

SAN FRANCISCO



Retail Q4 2023

\$155,100

Median HH Income

YoY Chg



12-Mo. Forecast



0.6%

Population Growth



3.1%

Unemployment Rate



U.S. ECONOMIC INDICATORS Q4 2023

2.6%

GDP Growth

YoY Chg



12-Mo. Forecast



3.3%

CPI Growth



6.7%

Consumer Spending Growth



3.8%

Retail Sales Growth



Source: BLS, BOC, Moody's Analytics, Costar, RCA
Q4 2023 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

The unemployment rate in San Francisco reached 3.1% at the end of 2023. Despite the increase in unemployment by 0.7% from the previous year, San Francisco's economy showed signs of resilience and strength during the year. The city had the second highest median household income in the nation at \$155,100, which grew by 7.8% annually, the fastest rate in the country. The retail sector also performed well, with total sales reaching \$37.7 billion, a 5.5% increase from the year before.

The holiday season affected the office and hotel occupancy rates. Data from Kastle Access Control Systems showed that the average office occupancy rate fell to 39.6% in the fourth quarter of 2023 from 42.0% in the third quarter. Excluding the weeks of Thanksgiving, Christmas and New Year, the average office occupancy in San Francisco was in fact higher at 43.0%, with the first week of December recording the highest pandemic office occupancy at 47.0%. According to the last available data, the average hotel occupancy in the months of October and November was 64.1%, down from 72.0% in the third quarter. December data is expected to show an increase in the average hotel occupancy due to the influx of tourists during the holiday season.

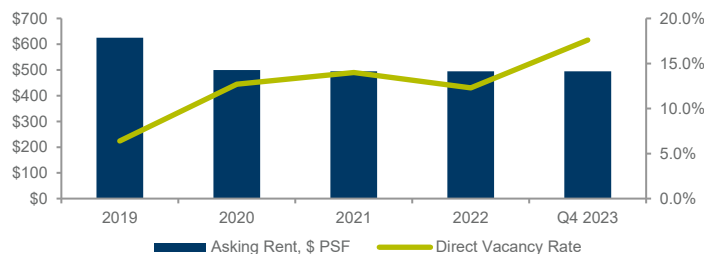
MARKET OVERVIEW

San Francisco's retail market has seen an upward trend in vacancy rates since reaching its lowest level at 3.1% in the third quarter of 2019. At the end of 2023, the retail vacancy rate rose slightly by 10 basis points (bps) quarter-over-quarter (QOQ) to 6.7%. This is the highest vacancy rate recorded in the city, surpassing the previous record of 6.6% in the third quarter. The current rate was 80 bps higher than the 5.9% vacancy rate at the close of 2022. The total inventory of retail space in the city stood at 51.3 million square feet (msf), of which 3.4 msf was vacant at the end of 2023.

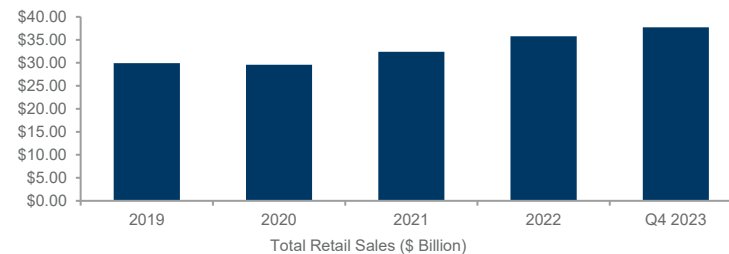
San Francisco Centre, a downtown shopping mall that was owned by Westfield and Brookfield until recently, went into receivership in October. Following the closures of the mall's anchor tenants (Cinemark Century Theater and Nordstrom) in the previous quarters, Lego Store and Hollister closed in the fourth quarter. In addition, Adidas, Aldo, J.Crew and Lucky Brand are also planning to close their doors in early 2024. Other notable closures included Starbucks that, as part of their portfolio strategy, closed eight locations in downtown San Francisco. Despite these closures, the company still maintains over 50 open stores in the City. Other significant strategic closures included banks/financial institutions, such as Bank of America, City National Bank and First Republic Bank, driven by mergers and acquisitions or efforts to streamline operations.

Nevertheless, San Francisco also experienced some exciting new openings, included Flannel, Rachel Comey and 7 Adams restaurant in Pacific Heights; Mejuri, Vans, Topo Design and Bagatella restaurant in the Marina; Céleste wine bar and Veo Optic in Cow Hollow; as well as Topo Design in Hayes Valley.

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND



UNION SQUARE / POST STREET

The overall vacancy rate in Union Square continued to climb to a new high at 20.5% by the end of 2023, marking a 180-bps rise from 18.7% recorded in the third quarter and a 630-bps increase from 14.2% at the end of 2022. Meanwhile, the direct vacancy rate reached 17.6%, up 190 bps from 15.7% rate in the previous quarter. Notable closures in the fourth quarter of 2023 included Coco Republic at 55 Stockton Street, Express at 301 Geary Street and Charles Schwab at 100 Post Street. Despite the uptick in vacancy rate, however, the rental rate for premier ground floor retail remained steady at \$495 per square foot per year (psf) in Union Square and increased slightly by 1.7% to \$300 psf on Post Street.

Some of the highlights in Union Square during the fourth quarter included some noteworthy openings. Banana Republic relocated and opened a new flagship store at 152 Geary Street. In addition, two Miller & Lux Provisions cafés by celebrity chef Tyler Florence opened at Union Square Plaza. Moreover, the long anticipate London based Chotto Matte (a 14,000-sf rooftop Nikkei restaurant) and Convene (a global hospitality, event, meeting and flexible office space) opened in the recently redeveloped 100 Stockton Street, the former Macy's Men store.

Although experiencing a minor dip in the fourth quarter, the total annual foot traffic in Union Square has demonstrated a steady increase in 2023. According to the latest data from Springboard/Union Square Alliance, the total number of visitors increased by 7.3% from 2022's figure to 13.4 million in 2023. The average monthly visitor to Union Square in the fourth quarter was down 8.8% to 1.1 million from 1.2 million in the third quarter.

INVESTMENT MARKET

In the fourth quarter of 2023, San Francisco saw two major retail property deals: the sales of 1000 Van Ness Avenue (122,800 sf) in Van Ness Corridor and North Point Center (87,000 sf) in Fisherman's Wharf. Based on Real Capital Analytics' data, there were approximately 268,600 sf of retail space across nine retail properties traded hands in San Francisco during the fourth quarter of 2023. It accounted for almost half (48.8%) of the annual retail space sales in 2023 at 550,700 sf. The total investment sales in the fourth quarter were recorded at \$77.4 million, which brought the total investment sales in 2023 to \$183.3 million, a significant drop (59.3%) from the 2022's sales volume of \$371.5 million.

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2001 Van Ness Avenue	Van Ness	Bay Breakers Boxing Gym	7,200	New Lease
1545-1555 Pacific Avenue	Polk Gulch	Stuff	5,300	New Lease
2137 Mission Street	Mission District	Clecha	4,800	New Lease
231 Post Street	Union Square	Confidential	4,600	New Lease
1190 Mission Street	SoMa	Pleasant Catering	4,200	New Lease

KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1000 Van Ness Avenue	Van Ness	SITE Centers Corp / Lakeside Investment Company	122,800	\$28.0M / \$228
350 Bay Street (NorthPoint Centre)	Fisherman's Wharf	Northpoint Investors / Anchor Pacific Capital	87,000	\$18.6M / \$214
1601 Haight Street (Haight Clayton Building)	Haight-Ashbury	Baychester Shopping Center Inc / JP Morgan	17,200	\$6.5M / \$377
2390 Mission Street	Mission District	Cirios / Standard Insurance Co	14,700	\$3.4M / \$231
933 Clement Street (Tong Palace)	Richmond District	Willie H Gao, Danny Zheng, Soi Lon Cheng / Anni Y Chung	9,000	\$4.6M / \$511

SOANY GUNAWAN

Senior Research Analyst

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

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