MARKET REPORT

Marcus & Millichap

RETAIL

Chicago Metro Area

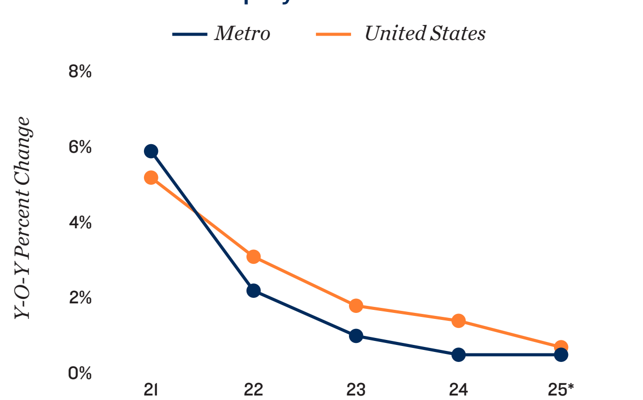
3Q/25

Leasing Activity Shows Signs of Stabilizing Amid Minimal New Supply and Varying Submarket Trends

Development slowdown positioned to aid backfilling. Chicago's retail inventory will expand just 0.2 percent for the fifth straight year in 2025. Over two-thirds of deliveries are slated for the back half of this year, while 75 percent of the pipeline is pre-leased, keeping supply pressure minimal. Meanwhile, the metro's vacancy stock expanded by 2 million square feet during the first half, as Big Lots, American Freight, CVS, Walgreens and other large format retailers exited spaces. Properties under 10,000 square feet still saw positive absorption, however, while those over 20,000 square feet accounted for most of the losses. Fortunately for available spaces, the average time to lease is holding near its trailing decade low at 9.3 months.

Northern submarkets stand out. Stagnant population gains continue to weigh on Chicago's outlook. Even so, local household income growth in the second quarter, which ranked in the top 30 percent of major markets, points to a resilient consumer base that warrants ongoing retailer demand. As such, leasing activity in the first half of 2025 was comparable to the average six-month pace over the two years prior. Northern infill areas between Lincoln Square and Glenview, along with select submarkets like Oakbrook-Aurora and Kenosha County, remain well positioned after recording vacancy compression over the past 12 months. In contrast, pockets in and around the urban core such as the Magnificent Mile and the Near West Side, as well as South Cook County, may continue to struggle after recording triple-digit basis-point vacancy increases.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2025 Outlook

EMPLOYMENT:

20,000 JOBS *will be created*

Through June, most of Chicago's employment gains had stemmed from local government, education and health services sectors. The metro's expected total in 2025 represents 0.4 percent annual growth.

CONSTRUCTION:

720,000 SQ. FT. *will be completed*

About 220,000 square feet delivered in the first half of 2025, with another 500,000 expected by year-end. This marks the metro's smallest annual total since at least 2007, despite ranking among the top 10 nationally.

VACANCY:

60 BASIS POINT *increase in vacancy*

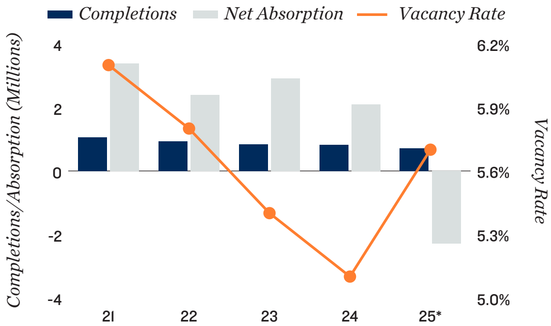
A historically limited delivery slate helps temper upward vacancy pressure; however, the rate is still forecast to reach 5.7 percent by year-end. Nonetheless, this metric is 110 basis points below the long-term mean.

RENT:

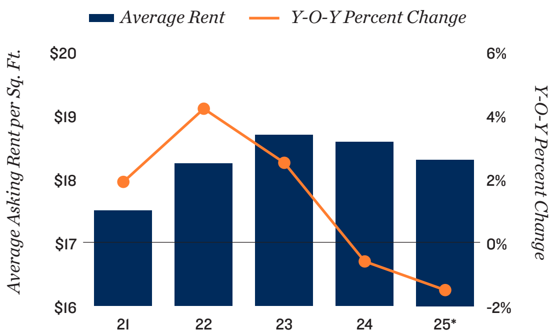
1.5% DECREASE *in asking rent*

Chicago's average asking rate declines modestly in 2025 as negative net absorption weighs on marketed rates. At $18.20 per square foot, the metro's year-end recording ranks highest among major Midwest markets.

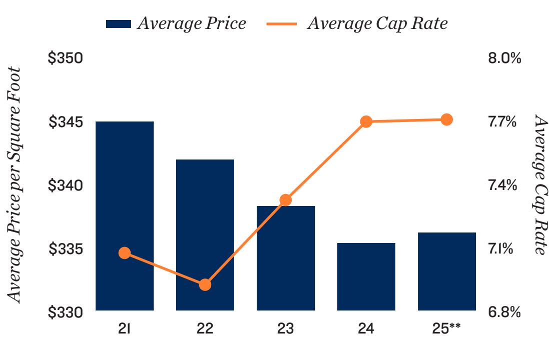
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q 2025 — 12-Month Period

CONSTRUCTION

789,000 sq. ft. completed

- Total inventory expanded just 0.5 percent over the past three years ended in June, placing Chicago in the bottom fifth among major metros.
- After holding relatively steady from 2021 to 2024, the construction pipeline contracted notably during the first half of 2025. The total volume of square footage under construction fell to its lowest level since 2011.

VACANCY

30 basis point increase in vacancy Y-O-Y

- While still below its long-term average at 5.5 percent in June, Chicago's vacancy rate was the fourth highest among primary markets.
- During the first half of 2025, multi-tenant vacancy jumped 70 basis points to 6.9 percent. Meanwhile, single-tenant properties posted a 40-basis-point increase to 5.1 percent.

RENT

1.6% decrease in the average asking rent Y-O-Y

- Heading into July, Chicago's average asking rent stood at $18.57 per square foot, matching marketed rates recorded in early 2023.
- Although vacancy in Chicago proper stayed lower at 4.6 percent in June, as opposed to 5.7 percent in the suburbs, the average asking rent declined 5.6 percent in the city. The suburbs noted a 0.3 percent decline.

Investment Highlights

- Transaction velocity rose by 20 percent during the year ended in June. The most notable improvement came from the over-$20 million price tranche, which recorded more than double the transaction activity of the prior 12 months, reflecting heightened institutional interest. Meanwhile, properties under that threshold saw only a modest 10 percent increase.
- The average price per square foot declined nominally, by 0.2 percent, in the year ended in June, contrasting the 2.6 percent national gain. Meanwhile, the average cap rate sat at 7.7 percent, which is 80 basis points from its 2022 reading and 90 basis points above the contemporary U.S. rate. Chicago's mean cap rate is tied with four other major metros for the highest nationally. In an elevated interest rate environment, these higher yields are attracting more out-of-state investors, who accounted for a slightly larger proportion of metrowide deal flow during the past 12 months.
- The regional transit system posted double-digit ridership gains for the third consecutive year in 2024. In response to this improving commuter usage, investors may increasingly seek opportunities near CTA rail and bus stops, Metra rail stations, and Pace bus routes.

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