

SAN FRANCISCO



Retail Q2 2023

\$140,300

Median HH Income

YoY Chg



12-Mo. Forecast



0.7%

Population Growth



2.7%

Unemployment Rate



U.S. ECONOMIC INDICATORS Q2 2023

2.1%

GDP Growth

YoY Chg



12-Mo. Forecast



4.0%

CPI Growth



7.8%

Consumer Spending Growth



1.3%

Retail Sales Growth



Source: BLS, BOC, Moody's Analytics
Q2 2023 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

San Francisco's unemployment rate increased to 2.7% in the second quarter of 2023, up 40 basis points (bps) from 2.3% one year ago. Nevertheless, the median household income in San Francisco grew an estimated 5.2% year-over-year (YOY) to \$140,300, one of the highest income growths in the country and the second highest income in the nation after San Jose. Meanwhile, total retail sales were estimated at \$37.3 billion, up 7.3% YOY.

Data from Kastle Access Control System Data showed the office occupancy in San Francisco reached the highest post-pandemic level at 46.5% at the end of June 2023, up from 20.8% at the beginning of the year. Additionally, the average hotel occupancy in the second quarter of 2023 was 65.5%, up from last quarter's figure of 56.9%. The number of visitors and visitors spending also continued to improve. According to San Francisco Travel Association, the total number of visitors to San Francisco in 2022 was recorded at 21.9 million, with the overall visitor spending of \$7.4 billion or almost 80% of the pre-pandemic level in 2019.

MARKET OVERVIEW

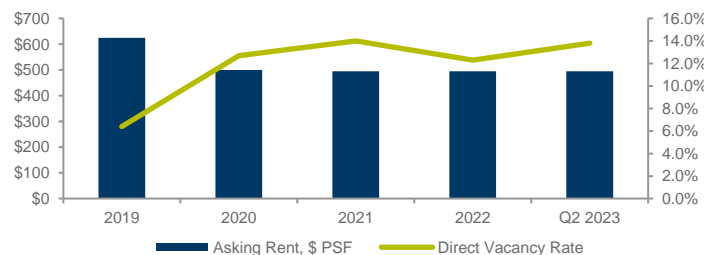
The retail market in San Francisco, especially the downtown area, is facing challenges now more than ever. At the second quarter of 2023, the overall citywide retail vacancy was recorded at 6.0%. Although it remained the same as last quarter's figure, it was up 50 bps from 5.5% rate last year and persisted as the highest vacancy rate in the City since 2006. There was approximately 3.1 million square feet (msf) of vacant space out of the roughly 51.2 msf retail inventory at the end of the second quarter.

Downtown San Francisco continues to struggle with post-pandemic recovery: low foot traffic due to slow return of office employees and tourists, in addition to the lingering issues, such as homelessness, crime, high cost and changes in consumers' shopping habits. These problems affected adjacent core submarkets as well. Whole Foods temporary closed its 65,000-square feet (sf) store in Mid-Market due to public safety issues in April, just a year after the store opened. The SoMa submarket experienced some major closures, including Bed Bath and Beyond at 555 9th Street, Office Depot at 33 3rd Street, Nordstrom Rack at 901 Market Street, Cole Hardware at 345 9th Street, as well as Blue Bottle Coffee at 66 Mint Street.

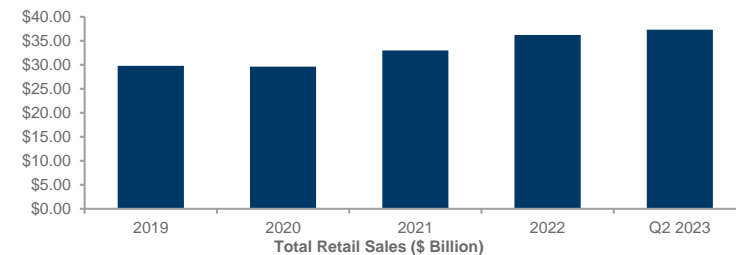
Unibail-Rodamco-Westfield, the owner of the Westfield San Francisco Centre surrendered the shopping center to their lender in June. Ownership cited low foot traffic and sales, though they have had plans to leave the US market entirely for some time now. Banana Republic and Cinemark Theater closed their locations in the center in the second quarter and Nordstrom will leave its 312,000-sf space in August.

Nevertheless, the neighborhood commercial areas in other parts of the City are thriving. Some new openings this quarter were Kenlynn (a luxury knitwear boutique) and Neon (a coworking space) in Cow Hollow, MOTEX Lab in Marina, Diptyque on Fillmore Street, and some notable restaurants, such as Kiln in Hayes Valley and Dalida in Presidio.

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND



UNION SQUARE / POST STREET

The overall vacancy rate in Union Square in the second quarter of 2023 stood at 16.2%, up 70 bps from 15.5% last quarter. Meanwhile, the direct vacancy rate was recorded at 13.8%, up 30 bps from 13.5% rate in the first quarter. With more closures expected in the summer, the vacancy rate is projected to increase further. 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.

In the second quarter of 2023, Anthropologie closed its 20,200-sf store at 880 Market Street and T-Mobile closed the 17,000-sf store at 1 Stockton Street. Other closures in Union Square were Banana Republic at 256 Grant Avenue (relocating to 152 Geary Street), Athleta at 255 Sutter Street, Benefit Cosmetics at 262 Sutter Street and Goorin Bros at 111 Geary Street. In addition, some expected closures in the third quarter will include Old Navy at 801 Market Street, Alexander McQueen at 58 Geary Street, AT&T Flagship at 1 Powell Street and Coco Republic at 55 Stockton Street.

In more positive news, there were some openings in the second quarter, especially in the F&B category, such as Starbucks at 201 Powell Street and Lori's Diner at 500 Sutter Street. Challenges in the market also presents a tremendous opportunity for retailers since Union Square historically has been one of the most expensive and toughest markets with such little inventory. Currently there are new stores under construction as well as existing stores expanding to meet market demands. There were some leasing transactions in the second quarter, including some high-profile confidential tenants, Carmina at 54 Geary Street (3,600 sf) and Adriano Paganini's new restaurant in Hotel G at 386 Geary Street.

The City of San Francisco launched the "Vacant to Vibrant" program with \$710,000 fund to fill downtown (Financial District and Jackson Square) vacancies with pop-up shops in efforts to revive city. Furthermore, it is also investing \$6 million in the corridor along Powell Street from cable car turnaround to Union Square to beautify the sidewalks and subsidize some costs to new tenants at Powell Street. The San Francisco Board of Supervisor also approved measures to relax zoning laws in Union Square and downtown to help fill vacancies.

Further good news is that pedestrian traffic is on the rise. According to Springboard/Union Square Alliance, the average monthly visitor count to Union Square in the second quarter of 2023 was 920,400, a 7.2% increase from last quarter's figure of 858,300 and 5.3% higher than the year ago count of 873,800.

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2900 Alemany Boulevard	Outer Mission	Island Pacific Seafood Market	34,000	New Lease
3535 Geary Boulevard	Richmond District	The Floor Store	12,100	New Lease
465 California Street	Financial District	Event Space	10,400	New Lease
500 Sutter Street	Union Square	Lori's Diner	8,200	New Lease
4 Embarcadero Center	Financial District	Don Ramon's	5,000	New Lease

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
601 Clement Street	San Francisco	Paul Tat Mau Wong / Richmond Area Multi-Services Inc	7,800	\$5.3M / \$682
1016-1022 Grant Avenue	San Francisco	Randall & Mary Der Trust / Grant 1010 LLC	7,200	\$3.3M / \$453

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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