

INVESTMENT FORECAST

Retail
San Francisco

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2026

Urban Core Retail Poised for Recovery as Suburban Fundamentals Remain Solid

The CBD continues to benefit from improving foot traffic. Downtown San Francisco has struggled in recent years due to a slow recovery in office utilization, which has reduced daytime foot traffic and strained public safety in the commercial node. However, signs of an inflection point are emerging. The AI boom is helping to lower office vacancy rates, and policy efforts under Mayor Daniel Lurie’s downtown recovery agenda are improving downtown pedestrian activity. Specifically, Lurie’s “Heart of the City” initiative emphasizes public safety, street conditions, and pedestrian infrastructure. Tourist-oriented areas such as Union Square and Fisherman’s Wharf, where retail vacancy remains near or above 10 percent, are likely to benefit most. In contrast, neighborhood corridors, including Fillmore Street and Japantown, have remained more insulated from downtown weakness, positioning themselves for continued improvement in 2026. Retail conditions have also been comparatively stable in San Mateo County, where vacancy has remained in the 5 percent range since 2020.

Small, urban properties dominate the market. Limited land availability and high construction costs shape San Francisco’s retail inventory, which consists largely of smaller properties in older urban areas, many within mixed-use developments. This environment emphasizes the role of density, tourism, and neighborhood-level foot traffic on long-term appeal. Transaction activity reflects this profile, with deals priced below \$10 million accounting for more than 90 percent of total transactions last year. Local private investors may become increasingly willing to capitalize on the metro’s still-discounted pricing, targeting resilient retail assets outside the downtown core, where properties traded at a mean below \$500 per square foot last year.

2026 MARKET FORECAST

-0.4%



Employment: San Francisco is projected to lose 4,000 jobs on net this year as gains in construction, education, and health services are offset by softness in other sectors.

118,000
sq. ft.



Construction: Development remains limited, with more than half of this year’s total represented by the fully pre-leased Discover Station in South San Francisco.

-20 bps



Vacancy: Metrowide vacancy is projected to decline to 6.3 percent by the end of 2026, ranking among the handful of major U.S. metros with a clear decline.

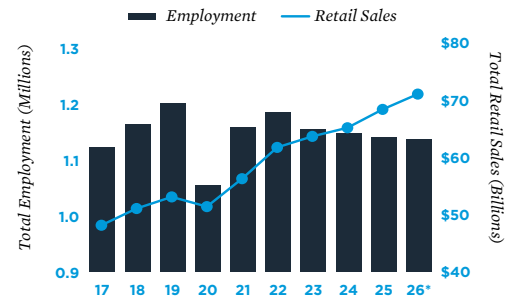
+3.3%



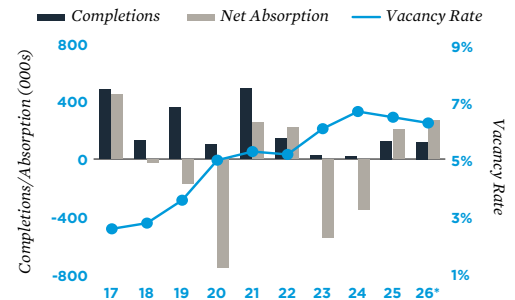
Rent: Low suburban vacancies and recovering downtown activity support one of the fastest rent growth rates nationwide. The average asking rent reaches \$38.50 per square foot by December.

INVESTMENT: Investors seeking repositioning opportunities at discounted pricing could target oversized legacy retail spaces in the urban core, such as near Union Square, capitalizing on shifting retail market dynamics.

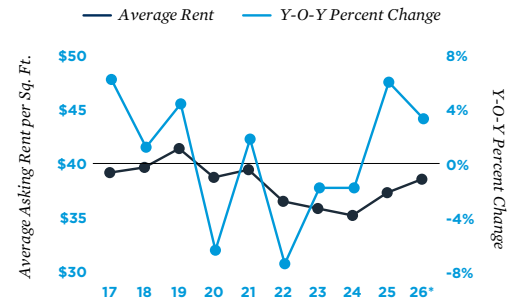
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 2026. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.