Intelligent Investment

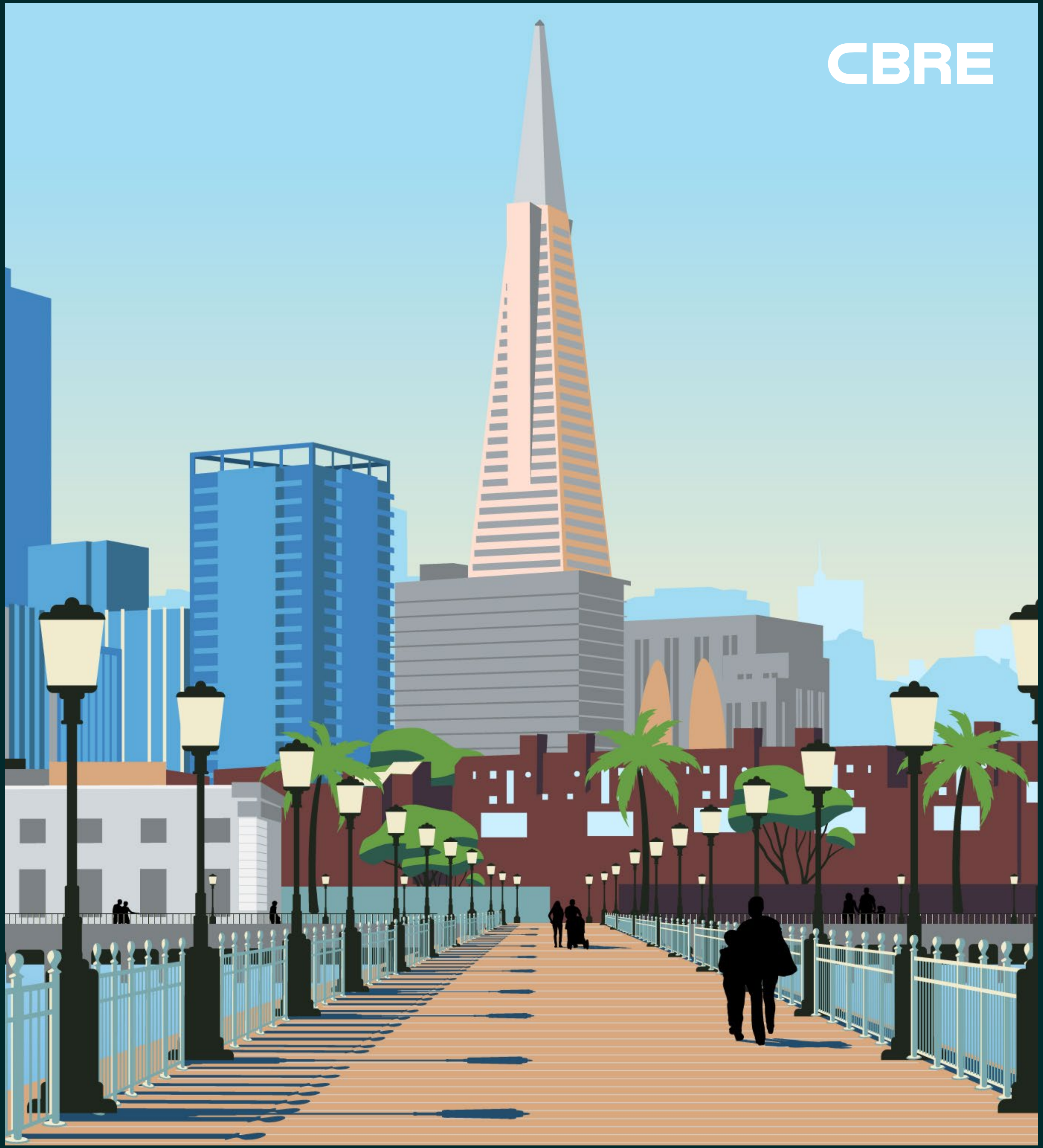
2025

# U.S. Real Estate Market Outlook Midyear Review

REPORT

SAN FRANCISCO BAY AREA

CBRE RESEARCH
AUGUST 2025



# Economy

As we move through the second half of 2025, the San Francisco Bay Area commercial real estate market continues to evolve in response to shifting economic conditions, technological innovation, and changing tenant preferences. This report offers a detailed analysis of the key drivers shaping leasing activity across the office, industrial, and retail sectors, while also providing a timely overview of multifamily trends and capital markets performance.

As of Q2 2025, the San Francisco Bay Area is home to approximately 6.7 million residents. The region saw a net population decline of over 150,000 following the COVID-19 pandemic, driven by remote work trends. Recently, a shift back to in-person work among major employers has supported a gradual return of workers, particularly to urban centers.

This transition has revitalized areas like San Francisco's Financial District, where rising office occupancy is boosting demand for daytime services. Restaurants and retailers are reopening to serve the growing workforce, signaling a modest recovery in commercial vibrancy.

The Bay Area generated $1.3 trillion in gross regional product—making it the 17th largest economy worldwide. Its economy is anchored by technology and innovation, with four firms exceeding $1 trillion in market capitalization.

The region is also a major life sciences hub, supported by institutions like University of California, San Francisco and Stanford University. A key emerging driver of growth is the artificial intelligence (AI) sector. According to PitchBook, San Francisco-based AI companies have attracted $103 billion in venture capital since 2020—more than the previous two tech waves combined. Nationally, AI firms received $239 billion in VC funding between Q1 2020 and Q1 2025, with 43% going to San Francisco and 28% to other Bay Area firms.

Looking ahead, the Bay Area is well-positioned to lead the next wave of innovation. As AI, life sciences, and advanced technologies converge, the region's unique blend of talent, capital, and institutional strength will drive sustained economic growth and evolving demand across office and industrial markets.

01
**Office**

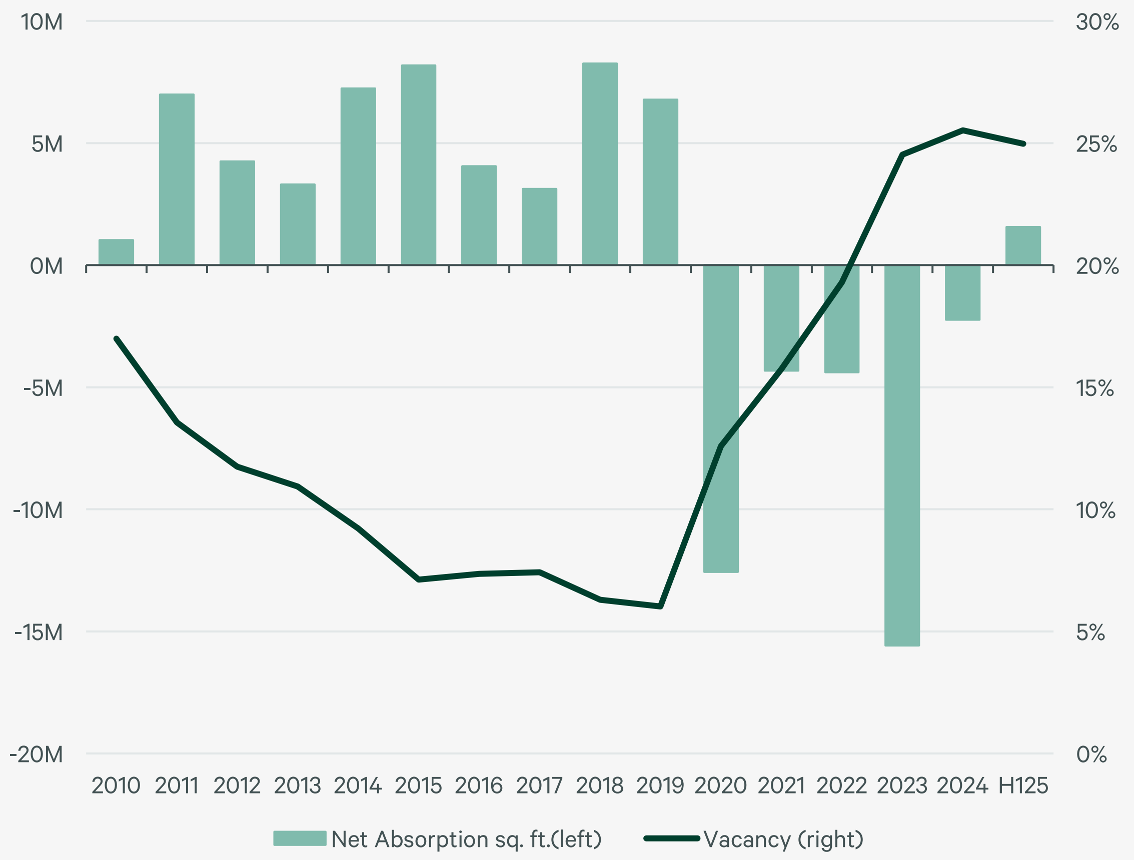
# A Market in Transition

Between 2020 and 2024, the San Francisco Bay Area office occupiers contracted by 39 million sq. ft., primarily due to pandemic-driven shifts in workplace policies. However, in the first half of 2025, the market recorded net absorption of 1.6 million sq. ft., signaling early signs of recovery. Silicon Valley and San Francisco led this rebound, fueled by a new wave of tech leasing activity focused on generative AI and related technologies.

There was a pronounced flight to quality during this period. Class A office space accounted for 8.1 million sq. ft., or 88% of total leasing volume in H1 2025. The technology sector was the dominant driver, representing 58% of leasing activity, followed by professional and business services at 24%.

Looking ahead, the Bay Area's office market is poised to benefit from continued innovation in AI and other emerging technologies. As companies scale and seek collaborative environments, demand for high-quality office space is expected to remain strong, particularly in urban centers that offer proximity to talent, infrastructure, and institutional capital. The region's unique blend of industry leadership and research excellence positions it well for sustained growth in the next cycle.

**Figure 1: SF Bay Area Office Vacancy and Net Absorption Trend**




Source: CBRE Research.

02

**R&D**
**Life Sciences**

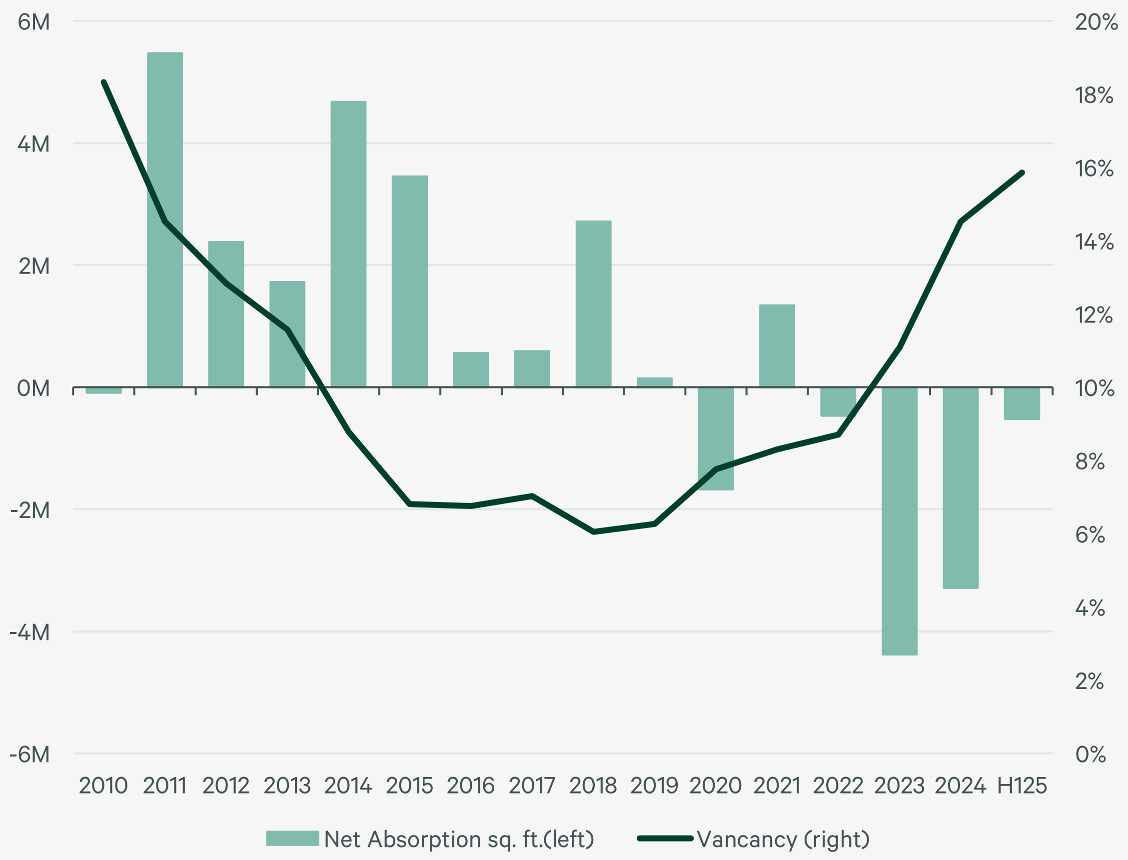
# Essential Industries Sustain Demand

The San Francisco Bay Area has long been a cornerstone of innovation, with its lab and R&D facilities serving as essential infrastructure for the region's technology, life sciences, and academic sectors. Supported by world-class institutions and a robust venture capital ecosystem, the Bay Area is home to nearly 203 million square feet of lab and R&D space. While vacancy has risen since the onset of the pandemic, this segment has remained resilient from remote work trends due to the essential nature of R&D and life sciences operations.

In H1 2025, net absorption totaled negative 3.8 million sq. ft., reflecting ongoing market adjustment. However, leasing activity showed strong momentum, with 6.2 million sq. ft. signed—up 24% from H1 2024. Technology firms accounted for 44% of leased space, followed by life sciences at 26%, underscoring the continued relevance of these sectors in driving demand.

Looking ahead, the Bay Area's R&D market is poised for renewed growth as advancements in artificial intelligence, biotechnology, and clean technologies accelerate. As companies scale and seek proximity to talent, research institutions, and specialized infrastructure, demand for high-quality lab and R&D space is expected to strengthen, reinforcing the region's role as a global innovation hub.

**Figure 2: SF Bay Area R&D Vacancy and Net Absorption Trend**




Source: CBRE Research.

03
**Industrial**

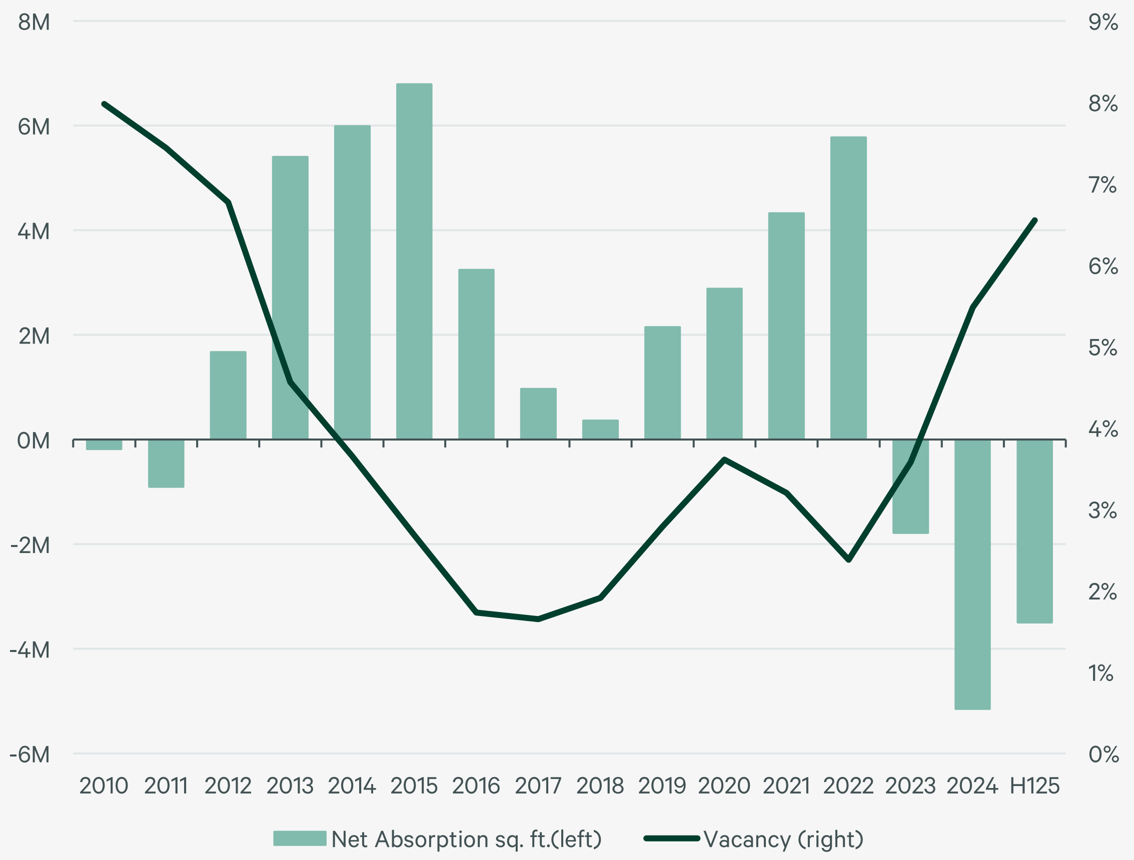
# Tight Inventory Keeps Market Resilient

Positioned near major ports, airports, and dense urban centers, the San Francisco Bay Area offers unmatched access to global trade routes and last-mile distribution networks. Its proximity to leading technology and life sciences clusters supports a dynamic industrial ecosystem. In the first half of 2025, the industrial market was weakened by uncertainty surrounding tariffs and global trade policies. Net absorption totaled negative 3.8 million sq. ft., pushing the overall vacancy rate to 6.6%—the highest level in over a decade.

Despite lower occupancy, leasing activity rebounded to more normalized levels. Nearly 8 million sq. ft. of leases were signed in H1 2025, up from 6.5 million sq. ft. in H1 2024. The tenant base remained diversified, with technology companies accounting for 24% of leasing activity, followed by logistics and distribution (18%), and construction and building materials (11%).

Looking ahead, the Bay Area's industrial market is expected to stabilize as supply-demand dynamics recalibrate and global trade conditions improve. Continued investment in automation, AI-driven logistics, and clean technologies will likely support long-term demand.

Figure 3: SF Bay Area Industrial Vacancy and Net Absorption Trend




Source: CBRE Research.

04
**Retail**

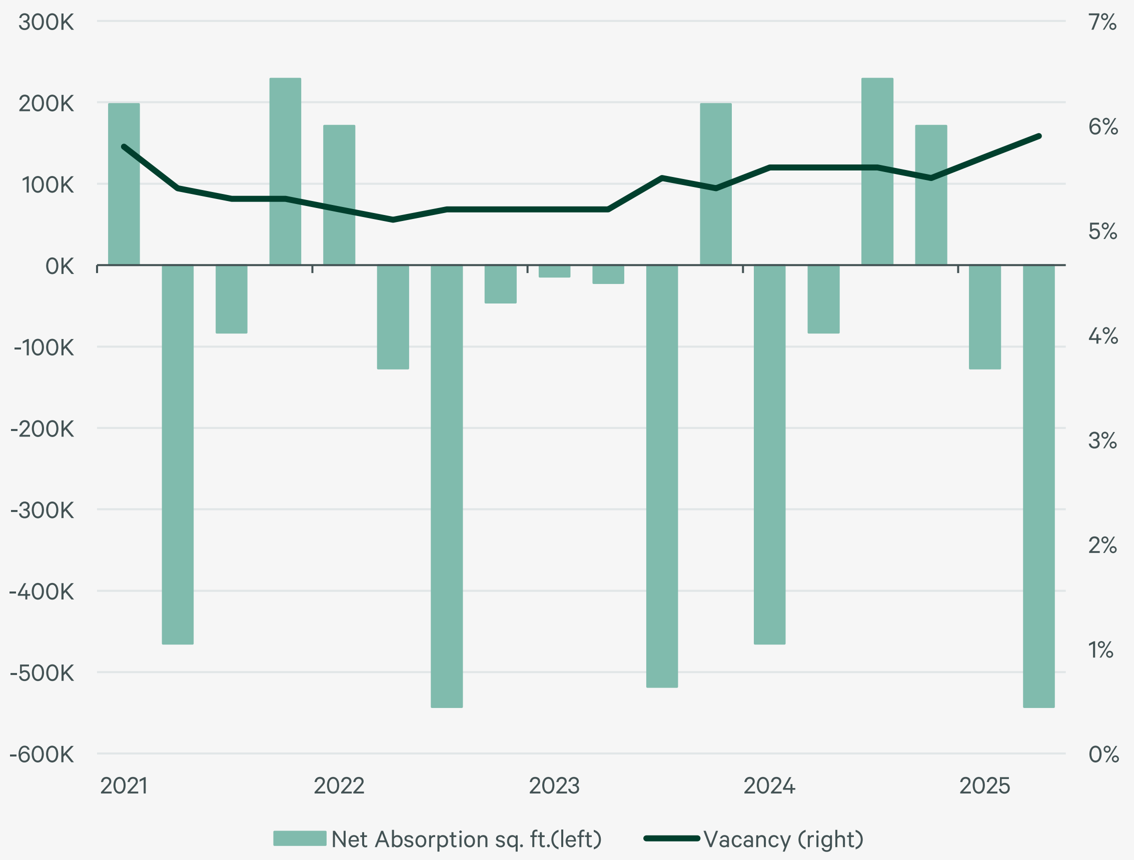
# Tech Demographics Drive Demand

The Bay Area's concentration of tech talent—the most in North America—continues to underpin retail demand. With 60% of retail spending coming from consumers holding a bachelor's degree or higher, the region's educated workforce remains a key driver of retail performance. Consumer spending continues to grow, with the region approaching $650 billion in annual total.

In H1 2025, net absorption totaled negative 670,000 sq. ft., raising overall retail vacancy to 5.9%. All shopping center categories experienced rising vacancy, primarily due to contraction among pharmacies and discount retailers. Despite this, the sector has remained relatively stable, maintaining vacancy rates within the 5% range for more than five years.

Looking ahead, the Bay Area's retail market is expected to remain resilient, supported by strong demographics, sustained consumer spending, and ongoing urban revitalization. As tourism rebounds and national retailers reenter key corridors, leasing activity is likely to strengthen, particularly in well-located centers that cater to affluent and tech-savvy consumers.

**Figure 4: SF Bay Area Retail Vacancy and Net Absorption Trend**




Source: CBRE Research, CBRE Econometric Advisors.

05
**Multifamily**

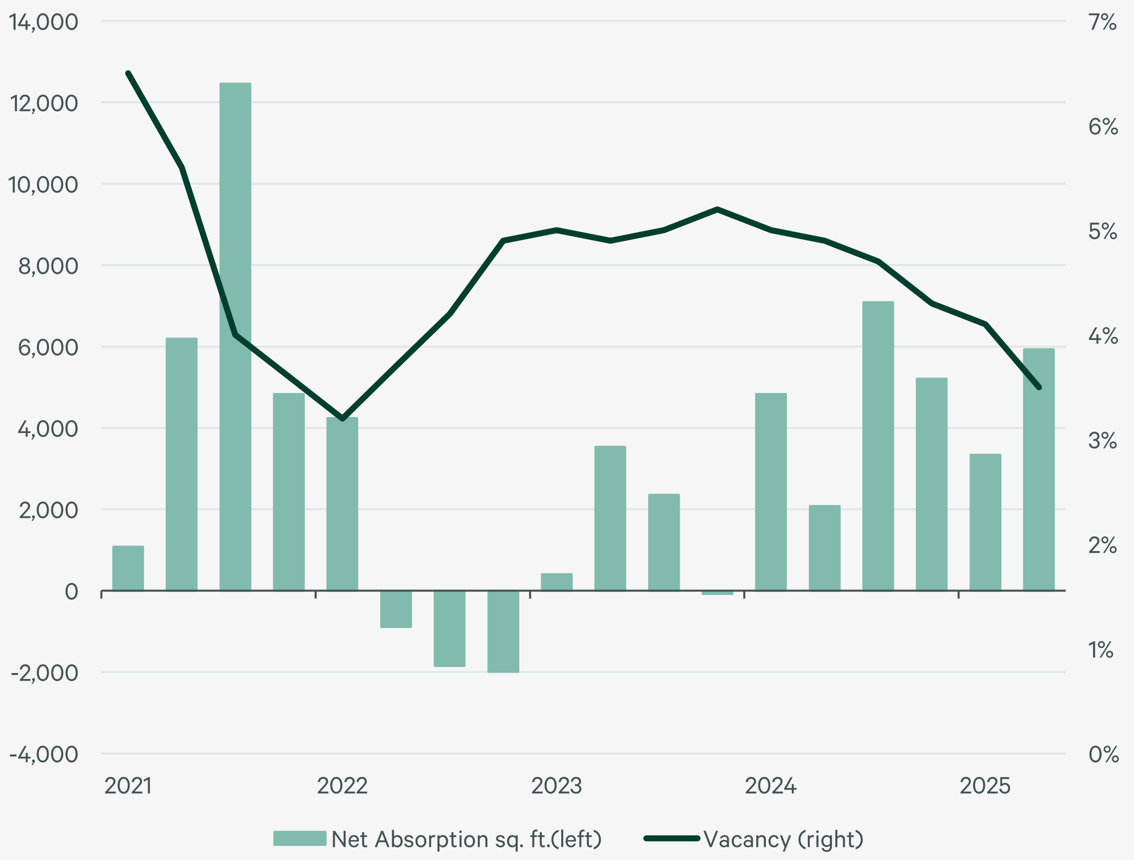
# Demand Outpaces Supply

The San Francisco Bay Area apartment market offers a compelling mix of lifestyle appeal and financial performance. The region provides access to world-class employment, cultural amenities, and transit-connected urban living. High wages, a deep talent pool, and limited housing supply continue to support strong rental demand. For investors, persistent housing undersupply, high barriers to new development, and consistent rent growth create favorable conditions for long-term asset performance.

In H1 2025, the multifamily market added 9,272 new units—a 34% increase compared to the same period in 2024. This surge in demand drove overall vacancy down to 3.5%, the lowest level since 2022. Average monthly rent rose 4.2% year-to-date, reaching $3,156 per unit. South San Mateo County recorded the highest average rent at $3,974, while Northeast Contra Costa remained the most affordable at $2,217.

As affordability pressures persist and homeownership remains out of reach for many, rental housing will continue to play a central role in meeting the region's housing needs—offering investors stable returns and long-term growth potential.

**Figure 5: SF Bay Area Multifamily Vacancy and Net Absorption (units) Trend**




Source: CBRE Research, CBRE Econometric Advisors.

06
**Capital Markets**

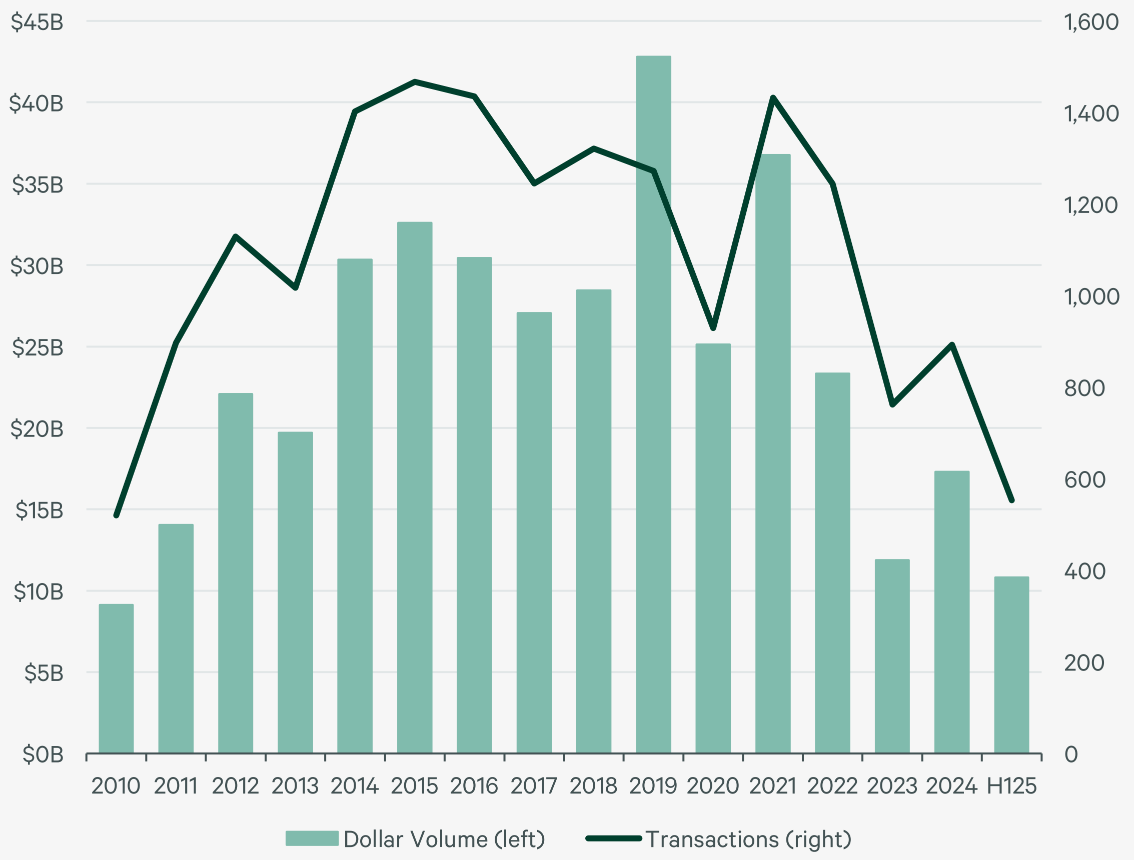
# Advantage Opportunistic Buyers

The San Francisco Bay Area remains a premier commercial real estate investment market, driven by its globally influential industries and deep economic diversity. These dynamics create a compelling environment for investors seeking long-term value, stable fundamentals, and exposure to sectors leading the next wave of economic growth.

In H1 2025, total investment sales volume reached $9.9 billion, 38% more than the same period in 2024 but down 54% from its recent peak in H1 2019. The office sector accounted for 54% of total investment, followed by multifamily (33%), retail (7%), and industrial (6%). Notably, owner-user acquisitions represented more than half of the office sales volume, reflecting growing confidence in long-term occupancy. Cap rates across all four sectors averaged between 5.5% and 6.2%, indicating a balanced risk-return profile among investors.

Looking ahead, the Bay Area's commercial real estate market is expected to remain a magnet for capital, particularly as innovation sectors expand and occupier demand stabilizes. Investors are likely to continue targeting well-located assets with strong tenant fundamentals, especially in markets aligned with technology, life sciences, and urban revitalization.

**Figure 6: SF Bay Area Overall Investment Dollar Volume and Transactions**




Source: CBRE Research, MSCI Real Capital Analytics.

# Contacts

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