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Global trade redefined: Real estate

Dealing with tariff uncertainty

April 2025

This report has been developed in collaboration with the Strategy& team PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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Introduction

The imposition of sweeping US import tariffs has introduced uncertainty and disruption across global markets. While the real estate sector is not directly subject to tariffs, as a sector whose performance is closely tied to both the real economy and the capital markets it will undoubtedly be impacted by indirect second order consequences in the UK and globally.

It's clearly difficult to quantify these second order impacts currently given they will depend on the timing of, and eventual negotiated tariff position, and will vary by country and the underlying occupier sector.

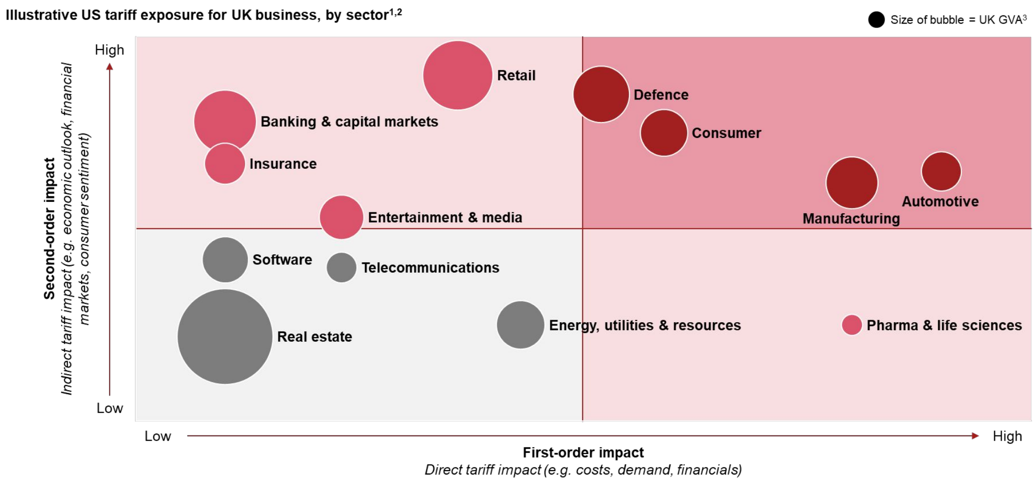
However, lower interest rate expectations, increased capital inflows into the UK - because of its status as a defensive, income-generating asset class and 'safe haven' for global capital - and a shift toward supply chain localisation across Europe mean the UK real estate sector may find silver linings amid the disruption.

These changes offer real estate investors and operators both opportunities and risks – particularly through the lens of tenant resilience, construction inflation and capital markets sentiment.

As with other sectors, real estate must assess the direct and indirect effects of a more protectionist US trade policy – not least how these changes flow through to occupier demand, construction costs and capital allocations. Investors must remain alert to emerging tenant risks, asset-level operational pressures, and construction volatility.

Some common industry actions:

1. Assess first-order impact versus second-order impact.
2. Understand variation by occupier sector and geography.
3. Adopt a mix of 'no regret moves' in the short term and strategic choices in the longer term.
4. Identify both downside risks and upside potential.
5. Embed resilience to navigate supply chain or geopolitical shocks.



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&'s 'Break and reorder' scenario, 2. Featured sectors account for c.60% of UK GVA (Gross Value Added), 3. Estimated 2024 GVA based on ONS data.

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930. The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The executive order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain Southeast Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely. The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

> "Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake."
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

Looking ahead

Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind. Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

The initial real estate market reaction has been mixed. Whilst all equities suffered following the tariff announcements, the UK REITs experienced relatively modest share price dips and in some cases (eg. London office REITs) positive movement – which supports the view that the real estate sector could be seen as a hedge against the impact of tariffs on other sectors.

The relative resilience of London-focused REITs following the announcement of tariffs is a demonstration of the safe-haven investment appeal of liquid markets in global cities. This is a theme consistent with the findings of our recent Emerging Trends in Real Estate reports, particularly in recent years with capital flows favouring the larger, more liquid European cities during times of marked uncertainty.

Meanwhile, UK and EU central banks have responded by cutting interest rates, with the ECB reducing rates to 2.25% – a development likely to support property valuations and transaction activity. However, investors and developers need to also be mindful of the medium/longer term risk dynamic arising from lower rates stoking inflation, increased construction costs and delayed development timelines.

The tariffs have prompted expectations that the Bank of England may cut interest rates to stimulate growth. This anticipation has led several UK lenders, including TSB and Skipton Building Society, to reduce mortgage rates, with average two-year fixed rates falling to 5.3% and five-year rates to 5.15%*.

*Source:https://moneyweek.com/personal-finance/mortgages/trump-trade-tariffs-uk-mortgage-rates

What could happen next

Three scenarios to plan for the short-term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To aid our clients to better understand how the future of tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes that are happening, we've chosen to limit these to tariff policy. We are however mindful that the current changes to US tariff policy is likely to spill over into second and third order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, up to and including Canada, Mexico as well as China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July, 2025). These come in force by the end of the calendar year. In the interim, the 'baseline' tariffs continue to apply for most economies, including for China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8th July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the 'baseline' tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the April 2, 2025, announcement.
- For China tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long-run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down.
The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes 'reciprocal' tariffs by 8th July, 2025. With this in mind, the EU, Japan, China and other economies retaliate, in equal measure, to the tariffs. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium-run, the ex US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South East Asian economies forging much closer trading relations with China. These changes are rapidly also reflected in investment flows.

Taking stock of tariffs

Understanding the impact on the real estate sector

Capital markets and investment

- Transaction processes may be delayed while investment committees get comfortable again, but firmer expectations of falling rates could help in unlocking deal activity.
- GBP depreciation, faster property market valuation adjustments relative to Europe and the 'flight to safety' narrative could support the UK real estate's relative attractiveness to global investors.
- UK real estate, in particular, could act as a hedge against the impact of tariffs on other sectors, with inflation supporting higher rental growth for landlords.
- Lower returns from alternative asset classes (e.g., private credit) may re-tilt institutional allocations toward real estate.
- Europe, by being forced to focus more on home industries and security, is expected to invest more in defence, power, security infrastructure and related real estate.

Construction and supply chains

- Tariffs on steel, timber, and aluminium will increase costs, particularly on imported materials.
- Developers will be revisiting fixed-price contracts, with project delays or value engineering expected.
- Renewed attention will be placed on localised supply chain strategies.

Occupier market impacts

- While many real estate segments face second-order risks from tariffs, others are more politically aligned with strategic priorities in the US, UK and Europe. These sectors are arguably less exposed to retaliatory trade measures, more likely to receive ongoing policy support and often benefit from counter-cyclical demand.
- Logistics demand could increase as multinationals seek more distributed and resilient warehousing solutions across Europe, and an increased focus on home industries, defence, energy resilience and security.
- Operationally intensive real assets sensitive to corporate/consumer spend (e.g., hotels, serviced office) face downside risks if corporate or consumer budgets tighten.
- Sectors linked to trade-exposed occupiers (e.g., consumer goods, car manufacturers) will face tenant stress. Focus should be on tenant covenant reviews.

> Political policy-making and geopolitical instability are among inflation's chief drivers, and they are uppermost in the minds of the industry leaders interviewed for this Global edition of Emerging Trends in Real Estate”
>
> **Rob Walker –**
> PwC UK Real Estate Leader

> Pension funds are now publicly committing themselves and their money to invest in European security and defence systems."
>
> **Fund Manager –** ETRE Europe 2025

refi Emerging Trends in Real Estate (Europe) 2025-a joint publication between PwC and Urban Land Institute. https://www.pwc.com/gx/en/industries/financial-services/real-estate/emerging-trends-real-estate/europe.html]

Sector perspectives

Real estate under the tariff lens

Investors seeking downside protection may benefit from tilting portfolios toward sectors that are macro-resilient, politically supported, and structurally undersupplied. These offer stability in volatile markets and could outperform in a regime of structurally lower interest rates.

Industrial and logistics	• Diversified warehousing demand supported by nearshoring and reshoring, supply chain disruptions - including reduced availability and/or delayed deliveries – inventory build-up and distributed logistics to mitigate tariff-related disruption. • Substantial uncertainty for occupiers' long-term supply chain planning with increased costs across supply chains and re-evaluation of global sourcing strategies. • Goods being rerouted from the US and flooding other markets could increase competitive intensity in the UK and EU. • Significant variation in tariff impact based on underlying occupier sectors. For example: – Automotive is among the sectors most directly exposed to such policy shifts (high-value, physical goods, substantial export volumes to the US, highly complex, multi-tiered global supply chains). – Specialist industrial real estate near OEMs could experience structural tailwinds. – Short-term demand for flexible warehousing space could spike as businesses seek cost effective solutions and overflow space through the uncertain transition period. • Risks include increased fit-out costs and longer lead times.
Office	• Slower expansion from corporates may affect prime office leasing. • Flex/serviced offices more exposed to margin pressures and occupancy shifts, but may benefit from increased corporate demand for shorter term/flexible occupation needs.
Retail	• Import-heavy tenants at risk from weaker margins and supply chain cost pressures. • Luxury retail holds better, mid-market vulnerable. • Enhanced importance of tenant covenant reviews. • Low consumer confidence could impact retail trading in the short-term with direct impact on turnover leases.
Residential	• Supported by monetary easing, but new supply faces viability challenges due to materials/construction inflation.
Hotels and leisure	• Downside risks from declining discretionary spend. • FX tailwinds could help inbound travel hubs. • A marked decline in non-US travellers heading to the US could see a potential rebalancing of global corporate meeting, conference activity and hotel demand toward UK and EU locations – driving hotel performance in city cores.

Sector perspectives

Real estate under the tariff lens

Alternatives	• Student housing, life sciences, and data centres remain structurally supported. • Construction and capex-heavy models need close monitoring.
Healthcare and life sciences	• Strategically insulated sector **–** healthcare remains a bipartisan policy priority. • Real estate supporting labs and outpatient centres seen as resilient with long leases.
Digital infrastructure and data centres	• Strategically insulated sector **–** data and cybersecurity seen as critical national infrastructure with demand supported by even more emphasis on long term resilience. • Demand remains robust despite capex headwinds.
Defence and R&D campuses	• Strategically insulated sector **–** shielded from trade disruption via exemptions and domestic procurement priorities. • The rearmament of Europe is likely to lead to increased capital flow to European OEMs and systems manufacturers.

“In a world redefined by tariffs and geopolitical realignment – with a wide range of outcomes in play – UK real estate stands to gain momentum as a resilient, income-generating safe harbour.”

Ainsley Moore, Head of UK Real Estate Advisory, PwC UK

Navigating the potential fallout

Actions you can consider

UK real estate businesses can consider various short- and long-term moves to address the evolving market and ongoing volatility.

Short-term 'no regret' moves

Conduct tenant impact assessments using sector-specific stress indicator

- Evaluate tenants' exposure to global versus local supply chains, focusing on operational dependence on trade (e.g., import/export-heavy industries) versus domestic consumption or service-based sectors.
- Identify tenants in sectors likely to face disruption or benefit from shifting trade routes – such as logistics, advanced manufacturing or food production.
- Map tenant exposure to high-tariff zones and align with stress signals like order backlog changes, cost of inputs, or rising working capital requirements.

Enhance data monitoring frameworks

- Integrate alternative data sources (e.g., real-time trade volumes, customs data, shipping costs, raw material prices) to strengthen early warning capabilities.
- Establish automated dashboards to monitor macroeconomic and trade policy shifts, helping to identify at-risk tenants and potential upside sectors.
- Review exposure to construction price inflation and carefully consider how to amend the JV arrangements and commercial structures to mitigate the impact.
- Reassess debt/refinancing strategies in light of increased complexity around these processes to ensure the best pricing and terms are achieved while available.
- Emphasise monetary tailwinds in investor communications.

Moves to capture maximum value over the longer term

- Reassess pricing for development and forward-funding deals.
- Structure refinancing strategies to capture lower debt costs.
- Target strategically protected sectors with long-term stability.

> "While falling interest rates create short-term financial opportunities, rising inflation and ongoing supply chain disruption mean that clarity of vision and strategic flexibility have never been more essential."
>
> Mark Addley, Restructuring and Insolvency Leader, PwC UK

Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade

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