Automotive Advisory Group

TARIFFS AND U.S. CRE CONSTRUCTION COSTS: AUTOMOTIVE & MOBILITY SECTOR IMPACTS

Trade Policy Effects on Vehicle Demand and Output

Tariffs continue to affect sourcing of imported vehicles and parts, helping keep U.S. auto sales below pre-pandemic levels. Sales briefly surged in March 2025 as buyers pulled purchases forward ahead of new trade policies, but demand has since remained soft. January 2026 sales fell to 15.2 million vehicles, the lowest level since December 2022 (13.8 million). Domestic auto production also reached a recent historical low in 2025, declining 10.3% year-over-year (YOY), driven by elevated vehicle prices stemming from tariff pressures and the elimination of federal EV tax credits. Data from the National Highway Traffic Safety Administration indicates that about 30% of all vehicles sold in the U.S. are assembled in the U.S. On average, approximately 50% of parts by value originate from the U.S. or Canada. Some vehicles, such as those from Tesla and Honda, have an even higher share of parts from the U.S. or Canada.

Effects on Property

- OEMs are responding to higher tariffs by diversifying suppliers and increasing operational flexibility. Some are expanding domestic production to offset tariff costs, especially in the Midwest, Southeast and Texas.
- AMS/ABB's Automotive Manufacturing Outlook Survey found that 45% of respondents cited parts shortages, inventory management issues and supply chain disruption as the most significant supply chain challenges in 2025.
- OEMs and suppliers are building out domestic logistics networks. As more parts move from Mexico through Texas, inland markets are seeing increased leasing by auto-related industries for domestic distribution and storage.
- In the first quarter, industrial demand from the automotive sector was strongest in the Southeast, Midwest and Southwest. Nationwide, auto manufacturers and suppliers signed more than 6.7 million square foot (msf) of new leases, including Hyundai Translead's 1.4-msf lease near Chicago.

USMCA Auto Sector Report

The automotive chapter of USMCA introduced stricter rules of origin, labor value content (LVC) requirements and sourcing thresholds intended to promote North American production and greater U.S. investment in automotive manufacturing through targeted carve-outs. Key provisions include:

- Reshoring high-value automotive manufacturing and assembly through increased Regional Value Content (RVC) thresholds for vehicles and light trucks (75%), and more recently rising to 85%.
- Anchoring engineering, software and EV development in the U.S. through tighter Labor Value Content (LVC) provisions, which allow automakers to count high-wage technology, engineering and R&D expenditure toward LVC compliance.
- Increasing demand for USMCA-produced components and materials by tightening sourcing rules for core automotive materials and parts.

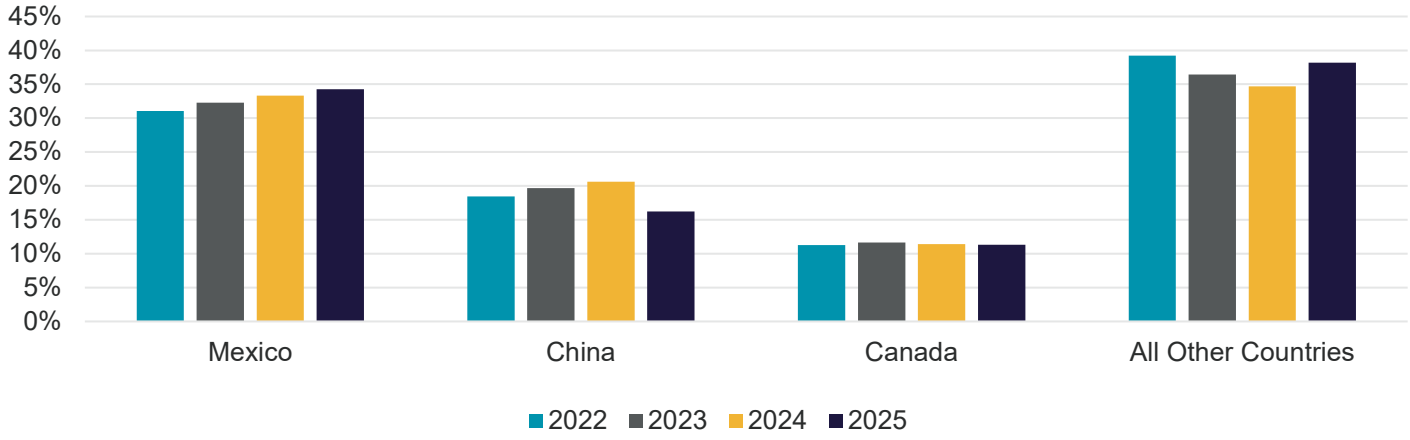
These provisions have changed sourcing behavior across North America. The most visible impacts have occurred in steel, aluminum, batteries and core automotive parts, rather than through large-scale reshoring of final vehicle assembly. Automakers have responded by reconfiguring existing supply chains rather than relocating production to the U.S.

A key outcome has been the anchoring of high-wage engineering, software and advanced manufacturing functions within the U.S., enabled by the ability to count these activities toward LVC thresholds. This is expected to support additional demand for engineering campuses, technical centers and software hubs as the market for advanced vehicles and EVs grows, while allowing OEMs to meet LVC requirements without relocating final assembly from Mexico or Canada. Collectively, these shifts reinforce the U.S. role as the technology and innovation center of North American automotive manufacturing.

For materials, USMCA requires that 70% of an automaker's steel and aluminum purchases originate in North America. The rule applies at the corporate level rather than on a per-vehicle basis and does not require steel or aluminum to be melted or poured in North America. When combined with Section 232 tariffs on steel and aluminum, this provision has increased demand for North American, and particularly U.S.-produced, steel and aluminum.

Trade data indicates that between 2022 and 2025, U.S. auto parts imports shifted away from non-USMCA suppliers. China's share of U.S. auto parts imports declined over this period, while Mexico absorbed a growing share, suggesting that USMCA has been effective in redirecting automotive supply chains toward North America without requiring broad restructuring within the U.S.

Auto Parts Imports to the U.S. for Consumption



Source: U.S. Trade and Tariff Data, Cushman & Wakefield Research

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