



Accelerating success.

Market Research

2015 Mid-Year & Forecast Report

SAN FRANCISCO

COMMERCIAL REAL ESTATE OVERVIEW



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KEY TAKEAWAYS

- » **OFFICE MARKET ACTIVITY.** In the first half of 2015, over 3.4 million square feet were leased, with a net absorption of 1.2 million square feet. 8 transactions – one of which exceeded 300,000 square feet - closed at over 100,000 square feet. Technology companies represented 35% of leasing volume, and 37% of current demand.
- » **OFFICE INVESTMENT MARKET.** 18 office transactions took place, with an aggregate value of \$1.53 billion. This was a decrease from the first half of 2014, during which 22 transactions took place for a total of \$2.55 billion.
- » **OFFICE DEVELOPMENT.** San Francisco currently has 5.2 million square feet of office development under construction, with more than 13 million square feet of pending and proposed projects in the development pipeline.
- » **MULTIFAMILY.** In the first half of 2015, a total of 28 apartment buildings exceeding 10 units transacted for a total of \$285 million.
- » **RETAIL.** Retail rents have broken all past historical highs, and vacancy is at an all-time low, falling below 2% in Union Square: San Francisco's hottest retail market.
- » **HOUSING THE DREAM 2015.** 37 percent of the audience predicted apartment rents to peak in 2017.

“We should all revel in this: truly San Francisco’s glittering age. This latest study confirms that San Francisco has further cemented its place as the center of the world’s knowledge-based economy, and is growing at a pace rarely - if ever - seen in this nation’s history.”

ALAN D. COLLENETTE, EXECUTIVE REGIONAL MANAGING DIRECTOR

Pressure Cooker

San Francisco's historic transformation from a tourist mecca to the epicenter of the world's new knowledge-based economy has continued unabated through the first half of 2015, with office vacancy rates continuing to fall and absorption rates rising to record levels.

OFFICE MARKET INDICATORS

	Mid-Year 2015	2015 Full Year Forecast	2015 Full Year Forecast
Overall Vacancy	7.5%	↓	↔
Net Absorption	2.8M _{SF}	↑	↑
Weighted Rental Rate	\$64.79 _{Overall}	↑	↑
Non-Weighted Rental Rate	\$58.86 _{Overall}	↑	↑
Investment Sales Volume	\$5.03 _{Billion}	↓	↓
Sales Prices	\$530 _{Average Price/SF}	↑	↑

Office Overview

San Francisco employers continue to secure space for the ever-growing workforce, which has translated into solid leasing activity during the first half of 2015. There were over 3.4 million square feet of transactions, putting the City on pace to hit its historical annual average of 7.3 million square feet of transactions by year-end.

LEASING

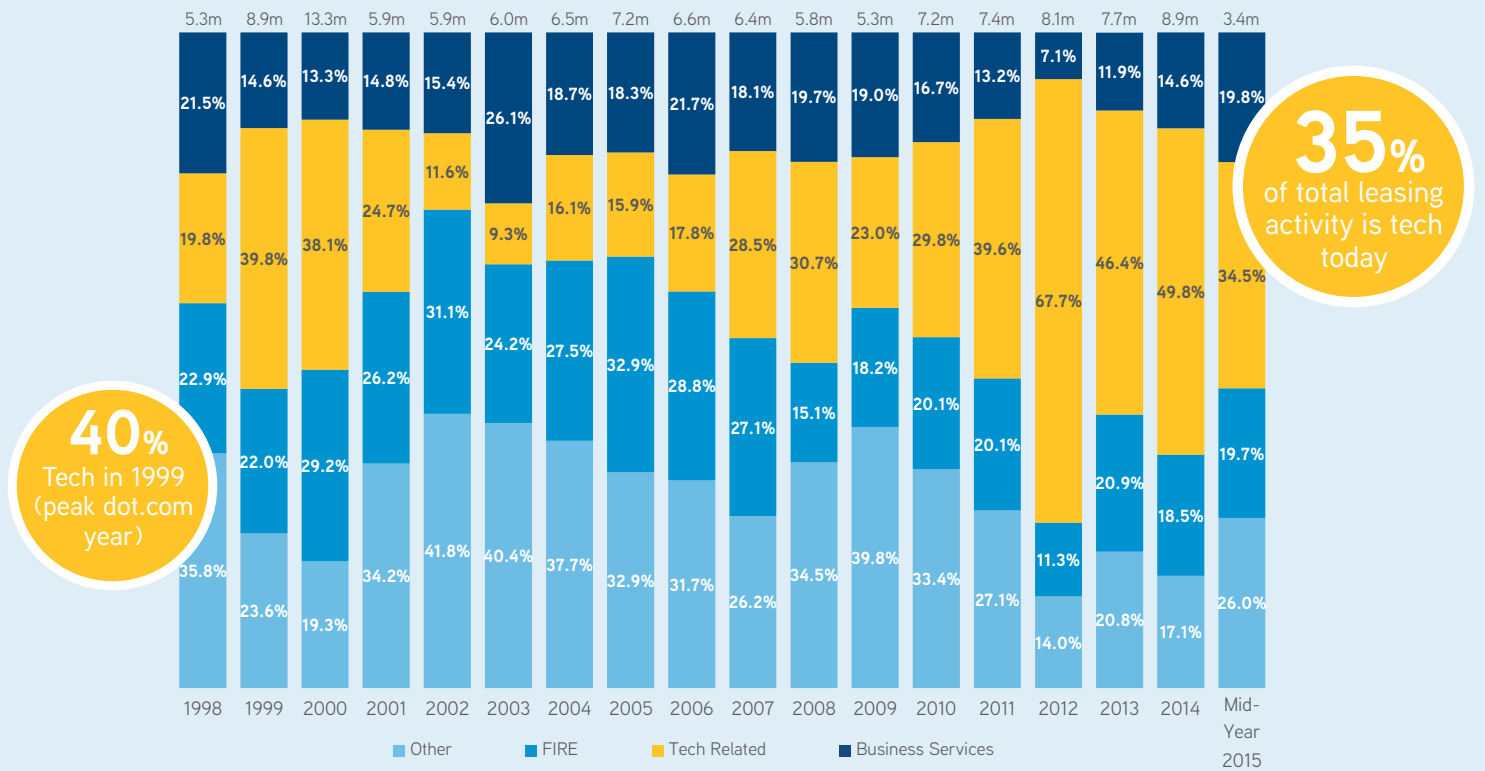
- » **LARGE DEALS.** 8 transactions closed at over 100,000 square feet during the first half of 2015, reflecting the strength of the San Francisco market. Representing net growth in the City, Fitbit signed for 164,000 square feet at 199 Fremont Street, Uber leased 173,000 square feet at 555 Market Street, and Stripe leased all 300,000 square feet at 510 Townsend Street.
- » **35 PERCENT.** Technology companies continue to lead leasing activity, representing 35 percent of the volume and 37 percent of the current demand. Growing companies such as GoPro, Zymergen, and Thumbtack account for significant demand. Leasing volume from the business services sector continues to grow, representing 20 percent of the leasing volume for the first half of 2015, up from 15 percent in 2014.
- » **ABOVE AVERAGE.** San Francisco's leasing activity continues to be one of the healthiest in the country. As the tech sector continues to flourish, leasing activity has surpassed the historical annual average of 7.3 million square feet, though it still remains well below the 11.5 million square feet average experienced for 3 years during the 2000 dot com boom.

ABSORPTION

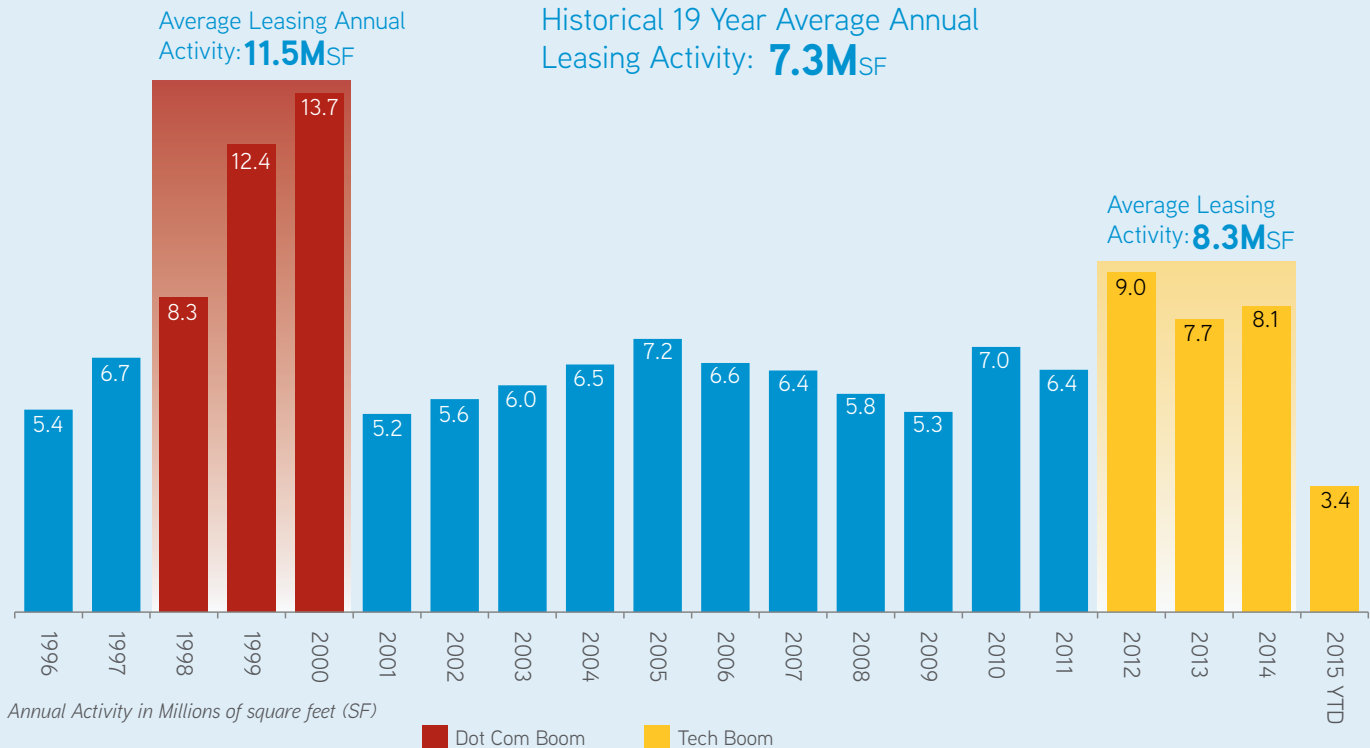
The office market posted its twentieth consecutive quarter of positive absorption, bringing net absorption for the first half of 2015 to 1.2 million square feet, thus surpassing in six months what had been the historical annual average absorption rate of 1.1 million square feet. Driven by rapid tech growth, the race for space has forced some tenants to lease more space than their immediate needs require in order leave room for planned future growth.

The Civic Center/Mid-Market and South Financial District submarkets posted the largest net absorption gains year-to-date, at approximately 470,000 and over 478,000 square feet, respectively. Occupancy growth for the South Financial District is a result of Google moving into 243,000 square feet at 1 Market Street, as well as Mixpanel occupying 61,000 square feet at 405 Howard Street. This translated into the South Financial District's vacancy rate falling by over 2 percent (to 5.7 percent) during the first half of 2015. Twitter's occupancy of 304,000 square feet at 1 Tenth Street and Uber's move into 131,000 square feet at 1455 Market Street were key contributors towards the positive net absorption enjoyed in the Civic Center/Mid-Market submarket.

OFFICE LEASING ACTIVITY BY INDUSTRY



HISTORICAL ANNUAL LEASING CHART



- » **ALL A'S FOR GROWTH.** Year-to-date Class A assets remain the key driver for the positive net absorption experienced in the market with over 1.1 million square feet of net gain and accounting for 92 percent of the absorption in the City. Absorption growth will remain positive during the second half of 2015 with significant move-ins such as Dolby and LinkedIn.

VACANCY

- » **OCCUPANCY UP.** Increasing occupancy translated into the City shedding 120 basis points from its vacancy during the first six months of 2015, taking the vacancy rate down from 7.5 percent to 6.3 percent. The vacancy rate in San Francisco has declined for five consecutive years, as the City has seen a dramatic decline from the previous market peak of 15.2 percent in 2010.
- » **5.2 MILLION SF.** The City has 5.2 million square feet under construction, adding an unprecedented 5.8 percent to its total inventory. Although 53 percent of that space has been pre-leased, it may result in a rise in vacancy and flat rents in 2016.
- » **DEMAND STRONG.** Tenants continue to have a voracious appetite for space in San Francisco, with 5.4 million square feet of office space requirements consisting of 152 tenants, 12 of which require more than 100,000 square feet. Technology company requirements continue to lead the demand, accounting for 37 percent (or 2 million square feet) of the requirements in the market. The second largest industry requirement is from financial services firms, which account for 11 percent of the space requirements in San Francisco.

 **15.5%**

CLASS B RENTS CLIMBED TO

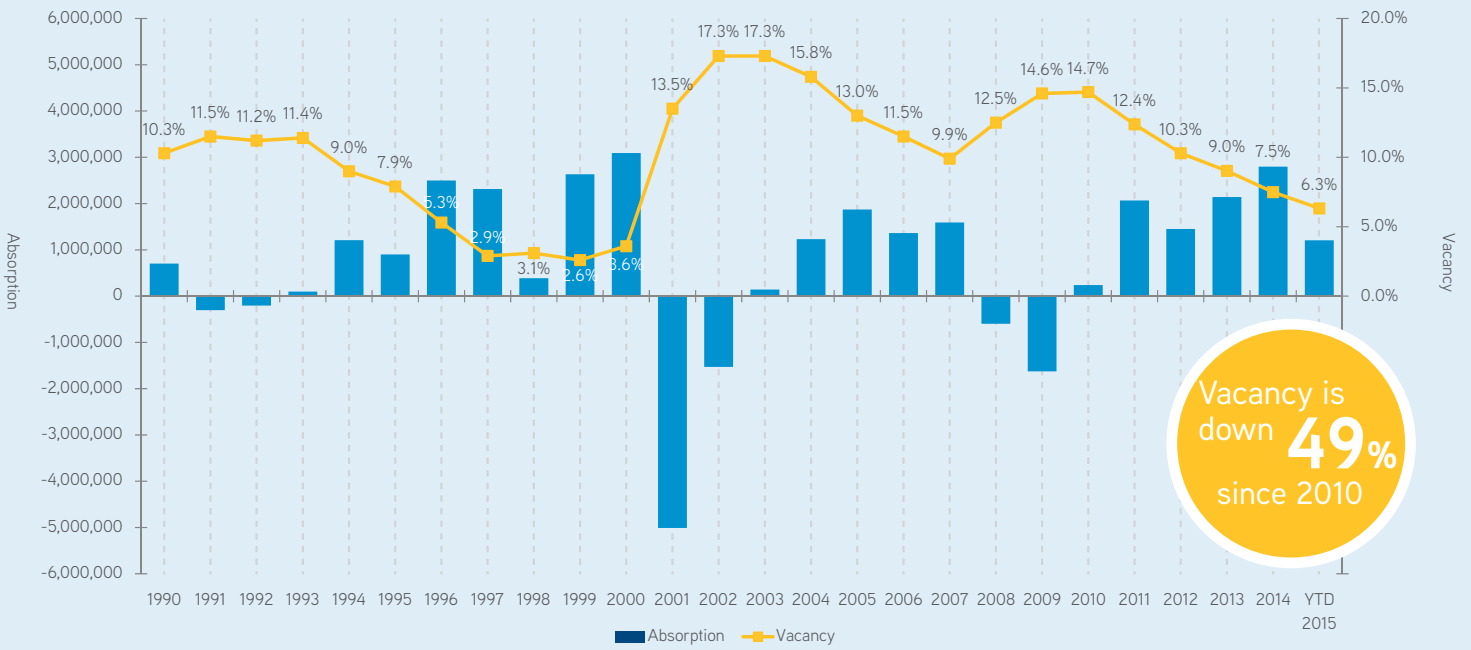
\$66.47 IN 2015 AND ARE

EXPECTED TO CONTINUE TO RISE IN 2015

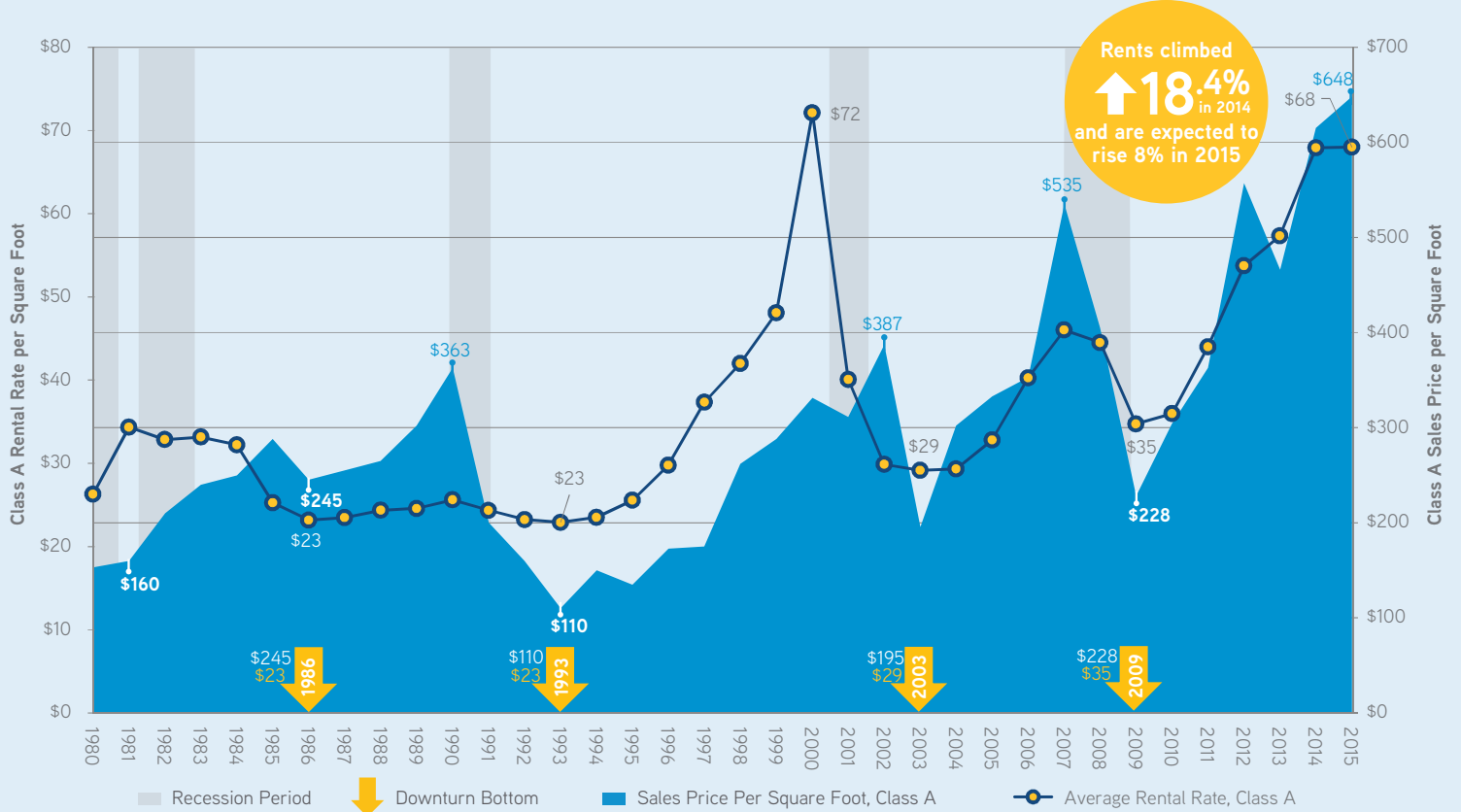
RENTS

- » **OVERALL.** As one of the strongest office markets in the country, San Francisco's rents continue to trend upward. Average overall citywide rents rose to \$67.13 (weighted) for all asset classes during the first half of 2015. While the City keeps experiencing overall rental rate increases, the rate of increase for rents has decreased when compared to the first half of 2014. However, tenants leasing large blocks of space in either newly constructed or under-construction projects pushed overall weighted rents to peaks not seen since the dot-com boom in 2000.
- » **B'S LEAD RENT INCREASES.** Weighted Class B rents continued to climb and finished the first half of 2015 up 15.5 percent. Class B rents experienced the strongest growth, as many tenants have hit their rent threshold and are looking for more affordable options.

HISTORICAL OFFICE ABSORPTION & VACANCY

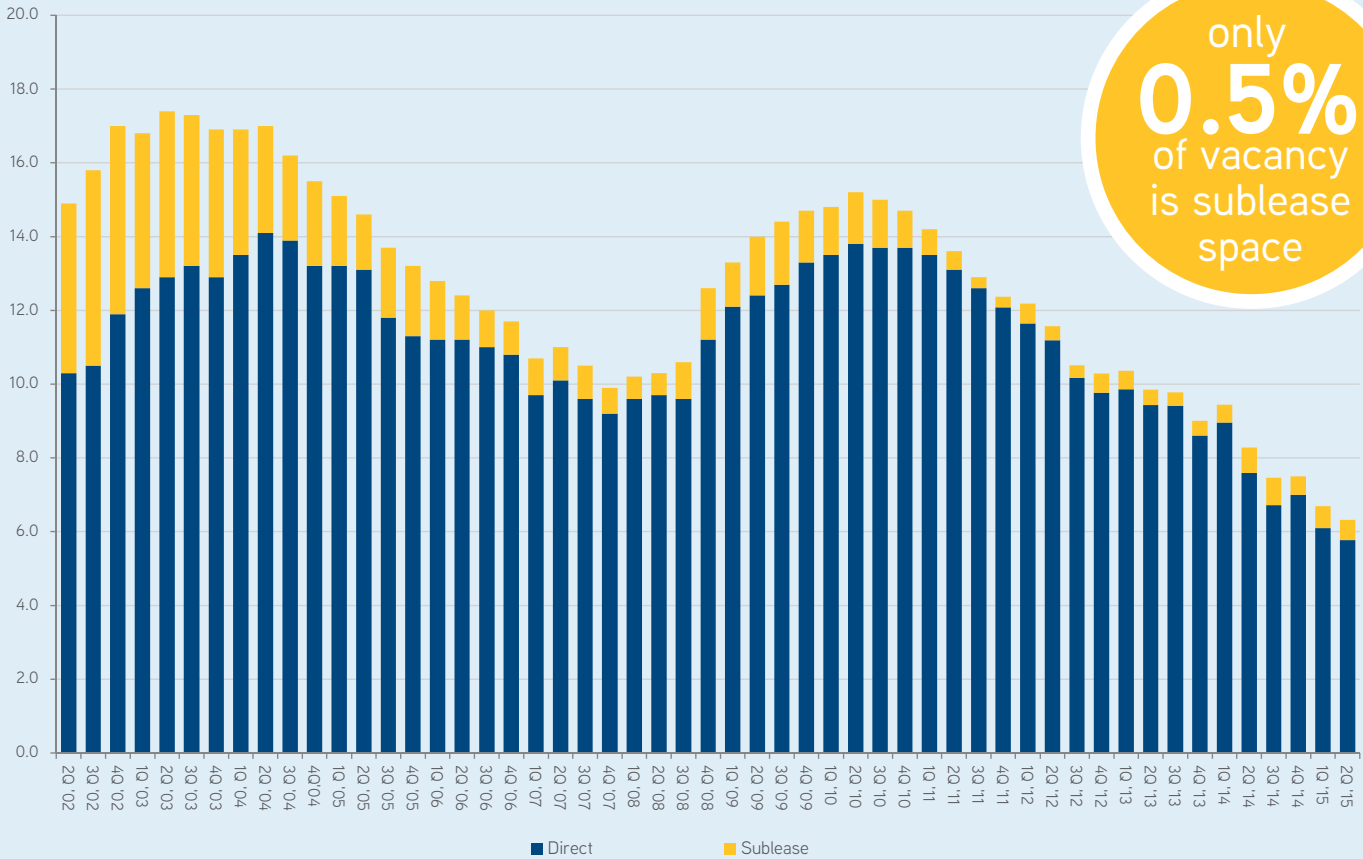


OFFICE INVESTMENT SALES AND RENT

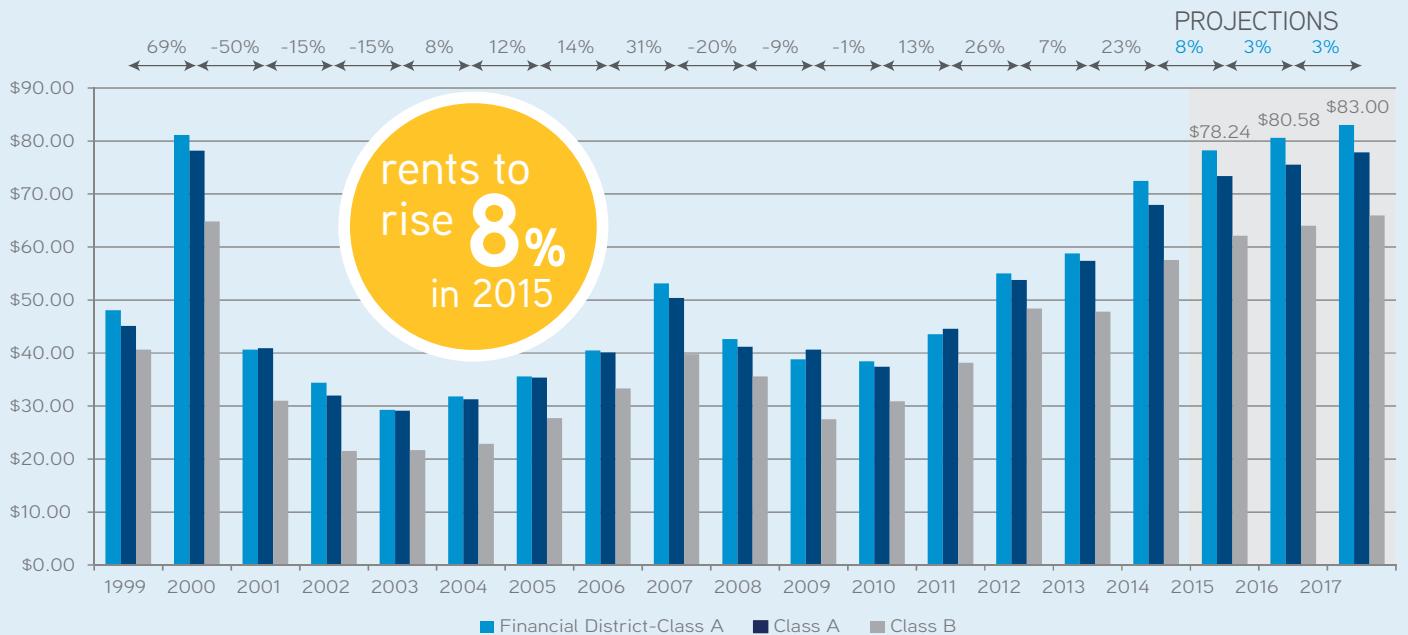


OFFICE MARKET ACTIVITY

VACANT SPACE BY TYPE



RENTAL RATE FORECAST



TOTAL INVENTORY

Building Class	Total Inventory S.F.	Bldgs	Vacant Direct	Vacant Sublease	Space Vacant	Direct Vacancy Rate	Sublease Vacancy Rate	Overall Vacancy Rate	Net Absorption Current Quarter	Net Absorption YTD
Class A	57,516,593	177	3,422,360	412,000	3,834,360	6.0%	0.7%	6.7%	217,911	1,106,842
Class B	24,687,717	293	1,359,659	71,704	1,431,363	5.5%	0.3%	5.8%	147,909	167,139
Class C	6,739,967	130	349,921	4,802	354,723	5.2%	0.1%	5.3%	(66,301)	(65,176)
Total Downtown San Francisco (A+B+C)	88,944,277	600	5,131,940	488,506	5,620,446	5.8%	0.5%	6.3%	299,519	1,208,805
Class A - Total Financial District	43,448,284	106	2,702,784	298,016	3,556,922	6.2%	0.7%	6.9%	223,450	527,042
Class B - Total Financial District	8,145,794	73	401,580	8,023	552,097	4.9%	0.1%	5.0%	54,670	142,494
Submarket	Total Inventory S.F.	Bldgs	Vacant Direct Space	Vacant Sublease	Space Vacant	Direct Vacancy Rate	Sublease Vacancy Rate	Overall Vacancy Rate	Net Absorption Current Quarter	Net Absorption YTD
North Financial District	28,405,524	116	1,929,894	184,114	2,114,008	6.8%	0.6%	7.4%	105,744	183,724
South Financial District	24,829,490	99	1,304,201	121,925	1,426,126	5.3%	0.5%	5.7%	168,941	478,359
Total Financial District	53,235,014	215	3,234,095	306,039	3,540,134	6.1%	0.6%	6.7%	274,685	662,083
Union Square	4,150,158	60	159,329	9,759	169,088	3.8%	0.2%	4.1%	(24,299)	4,571
Yerba Buena	4,623,673	31	166,205	47,990	214,195	3.6%	1.0%	4.6%	67,712	79,107
SOMA West	3,468,914	41	123,544	10,000	133,544	3.6%	0.3%	3.8%	10,213	51,109
SOMA East	5,270,348	56	359,558	42,565	402,123	6.8%	0.8%	7.6%	(6,389)	(52,196)
Civic Center/Mid-Market	6,371,304	45	496,189	-	496,189	7.8%	0.0%	7.8%	8,525	469,346
Jackson Square	2,330,330	40	75,545	8,649	84,194	3.2%	0.4%	3.6%	7,746	(453)
North Waterfront	3,557,849	47	259,270	15,678	274,948	7.3%	0.4%	7.7%	22,323	(29,024)
Van Ness Corridor	1,233,094	21	163,095	-	163,095	13.2%	0.0%	13.2%	5,277	(78,657)
Potrero West	1,339,348	18	42,614	-	42,614	3.2%	0.0%	3.2%	(10,045)	(13,380)
Potrero East	864,650	11	30,151	47,826	77,977	3.5%	5.5%	9.0%	(43,593)	(24,825)
Mission Bay	2,499,595	15	22,345	-	22,345	0.9%	0.0%	0.9%	(12,636)	141,124
Total Downtown San Francisco	88,944,277	600	5,131,940	488,506	5,620,446	5.8%	0.5%	6.3%	299,519	1,208,805

MAJOR OFFICE LEASE TRANSACTIONS FOR FIRST HALF 2015

Address	Lessee	Total Area - Transaction	Type	Closing Date
510 Townsend Street	Stripe	300,000	New	Apr-15
555 Market Street	Uber	172,838	New	Mar-15
199 Fremont Street	Fitbit	163,628	New	Jun-15
388 Market Street	First Republic	132,474	Renewal	Mar-15
600 Townsend Street	Advent Software	129,491	Renewal	Jan-15
221 Main Street	DocuSign	120,000	New	Jan-15
595 Market Street	Lending Club	122,330	New	Apr-15
101 California Street	Cooley	100,765	Renewal	Feb-15
4 Embarcadero Center	Sheppard, Mullin, Richter & Hampton	72,000	Renewal	Apr-15
835 Market Street	CrunchyRoll	71,614	New	Jan-15
400 2nd Street	Sony	63,000	Renewal/Expansion	Jun-15
405 Howard Street	Mixpanel	60,593	New	Jan-15
50 Beale Street	Instacart	56,288	New	May-15

Investment Overview

Investment sales activity continued its impressive pace through the first half of 2015, with the sale of 18 office properties with an aggregate value of \$1.53 billion

Although 22 office properties transacted, totaling \$2.55 billion, it marks a slight decrease from the torrid first half of 2014. Nonetheless, investor confidence remains strong, and a number of properties have just hit the market - suggesting a strong start to the second half of 2015.

The San Francisco investment market continues to benefit from a myriad of positive circumstances, including robust leasing volume, impressive employment growth, continued low interest rates, and an abundance of capital in the market, much of which is driven by demand from foreign investors.

While recent aggressive pricing trends have forced many in the market to question the sustainability of this market trajectory, there appears to be no imminent or localized indicator of an impending market slowdown through the remainder of 2015.

MID-YEAR TRANSACTIONS & VOLUME

- » Mid-Year 2015: \$1.53 billion – 18 office property transactions
- » Mid-Year 2014: \$2.55 billion – 22 office property transactions

PRODUCT TYPE	# TRANSACTIONS	\$ VOLUME
CLASS A	4	\$1,256,850,000
CLASS B	12	\$259,455,000
CLASS C/ REPOSITION	2	\$10,020,000
TOTAL	18	\$1,526,325,000

Note: Colliers tracks all office sales above \$3 million in downtown San Francisco

HISTORICAL TRANSACTIONS & VOLUME

- » Over the past 15 years, San Francisco's annual transaction volume has ranged between \$100 million at the nadir of the market in 2002, to its peak of \$9.8 billion in 2007.
- » If all current offerings as of July 2015 close by year-end, total transaction volume will surpass \$4 billion, comprising 30 properties.

MID-YEAR PRICING & CAP RATES

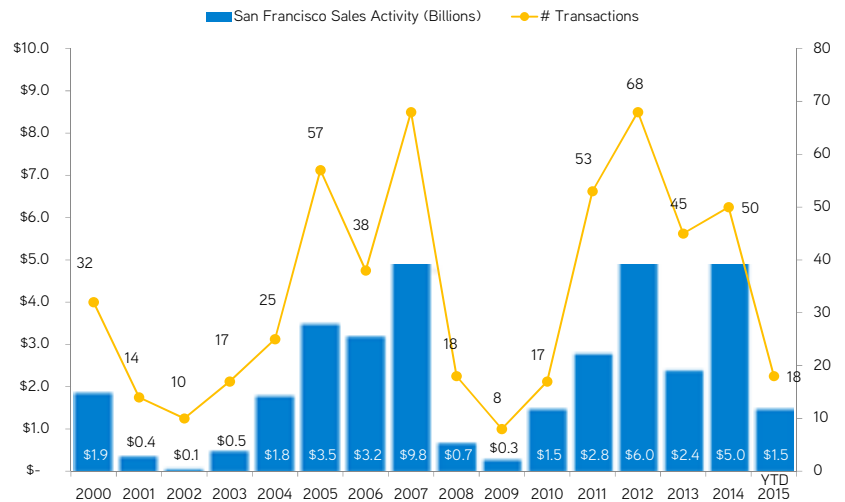
- » Pricing continues to increase for all asset classes, meeting or surpassing the record levels of 2014.
- » Class B "creative/brick and timber" assets continue to lead the market with pricing surpassing \$800/SF.
- » The first half of 2015 saw continued low cap rates fueled by low interest rates, continued rent growth, and strong competition for product given the lack of available investment opportunities.

PRODUCT TYPE	\$/SF RANGE	CAP RATE RANGE
CLASS A	\$651-\$783	3.0%-5.0%
CLASS B	\$549-\$816	3.0%-6.0%
CLASS C/ REPOSITION	\$309-\$384	N/A
TOTAL	\$309-816	3.7%-5.5%

HISTORICAL PRICING

- » Pricing for Class A assets averaged \$648/SF through mid-year 2015, as compared to \$593/SF at mid-year 2014 (a 9.3% YOY increase).
- » Class B pricing averaged \$603/SF through mid-year 2015, a strong increase from \$527/SF realized in mid-year 2014 (a 14% YOY increase).
- » Investors continue to scour the market in search of renovation and repositioning “Class C” investments which has driven pricing to \$346/SF as of mid-year 2015, up from \$257/SF realized in mid-year 2014 (a 35% YOY increase).

SALES VOLUME

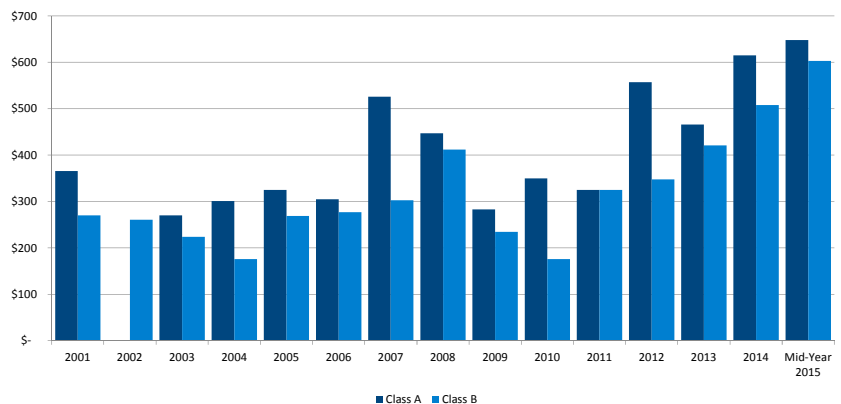


FORECAST FOR THE 2ND HALF OF 2015

The San Francisco investment market continues to be very strong and is widely recognized globally as a top tier investment location. Of the 5.2 million square feet of office space currently under construction, 1.4 million square feet will deliver in 2015 with 88 percent of the space already pre-leased: a strong indication of the strength of the market.

We believe that investment demand will continue to be strong from both domestic and foreign investors, and that pricing will stabilize as we exceed replacement cost.

SALES PER SQUARE FOOT



MAJOR SALES TRANSACTIONS IN 2015

SALE DATE	PROPERTY	SELLER	BUYER	SIZE	PRICE	\$/SF	CLASS
May-15	160 Spear Street	Legacy Partners	Tishman Speyer	289,253	\$197,700,000	\$683	A
Apr-15	143 2nd Street	WARO	143 SF Investors LLC	19,741	\$16,100,000	\$816	A
Feb-15	755 Sansome Street	Felicia Woytak/Wayne Jordan	WARO LLC (Market Street Real Estate Partners)	57,057	\$29,450,000	\$516	A
Feb-15	50 Fremont Street	TIAA-CREF	Salesforce.com	817,412	\$640,000,000	\$783	A
Feb-15	135 Mississippi Street	UPC/ASB	Zurich Alternative Asset Management	28,454	\$20,200,000	\$710	A
Jan-15	301 Howard Street	Embarcadero Capital Partners	Emmes Asset Management	307,000	\$200,000,000	\$651	B
Jan-15	731 Market Street	Harvest Properties/Invesco	Jamestown	93,107	\$65,200,000	\$700	B
Jan-15	1455 Market Street - 45% Interest	Hudson Pacific Properties	CPPIB (Canadian Pension Plan Investment Board)	1,025,833	\$219,150,000	\$475	B

Office Development Overview

Developers scramble to beat Proposition M's Curfew. 6 million square feet will have to cool their heels for now.

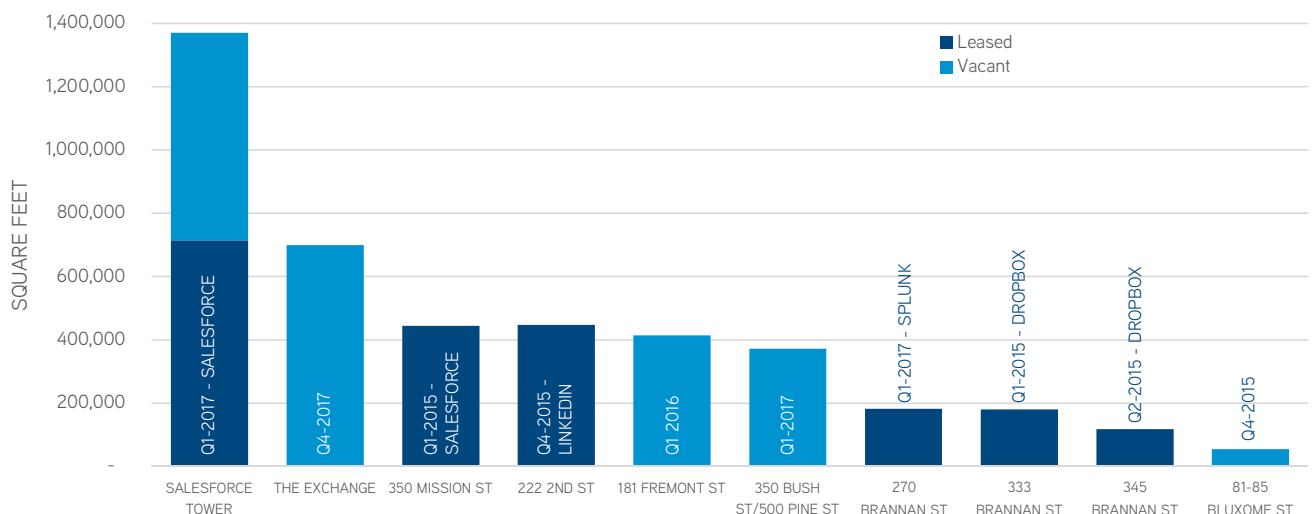
The market conditions outlined earlier in the report have translated into an unprecedented construction boom with numerous cranes throughout the City.

- » **88% PRE-LEASED.** San Francisco has 5.2 million square feet currently under construction, increasing the city's office space by a massive 5.8 percent, with 1.4 million square feet scheduled to be delivered this year alone. 88 percent of that 2015 space has been pre-leased.
- » **PROPOSITION M.** There is 2.5 million square feet of "Large Cap Space" (allocations for buildings over 50,000 square feet) available, but approximately 8.3 million square feet of proposed projects in the pipeline. This is the first time since the anti-development ordinance was passed 21 years ago in 1984 that it has had any

effect at all. Now almost 6 million square feet of proposed buildings can't be built and will have to wait. The effect is twofold:

- » Developers are scrambling to beat the curfew by being first in line.
- » Restricted developments, if demand continues, will force rents even more dramatically higher, and add a further push for companies to shy away from San Francisco.
- » **NEW CONSTRUCTION.** The City has 4.5 million square feet of ground-up developments. Of those, the Financial District has 5 projects, which account for 67 percent of the new construction in San Francisco.

SAN FRANCISCO DEVELOPMENT PIPELINE (UNDER CONSTRUCTION)



UNDER CONSTRUCTION

1	222 2nd Street	447,000 SF	Q4-2015
2	350 Mission Street	444,000 SF	Q3-2015
3	333 Brannan Street	180,000 SF	Q3-2015
4	345 Brannan Street	118,000 SF	Q3-2015
5	1000 Sansome Street	61,600 SF	Q4-2015
6	81-85 Bluxome Street	55,000 SF	Q4-2015
7	30 Third Street	53,000 SF	Q4-2015
8	101 Townsend Street	44,000 SF	Q3-2015

9	390 Main Street/375 Beale Street	512,000 SF	Q1-2016
10	1600 Owens Street	246,000 SF	Q3-2016
11	270 Brannan Street	182,000 SF	Q1-2016

12	Salesforce (Transbay) Tower	1,371,000 SF	Q1 2017
13	The Exchange/Miss. Bay Block 40	700,000 SF	Q4-2017
14	181 Fremont Street	414,000 SF	Q1-2017
15	350 Bush St/500 Pine Street	372,000 SF	Q1-2017

PENDING

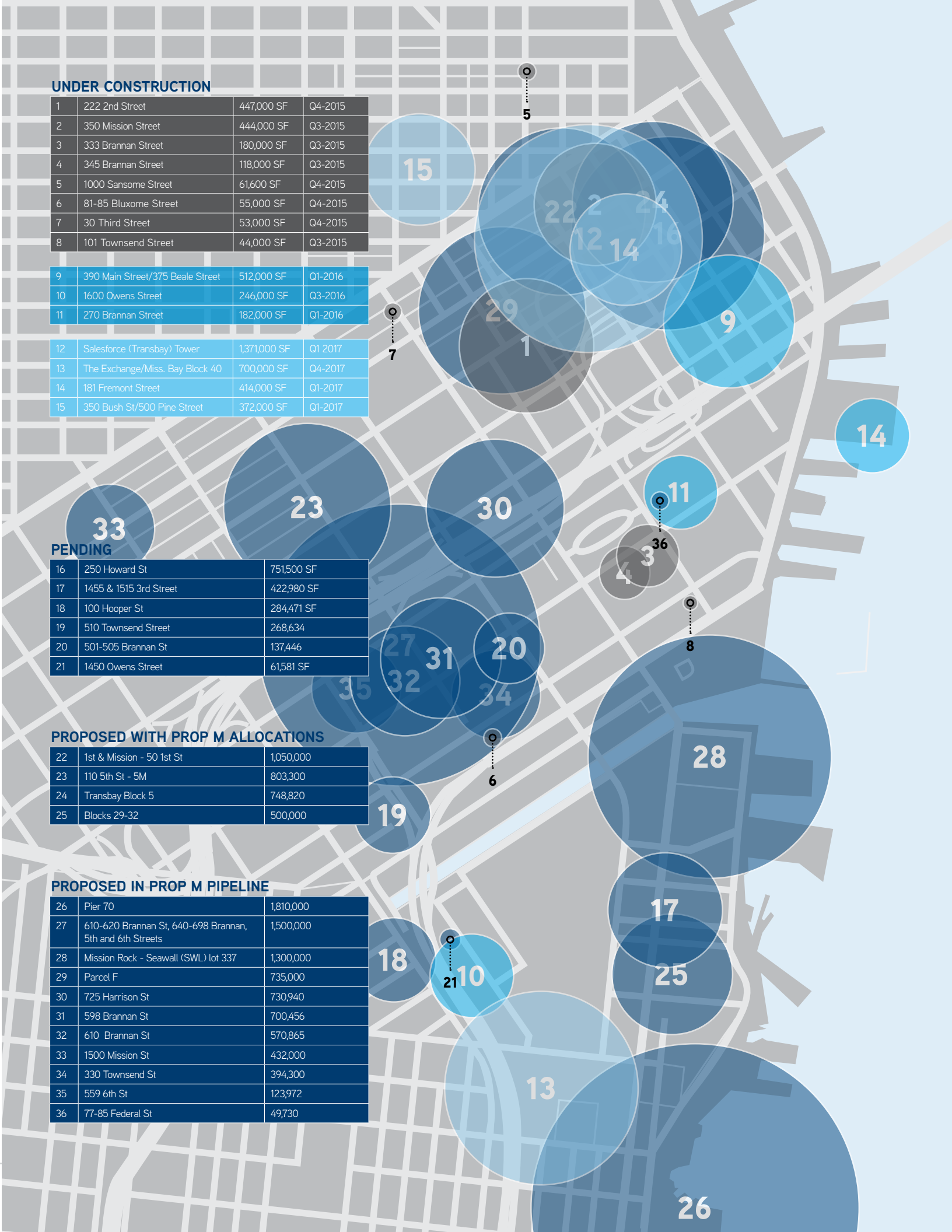
16	250 Howard St	751,500 SF
17	1455 & 1515 3rd Street	422,980 SF
18	100 Hooper St	284,471 SF
19	510 Townsend Street	268,634
20	501-505 Brannan St	137,446
21	1450 Owens Street	61,581 SF

PROPOSED WITH PROP M ALLOCATIONS

22	1st & Mission - 50 1st St	1,050,000
23	110 5th St - 5M	803,300
24	Transbay Block 5	748,820
25	Blocks 29-32	500,000

PROPOSED IN PROP M PIPELINE

26	Pier 70	1,810,000
27	610-620 Brannan St, 640-698 Brannan, 5th and 6th Streets	1,500,000
28	Mission Rock - Seawall (SWL) lot 337	1,300,000
29	Parcel F	735,000
30	725 Harrison St	730,940
31	598 Brannan St	700,456
32	610 Brannan St	570,865
33	1500 Mission St	432,000
34	330 Townsend St	394,300
35	559 6th St	123,972
36	77-85 Federal St	49,730



Retail Overview

Retail rents have reached historic highs, and vacancy is at an all-time low, falling below 2% in Union Square.

According to the California Employment Development Department, San Francisco added 41,000 jobs in 2014, which represented a 3.7 percent year-over-year increase. The job market's velocity shows no signs of abating, with San Francisco's unemployment rate of 3.5 percent comparing to the state's figure of 6.3 percent. Additionally, the city remains a top draw for both domestic and international tourists: in 2014 18 million tourists visited San Francisco, marking a 6.5 percent increase from 2012. These factors have translated into a very healthy start to the year, with strong retail sales (especially in fine jewelry and accessories) intensifying retailer interest and competition for a limited inventory of available retail spaces.

Watch for San Francisco's retail market to remain healthy for the rest of 2015 as tenant and investor demand remains strong. Due to the limited amount of space in the City, upward pressure on rents will remain. San Francisco remains one of the U.S.' tightest retail markets, and rock-bottom vacancy rates and strong rent gains are expected to continue attracting investors seeking to reposition assets.

TRENDS IN THE CITY

» **RETAILERS ABOUND.** International retailers continue to look to North America as a growth

market. Despite eye-watering rents in San Francisco, particularly in Union Square, many brands are still willing to pay the price to gain access to the City's affluent customer base & burgeoning tourist market. Visitors to the City spent \$10.67 billion in 2014, a figure that shattered the previous visitor-spending record by 13.7 percent. San Francisco has become a 'must have' U.S. location as global retailers shift their focus to the United States and away from Europe and China due to market volatility.

- » **SOMA DEVELOPMENT.** South of Market, Developers have placed their attention and focus on the retail components of their multi-use developments. Developers recognize that highly educated, well-paid technology employees prefer developments that combine places where they can live, work, and play, which involves shopping and spending.
- » **FISHERMAN'S WHARF.** There is significant near-term lease turnover coming to Jefferson Street that is not affected by Formula Retail restrictions. Remerchandising efforts in the coming 12-18 months are likely to change the face of The Wharf, one of San Francisco's most iconic neighborhoods.
- » **RESTAURANT CHALLENGES.** Local restaurant operators continue to adapt to the financial challenges presented by recent minimum wage

increase and expanded employee health care expenses. As restaurateurs scour the City for new locations, a larger number of concepts will be relying on a reduced number of servers and kitchen staff to succeed. Look for some

more sophisticated operators to incorporate tablet technology to cut down on the number of employees and improve operational efficiency.

SIGNED DEALS FIRST HALF 2015:

- » James Perse - 69 Maiden Lane
- » Barneys Expansion - Stockton Street
- » AT&T - One Powell Street
- » Doc Martens - 846 Market Street
- » Fogo de Chao - 201 3rd Street
- » Giorgio Armani - 166 Grant Avenue
- » Harry Winston - 200 Post Street
- » Spin - 690 Folsom Street
- » Yogasmoga - 66 Kearny Street
- » Shreve - 117 Post Street (temporary)
- » Shreve - 150 Post Street (long term)

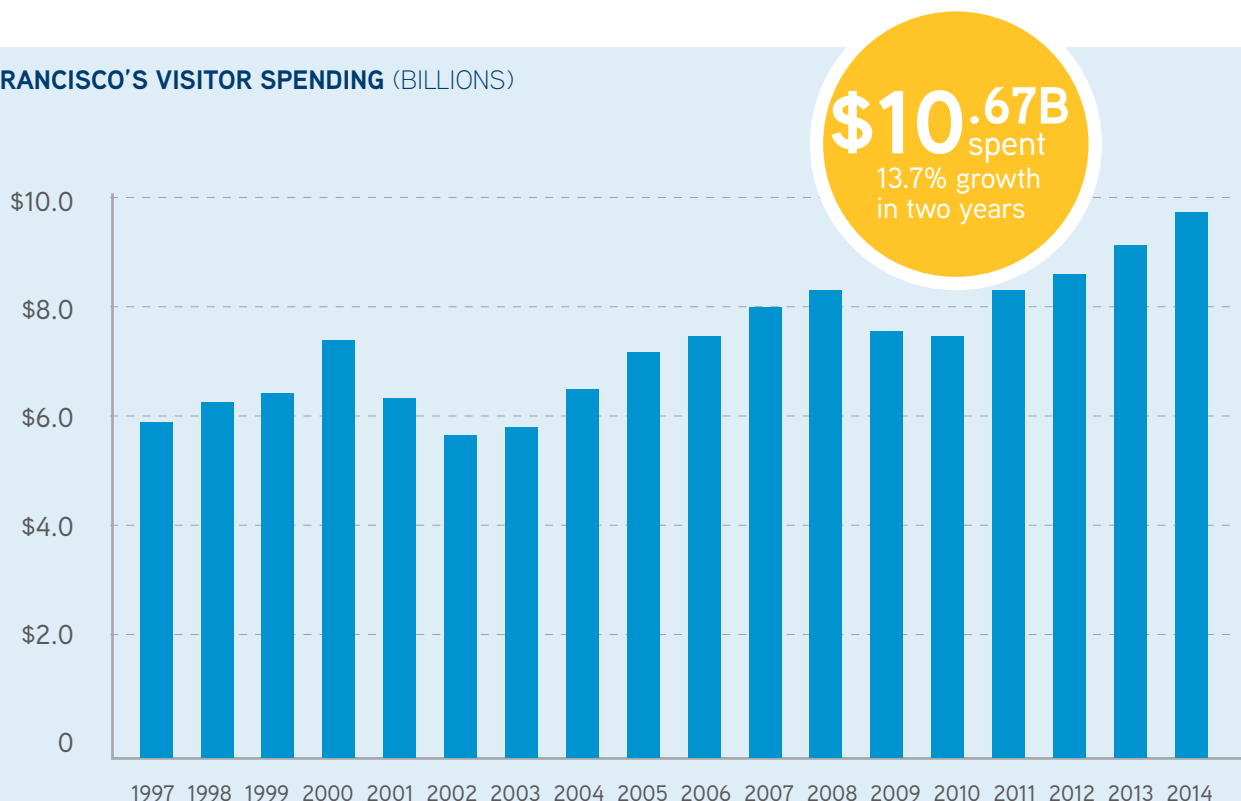
OPENINGS FIRST HALF 2015:

- » Cop. Copine (relocation) - 352 Sutter Street
- » Hublot - 174 Geary Street
- » JINS Eyewear - 151 Powell Street
- » Maison Martin Margiela - 134 Maiden Lane
- » Onsen - 460 Post Street
- » Sugarfina - 272 Sutter Street
- » Saint Laurent - 110 Grant (expansion)

“ While rental rates are higher than ever before, the market is incredibly tight and demand continues to be extremely robust. We are seeing an increasing number of international retailers choose San Francisco as their first point of entry to the United States. This trend speaks to retailers’ increasing awareness of San Francisco as a sophisticated, affluent global city of stylish, forward thinking consumers”

JULIE TAYLOR, EXECUTIVE VICE PRESIDENT, RETAIL SERVICES GROUP

SAN FRANCISCO'S VISITOR SPENDING (BILLIONS)



Source: San Francisco Travel Association, Economic Research Associates



Colliers International exclusively represented the sale of Bridgecourt Apartments in Emeryville in the first half of 2015

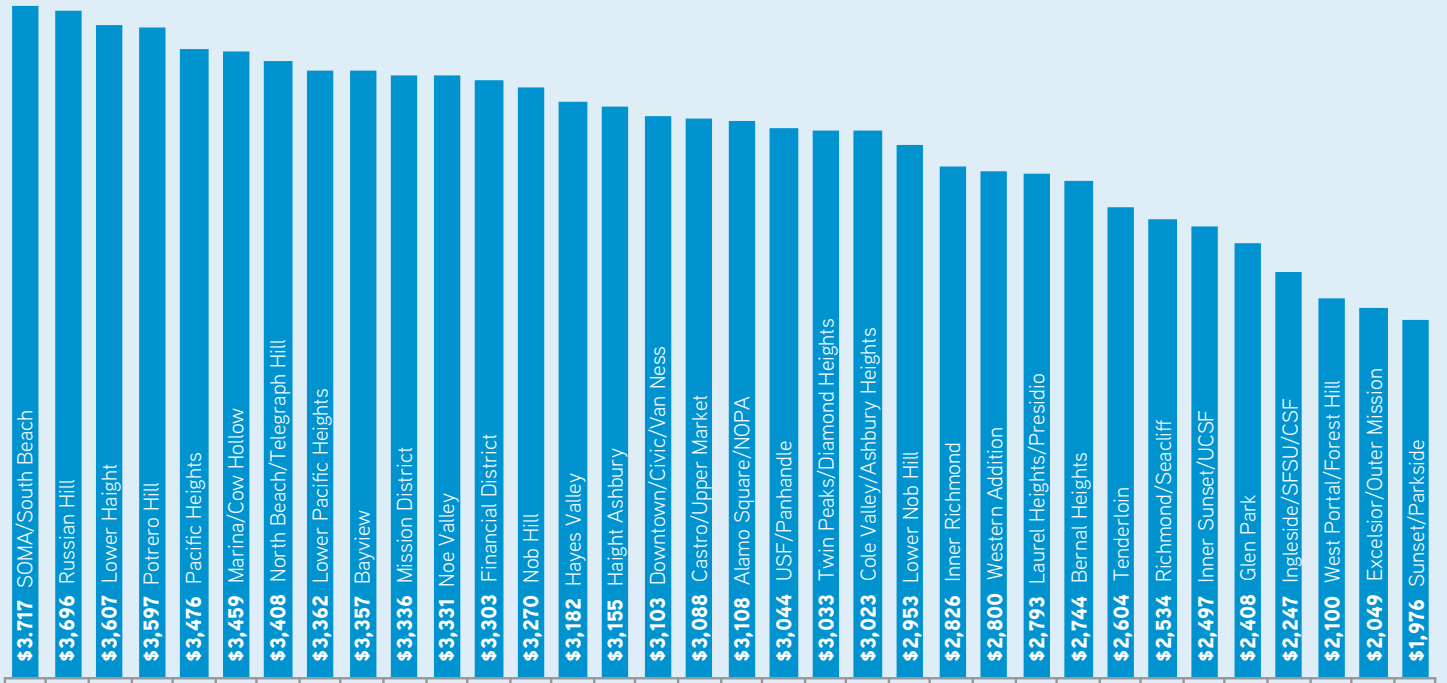
Multifamily Investment

During the first half of 2015, the San Francisco market experienced historically high prices across all metric (GRM's, Cap Rates, Price Per Unit and Price Per Square Foot)

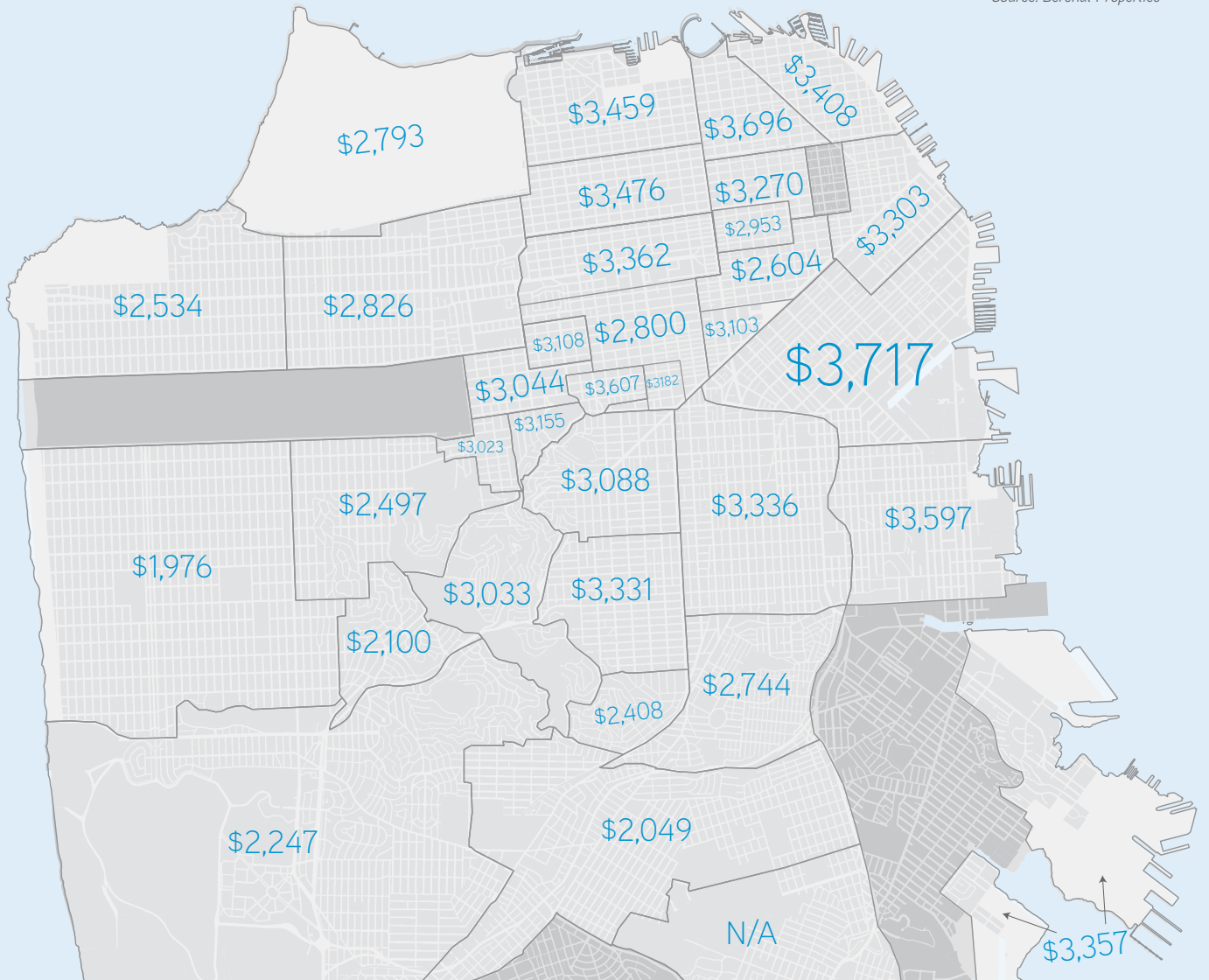
Long term, investors remain bullish on the San Francisco apartment market, but in the short term we may start to experience pushback in certain higher-end submarkets. Refinance activity remains strong, but new loans are light, simply due to a limited inventory in the market. The City's apartment market remains one of the strongest in the nation, as strong employment continues to keep occupancies throughout the City at historically high levels.

- » **A MILLION DOLLAR INCREASE.** The City's average sale price for 10+ unit apartments hit \$6.6 million during the first half of 2015, which marks an increase of 22.5 percent from the first half of 2014, when the average sale price was \$5.4 million.
- » **LOW INVENTORY LEVELS.** Due to historically low inventory levels, the transaction volume slowed during the first half of 2015, with a total of 28 10+ unit apartments closing for a combined deal volume of \$184 million. By comparison, during the first half of 2014, there were 53 such transactions with a deal volume exceeding \$285 million.
- » **14% PRICE GROWTH.** Average price per unit for 10+ unit apartments grew to \$354,000 during the first half of 2015: a 14 percent year-over-year increase from \$311,000.

AVERAGE ASKING RENTS - 1 BEDROOM - MAY 2015



Source: Berendt Properties



- » **APARTMENT RENTS RISE.** Over the past year average rents climbed 9.1 percent to \$3,524 per month. Rents have continued to climb across the board largely driven by strong job growth not only in San Francisco, but throughout the Bay Area as well.
- » **STUDIOS UP 7.9%.** Over the past 12 months, average asking rents for studio apartments in San Francisco climbed from \$2,583 to \$2,786.
- » **ONE BEDROOMS UP 10.5%.** From this time last year, asking rent for the average one bedroom in the City rose from \$3,042 to \$3,361.
- » **TWO BEDROOMS UP 8.9%.** Over the past year, asking rents for the average two bedroom apartment increased from \$3,353 to \$3,652.

ACCESSORY DWELLING UNIT (ADU) LEGISLATION

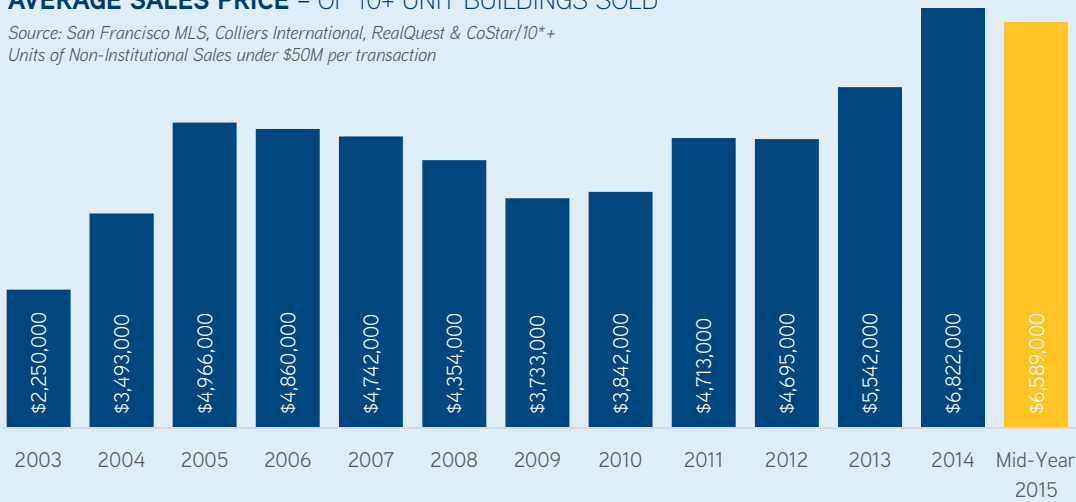
In 2015 and 2016, owners of Tier I and Tier II buildings on the Mandatory Soft-Story Program list will be required to get their plans for retrofit work into the building department. As a result, the City may see a lot of seismic retrofitting in the next few years, which is good for contractors but costly for owners. It's uncertain how owners will react to all these additional costs, but the good news for them is that the City recently passed the accessory dwelling unit (ADU) legislation, which permits ADUs to be added to properties that are subject to the Mandatory Soft-Story Program. This can help owners offset seismic upgrades to their buildings by increasing the income potential for the property.

“ Inventory levels are at all-time lows. There is currently a handful of 10+ unit apartment buildings on the market, compared to a normal market that might have 20-30 such buildings for sale. ”

JAMES DEVINCENTI
MULTIFAMILY INVESTMENT SERVICES GROUP

AVERAGE SALES PRICE – OF 10+ UNIT BUILDINGS SOLD

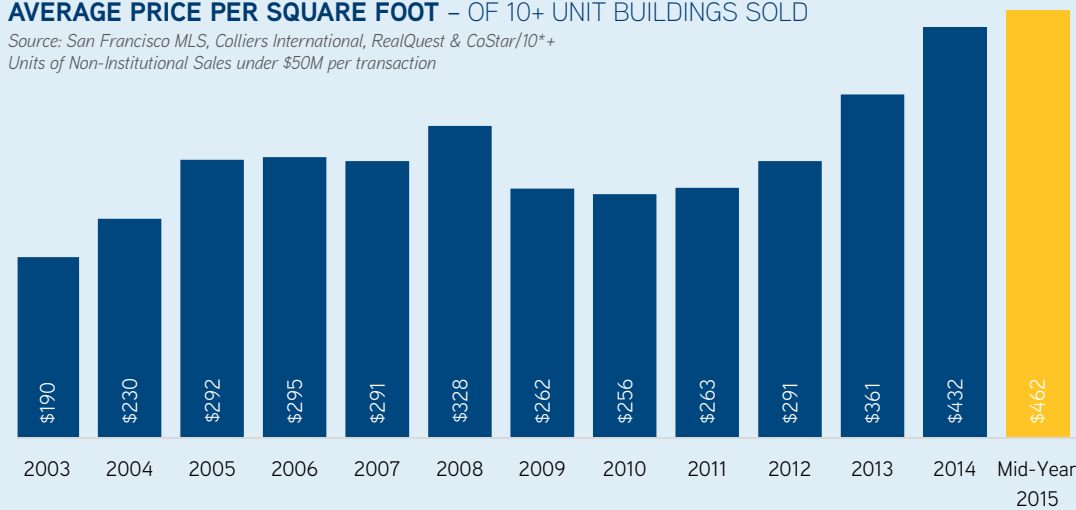
Source: San Francisco MLS, Colliers International, RealQuest & CoStar/10*+
Units of Non-Institutional Sales under \$50M per transaction



Average sale prices rose
22.5%
from mid-year 2014

AVERAGE PRICE PER SQUARE FOOT – OF 10+ UNIT BUILDINGS SOLD

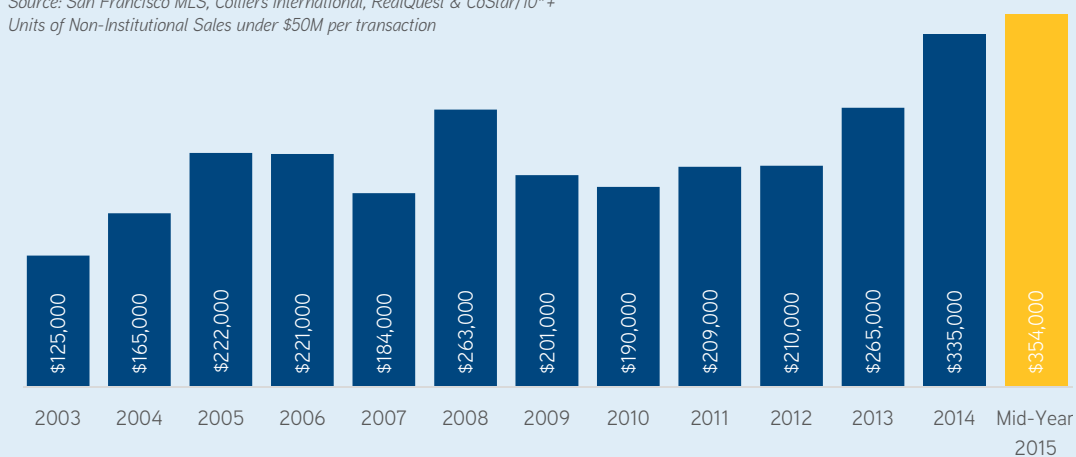
Source: San Francisco MLS, Colliers International, RealQuest & CoStar/10*+
Units of Non-Institutional Sales under \$50M per transaction



Average sale price
per square foot has
DOUBLED
since 2004

AVERAGE PRICE PER UNIT – OF 10+ UNIT BUILDINGS SOLD

Source: San Francisco MLS, Colliers International, RealQuest & CoStar/10*+
Units of Non-Institutional Sales under \$50M per transaction



Average price per unit
climbed nearly
\$164,000
since 2010



Housing the Dream 2015

Multifamily Forecast

In June of 2015, Colliers International San Francisco hosted our first annual “Housing the Dream 2015: Apartments Beyond the Obvious” event at the Julia Morgan Ballroom.

The event featured multifamily real estate and technology panel discussions, which explored driving factors behind the rapid increase in the Bay Area’s residential prices, the effects those prices are having on multifamily development, the local economy, and the measures which employers are taking to ensure that they can still attract and maintain a workforce while existing in the shadow of such astronomical living expenses. Colliers polled all 350 attendees to capture the group’s collective perspective on the state of residential housing in the Bay Area, and the results indicated how keenly aware of the housing shortage the attendees were, as well as the prices that come along with it.

The salient issue of the evening was new housing: 43 percent of attendees felt that the most feasible way to increase the number of housing units in the Bay Area would be to increase density, followed by 22 percent who felt that apartment zoning should be allowed in more areas. To highlight the predicament which San Francisco residents have found themselves in with regard to affording housing, 77 percent of attendees predicted that the minimum income required of a tenant to occupy a new one-bedroom apartment is between \$120,000 and \$160,000.

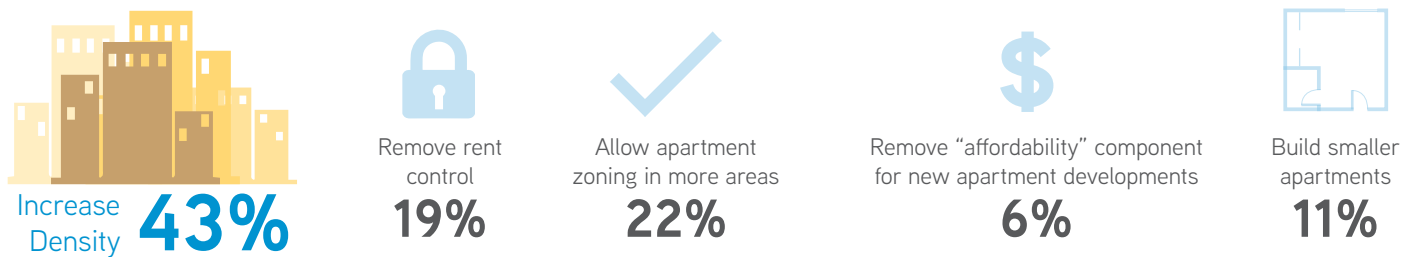


Housing the Dream 2015

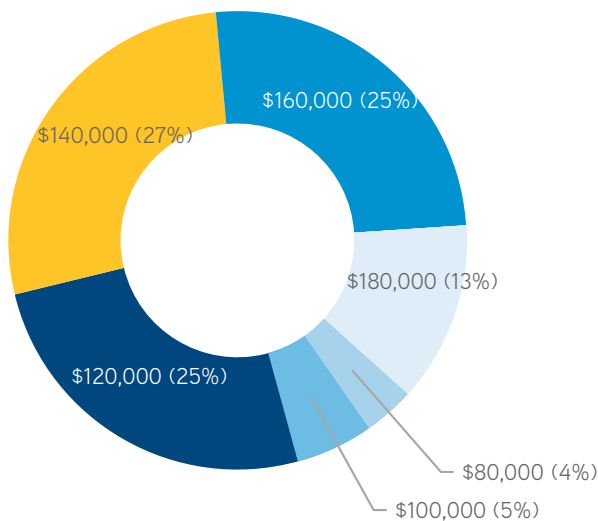
Multifamily Forecast

Guests of Colliers International's annual Housing the Dream forecasting event were asked to weigh in on the current issues affecting the multifamily market and its future. These were the results:

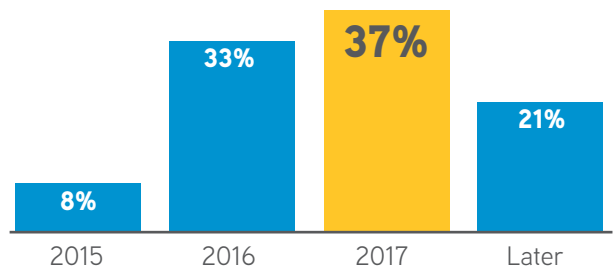
How do we provide more housing, for all income levels, for the San Francisco workforce?



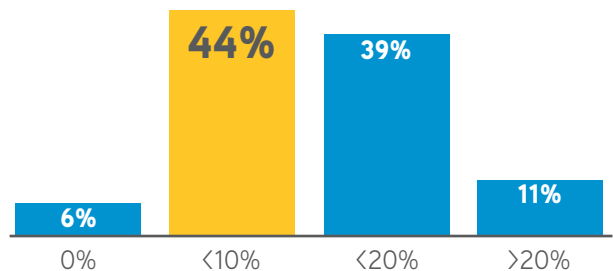
What is the minimum income landlords require you to have, to qualify to rent a new 1 bedroom apartment unit in a San Francisco high-rise?



When will San Francisco Apartment Rents Peak?



How much will rents decline from the peak?





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