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Tariffs Create Uncertainty for Industrial

- There is plenty of uncertainty around trade and tariffs, but the impacts of a brewing trade war on the industrial sector will be far-reaching.
- At the start of February, the new administration announced tariffs of 10% on China and 25% on Mexico and Canada, before agreeing to a subsequent 30-day pause regarding certain goods from Mexico and Canada, while leaving the Chinese assessments in place. The suspended tariffs are set to be fully enacted in April. The three countries are the U.S.'s top trading partners, and combined account for more than two-fifths of its imports. Additional tariffs imposed or threatened on Europe mean that the majority of imported goods could soon be subject to the surcharges. Yet the tariffs enacted by the new administration represent only half of the picture for the industrial market, as retaliatory fees by other countries on American goods threaten manufacturers and exporters. Further complicating the picture, reciprocal tariffs from the U.S. look to be heading down the pipeline soon.
- The Economic Policy Uncertainty Index hit its highest mark ever outside of the first few months of the pandemic. The joint project between academics at Stanford, Northwestern and the University of Chicago illustrate the uncharted waters the country has entered. Tariff uncertainty led to a rush of imports through the nation's busiest ports early this year, as firms stockpiled inventory before the charges went into effect. According to data from the Bureau of Transportation, the total number of containers imported at the top 10 busiest U.S. ports was up 18% year-over-year in January. While the ports may see activity fall in coming quarters due to tariffs on China and the European Union, markets along the southern border face just as many questions about trade with Mexico. Recently these markets boomed as firms nearshored production to Mexico and moved goods freely across the border. With the U.S.-Mexico-Canada Agreement set to expire next summer, many firms will be hoping for a new deal to eliminate or reduce these charges.
- Tariffs may be a long-term positive for the industrial sector, if they achieve the administration's goal of increasing reshoring of manufacturing. In the short term, we anticipate that tariff uncertainty will lead to delayed leasing decisions from industrial occupiers. Those on steel and aluminum will increase construction costs and may lead to delaying or cancellation of planned projects. While it will take time to know the full impact, the new-development pipeline was already entering a lull, as the historic wave of new supply gets absorbed and interest rates remain elevated.

