



Bay Area retail market report

Q1 2023

**AVISON
YOUNG**

Bay Area retail market trends

3.3 msf

Total San Francisco retail availability including Union Square and surrounding areas

San Francisco's retail market has closely mirrored the sluggish recovery of the office market. With a slow return to office and an increased crime rate, downtown retail businesses have struggled to perform and attract customers at the same rate as before the pandemic. Suburban and neighborhood markets have been less impacted due to a lower dependency on commuters and more stable customer base.

+31.3%

Construction costs soar in California since Q1 2020, slowing overall leasing activity

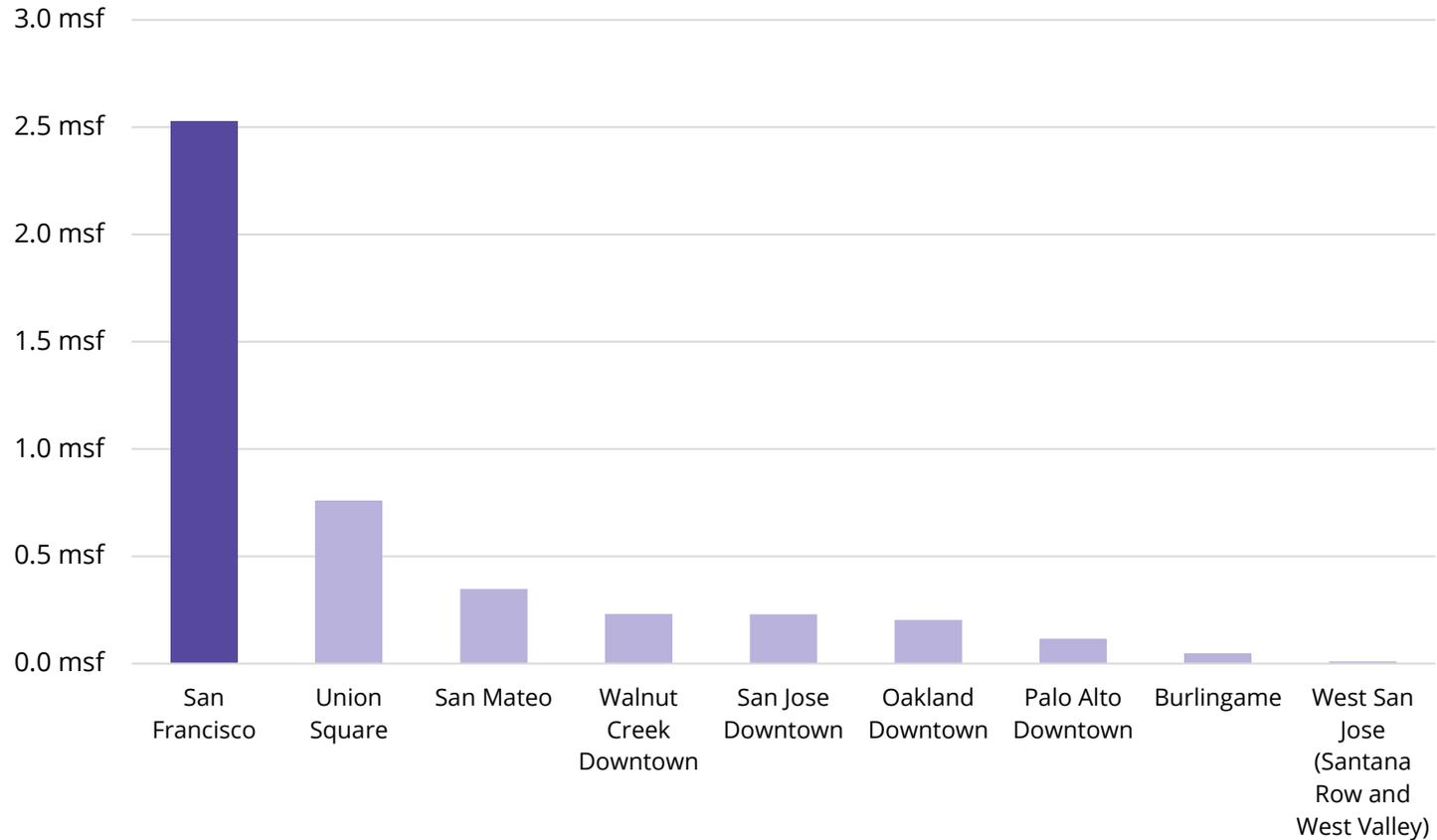
With construction costs rising by 31.3% since Q1 2020, leasing has faltered by 45.4% over the same time period. Tenants are now finding it increasingly difficult to underwrite suitable spaces as construction costs have soared. Many are turning to second generation spaces in order to achieve profitability or completely abandoning projects altogether.

+4.6%

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

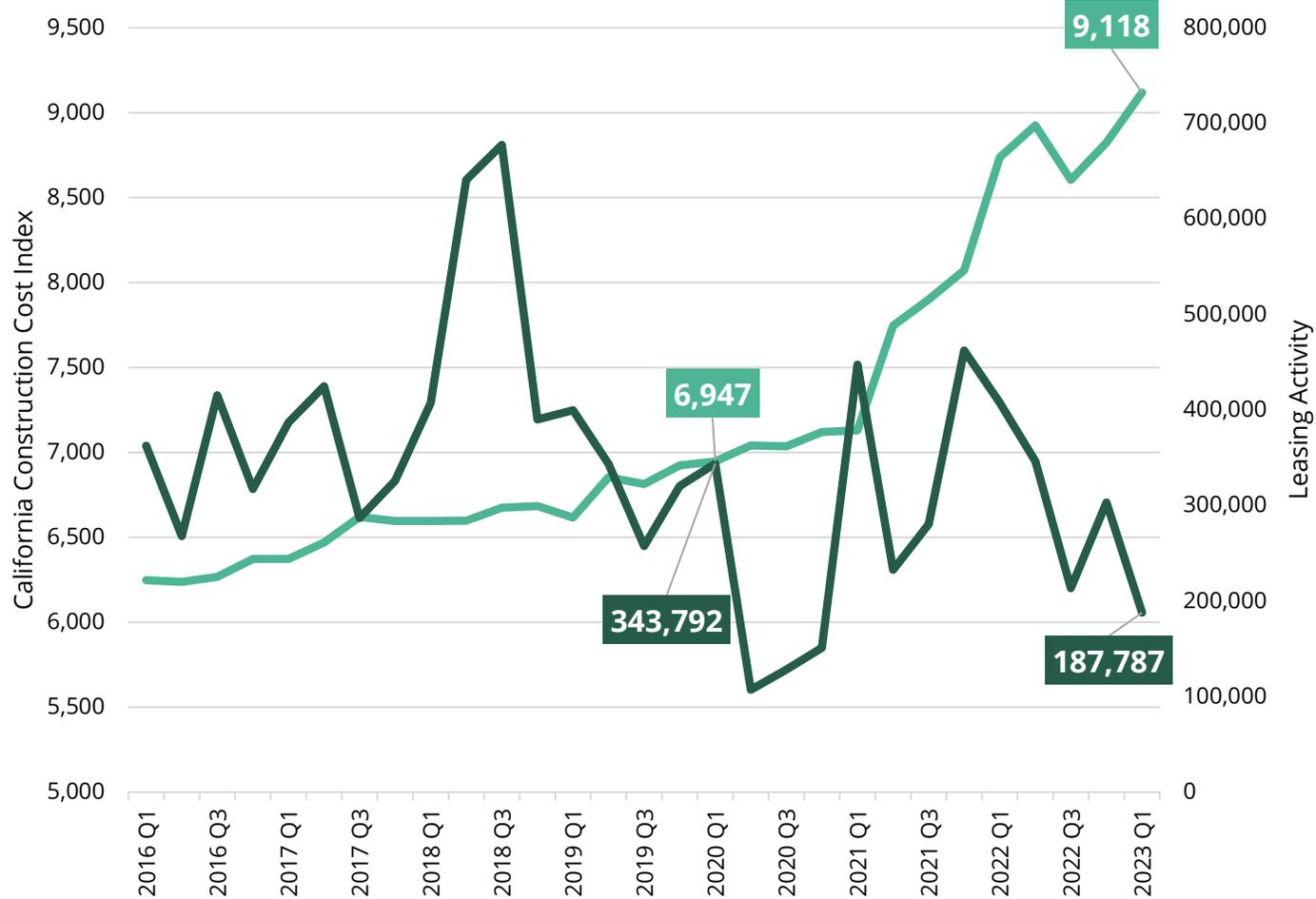
Retail employment has continued its steady recovery since the onset of COVID, rising 42.1% from the recent low of April 2020. Compared to Q1 2022, overall retail employment has also seen an increase of 4.6%. Leisure and hospitality took the biggest hit immediately following COVID, however it has rebounded considerably at 91% as San Francisco tourism remains robust. Despite this, inflation continues to weigh down the market and with the rising cost of labor, it will take time for a full market recovery.

Total available square feet by retail hub



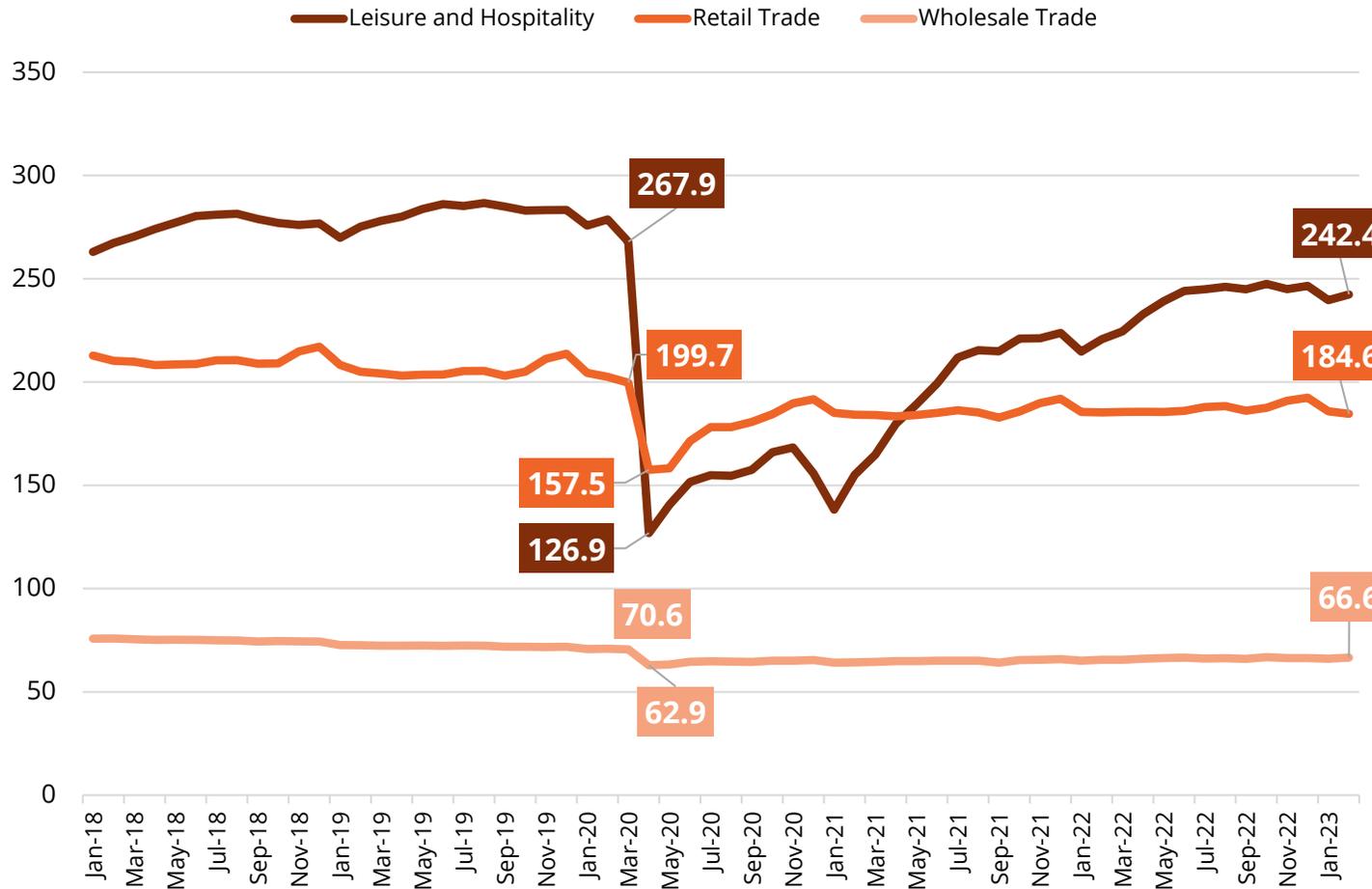
Total available square footage remains high in San Francisco downtown and Union Square.

Construction costs vs leasing activity



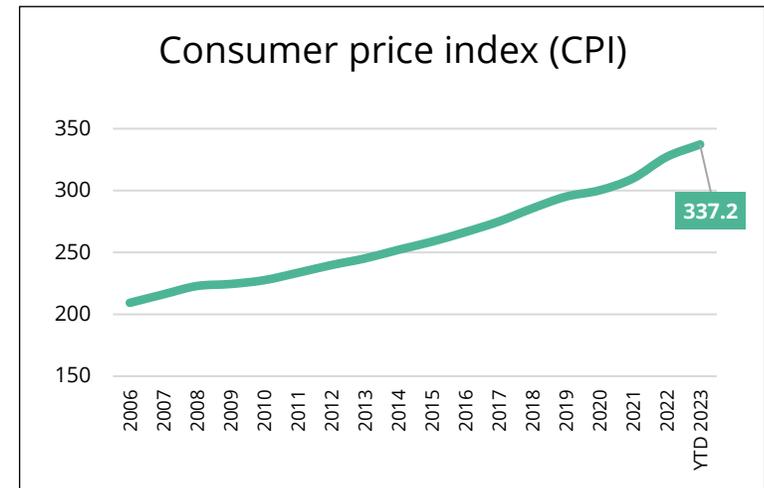
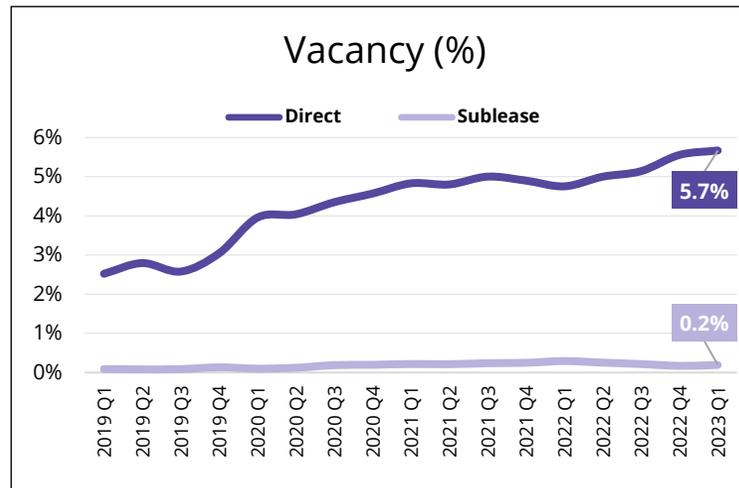
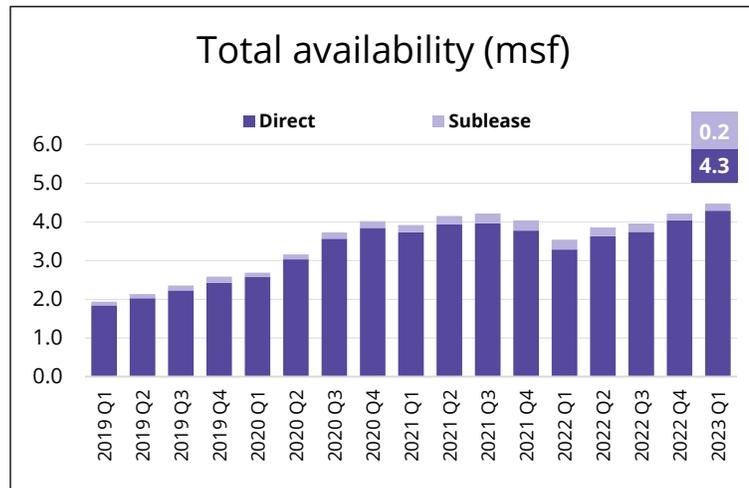
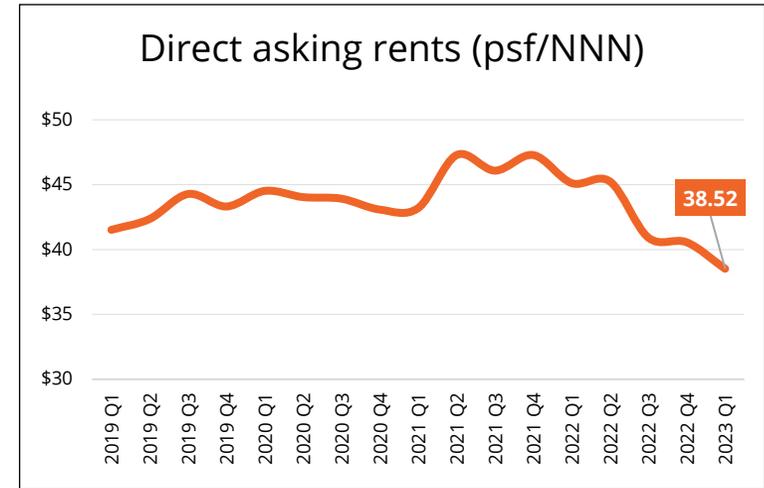
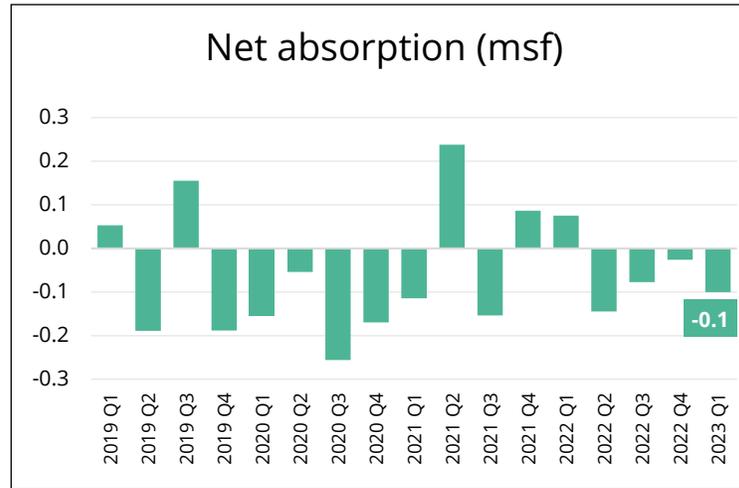
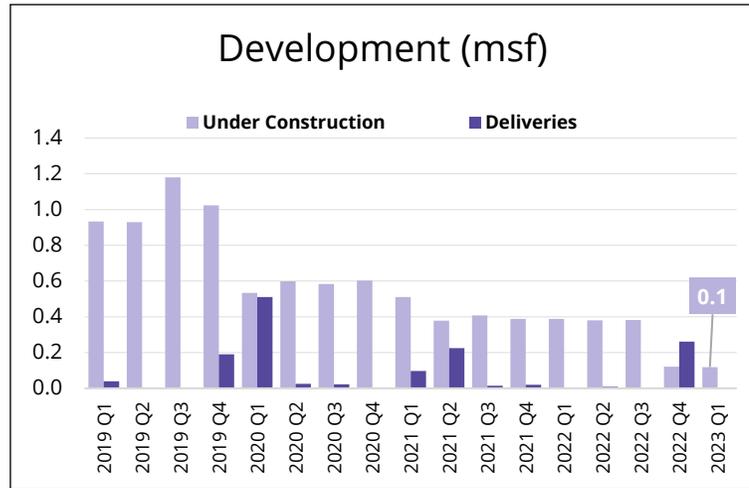
Construction costs have increased by 31.3% since the onset of COVID, pricing out many prospective retail tenants.

Employment (thousands) by sector



Retail employment has declined by 8.3% since the pandemic but is up 4.6% YoY.

Bay Area retail market indicators



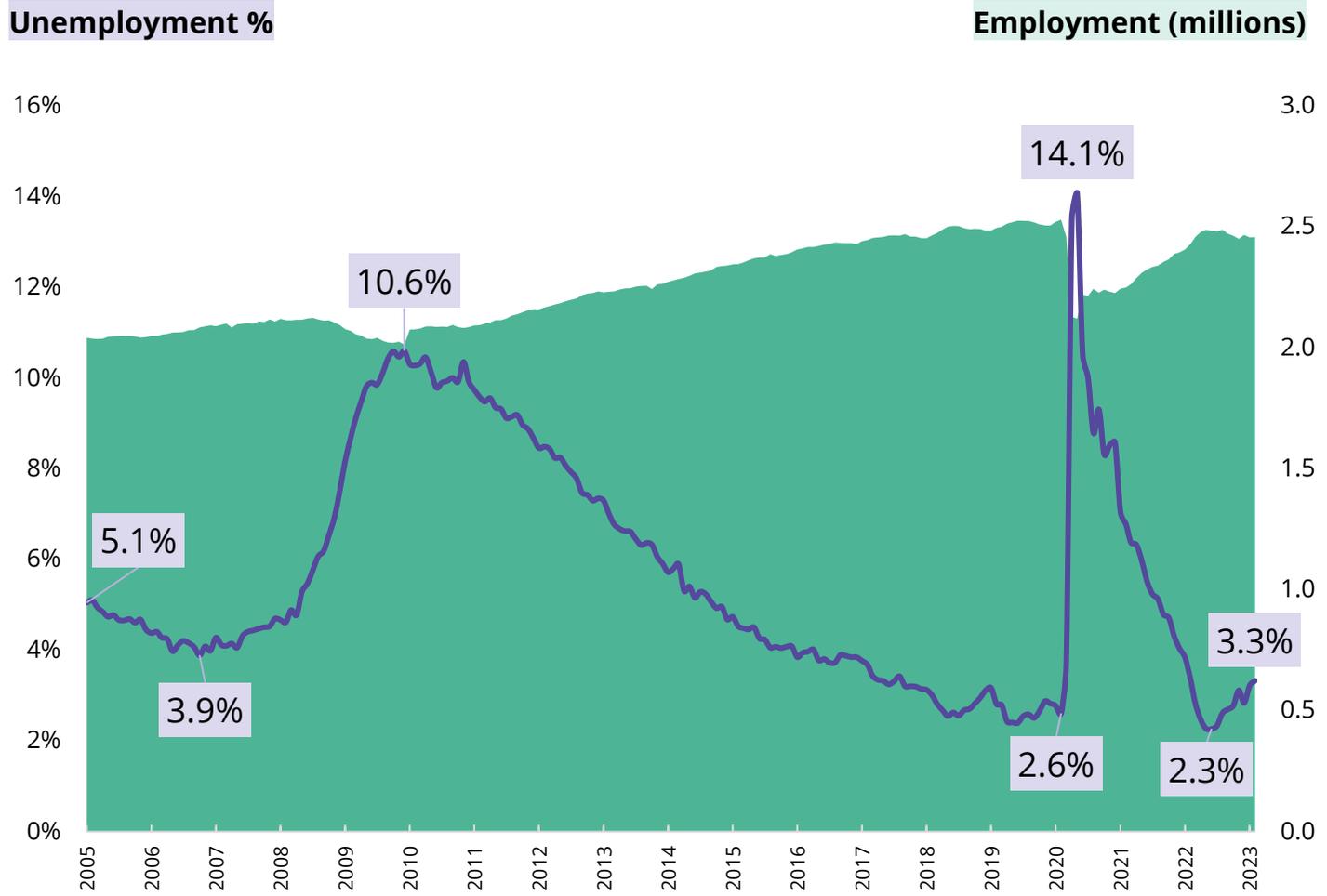
Bay Area retail market stats

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)
Union Square	3,239,060	-	22.9%	0.6%	23.5%	(15,308)	(15,308)
San Francisco	46,654,700	-	5.1%	0.3%	5.4%	86	86
Burlingame	2,281,015	-	2.0%	0.0%	2.0%	27,232	27,232
San Mateo	5,261,955	-	6.4%	0.2%	6.6%	(47,240)	(47,240)
Palo Alto Downtown	2,807,170	43,581	3.7%	0.4%	4.1%	(16,687)	(16,687)
West San Jose (Santana Row and West Valley)	2,644,646	-	0.2%	0.2%	0.4%	681	681
San Jose Downtown	3,186,819	-	7.2%	0.0%	7.2%	(15,167)	(15,167)
Oakland Downtown	3,146,939	-	6.4%	0.0%	6.5%	(24,939)	(24,939)
Walnut Creek Downtown	5,116,589	75,000	4.4%	0.1%	4.5%	(8,771)	(8,771)
Market total	74,338,893	118,581	5.8%	0.3%	6.0%	(100,113)	(100,113)

San Francisco economic trends

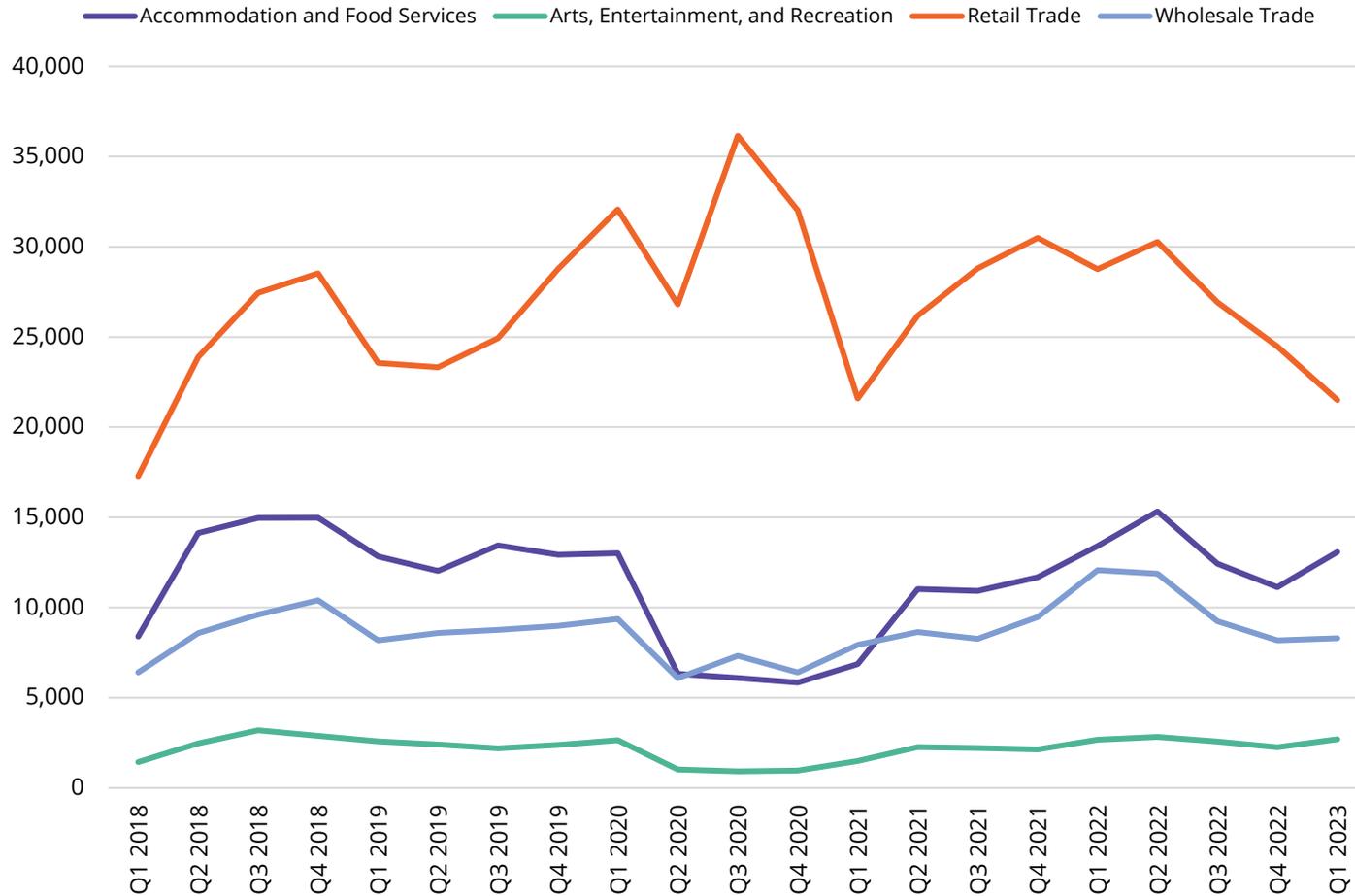


Employment and unemployment rate



San Francisco has seen a steady increase in unemployment after bottoming out in June 2022 at 2.3%. High interest rates, recessionary concerns, and a lagging recovery have caused uncertainty across the market, prompting layoffs and less growth.

Retail job postings



Overall retail job postings are down 19.9% from Q1 2022 but are up 20.3% from Q1 2021, signaling a lower demand for labor.

San Francisco newly registered businesses

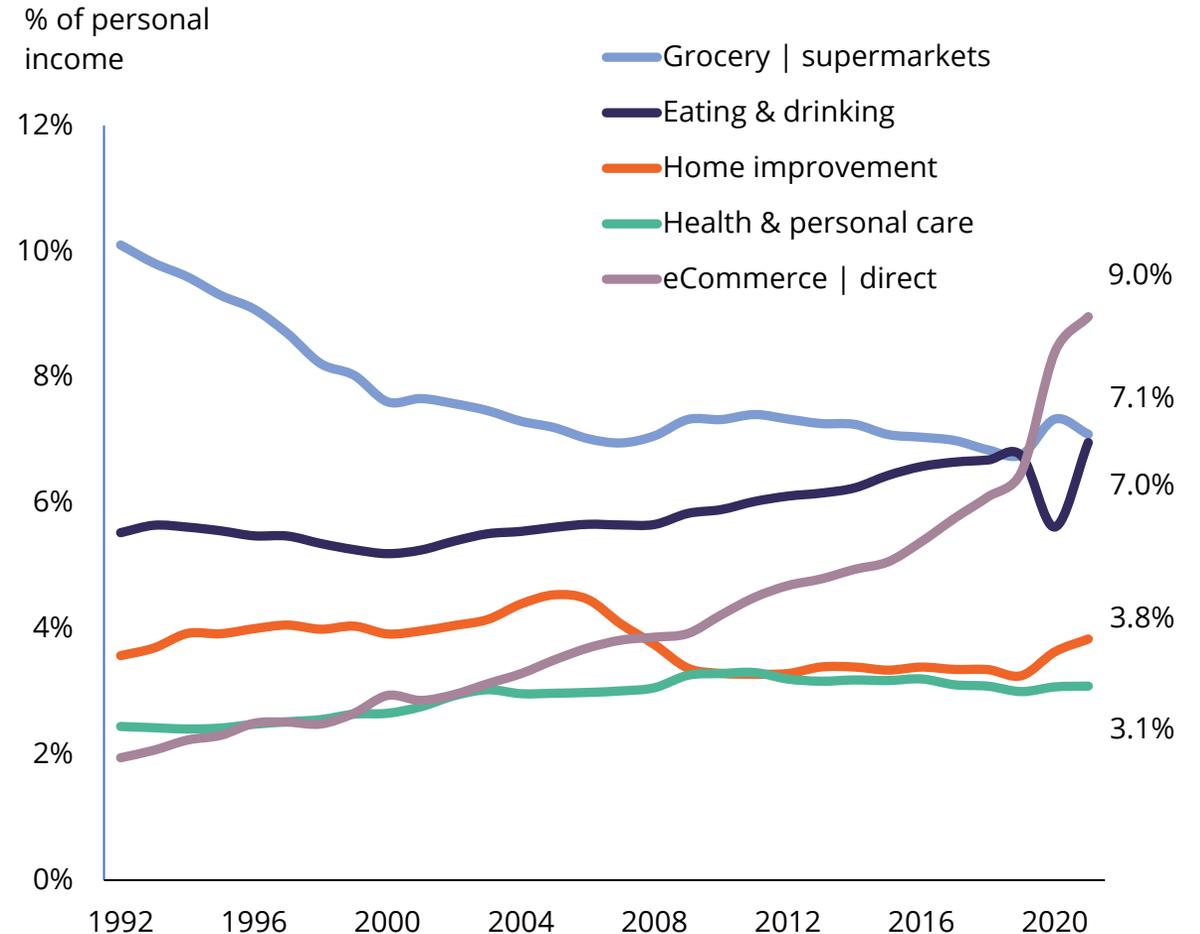
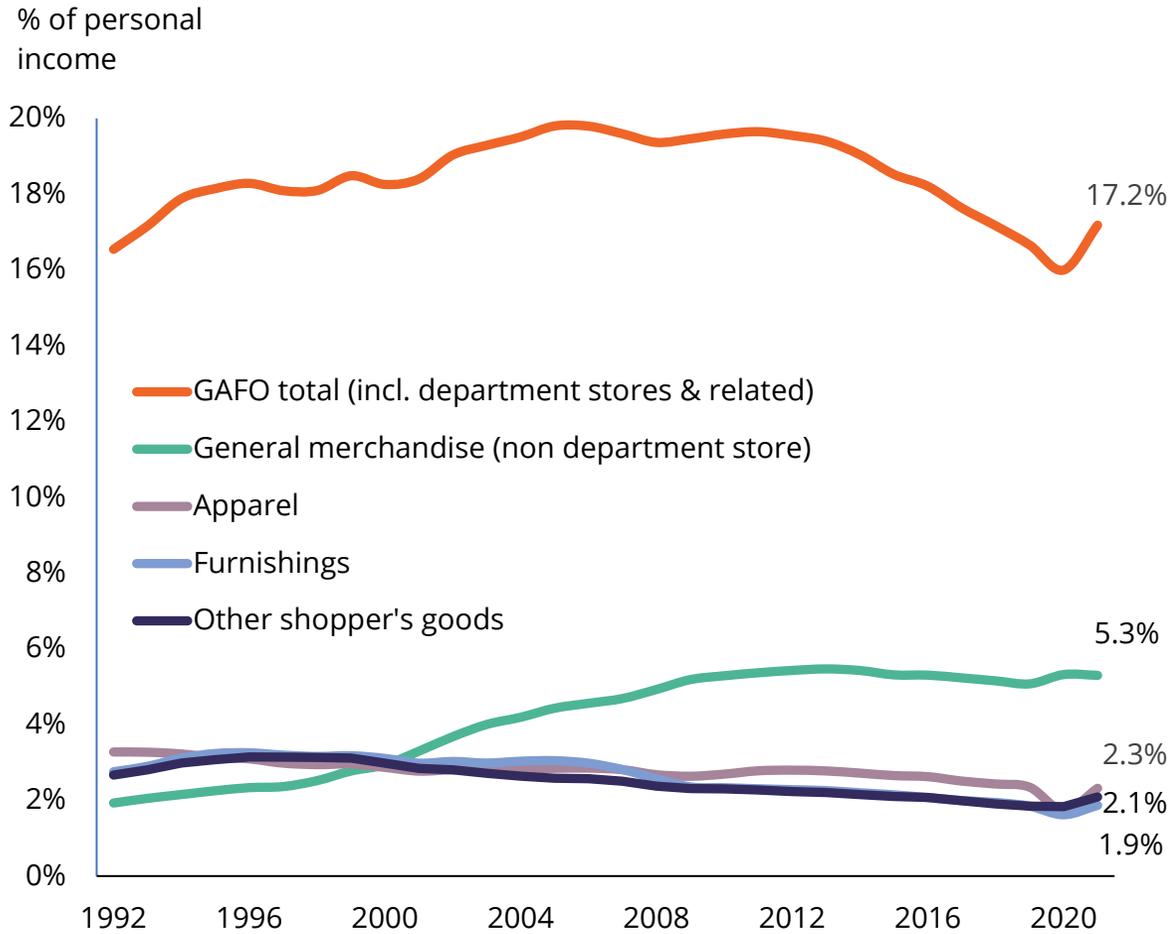


Newly formed retail businesses are up 14.5% from Q4 2022 and up 38.9% from the recent low of Q2 2020.

US retail trends

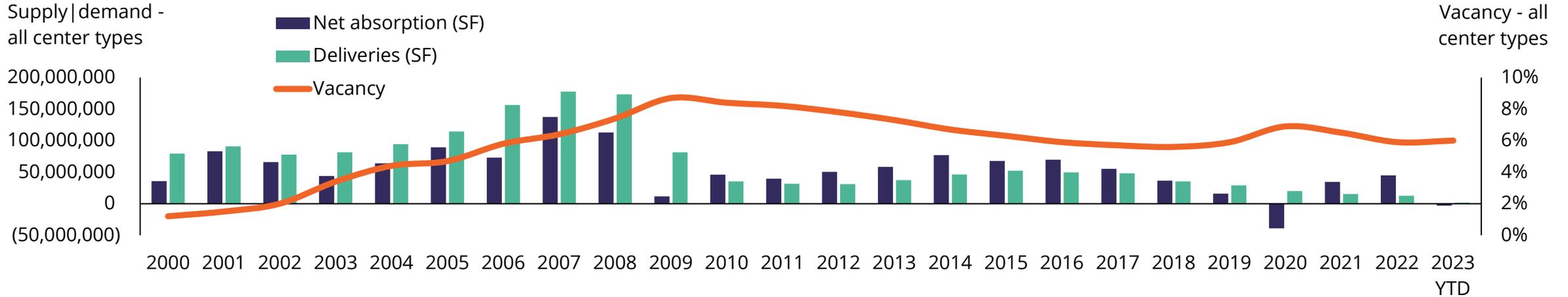


US shopping centers – while spending has shifted, households still spend consistently on the basics

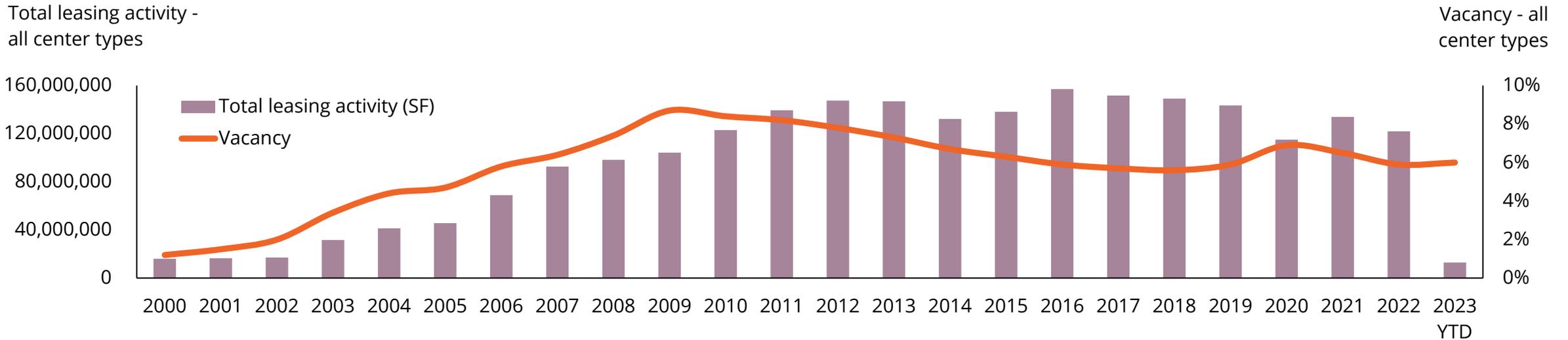


US shopping centers – significant change in development patterns highlights market disruption

Supply | demand -
all center types

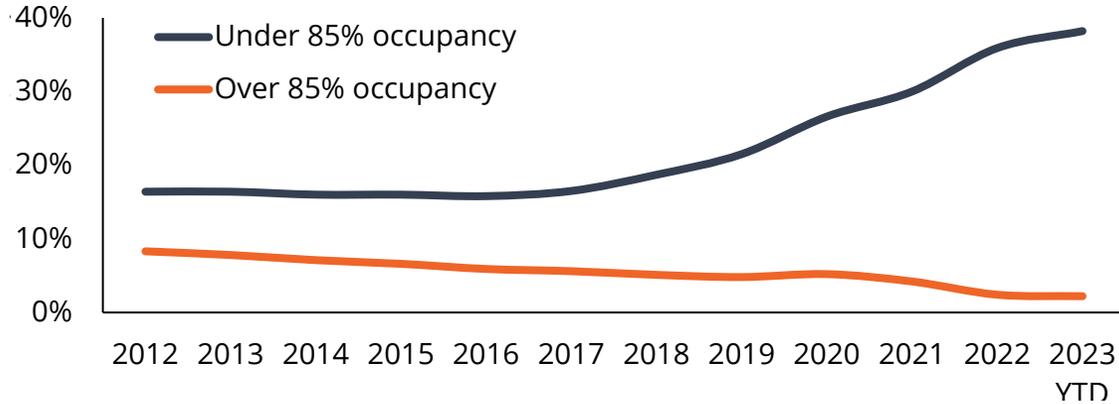


Total leasing activity -
all center types

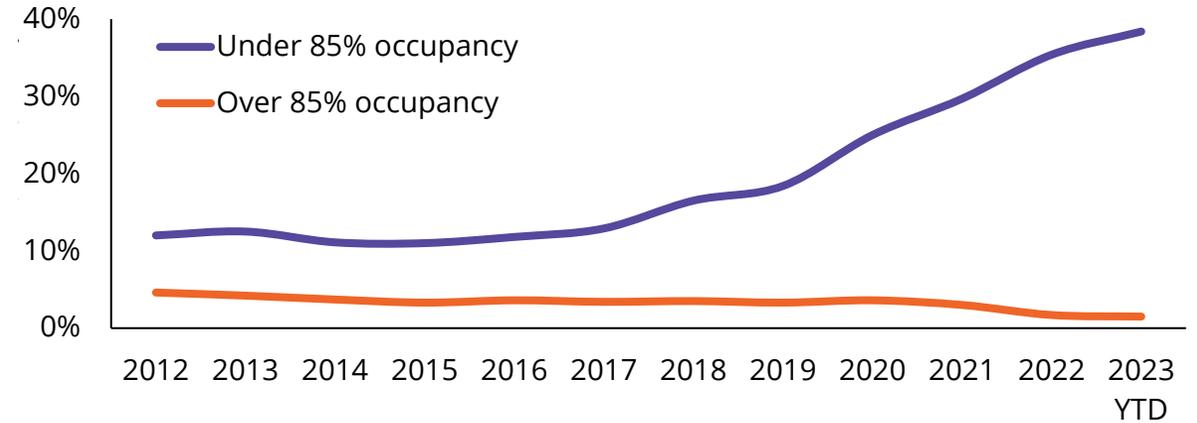


US shopping centers – the case for the haves & have-nots

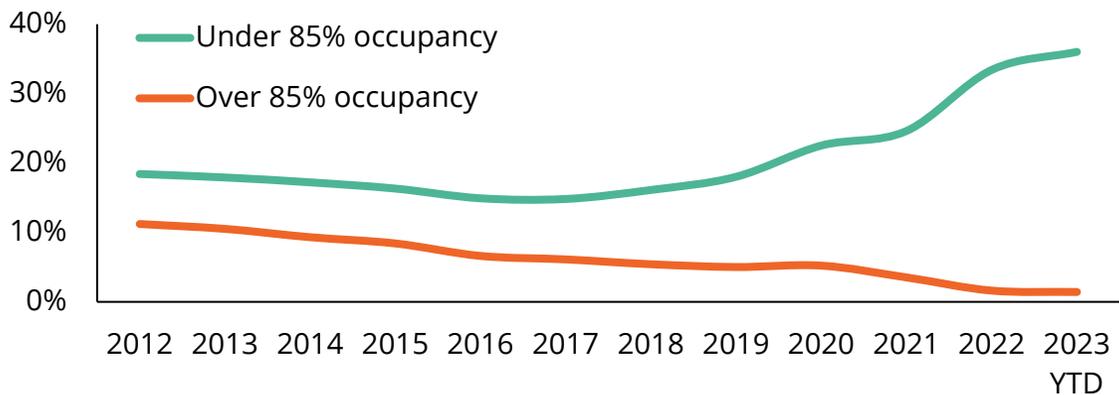
Vacancy - community & neighborhood



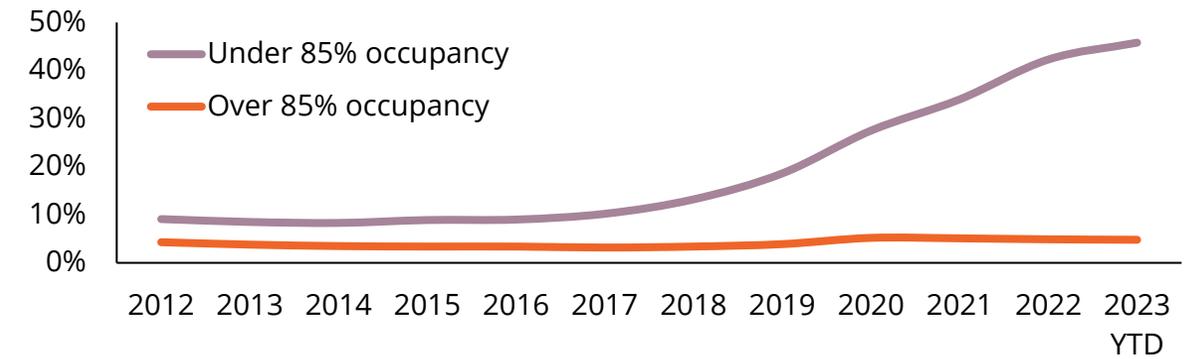
Vacancy - power & outlet centers



Vacancy - strip centers



Vacancy - regional & lifestyle centers



Source: Avison Young.

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**

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