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San Mateo – Peninsula industrial market report

Q2 2021

AVANT
by AVISON YOUNG



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U.S. industrial drivers

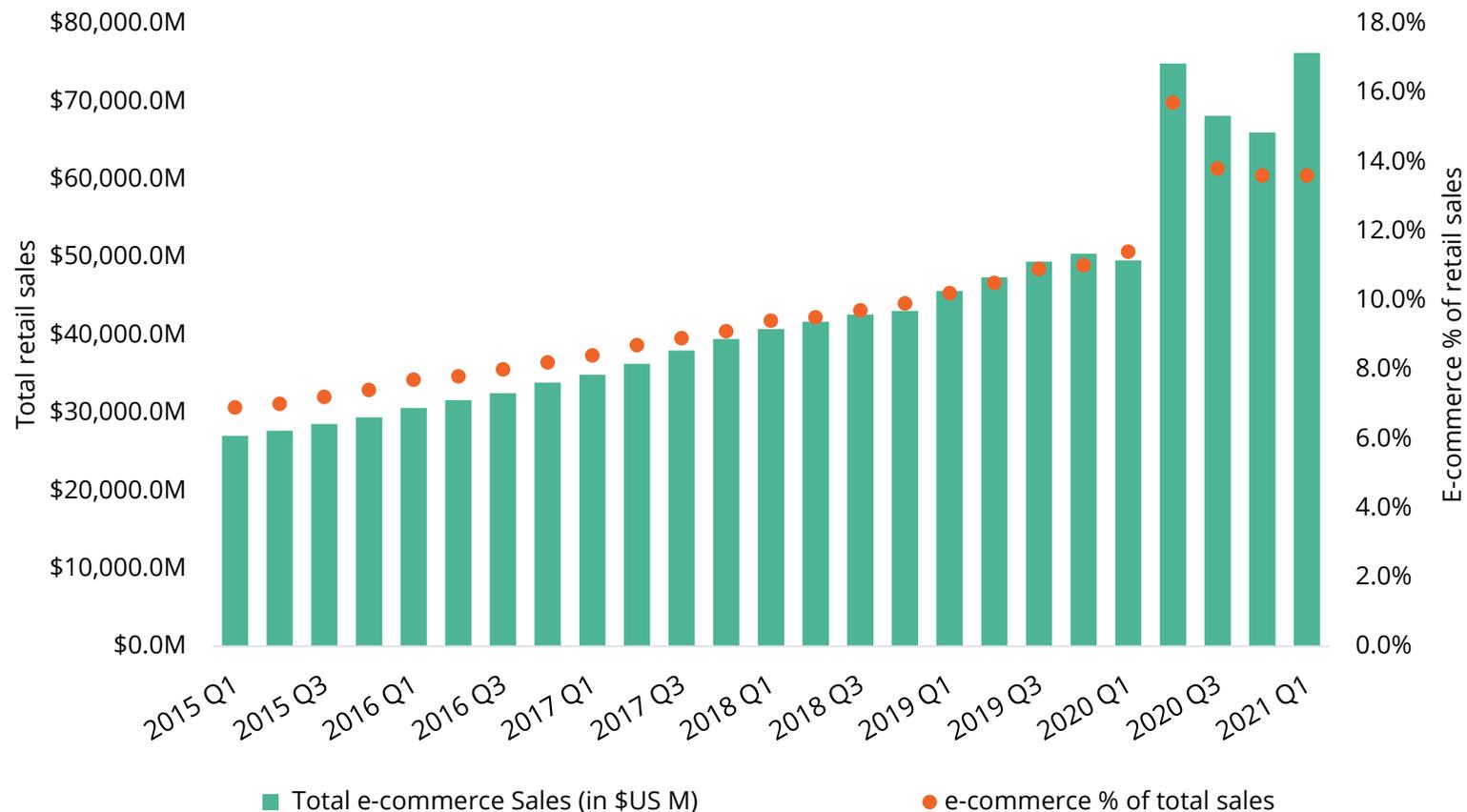
NORTHERN CALIFORNIA INDUSTRIAL MARKET REPORT
Q2 2021

U.S. total retail and e-commerce sales

15.7%

E-commerce share of overall retail sales in Q1 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



Source: Federal Reserve Bank of St. Louis

Property type job gains and losses

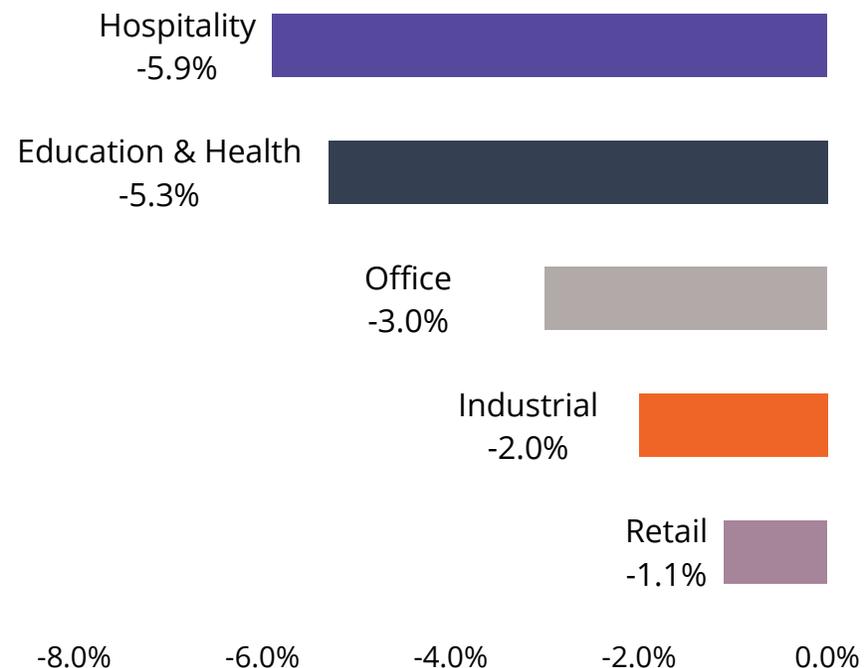
-2.9%

Change in total industrial employment during the pandemic

Post-COVID industrial job losses have been mild compared with other segments of the labor market, underscoring the industry's comparative strength as cities and economies reopen.

[VIEW DASHBOARD](#)

Total change in U.S. job gains/(losses)
February 2020 to May 2021



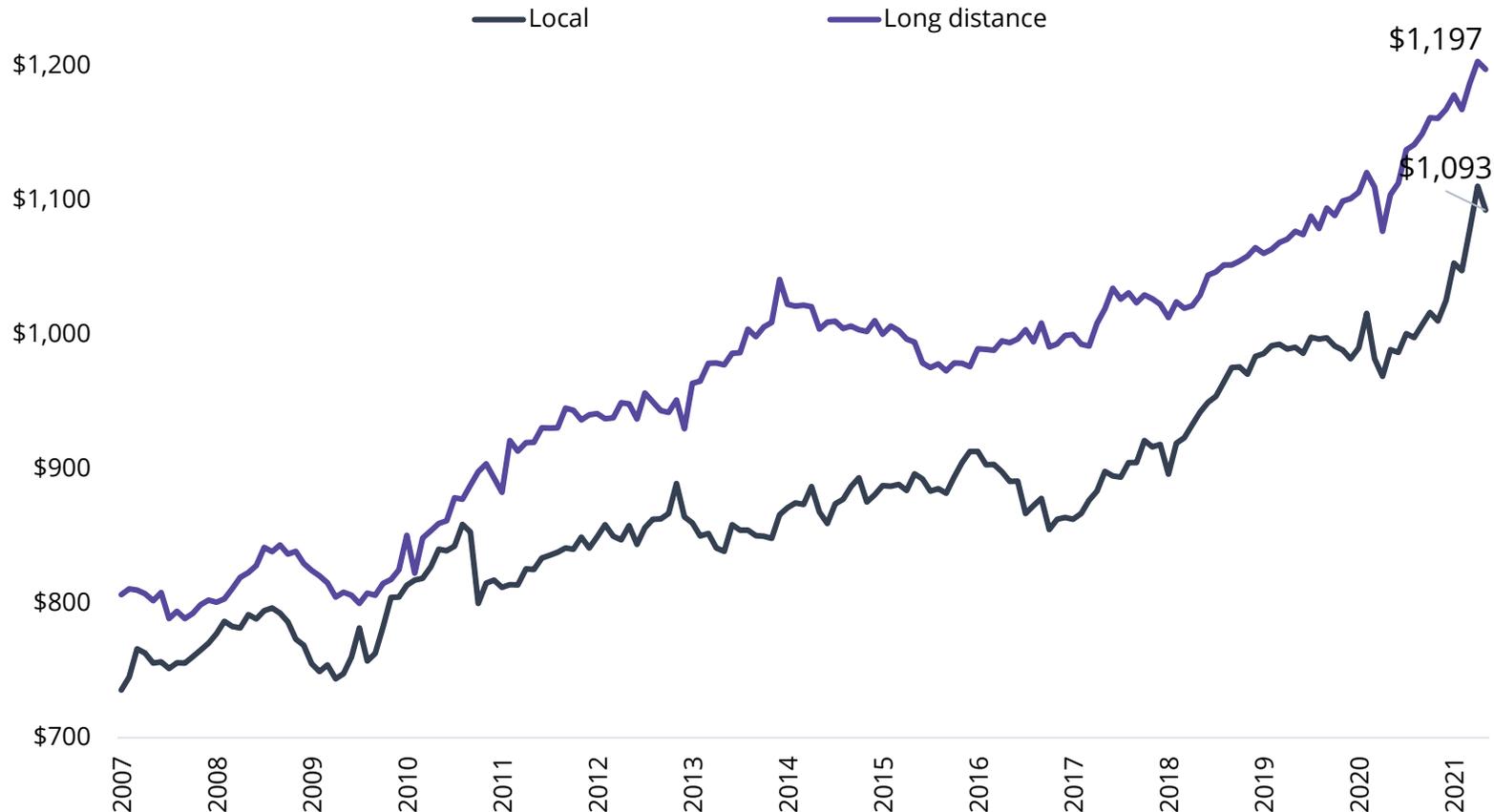
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Weekly earnings for U.S. trucking employees

+ 10.5%

Annual change in local trucking weekly earnings, 2007 to 2021

As employers compete to fill vacant positions, wage pressure for trucking has accelerated sharply over the past 15 months. Initially focused on long-distance truckers in the early stages of the pandemic, the trend has increasingly spread to local trucking.



Source: Bureau of Labor Statistics



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San Mateo – Peninsula market fundamentals

NORTHERN CALIFORNIA INDUSTRIAL MARKET REPORT
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Key industrial takeaways



Economic conditions

- Essential workers, a logistics hub and a sharp but entrenched rise in e-commerce spending have helped bring San Mateo County unemployment figures down to **4.8 percent**. Other supply chain shocks throughout 2021 have done little to impede growth in leasing fundamentals, especially for Class A space.
- Local employment rose by **29,834 jobs** year-to-date as of May, led by the manufacturing sector.



Recovery rate

- The Bay Area metropolitan area began to reopen in the second quarter, as vaccination rates surpassed the national average to **64.5 percent**.
- Although office workers across the metropolitan area just now begin to return to the office, the industrial workforce has shrunk by **4.7 percent** since the beginning of the pandemic in February 2020.



Industrial demand

- Overall leasing activity has seen a decrease throughout the pandemic, currently sitting at **-29.6 percent** of the long-term annual average of the last 20 years of historical data.
- Net absorption is continuing a 4 year stretch of negative absorption, with a combined 2020 and 2021 YTD absorption of **-2.7 percent**.

Key industrial takeaways



Industrial supply

- While the Bay Area's development is primarily focused on office and life science properties, there still **25 industrial properties** totaling **4.8 msf** either proposed or under construction.
- Industrial vacancy continued to grow in 2021 for a 4th straight year, up to **6.35 percent**, from the historic low of 1.1 percent in 2017.



Pricing trends

- Base rents have increased by **4.2 percent** since the start of the pandemic and have continued a steady upward trajectory since 2015.
- With **71 spaces** available over 100,000 square feet throughout the Bay Area and minimal large block leases expiring, Bay Area rents stand to continue to recover.



Capital markets

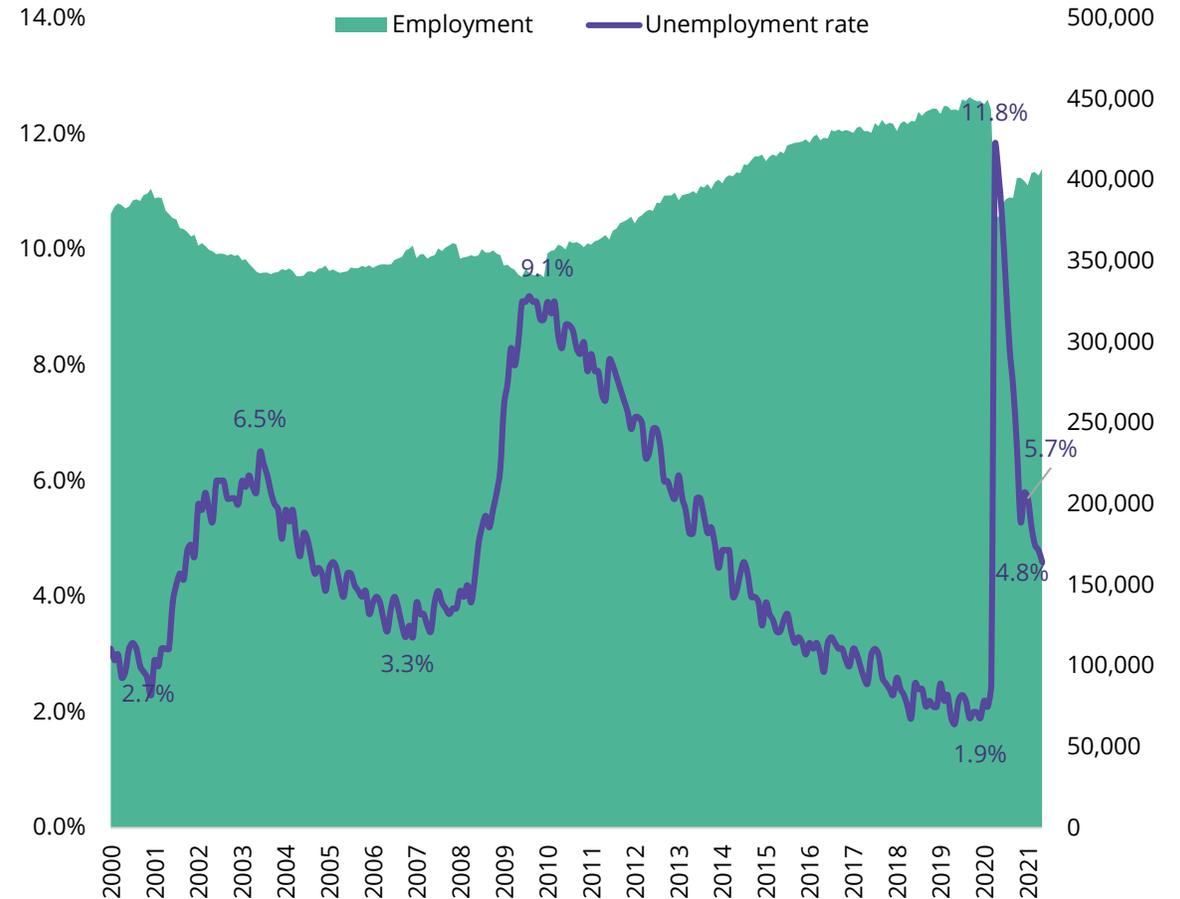
- Bay Area Industrial investment activity surges to **\$3.5B since 2020** as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- Investors continue capital deployment on industrial assets at a rate that is **27.9 percent** higher than the prior five-year average.
- Bay Area industrial pricing has almost completely recovered, with per-square-foot pricing sitting **11.7 percent** below the peak during Q1 2020.

Employment and unemployment

4.8%

San Mateo County unemployment rate as of May 2021.

Before the pandemic, unemployment was at historical lows. While the economy has added back nearly 30,000 jobs since last year, up 7.9% unemployment has only recovered to 2013 levels.



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Property type job gains and losses

-8.1%

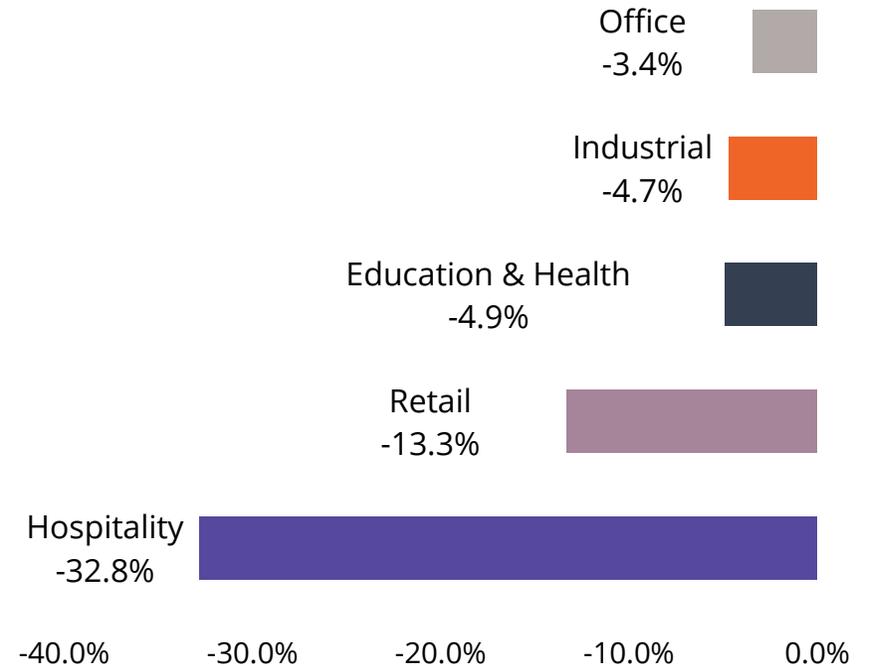
Change in total employment during the pandemic

The San Francisco Bay Area lost 8.1% of its total labor force since the pandemic began, though industrial losses were comparatively subdued. Industrial job gains in recent months demonstrates that a significant recovery is likely in that sector in the near-term.

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Total change in Bay Area MSA* job gains/(losses)

February 2020 to May 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Industrial job gains and losses

-4.7%

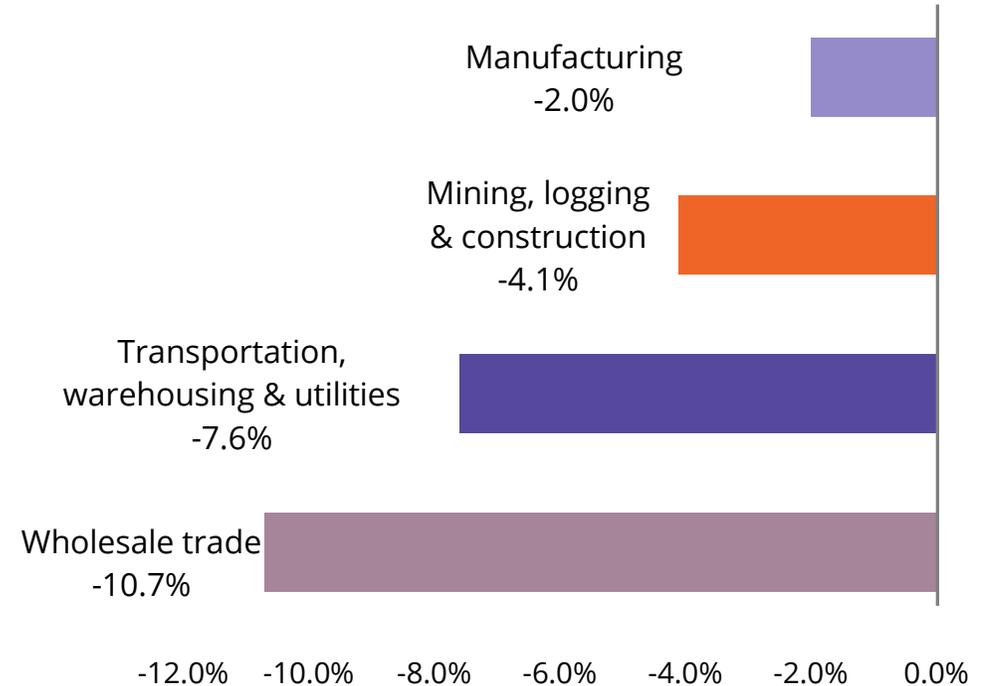
Change in industrial-centric employment during the pandemic

The San Francisco Bay Area lost 4.7% of industrial employment since the pandemic began, as evidenced by a sharp decline in jobs early in 2020. However, in the past 12 months, the market has recovered 3.9% of those losses, specifically in the Mining, Logging, & Construction sector.

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Total change in Bay Area MSA* job gains/(losses)

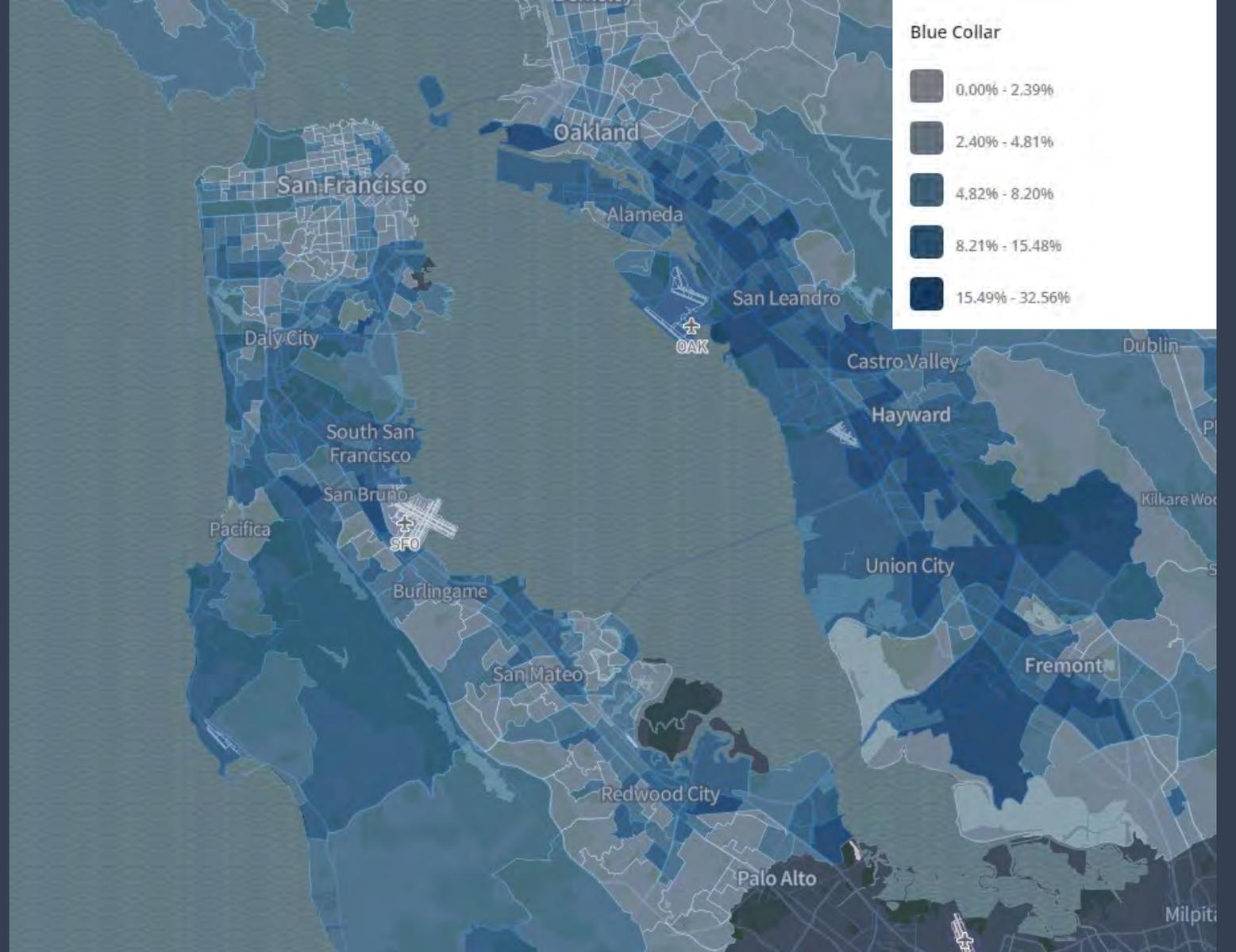
February 2020 to May 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Blue-collar workforce concentration

Source: AVANT by Avison Young, ESRI
Large pockets of blue-collar workforce are found
throughout San Francisco Bay Area's largest Industrial
submarkets

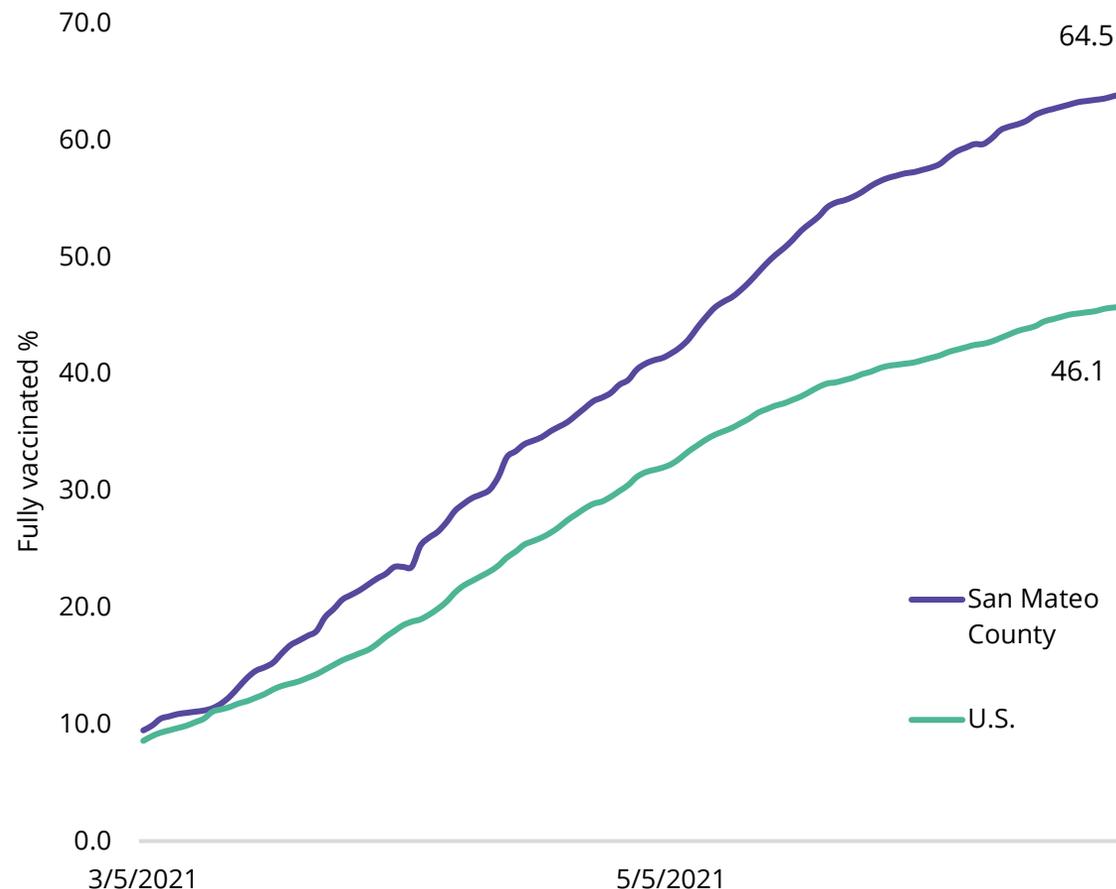


Vaccination rates

64.5%

Share of total San Mateo County population that is fully vaccinated

Bay Area proportionate vaccination rates have remained significantly ahead of U.S. averages, an important metric that allowed the city to expedite reopening plans and loosen restrictions.



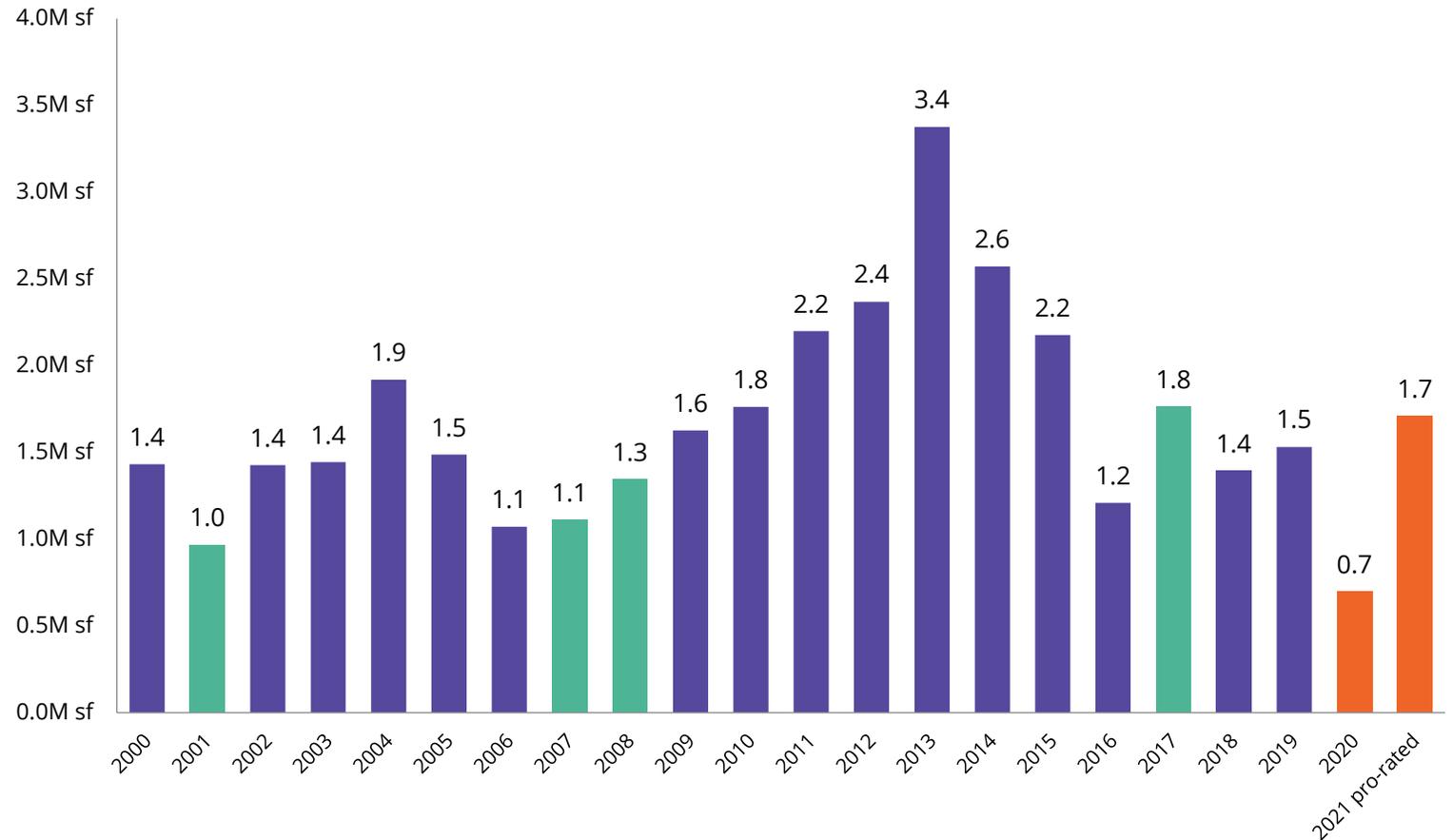
Source: CDC

Industrial leasing activity

-29.6%

2020-pro-rated 2021 vs. prior 20-year annual average leasing activity

Leasing activity saw a large decrease in 2020, but has already seen recoveries to near pre-pandemic levels in 2021.



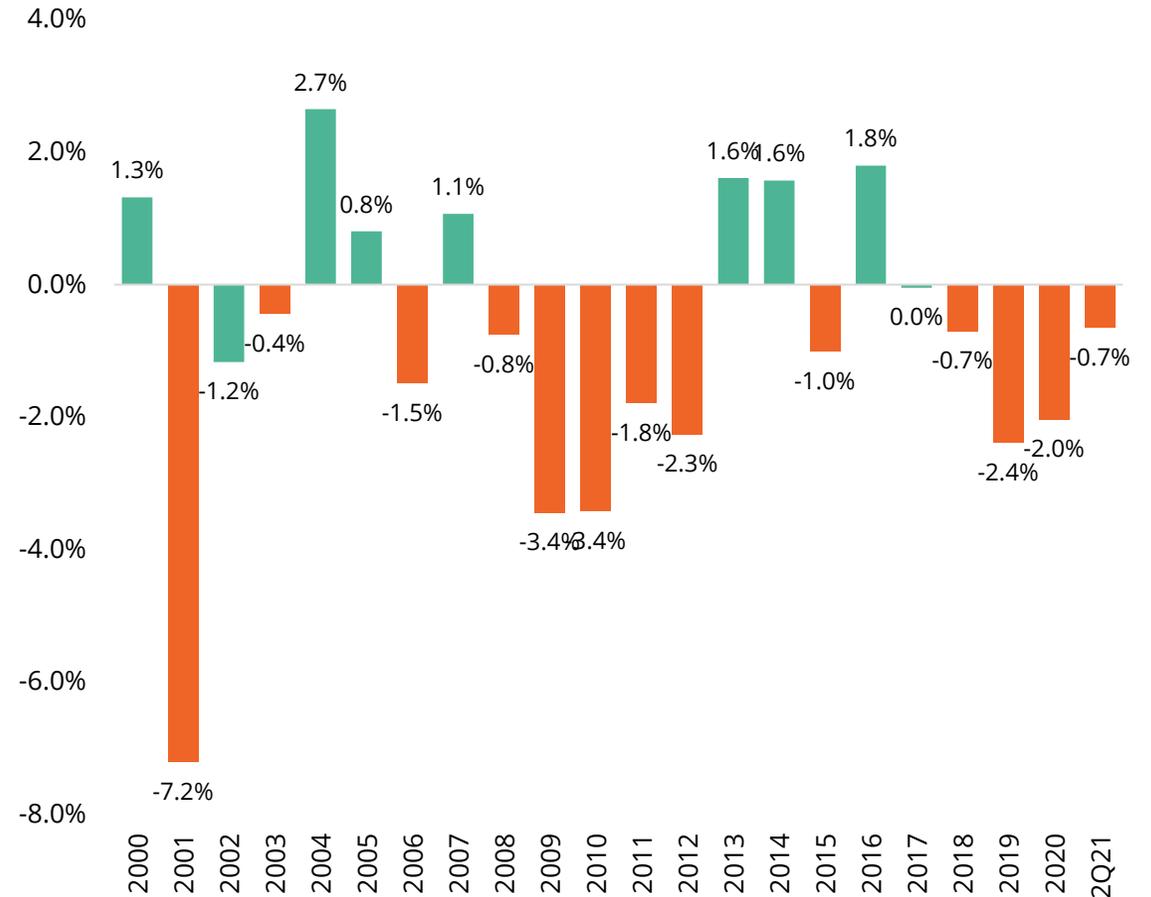
Source: CoStar

Industrial net absorption

-2.7%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Absorption through mid-year continues to recover but is continuing a four-year trend of negative absorption. The market is not overbuilding and creating opportunities to avoid market inertia and movement to high-quality new development.



Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

6.35%

Industrial Vacancy continues to increase in Q2 2021

Vacancy rates have been on a steady incline since reaching historical lows in 2017 and have been on a steady incline since. The vacancy rate of 6.35% in Q2 2021 keeps in line with the direction in which the Peninsula has been trending.



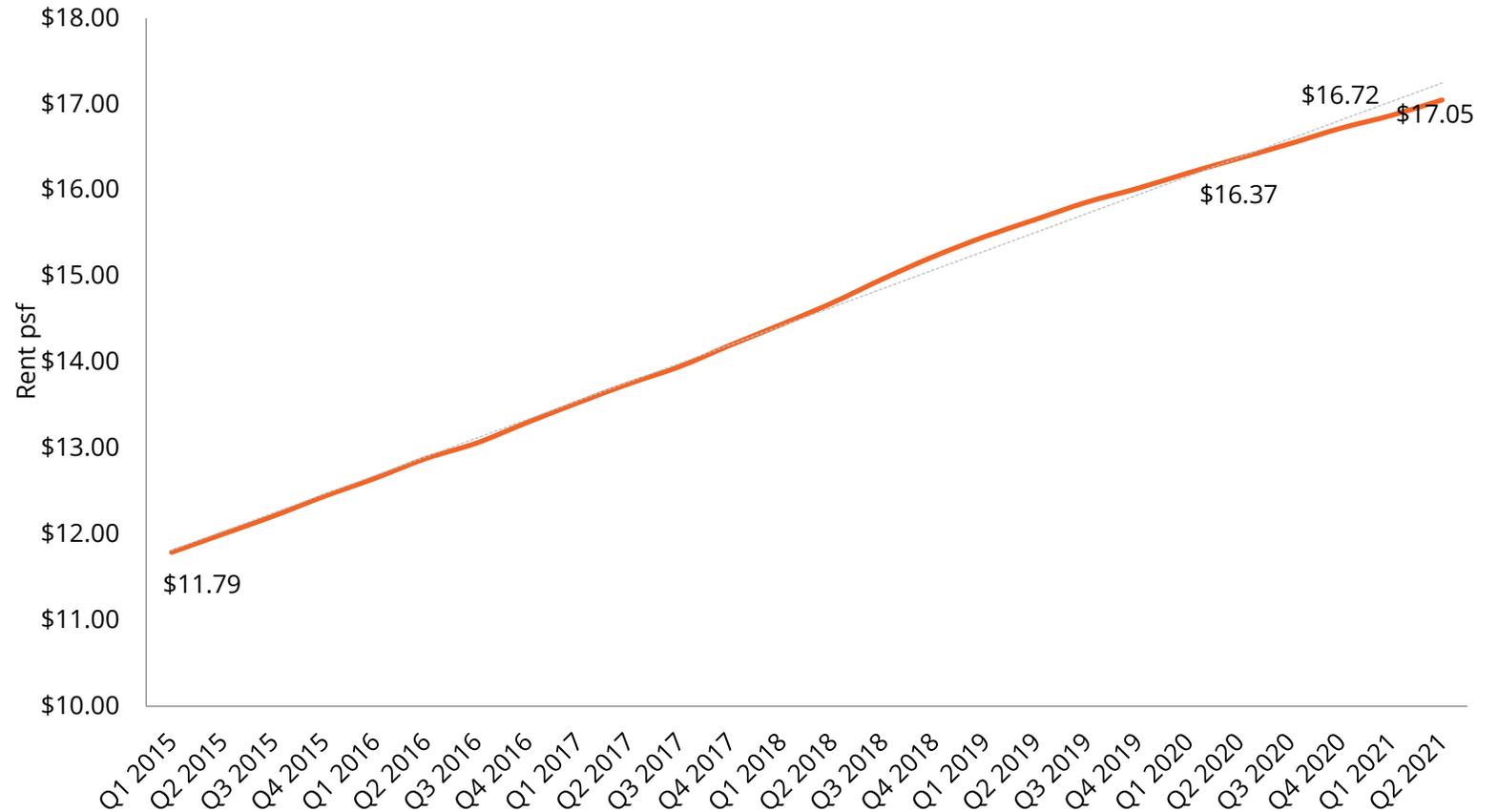
Source: CoStar

Base rents

+4.2%

Base rents since the onset of the pandemic

Base rents have softened slightly in the second quarter, but overall have trended upward since 2015, increasing by 44.6% over the last six years.



Source: AVANT by Avison Young

Big-box demand drives construction

25 properties

Proposed, under construction or under renovation

4.8 msf

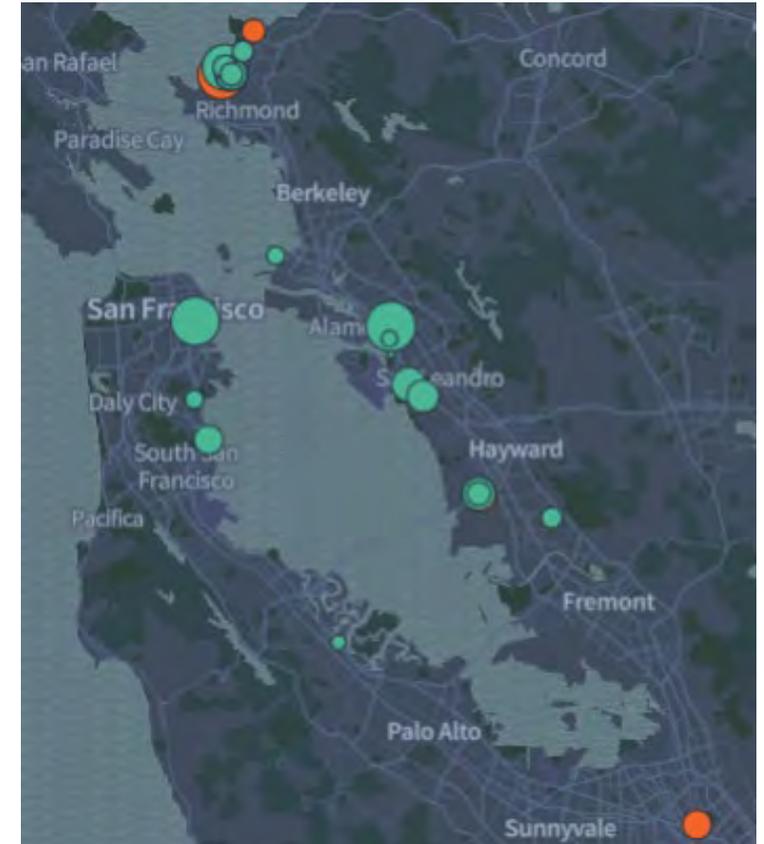
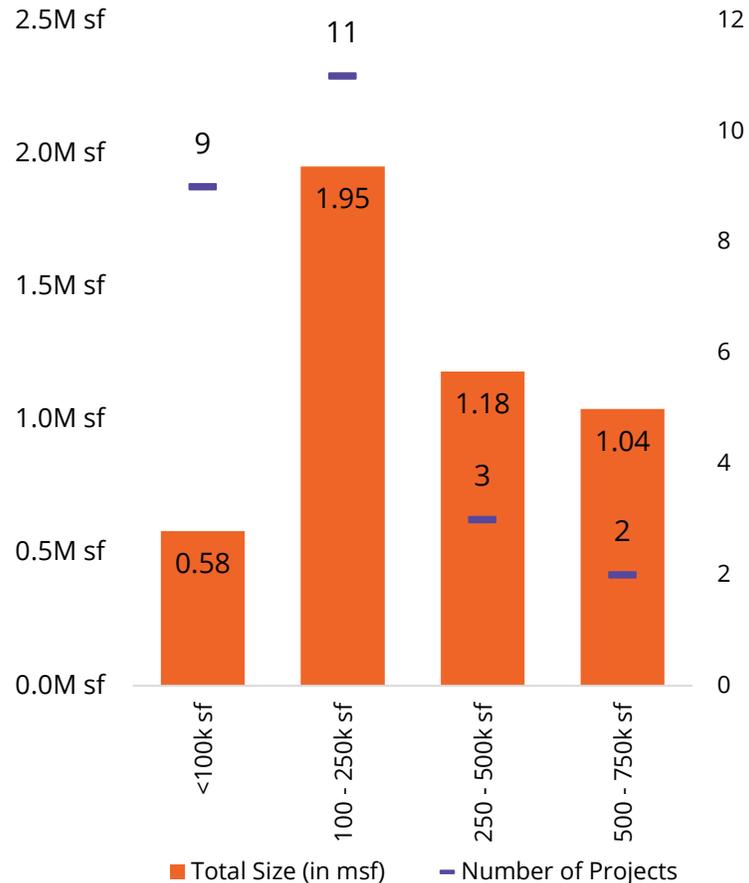
proposed or under construction

2.9%

share of industrial inventory

Hayward

Submarket with most ground-broken projects at 3



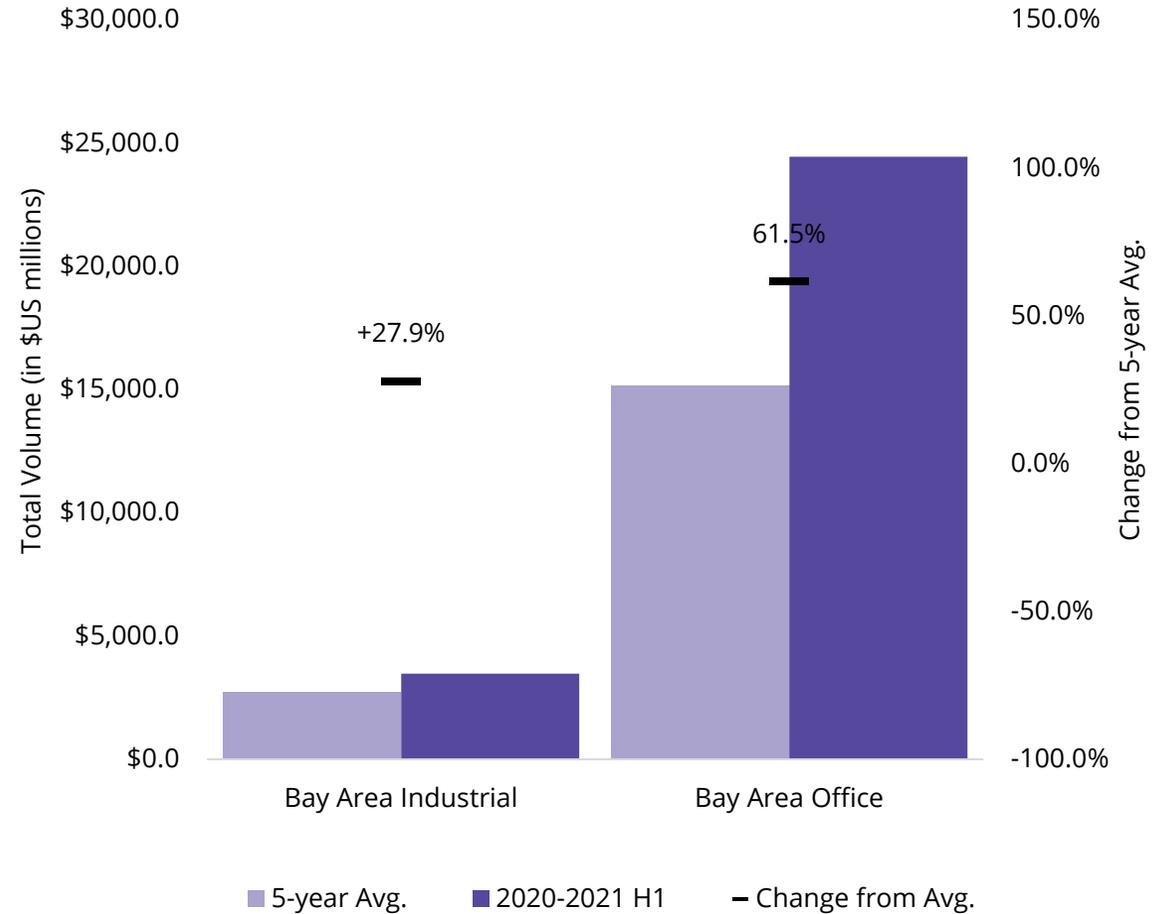
Source: AVANT by Avison Young

Investment dollar volume

\$3.5B

Industrial dollar volume, 2020 to Q2 2021

Office sales activity in the San Francisco Bay Area has seen a surge of 61.5% against the five-year average dollar value. Industrial volumes surged +27.9% against the prior five-year average due to stronger fundamentals.



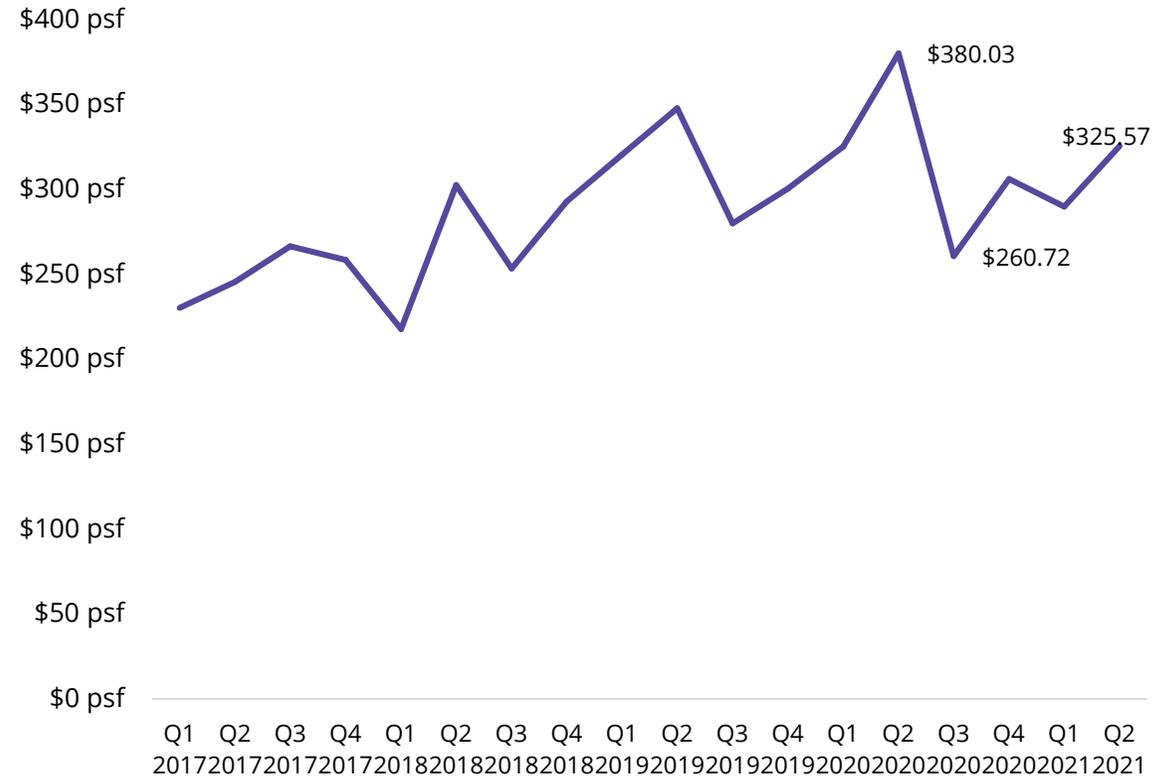
Source: AVANT by Avison Young
RCA

Industrial asset pricing

-11.7%

Bay Area industrial pricing, Q1 2020 to Q2 2021

Pricing for Bay Area industrial assets has seen a decrease of 11.7% from their Q1 2020 peak to Q2. After a significant dip in pricing in Q2 2020, prices have rebounded nearly 25%.



Source: AVANT by Avison Young
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Let's talk

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