INVESTMENT FORECAST

Retail

Chicago

IPA INSTITUTIONAL PROPERTY ADVISORS

2026

Strong Neighborhood Retail, Small-Format Leasing Prompt Shift in Investment Strategy

Rising food-service demand underscores local retail resilience. Following large move-outs in the first half of 2025, improving net absorption later in the year points to firming retail conditions. Store closures have clustered in big-box and power-center-heavy suburbs, such as Oak Brook, South Cook County, and the Lake Cook corridor, pushing vacancy near 6 percent. Meanwhile, vacancy has generally held under 5 percent in more residential nodes. These areas may continue to outperform amid steady demand from necessity and service tenants, including fast-food and restaurant users, whose leasing activity rose to multiyear highs in 2025. Within Chicago proper, performance remains split. Office- and tourism-dependent districts such as the Loop and Magnificent Mile posted retail vacancy above 10 percent, while conditions have stayed tighter in mixed-use areas such as Fulton Market and River North. The opening of Bally's $1.7 billion casino in River West in late 2026 could reinforce this divergence.

Strip centers anchor selective investment. Sales activity rose modestly last year, driven by an upswing among private investors targeting smaller-format assets. Acquisitions of strip centers neared record highs and should continue to attract investors as daily-needs and service-oriented tenants helped keep segment vacancy near 5 percent. Far southwest suburbs near Chicago's city limits, such as Oak Lawn, may sustain stronger momentum as buyers seek lower entry costs. Illinois' decision to opt out of federal bonus depreciation could also enhance the relative appeal of assets along the Indiana border, where stronger leasing in 2025 held local vacancy below 5 percent. At the same time, grocery-anchored sales increased across the metro late last year, signaling a renewed institutional bid and setting the stage for broader participation in 2026.

2026 MARKET FORECAST

+0.5% — **Employment:** Employment gains are set to cool modestly, with 25,000 net new positions added. Job growth is expected to outpace the national average, likely led by healthcare hiring.

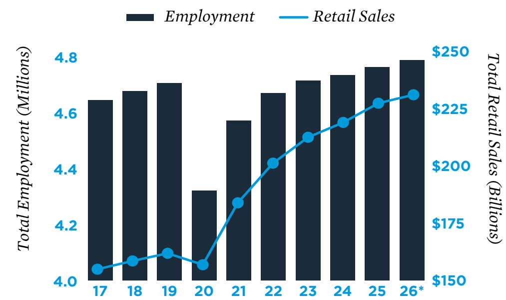
400,000 *sq. ft.* — **Construction:** Deliveries will drop sharply in 2026, to less than half the past five-year average. Nearly 90 percent of completions are pre-leased, clustered in the south and southwest.

+10 bps — **Vacancy:** After reaching an all-time low in 2024, vacancy will edge higher for a second straight year. At 5.4 percent, the metro's rate would still sit 140 basis points below its long-run average.

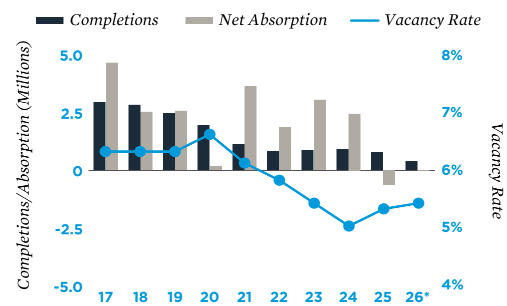
+1.8% — **Rent:** A more moderate pace of vacancy expansion supports slightly stronger rent growth as overall conditions remain tight, bringing the metro's average asking rate to $19.00 per square foot.

INVESTMENT: *Uline's new headquarters, planned to house up to 1,300 corporate employees, alongside Eli Lilly's $3 billion expansion, may draw investors to Kenosha County, where retail vacancy remains below 4 percent.*

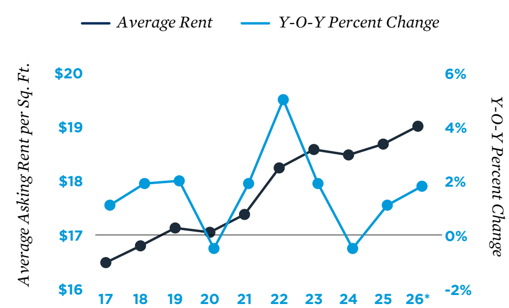
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Gregory A. LaBerge

Senior Vice President, National Division Leader

Tel: (818) 212-2250 | glaberge@ipausa.com