

SAN FRANCISCO

Retail Q1 2022

\$135,000

Median HH Income

YoY Chg



12-Mo. Forecast



0.6%

Population Growth



3.7%

Unemployment Rate



U.S. ECONOMIC INDICATORS Q1 2022

4.1%

GDP Growth

YoY Chg



12-Mo. Forecast



7.4%

CPI Growth



11.3%

Consumer Spending Growth



11.2%

Retail Sales Growth



Source: BLS, BOC, Moody's Analytics
Q1 2022 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

The unemployment rate in San Francisco was recorded at 3.7%, the lowest since February 2020. Leisure and hospitality generated most of the job growth with the largest job increase in food services and drinking places. San Francisco also continued to record the highest median household income in the country at \$135,000, up 5.6% year-over-year (YOY). Meanwhile, the population showed a stable growth at 0.6% YOY. Total retail sales at the first quarter of 2022 were \$36.4 billion, up 15.8% YOY from \$31.5 billion last year.

According to San Francisco Travel Association, there were 14.8 million visitors to the city in 2021, up 25% from 2020 although still down 44% from a record high of 26.2 million visitors in 2019. Total spending by visitors in 2021, including spending on meeting and conventions, also increased to \$3.1 billion from \$2.8 billion in 2020 but was down 70% from \$10.3 billion in 2019.

Most of the COVID-19 restrictions has been lifted in the City, including indoor mask requirement for vaccinated people and vaccine mandates for indoor businesses. Nevertheless, the lack of international travel and business convention, supply chain issue and high inflation remain as challenges to the recovery of the retail sector in San Francisco, especially in the downtown area.

MARKET OVERVIEW

The overall retail vacancy rate in San Francisco showed the first decline since 2020. At the first quarter of 2022, the vacancy rate stood at 5.1%, down 30 basis points (bps) from 5.4% last quarter and 20 bps from 5.3% rate last year. The total quarterly net absorption was recorded at 135,600 square feet (sf). Of the roughly 50.8 million square feet (msf) retail inventory in the City, approximately 2.6 msf of space was vacant as of the end of the first quarter.

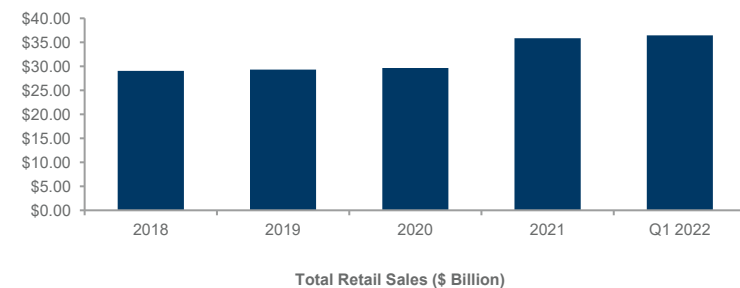
Restaurant openings have been observed all over the neighborhood commercial corridors in the first quarter of 2022, such as Good Good Culture Club in the Mission District, Birch & Rye in Noe Valley and Kaiyo Rooftop in SoMa. Additionally, Whole Foods opened its biggest store in San Francisco at 1185 Market Street, while IKEA started the buildout of its urban store at 945 Market Street. Meanwhile, RH Gallery is opening a 60,000-sf store with restaurant in the historic Bethlehem Steel Building at Pier 70, while Ghirardelli Chocolate Company started a major renovation plan for its iconic Ghirardelli Square flagship locations in Fisherman's Wharf.

Some notable closures in the first quarter were Decathlon, a French sporting goods retailer, which closed its last two U.S. locations, including one in Potrero Center in the Mission District; a consumer tech retailer, b8ta, also closed all eight stores in the U.S., including two in San Francisco: in Hayes Valley and Thrive City (Chase Center); and Landmark's Embarcadero Center Cinema ceased its operations in the Embarcadero Center.

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND



UNION SQUARE / POST STREET

With the partial completion of the retail component at 100 Stockton Street, the retail total inventory in Union Square in the first quarter of 2022 stood at 4.8 msf. The direct vacancy rate in Union Square was recorded at 14.4%, ticking up 40 bps from 14.0% rate last quarter and 80 bps from 13.6% a year ago. The rental rate for premier ground floor retail space in Union Square remained unchanged at \$495 per square foot per year (psf) and the rental rate on Post Street was also flat at \$295 psf at the first quarter of 2022.

With the return of experiential retail, IT'SUGAR, one of the largest specialty and experiential candy retailers in the U.S, signed a short-term lease for a 21,500-sf space in the former Forever 21 at 2 Stockton Street. Home furnishing retailers were actively seeking space and opening new showrooms in Union Square. Saatva, a luxury mattress e-commerce brand, opened a 6,000-sf store in the former Eddie Bauer space at 128 Post Street. Another international furniture retailer plans to open at 55 Stockton Street, which was vacated by Crate and Barrel at the end of March after 20 years at this iconic location. One notable closure in the first quarter was Abercrombie & Fitch at the Westfield San Francisco Centre.

According to Springboard data from the Union Square Alliance, the total number of visitors to Union Square dipped in the first two months of 2022 to 541,700 in January and 489,200 in February after reaching the pandemic era's record of 965,400 in December. However, as the omicron surge waning, the number of visitors in Union Square bounced back to 692,900 in March, bringing the total number of visitors for the year to the end of March to 1,723,800, up 89.1% YOY. Furthermore, Kastle Systems data showed that 31.8% of employees were back in the office in San Francisco as of the end of March 2022, an uptick from the past few months.

INVESTMENT MARKET

Retail sale activity was quite slow, with only a few small retail buildings changing hands during the first quarter of 2022. According to Real Capital Analytics, approximately 70,200 sf of retail space was transacted, ranging from 5,600 sf to 27,700 sf, with total investment sales of \$48.3 million.

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
945 Market Street	Mid-Market	N/A	45,000	New Lease
1750 Harrison Street	Mission District	Total Wine & More	23,500	New Lease
2 Stockton Street	Union Square	IT'SUGAR	21,500	New Lease
2145 Market Street	Upper Market	Live Fit	15,500	New Lease
2401-2415 Mission Street	Mission District	Food Rocket	3,100	New Lease

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1525 Mission Street	SoMa	Kenneth Paige; Judith Paige / Consulate General of Switzerland	27,700	\$20.3M / \$735
800 Grant Avenue	Chinatown	AB a C & a C L/TR / Chinatown Media & Art Collaborative	14,200	\$5.7M / \$403
3650-3664 Sacramento Street	Presidio Heights	Alvin H Baum Jr Trust / 3233 Broderich Street LLC; At Home 132 LLC	13,500	\$9.6M / \$708
400-410 Castro Street	Castro	Chel Holdings Ltd / Pegasus Passage LLC	9,200	\$7.7M / \$838
550 Market Street	Financial District	Brio Consultants LLC / Jay Zalewski	5,600	\$5.0M / \$883

KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
100 Stockton Street	Union Square	Chotto Matte	100,500*	PPF/Blatteis 120 Stockton Street

*Retail space in a 250,000-sf mixed-use development

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