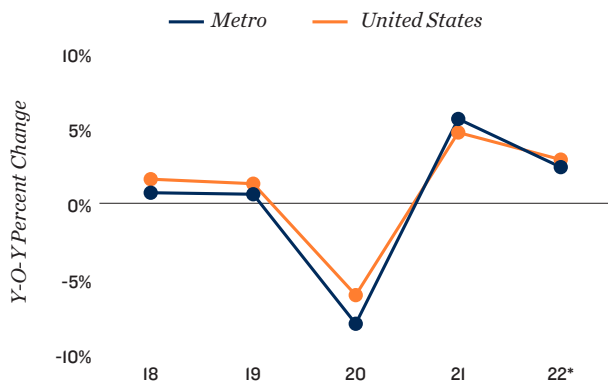


Suburban Retail Performance Strengthens as Core City Stores Follow Divergent Paths

Demand disparity continues downtown. Since the onset of the health crisis, retailers within the city of Chicago have weathered the storm to an uneven degree. Retail demand in locales, such as The Loop and Gold Coast-Old Town, have recovered from the pandemic shock, as tourism and residential foot traffic pick back up. Local vacancies have dropped below the pre-pandemic marks, while asking rents exceed year-end 2019 averages by at least 10 percent. Other nearby neighborhoods, such as the Magnificent Mile and River North, are experiencing weaker fundamentals with lighter weekday foot traffic amid a slow return to office, both reporting double-digit vacancy rates in the second quarter. Employees are expected to resume working in person more frequently in the near future, however, helping to improve operations with business district retailers.

Slow suburban inventory growth backstops fundamentals. In the four-quarter period ending in June, suburban completions dropped over 50 percent from the same period ending in 2021 amid climbing construction costs. With total inventory expanding at a slower pace, market fundamentals in these locales have strengthened. Net absorption over the yearlong span matched 2017-2018, and suburban vacancy reached a decade-plus low. This trend was more apparent for single-tenant space, where segment vacancy dropped 70 basis points year-over-year. Residential growth also contributed to this, as suburban renters absorbed more than twice as many units as the historical average over the previous 12 months ending in June.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



110,000

JOBS
will be created

EMPLOYMENT:

With the unemployment rate nearing its pre-pandemic point, at 4.3 percent in August, hiring activity will slow for the remainder of 2022. This will ease total employment growth to 2.4 percent for the year.



1,350,000

SQ. FT.
will be completed

CONSTRUCTION:

For the first time since 2016, more retail space will be completed this year than last. While Chicago construction is trending up, this year's pipeline represents a near-50 percent decline from 2019.



10

BASIS POINT
increase in vacancy

VACANCY:

Vacancy will rise slightly in the second half of the year, reaching 6.5 percent. With a positive near-term outlook, inventory additions are the chief culprits behind increased availability.



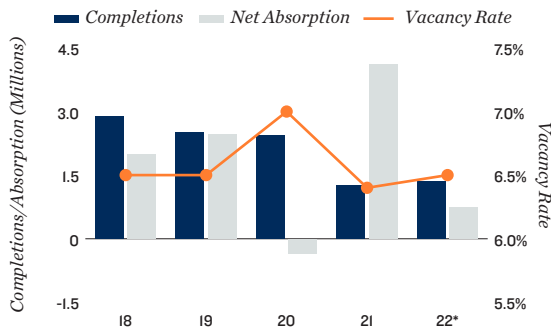
2.9%

INCREASE
in asking rent

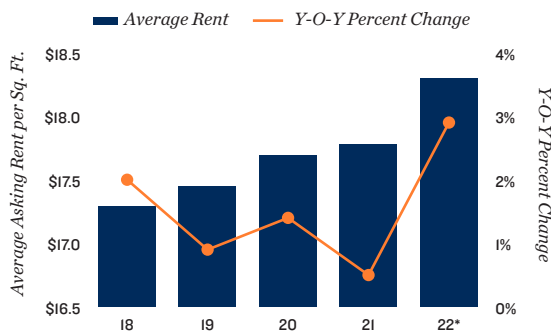
RENT:

Following a 0.5 percent year-over-year uptick in the average asking rent in 2021, the measure will expand to \$18.30 per square foot in 2022. Continued positive net absorption is much to credit for this growth.

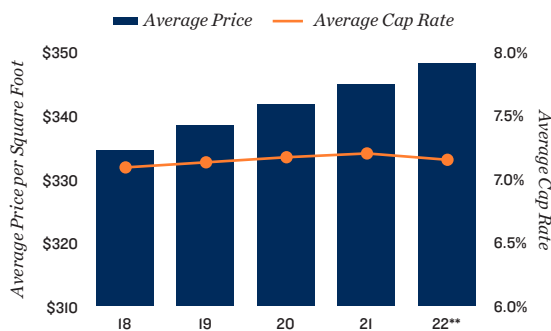
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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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

2Q 2022 - 12-Month Period

CONSTRUCTION

1,129,000 sq. ft. completed

- A lack of proposed additions from 2020 and 2021 continues to be felt in the market, as fewer than 1 million square feet was underway as of June.
- The East-West Corridor accounted for the largest amount of completed space over the previous four quarters ending in June, making up roughly 25 percent of all market additions in that span.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- Vacancy compressed year-over-year in the second quarter, receding to 6.3 percent in June, a 20-basis-point drop from the year-end 2019 figure.
- Urban multi-tenant vacancy contracted from its seven-year high in the first quarter, yet remained up 30 basis points year-over-year at 5.4 percent. Downtown single-tenant vacancy dropped 30 basis points to 5.3 percent.

RENT

2.6% increase in the average asking rent Y-O-Y

- As construction remains historically low, the average asking rent continued to increase, reaching \$18.26 per square foot in the second quarter.
- Strong net absorption during the yearlong period drove up single-tenant asking rents, reaching an average of \$16.14 per square foot. Single-tenant suburban rents expanded at a 3.1 percent clip.

Investment Highlights

- Sales velocity soared in Chicago's retail investment market, jumping over 60 percent in the 12-month span ending in June compared to the same period a year prior. The most number of transactions during the year came in the Northwest City submarket, where properties spanning between Bucktown and Loyola University often exceeded \$10 million.
- Out-of-state investors were increasingly drawn to the market this year, due to unemployment levels closer to year-end 2019, paired with double-digit percentage consumer spending growth over the previous 12 months. These strong economic metrics have been a major factor behind why nearly half of all trades were executed with non-local buyers.
- Multi-tenant trades jumped over 90 percent in the four-quarter period ending in June compared to the year prior. Increased competition has elevated sale prices, bringing the average price per square foot to \$348, up 2 percent year-over-year. Single-tenant assets saw a more mild expansion as year-over-year prices ticked up 1.0 percent. This still equated to a 10-basis-point drop in the overall retail cap rate to 7.1 percent. However, above-market average returns can be found in the Downers Grove neighborhood and Joliet-Central Will submarket.