

## ECONOMIC INDICATORS

## National

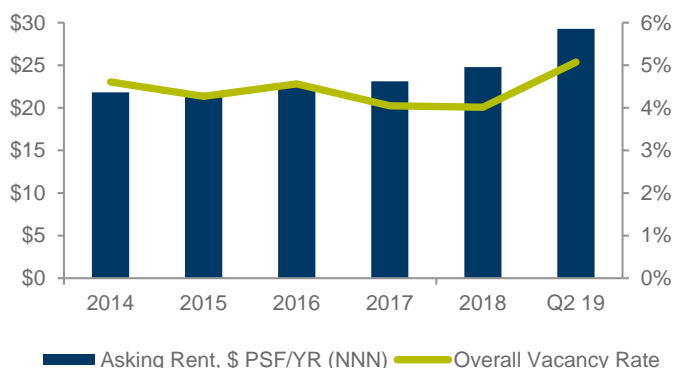
	Q2 18	Q2 19	12-Month Forecast
GDP Growth	2.9%	2.6%	▼
CPI Growth	2.7%	1.8%	▲
Consumer Spending Growth	4.7%	4.5%	▼
Retail Sales Growth	5.6%	3.3%	▼

## Regional

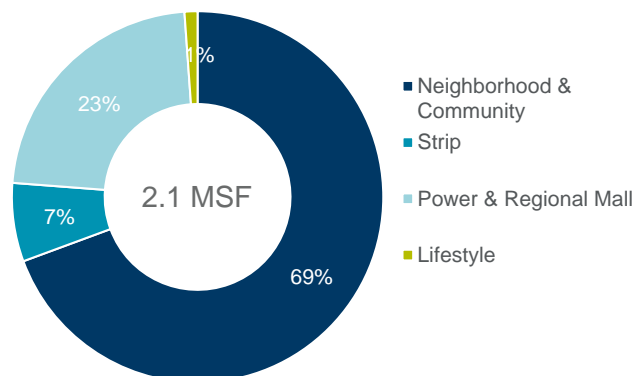
	Q2 18	Q2 19	12-Month Forecast
Median Household Income	\$93,300	\$97,100	▲
Population Growth	-0.1%	0.2%	■
Unemployment	2.9%	2.7%	▼

Q2 2019 data are based on latest available data. Growth rates are year-over-year.  
Source: BLS, BOC, Moody's Analytics

## Rental Rate vs. Overall Vacancy



## Availability by Type



## Economy

Job growth for San Francisco / San Mateo / North Bay continued to rise in the second quarter of 2019. According to the California Employment Development Department, the total unemployment rate in North Bay (Marin, Napa, Sonoma and Solano counties) was recorded at 2.7% in the second quarter of 2019, down 20-basis-point (bps) from last year's figure of 2.9%. The unemployment rates in San Mateo, San Francisco and Marin counties continued to be the lowest three in the state at 1.7%, 1.9% and 1.9%, respectively. For the region, employment now stands in excess of 1.7 million jobs, while the median household income was recorded at \$97,100 in the second quarter of 2019, an increase of 4.1% year-over-year (YOY). Though the job growth still continues, the pace has slowed from just a few years ago as the region has reached full employment.

## Market Overview

In the second quarter of 2019, shopping center vacancy through the region has ticked up to 5.1%, up 60 bps from last quarter's figure of 4.5% and 100 bps up from 4.1% rate one year ago. Strategic closures among some national and regional retailers was one of the main reasons for the increase of retail vacancy in the region.

Although it increased modestly from last quarter, San Mateo County still maintained the lowest vacancy rate in the region at 2.9%, up 20 bps from 2.7% last quarter, but down 10 bps from 3.0% one year ago. Moreover, with the openings of new stores and restaurants in the recently completed First Street Napa, the vacancy rate in Napa County has decreased to 4.1% from 4.4% last quarter. Other submarkets in the region experienced increases in their vacancy rates, with San Francisco County recording the highest jump from 7.6% last year to 9.8% in the second quarter of 2019. Strong competition from online retailers, changes in shoppers' preferences and behaviors, high rental rates and soaring personnel costs, as well as other localized reasons, such as seismic retrofits, a severe homeless problem, permitting and formula retail issues, have all contributed to the increase in vacancy rate in San Francisco.

Due to the lack of space and high demand, strip and lifestyle retail centers continued to record the lowest vacancy rate in the region at 2.5% and 3.0%, respectively. Lifestyle, open air centers, upscale community centers, and trendy urban retail corridors remain the most desirable type of retail for many

## MARKETBEAT

# San Francisco/North Bay Metro

Retail Q2 2019



tenants and shoppers in the region. Meanwhile, both power & regional malls and neighborhood & community centers recorded negative absorption in the second quarter of 2019, which brought the vacancy rate up to 5.1% and 5.7%, respectively. Closures of big box retailers were the main reason for the increase of vacancy in these retail centers.

Net absorption totaled negative 248,000 square feet (sf) in the second quarter, with Solano County contributing the most to the downside at negative 153,000 sf. Almost all counties in the region experienced negative absorption, except Napa which recorded 11,000 sf of net absorption in the second quarter. More shop, boutique and restaurant openings in First Street Napa contributed largely to the positive occupancy in that market.

As there was no new retail space added to the market in the second quarter, the retail inventory in the region was stable at nearly 41.7 million square feet (msf), with roughly 2.1 msf of space available.

### CLOSURES OF BIG BOX RETAILERS BROUGHT THE VACANCY RATE UP TO 5.1% IN THE SECOND QUARTER OF 2019.

The average asking rent for the region in the second quarter of 2019 was \$29.28 per square foot (psf) on an annual triple net basis, up 18.4% from \$24.74 psf last year. These rates reflect what is currently available in the marketplace, most of which is Class B or C space.

The largest retail sale transaction in the region during the second quarter of 2019 was Borel Square Shopping Center, a 96,700-sf neighborhood center in San Mateo anchored by CVS and 24 Hour Fitness. The property was sold for \$31.5 million or \$326 psf.

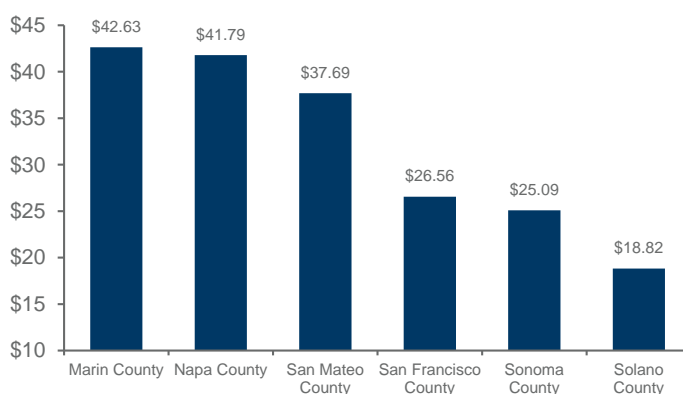
### Outlook

- New retail supply will come from redevelopment and repositioning of existing retail centers, as well as new ground floor retail in mixed-use projects.
- With limited new supply in the pipeline, demand for good quality retail centers will remain healthy.
- Restaurants, service-oriented retailers, grocery, fitness and home improvement will continue to be demand drivers.

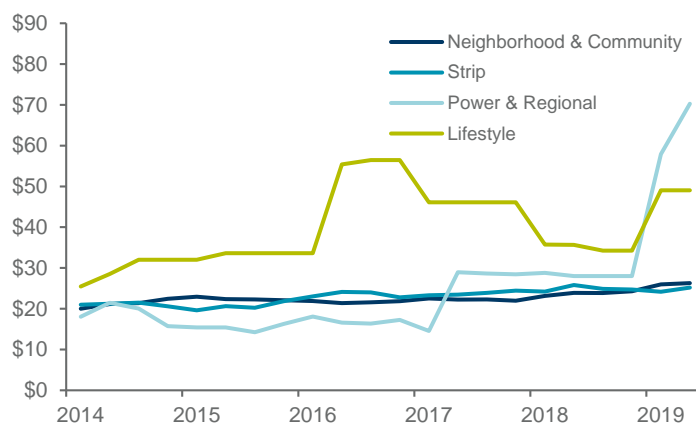
### Market Indicators

	Q2 18	Q2 19	% Growth (1 Year)	12-Month Forecast
Overall Vacancy	4.1%	5.1%	100 BPS	▼
Net Absorption (SF)	177,000	-248,000	-240.1%	▲
Under Construction (SF)	66,000	99,000	50.8%	■
Average Asking Rent (NNN)	\$24.74	\$29.28	18.4%	▲

### Average Asking Rent by Market \$PSF/YR (NNN)



### Average Asking Rate by Type \$PSF/YR (NNN)



## MARKETBEAT

## San Francisco/North Bay Metro

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
Marin County	232	5,751,753	4.0%	-41,928	-56,558	40,000	\$42.63
Napa County	177	3,016,303	4.1%	11,022	-55,932	7,000	\$41.79
Sonoma County	552	10,907,929	4.4%	-19,238	-179,254	0	\$25.09
Solano County	426	9,358,395	8.1%	-153,075	-131,120	0	\$18.82
San Francisco County	89	2,299,691	9.8%	-29,009	-40,954	0	\$26.56
San Mateo County	426	10,350,624	2.9%	-15,516	27,082	52,138	\$37.69

SHOPPING CENTER TYPE	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
Neighborhood & Community	1,046	25,761,515	5.7%	-128,104	-213,880	7,000	\$26.29
Strip	651	5,697,215	2.5%	16,987	-1,658	0	\$25.17
Power & Regional	174	9,430,336	5.1%	-136,848	-204,622	92,138	\$70.27
Lifestyle	31	795,629	3.0%	221	-16,576	0	\$49.03
<b>SF/NORTH BAY METRO RETAIL TOTALS</b>	<b>1,902</b>	<b>41,684,695</b>	<b>5.1%</b>	<b>-247,744</b>	<b>-436,736</b>	<b>99,138</b>	<b>\$29.28</b>

\*Rental rates reflect NNN asking \$PSF/year

## Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2675 Geary Boulevard	13,500	Bright Horizons	Lease	San Francisco
100 Hooper Street	12,900	Ample	Lease	San Francisco
100 Hooper Street	12,900	Kitchen United	Lease	San Francisco
361-369 3 <sup>rd</sup> Street (Montecito Plaza)	5,850	Union Bank	Lease	San Rafael

## Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
77 Bovet Road (Borel Square Shopping Center)	96,700	Concar Enterprises / Douglas D Thaxton	\$31,500,000 / \$326	San Mateo
520 Woodside Road (Petco)	18,100	Steven J Repetti / Peter & Leilani Eng Trust	\$9,800,000 / \$538	Redwood City
3650-3664 Sacramento Street	13,500	Engmann Options Inc / Alvin H Baum Jr Trust	\$10,600,000 / \$788	San Francisco
601 Clement Street	11,700	First American / Frederick Mass Jr; Kathleen J Maas	N/A	San Francisco

## MARKETBEAT

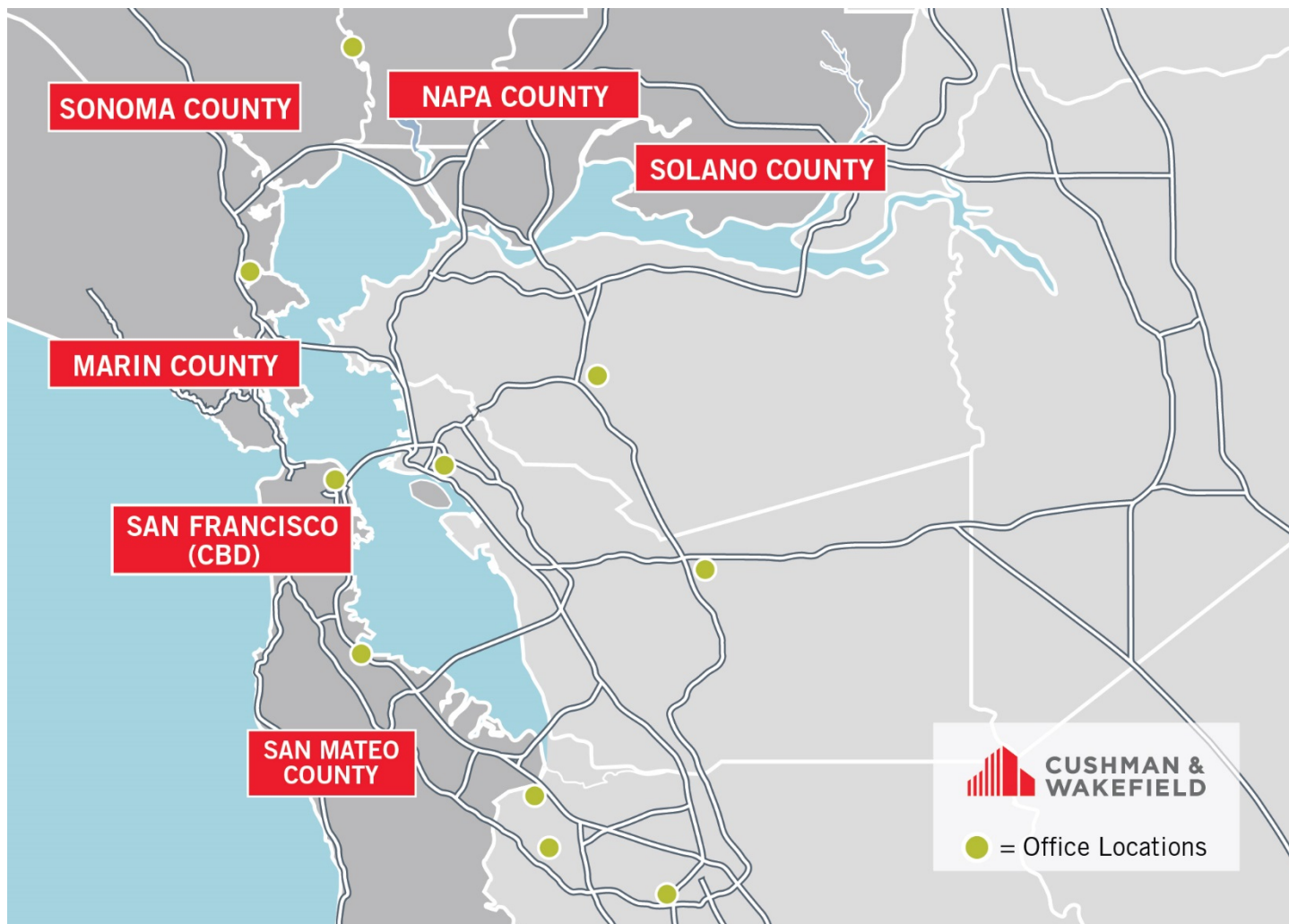
# San Francisco/North Bay Metro

Retail Q2 2019



## RETAIL SUBMARKETS

SAN FRANCISCO/NORTH BAY METRO



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### About Cushman & Wakefield

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