

# Embracing the **New** CRE



How Today's Landscape Has  
Reshaped Investment  
Opportunities



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National Research

Accelerating success.

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# Agenda

01

National **Overview**

02

Office **Market**

*San Francisco Snapshot*

03

Multifamily **Market**

*Local Snapshot*

04

Capital **Markets**

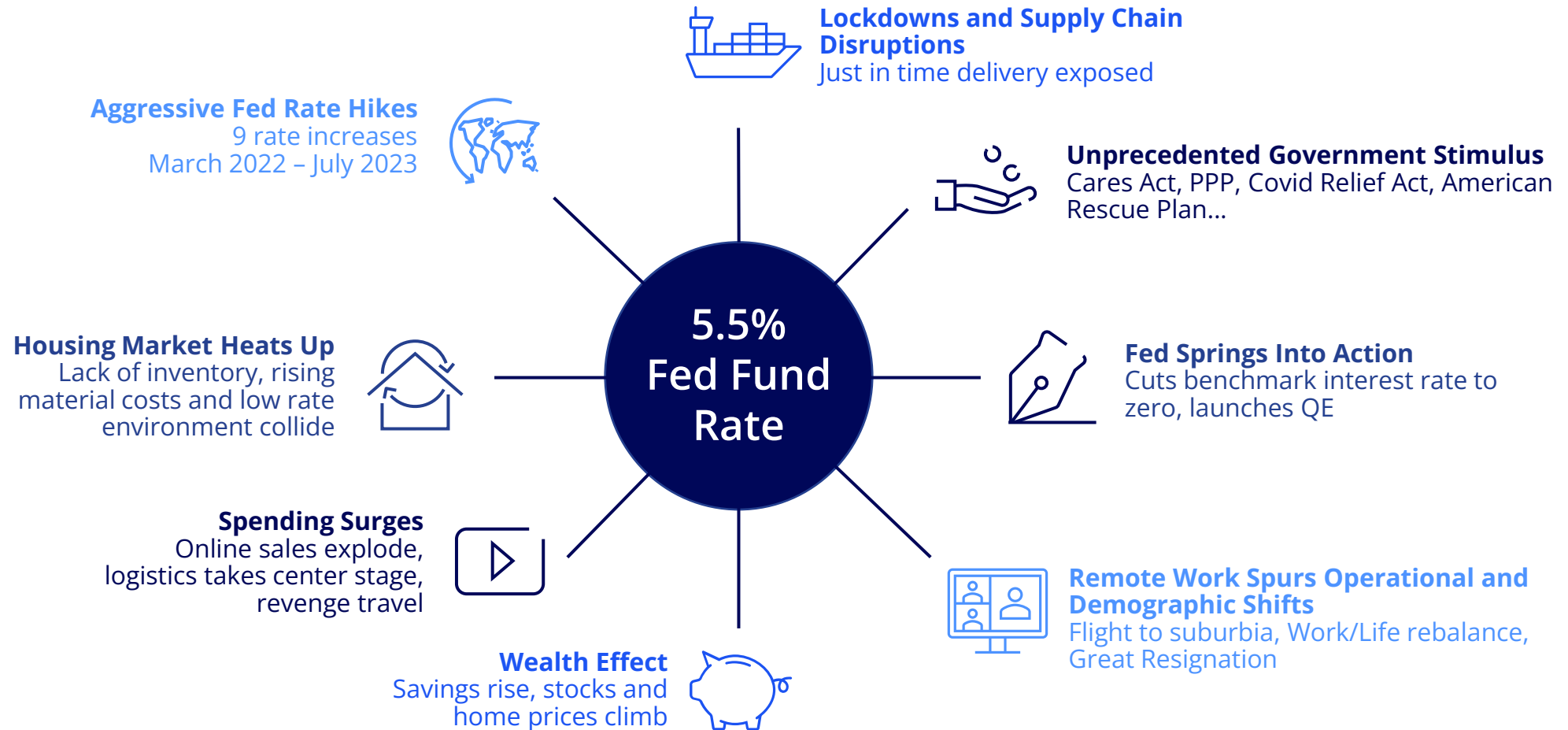
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# National Overview

## National Overview

## How did we get here?

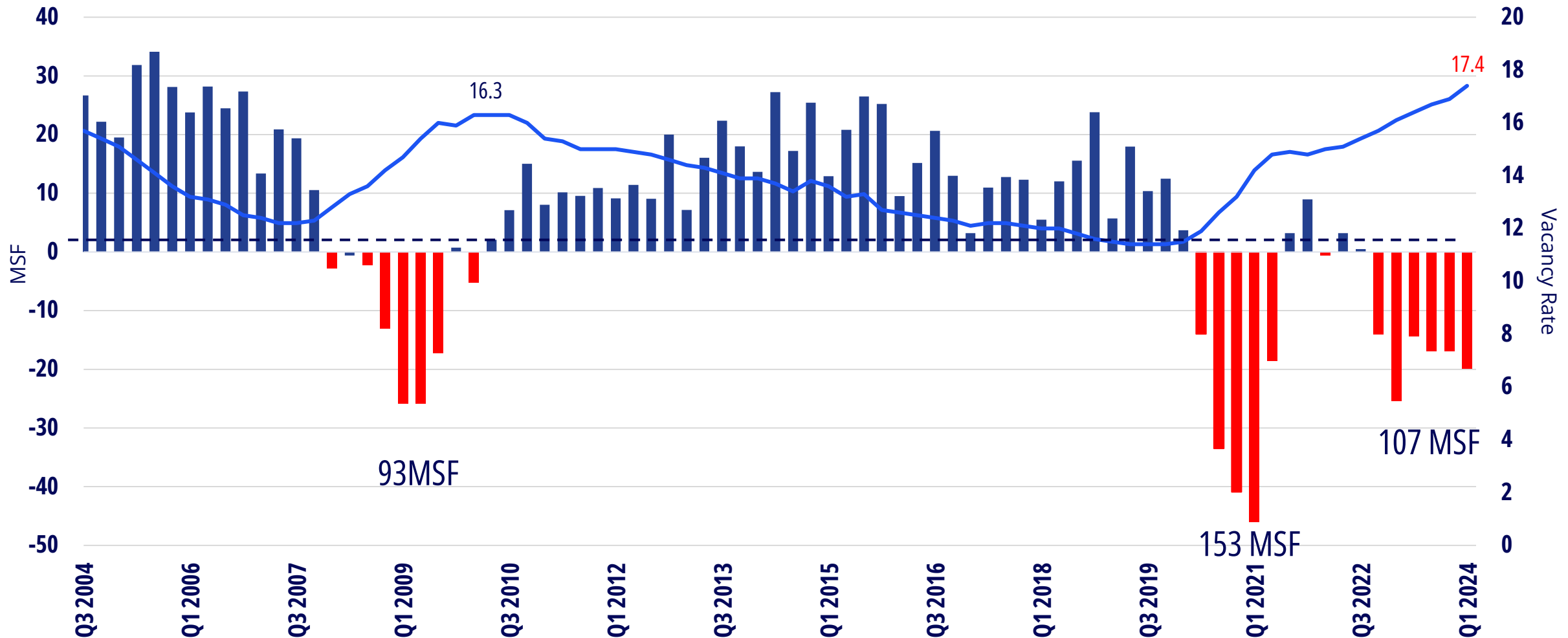
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# U.S. Office Market

## Vacancy eclipses record set during GFC

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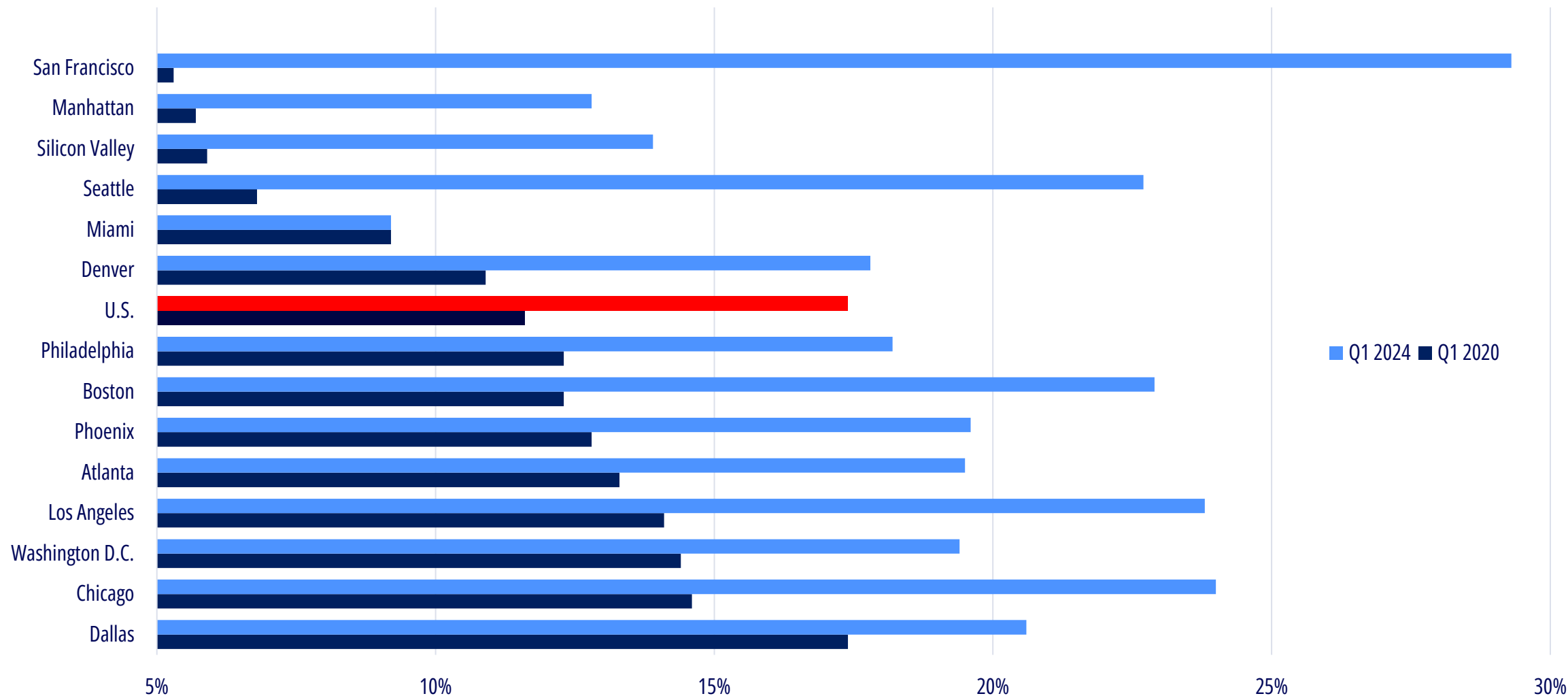


Source: Colliers

## U.S. Office Market – Vacancy rate

## Pandemic impact varies across markets

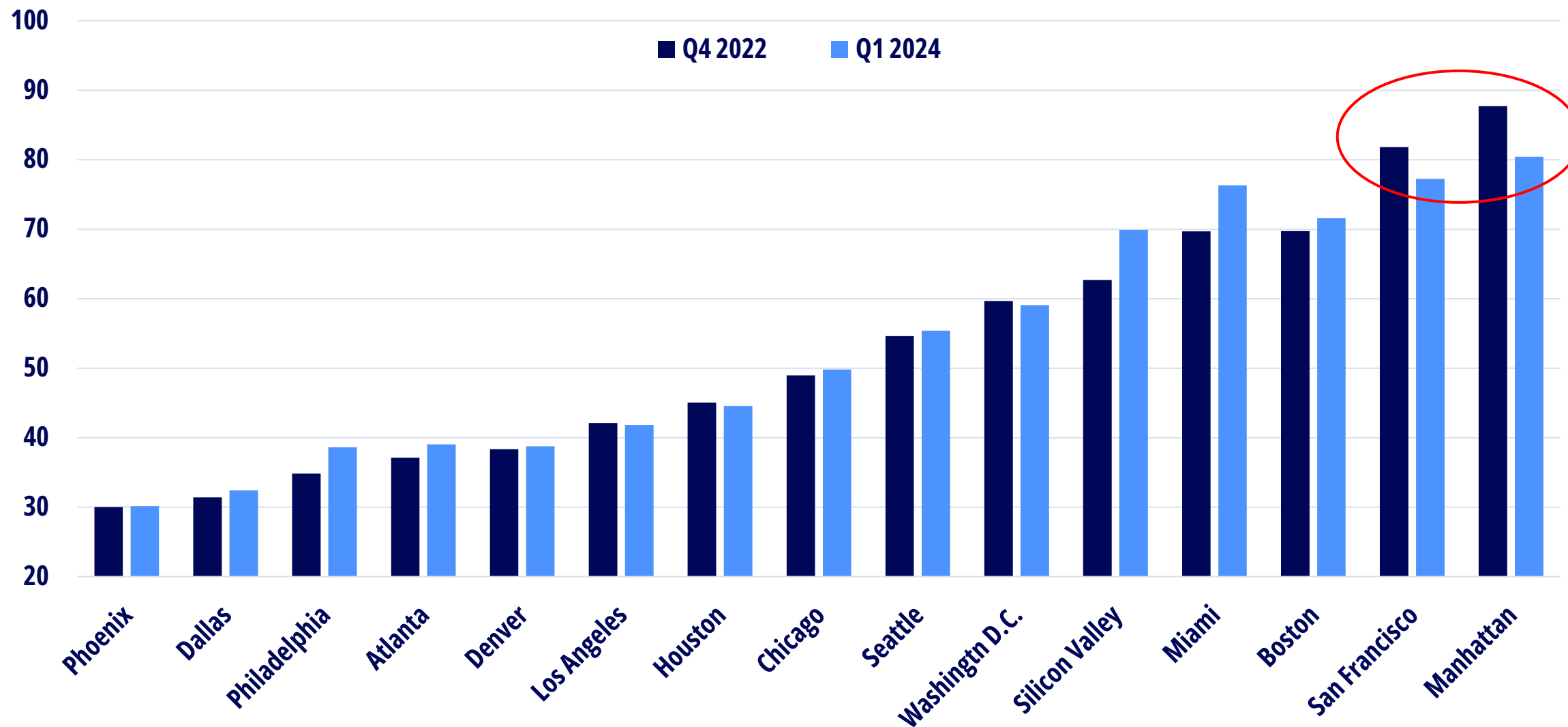
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# Leading Office Markets – Class A CBD Lease Rates

## Class A asking rates holding firm

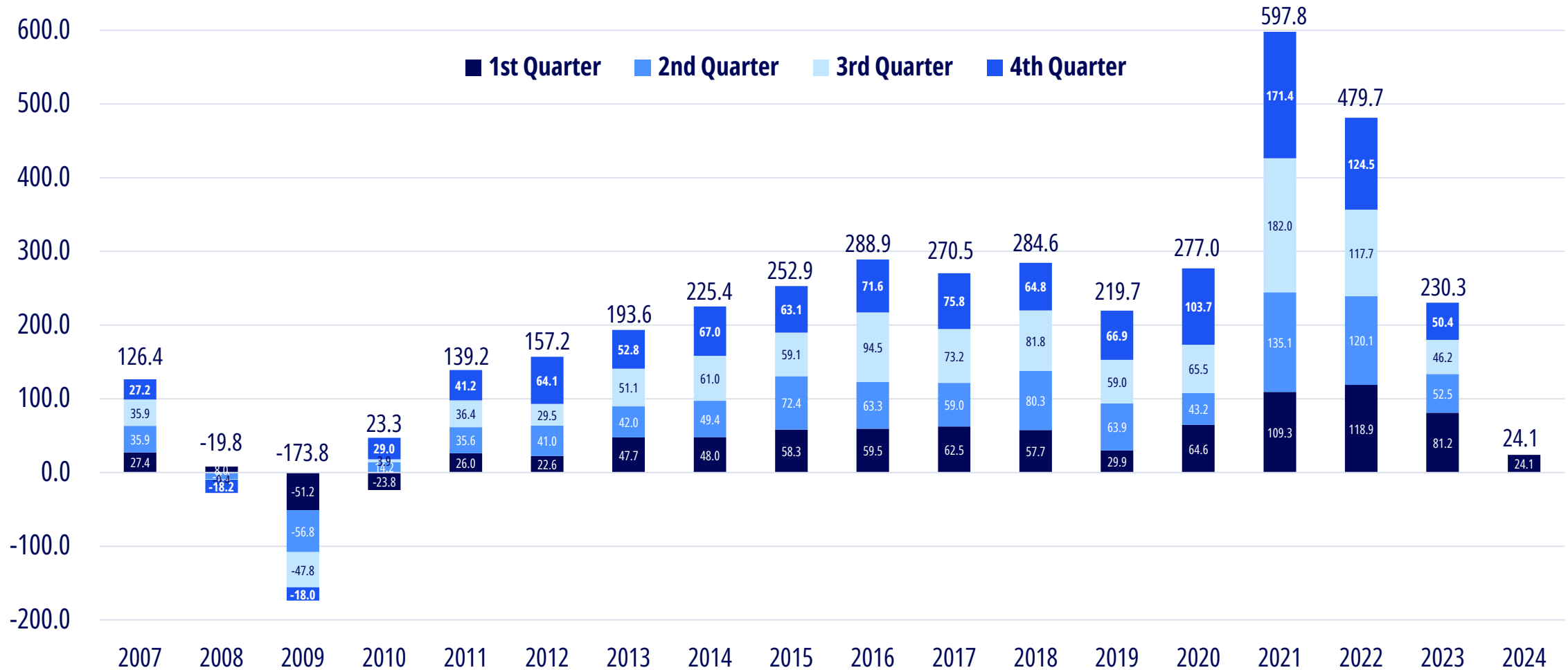
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# U.S. Industrial Market – Net Absorption

## 2021 and 2022 were outliers

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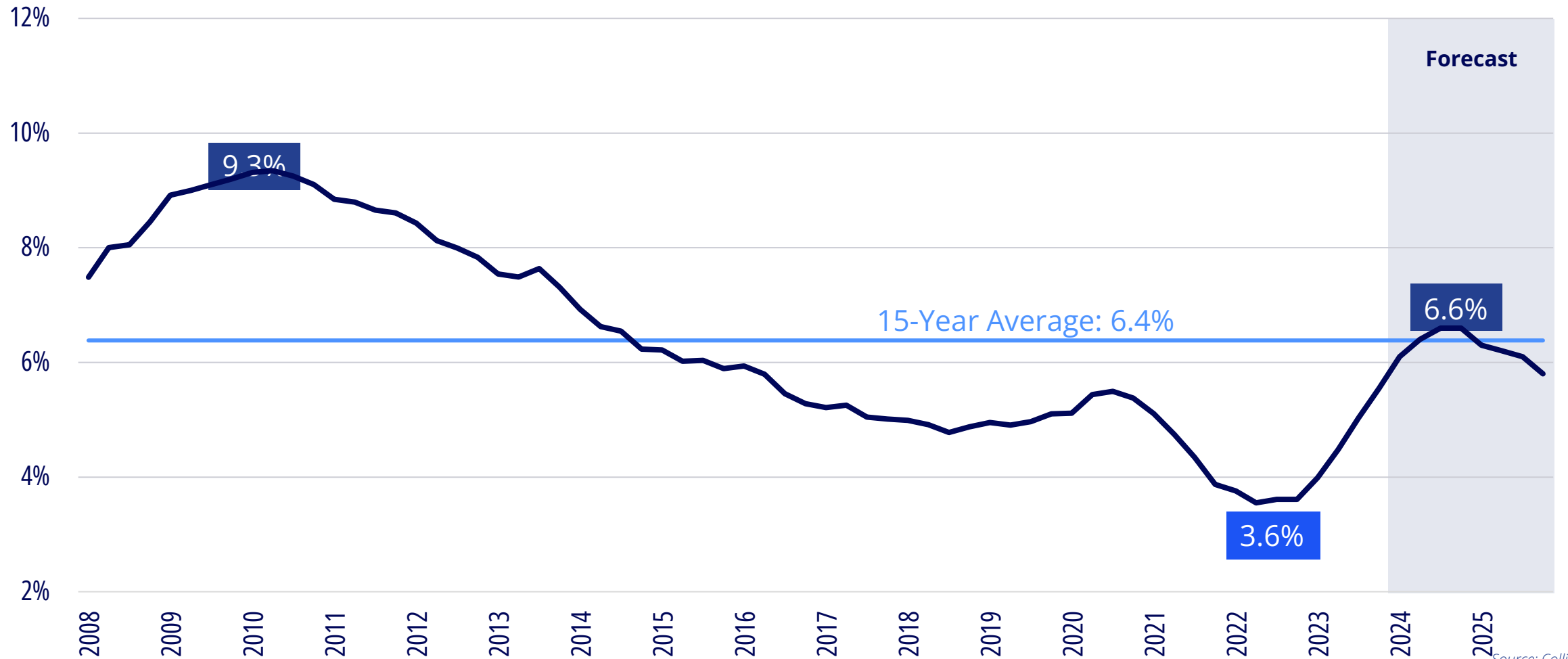




## U.S. Industrial Market

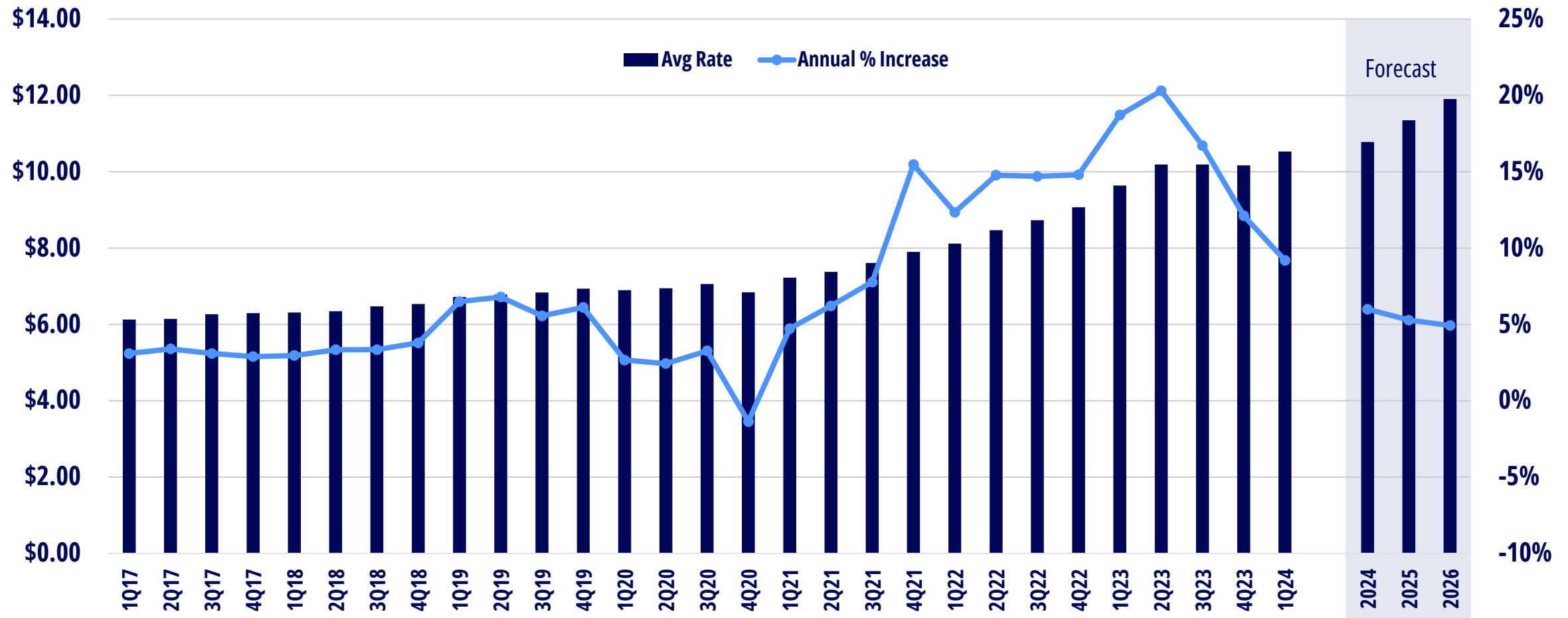
# Vacancy will plateau in late 2024 at functional levels

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# U.S. Industrial Market

## Pace of industrial rent growth is slowing

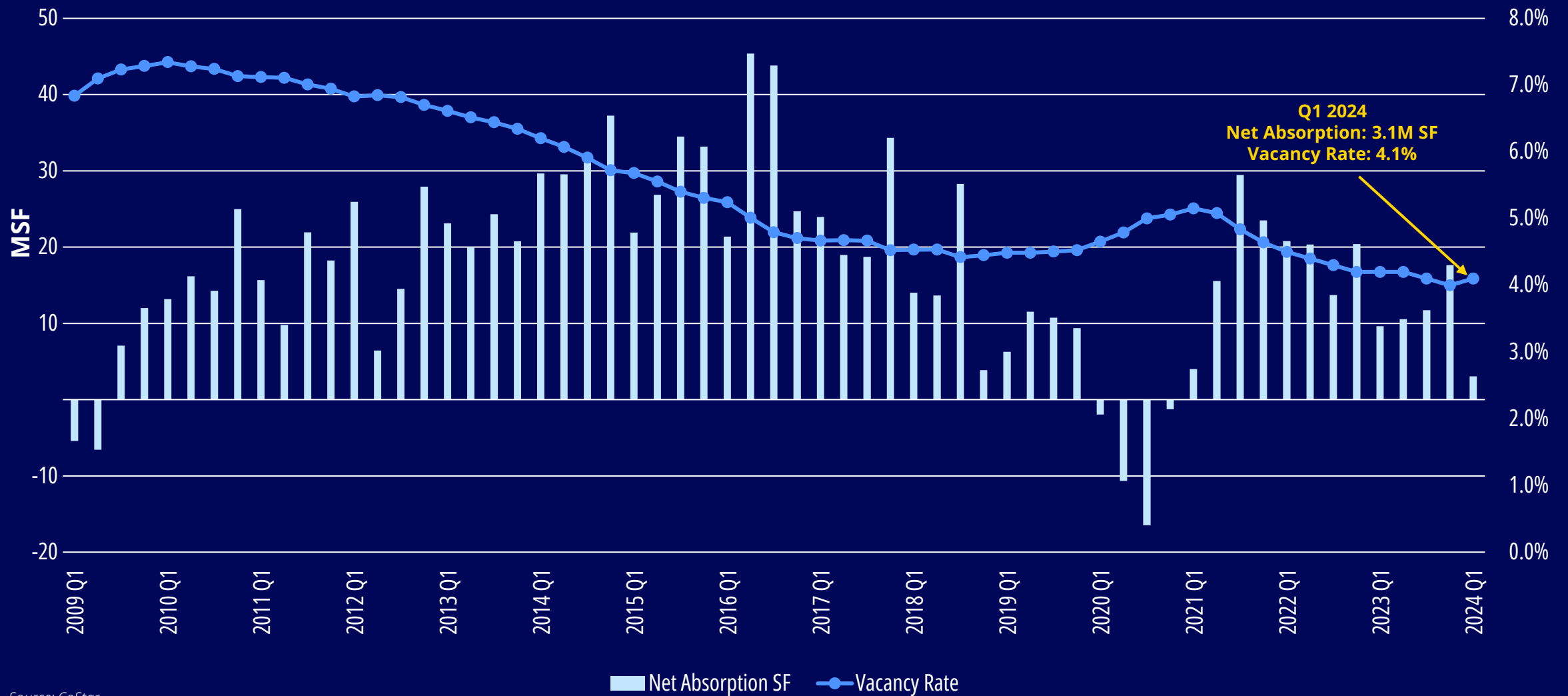


Source: Colliers

## U.S. Retail Market

## Vacancies decline as retailers expand

01



# U.S. Retail Overview

## Store Openings Outpaced Closures...Again!

01

### Openings

**5,383**

2022



2023

**5,865**



**Store openings have outpaced closures since 2021.**

### Closings

**3,807**

2022

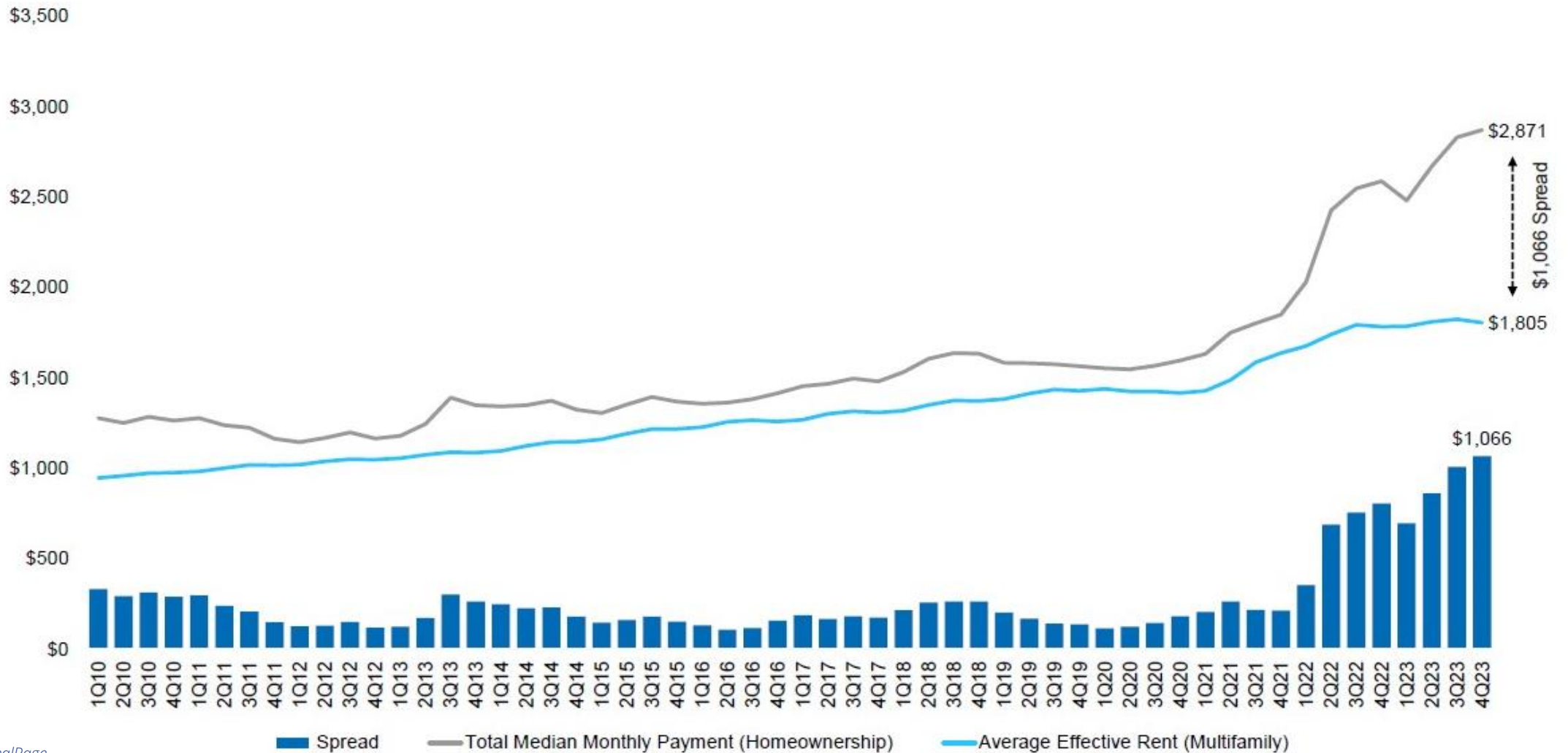


2023

**4,070**

# U.S. Multifamily Market Renting vs. Home Ownership

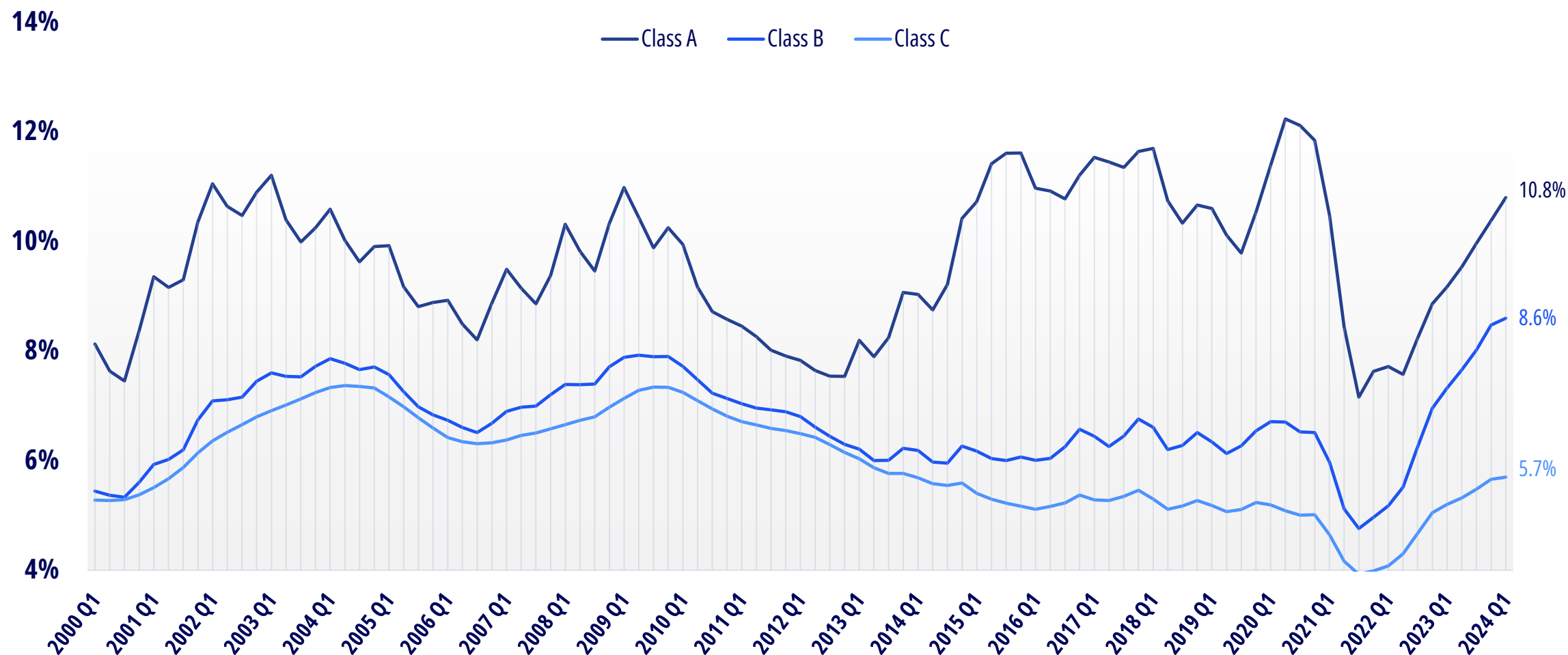
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Source: RealPage

# U.S. Multifamily Market Vacancy Rates Ramping Back Up

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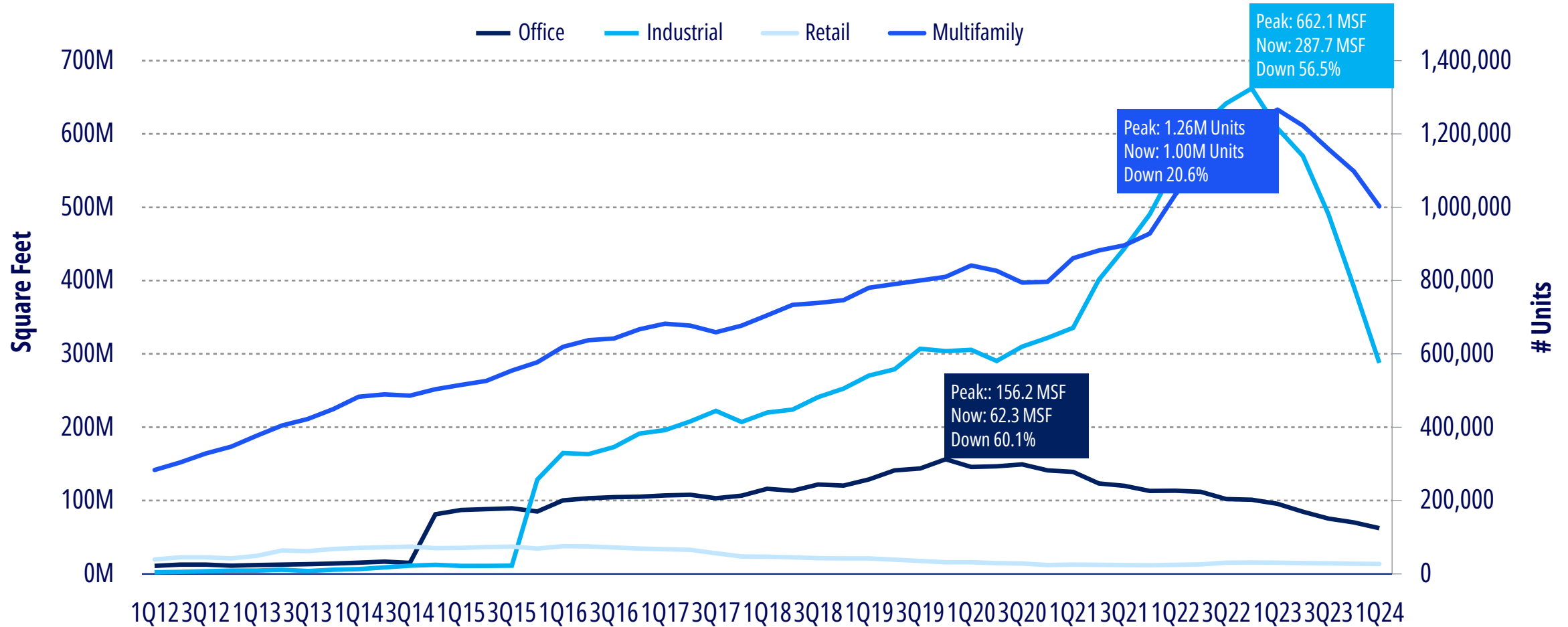


Source: CoStar

# U.S. Construction

## Financing is Impacting Development Activity

01





02

# Office Market

*San Francisco Snapshot*

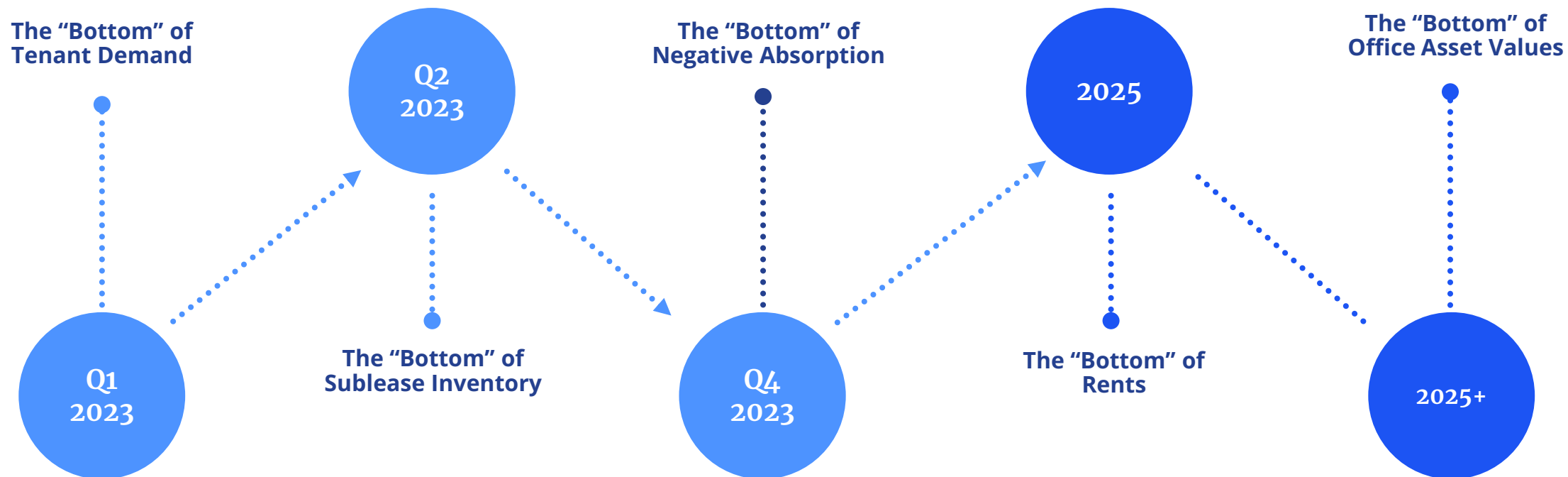




## U.S. Office Market

## Calling the Bottom

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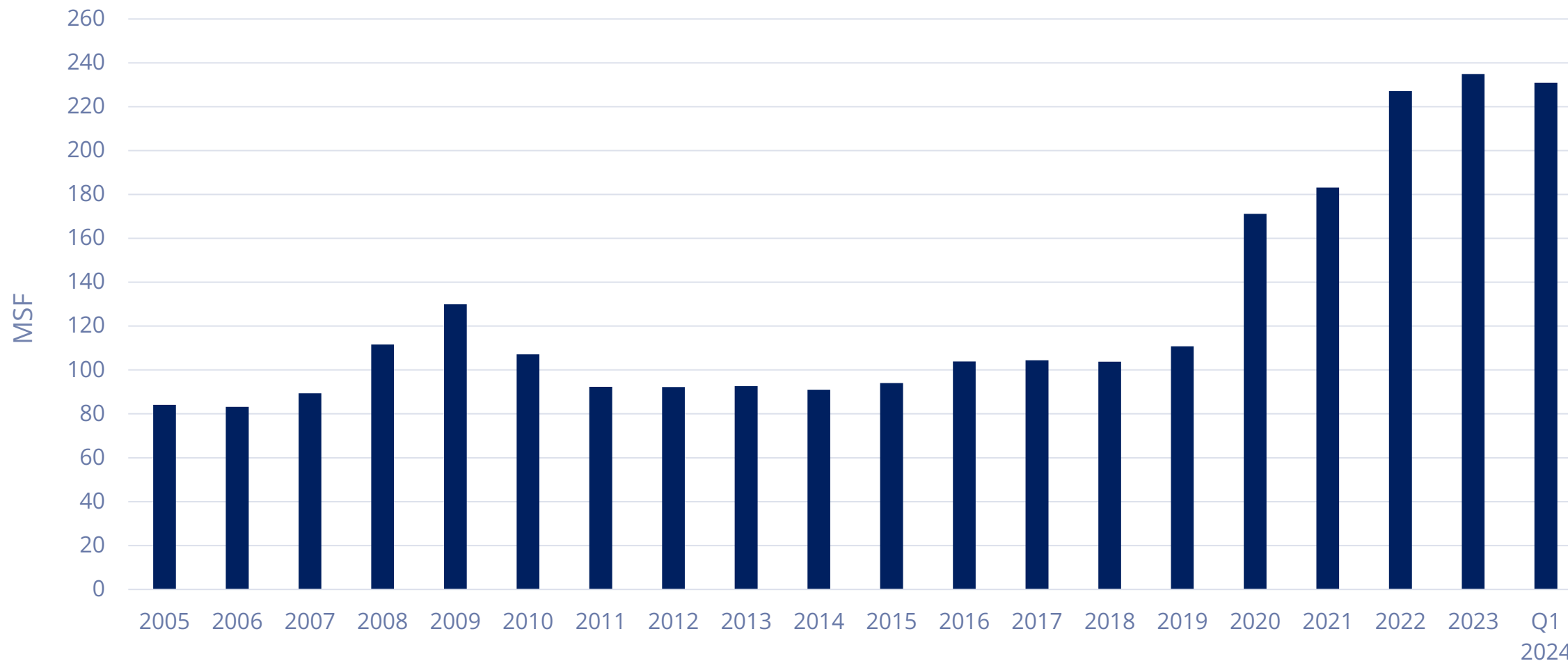


*\*The "Bottom" of Sublease Inventory forecasts the high point for sublease inventory on market.*

# U.S. Office Market

## Sublease space moderating after peaking in Q2 2023

02



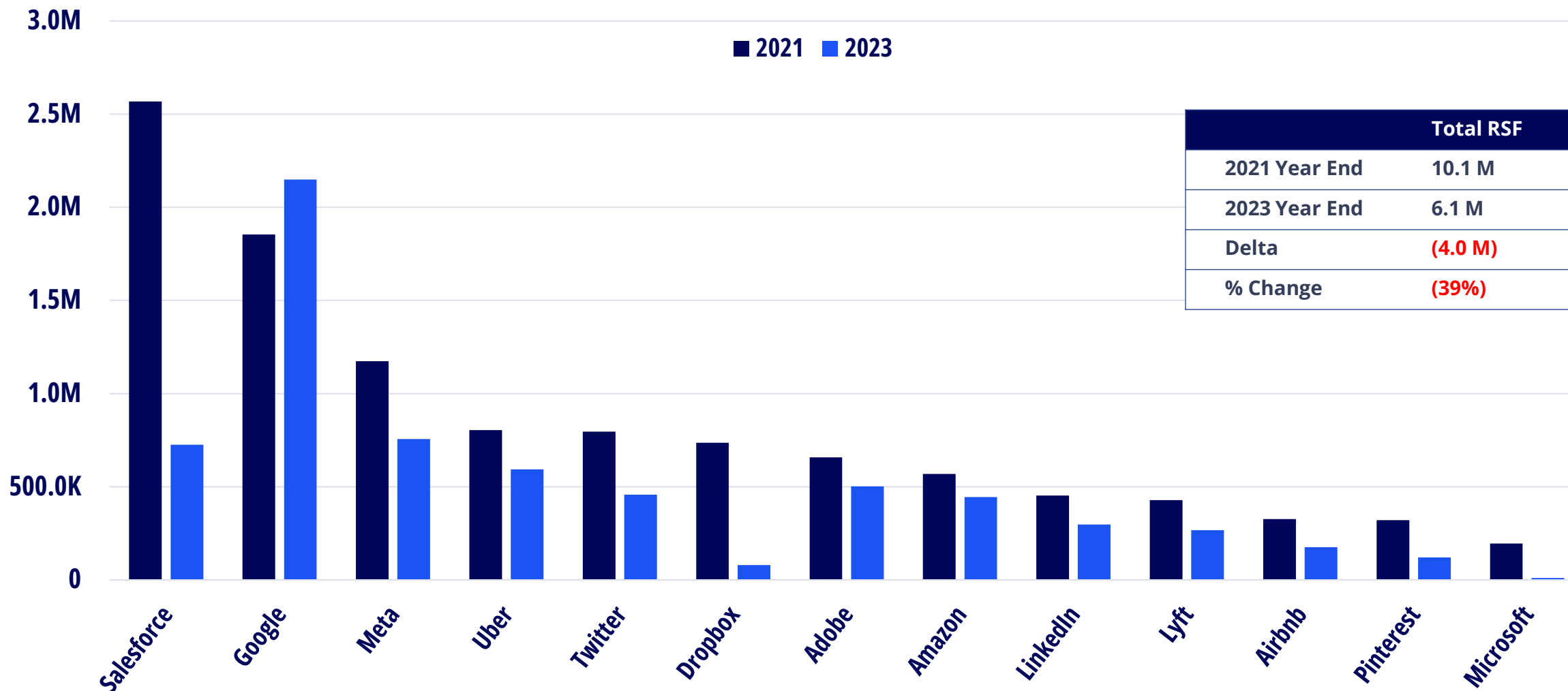
Source: CoStar

## U.S. Office Market

# Big Tech Occupancy

## San Francisco Snapshot

02



## U.S. Office Market

## Flight to Quality San Francisco Snapshot

02

## Availability Rate - Class A Tier Analysis

		Tier 1	Tier 2	Tier 3
Tier A - Views (best in the city - bridge to bridge)	↑	14.6% \$110+	4.6% \$82+	8.7% \$75+
Tier B - Views (nice water views)	↑	12.5% \$95+	31.4% \$75+	33.1% \$67+
Tier C - Views (some water views)	↑	20.4% \$85+	32.5% \$67+	33.3% \$60+
Tier D - City or limited views (no water views)	↑	20.5% \$75+	40.4% \$60+	46.9% \$45+
<b>Average</b>	↑	<b>17.0%</b>	<b>27.2%</b>	<b>30.5%</b>

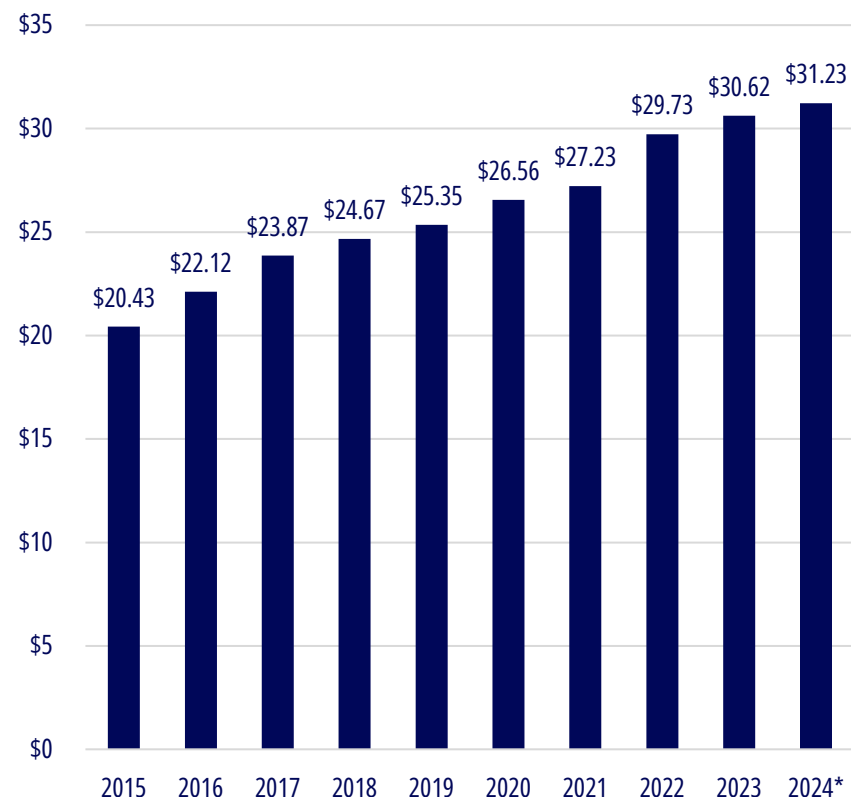
- Does not include Single Tenant Net-Leased buildings i.e. 222 2nd, etc.
- Approximate direct lease asking rates are displayed above (January 2024)
- Availability is based on space that can be delivered in 2024

# U.S. Office Market

## The Landlord Pain San Francisco Snapshot

02

### Average NNN Expenses (Class A) - Historical



### Net Effective Rents

*This analysis is based on Class A comps (13-20k - full floor) with shell delivery in the North Financial District from 2016 - 2024.*

Signed	Effective Rent	Abatement (months)	TIA	Term (years)	Abatement per year	TIA per year	Net Effective / year	NNN	Net	Debt Service*	Net to Landlord
12/1/2016	\$78	5	\$85	10.5	0.48	\$8.10	\$66.81	\$22.12	\$44.69	\$15.00	\$29.69
1/18/2017	\$82	6	\$90	10.5	0.57	\$8.57	\$69.52	\$23.87	\$45.65	\$17.00	\$28.65
4/18/2018	\$86	6	\$115	10.5	0.57	\$10.95	\$70.95	\$24.67	\$46.28	\$19.00	\$27.28
2/5/2019	\$88	6	\$120	10.5	0.57	\$11.43	\$72.38	\$25.35	\$47.03	\$23.00	\$24.03
1/1/2020	\$94	6	\$120	10.5	0.57	\$11.43	\$78.10	\$26.56	\$51.54	\$25.00	\$26.54
1/11/2021	\$87	9	\$135	10	0.90	\$13.50	\$66.98	\$27.23	\$39.75	\$25.00	\$14.75
7/1/2022	\$81	13	\$200	10	1.30	\$20.00	\$52.23	\$29.73	\$22.50	\$25.00	-\$2.95
2/15/2023	\$70	8.5	\$200	10	0.71	\$20.00	\$44.17	\$30.62	\$13.55	\$25.00	-\$11.45
1/1/2024	\$83	12	\$220	10	1.20	\$22.00	\$52.38	\$31.23	\$21.15	\$25.00	-\$3.85

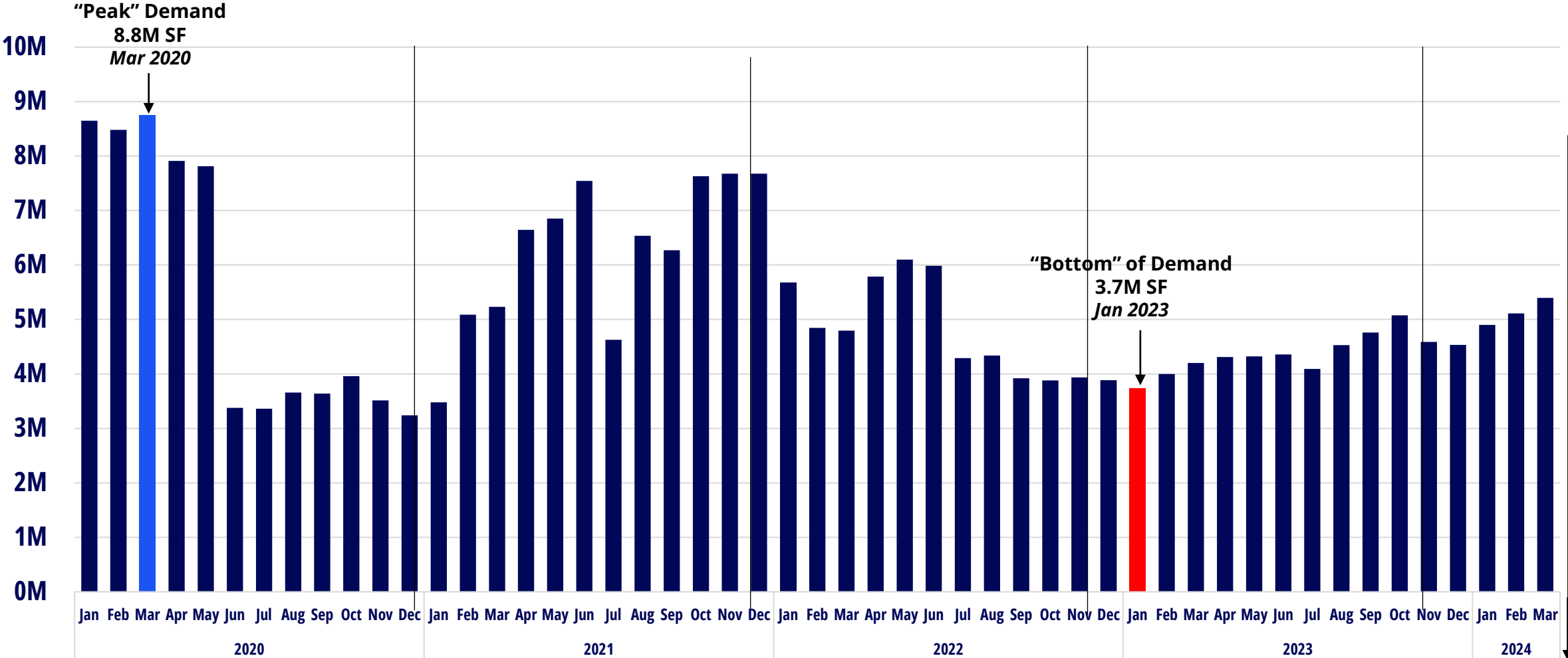
**Notes:** \*2024 is projected - with inflation and cost of labor, Op Ex is projected to increase throughout the market. The opportunity to bring this number down will be through property tax appeals as property values have significantly come down.

\*Debt Service is based on 65% LTV based on market value at the time of the transaction noted above.

# U.S. Office Market

# Tenant Demand San Francisco Snapshot

02



# U.S. Office Market

## Rise of the (AI) Machines San Francisco Snapshot

02



San Francisco is the AI capital of the world due to the concentration of talent and abundance of venture capital.



Area AI illustrates the growing cluster of AI companies in proximity to Open AI and the established talent pool.



Area AI zoning caters to AI occupiers and their use.

### Market Dynamics



**\*\*AI companies are located throughout the market, but there is notable concentration in the Mission, Showplace Square and SOMA submarkets.**

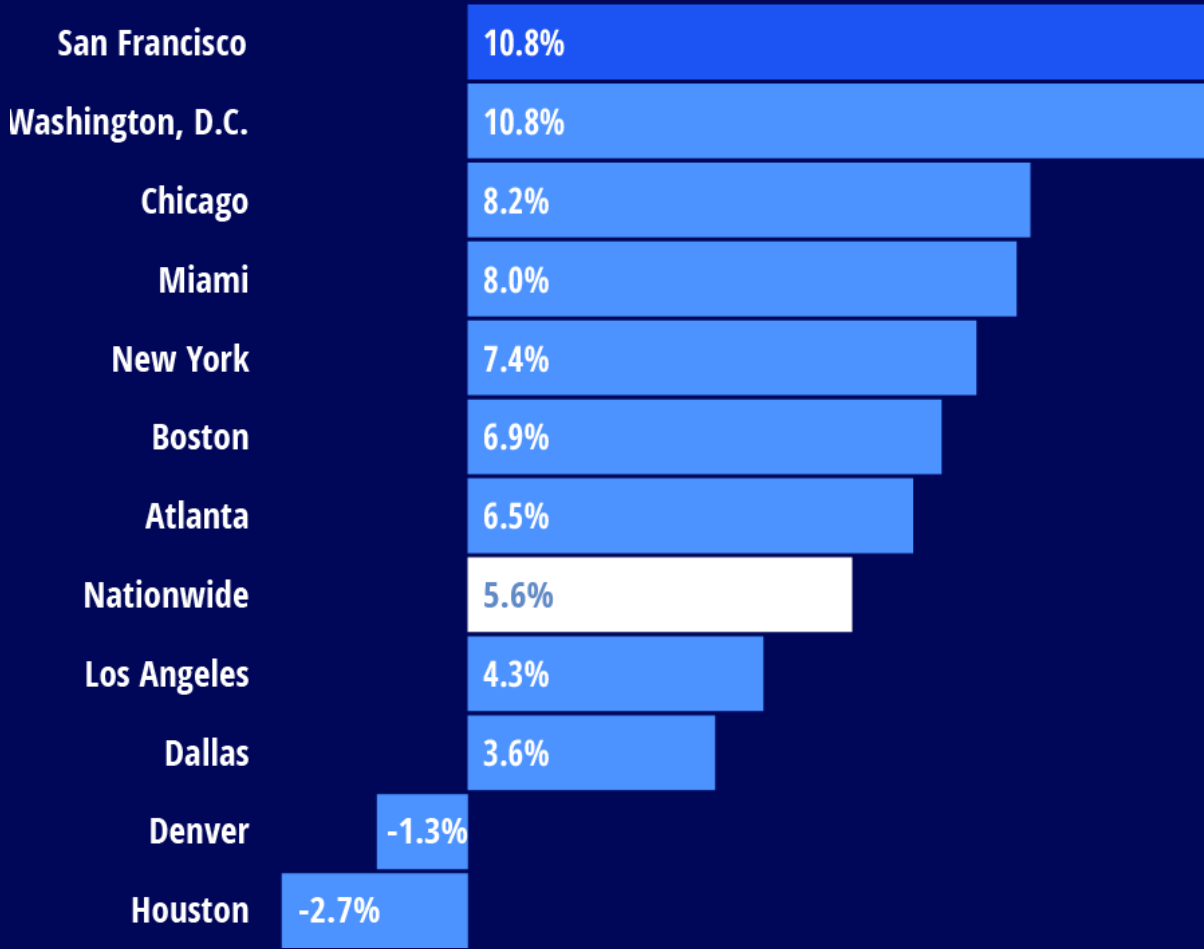
### Representative AI Deals

Company	Size	Location	Sublessor	Status
Hive	57,000 SF	100 First	Okta	Completed
Hayden AI	41,976 SF	460 Bryant	Scribd	Completed
Adept AI	35,834 SF	350 Rhode Island	Samsara	Completed
Open AI	486,600 SF	1715-1725 3rd	Uber	Completed
Anthropic	230,315 SF	500 Howard	Salesforce	Completed
Open AI	315,000 SF	550 Terry Francois	Divco	Pending

- Commercial real estate firms are tracking 1.5+ Million square feet of additional AI company demand.
- Market opportunity in new AI age is driving executives, managers, and employees towards in-person collaboration.
- The next wave of startups are emerging

# San Francisco and Washington, D.C. Lead in YoY Office Visit Growth

Mar. 2024 visits to Office Buildings in Select Cities\*, Compared to Mar. 2023



Source: Placer.ai

\*Including some offices located in the cities' greater metropolitan areas

# U.S. Office Market Return to Office

02

Metro	Average Occupancy	Peak Occupancy
Austin	61.4%	73.5%
Dallas	57.4%	69.1%
Houston	55.4%	70.0%
Chicago	49.6%	66.4%
Average of 10	48.0%	59.7%
New York	46.0%	62.5%
Washington D.C.	43.3%	56.2%
Los Angeles	43.3%	51.3%
San Francisco	41.8%	52.1%
San Jose	39.9%	47.3%
Philadelphia	39.4%	48.8%



## U.S. Office Market

## California Submarket Data - Office

02

Quarter	Market	Office Inventory (SF)	Change Inventory (QoQ)	Office Vacancy	Change Vacancy (QoQ)	Asking Rent (FS, \$/SF)	Change Asking Rent (QoQ)	Net Absorption (SF)	Change Net Absorption
Q1 24	San Francisco	98.7 M	Up	29.3%	UP	\$70.36	Down	-122,736	DOWN
Q1 24	Silicon Valley	123.1M	Up	13.9%	Up	\$64.44	Down	-2.7 M	UP
Q1 24	Oakland	20.2 M	Flat	19.3%	Down	\$50.02	Down	-59,062	DOWN
Q1 24	Sacramento	57.3 M	Down	20.8%	Up	\$25.99	Down	-352,465	UP
Q1 24	Los Angeles	221.3 M	Up	23.8%	Up	\$47.25	Up	-1.0 M	UP
Q1 24	Orange County	85.1 M	Up	19.7%	Down	\$34.25	Down	78,311	DOWN
Q1 24	San Diego	82.4 M	Down	14.1%	Up	\$36.04	Up	-234,069	DOWN



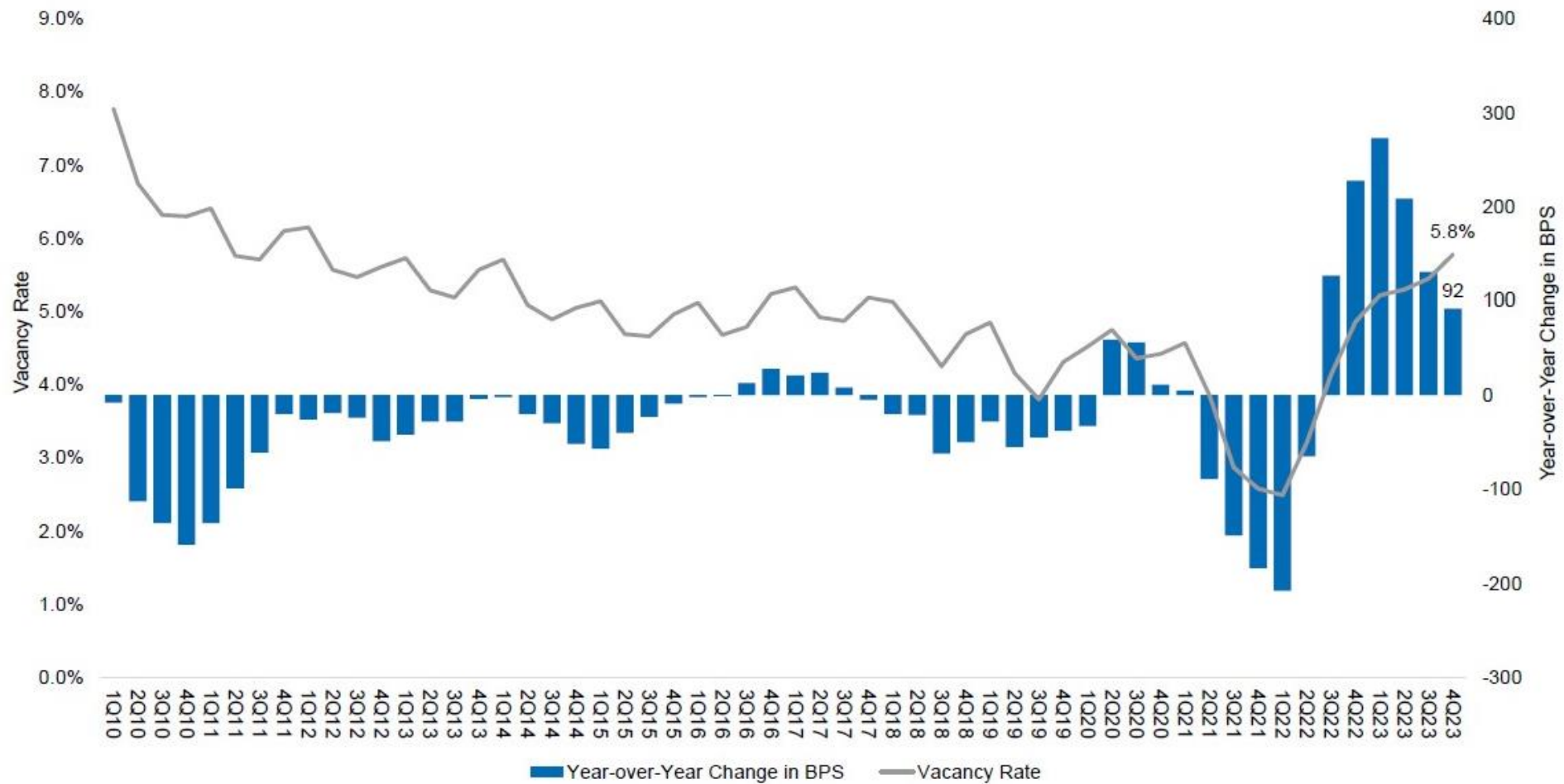
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# Multifamily Market

*Local Snapshot*

# U.S. Multifamily Market Vacancy Trends Upward

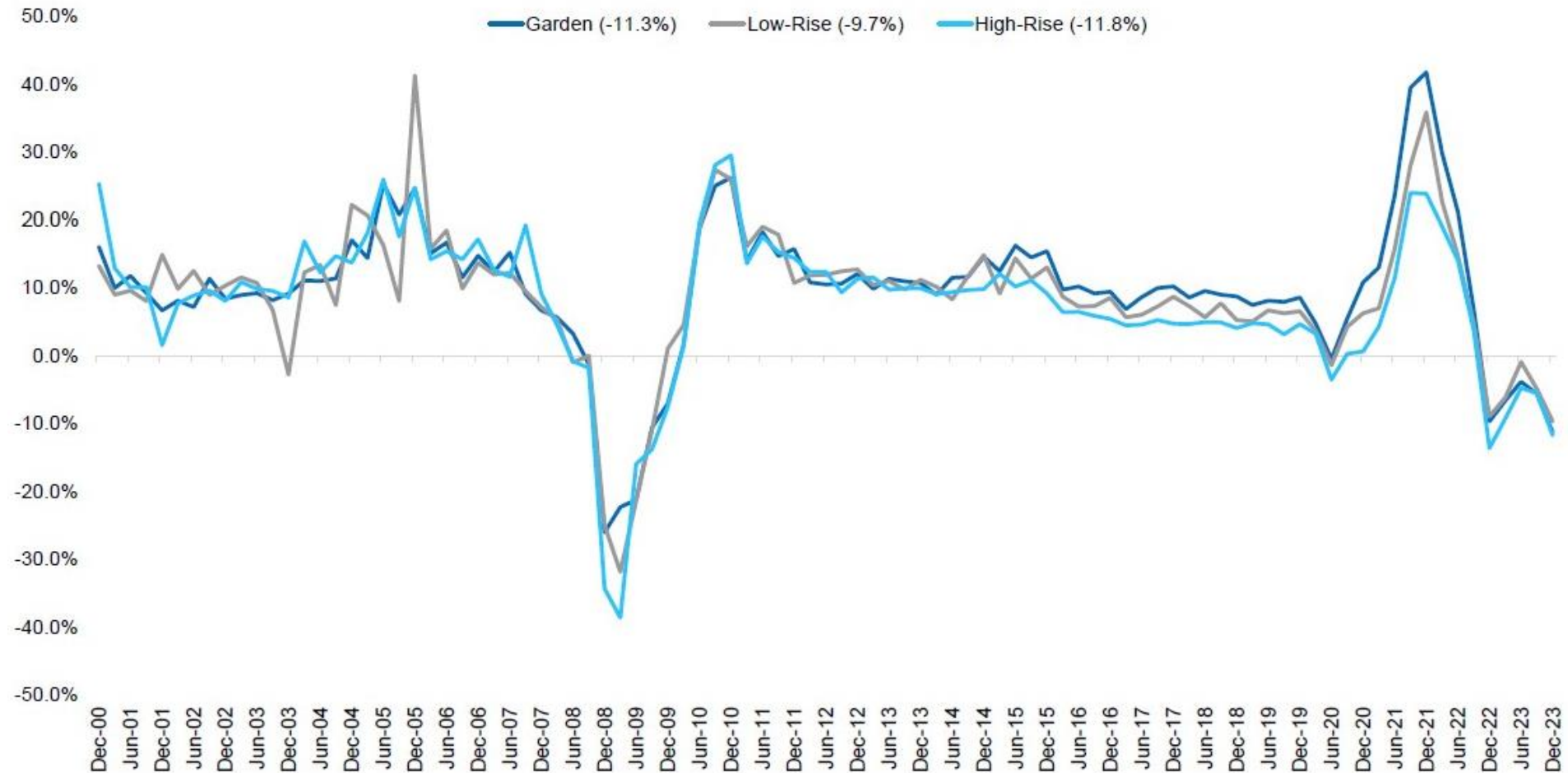
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# U.S. Multifamily Market

## Multifamily Returns - Slowing

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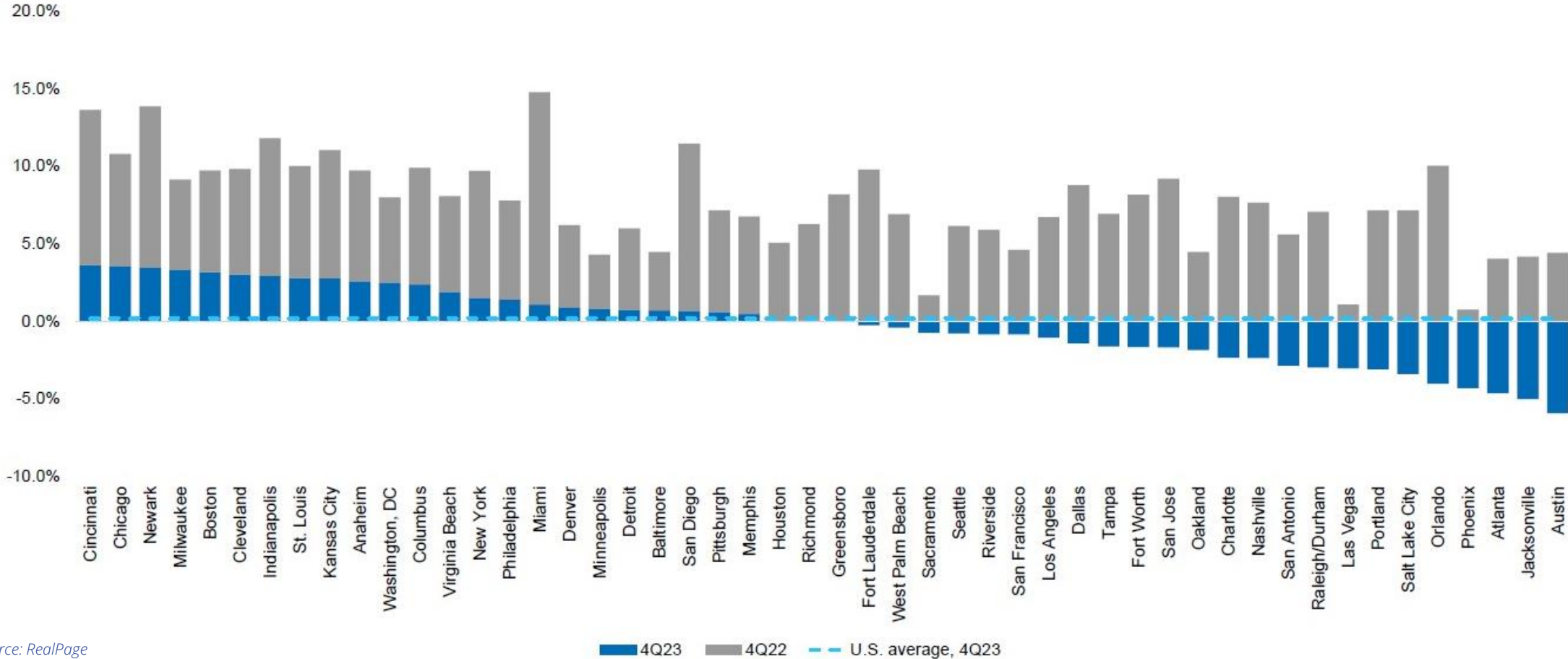


Source: NCREIF



# U.S. Multifamily Market Rent Growth Slows

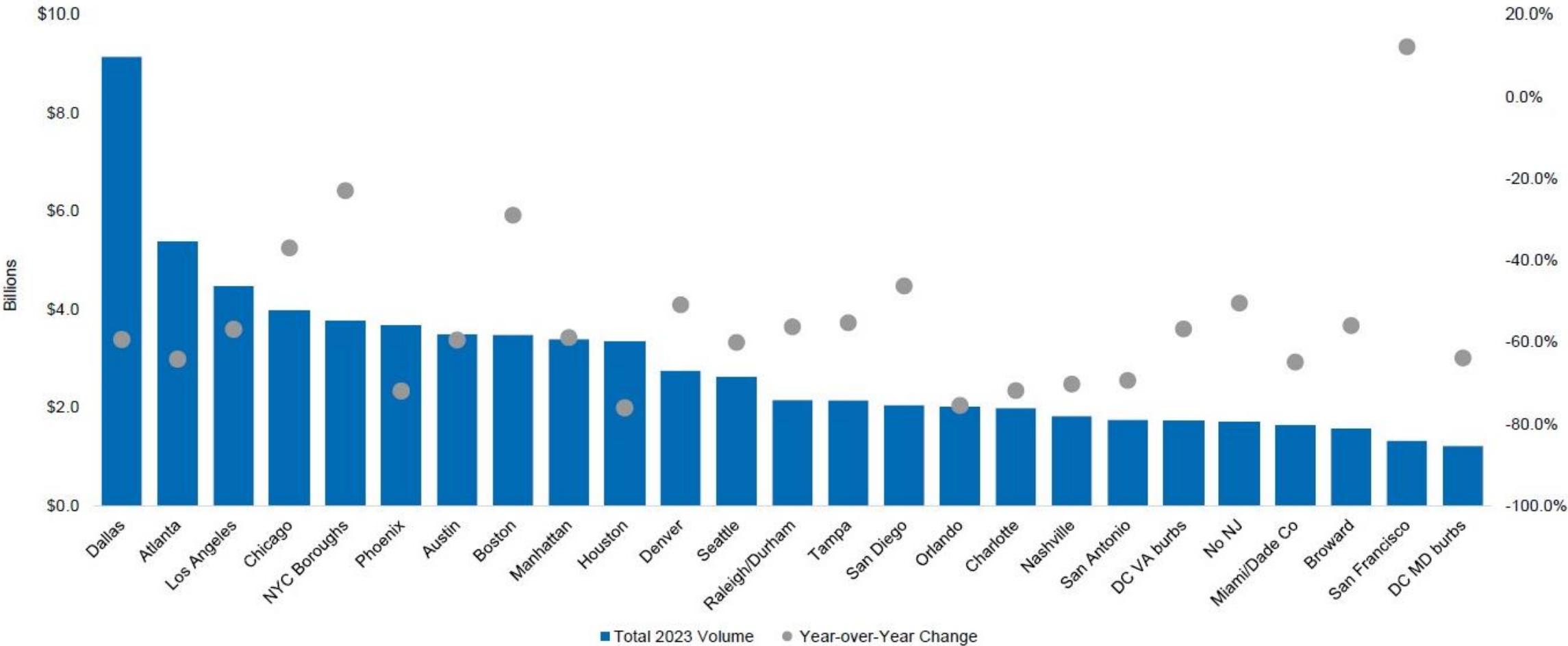
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Source: RealPage

# U.S. Multifamily Market Top 25 Markets – Capital Flows

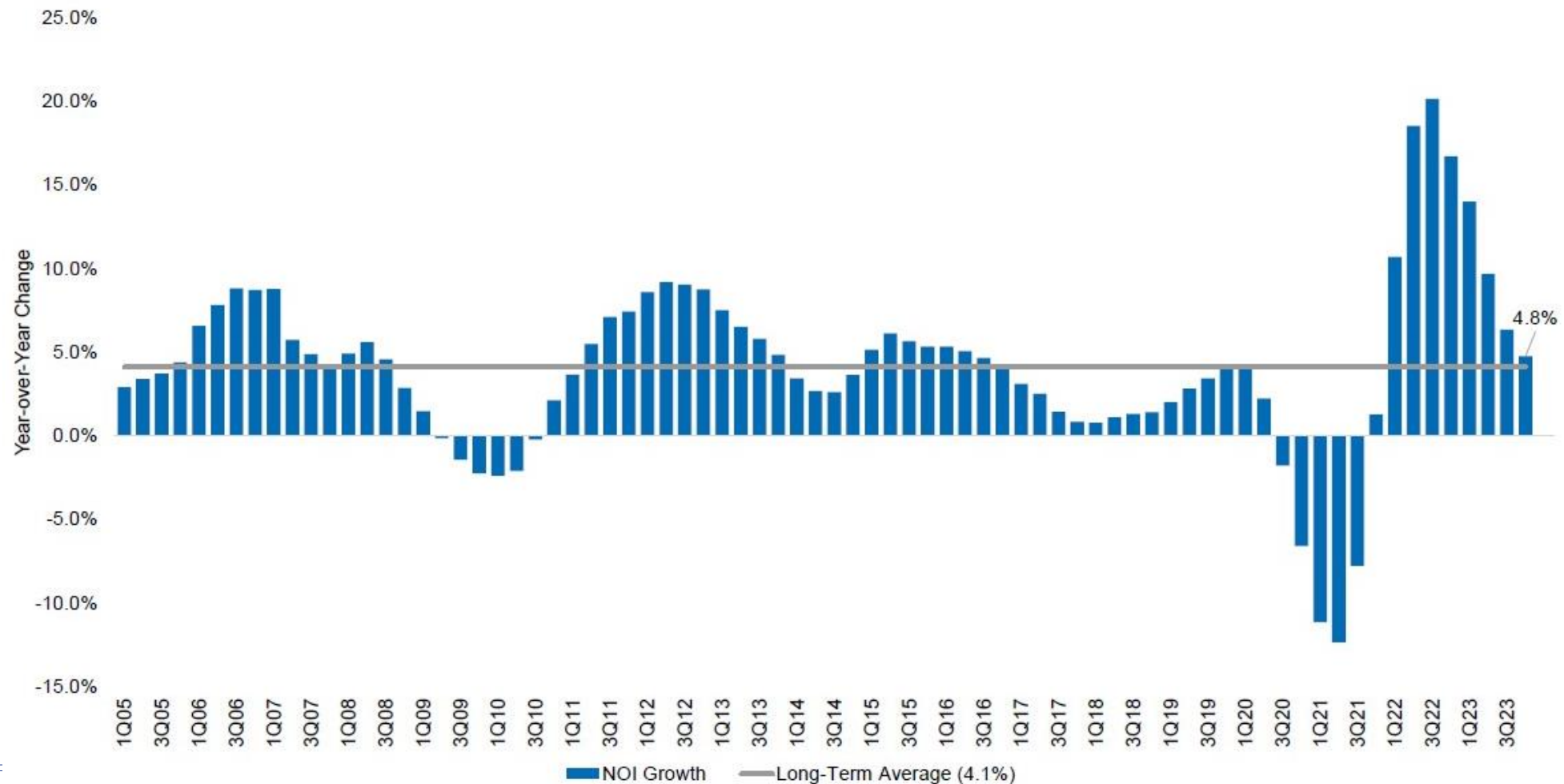
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Source: MSCI Real Capital Analytics

# U.S. Multifamily Market Historical NOI Growth

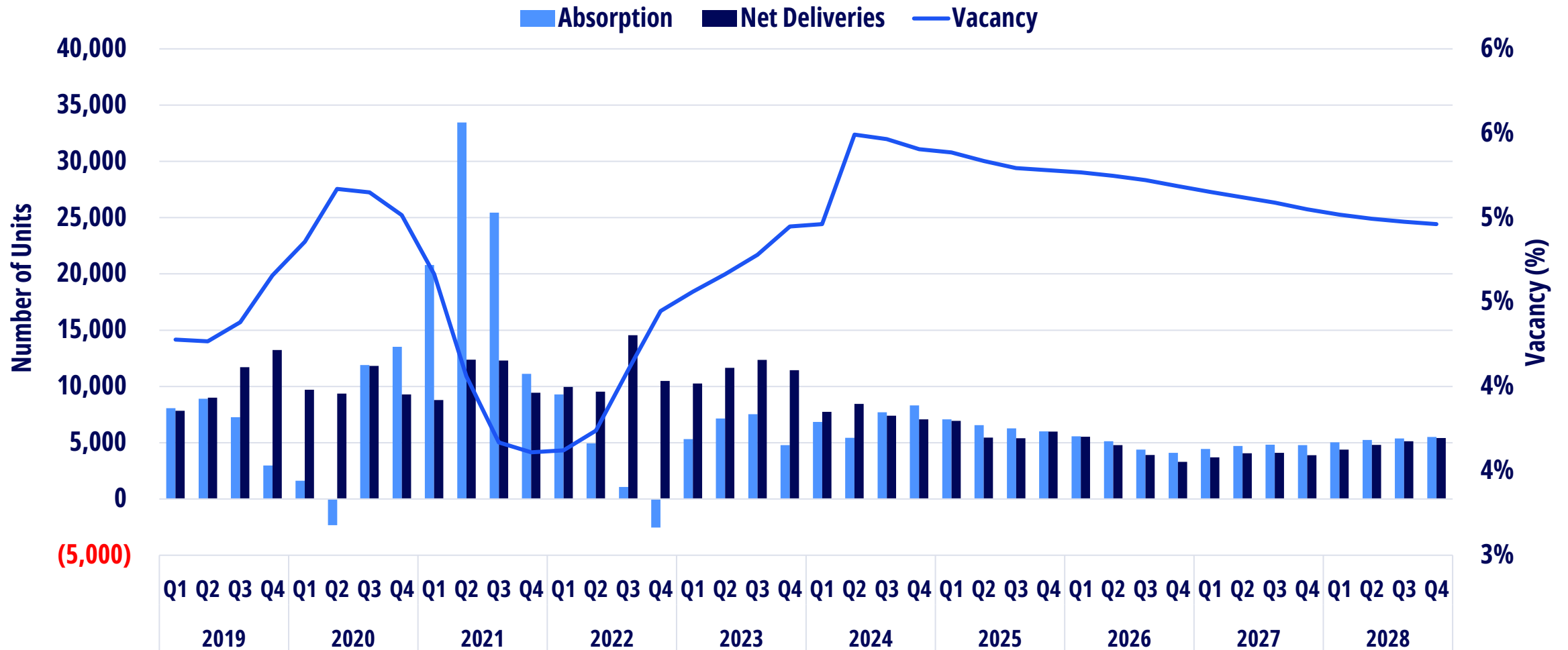
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Source: NCREIF

# California Multifamily Market Absorption, Net Deliveries, Vacancy

03





# U.S. Multifamily Market

## California Market Data

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Market	Asset Value	Vacancy Rate	Stabilized Vacancy	Market Asking Rent/Unit	Annual Rent Growth	12 Mo Delivered Units	Under Constr Units	Under Constr % of Inventory	12 Mo Absorption Units
East Bay - CA (USA)	\$68,573,546,349	6.9%	6.3%	\$2,392	-1.0%	2,578	4,344	2.3%	3,321
Inland Empire - CA (USA)	\$45,654,781,888	6.7%	5.7%	\$2,028	0.3%	3,058	6,059	3.5%	933
Los Angeles - CA (USA)	\$367,061,205,372	5.2%	4.9%	\$2,248	0.3%	9,653	23,318	2.3%	3,327
Orange County - CA (USA)	\$110,276,145,001	4.1%	3.5%	\$2,620	2.6%	2,117	6,323	2.5%	2,053
Sacramento - CA (USA)	\$32,808,432,587	6.7%	5.8%	\$1,801	1.2%	2,600	4,112	2.9%	2,237
San Diego - CA (USA)	\$106,935,854,180	5.4%	4.8%	\$2,435	0.5%	4,096	7,900	2.8%	-838
San Francisco - CA (USA)	\$98,684,880,577	5.9%	5.7%	\$3,065	1.3%	772	4,527	2.5%	2,147

# U.S. Multifamily Market

## Los Angeles Submarket Data

03

Submarket	Existing Inventory SF (Units)	Occupancy Rate	Annual Occupancy Rate Change	Average Monthly Effective Rent	Annual Rent Change	Average Effective Rent Per SF	New Supply (Units Delivered)	Net Absorption (Units)	Under Construction (Units)	Sales Volume YTD	Average Sale Price Per Unit YTD	Cap Rate
Burbank/Glendale/Pasadena	73,464	95.9%	-0.5%	\$2,313	1.4%	\$2.87	77	51	1,953	\$44,214,500	\$250,000	4.22%
Downtown/Central	146,966	93.5%	-0.6%	\$2,048	-1.8%	\$2.87	1,132	999	8,371	\$232,735,820	\$295,000	4.24%
East	67,401	96.5%	-0.2%	\$1,906	2.4%	\$2.40	74	32	2,914	\$36,025,250	\$242,000	4.74%
North	192,892	96.1%	-0.3%	\$2,099	1.1%	\$2.53	173	125	4,425	\$59,371,000	\$238,000	5.73%
South Bay	109,902	95.8%	-0.2%	\$1,971	0.8%	\$2.57	0	12	2,767	\$74,021,500	\$274,000	5.34%
Westside	158,604	94.4%	-0.2%	\$2,781	-0.2%	\$3.43	226	491	5,822	\$131,533,716	\$458,000	4.84%
Hollywood/Mid-Wilshire	112,311	94.2%	-1.1%	\$2,410	-1.6%	\$3.13	308	376	3,521	\$41,283,000	\$281,000	5.25%
South Los Angeles	83,761	97.3%	0.0%	\$1,739	1.8%	\$2.27	95	119	1,552	\$19,522,500	\$182,000	5.51%
<b>Total</b>	<b>945,301</b>	<b>95.3%</b>	<b>-0.4%</b>	<b>\$2,196</b>	<b>0.2%</b>	<b>\$2.79</b>	<b>2,085</b>	<b>2,204</b>	<b>31,325</b>	<b>\$638,707,286</b>	<b>\$294,000</b>	<b>5.20%</b>

# U.S. Multifamily Market

## Orange County Submarket Data

03

Submarket	Existing Inventory SF (Units)	Occupancy Rate	Annual Occupancy Rate Change	Average Monthly Effective Rent	Annual Rent Change	Average Effective Rent Per SF	New Supply (Units Delivered)	Net Absorption (Units)	Under Construction (Units)	Sales Volume YTD	Average Sale Price Per Unit YTD	Cap Rate
Anaheim	39,587	96.9%	0.6%	\$2,156	3.1%	\$2.59	0	-8	990	\$81,716,710	\$368,000	4.70%
Central OC East	11,827	95.5%	0.9%	\$2,298	3.7%	\$2.67	62	89	74	\$0	n/a	n/a
Central OC West	44,855	95.7%	0.8%	\$2,184	2.8%	\$2.67	218	198	581	\$256,211,694	\$381,000	5.98%
Costa Mesa	16,558	96.9%	1.1%	\$2,523	3.9%	\$3.07	0	23	241	\$0	n/a	n/a
Huntington Beach/ Seal Beach	15,126	97.0%	0.6%	\$2,612	1.9%	\$3.08	0	-2	43	\$132,450,000	\$453,000	n/a
Irvine	45,705	96.8%	0.5%	\$3,007	3.2%	\$3.21	0	143	4,547	\$0	n/a	n/a
Newport Beach	9,259	97.0%	-0.6%	\$3,312	2.8%	\$3.44	0	-31	0	\$0	n/a	n/a
North County	41,271	95.6%	-1.2%	\$2,219	2.4%	\$2.72	251	2	445	\$36,680,000	\$378,000	n/a
South County	31,883	95.4%	0.3%	\$2,773	2.5%	\$3.08	0	35	522	\$0	n/a	n/a
Tustin	10,628	97.2%	-0.4%	\$2,475	3.3%	\$2.80	0	-31	0	\$5,675,000	\$394,000	4.10%
<b>Total</b>	<b>266,699</b>	<b>96.3%</b>	<b>0.2%</b>	<b>\$2,514</b>	<b>2.9%</b>	<b>\$2.91</b>	<b>531</b>	<b>418</b>	<b>7,443</b>	<b>512,733,404</b>	<b>\$428,000</b>	<b>5.45%</b>

# U.S. Multifamily Market

## San Francisco Submarket Data

03

Submarket	Existing Inventory SF (Units)	Occupancy Rate	Average Monthly Effective Rent	Annual Rent Change	Average Effective Rent PSF	New Supply (Units Delivered)	Net Absorption (Units)	Under Construction (Units)	Sales Volume YTD	Average Sale Price Per Unit YTD	Cap Rate
Civic Center/Tenderloin	10,585	92.5%	\$2,363	-0.3%	\$4.17	0	41	0	\$4,475,000	\$389,119	6.8%
Downtown San Francisco	23,915	94.0%	\$2,681	0.8%	\$4.44	0	-10	0	\$10,320,000	\$539,088	5.1%
Haight-Ashbury/ Castro/Noe Vly/Mission	20,463	92.9%	\$3,025	2.5%	\$4.45	0	84	63	\$20,156,000	\$561,423	6.0%
Marina/Pacific Heights/Presidio	14,518	95.0%	\$3,713	0.2%	\$4.26	0	19	0	\$2,550,000	\$657,012	n/a
Redwood City/Menlo Park	15,901	95.2%	\$3,060	3.4%	\$3.74	0	72	1,476	\$29,450,000	\$550,533	5.4%
Richmond/Western Addition	17,861	95.6%	\$2,595	0.6%	\$4.07	0	51	0	\$12,341,620	\$518,686	5.2%
San Mateo/Burlingame	21,560	95.2%	\$2,959	0.3%	\$3.58	54	157	1,199	\$59,280,000	\$558,950	4.1%
South of Market	13,228	93.2%	\$3,422	0.8%	\$4.60	0	83	90	\$0	\$617,243	n/a
<b>Total</b>	<b>180,239</b>	<b>94.1%</b>	<b>\$3,031</b>	<b>1.5%</b>	<b>\$4.02</b>	<b>54</b>	<b>782</b>	<b>4,594</b>	<b>\$166,343,440</b>	<b>\$549,156</b>	<b>5.5%</b>



# U.S. Multifamily Market

## East Bay Submarket Data

03

Submarket	Existing Inventory SF (Units)	Occupancy Rate	Average Monthly Effective Rent	Annual Rent Change	Average Effective Rent PSF	New Supply (Units Delivered)	Net Absorption (Units)	Under Construction (Units)	Sales Volume YTD	Average Sale Price Per Unit YTD	Cap Rate
Berkeley	17,949	92.0%	\$2,794	-0.4%	\$4.14	0	100	475	\$8,672,000	\$431,440	4.0%
Concord/Pleasant Hill	11,190	94.2%	\$2,108	1.1%	\$2.61	0	1	360	\$0	\$331,303	n/a
Downtown Oakland	21,125	91.0%	\$2,283	-4.8%	\$3.10	0	79	2,168	\$3,675,000	\$432,820	6.4%
Dublin/Pleasanton/Livermore	14,131	92.9%	\$2,698	0.2%	\$3.02	0	149	0	\$35,500,000	\$411,680	n/a
East Oakland	18,237	90.5%	\$1,777	0.7%	\$2.50	378	92	0	\$11,671,095	\$270,913	7.1%
Fremont/Newark	24,690	95.5%	\$2,577	0.4%	\$3.09	0	55	404	\$1,800,000	\$366,667	n/a
Hayward/Castro Valley/Union City	14,813	94.4%	\$2,188	1.3%	\$2.70	0	-58	157	\$24,070,500	\$326,605	4.4%
Oakland Hills	10,182	94.9%	\$2,162	-1.3%	\$3.04	0	11	57	\$14,375,000	\$345,800	7.3%
Richmond/Martinez	11,393	93.6%	\$2,099	-1.1%	\$2.65	0	17	12	\$800,000	\$297,816	n/a
Walnut Creek/San Ramon	16,236	94.0%	\$2,593	1.6%	\$3.12	0	27	381	\$1,907,000	\$406,926	3.8%
<b>Total</b>	<b>190,164</b>	<b>93.0%</b>	<b>\$2,365</b>	<b>-0.5%</b>	<b>\$2.97</b>	<b>378</b>	<b>654</b>	<b>4,260</b>	<b>\$121,165,592</b>	<b>\$366,805</b>	<b>5.9%</b>

04

# Capital Markets



# Capital Markets

## Rate Cuts - 6, 3, 2, none...increase?

04



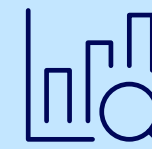
**303,000 Net Jobs**

Employers added 303,000 jobs in March



**3.5% CPI**

CPI up for third consecutive month, highest since September



**4.14% Unemployment**

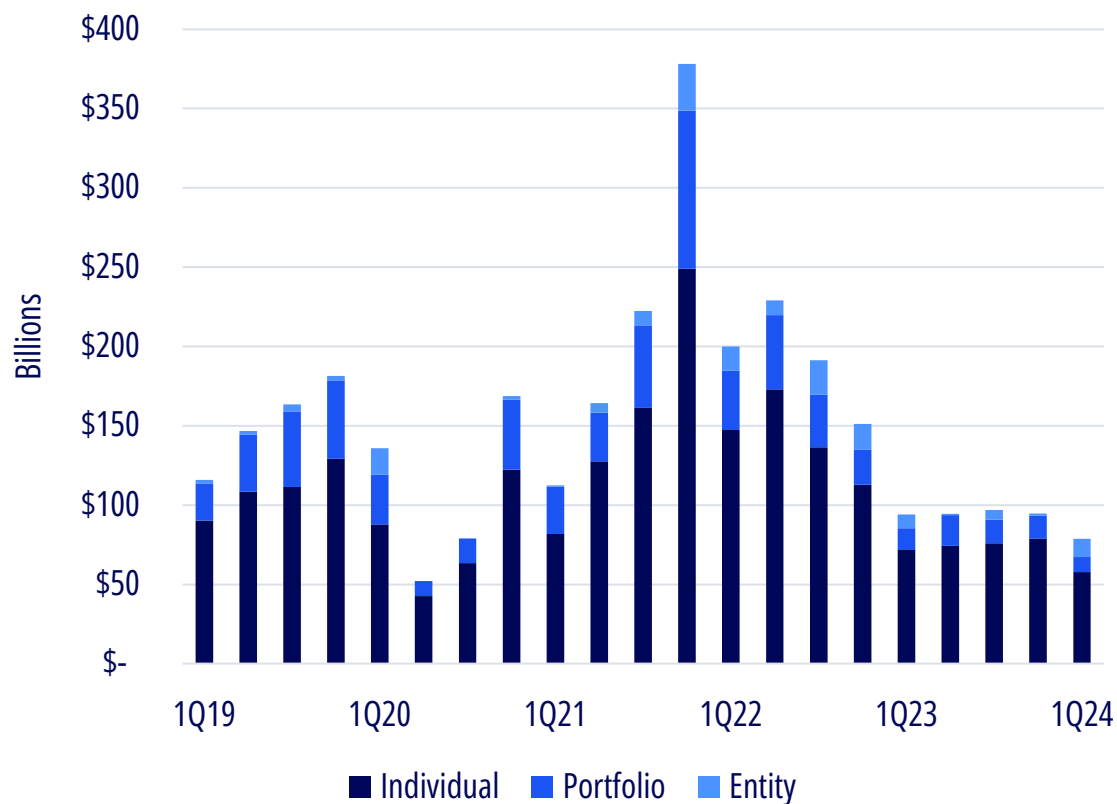
Unemployment rate dropped 14 bps to 4.14%

# Capital Markets

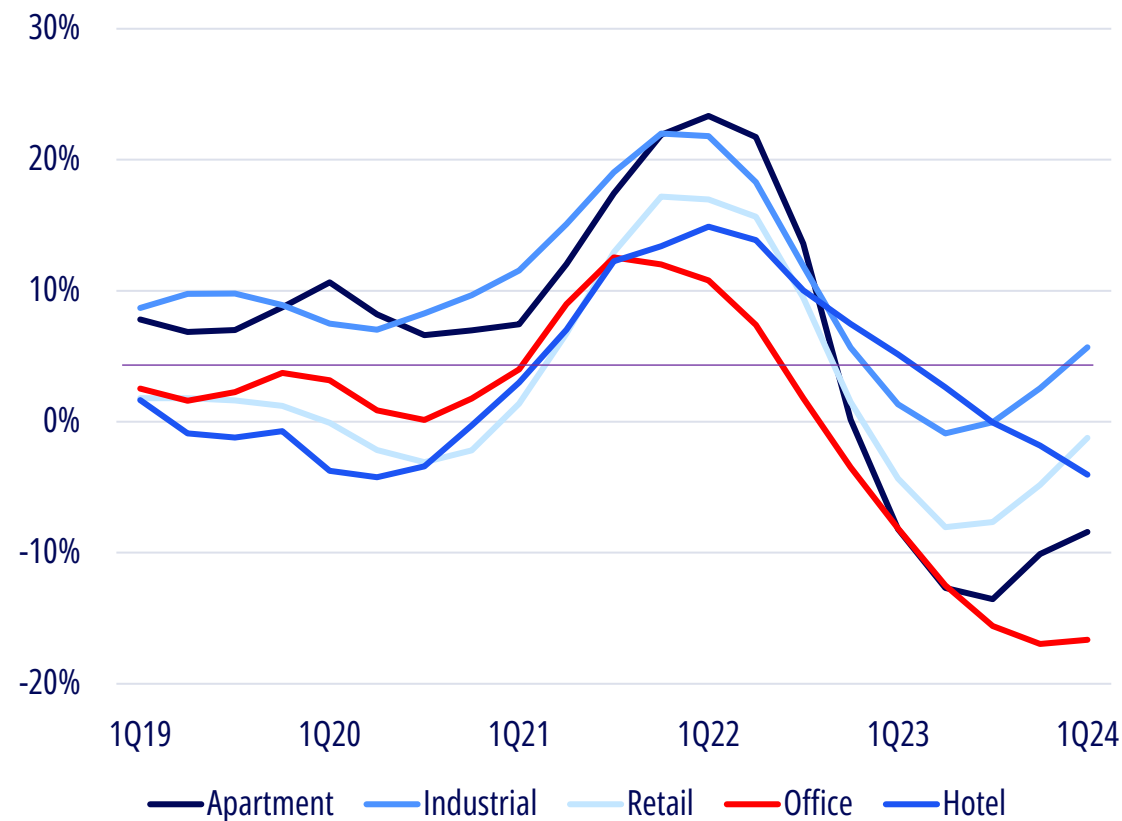
## Deal volume remains weak, price decreases are moderating (Mega Deal Volume Sinks)

04

Quarterly Transaction Volume



Pricing YOY Change

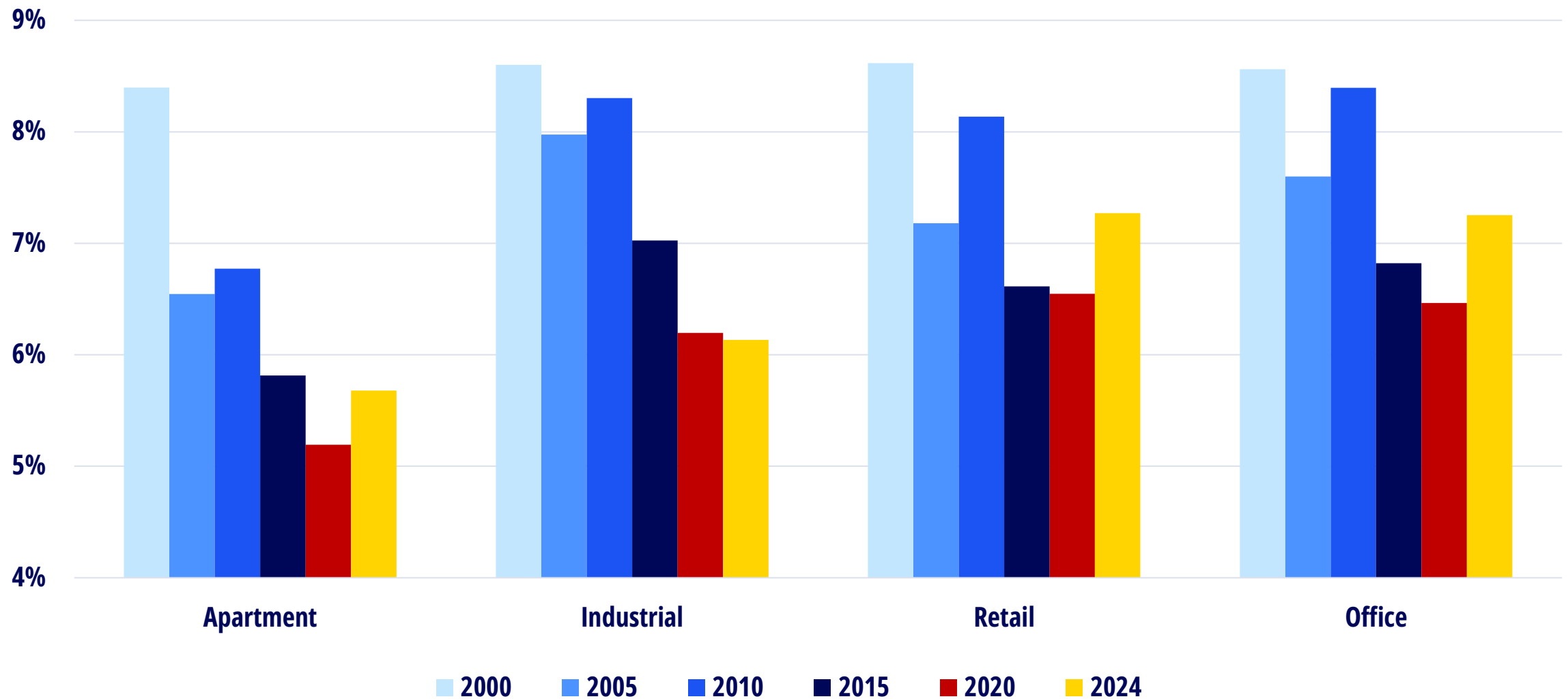


Source: MSCI



# Capital Markets






## Cap rates are rising, but well off peaks



# Capital Markets Update

## Q1 Sales Volume (by sector)

04

	Quarterly Volume (\$ Billions)	Volume Change (YOY)	Price Change (YOY)*
 Office	15.5	27%	-16.6%
 Industrial	16.9	-20%	5.7%
 Multifamily	20.6	-25%	-8.4%
 Retail	15.5	-24%	-1.2%
 Hotel	3.9	-23%	-4.1%
<b>Total</b>	<b>78.9</b>	<b>-17%</b>	<b>-3%</b>

Sources: Colliers, Real Capital Analytics

\*Index comprises office, industrial, retail, and multifamily

# U.S. Capital Markets CMBS Delinquency Rates Year-End

04

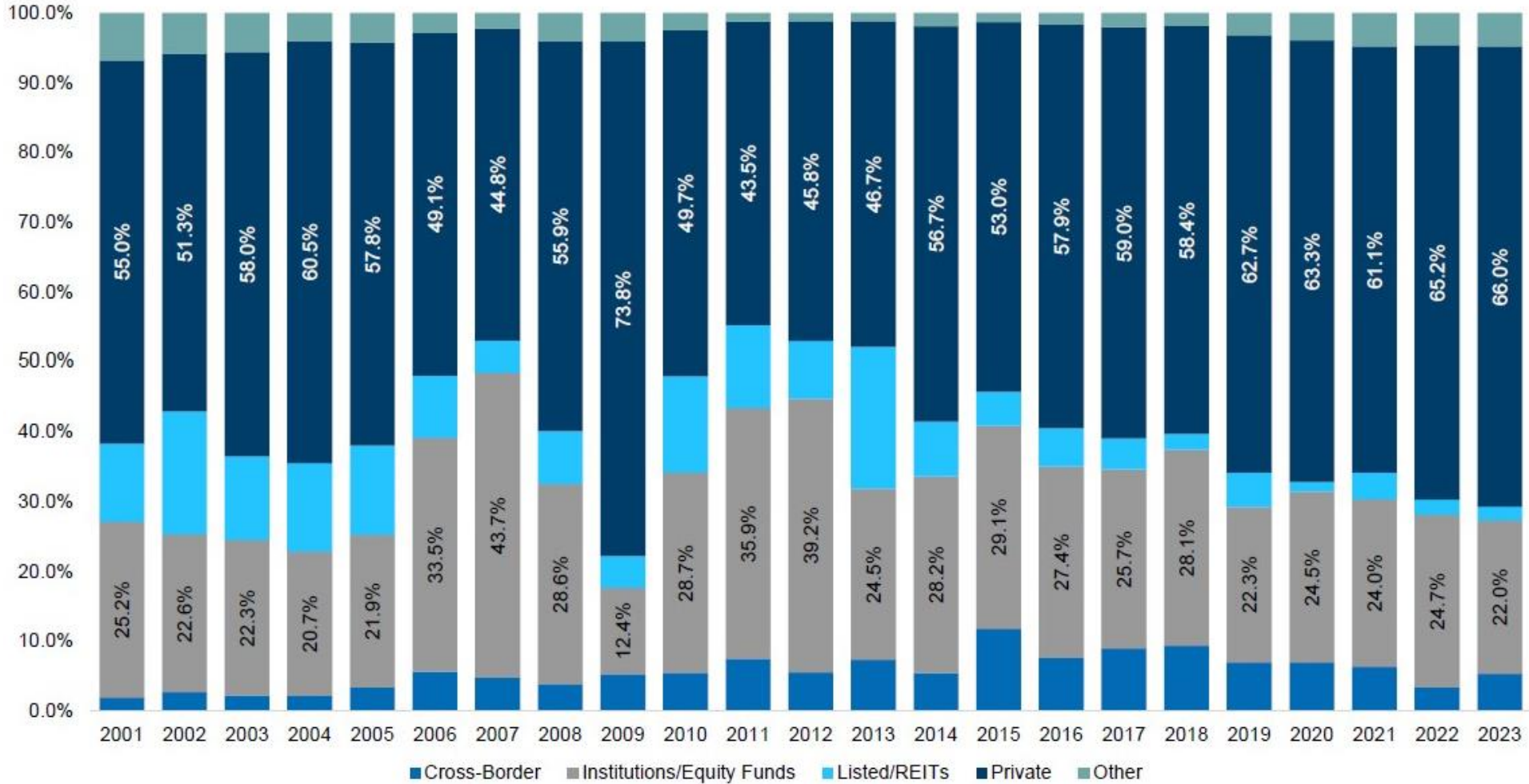


Sources: Colliers, Trepp

# U.S. Capital Markets

## Institutions & Private Capital Poised to Be Top Buyers in 2024 04

Buyer Composition by Capital Group

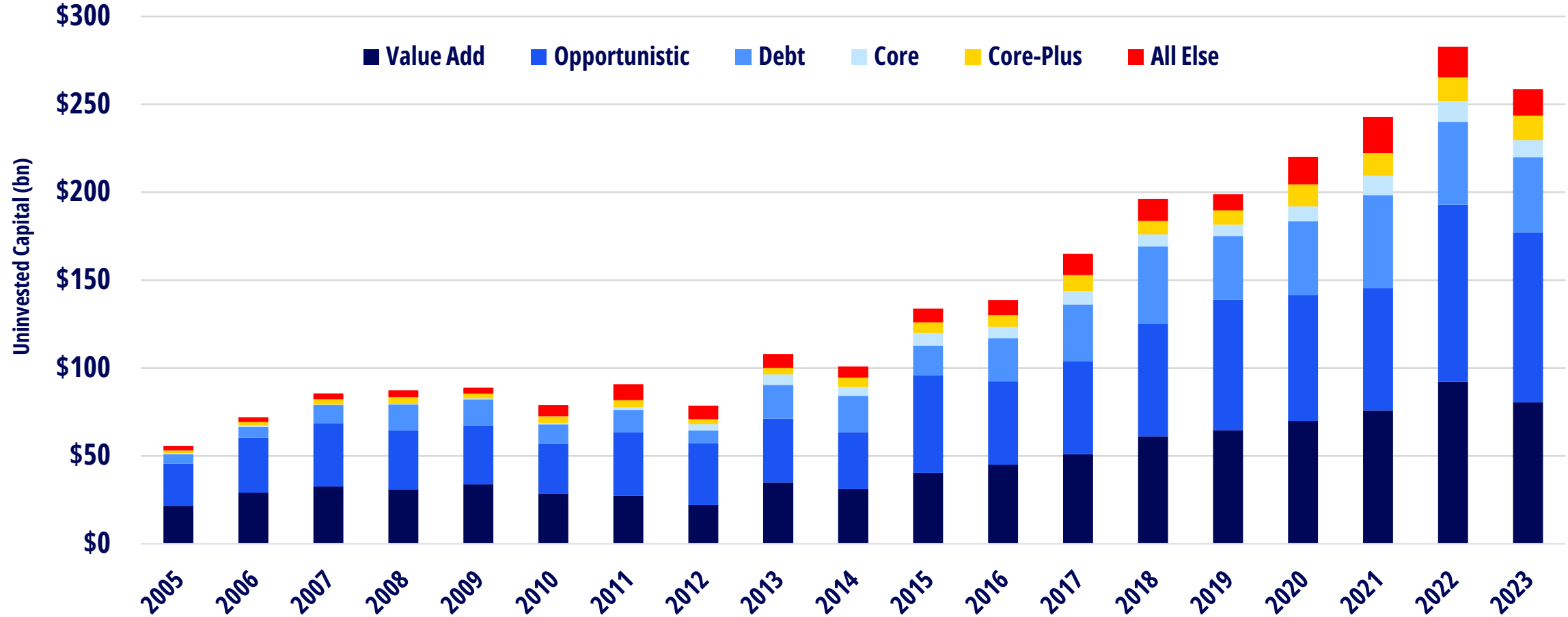


While private capital has been the largest acquirer of US multifamily historically, institutional capital seems poised for an uptick, similar to increased activity in 2011 to 2012, given large mandates for rental housing and expected rate cuts

Sources: Newmark Research, MSCI Real Capital Analytics

# U.S. Capital Markets

## Uninvested Capital Targeting N. America Near Record Highs



Sources: Colliers, Preqin

## U.S. Capital Markets

# Alternative assets diversify traditional portfolio allocations

04



### STUDENT HOUSING

Near record occupancies, strong pre-leasing and robust rent growth.



### SENIOR HOUSING

Approaching pre-pandemic levels. Aging population will increase demand.



### LIFE SCIENCES

Growth is moderating after explosive 2020-2022 period. Increased federal funding, AI, and R&D investments will propel sector.



### HEALTHCARE

Demand outpacing supply. Low vacancy and record-setting asking rents.



### DATA CENTER

AI fueling unparalleled growth and challenges.



# Thank You!



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