



WEST COAST *INDUSTRIAL* BY THE NUMBERS

September 2024 Update

RECALIBRATING *MARKET DYNAMICS*

In 2021 and 2022, the industrial market experienced record-setting growth, with extremely high levels of demand, historically low vacancy rates, and an unprecedented rise in rental rates.

However, the sector began to soften in 2023 as overall fundamentals shifted. During previous cycles, when long-term fundamentals deviate, whether overly positive or negative, they tend to course correct and recalibrate. This has been the ongoing trend in the industrial market throughout 2024.

DEMAND *DRIVERS*

Year-to-date, West Coast port volume increased by approximately 17% year-over-year, led by the Port of Long Beach (+20.0%) and the Port of Los Angeles (+17.6%), the two largest U.S. ports.

This growth is promising because cargo trends often provide insight into the economy’s health, and increased port activity typically translates into greater industrial leasing demand. Additionally, after losing market share in total container traffic in recent years, West Coast ports have shown a positive uptick, signaling potential for future growth.

E-commerce activity has been strongly correlated with industrial demand over the past decade, playing a key role in industrial demand. As consumer purchases rise, distribution warehouses are needed to store inventory. E-commerce growth surged in 2020 following the pandemic, driving historic demand for industrial space. As a result, vacancy rates plummeted, and development activity soared, with new starts reaching an all-time high by mid-2022. This was especially true in large distribution markets like Inland Empire and growing distribution hubs like Phoenix and Las Vegas.

<div>17%</div> <div>YEAR-OVER-YEAR PORT VOLUME GROWTH</div>	<div>7.5%</div> <div>YEAR-OVER-YEAR E-COMMERCE GROWTH</div>
---	---



INDUSTRIAL MARKET *FUNDAMENTALS*

As e-commerce demand recalibrated and settled, industrial market fundamentals began to shift. Vacancy rates increased, sublease space flooded the market, development slowed, and rent growth stalled.

Distribution hubs that saw robust construction also experienced significant vacancy rate increases – Phoenix rose from 4.3% in 2022 to 11% in 2024, and the Inland Empire from 1% to 7.3%. Even with strong healthy activity, it will take longer for those markets to find a balance between supply and demand. West Coast construction starts have declined by 50% compared to the highs of 2022, which will help temper rising vacancies in the near and mid-term.

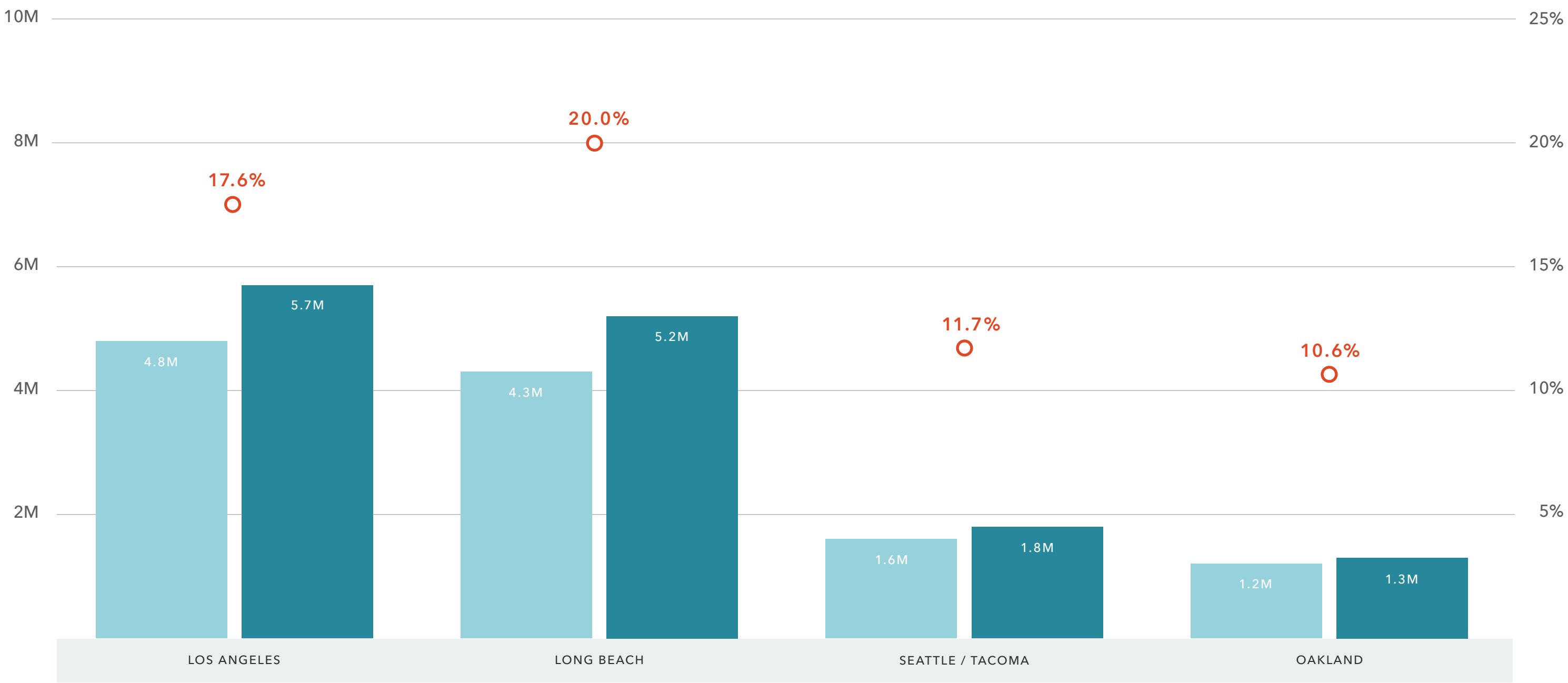
As vacancy rates increased, so did sublease space, driven by tenants reassessing their warehouse and distribution needs. By Q1 2024, sublease space accounted for 13.8% of total available space, the highest on record (compared to a 15-year pre-COVID average of 7.1%). While this trend rose steadily for two years, it saw its first decline in Q2 2024, dropping to 13.5%, suggesting sublease space may have peaked and that demand might soon increase.

Leasing activity on the West Coast has gradually declined since its peak in Q1 2022, when the trailing four-quarter total reached 304.8 million square feet. By Q2

2024, this figure had fallen to 176.4 million square feet, 42% below the 2022 peak. For context, the post-COVID two-year average was 250 million square feet, while the 10-year pre-COVID average was 240 million, and the 20-year pre-COVID average was 175 million. Essentially, leasing volumes have returned to pre-COVID norms. The key question remains: Will demand pick up in the next 3-6 months or stay subdued?

Anecdotal evidence suggests that demand is beginning to recover, though it typically takes 3-6 months before new demand begins to impact statistics. In the near term, supply and demand imbalances are expected to persist, with slow growth. New deliveries are expected to push vacancy rates slightly higher before stabilizing. By mid-2025, the West Coast industrial market should see sustained momentum, with increasing leasing volume and positive net absorption.

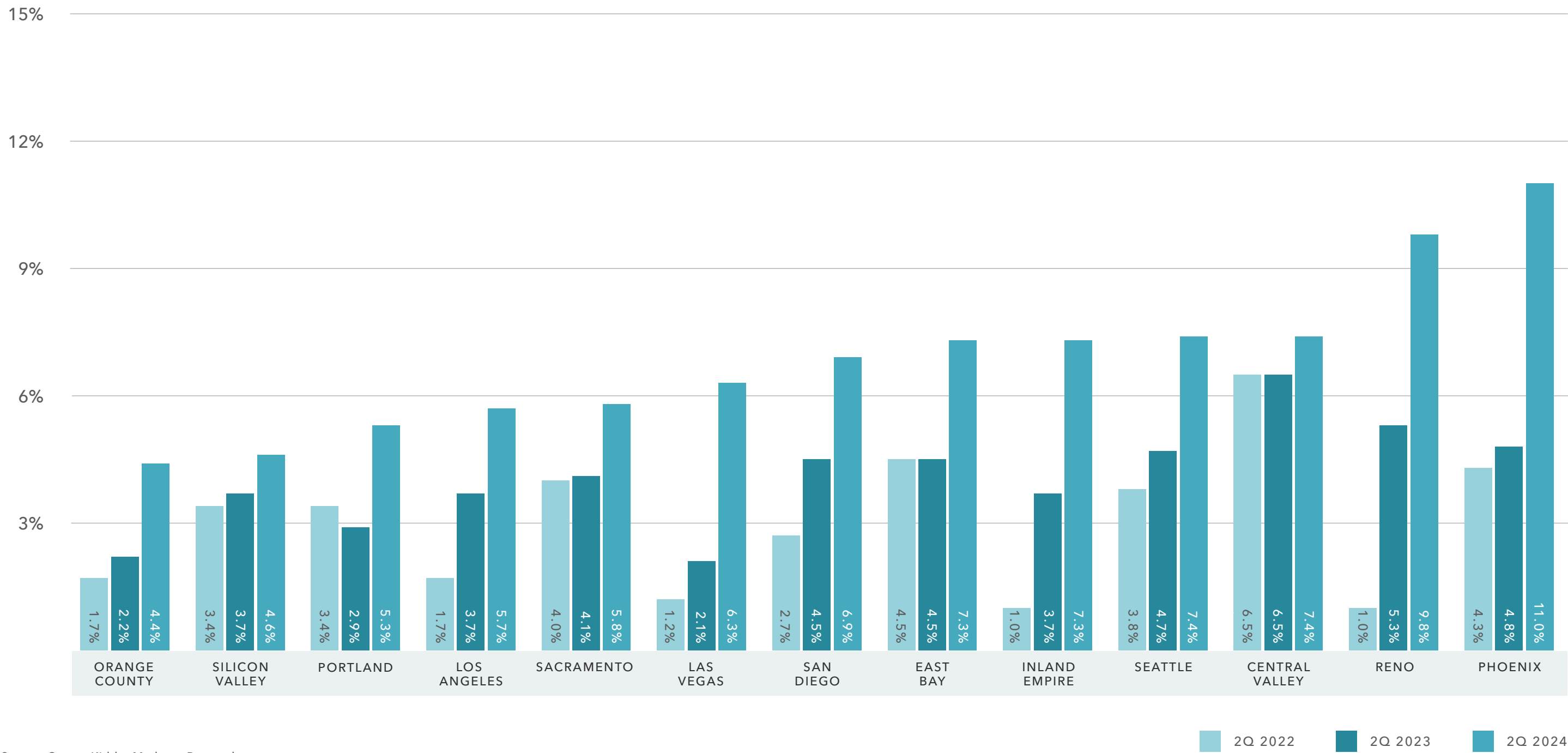
WEST COAST *PORT VOLUME*



Source: West Coast Ports

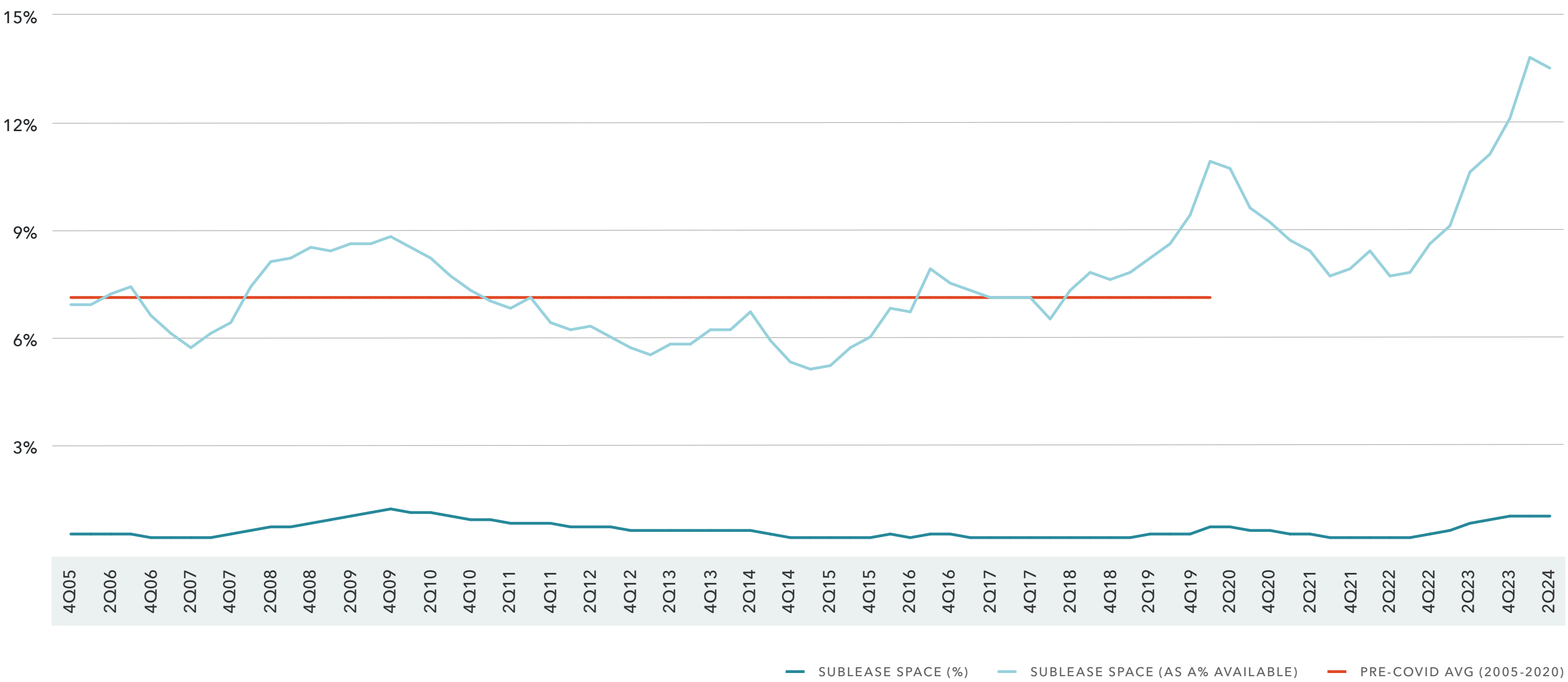
H1 2023 H1 2024 YOY CHANGE

VACANCY RATES



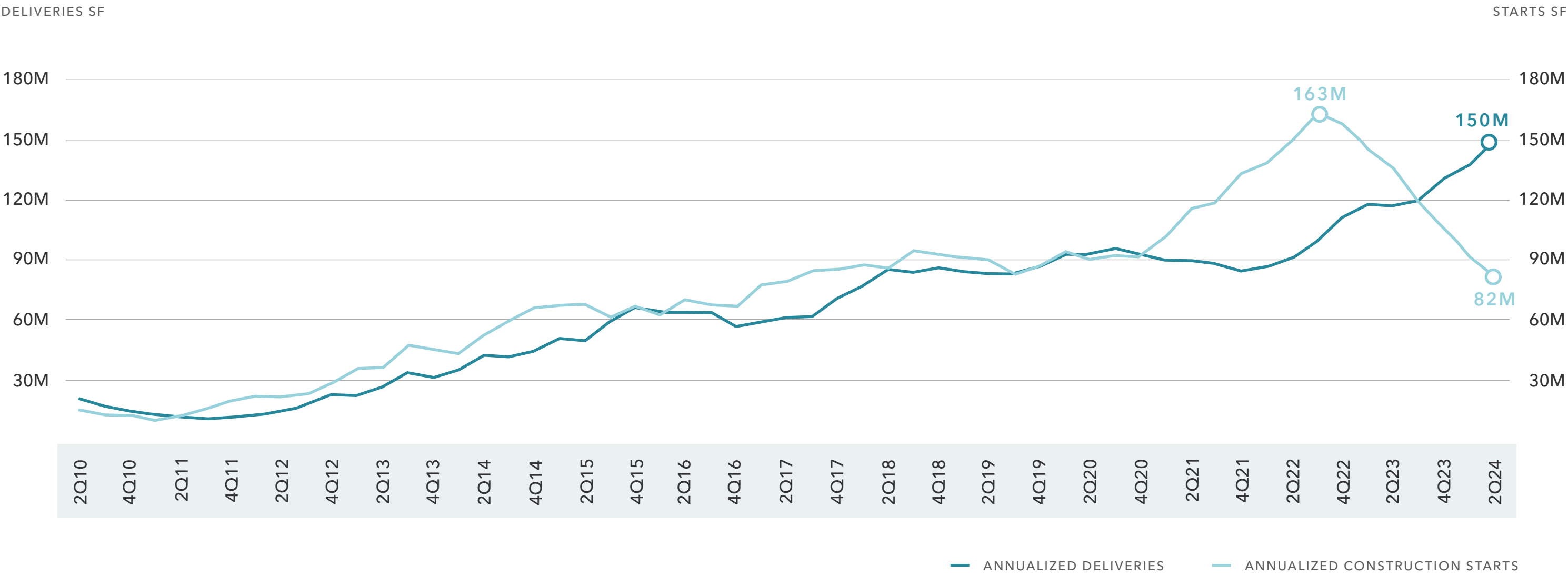
Source: Costar, Kidder Mathews Research

SUBLEASE SPACE



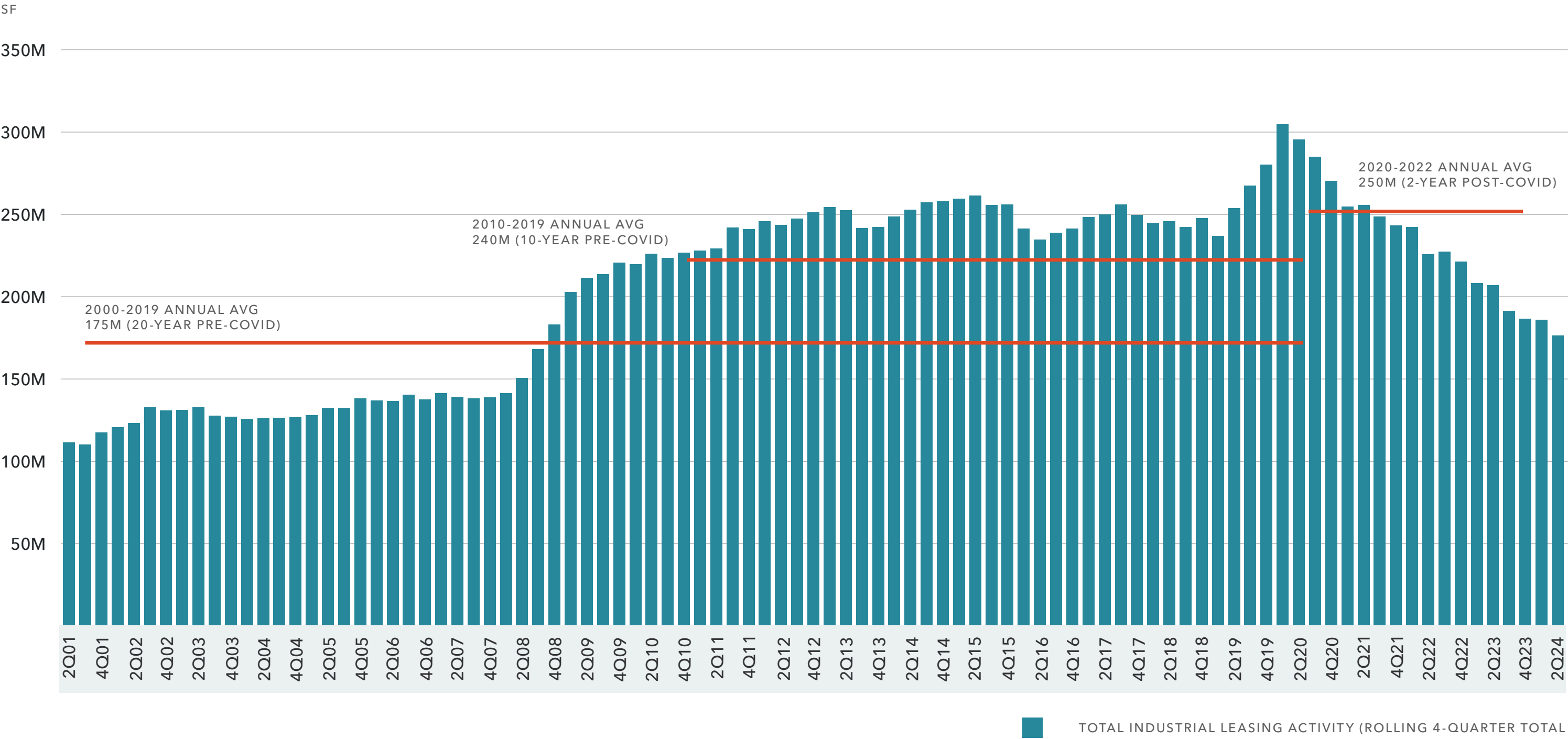
Source: Costar, Kidder Mathews Research

CONSTRUCTION STARTS



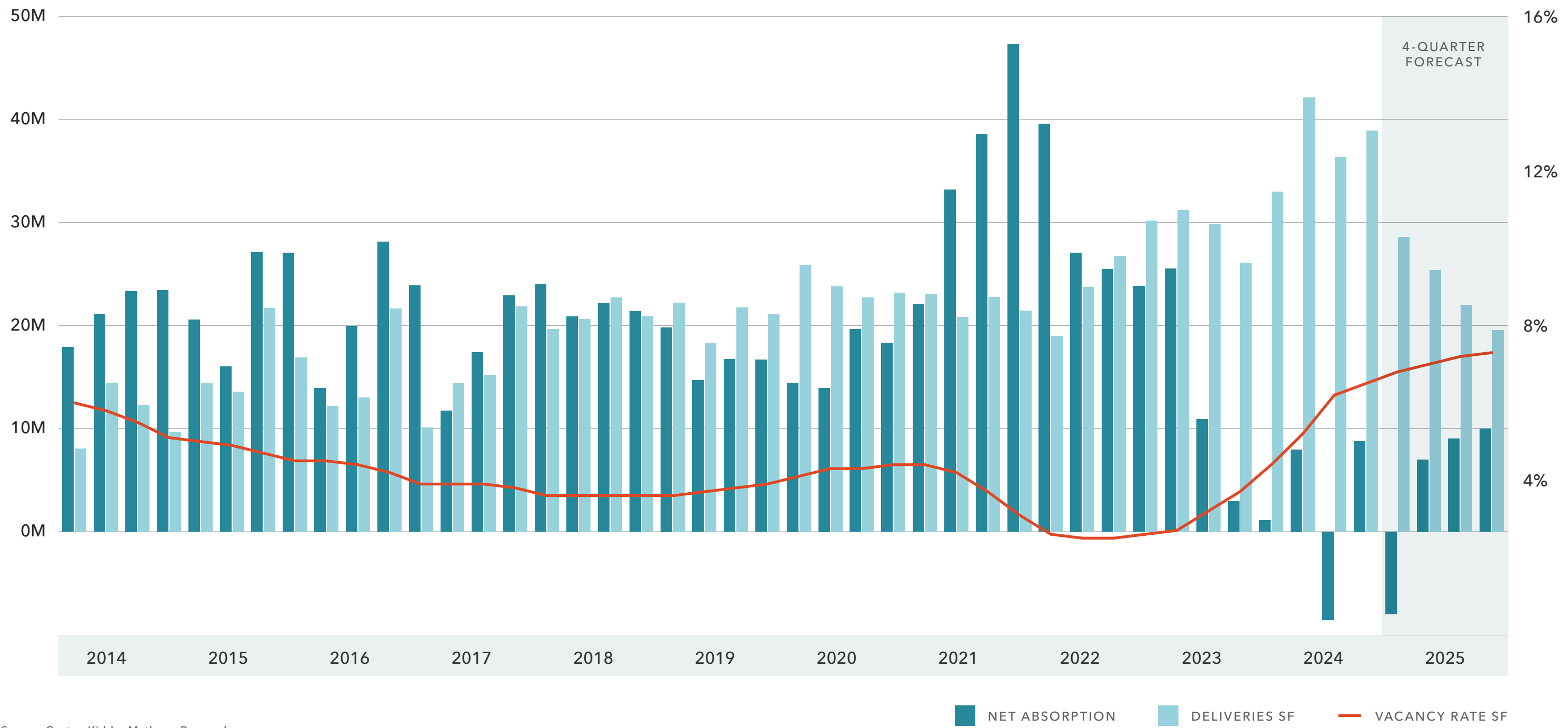
Source: Costar, Kidder Mathews Research

LEASING ACTIVITY



Source: Costar, Kidder Mathews Research

WEST COAST *FORECAST*



Source: Costar, Kidder Mathews Research

Contact

BRIAN HATCHER
President & COO
206.296.9600
brian.hatcher@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, Idaho, 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

\$10B	31.7M	42.4M
3-YEAR AVERAGE TRANSACTION VOLUME	ANNUAL SALES SF	ANNUAL LEASING SD

ASSET SERVICES

55M+ SF	800+	260+
MANAGEMENT PORTFOLIO SIZE	ASSETS UNDER MANAGEMENT	CLIENTS SERVED

VALUATION ADVISORY

2,600+	43	27
3-YEAR AVERAGE ASSIGNMENTS	TOTAL NO. OF APPRAISERS	WITH MAI DESIGNATIONS

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. Consult your attorney, accountant, or other professional advisor.