

## Navigating Real Estate Financing in a New Economic Era



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**As financing dynamics shift** rapidly in today's volatile political and economic environment, the commercial real estate (CRE) industry must stay laser focused on evolving trends and capital market activity. From tariffs and tax reforms to deregulation and interest rate fluctuations, the implications for property markets are far-reaching. Cushman & Wakefield's Global Think Tank has synthesized these developments into a clear outlook, offering insight into what CRE professionals should prepare for and where opportunities may emerge.

This outlook was discussed in depth during an April webinar, [Trump 2.0: Implications for Property](#).

### Stagflation on the Horizon: Navigating a Tough Start

Cushman & Wakefield's base case scenario calls for a short-lived but meaningful period of stagflation in 2025—characterized by slower economic growth and elevated inflation. This unique economic blend will present challenges for the Fed and is expected to stem from heightened tariffs, trade policy uncertainty, and a tight labor market.

But there is light at the end of the tunnel. By 2026, the Federal Reserve is anticipated to resume rate cuts as inflation stabilizes. With deregulation and tax reductions also projected, a rebound could be in sight, positioning 2026 as the start of a more expansionary phase.

### Tariffs Triggering a Spike in Construction Costs

The most direct consequence for the CRE industry lies in construction. Rising tariffs are projected to increase the cost of building materials by 5%–7% in 2025. Coupled with a potentially shrinking labor pool—resulting from stricter immigration enforcement—developers may be staring down higher costs.

This will have a chilling effect on new construction starts, slowing the development pipeline and providing a tailwind for owners of existing assets. As supply tapers, well-located and high-quality properties stand to benefit from tightened availability and pricing power.

### Federal Workforce Cuts: A DC-Centric Concern

One of the more localized impacts will be felt in the nation's capital. The Department of Government Efficiency has implemented sweeping federal workforce reductions. This restructuring is likely to reduce office space demand in Washington, DC, particularly for government-leased buildings.

However, this shift could present a silver lining: underutilized government-owned buildings may become ripe for repositioning, redevelopment, or public-private partnerships. Creative investors and developers will find opportunities in rethinking how these legacy assets can serve modern needs.

### Establishing a View of Longer-Term Rates Amid Volatility

Volatility in interest rates continues to complicate underwriting and capital deployment decisions. The ten-year Treasury yield is projected to hover in the 4.0%–4.5% range—a level consistent with long-term equilibrium yet higher than in much of the past decade.

This environment favors stable, cash-flowing assets and suggests a bumpy road ahead for high-leverage strategies. Debt costs remain elevated, prompting lenders and borrowers alike to reevaluate deal structures and risk appetites.

### Cushman & Wakefield Insights on the Debt Market

The commercial real estate debt market entered 2025 with significant strength, marked by heightened competition, aggressive lender terms, and broad availability of capital. However, following the announcement of sweeping tariffs in early April, market sentiment recalibrated. Although spreads moved wider, this has not been a liquidity-driven retreat. Rather, the environment reflects a pricing reset

# Investing in what's next

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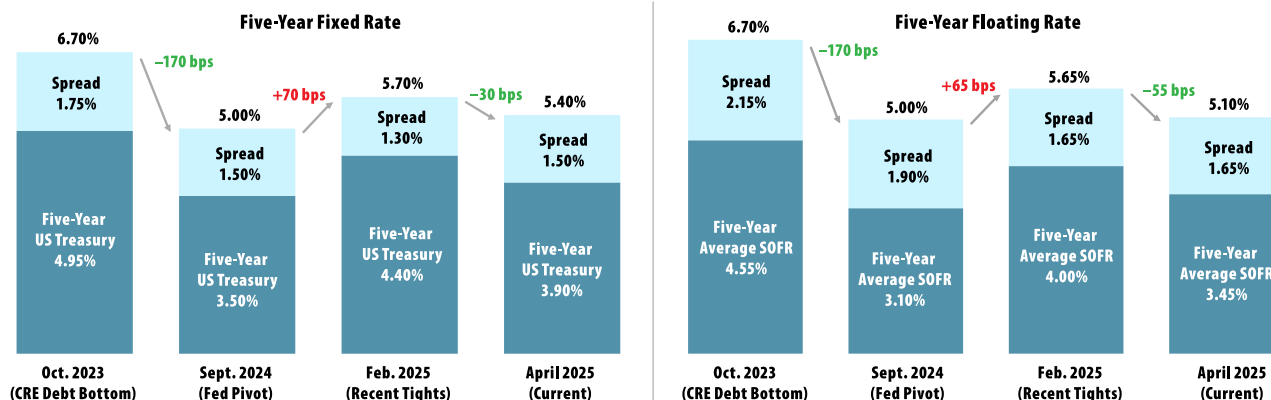
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Exhibit 1: Interest Rate Trends



**Sources:** Trepp, Chatham Financial, Cushman & Wakefield; as of May 7, 2025

**Note:** Represents best-in-class industrial/multifamily at 55% LTV, no buy-down.

amid policy-driven uncertainty—and lenders remain active, albeit more selective. Lenders are still under pressure to deploy, and borrowers with high-quality assets and strong fundamentals continue to attract interest.

Following the initial volatility, spreads widened meaningfully—20 to 30 basis points across lender types, tracking moves in investment-grade corporate bonds—but have since stabilized. Spreads remain tight by historical standards, despite widening. Encouragingly, investment-grade corporate bond spreads have tightened, retracing more than half the initial widening that occurred after implementation of new tariffs on imported goods. This trend is positioning mortgage spreads for mortgage-backed securities (CMBS) and broader CRE debt markets to follow. At the same time, base rates remain volatile, with the Secured Overnight Financing Rate (SOFR) curve and Treasury yields reacting to shifting expectations around inflation and growth. The prevailing view suggests rates may remain elevated longer. Despite the macro noise, best all-in interest rates for industrial/multifamily at 55% loan to value are in the mid 5% range for fixed rate loans (no buydown), low 5% for floating rate loans based on the forward SOFR curve, and high 5% range spot market (Exhibit 1). Even though sentiment has softened since the tariff announcement, interest rates are better today because base rates have declined.

In spite of these crosscurrents, lender activity remains resilient. Insurance companies, agencies, debt funds, and CMBS lenders continue to quote deals, and banks—

after years of retreat—are reentering the market more meaningfully. That said, transaction volume has slowed in the near term as borrowers await greater clarity on the policy and macroeconomic landscape. The outlook for CRE debt remains constructive, but execution will require precision, patience, and a sharp focus on credit quality as the market digests evolving risks and reprices accordingly.

### Capital Markets: Looking Through the Volatility

An inflection in the capital markets is underway. While 2025 could bring wider spreads and a risk-off investor mindset, the foundational elements for a capital markets recovery are still in place.

The vintage years ahead are likely to offer compelling opportunities for value-added and opportunistic players, particularly as distress begins to surface in select corners of the market. Stable, income-producing assets will remain in favor, and pricing recalibrations may set the stage for long-term gains.

### Industrial and Retail: Tariffs Reshape the Landscape

No asset class is immune from policy-driven turbulence. In fact, industrial and retail sectors may feel the brunt of new trade barriers.

**Industrial:** While leasing activity may see a short-term boost from inventory surges ahead of tariff implementation, the longer-term effects include higher input costs and weaker manufacturing demand. Expect vacancy to tick up modestly through mid-2026, even as supply chain realignments continue.

**Retail:** Despite impressive current performance—national occupancy hovers around 95%—tariff-induced cost pressures may begin to squeeze margins in certain categories, especially discretionary retail. Still, even with slower consumer spending, occupancy is expected to remain above 93%, highlighting the sector’s overall resilience.

### **Office: Flight to Quality Continues**

The office sector, long viewed as a bellwether for white-collar employment trends, is beginning to show early signs of stabilization. Tenants continue to gravitate toward high-end, amenity-rich spaces in premier locations. While the sector still faces headwinds, especially from hybrid work models, “flight to quality” remains the dominant narrative.

These green shoots suggest a more nuanced recovery is underway, one in which bifurcation between Class A and commodity office space becomes even more pronounced.

### **Multifamily and GSE Privatization: Liquidity Remains Strong**

Privatization of the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac—an agenda item under consideration—remains unlikely in the near term because of its complexity and potential for market disruption. Yet even if privatization were to gain traction, the multifamily sector is well positioned to adapt.

A deep bench of private lenders, banks, and institutional capital is poised to backfill any void left by the GSEs. The net result? Continued liquidity for multifamily borrowers and a highly competitive lending environment that supports transaction activity.

### **CRE’s Enduring Appeal: Diversification and Inflation Hedge**

Capital flow conditions have inflected from bottom thanks to both numerator and denominator effects and have been improving since early to mid-2024. Despite recent volatility, they are still on a solid, gradually positive trajectory. Pension and sovereign wealth funds and private capital will continue to allocate to real estate, albeit with a sharper focus on resilient income streams and long-term fundamentals.

Thematically, there will be greater emphasis placed on conservatism, defensive posturing, and durable income cash flows.

### **A Dynamic Policy Landscape Requires Adaptive Strategy**

What makes the current political conditions particularly challenging for CRE professionals is the sheer volume of policy variables in motion. Cushman & Wakefield’s research team emphasizes the need for flexible, scenario-based planning. Although policies remain in flux, several themes are clear:

- **Resilience matters:** From asset selection to capital structure, prioritizing stability and long-term value creation is key. Preservation of capital will remain a central theme for investors through any volatility.

- **Lean into demographic winds:** The decade ahead is going to offer several compelling cyclical and structural themes related to aging demographics, digitization, and shifting supply chains; these forces will transcend any near-term currents.

- **Opportunity lies in dislocation:** Some of the best investment opportunities are born from disruption. The ability to act quickly as pricing dislocates or policies change can yield outside returns.

### **Final Thoughts: Be Prepared, Not Paralyzed**

President Donald Trump’s second term may not deliver the same economic backdrop as his first. With higher inflation, tighter labor markets, and shifting global dynamics, 2025 and beyond will require new thinking, sharper execution, and more patience from industry participants.

But CRE has a long history of adapting to political cycles. By remaining data informed and strategically flexible, the industry can not only weather the coming shifts—it can thrive within them.

As we look ahead, one thing is clear: the rules may be changing, but the fundamentals of real estate success—location, timing, capital discipline, and foresight—remain steadfast. ■

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