Kidder Mathews

WESTERN U.S. *INDUSTRIAL* BY THE NUMBERS

2026 Mid-Year Market Forecast

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THE INDUSTRIAL SECTOR IS *GAINING MOMENTUM* ACROSS EXPANDING DEMAND DRIVERS

The industrial sector continues to strengthen following a period of moderation between 2023 and early 2025.

Leasing activity has improved as occupiers regain confidence, supply chains stabilize, and businesses invest in modern facilities that support automation, advanced manufacturing, and evolving distribution needs. Demand is also being supported by e-commerce activity, reshoring initiatives, and growing infrastructure requirements tied to artificial intelligence and data center development. Large transactions are also gaining momentum as industrial leases over 200,000 square feet signed during the first half of 2026 are nearly 20% above last year's first half total.

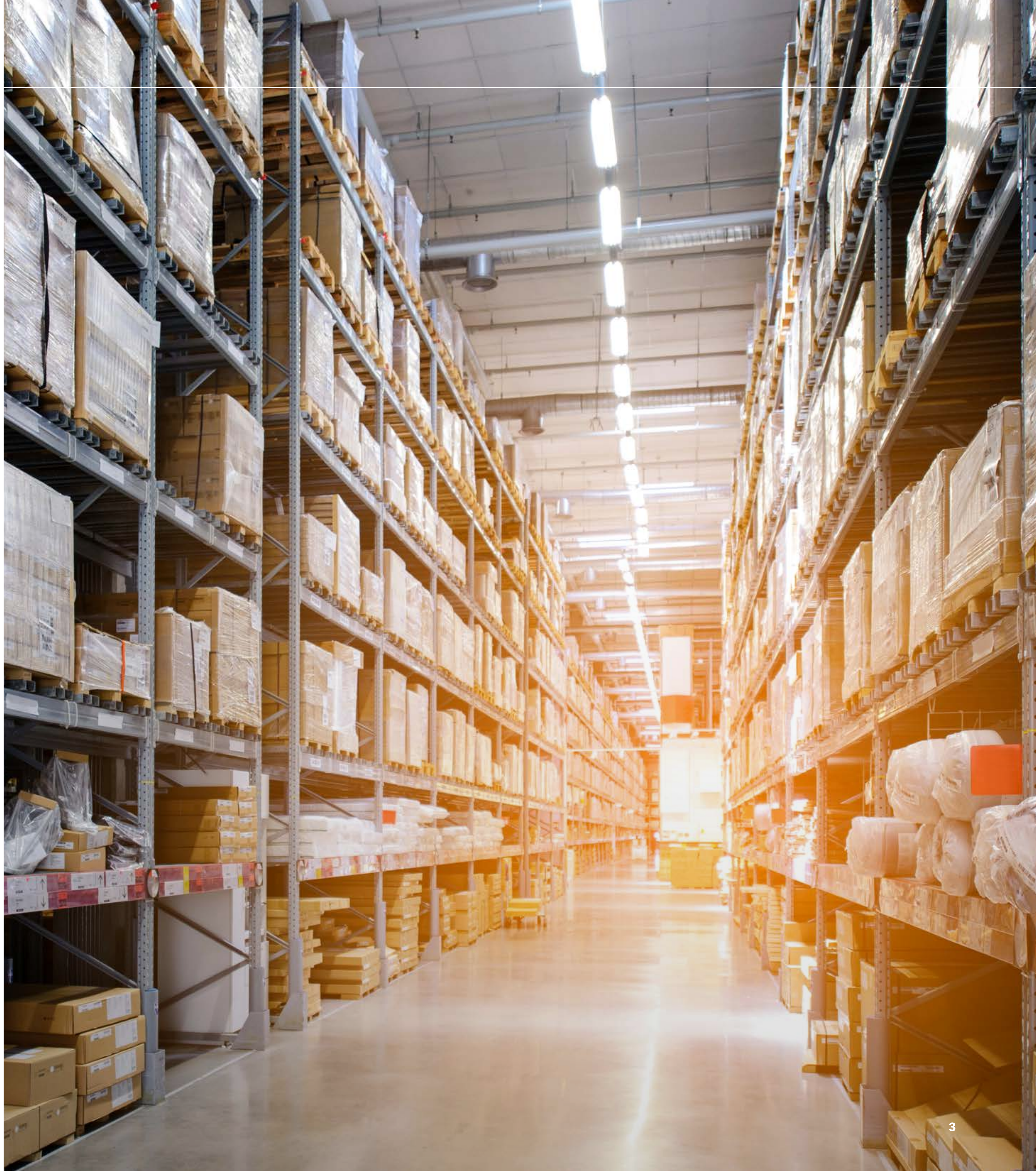
Although economic uncertainty remains, industrial real estate continues to be one of the most resilient property sectors because of its essential role in logistics, manufacturing, and digital infrastructure.

INDUSTRIAL VACANCY STABILIZES AS THE MARKET *MOVES TOWARD BALANCE*

Industrial vacancy appears to have reached, or is approaching, its cyclical peak across many markets.

Demand from tenants is beginning to absorb the wave of new supply delivered over the past several years, though performance continues to vary by property type. Big-box warehouse and distribution facilities have experienced the largest increase in vacancy, rising from roughly 3% in 2022 to 10.2% at mid-year 2026. In contrast, infill industrial properties and data centers remain significantly tighter, with vacancy rates of 4.8% and 1.8%, respectively.

Demand for power-intensive facilities continues to grow as AI adoption, cloud computing, and automation drive unprecedented requirements for data center capacity and advanced manufacturing facilities. Overall, Western U.S. industrial vacancy ended 2Q 2026 at 8.4%, suggesting the market has likely moved through its most supply-heavy phase and is positioned for gradual improvement as construction activity slows.



INDUSTRIAL LEASING ACTIVITY *RISES ABOVE HISTORICAL AVERAGES* AS DEMAND NORMALIZES

Industrial leasing activity continues to strengthen in 2026.

Western U.S. leasing volume averaged a four-quarter total of 247 million square feet between 2023 and mid-year 2026, exceeding the pre-pandemic 10-year average of 235 million square feet and reflecting a return to more normalized demand levels. Logistics providers, manufacturers, and retail distributors continue to drive activity, while occupiers increasingly favor modern facilities with greater power capacity, higher clear heights, and infrastructure that supports automation and AI-enabled operations.

Although leasing volumes remain below the extraordinary pace recorded in 2021, demand remains healthy and broadly aligned with long-term market fundamentals.

REDUCED CONSTRUCTION ACTIVITY LOWERS FUTURE OVERSUPPLY RISK

One of the most significant shifts in industrial market fundamentals has been the sharp contraction of the development pipeline.

New deliveries in 2025 declined by more than 45% from recent peaks, while space under construction fell by more than 60% from 2023 highs and new starts dropped roughly 65% from late-2022 levels.

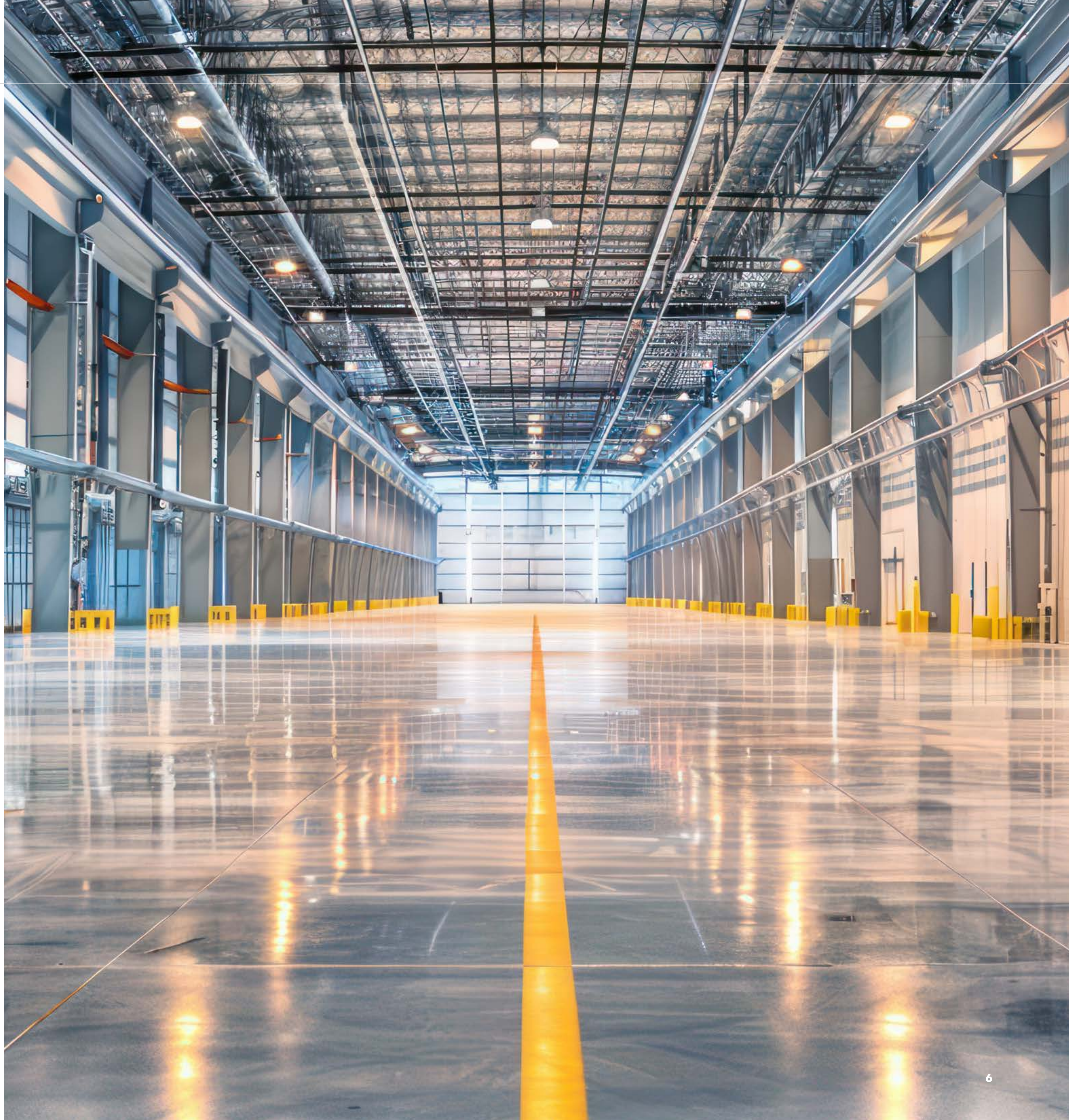
Developers have become increasingly selective, prioritizing build-to-suit projects and facilities with strong preleasing commitments over speculative development. This pullback should support a healthier balance between supply and demand over the next several years. At the same time, continued demand for modern logistics facilities, advanced manufacturing space, and data center infrastructure is reinforcing the sector's long-term fundamentals.

INDUSTRIAL OUTLOOK: *STEADY PERFORMANCE AS THE MARKET REBALANCES*

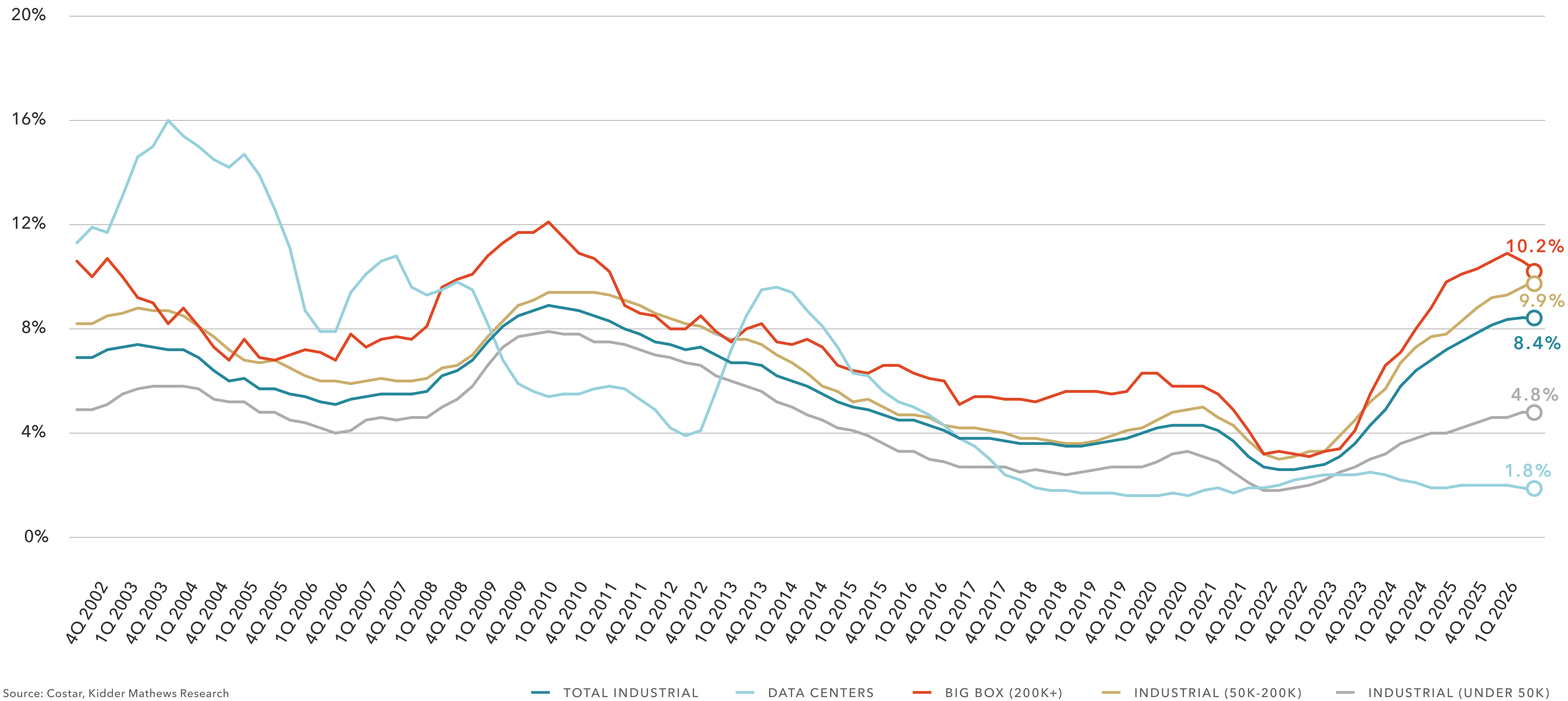
The industrial sector continues to move toward a more balanced and stable environment.

Vacancy rates are stabilizing, leasing activity remains consistent with historical averages, and new construction has slowed considerably. Facilities with heavy power capabilities that support logistics, automation, manufacturing, and AI-related infrastructure are expected to outperform, while older properties may require upgrades to remain competitive.

Supported by disciplined supply growth and durable demand drivers, the industrial sector remains one of the strongest areas of commercial real estate and is well positioned for steady performance through 2026 and beyond.

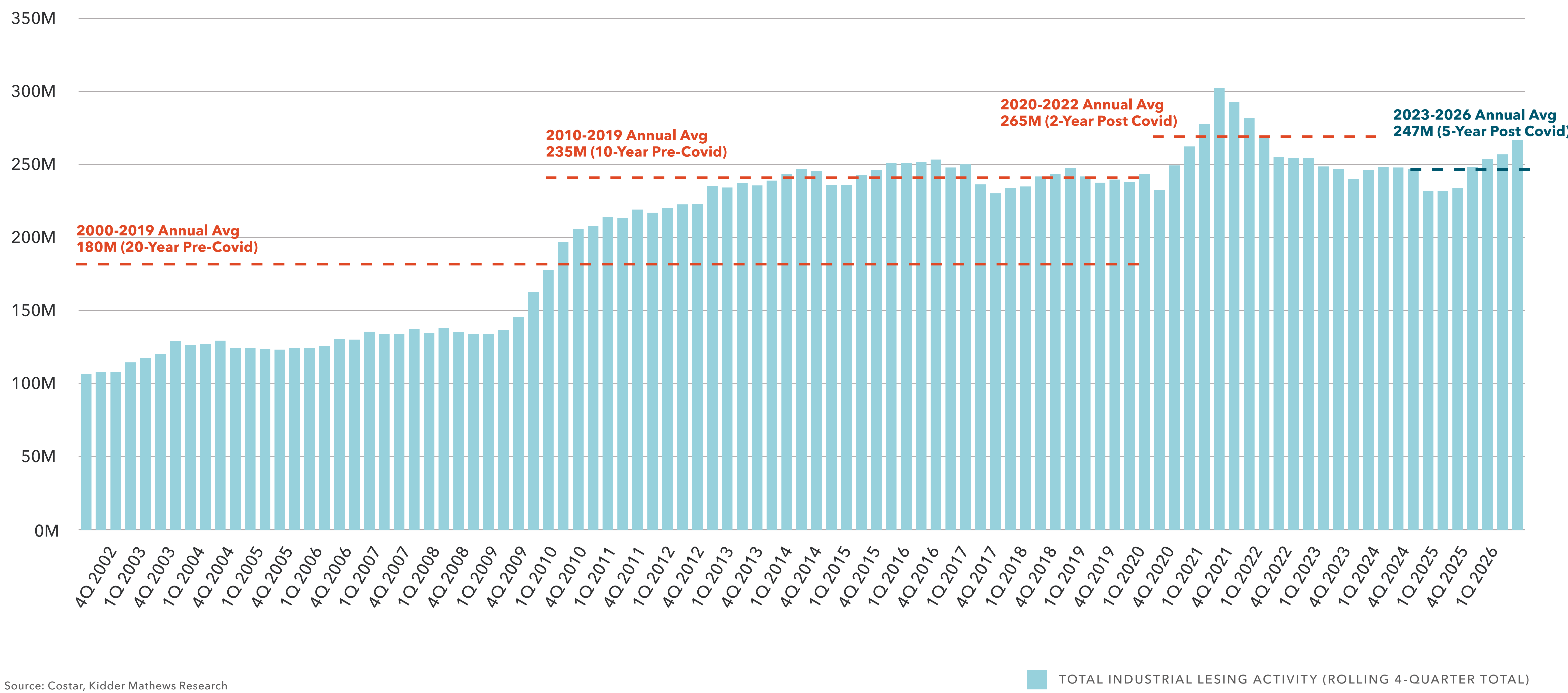


WESTERN U.S. VACANCY RATES: *VARY BY SEGMENT*



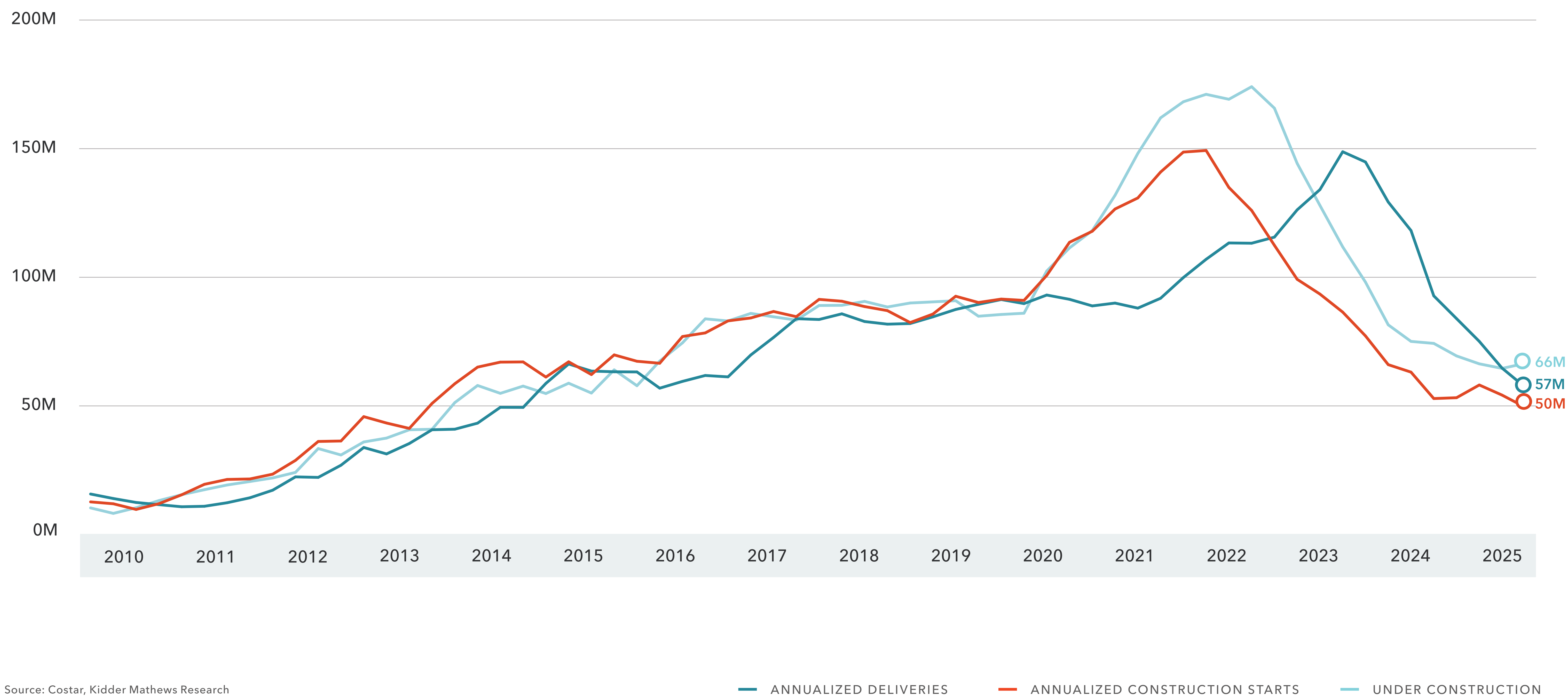
Source: Costar, Kidder Mathews Research

LEASING ACTIVITY *BACK TO HISTORIC AVERAGES*



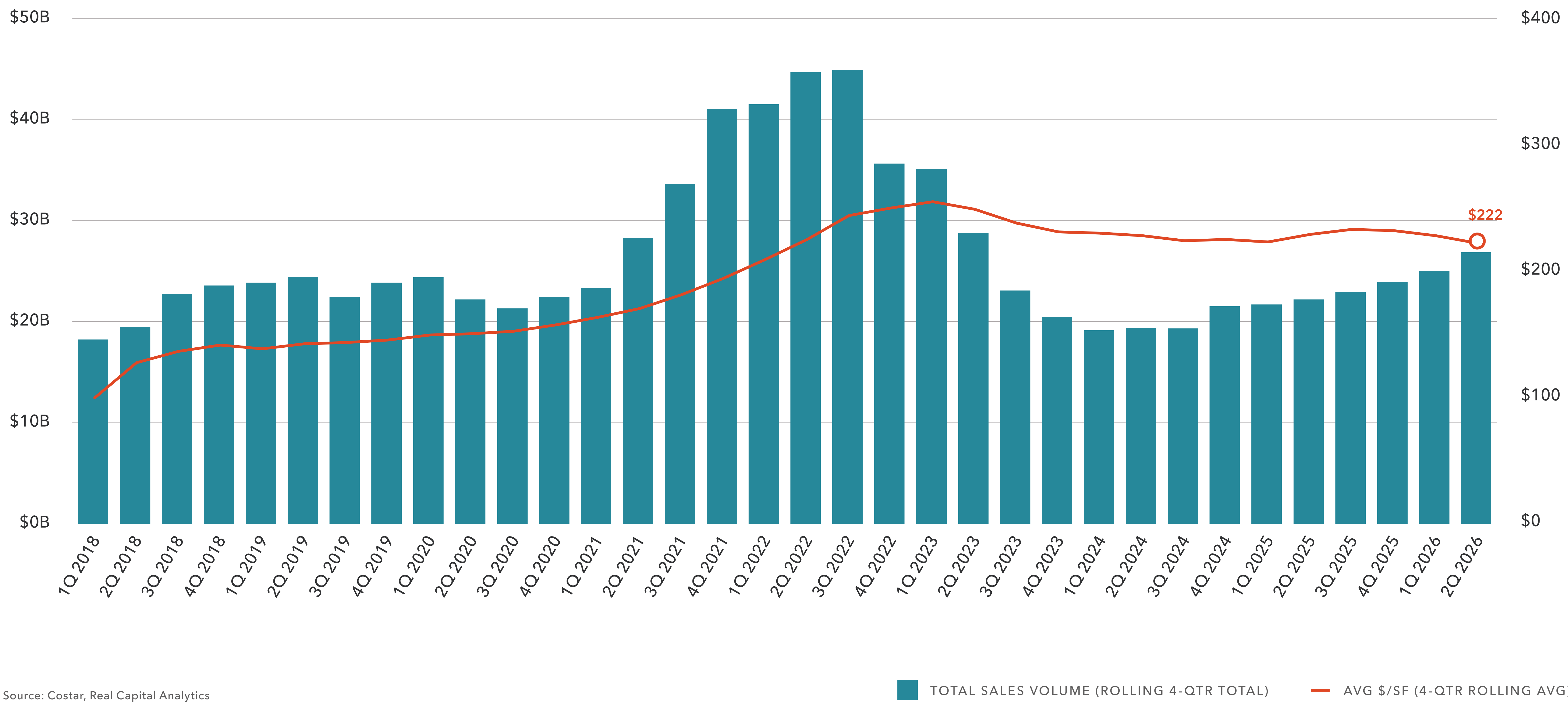
Source: Costar, Kidder Mathews Research

DEVELOPMENT PIPELINE *IS RESETTING*



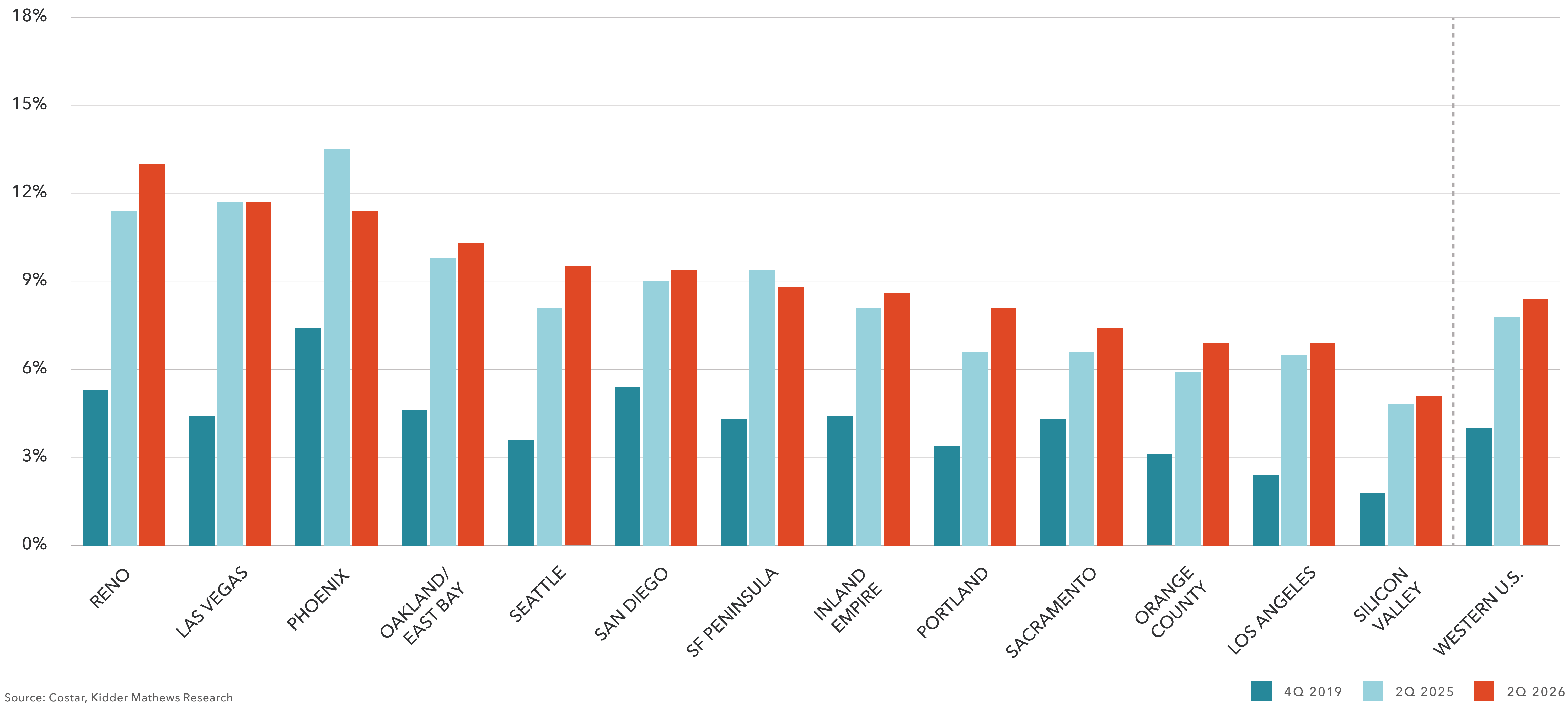
Source: Costar, Kidder Mathews Research

INVESTMENT MARKET *ACTIVITY*



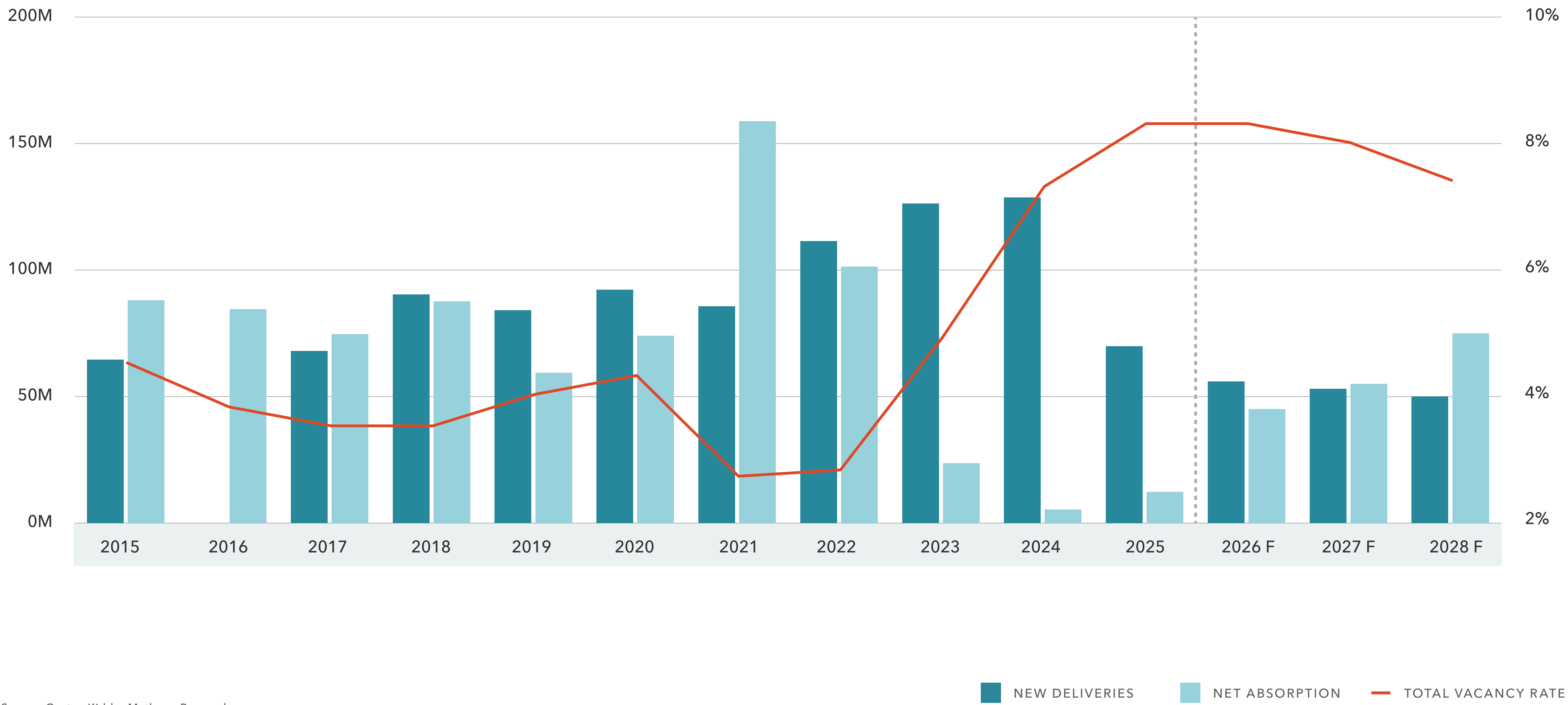
Source: Costar, Real Capital Analytics

VACANCY RATE *BY MARKET*



Source: Costar, Kidder Mathews Research

WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

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

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

COMMERCIAL BROKERAGE

$9B
AVERAGE ANNUAL TRANSACTION VOLUME

32.4M+
ANNUAL SF OF SALES

32.5M+
ANNUAL SF OF LEASING

ASSET SERVICES

54M SF
MANAGEMENT PORTFOLIO SIZE

800+
ASSETS MANAGED

250+
CLIENTS SERVED

VALUATION ADVISORY

2,700+
AVERAGE ANNUAL ASSIGNMENTS

42
TOTAL NO. OF APPRAISERS

23
WITH MAI DESIGNATIONS