Alternatives by
FRANKLIN TEMPLETON

# Private market implications: The impact of tariffs

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| | Real estate | CRE debt | Private equity |
|---|---|---|---|
| **Views from:** | Clarion Partners | Benefit Street Partners | Lexington Partners |
| **Key observations:** | • Tariffs are negative to the macroeconomic outlook including, higher costs for consumers and businesses, potential slowing of economic activity, increased inflation, and wider credit spreads, which may force the Federal Reserve to cut interest rates.<br>• In commercial real estate, industrial and adjacent sectors may see short-term benefits from inventory stockpiling, while retail sectors, particularly malls, are more vulnerable. Housing demand is expected to remain strong, but specific markets may be affected by trade and manufacturing shifts. | • There is a tug of war between two camps – recessionary and inflationary.<br>• 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.<br>• Tariffs increase replacement costs in the commercial real estate sector, limiting new supply and boosting the value of existing assets.<br>• The multifamily sector historically benefits from frequent rent adjustments, serving as an inflation hedge and leading to strong rent growth and higher property valuations.[1]<br>• Government-sponsored agencies (i.e., Fannie Mae) ensure liquidity in the multifamily sector, which enhances resilience during economic uncertainty. | • Key sectors affected by tariffs include IT hardware, electronics, and consumer discretionary, while service-oriented sectors and domestic manufacturers may be less impacted or benefit.<br>• Strategic considerations for private equity include potential negative impacts on consumer sentiment, business investment, and M&A activity, with Lexington's strong capital position enabling it to provide liquidity and acquire assets at favorable valuations.<br>• Through cycles, private funds and asset valuations have neither risen, nor fallen, as much as public markets.[2]<br>• Our defensive portfolio strategy, characterized by a disciplined and flexible approach, positions the firm to capitalize on market uncertainty and volatility. |
| **Take aways:** | • The tariff announcement suggests a mixed outcome for commercial real estate, with industrial and adjacent sectors potentially seeing a short-term boost due to inventory stockpiling, while retail centers with a focus on services may be less affected. | • We believe lower interest rates and higher replacement costs are an overall positive for CRE. When coupled with investor historical preference for fixed income and physical assets during volatile times, we continue to believe this environment remains one of the best times since the Global Financial Crisis to gain exposure to CRE debt, especially in the multifamily housing sector. | • The proposed tariffs increase market uncertainty and volatility, potentially reducing M&A activity and constraining exit routes for private equity sponsors and LPs. These conditions have historically presented attractive opportunities for Lexington to deploy capital and showcased the resiliency of the portfolios we have created. |

1 Source: , NCREIF, BLS, Moody's Analytics, 3Q2024
2 Source: Lexington estimates

## 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.

### Private Securities

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.

## IMPORTANT LEGAL INFORMATION



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