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Adapting to Tariffs:

Effective Strategies for Retail Investors and Developers

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Tariffs and trade wars continue to be a hot topic across the country. While policies and ideas change rapidly, it is crucial to understand the potential impact on commercial retail space. While the consensus is that tariffs will have an adverse effect, there are still opportunities for developers, owners and tenants

Impact of Tariffs on Construction, Margins and More

Tariffs on foreign goods and materials can create challenges in the retail sector, starting with rising construction costs. In 2023, 7% of the construction materials used in the United States were imported from foreign countries, with China accounting for 27% of the imported volume. Initial projections of the impact of these proposed tariffs ranged from 10% to 20% on general imports and up to 60% on Chinese imports, resulting in a rise of more than $3.2 billion.

At the end of April 2025, tariffs on Chinese imports had increased to 125% which translated to more than double those initial estimates, making construction challenging for new developments and tenant improvement (TI) projects. By mid-May, however, a temporary agreement was reached to cut most reciprocal tariffs from 125% to just 10%; as negotiations continue, the market should be prepared to see this rise again and must understand the potential implications.

One of these challenges is the strain on retail margins. With the costs of goods rising, retailers have two options. They can raise prices or take a smaller margin. Oftentimes, as prices increase, consumers will stop buying the products, and the retailer will have no choice but to lower its margins. This squeeze can lead to store closures and reduced demand for retail spaces.

Similarly, another possible adverse effect on retail is declining retail leasing activity. While retail demand remains high in many U.S. markets, it is essential not to overlook the impact the high margins can have on renewal spaces. In addition, with the expense of tenant improvements rising, the challenge of releasing space comes with higher costs.

Finally, the current economic uncertainty already impacts retail-focused Real Estate Investment Trusts (REITs). While the REITs focusing on essential services have outperformed the market, others exposed to retailers relying on more discretionary purchases have faced sharp declines.

It is important to note that the impact of tariffs can vary by region. Areas that rely on imports, such as border states and major port cities, experience higher volatility and are more susceptible to challenges. Markets with low retail space availability, a diversified economy and consumer spending resilience, on the other hand, will be better positioned to weather the storm.

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Strategic Responses to Mitigate Tariff Risks

The key to overcoming the potential tariff challenges is to have strategic responses to mitigate the possible risks. These responses include diversifying supply chains, re-evaluating leasing strategies and initiating tenant engagement.

Active involvement in construction is crucial for a developer or owner. Contractor interviews should include a detailed breakdown of where supplies are coming from. Avoiding steel and other supplies from China may result in huge savings and bring the potential cost down. Alternative sourcing is one path of successfully navigating the current trade war. Below are a few examples of alternative sources, along with their advantages and disadvantages.

COUNTRY	TARIFF/QUOTA STATUS	ADVANTAGES	CHALLENGES	SOURCE
UNITED STATES	No tariffs (domestic production)	No import delays; increased capacity; reliable supply	Higher cost than imports; capacity constraints in surges	White House Proclamation on Adjusting Imports of Steel, Federal Register Notice on Adjusting Imports of Steel, CBP Quota Bulletin QB 25-601
SOUTH KOREA	Quota under Section 232 (no full tariff)	High-quality production, strong industrial base	Subject to quota limits; shipping time	S&P Global Report on South Korea's Response, CBP Quota Bulletin QB 25-601
VIETNAM	Potential tariffs if substrate is Chinese	Competitive prices; rising export capacity	Verification of true origin required; regulatory risk	Reuters Report on Vietnam's Anti-Dumping Tariffs, Saigon Times Article on U.S. Duties on Vietnamese Steel
MEXICO	Tariff-free under USMCA	Proximity to U.S.; trade agreement protections	Limited high-end steel production	Reuters Article on Canada and Mexico Exemptions, Wall Street Journal Coverage on USMCA Exemptions
BRAZIL	Quota under Section 232	Large exporter of semi-finished steel; cost-effective	Quota limits; primarily provides semi-finished steel	Global Trade Alert on U.S. Tariffs on Brazilian Steel, CBP Quota Bulletin QB 25-601
TURKEY	Some duties, not targeted like China	Competitive pricing; strong in rebar and construction-grade steel	Trade enforcement scrutiny; volatility	Middle East Briefing on U.S. Tariffs on Turkey, Reuters Article on Turkey's Response
INDIA	Some duties, subject to anti-dumping cases	Large capacity and competitive labor costs	Variable quality; risk of anti-dumping tariffs	India Briefing on U.S. Tariffs on Indian Imports, Reuters Report on India's FTA Negotiations

Compiled from various sources; information deemed accurate but may be subject to change

Another strategy is to re-evaluate leasing strategies. As shrinking margins negatively affect existing and potential new tenants, flexibility can create stability. Flexible leasing structures, including shorter-term leases, graduating rent and performance-based TI allowances, can help tenants survive the current market but leave the owner with the potential to make the proceeds back as the tenant stabilizes.

Also consider the concept of shared TI investment for lower initial rents, letting the tenant remove a portion of the financial burden upfront. Tenant-funded TIs can help the building owner save upfront cash by giving the tenant an initial rental rate that can help them succeed early during times of uncertainty.

Finally, proactive tenant engagement is key to solving issues before they arise. Maintaining an open dialogue about how tariffs affect their business can lead to trust and collaboration.

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Opportunities for Success

As in any challenging market, there are opportunities to help building owners fend off tariffs' effects on the market.

High construction prices continue to suppress new retail development in many markets across the U.S. These market conditions contribute to maintaining rental rates and having a pipeline of tenants to fill potential vacancies.

A second opportunity is to focus on tenants that can prosper in the current conditions. Secondhand retail stores, for example, are seeing a resurgence as consumers seek cost-effective alternatives to new tariff-impacted goods. These stores continue to expand their presence, which is helping to increase demand.

In addition to secondhand and thrift stores, off-price retailers like T.J. Maxx and Ross Dress for Less offer excess merchandise acquired from other retailers, making them less susceptible to tariff impacts.

Focusing on tenants that sell American-made brands that are not impacted by tariffs can be a winning strategy as well. Businesses that commit to carrying domestic products may appeal to many U.S. customers now and into the future.

One specific example: home appliance retailers with products manufactured in the U.S. may offer consumers lower prices and stable inventory. Tenants such as these will be able to grow and expand if they prosper from increased sales driven by consumers attempting to avoid tariffs.

Final Thoughts

Uncertainty can sometimes be the catalyst of worry and fear. We still do not know how this unprecedented trade war will play out, but with preparation and diligence, there are many opportunities to turn uncertainty into success.

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