

MARKETBEAT RETAIL SNAPSHOT

SAN FRANCISCO, CA

A Cushman & Wakefield Research Publication



Q3 2014



ECONOMIC OVERVIEW

The San Francisco Metropolitan Division's unemployment rate fell to 4.5% in the most recent (August) month available, down from 4.8% in July and 5.5% one year earlier, according to the

State of California Employment Development Department. Total nonfarm employment climbed by 35,500 positions over the past twelve months. More specifically, retail trade positions climbed by 1,000 (+1.1%), leisure and hospitality was up by 7,400 (+5.1%) and the office using sector (information, financial activities and professional and business services) jumped by 15,100 positions.

As San Francisco continues to act as a hub of international tourism and the booming technology sector, the retail market has heavily reaped the benefits. Tourism continues to be one of San Francisco's most important industries, providing \$607 million in tax and fee revenue and \$9.4 billion spent in local business. As domestic technology wages have increased, the changes can be seen in retail sales as local bay area workers have increased spending on luxury goods. At the end of the quarter, total retail sales increased by \$1.6 million from the previous year.

RETAIL EMPLOYMENT TRENDS



Source: San Francisco Travel Association, Smith Travel Research

ECONOMIC INDICATORS

| | 2013 | 2014F | 2015F |
|--------------------------|----------|----------|----------|
| NATIONAL | | | |
| GDP Growth | 2.2% | 2.2% | 3.5% |
| CPI Growth | 1.5% | 1.8% | 2.1% |
| Consumer Spending Growth | 2.4% | 2.4% | 3.6% |
| Retail Sales Growth | 4.2% | 4.1% | 6.1% |
| REGIONAL | | | |
| Household Income | \$81,100 | \$83,300 | \$87,000 |
| Population Growth | 1.17% | 0.9% | 0.9% |
| Unemployment | 5.5% | 4.5% | 4.4% |

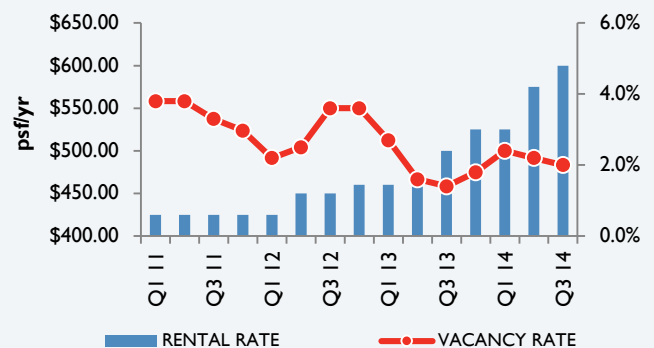
Source: Moody's Analytics

SAN FRANCISCO RETAIL KEY STATISTICS

| SUBMARKET | Q3 2013 | Q3 2014 | % GROWTH (1 YEAR) | SHORT TERM TREND |
|----------------------|---------|---------|-------------------|------------------|
| UNION SQUARE | | | | |
| Rent (PSF) | \$500 | \$600 | 20% | Up |
| Overall Vacancy Rate | 1.3% | 2.0% | 70 bps | Stable/Up |
| New Supply | 0 | 0 | 0 | Stable |
| POST STREET | | | | |
| Rent (PSF) | \$420 | \$465 | 10.7% | Stable/Up |

Source: Cushman & Wakefield

UNION SQUARE RETAIL RENTAL VS. VACANCY RATES



Source: Cushman & Wakefield

RETAIL MARKET OVERVIEW

Demand for San Francisco retail space is as strong as ever with overall vacancy at 2.2%, down a minimal 20 bps quarter-to-quarter and identical to the vacancy rate at end of 3Q 2013. Prime retail space continues to be taken off the market faster than it can be made available.

TargetExpress snatched up a significant retail block currently occupied by Wells Fargo at 225 Bush Street in the Financial District. Designed with office workers and commuters in mind, the 18,000 SF small-format Target store, due to open in Spring 2015, will feature grab-and-go food products, a Starbucks, and select items from Bay Area companies. A proposal for a second TargetExpress has been submitted for the vacant space at 1830 Ocean Avenue in the Outer Richmond with hopes of opening by year end 2015.

San Franciscans continue their obsession with caffeine as witnessed by a couple of specialty coffee shop expansions. Blue Bottle Coffee will be opening their fifth city location at 115 Sansome Street in the heart of the Financial District. Two blocks away, Philz Coffee will open their seventh location on Market Street at One Front.

On the downside, the San Francisco development boom has caused many historic businesses to face closures. Lombardi Sports, a San Francisco-Russian Hill sporting goods mainstay since 1948, will be closed and demolished for 62 condominiums, ground floor retail, and underground parking. In Chinatown, the Empress of China, a 47-year-old restaurant and popular wedding venue will be sold and converted to office space. Closures of these historic buildings has brought concern over San Francisco's uniqueness and has prompted legislation to define legacy businesses with tax incentives to stay.

UNION SQUARE

Vacancy in Union Square remains extremely low as luxury retailers compete for retail space. The vacancy rate stood at 2.0% at the end of the 3rd quarter, down from 2.2% the previous quarter and 1.3% at the end of 3Q 2013.

Rents rose to \$600 PSF from the previous quarter, up a strong 20% from the previous quarter and 15% year-over-year. Loro Piana will be relocating to a significantly larger space at 233 Geary in Union Square. Maison Martin Margiela sub-leased the retail space previously occupied by Glory Chen at 134 Maiden Lane. Just around the corner, Apple has been given final approval for their flagship store at the corner of Stockton and Post Street. Construction is expected to begin summer 2015.

INVESTMENT MARKET

Exclusively retail-oriented properties have been trading for ever increasing prices. The retail condominium at 645 Howard Street, also known as One Hawthorne, recently became the first non-Union Square retail property in San Francisco to sell for over \$1,000 PSF. Meanwhile, 69 Maiden Lane, the smallest building in Union Square at 1,800 square feet, was purchased by a New York based investment firm for a near record \$2,400 PSF. And finally, a 2-building portfolio at 300 Grant Avenue and 272 Sutter Street sold for \$1,100 PSF. Though these properties are 100% leased to retailers, leases do expire in 2016 and the site is fully entitled for residential/retail redevelopment.

OUTLOOK

With new office and residential developments, the San Francisco retail market is expected to continue expanding at a fervent pace. The new Golden State Warrior's arena will bring a new market for retail, office, and residential to Mission Bay. The completion of the Transbay Transit Center Project will streamline public transportation from around the Bay Area, increasing accessibility to employment and presenting a boon to the retail sector. As the San Francisco economy and consumer base grows, expect retail rents to continue their upward trend.

MARKET HIGHLIGHTS

| SIGNIFICANT Q3 2014 LEASE TRANSACTIONS | SUBMARKET | TENANT | PROPERTY TYPE | SQUARE FEET |
|--|--------------------|------------------------|------------------------|---------------------------------|
| 225 Bush Street | Financial District | Target | Retail / Office | 20,667 |
| 233 Geary Street | Union Square | Loro Piana | Retail | 8,351 |
| 134 Maiden Lane | Union Square | Maison Martin Margiela | Retail | 4,110 |
| 212 Stockton Street | Union Square | Moncler | Retail | 4,090 |
| SIGNIFICANT Q3 2014 SALE TRANSACTIONS | SUBMARKET | BUYER | PURCHASE PRICE / \$PSF | SQUARE FEET |
| One Hawthorne | SOMA | Undisclosed | \$2,700,000 / \$1,003 | 2,693 |
| 69 Maiden Lane | Union Square | JSRE Acquisitions | \$4,320,000 / \$2,400 | 1,800 |
| 300 Grant | Union Square | St. Brides | Undisclosed | 39,162 |
| SIGNIFICANT Q3 2014 CONSTRUCTION COMPLETIONS | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET (% LEASED) |
| N/A | | | | |
| SIGNIFICANT PROJECTS UNDER CONSTRUCTION | SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET (% LEASED) |
| Market Street Place | Mid-Market | TBD | Q1 2015 | 250,000 (0%) |