

Industrial REITs: Tariff Uncertainty & Vacancy Headwinds – A Long-Term Opportunity

Key Takeaways

- The rise in e-commerce penetration is fueling long-term demand for high-quality industrial properties, particularly for well-located distribution centers and last-mile delivery hubs.
- Tariff uncertainty is a short-term risk, but recent history suggests limited long-term impact. Renewed tariff concerns, especially around potential bilateral tariffs with Mexico and Canada, have introduced near-term uncertainty into the outlook for industrial properties.
- Past tariff announcements, including those implemented by Trump’s administration in 2018, did not derail e-commerce growth or industrial property demand, suggesting the market may be overestimating any potential impact.
- Vacancies are normalizing from unsustainable lows. Industrial real estate is at an inflection point, with rising vacancies following record-high construction levels from 2021 to 2023. While this presents a near-term headwind, new supply growth is slowing, setting the stage for a more balanced market by late 2025.
- **EGP** and **PLD** offer superior growth prospects and attractive valuations. Both companies trade at discounted FFO multiples relative to historical averages while maintaining some of the highest projected FFO and same property NOI growth rates in the REIT sector for 2025 and 2026. Their strong balance sheets provide flexibility to acquire or develop properties opportunistically.

Positive (+) or Negative (-) Implications

(+) EastGroup Properties, Inc. (EGP)

(+) First Industrial Realty Trust, Inc. (FR)

(+) Prologis, Inc. (PLD)

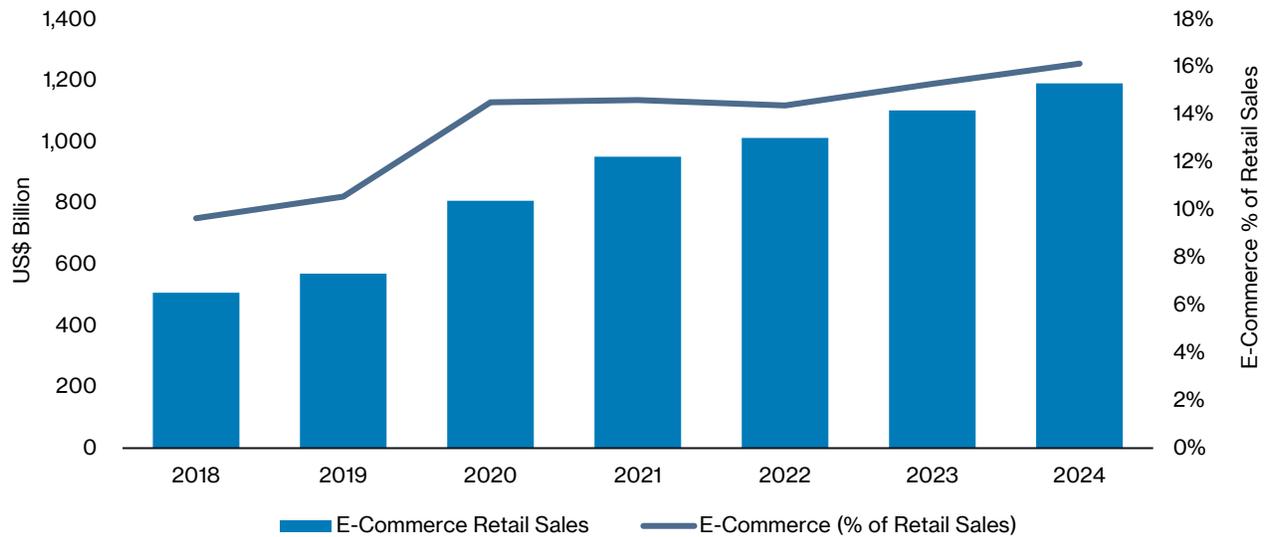
Fundamental Context – E-Commerce

E-commerce's unstoppable growth is driving a long-term shift in consumer behavior, significantly impacting industrial REITs as demand for logistics space continues to rise. The convenience of shopping online and the availability of a wider range of products, along with competitive pricing, have made e-commerce appealing to a broad consumer base. Improvements in website interfaces, mobile apps, and secure one-tap payment methods have made online purchases easier than ever before. Advances in supply chain management, namely “last-mile” logistics, have reduced delivery times for nearly every consumer retail vertical. Prior to Covid-19, e-commerce was less than 10% of total retail sales, but the global pandemic accelerated this long-term trend with e-commerce penetration reaching 16.4% in Q2 2020. Brick-and-mortar sales accelerated post-Covid-19 as physical stores re-opened, but this trend didn’t last as e-commerce sales now stand at 16.4% of total retail sales again in Q4 2024. We see this permanent behavioral shift in consumers fueling e-commerce growth further and note CBRE Research sees e-commerce reaching 29% of retail sales by 2030.

Robust e-commerce demand is the fundamental driver for industrial space demand, as the e-commerce ecosystem requires 3x the logistics space relative to traditional brick-and-mortar retail. The primary driver for this being all the additional space needed to bring the supply chain closer to the consumer through “last-mile” delivery and distribution centers. These facilities help retailers meet consumer demands, with

logistically savvy retailers even offering same-day delivery of commonly purchased items. This “last-mile” logistical growth requires a significantly different industrial footprint with facilities needed closer to city centers, which is a large-scale change from when warehouses had been closer to seaports, airports, or other transportation hubs. E-commerce growth has also fueled increased consumer selection with high levels of stock keeping units (SKUs) required to satisfy the needs of digital consumers. Retailers also face a larger need for return processing with e-commerce sales creating 30% more returns on average compared to brick-and-mortar, according to CBRE.

Figure 1: E-Commerce Continuing to Grow as a Percentage of Retail Sales



Source: CFRA, Federal Reserve Economic Data.

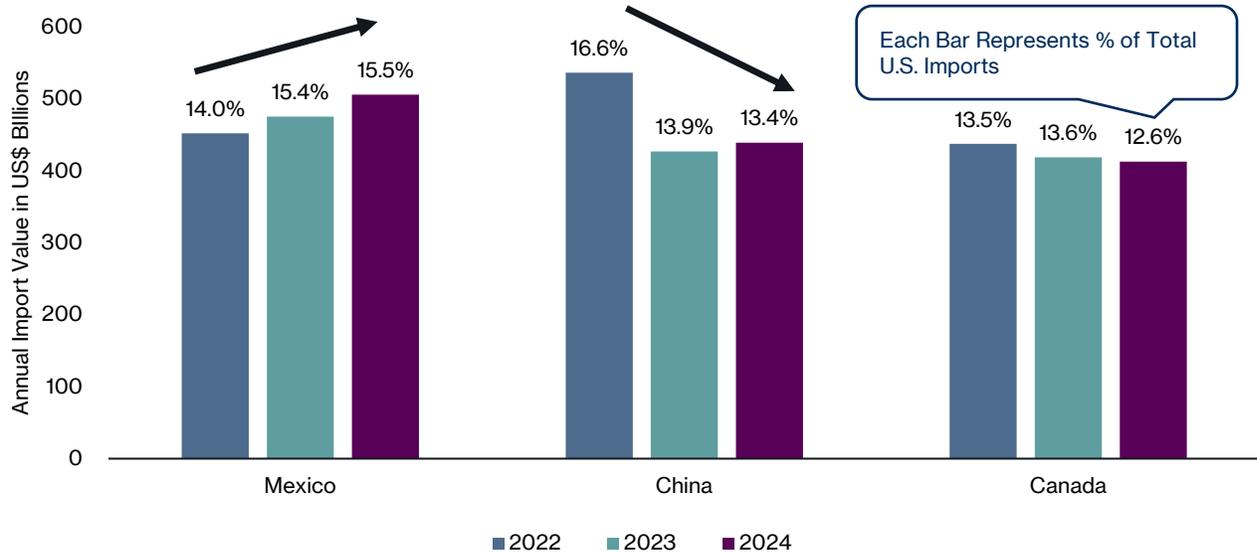
Fundamental Context – Tariffs

The risk of widespread and sustained trade restrictions remains overstated, in our view. Despite heightened rhetoric surrounding potential U.S. tariffs, the political and economic realities make full implementation unlikely. Historical precedent suggests that initial tariff threats often serve as negotiation tactics rather than definitive policy shifts. With mounting concerns over inflation, supply chain stability, and corporate pushback, policymakers in the Trump administration have strong incentives to avoid tariffs and the risk of retaliatory tariff measures. This overestimation of trade barriers has created unwarranted uncertainty, while industrial real estate fundamentals (driven by e-commerce growth, supply chain optimization, and nearshoring trends) remain intact with a high probability of continued growth in overall space demand.

The U.S.’s top three trading partners accounted for \$1.35 trillion, or 42%, of all imports during 2024.

Proposed U.S. tariffs targeting imports from key trading partners – Mexico, China, Canada, and European allies – have been a significant topic of discussion since Trump’s inauguration. For reference, over the last 20 years, the United States’ top five trade partners have accounted for 56% of all imports, the top 10 a steady 68%, and the top 20 over 80% of total imports. Figure 2 illustrates how concentrated imports are from just three countries (42% of all imports in 2024). Given the historically strong relationship between the United States and its geographic neighbors, Mexico and Canada, we strongly believe tariffs on neighboring allies will not be fully implemented and are strictly being used as a negotiating tactic as Trump aims to lure more domestic investment to the U.S. We think Trump’s goal is focused on preventing further loss of manufacturing jobs, a key point of rhetoric during his election campaigns.

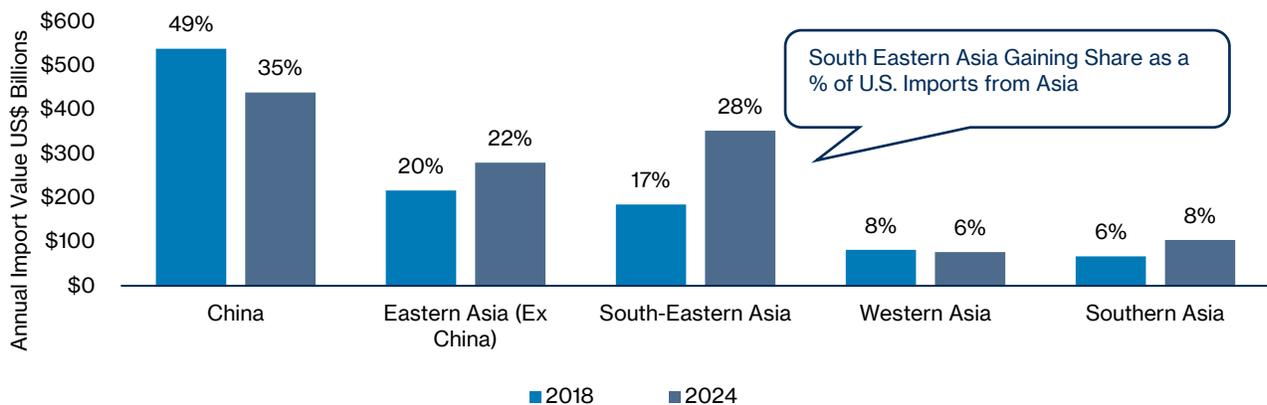
Figure 2: Mexican Imports Gaining Share While China Growth Fades



Source: CFRA, U.S. Department of Commerce.

China's mostly flat U.S. imports are leading to other Asian nations expanding their U.S. footprint. Since 2018, imports from Vietnam have increased by a staggering 178%, Thailand +100%, South Korea +78%, Singapore +63%, India +62%, Indonesia +36%, and Malaysia +35%. The big takeaway here is that the U.S.'s appetite for Chinese imports can be displaced for many goods. When it comes to China specifically, we believe the current 10% tariff will be gone before year-end, as Trump looks to negotiate a broad-based trade deal. Based on recent history, we would note that if Chinese imports decline, other manufacturing hubs in Asia are likely to benefit from increased imports to the U.S.

Figure 3: China Losing Share of U.S. Imports Relative to the Rest of Asia



Source: CFRA, U.S. Department of Commerce.

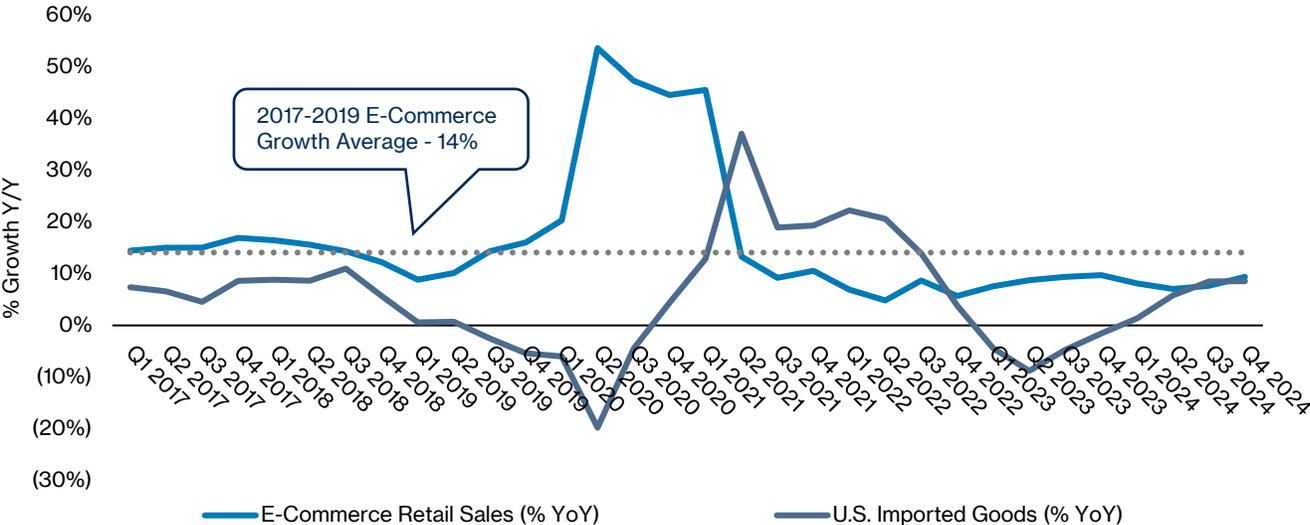
E-commerce growth persisted during Trump's first round of tariffs in 2018. We believe the market continues to overestimate the long-term risks of tariffs on industrial REITs. Last week, only one day after implementing tariffs broadly on Mexico and Canada, the Trump administration decided to delay tariffs on autos for one month after speaking with the big three auto manufacturers. This reinforces our view that these tariffs are largely a negotiating tool for leverage rather than a permanent policy measure the Trump administration seeks to install. Historical context from the administration's previous tariff implementations in 2018 and 2019 demonstrates limited sustained impact on e-commerce growth and industrial real estate

demand. Despite initial disruption and uncertainty, e-commerce sales growth averaged 13.5% annually from 2017 to 2019 (prior to Covid-19 acceleration) signaling that fundamental demand drivers – consumer preferences, supply chain optimization, and the push toward nearshoring – remain resilient.

The U.S. received 84% and 76% of Mexico’s and Canada’s exports in 2024, respectively. We see this export concentration as a significantly greater risk in the near term to both Mexico and Canada and believe the Trump administration has a greater degree of leverage during these trade negotiations. The strategic intent behind these tariffs appears to be preserving U.S. manufacturing jobs and reducing dependencies on specific import sources, particularly from China. As evidenced by import patterns shifting from China toward other Asian nations such as Vietnam, Thailand, and India, overall, U.S. demand for imported goods remains robust despite tariff impositions, highlighting the flexibility and resilience of U.S. supply chains.

Trump's latest tariffs caused alarm, but quick reversals reaffirm the stability provided by the United States-Mexico-Canada Agreement (USMCA). Tariffs on Canada and Mexico have consistently been shown to be temporary and minimal in their economic disruption, aimed more at negotiating favorable trade terms rather than substantially altering trade flows. We note that less than 24 hours after implementing these tariffs, Trump gave concessions to automakers and then a day later delayed all tariffs on imported goods that fall under the USMCA. In 2024, 50% of imports from Mexico and 38% from Canada entered the U.S. under these duty-free USMCA rules, but we note that the Wall Street Journal estimates that another 20% of all imports from each country could likely qualify for this exemption if companies took the necessary compliance procedures.

Figure 4: E-Commerce Growth Remained Strong in 2018-2019



Source: CFRA, Bureau of Economic Analysis (BEA).

We believe EastGroup Properties is less exposed to import-dependent tenants than Prologis and First Industrial. Prologis manages approximately 1.3 billion square feet of industrial properties across 19 countries (62% of total square feet in the U.S., 19% in Europe, 10% in Other Americas, and 9% in Asia). PLD’s properties are strategically located near transportation hubs, seaports, airports, and highway junctions and have a large tenant base composed of third-party logistics providers (3PLs). We estimate a substantial portion of PLD’s tenants are involved in importing goods, with approximately 60%-70% of tenants’ business models depending heavily on imported goods. EastGroup Properties focuses on the development, acquisition, and operation of industrial properties, primarily in the “Smile States” in the U.S., with Texas at 34% of annualized base rent, Florida at 25%, California at 17%, Arizona at 8%, and North Carolina at 5%.

EGP’s portfolio is primarily composed of multi-tenant distribution buildings with a large amount of shallow-bay properties (20,000 to 140,000 sq. ft.). In our view, only 50% to 60% of EGP’s tenants are import-dependent. While still a significant amount, there is less exposure to Chinese and other Asian imports and slightly more exposure to Mexican and South American imports based on their shallow-bay property locations. We also note that, assuming the point of entry into the U.S. is the same, it’s entirely irrelevant where these imports originated from.

Figure 5: Trump’s Proposed Tariff Implementation Schedule

| Tariff Headline | When | Rate | Who/What’s Affected? | Our Expectations |
|---|--------------------------|---|---|---|
| Mexico & Canada (Fentanyl) | March 4, April 2 (USMCA) | 25% (10% on Canadian energy) | All products, with the biggest impacts, being autos, energy, and agriculture. | We expect the deadline to be extended and/or if the tariff does get imposed, any such imposition to only last days. USMCA qualified imports were delayed until April. |
| China (Fentanyl) | Currently in effect | 20%, increased from 10% last week | All imports, but with the most impact on electronics and mobile phones (i.e., Apple products). | We continue to assign better than 50% odds to U.S. and China reaching a deal in 1H resolving this tariff and agreeing on a range of other trade and non-trade issues. |
| Reciprocal Global Tariff Regime | After April 1 | 10% to 20% for most countries Rates based on differentials and non-tariff barriers | Primary incremental impact will be on the EU, India, Brazil, Japan, Vietnam, and South Korea. Main industries impacted: pharmaceuticals, autos, industrials, and consumer. | We expect this tariff to go ahead sometime in April, followed by intensive country-by-country negotiations for rate reduction and/or exemptions. |
| Steel & Aluminum Section 232 | March 12 | 25% | Aluminum would be raised to 25% from 10% and exemptions for Canada/Mexico/the EU and Japan would be ended. | We expect the tariff changes to go forward, but we do not think Canada and Mexico would be subject to the tariff (instead they are likely to negotiate quota agreement). |
| Copper | Q4 2025 | Up to 25% mirroring steel and aluminum | Countries: Canada, Mexico, and Chile Products: Copper and derivatives | The Section 232 process will likely take about nine months, putting the final decision in Q4. We expect findings similar to steel and aluminum, leading to a tariff. We would not expect the tariff to apply to Canada and Mexico and instead think these countries could be subjected to a quota arrangement. |

| Tariff Headline | When | Rate | Who/What's Affected? | Our Expectations |
|--|---------------|------------------|---|---|
| Digital Services Taxes | 1H 2025 | To be determined | Primarily EU countries Main exports affected: Autos, aerospace, and pharma | Existing Section 301 investigation will give Trump the ability to move quickly. However, the targeted countries are redundant with the reciprocal tariff, so this measure might only be deployed if incremental escalation with the EU is desired after the initial imposition of reciprocal tariff. |
| Strategic Sector Tariffs: Pharmaceuticals, Semiconductors, and Others | After April 1 | ~25% | Countries: EU, India, China, Taiwan, and Malaysia Products: Medicines and semiconductors | We view these tariffs as redundant with a global/blanket tariff regime and as such, they appear to be secondary escalation depending on how key countries react to a global tariff. For pharma, we do not think tariffs would apply to intermediate inputs, likely only to finished drugs. For semiconductors, we do not expect any carve-out for advanced chips. |

Source: CFRA, Washington Analysis.

Fundamental Context – Construction & Vacancies

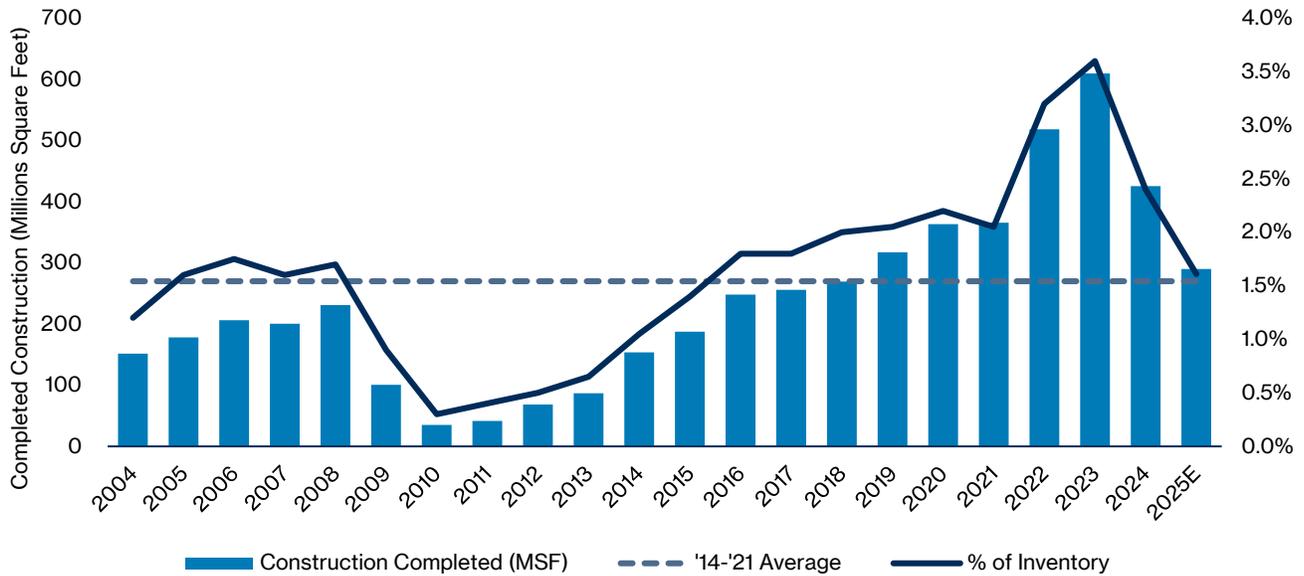
We see retail sales growth requiring over 1 billion additional sq. ft. of industrial space in the next four to five years. This is in line with the average deliveries over the last seven years, but below construction deliveries from 2022 to 2023. We see growth of anywhere from \$700 billion to \$900 billion total by 2030 from 2024's \$1.19 trillion level of e-commerce retail sales.

This growth will require a significant investment in additional logistical space that isn't already under construction. CBRE Research found that \$1 billion in incremental e-commerce sales generates demand for 1.25 million sq. ft. of warehouse space. To help visualize these space requirements, imagine a 50,000-floor office building with 20,000 square feet per floor. The more complicated part of this equation is for industrial space developers and tenants to find suitable locations for these new properties.

It is increasingly difficult to acquire land zoned for industrial office space in most major logistical hubs.

We see PLD, EGP, and FR all benefiting from this shortage of in-demand space, with rental rate growth accelerating for already in-place properties as the demand for in-place developments increases. This would be a change from recent years, as tenants typically prefer newly constructed spaces. Since 2020, properties built post-2020 have accounted for 54% of all leasing activity (1.1 billion sq. ft.) according to Cushman & Wakefield.

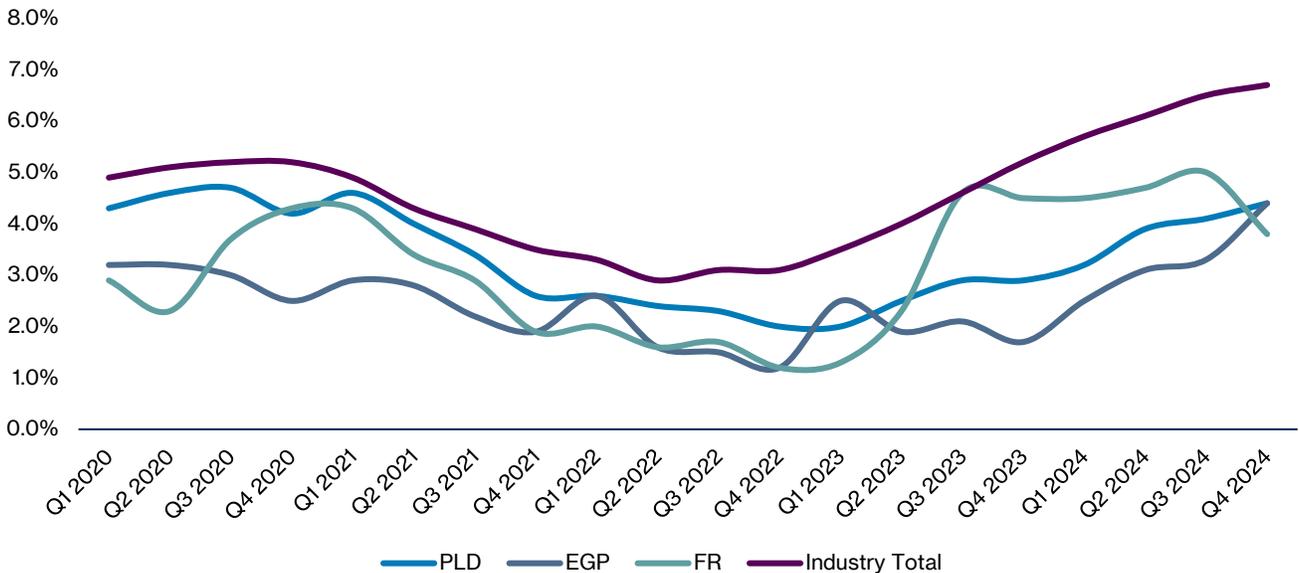
Figure 6: Record Level Construction Activity Expected to Continue Normalizing in 2025



Source: CFRA, Cushman & Wakefield, CBRE.

Vacancy rates have been steadily trending higher since 2023, with supply expected to normalize in the second half of 2025. We see vacancy rates rising in the first half of 2025, driven by elevated construction levels in 2022 and 2023, but we anticipate this to normalize by year-end. During Q4 2024, only 85 million sq. ft. of space was delivered, the lowest level since 2021, and we see total 2025 deliveries between 250 million and 275 million sq. ft., down from 425 million in 2024. Over the last 15 years, vacancies have averaged around 6% for industrial space, with efficient operators typically 100 to 200 bps more occupied than average. Over the last five years, this average has fallen to 4.6%, with industrial space in the South typically having a higher vacancy rate than the industry. We note that PLD, EGP, and FR have all had lower vacancy rates than the market average since 2020, but have largely followed the same trend seen in Figure 7.

Figure 7: Uptick in Vacancy Rates Following Unsustainable Lows Post-Covid



Source: CFRA, Cushman & Wakefield, company filings.

Risk Factors

Risks to our analysis of the Industrial REIT industry and subsequent STARS ratings include, but are not limited to 1) elevated interest rates for longer than anticipated with fewer rate cuts, leading to elevated borrowing costs and lower levels of deal activity; 2) an economic recession causing a substantial slowdown in GDP growth and a pullback in consumer spending, further slowing the space demand for industrial REITs; 3) elevated levels of inflation due to the impact of import tariffs, which could lead to stagflation if GDP growth slows; 4) an increase in general unemployment causing a slowdown in retail spending; 5) geopolitical uncertainty primarily related to potential retaliatory tariffs from the U.S.'s largest trading partners (China/Mexico/Canada) or further escalation in the Ukraine-Russia war; and 6) a change in consumer behavior resulting in a slowdown or shift away from e-commerce spending, resulting in an oversupply of industrial real estate properties.

Company Implications

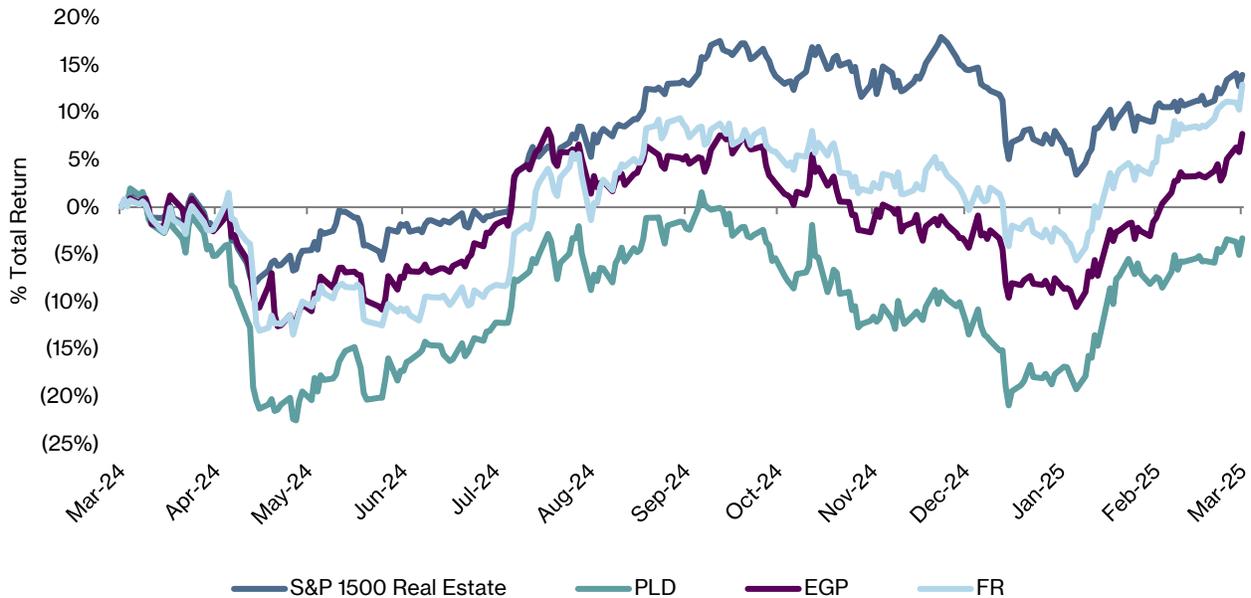
EastGroup Properties, Inc (EGP 180 **)** is an industrial REIT that focuses on the development, acquisition, and operation of industrial properties in major Sun Belt markets throughout the U.S., with an emphasis on local economies growing faster than the U.S. economy. EGP is less concentrated in Tier 1 markets than peers, with significantly larger exposure to multi-tenant, shallow-bay facilities (20,000 to 140,000 sq. ft.). EGP's properties are currently 95.9% occupied and new supply growth remains muted in many of its infill sites, creating an opportunity for elevated rental growth rates in 2025, as evident in the 53% rental rate and renewal rate increases on a straight-line basis in 2024. We see same-property NOI growing 5% to 6% in 2025, with occupancy as the primary headwind. We also believe that as elevated construction activity normalizes, vacancy rates will stabilize in the second half of 2025, with accelerating FFO growth in 2026. EGP currently maintains 100% fixed-rate debt and an average maturity on this debt of 4.8 years, a weighted average interest rate of 3.3%, and ample room for further developments or acquisitions given its debt-to-EBITDA has declined to 2.3x from 4.5x in 2022. Our 12-month target of \$205 is equal to 22.9x our 2025 FFO estimate of \$8.95, a premium to industrial peers' 20.5x, given EGP's high growth metrics and tenant diversification (its top 10 tenants account for 7.2% of annualized base rent).

First Industrial Realty Trust, Inc (FR 56 *)** is a fully integrated, self-administered REIT that focuses on owning, managing, acquiring, and redeveloping industrial properties across major U.S. logistics hubs and operates in 15 key logistics markets. The company specializes in bulk warehouses (72% of base rent), regional warehouses (17%), and light industrial facilities (11%), catering to a diverse range of tenants within the e-commerce, logistics, and manufacturing sectors. With a portfolio strategically concentrated in high-demand Tier 1 markets, including a significant presence in Southern California (25% of total rent), FR is well positioned to benefit from long-term trends in supply chain optimization and last-mile delivery. FR properties are currently 96.8% occupied, with a record cash rental growth rate of 58% in 2024 and expectations for re-releasing rental growth of over 50% in 2025 as well. We see same property NOI growing 5% to 6% in 2025, with occupancy as the primary headwind. FR's balance sheet remains well positioned, with a weighted average interest rate of 3.93%, an average maturity of 3.7 years, 87% fixed-rate debt, and 4.6x net debt-to-EBITDA, with no major maturities due in 2025. Our price target of \$60 is 20.7x our 2025 FFO estimate of \$2.90, in line with the industrial peer average.

Prologis, Inc. (PLD 118 **)** is the largest industrial REIT that owns and operates industrial distribution facilities, with a focus on high-barrier and high-growth markets across the U.S., Europe, Other Americas, and Asia. PLD has focused on Tier 1 markets globally, larger industrial properties (over 200,000 sq. ft.) and more recently moved into high-margin data center facility development. PLD has a \$41 billion land bank, with \$8 billion pad-ready, as it anticipates continued e-commerce growth increasing demand for newly constructed warehouse space. While vacancies are increasing in the near term, we see this as a temporary headwind with supply normalizing in the second half of 2025 and FFO growth accelerating in 2026 as customer retention has increased in the last year. We note construction costs have increased in Tier 1 markets in

recent years, and we see long-term growth in FFO driven by a cash net effective rent change of 40.1% in Q4 2024, as overall market rents remain below replacement costs and market rents. PLD also has a premier balance sheet among REITs, with an average weighted interest rate of 3.1%, average maturity of 9.2 years, and debt-to-EBITDA of 4.6x. Our 12-month target of \$145 is equal to 25.2x our projected 2025 FFO estimate of \$5.75, a premium to the industrial REIT peers' average of 20.5x, given PLD's global scale and balance sheet.

Relative Performance



Source: CFRA, S&P Global Market Intelligence (3/5/24 to 3/5/25).

Implications*

Positive implications: CFRA sees an improvement in company fundamentals, which could include (but are not limited to) improved pricing, strengthening backlog, market share gains, cost improvements, a more favorable regulatory environment, or improving demographic trends, over the next 12 months.

Negative implications: CFRA sees a weakening in the company's fundamentals, which could include (but are not limited to) weaker pricing, reduced backlog visibility, market share losses, cost inflation, unfavorable regulatory climate, or demographic headwinds, over the next 12 months.

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