

Q1 2018

Retail Insight

Grocery expansion drives much of development pipeline

- Vacancy and availability remained stable to start the year with many tenants taking ‘wait and see’ approach
- While leasing activity was below average in the first quarter, fast casual and discount retailers are in expansion mode
- Big-box grocers remain committed to Houston, growing physical footprints along with omnichannel offerings

The Houston retail market remains strong from a fundamentals standpoint, with continued high occupancy and rising rents. Vacancy and availability both dropped slightly in the first quarter, falling 10 basis points each to 5.4 percent and 7.2 percent, respectively. However, many occupiers and investors have adopted a ‘wait and see’ attitude, allowing the dust to settle following several big-box bankruptcies and ecommerce shake ups. As such, leasing activity was below the long-term average of 1.8 million square feet, with 1.4 million square feet of deals transacted in the first quarter. An exception is the food and beverage sector as both new and established fast casual offerings are executing expansion plans across the metro. Additionally, discount retailers like Dirt Cheap and Ollie’s Bargain Outlet are gaining footholds in the Houston area, potentially taking advantage of recent big-box vacancies.

Texas remained one of the hottest states for grocery expansion in 2017, and Houston was a major contributor. Big-box grocers continue to have success in the metro, aggressively growing both traditional-footprint stores, as well as ecommerce and curbside options. With HEB’s six planned locations for 2018 and more announced for 2019, it is poised to be another banner year for the grocery sector.

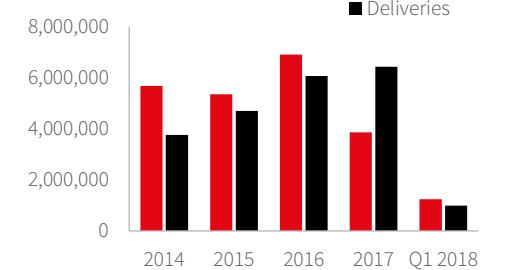
Outlook

Retail companies focused on technology and innovation will be well-positioned to take advantage of the metro’s diverse consumer base. Rising land and construction costs may provide barriers in tighter urban submarkets, while new projects continue to spring up along the north section of the Grand Parkway in suburban Houston. Looking ahead, the metro’s retail market is expected to remain stable and healthy, with moderate growth projected for 2018.

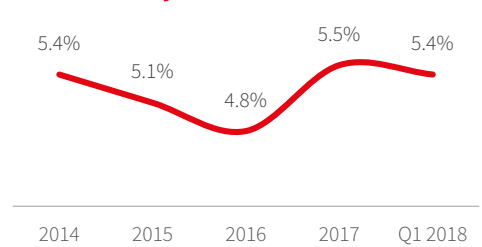
Fundamentals

	Forecast
Total inventory	350,156,019 s.f. ▲
QTD net absorption	1,243,230 s.f. ►
YTD net absorption	1,243,230 s.f. ►
Under construction	3,622,686 s.f. ▼
Total vacancy	5.4% ►
QTD leasing activity	1,418,524 s.f. ►

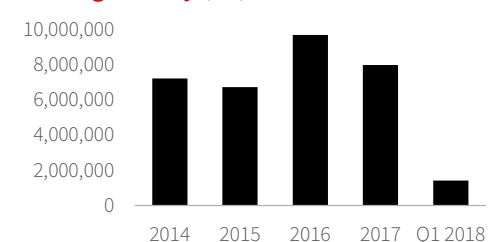
Supply and demand (s.f.)



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	133,159,374	624,485	624,485	0.5%	3.3%	4.7%	716,289	716,289	2,714,527
Malls	30,039,221	80,604	80,604	0.3%	4.3%	7.5%	80,000	80,000	123,906
Power Centers	28,209,014	30,747	30,747	0.1%	4.0%	4.7%	0	0	5,456
Shopping Centers	156,902,015	501,361	501,361	0.3%	7.6%	9.7%	194,360	194,360	613,797
Specialty Centers	1,846,395	6,033	6,033	0.3%	3.3%	3.5%	0	0	165,000
Totals	350,156,019	1,243,230	1,243,230	0.4%	5.4%	7.2%	990,649	990,649	3,622,686
Submarkets									
CBD									
General Retail	950,566	-16,465	-16,465	-1.7%	5.7%	6.6%	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	35,932	0	0	0.0%	27.8%	38.8%	0	0	27,720
Specialty Centers	179,794	0	0	0.0%	2.8%	2.8%	0	0	0
Totals	1,166,292	-16,465	-16,465	-1.4%	6.0%	7.8%	0	0	27,720
East									
General Retail	6,684,260	13,777	13,777	0.2%	2.6%	3.2%	10,566	10,566	26,010
Malls	1,549,955	81,750	81,750	5.3%	2.1%	8.4%	80,000	80,000	117,906
Power Centers	557,512	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	5,264,447	38,907	38,907	0.7%	9.4%	11.8%	0	0	16,000
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	14,056,174	134,434	134,434	1.0%	5.0%	6.9%	90,566	90,566	159,916
Inner Loop									
General Retail	13,969,992	7,034	7,034	0.1%	3.6%	4.7%	20,008	20,008	247,660
Malls	686,989	0	0	0.0%	0.1%	0.1%	0	0	0
Power Centers	1,386,393	0	0	0.0%	3.3%	4.0%	0	0	0
Shopping Centers	10,532,740	-54,670	-54,670	-0.5%	5.8%	7.4%	0	0	96,208
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	26,749,968	-47,636	-47,636	-0.2%	4.3%	5.6%	20,008	20,008	343,868
North									
General Retail	24,202,820	219,939	219,939	0.9%	3.4%	5.0%	353,215	353,215	669,507
Malls	6,049,705	8,315	8,315	0.1%	10.8%	12.4%	0	0	0
Power Centers	4,828,640	18,069	18,069	0.4%	5.7%	7.1%	0	0	5,456
Shopping Centers	27,103,886	194,319	194,319	0.7%	8.3%	10.6%	0	0	173,778
Specialty Centers	157,674	5,500	5,500	3.5%	0.0%	0.0%	0	0	0
Totals	62,342,725	446,142	446,142	0.7%	6.4%	8.3%	353,215	353,215	848,741
Northeast									
General Retail	6,078,980	63,971	63,971	1.1%	2.0%	3.2%	14,600	14,600	31,325
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,347,778	-3,255	-3,255	-0.2%	2.0%	2.0%	0	0	0
Shopping Centers	6,695,189	41,154	41,154	0.6%	6.4%	9.7%	0	0	8,525
Specialty Centers	110,000	-1,621	-1,621	-1.5%	1.5%	1.5%	0	0	0
Totals	14,231,947	100,249	100,249	0.7%	4.1%	6.1%	14,600	14,600	39,850

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	22,654,893	50,778	50,778	0.2%	3.2%	4.4%	81,346	81,346	308,439
Malls	4,489,938	-1,210	-1,210	0.0%	1.9%	2.2%	0	0	0
Power Centers	6,286,556	26,316	26,316	0.4%	4.0%	5.1%	0	0	0
Shopping Centers	27,737,731	-177,929	-177,929	-0.6%	8.2%	10.0%	16,818	16,818	53,580
Specialty Centers	724,911	2,154	2,154	0.3%	6.7%	6.7%	0	0	0
Totals	61,894,029	-99,891	-99,891	-0.2%	5.5%	6.8%	98,164	98,164	362,019
South									
General Retail	5,796,407	16,116	16,116	0.3%	1.0%	2.8%	9,180	9,180	121,635
Malls	1,389,227	0	0	0.0%	0.0%	0.6%	0	0	0
Power Centers	1,457,151	1,050	1,050	0.1%	0.0%	0.0%	0	0	0
Shopping Centers	6,093,699	43,431	43,431	0.7%	8.9%	10.8%	0	0	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	14,736,484	60,597	60,597	0.4%	4.1%	5.6%	9,180	9,180	121,635
Southeast									
General Retail	20,057,629	177,685	177,685	0.9%	3.7%	4.4%	137,828	137,828	531,332
Malls	4,657,245	-9,000	-9,000	-0.2%	2.5%	15.7%	0	0	0
Power Centers	5,419,182	13,038	13,038	0.0%	5.4%	6.1%	0	0	0
Shopping Centers	23,419,776	136,042	136,042	0.6%	7.7%	10.1%	0	0	70,532
Specialty Centers	176,102	0	0	0.0%	2.8%	7.9%	0	0	0
Totals	53,729,934	317,765	317,765	0.6%	5.5%	8.0%	137,828	137,828	601,864
Southwest									
General Retail	19,711,941	77,205	77,205	0.4%	3.7%	5.4%	72,246	72,246	394,068
Malls	2,056,601	0	0	0.0%	10.1%	16.6%	0	0	0
Power Centers	5,730,453	-36,971	-36,971	-0.6%	3.5%	3.9%	0	0	0
Shopping Centers	28,122,282	197,442	197,442	0.7%	7.2%	9.0%	56,750	56,750	57,775
Specialty Centers	230,234	0	0	0.0%	0.0%	0.0%	0	0	165,000
Totals	55,851,511	237,676	237,676	0.4%	5.7%	7.4%	128,996	128,996	616,843
West									
General Retail	13,051,886	14,445	14,445	0.1%	3.4%	6.4%	17,300	17,300	384,551
Malls	9,159,561	749	749	0.0%	2.0%	2.2%	0	0	6,000
Power Centers	1,195,349	12,500	12,500	1.0%	2.1%	2.1%	0	0	0
Shopping Centers	21,896,333	82,665	82,665	0.4%	6.9%	8.8%	120,792	120,792	109,679
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	45,396,955	110,359	110,359	0.2%	4.8%	6.6%	138,092	138,092	500,230

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.