EOY 2024 MARKET OVERVIEW

San Francisco Multifamily

BAY AREA MULTIFAMILY TEAM REPORT

San Francisco Market Overview

EOY 2024

After a challenging 2023, the San Francisco multifamily real estate market has experienced a significant rebound, particularly in the final two quarters of 2024. While average rates remain elevated, both buyers and sellers have regained confidence in the market, showing increased activity and trade volume. The demand for multifamily properties continues to rise, with absorption rates steadily climbing throughout 2024. After years of outward migration, San Francisco's population has stabilized, with modest growth projected for 2024.

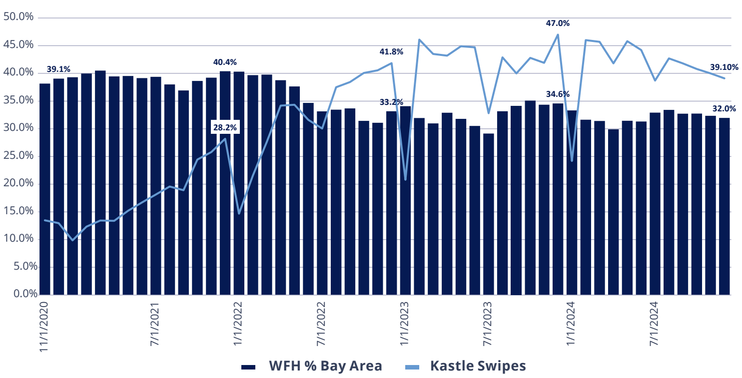
In the third and fourth quarters of 2024, the yield spread between 5-year and 10-year Treasuries began to narrow, reflecting investor sentiment that long-term inflationary pressures are easing and that the perceived challenges facing the real estate market are diminishing. The Federal Reserve's interest rate decisions have played a significant role in shaping economic conditions, particularly in the real estate market. We started the year with elevated rates averaging around 5.50% as a part of the FED's strategy to curb inflation. Towards the end of 2024, the Federal Reserve made a notable policy shift by reducing its federal funds rate for the first time in over a year. This decision to cut rates by 50 basis points, from a range of 5.50% to 5.00%, marked a pivotal change following an extended period of aggressive rate hikes. This decision came after the Fed's seemingly successful efforts to curb inflation, which had reached multi-decade highs in 2022 and 2023. While rates had remained elevated to prevent inflation from reigniting, the reduction signaled the Fed's attempt to tightrope between stimulating economic growth and maintaining price stability. The effects of this policy shift were felt across various sectors, with the real estate market being among the most visibly impacted.

Historically, San Francisco has attracted investors due to its strong economic fundamentals and potential for rent growth, underpinned by its status as a leading innovation hub with high demand for prime real estate. The Bay Area remains a global leader in technology and innovation, housing some of the world's largest companies, including Apple, NVIDIA, and Meta. With San Francisco at its core, the region has one of the highest metropolitan economic growth rates in the nation. Total employment has surpassed pre-pandemic levels, and the return-to-office trend is gaining momentum. Companies like Salesforce, Amazon, and Snowflake are encouraging employees to return to the office more frequently, aiming to revitalize downtown and foster collaboration by bringing teams together. This shift is expected to drive increased demand for office space, benefiting both the commercial real estate market and the local economy.

Market Indicators	2023	2024	Y-O-Y Change
Average of FED (Qtly)	5.09%	**5.14%**	*0.8%*
Average of $/SF	$426.29	**$405.72**	*-4.8%*
Average of Rent/SF	$4.87	**$4.98**	*2.2%*
Average of $/Unit	$368,728	**$338,956**	*-8.1%*
Average of CAP	5.11%	**5.51%**	*7.8%*

Source: Colliers | MacroTrends

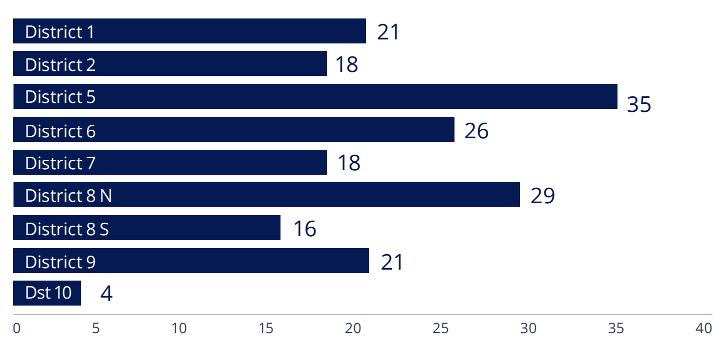
WFH Percentage: Bay Area



Source: Mapped: The Largest 15 U.S. Cities by GDP (visualcapitalist.com)

Transactions by District

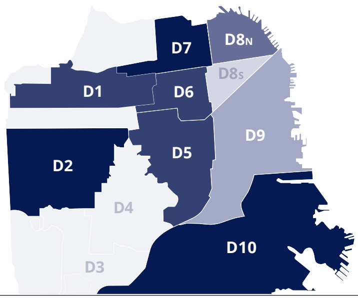
Quarter 4, 2024



Source: 5+ Unit Buildings | Colliers, MLS

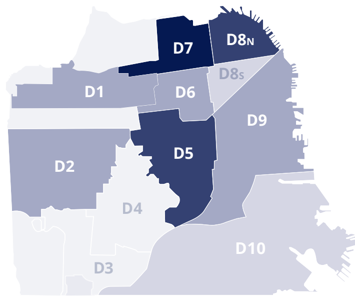
CAP Rate

- 5.0 - 5.16 %
- 5.17 - 5.34 %
- 5.35 - 5.67 %
- 5.68 - 7.44 %
- 7.45 % +



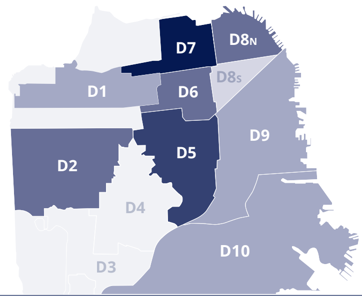
Price / SF

- $500 +
- $411 - 499
- $401 - 410
- $351 - 400
- $280 - 350



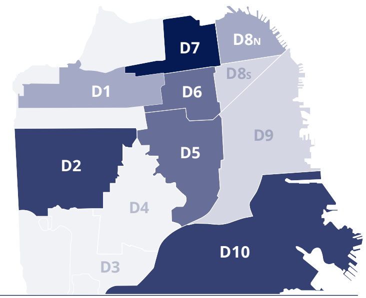
Price / Unit

- $560k +
- $346 - 559k
- $321 - 345k
- $286 - 320k
- $166 - 285k



GRM

- 12.7 +
- 12.1 - 12.6
- 11.5 - 12.0
- 11.1 - 11.4
- 9.0 - 11.0



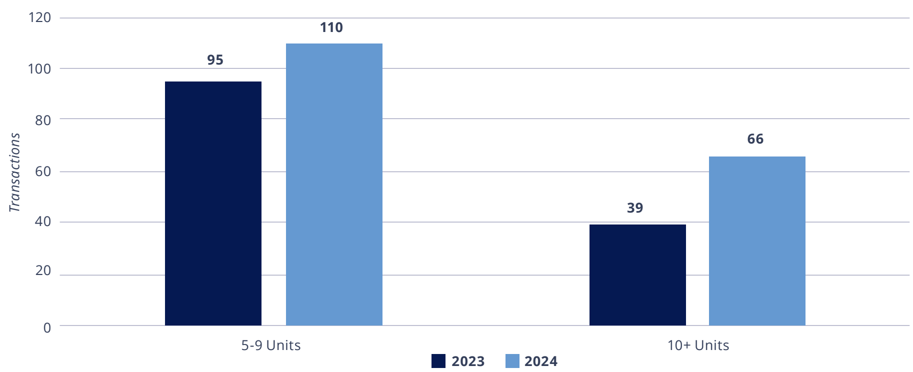
While 2023 was a tough year for the San Francisco multifamily market, signs suggest that sales volume has likely hit its lowest point, and recovery is now underway. Total sales in 2024 have seen a 45% year-over-year increase compared to 2023, indicating a growing demand and renewed investor confidence in the San Francisco real estate market. A key driver behind the surge in activity in the second half of 2024 is the return of institutional investors. In 2024, we experienced a significant 87% increase in closed transactions for properties with 10 or more units, compared to 2023. A notable transaction that closed this past year was 3210 Geary Blvd, a 33-unit mixed-use property located in the heart of the prestigious Jordan Park neighborhood. Known for its serene atmosphere and picturesque, tree-lined streets, Jordan Park offers a quiet, upscale living environment while remaining conveniently close to the vibrant cultural and commercial hubs of San Francisco. Current conditions present opportunities for investors to secure properties at discounted prices, potentially capitalizing on market corrections. As the market stabilizes and a positive outlook emerges, strategic investors who act now could benefit from both immediate opportunities and long-term growth in the multifamily sector.

A notable trend to consider is the continued decrease in the list-to-sales price differential. In 2023, the average difference between the list price and the sale price was a negative $278,898. However, in 2024, this differential decreased significantly to a negative $106,131. This trend indicates that properties are selling closer to their asking prices, signaling a shift toward a more balanced market and reflecting growing confidence among both buyers and sellers. As buyers become more comfortable with current market conditions, sellers are adjusting their expectations to better align with buyer demand, fostering smoother transactions and reducing uncertainty.

Another key point to consider is the narrowing of the yield spread between average cap rates and the 10-year Treasury. While this typically signals lower returns from real estate compared to bonds, it represents a natural market correction rather than a lasting trend. With interest rates expected to decrease in the near future, the yield spread could widen once again, making real estate more attractive relative to bonds as investors seek higher returns. As a result, we're witnessing a resurgence of activity, with a growing number of investors reentering the market as conditions shift, signaling renewed confidence and momentum.

5-9 vs 10+ Unit Sales

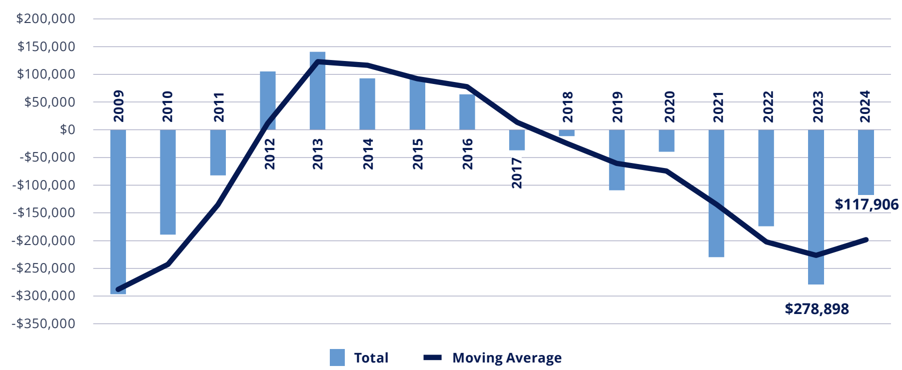
2023 vs 2024 YTD



Source: 5+ Unit Buildings | Colliers, MLS

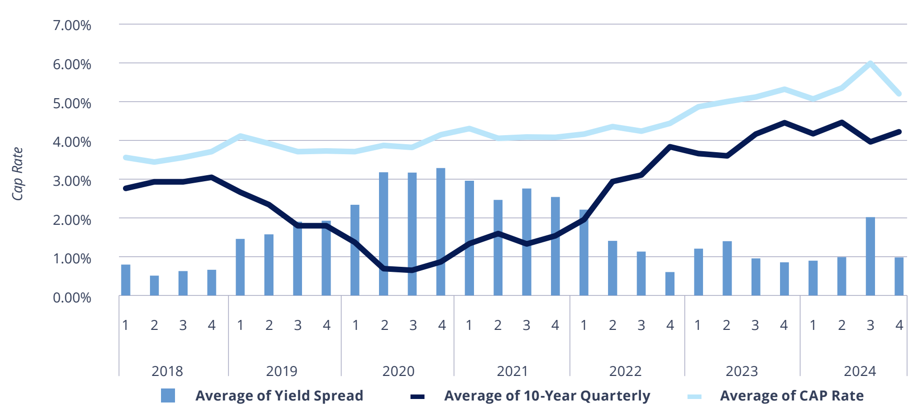
List Vs. Sale Price Differential

2009 - 2024



Source: 5+ Unit Buildings | Colliers, MLS

Multifamily CAP Rates & 10 Year Treasury



Source: 5+ Unit Buildings | Colliers, MLS

EOY 2024 San Francisco Multifamily Market Overview

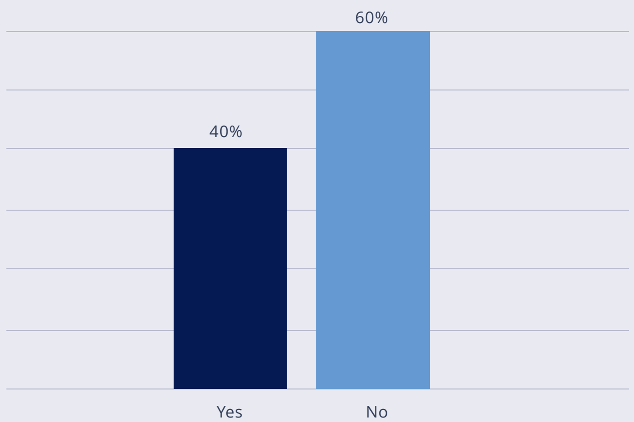
By Dara Kasrovi

Propositions 33 and 34, both appearing on the 2024 California ballot, sparked significant debates regarding the intersection of housing policies and healthcare funding in the state. While Proposition 33 sought to challenge long-standing rent control laws, Proposition 34 addressed concerns about the allocation of funds generated by a federal discount prescription drug program. These initiatives, though distinct, highlighted the ongoing tensions between affordability, regulation, and resource distribution in California's complex policy landscape.

Prop 33

Proposition 33, which appeared on the 2024 California ballot, aimed to Repeal Costa-Hawkins Rental Housing Act of 1995, which prohibits local ordinances from limiting initial residential rental rates for new tenants. The Aids Healthcare Foundation out of Los Angeles brought this to California voters for the third time. This was particularly sensitive in San Francisco because the city was ready to implement vacancy control if Prop 33 passed, which would have given the city the right to control the rent for a new tenant. Under existing rent control laws, landlords can rent a vacant apartment at fair market value. Prop 33 sought to limit property owners from raising rents to market for a new tenant. Voters rejected the proposal, with a 'no' vote for the third time.

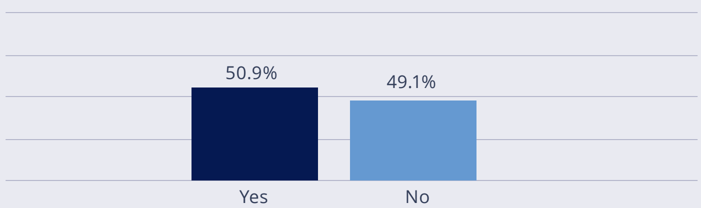
Results



Prop 34

Proposition 34, which we had to bring to the 2024 California ballot, requires certain health care providers to spend 98% of revenues from a federal discount prescription drug program on direct patient care – not California housing laws. Prop 34 imposes limits on how certain healthcare organizations use the revenue generated from the federal 340B drug discount program. This program allows healthcare providers serving low-income and vulnerable populations to purchase medications at discounted rates and sell them at market prices, using the profits to fund expanded services. Under Prop 34, healthcare organizations would be required to allocate 98% of their net revenue from the 340B program to direct patient care. At its heart, Prop 34 pits California's rental housing industry against the AIDS Healthcare Foundation (AHF), a Los Angeles-based organization with a history of supporting rent control measures. The California Apartment Association, the landlord lobby backing Prop 34, got the message out that a few bad actors are exploiting a legal loophole to divert funds meant for patient care into poorly managed housing projects. In essence, Prop 34 encapsulates a broader debate over the allocation of resources in California's healthcare and housing sectors. Voters ultimately approved the measure, signaling support for stricter oversight of 340B revenue usage and less rent manipulation by the government.

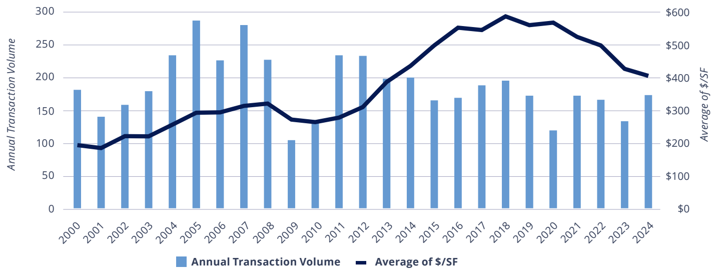
Results



Despite these ongoing challenges, San Francisco remains a promising market for investors.

Market corrections have led to more affordable purchase prices, offering attractive entry points for those with a long-term investment outlook. Furthermore, the city's deep ties to the technology sector, particularly the growing influence of artificial intelligence, contribute to optimism about a resurgence in tech-driven demand. Strength in key rental segments continues to support San Francisco's reputation as a resilient and profitable market. Investors who can navigate this evolving landscape may find lucrative opportunities, positioning themselves for success as the city's real estate market adapts and flourishes in the years ahead.

Annual Transactional Volume vs Price per Square Foot



Source: 5+ Unit Buildings | Colliers, MLS

Notable Sale Transactions Sold by Colliers

ADDRESS	District	Units	GRM	CAP	$/SF	$/Unit
3210 Geary Blvd	Jordan Park	33	8.56	6.90%	$254	$265,152
425 Hyde St	Tenderloin	25	7.5	6.86%	$239	$179,000
1840 Sacramento St	Pacific Heights	16	10.5	5.57%	$378	$325,000
2059-2061 Mission St	Inner Mission	39	11.58	5.18%	$698	$291,026
2100 Post St	Lower Pacific Heights	18	10.63	5.73%	$443	$352,778
3121 Broderick St	Marina	6	11.4	5.26%	$648	$496,667
655 Steiner St	Alamo Square	18	11.4	5.57%	$447	$323,611
112 Parnassus Ave	Cole Valley	6	11.6	5.42%	$353	$388,333

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

$5.139 B
in closed sales

901 +
apartment buildings sold

80 +
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.

#welovesf

Colliers is actively engaged in supporting #WeLoveSF by encouraging businesses, property owners, and individuals to embrace the #WeLoveSF message. They facilitate the incorporation of the campaign's logo into various marketing materials, promoting it on social media, and encouraging people to share their affection for the city in their daily lives.

Significant stakeholders like BXP, Hudson Pacific, Presidio Bay Ventures, and Invesco are also on board, incorporating the #WeLoveSF logo into their properties and marketing efforts. With Colliers facilitating these initiatives, the collective goal is to revitalize the city's image and foster a positive atmosphere within the real estate market.

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