Intelligent Investment

2026
U.S. Real Estate Market Outlook Midyear Review

REPORT

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Market Overview

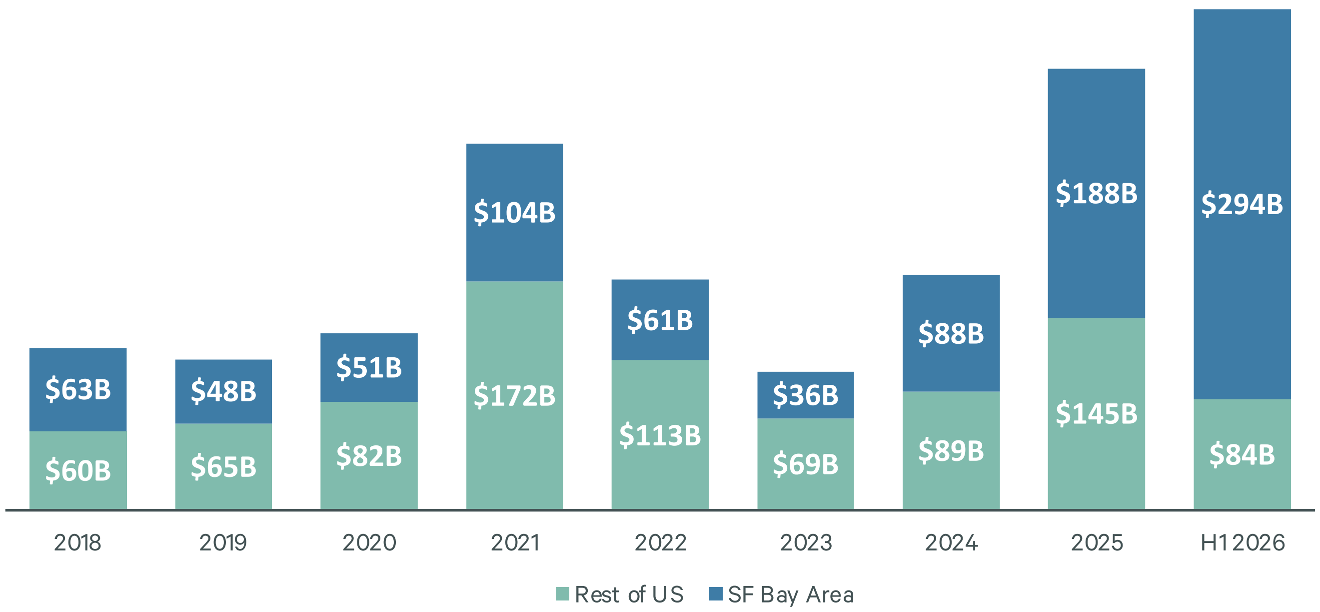
Artificial intelligence is reinforcing geographic concentration rather than decentralization.

The Bay Area entered the second half of 2026 as the primary beneficiary of a rapidly accelerating global AI investment cycle. AI-driven venture capital funding for the region's companies accounted for 78% of the U.S. total in H1 2026, fueling rapid AI-startup growth, creating jobs and driving demand for office, industrial and multifamily space.

Increased demand is reviving once-dormant development plans across nearly every property sector. This demand, combined with higher rents, could jump-start the Bay Area's next development cycle, even amid high construction and financing costs. New development will be focused on premium assets, specialized facilities and locations that support the innovation economy.

The Bay Area's concentration of innovation capital and technology leadership positions it for outsized growth in AI, advanced computing, robotics and life sciences. AI firms have seen the most growth to date, but that growth is likely to broaden to mature tech firms and other sectors in 2027 as they shift from AI-driven headcount reductions to productivity-led expansion.

Figure 1: Venture Capital Funding | Total Dollar Volume



Source: CBRE Research, Pitchbook, Q2 2026.

Office Market Outlook

01

AI demand will drive a two-speed recovery.

San Francisco and Silicon Valley—where AI demand is most concentrated—will continue to lead the Bay Area's market recovery, followed by Oakland/East Bay. In San Francisco, AI companies accounted for 30% of total leasing activity in H1 2026, dropping the vacancy rate by 7 percentage points to a still-elevated 29%. Oakland/East Bay's current 24% vacancy rate is expected to remain largely unchanged through year-end since it has not yet benefited from increased AI or tech demand. Established tech firms will add to future office demand in the market as long as AI expansion remains stable.

02

Vacancy will decline slightly but remain concentrated.

The Bay Area overall vacancy rate peaked at 25% in mid-2023 and began to decline in 2024 as venture capital funding surged. Vacancy is expected to fall below 22% by year-end, with a majority of vacant space concentrated in commodity Class A buildings and obsolete Class B and C properties.

03

Prime space will tighten first, then spill into commodity buildings.

Class A space accounted for roughly two-thirds of inventory but three-fourths of leasing volume and most of the positive net absorption over the past 12 months. Prime buildings will see the largest vacancy declines in 2026 due to constrained supply, with no new construction underway in San Francisco or Oakland/East Bay and limited completions elsewhere. As prime space is absorbed, demand is expected to spill into the next tier of Class A and commodity buildings with desirable locations.

04

Rent growth will vary by building quality.

In H1, asking rents rose by between 5% and 10% year-over-year in prime buildings and key submarkets like Mission Bay, South of Market, Sunnyvale, Mountain View and Santa Clara. Meanwhile, rents remain unchanged or declined slightly in commodity buildings and in Oakland/East Bay. Overall Bay Area rent growth is forecast at 3% to 5% in 2026.

Key Takeaways

For Tenants

— Negotiating leverage will continue to favor mid- to large-scale tenants that don't require prime space. The Bay Area's 22% vacancy rate will allow tenants to secure generous concessions, including extended free rent, turnkey buildouts and flexible expansion/contraction rights.

— The window for favorable transactions in prime submarkets is already narrowing as landlords regain leverage amid rising demand for the best quality spaces.

— The best leasing opportunities are in discounted commodity Class A, B and C buildings, as availability declines in top-tier assets located in prime submarkets.

For Owners & Investors

— Repositioning is no longer optional. To meet tenant needs, owners must differentiate their buildings through modernization, sustainability, wellness design and amenity upgrades.

— Concessions may have already peaked this year but will remain critical to attracting and retaining tenants.

— Stabilized Class A buildings with strong credit tenants in prime submarkets will remain liquid, while older buildings may stagnate without recapitalization.

Industrial Market Outlook

01

Growth in key sectors will support demand.

Industrial demand has moderated from pandemic highs but remains supported by advanced manufacturing, semiconductor activity, robotics and the build-out of AI infrastructure. Leasing activity remains healthy, though occupiers are more cost-sensitive. Net absorption is expected to total 0.5% to 1% of the region's current inventory over the next 12 months.

02

AI-driven demand will tighten availability for power-ready sites.

Industrial supply is expected to reach more than 37 million sq. ft. by year-end, driven by an increase in vacated space and new construction completions since 2023. While existing supply has outstripped overall demand, AI-driven advanced manufacturing and data center demand are tightening availability for power-ready industrial sites in select submarkets.

03

Rent growth will remain limited as new supply absorbs.

Rents will remain unchanged or increase slightly through year-end. Occupancy is expected to stabilize as new supply is absorbed. Overall Bay Area industrial rent growth is forecast at 0% to 2% over the next 12 months, though modern logistics and power-ready facilities may see higher pricing gains.

Key Takeaways

For Tenants

— Tenants will have greater choices and improved bargaining power, especially for modern logistics and manufacturing facilities. As availability rises toward 9% to 10%, tenants will be able to evaluate multiple viable options rather than competing for scarce inventory, reducing urgency and cost pressure.

— Facilities that support automation, robotics and AI-enabled operations will be more prevalent. New deliveries often include higher clear heights, enhanced loading, heavy power capacity and improved sustainability features.

— AI-driven demand is tightening the availability of power-ready industrial sites, so tenants must be more strategic in site selection. Plan ahead when seeking facilities requiring heavy electrical capacity or specialized infrastructure.

For Owners & Investors

— The industrial sector remains fundamentally strong, but the era of double-digit rent increases has passed. Investors should underwrite facilities with steady, moderate rent growth and prioritize tenant retention.

— Facility quality and function matter more than ever. Modern assets with heavy power, efficient space utilization and logistics, and sustainability features will outperform.

— Investor interest in AI-adjacent industrial assets is growing. Facilities suitable for advanced manufacturing, robotics, data center conversion or efficient logistics will attract premium pricing from institutional investors. Commodity facilities will become candidates for redevelopment or conversion to alternative uses.

R&D/Life Sciences Market Outlook

01

Life sciences demand rebounds.

While vacancy remains elevated from the development boom, demand for shell life sciences buildings has rebounded with the return of tech campus users and increased activity from life sciences, AI hardware and robotics tenants. Venture capital funding continues to influence growth locations and patterns. Net absorption is expected to increase given the lack of new deliveries competing with existing vacant product.

02

Vacancy will remain elevated due to specialized lab supply.

Total available R&D space will reach more than 36 million sq. ft. by year-end, driven by prior development cycles and vacated space since 2023. The majority of new supply under construction was completed in H1 2026, but most of this inventory comprises highly specialized lab buildings, making repurposing difficult and extending lease-up timelines. The current overall life sciences vacancy rate of 30% is expected to remain elevated well beyond 2026.

03

Rents will remain unchanged until tech hiring rebounds.

With vacancy above 15%, rents are expected remain unchanged or decline slightly through year-end. Over the next 12 months, occupancy in the Bay Area's life sciences clusters should improve but broad rent growth is unlikely until job growth accelerates. Life sciences facilities are still in price discovery, with asking rates expected to decline by an additional 2% to 5% over the next 12 months.

04

Investors will prioritize core innovation clusters.

Investors remain highly selective, focusing on South San Francisco life sciences, Peninsula R&D and Silicon Valley AI hardware clusters. Significant capital requirements for repurposing and long lease-up periods limit broader investment appetite.

Key Takeaways

For Tenants

- Specialized life sciences, AI hardware and advanced manufacturing tenants have exceptional negotiating leverage. With availability at 18% (and 30% for life sciences), tenants can negotiate customized buildouts, favorable tenant improvement packages and long-term control of mission-critical facilities.
- The opportunity to secure strategic campuses at favorable pricing is unlikely to continue. Tenants with long-term growth plans should quickly secure campus-scale footprints that support future expansion, collaboration and innovation.
- Given prolonged vacancy in some R&D/life sciences clusters, owners are more open to invest in lab ventilation, clean rooms, heavy power and advanced cooling systems, reducing upfront costs for tenants.

For Owners & Investors

- Higher capital requirements and supply competition are extending lease-up periods. R&D assets for life sciences and advanced technology development are specialized, and current market conditions will require owners to plan for extended downtime, higher tenant improvement costs and more complex leasing negotiations.
- Single-tenant facilities can become a critical risk factor for vacancy and tenant credit quality. Owners may need to explore multi-tenant strategies, phased redevelopment or partial conversions to reduce dependency on a single user.
- Selective investment opportunities in core innovation hubs are viable. Despite broader softness, demand remains strong in South San Francisco life sciences, Peninsula R&D and Silicon Valley AI hardware clusters.

Multifamily Market Outlook

01

Net absorption will accelerate amid improved market fundamentals.

Net absorption is expected to accelerate through year-end 2026, driven by AI-related growth, increased renter household formation, high for-sale housing costs and slightly positive population growth.

02

Elevated construction costs will spur renovation activity.

Annual construction completions will taper to approximately 7,000 units in 2026, down from 14,000 units in 2024. The current overall vacancy rate of 3.4% is expected to decline by an additional 20 to 30 basis points by year-end. Construction costs and financing constraints will limit new project starts, shifting developers' focus toward renovation and value-add activity. Tightening vacancy will result in 3% to 5% rent growth by year-end, well above the 1.4% national average.

03

Institutional investors will seek stability in Bay Area communities.

Multifamily remains the most liquid asset class, and institutional capital will be attracted to the stable cash flow and long-term rent growth of Bay Area multifamily communities.

Key Takeaways

For Owners & Investors

- Multifamily remains the Bay Area's most resilient asset class. Tight availability and steady absorption will support 3% to 5% rent growth and high occupancy levels.
- With limited new construction, renovated units in older, well-located properties can command favorable rent premiums. Unit upgrades, amenity enhancements and energy-efficiency improvements will enable investors to capture outsized returns.
- Multifamily properties continue to attract core and core-plus investors seeking stability. Pricing remains competitive, but multifamily offers more attractive risk-adjusted returns than office and R&D properties.

Retail Market Outlook

01

Demand will remain steady as daily-needs formats outperform.

Bay Area retail demand will hold steady, driven by consumer services, medical retail and omnichannel fulfillment. Soft-goods retail is expected to remain challenged, but daily-needs formats will outperform.

02

Limited new construction will drive experiential repositioning.

Retail inventory will grow slowly, as new construction remains limited. Owners will increasingly reposition centers into experiential, food & beverage, healthcare retail and service-oriented concepts.

03

Rents to remain stable with slight growth in prime corridors.

Rents will remain unchanged or increase slightly through year-end. Over the next 12 months, prime corridors and grocery-anchored centers may see modest rent and occupancy gains.

04

Necessity-based retail will remain a top investment target.

Investors will continue to favor the stable cash flow and resilient demand of the Bay Area's grocery-anchored and daily-needs centers.

Key Takeaways

For Tenants

— With availability holding steady at 5% to 6%, predictable occupancy costs will enable tenants to be more confident in their expansion or repositioning strategies.

— As landlords curate tenant mixes to drive foot traffic, retailers with experiential, service-oriented or healthcare-related offerings will find more leasing opportunities and favorable terms. Soft-goods retailers may find it more difficult to secure suitable space.

— Owners are increasingly investing in placemaking, outdoor space and food-and-beverage integration, creating attractive environments for tenants seeking visibility and customer engagement.

For Owners & Investors

— Bay Area retail offers investors stable cash flow with the opportunity for modest upside in prime corridors. Grocery-anchored and daily-needs centers, in particular, continue to attract strong tenant demand and investor interest.

— Re-tenanting and merchandising strategies will drive value. Owners that actively manage tenant mix and invest in experience-oriented improvements will outperform those relying solely on rent growth.

— Selective acquisition opportunities exist in under-managed centers. Assets with outdated merchandising or underutilized common areas present value-add potential through strategic re-tenanting, modest capital investment and improved placemaking.

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