

# Bay Area Regional Shopping Center Quarterly Report



## Q2: Regional Retail Centers Fight Headwinds

The overall vacancy rate for the Bay Area’s flagship Power Center inventory moved to its highest rate on record in the Post Great Recession era in Q2 2020. John Cumbelich & Associates quarterly survey of these assets saw vacancy increase by almost 200,000 SF in the period surveyed, dropping the overall occupancy rate from 94.77% to 93.29%.

Q2 2020 marked the fifth consecutive quarterly increase in flagship retail vacancy, clearly depicting a trend that reflects the combined impacts of growing bankruptcies by major retailers, the pivot by surviving retailers from bricks & mortar development to investment in their E-Commerce platforms, and the widespread impacts of the COVID crisis.

Federal and State restrictions on the operation of retail businesses, especially non-essential businesses, have accelerated retailer closures and forced scores of retail and dining brands that were already struggling into bankruptcy. These headwinds appear likely to persist for the foreseeable future, and will likely result in additional retail closures, increasing vacancy rates and softening rents and asset values.

Notably, ten of the twenty five assets surveyed now have 50,000 SF or more of vacant space. Complicating the growing vacancy issue in the Power Center arena is a shrinking tenant pool, particularly in the anchor tenant category. (Cont’d on Next Page)

### About the Report

The attached survey of flagship assets studies 25 dominant Power Centers located in each of the San Francisco Bay Area’s nine counties. The survey covers 13.1 million square feet of best in class inventory.

*The information in this report is for information purposes only.*

Q2 2020 – Summary



**GO CONSIDER STOP**

**OCCUPANCY LEVELS HOLD THE LINE**

Despite COVID and E-Commerce headwinds, the Bay Area’s Regional Shopping Center market concluded Q2 with occupancy levels over 93%.

**ARE MARKETS POISED TO WORSEN?**

With state restrictions still in place on retail and dining businesses, more business failures are certain to occur, unable to weather the economic storm.

**SOUTH BAY SINKS**

South Bay occupancy plummeted to 85.48%, the lowest of any Bay Area submarket in the post-Great Recession era.

(Cont’d from Page 1)

Bankruptcies by JC Penney, Neiman Marcus and others have contributed to the growing vacancy inventory, while Kohl’s, Macy’s and other large format retailers appear increasingly vulnerable to deteriorating fundamentals.































The Bay Area’s submarkets have fared unevenly, with the North Bay and Peninsula markets ending Q2 above 95% occupancy, while the South Bay dropped sharply to 85.48% occupancy.

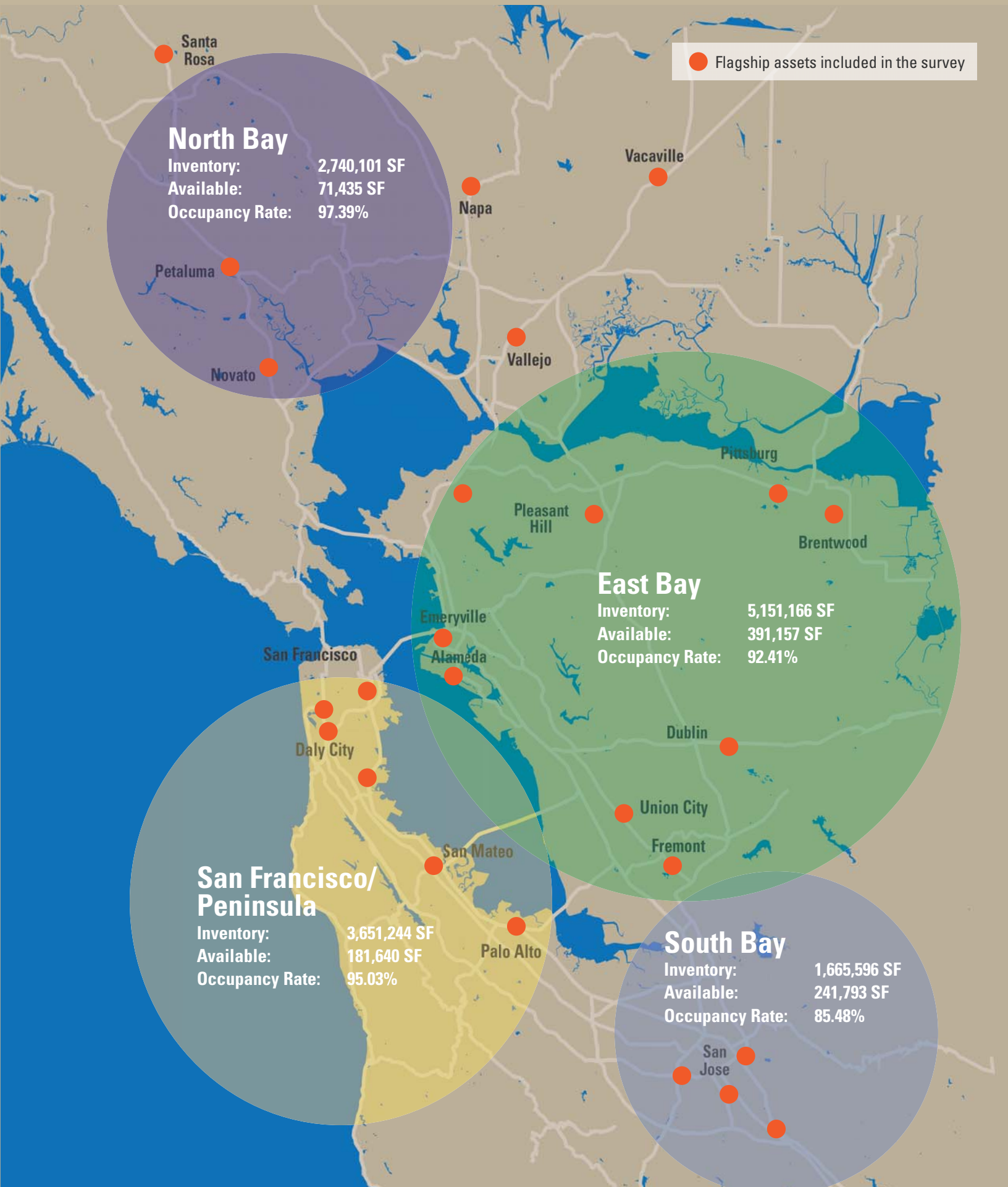
Remarkably, six of the assets surveyed, representing over 3.2M square feet, have been able to maintain 100% occupancy despite market conditions. Nonetheless, with continued impacts from E-Commerce and COVID certain to have continued effects on retail and dining businesses, occupancy rates appear likely to wobble further as 2020 and 2021 play out.





Notable Completed Transactions

 <p>Burlington 42,216 SF Pleasant Hill, CA</p>	 <p>Smart &amp; Final 33,000 SF Stockton, CA</p>	 <p>Stein Mart 30,000 SF Walnut Creek, CA</p>	 <p>Advance Auto Parts 6,926 SF Pueblo, CO</p>	 <p>BevMo! 4,662 SF Lafayette, CA</p>
 <p>Sprouts Farmers Market 32,620 SF Newark, CA</p>	 <p>Hobby Lobby 57,000 SF Concord, CA</p>	 <p>Heritage Eats 2,448 SF Walnut Creek, CA</p>	 <p>Philz Coffee 2,162 SF Lafayette, CA</p>	 <p>Yoga Works 7,000 SF Walnut Creek</p>
 <p>America's Best Contacts &amp; Eyeglasses 3,151 SF Pleasant Hill, CA</p>	 <p>The Shade Store 1,468 SF Lafayette, CA</p>	 <p>Dick's Sporting Goods 35,000 SF Morgan Hill, CA</p>	 <p>Z Gallerie 7,028 SF Walnut Creek, CA</p>	 <p>Pottery Barn 16,760 SF Walnut Creek, CA</p>
 <p>Lewis Retail Centers 12.85 Acre Site Hercules, CA</p>	 <p>Burger Lounge 1,713 SF Walnut Creek, CA</p>	 <p>Bluemercury 2,965 SF Lafayette, CA</p>	 <p>Gott's Roadside 5,500 SF Walnut Creek, CA</p>	 <p>Walgreens 15,000 SF San Jose, CA</p>
 <p>Walmart 50,331 SF San Ramon, CA</p>	 <p>Tiffany &amp; Co. 6,785 SF Walnut Creek, CA</p>	 <p>Target 10.8 Acres San Jose, CA</p>	 <p>Regency Centers 34 Acres Petaluma, CA</p>	 <p>LOJA 350,000 SF Pleasant Hill, CA</p>
 <p>Homewood Suites By Hilton 2.5 Acres Pleasant Hill, CA</p>	 <p>El Pollo Loco Roseville, Folsom, Sacramento, Elk Grove, CA</p>	 <p>Crunch Fitness 30,000 SF Walnut Creek, CA</p>	 <p>Apple Store 9,425 SF Walnut Creek, CA</p>	 <p>Lowe's 28 Acres Concord, CA</p>



## Q2 2020 Results – Flagship Power Centers

### North Bay

Inventory: 2,740,101 SF  
 Available: 71,435 SF

**Occupancy Rate: 97.39%** ▼

### San Francisco/Peninsula

Inventory: 3,651,244 SF  
 Available: 181,640 SF

**Occupancy Rate: 95.03%** ▼

### South Bay

Inventory: 1,665,596 SF  
 Available: 241,793 SF

**Occupancy Rate: 85.48%** ▼

### East Bay

Inventory: 5,151,166 SF  
 Available: 391,157 SF

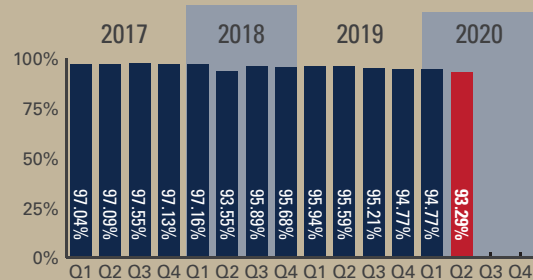
**Occupancy Rate: 92.41%** ↔

## Bay Area Totals

Inventory: 13,208,107 SF  
 Available: 886,025 SF

**Occupancy Rate: 93.29%** ▼

### Overall Occupancy



### Highest Occupancy

Power Center	SF	Vacancy %
Ravenswood 101	1,517,692	0%
Santa Rosa Market Place	541,693	0%
San Jose Market Center	356,000	0%
East Washington Place	341,411	0%
San Bruno Towne Center	333,869	0%
Potrero Center	226,642	0%

### Highest Vacancy

Power Center	SF	SF Avail.	Vacancy %
El Paseo de Saratoga	340,950	100,600	29.51%
The Plant	650,532	125,338	19.27%
Lone Tree Plaza	474,910	71,582	15.07%

### Largest Vacant Spaces

Power Center	SF	SF Available
The Plant	650,532	64,850
El Paseo de Saratoga	340,950	59,000
Pacific Commons	1,133,000	47,807
Century Plaza	524,300	46,000
Lone Tree Plaza	474,910	30,243

## Recent Transaction

### FIVE POINTS CENTER

A private investor purchased the 37,399 SF shopping center located on

**EL CAMINO REAL  
REDWOOD CITY, CA**

[More Opportunities](#)



## ABOUT THE FIRM

John Cumbelich & Associates is a San Francisco Bay Area firm that provides commercial real estate services to Fortune 500 retailers and select owners and developers of retail commercial properties. The firm's expertise is in developing store networks for retailers seeking to penetrate the Northern California marketplace, and the representation of premier power center and lifestyle developments.

### John Cumbelich

Chief Executive Officer  
john@cumbelich.com  
CA DRE ID 01006249

### Tim Seiler

Partner  
tim@cumbelich.com  
CA DRE ID 01076263

### Joe Kuvetakis

Associate Broker  
joe@cumbelich.com  
CA DRE ID 01854159

### Sade Ghorban

Associate Broker  
sade@cumbelich.com  
CA DRE ID 01493061

## Featured Listing



**For Sale or Lease**  
*Rare anchor space on Hwy 65 corridor*

**6780 STANFORD RANCH ROAD**  
Roseville, CA

Freeway visible and adjacent to one of the most highly trafficked shopping centers in the region.

[Download Brochure](#)

**Contact**  
**John Cumbelich**  
**Tim Seiler**

## Featured Retailer



**DOLLAR TREE**

**San Francisco Bay Area**  
8,000 - 10,500 SF

- Strip shopping centers anchored by large retailers
- Easy ingress/egress
- Ample parking

**Contact:**  
**Tim Seiler**

**JohnCumbelich & Associates**

PARTNER **XTEAM**  
RETAIL ADVISORS

1330 North Broadway Suite 200A  
Walnut Creek, CA 94596  
Telephone 925.935.5400

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## Repurpose, Rezone or Replace – John Cumbelich

The overbuilt US market for retail space was one crisis away from a major correction. That correction is now upon us.

The COVID-19 pandemic has brought into sharp relief the costs and consequences of the overbuilt nature of US retail real estate. Pre-COVID the US already had double the amount of retail space per capita of Canada, and quadruple the amount of Germany. The US inventory of retail space was historically over-developed, yet national occupancy levels remained steady for the past several years, supported primarily by a buoyant national economy that enjoyed an unprecedented bull run.

However, the relentless rise of e-commerce has been systematically dismantling scores of once proven retail brands while stunting the brick & mortar growth of others. The lethal combination of this retail paradigm shift to e-commerce with the COVID-19 pandemic's shuttering of non-essential businesses is leaving in its wake a large and fast-growing inventory of vacated retail boxes. What was initially seen as a siloed infection to Department Stores and Regional Malls, has methodically spread to the Power Center arena, as sporting goods, home improvement, consumer electronics and other categories of large format retail stores shutter.

The COVID-19 pandemic has accelerated a growing national inventory of vacant big box space (JC Penney, Neiman Marcus, Stage Stores, etc) that has an increasingly bleak outlook for re-leasing, as the tenant pool of high-credit, active users seeking to grow brick & mortar locations continues to shrink. Forward thinking retail brands are largely pivoting instead to seeking their growth through online platforms.

This rapid and unfolding change will inevitably confront owners, investors and municipalities with vacant retail boxes for whom there is no strong retail replacement. Like it or not, an era of Retail Pruning is likely upon us, in which the path forward for big box assets will be to Repurpose, Rezone or Replace.

Let us remember that the most foolproof way to increase Demand...is to reduce Supply. Extracting boxes, or in some cases entire failed shopping centers, from the retail inventory is a sobering but pragmatic course to re-balance supply & demand, keep rents firm, discourage the re-use of vacated boxes by worst-in-class uses, and move our national ratio of retail space per capita to a healthier and crisis-resistant level. No doubt many owners will resist the need for this change, preferring to re-lease a vacated box with a down-market replacement, rather than spend the capital needed to reposition the asset. Likewise, many municipalities will cling to an unrealistic old-paradigm model for sales tax revenue based on an inventory of retail space that was only expected to grow over time. Yet as John Adams famously observed, facts are stubborn things, and the fact is that swelling vacancy will cause Supply to swamp Demand, bringing myriad blights in its wake. A community cannot ignore a retail vacancy problem indefinitely.

While skeptics may scoff at the notion of retail centers exiting the landscape, our firm has already been approached by savvy investors and developers that have asked us to target broken retail centers as target opportunities for mixed-use redevelopment. Re-imagined retail centers can still include retail uses, but on a right-sized scale that is perhaps 50% or less of the original retail footprint in size. The opportunity to densify these projects with vertical housing product, hotels, or office, medical and civic uses will enable developers to take advantage of the great fundamentals that good retail real estate provides for alternate non-retail users (location, proximity to transit and employees, etc).

Sometimes less is more. As we look ahead to what will become a national big box vacancy problem of unprecedented scale, the answer is extremely unlikely to be found in the form of expanding big box users that will absorb the supply. The answer instead is far more likely to be found in pruning existing inventory back to healthy and sustainable levels. Repurpose, Rezone or Replace.

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