

Houston Retail, Q4 2018

Occupancy rates reach market high

▲ Occupancy
94.9%

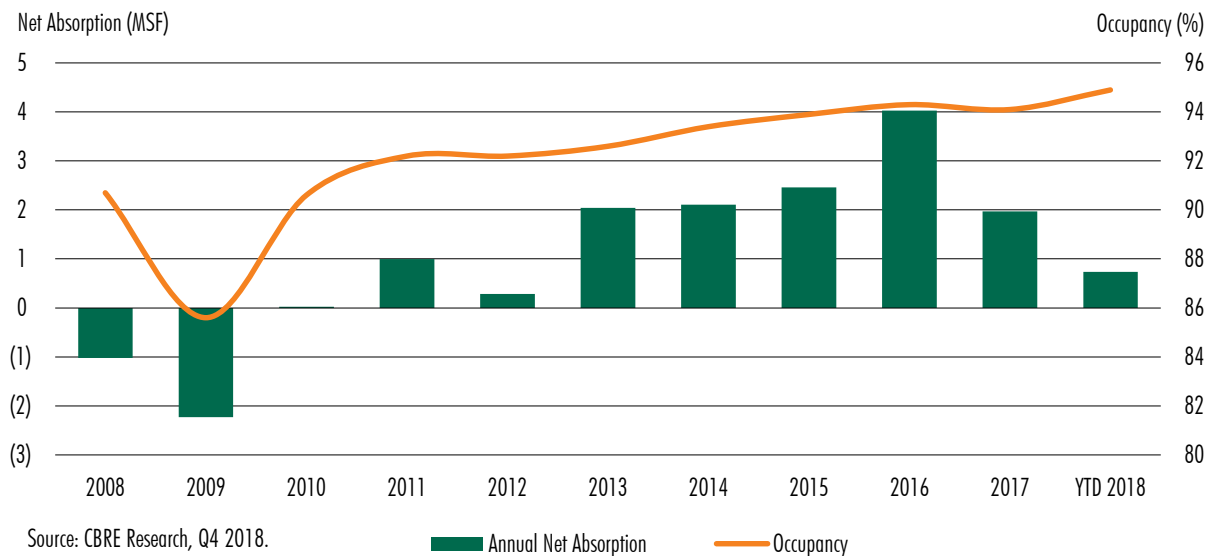
▼ Under Construction
3,720,349 SF

▼ Completions
647,004 SF

▲ Net Absorption
409,164 SF

Figure 1: Net Absorption and Market Occupancy

*Arrows indicate trend from previous quarter.



Source: CBRE Research, Q4 2018.
Relatively low value does not show on chart

HOUSTON LEADS NATION IN JOB GROWTH

From October 2017 to October 2018, the Houston metro area added over 117,000 jobs, marking the largest growth of all the major US cities this past year. The professional and business services industry saw the biggest increase, adding 30,600 new jobs to the area, closely followed by construction, which added 25,600 new jobs.

FOOD HALLS TAKE OVER DOWNTOWN HOUSTON

Trendy food halls have been popping up all over the nation this year, with 2 new food halls completed in downtown Houston this year and a third slated for completion in Q2 2019. The newest hall, Finn Hall, opened its doors on Dec 3rd, bringing over 20,000 sq. ft. of eateries and bars to Houston's renowned art deco tower. Some of the vendors include Amaya Coffee, Dish Society, and Goode Company. Finn Hall plans to expand its services beyond a traditional brick-and-mortar model by providing food delivery and catering services to the neighboring residents, office buildings, and hotels.

MATTRESS FIRM SHUTTERS 25 HOUSTON STORES

After declaring bankruptcy in October, Houston-based retailer Mattress Firm shuttered 25 stores in the Bayou City, freeing up nearly 100,000 sq. ft. The company claims that the property it added by purchasing competitors caused its decline into bankruptcy. CEO Steve Stagner explained that the company will continue to focus on the firm's successful online platform Tulo and close stores that are underperforming or are in close proximity to other Mattress Firm locations.

OCCUPANCY RATES RISE DESPITE STORE CLOSURES

Retail occupancy continues to rise, ending the quarter at 94.9%. Even several big box closures, like major retailer Toys "R" Us, were not able to derail the market. Although deliveries are expected to decline in 2019, construction will remain strong with 3,720,349 sq. ft. in development. Some of the most anticipated projects coming in 2019 include the two-story H-E-B at Meyerland Plaza and the 270,000 sq. ft. Stableside at Falcon Landing Phase II.

Figure 2: Historical Market Statistics

		2013	2014	2015	2016	2017	YTD 2018	YTD 2018*
INNER LOOP	Absorption (Net, SF)	72,274	97,668	461,629	111,063	8,575	-99,003	-135,225
	Avg. Asking Rent (Annual,NNN, S/SF)	35.50	36.75	32.00	35.50	38.00	42.00	42.00
	Delivered Construction (SF)	-	185,000	434,465	54,774	72,541	237,174	261,994
	Rentable Building Area (RBA)	15,084,918	15,893,200	16,394,615	15,665,570	15,534,434	13,942,126	22,311,087
	Occupancy Rate (%)	94.1	95.6	96.5	96.2	96.3	96.0	95.85
NORTHEAST	Absorption (Net, SF)	81,473	277,901	162,579	675,751	118,818	65,234	130,822
	Avg. Asking Rent (Annual,NNN, S/SF)	15.00	15.00	13.00	15.00	16.00	16.00	16.00
	Delivered Construction (SF)	174,954	320,651	100,000	1,215,083	108,230	259,420	326,311
	Rentable Building Area (RBA)	15,339,844	15,316,323	14,797,186	15,465,885	15,595,798	15,907,339	24,136,736
	Occupancy Rate (%)	89.0	91.5	93.0	94.5	95.3	96.3	96.4
NEAR NORTH	Absorption (Net, SF)	60,082	-60,101	-19,964	31,641	39,223	5,068	40,699
	Avg. Asking Rent (Annual,NNN, S/SF)	18.00	18.25	14.00	14.00	14.00	14.50	14.50
	Delivered Construction (SF)	-	-	-	-	56,250	-	13,012
	Rentable Building Area (RBA)	6,107,946	6,305,769	6,434,099	6,482,919	6,405,774	6,331,524	8,497,774
	Occupancy Rate (%)	96.5	96.7	95.9	96.4	96.5	98.2	97.3
FAR NORTH	Absorption (Net, SF)	249,193	600,344	-2,560	808,749	1,444,722	123,789	157,689
	Avg. Asking Rent (Annual,NNN, S/SF)	25.25	26.50	24.00	24.00	24.00	30.00	30.00
	Delivered Construction (SF)	134,527	198,038	298,521	528,160	1,367,331	693,610	734,750
	Rentable Building Area (RBA)	30,137,456	30,459,787	30,567,503	30,869,415	32,162,397	32,458,761	44,855,134
	Occupancy Rate (%)	91.5	93.1	93.5	93.9	92.2	91.1	92.8
NEAR NORTHWEST	Absorption (Net, SF)	-69,499	118,692	-24,491	9,026	-88,352	3,127	13,505
	Avg. Asking Rent (Annual,NNN, S/SF)	15.00	15.00	21.25	26.00	25.00	25.00	25.00
	Delivered Construction (SF)	40,000	-	-	-	-	50,000	74,233
	Rentable Building Area (RBA)	10,717,133	10,979,066	11,085,463	10,592,514	10,641,313	10,666,912	15,662,652
	Occupancy Rate (%)	94.6	95.2	95.2	96.1	95.3	96.8	97.1
FAR NORTHWEST	Absorption (Net, SF)	245,378	369,190	268,491	563,711	230,238	-108,994	18,486
	Avg. Asking Rent (Annual,NNN, S/SF)	25.25	25.25	33.75	32.75	32.00	31.00	31.00
	Delivered Construction (SF)	297,078	457,305	228,000	496,507	246,995	173,339	406,308
	Rentable Building Area (RBA)	27,007,753	27,356,351	27,998,959	27,488,382	27,812,651	28,134,803	39,966,475
	Occupancy Rate (%)	93.0	93.0	94.0	94.0	94.2	94.8	94.8
NEAR WEST	Absorption (Net, SF)	119,801	114,165	111,794	72,158	-43,619	-140,674	-76,548
	Avg. Asking Rent (Annual,NNN, S/SF)	24.50	24.50	34.00	36.00	36.00	40.00	40.00
	Delivered Construction (SF)	133,274	110,000	172,827	-	-	-	-
	Rentable Building Area (RBA)	14,831,277	13,256,061	13,280,728	12,641,970	12,479,830	13,806,280	16,838,250
	Occupancy Rate (%)	95.5	95.7	95.3	97.1	95.7	96.6	96.9

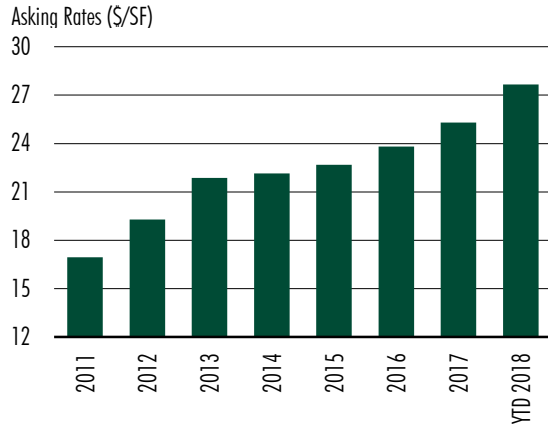
*Beginning in Q1 2018, the Retail dataset has been expanded to include properties 10,000-sq.-ft. and up.

Figure 2: Historical Market Statistics

		2013	2014	2015	2016	2017	YTD 2018	YTD 2018*
FAR WEST	Absorption (Net, SF)	395,165	221,353	562,664	207,543	520,500	-17,576	97,337
	Avg. Asking Rent (Annual,NNN, S/SF)	30.50	30.50	28.75	29.00	30.00	37.50	37.50
	Delivered Construction (SF)	916,552	-	388,456	394,094	561,117	197,480	231,480
	Rentable Building Area (RBA)	16,976,058	17,574,131	17,871,947	18,168,623	18,093,411	18,275,109	23,369,195
	Occupancy Rate (%)	92.9	92.7	94.2	95.0	93.8	94.3	93.8
NEAR SOUTHWEST	Absorption (Net, SF)	50,497	-42,632	121,835	128,670	-264,323	45,530	10,638
	Avg. Asking Rent (Annual,NNN, S/SF)	15.00	15.00	16.75	17.00	17.75	22.00	22.00
	Delivered Construction (SF)	-	-	177,514	15,000	-	-	32,146
	Rentable Building Area (RBA)	13,123,803	13,026,885	13,226,260	12,706,884	12,673,368	12,730,054	17,605,433
	Occupancy Rate (%)	91.2	88.4	91.5	92.1	91.5	91.4	93.1
FAR SOUTHWEST	Absorption (Net, SF)	174,496	241,414	126,984	319,119	21,556	258,563	141,913
	Avg. Asking Rent (Annual,NNN, S/SF)	25.25	25.50	22.25	24.25	25.50	24.00	24.00
	Delivered Construction (SF)	169,432	215,304	204,175	172,636	153,000	224,412	305,959
	Rentable Building Area (RBA)	21,786,410	22,647,126	22,775,154	22,351,926	22,389,161	23,107,643	32,167,245
	Occupancy Rate (%)	92.6	93.8	93.7	94.2	94.2	95.6	94.9
SOUTH	Absorption (Net, SF)	186,724	98,437	-31,273	253,972	-38,569	2,011	39,278
	Avg. Asking Rent (Annual,NNN, S/SF)	20.00	20.50	18.25	22.00	24.00	25.00	25.00
	Delivered Construction (SF)	7917	-	366,640	139,691	71,627	23,504	33,504
	Rentable Building Area (RBA)	8,664,849	8,557,351	8,482,716	8,375,933	8,438,346	8,512,555	12,309,229
	Occupancy Rate (%)	92.6	94.5	93.4	94.2	93.9	93.2	94.7
NEAR SOUTHEAST	Absorption (Net, SF)	292,866	71,167	30,537	101,811	-67,905	65,749	197,874
	Avg. Asking Rent (Annual,NNN, S/SF)	14.75	14.75	22.50	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	9,020,794	12,632,175
	Occupancy Rate (%)	90.3	93.3	91.6	92.2	93.0	93.7	94.3
FAR SOUTHEAST	Absorption (Net, SF)	179,833	2,093	687,635	742,662	90,614	3,296	96,563
	Avg. Asking Rent (Annual,NNN, S/SF)	20.25	20.50	14.50	23.75	23.25	22.00	22.00
	Delivered Construction (SF)	184400	450,443	613,475	905,003	137,350	228,182	349,555
	Rentable Building Area (RBA)	20,662,636	21,194,593	22,388,045	22,892,955	22,933,398	22,795,839	33,220,556
	Occupancy Rate (%)	92.7	93.7	93.6	92.4	94.6	94.9	95.2
HOUSTON TOTAL								
	Absorption (Net, SF)	2,038,283	2,109,691	2,455,860	4,025,876	1,971,478	206,120	733,031
	Avg. Asking Rent (Annual,NNN, S/SF)	21.87	22.15	22.69	23.81	25.30	27.66	27.66
	Delivered Construction (SF)	2,067,216	1,936,741	2,984,073	3,920,948	2,774,441	2,087,121	2,769,252
	Rentable Building Area (RBA)	209,527,469	212,119,443	214,772,448	212,820,650	214,276,229	215,689,739	303,571,941
	Occupancy Rate (%)	92.6	93.4	93.9	94.3	94.1	94.5	94.9

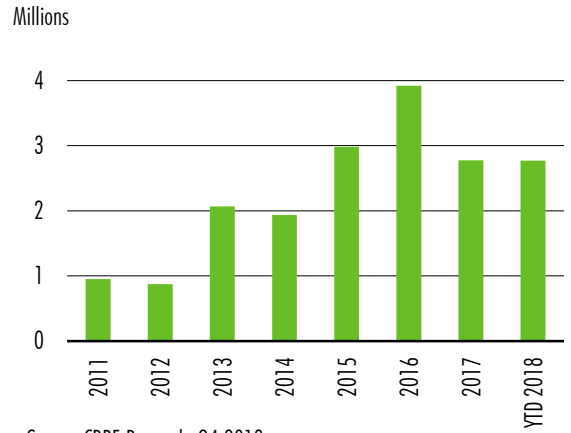
**Beginning in Q1 2018, the Retail dataset has been expanded to include properties 10,000-sq.-ft. and up.*

Figure 3: Asking Annual Rents, NNN Avg.



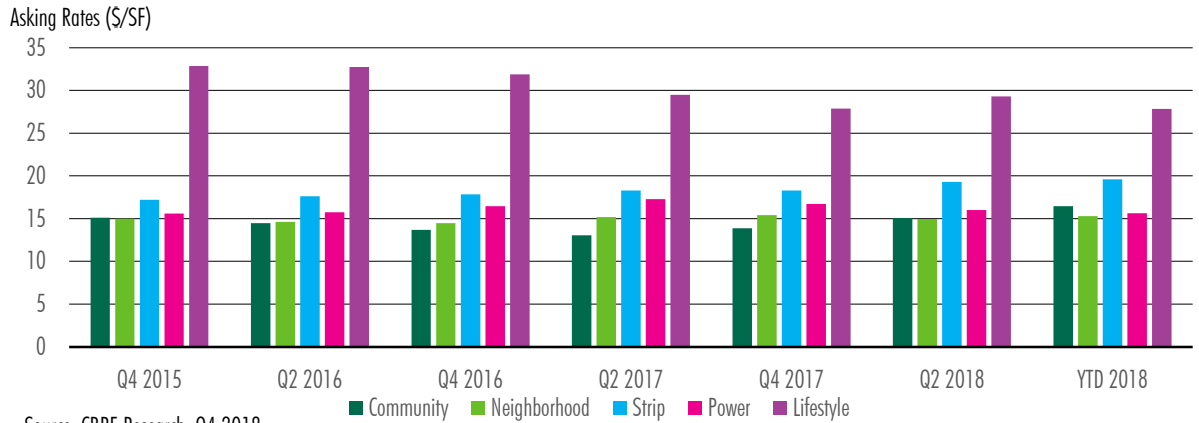
Source: CBRE Research, Q4 2018.

Figure 4: Deliveries



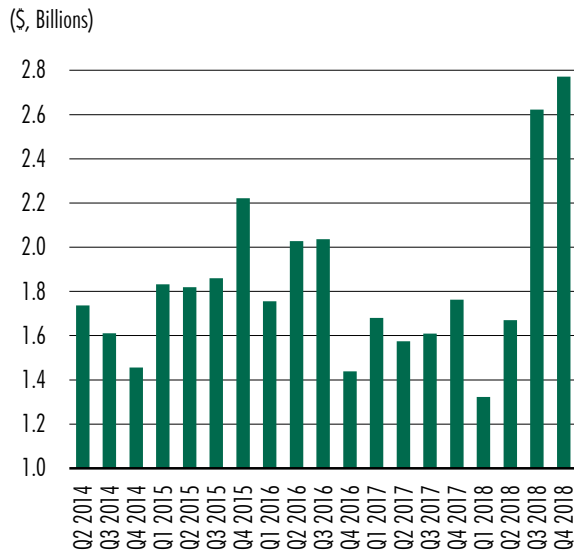
Source: CBRE Research, Q4 2018.

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



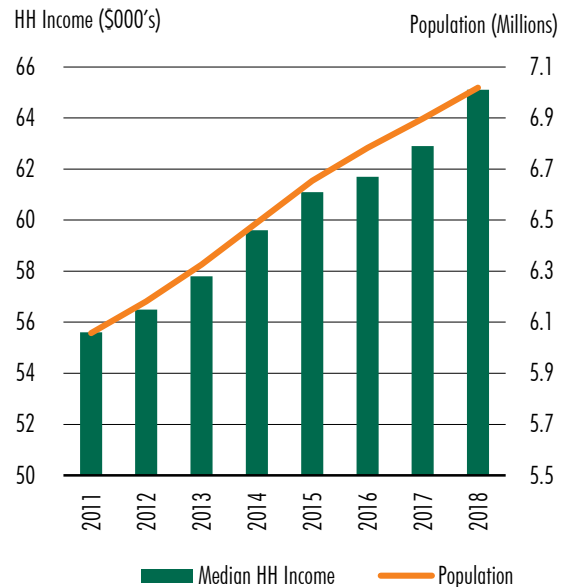
Source: CBRE Research, Q4 2018.

Figure 6: Retail Investment Sales Volume

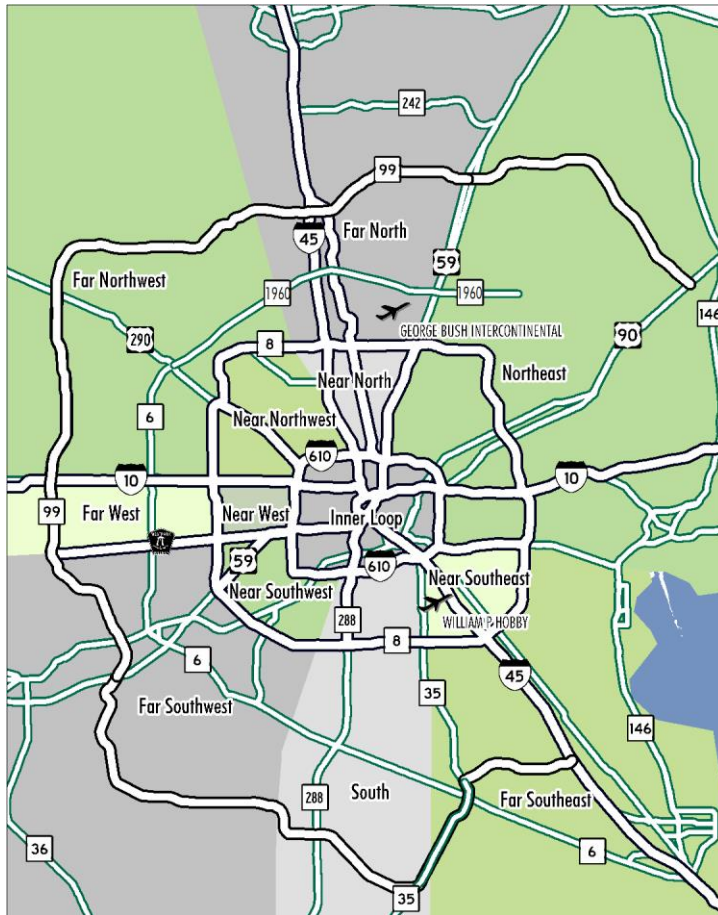


Source: Real Capital Analytics, Q4 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q4 2018.



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