Q1 2023 Market Overview

San Francisco Multifamily

San Francisco
Market Overview

23Q1

The economy is facing significant challenges as it copes with high inflation, rapidly rising interest rates, and regional bank failures. These factors are putting a strain on the economy and causing significant uncertainty for businesses and investors alike. The Federal Reserve has been taking action to combat the rising inflation by raising interest rates, but this has put pressure on businesses, consumers and investors, who are now facing higher borrowing costs.

Adding to these challenges, several regional banks have failed, creating a ripple effect that has disrupted the flow of credit and liquidity in the markets. This has made it more difficult for businesses and individuals to access financing, further impeding economic growth, and leaving many wondering whether other banks are also at risk.

Amidst these challenges, the labor market remains strong, with low unemployment rates and growing job opportunities. This has provided some hope for the economy, as businesses and consumers are still able to generate income and make purchases. Nevertheless, it remains to be seen how the economy will fare in the face of these significant challenges; businesses and investors will need to keep a close eye on market trends and adapt their strategies accordingly.

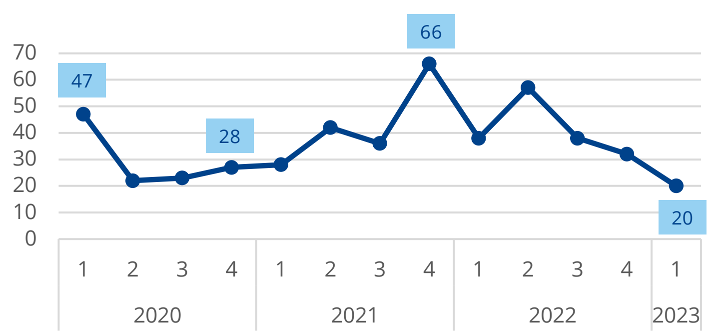
As a result of these turbulences, the San Francisco multifamily real estate market is experiencing historically low sales volume, with investors facing significant challenges in acquiring debt for these properties. The difficulty in obtaining financing has been driven by a range of factors, including rising interest rates, stricter lending standards, and a general sense of economic uncertainty. Additionally, the recent failure of several regional banks has added to the challenges faced by investors, with decreasing valuation metrics being a direct result of these developments.

Despite these challenges, there are some positive signs in the market. Rents have remained stable, providing a degree of predictability for investors. Additionally, there is hope that the market will begin to improve in the coming months and years as economic conditions improve and lending standards become more accommodating. In the meantime, investors will need to remain vigilant and patient, closely monitoring market developments as they navigate these challenging conditions, as this presents a unique opportunity for savvy investors to enter the market at a discounted price and potentially reap significant long-term gains.

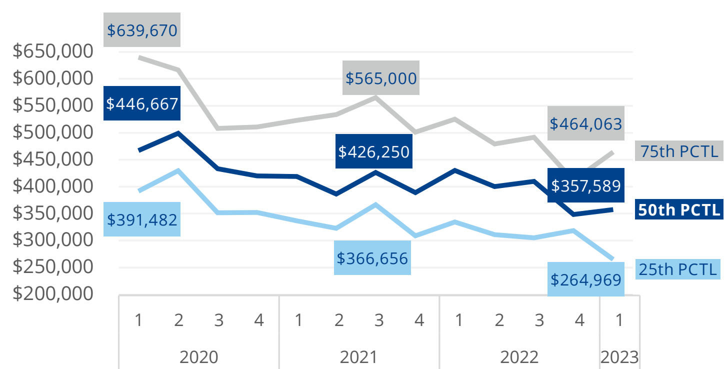
Market Indicators	Q1 2022	Q1 2023	Y-O-Y Change
Inflation via CPI	283.70	**300.84**	*6.04%* ↑
10 Year Treasury	1.95%	**3.57%**	*162 BPS* ↑
S&P 500	$4,301	**$4,028**	*-6.36%* ↓
Vacancy	7.58%	**7.69%**	*1.46%* ↑
Unemployement	4.61%	**3.60%**	*-21.91%* ↓
Rent/SqFt	$4.01	**$4.02**	*0.25%* ↑

Source: Colliers, MacroTrends, Bureau of Labor Statistics, COStar

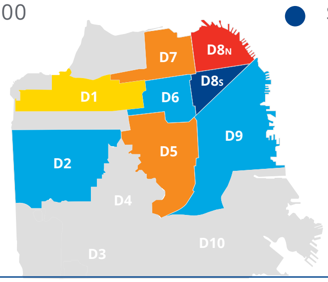
Sales Volumes by Quarter
Source: Colliers



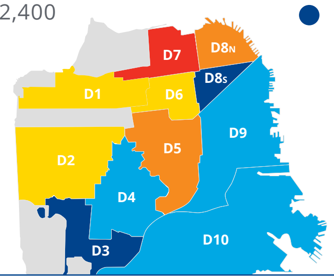
Price Per Unit Percentile
Source: Colliers



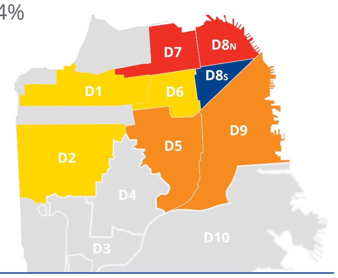
Price per Unit
- $500k+
- $400,000 - $499,999
- $300,000 - $399,999
- $235,000 - $299,999
- $200,000 - $235,000



Rent per 1 Bedroom
- $3,200 +
- $2,850 - $3,200
- $2,575 - $2,850
- $2,400 - $2,575
- $2,220 - $2,400



Cap Rate
- 4.35% - 4.84%
- 4.35% - 4.84%
- 5.05% - 5.29%
- 5.30% - 5.84%
- 5.30% - 5.84%

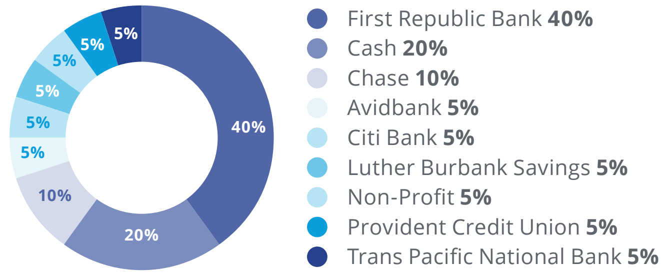


Uncertainty surrounding First Republic Bank, the most active lender in the market, is likely to cause investors and buyers to turn to alternative financing options. These could include cash purchases, private lenders, seller carry, and other non-traditional sources of funding. As a result, the market may see a shift towards smaller deals and more creative financing structures as investors look to make the most of available resources and opportunities.

Active Lenders

Q1 2023

Lender	# of Deals
FRB	8
Cash	4
Chase	2
Avidbank	1
Citi Bank	1
Luther Burbank Savings	1
Non-Profit	1
Provident Credit Union	1
Trans Pacific National Bank	1

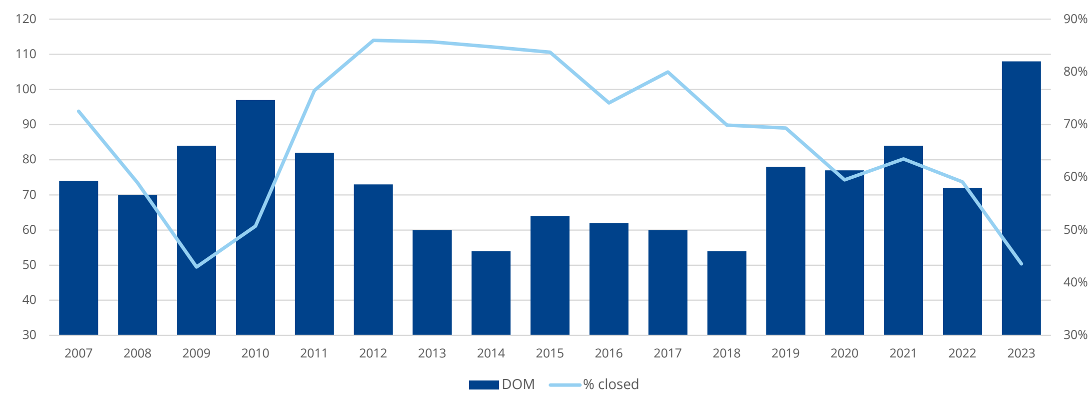


Source: Colliers, First American Title Company

Closing deals is becoming significantly more difficult, as indicated by the percentage of active listings closing falling below 50% for the first time since 2009. This represents a sharp decline from its peak, when the percentage of active listings closing was typically between 70% to 90%. Additionally, properties may remain on the market for longer periods of time, as reflected in average days on market eclipsing 100 for the first time in recent memory.

DOM + Close %

Days on Market & % of Buildings Closed

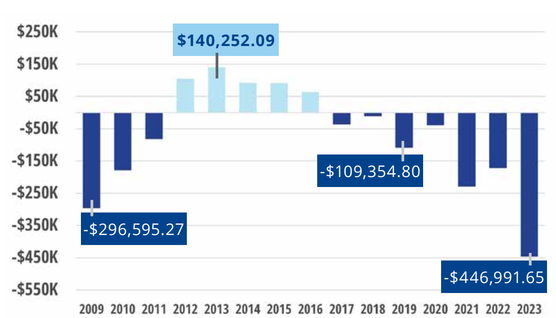


Source: Colliers, MLS

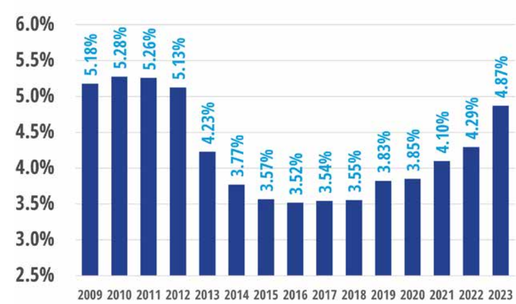
On average, properties are selling for nearly $450,000 less than their listed price. In a hot market with high demand, the list price vs. sale price differential may be small or non-existent. However, in a slow market with low demand, the differential may widen, as buyers have more bargaining power and sellers may be more willing to negotiate on price. As pricing softens, cap rates increase; a snapshot of today's market shows cap rates ascending toward 5%.

Seller & Buyer Price Expectation Discrepancy

List Price Vs. Sale Price Differential



Cap Rate



Source: Colliers

Notable Sale Transactions

Address	Market	Units	GRM	CAP	$/SF	$/Unit
629 Guerrero St	Mission Dolores	12	12.78	4.62%	$407	$291,667
2361 California St	Pacific Heights	14	12.18	4.98%	$541	$371,429
1895 Jefferson St	Marina	18	13.83	4.44%	$654	$406,944
1700 Golden Gate Ave	NOPA	24	11.43	5.56%	$383	$276,042
1220 Pine St	Downtown	12	10.11	5.94%	$381	$204,217

Our Team

Colliers has one of the largest and most experienced teams of multifamily advisors in the industry with professionals located in key markets throughout North America.

Our combination of market dominance, expertise, and singular focus makes us uniquely successful in helping our clients achieve their acquisition and/or disposition objectives.

San Francisco Multifamily Team

$4.88B
in closed sales

845 +
apartment buildings sold

75 +
years of combined experience

About Colliers

Colliers (NASDAQ, TSX: CIGI) is a leading diversified professional services and investment management company. With operations in 62 countries, our 17,000 enterprising professionals work collaboratively to provide expert real estate and investment advice to clients. For more than 27 years, our experienced leadership with significant inside ownership has delivered compound annual investment returns of 20% for shareholders. With annual revenues of $4.1 billion and more than $50 billion of assets under management, Colliers maximizes the potential of property and real assets to accelerate the success of our clients, our investors and our people.

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