



# Bay Area retail market report

Q1 2024

**AVISON  
YOUNG**

# Bay Area retail market trends

Most Bay Area retail markets are reporting negative net absorption in Q1 2024, with San Francisco seeing exits from several big box retailers. However, many positive signs include increases in overall leasing activity, job postings, and newly registered businesses in San Francisco. Downtown San Francisco's Vacant to Vibrant program also continues to see sustained success from pop-up businesses, fueling hope for an urban recovery.

## 3.7 msf

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

San Francisco continues to see high availability, with several big block retailers choosing to close locations around the city. Availability is also expected to rise significantly in Union Square this year after Macy's announced its plans to close its flagship store. Additionally, most other Bay Area markets have all seen moderate decreases in net absorption except for Downtown Oakland and San Mateo.

## +0.1%

**Construction costs begin to stabilize, prompting increase in leasing activity**

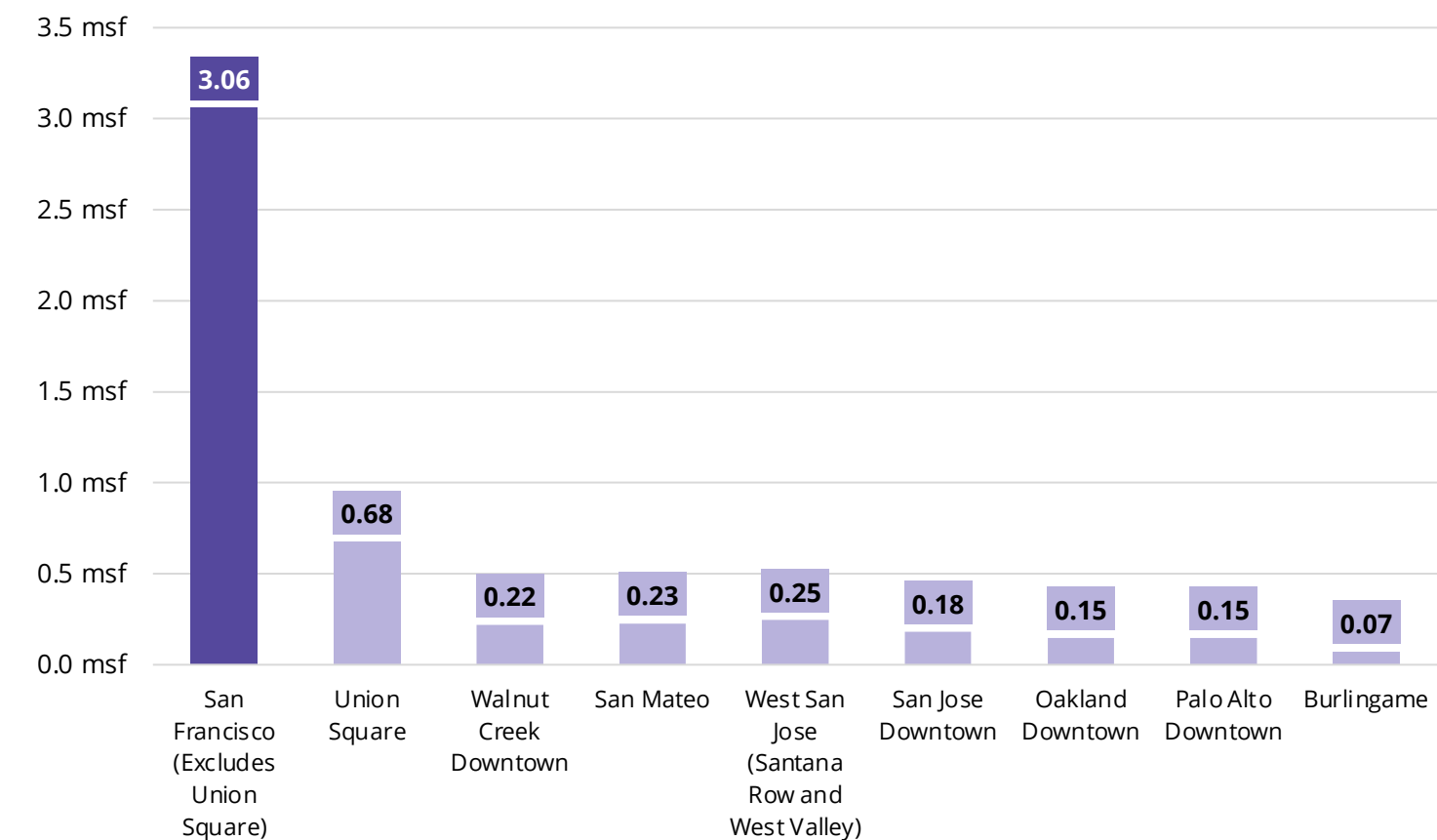
Construction costs have stabilized in recent quarters with only a 0.1% increase since the end of 2023. This may have proven to be a positive sign for retailers, as leasing activity picked up 76.8% over the previous quarter. Despite the increase in leasing activity, this was not enough to offset overall negative net absorption as big box retailers continue to struggle.

## -1.6%

**Total retail employment sees decrease, but an uptick in job postings shows positive signs**

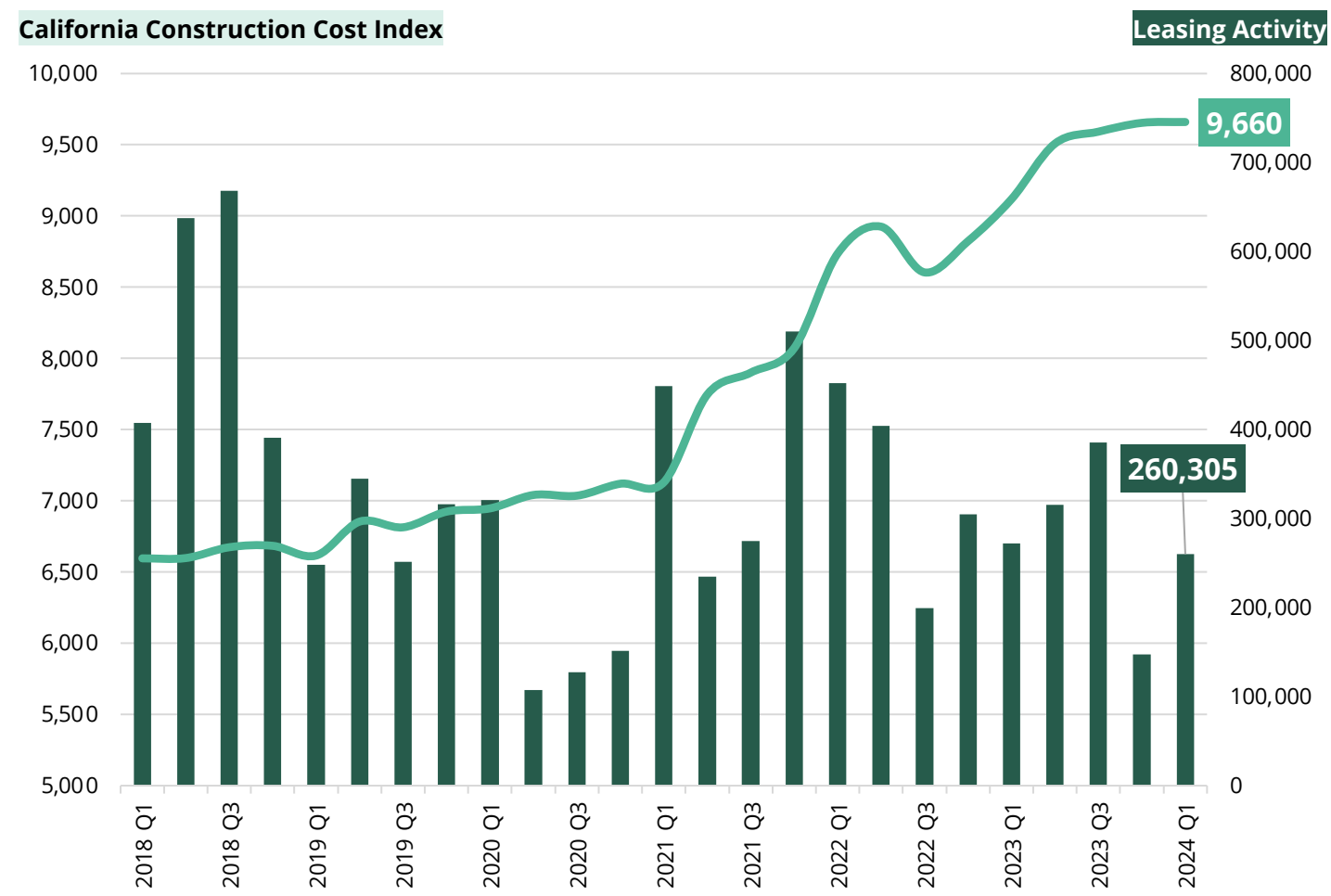
Overall retail employment experienced a marginal 1.6% decrease from the previous quarter but is expected to increase with a significant uptick of job postings. With San Francisco also seeing a rise in newly registered businesses, this growth is expected to continue throughout the year.

# Total available square feet by retail hub



San Francisco continues to see high availability, with several big block retailers choosing to close locations around the city. Availability is also expected to rise significantly in Union Square this year after Macy's announced its plans to close its flagship store. Additionally, most other Bay Area markets have all seen moderate decreases in net absorption except for Downtown Oakland and San Mateo.

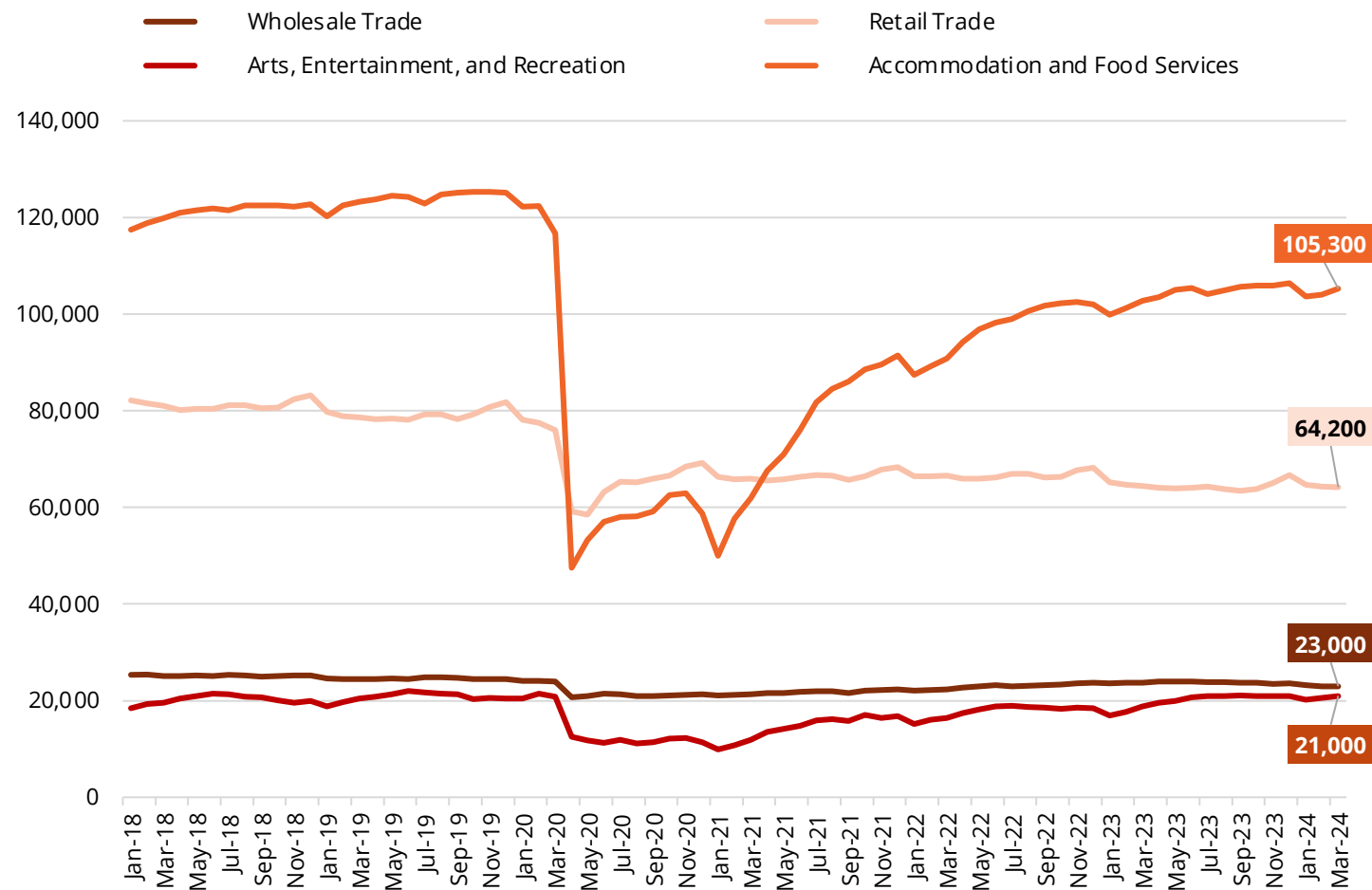
# Construction costs vs leasing activity



Construction costs have stabilized in recent quarters with only a 0.1% increase since the end of 2023. This may have proven to be a positive sign for retailers, as leasing activity picked up 76.8% over the previous quarter.

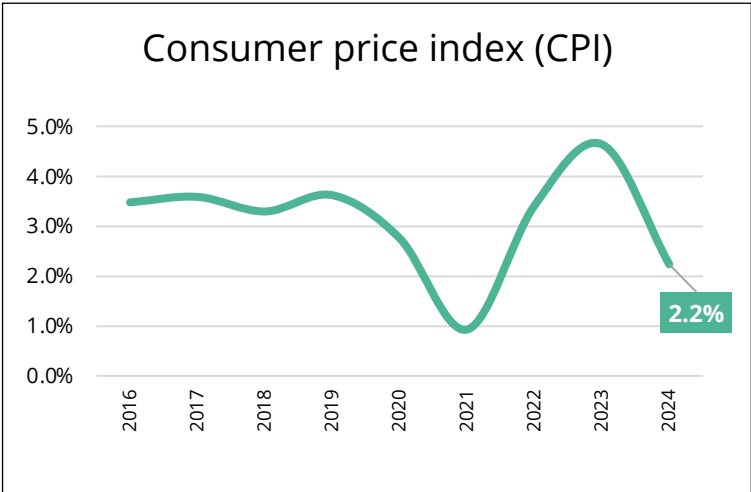
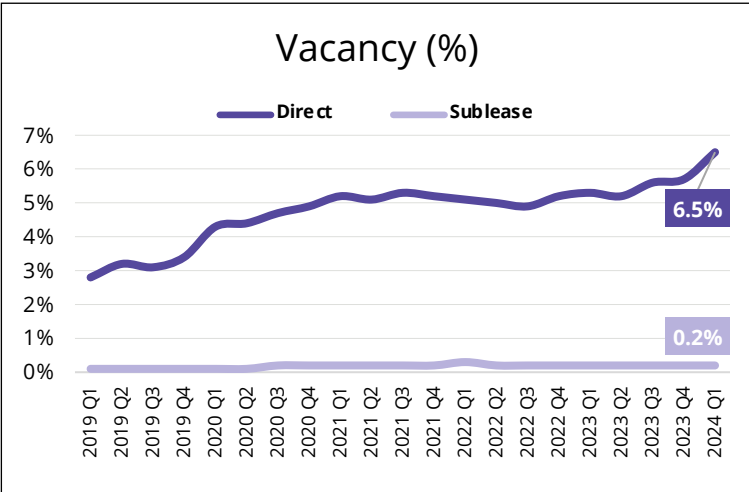
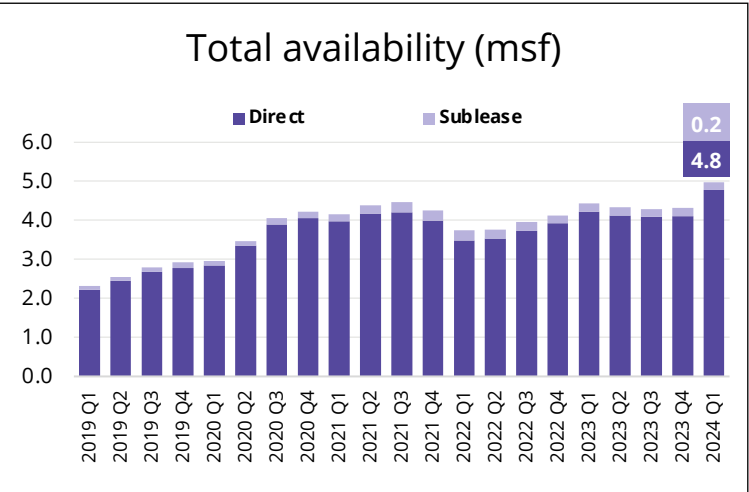
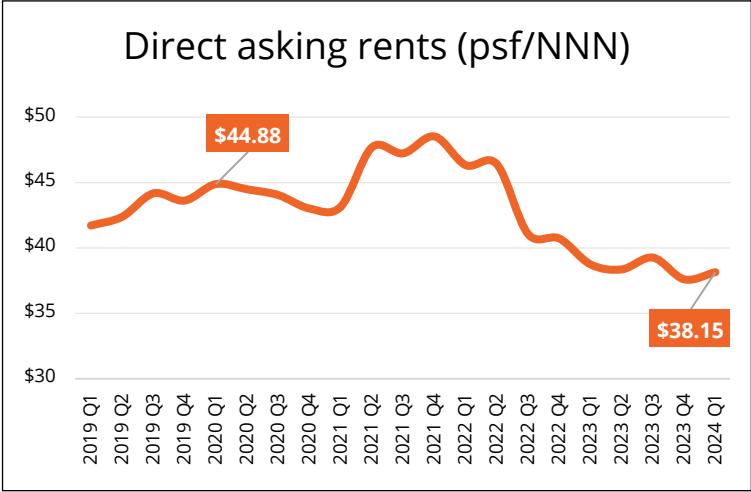
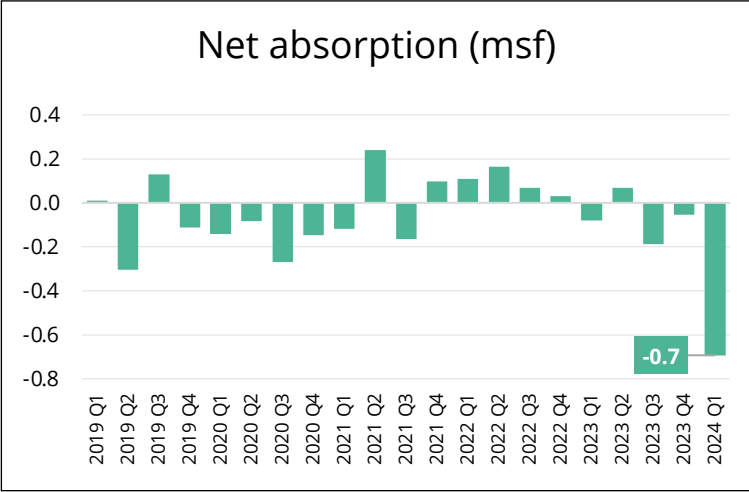
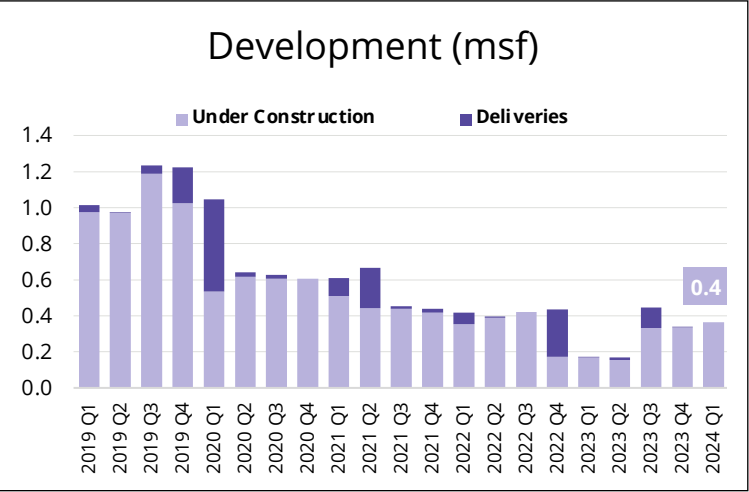
Note: Cost indices average for LA and SF  
Source: California Department of General Services, CoStar

# Employment by sector



Overall retail employment experienced a marginal 1.6% decrease from the previous quarter but is expected to increase with a significant uptick of job postings.

# Bay Area retail market indicators



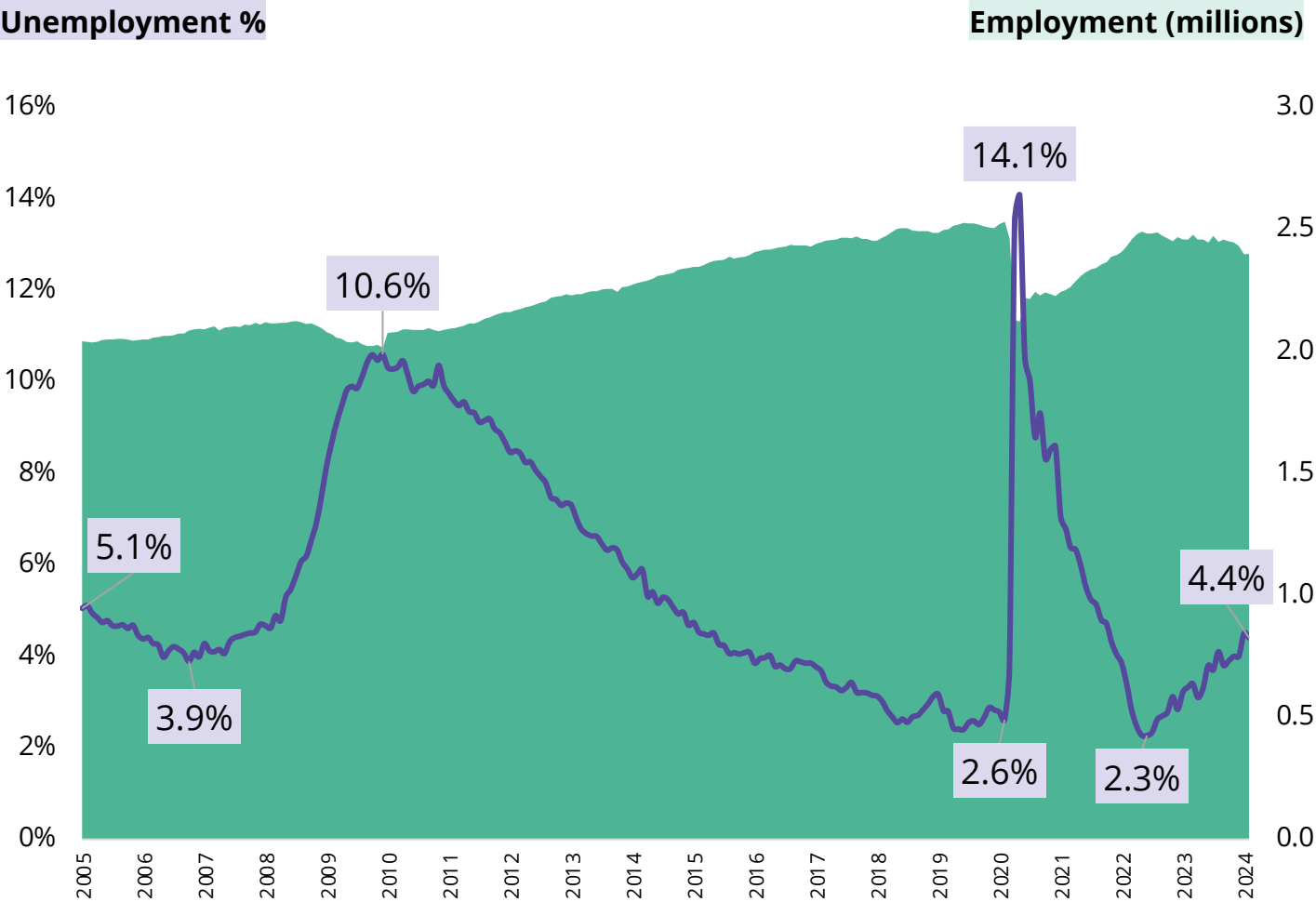
# Bay Area retail market stats

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)
Union Square	3,248,401	0	20.4%	0.4%	20.8%	(9,979)	(9,979)
San Francisco (Excludes Union Square)	46,700,401	127,800	6.3%	0.3%	6.6%	(623,800)	(623,800)
Burlingame	2,317,429	0	2.8%	0.3%	3.1%	(9,231)	(9,231)
San Mateo	4,893,612	0	4.6%	0.1%	4.6%	1,522	1,522
Palo Alto Downtown	2,806,632	70,591	4.1%	1.2%	5.2%	(13,730)	(13,730)
West San Jose (Santana Row and West Valley)	7,003,788	166,058	3.3%	0.2%	3.5%	(38,955)	(38,955)
San Jose Downtown	3,253,947	0	5.5%	0.0%	5.5%	(11,622)	(11,622)
Oakland Downtown	3,193,772	0	4.5%	0.1%	4.6%	15,349	15,349
Walnut Creek Downtown	4,762,052	0	4.6%	0.0%	4.6%	(3,230)	(3,230)
<b>Market total</b>	<b>78,180,034</b>	<b>364,449</b>	<b>6.1%</b>	<b>0.3%</b>	<b>6.4%</b>	<b>(693,676)</b>	<b>(693,676)</b>

# San Francisco economic trends

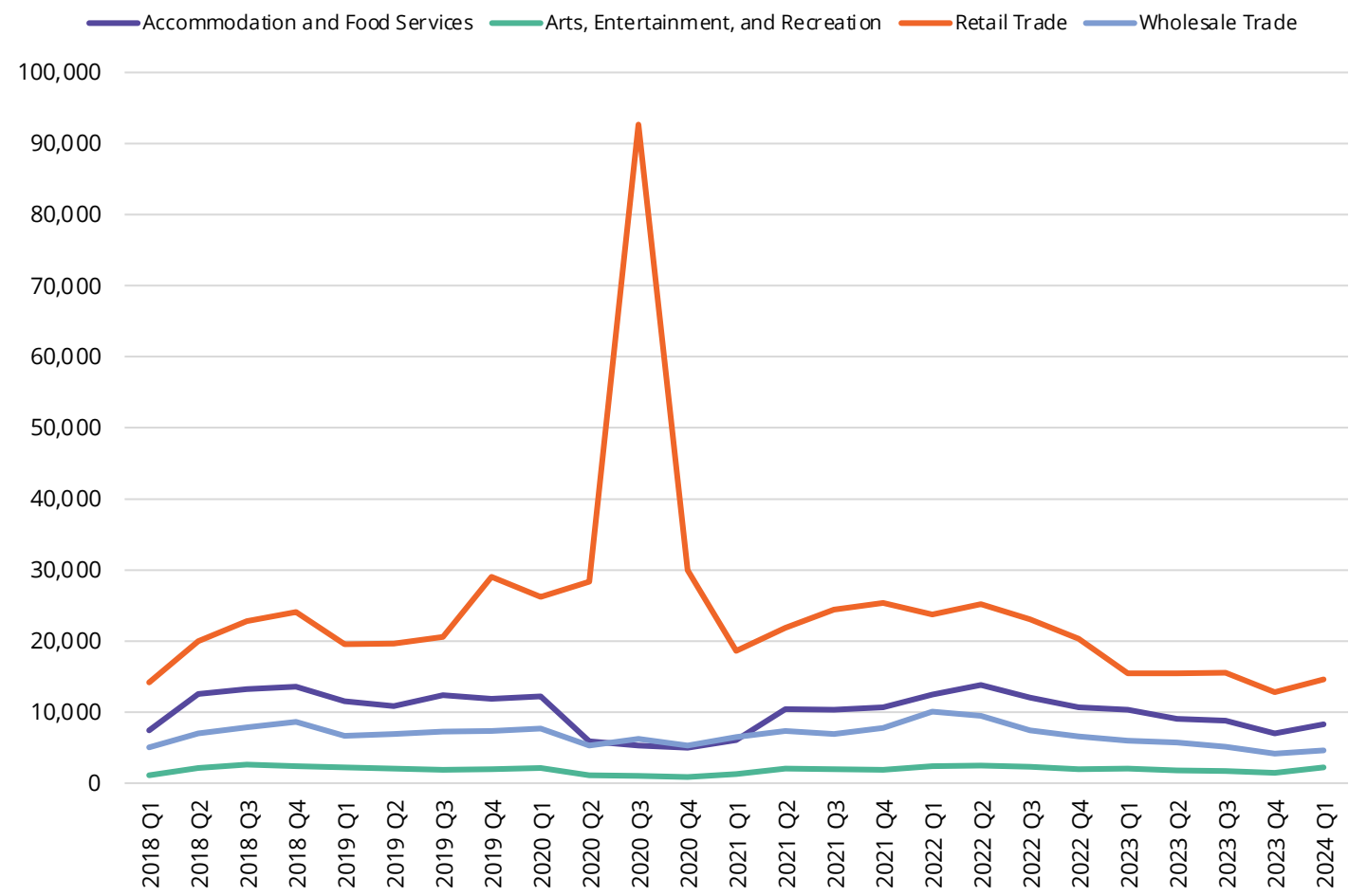


# Employment and unemployment rate



San Francisco's unemployment has crept up to 4.4% this quarter after bottoming out in June 2022 at 2.3%. This follows the latest rate hikes in July, as the Federal Reserve continues to combat rising inflation. Market conditions are expected to improve, with the Fed hoping to cut interest rates by the end of the year.

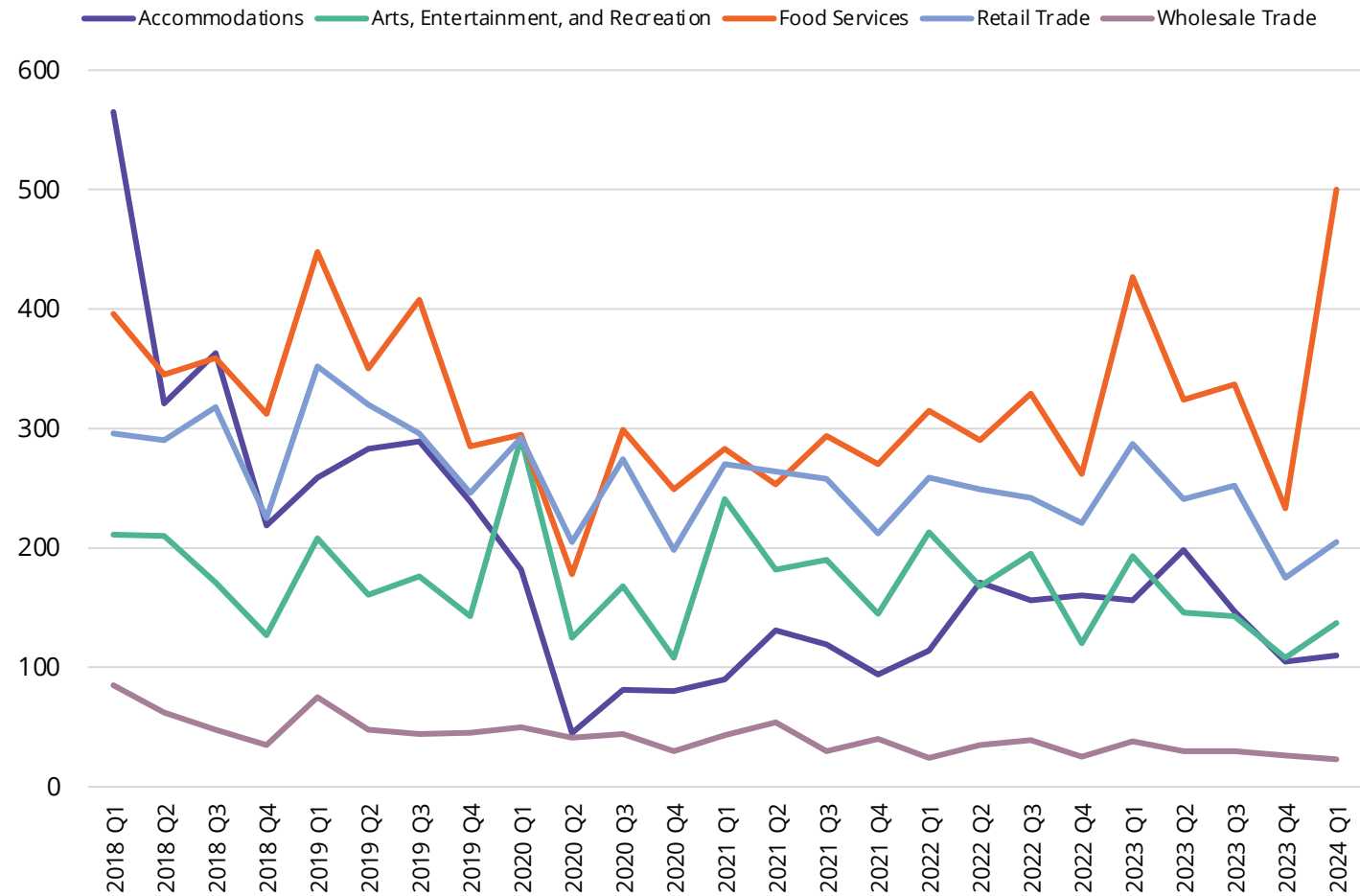
# Retail job postings



Overall retail job postings increased 17.2% from the previous quarter. The arts, entertainment and recreation sector saw the largest growth with a 55.7% increase, while the accommodation and food services sector following behind with an 18.2% increase.

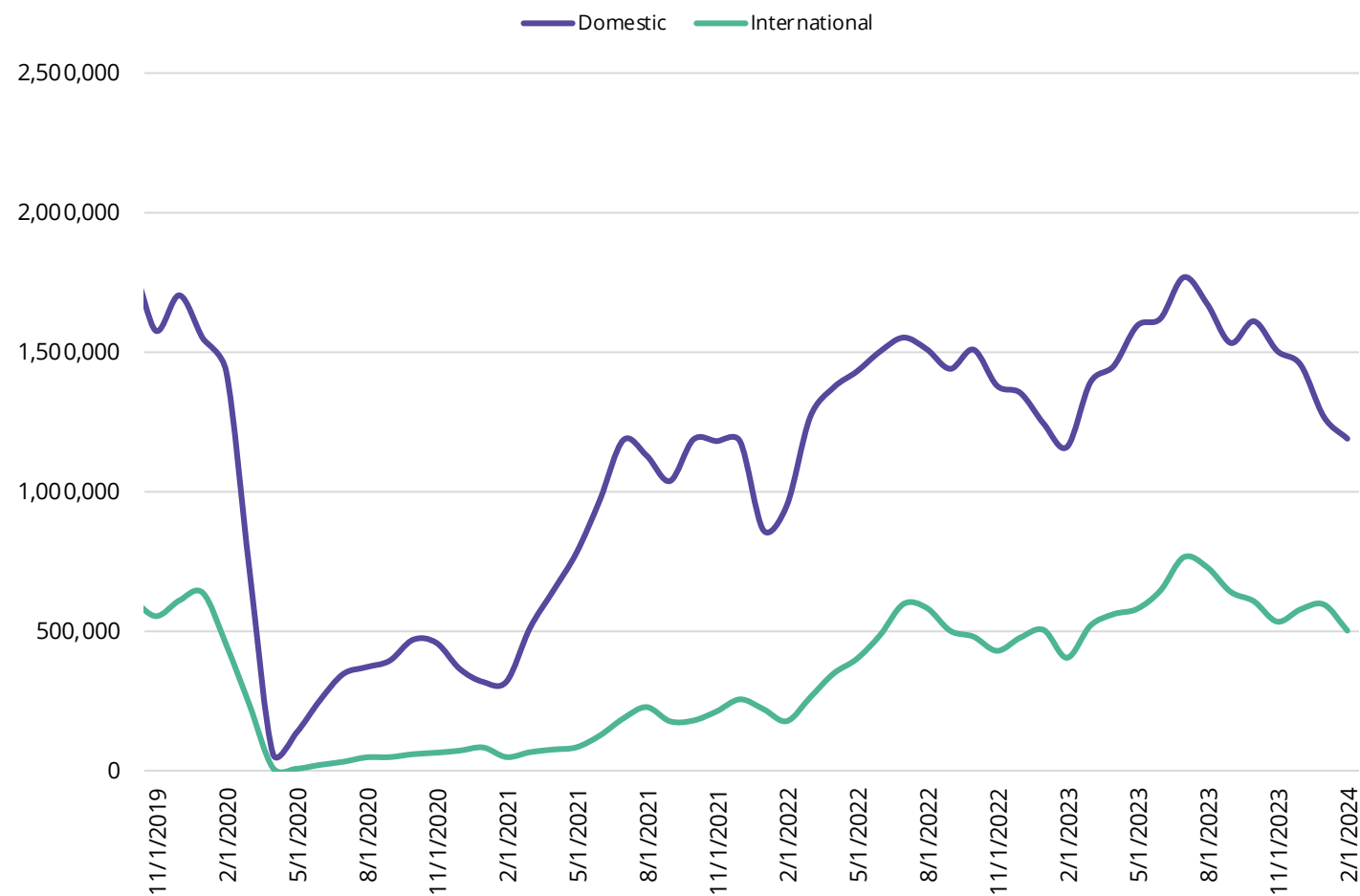
Note: San Francisco, Alameda, Contra Costa, Santa Clara and San Mateo Counties  
Source: LightCast, AVANT by Avison Young

# San Francisco newly registered businesses



New retail business formation picked up in Q1 2024, with the total number of new businesses increasing 50.7% quarter-over-quarter. However, the overarching effect of high construction costs have shown an 11.4% decrease over the past year.

# SFO incoming passengers



SFO’s total deplanements took a 15.2% dip over the previous quarter as the holiday season came to an end. However, year-over-year arrivals in SFO saw a 2.5% increase and 24.0% increase for both domestic and international flights.

Note: Total passengers flying into SFO, no transfers  
Source: SFO

# 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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