

INVESTMENT FORECAST

Retail
San Jose

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2026

Retail Stability Anchored by Limited Development and a Resilient Local Economy

San Jose remains the least volatile Bay Area market. Unlike San Francisco and Oakland, where vacancy rates will end this year roughly double their 2018 troughs, San Jose has been a relative beacon of stability this cycle. Limited development activity and a local economy anchored by tech employment and higher-income households have helped insulate the market. Despite ongoing reports of tech layoffs, affluent Silicon Valley residents continue to support restaurants, boutiques, and experiential retail. Palo Alto, Santa Clara, Sunnyvale-Cupertino, and Campbell-Los Gatos all entered 2026 with sub-4 percent vacancy rates, the lowest in the metro. While Mountain View-Los Altos and North San Jose saw vacancy upticks last year following big-box move-outs, backfilling prospects for larger spaces are improving. For example, the planned replacement of Best Buy at Santana Row with a luxury fitness concept underscores sustained interest in the adaptive reuse of well-positioned spaces.

Tight vacancy and pricing slow transactions. San Jose was one of only four major markets in which transaction volume declined in 2025, leading the group with a 33 percent drop. This pullback reflects capital-market friction rather than weakening fundamentals. The second-lowest vacancy rate of major California metros aligned with few distressed sales. At the same time, high build-out costs and permitting risk constrained the viability of value-add strategies, tightening underwriting assumptions. As a result, institutional capital grew more cautious, with owner-users and private buyers accounting for more than 90 percent of sales over the past two years. Looking ahead, easing financing costs at the margin should improve price discovery, supporting renewed deal activity, especially as institutional buyers become more active.

2026 MARKET FORECAST

-0.1%



Employment: San Jose will post another year of modest net job losses, shedding 1,500 roles, as tech hiring remains sluggish amid shifts in employment composition tied to broader AI adoption.

108,000
sq. ft.



Construction: After a subdued 2025, retail inventory is expected to rise 0.2 percent this year, with future development activity increasingly shifting toward outlying areas such as Morgan Hill.

+10 bps



Vacancy: The metrowide vacancy rate is forecast to edge up to 4.8 percent by December. The metric has held in the high-4 percent range locally since early 2021.

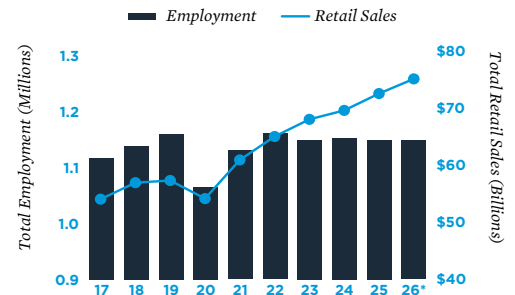
+0.6%



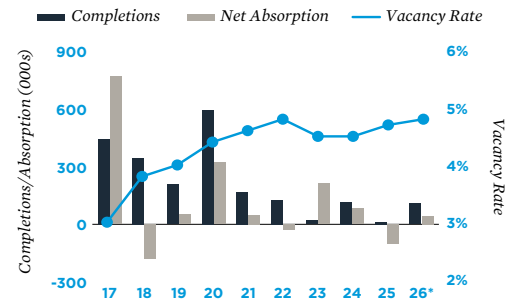
Rent: Improving net absorption should allow rent growth to resume following a decrease in 2025, with the average asking rent projected to reach \$34.93 per square foot by year-end.

INVESTMENT: *Investors anticipating continued regional growth and spillover may target Morgan Hill-Gilroy, where vacancy compressed sharply last year and entry barriers remain lower than elsewhere in the metro.*

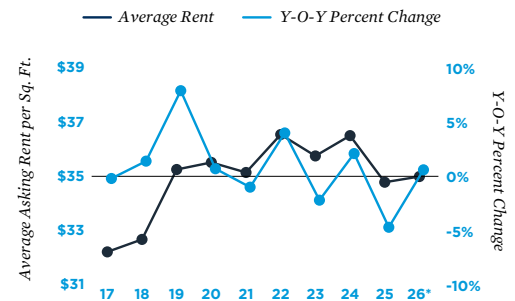
Economic Trends



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.