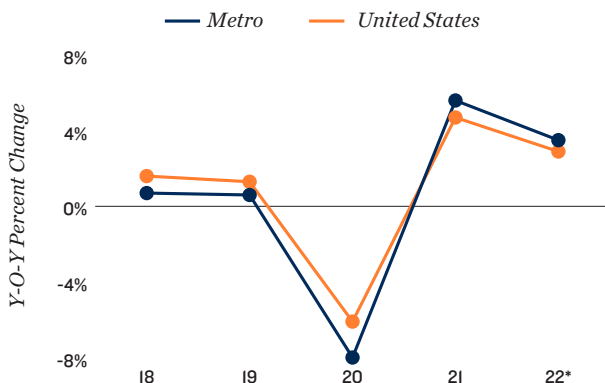


Chicago Retail Emerges With Brightened Outlook; Core Recovery Underway as Foot Traffic Climbs

Downtown shows resilience as workers return. Despite initial concerns, Chicago's urban core managed well as a whole throughout the health crisis. In March, vacancy in the city stood below the 2019 measure, led by the Gold Coast submarket where availability was more than 200 basis points below the pre-pandemic norm. Retail vacancy in the Fulton Market-West Loop and Logan Square-Irving Park areas is also below their 2019 levels after a demand surge to start this year. At the same time, some central areas are still recovering. River North, The Loop and North Michigan Avenue struggled without the bustling work week crowd. These areas are likely to see sharp improvements by year-end, however, given CBD foot traffic is at its highest volume since before the health crisis. The return of leasing in the lagging locales has already led to River North recording a year-over-year 210-basis-point drop in local vacancy in March.

Suburban locales see absorption surge. After net absorption surpassed 3.3 million square feet in suburban Chicago last year, vacancy in the suburbs dropped 20 basis points below the pre-pandemic measure. The Central Northwest submarket, which includes growing communities like Buffalo Grove and Round Lake, recorded the strongest net absorption and posted vacancy 200 basis points below the Chicago suburban average in the first quarter of 2022. Areas west of the city, like Cicero, Oak Park and the Joliet area, also recorded positive net absorption amid mild construction, enabling vacancy to fall in both locales since the onset of COVID-19.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



160,000

JOBS
will be created

EMPLOYMENT:

Job creation equating to 3.5 percent payroll growth will allow Chicago to post its highest year-end job tally ever in 2022, surpassing the pre-pandemic mark by roughly 20,000 roles. Unemployment still above the 2019 level suggests there is more room to grow.



1,500,000

SQ. FT.
will be completed

CONSTRUCTION:

Completions scheduled for 2022 will surpass last year's total, but fall below the trailing five-year average by more than 750,000 square feet. Prior to the pandemic, more than 2 million square feet was added in each of the previous seven years.



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BASIS POINT
decrease in vacancy

VACANCY:

Net absorption is set to cross 2 million square feet for the second consecutive year in 2022, reducing retail vacancy to 6.3 percent by year-end. This level of vacancy corresponds with the lowest quantity of available retail space in the metro since 2018.



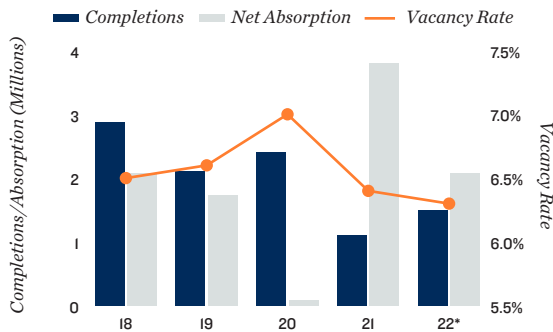
3.0%

INCREASE
in asking rent

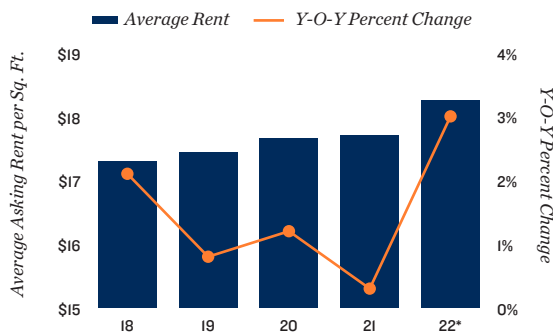
RENT:

After climbing last year at the slowest rate in Chicago since 2016, the average asking rent will reach \$18.25 per square foot before the end of 2022. Dwindling available stock, due to strong net absorption, is driving much of this acceleration.

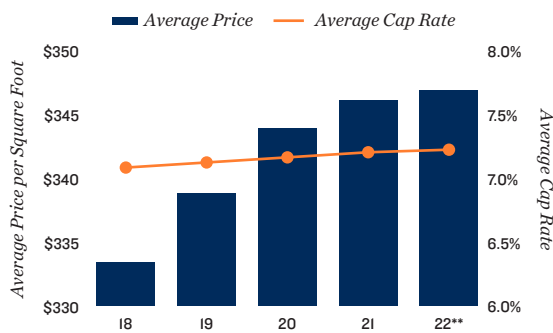
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

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

IQ 2022 - 12-Month Period



CONSTRUCTION

1,006,000 sq. ft. completed

- Builders have less than 2 million square feet under construction in April, suggesting totals will be below pre-pandemic norms in the near term.
- Most of the construction will be completed in suburbs, but pre-leasing on recent and future projects will nudge retailers into older stock, aiding the long-term outlook for existing retail buildings and centers.



VACANCY

40 basis point decrease in vacancy Y-O-Y

- Retail availability retreated to 6.4 percent at the end of the first quarter, bringing the metrowide vacancy rate 20 basis points below the recording at the end of 2019.
- Single-tenant vacancy is 50 basis points below the pre-pandemic measure at the end of March, while the multi-tenant rate remains elevated.



RENT

2.8% increase in the average asking rent Y-O-Y

- As conditions tightened, the average asking rent in the metro grew to \$18.06 per square foot during the first quarter of 2022.
- Suburban marketed rents climbed 2.3 percent in the last year, largely on a surge in the Lake Forest area. In the city, the average asking rent rose 4.4 percent, due to strong gains in the East Loop and Gold Coast-Old Town.

Investment Highlights

- Sales velocity during the four quarters preceding April increased more than 70 percent relative to the previous annual period, as investors showed renewed confidence in Chicagoland retail assets. This escalation in transactions led the metro to record more retail trades in the last 12 months than in any year since at least 2000.
- Multi-tenant trades more than doubled in the yearlong period ended in March when compared to the prior 12 months. Heightened buyer interest raised average per-square-foot pricing to \$274 during the annual period. Increased attention on higher-yield centers in Southeast Wisconsin and Northwest Indiana contributed to a rise in the average cap rate on such trades to 7.9 percent. Per-square-foot pricing in central locales and northern neighborhoods like Lincoln Park often doubles the metro average, and can cross \$1,000 for smaller centers in places like Gold Coast-Old Town.
- Single-tenant assets change hands frequently in Northern and North-western suburbs like Evanston and Morton Grove over to Barrington and Schaumburg. Entry costs in this area are slightly elevated from the single-tenant average of \$426 per square foot, with cap rates in the high-5 percent range for sub-10,000-square-foot assets with high-quality tenants.