AVISON YOUNG

Industrial Market Report / Third Quarter 2020

San Mateo County

Quick Stats

3.9%
Class Vacancy

$1.70 nnn
Average Asking Rate

34.8 msf
Building Base

-121,085 sf
2020 YTD Total Net Absorption

The overall industrial vacancy rate has remained under 5.0% for the past 5 years within San Mateo County, ending the quarter at 3.9%.

Industrial Tenants and Landlords Remain Cautious And Halt Leasing For The Near Future

- San Mateo County has not fully recovered from the early effects of the COVID-19 pandemic. This time one year ago, San Mateo County had the lowest unemployment rate in the state of California with a 2.2% rate. As of August 2020, the Labor Market noted an unemployment rate of 7.5% in San Mateo County, which is slightly better than the state of California's 11.6% rate and the 10.3% rate measured last quarter.
- Industrial average asking rates for San Mateo County may have finally hit their peak. The market recorded a $1.70 per square foot, triple net asking rate, which is a 1.3% decrease from last quarter. Rents in the industrial market have been exponentially increasing to dangerous levels over the past few quarters. These high asking rates, paired with the limited availability on the Peninsula have been consistently driving tenants out of the Bay Area.
- Industrial tenant demand along the Peninsula has stabilized during the pandemic. San Mateo County measured an occupancy gain of 215,129 square feet (sf), while new leasing activity measured 216,098 sf, a modest 5.0% decrease in demand quarter-over-quarter.
- Vacancy remains at competitive, yet healthy levels. The industrial market recorded just over 1.3 million square feet (msf) of vacant space with only 116,145 sf of sublease space. This translates to an overall vacancy rate of 3.9% which is 60 basis points lower than last quarter, but 160 basis points higher than the 2.4% rate from this time last year. Even though vacancy remains at extremely low levels, we can be optimistic about the future of the industrial market.
- Leasing activity and deal volume both ended the quarter at average levels. The most notable investment transaction of the third quarter was completed by SI 75 LLC. They acquired three properties within San Carlos for $13.9 million from the Sobrato Organization. The most notable lease transaction belonged to Trove who renewed their 79,400 sf space at 240-246 Valley Drive in Brisbane.

Trends to Watch

Demand

Industrial vacancy levels have actually decreased within San Mateo County since the beginning of the year proving that tenants are still active, yet cautious about leasing.

Rents

The modest amount of activity over the past couple of quarters has pushed landlords to start lowering asking rents to encourage tenants to move back or renew.

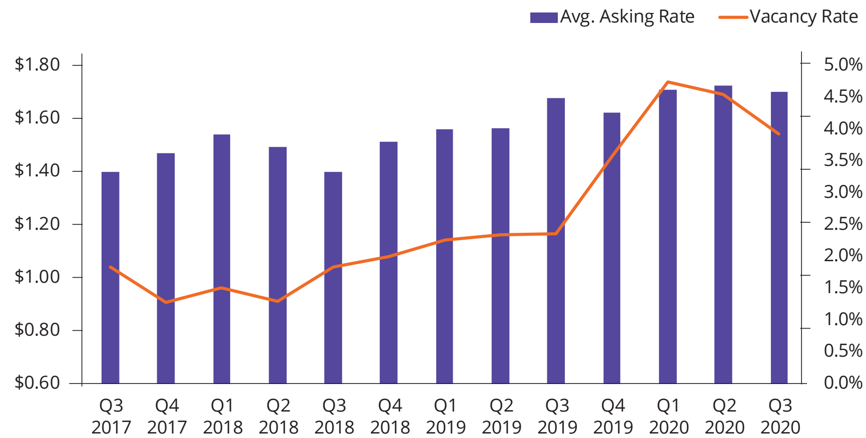
Redevelopment

San Mateo County is starting to see some larger blocks of available industrial space, which may persuade tenants to stay or expand.

Looking Forward

The industrial market within San Mateo County has slowed down, but is still moving forward. Despite the low amount of activity, the market is actually pretty healthy as tenants and landlords are just cautious about leasing until there is more certainty about the pandemic. Online retailers and warehouse distributors have been extremely busy throughout the pandemic, so we may see more leasing activity within those two industries as they try to keep up with the high demand.

Historical Asking Rates vs Vacancy Rates



Notable Lease Transactions

Tenant	Building	Submarket	Square Feet	Type
Trove	240-246 Valley Dr	Brisbane	79,400	New Lease
Design Milagros	405 Allerton Ave	South San Francisco	20,000	New Lease
EYC Rental	214-218 Shaw Rd	South San Francisco	11,600	New Lease
Junk King	171 Industrial Way	Brisbane	10,752	New Lease

Notable Sales Transactions

Building	Buyer	Submarket	Square Feet	Sale Price	PSF
841 Old County Rd	SI 75 LLC	San Carlos	32,160	$13,900,000	$432.21
1007-1011 Bransten Rd	Grove Construction	San Carlos	25,650	$7,200,00	$280.70
179 Starlite St	Terreno Realty Corporation	South San Francisco	22,000	$6,300,000	$286.36
620 Mountain View Ave	JML Belmont	Belmont	5,400	$2,175,000	$402.78

Largest Available Spaces

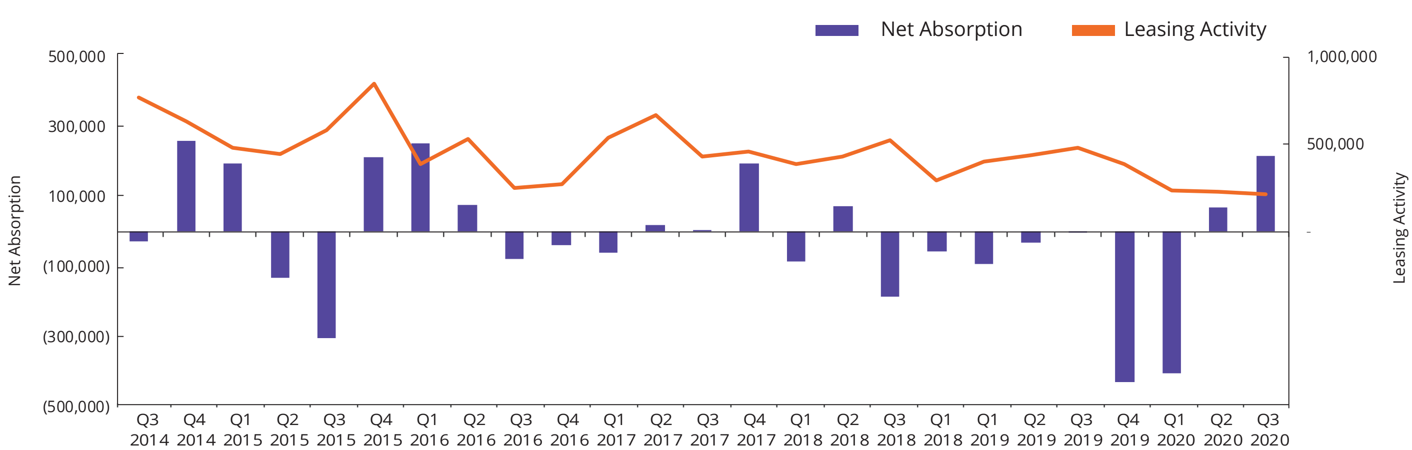
	Building	Landlord	Submarket	Square Feet	Type
	530-540 Forbes Blvd	Genentech	South San Francisco	240,660	Direct Lease
	405 Victory Ave	EverWest Real Estate Investors	South San Francisco	123,378	Direct Lease
	1655 Rollins Rd	Devincenzi R C Living Trust	Burlingame	93,000	Direct Lease
*	572-576 Eccles Ave	Prologis	South San Francisco	88,989	Direct Lease
	960-980 Industrial Rd	Alexandria Real Estate Equities	San Carlos	62,000	Sublease
	233 East Harris Ave	Irwin Eskanos	South San Francisco	60,000	Direct Lease
	810 Malcolm Rd	MTI Properties	Burlingame	55,000	Direct Lease
	375-377 Oyster Point Blvd	Kilroy Realty	South San Francisco	52,197	Direct Lease
*	401 East Grand Ave	Prologis	South San Francisco	46,248	Direct Lease

Denotes Avison Young Involvement

Market by the numbers

Submarket	Total RBA (SF)	Direct Vacant Space (SF)	Sublet Vacant Space (SF)	Vacancy Rate Q2'20	Vacancy Rate Q3'20	Net Absorp (SF)	Net Absorp YTD (SF)	Avg. Asking Rent (NNN) Q2'20	Avg. Asking Rent (NNN) Q3'20
Daly City / Brisbane	5,285,450	94,223	15,538	3.6%	2.1%	80,070	80,104	$1.37	$1.30
South San Francisco / San Bruno	15,430,012	722,406	33,155	6.0%	4.9%	173,208	-36,282	$1.66	$1.62
Burlingame / Millbrae	3,943,651	181,884	5,452	4.3%	4.8%	-18,240	-53,310	$1.53	$1.56
North County	**24,659,113**	**998,513**	**54,145**	**5.2%**	**4.3%**	**235,038**	**-9,488**	**$1.60**	**$1.58**
San Mateo / Foster City	822,198	12,005	-	1.7%	1.5%	1,745	-12,005	$2.25	$2.32
Belmont / San Carlos	3,987,632	81,291	62,000	3.3%	3.6%	-12,159	12,201	$1.88	$1.88
Redwood City	3,170,211	79,045	-	1.8%	2.5%	-22,747	-49,743	$1.77	$1.69
Menlo Park	2,205,448	81,285	-	4.3%	3.7%	13,252	-62,050	$3.07	$2.91
South County	**10,185,489**	**241,621**	**62,000**	**2.9%**	**3.1%**	**-19,909**	**-111,597**	**$2.26**	**$2.11**
San Mateo County Total	**34,844,602**	**1,240,134**	**116,145**	**4.5%**	**3.9%**	**215,129**	**-121,085**	**$1.72**	**$1.70**

Historical Leasing vs Net Absorption



Get more market information

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