

The second half of 2023 saw a varied picture in the Bay Area retail real estate markets, as local dynamics played out in Sacramento, San Jose, San Francisco, and Oakland. Notwithstanding difficulties, the market as a whole remained stable, with steady demand and flat occupancy rates.

A reversal in the rising vacancy trend made the South San Jose submarket stand out in San Jose. Residential development is expected to spur tenant demand, which will result in fewer retail vacancies. Notably, the region saw its largest net absorption over a three-month period since early 2020, which resulted in a decrease in empty retail space. Because of the muted pass-through foot flow, the interaction between office and retail foot traffic in Downtown San Jose produced complex issues that led to an increase in retail vacancy.

Outside of the city center, San Francisco's retail market showed resiliency, with suburban stores maintaining their strong performance. Outside of the central business district, the city's vacancy rate was 3.6%, which was lower than the national average and lower than most other districts. Although notable tenant departures in Downtown presented difficulties, increases in foreign inbound travel were predicted to increase retail expenditure. The average asking rent in the city varied, but it has been trending lower recently.

Oakland's retail market in 4Q23 was stable, with mild supply and demand characteristics. Retail occupancy in the metro area continued to be at peak levels, following the national trend. The average rent and sales trends remained stable, indicating a consistent performance from the market.

The retail market outlook for Sacramento in 4Q23 showed a balanced employment picture. The retail market in the metro area remained stable in spite of the difficulties caused by rising interest rates. A measured performance in the retail real estate industry was shown by the trends in average rent, sales, and vacancy rates.

The retail industry nationwide was still having trouble competing for attractive locations. Over the past year, 52 million square feet of fresh supply have been absorbed. New supply has been carefully managed at 50 million square feet. Over 30 million square feet have been carefully demolished and repurposed each year over the last five years, demonstrating a calculated approach to supply management.

Retailers still had difficulty obtaining premium locations, but the conservative leasing strategy—the majority of new structures are pre-leased—emphasized making wise decisions. The average retail asking rent nationwide increased by 3.6% annually and by 0.7% during the quarter, indicating upward momentum.

In conclusion, regional differences are apparent in San Jose, San Francisco, Oakland, and Sacramento. The broader trends, however, indicate a generally stable national environment. Despite obstacles, the industry exhibits tenacity, astute supply management, and encouraging rental trends, highlighting its ongoing significance in the context of commercial real estate.

Sources: Marcus & Millichap Retail Reports 4Q 2023: Oakland, San Francisco, Sacramento, San Jose ; Mueller US Retail Report Q3 2023

FEATURED DEAL



OLYMPIA PLACE | SOLD FOR \$44.5 MILLION

- Located at 1697 Mount Diablo Blvd. in Walnut Creek
- 114,000 SF retail complex (sold for \$390/SF)
- 90% occupancy
- Prominent tenants include Century Theatres, Planet Fitness, Starbucks, and Fleming's Steak House

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