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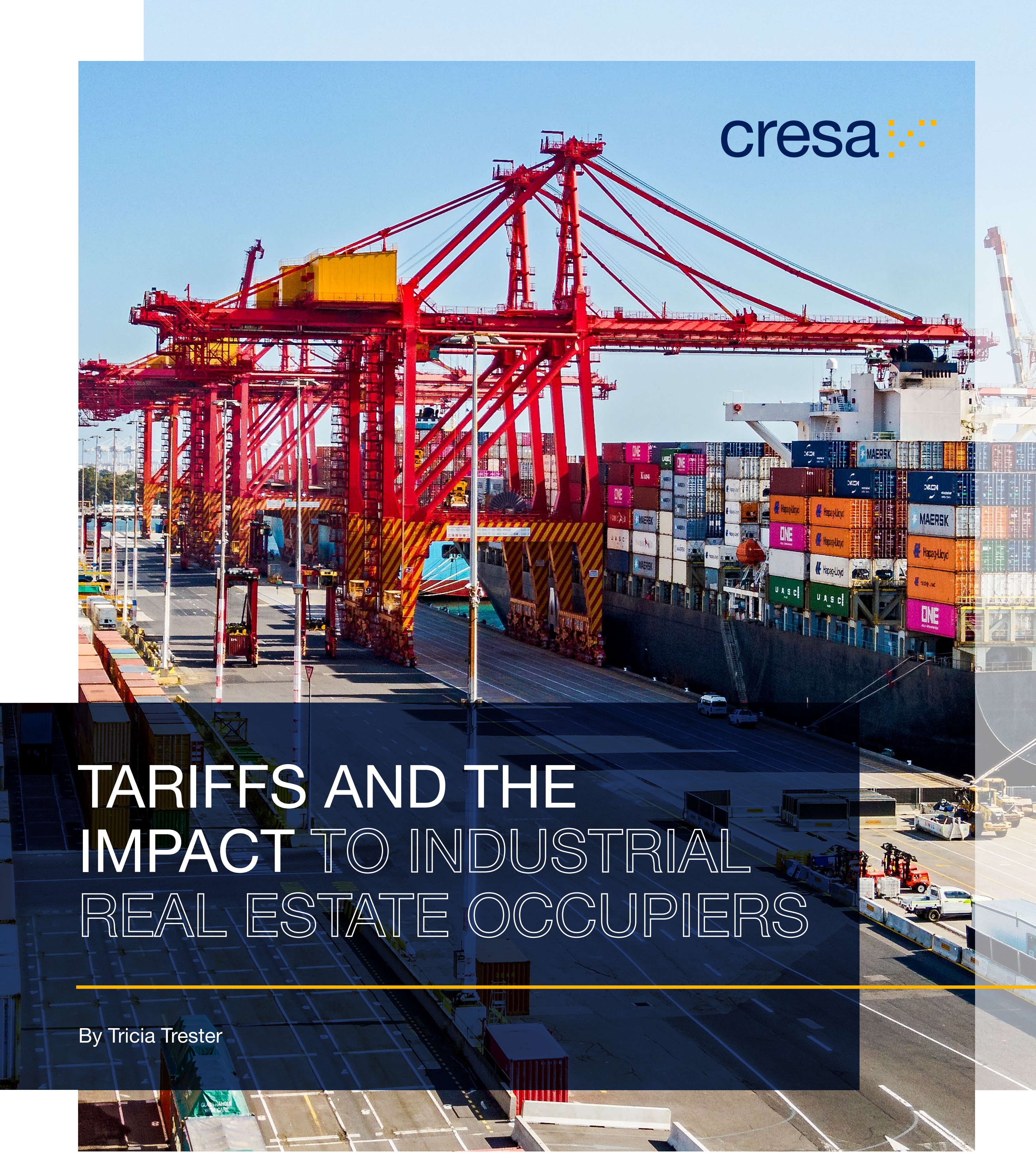


# TARIFFS AND THE IMPACT TO INDUSTRIAL REAL ESTATE OCCUPIERS

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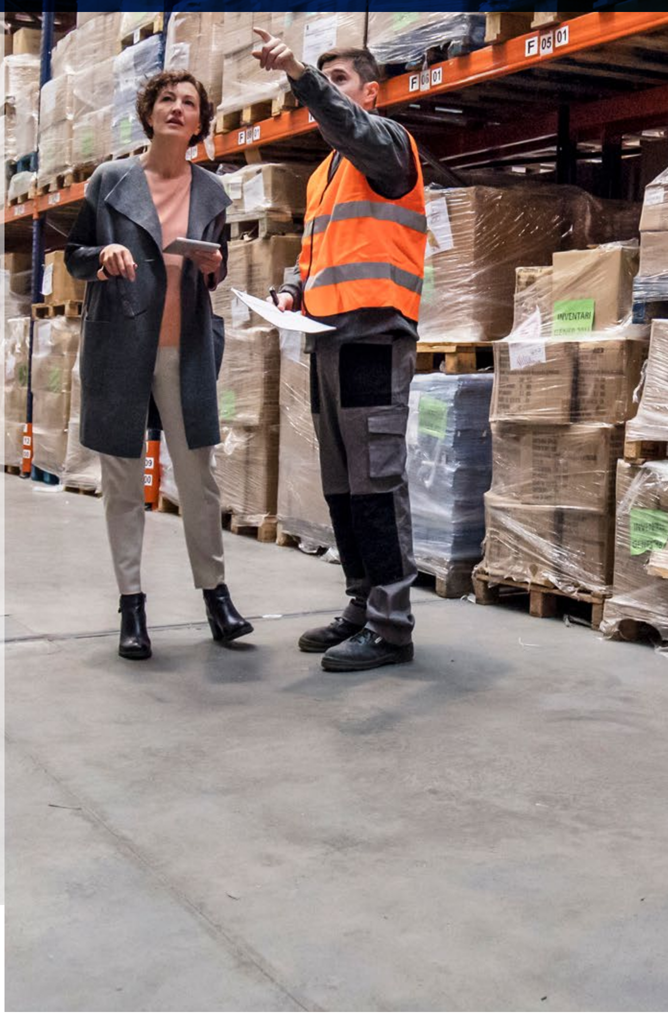
In a significant shift in U.S. trade policy, President Donald Trump announced on April 2, 2025, a comprehensive set of tariffs aimed at reshaping the nation's economic relationships with its global partners. This initiative introduced a baseline 10% tariff on all imported goods, with substantially higher rates for specific countries. However, within a week (April 9th), President Trump declared he would temporarily lower the duties imposed on dozens of countries while continuing to pressure China, indicating that the tariff on Chinese imports would be raised to 125 percent from 104 percent, followed by a 90-day pause except for China at 145% and swirling confusion around consumer electronics tariffs. Even with the rolling back of certain tariffs, the uncertainty and confusion about the next steps is putting pressure on global markets. The administration asserts that these measures are designed to bolster domestic manufacturing by encouraging companies to relocate production to the United States. For real estate occupiers, navigating the impact of tariffs on real estate portfolios comes down to being able to mitigate risk. There are several factors to consider.

- INCREASED PRODUCTION COSTS
- SUPPLY CHAIN DISRUPTION
- CAPITAL EXPENDITURE REASSESSMENT
- COMPETITIVE DYNAMICS



Many U.S. industrial firms rely on imported raw materials and components. These new tariffs are expected to raise the costs of these essential inputs, potentially leading to higher overall production expenses. Electronics, automotive manufacturing, and machinery production may face increased costs due to tariffs on imported components.

Industries that have established complex global supply chains may experience significant disruptions. The increase in tariffs could necessitate a reevaluation of sourcing strategies, leading to potential delays and increased operational complexities. Firms planning to invest in new facilities or expand existing ones may need to reconsider their capital expenditure plans. The increased costs associated with imported construction materials and equipment could render some projects financially unfeasible.

While some domestic manufacturers may benefit from reduced competition due to higher import costs for foreign competitors, others may find themselves at a disadvantage if they rely heavily on imported inputs. Companies with a strong domestic supply chain may gain a competitive edge, whereas those dependent on imports could face margin pressures.

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# STRATEGIC MITIGATION PLANS

As these tariffs take effect, U.S. companies must proactively assess their supply chains, cost structures, and market strategies. Engaging with real estate experts, exploring alternative sourcing options and investing in domestic capabilities may be critical steps in mitigating the adverse effects of the new trade barriers. The long-term impact of these tariffs will depend on various factors, including potential negotiations, adjustments in global trade dynamics, and the responses of other nations.

In this evolving landscape, firms that can adapt swiftly and strategically are more likely to navigate the challenges posed by the new tariffs successfully.

The newly imposed tariffs are likely to have a significant impact on commercial real estate decisions by U.S. companies.

## HERE'S HOW:

### Shift Toward Domestic Manufacturing and Facilities

- Companies should accelerate plans to reshore or nearshore production to avoid high import tariffs.
- Increased demand for industrial space like factories, warehouses, and distribution centers – especially in regions with good logistics infrastructure (e.g., Midwest, Southeast, Texas).

### Rising Construction Costs

- Tariffs on imported materials – such as steel, aluminum, electronics – will increase the cost of building new facilities.
- Result: Companies may delay or scale back large construction projects or opt for leasing existing buildings instead of new builds.

### Increased Demand for Flex and Storage Space

- Companies seeking supply chain resilience may stockpile critical components, increasing the need for:
  - Warehouse and storage space.
  - Flex space for light manufacturing, assembly, and distribution.

### Risk Mitigation Through Diversification

- Some firms may diversify their footprint to avoid being locked into a single, high-tariff sourcing model.
- A shift to the development of multiple smaller regional facilities rather than one large, centralized plant can help shift.

### Foreign Trade Zones (FTZ's):

- FTZ's are a secure U.S. designated location near a port of entry where imported goods can be stored, processed, or assembled without being subject to U.S. Customs tariffs until they officially enter the U.S. market.
- Traditionally, these designated areas are a way to mitigate certain tariffs in key supply chain hub locations and can be utilized when companies want to hedge against shifting tariff legislation.

### Refocus on Investment and Planned Projects

- Performing more focused due diligence on projects due to elevated material costs may render some projects either financially unviable or need to be scaled back.
- The time frame for projects will likely be extended due to the complexities of sourcing materials and accurately forecasting demand.

## BOTTOM LINE

Industrial companies are entering a more complex decision-making landscape where trade policy is now a real estate variable. Tariffs will push many to invest more heavily in U.S.-based facilities—but rising costs and uncertainty will make those moves strategic, selective, and often slower. It's more important than ever to build scenarios with your commercial real estate advisor, leverage analytics around labor and incentives and work closely with your internal and external supply chain advisors.