

# INVESTMENT FORECAST

Office  
San Jose Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2026

## Tech Sector Investments Drive Office Leasing as Owner-Users Double Down On South Bay Presence

**Strong office space demand contributes to rapid recovery.** Since office vacancy peaked in 2023, the metro has absorbed roughly 5 million square feet of office space on net. It is on track to record the most net absorption as a share of inventory among all major U.S. markets this year. Leasing momentum should remain strong this year, supported by major commitments, including Data-bricks' scheduled move into its 300,000-plus-square-foot space in Santa Clara. This underscores the metro's ability to attract firms tied to its unique innovation ecosystem. High-end assets in submarkets such as Santa Clara and Sunnyvale-Cupertino should perform well this year. Vacancy drops of at least 100 basis points across classes in most of the metro's largest submarkets speak to a broad foundation of improvement not found in all markets. As a result, the metro should see the average asking rent increase, at least nominally, for the first time in four years.

**Large-scale owner-users dominate sales.** Amid strong investment flow into the tech sector and confidence in the metro's long-term outlook, many local firms are increasingly acquiring space to occupy. Last year, owner-users represented 70 percent of transaction volume, up from less than 20 percent in 2023, driven by acquisitions from Apple and Nvidia. Stanford University was also active, contributing to the largest increase in transaction velocity in Palo Alto among all submarkets. Stronger leasing activity is also boosting confidence among non-user investors, signaling a rebound in the San Jose market. With an average cap rate of 7.0 percent, 60 basis points lower than the national level, the metro is likely to attract investors seeking durable cash flow amid nationwide economic uncertainty, especially those who are confident in the tech sector's long-term growth outlook and the ongoing rebound in office demand.

## 2026 MARKET FORECAST

-0.2%



**Employment:** San Jose is approaching an inflection point this year, with employment expected to decline by only 2,000 roles in 2026. The same trend holds for traditionally office-using sectors.

1,300,000  
sq. ft.



**Construction:** Google's Caribbean office park leads the pipeline this year. The only other major project is the Santa Clara Valley Medical Center, highlighting limited local supply pressure.

-60 bps



**Vacancy:** Metrowide vacancy should continue to decline amid steady net absorption, reaching 16.8 percent by the end of 2026. The pace of compression ranks among the top 10 major U.S. markets.

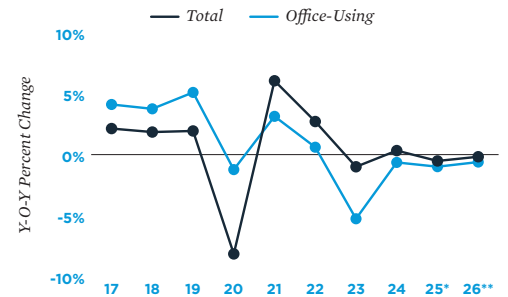
+0.4%



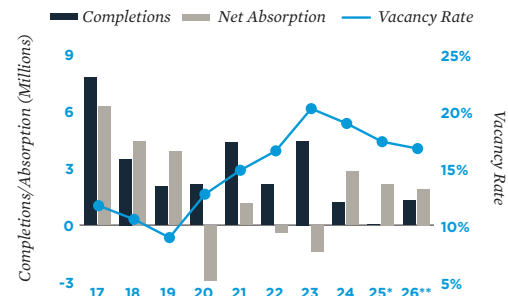
**Rent:** Ongoing vacancy declines should reverse the trend of rent losses since 2023. At \$49.10 per square foot, the average asking rents remain about 10 percent below the metro's prior peak.

**INVESTMENT:** *Medical office sales picked up in San Jose, as transaction velocity tripled year-over-year. As San Jose's population ages the fastest in the Bay Area, investors may continue to target medical offices for stable income.*

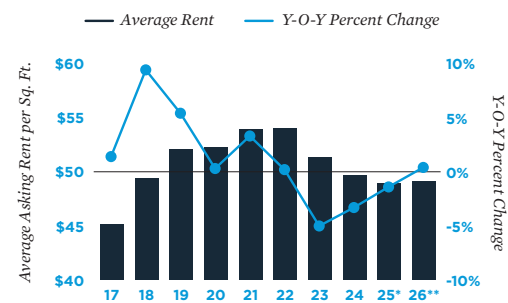
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

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Metrowide 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.