

ECONOMIC INDICATORS

National

	Q1 18	Q1 19*	12-Month Forecast**
GDP Growth	2.6%	2.9%	▲
CPI Growth	2.2%	1.6%	▲
Consumer Spending Growth	2.4%	3.2%	▲
Retail Sales Growth	4.9%	4.2%	▲

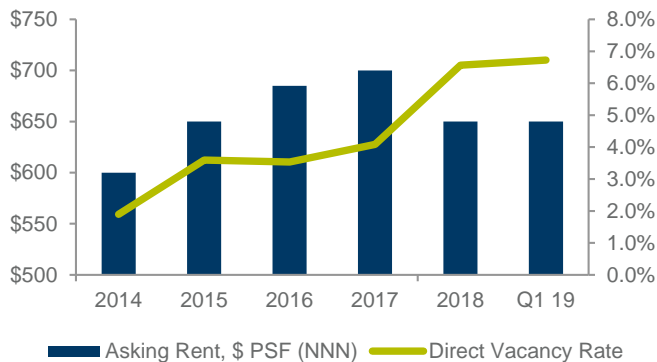
*Q1 19 Estimates. Values represent year-over-year % change.
 **Forecast by Cushman & Wakefield.

Regional

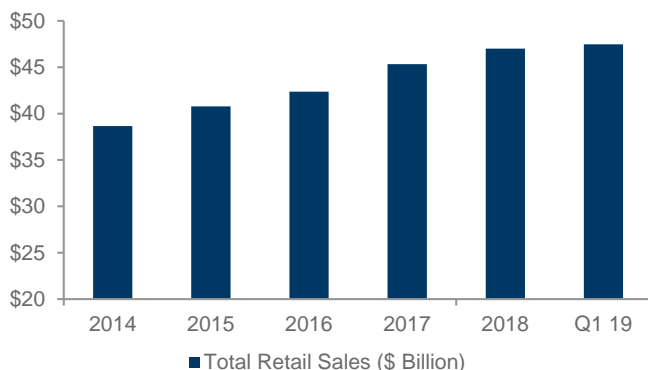
	Q1 18	Q1 19*	12-Month Forecast**
Median Household Income	\$117,000	\$121,000	▲
Population Growth	0.6%	0.7%	■
Unemployment	2.6%	2.1%	▼

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 Employment Development Department, the unemployment rate for the San Francisco Metropolitan Division (San Francisco and San Mateo counties) fell substantially to 2.1% in February, down 50 basis points (bps) from 2.6% recorded one year ago. It remains well below the overall unemployment rate for the state and the nation for the same period at 4.4% and 3.8%, respectively. Total employment increased by 41,000 jobs (3.6%) year-over-year (YoY), reaching 1.2 million jobs in February. Meanwhile, according to Moody's Analytics, the median household income increased by 3.4% YoY to \$121,000 and retail sales increased by 4.4% YoY to an estimated \$47.5 billion in the first quarter of 2019.

In March 2019, the San Francisco Travel Association released tourism figures for all of last year. There was a total of 25.8 million visitors to the city in 2018, up 1.2% over 25.5 million in 2017. Total spending by visitors – including spending on meetings and conventions – was \$10.0 billion, up 2.3% over \$9.8 billion in 2017. This was the ninth consecutive year of record-breaking growth for San Francisco's tourism industry, and the growth is expected to continue, especially in the area of visitor spending. Included in the above totals were 2.9 million international visitors, who spent \$4.9 billion in 2018.

Market Overview

San Francisco has begun to feel the effects of the ongoing retail disruption though it has occurred here a bit later and has thus far been shallower than many other markets around the U.S. After reaching a recent low in 2015, the vacancy rate has been on the rise. It closed the first quarter of 2019 at 3.5%, up 20 bps from a year ago. Many of the difficulties facing retail have been mentioned before such as strong competition from online retailers, a change in the shoppers' preference and behavior, high rental rates, and soaring personnel costs.

The City of San Francisco has introduced a couple of proposals for vacancy tax to motivate property owners with long term vacancies. In January 2019, Supervisor Aaron Peskin proposed to tax property owners with consistently empty units. Owners of commercial properties in Neighborhood Commercial Districts (areas where stores and services are clustered), where vacancy exceeds six months would face a fine of \$250 per day. Additionally, the San Francisco Board of Supervisors voted unanimously in March 2019 to force San Francisco commercial

building owners to register their vacant storefronts and pay a \$711 annual fee.

With the rise of experiential retail, virtual reality entertainment, Instagram moment pop-ups, and the expansion of clicks-to-bricks retailers, San Francisco continues to see new store openings. Sweet & Spark, an eCommerce company, which sells both vintage accessories and modern clothing, opened its first-ever retail store on Fillmore Street. Other notable openings were the Instagram-friendly exhibitions: The Museum of 3D Illusions in Fisherman's Wharf and LMNL, an interactive exhibition in the 10,000-square-foot (sf) Onedome at 1025 Market Street.

RETAIL VACANCY IN SAN FRANCISCO HAS INCREASED TO 3.5% IN THE FIRST QUARTER OF 2019

Fitness studios have been one of the most active tenant types opening new branches across the city. Two exercise studios opened in the Castro: CorePower Yoga at 100 Church Street and Barry's Bootcamp in the 9,400-sf former CVS Pharmacy space at 2280 Market Street. RockSalt Pilates opened its first San Francisco studio in Potrero Hill while the world's first virtual reality gym, Black Box VR, opened in Fox Plaza at 1390 Market Street.

Union Square / Post Street

Vacancy has been on the rise in Union Square. In the first quarter of 2019, the direct vacancy rate was recorded at 6.7%, up slightly from 6.6% at the end of 2018 and a jump of 170 bps from the 5.0% rate one year ago. Like the rest of the city, soaring rents, increasing operational and personnel costs, and strategic downsizing has negatively affected San Francisco's retail core over the past couple of years.

As the new landscape is settling and with refined objectives for the purpose of a new store, retailers are moving forward with more certainty about balancing their real estate and online presence. With many new retailers actively pursuing expansion and seeking sites, retail touring activity was on the rise in the first quarter of 2019. Many deals that had been postponed due the year-end issues found momentum in the first quarter and are now moving forward.

Key Statistics

Submarket	Q1 18	Q1 19	% Growth (1 Year)	12-Month Forecast
UNION SQUARE				
Rent (PSF)	\$700	\$650	-7.1%	▼
Direct Vacancy Rate	5.0%	6.7%	+170 BPS	▼
New Supply	0	0	0	■
POST STREET				
Rent (PSF)	\$545	\$450	-17.4%	▼

Source: Cushman & Wakefield

At the end of February, Tory Burch relocated from Maiden Lane to 222 Stockton Street – a more prominent location in Union Square.

The rental rate for premier ground floor retail in Union Square was recorded at \$650 per square foot per year (psf), similar to the rate last quarter, but a decline of 7.1% YoY. Meanwhile the rental rate on Post Street was \$450 psf, down a sharp 17.4% from one year earlier.

Investment Market

According to Real Capital Analytics' data, approximately 320,000 sf of retail space in San Francisco traded hands during the first quarter of 2019. Total investment sales in the first quarter were \$292.2 million, with an average price of \$914 psf.

The most significant retail sale in San Francisco in the first quarter was the transaction of the former I. Magnin building (currently occupied by Macy's) in Union Square. In January 2019, Sand Hill Property Company acquired this property at 233 Geary Street for \$250 million or \$1,000 psf. Macy's will be vacating the 250,000-sf property. Other retailers now occupying the property are Louis Vuitton and Loro Piana.

Outlook

- Traditional retailers are being replaced by new concepts of retail.
- Experiential retail, pop-up exhibition, food & beverage, wellness, co-working and fitness will continue to dominate leasing transactions.
- Vacancy is expected to decline.
- Rent growth is forecast to remain subdued.

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
799 Van Ness Avenue	40,000	John Reed Fitness	Lease	Van Ness Corridor
3060 Fillmore Street	6,600	Rumble Fitness	Lease	Cow Hollow
255 Battery Street	4,700	Boston Private	Lease	Financial District
1501 Grant Avenue	4,200	Acquario di Pesci	Lease	North Beach

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
233 Geary Street (I. Magnin)	250,000	Macy's / Sand Hill Property Co.	\$250,000,000 / \$1,000	Union Square
5400 Geary Boulevard	13,200	Yihua Li & Yehjen Fu / Connie Louise Joe & Cheryl Lynn Joe Wong JV Ray J Wang	\$5,100,000 / \$386	Central Richmond
3060 Fillmore Street	11,750	Rege Family Trust / CenterCal Properties	\$13,750,000 / \$1,170	Cow Hollow

Construction Completions Q1 2019

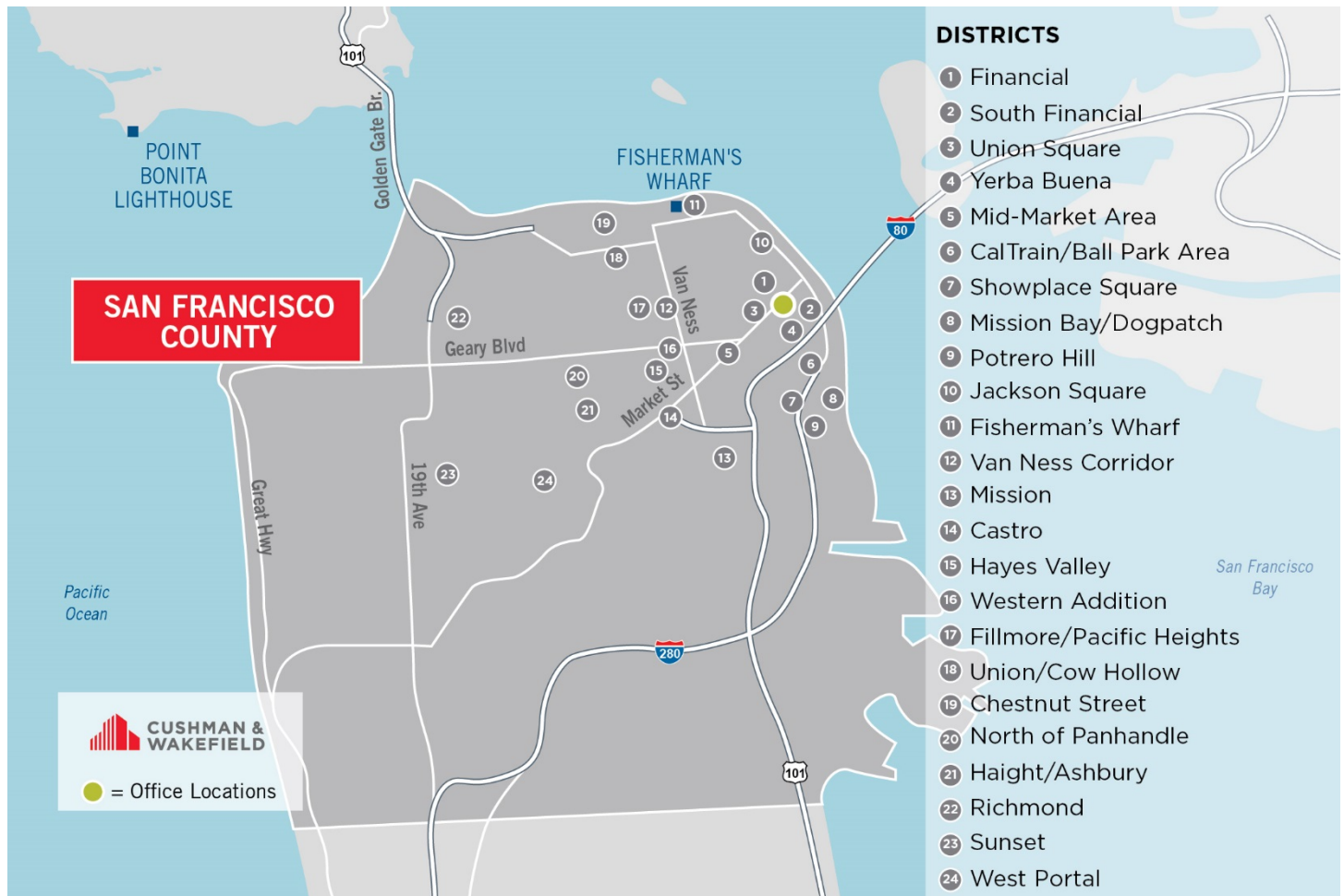
PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
N/A				

Projects Under Construction Q1 2019

PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
Salesforce Transit Center	100,000	Fitness SF, Philz Coffee, Per Diem Restaurant	Q3 2019	South Financial
Chase Center (Warriors Arena)	100,000	TBD	Q4 2019	Mission Bay
300 Grant Avenue	32,400	TBD	Q4 2019	Union Square
1177 Market Street (Trinity Place Phase 4)	60,000	Whole Foods	2021	Mid-Market

RETAIL SUBMARKETS

SAN FRANCISCO



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