Special Report

IPA INSTITUTIONAL PROPERTY ADVISORS

TARIFF UPDATE

JULY 2026

New Policy Stabilizes Tariffs, but Sustains Cost Pressure on Tenants, Consumers

Updated duties yield modest shift. After the 10 percent surcharge under Section 122 of the Trade Act of 1974 expired July 24, new tariffs were enacted under Section 301 of the same act, covering 60 economies and 99.4 percent of U.S. goods imports. Most nations face added duties of 10 percent or 12.5 percent. Several partners receive rates net of existing fees, including a 10 percent cap for the European Union. New exclusions and capped rates lowered the average statutory tariff rate by about 30 basis points to 11.1 percent, though scheduled actions are expected to lift it to 11.8 percent by year-end. Most prior exclusions remain, with broader carveouts for select medicines, electronics, and farm goods. USMCA-qualifying goods are also exempt.

Tariffs reshape trade and costs. China faces an added 12.5 percent duty, keeping its tariff burden above most major partners. This may reinforce sourcing shifts toward Mexico, Southeast Asia, and other lower-tariff markets, potentially redirecting port and warehouse demand. Separate Section 232 tariffs on metals, vehicles and parts remain in place and generally do not stack with the new duties. These measures may raise construction and tenant improvement costs while supporting some domestic production. Additional actions remain important:

- **Brazil tariff raises select costs.** A 25 percent tariff took effect July 22 on many Brazilian imports, potentially raising costs for machinery, wood products, apparel, and other manufactured goods.
- **Canada faces higher duties.** A separate 50 percent tariff on about 5 percent of Canadian import value takes effect Aug. 19, raising the country's statutory rate to 7.8 percent from 5.3 percent.
- **Pharmaceutical duties begin later this year.** The sector's statutory tariff rate is expected to rise to 5 percent from zero percent.
- **Overcapacity probe is ongoing.** An investigation into manufacturing overcapacity in 16 economies could lead to additional tariffs.

Legal challenges expected over the medium term. Unlike the earlier tariffs under the International Emergency Economic Powers Act (IEEPA), which the Supreme Court overturned in February, the new Section 301 tariffs are based on findings that U.S. trading partners have failed to adopt or effectively enforce restrictions on imports produced with forced labor. Because the administration has tied the tariffs to a specific forced-labor framework and a formal investigative record, the measures may prove more legally durable but also less flexible as trade negotiating tools. While court challenges are widely expected, the tariffs are likely to remain in effect in the coming months as litigations unfold. As a result, businesses should view these measures as a trade policy development with near-term staying power rather than as negotiation leverage that can be easily adjusted or withdrawn.

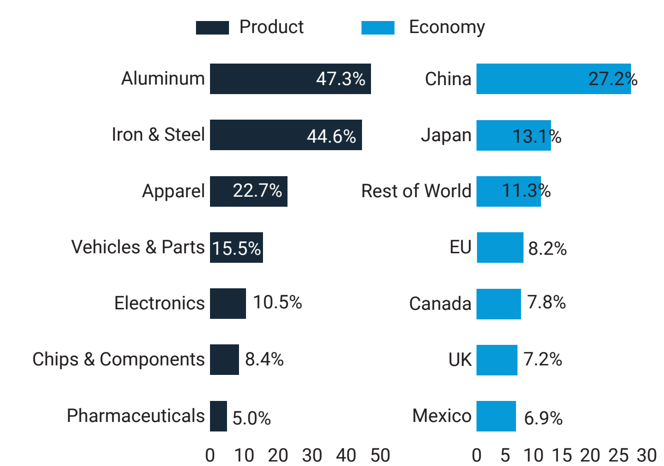
KEY TAKEAWAYS

- New Section 301 tariffs leave the average rate broadly unchanged. Overall tenant expenses will shift little in the near term even as cost pressures remain elevated.
- Elevated China tariffs may redirect trade, while metal and vehicle duties could raise construction costs and encourage shifts in sourcing and production.
- Section 301 tariffs appear to have a stronger legal foundation than prior IEEPA tariffs, making near-term removal less likely despite anticipated court challenges.
- Near-term CRE impacts are likely to stem from inflation, interest rates, and capital markets, while property-level effects remain limited and uneven.
- Tariffs have not yet meaningfully lifted domestic production, as trade rerouting and policy uncertainty limit manufacturing investment and related industrial demand.

11.1%
Statutory Rate as of July 24

11.8%
Estimated Year-End Statutory Rate

TARIFF RATES BY PRODUCT AND ECONOMY



* Year-end projected tariff rates
Source: Yale Budget Lab

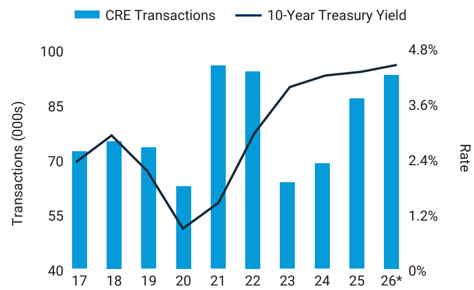
Near-Term Risks Flow Through Prices, Interest Rates, and Investment Activity

For the broader U.S. economy, the new Section 301 tariffs formalize the current tariff framework rather than materially increase overall tariff levels. For now, inflation impacts have remained more limited than many forecasts initially anticipated. A July 2026 IMF working paper found that although tariffs were largely passed through to U.S. importers, many responded by shifting toward lower-priced import varieties, helping moderate measured price increases. The tariffs will continue to generate customs revenue, though inflation risks remain as businesses adjust to a more established tariff regime.

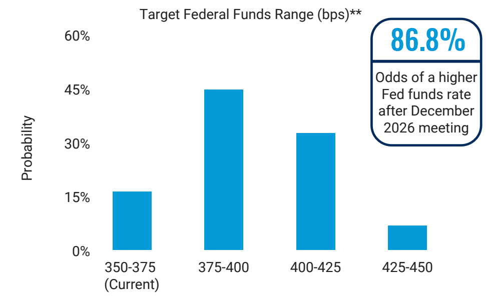
For commercial real estate, the most significant near-term effects are likely to come through capital markets. Tariffs compound existing inflation concerns at a time when price pressures elsewhere in the economy remain elevated, reinforcing expectations that interest rates could stay higher for longer. As a result, borrowing costs, investment activity, and transaction volume may continue to face pressure in a cautious financing environment.

Beyond capital markets, near-term impacts are likely to vary across property sectors. Retailers with substantial exposure to imported merchandise may face greater margin pressure, which could lead to more tariff costs being more fully reflected in consumer prices, particularly in discretionary categories. Construction costs also remain a watch item, as separate tariffs on steel, aluminum, and certain manufactured inputs continue to elevate development costs and may weigh on project feasibility. Any resulting benefits for industrial space demand are more likely to emerge in the medium to long term.

DEAL FLOW CLIMBS DESPITE ELEVATED INTEREST RATES



MARKETS PRICE HIGHER FED FUNDS RATE

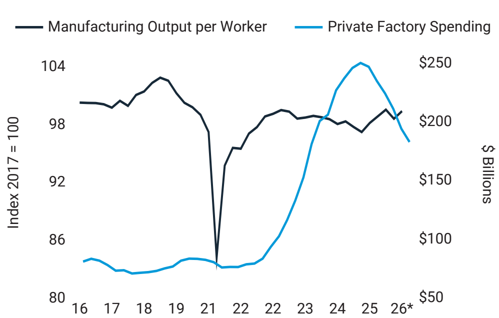


* Trailing 12-month total through Q2 2026 | ** Probabilites as of July 30, 2026

Sources: Marcus & Millichap Research Services; CME FedWatch; CoStar Group, Inc.; Federal Reserve; Real Capital Analytics

U.S. GOODS TRADE DEFICIT REMAINS LARGE

PRODUCTIVITY GAINS LAG FACTORY SPENDING



* Through Q1 2026

Source: Federal Reserve

Long-Term Outlook Hinges on Whether Tariffs Help Revive Domestic Production

One aim of tariffs is to reduce the trade deficit, which is not inherently harmful when foreign capital funds productive investment. The concern arises when policies abroad suppress consumption and generate excess savings that flow into U.S. assets, support the dollar, and weaken American exports. Trade may then reflect policy-created competitive advantage rather than specialization based on comparative advantage, which best allocates production and maximizes output. Labor and investment can shift from tradable manufacturing toward nontradable services with historically slower productivity growth, such as retail, hospitality, and parts of health care. Therefore, while consumers benefit from cheaper imports, those gains may be outweighed by weaker wage growth.

Tariffs can support trade rebalancing by making imports less competitive, but they have not yet reduced the deficit or broadly lifted manufacturing. Many firms are absorbing part of the cost, muting the price signal needed to spur domestic production, while many importers have shifted to other foreign suppliers instead of reshoring. Producers also need policy certainty for long-term investment, but recent volatility and future elections cloud the outlook.

Successful rebalancing could lift demand for factories and logistics space while expanding manufacturing employment. Higher-paying jobs may support spending among middle- and lower-wage households, benefiting apartments and necessity retail. If the deficit persists, the primary outcomes may instead be higher construction costs, delayed projects, and shifting supply chains rather than stronger demand. Industrial properties tied to strategic domestic investments could still benefit, but gains may remain uneven.