

AVISON
YOUNG

San Mateo – Peninsula industrial market report

Q3 2021

AVANT
by AVISON YOUNG



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U.S. industrial drivers

NORTHERN CALIFORNIA INDUSTRIAL
INSIGHT REPORT

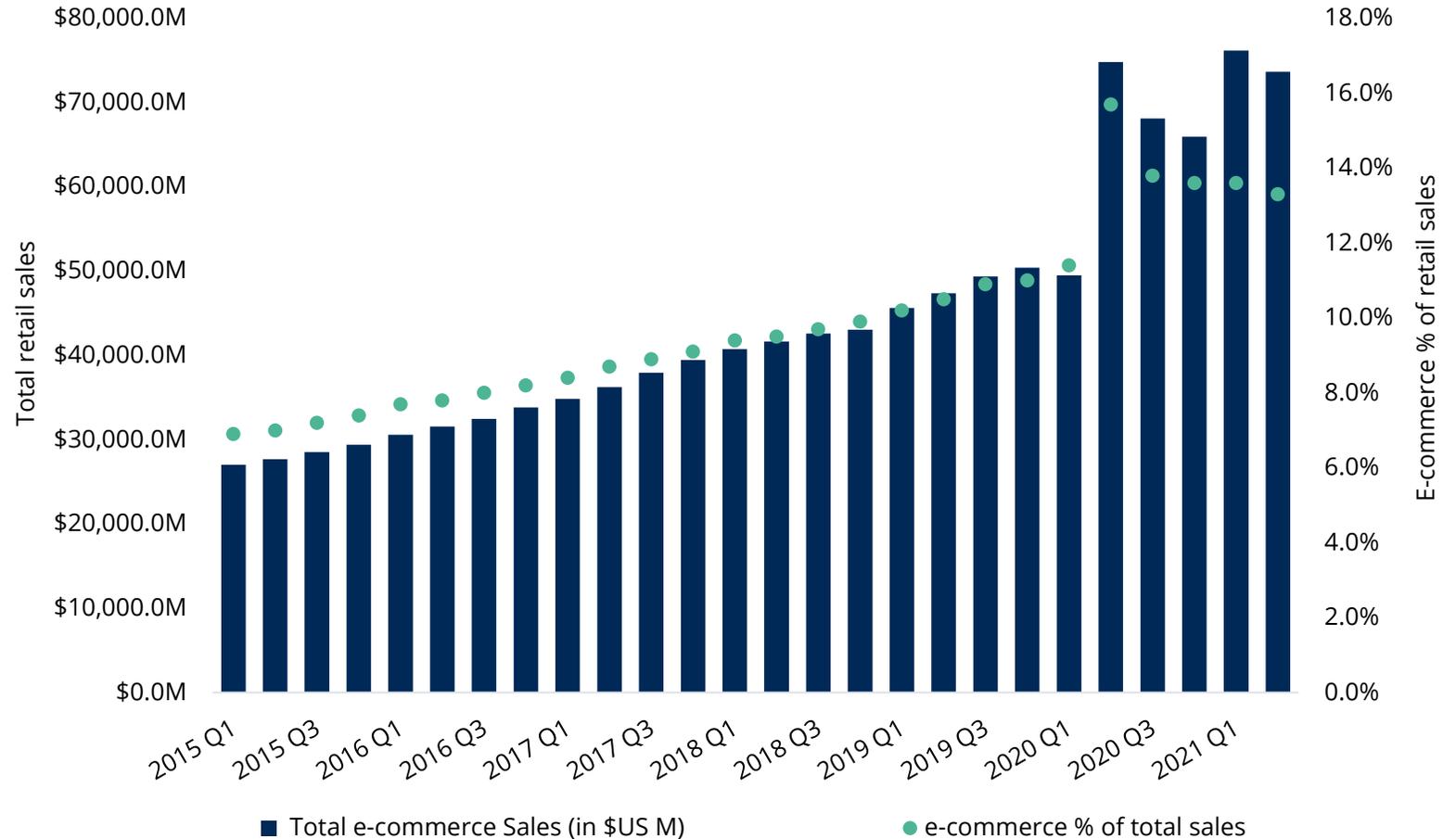
Q3 2021

U.S. total retail and e-commerce sales

13.3%

E-commerce share of overall retail sales in Q2 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.



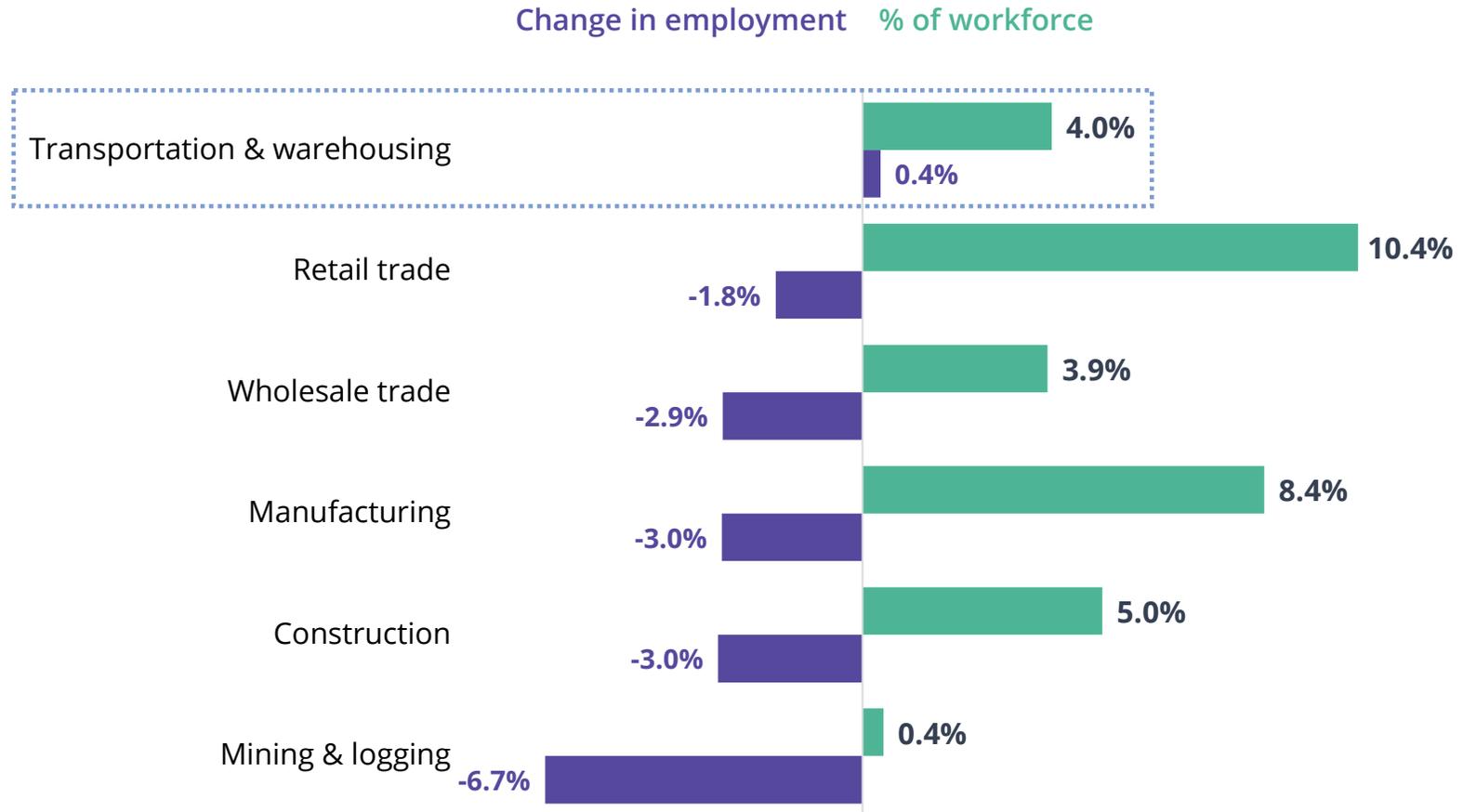
Source: Federal Reserve Bank of St. Louis
*Most recent update August 17, 2021

Industrial sector job gains and losses

+0.4%

Change in transportation and warehousing employment, February 2020 to July 2021

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



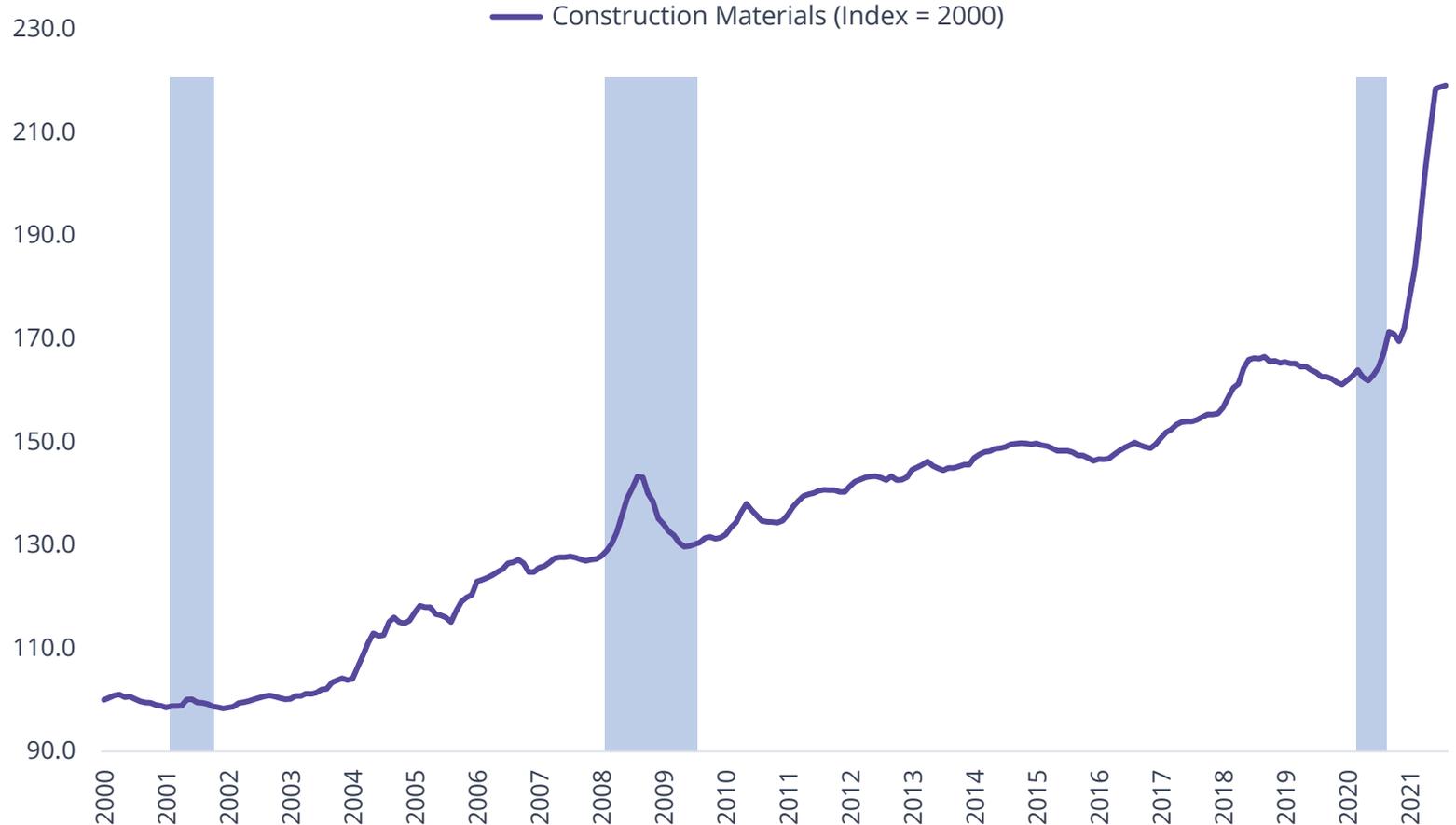
Note: Seasonally adjusted data.
Source: Bureau of Labor Statistics

Cost of construction materials

+35.3%

Construction Material Index cost from year-end 2020 to August 2021

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



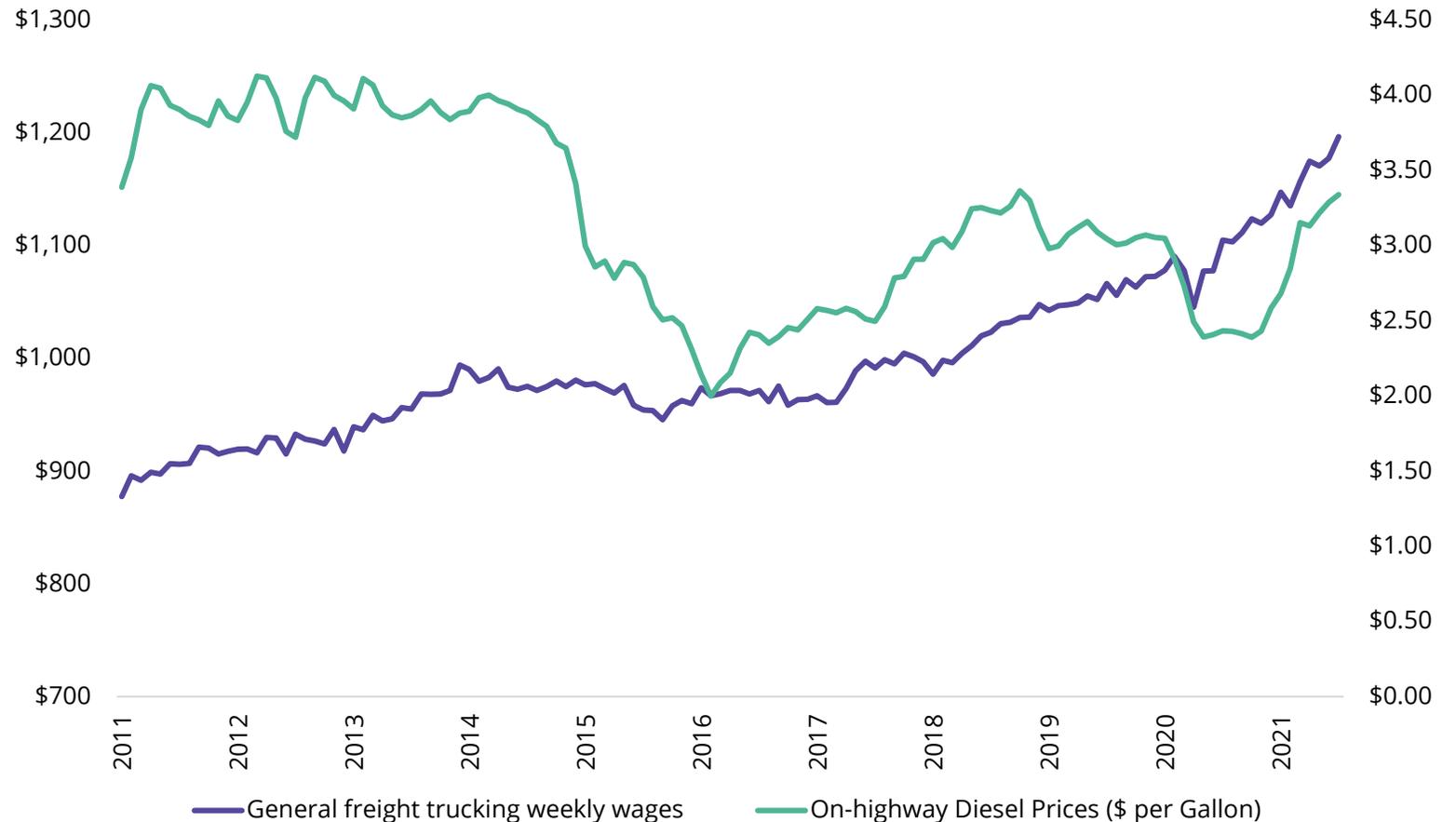
Source: Bureau of Labor Statistics

Fuel costs and freight trucking driver wages

+39.8%

**Diesel prices since
May 2020**

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.



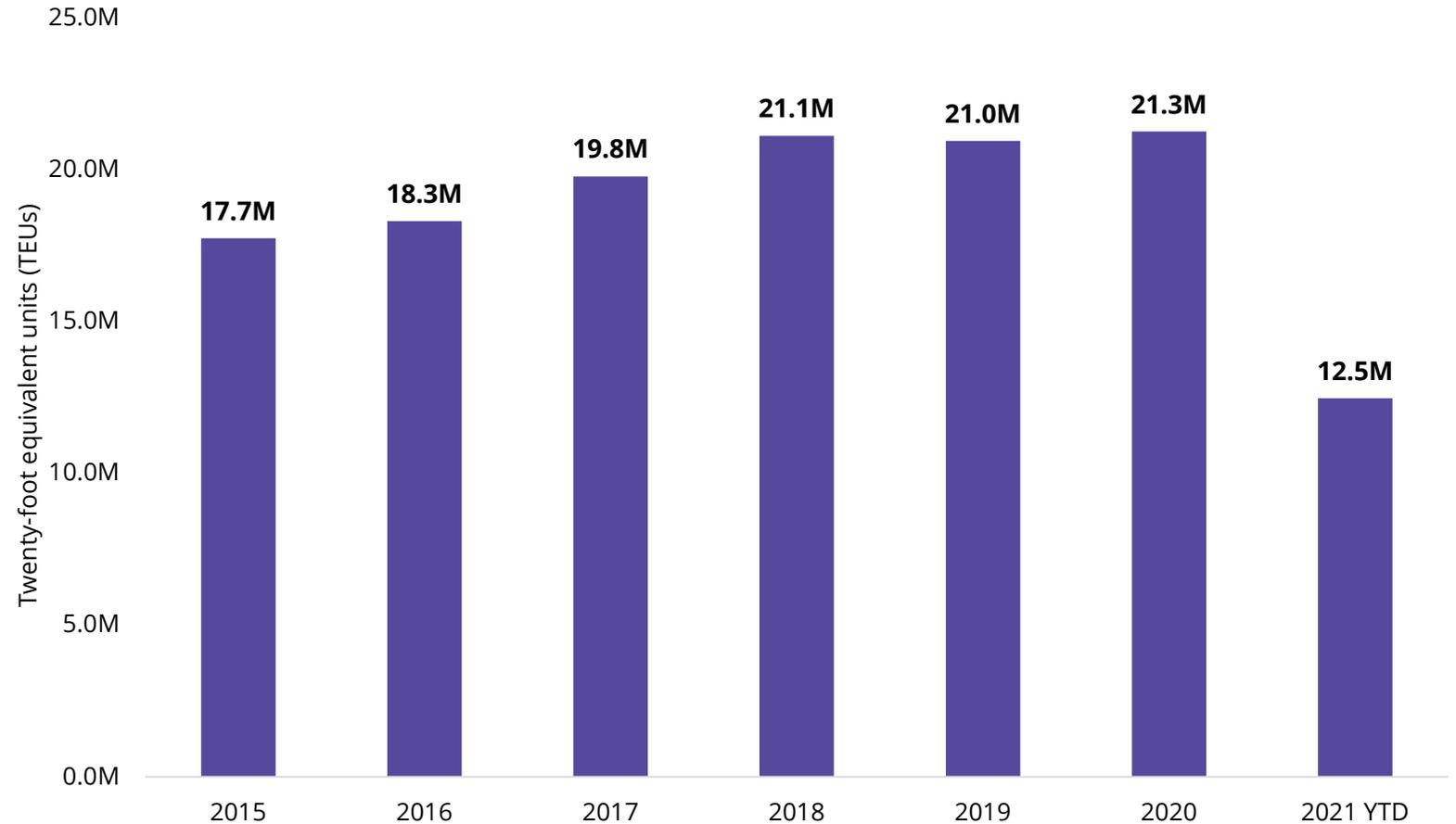
Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

Loaded import container volumes

+24.0%

**Change in cargo volumes,
H1 2020 vs. H1 2021**

Through June, loaded imports at major U.S. seaports are up significantly over the same period last year. While activity in 2020 was impacted by the pandemic, freight flows this year have been marred by supply chain disruptions at ports.



Note: Includes Los Angeles, Long Beach, New York / New Jersey, Savannah, Virginia, Houston, Charleston, Oakland, Seattle / Tacoma, Miami, Baltimore, Jacksonville ports.
Source: individual port authority websites

San Francisco Peninsula market fundamentals

NORTHERN CALIFORNIA INDUSTRIAL INSIGHT REPORT
Q3 2021

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 **4.6 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 **71.1 percent**.
- Although office workers across the metropolitan area just now begin to return to the office, the industrial workforce has shrunk by **3.7 percent** since the beginning of the pandemic in February 2020.



Industrial demand

- Overall leasing activity has seen a rebound since the peaks of the Covid-19 pandemic, seeing increases of **123 percent** when compared to 2020. This marks a return to levels last experienced in 2018-19.
- Net absorption is continuing a four-year stretch of negative absorption, with a combined 2020 and 2021 YTD absorption of **-3.6 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 **6.6 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 **40 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

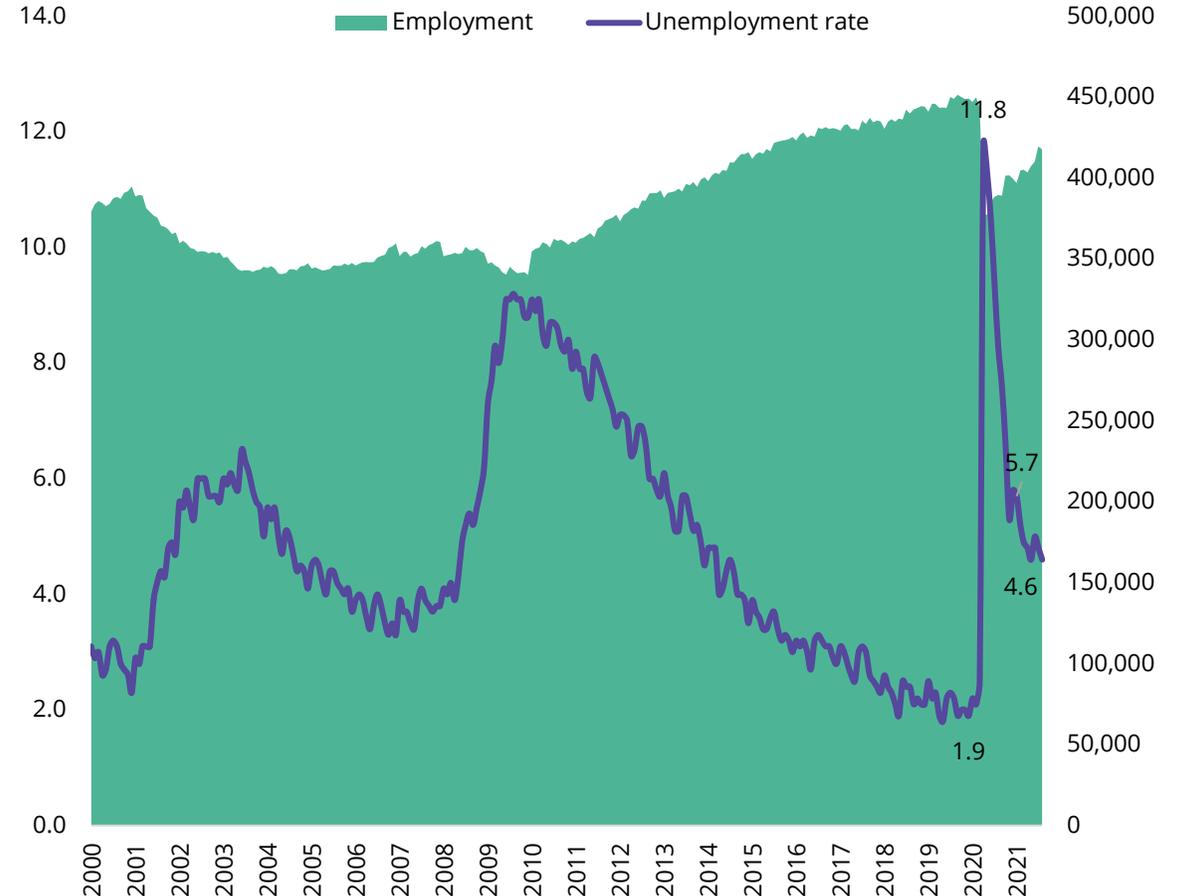
- Bay Area Industrial investment activity surges to **\$4.2 billion since 2020** as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- Investors continue capital deployment on industrial assets at a rate that is **57.4 percent** higher than the prior five-year average.

Employment and unemployment

4.6%

San Mateo unemployment rate as of May 2021, nearing levels last experienced in 2014

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

Industrial job gains and losses

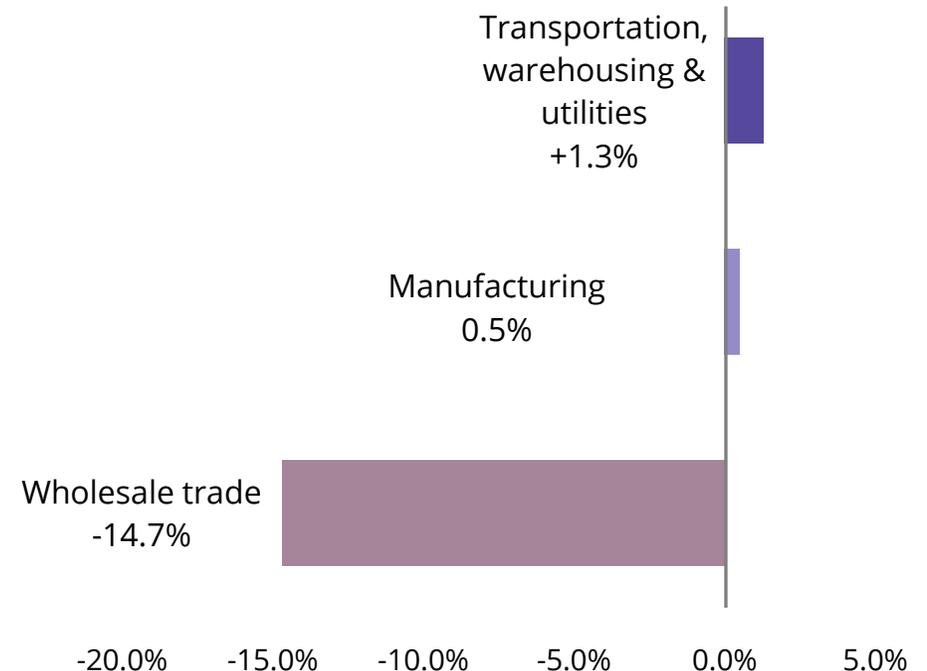
+ 1.3%

Change in industrial-centric employment during the pandemic

The Bay Area has experienced gains of 1.3% industrial employment over the last year, especially in the critical areas of transportation and logistics. This has remained steady even through this year, with the transportation, warehousing & utilities sector up 1.3% year-to-date.

Total change in Chicago MSA* job gains/(losses)

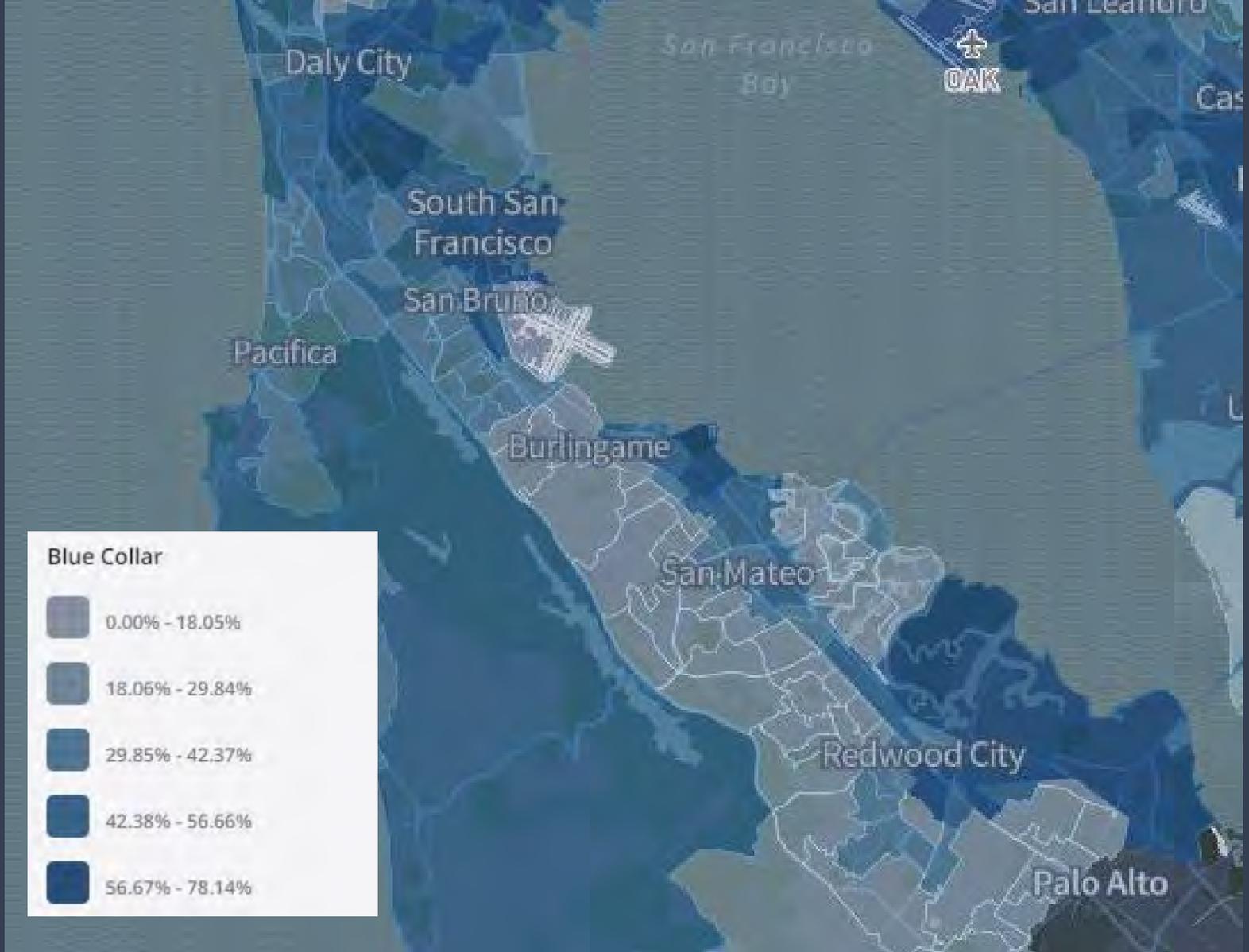
July 2020 to July 2021



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 the SF Peninsula's largest Industrial submarkets

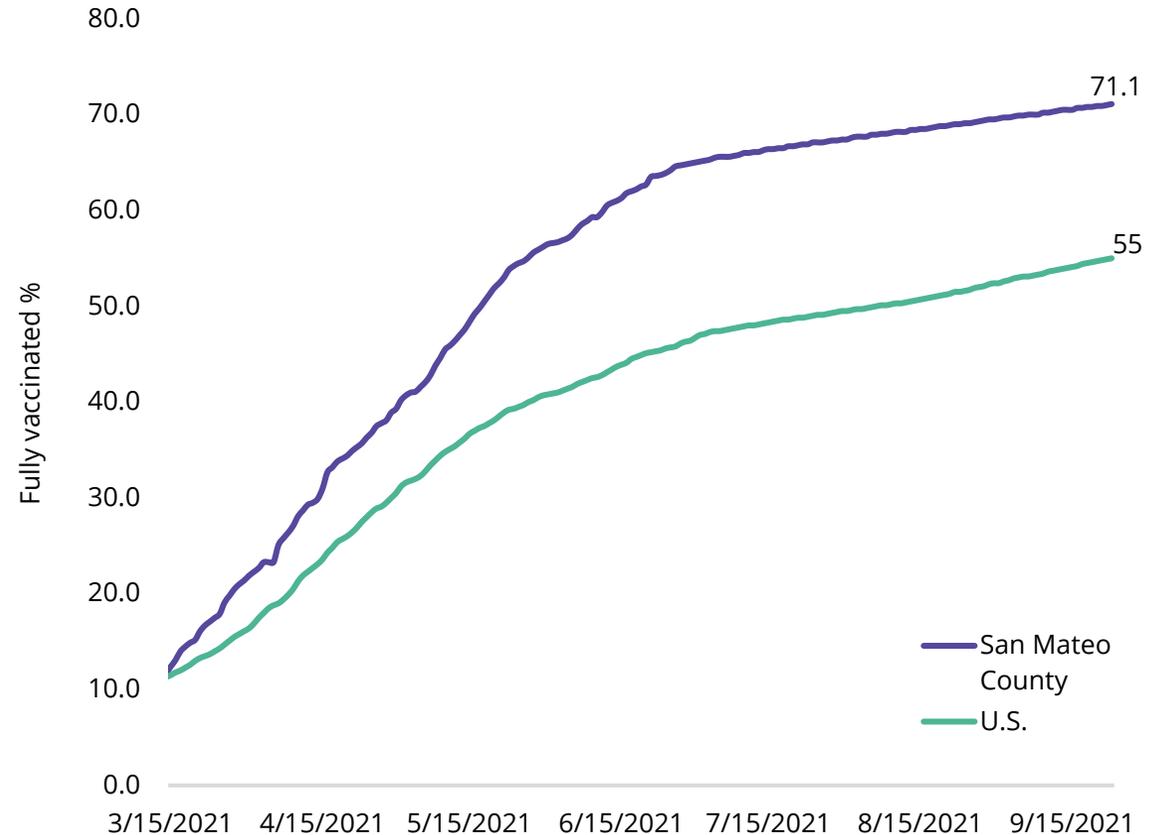


Vaccination rates

71.1%

Share of total San Mateo County population that is fully vaccinated

San Mateo County proportionate vaccination rates have far surpassed U.S. averages, an important metric that has allowed the city to loosen restrictions.



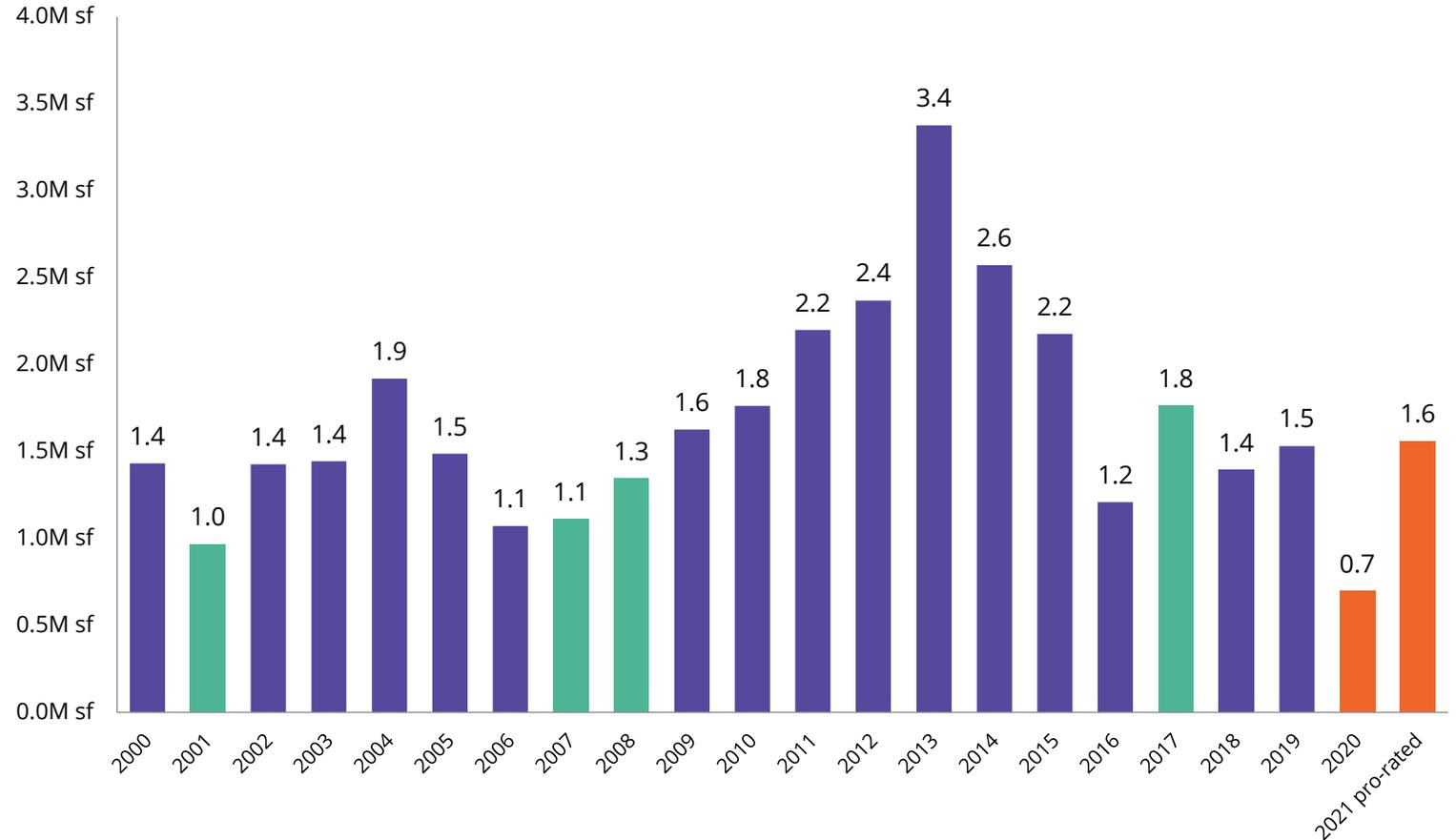
Source: CDC

Industrial leasing activity

+ 123%

**2020 vs pro-rated 2021
leasing activity**

After a down year in 2020, leasing activity has returned to recent averages in 2021, hitting volumes from 2018-19, but still below the high-water mark years of 2011-15.



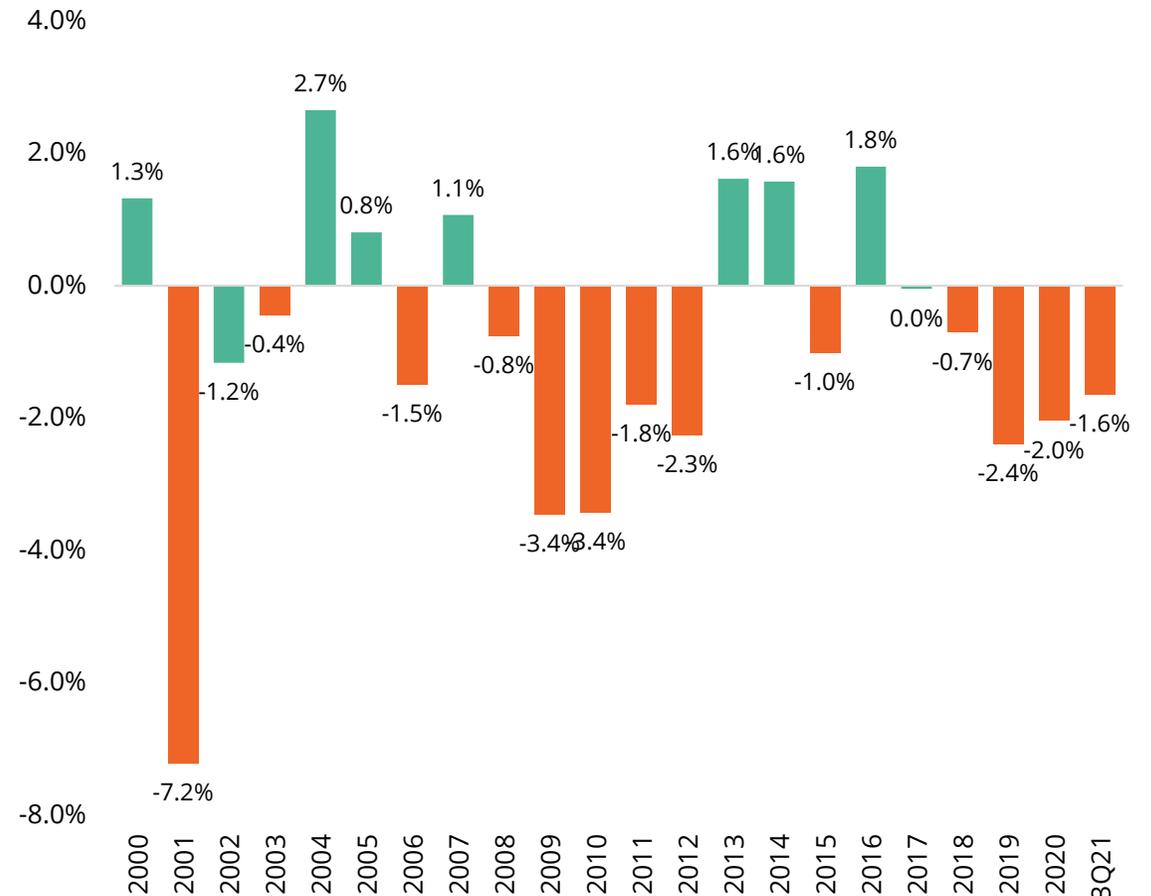
Source: CoStar

Industrial net absorption

-3.6%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through Q3 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

6.6%

Industrial vacancy continues to increase in Q3 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 6.6% in Q3 2021 keeps in line with the direction in which the Peninsula has been trending.



Source: CoStar

Big-box demand drives construction

25 properties

Proposed, under construction or under renovation

4.8 msf

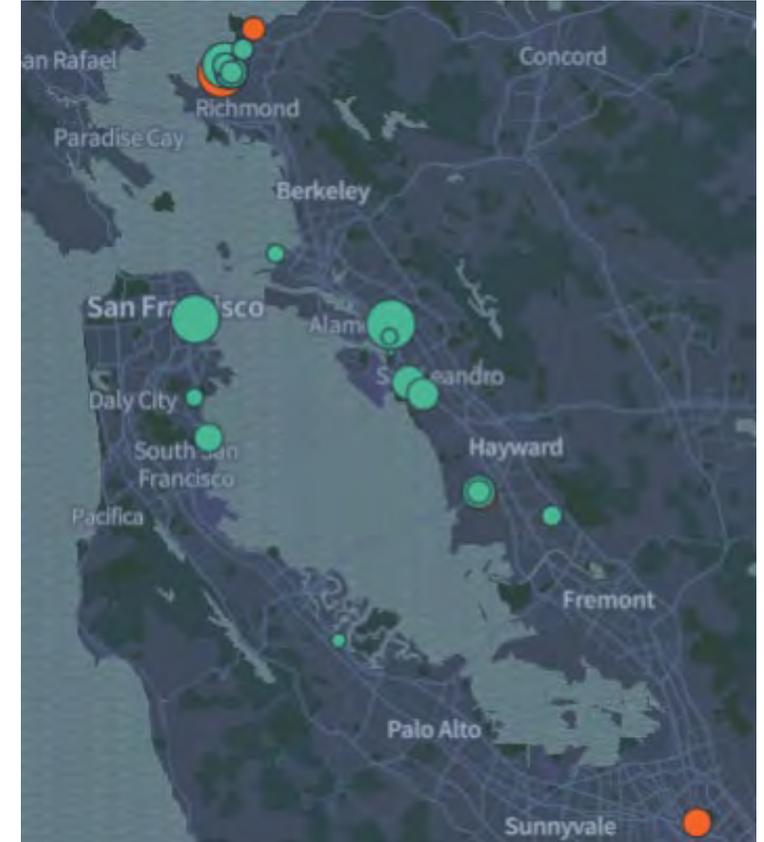
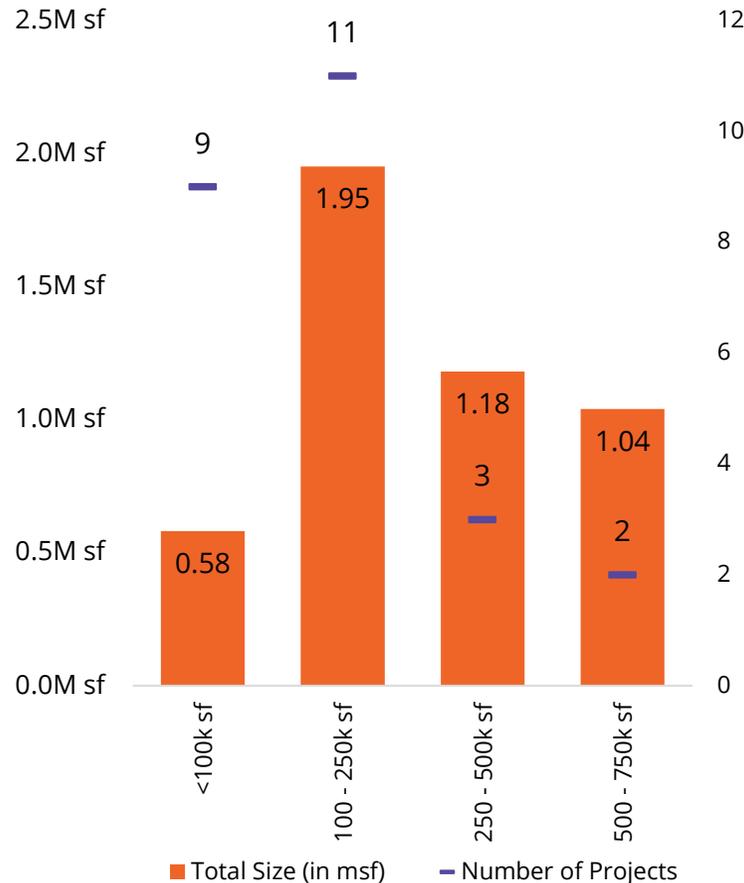
proposed or under construction

2.9%

share of industrial inventory

Hayward

Submarket with most ground-broken projects at 3



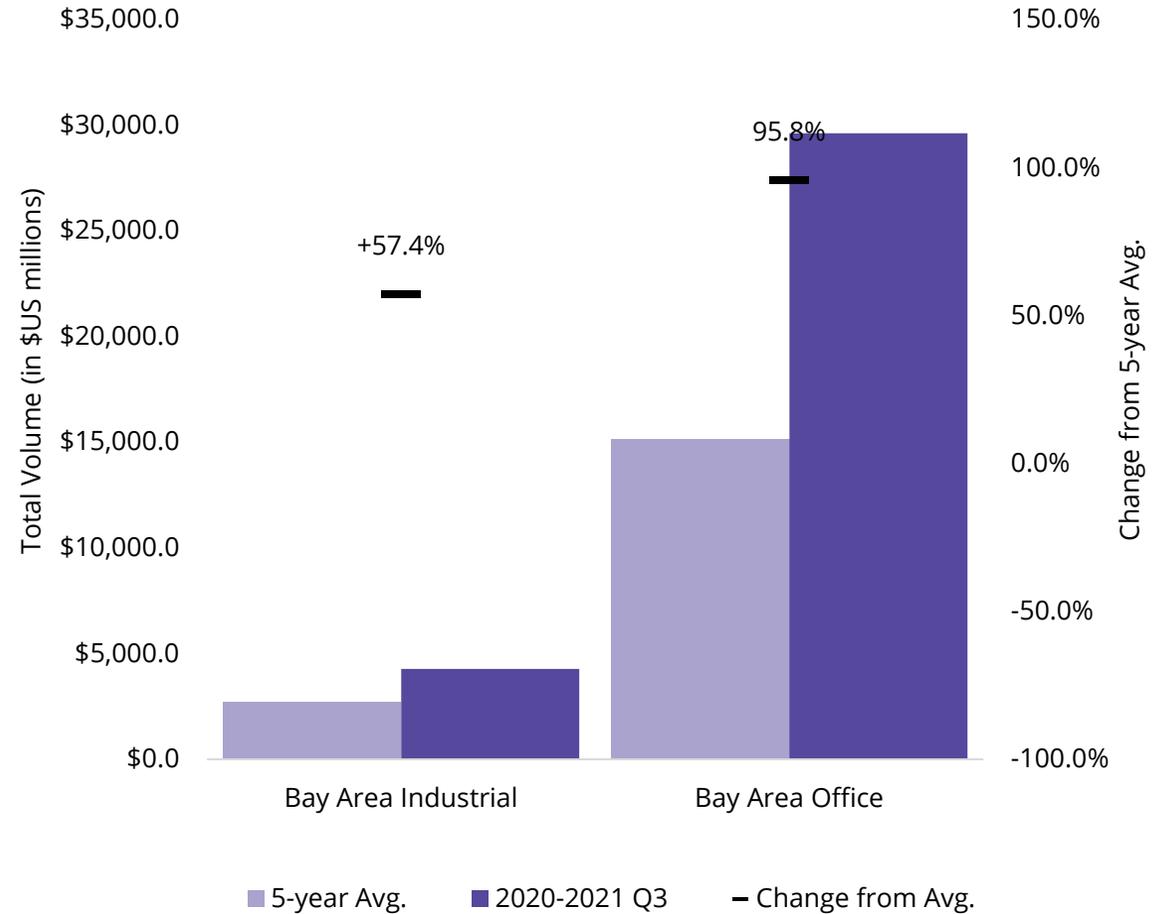
Source: AVANT by Avison Young

Investment dollar volume

\$4.3B

Industrial dollar volume, 2020 to Q3 2021

Industrial sales have been steadily increasing since the peaks of the Covid-19 Pandemic. During Q3 2021, over \$800 million of deals were completed, making the total deal volume since the beginning of 2020 \$4.3 billion.



Source: AVANT by Avison Young
RCA

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Let's talk

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