CBRE

MARKETVIEW

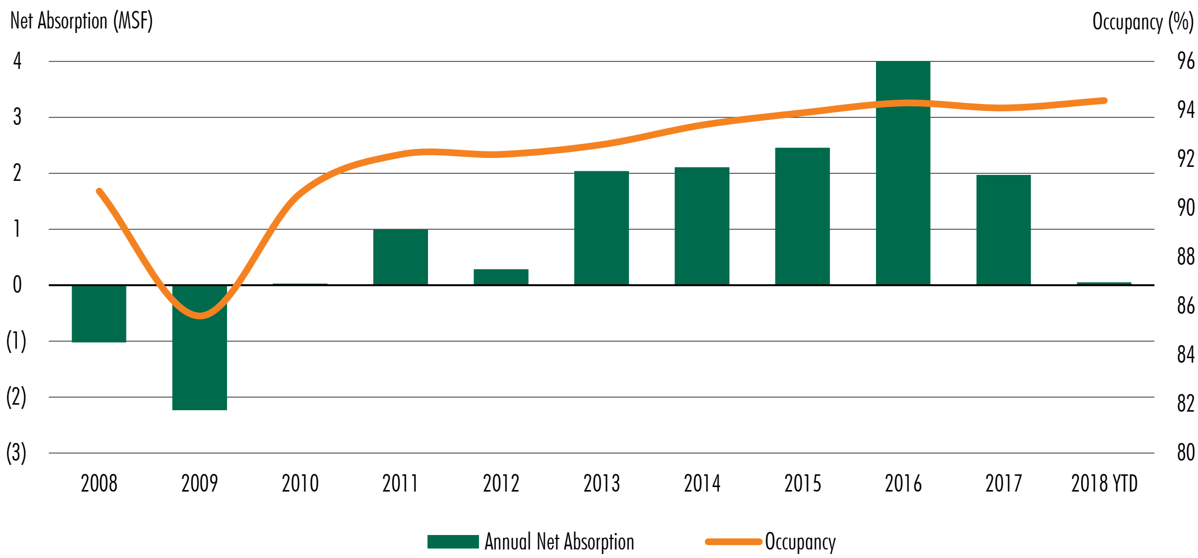
Houston Retail, Q1 2018

Local leasing strength amid nationwide closures

Occupancy	Under Construction	Completions	Net Absorption
▲ 94.4%	▲ 3,359,182 SF	▲ 903,438 SF	▼ 48,991 SF

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Market Occupancy



Source: CBRE Research, Q1 2018.

OCCUPANCY SUSTAINS CLIMB, UP 30 BPS TO 94.4% DURING LAST 90 DAYS

Within Houston's tightening retail market, strong net absorption and heavily pre-leased deliveries caused occupancy to register at 94.4%, above its 8 year average of 93.1%. However, as construction starts slow and completions require more time to come online, rates of occupancy and rents are expected to be temperate in the short-term.

GROCERY-ANCHORED RETAIL: A DARLING FOR INVESTORS?

Nearly 1 million sq. ft. of retail space was delivered during the first quarter, of which close to 400,000 sf were grocery-anchored centers such as Kroger and HEB. Hispanic food retailer Grupo Comercial Chedraui is acquiring Houston-based Fiesta Mart for $300 million as it attempts to strengthen its relevance in the Spanish-speaking market in the U.S.

UNABATED POPULATION GROWTH 'FEEDS' NEED FOR RETAIL

Metro Houston added 94,417 residents in 2017, to reach a total population just shy of 6.9 million, according to the U.S. Census. Despite announcements of retail bankruptcies dominating headlines, demand remains healthy; from 2011 to 2017, Houston added approximately 2,700 people per week, supporting expanding retail, which explains why 40% of recent completions are grocery-anchored.

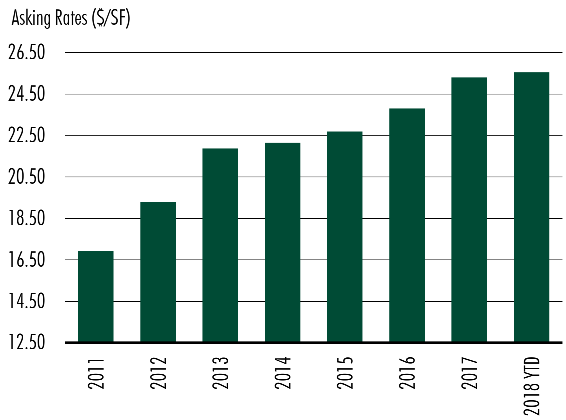
TOYS R US ANNOUNCES U.S. LIQUIDATION

In March, Toys R Us filed a motion seeking bankruptcy court approval to begin liquidation of its 735 U.S and Puerto Rico stores. The closures are expected to occur within the first nine months of 2018. In Houston, the retailer has 18 locations, totaling nearly 675,000 sq. ft. of space.

Figure 4: Historical Market Statistics

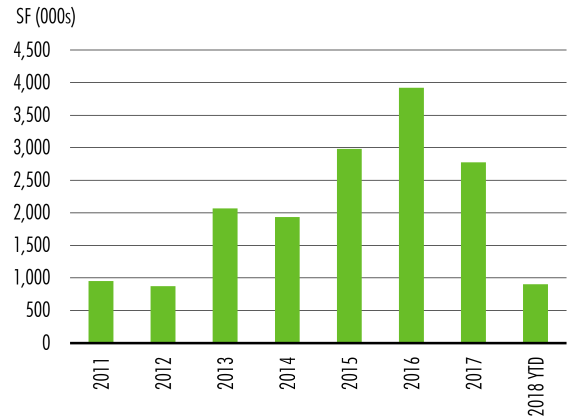
		2011	2012	2013	2014	2015	2016	2017	YTD 2018
INNER LOOP	Absorption (Net, SF)	(21,292)	75,133	72,274	97,668	461,629	111,063	8,575	(80,175)
	Avg. Asking Rent (Annual,NNN, $/SF)	26.50	32.50	35.50	36.75	32.00	35.50	38.00	37.00
	Delivered Construction (SF)	-	169,470	-	185,000	434,465	54,774	72,541	12,410
	Occupancy Rate (%)	95.4	93.6	94.1	95.6	96.5	96.2	96.3	95.8
NORTHEAST	Absorption (Net, SF)	66,376	288,245	81,473	277,901	162,579	675,751	118,818	8,006
	Avg. Asking Rent (Annual,NNN, $/SF)	13.25	13.50	15.00	15.00	13.00	15.00	16.00	16.00
	Delivered Construction (SF)	81,686	31,000	174,954	320,651	100,000	1,215,083	108,230	105,166
	Occupancy Rate (%)	90.7	90.8	89.0	91.5	93.0	94.5	95.3	95.6
NEAR NORTH	Absorption (Net, SF)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	39,223	111,558
	Avg. Asking Rent (Annual,NNN, $/SF)	14.00	14.25	18.00	18.25	14.00	14.00	14.00	14.50
	Delivered Construction (SF)	-	-	-	-	-	-	56,250	13,012
	Occupancy Rate (%)	96.3	96.2	96.5	96.7	95.9	96.4	96.5	96.2
FAR NORTH	Absorption (Net, SF)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	1,444,722	21,767
	Avg. Asking Rent (Annual,NNN, $/SF)	20.00	23.50	25.25	26.50	24.00	24.00	24.00	25.00
	Delivered Construction (SF)	458,347	79,103	134,527	198,038	298,521	528,160	1,367,331	363,109
	Occupancy Rate (%)	90.3	91.0	91.5	93.1	93.5	93.9	92.2	92.8
NEAR NORTHWEST	Absorption (Net, SF)	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(88,352)	38,630
	Avg. Asking Rent (Annual,NNN, $/SF)	12.75	14.00	15.00	15.00	21.25	26.00	25.00	25.00
	Delivered Construction (SF)	79,895	-	40,000	-	-	-	-	30,733
	Occupancy Rate (%)	95.0	95.1	94.6	95.2	95.2	96.1	95.3	96.2
FAR NORTHWEST	Absorption (Net, SF)	267,120	96,476	245,378	369,190	268,491	563,711	230,238	(235,809)
	Avg. Asking Rent (Annual,NNN, $/SF)	20.00	22.50	25.25	25.25	33.75	32.75	32.00	31.00
	Delivered Construction (SF)	88,042	25,610	297,078	457,305	228,000	496,507	246,995	27,099
	Occupancy Rate (%)	92.1	92.7	93.0	93.0	94.0	94.0	94.2	93.5
NEAR WEST	Absorption (Net, SF)	52,845	(2,371)	119,801	114,165	111,794	72,158	(43,619)	26,664
	Avg. Asking Rent (Annual,NNN, $/SF)	19.00	21.00	24.50	24.50	34.00	36.00	36.00	36.50
	Delivered Construction (SF)	-	55,000	133,274	110,000	172,827	-	-	-
	Occupancy Rate (%)	94.6	94.9	95.5	95.7	95.3	97.1	95.7	97.3
FAR WEST	Absorption (Net, SF)	116,437	86,860	395,165	221,353	562,664	207,543	520,500	(23,057)
	Avg. Asking Rent (Annual,NNN, $/SF)	16.25	24.00	30.50	30.50	28.75	29.00	30.00	30.00
	Delivered Construction (SF)	24,225	20,555	916,552	0	388,456	394,094	561,117	108,285
	Occupancy Rate (%)	92.3	93.0	92.9	92.7	94.2	95.0	93.8	93.4
NEAR SOUTHWEST	Absorption (Net, SF)	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(264,323)	(23,246)
	Avg. Asking Rent (Annual,NNN, $/SF)	13.00	13.50	15.00	15.00	16.75	17.00	17.75	17.00
	Delivered Construction (SF)	-	-	-	-	177,514	15,000	-	16,146
	Occupancy Rate (%)	90.8	90.2	91.2	88.4	91.5	92.1	91.5	92.8
FAR SOUTHWEST	Absorption (Net, SF)	297,614	(155,568)	174,496	241,414	126,984	319,119	21,556	(15,260)
	Avg. Asking Rent (Annual,NNN, $/SF)	18.75	21.25	25.25	25.50	22.25	24.25	25.50	24.00
	Delivered Construction (SF)	177,365	136,494	169,432	215,304	204,175	172,636	153,000	103,750
	Occupancy Rate (%)	91.8	92.4	92.6	93.8	93.7	94.2	94.2	94.1
SOUTH	Absorption (Net, SF)	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(38,569)	80,086
	Avg. Asking Rent (Annual,NNN, $/SF)	17.00	18.75	20.00	20.50	18.25	22.00	24.00	25.00
	Delivered Construction (SF)	-	5,000	7,917	-	366,640	139,691	71,627	-
	Occupancy Rate (%)	90.8	90.8	92.6	94.5	93.4	94.2	93.9	95.2
NEAR SOUTHEAST	Absorption (Net, SF)	(74,189)	86,101	292,866	71,167	30,537	101,811	(67,905)	110,466
	Avg. Asking Rent (Annual,NNN, $/SF)	13.00	14.25	14.75	14.75	22.50	18.00	18.00	18.00
	Delivered Construction (SF)	20,146	-	9,082	-	-	-	-	-
	Occupancy Rate (%)	90.9	88.3	90.3	93.3	91.6	92.2	93.0	91.7
FAR SOUTHEAST	Absorption (Net, SF)	144,553	200,367	179,833	2,093	687,635	742,662	90,614	29,361
	Avg. Asking Rent (Annual,NNN, $/SF)	16.75	17.75	20.25	20.50	14.50	23.75	23.25	22.00
	Delivered Construction (SF)	25,000	350,000	184,400	450,443	613,475	905,003	137,350	123,728
	Occupancy Rate (%)	92.1	92.3	92.7	93.7	93.6	92.4	94.6	95.1
HOUSTON TOTAL									
	Absorption (Net, SF)	**996,595**	**282,431**	**2,038,283**	**2,109,691**	**2,455,860**	**4,025,876**	**1,971,478**	**48,991**
	Avg. Asking Rent (Annual,NNN, $/SF)	**16.94**	**19.29**	**21.87**	**22.15**	**22.69**	**23.81**	**25.30**	**25.55**
	Delivered Construction (SF)	**954,706**	**872,232**	**2,067,216**	**1,936,741**	**2,984,073**	**3,920,948**	**2,774,441**	**903,438**
	Occupancy Rate (%)	**92.2**	**92.2**	**92.6**	**93.4**	**93.9**	**94.3**	**94.1**	**94.4**

Figure 3: Asking Annual Rents, NNN Avg.



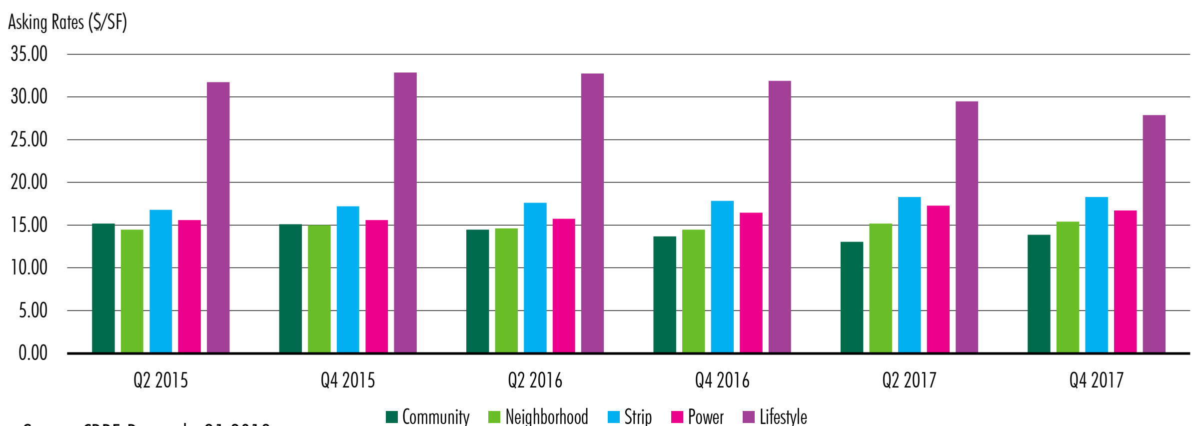
Source: CBRE Research, Q1 2018.

Figure 4: Deliveries



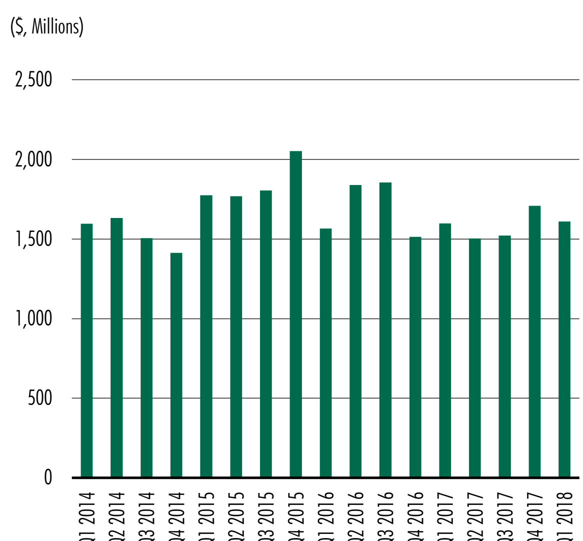
Source: CBRE Research, Q1 2018.

Figure 5: Asking Annual Rents by Center Type, NNN Avg.



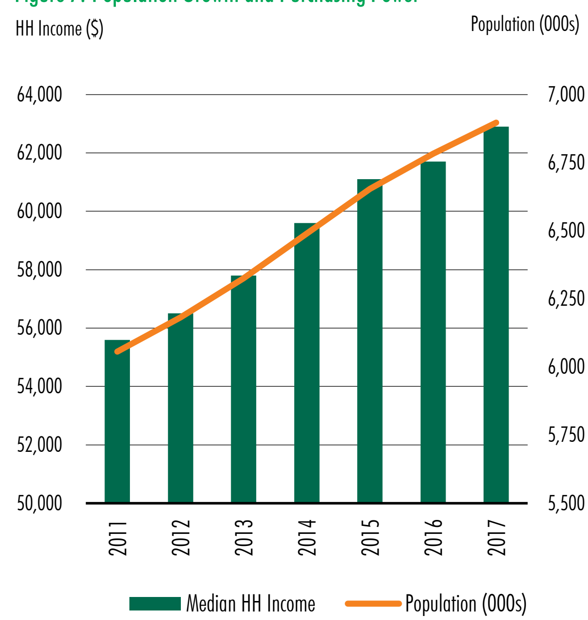
Source: CBRE Research, Q1 2018.

Figure 6: Retail Investment Sales Volume

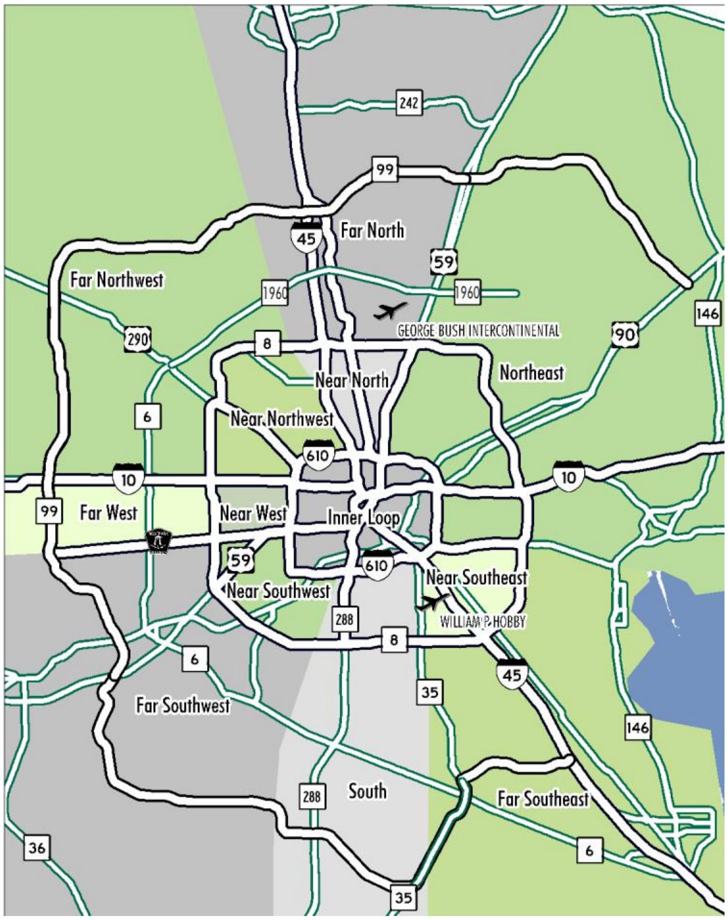


Source: Real Capital Analytics, Q1 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q1 2018.



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**Beginning in Q1 2018, the Retail dataset has been expanded to include properties 10,000-sq.-ft. and up.*