

## KEYNOTE INTERVIEW

# Grappling with global uncertainty



*Trade tensions and shifting geopolitics are reshaping the risk landscape for European CRE, driving heightened scrutiny, slower dealflow and a renewed focus on asset quality, warns Rebecca Percossi, Trimont's head of international*

## **Q What risks does global uncertainty pose to European commercial real estate markets?**

We saw a very positive first quarter in 2025 in terms of lending activity. Following the pandemic and a period of elevated interest rates, there was widespread optimism that the issues that had been holding the market back would unlock and transaction volumes would begin to increase.

However, before the recovery could really take hold, a series of announcements on US tariffs put lending transactions on pause, as lenders and borrowers assessed the impact of the

announcements on transactions and their wider strategies, and carried out additional due diligence. Most transactions that were under way still reached completion, but with an extended closing timeframe.

Persistent uncertainty around future trade and tariff announcements has caused some transactions to stall, as market participants reassess their strategies and risk exposure. Although UK inflation briefly aligned with the Bank of England's 2 percent target earlier

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this year, recent volatility has made the outlook less predictable.

At the same time, elevated construction costs continue to pressure new development, with only limited relief in pricing in recent months. As a result, the share of construction loans in our portfolio has declined, reflecting a shift in investor preference towards stabilised, income-generating assets.

While we don't expect interest rates to rise significantly, continuing inflation could cause central banks to slow or reverse the downward trend in rates we have seen recently, which would potentially affect real estate values. And with economic growth slow or

stagnant in several European countries, including the UK, real estate investors and lenders will be testing any assumptions in their underwriting about rental growth or yield compression.

### **Q Have trade agreements between the US and the UK, and between the US and the EU, helped to reduce uncertainty?**

The tentative deal reached by the US and UK in May addressed trade issues in the automobile, metals, agriculture and pharmaceutical industries. Although reaching agreement represented a positive development, there remains a 10 percent tariff on most UK goods and 25 percent on UK exports of steel and aluminium.

The agreement that followed with the EU in July means that the EU will broadly face a 15 percent tariff on exports to the US. However, steel, aluminium and copper remain at 50 percent, for now at least.

Although providing more certainty on terms of trade, European financial markets reacted negatively to the deals, according to the results of the August ZEW survey of economic sentiment. Though still positive on balance, the euro area indicator slid by 11 points over the month, and the decline in sentiment was even worse for Germany.

The industries showing the largest deterioration in expectations included chemicals/pharmaceuticals, mechanical engineering, steel, electronics and automobile. Weakening performance in these industries could have a cascading adverse effect on CRE properties, which will take time to work through the European economies. Logistics, warehousing, and industrial assets may face the greatest challenges in the coming months.

For the real estate sector, the trade deals help investors to determine the kind of assumptions they should make in their underwriting, but the positive effect could be offset by the impact of tariffs on occupiers.

### **Q How are investors and lenders responding to elevated risk?**

We have seen a flight to high-quality assets and locations in sectors which are considered resilient, on the part of both borrowers and lenders. Consequently, a lot of players on both the equity and debt side are competing for the same transactions.

Meanwhile, for assets in secondary locations or less-favoured sectors, it is more challenging to get financing. This could lead to divergent performance, with prime markets rising while demand in secondary markets is curtailed.



### **Q What has been the effect on capital markets?**

Fundraising for debt strategies has turned a corner after several challenging years, although equity strategies may find it more difficult to attract commitments. Capital markets activity is increasing, supported by liquid debt markets and an increase in larger-scale transactions.

Direct transactions rose further in the second quarter despite a moderation in the pace of growth, demonstrating that investors continue to deploy capital through volatility. Uncertainty has affected demand from US investors for European real estate, however, with activity falling by 30 percent year-on-year in the first half of 2025. Whenever there is market uncertainty, capital tends to drift back towards home markets.

In many cases, loans have been extended for the past several years and we have now reached the anticipated “wall” of maturities. Base interest rate cuts have helped to unlock liquidity for

debt finance, so there are plenty of options out there for borrowers reaching the end of their loan terms.

If an asset is quirky or challenged in some way, it can still be difficult to access debt. Nevertheless, refinancings will continue to be a source of opportunity for private debt funds. Alternative lenders account for around 40 percent of the UK CRE financing market, but only 5-10 percent of continental European lending, so there is considerable scope for growth.

### **Q Are some sectors and geographies likely to be harder-hit or more resilient than others?**

If your loan book is exposed to a high proportion of industrial and logistics tenants that are linked to sectors such as automotive and pharmaceuticals, that would be a cause for concern. Industrial markets are more vulnerable because leasing demand is tied closely to economic growth. Export-driven regions and countries could see negative

impacts on real estate markets: for example, Germany because of its exposure to the car industry and Ireland to pharmaceuticals.

However, European rearmament in the face of perceived threats represents a long-term shift in fiscal priorities for the EU and the UK, and defence spending could help slow Europe's de-industrialisation. A ramp-up in investment in defence industries would lead to increased demand for real estate, particularly industrial, logistics, and high-tech research space.

Some other sectors continue to perform robustly. There is still strong conviction around living sector assets among both borrowers and lenders. In the UK, the government is very focused on stimulating housebuilding and seems to be putting plans in place to deliver that. Student accommodation offers a good demand outlook, particularly with an expected influx of international students switching from US to European universities.

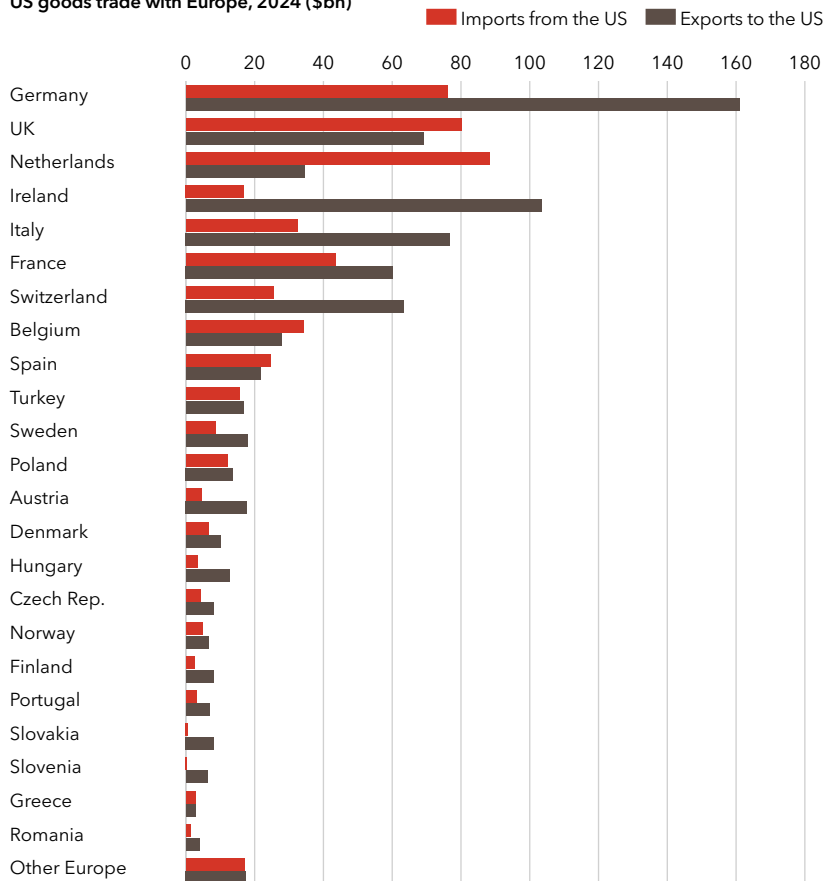
Offices in London's City and West End have been performing strongly too, and Canary Wharf is rebounding as an office destination. In general, energy-efficient office buildings in locations with good amenities, close to public transport, are benefiting from the trend for workers to return to the office.

Global competition in artificial intelligence has also caused rapid increases in data centre investment. However, for the market to reach its full potential for growth, it requires sustained increases in the supply and distribution of electricity. And steep rates of depreciation for data centre assets continue to deter some investors.

### **Q If unsettled conditions persist, how do you expect CRE lending markets to respond?**

There is still an appetite to do deals, but it will take longer for transactions to close as parties do more detailed due diligence and try to cover off all

US goods trade with Europe, 2024 (\$bn)



Source: US Bureau of Economic Analysis, Trimont research

the risks. A higher volume of refinancings will help generate activity. There are only so many times a loan can be extended, and there are now more options available to borrowers needing to restructure. For instance, we have seen new lender clients enter the market, with Asian banks becoming notably more active.

Of course, lenders will continue to tighten credit standards. The flight to quality will continue, with a high degree of selectivity over assets, including a sharp focus on sponsor strength and asset quality, as well as sensitivity over exposure to certain sectors and geographies. Stable, income-generating assets with a diverse tenant group will be in demand. Lenders will want to understand if they have exposure to sectors that may be affected by tariffs, and will demand rigorous

underwriting, stress-testing and well-planned exit strategies.

There will be greater emphasis on credit management and loan monitoring too, so that early warning signs of stress are identified. Loan servicers like us have a vital role to play in helping our clients to get ahead of any potential problems, so that they can get in front of their borrower and start having conversations about finding solutions.

Inevitably, there will be more bumps in the road. Trade deals are only just starting to come into operation, and there is still plenty of detail to be figured out. There are also local factors at play that create uncertainty. For example, the commercial real estate industry will be keeping a close eye on the UK autumn budget announcement, which could include tax increases and the abolition of upward-only rent reviews. ■