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KEYNOTE INTERVIEW

Optimism on residential strategies is little dented by tariffs



*Uncertainty has shaken the global economy to its core, though from a real estate perspective, residential looks the most resilient, say UBS's **Tiffany Gherlone** and **Fergus Hicks***

No part of the real estate investment market has been spared from the uncertainty of the evolving US tariff regime, but some are faring better than others. Tiffany Gherlone, head of real estate research and strategy at UBS, and Fergus Hicks, a senior real estate strategist and portfolio manager in the asset management division, explain why residential strategies – both in the US and abroad – are thriving amid the unknown.

Q How have uncertainties related to global trade changed the outlook for the multifamily sector in the US and globally?

Tiffany Gherlone: Our optimism

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for the residential sector is increasing. Coming into 2025, we were confident that we would see demand-supply dynamics that would support rent growth, capital markets and investment totals, but we thought retail, industrial and niche sectors would lead the way while apartments would be a couple years behind as the supply wave of the last two years subsided.

Now, residential and niche strategies, especially diversified residential strategies, are looking better and better on a relative basis. The US residential vacancy rate was down nearly 1 percent

from a year earlier, so demand is growing and affordability continues to be constrained. Even if home prices flatten, there is positive pressure on rents, and inflation is a positive for the residential sector.

Capital markets have slowed. We have seen some deals extend their timelines, but they look like they are still going to close. It might not be the more robust capital market we expected, but it should still be better than the last two years when interest rates were rising.

Fergus Hicks: A lot of what Tiffany said about the US applies to other markets as well. Residential typically has shorter leases, often 12 months, which

allows the incorporation of any higher inflation into rental income. That is a positive in terms of inflation protection. And then, generally in European markets, we see strong fundamentals for residential: underlying housing shortages in many countries, pressures on housing markets and more people having to rent because they cannot afford to buy.

We also see people prioritizing mobility, wanting to live closer to amenities and city centers. In most markets, we see residential as a more resilient sector in the face of the tariffs.

Q How are supply shortages impacting acquisitions in the housing sector?

TG: The cost to build is going up, but we were already under wage pressure on the construction side. So, it is expensive to build, but that really just reinforces that the supply pipeline will stay down for a longer period, which boosts our optimism further.

The impact of the shortage has been slow, but I still think it will be better this year than it had been, especially for cash buyers. And yet, we are seeing bidding pools that look fairly normal. There are bidders at the table when a deal comes to the market, and I expect good deals will be competitive, simply because we are not seeing a ton of new stock.

I do not think the other property sectors are in any way over. Prices are still down over the last two years. There is capital out there to be spent, so good deals are going to go across virtually any sector. There will be competition for deals that are well occupied and well located because you can still get a discount to peak pricing.

Q How is the higher-for-longer interest rate environment affecting the outlook around the world?

TG: Even though interest rates are higher, because pricing also changed over the last two years, there is a spread

Q Have recent currency fluctuations caused any headaches for residential investors?

FH: A lot of our investors and clients want to be hedged, rather than take on currency risk. Those hedging costs are going to be driven by interest rate differentials. There are some investors, though, who will want to both invest in a particular real estate market and take on the exposure to the currency; it is a matter of choice.

TG: There is still a relatively small number, globally, of developed nations where you see international capital really flow such as Europe, the UK, some of the developed cities in Asia and the United States. It is hard to say what disruptions there will be in the short term, because no one really knows what will happen with tariffs and with currency over the longer term. It is just too policy driven right now, and policy is uncertain. Because of this, capital is getting a bit squeezed on where it can go for real estate exposure.



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FERGUS HICKS

available in real estate. Real estate looks relatively attractive compared to the uncertainty in the equity market, where you have risk assets that are not backed by contractual income flows.

If you are a buyer that cannot buy all-cash and you are dependent upon debt, there is some good news because lenders are much more active than they had been. We see better spreads where we needed to borrow. Better spreads mean we can make deals work a little easier in 2025 than in 2024, even with a higher interest rate environment.

FH: In Europe, we have seen slightly more interest rate cuts by the European Central Bank compared to the Federal Reserve in the US. But, in general,

falling interest rates should cushion the real estate market.

It is also quite interesting to look at Japan, where we saw some rate rises last year. There are debates as to where they go from here, but they raised even before the tariff announcement, so we are expecting some further, modest interest rate rises in Japan where there is a large multifamily sector that has performed well.

Q How do you expect tighter immigration policies to impact demand for US rental housing?

TG: Population growth, on the margin, is dependent on immigration in the US, so population growth should slow with less immigration. That could possibly impact demand for housing. However, the population should continue to grow slowly or, at worst, stay flat.

We are not expecting a drop-off. Some markets are more dependent on immigration than others, and we would expect that to have more of an effect on the lower-income segments of the residential market than Class A properties, which tend to be more institutional grade.

But I cannot mention demand without mentioning supply, which is expected to come down so much between 2026 and 2027 because of the slowdown in new development driven by rising costs. That should be a material factor in keeping fundamentals positive.

So, I would certainly say that the supply slowdown will exceed any drop-off in demand. The slowdown in supply is far more impactful to fundamentals in the residential sector than any effect from slower population growth could be.

Q What are some of the key demographic drivers in Europe, and how does that relate to the American markets?

FH: Like in the US, but to an even

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TIFFANY GHERLONE

greater extent, the aging population is a key factor in Europe. Over the next 10 to 20 years, we expect to see significant aging in the population across Europe, which will impact the residential sector and the type of accommodation that is needed – including retirement communities, senior living, age-restricted apartments and various medical care and assisted-living facilities. In many European markets, those types of accommodations are small or nonexistent.

Because these property types are nascent here, it is natural for developers and investors to look at the US where there is already a much more mature senior living market. Investors are seeing what works well in the US and considering areas that can be enhanced in Europe.

Q Will ‘uncertainty’ continue to be the word of 2025? If so, what does that mean for the global residential sector?

FH: Uncertainty is probably the word of the year still. For residential, we will continue to look at it as being a more defensive and resilient sector against that uncertain backdrop.

TG: There is no doubt that uncertainty translates to investors as risk, and risk translates into higher required risk premiums. Investors are going to look at the risk premium available and try to offset it as best as possible.

I am hopeful that, as the year goes on, things get better. Investors are incredibly adaptable, and it is not so much about what is happening now as about what is being priced in. Once uncertainty is factored in, and it has been to some extent already, markets can begin to stabilize and move forward as time progresses.

When I look at the next couple of years, I see supply and demand that are favorable to residential owners, and I see rental rate inflation. All that will be priced in, and things should get better as the year goes on. ■