



Bay Area Life Science Report

2023

**AVISON
YOUNG**

Market Overview



The Bay Area Life Science Market

Amidst the growing global life science industry, Bay Area's life science hubs stand out—from the innovation-rich Peninsula to the vibrant East Bay, the entrepreneurial spirit of Silicon Valley, and the scientific tapestry of San Francisco.

The **Peninsula**, situated between San Francisco and Silicon Valley, is a nexus of innovation in the life science sector. Cities like South San Francisco, often referred to as the "Birthplace of Biotechnology," host a concentration of biotech companies and research facilities. The region benefits from its proximity to major airports, leading universities, and a network of industry leaders, making it a strategic location for life science research, development, and collaboration.

The **East Bay** life science market encompasses clusters in Berkeley, Emeryville, Pleasanton, Alameda, Richmond, and Hayward. Major players pharmaceutical manufacturers and a mosaic of startups contribute to innovation and growth, while UC Berkeley serves as a talent powerhouse. Challenges include space limitations and housing shortages, yet the region's waterfront settings, collaborative communities, and strategic locations contribute to its attractiveness for research, development, and industry collaboration. East Bay plays a vital role in the broader Bay Area's global prominence in the life science landscape.

Silicon Valley plays a significant role in the Bay Area's life science sector, boasting a convergence of technology and biopharmaceutical innovation. Renowned for its entrepreneurial spirit, Silicon Valley hosts a multitude of life science startups and established companies working at the intersection of technology and healthcare. The region's access to venture capital, cutting-edge research facilities, and a collaborative ecosystem contribute to its status as a crucial player in life sciences.

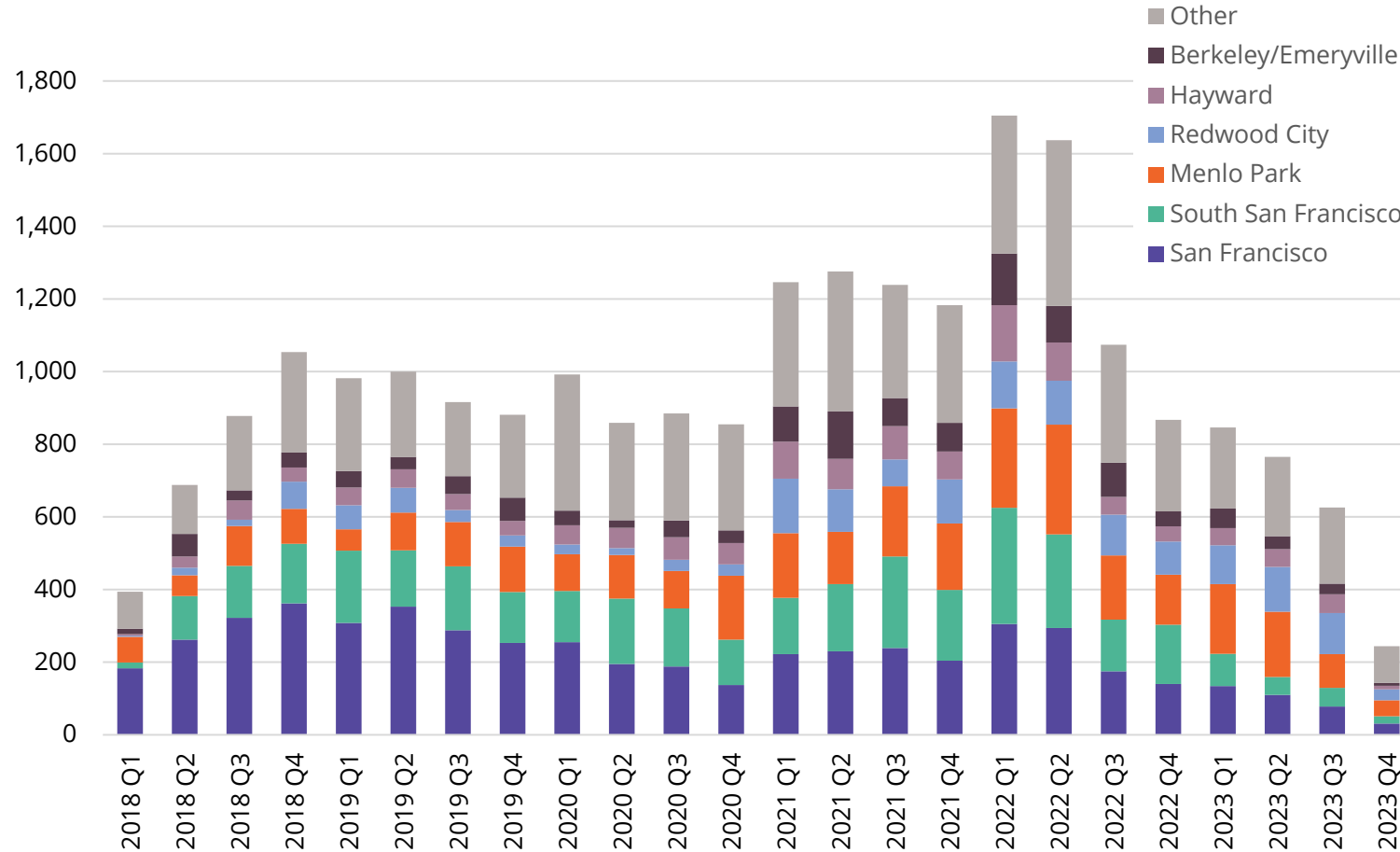
San Francisco stands as a major hub for life science advancements, housing a diverse range of biotech, pharmaceutical, and medical research companies. The city's proximity to leading research institutions, such as UCSF, fosters a rich environment for scientific collaboration. San Francisco is home to numerous biotech startups and established firms, contributing to the city's vibrant life science ecosystem.

Collectively, these areas form a comprehensive and interconnected network within the broader Bay Area, each contributing to the region's prominence in the global life science landscape.



Employment

Job Postings for Biotechnology R&D Companies in California



Source: EMSI

Life science hiring has slowed down.

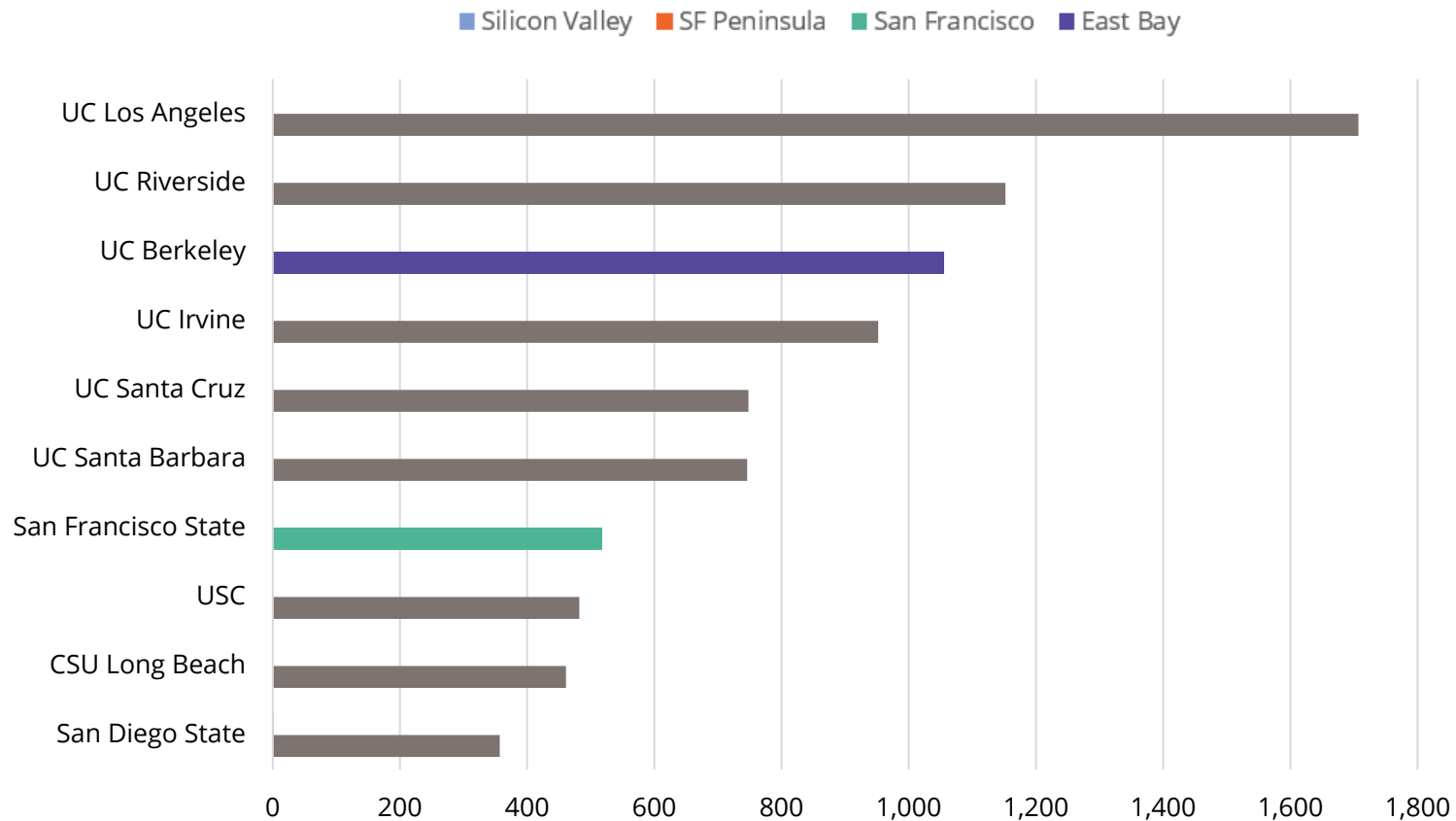
Amidst declining funding and waning investor enthusiasm, numerous life science companies are scaling back their hiring initiatives. The challenges posed by distracted and risk-averse investors have led to a slowdown in the recruitment efforts of these companies.

The life science hiring surge that characterized the early half of 2022 has sharply decelerated, reaching a standstill by 2023. The downturn is particularly pronounced in Q4 of 2023, marking the steepest decline, with hiring levels barely surpassing a third of what was observed in Q3 of the same year.

Education

Top California Universities For Biological & Biomedical Studies

2021-2022, Degrees awarded for Bachelor's, Master's, and Doctorates

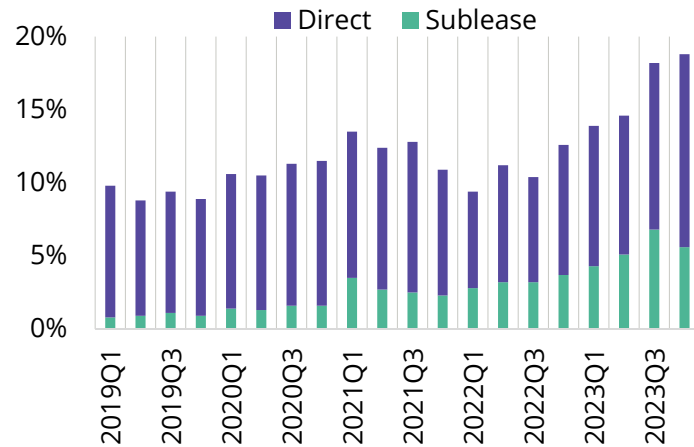


The Bay Area is in no shortage of educated talent.

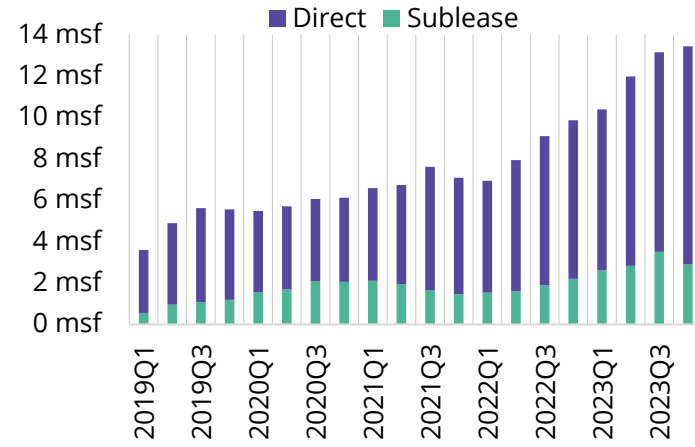
UC Berkeley and San Francisco State University stand prominently among the top ten colleges in California for the highest number of graduates in Biological & Biomedical studies. Serving as vital contributors, these institutes remain the lifeblood of the life science industry across the Bay Area. Their substantial output of skilled professionals plays a pivotal role in shaping the region's distinctive identity as a hub for innovation and sustained growth in the field of life sciences.

Bay Area Market Stats

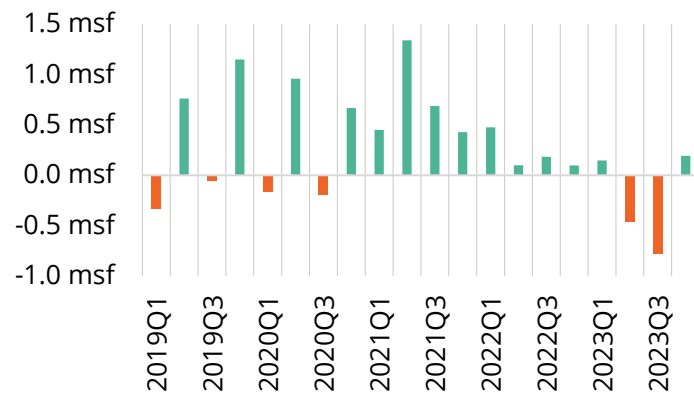
Vacancy



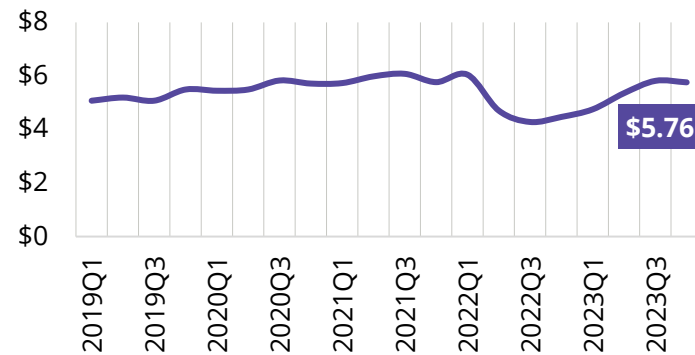
Availability



Absorption



Pricing (Direct NNN)



The life science market has slowed down.

As we transition from the COVID-19 pandemic to a period marked by higher interest rates and economic uncertainty, the fervor that once propelled the life science market has subsided. Initially buoyed by the urgent search for treatments, vaccines, and diagnostics, this industry experienced a surge, amplified by low interest rates and heightened risk appetite among investors during the pandemic—a perfect storm for life sciences.

In response, developers swiftly delivered cutting-edge life science developments and repurposed underperforming office spaces. However, the current scenario reflects a stark shift, catching many developers off guard. Leasing activity has decelerated, primarily due to dwindling funding for life science companies, posing a risk of short-term oversupply in the Bay Area life science market. The looming challenge is navigating a market that is grappling with an influx of space set to arrive in the coming years.







Bay Area Market Stats

	Inventory			Availability			Vacancy		Net Absorption		Leasing Activity		Asking Rent
	Existing inventory	Deliveries	Under development	Direct	Sublet	Total	2022	2023	2022	2023	2022	2023	Direct NNN/month
SF Peninsula	22,382,942	1,073,897	5,413,497	7,134,408	1,296,322	8,430,730	8.7%	18.3%	1,014,648	-1,175,635	1,815,119	994,714	\$7.19
East Bay	13,435,941	575,984	1,456,825	2,829,418	854,439	3,683,857	14.4%	18.7%	-32,259	-85,574	648,146	349,750	\$4.18
Silicon Valley	3,531,175	0	0	328,137	143,034	471,171	18.3	11.7%	147,084	263,395	101,647	441,100	\$3.28
San Francisco	2,715,859	462,748	212,796	1,117,138	662,129	1,779,267	33.6%	50.7%	-310,453	-157,613	64,653	10,604	-
Bay Area Total	42,065,917	2,112,629	7,083,118	11,409,101	2,955,924	14,365,025	11.6%	19.4%	819,020	-1,155,427	2,629,645	1,796,168	\$5.76

Subleases

Many life science companies experiencing financial struggles amidst decreasing funding have decided to sublease their life science space. Subleases now make up 3 million square feet and 30% of total vacancies. Companies on a budget will find unique opportunities for bargain pre-furnished and move-in ready space.

Major Sublease Availabilities in the Bay Area

Sublessor	Location	Available Square Feet	Floors	Term
 FibroGen	409 Illinois St, San Francisco	235,000	1-6	Nov 2028
 RESILIENCE BIOTECHNOLOGIES INC	800 Corporate Way, Fremont	152,995	1	May 2030
 NEKTAR [®]	455 Mission Bay Blvd South, San Francisco	131,223	1-5	Negotiable
 illumina [®]	500 Lincoln Centre Dr, Foster City	110,000	1, 3-4	Negotiable
 Sangamo THERAPEUTICS	7000 Marina Blvd, Brisbane	103,089	1-5	Negotiable
 Theravance Biopharma 	901 Gateway Blvd, South San Francisco	78,070	1-3	Negotiable

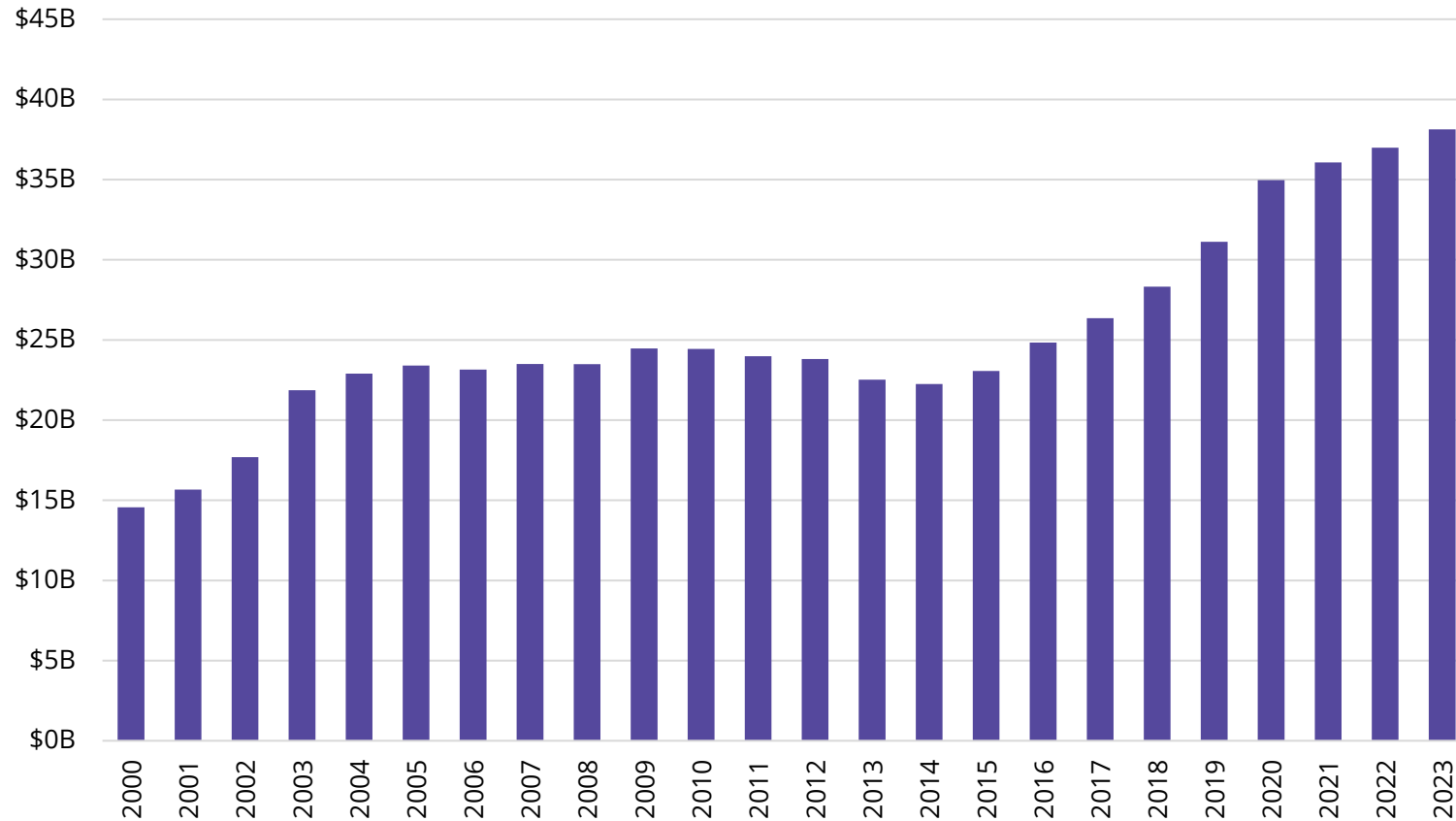
Source: AVANT by Avison Young, CoStar

Investments and Funding



NIH Funding

NIH Funds Awarded Annually

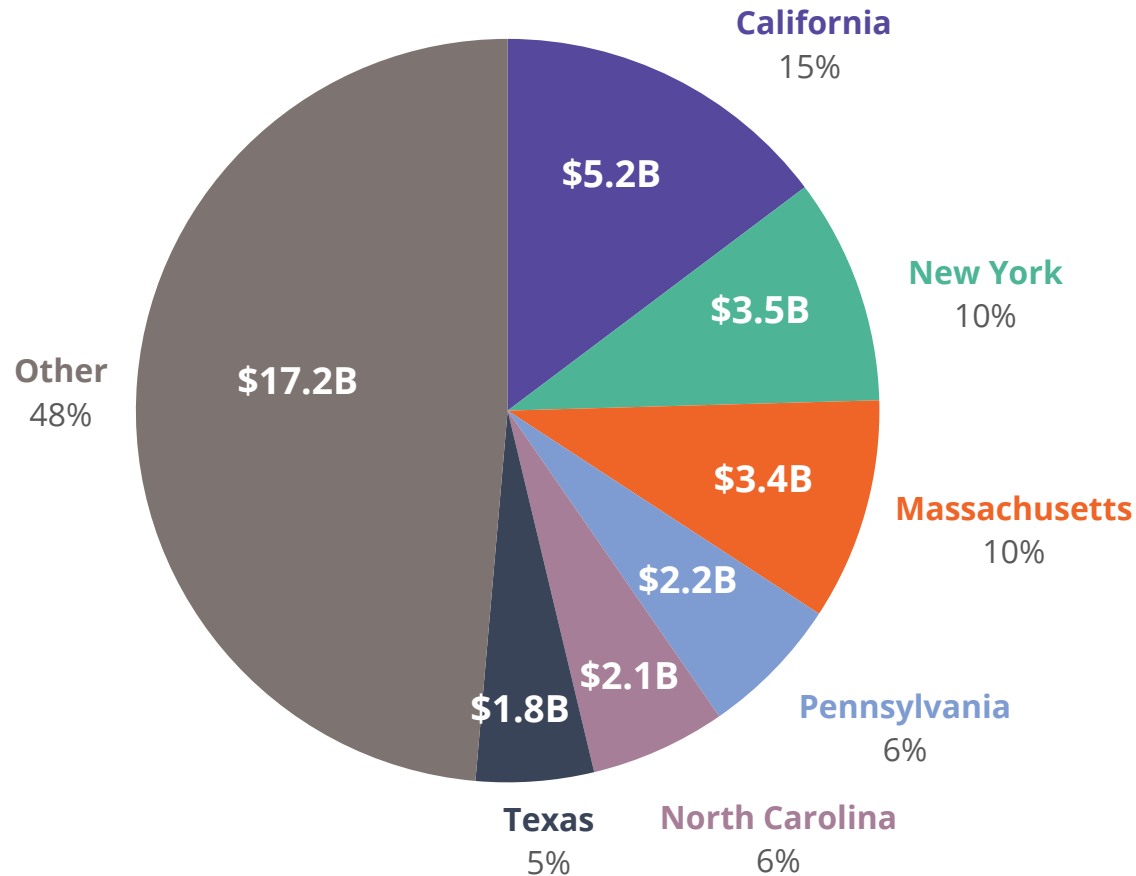


Total funding provided by the NIH has nearly doubled in the last decade.

The National Institutes of Health (NIH) serves as a crucial funding source for biomedical and health-related research, influencing the landscape of life science real estate. Its support reaches across a spectrum of organizations, spanning for-profit companies, government agencies, and educational institutions. Through various avenues like grants, contracts, and training programs, the NIH channels funding into entities within the life sciences sector. This financial backing is instrumental in fostering research aimed at developing medicines and discovering cures for a diverse array of illnesses and disabilities.

NIH Funding

NIH Awards by State for Fiscal Year 2023



California ranks #1 in total NIH funding received.

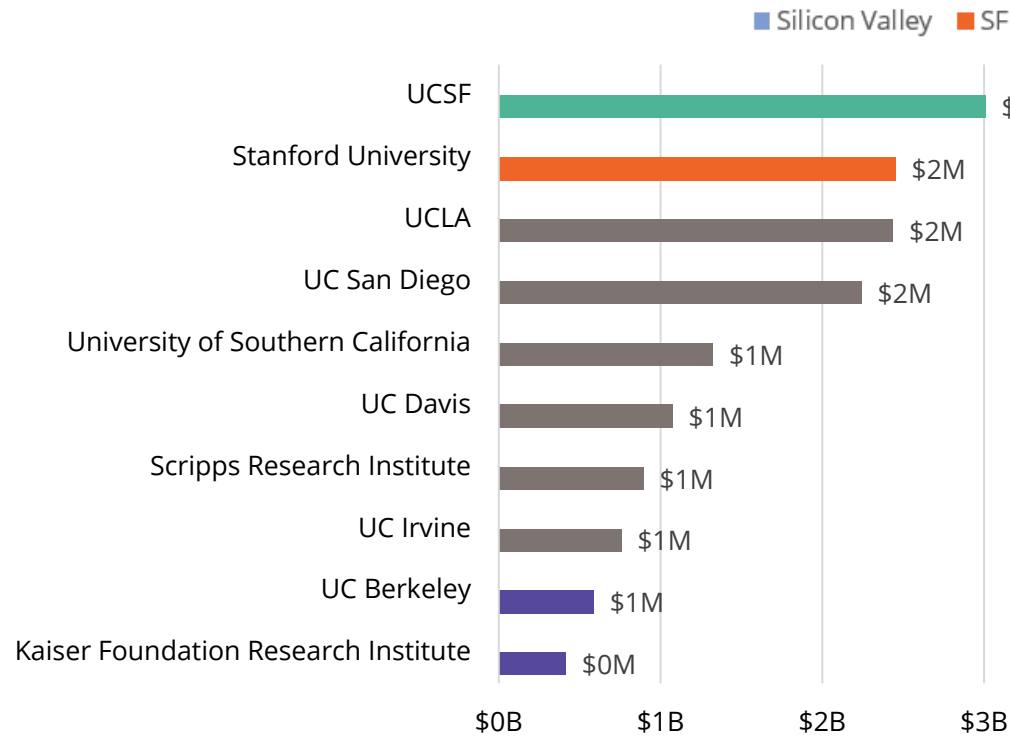
Given its status as a burgeoning hub for the life sciences industry and education, it comes as no surprise that California stands out by receiving the largest share of National Institutes of Health (NIH) funding among all states in the U.S. The significance of California's contribution underscores its leading role in driving advancements and innovations in biomedical and health-related research.

Moreover, the concentration of NIH funding is noteworthy, as the top six states collectively account for more than half of the total funding provided by the NIH. This distribution reflects the strategic allocation of resources to regions with prominent life sciences ecosystems, emphasizing the pivotal role these states play in shaping the landscape of biomedical research and development.

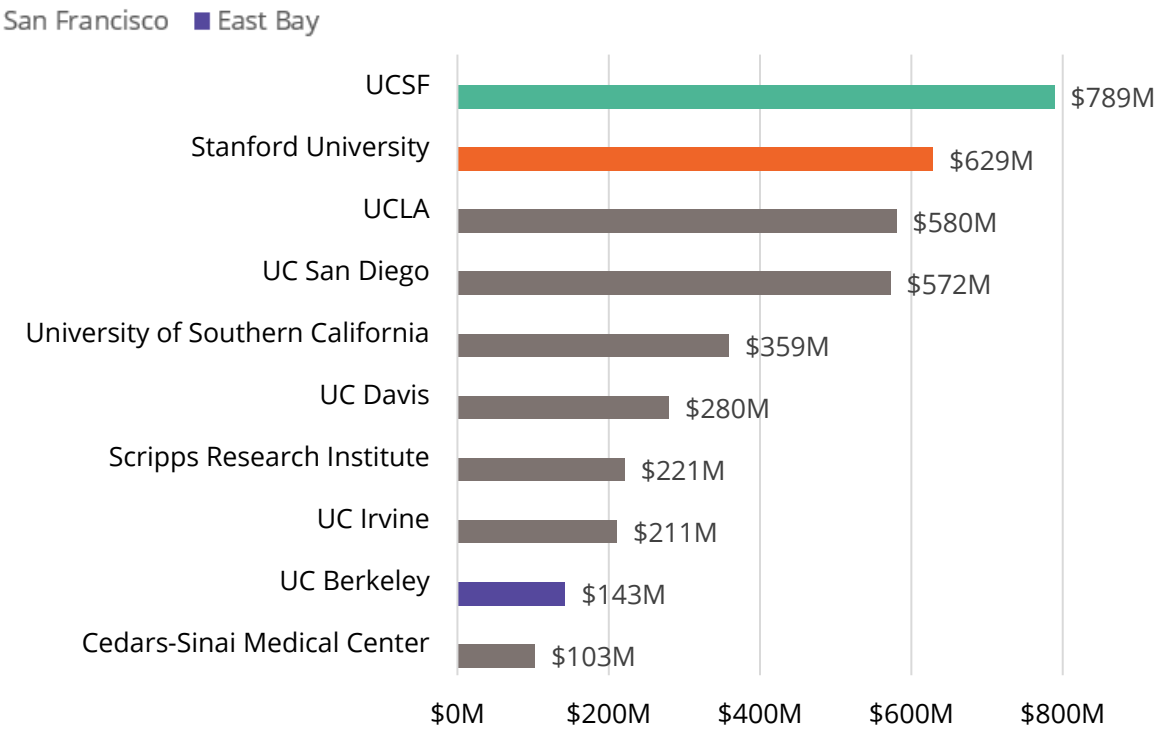
Top NIH Funded Organizations in California

In 2023, the two highest recipients of National Institutes of Health (NIH) funding in California are both situated in the Bay Area. The University of California, San Francisco, and Stanford University collectively garnered an impressive total of \$1.5 billion in NIH funding in 2023, and nearly \$5.5 billion in the last three years.

Top NIH Funded Organizations Since 2020



Top NIH Funded Organizations in 2023

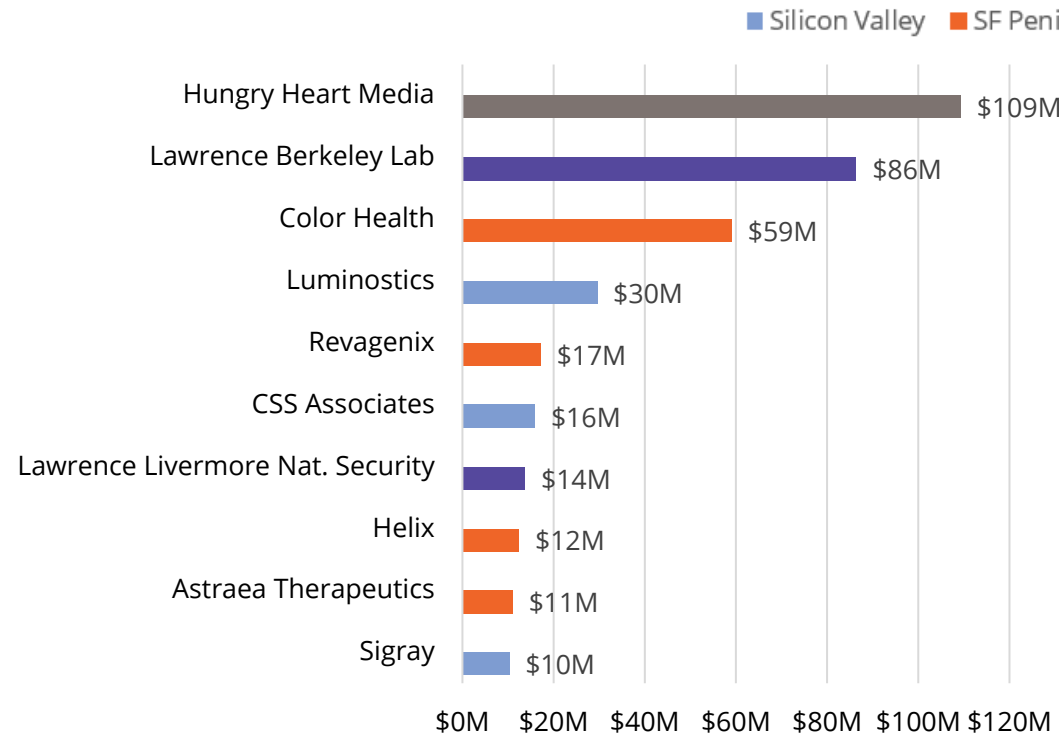


NIH Funding is dated by fiscal year.
Source: National Institute of Health

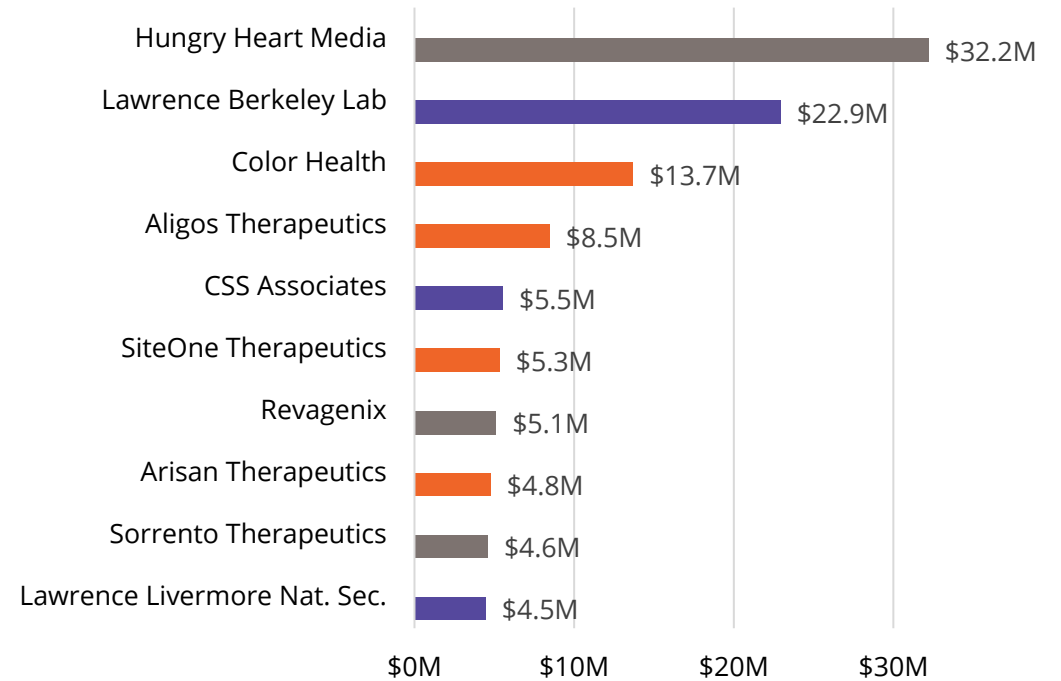
Top NIH Funded For-Profit Organizations in California

In 2023, seven of the top ten for-profit organizations funded by the NIH were in the Bay Area. Over the past three years, nine out of the top ten have been based in this region.

Top NIH Funded For-Profits Since 2020



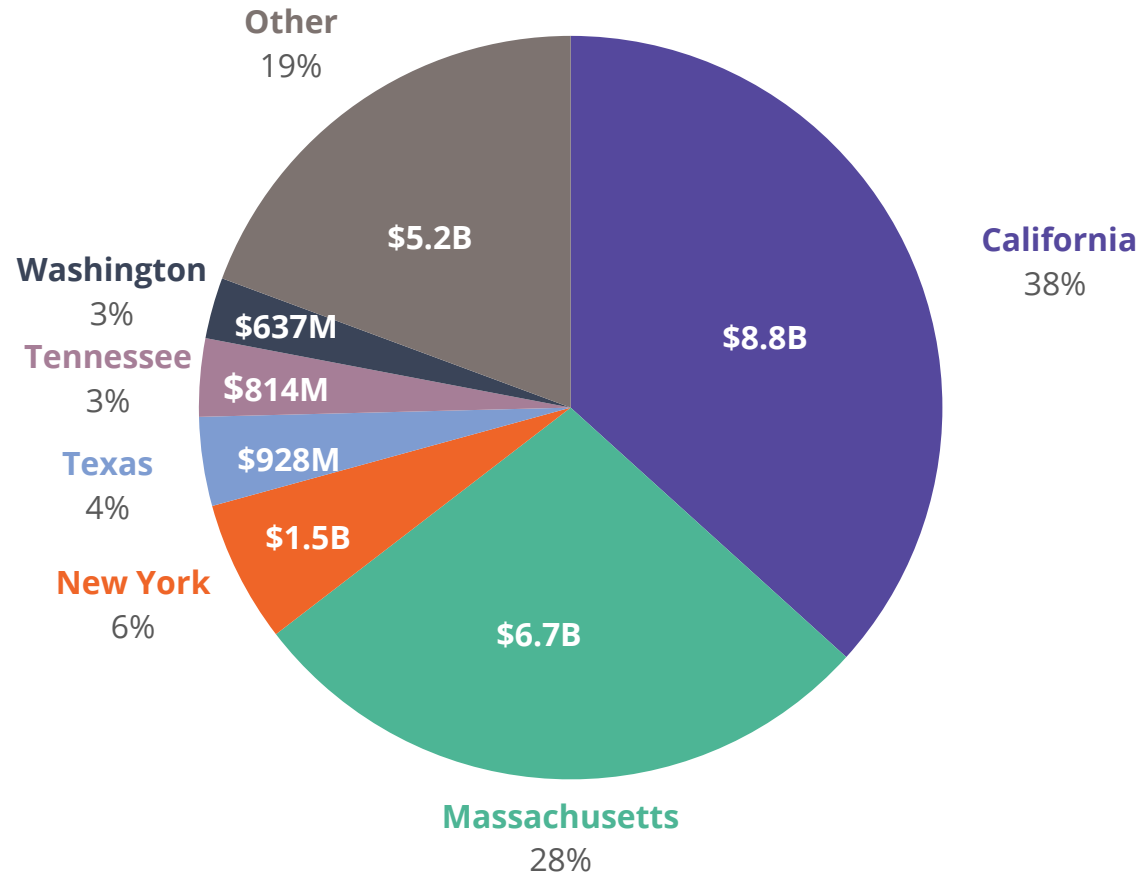
Top NIH Funded For-Profits in 2023



NIH Funding is dated by fiscal year.
Source: National Institute of Health

Venture Capital Funding

VC Funding by State for 2023



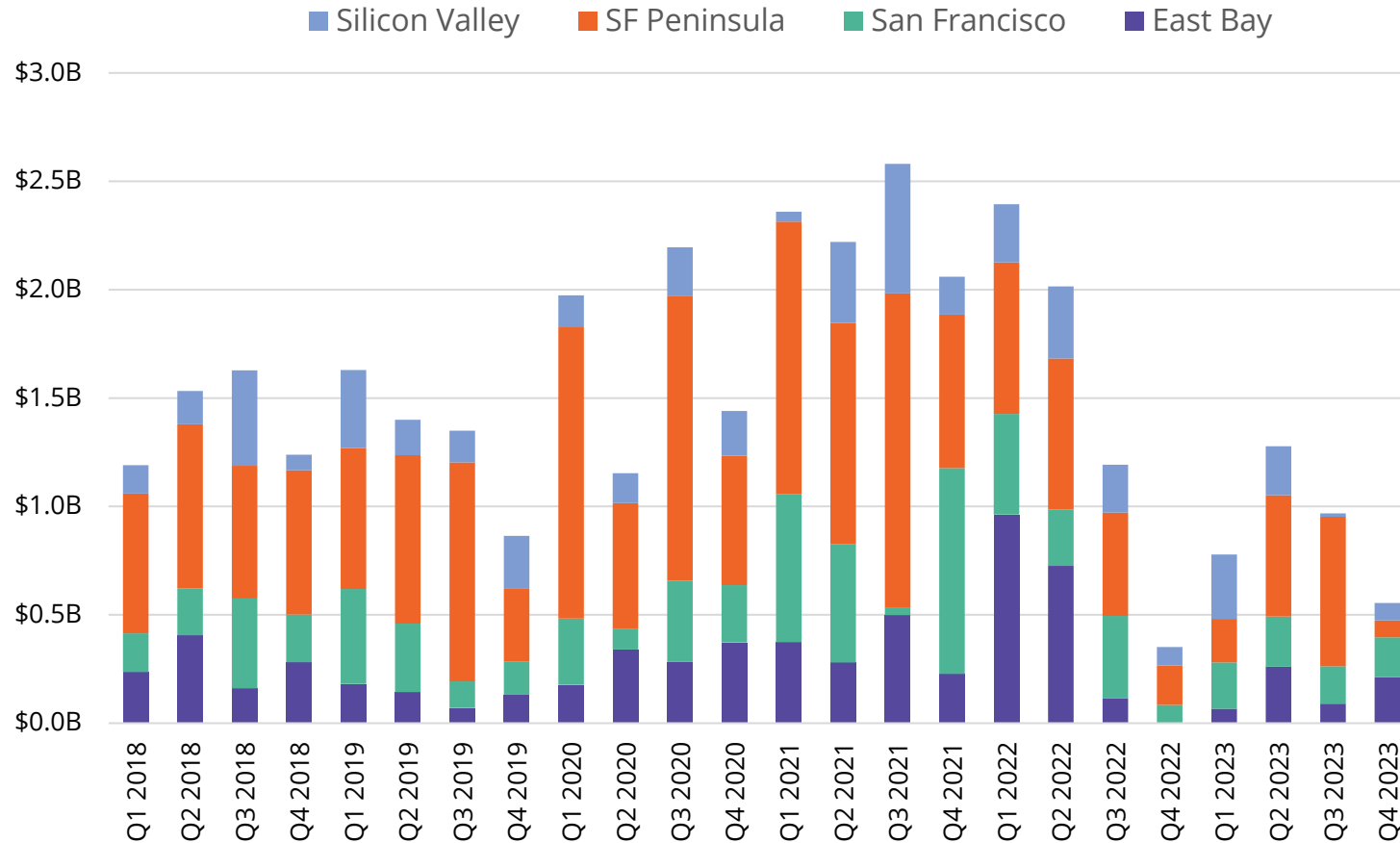
California ranks #1 in life science venture capitalist funding in 2023.

The life science industry has traditionally attracted risk-taking investors seeking opportunities in companies involved in the development of new drugs, diagnostics, and medical technologies. This sector, particularly biopharmaceuticals, is characterized as a high-risk, high-reward venture due to the lengthy and costly research process, coupled with the significant possibility of FDA rejection or the absence of an effective product.

Despite the inherent uncertainties, life science venture capitalism plays a pivotal role in propelling innovation and advancements in healthcare. It provides essential funding for promising startups, allowing them to navigate the complex research and development phases.

Bay Area Venture Capital Funding

Funding for Biotechnology Research and Development



Source: Crunchbase

Venture capitalist interest in life sciences have fallen in recent quarters.

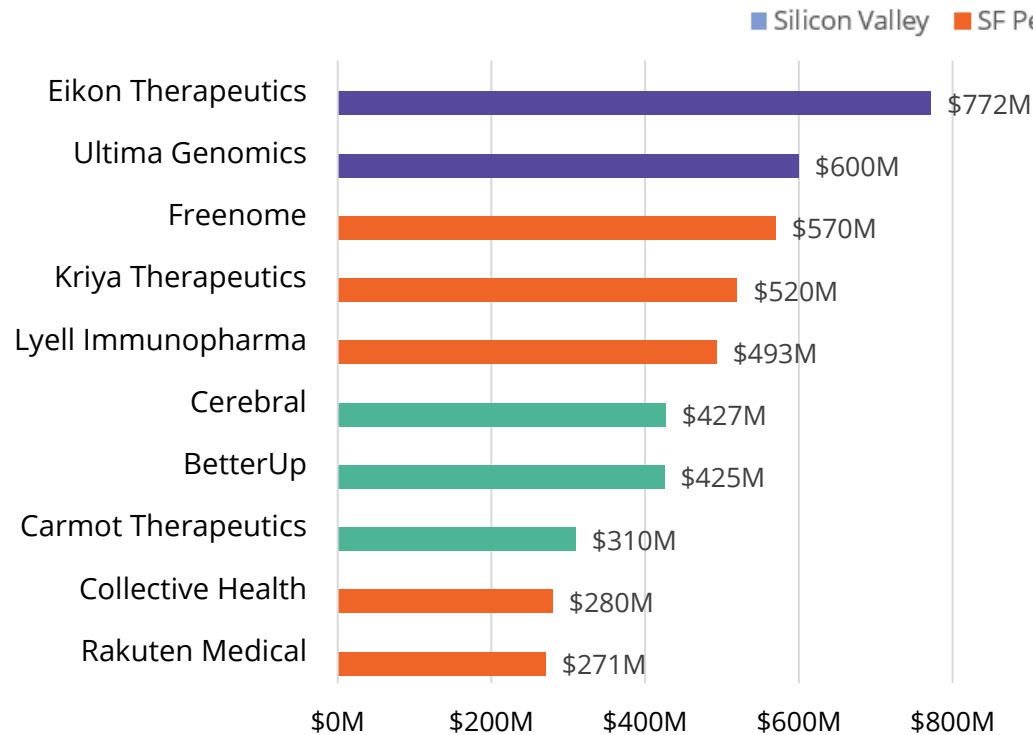
The COVID-19 pandemic triggered an intense pursuit for cures, vaccines, and treatments, casting a halo effect over the entire life science industry. This fervor, coupled with historically low interest rates driving investors toward unprecedented risk-taking, set the stage for a potential bubble in the life science market.

However, as we transition out of the pandemic into an era of elevated interest rates amid economic uncertainty, investors have adopted a more cautious, risk-off approach. The appetite for high-risk investments, particularly in biopharmaceuticals, has notably diminished, leading to a significant decline in venture capitalist funding in this sector. This shift underscores the dynamic and responsive nature of the life science market, influenced by broader economic conditions and investor sentiment.

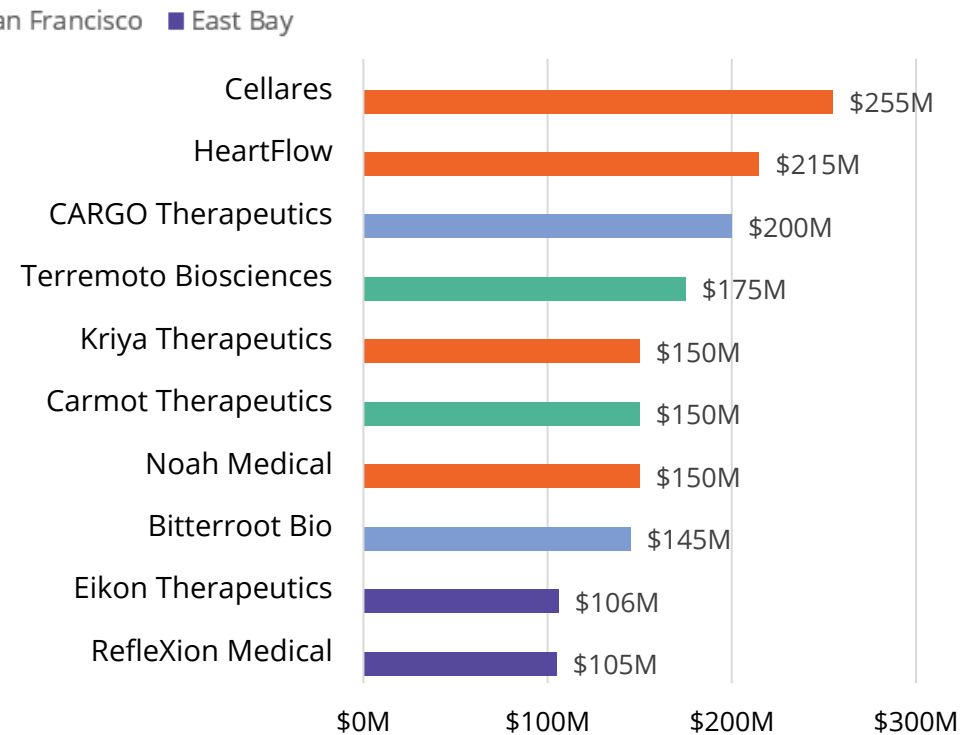
Top VC Funded Bay Area Companies

In recent times, there has been a notable shift in life science venture capitalist funding, moving away from the East Bay and gravitating towards the Peninsula and Silicon Valley.

Top VC Funded Companies Since 2020

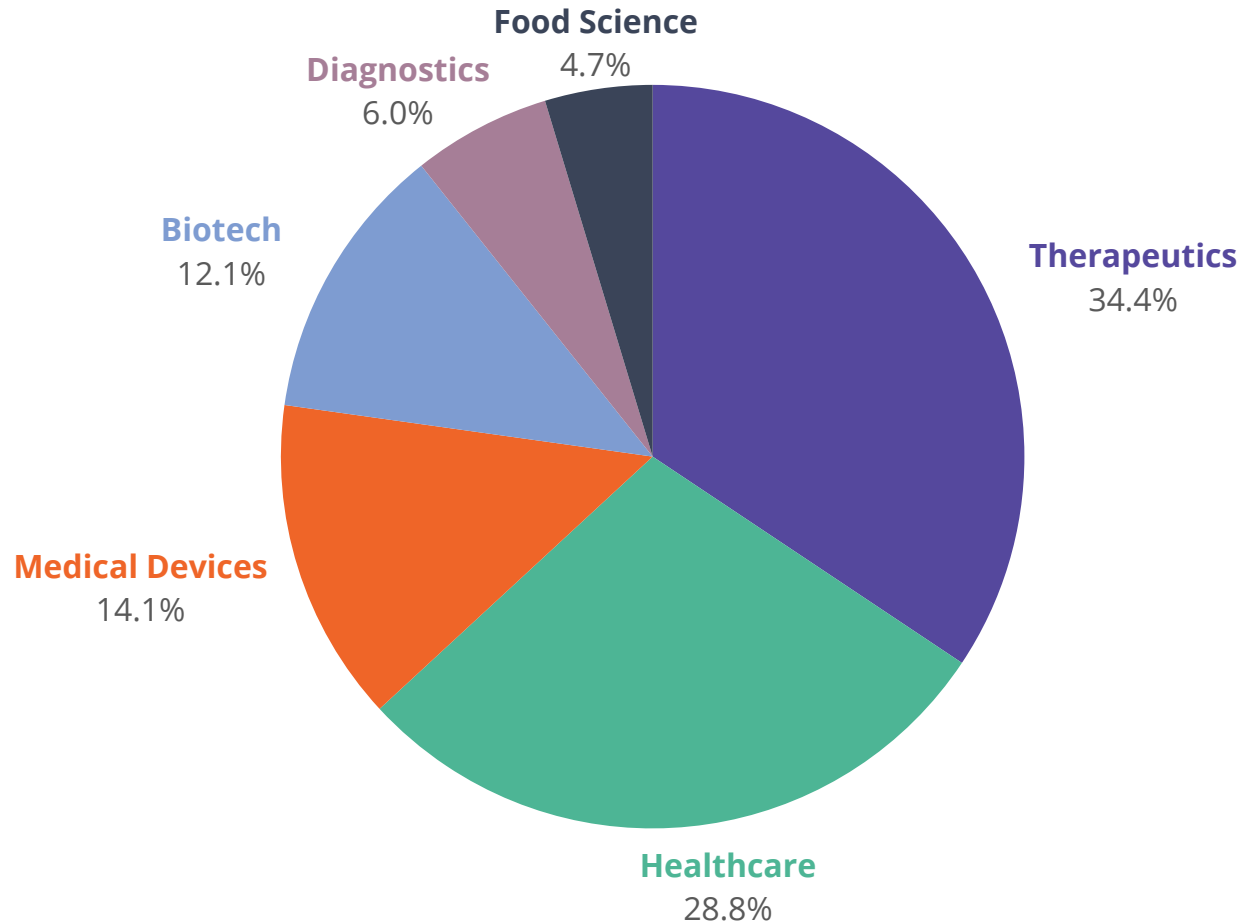


Top VC Funded Companies in 2023



Top VC Funded Life Science Sectors

Funding by Category in 2023



Therapeutics and healthcare companies received most of the funding in 2023.

During the COVID-19 pandemic, governments swiftly responded by providing funding and expediting regulatory processes for companies developing vaccines, antivirals, and other COVID-19 treatments. This crisis also spurred a widespread societal shift towards prioritizing health and wellness.

Consequently, the pandemic significantly influenced funding priorities, and its residual effects continue to shape investment decisions in the years to follow.

Notably, in 2023, companies focused on developing therapeutics and other healthcare products received over 60% of the total funding.

Looking Ahead



Under Construction

Developers seized the opportunity presented by the life science boom during the pandemic, initiating substantial state-of-the-art constructions to capitalize on the heightened demand for life science facilities.

Major Constructions in the Bay Area

Location	Developer	Total Square Feet	Current Availability	Description	Delivery Date
Bayer Campus Expansion 800 Dwight Way, Berkeley	Bayer Healthcare	918,000	0%	The project will demolish nine buildings on Bayer's existing campus to create twelve new buildings for office lab and production.	Q4 2025
Kilroy Oyster Point Phase 2 - Building D, E, F 384 Oyster Point Blvd, South San Francisco	Kilroy Realty Corporation	865,000	100%	Three 7 to 8-story buildings as part of Phase 2 of Oyster Point. Phase 3 is proposed to add another 1 million sf to the Oyster Point project.	Q2 2024
Southline Phase 1 - Building 1 & 7 50 Tanforan	Lane Partners	670,000	100%	Two 6 and 7-story buildings as part of Phase 1 of Southline. The rest of the proposed Southline project will total over 3 million sf.	Q1 2025
Berkeley Commons 600 Addison St & 601 Bancroft St, Berkeley	Lane Partners	538,825	100%	Two neighboring three-story structures situated on the Berkeley waterfront in close proximity to UC Berkeley's campus.	Q3 2024
The Landing 1699 & 1701 Bayshore Hwy, Burlingame	King Street Properties, Helios Real Estate Partners	503,500	100%	Two 6 to 7-story building accompanied by a 9-story parking garage.	Q4 2025
580 Dubuque Ave, South San Francisco	IQHQ	355,000	100%	8-story building with a four-story underground garage near the new South San Francisco Caltrain station.	Q3 2024
Avia Labs 210 Adrian Rd, Millbrae	Longfellow Real Estate Partners	315,000	100%	6-story building near the Millbrae transit center.	Q4 2025

Trends & Predictions



Short term oversupply

The Bay Area is likely to experience a temporary oversupply of life science space until the latter half of the decade.



Lower rents

As landlords encounter dropping demand and increasing vacancy, rental rates will offer excellent opportunities for life science companies on a budget.



More tenant concession

The current life science market is shifting further and further into the tenant's favor. Landlords are willing to offer more concessions than ever.



Focus shifts to healthcare AI

Following the current headlines of artificial intelligence, healthcare AI is getting increasingly more attention. These tenants typically occupy space like conventional tech companies.



More building acquisitions

Similar to the current office market, the life science market is likely to see more sales and acquisitions as distressed landlords struggle to lease their buildings.



Shorter term deals

Life science companies are likely to leverage the slowing market to sign shorter term leases. As-is sublease deals will contribute to this as well.

Looking Ahead

Despite the current challenges facing the Bay Area's life science market, Avison Young's outlook for the future remains optimistic. The imminent influx of under-construction space, though likely to create a short-term oversupply and a slowdown in tenant activity, is seen as a temporary setback for owners and investors.

Looking ahead, as the economy rebounds in the latter half of the 2020s and investor confidence returns, the substantial growth in state-of-the-art life science inventory within the Bay Area presents a unique opportunity. The slow current activity sets the stage for start-up life science companies to capitalize on lower rents and favorable leasing conditions, providing them with unprecedented access to premium spaces. Investors seeking to optimize their returns will discover that life science real estate presents once-in-a-lifetime bargains.

The enduring fundamentals that make the Bay Area a beacon of innovation and growth have proven resilient even in the face of the toughest crises. With world-class universities set against a backdrop of stunning landscapes featuring beaches and redwood forests, the Bay Area continues to be an irresistible magnet for top talent from around the globe. As we navigate through the present challenges, the region remains poised for a robust resurgence and sustained growth in the life science sector.



For more market insights and information visit **avisonyoung.com**

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