RESEARCH BRIEF
EMPLOYMENT & TRADE POLICY

INSTITUTIONAL PROPERTY ADVISORS

APRIL 2025

Labor Market Strong Prior to Trade Policy Shift That Poses Implications for Commercial Properties

Job creation sturdy preceding new tariff pressures. Total employment increased by 228,000 positions last month, above the mean from both last year and for the month of March from 2014 to 2019. Sustained hiring in health care and social assistance contributed the most to this growth. The federal workforce retreated by 4,000 roles, but that figure undercuts the full impact of DOGE reductions, as workers receiving severance are still counted as employed. Regardless, the overall unemployment rate inched up 10 basis points to 4.2 percent. These figures preceded the announcement of new U.S. tariffs on April 2 by the Trump administration, which has imposed a general 10 percent import tax, with dozens of countries facing higher fees. Select products, such as aluminum, are also subject to separate levies. The additional taxes are anticipated to weigh on economic growth.

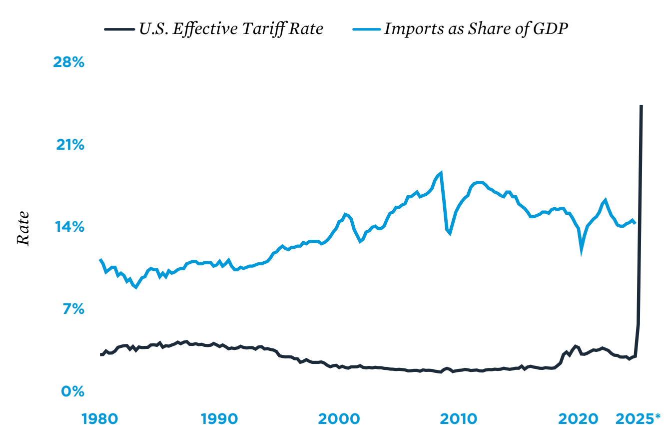
New import levies spell positives and negatives for apartments. While the net absorption of apartments surged over the second half of last year, renter demand growth may ease some in the coming months as tariffs begin to hit balance sheets. The additional import levies, however, will also further increase construction costs, which were already up 38 percent from 2019, as tracked by the producer price index. These expenses, combined with elevated borrowing rates, are likely to weigh on multifamily development, which has been decelerating. About 30 percent fewer units are projected to open in 2025 than in 2024. The drop in completions may overcome an easing in demand and maintain a downward trend in vacancy that began last year.

Headwinds incoming for retail, but sector is well-fortified. The higher cost of imported products will affect many retailers, especially those that source goods from China, where the overall effective tariff rate is 54 percent. In periods of economic uncertainty, discretionary retailers such as restaurants tend to encounter more headwinds than providers of essentials like grocers. Despite this, overall retail vacancy was at 4.5 percent to start the year — over 100 basis points below the long-term average. Modest 2025 construction represented just 0.3 percent of existing inventory. While stores such as Party City are expected to close this year, available spaces in prime locations will likely be backfilled in subsequent months. Moreover, even though store closures were at a four-year high last year, openings were at a 12-year high, translating into only a 20 basis point bump in overall vacancy.

Industrial sector facing short- and long-term incentives. What is less certain is the new tariffs' impact on the nation's industrial sector. Near term, changes will likely be modest, as complex global supply chains are not so easily retooled. Many businesses and consumers will have to accept the higher prices for non-substitutable essential goods and materials. As a result, current infrastructure needs will be preserved, which led to an above-average addition of over 17,000 transportation-related jobs last month. Longer term, the demand for industrial space could shift some degree away from coastal markets to other parts of the country, but that is if many firms invest the time and funds to shift production. Businesses are less likely to undergo this process if they perceive the current trade dynamics to still be in flux.

Financial market disruption pushes down bond yields. The clearest and most immediate effects from the Trump administration's new trade policies are on financial markets. The S&P 500 fell more than 8 percent in the two days following the announcement. A shift to bonds also pushed down the yield on the 10-year Treasury to below 4 percent for the first time since early October 2024. Although lenders will recalibrate their spreads to account for changing risks, there may be a window in which investors can secure lower financing. This may bring more capital off the sidelines and assist commercial real estate investment sales activity for the second quarter.

U.S. Trade Policy Radically Shifts



** Effective tariff rate through 1Q 2025 with April estimate. Imports as share of GDP through 2024.*

Sources: IPA Research Services; Bureau of Economic Analysis; Bureau of Labor Statistics; Coresight Research; CoStar Group, Inc.; Moody's Analytics; RealPage, Inc.