Kidder Mathews

WEST COAST *FORECAST*

2024

ECONOMIC OUTLOOK

Many experts predict a "soft landing" for the economy

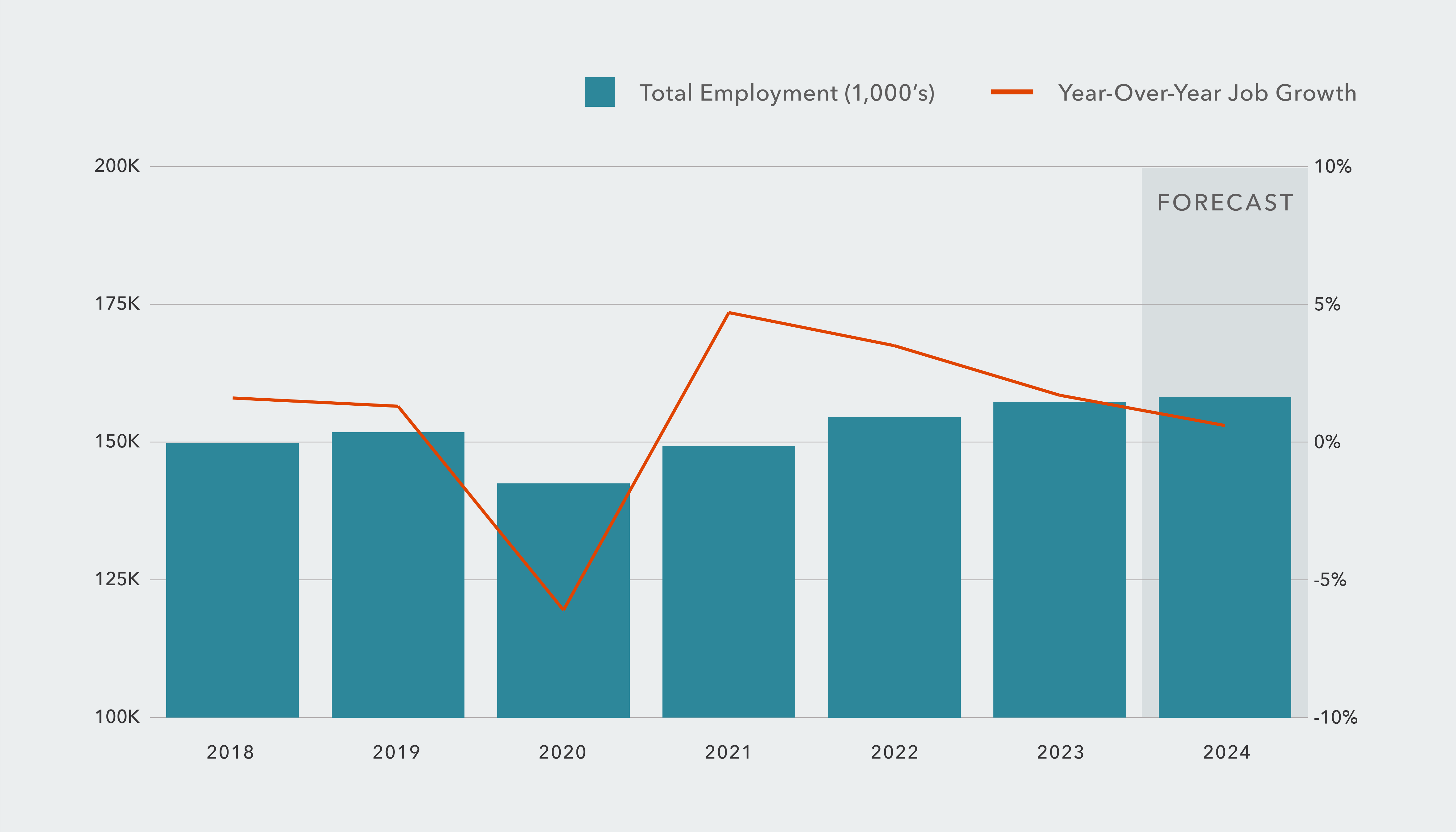
Many economists are forecasting a "soft landing" for the U.S. economy in 2024. While there are still areas of concern, inflation has eased, consumer spending has trended positively, and job growth continued to grow at a steady pace. Looking ahead, the economy strength will be bolstered as the Fed announced they are likely done with rate hikes and have forecast three rate cuts this year. The labor market outlook for 2024 can be described as being relatively stable with continued normalization, following the recent pandemic-era volatility.

JOB GROWTH *EXCEEDING EXPECTATIONS*

The labor market has been relatively steady and should continue in 2024

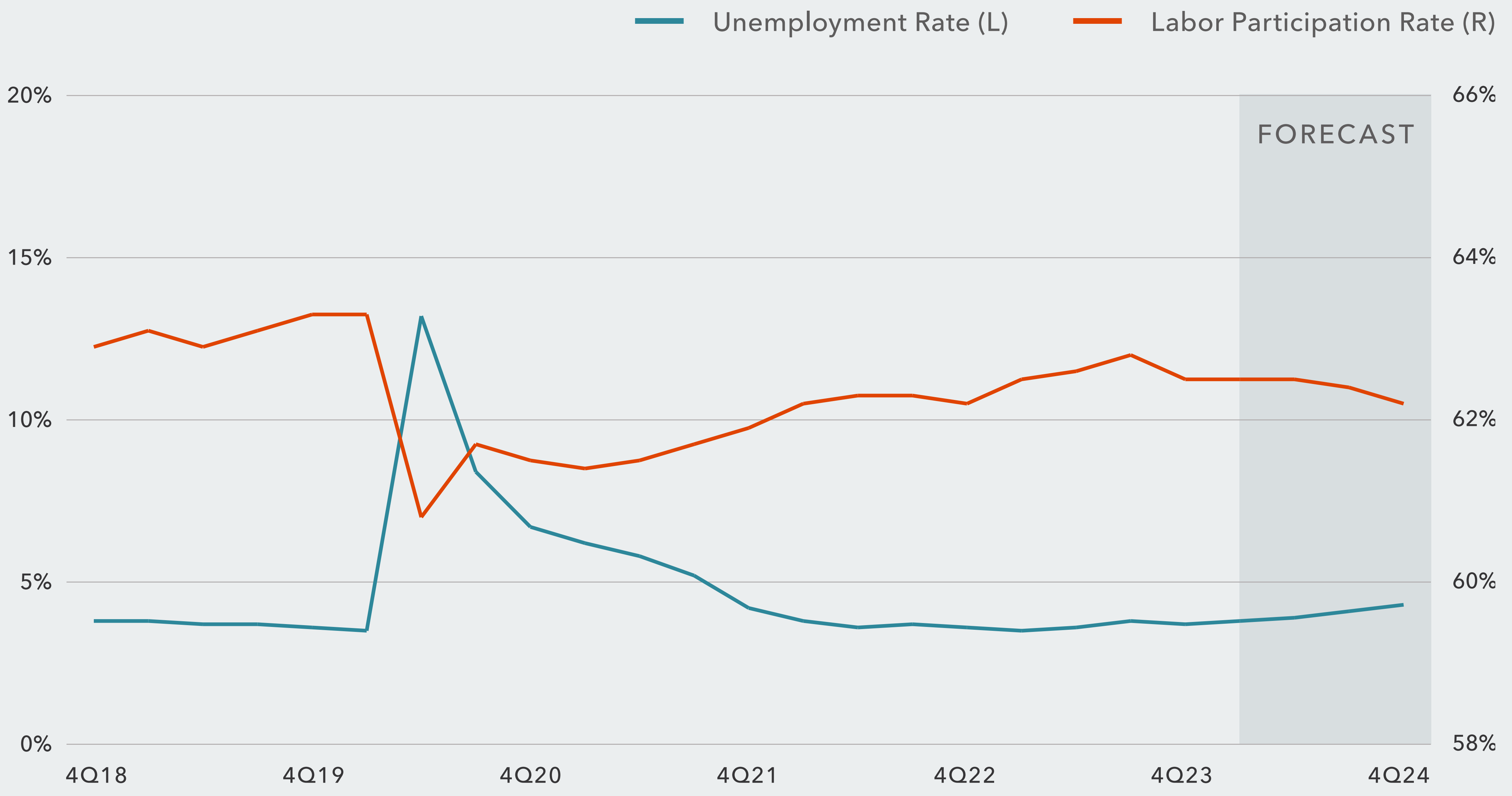
Job growth is forecasted to be positive, the rate of growth will be at a slower pace compared to recent years

Tightness in the labor market can be partially attributed to the shrinking labor force as many Baby Boomers retire



Source: Bureau of Labor Statistics

UNEMPLOYMENT RATE *REMAINS LOW*



Unemployment remains low, with expected increase over the next year

Unemployment rate is forecasted to increase to 4.4% by the end of 2024 before leveling off in 2025

Labor participation rate reset in 2020, from approx. 63% pre-covid to 60% immediately post-covid before slowly increasing to its current level of 62.5%

Source: Bureau of Labor Statistics

INFLATION IS INCHING BACK TOWARD TARGET

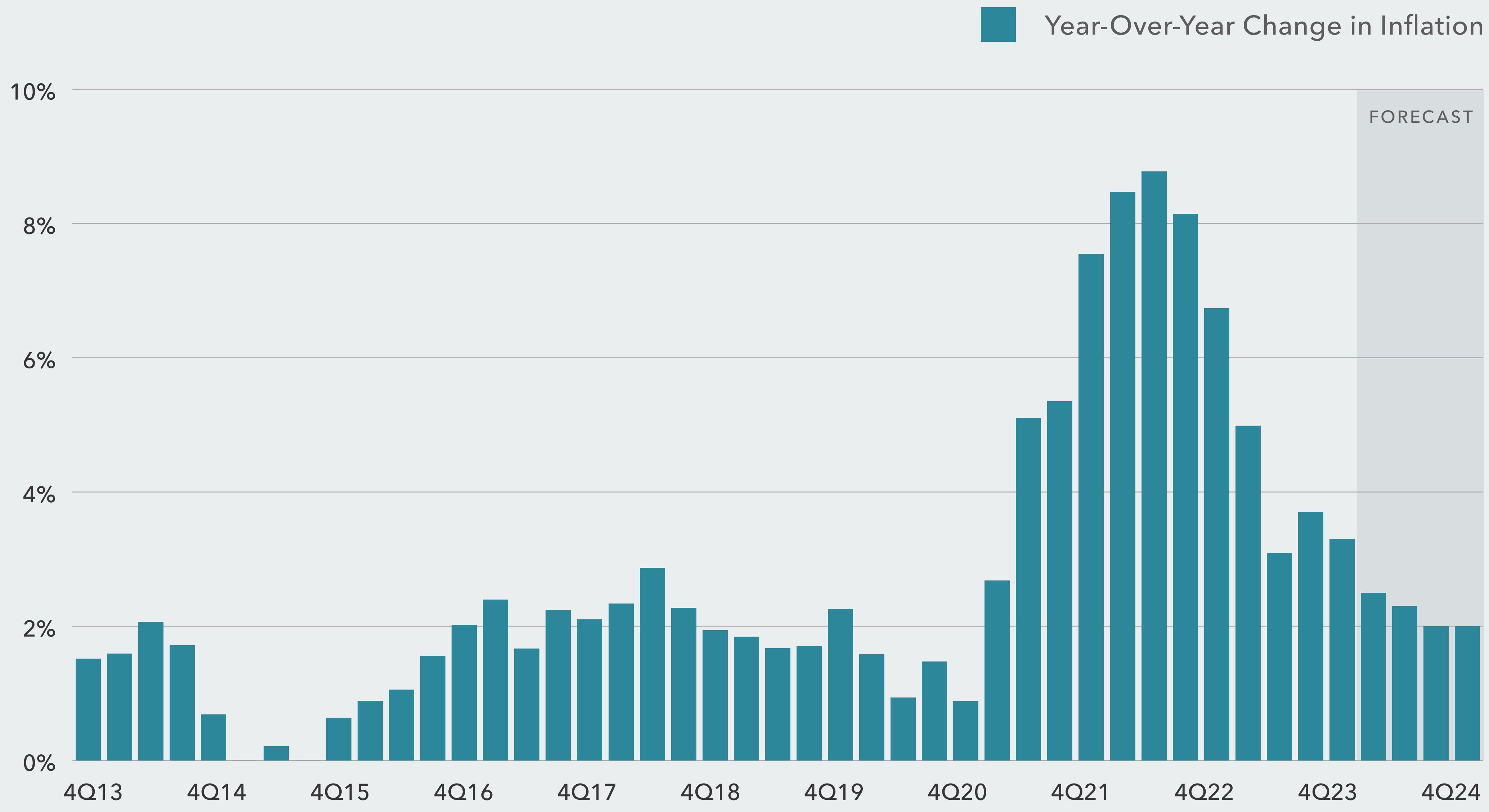
Inflation has been normalizing and is expected to hit the Fed's stated goal of 2% this year

Modern-day high at 8.8% in mid-2022, slowly descended at 3.3% at the end of 2023

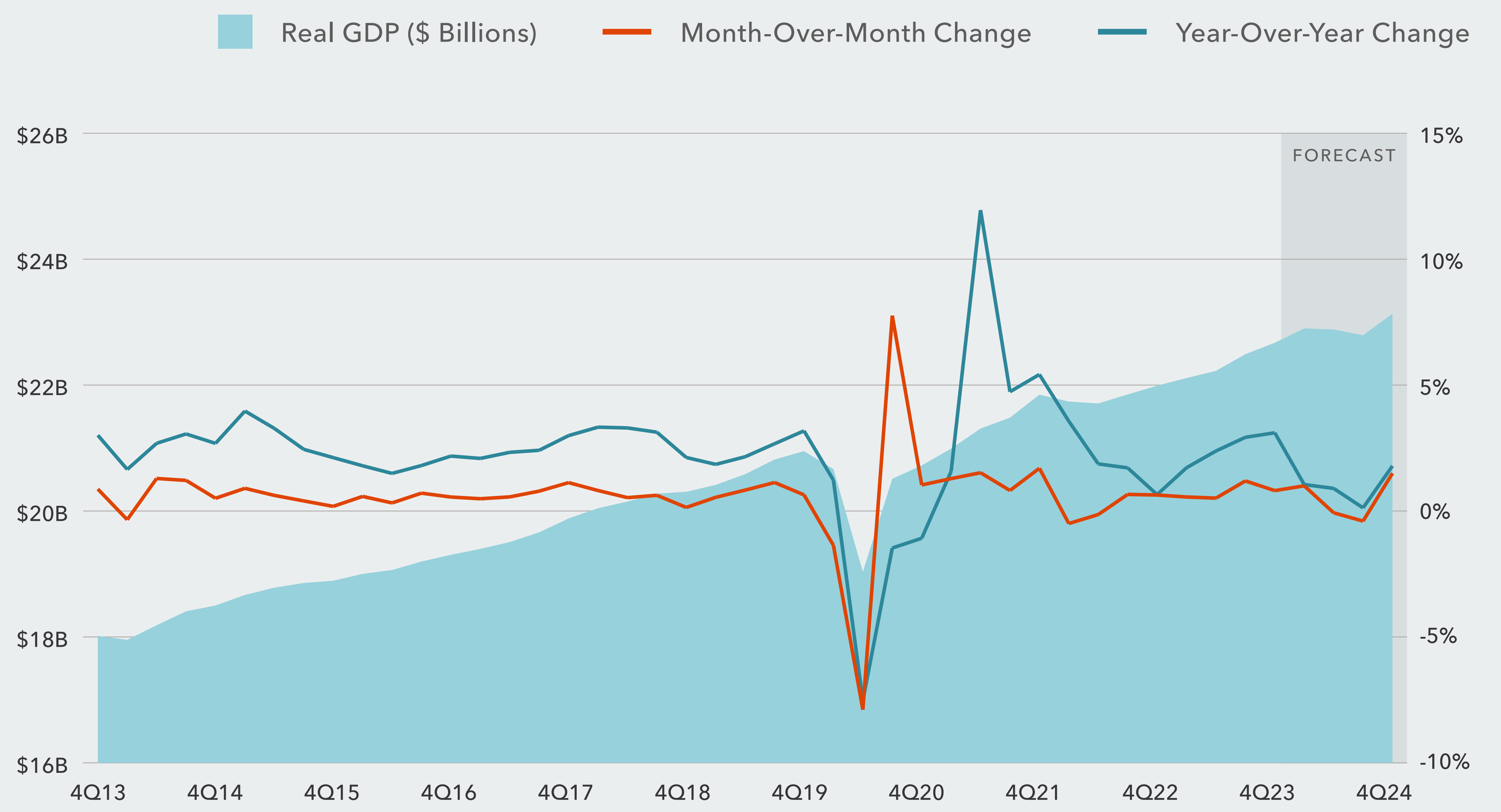
Interest rates were raised 11x during the 2022-2023 cycle

Most expect interest rate cuts in the second half of 2024

Source: Bureau of Labor Statistics



U.S. GDP GROWTH *REMAINS SOLID*



GDP growth will be lukewarm to begin 2024, but will stabilize by year-end

Growth in early 2024 will shift with weakened consumer spending, slowing wage growth, and a lukewarm business investment ecosystem

There will be slow growth during the back half of the year and steady growth in 2025 and 2026

Source: U.S. Bureau of Economic Analysis, Moody's Analytics, Conference Board

OFFICE OUTLOOK

The office market will continue to reshape itself in 2024

The post-pandemic office market continued to struggle in 2023, with rising vacancy rates, negative net absorption, and stagnant demand. Largely due to the softening economy and the standardization of hybrid and remote work models, many tenants were forced to reevaluate their future space needs. It is estimated that the average tenant is downsizing their requirements between 20% to 30% to accommodate the evolving workforce, allowing them to maximize their office utilization rates. These trends are expected to bleed into 2024 with low levels of leasing activity, rising vacancy rates, and a further reduction in asking lease rate averages.

While there are a few positive signs as the office market reshapes itself with a continued flight to quality and projected tech industry expansion by year-end, it will continue to be constrained in the near term and is likely a few years away from experiencing notable and sustained growth.

OFFICE VACANCY RATE BY MARKET *2019 VS 2023*

Increased vacancy rates will persist across markets

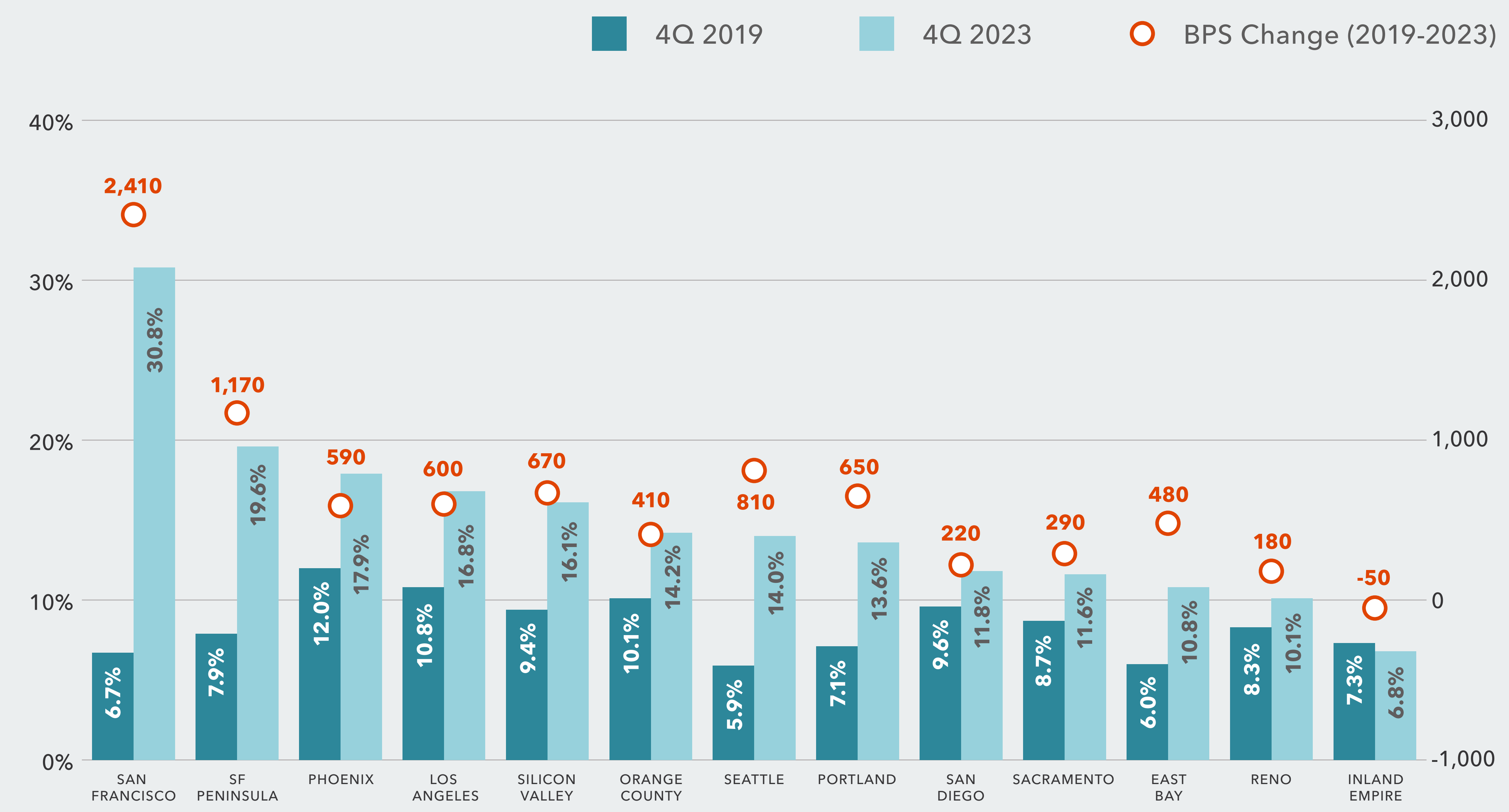
San Francisco experienced the largest rise in vacancy at the end of 2023

Most markets didn't see a notable rise in rates until 2020

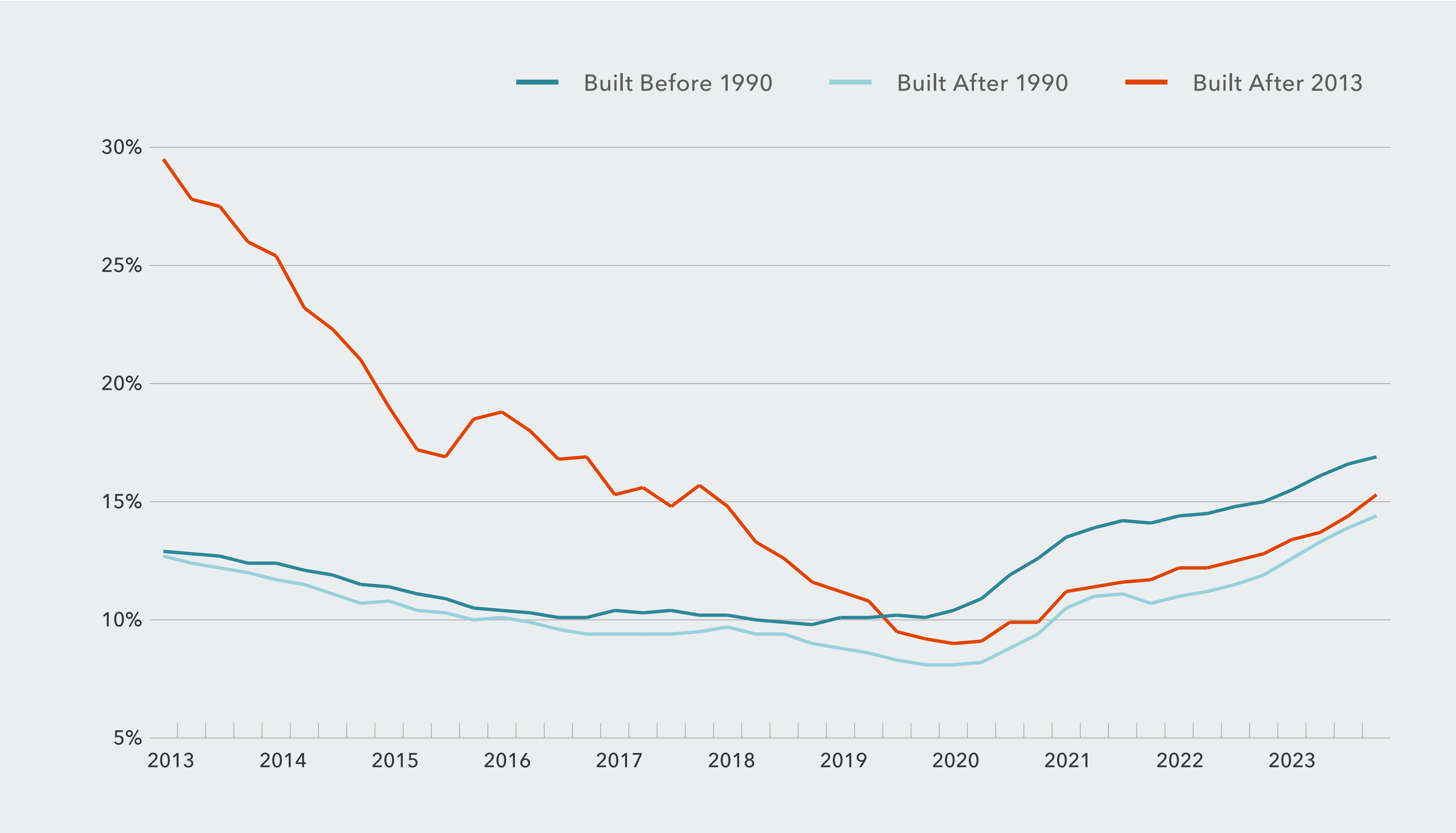
Tech-heavy and urban core markets were the hardest hit

Suburban-centric markets showed more durability

Source: Costar, Kidder Mathews Research



OFFICE PERFORMANCE *BY AGE CLASS*



A flight to quality is trending within the newer age segment of office buildings

A divergence between older and newer began to emerge in 2018, but the gap has widened post-pandemic

Performance in office buildings built over the past 10 years is similar to properties built over the last 50 years, due to their newer materials and amenities

Source: Costar, Kidder Mathews Research

URBAN VS SUBURBAN OFFICE TRENDS

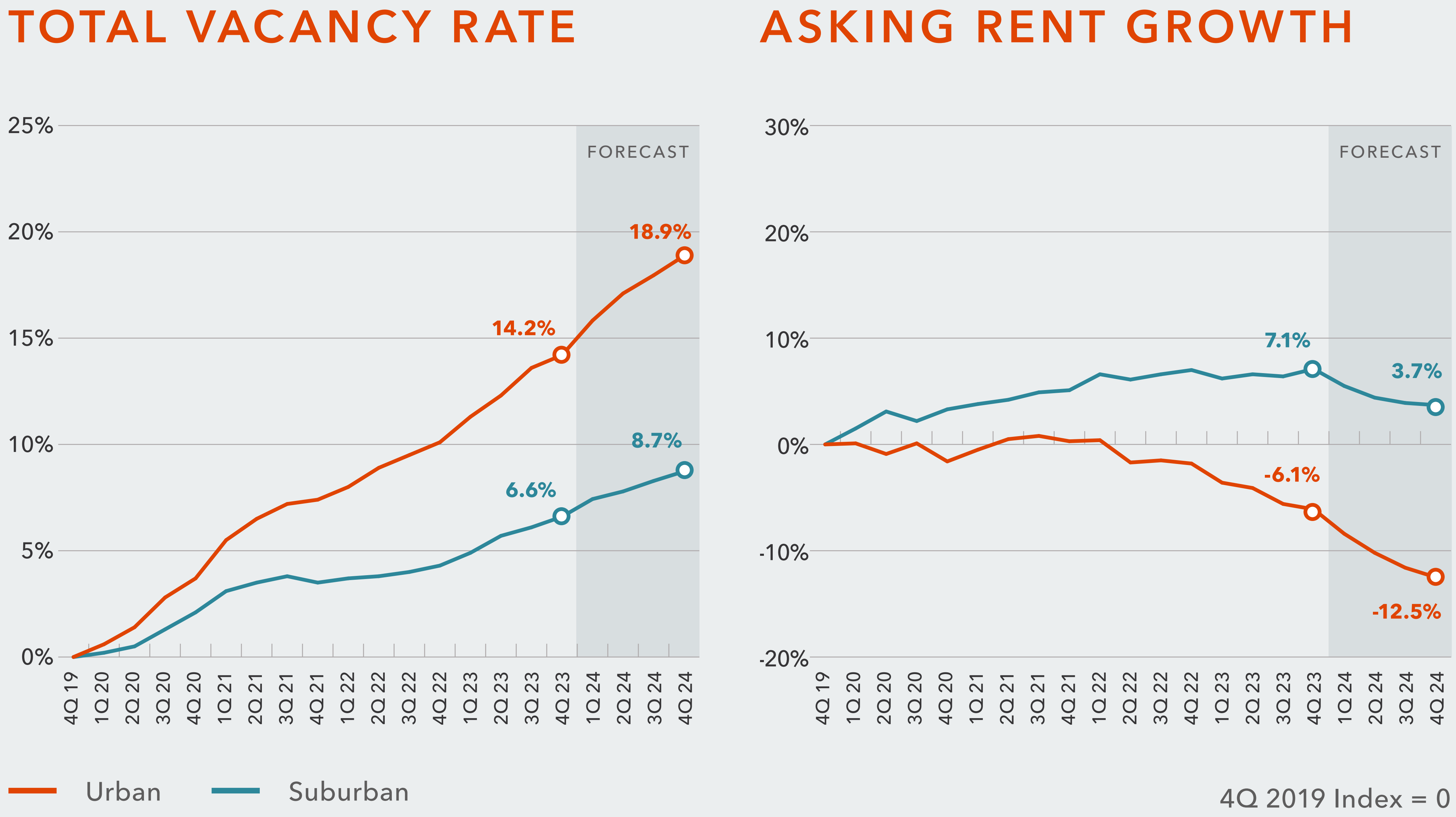
Urban and suburban offices have shown a noticeable performance split

Urban cores saw a significant rise in vacancy rates and a substantial drop in asking rents

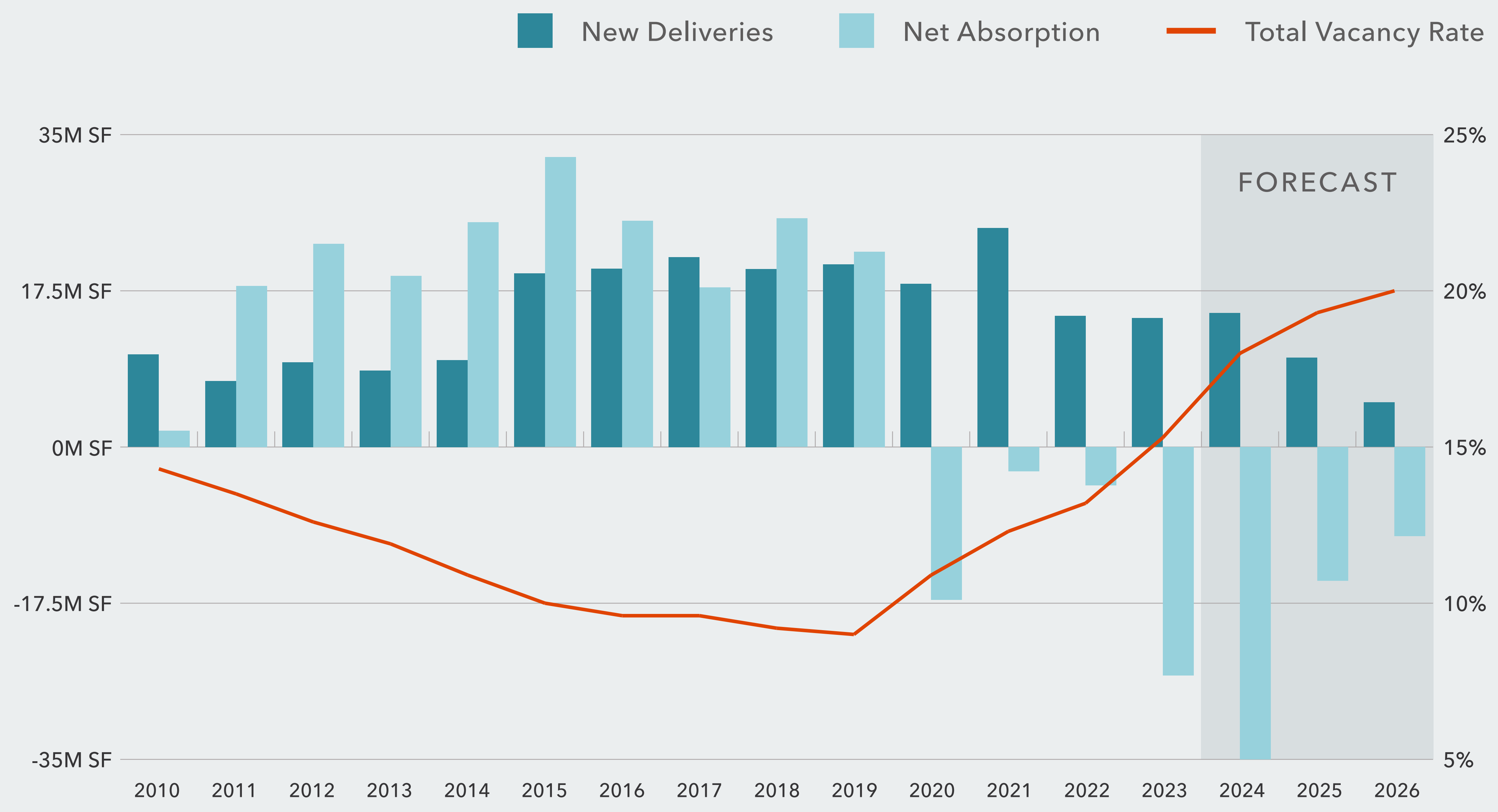
Suburban markets saw a more subdued increase in vacancy and a modest increase in asking rents

This analysis only tracks leased office properties over 10,000 SF and excludes all owner-user office buildings.

Source: Costar, Kidder Mathews Research



WEST COAST OFFICE *3-YEAR FORECAST*



Office trends will persist in 2024

Forecasts expect a slow year of leasing activity, leading to negative net absorption and rising vacancy rates and declining rent growth

Tenants are becoming more confident understanding their future space needs

Office-using job growth is expected to be positive in the near term, especially within the tech sector

Source: Costar, Kidder Mathews Research

INDUSTRIAL OUTLOOK

The industrial market is expected to recalibrate in 2024

The industrial sector produced unprecedented growth between 2021 and 2022 before tapping the brakes in 2023. After extremely low vacancy rates, elevated development activity, robust leasing levels, and record-high rent growth, the market was bound to experience a slowdown.

The industrial sector is expected to recalibrate in 2024, with activity levels similar to pre-covid averages while rent growth will normalize to a more moderate pace. Construction deliveries during the first half of the year are expected to contribute to rising vacancy rates, but decelerating construction starts will help keep vacancy rates low in 2024.

MACRO INDUSTRIAL TREND *E-COMMERCE*

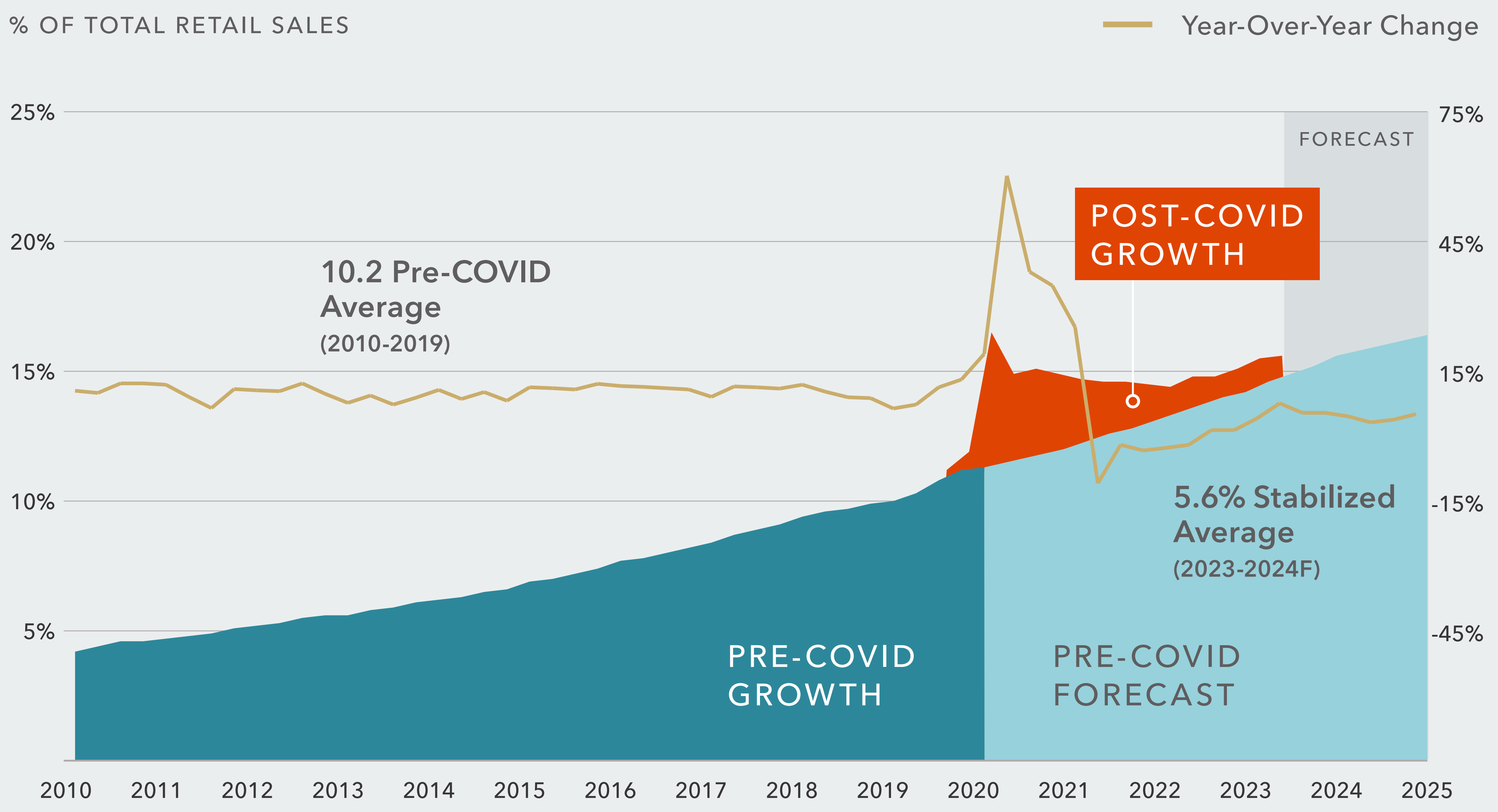
E-commerce will continue to drive industrial growth

E-commerce will continue to grow at a steady pace

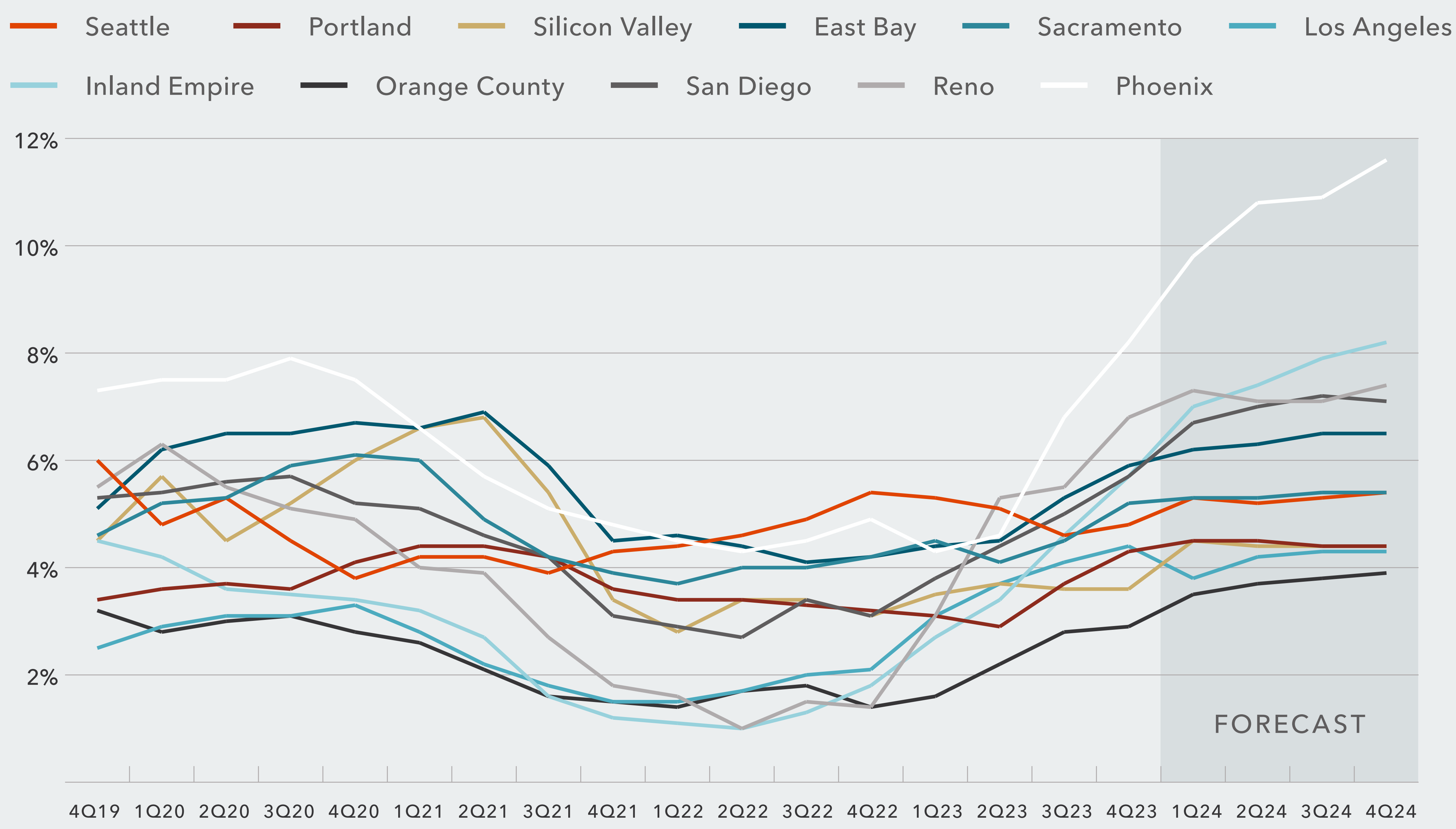
Year-over-year rate of growth has stabilized between 5% and 6% compared to 10% to 11% pre-covid

Projected growth in retail spending is driving an expansion in warehouse requirements

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



INDUSTRIAL VACANCY RATES *BY MARKET*



Markets are experiencing a slowdown in activity and rising vacancy rates

Development activity, tenant demand, e-commerce penetration, and supply chain efficiencies, are factors affecting all markets

Phoenix and Inland Empire are expected to see a greater rise in vacancy rates, due to new development activity

Source: Costar, Kidder Mathews Research

WEST COAST INDUSTRIAL *3-YEAR FORECAST*

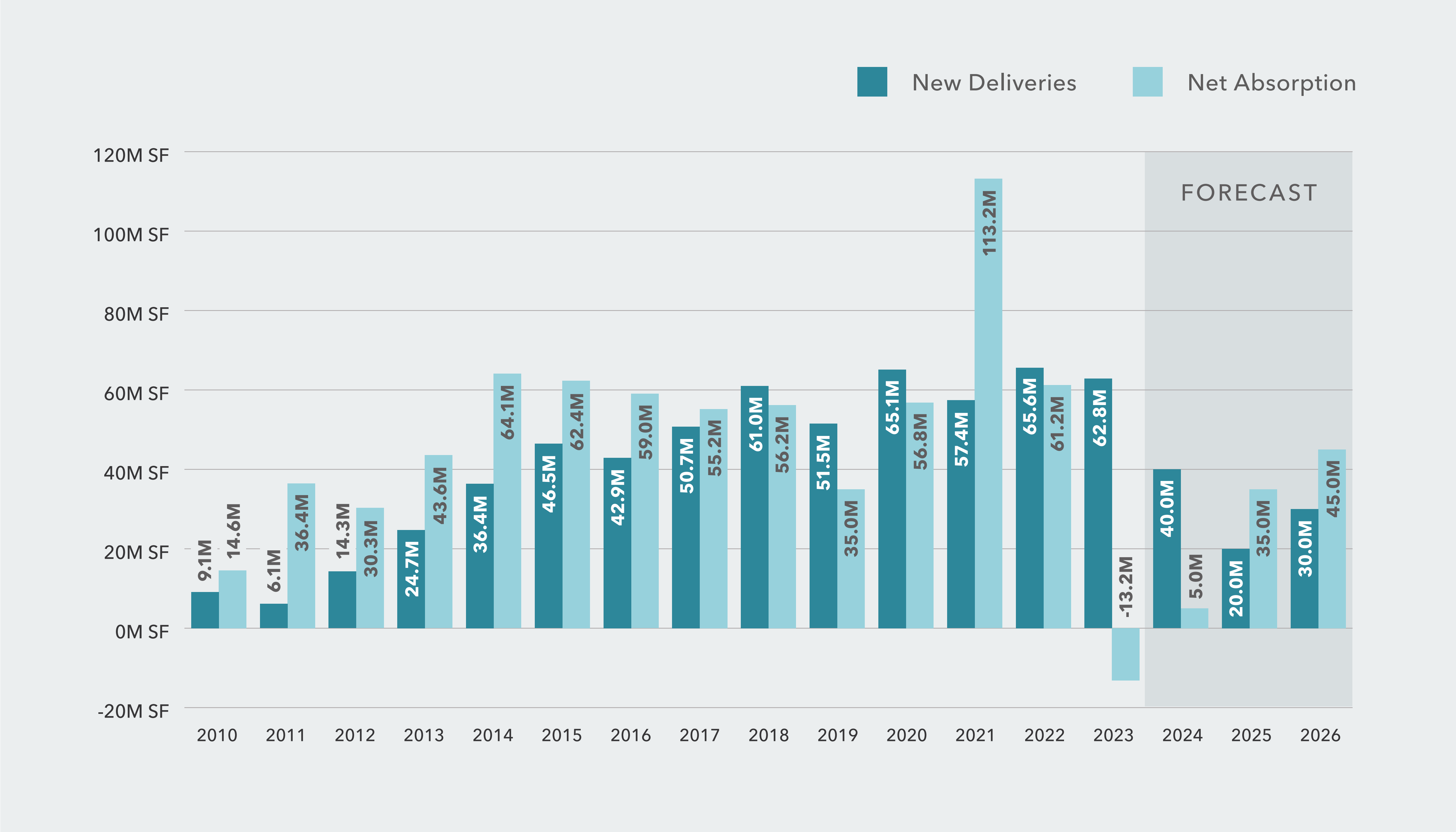
Activity levels in the 1st half of 2024 are expected to be relatively slow

Leasing activity was at an all time high in 2021 with levels diminishing in 2023

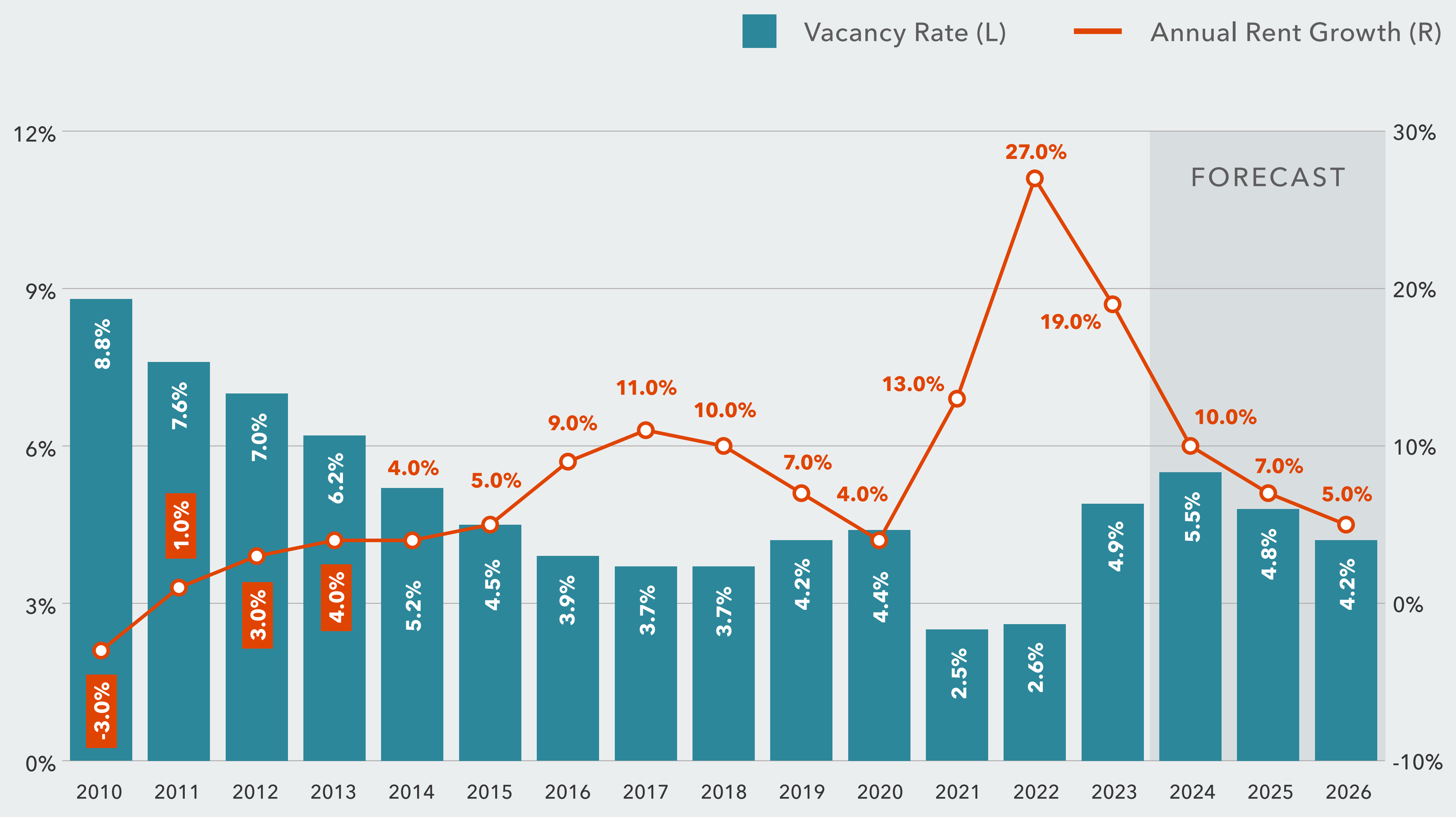
Activity levels in H1 are expected to be slow with H2 performing close to pre-pandemic averages

New development will remain low during the near term

Source: Costar, Kidder Mathews Research



WEST COAST INDUSTRIAL *3-YEAR FORECAST*



Vacancy rates will increase in 2024, while rent growth continues to cool

Vacancy rates and rent growth are on solid footing

Vacancy is expected to have a nominal increase in 2024

Rent growth is projected to shift to a rate closer to historical norms below 10%

Source: Costar, Kidder Mathews Research

RETAIL OUTLOOK

Retail market fundamentals will remain resilient

While 2023 was filled with economic challenges, the retail sector showed resiliency and promise with low vacancy rates and slightly expanding lease rates. However, leasing activity across the West Coast was down 11% compared to last year and down 25% compared to pre-covid averages. There also continued to be a noticeable performance gap between urban cores and the suburbs with the former posting vacancy rates between 6% and 10%, while the latter generally fell between 3% and 5%.

The economy is projected to experience slow growth in 2024, promoting a strengthening of both consumer confidence and retail sales. Furthermore, the recent reduction in retail development will encourage short-term growth activity in the retail sector as overall fundamentals are forecasted to remain solid.

RETAIL SALES *GROWTH* PROVIDES OPTIMISM

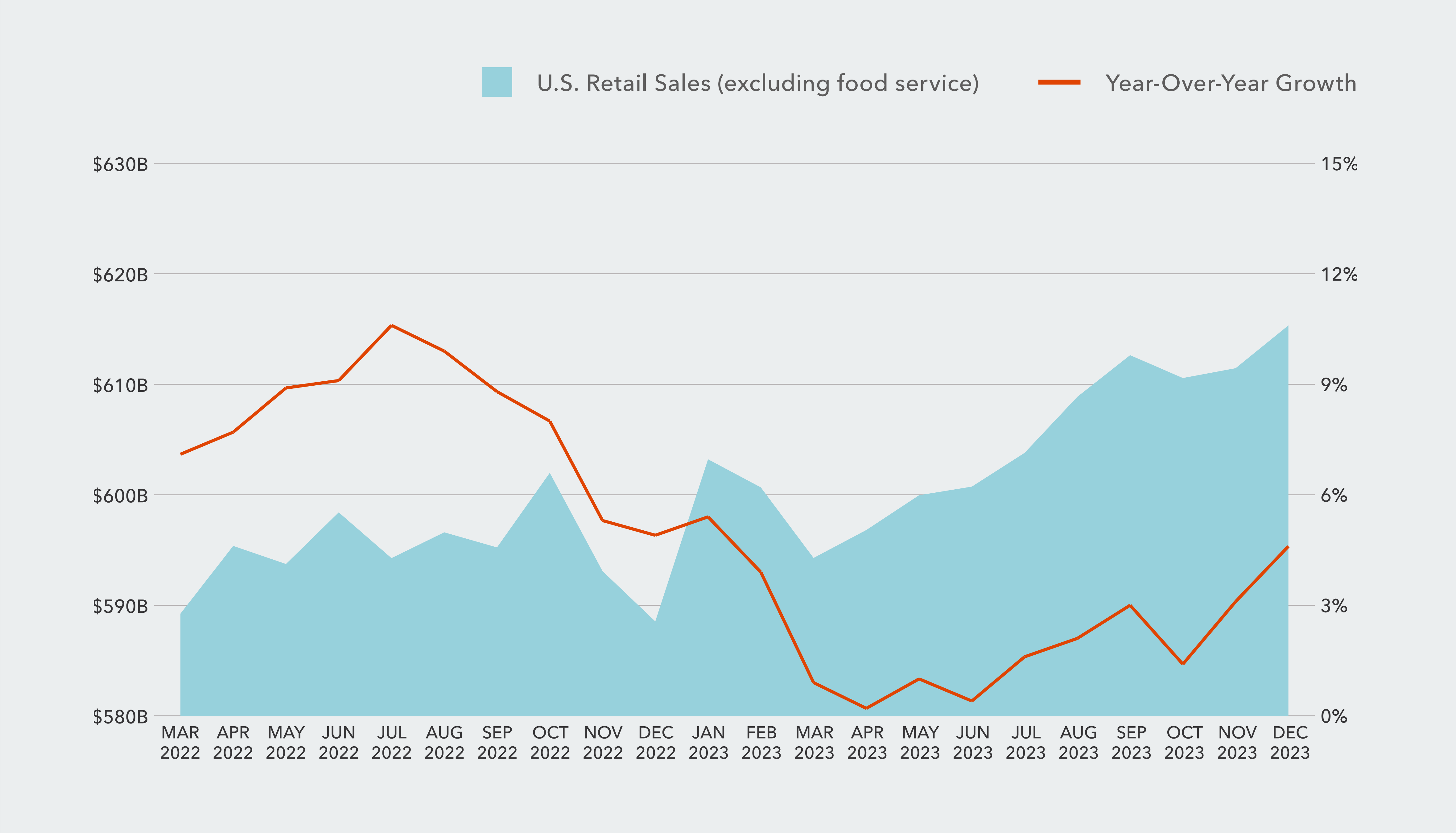
Surging retail sales provide optimism for 2024

Retail sales across the U.S. experienced a slow and steady climb since April 2023

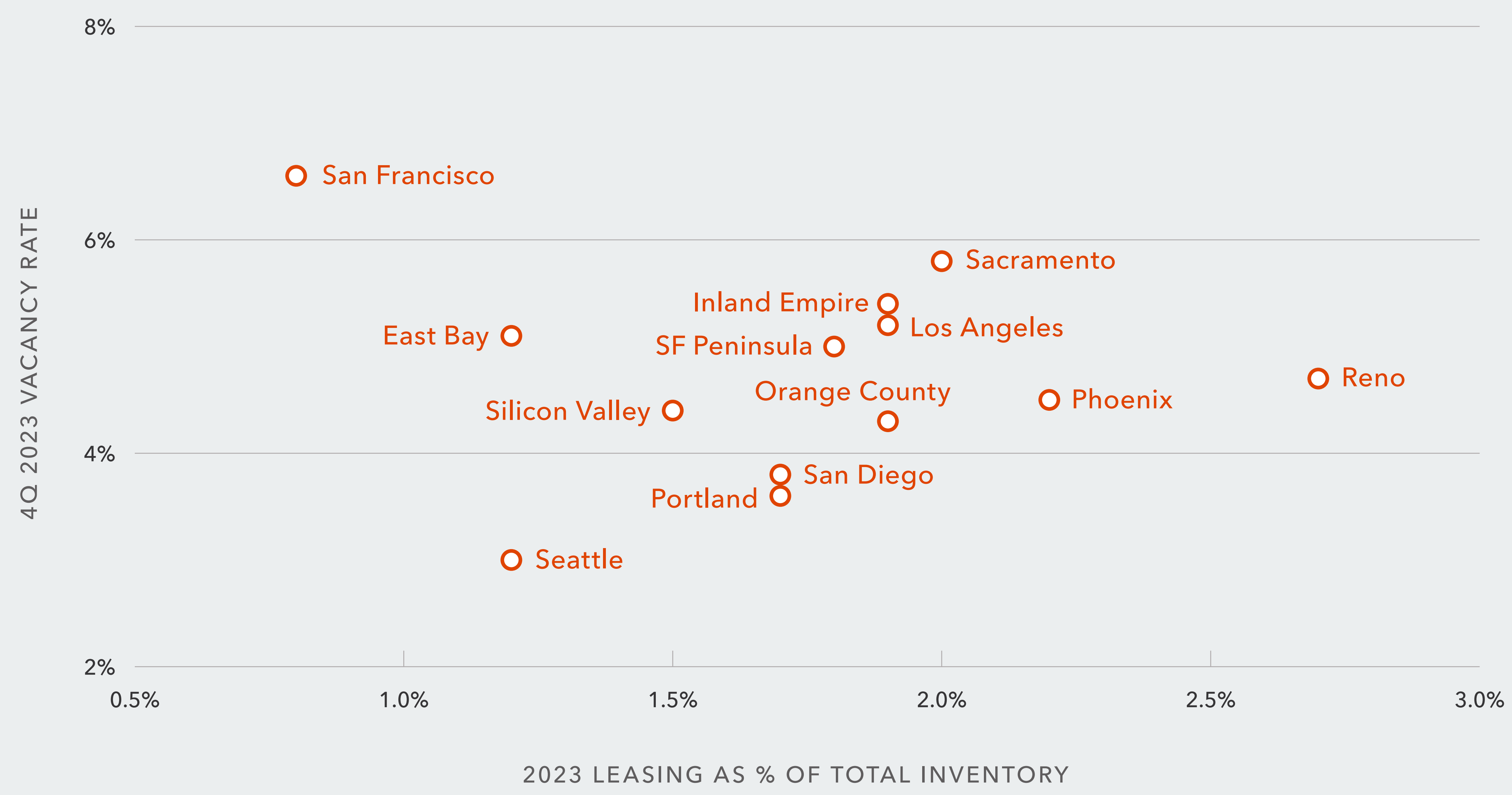
Retail sales grew by 0.6% in December, representing a 4.6% increase, year-over-year

E-commerce penetration is projected to continue between 5% and 10% as consumer confidence rebounds

Source: U.S. Census Bureau



RETAIL VACANCY & LEASING ACTIVITY *BY MARKET*



West Coast markets see nuanced fundamentals

Larger markets like San Francisco and Seattle, have experienced increased vacancy rates, decreased activity, or both

Suburban-centric cities like Phoenix, Reno, and Sacramento have flourished compared to West Coast averages

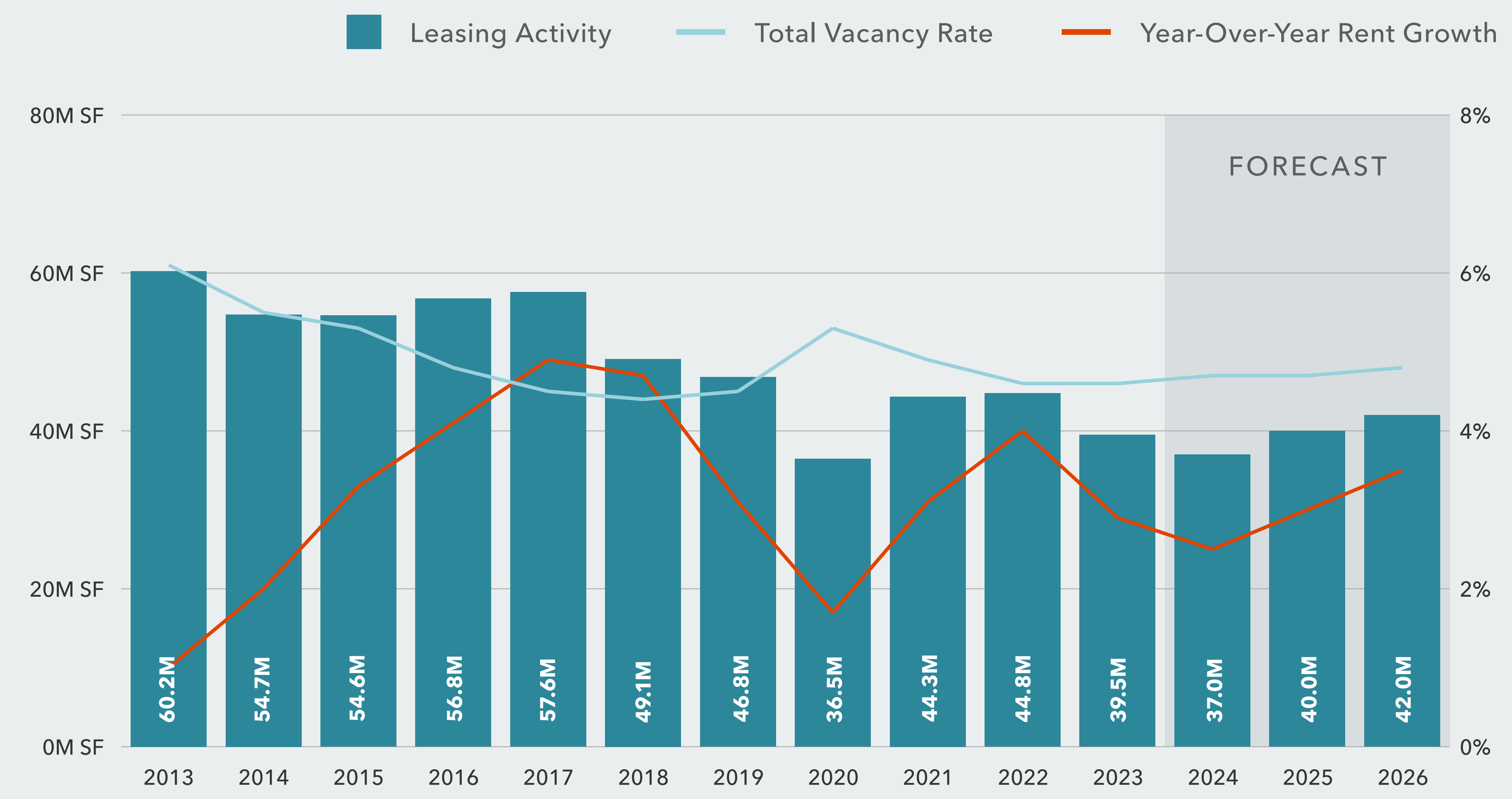
Source: Costar, Kidder Mathews Research

WEST COAST RETAIL *MARKET TRENDS*

Subdued activity is expected to persist during the first half of the year

Retail fundamentals are expected to remain resilient in 2024, with a slight uptick in vacancy rates and a nominal decline in leasing activity

By the end of 2024, retail market activity will accelerate, paving the way for growth in 2025 and 2026



Source: Costar, Kidder Mathews Research

MULTIFAMILY OUTLOOK

New multifamily deliveries will place upward pressure on vacancy during the near-term, while solid leasing demand will prevent a significant rise in overall rates in 2024

Overall, the West Coast multifamily market performed consistently well over the past decade with low vacancy rates, expanding inventories, and rising lease rates. Additionally, investment activity has been relatively steady, with total sales volume surging in 2021 and 2022.

However, while multifamily leasing remained solid in 2023, sales volume fell off a cliff and posted its lowest volume levels since 2013. While apartment inventories have grown substantially, giving tenants more options in 2023 and 2024, construction starts are expected to temper by the end of 2024, helping the balance between supply and demand hover near equilibrium.

SALE VOLUME SIGNIFICANTLY *DECLINED*

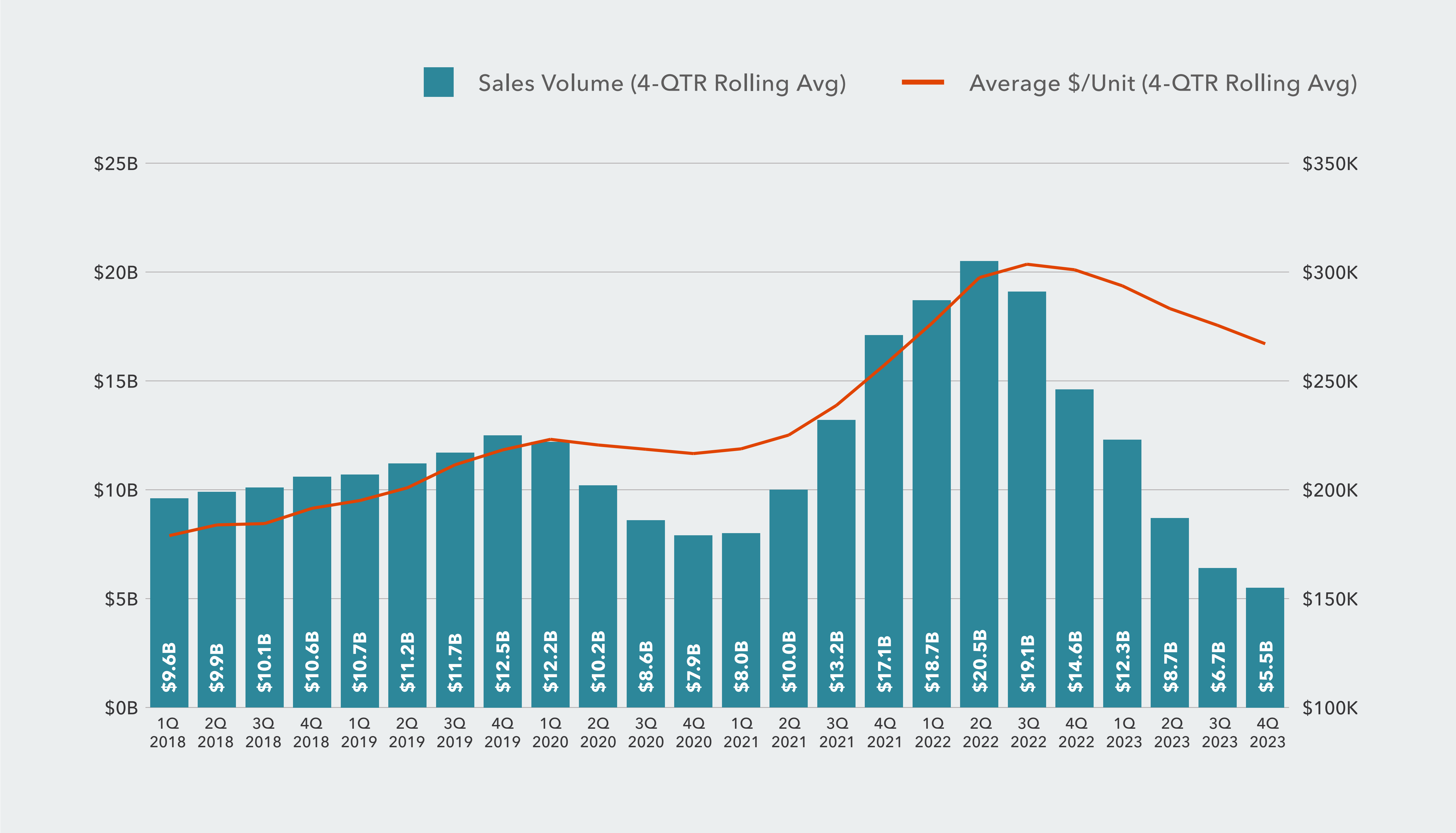
Apartment sales in 2023 declined dramatically

Sales fell by 60% compared to 2022 and ending the year at $5.5 billion

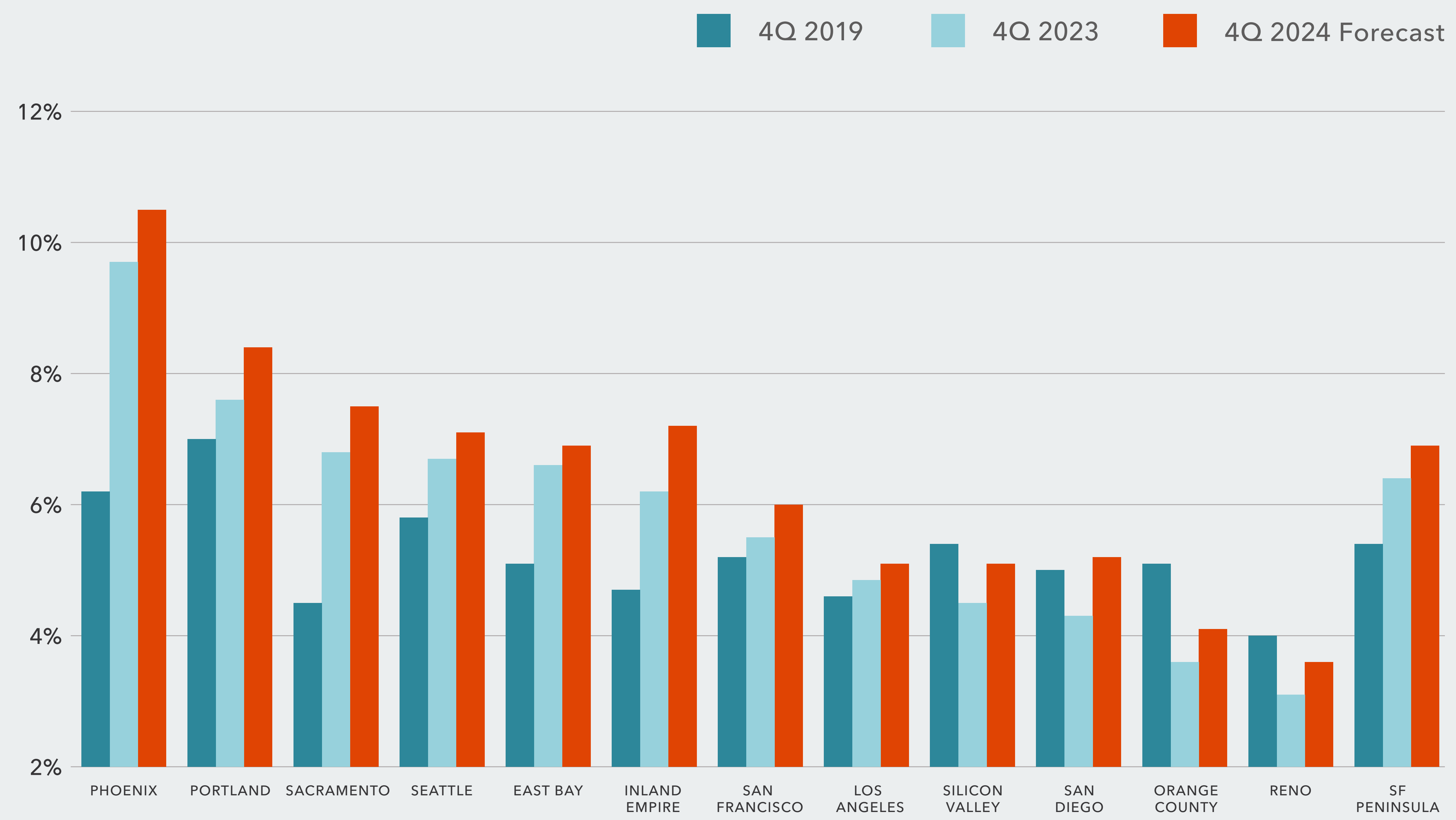
Average pricing also declined by approximately 11%

Significant interest-rate increases in 2023, uncertainty in the financial markets, and a disconnect in pricing between buyers and sellers were major factors in the decline

Source: CoStar, Real Capital Analytics



VACANCY RATE *BY MARKET*



Apartment vacancy remains healthy in most markets with balanced investors

Vacancy rate increased a modest 100 basis points compared to pre-covid

The forecast for 2024 calls for a slight increase to 6.9% by the end of the year

Phoenix had both the highest vacancy and the largest increase since covid

Source: Costar, Kidder Mathews Research

WEST COAST MULTIFAMILY *3-YEAR FORECAST*

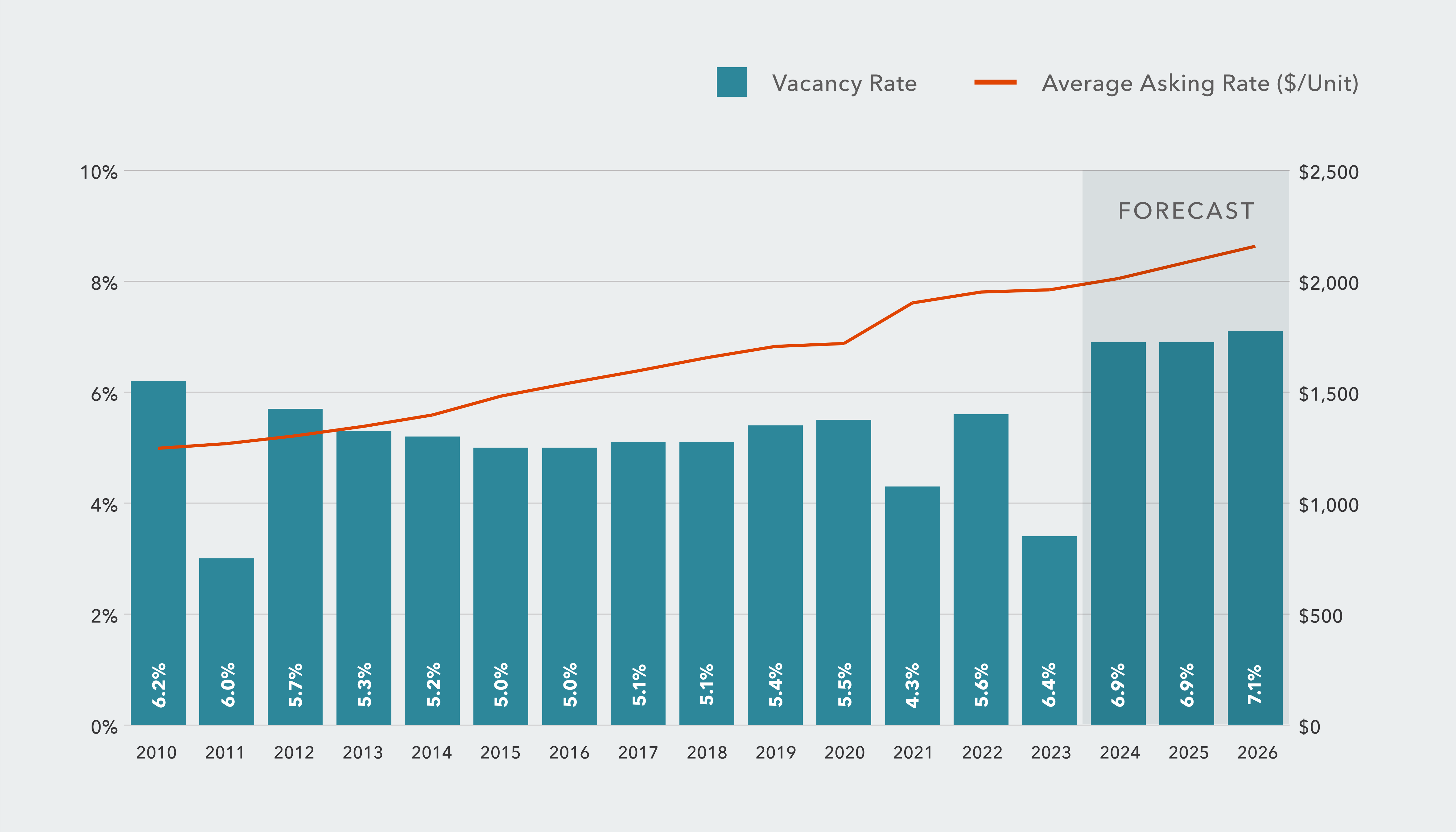
Solid leasing performance is expected during the near term

Persistent levels of demand will prevent a significant rise in rates

Forecast shows a small uptick in vacancy rate to 6.9% by the end of 2024, while asking rents are expected to rise by 2.6%

The investment market is projected to rebound

Source: Costar, Kidder Mathews Research



FOR ADDITIONAL MARKET INFORMATION CONTACT

GARY BARAGONA

Vice President, Research | gary.baragona@kidder.com | 415.229.8925

Kidder Mathews

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