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INVESTMENT INSIGHTS
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What does tariff uncertainty mean for real estate?

Update from
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KEY TAKEAWAYS

- Uncertainty caused by tariffs could weigh on the economy and real estate, but the asset class enters this period in a relatively strong position.
- Values substantially reset over the last two years, which helps to de-risk the asset class going forward.
- Construction levels are at the lowest levels in over a decade, which bodes well for fundamentals.
- Real estate continues to deliver income, resilience and diversification. In a period of uncertainty, investors should focus on property sectors with resilient demand backed by megatrends and structural imbalances.

Private real estate entered 2025 with prospects looking up, having materially rebalanced over the course of a two-year downturn for the asset class.

Following the April tariff announcements, there are questions about how tariffs will impact the economy and the budding recovery in real estate.

Real estate risk can be broadly lumped into three categories – property values, supply and demand. The Global Financial Crisis of 2008 was a perfect storm for real estate; the asset class entered the downturn at peak values and construction activity, before demand plummeted.

Conversely, coming into 2025 values have reset significantly and new construction is at the lowest levels in over a decade. The significant risk at this point is demand, which can be somewhat mitigated by picking the right buildings, markets and property types.

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Following the interest rate increases of 2022, global real estate values fell for nine consecutive quarters from the peak in Q2 2022 to the trough in Q3 2024, representing a value reset of 16%. Much of Western Europe experienced even deeper write-downs in the 21-22% range, with unlevered values in the U.S. resetting about 20%.

In the most recent quarters, it appears values have stabilized. Globally, the fourth quarter saw the first write-up in two-and-a-half years. Of the 21 countries in the MSCI Global Quarterly Property Index, over half (12 of 21) saw moderate write-ups and nearly all (20 of 21) saw positive total returns for the quarter, with 17 of 21 delivering investors positive total returns over the prior year.

A downturn would certainly put real estate's nascent recovery at risk, but the asset class has already significantly rebased (and has started to recover), helping to de-risk the asset class. Increased construction costs caused by tariffs could provide support for property values over the long-term. Income-generating real estate is primarily valued on a discounted cash flow basis with income being a key driver of value; healthy fundamentals are the priority. However, there is a link between asset values and the cost of constructing a new building, meaning the value proposition of existing buildings could look increasingly favorable over time.

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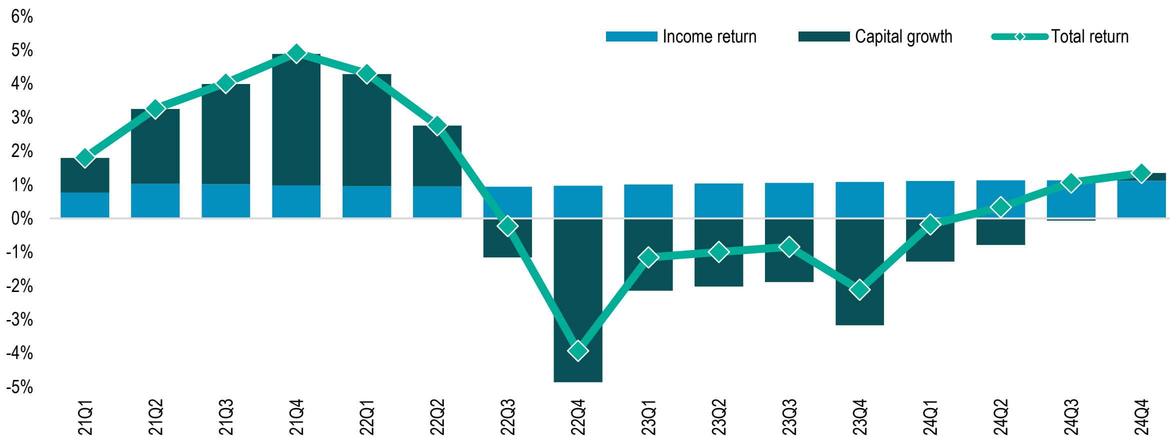
Figure 1: Global private real estate unlevered quarterly returns



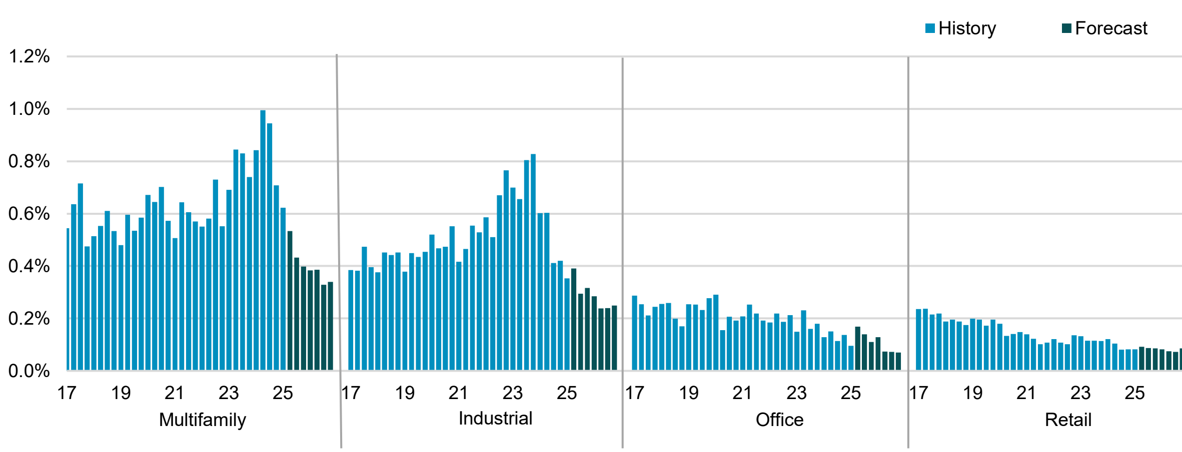
Source: MSCI Global Quarterly Property Index (Q4 2024); Nuveen Real Estate Research

SUPPLY RISK AHEAD IS MUTED

Real estate has repriced significantly over the last two years as values reset to reflect the interest rate increases of 2022. What is underappreciated by investors is that the real estate downturn of 2023 to 2024 was made worse by elevated levels of deliveries from projects that began when construction financing was cheap in the years prior to rate increases. New supply can challenge a market if there is not offsetting new demand, as it can cause vacancies to increase, and market rent growth to soften – which has happened over the last two years. Europe and Asia Pacific experienced less oversupply than the U.S., but the pullback in construction is welcome everywhere. In the U.S., delivery levels over the next two years are set to be the lowest in a decade for the multifamily and industrial markets – and the lowest on record in the office and retail markets, (Figure 2), which bodes well for fundamentals.

A silver lining of tariffs is the increased cost of construction materials. This will not be welcomed by real estate developers, but for the owners of existing assets it means there is likely to be less pressure on assets due to new supply, allowing a longer runway with stable occupancies and growing rents.

Figure 2: U.S. Quarterly deliveries as a percent of existing stock, by property type (2017 – 2026)



Source: CoStar (Q1 2025); Nuveen Real Estate Research

DEMAND IS THE #1 QUESTION. THERE WE CAN TILT THE SCALES.

Tariff uncertainty could force CEOs and consumers to pause decisions, slowing leasing decisions and economic growth. The longer the uncertainty continues, the greater the likelihood of downside outcomes. This risk is not specific to real estate, as all risk assets are impacted during a downturn. However, by selecting the right properties, markets and sectors, investors can tilt the scale in their favor.

- U.S. medical outpatient buildings are well-positioned. The property type has all-time low vacancies, new starts at just 40% of peak levels and resilient demand drivers. Outpatient visits and surgeries have continued to increase over the last 30 years, with seemingly no correlation to economic downturns. During Covid-19, patients temporarily put off non-emergency procedures, but even through the Global Financial Crisis we saw demand for outpatient care continue to increase. An aging population will only support demand.

- We expect senior living to remain resilient in many global markets given aging populations and low caregiver ratios. Japan stands at the forefront of this megatrend. There, public insurance pays 90% of resident's rental costs, making the sector particularly resilient.

- We remain bullish on purpose-built student accommodations in markets with low provision rates, particularly in Europe and Australia, but also in select U.S. markets. College enrollment has typically been negatively correlated with economic growth, with students more likely to seek higher education if they feel their job prospects are at risk.

- We also remain constructive on the opportunity in residential real estate more broadly, particularly affordable and middle-income housing. A structural housing shortage leads to solid demand, even in low growth and high inflation environments.

- Industrial vacancy rates are low in many markets around the world, especially in smaller properties closer to population centers. Shifting supply chains and reshoring efforts could create significant opportunities.

- Local and community retail has very healthy fundamentals today, with little supply growth over the last decade. Grocery anchored retail in particular should be resilient in a downturn; consumers may eat out less or trade down to generics, but demand for groceries is fairly inelastic and surrounding necessity retail tends to hold-up well.

- In uncertain markets, real estate credit remains attractive due to stable cashflows, particularly against resilient asset types. Elevated base rates, spreads wider than historical averages and rebased capital values together offer a compelling risk-adjusted-return across geographies.

With very little new construction underway, record demand is not a requirement to keep market fundamentals in check. Tenant demand essentially just needs to remain stable for occupancies to remain healthy, and by focusing on property types and markets with resilient demand drivers, investors can tilt the scales in their favor.

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For more information, please visit us at nuveen.com/realestate

Sources

1 Source: MSCI Global Quarterly Property Index (Q4 2024); Nuveen Real Estate Research
2 CoStar (Q1 2025); Nuveen Real Estate Research