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Assessing the impact of tariffs on private real estate

Analyzing the impact of tariffs on investment markets can feel like trying to solve an "if/then" equation with limited and imperfect data. Still, we believe it's important to assess these developments through the lens of private real estate, and it is from this perspective that we share our view and some of the potential outcomes we can envision ahead.

Tariff-driven considerations for private real estate

There are multiple tariff-driven scenarios (if/then) and a wide range of outcomes that could significantly impact private real estate in both the short and long term. Rather than cover every hypothetical, we'll focus on a few key dynamics – while underscoring the vast complexities (and seeming contradictions) that could shape the market as the tariff landscape evolves:

Re-evaluating inflation expectations: Inflation impacts private real estate returns in several ways. It often leads to an increase in property values as replacement costs rise, and can also spur rental growth as landlords adjust rents to keep pace with rising costs. Conversely, high inflation can increase operating expenses and thereby erode net income, especially if rents fail to rise proportionately. Still, private real estate remains a strong draw for investors, thanks to its track record as an excellent hedge during inflationary periods. All this is to say, even in stable conditions, the relationship between inflation and private real estate is complex – add tariffs into the mix, and that uncertainty only grows.

Counting the construction costs: As noted above, inflation tends to lead to higher replacement costs, primarily due to increases in construction budgets. Tariffs on steel and aluminum, critical components for real estate development, recently rose to approximately 25 percent under the current administration.[1] Tariffs at this level could drive up project costs and squeeze profit margins, making it more difficult for new construction to "pencil out." On the other hand, reduced new supply has historically supported healthy rental growth for existing portfolios. It is unclear if this will be the case under whatever tariff regime eventually comes to pass, but it certainly falls within the realm of potential outcomes.

Higher for longer interest rates: Inflation often leads to higher interest rates. The resulting increased cost of borrowing can impact the profitability of leveraged investments, reducing overall returns. This scenario played out in recent years across the private real estate market, when interest rates rose 425 basis points from March to December 2022, the fastest pace of tightening since the early 1980s.[2] During that period, the private real estate market effectively froze. Deal volume fell dramatically, liquidity all but disappeared, and many investors withdrew from the market for nearly two years until conditions eased. This market disruption occurred largely because of the uncertainty surrounding the pace of changes in interest rates, which, of course, was a direct result of persistently elevated inflation. Therefore, while inflation tends to create several positive outcomes for real estate, these can be overshadowed should interest rates rise rapidly or remain at elevated levels for extended periods.

Slow-growth economic outlook: Economists are generally bearish on the short-term macro effects of higher tariffs, with industry leaders like JP Morgan predicting a 60 percent chance of a recession in 2025.[3] As one would expect, slower economic growth is certainly a drag on the broader private real estate market. Yet, even in this downside scenario, some pockets of optimism will exist. For example, a recession would likely lead to a deflationary environment, finally breaking the inflationary trend that has gripped the economy for years. One would also expect the Federal Reserve to cut interest rates in response, which would benefit private real estate by reducing financing costs and bringing investment returns closer to historical norms. By no means is a recession good news for private real estate, however, some aspects of a slow-growth environment could help reset the market and accelerate its recovery.

Navigating uncertainty and volatility

The conditions that have emerged from the seemingly daily headlines (not all of them consistent) around the current Administration's proposed tariff policy are causing investors to rethink their priorities, and the lack of clarity will likely lead to increased market volatility. So, what is an investor to do?

We believe those fully allocated to private real estate should remain confident in the sector's resilience. For others, now may be the time to reexamine your position. Whether focusing on high-quality core assets or jumping into newly presented opportunities, there are compelling reasons to act now.

[1] *What happened the last time Trump imposed tariffs on steel and aluminum*, Reuters, March 12, 2025
[2] *Banking Sector Performance during two periods of sharply higher interest rates: 2022 and 2004 to 2006,* FDIC Quarterly, 2023, Vol 17, No. 3
[3] *What Is the Probability of a Recession?* J.P. Morgan Research, April 15, 2025

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CORPORATE OVERVIEW

Accordant Investments is a registered investment advisor based in Scottsdale, AZ. Accordant creates investment solutions that allow private wealth investors to access private real estate in a way that was once only available to the world's largest investors. Accordant invests up and down the risk spectrum with a focus on creating transparent outcome-oriented portfolios so investors know what they own and own what they need.

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