

# SAN FRANCISCO

## Retail Q3 2022

	YoY Chg	12-Mo. Forecast
<b>\$162,100</b> Median HH Income	▲	▲
<b>0.7%</b> Population Growth	▲	▲
<b>2.1%</b> Unemployment Rate	▼	▬

### U.S. ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
<b>1.5%</b> GDP Growth	▼	▲
<b>8.3%</b> CPI Growth	▲	▲
<b>7.9%</b> Consumer Spending Growth	▼	▲
<b>8.9%</b> Retail Sales Growth	▼	▲

Source: BLS, BOC, Moody's Analytics  
Q3 2022 data are based on latest available data.  
Growth rates are year-over-year.

### ECONOMY

Rising costs, increasing interest rates and continued supply chain disruptions remained the main headwinds of the retail sector leading into the fourth quarter. Although it has been trending down since the highest rate of 9.1% in June, the national inflation rate was still high at 8.2% in September. Nevertheless, the economic indicators in San Francisco continued to show positive signs. The unemployment rate declined to 2.1%, down from 2.7% last quarter and from a 4.5% rate one year ago. The median household income in San Francisco continued to be the highest in the country at \$162,100, up 5.3% from \$154,000 a year ago. Meanwhile, the population grew at 0.7% year-over-year (YOY). Total retail sales were recorded at \$35.7 billion in the third quarter of 2022, though it did slow to 8.9%, compared to the average growth in the last five quarters of 12.5%.

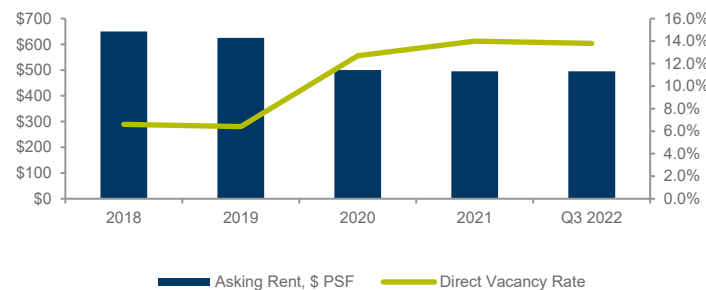
Kastle Access Control Systems data showed that the office occupancy in San Francisco had increased 5.0% from 34.7% in June to 39.7% at the end of September 2022. The citywide average hotel occupancy rate was 69.8%, remaining the same as last quarter's figure, but has trended up from 50.1% a year ago.

### MARKET OVERVIEW

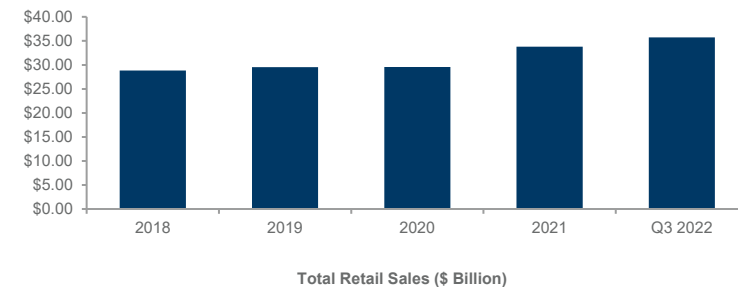
The overall retail vacancy rate in San Francisco increased to 5.8% at the third quarter of 2022, up 30 basis points (bps) from 5.5% last quarter and up 40 bps from 5.4% a year ago. The increase of the vacancy rate this quarter was mainly due to the additional supply with the completion of 100 Stockton Street. This multi-floor development (formerly the Macy's men store) added 242,600 square feet (sf) of new space, bringing the total citywide retail inventory to 51.0 million square feet (msf). Meanwhile, the net absorption was positive and recorded at 78,600 sf in the third quarter of 2022. Of a total 3.0 msf vacant retail space in the City, 2.8 msf (96.4%) was vacant direct space and 105,800 sf (3.6%) was vacant sublet space.

Stores and restaurants openings were very active in the third quarter of 2022, especially in the neighborhood commercial areas. In Upper Fillmore, lululemon opened at 2040 Fillmore Street and Clare V added the second store in the city at 2050 Fillmore Street. Storefront openings in Cow Hollow included Sacred Taco at 1875 Union Street and Dr. Treat veterinary at 1898 Union Street. Some new restaurants were opened in Hayes Valley, such as Hazie's at 501 Hayes Street and Red Radish, a vegan restaurant from Adriano Paganini, at 301 Hayes Street. In addition, Brooklinen, a Digitally Native Brand (DNB) opened its third brick-and-mortar store at 519 Hayes Street. Another upscale restaurant, STK Steakhouse, opened in One Market Plaza and Afici, a new fine dining restaurant from Alexander's Steakhouse group, opened in SoMa at 680 Folsom Street. Thom Browne, a New York luxury apparel designer, opened its fifth U.S. location in Jackson Square at 432 Jackson Street.

### RENT / DIRECT VACANCY RATE – UNION SQUARE



### RETAIL SALES TREND



## UNION SQUARE / POST STREET

Union Square remains San Francisco's most prestigious retail district and the gateway for international and national retailers to have presence in the city. With generous concession packages and more flexible lease terms available, activity was robust in the third quarter of 2022. The direct vacancy rate in Union Square stood at 13.8% at the end of the quarter. It was down from 14.4% last quarter and from 14.5% a year ago. The rental rate for premier ground floor retail in Union Square remained flat since 2021 at \$495 per square foot per year (psf) and on Post Street at \$295 psf.

Entertainment and pop-ups dominated retail lease transactions, taking over some large vacant spaces in Union Square for a short lease period. The "Friends" pop-up took over the former H&M space (43,800 sf) at 150 Powell Street and Samsung Galaxy Experience signed a short-term deal for the 29,100-sf space at 111 Powell Street that formerly housed Uniqlo. Additionally, Pandora signed the deal for a 1,300-sf retail space in Westin St. Francis hotel complex at 345 Powell Street. Coco Republic, a home furnishing store from Australia, opened its first flagship store in the U.S. in the former Crate & Barrel space at 55 Stockton Street. On the downside, there were some closures during the third quarter, including Chase Bank at 400 Post Street, Jins at 151 Powell Street and lululemon at 327 Grant Avenue.

Data from Springboard/Union Square Alliance showed that the total number of visitors to Union Square reached the pandemic record of almost 1.2 million in September 2022. The average monthly visitor count in the third quarter of 2022 was at 1.0 million, an increase of 16.1% from last quarter's figures of 873,800 and up 70.4% from 595,400 average visitors per month in the third quarter of 2021. Salesforce's annual gathering, Dreamforce 2022 – the biggest conference since the start of the pandemic in 2020, attracted approximately 40,000 attendees in three days in September.

## INVESTMENT MARKET

Two high profile buildings in Union Square were traded hand in the third quarter of 2022. One of the most recent completed mixed-use buildings, comprising of 71,800-sf of office and retail space – house of Brilliant Earth and Arc'teryx, at 300 Grant Avenue was sold by A-Z300 Grant, LLC to a South Korean conglomerate (Hanwha Life Insurance Co) for \$155.0 million or \$2,160 psf. Another 11,200-sf building that houses Giorgio Armani at 166 Grant Avenue was sold by 116 Grant, LLC to Prado Group for \$26.0 million or \$2,310 psf.

## KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
150 Powell Street	Union Square	Friends Pop-Up	43,800	Pop-Up
111 Powell Street	Union Square	Samsung Galaxy Experience	29,100	Pop-Up
145 Jefferson Street	Fisherman Wharf	The Escape Game	24,200	Pop-Up
1529 Van Ness Avenue	Van Ness	SF European	20,900	New Lease

## KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
300 Grant Avenue*	Union Square	A-Z300 Grant, LLC / DP Real Estate America, LLC	71,800	\$155.0M / \$2,160
166 Grant Avenue	Union Square	166 Grant, LLC / Prado Group, Inc.	11,200	\$26.0M / \$2,310
1901-1905 Ocean Avenue	Southern City	Panessi Partners, LLC / Bonroy Investments, LLC	11,200	\$4.5M / \$400
527 Howard Street (Igzactly 420)	South Financial	Pacific Bay Ventures, LLC / Grand Margarita, LLC	8,050	\$9.9M / \$1,230

\*Mixed-use of retail & office

## 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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