

MARKET REPORT

Retail
Chicago Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

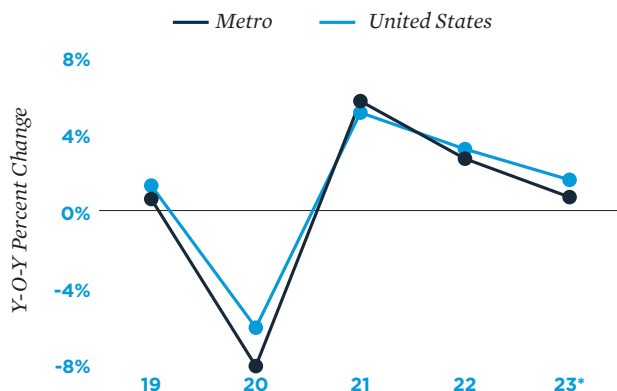
4Q/23

Recent Tenant Demand Momentum Insulates Fundamentals from a Softening Economic Outlook

Western suburbs lead Chicago's nationally strong absorption. Over the four-quarter period ended in June, Chicago retailers absorbed nearly 4.4 million square feet of space on net, the most among major U.S. metros. Leasing in the western suburbs spanning Oak Brook, Naperville and Aurora was the most robust over this frame. Of the notable activity here, nearly 1 million square feet was within the single-tenant segment. A growing local resident base has been a major draw for home improvement retailers and automotive-centric businesses. National food chains and bank branches near business hubs also support nearby working professionals. These improved tenant demand trends helped lower the area's overall vacancy rate by 110 basis points to 6.7 percent in June.

Chicago well-positioned to weather near-term headwinds. Entering July, metro vacancy reached its lowest point on record as local rates in 20 of Chicago's 30 submarkets compressed year-over-year. Some softening, however, is anticipated in the final months of 2023 amid macro-level challenges. By year-end, the local annual median household income growth rate narrowly surpasses the pace of inflation observed thus far, and is met with resumed student loan repayments, redirecting some spending from discretionary budgets. Speculative deliveries also contribute to a rise in the amount of vacant square footage during the second half of the year. Still, conditions remain tight, as vacancy is anticipated to stand 150 basis points below its long-term average by the end of the year.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**32,000
JOBS**

will be created

EMPLOYMENT:

The education and health services sector's 3.0 percent gain through August supports the metro's 0.7 percent overall employment growth rate in 2023. As a result, staff counts will stand 0.4 percent ahead of 2019's total.



**715,000
SQ. FT.**

will be completed

CONSTRUCTION:

Chicago's delivery slate will fall below 1 million square feet this year for the first time since at least 2007. Of these completions, a notable portion are multi-tenant assets located in northern suburbs.



**20
BASIS POINT**

decrease in vacancy

VACANCY:

First half absorption was Chicago's largest total since 2017. Vacancy will subsequently compress for a third straight year, reaching 5.6 percent. This will be its lowest year-end measure in more than two decades.



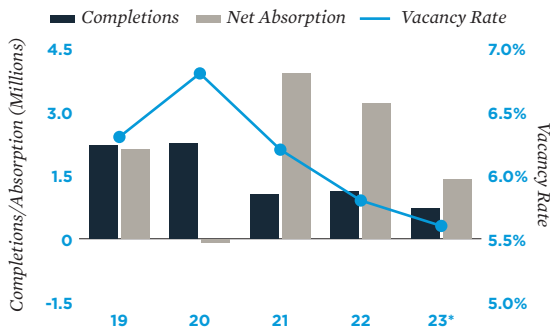
**1.5%
INCREASE**

in asking rent

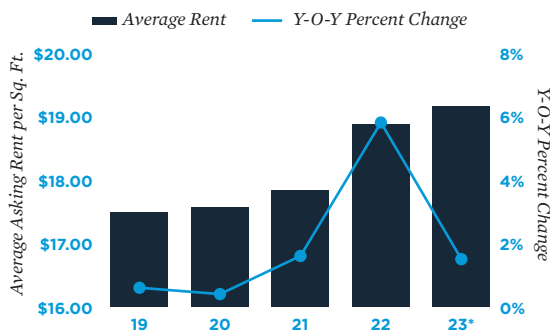
RENT:

Tight conditions drive a rent growth rate in 2023 that exceeds the metro's 0.3 percent trailing 15-year annual average. The gain will lift the mean marketed rate to \$19.15 per square foot entering 2024.

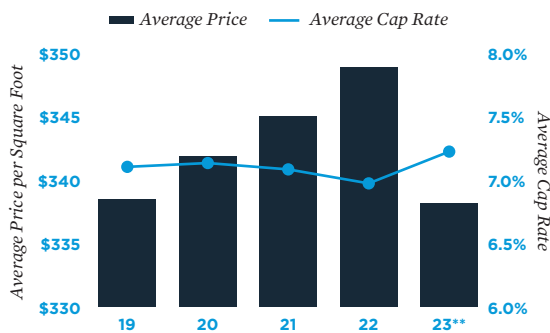
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

855,000 sq. ft. completed

- The addition of 105,600 square feet in the second quarter of this year was Chicago's smallest three-month supply influx since at least 2007.
- Roughly one-fourth of the metro's overall deliveries were completed across the Oak Brook, Naperville and Aurora areas. This increased the submarket's total inventory 0.3 percent during the year ended in June.



VACANCY

80 basis point decrease in vacancy Y-O-Y

- Single-tenant vacancy compressed to its lowest point observed in 16 years at 5.1 percent in the second quarter, assisting the overall rate to reach 5.4 percent and boast the same achievement.
- Multi-tenant vacancy decreased 40 basis points over the year ended in June to 6.6 percent. This was 120 basis points below its long-term average.



RENT

4.1% increase in the average asking rent Y-O-Y

- The metro's tight conditions have continued to prompt rent growth at a pace well above historical norms, lifting Chicago's average asking rate to \$18.89 per square foot entering July.
- Multi-tenant rent growth was 9.7 percent during the annual period ended in June. This far outpaced the single-tenant segment's 2.8 percent gain.

Investment Highlights

- During the initial nine months of the year, transaction velocity fell nearly 45 percent relative to the final three quarters of 2022. Deal flow reduced more for multi-tenant assets, down nearly 50 percent, than for single-tenant trades, which ebbed about 40 percent. Single-tenant trading activity fared comparatively well given the segment's record-tight vacancy rate and income stability amid economic challenges.
- Of single-tenant properties that changed hands since the start of the year, roughly one-fourth of closings took place across the Oak Brook, Naperville and Aurora submarkets. Robust segment absorption here during the year ended in June was the result of retailers supporting the area's growing residential populace. Preliminary data for the third quarter also indicates this pace of local trading continued through September.
- Some fundamentals softening in the second half of the year maintained downward momentum on trading activity into the third quarter. Easing headwinds may, however, re-engage some investors moving forward. The Federal Reserve has stepped back from its rapid pace of rate hikes, including a pause in September, which should help stabilize lending rates.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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