STONE
REAL ESTATE
RESEARCH SERVICES

The Loop endured its fourth straight annual vacancy rate increase in 2023, jumping to 30.13% in 2023 from 28.32% in 2022. Significantly, the vacancy rate has now doubled from its pre-Covid level of 14.92% in 2019. In the 22 years that Stone Real Estate Corp. has conducted its *Annual Loop Retail Survey*, the lowest recorded vacancy rate was 9.91% in 2015 and now it reached its high of 30.13% in 2023.

According to John Vance, Principal of Stone Real Estate and author of the *Survey*, the key reasons for this year's high vacancy rate are as follows:

- The continued closings of pharmacies, led by Walgreen's closing an additional three (3) locations at Michigan & Adams, Madison & Wells and The Thompson Center (now the Google Building);
- Additional store closings on State Street, from large stores like Old Navy at Randolph & State to multiple small shop closings at the base of the Palmer House;
- Several store closings throughout the Loop without significant leasing to counter the blow.

MICHIGAN AVENUE CORRIDOR (bounded by the Chicago River to the North, Ida B Wells Drive to the South, Lake Michigan to the East and the east side of Wabash to the West)

This submarket added 27,000 square feet of vacant space and suffered a vacancy rate increase to 28.18% in 2023 from 25.90% in 2022. The two large contributors to this increase are the shuttering of Walgreen's across from The Art Institute and the closing of Liberty Travel at Michigan & Lake. While the storefronts facing Michigan Avenue and Millennium Park enjoy strong pedestrian traffic from tourists and residents, the submarket will struggle to backfill these two large spaces.

CENTRAL LOOP (bounded by the Chicago River to the North, Ida B Wells Drive to the South, the west side of Wabash to the East and the east side of Clark Street to the West)

The data shows 'only' a 25,000 square foot increase in vacant storefront spaces for a modest percentage jump of 24.75% in 2022 to 26.59% in 2023. If there is any positive news in these numbers, it is that while State Street endured several visible losses as Old Navy, Journey's, Vans and several retailers at Palmer House that vacated their stores, the ordinary leasing of storefronts within the subtrade area mitigated some of the damage from State Street. Attempts at optimism aside, State Street's vacant storefronts cast a palpable pall over the entire submarket. The entire east side of the block between Monroe & Adams is vacant, which deters any significant leasing on the adjacent block to the south. Of the 644,703 square feet of retail inventory fronting State Street, 226,131 square feet sit vacant or over 35% of the total inventory. Most distressing is that of the 291,084 square feet along the east side of State Street, 146,967 square feet remains vacant, which is over 50% of the total square footage fronting the East side of State Street. (These numbers exclude Macy's & Target).

LASALLE WACKER CORRIDOR (bounded by the Chicago River to the North, Ida B Wells Drive to the South, the west side of Clark Street to the East and the Chicago River to the West)

This Corridor saw its vacancy percentage increase to 36.22% in 2023 from 34.48% in 2022. Most of this increase is caused by the removal of occupied square footage from the *Survey* due to the closing of Walgreens, PNC Bank and the United States Post Office in the Thompson Center as Google's massive renovation of the building has commenced. All eyes now look to the completion of that project and subsequent occupancy by Google employees as one of the drivers for the Loop's resurgence. Until that day arrives however, the trade area again holds the highest vacancy rate of the three submarkets for the fifth year in a row. 39.80% of the LaSalle Street's storefront square footage sit vacant, consisting of 79,232 vacant square footage from an inventory of 199,058 square feet fronting LaSalle Street.

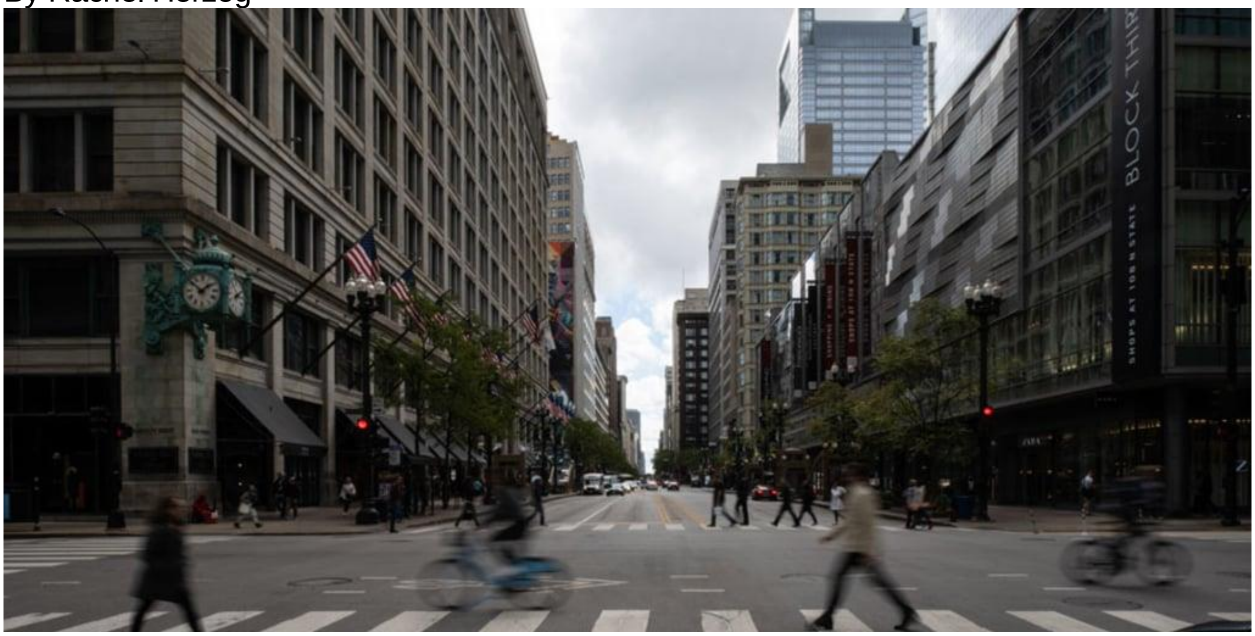
WEST LOOP (bounded by the Chicago River to the East, I90/94 to the West, the south side of Lake Street to the North and Ida B. Wells Drive to the South)

While the vacancy rate for this West Loop trade area dropped from 27.95% to 25.04%, this drop is solely attributed to the removal from the *Survey* of the ground level square footage at 10 and 120 S. Riverside while those buildings complete their renovations.

Commercial Real Estate

Loop retail vacancy tops 30% for the first time

By Rachel Herzog



Credit: Paul Goyette
Looking south down State Street from Randolph.

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Nearly four years since the first lockdown of the COVID-19 pandemic, the number of empty storefronts in the Loop has surpassed a daunting threshold: More than 30% of the central business district's retail space is vacant.

The Loop retail vacancy rate increased for the fourth year in a row in 2023, rising to 30.13% from 28.32% in 2022, according to a report from Chicago retail brokerage Stone Real Estate. That's just more than double the pre-pandemic rate of 14.92% in 2019 and the highest level since 2002, when Stone began tracking the Loop market.

Shops and restaurants in the central business district depend on Loop office workers, in addition to tourists and downtown residents, as patrons. Those professionals haven't returned to offices in high enough numbers for many downtown businesses to maintain profitability, and four years after the pandemic upended in-office work and urban life, retailers are losing confidence.

"We're going to be at the fourth anniversary of the COVID shutdown, which is a long time, and I think that the retailers, whether they be national or local, over this time period have just said, 'I can't do this anymore,'" said Stone Principal John Vance.

Chicago's office occupancy ticked up by less than one percentage point to 55.1% in the week ending Feb. 23, according to security card swipe data from real estate technology firm Kastle Systems. Still, major commitments by Google and JPMorgan Chase to office space in the Loop offer some hope for retailers that foot traffic and vibrancy will return.

"The fundamental reason that retail wants to be in the Loop is because of the amount of people that have historically come down here," Vance said. "It's important that there will be this clawback of people coming into the Loop."

Vacancy in the central Loop submarket, which includes the once-storied State Street, rose to 26.59% in 2023, up from 24.75% in 2022. The street has endured a number of high-profile losses, including Old Navy, Journey's and Vans, as well as several retailers that occupied the retail space at the base of the Palmer House hotel. A few small wins in the area, such as Pret a Manger's lease at 73 W. Monroe St., alleviated some of the corridor's pain.

The Michigan Avenue corridor also saw an increase in vacancy, which rose to 28.18% from 25.9%, largely due to the closures of the Walgreens at 150 S. Michigan Ave. and Liberty Travel at 200 N. Michigan Ave.

"While the storefronts facing Michigan Avenue and Millennium Park enjoy strong pedestrian traffic from tourists and residents, the submarket will struggle to backfill these two large spaces," the report said.

The LaSalle-Wacker corridor had the highest vacancy rate, at 36.22%, rising from 34.48% in 2022, but that was due to the removal of the retail space in the James R. Thompson Center from Stone's analysis as Google's overhaul of the building gets underway. Another ray of hope for landlords who own retail space in the submarket is news that Mayor Brandon Johnson's administration is proceeding with a city initiative that could provide millions in public financing to convert vacant office buildings to apartments in the LaSalle Street corridor.

"If a residential component existed on LaSalle Street, or in and around LaSalle Street, so that retailers could reasonably think, 'Wow, there's Saturday-afternoon business down here, there never was before but now there is,' that would greatly help that retail environment," Vance said.

Vance said 2024 will likely be a year where retail landlords and tenants work out what it takes to get long-empty spaces occupied, whether that's building owners investing money in improvements or breaking up larger spaces so they can be occupied by multiple tenants using less space.

"That will take some time to work through the system. I don't think there will be a ton of newer deals done in the Loop," he said. "I do think, though, that groundwork will be laid to figure out how these spaces get leased, and that's the job of 2024."

By Rachel Herzog

Rachel Herzog is a commercial real estate reporter for Crain's Chicago Business. She joined Crain's in 2023 from The Real Deal, where she had covered commercial real estate in Chicago. Before that, Herzog wrote for the Arkansas Democrat-Gazette. She is a graduate of UNC-Chapel Hill, receiving a bachelor's degree in media and journalism, as well as a separate degree in Hispanic literature and culture.