



# Bay Area retail market report

Q4 2023

**AVISON  
YOUNG**

# Bay Area retail market trends

San Francisco is reporting **positive absorption** in Q4 and downtown San Francisco brokers are reporting an increase in touring activity. This coupled with the recent news of **Osha Thai's** opening at **250 Montgomery**, **Avo Toasty's** opening at **101 California** and the pending opening of the coworking **Hej Workshop** in the IKEA building at **945 Market** have renewed consumer confidence for an ongoing recovery and more vibrant downtown.

## 3.3 msf

### Total San Francisco retail availability including Union Square and surrounding areas

Total available space rose slightly over the past quarter, as the urban core continues to face challenges relating to office leasing and Union square continues to struggle due to strong economic factors and crime. Despite this, the suburban submarkets have continued to show report on strong fundamentals. Legislative incentives in the FiDi and core CBD of SF hope to reignite activity, while the Vacant to Vibrant program has already shown initial success with several pop-ups extending their leases.

## +0.6%

### Construction costs rise moderately, but continue to impact prospective retailers

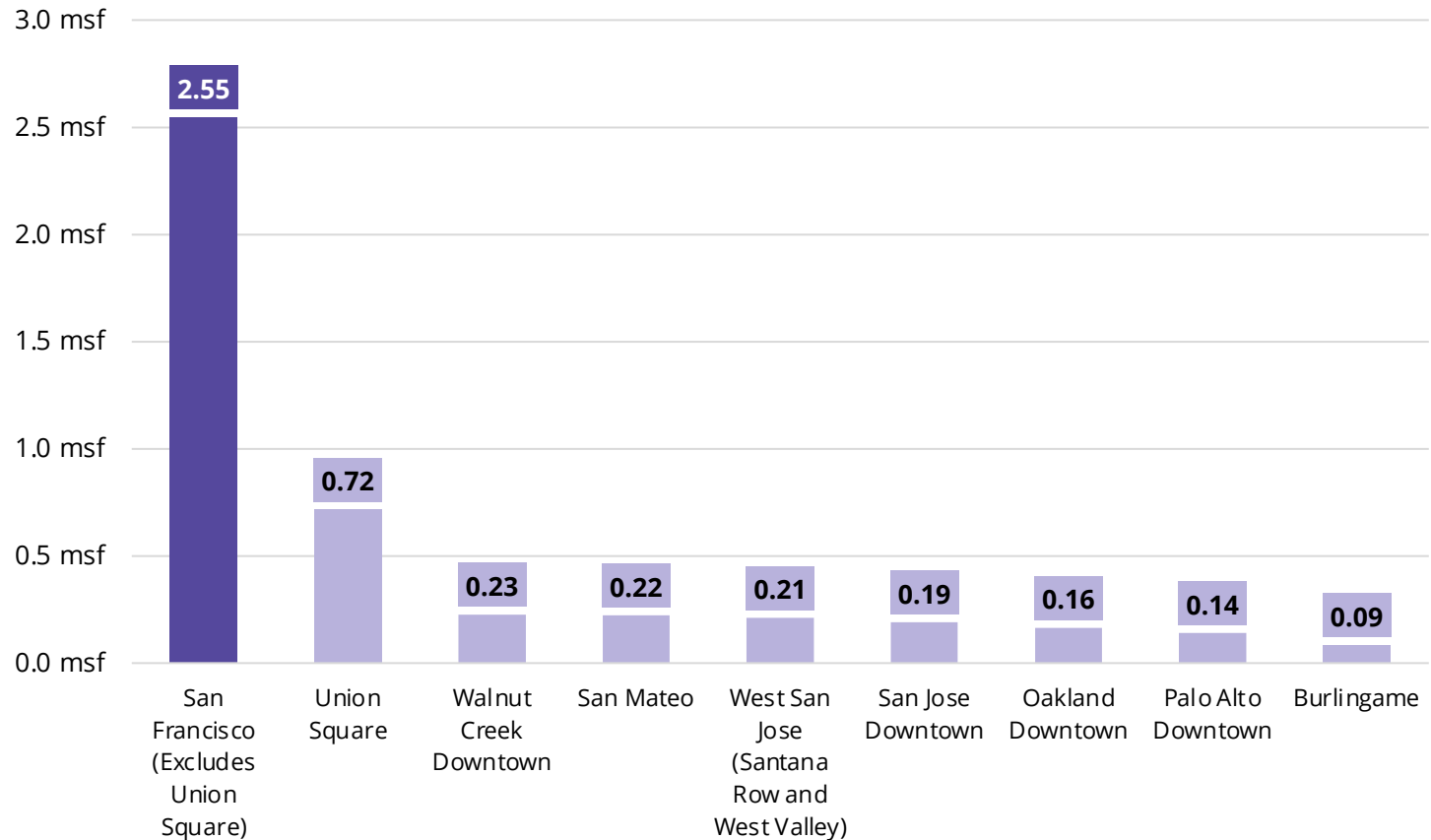
While construction costs only increased by a moderate 0.6% since Q3 2023, they have seen a substantial increase of 39.0% since the start of Covid. This has proven to be a significant deterrent for retailers, as leasing volume has dipped 43.7% quarter-over-quarter. These costs have greatly inhibited new retail business formation in San Francisco, showing an 18.6% decline from the previous quarter.

## +0.1%

### Total retail employment sees increase for the third straight quarter

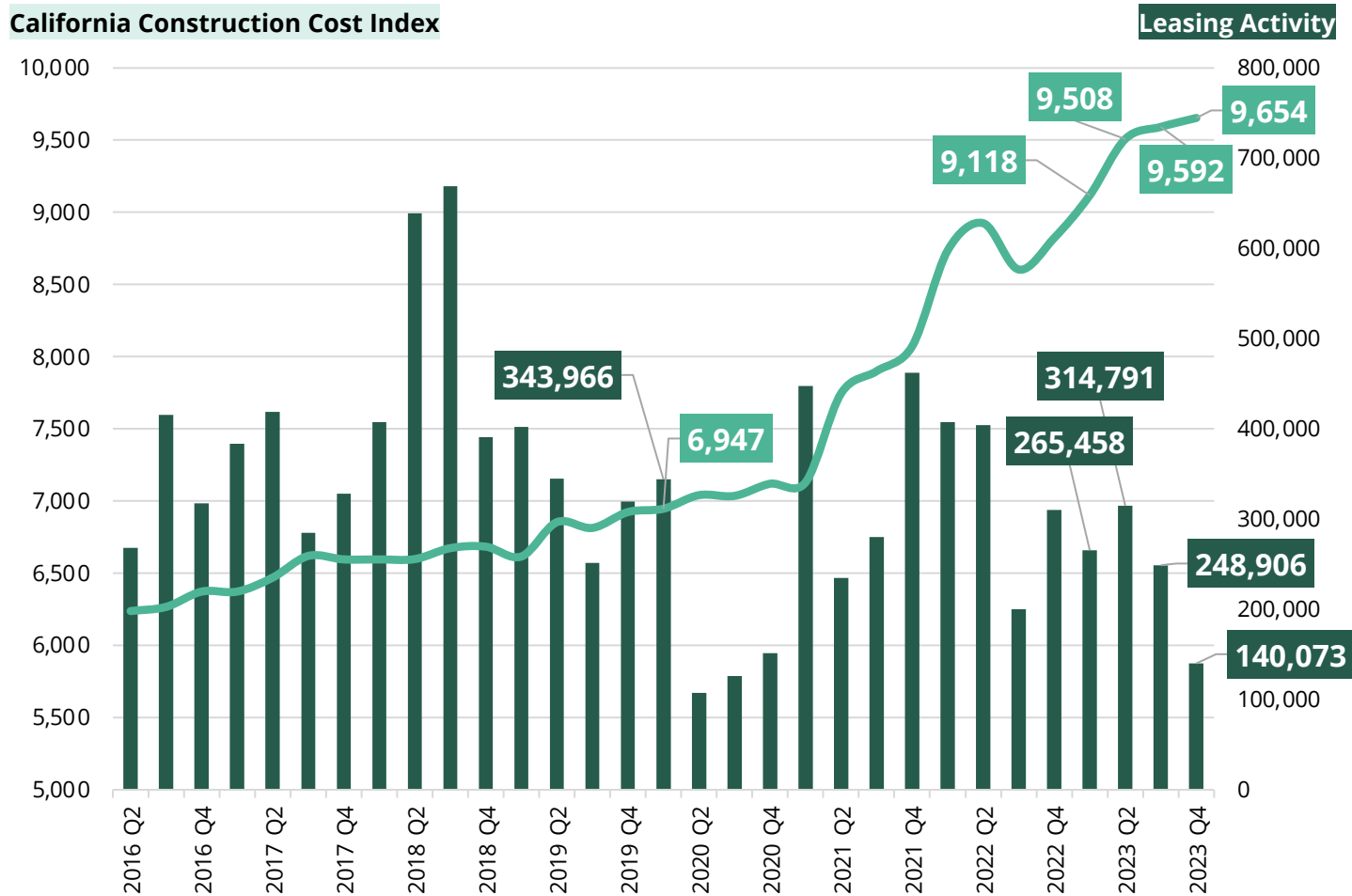
Retail employment has seen an increase for the third straight quarter, with a modest 0.1% increase in Q4. However, total employment is up 37.1% over the same period since last year, suggesting that existing retailers have experienced an increase in demand. The accommodation and food services sector has seen the largest growth, rising 41.7% over the past year, while retail trade experienced the smallest growth at 31.5%.

# Total available square feet by retail hub



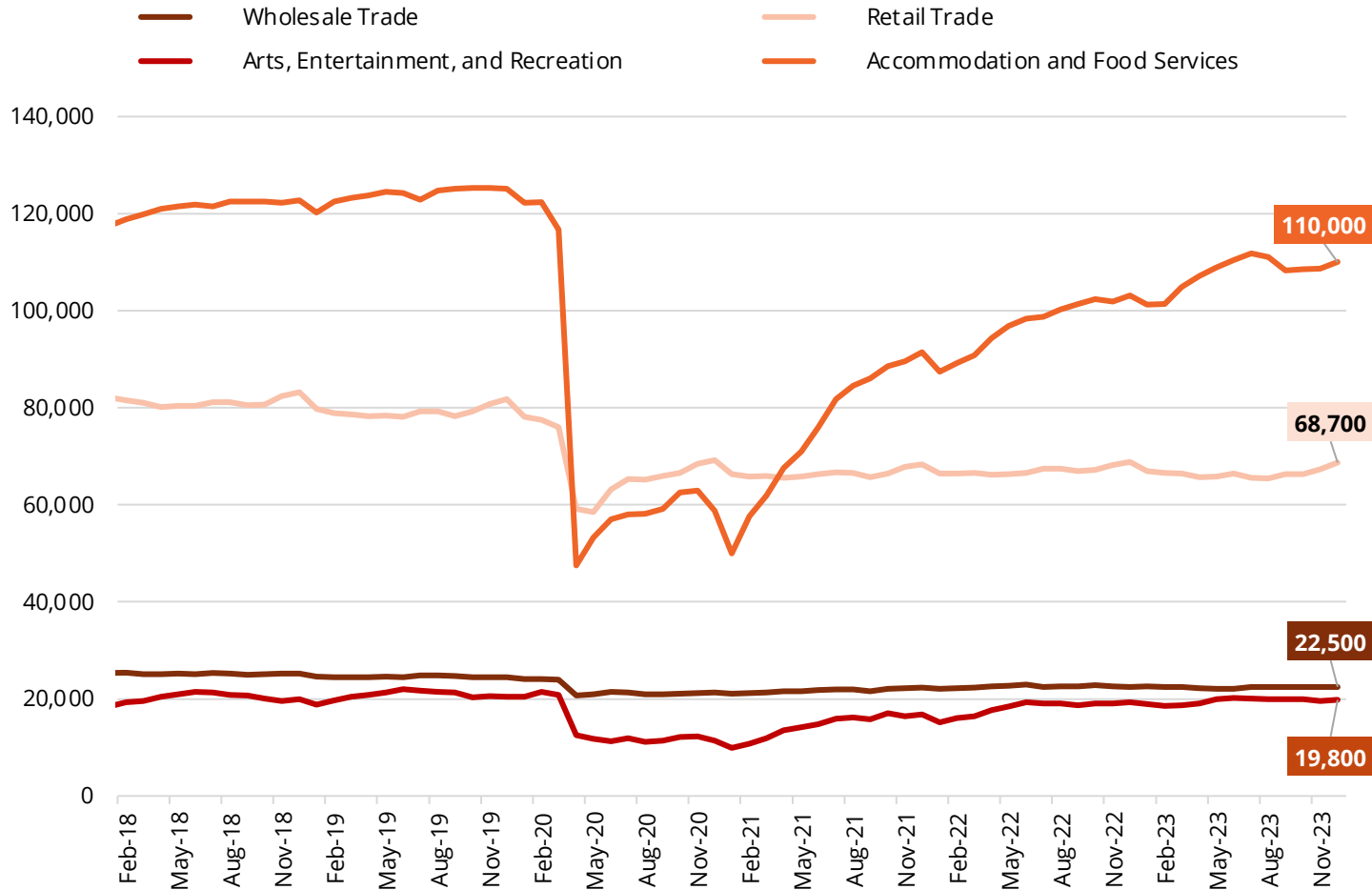
**San Francisco continues to see high availability in the urban core and Union Square, while suburban markets remain competitive.**

# Construction costs vs leasing activity



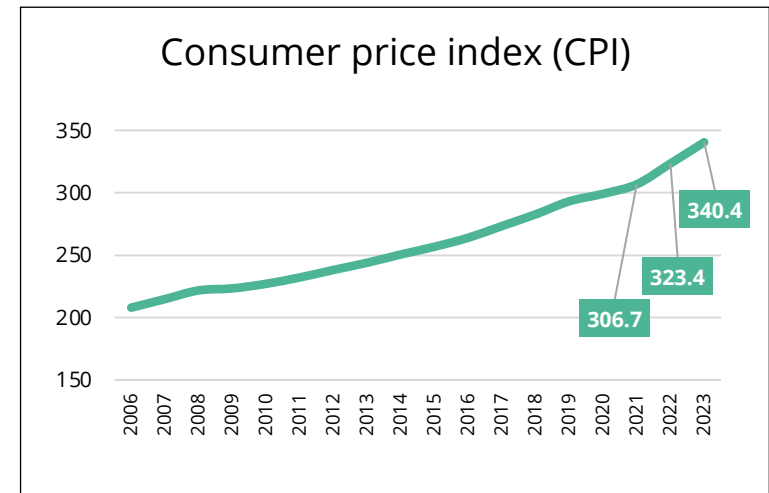
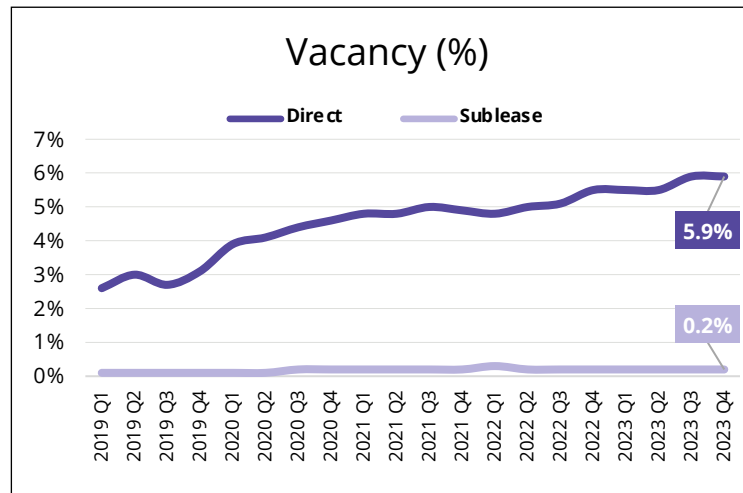
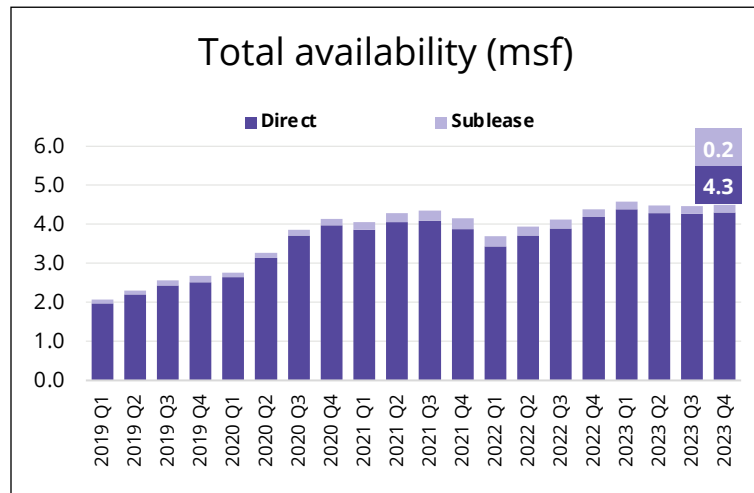
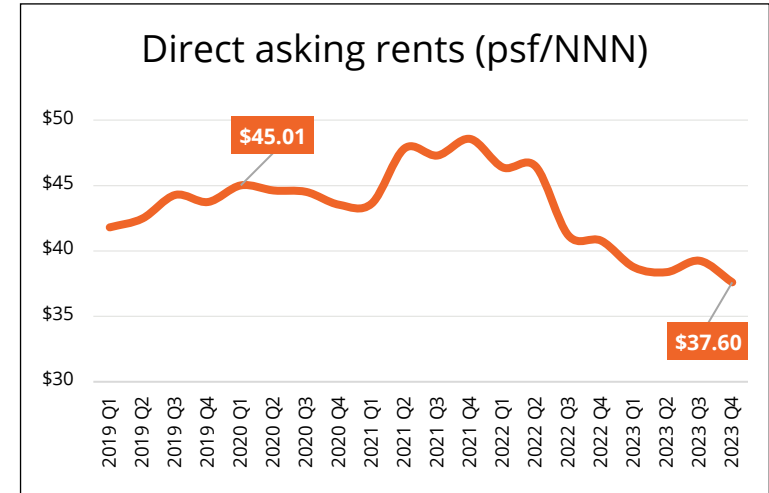
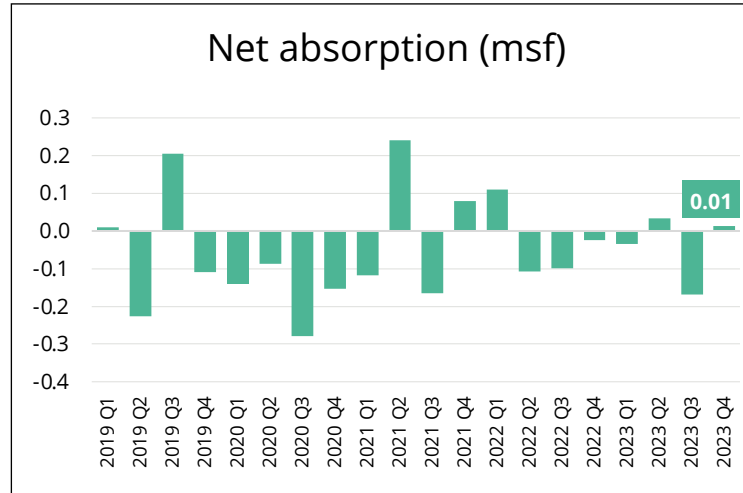
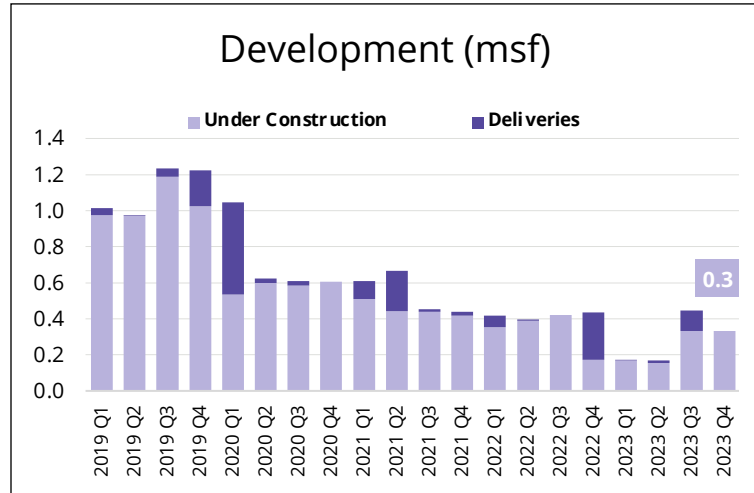
Construction costs have shown signs of stabilizing with only a 0.6% increase since the previous quarter. Leasing activity remains slow in urban areas and many retail tenants continue to prefer pursuing opportunities in suburban markets.

# Employment by sector



Although overall retail employment has shown little change in the last quarter, experiencing only a marginal 0.1% increase, it has seen a significant growth of 37.1% over the past year. However, retail employment has not fully recovered since before the pandemic, with a 9.8% decrease.

# Bay Area retail market indicators





# Bay Area retail market stats

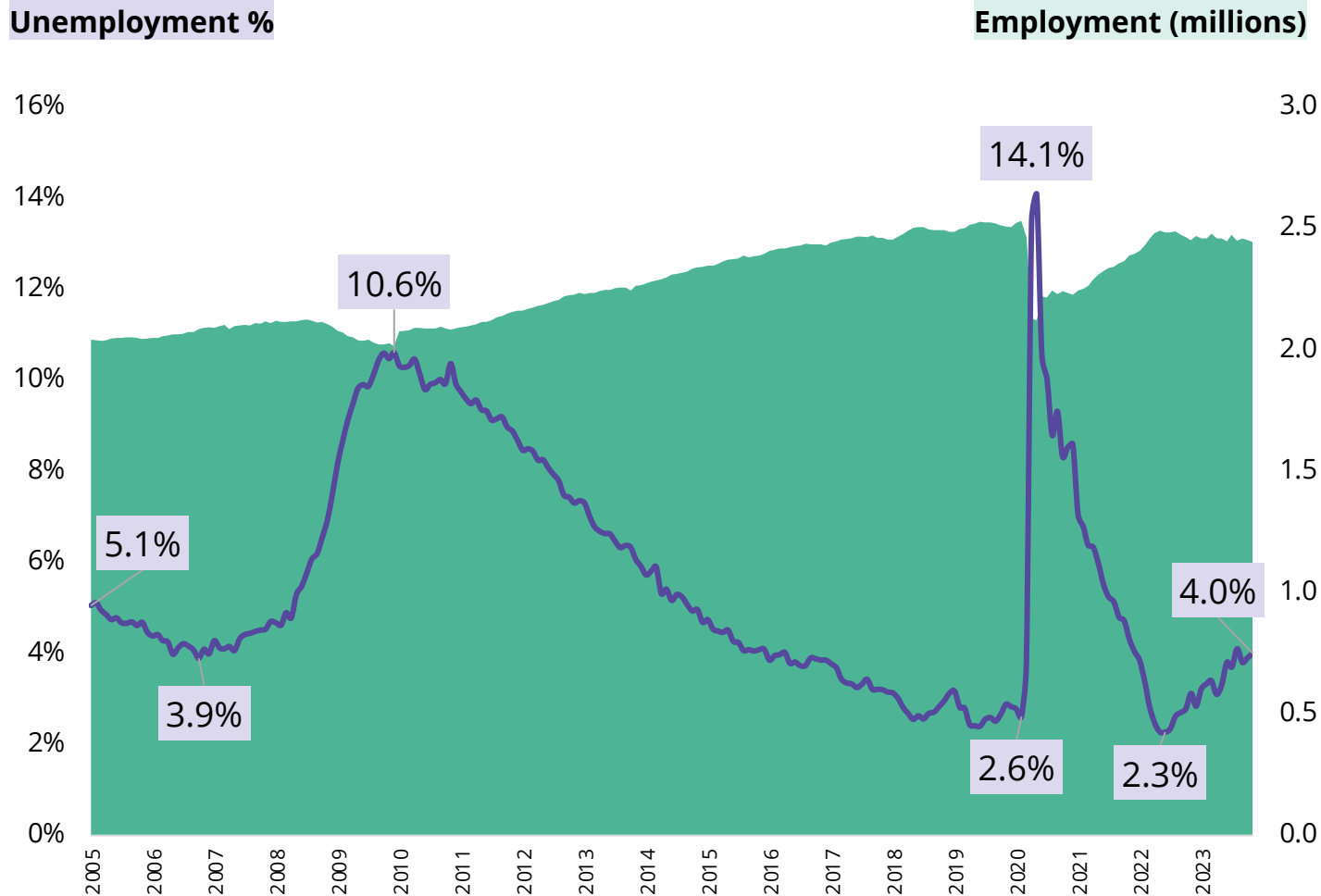
	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)
Union Square	3,260,547	0	20.8%	1.2%	22.0%	(11,021)	2,045
San Francisco (Excludes Union Square)	47,033,873	125,000	5.2%	0.2%	5.4%	(53,916)	(376,514)
Burlingame	2,332,372	0	3.2%	0.5%	3.7%	(24,491)	7,361
San Mateo	4,891,690	0	4.4%	0.1%	4.5%	13,335	25,697
Palo Alto Downtown	2,819,309	41,850	3.9%	1.1%	5.0%	(5,760)	(52,903)
West San Jose (Santana Row and West Valley)	6,607,788	166,058	2.7%	0.5%	3.2%	856	61,057
San Jose Downtown	3,249,936	0	5.8%	0.0%	5.9%	20,194	(14,061)
Oakland Downtown	3,197,501	0	5.1%	0.0%	5.1%	5,530	58,361
Walnut Creek Downtown	5,167,638	0	4.4%	0.0%	4.4%	68,976	104,407
<b>Market total</b>	<b>78,560,654</b>	<b>332,908</b>	<b>5.5%</b>	<b>0.3%</b>	<b>5.7%</b>	<b>13,703</b>	<b>(184,550)</b>

# San Francisco economic trends



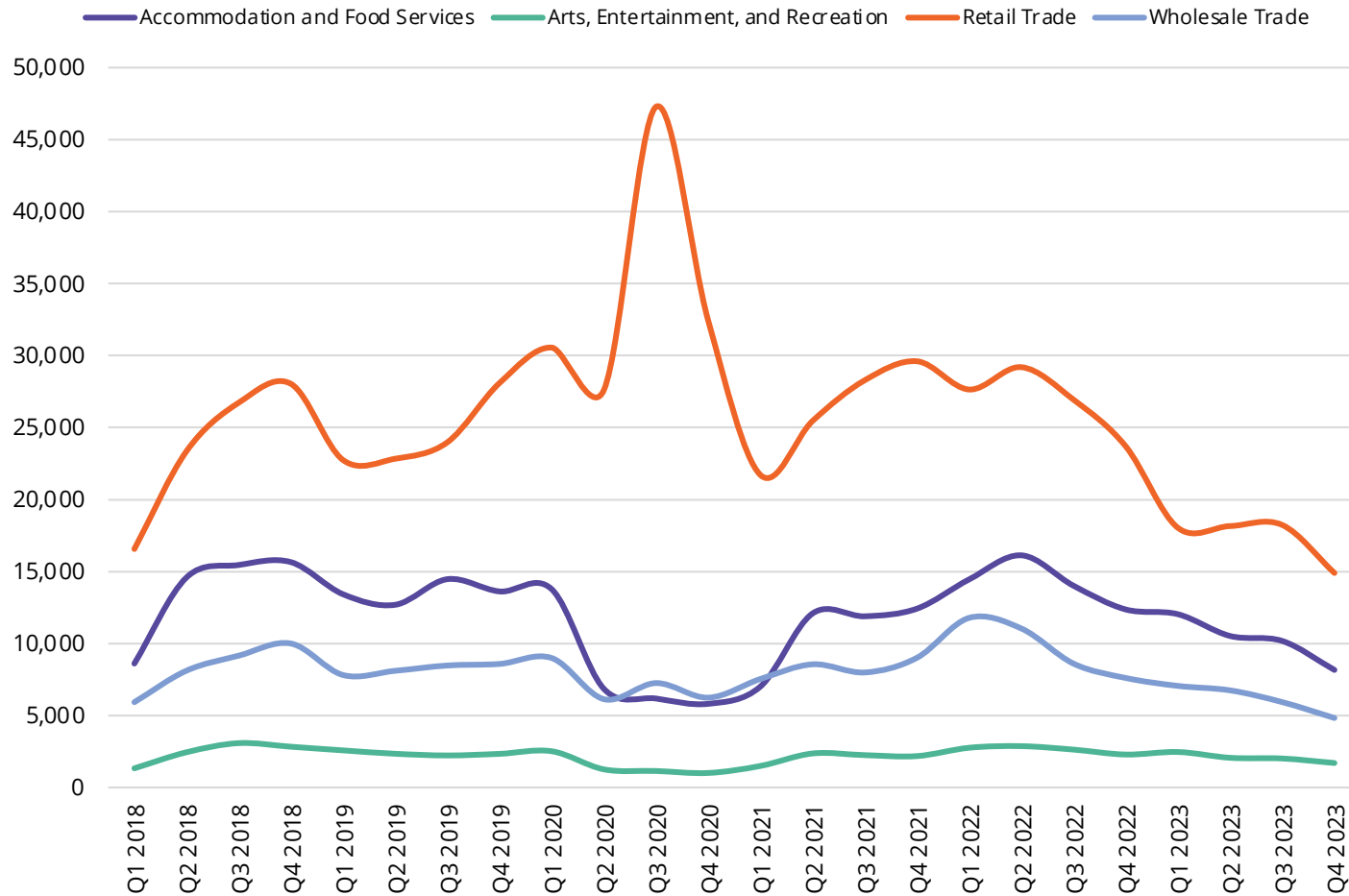


# Employment and unemployment rate



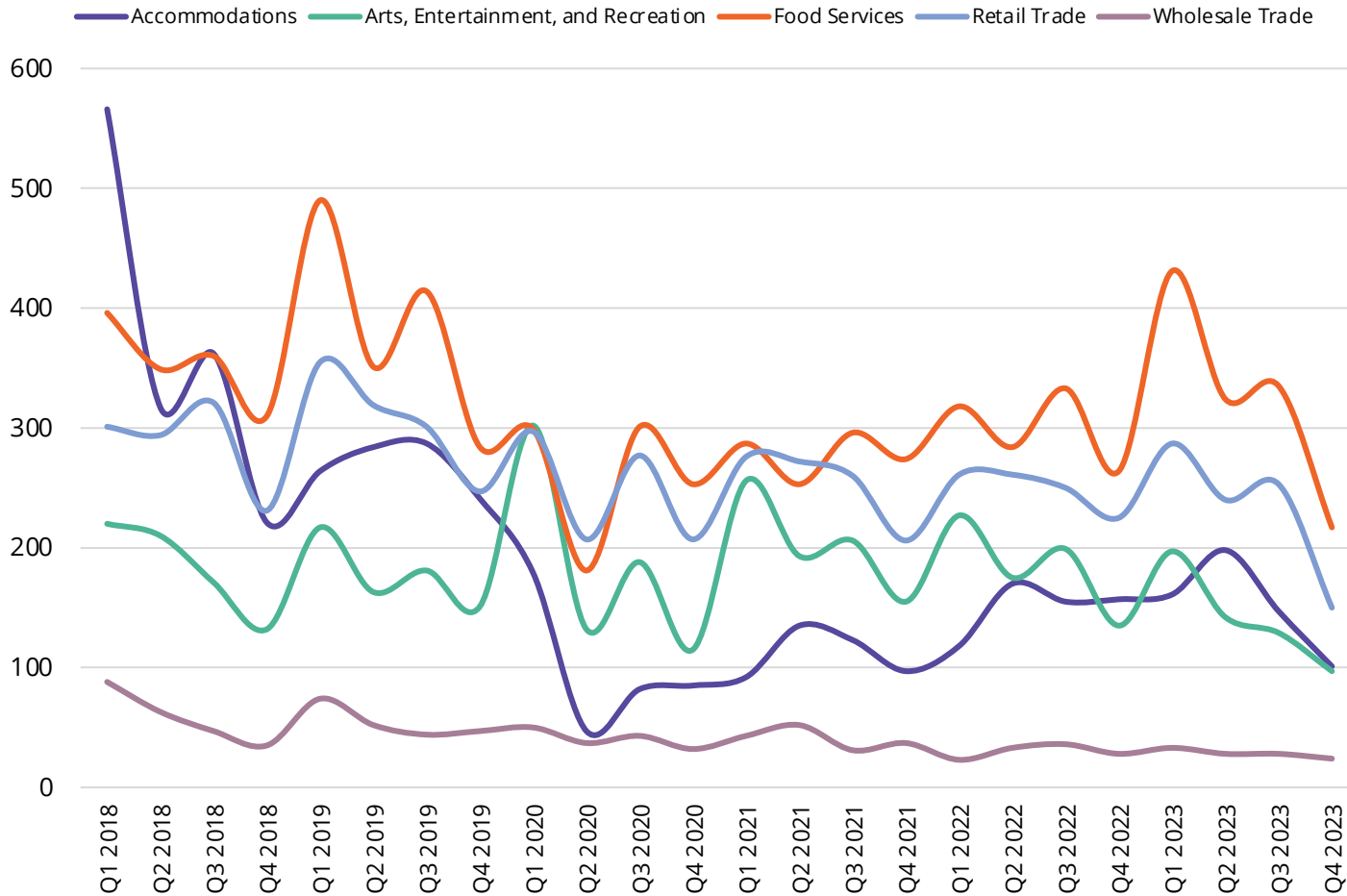
**San Francisco's unemployment has crept up to 4.0% this quarter after bottoming out in June 2022 at 2.3%. This follows the latest rate hikes in July, as the Federal Reserve continues to combat rising inflation.**

# Retail job postings



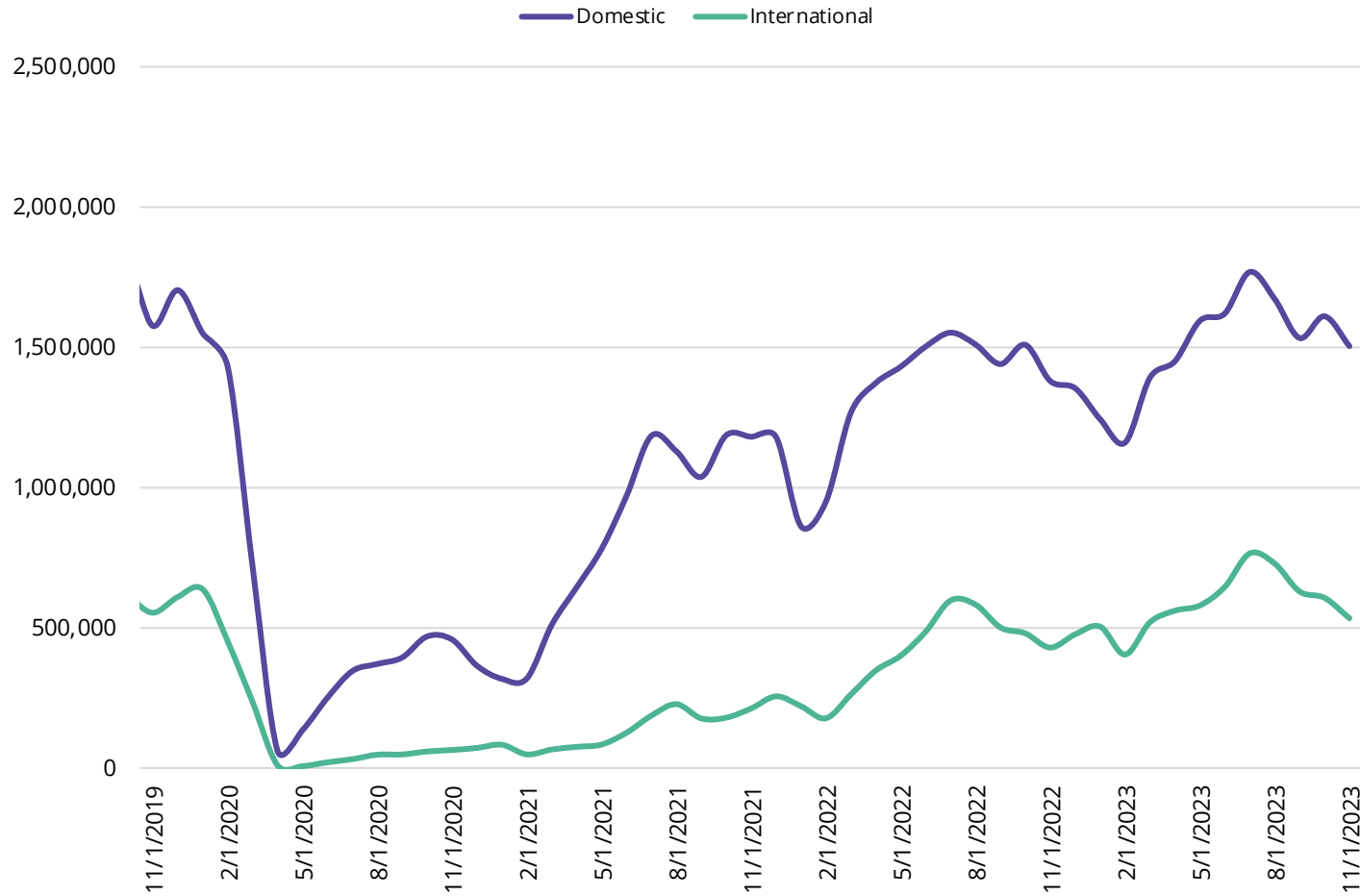
**Overall retail job postings fell 18.6% from the previous quarter. The retail trade and accommodation and food services sectors both fell 18.3% and 19.8% respectively.**

# San Francisco newly registered businesses



**Overall macroeconomic conditions severely impacted new retail business formation in Q4, with the total number of new businesses dropping 27.2% from the previous year.**

# SFO incoming passengers



**SFO's total deplanements has seen a 4.6% increase since COVID, suggesting that tourism has recovered.**



# Retail insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Retail rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** retail sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and  
information visit **avisonyoung.com**

**Louis Thibault**

Senior Market Intelligence Analyst  
Northern California  
+ 1 415 322 5058  
Louis.Thibault@avisonyoung.com

**Dina Gouveia**

West Regional Lead, Market Intelligence  
+ 1 415 322 5063  
Dina.Gouveia@avisonyoung.com

**Howard Huang**

Market Intelligence Analyst  
Northern California  
+ 1 510 254 4261  
Howard.Huang@avisonyoung.com

**Cameron Baird**

Senior Vice President  
+ 1 415 301 3175  
Cameron.Baird@avisonyoung.com  
CA License #01503816

**Andrew Rebennack**

Vice President  
+ 1 415 349 3392  
Andrew.Rebennack@avisonyoung.com  
CA License #02025935