

East Bay Retail Market Overview

Prepared for
**EAST BAY EDA ECONOMIC
DEVELOPMENT DIRECTOR'S COUNCIL**

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EAST BAY RETAIL OVERVIEW



- ◆ The Retail sector has been the hardest hit property type in the wake of the coronavirus pandemic and the subsequent economic slide.
- ◆ Much of the prospective recovery for retail is dependent on an improving health situation, a comeback in the employment market, and a return to normal customer spending behaviors.
- ◆ The East Bay retail market entered the challenging economic period from a position of relative strength. The average yearly rental rates in the most affluent markets were averaging \$48.00 to \$60.00 PSF, NNN for restaurants and smaller shop tenants located in lifestyle centers.

EAST BAY RETAIL OVERVIEW



- ◆ East Bay occupancy levels have remained reasonably high, with vacancy rates well below the national average. The estimated retail vacancy at the end of the second quarter was only 4.3%. The national average for retail strip centers and freestanding was 20%, malls were estimated to be 35%.
- ◆ Leasing activity has slowed significantly. Expectation of further business closures weighs on the market as retailers struggle to stay afloat. East Bay monthly leasing activity fell roughly 60% in the second quarter.

EAST BAY RETAIL OVERVIEW



- ◆ The East Bay started seeing increased vacancy from mid-2018, with store closures by Orchard Supply Hardware and Toys R Us. Further retail closures this year by 24 Hour Fitness, Neiman Marcus, and Nordstrom's, among others, will keep upward pressure on vacancy rates.
- ◆ The East Bay Investment market has resulted in stalled sales activity. Sales volume in the 2nd Quarter, 2020 was the lowest since 2012. One of the biggest challenges today is valuing retail assets and rising cap rates.

RETAIL TRENDS

Restaurants — Larger, sit down concepts experiencing extreme pain in urban markets due to a work-from-home workforce; extended closures and limited seating

What will restaurants look like in the future

- ◆ Improved drive-thru service
- ◆ Pick-up windows
- ◆ Smaller square footage
- ◆ Outdoor seating
- ◆ Ghost kitchens—estimated to be a \$1 Trillion market by 2030
- ◆ Delivery partnerships
- ◆ Shrinking menus
- ◆ Modular units for outdoor dining in winter
- ◆ Contactless dining experience

RETAIL TRENDS



Grocery Stores — Customer Service is Golden

What will Grocery stores look like in the future

- ◆ Home delivery is estimated to be 12%
- ◆ Buy online with curbside pick-up is estimated to be 10% and growing, customers prefer this over home delivery.
- ◆ Rethink positioning in the center. End Caps will be more desirable.
- ◆ Do it yourself meals (DIY) these sections are rapidly growing.
- ◆ Ghost kitchens

RETAIL TRENDS



Drug Stores — More Pressure from Amazon, shifting from sick care to wellness

What will Drug Stores look like in the future

- ◆ Smaller format
- ◆ More health care services inside the store
- ◆ Less front-end merchandise
- ◆ Digital technology to improve service
- ◆ Robots to handle logistics and drones will handle deliveries, giving pharmacists more time to interact with customers.

RETAIL TRENDS



Retailers Thriving During the Pandemic

- ◆ Quick Service Restaurants with drive-thru
- ◆ Grocery
- ◆ Drug
- ◆ Sporting Goods
- ◆ Big Box Warehouse concepts, i.e. Costco
- ◆ Target
- ◆ Walmart
- ◆ Amazon

WHAT GOVERNMENTAL AGENCIES CAN DO TO HELP SMALL BUSINESSES & PROPERTY OWNERS



What Governmental Agencies Can Do to Help Small Businesses & Property Owners



- ◆ Governor Gavin Newsom has issued Executive Order N-80-20, extending through 3/31/21 Executive Order N-28-20, which allows local governments to impose commercial eviction moratoriums and restrictions for commercial tenants who are unable to pay their rent because of COVID-19.
- ◆ City & County agencies can suspend shut-offs and discontinuation of utility services including water, sewer, and trash pick-up services. Public Works will not shut off or stop services for customers who are delinquent or behind in service or permit payments until such order is lifted.

What Governmental Agencies Can Do to Help Small Businesses & Property Owners



- ◆ Approve grant funding for small businesses that have been adversely impacted by COVID-19.

The funds can be used for:

1. Necessary equipment and operating technology
 2. Inventory and working capital
 3. Facility cleaning and restoration
 4. Rent or business mortgage payments
 5. Employee retention and support
- ◆ Cities can propose an order to banks and other mortgage holders not to foreclose against any property owner with a demonstrated financial impact due to COVID-19.

What Governmental Agencies Can Do to Help Small Businesses & Property Owners

- ◆ Cities can create a Help Center to serve as a centralized call center offering free, one-on-one counseling and support for business owners, workers, property owners, and landlords affected by the COVID-19 crisis. Services offered by the Help Center would include:

Assist Businesses in...

- Determining the applicability of public health orders
- Accessing State & Federal resources, including:
 - Recent relief packages
 - Emergency loans
 - Workshare programs

Assist Individuals with...

- Filing unemployment insurance claims
- Finding employment opportunities
- Discovering available County resources.

Property Owners by...

- Offering enhanced foreclosure prevention services

What Governmental Agencies Can Do to Help Small Businesses & Property Owners



- ◆ **Counties can consider accepting penalty cancellation request forms for failures to pay property taxes related to COVID-19. Property owners will remain responsible for the property taxes but will work with the office on an individual basis to determine when they must pay those taxes. Eligible taxpayers would include homeowners, small businesses, and small landlord.**
- ◆ **Propose to waive penalties and interest on late payments for business tax certificate renewals. Eligible businesses that have already paid penalties and interest on late renewal payments will receive a credit to their business tax account for the penalties and interest paid for this period.**

What Governmental Agencies Can Do to Help Small Businesses & Property Owners



- ◆ Establishing temporary “Food Pick-Up Parking Zones” and “Retail Pick-Up Parking Zones” to facilitate pick-up services offered by restaurants and retailers during the COVID-19 pandemic.
- ◆ Help local businesses reopen and allow customers and employees to maintain physical distancing, by temporarily relaxing the rules that regulate outdoor dining. The program could temporarily authorize no-cost outdoor dining and street vending for:
 - On-street dining (e.g. curbside, closed streets)
 - Sidewalk and expanded outdoor private property dining (e.g. private parking lots, street parking spaces, or parklets)

These could be 90-day permits to local restaurants and vendors with no limits on renewals.

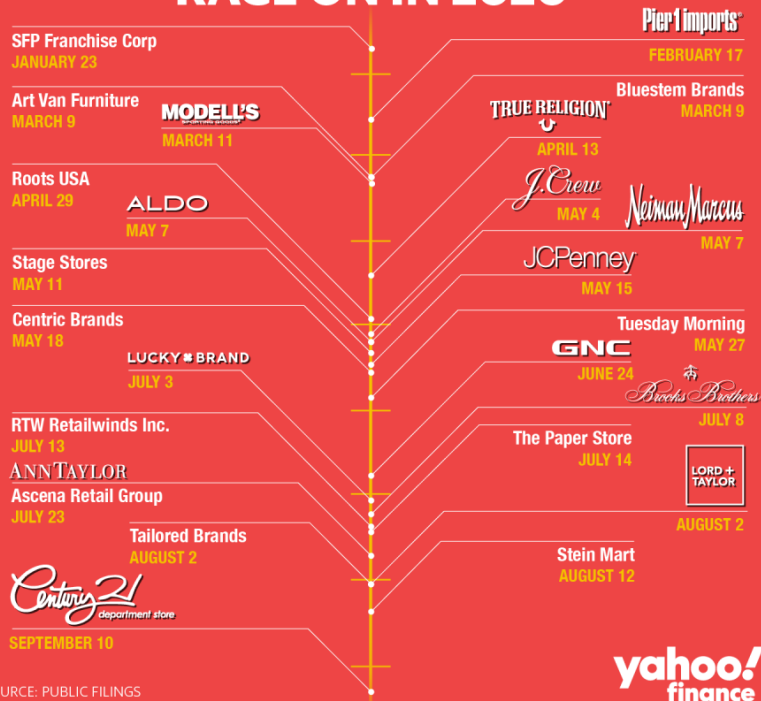
What Governmental Agencies Can Do to Help Small Businesses & Property Owners



- ◆ Expedite permitting timeline for tenant improvements.
- ◆ Cities should look for opportunities to up-zone, “B” & “C” retail properties.
- ◆ Adaptive reuses for empty retail; fulfillment centers, medical, schools and mixed-use.

Retail Business Trends

RETAIL BANKRUPTCIES RAGE ON IN 2020



RESTAURANT CHAIN BANKRUPTCIES IN 2020

