

Houston Retail, Q2 2018

# Local rents climbing as U.S. retail e-commerce evolves



Occupancy  
94.1%



Under Construction  
3,736,299 SF



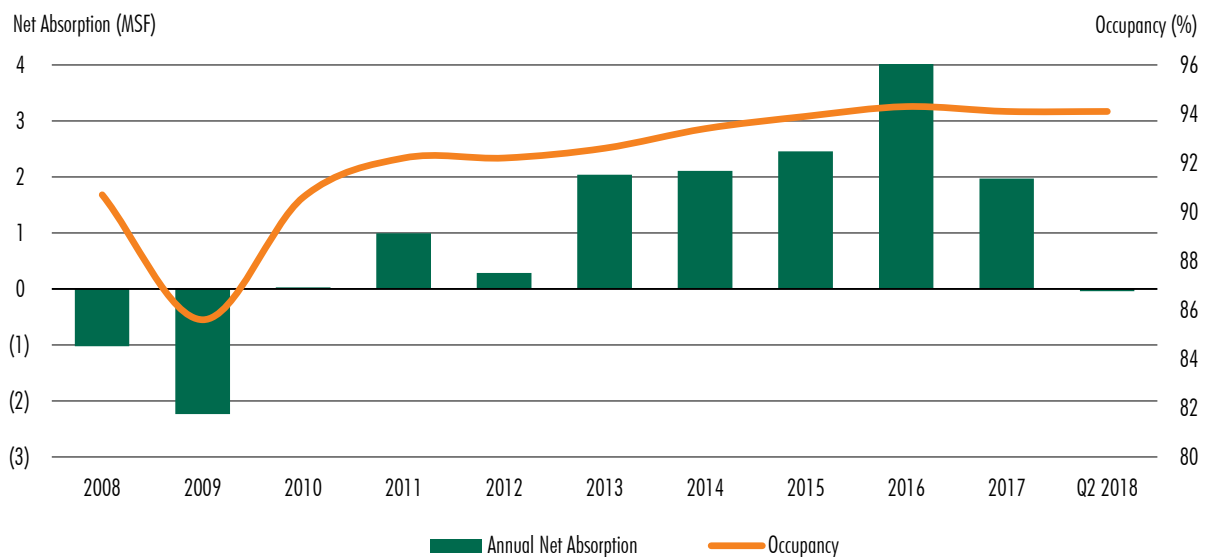
Completions  
482,403 SF



Net Absorption  
(39,748) SF

Figure 1: Net Absorption and Market Occupancy

\*Arrows indicate trend from previous quarter.



Source: CBRE Research, Q2 2018.

### RETAIL RENTS SEE WHOLESALÉ RISE

While high-profile bankruptcies of big-box retailers have monopolized industry headlines, the data for Houston’s brick-and-mortar retail space tells a very different story. Rents are on the rise, occupancy levels stand at around 94 percent, and there are over 3.7 million sq. ft. under construction as developers rush to keep up with demand.

### TOYS R US PUTS ITS TOYS AWAY

The giant toy store is closing all of its 735 Toys R Us and Babies R Us locations nationwide on Friday, including 65 locations in Texas, and affecting around 33,000 employees. The 18 Toys R Us and Babies R Us stores in Houston comprise nearly 675,000 sq. ft. of total space and span from a 3,200 sq. ft. express store in Texas City to a 65,522 sq. ft. shop in Katy. A little over half of these locations are leased, while the rest are owned by the retailer.

### HOUSTON EMPLOYMENT GROWTH #4 IN U.S.

For the 12-months ending April 2018, Houston rose to fourth place for total jobs gained, just behind Dallas/Fort Worth, New York and Los Angeles. The Bayou City added more than 85,000 new payrolls during that time, at a growth rate of 2.8% annually. This is a far cry from the 0.6% rate a year ago, where less than 17,000 new jobs were added.

### FIRST EL RANCHO SUPERMARKET OPENS ITS DOORS

Braving a myriad of grocery competitors, El Rancho is ardently wooing the region’s nearly 2 million Hispanic consumers, which account for 42 percent of the overall Houston metro population and boast a combined spending power of over \$54 billion a year. This figure is expected to surpass \$80 billion by 2022.

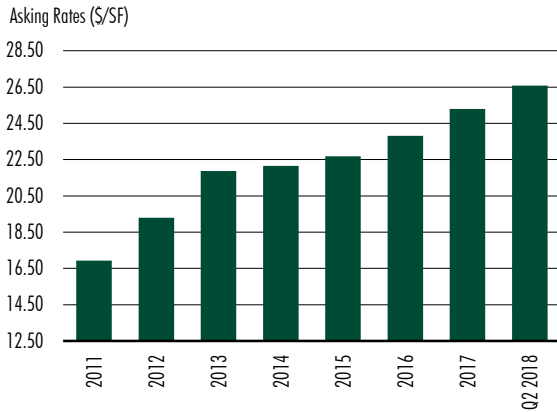
**Figure 4: Historical Market Statistics**

		2011	2012	2013	2014	2015	2016	2017	Q2 2018
<b>INNER LOOP</b>	Absorption (Net, SF)	(21,292)	75,133	72,274	97,668	461,629	111,063	8,575	(12,701)
	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	112,410
	Occupancy Rate (%)	95.4	93.6	94.1	95.6	96.5	96.2	96.3	95.7
<b>NORTHEAST</b>	Absorption (Net, SF)	66,376	288,245	81,473	277,901	162,579	675,751	118,818	95,503
	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	123,700
	Occupancy Rate (%)	90.7	90.8	89.0	91.5	93.0	94.5	95.3	95.9
<b>NEAR NORTH</b>	Absorption (Net, SF)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	39,223	(6,491)
	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	-
	Occupancy Rate (%)	96.3	96.2	96.5	96.7	95.9	96.4	96.5	96.1
<b>FAR NORTH</b>	Absorption (Net, SF)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	1,444,722	19,099
	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	39,880
	Occupancy Rate (%)	90.3	91.0	91.5	93.1	93.5	93.9	92.2	92.0
<b>NEAR NORTHWEST</b>	Absorption (Net, SF)	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(88,352)	(23,409)
	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	-	-	-	-	-
	Occupancy Rate (%)	95.0	95.1	94.6	95.2	95.2	96.1	95.3	96.5
<b>FAR NORTHWEST</b>	Absorption (Net, SF)	267,120	96,476	245,378	369,190	268,491	563,711	230,238	(60,882)
	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	42,750
	Occupancy Rate (%)	92.1	92.7	93.0	93.0	94.0	94.0	94.2	92.9
<b>NEAR WEST</b>	Absorption (Net, SF)	52,845	(2,371)	119,801	114,165	111,794	72,158	(43,619)	(15,694)
	Avg. Asking Rent (Annual,NNN, \$/SF)	19.00	21.00	24.50	24.50	34.00	36.00	36.00	40.00
	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	96.9
<b>FAR WEST</b>	Absorption (Net, SF)	116,437	86,860	395,165	221,353	562,664	207,543	520,500	48,054
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.25	24.00	30.50	30.50	28.75	29.00	30.00	37.50
	Delivered Construction (SF)	24,225	20,555	916,552	0	388,456	394,094	561,117	92,665
	Occupancy Rate (%)	92.3	93.0	92.9	92.7	94.2	95.0	93.8	93.5
<b>NEAR SOUTHWEST</b>	Absorption (Net, SF)	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(264,323)	67,126
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.00	13.50	15.00	15.00	16.75	17.00	17.75	22.00
	Delivered Construction (SF)	-	-	-	-	177,514	15,000	-	-
	Occupancy Rate (%)	90.8	90.2	91.2	88.4	91.5	92.1	91.5	93.6
<b>FAR SOUTHWEST</b>	Absorption (Net, SF)	297,614	(155,568)	174,496	241,414	126,984	319,119	21,556	(36,580)
	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	21,259
	Occupancy Rate (%)	91.8	92.4	92.6	93.8	93.7	94.2	94.2	94.0
<b>SOUTH</b>	Absorption (Net, SF)	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(38,569)	(9,320)
	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	10,000
	Occupancy Rate (%)	90.8	90.8	92.6	94.5	93.4	94.2	93.9	95.0
<b>NEAR SOUTHEAST</b>	Absorption (Net, SF)	(74,189)	86,101	292,866	71,167	30,537	101,811	(67,905)	37,062
	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	92.2
<b>FAR SOUTHEAST</b>	Absorption (Net, SF)	144,553	200,367	179,833	2,093	687,635	742,662	90,614	103,317
	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	39,739
	Occupancy Rate (%)	92.1	92.3	92.7	93.7	93.6	92.4	94.6	94.2

**HOUSTON TOTAL**

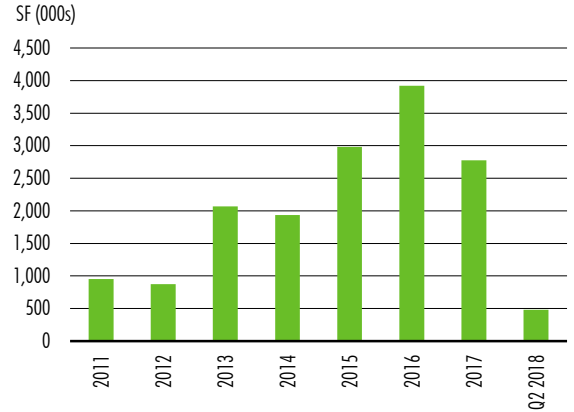
<b>Absorption (Net, SF)</b>	<b>996,595</b>	<b>282,431</b>	<b>2,038,283</b>	<b>2,109,691</b>	<b>2,455,860</b>	<b>4,025,876</b>	<b>1,971,478</b>	<b>(39,748)</b>
<b>Avg. Asking Rent (Annual,NNN, \$/SF)</b>	<b>16.94</b>	<b>19.29</b>	<b>21.87</b>	<b>22.15</b>	<b>22.69</b>	<b>23.81</b>	<b>25.30</b>	<b>26.59</b>
<b>Delivered Construction (SF)</b>	<b>954,706</b>	<b>872,232</b>	<b>2,067,216</b>	<b>1,936,741</b>	<b>2,984,073</b>	<b>3,920,948</b>	<b>2,774,441</b>	<b>482,403</b>
<b>Occupancy Rate (%)</b>	<b>92.2</b>	<b>92.2</b>	<b>92.6</b>	<b>93.4</b>	<b>93.9</b>	<b>94.3</b>	<b>94.1</b>	<b>94.1</b>

Figure 3: Asking Annual Rents, NNN Avg.



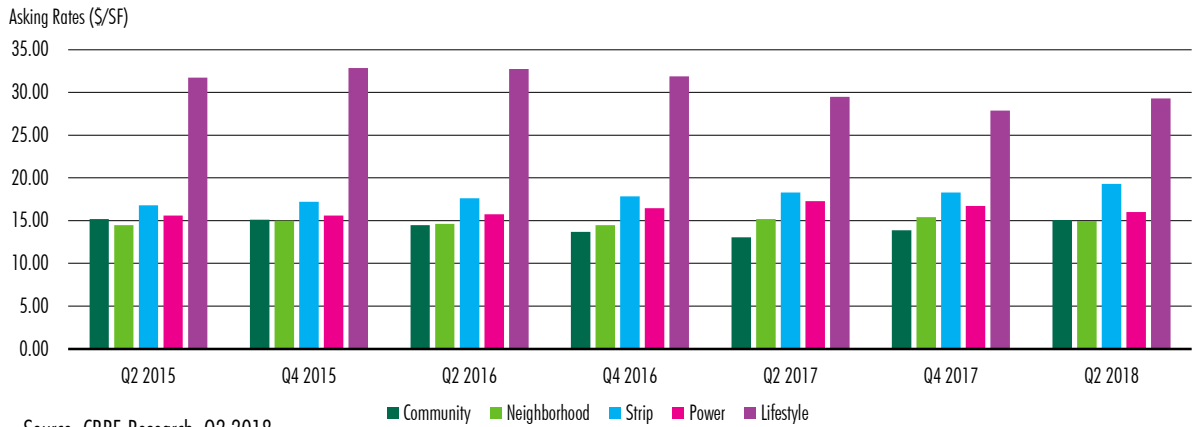
Source: CBRE Research, Q2 2018.

Figure 4: Deliveries



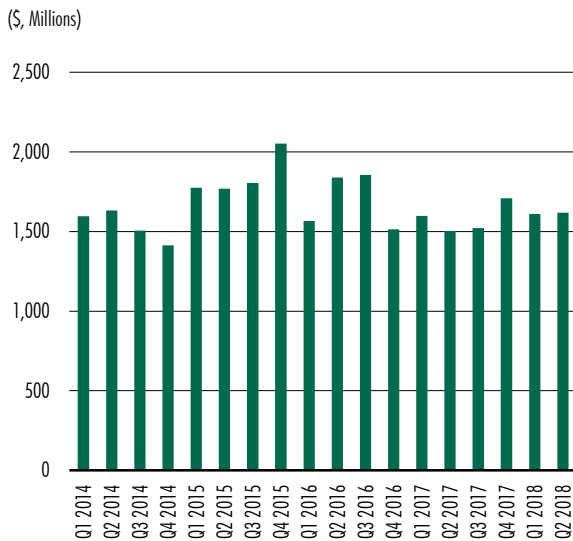
Source: CBRE Research, Q2 2018.

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



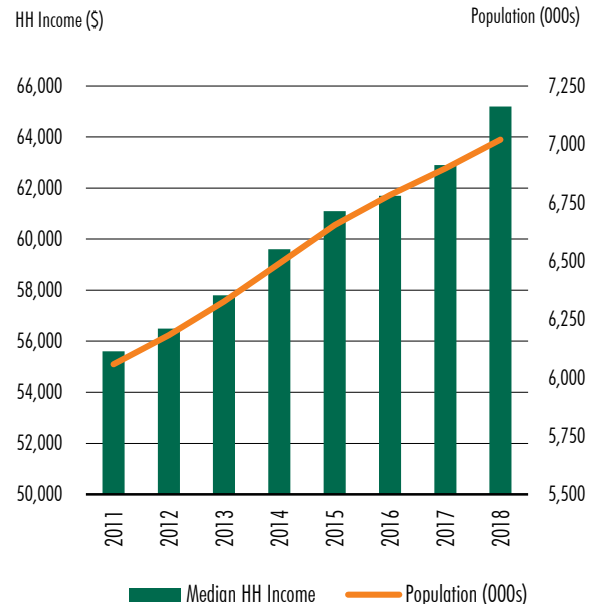
Source: CBRE Research, Q2 2018.

Figure 6: Retail Investment Sales Volume

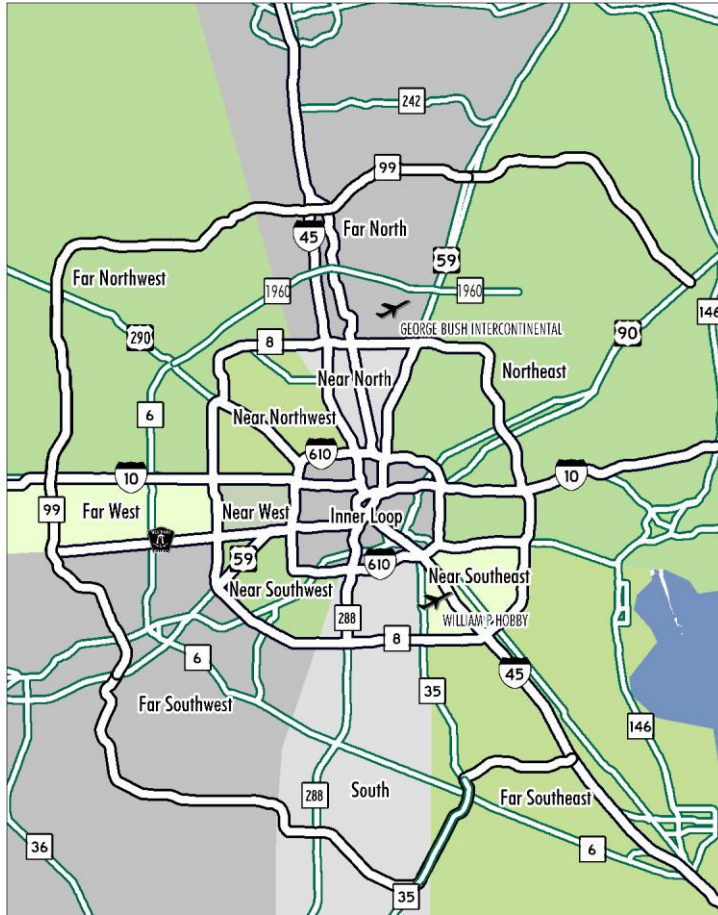


Source: Real Capital Analytics, Q2 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q2 2018.



**CONTACTS**

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

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

**Itziar Aguirre**  
 Sr. Research Analyst  
 itziar.aguirre@cbre.com

**CBRE OFFICES**

CBRE Houston  
 2800 Post Oak, Suite 500  
 Houston, TX 77056

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at [www.cbre.com/researchgateway](http://www.cbre.com/researchgateway).

*\*The Retail dataset includes properties 10,000-sq.-ft. and up.*