

# INVESTMENT FORECAST

Retail  
Chicago

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Chicagoland Extends Recovery After Economic Shock; Prominent CBD Retailers Expand into Outer Submarkets

**Retailers spread into suburbs; core assets stable ahead of return to work.** While Chicago retailers faced significant hurdles in the aftermath of COVID-19 lockdowns, a substantial rebound occurred in recent months. This year and last will each record net absorption of more than 2 million square feet, the largest year-end figures since 2017. A shift to teleworking as a result of the pandemic have enticed retailers to expand into the northern suburbs, like with the downtown restaurant Le Colonial's extension into Lake Forest. This has led to lower suburban availability than in 2019, whereas vacancy in central districts rose mildly in the year following the pandemic onset. Since last summer's Phase 5 reopening however, North Michigan Avenue and Fulton Market have posted notable positive absorption, even before workday foot traffic returns. These submarkets will benefit from large employers calling workers back into nearby offices. These trends are positive, but vacancy contraction may be limited by ramped-up construction, as the volume of deliveries doubles year-over-year.

**Suburban offerings drive volume.** Despite the stability of inner-city fundamentals, investors favor areas outside the core. Uncertainty about COVID-19 variants is likely a factor in both the targeting of suburban assets and overall sales volume still being well below pre-pandemic norms. High incomes in North Side Chicago and the suburbs to the north have made these locales frequent targets for buyers. Locales closer to the core see more strip center and power center trades than more distant areas; single-tenant assets, however, transact frequently across the metro. The southern and western suburbs see similar trends regarding asset type, and prices lower than those in the north bring investors here. Cap rates for multi-tenant transactions have recently risen to the low-8 percent range, while single-tenant properties have seen yields stabilize in the mid-6 percent zone. Grocery-anchored centers and restaurant chains draw the most buy-side interest.

### 2022 Market Forecast

- Employment**  
up 3.6%
 

The metro is expected to add 164,000 new roles. At this pace, the market will reach the pre-pandemic job count high in 2023.
- Construction**  
1,800,000 sq. ft.
 

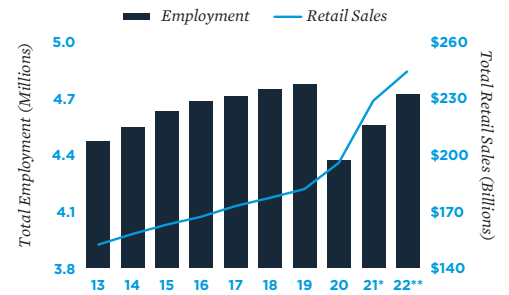
Arrivals fall nearly 900,000 square feet below the past decade average. One project is the Big Deahl — a mixed-use complex near Goose Island with 95,000 square feet of retail space.
- Vacancy**  
down 10 bps
 

Vacancy lowers to 6.3 percent as strong absorption figures outweigh deliveries. This brings the metro further beneath the pre-COVID-19 rate of 6.5 percent.
- Rent**  
up 2.5%
 

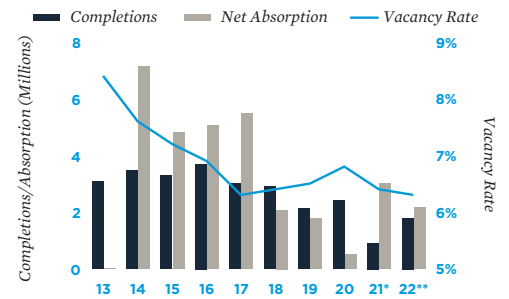
The average asking rent climbs to \$18.55 per square foot by end of year. This pace is 40 basis points ahead of last year's advance and 80 basis points above the five-year trailing average.
- Investment**

Trades in the core are rare, but investors have partially returned to North Michigan Avenue, Goose Island and River North, a trend likely to continue as workday foot traffic returns.

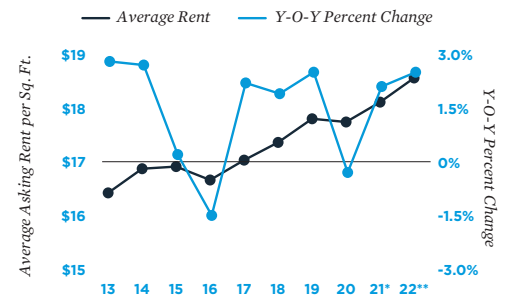
### Economic Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.