



TRANSWESTERN

# BAY AREA LIFE SCIENCES MARKET

Q4 2023



## POSITIVE ABSORPTION, RENTS GROW AND SLOWING RISE IN VACANCY RATES AS MARKET RECALIBRATES

▲ **15.8%**  
VACANCY RATE

▲ **116K**  
NET ABSORPTION

▼ **4.3 MSF**  
UNDER CONSTRUCTION

▲ **\$6.14/SF**  
RENTS (NNN)

Note: Arrows indicate change from previous quarter.

Following years of unprecedented leasing and development activity, demand for research and development space has waned as high interest rates, weaker company valuations and layoffs have offset some of the gains made. Though absorption was negative 865,620 SF for the year in 2023, Q4 absorption was 115,670 SF, the first positive reading in a year. Near-record levels of development last year pushed up vacancy rates to historic highs, but the latest quarter showed a marginal 10-basis point rise in the vacancy rate to 15.8%. Rents ticked up by 0.8% on a quarterly basis and were up 3.3% year-over-year, ending the quarter at \$6.14 PSF.

Venture capital funding for life sciences has downshifted from peak levels during the pandemic but still posted \$2.3 billion in capital flows in Q4 – in line with pre-pandemic levels. For the year ending in Q4 2023, there was \$8.8 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.

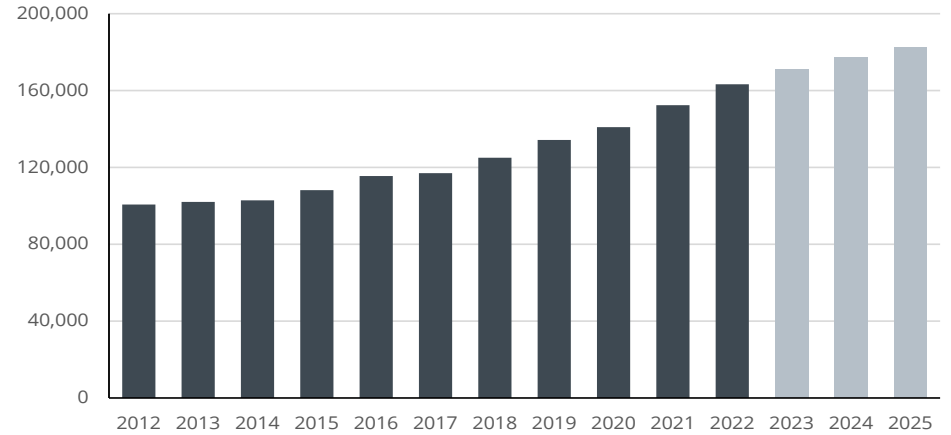


### LIFE SCIENCES WORKFORCE TRENDS

#### Job Growth Regularly Outpaces National Average

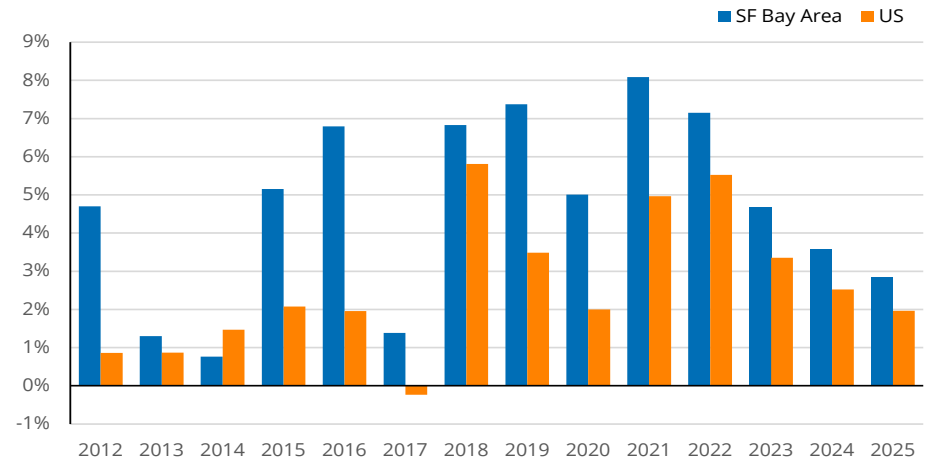
- Academic excellence is crucial to the life sciences sector as an engine for scientific research and innovation. The Bay Area is a leader in education, not only across the U.S., but also across the world. The region ranks as one of the nation’s top life science markets due to its proximity to major research institutions and access to a deep pool of talent, which is critical for growing companies.
- As overall employment growth in the Bay Area softened to 1.0% YOY, the life sciences industry continued to expand at a rate of 4.7% in 2023, reaching 171,000 jobs and surpassing a national rate of 3.4%, despite recent layoffs in biotech.
- While demand for lab space tapers off from the blistering levels during the pandemic, job growth in the sector is expected to accelerate to 3.6% in 2024 (an increase of roughly 6,100 jobs). The Bay Area has historically outpaced the nation in life sciences employment growth.

### BAY AREA LIFE SCIENCES TOTAL EMPLOYMENT



Source: Transwestern, Emsi, Q4 2023.

### LIFE SCIENCES YOY EMPLOYMENT CHANGE



Source: Transwestern, Emsi, Q4 2023.

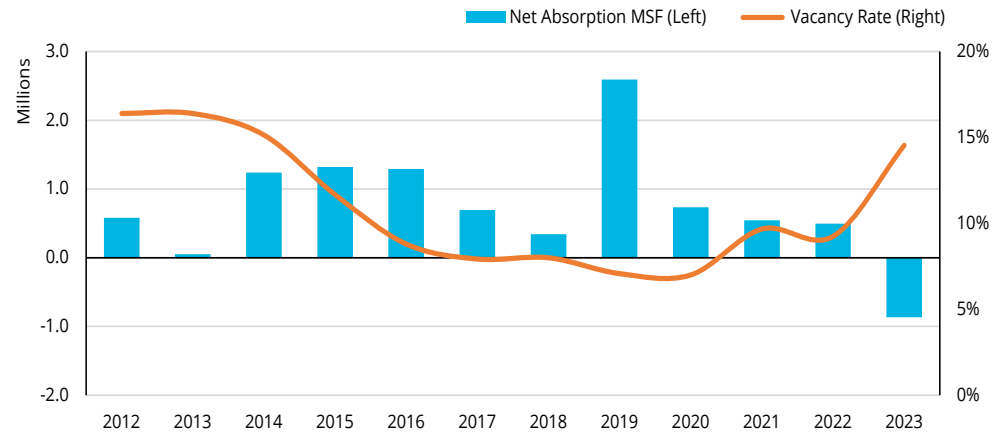


### SUPPLY AND DEMAND FUNDAMENTALS

#### Absorption Positive in Q4 and Rise in Vacancy Slows

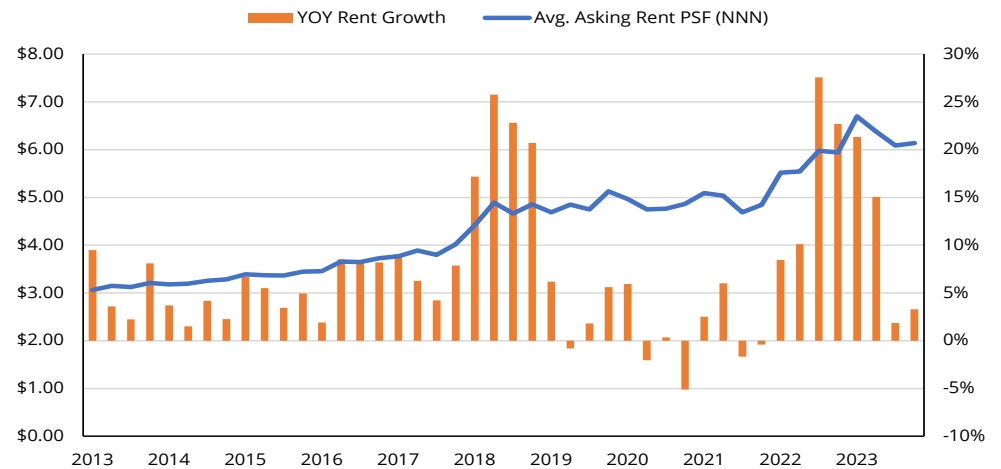
- The vacancy rate for the Bay Area rose from 15.7% in Q3 to 15.8% in Q4 as softening demand for lab space, coupled with a deep development pipeline, pushed vacancy up toward pre-pandemic levels.
- As of Q4 2023, the total inventory of life science space in the Bay Area stood at 39.7 MSF, a growth rate of 3.7% from one year ago and 9.9% since the start of the pandemic.
- High interest rates and recessionary fears have kept leasing activity subdued in 2023 as negative 865,620 SF of space was returned to the market. Absorption in Q4, however, was positive with 115,670 SF of space taken.
- As vacancy rose from both weakened deal activity and new product on the market, average rent growth slowed from the previous several quarters but was still up 0.8% from last quarter and up 3.3% from one year ago, ending the quarter at \$6.14 PSF.

### NET ABSORPTION AND VACANCY



Source: Transwestern, CoStar, Q4 2023.

### AVERAGE RENTS



Source: Transwestern, CoStar, Q4 2023.

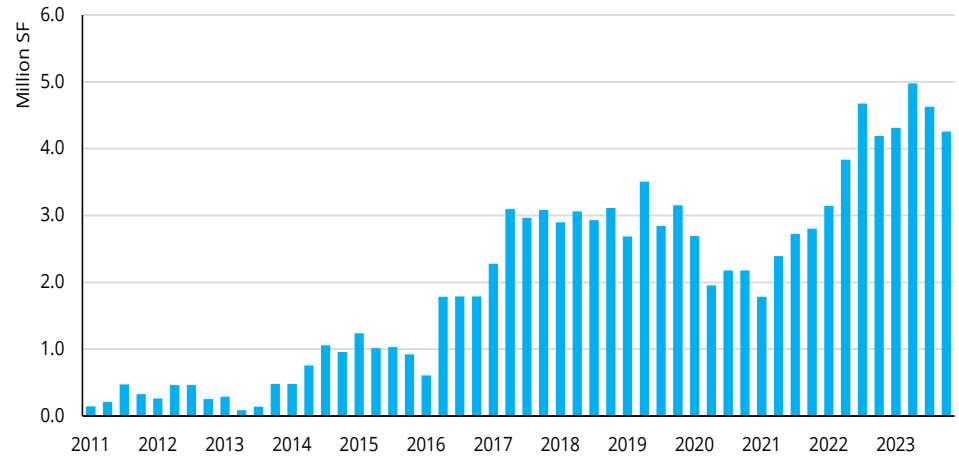


### DEVELOPMENT ACTIVITY

#### 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 Q4 2023, there was 4.3 million SF of space under construction in the Bay Area - a 1.6% 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. The East Bay region accounted for 539,000 SF of construction and San Francisco recorded 213K SF.

### UNDER CONSTRUCTION



Source: Transwestern, CoStar, Q4 2023.

### PROJECTS UNDER CONSTRUCTION, 250K+ SF

PROPERTY	ADDRESS	CITY	RBA	COMPLETION
<b>ELCO YARDS</b>	Multiple	Redwood City	625,600	2025
<b>GENESIS - MARINA</b>	3000-3500 Marina Blvd	Brisbane	552,000	2024
<b>BERKELEY COMMONS</b>	600 Addison St & 601 Bancroft St	Berkeley	539,000	2024
<b>THE LANDING</b>	1699-1701 Bayshore Hwy	Burlingame	503,500	2025
<b>SOUTHLINE</b>	50 Tanforan Ave - Bldg 1	South San Francisco	345,000	2025
<b>GATEWAY COMMONS</b>	651 Gateway Blvd	South San Francisco	327,000	2024
<b>GATEWAY OF PACIFIC</b>	475 Eccles Ave	South San Francisco	306,700	2024
<b>EMERY YARDS</b>	5555 Hollis St - Bldg 1	Emeryville	285,000	2024
<b>210 ADRIAN RD</b>	210 Adrian Rd	Millbrae	315,000	2024
<b>1350 ADAMS CT</b>	1350 Adams Ct	Menlo Park	255,000	2024

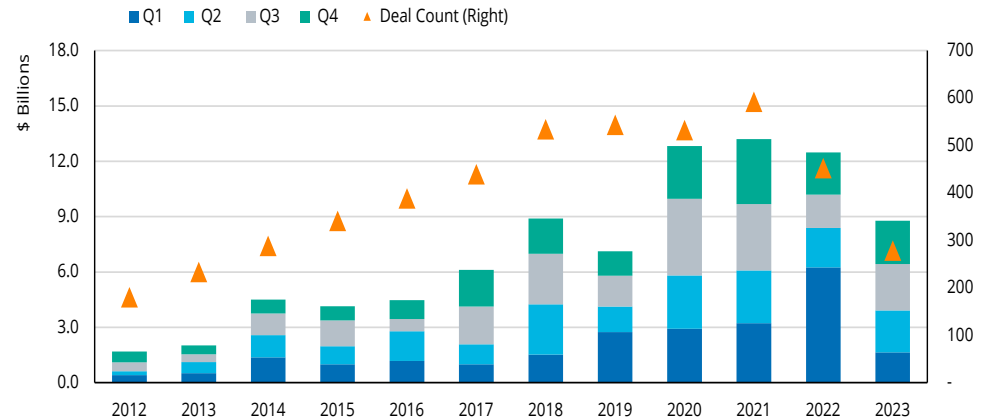
Source: Transwestern, CoStar, Q4 2023.

## PRIVATE AND PUBLIC FUNDING

### VC Funding Reaches \$2.3 Billion in Q4

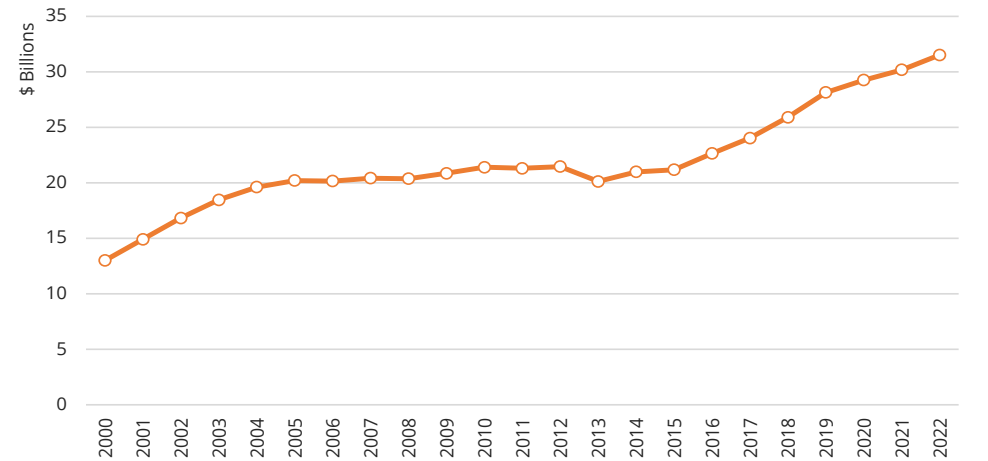
- Venture capital funding to life sciences in the Bay Area reached \$2.3 billion in Q4, a quarterly decline of 7.2%, but up 42.6% YOY. Capital flows have tapered off from peak levels as interest rates remained high. For the four quarters ending in Q4 2023, the market had \$8.8 billion in capital invested, a 29.7% 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, Q4 2023.

## NATIONAL NIH FUNDING



Source: Transwestern, NIH, Q4 2023.



### Q4 MARKET FUNDAMENTALS

SUBMARKET	INVENTORY SF	UNDER CONSTRUCTION SF	NET ABSORPTION SF	NET ABSORPTION SF ANNUAL	AVERAGE VACANCY RATE
<b>SAN FRANCISCO BAY AREA TOTAL</b>	<b>39,671,434</b>	<b>4,255,782</b>	<b>466,290</b>	<b>(539,844)</b>	<b>15.8%</b>
<b>EAST BAY</b>	11,365,983	538,825	24,090	272,916	14.1%
<b>SAN FRANCISCO</b>	2,599,660	212,796	147,668	143,455	38.8%
<b>SAN MATEO</b>	21,519,911	3,504,161	281,396	(688,447)	12.1%
<b>SANTA CLARA</b>	3,422,996	0	13,136	(267,768)	19.4%

### TOP LEASES

TENANT	ADDRESS	CITY	SF LEASED
<b>CARGO THERAPEUTICS</b>	835 Industrial Rd	San Carlos	99,557
<b>CYMABAY THERAPEUTICS</b>	7601 Dumbarton Cir	Fremont	52,416
<b>GRAPHITE BIO</b>	233 E Grand Ave	South San Francisco	21,113
<b>SOLEIL LABS</b>	233 E Grand Ave	South San Francisco	32,113
<b>ASTELLAS PHARMA</b>	496 Forbes Blvd	South San Francisco	31,333

Source: Transwestern, CoStar, Q4 2023.

