

Q4 2017

Retail Insight

Retail to stay the course in 2018

- Net absorption surged at year-end, more than doubling any other quarter in 2017
- Leasing activity continued trending downward with retailers less active in the market
- Entertainment concepts spur retail center growth, furthering the evolution of shopping centers

Houston’s retail story in the fourth quarter remains largely consistent with what was seen in 2017 overall. Conditions were stable and healthy, with recent new supply additions creating more balance between landlords and tenants. After three quarters of weak performance, net absorption returned with a bang, reaching 1.6 million square feet, which is 23.1 percent above the 10-year quarterly average. These occupancy gains were driven by service-based retailers and food and beverage concepts opening new locations from the inner loop to the suburbs.

Fourth quarter leasing activity totaled 1.6 million square feet, a decline of almost 25 percent from the previous eight quarters’ average. It is important to note that this is still strong when compared nationally but is below the pace of the last few years. In a similar vein, there is less overall development coming out of the ground as construction levels from 2015 and 2016 were not sustainable for the Houston market.

E-commerce continues to disrupt the retail landscape, changing shopping center mixes from predominantly soft goods to entertainment-concept focused. This is true from both a leasing and investment perspective as buyers are wary of soft-goods-heavy centers, resulting in higher cap rates upon sale.

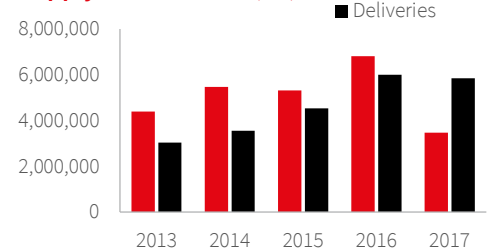
Outlook

Retail market indicators remain strong, with further stability expected over the next 12 months. As shopping centers evolve, both owners and occupiers will have to address new competition and parking challenges. Given the continued infusion of new supply, landlord conditions may begin shifting to a more neutral playing field. Houston is still a top market for many retailers’ growth strategies, which will be a key component of the sector’s future success.

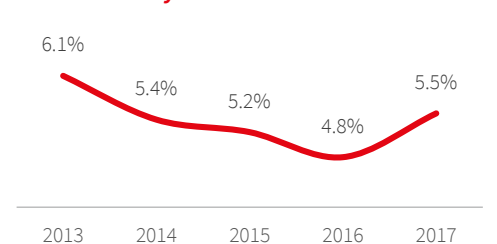
Fundamentals

	Forecast
Total inventory	347,949,767 s.f. ▲
QTD net absorption	1,584,159 s.f. ▼
YTD net absorption	3,472,742 s.f. ►
Under construction	3,301,398 s.f. ▼
Total vacancy	5.5% ►
QTD leasing activity	1,632,760 s.f. ►

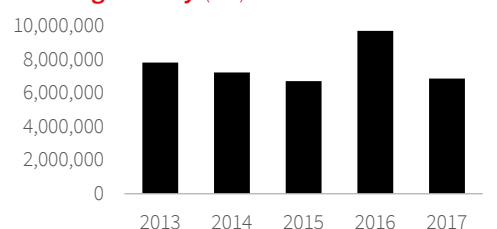
Supply and demand (s.f.)



Total vacancy



Leasing activity (s.f.)



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Retail Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Market Totals									
General Retail	131,391,948	1,223,562	1,412,033	1.1%	3.2%	4.8%	795,149	2,711,854	2,351,452
Malls	29,998,830	-14,958	401,350	1.3%	4.3%	7.9%	182,575	548,075	6,000
Power Centers	28,215,172	115,874	958,840	3.4%	4.1%	5.3%	7,000	990,610	10,456
Shopping Centers	156,491,272	264,681	715,580	0.5%	7.9%	10.0%	225,503	1,602,456	768,490
Specialty Centers	1,852,545	-5,000	-15,061	-0.8%	4.1%	4.4%	0	0	165,000
Totals	347,949,767	1,584,159	3,472,742	1.0%	5.5%	7.5%	1,210,227	5,852,995	3,301,398
Submarkets									
CBD									
General Retail	964,650	11,450	4,200	0.4%	3.4%	5.2%	0	0	0
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	232,059	0	-760	-0.3%	22.5%	22.5%	0	0	0
Specialty Centers	179,794	-5,000	-5,000	-2.8%	2.8%	2.8%	0	0	0
Totals	1,376,503	6,450	-1,560	-0.1%	6.5%	7.8%	0	0	0
East									
General Retail	6,733,985	61,921	40,323	0.6%	2.6%	3.2%	0	25,404	111,836
Malls	1,469,955	0	34,537	2.3%	2.2%	7.6%	0	0	0
Power Centers	557,512	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	5,248,477	-124,728	-138,326	-2.6%	9.8%	13.2%	0	0	117,906
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	14,009,929	-62,807	-63,466	-0.5%	5.2%	7.3%	0	25,404	229,742
Inner Loop									
General Retail	13,947,806	80,705	18,649	0.1%	3.4%	5.1%	25,653	100,058	216,740
Malls	686,989	-1,022	-1,022	-0.1%	0.1%	0.1%	0	0	0
Power Centers	1,386,352	0	-22,258	-1.6%	3.3%	4.0%	0	0	0
Shopping Centers	10,499,491	-1,138	-67,906	-0.6%	5.3%	6.2%	0	25,830	11,050
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	26,694,492	78,545	-72,537	-0.3%	4.0%	5.3%	25,653	125,888	227,790
North									
General Retail	23,731,198	379,377	613,737	2.6%	2.8%	4.6%	203,365	678,584	703,310
Malls	6,089,314	-150,348	-470,808	-7.7%	10.9%	12.4%	0	0	0
Power Centers	4,816,940	63,752	900,749	18.7%	6.0%	7.0%	7,000	909,183	10,456
Shopping Centers	26,912,515	-128,905	236,625	0.9%	9.2%	11.5%	34,639	458,160	105,138
Specialty Centers	157,674	0	-5,500	-3.5%	3.5%	3.5%	0	0	0
Totals	61,707,641	163,876	1,274,803	2.1%	6.6%	8.5%	245,004	2,045,927	818,904
Northeast									
General Retail	5,905,623	14,622	32,854	0.6%	2.3%	3.8%	10,179	72,938	56,025
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,347,778	0	31,426	2.3%	1.7%	1.7%	0	25,050	0
Shopping Centers	6,724,701	-48,361	53,034	0.8%	6.8%	9.9%	0	111,056	0
Specialty Centers	110,000	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	14,088,102	-33,739	117,314	0.8%	4.4%	6.4%	10,179	209,044	56,025

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** include community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Northwest									
General Retail	22,364,929	77,084	206,971	0.9%	3.1%	4.3%	78,070	531,694	279,779
Malls	4,489,938	-8,590	117,521	2.6%	1.9%	5.0%	0	0	0
Power Centers	6,267,139	24,037	-4,008	-0.1%	4.4%	7.1%	0	56,377	0
Shopping Centers	27,571,166	271,096	422,769	1.5%	7.5%	10.2%	76,064	457,172	43,443
Specialty Centers	724,911	0	-18,305	-2.5%	8.3%	8.3%	0	0	0
Totals	61,418,083	363,627	724,948	1.2%	5.2%	7.3%	154,134	1,045,243	323,222
South									
General Retail	6,274,236	221,016	52,700	0.8%	1.0%	2.1%	0	35,225	96,169
Malls	1,389,227	58,800	104,877	7.5%	0.0%	0.0%	0	0	0
Power Centers	1,446,651	0	-1,050	-0.1%	0.1%	0.1%	0	0	0
Shopping Centers	6,093,699	61,448	-59,107	-1.0%	9.8%	10.7%	55,000	85,201	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	15,203,813	341,264	97,420	0.6%	4.3%	5.1%	55,000	120,426	96,169
Southeast									
General Retail	19,575,999	-118,738	-71,644	-0.4%	3.9%	5.0%	72,852	198,475	201,452
Malls	4,657,245	0	431,952	9.3%	2.4%	15.5%	0	270,000	0
Power Centers	5,419,182	-5,766	-7,837	0.0%	5.6%	6.6%	0	0	0
Shopping Centers	23,410,982	153,148	231,571	1.0%	8.3%	10.6%	5,000	166,599	85,932
Specialty Centers	176,102	0	13,744	0.0%	2.8%	9.6%	0	0	0
Totals	53,239,510	28,644	597,786	1.1%	5.9%	8.5%	77,852	635,074	287,384
Southwest									
General Retail	18,955,491	376,227	325,188	1.7%	3.8%	5.9%	386,030	602,308	402,044
Malls	2,056,601	0	0	0.0%	10.1%	18.0%	0	0	0
Power Centers	5,632,859	35,041	79,857	1.4%	3.0%	4.2%	0	0	0
Shopping Centers	28,004,062	94,954	-40,843	-0.1%	7.7%	9.5%	36,000	102,069	187,775
Specialty Centers	236,384	0	0	0.0%	0.0%	0.0%	0	0	165,000
Totals	54,885,397	506,222	364,202	0.7%	5.9%	7.9%	422,030	704,377	754,819
West									
General Retail	12,938,031	119,898	189,055	1.5%	3.5%	6.6%	19,000	467,168	284,097
Malls	9,159,561	86,202	184,293	2.0%	2.0%	2.2%	182,575	278,075	6,000
Power Centers	1,340,759	-1,190	-18,039	-1.3%	2.8%	2.8%	0	0	0
Shopping Centers	21,794,120	-12,833	78,523	0.4%	6.9%	8.8%	18,800	196,369	217,246
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	45,326,297	192,077	433,832	1.0%	4.8%	6.7%	220,375	941,612	507,343

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.