

SAN FRANCISCO

Retail Q1 2021



CUSHMAN & WAKEFIELD

\$138,300

Median HH Income

YoY
Chg12-Mo.
Forecast

0.7%

Population Growth



5.8%

Unemployment Rate



U.S. ECONOMIC INDICATORS Q1 2021

0.2%

GDP Growth

YoY
Chg12-Mo.
Forecast

-1.6%

Consumer Spending
Growth

11.8%

Retail Sales Growth



Source: BLS, BOC, Moody's Analytics
2021Q1 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

San Francisco was in the State's most restrictive reopening tier (purple tier) in early 2021. The restrictions have been lifted gradually, and the City has allowed for a further reopening of the economy when it moved into the red and eventually the orange tier in March 2021. Starting from March 24, San Francisco has reopened the non-essential office (up to 25% capacity), outdoor bars and indoor recreation, as well as expanded the capacity of retail, personal services and indoor dining to 50%.

In the first quarter of 2021, the unemployment rate in San Francisco City was 5.8%, up 350 basis points (bps) from 2.3% one year ago. This figure, however, has generally trended downward since the beginning of the global pandemic when it hit 12.2% in the second quarter of 2020. With the vaccine rollout, the economy has started to show some improvement. The median household income in San Francisco remained the highest in the country at \$138,300, up 5.7% from \$130,900 one year ago. Meanwhile, total retail sales were up 9.8% year-over-year (YOY) to an estimated \$38.1 billion in the first quarter of 2021.

MARKET OVERVIEW

San Francisco applied one of the toughest restrictions limiting the economic activities during the pandemic. Due to the shutdown, the retail vacancy in San Francisco continued to increase and recorded the highest figure in a decade. In the first quarter of 2021, the overall vacancy rate was 5.2%, up 60 bps from 4.6% last quarter and 150 bps higher than last year's figure of 3.7%. The rapid acceleration of vaccinations as well as the additional federal stimulus, however, have both created green shoots in the local market. Government Gavin Newsom's announcement for fully reopening of the State on June 15 is expected to benefit the retail and restaurant sectors going forward.

There was no new retail completion in the first quarter of 2021 and the citywide retail inventory was stable at 50.5 million square feet (msf). New under construction projects in the City are mostly redevelopments of the existing retail projects, such as 100 Stockton Street (formerly the Macy's Men's store), the former Macy's and Nordstrom at Stonestown Galleria, and the future IKEA at 6x6 on Market Street.

There were some significant closures in the first quarter of 2021. Godiva Chocolatier closed all its retail stores in North America, including two stores in San Francisco: Westfield San Francisco Centre and Stonestown Galleria. San Francisco's only Krispy Kreme permanently closed its store in Fisherman's Wharf. A couple of French apparel stores closed their doors in two prominent neighborhood shopping districts: Acote in Hayes Valley and Cotelac on Fillmore Street. Moreover, b8ta – an electronic retailer – has closed all its stores across the country and planned to keep only one location open in Chase Center's Thrive City.

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND





UNION SQUARE / POST STREET

As in other major cities around the world, COVID-19 pandemic has hit San Francisco's downtown urban center the most. Decline of foot traffic due to lack of tourism and daytime office workers has brought more challenges to the issues that existed before the pandemic in the retail sector in Union Square. The retail vacancy in Union Square continued to rise and in the first quarter of 2021 the direct vacancy rate was recorded at 13.6%, up 90 bps from 12.7% figure last quarter and 520 bps from 8.4% a year ago. Two major closures in Union Square in the first quarter were Marshalls (30,500 sf) at 760 Market Street and Uniqlo (29,400 sf) at 111 Powell Street.

Consequently, asking rents for retail space in Union Square continued a downward trend. In the first quarter of 2021, the rental rate for premier ground floor retail in Union Square stood at \$495 per square foot per year (psf), down 17.5% from last year's rate. Meanwhile, the rental rate on Post Street was \$295 psf, down 26.3% from the figure a year ago.

On the bright side, with the aggressive vaccine rollout and the lift of restrictions in San Francisco, businesses have started to re-open and the capacity of retail stores, indoor dining and personal services has expanded to 50%. Retail leasing activities have started to pick-up as tenants have begun touring and seeking opportunities at more favorable lease terms. It is expected that there will be further tenant commitments in Union Square, which will subsequently increase the occupancy in this shopping district.

One significant lease transaction in Union Square in the first quarter was Saatva at 128 Post Street. Additionally, Shapur Mozaffarian, a fine jewelry store, relocated from 272 Post Street and will be opening their new store at 155 Post Street.

INVESTMENT MARKET

Sales activity for retail property in San Francisco was soft in the first quarter of 2021 with only one retail building in Union Square traded hands. The 12,700-sf building at 414-432 Sutter Street was sold by Magna Hospitality Group to Harsch Investment Property for \$11.8 million.

KEY LEASE TRANSACTIONS Q1 2021

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|---|-------------------|---------------------|-------|-----------|
| 128 Post Street | Union Square | Saatva | 5,900 | New Lease |
| 2184 Union Street | Cow Hollow | Sushi Hako | 3,300 | New Lease |
| 3465 California Street | Laurel Heights | Proposition Chicken | 2,100 | New Lease |
| 3800 24 th Street | Noe Valley | Pure Barre | 2,100 | New Lease |
| 900 North Point Street (Ghirardelli Square) | Fisherman's Wharf | Barrio | 1,900 | New Lease |

KEY SALES TRANSACTIONS Q1 2021

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/\$ PSF |
|--------------------------------------|--------------|--|--------|-----------------|
| 414-432 Sutter Street | Union Square | Magna Hospitality Group / Harsch Investment Properties | 12,700 | \$11.8M / \$928 |
| 1501 Folsom Street (Paradise Lounge) | SoMa | Leticia Luna RT / Arcadina LLC | 4,550 | \$3.8M / \$825 |

KEY CONSTRUCTION COMPLETIONS YTD 2021

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

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