Townsend Perspectives

The Trump Factor and Commercial Real Estate

The new year is already well underway, and the new U.S. administration is off to a fast start – announcing major initiatives and policy changes on what seems to be a daily basis.

It is far too early to know with any degree of certainty how the Trump administration's policies will impact commercial real estate or the broader economy. However, we believe that it is important for investors to consider these changes and to evaluate a broad range of potential outcomes.

In this rapidly evolving market, Townsend's research teams have been evaluating several developments.

Short-Term Macro Outlook

The global economic outlook remains mixed. In the near-term, we anticipate (i) modestly weaker but sustained global growth, (ii) higher inflation, and (iii) a shift in global business sentiment favoring the U.S.

Government Office Policies

Potential near-term impacts on the office market are mixed. Policy shifts will likely affect different markets in different ways.

The Return-to-Office Mandate. President Trump has ordered roughly two million federal employees to return to the office full-time. Office vacancy rates in D.C. and areas with higher concentrations of federal employees have been in the high teens. The return-to-office mandate may lower office vacancy rates and increase demand for federal leases. To the extent that the mandate fuels a broader cultural shift in favor of in-office work, it could also have a wider positive impact on office usage and demand.

Space Utilization. The Trump administration is considering selling 2/3 of the government's office stock to the private sector. According to the General Services Administration (GSA), many federal office buildings are underutilized or empty.[1] A downsizing of the federal workforce could reduce the government's need for office space even further, with similar collateral impacts on D.C.-area housing. Some of the GSA office assets could sell at deep discounts, potentially dragging down the value of nearby office assets.

Opportunity Zones

Scott Turner, the newly-confirmed Secretary of Housing and Urban Development (HUD), plans to revisit the Opportunity Zone (OZ) program, which was highly favored during President Trump's first term. This program is an economic tool that allows investors to develop in distressed areas with sizeable tax deferral benefits. It is estimated to have driven billions of dollars of capital to distressed regions across the U.S. While this program is set to expire

[1] The GSA manages the federal government's office assets, including nearly 50 million square feet of government-owned office assets in and around D.C.

in 2026, the administration is pushing for an extension. Investors are raising capital to take advantage of the tax deferrals and benefits of the OZ program.

The Regulatory Environment and Development

The Trump administration is also focused on streamlining regulatory policies affecting commercial real estate development and housing. While zoning and permitting processes tend to be managed at the state and local levels, the federal government can have an impact through environmental policy, through regulatory oversight, and in other ways. Deregulation could potentially reduce development timelines and costs.

Tax Policy and Investment Incentives

The tax environment for commercial real estate may see significant changes under the new administration. For example, preservation or expansion of the 1031 exchange provisions could provide continued support for transaction activity. Alternatively, real estate values could be hurt by possible rule changes that would limit the deductibility of property taxes.[2] Broader tax policy changes can affect commercial real estate in profound but indirect ways: affecting interest rates, inflation, and economic growth.

GSE Privatization

President Trump is discussing the re-privatization of the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. Currently, many investors believe that debt issued by the GSEs comes with an implicit backstop from the U.S. government. Privatization would remove this quasi-guarantee.

Both the execution risks associated with privatization and the removal of the quasi-guarantee could lead to higher and more volatile mortgage rates for single-family homes, further straining affordability for potential homeowners. But for investors offering good-quality, affordable rental housing, these events could continue to fuel opportunity.

GSEs have also supported multifamily liquidity, creating some similar risks for multifamily mortgage rates.

Tariffs

President Trump has begun imposing tariffs on key U.S. trading partners. Taken at face value, these tariffs could be (i) a tailwind for industrial real estate (warehouses) that sit within domestic supply chains; (ii) a headwind for warehouses near seaports and borders; (iii) a tailwind for the value of standing real estate assets more broadly (limiting new development by driving up the cost of materials such as steel and lumber); and (iv) a headwind for strategies involving new development. Tariffs can also impact economic growth, government deficits, and inflation, which in turn can affect real estate in indirect but important ways.

In some cases, however, tariffs may not be what they appear. In the first Trump administration, tariffs were sometimes used as a bargaining chip, as a tool to compel other governments to support U.S. policy objectives, or as an attempt to offset other trade distortions such as foreign export subsidies. To the extent that tariffs are successfully used in these ways (rather than purely as a tool for revenue generation), the actual result could be very different.

Immigration Policy

Focusing on commercial real estate, changes in immigration policy can adversely impact construction labor availability – increasing construction costs. This could be a headwind for new development strategies. However, it

[2] www.bipartisanpolicy.org

should help support the values of existing assets – by boosting replacement costs and limiting the appearance of new stock that would otherwise compete for tenants.

Lower immigration can also impact housing demand. At least initially, the impact will likely be concentrated in less-expensive rental units and in certain large cities.

Indirect Drivers

Many of the Trump administration's policies – spanning government efficiency initiatives, tax policy, and many other areas – could have long-term and far-reaching impacts on GDP growth, trade, the federal debt, interest rates, and the fundamental role of government. Each of these, in turn, could have a significant impact on real estate markets.

For example, government bond yields could be impacted by multiple cross currents, with rates being pushed higher by tax cuts (which have the potential to increase deficits) and pushed lower by efficiency initiatives and accelerated economic growth (which could decrease deficits). The eventual outcome could have a profound impact on real estate values. A consensus among economists shows a gradual decline in government bond yields and fairly steady GDP growth around over the next few years – following a moderate GDP uptick in 2025.[3]

Geopolitics could impact capital flows in different ways. Disruptions around the world could drive capital toward relative safe havens such as the U.S., or tensions could result in some foreign capital being kept away from the U.S. due to sanctions, capital controls, or other factors. The outcome is important, but difficult to predict.

GDP growth will have a significant impact across asset classes over the long-term. In the short run, business-oriented hotels could benefit from accelerated economic activity, which could drive business travel, while some hotels in gateway cities could face headwinds if a stronger dollar diminishes foreign tourism.

Looking Ahead

We believe that these changes will not only introduce risk, but also fuel opportunity. Portfolio positioning, as always, will be a key driver of long-term performance. We will continue to evaluate both the risks and the opportunities as we navigate ongoing change.

[3] Wall Street Journal Economic Forecasting Survey, Jan 2025. Closing yield on 10-Year Treasury Notes through the end of 2027.

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