

# MARKET REPORT

Retail  
San Francisco Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

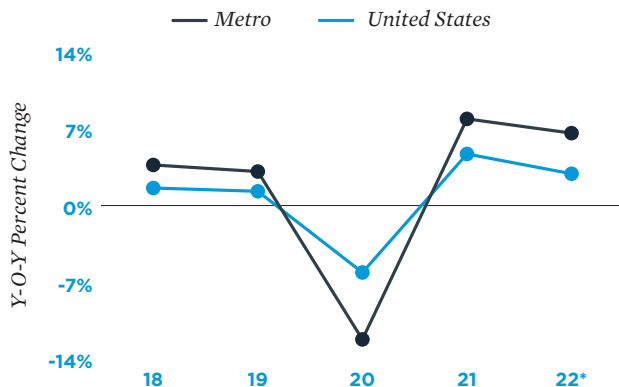
2Q/22

## Improving Health Conditions Enable First Annual Vacancy Compression in Eight Years

**Pandemic-era restrictions lifted.** During spring 2021, the capacity limits were rescinded on indoor shopping and entertainment venues, which jump started San Francisco's retail recovery. Since then, the metro has recorded four consecutive quarters of positive net absorption, with availability contracting 20 basis points in the first quarter of this year alone. South San Mateo County and the western half of the city of San Francisco have observed the most leasing activity as of late, where local vacancy is at least 250 basis points below the metro average entering April. Additionally, the metro recently dropped its vaccine mandate for indoor restaurants and bars in March. This will likely induce more social gatherings and increase consumer spending, which, in turn, may provide an additional boost to leasing activity in the near- to mid-term.

**Development remains moderate.** Retail construction in San Francisco has been historically modest and will remain so, due to limited development opportunities throughout the metro. Supply additions in 2022 will trail last year's pace by more than 300,000 square feet, as developers expand retail inventory by only 0.2 percent. Although the bulk of near-term completions are slated for downtown San Francisco, where vacancy is the highest in the metro, retailer demand is still projected to outpace total deliveries. As such, vacancy will contract in the metro for the first time on an annual basis since 2014. However, availability will likely remain above the pre-pandemic rate until midweek foot traffic in the CBD normalizes.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook



**75,000  
JOBS**  
*will be created*

### EMPLOYMENT:

Roughly 18,700 jobs were added through the first quarter, with unemployment sitting at 3.3 percent entering April. Staff counts will expand by 6.6 percent, with year-end employment surpassing the pre-pandemic level by roughly 7,400 positions.



**125,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Annual deliveries trail the 500,000-square-foot threshold for the fifth consecutive year, as development remains muted in San Francisco. This year's pipeline is headlined by 100 Stockton opening in the Downtown West submarket.



**40  
BASIS POINT**  
*decrease in vacancy*

### VACANCY:

Retailers will take over 350,000 square feet of space off the market this year, marking the largest net absorption total in San Francisco since 2013. The vacancy rate will fall to 5.2 percent by year-end, 140 basis points above the pre-pandemic rate.

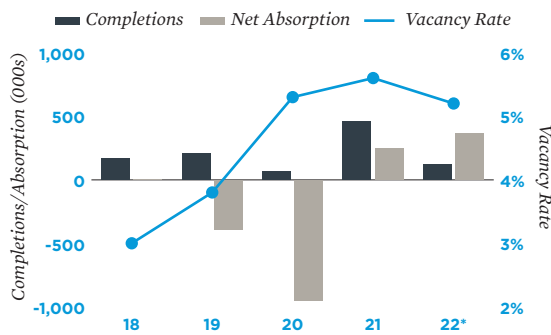


**1.9%  
INCREASE**  
*in asking rent*

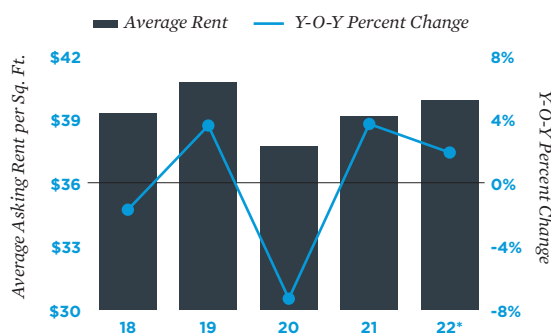
### RENT:

The average rent increases on an annual basis for the second consecutive year, building off 2021's 3.7 percent gain. The rate will rise to \$39.90 per square foot, but still remains below the all-time high achieved in the third quarter of 2019.

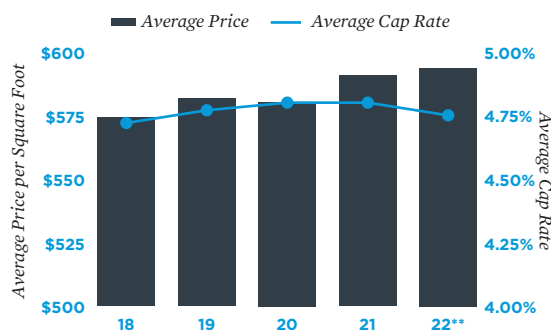
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 1Q 2022 - 12-Month Period



### CONSTRUCTION

**359,000 sq. ft. completed**

- Over the past year ending in March, construction activity more than doubled the pace of the previous yearlong span as developers increased retail inventory by 0.5 percent.
- More than 60 percent of all deliveries during this timeframe were completed in the western half of the city of San Francisco.



### VACANCY

**30 basis point decrease in vacancy Y-O-Y**

- Driven by the 70-basis-point compression in San Mateo County, metrowide vacancy fell to 5.4 percent over the past four quarters.
- In the 12 months before April, availability in multi-tenant properties decreased by 50 basis points to 6.1 percent, while the single-tenant vacancy rate slid 20 basis points to 5.3 percent.



### RENT

**4.5% increase in the average asking rent Y-O-Y**

- Aided by the 5.9 percent rise in single-tenant rents, San Francisco's average asking rate rose to \$39.42 per square foot. Multi-tenant rents decreased 8.0 percent over the past 12 months.
- The Downtown North, Southeast San Francisco and the western half of the city of San Francisco recorded double-digit rent gains during this interval.

## Investment Highlights

- The pandemic's effect on retail fundamentals in San Francisco continues to hinder investment activity in the metro. Despite transaction velocity rising at least 30 percent in both single- and multi-tenant assets over the past four quarters, deal flow still remains well below levels observed prior to the health crisis. The average single-tenant sale price fell 0.5 percent during this span to \$648 per square foot, while the average multi-tenant price rose nearly 4.0 percent to \$560 per square foot. Sitting in the mid- to high-4 percent range, first-year returns for both asset types are among the lowest in the U.S. on average.
- Single-tenant assets in South San Mateo County are favored, due to strong leasing activity and the submarket's sub-3 percent vacancy rate. Competition for available listings here is heating up, with entry costs often rising above \$1,000 per square foot. Cap rates for net-leased assets with credit-worthy tenants can fall to the high-2 percent span.
- Local vacancy well below the metro average is also heightening buyer interest for multi-tenant assets in the western half of the city of San Francisco. Entry costs here generally fall in line with the market mean, with cap rates that average in the high-4 percent range.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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