



Bay Area retail market report

Q2 2024

**AVISON
YOUNG**

Bay Area retail market trends

Most Bay Area markets and San Francisco neighborhoods are performing well apart from downtown San Francisco and Union Square. Rumors of a theater deal at the San Francisco Emporium (formerly Westfield Center) have yet to materialize but there are bright spots in the market including Breitling's new store on Union Square, Nintendo's announcement of a flagship store opening in Union Square, city approval for a mixed-use development at Stonestown Galleria, a new food hall at the Presidio Tunnel Tops and the announcement of a Michelin Chef team taking over the vacated Slanted Door in the Ferry Building.

3.8 msf

Total San Francisco retail availability including Union Square and surrounding areas

San Francisco continues to see high availability in the wake of several large retailers leaving the city. However, several development projects across the market including a residential development at the Stonestown Galleria and a new food hall at the Presidio Tunnel Tops could see this number decrease in the coming year. Additionally, most other Bay Area markets have remained largely flat apart from pronounced leasing activity in Palo Alto.

-28.0%

Construction costs stabilize near peak, attributing to decrease in leasing activity

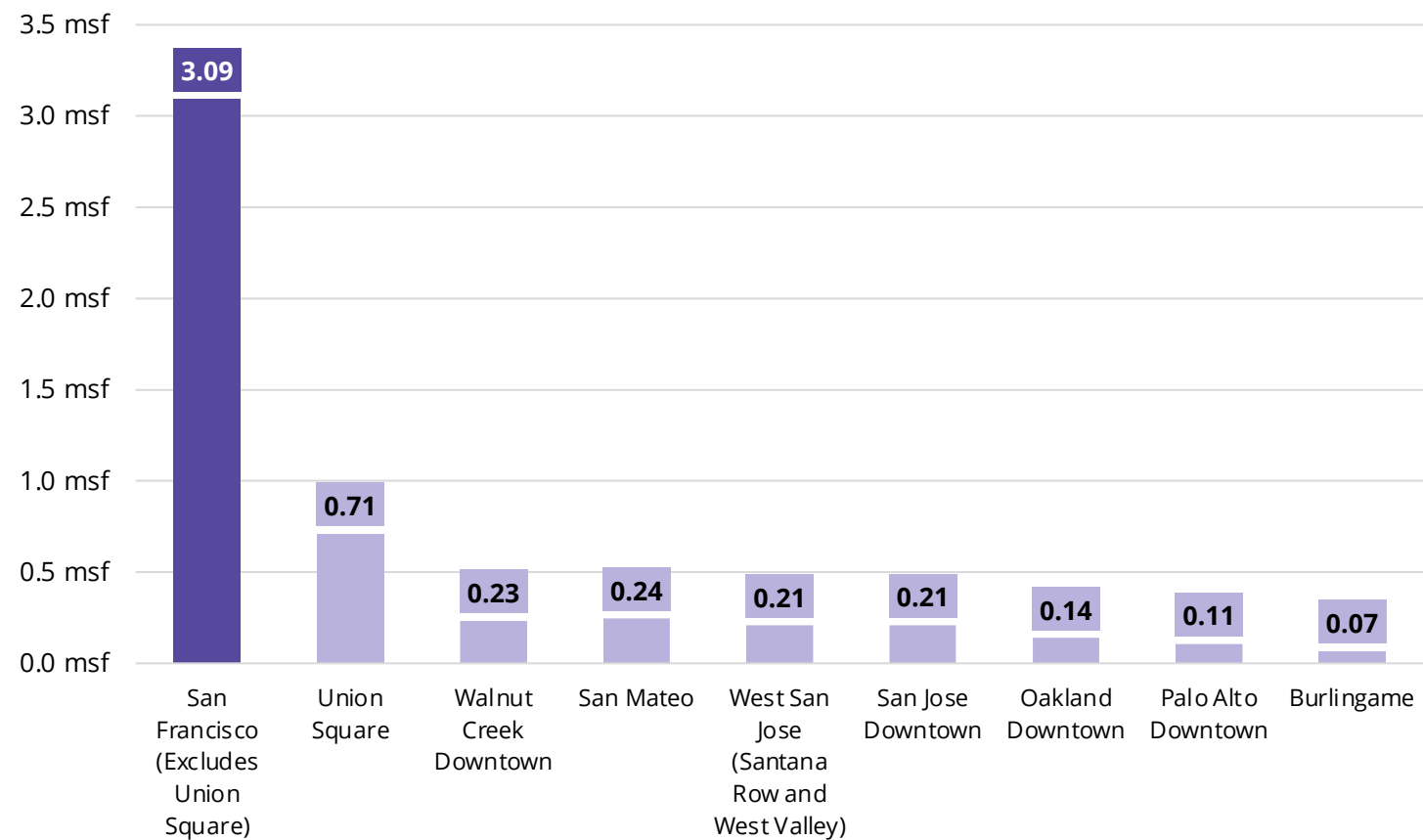
Construction costs have largely plateaued since 2023 Q2, although at peak numbers. With overall retail leasing activity down 28.0% this quarter, retailers may continue to bide their time in the hopes that costs fall in the near future and overall market conditions improve.

+2.0%

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

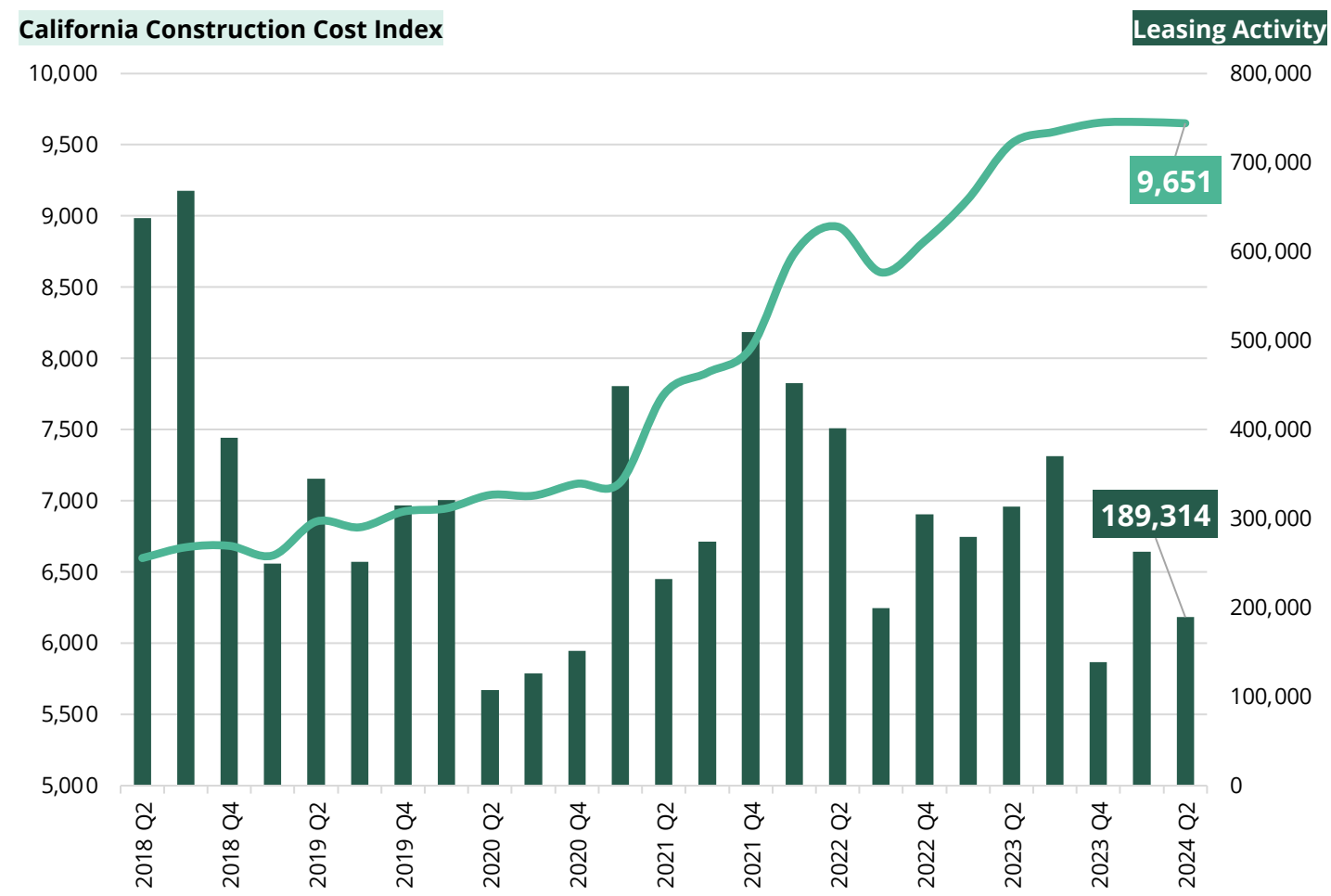
Overall retail employment experienced a 2.0% upturn from the previous quarter and is expected to continue to grow with an increase in total job postings. The arts, entertainment and recreation sector experienced the largest uptick with a 5.8% increase, followed by accommodation and food services at 2.6%. While overall job postings might be up, newly registered businesses have scaled back significantly this quarter and could potentially cause this figure to plateau.

Total available square feet by retail hub



San Francisco continues to see high availability in the wake of several large retailers leaving the city. However, several development projects across the market including a residential development at the Stonestown Galleria and a new food hall at the Presidio Tunnel Tops could see this number decrease in the coming year. Additionally, most other Bay Area markets have remained largely flat apart from pronounced leasing activity in Palo Alto.

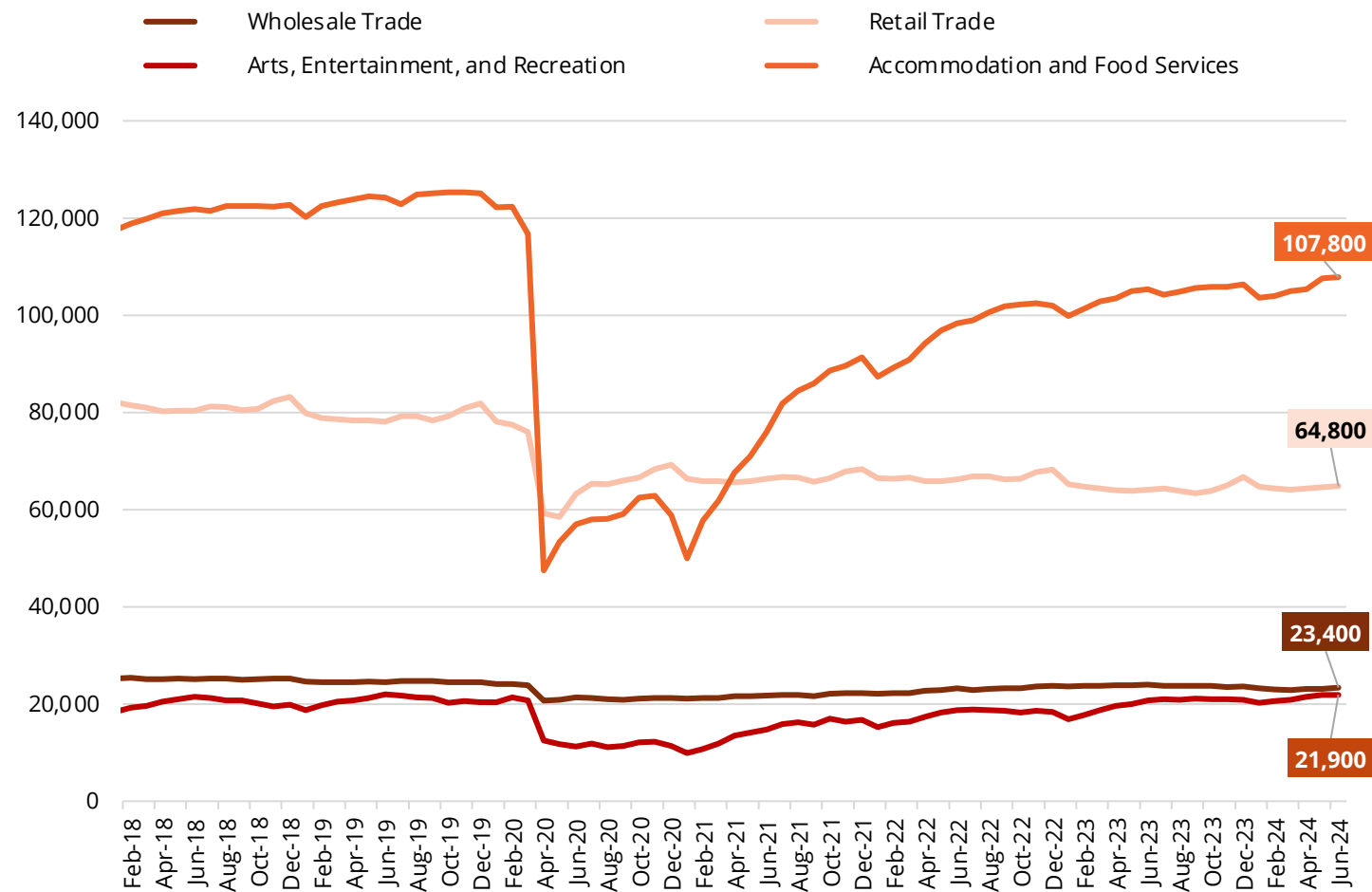
Construction costs vs leasing activity



Construction costs have largely plateaued since 2023 Q2. With overall retail leasing activity down 28.0% this quarter, retailers may continue to bide their time in the hopes that costs fall in the future and overall market conditions improve.

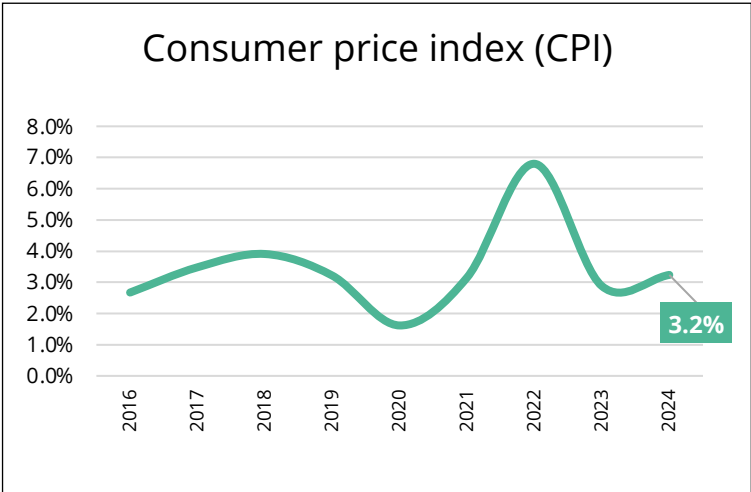
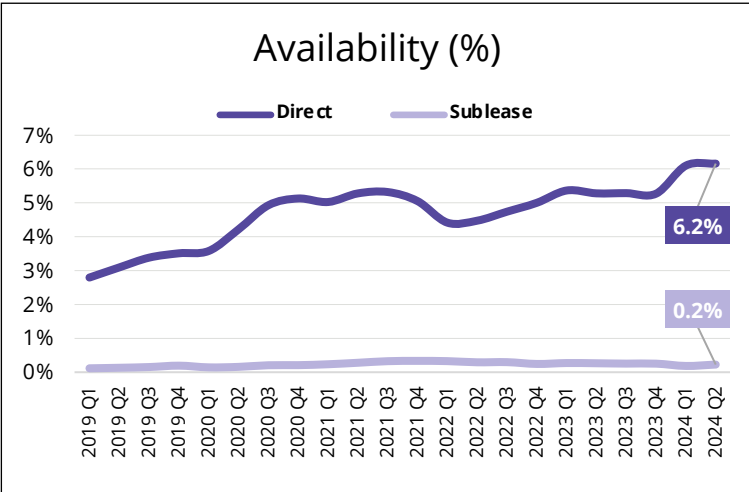
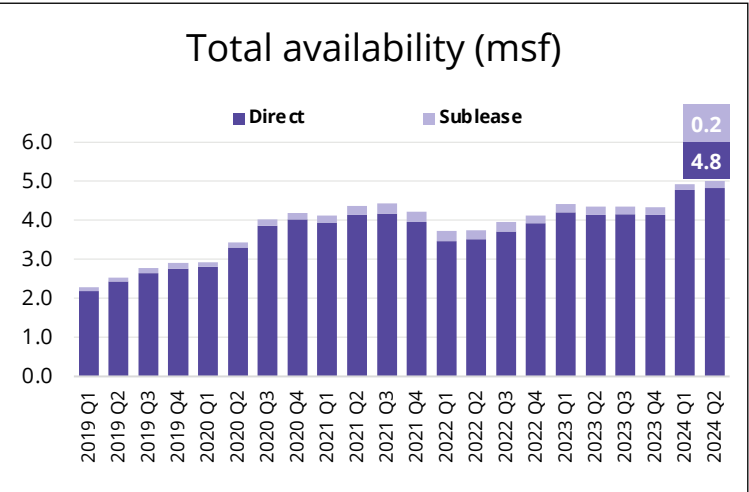
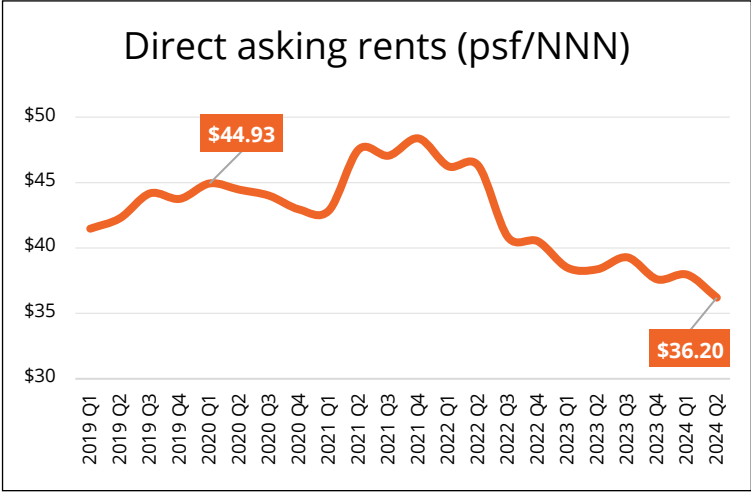
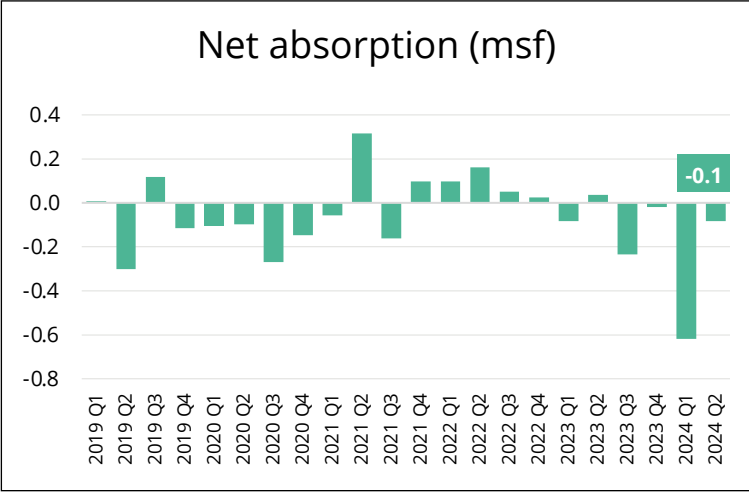
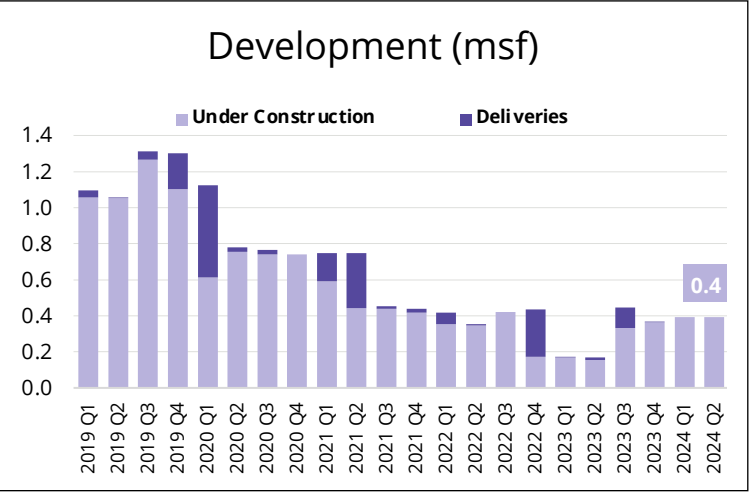
Note: Cost indices average for LA and SF
Source: California Department of General Services, CoStar

Employment by sector



Overall retail employment experienced a 2.0% upturn from the previous quarter and is expected to continue to grow with an increase in total job postings. The arts, entertainment and recreation sector experienced the largest uptick with a 5.8% increase, followed by accommodation and food services at 2.6%.

Bay Area retail market indicators



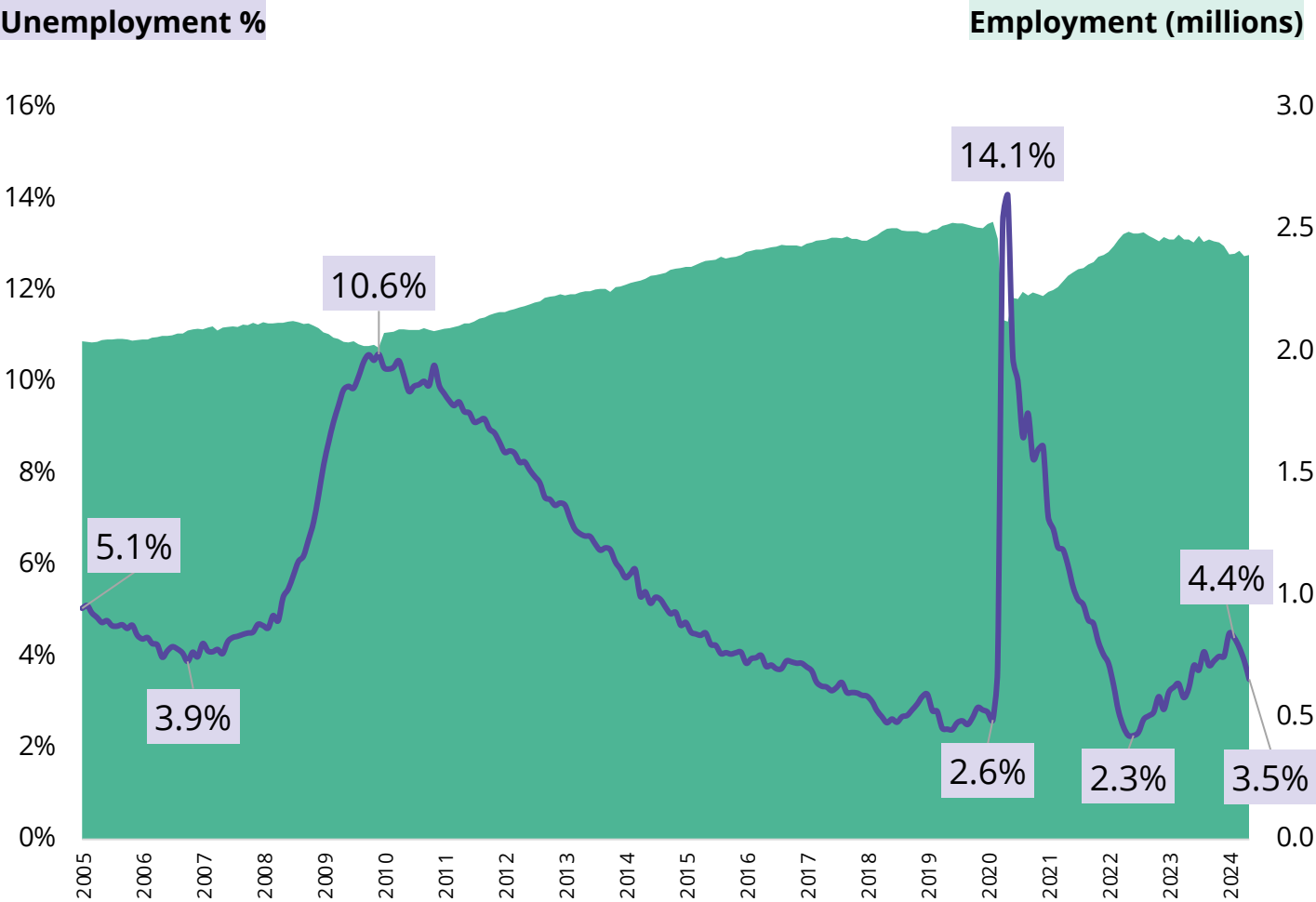
Bay Area retail market stats

	Existing inventory sf	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (QTD)	Net absorption sf (YTD)
Union Square	3,250,564	0	21.5%	0.3%	21.8%	(12,252)	(22,231)
San Francisco (Excludes Union Square)	46,852,329	155,735	6.4%	0.2%	6.6%	(78,267)	(625,900)
Burlingame	2,353,368	0	2.4%	0.4%	2.9%	(1,130)	(10,361)
San Mateo	4,941,645	0	4.9%	0.1%	5.0%	(19,604)	(18,082)
Palo Alto Downtown	2,802,308	70,591	3.1%	0.7%	3.8%	34,104	20,374
West San Jose (Santana Row and West Valley)	6,996,069	166,058	2.7%	0.2%	3.0%	(4,048)	(43,003)
San Jose Downtown	3,218,022	0	6.5%	0.0%	6.5%	(4,385)	(18,007)
Oakland Downtown	3,151,138	0	4.0%	0.4%	4.4%	2,311	17,660
Walnut Creek Downtown	4,813,866	0	4.8%	0.0%	4.8%	139	(3,091)
Market total	78,379,309	392,384	6.2%	0.2%	6.4%	(83,132)	(702,641)

San Francisco economic trends

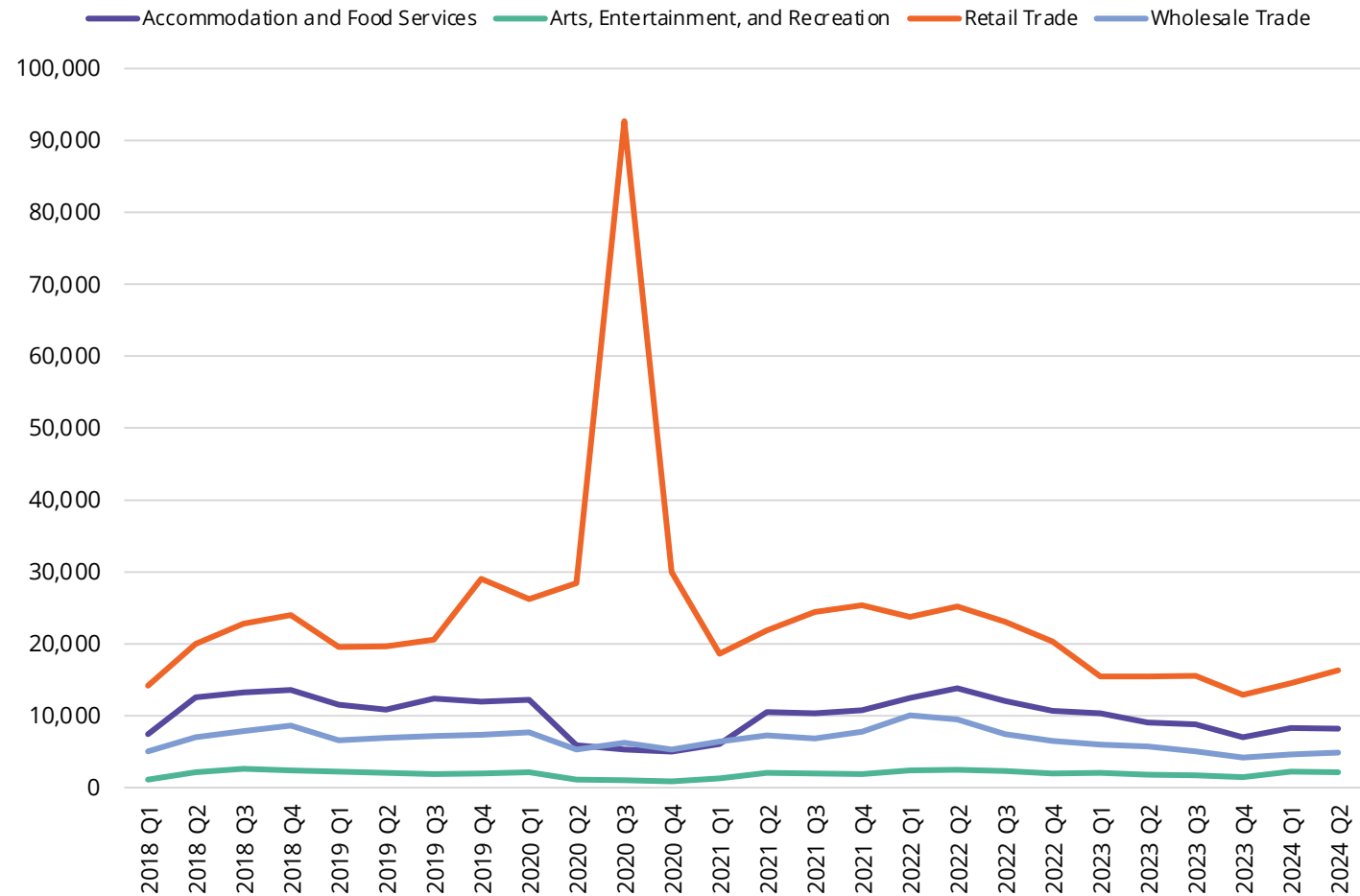


Employment and unemployment rate



San Francisco's unemployment rate is now at 3.5%, marking a decrease from 4.4% in Q1 2024. An increase in overall job postings could see this figure fall further in second half of 2024.

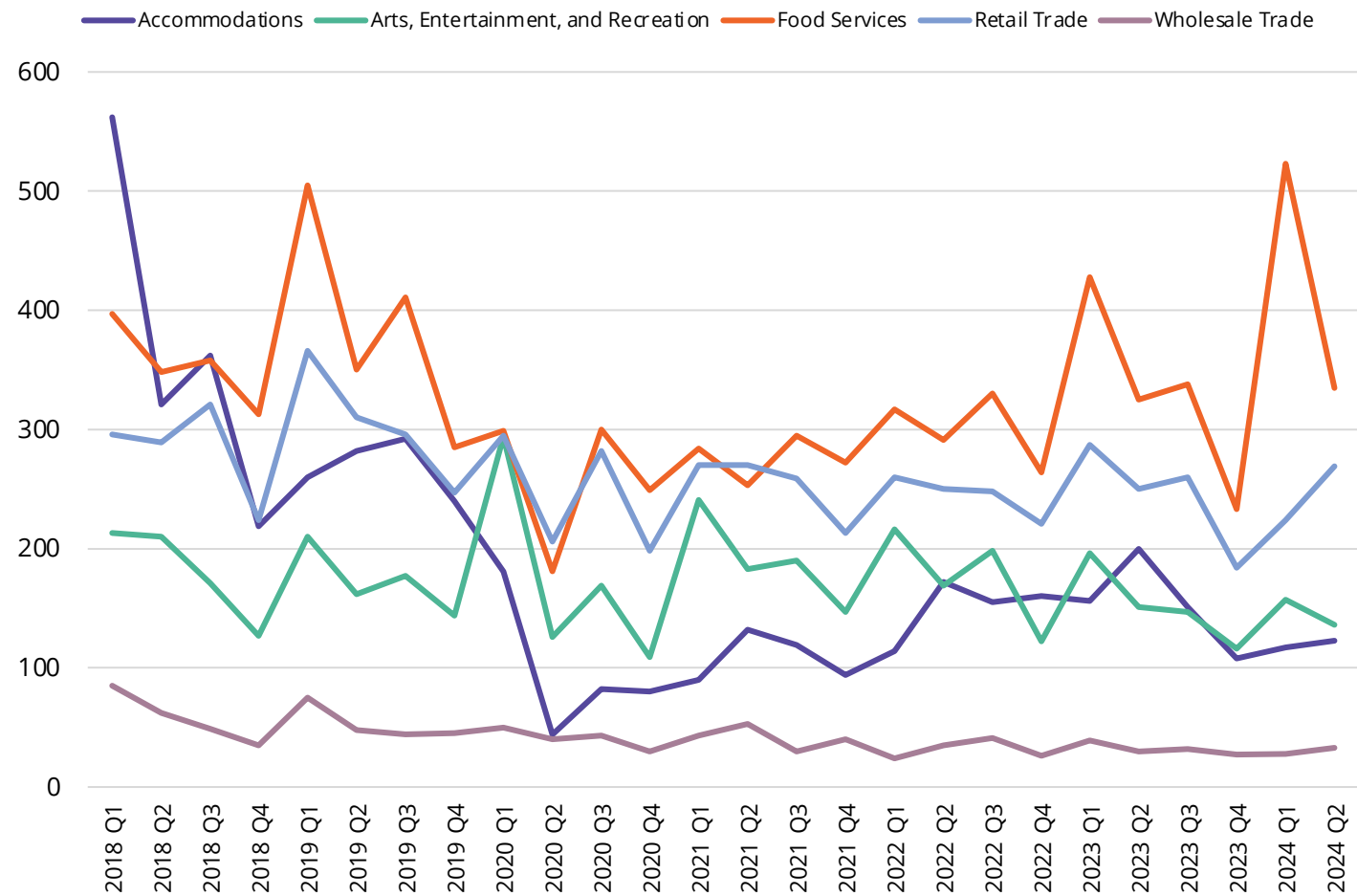
Retail job postings



Overall retail job postings grew 6.1% from the previous quarter and was led by retail trade with a 12.2% increase. Wholesale trade also rose 5.4%, while the accommodation and food services and arts, entertainment and recreation sectors both saw 1.2% and 5.1% decreases, respectively.

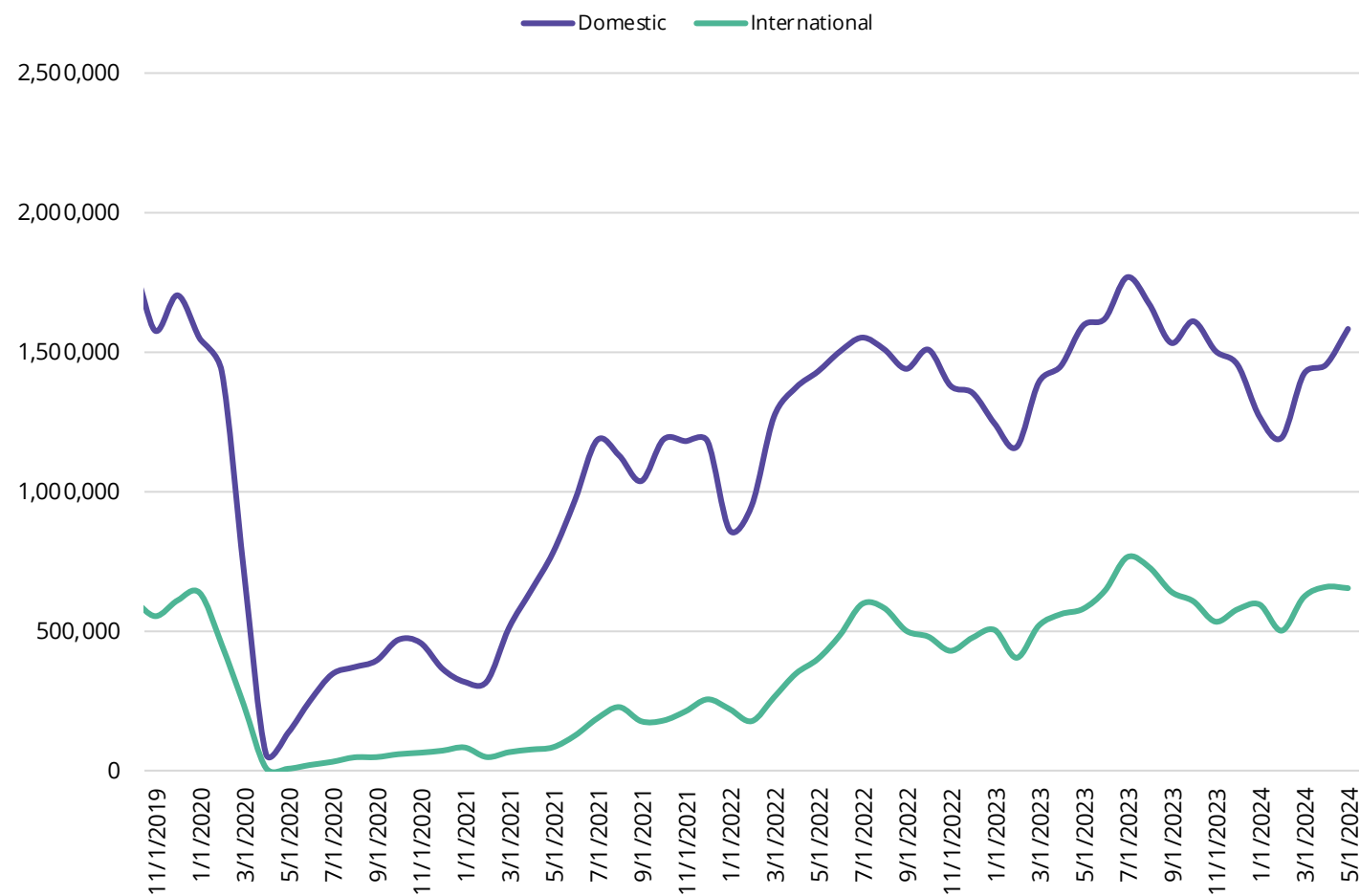
Note: San Francisco, Alameda, Contra Costa, Santa Clara and San Mateo Counties
Source: LightCast, AVANT by Avison Young

San Francisco newly registered businesses



New retail business formation slowed in Q2 2024, with the total number of new businesses decreasing 14.6% quarter-over-quarter. Food services suffered the largest pullback with a 35.9% decrease in Q2, while retail trade picked up 20.1% over the same period. Food services are still reeling from inflationary pressure including a San Francisco minimum wage of \$18.37 per hour and food costs up approximately 25%.

SFO incoming passengers



SFO’s total deplanements are up 3.9% year-over-year with overall travel and tourism continuing to pick up post-pandemic. However, domestic arrivals are down 0.2% over the same period, while international arrivals are up 15.1%. Arrivals from Asia saw the biggest increase at 38.8%, followed by Central America at 26.9%.

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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