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Developers say on-again, off-again tariffs are making it difficult to predict prices, kick off projects

Brian J. Rogal; Chicago Tribune

The night before the Trump administration began enforcing a 25% tariff on Canadian imports, Chicago-based GI Stone had 13 trucks at the U.S. border, each loaded down with specialized granite set for installation in the Obama Presidential Center under construction in Jackson Park.

Only eight trucks made it through before the tariffs took effect on March 4.

"We rushed all the trucks we could get," said Sandya Dandamudi, GI Stone's president and owner. "But there was a lot of congestion and long lines, so everything took a long time to process. For us, the tariffs have been a bit of a nightmare, and the biggest problem is the chaos."

Adjusting to the tariffs imposed on Canada and other countries has not gotten easier over the past six months. The White House has imposed or canceled tariffs on nations with little or no notice, sending up and down the costs of key imported building materials such as steel, aluminum, copper and lumber. Construction industry leaders say the tariffs have made it more difficult to predict prices, secure financing and kick off new development. And even though short-term fixes, including stockpiling inventory, have so far helped developers and contractors avoid passing along cost increases to consumers, tariffs will ultimately mean higher rents and housing costs.

"The uncertainty is worrying builders," said Molly McShane, CEO of The McShane Cos., a national real estate and development firm. "People understand deals won't move forward if prices change four times a week."

Administration officials say tariffs encourage domestic sourcing and manufacturing. The administration also says tariffs boost job creation and tax collections, while encouraging more consumers to buy American-made products.

"Large and persistent annual U.S. goods trade deficits have led to the hollowing out of our manufacturing base; resulted in a lack of incentive to increase advanced domestic manufacturing capacity; undermined critical supply chains; and rendered our defense-industrial base dependent on foreign adversaries," a White House statement read.

Dandamudi said she understands the desire to buy American, but sometimes it's not possible. GI Stone's highly skilled workforce transforms quarried and engineered stone into finished countertops, flooring, walls and staircases for high-end residences and other projects at its North Side manufacturing facility. American quarries produce high-quality stone, but not in the full range of colors demanded by U.S. apartment and condo dwellers, so the company relies on products from Canada, Italy, India and many other countries.

"I provide American jobs," Dandamudi said. "But for us, a 25% tariff could be lethal. I'm not a politician, but that doesn't make sense."

President Donald Trump's administration temporarily canceled the Canadian tariff soon after GI Stone's remaining trucks crossed the border, but the company got stuck with a huge bill, Dandamudi said. Although the Obama Presidential Center eventually covered GI Stone's loss, even temporary hits can be tough to absorb, especially with high interest rates squelching the market for new construction.

"My guys are already feeling a bit of a pinch," she said of the firm's dozens of employees, including stone fabricators, setters and finishers. "(The Obama Presidential Center) eventually made us whole, but it was stressful and too much of a burden for a small business to bear."

A big concern for builders

Many of the materials that are essential in residential and commercial construction — steel, aluminum, lumber, copper and stone — are now subject to tariffs.

Steel and aluminum are used for high-rise apartments, and are often imported from Brazil, Mexico, Canada and other countries. Contractors use heavy steel columns to assemble building frames, reinforce concrete with steel rebar and form exterior curtain walls with both steel and aluminum. Lumber, which is frequently imported from Canada, is widely used in single-family home construction.

Those building materials are now typically subject to tariffs of anywhere from 10% to 50%.

"Consumers face an overall average effective tariff rate of 17.4%, the highest since 1935," and up from 2.4% in February, according to The Budget Lab at Yale, a nonpartisan policy research center, which analyzed data on all U.S. imports through Sept. 3.

"That's a massive jump; that's a Smoot-Hawley jump," said Reagan Pratt, director of The Real Estate Center at DePaul University, referring to the Depression-era law that drastically raised tariffs. "The real estate industry has ways of adapting to things that are permanent, but has a hard time adjusting to things that are constantly changing."

On Aug. 29, a federal appellate court ruled that Trump's use of federal emergency powers to impose many tariffs was illegal, increasing the uncertainty even though it temporarily left the tariffs in place. The Trump administration asked the U.S. Supreme Court to review the decision.

The tariff squeeze doesn't mean total development costs will soar out of control, said Omar Rihani, executive vice president and national residential sector leader for Chicago-based Project Management Advisors. Labor is also a huge expense, and many materials come from domestic sources, so tariffs typically push up total development costs by a couple of percentage points.

But the tariffs are still a big concern for apartment builders.

"Assuming no rent increases, that can take away 20% of your profit margin," Rihani said.

And that could be enough to tip the balance between launching a project and setting it aside, especially because tariffs are not the only obstacles developers face. High interest rates, elevated costs of borrowing and high construction costs already make it difficult to start new developments, even though Chicago has a shortage of rental housing and city officials have approved the construction of thousands of new units.

"We have seen many projects that remain in the planning stages for a long time," McShane said. "Interest rates have been a far bigger problem for developers than tariffs, but it's such a jumble of different factors that go into this that it's hard to attribute to one factor or the other."

One Chicago developer said tariffs were making it more difficult to build a significant West Loop residential project.

"For our project at 1000 W. Jackson, we were in advanced conversations with a large equity investor and tariffs killed the negotiations," said Anthony Hrusovsky, principal at Mavrek Development, according to the 2025 Chicago Mid-Year Sentiment Report by DePaul University and the Urban Land Institute, Chicago District Council. "It introduced a level of uncertainty around cost, which had previously been riskless in our eyes. The last thing Chicago needs right now is another reason for an equity group to not do a deal."

Mavrek secured city approval for 1000-16 W. Jackson Blvd. in 2024. The company plans to build a 25-story tower with nearly 400 apartments and a ground-floor grocery. The company declined to comment further.

The number of construction cranes dotting Chicago's skyline did tick up slightly this year. Construction crews in January had six cranes up, and 10 by August, including at the Shedd Aquarium and the Obama Presidential Center and another for Related Midwest's 400 Lake Shore apartment project on the lakefront, according to the online newsletter Chicago YIMBY. There were 62 Chicago cranes in the air during 2017.

Impact on the economy

The evidence that tariffs hurt the economy is clear, said Steven Durlauf, a professor at the University of Chicago Harris School of Public Policy.

More than half of Chicago commercial real estate experts surveyed by DePaul and the Urban Institute say tariffs will have a moderate impact on their business, while another 30% say the impact will be very high.

Job growth was slow over the summer, according to the U.S. Bureau of Labor Statistics. The economy created 79,000 jobs in July, fewer than anticipated by labor economists, and lost 13,000 in June, the first monthly decline since 2020, the bureau reported.

"Those are not numbers where there's any ambiguity," Durlauf said.

Trump fired Erika McEntarfer, the bureau's commissioner, in August, hours after the disappointing report, claiming it was rigged. The numbers for the following month were worse. The bureau's Sept. 5 report said the economy created 22,000 jobs in August, and the unemployment rate rose to 4.3%.

If current tariff levels and other economic conditions remain steady, Trump's efforts will produce a trade-off, according to The Budget Lab at Yale. U.S. manufacturing output would expand in the long-run by 2.7%, but those gains would be "more than crowded out by other sectors," with construction output contracting by 3.8%.

The Federal Reserve has begun to provide a bit of relief. The softening labor market led Fed officials to cut interest rates by a quarter-point at its Sept. 17 meeting, making it cheaper to secure financing for new homes or development. Industry leaders say it's a good start, but hope to see more cuts in 2026.

"While a 25-basis-point reduction may not materially transform the landscape overnight, it meaningfully improves investor psychology, underwriting conditions, and the cost of capital—key ingredients for renewed momentum," said Avison Young CEO Mark Rose.

Other commercial real estate experts say tariffs haven't busted construction budgets yet. Many piled up huge inventories of key products like steel and lumber before tariffs hit, or forged agreements with contractors to split cost increases.

"For the last four to six months, we've been guessing as everything changed day-to-day, but most companies took steps to mitigate any cost increases," said Julie Workman, a Chicago-based real estate attorney and partner at Saul Ewing LLP. "They did the best they could for as long as they could."

Chicago-based developer and general contractor Focus and its partners were able to arrange financing for their 1221 Washington project — a 19-story, 287-unit mixed-use development in Fulton Market — and break ground this September, but CEO Tim Anderson said cost increases could be tougher to swallow in 2026. A key factor will be how much domestic producers boost their prices to match the higher costs of overseas material.

"Once they get protection from foreign steel, what is their incentive to keep prices low?" he said.

The prices for hot-rolled steel bars, plates and structural shapes from U.S. producers, important components in construction, have gone up more than 14% since April, according to Bureau of Labor Statistics data cited by the Federal Reserve Bank of St. Louis. The price for domestic lumber has remained relatively steady.

"It's still such a yo-yo environment," Anderson said. "The problem is going to be what happens eight months from now, but there are going to be price increases as we head down the path with tariffs."

And the quick fixes like relying on built-up inventories won't work much longer, Workman said.

"It's really a shame because of the severity of the country's housing shortage," she said. "I feel like things are about to go over a cliff."

---- Index References ----

Company: U.S. Bureau of Labor Statistics; Chicago District Council of Carpenters Inc; SAUL EWING LLP; Urban Land Institute; DEPAUL UNIVERSITY; The McShane Companies; Mavrek Development, Inc.; AVISON YOUNG (USA) INC.; Project Management Advisors Inc; THE URBAN INSTITUTE

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