

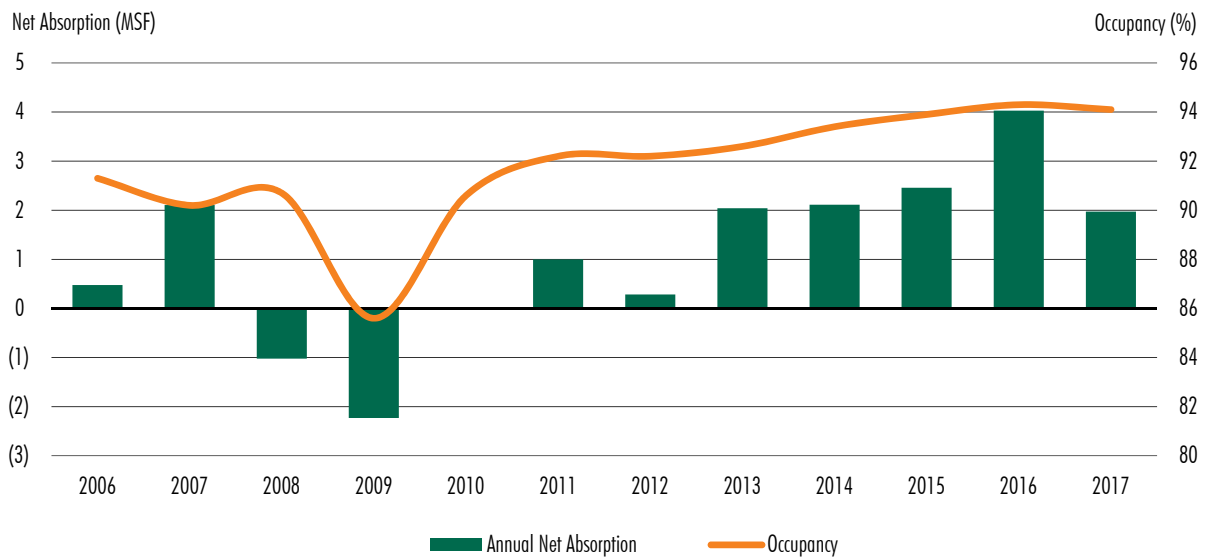
Houston Retail, Q4 2017

Tenant demand stabilizes at year-end following slow start

▶ Occupancy 94.1%
▶ Under Construction 1,513,756 SF
▲ Completions 785,832 SF
▲ Net Absorption 851,750 SF
▲ Wtd. Avg. Asking Rate \$25.17 PSF

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Occupancy



Source: CBRE Research, Q4 2017.

2017 NET ABSORPTION ABOVE 10-YEAR AVERAGE

This year brought its challenges to the Houston retail market: an abundance of U.S. retail bankruptcies, Hurricane Harvey’s impact on local restaurants, and a continued supply shortage of prime space. However, stable demand during the final 90 days resulted in the year’s strongest quarter of net absorption and brought the annual total to almost 2 million sq. ft.—well above the 10-year average of 1.1 million sq. ft. Tightening availability propelled overall occupancy to 94.1% and Class A to 97.4%, slowed large expansions, and drove deal flow in small-shop and restaurant segments.

New construction activity continues to provide lift to net absorption totals, as 719,000 sq. ft. was occupied in projects delivered this quarter.

The development pipeline maintains a growing number of small, speculative strip centers currently underway, while the bulk of ongoing construction volume is in grocery-anchored centers. The pace of these expansions is expected to slow next year as supply in suburban communities begins to catch up with residentially-driven demand growth.

RETAIL SALES GAINS EXPECTED IN 2018

October sales tax revenues continue to show improving consumer and business spending across the Houston metro, likely due to hurricane recovery expenditures for furniture and home improvement needs. Additionally, Houston regional retail sales volumes are forecast to reach \$75.5 million in 2018, a 5.7% increase from 2017. Similar sales growth is projected over the next 5 years. Good indicators for the retail sector in the year ahead.

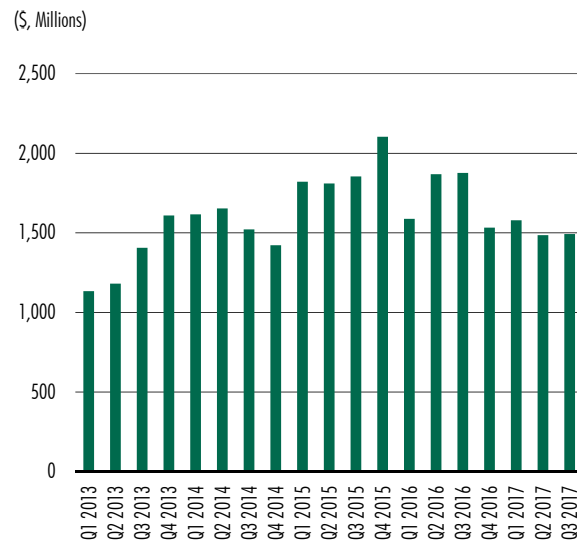
Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Delivered Construction (SF)	Q4 2017 Net Absorption (SF)
Inner Loop	321	15,534,434	3.7	38.00	147,000	0	(9,677)
Northeast	245	15,595,798	4.7	16.00	116,396	108,230	107,088
Near North	109	6,405,774	3.5	14.00	0	0	25,433
Far North	467	32,162,397	7.8	24.00	418,550	367,195	272,858
Near Northwest	185	10,641,313	4.7	25.00	20,000	0	22,631
Far Northwest	480	27,812,651	5.8	32.00	0	0	61,470
Near West	191	12,479,830	4.3	36.00	20,000	0	11,873
Far West	290	18,093,411	6.2	30.00	266,635	148,200	186,404
Near Southwest	222	12,673,368	8.5	17.75	70,000	0	43,565
Far Southwest	352	22,389,161	5.8	25.50	393,800	86,000	27,468
South	161	8,438,346	6.1	24.00	20,025	47,200	56,657
Near Southeast	137	9,116,348	7.0	18.00	0	0	541
Far Southeast	328	22,933,398	5.4	23.25	41,350	29,007	45,439
HOUSTON TOTAL	3,488	214,276,229	5.9	25.30	1,513,756	785,832	851,750

Source: CBRE Research, Q4 2017.

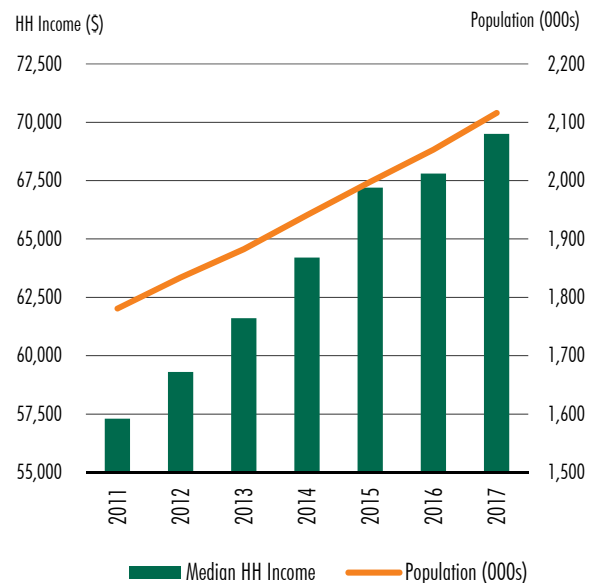
* Market total reflects weighted average asking rate

Figure 3: Retail Investment Sales Volume



Source: Real Capital Analytics, December 2017.

Figure 4: Population Growth and Purchasing Power

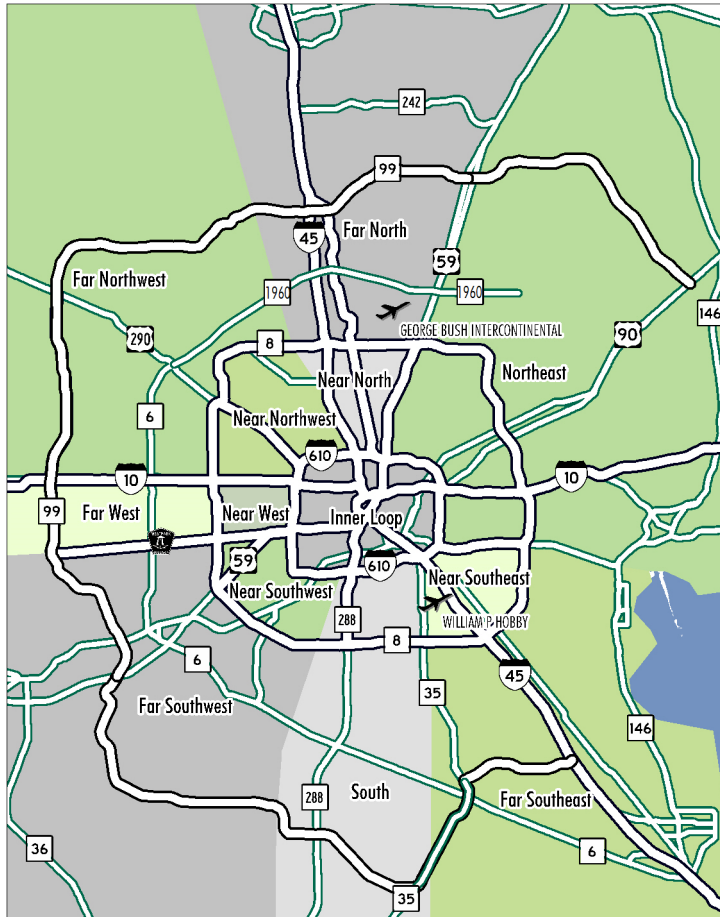


Source Moody's Analytics, November 2017.

Figure 4: Historical Market Statistics

	2010	2011	2012	2013	2014	2015	2016	2017
INNER LOOP								
Absorption (Net, SF)	63,030	(21,292)	75,133	72,274	97,668	461,629	111,063	8,575
Avg. Asking Rent (Annual,NNN, \$/SF)	26.00	26.50	32.50	35.50	36.75	32.00	35.50	38.00
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	96.3
NORTHEAST								
Absorption (Net, SF)	(214,733)	66,376	288,245	81,473	277,901	162,579	675,751	118,818
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	108,230
Occupancy Rate (%)	90.8	90.7	90.8	89.0	91.5	93.0	94.5	95.3
NEAR NORTH								
Absorption (Net, SF)	(54,507)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	39,223
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	96.5
FAR NORTH								
Absorption (Net, SF)	(60,178)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	1,444,722
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	1,367,331
Occupancy Rate (%)	90.3	90.3	91.0	91.5	93.1	93.5	93.9	92.2
NEAR NORTHWEST								
Absorption (Net, SF)	131,426	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(88,352)
Avg. Asking Rent (Annual,NNN, \$/SF)	12.25	12.75	14.00	15.00	15.00	21.25	26.00	25.00
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	95.3
FAR NORTHWEST								
Absorption (Net, SF)	81,212	267,120	96,476	245,378	369,190	268,491	563,711	230,238
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	94.2
NEAR WEST								
Absorption (Net, SF)	(158,063)	52,845	(2,371)	119,801	114,165	111,794	72,158	(43,619)
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	95.7
FAR WEST								
Absorption (Net, SF)	96,129	116,437	86,860	395,165	221,353	562,664	207,543	520,500
Avg. Asking Rent (Annual,NNN, \$/SF)	15.50	16.25	24.00	30.50	30.50	28.75	29.00	30.00
Delivered Construction (SF)	137,289	24,225	20,555	916,552	0	388,456	394,094	561,117
Occupancy Rate (%)	92.2	92.3	93.0	92.9	92.7	94.2	95.0	93.8
NEAR SOUTHWEST								
Absorption (Net, SF)	101,066	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(264,323)
Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.00	13.50	15.00	15.00	16.75	17.00	17.75
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	91.5
FAR SOUTHWEST								
Absorption (Net, SF)	(143,393)	297,614	(155,568)	174,496	241,414	126,984	319,119	21,556
Avg. Asking Rent (Annual,NNN, \$/SF)	18.25	18.75	21.25	25.25	25.50	22.25	24.25	25.50
Delivered Construction (SF)	0	177,365	136,494	169,432	215,304	204,175	172,636	153,000
Occupancy Rate (%)	90.3	91.8	92.4	92.6	93.8	93.7	94.2	94.2
SOUTH								
Absorption (Net, SF)	106,924	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(38,569)
Avg. Asking Rent (Annual,NNN, \$/SF)	16.50	17.00	18.75	20.00	20.50	18.25	22.00	24.00
Delivered Construction (SF)	40,000	0	5,000	7,917	0	366,640	139,691	71,627
Occupancy Rate (%)	90.3	90.8	90.8	92.6	94.5	93.4	94.2	93.9
NEAR SOUTHEAST								
Absorption (Net, SF)	27,161	(74,189)	86,101	292,866	71,167	30,537	101,811	(67,905)
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	93.0
FAR SOUTHEAST								
Absorption (Net, SF)	50,259	144,553	200,367	179,833	2,093	687,635	742,662	90,614
Avg. Asking Rent (Annual,NNN, \$/SF)	16.25	16.75	17.75	20.25	20.50	14.50	23.75	23.25
Delivered Construction (SF)	36,000	25,000	350,000	184,400	450,443	613,475	905,003	137,350
Occupancy Rate (%)	91.4	92.1	92.3	92.7	93.7	93.6	92.4	94.6
HOUSTON TOTAL								
Absorption (Net, SF)	26,333	996,595	282,431	2,038,283	2,109,691	2,455,860	4,025,876	1,971,478
Avg. Asking Rent (Annual,NNN, \$/SF)	16.50	16.94	19.29	21.87	22.15	22.69	23.81	25.30
Delivered Construction (SF)	822,598	954,706	872,232	2,067,216	1,936,741	2,984,073	3,920,948	2,774,441
Occupancy Rate (%)	91.8	92.2	92.2	92.6	93.4	93.9	94.3	94.1

Source: CBRE Research, Q4 2017.



CONTACTS

Robert C. Kramp
Director, Research & Analysis
 robert.kramp@cbre.com

E. Michelle Miller
Research Operations Manager
 michelle.miller@cbre.com

Analee Bivins Micheletti
Sr. Research Analyst
 analée.micheletti@cbre.com

CBRE OFFICES

CBRE Houston
 2800 Post Oak, Suite 2300
 Houston, TX 77056

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