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Perspective from
BENEFIT STREET PARTNERS

What do tariffs mean for commercial real estate and CRE debt?

April 2025



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Benefit Street Partners (BSP) has a longstanding view that interest rates would remain higher for longer. We have consistently messaged to commercial real estate (CRE) market participants to be cautious when wishing for meaningfully lower interest rates because they would likely come in conjunction with broader economic distress—a recession, bank failures and/or geopolitical events.

Over the past year, the broader stock market (S&P 500) has been trading at or near all-time highs from a fundamental valuation perspective (i.e. P/E ratios). Tariffs will have an impact on inflation and the economy, but we firmly believe the correction we are experiencing in the stock market is the result of an overvalued equity market. The market has been searching for a catalyst to correct to more rational, fundamental valuation levels, and this was found in the form of tariffs and trade tensions. While the stock market correction is uncomfortable, it is not cause for alarm.

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What does this mean for CRE and the multifamily sector?

Decline in interest rates: Periods of volatility often drive investors to safety and simultaneously drive a decline in interest rates. The 10-year US Treasury rate hit 3.88% (lowest level in 2025) once the tariffs news hit, which is a textbook reaction to stock market volatility. It immediately rebounded around speculation that China was aggressively selling treasuries. There will now be a tug of war between one camp saying that tariffs are recessionary (historically pushing rates lower) and the other saying that tariffs are inflationary (historically pushing rates higher). From a macroeconomic standpoint, lower interest rates act as a tailwind for CRE valuations. Should tariffs and overall market uncertainty lead to a lower interest rate environment, a potential byproduct of tariffs, it would be a marginal net positive for the CRE sector.

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Increased replacement costs: Tariffs should increase the replacement cost of assets. Input prices for raw materials increase, increasing the total cost to build new assets. This will inherently boost the value of existing assets by restricting new supply coming to the market.

Inflation hedge: Historically, commercial real estate, especially the multifamily sector, due to its ability to adjust rents more frequently, has acted as a long-term hedge against inflation. Inflation leads to rent growth and ultimately an increase in property valuations over the long term.

Multifamily liquidity: The above is particularly advantageous for the multifamily sector more than any other asset class in CRE since the government sponsored agencies (Fannie Mae, Freddie Mac, and HUD) continue to provide credit in distressed economic environments. Anecdotally, the morning after the tariffs were announced, we witnessed several large multifamily loans rate locked with the government sponsored agencies as rates hit recent lows. Liquidity in multifamily credit remains ample, and thus multifamily equity liquidity should remain strong as well.

“We continue to believe this environment remains one of the best times since the Global Financial Crisis to gain exposure to CRE debt.”

Conviction in CRE debt remains strong

BSP has been lending with conviction for the last two years, preaching to the market that these loan vintages would represent some of the best CRE debt investments in a generation. President Trump’s tariffs embolden BSP’s view, and we believe the potential for overall lower interest rates and higher replacement costs are an overall positive to the CRE sector.

Historically, CRE markets have been inversely correlated to the stock market. In times of uncertainty and volatility, investors reallocate to fixed income and physical assets. We believe the same will hold true in the current market correction and expect demand for CRE debt investments to increase over the coming months and quarters.

We continue to believe this environment remains one of the best times since the Global Financial Crisis to gain exposure to CRE debt.

WHAT ARE THE RISKS?

Past performance does not guarantee future results. All investments involve risks, including possible loss of principal.

Risks of investing in **real estate investments** include but are not limited to fluctuations in lease occupancy rates and operating expenses, variations in rental schedules, which in turn may be adversely affected by local, state, national or international economic conditions. Such conditions may be impacted by the supply and demand for real estate properties, zoning laws, rent control laws, real property taxes, the availability and costs of financing, and environmental laws. Furthermore, investments in real estate are also impacted by market disruptions caused by regional concerns, political upheaval, sovereign debt crises, and uninsured losses (generally from catastrophic events such as earthquakes, floods and wars). Investments in real estate related securities, such as asset-backed or mortgage-backed securities are subject to prepayment and extension risks.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond’s issuer, insurer or guarantor, may affect the bond’s value. Low-rated, high-yield bonds are subject to greater price volatility, illiquidity and possibility of default.

An investment in **private securities** (such as private equity or private credit) or vehicles which invest in them, should be viewed as illiquid and may require a long-term commitment with no certainty of return. The value of and return on such investments will vary due to, among other things, changes in market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the issuers of the investments. There also can be no assurance that companies will list their securities on a securities exchange, as such, the lack of an established, liquid secondary market for some investments may have an adverse effect on the market value of those investments and on an investor’s ability to dispose of them at a favorable time or price.

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US-GTM-4448010-4348010
BSP-CRETR-0425