RESEARCH **1Q 2020**

Newmark Knight Frank

NORTH PENINSULA INDUSTRIAL MARKET

COVID-19 BRINGS CHANGES TO COMMERCIAL REAL ESTATE

The North Peninsula R&D market ended the first quarter of 2020 with an overall vacancy of 6.5%, down from 6.8% in the previous quarter. The market's average asking rate is currently $4.36/SF NNN, down from $4.52/SF in the prior quarter. The R&D leasing market waned this quarter, recording 480,665 square feet of gross absorption, compared with 963,791 square feet in the previous quarter. The North Peninsula industrial market closed the quarter with an overall vacancy of 4.7%, up from 4.3% in the previous quarter. The North Peninsula recorded a seventh consecutive quarter of negative absorption, closing at 133,589 square feet. Overall rental rates decreased this quarter to $1.61/SF NNN, down from $1.65/SF in the previous quarter but up from $1.58/SF one year ago. As the COVID-19 pandemic increases its presence throughout the Bay Area, landlords and tenants have lingering concerns on both the short- and long-term ramifications on the markets.

SHORT-AND LONG-TERM EFFECTS OF COVID-19 ON INDUSTRIAL AND R&D

For the past five years, the North Peninsula industrial market has recorded elevated rents and a constrained supply of inventory as ecommerce has driven demand higher for distribution and warehouse facilities. With nearly 8 million people residing in the Bay Area as of 2019 and many of them forced to work from home due to the shelter-in-place order, ecommerce has become an essential way of life. Gross absorption fell to 402,407 square feet this quarter, the second-lowest quarterly amount since third-quarter 2013. The decrease in deal velocity may reflect the effects of the coronavirus-fueled economy that is causing tenants difficulty when touring prospective sites, which in turn is hindering any current plans for corporate expansion or relocation. Industrial leasing and sale activity in the next quarter could indicate demand for the second half of 2020 as retail stores are forced to close and consumers continue to rely heavily on ecommerce for their goods, increasing the need for distribution and warehouse space. Expect industrial to rebound in the second half of 2020 as the lingering effects of the pandemic fade and the manufacturing of goods are more than likely to remain within the country's borders. Despite the potential for elevated demand for industrial space, no construction projects are planned for the North Peninsula at this time.

The COVID-19 pandemic that's affecting the industrial market is having less of an impact on R&D simply because demand for lab space and biotech space is already historically high. In the midst of increasing coronavirus cases and possible future mutations, biotech companies

CURRENT CONDITIONS

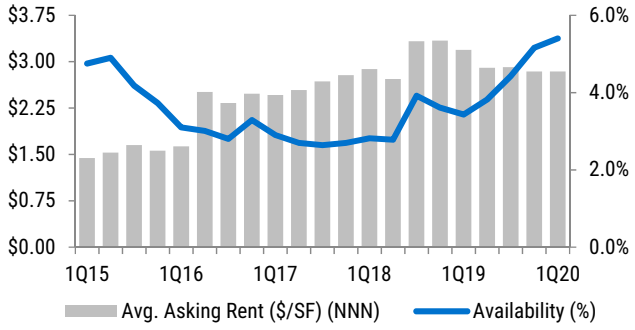
Asset managers and tenants are holding steady, anticipating a possible recession provoked by the COVID-19 pandemic.

Net absorption for the R&D market was recorded at 257,383 square feet. Industrial was recorded at negative 133,589 SF.

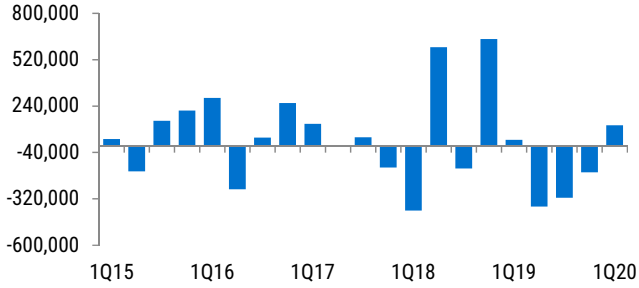
Three industrial transactions greater than 20,000 square feet executed this quarter compared to four in the previous. There were three R&D transactions ,compared with eight in the previous.

MARKET ANALYSIS

Asking Rent (NNN) and Availability



Net Absorption (SF)



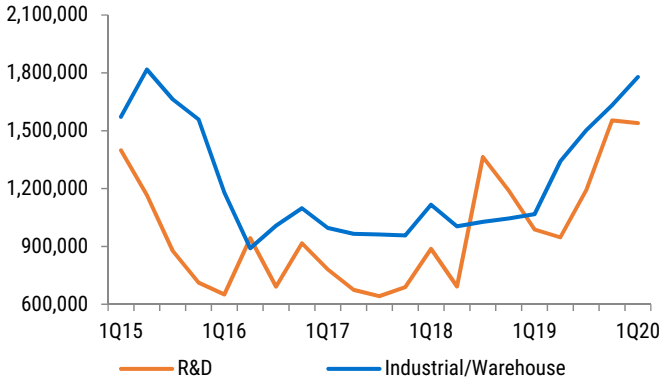
MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	61.7M SF	61.6M SF	59.9M SF	↑
Total Availability Rate	5.4%	5.2%	3.4%	↑
Quarterly Net Absorption	124K SF	-159K SF	36K SF	↑
Total NNN Asking Rent	$2.84/SF	$2.84/SF	$2.70/SF	↑
Under Construction	3.4M SF	3.1M SF	2.3M SF	↑
Deliveries	0 SF	0 SF	211k SF	↑

such as Gilead Sciences and Amgen are taking it upon themselves to conduct tests for potential treatments to combat the spread, making them an indispensable resource. Numerous lab facilities on the Peninsula maintain regularly scheduled work hours for their employees and remain open for business with protective measures in place. The North Peninsula R&D construction pipeline currently holds 3.1 million square feet of R&D space awaiting completion, with 916,623 square feet expected to be delivered next quarter. In many submarkets throughout the Peninsula, new space continues to be pre-leased before completion by venture-capital-backed companies looking to accommodate their space requirements. Companies that are not directly involved in the coronavirus research movement over the next few months may face challenges and be forced to delay plans for corporate expansion and instead shift their focus to pursuing short-term renewals. Delivery dates for future construction projects will undoubtedly be delayed due to lack of staffing and social distancing.

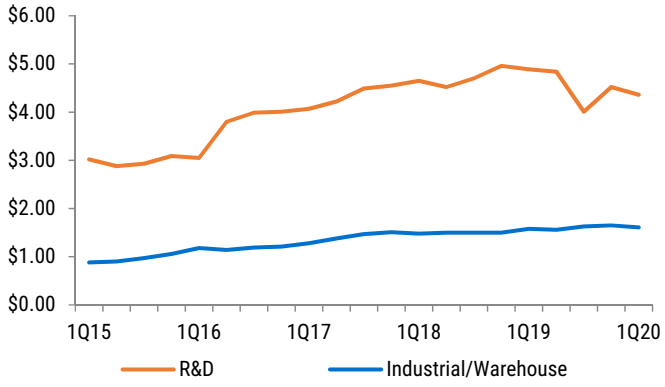
TOTAL AVAILABILITY BREAKDOWN

Square Feet, Millions



AVERAGE ASKING RENTS

Weighted, NNN, Monthly



SELECT LEASE TRANSACTIONS

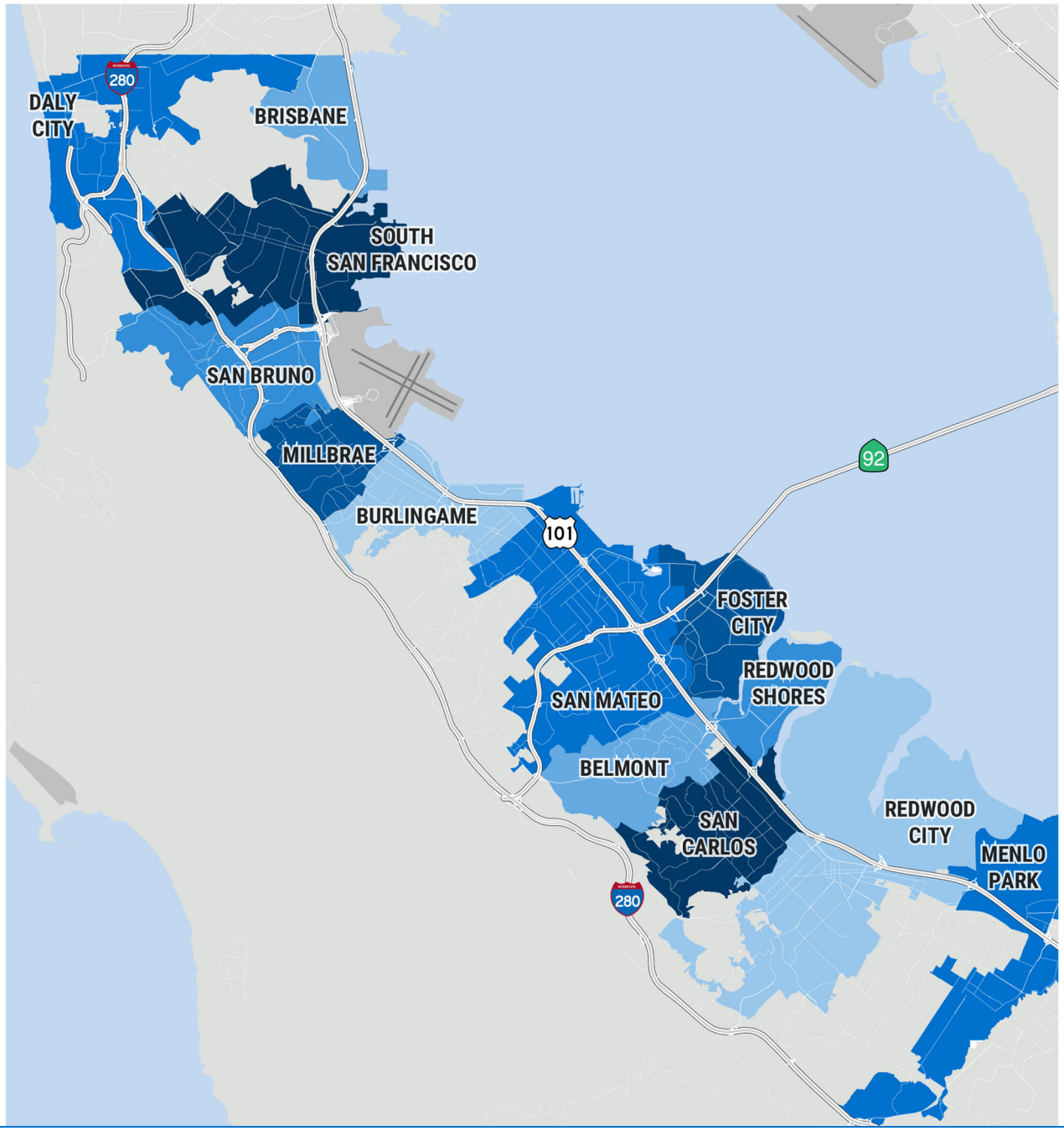
Tenant	Building(s)	Submarket	Type	Square Feet
Janssen BioPharma Inc.	The Shore at Sierra Point, Bldgs B & C	Brisbane	Direct Lease	182,000
SmartLabs Inc.	Genesis SSF	South San Francisco	Direct Lease	78,831
Nippon Express	550 Eccles Ave	South San Francisco	Direct Lease	45,362
Glydways	415 E Grand Ave	South San Francisco	Direct Lease	24,522
NeuCyte Inc.	1561 Industrial Rd	San Carlos	Renewal/Expansion	19,957

SELECT SALE TRANSACTIONS

Building(s)	Submarket	Sale Price	$/RSF	Square Feet
30 Ingold Rd	Burlingame	$35,000,000	$538	65,000
319, 315, 325 S Maple Ave	South San Francisco	$23,000,000	$252	91,266
888 Hinckley Rd	Burlingame	$15,810,000	$439	36,000
425-439 Littlefield Ave	South San Francisco	$11,900,000	$363	32,800
4000 Campbell Ave	Menlo Park	$10,500,000	$462	22,750

OVERALL SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Availability (SF)	Total Availability Rate	Qtr Gross Absorption (SF)	Qtr Net Absorption (SF)	YTD Net Absorption (SF)	Total NNN Asking Rent (Price/SF)
North Peninsula R&D	**23,577,792**	**3,421,287**	**1,539,648**	**6.53%**	**512,165**	**257,383**	**257,383**	**$4.36**
Belmont	289,294	0	7,500	2.59%	0	0	0	$2.00
Brisbane	962,350	510,877	293,887	30.54%	186,049	159,657	159,657	$3.95
Burlingame	520,055	0	36,212	6.96%	0	-25,558	-25,558	$2.75
Foster City	1,875,776	0	0	0.00%	0	0	0	-
Menlo Park	3,534,409	0	84,727	2.40%	16,477	12,253	12,253	$3.80
Redwood City	2,186,991	0	86,729	3.97%	24,591	0	0	$3.78
Redwood Shores	1,119,677	0	265,634	26.60%	91,869	91,869	91,869	$3.96
San Carlos	1,586,974	560,000	128,374	8.09%	43,553	-35,316	-35,316	$2.64
San Mateo	0	0	0	0.00%	0	0	0	-
South San Francisco	11,623,460	2,350,410	636,585	5.48%	149,626	54,478	54,478	$5.34
North Peninsula IND/WHS	**38,174,707**	**0**	**1,778,797**	**4.66%**	**429,157**	**-133,583**	**-133,583**	**$1.61**
Belmont	1,466,114	0	6,230	0.42%	0	-3,500	-3,500	$1.91
Brisbane	4,297,616	0	226,903	5.28%	10,000	-32,142	-32,142	$1.49
Burlingame	4,529,696	0	322,374	7.12%	150,341	-127,255	-127,255	$1.56
Daly City	1,099,777	0	58,311	5.30%	0	-52,311	-52,311	$1.45
Foster City	437,632	0	0	0.00%	0	0	0	-
Menlo Park	1,910,012	0	15,200	0.80%	0	0	0	$2.95
Millbrae	171,372	0	0	0.00%	0	0	0	-
Redwood City	3,729,183	0	123,013	3.25%	18,969	-52,630	-52,630	$1.92
San Bruno	560,956	0	0	0.00%	0	0	0	-
San Carlos	3,729,183	0	44,941	1.21%	53,373	46,903	46,903	$2.01
San Mateo	1,150,000	0	51,426	4.47%	2,930	-3,975	-3,975	$2.08
South San Francisco	15,042,733	0	930,399	6.19%	193,484	91,321	91,321	$1.50
NORTH PENINSULA TOTAL	**61,752,499**	**3,421,287**	**3,318,445**	**5.37%**	**941,322**	**123,800**	**123,800**	**$2.84**



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