

Houston Retail, Q3 2018

Rents refuse to drop despite notable deliveries

Occupancy **94.2%**

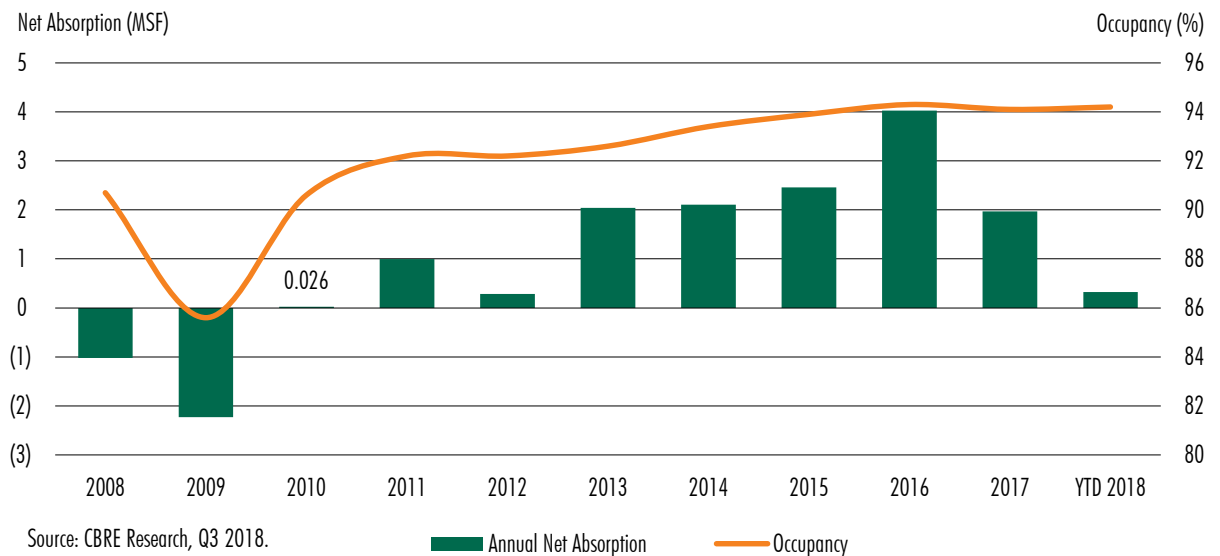
Under Construction **4,758,480 SF**

Completions **736,407 SF**

Net Absorption **314,624 SF**

Figure 1: Net Absorption and Market Occupancy

*Arrows indicate trend from previous quarter.



Source: CBRE Research, Q3 2018.
Relatively low value does not show on chart

AMIDST DELIVERIES, RENTS HOLD STEADY

Multiple construction projects have hit the market this summer, amounting to more than 736,000 sf during Q3. Meanwhile, Houston remains a landlord’s market. Rents have refused to soften, holding steady at \$26.59 from the previous quarter, while occupancy levels have kept creeping upwards, hitting 94.2%, a 10 bps increase from last quarter.

SECOND MIXED-USE HUGHES LANDING PROJECT BREAKS GROUND

Last month, Howard Hughes Corp. broke ground on Two Lakes Edge in The Woodlands. This is the second apartment complex in Hughes Landing, a 66-acre mixed-use development in The Woodlands. Its predecessor, One Lakes Edge, is nearly entirely leased. The eight-story Two Lakes Edge will include 386 apartment units plus retail and a restaurant on the ground level, as retail continues to follow rooftops.

HOUSTON GALLERIA OPENING A SLEW OF NEW STORES AND RESTAURANTS THIS FALL

Houston Galleria is about to become home to several new tenants, including Musaafer restaurant, sweets shop Popbar, which will offer handcrafted gelato, sorbetto and frozen yogurt on a stick, Dance With Me, a dance studio founded by Tony Dovolani from "Dancing With the Stars", two new watch stores, Breitling and Invicta, as well as clothing stores Maje and Sandro.

WHOLE FOODS MARKET 365 OPENS FIRST STORE IN HOUSTON

Whole Foods Market 365 debuted its first store in Houston – and tenth in the U.S. – last month to a horde of shoppers anxiously awaiting its arrival. The 30,000-square foot store is located at 101 North Loop West in the Independence Heights neighborhood and will employ around 90 people. Whole Foods, which was bought by Amazon last year in a \$13.7 billion deal, began delivering groceries and alcoholic beverages to Amazon Prime members last month.

Figure 4: Historical Market Statistics

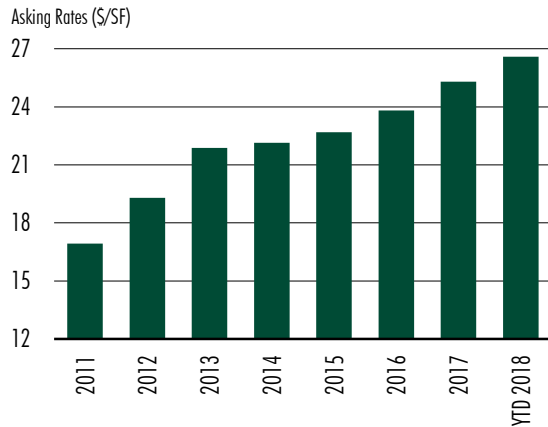
		2013	2014	2015	2016	2017	Q1 2018	Q2 2018	Q3 2018	YTD 2018
INNER LOOP	Absorption (Net, SF)	72,274	97,668	461,629	111,063	8,575	-80,175	-12,701	-55,181	-148,057
	Avg. Asking Rent (Annual, NNN, \$/SF)	35.50	36.75	32.00	35.50	38.00	37.00	37.00	37.00	37.00
	Delivered Construction (SF)	-	185,000	434,465	54,774	72,541	12,410	12,410	105,000	229,820
	Rentable Building Area (RBA)	15,084,918	15,893,200	16,394,615	15,665,570	15,534,434	22,043,848	22,043,622	22,326,319	22,326,319
	Occupancy Rate (%)	94.1	95.6	96.5	96.2	96.3	95.8	95.7	95.5	95.5
NORTHEAST	Absorption (Net, SF)	81,473	277,901	162,579	675,751	118,818	8,006	95,503	-43,383	60,126
	Avg. Asking Rent (Annual, NNN, \$/SF)	15.00	15.00	13.00	15.00	16.00	16.00	16.00	16.00	16.00
	Delivered Construction (SF)	174,954	320,651	100,000	121,083	108,230	105,166	123,700	97,445	326,311
	Rentable Building Area (RBA)	15,339,844	15,316,323	14,797,186	15,465,885	15,595,798	23,559,249	23,713,108	24,025,773	24,025,773
	Occupancy Rate (%)	89.0	91.5	93.0	94.5	95.3	95.6	95.9	95.4	95.4
NEAR NORTH	Absorption (Net, SF)	60,082	-60,101	-19,964	31,641	39,223	111,558	-6,491	-47,715	57,352
	Avg. Asking Rent (Annual, NNN, \$/SF)	18.00	18.25	14.00	14.00	14.00	14.50	14.50	14.50	14.50
	Delivered Construction (SF)	-	-	-	-	56,250	13,012	-	-	13,012
	Rentable Building Area (RBA)	6,107,946	6,305,769	6,434,099	6,482,919	6,405,774	8,514,689	8,480,336	8,465,772	8,465,772
	Occupancy Rate (%)	96.5	96.7	95.9	96.4	96.5	96.2	96.1	96.2	96.2
FAR NORTH	Absorption (Net, SF)	249,193	600,344	-2,560	808,749	1,444,722	21,767	-19,099	112,455	115,123
	Avg. Asking Rent (Annual, NNN, \$/SF)	25.25	26.50	24.00	24.00	24.00	25.00	25.00	25.00	25.00
	Delivered Construction (SF)	134,527	198,038	298,521	528,160	1,367,331	363,109	39,880	142,901	545,890
	Rentable Building Area (RBA)	30,137,456	30,459,787	30,567,503	30,869,415	32,162,397	44,175,094	44,027,162	44,342,834	44,342,834
	Occupancy Rate (%)	91.5	93.1	93.5	93.9	92.2	92.8	92.0	91.8	91.8
NEAR NORTHWEST	Absorption (Net, SF)	-69,499	118,692	-24,491	9,026	-88,352	38,630	-23,409	47,232	62,453
	Avg. Asking Rent (Annual, NNN, \$/SF)	15.00	15.00	21.25	26.00	25.00	25.00	25.00	25.00	25.00
	Delivered Construction (SF)	40,000	-	-	-	-	30,733	-	30,000	60,733
	Rentable Building Area (RBA)	10,717,133	10,979,066	11,085,463	10,592,514	10,641,313	15,267,916	15,394,774	15,669,558	15,669,558
	Occupancy Rate (%)	94.6	95.2	95.2	96.1	95.3	96.2	96.5	97.0	97.0
FAR NORTHWEST	Absorption (Net, SF)	245,378	369,190	268,491	563,711	230,238	-235,809	-60,882	11,492	-285,199
	Avg. Asking Rent (Annual, NNN, \$/SF)	25.25	25.25	33.75	32.75	32.00	31.00	31.00	31.00	31.00
	Delivered Construction (SF)	297,078	457,305	228,000	496,507	246,995	27,099	42,750	174,400	244,249
	Rentable Building Area (RBA)	27,007,753	27,356,351	27,998,959	27,488,382	27,812,651	38,681,079	38,891,533	39,652,718	39,652,718
	Occupancy Rate (%)	93.0	93.0	94.0	94.0	94.2	93.5	92.9	93.3	93.3
NEAR WEST	Absorption (Net, SF)	119,801	114,165	111,794	72,158	-43,619	26,664	-15,694	33,100	44,070
	Avg. Asking Rent (Annual, NNN, \$/SF)	24.50	24.50	34.00	36.00	36.00	36.50	40.00	40.00	40.00
	Delivered Construction (SF)	132,744	110,000	172,827	-	-	-	-	-	-
	Rentable Building Area (RBA)	14,831,277	13,256,061	13,280,728	12,641,970	12,479,830	17,842,273	17,426,645	16,997,592	16,997,592
	Occupancy Rate (%)	95.5	95.7	95.3	97.1	95.7	97.3	96.9	97.4	97.4

Figure 4: Historical Market Statistics

		2013	2014	2015	2016	2017	Q1 2018	Q2 2018	Q3 2018	YTD 2018
FAR WEST	Absorption (Net, SF)	395,165	221,353	562,664	207,543	520,500	-23,057	48,054	76,259	101,256
	Avg. Asking Rent (Annual,NNN, \$/SF)	30.50	30.50	28.75	29.00	30.00	30.00	37.50	37.50	37.50
	Delivered Construction (SF)	916,552	-	388,456	394,094	561,117	108,285	92,665	-	200,950
	Rentable Building Area (RBA)	16,976,058	17,574,131	17,871,947	18,168,623	18,093,411	23,468,040	23,160,214	23,402,232	23,402,232
	Occupancy Rate (%)	92.9	92.7	94.2	95.0	93.8	93.4	93.5	93.5	93.5
NEAR SOUTHWEST	Absorption (Net, SF)	50,497	-42,632	121,835	128,670	-264,323	-23,246	67,126	10,705	54,585
	Avg. Asking Rent (Annual,NNN, \$/SF)	15.00	15.00	16.75	17.00	17.75	17.00	22.00	22.00	22.00
	Delivered Construction (SF)	-	-	177,514	15,000	-	16,146	-	16,000	32,146
	Rentable Building Area (RBA)	13,123,803	13,026,885	13,226,260	12,706,884	12,673,368	16,871,591	17,305,869	17,239,090	17,239,090
	Occupancy Rate (%)	91.2	88.4	91.5	92.1	91.5	92.8	93.6	93.0	93.0
FAR SOUTHWEST	Absorption (Net, SF)	174,496	241,414	126,984	319,119	215,566	-15,260	-36,580	145,189	93,349
	Avg. Asking Rent (Annual,NNN, \$/SF)	25.25	25.50	22.25	24.25	25.50	24.00	24.00	24.00	24.00
	Delivered Construction (SF)	169,432	215,304	204,175	172,636	153,000	103,750	21,259	110,251	235,260
	Rentable Building Area (RBA)	21,786,410	22,647,126	22,775,154	22,351,926	22,389,161	31,342,137	31,365,424	31,665,178	31,665,178
	Occupancy Rate (%)	92.6	93.8	93.7	94.2	94.2	94.1	94	94.3	94.3
SOUTH	Absorption (Net, SF)	186,724	98,437	-31,273	253,972	-38,569	80,086	-9,320	36,938	107,704
	Avg. Asking Rent (Annual,NNN, \$/SF)	20.00	20.50	18.25	22.00	24.00	25.00	25.00	25.00	25.00
	Delivered Construction (SF)	7917	-	366,640	139,691	716,27	-	10,000	23,504	33,504
	Rentable Building Area (RBA)	8,664,849	8,557,351	8,482,716	8,375,933	8,438,346	12,248,144	12,251,327	12,238,965	12,238,965
	Occupancy Rate (%)	92.6	94.5	93.4	94.2	93.9	95.2	95	94.6	94.6
NEAR SOUTHEAST	Absorption (Net, SF)	292,866	71,167	30,537	101,811	-67,905	10,466	37,062	-47,657	99,871
	Avg. Asking Rent (Annual,NNN, \$/SF)	14.75	14.75	22.50	18.00	18.00	18.00	18.00	18.00	18.00
	Delivered Construction (SF)	9,082	-	-	-	-	-	-	-	-
	Rentable Building Area (RBA)	9,087,386	9,552,800	9,469,773	9,117,674	9,116,348	12,771,409	12,752,154	12,772,170	12,772,170
	Occupancy Rate (%)	90.3	93.3	91.6	92.2	93	91.7	92.2	92.2	92.2
FAR SOUTHEAST	Absorption (Net, SF)	179,833	2,093	687,635	742,662	90,614	29,361	-103,317	35,190	-38,766
	Avg. Asking Rent (Annual,NNN, \$/SF)	20.25	20.50	14.50	23.75	23.25	22.00	22.00	22.00	22.00
	Delivered Construction (SF)	184,400	450,443	613,475	905,003	137,350	123,728	39,739	36,906	200,373
	Rentable Building Area (RBA)	20,662,636	21,194,593	22,388,045	22,892,955	22,933,398	32,747,546	32,808,969	32,855,026	32,855,026
	Occupancy Rate (%)	92.7	93.7	93.6	92.4	94.6	95.1	94.2	94.9	94.9
HOUSTON TOTAL										
	Absorption (Net, SF)	2,038,283	2,109,691	2,455,860	4,025,876	1,971,478	48,991	-39,748	314,624	323,867
	Avg. Asking Rent (Annual,NNN, \$/SF)	21.87	22.15	22.69	23.81	25.30	25.55	26.59	26.59	26.59
	Delivered Construction (SF)	2,067,216	1,936,741	2,984,073	3,920,948	2,774,441	903,438	482,403	736,407	2,122,248
	Rentable Building Area (RBA)	209,527,469	212,119,443	214,772,448	212,820,650	214,276,229	299,533,015	299,621,137	301,653,227	301,653,227
	Occupancy Rate (%)	92.6	93.4	93.9	94.3	94.1	94.4	94.1	94.2	94.2

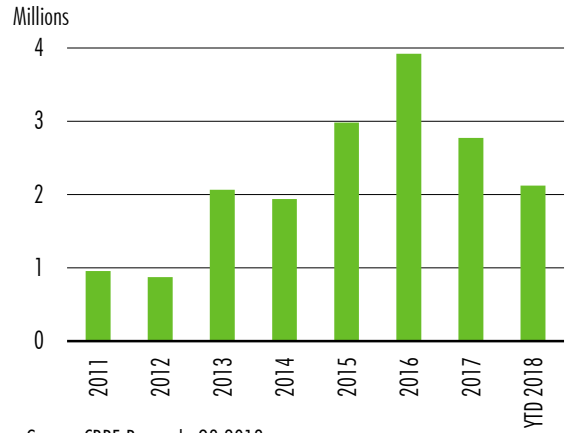
Source: CBRE Research, Q3 2018.

Figure 3: Asking Annual Rents, NNN Avg.



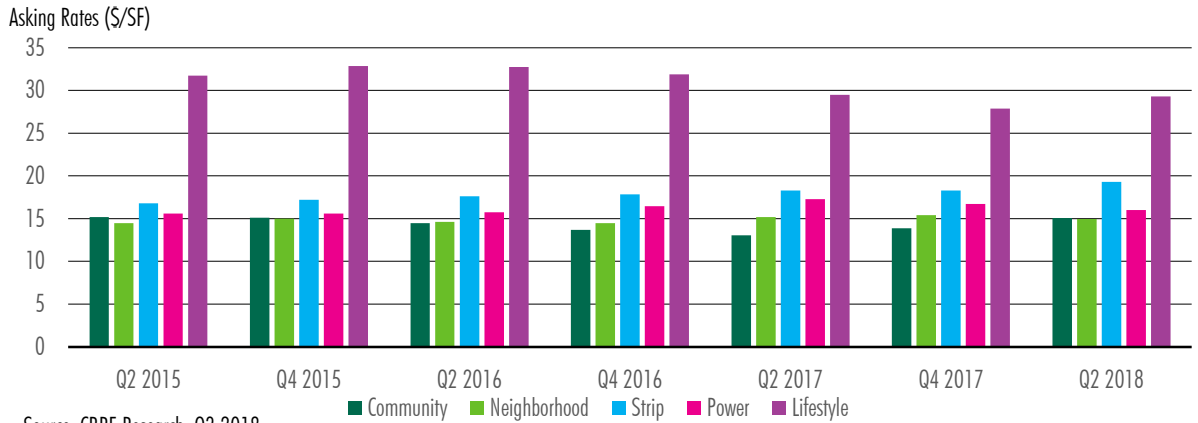
Source: CBRE Research, Q3 2018.

Figure 4: Deliveries



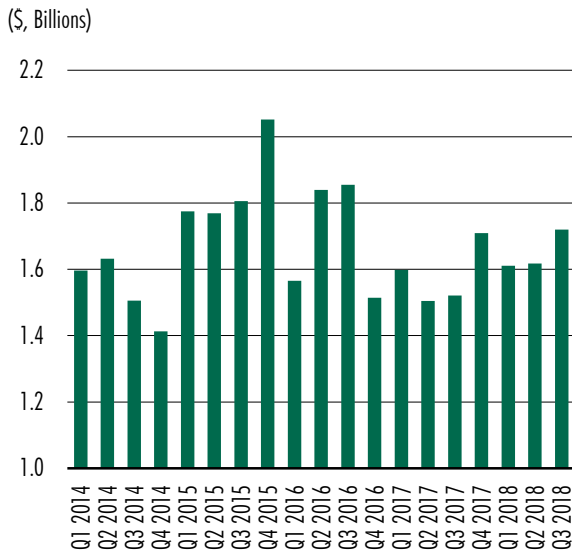
Source: CBRE Research, Q3 2018.

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



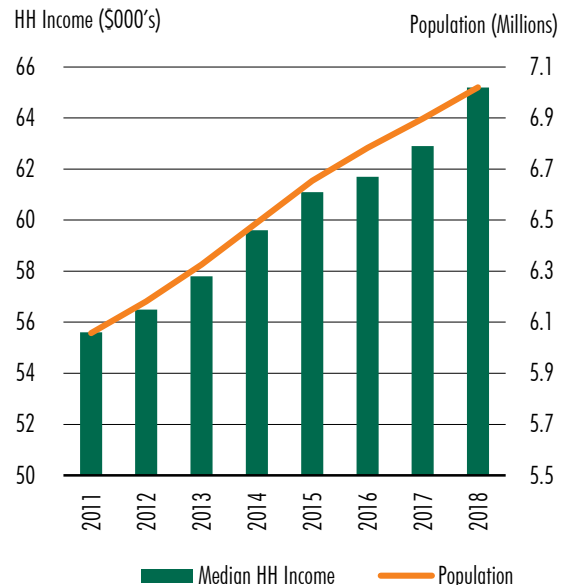
Source: CBRE Research, Q3 2018.

Figure 6: Retail Investment Sales Volume

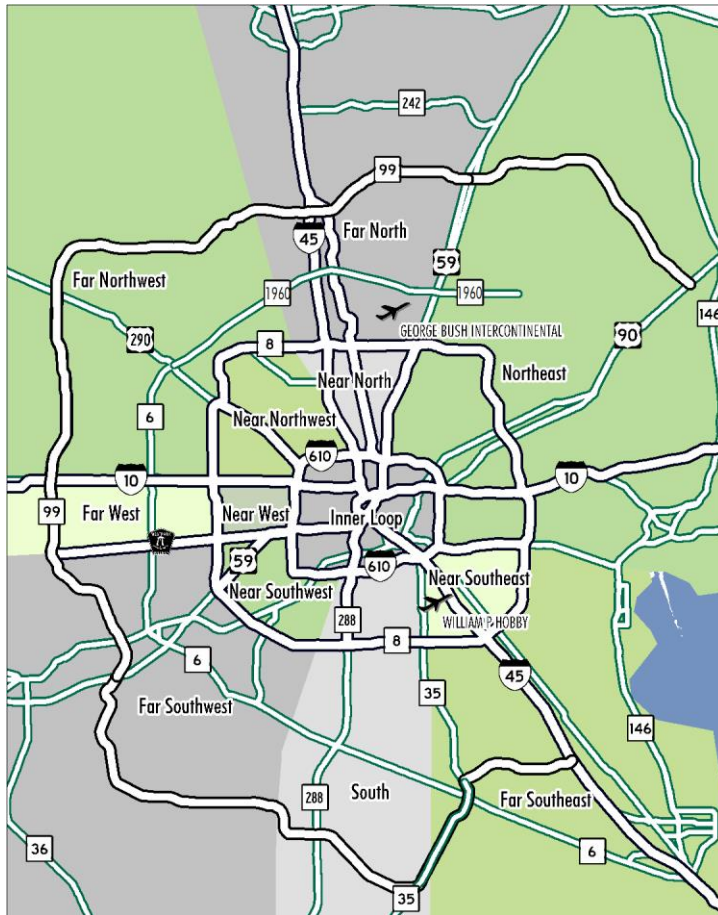


Source: Real Capital Analytics, Q3 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q3 2018.



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**Beginning in Q1 2018, the Retail dataset includes properties 10,000-sq.-ft. and up.*