Kidder Mathews

WESTERN U.S. *INDUSTRIAL* BY THE NUMBERS

2026 Market Forecast

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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.

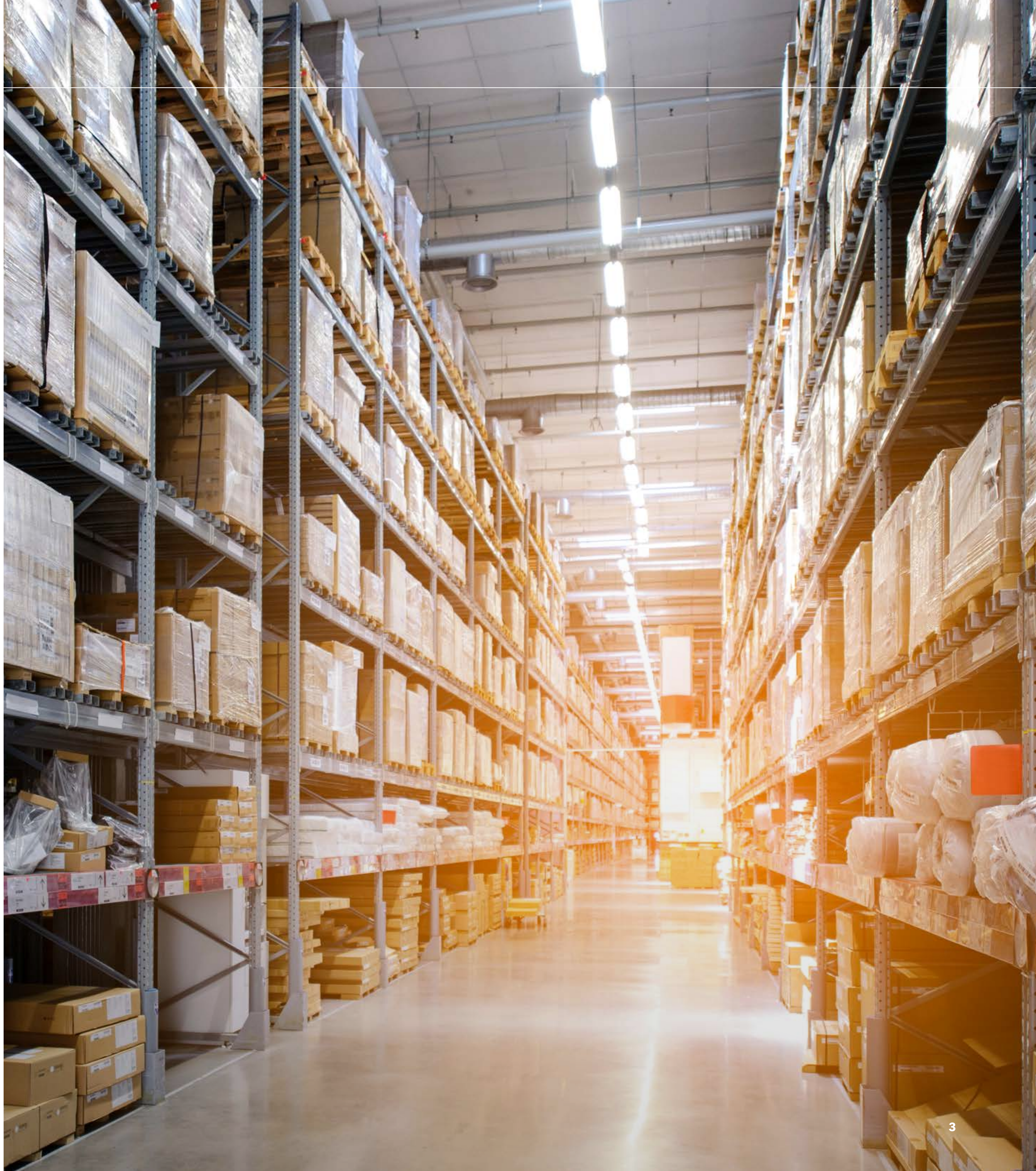
Demand improved meaningfully in the later months of 2025 as large occupiers reengaged, automation-ready facilities gained traction, and e-commerce related requirements stabilized. Key market indicators suggest the sector is shifting from an oversupply period toward a more balanced environment, supported 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.

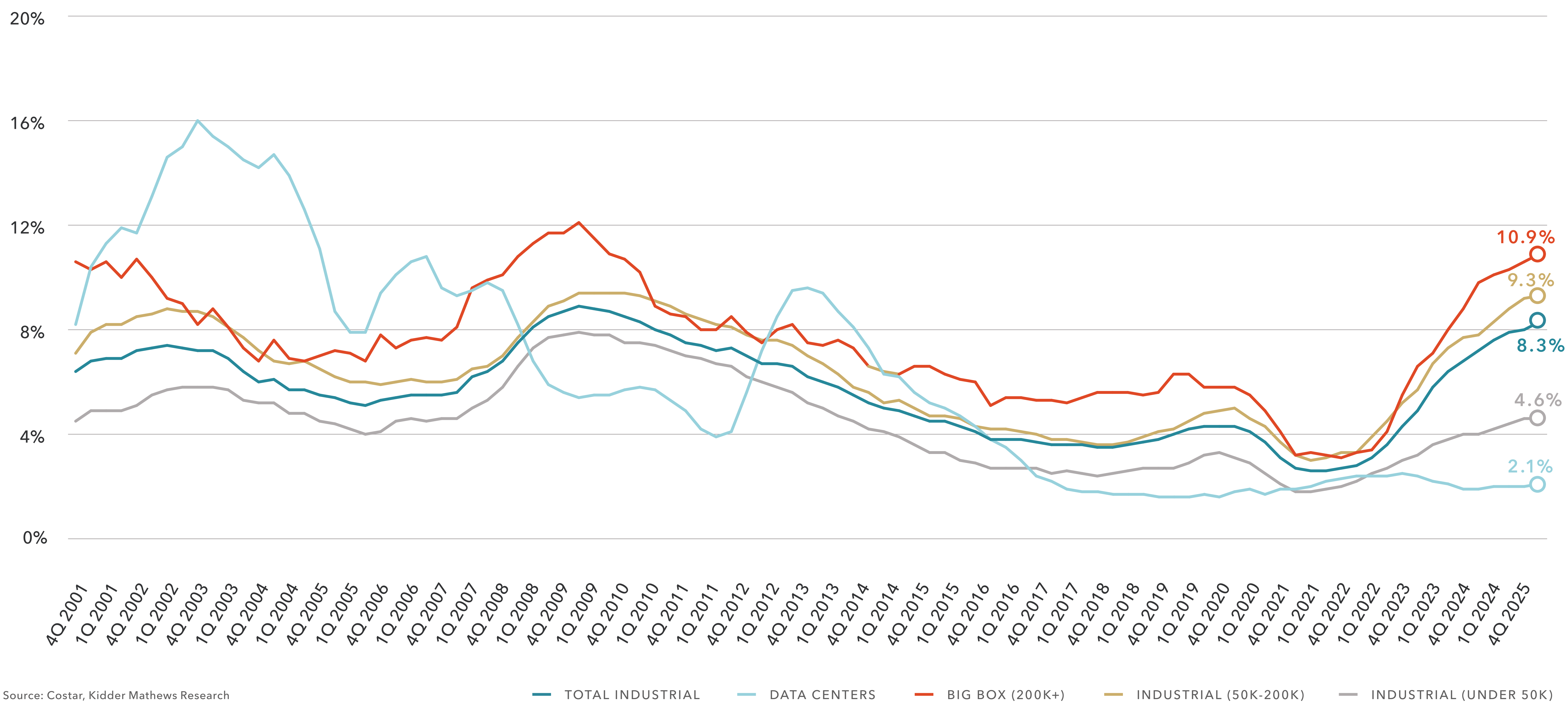
Overall, developers have shifted toward build-to-suit and owner-user projects, reducing speculative development. This pullback lowers the risk of future oversupply and should yield a more balanced environment in 2026 and 2027. Strong preleasing activity and high demand for modern, automation-friendly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

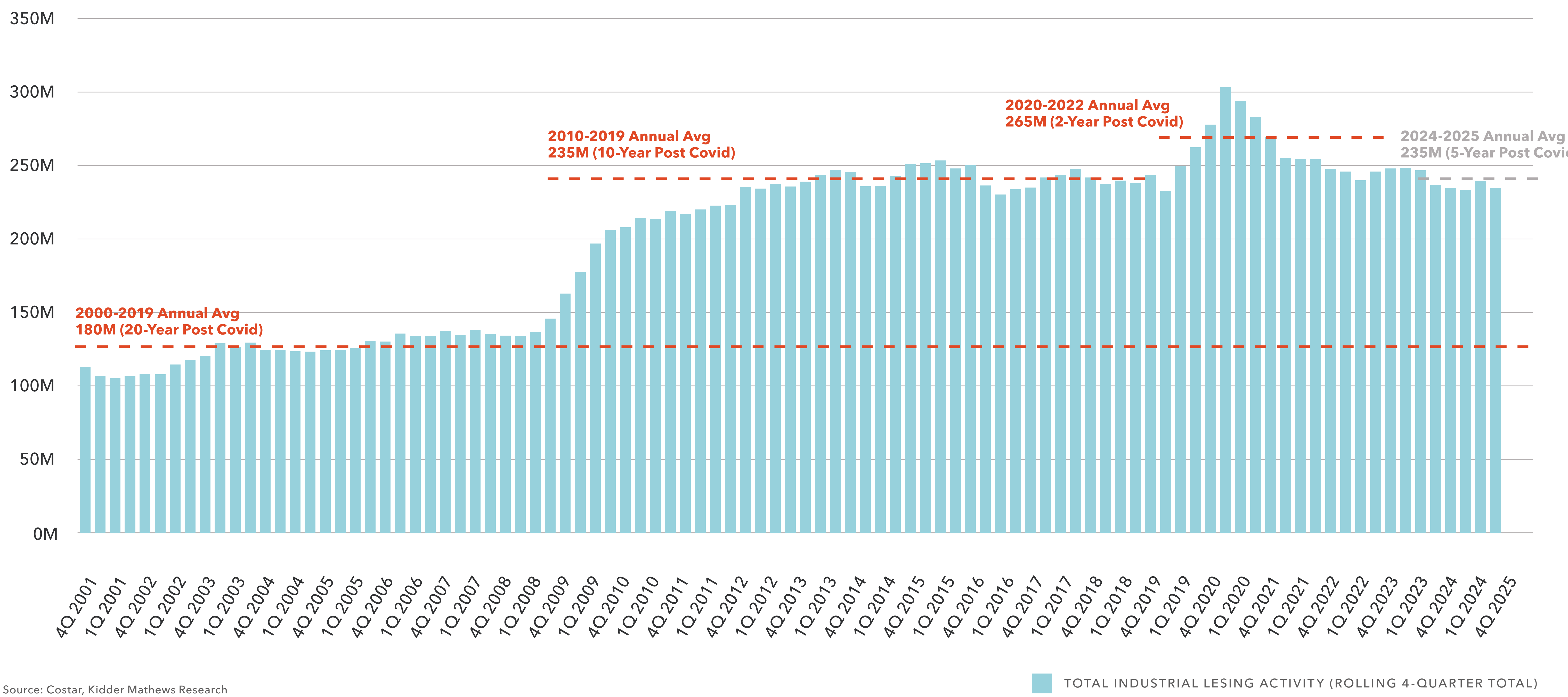
Vacancy rates have likely peaked in many markets, while leasing volumes continue to align with historical norms, and new construction has slowed significantly. Markets with strategic logistics advantages are expected to outperform in the near term as demand from that market segment rebounds. Occupiers 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*



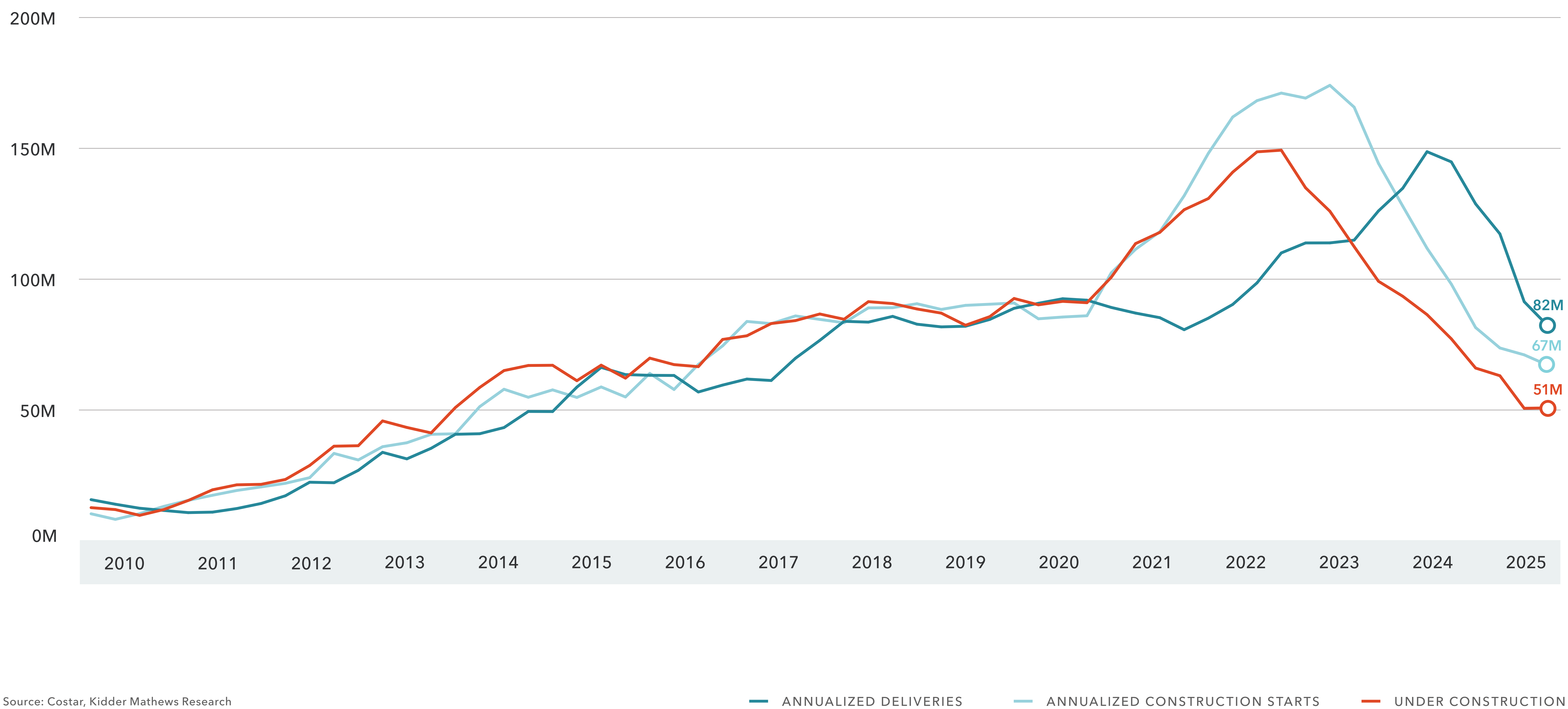
Source: Costar, Kidder Mathews Research

WESTERN U.S. *VACANCY & AVAILABILITY*



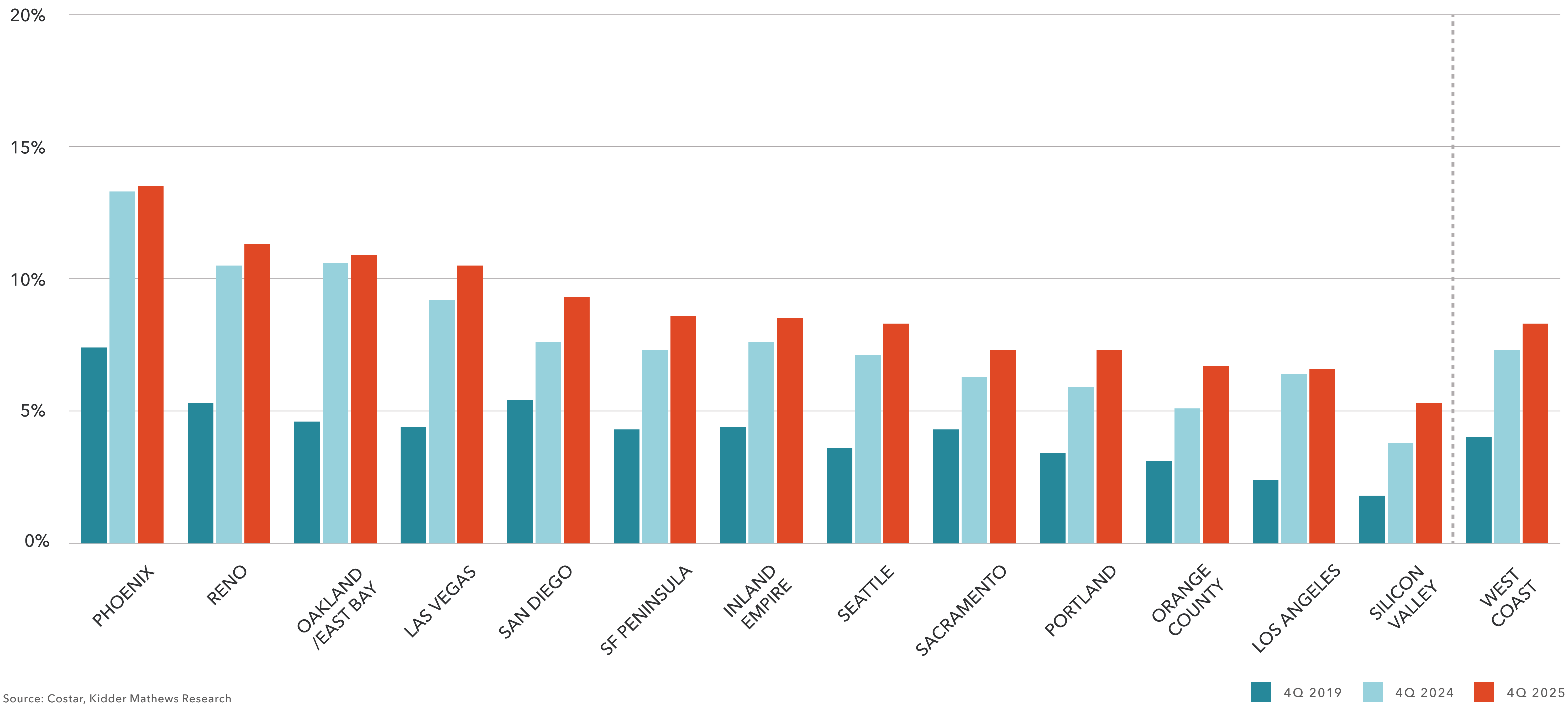
Source: Costar, Kidder Mathews Research

DEVELOPMENT PIPELINE *CONTINUES TO SHRINK*



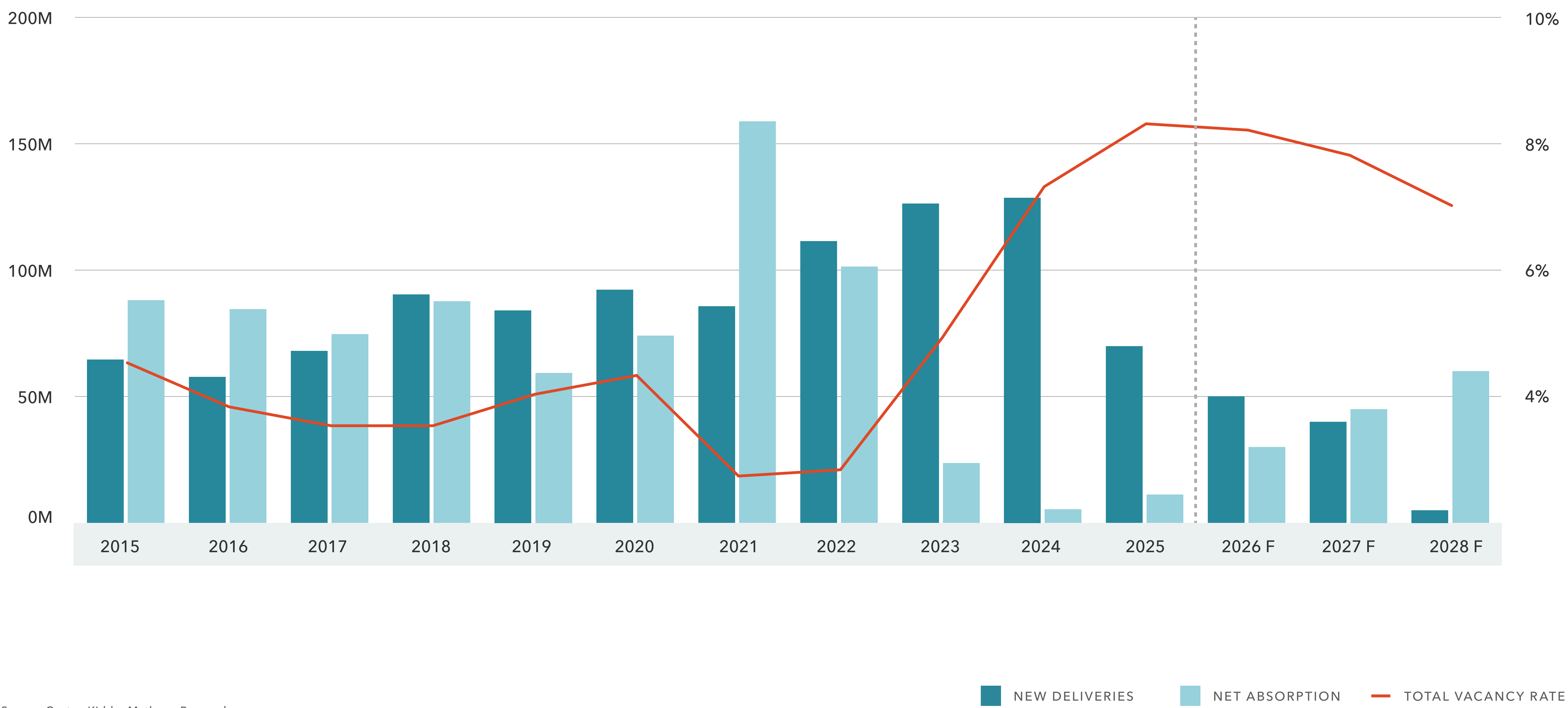
Source: Costar, Kidder Mathews Research

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	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

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