

Q3 2018

Retail Insight

Innovators lead the way in thriving retail market

- Net absorption climbs following uncharacteristic dip in Q2 as market deliveries simultaneously increase
- “E-commerce resistant” retailers emerge as trendsetters in an everchanging retail landscape
- Consumers continue to seek unique opportunities to enhance their overall shopping experience; retailers make moves to take advantage

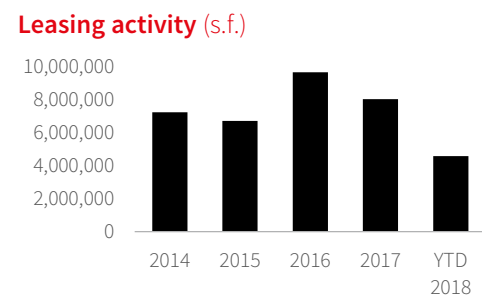
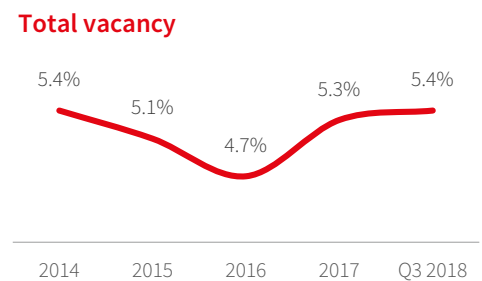
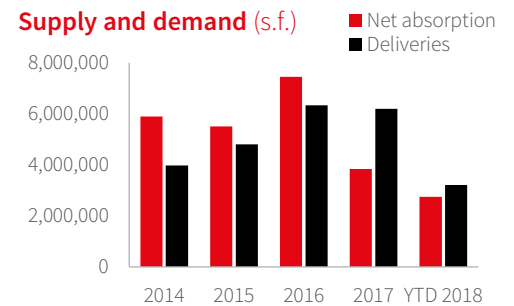
The Houston retail market produced strong net absorption this quarter, with just under 986,000 square feet occupied in excess of that vacated, bouncing back from a somewhat lackluster second quarter. This quarter’s new deliveries to the market followed suit, with a net increase of almost 200,000 SF. While all signs point to a strong and thriving retail market, the everchanging retail landscape is bringing about a wave of change and innovation in the sector.

“E-commerce resistant” retailers, or those who have found a way to mitigate the effects of the online shopping revolution, have emerged as trendsetters in the market. In an effort to increase resiliency, many developments are shifting their focus to the enhancement of experiential retail. BLVD place, a well-established mixed-use development in the Galleria submarket, is pioneering this trend, with plans to open a rooftop movie theatre in October of this year. Adaptation is key in the new Houston retail landscape, and the recent renovations to Uptown Park are an example of how retailers can accommodate consumer’s desire for a new buying experience. The shopping center is putting the finishing touches on its recent renovation project, which added features such as free WIFI, comfortable benches among plush gardens, and a wider variety of store offerings. Popular health-food chain *Flowerchild* and Williams-Sonoma’s home furnishing store *Rejuvenation* have chosen to plant their first Houston market seeds in Uptown Park, as the site’s new amenities and features unquestionably appeal to unique retailers. These are the types of offerings that are necessary to survive in an everchanging market.

Outlook

The Houston retail market is expected to grow through year end; asking rates continued their upward trend this quarter, jumping 19 cents to \$17.24, and national retailers continue to look to Houston as their Texas market point-of-entry. In a sector where innovation is key, fresh and unique offerings will continue to drive success in both ownership and customer experience.

Fundamentals	Forecast
Total inventory	353,362,659 s.f. ▲
Q3 net absorption	985,842 s.f. ▲
YTD net absorption	2,756,175 s.f. ►
Under construction	4,240,536 s.f. ▼
Total vacancy	5.4% ►
Q3 leasing activity	1,306,628 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	137,838,928	752,801	2,025,492	1.5%	3.4%	4.7%	852,504	2,422,170	3,006,458
Malls	28,897,265	178,066	75,964	0.3%	4.6%	6.2%	100,391	186,391	0
Power Centers	29,245,927	17,968	-304,270	-1.0%	5.2%	6.0%	150,000	155,456	0
Shopping Centers	155,456,732	30,798	947,847	0.6%	7.4%	9.3%	49,875	451,161	1,001,626
Specialty Centers	1,923,807	6,209	11,142	0.6%	2.9%	5.0%	0	0	232,452
Totals	353,362,659	985,842	2,756,175	0.8%	5.4%	7.0%	1,152,770	3,215,178	4,240,536
Submarkets									
CBD									
General Retail	935,010	475	27,838	3.0%	2.6%	3.6%	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%	46.2%	0	0	31,000
Specialty Centers	179,794	0	0	0.0%	2.8%	2.8%	0	0	0
Totals	1,150,736	475	27,838	2.4%	3.4%	5.9%	0	0	31,000
East									
General Retail	6,852,263	40,742	147,504	2.2%	2.6%	3.3%	25,740	149,276	0
Malls	1,650,379	72,131	155,281	9.4%	1.7%	1.8%	100,391	180,391	0
Power Centers	557,512	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	5,401,524	-102,338	35,971	0.7%	9.4%	11.7%	0	15,610	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	14,461,678	10,535	338,756	2.3%	4.9%	6.2%	126,131	345,277	0
Inner Loop									
General Retail	14,290,726	132,396	240,325	1.7%	3.5%	5.3%	129,000	258,058	303,599
Malls	654,261	-22,707	-22,707	-3.5%	3.6%	0.2%	0	0	0
Power Centers	1,386,393	0	0	0.0%	3.3%	4.0%	0	0	0
Shopping Centers	10,615,711	-17,573	-61,161	-0.6%	5.8%	7.5%	0	11,050	85,158
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	27,120,945	92,116	156,457	0.6%	4.4%	5.9%	129,000	269,108	388,757
North									
General Retail	24,957,009	133,768	383,690	1.5%	3.7%	5.6%	199,339	638,556	674,525
Malls	6,114,744	7,620	15,935	0.3%	10.6%	12.1%	0	0	0
Power Centers	4,700,830	6,675	-224,692	-4.8%	11.1%	11.6%	0	5,456	0
Shopping Centers	26,471,796	-72,361	165,043	0.6%	8.0%	10.0%	0	5,000	344,142
Specialty Centers	157,674	0	5,500	3.5%	0.0%	0.0%	0	0	0
Totals	62,402,053	75,702	345,476	0.6%	6.8%	8.5%	199,339	649,012	1,018,667
Northeast									
General Retail	6,311,322	55,124	114,575	1.8%	1.9%	3.5%	40,825	62,323	41,924
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,349,332	0	13,372	1.0%	0.7%	0.7%	0	0	0
Shopping Centers	6,697,872	5,501	81,981	1.2%	6.2%	7.8%	8,525	8,525	0
Specialty Centers	110,000	0	-1,621	-1.5%	1.5%	1.5%	0	0	0
Totals	14,468,526	60,625	208,307	1.4%	3.8%	5.2%	49,350	70,848	41,924

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	24,106,242	125,218	288,920	1.2%	2.9%	4.9%	93,158	291,630	408,488
Malls	4,627,392	-54,202	-35,339	-0.8%	2.8%	2.8%	0	0	0
Power Centers	6,389,050	77,808	78,296	1.2%	4.5%	6.5%	150,000	150,000	0
Shopping Centers	27,591,466	140,491	-17,505	-0.1%	7.5%	8.9%	0	29,843	166,234
Specialty Centers	802,323	6,209	7,263	0.9%	5.5%	5.5%	0	0	0
Totals	63,516,473	295,524	321,635	0.5%	5.1%	6.6%	243,158	471,473	574,722
South									
General Retail	5,872,622	26,808	53,808	0.9%	1.7%	2.6%	48,974	106,177	61,862
Malls	1,389,227	14,812	-16,374	-1.2%	1.2%	1.2%	0	0	0
Power Centers	1,457,151	-3,500	-5,270	-0.4%	0.4%	0.4%	0	0	0
Shopping Centers	6,166,532	53,378	22,634	0.4%	9.1%	11.0%	0	0	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	14,885,532	91,498	54,798	0.4%	4.6%	5.7%	48,974	106,177	61,862
Southeast									
General Retail	20,812,095	55,858	561,899	2.7%	3.0%	3.7%	99,027	395,010	365,675
Malls	3,227,130	139,101	-89,740	-2.8%	5.2%	12.4%	0	0	0
Power Centers	6,441,305	-123,184	-68,957	0.0%	5.4%	6.7%	0	0	0
Shopping Centers	23,525,109	-109,878	134,999	0.6%	7.7%	10.0%	41,350	55,950	29,182
Specialty Centers	176,102	0	0	0.0%	2.8%	21.7%	0	0	0
Totals	54,181,741	-38,103	538,201	1.0%	5.5%	7.4%	140,377	450,960	394,857
Southwest									
General Retail	20,653,359	112,254	56,852	0.3%	5.2%	5.8%	209,945	402,656	829,702
Malls	2,055,189	0	0	0.0%	10.1%	16.6%	0	0	0
Power Centers	5,770,520	58,262	26,770	0.5%	2.4%	2.4%	0	0	0
Shopping Centers	27,853,844	50,481	440,942	1.6%	6.5%	8.3%	0	131,712	36,750
Specialty Centers	230,234	0	0	0.0%	6.5%	8.3%	0	0	232,452
Totals	56,563,146	220,997	524,564	0.9%	5.7%	7.1%	209,945	534,368	1,098,904
West									
General Retail	13,048,280	70,158	150,081	1.2%	2.9%	4.6%	6,496	118,484	320,683
Malls	9,178,943	21,311	68,908	0.8%	1.3%	1.4%	0	6,000	0
Power Centers	1,193,834	1,907	-123,789	-10.4%	13.6%	13.8%	0	0	0
Shopping Centers	21,096,946	83,097	144,943	0.7%	7.4%	9.3%	0	193,471	309,160
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	0	0	0
Totals	44,611,829	176,473	240,143	0.5%	5.0%	6.4%	6,496	317,955	629,843

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.