

ECONOMIC INDICATORS

National

	Q3 17	Q3 18*	12-Month Forecast**
GDP Growth	2.3%	3.1%	▲
CPI Growth	2.0%	2.8%	▲
Consumer Spending Growth	2.4%	2.7%	▲
Retail Sales Growth	4.5%	6.1%	▲

\*Q3 18 Estimates. Values represent year-over-year % change.  
 \*\*Forecast by Cushman & Wakefield.

Regional

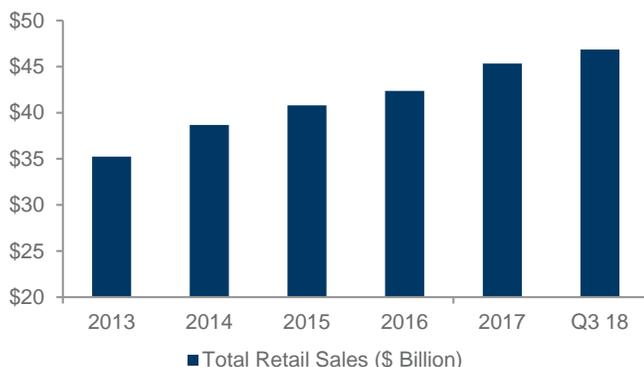
	Q3 17	Q3 18	12-Month Forecast**
Median Household Income	\$112,000	\$115,300	▲
Population Growth	0.6%	0.7%	■
Unemployment	3.1%	2.3%	▼

Source: Moody's Analytics

Rental Rate vs. Direct Vacancy – Union Square



Retail Sales Trend



Source: Moody's Analytics

Economy

According to the State of California Development Department, the unemployment rate for the San Francisco metropolitan division (San Francisco and San Mateo counties) was 2.3% in August 2018, down 80 basis points (bps) from 3.1% recorded one year ago. It remains well below the overall unemployment rate for the state and the nation for the same period at 4.3% and 3.9%, respectively. Job growth in San Francisco remains at historical highs. The San Francisco metropolitan division added 20,400 jobs (1.8%) year-over-year (YoY), which brings the total to over 1.1 million jobs as of the third quarter of 2018. According to Moody's Analytics, the median household income increased by 2.9% YoY to \$115,300, while retail sales increased by 5.2% YoY to an estimated \$46.8 billion. This rising employment, increasing income, and the record tourism is driving greater levels of consumer confidence and spending, and should increase demand for retail.

Market Overview

Although generally the retail industry continues to face challenges, retail demand remains relatively competitive in San Francisco. As of the close of the third quarter 2018, the retail vacancy rate in San Francisco was 3.4%, unchanged from the figure one year ago, but up minimally from 3.2% last quarter. San Francisco continues to be one of the most stable retail environments in the country, mainly due to its density as well as the strong economic and visitor base. Retail availabilities in certain neighborhoods in San Francisco remain tight and the overall vacancy rate is still among the lowest in the nation.

As the customers' preference for shopping has been shifting, traditional retailers continue to face strong competition from eCommerce and the new wave of retail. In addition, the high cost of doing business in San Francisco, such as high rental rates and housing costs as well as increasing minimum wage, put more pressure on retailers. One of the most notable failures in the third quarter of 2018 was Gump's, a 157-year-old luxury department store along Post Street, which filed for bankruptcy protection in August 2018 and could close by the end of the year.

There are, however, some retail concepts that are in the growth mode. Experience-focused retails, such as fitness center, mini golf, arcade bar, and pop-up exhibition, remain active opening new outposts. Candytopia – a pop-up "museum" full of candies – opened at 767 Market Street, in a 16,000-sf space formerly

occupied by Neiman Marcus Last Call Studio, from September 2018 through the holidays in 2019. Museum of Ice Cream, which previously opened as a pop-up exhibit, now permanently occupies One Grant Avenue. Other concepts that are active are eCommerce retailers continuing to open brick-and-mortar to boost brand awareness and eventually increase the sales; and co-working office is currently active entering the retail space.

Restaurants offering new food concepts also continue to grow aggressively in all neighborhoods in San Francisco. Some notable restaurant openings in the third quarter of 2018 were Kaiyo in Cow Hollow, Theorita in Divisadero, Angler in Embarcadero, Mendocino Farms in the Financial District, Doppio Zero in Hayes Valley, Radhaus in Fort Mason, Piri Pica and BiteUnite in the Mission District, ALX Gastropub in SoMa, and Oren’s Hummus in Yerba Buena. Celebrity chefs are also opening new restaurants in the retail spaces in newly completed office towers, such as Michael Mina, who will open Trailblazer Tavern in the Salesforce East at 350 Mission Street; and Dominique Crenn with Boutique Crenn, which will open in the Salesforce Tower – the tallest building in San Francisco – at 415 Mission Street.

### Union Square / Post Street

Union Square has seen numerous retail and restaurant closures in the last couple of years, mainly due to the soaring rents, increasing operational and personnel costs, as well as strategic downsizings. The direct vacancy rate in Union square was recorded at 5.3% in the third quarter of 2018. Although it was unchanged from the last quarter’s figure, the rate has been trending higher, jumping +130 bps from the 4.0% rate one year ago.

One notable closure in the third quarter of 2018 was Neiman Marcus Last Call Studio. As mentioned above, the space did not stay vacant very long as Candytopia – a pop-up exhibit – occupies it through early January 2019.

### EXHIBITIONS AND POP-UP STORES CONTINUE TO TEMPORARILY OCCUPY VACANT RETAIL SPACE IN THE PREMIUM LOCATIONS.

As retailers are more conscientious of total occupancy cost, demand for smaller spaces is increasing. Landlords also have become more flexible on terms and rates. Short term leases are

#### Key Statistics

Submarket	Q3 17	Q3 18	% Growth (1 Year)	12-Month Forecast
<b>UNION SQUARE</b>				
Rent (PSF)	\$700	\$690	-1.4%	▼
Direct Vacancy Rate	4.0%	5.3%	+130 BPS	▼
New Supply	0	0	0	■
<b>POST STREET</b>				
Rent (PSF)	\$545	\$500	-8.3%	▼

Source: Cushman & Wakefield

currently more preferable for retailers, both for exhibitions and pop-up stores to test the market before opening permanent outposts.

Due to the increase of available space, the rental rate for premier ground floor retail space on Union Square has slightly declined (-1.4% YoY) and recorded at \$690 per square foot per year (psf) in the third quarter 2018. Meanwhile, the rental rate on Post Street was \$500 psf, down 8.3% from last year’s figure.

One significant opening in Union Square was Freds (restaurant) at Barneys New York, located on the sixth floor of the San Francisco department store at 77 O’Farrell Street.

### Investment Market

In August 2018, Brookfield Property Partners completed the acquisition of GGP. The deal, which has been the third largest real estate investment trust takeover ever, included two retail properties in San Francisco, namely Stonestown Galleria, a 408,400-sf shopping center in the Southern City submarket; and One Union Square (Bvlgari Building), a seven-story Class A mixed office and retail building in Union Square.

According to Real Capital Analytics’ data, there were approximately 466,000 sf of retail space in San Francisco trading hands during the third quarter of 2018, including Brookfield / GGP M&A. The investment sales totaled \$224.8 million or \$482 psf in the third quarter.

#### Outlook

- Retail transactions in prime neighborhoods will remain active.
- Experience-focused retail, food & beverage, wellness, and boutique fitness continue to dominate leasing transactions.
- Rent growth is forecast to remain subdued.

## Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3995 Alemany Boulevard (Oceanview Village)	42,000	H-Mart	Lease	Ingleside
375 32 <sup>nd</sup> Avenue	34,300	Andronico's Community Market	Lease	Outer Richmond
Four Embarcadero	20,000	Harborview Restaurant & Bar	Lease	Embarcadero
1000 Channel Street (One Mission Bay)	6,300	Little Creatures Brewing	Lease	Mission Bay

## Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
3251 20 <sup>th</sup> Avenue (Stonestown Galleria)	408,400	GGP / Brookfield Property Partners	N/A	Southern City
200-212 Stockton Street (One Union Square)	22,200	GGP / Brookfield Property Partners	N/A	Union Square
1330 Howard Street	13,000	Wang Sun Inc / 1330 Howard LP	\$6,000,000 / \$463	SoMa
1610-1618 Pacific Avenue	8,300	Richard Teed / Rebecca McKee	\$6,300,000 / \$755	Van Ness Corridor

## Construction Completions Q3 2018

PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
N/A				

## Projects Under Construction Q3 2018

PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
Salesforce Transit Center	100,000	TBD	Q1 2019	South Financial
Chase Center (Warriors Arena)	100,000	TBD	Q4 2019	Mission Bay
300 Grant Avenue	32,400	TBD	2019	Union Square
1177 Market Street (Trinity Place Phase 4)	60,000	Whole Foods	2021	Mid-Market

## MARKETBEAT

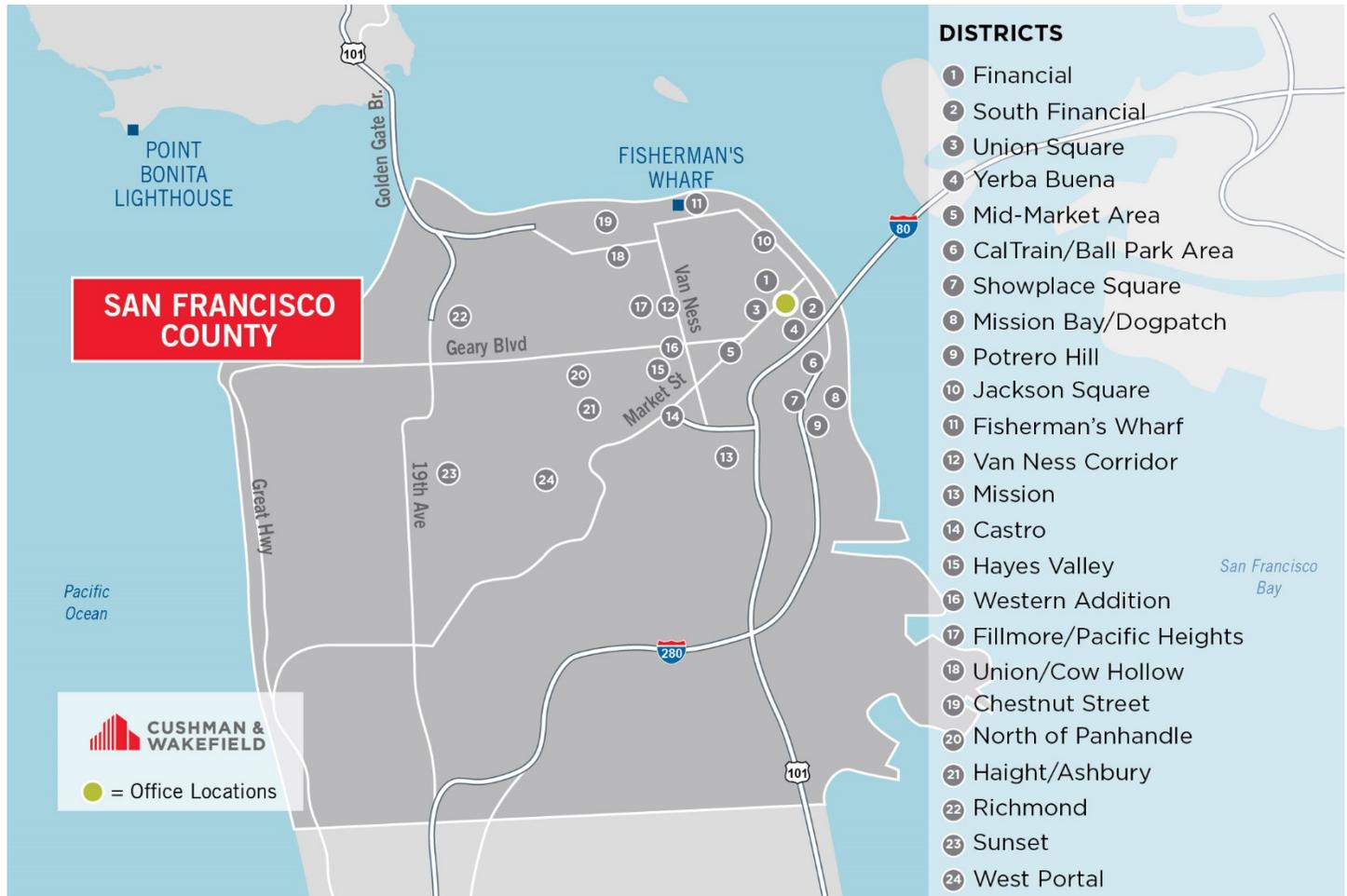
# San Francisco

Retail Q3 2018



## RETAIL SUBMARKETS

SAN FRANCISCO



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### About Cushman & Wakefield

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