

MARKET HIGHLIGHT: HOUSTON

MARKET FUNDAMENTALS SHOW HOUSTON CAN ABSORB NEW RETAIL SPACE

Jeff Tinsley
Broker,
The J. Beard
Real Estate Co.



As e-commerce continues to challenge the growth, evolution and resilience of retail, brokers in Houston have reason to be optimistic about leasing velocity and absorption in the coming months, even as new construction floods the market. There's no denying that in the past several years, the retail industry has experienced a shakeup. The move to online shopping has spared very few retailers, and Houston is no exception. The Houston MSA has seen its fair share of big box store closures, but tenants and developers alike appear ready to face the challenges head-on.

The collective mood among retail professionals in Houston is one of acceptance of a new, tech-heavy retail landscape. The retail community has evolved into embracing the likes of pop-up shops, online platforms, curbside pickup options and a service-based shopping experience.

Ultimately, however, it's the consumers who decide the fate of certain retailers.

The professionals who develop and lease retail properties are integrating more psychological analysis into their daily work than ever before. In today's environment, even the slightest of nuances in consumer behavior can mold critical aspects of real estate strategies. The evolution of retail follows the evolution of human behavior.



Retail developers in Houston seem to share brokers' confidence in the ability of the market to absorb new space. Consequently, Houston builders have proposed a total of nearly 5 million square feet of new retail inventory.

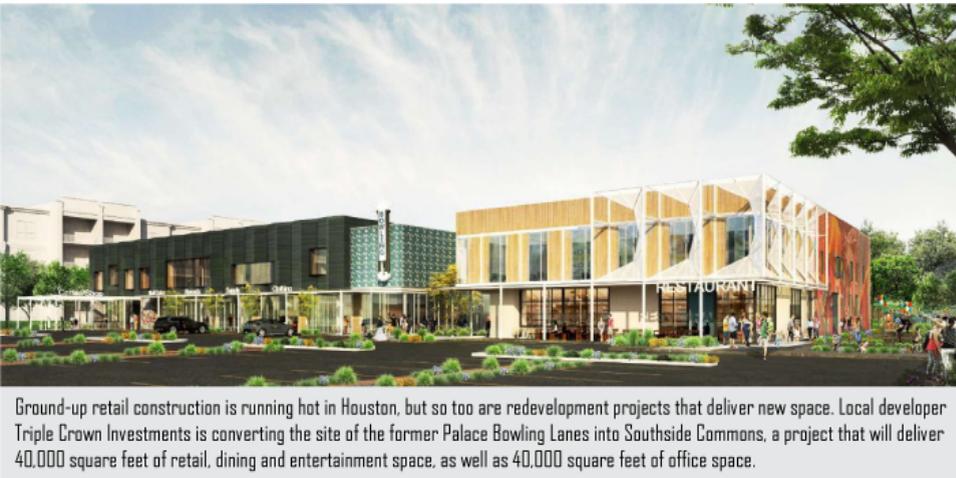
Market Fundamentals: Houston is one of the most active retail development markets in the country. Whether oil is trading at \$50 per barrel or \$100 per barrel, the metro area is a national leader in population growth, year over year.

According to the U.S. Department of Housing & Urban Development, the metro's population has grown by about 134,000 new residents per year during the current decade. The U.S. Census Bureau currently ranks the Houston MSA as the 5th largest in the country, with over 6.7 million residents.

This steady population growth has made Houston a prime market for single-family and multifamily development over the last 10 years, and retail construction will have to keep up with new concepts that boast consumer experience and convenience.

Overall, the market has added more than 15 million square feet of new product over the past five years. According to CoStar Group, the metro area added more than 6 million square feet of new retail space during 2016 and 2017. Total retail inventory is expected to have increased by 1.5 percent by year's end. According to J. Beard Real Estate's research, the current development pipeline includes 1.2 million square feet of shopping centers already under construction. In addition, another 4.7 million square feet of new retail space has been proposed.

Yet the Houston retail market has experienced 10 consecutive years of positive net absorption. Occupancy rates have hovered close to 95 percent over the last five years. This has enabled landlords to achieve annual rent growth of more than 2 percent during that stretch, according to CoStar.



Emerging Sectors: In Houston, tenants in the fitness and entertainment, grocery, personal care services, home furnishing and discount store retail sectors have become the most active in terms of sales and real estate expansions.

As one of the more dynamic retail markets in the US, Houston has seen its share of these deals recently. The fitness and entertainment sector has been poised to meet the demands

of Houston's population growth. Anytime Fitness, Planet Fitness, Orange Theory, Alamo Drafthouse, 9 Rounds and Urban Air are just a few of the concepts filling the void for this retail sector in Houston. Fitness and entertainment is not alone as a sector that has seen tremendous growth and change, the evolving grocery sector has seen a culture change from the massive "all in one" selections offered by the traditional grocery giants to the smaller, convenient and more efficient newer concepts such as Aldi, Sprouts and Trader Joe's. Retailers like My Salon Suites, Woodhouse Day Spa and Amazing Lashes Studios have been active in the personal services sector. Some of the larger retailers are in the home furnishing and discount retailer sectors, Marshalls, Ross, At Home, Dollar Tree and dd's Discounts would represent a good portion of these retailers.

Let's Make A Deal: As a brokerage firm closely attuned to marketplace trends, J. Beard is excited to discuss these facets of retail — as well as the psychological drivers behind them — at the ICSC Red River States Conference & Deal Making on Jan 9-11. From owners and developers of big box retail centers, power centers and shopping malls, we welcome the opportunity to talk shop on what kinds of concepts and retailers can boost traffic and sales at your properties. Retail real estate professionals, in Texas and elsewhere, now know beyond doubt that the "retail apocalypse" is little more than a hiccup, albeit one that takes time to eradicate. The industry is teeming with energy and anticipation at what the future holds.

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