



# Bay Area retail market report

Q2 2023

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**AVISON  
YOUNG**

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# Bay Area retail market trends

## 3.2 msf

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

San Francisco's retail market continues to face headwinds to recovery with the challenged office leasing environment and continuing retail closures. Westfield recently announced plans to hand back the keys of the San Francisco Center – a 1.5MM sq ft retail mall to its lender, furthering the negative outlook for the CBD and Union Square. However, outside of the SF CBD retail and restaurants are reporting record sales, a bright spot in the retail leasing environment.

## + 36.9%

**Construction costs remain a challenge to retailers with planned store expansion**

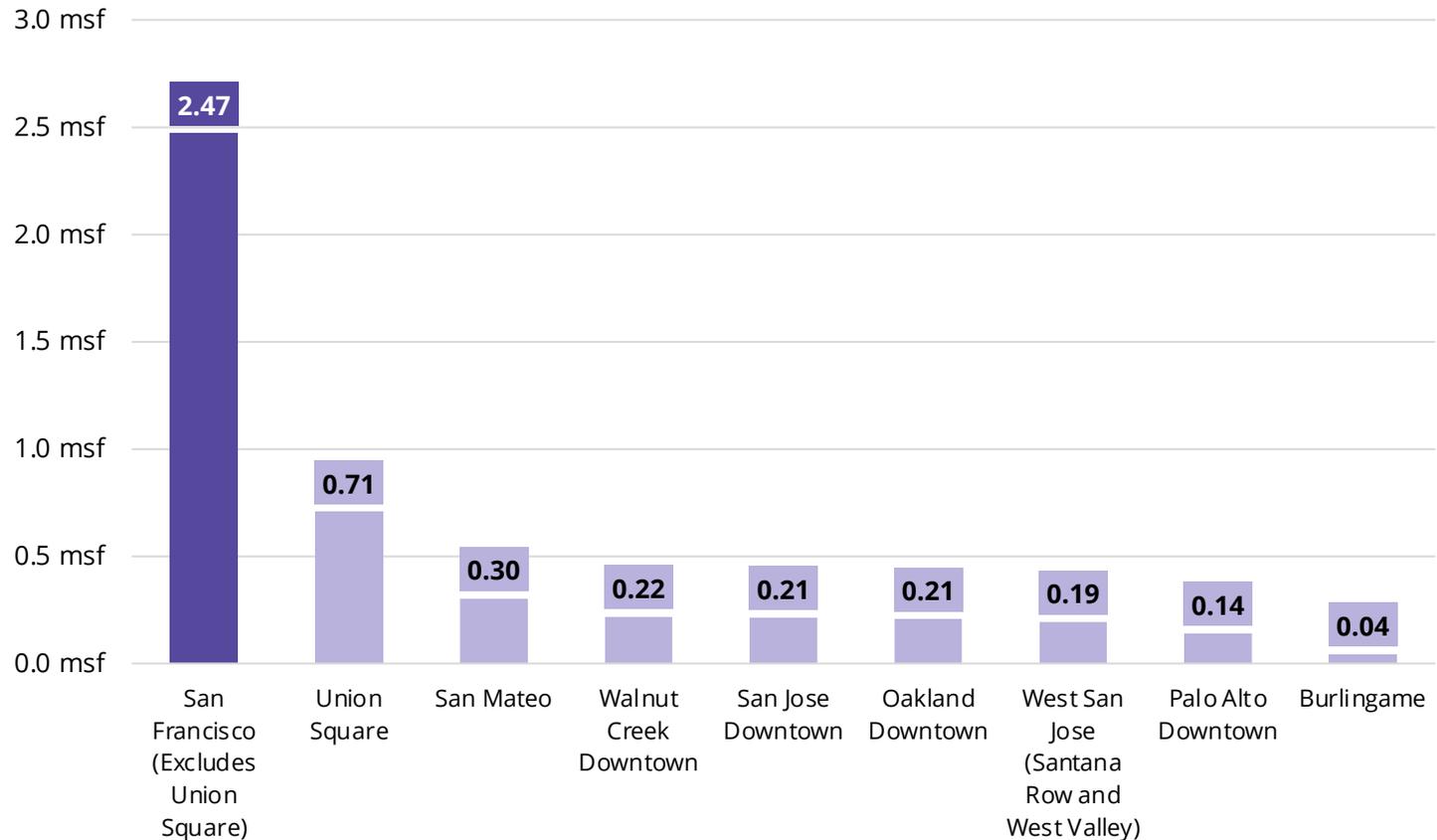
With construction costs rising 36.9% since the pandemic, leasing volume has dipped 22.7% over the same period. Landlords are offering increasingly competitive TI packages to attract new tenants and San Francisco has started offering grants and pilot programs to encourage business openings. This coincides with the lack of formation of new businesses in San Francisco in recent quarters although leasing is increasing and has picked up since the previous quarter, rising 26.3%.

## + 6.2%

**Retail employment down from pre-COVID numbers, but steadily trending upwards**

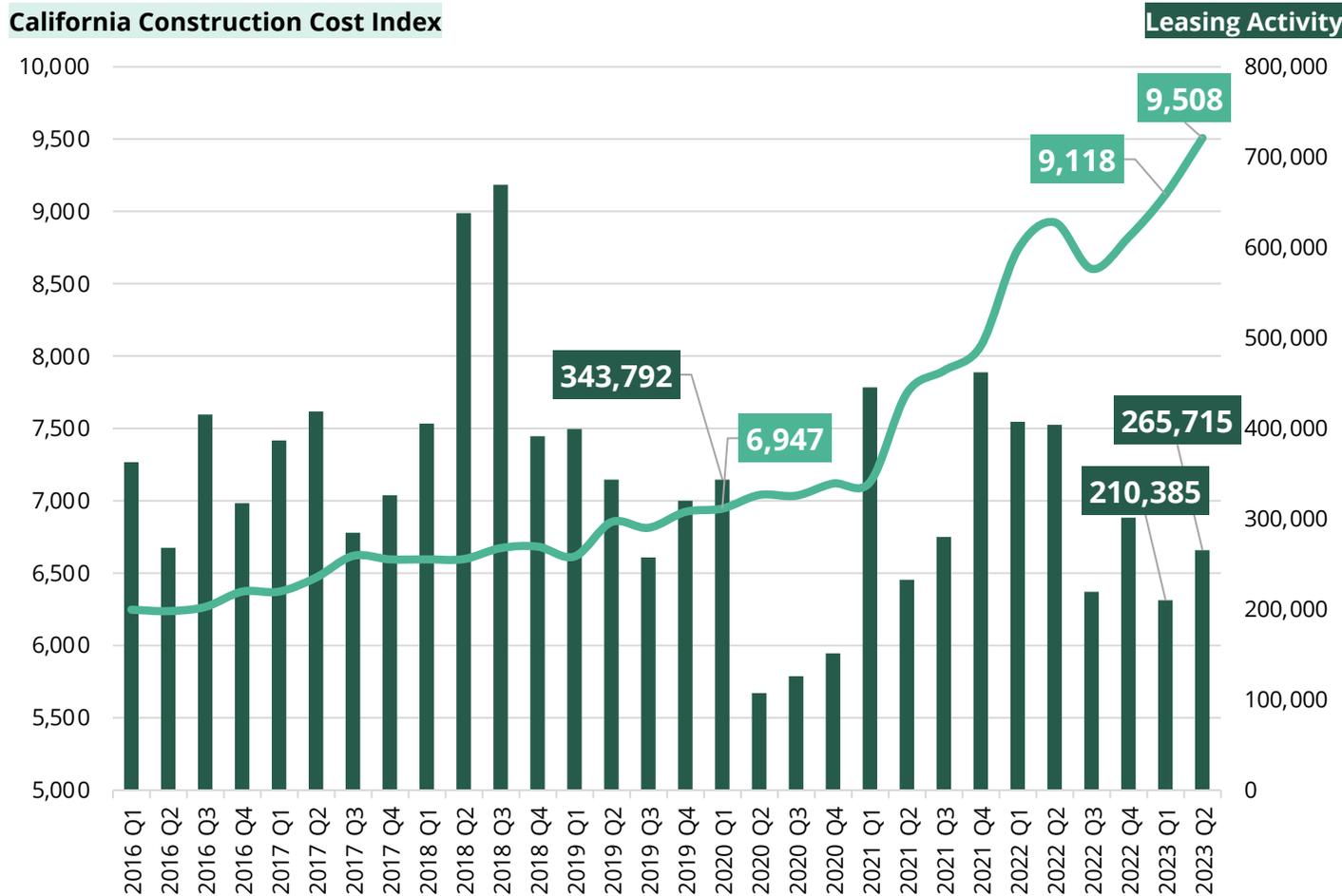
Retail employment declined 10.7% following the pandemic, but total industry employment has increased by 6.2% since Q2 2022. Notably, the accommodation and food services sector has seen the largest growth over the past year, rising 12.8%. Costs of labor continue to weigh down on retailer's bottom line as the San Francisco minimum wage is now \$18.07. Retailers are still reporting a lack of labor availability although workers have been returning to San Francisco.

# Total available square feet by retail hub



**Total available square footage remains high in San Francisco and Union Square as retailers begin to exit the Westfield mall.**

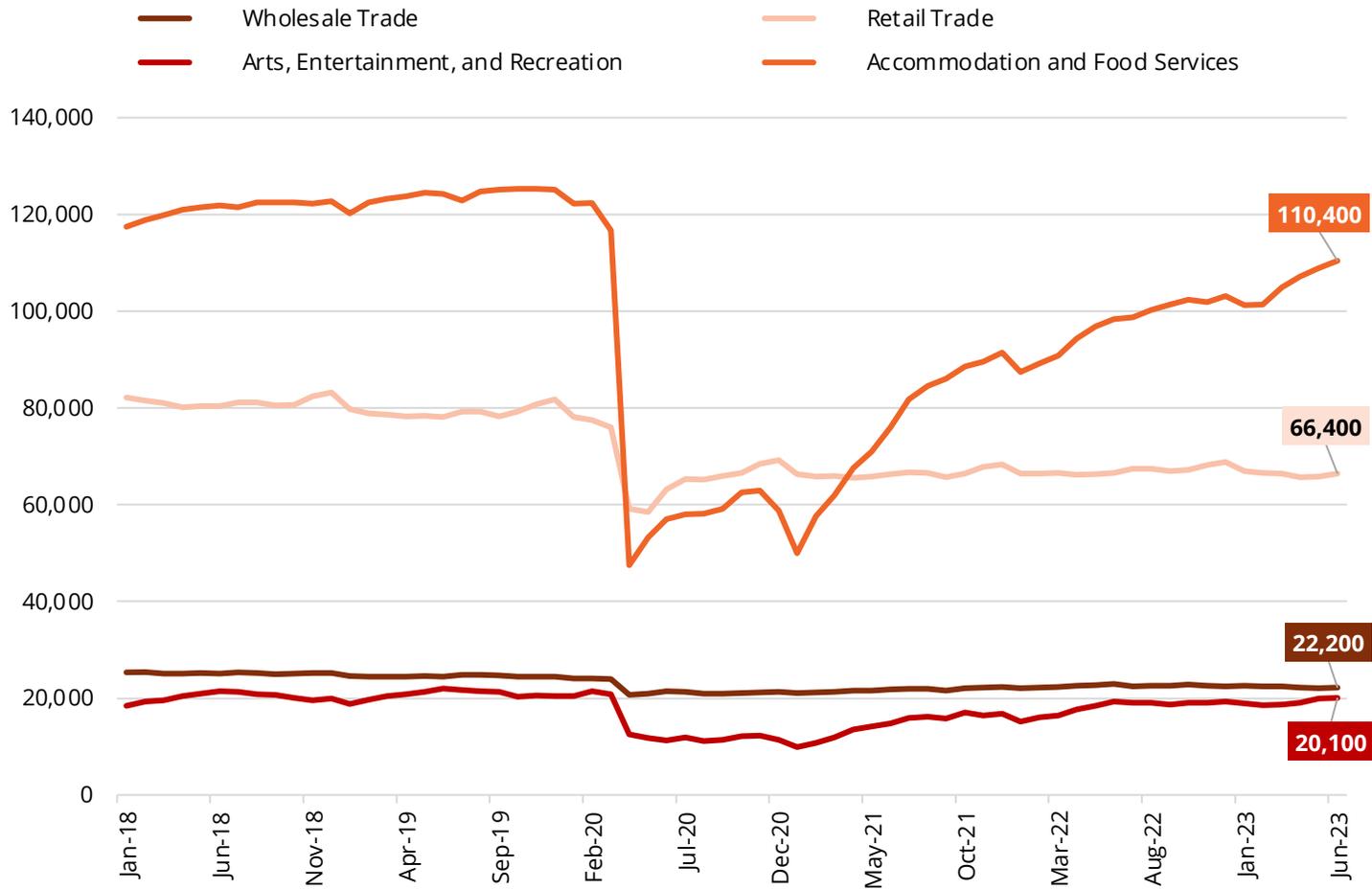
# Construction costs vs leasing activity



Construction costs have continued to rise and are up 4.3% since the previous quarter with many retail tenants now preferring suburban markets.

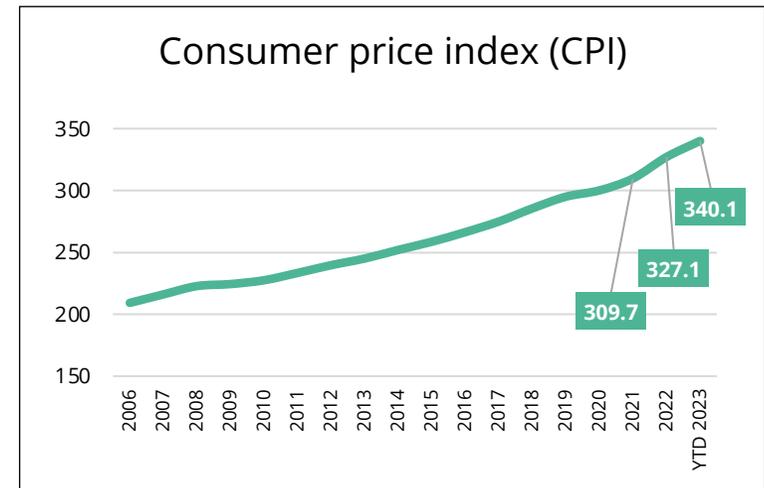
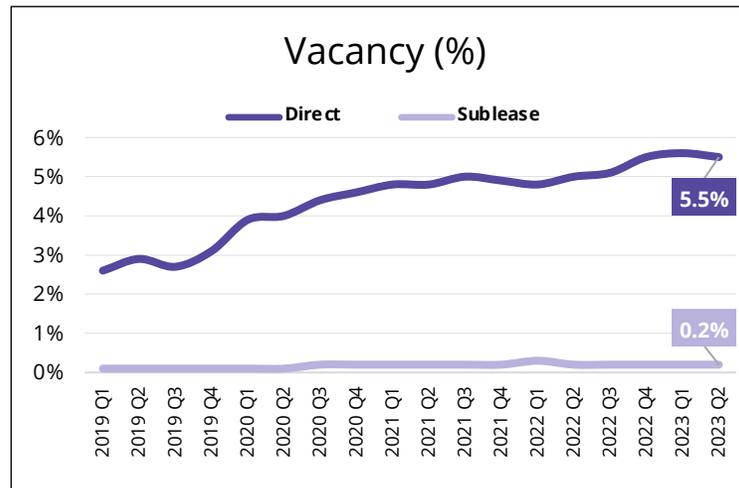
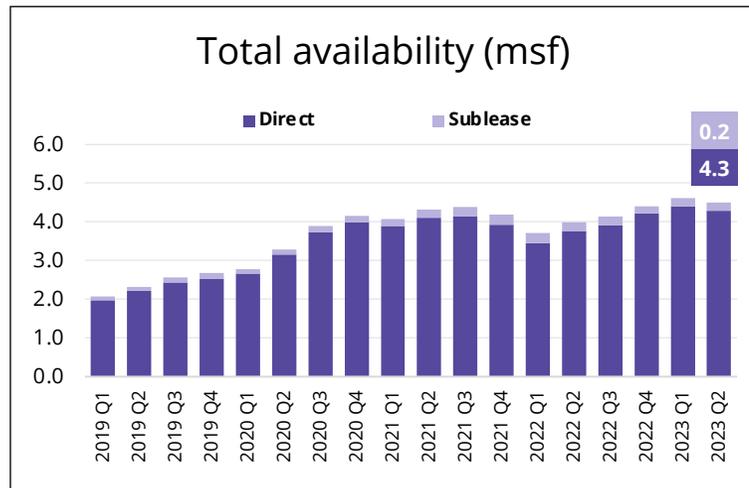
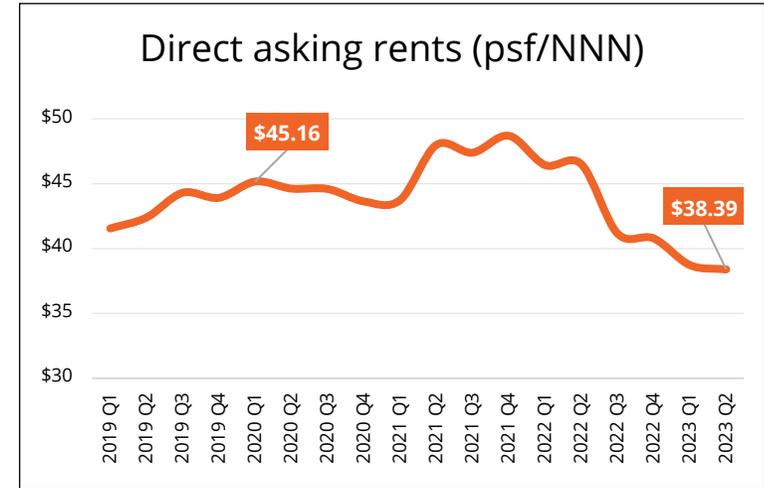
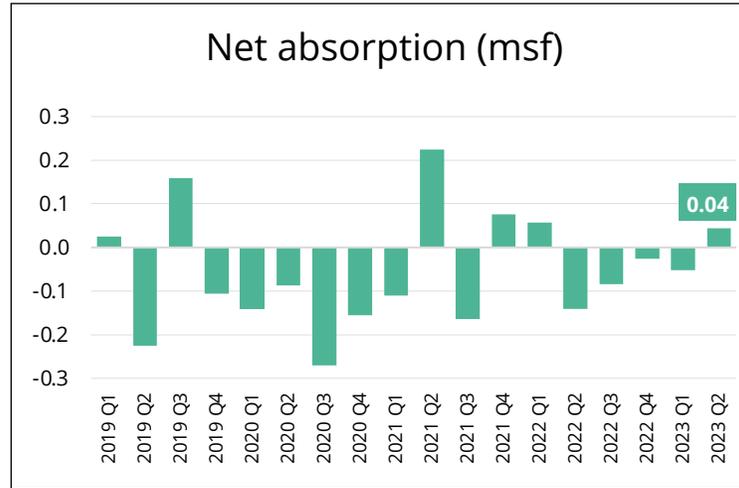
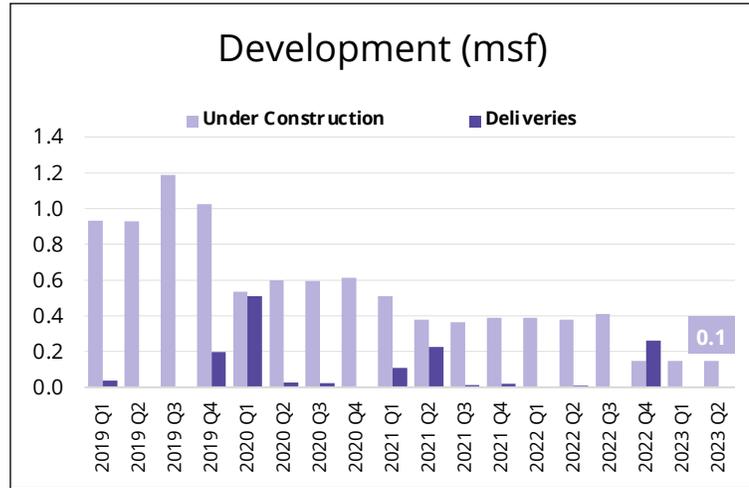
Note: Cost indices average for LA and SF  
Source: California Department of General Services, CoStar

# Employment by sector



**Retail employment declined by 10.7% since the pandemic, but total industry employment increased by 6.2% since Q2 2022. Accommodation and food services experienced the largest growth, up 12.8% over the same period.**

# Bay Area retail market indicators



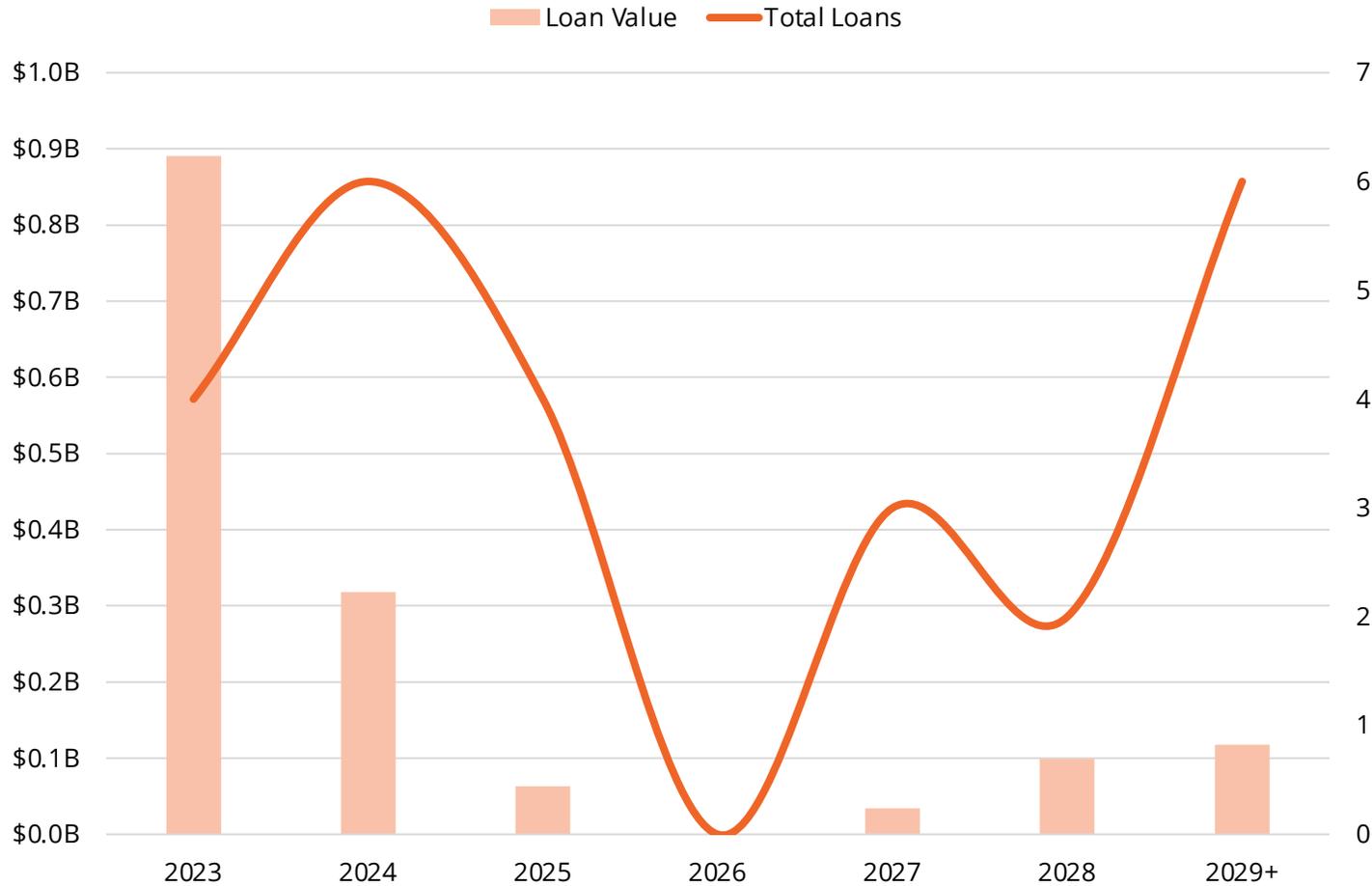
# Bay Area retail market stats

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)
Union Square	3,272,059	0	21.0%	0.6%	21.6%	22,419	7,111
San Francisco (Excludes Union Square)	46,876,734	0	5.0%	0.2%	5.3%	(73,264)	(65,064)
Burlingame	2,281,015	0	1.9%	0.0%	1.9%	4,857	32,089
San Mateo	5,198,938	0	5.5%	0.3%	5.8%	20,457	(22,783)
Palo Alto Downtown	2,808,129	43,581	4.1%	0.9%	5.0%	(28,025)	(44,712)
West San Jose (Santana Row and West Valley)	6,514,887	27,781	2.5%	0.5%	3.0%	12,850	49,535
San Jose Downtown	3,182,091	0	6.6%	0.0%	6.7%	12,700	(2,467)
Oakland Downtown	3,177,420	0	6.4%	0.1%	6.5%	33,493	8,554
Walnut Creek Downtown	5,112,958	75,000	4.1%	0.1%	4.2%	38,098	29,327
<b>Market total</b>	<b>78,424,231</b>	<b>146,362</b>	<b>5.5%</b>	<b>0.3%</b>	<b>5.7%</b>	<b>43,585</b>	<b>(8,410)</b>

# San Francisco economic trends

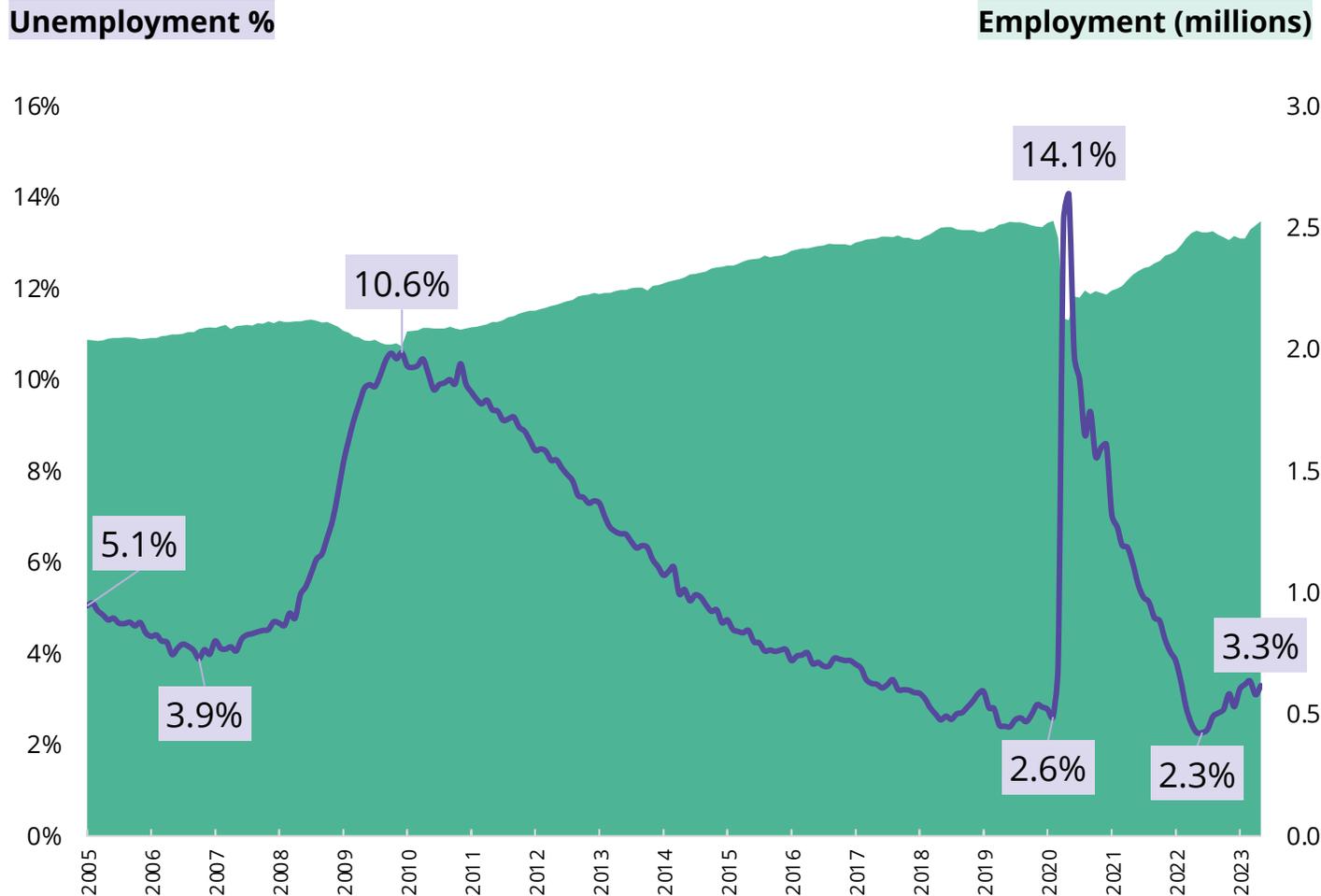


# Current CMBS loan maturities



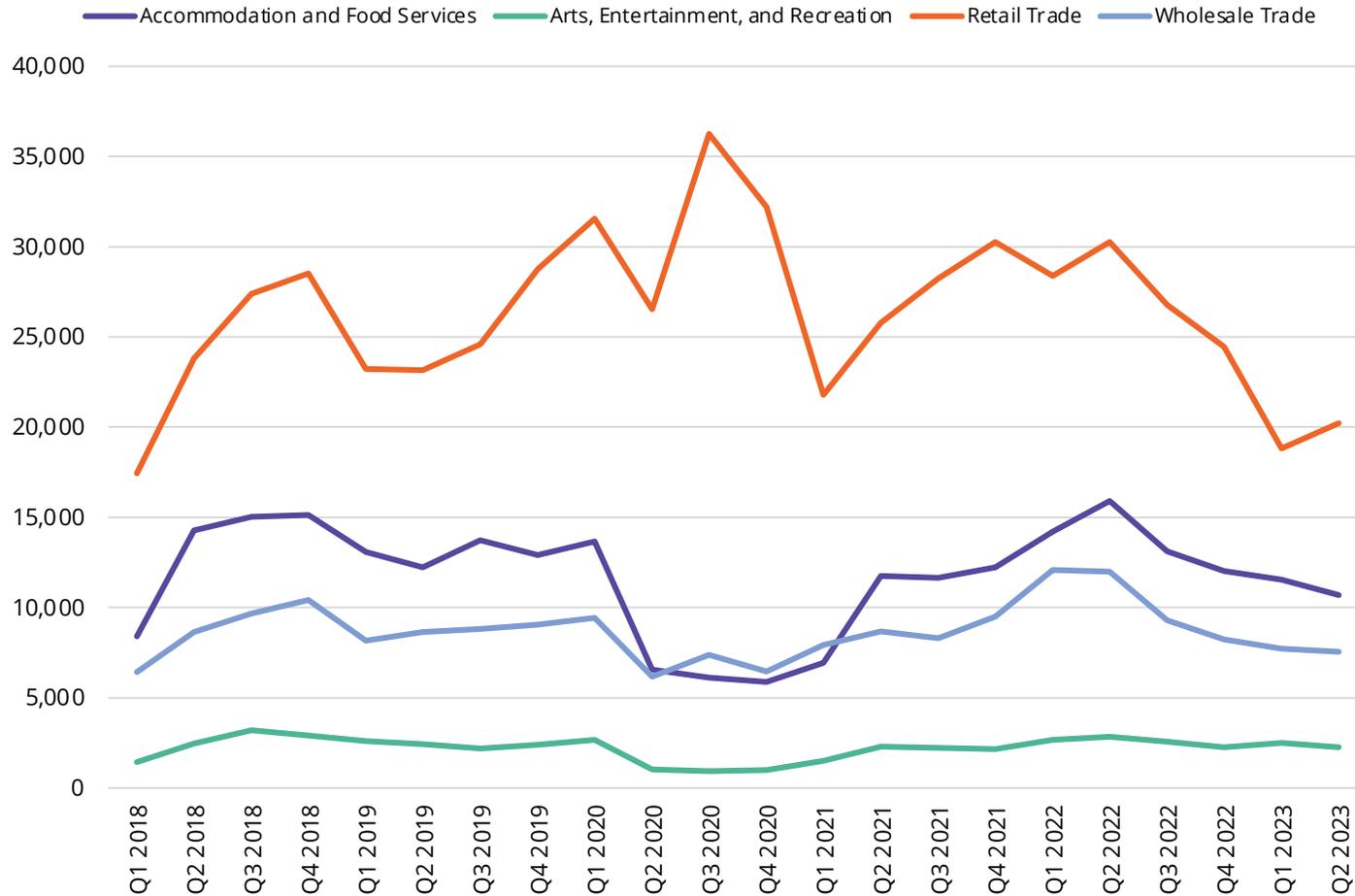
**San Francisco's retail market currently holds the 4<sup>th</sup> highest national CMBS loan balance set to expire before the end of 2024. This includes \$1.2B of loan maturities spread across 10 properties.**

# Employment and unemployment rate



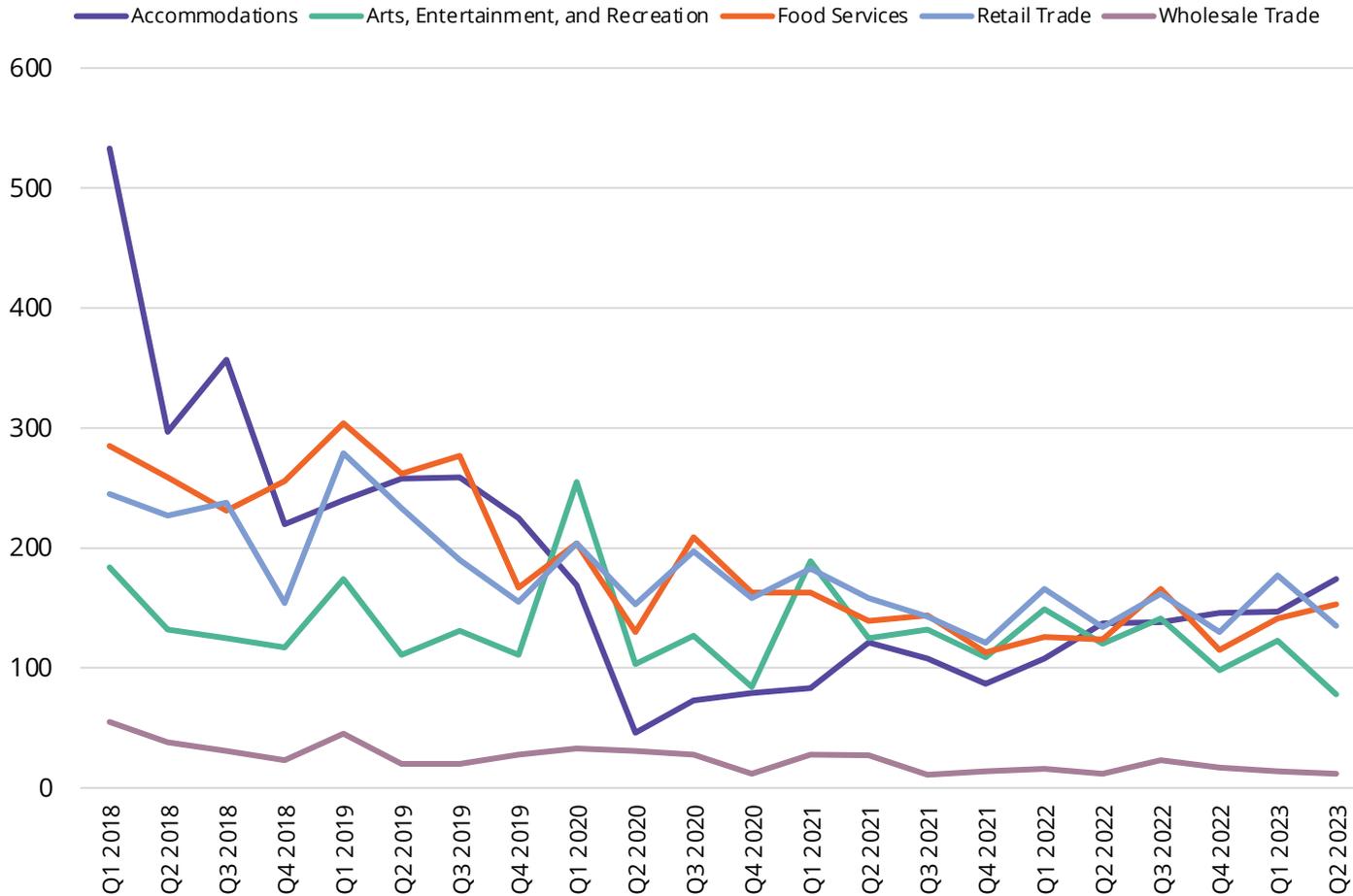
**San Francisco's unemployment has stabilized at 3.3% this quarter after bottoming out in June 2022 at 2.3%. This follows a period of significant layoffs, which have since slowed.**

# Retail job postings



**Overall retail job postings stabilized, with a slight 0.3% increase from the previous quarter. Retail trade saw a 7.4% uptick, while other sectors had negligible decreases.**

# San Francisco newly registered businesses



**New retail business formation in Q2 was lackluster, with an 8.3% decrease from the previous quarter due to soaring construction costs.**

# 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  
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