SPECIAL REPORT

Marcus & Millichap

U.S. TRADE POLICY

APRIL 2025

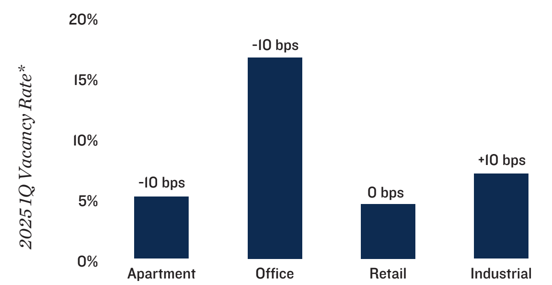
New Tariffs Reshape Economic Landscape, Highlighting Commercial Real Estate's Stability

Sweeping tariff policy heightens uncertainty. The recent introduction of the "Liberation Day tariffs" marks the most significant shift in U.S. trade policy in more than a century, propelling the net effective tariff rate from about 2.5 percent last year to well above that for most countries. A 10 percent blanket tariff now covers nearly all imports. Initially, 90 countries faced higher levies — some as steep as 60 percent — until President Trump announced a 90-day pause on the implementation of these tariffs as of April 9, 2025. China, however, was excluded from this reprieve and now faces in excess of 100 percent duty after imposing its own 84 percent tariff on U.S. goods. Meanwhile, sector-specific tariffs of 25 percent remain on steel, aluminum and foreign automobiles, and although copper, semiconductors, pharmaceuticals and energy products are currently exempt, the White House has signaled that these exclusions — especially those for pharmaceuticals — may soon expire.

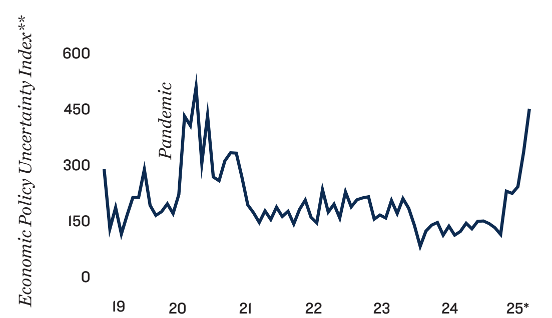
Markets react with volatility and concern. Shortly after the April 2nd announcement, the Economic Policy Uncertainty Index spiked to its second-highest level on record, while a sharp selloff in equities took place, followed by partial rebounds. Consumer sentiment is also slipping amid the rapid policy shifts. Treasury yields dipped at first as investors sought safety but have since become volatile, reflecting concerns about the direction of U.S. trade relations and the strong ripple effect on both monetary policy and market confidence. The Federal Reserve is now caught between opposing pressures of rising inflation and slowing growth. As of February, CPI inflation registered at 2.4 percent, but the new tariffs have introduced unpredictable price pressures that could push inflation into the mid-4 percent range. While some economists argue that tariff-related inflation will be short-lived, that assumes the policy remains fixed. Recent history with Canada and Mexico suggests a more fluid and reactive approach, making inflation outcomes harder to predict.

Fed cautious amid rising risks. Beyond the volatility in the equity and bond markets, the elevated readings from uncertainty indexes point to a broader loss of confidence. Consumer sentiment has weakened, and businesses are holding back on capital investment, raising the likelihood of a demand-driven slowdown. Although traders initially expected up to 125 basis points of rate cuts in 2025, Fed officials are signaling a more cautious path, wary that lower rates may be ineffective if uncertainty — rather than high borrowing costs — is the main drag on activity. The March meeting minutes emphasized this tension, noting the risk of persistent inflation despite employment also softening. With long-term inflation expectations at stake, the Fed appears increasingly inclined to hold policy steady, even in the face of growing recession risks.

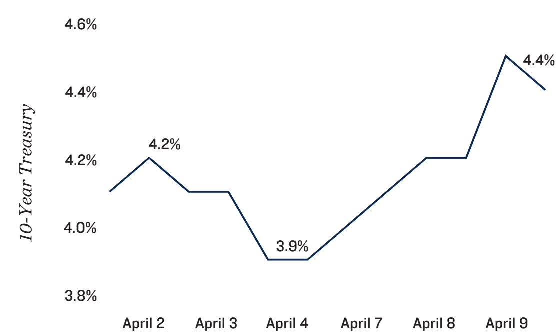
Vacancy Rates Hold Stable to Start 2025



Economic Policy Uncertainty



10-Year Treasury



Sources: Marcus & Millichap Research Services, Federal Reserve

** Preliminary estimate for Q1 2025*

***The Economic Policy Uncertainty Index is a measure of policy-related economic uncertainty, derived from the frequency of news articles discussing economic policy uncertainty in leading U.S. newspapers. Higher values indicate greater uncertainty.*

Uncertainty in Rates and Trade Policy Poses Challenges for Investment

Short-term stability masks long-term risks. The recent surge in Treasury yields highlights growing unease among investors over the trajectory of inflation, trade policy and demand for U.S. debt. The 10-year yield jumped from 3.34 percent to 4.4 percent in just three days — its sharpest climb since 2001 — despite a temporary pause on some tariffs. While Treasuries are traditionally seen as safe-haven assets during uncertainty, that dynamic appears to be shifting. A well-received 10-year bond auction briefly calmed markets, with indirect buyers — often foreign central banks — taking a record share. Speculation, however, is mounting that foreign holders, particularly China and Japan, may be reducing their Treasury exposure as economic retaliation or to support their weakening currencies. Meanwhile, the Treasury is expected to increase issuance following a likely debt ceiling resolution, just as the Federal Reserve continues $5 billion in monthly quantitative tightening. These developments suggest a potentially limited buyer pool for long-term debt. Though short-term volatility could bring the 10-year yield back near 4 percent, pressure from increased issuance, lower foreign participation and sticky inflation may drive rates higher in the months ahead. For borrowers, the current volatile rate environment might offer narrow windows to secure financing.

Commercial real estate faces near-term challenges. Potential inflation, slowing economic growth and interest rate uncertainty are causing unease. That said, if recent U.S. trade and economic policies stay fluid and unpredictable, commercial real estate could remain one of the more durable investment options. Preliminary first-quarter 2025 data shows apartment and office vacancies each declined by around 10 basis points, retail vacancy stayed stable and industrial availability rose slightly, indicating that the market is entering this uncertain period with sound footing. Still, consumer sentiment has dipped 31.4 percent since December, which may lead to less household formation and less spending at retailers.

Multifamily

Apartments enjoyed vigorous leasing in late 2024, with over 400,000 units absorbed in the second half of the year, though that momentum may cool in coming quarters if weakened sentiment curbs new household formation. Construction material tariffs are likely to compound ongoing building slowdowns, keeping new supply in check. Even so, healthy demand from delayed homeownership by the country's largest generational cohort — Millennials — should help sustain occupancy and rent growth in many regions, especially those experiencing robust job creation and in-migration.

Retail

As persistent inflation and cautious consumer spending often favor budget-friendly and grocery-anchored retailers, discretionary segments — including restaurants and fashion — could experience softer sales. Yet the sector benefits from an unusually low amount of development in the pipeline, and a historically tight vacancy rate of 4.5 percent entering 2025 provides a cushion against any potential sharp drops in leasing. Retailers less dependent on imports may also avoid the worst margin pressures from elevated tariff costs.

Industrial

The industrial sector's path hinges largely on trade dynamics. In the near term, existing shipping contracts and the gradual pace of supply-chain realignment could limit any dramatic changes. Over time, however, steeper tariffs on Asian goods could prompt companies to recalibrate shipping routes, favoring markets linked to Canada and Mexico under USMCA. These realignments, including the trend toward nearshoring and reshoring, may spur demand in inland hubs and border regions that cater to shifting logistics strategies.

Office

Despite ongoing structural headwinds, the office market could get a short-term lift if easing labor conditions motivate stronger return-to-office policies, reinforcing a modest uptick in leasing after 2024's return to positive net absorption. Swings in Treasury yields and debt spreads may also open brief but advantageous financing windows for investors. Potential extensions of favorable real estate tax provisions might add further incentive, helping commercial real estate remain an appealing choice for those ready to move quickly and think long term.

Prepared and edited by:

John Salter

Research Analyst | Research & Advisory Services

Price: $1,500

For information on national commercial real estate trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700

john.chang@marcusmillichap.com