



AVISON  
YOUNG

# Northern California industrial insight report

Q3 2021

**AVANT**  
by AVISON YOUNG





# Contents

U.S. industrial drivers	page 3
S.F. Bay Area industrial insights	page 9
S.F. Peninsula market fundamentals	page 14
East Bay - Oakland market fundamentals	page 23
Silicon Valley market fundamentals	page 32
Sacramento market fundamentals	page 41
Get in touch	page 53

© 2021 Avison Young Chicago. All rights reserved.

E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.





AVISON  
YOUNG

# U.S. industrial drivers

NORTHERN CALIFORNIA INDUSTRIAL  
INSIGHT REPORT

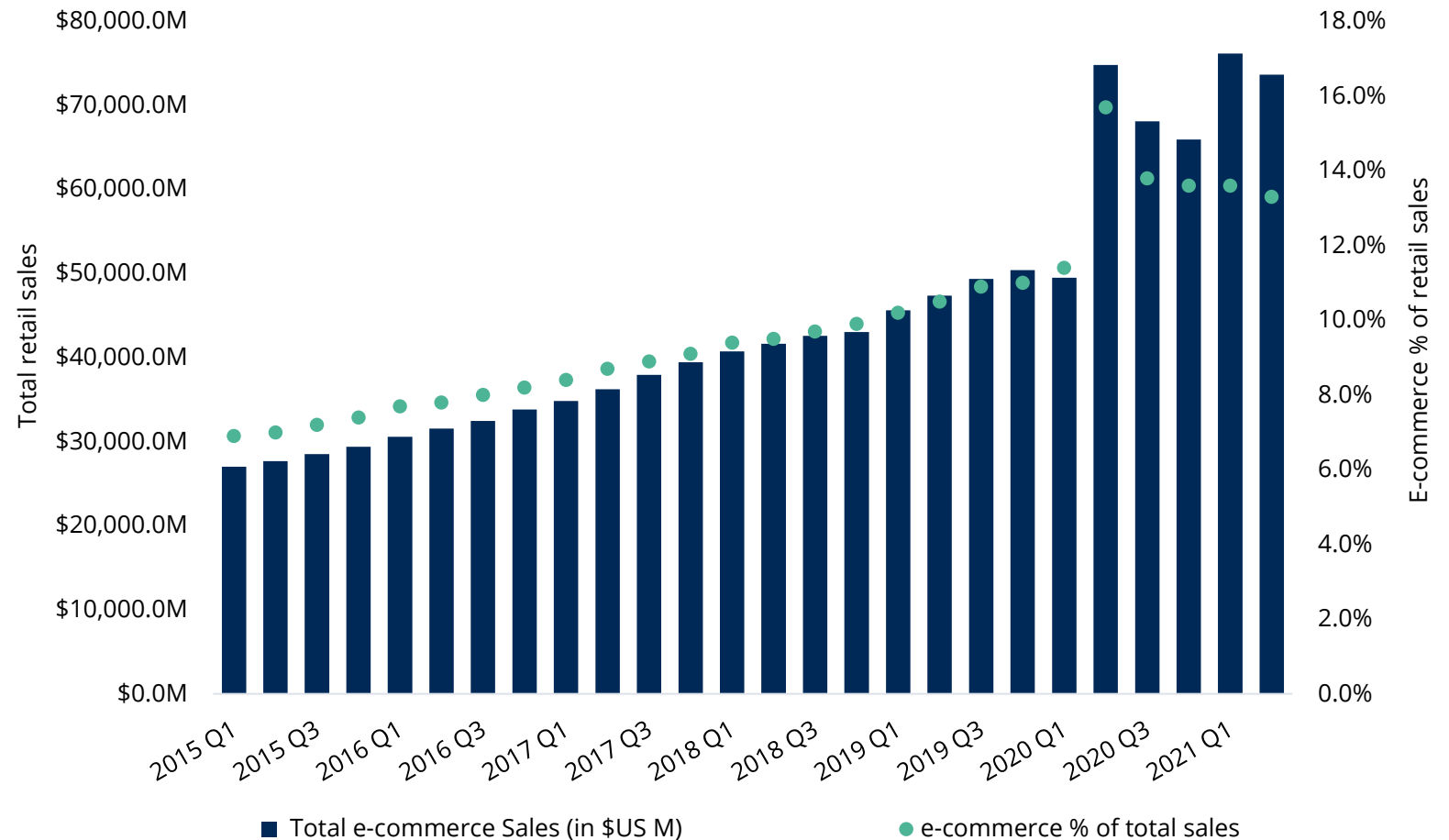
**Q3 2021**

# 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

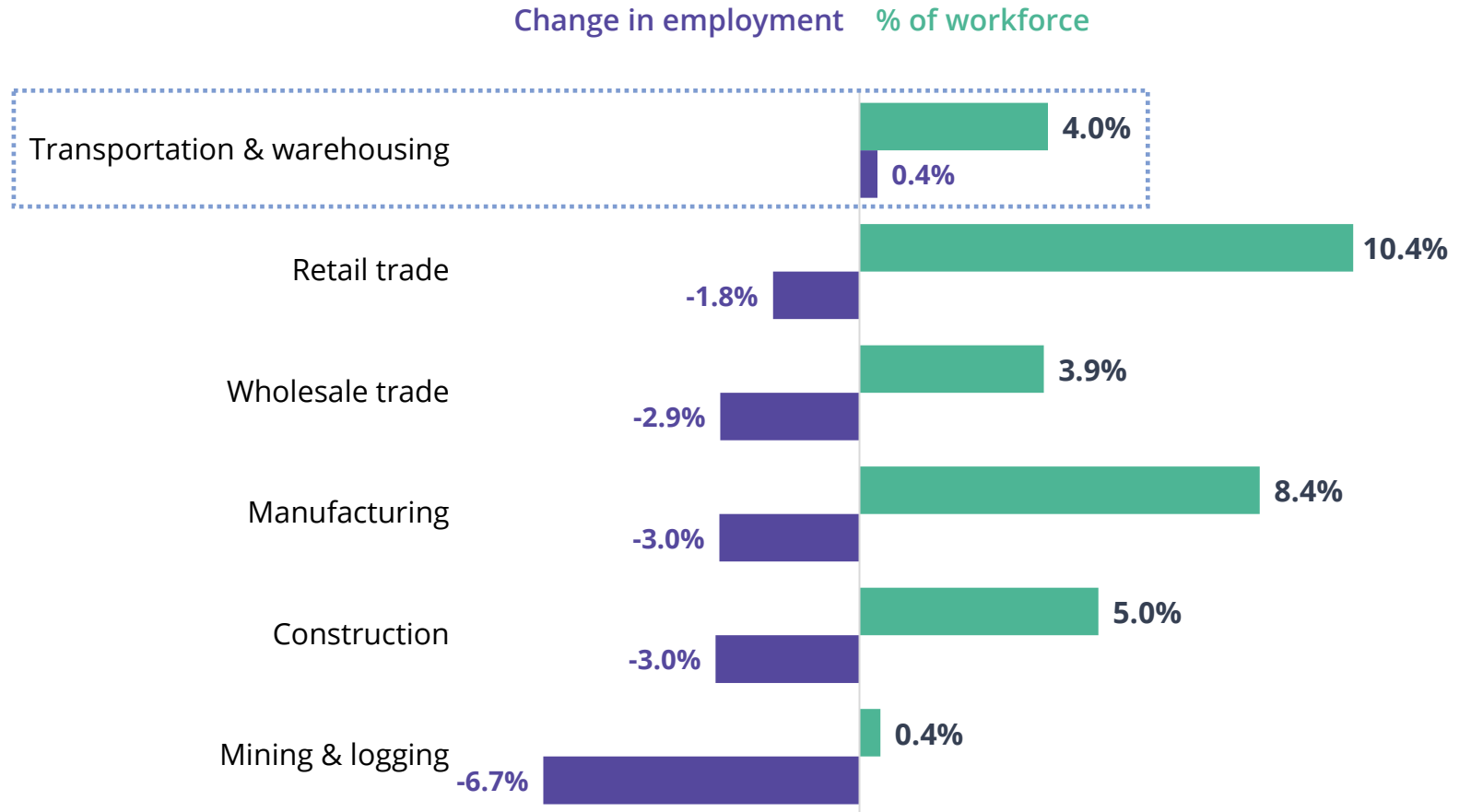


# Industrial sector job gains and losses

# +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.



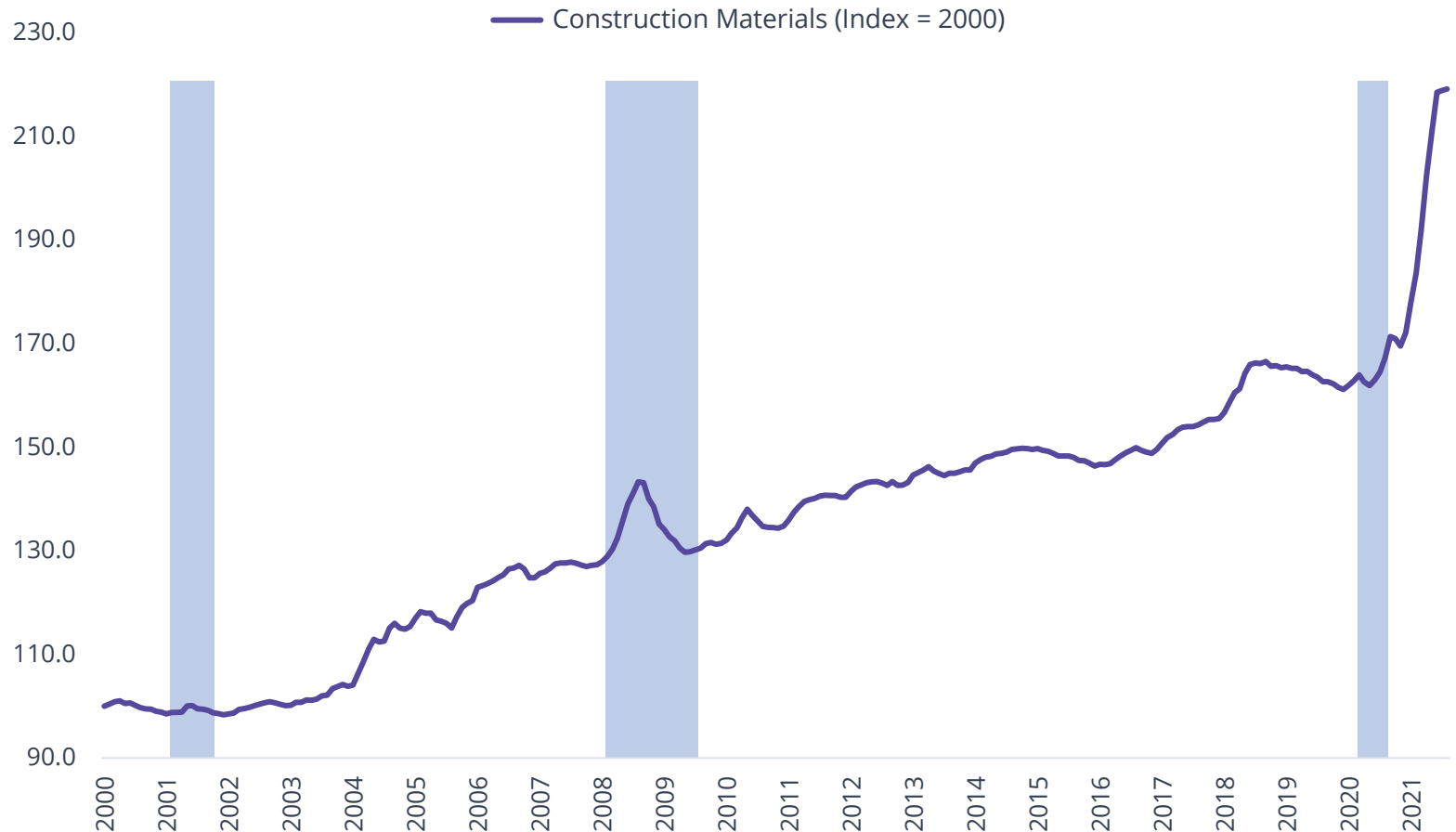
Note: Seasonally adjusted data.  
Source: Bureau of Labor Statistics

# 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.



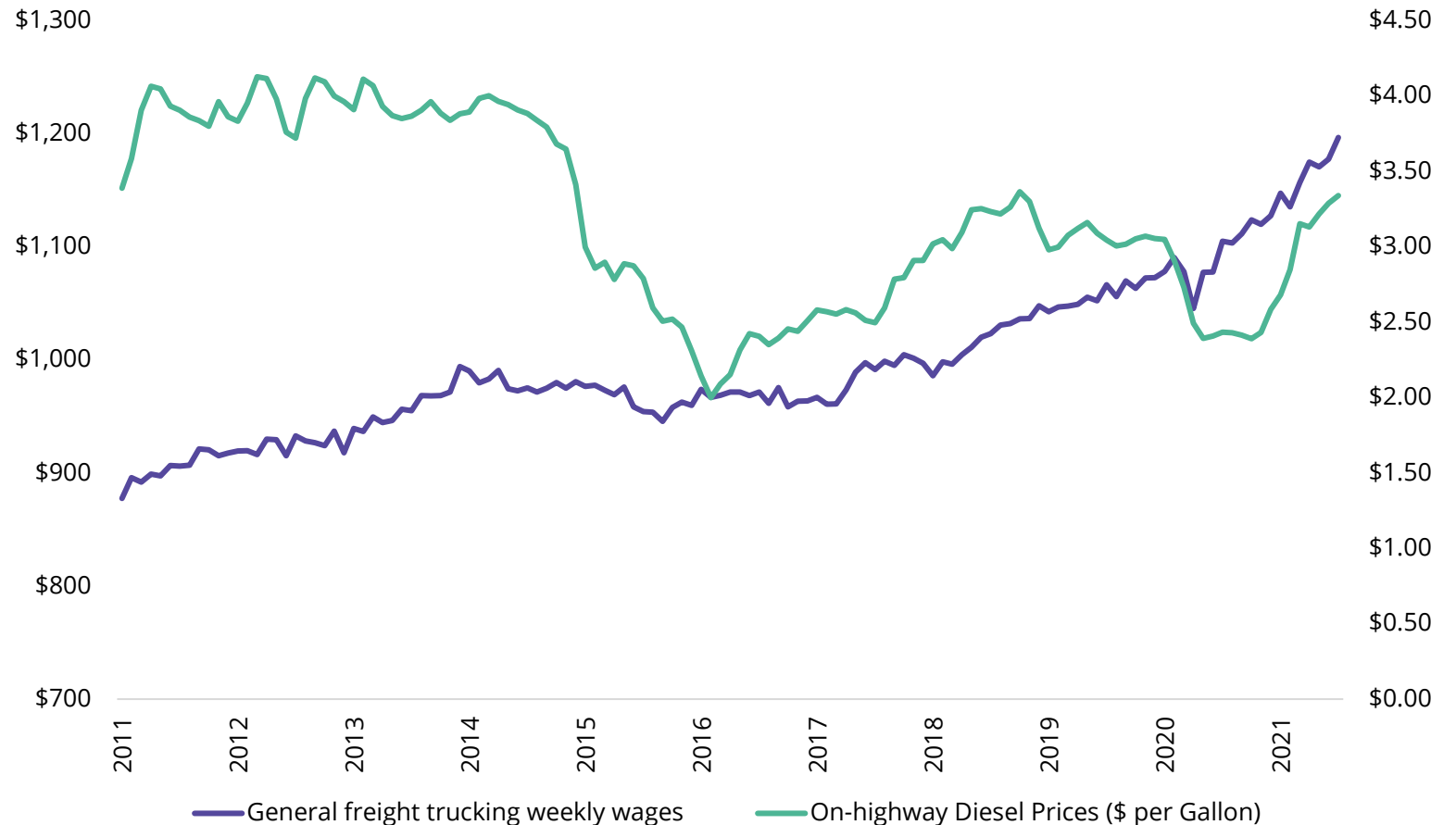
Source: Bureau of Labor Statistics

# 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.



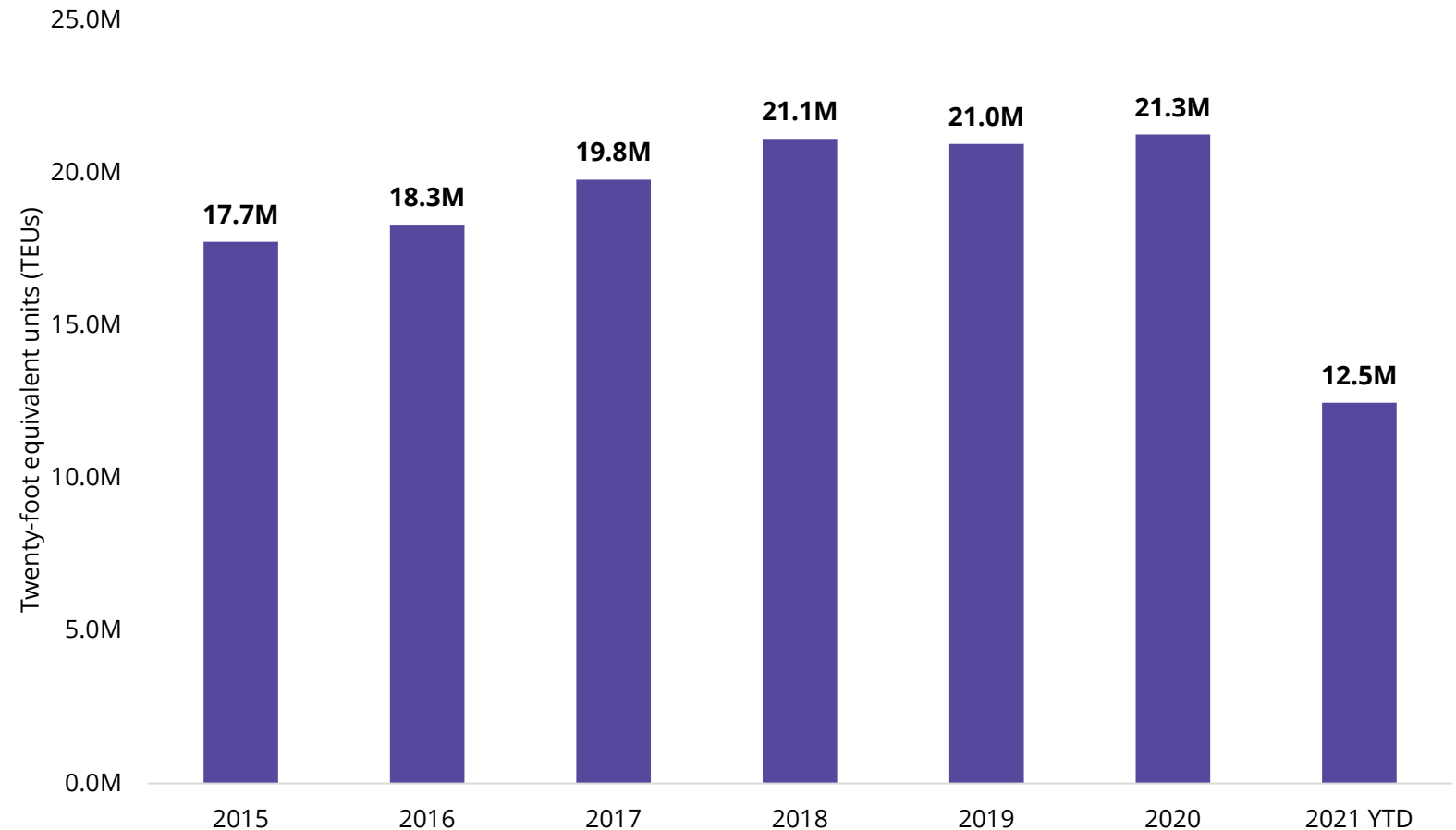
Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

# 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 Bay Area market fundamentals

NORTHERN CALIFORNIA INDUSTRIAL INSIGHT REPORT  
Q3 2021

# Industrial job gains and losses

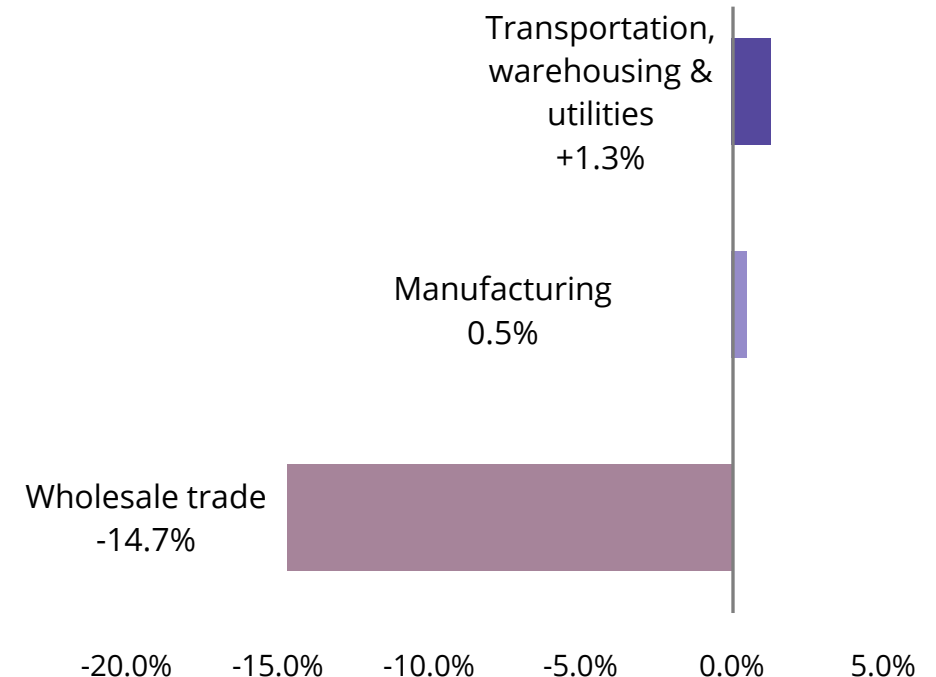
# +1.3%

## 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



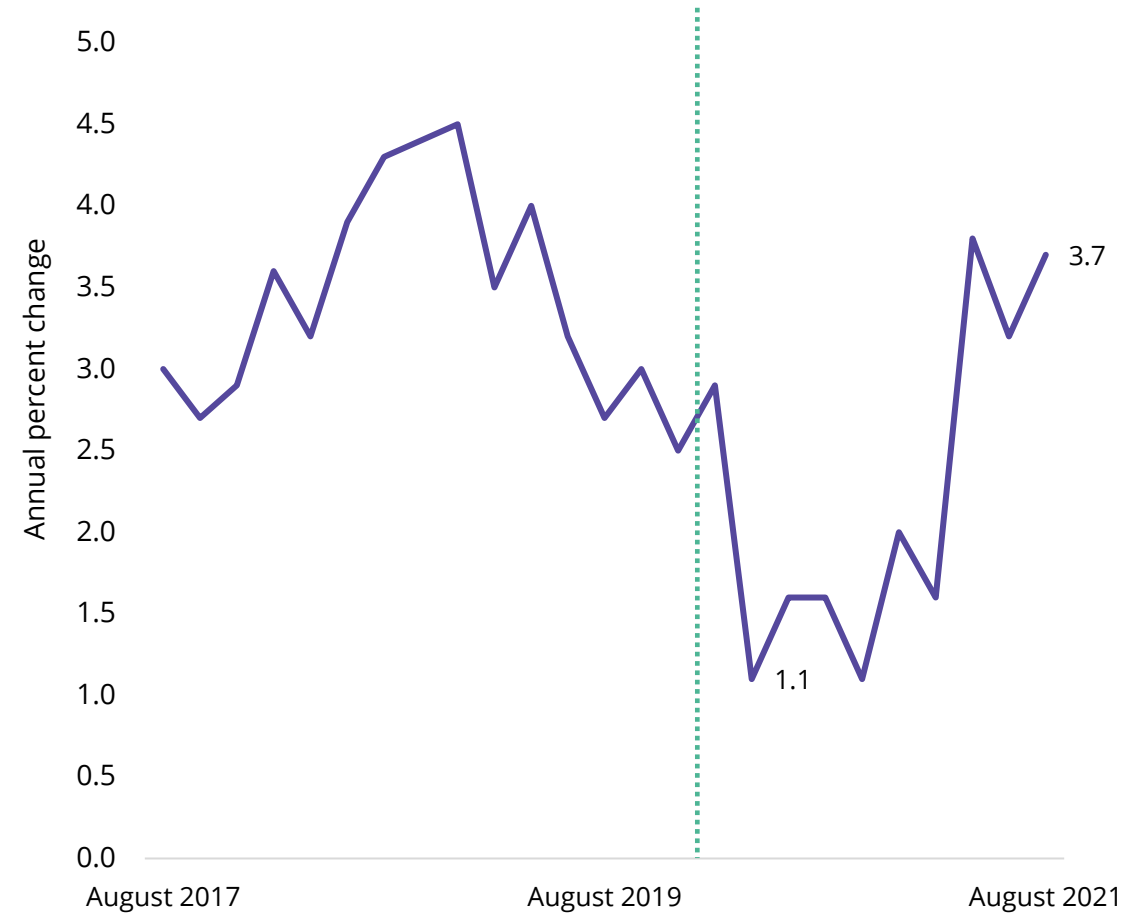
Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics

# Inflation rates

# +3.7%

## Year-over-year change in Consumer Price Index for the Bay Area, all items

Bay Area consumer prices have been increasing as the local economy has reopened. Despite some volatility in pricing, lingering supply chain disruptions have impacted many sectors and could keep inflation at higher-than-normal levels. Bay Area food prices rose by 5.7% annually in August, with food at home prices rising significantly above away from home. CPI less food & energy increased a significant 2.5% over a year ago.



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



# Big-box demand drives construction

**25 properties**

Proposed, under construction  
or under renovation

**4.8 msf**

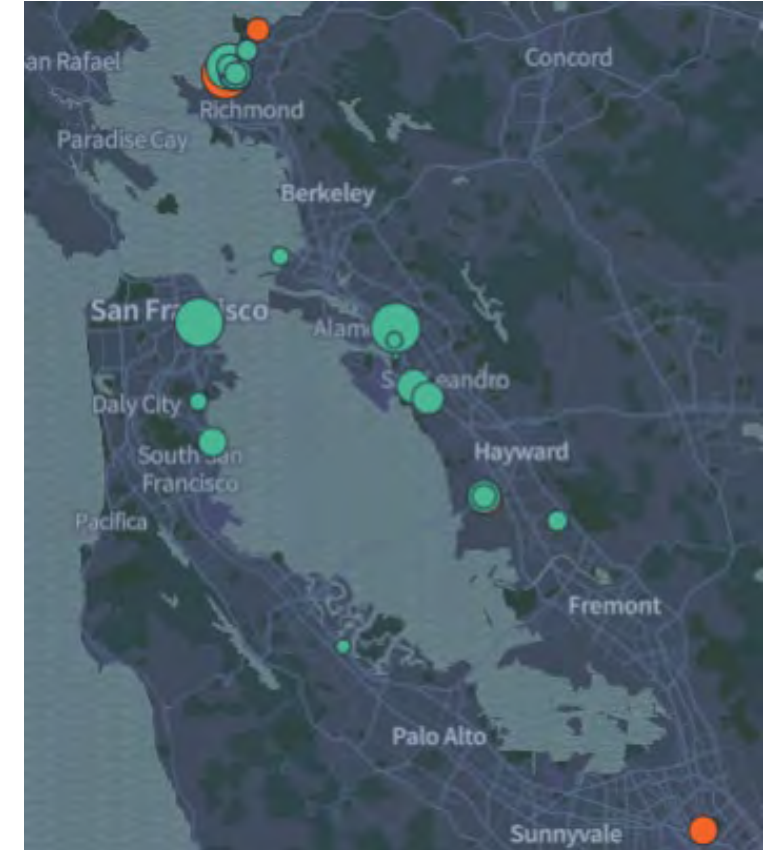
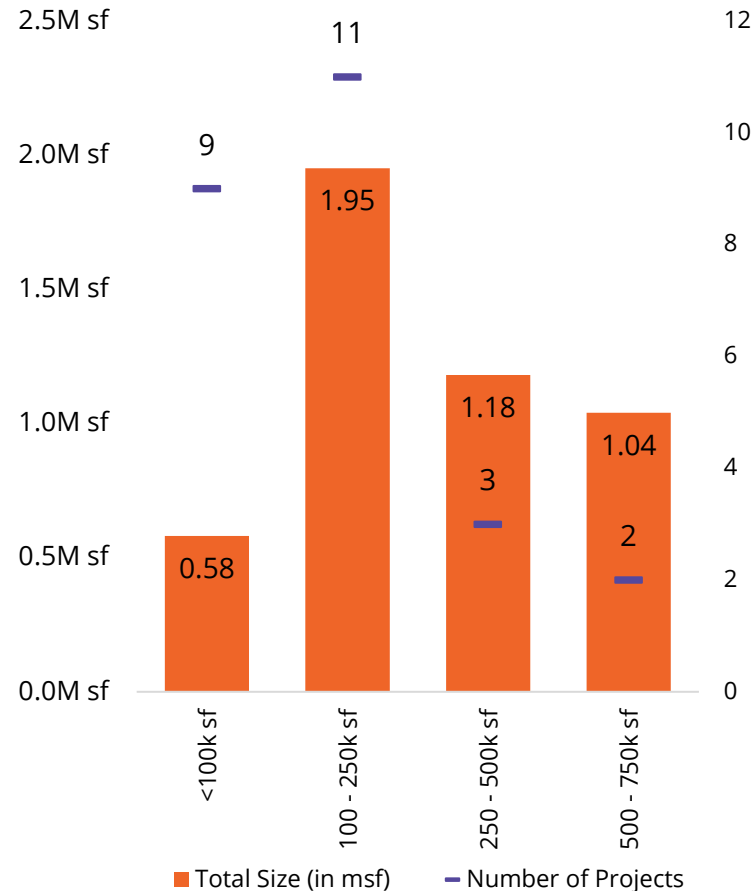
proposed or under  
construction

**2.9%**

share of industrial  
inventory

**Hayward**

Submarket with most  
ground-broken projects at 3



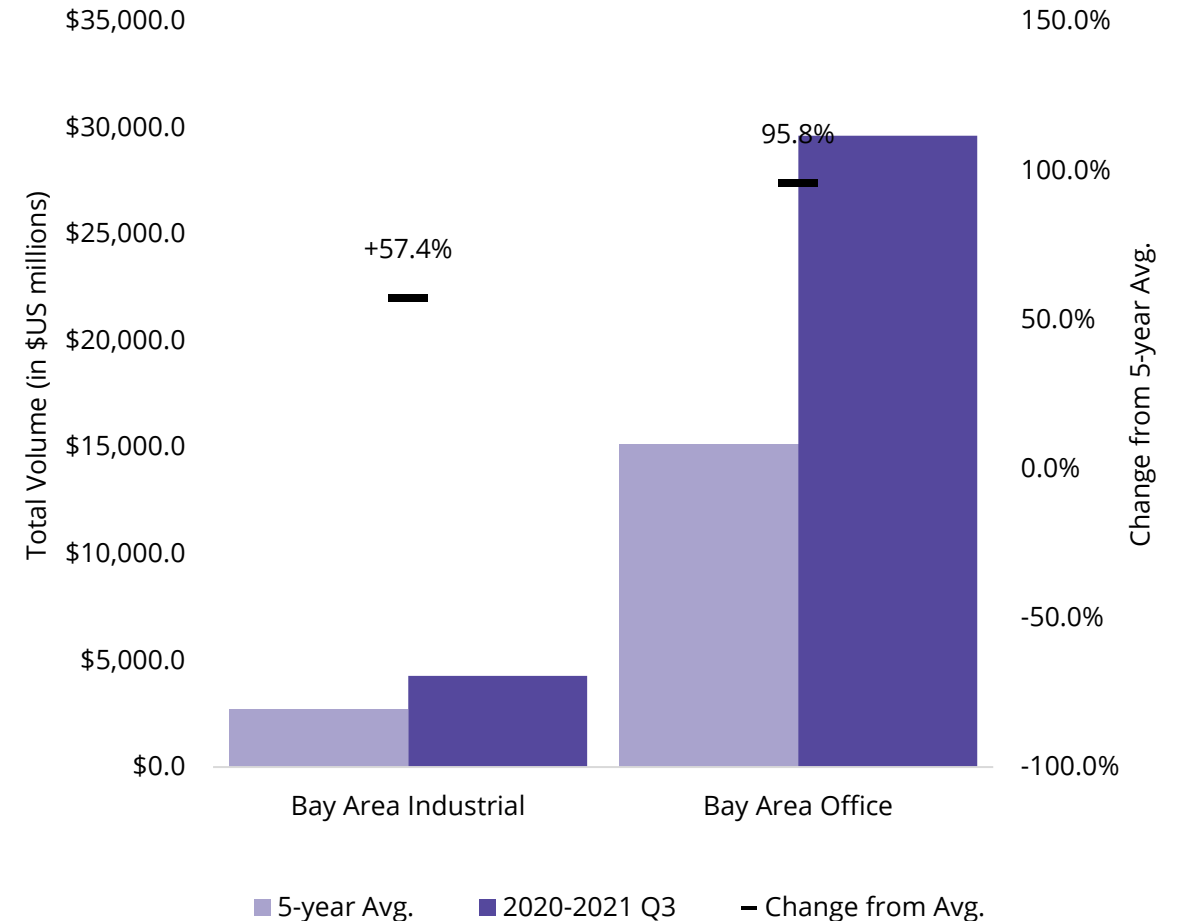
Source: AVANT by Avison Young

# 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

# 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 4<sup>th</sup> 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.

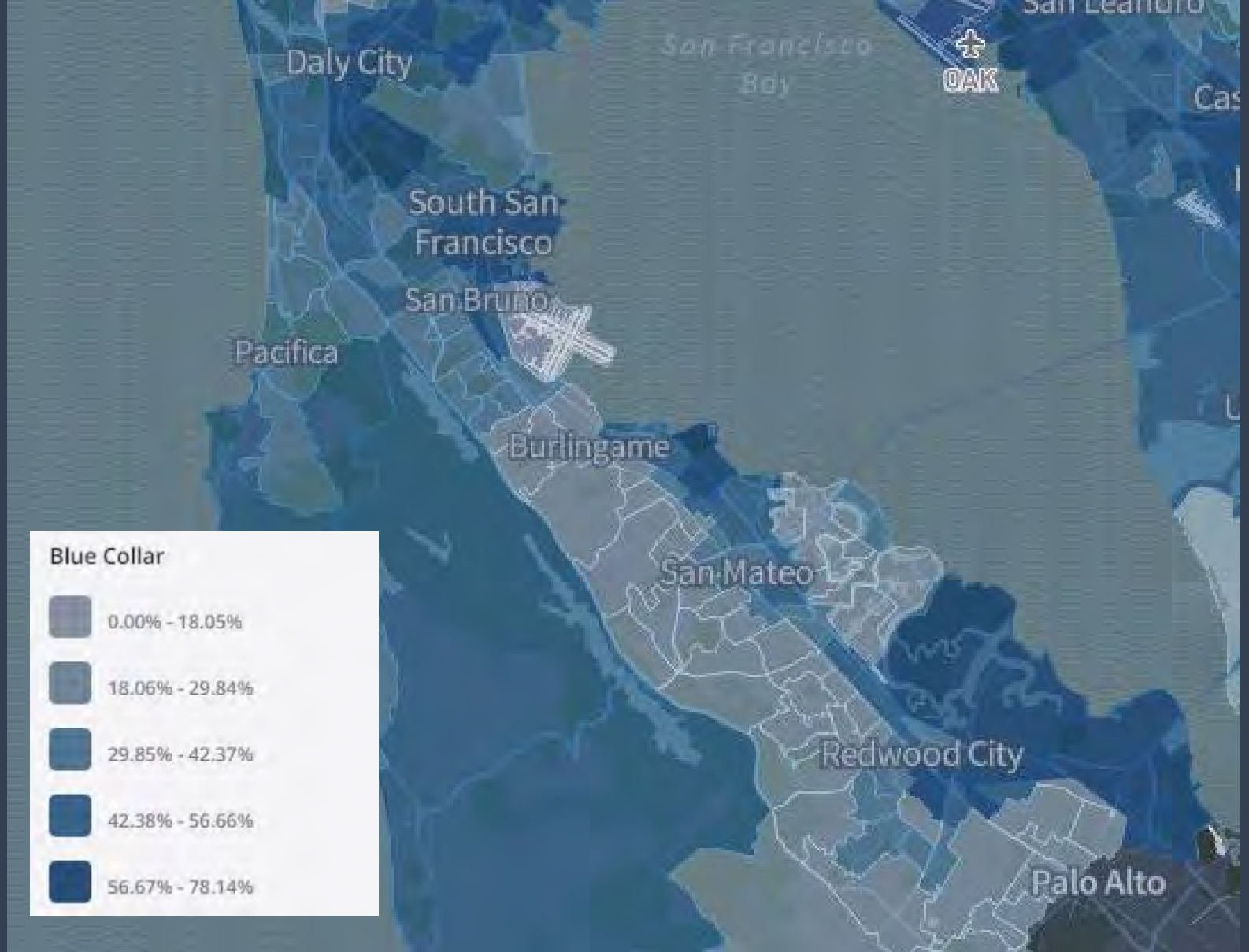


Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics



# 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

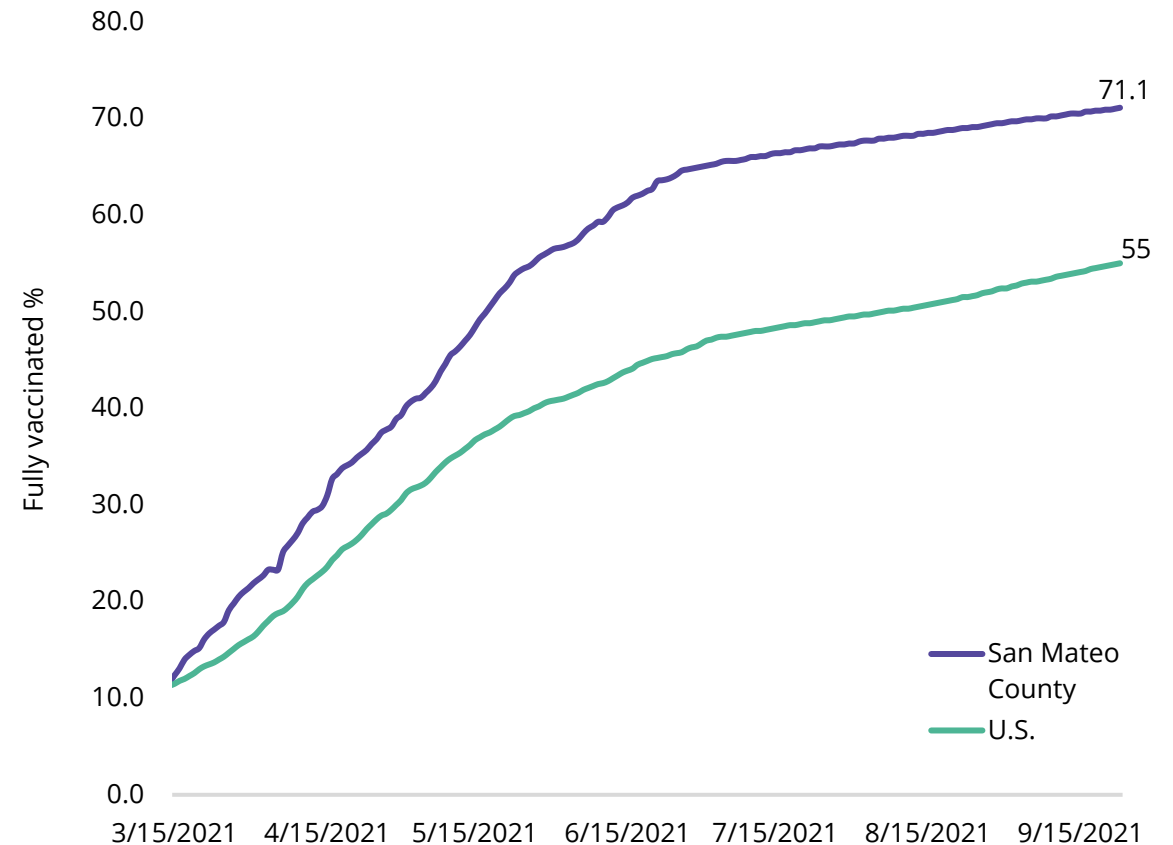


# Vaccination rates

# 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.



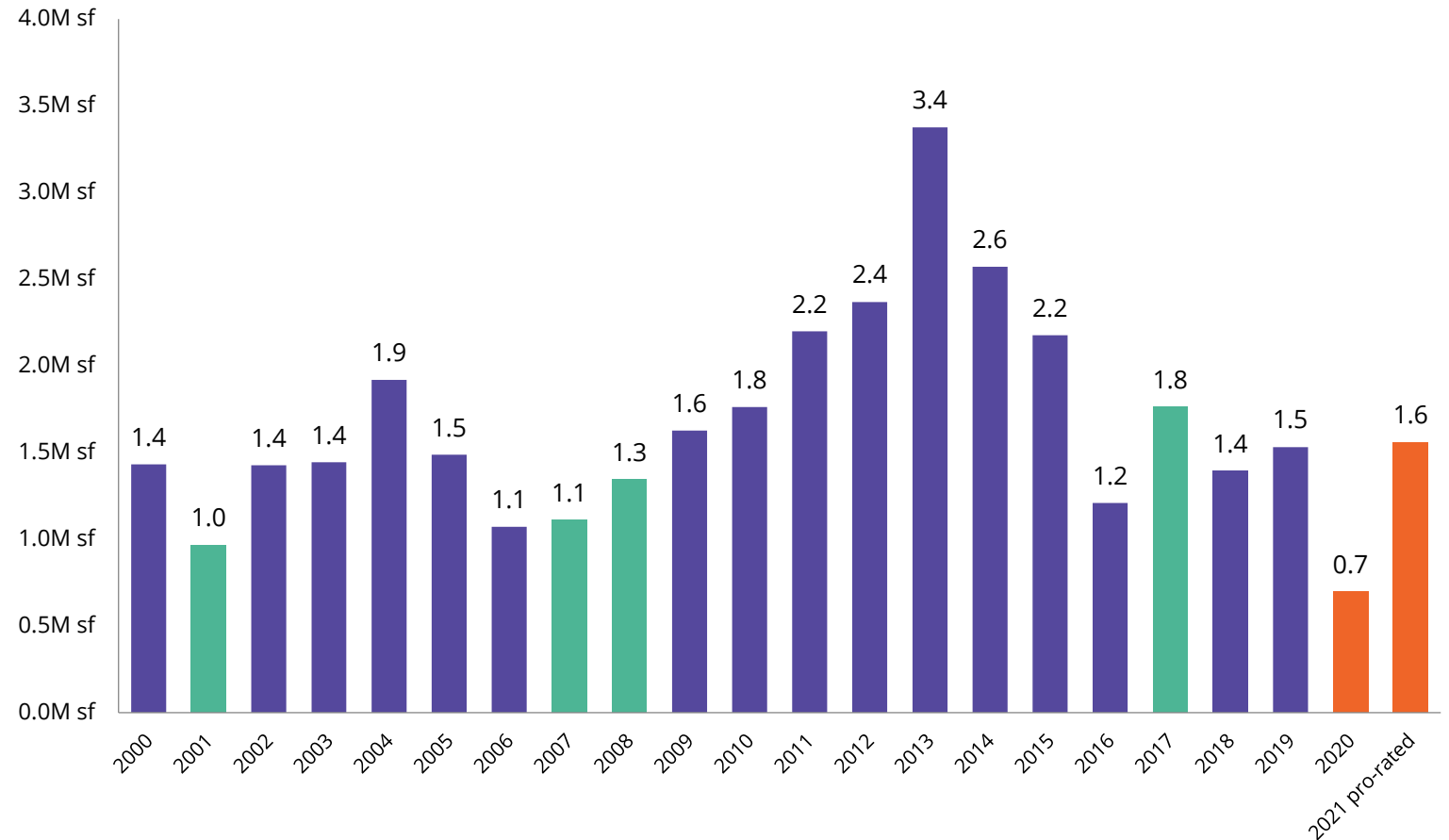
Source: CDC

# 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

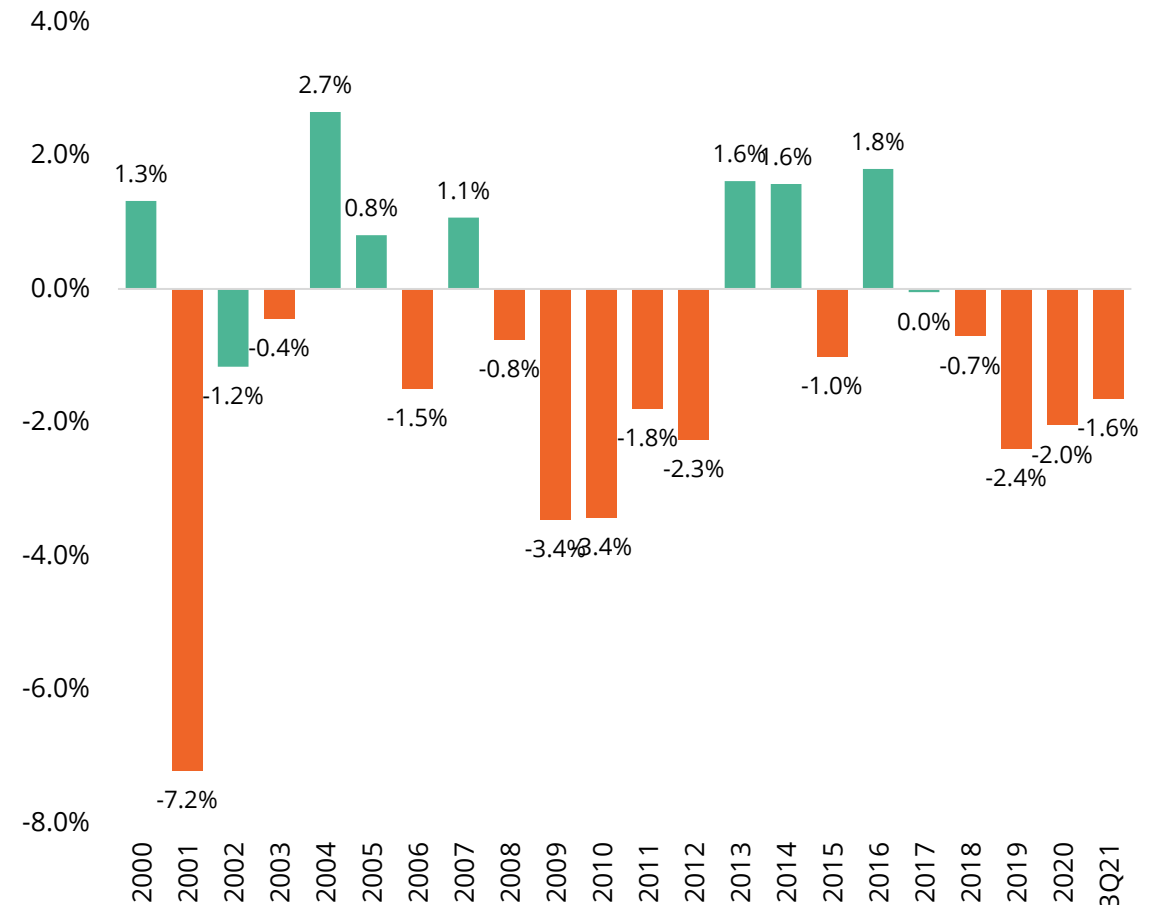


# Industrial net absorption

# -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.

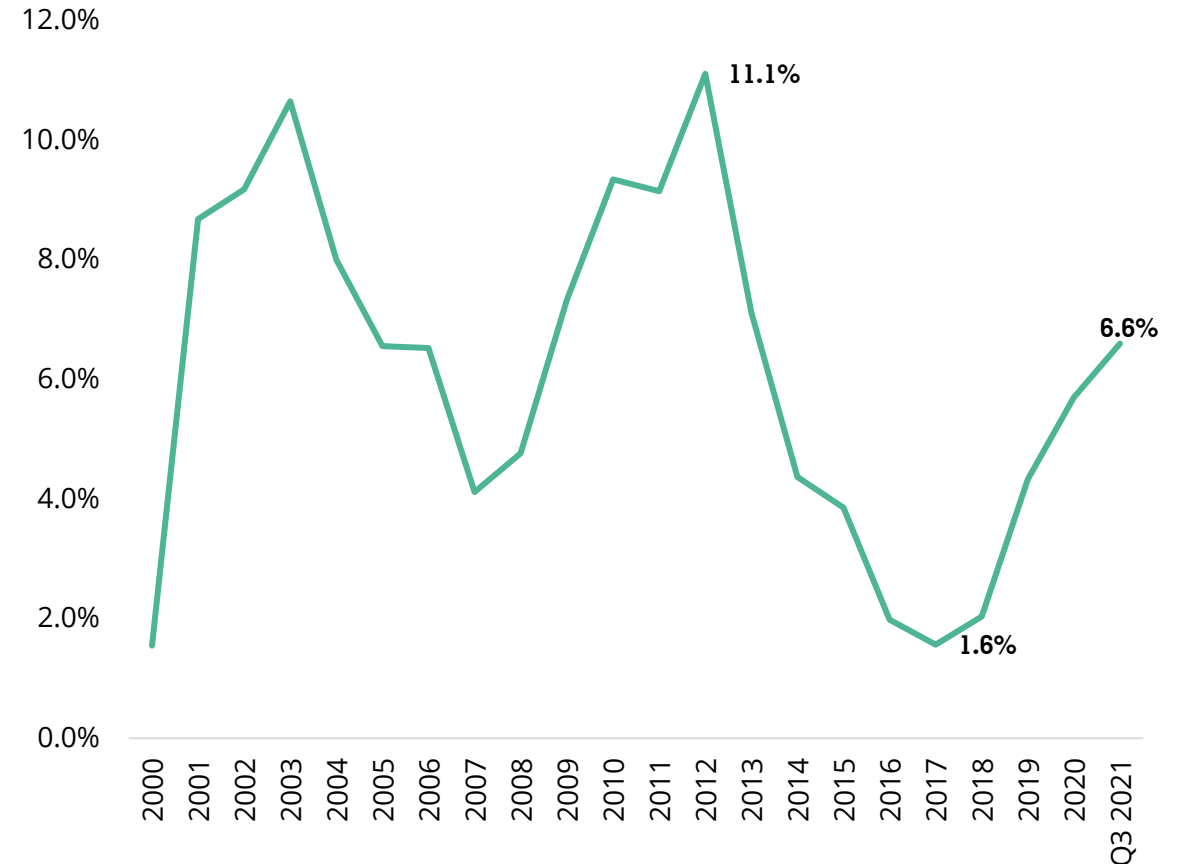
Source: CoStar

# 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



AVISON  
YOUNG

# East Bay/Oakland 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 East Bay unemployment figures down to **6.4 percent**. Other supply chain shocks throughout 2021 have done little to impede growth in leasing fundamentals, especially for Class A space.
- Local employment has by **76,918** year-to-date as of July, led by the manufacturing sector.



## Recovery rate

- The East Bay Area began to reopen in the second quarter, as vaccination rates surpassed the national average to **69.1 percent**.
- Although office workers across the metropolitan area just now begin to return to the office, the industrial workforce has grown by **1.3 percent** since the beginning of the pandemic in February 2020.



## Industrial demand

- Overall leasing activity has seen a moderate decrease in the last year, seeing decreases of **12 percent** when compared to 2020.
- Net absorption is increasing as the economy continues to open with 2020 and 2021 having a combined **3.9 percent** positive absorption.



# 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 is showing signs of recovery in 202, down to **6.5 percent**.



## 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

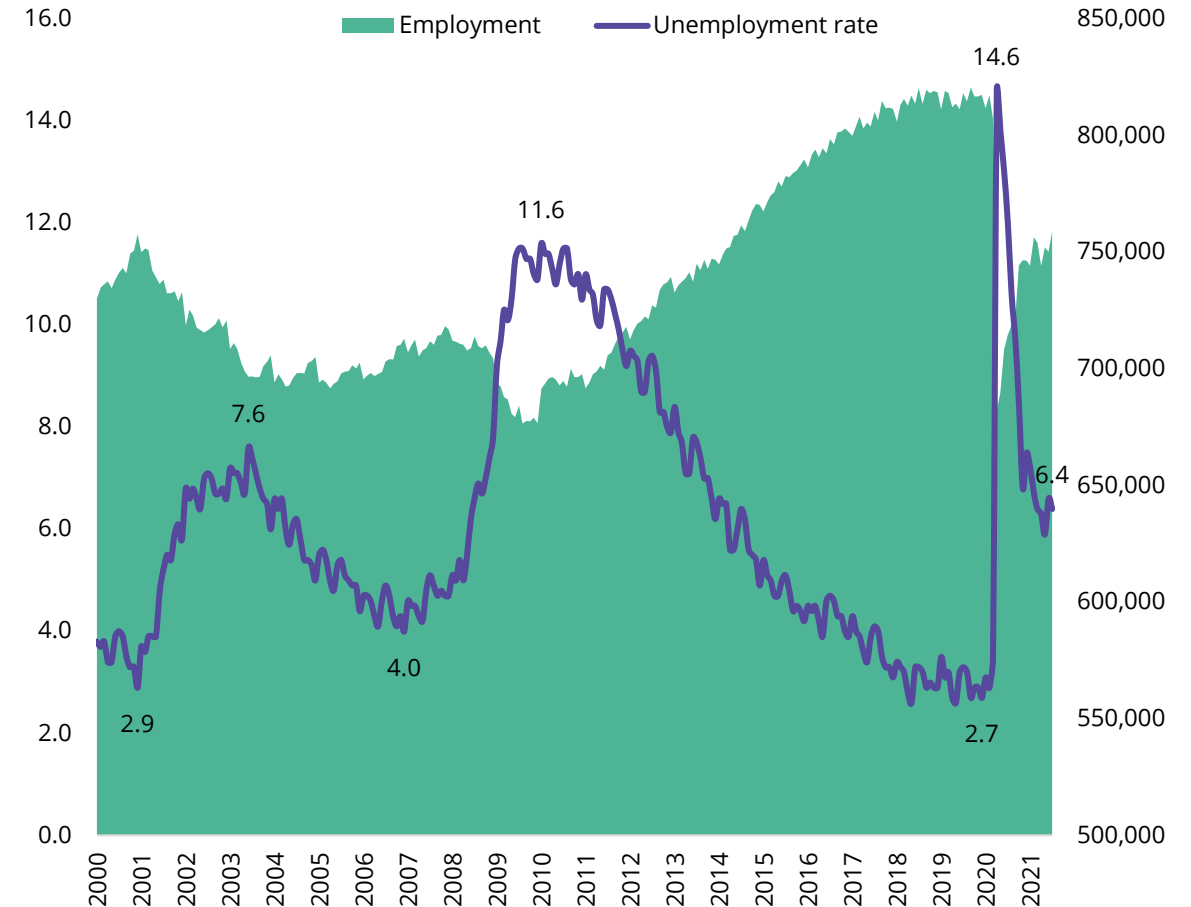
- Bay Area Industrial investment activity surges to **\$4.3B since 2020** as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- Investors continue capital deployment on industrial assets at a rate that is **57.4 percent** higher than the prior five-year average.

# Employment and unemployment

# 6.4%

**Alameda County's unemployment rate as of July 2021, dipping below the height of the financial crisis**

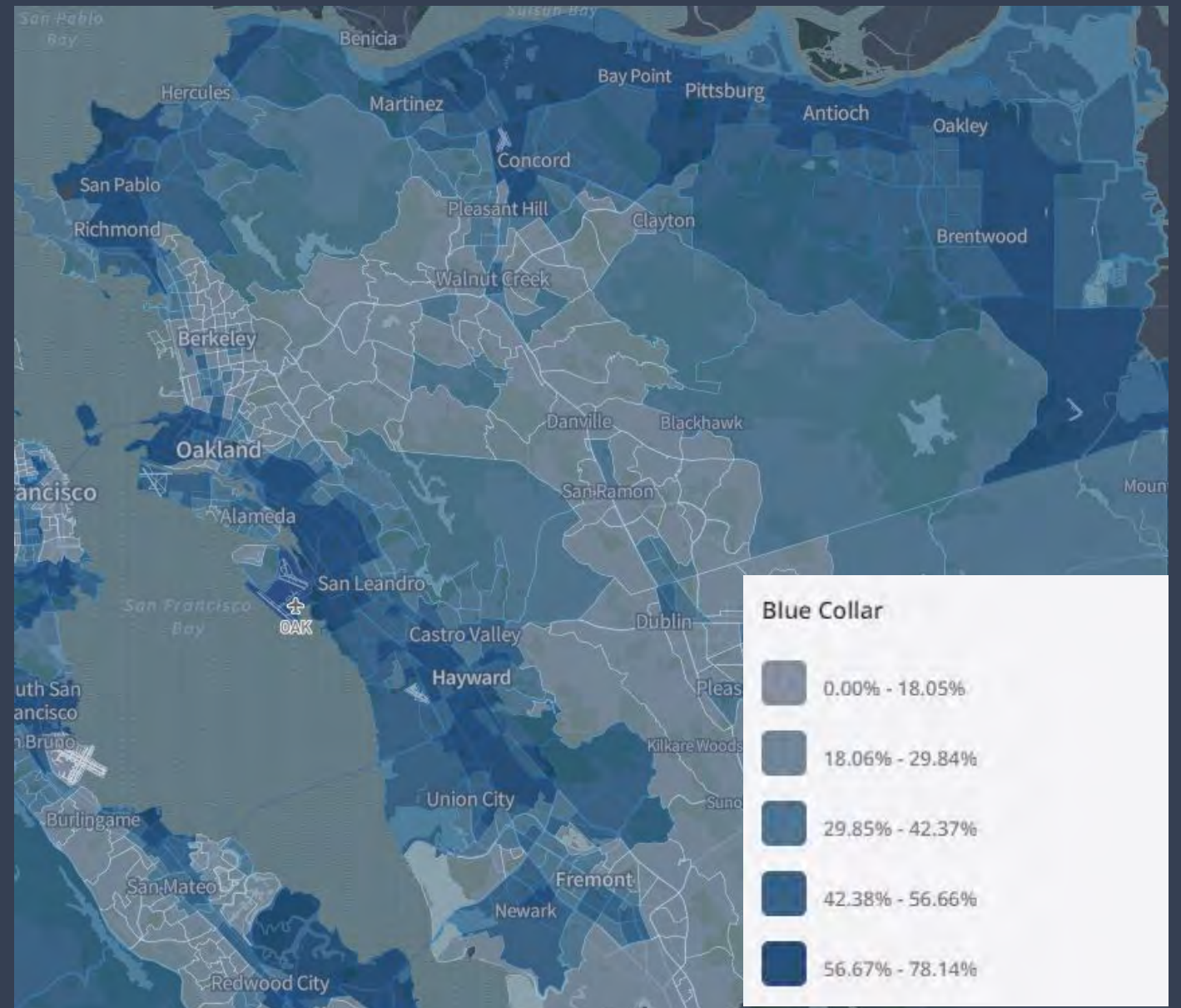
Historically tight labor market conditions were halted by the pandemic with 135,394 job losses between February and April 2020. However, reopening efforts enabled the economy to add 76,918 jobs since April 2020.



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 East Bay Area's largest Industrial submarkets

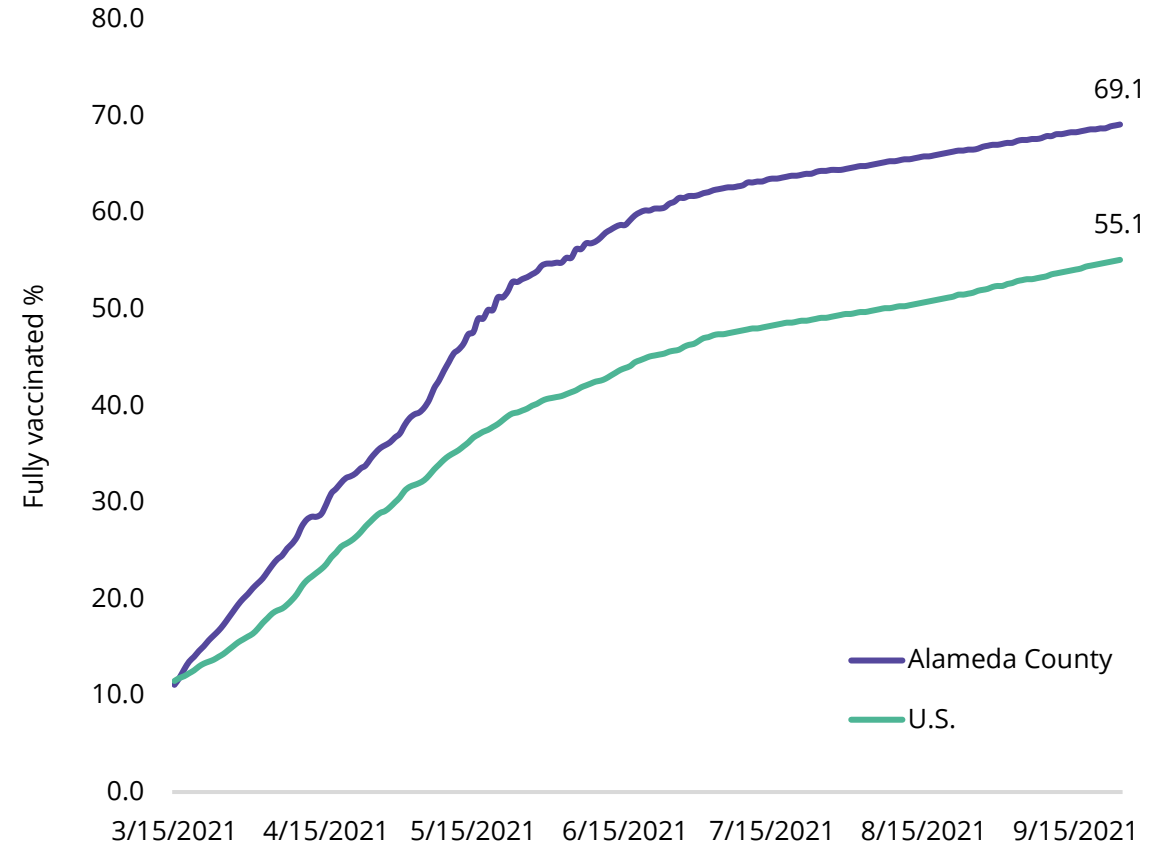


# Vaccination rates

# 69.1%

**Share of total Alameda County population that is fully vaccinated**

Alameda County's proportionate vaccination rates have far surpassed U.S. averages, an important metric that has allowed the county to loosen restrictions.



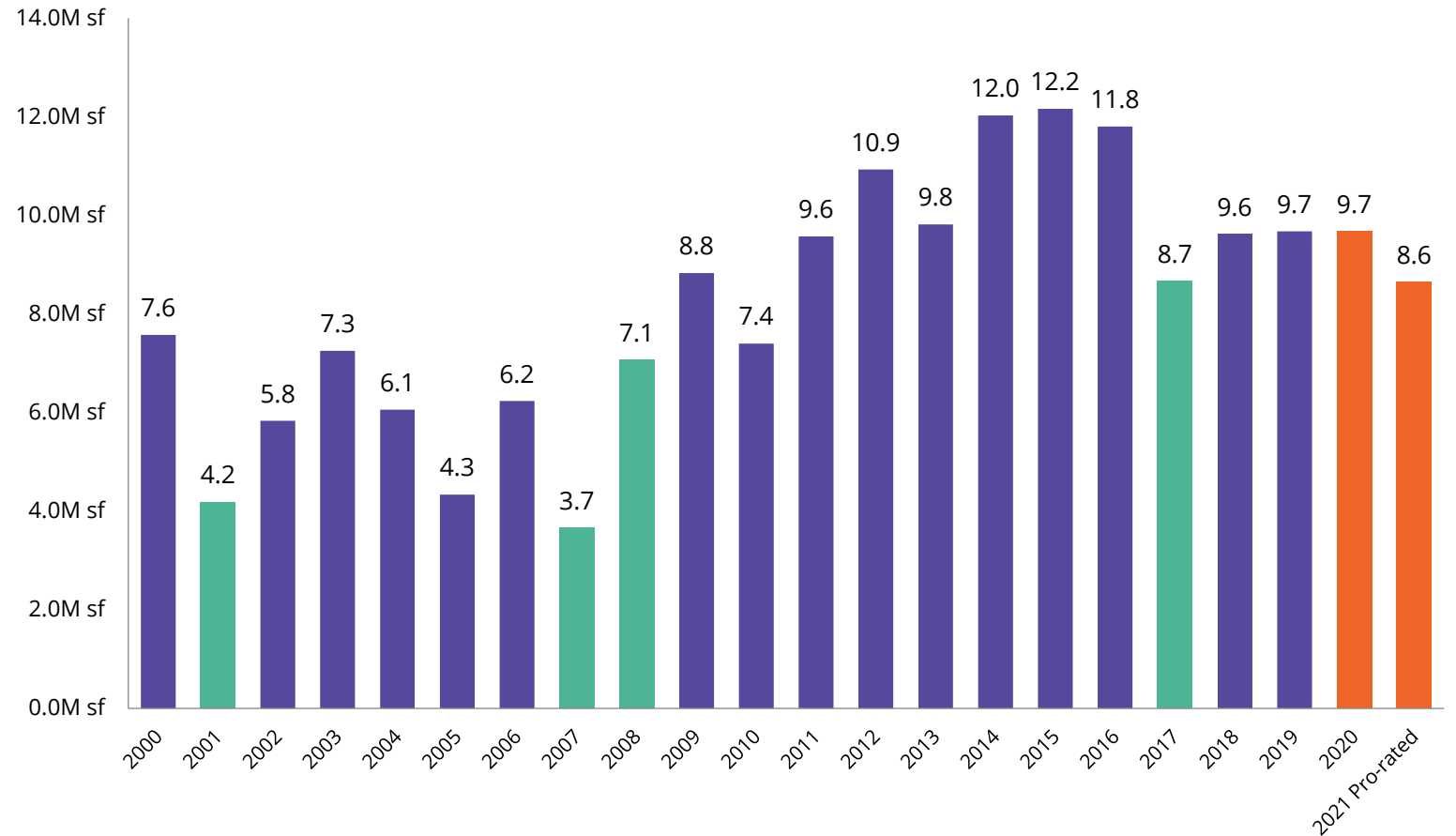
Source: CDC

# Industrial leasing activity

# -12%

## 2020 vs pro-rated 2021 leasing activity

After a slow Q3 where only 1.6M sf of leasing took place, total leasing 2021 is not expected to surpass total leasing in 2020.



Source: CoStar

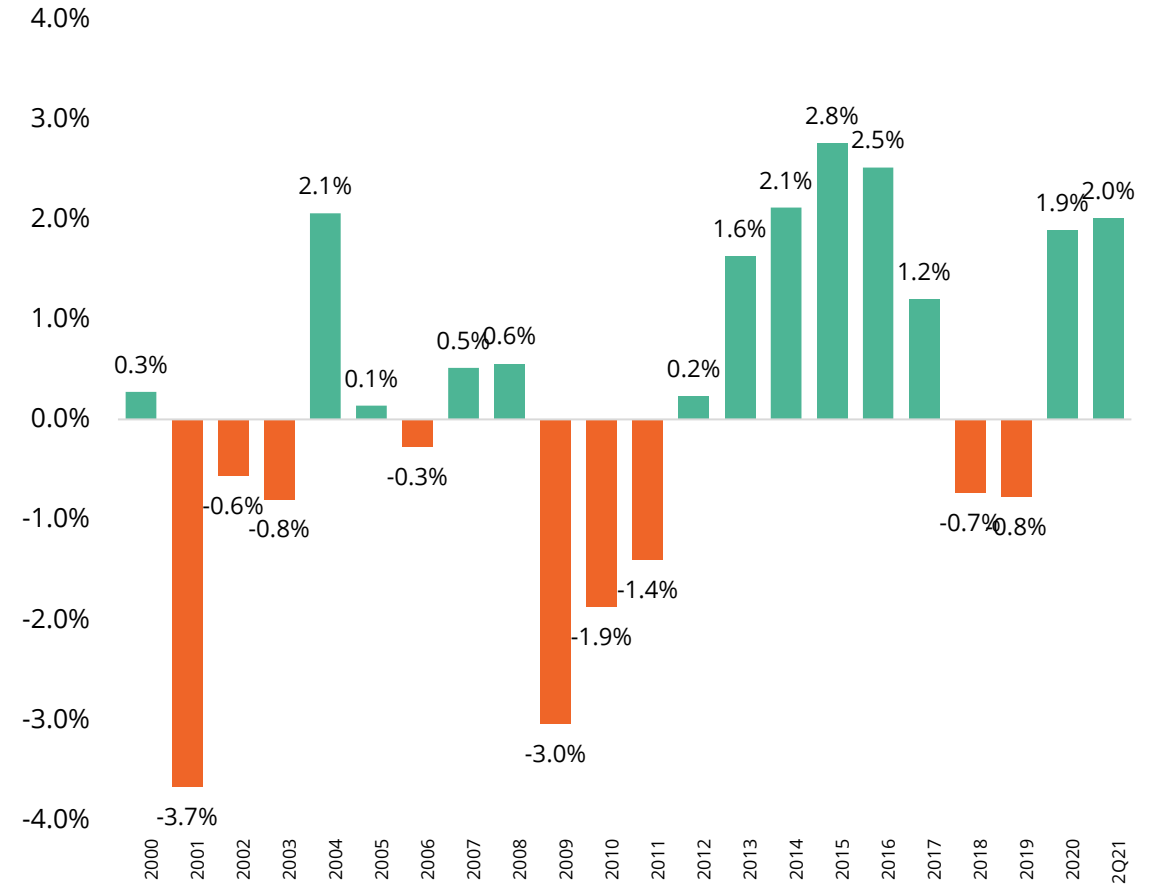


# Industrial net absorption

# 3.9%

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

Due to increasing importance of E-Commerce throughout the Covid-19 pandemic, absorption through Q3 remains quite healthy and on pace with levels throughout the prior decade. The market is not overbuilding and creating opportunities to avoid market inertia and movement to high-quality new development. At 2.7m sf through the first half of the year, aggregate 2021 absorption is continuing trend in a positive direction.



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

# Industrial vacancy rate

# 6.5%

## Industrial Vacancy decreases in Q3 2021

After years of increasing vacancy, the Q3 2021 total vacancy rate has begun to show signs of recovery, decreasing to 6.5%.



Source: CoStar

# Silicon Valley 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 Santa Clara 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 has by **20,746 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 **73.7 percent**.
- Although office workers across the metropolitan area just now begin to return to the office, the industrial workforce has grown by **1.3 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 2011-19.
- Net absorption is continuing a 4 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 million square feet** either proposed or under construction.
- Industrial vacancy continued to grow in 2021 for a 4<sup>th</sup> straight year, up to **6.60 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 **\$4.3 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.

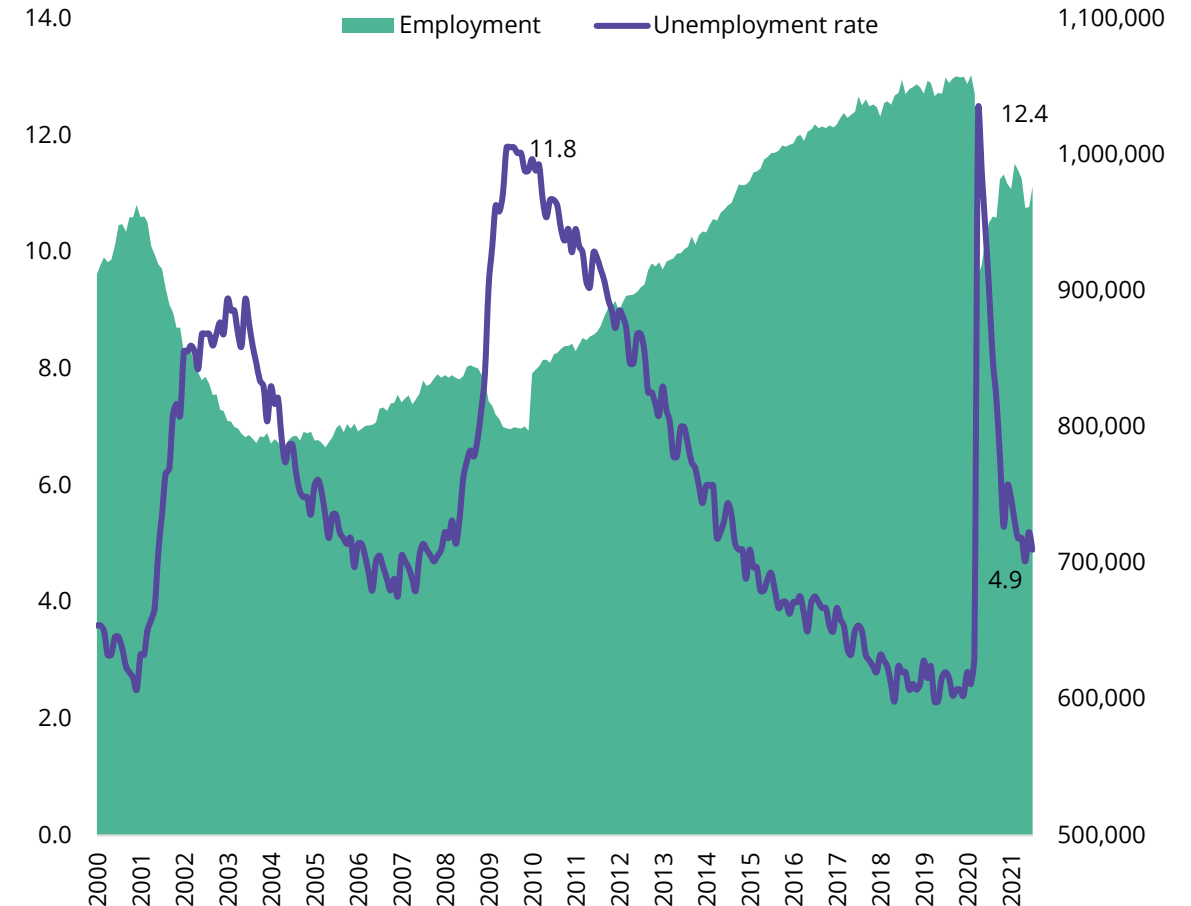


# Employment and unemployment

# 4.9%

**Silicon Valley unemployment rate as of July 2021, returning to levels last experienced in 2014**

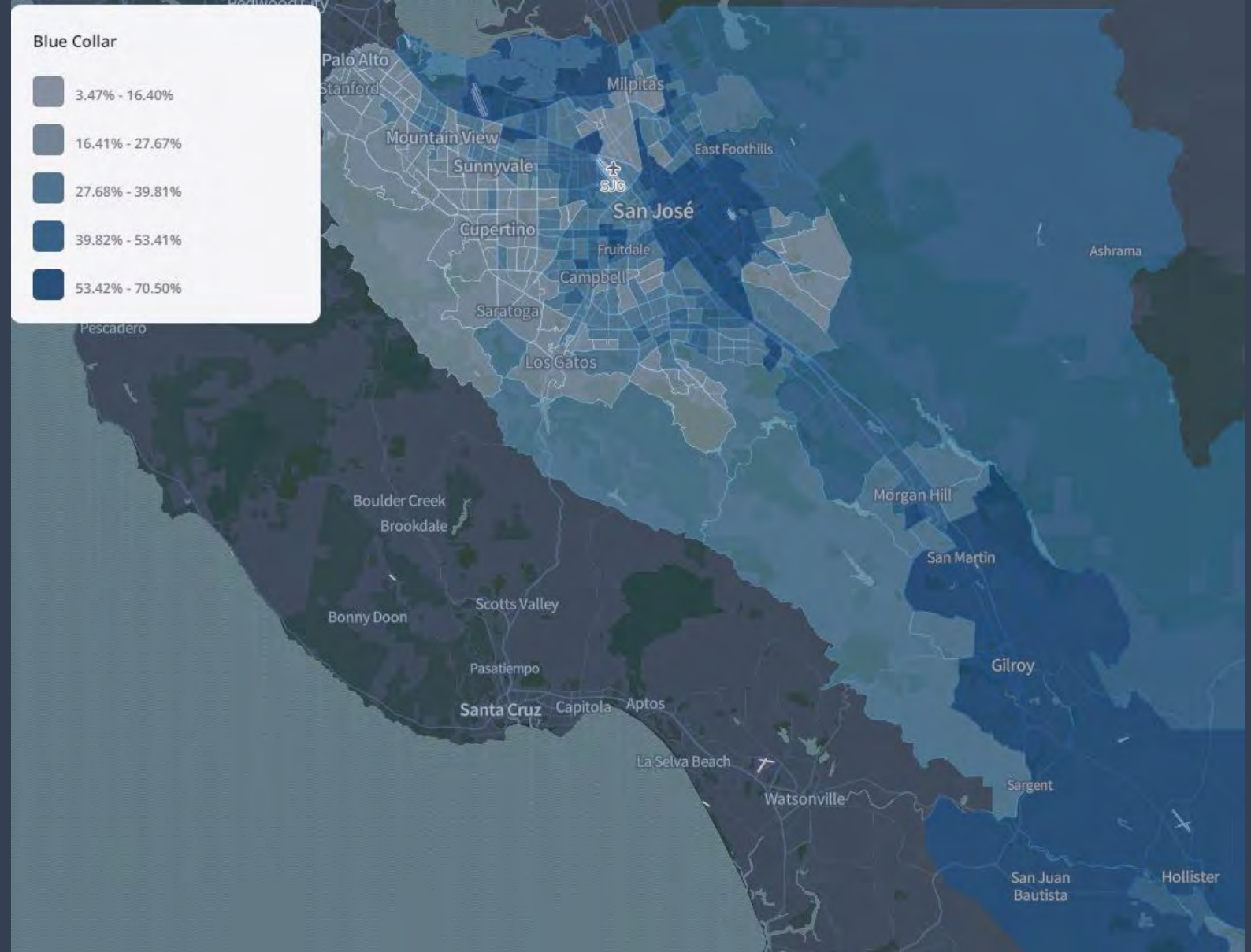
Historically tightened labor market conditions were halted by the pandemic with nearly 148,000 job losses between February and May 2020. However, reopening efforts have enabled the economy to add 7.2% jobs since May 2020.



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 South Bay Area's largest Industrial submarkets

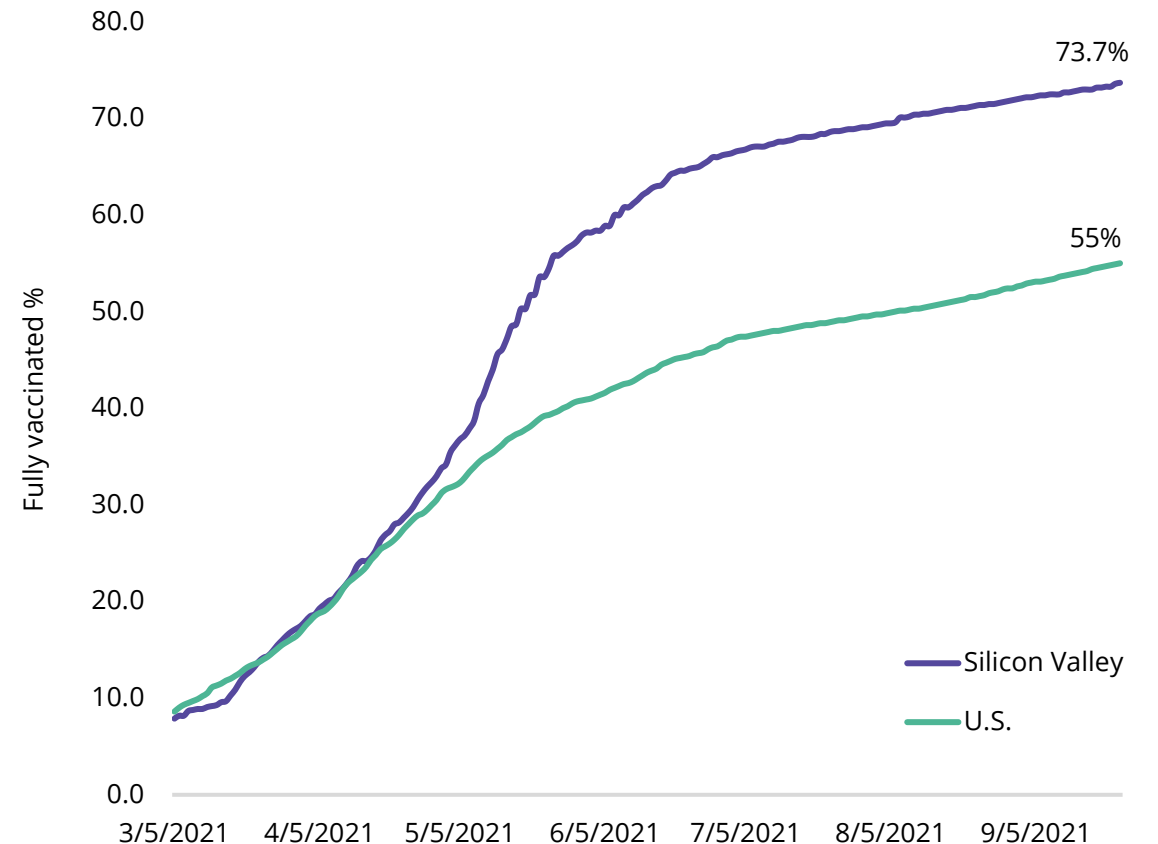


# Vaccination rates

# 73.7%

**Share of total Silicon Valley population that is fully vaccinated**

Silicon Valley proportionate vaccination rates have greatly surpassed U.S. averages, an important metric that has allowed the city to loosen restrictions.



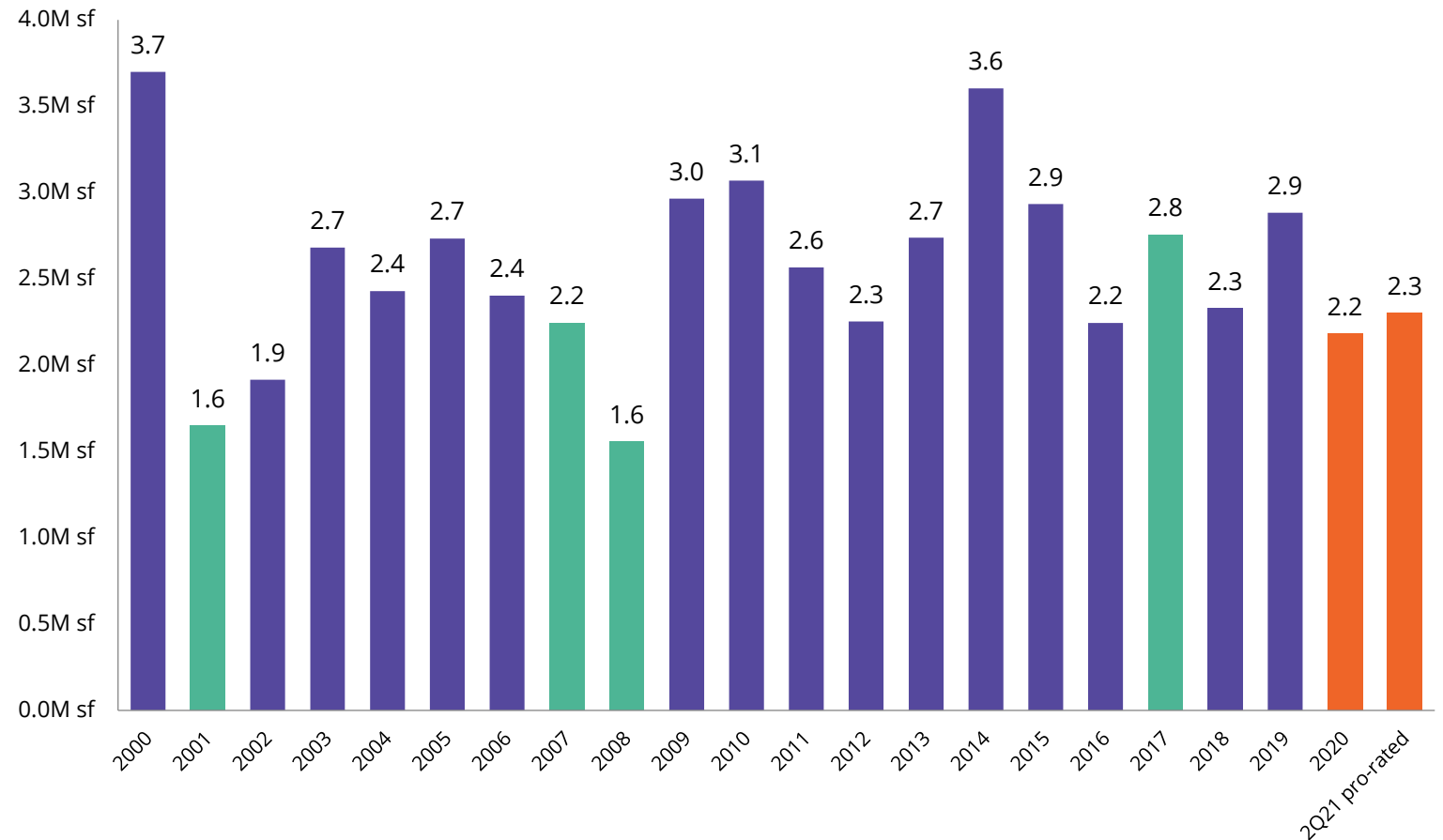
Source: CDC

# Industrial leasing activity

**+4.5%**

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

Industrial leasing in the Silicon Valley  
is expected to see moderate growth  
when compared to the year 2020.



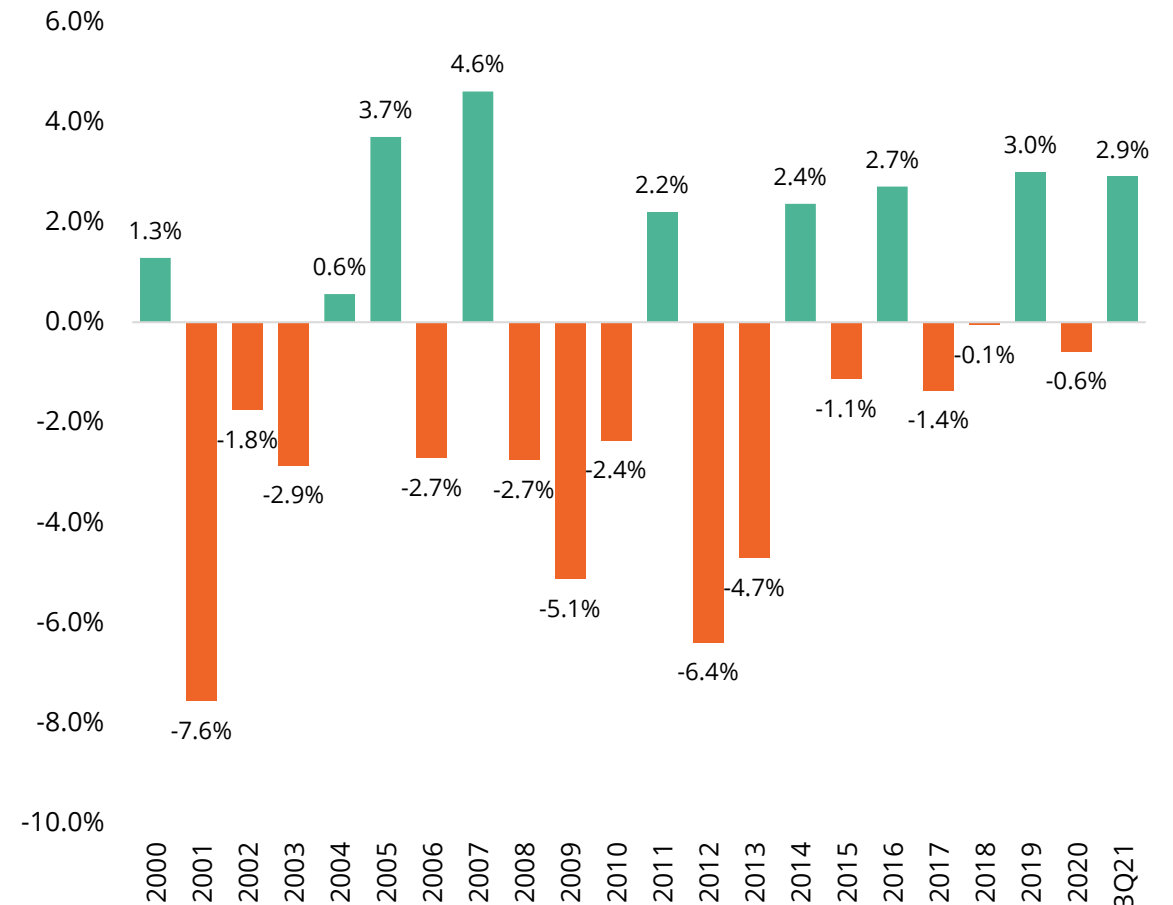
Source: CoStar

# Industrial net absorption

# 2.3%

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

Absorption through mid-year is showing signs of recovery from the pandemic and on pace with levels of positive absorptions throughout the prior decade. 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

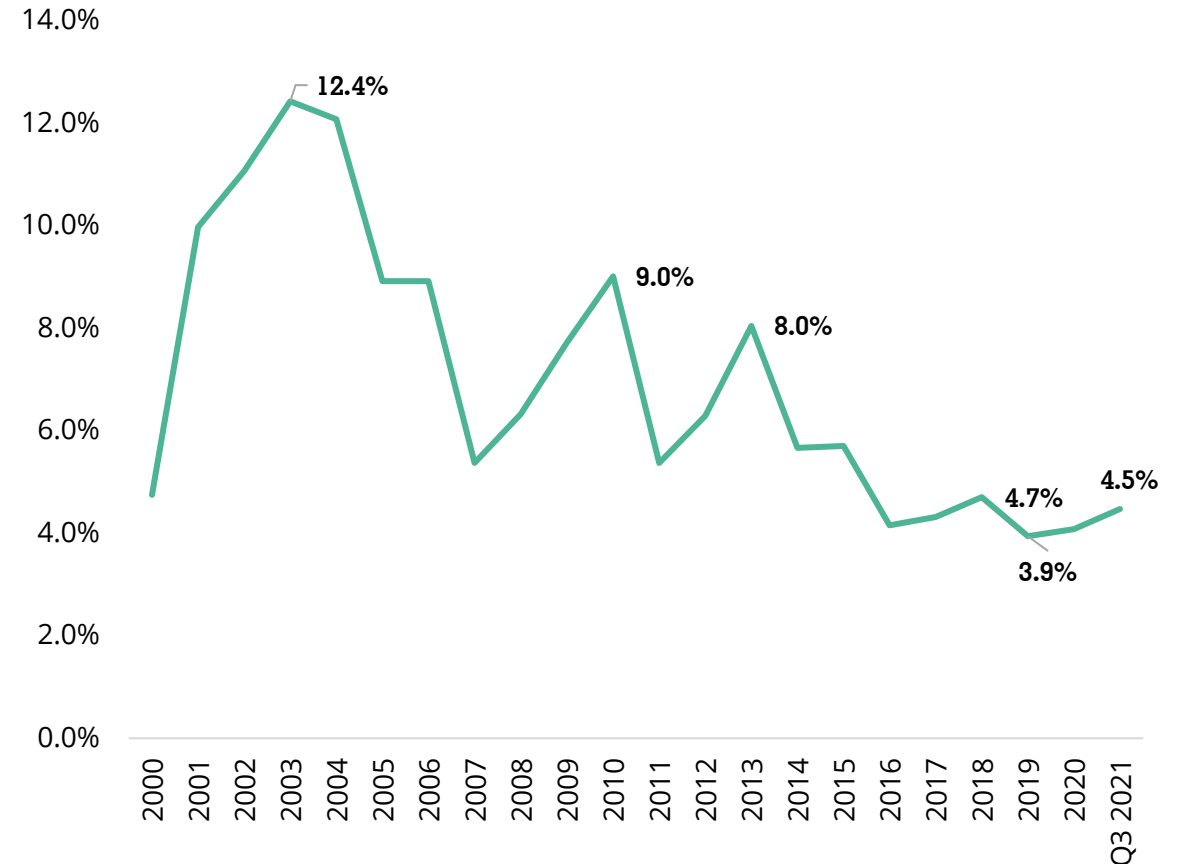


# Industrial vacancy rate

# 4.5%

## Industrial Vacancy continues to increase in Q3 2021

After a couple quarters of increasing vacancy, the Q3 2021 total vacancy rate has begun to show signs of recovery, decreasing to 4.5%. Average asking rents have increased 8.4% over that same time period, underscoring how industrial demand has outstripped supply in the Silicon Valley.



Source: CoStar



AVISON  
YOUNG

# Sacramento 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 the Sacramento Metropolitan area unemployment figures down to **6.4 percent**. Other supply chain shocks throughout 2021 have done little to impede growth in leasing fundamentals, especially for Class A space.
- Local employment has increased by **7.2 percent** year-to-date as of July, led by the manufacturing sector.



## Recovery rate

- The Sacramento metropolitan area began to reopen in the second quarter, as vaccination rates surpassed the national average to **55.5 percent**.
- Although office workers across the metropolitan area just now begin to return to the office, the industrial workforce has grown by **1.3 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 decreases of **3.3 percent** when compared to 2020.
- YTD net absorption is **5.1 percent** which is unprecedented growth at levels never seen in the area.

# Key industrial takeaways



## Industrial supply

- The industrial development pipeline remains robust in Sacramento, with **64 industrial properties** totaling **14.9 million square feet** either proposed or under construction throughout the market.
- The largest development in the Sacramento area, Metro Air Park, could be completed as early as **Q2 2022** and has pre-leased over **3 million square feet** in the last 18 months.
- After a brief uptick in vacancy due to the pandemic in 2020, industrial vacancy returned to its downward trend in Q2 2021, which is now **5.3 percent**.



## Pricing trends

- Base rents have decreased by **1.9 percent** since the start of the pandemic but have still seen significant increases over the past 5 years.
- With only **43 spaces** available over 100,000 square feet throughout the Sacramento and minimal large block leases expiring, Bay Area rents stand to continue to recover.
- Rent escalations of **4 percent** are becoming a more common occurrence, with major landlords, like Link, making this their new market standard.



## Capital markets

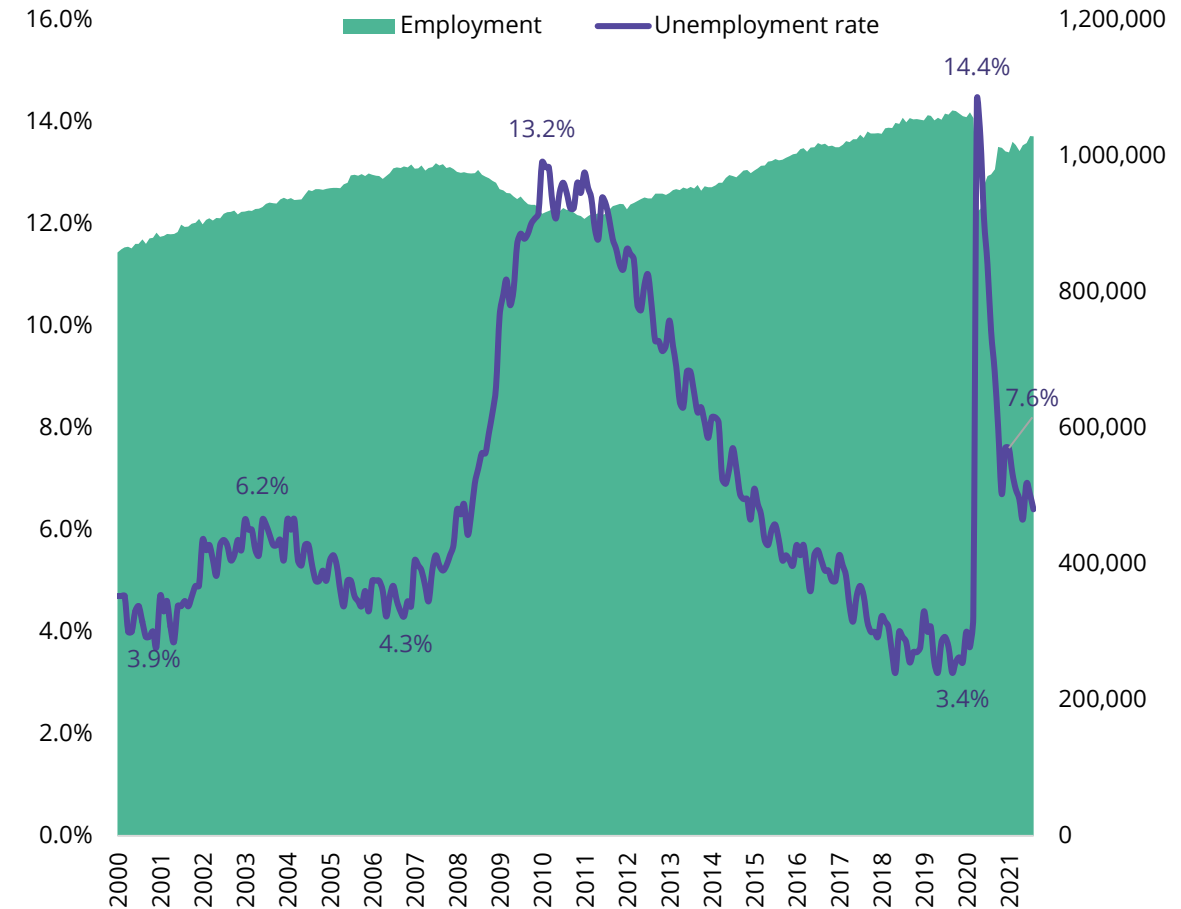
- Sacramento Industrial investment activity surges to **\$942.4 million since 2020** as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- It also translated into higher valuations for Sacramento industrial assets, with a **52.2 percent** higher per-square-foot rate than the trailing five-year average, to \$121 per square foot in the first half of 2021.

# Employment and unemployment

# 6.4%

**Sacramento 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 100,000 jobs since last year, up 10.8%, unemployment has only recovered to 2014 levels.



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



# Industrial job gains and losses

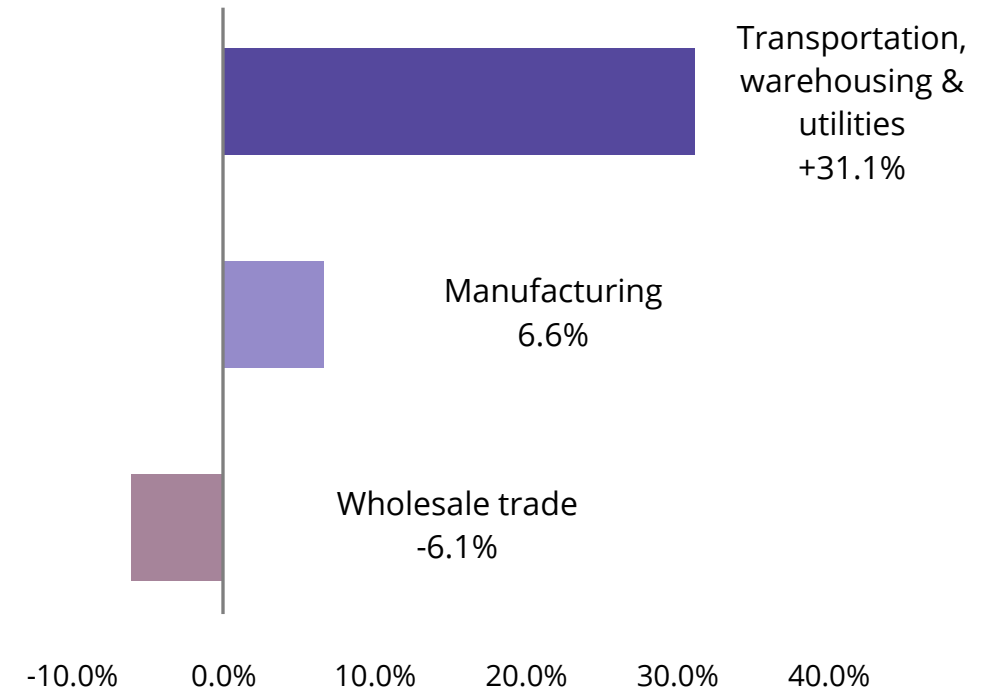
# +3.1%

## Change in industrial-centric employment during the pandemic

The Sacramento metro area gained 3.1% of industrial employment since the pandemic began, as evidenced by a steady increase in jobs after an initial dip at the beginning of the pandemic lockdowns. The most growth has been in the transportation, warehousing, & utilities sector.

### Total change in Sacramento MSA\* job gains/(losses)

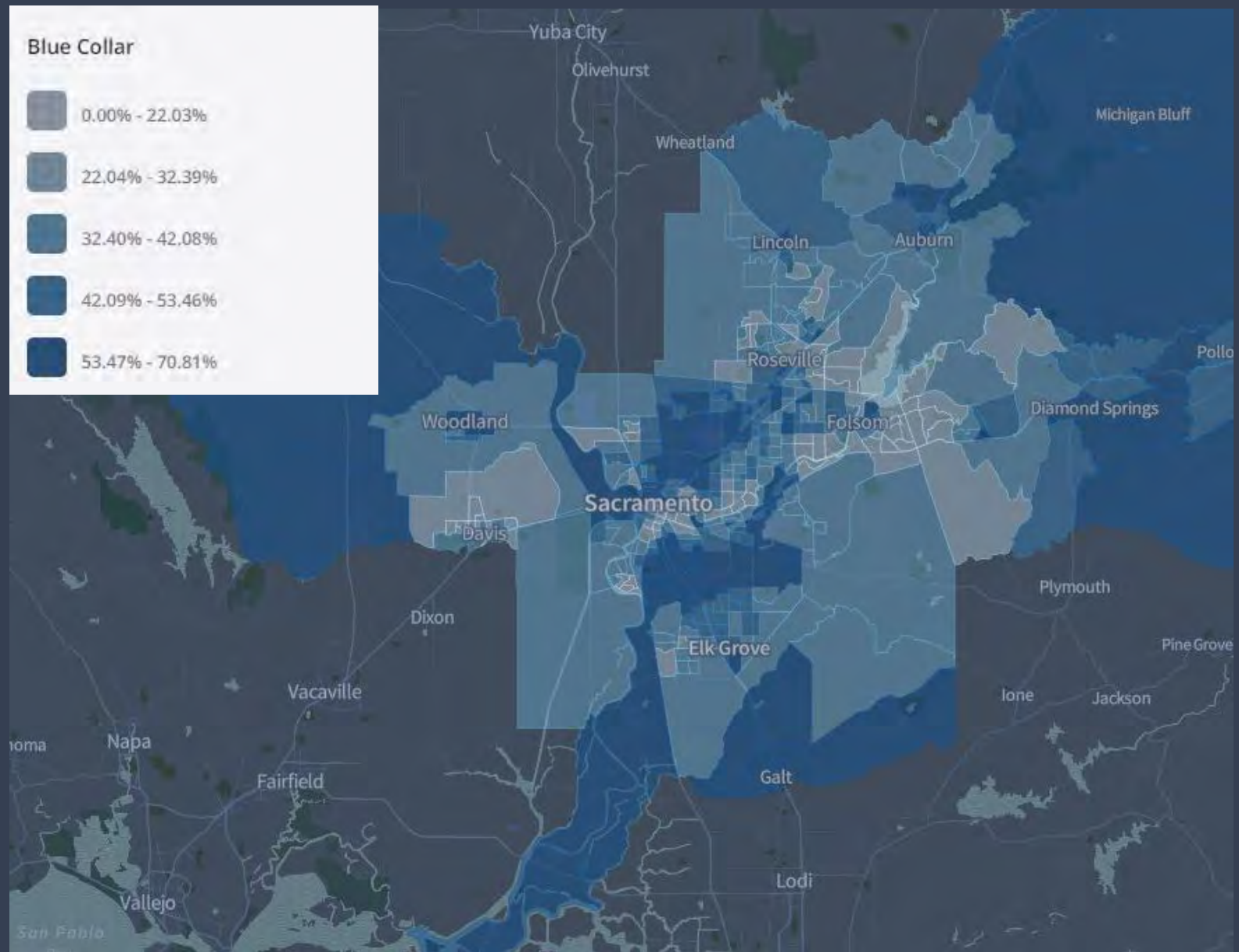
July 2020 to July 2021



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 Sacramento Area's largest Industrial  
submarkets

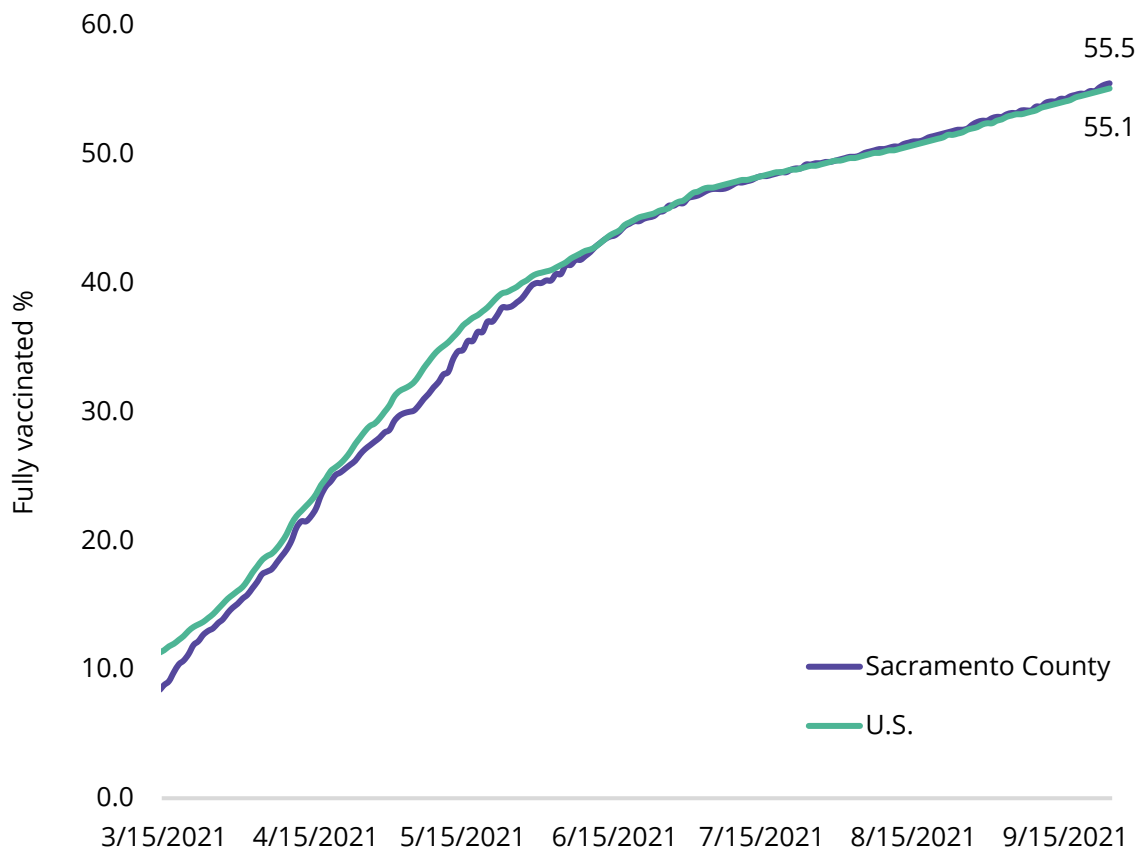


# Vaccination rates

# 55.5%

**Share of total Sacramento County population that is fully vaccinated**

Sacramento County proportionate vaccination rate closely mirrors, and has recently moved ahead of, the U.S. average. This is an important metric that has allowed the county to loosen restrictions.



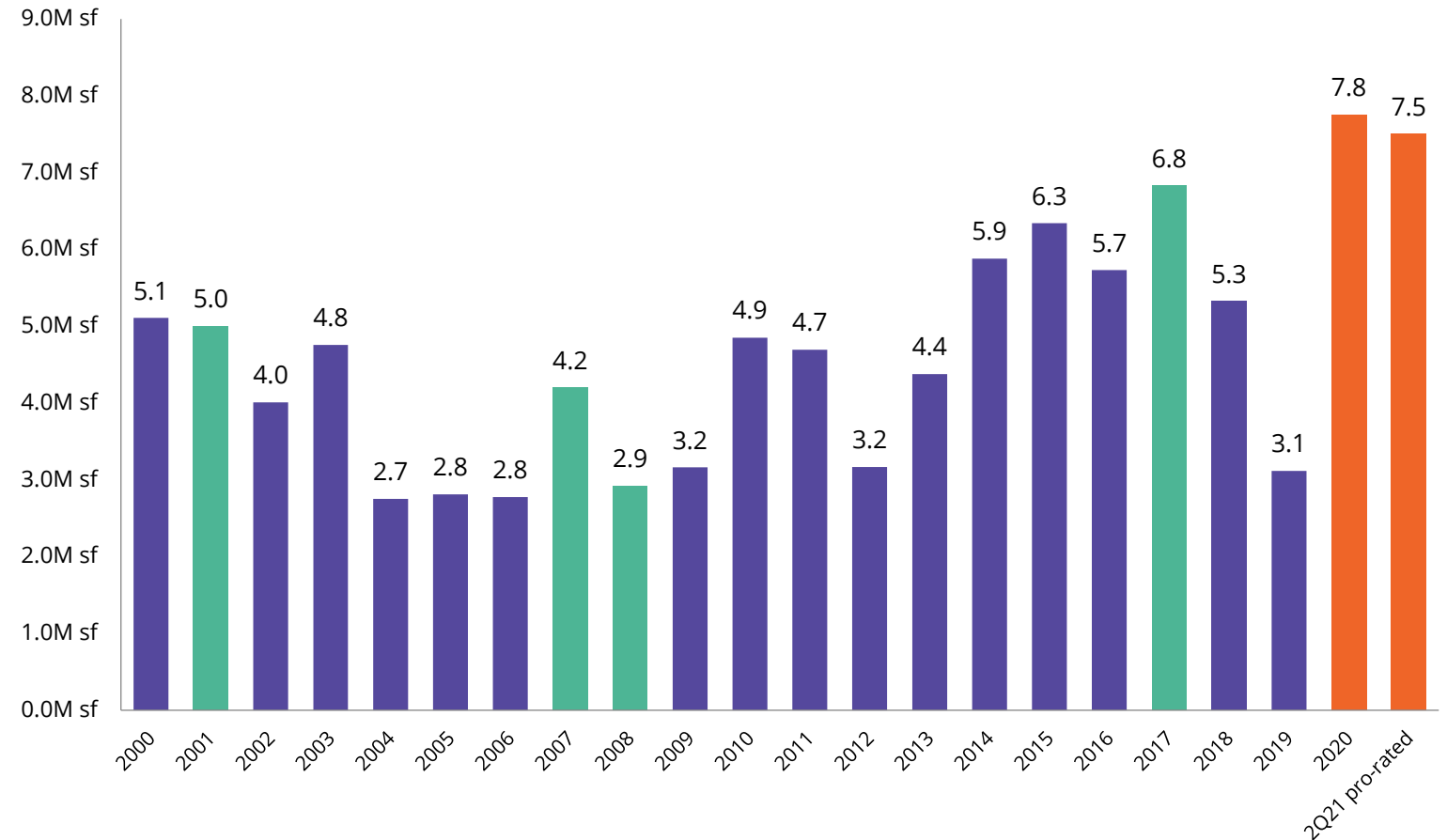
Source: CDC

# Industrial leasing activity

# -3.3%

## 2020 vs pro-rated 2021 leasing activity

While leasing is not expected surpass the record leasing that took place in 2020, total leasing in 2021 has surpassed the totals of any other year in recent history.



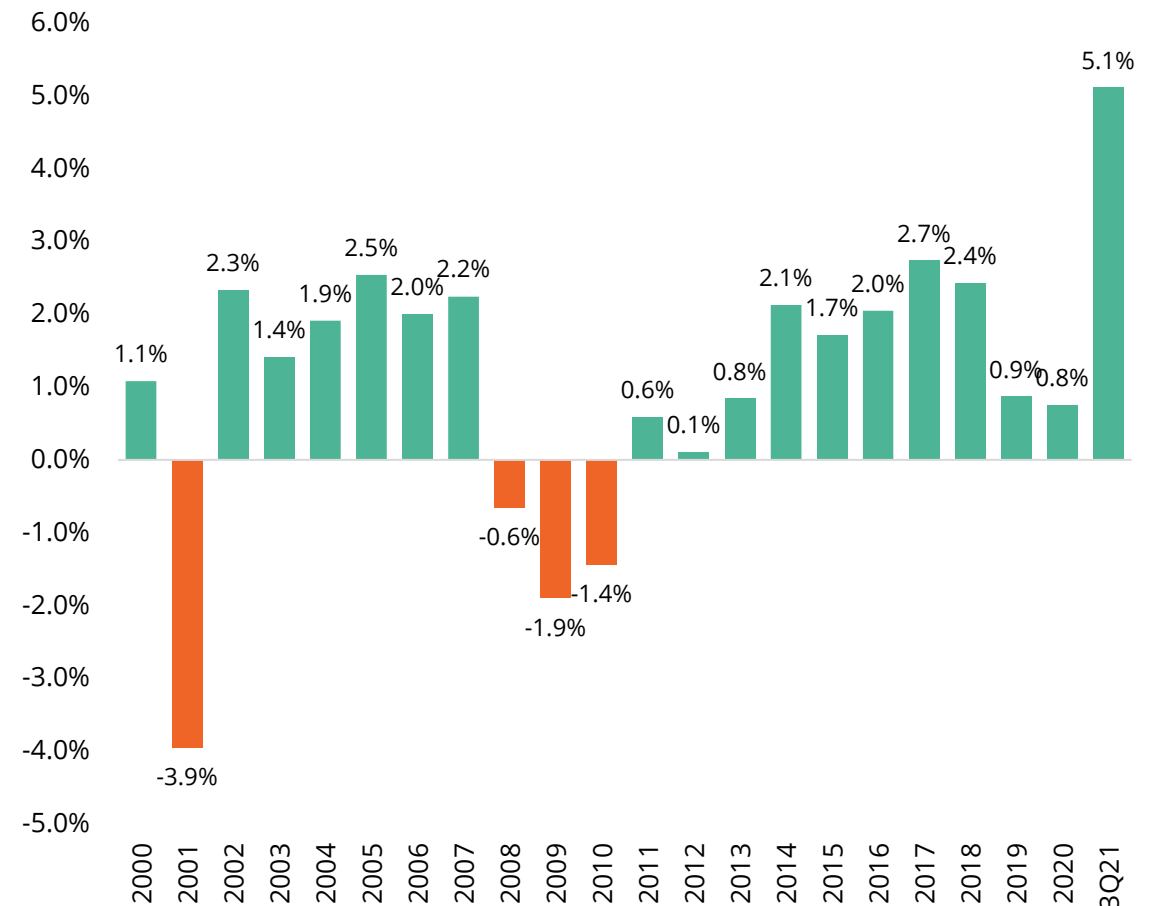
Source: CoStar

# Industrial net absorption

# 5.1%

## YTD Net absorption as a percentage of inventory through Q3 2021

Absorption through the 3<sup>rd</sup> quarter is continuing to show signs of extreme growth. The market is not overbuilding and creating opportunities to avoid market inertia and movement to high-quality new development. Many projects under construction are pre-leased.



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

Source: CoStar

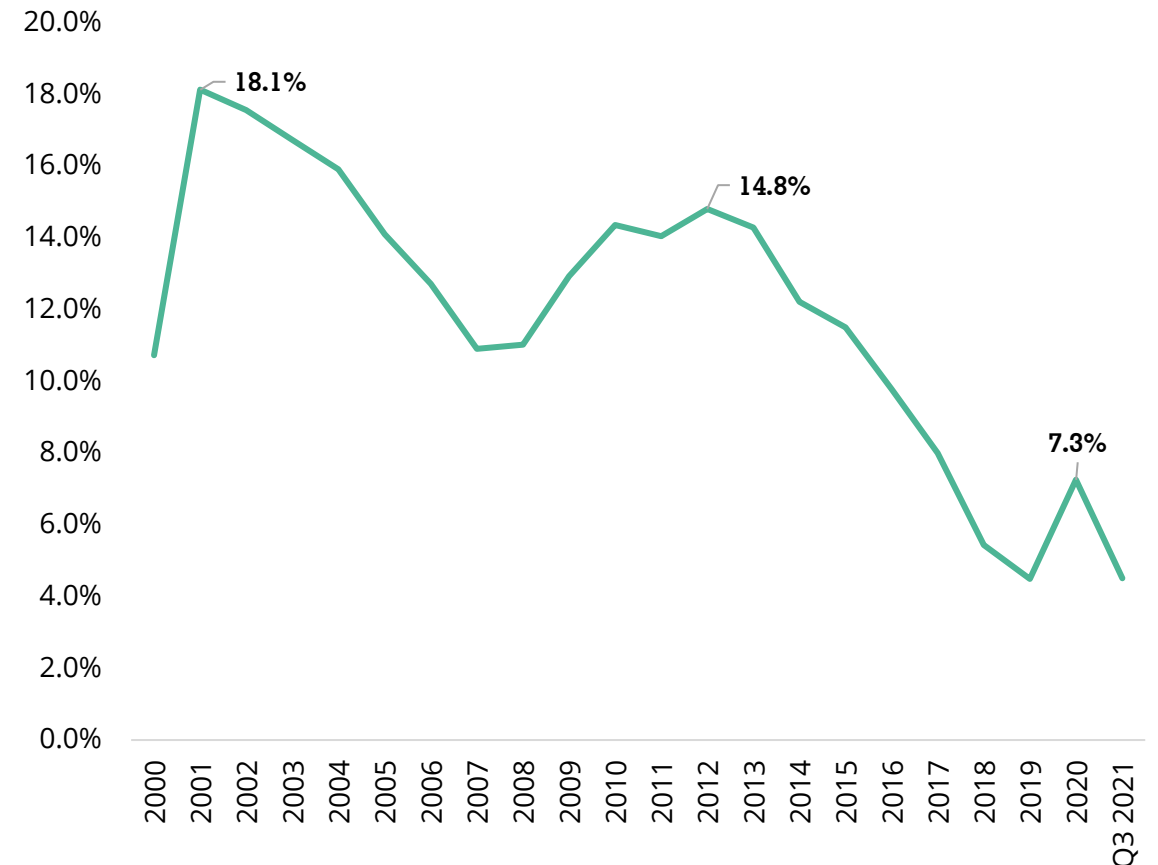


# Industrial vacancy rate

# 4.5%

## Industrial Vacancy continues to increase in Q3 2021

Industrial vacancy had been on a steady decline since the peak of the financial crisis in 2012 until it reach historic lows in 2019. Due to the Covid-19 pandemic, vacancy took a temporary uptick in 2020 before continuing on its downward trend in 2021.



Source: CoStar

# Big-box demand drives construction

**68 properties**

Proposed, under construction  
or under renovation

**16.0 msf**

proposed or under  
construction

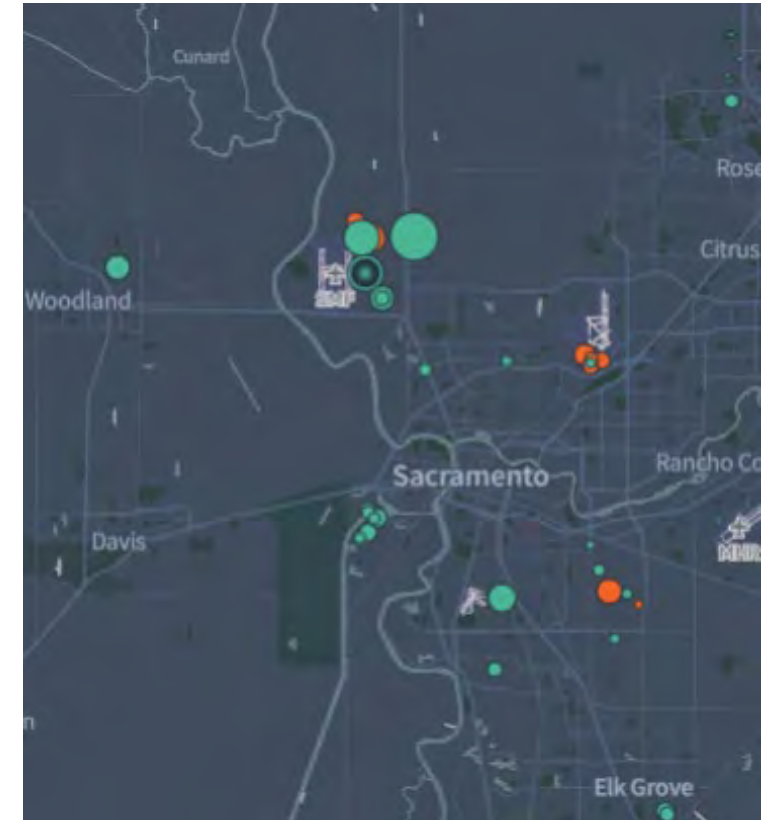
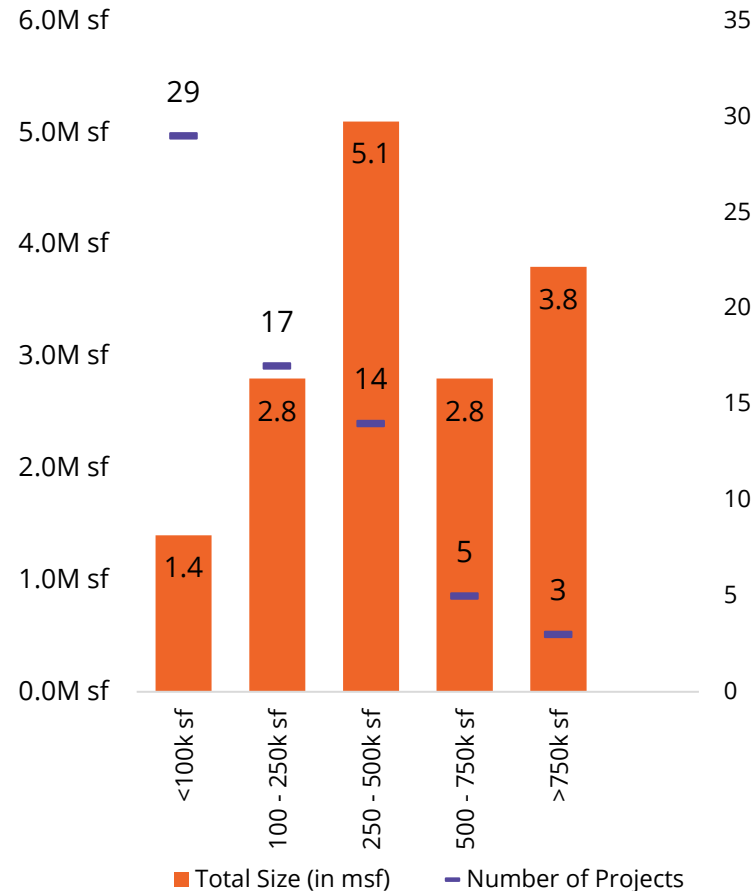
**12.9%**

share of industrial  
inventory

**North**

**Sanatomas**

Submarket with most  
ground-broken projects at 21



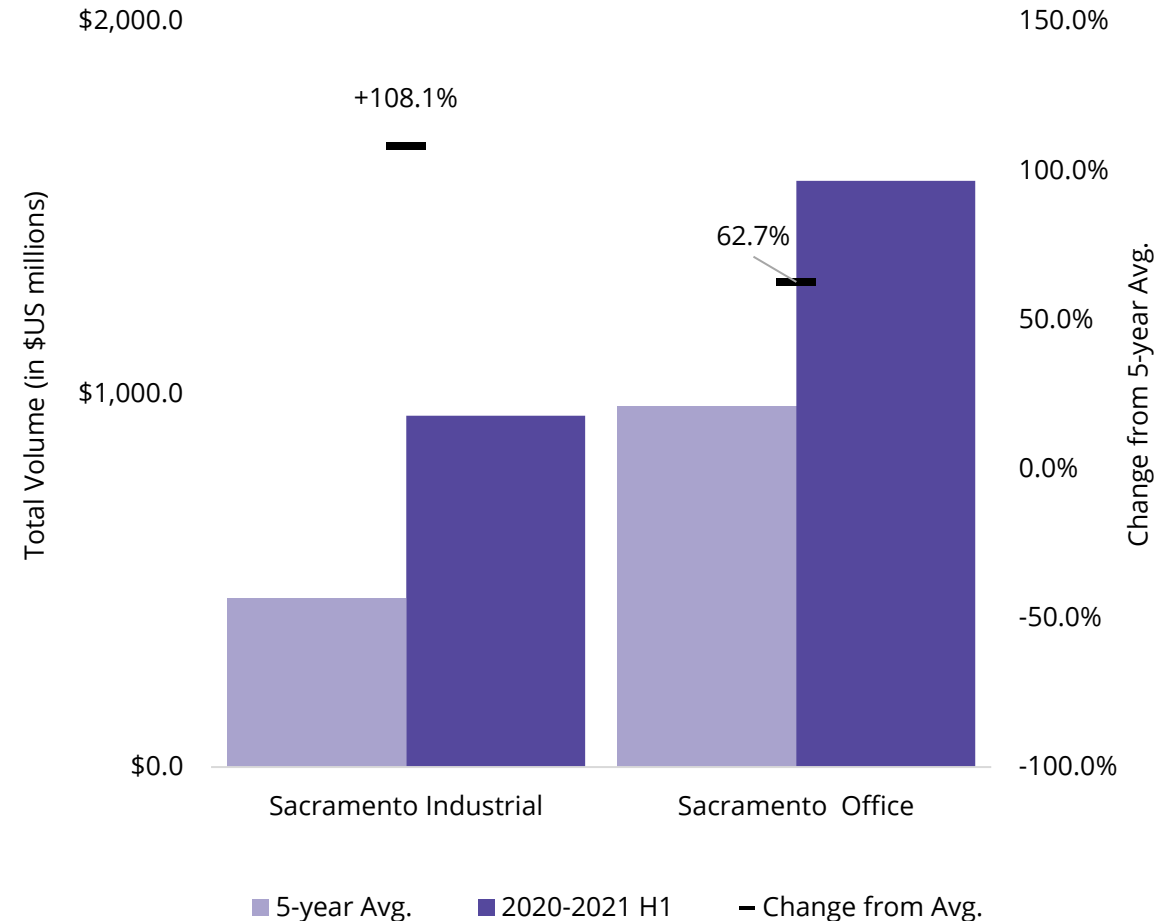
Source: AVANT by Avison Young

# Investment dollar volume

# \$942.4M

## Industrial dollar volume, 2020 to Q2 2021

Office sales activity in the Sacramento Area has seen a surge of 62.7% against the five-year average dollar value. Industrial volumes have surged +108.1% against the prior five-year average due to stronger fundamentals and strong demand for e-commerce and logistics uses.



Source: AVANT by Avison Young  
RCA

# Get in touch



**Nick Baldwin**

Senior Data Analyst  
Innovation  
+1 408 913 6914  
[nick.baldwin@avisonyoung.com](mailto:nick.baldwin@avisonyoung.com)



**Paul Magoria**

Senior Data Analyst  
+1 510 254 4266  
[paul.magoria@avisonyoung.com](mailto:paul.magoria@avisonyoung.com)



AVISON  
YOUNG

# Let's talk

© 2021 Avison Young Northern California, LTD. All rights reserved.  
E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.

**AVANT**  
by AVISON YOUNG