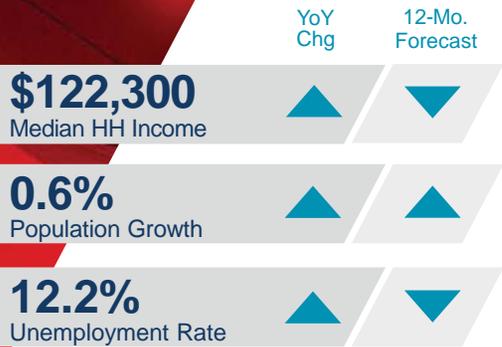


SAN FRANCISCO

Retail Q2 2020



U.S. ECONOMIC INDICATORS Q2 2020



Source: BLS, BOC, Moody's Analytics
2020Q2 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID-19 [here](#).

The unemployment rate for the City and County of San Francisco rose to 12.2% in the second quarter of 2020 from 2.2% one year ago. The median household income reflected slower growth than in previous years, up just slightly by 1.2% year-over-year (YOY) to \$122,300, while population grew 0.6% YOY. According to Moody's Analytics, the retail sales in San Francisco City fell by 10.6% YOY to an estimated \$29.7 billion in the second quarter of 2020.

MARKET OVERVIEW

The retail market in San Francisco recorded 186,400 square feet (sf) of negative net absorption in the second quarter of 2020, bringing the overall citywide vacancy rate to 3.7%. It was 40 basis points (bps) higher than the 3.3% rate last quarter and 50 bps higher than the 3.2% one year ago. It is worth noting the vacancy rate excludes retail spaces that were temporary closed due to the shelter-in-place (SIP) ordinance.

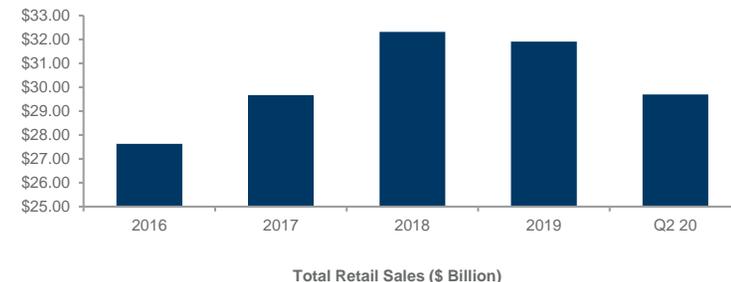
In the second quarter of 2020, most of the retail tenants in San Francisco were closed due to the SIP order. On May 17, 2020, retailers were allowed to open for curbside pickup while malls and indoor dining remain closed though outdoor dining along with smaller retail establishments are allowed.

The challenging situation has prompted some businesses to permanently close. Specialty's Café and Bakery declared bankruptcy and closed all 55 of its locations, including eight locations in San Francisco; 24-Hour Fitness filed for Chapter 11 bankruptcy and closed 134 gyms nationwide, including four in San Francisco; Three Twins ice cream also had ceased operation for good and closed all of its stores, including a store in San Francisco's Lower Haight. Some local restaurants and bars that also closed permanently were The Stud, San Francisco's oldest gay bar in SoMa that shuttered after 43 years in business; Ankor Borei, a Cambodian restaurant in Bernal Heights; Locanda (an Italian restaurant) and Walzwerk (a German restaurant) in the Mission District; Dobbs Ferry, Pause Wine Bar, The Grove and Stacks in Hayes Valley; as well as Rosa Mexicano in the Financial District.

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND





UNION SQUARE / POST STREET

The total retail inventory in Union Square in the second quarter of 2020 was 4.6 million square feet (msf). The direct vacancy rate was 8.7%, the highest figure recorded in recent history. It was up 30 bps from 8.4% last quarter and 190 bps from 6.8% one year ago. There are some proposals to convert the upper floors of retail buildings in Union Square into office space though this is still pending for approval.

Asking rents for premier ground floor retail space in Union Square have shown a declining trend in the last three years. In the second quarter of 2020, the rental rate for premier ground floor retail in Union Square was \$575 per square foot per year (psf), down 11.5% from last year. Meanwhile, the rental rate on Post Street was \$350 psf, down 18.6% from the rental rate a year ago. We anticipate rental rates to further decrease along with additional vacancies due to COVID-19 and the negative effects on business.

During the current COVID-19 pandemic, there was no significant transactions with the majority of retailers on hold for new real estate decisions.

Some significant permanent closures in Union Square were Hakassan San Francisco, a high-end Chinese restaurant at One Kearny Street, Jeanne d'Arc Brook, a historic French restaurant at 715 Bush Street that closed after 48 years in Union Square, Warby Parker at 216 Stockton Street, Brooks Brothers at 240 Post Street, and Christian Louboutin at 29 Maiden Lane.

INVESTMENT MARKET

There was only one retail sale transaction in San Francisco in the second quarter of 2020, which was a 5,400-sf retail property at 512-520 Grant Avenue in Chinatown that was sold for \$3.9 million or \$716 psf. This transaction brought the total mid-year 2020 transaction volume to 94,800 sf, with a total investment sale to \$79.5 million or \$839 psf. The total retail sale transactions in the first half 2020 were only a quarter of the transactions in H1 2019 that was \$327.2 million.

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
311 Grant Avenue	Union Square	Gefen Gallery	5,000	Lease
3435 Geary Boulevard	Inner Richmond	N/A	4,600	Lease
100 Pine Street	Financial District	California Bank and Trust	4,400	Lease
2000 Bryant Street	Mission District	Osito Restaurant	3,100	Lease

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
512-520 Grant Avenue (Chinatown Bargain Depot)	Chinatown	Redem Chiang Trust / N/A	5,400	\$3.9M / \$716

KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
N/A	N/A	N/A	N/A	N/A

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