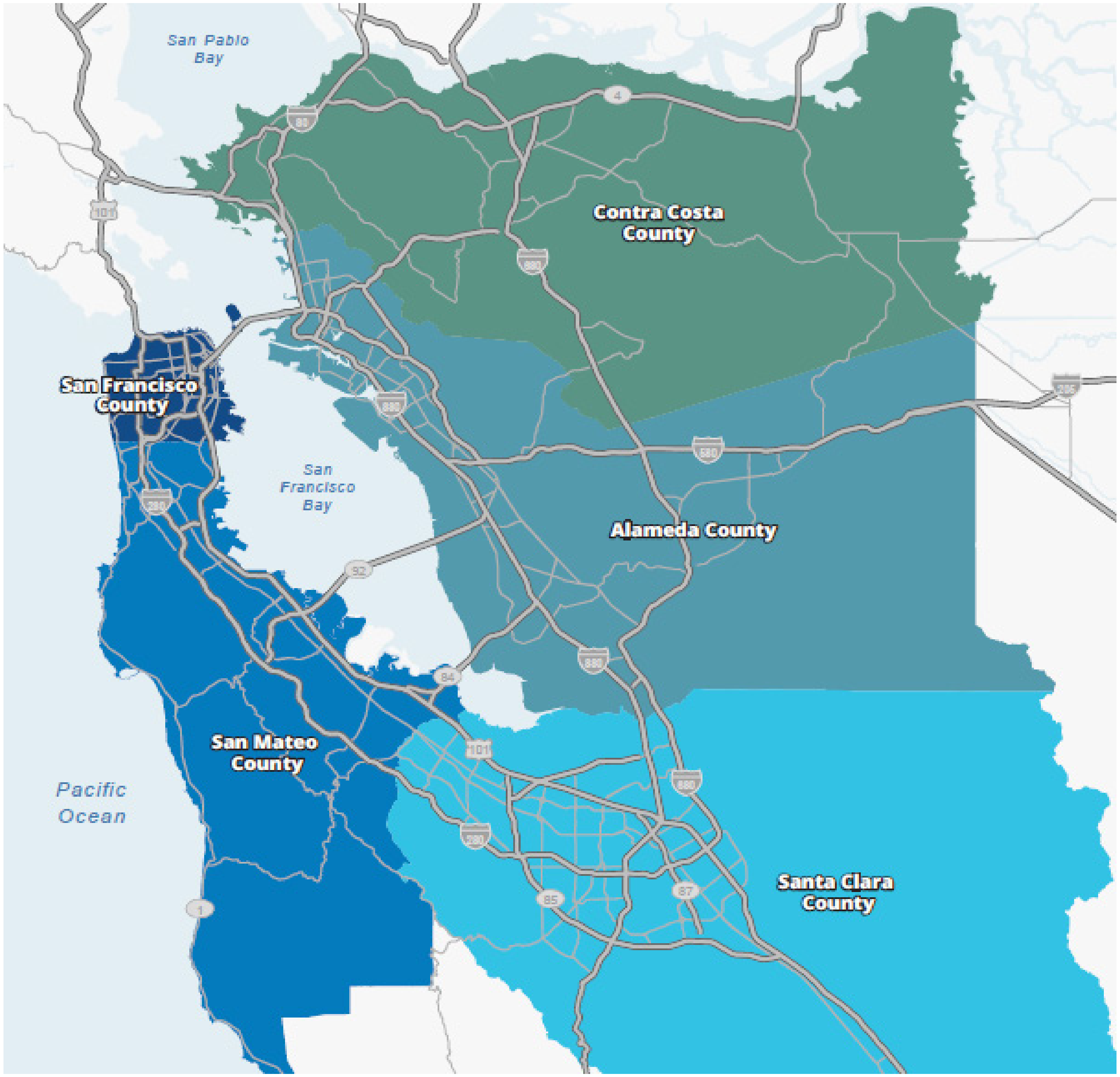
SUBMARKET	INVENTORY SF	UNDER CONSTRUCTION SF	NET ABSORPTION SF	NET ABSORPTION SF ANNUAL	AVERAGE VACANCY RATE
SAN FRANCISCO BAY AREA TOTAL	**38,685,907**	**4,368,358**	**(587,909)**	**(1,209,046)**	**15.3%**
EAST BAY	11,078,704	823,825	211,872	58,748	15.7%
SAN FRANCISCO	2,599,660	212,796	(305,671)	(307,910)	44.5%
SAN MATEO	20,833,343	3,331,737	(393,424)	(598,995)	10.4%
SANTA CLARA	3,415,796	0	(100,686)	(360,889)	19.9%

TOP LEASES

TENANT	ADDRESS	CITY	SF LEASED
PLIANT THERAPEUTICS, INC	331 Oyster Point Blvd	South San Francisco	100,678
BIOMERIEUX	Unknown	Silicon Valley	84,516
IOTA BIOSCIENCES, INC	400 Wind River	Alameda	53,545
CENTRILLION TECHNOLOGIES	2500 Faber Pl	Palo Alto	38,000
VAXCYTE, INC	825 Industrial Rd	San Carlos	36,593

Source: Transwestern, CoStar, Q3 2023.

LIFE SCIENCES SUBREGION MAP



FOR MORE INFORMATION

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