Ring-Fencing Tariff Risk in Construction: How Lenders Can Protect Projects Amid Geopolitical Uncertainty

JULY 2025

Executive Summary

- President Trump's 2025 tariffs have increased construction material costs and reintroduced budget volatility, elevating risk for real estate development and construction lending. [1 2 4]
- Key mitigants for lenders include larger contingency budgets, Guaranteed Maximum Price (GMP) contracts, and early buyouts with reputable subcontractors.
- Bravo Property Trust outlines how strategic underwriting and deal structuring can ring-fence this risk and protect investor capital.

Background: Tariff Uncertainty

The Trump administration's 2025 trade policy has reinstated and expanded several tariffs first imposed during its initial term, reintroducing significant cost volatility into U.S. construction markets. In April, the industry braced for "Liberation Day"—the date when a broad set of new tariffs were set to take effect. Developers and lenders paused procurement decisions amid growing concern over sudden cost spikes. While most measures were softened or delayed, others moved forward. The episode underscored how quickly trade policy can shift—and why tariff-driven uncertainty remains a key underwriting risk.[8]

Though headlines have centered on semiconductors and pharmaceuticals, the ripple effects extend deep into construction. Developers and lenders are feeling the effects across several key material categories:

- Steel & Aluminum: 25% tariffs remain in place on many foreign sources, raising core structural costs.[1] For construction lenders, this increases the likelihood that sponsors will exceed budgeted costs on structural framing, reducing contingency buffers and elevating project risk.
- Softwood Lumber: Ongoing duties on Canadian lumber continue to drive pricing volatility, especially in wood-framed projects.[3 4]
- Concrete (Mexico): Market uncertainty around new tariffs on Mexican concrete has heightened risk for projects reliant on imported supply.[4]
- Finishes and Mechanical Items: Broader supply chain impacts and tariff exposure are also driving up the cost of components installed later in the project, such as windows, fixtures, and appliances. Since these items are often obtained after construction is underway, price volatility can lead to unexpected budget pressures during the back half of the build.

This pressure is translating into real project delays. In March, the Related Group CEO Jon Paul Pérez cited cost spikes of up to 20% tied to tariff pressures. By April, reports surfaced of developers shelving or postponing projects altogether—an early sign that materials-related uncertainty is already reshaping development timelines.[6]

Why This Matters for Investors and Lenders

Tariff-driven cost volatility adds a new layer of risk to real estate deals—particularly those in the construction phase. Key issues include:

- Budget Blowouts: Tariff-induced price hikes on steel, lumber, or concrete can make pre-approved budgets obsolete.[2,3]
- Sponsor Cost Pressure: Developers may be forced to inject more equity or face defaults if contingency budgets are insufficient or if costs overrun beyond projections. This highlights the need for elevated contingency budgets in today's tariff-driven pricing environment.
- Loan Performance Risk: From a lender's perspective, a rising-cost environment increases the risk of non-performance, stalled projects, and downwardly revised pro formas that no longer reflect updated cost realities.

In a sector already strained by high interest rates and softening demand, tariff risk has the potential to tip borderline deals into trouble.

Cost Pressures Across Core Materials

May 2025 data from the U.S. Bureau of Labor Statistics shows sharp cost increases in key construction materials. Since February 2020, prices for steel mill products, iron, and insulation have surged by over 50%, with some categories up more than 70%. These spikes—fueled in part by tariffs—are straining contingency budgets and forcing lenders to underwrite more conservatively.[7]

	1-Month % Change	12-Month % Change	Change Since Feb 2020
Inputs To Industries			
Inputs to construction	0.2%	1.3%	41.8%
Inputs to multifamily construction	0.3%	1.8%	42.5%
Inputs to nonresidential construction	0.3%	1.6%	42.6%
Inputs to commercial construction	0.3%	2.3%	44.0%
Inputs to healthcare construction	0.3%	2.2%	43.6%
Inputs to industrial construction	0.4%	2.1%	39.9%
Inputs to other nonresidential construction	0.4%	1.6%	42.4%
Inputs to maintenance and repair construction	0.2%	1.0%	39.7%
Commodities			
Adhesives and sealants	0.6%	3.3%	38.8%
Brick and structural clay tile	0.0%	1.6%	32.6%
Concrete products	0.5%	2.5%	41.9%
Construction machinery and equipment	0.7%	2.0%	32.5%
Construction sand, gravel, and crushed stone	0.2%	7.3%	45.9%
Copper wire and cable	-2.9%	-1.0%	54.3%
Crude petroleum	1.3%	-16.8%	32.8%
Fabricated structural metal products	0.1%	4.8%	58.3%
Gypsum products	0.0%	1.7%	49.9%
Hot rolled steel bars, plates, and structural shapes	1.4%	-7.5%	33.8%
Insulation materials	0.6%	3.6%	48.6%
Iron and steel	3.2%	5.0%	57.7%
Lumber and wood products	-0.4%	1.8%	26.7%
Natural gas	-18.7%	48.9%	43.2%
Plumbing fixtures and fittings	1.0%	5.0%	24.5%
Prepared asphalt, tar roofing and siding products	3.7%	1.8%	45.8%
Softwood lumber	-3.2%	9.1%	18.1%
Steel mill products	7.1%	8.8%	73.4%
Switchgear, switchboard, industrial controls equipment	1.9%	9.0%	57.6%
Unprocessed energy materials	-3.5%	-6.6%	50.5%

Source: U.S. Bureau of Labor Statistics

Three Mitigation Strategies for Construction Lenders

To ring-fence tariff risk, construction lenders must push for proactive strategies during underwriting and deal negotiation. Three of the most effective are:

1. Increase Contingencies in Construction Budgets

Lenders should consider requiring contingency reserves in excess of 10–15% of the hard cost budget, depending on the extent of buyouts executed prior to funding. In today's tariff-driven and supply-constrained environment, elevated contingencies are essential to absorb unforeseen material cost increases, supply delays, and timeline disruptions. This buffer works in tandem with early trade buyouts, which allow developers to lock in pricing through fixed contracts with subcontractors and suppliers. However, in volatile markets, those fixed-price contracts are not always honored—particularly by subcontractors or vendors facing cost spikes or material shortages. In these situations, contingency reserves play a critical role in covering the budget gaps that arise when buyout agreements break down.

2. Require Guaranteed Maximum Price (GMP) Contracts A GMP contract locks in the maximum cost of a project. They are agreements that cap total project expenses and shift the risk of price increases from the borrower to the contractor—within defined limits. In addition, lenders can evaluate subcontractor risk protection through Subcontractor Default Insurance (SDI) or bonding. SDI enables general contractors to prequalify subcontractors and provides coverage in the event of a subcontractor default—pairing well with GMP structures and early buyout strategies in volatile material markets. Lenders should confirm that GMP contracts are fully executed, well-structured, and include clear escalation language that specifies how tariff-driven cost increases will be handled.

3. Push for Early Buyouts with Strong Subcontractors

- Encouraging developers to secure early buyouts of core trades (e.g., concrete, steel framing) can lock in pricing and reduce risk exposure.
- Lenders should also diligence the sponsor's procurement approach:
    - Has the sponsor secured early buyouts on core trades (steel, concrete)?
    - Are subcontractors prequalified and financially stable?
    - Has the general contractor demonstrated strong procurement execution on past deals?

Other Tools to Consider

While the three strategies above are foundational, lenders and developers may also consider:

- Diversified Material Sourcing: Favor domestic or tariff-safe countries over high-risk import markets.
- Lock in Pricing Early: Prioritize early trade buyouts or material pre-purchasing strategies over financial hedging instruments, which are rarely used in middle-market real estate construction.
- Phased Construction: While breaking a project into stages may delay exposure to future tariff shocks, it can also raise holding and financing costs—trade-offs must be carefully weighed.
- Policy Engagement: Construction lenders and developers may also consider supporting trade associations—such as the National Association of Home Builders (NAHB)—that actively lobby for material-specific tariff exemptions and supply chain stabilization efforts.[3] These groups aim to limit the downstream financial burden tariffs place on construction projects and help de-risk the pipeline for lenders.

Outlook: Navigating the Second Half of 2025

The Trump administration's renewed tariff agenda is already reshaping global trade—and real estate is feeling the impact.[1 2 5]

With new and reinstated tariffs in place, construction costs are no longer driven solely by inflation, but increasingly by geopolitical policy shifts and trade maneuvering.

Procurement strategies, cost assumptions, and project timelines are all at risk of disruption. In this environment, lenders must lead with discipline, structure, and proactive risk management.

Tariff volatility can't be eliminated—but with the right protections, it can be contained.

About Bravo Property Trust

Bravo Property Trust is a real estate credit platform focused on originating and providing transitional financing for multifamily and healthcare properties across the United States. With expertise in HUD, construction, and bridge-to-agency executions, Bravo is a direct lender in multiple categories of financing, which are tailored to operators and developers seeking value creation and stabilized outcomes. Additional information is available at: https://bravopropertytrust.com/

Disclosure

1. Source The New York Times. "Higher U.S. Tariffs on Steel and Aluminum Imports Take Effect." June 4, 2025.
2. Source The New York Times, "How Would We Build Homes Without Immigrant Labor and Foreign Materials?" April 3, 2025,
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4. Source NBC News. "From Lumber to Lighting: How Trump's Tariffs Drive Up Home Construction Costs." July 6, 2025.
5. Source Construction Dive. "Sweeping New Tariffs Put Future Construction Projects at Risk." April 3, 2025.
6. Source CNBC. "Related Group CEO Tariff Fears Raising Construction Costs." March 21, 2025.
7. Source U.S. Bureau of Labor Statistics. "Producer Price Indexes." May 2025. https://www.bls.gov/ppi/detailed-report/home.htm
8. Source Center for Strategic and International Studies. *Liberation Day: The Tariffs Explained.* April 4, 2025. https://www.csis.org/analysis/liberation-day-tariffs-explained

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