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Townsend Perspectives

The Macro Implications of Tariffs: An Interview with Asieh Mansour

Asieh Mansour has been a Senior Advisor to Townsend and a member of our Global Macro Committee since 2013. She brings a wealth of knowledge and insight to our investment process, drawing upon 30 years of experience in global economic research and strategy, as well as a PhD in Economics.

We recently sat down with Asieh to discuss tariffs, their potential long-term economic impacts, and their implications for investors. The interview below is excerpted from a number of discussions with her over the past week.

Townsend: In your view, what are the implications of tariffs for the global economy? What should investors be watching?

Asieh: The current U.S. trade policy under the second Trump administration is testing the resilience of the global economy. Widespread tariffs are reversing the globalization trend that boosted growth and kept a lid on prices.

After the U.S. administration walked back some of the trade barriers, postponing the higher "Liberation Day" tariffs for 90 days, a 10% tariff is being applied broadly on all countries ex-China. Chinese tariffs remain set at 125%. With such tariffs, Trump's goals have been varied. They include (i) rebalancing America's bilateral trade deficits, (ii) funding proposed income tax cuts, and (iii) returning manufacturing jobs to the U.S.

These goals may be hard to realize. Trump's tariffs are structurally changing the global trade architecture that has been in place for decades. The sheer magnitude of the China tariffs risks a more complete collapse in U.S.-China trade relations, which has implications for both bilateral and global trade levels. In 2024, the U.S. imported $450 billion of goods from China. This will raise prices of goods to American consumers and dislocate years of carefully crafted supply chains across Asia.

For many investors, commercial real estate investors in particular, rapid shifts in U.S. trade policy make for uncertain times. With these new trade barriers and retaliatory policies of trade partners, the odds of a U.S./global recession have risen significantly. Tariffs affect economic growth through their tax-like impact on real disposable income and consumer spending. Tariffs and shifts in supply chains also bring uncertainty to business investment decisions. The tariffs in place will also raise prices. According to an analysis from Bank of America, tariffs of this magnitude can raise inflation by 1 to 1.5%. Higher inflation will make it difficult for the Fed to cut interest rates in 2025.

Townsend: What are interest rates telling you?

Asieh: Global interest rates rose and risk assets sold off after the recent tariff announcements. The market was shocked more by the tariff formula rather than the magnitude itself. U.S. 10-year and 30-year treasuries rose sharply, up more than 50 basis points from recent lows. The movement in interest rates caught market observers by surprise. If the U.S. and global economy are indeed headed for a slowdown/recession, shouldn't rates be falling rather than rising?

The upward movement in interest rates were driven by a few factors.

- First, expectations of higher inflation (driven by tariffs) may hamstring the Fed and prevent it from lowering rates. Market participants were discounting an additional three 25 basis points cuts in the fed funds rate in 2025.

- Second, rates are being pushed higher by an adverse shock to the foreign demand for U.S. assets. According to Barclays, foreign investors have been the largest buyers of long-term U.S. fixed income over the past couple of years, purchasing almost $1 trillion on average in 2023 and 2024, with about half of that in U.S. Treasuries. However, the foreign demand outlook has soured. Recent developments, including rising tariffs on U.S. imports and fiscal easing elsewhere, suggest that the U.S. current account balance deficit is likely to shrink from its elevated level, which would lead to weaker foreign demand for U.S. assets. All else equal, domestic investors would therefore need to step up, which should result in higher term premium and higher yields in general.

- Finally, rates are being moved higher by greater uncertainty associated with the day-to-day changes in Trump tariff policies.

Tariff-induced inflation could lead to rate hikes, increasing borrowing costs and dampening investment activity.

Townsend: Can you discuss some of the key implications for commercial real estate?

Asieh: The geopolitical environment is bringing a lot of uncertainty. The prospect of a trade war is unsettling, and the impact on commercial real estate can be significant. The fundamental businesses of tenants may be challenged by disruptions in global supply chains and a less predictable economic trajectory. Economic uncertainty and fallout from tariffs are likely to put firms' capex and leasing activity on hold.

The commercial real estate sector will experience divergent trends under the new tariff regime: industrial and logistics segments may benefit from reshoring and inventory shifts, while retail and trade-dependent markets face headwinds. Construction costs and interest rates pose risks, but regional opportunities could emerge.

Investors should monitor trade policy evolution, sectoral resilience, and macroeconomic indicators to navigate this complex landscape.

Townsend: You mentioned construction costs. How do you see that impacting both development strategies and standing assets?

Asieh: Tariffs on materials like steel and aluminum could raise development costs, potentially delaying projects or reducing profitability for new developments. According to CBRE, construction costs for commercial real estate projects could increase by 5% which may place some development projects on hold.

Higher costs may limit new supply, tightening vacancy rates and supporting rental growth in existing properties.

Since the cost of development will likely go up, replacement costs of existing inventory will be driven higher. All else being equal, this will raise or help support the value of existing property portfolios.

Townsend: A lot of initial focus has been on *industrial real estate*. How do you see fundamentals evolving in that sector?

Asieh: The impact will likely be mixed.

Port-centric markets, such as Los Angeles and New York, could face downturns due to reduced import/export activity. China-U.S. trade corridors will see a reduction in demand for industrial/warehouse space.

The story is different in *manufacturing hubs*. Midwestern regions might see growth in industrial commercial real estate if domestic production expands. In those markets, onshoring and reshoring of manufacturing could boost demand for U.S. industrial space.

Interior distribution hubs may also be strengthened as companies seek to stockpile inventory as a way to insulate themselves against supply chain disruptions. Prolonged tariffs could catalyze a structural shift both in these markets and in manufacturing hubs, boosting industrial property demand long-term.

Emerging markets like Vietnam, Mexico, and India could attract manufacturing investments as companies seek to reduce their exposure to China, driving demand for industrial/warehouse space.

Over the long run, industrial real estate may remain robust due to sustained e-commerce growth, even as retail struggles.

Townsend: What are you seeing in some of the other sectors?

Asieh: The impact on *retail* is likely to be negative. Higher import costs and consumer prices could dampen consumer spending, particularly in tariff-affected sectors. Discount retailers may benefit, while luxury sectors could struggle. The bottom line is that tariffs may accelerate retail bankruptcies, increasing vacancies in malls and storefronts.

For *office,* the impact will likely be mixed. Tariff-affected industries such as automotive may downsize, while domestic manufacturers might expand, influencing office demand regionally. Companies may delay expansion plans, affecting office demand. However, sectors less tied to trade, such as tech and healthcare, could remain resilient.

Townsend: What could tariffs mean for cross-border capital flows?

Asieh: We'll likely see some crosscurrents pulling in different directions. A weaker dollar could attract foreign capital to the U.S. But retaliatory measures might deter it, affecting prime markets like New York and San Francisco. Geopolitical uncertainty may drive capital toward stable markets such as Japan and Germany, but could also drive it to safe assets like U.S. core real estate.

It will take some time for the net impact to come into focus.

Townsend: Do you have any final thoughts that you'd be willing to share?

Asieh: In some respects, we're entering uncharted territory. The tariffs from 2018 provide some historical context. We saw, for example, that steel tariffs raised construction costs and retaliatory tariffs hurt agricultural real estate in the U.S. But, during that time, the strength of the broader economy mitigated severe impacts for commercial real estate. So, it provides only weak precedent.

This environment calls for a bottom-up reassessment of each strategy and careful consideration of both risk and opportunity in a very opaque and rapidly-shifting environment.

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Asieh Mansour has been a Senior Advisor to Townsend Group since 2013 and is a member of the Townsend Global Macro Strategy Committee. Ms. Mansour contributes to ongoing development of the Townsend global macroeconomic outlook and investment perspective on real estate and real assets.

Ms. Mansour has over 30 years of experience leading global economic research and strategy. Most recently, Asieh served as Head of Americas Research at CBRE, managing a 200-member real estate research department, supporting brokerage, capital markets, and investment management across the Americas. Prior to joining CBRE, Ms. Mansour was the Chief Economist and Global Investment Strategist for Deutsche Bank's Alternative Asset Management Arm, RREEF. She was responsible for global macroeconomic strategy and shaping both strategic and tactical investments across the real asset classes. Across her senior roles, Asieh covered private and public real estate, structured debt and infrastructure, and advised internal and external clients on optimal investment strategies.

Ms. Mansour received her PhD, MA, and BA degrees in Economics from Tufts University and contributes frequently as a speaker, writer, and journal editor on the essential and complex issues of investing in real estate globally. She also serves as an independent non-executive director at First Sentier's Global Diversified Infrastructure Fund.

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