

Intelligent Investment

2026 U.S. Real Estate Market Outlook

REPORT

SAN FRANCISCO
BAY AREA

CBRE RESEARCH
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Foreword

In the second half of 2025, the San Francisco Bay Area commercial real estate market exhibited early signs of stabilization amid shifting economic conditions, technological disruption, and evolving tenant priorities. This report provides an updated analysis of the key forces shaping leasing activity across office, industrial and retail sectors, along with a timely overview of multifamily trends and capital markets performance. With innovation sectors accelerating and investor confidence returning, the region is expected to regain momentum as fundamentals strengthen in 2026.

The core Bay Area population was approximately 7.65 million in November 2025, reflecting a modest rebound after pandemic-era decline of roughly 150,000 residents. While remote work initially drove outmigration, the rapid growth of AI companies also increased migration into San Francisco and Silicon Valley. San Francisco's Financial District has seen rising office attendance and renewed demand for daytime services, supporting a recovery of the retail and hospitality sectors.

The Bay Area remains a global economic powerhouse, generating approximately \$1.3 trillion in gross regional product and ranking among the top 20 economies worldwide. Its technology and life-sciences sectors continue to attract talent and capital, while artificial intelligence (AI) has emerged as the region's defining growth engine. Since 2020, Bay Area AI firms have captured more than \$100 billion in venture capital—outpacing prior tech waves—and now account for the largest share of VC funding. This surge is translating into real estate demand: AI and advanced-tech occupiers are driving leasing in prime office and R&D space, while life sciences remains a key sector supported by institutions like UCSF and Stanford.

Office and capital markets dynamics underscore the market's recovery. After several years of elevated office vacancy, San Francisco recorded positive net absorption in Q3 2025, the first time since 2019. Flight-to-quality remains the dominant theme, with tenants gravitating toward Class A+ space near ample amenities while older buildings face pressure to reposition or convert. Investor sentiment is improving as interest rates stabilize and liquidity returns, driving renewed activity in prime office, industrial and data center properties. At the same time, institutional capital is increasingly targeting sectors aligned with structural growth—such as AI-driven tech campuses, advanced manufacturing, and multifamily housing—reflecting confidence in the Bay Area's long-term innovation economy.

Through 2026, the Bay Area is positioned to lead the next wave of innovation as AI, life sciences and advanced technologies converge. This dynamic will underpin sustained economic growth and reshape real estate demand. While elevated office vacancy and an uneven hospitality recovery continue to present challenges, the Bay Area's unique ecosystem of talent, capital and research institutions provides a strong foundation for long-term resilience.

Source: CBRE Research, CBRE Econometric Advisors, Oxford Economics.

01
Office

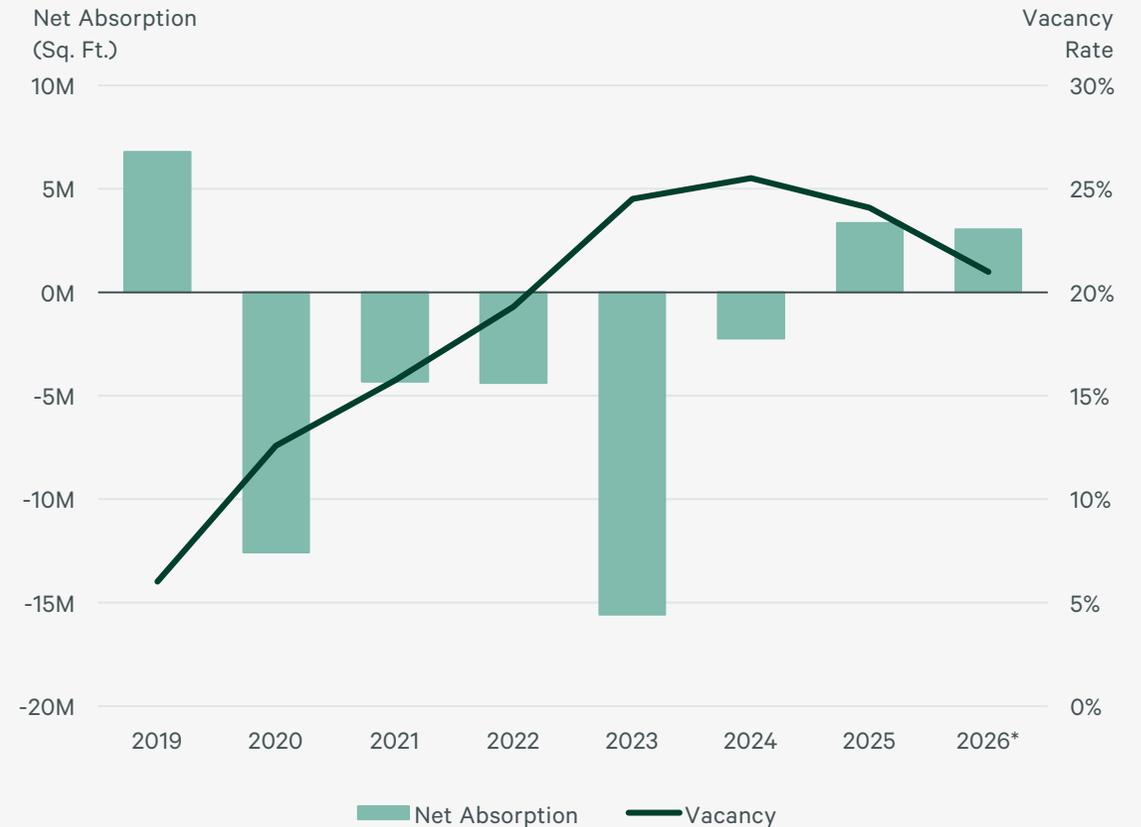
Tech Will Fuel the Office Revival

Between 2020 and 2024, the San Francisco Bay Area office market contracted by approximately 39 million sq. ft. of occupied space, primarily due to pandemic-driven shifts in workplace policies that resulted in the vacancy rate climbing to 25.5%. In 2025, the market turned a corner, recording 3.3 million sq. ft. of net absorption, resulting in a decline in vacancy to 24.1%.

A pronounced flight to quality drove the recovery. Class-A office space accounted for roughly 65% of the total net rentable inventory, 85% of leasing volume and all positive net absorption in 2025. Occupiers continued to capitalize on favorable pricing for high-image spaces with ample amenities and strong transit connectivity, underscoring a preference for environments that support collaboration and talent retention.

Looking ahead, the Bay Area office market will benefit from fundamentals that began shifting in 2025. Growth in 2026 will be driven by generative AI firms competing for market share, while established tech companies refine their occupancy strategies. Prime buildings will see the largest decline in vacancy with demand spilling over into commodity space. Rental rates for prime space are expected to rise while commodity space will plateau.

Figure 1: Office Vacancy and Net Absorption Trend



*Projected
Source: CBRE Research, CBRE Econometric Advisors.

02
R&D
Life Sciences

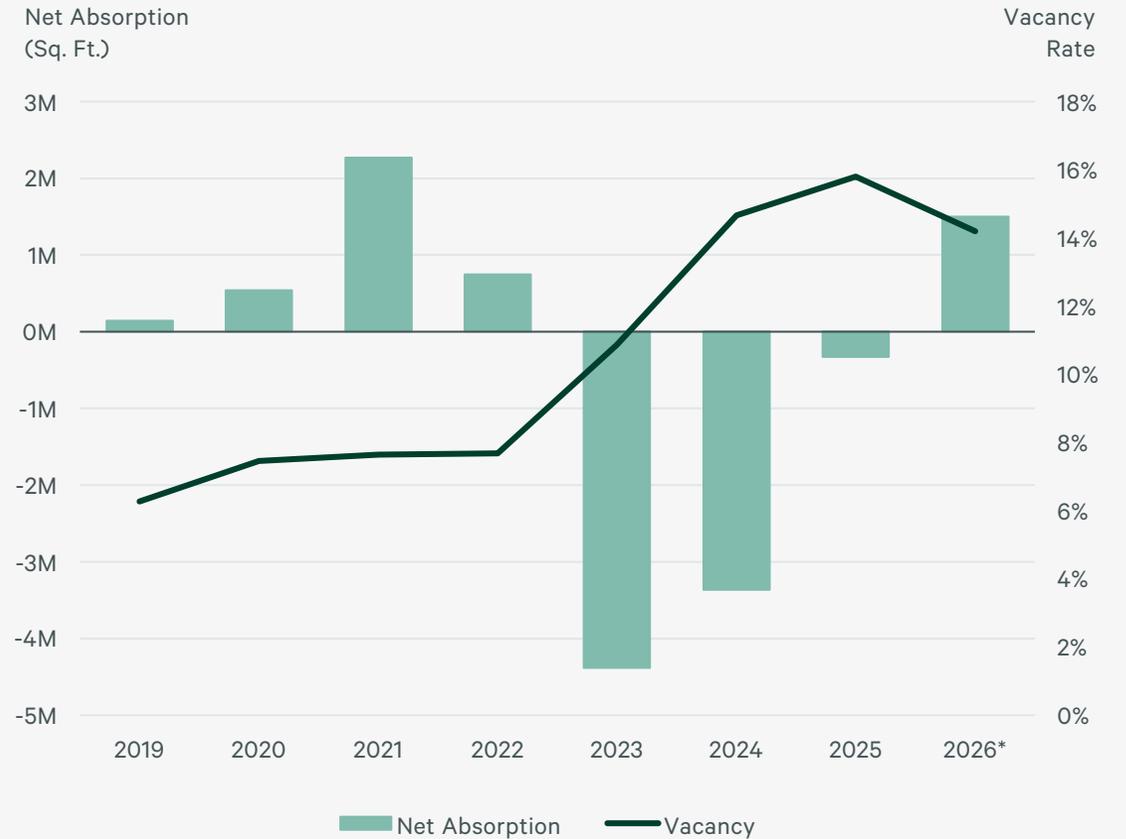
Innovation Sectors Will Drive R&D Growth

Anchored by world-class research institutions and a robust venture capital ecosystem, the Bay Area boasts nearly 203 million sq. ft. of lab and R&D facilities. While the life sciences sector proved more resilient than traditional office amid pandemic-driven workplace shifts, overdevelopment has presented it with challenges.

Leasing activity increased at the start of 2025 but moderated in H2. Technology and life sciences firms accounted for 46% and 27% of leased space in 2025, respectively, underscoring their importance in driving demand.

Looking ahead, the Bay Area’s R&D market is positioned for renewed growth as advancements in AI, biotechnology and clean technologies accelerate. While life sciences may experience a more gradual recovery, tech campus users are expected to capitalize on the market’s abundance of high-quality space. As companies scale and seek space near talent, research institutions and specialized infrastructure, demand for premium R&D facilities should increase. However, rental rate growth is likely to remain muted in the near term, prompting occupiers to lock in favorable costs through strategic acquisitions.

Figure 2: R&D Vacancy and Net Absorption Trend



*Projected
Source: CBRE Research, CBRE Econometric Advisors.

03
Industrial

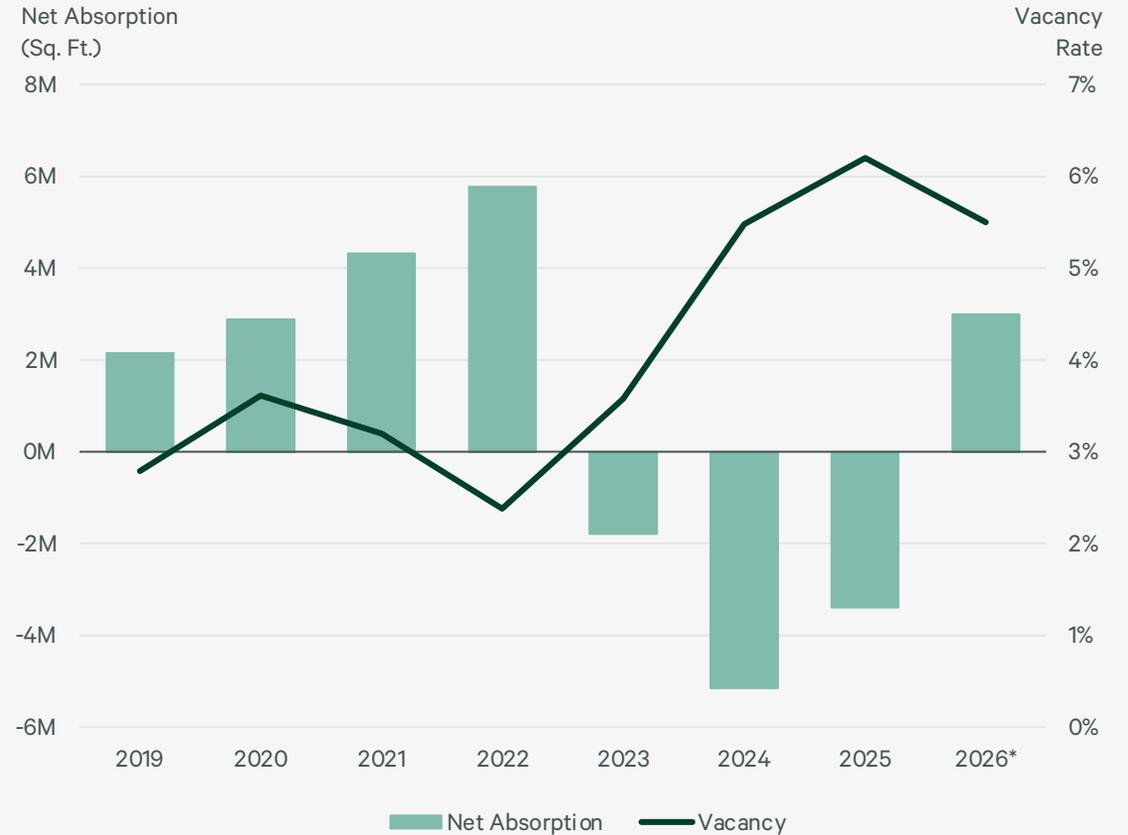
Demand Will Reshapes Industrial

The Bay Area industrial market is in transition, driven by shifting demand and tight supply. Unlike many U.S. markets facing oversupply and rising vacancy, the Bay Area contends with limited inventory and high development barriers. The expansion of AI is creating demand for industrial space to support hardware manufacturing and component assembly, replacing traditional logistics-driven demand. Growth remains constrained by a shortage of modern facilities and insufficient power for energy-intensive operations.

Construction is highly selective. Speculative projects are rare, with developers favoring build-to-suit facilities for advanced manufacturing and large-scale distribution. Warehouse and distribution space remain in demand—particularly for e-commerce—with an increasing focus on power-ready, tech-adjacent facilities. However, high interest rates, tariffs and tight capital markets continue to limit new construction.

Vacancy is expected to decline as existing space is absorbed and build-to-suit projects complete, while rent growth is expected to rise as supply tightens and power-ready facilities command premiums. Disciplined development and strategic investment will drive recovery in 2026.

Figure 3: Industrial Vacancy and Net Absorption Trend



*Projected
Source: CBRE Research, CBRE Econometric Advisors.

04
Retail

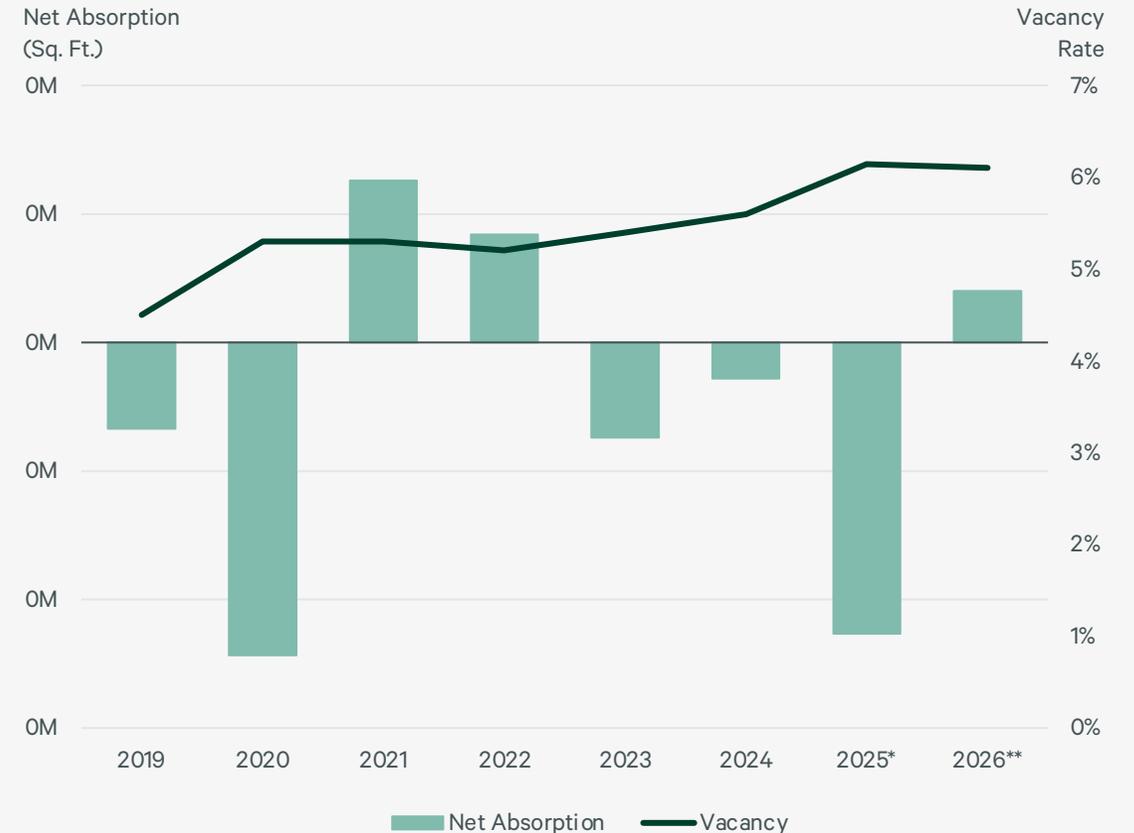
Retail Market Will Face Structural Shifts

The Bay Area retail market remains resilient but is undergoing structural change. A tech-driven, affluent economy continues to support strong fundamentals, with annual spending near \$650 billion in 2025. Retail has redefined itself around experience, technology and convenience, positioning the sector for long-term relevance in a digital-first economy. A gradual return to office and renewed office leasing activity are also reviving retail in business districts, boosting foot traffic for food, beverage and service concepts.

However, economic headwinds are slowing rent growth and retail leasing. Consumer behavior favors convenience and omnichannel strategies. The best-positioned retailers in 2026 will be those using AI-driven inventory, autonomous checkout and personalized experiences. Experiential retail and food concepts will drive demand.

Vacancy is expected to remain stable with rents registering modest growth. Development will remain limited and primarily focused on mixed-use and infill projects, while big-box spaces will be repositioned. Prime locations and experiential concepts will offer the best returns for investors, while tech integration and experience-driven formats in dense will be essential for occupiers.

Figure 4: Retail Vacancy and Net Absorption Trend



*Year-to-date. **Projected
Source: CBRE Research, CBRE Econometric Advisors.

05
Multifamily

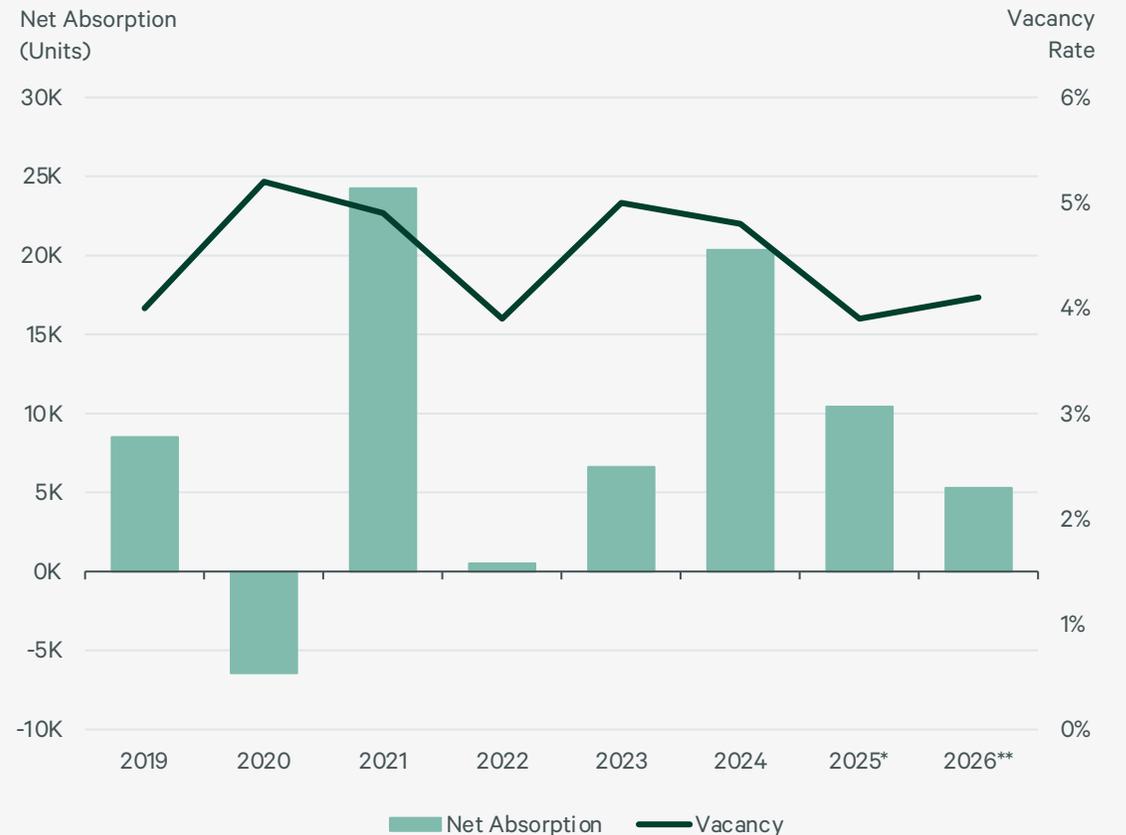
Housing Shortage Leads to Affordability Gap

The Bay Area multifamily market’s strong fundamentals are driven by high wages, a deep talent pool and limited housing supply. For Investors, persistent undersupply and high barriers to development create favorable conditions for long-term performance and returns.

Slowing construction completions resulted in the market absorbing just 10,430 new units in 2025, nearly 50% less than the year prior. Vacancy fell to 3.9%, the lowest level since 2022, while average monthly rent rose by 4.3% to \$3,212. South San Mateo County had the highest rent at \$4,061, while Northeast Contra Costa remained most affordable at \$2,227.

Structural housing shortages and a healthy economic base position the market for a strong performance in 2026. Vacancy is expected to remain below 4%, while rent growth will moderate to 3% to 4%. Development will remain limited due to construction costs, regulatory hurdles and elevated interest rates. Liquidity and aggressive capital will sustain property sales with investors focusing on core and value-add assets near employment hubs, while renters will continue to face affordability challenges that drive demand for smaller units and communities with ample amenities.

Figure 5: Multifamily Vacancy and Net Absorption (units) Trend



*Year-to-date. **Projected
Source: CBRE Research, CBRE Econometric Advisors.

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Capital Markets

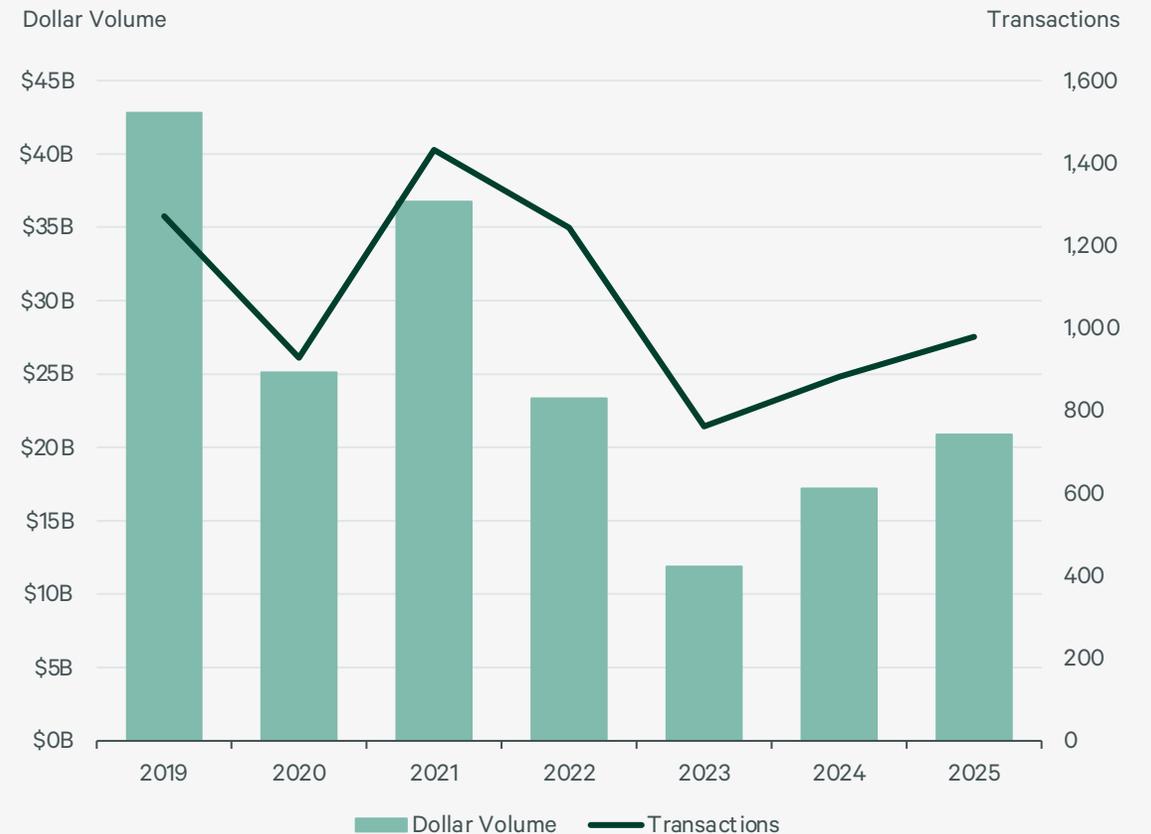
Advantage Opportunistic Buyers

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 opportunity for investors seeking long-term value, stable fundamentals and exposure to sectors leading the next wave of economic growth, such as artificial intelligence.

In 2025, The market’s total investment sales volume increased by 21% year-over-year to \$20.9 billion in 2025. The office sector accounted for 47% of total investment, followed by multifamily (38%), retail (9%) and industrial (7%). Owner-user transactions represented 43% of the total office sales volume, reflecting growing confidence in long-term occupancy. Cap rates across all four sectors averaged between 5.4% and 6.7% in 2025 indicating a balanced risk-return profile among investors.

In 2026, the Bay Area’s commercial real estate market is expected to see increased demand from institutional investors re-entering the market after waiting on the sidelines for the past couple of years. Investors will target well-located assets with strong tenant fundamentals, especially in markets aligned with technology, strong VC funding and urban revitalization.

Figure 6: Overall Investment Dollar Volume and Transactions Trend



Source: CBRE Research, MSCI Real Capital Analytics.

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