

SAN FRANCISCO

Retail Q3 2020

| | YoY Chg | 12-Mo. Forecast |
|--------------------------------------|---------|-----------------|
| \$124,900 Median HH Income | ▲ | ▼ |
| 0.6% Population Growth | ▲ | ▲ |
| 9.1% Unemployment Rate | ▲ | ▼ |

U.S. ECONOMIC INDICATORS Q3 2020

| | YoY Chg | 12-Mo. Forecast |
|--|---------|-----------------|
| -4.2% GDP Growth | ▼ | ▲ |
| -7.6% Consumer Spending Growth | ▼ | ▲ |
| 5.1% Retail Sales Growth | ▲ | ▲ |

Source: BLS, BOC, Moody's Analytics
2020Q3 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

Although the unemployment rate for the City and County of San Francisco was down from the peak of 12.2% at the second quarter of 2020, the rate remains elevated at 9.1% in the third quarter from 2.0% one year ago. The growth of median household income continued to slow than in previous years, up just slightly by 1.0% year-over-year (YOY) to \$124,900. The population grew steadily at 0.6% YOY. Meanwhile, the retail sales decreased by 2.2% YOY to an estimated \$32.56 billion in the third quarter of 2020.

MARKET OVERVIEW

The vacancy rate of the retail market in San Francisco continued to increase due to the low foot traffic from locals as well as visitors and the pause in openings of businesses at the beginning of the third quarter of 2020. Additionally, lack of office workers, which has dropped 90% since March 2020, has had a profound effect on the retail and restaurants in downtown San Francisco and Union Square. The net absorption of retail space in the City was recorded at negative 164,200 square feet (sf), bringing the year-to-date's total to negative 309,500 sf. The vacancy rate was at 4.1% in the third quarter of 2020, up from 3.8% last quarter and 3.1% one year ago.

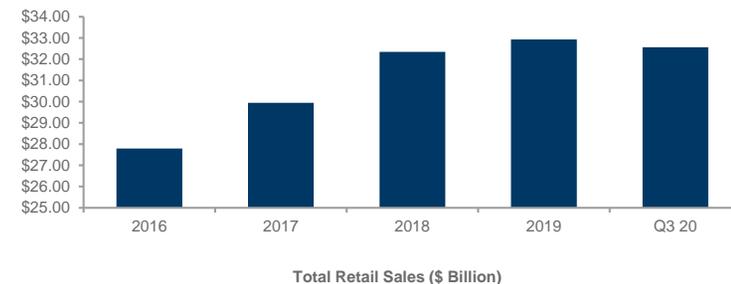
Restaurants with outdoor dining and non-essential retailers had been allowed to open in the third quarter. As part of San Francisco's "Shared Spaces" program, retailers and restaurants were able to install parklets, using the sidewalk or parking lane for outdoor operations, for seating, dining, or retail pick-up. The next reopening phase in San Francisco which began in September 2020 has allowed indoor personal services and indoor gym / fitness centers with limited capacity. In the fourth quarter, San Francisco will move forward on reopening indoor restaurants and outdoor activities, such as outdoor family entertainment, playgrounds and indoor movie theaters, as well as expanding the capacity of indoor malls. The reopening of more businesses and activities is expected to support the economic recovery and benefit the retail and restaurant sectors in the City.

As part of its strategic plan, Gap Inc. has permanently closed three of its stores in San Francisco: in Embarcadero Center, Stonestown Galleria and its flagship location on Market Street in August 2020, leaving only one store on Chestnut Street remaining.

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND



UNION SQUARE / POST STREET

Union Square has seen numerous closures in the last few years, and with the COVID-19 pandemic, which caused a drop in foot traffic and a lack of tourism, the vacancy rate has further soared. The direct vacancy rate in Union Square was 11.0% in the third quarter of 2020, the highest figure ever recorded by Cushman & Wakefield. It was up 230 basis points (bps) from 8.7% last quarter and 490 bps from 6.1% one year ago. Maiden Lane and Powell Street had been the most impacted streets having the highest number of closed stores in this shopping district.

Asking rents for premier ground floor retail space in Union Square have been on a downward trajectory in the last three years. In the third quarter of 2020, the rental rate for premier ground floor retail in Union Square was \$550 per square foot per year (psf), down 15.4% from last year. Meanwhile, the rental rate on Post Street was \$320 psf, down 23.8% from the rental rate a year ago. We anticipate rental rates to further decrease along with additional vacancies.

Some closures in the third quarter 2020 were the Gap flagship store at 890 Market Street, Brooks Brothers at 240 Post Street, Christian Louboutin at 29 Maiden Lane, Jeanne d'Arc – a 48-year old French restaurant – at 715 Bush Street and Farallon – a 23-year old seafood restaurant – at 450 Post Street. Nevertheless, although tough and slow, leasing activity has started to come back after being dormant in the second quarter. A couple of notable openings in Union Square were the Polestar pop-up at 239 Geary Street and Forum by b8ta at 120 Maiden Lane.

INVESTMENT MARKET

One significant retail transaction in San Francisco in the third quarter of 2020 was 6x6, a 250,000-sf six story plus two levels of parking building at 945 Market Street in Mid-Market. Ingka Centres, a division of Ingka Group – the parent company of IKEA – made its first U.S real estate acquisition by buying the 6x6 from Alexandria Real Estate Equities and TMG Partners. This acquisition is part of IKEA's plan to shift its focus to urban centers from suburban locations.

KEY LEASE TRANSACTIONS Q3 2020

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|-------------------|--------------|----------------------|-------|--------|
| 120 Maiden Lane | Union Square | Forum by b8ta | 5,000 | Pop-Up |
| 281 Geary Street | Union Square | Polestar | 4,300 | Pop-Up |
| 478 Green Street | North Beach | Bar Escondido | 3,700 | Lease |
| 2238 Union Street | Cow Hollow | Ace Physical Therapy | 2,400 | Lease |
| 300 Grant Avenue | Union Square | Arc'teryx | 2,250 | Lease |

KEY SALES TRANSACTIONS Q3 2020

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/\$ PSF |
|-------------------------|---------------|--|---------|----------------|
| 945 Market Street (6x6) | Mid-Market | Alexandria JV TMG Partners / Ingka Group | 250,000 | N/A |
| 233 Grant Avenue | Union Square | John Hammerman / Gerald Clark | 10,900 | \$7.5M / \$685 |
| 743 Monterey Boulevard | Southern City | George Benjamin / Michael Darcy; Eileen Bary Darcy | 10,850 | \$3.3M / \$304 |

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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