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

2026

LOCAL EXPERTISE.
WORLD-CLASS INSIGHTS.

Our 2026 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.

Kidder Mathews

Section 01

ECONOMIC OUTLOOK

THE U.S. ECONOMY REMAINS RESILIENT AS *GROWTH MODERATES*

The U.S. economy enters the second half of 2026 on stable footing, with growth continuing at a more measured pace.

Elevated interest rates, persistent inflation, and global uncertainty continue to temper economic activity. Despite these pressures, resilient consumer spending and gradually easing inflation are expected to support modest expansion in the coming quarters. Businesses are also adapting to an economic normalization, shifting workplace preferences, and rapid technological advancement. The accelerating adoption of artificial intelligence and continued prevalence of hybrid work are reshaping workplace strategies and space utilization, creating both opportunities and challenges for commercial real estate.

CONSUMER SPENDING & AI INVESTMENT SUPPORT *GDP GROWTH*

U.S. economic growth remains steady, supported primarily by consumer spending and AI-related investment.

The U.S. real gross domestic product (GDP) grew 0.4% in 2Q 2026 and 2.1% over the past year, exceeding expectations despite persistent inflation, inconsistent job growth, and policy uncertainty. Consumer spending remained the largest contributor, adding approximately 1.5 percentage points to growth, while AI-related investment contributed another 0.9 percentage points and accounted for more than 40% of total growth. Outside of these two areas, activity across the broader economy remained relatively weak.

The economic impact of AI is becoming increasingly visible, contributing to rising commercial electricity demand and strong growth in advanced manufacturing. Looking ahead, the U.S. economy is expected to continue expanding, with many forecasts projecting GDP growth of 2.3% in 2026 and 2.2% in 2027, supported by resilient consumer demand and continued technology investment.

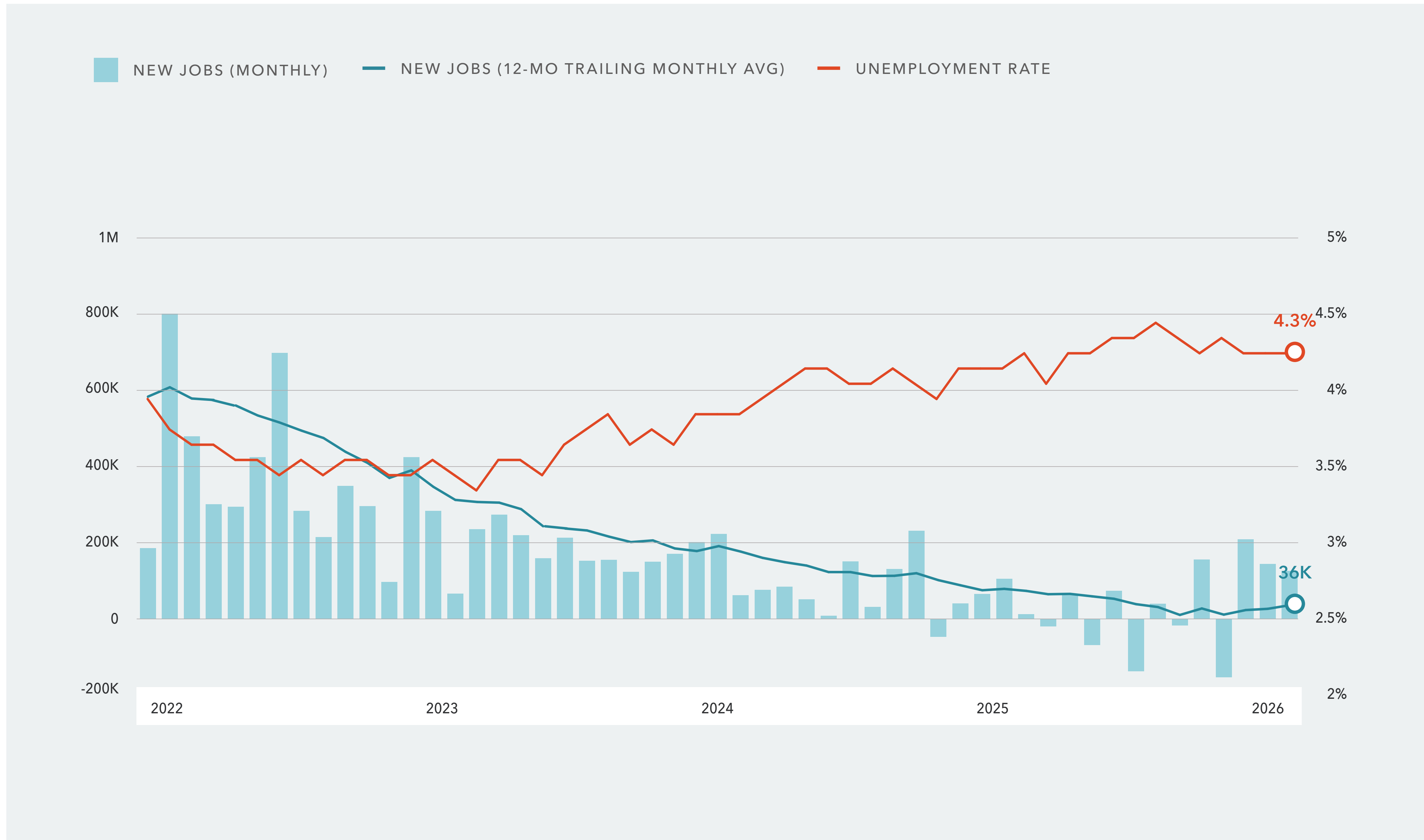
Source: U.S. Bureau of Economic Analysis

TOTAL JOB GROWTH *PROJECTED TO IMPROVE*

The U.S. labor market continues to normalize while maintaining underlying stability.

Following the exceptionally tight labor conditions of 2021 and 2022, hiring has gradually moderated, bringing the labor market closer to a more balanced environment. Although job growth has slowed from the rapid pace of the post-pandemic recovery, unemployment remains relatively low at 4.3%, and wage growth continues at a healthy pace.

Near-term hiring is projected to remain steady, supported by continued demand across key sectors, including healthcare, technology, and professional services. Overall, labor market trends point to measured normalization rather than significant weakening, while employment remains stable.



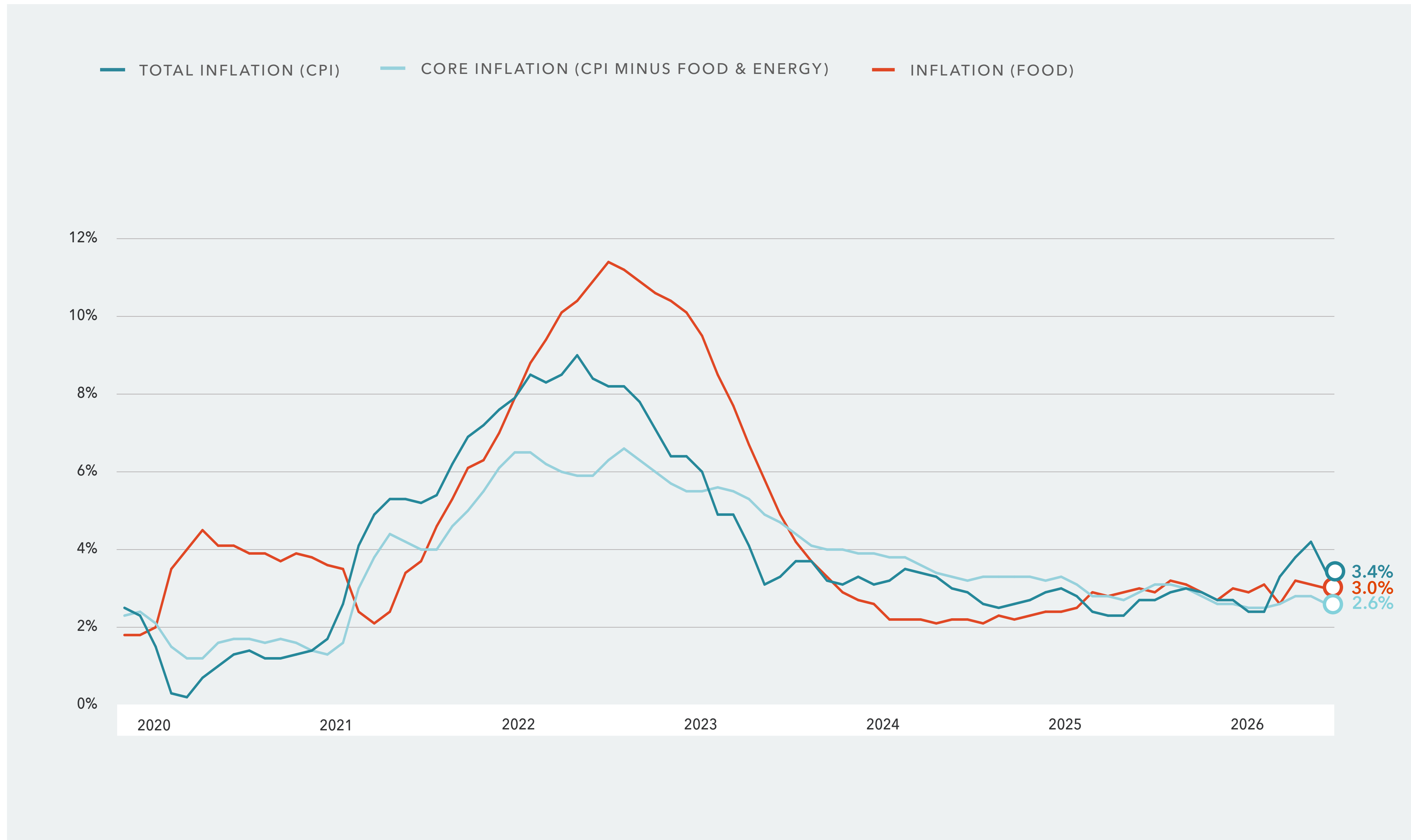
Source: U.S. Bureau of Labor Statistics

INFLATION REMAINS *RELATIVELY STABLE*

Inflation remains a key focus for investors, and continues to shape monetary policy and market expectations.

After peaking in 2022, inflation gradually moderated through 2023 and 2024 as higher interest rates, easing supply chain pressures, and slower demand brought price growth closer to historical levels. More recently, inflation has proven somewhat persistent, particularly across services and housing-related categories, though overall price pressures have continued to trend lower than their post-pandemic highs. As of June 2026, headline CPI was 3.4% year-over-year, while core inflation, which excludes food and energy, stood at 2.6%.

Looking ahead, inflation is expected to ease gradually over the next 6 to 12 months, though progress will likely remain uneven as labor market conditions, energy prices, and consumer spending continue to influence the outlook. Inflation is expected to remain above the Federal Reserve's 2% target in the near term while continuing its gradual downward trend.



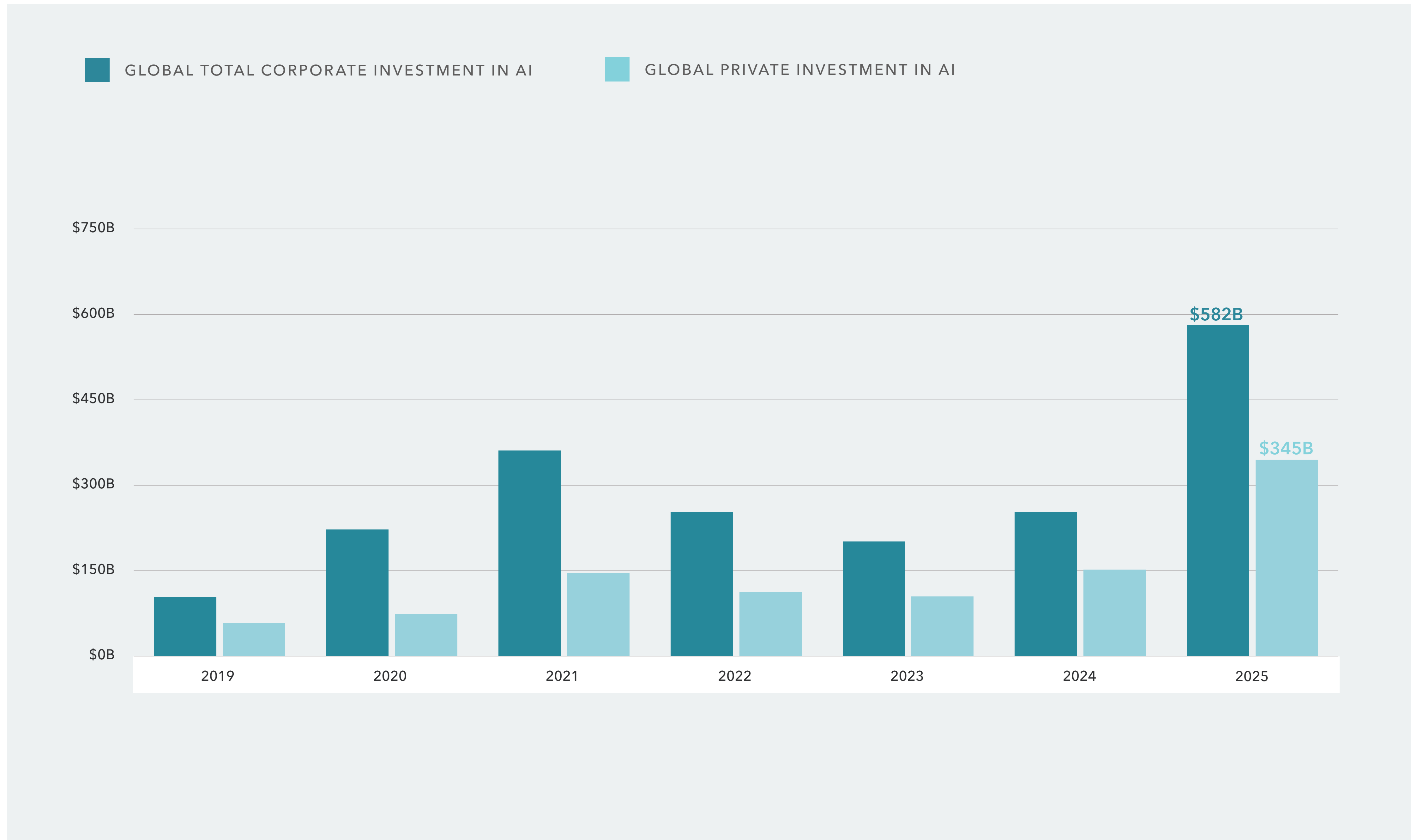
Source: U.S. Bureau of Labor Statistics

AI INVESTMENT *CONTINUES TO SURGE*

Artificial intelligence has become a major economic and business priority as investment continues to accelerate.

According to Stanford HAI's 2026 AI Index Report, total AI investment across private funding, mergers and acquisitions, minority investments, and public offerings reached a record $581.7 billion in 2025. This represents an increase of nearly 130% from 2024 and is approximately 40 times the level recorded in 2013, illustrating AI's evolution from a niche technology into a significant driver of business strategy and investment.

Private investment accounted for the largest share at $344.7 billion. Within that total, generative AI companies attracted $170.9 billion, representing nearly half of all private AI funding and more than triple the amount raised the previous year. Companies and investors continue to increase their commitments to AI, with a growing share of capital flowing to generative AI.



Source: Stanford Institute for Human-Centered AI (HAI)

ECONOMIC OUTLOOK: *RESILIENCE SUPPORTS STEADY EXPANSION*

Overall conditions point to continued economic stability as growth moderates and technological investment accelerates.

Resilient consumer activity, healthy business investment, and continued innovation are expected to support steady economic growth through the second half of the year. At the same time, political uncertainty, shifting trade policy, and geopolitical tensions, including ongoing tensions between the U.S. and Iran, will remain important risks to the outlook. Developments on this front carry potential implications for energy prices, inflation, and broader financial conditions, and could influence the timing and direction of future Federal Reserve policy decisions.

Rapid advances in artificial intelligence are also reshaping the economy, with record investment in infrastructure, software, and data centers creating new opportunities to improve efficiency, increase productivity, and support long-term growth. Although automation may change the nature of certain jobs and limit hiring in some areas, the broader economic outlook remains positive. Long-term performance will depend in part on how effectively businesses and workers adapt to these changes and capitalize on the opportunities created by emerging technologies.

Section 02

OFFICE OUTLOOK

THE OFFICE MARKET IS *GAINING STABILITY AS DEMAND STRENGTHENS*

The office market continues to stabilize as leasing activity improves and supply pressures ease.

Leasing activity has strengthened as companies gain greater clarity around workplace strategies, long-term space needs, and the role of hybrid work within their organizations. At the same time, increased investment in artificial intelligence is beginning to support demand for high-quality office environments that foster collaboration, innovation, and talent attraction.

Although vacancy remains elevated in many markets, tenant demand, leasing activity and overall market optimism continues to gain velocity. Limited new construction and the continued conversion or removal of obsolete office buildings are helping reduce excess supply, and create a more balanced environment in many markets.

THE FLIGHT TO QUALITY REMAINS *ONE OF THE DEFINING TRENDS* IN THE OFFICE MARKET

Companies continue to gravitate toward newer, well-located properties that offer modern amenities, support collaboration, and help attract and retain talent.

As office attendance gradually increases and organizations place greater emphasis on employee experience, demand has become increasingly concentrated among premium assets.

With new development near historic lows, competition for the highest-quality space has intensified, while upgraded and repositioned properties are beginning to benefit as tenants seek attractive alternatives in markets where premier space is becoming more limited.

SHIFTS IN VACANCY & SUBLEASE SPACE

Occupancy is beginning to improve as leasing activity strengthens and sublease availability declines.

Technology-focused markets and major gateway cities have led this progress, supported by larger lease transactions, increased tenant demand, and the continued absorption of sublease space. Although vacancy remains above pre-pandemic levels, positive net absorption and declining sublease inventories across many markets suggest conditions are gradually improving.

The Western U.S. sublease rate, as a percent of total available space, has fallen from a peak of 15.3% in 2023 to 9.0% by mid-year 2026. While still above the pre-pandemic average of 4.7%, the continued decline is an encouraging sign that the market has reached a turning point and is moving toward recovery.

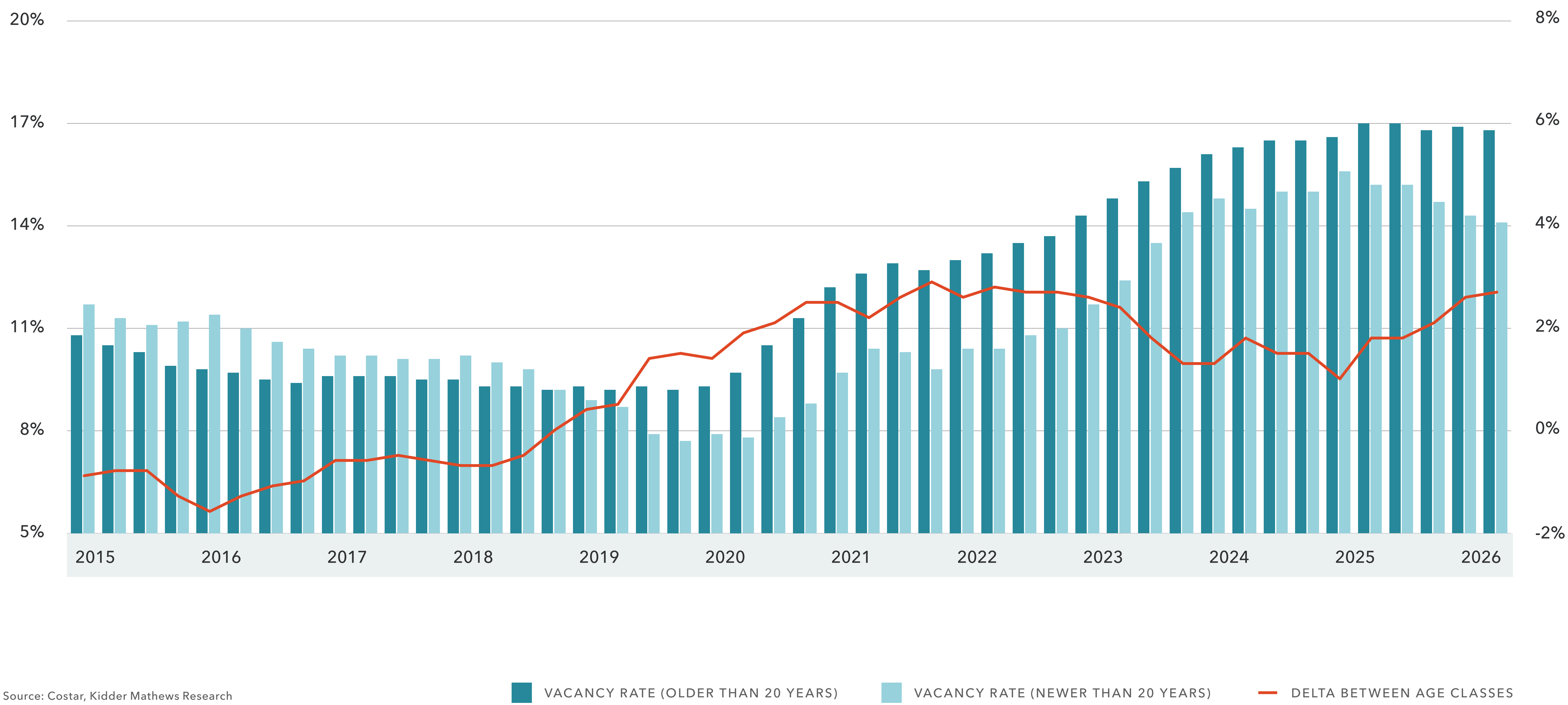
OFFICE OUTLOOK: *RECOVERY TAKES HOLD*

The office sector remains positioned for steady improvement.

Demand is expected to benefit from more stable economic conditions, continued job growth across office-using industries, and greater certainty around long-term workplace strategies. Premium buildings are likely to remain the strongest performers, while older properties may continue to face pressure to invest, reposition, or explore alternative uses.

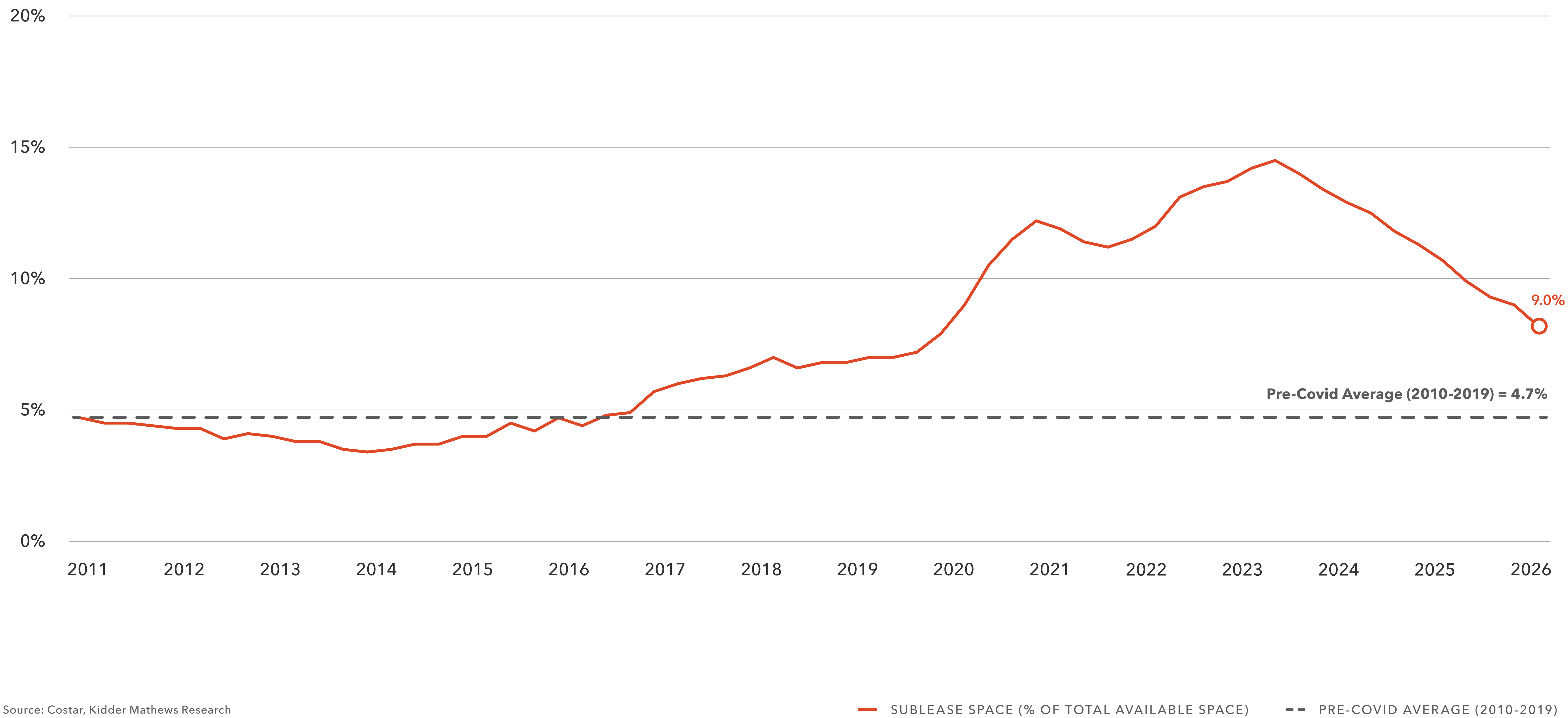
Combined with limited new supply, these trends should support higher occupancy and a healthier balance between supply and demand over time. Although challenges remain, particularly for lower-quality assets, the outlook for the office sector is becoming increasingly positive and optimistic.

THE FLIGHT TO QUALITY *DRIVES PERFORMANCE*



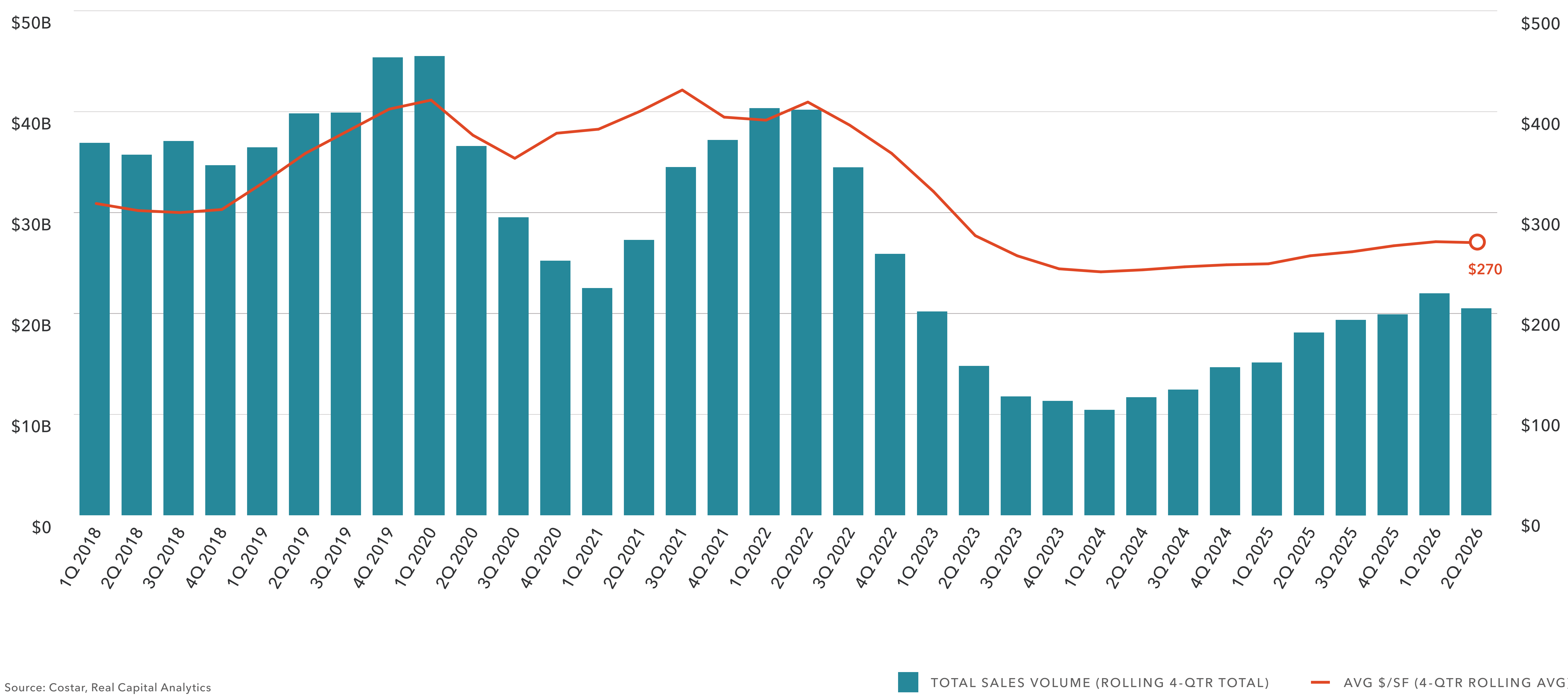
Source: Costar, Kidder Mathews Research

SUBLEASE SPACE *CONTINUES TO DECLINE*



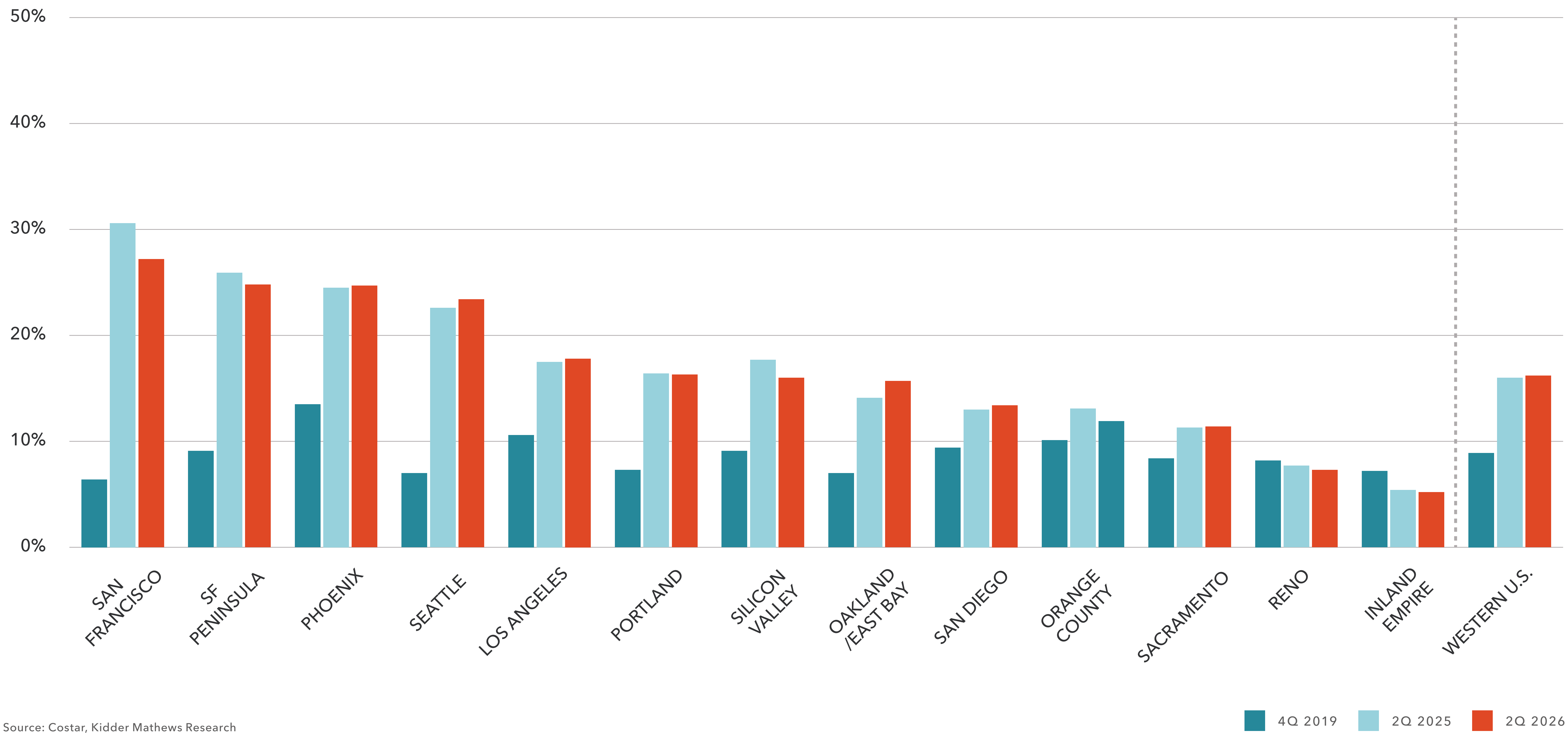
Source: Costar, Kidder Mathews Research

INVESTMENT MARKET *ACTIVITY*



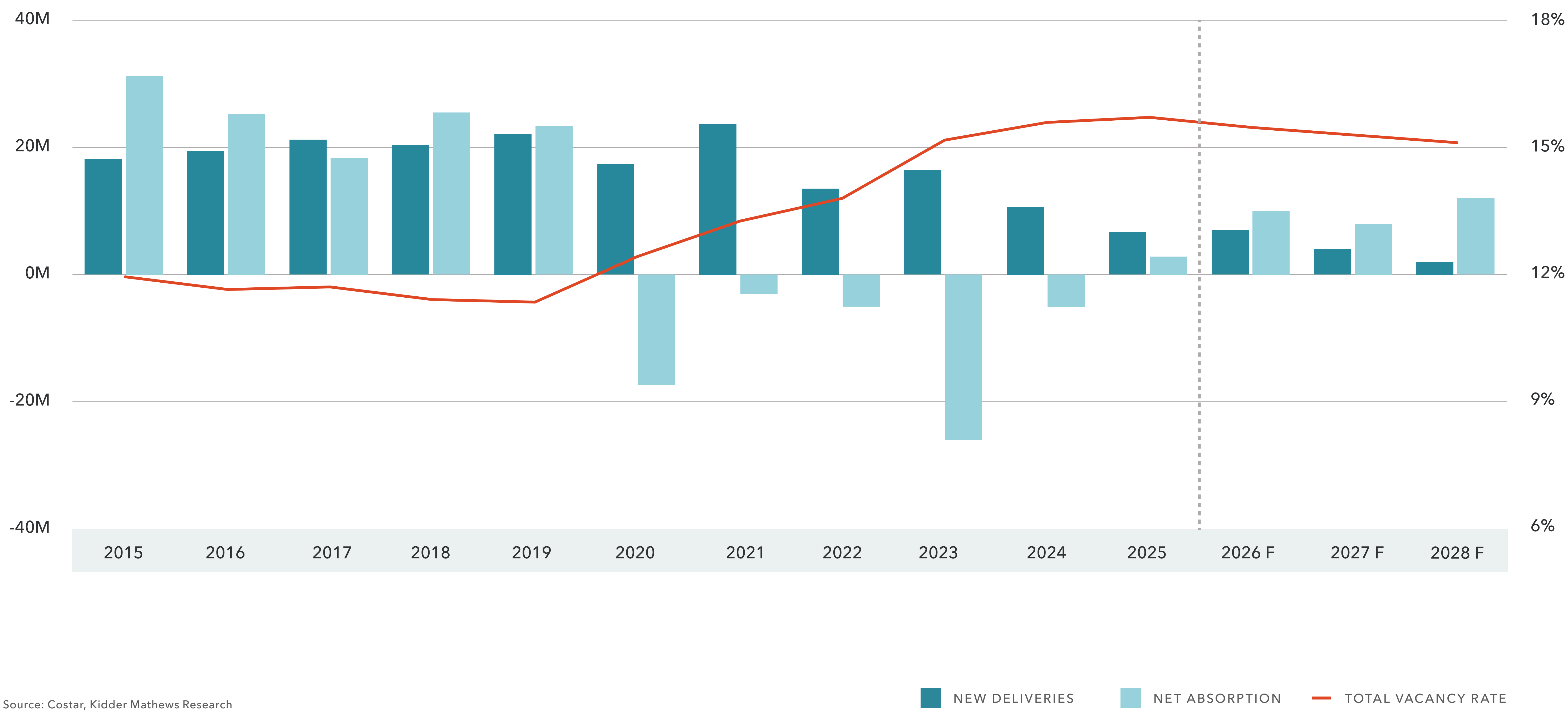
Source: Costar, Real Capital Analytics

VACANCY RATE *BY MARKET*



Source: Costar, Kidder Mathews Research

WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

Section 03

INDUSTRIAL OUTLOOK

Kidder Mathews

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.

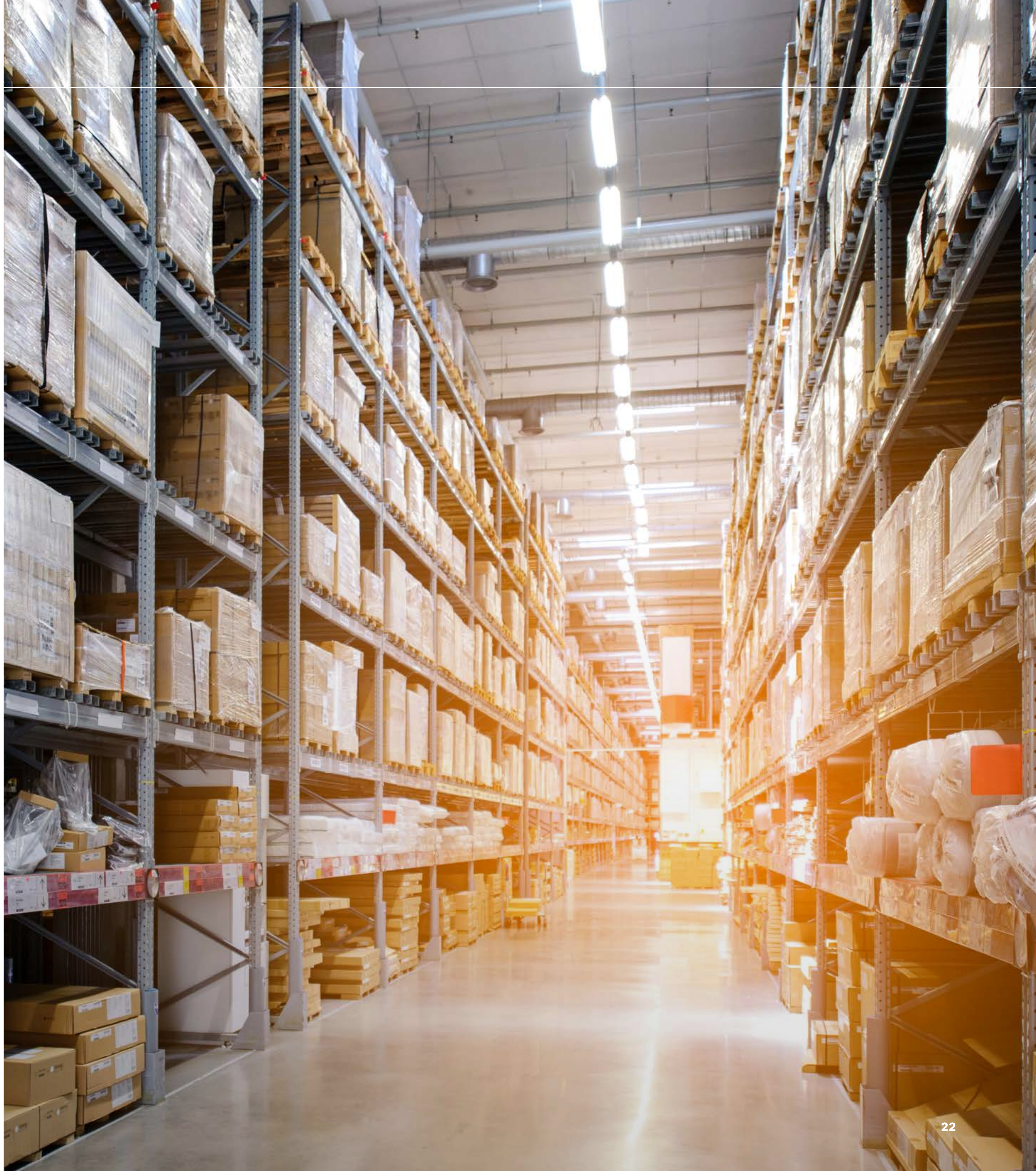
Although economic uncertainty remains, industrial real estate continues to be one of the most resilient property sectors because of its essential role in logistics, manufacturing, and digital infrastructure.

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.

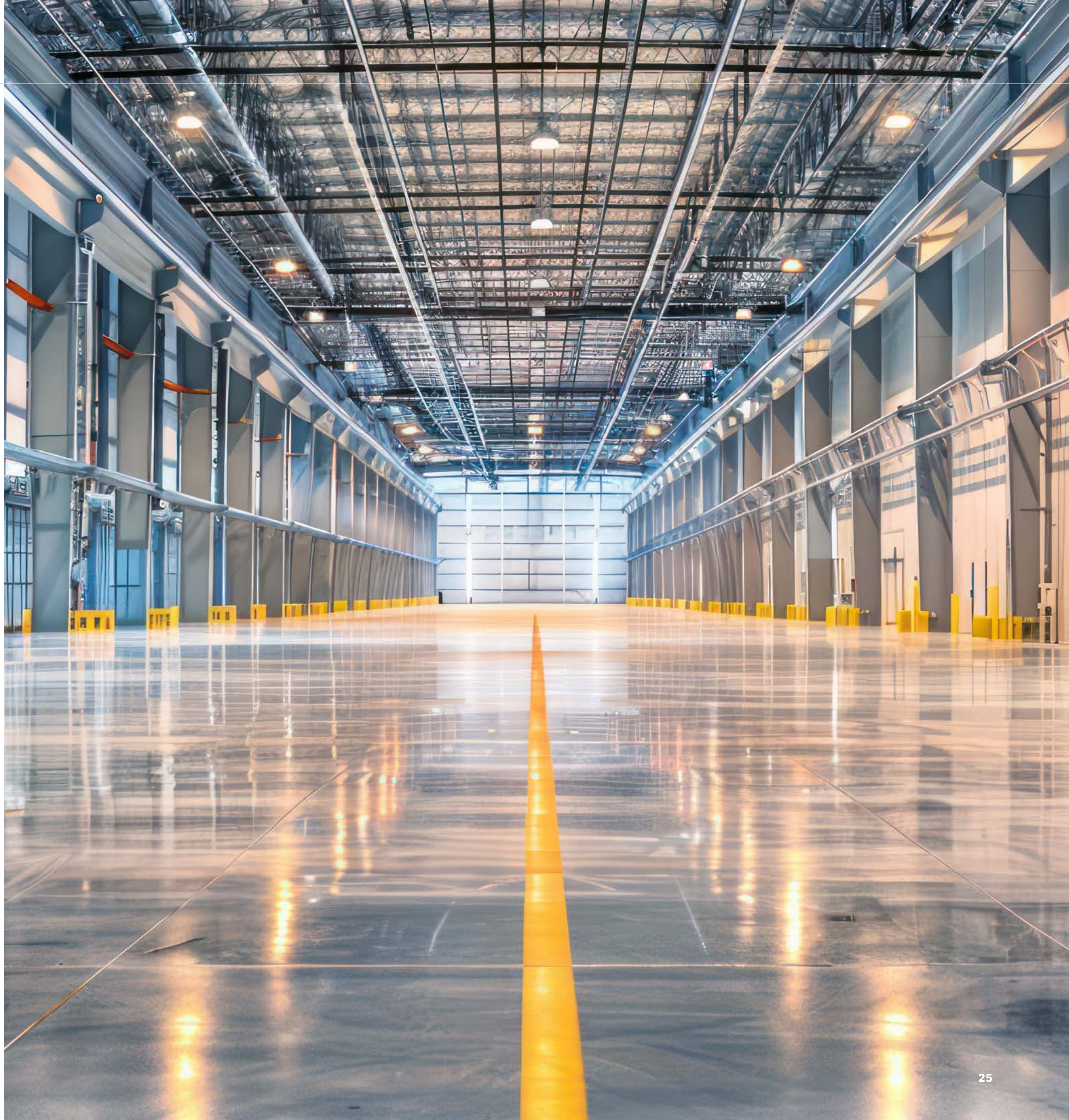
Developers have become increasingly selective, prioritizing build-to-suit projects and facilities with strong preleasing commitments over speculative development. This pullback should support a healthier balance between supply and demand over the next several years. At the same time, continued demand 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*

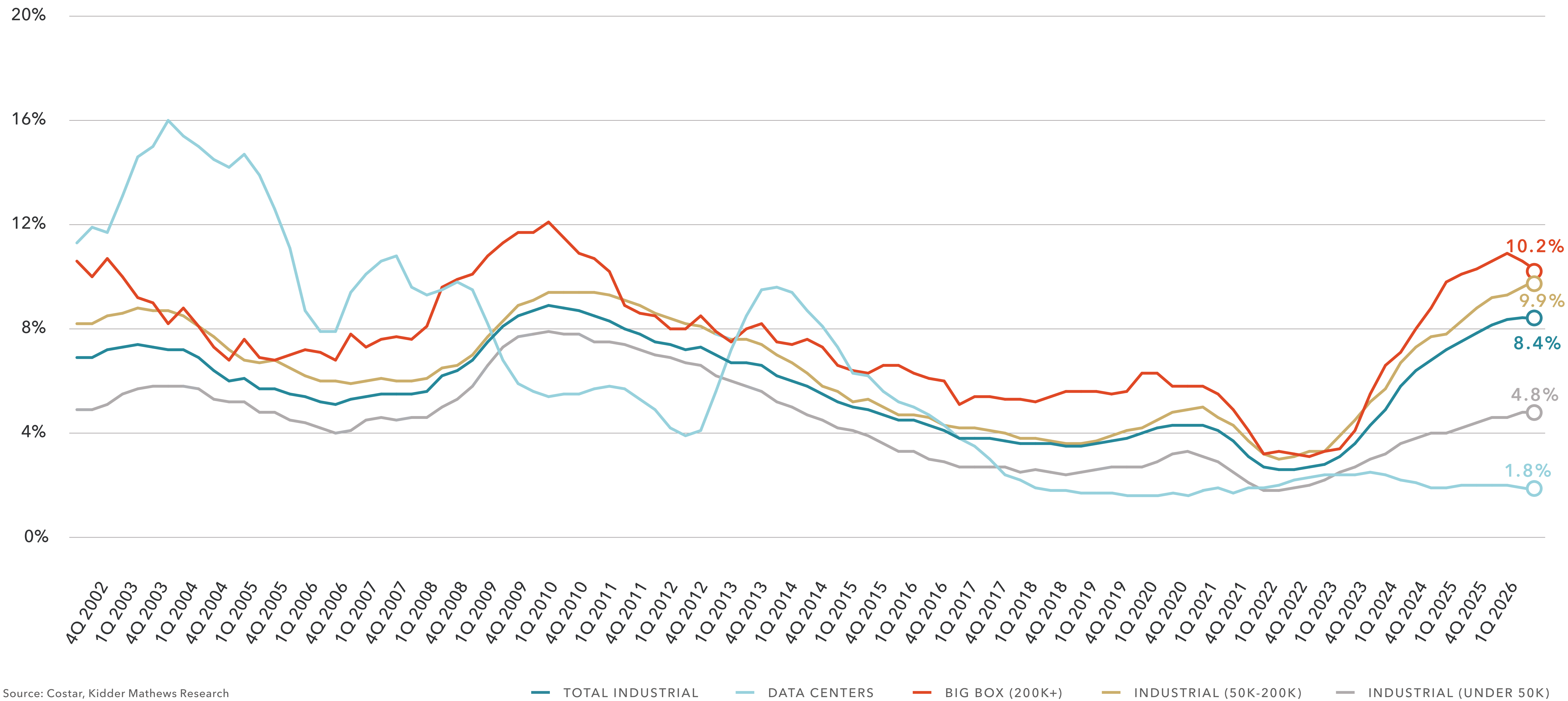
The industrial sector continues to move toward a more balanced and stable environment.

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.

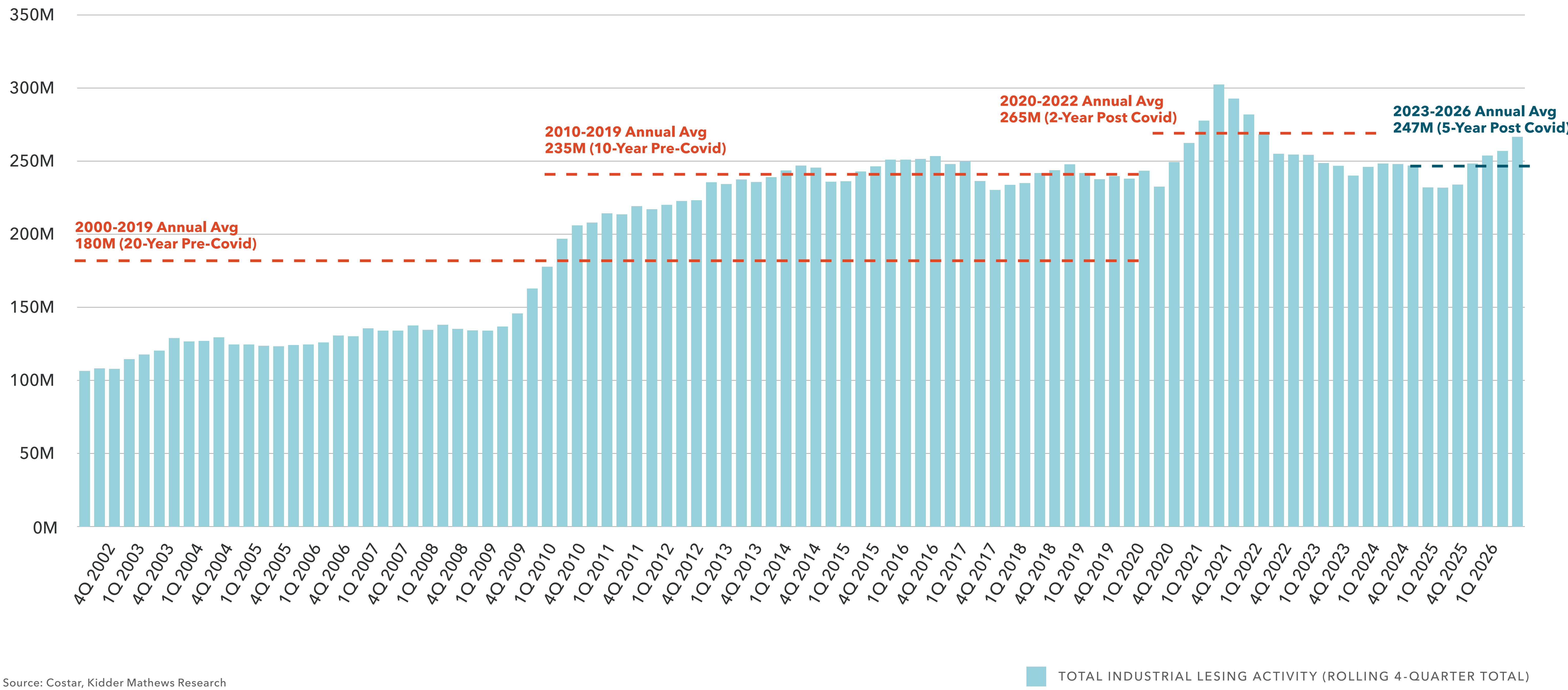


WESTERN U.S. VACANCY RATES: *VARY BY SEGMENT*



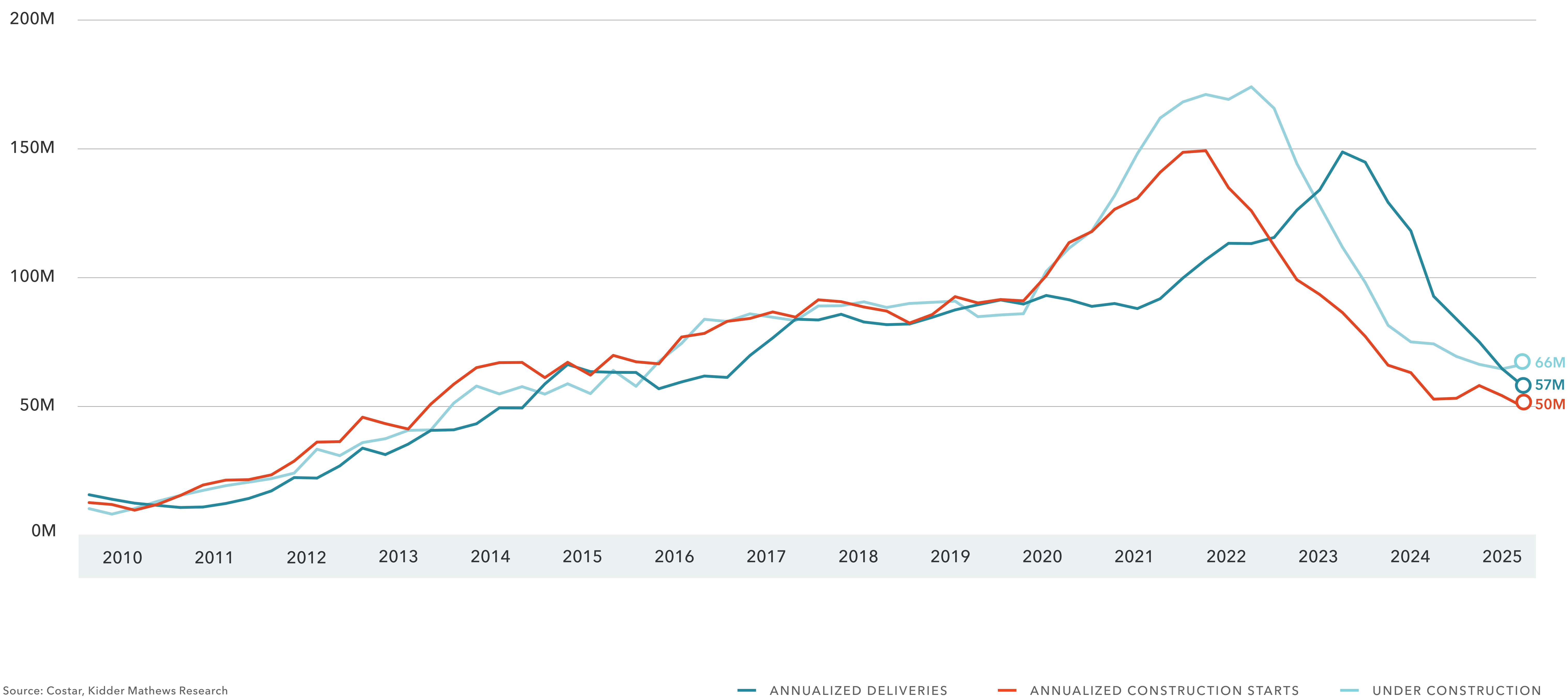
Source: Costar, Kidder Mathews Research

LEASING ACTIVITY *BACK TO HISTORIC AVERAGES*



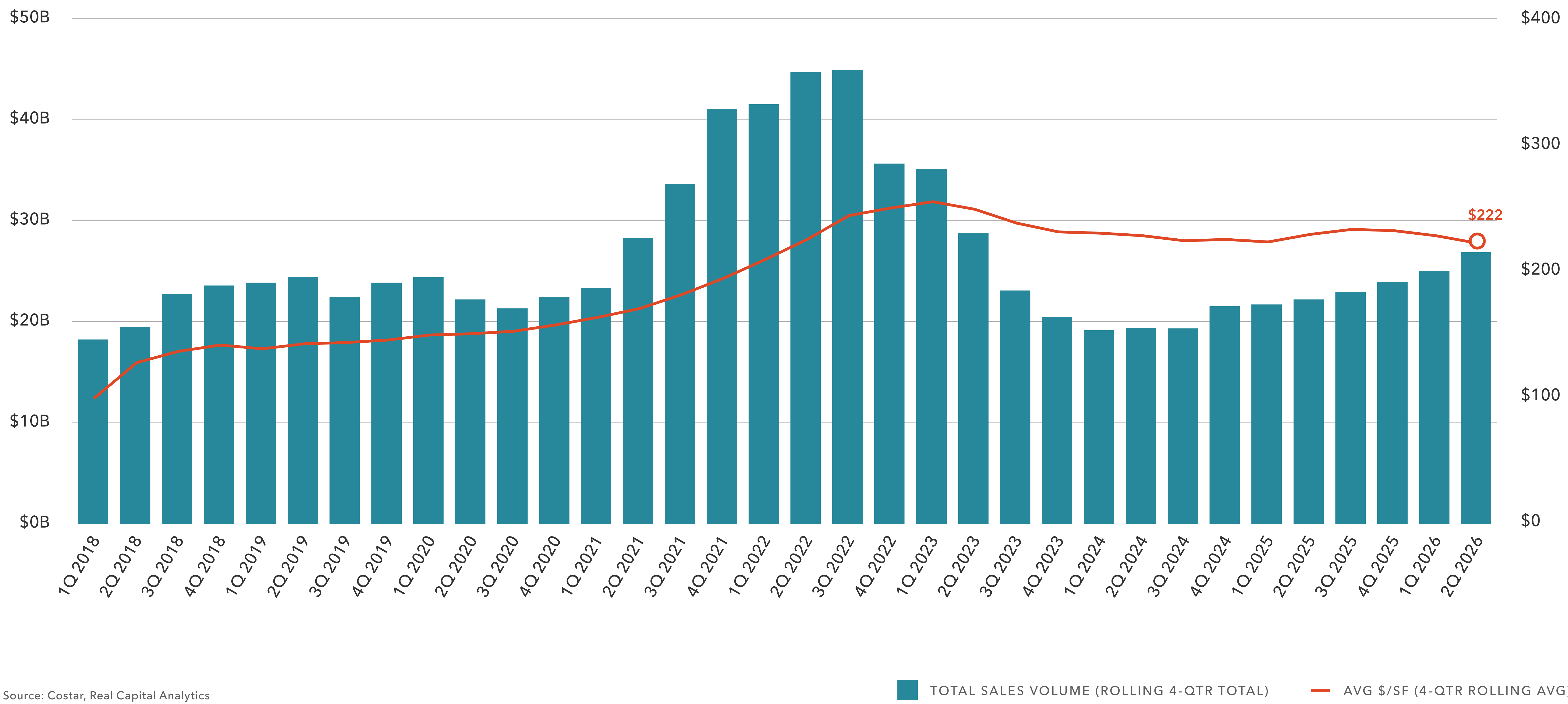
Source: Costar, Kidder Mathews Research

DEVELOPMENT PIPELINE *IS RESETTING*



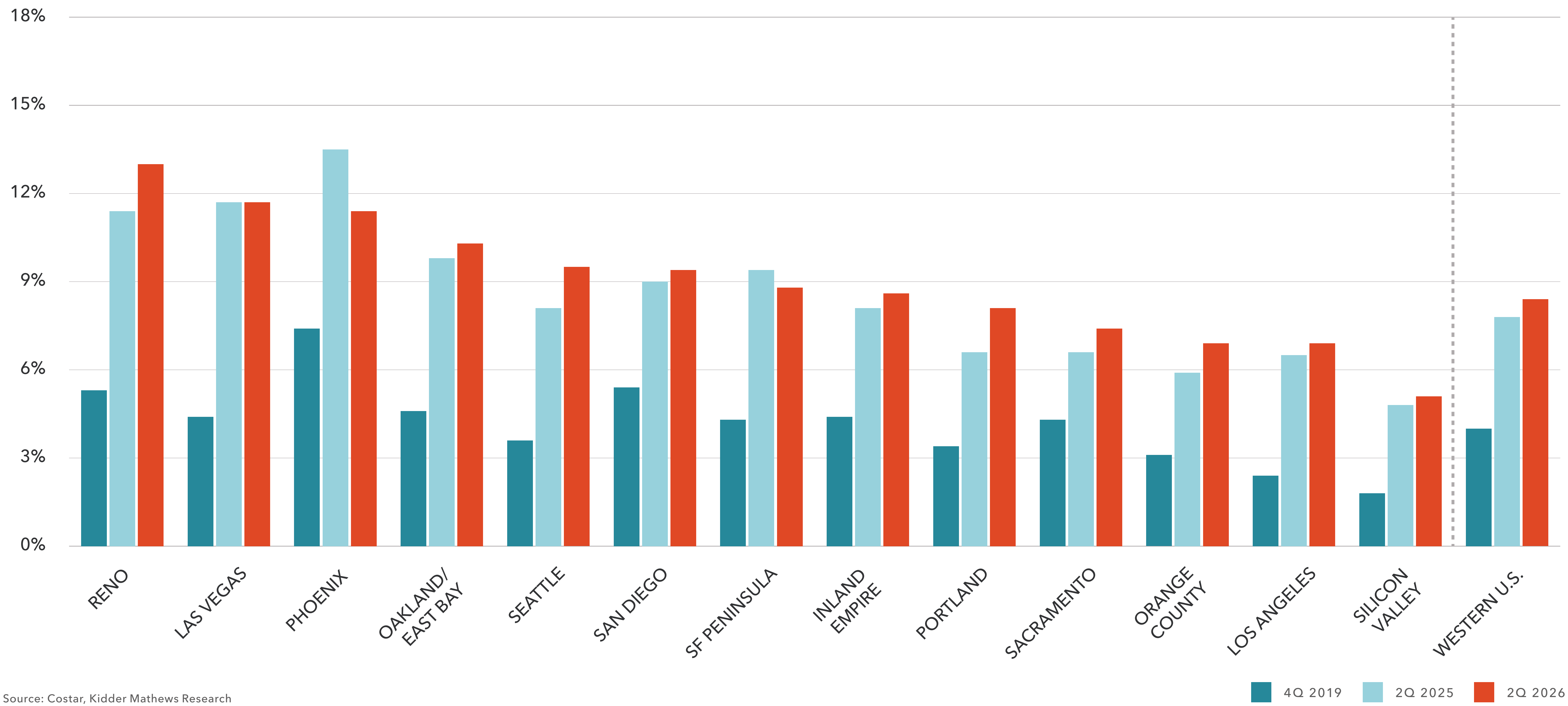
Source: Costar, Kidder Mathews Research

INVESTMENT MARKET *ACTIVITY*



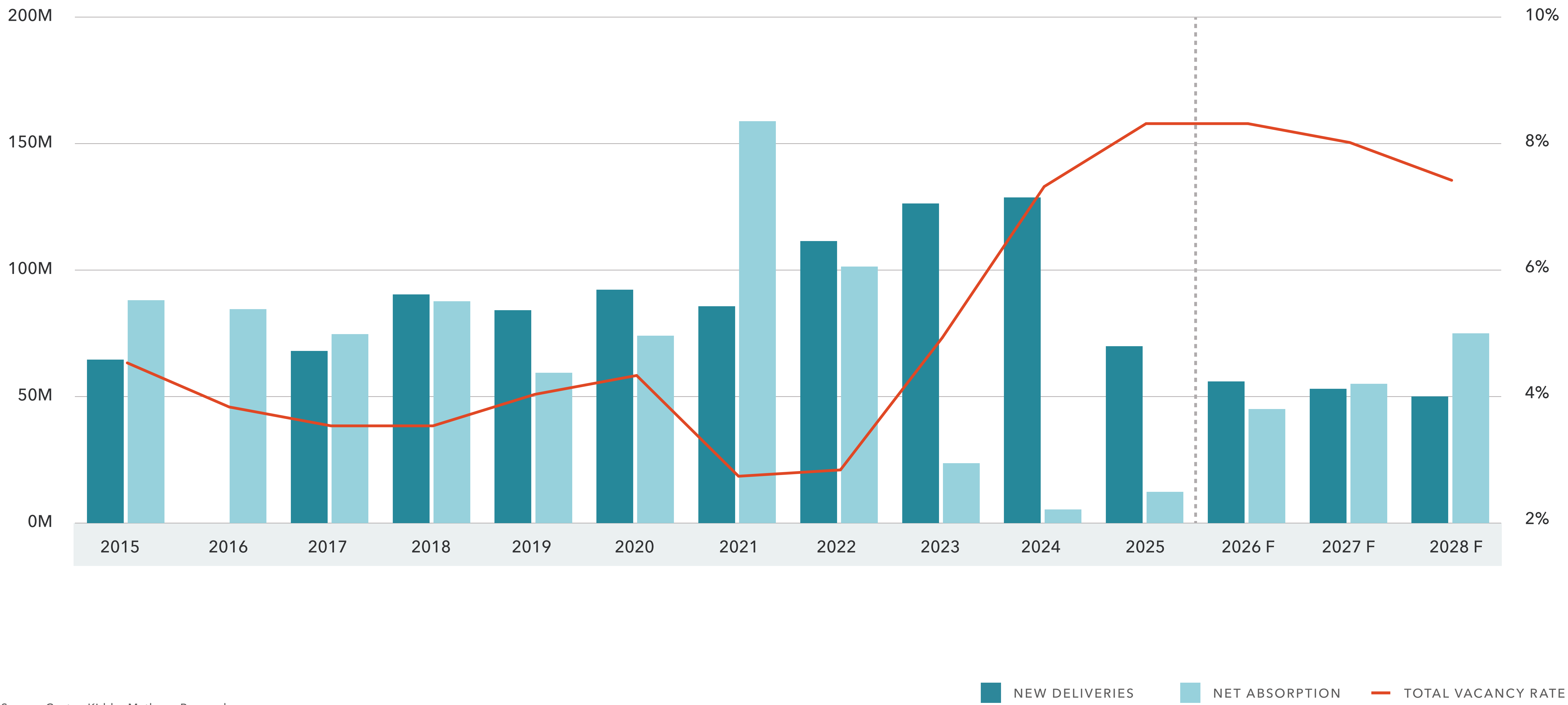
Source: Costar, Real Capital Analytics

VACANCY RATE *BY MARKET*



Source: Costar, Kidder Mathews Research

WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

Section 04

RETAIL OUTLOOK

RETAIL *REMAINS RESILIENT* AMID SELECTIVE GROWTH

The retail sector continues to demonstrate resilience, supported by limited new supply, healthy consumer spending, and consistently low vacancy rates.

Although retailers have become more selective in their expansion plans, leasing demand remains strongest from grocery, discount, service-oriented, restaurant, health and wellness, and value-focused concepts. New construction remains near historic lows, helping sustain high occupancy levels and support rent growth across a range of retail formats.

As a result, retail fundamentals remain stable despite a more cautious economic environment.

RETAIL SALES REACH *NEAR-RECORD LEVELS* DESPITE ECONOMIC UNCERTAINTY

U.S. retail sales remain steady despite higher interest rates and continued economic uncertainty, underscoring the strength of consumer spending.

Nominal retail sales, which are not adjusted for inflation, reached $768.6 billion in June 2026, an increase of 6.7% year-over-year and the fifth consecutive month of growth. Inflation-adjusted retail sales also remain positive. Following two years of relatively flat growth and a period of falling below the linear trendline, inflation-adjusted spending has risen to near-record levels, indicating that consumers are not only paying higher prices but also purchasing more.

Stable labor market conditions, wage growth, and continued spending by higher-income households have helped support retail activity, even as consumers become more selective in their purchases. Overall, both nominal and real retail sales point to a consumer sector that remains a key source of stability for the broader U.S. economy.

URBAN VACANCY DECLINES AS SUBURBAN RETAIL *MAINTAINS ITS ADVANTAGE*

Although the Western U.S. retail market has generally performed well, results continue to vary significantly by location.

Major urban markets such as San Francisco and Seattle have experienced a slower recovery, particularly in downtown districts where remote and hybrid work have reduced daytime foot traffic and retailer demand. However, conditions improved during the first half of 2026, with urban vacancy rates declining by 60 basis points since January.

In contrast, suburban markets such as Phoenix, Reno, and Sacramento continue to benefit from population growth, stronger household spending, and more consistent retail activity. Since 2019, vacancy rates across urban retail corridors have increased by roughly 330 basis points, compared with approximately 60 basis points in suburban markets, underscoring the continued strength of neighborhood and suburban shopping centers.

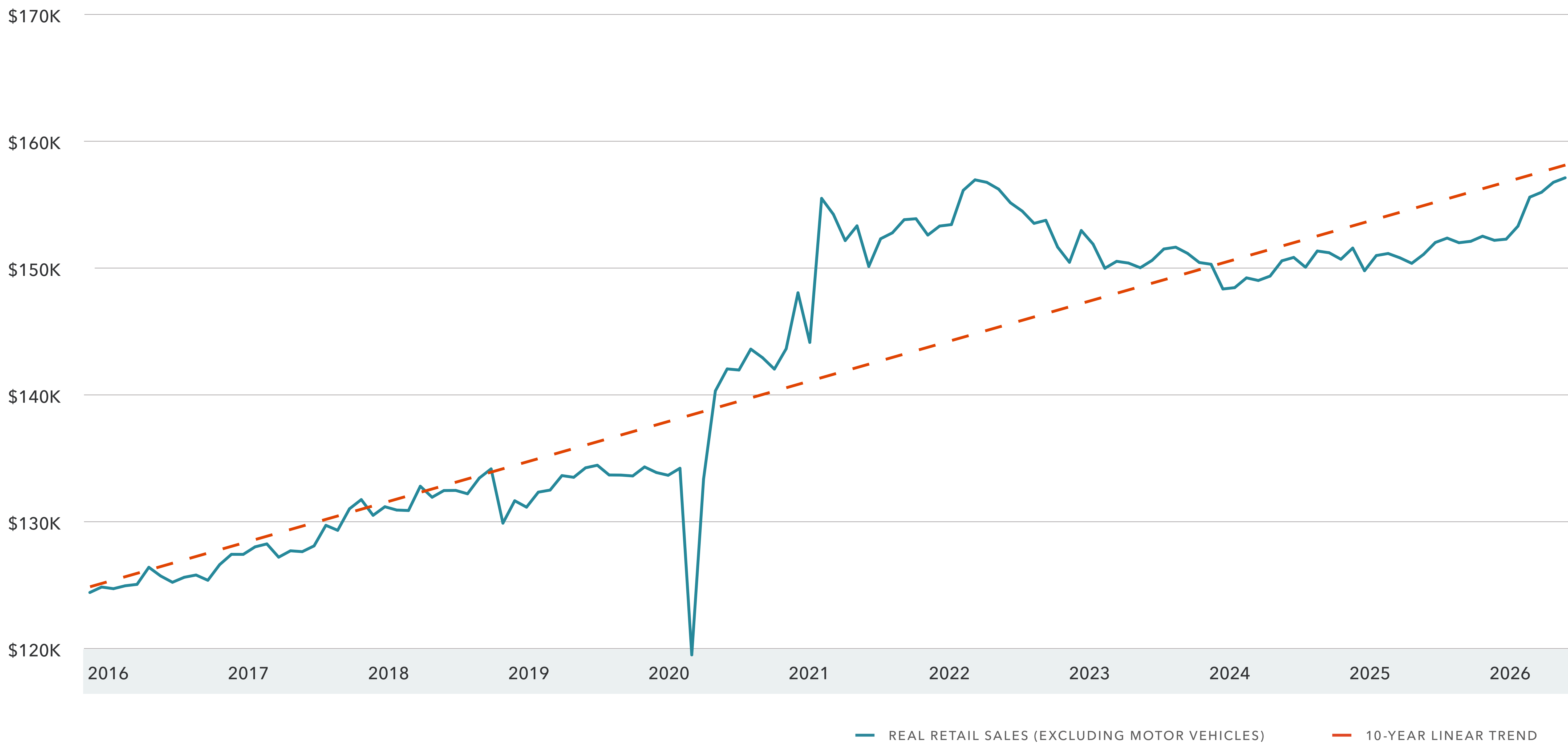
RETAIL OUTLOOK: *POSITIONED FOR STEADY GROWTH*

Retail fundamentals remain healthy as consumer activity recovers and new supply remains extremely limited.

Across the Western U.S., 10 of the region's 12 major markets have recovered to at least 90% of their pre-pandemic visitation levels, supporting continued demand for well-located retail space as physical stores still account for the majority of retail spending. At the same time, historically low levels of new construction and limited availability have helped keep vacancy rates near long-term lows and support steady rent growth.

Grocery-anchored centers, neighborhood shopping centers, and other open-air formats continue to outperform, benefiting from consistent consumer demand and strong leasing activity. Although some urban markets and aging retail properties continue to face challenges, the sector enters the second half of 2026 with healthy fundamentals and a favorable outlook supported by stable consumer spending, constrained supply, and continued demand from necessity-based retailers.

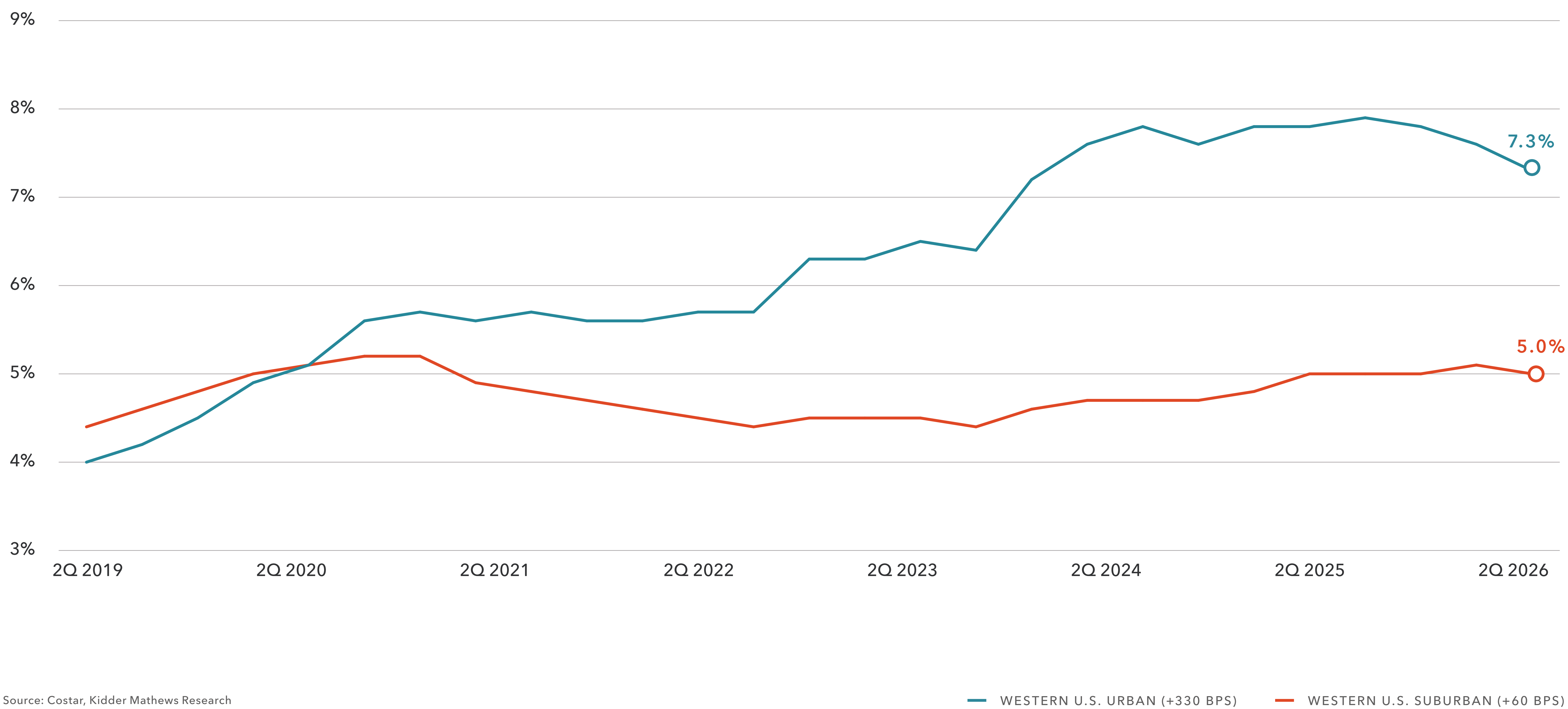
U.S. "REAL" RETAIL SALES *IMPROVING IN 2026*



Real Retail Sales = a measure of consumer spending adjusted for inflation rather than the simple total dollar value of retail sales

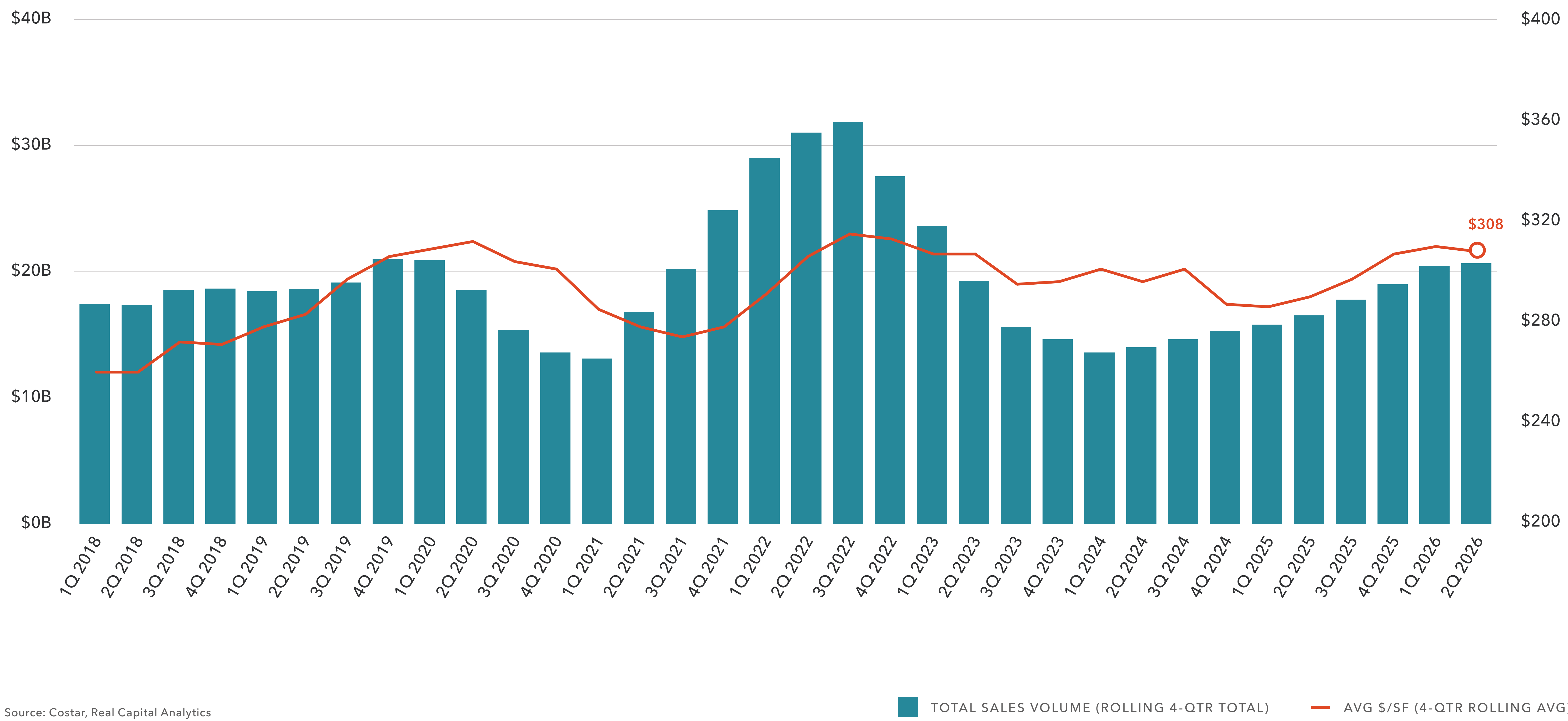
Source: U.S. Census Bureau, U.S. Bureau of Labor Statistics

URBAN VS SUBURBAN *PERFORMANCE GAP PERSISTS*



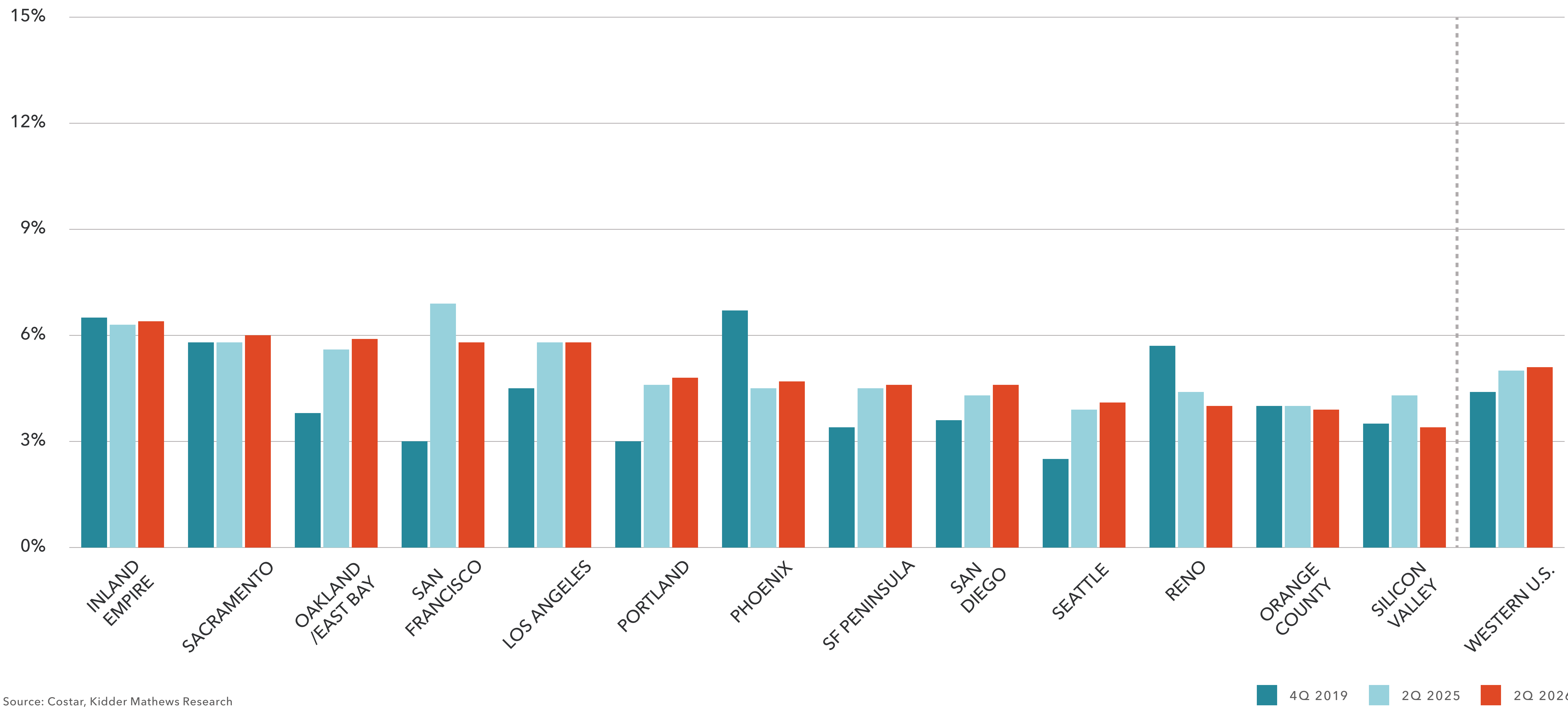
Source: Costar, Kidder Mathews Research

INVESTMENT MARKET *ACTIVITY*



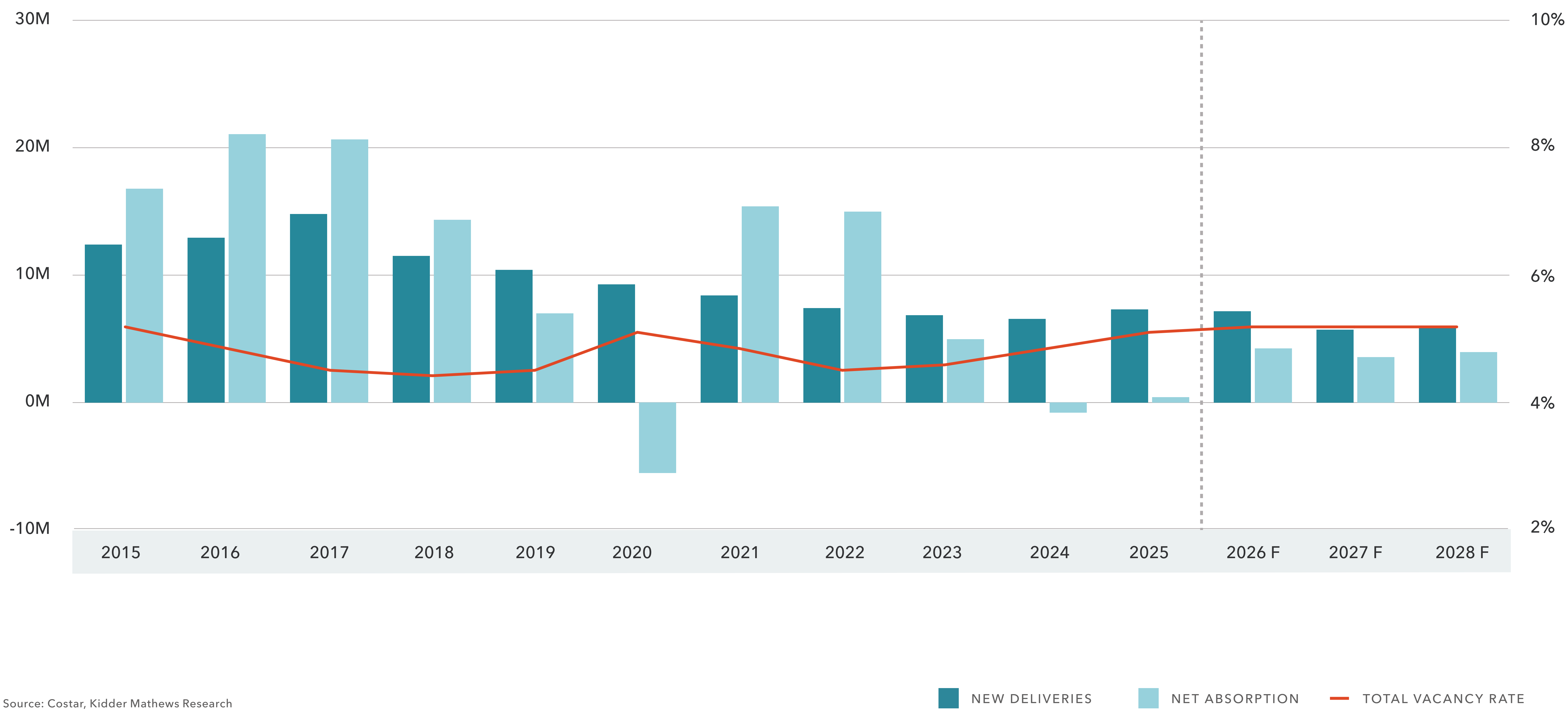
Source: Costar, Real Capital Analytics

VACANCY RATE *BY MARKET*



Source: Costar, Kidder Mathews Research

WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

Section 05

MULTIFAMILY OUTLOOK

MULTIFAMILY MOVES TOWARD BALANCE AS DEMAND STRENGTHENS

The multifamily sector is gradually returning to more balanced conditions following a significant wave of new apartment deliveries.

Elevated interest rates, slower job growth, and increased supply created headwinds throughout 2024 and 2025. However, market fundamentals began to improve in early 2026 as demand strengthened and new construction slowed.

Persistent affordability challenges also continue to support rental housing demand. High home prices, elevated mortgage rates, and limited for-sale inventory have kept many households in the renter pool, helping maintain healthy occupancy levels as the market continues to absorb recent deliveries.

INVESTMENT ACTIVITY *GAINS MOMENTUM* AS CONFIDENCE RETURNS

Multifamily investment activity is gaining momentum as capital markets stabilize and investor confidence improves.

Activity strengthened meaningfully during 2025 and into 2026 as lower interest rate volatility, improving lender activity, and clearer underwriting assumptions brought more buyers back to the market. Western U.S. transaction volume approached $40 billion in 2025 and remained near that pace during the first six months of 2026.

Investor interest is also being supported by growing expectations that market fundamentals will strengthen as new supply declines. With apartment starts and under-construction volumes continuing to fall, many investors are positioning for tighter market conditions and improving long-term performance.

LIMITED SUPPLY SUPPORTS CONTINUED MULTIFAMILY RENT GROWTH

The Western U.S. multifamily market remains one of the most expensive and supply-constrained regions in the country.

Steady job growth, limited housing inventory, and persistent affordability challenges continue to support rents, even as growth has moderated in some markets. Demand for quality multifamily housing remains resilient across major coastal metros.

San Francisco remains the most expensive apartment market in the United States, with average rents of $3,894 per unit across all sizes. Rents have continued to rise as workers return to the city and AI-focused hiring drives renewed demand. Looking ahead, rents are expected to trend upward over the near term, particularly in supply-constrained coastal markets, as solid employment growth forecasts and limited new housing deliveries support healthy occupancy and pricing power.

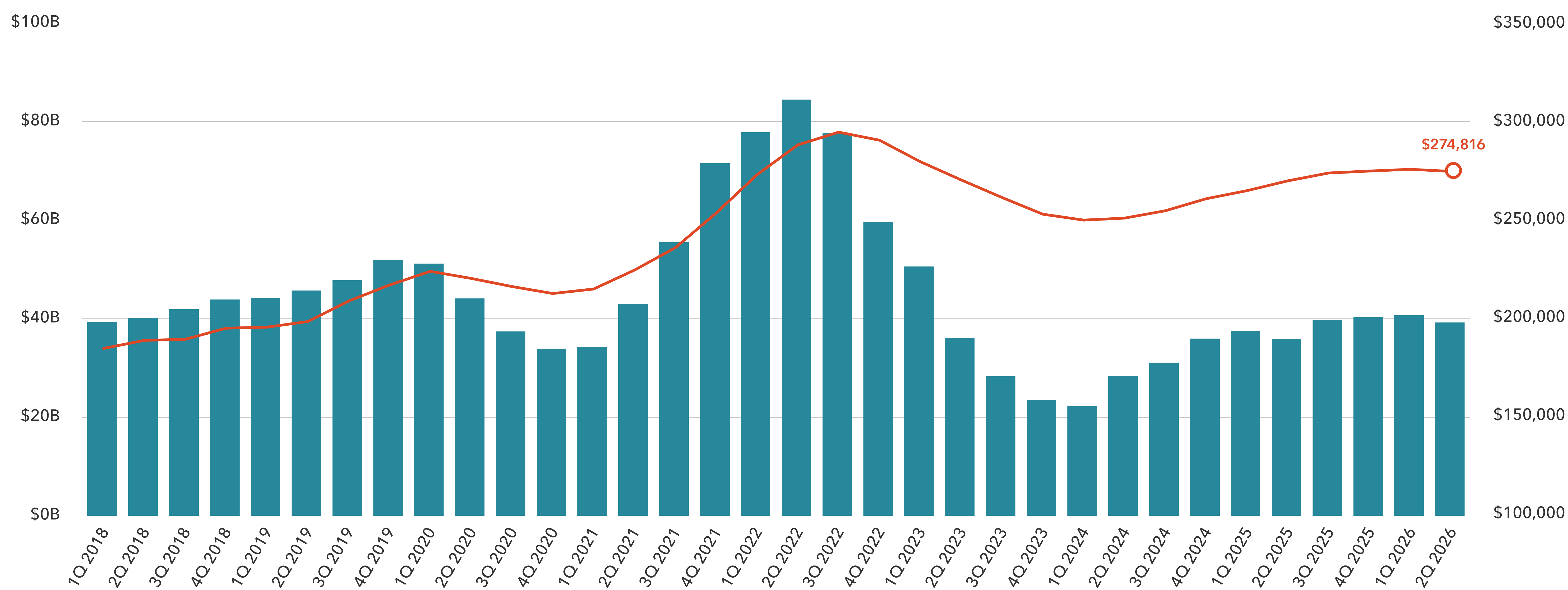
MULTIFAMILY OUTLOOK: *POSITIONED FOR GRADUAL STRENGTHENING*

The multifamily sector remains positioned for steady performance and gradual strengthening.

Strong renter demand continues to offset the effects of slower economic growth and elevated interest rates. The widening affordability gap between renting and homeownership remains one of the sector's strongest demand drivers, as high mortgage rates, elevated home prices, and limited housing inventory keep many households in the rental market longer.

Although rent growth is expected to remain modest in the near term, particularly in markets still absorbing recent deliveries, occupancy levels have generally stabilized and leasing activity remains healthy. At the same time, a sharp decline in new construction starts is reducing future supply pressure and setting the stage for improving fundamentals. Combined with growing investor interest and more stable capital markets, these trends support a favorable outlook for the sector over the next several years.

INVESTMENT MARKET *ACTIVITY*

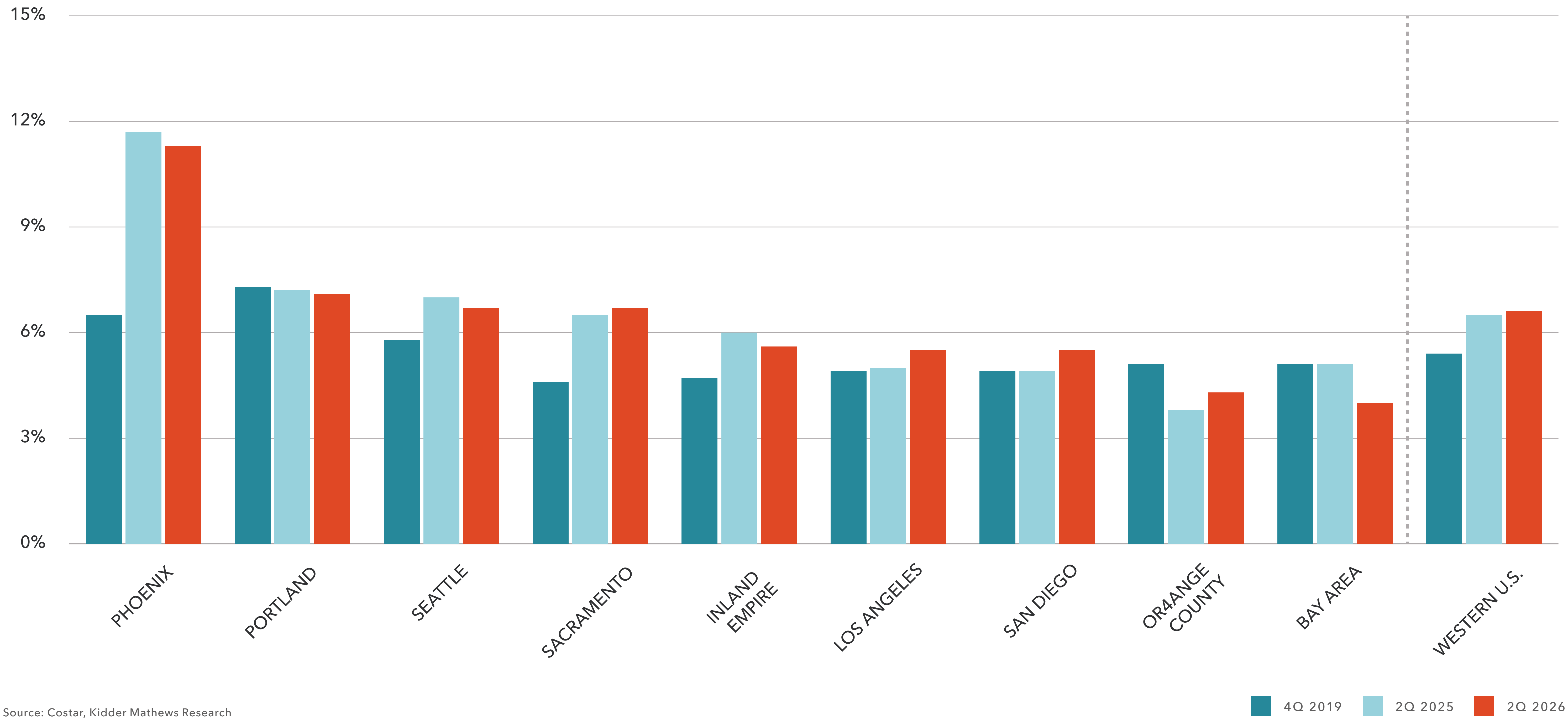


Criteria: Sales located in WA, OR, ID, NV, CA, AZ that were 5+ units and $1M+ in sale price

Source: Costar, Real Capital Analytics

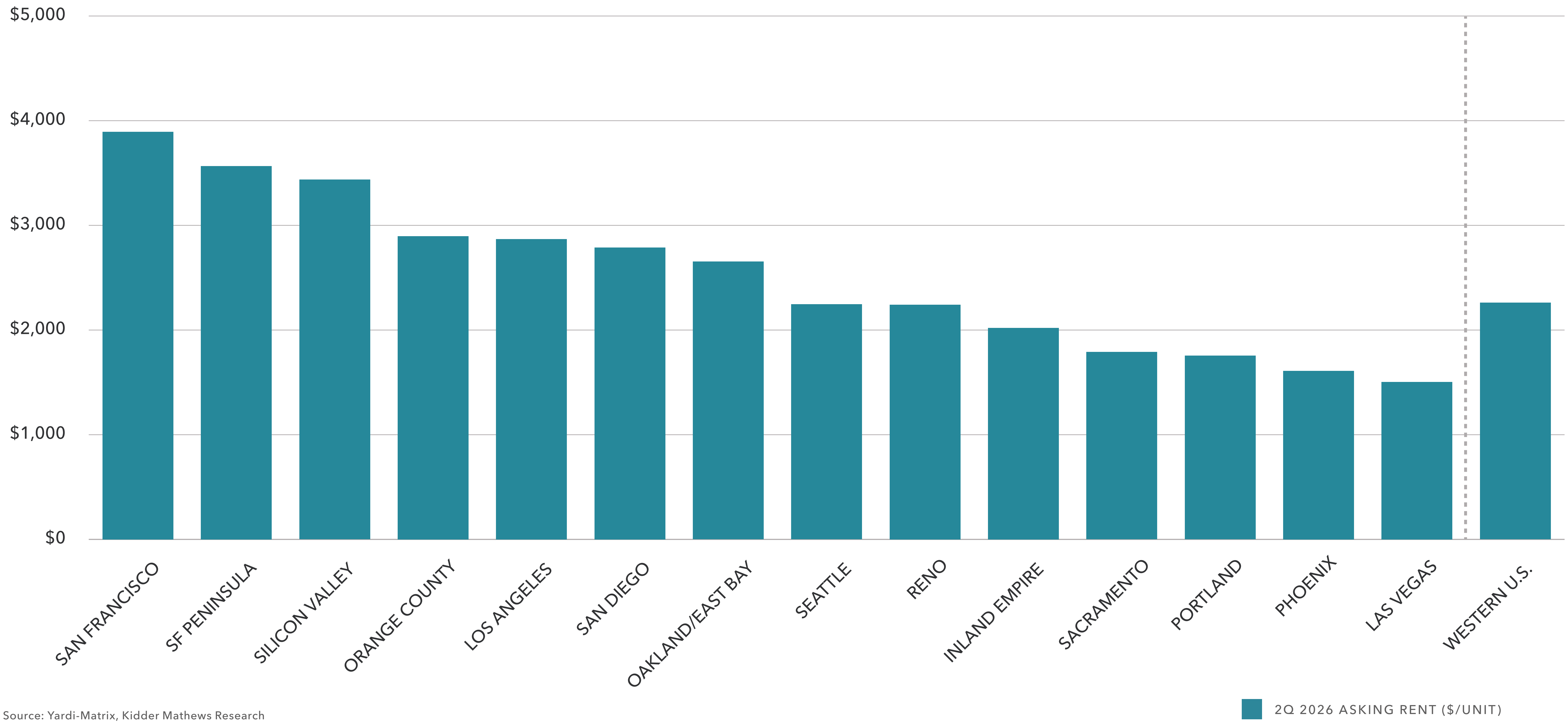
TOTAL SALES VOLUME (ROLLING 4-QTR TOTAL) AVG $/UNIT (4-QTR ROLLING AVG)

VACANCY RATE *BY MARKET*



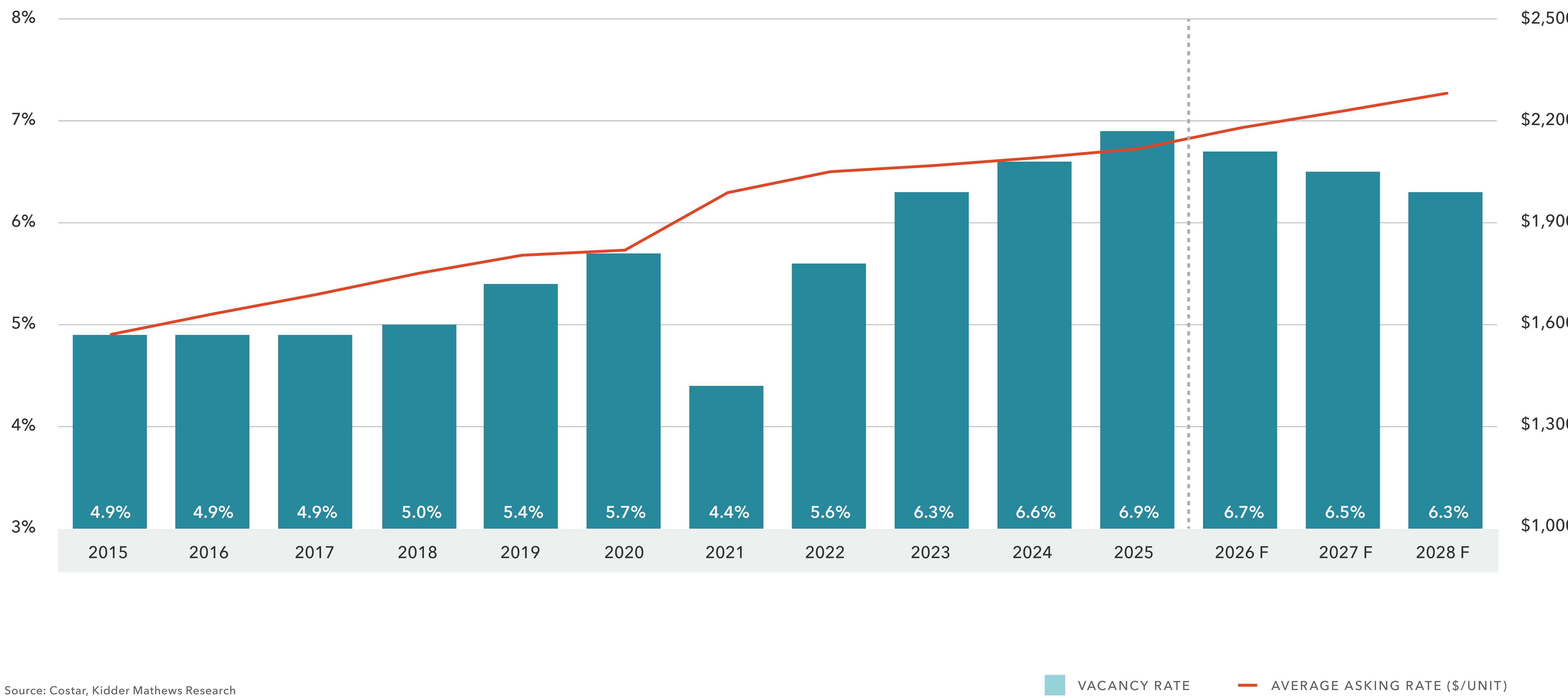
Source: Costar, Kidder Mathews Research

WESTERN U.S. *RENTS*



Source: Yardi-Matrix, Kidder Mathews Research

WESTERN U.S. *FORECAST*



Source: Costar, Kidder Mathews Research

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KIDDER.COM

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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	*32.4M+*	*32.5M+*
AVERAGE ANNUAL TRANSACTION VOLUME	ANNUAL SF OF SALES	ANNUAL SF OF LEASING

ASSET SERVICES

54M SF	*800+*	*250+*
MANAGEMENT PORTFOLIO SIZE	ASSETS MANAGED	CLIENTS SERVED

VALUATION ADVISORY

2,700+	*42*	*23*
AVERAGE ANNUAL ASSIGNMENTS	TOTAL NO. OF APPRAISERS	WITH MAI DESIGNATIONS