

Q2 2018

Retail Insight

Houston retail fundamentals still very strong despite midyear pause in new growth

- Rising asking rents and construction activity indicate confidence in Houston market performance
- Leasing activity driven by new entrants to the market taking advantage of favorable market conditions
- Net absorption pauses at mid-year following big-box shuffles and light quarter for pre-leased new deliveries

This quarter's leasing activity has been driven in part by the expansion of national, boutique-style retailers into the Houston market. These retailers are part of a broader trend of adapted strategy and targeted offerings to meet the unique demands of a changing retail landscape, in which increased competition from ecommerce is forcing many retailers to innovate.

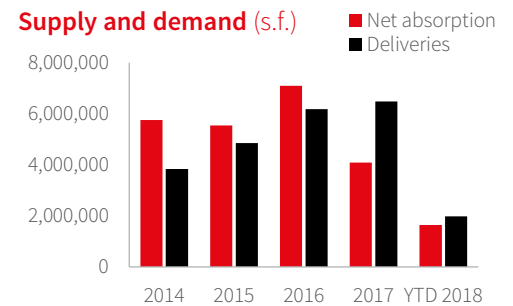
Traditionally, the Dallas market has always been first to receive retailers seeking to enter the Texas market. But several years of strong population growth, expansion of key demographic groups, and a favorable business environment has crowned Houston as the official point of entry into the Texas market. Also contributing to the hot Houston market is the steady increase in the median level of disposable income among Houston residents. This has strengthened the long-term performance of the retail sector, allowing it to maintain strong fundamentals through the latest economic downturn.

The retail market saw an uncharacteristic dip in net absorption this quarter. This is expected to be a single-quarter occurrence and can be attributed to the closing of 18 Toys 'R' US Stores as well as a pair of Sears stores. This is not indicative of a broader trend, however, as these closures represent a mere 0.2 percent of the Houston retail inventory. In fact, these move-outs barely impacted vacancy, which inched up just 10 basis points to 5.4 percent. Availability – which includes new construction - held steady at 7.1 percent.

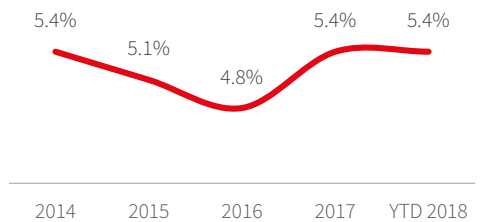
Outlook

Notwithstanding a brief pause in occupancy growth, the retail forecast for Houston remains very positive. The steady increase of rents and construction activity this quarter indicate unwavering confidence and continued growth, which validates Houston as one of the nation's hottest markets for retail expansion. As retailers adapt strategies to meet the everchanging demands of the market, the Houston retail sector is poised to reap the benefits.

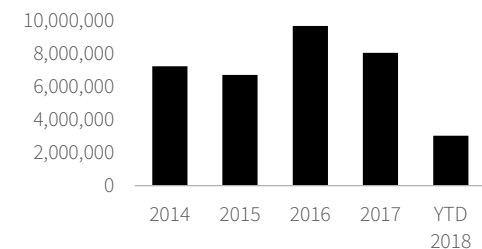
Fundamentals	Forecast
Total inventory	351,781,919 s.f. ▲
Q2 net absorption	388,596 s.f. ▲
YTD net absorption	1,645,764 s.f. ►
Under construction	4,551,374 s.f. ►
Total vacancy	5.4% ►
Q2 leasing activity	1,432,434 s.f. ▲



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	134,519,729	660,142	1,318,538	1.0%	3.0%	4.8%	688,347	1,548,067	3,152,235
Malls	30,386,031	-134,915	-54,993	-0.2%	4.4%	8.7%	0	80,000	117,906
Power Centers	28,461,072	-328,821	-301,174	-1.1%	4.1%	5.0%	5,456	5,456	150,000
Shopping Centers	156,568,692	193,264	678,434	0.4%	7.9%	9.8%	129,779	350,709	925,333
Specialty Centers	1,846,395	-1,074	4,959	0.3%	3.5%	4.1%	0	0	205,900
Totals	351,781,919	388,596	1,645,764	0.5%	5.4%	7.4%	823,582	1,984,232	4,551,374
Submarkets									
CBD									
General Retail	874,673	29,228	12,763	1.5%	2.9%	4.5%	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%	46.2%	0	0	31,000
Specialty Centers	179,794	0	0	0.0%	2.8%	2.8%	0	0	0
Totals	1,090,399	29,228	12,763	1.2%	3.7%	6.7%	0	0	31,000
East									
General Retail	6,847,931	89,025	103,102	1.5%	2.9%	3.5%	112,970	123,536	50,976
Malls	1,549,988	1,400	83,150	5.4%	2.0%	8.4%	0	80,000	117,906
Power Centers	557,512	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	5,299,241	99,959	138,866	2.6%	7.6%	10.2%	16,000	16,000	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	14,254,672	190,384	325,118	2.3%	4.4%	6.4%	128,970	219,536	168,882
Inner Loop									
General Retail	14,141,490	102,163	111,163	0.8%	3.5%	4.7%	121,460	129,058	371,871
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	10,582,701	9,714	-48,388	-0.5%	5.7%	7.4%	11,050	11,050	85,158
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	26,971,427	111,877	62,775	0.2%	4.3%	5.6%	132,510	140,108	457,029
North									
General Retail	24,410,500	10,937	241,062	1.0%	3.6%	4.7%	64,536	464,385	591,009
Malls	6,123,544	0	8,315	0.1%	10.7%	12.1%	0	0	0
Power Centers	4,874,614	-249,966	-232,197	-4.8%	10.9%	11.0%	5,456	5,456	0
Shopping Centers	26,798,935	43,405	194,346	0.7%	8.3%	10.6%	0	5,000	344,144
Specialty Centers	157,674	0	5,500	3.5%	0.0%	0.0%	0	0	0
Totals	62,365,267	-195,624	217,026	0.3%	6.9%	8.4%	69,992	474,841	935,153
Northeast									
General Retail	6,099,700	-10,918	53,053	0.9%	2.2%	3.7%	0	14,600	58,097
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,347,778	16,627	13,372	1.0%	0.7%	0.7%	0	0	0
Shopping Centers	6,720,464	41,290	82,444	1.2%	5.8%	8.0%	0	0	8,525
Specialty Centers	110,000	0	-1,621	-1.5%	1.5%	1.5%	0	0	0
Totals	14,277,942	46,999	147,248	1.0%	3.7%	5.4%	0	14,600	66,622

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	22,808,364	124,792	193,850	0.8%	3.1%	4.6%	79,714	180,564	391,301
Malls	4,489,938	21,141	19,931	0.4%	1.4%	1.4%	0	0	0
Power Centers	6,454,088	307	23,823	0.4%	3.9%	5.8%	0	0	150,000
Shopping Centers	28,089,456	-115,513	-293,442	-1.0%	8.4%	9.8%	13,025	29,843	121,034
Specialty Centers	724,911	-1,074	1,080	0.1%	6.9%	6.0%	0	0	0
Totals	62,566,757	29,653	-54,758	-0.1%	5.5%	6.8%	92,739	210,407	662,335
South									
General Retail	5,868,422	-10,766	27,000	0.5%	1.3%	2.4%	22,998	57,203	96,212
Malls	1,389,227	-31,186	-31,186	-2.2%	2.2%	1.4%	0	0	0
Power Centers	1,457,151	-2,820	-1,770	-0.1%	0.2%	0.2%	0	0	0
Shopping Centers	6,159,436	-78,125	-34,694	-0.6%	10.1%	12.1%	0	0	5,200
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	14,874,236	-122,897	-40,650	-0.3%	4.9%	6.1%	22,998	57,203	101,412
Southeast									
General Retail	20,407,516	348,898	495,151	2.4%	2.8%	3.6%	99,255	252,563	452,598
Malls	4,657,245	-173,800	-182,800	-3.9%	6.3%	14.4%	0	0	0
Power Centers	5,419,182	39,748	52,786	0.0%	4.4%	6.0%	0	0	0
Shopping Centers	23,421,695	90,075	244,717	1.0%	7.2%	9.6%	0	14,600	70,532
Specialty Centers	176,102	0	0	0.0%	2.8%	7.9%	0	0	0
Totals	54,081,740	304,921	609,854	1.1%	5.2%	7.4%	99,255	267,163	523,130
Southwest									
General Retail	20,092,219	-94,111	-3,568	0.0%	4.9%	5.8%	112,226	233,670	951,378
Malls	2,056,601	0	0	0.0%	10.1%	16.6%	0	0	0
Power Centers	5,770,520	5,479	-31,492	-0.5%	3.4%	3.6%	0	0	0
Shopping Centers	28,163,202	124,616	341,188	1.2%	6.6%	8.3%	17,025	80,745	40,750
Specialty Centers	230,234	0	0	0.0%	0.0%	7.9%	0	0	205,900
Totals	56,312,776	35,984	306,128	0.5%	5.8%	7.2%	129,251	314,415	1,198,028
West									
General Retail	12,968,914	70,894	84,962	0.7%	3.3%	5.6%	75,188	92,488	188,793
Malls	9,432,499	47,530	47,597	0.5%	1.5%	3.3%	0	0	0
Power Centers	1,193,834	-138,196	-125,696	-10.5%	13.7%	13.4%	0	0	0
Shopping Centers	21,297,630	-22,157	53,397	0.3%	7.7%	9.4%	72,679	193,471	218,990
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	44,986,703	-41,929	60,260	0.1%	5.3%	7.1%	147,867	285,959	407,783

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.