

Will Middle East Military Engagement Impact Commercial Real Estate?

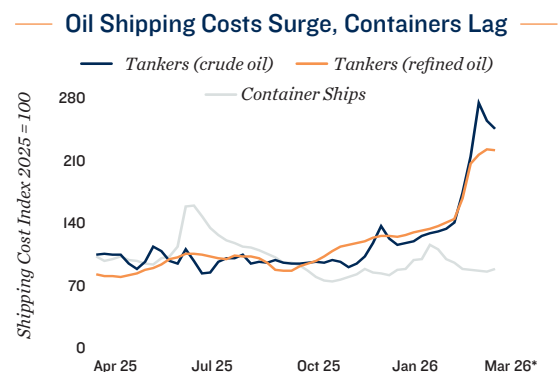
The economic implications. U.S. and Israeli strikes on Iran on Feb. 28 have turned a regional conflict into a global energy-market risk after insurers withdrew war-risk coverage, and Strait of Hormuz passage was severely disrupted. The risk of longer disruption has also risen after Iran struck ports, cities and energy infrastructure in neighboring Gulf states. While President Trump said no deal is possible short of Iran's "unconditional surrender," he has also signaled that he may choose to take an offramp from the conflict. Still, official rhetoric points to a campaign measured in weeks rather than days. The Strait of Hormuz carries about one-fifth of global oil consumption and about one-fifth of global LNG trade, meaning even a minor disruption can quickly influence energy prices and ripple through transportation costs and broader supply chains. Some gulf states have indicated they may halt oil and LNG production if the conflict persists, and it could take weeks or months to restart operations. These pressures could add to existing headwinds for the U.S. economy, which already faces a weak employment climate.

Broader Implications of Conflict

- **Oil and LNG costs on the rise.** WTI crude oil spiked from roughly \$70 at the start of the conflict to over \$100 on March 9, while gas markets also tightened sharply, with Asian spot LNG and Europe's benchmark TTF both increasing more than 50 percent.
- **Pump prices climb.** U.S. gasoline prices have risen by over 15 percent since Feb. 28, reaching roughly \$3.47 per gallon by March 9. Analysts often estimate that every \$10 rise in crude oil prices can add about 25 cents at the pump.
- **Higher shipping costs.** Rerouting around Hormuz and the Red Sea, along with higher fuel prices, is lifting shipping costs, with the largest increases concentrated in Gulf and energy lanes.
- **Selective commodity spillovers.** Hormuz handles about 15 percent of global aluminum exports and roughly one-third of global fertilizer trade, putting pressure on specific products.
- **Downstream effects.** Higher fuel costs can lift trucking and airfreight expenses, potentially adding price pressure to food, manufactured goods, and industrial inputs.
- **Foreign economies face greater strain.** Asia and Europe depend more on imported oil and have fewer days of supply, while the U.S. is more protected by increased domestic production.

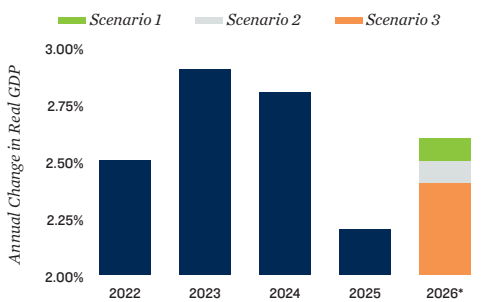
Commercial Real Estate Implications

- **Inflation risks:** A sustained oil price spike may lift headline inflation, potentially raising operating expenses and reducing consumer spending. Weaker sentiment could add pressure, particularly among middle- to lower-income households.
- **Elevated uncertainty:** Higher input costs and war-related uncertainty could dampen business confidence, reducing hiring, delaying leasing, and weighing on GDP growth.
- **Interest rates:** Interest rates may remain volatile as investors weigh inflation risks against slower growth and safe-haven demand for U.S. Treasuries.
- **Fed outlook:** The Fed may delay rate cuts if inflation jumps sharply, though policymakers may prove more willing to look through the shock if business conditions soften.
- **Shipping costs:** Higher shipping and fuel costs could pressure oil-heavy industrial users, particularly in distribution and manufacturing, and weigh on leasing activity.
- **Property type exposure:** Pressure on discretionary spending and lower-income household budgets may weigh on hotels, nonessential retail, and lower-income apartments.
- **Real asset appeal:** Commercial real estate may attract additional investor interest due to its income stability and diversification benefits, particularly if stocks, private credit, or bonds turn more volatile.

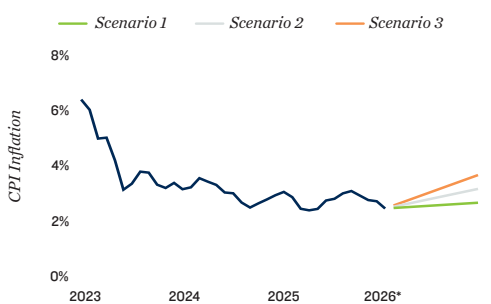


* Tanker shipping costs as of March 06, 2026; Container rates as of March 05, 2026
As of March 09, 2026

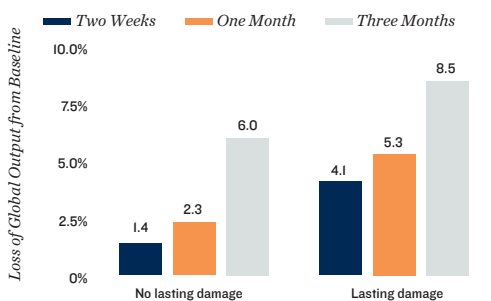
U.S. GDP Growth Outlook



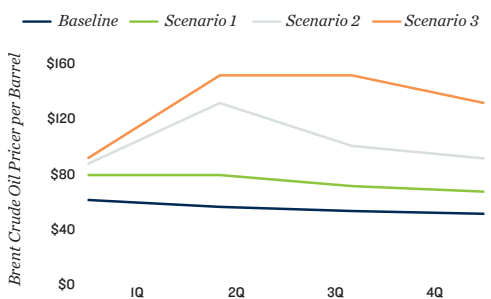
U.S. Headline Inflation Outlook



Oil Export Loss Due to Hormuz Closure



Scenarios for Oil Prices in 2026



The economic impact will depend on the conflict's duration and the extent of damage to energy infrastructure, shaping the shock to inflation, growth, and Fed policy.

Scenario 1: Short-Lived Conflict

If the conflict ends within a few weeks through de-escalation or a negotiated deal, market effects likely remain brief, and broader conditions normalize quickly.

- **Inflation Path.** Oil rises above \$100 and inflation to just under 3 percent, with price pressures easing over subsequent months as energy prices unwind.
- **GDP Impact.** GDP near 2.5 percent in 2026, as higher fuel costs and uncertainty create only a limited drag on spending and business activity.
- **Policy Outlook.** Rate cuts hold near the pre-conflict path, with policymakers likely flagging inflation risk but leaving the broader easing cycle largely unchanged.

Scenario 2: Longer Conflict, Limited Infrastructure Damage

A conflict that lasts three months but avoids lasting damage to energy infrastructure creates a larger shock, though conditions improve more quickly once tensions ease.

- **Inflation Path.** Oil rises above \$130 and inflation to roughly 3 percent, with headline price pressure extending into the third quarter of 2026 before easing.
- **GDP impact.** GDP near 2.25 percent in 2026, as higher input costs and prolonged uncertainty create a larger drag on business activity and consumer spending.
- **Policy Outlook.** Rate cuts on hold, as officials assess whether energy-driven price gains are spilling into broader inflation, raising the chance of no rate cuts in 2026.

Scenario 3: Longer Conflict, Lasting Infrastructure Damage

A conflict that lasts three months and damages Gulf and Iranian energy infrastructure produces the most severe and persistent shock.

- **Inflation path.** Oil near \$150 and inflation near 5 percent, with the sharpest price pressures emerging by the third quarter of 2026.
- **GDP impact.** GDP below 2 percent in 2026, as the larger shock creates a deeper hit to activity and delays a return to prior growth trends. Recession potential increases.
- **Policy Outlook.** Fed shifts away from easing, with tighter policy becoming a greater risk if inflation broadens beyond energy. Even so, policymakers focus more on core PCE than headline inflation because it provides a clearer read on lasting price pressure. Since oil shocks often lift headline prices more than core and can weaken demand elsewhere, the Fed may be inclined to look through a temporary spike, particularly if hiring conditions continue to weaken or if recession risk is elevated.

Energy Shock Significant, But Less Than Years Past

Even with oil prices rising sharply and stagflation concerns resurfacing, the U.S. economy is better positioned than it was during past energy shocks. Reliance on oil imports from OPEC and the Persian Gulf has fallen sharply, reducing direct exposure to Middle East supply disruptions. In fact, the U.S. is now the world's largest crude oil producer and a major energy exporter. Energy goods and services also account for roughly half the share of consumer spending than they did in the 1970s, and the economy uses less energy per dollar of GDP than it did then, leaving the United States better equipped to absorb geopolitical risk.

* Forecast from Capital Economics

Property Type Outlook

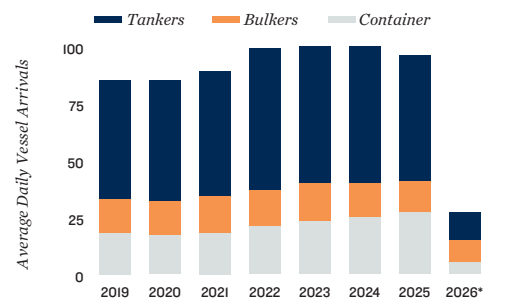
- **Multifamily:** Housing costs remain highly inelastic, leaving apartment demand more durable than most property types during periods of stress. Nevertheless, tighter budgets may constrain rent growth, especially at lower-income properties, while more affluent communities should prove more resilient.
- **Retail:** Daily-needs and essential retail such as grocery-anchored centers should remain relatively stable, while consumers trimming spending may temporarily weigh on restaurants, entertainment venues, and other discretionary categories.
- **Industrial:** Industrial faces the greatest direct exposure, where tenant demand depends heavily on goods movement and production activity. Higher fuel, shipping, and freight costs may pressure margins for distribution and manufacturing users, leading some occupiers to delay expansions or trim leasing demand.
- **Office:** Office tenants face less direct exposure to energy costs than industrial users. The larger risk is that war-related uncertainty causes occupiers to delay major leasing decisions, particularly relocations, expansions, and large commitments.

CRE Investment Outlook

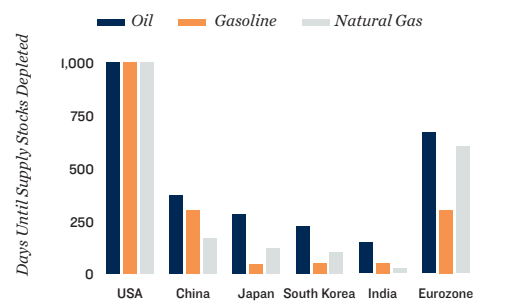
- **Capital still engaged.** CRE investment momentum continues to improve, and the sector should remain an appealing asset class despite uncertainty. Transaction activity across the four major property types rose about 17 percent year-over-year in 2025, while lenders have broadly eased standards. If broader risk assets, such as stocks or private credit, come under pressure, commercial real estate may attract additional interest for its tangible income streams and diversification benefits.
- **Income stability grows more valuable.** Assets with durable income streams will be best positioned amid heightened uncertainty. Lenders and investors are likely to focus more on in-place cash flow, long WALTs, and near-term rollover visibility, while more speculative deals may face greater scrutiny. Sponsor strength, lender relationships, and business-plan clarity should also carry more weight.
- **Maturities keep refinancing in focus.** Refinancing pressure should remain elevated in 2026, with \$875 billion of commercial debt maturing. High-quality assets should still refinance, but more challenged properties may continue to rely on extensions, restructurings, or new equity to bridge proceeds gaps.
- **Inflation hedging appeal.** Commercial real estate can provide inflation protection where leases reset to market quickly, rent escalators are built in, and expenses are passed through to tenants. Apartments and self-storage reprice more quickly, while properties with longer leases like NNN assets may have contractual bumps that help preserve income.
- **Tighter construction lending a silver lining for investors.** Higher uncertainty around rates, materials, and execution could make development and lease-up financing harder to secure, which would likely slow starts and eventually support property types and markets facing larger recent supply additions.

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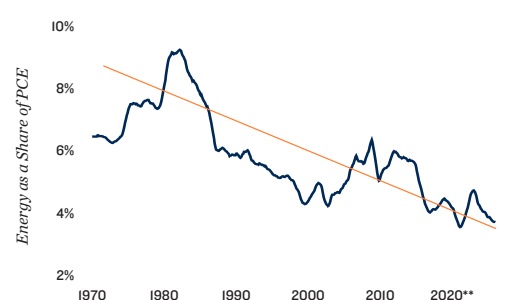
Hormuz Vessel Arrivals Drop Sharply



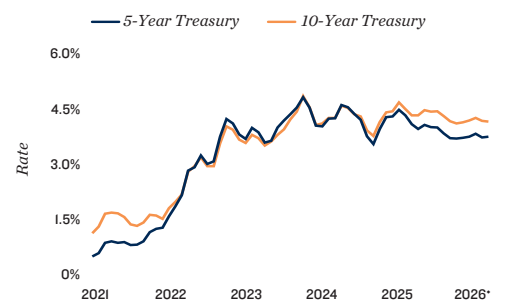
U.S. Holds More Days of Energy Reserves



Energy Share of Consumer Spending Falls



Treasury Rates Stay Rangebound



* Through Mar. 1

** Through year-end 2025

* As of March 09

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