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Prologis Faces Q2 Test as Market Pressures Mount Despite Resilient Demand

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July 15, 2025
— Categories: Economics

Prologis Inc. (NYSE: PLD), the world's largest industrial real estate investment trust (REIT), is set to release its second-quarter 2025 earnings on July 16. With an impressive streak of earnings beats and consistent leasing activity, the company enters the quarter facing a more uncertain economic landscape. Investors will be watching closely to see whether Prologis can maintain momentum amid rising vacancies, slowing rent growth, and tighter construction activity in the U.S. industrial property market.

In the previous quarter, Prologis delivered a positive earnings surprise, with its core Funds From Operations (FFO) per share surpassing expectations by 2.90%. This marked the fourth consecutive quarter of earnings beats, averaging a 4.18% outperformance. Key drivers included higher rental revenues and robust leasing demand, particularly from third-party logistics (3PL) providers. However, increasing interest expenses, a reflection of elevated borrowing costs presented a notable drag on performance. This trend could persist, as the broader economic backdrop remains marked by inflationary pressures and interest rate volatility.

According to recent data from Cushman & Wakefield, the U.S. industrial real estate sector remained resilient in Q2 2025, with net absorption at 29.6 million square feet on par with the previous quarter but below historical norms. Vacancies continued to edge higher, rising 7.1%, breaching the 7% mark for the first time since 2014. Although the current vacancy rate is only slightly above the pre-pandemic 15-year average, it signals a softening in the market. Rental growth also showed signs of fatigue, slowing to 2.6% the weakest since early 2020. While some sectors have held up better than others, a broader cooling effect is evident as new supply and cautious sentiment weigh on activity.

Construction of new industrial space has dropped sharply, with completions falling to 71.5 million square feet the lowest since Q1 2019. The development pipeline has also contracted to its smallest level since 2017, with under-construction figures down to 268.6 million square feet. Meanwhile, build-to-suit developments now represent 30% of new deliveries, up from 17% a year ago, indicating developers are responding to demand more selectively. As Prologis reports Q2 results, its performance will serve as a litmus test for the broader industrial REIT sector especially at a time when business confidence remains cautious and economic policy uncertainty, in part stemming from the current government, continues to cloud long-term decision-making.