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# San Mateo – Peninsula industrial market report

Q2 2021

**AVANT**  
by AVISON YOUNG





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# U.S. industrial drivers

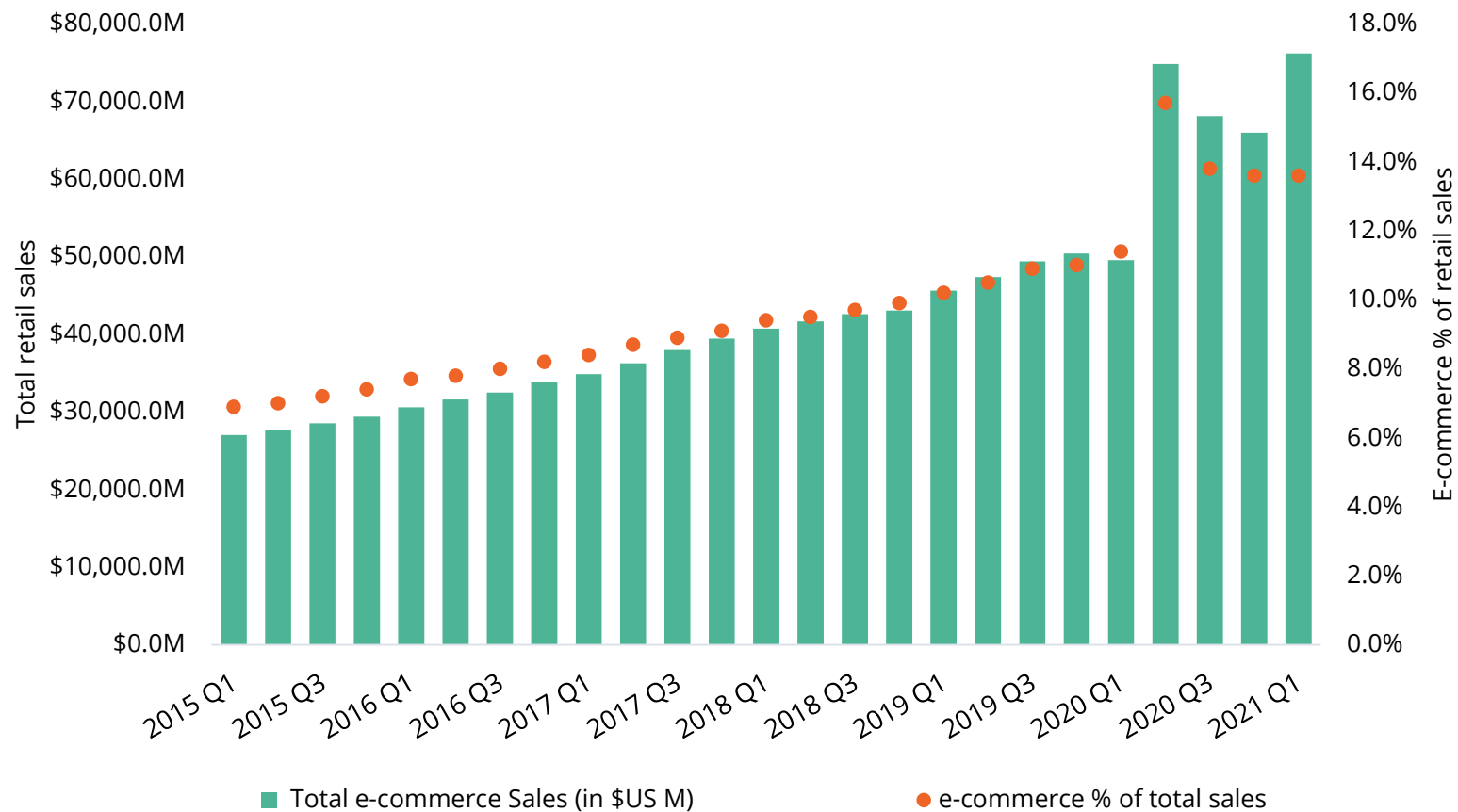
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Q2 2021

# 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

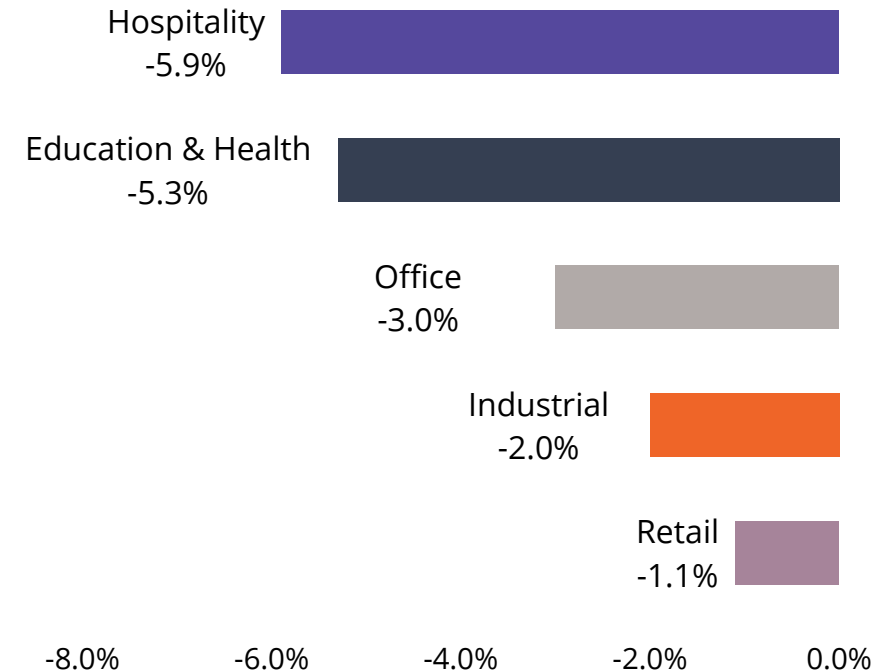
# -2.9%

## 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



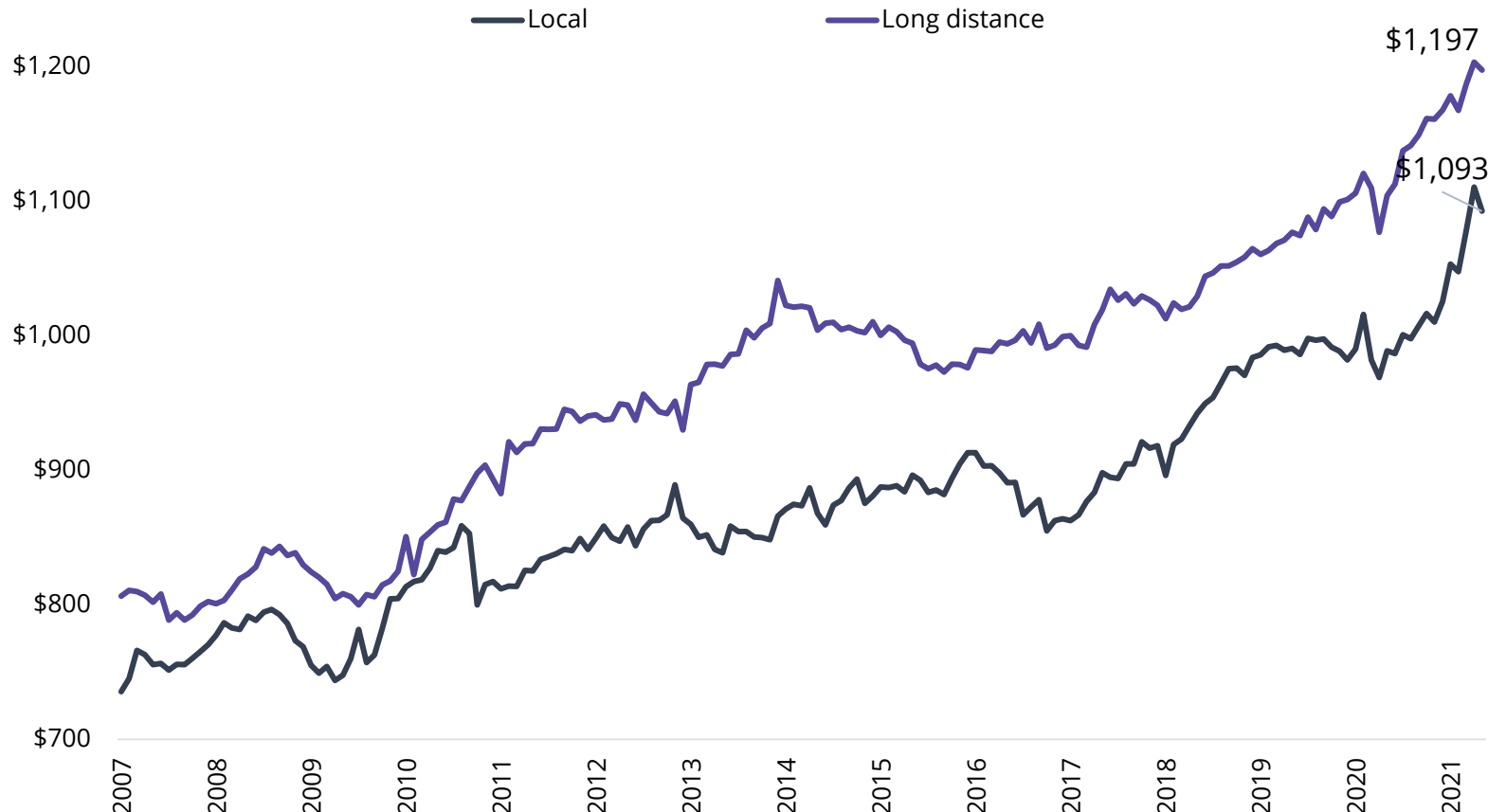
Note: Not seasonally adjusted data.  
Source: Bureau of Labor Statistics

# 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 4<sup>th</sup> 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%

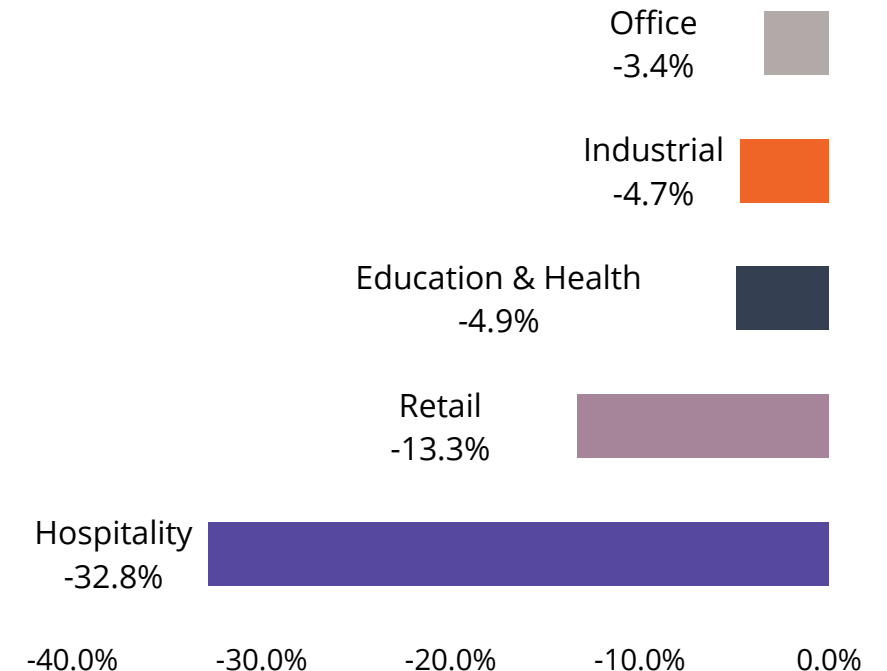
## Change in total employment during the pandemic

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.

[VIEW DASHBOARD](#)

## 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%

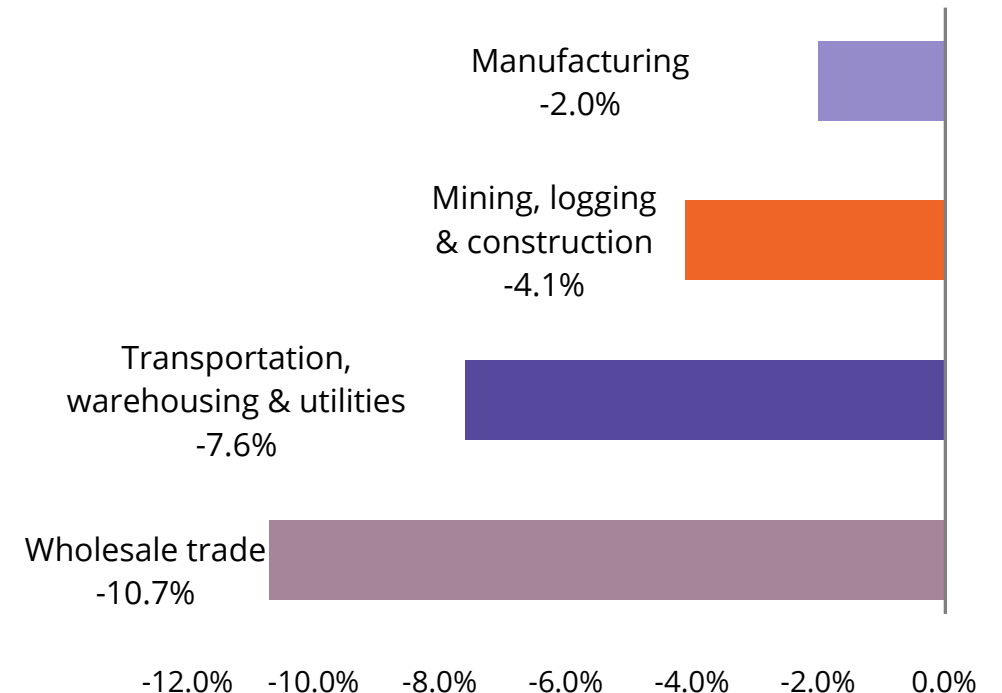
## Change in industrial-centric employment during the pandemic

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

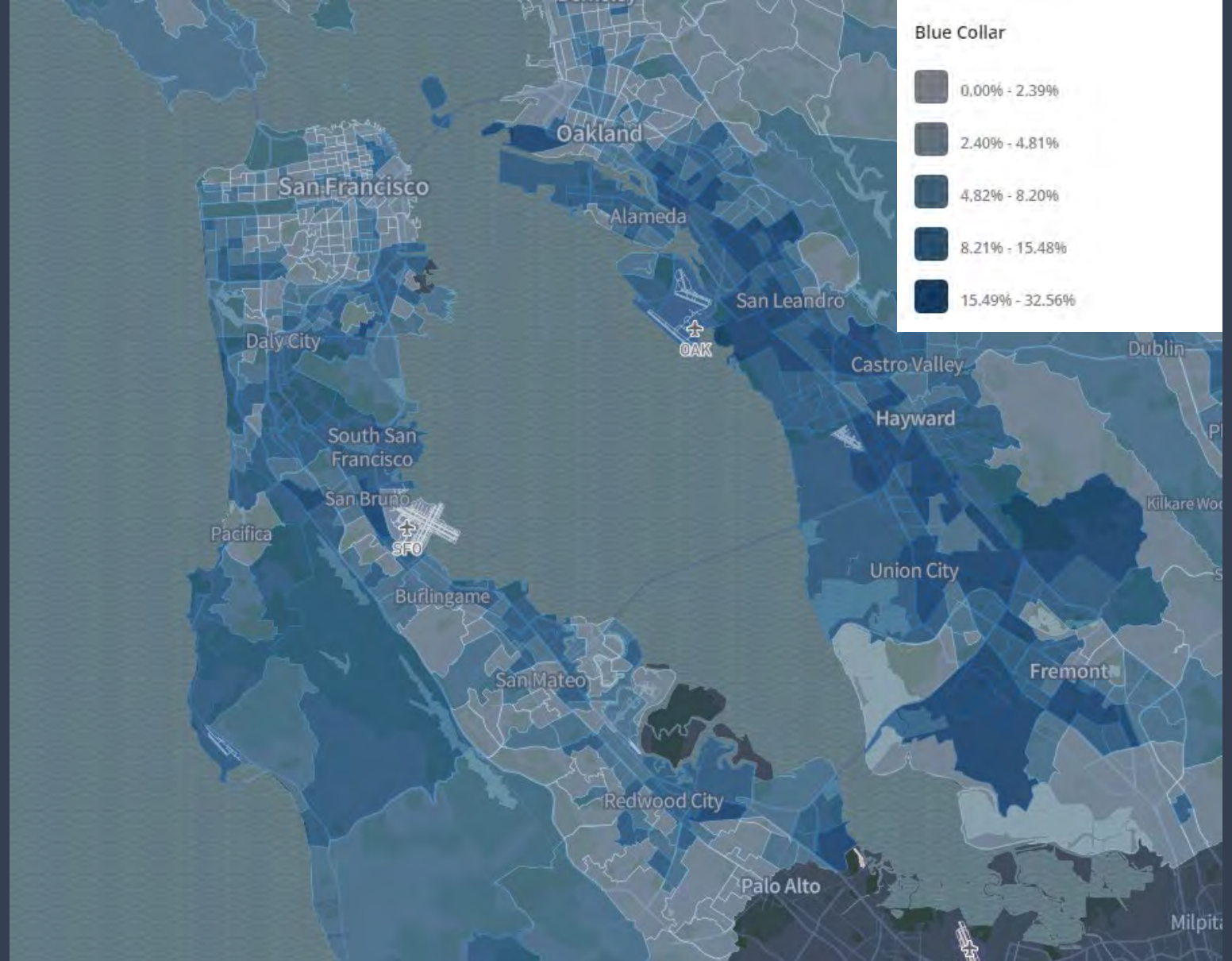


Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics



# 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

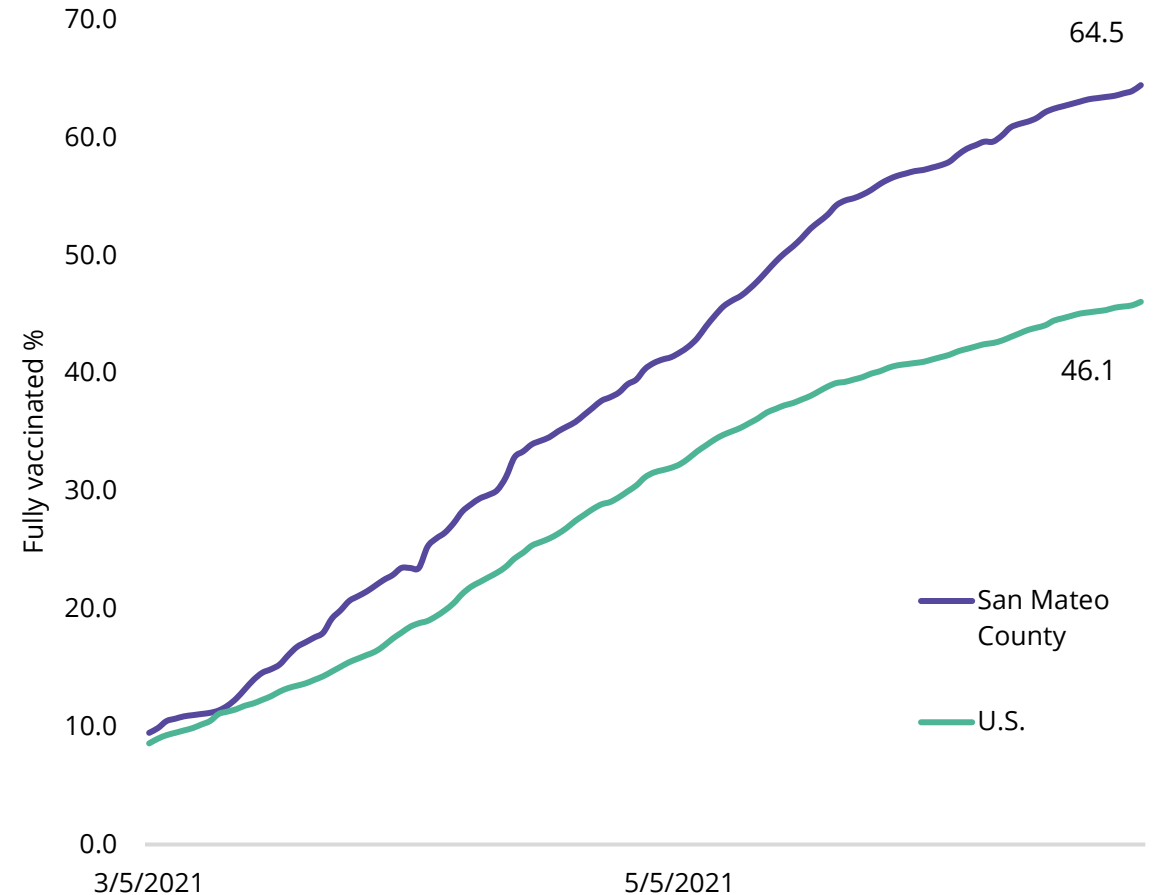


# Vaccination rates

# 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

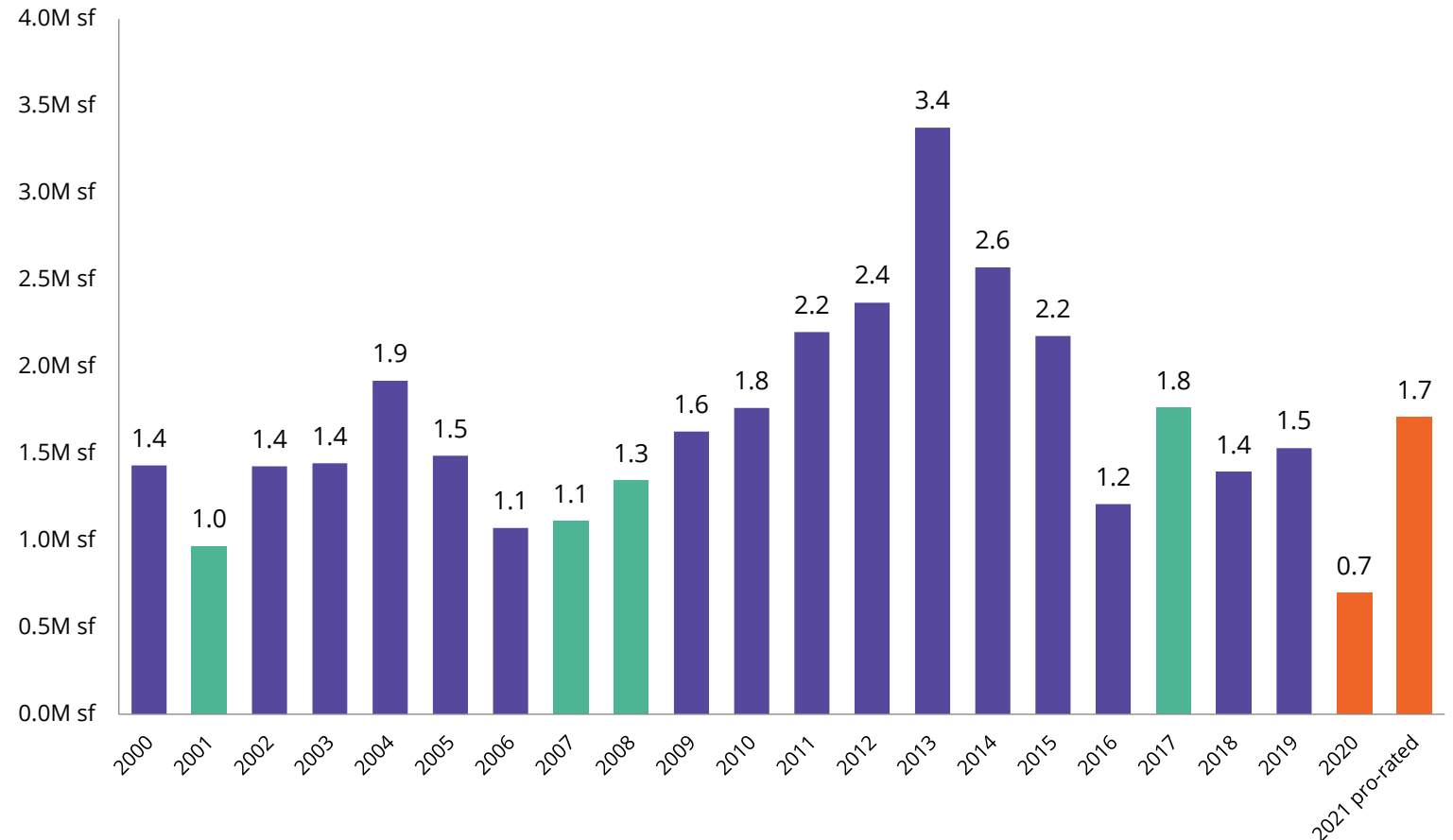


# Industrial leasing activity

# -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.



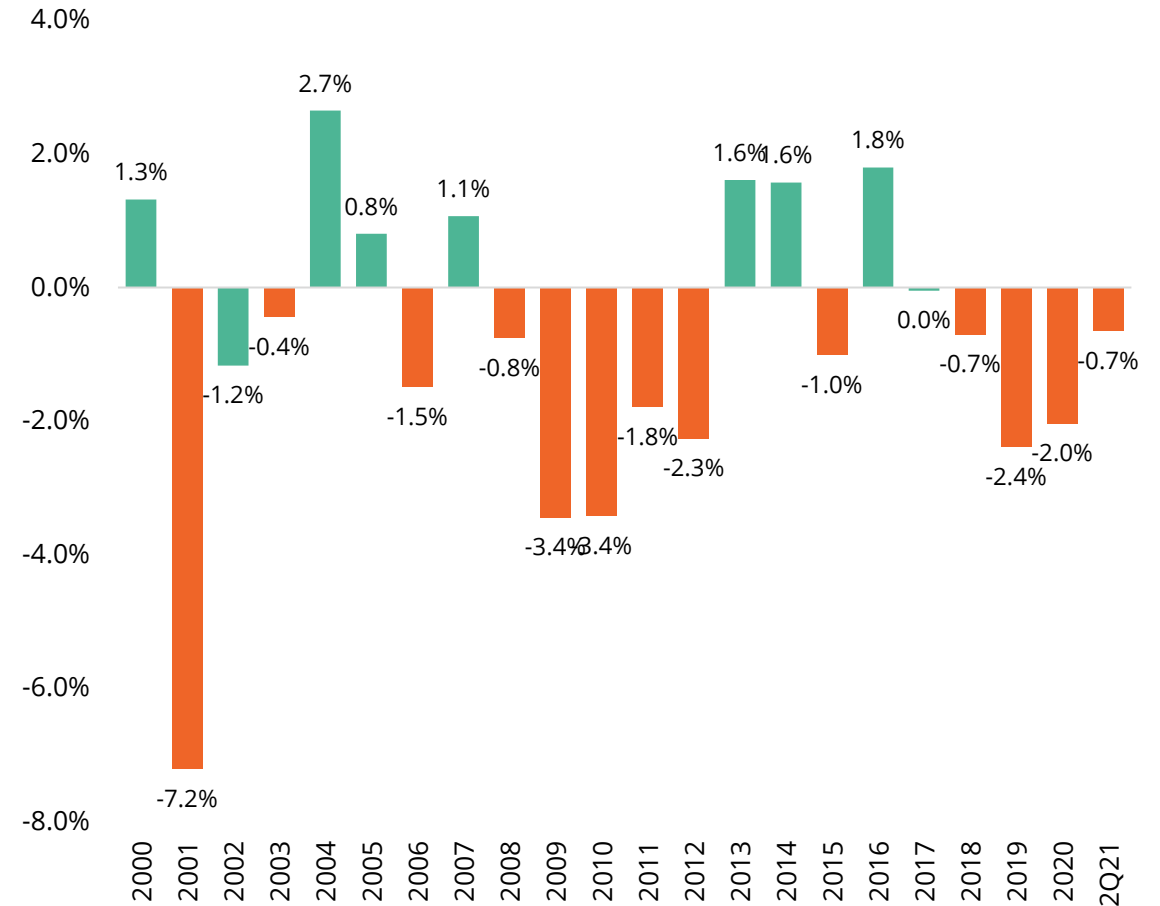
Source: CoStar

# 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.



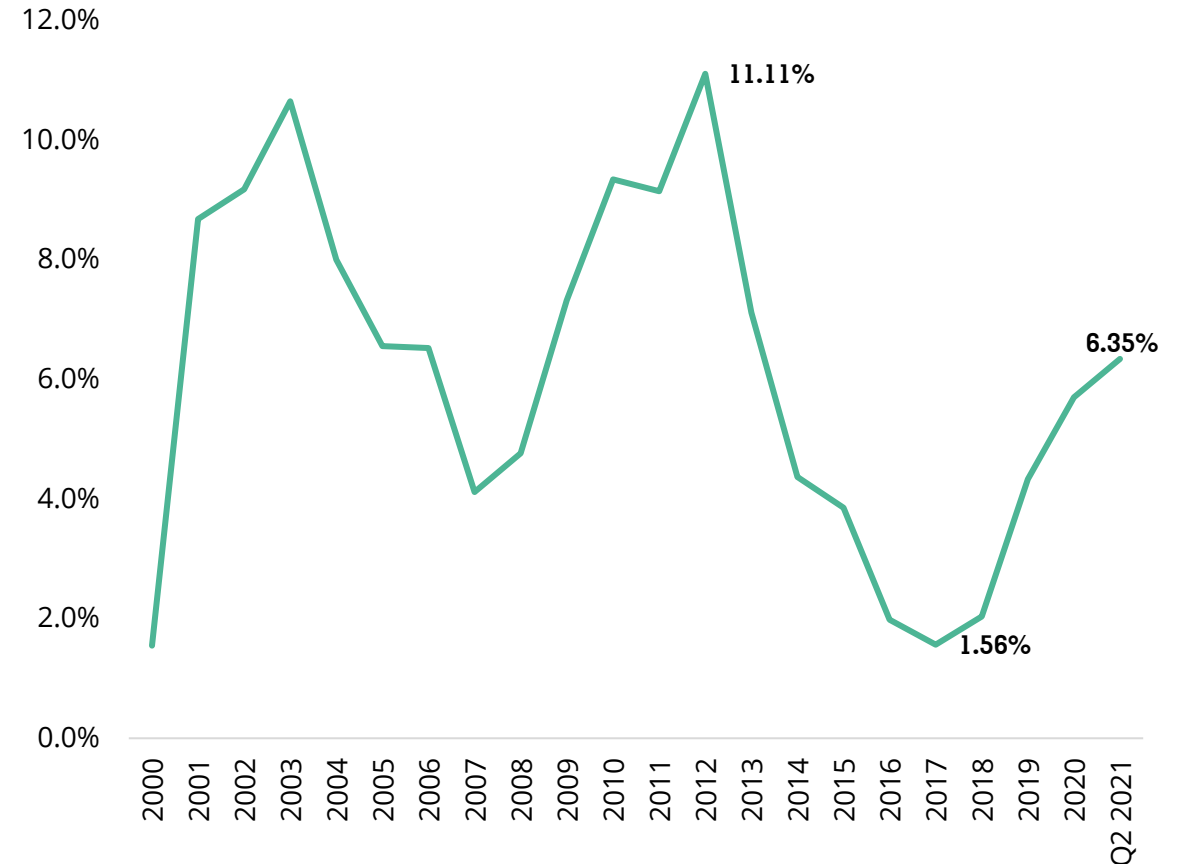
Note: Absorption is measured as the year-over-year change in occupied square feet.  
Source: CoStar

# 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

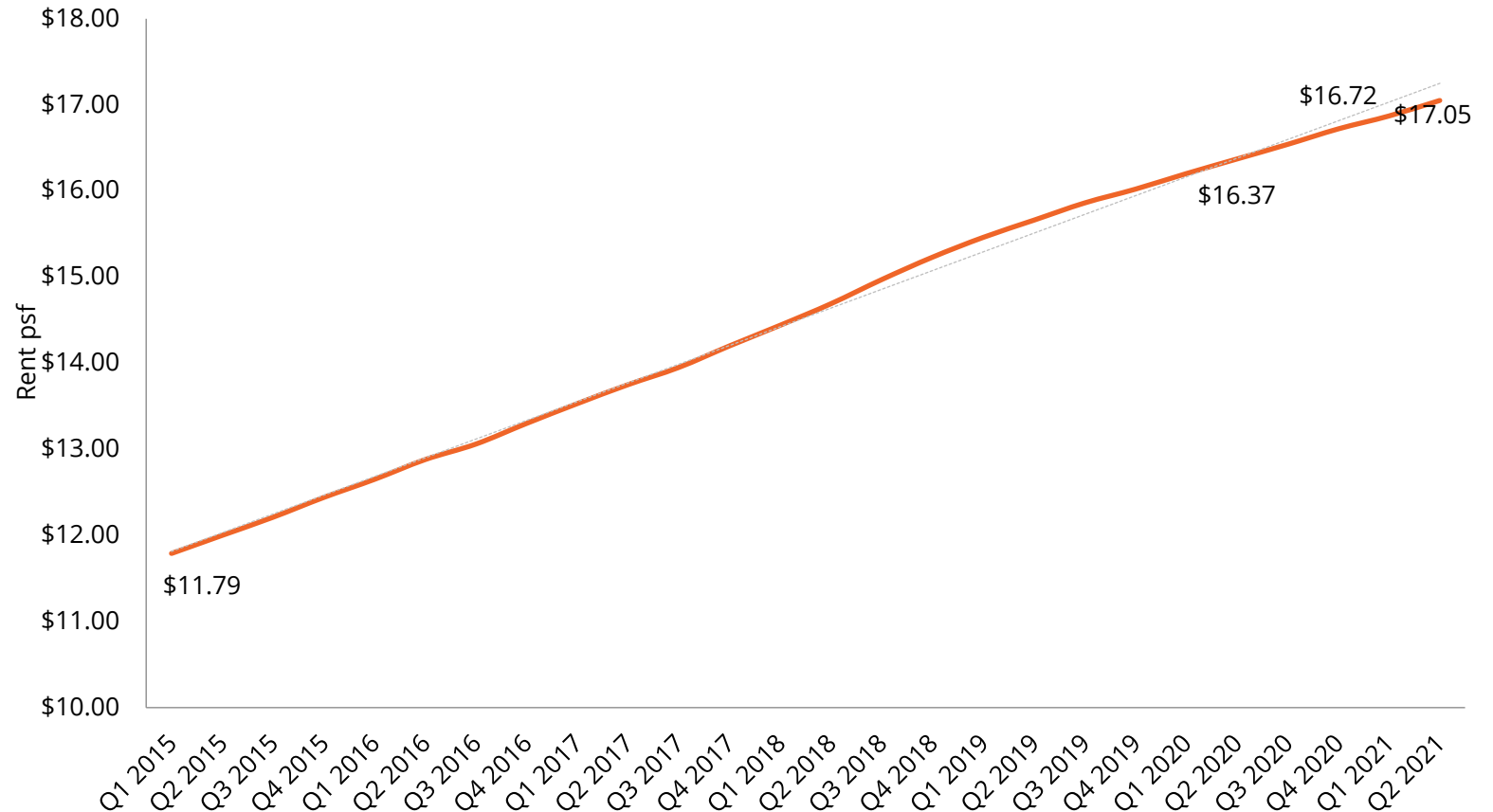


# Base rents

# +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**

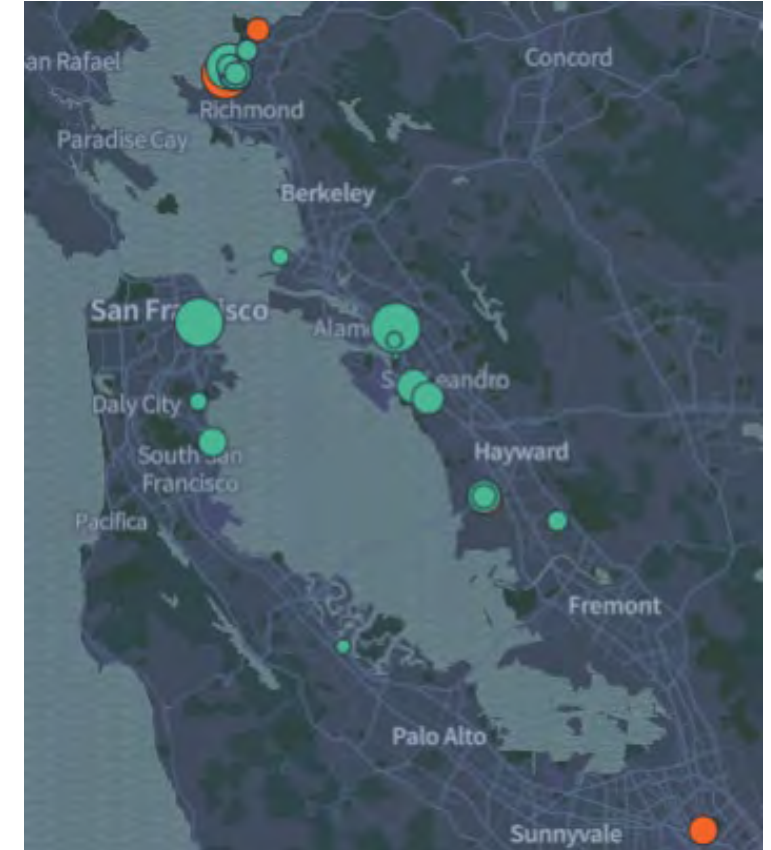
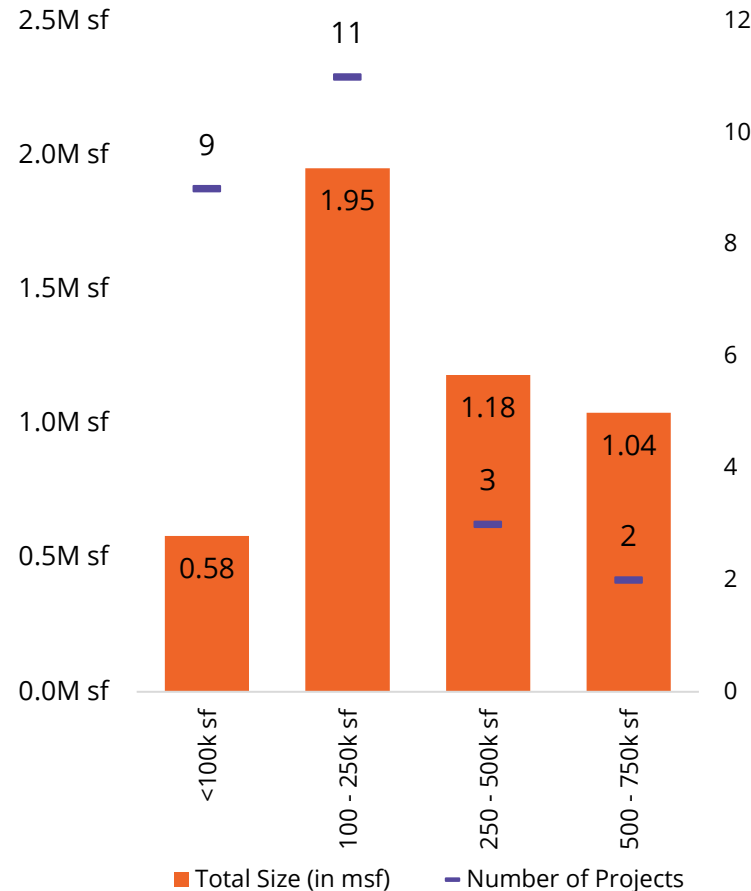
proposed or under  
construction

**2.9%**

share of industrial  
inventory

**Hayward**

Submarket with most  
ground-broken projects at 3



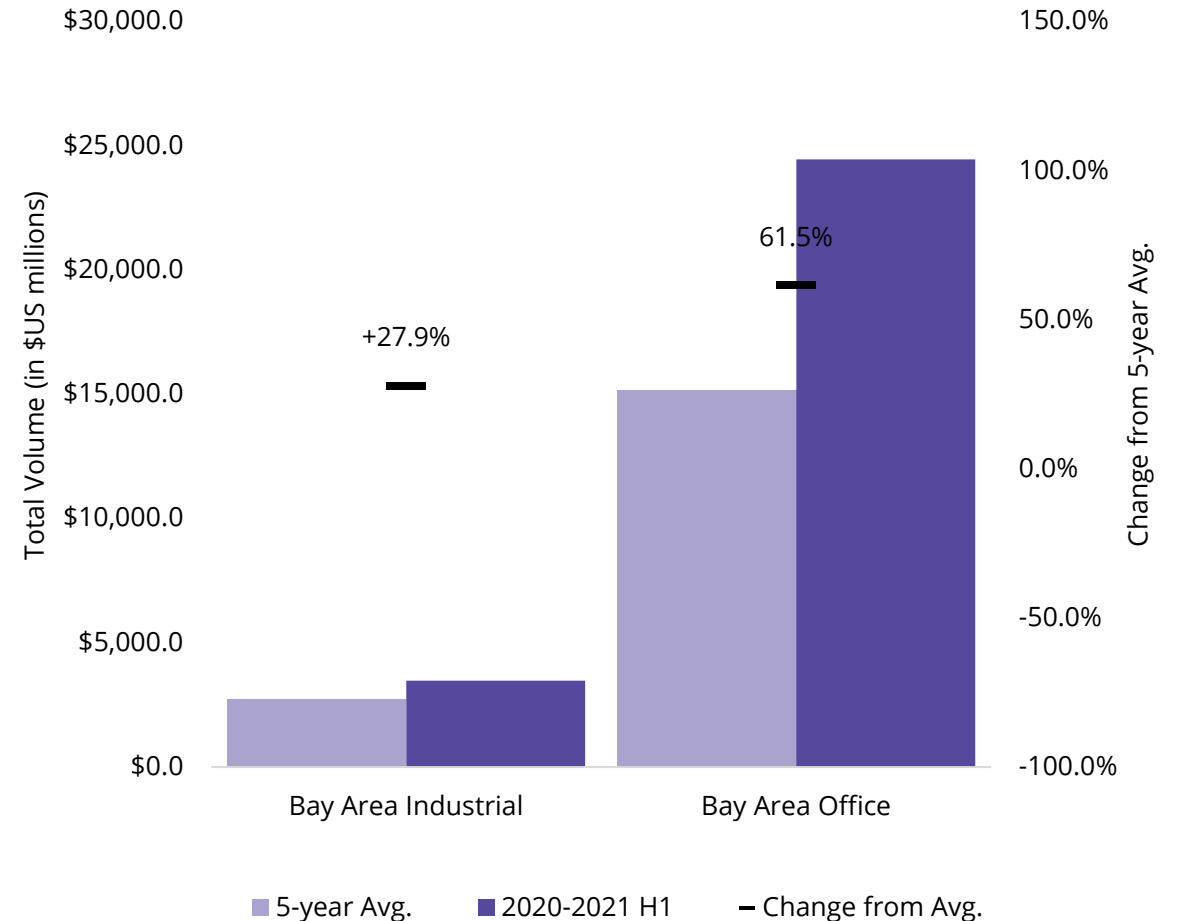
Source: AVANT by Avison Young

# 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

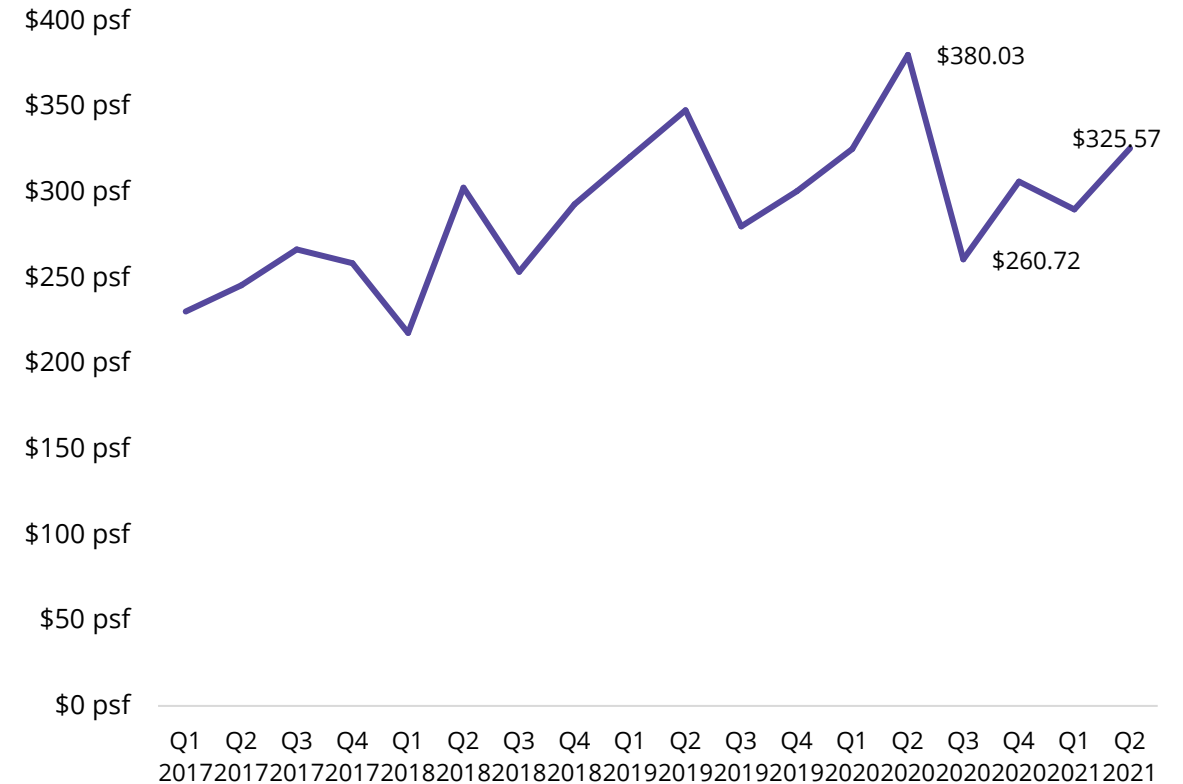


# Industrial asset pricing

# -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  
RCA

# Get in touch

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# Get in touch



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# Let's talk

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