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2Q2025 Global CRE Outlook

Highlights

- US faces a combination of pressures
- Canada slowing, but looks resilient
- Asia boasts entrenched supply chains
- Europe can play geopolitical chess
- Monetary easing could support valuations

This quarter we are initiating publication of our quarterly global commercial real estate (CRE) outlook. And the timing looks quite auspicious. Midway through the second quarter, we still know too little about the exact magnitude, breadth, and duration of tariffs that are rising amidst what looks like a nascent trade war. Accordingly, when we published our quarterly economic outlook two weeks ago, we used a scenario-based approach because of this ongoing uncertainty. While we are not going to fully replicate that approach here, we will focus on the implications for CRE in each of the major investment regions of the world with a nod toward the prevailing lack of clarity on trade policy. Ultimately, what emerges is a view of global CRE that remains broadly positive, even if less so than in the absence of rising tariffs.

North America

The US CRE market faces potentially the most complex set of factors because the US is increasing tariffs on the most widespread basis whereas most counties are only raising them in response to changes the US is making. That is creating a complicated mix of factors impacting imports, exports, prices, and economic growth, more complicated than that in other major regions of the world.

Consequently, the impact on CRE is likely more unclear than they might seem at first blush. Some property types could face mixed consequences. For example, tariffs could temporarily disrupt demand in port markets where leasing volumes revolve around imports and exports. But inland markets could stand to benefit from any reorientation of the supply chain, especially over the medium term. Residential should continue to benefit from chronic undersupply, and tariffs could exacerbate construction costs and further limit supply. But slower economic growth could limit demand, making the impact on rent growth ambiguous. Retail looks like a mixed bag with the high end somewhat insulated while the lower end could see consumers and margins come under pressure. Even the office market could prove somewhat mixed. While foreign firms could pull back and key primary markets could face headwinds, some secondary markets could benefit from the global supply chain reorganization.

Capital markets, however, seem relatively more negative. First, risk could be broadly repriced under the weight of not just slower growth and higher inflation, but also higher uncertainty. Second, foreign investment already looks like it is slowing, which could reduce some demand for assets and pull pricing pressure out of the market. And if investors sour on the US as a safe haven, then that could put marginally more upward pressure on yields. Combined, all of these factors could result in higher cap rates and a slower recovery in transaction volume than would have otherwise occurred. Overall, the outlook remains cautiously positive, but with greater headwinds.

In Canada, the most likely impact on the CRE market lurks in the form of weaker tenant demand as business investment slows along with the macroeconomy. But like in the US, the impact could be more varied than superficially appears. For retail, the more discretionary goods and centers could come under greater pressure than the necessity-oriented, non-discretionary properties such as grocery-anchored. The multi-family sector could also face a somewhat mixed picture. While housing remains notably undersupplied and increased costs could further slow supply growth, significant job loss would dampen occupancy levels and slow rent growth. For industrial, properties that cater to domestic producers and logistics networks might offset more general weakness that arises from tariff-oriented headwinds. Properties that favored exports to the US could face the most direct pressure. Even the office market seems likely to face more varied and nuanced impacts than many might think. While suburban office buildings would face more significant pressures, urban assets, especially core properties in key markets, could endure relatively well.

Overall, property-market fundamentals should remain relatively strong, which should support income returns. But heightened uncertainty could further delay a rebound in investment activity and volume. But with economic growth set to slow, the Bank of Canada (BOC) should continue to cut rates, which should support valuations and yields. Increased credit risk might offset this benefit for certain properties, but that could place core assets in a more favorable position.

Asia Pacific

Overall, CRE in the region should fare relatively well, though performance will differ depending upon the type of economy, geography, property type, and underlying economic make-up of markets. Larger economies, particularly those that are allies and key trading partners of the US, will have more flexibility and leverage than geopolitical rivals like China which will face punitive tariffs. Large trading partners could swap goods for Treasury bonds, keeping trade and liquidity flowing relatively smoothly. Domestically oriented economies, such as Australia and India, are not dependent upon exports to the US for economic growth. That insulates them somewhat from the impact of tariffs. The more service-oriented the economy (especially in the case of a place like Australia), the more the CRE market will remain resilient and generate solid performance. Moreover, the lack of exposure to the US should limit the inflationary impact which in turn should help the Reserve Bank of Australia (RBA) and the Reserve Bank of India (RBI) to keep interest rates relatively low, supporting asset values.

Japan should remain the safe haven for the region. Fundamentals across property types should remain healthy, with the office market in key geographies such as Tokyo remaining a particularly bright spot. And frequently during periods of dislocation, the Japanese market fares well and receives significant capital inflows (at least relative to other markets). The BOJ should get some cover from these capital flows and although rates are relatively high today, they remain low by global standards, which should help to support asset values. More manufacturing-oriented economies, such as China and Taiwan, could face more direct pressure. They could both see decreased demand via lower exports, which could impair some property types, especially industrial. Capital flows could also prove volatile in such an environment, increasing the risk premium embedded in cap rates and impacting pricing.

In such an environment, investors would likely seek safety and security in generally higher-quality assets which produce cash flows, including core+ portfolios. For similar reasons, primary markets would likely outperform secondary and tertiary markets. Most property types should continue to fare well. Even the industrial sector in the region should remain attractive. Global supply chains have become entrenched in Asia and are not easily dislodged or relocated to other regions, even if they reorient *within* the region. Housing remains scarce in many parts of the region. If tariffs make construction materials more expensive, that could further limit housing supply. And office inventory that focuses on local demand would have an advantage versus other office assets that are more exposed to globalized demand. With major central banks in the region likely to continue easing monetary policy, the outlook remains positive.

Europe

Overall CRE in Europe should also continue to perform relatively well, even in a world of widening trade tensions. The region faces more risk to growth from slowing exports than it does inflation via higher tariffs since the region looks poised to exhibit restraint and could likely not respond (at least in kind) to US trade policy. Similar to the situation in Asia, large trading partners of the US in Europe, particularly allies, have some flexibility and leverage to work out some kind of deal. Additionally, the region also has a unique opportunity to bundle geopolitical and military considerations into trade negotiations that other regions do not so readily possess. For example, Germany's increasing military budget could be part of negotiations with the US government.

Some export-oriented markets, particularly in the logistics and office sectors, could face demand challenges, especially if those exports head to the US. But high-quality core assets, especially those that are well-located in key geographies, should continue to fare well. Therefore, prime office rents in core cities such as Paris or London should hold up well and the flight to quality could intensify. In industrial, urban logistics should remain a solid performer, but the environment could slow development, which favors existing properties. Investors could become more risk average and capital could rotate away from secondary and tertiary markets toward stabilized, core assets in key markets. Residential looks like it will be less impacted. A slowing economy could reduce rental growth if demand softens, but housing remains significantly undersupplied. Retail could see a shift away from more discretionary goods and centers (especially tourism-oriented retail) and toward more defensive retail such as grocery-anchored centers.

Because the region faces more risk from slowing economic growth than from inflation, both the European Central Bank (ECB) and the Bank of England (BOE) should have the latitude to continue cutting rates, likely more than the Federal Reserve currently possesses. While they both might take a somewhat cautious stance at first, slowing growth would give them support for further rate cuts. Therefore, that should reinforce valuations and yields, even in the face of some economic slowing. But within this, we could see yield spreads between high and low quality widen – by market and by asset quality.

Closing Thoughts

Uncertainty in economic policy could have far-reaching and divergent ramifications for the global CRE market. Of course, the specific impacts will vary based on how high, broad, and lengthy tariffs ultimately become – of course lower, narrower, and shorter, the better. But the good news is that CRE across the world should still fare well and if other asset classes continue to come under pressure, CRE could be a relative outperformer. Even in the US, where asset markets face a unique combination of pressures, the CRE market looks like it will hold up, even if performance slows.

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