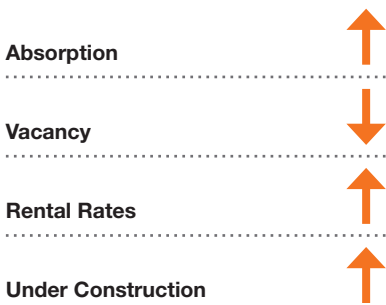


# San Francisco Retail

## Market Forecast

Trends



## Notable 2016 Lease Transactions

### Living Spaces

513-855 Broadway, Millbrae | 90,000 s.f.

### Mastro's Ocean Club

399 Geary St., San Francisco | 13,400 s.f.

### Cole Hardware

627 Vallejo St., San Francisco | 6,000 s.f.

## Notable 2016 Sale Transactions

### Morgan Stanley

Macy's Men's (120 Stockton), San Francisco  
263,640 s.f. | \$250M or \$948/s.f.

### General Growth Properties

Macy's (400 Winston Dr.), San Francisco  
267,788 s.f. | \$40.7M or \$152/s.f.

### Ponte Gadea USA

360 Post St., San Francisco  
96,882 s.f. | \$135M or \$1,393/s.f.

## Notable Construction Projects

### 6X6 | San Francisco

250,000 s.f. delivering 2017

### Transbay Transit Center | San Francisco

160,000 s.f. delivering 2017

### Chase Center | San Francisco

100,000 s.f. delivering 2019

The Bay Area retained its place as one of the most competitive and coveted retail markets in the country during the fourth quarter of 2016, as many cities and submarkets flirted with full occupancy, particularly in desirable retail corridors. San Francisco's retail vacancy rate was 1.8% to close the year, while San Mateo and Berkeley hovered around the 1% mark. Rental rates are at or near cycle highs throughout the market, and demand remains robust, as food and beverage concepts take over spaces vacated by traditional, brick-and-mortar retailers.

A strong economy is the foundation for any thriving retail market, and the Bay Area's tech-driven labor force continued to expand into the new year. The San Francisco metro area's unemployment rate fell to 2.8% in December, reflecting 1.9% year-over-year job growth. Total private sector employment reached a record-high 972,600 workers, 87,000 of which were in the retail trade sector. Nationwide, consumer confidence rose in December to an index of 113.3. The San Francisco area reported 3.5% CPI growth from the end of 2015, as prices for food outside of the home rose 3.1% year-over-year, benefiting local restaurateurs.

Street retail continues to evolve toward eateries and innovative concepts with food and beverage components. In high-end San Francisco retail corridors like Union and Fillmore Streets, traditional brick-and-mortar retailers are gradually being replaced by specialty shops, showrooms for local designers and foodmakers, and restaurants. On the food and beverage front, operators are increasingly drawn to shared-kitchen arrangements or food halls with multiple offerings under one roof, the most prominent example being the world-renowned San Francisco Ferry Building. These trends are expected to intensify in 2017, particularly in the most sought-after retail hotspots around the Bay Area.

## Investment Market

Retail building investment sales activity in the fourth quarter of 2016 totaled 57 transactions for 846,314 square feet and \$355.4 million in dollar volume, an average of \$428/sf across the Bay Area. That was down from 86 transactions with a mean price of \$580/sf during the third quarter. In the largest single transaction, New York-based Acadia

→ Continued, page 2

# Area Review

## San Francisco Retail Market Statistics

Submarket Cluster	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Quarterly Leasing Activity	YTD Leasing Activity	Avg Annual Asking Rate
San Francisco	50,756,246	1.80%	1.90%	144,002	652,739	\$44.79
Union Square	3,288,172	3.40%	3.40%	17,400	40,064	\$62.18*
Oakland	18,714,006	2.50%	2.50%	37,082	260,125	\$25.09
Berkeley	6,213,951	1.10%	1.10%	24,664	111,025	\$31.66
Walnut Creek	5,295,393	3.30%	3.30%	16,830	217,988	\$48.92
San Jose	35,405,759	3.60%	3.70%	172,675	742,992	\$30.57
Palo Alto	4,012,555	2.20%	3.00%	38,035	134,487	\$54.69
San Mateo	5,155,397	0.90%	1.00%	12,047	77,522	\$32.04
Marin County	12,904,312	3.50%	3.50%	72,739	270,482	\$27.73
<b>TOTAL</b>	<b>138,457,619</b>	<b>2.36%</b>	<b>2.50%</b>	<b>518,074</b>	<b>2,467,360</b>	<b>\$36.94</b>

\* This number is skewed by secondary market data outside of the Union Square retail core. Rents on the square can exceed \$600/sf.

Properties acquired the 555 Ninth Street Retail Center in San Francisco from SPI Holdings for \$140.6 million or \$945/sf. Another New York investor, Equity One, spent \$89.3 million or \$626/sf to buy the San Carlos Marketplace, a 153,510 square foot shopping center anchored by TJMaxx, Best Buy, and PetSmart. Finally, Macy's sold its men's store at 240 Stockton Street to Morgan Stanley for \$250 million or \$948/sf, and its anchor property at San Francisco's Stonestown Galleria to Chicago-based General Growth Properties for \$40.7 million or \$152/sf. Both stores will remain open at least temporarily under leaseback deals with their new owners.

High-end retailers also played a pivotal role in the sale of several noteworthy San Francisco office assets during the second half of the year. The Phelan Building at 760 Market sold in August for \$374.5 million or \$1,256/sf, thanks in part to the Starbucks and Walgreens stores on the 298,000 square foot building's ground floor. In Union Square, the Tiffany Building at 360 Post achieved a \$135 million or \$1,393/sf outlay because of the luxury jeweler's premium location across from the city's famed public plaza. Both properties, and others, were acquired by foreign investors who sought assets with stable, long-term revenue streams.

Mid-size single-tenant properties in San Francisco attracted owner-user buyers in the final six months of the year. The former Jeanty at Jack's, the historic three-story landmark restaurant building at 615 Sacramento, went to Bar Works, a New York co-work company whose concept is pairing a bar with 400 workspaces for freelancers and telecommuters. Over the last six months, Bar Works converted the famous Jack's restaurant building into a unique co-work space with a full service bar and restaurant, and opened for business in the fourth quarter.

### San Francisco

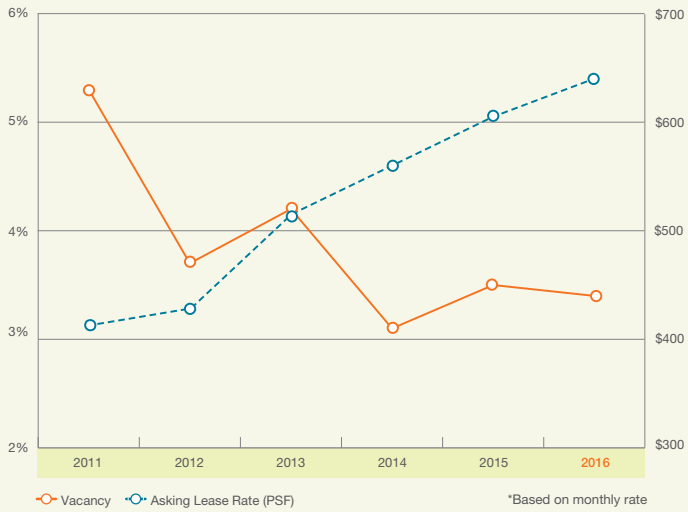
While restaurant closures and Macy's property sales made headlines during the fourth quarter, the San Francisco retail market

remained resilient, with vacancies below 2.0% in virtually all of the city's coveted retail areas. As traditional retailers increasingly favor an online presence over expanding their brick-and-mortar stores, the city's retail scene is trending toward specialty stores, restaurants, and shops with a food and/or beverage component.

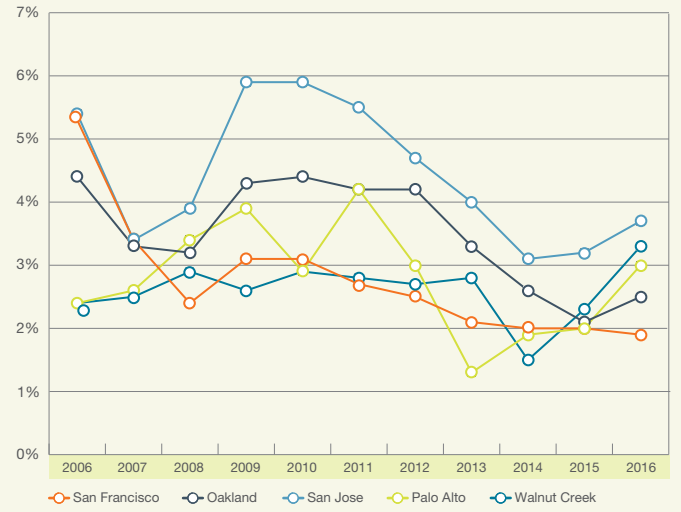
On the restaurant side, notable fourth-quarter openings included Sasaki, an omakase sushi concept developed by a Michelin-rated chef at 2400 Mission; Rambler, a new restaurant and bar in Union Square at the recently renovated Hotel Zeppelin; The Morris, a Mediterranean influenced restaurant at 2501 Mariposa in Potrero Hill; The Saratoga, a modern, swanky supper club located at 1000 Larkin; and Flores, a Mexican eatery from the local restaurateur Adriano Paganini at 2030 Union in the Cow Hollow area. Fast casual concepts openings, which increased substantially in the fourth quarter, include Rooster & Rice at 303 2nd Street, and Adriano Paganini's The Bird, a fried chicken concept at 115 New Montgomery. Those kickoffs balanced a spate of noteworthy closures, many of which were clustered in the SOMA and Mid-Market areas, where restaurants haven't enjoyed the anticipated increases in demand from workforce growth, and suffered from rising rents, labor costs, and competition. Cadence (1446 Market), AQ (1085 Mission), Oro (8 Mint Plaza), Volta (868 Mission Street), Umami (2909 Webster), LuLu (816 Folsom), Butterfly (333 Embarcadero), and Bourbon Steak at the Westin St. Francis were among the eateries that served their last meals during the fourth quarter.

On the grocery front, Safeway was the biggest mover in the fourth quarter, after buying the long-time Bay Area chain Andronico's Markets. Safeway will rebrand Andronico's five locations, most notably its 24,000 square foot Inner Sunset market, and reopen the stores after a brief renovation period. The Vietnamese market Duc Loi's Pantry, which previously operated a single store in the Mission, opened a 14,000 square foot second location at 5090 3rd Street in the Bayview, as part of the city's efforts to alleviate the

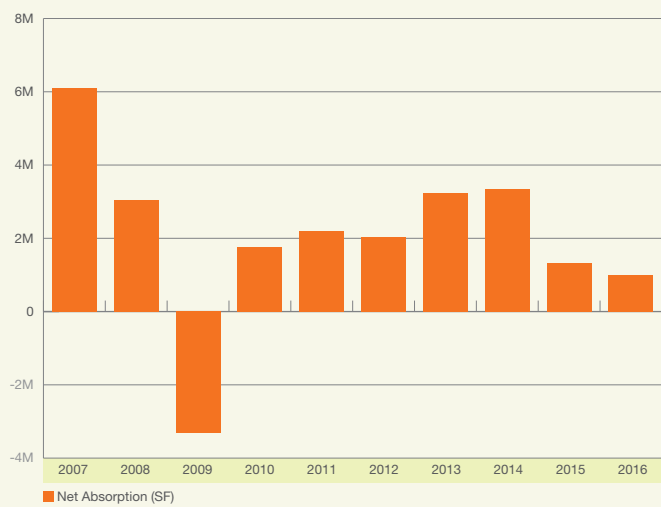
### UNION SQUARE VACANCY VS ASKING LEASE RATE\*



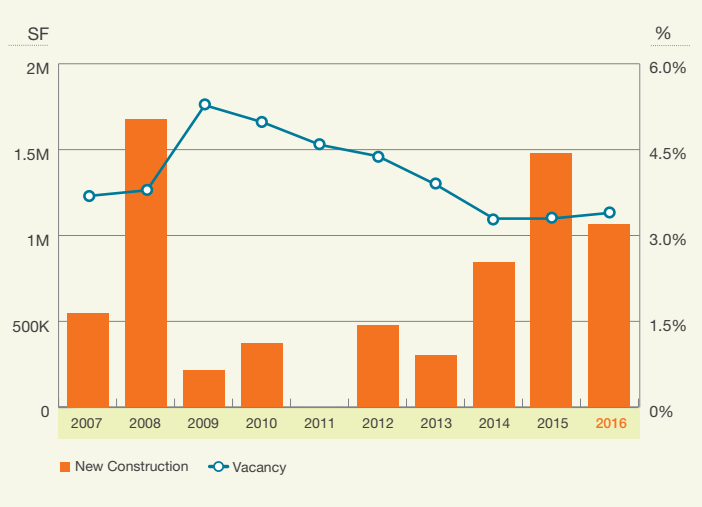
### VACANCY RATE IN KEY SUBMARKETS



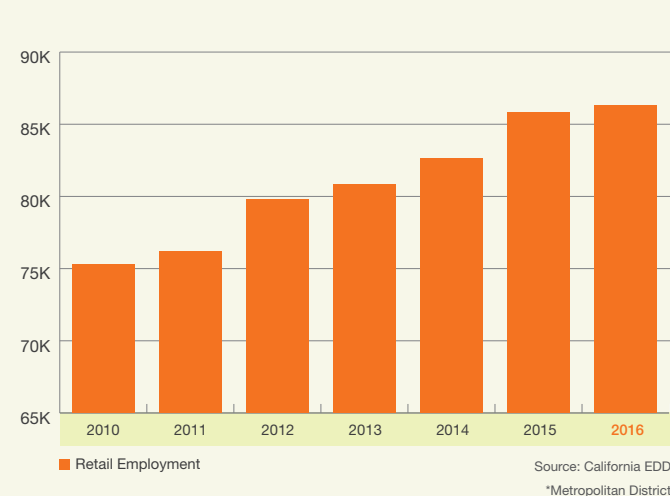
### NET ABSORPTION - BAY AREA WIDE



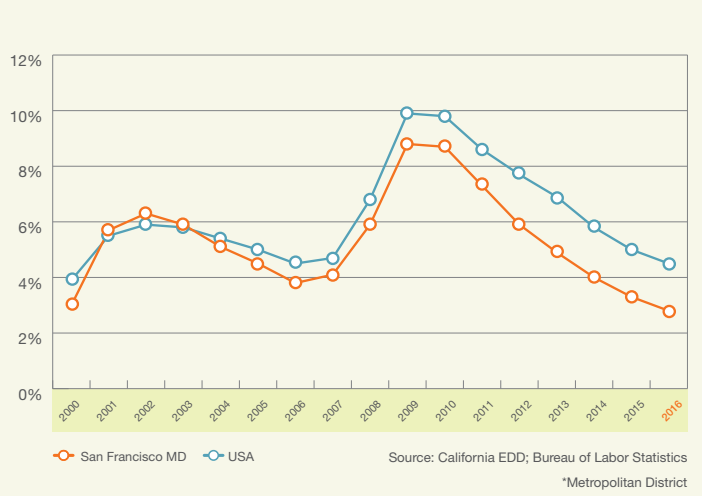
### ANNUAL NEW CONSTRUCTION & BAY AREA VACANCY



### SAN FRANCISCO MD\* RETAIL EMPLOYMENT



### UNEMPLOYMENT RATE - SAN FRANCISCO MD\* VS. USA



**Offices**

Seattle  
206.296.9600

Bellevue  
425.454.7040

South Seattle  
206.248.7300

Tacoma  
253.722.1400

Olympia  
360.705.2800

Portland  
503.221.9900

San Francisco  
415.229.8888

Redwood Shores  
650.769.3600

Silicon Valley  
408.970.9400

Sacramento  
916.970.9700

Roseville  
916.751.3600

Orange County  
949.557.5000

Inland Empire  
916.751.3600

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

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Designated Broker  
Reed Payne | LIC #00818935

neighborhood's food desert and improve access to fresh produce. In Cole Valley, Luke's Local opened a boutique market at 960 Cole Street, occupying 3,000 square feet.

**Union Square**

San Francisco's shopping mecca saw several retailers and restaurants open new stores amid the fourth-quarter holiday season. Shreve and Co. jewelers, which briefly closed its Union Square store earlier in the year, relocated to 150 Post Street, while Sentiero Shoes set up shop at 11 Maiden Lane. Hotel lobbies were the center of activity on the restaurant side, as Bota Tapas and

Paella Bar came to the Warwick Hotel and Bar Fluxus began pouring drinks at Hotel Des Arts.

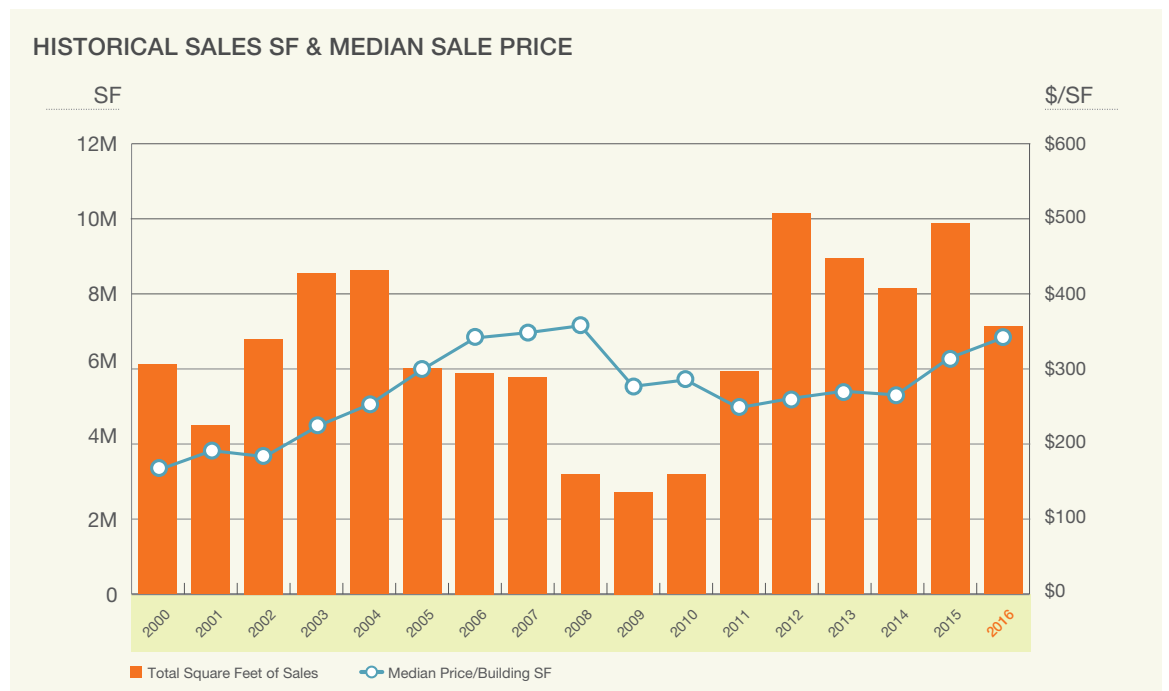
Union Square remains the most coveted retail hotspot in the Bay Area and a world-renowned destination for tourists and shoppers alike. Direct vacancies were at 3.4% during the fourth quarter. The rental rate on streets near the landmark plaza continued to comfortably exceed \$500 per square foot, and those fronting the square are achieving rents much higher than that. This quarter's largest Union Square lease came from Mastro's Ocean Club, which signed on for 13,400 square feet at 399 Geary.

*Data Source: CoStar*

**Submarket Demographics**

Submarket	1 Mile Radius		3 Mile Radius		5 Mile Radius	
	Population	HH Income	Population	HH Income	Population	HH Income
Union Square, San Francisco	145,557	\$53,918	426,925	\$86,720	694,961	\$88,885
Downtown Oakland	34,380	\$34,484	247,618	\$55,343	491,348	\$62,068
Downtown Berkeley	62,675	\$51,302	214,795	\$75,479	384,087	\$70,913
Downtown San Mateo	38,203	\$93,197	139,604	\$106,245	241,954	\$113,878
Stanford Shopping Center, Palo Alto	17,516	\$120,119	152,296	\$111,429	282,852	\$106,920
Downtown San Jose	42,160	\$56,936	262,397	\$66,396	699,341	\$77,011

\*Based on median annual salaries



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