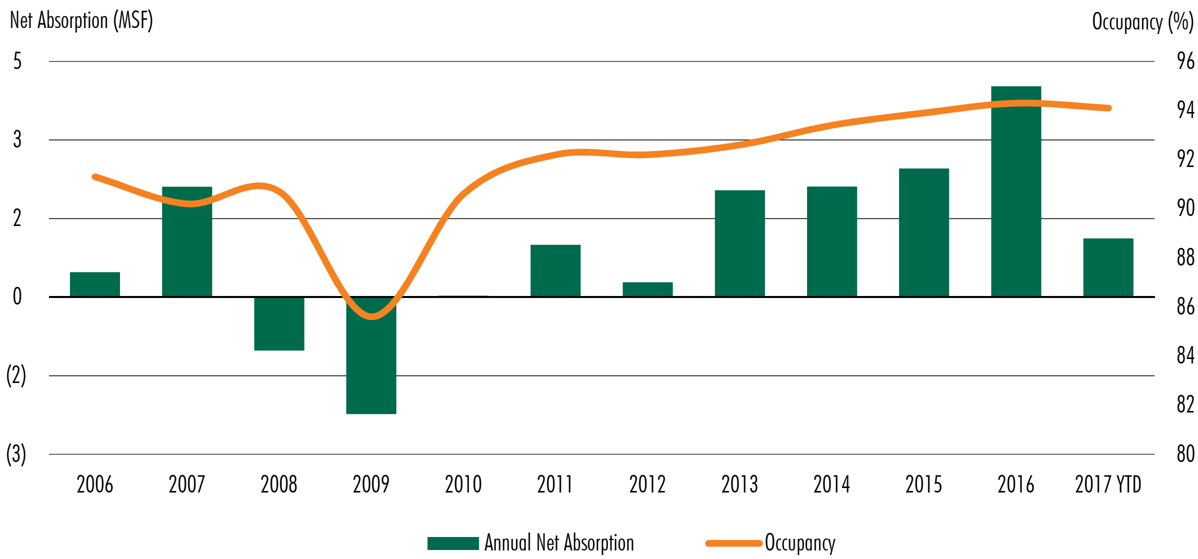
Houston Retail, Q3 2017

# New construction captures bulk of tenant demand

| | | | | |
|---|---|---|---|---|
| Occupancy 94.1% | Under Construction 1,539,973 SF | Completions 648,303 SF | Net Absorption 311,552 SF | Wtd. Avg. Asking Rate $25.17 PSF |

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Occupancy




Source: CBRE Research, Q3 2017.

## FUNDAMENTALS STRONG HEADING INTO THE STORM

Hurricane Harvey struck the Houston region in August dropping an unprecedented 1.2 trillion gallons of rainwater. While the damage to retail product was minimal, effects will not be visible in Q3 2017 statistics but could influence Q4 2017 data. The largest hurdle for the Houston Retail market post-Harvey is the continuing lack of space. Heading into the storm availability was very tight—even with large-scale national retail closures/bankruptcies disrupting big-box and small shop demand. A dwindling pipeline, temporary requirements, increased demand from home improvement tenants, and sustained organic retail demand will keep this market in very tight conditions. In fact, CBRE Research anticipates Class A occupancy will increase by approximately 35 basis points in Q4 2017.

## LIMITED AVAILABILITY CONSTRICTS ABSORPTION

Leasing demand continues to decline—almost all of the 311,552 sq. ft. of new absorption was taken up by newly delivered centers, including the Grand Parkway Marketplace located in the Far North submarket. Year-to-date over 2 million sq. ft. was absorbed in new development—counterbalancing national closures and bankruptcies.

While absorption volume has slowed across the city, demand for space is still high as evidenced by tight occupancy rates at 94.1%, and rising Class A occupancy at 97.3%. Tightening availability is hindering large expansions, and thus deal flow is heaviest in small shop and restaurant segments.

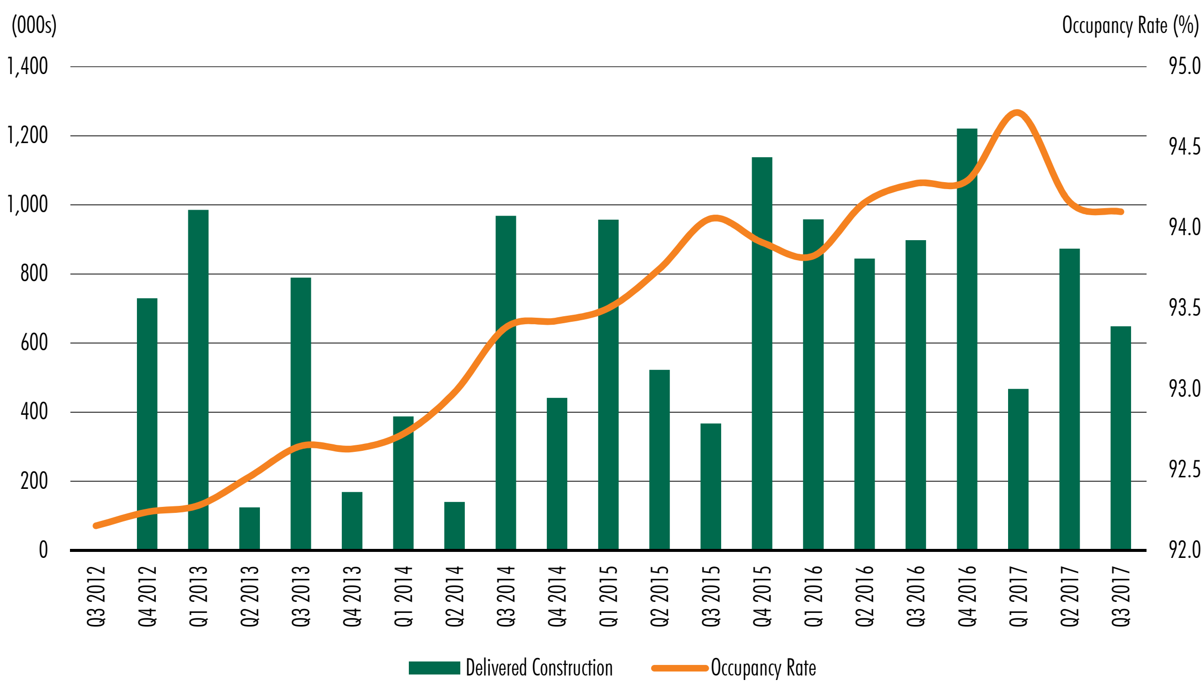
Figure 2: Market Snapshot

| Market | Number of Centers | Net Rentable Area (SF) | Vacancy (%) | Asking Rate, NNN Avg. Annual ($/SF) | Under Construction (SF) | Delivered Construction (SF) | Q3 2017 Net Absorption (SF) |
|---|---|---|---|---|---|---|---|
| Inner Loop | 322 | 15,646,919 | 3.8 | 37.25 | 147,000 | 0 | (9,809) |
| Northeast | 243 | 15,493,300 | 5.3 | 16.00 | 132,080 | 0 | (16,251) |
| Near North | 109 | 6,396,605 | 3.8 | 14.00 | 0 | 0 | (13,627) |
| Far North | 461 | 31,831,155 | 6.7 | 24.00 | 566,670 | 271,248 | 428,516 |
| Near Northwest | 185 | 10,644,491 | 4.4 | 25.50 | 0 | 0 | (10,371) |
| Far Northwest | 478 | 27,787,350 | 6.7 | 32.00 | 0 | 225,395 | 115,809 |
| Near West | 191 | 12,483,225 | 4.4 | 36.00 | 45,000 | 0 | (3,913) |
| Far West | 287 | 17,894,867 | 5.2 | 29.50 | 330,673 | 84,660 | 106,666 |
| Near Southwest | 223 | 12,767,563 | 9.2 | 17.25 | 70,000 | 0 | (250,221) |
| Far Southwest | 350 | 22,341,525 | 5.9 | 25.00 | 207,200 | 67,000 | 74,260 |
| South | 159 | 8,452,887 | 6.2 | 23.25 | 0 | 0 | (20,443) |
| Near Southeast | 136 | 9,093,153 | 7.6 | 18.00 | 0 | 0 | (44,476) |
| Far Southeast | 327 | 22,910,061 | 5.7 | 23.50 | 41,350 | 0 | (44,588) |
| HOUSTON TOTAL | 3,471 | 213,743,101 | 5.9 | 25.17 | 1,539,973 | 648,303 | 311,552 |

Source: CBRE Research, Q3 2017.

* Market total reflects weighted average asking rate

Figure 3: Historical Completions and Occupancy Rate




Source: CBRE Research, Q3 2017.

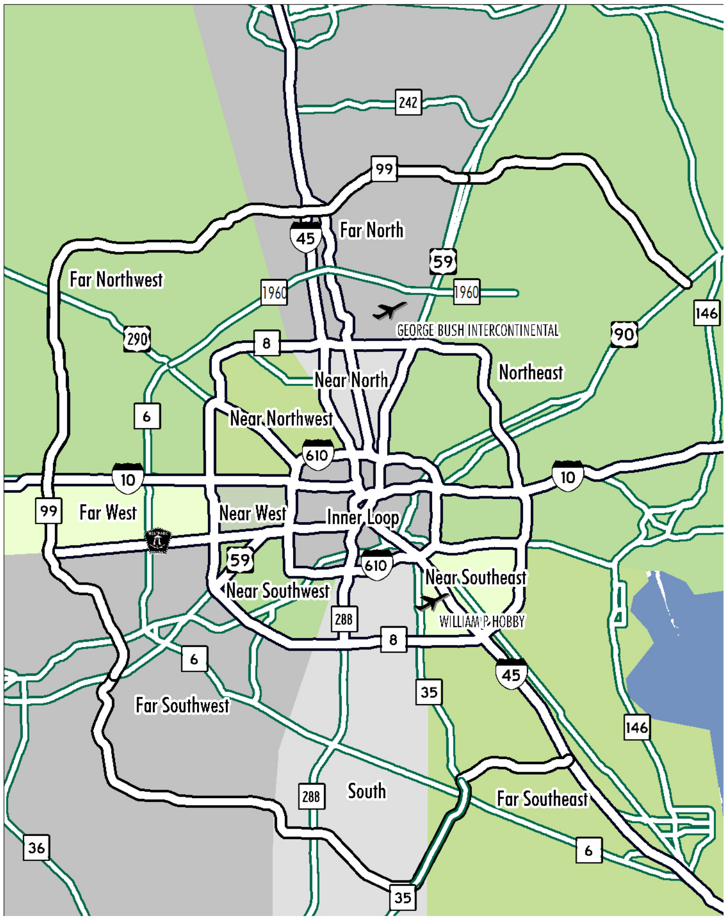
  

Figure 4: Historical Market Statistics

| | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 YTD |
|---|---|---|---|---|---|---|---|---|---|
| **INNER LOOP** | Absorption (Net, SF) | 63,030 | (21,292) | 75,133 | 72,274 | 97,668 | 461,629 | 111,063 | 18,252 |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 26.00 | 26.50 | 32.50 | 35.50 | 36.75 | 32.00 | 35.50 | 37.25 |
| | Delivered Construction (SF) | 58,330 | 0 | 169,470 | 0 | 185,000 | 434,465 | 54,774 | 72,541 |
| | Occupancy Rate (%) | 95.5 | 95.4 | 93.6 | 94.1 | 95.6 | 96.5 | 96.2 | 96.2 |
| **NORTHEAST** | Absorption (Net, SF) | (214,733) | 66,376 | 288,245 | 81,473 | 277,901 | 162,579 | 675,751 | 11,730 |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 13.25 | 13.25 | 13.50 | 15.00 | 15.00 | 13.00 | 15.00 | 16.00 |
| | Delivered Construction (SF) | 319,016 | 81,686 | 31,000 | 174,954 | 320,651 | 100,000 | 1,215,083 | 0 |
| | Occupancy Rate (%) | 90.8 | 90.7 | 90.8 | 89.0 | 91.5 | 93.0 | 94.5 | 94.7 |
| **NEAR NORTH** | Absorption (Net, SF) | (54,507) | (23,143) | (164,326) | 60,082 | (60,101) | (19,964) | 31,641 | 13,790 |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 13.75 | 14.00 | 14.25 | 18.00 | 18.25 | 14.00 | 14.00 | 14.00 |
| | Delivered Construction (SF) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 56,250 |
| | Occupancy Rate (%) | 98.0 | 96.3 | 96.2 | 96.5 | 96.7 | 95.9 | 96.4 | 96.2 |
| **FAR NORTH** | Absorption (Net, SF) | (60,178) | 103,000 | (97,182) | 249,193 | 600,344 | (2,560) | 808,749 | 1,171,864 |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 19.50 | 20.00 | 23.50 | 25.25 | 26.50 | 24.00 | 24.00 | 24.00 |
| | Delivered Construction (SF) | 0 | 458,347 | 79,103 | 134,527 | 198,038 | 298,521 | 528,160 | 1,000,136 |
| | Occupancy Rate (%) | 90.3 | 90.3 | 91.0 | 91.5 | 93.1 | 93.5 | 93.9 | 93.3 |
| **NEAR NORTHWEST** | Absorption (Net, SF) | 131,426 | 84,388 | 17,602 | (69,499) | 118,692 | (24,491) | 9,026 | (110,983) |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 12.25 | 12.75 | 14.00 | 15.00 | 15.00 | 21.25 | 26.00 | 25.50 |
| | Delivered Construction (SF) | 0 | 79,895 | 0 | 40,000 | 0 | 0 | 0 | 0 |
| | Occupancy Rate (%) | 93.8 | 95.0 | 95.1 | 94.6 | 95.2 | 95.2 | 96.1 | 95.6 |
| **FAR NORTHWEST** | Absorption (Net, SF) | 81,212 | 267,120 | 96,476 | 245,378 | 369,190 | 268,491 | 563,711 | 168,768 |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 18.50 | 20.00 | 22.50 | 25.25 | 25.25 | 33.75 | 32.75 | 32.00 |
| | Delivered Construction (SF) | 144,379 | 88,042 | 25,610 | 297,078 | 457,305 | 228,000 | 496,507 | 246,995 |
| | Occupancy Rate (%) | 91.3 | 92.1 | 92.7 | 93.0 | 93.0 | 94.0 | 94.0 | 93.3 |
| **NEAR WEST** | Absorption (Net, SF) | (158,063) | 52,845 | (2,371) | 119,801 | 114,165 | 111,794 | 72,158 | (55,492) |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 18.50 | 19.00 | 21.00 | 24.50 | 24.50 | 34.00 | 36.00 | 36.00 |
| | Delivered Construction (SF) | 47,584 | 0 | 55,000 | 133,274 | 110,000 | 172,827 | 0 | 0 |
| | Occupancy Rate (%) | 94.7 | 94.6 | 94.9 | 95.5 | 95.7 | 95.3 | 97.1 | 95.6 |
| **FAR WEST** | Absorption (Net, SF) | 96,129 | 116,437 | 86,860 | 395,165 | 221,353 | 562,664 | 207,543 | 334,096 |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 15.50 | 16.25 | 24.00 | 30.50 | 30.50 | 28.75 | 29.00 | 29.50 |
| | Delivered Construction (SF) | 137,289 | 24,225 | 20,555 | 916,552 | 0 | 388,456 | 394,094 | 412,917 |
| | Occupancy Rate (%) | 92.2 | 92.3 | 93.0 | 92.9 | 92.7 | 94.2 | 95.0 | 94.8 |
| **NEAR SOUTHWEST** | Absorption (Net, SF) | 101,066 | 9,275 | (147,823) | 50,497 | (42,632) | 121,835 | 128,670 | (307,888) |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 13.25 | 13.00 | 13.50 | 15.00 | 15.00 | 16.75 | 17.00 | 17.25 |
| | Delivered Construction (SF) | 40,000 | 0 | 0 | 0 | 0 | 177,514 | 15,000 | 0 |
| | Occupancy Rate (%) | 91.2 | 90.8 | 90.2 | 91.2 | 88.4 | 91.5 | 92.1 | 90.8 |
| **FAR SOUTHWEST** | Absorption (Net, SF) | (143,393) | 297,614 | (155,568) | 174,496 | 241,414 | 126,984 | 319,119 | (5,912) |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 18.25 | 18.75 | 21.25 | 25.25 | 25.50 | 22.25 | 24.25 | 25.00 |
| | Delivered Construction (SF) | 0 | 177,365 | 136,494 | 169,432 | 215,304 | 204,175 | 172,636 | 67,000 |
| | Occupancy Rate (%) | 90.3 | 91.8 | 92.4 | 92.6 | 93.8 | 93.7 | 94.2 | 94.1 |
| **SOUTH** | Absorption (Net, SF) | 106,924 | (26,389) | (1,083) | 186,724 | 98,437 | (31,273) | 253,972 | (95,226) |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 16.50 | 17.00 | 18.75 | 20.00 | 20.50 | 18.25 | 22.00 | 23.25 |
| | Delivered Construction (SF) | 40,000 | 0 | 5,000 | 7,917 | 0 | 366,640 | 139,691 | 24,427 |
| | Occupancy Rate (%) | 90.3 | 90.8 | 90.8 | 92.6 | 94.5 | 93.4 | 94.2 | 93.8 |
| **NEAR SOUTHEAST** | Absorption (Net, SF) | 27,161 | (74,189) | 86,101 | 292,866 | 71,167 | 30,537 | 101,811 | (68,446) |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 13.00 | 13.00 | 14.25 | 14.75 | 14.75 | 22.50 | 18.00 | 18.00 |
| | Delivered Construction (SF) | 0 | 20,146 | 0 | 9,082 | 0 | 0 | 0 | 0 |
| | Occupancy Rate (%) | 89.5 | 90.9 | 88.3 | 90.3 | 93.3 | 91.6 | 92.2 | 92.4 |
| **FAR SOUTHEAST** | Absorption (Net, SF) | 50,259 | 144,553 | 200,367 | 179,833 | 2,093 | 687,635 | 742,662 | 45,175 |
| | Avg. Asking Rent (Annual,NNN, $/SF) | 16.25 | 16.75 | 17.75 | 20.25 | 20.50 | 14.50 | 23.75 | 23.50 |
| | Delivered Construction (SF) | 36,000 | 25,000 | 350,000 | 184,400 | 450,443 | 613,475 | 905,003 | 108,343 |
| | Occupancy Rate (%) | 91.4 | 92.1 | 92.3 | 92.7 | 93.7 | 93.6 | 92.4 | 94.3 |
| **HOUSTON TOTAL** | | | | | | | | | |
| | **Absorption (Net, SF)** | **26,333** | **996,595** | **282,431** | **2,038,283** | **2,109,691** | **2,455,860** | **4,025,876** | **1,119,728** |
| | **Avg. Asking Rent (Annual,NNN, $/SF)** | **16.50** | **16.94** | **19.29** | **21.87** | **22.15** | **22.69** | **23.81** | **25.17** |
| | **Delivered Construction (SF)** | **822,598** | **954,706** | **872,232** | **2,067,216** | **1,936,741** | **2,984,073** | **3,920,948** | **1,988,609** |
| | **Occupancy Rate (%)** | **91.8** | **92.2** | **92.2** | **92.6** | **93.4** | **93.9** | **94.3** | **94.1** |

Source: CBRE Research, Q3 2017.

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