

SAN FRANCISCO



Retail Q1 2024

\$157,500

Median HH Income

YoY Chg



12-Mo. Forecast



0.4%

Population Growth



3.7%

Unemployment Rate



U.S. ECONOMIC INDICATORS Q1 2024

3.1%

GDP Growth

YoY Chg



12-Mo. Forecast



3.0%

CPI Growth



6.4%

Consumer Spending Growth



2.4%

Retail Sales Growth



Source: BLS, BOC, Moody's Analytics, Costar, RCA
Q1 2024 data are based on latest available data.
Growth rates are year-over-year.

ECONOMY

San Francisco experienced a rise in unemployment to 3.7% in the first quarter of 2024, up by 110 basis points (bps) from the previous year's figure. This was due to the continuing tech layoffs since 2023. However, the City's economy showed resilience as venture capital funding into startups surged for the second consecutive quarter, surpassing \$8.2 billion in the first three months of the year. San Francisco accounted for 17.9% of total U.S. funding, with the generative AI sector leading with 61.2% of total venture capital investments. Additionally, the City maintained the nation's second-highest median income household income at \$157,500, marking a 6.9% annual growth, the fastest rate nationwide. The retail sector also thrived, with total sales reaching \$38.0 billion, up by 5.5% compared to the previous year.

According to the San Francisco Travel Association, San Francisco welcomed 23.1 million visitors in 2023, marking a 5.2% rise compared to the previous year. Visitor spending also surged by 17.8% to \$8.8 billion. International visitation played a significant role in driving San Francisco's tourism recovery, with a notable 26% increase in 2023. Over two million international visitors contributed \$4.64 billion in visitor spending in the City.

MARKET OVERVIEW

The retail market in San Francisco has experienced a rise in vacancy rates since hitting a low of 3.1% in the third quarter of 2019. The overall vacancy rate increased by 120 bps quarter-over-quarter (QOQ) to reach 7.9% in the first quarter of 2024, marking the highest recorded vacancy rate for the City. The decline in retail performance was primarily due to the worsening conditions in Union Square and the surrounding downtown areas. In terms of supply, the market is experiencing limited new construction and the overall inventory of retail space in the City remained unchanged at 51.3 million square feet (msf), with 4.1 msf vacant by the end of the first quarter.

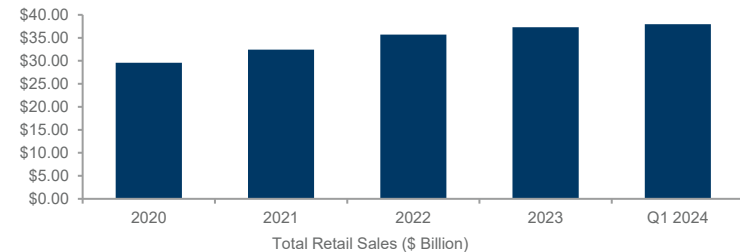
Closure of stores continued in Emporium Centre San Francisco (formerly Westfield San Francisco Centre) with Adidas, Aldo, Body Shop, J. Crew, L'Occitane, Lucky Brand and Madewell shuttering at the beginning 2024.

Despite these closures, there were also some exciting openings in downtown San Francisco. Hej!Workshop, the coworking space by Ingka Centres (IKEA's parent company) and operated by Industrious, opened at 945 Market Street. Alora, a Mediterranean restaurant from the owners of Rooh, opened at The Embarcadero Pier 3; as well as a few new coffee and boba shops opened in the East Cut and SoMa, namely Saint Frank Coffee at The Mira (120 Folsom Street), Outset Coffee at 90 New Montgomery Street and Feng Cha at The Four Seasons Hotel & Residences Complex (99 Yerba Buena Lane).

RENT / DIRECT VACANCY RATE – UNION SQUARE



RETAIL SALES TREND



UNION SQUARE / POST STREET

In the first quarter of 2024, the overall vacancy rate in Union Square reached a new peak, climbing to 20.6%. This reflects a modest increase of 10 bps from the previous quarter's rate of 20.5% and a notable 510 bps surge from the 15.5% rate recorded last year. As certain sublease spaces transitioned into direct availabilities, the direct vacancy rate jumped to 18.4%, marking a significant rise of 120 bps from the previous quarter's rate of 17.6% and a substantial 490 bps increase from the 13.5% rate one year ago. Nevertheless, despite the increase in vacancy rate, the rental rate for premier ground floor retail remained stable at \$495 per square foot per year (psf) in Union Square. Additionally, there was a slight uptick of 1.7% year-over-year (YOY), bringing the rental rate to \$300 psf on Post Street.

A wave of closure in San Francisco's Union Square continued in 2024, yet these closures also have provided opportunities for innovative transformations within the retail landscape. Some notable closures in the first quarter of 2024 were Lacoste at 172 Geary Street, The North Face at 180 Post Street and Jeffrey's Toys at 45 Kearny Street. In March 2024, Macy's announced the closure plan of its flagship and iconic location in Union Square as part of a broader strategic restructuring by the company to optimize its store portfolio. The department store will remain open until it finds a new buyer for the building. Despite these closures, however, Union Square also saw the emergence of exciting new openings, such as a luxury watchmaker, A. Lange & Söhne, at 140 Geary Street, the Spanish shoemaker, Carmina, at 54 Geary Street and the reopening of Starlite, a revival of the former Harry Denton's Starlight Room, atop the Beacon Grand Hotel at 450 Powell Street.

Data from Springboard/Union Square Alliance showed that the total number of visitors to Union Square for the year-to-date was 2.87 million, which was 9.0% down on the previous year. The average monthly visitor to Union Square in the first quarter was down 12.5% to 956,200 from 1.1 million in the fourth quarter of 2023.

INVESTMENT MARKET

During the first quarter of 2024, sales activity for retail property in San Francisco exhibited a subdued performance. Real Capital Analytics' data reveals that only 38,800 square feet (sf) of retail space across four retail properties changed ownership at the start of the year. The total investment sales amounted to \$22.2 million, equivalent to \$570 psf.

KEY LEASE TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2425 Irving Street	Sunset District	25 th Irving Market	12,500	New Lease
3030-3038 Mission Street	Mission District	Casa Guadalupe Supermarket	12,000	Sublease
944 Market Street	Mid-Market	ABA Protection	5,600	New Lease
200 Grant Avenue	Union Square	Bulgari	9,000	New Lease
250 Montgomery Street	Financial District	Osha Thai	4,100	New Lease

KEY SALES TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
5900 3 rd Street (Duc Loi's Pantry)	Bayview	Howard H Ngo / Jesus Lopez	14,900	\$2.8M / \$185
2261 Fillmore Street	Pacific Heights	2008 Jaiswal Family Trust / Fillmore Reserve LLC	10,400	\$11.0M / \$1,061
445 Taraval Street	Sunset District	Ann M Ehrhardt Trust / San Francisco Bible Church	9,900	\$3.5M / \$352
2220 Fillmore Street	Pacific Heights	Prado Group / North Room LLC	3,700	\$4.9M / \$1,329

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