



Accelerating success.

Q2 2023 Market Overview

San Francisco Multifamily

San Francisco Market Overview

23Q2

Observing the broader economic landscape brings a series of complex developments into focus. The silver lining is that inflation, a primary catalyst for the recent economic headwinds, is showing signs of decelerating. Nevertheless, persistently high interest rates paint a more challenging backdrop for potential investors and market participants. Adding to this complexity is the recent exit of First Republic Bank, a major lender in San Francisco, and the market is still adjusting to their absence. Despite these hurdles, certain sectors show resiliency. The S&P 500, for instance, remains steady, posting strong returns this quarter and serving as a beacon of optimism in an otherwise complicated economic scenario. This blend of conditions sets the stage for the ongoing evolution of the San Francisco real estate market.

Examining San Francisco's landscape reveals a complex tapestry of interconnected dynamics. The multifamily real estate market, typically a stronghold of stability, is feeling the ripple effects of the city's escalating homelessness crisis. This pressing issue, along with evolving labor market trends, is influencing the city's property scene. A notable manifestation is the softening of rental rates, which have decreased by 1.7%

over the past year, particularly in areas like Downtown and Tenderloin. However, rental rates for more desirable neighborhoods remain stable, demonstrating contrast within different sectors of the city.

Yet, within this intricate scenario, opportunities arise. Current market trends are closely tied to the city's homelessness issue and the uncertain environment in capital markets. As these challenges are progressively addressed, it is reasonable to anticipate a bounce back in the property market. The present slowdown in real estate transactions, while concerning, can provide savvy investors with unique opportunities. For those who can navigate these complexities and understand the underlying dynamics, the San Francisco real estate market still holds considerable promise for long-term growth and sustainable value.

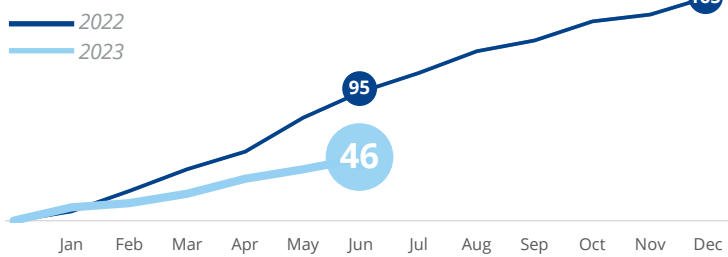
Market Indicators	Q2 2022	Q2 2023	Y-O-Y Change
Inflation via CPI	292.60	304.30	4.00% ↑
10 Year Treasury	2.93%	3.06%	113 BPS ↑
S&P 500	\$4,101	\$4,349	6.04% ↑
Vacancy*	6.69%	6.77%	1.26% ↑
Unemployment*	1.80%	3.00%	66.67% ↑
Rent/SqFt*	\$4.11	\$4.03	-1.70% ↓

*San Francisco

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

Sales Volume

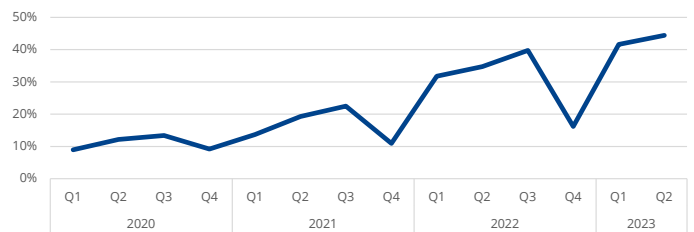
Number of buildings sold down roughly 50% in first half of 2023



5+ Unit Buildings | Source: Colliers, MLS

San Francisco Return to Office

Trending upward, still below 50% of pre-pandemic levels



% Return to Office Compared to Pre-Pandemic Levels | Source: Colliers, Kastle

GRM

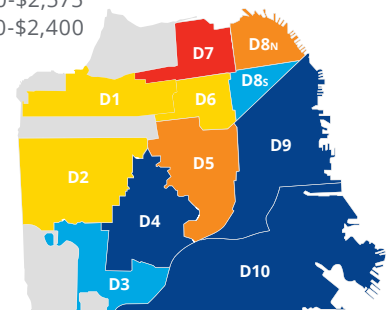
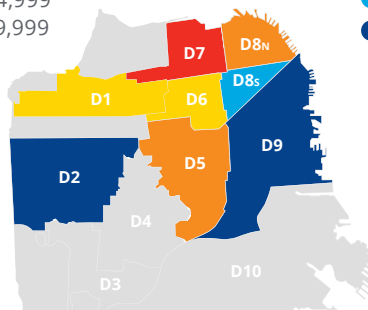
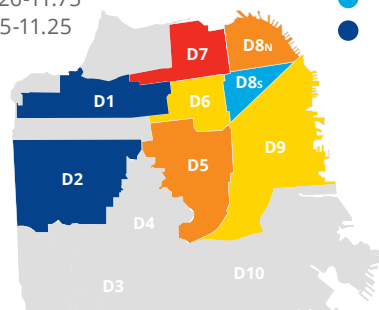
- 13+
- 12.26-13
- 11.76-12.25
- 11.26-11.75
- 10.5-11.25

Price Per Unit

- \$400,000+
- \$350,000-\$399,000
- \$285,000-\$349,999
- \$250,000-\$284,999
- \$200,000-\$249,999

Rent Per 1 Bedroom

- \$3,200+
- \$2,850-\$3,200
- \$2,575-\$2,850
- \$2,400-\$2,575
- \$2,220-\$2,400

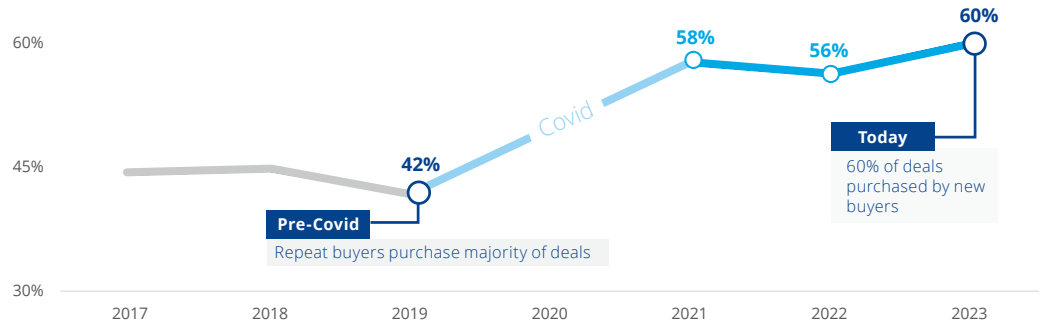




There has been a notable transformation in buyer dynamics. Prior to COVID, new buyers accounted for 42% of deals, whereas today they make up 60%. This shift indicates an influx of new capital and an opportunity for aspiring investors to explore the potential in this evolving landscape. Concurrently, institutional buyers, typically prevalent in the market, are currently constrained by capital limitations.

New Players Enter Market

% of Deals Bought By New Buyers*



*A new buyer is defined as first purchase in the last 10 years

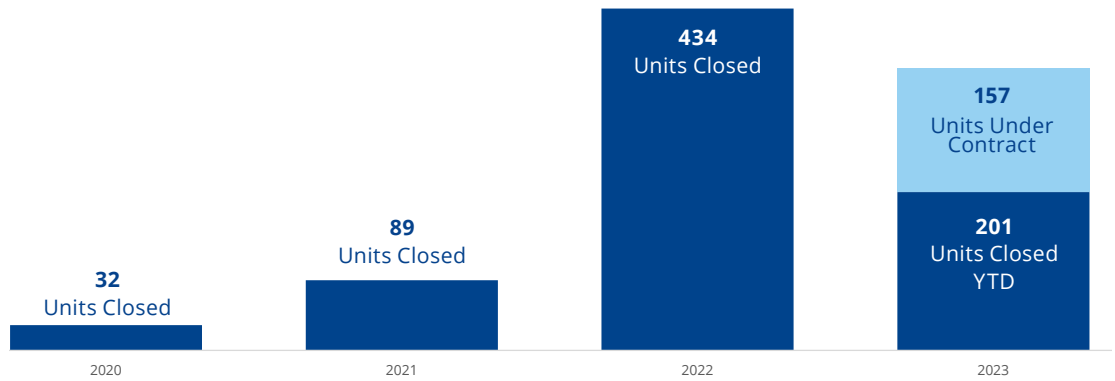
5+ Unit Buildings | Source: Colliers, MLS



Armed with substantial capital, municipal groups are actively acquiring properties that align with their objectives. Their primary focus is on providing housing for marginalized residents, aiming to address the homelessness problem and improve the condition of the city's streets.

The City Increases Purchasing Activity

Units Purchased by a City Municipal Group*



*Includes groups such as Homekey, Small Sites Program, SF Community Land Trust, Mission Economic Development Agency, Tenderloin Neighborhood Development, and more

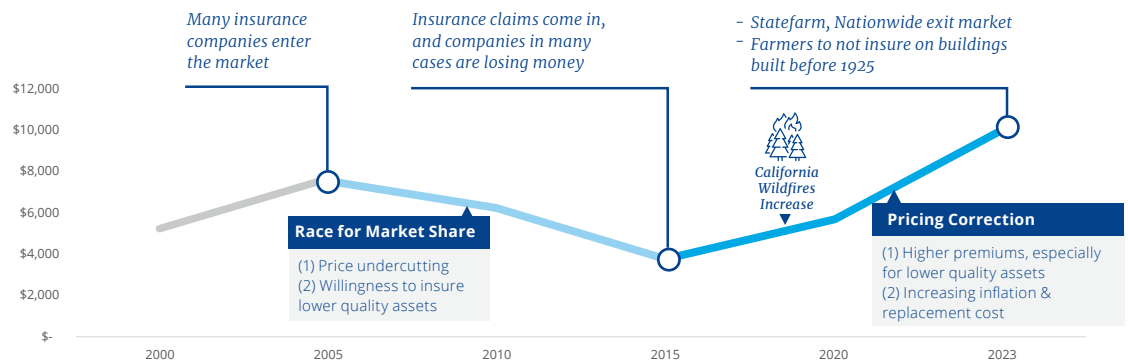
5+ Unit Buildings | Source: Colliers, MLS, CoStar



Insurance is at an all-time high. In 2005, a wave of new players entered the market, sparking intense competition and a race to provide coverage at lower costs. Reality struck in 2015, as insurance claims hit hard, leading to major financial losses. Now, the market faces a vital correction, with soaring premiums and inflation driving the transformation, while some players bow out altogether.

Insurance Soaring: Tracing its Path

Average Coverage Rate for SF Apartment Buildings



Source: PJ Tradelius, Commercial Coverage Insurance

Notable Sale Transactions

Address	Market	Units	GRM	CAP	\$/SF	\$/Unit
3101 Laguna St	Cow Hollow	14	12.54	5.39%	\$488	\$457,143
1332 California St	Nob Hill	12	11.83	5.44%	\$480	\$262,182
SOMA Portfolio	SOMA	10	12.63	5.34%	\$446	\$298,200
1045 Bush St	Downtown	17	10.97	5.95%	\$348	\$235,294
769 Haight St	Hayes Valley	12	12.38	4.44%	\$274	\$225,000

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



\$4.89B
in closed sales



849 +
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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