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Uncertainty and tariffs: the impact on global real estate

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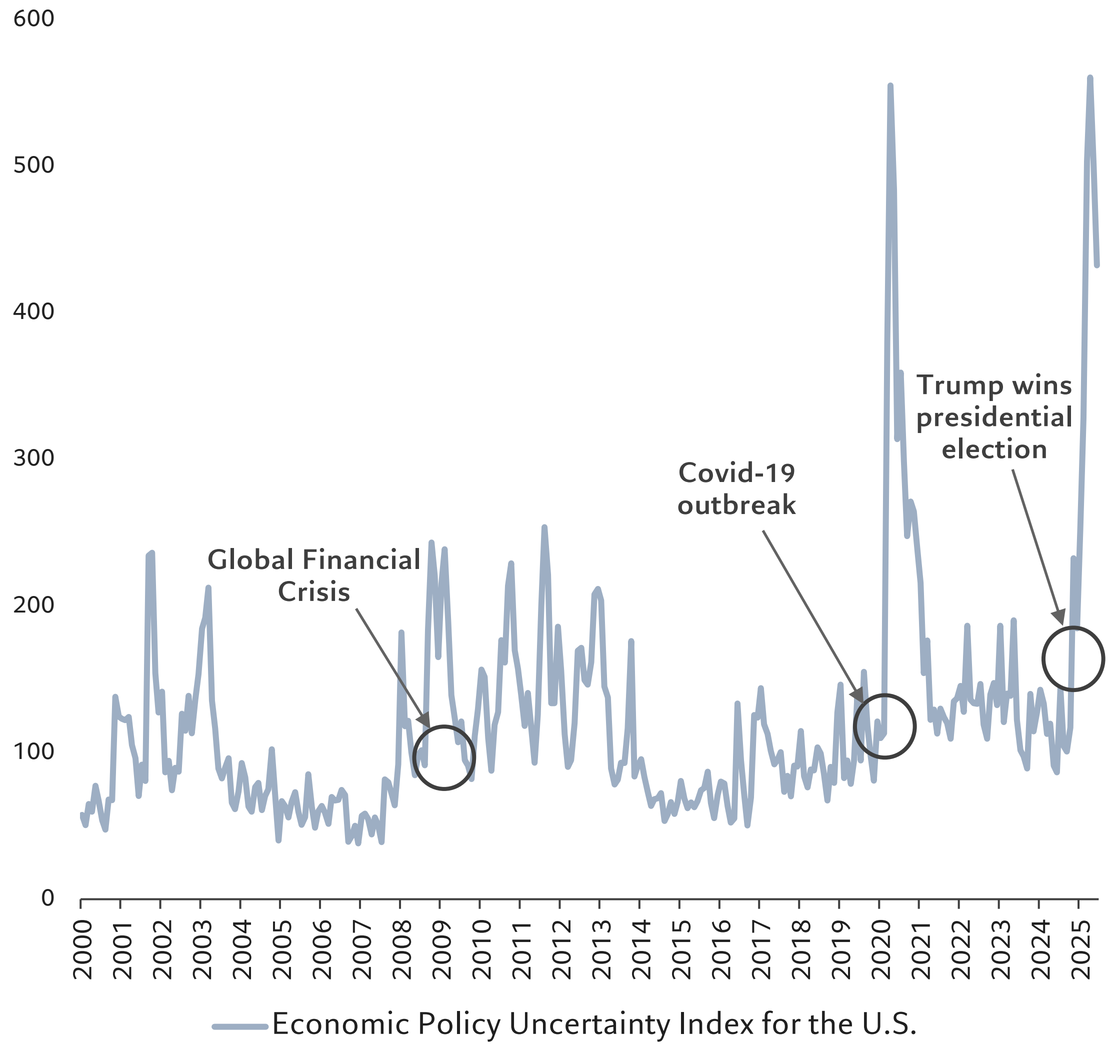
Political landscape & strategic uncertainty

Navigating policy volatility in a new regime

Uncertainty doesn't crash real estate, it freezes it | The 2024-2025 spike in the United States

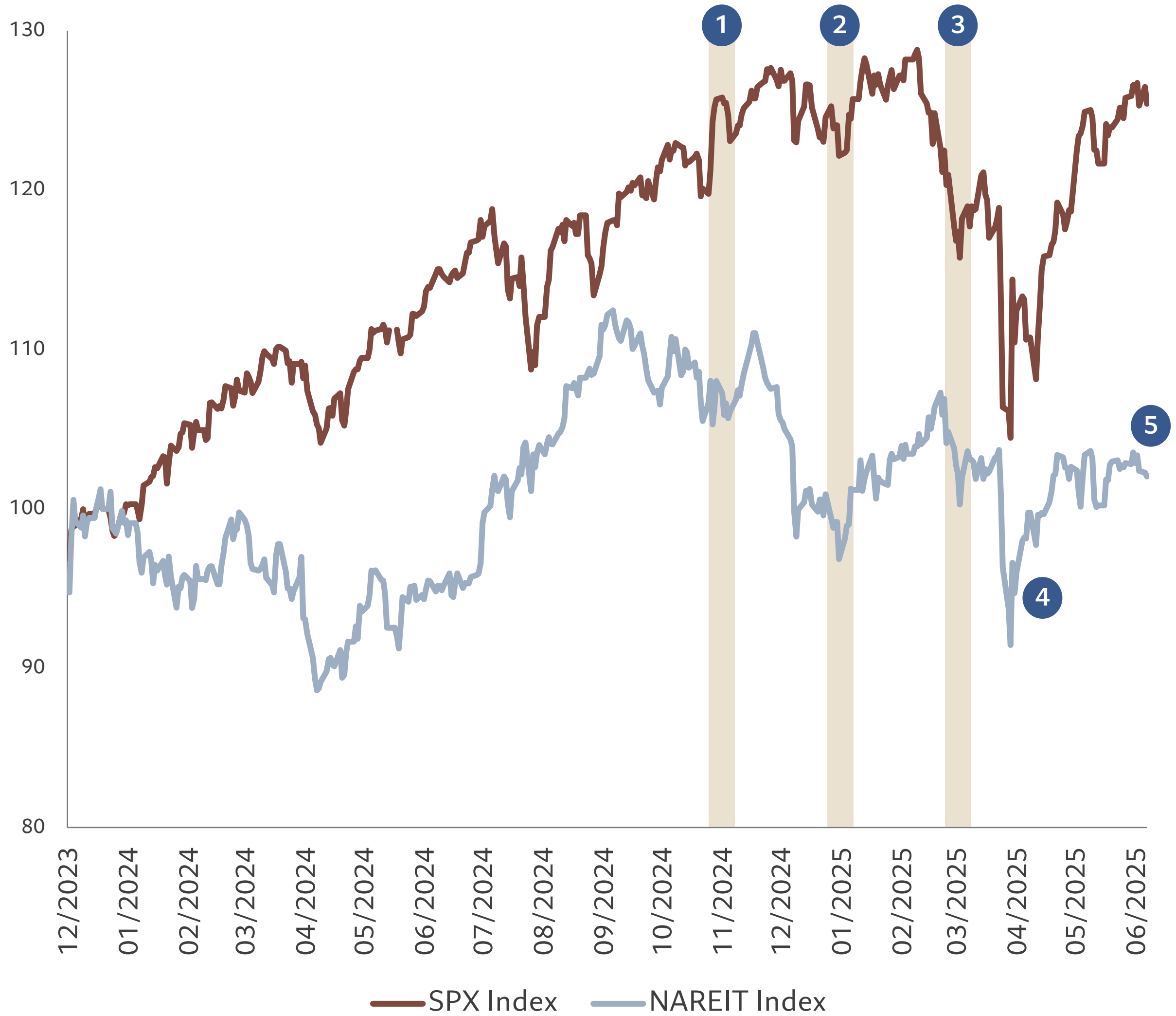


- Following Trump's re-election in November 2024, the US Economic Policy Uncertainty (EPU) Index surged to levels that surpassed even the peak observed during the onset of the pandemic in March 2020.
- The spike reflected not only the inherent volatility of Trump's policy style, but also deep market anxiety over a potential escalation of trade tensions, the uncertain fate of the Tax Cuts & Jobs Act, and growing concerns about political interference in the Fed.
- Unlike the Global Financial Crisis (when the authorities' intervention was relatively smooth and coordinated) or the Covid shock (which was rooted in exogenous public health and macroeconomic disruptions), **the 2024-2025 spike was driven by endogenous, policy-specific fears, making it particularly relevant for long-duration, capital-intensive sectors like real estate**.
- A high EPU Index signals cautious real estate markets, delayed capital deployment, widened risk premia, and a shift towards more defensive assets with lower exposure to policy risk. Transaction volumes decline further, and underwriting conservatism is exacerbated, while cross-border capital further retreats.

Source: Baker, Scott R.; Bloom, Nick; Davis, Stephen J. via FRED as at June 2025

EPU Index: The Economic Policy Uncertainty Index quantifies uncertainty related to government policy by analysing the frequency of policy-related terms in major newspapers. Higher values indicate greater perceived uncertainty about fiscal or regulatory actions and their potential impact on the economy.

Setting the stage | Trump's 2024 return to power and early actions



Source: Bloomberg Finance L.P., as at 18 June 2025. For illustration purpose only. Past performance should not be taken as a guide to or guarantee of future performance. Performances and returns may increase or decrease as a result of currency fluctuations. SPX refers to S&P 500 index; NAREIT refers to Nareit US Real Estate index.

1. 5 November 2024: Trump wins the US presidential election. The outcome signals a return to "America First" economic policies and regulations.
2. 20 January 2025: Trump is inaugurated as the 47th president of the US. In his inauguration speech, he vows to restore US industrial competitiveness and re-negotiate trade agreements.
3. March 2025: The White House signals intent to introduce broader "America First" tariffs. Equity market volatility spikes and bond yields rise amid inflation fears.
4. April-May 2025: NAREIT index rebounded despite mortgage rates nearing 7%, a further slowdown in real estate transaction volumes, and the Fed warning about sustained inflation. The rebound was driven by a shift in sentiment after Trump signalled "openness" to trade negotiations, easing fears of a renewed tariff war and potential cost shocks to construction. The rally reflected forward-looking optimism rather than improved fundamentals.
5. June 2025: The optimism that had driven the rebound began to fade. The Fed reinforced its hawkish stance, signalling that interest rates would stay higher for longer. Hopes for a policy pivot dampened and real estate financing conditions remained tight. In parallel, trade negotiations showed little progress, renewing concerns over potential escalations.

Flashpoints | A snapshot of key uncertainties

Issue	What it could mean	Potential impact on global real estate	Potential impact
Trade policy *(Tariffs, protectionism, trade wars)*	Possible escalation of trade tensions with China, the EU, or others, incl. tariffs, export controls, and reshoring efforts	• Industrials – shift in supply chains & warehouse demand • Increased capex (e.g. tariffs on steel & cement) • Lower foreign capital inflows	*High (Global exposure)*
Geopolitical tensions *(Sanctions, military risks, global decoupling)*	Rising tensions with the rest of the world could affect diplomacy and economic cooperation	• Asian & European investors may retrench • Political instability may reduce appetite for US assets • Core real estate in gateway cities may benefit given likely stability	*Medium (Highly region-sensitive)*
Immigration & labour market *(Restrictive visa policies, labour shortages)*	Potential restrictions on immigration could exacerbate already tight labour markets, especially in construction, hospitality and technology	• Construction delays or no new starts • Weaker rental demand due to slower population growth • Staffing shortages may hinder broader recovery in specific sectors	*Medium (Sector-specific)*
Energy & ESG rollback *(Reduced green incentives, fossil fuel push)*	Possible rollback of ESG regulation, building efficiency standards, or clean energy. Re-prioritisation towards fossil fuels	• Repricing of gap between green and brown assets • Institutional allocations with ESG mandates may divest or avoid lower-sustainability assets • Lower short-term costs, higher long-term transition risk	*Medium (Policy driven but with global implications)*
Central bank pressure *(Political interference with monetary policy)*	Threats to Fed independence, loose fiscal policy, or inflationary pressure may fuel market fears over inflation	• Real estate valuations are highly rate sensitive • Rising rates can trigger further repricing and NAV erosion • Tighter credit or higher cost of capital may depress acquisitions and developments	*Very high (Systemic and immediate)*

For illustration purposes only. There can be no assurance that these forecasts will be achieved.

Global capital flows | Real estate's political thermometer

Uncertainty following Trump's re-election triggered significant capital outflows from US gateway cities, as investors sought perceived safer havens in core markets in Europe and Asia-Pacific (APAC), further exacerbated by currency volatility and renewed capital controls.

TOTAL INTO NORTH AMERICA

H2 2024	H2 2023
$9.03bn	$6.47bn

Breakdown

- EUROPE $4.97bn
- MIDDLE EAST $1.21bn
- APAC $2.85bn

TOTAL INTO EUROPE

H2 2024	H2 2023
$21.6bn	$19.7bn

- NORTH AMERICA $16.99bn
- MIDDLE EAST $1.47bn
- APAC $1.63bn
- AFRICA $1.24bn

TOTAL INTO APAC

H2 2024	H2 2023
$6.3bn	$1.96bn

- EUROPE $0.65bn
- MIDDLE EAST $0.02bn
- APAC $5.62bn

TOTAL OUT OF NORTH AMERICA

H2 2024	H2 2023
$22.61bn	$15.78bn

- EUROPE $16.99bn
- APAC $5.62bn

TOTAL OUT OF EUROPE

H2 2024	H2 2023
$5.62bn	$2.86bn

- NORTH AMERICA $4.97bn
- APAC $0.67bn

TOTAL OUT OF APAC

H2 2024	H2 2023
$4.47bn	$6.16bn

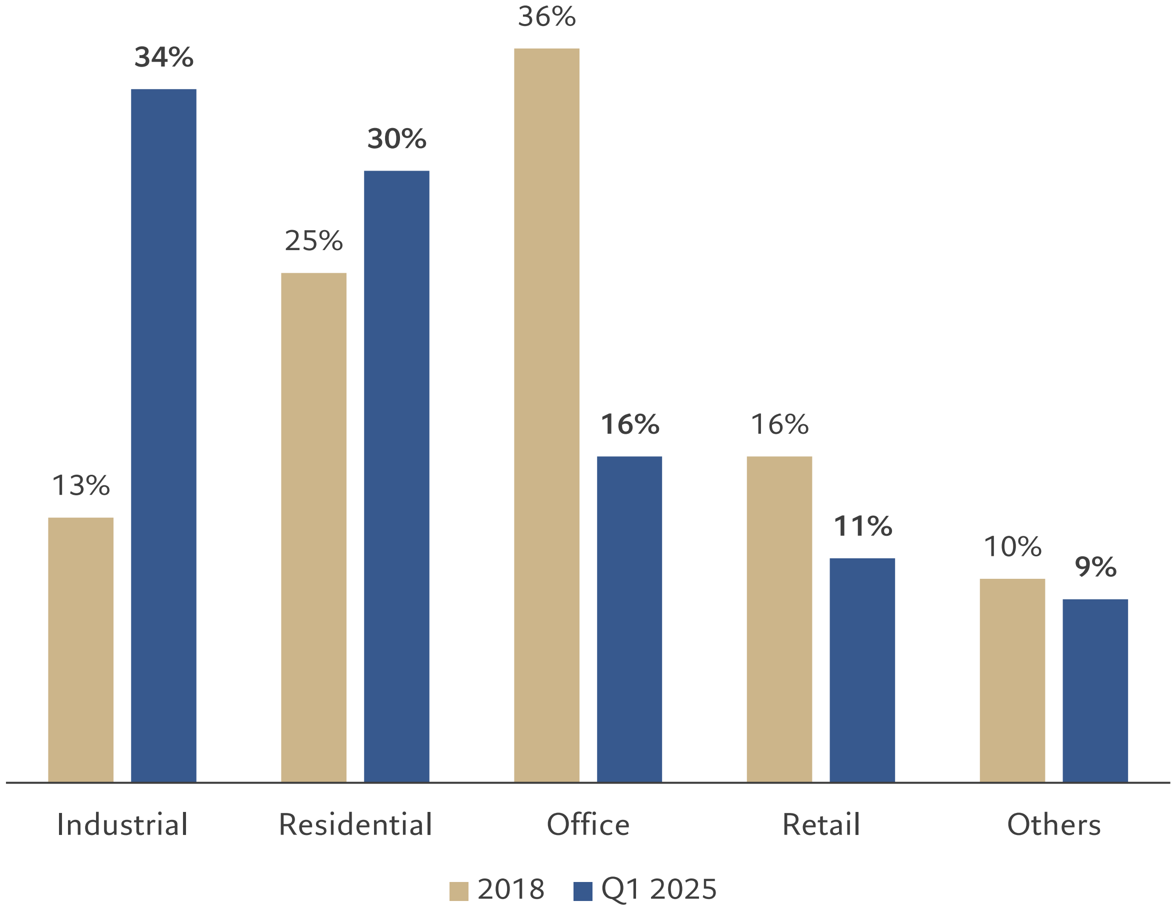
- EUROPE $1.63bn
- APAC $2.85bn

Source: CBRE, as at March 2025

From legacy to resilience | The structural rebuild of core real estate in the US

How disruption redefined what "core" really means

Core real estate allocations in US institutional portfolios, 2018 vs Q1 2025



- Industrial exposure has more than doubled as logistics became the backbone of consumption and supply chain resilience.
- Residential demand held strong, driven by demographic shifts and the institutionalisation of rental housing.
- Office allocations collapsed, reflecting remote work, tenant uncertainty, and repricing of obsolescence.
- Retail stabilised at lower levels, with capital focused on essential, non-cyclical formats.

Source: NCREIF, ODCE Index, as at March 2025

Geopolitical spillovers | How Trump's administration is rewiring global capital allocation

Old narrative	New framing	Implications for real estate
"Flight to safety" during uncertainty	Capital is allocated for legal and policy certainty, not just stability.	Capital flows to Japan and Australia not just for stability, but for operational efficiency, geopolitical neutrality, and macro consistency. These markets offer frictionless entry, strong legal protections, and cashflow visibility – making them attractive for core foundation capital in global portfolios.
Capital retreats from high-risk regions	Capital is tactically repositioned to align with risk structure.	Exposure to politically volatile markets like China – and, increasingly, the US – is being restructured through tactical vehicles, or minority equity, rather than long-duration, direct ownership.
Avoid markets with geopolitical tension	Geopolitical and policy risks are now a formal input in portfolio design.	Investors are incorporating regime stress tests and political scenario planning into underwriting and exit assumptions – especially in emerging or contested regions.
Perceived safe havens absorb risk-off capital	Core markets are selected for reliability, not just neutrality.	Cities like Paris and London attract capital due to regulatory consistency, enforceable rule of law, and stable macro policy – not just low volatility.
Europe is too fragmented to navigate efficiently	Europe's complexity has now become a competitive advantage.	Capital flows are concentrated in strong-governance, ESG-aligned markets (e.g. Germany, Nordics and the Netherlands). Fragmentation can reward investors who navigate nuance with conviction, leveraging institutional depth, regulatory sophistication, ESG enforcement and legal complexity.
Cross-border flows are drying up overall	Cross-border capital is being recalibrated, not reduced.	Investors optimise for transparent regimes, currency stability, and clear tax treatment; they are not abandoning cross-border deals altogether.
Real estate capital is defensive	Real estate capital is being designed to absorb volatility.	Portfolios are now becoming resilient by design – using structuring, sectoral rotation, and jurisdictional filtering to seek to turn political complexity into long-term performance.

For illustration purposes only. There can be no assurance that these forecasts will be achieved.

Key takeaways

In today's environment, investing in real estate is not just about pricing assets – it's about navigating nations.

1 Policy and politics are the architecture behind fundamentals

Policy and politics have always shaped real estate, but today they drive outcomes with unprecedented intensity and speed, even in stable markets. No longer just a backdrop, they now dictate capital flows, pricing, and strategy. We believe investors must now treat **policy and political volatility as a core variable, not a tail risk**.

2 The US market demands precision, not just presence

The US still offers attractive real estate investment opportunities, in our view. However, political polarisation, fiscal uncertainty, and regulatory unpredictability mean that geography, sector and investment structure are now the key filters: we believe investors must be laser-focused on resilient sectors and politically more-insulated regions (e.g. multifamily in Houston).

3 Asia-Pacific isn't a hedge; it's a new foundation for global real estate portfolios

Markets like Japan and Australia have evolved from passive perceived safe havens into long-term allocation hubs. We believe these jurisdictions combine strong legal protections, liquidity, and geopolitical neutrality, making them uniquely suited to absorb capital in an era of US-China bifurcation.

4 Europe has become a strategic, complex map where the smart money trades

Despite its complexity, capital is flocking to Europe – not for shelter, but for structure. We believe markets like Germany and the Nordics offer what volatility elsewhere erodes: legal clarity, regulatory consistency, and institutional integrity. Europe is in our view an allocation to order, transparency, and ESG standards, in a world that is rapidly losing all three.

5 Portfolios are being engineered for political & policy volatility

Avoiding political risk is no longer possible. Real estate portfolios are evolving to absorb, price and leverage geopolitical uncertainty, and to align capital with areas that offer legal durability, regulatory clarity, and long-term policy coherence. From sector rotation to cross-border exposure, **portfolios are becoming geopolitically intelligent** by design.

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2

Tariffs, trade wars, and the cost of construction

How inflation across global supply chains is reshaping US real estate economics

Trade policy shock | Headwinds impacting development feasibility

Tariffs on imports

New and proposed tariffs on construction materials are raising construction input costs by 4-10%, especially in sectors heavily reliant on imported systems and assemblies.

↓

Persistent input cost inflation

Across labour, materials, and logistics, input costs have risen sharply. Even with supply chain normalisation, structural inflation in wages, energy and insurance is keeping base construction costs elevated.

↓

Construction cost growth outpacing revenues

Total development costs have increased by 30-40% since 2020. By contrast, rental revenue growth has lagged, particularly in rent-regulated or supply-saturated markets, eroding the economic balance of new builds.

↓

Slower, uneven rental growth

Rental growth across real estate sectors has been uneven and often insufficient to offset rising construction costs. While some markets have seen rent gains, others face stagnation. On average, rental income growth has not kept pace with the escalation in development costs.

↓

Yield on cost compression

As a result, yields on cost have compressed materially, reducing or eliminating the spread over market cap rates – a key metric for development viability.

↓

Reduced development feasibility

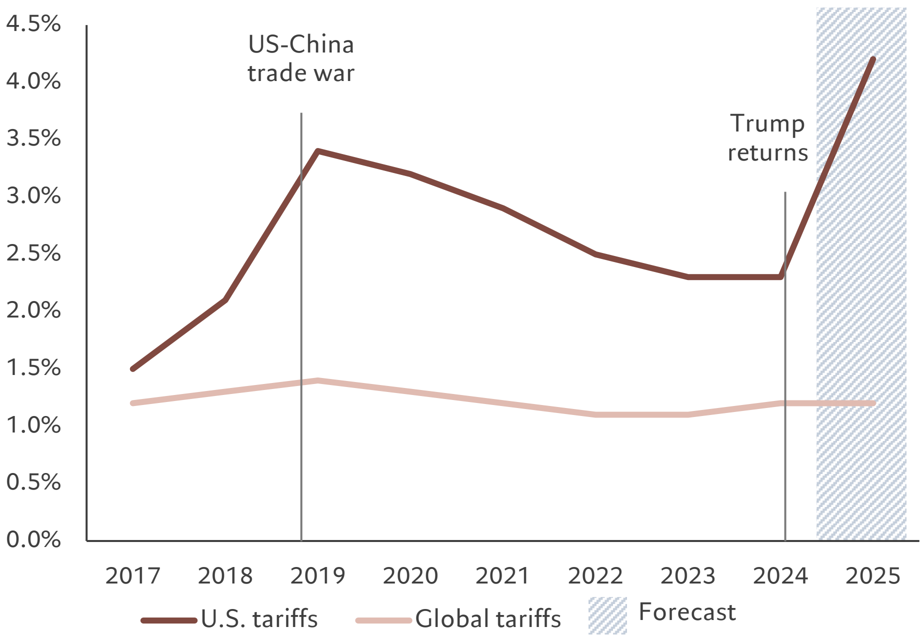
Fewer projects now meet target returns (e.g. 150-200 basis point yield on cost spread to exit cap rate). This dynamic is leading to delayed starts, shelved pipelines, and a broader slowdown in new supply.

Source: NAHB, 2025; CBRE, Outlook 2024-2025. For illustration purposes only. There can be no assurance that these forecasts will be achieved.

The return of tariffs | Trade policy is no longer background noise

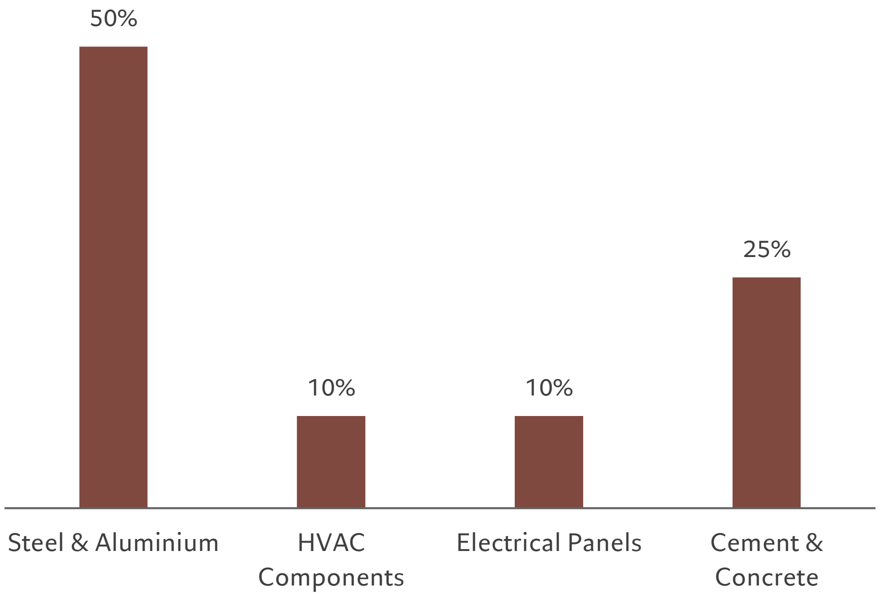
While average tariffs may remain at a relatively lower baseline, targeted categories that are critical for construction face duties of up to 50%, amplifying input cost inflation and squeezing development margins in US real estate markets.

US vs global average applied tariffs (2017-2025F)



Source: World Bank WITS, Q1 2025; average tariffs across all imported goods, not only real estate related inputs.

Select US tariff rates on construction inputs (2025)

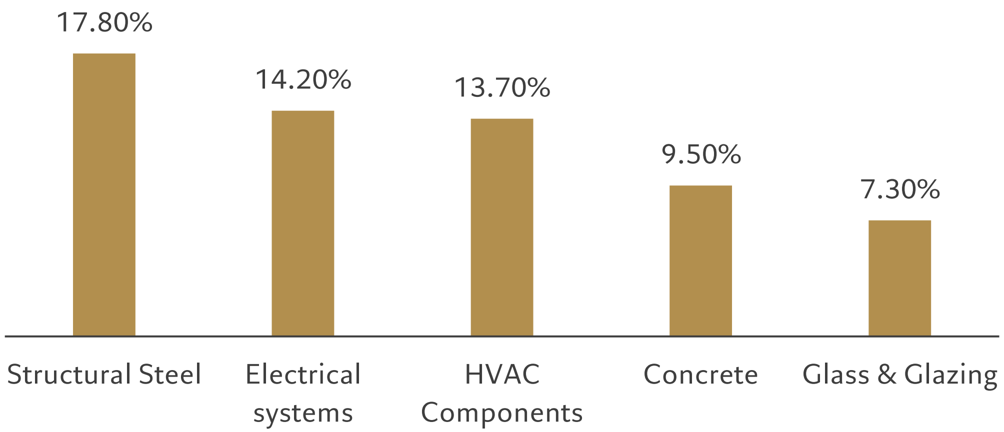


Source: White House, June 2025; Steel & Aluminium has doubled since March 2025 (except for the UK, which is still at 25%). For Heating, Ventilation and Air Conditioning (HVAC) components & electrical equipment, the 10% is a universal tariff, but Chinese and EU imports face up to 34%.

For illustration purposes only. There can be no assurance that these forecasts will be achieved.

Construction costs in the crossfire | How tariffs are repricing the foundation of real estate

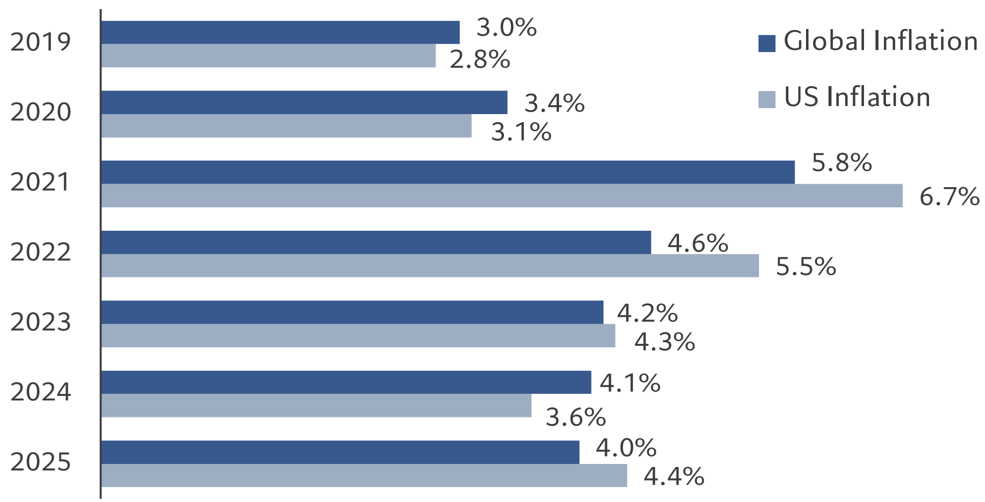
Input materials price increase – US *(Q1-2025, YoY %)*



Source: Turner Building Cost Index, excl. residential, Q1 2025

- Structural steel prices rose significantly, reflecting both the reinstatement of tariffs on Chinese metal imports and renewed domestic infrastructure spending (e.g. from the Infrastructure Investment & Jobs Act, 2021).
- Electrical systems costs surged, driven by price hikes in copper wiring, circuit systems, and imported control technologies – which face higher duties and shipment delays.
- HVAC components' price increased as the US remains reliant on foreign-sourced components, especially from Asia, where trade tensions and supply chain bottlenecks have re-emerged.

Construction inflation – US vs global *(2019-2025F)*

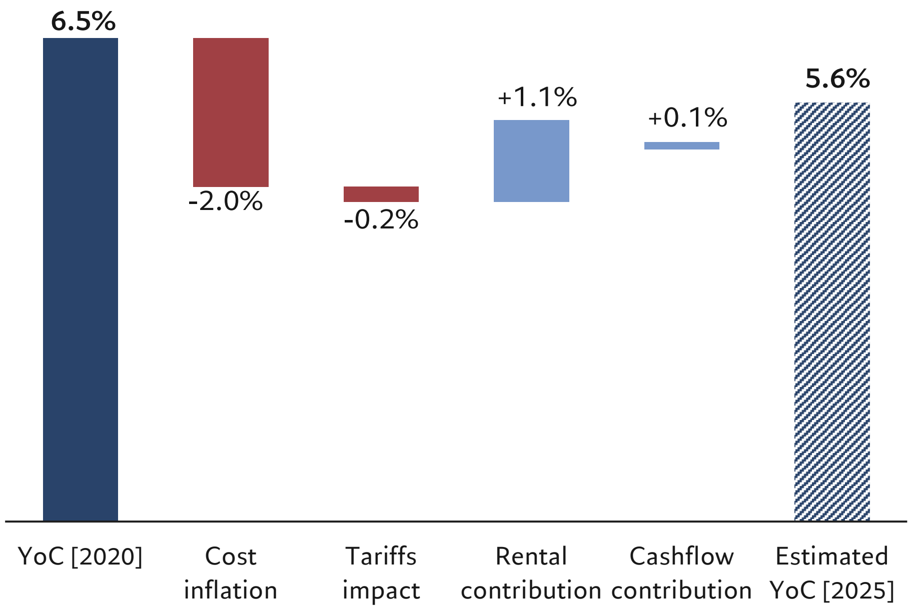


Source: Turner, Construction Analytics, Turner & Townsend, January 2025

- In 2021-2022, US construction inflation peaked at 6.7%, driven by aggressive fiscal stimulus, strong residential demand, and acute material and labour shortages. Inflation levels outpaced global peers during this period as the US reopened more rapidly after the pandemic.
- In 2023-2024, US inflation cooled below the global average, as rising rates, tighter construction financing, and slowing project pipelines brought demand-side relief, while Europe and Asia remained exposed to lingering energy shocks.
- In 2025, inflation in the US rebounded, reversing prior disinflation – triggered by newly reintroduced tariffs. By contrast, global inflation trends continued to stabilise as major markets adjust to post-pandemic norms and nearshoring policies.

Margin compression in motion | When development no longer makes economic sense

YoC evolution breakdown (2020-2025)



Illustrative example

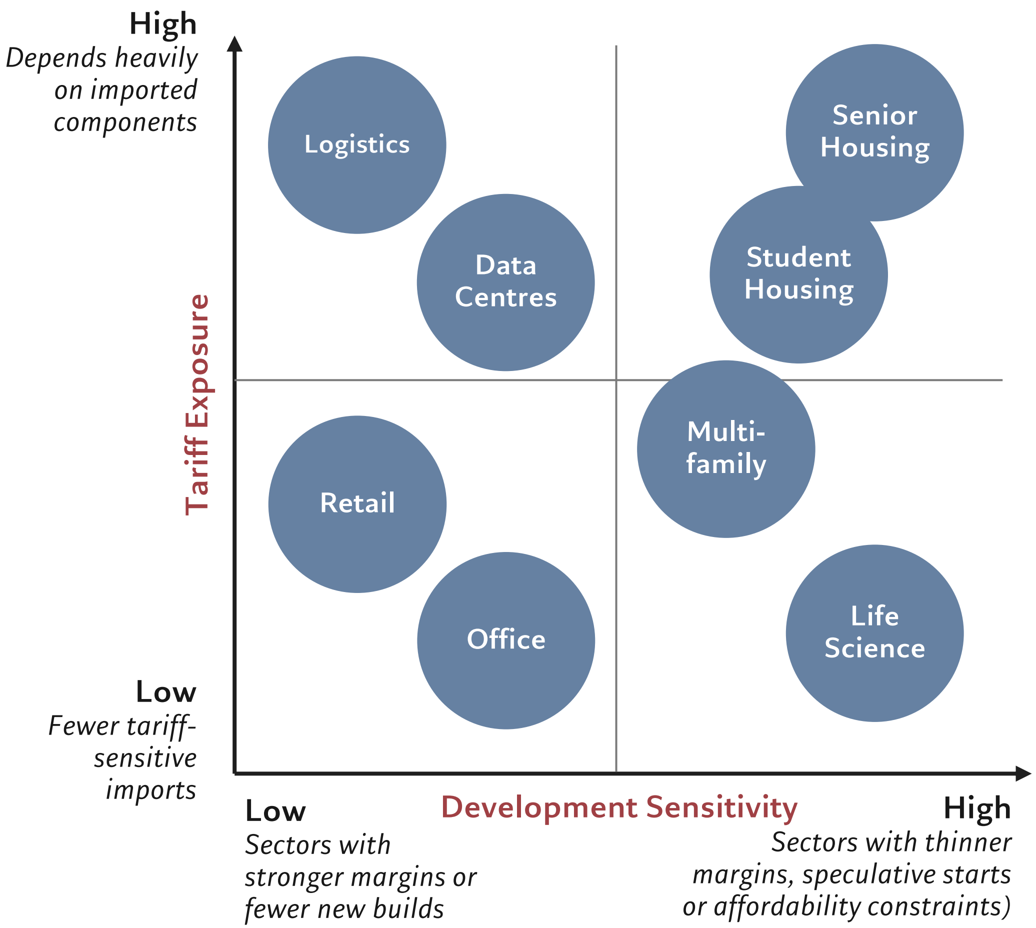
Unlevered transaction		
Values	**2020**	**2025**
YoC	6.5%	5.6%
Development cost	$300	$404
Rents	$19.5	$22.7
Cap rate	4.5%	5.5%
Sell price	$433	$413
Unlevered MOIC	1.44x	1.02x
Levered transaction		
LTV	50%	50%
Cost of fin	5%	8%
Interest payments over 3y	$23	$48
Debt + interest	$173	$250
Sell price	$433	$413
Profit	$111	-$40
Levered MOIC	1.74x	-

To get the same margins as in 2020 (200bps spread YoC vs cap rate), **rents should be circa 30% higher** than current levels.

Source: Cushman & Wakefield, 2025; CBRE, 2025. YoC: Yield on Cost; LTV: Loan-To-Value; MOIC: Multiple on Invested Capital; bps: basis points. To calculate forecast rents for 2025, CAGR=3.3% for 2020-2024, and 2.3% estimated rental growth rate for 2025. For illustration purposes only. There can be no assurance that these forecasts will be achieved.

Cost pressure points | Real estate's tariff sensitivity by sector on new starts in the US

Tariff exposure in US real estate – sector breakdown



- **Logistics & data centres** rely heavily on materials subject to US tariff imports (e.g. steel, HVAC, electrical panels). However, strong tenant demand helps preserve feasibility.
- In the **housing space**, *multifamily* remains more resilient thanks to development shaped by zoning and rent growth dynamics; *student housing* faces higher tariff exposure due to standardised imports and limited ability to absorb cost increases (capped rent ceilings); *senior housing* must meet strict regulatory and healthcare standards, making it especially vulnerable to cost inflation and margin compression.
- New developments are rare in both **office** and **retail**, limiting overall tariff exposure. In office, activity is mostly concentrated in high-end refurbishments with strong tenant demand covenants, offering greater cost absorption capacity; while retail sees more repositioning activity, which increases tariff sensitivity.
- Life sciences faces limited tariff impact thanks to diversified and partly domestic sourcing, but development remains highly sensitive due to complex lab requirements and high construction costs.

As new starts stall under cost pressure, **conversions & refurbishments** may present a more resilient, cost-effective route for developers. In addition, the adoption of recycled materials (e.g. steel) is progressively increasing for cost management purposes.

Source: CBRE, JLL, Cushman & Wakefield, and NAIOP, 2025. For illustration purposes only. There can be no assurance that these forecasts will be achieved.

Case study | How can global real estate investors still find opportunities under these conditions in the US?

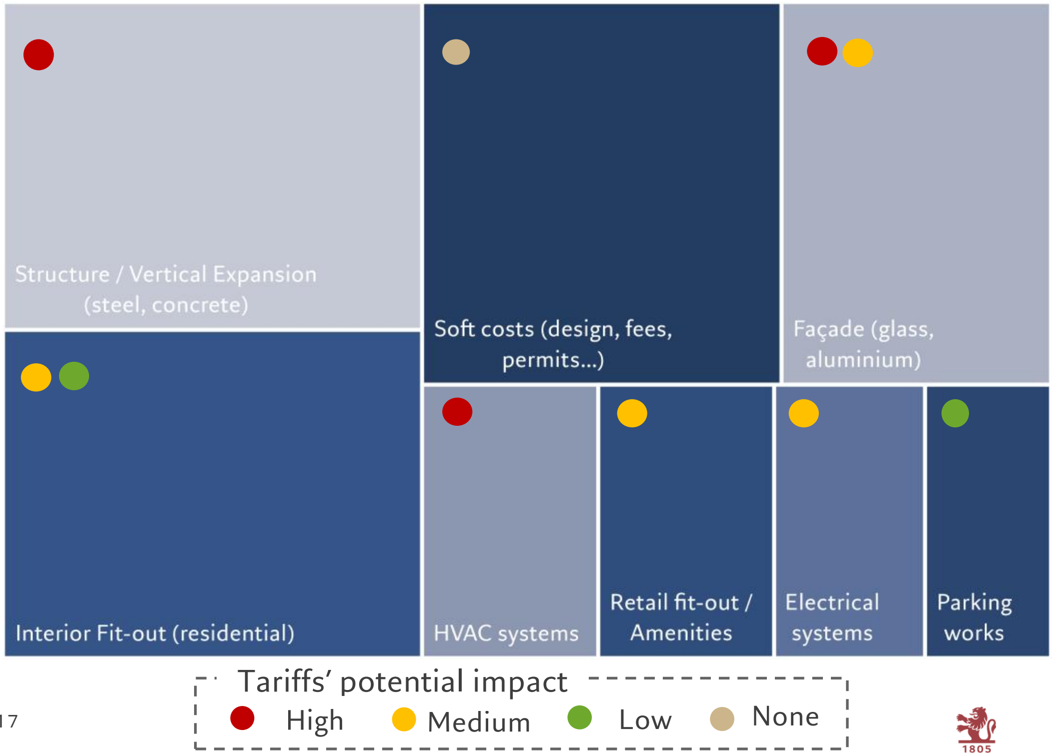
Office to residential conversion in US gateway city

Adaptive repositioning under trade headwinds

Class B obsolete office asset acquired at **87% discount to land basis** in prime location is being repositioned into a Class A multifamily building, with >400 units, including retail and lifestyle amenities (e.g. rooftop pool).

An intensive capex plan of $211m is envisaged to include vertical expansion (+3 floors), a full façade replacement, and extensive fit-out works to meet high-end residential standards.

Capex programme (cost categories vs potential tariff impact)



Potential mitigants embedded in the redevelopment plan

1 **Deep discount to land basis**
Strong buffer for cost overruns, enhancing the project's relative feasibility even with tighter margins

2 **Prime location in the US**
Supports lease-up and absorption potential, especially if amenity and design standards are met

3 **Move to Class A**
While cost intensive, it positions the asset for premium rents, long-term defensibility and ESG-aligned investor demand

4 **Active ownership**
Limited tariff impact, as per agreed Guaranteed Maximum Price (GMP) structure. Any tariff-driven cost overrun will be absorbed by the developer

For illustrative purposes only.
Source: Pictet Alternative Advisors, 2025.

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