

MARKET REPORT

Retail
San Francisco Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

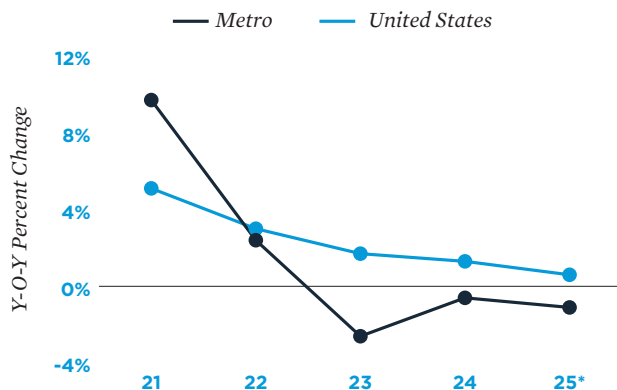
3Q/25

Retail Vacancy Pressures Ease in San Francisco With Downtown Recovery and Suburban Resilience

Rising foot traffic draws retailers Downtown. San Francisco was one of only eight major metros where vacancy stayed flat or declined over the past year, as stronger in-store traffic bolstered retailer confidence. Despite concerns over weaker tourism, pent-up demand and business travelers helped lift Bay Area Rapid Transit ridership 12 percent – 15 percent on weekends – year over year in July, supporting expectations the metro will lead the nation in hotel occupancy growth in 2025. Stronger visitor flows have attracted more retailers to Downtown’s western and northern corridors, highlighted by Zara’s new Union Square store. In contrast, office nodes like the Financial District and Mid-Market have been slower to recover, though office attendance was up 21 percent year over year in July – the fastest among major markets. New in-office mandates from Uber, Gap and Paramount should also help daytime retail spending.

Suburban leasing remains firm. The rest of the city proper outside of Downtown has maintained vacancy near metro lows below 4 percent. In north and central San Mateo County, vacancy edged above 6 percent, though demand from necessity-oriented tenants such as grocers should provide steady backfill. Leasing volume in the county for the second quarter reached its highest level in over a year, underscoring resilient tenant activity. YouTube’s 440,000-square-foot San Bruno expansion, opening in October, reflects a growing employer base that should continue to underpin local consumer demand.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2025 Outlook



**13,000
JOBS**
will be lost

EMPLOYMENT:

The metro will lose jobs on net for a third straight year, driven largely by losses in traditionally office-using industries. Through July, the education, health care and construction sectors have posted modest gains.



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

CONSTRUCTION:

Completions will remain negligible for the fourth consecutive year. The only project of note in 2025 is the 125,000-square-foot San Francisco Flower Market, which relocated to 16th Street and opened in April.



**30
BASIS POINT**
increase in vacancy

VACANCY:

Vacancy is expected to reach 7.0 percent in 2025, rising more slowly than in the prior two years as net relinquishments moderate. By year-end, the metro’s rate will sit 270 basis points above its prior 10-year average.

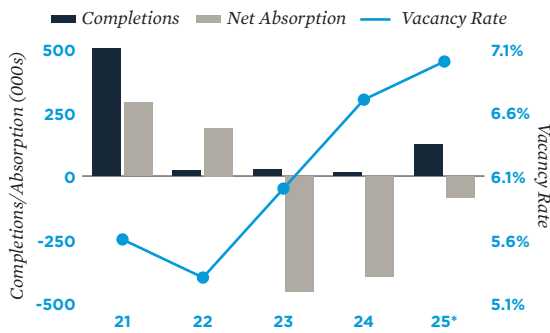


**0.5%
INCREASE**
in asking rent

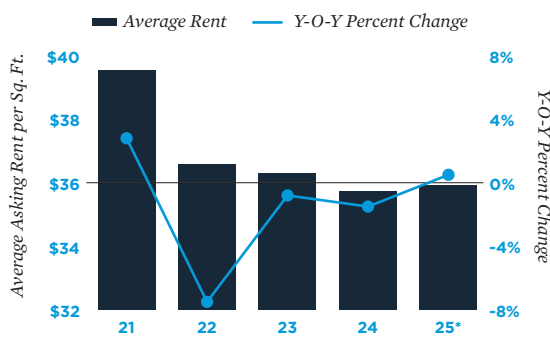
RENT:

A slowdown in tenant move-outs is expected to lift rents this year after three years of declines. The metro’s average asking rent will reach \$35.92 per square foot – second only to San Jose among major California metros.

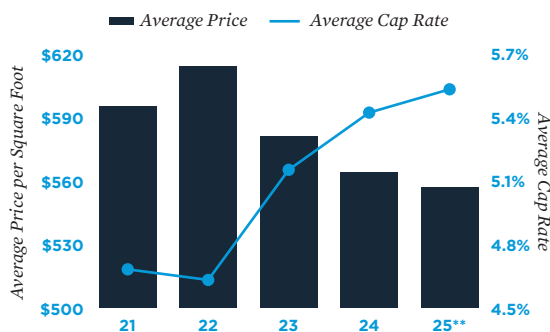
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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2Q 2025 – 12-Month Period



CONSTRUCTION

125,000 sq. ft. completed

- Other than the relocation of the San Francisco Flower Market in 2025, only about 60,000 square feet of retail space has been delivered since 2022.
- Roughly 150,000 square feet was under construction as of August 2025, led by the 97,000-square-foot VillaSport Athletic Club in Redwood City, along with smaller mixed-use projects concentrated in San Mateo County.



VACANCY

0 basis point change in vacancy Y-O-Y

- Vacancy was 6.8 percent in June, as the multi-tenant rate fell to 8.8 percent and single-tenant vacancy edged up to a record high 6.5 percent.
- The Financial District and Mid-Market saw vacancy rise at least 70 basis points year over year. Most other areas saw modest hikes, but vacancy near North Beach fell sharply amid 130,000 square feet of net absorption.



RENT

2.3% increase in the average asking rent Y-O-Y

- The metro's asking rent reached \$36.30 per square foot in June, with year over year rent growth slightly outpacing the national average.
- Submarkets with stable or tightening vacancy posted stronger annual rent growth, while those facing greater vacancy pressures weakened, led by a double-digit rent decline in the Financial District.

Investment Highlights

- Sales activity over the year ended in June rose about 8 percent from the prior 12 months, though momentum has moderated in 2025. Multi-tenant trades have proven more resilient, climbing 32 percent over the same period as buyers prioritize diverse cash flows. San Francisco's average multi-tenant cap rate reached its highest level in over a decade at 5.7 percent in June, offering a higher yield than Orange County and Los Angeles.
- Southeast San Francisco near the Mission District has led investment activity in 2025, with steadier deal flow than nearby suburbs. The submarket saw nearly 500 apartments absorbed on net in the first half of 2025, and its retail vacancy has held near metro lows under 4 percent, sustaining investor demand for storefronts within multifamily properties.
- Institutions targeting grocery-anchored centers have favored San Mateo County in 2025, supported by multi-tenant asking rents among the metro's highest and a growing corporate base. Gilead's 180,000-square-foot pharmaceutical development campus in Foster City will open in January 2026 and is expected to create more than 3,000 direct and indirect jobs, strengthening local consumer spending and reinforcing investor interest.

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 guarantee 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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