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# San Mateo – Peninsula industrial market report

Q3 2021

**AVANT**  
by AVISON YOUNG





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# U.S. industrial drivers

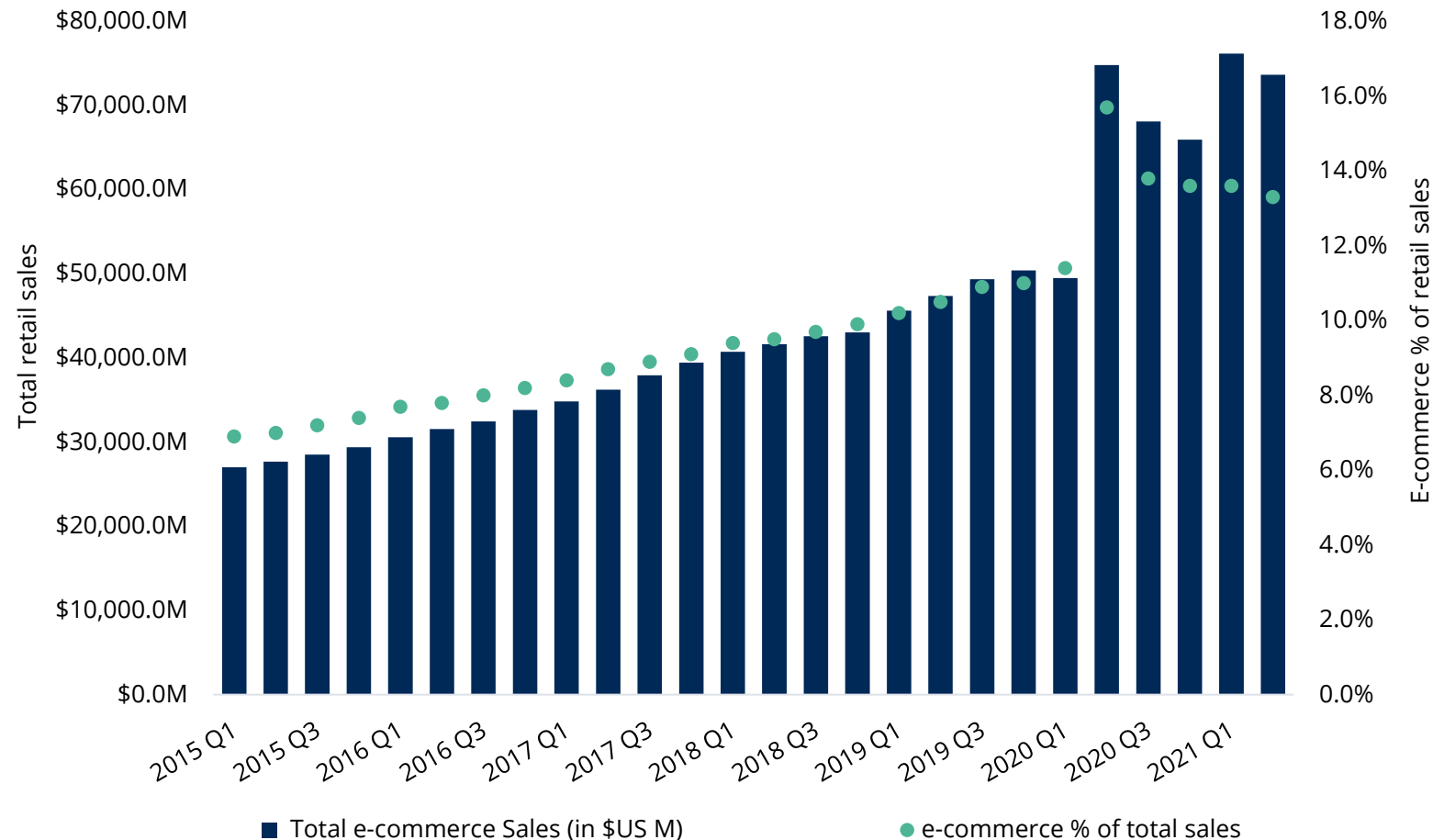
NORTHERN CALIFORNIA INDUSTRIAL  
INSIGHT REPORT  
**Q3 2021**

# 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

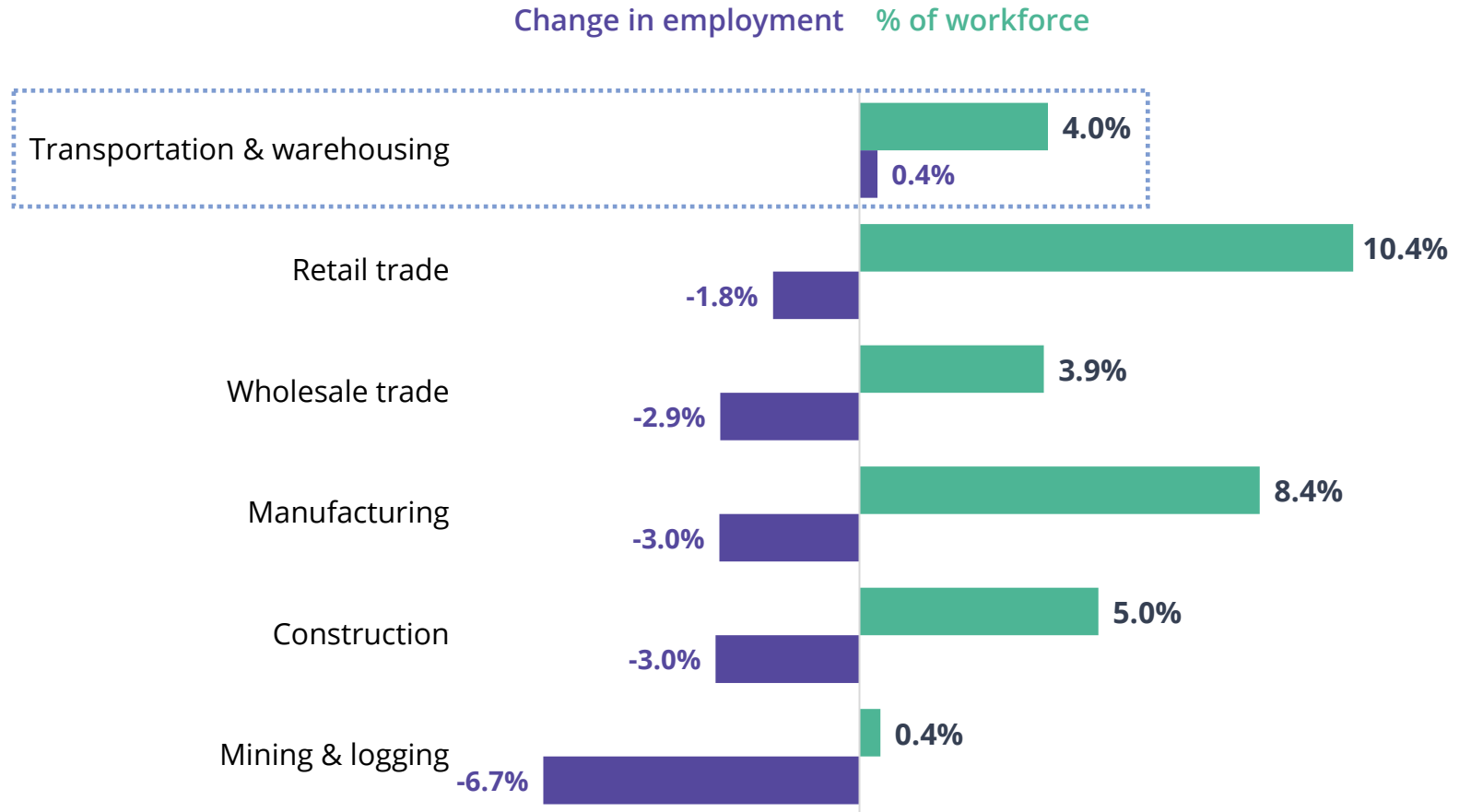


# Industrial sector job gains and losses

# +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.



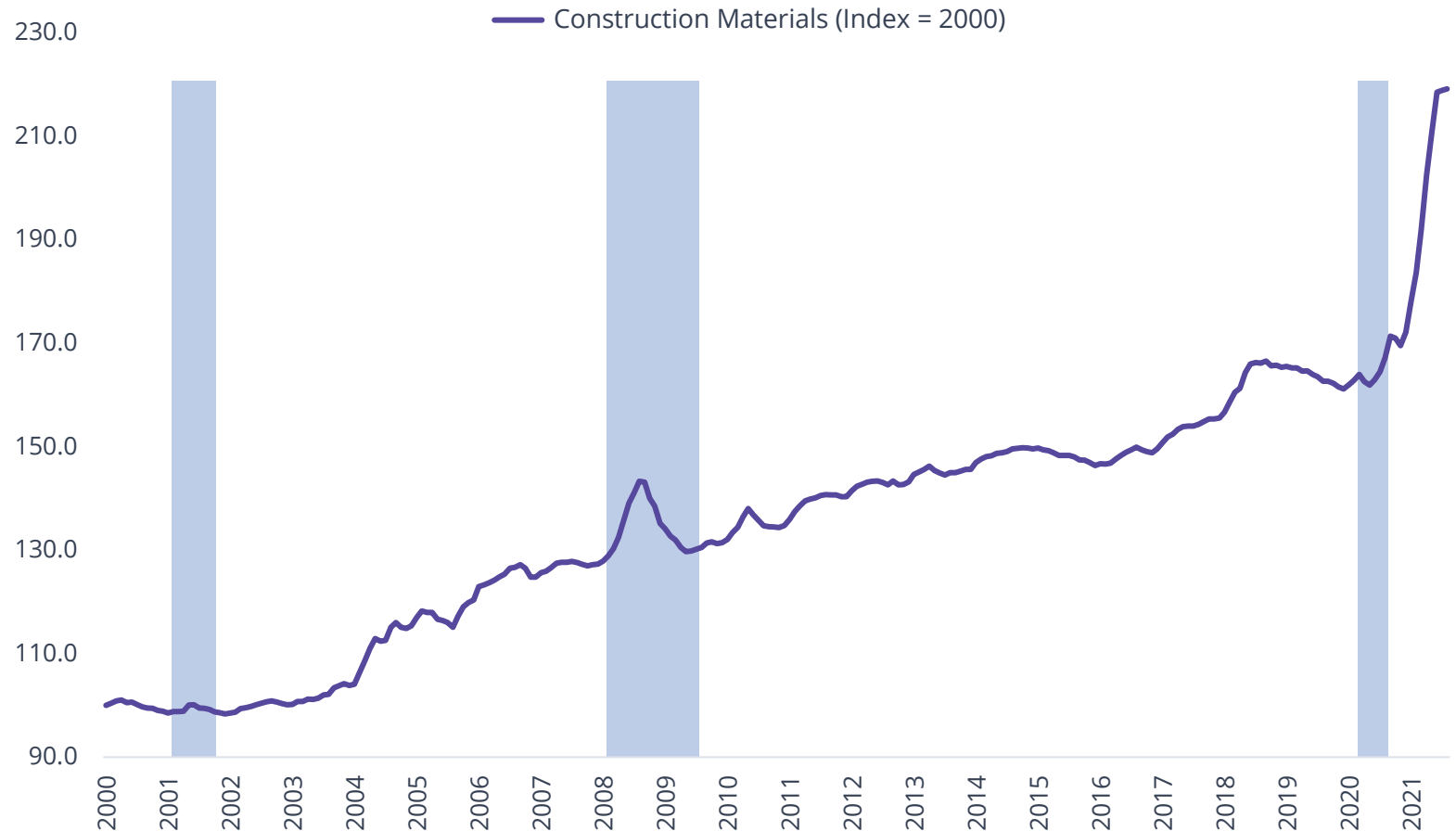
Note: Seasonally adjusted data.  
Source: Bureau of Labor Statistics

# 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.



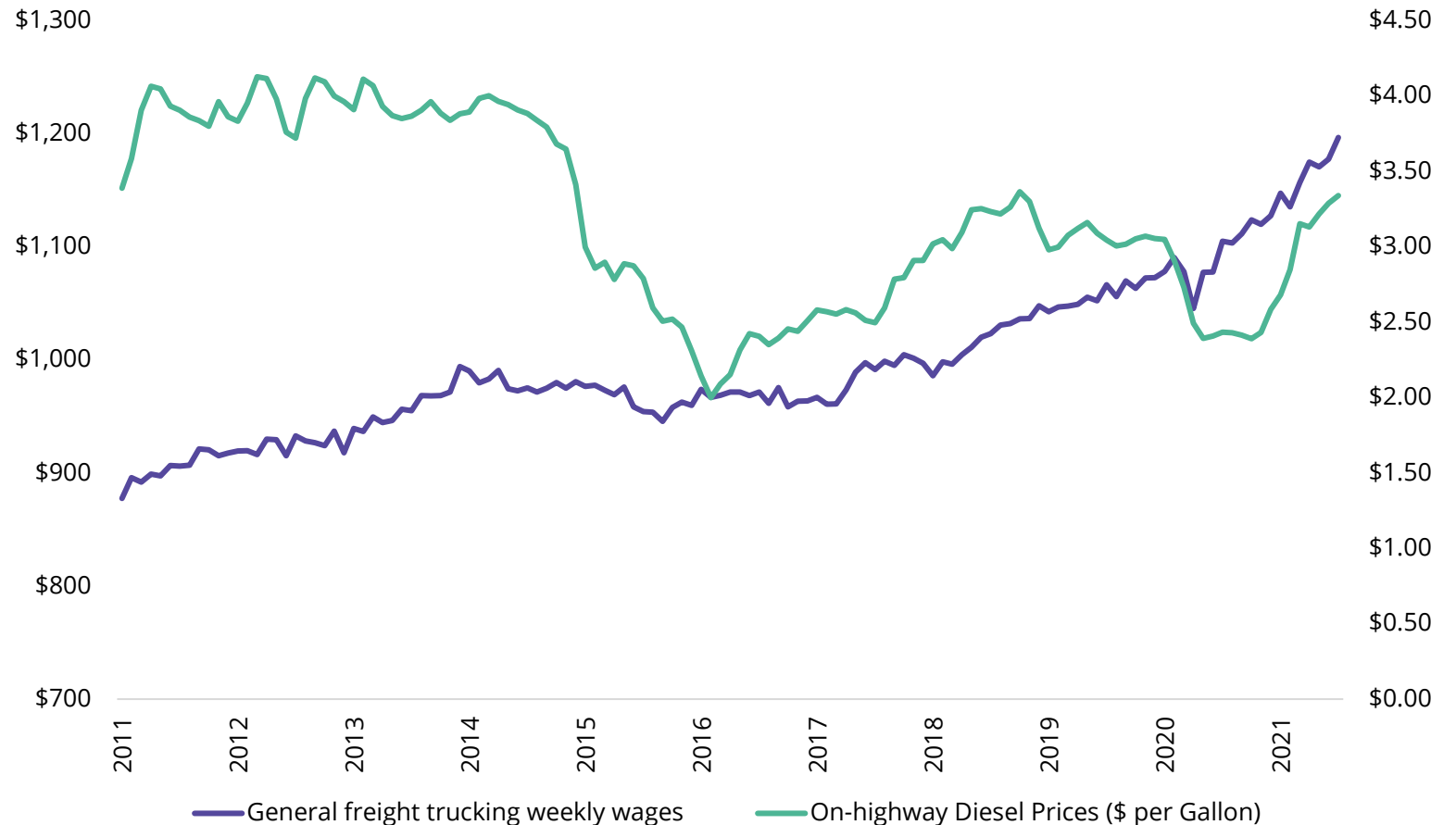
Source: Bureau of Labor Statistics

# 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.



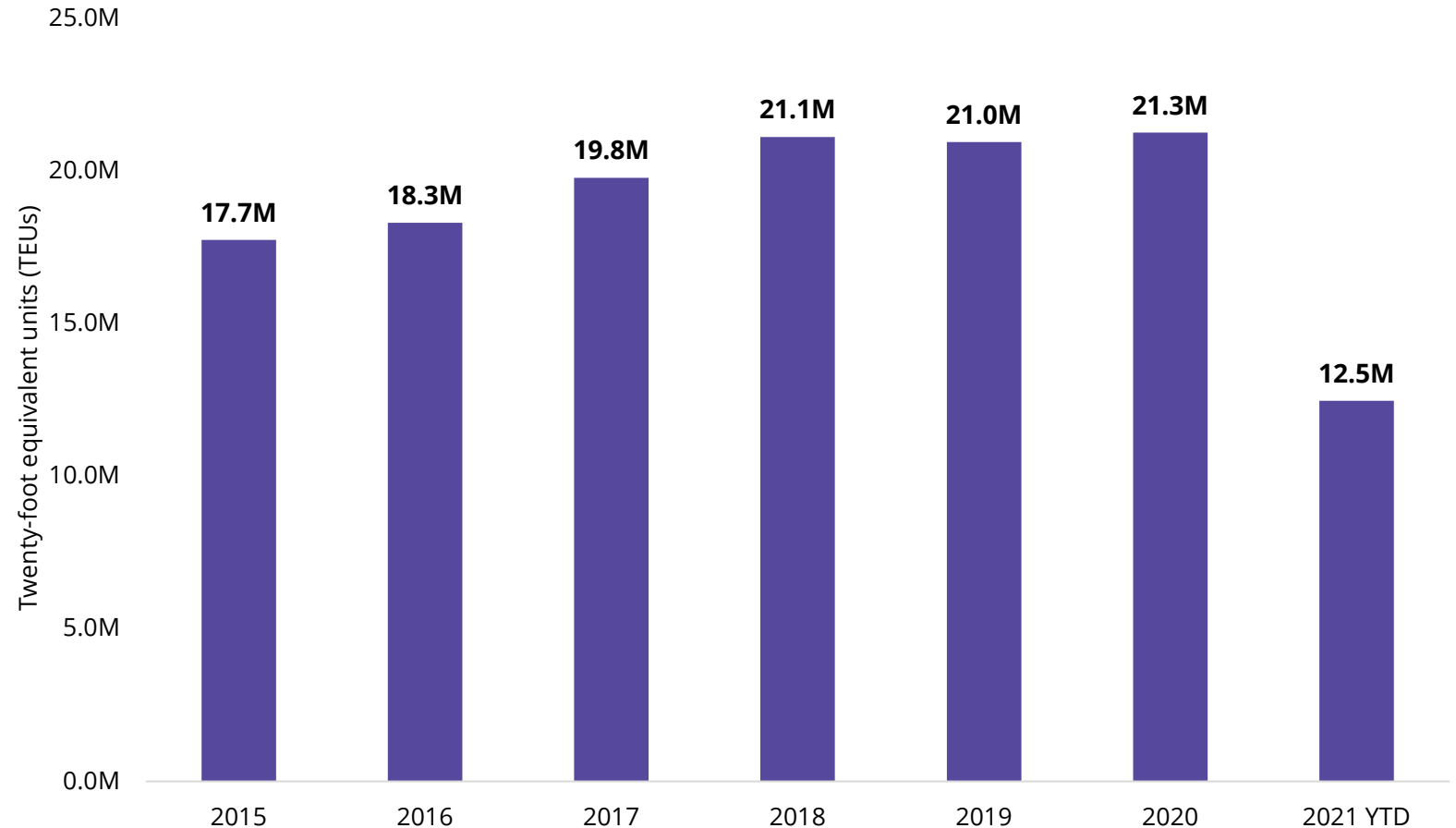
Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

# 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 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

# Industrial job gains and losses

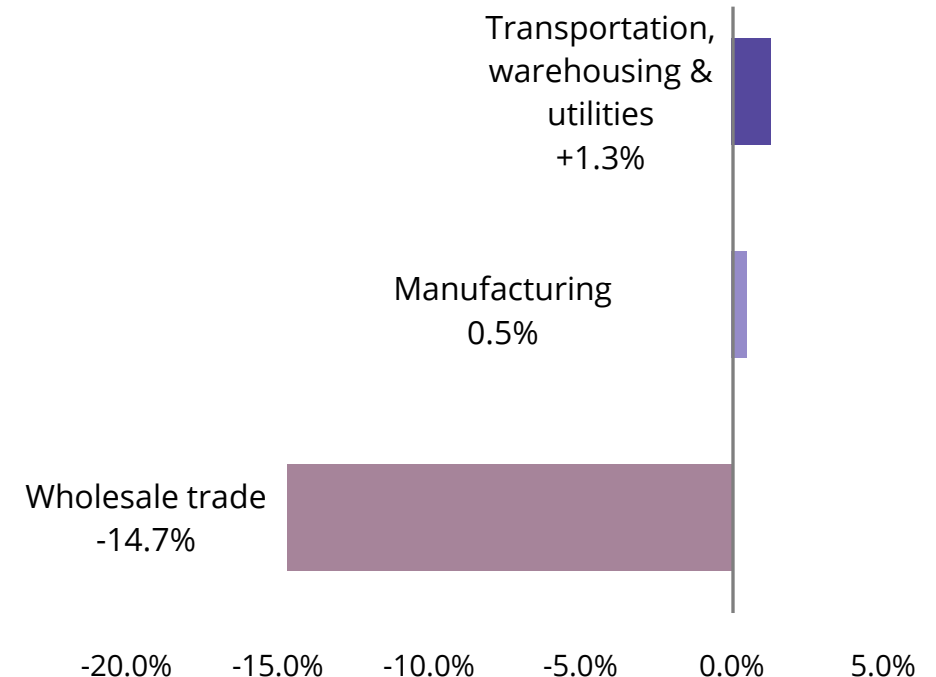
# +1.3%

## 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)

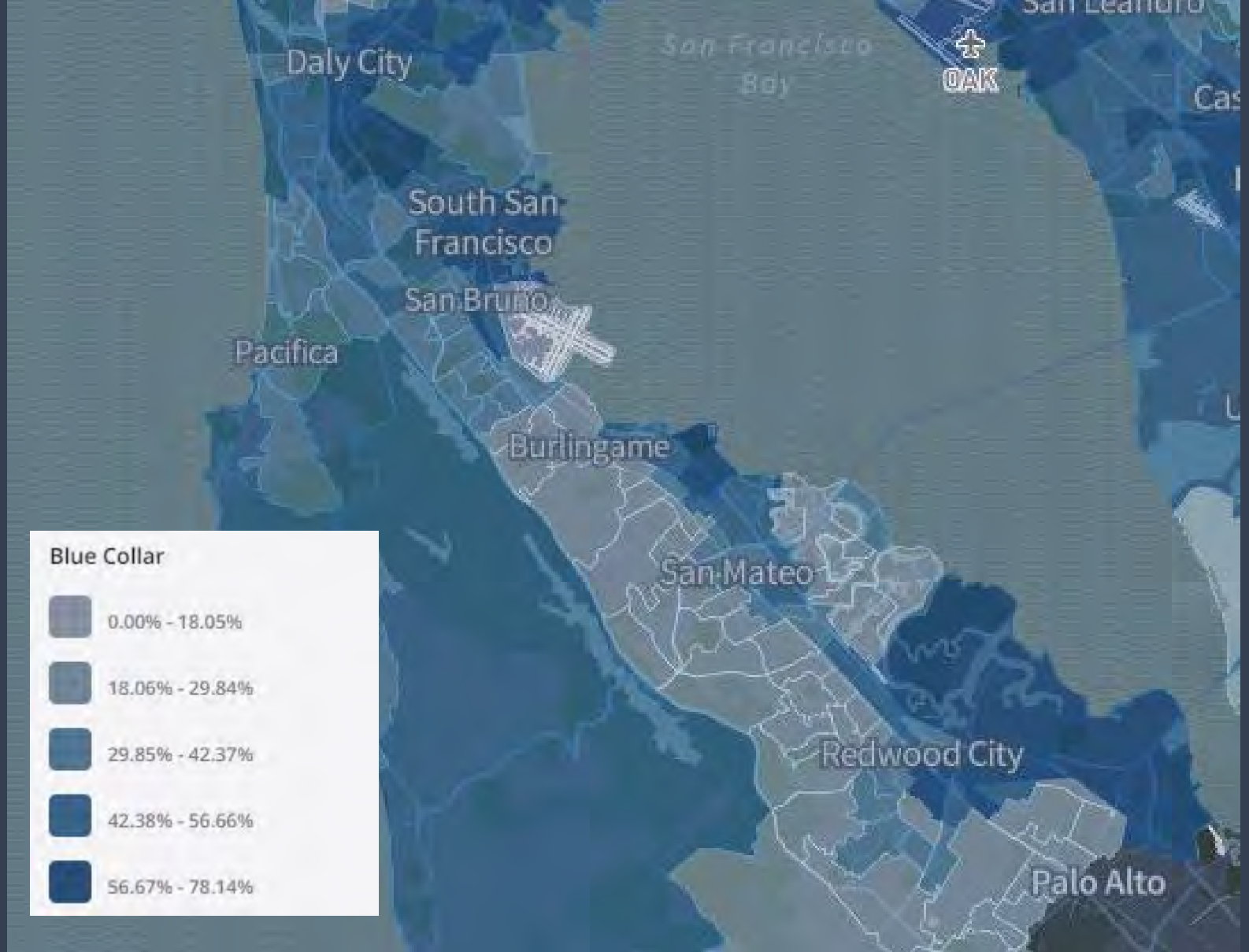
July 2020 to July 2021



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



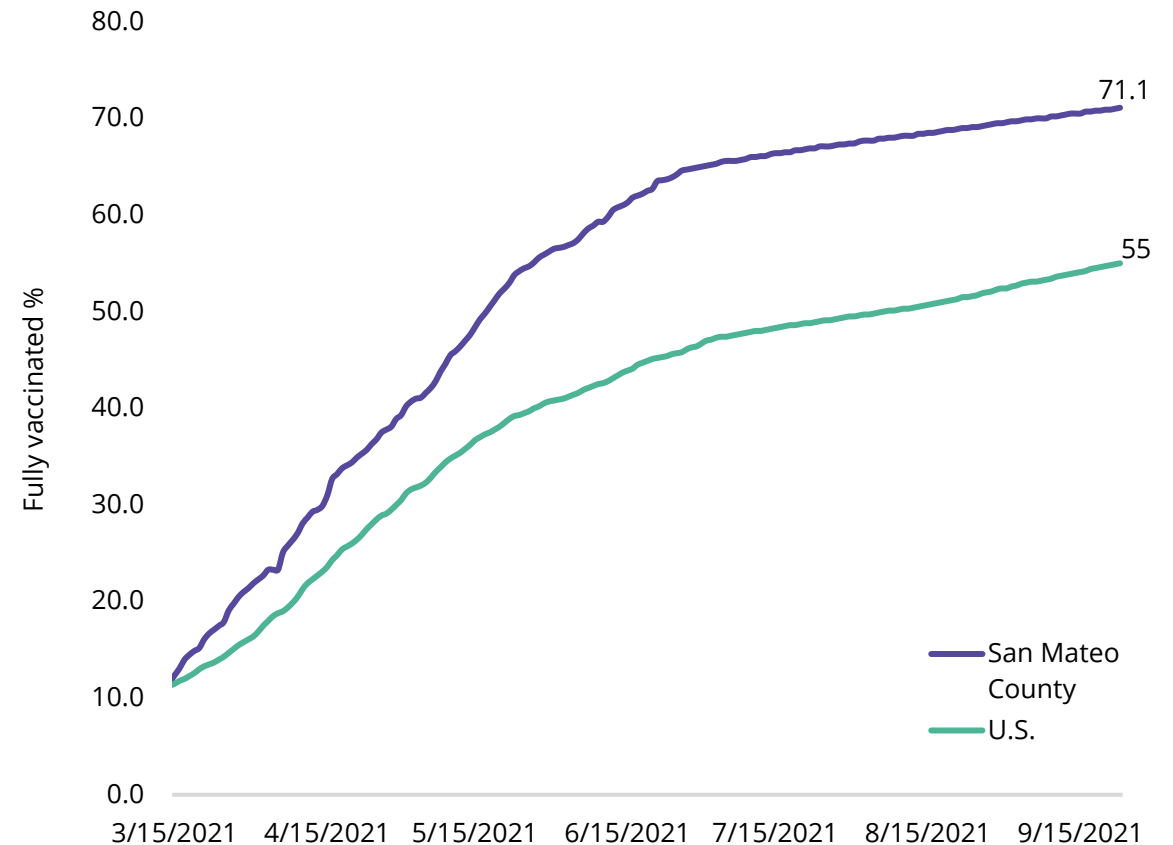


# Vaccination rates

# 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.



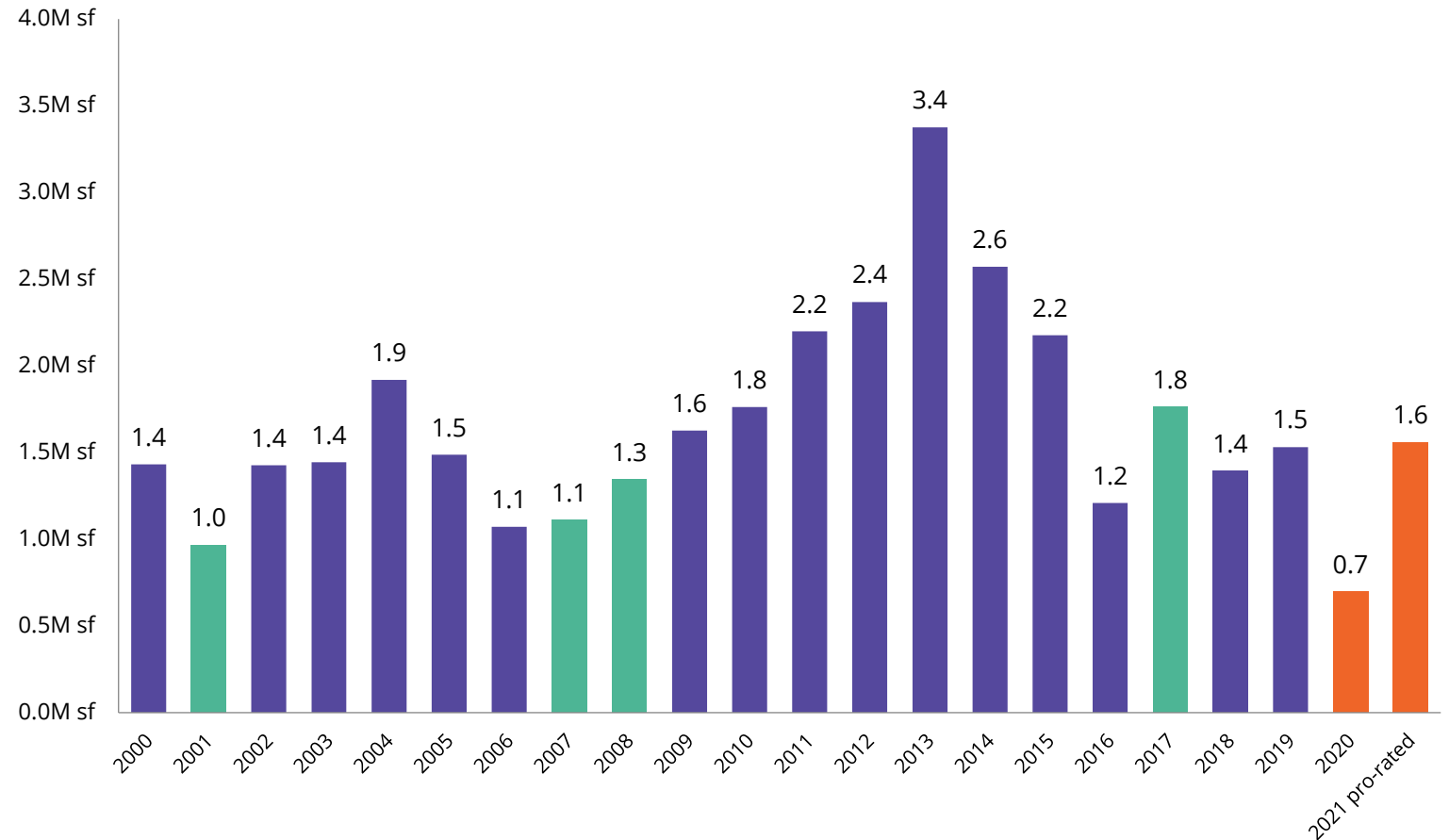
Source: CDC

# 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.



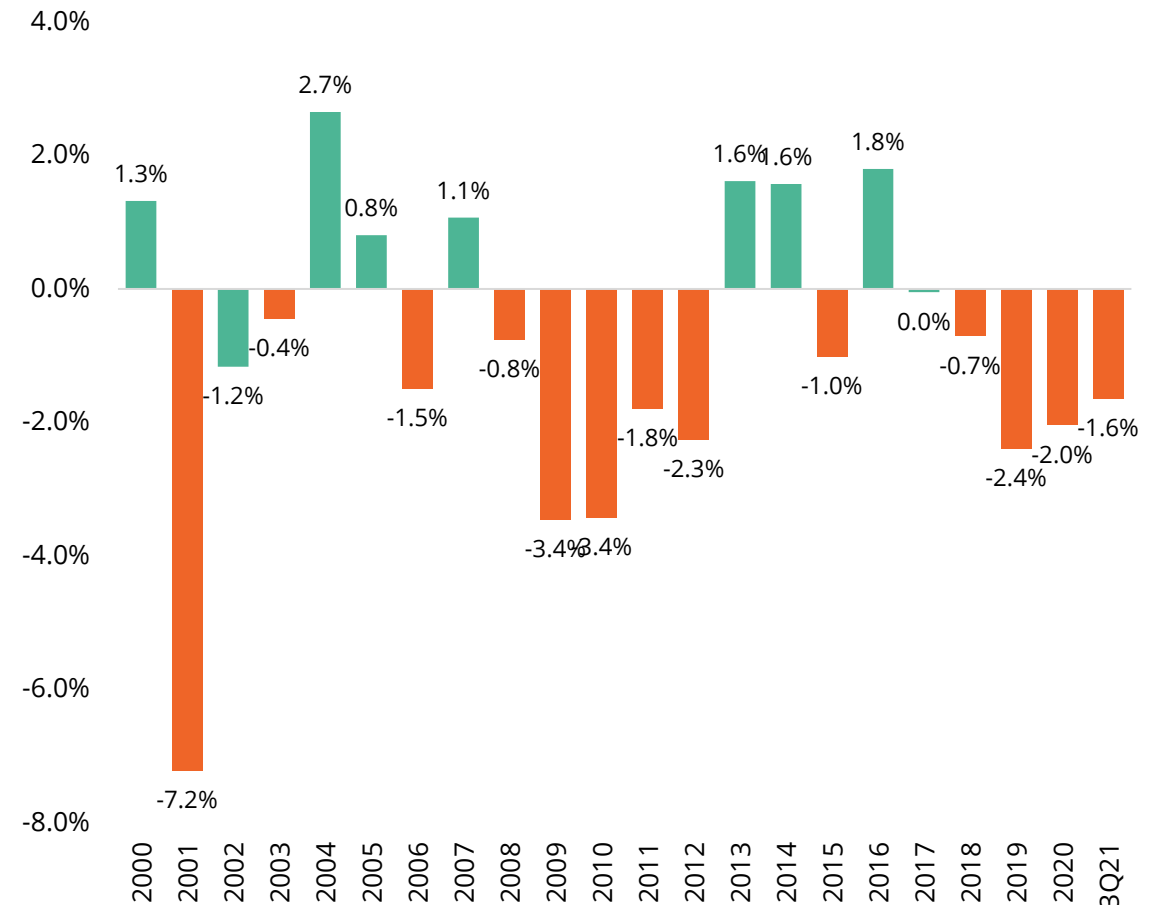
Source: CoStar

# 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

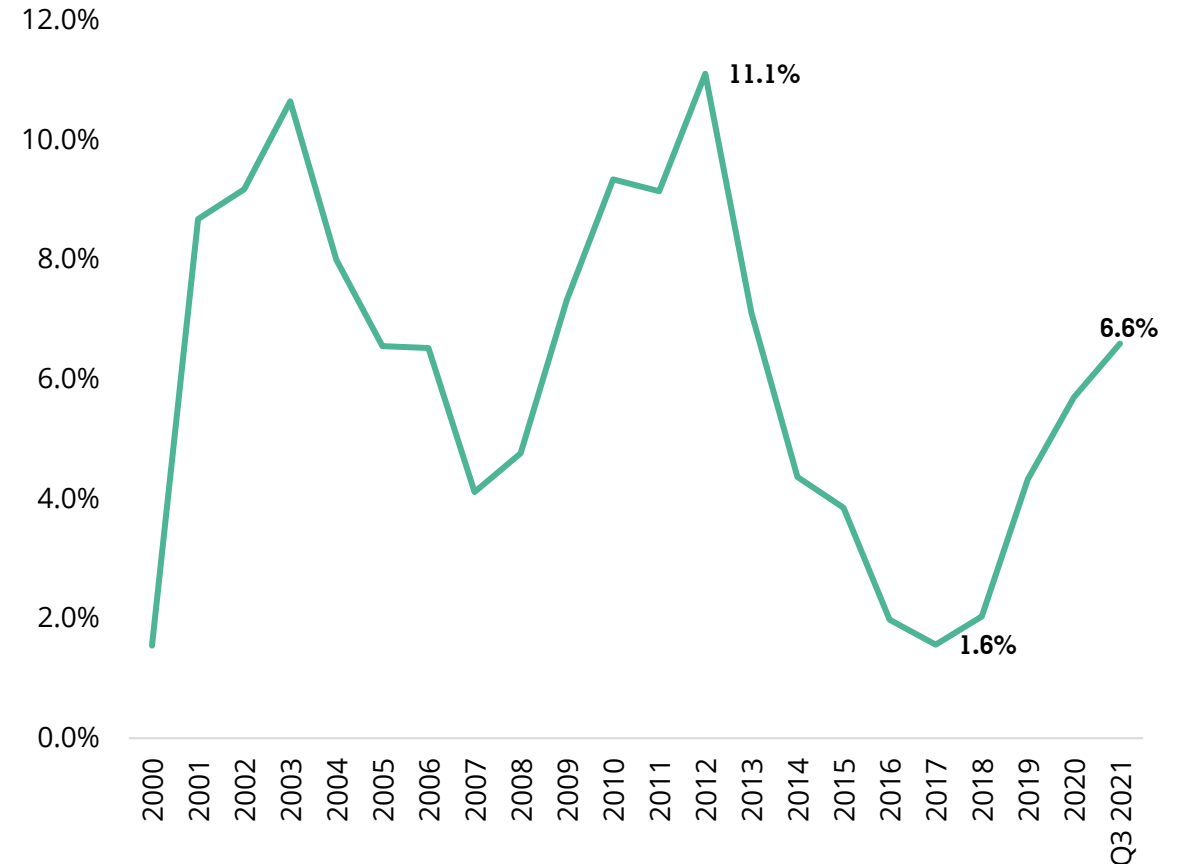


# Industrial vacancy rate

# 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**

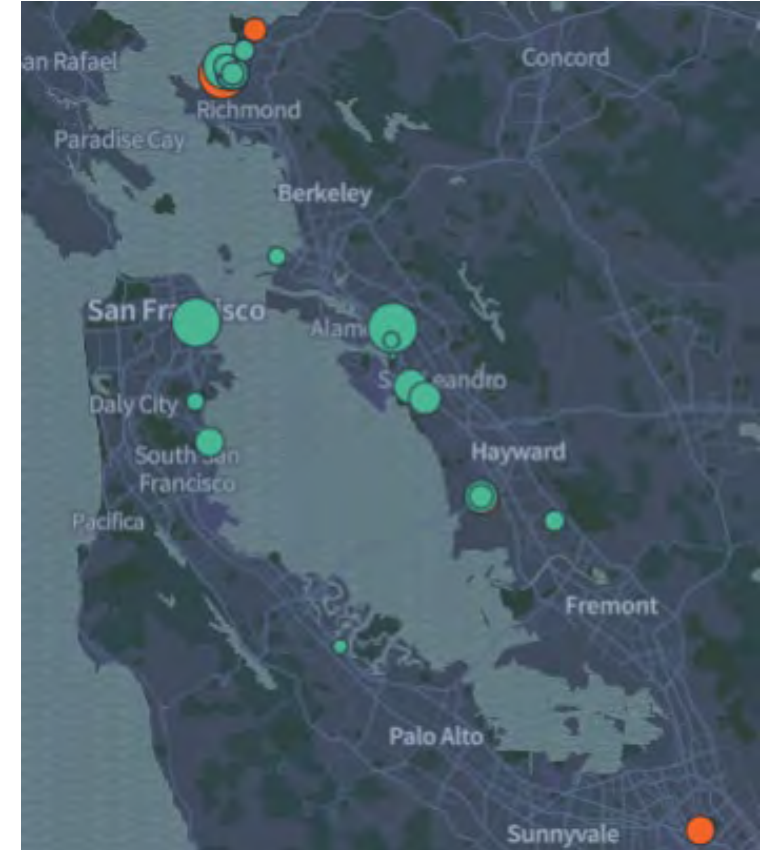
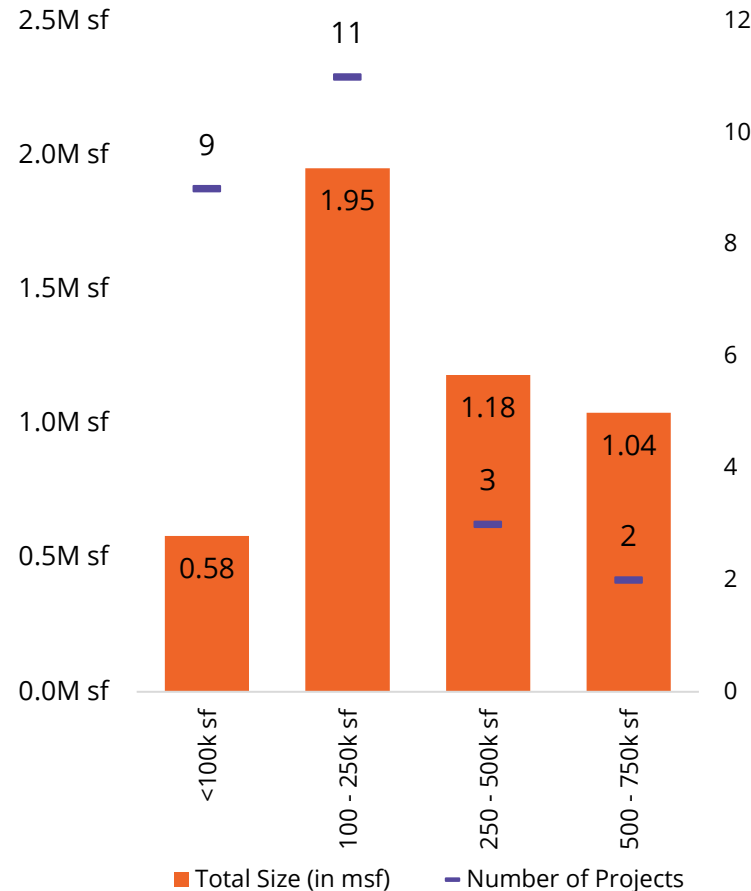
proposed or under  
construction

**2.9%**

share of industrial  
inventory

**Hayward**

Submarket with most  
ground-broken projects at 3



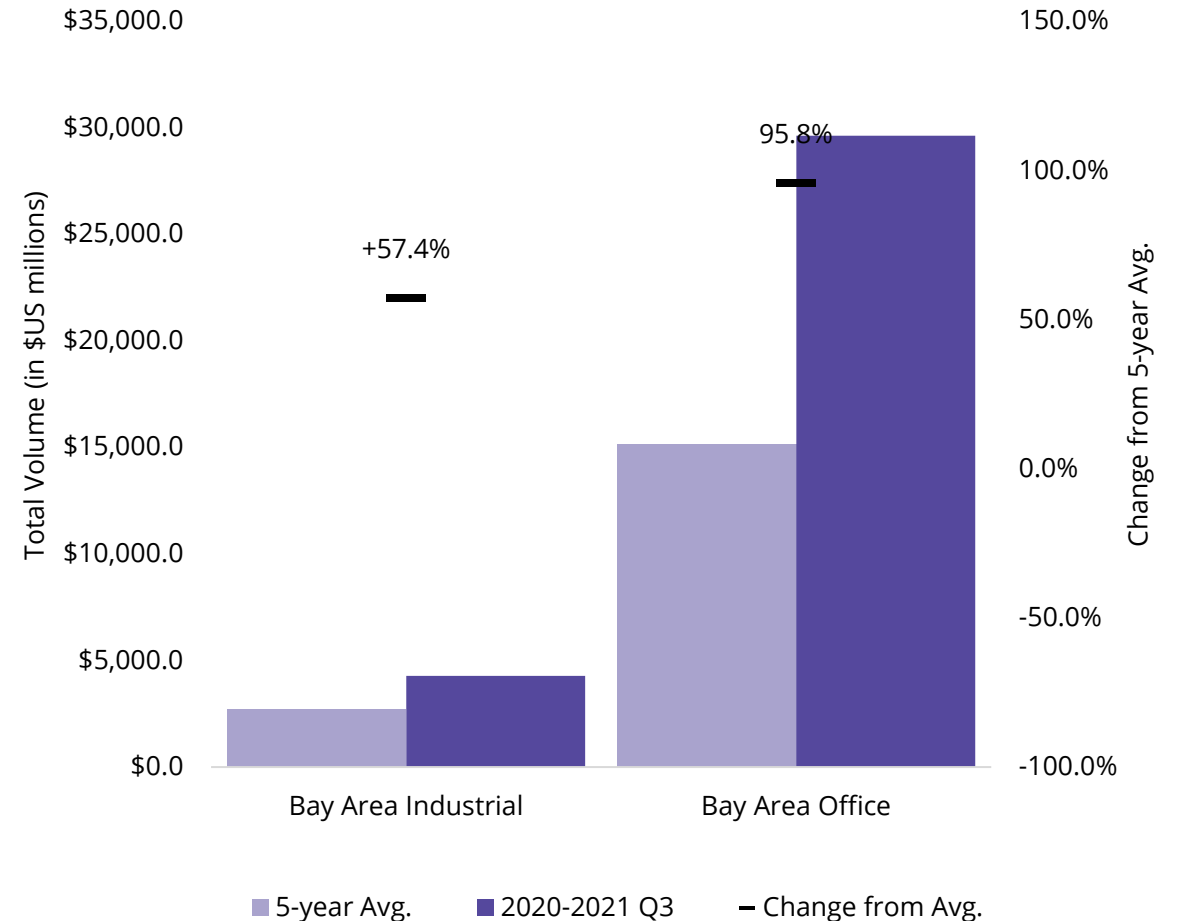
Source: AVANT by Avison Young

# 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



# Get in touch



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# Let's talk

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