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# Silicon Valley industrial insight report

Q2 2021

**AVANT**  
by AVISON YOUNG



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# U.S. industrial drivers

NORTHERN CALIFORNIA INDUSTRIAL MARKET REPORT  
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

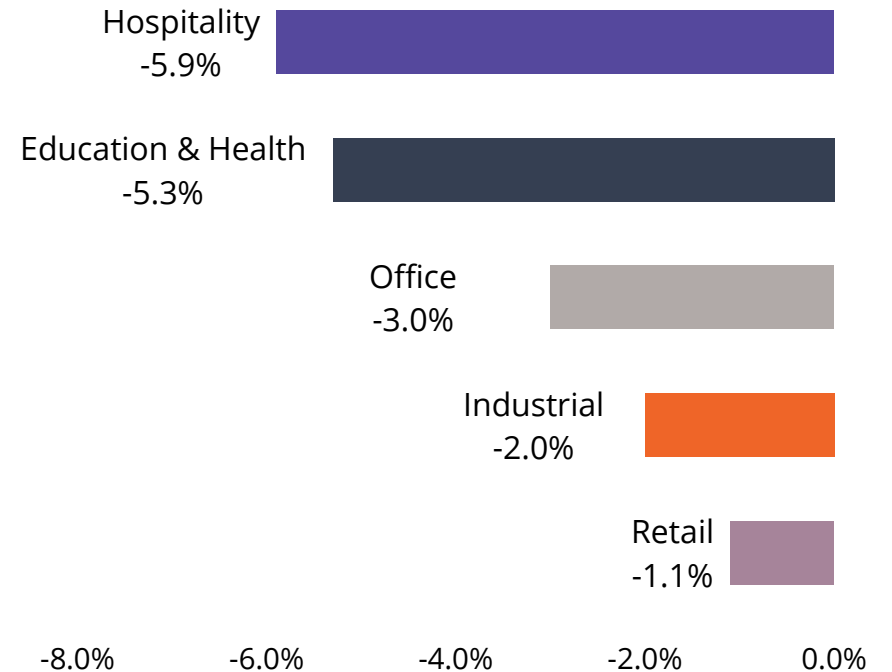
# -2.9%

## 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



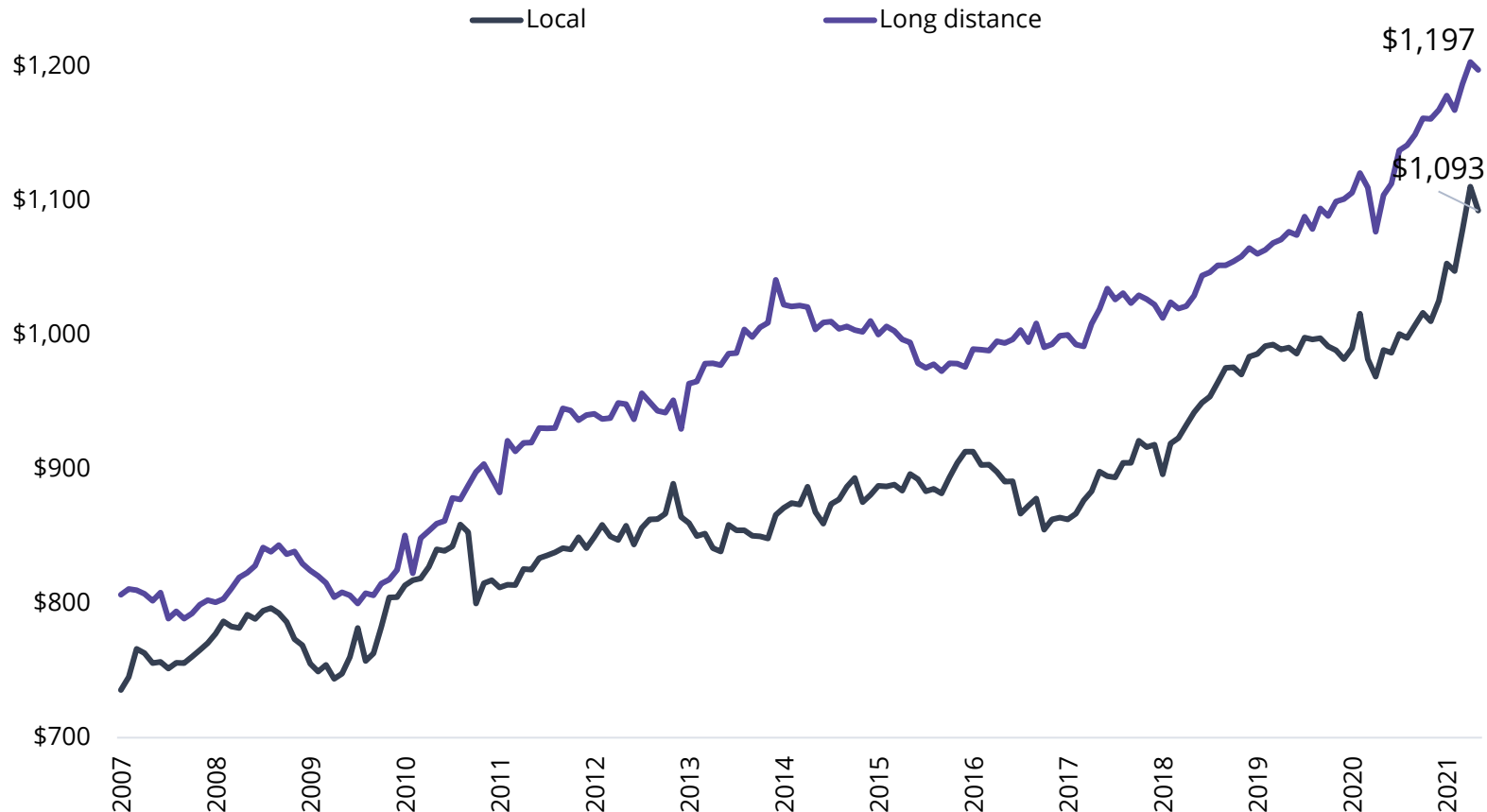
Note: Not seasonally adjusted data.  
Source: Bureau of Labor Statistics

# 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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# Silicon Valley 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 Chicago 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 **70,505 jobs** year-to-date as of May, led by the Transportation, warehousing, & utilities sector.



## Recovery rate

- The Bay Area began to reopen in the second quarter, as vaccination rates surpassed the national average to **67.4 percent**.
- As office workers across the metropolitan area just now begin to return to the office, the industrial workforce has shrunk by **3.4 percent** since the beginning of the pandemic in February 2020.



## Industrial demand

- Overall leasing activity has been sustained throughout the pandemic, currently sitting at **-24.4 percent** of the long-term annual average of the last 20 years of historical data.
- Net absorption is increasing as the economy continues to open with 2020 and 2021 having a combined **0.6 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 has been rising slightly since the onset of the pandemic, reaching **4.8 percent** in Q2 2021.



## Pricing trends

- Base rents have increased by **3.4 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

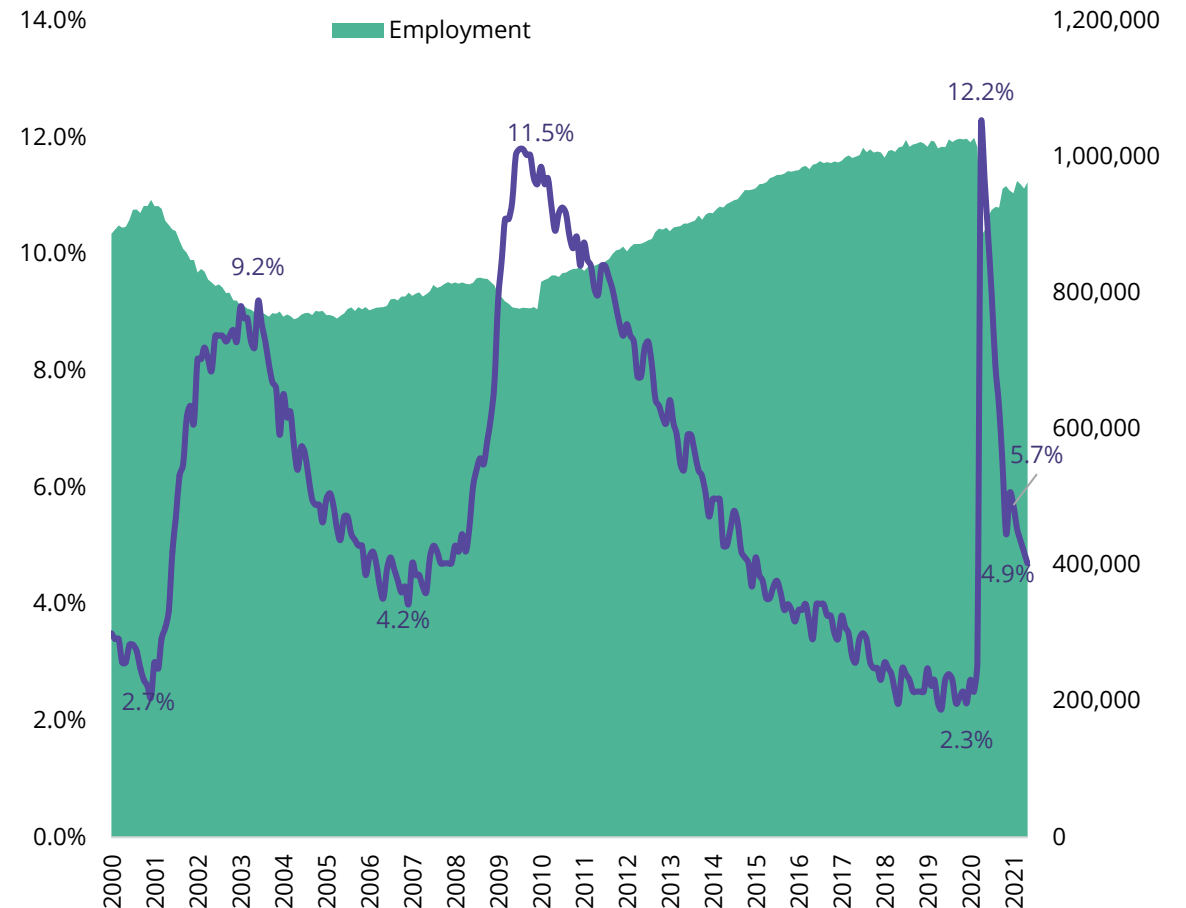
- Bay Area Industrial investment activity surges to **\$3.5B since 2020** as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- Investors continue capital deployment on industrial assets at a rate that is **27.9 percent** higher than the prior five-year 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

# 4.9%

**Santa Clara County 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 70,505 jobs since last year, up 7.9%, unemployment has only recovered to 2011 levels.



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

# Property type job gains and losses

# -6.5%

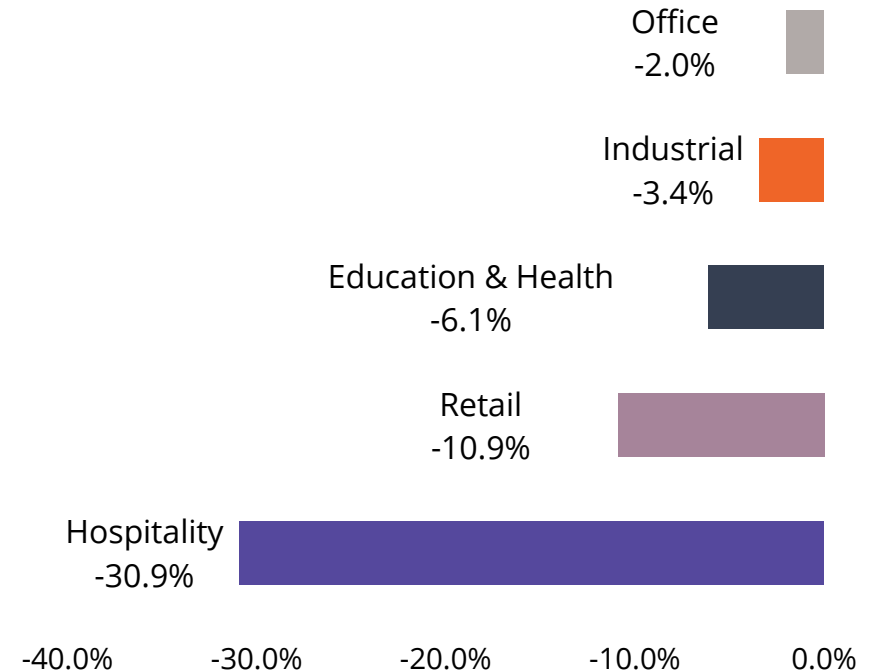
## Change in total employment during the pandemic

The San Jose metro area lost 6.5% 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 San Jose 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

# -3.4%

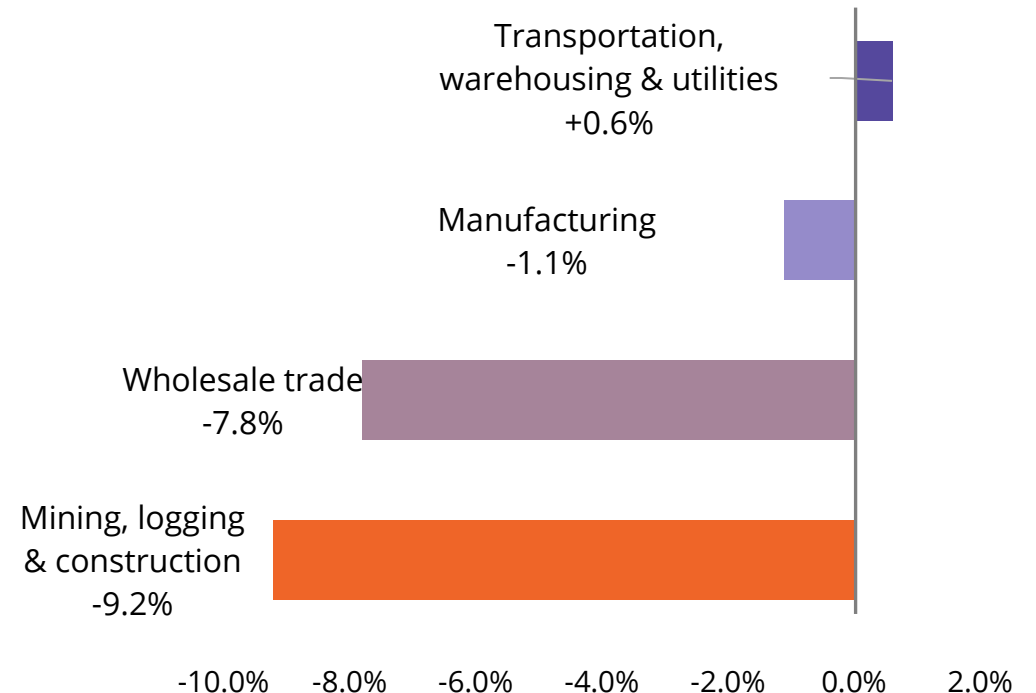
## Change in industrial-centric employment during the pandemic

The San Jose metro area lost 3.4% 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 2.2% of those losses, specifically in the Transportation, warehousing & utilities sector, which has seen net gains of 0.6% since the onset of the pandemic.

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

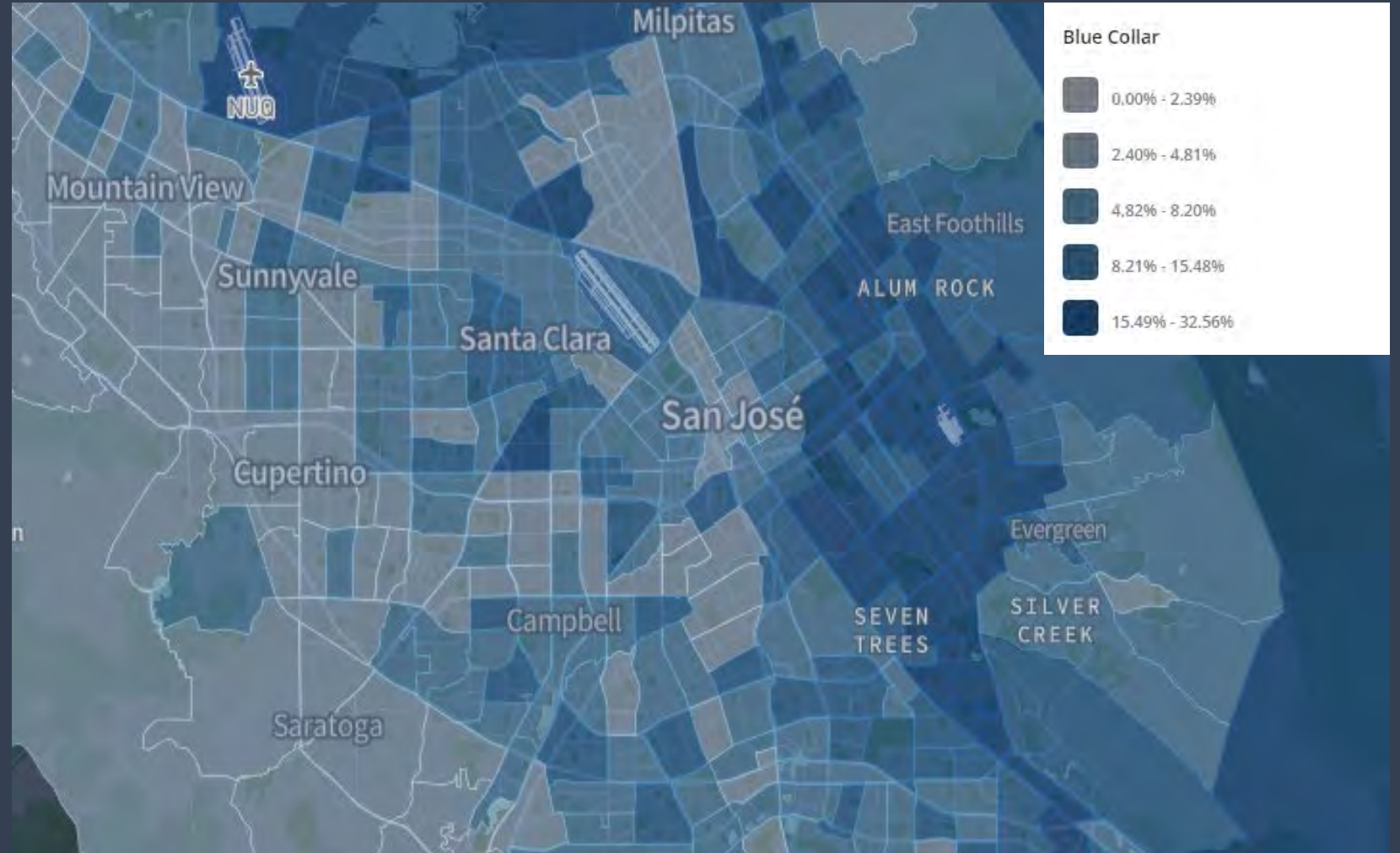
February 2020 to May 2021



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

# Blue-collar workforce concentration

Source: AVANT by Avison Young, ESRI

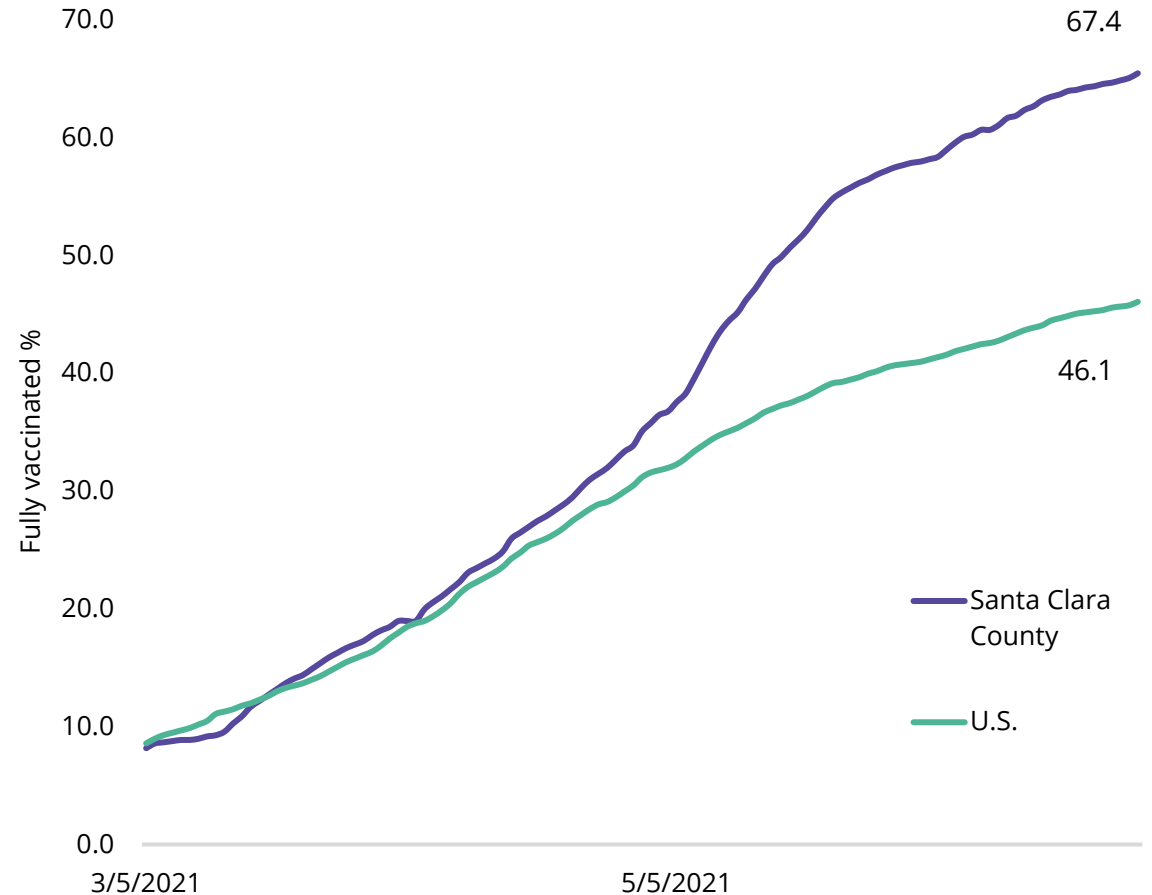


# Vaccination rates

# 67.4%

**Share of total Santa Clara County population that is fully vaccinated**

The San Francisco 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.



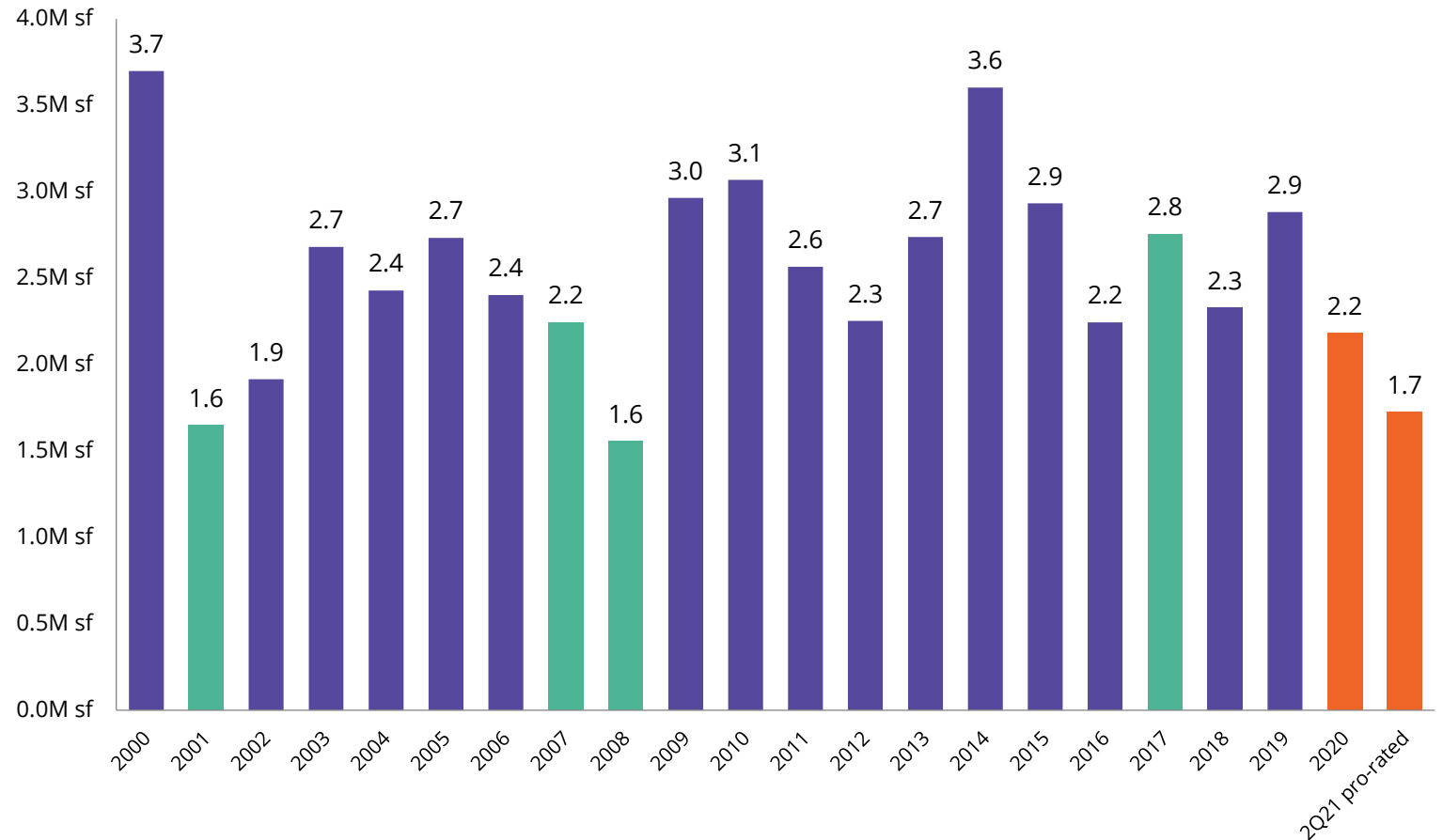
Source: CDC

# Industrial leasing activity

**-24.4%**

**2020-pro-rated 2021 vs. prior 20-year annual average leasing activity**

Leasing has not let up during the pandemic and is seeing leasing activity that compares to the financial crisis and dot com bubble burst.



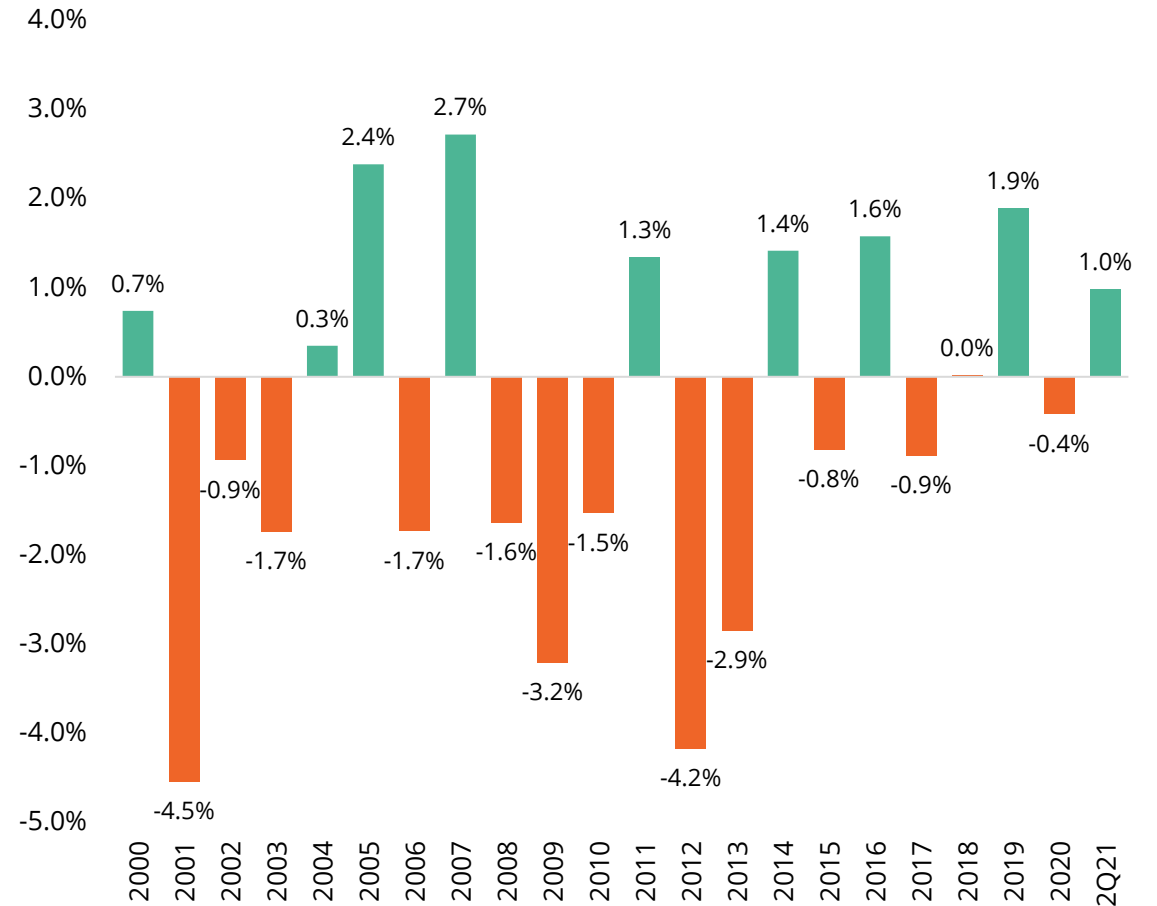
Source: CoStar

# Industrial net absorption

# 0.6%

**Net absorption as a percentage of inventory, 2020 through Q2 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



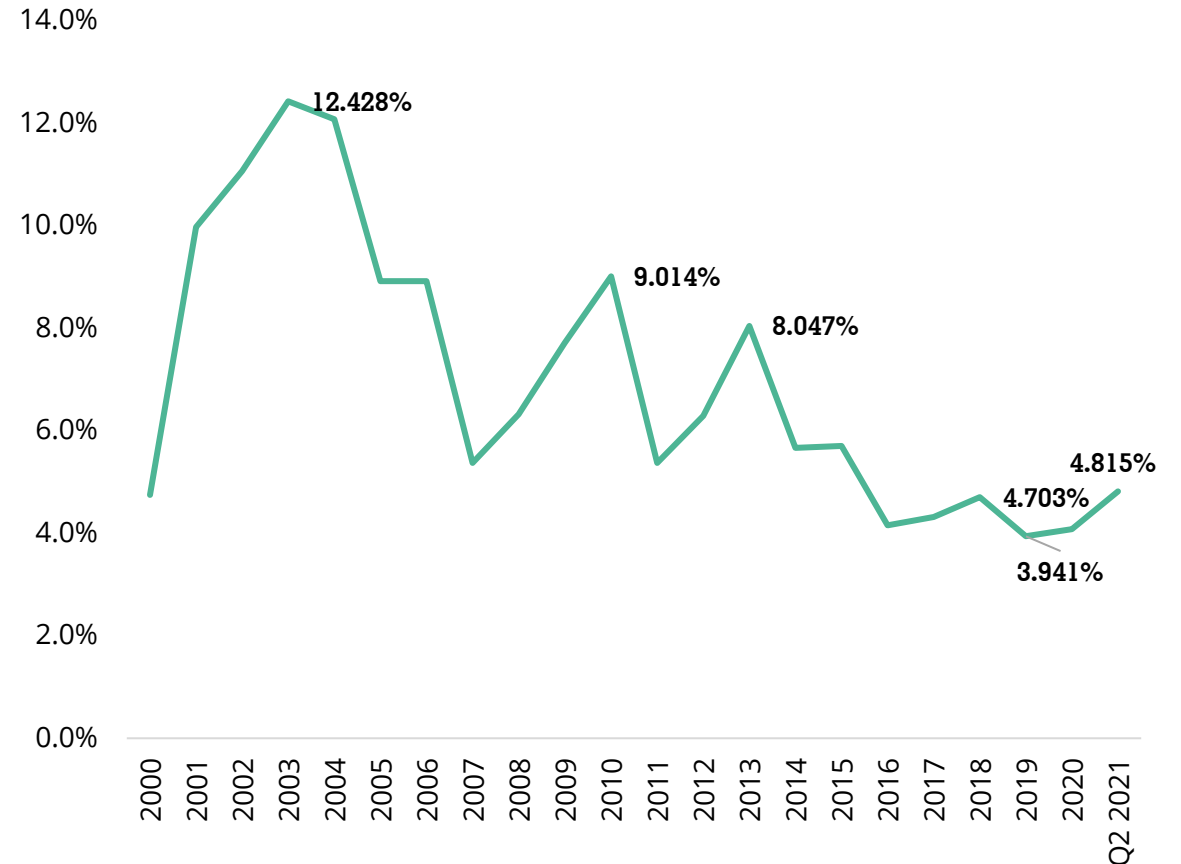
# Industrial vacancy rate

# 4.8%

## Vacancy continues a slight increase into Q2 2021

The Q2 2021 total vacancy rate has continued a slight uptick, increasing to 4.8% from a 2019 low of 3.9%.

Average asking rents have increased 8.4% over that same time period, underscoring how industrial demand has outstripped supply in the Silicon Valley.



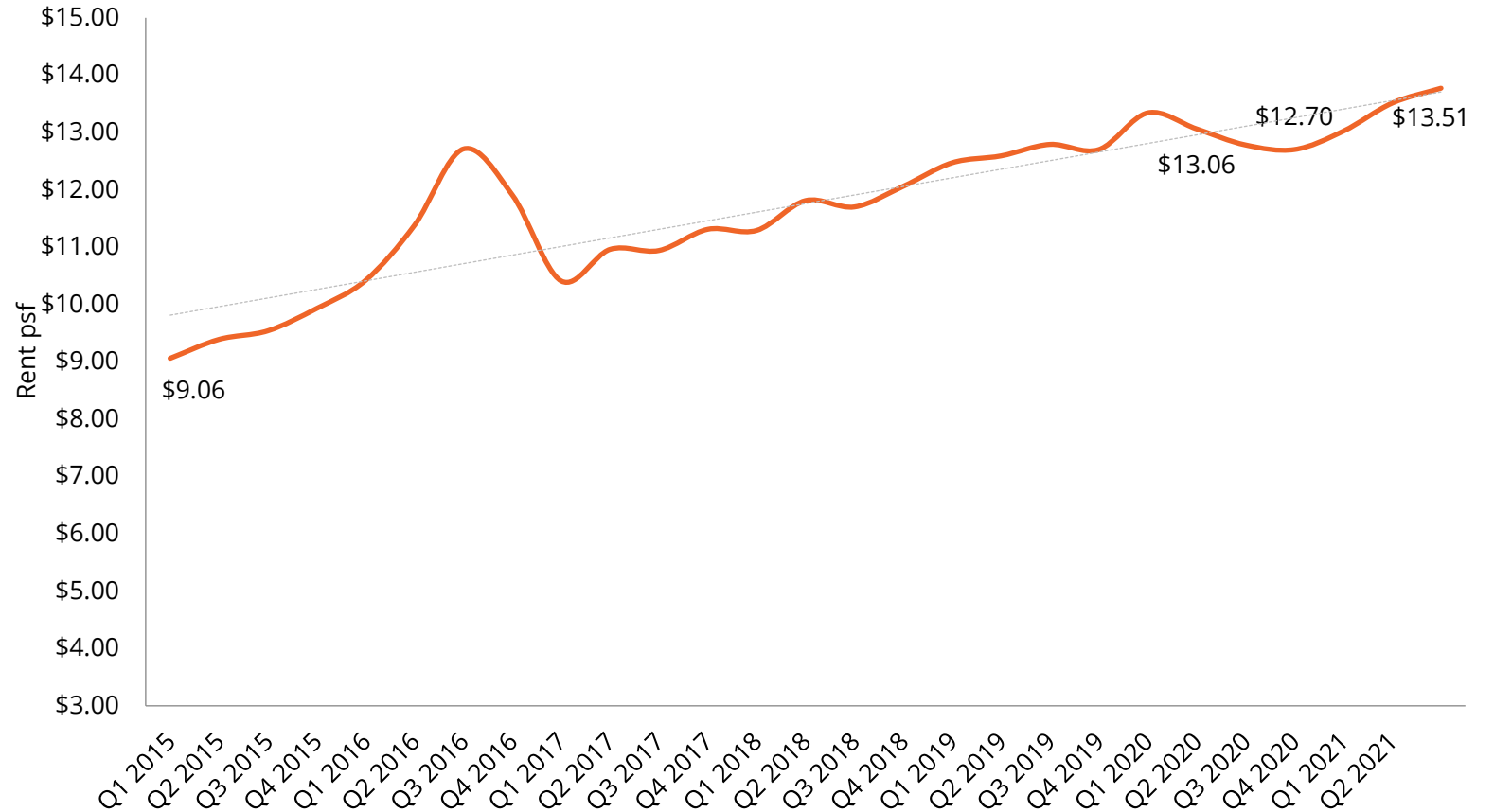
Source: CoStar

# Base rents

**+3.4%**

## 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 49.1% 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**

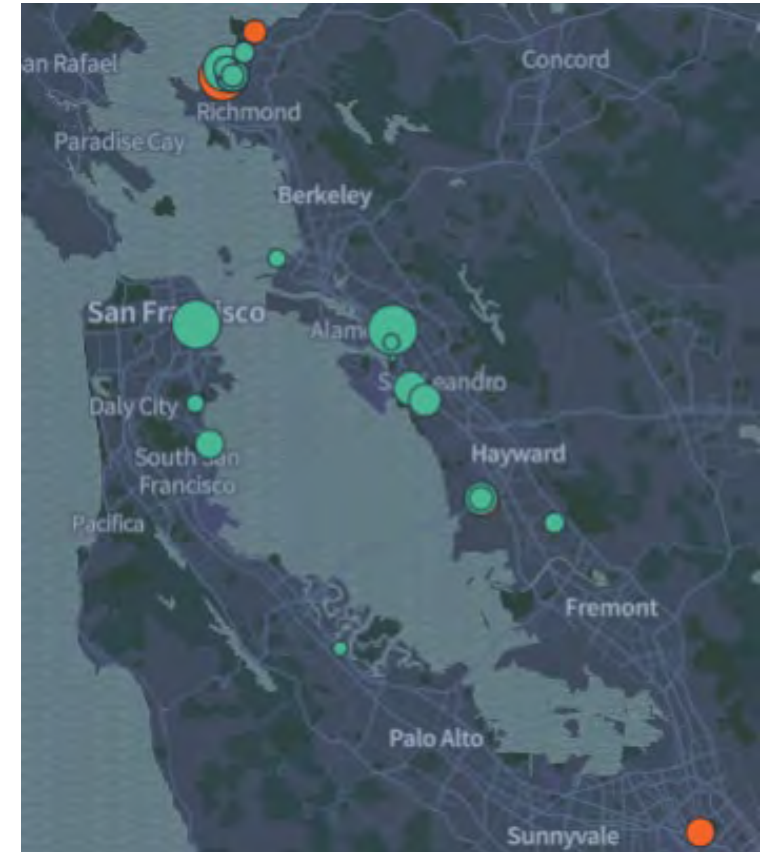
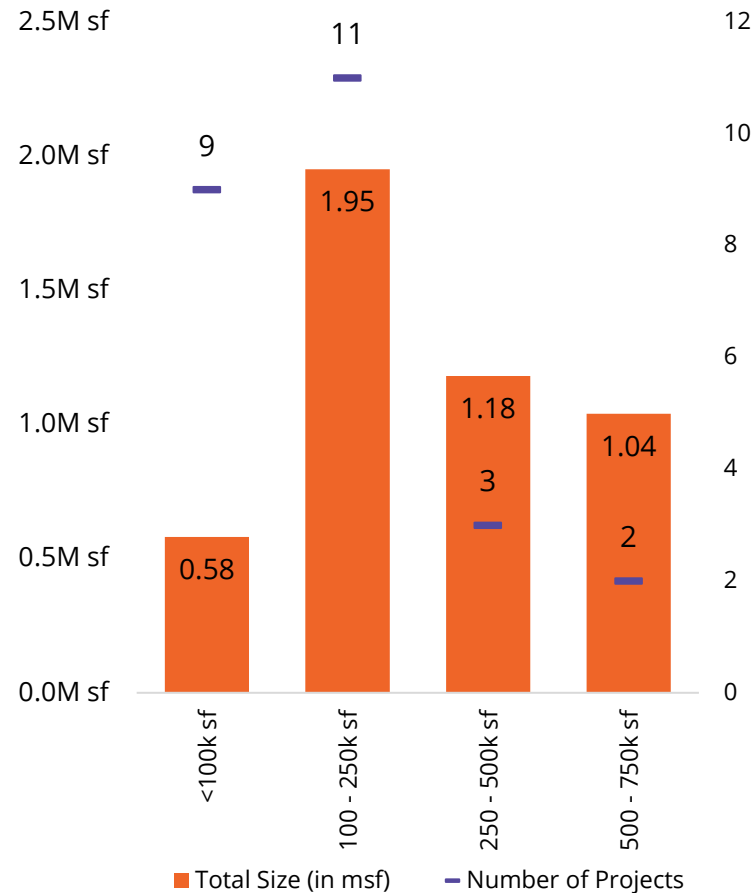
proposed or under construction

**2.9%**

share of industrial inventory

**Hayward**

Submarket with most ground-broken projects at 3



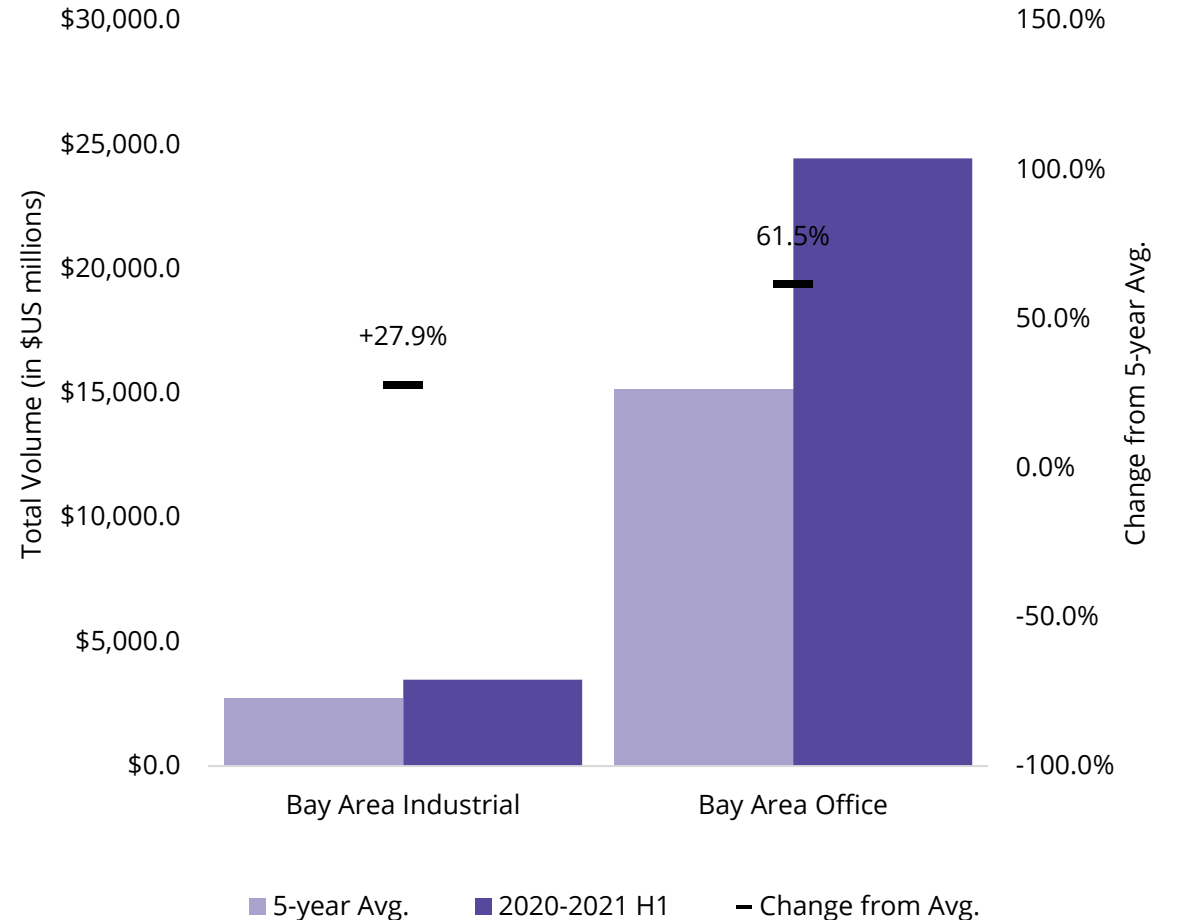
Source: AVANT by Avison Young

# 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.



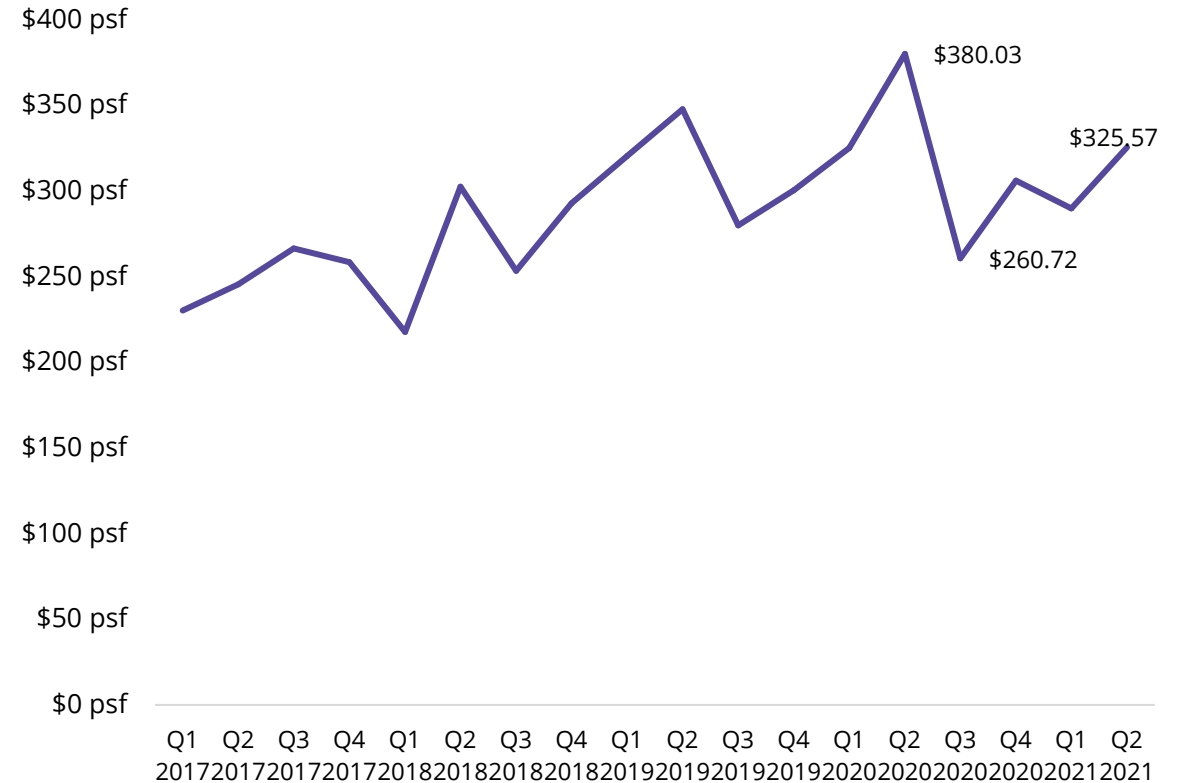
Source: AVANT by Avison Young  
RCA

# 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  
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# Let's talk

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