



WESTERN U.S. *MARKET FORECAST*

2026

LOCAL EXPERTISE. WORLD-CLASS INSIGHTS.

Our 2026 Western U.S. 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.

*Economic
Outlook*

01

*Office
Outlook*

02

*Industrial
Outlook*

03

*Retail
Outlook*

04

*Multifamily
Outlook*

05



Section 01

ECONOMIC OUTLOOK



THE U.S. ECONOMY IS EXPECTED TO BE RESILIENT WITH *SLOW AND STEADY GROWTH*

The U.S. economy enters 2026 with a renewed level of stability, exceeding earlier expectations..

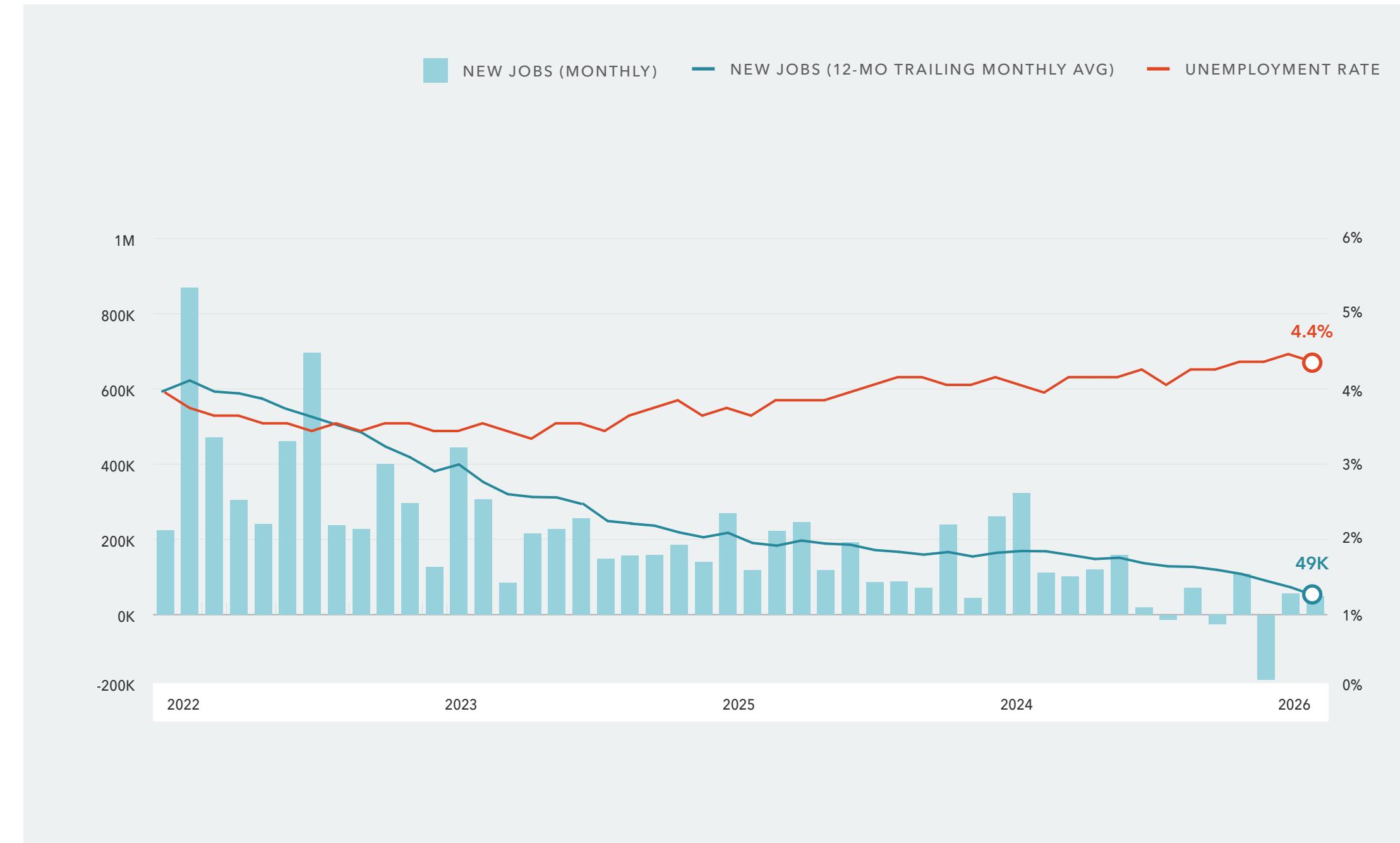
In 2025, the country successively navigated several sources of disruption, including tariff-related pressures, policy uncertainty, and a softening labor market. Despite these challenges, overall economic performance remained relatively sound. Stable consumer spending, rising real incomes, and an unprecedented surge in investment tied to artificial intelligence played central roles in sustaining growth. Looking ahead, most forecasts anticipate steady expansion, a gradual decline in inflation, and a more balanced, though still softening, employment environment.

TOTAL JOB GROWTH *CONTINUES TO COOL*

Labor market cooling remains an important near-term economic theme.

Both private and public sector hiring slowed considerably in the latter portion of 2025, and expectations for 2026 point to moderate but steady growth during the year. This trend is influenced by reduced immigration flows, an overall decline in job openings, and the growing use of automation as employers look for ways to manage operating costs more efficiently.

Unemployment is expected to hover near 4.5%. Several economists caution that the U.S. may enter a period in which economic output continues to rise while employment growth slows, a pattern reminiscent of the early 2000's.

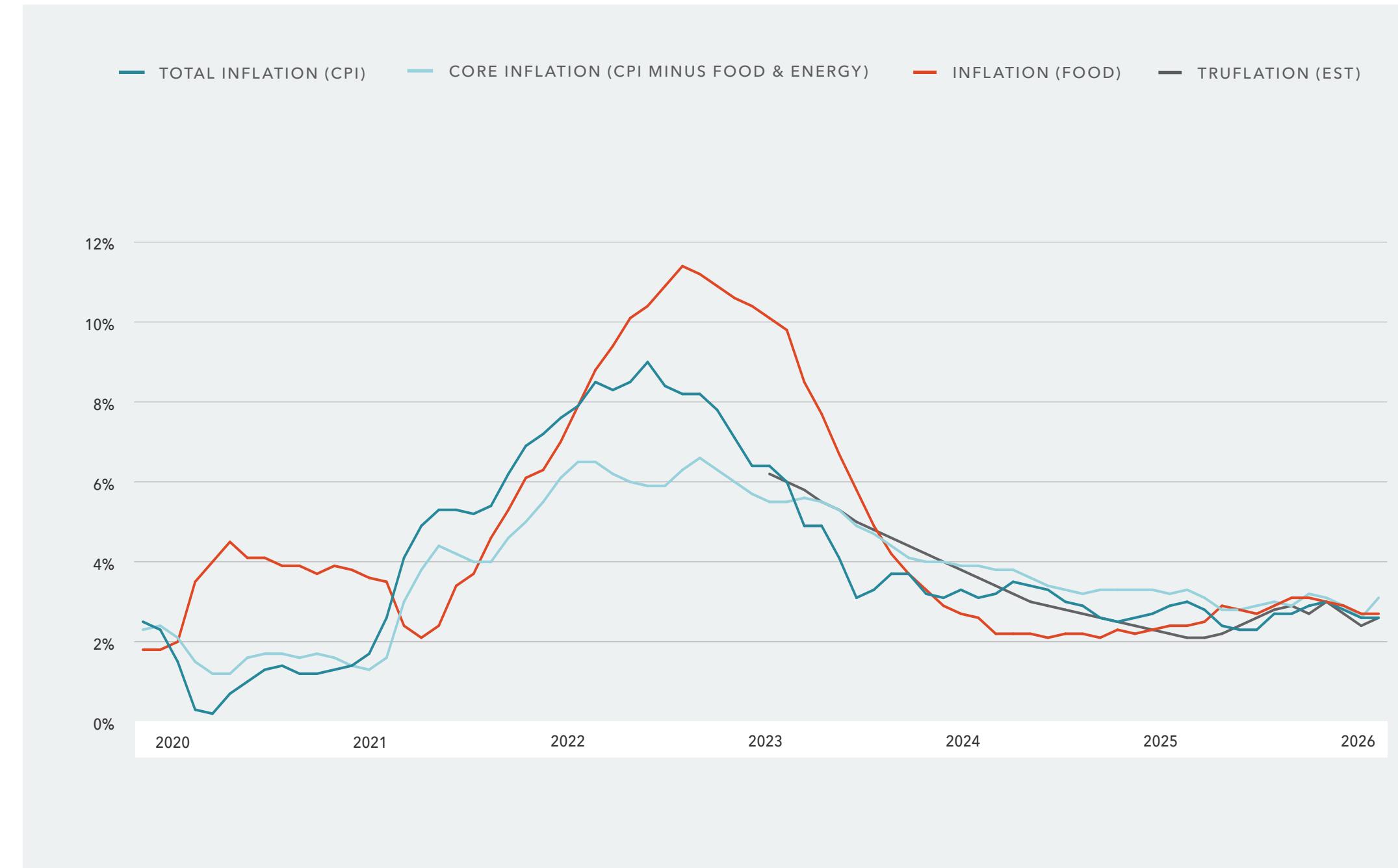


Source: U.S. Bureau of Labor Statistics

INFLATION REMAINS *RELATIVELY STABLE*

Inflation has continued to normalize and is expected to ease further in 2026.

The inflation rate has steadily declined from the highs recorded in 2022 and 2023, remaining within a 2% to 4% range since 2024. Core inflation is expected to settle near 2.0% to 2.5% as the effects of tariffs fade, labor market pressures moderate, and rental costs stabilize. Even so, many households continue to feel the impact of elevated prices for utilities, housing, and basic goods. While inflation is trending in the right direction, it will likely remain slightly above the Federal Reserve's long-term target of 2.0% until late in the year.



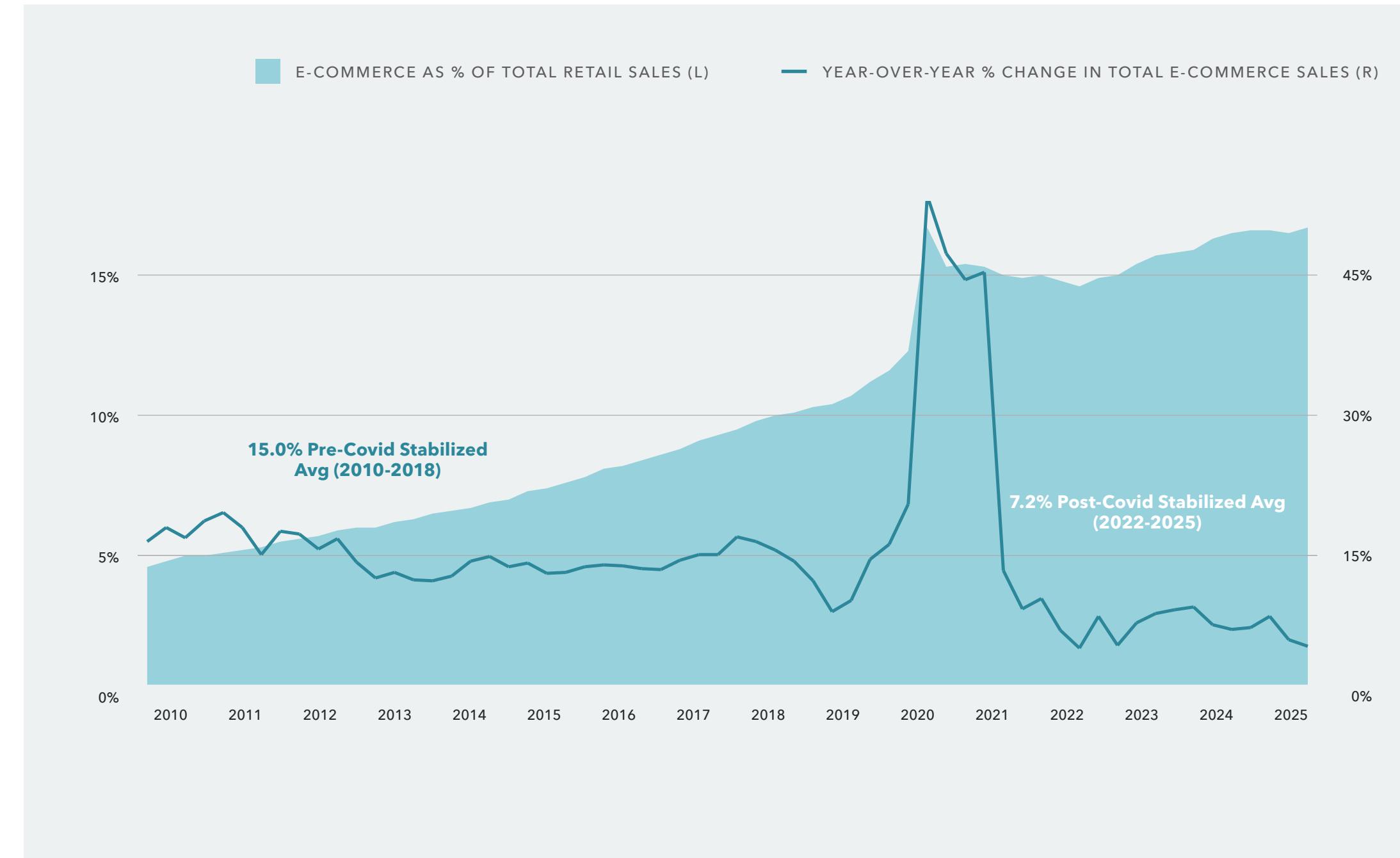
Source: U.S. Bureau of Labor Statistics, Truflation.com

E-COMMERCE SALES GROWING AT A *SLOWER PACE*

E-commerce growth is stabilizing as consumer shopping patterns normalize.

Growth in e-commerce has moderated as consumers return to more balanced shopping behaviors following two years of rapid online sales growth in 2020 and 2021. Pre-COVID, the annual rate of increase was approximately 15% per year between 2010 and 2018, but after a post-COVID normalization period, annual growth has slowed to a more consistent and stabilized pace of 7.2% since 2022.

Increasingly, shoppers are combining online activity with visits to physical stores, particularly within grocery, discount, and other retail categories that provide a catered and enjoyable customer experience. Softer job growth, tighter household budgets, increased credit card debt, and a moderation in discretionary spending are further contributing to this more measured pace of digital sales expansion.



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

AI INVESTMENT *CONTINUES TO SURGE*

Investment connected to artificial intelligence continues to expand at an accelerated pace.

Throughout 2025, companies poured capital into data centers, automation infrastructure, and a wide range of AI enabled applications. This momentum is expected to continue in 2026 and beyond. Economists broadly agree that artificial intelligence will remain a central driver of productivity, business formation, and long-term economic growth.

Although corporate AI investment and overall adoption is still in the early stages, additional fiscal incentives and a deepening corporate adoption cycle are expected to support sustained investment, even as some organizations leverage AI to streamline operations and reduce hiring needs.



Source: CB Insights

ECONOMIC *FORECAST*

Overall conditions point to a stable start to the year with continued economic resilience.

Taken together, these factors suggest the U.S. economy will begin the year on solid footing. Strong consumer fundamentals, easing financial conditions, and historic investment in artificial intelligence are shaping a year characterized by steady expansion and improving stability.

Although the labor market has been cooling, and automation advancement may limit job creation, overall economic output is expected to remain healthy. Electronic commerce continues to normalize after years of exceptional growth, reflecting a more selective but still resilient consumer.

The year ahead will likely be defined by ongoing structural transformation, particularly in the areas of technology and productivity, which will influence economic performance and labor market dynamics for years to come. Many analysts also emphasize the continued rise in productivity, strengthened by rapid advances in artificial intelligence, as a key contributor to the economy's resilience.



Section 02

OFFICE OUTLOOK

THE OFFICE MARKET IS SHOWING SIGNS OF *GRADUAL BUT UNBALANCED IMPROVEMENT*

Leasing activity is strengthening as select markets begin to stabilize.

Leasing activity has increased compared with the previous several years, supported by stronger tenant demand, improved leasing stability, and renewed expansion in several major markets. While vacancy remains high by historical standards, its pace of increase has slowed considerably.

At the same time, new office development has fallen to its lowest level in many decades, and the gradual removal or conversion of obsolete buildings is helping restore balance between supply and demand. Together, these shifts form the foundation for a gradual return to more normalized conditions as occupiers gain confidence and financing constraints soften.





THE FLIGHT QUALITY TO PREMIUM OFFICE SPACE *CONTINUES TO DRIVE TENANT DEMAND*

The distinction between top-tier office assets and the broader market continues to widen. In many cases, this dichotomy can be seen between Class A properties and premium locations, but it can also be seen in newly built properties versus older properties.

Either way, premium, new and modern buildings have typically attracted the majority of leasing activity as employers seek environments that foster collaboration, support organizational culture, and help retain talent. This dynamic has strengthened as office attendance on peak days rises and corporate leaders place renewed emphasis on workplace quality. With new construction at a multi-year low, properties in the best locations with quality amenities are filling up quicker in many markets, leading to faster rent recovery and increased competition among tenants. As these premier spaces reach higher occupancy, demand is beginning to expand into well located buildings that have undergone substantial upgrades.



SHIFTS IN VACANCY & SUBLEASE SPACE

Vacancy and sublease availability are beginning to trend downward.

Vacancy rates have started to decline modestly following several years of sustained increases. As we enter 2026, many markets have recorded consecutive quarters of positive net absorption and incremental vacancy reductions.

Gateway cities and technology-focused markets are seeing a notable uptick in leasing velocity, and sublease inventories have fallen meaningfully as tenants withdraw available space or secure new occupants. This contraction of sublease availability is an important signal, as it typically precedes broader improvements in vacancy. When reviewing the trend of sublease space as a percent of total available space, the West Coast combined figure has dropped from a high of 15.3% in 2023 to 10.4% at the end of 2025. Much higher than the 10-year pre-covid average of 4.7%, but a positive sign of the impending recovery cycle. While overall vacancy remains elevated compared with the years prior to the pandemic, the market has clearly reached a turning point.



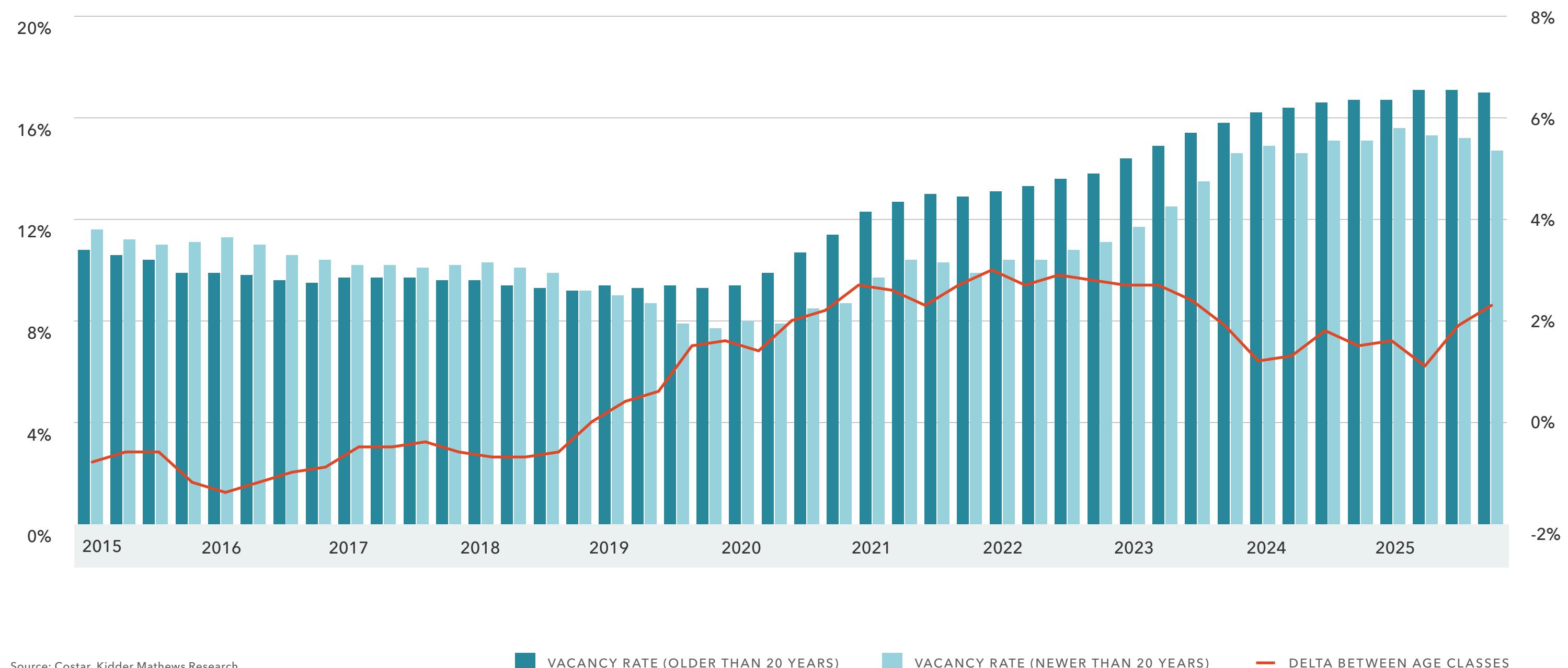
WESTERN U.S. *FORECAST*

The office sector is positioned for gradual recovery in 2026.

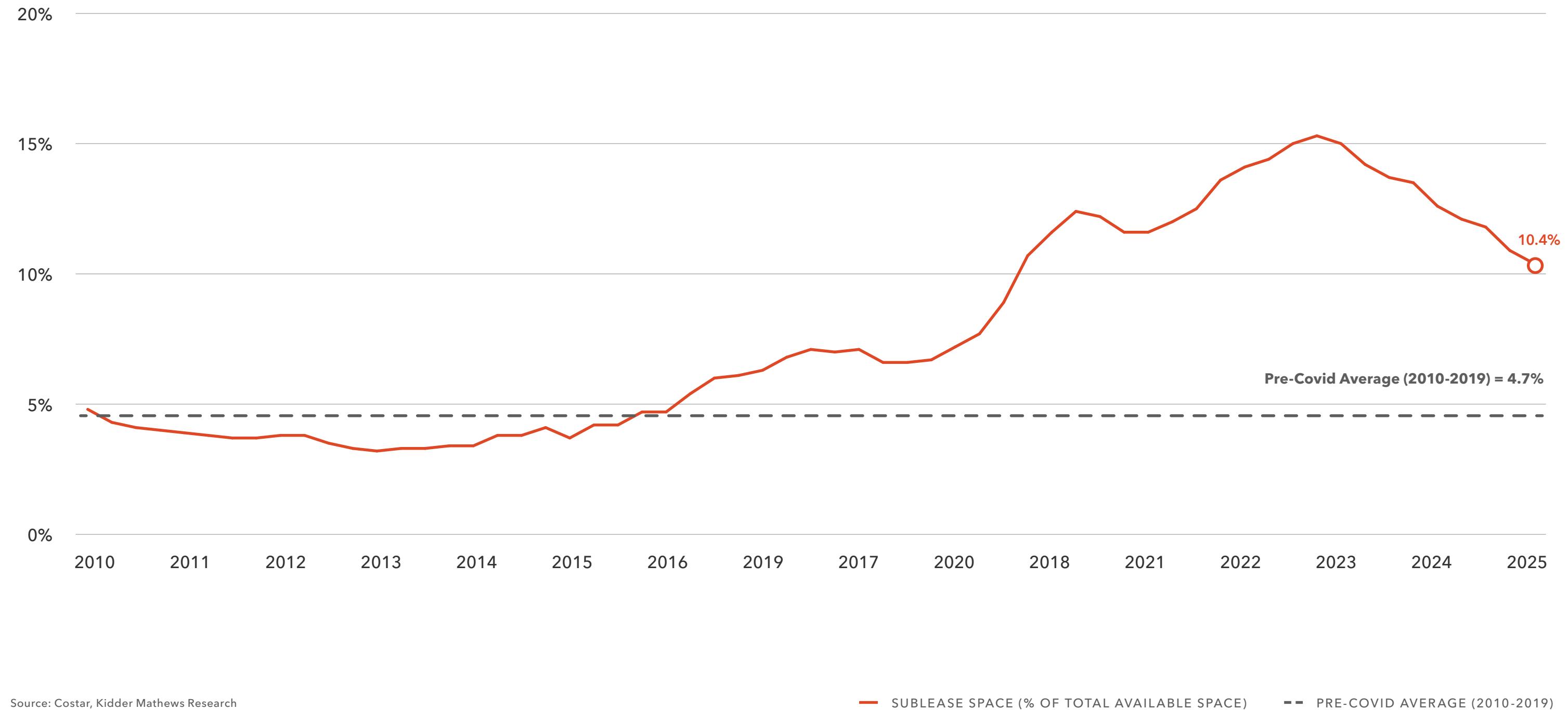
Leasing volumes are expected to exceed 2025 levels as more organizations formalize long-term workplace strategies and capital flows improve. Rent growth will concentrate within premium assets, while older buildings, particularly those requiring major capital investment, may face challenges or pressure to reposition.

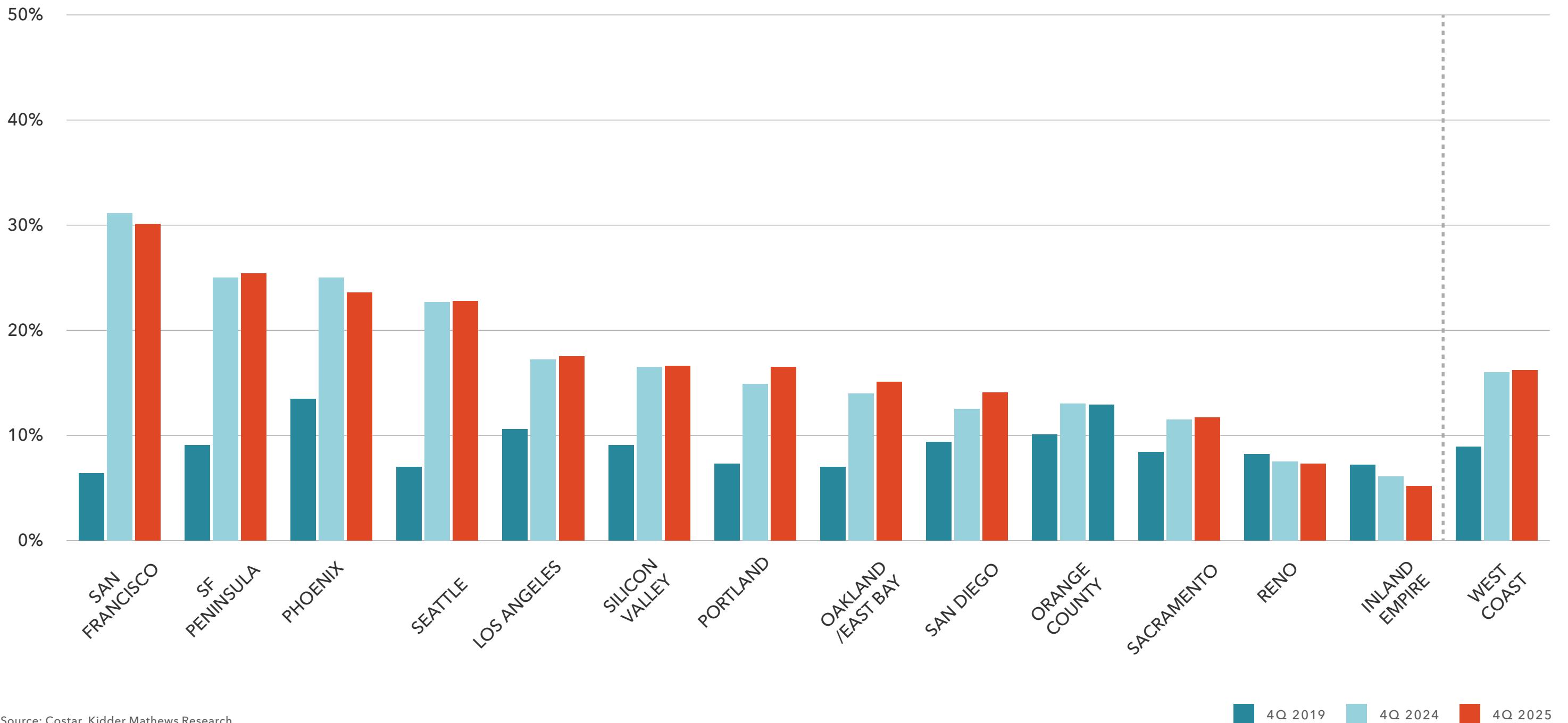
Limited new construction and selective conversions will help move the market toward structural tightening. At the same time, debt maturities and refinancing pressures will weigh on weaker assets. Overall, the year is expected to bring incremental improvements in occupancy, firmer pricing within top tier segments, and a clearer path toward balance across many regions.

THE FLIGHT TO QUALITY DRIVES PERFORMANCE



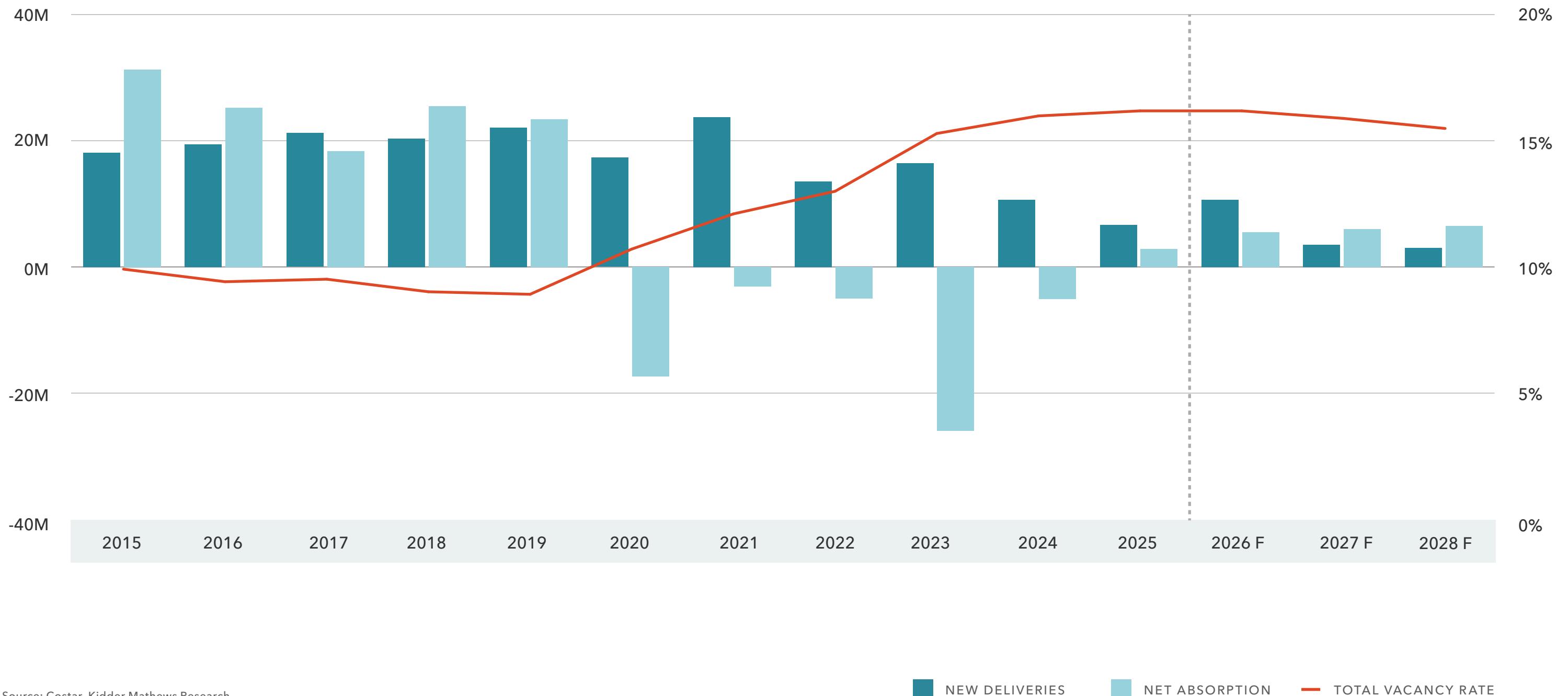
TOTAL SUBLEASE IS ON DECLINE



VACANCY RATE *BY MARKET*

Source: Costar, Kidder Mathews Research

█ 4Q 2019
 █ 4Q 2024
 █ 4Q 2025

WESTERN U.S. *FORECAST*

Source: Costar, Kidder Mathews Research



Section 03

INDUSTRIAL OUTLOOK

THE INDUSTRIAL SECTOR IS *RESETTING, RESHAPING, AND RETURNING TO HISTORIC NORMS*

The industrial sector enters 2026 with strengthening momentum after experiencing a cooling and recalibration period between 2023 and early 2025.

Demand improved meaningfully in the later months of 2025 as large occupiers reengaged, automation-ready facilities gained traction, and e-commerce related requirements stabilized. Key market indicators suggest the sector is shifting from an oversupply period toward a more balanced environment, supported by steady leasing demand, stabilizing vacancy levels, and a much smaller development pipeline. While some economic uncertainty remains, industrial real estate continues to be one of the most resilient asset classes due to its essential role in logistics, inventory management, and modern manufacturing.

MARKET TIGHTENING EXPECTED AS WESTERN U.S. VACANCY STABILIZE

Vacancy appears to have reached or come close to its cyclical peak in most segments.

Vacancy rates rose modestly through 2024 and 2025 as new deliveries slightly outpaced net absorption, though not at the scale seen in previous years. By year-end, vacancy had stabilized in most markets. Performance, however, varied widely by segment. Vacancy in big-box warehouse and distribution facilities increased from approximately 3% in 2022 to nearly 11% in 2025. In contrast, infill industrial and data centers saw much lower vacancy rates at 4.6% and 2.1%, respectively. Demand for data centers will continue to be robust with the evolution of AI, automation, and the need for facilities with heavy power.

Overall, the Western U.S. vacancy rate ended 2025 at 8.3% and appears to have peaked or near its cyclical peak, signaling that the market has moved through its most supply-intensive phase and is positioned for gradual tightening in 2026 as new construction continues to decline.





THE INDUSTRIAL MARKET *IS POISED FOR GROWTH AS LEASING ACTIVITY STABILIZES*

Leasing momentum improved in late 2025 and is aligning with long-term averages.

Leasing volume increased notably during the latter half of 2025 following a slowdown earlier in the year. Renewed commitments from large occupiers and continued expansions by logistics, manufacturing, and retail distribution users led Western U.S. combined leasing totals just below 235M SF. This volume places the last two years right on track with the pre-COVID trailing 10-year average of 235M SF. Selective mid-to large-sized transactions played a significant role in recent quarters, reinforcing the sustained demand for modern distribution facilities. While leasing activity is no longer accelerating at the extraordinary pace experienced in 2021 and 2022, it is stabilizing at healthy long-term averages.



DEVELOPMENT PIPELINE SHRINKS OVER 60% AS MARKET REBALANCES

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

New deliveries in 2025 fell by more than 45% compared with the cyclical high last year. Additionally, under construction figures declined by more than 61% compared to the cyclical high in 2023, while new construction starts have declined by 65% since the end of 2022. Markets such as Phoenix have felt the greatest impact of the recent surge, which will take time to recalibrate.

Overall, developers have shifted toward build-to-suit and owner-user projects, reducing speculative development. This pullback lowers the risk of future oversupply and should yield a more balanced environment in 2026 and 2027. Strong preleasing activity and high demand for modern, automation-friendly facilities, position the sector for steady pricing in the coming 12-18 months.

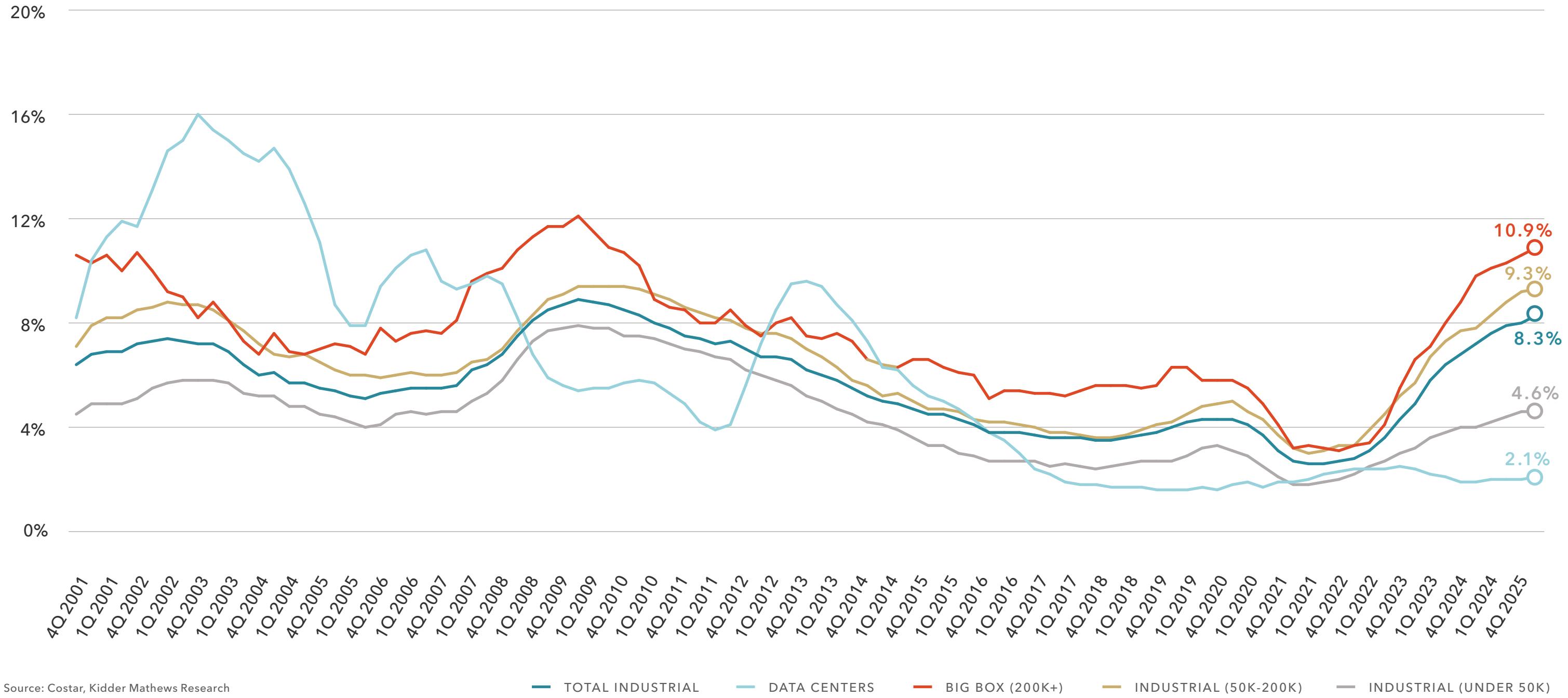
INDUSTRIAL OUTLOOK

STABILIZATION IN SIGHT AS THE MARKET RESETS

The industrial sector is gradually shifting from a period of volatility toward greater stability, moving back toward historical averages.

Vacancy rates have likely peaked in many markets, while leasing volumes continue to align with historical norms, and new construction has slowed significantly. Markets with strategic logistics advantages are expected to outperform in the near term as demand from that market segment rebounds. Occupiers remain focused on modern facilities, placing older properties at a disadvantage unless upgraded. With healthier demand patterns and more disciplined supply, the sector is well positioned to remain a leading performer within the broader commercial property landscape.

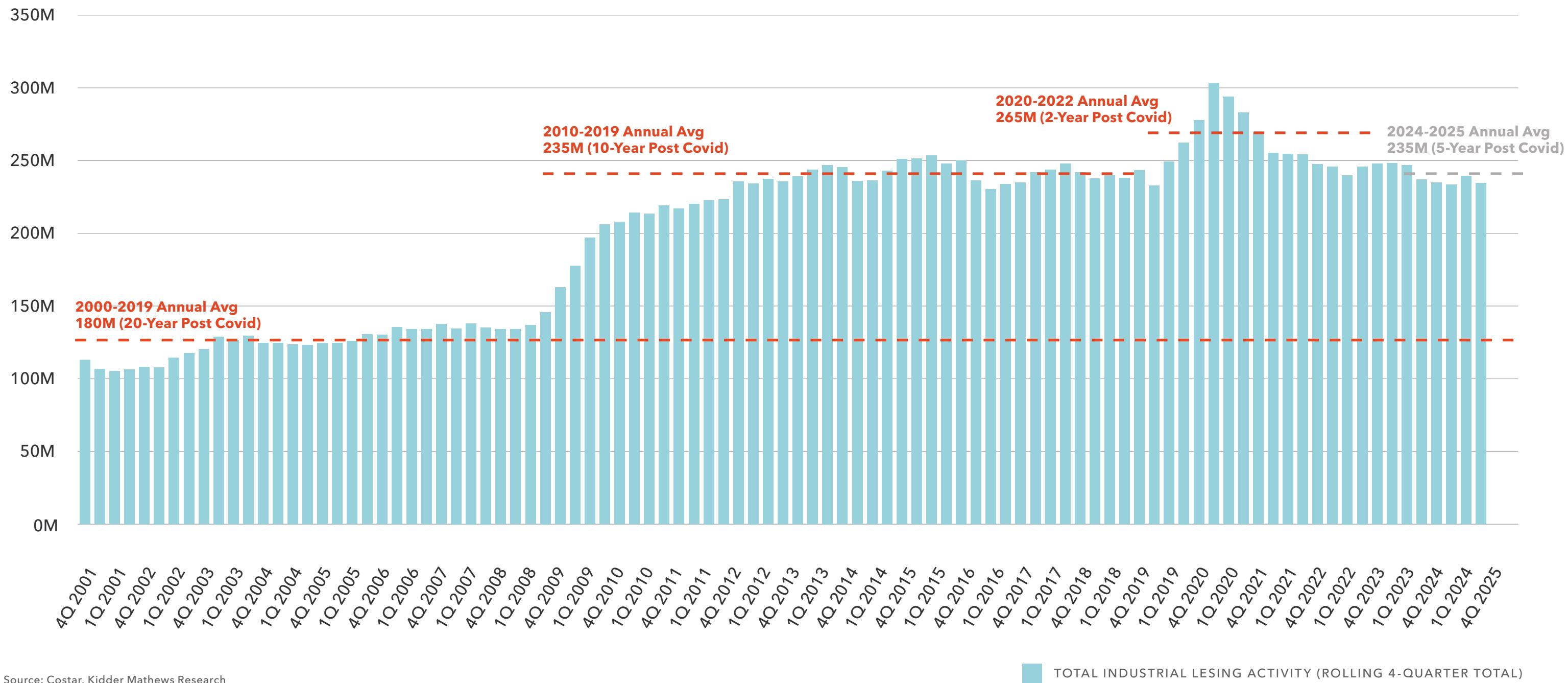


WESTERN U.S. VACANCY RATES: *VARY BY SEGMENT*

Source: Costar, Kidder Mathews Research

TOTAL INDUSTRIAL DATA CENTERS BIG BOX (200K+) INDUSTRIAL (50K-200K) INDUSTRIAL (UNDER 50K)

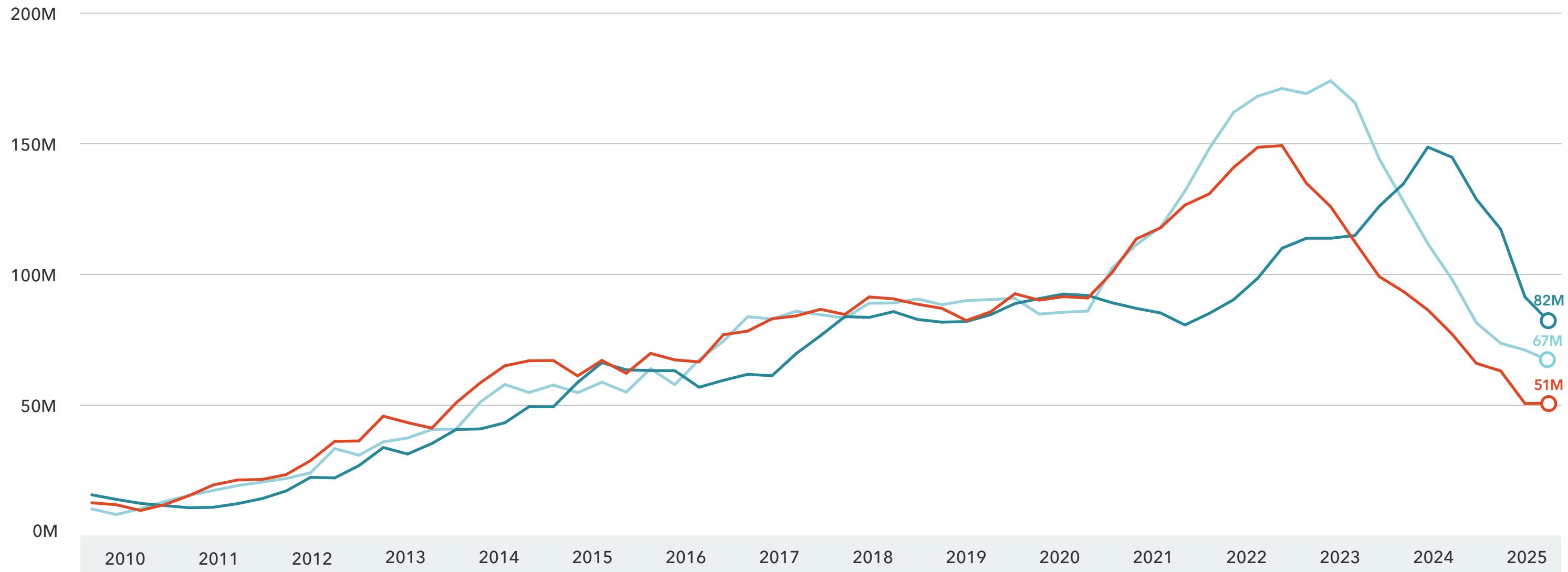
WESTERN U.S. VACANCY & AVAILABILITY



Source: Costar, Kidder Mathews Research

TOTAL INDUSTRIAL LESING ACTIVITY (ROLLING 4-QUARTER TOTAL)

DEVELOPMENT PIPELINE *CONTINUES TO SHRINK*

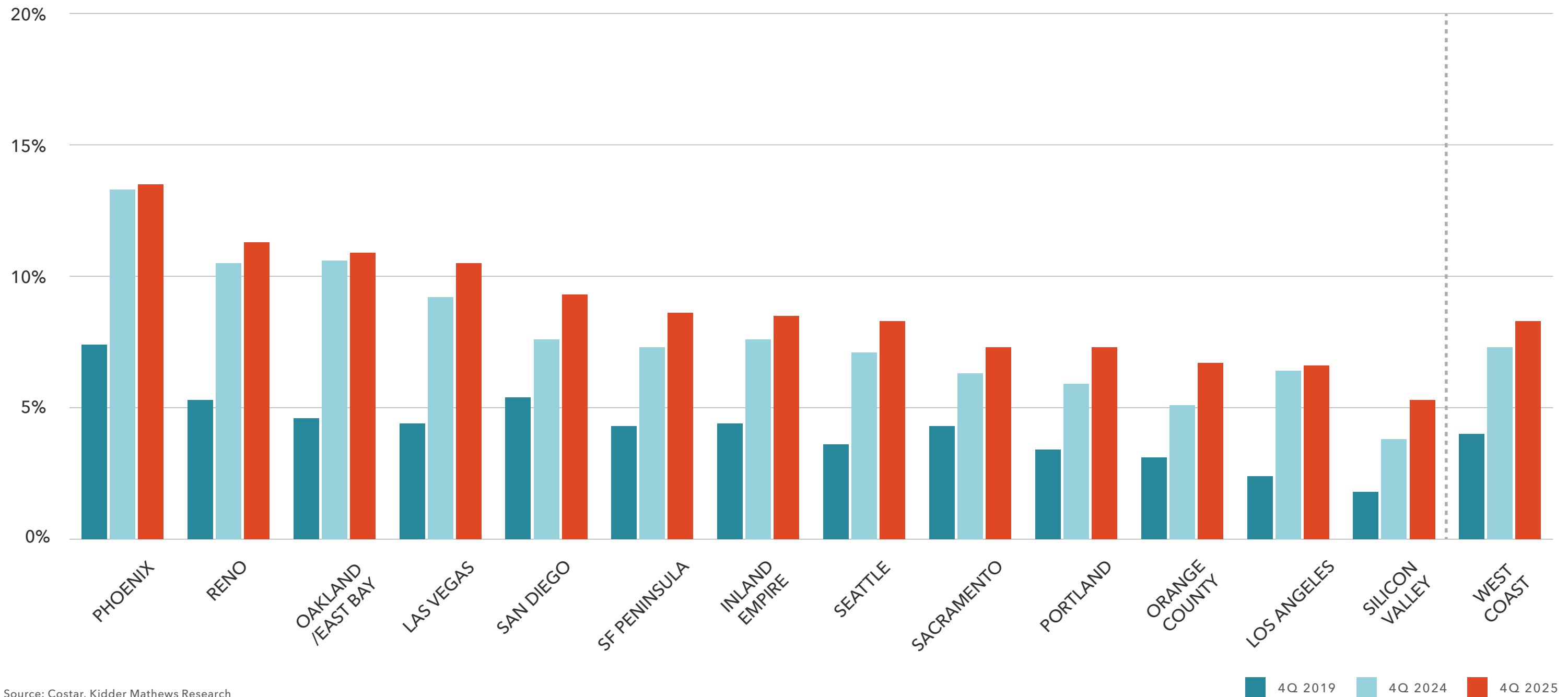


Source: Costar, Kidder Mathews Research

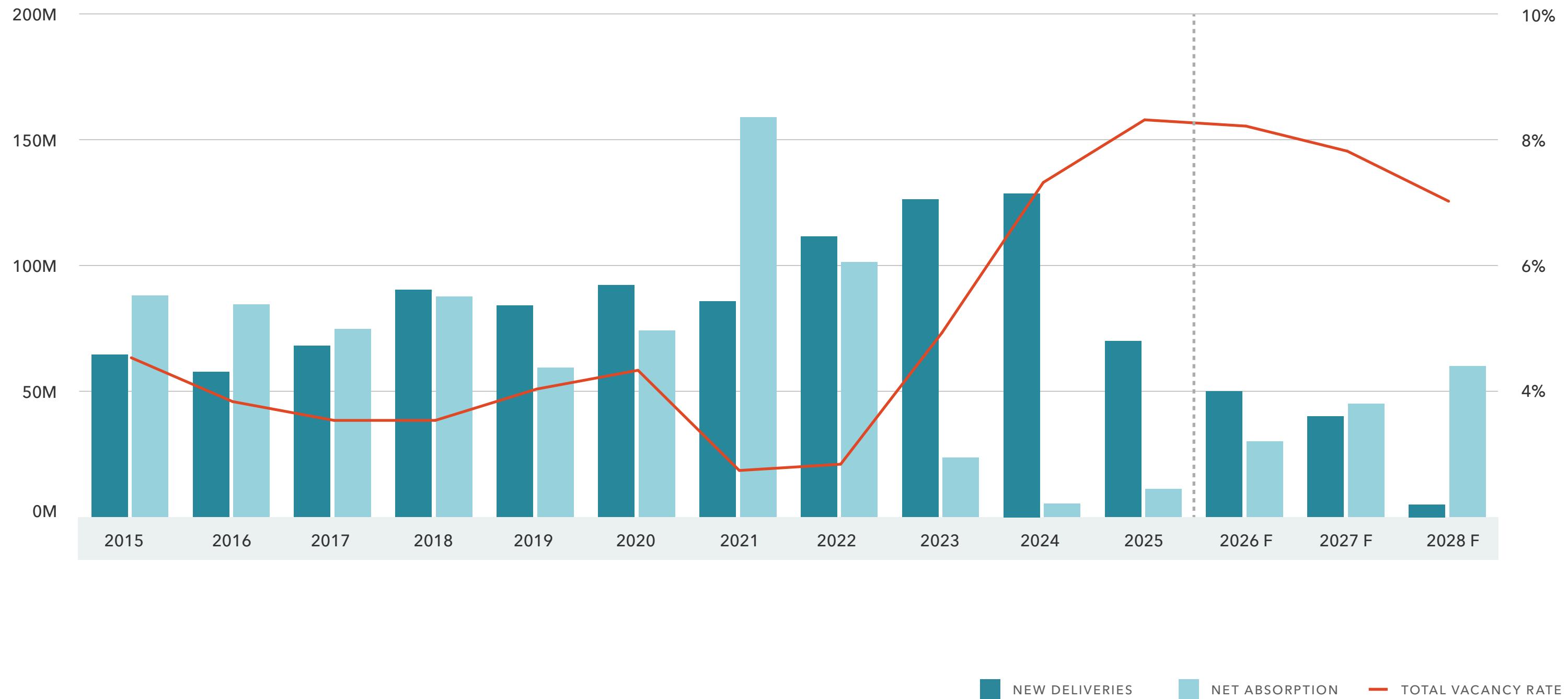
— ANNUALIZED DELIVERIES

— ANNUALIZED CONSTRUCTION STARTS

— UNDER CONSTRUCTION

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 & POISED FOR GROWTH*

Retail real estate enters 2026 from a position of relative strength when compared with other asset classes.

Space remains scarce, new development is limited, and essential retail categories continue to expand, even as retailers become more selective about store locations and formats. Net absorption returned to positive territory late in 2025, and national vacancy remained near historic lows due to persistent backfilling and minimal new construction. These conditions collectively point to continued stability in occupancy and measured rent growth, particularly in open air and grocery anchored centers.

However, several sources of volatility remain, including fragile consumer confidence, rising consumer debt, higher operating costs, and ongoing shifts in the retail landscape driven by AI, operational challenges, and supply chain agility.

URBAN VACANCY *CONTINUES TO RISE* WHILE SUBURBAN MARKETS OUTPERFORM

Although the Western U.S. retail sector has shown notable resilience in the post pandemic environment, performance has increasingly diverged across markets.

Major metropolitan areas such as San Francisco and Seattle, historically defined by strong, dynamic urban retail cores, continue to experience elevated vacancy and reduced activity, particularly in downtown areas, where weakening fundamentals and continued declines in foot traffic have created lower activity levels.

In contrast, more suburban oriented markets, including Phoenix, Reno, and Sacramento, are outperforming regional averages. These markets have adapted more effectively to shifting consumer preferences and continue to exhibit strong demand and healthy retail performance. Since 2019, urban retail vacancy has increased by approximately 400 basis points, compared with a modest 60-basis-point rise in suburban markets, underscoring a structural shift away from urban cores.





WESTERN U.S. RETAIL FOOT TRAFFIC *REBOUNDS TO PRE-COVID LEVELS*

Consumer foot traffic has gradually improved since the disruption caused by the pandemic in 2020.

When looking at the most recent foot traffic figures from Placer.ai, it shines a light on recovery as 10 of the core 12 West Coast markets are either near, at or exceeded foot traffic levels compared to pre-COVID (levels 90% or more compared to 2019). The two most laggard markets include San Francisco and Portland. Most retail purchases are still occurring within physical stores even as e-commerce continues to grow. Shopping center and mall traffic showed consistent gains during peak months, indicating stronger shopper intent heading into 2026. Value oriented and essential categories remained dominant, with discount, grocery, quick-serve restaurant, and health and wellness retailers among the most active in backfilling existing space.



RETAIL OUTLOOK: *PRIMED FOR FUTURE GROWTH*

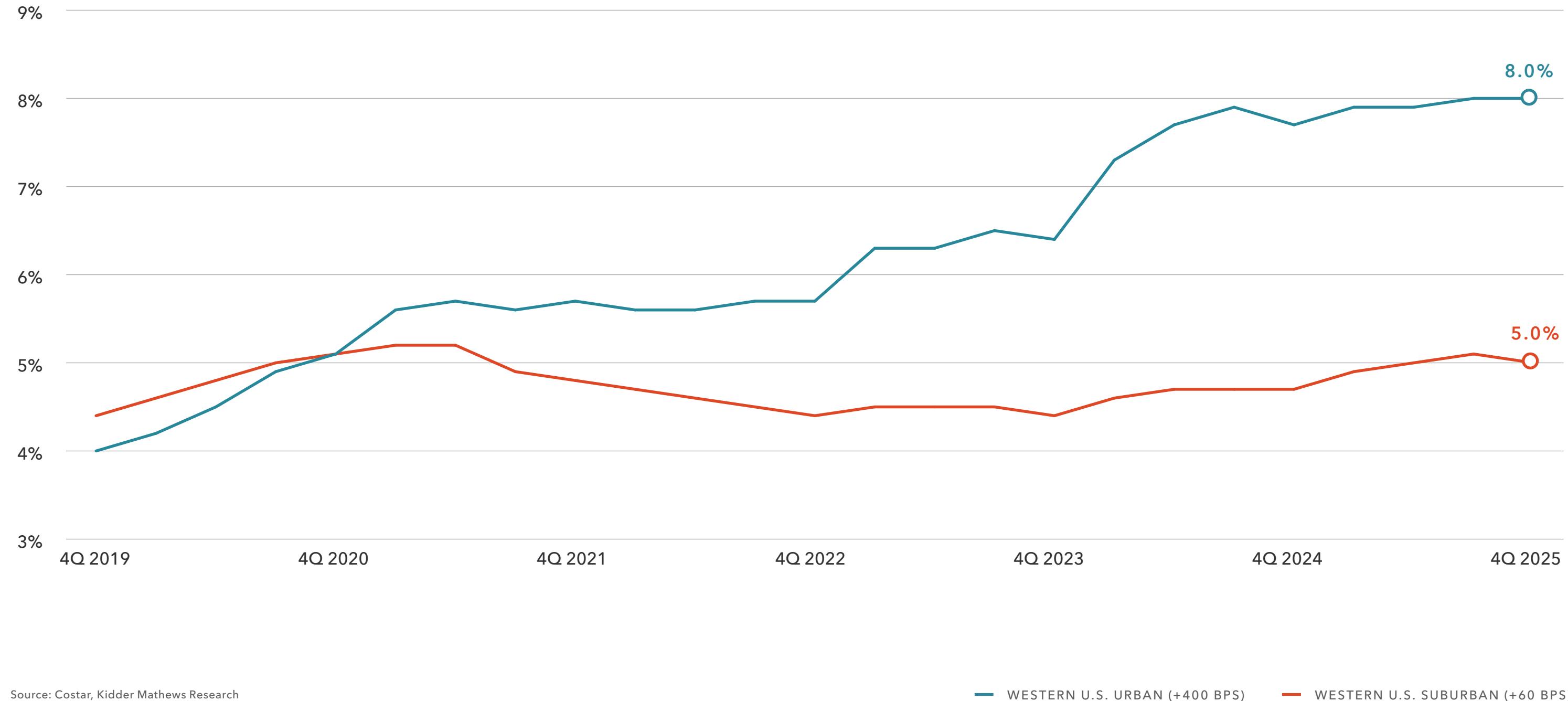
The retail outlook for 2026 is shaped by scarcity and selectivity.

With new construction at multiyear lows and landlords repurposing outdated buildings, availability is expected to remain tight. Expansion by grocery, value-oriented, service-based, and food and beverage concepts should offset a more cautious stance among discretionary retailers. Modest leasing activity, continued net absorption, and generally stable rents are anticipated across most retail formats.

Investors focusing on high traffic suburban assets should find the most consistent performance, while weaker malls and aging big box corridors will rely on redevelopment to stay competitive. Overall, the sector remains fundamentally healthy and positioned to grow as the economy continues its recovery.



URBAN VS SUBURBAN PERFORMANCE GAP PERSISTS



Source: Costar, Kidder Mathews Research

— WESTERN U.S. URBAN (+400 BPS) — WESTERN U.S. SUBURBAN (+60 BPS)

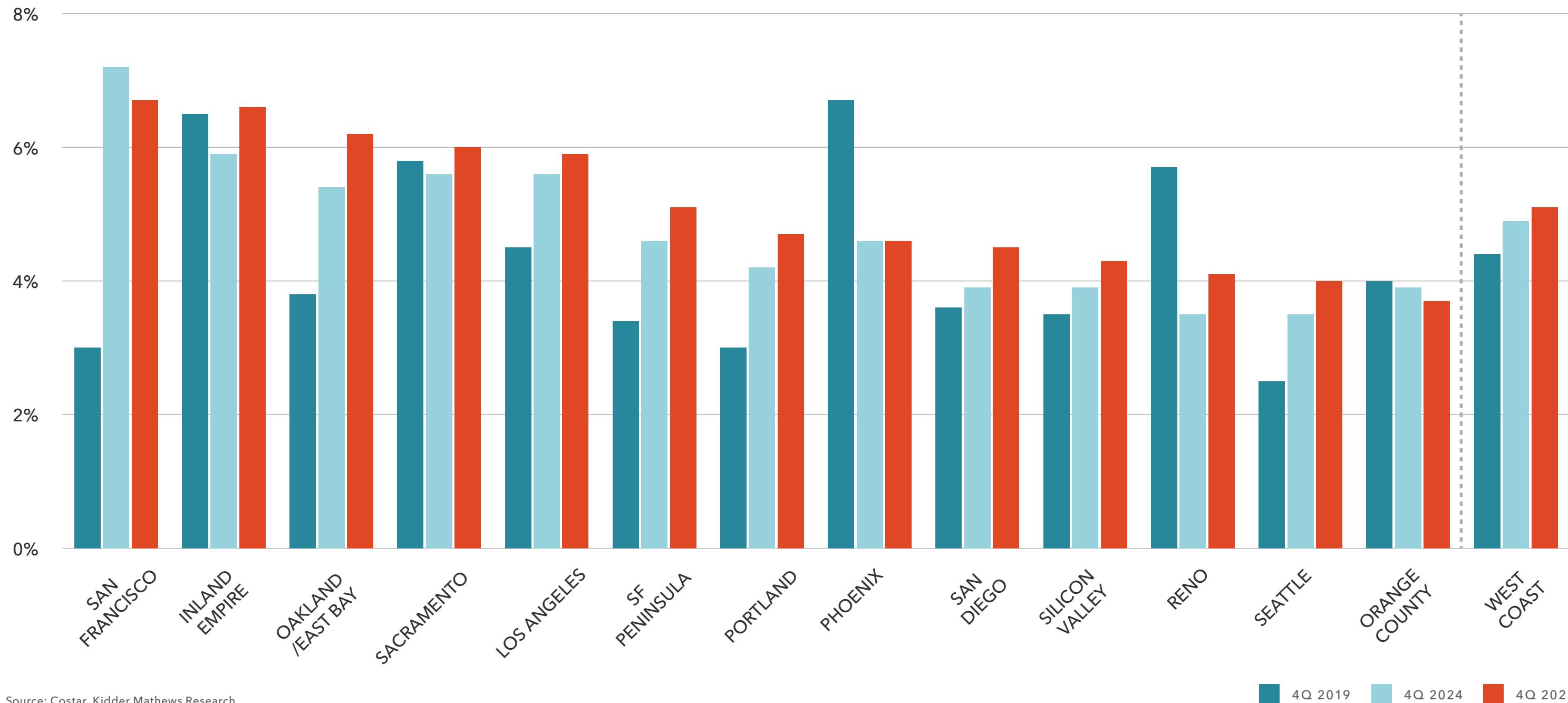
RETAIL FOOT TRAFFIC HAS RETURNED TO MANY MARKETS

September 2019 (pre-covid) compared to December 2025 (current)



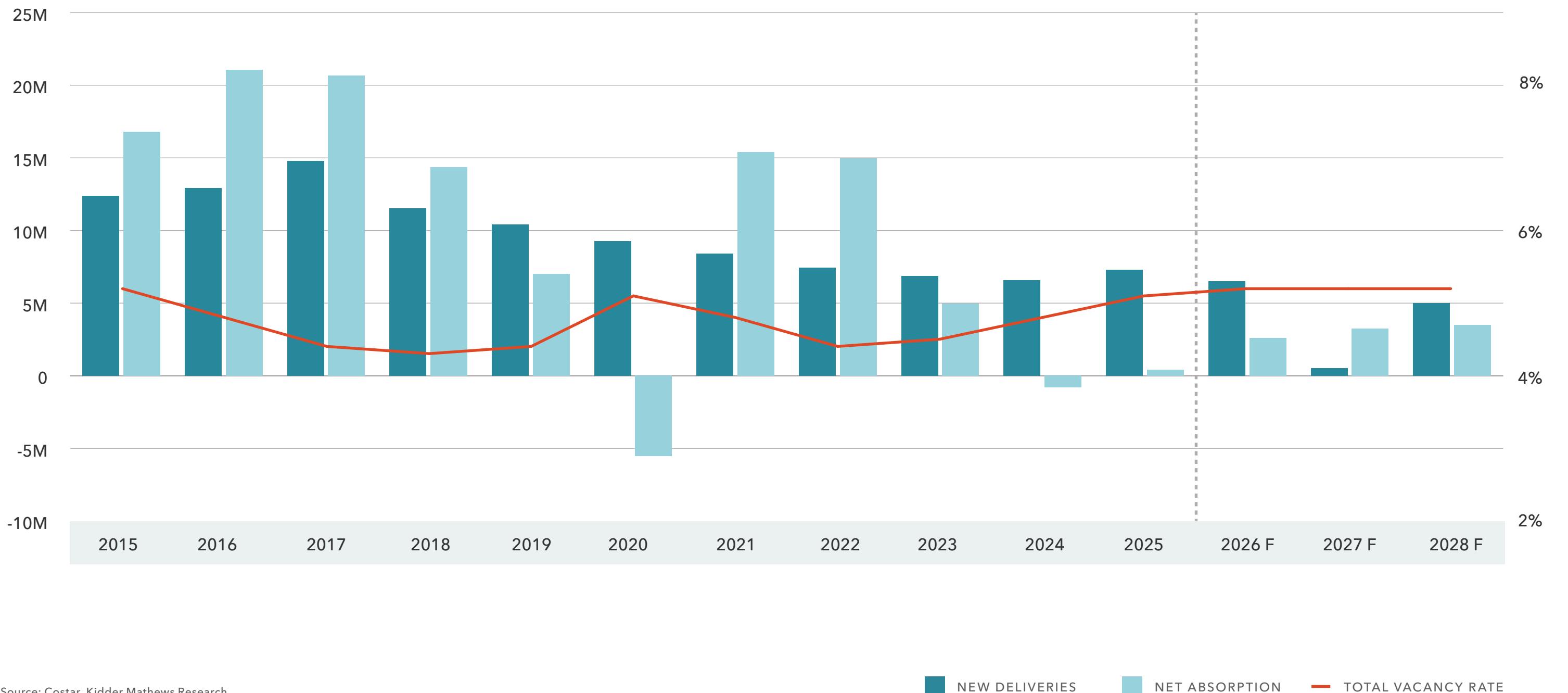
Source: Placer.ai

■ 100%+ ■ 90%-99% ■ UNDER 90%

VACANCY RATE *BY MARKET*

Source: Costar, Kidder Mathews Research

■ 4Q 2019 ■ 4Q 2024 ■ 4Q 2025

WESTERN U.S. *FORECAST*

Source: Costar, Kidder Mathews Research

■ NEW DELIVERIES ■ NET ABSORPTION — TOTAL VACANCY RATE



Section 05

MULTIFAMILY OUTLOOK



MULTIFAMILY WILL CONTINUE TO FIND ITS FOOTING IN 2026

The multifamily sector enters 2026 with a gradual return to stability following several years of muted activity.

Elevated interest rates, economic uncertainty, and a historic wave of new construction created meaningful headwinds throughout 2024 and 2025. More recent indicators, however, point to steadier conditions ahead. Vacancy rates, while still above pre pandemic norms, have largely stabilized, and a significant slowdown in new development is laying the groundwork for healthier balance in the future. Demand remains quiet as slower job growth weighs on leasing activity, yet persistent barriers to homeownership continue to support solid occupancy levels.

The Western U.S. multifamily investment market is navigating ongoing volatility as state and local governments continue to advance a wide range of policy initiatives. Regulatory initiatives are shaping return expectations, influencing future supply pipelines, and introducing added complexity to rent growth forecasts. While the long term effects are still evolving, these policy dynamics remain a key focus for market participants.



RISING HOME OWNERSHIP COSTS FUEL MULTIFAMILY RENTAL DEMAND

A widening affordability gap between renting and owning a home continues to underpin multifamily demand.

Nationally, the average mortgage payment (\$2,339) is nearly 35% higher than the average multifamily rent (\$1,737). However, some analysts estimate that the total monthly cost associated with purchasing a median priced home is more than double the cost of renting. High mortgage rates, elevated home prices, and an acute shortage of available inventory all contribute to this disparity.

Compounding the challenge, more than half of all outstanding mortgages carry interest rates below 4%, discouraging existing owners from selling and then re-entering at today's higher interest rate. As a result, many households are remaining renters for longer periods, supporting strong renewal activity and occupancy stability.





INVESTMENT ACTIVITY REBOUNDS AS 2025 CAPITAL MARKETS STABILIZE

After a period of price adjustments and lower transaction volume, investment activity improved significantly in 2025.

Capital markets stabilized as interest rate volatility diminished and underwriting assumptions became clearer. The Western U.S. aggregate transaction volume approached \$40B in 2025, supported by continued liquidity from lenders and greater investor confidence. Stabilizing cap rates, more predictable pricing, and expectations for gradually lower borrowing costs through late 2026 have further improved sentiment. Investors are increasingly positioning themselves ahead of projected tightening in fundamentals as multifamily starts fall sharply and the total number of units under construction declines.

However, policy driven volatility as evolving state and local regulations reshape both future investment activity and investment return expectations.

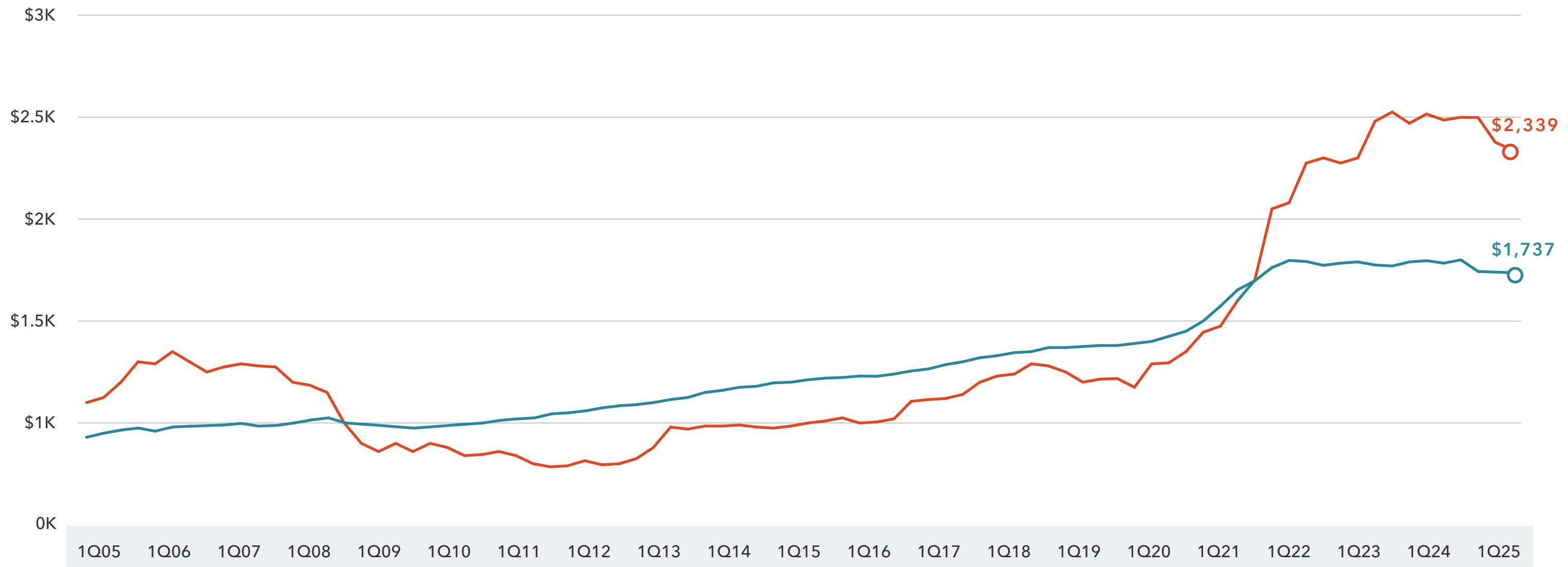


STRONG RENTAL DEMAND AND INVESTMENT MOMENTUM TO PERSIST

Multifamily performance in 2026 is expected to reflect the overlap of affordability, decreased supply levels, and improving capital flows.

While economic uncertainty and slower job growth may temper near-term rent growth, particularly in high-supply markets, strong leasing and renewal activity, combined with ongoing homeownership challenges, should support stable occupancy. As construction pipelines continue to contract and affordability challenges persist, the sector is positioned for stable rent growth and healthier occupancy balance in the years ahead. Investors anticipate a multi-year runway of opportunity as the market resets and demand strengthens.

MORTGAGE PAYMENTS VS MULTIFAMILY RENT

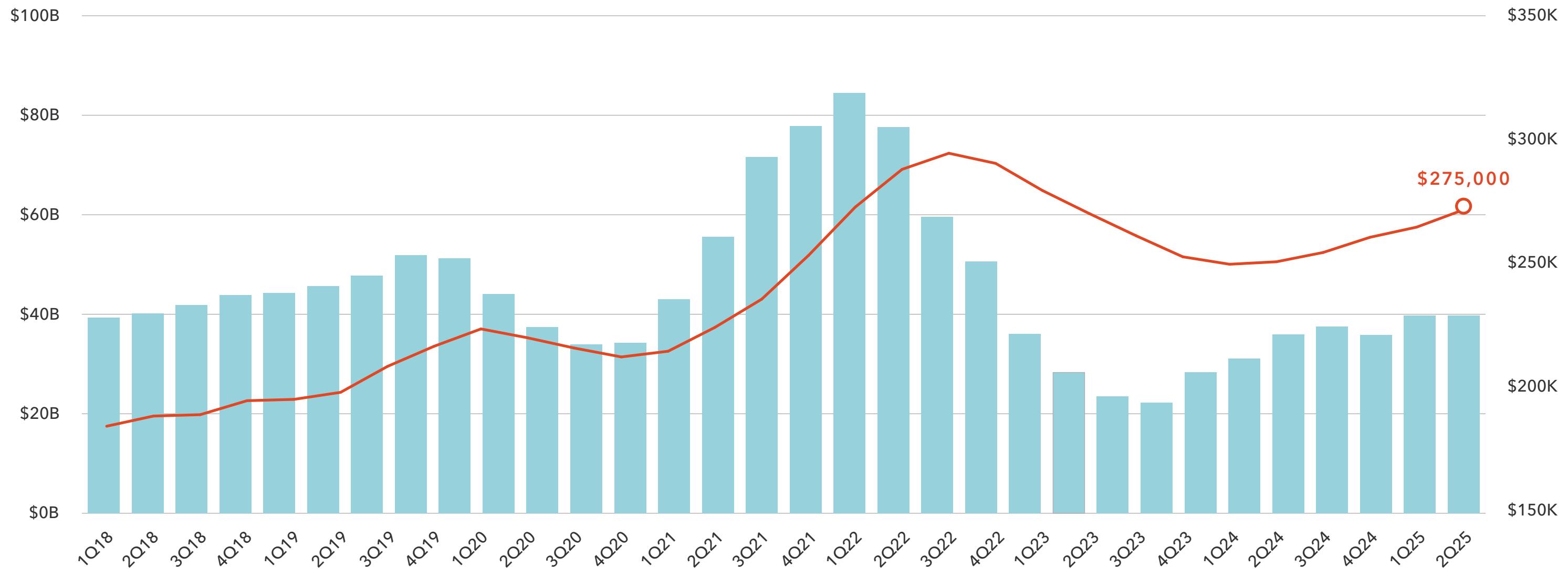


Source: Yardi Matrix; National Association of Realtors; Freddie Mac

— AVERAGE MORTGAGE PAYMENT

— AVERAGE MULTIFAMILY RENT (\$/UNIT)

SALES VOLUME CONTINUES TO REBOUND

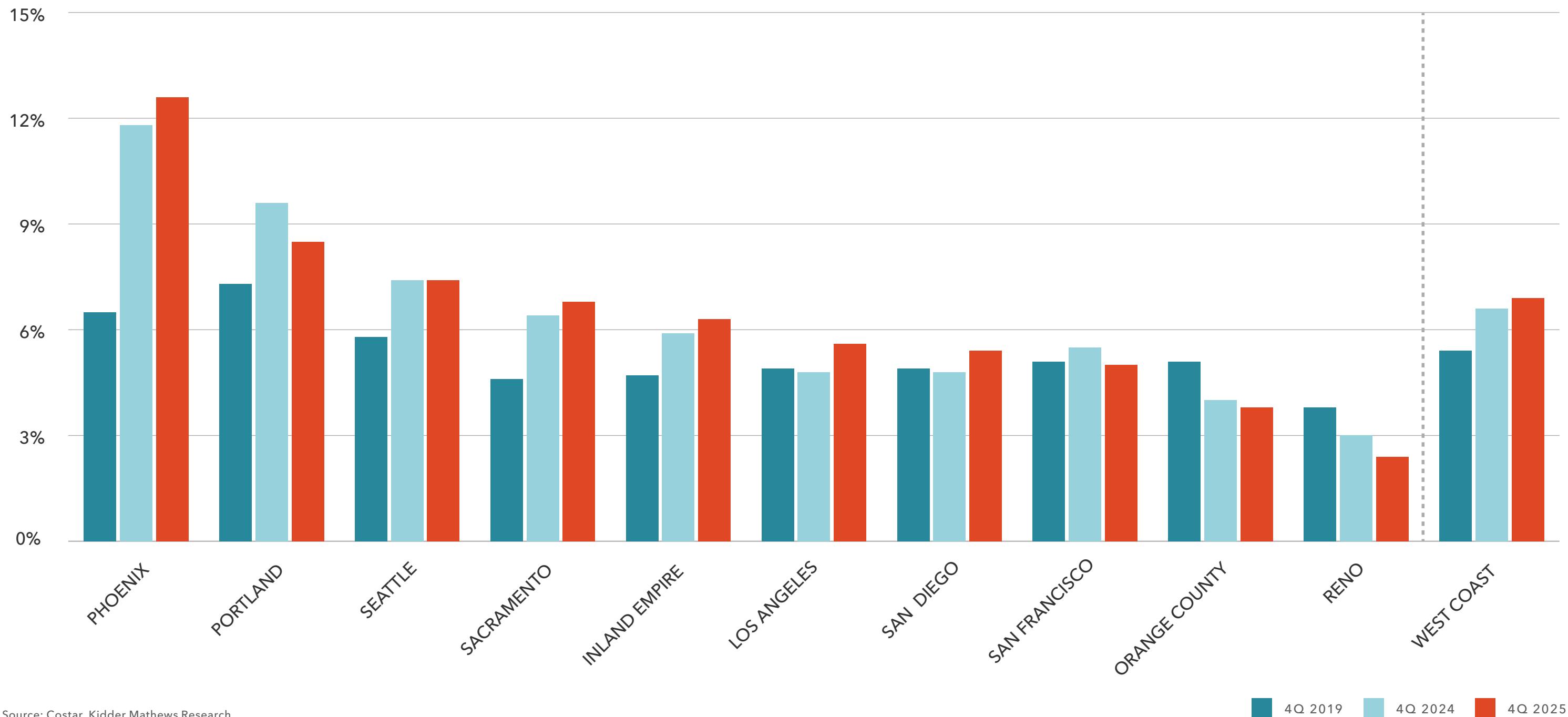


Criteria: Sales located in WA, OR, ID, NV, CA, AZ that were 5+ units and \$1M+ in sale price

Source: Costar, Real Capital Analytics

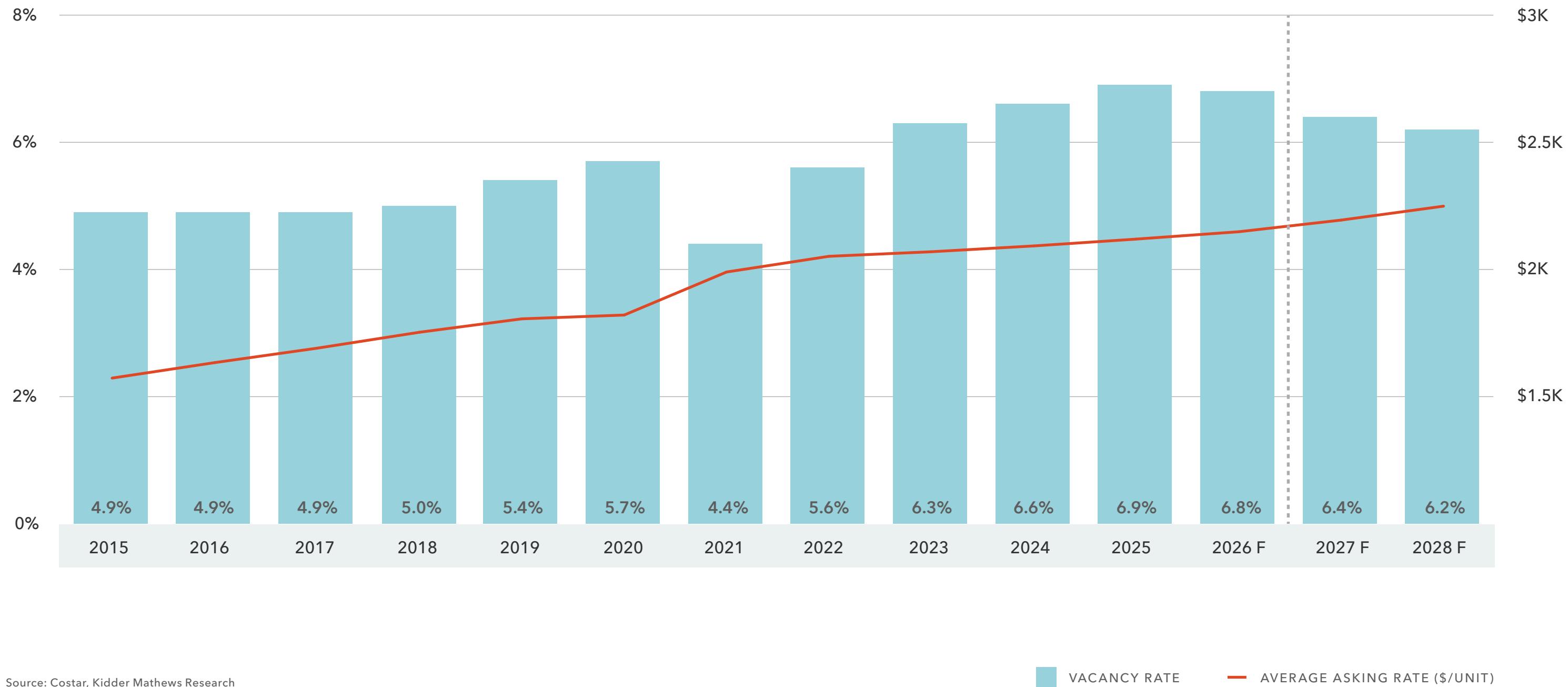
WEST COAST TOTAL SALES VOLUME (4-QTR ROLLING AVG)

AVERAGE \$/UNIT (4-QTR ROLLING AVG)

VACANCY RATE *BY MARKET*

Source: Costar, Kidder Mathews Research

█ 4Q 2019
 █ 4Q 2024
 █ 4Q 2025

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 19 offices in Washington, Oregon, California, 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

\$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
APPRASERS

23
WITH MAI
DESIGNATIONS