



San Francisco Peninsula industrial market report

Q2 2023

**AVISON
YOUNG**

San Francisco Peninsula industrial market trends

-5.6%

Total available industrial space down since last quarter

The industrial market continues to demonstrate strong fundamentals, with the availability rate shrinking to 5.6% this quarter. This has largely been driven by an uptick in leasing activity over the past few quarters. Demand for flex space on the other hand has cooled off dramatically since the start of the year, with availability rates now at 10.9%, the highest the market has seen since 2008.

-0.5%

Industrial direct asking rents see stability

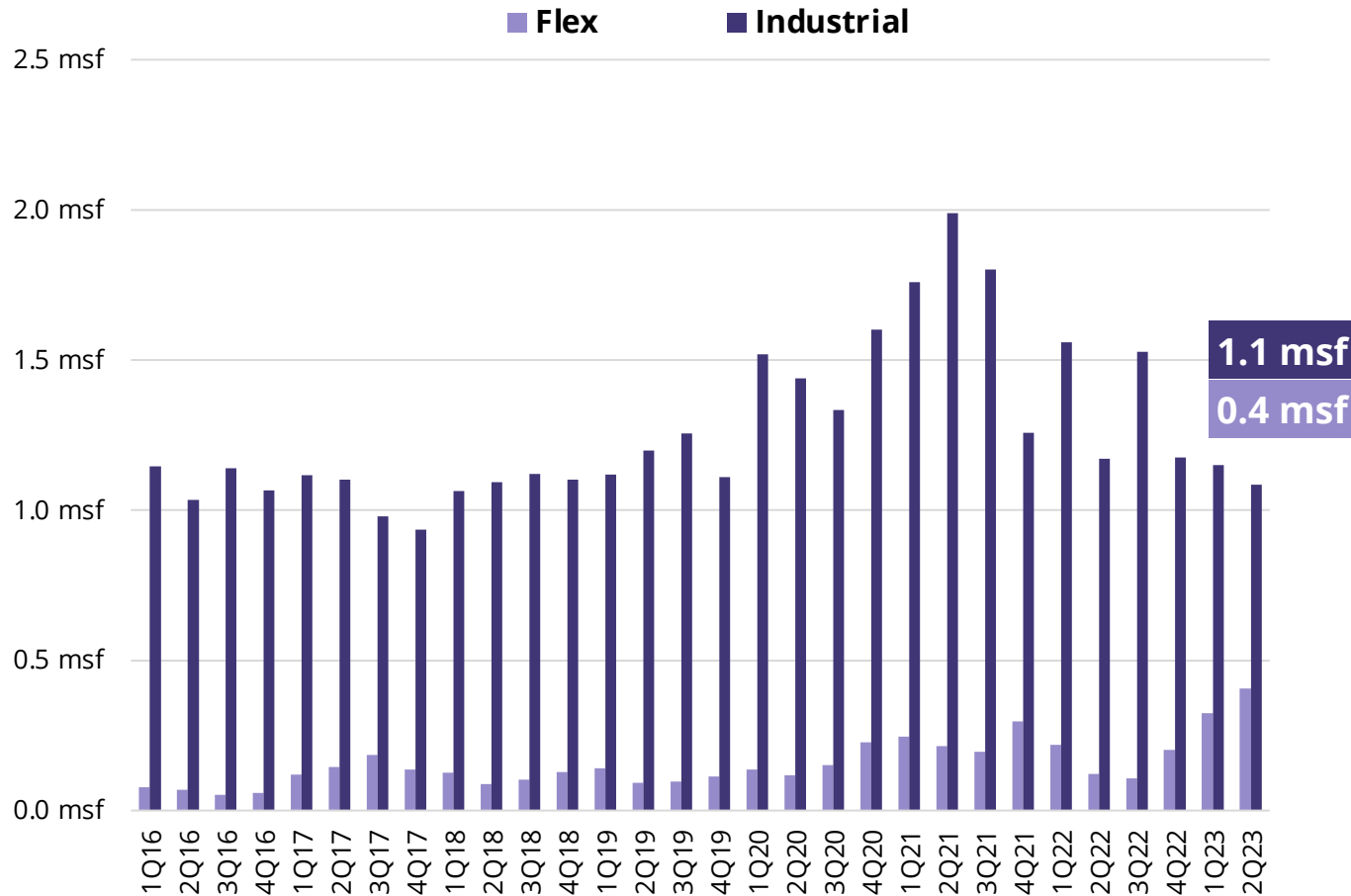
Since the onset of COVID, direct asking rents for both flex and industrial space have grown by 24.3% and 35.4% respectively. While asking rates for industrial space increased dramatically due to a lack of supply in the market post-pandemic, they have since stabilized with rents falling 0.5% this quarter. Traditionally, tech-focused tenants have driven up asking rents for flex space but have also felt the biggest impact due to turbulent market conditions. As demand for flex subsidies, asking rents could cool off in the coming quarters.

-17.3%

Average leasing activity declines post-COVID

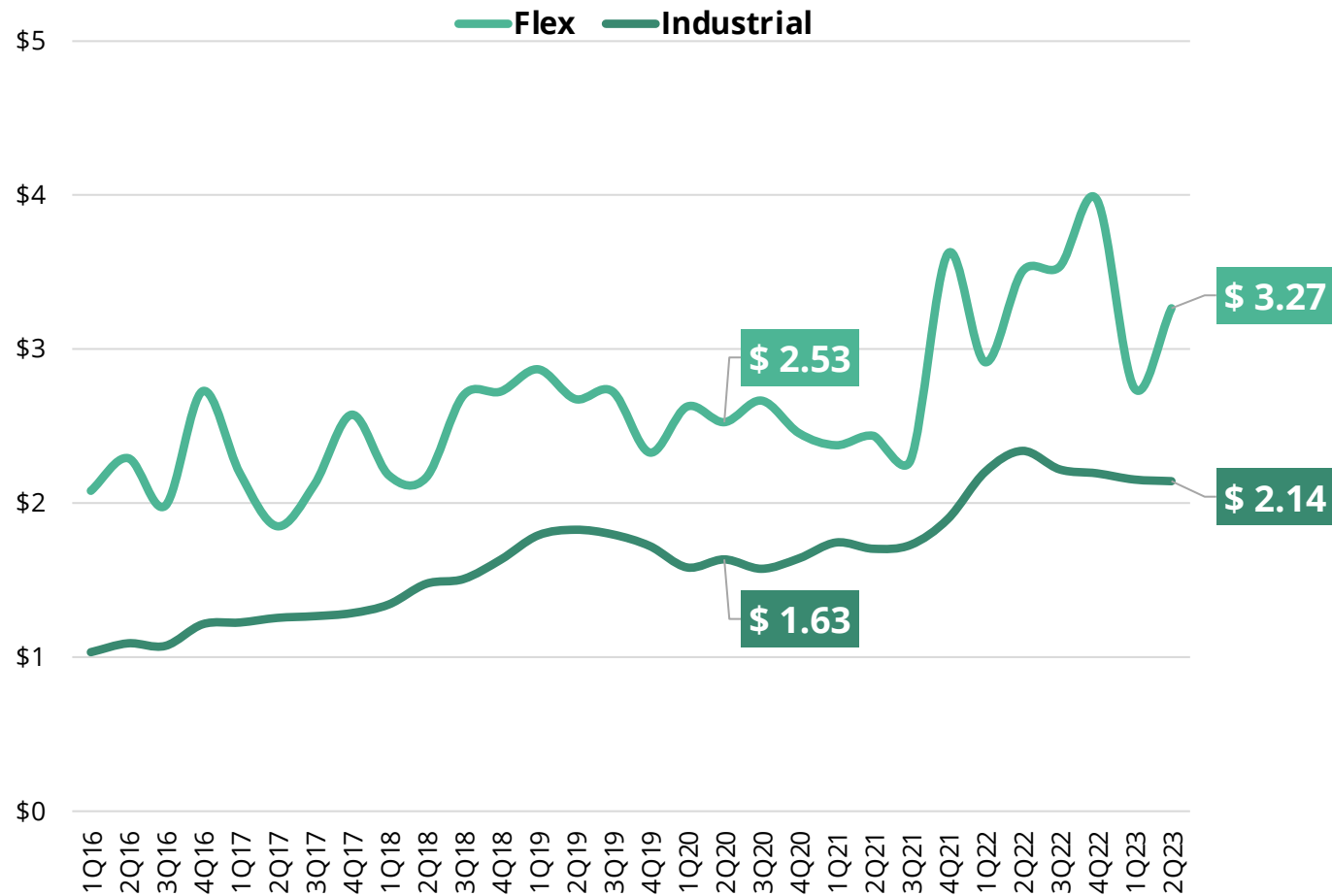
The combined leasing activity between flex and industrial has seen a 17.3% decline from the 5-year pre-COVID average. Nevertheless, industrial leasing activity surged upwards by 41.3% compared to the previous quarter, indicating a consistent trend of a supply-constrained market. Conversely, flex leasing activity was almost non-existent this quarter due to many potential tenants being cautious about high asking rents.

Total available space by product



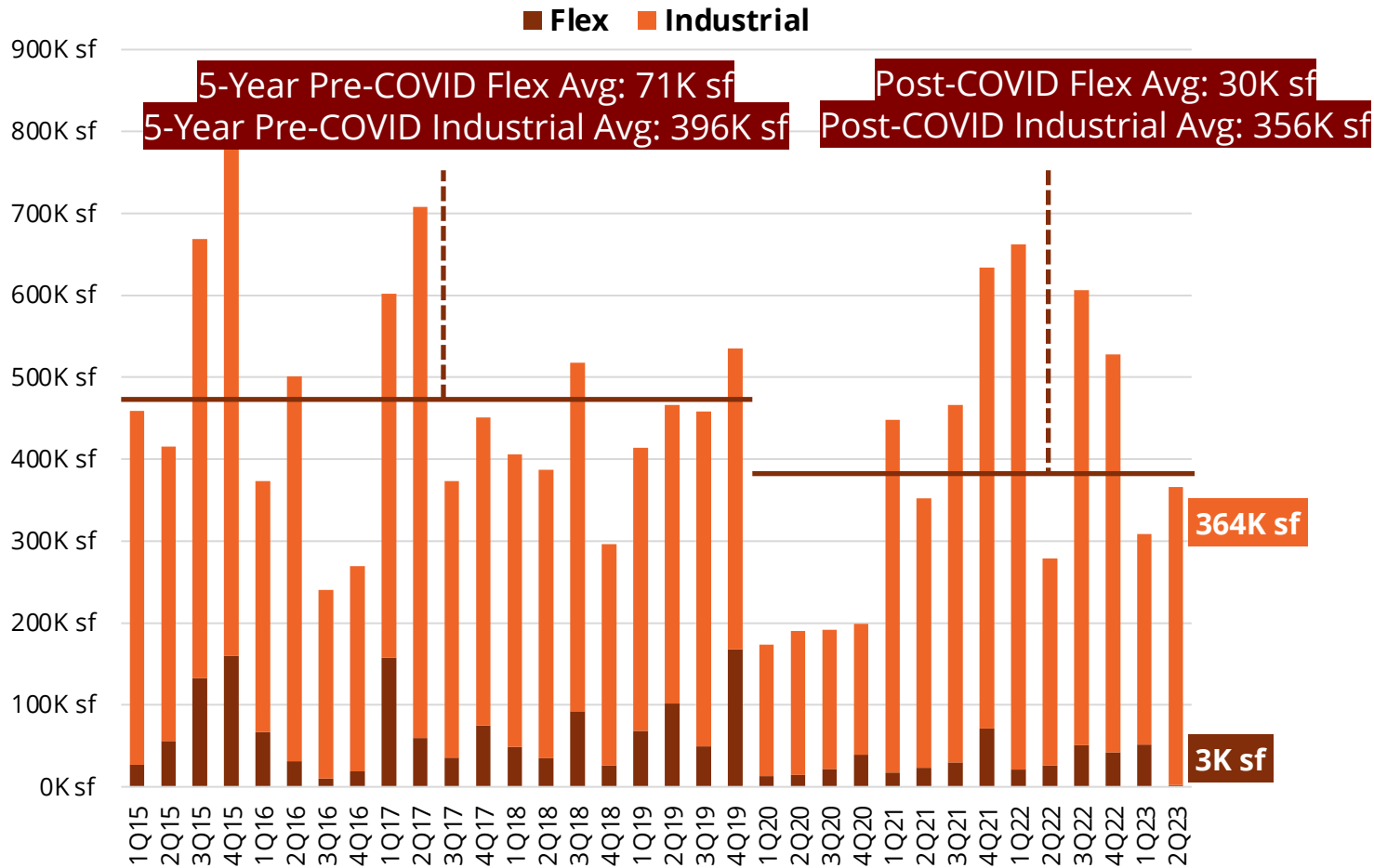
Industrial availability decreased by 5.6%, while flex increased by 25.5% in the last quarter. The appetite for industrial remains high, while flex has sees negative net absorption.

Asking rents by product (psf/NNN)



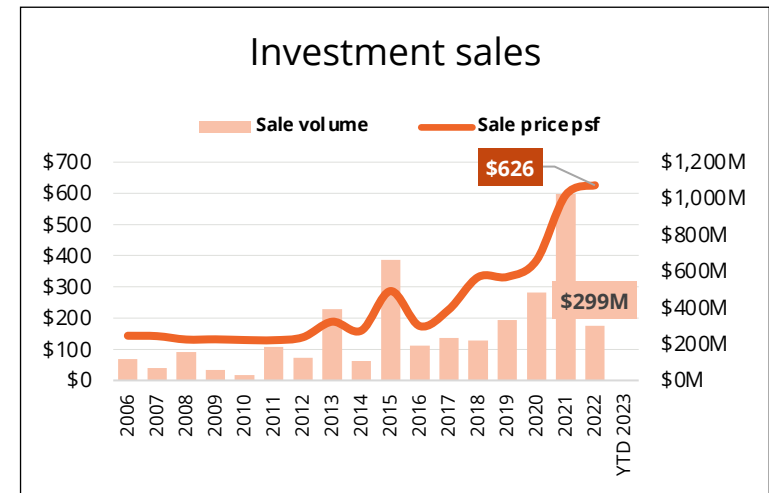
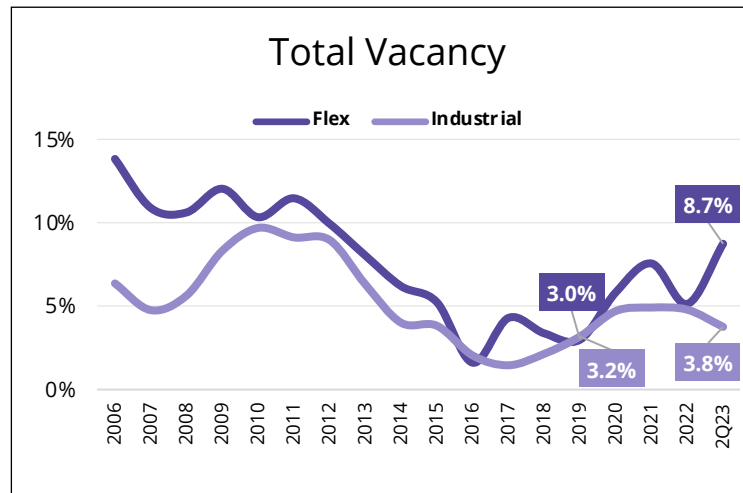
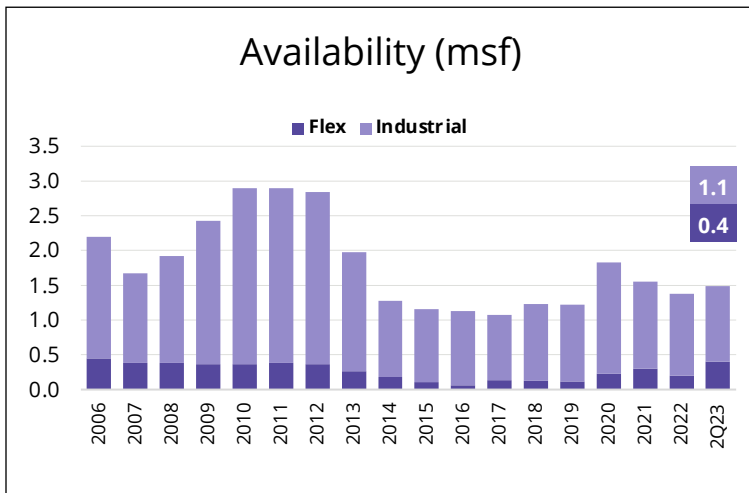
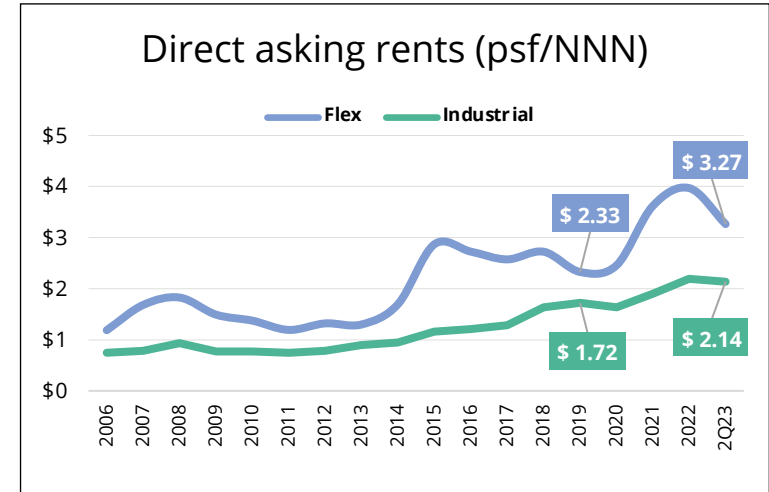
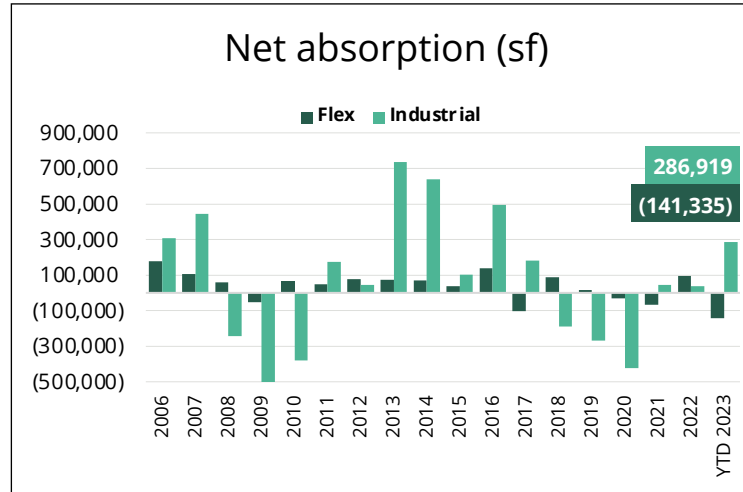
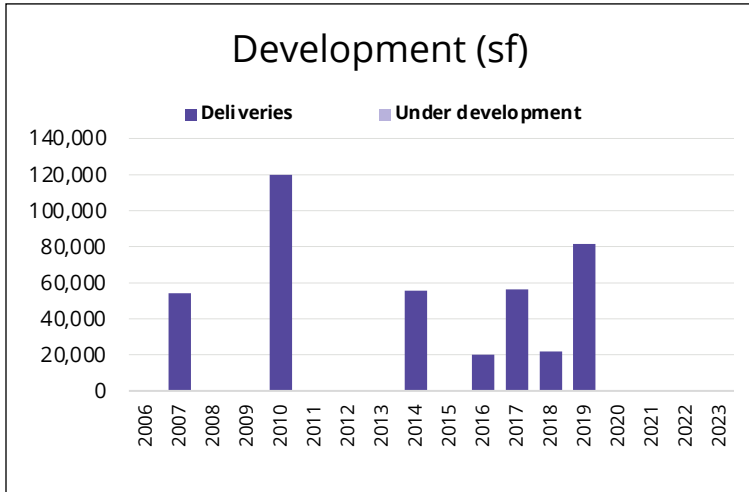
Asking rents for flex grew 18.8% from the previous quarter, proving to be a significant inhibitor for leasing activity. Conversely, industrial leasing activity picked up with asking rents seeing a mild 0.5% drop.

Historical leasing activity



The combined leasing activity between flex and industrial has seen a 17.3% decline from the 5-year pre-COVID average.

San Francisco Peninsula industrial market indicators



San Francisco Peninsula flex market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (QTD)	Net absorption sf (YTD)	Direct asking rent NNN
Belmont	23,030	0	0	0.0%	0.0%	0.0%	0	0	-
Burlingame	211,561	0	0	0.9%	0.0%	0.9%	0	0	-
Foster City	330,490	0	0	24.5%	0.0%	24.5%	(428)	(428)	-
Menlo Park	563,410	0	0	5.8%	11.7%	17.4%	0	(98,305)	-
Redwood City	856,584	0	0	8.8%	0.0%	8.8%	4,305	(10,559)	\$ 4.97
San Carlos	24,624	0	0	10.4%	0.0%	10.4%	0	0	\$ 2.21
San Bruno	551,148	0	0	6.2%	0.0%	6.2%	(12,096)	(14,914)	\$ 2.38
San Mateo	37,803	0	0	0.0%	0.0%	0.0%	0	0	-
South San Francisco	1,135,112	0	0	1.8%	0.0%	1.8%	(17,129)	(17,129)	\$ 2.74
Market total	3,733,762	0	0	6.6%	1.8%	8.4%	(25,348)	(141,335)	\$3.27

San Francisco Peninsula industrial market stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (QTD)	Net absorption sf (YTD)	Direct asking rent NNN
Belmont	113,776	0	0	4.6%	0.0%	4.6%	2,590	3,664	\$1.99
Brisbane	3,866,473	0	0	0.7%	0.2%	0.9%	1,050	350,954	\$1.86
Burlingame	3,125,823	0	0	5.4%	0.0%	5.4%	55,913	54,523	\$1.99
Daly City	996,085	0	0	0.0%	0.0%	0.0%	0	0	-
East Palo Alto	181,573	0	0	0.0%	0.0%	0.0%	0	0	-
Foster City	516,422	0	0	0.0%	0.0%	0.0%	0	0	-
Menlo Park	2,188,764	0	0	0.8%	0.5%	1.2%	0	0	\$3.75
Millbrae	58,241	0	0	0.0%	0.0%	0.0%	(21,691)	(21,691)	-
Redwood City	1,869,712	0	0	3.4%	1.2%	4.6%	7,761	(27,496)	\$3.25
San Bruno	1,786,300	0	0	12.5%	0.8%	13.2%	0	0	-
San Carlos	2,475,513	0	0	2.0%	0.0%	2.0%	(12,995)	(30,795)	\$4.23
San Mateo	247,184	0	0	6.9%	0.0%	0.0%	(31,658)	(31,658)	\$2.25
South San Francisco	10,410,750	0	0	2.5%	0.3%	2.8%	(129,761)	(10,582)	\$1.69
Market total	27,836,616	0	0	3.0%	0.3%	3.3%	(128,791)	286,919	\$2.14

Note: Representative product includes buildings over 20K sf and does not include buildings designated as Life Science
Source: AVANT by Avison Young, CoStar

Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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

Louis Thibault

Senior Market Intelligence Analyst
Northern California
+ 1 415 322 5058
Louis.Thibault@avisonyoung.com

Randy Keller

Principal & Managing Director
+ 1 650 425 6425
Randy.Keller@avisonyoung.com
CA Lic #00841897

Dina Gouveia

West Regional Lead, Northern California
+ 1 415 322 5063
Dina.Gouveia@avisonyoung.com

Howard Huang

Market Intelligence Analyst
Northern California
+ 1 510 254 4261
Howard.Huang@avisonyoung.com