

SAN FRANCISCO

Retail Q2 2022

\$158,600

Median HH Income

YoY Chg



12-Mo. Forecast



0.6%

Population Growth



2.7%

Unemployment Rate



U.S. ECONOMIC INDICATORS Q2 2022

2.5%

GDP Growth

YoY Chg



12-Mo. Forecast



7.9%

CPI Growth



9.8%

Consumer Spending Growth



8.7%

Retail Sales Growth



Source: BLS, BOC, Moody's Analytics
Q2 2022 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

Although the national inflation rate has reached a forty-year high at 9.1% in June, many economic indicators in San Francisco are still showed positive signs. The unemployment rate continued to decline and was recorded at 2.7%, down from 5.4% rate a year ago. Professional and business services added the most jobs (+27,600), followed by the leisure and hospitality sector (+27,100) year-over-year (YOY). The labor force sat at 1.02 million, just 2.6% lower than the pre-pandemic peak of 1.05 million in January 2020. The median household income in San Francisco remained to be the highest in the country at \$158,600, up 3.0% YOY, and the population growth was stable at 0.6% YOY. Furthermore, total retail sales were up 16.9% YOY and recorded at \$36.8 billion at the second quarter of 2022.

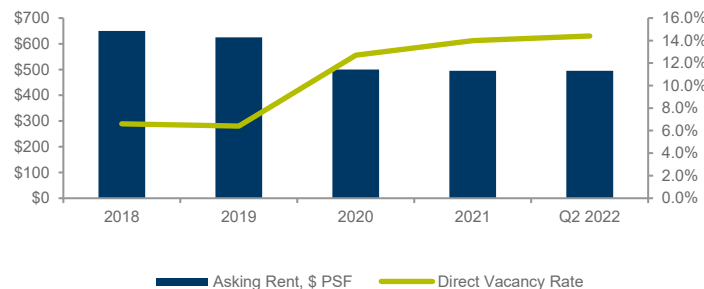
The data from Kastle Access Control Systems showed that the office occupancy in San Francisco had increased from 31.8% in March to 34.7% at the end of June 2022. Meanwhile, the average hotel occupancy rate was 69.9% in the second quarter of 2022, still way below the pre-pandemic rate of 82.7% in 2019 but it has been trending up from 44.8% in the first quarter and 38.2% a year ago.

MARKET OVERVIEW

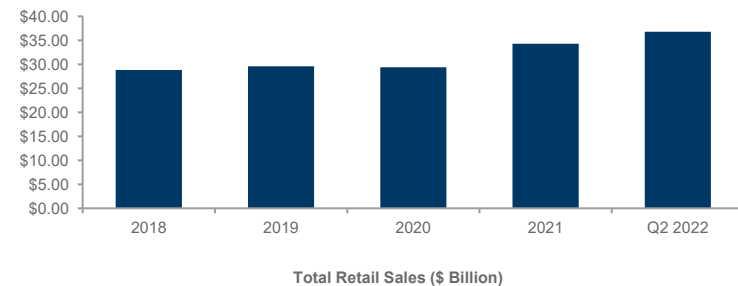
Despite all the positive economic indicators, the retail sector in San Francisco has not fully recovered from the pandemic. High price increases and labor force challenges were the main headwinds of this sector. At the second quarter of 2022, the overall retail vacancy rate slipped to 5.5%. It was up 40 basis points (bps) from 5.1% last quarter and 20 bps from 5.3% last year. After the positive absorption in the first quarter, the net absorption in the second quarter was back to red at -187,300 square feet (sf), bringing the total year-to-date (YTD) net absorption to -58,900 sf. Of the roughly 50.9 million square feet (msf) retail inventory in the City, approximately 2.8 msf of space was vacant as of the end of the first quarter, comprising 2.7 msf of vacant direct space (95.6%) and 121,900 sf of vacant sublet space (4.4%).

In the East Cut neighborhood, GAP Inc. opened four retail stores for each company's brands: Old Navy, Banana Republic, Athleta and GAP on the ground floor of its headquarters at 2 Folsom Street. Other openings in this neighborhood were Kaiser Care Essentials clinic and Venga Empanadas in the Salesforce Transit Center, Pie Punk at 145 2nd Street, and Cream & Sugar at 250 Main Street. Meanwhile, a luxury furnishing retailer, RH, opened a five-story gallery and a beautiful restaurant (The Palm Court at RH San Francisco) in the historic Bethlehem Steel Building at Pier 70 and Ghirardelli opened a 5,000-sf Chocolate Experience Store in Ghirardelli Square. Some new openings in Marina were a modern décor and furniture shop, Joybird, at 2000 Chestnut Street and an Italian restaurant, Montesacro Pinseria, at 3317 Steiner Street. Additionally, a San Francisco brunch spot, Sweet Maple, famous for its millionaire bacon, is looking to expand nationally with the plan to open 50 new locations in the next five years.

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND



UNION SQUARE / POST STREET

In the second quarter of 2022, the direct vacancy rate in Union Square was recorded at 14.4%, unchanged from last quarter's figure, but 50 bps higher than the last year's figure of 13.9%. The total retail inventory in this prominent shopping district remained at 4.8 msf. Rental rates have been flat in the last six consecutive quarters, with the figure for premier ground floor retail space in Union Square at \$495 per square foot per year (psf) and on Post Street at \$295 psf in the second quarter of 2022.

Some notable openings in the second quarter of 2022 included Van Cleef & Arpels in the former AllSaints' space at 140 Geary Street; Bottega Veneta expanded its flagship store on 124 Geary Street by opening and creating a prominent entrance on Maiden Lane; and IT'SUGAR has opened a new pop-up experiential candy store in the former Forever 21 space at 2 Stockton Street. Moreover, Ross Dress for Less is taking over the former Saks OFF 5TH space at 901 Market Street. On the flip side, MAC vacated its space at 45 Powell Street.

According to Springboard data from the Union Square Alliance, the total number of visitors to Union Square reached the pandemic record of more than one million visitors a month at 1.15 million in June. The average monthly visitors in the second quarter of 2022 were 873,200, an increase of 52.1% from last quarter figure of 574,600 and more than double than a year ago at 402,800 visitors per month. Two large hotels were reopened in Union Square this quarter, namely Park 55 Hotel at 55 Cyril Magnin Street and the Beacon Grand Hotel (formerly The Sir Francis Drake) at 450 Powell Street. Additionally, the return of conventions/conferences, and many events and spring celebrations, such as Bloom SF, Prada Tropico Pop-Up at Neiman Marcus, Juneteenth Celebration, Golden State Warriors and Pride Parades have successfully drawn more visitors to Union Square.

INVESTMENT MARKET

One notable retail sale transaction in the second quarter was 838-842 Market Street in Union Square. The 57,500-sf retail building, homes to Oakley and a former Converse store, was sold for \$30.0 million or \$522 psf. The other retail sale transactions were two small retail buildings, bringing the total retail space transacted in the second quarter of 2022 to 93,900 sf with total investment of \$59.2 million. In addition, Unibail-Rodamco revealed its plan to exit the country and sell its U.S. malls portfolio, including Westfield San Francisco Center, to focus on its European properties.

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
901 Market Street	Union Square	Ross Dress for Less	40,300	New Lease
555 9 th Street	Showplace Square	Undisclosed	22,800	New Lease
301 Hayes Street	Hayes Valley	Back of the House	3,400	New Lease
155 Jefferson Street	Fisherman's Wharf	Pollo Campero	2,500	New Lease
2001-2011 Mission Street	Mission District	Spacetel	1,500	New Lease

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
838-842 Market Street	Union Square	838-842 Market Street LLC / 838 Market Exchange LLC JV Emmet & Lorraine Ward JV Ellis Market LLC JV Carnivan Holdings LP	57,500	\$30.0M / \$522
1400 Van Ness Avenue	Van Ness	Paragon Real Estate Group / Sunhill Corp	19,400	\$12.6M / \$649
300 De Haro Street	Showplace Square	Four G Enterprises LLC / DM Development Partners	17,000	\$16.6M / \$976

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

SOANY GUNAWAN

Senior Research Analyst

+1 415 658 3665 /soany.gunawan@cushwake.com

[cushmanwakefield.com](https://www.cushmanwakefield.com)

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