

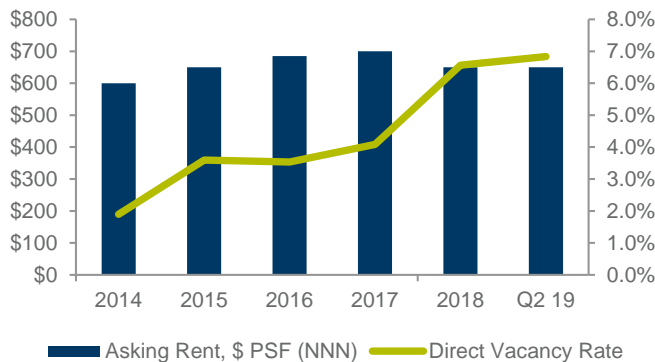
ECONOMIC INDICATORS

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%	▼

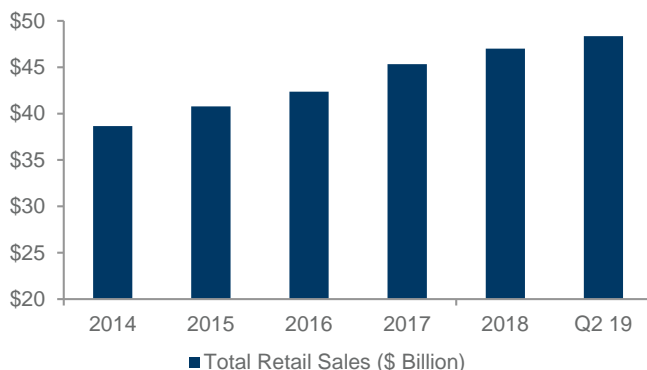
Regional		Q2 18	Q2 19	12-Month Forecast
Median Household Income		\$117,700	\$123,300	▲
Population Growth		0.3%	0.4%	▲
Unemployment		2.3%	2.4%	▼

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

Rental Rate vs. Direct Vacancy – Union Square



Retail Sales Trend



Source: Moody's Analytics

Economy

According to Moody's Analytics, the unemployment rate in San Francisco closed the second quarter of 2019 at 2.4%, slightly up 10 basis points (bps) from the 2.3% recorded one year ago. It remains well below the overall unemployment rate for the nation for the same period at 3.6%. Total employment in the San Francisco Metropolitan Division increased by 44,900 jobs (3.9%) year-over-year (YoY), reaching almost 1.2 million jobs in May 2019. Meanwhile, the median household income increased by 4.8% YoY to \$123,300 and retail sales increased by 4.7% YoY to an estimated \$48.4 billion in the second quarter of 2019.

Market Overview

The vacancy rate of retail market in San Francisco has been on the rise in the last couple of years. It closed the second quarter of 2019 at 3.6%, up 20 bps from last quarter and 50 bps from a year ago. The oft-discussed issues, such as strong competition from online retailers, a change in shoppers' preference and behavior, high rental rates, and soaring personnel costs remain the headwinds within the retail market. Other local reasons, such as seismic retrofits, a severe homeless problem, numerous construction projects that have made it a challenge to reach some storefronts, as well as various permitting and formula retail issues have further made doing retail business in the city more challenging.

Aside from those issues, however, demand for retail, especially for food and beverage (F&B) and entertainment in San Francisco is very strong and continues to increase. A robust economy, rising employment, increasing income and high level of tourism are driving greater levels of customer confidence and spending. F&B, boutique fitness, co-working space and entertainment uses have been active tenants looking and occupying retail spaces throughout the city.

One of the largest transactions in the second quarter of 2019 was the 66,600-square-foot (sf) lease at 1000 Van Ness Avenue by CJ CGV, a South Korean theater chain. It took over the space that was vacated by AMC Van Ness 14 last February and plans to open in early 2020. It will be CJ CGV's third theater in the U.S. following its locations in Los Angeles' Koreatown and in Orange County's Buena Park.

Besides co-working spaces for office use that have taken over some ground floor retail spaces throughout the city, another form of co-working that is emerging in San Francisco is ghost kitchens.

Ghost kitchens are a new food industry trend – especially in large metropolitan areas – that prepare food for delivery customers. One commissary kitchen location can be shared by multiple chefs or restaurants to offer different menus. One of the ghost kitchen companies, Kitchen United, is expanding to San Francisco and has signed for approximately 13,000 sf at 100 Hooper Street.

Amazon Go opened its third location at 575 Market Street. Despite announcing itself initially as a cashless store, Amazon Go has started to accept cash in San Francisco since April, as the government banned cashless store for equity reasons.

Key Statistics

Submarket	Q2 18	Q2 19	% Growth (1 Year)	12-Month Forecast
UNION SQUARE				
Rent (PSF)	\$700	\$650	-7.1%	▼
Direct Vacancy Rate	5.0%	6.7%	+170 BPS	▼
New Supply	0	0	0	■
POST STREET				
Rent (PSF)	\$545	\$450	-17.4%	▼

Source: Cushman & Wakefield

The rental rate for premier ground floor retail in Union Square was recorded at \$650 per square foot per year (psf), similar to the rate last quarter, but a decline of 7.1% YoY. Meanwhile the rental rate on Post Street was \$430 psf, down a sharp 18.9% from one year earlier.

Investment Market

Sales activity for retail property in San Francisco during the second quarter 2019 was muted. According to Real Capital Analytics' data, only 59,600 sf of retail property in San Francisco traded hands during the second quarter of 2019, closing at \$35.0 million or \$587 psf.

There was no large retail transaction in San Francisco in the second quarter; only some small retail buildings or retail condominiums were sold, such as a 16,500-sf retail property at 150 Valencia Street that is occupied by antique store, Stuff, a 13,500-sf ground floor retail shop within a multi-family residential building at 3650-3664 Sacramento Street, and Tat Wong Kung Fu Academy (11,700 sf) at 601 Clement Street.

Outlook

- Traditional retailers continue to be replaced by new retail concepts. Experiential retail, pop-up exhibition, food and beverage, wellness, co-working and fitness will dominate leasing transactions.
- Vacancy is expected to decline with more transactions completed from those types of companies mentioned above.
- Rent growth is forecast to remain subdued.

RETAIL VACANCY IN SAN FRANCISCO HAS INCREASED TO 3.6% IN THE SECOND QUARTER OF 2019

Union Square / Post Street

As deals are currently taking longer to finalize due to high rents, increasing operational and personnel costs and strategic downsizing, the vacancy rate in Union Square continues its increasing trend in the second quarter of 2019, with a direct vacancy rate at 6.8%, up slightly from 6.7% last quarter and a jump of 150 bps from the 5.3% rate one year ago.

Despite the increase of vacancy, Union Square remains San Francisco's most prestigious retail district for both local shoppers and tourists. There were some notable openings in Union Square during the second quarter. One of the biggest restaurant projects in San Francisco, ONE65, has opened at 165 O'Farrell Street. ONE65 is a 25,000-sf six-story F&B destination under the direction of Chef Claude Le Tohic, a James Beard Award and Michelin Star winner. This French fine dining concept consists of ONE65 Patisserie on the ground floor, ONE65 Bistro & Grill at the third floor, Elements at One65 bar at the fourth floor, and a fine dining restaurant, O', on the fifth and sixth floors.

Theory and Anne Fontaine relocated from their previous locations in Maiden Lane and Grant Avenue, and opened new boutiques at 55 and 67 Geary Street, respectively. Moreover, Zadig & Voltaire opened at 47 Geary Street and Mephisto opened its first stand-alone store in San Francisco at 65 Geary Street. Rimowa also relocated from 259 Post Street to 222 Grant Avenue during the second quarter.

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1000 Van Ness Avenue	66,600	CJ CGV Cinema	Lease	Van Ness Corridor
2675 Geary Boulevard	13,500	Bright Horizons	Lease	Anza Vista
100 Hooper Street	12,900	Ample	Lease	Showplace Square
100 Hooper Street	12,700	Kitchen United	Lease	Showplace Square

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
150 Valencia Street (Stuff)	16,500	Emmet & Lorraine Ward / Thomas F Murphy; Martina Murphy	\$3,200,000 / \$191	Mission District
3650-3664 Sacramento Street	13,500	Engmann Options Inc. / Alvin H Baum Jr Trust	\$10,600,000 / \$788	Laurel Heights
601 Clement Street (Tat Wong Kung Fu Academy)	11,700	First American / Frederick Mass Jr; Kathleen J Maas	N/A	Inner Richmond
1033 Polk Street	5,200	LC Development Corp / Cedar Alley Properties	\$3,600,000 / \$685	Polk Gulch

Construction Completions Q2 2019

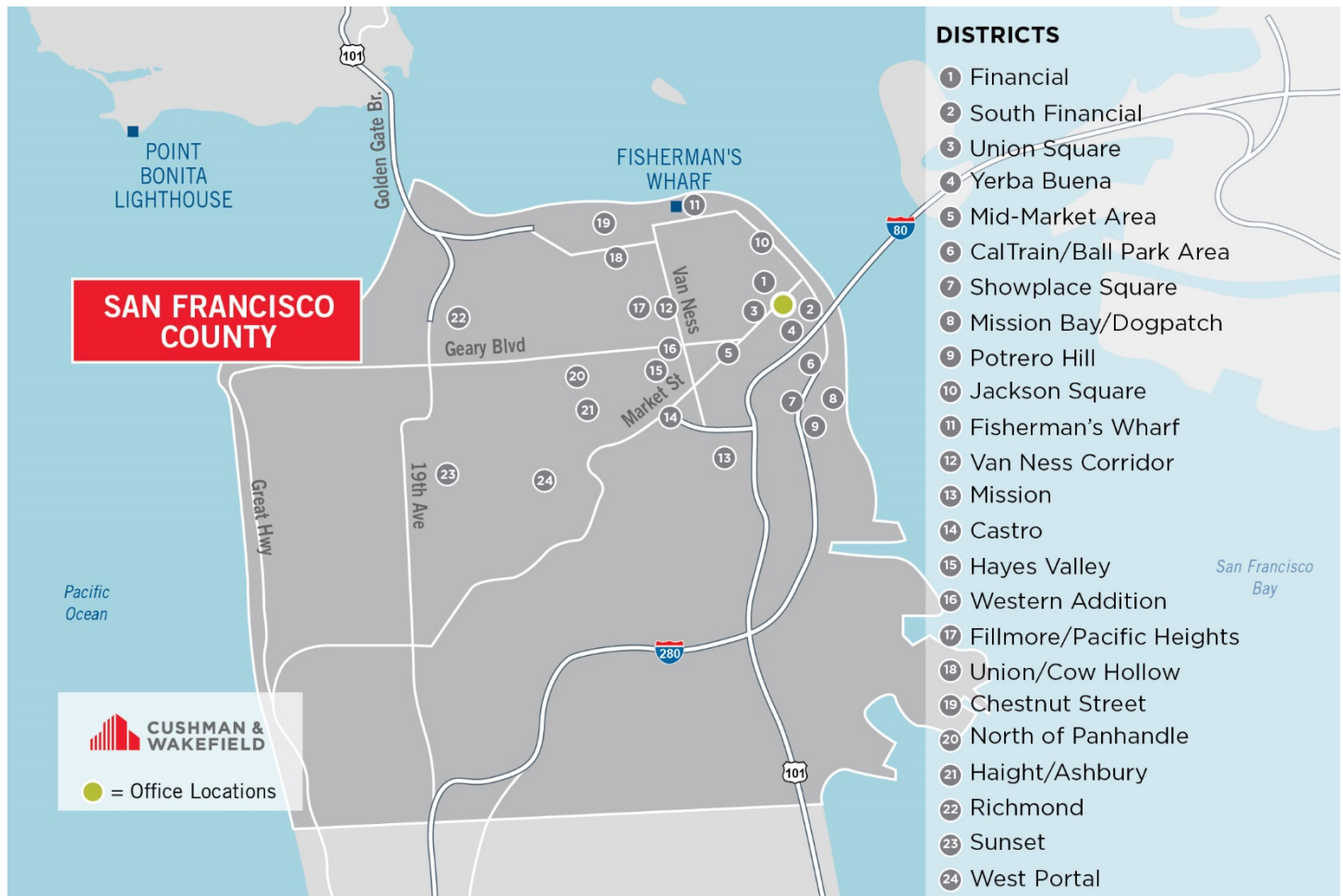
PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
N/A				

Projects Under Construction Q2 2019

PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
Salesforce Transit Center	100,000	Fitness SF, Philz Coffee, Per Diem Restaurant	Q3 2019	South Financial
Chase Center (Warriors Arena)	100,000	TBD	Q4 2019	Mission Bay
300 Grant Avenue	32,400	TBD	Q4 2019	Union Square
1177 Market Street (Trinity Place Phase 4)	60,000	Whole Foods	2021	Mid-Market

RETAIL SUBMARKETS

SAN FRANCISCO



Cushman & Wakefield
425 Market Street, Suite 2300
San Francisco, CA 94105

For more information, contact:
Soany Gunawan, Senior Analyst
Tel: +1 415 658 3665
soany.gunawan@cushwake.com

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