

# Trade Policy Uncertainty Slows Activity Amid Rising Utilization



Prologis Park Burlington, Burlington, New Jersey.

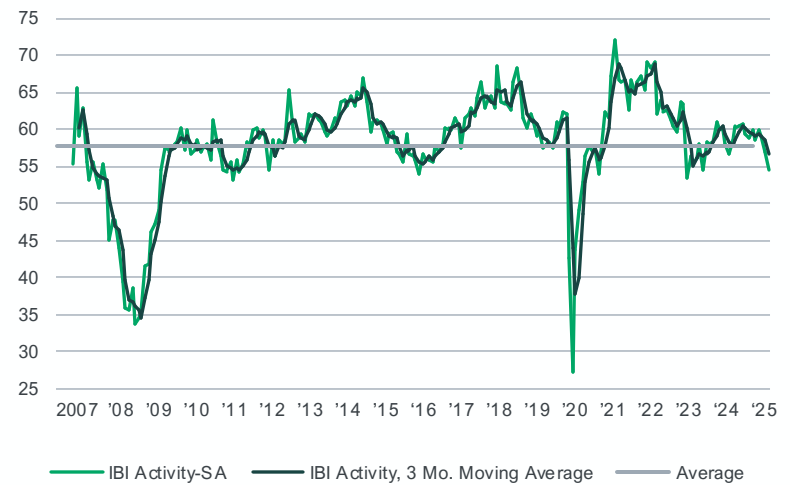
- 01** **During periods of high uncertainty, customer feedback is especially valuable.** Many customers have accelerated—or are currently accelerating—imports to manage their tariff exposure. In response to the shifting trade and consumption landscape, they seem to be prioritizing agility and overflow strategies. Macroeconomic volatility and uncertainty around tariffs are causing customers to delay capital expenditure and real estate decisions until policies become clearer.
- 02** **Our proprietary data reveals a moderate rise in space utilization, an outgrowth of recovery and the shift in inventory strategies this year.** The Industrial Business Indicator (IBI™) Utilization Rate rose to 85.1% in April after averaging 84.6% over February and March, while the IBI™ Activity Index reflected slower growth with a reading of 54.4 after spending 19 months in the high 50s/low 60s range.
- 03** **Deliveries are set to contract further in coming quarters and are expected to stay historically low into 2026.** The under-construction pipeline continued to empty and is now 25% lower than 2019 levels. At the same time, rising development costs widened the gap between market rents and replacement cost rents, disincentivizing speculative construction starts and putting upward pressure on rents when conditions normalize.

**U.S. logistics real estate demand in 2025 can be understood through two periods: pre- and post-April 2 tariff announcements.** In Q1, leasing pipeline volumes increased and dealmaking accelerated, driven by customers in key sectors like food and beverage, consumer products and transportation.<sup>ii</sup> After April 2, some progress stalled as long-term supply chain investments were scrutinized amid volatility. That said, we see a market that’s still active. Many leases have moved forward since that date, including for short-term solutions to manage volatility and long-term build-to-suit investments tied to structural supply chain needs and underlying growth in customer businesses.

**Utilization increased to 85.1% in April as customers grew into their existing footprints.** Even as imports rose to near-record levels in 2024 (+13.6% y/y), healthy retail sales, lean inventory practices and some spare capacity in some warehouses kept utilization lower than normal, averaging 84.5% that year.<sup>ii</sup> From February to April 2025, the utilization rate has been steadily climbing as customer businesses continue to grow, import growth remained strong, and trade volatility incentivized some customers to add to inventories ahead of potential changes in the cost of goods sold.

**Exhibit 1 – IBI Activity Index**

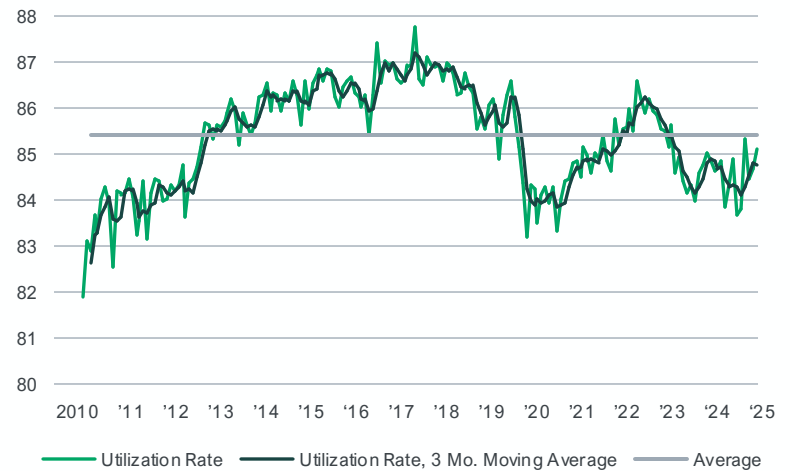
Index, 50 = neutral, seasonally adjusted



Source: Prologis Research.

**Exhibit 2 - Utilization Rate**

%



Source: Prologis Research.

**The IBI Activity Index reveals broader macro volatility and uncertainty.** This diffusion index dipped to 54.4 in April, down from an average of 58.4 in Q1.<sup>ii</sup> While typically any reading greater than 50 signals growth, this drop represents a slowdown in a difficult planning environment. The IBI has been an excellent leading indicator of economic conditions in the past, and we’re keeping an eye out for further deceleration. However, context matters—we’re cautious about overinterpreting one month’s reading in this new environment. Front-loading, rerouting, order cancellations and consumer pre-buying behaviors could all produce choppy IBI readings in the coming months.

**Exhibit 3 - Summary of Net Absorption Indicators**

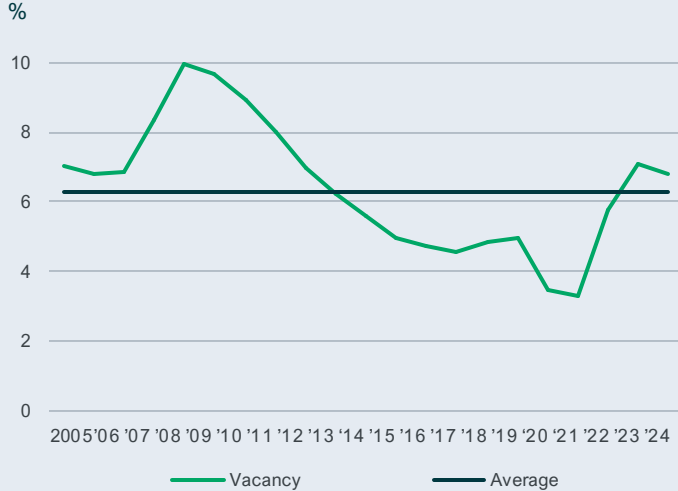
	Latest Reading	as of	Est. Net Absorption, MSF		Regression Fit (R-sqr)
			Quarterly	Annualized	
IBI-Activity	54.4	Apr 2025	27	107	0.83
<b>Weighted Average of Econ Variables</b>			<b>31</b>	<b>124</b>	
PMI (non-MFG)	52.4	Mar 2025	27	109	0.77
Jobs (private)	135	Mar 2025	31	124	0.69
Core Retail Sales	5%	Mar 2025	36	144	0.71
Inventories	13.6	4Q 2024	30	118	0.68

**Note:** Values are a 3-month trailing average, except Inventories.

**Source:** Institute for Supply Management, Bureau of Economic Analysis, U.S. Census, Bureau of Labor Statistics, Prologis Research

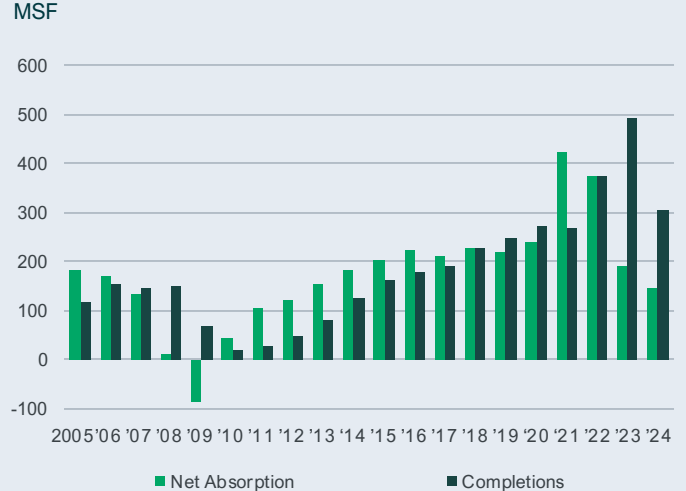
**Market rents decreased at a slower pace in Q1, with variation by region.**<sup>ii</sup> Rates held roughly steady in the Midwest, in the Sunbelt and along the East Coast. Brisk absorption of high-quality spaces in these markets aided in this pricing stability. By contrast, pricing in Southern California remained weak.

**Exhibit 4 – Vacancy Rate, U.S.**



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

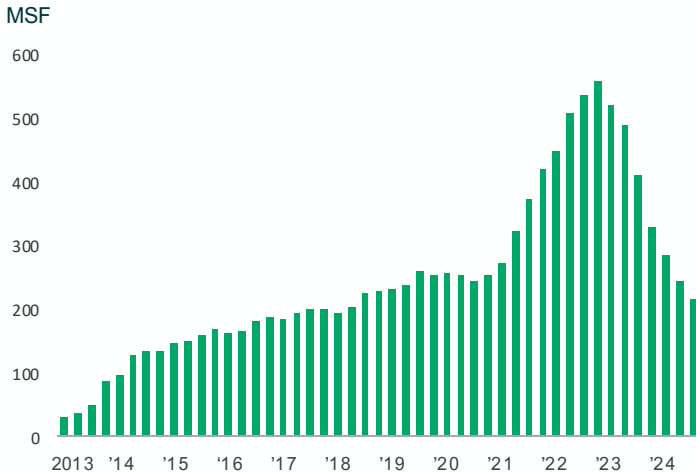
**Exhibit 5 - Market Fundamentals, U.S.**



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

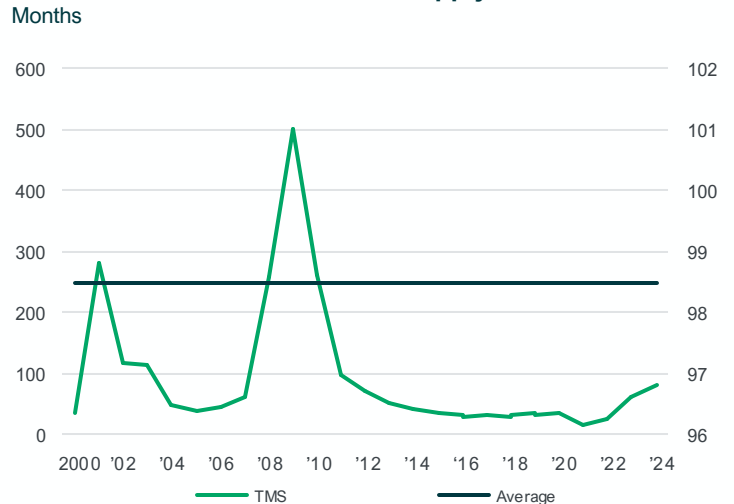
**The construction pipeline continues to empty to a level roughly 25% below 2019,**<sup>iii</sup> driven by development economics, extended entitlement timelines and heightened economic uncertainty. U.S. starts volumes are one-third lower than pre-pandemic levels. With material costs remaining high (and potentially rising further on tariff policies), replacement cost rents are 20% higher than market rents,<sup>ii</sup> well below levels required for development underwriting to pencil in most markets. With new deliveries positioned to fall more than 35% y/y in 2025<sup>iii</sup> and speculative construction starts poised to stay low, especially in consumption-centric locations, availability of high-quality logistics space will likely tighten in upcoming quarters.

**Exhibit 6 – Under Construction, U.S. Industrial**



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research

**Exhibit 7 – U.S. True Months of Supply - TMS**



Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research

## Conclusion

Although the majority of logistics demand stems from consumption, the logistics real estate market outlook is in flux given the wide range of potential policy and economic outcomes. While companies await more clarity, tariff-related uncertainty is shaping customer behavior in real time. A focus on facts, including IBI readings, and direct feedback from logistics users is crucial to understanding conditions on the ground and the direction of the market in volatile times.

## Endnotes

- I. Prologis customer and broker conversations, proprietary surveys.
- II. Prologis Research.
- III. Source: CBRE, JLL, Cushman & Wakefield, Colliers, CoStar, CBRE-EA, Prologis Research.

## Forward-Looking Statements

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Prologis' Research department studies fundamental and investment trends and Prologis' customers' needs to assist in identifying opportunities and avoiding risk across four continents. The team contributes to investment decisions and long-term strategic initiatives, in addition to publishing white papers and other research reports. Prologis publishes research on the market dynamics impacting Prologis' customers' businesses, including global supply chain issues and developments in the logistics and real estate industries. Prologis' dedicated research team works collaboratively with all company departments to help guide Prologis' market entry, expansion, acquisition and development strategies.

## About Prologis

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. As of December 31, 2024, the company owned or had investments in, on a wholly-owned basis or through co-investment ventures, properties and development projects expected to total approximately 1.3 billion square feet (120 million square meters) in 20 countries. Prologis leases modern logistics facilities to a diverse base of approximately 6,500 customers principally across two major categories: business-to-business and retail/online fulfillment.

## Prologis

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