

SAN FRANCISCO



Retail Q1 2023

\$138,000

Median HH Income

YoY Chg



12-Mo. Forecast



0.7%

Population Growth



2.5%

Unemployment Rate



U.S. ECONOMIC INDICATORS Q1 2023

1.9%

GDP Growth

YoY Chg



12-Mo. Forecast



5.7%

CPI Growth



9.4%

Consumer Spending Growth



5.3%

Retail Sales Growth



Source: BLS, BOC, Moody's Analytics
Q1 2023 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

The unemployment rate in San Francisco increased to 2.5% in the first quarter of 2023. It was up 40 basis points (bps) from 2.1% at the end of 2022, but still 100 bps lower than the 3.5% rate a year ago. The San Francisco metro division lost 11,100 jobs at the start of the year, with widespread layoffs from tech companies impacting the market. The median household income was still one of the highest in the nation at an estimated \$138,000, up 6.8% from \$129,200 a year ago. The population grew steadily at 0.7% year-over-year (YOY). Meanwhile, the total retail sales in the first quarter of 2023 were estimated at \$37.3 billion, up 8.0% YOY.

Data from the San Francisco Travel Association revealed a significant increase in visitors with 21.9 million in 2022, up 28.8% from 2021's figure of 17.0 million. Visitor spending was \$7.4 billion in 2022, more than double 2021's figure of \$3.6 billion, although it was still 77.1% lower than the pre-pandemic record high of \$9.6 billion in 2019. A full spending recovery is expected by 2024. The Kastle Access Control System Data showed the return to office has stalled in 2023, with the office occupancy at 41.6% at the end of March 2023. The office occupancy in San Francisco reached the highest level in early February at 46.1%. Additionally, the average hotel occupancy in the first two months of 2023 was 53.5%, down from last quarter's figure of 60.3%, but up from 45.5% a year ago.

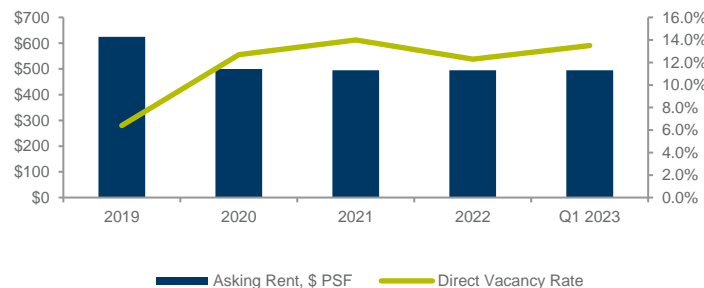
MARKET OVERVIEW

Macro-economic conditions, supply chain disruptions and tightening consumer spending, in addition to local issues, such as high operation cost, lengthy permit process and public safety, continued to cause headwinds for retailers. Consequently, the overall retail vacancy rate in San Francisco continued to trend up and was recorded at 6.0% in the first quarter 2023, the highest vacancy rate in the City since 2006. The vacancy rate was up 10 bps from 5.9% rate last quarter and 80 bps higher than 5.2% a year ago. The net absorption in the first quarter was negative 50,900 square feet (sf). Of a total of 51.0 million square feet (msf) retail inventory in the City approximately 3.1 msf space was vacant.

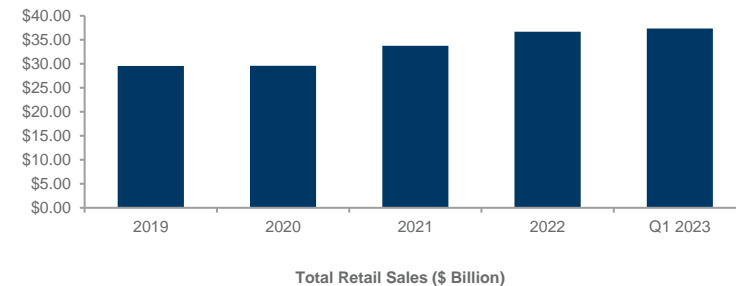
Some store closures in San Francisco in the first quarter of 2023 were part of company-wide strategic plans, such as Amazon Go, which closed all its four cashier-less stores in San Francisco: at 300 California Street, 98 Post Street, 575 Market Street and 3 Embarcadero Center. Bed Bath and Beyond was also closing its only San Francisco's store at 555 9th Street.

On the bright side, new restaurants, cafe and bars continued to dominate retail leasing activities in the City. Some new restaurant openings in San Francisco's downtown were Mili Wine Bar in MIRA at 110 Folsom Street, Akikos at Avery Lane at 430 Folsom Street, Xica in Levi's Plaza at 1265 Battery Street and a few restaurants in Salesforce Transit Center, such as Per Diem, Charleys Cheesesteak and Tycoon Kitchen. In addition, It'Sugar opened the largest candy store of nearly 30,000 sf in Fisherman's Wharf at 145 Jefferson Street.

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND



UNION SQUARE / POST STREET

Closures of the holiday pop-ups and other stores brought the direct vacancy rate in Union Square up to 13.5% in the first quarter of 2023 from 12.3% rate at the end of 2022, but down from 14.4% rate one year ago. Meanwhile, the overall vacancy rate, including sublease, was 15.5%, up from 14.2% rate last quarter. The rental rate for premier ground floor retail has remained flat since 2021 at \$495 per square foot per year (psf) in Union Square and \$295 psf on Post Street.

Some significant closures in Union Square during the first quarter were the 21,600-sf CB2 at 34 Ellis Street, the 8,000-sf The RealReal at 253 Post Street and the 2,250-sf Arc'teryx at 300 Grant Avenue. Meanwhile, a notable new opening during the quarter was Yves Saint Laurent at 90 Grant Avenue, which expanded and relocated from 100 Geary Street.

According to Springboard/Union Square Alliance, the average monthly visitors to Union Square in the first quarter of 2023 was 858,300, an 8.6% decrease from last quarter's figure of 939,300, mainly due to seasonality as January and February typically record the lowest number of visitors, as well as a historic heavy rain in the City at the beginning of the year. The number of visitors, however, was up in March 2023 recording the highest monthly figure since 2020 at 1.17 million visitors. The number of visitors also increased 49.4% from last year's figures of 574,600 visitors per month.

Additionally, in March 2023, San Francisco leaders introduced legislation to make it easier for developers to transform downtown office buildings into housing. The legislation would also loosen rules around Union Square to help the district be less reliant on big retail stores. Zoning changes will permit more diversified uses and wider range of activities in existing buildings in Union Square, including indoor and outdoor entertainment, flexible retail workspaces and larger retailers on the ground floors.

INVESTMENT MARKET

Sales activity for retail property in San Francisco was soft during the first quarter of 2023. According to Real Capital Analytics' data, only 22,700 sf of retail space from three retail properties traded hands in the beginning of 2023. The total investment sales were recorded at \$15.8 million or \$696 psf.

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
255 Potrero Avenue	Potrero Hill	Catharine Clark Gallery	9,200	Renewal
2310 Fillmore Street	Pacific Heights	Citibank	6,000	New Lease
900 North Point Street (Ghirardelli Square)	North Waterfront	Restaurant	4,800	New Lease
101 Montgomery Street	Presidio	Mediterranean Restaurant	4,600	New Lease

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
2567 Mission Street	Mission District	Okada Brothers / Kyriell Noon	15,000	\$8.1M / \$539
1763-1767 Stockton Street	North Beach	Doyle 1999 Trust / Dunn Property Group	4,400	\$2.5M / \$566
101 Jefferson Street	Fisherman's Wharf	Mary S Shepherd / Paul Goldman	3,300	\$5.2M / \$1,585

KEY CONSTRUCTION COMPLETIONS YTD 2023

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

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