

MARKET REPORT

Retail
San Jose Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

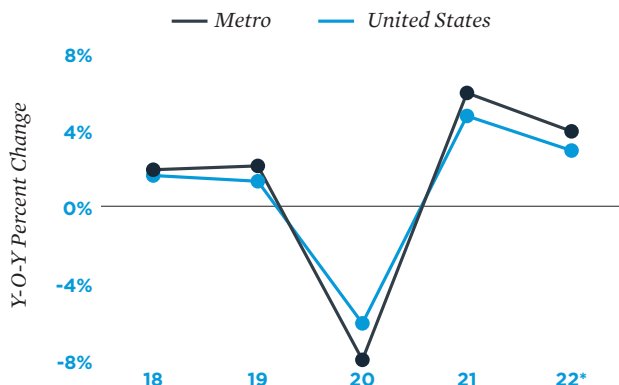
2Q/22

Future Move-Ins Signal Upcoming Gains, But Retail Sector off to Slow Start in 2022

Lingering pandemic impacts still at play. As many COVID-19 restrictions were removed earlier this year, there was optimism that it would relay into retail momentum. However, this was not the case in the opening three months of 2022, as net absorption during that period was more negative than in any of the prior five quarters. There is still a level of uncertainty by both retailers and consumers, as unexpected variants could induce the reenactment of containment measures. Another thorn in the recovery is the sluggish return of business travel, historically a major driver of foot traffic in the market. The American Hotel and Lodging Association predicted that business travel revenue in San Jose will be down more than 50 percent in 2022 relative to 2019, which equates to a \$750 million loss in economic activity. San Jose's retail sector is poised to turn the corner eventually, but the return of business travelers, as well as a replenished comfort level among local consumers, are key elements.

Recent lease commitments hint at brighter days ahead. Many national retailers want to have a more expansive presence in San Jose, despite narratives of a mass exodus from the Bay Area, which have been largely debunked by recent population tallies. In the past few months, Costco inked a 166,000-square-foot spot at the Westgate West center scheduled to open in 2024, while thrift store Savers announced plans to occupy 33,000 square feet in June 2022 near the Santa Clara Valley Medical Center. Big Lots, PGA TOUR Superstore and Ace Hardware also inked new leases in the past two quarters.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**44,000
JOBS**
will be created

EMPLOYMENT:

San Jose is in a better spot than its Bay Area counterparts. Entering April, the labor total was 20,000 positions below the 2019 level, while shortfalls in Oakland and San Francisco exceeded 30,000 roles. In 2022, San Jose's job tally grows by 3.9 percent.



**85,000
SQ. FT.**
will be completed

CONSTRUCTION:

Retail construction has come to a near standstill, with fewer than 100,000 square feet scheduled to finalize for the first time since at least 2007. Inventory growth of just 0.1 percent is among the smallest expansions of any major U.S. market this year.



**0
BASIS POINT**
change in vacancy

VACANCY:

While pressure from new supply will be minimal, demand for retail space has yet to accelerate since the dawn of the health crisis. In the first quarter of this year, vacancy increased by 30 basis points. By year-end the rate is expected to decrease by that same margin.

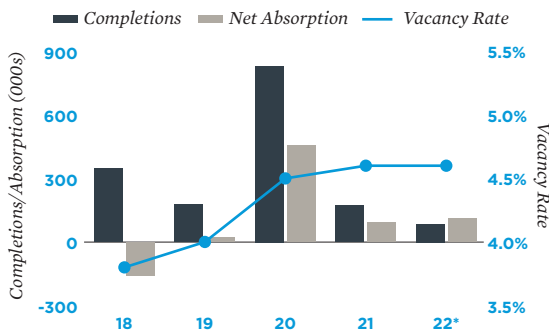


**1.8%
INCREASE**
in asking rent

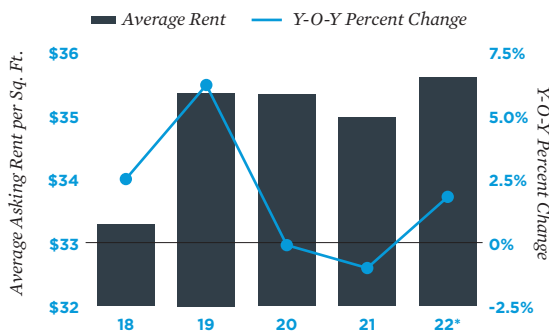
RENT:

Largely carried by gains in the single-tenant segment, where demand tailwinds are more noteworthy, the overall average asking rent increases to \$35.60 per square foot in 2022. This is about 0.6 percent above the 2020-2021 quarterly average.

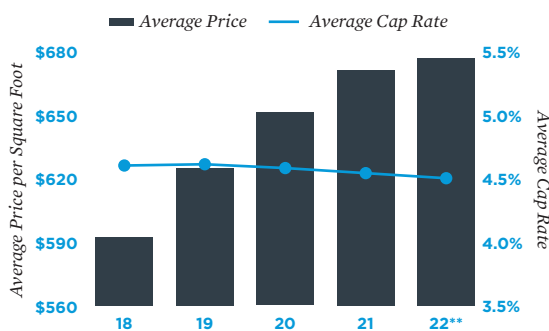
Supply and Demand



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

163,000 sq. ft. completed

- Almost all deliveries in the past year were in the second quarter of 2021. Since that period, less than 25,000 square feet finalized in nine months.
- An 80,000-square-foot center in Hollister was the largest project underway as of early May. It is expected to open in the first quarter of 2023 and has commitments from Ross, Ulta Beauty and Famous Footwear.



VACANCY

10 basis point increase in vacancy Y-O-Y

- The retail sector endured some volatility. From April through December 2021, net absorption totaled positive 265,000 square feet. Then in the first quarter of 2022, about 75 percent of that volume returned to the market.
- In March, multi-tenant vacancy stood 20 basis points above the 2019 level at 5.1 percent. However, this rate is the lowest among Bay Area metros.



RENT

0.3% increase in the average asking rent Y-O-Y

- After dropping 4 percent from the onset of the pandemic through the first quarter of last year, asking rents are back on an upward trend. Nevertheless, the pace of growth is mundane, inching up to \$34.96 per square foot.
- Sunnyvale-Cupertino had the most robust rent growth among submarkets during the past year, buoyed by an 8 percent lift in single-tenant rates.

Investment Highlights

- Assets that service multiple tenants transacted for an average of \$621 per square foot during the four-quarter period ended in March, rising 4 percent from the previous year. The mean cap rate for these types of retail properties held firm at 4.5 percent, unchanged since 2020.
- The South San Jose submarket was the common denominator of nearly half of the multi-tenant sales during the past 12 months. Outside of a handful of portfolio deals, local buyers pursued strip centers in the East San Jose and Willow Glen locales, or further south in the Edenvale neighborhood. Cap rates on these trades are typically in the high-4 percent area, but can reach to the mid-6 percent band, depending on property specifics.
- San Jose held its spot as the priciest metro in the nation for buyers seeking single-tenant assets, with a 2 percent bump during the 12-month span ended in March to an average of \$746 per square foot. Single-tenant yields measured at 4.5 percent on average, down 10 basis points year-over-year.
- Buyers interested in paying a premium for single-tenant assets in tech-heavy areas like Mountain View-Los Altos and Palo Alto are focusing on auto repair shops, which often adjure prices above \$1,400 per square foot.

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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