

ECONOMIC INDICATORS

National

	Q4 17	Q4 18*	12-Month Forecast**
GDP Growth	2.5%	3.3%	▲
CPI Growth	2.1%	2.3%	▲
Consumer Spending Growth	2.7%	2.7%	▲
Retail Sales Growth	5.9%	4.6%	▲

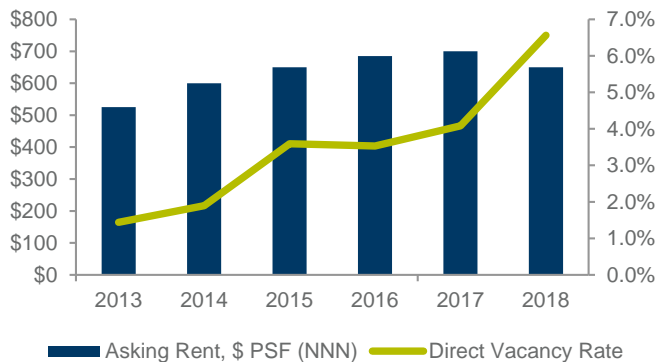
\*Q4 18 Estimates. Values represent year-over-year % change.  
 \*\*Forecast by Cushman & Wakefield.

Regional

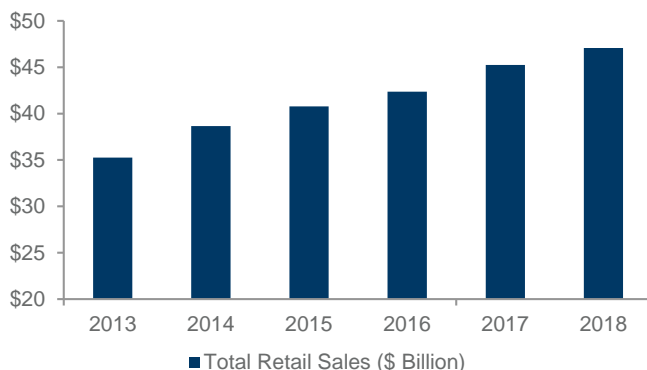
	Q4 17	Q4 18*	12-Month Forecast**
Median Household Income	\$116,000	\$120,400	▲
Population Growth	0.7%	0.7%	■
Unemployment	2.4%	2.1%	▼

Source: Moody's Analytics

Rental Rate vs. Direct Vacancy – Union Square



Retail Sales Trend



Source: Moody's Analytics

Economy

The San Francisco economy continued to grow at a healthy pace in the fourth quarter of 2018. According to the State of California Development Department, the unemployment rate for the San Francisco metropolitan division (San Francisco and San Mateo counties) was 2.1% in November 2018, down 30 basis points (bps) from 2.4% recorded one year ago. It remains well below the overall unemployment rate for the state and the nation for the same period at 3.9% and 3.5%, respectively. The San Francisco metropolitan division total employment increased by 21,800 jobs (1.9%) year-over-year (YoY), reaching 1.2 million jobs in November. Moreover, according to Moody's Analytics, the median household income increased by 3.8% YoY to \$120,400, while retail sales increased by 4.0% YoY to an estimated \$47.1 billion in 2018. This rising employment, increasing income and record tourism is driving greater levels of consumer confidence and spending, and should increase demand for retail.

Market Overview

Across the nation, the entire process of shopping continues to shift thanks in large part to eCommerce, with traditional retailers bearing the brunt of the storm. This same trend is playing out in San Francisco, especially Union Square. There are additional issues in San Francisco as well. Rental rates for prime spots remain steep, and attracting and retaining employees is ever more difficult with a need to pay higher wages and forced to compete heavily in a market with record low unemployment and a surplus of job openings.

However, due to its density as well as strong economic and visitor base, some neighborhoods in San Francisco still enjoy active retail leasing activities and retain tight availabilities. The overall vacancy rate in San Francisco City remains one of the lowest in the nation at 3.0% as of year-end 2018, down from 3.4% in the third quarter of 2018 and from 3.1% at the end of 2017.

Restaurants continued to be an active participant in San Francisco retail in 2018. With eight Michelin 3-star restaurants – the most in the United States – as announced in November 2018, the Bay Area is one of the country's fine dining capitals. Several new restaurant openings in the fourth quarter of 2018 were: Trailblazer Tavern by Chef Michael Mina, who brings Hawaiian food to the 7,000-square-foot (sf) space within the Salesforce East building in the Financial District, Cow Marlowe by Big Night Restaurant Group in Cow Hollow, and Prairie, an Italian restaurant by Chef Anthony Strong, in the Mission District.

eCommerce retailers also continue to open brick-and-mortar to boost brand awareness and increase sales. Stag & Manor – an online modern home décor store – opened its first physical store at 2327 Market Street in The Castro. Amazon Go opened two cashierless convenience stores in San Francisco – its third city after Seattle and Chicago – at 300 California Street and 98 Post Street in the Financial District.

**RETAIL VACANCY IN SAN FRANCISCO REMAINS ONE OF THE LOWEST IN THE NATION AT 3.0% AS OF YEAR-END 2018.**

San Francisco will see a couple of retail project completions in 2019 and both will be part of mixed-use developments. The Salesforce Transit Center Once – which originally opened in August 2018 – is currently closed due to cracked beams. Once it is fully reopened after the reparation, the transit center will serve not only as a transportation hub, but also as a center of neighborhood activities with a 5.4-acre rooftop park and a 100,000-sf retail and restaurant space. Confirmed tenants include Fitness SF, Philz Coffee, Per Diem Restaurant, Eddie Rickenbacker’s, Venga and Onsite Dental. Meanwhile, Chase Center (Warriors Arena) will be the largest sports and entertainment complex on the West Coast. The project will house the new 18,000-seat Golden State Warriors arena, along with 100,000 sf of retail, food and beverage, and 580,000 sf of office space (to be occupied by Uber). With the completion of these projects, the citywide occupancy growth is expected to climb in 2019.

**Union Square / Post Street**

Due to the soaring rents, increasing operational and personnel costs, as well as strategic downsizings, Union Square has seen numerous retail and restaurant closures in the last couple of years. Accordingly, the direct vacancy rate in Union Square increased to 6.6% at the end of 2018, up from 5.3% rate in the third quarter and 4.1% rate one year ago.

Significant closures at the end of 2018 were Gump’s – a 157-year-old luxury department store – at 135 Post Street and Eddie Bauer at 128 Post Street. In addition, Macy’s has closed its men’s store location at 120 Stockton Street and consolidated the men’s department into its flagship store at 170 O’Farrell Street in the fourth quarter. The former 250,000-sf Macy’s men’s store will be redeveloped into a mixed-use destination, which includes flagship retail, art galleries, restaurants and office space.

**Key Statistics**

Submarket	Q4 17	Q4 18	% Growth (1 Year)	12-Month Forecast
<b>UNION SQUARE</b>				
Rent (PSF)	\$700	\$650	-7.1%	▼
Direct Vacancy Rate	4.1%	6.6%	+250 BPS	▼
New Supply	0	0	0	■
<b>POST STREET</b>				
Rent (PSF)	\$545	\$450	-17.4%	▼

Source: Cushman & Wakefield

As availability rates climb, asking rents continue to fall in Union Square. The rental rate for premier ground floor retail space in Union Square has declined 7.1% YoY to settle at \$650 per square foot per year (psf) as of the end of 2018. Meanwhile, the rental rate on Post Street closed 2018 at \$450 psf, down 17.4% from one year earlier.

Many landlords are now accepting shorter-term deals to fill their spaces, both for exhibitions and pop-up stores, to test the market before opening permanent outposts. Also, demand for smaller spaces has risen as retailers are more conscientious of total occupancy cost.

**Investment Market**

In October 2018, a joint venture of Hudson Pacific Properties and Allianz Real Estate purchased a leasehold stake, with 49 years remaining on the ground lease, at the Ferry Building for \$291 million. The Ferry Building is one of the landmarks and tourist destinations in San Francisco, which consists of 192,500 sf of Class A office space and 75,500 sf of retail space / food hall with some famous Bay Area food brands and restaurants, such as Acme Bread, Blue Bottle Coffee, Cowgirl Creamery’s, Dandelion Chocolate, Gott’s Roadside and Hog Island Oyster Company.

Another significant sale transaction in the fourth quarter of 2018 was the 14,500-sf William Sonoma building at 340 Post Street in Union Square by Goodwill Family Trust to Stockdale Acquisitions LLC for \$48.5 million or \$3,350 psf.

**Outlook**

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

## Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1355 Market Street	14,000	The Market	Lease Expansion	Mid-Market
701 Second Street	5,700	H2A Entertainment	Lease	Rincon / South Beach
55 Geary Street	4,500	Theory	Lease	Union Square
434-440 Post Street	2,800	Chloe Fine Arts	Lease	Union Square

## Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Ferry Building	268,000	Equity Office (Blackstone) / Hudson Pacific Props JV Allianz Real Estate of America	\$291,000,000 / \$1,085 (Leasehold)	Embarcadero
340 Post Street (William Sonoma)	14,500	Goodwill Family Trust / Stockdale Acquisitions LLC	\$48,500,000 / \$3,350	Union Square
2360 Mission Street (Siegel's)	13,900	Michael A Gardner, Holly B Gardner / William Chin	\$6,500,000 / \$469	Mission
5400 Geary Boulevard	13,200	Yihua Li & Yehjen Fu / Connie Louise Joe & Cheryl Lynn Joe Wong JV Ray J Wang	\$3,900,000 / \$296	Central Richmond

## Construction Completions Q4 2018

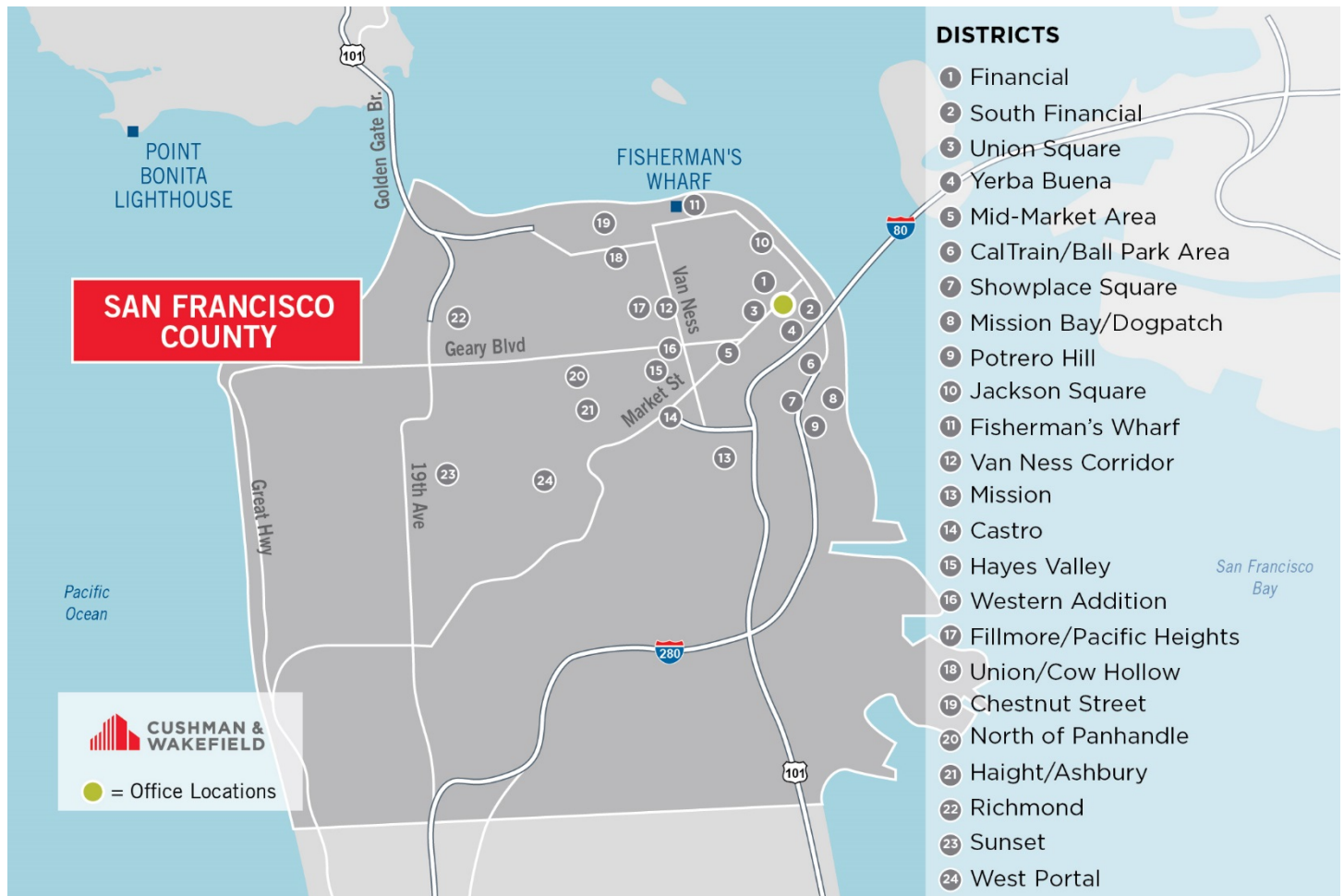
PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
N/A				

## Projects Under Construction Q4 2018

PROPERTY	SF	MAJOR TENANT	COMPLETION DATE	SUBMARKET
Salesforce Transit Center	100,000	Fitness SF, Philz Coffee, Per Diem Restaurant	Q1 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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