MARKET REPORT

Retail

Chicago Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

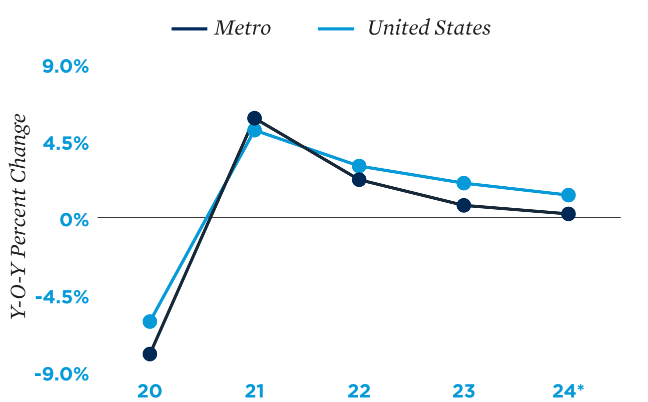
4Q/24

Restrained Development Steers Vacancy Lower as Single-Tenant Leasing Remains Active

Chicago's vacancy hits record low as construction slows. Chicago's retail vacancy rate dropped to a new low of 5.1 percent in mid-2024, marking seven consecutive quarters of decline that each set new records. Prior to this streak, the lowest vacancy rate was 5.9 percent in 2018. This market tightness is primarily the result of a significant reduction in construction since 2020, in conjunction with the increase in cost and the decline in construction financing availability. In 2023 alone, completions were down nearly 80 percent from the long-term average, and projections indicate an even further decrease this year. Redevelopment efforts — such as converting obsolete mall spaces into multifamily units — have also helped tighten market conditions, contributing to the low vacancy rates. Still, some major construction projects are being planned, including the proposed $7 billion expansion of the United Center, which will add housing, retail, entertainment and public open spaces.

Single-tenant retailers have led Chicago in absorption. Over the four-quarter period ended in June, Chicago's single-tenant retailers absorbed nearly 1.4 million square feet on net, accounting for approximately 93 percent of the metro's total net absorption during this time. Leasing activity was most robust in the metro's north and northwest neighborhoods along Interstate 90, where nearly half of the total absorbed square footage was located. A growing local resident base has been a major draw for gyms, hardware vendors and other stores, mainly in spaces from 25,000 to 40,000 square feet.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2024 Outlook

10,000 JOBS
will be created

EMPLOYMENT:

Job growth in the metro is projected to slow in 2024, increasing by 0.2 percent from the 2023 headcount. The education and health services sector led in hiring, adding 11,500 positions in the first eight months of the year.

630,000 SQ. FT.
will be completed

CONSTRUCTION:

Chicago's delivery slate will fall below 1 million square feet for the second-straight year — the lowest total since 2007. A notable portion of completions are single-tenant assets located in the northern suburbs.

20 BASIS POINT
decrease in vacancy

VACANCY:

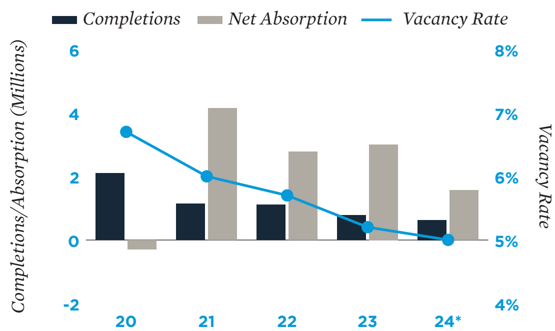
Vacancy will decrease slightly in the second half of 2024, reaching 5.0 percent and marking the fourth-straight year of compression. The year-end rate for the metro will be the lowest in more than two decades.

1.9% INCREASE
in asking rent

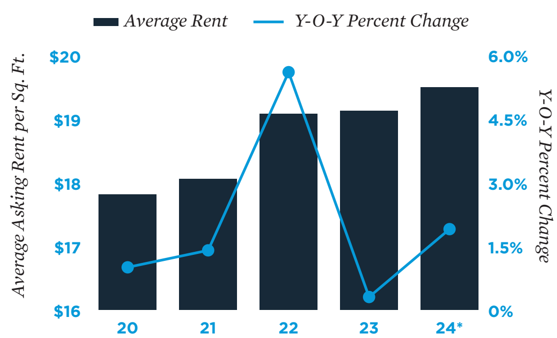
RENT:

Tight market conditions help rent growth exceed the metro's long-term average of 0.4 percent. This year's gain will lift the mean marketed rate to $19.50 per square foot entering 2025.

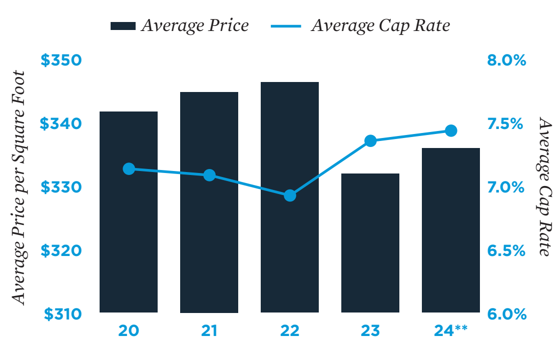
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

2Q 2024 — 12-Month Period

CONSTRUCTION
599,000 sq. ft. completed

- The addition of 183,000 square feet in the first half of this year was Chicago's smallest six-month supply influx since at least 2007.
- More than one-third of the metro's overall deliveries in the trailing 12 months were completed across Northwest Indiana. This increased the submarket's total inventory 0.3 percent during the year ended in June.

VACANCY
20 basis point decrease in vacancy Y-O-Y

- Single-tenant vacancy compressed to its lowest point observed in at least 17 years to 4.9 percent in the second quarter, assisting the overall rate in reaching 5.1 percent and boasting the same achievement.
- Among submarkets with over 1 million square feet of stock, West Loop noted the largest decline in vacancy, falling by 220 basis points to 2.5 percent.

RENT
1.3% increase in the average asking rent Y-O-Y

- Construction remaining historically low helped the average asking rent increase to $19.43 per square foot by the end of the second quarter.
- Strong net absorption during the yearlong period drove up single-tenant asking rents, reaching an average of $20.13 per square foot. Single-tenant asking rents in the city proper expanded at an average clip of 2.9 percent.

Investment Highlights

- Based on preliminary data, transaction velocity in the first nine months of 2024 declined nearly 15 percent compared with the same period in 2023. Single-tenant assets experienced a significant drop, with deal flow down nearly 30 percent, whereas multi-tenant transactions increased by 2 percent. The Oak Brook-Naperville-Aurora submarket saw the highest volume of multi-tenant trades, representing about 14 percent of all deals as of September 2024 — with many properties selling for less than $10 million.
- About one-fourth of single-tenant property transactions since the start of the year occurred in the Schaumburg-Arlington Heights, North DuPage and Oak Brook-Naperville-Aurora submarkets. Strong absorption in these areas during the first half of 2024 was fueled by retailers catering to the region's expanding residential population. Preliminary third-quarter data suggests that this brisk pace of local trading continued through September.
- Despite low vacancy rates, store closures like Big Lots and Family Dollar may moderate asking rent growth through 2024. These vacancies, however, present opportunities for investors to repurpose properties and capitalize on demand, especially during a period of limited construction.