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Tariffs: Existential threat, or serious real estate impacts

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You must know from all the news, that “Trump tariffs” have been recently reviewed, discussed, evaluated, and as promised, implemented swiftly. But, they have also been modified, reduced or increased, just as fast and somewhat quixotically. They will widely range from French wine to Canadian wood to Chinese cars, and from 10% to 50% add-ons to previous costs of goods we import. The Trump presidency has also announced that tariffs should be imposed on all countries, at 20%. At this point, we involved in real estate can only wonder at how it may evolve, how impactful, how permanent, and thus, how tariffs impact real estate?

First, what is a tariff? Who creates it, and where is it imposed. Simply stated, a tariff is basically a tax, added to cost of imported goods if it is on a product coming into the U.S. If it is made in America, Trump has said there will be no tariff and thus no higher cost. Tariffs will make imported goods more expensive to U.S. citizens, potentially causing more potential inflation? Maybe, but the hope is that foreign goods will be too expensive, and U.S buyers will simply look for a less expensive option, made here by companies and factories that already exist or hopefully will be developed, in the process, making U.S. economy stronger, less reliant on other parts of the world, and creating more jobs at home.

Sound like a plan? Yes, but it can also backfire. If tariffs imposed create economic problems on the “tariffed” countries, simply put, we may lose “economic” or “militaristic” allies and friends who have been steady trading partners, but who may retaliate with “counter tariffs” imposed on U.S. made and exported goods. It is a complicated game of chess, with many moving part options. More confusing, some goods traded will be made from imported parts but home built assemblies. It all becomes more complicated, more unforeseen, and less predictable or reliable. There simply is a lack of clarity. At this point, we cannot tell, as it takes more time to measure success or failure. Further, it is so unclear at this point that the added tariff cost of goods, which could burden the U.S. economy may, in the end, be less onerous than the cost of uncertainty and unpredictability caused by the process of laying out of tariffs.

Now, with the existing uncertainty in the business, how does it impact real estate? Let’s start with materials needed to build buildings, infrastructure to connect them, fuel or heat them and thus the buying and selling of each. Materials are relatively simple, or not. Think variable pricing of steel, copper, aluminum, lumber, plastics, glass, concrete, brick, drywall, roofing, wiring and so on. But, also think unintended consequences in finance, interest rates, loan availability, all factors that, if not foreseen, will create confusion and controversy, and thus risk adversity in financing. In simple terms, money, the lubricant of real estate, could become sparser, costlier, or not available, based on the uncertainty of development pro-forma’s. The timing in assembling that packaging could easily change, as I’m sure we have all experienced.

We simply cannot predict at this point. Some impacts are readily foreseen. Others will play out over time. For example, other countries could be further tariffed. Some will stop their imports, as “retaliators.” On the other hand, perhaps the plan will work, with U.S. becoming self-sufficient, and perhaps a major exporter on their own.

As we know, the development and movement of real estate is difficult as is. It can only become more difficult to produce, after tariffs. At some point we will know more, but the road forward over the next year or two will be bumpy. Put on your seat-belt, but make sure it's made in America.

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