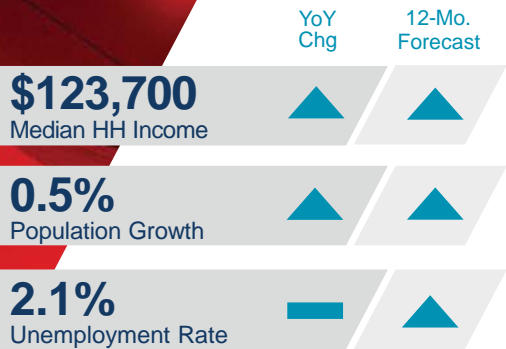
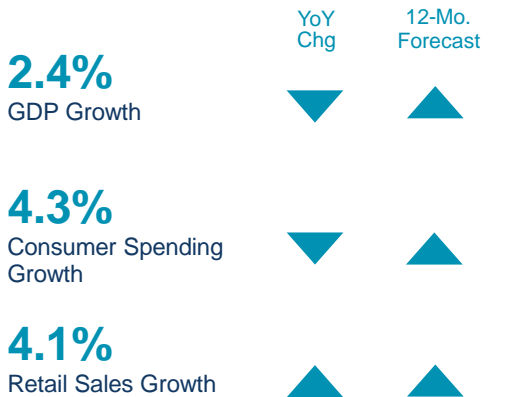


SAN FRANCISCO

Retail Q4 2019



U.S. ECONOMIC INDICATORS Q4 2019



Source: BLS, BEA, Census Bureau
2019Q4 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

According to Moody's Analytics, the unemployment rate for the City and County of San Francisco remained consistently low during the year, closing 2019 at 2.1%, well below the overall unemployment rate for the nation at 3.5%. Meanwhile, the San Francisco Metropolitan Division added 35,600 jobs (3.0%) year-over-year (YOY), which brought the total to 1.2 million at the end of 2019. The median household income continued to climb, up 3.5% YOY to \$123,700, while the population grew 0.5% YOY. Retail sales in San Francisco City increased by 5.0% YOY to an estimate \$32.7 billion in 2019.

MARKET OVERVIEW

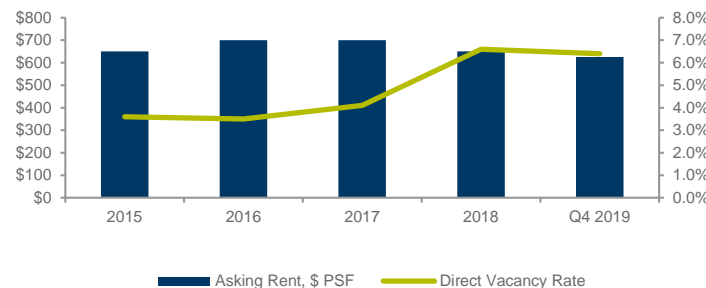
The retail vacancy rate in San Francisco remains one of the lowest among all major cities in the nation. The San Francisco retail market ended the fourth quarter of 2019 with an overall vacancy rate of 3.5%. Although it was 50 basis points (bps) higher than the 3.0% rate last quarter, this was a 30-bps decrease from 3.8% recorded in the fourth quarter of 2018. San Francisco's density, strong economics, visitor base and tenant demand are major drivers of continued demand. However, high rents, rising operational costs and security concerns have caused delays in retail leasing transactions.

Some significant openings in the fourth quarter of 2019 were the 40,250-square-foot (sf) Target in the former Sports Authority space at 1690 Folsom Street; a 38,400-sf Decathlon in the former Office Depot space in the Potrero Center; and a 35,000-sf Fitness SF in the newly opened Salesforce Transit Center at 425 Mission Street. In addition, several lifestyle and clothing brands opened their first stores in San Francisco: Goop Lab – a brand by Gwyneth Paltrow – opened a permanent boutique at 2121 Fillmore street; Anine Bing opened in Jackson Square at 412 Jackson Street; and Supreme opened its fourth U.S. location at 1015 Market Street. Pop-up exhibits continued to occupy vacant retail spaces, such as The Glass Room by Mozilla at 838 Market Street and Hooptopia by Golden State Warriors and Candytopia at Chase Center's Thrive City in Mission Bay.

UNION SQUARE / POST STREET

Retail-to-office conversions at upper floors of some Union Square's retail buildings has diluted the total retail inventory in Union Square to 4.8 million square feet (msf) at the end of 2019. The direct vacancy rate in Union Square was recorded at 6.4% in the fourth quarter of 2019, up from 6.1% last quarter, but down 20 bps from the 6.6% rate in the fourth quarter of 2018. The rental rate for premier ground floor retail in Union Square in the fourth quarter of 2019 was \$625 per square foot per year (psf), down 3.8%

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND



from last year's rate. Meanwhile, the rental rate on Post Street was \$400 psf, down 11.1% from the rental rate a year ago.

Notable openings in Union Square in the fourth quarter of 2019 included Sennheiser's relocation to their permanent location at 259 Post Street and Hermes' relocation back to 125 Grant Avenue after several years under renovation for a new larger flagship store. Demand for smaller spaces and short-term leases continued to be the trend as retailers such as Gump's returning to San Francisco by opening a holiday pop-up at 250 Post Street. Meanwhile, some retail leasing activities in the last quarter of 2019 included Serge Sorokko Gallery's lease at 363 Grant Avenue, The RealReal at 253 Post Street, and Tamara Mellon's pop-up at 245 Post Street, which will open in early 2020. Following the bankruptcy filing, Forever 21 closed its flagship store in San Francisco at 2 Stockton Street at the end of 2019.

INVESTMENT MARKET

According to Real Capital Analytics, a total of 70,800 sf of retail space in San Francisco traded hands during the fourth quarter, bringing the total annual transaction volume to 1.1 msf in 2019. Total investment sales in the fourth quarter were \$43.8 million, with an average price of \$619 psf. With high sale transactions in the first and third quarters, the total retail investment activity in San Francisco reached \$1.0 billion in 2019, ahead of last year's figure of \$911 million.

There was no large retail transaction in San Francisco in the fourth quarter, only some small retail buildings or retail condominiums were sold, such as a 31,500-sf retail property at 1585 Folsom Street occupied by City Lights—a lighting showroom—which was sold for \$14.5 million or \$460 psf. Additionally, there was a significant mixed-use building transaction in the fourth quarter: 150 Post Street, a 117,400-sf office and retail building in Union Square. The ground floor retail space is occupied by Shreve & Co. Jewelers. A joint venture of Urban Land Development acquired the building from Madison Capital for \$93.5 million in October.

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
253 Post Street	Union Square	The RealReal	7,400	Lease
1185 Sutter Street	Van Ness	Crossfit Golden Gate	6,100	Lease
250 Post Street	Union Square	Gump's	6,000	Pop-Up
363 Grant Avenue	Union Square	Serge Sorokko Gallery	5,400	Lease
1240 9 th Avenue	West of Van Ness	Fiorella	5,000	Lease

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1585 Folsom Street (City Lights)	SOMA	Robert Klotz / Group I	31,500	\$14.5M / \$460
2601 24 th Street	Potrero West of 101 Fwy	Feng 24 th LLC / Mission 24 LLC	10,000	\$4M / \$400
1000 Channel Street	Mission Bay	CIM Group LLC / JHW LLC	8,050	\$8.8M / \$1,093
1330-1342 Polk Street	Van Ness Corridor	Wai Man Lee / Richard B Howard	7,500	\$3.7M / \$490
354 Divisadero Street (Kelly-Moore Paint)	West of Van Ness	Kelly-Moore Paint / Matthew Brennan	5,050	\$4.1M / \$812

KEY CONSTRUCTION COMPLETIONS YTD 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Salesforce Transit Center	South Financial District	Fitness SF, Per Diem Restaurant	100,000	Transbay Joint Powers Authority
Chase Center (Warriors Arena)	Mission Bay	Michael Mina, Gott's, Dumpling Time	100,000	Golden State Warriors

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