



# RREAL Insights

September 2018

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Kevin White, Head of Americas Strategy | Alternatives

### Tariffs help constrain new construction in commercial real estate ... but how else could real estate be impacted by a Trade War?

#### Macroeconomic Impact:

- U.S. has enacted tariffs on about \$100B of imports - mainly steel and Chinese products - and retaliatory tariffs total about \$70B of exports. Equivalent to about 3% of trade and less than 1% of gross domestic product (GDP).<sup>1</sup>
- U.S. has threatened tariffs of \$300B on automobiles and \$450B on additional Chinese goods, equivalent to 24% of trade and nearly 4% of GDP. <sup>1</sup>
- Estimates of GDP growth impact range from 0.1% (enacted measures) to 0.5% (threatened measures), larger effects possible with further escalation. <sup>1</sup> Additional risks around NAFTA.
- Higher inflation as prices increase for imports and products made from imports. <sup>2</sup>
- The effects on foreign exchange and interest rates are ambiguous. The U.S. is a traditional safe haven, but capital inflows from China and Europe could diminish if the situation escalates.

#### Real Estate Impact:

- Supply: Rising commodity prices - steel prices are up 40% year-to-date<sup>3</sup> - should dampen new construction.
- Demand: Weaker economic growth reduces space absorption across sectors.
  - Seattle, Portland, and the Bay Area at greatest risk.
  - Industrial will be more resilient thanks to structural e-commerce drivers, but possible disruptions at west coast ports; i.e., LA, Seattle.
- Inflation: Real estate can be a good hedge in a rising inflationary environment.
- Ambiguous effects on cap rates, which are tied to fundamentals and capital flows.

#### Bottom Line:

- Further constraint on supply is a plus for core real estate landlords. Adverse effects on demand offset by fiscal stimulus which is expected to add 0.5% to GDP growth in 2018 and 2019<sup>2</sup>. A trade war could be damaging to real estate returns but likely not devastating.
- Real estate might hold up better than other investments given positive effects from inflation and supply.

1) Source: Tax Foundation. As of August 2018.

2) Source: Moody's Analytics, "Trump Trade War." As of July 2018.

3) Source: Bloomberg. As of August 2018.

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Definition:

Gross Domestic Product (GDP) - The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

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