



Bay Area retail market report

Q3 2024

**AVISON
YOUNG**

Bay Area retail market trends

With the exception of Union Square, Bay Area retail enjoyed healthy growth and performance in Q3 2024. Downtown San Francisco has reacted positively to continued efforts to revitalize its retail core as the new entertainment zones are proving popular, with the Front Street zone having 20 events (nearly two a month) booked for 2025. In addition, leasing activity and new deals have are gaining momentum including the announcements of La Parc Bistrobar at 185 Sutter, Red Bay Coffee at 200 Montgomery, Sorrel in the Ferry Building, Burberry at 110 Geary, Carmina at 54 Geary and Flywheel Coffee at 22 Battery Street.

3.9 msf

Total San Francisco retail availability including Union Square and surrounding areas

Retail hubs across the Bay Area, bar Union Square, continue to enjoy relatively healthy availability rates in Q3 2024. The announcement of the auction/note sale of the former 1.4MM sq ft Westfield (with current debt of \$625.6MM) on November 19th as well as the announcement that the 312,592 sf Metreon complex being listed for sale has created some ripples in the market but show promise for a new vision for downtown.

+18.5%

Construction costs continue to remain flat, forcing new retailers to make their move

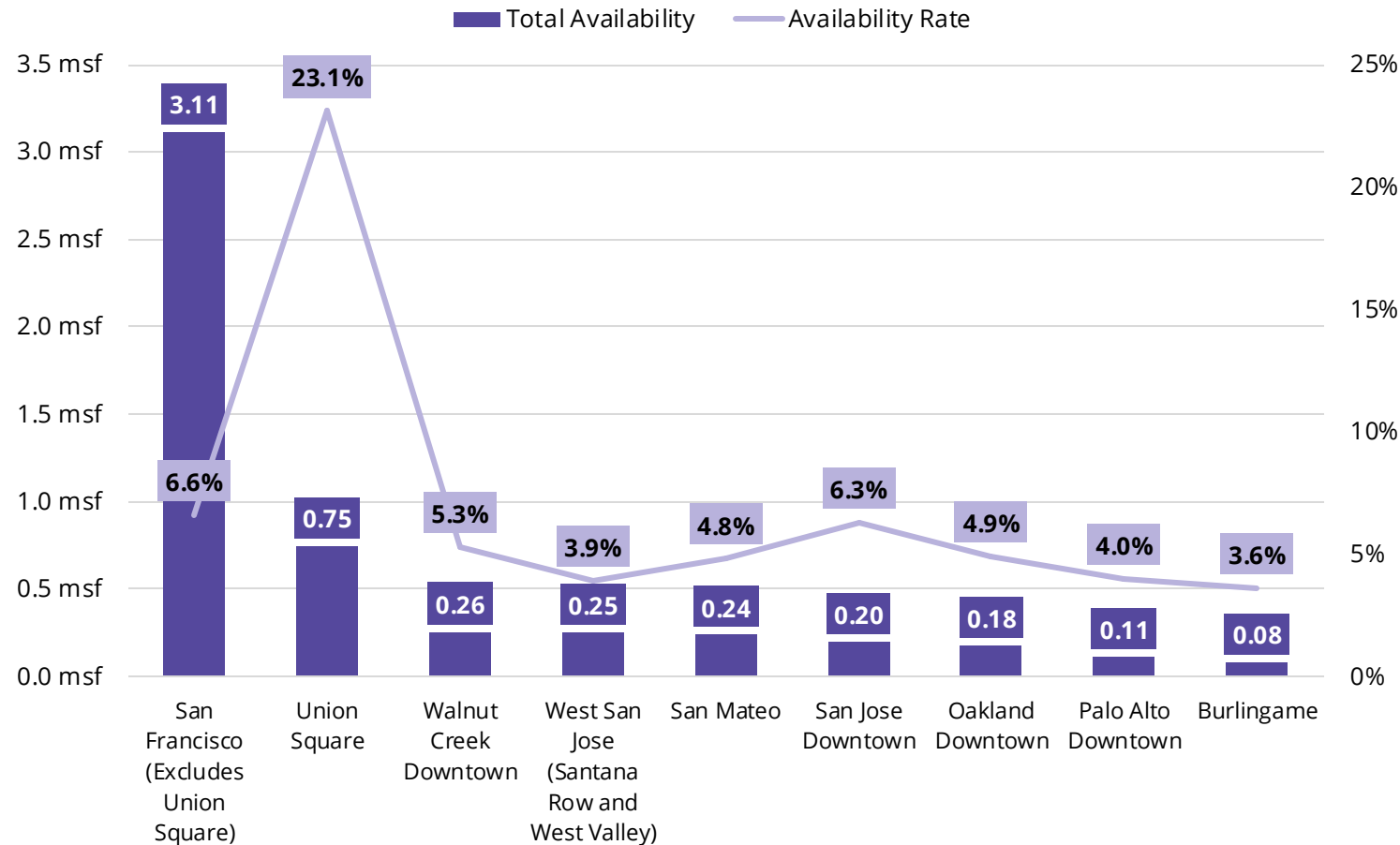
Construction costs have remained largely unchanged over the previous year but are still up 40.4% compared to pre-COVID. Leasing activity rose 18.5% quarter-over-quarter but continues to be well below pre-COVID levels and will likely remain to be the case until construction costs and inflation. However, while many retailers have continued to bide their time waiting for costs to decrease, others have started to lease space that was otherwise not available to them prior to the pandemic, suggesting that there are strong opportunities at the right price.

+0.9%

Total retail employment and job postings both see increase, outlining positive signs

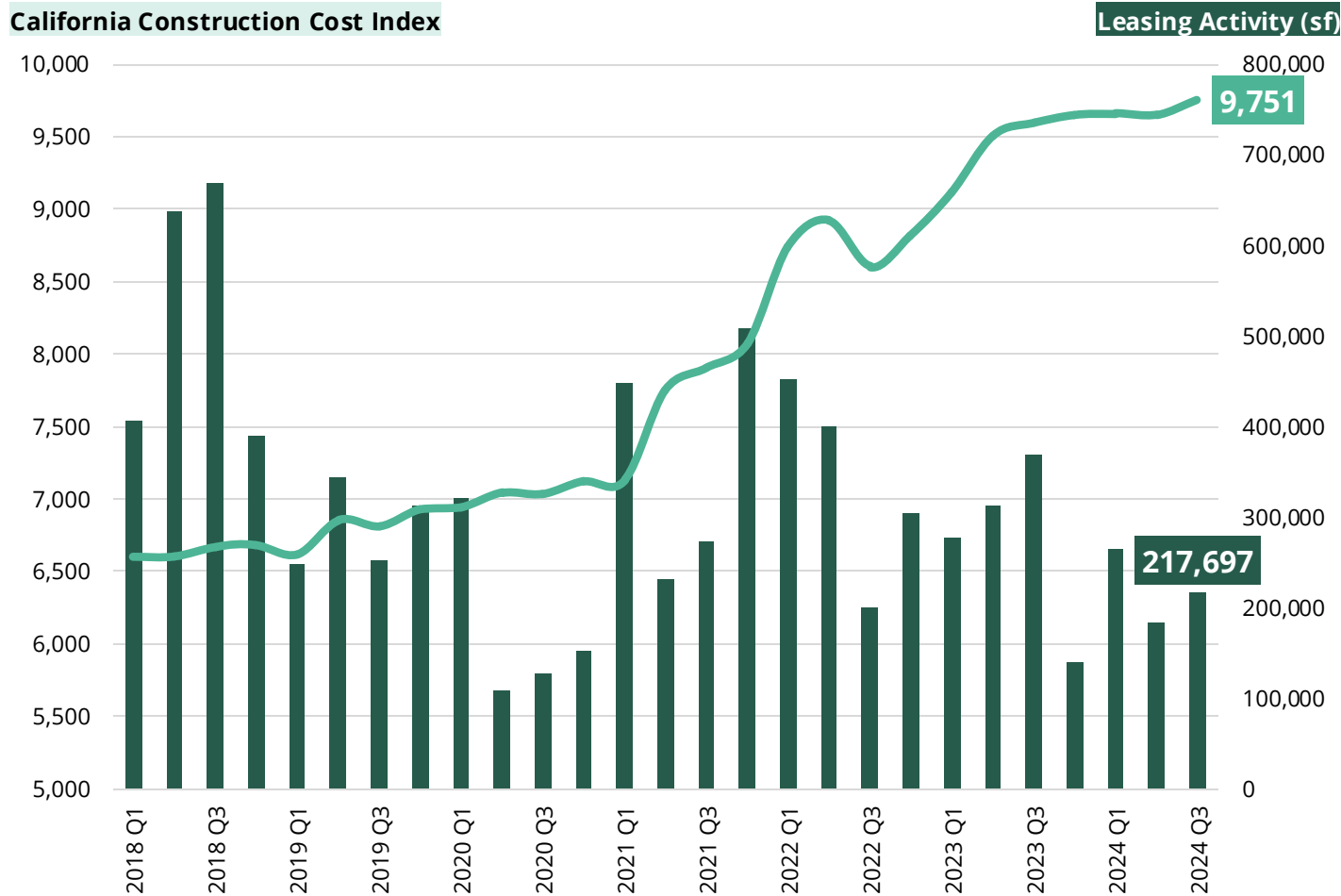
Overall retail employment experienced a 0.9% upturn from the previous quarter and is expected to continue to grow with an increase in total job postings. The accommodations and food services sector experienced the largest uptick with a 1.5% increase, followed by retail trade at 0.8%.

Total availability by retail hub



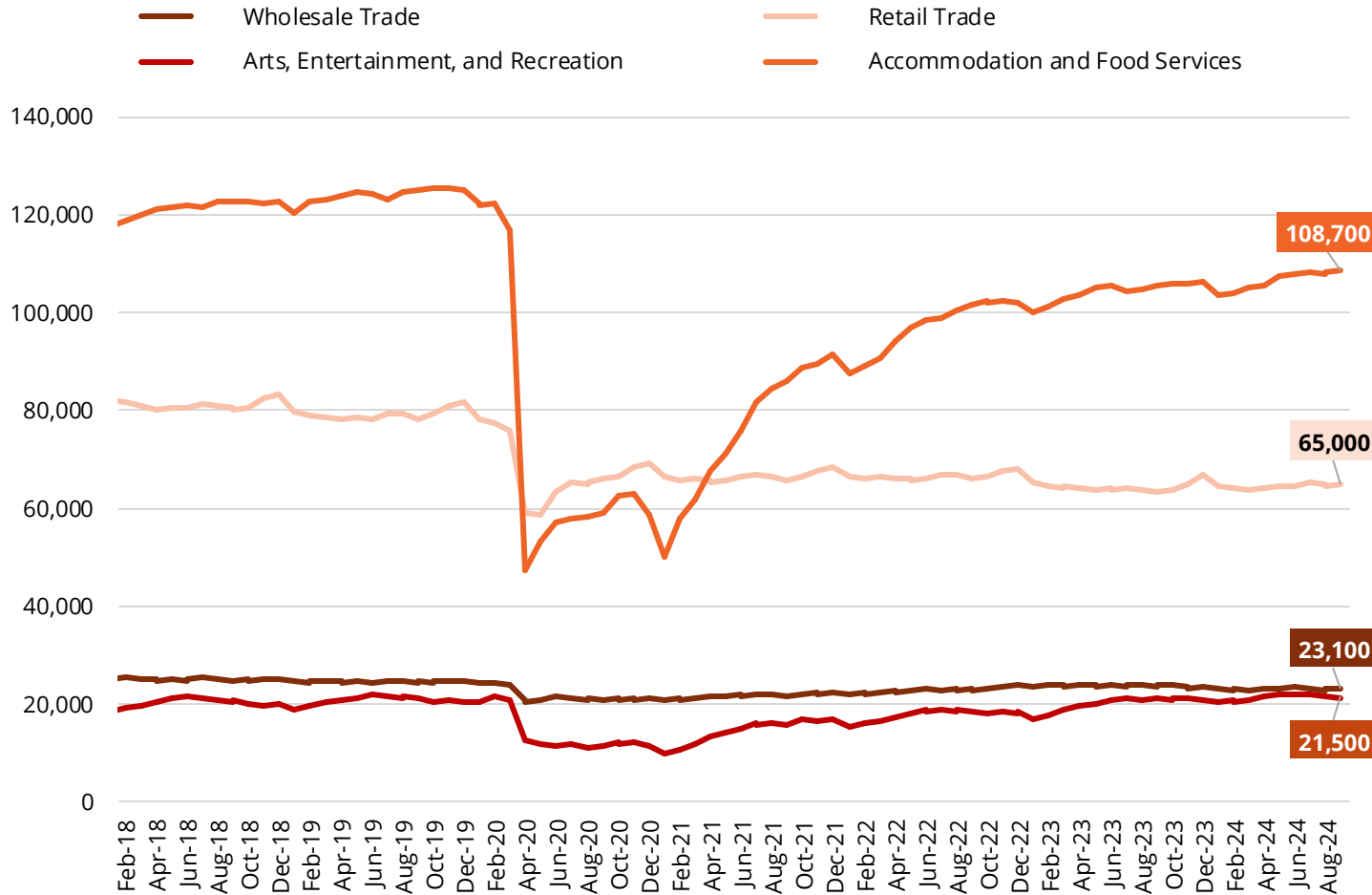
Retail hubs across the Bay Area, bar Union Square, continue to enjoy relatively healthy availability rates in Q3 2024. San Francisco continues to perform in neighborhoods outside of the urban core, while San Mateo, Palo Alto, and San Jose have all seen decreases in availability. Downtown Oakland and Walnut Creek have both seen availability rates increase slightly but remain below the market average.

Construction costs vs leasing activity



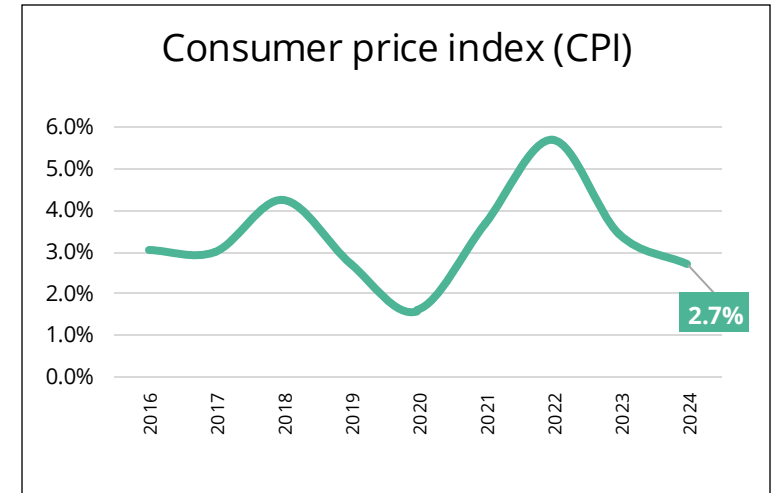
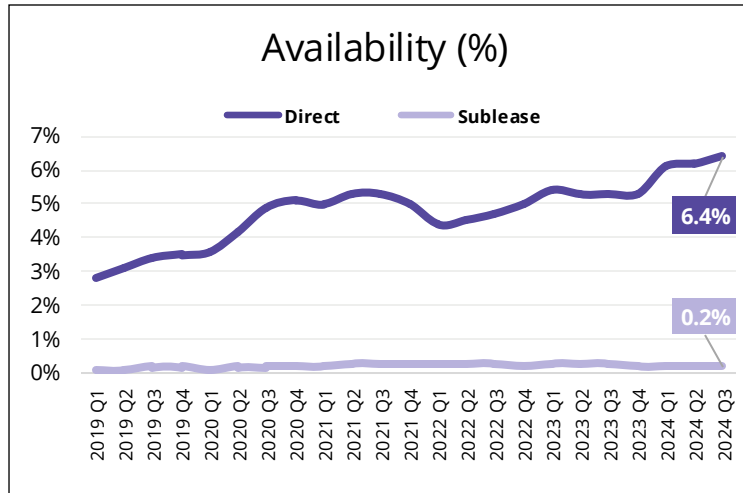
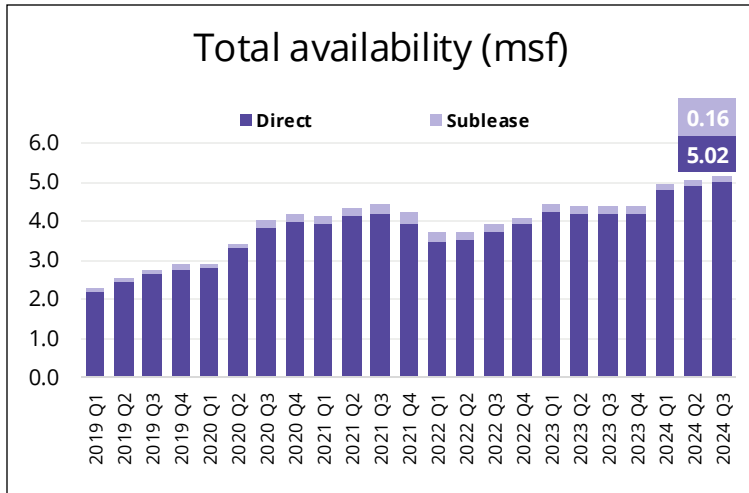
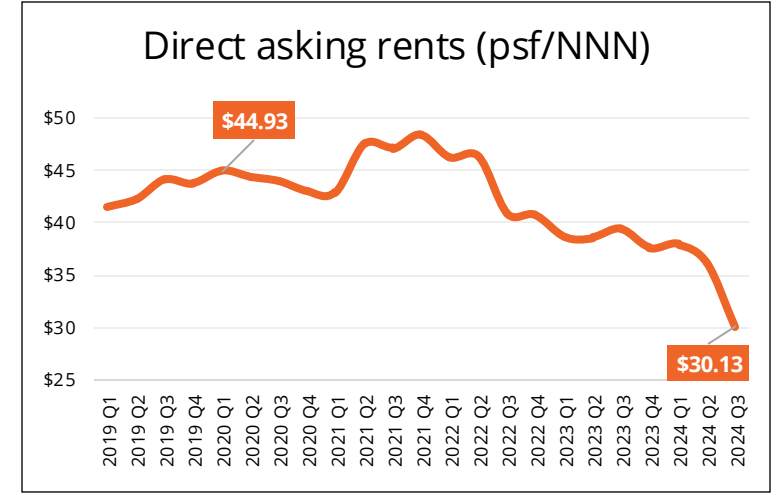
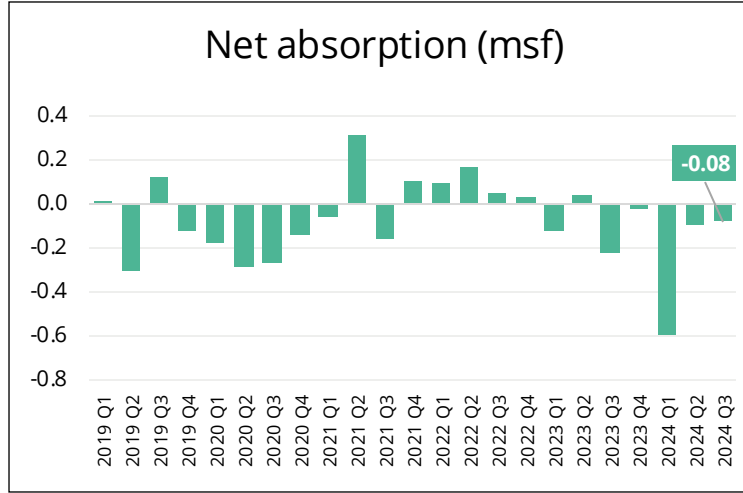
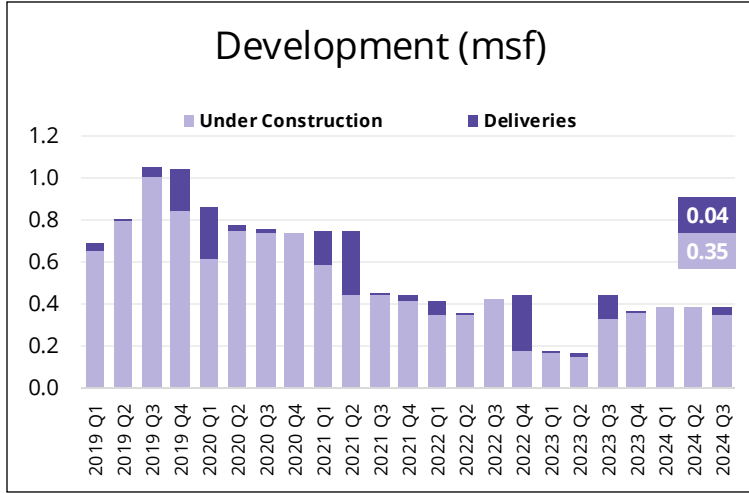
Construction costs have remained largely unchanged over the previous year but are still up 40.4% compared to pre-COVID. Leasing activity rose 18.5% quarter-over-quarter but continues to be well below pre-COVID levels and will likely remain to be the case until construction costs and inflation ease.

Employment by sector



Overall retail employment experienced a 0.9% upturn from the previous quarter and is expected to continue to grow with an increase in total job postings. The accommodations and food services sector experienced the largest uptick with a 1.5% increase, followed by retail trade at 0.8%.

Bay Area retail market indicators



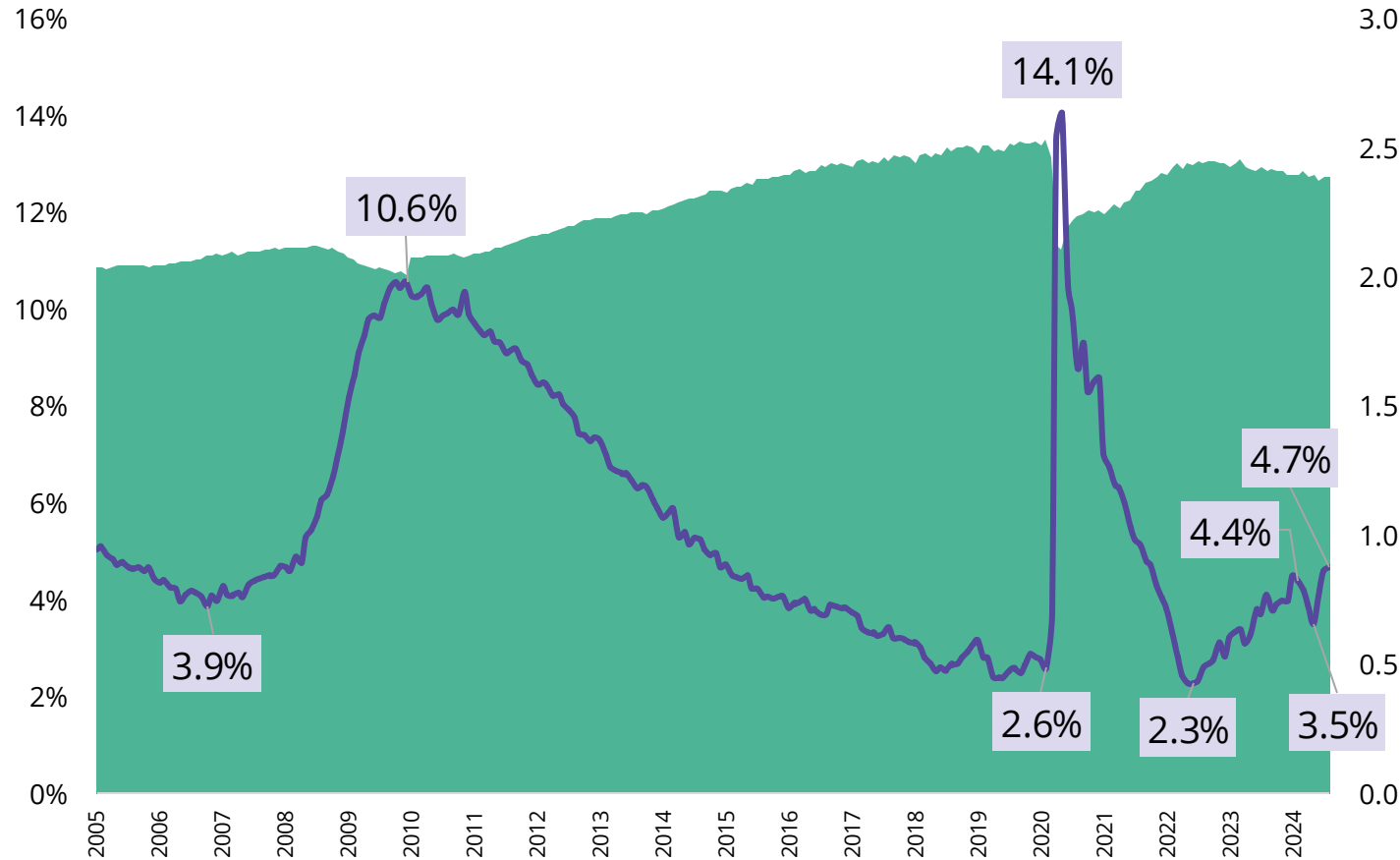
Bay Area retail market stats

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)
Union Square	3,246,314	0	22.8%	0.3%	23.1%	(28,283)	(50,514)
San Francisco (Excludes Union Square)	47,067,365	155,735	6.4%	0.2%	6.6%	(50,945)	(666,332)
Burlingame	2,326,442	0	3.2%	0.4%	3.6%	(1,698)	(12,059)
San Mateo	4,954,106	0	4.7%	0.1%	4.8%	9,354	(8,728)
Palo Alto Downtown	2,859,149	28,741	3.3%	0.7%	4.0%	45,231	66,591
West San Jose (Santana Row and West Valley)	6,514,141	166,058	3.6%	0.2%	3.9%	5,998	(37,005)
San Jose Downtown	3,214,930	0	6.3%	0.0%	6.3%	856	(17,151)
Oakland Downtown	3,574,719	0	4.8%	0.1%	4.9%	(38,560)	(20,900)
Walnut Creek Downtown	4,848,177	0	5.3%	0.0%	5.3%	(24,026)	(27,117)
Market total	78,605,343	350,534	6.4%	0.2%	6.6%	(82,073)	(773,215)

Employment and unemployment rate

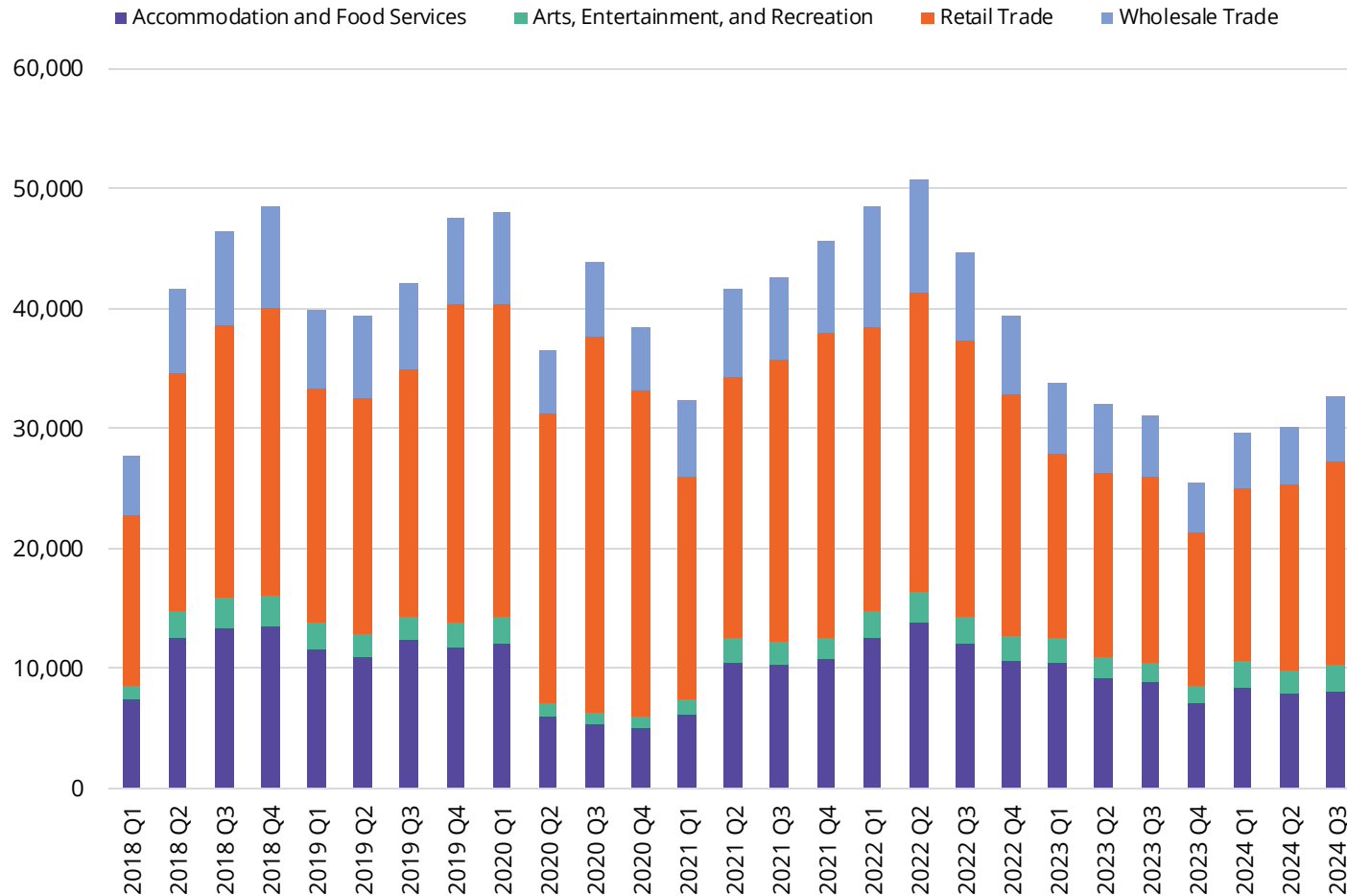
Unemployment %

Employment (millions)



San Francisco's unemployment rate rose from 3.5% in Q2 2024 to 4.7% in Q3 2024, while employment dipped slightly by 0.3% over the same period. This is the highest that the unemployment rate has been since June 2022.

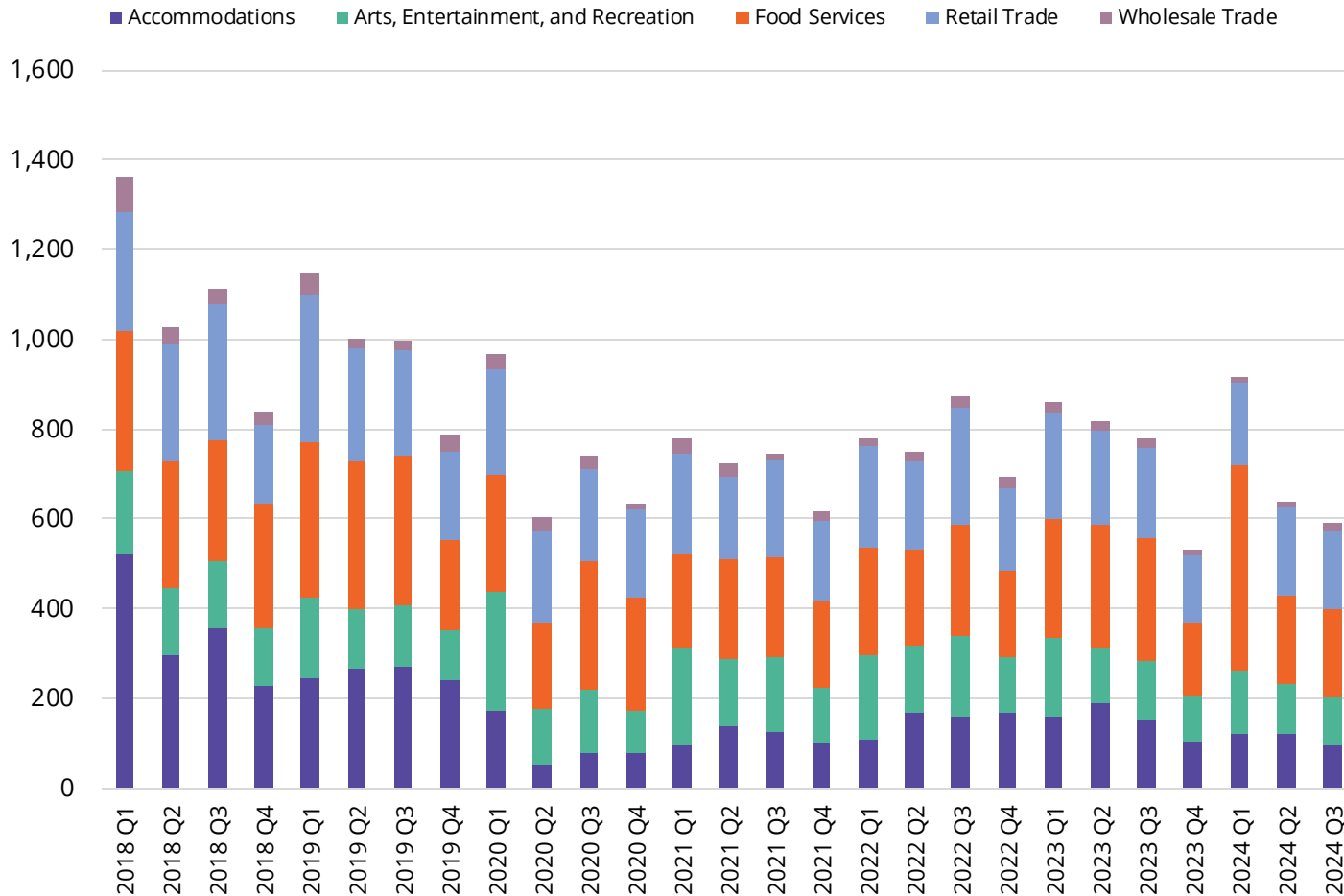
Bay Area Retail job postings



Overall retail job postings grew 8.5% from the previous quarter and was led by wholesale trade with a 14.2% increase. Arts, entertainment and recreation also rose 14.1%, while retail trade and the accommodation and food service sector both saw 8.9% and 2.9% increases, respectively.

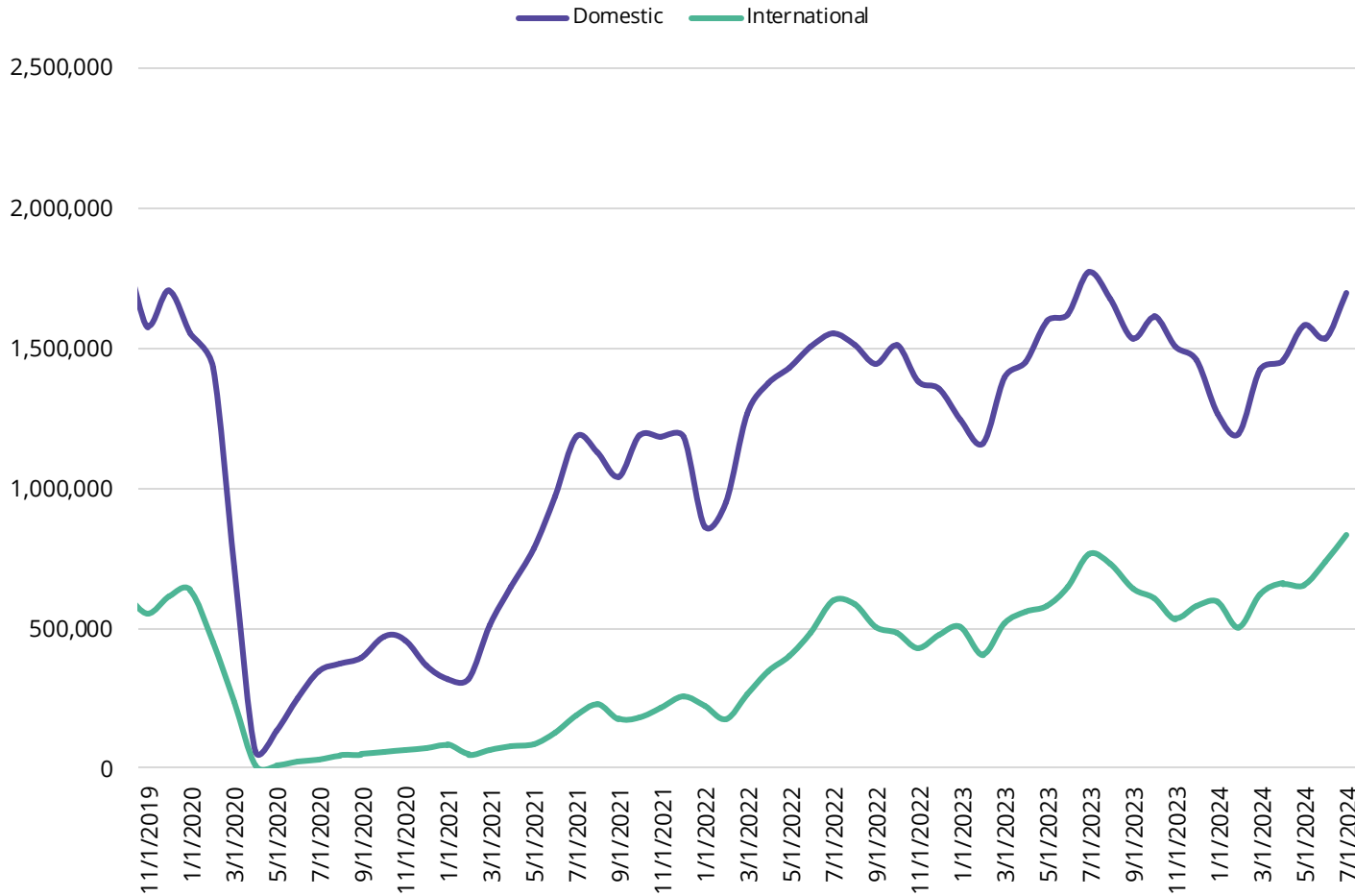
Note: San Francisco, Alameda, Contra Costa, Santa Clara and San Mateo Counties
Source: LightCast, AVANT by Avison Young

San Francisco newly registered businesses



New retail business formation slowed again in Q3 2024, with the total number of new businesses decreasing 7.5% quarter-over-quarter. Both the accommodations and retail trade sectors dropped 21.7% and 10.3%, respectively. Food services saw a marginal 1.0% decline, while the arts, entertainment and recreation sector fell 3.6%. With continued inflationary pressure and sky-high construction costs, new business formation is expected to be slow for the foreseeable future.

SFO incoming passengers



SFO's total deplanements are largely unchanged year-over-year, with a 10.9% increase in international arrivals and a 4.6% decrease in domestic. Arrivals from Central America saw the biggest increase at 30.4%, followed by Asia at 35.1%.

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**

Louis Thibault

Senior Market Intelligence Analyst
Northern California
+ 1 415 322 5058
Louis.Thibault@avisonyoung.com

Dina Gouveia

West Regional Lead, Market Intelligence
+ 1 415 322 5063
Dina.Gouveia@avisonyoung.com

Cameron Baird

Senior Vice President
+ 1 415 301 3175
Cameron.Baird@avisonyoung.com
CA License #01503816

Andrew Rebennack

Vice President
+ 1 415 349 3392
Andrew.Rebennack@avisonyoung.com
CA License #02025935