



# WESTERN U.S. MID-YEAR *MARKET FORECAST*



LOCAL EXPERTISE.  
*WORLD-CLASS INSIGHTS.*

*Our 2025 Western U.S. Mid-Year Market Forecast spotlights opportunities and challenges in the commercial real estate landscape for the year ahead. The report analyzes data from major Western U.S. markets to provide an in-depth forecast of office, industrial, retail, and multifamily sectors.*

*Office  
Outlook*

*01*

*Industrial  
Outlook*

*02*

*Retail  
Outlook*

*03*

*Multifamily  
Outlook*

*04*





*Section 01*

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# *OFFICE* OUTLOOK

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# WESTERN U.S. OFFICE MARKET —NAVIGATING PROLONGED HEADWINDS

*After years of disruption, the Western U.S. office market is showing early signs of stabilization.*

While challenges persist—including elevated vacancy rates, negative net absorption, and evolving workplace preferences—momentum is slowly building across both urban and suburban areas. The market's initial upheaval was driven by the Covid-19 pandemic and further impacted by a softening economy and the widespread adoption of hybrid and remote work. In response, many tenants reassessed their long-term space needs, often reducing footprints by 20% to 30% to align with new workforce expectations and enhance space efficiency.

Today, while uncertainty lingers, leasing tours are increasing, vacancy growth is slowing, and some markets are experiencing positive absorption. Suburban areas generally lead due to accessibility and lower perceived risk, while urban cores are starting to benefit from civic reinvestment and evolving policy. This isn't a story of winners and losers but of a market-wide recalibration—one with growing signs of cautious optimism and emerging pricing stability.



# *RETURN TO OFFICE* TRENDS STABILIZING

*Return-to-office (RTO) trends have steadily gained momentum over the past few years, particularly as more companies implement on-site mandates.*

These efforts have led to boosted foot traffic, particularly in urban centers. At the same time, a hybrid work model has become widely adopted across markets, with employees typically spending three days in the office and two days working remotely.

This hybrid pattern has held steady over the last two years and is expected to remain in the near term. Despite the upward shift, RTO activity continues to fall short of pre-pandemic levels, though it has significantly rebounded from the lows of 2020 and 2021. Notably, urban markets trail suburban counterparts by approximately 20% in overall RTO rates.

Looking ahead, remote and hybrid work are likely to persist, but there is a clear movement with organizations moving toward a more balanced workforce—one that integrates flexibility with a greater presence in the office.





## *URBAN VS SUBURBAN* A WIDENING PERFORMANCE GAP

*A clear performance divide remains between urban and suburban commercial markets, with the latter consistently outperforming the former.*

### **Compared to Pre-COVID Benchmarks:**

Urban cores have seen a sharp increase in vacancy rates (+17.8%) and a notable decline in asking rents (-6.9%).

Suburban markets, by contrast, have seen a more modest vacancy increase (+7.6%) and a healthy uptick in asking rents (+12.6%).

These trends are expected to persist over the next 12 to 18 months. As workforce dynamics continue to evolve and tenant demand gradually recovers in downtown areas, market conditions are expected to rebalance.



# FLIGHT TO QUALITY *REDEFINED*

*The flight to quality continues to shape the office space landscape, although the definition of “quality” has become increasingly subjective in recent quarters.*

In the aftermath of COVID, decreased tenant demand, rising vacancy rates, and declining asking lease rates have opened the door for tenants who were previously priced out of premium spaces to lease high-quality locations at more accessible price points.

While the migration toward Class A and Trophy properties is well-documented, a parallel trend has emerged within the age segment of office buildings. Since 2018, a clear divergence has taken shape between older buildings (20+ years) and newer ones (less than 20 years old). Before 2020, the vacancy gap between these segments hovered below 1%. However, the pandemic accelerated this trend, with the gap expanding to a consistent range between 2% and 3%. As of mid-year 2025, vacancy in older office properties reached 17.2%, compared to just 14.2% in newer developments—highlighting a growing tenant preference for modern infrastructure, amenities, and energy efficiency.

17.2%

Older Building  
Vacancy Rate

14.2%

Newer Building  
Vacancy Rate



# OFFICE OUTLOOK

## SIGNS OF MEASURED RECOVERY

*The Western U.S. office sector is poised for a slow and steady rebound, with tenant demand projected to rise by the end of the year, driving an increase in leasing activity.*

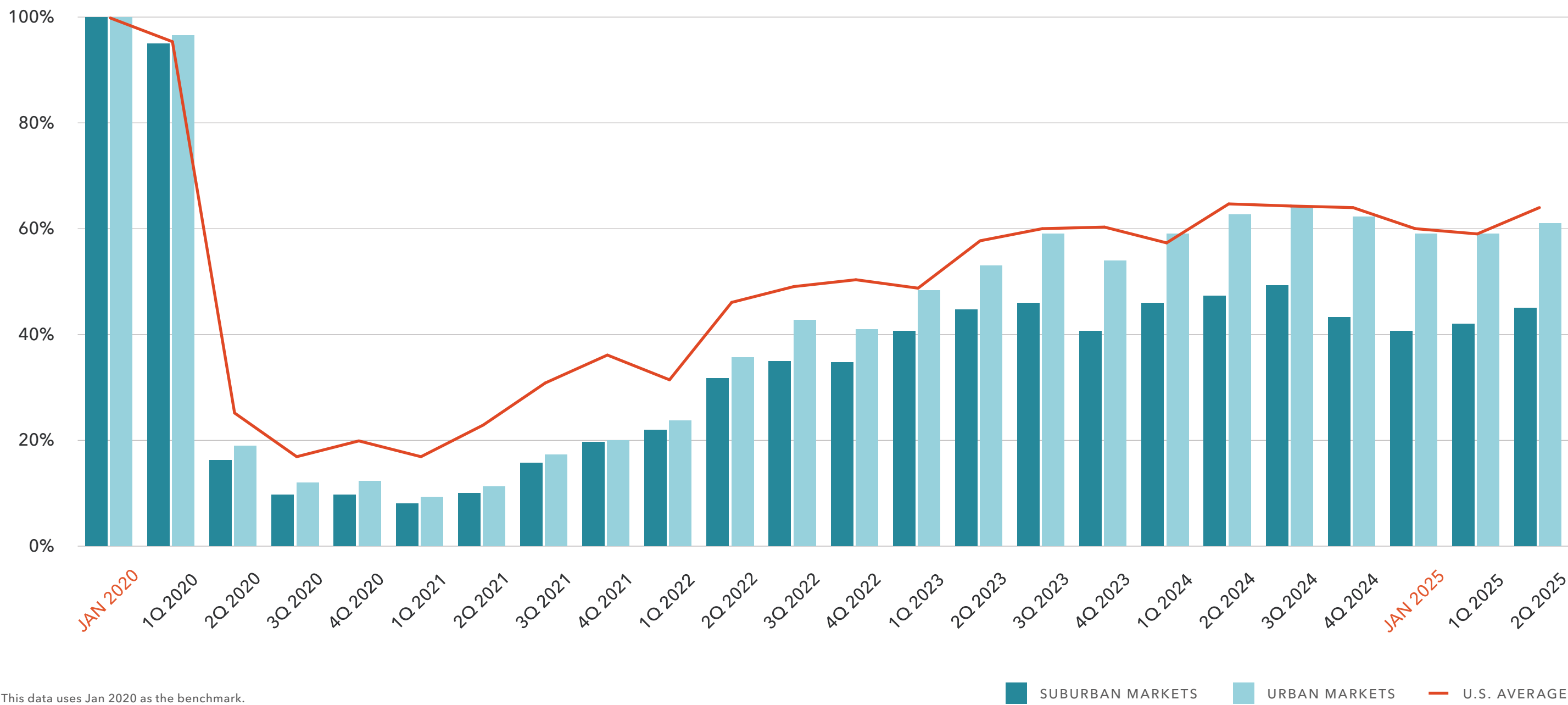
Office market fundamentals are expected to gain momentum heading into 2026 and 2027, with mid-to-late 2026, marking the first period of positive net absorption since 2019.

The continued tapering in the development pipeline will help stabilize vacancy rates, while asking rents are forecasted to see moderate gains. Recovery will be uneven across regions and segments, with suburban markets outpacing their urban counterparts over the next 3 to 5 years.



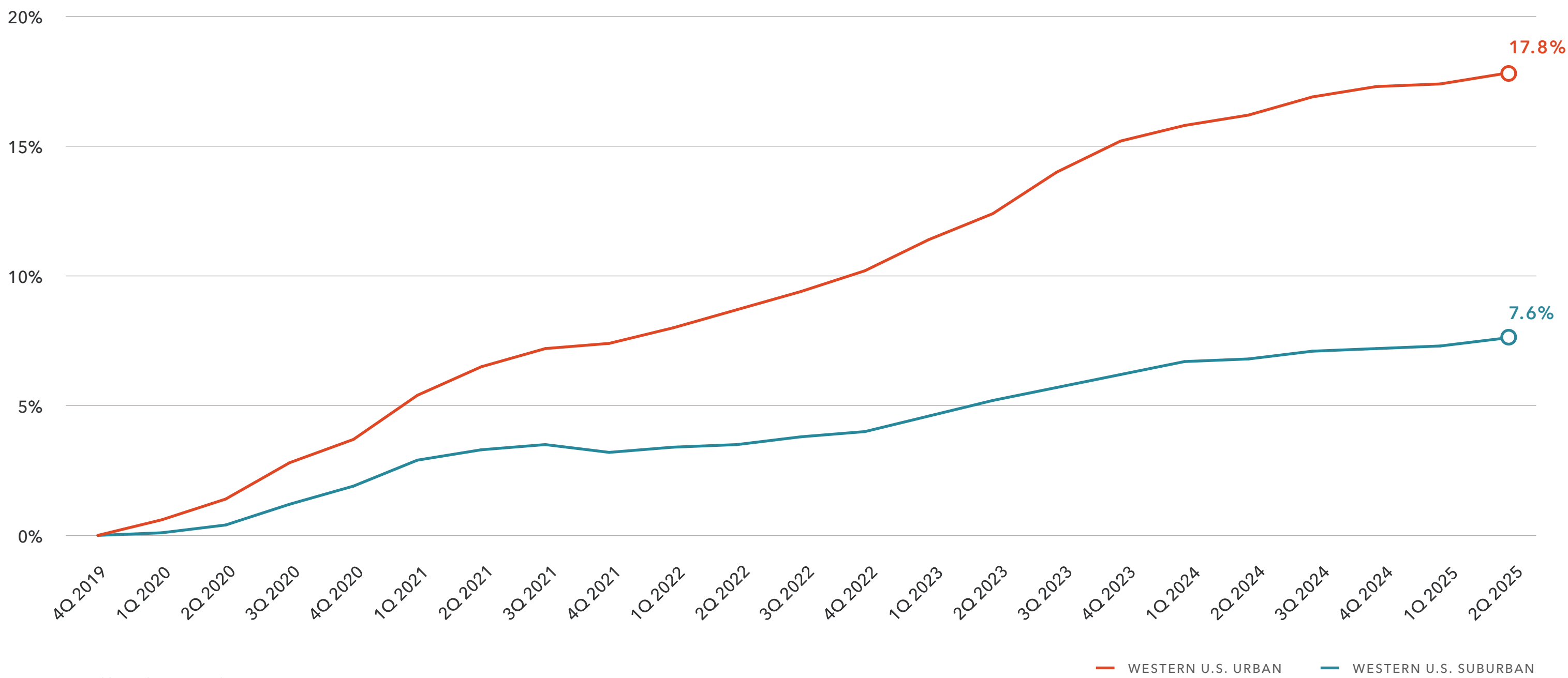


# RETURN TO OFFICE TRENDS LAG IN URBAN MARKETS





# URBAN VS SUBURBAN CUMULATIVE VACANCY CHANGE %

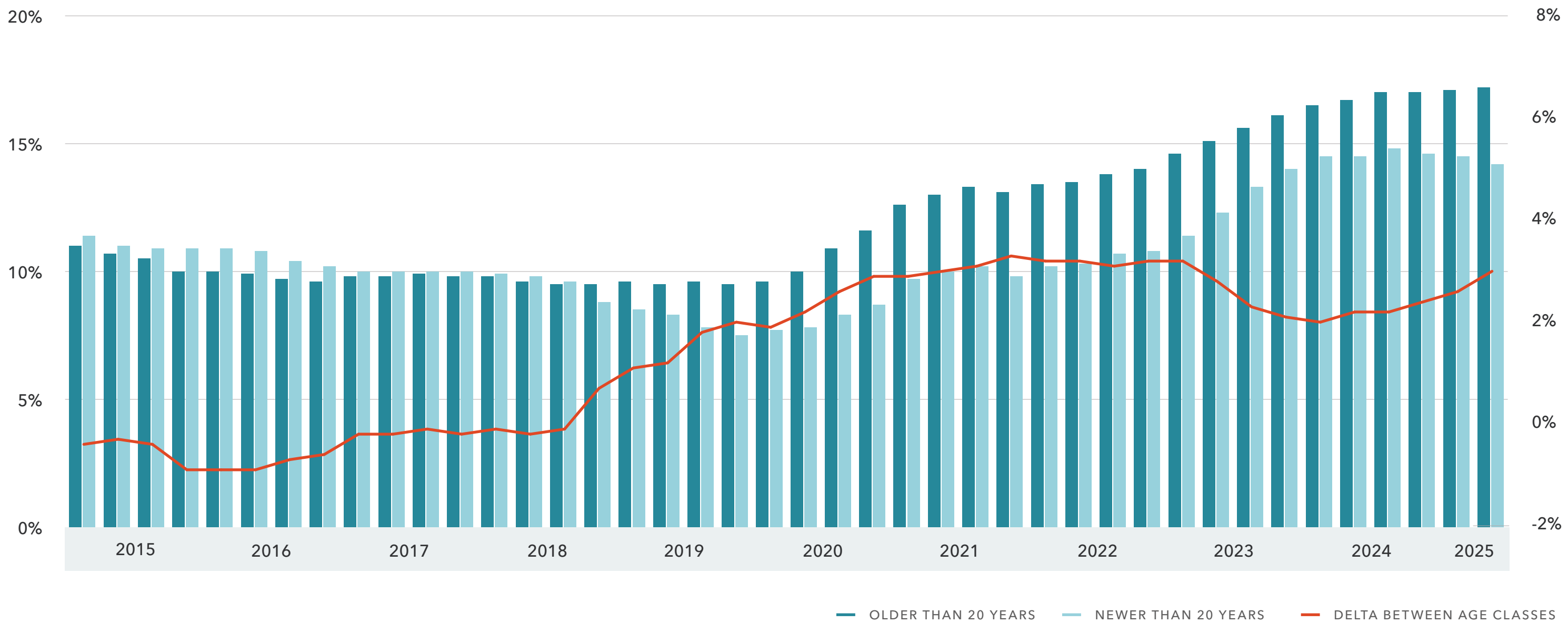


Source: Costar, Kidder Mathews Research



# FLIGHT TO QUALITY TREND CONTINUES

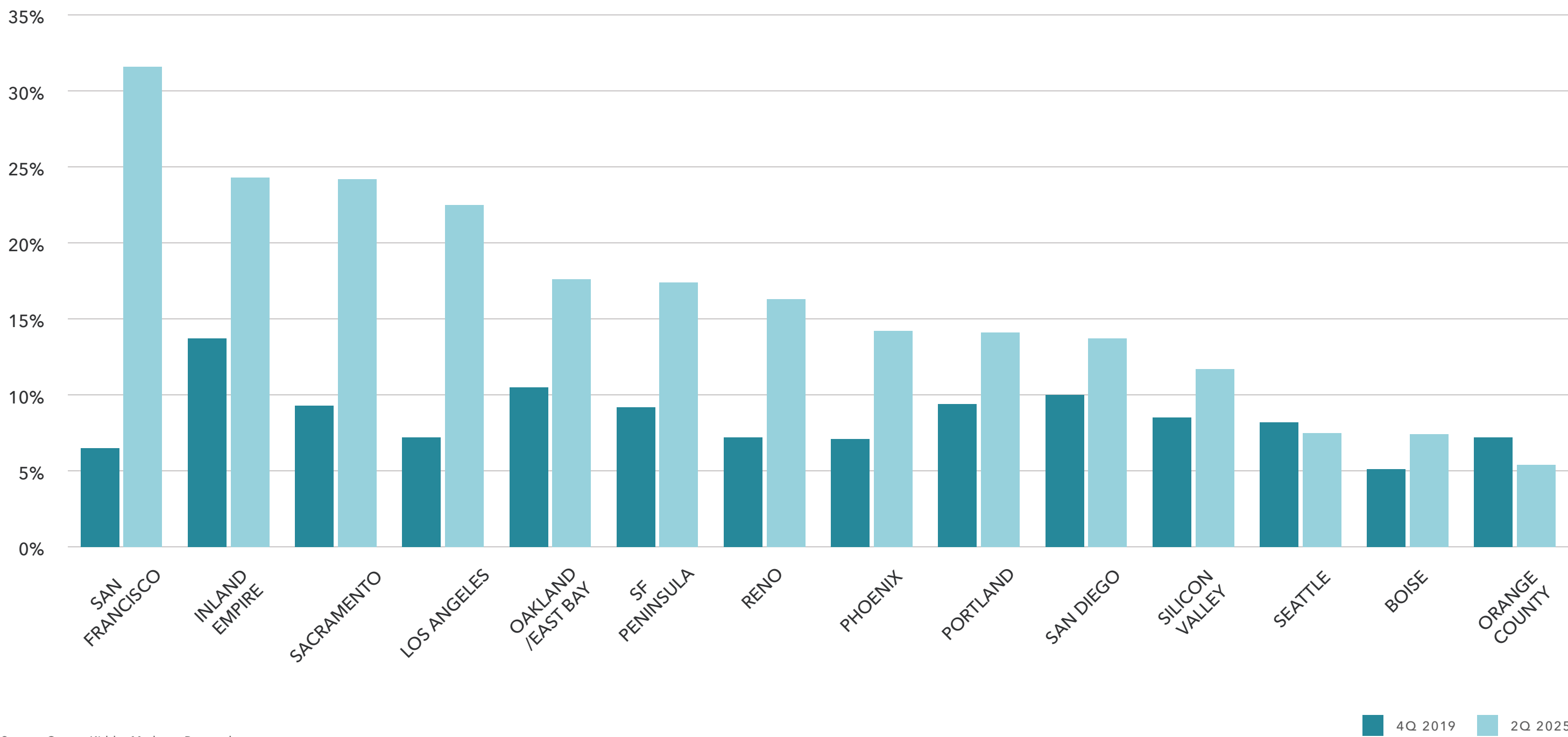
TOTAL VACANCY RATE



Source: Costar, Kidder Mathews Research

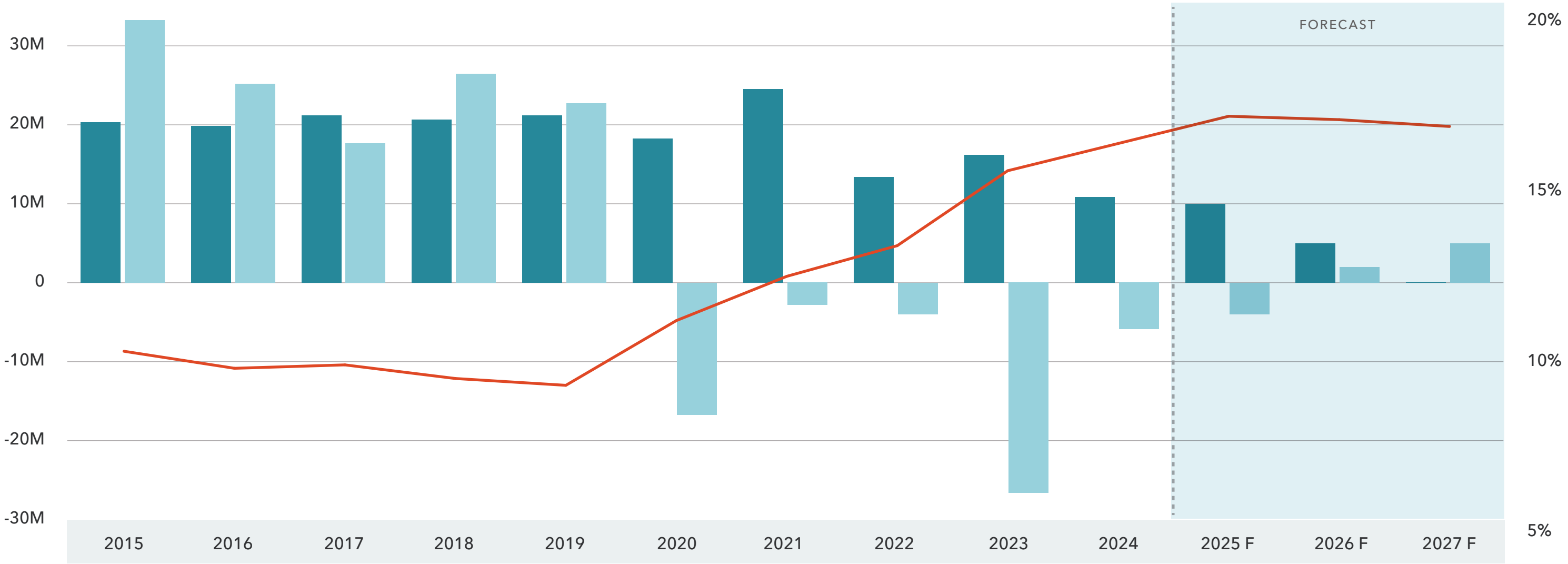


# VACANCY RATE *BY MARKET*





# WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

DELIVERIES   NET ABSORPTION   VACANCY RATE





*Section 02*

# *INDUSTRIAL* OUTLOOK



# A MARKET *RECALIBRATION* AFTER EXTRAORDINARY GROWTH

*The industrial sector experienced extraordinary growth between 2021 and 2022, driven by historically low vacancy rates, elevated development activity, robust leasing demand, and record-setting rent increases.*

However, beginning in 2023, momentum began to ease as the market entered a natural period of recalibration. Looking ahead, the industrial market is expected to continue stabilizing through 2025 and 2026, with activity levels returning to pre-pandemic norms. Rent growth is projected to moderate, reflecting a more sustainable pace, and a slowdown in new construction starts should help maintain relatively low vacancy rates in the near term.

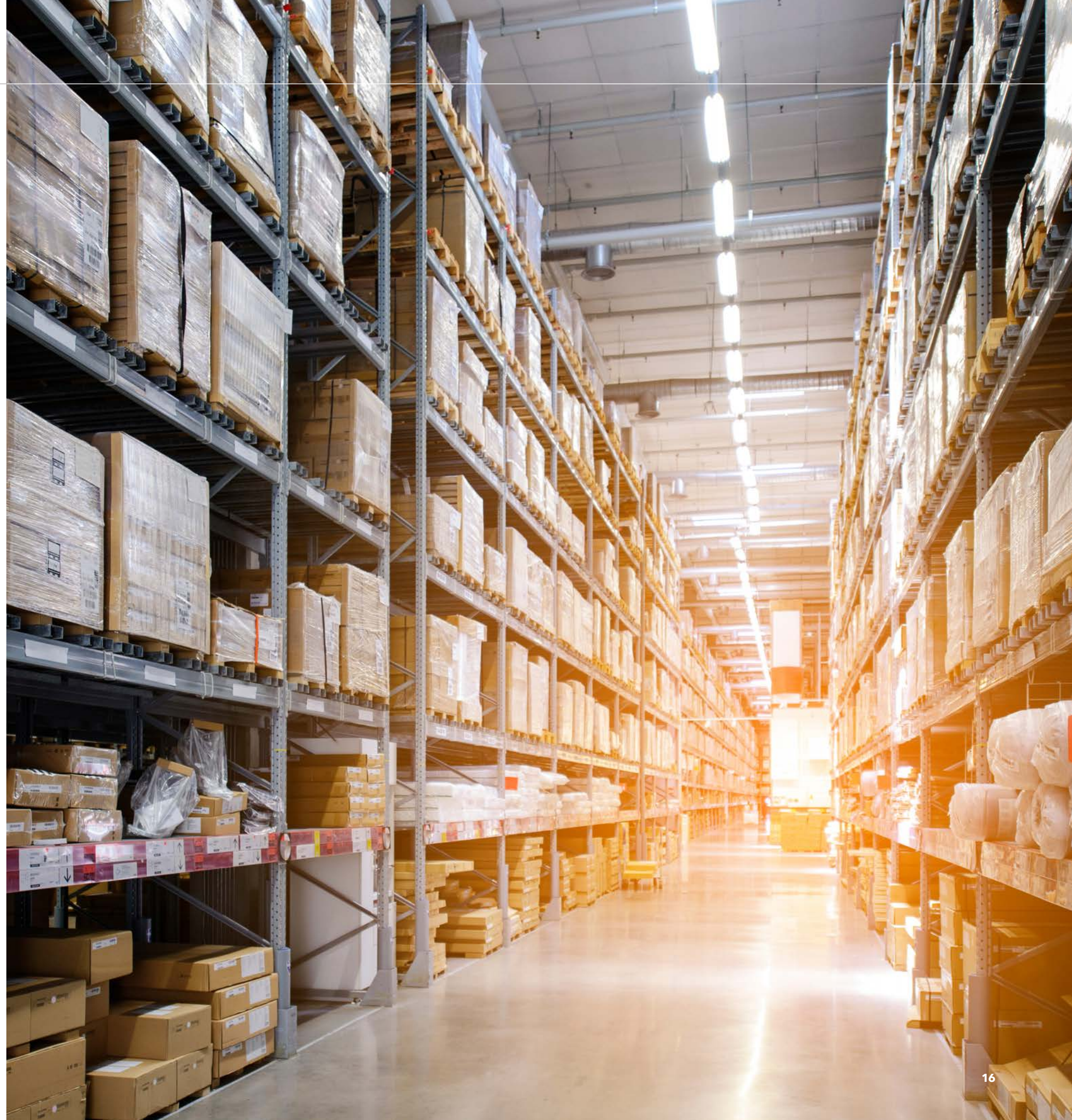


# *E-COMMERCE & 3PLS* CONTINUE TO DRIVE DEMAND

*Over the past decade, the growth of e-commerce has become a key driver of industrial real estate demand.*

This trend is expected to persist, particularly as third-party logistics (3PL) providers emerge as the leading source of new space requirements. Increasingly, retailers and wholesalers are outsourcing distribution to 3PLs to enhance import flexibility, preserve capital, and concentrate on core business functions.

While e-commerce continues to expand as a share of total retail sales, its year-over-year growth has moderated to a more sustainable 5-6%, down from the pre-COVID highs of 10-11%. Looking ahead, a rebound in consumer confidence and retail spending will likely prompt tenants to scale up their warehousing footprints, reinforcing the industrial sector's long-term growth trajectory.





# *REGIONAL PERFORMANCE* REFLECTS VARYING MARKET DYNAMICS

*While nationwide industrial markets share common drivers—such as evolving tenant demand, e-commerce growth, and supply chain optimization, regional markets remain shaped by distinct local dynamics.*

In the Western U.S., markets like Phoenix and the Inland Empire have experienced a notable uptick in vacancy rates, primarily driven by aggressive development pipelines. Phoenix is a prime example, with over 22 million square feet currently under construction—representing 5% of its total inventory. Since the beginning of 2022, the market has delivered more than 106 million square feet, equivalent to 27% of its 2021 base, highlighting the rapid scale of expansion.



## *LEASING ACTIVITY* NORMALIZES BUT REMAINS HEALTHY

*Leasing activity over the past 24 months has moderated from the record-setting pace of 2021–2022 yet remains well above pre-pandemic levels.*

While recent momentum suggests a modest rebound, net absorption is expected to remain subdued as much of the new leasing reflects tenant relocations from older facilities rather than true expansion. Demand continues to favor modern, high-efficiency assets in strategic logistics hubs, underscoring the premium placed on supply chain optimization in site selection.



# *INDUSTRIAL OUTLOOK*

## STABILIZATION IN SIGHT AS THE MARKET RESETS

*Looking ahead, the industrial sector is projected to reach its cyclical peak in vacancy rates in 2025, followed by a gradual normalization toward historical averages.*

A slowdown in new deliveries will help stabilize fundamentals, supporting improvements with vacancy rates, net absorption, and average asking rents.

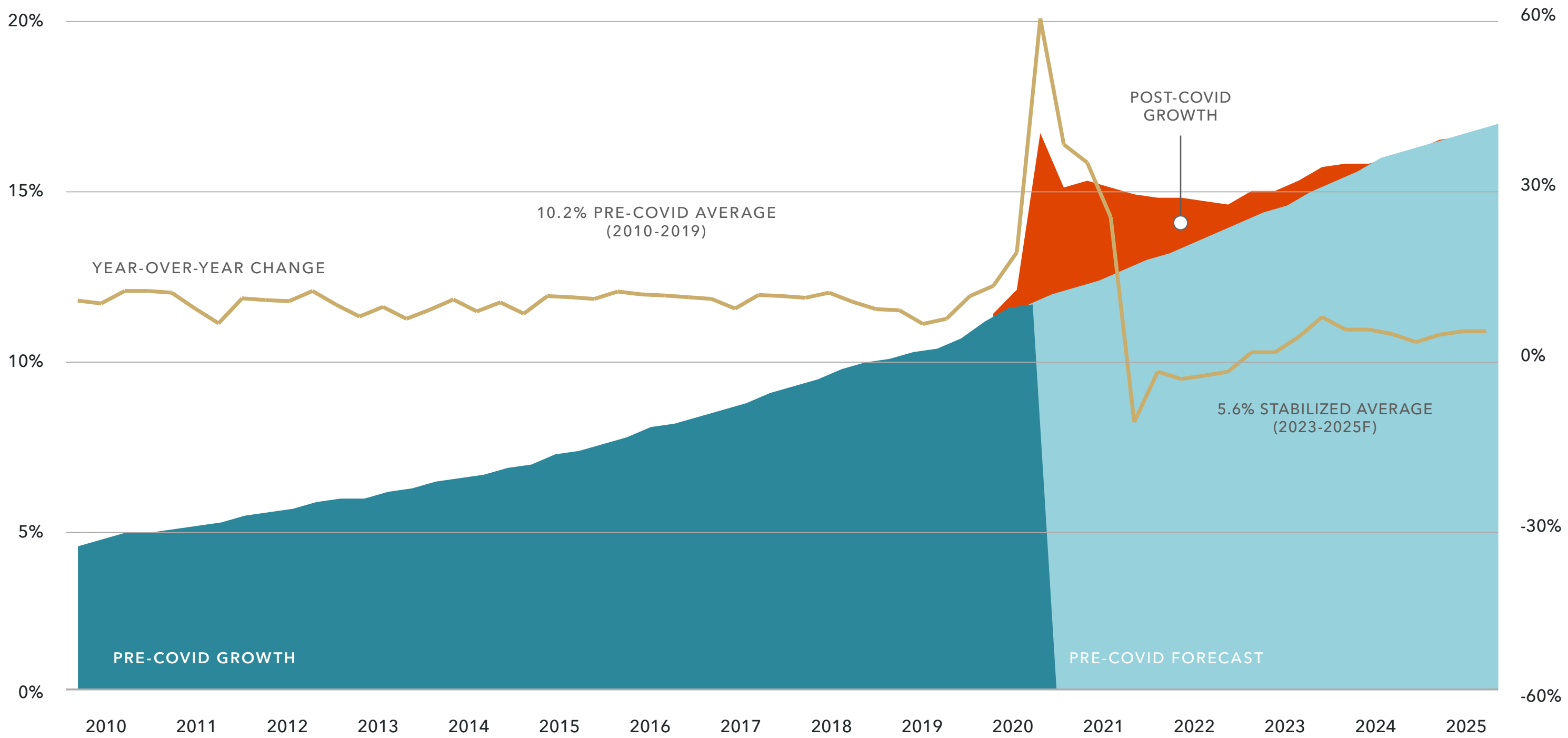
Key trends to monitor for the next 6-12 months include the impact from tariffs, potential reshoring growth of the manufacturing sector, GDP growth, and consistent growth in leasing activity across Western U.S. markets.





MACRO INDUSTRIAL TREND: *E-COMMERCE*

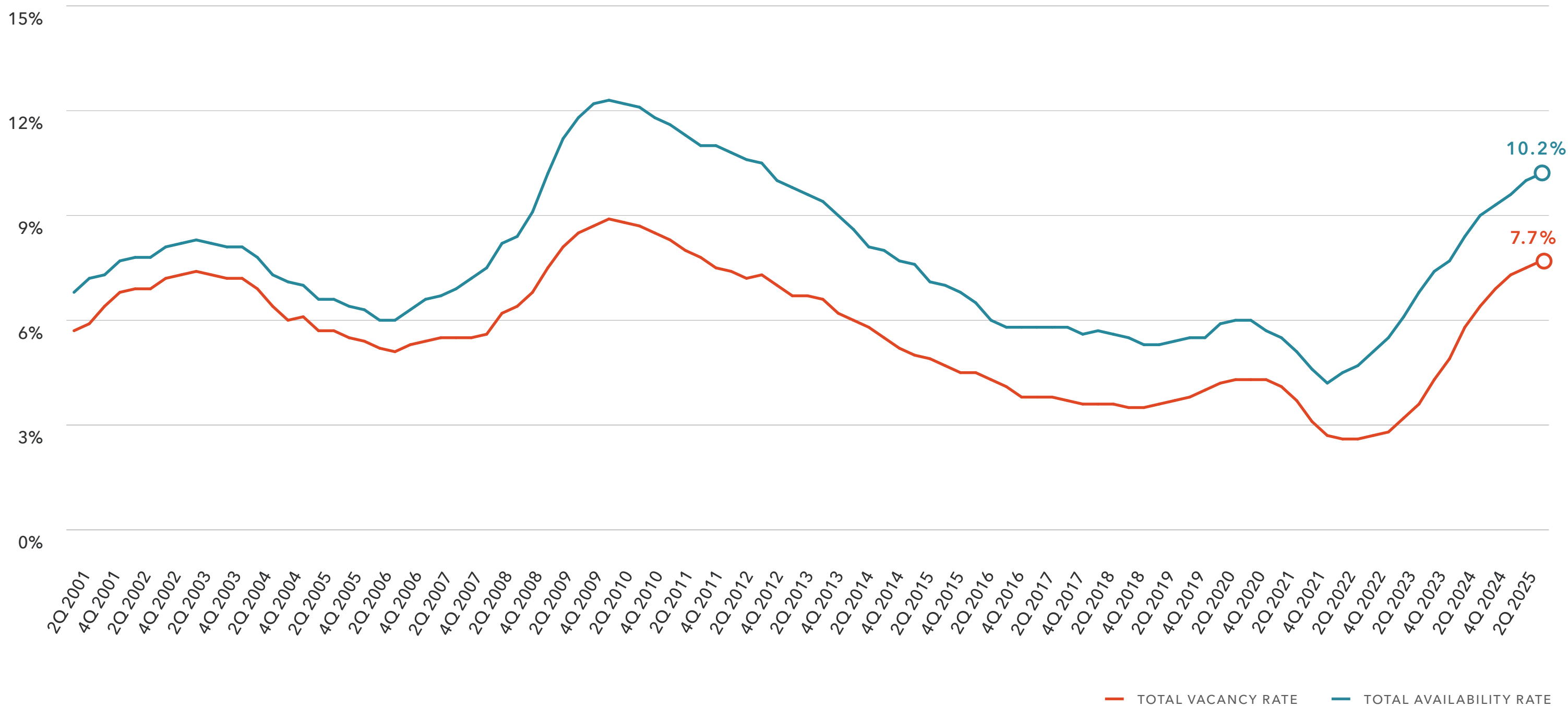
AS % OF TOTAL RETAIL SALES



Source: U.S. Census Bureau, Moody's Analytics



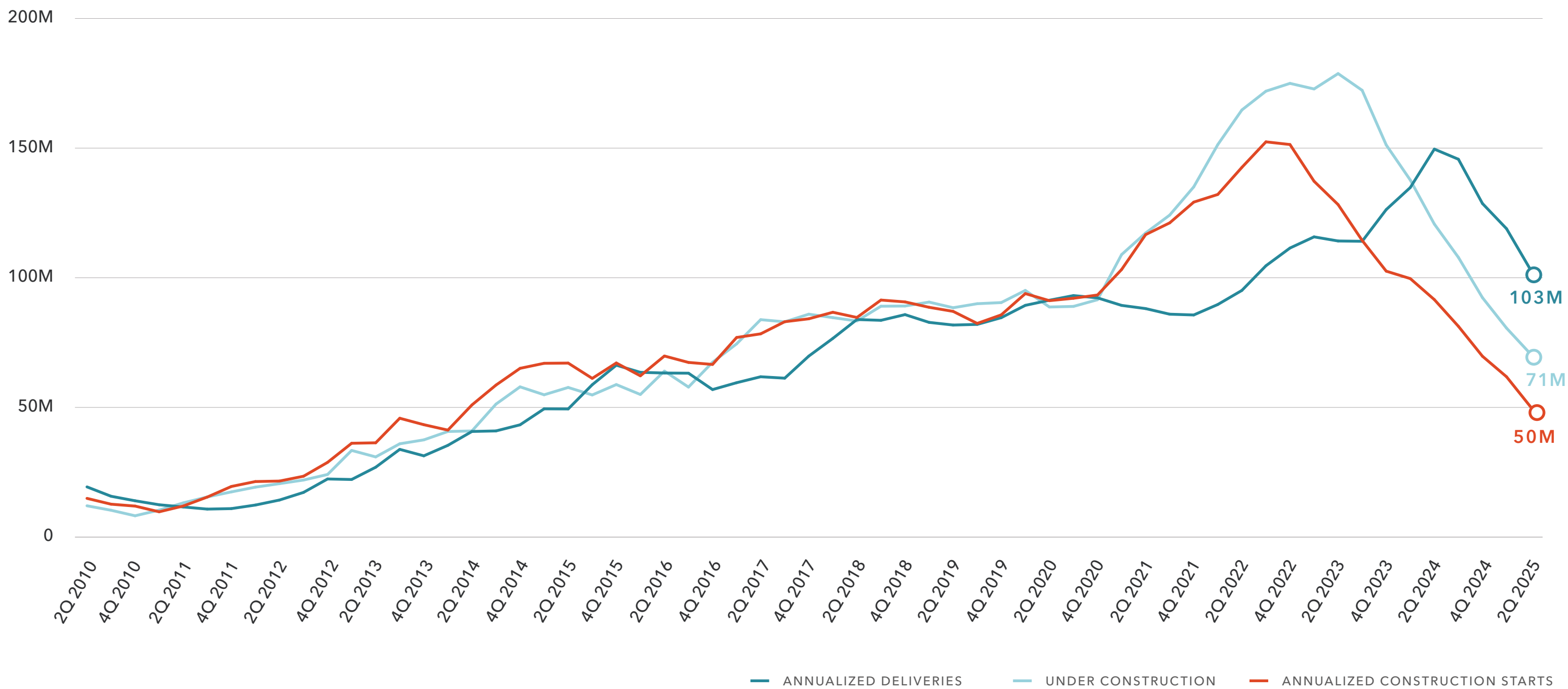
# WESTERN U.S. *VACANCY & AVAILABILITY*



Source: Costar, Kidder Mathews Research



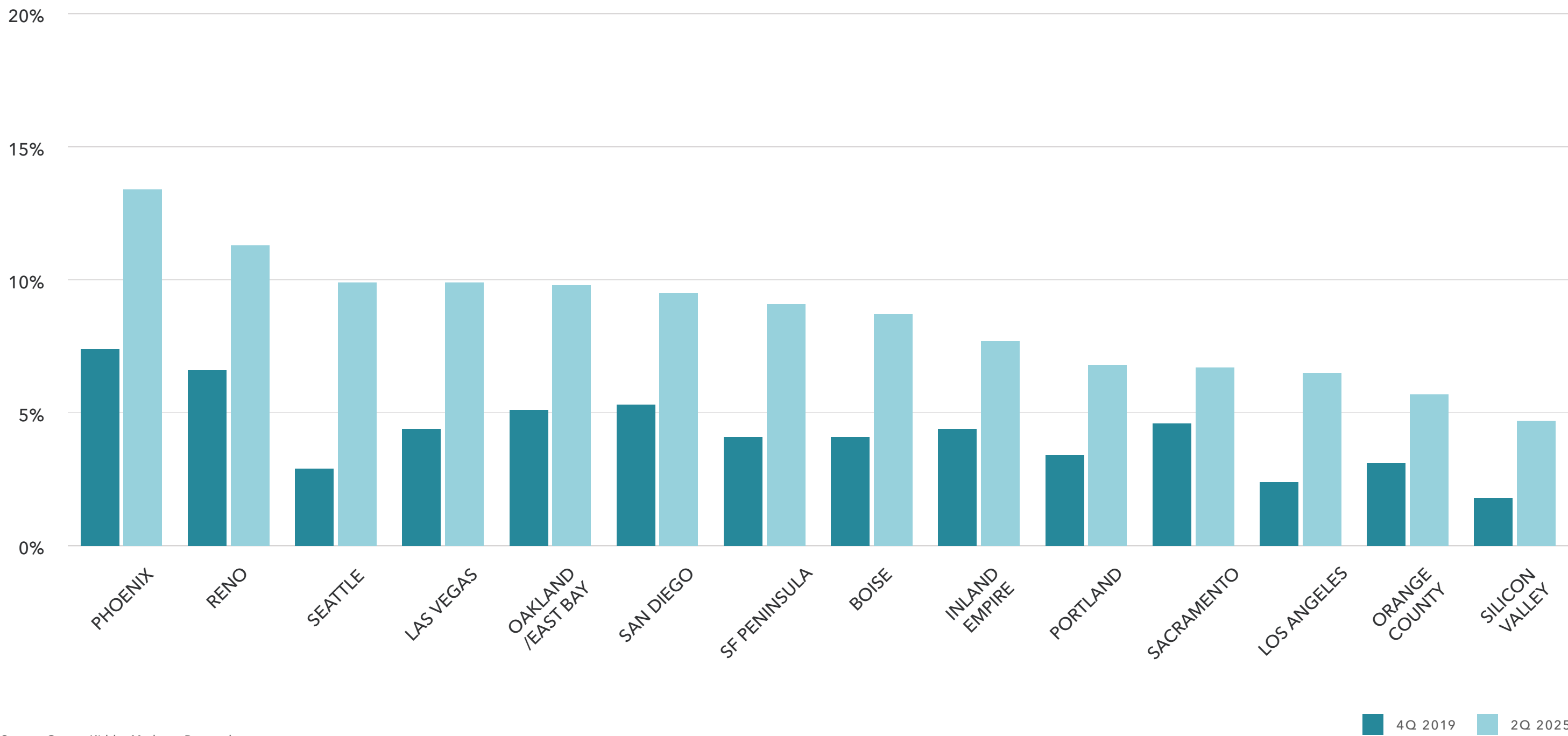
# WESTERN U.S. *CONSTRUCTION*



Source: Costar, Kidder Mathews Research

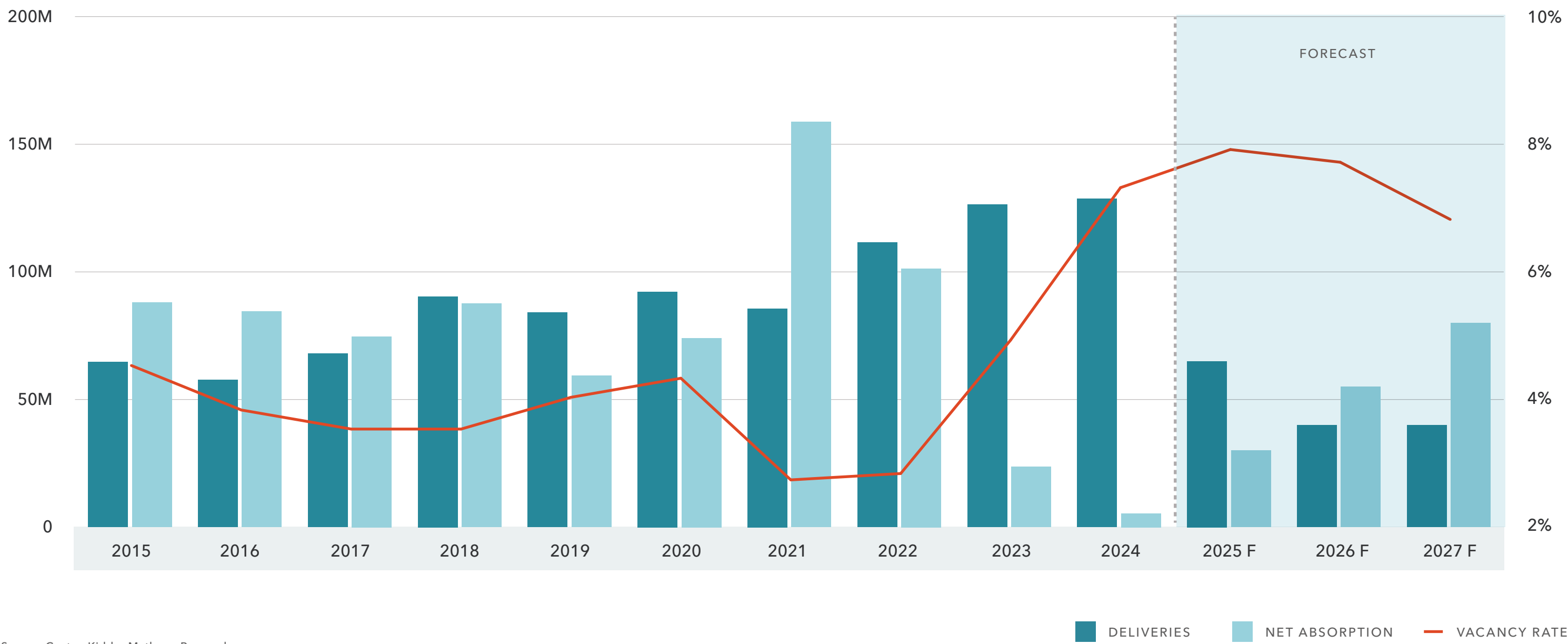


# VACANCY RATE *BY MARKET*





# WESTERN U.S. *FORECAST*







*Section 03*

# *RETAIL* OUTLOOK



# RETAIL MARKET *HOLDING STEADY* AMID UNEVEN DEMAND

*Over the past several years, retail vacancy rates have remained comparatively low compared to other asset classes, with average asking rents holding steady throughout the period.*

Despite this, inconsistent leasing demand has served as a persistent lagging indicator in the current cycle. Consequently, total leasing activity across the Western U.S. has declined by more than 20% compared to the 10-year annual average prior to the pandemic. While demand is projected to stay subdued through 2025, retail market fundamentals remain resilient and well-positioned for robust growth once a sustained economic expansion begins to take shape.



# CONSUMER CONFIDENCE WEAKENS AS *ECONOMIC CAUTION GROWS*

Consumer confidence and sentiment both declined in the first half of 2025. The Consumer Confidence Index dropped from 105.3 in January to 98.0 by June, while the Consumer Sentiment Index slid from 71.7 to 60.7 over the same period. This downturn was broad-based, reflecting diminished assessments of both current conditions and future expectations.

Optimism surrounding business conditions and job availability waned for the sixth consecutive month, though perceptions remained positive overall. The Expectations Index, which measures short-term outlooks on income, business climate, and labor market trends, fell 4.6 points to 69.0 in June. Notably, it continues to sit below the 80-point benchmark that frequently signals a looming recession. Key concerns among consumers include tariffs—often associated with rising prices and economic strain—as well as persistent inflation and the burden of high costs.







## RETAIL SALES SHOW GROWTH —BUT INFLATION MUTES GAINS

*Retail sales across the U.S. have shown a modest yet consistent uptick, rising approximately 4% year-over-year.*

While this figure is close to the pre-COVID 10-year average of 4.2%, it still trails slightly behind. Encouragingly, this upward momentum aligns with moderate employment numbers and steady wage growth during the first half of the year—providing positive reinforcement for the broader economy.

However, when adjusted for inflation, “real” retail sales tell a different story. Overall, this metric has been relatively flat since 2021, and when compared to the 10-year trend line, the last two years have underperformed and is now lower than the pre-pandemic 10-year trend line. On the bright side, e-commerce penetration is projected to continue between 5% and 10% as consumer confidence is projected to rebound along with retail spending. All of these factors are expected to help bolster the retail segment in the near-term.



# URBAN VS SUBURBAN *DIVERGING MARKET FUNDAMENTALS*

*While the Western U.S. retail sector has demonstrated impressive resilience in the wake of the pandemic, its performance is increasingly nuanced by geography.*

Larger urban markets—such as San Francisco and Seattle—have seen notable slowdowns, particularly in their downtown cores. These areas have experienced rising vacancy rates, reduced leasing activity, and declining foot traffic.

In contrast, more suburban-focused markets like Phoenix, Reno, and Sacramento are outperforming Western U.S. averages. These markets have adapted more effectively to shifting consumer preferences and lifestyle trends. Since 2019, vacancy rates in urban areas have increased by 4%, while suburban areas have seen only a 0.6% uptick, reinforcing a broader trend toward suburban strength seen across other asset classes.





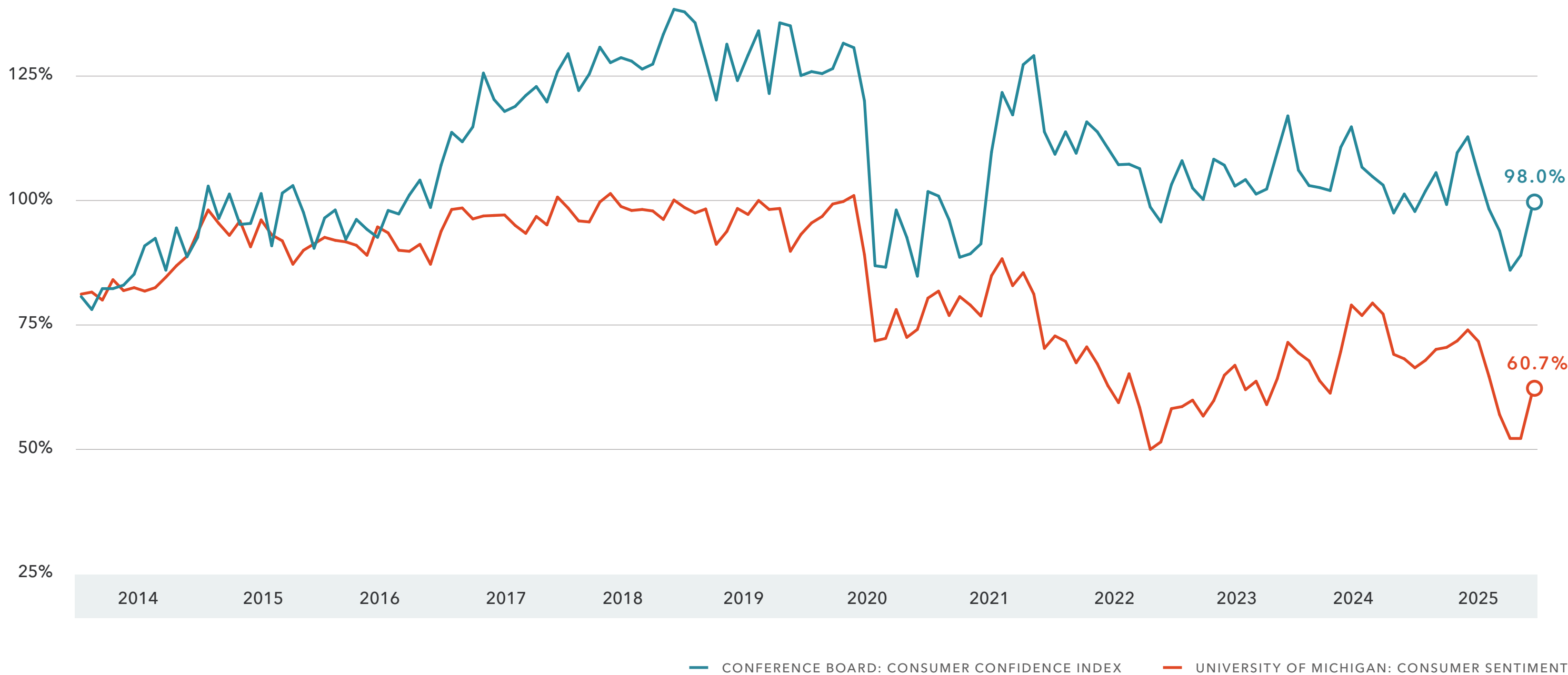
# RETAIL OUTLOOK: *STABILITY NOW, GROWTH AHEAD*

*Retail market activity across the Western U.S. is expected to remain relatively muted through the second half of 2025*

However, localized momentum is emerging in several markets and retail segments. Despite near-term headwinds, core retail fundamentals are anticipated to stay resilient, with vacancy rates edging upward in 2025 before gradually declining in 2026 and 2027. Rent growth is projected to range between 2.5% and 3.0%, eventually stabilizing around long-term historical averages. Over the next 6-12 months, market activity is poised to accelerate, laying the foundation for sustained growth in 2025 and 2026.



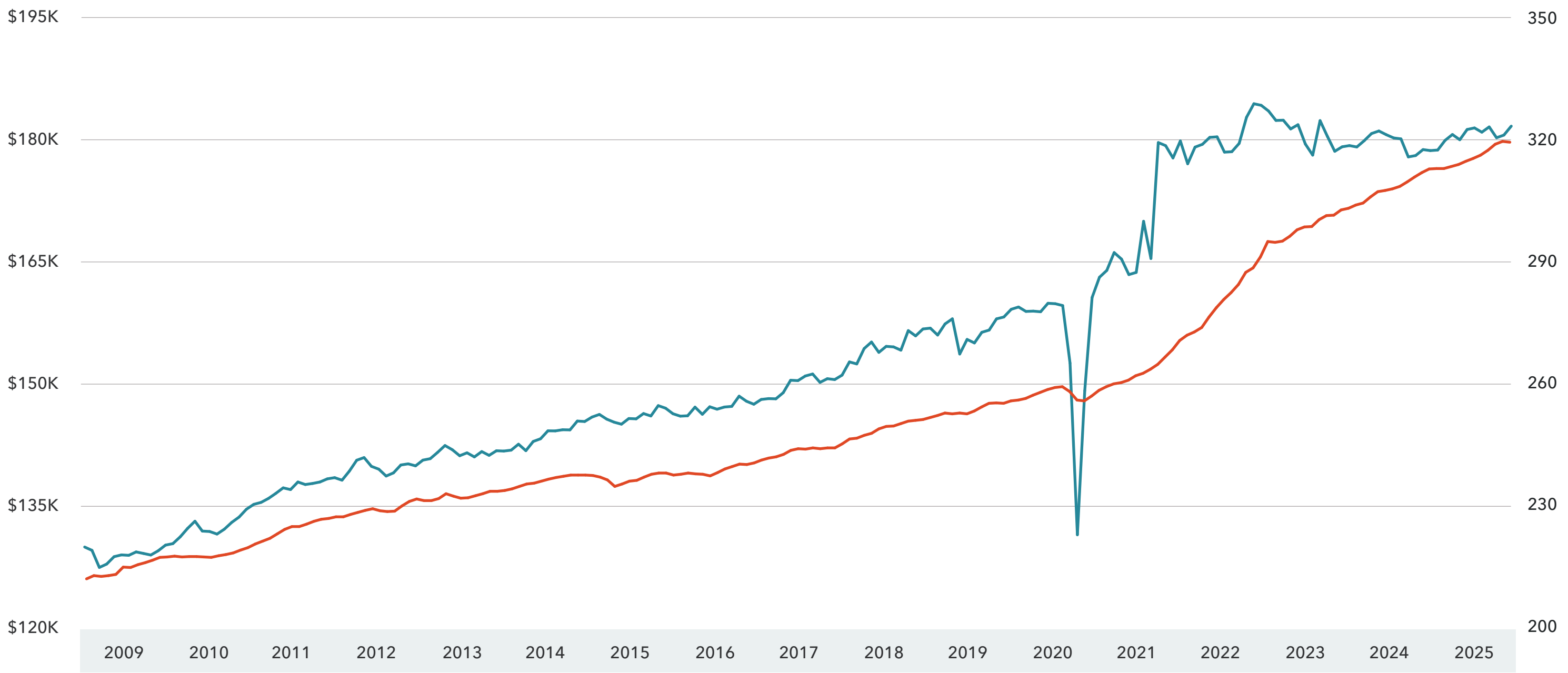
# U.S. CONSUMER CONFIDENCE AT SUPRESSED LEVELS



Consumer Confidence = focuses on the consumer’s perception of the job market and their personal financial situation  
Consumer Sentiment = reflects a broader view of how consumers feel about the overall economy, including their outlook on current conditions  
Source: The Conference Board, University of Michigan



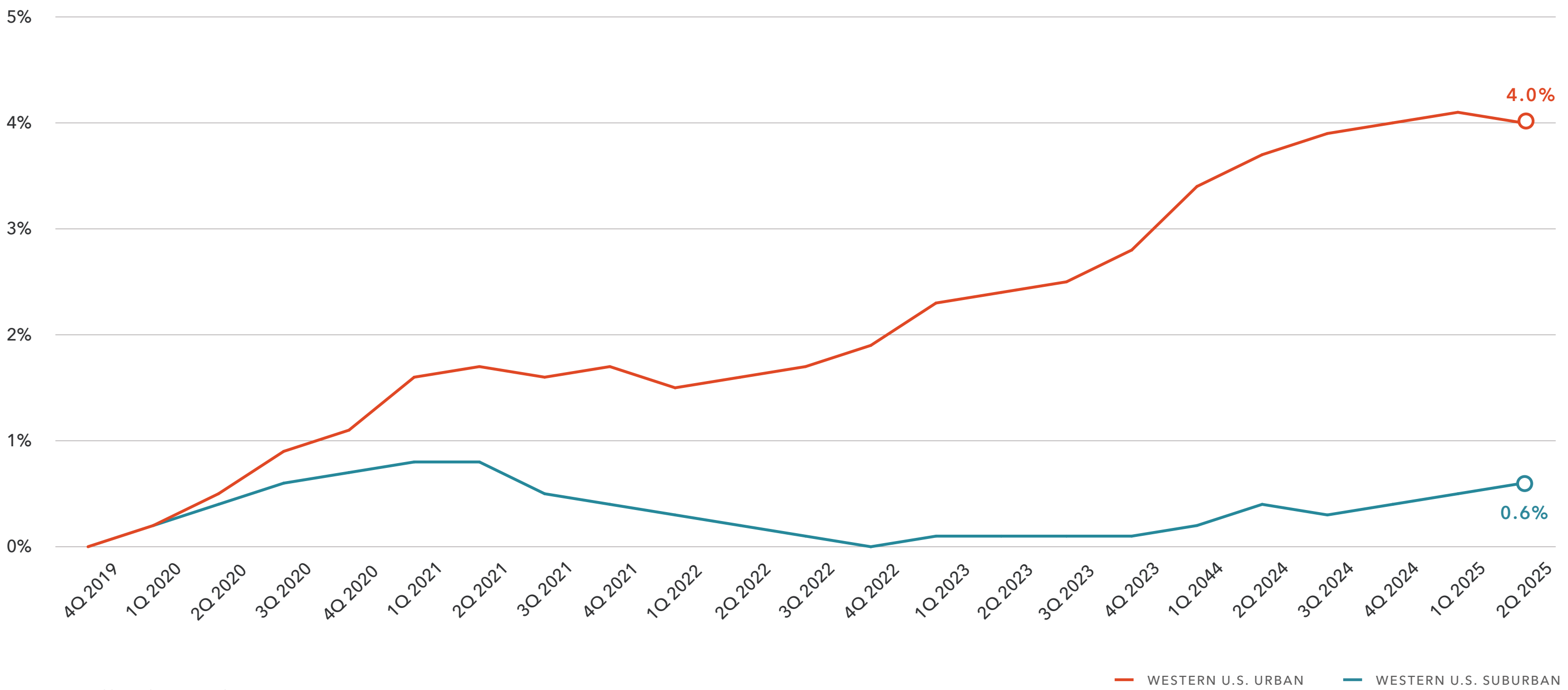
# U.S. “REAL” RETAIL SALES ARE RELATIVELY FLAT



Real Retail Sales = a measure of consumer spending adjusted for inflation rather than the simple total dollar value of retail sales  
Source: U.S. Census Bureau, U.S. Bureau of Labor Statistics



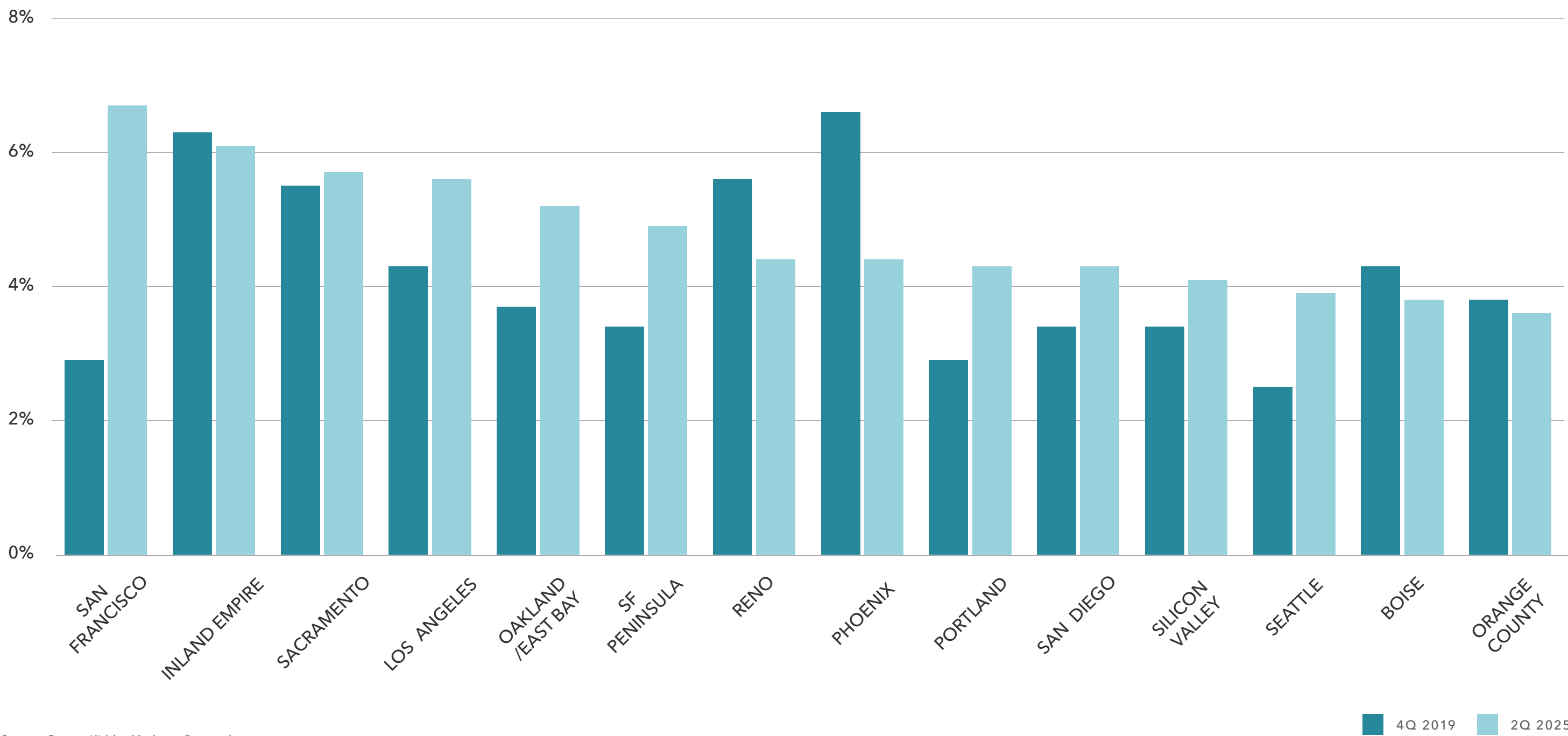
# URBAN VS SUBURBAN CUMULATIVE VACANCY RATE CHANGE



Source: Costar, Kidder Mathews Research

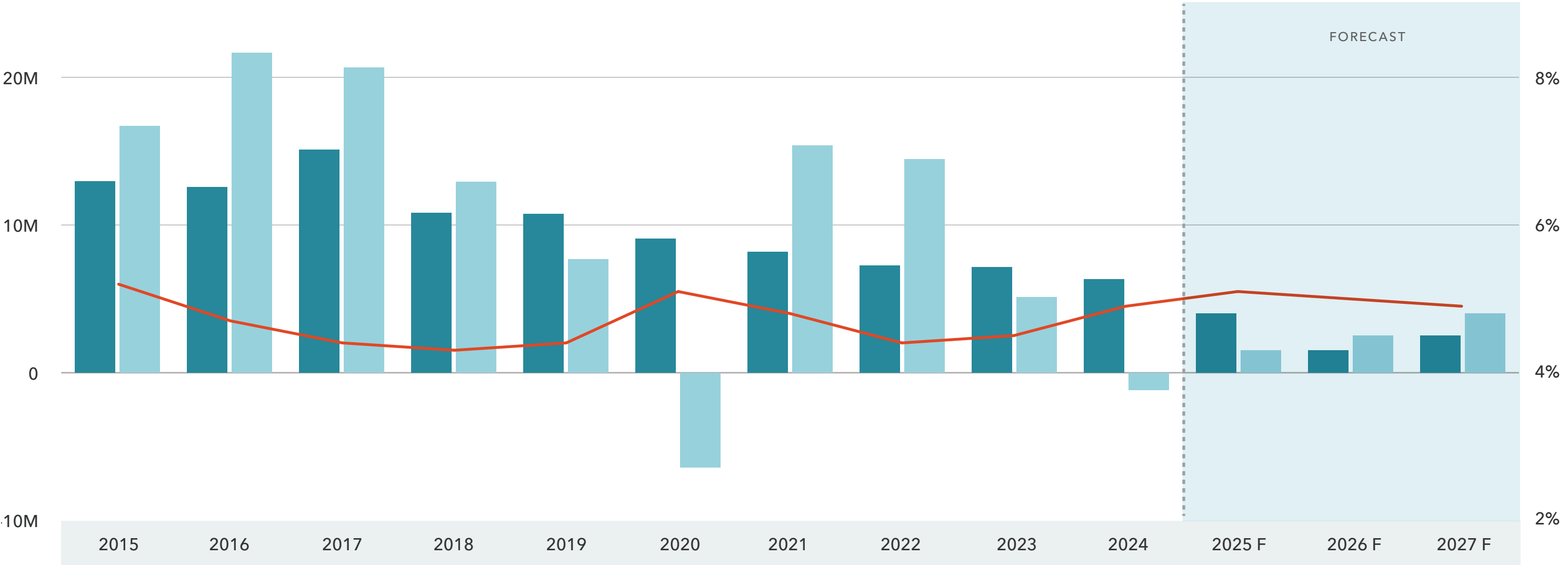


# VACANCY RATE *BY MARKET*





# WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

DELIVERIES   NET ABSORPTION   VACANCY RATE



A photograph of a modern multi-story apartment building at dusk. The building features a dark facade with numerous balconies and large windows. Many of the windows and balconies are illuminated from within, creating a warm, golden glow that contrasts with the cool, dark tones of the twilight sky. The sky is a mix of deep blues and soft pinks, suggesting the time is either early morning or late evening. The building's architecture is contemporary, with clean lines and a mix of materials.

*Section 04*

# *MULTIFAMILY* OUTLOOK



# *STEADY FUNDAMENTALS* AMID SHIFTING GROWTH TRENDS

*The Western U.S. multifamily market has demonstrated resilient performance over the past decade, characterized by low vacancy rates, expanding inventories, and steadily rising lease rates.*

Investment activity has generally remained consistent since 2013, with sales volume peaking in 2021 and 2022 before falling in 2023. However, a rebound is now underway, with transaction volume gaining momentum in both near and long-term projections.

Although rents continue to climb, the pace of growth has slowed significantly compared to the post-pandemic surge and have relatively flat during the first half of the year. From 2021 to 2022, average rents rose by a combined 21.4%. In contrast, rent growth in 2023 and 2024 totaled just 1.9%, reflecting a broader market recalibration.



# HIGH MORTGAGE RATES SUSTAIN *RENTER DEMAND*

*Despite slowing rent growth, demand drivers remain intact—and are expected to support the sector into 2026.*

Chief among them is diminished buying power and the high cost of homeownership, which continue to keep prospective buyers in rental housing longer.

Elevated 30-year mortgage rates, peaking at 7.8% in October 2023 and hovering in the low 6% range throughout the first half of 2025, have kept homeownership increasingly out of reach for a large share of the population. As a result, the average mortgage payment is now 35% higher than the average multifamily rent in the U.S.



# TRANSACTION VOLUME REBOUNDS FOLLOWING 2023 DOWNTURN

*Western U.S. apartment sales experienced a sharp downturn in 2023, plunging 60% year-over-year to just \$5.5 billion.*

Average unit pricing also declined, falling from \$275,000 in 2022 to \$267,000 in 2023, an 11% reduction. This decline was driven by a mix of challenges, including significant interest rate hikes, volatility in the financial markets, and a widening price gap expectations between buyers and sellers.

Yet the market showed impressive resilience. Multifamily sales began a notable recovery in 2024 and continued to gain solid momentum during the first half of 2025. Over the past 12 months, transaction volume grew to \$15.2 billion, and the average unit pricing rose to more than \$272,000, approaching 2022 levels and signaling a revitalized market.

\$15.2B

12-Month  
Transaction Volume

272K

Average  
Unit Price







# VACANCY TRENDS VARY ACROSS MARKETS

*Overall supply and demand remain relatively balanced across most Western U.S. markets.*

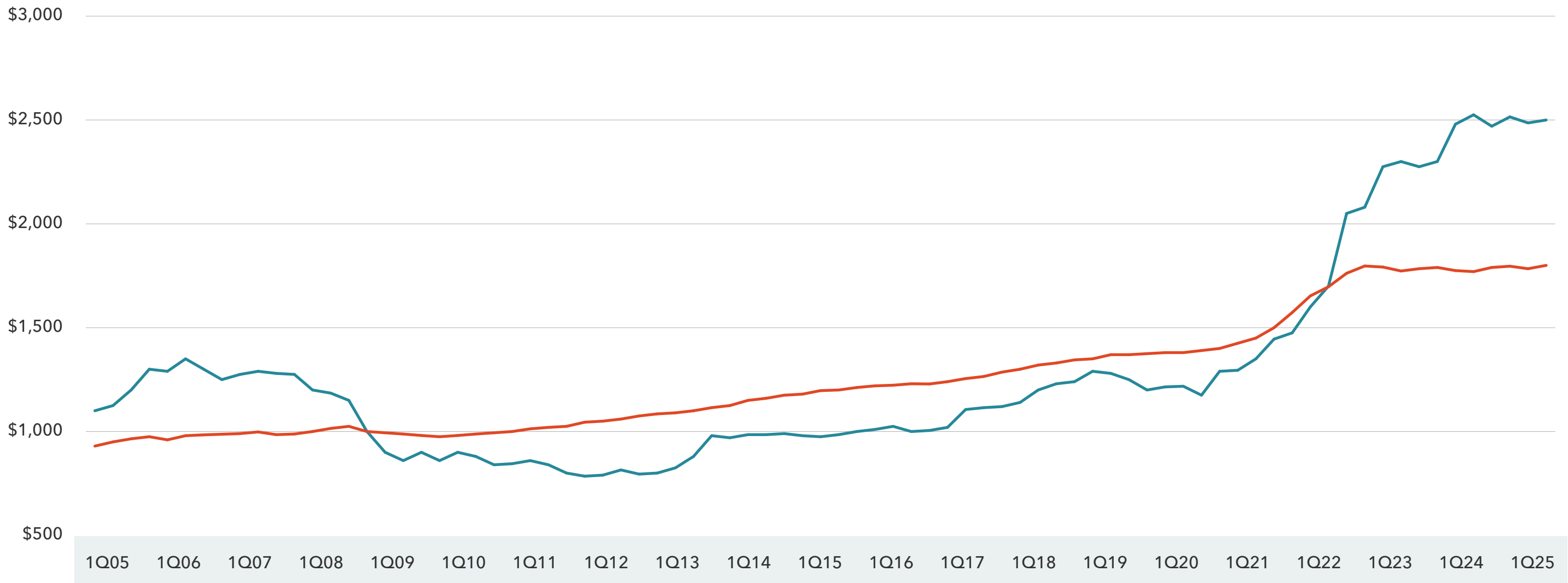
Since the end of 2019, the regional multifamily vacancy rate has risen by 100 basis points, from 5.4% to 6.4% as of Q2 2025. The rate is expected to increase modestly to 6.7% by year-end.

Market-level differences persist, with Phoenix standing out for having both the highest vacancy rate and the largest post-covid increase. This spike is largely attributed to a surge in new construction, with over 25,000 units added over the past two years—representing 20% of the Western U.S. total completions.

By contrast, markets such as Orange County, San Diego, and Silicon Valley have bucked the trend, registering a decline in vacancy rates since 2019—an indicator of enduring demand in these areas.



# MORTGAGE PAYMENTS VS MULTIFAMILY RENT

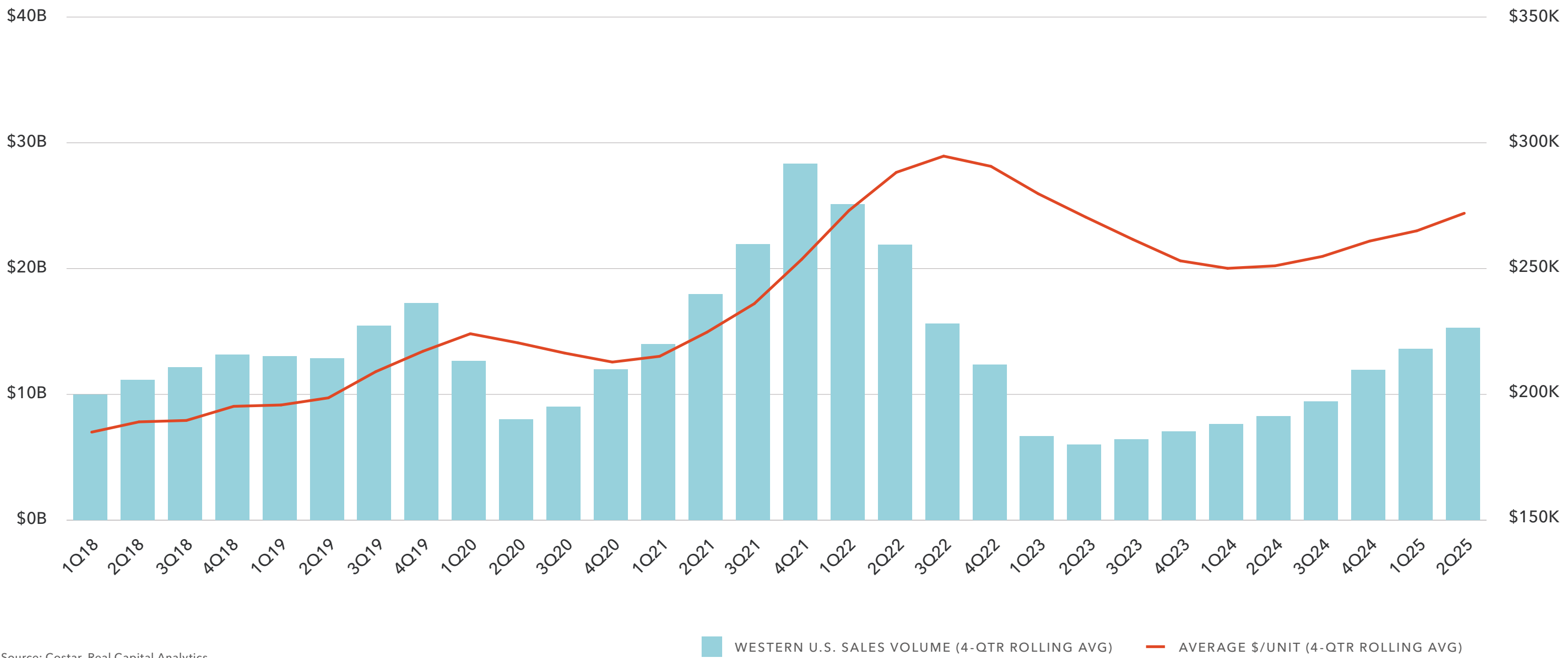


Source: Yardi Matrix; National Association of Realtors; Freddie Mac

— AVERAGE MORTGAGE PAYMENT — AVERAGE RENT (\$/UNIT)

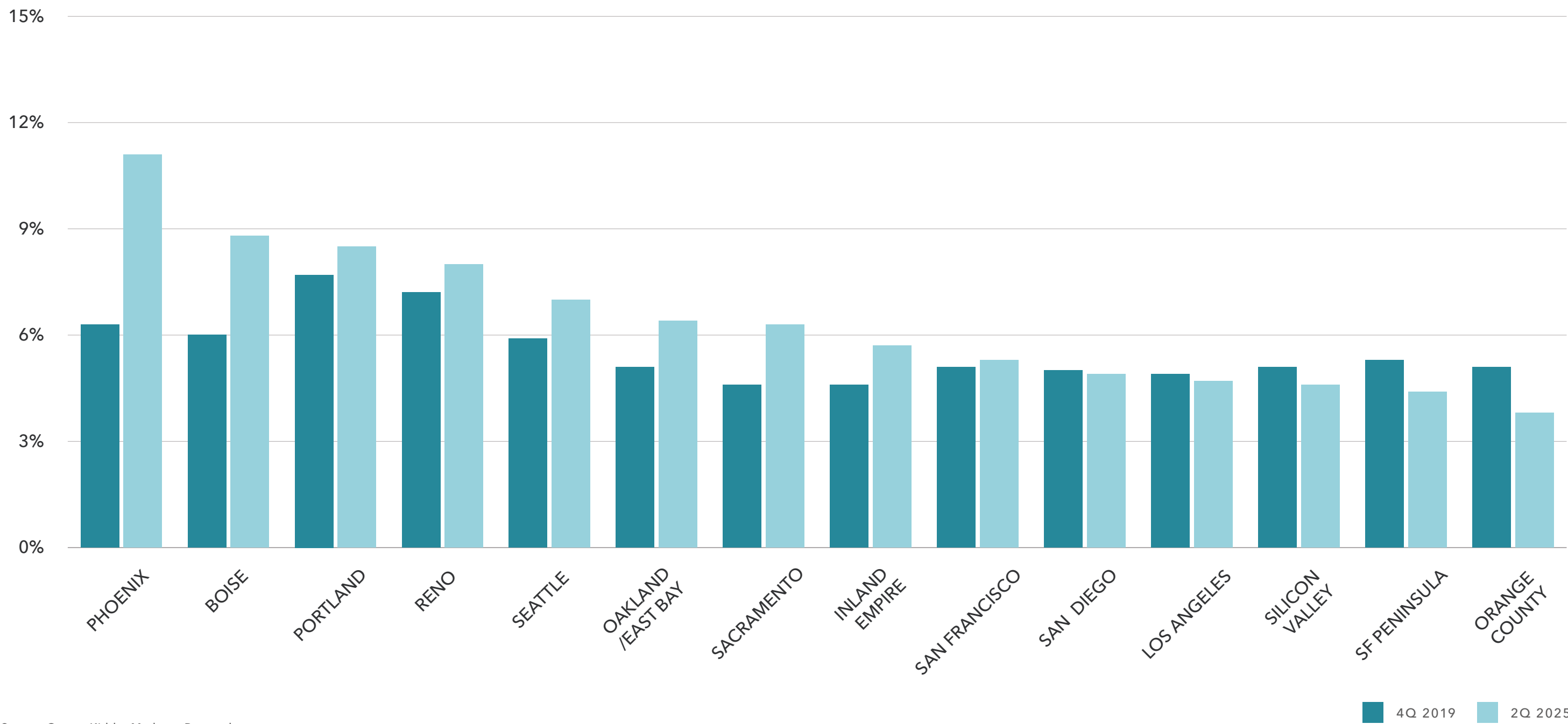


# *SALES VOLUME* CONTINUES TO REBOUND





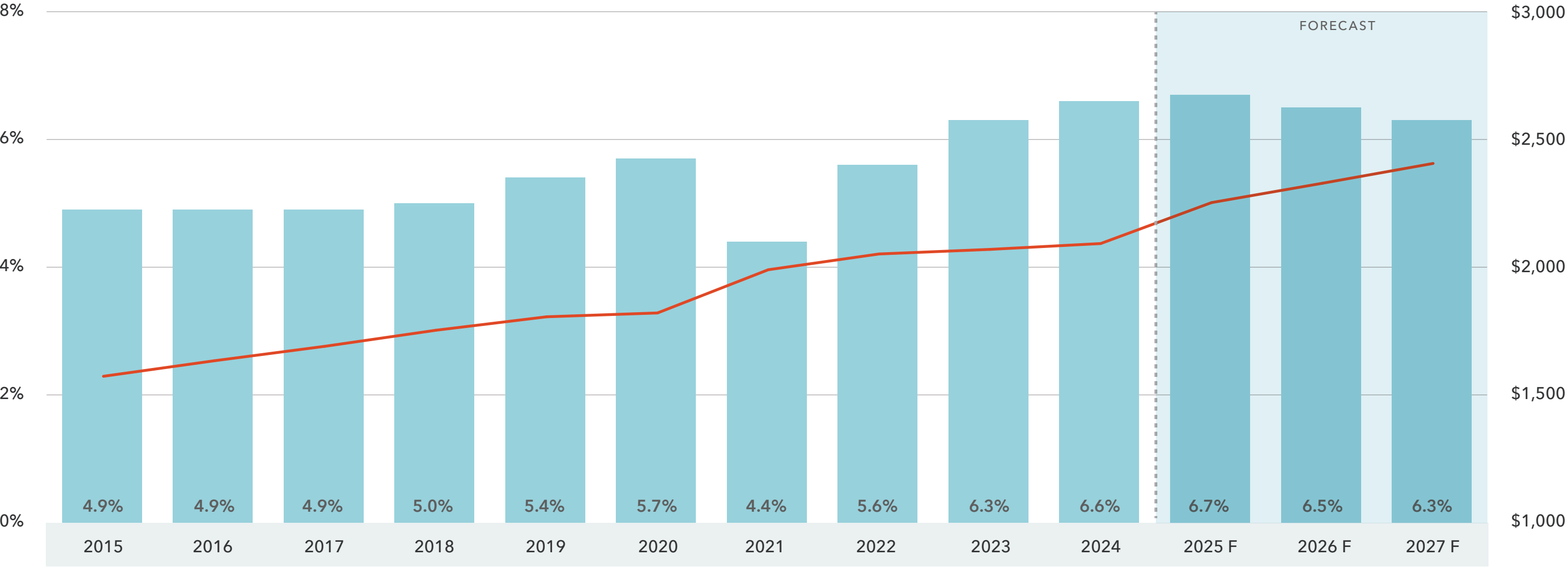
# VACANCY RATE *BY MARKET*



Source: Costar, Kidder Mathews Research



# WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

VACANCY RATE      AVERAGE ASKING RATE (\$/UNIT)



Contact

ERIC PAULSEN  
Chief Operating Officer  
949.557.5079  
eric.paulsen@kidder.com

GARY BARAGONA  
Vice President, Research  
415.229.8925  
gary.baragona@kidder.com

The information in this report was composed by the Kidder Mathews Research Group.

*Kidder Mathews is the largest fully independent commercial real estate firm in the Western U.S. with over 900 real estate professionals and staff in 20 offices in Washington, Oregon, California, Idaho, Nevada, and Arizona.*

We offer a complete range of brokerage, appraisal, asset services, consulting, and debt equity finance services for all property types.

COMMERCIAL BROKERAGE

<b>\$9B</b>	<b>26.2M+</b>	<b>36.7M+</b>
AVERAGE ANNUAL TRANSACTION VOLUME	ANNUAL SF OF SALES	ANNUAL SF OF LEASING

ASSET SERVICES

<b>58M SF</b>	<b>850+</b>	<b>260+</b>
MANAGEMENT PORTFOLIO SIZE	ASSETS MANAGED	CLIENTS SERVED

VALUATION ADVISORY

<b>2,400+</b>	<b>39</b>	<b>24</b>
AVERAGE ANNUAL ASSIGNMENTS	TOTAL NO. OF APPRAISERS	WITH MAI DESIGNATIONS

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