



2025



THE CHICAGO MID-YEAR SENTIMENT REPORT

DEPAUL UNIVERSITY IN PARTNERSHIP WITH URBAN LAND INSTITUTE CHICAGO DISTRICT COUNCIL

LIBERATED FROM OPTIMISM

There has been a palpable shift in local real estate sentiment in the wake of “Liberation Day”. As a long term, immobile and illiquid asset class, real estate craves predictability. Many words have been written to describe economic policy since April 2nd, 2025, but “predictable” has not been prominent among them.

Near-term this is reflected as a sort of agnosticism with more than 60% of survey respondents neither bullish nor bearish for the remainder of 2025, according to the survey developed for the 2025 Chicago Mid-Year Sentiment Report, produced by The Real Estate Center at DePaul University, in conjunction with Urban Land Institute, Chicago District Council.



Overall, the survey results suggest that macro concerns are stunting some of the green shoots we had been seeing in the local real estate market. A year ago, local market participants recognized the long-term challenges facing Chicago. However, set against a backdrop of expected easing monetary policy and lower rates, animal spirits were more evident.

Today, despite stabilizing (or strong) property market fundamentals for many property types, the inability of many local market players to access attractively priced debt and equity is holding back transactions. Investors can find deals that make sense, but getting capital off the sidelines remains a heavy lift. It seems like capital has a stagflation state of mind. Fully 66% of respondents expect a recession before the end of 2026, yet 51% think inflation will be higher twelve months from now.

While the national economic situation appears to be driving sentiment and capital flows in the near term, it is too soon to suggest that real estate fundamentals at the local level are being directly impacted. We have heard that in some sectors, particularly industrial, tenants are taking longer to make decisions.

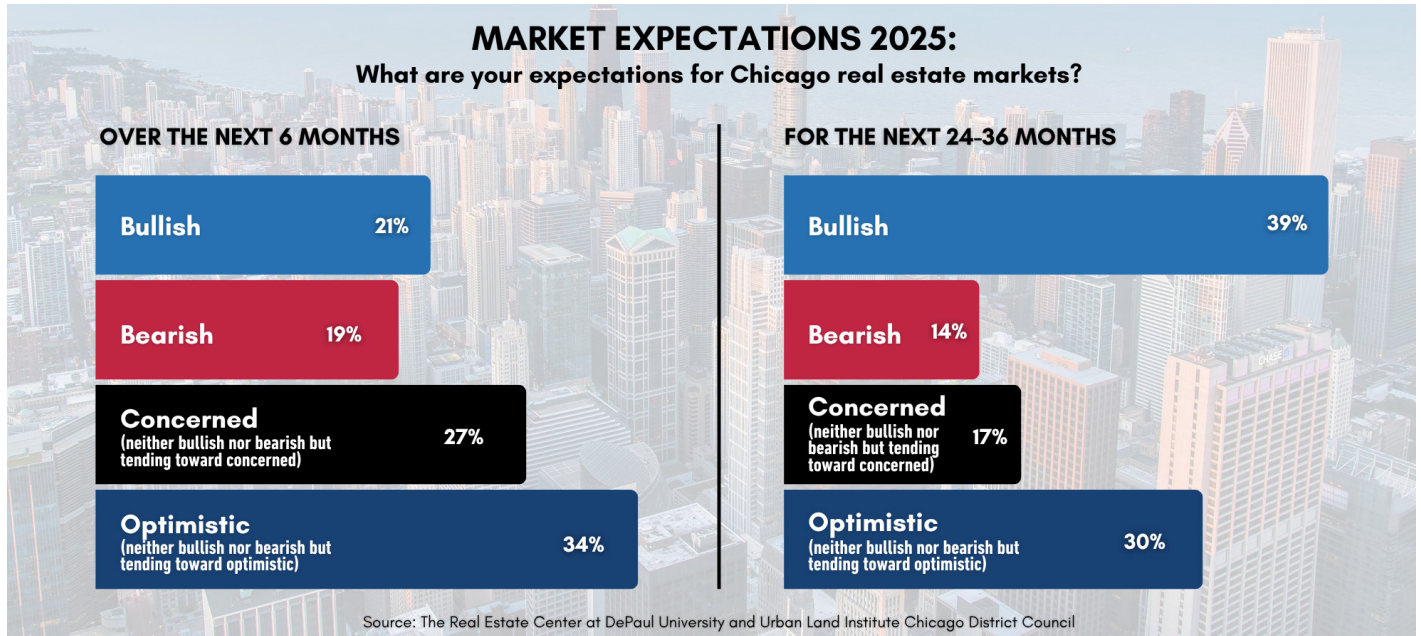
That written, such considerations have yet to be seen in many of the aggregate vacancy and rent numbers. In fact, in some segments like multifamily, Chicago rent growth has been at or near the top of national metropolitan rankings. Suburban Chicago apartment markets have been notably strong, driven by steady demand and limited new supply. Still, when asked to rank the desirability of investing in Chicago real estate over the next 24 months (1 being worst and 5 being best), no segment garnered a 4 or 5. The market darling, data centers, could only muster a 3.83.

Finally, lest we think all of the Chicago market challenges are coming from the shores of the Potomac, there is plenty to work on in our own back yard. When we asked about policy efficacy at all three levels of government, while 61% of those surveyed said Washington’s policies were not helpful, a stunning 85% said the same about Chicago. J.B. can take a victory lap of sorts – only 53% said Springfield’s policies were unhelpful.

Not surprisingly and definitely not a “man bite’s dog headline”, real estate taxes were listed as the number one long-term challenge. So, at least that remains predictable.

ULTIMATELY EXPECTING FEDERAL POLICY SANITY

Expectations for the balance of 2025 are cautious. While bulls and bears are roughly in balance around 20% each, fully 61% of respondents are in wait and see mode, neither bullish nor bearish. Caution seems prudent in the light of high macroeconomic policy uncertainty.



“The first half of the year was a big tasty nothingburger,” said Hugh Williams, co-Founder, KWILL Merchant Advisors. “We’re looking for tremendous improvement in the second half of 2025.”

Most real estate investors tend to want the Federal government to follow a sort of economic Hippocratic Principal, first do no harm. Current policy seems to be deviating from the overriding principle. A year ago, many investors felt that the economy was on solid footing and directionally inflation (and interest rates) were headed lower. That consensus is fraying.

This sentiment is summed up nicely by Shawn Clark, CEO of CRG, who said, “A year ago, I felt confident we were headed toward a soft landing and multiple Fed rate cuts in 2025. Today, I’m more cautious. There’s real uncertainty about where inflation and long-term rates will settle, especially after the current round of tariff negotiations plays out.”

As we increase the focal length to the next 24 – 36 months, the picture changes dramatically. We have noted in the past, real estate investing requires a certain degree of optimism, due to the nature of the asset class – long lived and immobile.

Optimism that Scott Bessent will ultimately be able to keep Peter Navarro out of the Oval Office is suggested by the 39% of respondents stating they are bullish about real estate in Chicago. Only 14% are bearish for the same 24–36-month time period. Add in the 30% that are neither bullish nor bearish but leaning optimistic, and we have almost 70% of respondents ready to unleash their animal spirits.

This is summed up nicely by Emi Adachi, Managing Director and Co-Head of Global Investment Research at Heitman. She said, “We do need some clarity about when things are going to return to normal, however we define normal.”

Three distinct areas of optimism for the Chicago marketplace were specifically noted in multiple comments:

- Continued strong fundamentals for industrial and multifamily markets, the former quickly working through some excess supply (and tariff related demand softness) and the latter benefiting from the dearth of new building and strong rent growth;
- A downtown office market that is finding a floor, in no small part due to Google’s remaking of the Thompson Center in the Loop. The optimism is such that one observer thought we could see new development within the next two years due to the extreme quality bifurcation; and
- The ongoing progress and expected impact at Related Midwest/CRG’s Quantum Microelectronics Park on the historically underinvested southside lakefront. This combined with Related Midwest’s 78 and Farpoint Development’s Bronzeville Lakefront project suggests more people are casting their eyes in neglected parts of Chicago.

Another encouraging sign for the market is the assessment that deal flow and capital flow are improving in concert.

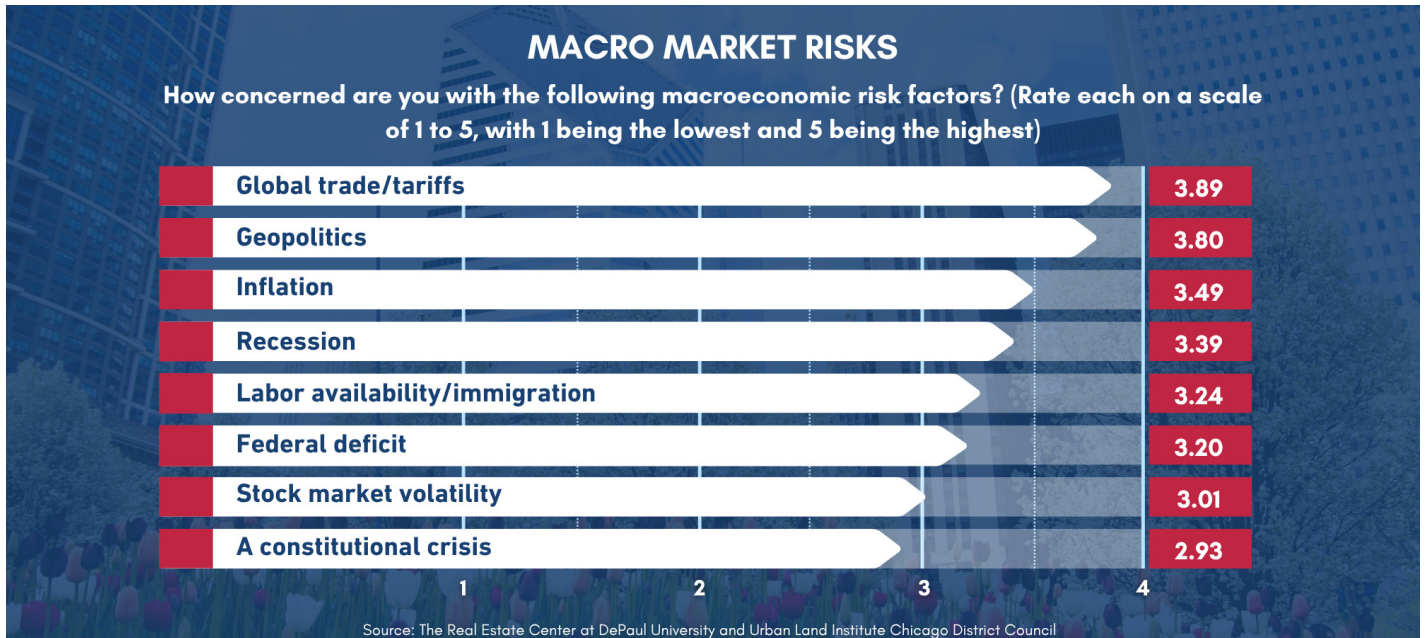
According to the survey, more than 73% of professionals said the number of investment opportunities at their pricing levels is either improving or plentiful. At the same time, more than 77% said equity sources with reasonable return expectations are improving. Even lenders have started to join the party with 71% of people surveyed suggesting that debt pricing that allows for positive leverage is either improving or plentiful.

Reagan Pratt, Douglas and Cynthia Crocker Endowed Director, The Real Estate Center at DePaul University said, “Although the landscape is more heavily skewed toward improving than plentiful, the results demonstrate that opportunities, and the availability of debt and equity are relatively in sync. It is an extremely encouraging sign when capital markets and property markets are in phase. That makes dealmaking much more likely.”



MACRO MARKET RISKS

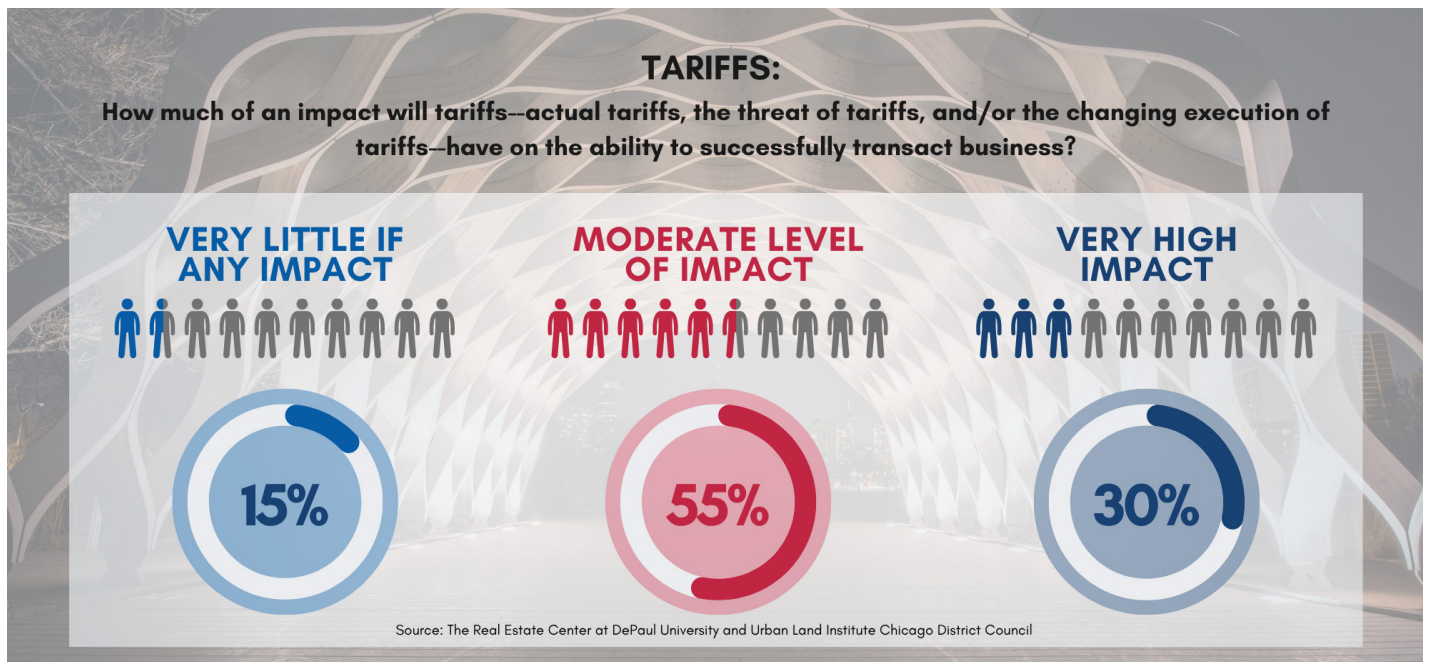
Real estate and business in general are in uncharted waters, with conditions we have not witnessed during the eight-years we have been producing the Mid-Year Sentiment Report. General broad-based tariffs at levels above Smoot-Hawley have no modern parallel and little serious support among practicing economists. While elevated tariffs provide enormous challenges, policy volatility is perhaps an even greater risk to markets. Investors will ultimately adapt to poor policy but mercurial decision making makes informed risk-adjusted capital market analysis and capital deployment near impossible.



Tariffs are just one source of investor angst. Foreign relations have seldom been this challenged. Not surprisingly, when asked to rank a series of macro risks, global tariffs and geopolitics came in #1 and #2. This was well ahead of the traditional macro risks of inflation or recession which clocked in as lower concerns. Perhaps this is because we split the vote as it were – stagflation, an oft mooted outcome of the tariff policy might have won the day had we included it.

TARIFFS – DIRECT AND INDIRECT COSTS

The prevailing sentiment regarding President Donald Trump’s tariff policies—the actual tariffs as well their mercurial application—are that they will have significant impact on the ability to conduct business. Just under nine of 10 professionals, 85%, say that tariffs will have a moderate to very high impact. Three in 10 say the impact will be very high.



Mavrek Development experienced firsthand the indirect impact of tariffs.

“For our project at 1000 W Jackson, we were in advanced conversations with a large equity investor and tariffs killed the negotiations. 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,” said Anthony Hrusovsky, Principal, Mavrek Development.

Tim Anderson, CEO and Founder of Focus, states flatly, “From an overall economic standpoint tariffs are bad. They’re bad for everybody. They become a tax on the consumer.”

At the same time, Anderson addressed the direct impact on development and construction by drilling down to examine the specific exposures. In typical construction projects, materials may account for +/-40% of costs. Yet when analyzing material costs, it’s necessary to understand the level of product coming from overseas and how much of it is under tariff.

It seems pretty clear as it regards tariffs, that the direct cost impact on construction is likely less than the capital market impact.

To that point, Molly McShane, CEO, The McShane Companies, said tariffs are literally the only thing anyone talks about anymore. “It’s a discussion point in large part because of the uncertainty and the shock value that is created when the administration announces tariffs on countries or specific products.”

She also stressed that the ultimate reality is rarely as positive or as negative as the headlines might lead you to believe. “In the case of tariffs, it sounds scary and uncertain,” McShane said. “But we haven’t seen it really represented at scale in elevated pricing numbers from subcontractors.”

Accordingly, some subcontractors are taking a little bit more risk, perhaps absorbing some of the costs themselves, but it’s something that is being worked through, in different ways depending on the situation. Developers and general contractors leverage risk mitigation strategies – locking in pricing, substituting materials, using different sources, being strategic on order timing – in moments like we’re experiencing now.

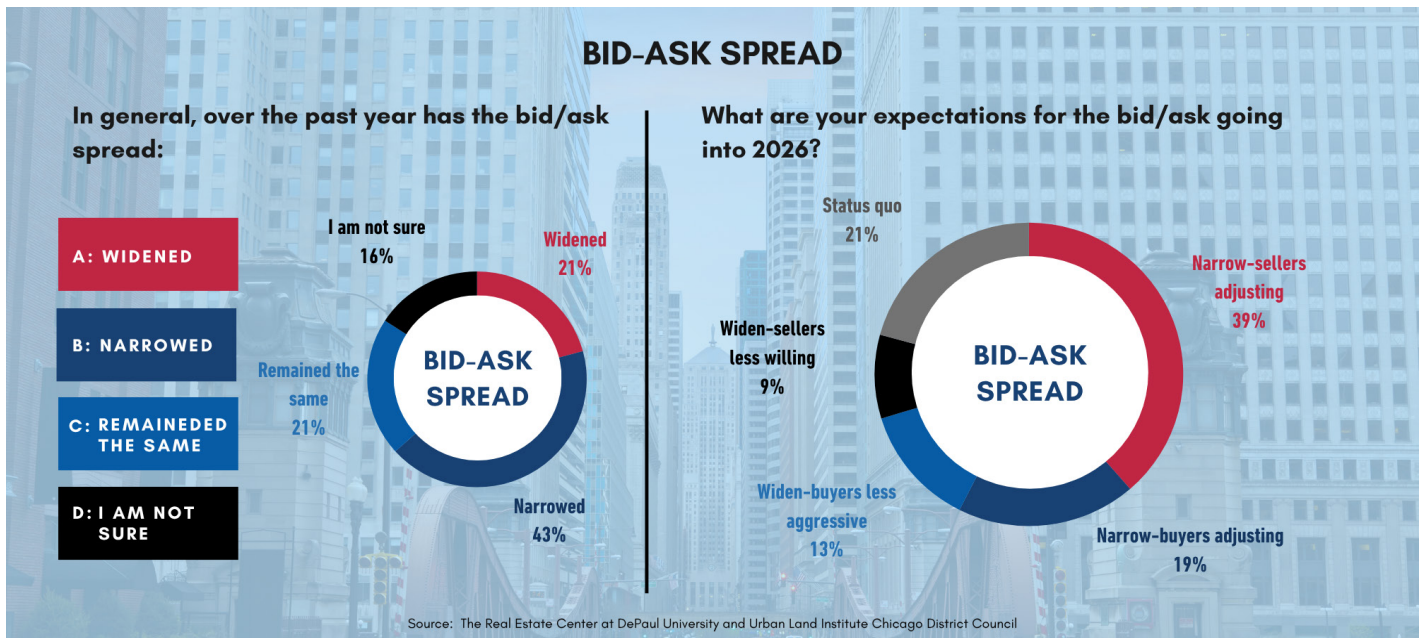
Striking a more positive tone, McShane notes, “This isn’t a movie we haven’t seen before. We’ve dealt with pricing increases and uncertainties before; we know how to handle it. But in a market where deals already are thin, this makes some projects more difficult to pencil.”



BID-ASK-SPREAD

Transactions Should Pick Up When Macro Policy Stabilizes

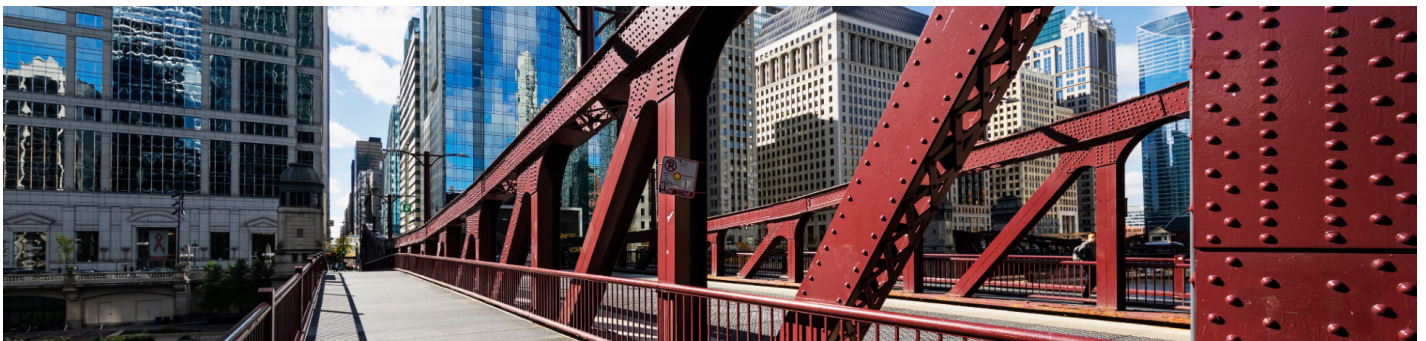
Even against a backdrop of near-term macro uncertainty, 43% of those surveyed believe the bid-ask spread has narrowed over the past year. Looking out to 2026, those surveyed expect even more improvement - with 58% expecting further narrowing of spreads. Interestingly, by a 2-1 margin, those expecting narrowing, expect sellers to move more. This is counter to the common narrative that lots of “dry powder” sitting on the sidelines will cause the gap to narrow as funds grow impatient to deploy raised capital.



“The buy side has remained fairly disciplined. We haven’t seen irrational exuberance return to the market chasing pricing guidance,” said Max Meyers, Managing Partner, Anagram Capital. “If any side of the trade is going to move or has moved at all, it’s really been the sales side.”

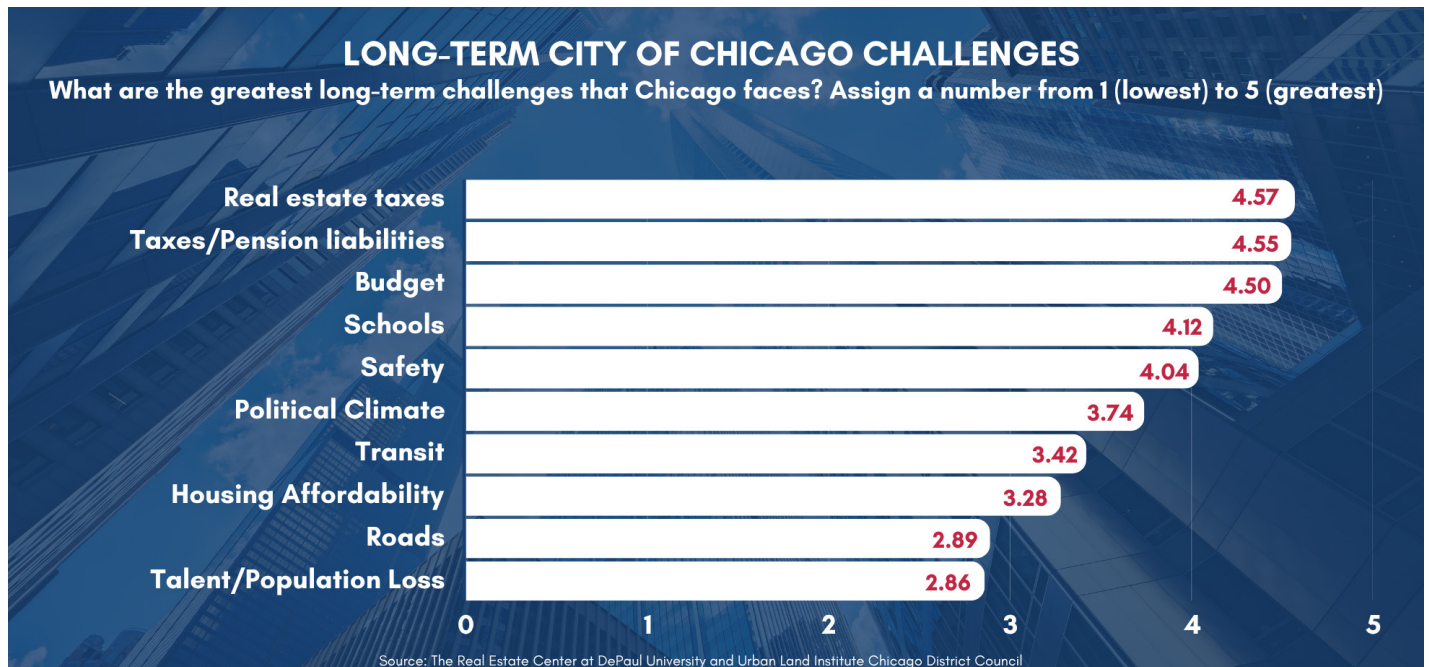
Despite a narrowing of the bid-ask spread, and expectations it will narrow further, current transaction activity should not be characterized as robust. Activity has slowed considerably in 2Q25 as more capital hits the pause button. Meyers reported situations where pricing wasn’t what sellers expected, and in instances where the seller is the lender, this was likely because they didn’t write the position down far enough.

“In those cases, if the asset is lender owned, it is much easier do nothing than to meet the market,” he said.



LOCAL FINANCES TOP CHICAGO'S LONG-TERM CHALLENGES

While investors seemed okay with the Federal Government printing money – the deficit ranked only 6th among the eight macro risks we asked about in the survey - locally investors are much less sanguine. The three greatest long-term challenges facing the city of Chicago, according to the real estate community, are all related to local spending and taxes.



Again, ordinarily this is not a surprise and not different from past surveys. Real estate property taxes, pension liabilities and the City budget ranked 1st, 2nd and 3rd among the 10 risks people were asked to score.

“There is always a concern with the fiscal situation,” Adachi said. “There are negative perceptions from investors who tend to avoid the market. They’re very cautious because of the fiscal situation and property taxes. Those are legitimate concerns.”

While, as Adachi notes, the ordinal ranking was expected, the level of concern was elevated, with each of the three ranked at more than 4.5 out of 5.

Some notable year-over-year changes:

- Safety issues, while still a significant concern, dropped 26 bps to just above 4.0 ranking 5th behind schools. This is in part reflective of the improving overall crime statistics. Local debate rages regarding credit for the improving crime trend but regardless, safety perceptions improved;
- The perception of Chicago public schools weakened, and concern reached 4.1, potentially reflecting turmoil at CPS over the past 12 months;

- Concerns regarding talent loss as reflected by outward migration from Chicago and Illinois lessened, dropping 33 bps to under 3.0, making it the lowest rated challenge in the survey, one notch behind roads. Recent census data confirming that population growth for the region had flipped to positive was likely a factor in the ranking. It seems that the pandemic-fueled exodus to the Sunbelt from Chicago, NYC and San Francisco has slowed to more normal levels; and
- Budget shortages faced by the transit system coupled with Springfield's recent failure to adequately address the issue likely lead to increasing concern for Chicago's transit system, whose score increased to 3.42 in 2025 versus 3.17 a year ago. With a fiscal cliff looming for the CTA as Federal pandemic funds run dry, expect this issue to rise in importance unless the region gets its act together. This is no trivial thing. As highlighted in a first quarter report by Chicago Loop Alliance, the Loop has the highest concentration of public transportation systems, accounting for 21% of all traffic. It will be a challenge to "reimagine the loop" without imagining a better transit plan.



Against the backdrop of financial concerns, some combination of budget cuts and revenue increases will be needed. Unlike the Feds, Chicago has to balance its budget. Those surveyed believe it is a virtual certainty that property taxes will continue to rise in Chicago and across Cook County.

"Anticipating and managing that liability requires owners and investors to be fully informed of, not only the market, but the political winds in Illinois," said Kevin Hynes, a partner with O'Keefe, Lyons & Hynes, a Chicago-based property tax law firm.

"There are a lot of investors who are on the sidelines about investing in Chicago's commercial real estate market until there is more predictability in terms of assessments and how property valuations will fare coming out of the recent wave of high vacancies and lower valuations," Anagram's Meyers added.

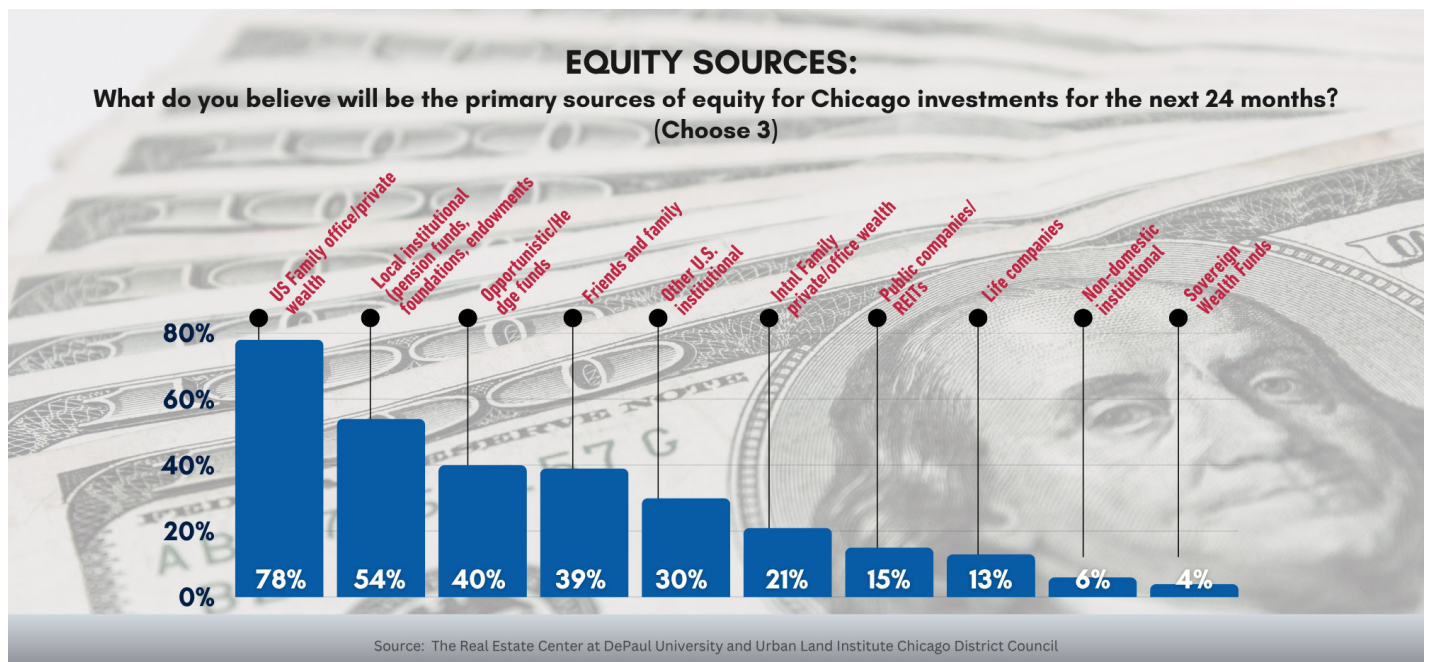
Real estate itself is most definitely immobile, but real estate capital is highly mobile. Until the region gets its fiscal house in order it will be challenging to attract more external capital. While we have seen local animal spirits, exemplified by those like Meyers investing in the rebirth of the Loop, external, non-opportunistic capital is critical. Without such take-out capital, it will be difficult for local entrepreneurial risk takers to achieve the returns that warrant their optimism and risk-taking.

INVESTING IN CHICAGO - AN ACQUIRED TASTE

Much like Chicago’s famous hometown beverage, Malort, investing in Chicago real estate can be an acquired taste.

For most international institutional investors and many nationally focused U.S. based institutional investors, Chicago is not a market that demands exposure. It may not be explicitly red-lined except by a small minority of institutional investors, but Chicago does feel a bit like a flyover market. Said differently, for the most part Chicago real estate is “sold not bought” – i.e., an acquired taste for non-local institutional investors. As we look at investments higher up the risk spectrum, like CBD office, this becomes increasingly true.

This investment landscape is evident in looking at the respondents’ expectations for where equity for investments in Chicago will be sourced. The field is expected to be occupied by private capital/family offices and local institutions. In identifying the top three sources, commercial real estate professionals overwhelmingly chose U.S. family offices and private wealth at 78%. Local institutions (pension funds, foundations, and endowments) followed at 54% with friends and family coming in at 39%.



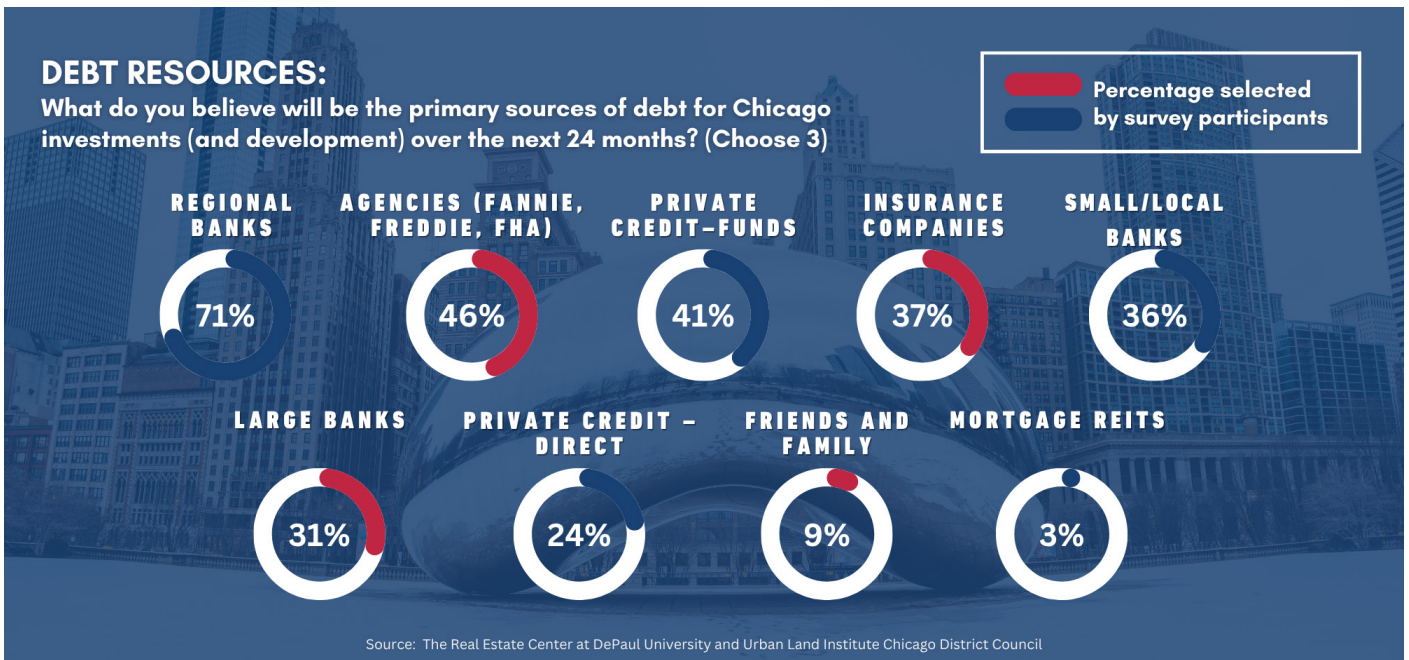
While there is concern about the future availability of equity capital to fund commercial real estate development, some industry experts point to the viability of projects in strong Chicago neighborhoods.

“The smaller neighborhood deals have been much easier to push ahead on which has a lot to do with the investor base,” Mavrek Development’s Hrusovsky said. “If a high-net-worth investor likes the fundamentals of a deal and understands the compelling opportunity created by the current supply demand imbalance in Chicago, they will invest. It’s their money and they make the call without answering to a board.”

Hrusovsky went on to describe high net worth investors (HNWI) as savvy investors who just happen to be dealing with different risk levers than a larger institution. “Institutions, more often than not these days, seem to be swayed by broader investment committee politics and the sentiment that they’d risk their job if they proposed an investment opportunity in Chicago, regardless of the deal’s merits.”

Debt is also expected to be overwhelmingly sourced locally over the next 24 months. Better capitalized regional banks were identified by a whopping 71% of real estate professionals as being primary sources of debt. In sharp contrast, more nationally focused insurance companies and large banks were expected sources of debt capital for just 37% and 31% of those responding to the survey. More capital constrained small local banks, likely already overweight real estate, were cited by only 36% of respondents.

For regional banks like U.S. Bank, 2025 is stacking up to be an active year, following a more muted 2023 and first half of 2024 given the interest rate and inflationary headwinds at the time. “We are seeing activity in the fund space, both on sublines and recast, and also seeing renewals of existing unsecured facilities,” said William Suenkens, CRE Market Manager, U.S. Bank. “On the project side, new construction activity is up from 2023 and 2024 levels.”



Virtually all debt sources, including banks, have been working with clients to retain good business (individual or portfolio deals). These are typically newer assets in the multifamily or industrial sector where the client is deciding not to sell assets coming off of completion and stabilization.

“Specifically, we’re seeing a number of bridge loans in the 3- to 7-year range,” Suenkens said. “Swap rates are still very competitive when compared to treasury rates, allowing banks to compete on term loan business.”

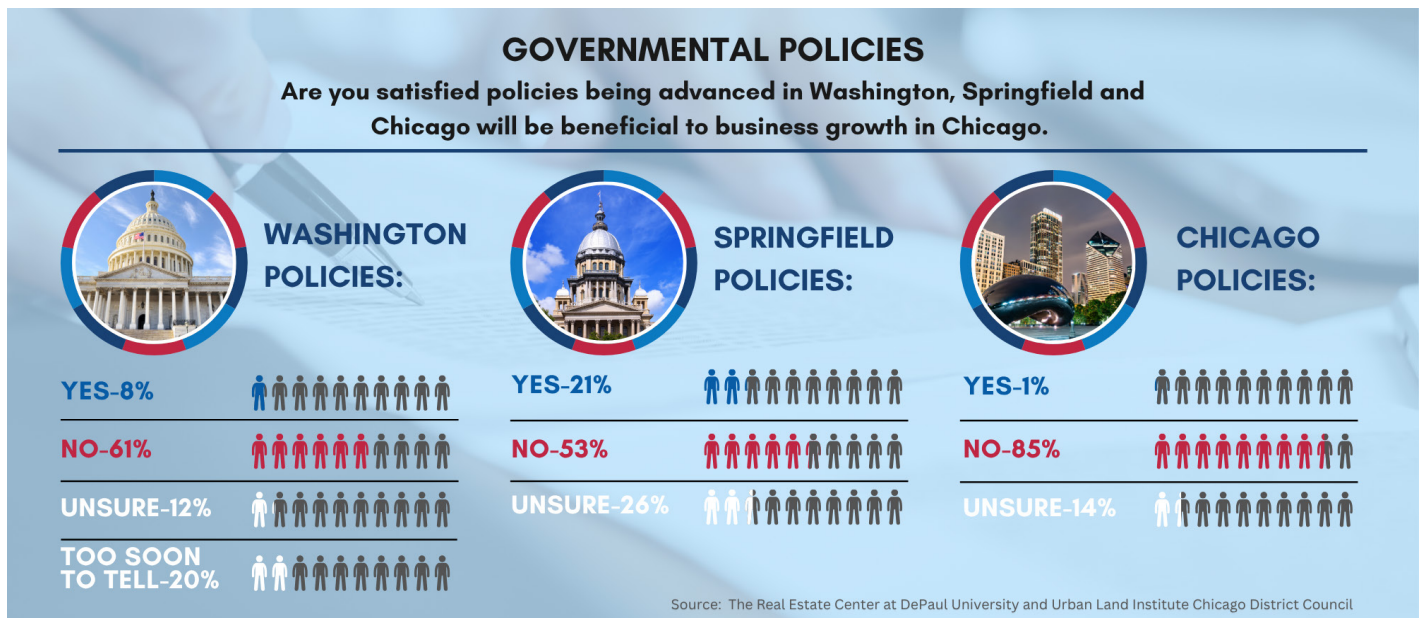
Further, if projects are not yet fully stabilized, there are plenty of debt alternatives to finance the deals, particularly if the projects are at break-even or have a clear path to cash flow and later stabilization. Suenkens agreed that private wealth is prominent in the marketplace today.

In summary, it is fair to say that the Chicago marketplace is not nearly as competitive as it was pre-interest rate move. Fewer potential sources show up on the majority of deals, because of the uncertainty around the economy. Meyers expects that to continue for the rest of 2025 as private investors capitalize on the opportunity to enjoy purchase leverage without traditional institutional competition. “There is a unique window in time to generate significant alpha,” he said.

EVALUATING POLICIES - PRITZKER WINS

It is a time-tested fact that government at all levels conflict, at some point, with the animal spirits that characterize the real estate investment community. Thus, it comes as no surprise that when we asked investors if they were satisfied with government at the Federal, State and City level, the majority answered “No” for all three.

Yet there were significant differences in the level of satisfaction. An astonishingly low 1% registered satisfaction with City Hall, with 85% unhappy. This was followed by Washington D.C. with just 8% satisfied and 61% dissatisfied. Springfield was the winner in a relative landslide, with 21% satisfied and only 53% displeased. It is actually pretty impressive that the State almost achieved a majority that were not dissatisfied. That would have been an unexpected headline.



The introduction to this report led with Federal concerns, largely because it is quite unusual for Federal policy makers (other than the Fed) to be in the crosshairs of local real estate investors. This sentiment was exemplified by CRG’s Clark.

“Recently I’ve grown concerned about the so-called One Big Beautiful Bill— which appears to increase government spending without offsetting revenues,” Clark said. “Such fiscal expansion could necessitate increased money printing and drive inflation, potentially complicating the Fed’s path forward.”

Comments at the City level were not flattering, reflective of the 1% satisfaction score.

“Industrial developers don’t want to develop in the city because if a site is over a certain size, there are many more hoops to go through,” Williams said. “Dealing with the aldermanic prerogative can be a problem, unless the alderman is talented and pro-business.”

Among the most charitable was this from Hynes, partner with law firm O’Keefe, Lyons & Hynes.

“I believe local government wants to help business—it’s in their best interests. Still, Hynes went on to add, “At the same time, the annual mantra at tax time from City Hall and the County building is that businesses don’t pay enough. There needs to be a more business-focused approach to attracting investment in Chicago. Demagoguing business is not going to work.”

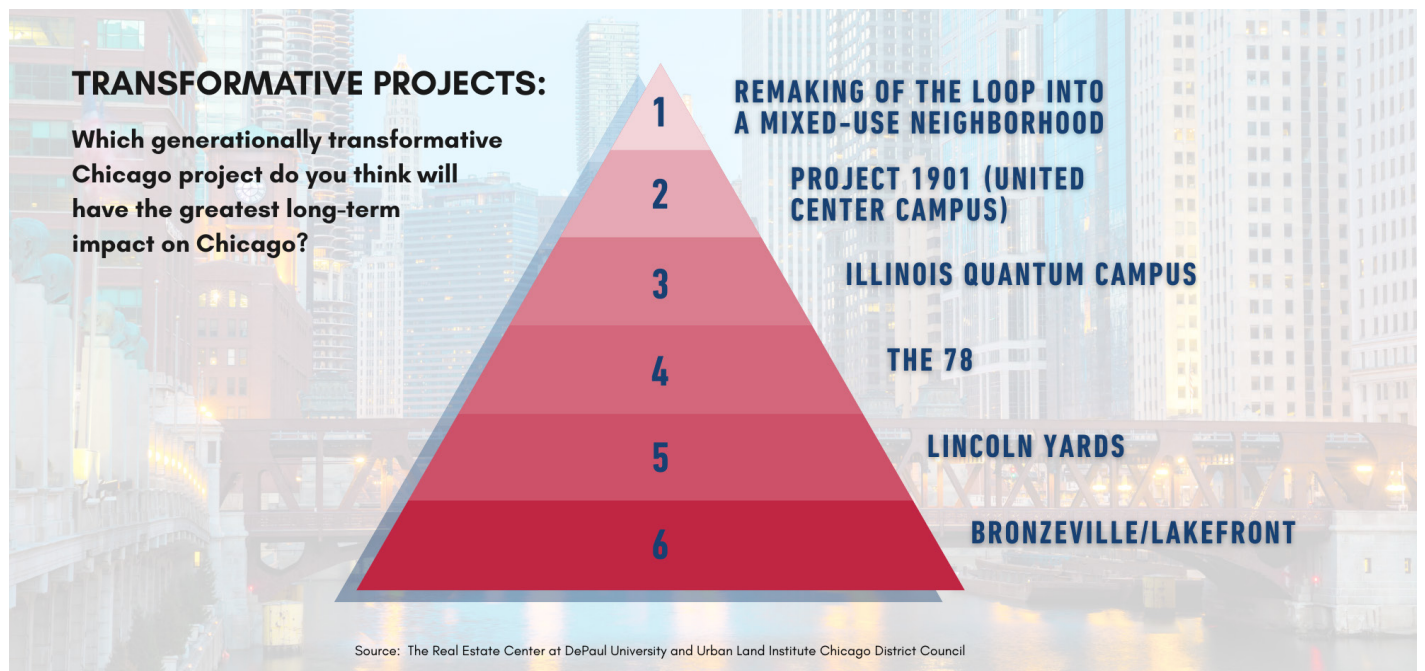
Others noted the haphazard and random nature of the policies. “That’s not a political statement, it’s reality,” said Anagram’s Meyers. “On the positive side, uncertainty and chaos creates the opportunity for investors to take advantage of dislocations.”

While only 1% were satisfied with City Hall’s policies, a significant number of people in the survey and in interviews were quick to praise Commissioner Boatright. Perhaps there is a takeaway there. A combination of industry experience and planning knowledge is a pretty good skillset for navigating local politics.

TRANSFORMATIVE PROJECTS – MAKE NO LITTLE PLANS

In *City on the Make*, Nelson Algren says about Chicago, “It’s the place built out of man’s ceaseless failure to overcome himself.” Heitman’s Mary Ludgin once quipped that because of its prairie locale, Chicago had no mountains, no geography. So, we built it from scratch.

All of that to say, real estate has a special and outsized place in Chicago’s civic identity. Survey participants were asked to rank which generationally transformative Chicago projects will have the greatest long-term impact.



“They’re all passion projects,” said Regina Stilp, Principal, Farpoint Development. “They’re love letters to the City of Chicago. They’re all beautiful sites with great potential. That’s the common thread in all of them.”

Four of the six are located in areas that recent history would suggest (to put it politely) have been underinvested. These include the shuttered Steel Works sites on the Lakefront by the Calumet River, a large site in an historically significant but recently underinvested African American neighborhood on Chicago’s South Side, and a continuation of the renaissance on Chicago’s near westside, around the United Center. Toss in a project south of Roosevelt Road along the South Branch of the Chicago River and there are a fascinating array of transformative possibilities.

These projects have the potential to change the course of each area or neighborhood, even creating entirely new neighborhoods like the 78. Three of these projects bracket the Loop, with the potential to help or inhibit the City's goal of reimagining the Loop as a truly functioning mixed use neighborhood.

Ranked number one, by a significant margin, was the "Remaking of the Loop" into a mixed-use neighborhood. It was followed by Project 1901, the United Center Campus, and Illinois Quantum Campus, two relatively new projects. Other transformative projects included The 78, Lincoln Yards, and Bronzeville/Lakefront.

"The Loop is a key destination," said Michael Edwards, President, Chicago Loop Alliance. According to the Chicago Loop Alliance's first quarter report, the Loop represents less than one half of a percent of Chicago's geography but generates 14.7% of all tax revenue. "There is a place in Chicago to be in the national spotlight, for NFL football, national political conventions and other single events," he continued. "But consistent, ongoing impact is what is needed most."

Pratt interpreted the results, and the Reimagining of the Loop's popularity, to the maturity of and familiarity with the area. "The Loop is already a functioning area – albeit one in transition but certainly not a brownfield site," he said. He noted the similarity, of sorts, of 1901, a developed neighborhood in transition and an area survey respondents have most certainly visited on their way to the United Center.

Still, the selection of 1901 as the project with the second greatest potential was somewhat surprising. However, it is the least heavy lift of the non-loop projects. It is a well-functioning neighborhood anchored by the United Center. In short, it is a neighborhood that is farther along in its transition.

News flow likely played a role in the other rankings. Not much news on the 78 (although that changed with the recent announcement of Joe Mansueto's funding of a new stadium for the Chicago Fire that will anchor this megadevelopment) and a lot of recent positive momentum on the Quantum Campus have likely caused a convergence from different directions. Recently more negative news flow on Lincoln Yards, including a much less ambitious buildout discussed by the new owners of half the area was likely an influence on perception.

Bronzeville has had no real negative news flow but remains in an area that has traditionally been ignored/underinvested. Further investment in Bronzeville could change this fall when the winner of the 2025 Chicago Prize is announced. The Cottage Grove Corridor Collective, a \$23.9 million development that will bring mixed housing, retail and cultural opportunities to Bronzeville, is a finalist for the \$10 million prize.

Among the key forces behind transformative developments is an understanding of the value of the city and their role in filling the gaps that exist between neighborhoods and mega sites. Planning is a critical element; great master plans as well as the bite-size pieces.

"I hope that people never lose sight of the importance of mega projects. They give people something to hope and dream," said Hugh Williams, KWILL. "I don't think the mega project will ever go away because the mega project is the definition of urbanization."

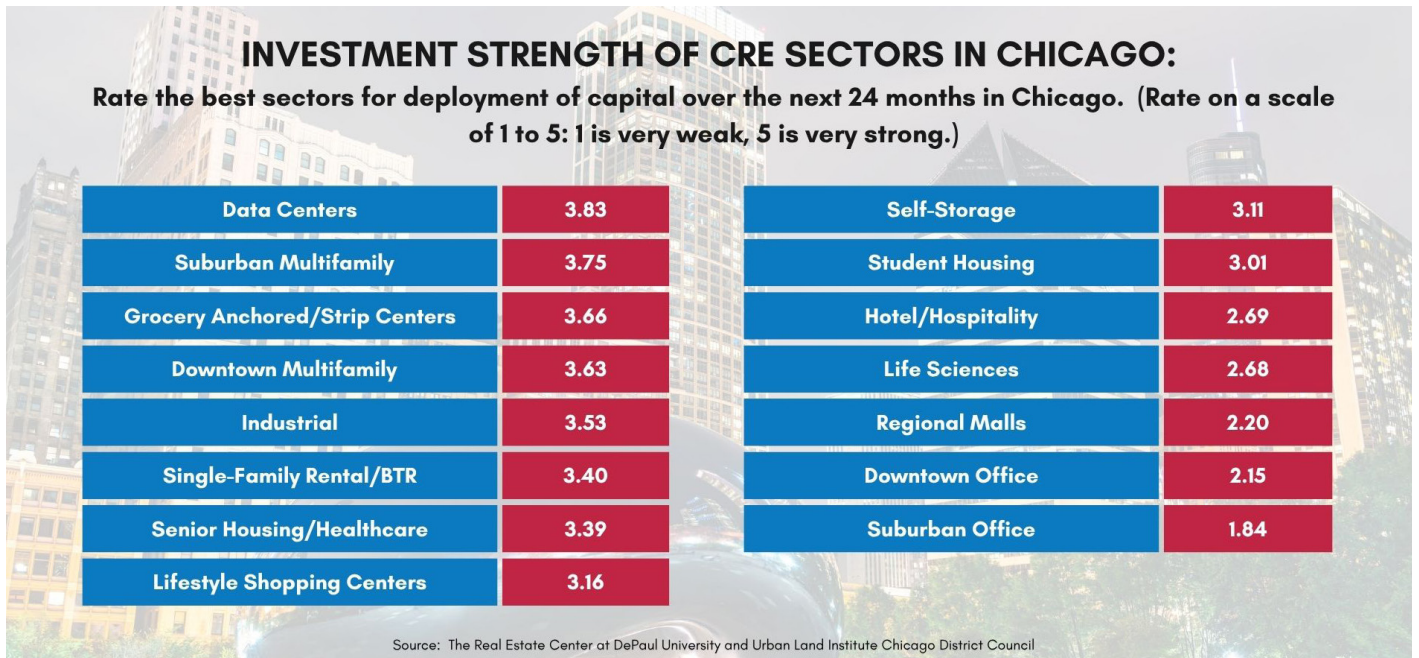
According to Stilp, another thread connecting the mega developments is you have to love Chicago. "I don't think anyone started off by thinking they would make a gazillion dollars doing one of these projects," Stilp said.



PROPERTY SECTOR RANKINGS

Macroeconomic Headwinds Swamp All Boats

As we do annually, we asked Chicago investment professionals to rank the investment strength of the various property segments over the next 24 months. The time period is intended to be long enough to avoid near-term noise but short enough to allow investors to have a meaningful and informed outlook.



The first thing that jumps out in the rankings (1 worst and 5 best) is that no segment scored a four or a five. We think this is a clear statement regarding the uncertainty created by macroeconomic policy. Data centers, a recent investment darling, led the 2025 rankings, scoring a 3.83. But in 2024, data centers led all other choices with a score of 4.25. Clearly, there are no longer any slam dunks for investors.

Suburban multifamily retained its place in the rankings, clocking in at #2 in 2024 and 2025. Adachi said one of the really compelling storylines is how strong fundamentals are in the Chicago market, particularly in the apartment and industrial sectors. “Chicago is leading the nation right now in apartment rent growth and it is outperforming the national averages in the industrial market,” Adachi said. “That continues to be a real positive for Chicago.”





Still industrial, a perennial favorite, dropped from 3.7 to 3.5 and slipped to fifth place behind downtown multifamily. A combination of tariff related concerns and elevated new supply each weighed on the industrial sector. Conversely, new to the rankings and the poll was the grocery-anchored center category which scored a 3.66, good enough for 3rd place. A combination of tariff and recession insulation (groceries are an obvious staple) and a near total dearth of new supply has been garnering attention for the segment nationally. Chicago investors have noticed the same attributes.

Bucking the trend of lower overall scores, both the downtown and suburban office sectors scored higher in 2025 than a year ago, with downtown office jumping 48 bps. Certainly the ability to acquire properties at greatly reduced prices in a basis play (i.e., seller capitulation) has played a role. That written, cheap is not an investment strategy on its own. Green shoots exemplified by both Google and JP Morgan making huge commitments to the central loop were important too. Yet, to keep the increase in perspective, downtown office assets still scored below 2.15.

The overall sentiment was summed up U.S. Bank's Suenkens who stated, "I am optimistic. Looking ahead, if interest rate and inflationary concerns in the market wane, we expect capital decisions being made that have been (up to now) deferred resulting in greater transaction volume for the CRE industry in Chicago."



INDUSTRIAL MARKET

The industrial market in Chicago remains one of the largest in the country. It is regularly mentioned by investment professionals as one of the strongest sectors in Chicago, despite the fact that in our survey its ranking as a sector for capital deployment has declined slightly each of the past three years.

Among the reasons for the sector's strength in Chicago as well as across much of the country is the fact that while new supply has been elevated over the past few years, speculative development has not been excessive to the point of tremendous overbuilding.

Laura Hyde, Managing Director of Investments, Central Region, Link Logistics, says the broader industrial market enjoys a healthier position compared to some coastal markets, a position that was evident even before tariffs entered the equation. "The dynamics on the ground feel really positive," she said. "There are opportunities for an attractive basis, strong yields and runway to grow." She also noted that average rents continue to escalate, at least for now.



That is not to say that the macroeconomic backdrop is not impacting current market conditions. Perhaps more than most sectors, tariffs are impacting the industrial sector, at least until there is more data and direction on their impact.

"We've seen decision-making uncertainty," Hyde acknowledged. "Tenants aren't backing out of deals, but they are delaying decisions. That could set the market up for a strong third and fourth quarter of activity."

Just as the pandemic mandated a change to supply chain strategies, tariffs could also cause changes. For example, if tariffs result in a greater level of onshoring by US companies it may be good for industrial demand. Many tenants, depending on their size and line of business, are assessing what's best for their inventories and supply chains with some contemplating stockpiling products and materials to avoid negative consequences of the tariffs. On balance, industry professionals are bullish on Chicago industrial in the long run. Still, Hyde cautions, much remains to be seen about the level and impact of tariffs. She said early July will be a critical time, based on President Trump's target for re-enacting tariffs.

Because of the size and geographic diversity of the Chicago marketplace, it's hard to paint a broad-brush picture of the sector. Different markets and submarkets cater to different users many of whom have distinct leasing requirements.

Link's Hyde noted that in the 100,000 to 200,000-square-foot range, the I-55 market has softened, despite its historical appeal to bulk distribution users. At the same time, the market for space less than 100,000 square feet has been strong with those tenants, that typically are more locally focused. Notably investment activity is also picking up in Chicago for the \$3 billion national industrial outdoor storage segment.

INDUSTRIAL OUTDOOR STORAGE

The popularity of the industrial outdoor storage (IOS) subsector of industrial real estate has increased considerably in Chicago and across the U.S. Tom Barbera, CEO, Industrial Outdoor Ventures, described Chicago's IOS market as strong with low vacancy, robust tenant demand and narrowing bid-ask spreads, particularly when compared to coastal markets. Like the broader industrial market, pricing in the IOS sector—rental rates and sale prices—have held up better in Chicago than in tier-one coastal markets that have experienced more dramatic peaks and subsequent declines.

"The current trajectory of investment in IOS exceeds expectations," Barbera said. "It's exciting to see the sector gain scale and credibility."

He noted that the sector's increasing popularity is also evident in the debt markets. Today, the national IOS market exceeds \$300 billion. It has been buoyed, nationally and in Chicago, by increasing institutionalization, especially over the past five years. Barbera, one of the early investors in the space, isn't surprised by its growing popularity.



"An increasing number of lenders are entering the space, as debt tends to follow equity," Barbera said. "Although debt sources are not as abundant for IOS properties as for generic industrial properties, debt is available, especially for experienced operators."

But here too, the outcome of tariff negotiations is a significant concern. "My greatest concern for potential setbacks in the marketplace is a negative outcome in tariff negotiations which could lead to a recession," Barbera said. "However, I am optimistic that a favorable outcome can be reached."

DATA CENTERS

Demand for data centers is surging both nationally and in Chicago with the rapid rise of AI, high-performance computing and cloud services. While exciting announcements such as CRG/Related Midwest's Quantum project provide headlines, there is a lot of activity region wide. In Hoffman Estates, Compass Datacenters is transforming the former 200-acre Sears headquarter campus into a five-building data center campus development. In far western suburban Yorkville, CyrusOne is developing a 230-acre complex, and in southwest suburban Plano, Microsoft acquired a 500-plus acre site for a new development.



Despite impressive activity, the data center segment in Chicago and Illinois is at a crossroads. Developers and users are actively pursuing large land sites with reliable access to power—but outdated legislation, such as the Biometric Information Privacy Act (BIPA), is creating real hesitation.

Some suggest that if the state doesn't modernize its laws, it risks losing out on the enormous capital investment, innovation, and job creation potential. "Some argue the sector is overhyped and overbuilt. I disagree," CRG's Clark said. "I believe AI adoption is progressing faster than most people realize, and the demand for computing, storage and additional use cases will continue to accelerate over the long term."

Chicago has been a key market for data center users thanks to its central location, access to fiber, and strong infrastructure. "The collaboration between public entities, academia, and private industry exemplifies how states and cities can adapt and thrive in the evolving technological landscape," Clark said.

The hope is that the Quantum project will breathe new life into a site that once symbolized industrial might and is now reimagined as a hub for cutting-edge technology. Nationally, it positions Chicago as a leader in quantum research and development and is expected to attract top talent, significant investment, and innovative ideas.

THE DOWNTOWN OFFICE MARKET

In this year's survey, the investment strength of downtown office was only 2.15 (on a 5 point scale) though that represents an improvement from last year. Only suburban office scored lower. There are a few encouraging signs however, not the least of which include Google and J.P. Morgan making massive commitments to the central loop.

As is often the case at market inflection points, local capital is the first to recognize the opportunities. Anagram's Max Meyers, a native Chicagoan, is typical of this investor type. Meyers admitted to some "hometown bias" when he stressed his belief that Chicago is institutionally oversold/overlooked. "As a Chicago-based firm, we are excited to lean in and capitalize on opportunities."

"I fundamentally believe in the return to office and a new normal that will continue to evolve. We are seeing more leasing activity in our portfolio in 2025 than we have seen in the last 5 years," Meyers said. "The office recovery is driving a generational investment play, that includes Chicago. The price per pound reset and entry cap rate spread to treasuries is cyclically compelling on a national level."

That written, there remains a significant gap between high-quality and lower-tier properties with demand for premium spaces pushing rent growth to 15% to 20% in trophy buildings, said Hines' Managing Director, Brian Atkinson.

"There is a very clear bifurcation in the market between either new construction or highly improved or amenitized trophy product in well-located areas versus not well-located Class B and C product," Atkinson said.

"There is a shockingly wide canyon between those two in terms of price, particularly in prime locations such as the West Loop where large blocks of available space are scarce," he continued. "The best buildings in the best locations are resetting rents and I've never seen anything like it."

Atkinson suggested that with rents for trophy buildings \$30 a foot higher than for older product, new development may come sooner than many expect. There are a number of sites, including those controlled by Hines, The Buck Company, Related Midwest and Tishman Speyer, that are strong potential candidates to launch new construction, according to Atkinson.

"Yet, any new office product wouldn't be delivered until 2029 or 2030 at the earliest," Atkinson said.

According to Hynes, of O'Keefe Lyons and Hynes, "Investors are very cautious about Chicago given the uncertainty around future property assessment levels. While Class A properties will always attract investment, the property tax fate and investment appeal of Class B and C properties with significant vacancy issues is still being determined."

Despite uncertainty, some capital remains willing to place a bet on select older loop assets. At 25 E. Washington, for example, a vintage 300,000-square-foot office has decades-long foreign owners who are spending approximately \$13 million on a tenant amenity center that will be comparable to amenity space in the newest Class A trophy buildings. Tenants are taking notice and new leases are being signed.



THE SUBURBAN OFFICE MARKET

It is easy to understand why suburban office ranked dead last in terms of expected investment strength over the next 24 months. Barely a week passes without a news story describing a distressed asset taken back by a lender or sold at a steep discount to the prior sale price.

The theme of bifurcation in the office sector extends to the suburban market, where Class A buildings fare better than Class B and C properties. However, Al Klairmont, President and CEO of Imperial Realty, says the suburbs are worse off because tenants are downsizing and demand for space from large users is all but non-existent.

“It’s very challenging because of the level of oversupply; or as some might say: under-demand,” he said. “Any owner with a mortgage is hard-pressed to be operating in the black.”

Both sides of the income and expense equation contribute to the financial crisis that many building owners face. Demand is down and rents are not moving higher. Further exacerbating the situation, operating expenses typically are increasing. That includes real estate taxes, utilities, construction, brokerage fees, and tenant improvements. They all contribute to the increased costs.

Klairmont expects that some improvement will occur because there will be a razing of existing buildings and campuses or the repurposing of office buildings. In Hoffman Estates, for example, the sprawling former Sears corporate campus has been demolished to make way for a significant data center development. Other likely successors to obsolete office buildings throughout the metro area are, as Klairmont said, “Residential, residential, residential—even in the suburbs.”

Despite the challenges being experienced now, Klairmont is confident that things will come back. “I just can’t pinpoint when.” His greatest source of optimism comes from history. “Real estate as a whole, and each sector alone, has its cycles—its peaks and valleys. And historically, whatever goes down comes back up.”



THE MULTIFAMILY MARKET



Multifamily investments in Chicago continued to rank highly in the survey. Suburban multifamily ranked #2 and downtown multifamily #4, among the 15 property types included in the poll. The most compelling storyline for Chicago's multifamily sector, downtown and in the suburbs, is the lack of new supply in the development pipeline. The volume of for sale or rental units coming online in the next two to three years is remarkably low. In the absence of new supply, strong renter demand is leading to robust rent growth.

"Chicago, unlike other areas of the country, has not been oversupplied in the past five years," said Anderson of Focus. "So, the market is in a very healthy position which translates into very strong rent growth going forward."

Operational costs continue to be a focus for owners and investors. While labor costs have stabilized, insurance costs in general are rising due to increased climate-related incidents nationally. Yet Chicago is a relatively good market because of its more moderate climate. Real estate taxes, especially in Chicago and throughout Cook County, and utilities remain the primary non-controllable expenses.

Given market fundamentals, the logical question becomes "Why aren't we seeing more housing being built?" One explanation is that institutional equity remains skittish and is still pausing its capital investment/deployment. Over time, the skittishness has been heavily influenced by the interest rate environment and more recently the ambiguity with tariffs. "Uncertainty is bad for those kinds of investors," Anderson said. "Their appetite is going to come back eventually, and it's starting to; but it's not back yet."

Philip Lukowski, Managing Partner, Portfolio Management, Waterton, highlighted that while Chicago's multifamily fundamentals are strong, there's still a cap rate premium for buying properties due to institutional concerns about volatile real estate taxes and liquidity.

"We continue to view Chicago favorably for new underwriting, in part due to the cap rate premium which aids in creating positive leverage," Lukowski said. "In Chicago and across the country, we look for the right deal with strong underlying market fundamentals." He acknowledged Chicago's upside may be less dramatic now, which means they will focus on underwriting based on basis rather than just occupancy.

Lukowski identified affordability as the one of the biggest challenges and called for collaboration between the city and developers to convert obsolete buildings into housing. According to Heitman research, Chicago has the fourth highest amount of conversions happening across major markets. It's behind New York, DC, and LA.

"Certainly, if you look at the office to residential conversions within the context of the overall downtown office market, it's not a significant percentage," Adachi said. "But still, the rate at which the development community is embracing conversions is very encouraging."

THE RETAIL MARKET

Retail real estate covers a wide range of asset types including regional malls, grocery anchored centers, lifestyle power centers and of course, free standing shops clustered along select city streets, including famed high streets like Michigan Avenue and State Street. Each asset has different supply/demand dynamics.

Among our survey respondents, grocery anchored centers were deemed the 3rd most attractive investment segment right behind suburban multifamily. This is not surprising. Like multifamily, the grocery-anchored center segment is characterized by a dearth of new supply. Further, given its typical focus on necessities like food and services, grocery anchored centers are quite recession resistant.

Nationally, investors have been aggressively seeking out these defensive assets. Chicago has also benefited from the trend, but due to its overall shortage of institutional capital, there are still attractive opportunities, as reflected by the survey scores.



Suburban retail has been performing well, characterized by high occupancies, rising rents and increasing absorption levels. According to Adam Firsel, Principal, Core Acquisitions, one of the signs of strength in the suburban retail market is the backfilling of junior box tenants taking place as bankruptcies occur.

“The retail sector is showing larger allocations of investment than in the past 15 years,” Firsel said. “While other property types have really gotten hurt from high rates and the Post-Covid world, retail has been resilient with great underlying fundamentals. It’s been nice to have retail get back into the investing spotlight.”

Out lot development is performing well. Shopping centers that have opportunities to create new out lots, or re-tenant defunct ones, will have good opportunities. Panera, Dutch Bros., 7 Brew, Starbucks, Shake Shack, Portillo’s, Cava, Chipotle, and others are among the users with great credit willing to pay high rents supporting new construction on outparcels.

Outside of the defensive grocery anchored segment, retail is much more of a mixed bag. The economy is showing early warning signs of weakening as consumer spending has slowed and likely will be further impacted by the impact of tariffs. Firsel anticipates more retail bankruptcies on the horizon as sectors like furniture and luxury have started to weaken..

Still, real estate professionals surveyed for this report noted a resurgence and evolution of retail space throughout Chicago. Edwards, of the Chicago Loop Alliance, expressed his optimism saying cities are very resilient.

“Cities are the greatest invention because they show creativity.” At the same time, Edwards called for greater levels of progressive innovation citing the example of a retailer in Asia whose storefront display projects a shopper’s hologram onto a screen in a featured suit or outfit. “We need that progressiveness here.”

Farpoint's Regina Stilp, who sits on the board of the North Michigan Avenue Association, is seeing interesting and steady movement on Michigan Avenue, where Farpoint is a property owner. She characterized the market as evolving to be more experiential.

"People are looking for their Instagram moment," Stilp said. "You draw people in by being experiential."

Examples include a flagship Aritzia store, equipped with a bar and the Canada Goose store where shoppers can walk into a freezer to test the warmth of their coats at 20 below. Other attractions, where there often are lines and smart phones clicking as Instagram posts are created, include the Harry Potter Museum and the Starbucks Roastery.



Ryan Segal, Vice President of Property Management, with the \$2.6B market cap Acadia Realty Trust, also expressed general optimism for the Chicago retail market, suggesting Michigan Avenue will continue to be successful and attract tenants as it becomes increasingly more experiential. Segal is very bullish on various neighborhood and corridor markets, like the Armitage and Clark/Diversey, where his firm has considerable holdings.

"The strength of neighborhood markets, like Armitage, Clark & Diversey and the Gold Coast, is that people like to stay close to home and shop where they live," Segal said. Because of the demographics and popularity of some of these areas, Segal said there often is a waiting list for space. That type of demand has paved the way for strong year over year and five-year rent growth trajectories. It is also attracting institutional investors.

"It's not just happening in highly recognized corridors like Michigan Avenue," Segal said. "It's happening in some of the neighborhoods too."



BELLY UP TO THE GENIUS BAR

Q & A with James Shilling



Unprecedented. As the pandemic was winding down and the Global economy reemerging, it was a word that had been used to exhaustion. We were glad to see its use fade as Covid 19 went from a pandemic to endemic and the Global economy re-emerged. Fast-forward to today. History does not always repeat itself, but it often rhymes.

Today, we seem to be in the midst of major economic and geopolitical risks; perhaps even unprecedented ones. At such times, we think it is useful to seek expert perspective and help put it all in context.

Below we feature a Q&A with Jim Shilling, the George L. Ruff Endowed Chair in the Real Estate Center at DePaul University. A prolific scholar, Shilling has produced more than 80 journal articles, studies, books and book chapters. The following provides his expert perspective on topics including inflation, stagflation, tariffs, and a recession.

INFLATION

Based on the results of the survey, 80% of the participants believe in one year inflation will be 2.5% or higher and 52% believe it will be above 3%. What do you conclude from that?

This result isn't too surprising. Inflation could strengthen through late 2025, primarily due to tariffs, before slowing in 2026. While tariffs will likely drive inflation higher in the second half of 2025, they may also dampen demand and increase unemployment, thereby reducing the likelihood of sustained inflationary pressures a year from now.

My conclusion is any Federal Reserve rate cuts—which could be largely beneficial to real estate markets—are unlikely before 2026.



STAGFLATION

What is the likelihood of stagflation within 12 months?

I think of stagflation as weak growth combined with high inflation.

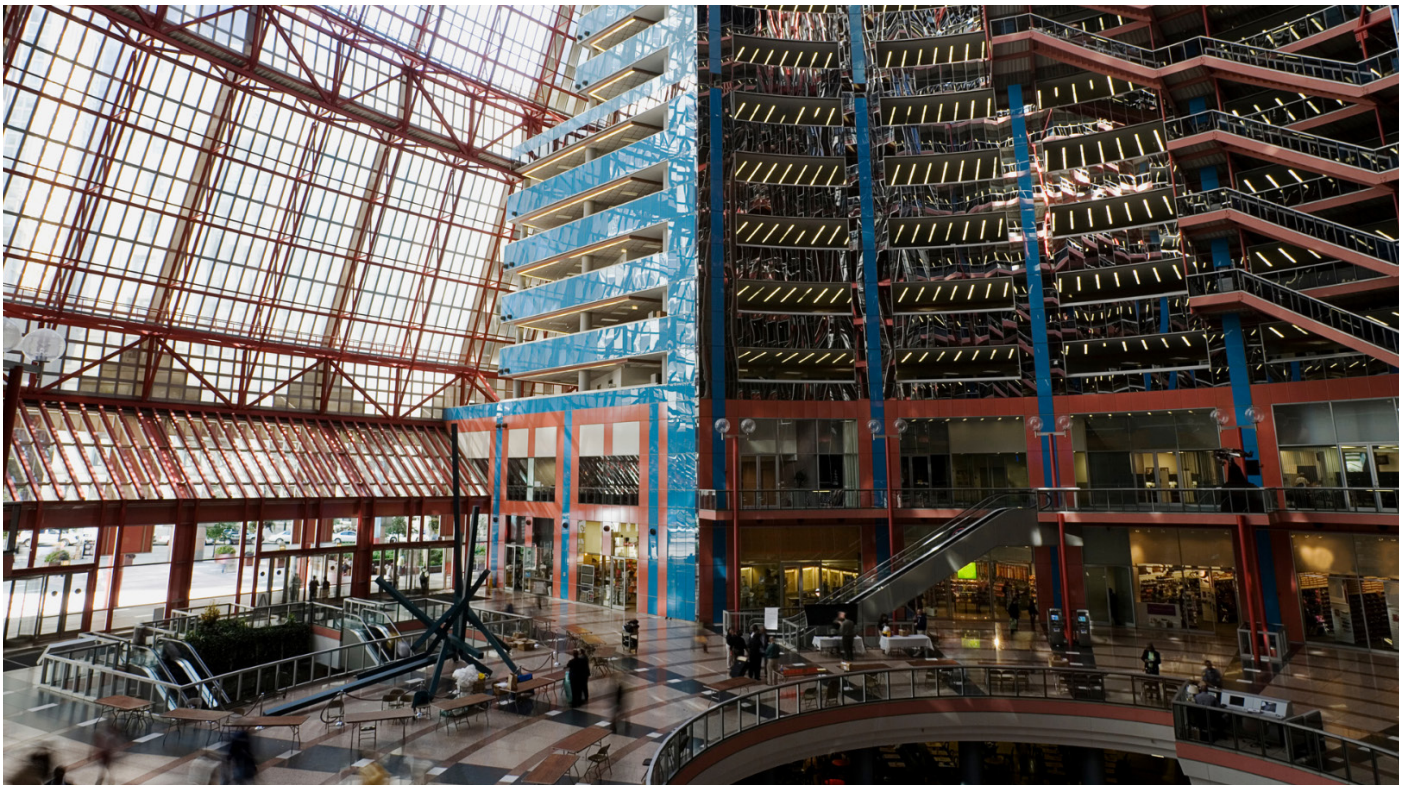
Currently, real GDP year-over-year growth is ranging from about 2% to 3%, with the trend hovering around 2%. The US Congressional Budget Office (CBO) projects real potential GDP growth to average around 1.8% to 2% per year over the next decade.

For inflation trends, core CPI (excluding food and energy) is rising at approximately 3% year-over-year.

Given these figures, it's unclear whether "stagflation" – weak growth combined with high inflation – is the right term for the current conditions. However, Trump's tariffs could severely disrupt global supply chains, potentially driving higher prices and weaker growth.

So, is stagflation likely within the next 12 months?

Yes – depending on Trump's strategy, which remains uncertain. Much will hinge on the tariff levels imposed if countries comply with his demands.



A RECESSION

What is the likelihood of a recession?

Concerns about recession risks have been rising. Economists, including Catherine Rampell (Washington Post) and Larry Summers (former Treasury Secretary under President Clinton), estimate a 40% to 50% probability of a recession.

James Hamilton (University of California, San Diego) developed an index that measures the likelihood that the U.S. economy is in a recession. Historically, when the index surpasses 67%, it reliably indicates that a recession has begun. Currently, the index suggests the economy is not at recession levels.



However, the University of Michigan Sentiment Index presents a different perspective. With a current reading of 71, it falls slightly below the 73.4 average observed during NBER-defined recession periods, suggesting recessionary conditions.

It's important to note that the Federal Reserve still considers the economy resilient, with the labor market at full employment.

I understand why the survey answers are evenly split. We could combine a productivity boom with some tax cuts and maybe end up in an okay place in the second half of 2025 and going forward.

I also believe that the U.S. economy should be able to avoid a recession in 2025. Economies tend to operate more like oil tankers than speedboats—they turn very slowly. This is especially true when there is a large amount of momentum in the economy – like low unemployment, moderated inflation, and a lot of consumer spending.

However, recession risks have increased significantly. The uncertainty surrounding high tariffs and persistent inflation will likely keep the Federal Reserve on hold until next year, contributing to slower economic growth in the second half of 2025.

This presents challenges for real estate markets. Property markets that began recovering in 2024—with rising transaction volumes and stabilizing values—could see widening bid-ask spreads, as buyers grow cautious. Investors will likely become more selective about location and asset type, which explains why about half of surveyed real estate professionals believe the economy is either already in a recession or approaching one in late 2025.

Looking ahead, I don't expect significant economic disruptions until 2026. I would also put the probability of recession in 2026 at around 15 to 20 percent, in line with the survey findings.

Why the relatively low odds?

Potential expansionary policies—such as tax cuts—under Trump in late 2025 could help sustain growth into 2026.

Of course, it goes without saying that a recession is inevitable at some point, possibly occurring after 2026, making this response to the survey somewhat of a tautology.

TARIFF IMPACT

What impact will tariffs have on the ability to do business?

What impact will tariffs have on the ability to do business?

Despite the most recent trade détente, tariffs continue to inject uncertainty and risk into the economy. If tariffs remain largely unchanged, they are likely to cause a one-time price increase, which could slow growth and negatively impact the labor market. In such a scenario, the Fed would likely respond by lowering interest rates.

Yet, if businesses layer the tariffs into their prices slowly over time, then it could be the case that the tariffs will have more than just a transitory effect. They instead may induce an inflation over time. In this case, the Fed is likely to keep interest rates at elevated levels for a longer period of time.

Immigration policy is another critical factor. Restrictive immigration could weaken consumer spending, slowing economic growth. However, it may also help maintain a low unemployment rate.

So, how will tariffs affect business activity?

Businesses will likely delay investment decisions until there is greater clarity, impacting both capital expenditures and leasing activity in real estate markets.



SUMMARY: CONSTANT REINVENTION

Chicago has one of the more fascinating urban histories anywhere in the world. It is a history of resilience, entrepreneurship, overcoming great odds and reinvention. Think of the City Flag – the third and fourth stars represent two World Expositions awarded to Chicago in recognition and celebration of its entrepreneurial spirit and dynamism.

By 1900, through grit and spit, Chicago had become the 5th largest city in the world. Recovering of course from the 1871 fire (represented by the second of four stars on the flag). Chicago in fact became famous for its growth. For a four-decade period from 1850-1900 Chicago grew faster than any city in history ever had, rising from 30,000 to 1,000,000 people. In so doing, Chicago became a laboratory for understanding cities highlighted by the work of Park and Burgess at the University of Chicago in the 1920s.

It is a proud and fascinating history. Fast forward to the current day and we still see reinvention. Reimagining the loop. Ambitious transformative projects surrounding the loop to the north, south, east and west.

Challenges? We have them. City finances and taxes that induce a lot of outside capital to pause before investing here. Real estate is a capital hungry industry. Will there be capital available to meet the needs of ambitious transformative projects? Will local animal spirits be catalytic enough? Can we get the politics between Springfield and City Hall sorted out? Unusually, national politics have taken center stage, adding to the agita.

From a forecasting perspective, the next 12 months look to be highlighted by policy volatility and capital market uncertainty. This was the overwhelming consensus of this survey and the individual interviews. Considering a longer time frame, investor confidence increases. As we have written, real estate professionals can be an optimistic bunch. But here in Chicago, they have a history of overcoming challenges to justify their optimism. Chicago has always been resilient.

Imperial Realty's Al Klairmont stated flatly that his greatest source of optimism comes from history. But Farpoint's Stilp summed up the spirit best in saying, "The thread connecting the mega developments is you have to love Chicago. I don't think anyone started off by thinking they would make a gazillion dollars doing one of these projects,"



ACKNOWLEDGEMENTS

The Real Estate Center at DePaul University and Urban Land Institute Chicago District Council thank the following commercial real estate professionals for their participation as industry sources for the Sentiment Report:

- **Emi Adachi**, *Managing Director, Heitman LLC*
- **Tim Anderson**, *CEO and Founder, Focus*
- **Brian Atkinson**, *Managing Director, Hines*
- **Tom Barbera**, *CEO, Industrial Outdoor Ventures*
- **Shawn Clark**, *President, CRG - Integrated Real Estate Solutions*
- **Michael Edwards**, *President, Chicago Loop Alliance*
- **Adam Firsell**, *Managing Principal, Core Acquisitions*
- **Anthony Hrusovsky**, *Partner and Chief Investment Officer, Mavrek Development*
- **Laura Hyde**, *Managing Director, Investments - Central Region, Link Logistics Real Estate*
- **Kevin Hynes**, *Partner, O'Keefe Lyons & Hynes*
- **Al Klairmont**, *CEO, Imperial Realty*
- **Phil Lukowski**, *Managing Partner, Portfolio Management, Waterton*
- **Molly McShane**, *Chief Executive Officer, The McShane Companies*
- **Max Meyers**, *Managing Partner + Head of Real Estate, Anagram*
- **Reagan Pratt**, *Douglas and Cynthia Crocker Endowed Director, The Real Estate Center, DePaul University*
- **Ryan Segal**, *VP Property Management, Acadia Realty Trust*
- **Jim Shilling**, *George L. Ruff Endowed Chair in Real Estate Studies, DePaul University*
- **Regina Stilp**, *Principal, Farpoint Development*
- **Bill Suenkens**, *CRE Market Manager, US Bank*
- **Hugh Williams**, *Chairman & Managing Member, KWILL Merchant Advisors*

ENDOWMENT FUNDS

Following are the organizations and individuals who generously support *The Real Estate Center at DePaul University* through endowment funds:

- **Susanne Ethridge Cannon Endowed Scholarship**
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- **Douglas & Cynthia Crocker Endowed Director of the Real Estate Center**
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- **Michael J. Horne Endowed Real Estate Center Scholarship**
- **Kenneth McHugh Real Estate Center Endowment**

ENDOWMENT FUNDS CONT'D

- George L. Ruff (BUS '74) Real Estate Studies Professorship
- Robert and Howard Weitzman Endowed Scholarship
- Charles H. Wurtzebach (BUS '71) and Susan M. Marshall Endowed Scholarship

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- James D. Shilling, Ph.D.
- Trinity Hotel Investors LLC
- US Bank
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- Waterton
- Charles H. Wurtzebach (BSC '71) & Susan M. Marshall

ADDITIONAL THANKS

We extend our appreciation to the following individuals and staff members of *The Real Estate Center and Urban Land Institute Chicago District Council*. Thank you for supporting the Sentiment Report:

Kathleen O'Hare, Associate Director, The Real Estate Center

Cindy McSherry, Executive Director, Urban Land Institute Chicago District Council

Abbie Olson, Program Manager, Urban Land Institute Chicago District Council

ADDITIONAL THANKS (CONT'D)

The Real Estate Center at DePaul University and Urban Land Institute Chicago District Council thank the following companies for their work to create, design and write the Sentiment Report:



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A large advertisement for the 2025 Goldie Gala. The background is a light yellow with a sunburst pattern of thin, radiating lines. The text is in a bold, blue, sans-serif font. At the top, it says '2025'. Below that, in a much larger font, is 'GOLDIE GALA'. Underneath, it says 'THURSDAY, SEPTEMBER 18, 2025', 'CHICAGO UNION STATION', and '5:30 - 8:30 PM'. At the bottom, it says 'For more information, visit goldieinitiative.org/gala.'

2025
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DePaul University's Kellstadt Graduate School of Business (KGSB) is delighted to announce that recruitment is underway for the Master of Science in Real Estate (MSRE) program beginning Fall 2025. ULI Chicago and NAIOP Chicago members can take advantage of the unique benefits this program offers, including:

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- Classes are offered on-site at DePaul's Loop Campus.
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