

Q1 2018

## Retail Insight

# Grocery expansion drives much of development pipeline

- Vacancy and availability remained stable to start the year with many tenants taking 'wait and see' approach
- While leasing activity was below average in the first quarter, fast casual and discount retailers are in expansion mode
- Big-box grocers remain committed to Houston, growing physical footprints along with omnichannel offerings

The Houston retail market remains strong from a fundamentals standpoint, with continued high occupancy and rising rents. Vacancy and availability both dropped slightly in the first quarter, falling 10 basis points each to 5.4 percent and 7.2 percent, respectively. However, many occupiers and investors have adopted a 'wait and see' attitude, allowing the dust to settle following several big-box bankruptcies and ecommerce shake ups. As such, leasing activity was below the long-term average of 1.8 million square feet, with 1.4 million square feet of deals transacted in the first quarter. An exception is the food and beverage sector as both new and established fast casual offerings are executing expansion plans across the metro. Additionally, discount retailers like Dirt Cheap and Ollie's Bargain Outlet are gaining footholds in the Houston area, potentially taking advantage of recent big-box vacancies.

Texas remained one of the hottest states for grocery expansion in 2017, and Houston was a major contributor. Big-box grocers continue to have success in the metro, aggressively growing both traditional-footprint stores, as well as ecommerce and curbside options. With HEB's six planned locations for 2018 and more announced for 2019, it is poised to be another banner year for the grocery sector.

## Outlook

Retail companies focused on technology and innovation will be well-positioned to take advantage of the metro's diverse consumer base. Rising land and construction costs may provide barriers in tighter urban submarkets, while new projects continue to spring up along the north section of the Grand Parkway in suburban Houston. Looking ahead, the metro's retail market is expected to remain stable and healthy, with moderate growth projected for 2018.

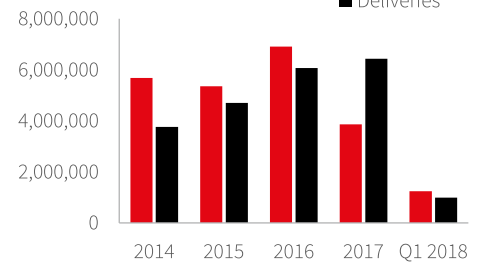
## Fundamentals

Forecast

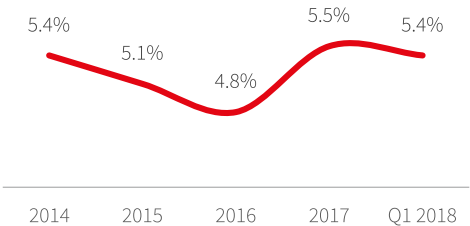
Total inventory	350,156,019 s.f.	▲
QTD net absorption	1,243,230 s.f.	►
YTD net absorption	1,243,230 s.f.	►
Under construction	3,622,686 s.f.	▼
Total vacancy	5.4%	►
QTD leasing activity	1,418,524 s.f.	►

## Supply and demand (s.f.)

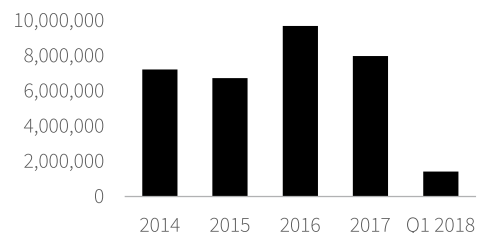
■ Net absorption  
■ Deliveries



## Total vacancy



## Leasing activity (s.f.)



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Q1 2018

## Retail Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Market Totals</b>									
General Retail	133,159,374	624,485	624,485	0.5%	3.3%	4.7%	716,289	716,289	2,714,527
Malls	30,039,221	80,604	80,604	0.3%	4.3%	7.5%	80,000	80,000	123,906
Power Centers	28,209,014	30,747	30,747	0.1%	4.0%	4.7%	0	0	5,456
Shopping Centers	156,902,015	501,361	501,361	0.3%	7.6%	9.7%	194,360	194,360	613,797
Specialty Centers	1,846,395	6,033	6,033	0.3%	3.3%	3.5%	0	0	165,000
<b>Totals</b>	<b>350,156,019</b>	<b>1,243,230</b>	<b>1,243,230</b>	<b>0.4%</b>	<b>5.4%</b>	<b>7.2%</b>	<b>990,649</b>	<b>990,649</b>	<b>3,622,686</b>
<b>Submarkets</b>									
<b>CBD</b>									
General Retail	950,566	-16,465	-16,465	-1.7%	5.7%	6.6%	0	0	0
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	35,932	0	0	0.0%	27.8%	38.8%	0	0	27,720
Specialty Centers	179,794	0	0	0.0%	2.8%	2.8%	0	0	0
<b>Totals</b>	<b>1,166,292</b>	<b>-16,465</b>	<b>-16,465</b>	<b>-1.4%</b>	<b>6.0%</b>	<b>7.8%</b>	<b>0</b>	<b>0</b>	<b>27,720</b>
<b>East</b>									
General Retail	6,684,260	13,777	13,777	0.2%	2.6%	3.2%	10,566	10,566	26,010
Malls	1,549,955	81,750	81,750	5.3%	2.1%	8.4%	80,000	80,000	117,906
Power Centers	557,512	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	5,264,447	38,907	38,907	0.7%	9.4%	11.8%	0	0	16,000
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>14,056,174</b>	<b>134,434</b>	<b>134,434</b>	<b>1.0%</b>	<b>5.0%</b>	<b>6.9%</b>	<b>90,566</b>	<b>90,566</b>	<b>159,916</b>
<b>Inner Loop</b>									
General Retail	13,969,992	7,034	7,034	0.1%	3.6%	4.7%	20,008	20,008	247,660
Malls	686,989	0	0	0.0%	0.1%	0.1%	0	0	0
Power Centers	1,386,393	0	0	0.0%	3.3%	4.0%	0	0	0
Shopping Centers	10,532,740	-54,670	-54,670	-0.5%	5.8%	7.4%	0	0	96,208
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>26,749,968</b>	<b>-47,636</b>	<b>-47,636</b>	<b>-0.2%</b>	<b>4.3%</b>	<b>5.6%</b>	<b>20,008</b>	<b>20,008</b>	<b>343,868</b>
<b>North</b>									
General Retail	24,202,820	219,939	219,939	0.9%	3.4%	5.0%	353,215	353,215	669,507
Malls	6,049,705	8,315	8,315	0.1%	10.8%	12.4%	0	0	0
Power Centers	4,828,640	18,069	18,069	0.4%	5.7%	7.1%	0	0	5,456
Shopping Centers	27,103,886	194,319	194,319	0.7%	8.3%	10.6%	0	0	173,778
Specialty Centers	157,674	5,500	5,500	3.5%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>62,342,725</b>	<b>446,142</b>	<b>446,142</b>	<b>0.7%</b>	<b>6.4%</b>	<b>8.3%</b>	<b>353,215</b>	<b>353,215</b>	<b>848,741</b>
<b>Northeast</b>									
General Retail	6,078,980	63,971	63,971	1.1%	2.0%	3.2%	14,600	14,600	31,325
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,347,778	-3,255	-3,255	-0.2%	2.0%	2.0%	0	0	0
Shopping Centers	6,695,189	41,154	41,154	0.6%	6.4%	9.7%	0	0	8,525
Specialty Centers	110,000	-1,621	-1,621	-1.5%	1.5%	1.5%	0	0	0
<b>Totals</b>	<b>14,231,947</b>	<b>100,249</b>	<b>100,249</b>	<b>0.7%</b>	<b>4.1%</b>	<b>6.1%</b>	<b>14,600</b>	<b>14,600</b>	<b>39,850</b>

*Note: General retail includes all retail not in a shopping center. Malls are comprised of regional and super regional centers. Power centers consist of several freestanding anchors and a few small specialty tenants. Shopping centers include community, neighborhood and strip centers. Specialty centers are comprised of airport, outlet and theme/festival centers.*

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Northwest</b>									
General Retail	22,654,893	50,778	50,778	0.2%	3.2%	4.4%	81,346	81,346	308,439
Malls	4,489,938	-1,210	-1,210	0.0%	1.9%	2.2%	0	0	0
Power Centers	6,286,556	26,316	26,316	0.4%	4.0%	5.1%	0	0	0
Shopping Centers	27,737,731	-177,929	-177,929	-0.6%	8.2%	10.0%	16,818	16,818	53,580
Specialty Centers	724,911	2,154	2,154	0.3%	6.7%	6.7%	0	0	0
<b>Totals</b>	<b>61,894,029</b>	<b>-99,891</b>	<b>-99,891</b>	<b>-0.2%</b>	<b>5.5%</b>	<b>6.8%</b>	<b>98,164</b>	<b>98,164</b>	<b>362,019</b>
<b>South</b>									
General Retail	5,796,407	16,116	16,116	0.3%	1.0%	2.8%	9,180	9,180	121,635
Malls	1,389,227	0	0	0.0%	0.0%	0.6%	0	0	0
Power Centers	1,457,151	1,050	1,050	0.1%	0.0%	0.0%	0	0	0
Shopping Centers	6,093,699	43,431	43,431	0.7%	8.9%	10.8%	0	0	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>14,736,484</b>	<b>60,597</b>	<b>60,597</b>	<b>0.4%</b>	<b>4.1%</b>	<b>5.6%</b>	<b>9,180</b>	<b>9,180</b>	<b>121,635</b>
<b>Southeast</b>									
General Retail	20,057,629	177,685	177,685	0.9%	3.7%	4.4%	137,828	137,828	531,332
Malls	4,657,245	-9,000	-9,000	-0.2%	2.5%	15.7%	0	0	0
Power Centers	5,419,182	13,038	13,038	0.0%	5.4%	6.1%	0	0	0
Shopping Centers	23,419,776	136,042	136,042	0.6%	7.7%	10.1%	0	0	70,532
Specialty Centers	176,102	0	0	0.0%	2.8%	7.9%	0	0	0
<b>Totals</b>	<b>53,729,934</b>	<b>317,765</b>	<b>317,765</b>	<b>0.6%</b>	<b>5.5%</b>	<b>8.0%</b>	<b>137,828</b>	<b>137,828</b>	<b>601,864</b>
<b>Southwest</b>									
General Retail	19,711,941	77,205	77,205	0.4%	3.7%	5.4%	72,246	72,246	394,068
Malls	2,056,601	0	0	0.0%	10.1%	16.6%	0	0	0
Power Centers	5,730,453	-36,971	-36,971	-0.6%	3.5%	3.9%	0	0	0
Shopping Centers	28,122,282	197,442	197,442	0.7%	7.2%	9.0%	56,750	56,750	57,775
Specialty Centers	230,234	0	0	0.0%	0.0%	0.0%	0	0	165,000
<b>Totals</b>	<b>55,851,511</b>	<b>237,676</b>	<b>237,676</b>	<b>0.4%</b>	<b>5.7%</b>	<b>7.4%</b>	<b>128,996</b>	<b>128,996</b>	<b>616,843</b>
<b>West</b>									
General Retail	13,051,886	14,445	14,445	0.1%	3.4%	6.4%	17,300	17,300	384,551
Malls	9,159,561	749	749	0.0%	2.0%	2.2%	0	0	6,000
Power Centers	1,195,349	12,500	12,500	1.0%	2.1%	2.1%	0	0	0
Shopping Centers	21,896,333	82,665	82,665	0.4%	6.9%	8.8%	120,792	120,792	109,679
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>45,396,955</b>	<b>110,359</b>	<b>110,359</b>	<b>0.2%</b>	<b>4.8%</b>	<b>6.6%</b>	<b>138,092</b>	<b>138,092</b>	<b>500,230</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

Q4 2017

## Retail Insight

# Retail to stay the course in 2018

- Net absorption surged at year-end, more than doubling any other quarter in 2017
- Leasing activity continued trending downward with retailers less active in the market
- Entertainment concepts spur retail center growth, furthering the evolution of shopping centers

Houston's retail story in the fourth quarter remains largely consistent with what was seen in 2017 overall. Conditions were stable and healthy, with recent new supply additions creating more balance between landlords and tenants. After three quarters of weak performance, net absorption returned with a bang, reaching 1.6 million square feet, which is 23.1 percent above the 10-year quarterly average. These occupancy gains were driven by service-based retailers and food and beverage concepts opening new locations from the inner loop to the suburbs.

Fourth quarter leasing activity totaled 1.6 million square feet, a decline of almost 25 percent from the previous eight quarters' average. It is important to note that this is still strong when compared nationally but is below the pace of the last few years. In a similar vein, there is less overall development coming out of the ground as construction levels from 2015 and 2016 were not sustainable for the Houston market.

E-commerce continues to disrupt the retail landscape, changing shopping center mixes from predominantly soft goods to entertainment-concept focused. This is true from both a leasing and investment perspective as buyers are wary of soft-goods-heavy centers, resulting in higher cap rates upon sale.

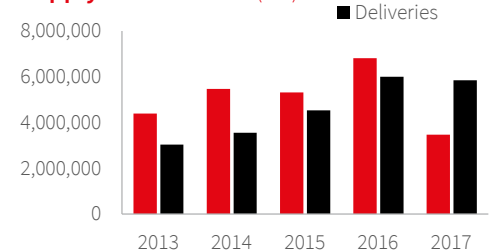
## Outlook

Retail market indicators remain strong, with further stability expected over the next 12 months. As shopping centers evolve, both owners and occupiers will have to address new competition and parking challenges. Given the continued infusion of new supply, landlord conditions may begin shifting to a more neutral playing field. Houston is still a top market for many retailers' growth strategies, which will be a key component of the sector's future success.

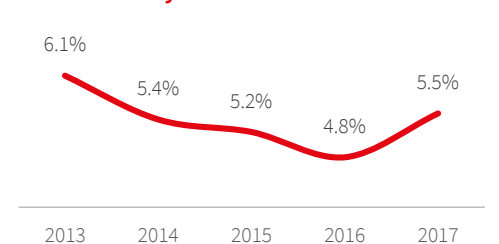
## Fundamentals

	Forecast
Total inventory	347,949,767 s.f. ▲
QTD net absorption	1,584,159 s.f. ▼
YTD net absorption	3,472,742 s.f. ►
Under construction	3,301,398 s.f. ▼
Total vacancy	5.5% ►
QTD leasing activity	1,632,760 s.f. ►

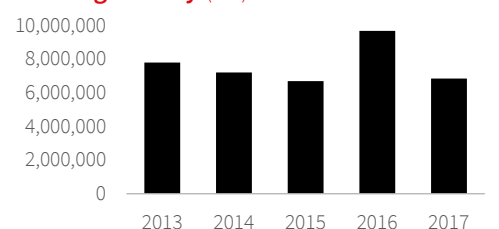
## Supply and demand (s.f.)



## Total vacancy



## Leasing activity (s.f.)



Q4 2017

## Retail Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Market Totals</b>									
General Retail	131,391,948	1,223,562	1,412,033	1.1%	3.2%	4.8%	795,149	2,711,854	2,351,452
Malls	29,998,830	-14,958	401,350	1.3%	4.3%	7.9%	182,575	548,075	6,000
Power Centers	28,215,172	115,874	958,840	3.4%	4.1%	5.3%	7,000	990,610	10,456
Shopping Centers	156,491,272	264,681	715,580	0.5%	7.9%	10.0%	225,503	1,602,456	768,490
Specialty Centers	1,852,545	-5,000	-15,061	-0.8%	4.1%	4.4%	0	0	165,000
<b>Totals</b>	<b>347,949,767</b>	<b>1,584,159</b>	<b>3,472,742</b>	<b>1.0%</b>	<b>5.5%</b>	<b>7.5%</b>	<b>1,210,227</b>	<b>5,852,995</b>	<b>3,301,398</b>
<b>Submarkets</b>									
<b>CBD</b>									
General Retail	964,650	11,450	4,200	0.4%	3.4%	5.2%	0	0	0
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	232,059	0	-760	-0.3%	22.5%	22.5%	0	0	0
Specialty Centers	179,794	-5,000	-5,000	-2.8%	2.8%	2.8%	0	0	0
<b>Totals</b>	<b>1,376,503</b>	<b>6,450</b>	<b>-1,560</b>	<b>-0.1%</b>	<b>6.5%</b>	<b>7.8%</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>East</b>									
General Retail	6,733,985	61,921	40,323	0.6%	2.6%	3.2%	0	25,404	111,836
Malls	1,469,955	0	34,537	2.3%	2.2%	7.6%	0	0	0
Power Centers	557,512	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	5,248,477	-124,728	-138,326	-2.6%	9.8%	13.2%	0	0	117,906
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>14,009,929</b>	<b>-62,807</b>	<b>-63,466</b>	<b>-0.5%</b>	<b>5.2%</b>	<b>7.3%</b>	<b>0</b>	<b>25,404</b>	<b>229,742</b>
<b>Inner Loop</b>									
General Retail	13,947,806	80,705	18,649	0.1%	3.4%	5.1%	25,653	100,058	216,740
Malls	686,989	-1,022	-1,022	-0.1%	0.1%	0.1%	0	0	0
Power Centers	1,386,352	0	-22,258	-1.6%	3.3%	4.0%	0	0	0
Shopping Centers	10,499,491	-1,138	-67,906	-0.6%	5.3%	6.2%	0	25,830	11,050
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>26,694,492</b>	<b>78,545</b>	<b>-72,537</b>	<b>-0.3%</b>	<b>4.0%</b>	<b>5.3%</b>	<b>25,653</b>	<b>125,888</b>	<b>227,790</b>
<b>North</b>									
General Retail	23,731,198	379,377	613,737	2.6%	2.8%	4.6%	203,365	678,584	703,310
Malls	6,089,314	-150,348	-470,808	-7.7%	10.9%	12.4%	0	0	0
Power Centers	4,816,940	63,752	900,749	18.7%	6.0%	7.0%	7,000	909,183	10,456
Shopping Centers	26,912,515	-128,905	236,625	0.9%	9.2%	11.5%	34,639	458,160	105,138
Specialty Centers	157,674	0	-5,500	-3.5%	3.5%	3.5%	0	0	0
<b>Totals</b>	<b>61,707,641</b>	<b>163,876</b>	<b>1,274,803</b>	<b>2.1%</b>	<b>6.6%</b>	<b>8.5%</b>	<b>245,004</b>	<b>2,045,927</b>	<b>818,904</b>
<b>Northeast</b>									
General Retail	5,905,623	14,622	32,854	0.6%	2.3%	3.8%	10,179	72,938	56,025
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,347,778	0	31,426	2.3%	1.7%	1.7%	0	25,050	0
Shopping Centers	6,724,701	-48,361	53,034	0.8%	6.8%	9.9%	0	111,056	0
Specialty Centers	110,000	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>14,088,102</b>	<b>-33,739</b>	<b>117,314</b>	<b>0.8%</b>	<b>4.4%</b>	<b>6.4%</b>	<b>10,179</b>	<b>209,044</b>	<b>56,025</b>

*Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** include community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.*

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Northwest</b>									
General Retail	22,364,929	77,084	206,971	0.9%	3.1%	4.3%	78,070	531,694	279,779
Malls	4,489,938	-8,590	117,521	2.6%	1.9%	5.0%	0	0	0
Power Centers	6,267,139	24,037	-4,008	-0.1%	4.4%	7.1%	0	56,377	0
Shopping Centers	27,571,166	271,096	422,769	1.5%	7.5%	10.2%	76,064	457,172	43,443
Specialty Centers	724,911	0	-18,305	-2.5%	8.3%	8.3%	0	0	0
<b>Totals</b>	<b>61,418,083</b>	<b>363,627</b>	<b>724,948</b>	<b>1.2%</b>	<b>5.2%</b>	<b>7.3%</b>	<b>154,134</b>	<b>1,045,243</b>	<b>323,222</b>
<b>South</b>									
General Retail	6,274,236	221,016	52,700	0.8%	1.0%	2.1%	0	35,225	96,169
Malls	1,389,227	58,800	104,877	7.5%	0.0%	0.0%	0	0	0
Power Centers	1,446,651	0	-1,050	-0.1%	0.1%	0.1%	0	0	0
Shopping Centers	6,093,699	61,448	-59,107	-1.0%	9.8%	10.7%	55,000	85,201	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>15,203,813</b>	<b>341,264</b>	<b>97,420</b>	<b>0.6%</b>	<b>4.3%</b>	<b>5.1%</b>	<b>55,000</b>	<b>120,426</b>	<b>96,169</b>
<b>Southeast</b>									
General Retail	19,575,999	-118,738	-71,644	-0.4%	3.9%	5.0%	72,852	198,475	201,452
Malls	4,657,245	0	431,952	9.3%	2.4%	15.5%	0	270,000	0
Power Centers	5,419,182	-5,766	-7,837	0.0%	5.6%	6.6%	0	0	0
Shopping Centers	23,410,982	153,148	231,571	1.0%	8.3%	10.6%	5,000	166,599	85,932
Specialty Centers	176,102	0	13,744	0.0%	2.8%	9.6%	0	0	0
<b>Totals</b>	<b>53,239,510</b>	<b>28,644</b>	<b>597,786</b>	<b>1.1%</b>	<b>5.9%</b>	<b>8.5%</b>	<b>77,852</b>	<b>635,074</b>	<b>287,384</b>
<b>Southwest</b>									
General Retail	18,955,491	376,227	325,188	1.7%	3.8%	5.9%	386,030	602,308	402,044
Malls	2,056,601	0	0	0.0%	10.1%	18.0%	0	0	0
Power Centers	5,632,859	35,041	79,857	1.4%	3.0%	4.2%	0	0	0
Shopping Centers	28,004,062	94,954	-40,843	-0.1%	7.7%	9.5%	36,000	102,069	187,775
Specialty Centers	236,384	0	0	0.0%	0.0%	0.0%	0	0	165,000
<b>Totals</b>	<b>54,885,397</b>	<b>506,222</b>	<b>364,202</b>	<b>0.7%</b>	<b>5.9%</b>	<b>7.9%</b>	<b>422,030</b>	<b>704,377</b>	<b>754,819</b>
<b>West</b>									
General Retail	12,938,031	119,898	189,055	1.5%	3.5%	6.6%	19,000	467,168	284,097
Malls	9,159,561	86,202	184,293	2.0%	2.0%	2.2%	182,575	278,075	6,000
Power Centers	1,340,759	-1,190	-18,039	-1.3%	2.8%	2.8%	0	0	0
Shopping Centers	21,794,120	-12,833	78,523	0.4%	6.9%	8.8%	18,800	196,369	217,246
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>45,326,297</b>	<b>192,077</b>	<b>433,832</b>	<b>1.0%</b>	<b>4.8%</b>	<b>6.7%</b>	<b>220,375</b>	<b>941,612</b>	<b>507,343</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

Q3 2017

## Retail Insight

# Demand moderates in second half of 2017

- Vacancy continues to climb and leasing activity falls amid quiet quarter for retail sector
- Deliveries outpace net absorption for first time since 2012 as supply finally catches up to demand
- Increased competition from multifamily on land sites leads to further mixed-use projects in development pipeline

The retail sector remains healthy as it settles into a new normal following the frenetic pace of the last three years. Total vacancy rose for the third consecutive quarter, reaching 5.6 percent, and total availability grew 50 basis points to 7.7 percent. However, both are still well below their respective long-term averages. Leasing activity fell to 1.5 million square feet in the third quarter as retailers hit pause on growth plans to evaluate next steps in the e-commerce revolution. The exceptions include restaurants, boutique fitness, and service-based retail, tenants which are expanding across the metro as they are internet resistant.

New retail product has delivered to the market at a rate over 2.5 times that of move-ins in 2017 as supply begins to rebalance after years of high demand. Net absorption was just 192,911 square feet in the third quarter, 84.5 percent below historical levels in a quiet quarter for occupancy gains. Post Hurricane Harvey, multifamily is providing increased competition for retail development sites, driving further integration of the two sectors. Retailers are taking advantage of ground-floor opportunities in new apartment communities in dense, urban submarkets with growing population bases.

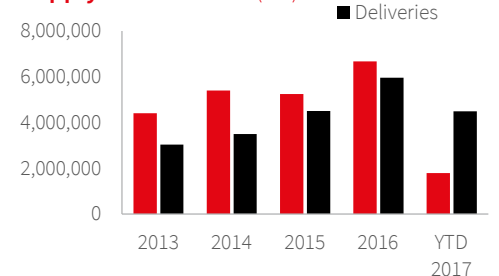
## Outlook

Despite a general tempering of demand in 2017, market indicators look strong for the period ahead. Retailers continue to target both Houston and Texas as key components to U.S. growth strategy, and as the energy sector stabilizes, the metro will become more attractive to these new-to-market concepts. Looking at the future pipeline, grocery-led development is slowing somewhat amid Houston's highly competitive grocer market. With fewer big-box tenants looking for space, a new bastion of retail development could be in store for the market.

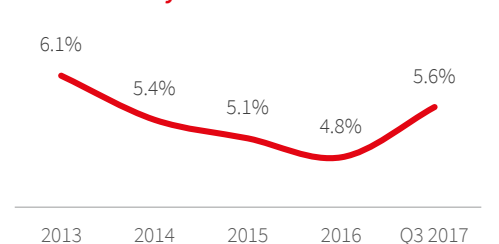
## Fundamentals

	Forecast
Total inventory	345,441,498 s.f. ▲
QTD net absorption	192,911 s.f. ▲
YTD net absorption	1,808,127 s.f. ►
Under construction	3,850,404 s.f. ▼
Total vacancy	5.6% ▲
QTD leasing activity	1,547,838 s.f. ►

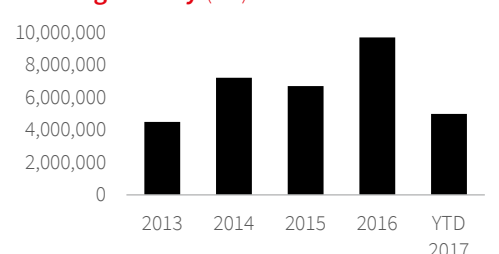
## Supply and demand (s.f.)



## Total vacancy



## Leasing activity (s.f.)



Q3 2017

## Retail Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Market Totals</b>									
General Retail	129,929,094	-136,070	288,119	0.2%	3.4%	5.4%	545,422	1,889,099	2,798,387
Malls	29,819,233	-11,485	416,308	1.4%	3.6%	7.9%	22,500	365,500	182,575
Power Centers	27,702,417	97,860	408,700	1.5%	4.4%	5.4%	155,500	509,420	0
Shopping Centers	156,138,209	250,785	705,061	0.5%	7.9%	10.1%	515,953	1,709,137	657,442
Specialty Centers	1,852,545	-8,179	-10,061	-0.5%	3.8%	4.8%	0	0	212,000
<b>Totals</b>	<b>345,441,498</b>	<b>192,911</b>	<b>1,808,127</b>	<b>0.5%</b>	<b>5.6%</b>	<b>7.7%</b>	<b>1,239,375</b>	<b>4,473,156</b>	<b>3,850,404</b>
<b>Submarkets</b>									
<b>CBD</b>									
General Retail	881,786	-2,200	-6,350	-0.7%	4.3%	6.7%	0	0	0
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	232,059	-760	-760	-0.3%	22.5%	22.5%	0	0	0
Specialty Centers	179,794	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>1,293,639</b>	<b>-2,960</b>	<b>-7,110</b>	<b>-0.5%</b>	<b>6.9%</b>	<b>8.6%</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>East</b>									
General Retail	6,741,572	2,166	-21,598	-0.3%	3.6%	3.9%	0	25,404	96,000
Malls	1,450,483	0	34,537	2.4%	2.2%	7.9%	0	0	0
Power Centers	557,512	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	5,235,309	1,436	-7,298	-0.1%	7.6%	11.8%	0	0	117,906
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>13,984,876</b>	<b>3,602</b>	<b>5,641</b>	<b>0.0%</b>	<b>4.8%</b>	<b>7.1%</b>	<b>0</b>	<b>25,404</b>	<b>213,906</b>
<b>Inner Loop</b>									
General Retail	13,814,677	-42,175	-72,045	-0.5%	3.8%	5.3%	7,533	63,245	186,433
Malls	686,989	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,386,352	-21,783	-22,258	-1.6%	3.3%	4.2%	0	0	0
Shopping Centers	10,479,113	-3,080	-73,479	-0.7%	5.3%	6.5%	0	25,830	11,050
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>26,540,985</b>	<b>-67,038</b>	<b>-167,782</b>	<b>-0.6%</b>	<b>4.2%</b>	<b>5.5%</b>	<b>7,533</b>	<b>89,075</b>	<b>197,483</b>
<b>North</b>									
General Retail	23,453,006	-18,735	224,821	1.0%	3.2%	5.5%	116,320	476,893	832,904
Malls	6,084,327	-314,382	-320,460	-5.3%	3.2%	10.3%	0	0	0
Power Centers	4,407,048	147,866	454,108	10.3%	6.9%	8.4%	155,500	479,370	0
Shopping Centers	27,006,211	313,577	717,785	2.7%	8.7%	10.5%	392,111	822,364	52,095
Specialty Centers	157,674	0	-5,500	-3.5%	3.5%	3.5%	0	0	0
<b>Totals</b>	<b>61,108,266</b>	<b>128,326</b>	<b>1,070,754</b>	<b>1.8%</b>	<b>6.4%</b>	<b>8.3%</b>	<b>663,931</b>	<b>1,778,627</b>	<b>884,999</b>
<b>Northeast</b>									
General Retail	5,876,025	-12,297	18,447	0.3%	2.4%	4.0%	23,850	61,174	33,800
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,347,778	50	31,426	2.3%	1.7%	1.7%	0	25,050	0
Shopping Centers	6,609,750	-27,907	35,623	0.5%	6.2%	9.6%	0	97,403	0
Specialty Centers	110,000	1,121	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>13,943,553</b>	<b>-39,033</b>	<b>85,496</b>	<b>0.6%</b>	<b>4.1%</b>	<b>6.4%</b>	<b>23,850</b>	<b>183,627</b>	<b>33,800</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** include community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.



	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Northwest</b>									
General Retail	22,225,280	30,246	179,694	0.8%	3.2%	4.6%	156,390	515,561	277,897
Malls	4,489,938	144,752	126,111	2.8%	1.7%	6.5%	0	0	0
Power Centers	6,204,525	3,099	-79,422	-1.3%	4.9%	6.9%	0	5,000	0
Shopping Centers	27,490,440	-54,709	137,921	0.5%	8.2%	10.6%	70,898	344,271	71,820
Specialty Centers	724,911	-9,300	-18,305	-2.5%	8.3%	8.3%	0	0	0
<b>Totals</b>	<b>61,135,094</b>	<b>114,088</b>	<b>345,999</b>	<b>0.6%</b>	<b>5.5%</b>	<b>7.7%</b>	<b>227,288</b>	<b>864,832</b>	<b>349,717</b>
<b>South</b>									
General Retail	6,295,670	28,713	-152,791	-2.4%	4.7%	5.5%	22,000	22,000	35,000
Malls	1,389,227	0	46,077	3.3%	4.2%	4.2%	0	0	0
Power Centers	1,438,446	0	-1,050	-0.1%	0.1%	0.1%	0	0	0
Shopping Centers	6,038,701	-44,760	-120,555	-2.0%	10.0%	12.1%	15,750	30,201	60,000
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>15,162,044</b>	<b>-16,047</b>	<b>-228,319</b>	<b>-1.5%</b>	<b>6.2%</b>	<b>7.6%</b>	<b>37,750</b>	<b>52,201</b>	<b>95,000</b>
<b>Southeast</b>									
General Retail	19,288,892	40,119	56,880	0.3%	2.9%	5.4%	47,690	125,623	193,512
Malls	4,657,245	158,202	431,952	9.3%	2.4%	15.5%	0	270,000	0
Power Centers	5,386,982	-8,855	-2,071	0.0%	5.5%	6.6%	0	0	0
Shopping Centers	23,405,510	-67	59,548	0.3%	9.0%	11.5%	11,572	161,599	61,750
Specialty Centers	176,102	0	13,744	0.0%	2.8%	11.7%	0	0	0
<b>Totals</b>	<b>52,914,731</b>	<b>189,399</b>	<b>560,053</b>	<b>1.1%</b>	<b>5.8%</b>	<b>9.1%</b>	<b>59,262</b>	<b>557,222</b>	<b>255,262</b>
<b>Southwest</b>									
General Retail	18,576,606	-176,300	-44,042	-0.2%	3.9%	5.9%	34,300	222,398	789,385
Malls	2,056,601	0	0	0.0%	10.1%	18.0%	0	0	0
Power Centers	5,632,859	-10,517	44,816	0.8%	3.6%	3.8%	0	0	0
Shopping Centers	27,958,661	-27,775	-137,265	-0.5%	7.9%	9.8%	12,000	49,900	83,775
Specialty Centers	236,384	0	0	0.0%	0.0%	2.8%	0	0	212,000
<b>Totals</b>	<b>54,461,111</b>	<b>-214,592</b>	<b>-136,491</b>	<b>-0.3%</b>	<b>6.1%</b>	<b>8.1%</b>	<b>46,300</b>	<b>272,298</b>	<b>1,085,160</b>
<b>West</b>									
General Retail	12,775,580	14,393	105,103	0.8%	3.7%	6.9%	137,339	376,801	353,456
Malls	9,004,423	-57	98,091	1.1%	1.0%	2.3%	22,500	95,500	182,575
Power Centers	1,340,915	-12,000	-16,849	-1.3%	2.7%	2.7%	0	0	0
Shopping Centers	21,682,455	94,830	93,541	0.4%	6.9%	8.6%	13,622	177,569	199,046
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>44,897,199</b>	<b>97,166</b>	<b>279,886</b>	<b>0.6%</b>	<b>4.6%</b>	<b>6.7%</b>	<b>173,461</b>	<b>649,870</b>	<b>735,077</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

*\*Asking rent averages encompass all retail properties above 5,000 square feet, therefore these statistics may represent values lower than typical competitive retail locations.*

Q2 2017

## Retail Insight

# Market begins downshift amid maturing growth cycle

- Fast-casual industry continues to see rapid growth
- Houston's Grand Parkway continues to draw substantial development among grocers and retailers
- Absorption and leasing activity slows from 2016 pace, while construction remains robust

There has been a growing demand for fast-casual options in the realm of dining, and quite a few eateries are more than happy to accommodate. Zoës Kitchen, which currently has 15 locations in the metro, has recently announced plans to double its Houston footprint. Meanwhile, Mod Pizza is slated to open another six locations to add to 17 existing restaurants. Houston has recently seen a number of other fast casual chains such as Slim Chickens and Mama Fu's grow throughout the city in rapid fashion. Steady population growth and evolving consumer preferences should all but ensure the continued growth of fast-casual options of various ethnicities marketwide.

The ongoing expansion of the Grand Parkway has provided not only an improved means of circulation through the region, but a unique opportunity for retail growth and development. The planned 184-mile loop circling the Houston metro, which to date has over 70 miles of completed segments, continues to draw retailers to the "outer ring." Nearly forty percent of Houston's total retail construction, or 1.5 million square feet, can be found within 1.5 miles of the existing toll road. Notable construction projects along this corridor include Target's 264,000 square foot facility and The Market at Springwoods Village with 168,000 square feet. In the second quarter, Wal-Mart and Kroger both opened locations immediately off the Grand Parkway.

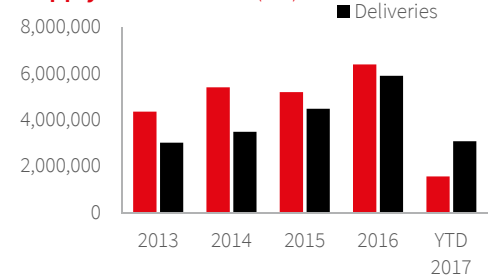
## Outlook

Since 2013, net absorption has outpaced deliveries by nearly three million square feet annually as tenant appetite for new Houston retail has been tremendous. However, the second quarter saw a blip in this trend as moderating demand has failed to measure up to the volume of newly completed product and a pipeline of 4.1 million square feet. Because of the massive amount of new construction, the retail landscape is in the midst of a rebalancing act, though indicators point to a very healthy market moving forward.

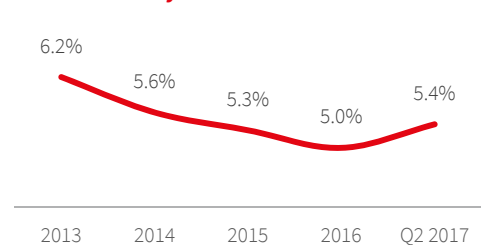
## Fundamentals

	Forecast
Total inventory	344.4 m.s.f. ▲
YTD net absorption	1.6 m.s.f. ►
Under construction	4.1 m.s.f. ▼
Total vacancy	5.4% ▲
Leasing activity	1.7 m.s.f. ►

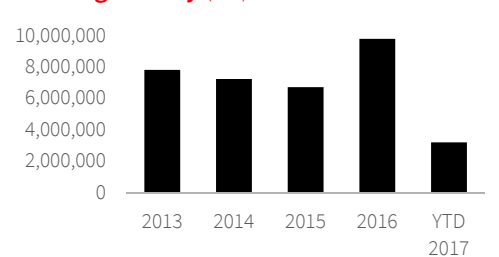
## Supply and demand (s.f.)



## Total vacancy



## Leasing activity (s.f.)



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# Houston

Q2 2017

## Retail Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Market Totals</b>									
General Retail	128,972,607	-34,511	286,683	0.2%	3.0%	4.8%	642,715	1,208,128	2,410,486
Malls	29,668,623	432,370	522,471	1.8%	4.4%	8.7%	270,000	343,000	205,075
Power Centers	27,608,633	132,686	329,960	1.2%	4.1%	5.0%	150,425	370,725	155,500
Shopping Centers	155,812,753	345,232	430,271	0.3%	7.9%	9.8%	552,218	1,152,381	860,249
Specialty Centers	2,288,672	-2,693	-12,649	-0.6%	3.5%	4.1%	0	0	465,000
<b>Totals</b>	<b>344,351,288</b>	<b>873,084</b>	<b>1,556,736</b>	<b>0.5%</b>	<b>5.4%</b>	<b>7.4%</b>	<b>1,615,358</b>	<b>3,074,234</b>	<b>4,096,310</b>
<b>Submarkets</b>									
<b>CBD</b>									
General Retail	881,786	-8,150	-4,150	-0.5%	4.0%	5.5%	0	0	0
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
Shopping Centers	231,299	0	0	0.0%	22.2%	22.2%	0	0	0
Specialty Centers	179,794	0	0	0.0%	0.0%	9.6%	0	0	0
<b>Totals</b>	<b>1,292,879</b>	<b>-8,150</b>	<b>-4,150</b>	<b>-0.3%</b>	<b>6.7%</b>	<b>9.1%</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>East</b>									
General Retail	6,770,310	-15,545	-23,764	-0.4%	3.6%	3.9%	0	19,895	92,000
Malls	1,450,513	0	34,537	2.4%	2.2%	7.8%	0	0	0
Power Centers	557,512	0	0	0.0%	0.0%	1.7%	0	0	0
Shopping Centers	5,212,144	-2,437	-8,734	-0.2%	7.7%	11.1%	0	0	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>13,990,479</b>	<b>-17,982</b>	<b>2,039</b>	<b>0.0%</b>	<b>4.8%</b>	<b>6.9%</b>	<b>0</b>	<b>19,895</b>	<b>92,000</b>
<b>Inner Loop</b>									
General Retail	13,752,094	-36,744	-32,944	-0.2%	3.4%	4.6%	12,000	55,712	187,734
Malls	686,989	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,387,003	16,868	-475	0.0%	1.7%	2.4%	0	0	0
Shopping Centers	10,478,851	-32,591	-70,399	-0.7%	5.3%	6.4%	0	25,830	5,900
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>26,478,791</b>	<b>-52,467</b>	<b>-103,818</b>	<b>-0.4%</b>	<b>3.9%</b>	<b>5.1%</b>	<b>12,000</b>	<b>81,542</b>	<b>193,634</b>
<b>North</b>									
General Retail	23,409,520	-27,867	249,081	1.1%	2.6%	4.5%	206,512	351,609	405,473
Malls	5,648,200	-1,400	-1,400	0.0%	3.2%	10.3%	0	0	0
Power Centers	4,236,473	113,440	306,242	7.2%	6.7%	7.3%	128,620	323,870	155,500
Shopping Centers	26,577,611	153,247	361,706	1.4%	8.6%	10.6%	97,622	389,952	449,996
Specialty Centers	593,801	-10,178	-16,267	-2.7%	3.7%	3.9%	0	0	0
<b>Totals</b>	<b>60,465,605</b>	<b>227,242</b>	<b>899,362</b>	<b>1.5%</b>	<b>5.6%</b>	<b>7.9%</b>	<b>432,754</b>	<b>1,065,431</b>	<b>1,010,969</b>
<b>Northeast</b>									
General Retail	5,850,489	37,144	27,834	0.5%	1.8%	3.8%	15,002	34,414	57,650
Malls	0	0	0	0.0%	0.0%	0.0%	0	0	0
Power Centers	1,347,778	2,684	31,376	2.3%	1.7%	1.7%	0	25,050	0
Shopping Centers	6,723,267	4,533	63,528	0.9%	6.5%	9.7%	32,320	97,401	0
Specialty Centers	110,000	-1,121	-1,121	-1.0%	1.0%	1.0%	0	0	0
<b>Totals</b>	<b>14,031,534</b>	<b>43,240</b>	<b>121,617</b>	<b>0.9%</b>	<b>4.0%</b>	<b>6.4%</b>	<b>47,322</b>	<b>156,865</b>	<b>57,650</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** include community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

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	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Northwest</b>									
General Retail	21,924,700	76,050	66,605	0.3%	2.8%	3.9%	133,841	289,149	369,475
Malls	4,489,938	-3,883	-18,641	-0.4%	4.9%	6.8%	0	0	0
Power Centers	6,204,525	-80,968	-82,521	-1.3%	4.9%	6.7%	5,000	5,000	0
Shopping Centers	27,495,641	229,074	192,630	0.7%	7.8%	9.7%	193,402	253,373	98,956
Specialty Centers	724,911	0	-9,005	-1.2%	7.1%	7.1%	0	0	0
<b>Totals</b>	<b>60,839,715</b>	<b>220,273</b>	<b>149,068</b>	<b>0.2%</b>	<b>5.5%</b>	<b>7.1%</b>	<b>332,243</b>	<b>547,522</b>	<b>468,431</b>
<b>South</b>									
General Retail	6,340,258	-186,951	-212,301	-3.3%	4.7%	5.5%	0	0	20,000
Malls	1,389,227	60,526	46,077	3.3%	4.2%	4.2%	0	0	0
Power Centers	1,438,446	-1,050	-1,050	-0.1%	0.1%	0.1%	0	0	0
Shopping Centers	5,942,558	-51,281	-67,795	-1.1%	9.1%	11.9%	0	14,451	75,750
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>15,110,489</b>	<b>-178,756</b>	<b>-235,069</b>	<b>-1.6%</b>	<b>5.9%</b>	<b>7.4%</b>	<b>0</b>	<b>14,451</b>	<b>95,750</b>
<b>Southeast</b>									
General Retail	19,077,183	-83,595	2,503	0.0%	3.6%	6.0%	31,358	66,353	160,491
Malls	4,595,232	282,333	273,750	6.0%	5.8%	14.1%	270,000	270,000	0
Power Centers	5,458,982	14,914	6,784	0.0%	5.3%	6.6%	0	0	0
Shopping Centers	23,440,976	17,627	49,715	0.2%	9.1%	11.3%	135,427	150,027	84,297
Specialty Centers	176,102	8,606	13,744	0.0%	2.8%	11.7%	0	0	0
<b>Totals</b>	<b>52,748,475</b>	<b>239,885</b>	<b>346,496</b>	<b>0.7%</b>	<b>6.4%</b>	<b>9.1%</b>	<b>436,785</b>	<b>486,380</b>	<b>244,788</b>
<b>Southwest</b>									
General Retail	18,447,888	85,670	119,694	0.6%	2.6%	4.9%	86,036	157,034	813,687
Malls	2,426,601	90,000	90,000	3.7%	20.1%	26.4%	0	0	0
Power Centers	5,635,109	56,976	55,333	1.0%	3.4%	3.6%	0	0	0
Shopping Centers	27,916,445	-74,048	-88,591	-0.3%	7.8%	9.1%	48,000	57,900	69,775
Specialty Centers	236,384	0	0	0.0%	0.0%	0.0%	0	0	465,000
<b>Totals</b>	<b>54,662,427</b>	<b>158,598</b>	<b>176,436</b>	<b>0.3%</b>	<b>6.1%</b>	<b>7.8%</b>	<b>134,036</b>	<b>214,934</b>	<b>1,348,462</b>
<b>West</b>									
General Retail	12,518,379	125,477	94,125	0.8%	2.7%	5.4%	157,966	233,962	303,976
Malls	8,981,923	4,794	98,148	1.1%	0.7%	2.7%	0	73,000	205,075
Power Centers	1,342,805	9,822	14,271	1.1%	1.6%	1.3%	16,805	16,805	0
Shopping Centers	21,793,961	101,108	-1,789	0.0%	7.2%	8.9%	45,447	163,447	75,575
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	0	0	0
<b>Totals</b>	<b>44,730,894</b>	<b>241,201</b>	<b>204,755</b>	<b>0.5%</b>	<b>4.5%</b>	<b>6.4%</b>	<b>220,218</b>	<b>487,214</b>	<b>584,626</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

\*Asking rent averages encompass all retail properties above 5,000 square feet, therefore these statistics may represent values lower than typical competitive retail locations.

Q1 2017

## Retail Insight

# Market expected to normalize in 2017 as supply finally catches up in growth cycle

- Region's largest grocers innovate and evolve to stay in front of consumer preferences
- Construction activity declined for third consecutive quarter as supply and demand began to rebalance
- Vacancy and availability inched up in the first quarter but remained well below long-term averages

Grocery chains are modernizing to keep pace with the evolving consumer landscape, resulting in significant changes to store offerings and footprints. In a major announcement, Target has selected the Houston suburb of Richmond as the first to receive a completely redesigned concept. The company will be testing several distinctive features at the new location for potential roll-out across the U.S. This is not a one-off example as major Texas operator HEB has been a long-time innovator in the market, recently incorporating unique, sit-down restaurants in many locations and successfully utilizing neighborhood demographics to its advantage. Grocery redevelopment efforts are focusing on experiential retail to keep shoppers connected and engaged with physical stores in the age of ecommerce and grocery delivery.

Continued tightness from an occupancy standpoint, coupled with rising land prices, is causing retailers to seek new ways to enter the Houston market. In urban areas, tenants like specialty grocers are getting creative with their concepts and partnering with multifamily developers early in the process to design ground-floor spaces in new multistory projects. The trend, already occurring in metros across the U.S., has been gaining traction in Houston of late. While vacancy and availability did rise across Houston in the first quarter, they are well below their respective 10-year averages.

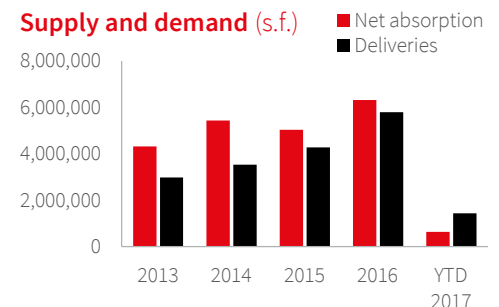
## Outlook

Net absorption has consistently outpaced deliveries in recent years as tenant appetite for new retail space was off the charts. But the tide is beginning to shift. After a red-hot growth cycle from 2014-2016, construction activity is beginning to normalize, falling to 2.7 million square feet in the first quarter. Demand will likely temper in 2017 as a weak office market impacts the sector, though indicators continue to point to a healthy level of growth for retail.

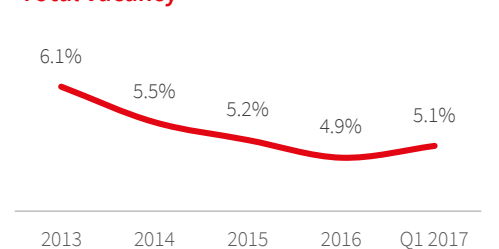
## Fundamentals

	Forecast
Total inventory	340.9 m.s.f. ▲
YTD net absorption	628,160 s.f. ▲
Under construction	2,652,204 s.f. ▼
Total vacancy	5.1% ►
Average asking rent (NNN)	\$17.00 p.s.f. ▲

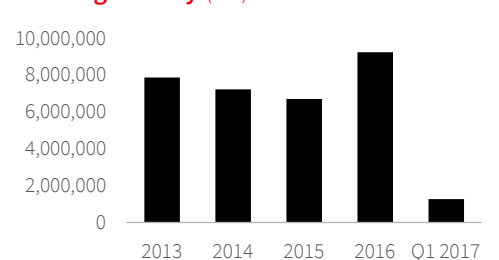
## Supply and demand (s.f.)



## Total vacancy



## Leasing activity (s.f.)



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Q1 2017

## Retail Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average direct asking rent* (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Market Totals</b>										
General Retail	127,197,605	164,642	164,642	0.1%	2.5%	4.4%	\$17.74	460,002	460,002	1,302,025
Malls	29,217,388	360,101	360,101	1.2%	3.8%	7.9%	\$20.59	343,000	343,000	150,700
Power Centers	27,337,103	185,974	185,974	0.7%	4.1%	6.9%	\$16.47	208,300	208,300	133,620
Shopping Centers	154,887,652	-72,601	-72,601	0.0%	7.7%	9.7%	\$15.86	423,933	423,933	765,859
Specialty Centers	2,288,672	-9,956	-9,956	-0.4%	3.2%	3.8%	\$12.61	0	0	300,000
<b>Totals</b>	<b>340,928,420</b>	<b>628,160</b>	<b>628,160</b>	<b>0.2%</b>	<b>5.1%</b>	<b>7.3%</b>	<b>\$17.00</b>	<b>1,435,235</b>	<b>1,435,235</b>	<b>2,652,204</b>

### Submarkets

#### CBD

General Retail	875,486	0	0	0.0%	3.1%	4.6%	\$19.37	0	0	0
Malls	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Power Centers	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Shopping Centers	231,299	0	0	0.0%	22.2%	22.2%	\$25.84	0	0	0
Specialty Centers	179,794	0	0	0.0%	0.0%	9.6%	\$0.00	0	0	0
<b>Totals</b>	<b>1,286,579</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>6.1%</b>	<b>8.5%</b>	<b>\$23.20</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### East

General Retail	6,673,659	-28,923	-28,923	-0.4%	3.2%	4.0%	\$14.66	0	0	101,100
Malls	1,450,513	34,537	34,537	2.4%	2.2%	7.9%	\$15.00	0	0	0
Power Centers	557,512	0	0	0.0%	0.0%	1.7%	\$22.00	0	0	0
Shopping Centers	5,213,079	-6,297	-6,297	-0.1%	7.9%	11.6%	\$13.40	0	0	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,894,763</b>	<b>-683</b>	<b>-683</b>	<b>0.0%</b>	<b>4.8%</b>	<b>7.1%</b>	<b>\$13.88</b>	<b>0</b>	<b>0</b>	<b>101,100</b>

#### Inner Loop

General Retail	13,678,334	-1,600	-1,600	0.0%	3.0%	4.5%	\$27.59	36,812	36,812	194,634
Malls	686,989	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Power Centers	1,387,003	-17,343	-17,343	-1.3%	2.9%	2.1%	\$0.00	0	0	0
Shopping Centers	10,342,413	-37,808	-37,808	-0.4%	5.0%	5.9%	\$23.68	25,830	25,830	0
Specialty Centers	173,854	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>26,268,593</b>	<b>-56,751</b>	<b>-56,751</b>	<b>-0.2%</b>	<b>3.7%</b>	<b>4.8%</b>	<b>\$25.36</b>	<b>62,642</b>	<b>62,642</b>	<b>194,634</b>

#### North

General Retail	22,955,535	232,105	232,105	1.0%	1.7%	3.9%	\$18.08	100,000	100,000	332,868
Malls	5,648,200	0	0	0.0%	3.2%	10.3%	\$11.30	0	0	0
Power Centers	4,102,158	192,802	192,802	4.7%	6.5%	7.3%	\$13.95	195,250	195,250	128,620
Shopping Centers	26,277,074	51,992	51,992	0.2%	8.9%	10.8%	\$14.52	126,000	126,000	295,912
Specialty Centers	593,801	-6,089	-6,089	-1.0%	2.0%	7.3%	\$17.24	0	0	0
<b>Totals</b>	<b>59,576,768</b>	<b>470,810</b>	<b>470,810</b>	<b>0.8%</b>	<b>5.3%</b>	<b>7.8%</b>	<b>\$15.04</b>	<b>421,250</b>	<b>421,250</b>	<b>757,400</b>

#### Northeast

General Retail	5,782,007	-17,622	-17,622	-0.3%	2.1%	4.0%	\$19.47	9,100	9,100	42,001
Malls	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Power Centers	1,335,778	16,692	16,692	1.2%	1.9%	1.3%	\$0.00	13,050	13,050	0
Shopping Centers	6,682,333	58,995	58,995	0.9%	6.1%	9.7%	\$15.75	65,081	65,081	32,320
Specialty Centers	110,000	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,910,118</b>	<b>58,065</b>	<b>58,065</b>	<b>0.4%</b>	<b>4.0%</b>	<b>6.4%</b>	<b>\$16.43</b>	<b>87,231</b>	<b>87,231</b>	<b>74,321</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** include community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

\*Asking rent averages encompass all retail properties above 5,000 square feet, therefore these statistics may represent values lower than typical competitive retail locations.

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Northwest</b>										
General Retail	21,484,319	-18,588	-18,588	-0.1%	2.6%	3.8%	\$19.20	147,699	147,699	166,922
Malls	4,386,477	-14,758	-14,758	-0.3%	5.0%	7.0%	\$35.29	0	0	0
Power Centers	6,096,849	-853	-853	0.0%	3.6%	14.6%	\$35.63	0	0	5,000
Shopping Centers	27,232,789	-39,499	-39,499	-0.1%	7.8%	9.6%	\$15.07	59,971	59,971	55,436
Specialty Centers	724,911	-9,005	-9,005	-1.2%	7.1%	7.1%	\$12.28	0	0	0
<b>Totals</b>	<b>59,925,345</b>	<b>-82,703</b>	<b>-82,703</b>	<b>-0.1%</b>	<b>5.3%</b>	<b>7.8%</b>	<b>\$19.99</b>	<b>207,670</b>	<b>207,670</b>	<b>227,358</b>
<b>South</b>										
General Retail	6,112,473	-25,350	-25,350	-0.4%	1.8%	3.0%	\$17.51	0	0	20,000
Malls	1,302,068	-14,449	-14,449	-1.1%	9.2%	9.8%	\$24.00	0	0	0
Power Centers	1,438,446	0	0	0.0%	0.0%	0.0%	\$30.00	0	0	0
Shopping Centers	5,878,235	-16,514	-16,514	-0.3%	8.3%	11.2%	\$15.17	14,451	14,451	0
Specialty Centers	0	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>14,731,222</b>	<b>-56,313</b>	<b>-56,313</b>	<b>-0.4%</b>	<b>4.9%</b>	<b>6.6%</b>	<b>\$15.89</b>	<b>14,451</b>	<b>14,451</b>	<b>20,000</b>
<b>Southeast</b>										
General Retail	19,405,334	72,262	72,262	0.4%	3.1%	5.5%	\$12.97	34,995	34,995	92,110
Malls	4,595,232	261,417	261,417	5.7%	6.1%	13.6%	\$12.19	270,000	270,000	0
Power Centers	5,458,982	-8,130	-8,130	0.0%	5.6%	7.2%	\$14.98	0	0	0
Shopping Centers	23,356,697	31,570	31,570	0.1%	8.5%	11.1%	\$14.98	14,600	14,600	227,724
Specialty Centers	176,102	5,138	5,138	0.0%	6.3%	8.6%	\$10.46	0	0	0
<b>Totals</b>	<b>52,992,347</b>	<b>362,257</b>	<b>362,257</b>	<b>0.7%</b>	<b>6.0%</b>	<b>8.9%</b>	<b>\$14.19</b>	<b>319,595</b>	<b>319,595</b>	<b>319,834</b>
<b>Southwest</b>										
General Retail	17,833,178	-30,890	-30,890	-0.2%	2.7%	5.0%	\$15.84	15,400	15,400	177,032
Malls	2,056,601	0	0	0.0%	10.1%	17.7%	\$0.00	0	0	0
Power Centers	5,634,375	-1,643	-1,643	0.0%	4.4%	3.8%	\$21.20	0	0	0
Shopping Centers	27,878,550	-14,543	-14,543	-0.1%	7.3%	8.5%	\$14.91	0	0	30,750
Specialty Centers	236,384	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	300,000
<b>Totals</b>	<b>53,639,088</b>	<b>-47,076</b>	<b>-47,076</b>	<b>-0.1%</b>	<b>5.5%</b>	<b>7.1%</b>	<b>\$15.29</b>	<b>15,400</b>	<b>15,400</b>	<b>507,782</b>
<b>West</b>										
General Retail	12,397,280	-16,752	-16,752	-0.1%	2.6%	4.8%	\$20.84	115,996	115,996	175,358
Malls	9,091,308	93,354	93,354	1.0%	0.8%	2.2%	\$30.60	73,000	73,000	150,700
Power Centers	1,326,000	4,449	4,449	0.3%	1.1%	1.4%	\$22.44	0	0	0
Shopping Centers	21,795,183	-100,497	-100,497	-0.5%	7.5%	9.4%	\$20.25	118,000	118,000	123,717
Specialty Centers	93,826	0	0	0.0%	0.0%	0.0%	-	0	0	0
<b>Totals</b>	<b>44,703,597</b>	<b>-19,446</b>	<b>-19,446</b>	<b>0.0%</b>	<b>4.6%</b>	<b>6.4%</b>	<b>\$20.98</b>	<b>306,996</b>	<b>306,996</b>	<b>449,775</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** include community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

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## Retail continues growth cycle in 2016

### Another record year for home sales drives retail expansion

Home sales did not let off the gas in 2016, despite continued softer conditions in Houston's overall economy. To the contrary, weakness in the oil and gas sector allowed supply to begin to catch-up with the record-setting demand of 2014 and 2015. Year-end 2016 data revealed that the market experienced a third consecutive year of record single-family sales. The average sales price of \$283,133 represented a 1.1 percent increase over 2015 as homes priced over \$500,000 experienced double-digit increases in the final two months of the year. According to Metrostudy, through the third quarter of the year, Houston continued to hold the number two position in annual new home starts, behind Dallas. Strength in both master planned communities and smaller subdivisions is driving growth in the retail sector across the metro.

### Fast casual and specialized food offerings changing the game

As fast-casual chains like Mama Fu's and Mod Pizza have exploded across the metro, both quick and full-service restaurants have been forced to adapt to be successful. Companies such as Applebee's are in rebranding mode, refreshing existing stores to compete in this environment and with no new locations in the pipeline. This also comes as unique concepts, such as Whiskey Cake, in Katy are capitalizing on a customer segment interested in more locally-sourced, or "farm-to-table," offerings. These restaurants are rising across Houston and capturing greater slices of market share as they tap into unmet demand.

### Experiential retail evolution creates ripples in market

Houston's significant population growth has equated to more drivers on the roadways, creating an opportunity for a new kind of experiential retail to enter the market. Carvana opened only its second vehicle vending machine in the U.S. in Houston this quarter, joining the likes of bowling and rock-climbing venues that have entered the market here in recent months. Carvana is targeting the increasingly tech-savvy consumers whose shopping preferences have evolved and seek to cut out the negotiations and time associated with a traditional car buying experience. These new-to-market retailers are a driver behind Houston's significant growth in retail inventory in this cycle.

#### Annual single-family stats

<b>Total sales</b>	↑	<b>3.0%</b>
<b>Total dollar volume</b>	↑	<b>4.2%</b>

Source: JLL Research

#### Unique concepts capturing demand

<b>Whiskey Cake</b>	<b>Dish Society</b>
<b>Local Foods</b>	<b>Hopdoddy Burger Bar</b>

Source: JLL Research

#### Substantial deliveries grow retail inventory

↑	<b>18.9 m.s.f.</b>
	New supply added last 5 years

Source: JLL Research

**4.1%**  
Houston

**1.5%**  
U.S.

▲ EMPLOYMENT

**5.1%**  
Houston

**4.9%**  
U.S.

◀▶ TOTAL VACANCY

**-76.6%**  
Houston

**-38.6%**  
U.S.

▲ INVESTMENT SALES

**2.4%**  
Houston

**3.1%**  
U.S.

▲ ASKING RENTS

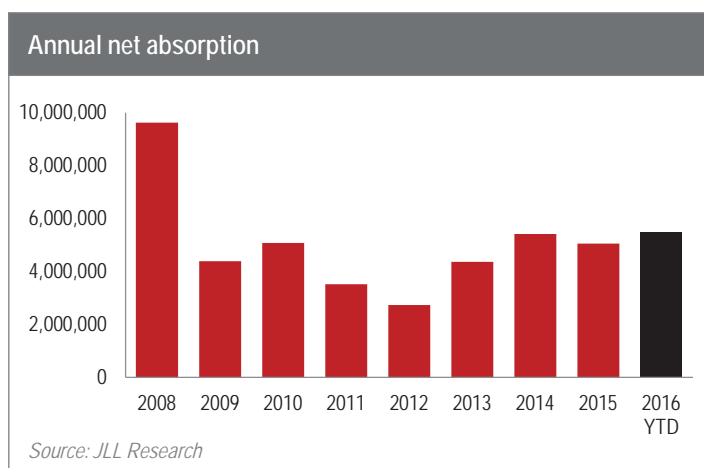
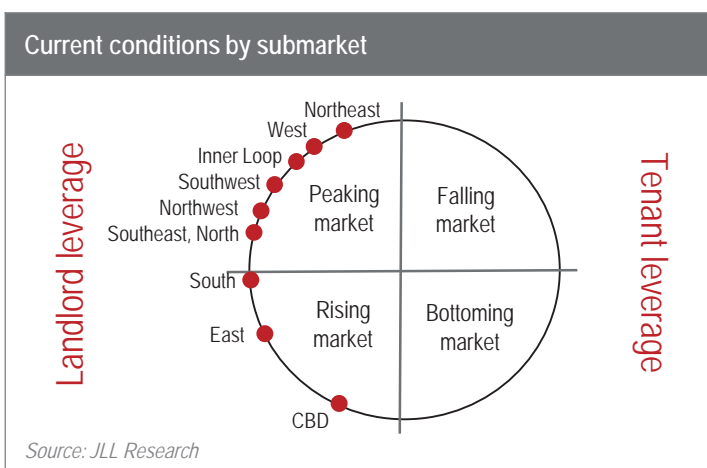


	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	Total vacancy	Total availability	Average direct asking rent* (p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Overall trends by submarket</b>									
CBD	1,292,879	-3,789	53,849	6.4%	9.0%	\$21.96	0	0	0
East	13,669,406	89,220	261,868	5.4%	8.1%	\$13.92	7,000	202,162	89,100
Inner Loop	25,809,630	62,069	53,294	3.4%	4.6%	\$25.78	36,000	107,802	252,323
North	59,250,753	-52,092	1,076,572	5.4%	7.6%	\$14.91	49,500	1,087,673	820,907
Northeast	13,774,521	259,985	637,736	4.0%	6.4%	\$15.01	326,486	646,251	119,551
Northwest	59,270,539	94,828	1,047,991	4.9%	6.9%	\$15.53	279,153	1,209,885	696,753
South	13,865,334	-7,021	297,583	4.3%	5.7%	\$15.94	7,090	186,066	9,040
Southeast	52,605,492	278,080	656,093	6.5%	8.8%	\$13.90	316,306	1,037,657	322,197
Southwest	53,286,192	394,486	820,703	5.6%	7.2%	\$15.70	368,060	683,069	386,354
West	44,327,427	54,636	577,366	4.0%	5.7%	\$20.14	57,899	258,272	395,138
<b>Shopping centers by type</b>									
General Retail	125,168,846	276,902	2,068,310	2.4%	4.1%	\$16.98	500,002	2,136,523	1,209,796
Malls	29,200,503	324,783	279,628	4.0%	6.5%	\$21.86	287,278	287,278	0
Power Centers	26,647,374	141,485	1,067,833	4.2%	5.0%	\$16.23	199,580	1,242,630	702,920
Shopping Centers	153,952,360	429,882	2,022,578	7.6%	9.9%	\$15.62	460,634	1,738,506	878,647
Specialty Centers	2,183,090	-2,650	44,706	2.1%	3.8%	\$12.17	0	13,900	300,000
<b>Total</b>	<b>337,152,173</b>	<b>1,170,402</b>	<b>5,483,055</b>	<b>5.1%</b>	<b>7.0%</b>	<b>\$16.13</b>	<b>1,447,494</b>	<b>5,418,837</b>	<b>3,091,363</b>

Note: General retail includes all retail not in a shopping center. Malls are comprised of regional and super regional centers. Power centers consist of several freestanding anchors and a few small specialty tenants. Shopping centers are comprised of community, neighborhood and strip centers. Specialty centers are comprised of airport, outlet and themefestival centers. \*Asking rent averages encompass all retail properties above 5,000 square feet, therefore these statistics may represent values lower than typical competitive retail locations.

<b>Select retail lease transactions</b>					
Tenant	Size (s.f.)	Lease type	Submarket	Property	Address
Emler Swim School (2 leases)	13,197	New	SW, SE	Multiple	Multiple
MidiCi	3,868	New	Inner Loop	Kirby Grove	2925 Richmond Ave
Social Status	2,000	New	West	CityCentre	Interstate 10 & Beltway 8
4D Gelateria	1,102	New	West	Katy Mills Mall	5000 Katy Mills Cir

<b>Select retail under construction</b>					
Property	Address	Size (s.f.)	Retail type	Submarket	Expected delivery
Fairfield Town Center	1000 Cypresswood Dr	374,000	Power Center	Northwest	03/2017
Paragon Outlets	U.S. 59 & Reading Rd	300,000	Specialty	Southwest	10/2017
Buffalo Springs Marketplace	20168 Eva St	143,500	Shopping Center	North	04/2017
Kirby Collection	3200 Kirby Dr	60,500	General Retail	Inner Loop	12/2017



	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacant (s.f.)	Total vacancy (%)	Total available (s.f.)	Total availability (%)	Average direct asking rent* (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Market Totals</b>												
General Retail	125,168,846	276,902	2,068,310	1.7%	3,004,052	2.4%	5,131,923	4.1%	\$16.98	500,002	2,136,523	1,209,796
Malls	29,200,503	324,783	279,628	1.0%	1,168,020	4.0%	1,898,033	6.5%	\$21.86	287,278	287,278	0
Power Centers	26,647,374	141,485	1,067,833	4.0%	1,119,190	4.2%	1,332,369	5.0%	\$16.23	199,580	1,242,630	702,920
Shopping Centers	153,952,360	429,882	2,022,578	1.3%	11,700,379	7.6%	15,241,284	9.9%	\$15.62	460,634	1,738,506	878,647
Specialty Centers	2,183,090	-2,650	44,706	2.0%	45,845	2.1%	82,957	3.8%	\$12.17	0	13,900	300,000
<b>Totals</b>	<b>337,152,173</b>	<b>1,170,402</b>	<b>5,483,055</b>	<b>1.6%</b>	<b>17,037,486</b>	<b>5.1%</b>	<b>23,686,565</b>	<b>7.0%</b>	<b>\$16.13</b>	<b>1,447,494</b>	<b>5,418,837</b>	<b>3,091,363</b>
<b>Submarkets</b>												
<b>CBD</b>												
General Retail	881,786	-3,789	18,253	2.1%	31,744	3.6%	36,153	4.1%	\$16.88	0	0	0
Malls	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Shopping Centers	231,299	0	23,226	10.0%	51,348	22.2%	51,348	22.2%	\$25.84	0	0	0
Specialty Centers	179,794	0	12,370	6.9%	0	0.0%	28,407	15.8%	\$0.00	0	0	0
<b>Totals</b>	<b>1,292,879</b>	<b>-3,789</b>	<b>53,849</b>	<b>4.2%</b>	<b>83,093</b>	<b>6.4%</b>	<b>115,909</b>	<b>9.0%</b>	<b>\$21.96</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>East</b>												
General Retail	6,624,006	3,509	185,474	2.8%	211,968	3.2%	278,208	4.2%	\$13.38	7,000	181,730	89,100
Malls	1,421,403	74,357	74,357	5.2%	119,398	8.4%	198,996	14.0%	\$18.00	0	0	0
Power Centers	557,512	0	9,662	1.7%	0	0.0%	9,478	1.7%	\$25.00	0	0	0
Shopping Centers	5,066,485	11,354	-7,625	-0.2%	400,252	7.9%	618,111	12.2%	\$12.67	0	20,432	0
Specialty Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,669,406</b>	<b>89,220</b>	<b>261,868</b>	<b>1.9%</b>	<b>731,618</b>	<b>5.4%</b>	<b>1,104,794</b>	<b>8.1%</b>	<b>\$13.92</b>	<b>7,000</b>	<b>202,162</b>	<b>89,100</b>
<b>Inner Loop</b>												
General Retail	13,244,107	19,867	-2,228	0.0%	357,591	2.7%	543,008	4.1%	\$26.95	0	25,984	220,793
Malls	686,989	0	3,000	0.4%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	1,361,003	-1,367	-5,511	-0.4%	23,137	1.7%	51,718	3.8%	\$0.00	0	0	0
Shopping Centers	10,343,677	43,569	58,033	0.6%	506,840	4.9%	589,590	5.7%	\$25.05	36,000	81,818	31,530
Specialty Centers	173,854	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>25,809,630</b>	<b>62,069</b>	<b>53,294</b>	<b>0.2%</b>	<b>887,568</b>	<b>3.4%</b>	<b>1,184,316</b>	<b>4.6%</b>	<b>\$25.78</b>	<b>36,000</b>	<b>107,802</b>	<b>252,323</b>
<b>North</b>												
General Retail	22,737,948	22,026	631,353	2.8%	500,235	2.2%	1,000,470	4.4%	\$18.29	49,500	676,789	273,025
Malls	5,733,425	0	4,108	0.1%	183,470	3.2%	263,738	4.6%	\$11.30	0	0	0
Power Centers	3,893,855	-7,122	73,060	1.9%	264,782	6.8%	284,251	7.3%	\$13.95	0	62,943	310,870
Shopping Centers	26,291,724	-66,996	366,221	1.4%	2,261,088	8.6%	2,970,965	11.3%	\$14.29	0	347,941	237,012
Specialty Centers	593,801	0	1,830	0.3%	5,938	1.0%	10,688	1.8%	\$16.49	0	0	0
<b>Totals</b>	<b>59,250,753</b>	<b>-52,092</b>	<b>1,076,572</b>	<b>1.8%</b>	<b>3,215,513</b>	<b>5.4%</b>	<b>4,530,112</b>	<b>7.6%</b>	<b>\$14.91</b>	<b>49,500</b>	<b>1,087,673</b>	<b>820,907</b>
<b>Northeast</b>												
General Retail	5,711,843	6,038	111,595	2.0%	97,101	1.7%	182,779	3.2%	\$11.53	31,400	121,127	9,100
Malls	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	1,322,728	160,563	390,601	29.5%	29,100	2.2%	29,100	2.2%	\$0.00	189,986	420,024	13,050
Shopping Centers	6,629,950	93,384	135,540	2.0%	430,947	6.5%	662,995	10.0%	\$15.30	105,100	105,100	97,401
Specialty Centers	110,000	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,774,521</b>	<b>259,985</b>	<b>637,736</b>	<b>4.6%</b>	<b>557,148</b>	<b>4.0%</b>	<b>874,874</b>	<b>6.4%</b>	<b>\$15.01</b>	<b>326,486</b>	<b>646,251</b>	<b>119,551</b>
<b>Northwest</b>												
General Retail	21,394,509	-108,328	152,142	0.7%	385,101	1.8%	770,202	3.6%	\$16.16	17,950	264,689	232,546
Malls	4,386,477	7,699	54,838	1.3%	201,778	4.6%	298,280	6.8%	\$36.85	17,278	17,278	0
Power Centers	5,647,247	-27,277	376,622	6.7%	237,184	4.2%	282,362	5.0%	\$14.71	9,594	389,121	379,000
Shopping Centers	27,222,977	222,734	478,001	1.8%	2,041,723	7.5%	2,695,075	9.9%	\$14.66	234,331	538,797	85,207
Specialty Centers	619,329	0	-13,612	-2.2%	24,154	3.9%	27,250	4.4%	\$10.99	0	0	0
<b>Totals</b>	<b>59,270,539</b>	<b>94,828</b>	<b>1,047,991</b>	<b>1.8%</b>	<b>2,889,941</b>	<b>4.9%</b>	<b>4,073,170</b>	<b>6.9%</b>	<b>\$15.53</b>	<b>279,153</b>	<b>1,209,885</b>	<b>696,753</b>

*Note: General retail includes all retail not in a shopping center. Malls are comprised of regional and super regional centers. Power centers consist of several freestanding anchors and a few small specialty tenants. Shopping centers are comprised of community, neighborhood and strip centers. Specialty centers are comprised of airport, outlet and theme/festival centers.*

*\*Asking rent averages encompass all retail properties above 5,000 square feet, therefore these statistics may represent values lower than typical competitive retail locations.*

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacant (s.f.)	Total vacancy (%)	Total available (s.f.)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>South</b>												
General Retail	5,570,967	8,238	69,534	1.2%	66,852	1.2%	77,994	1.4%	\$15.27	7,090	46,616	9,040
Malls	1,302,068	-22,607	-32,658	-2.5%	105,468	8.1%	110,676	8.5%	\$24.00	0	0	0
Power Centers	1,438,446	0	0	0.0%	0	0.0%	0	0.0%	\$30.00	0	0	0
Shopping Centers	5,553,853	7,348	260,707	4.7%	427,647	7.7%	599,816	10.8%	\$15.66	0	139,450	0
Specialty Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,865,334</b>	<b>-7,021</b>	<b>297,583</b>	<b>2.1%</b>	<b>599,966</b>	<b>4.3%</b>	<b>788,485</b>	<b>5.7%</b>	<b>\$15.94</b>	<b>7,090</b>	<b>186,066</b>	<b>9,040</b>
<b>Southeast</b>												
General Retail	19,104,845	6,644	140,758	0.7%	764,194	4.0%	1,031,662	5.4%	\$12.95	19,002	135,901	81,873
Malls	4,595,232	268,040	112,173	2.4%	271,119	5.9%	556,023	12.1%	\$12.05	270,000	270,000	0
Power Centers	5,454,848	-1,425	237,412	0.0%	294,562	5.4%	381,839	7.0%	\$15.21	0	353,530	0
Shopping Centers	23,274,465	7,471	138,032	0.6%	2,048,153	8.8%	2,606,740	11.2%	\$14.45	27,304	278,226	240,324
Specialty Centers	176,102	-2,650	27,718	0.0%	16,201	9.2%	28,881	16.4%	\$10.54	0	0	0
<b>Totals</b>	<b>52,605,492</b>	<b>278,080</b>	<b>656,093</b>	<b>1.2%</b>	<b>3,394,229</b>	<b>6.5%</b>	<b>4,605,145</b>	<b>8.8%</b>	<b>\$13.90</b>	<b>316,306</b>	<b>1,037,657</b>	<b>322,197</b>
<b>Southwest</b>												
General Retail	17,646,953	327,431	563,706	3.2%	441,174	2.5%	776,466	4.4%	\$15.35	368,060	566,564	48,360
Malls	2,056,601	0	0	0.0%	207,717	10.1%	374,301	18.2%	\$0.00	0	0	0
Power Centers	5,645,375	12,921	-59,299	-1.1%	248,397	4.4%	242,751	4.3%	\$22.22	0	7,012	0
Shopping Centers	27,700,879	54,134	299,896	1.1%	2,105,267	7.6%	2,465,378	8.9%	\$15.52	0	95,593	37,994
Specialty Centers	236,384	0	16,400	6.9%	0	0.0%	0	0.0%	\$0.00	0	13,900	300,000
<b>Totals</b>	<b>53,286,192</b>	<b>394,486</b>	<b>820,703</b>	<b>1.5%</b>	<b>3,002,554</b>	<b>5.6%</b>	<b>3,858,897</b>	<b>7.2%</b>	<b>\$15.70</b>	<b>368,060</b>	<b>683,069</b>	<b>386,354</b>
<b>West</b>												
General Retail	12,251,882	-4,734	197,723	1.6%	196,030	1.6%	428,816	3.5%	\$22.19	0	117,123	245,959
Malls	9,018,308	-2,706	63,810	0.7%	90,183	1.0%	108,220	1.2%	\$32.64	0	0	0
Power Centers	1,326,360	5,192	45,286	3.4%	18,569	1.4%	47,749	3.6%	\$22.82	0	10,000	0
Shopping Centers	21,637,051	56,884	270,547	1.3%	1,449,682	6.7%	1,947,335	9.0%	\$18.36	57,899	131,149	149,179
Specialty Centers	93,826	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>44,327,427</b>	<b>54,636</b>	<b>577,366</b>	<b>1.3%</b>	<b>1,754,465</b>	<b>4.0%</b>	<b>2,532,119</b>	<b>5.7%</b>	<b>\$20.14</b>	<b>57,899</b>	<b>258,272</b>	<b>395,138</b>

*Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.*

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## Retail evolving in highly competitive environment

### Innovation in grocery knows no bounds

As Houston continues to be an epicenter for the so-called "grocery wars," many companies are designing new store concepts and implementing creative strategies in an attempt to gain market share. Instacart successfully entered the Houston metro in 2014, proving high demand from Houston shoppers for grocery delivery services. In response, grocers such as HEB and Kroger have begun testing pick-up windows and curbside delivery options for customers, leveraging this service model to keep revenue in their stores. In a similar vein, Farm Stores, a new entrant to the Houston market, revealed plans for a location in Katy expected to open in early 2017. This deal represents the first out-of-state location for the Florida-based drive-thru grocery chain.

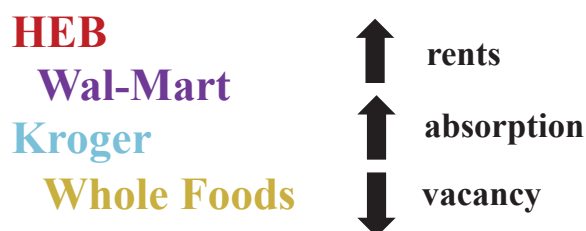
### Entertainment concepts multiply across the metro

With its high population growth and diverse consumer base, Houston has emerged as a highly profitable location for entertainment concepts to put a stake in the ground. Pinstripes event venue signed a 33,830-square-foot prelease for its first Houston-area location in July. The bowling, bocce and dining establishment will occupy sixty percent of the Kirby Collection's retail space upon delivery in the fourth quarter of 2017. Additionally, Momentum Indoor Climbing recently announced it intends to occupy its largest footprint ever in a retrofitted warehouse in Houston's Inner Loop submarket. Demand from new-to-market retailers such as these has driven the metro's leasing activity above 1.5 million square feet for the fourth consecutive quarter.

### Major retailers reconfigure stores amid ecommerce revolution

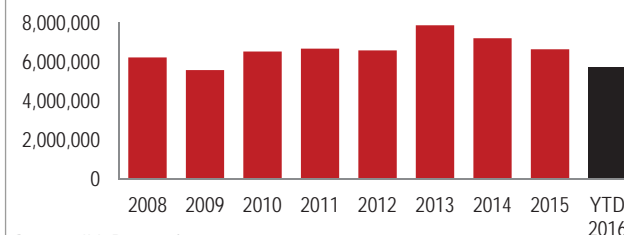
As ecommerce and internet-based retailers impact sector dynamics, companies such as Verizon and Target are adapting through updated store configurations and footprints. It is critical in this highly digital age that stores rethink their traditional footprints and create further opportunities to engage with customers. As land costs and rents remain on the rise across the Houston metro, maximizing physical space occupied becomes increasingly important. To this end, retailers are devising creative solutions for new storefronts, pushing Houston's construction pipeline to 4.2 million square feet currently underway.

### Grocery-anchored driving retail fundamentals



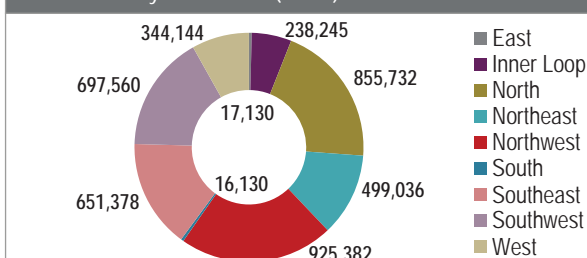
Source: JLL Research

### Market dynamics fuel strong leasing activity



Source: JLL Research

### Construction by submarket (in s.f.)



Source: JLL Research

0.5%  
Houston  
1.7%  
U.S.

◀▶ EMPLOYMENT

5.1%  
Houston  
5.0%  
U.S.

◀▶ RETAIL VACANCY

-21.9%  
Houston  
-21.9%  
U.S.

▲ RETAIL SALES

2.1%  
Houston  
2.7%  
U.S.

▲ RETAIL RENTS

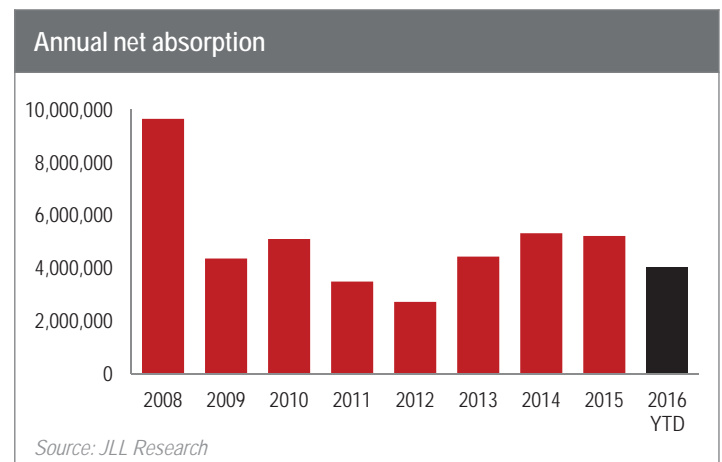
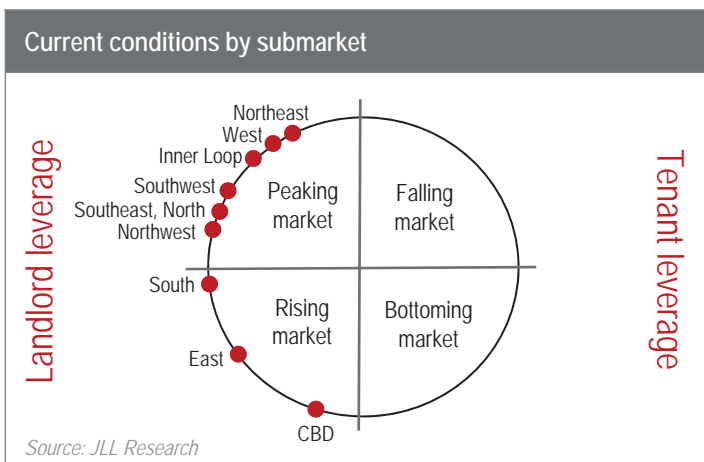
	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	Total vacancy	Total availability	Average direct asking rent* (p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Overall trends by submarket</b>									
CBD	1,286,645	35,054	55,338	5.8%	8.4%	\$21.46	0	0	0
East	13,586,870	117,931	167,611	6.9%	9.3%	\$12.55	94,952	187,132	17,130
Inner Loop	25,564,327	-51,448	-254	3.5%	4.5%	\$25.53	17,953	54,568	238,245
North	59,133,147	206,045	1,029,669	5.3%	7.5%	\$14.58	242,735	961,473	855,732
Northeast	13,422,425	86,453	376,751	3.7%	5.4%	\$15.24	115,665	319,765	499,036
Northwest	58,743,178	282,179	827,635	4.7%	6.7%	\$16.39	200,068	864,926	925,382
South	13,919,759	192,104	307,057	4.4%	5.6%	\$14.84	157,796	166,976	16,130
Southeast	52,226,726	347,625	363,627	6.3%	8.5%	\$13.81	291,726	718,901	651,378
Southwest	52,599,551	153,388	423,174	5.8%	7.4%	\$15.53	122,700	324,009	697,560
West	44,770,303	240,006	510,040	3.9%	6.2%	\$18.28	20,025	184,623	344,144
<b>Shopping centers by type</b>									
General Retail	124,315,750	489,573	1,677,181	2.2%	3.8%	\$16.46	459,178	1,547,557	1,581,830
Malls	29,278,225	26,665	-45,155	4.6%	7.9%	\$18.93	0	0	287,278
Power Centers	26,403,753	330,645	802,762	4.3%	5.1%	\$16.14	246,889	987,204	1,013,314
Shopping Centers	153,029,938	729,678	1,578,504	7.7%	9.8%	\$15.58	550,103	1,233,712	1,062,315
Specialty Centers	2,225,265	32,776	47,356	1.9%	3.3%	\$11.86	7,450	13,900	300,000
<b>Total</b>	<b>335,252,931</b>	<b>1,609,337</b>	<b>4,060,648</b>	<b>5.1%</b>	<b>7.0%</b>	<b>\$15.95</b>	<b>1,263,620</b>	<b>3,782,373</b>	<b>4,244,737</b>

Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.

\*Asking rent averages encompass all retail facilities above 5,000 square feet and therefore these statistics may represent values lower than typical competitive retail locations.

<b>Select retail lease transactions</b>					
Tenant	Size (s.f.)	Lease type	Submarket	Property	Address
Pinstripes	33,830	New	Inner Loop	Kirby Collection	3200 Kirby Dr
Boot Barn	13,250	New	East	Federal East Plaza	12030-12080 Easy Frwy - Bldg A
Mama Fu's (3 leases)	6,790	New	North, NW, SW	Multiple	Multiple
Halal Guys	1,577	New	Northwest	Vintage Marketplace	10111 Louetta Rd

<b>Select retail under construction</b>					
Property	Address	Size (s.f.)	Retail type	Submarket	Expected delivery
Fairfield Town Center	1000 Cypresswood Dr	374,000	Power Center	Northwest	03/2017
Valley Ranch Town Center	U.S. 59 & Grand Pkwy	250,000	Power Center	North	12/2016
Buffalo Springs Marketplace	20168 Eva St	143,500	Shopping Center	North	04/2017
Kirby Collection	3200 Kirby Dr	60,500	General Retail	Inner Loop	12/2017



# Retail Statistics

Houston | Q3 2016



	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacant (s.f.)	Total vacancy (%)	Total available (s.f.)	Total availability (%)	Average direct asking rent* (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Market Totals</b>												
General Retail	124,315,750	489,573	1,677,181	1.3%	2,734,947	2.2%	4,723,999	3.8%	\$16.46	459,178	1,547,557	1,581,830
Malls	29,278,225	26,665	-45,155	-0.2%	1,346,798	4.6%	2,312,980	7.9%	\$18.93	0	0	287,278
Power Centers	26,403,753	330,645	802,762	3.0%	1,135,361	4.3%	1,346,591	5.1%	\$16.14	246,889	987,204	1,013,314
Shopping Centers	153,029,938	729,678	1,578,504	1.0%	11,783,305	7.7%	14,996,934	9.8%	\$15.58	550,103	1,233,712	1,062,315
Specialty Centers	2,225,265	32,776	47,356	2.1%	42,280	1.9%	73,434	3.3%	\$11.86	7,450	13,900	300,000
<b>Totals</b>	<b>335,252,931</b>	<b>1,609,337</b>	<b>4,060,648</b>	<b>1.2%</b>	<b>17,042,691</b>	<b>5.1%</b>	<b>23,453,937</b>	<b>7.0%</b>	<b>\$15.95</b>	<b>1,263,620</b>	<b>3,782,373</b>	<b>4,244,737</b>
<b>Submarkets</b>												
<b>CBD</b>												
General Retail	875,552	10,706	19,742	2.3%	23,640	2.7%	28,893	3.3%	\$16.81	0	0	0
Malls	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Shopping Centers	231,299	11,978	23,226	10.0%	51,348	22.2%	51,348	22.2%	\$24.29	0	0	0
Specialty Centers	179,794	12,370	12,370	6.9%	0	0.0%	28,407	15.8%	\$0.00	0	0	0
<b>Totals</b>	<b>1,286,645</b>	<b>35,054</b>	<b>55,338</b>	<b>4.3%</b>	<b>74,988</b>	<b>5.8%</b>	<b>108,649</b>	<b>8.4%</b>	<b>\$21.46</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>East</b>												
General Retail	6,552,170	96,631	176,928	2.7%	203,117	3.1%	268,639	4.1%	\$12.35	94,952	166,700	17,130
Malls	1,421,403	0	0	0.0%	321,237	22.6%	400,836	28.2%	\$12.50	0	0	0
Power Centers	557,512	1,050	9,662	1.7%	0	0.0%	3,345	0.6%	\$25.00	0	0	0
Shopping Centers	5,055,785	20,250	-18,979	-0.4%	409,519	8.1%	586,471	11.6%	\$12.54	0	20,432	0
Specialty Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,586,870</b>	<b>117,931</b>	<b>167,611</b>	<b>1.2%</b>	<b>933,873</b>	<b>6.9%</b>	<b>1,259,291</b>	<b>9.3%</b>	<b>\$12.55</b>	<b>94,952</b>	<b>187,132</b>	<b>17,130</b>
<b>Inner Loop</b>												
General Retail	13,051,153	249	-13,574	-0.1%	352,381	2.7%	495,944	3.8%	\$25.88	0	8,750	208,745
Malls	686,989	0	3,000	0.4%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	1,361,003	-3,235	-4,144	-0.3%	21,776	1.6%	43,552	3.2%	\$0.00	0	0	0
Shopping Centers	10,291,328	-48,462	14,464	0.1%	514,566	5.0%	607,188	5.9%	\$25.31	17,953	45,818	29,500
Specialty Centers	173,854	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>25,564,327</b>	<b>-51,448</b>	<b>-254</b>	<b>0.0%</b>	<b>888,724</b>	<b>3.5%</b>	<b>1,146,684</b>	<b>4.5%</b>	<b>\$25.53</b>	<b>17,953</b>	<b>54,568</b>	<b>238,245</b>
<b>North</b>												
General Retail	22,698,384	65,933	504,857	2.2%	476,666	2.1%	930,634	4.1%	\$17.52	110,596	560,839	340,260
Malls	5,748,425	-1,600	4,108	0.1%	183,950	3.2%	264,428	4.6%	\$11.30	0	0	0
Power Centers	3,892,610	64,687	80,182	2.1%	256,912	6.6%	311,409	8.0%	\$13.95	62,943	62,943	305,250
Shopping Centers	26,166,952	70,081	438,692	1.7%	2,198,024	8.4%	2,930,699	11.2%	\$14.10	69,196	337,691	210,222
Specialty Centers	626,776	6,944	1,830	0.3%	5,641	0.9%	8,148	1.3%	\$15.49	0	0	0
<b>Totals</b>	<b>59,133,147</b>	<b>206,045</b>	<b>1,029,669</b>	<b>1.7%</b>	<b>3,121,193</b>	<b>5.3%</b>	<b>4,445,317</b>	<b>7.5%</b>	<b>\$14.58</b>	<b>242,735</b>	<b>961,473</b>	<b>855,732</b>
<b>Northeast</b>												
General Retail	5,645,984	-443	104,557	1.9%	73,398	1.3%	180,671	3.2%	\$11.98	8,627	89,727	40,500
Malls	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	1,132,742	107,038	230,038	20.3%	0	0.0%	14,726	1.3%	\$0.00	107,038	230,038	203,036
Shopping Centers	6,524,499	-20,142	42,156	0.6%	417,568	6.4%	535,009	8.2%	\$15.61	0	0	255,500
Specialty Centers	119,200	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,422,425</b>	<b>86,453</b>	<b>376,751</b>	<b>2.8%</b>	<b>490,966</b>	<b>3.7%</b>	<b>730,406</b>	<b>5.4%</b>	<b>\$15.24</b>	<b>115,665</b>	<b>319,765</b>	<b>499,036</b>
<b>Northwest</b>												
General Retail	21,438,185	89,667	258,770	1.2%	278,696	1.3%	728,898	3.4%	\$15.80	43,703	245,039	234,316
Malls	4,369,199	-3,013	47,139	1.1%	192,245	4.4%	305,844	7.0%	\$36.41	0	0	17,278
Power Centers	5,587,072	97,786	285,455	5.1%	262,592	4.7%	307,289	5.5%	\$14.17	76,908	323,681	505,028
Shopping Centers	26,729,393	110,213	249,883	0.9%	2,031,434	7.6%	2,566,022	9.6%	\$15.87	79,457	296,206	168,760
Specialty Centers	619,329	-12,474	-13,612	-2.2%	24,154	3.9%	27,250	4.4%	\$10.99	0	0	0
<b>Totals</b>	<b>58,743,178</b>	<b>282,179</b>	<b>827,635</b>	<b>1.4%</b>	<b>2,789,121</b>	<b>4.7%</b>	<b>3,935,303</b>	<b>6.7%</b>	<b>\$16.39</b>	<b>200,068</b>	<b>864,926</b>	<b>925,382</b>

*Note: General retail includes all retail not in a shopping center. Malls are comprised of regional and super regional centers. Power centers consist of several freestanding anchors and a few small specialty tenants. Shopping centers are comprised of community, neighborhood and strip centers. Specialty centers are comprised of airport, outlet and themefestival centers.*

*\*Asking rent averages encompass all retail facilities above 5,000 square feet and therefore these statistics may represent values lower than typical competitive retail locations.*

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacant (s.f.)	Total vacancy (%)	Total available (s.f.)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>South</b>												
General Retail	5,546,663	15,429	45,265	0.8%	66,560	1.2%	99,840	1.8%	\$12.97	18,346	27,526	16,130
Malls	1,302,068	-2,517	-10,051	-0.8%	82,030	6.3%	124,999	9.6%	\$23.69	0	0	0
Power Centers	1,448,946	1,722	-742	-0.1%	4,347	0.3%	4,347	0.3%	\$23.78	0	0	0
Shopping Centers	5,622,082	177,470	272,585	4.8%	461,011	8.2%	556,586	9.9%	\$14.67	139,450	139,450	0
Specialty Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,919,759</b>	<b>192,104</b>	<b>307,057</b>	<b>2.2%</b>	<b>613,948</b>	<b>4.4%</b>	<b>785,771</b>	<b>5.6%</b>	<b>\$14.84</b>	<b>157,796</b>	<b>166,976</b>	<b>16,130</b>
<b>Southeast</b>												
General Retail	18,922,756	39,108	125,247	0.7%	681,219	3.6%	983,983	5.2%	\$12.30	71,679	114,449	225,035
Malls	4,325,232	6	-155,867	-3.6%	268,164	6.2%	380,620	8.8%	\$14.94	0	0	270,000
Power Centers	5,452,133	56,549	238,837	0.0%	294,415	5.4%	343,484	6.3%	\$15.25	0	353,530	0
Shopping Centers	23,350,503	235,976	125,042	0.5%	2,054,844	8.8%	2,685,308	11.5%	\$14.37	220,047	250,922	156,343
Specialty Centers	176,102	15,986	30,368	0.0%	13,560	7.7%	20,780	11.8%	\$10.54	0	0	0
<b>Totals</b>	<b>52,226,726</b>	<b>347,625</b>	<b>363,627</b>	<b>0.7%</b>	<b>3,312,203</b>	<b>6.3%</b>	<b>4,414,176</b>	<b>8.5%</b>	<b>\$13.81</b>	<b>291,726</b>	<b>718,901</b>	<b>651,378</b>
<b>Southwest</b>												
General Retail	17,089,594	101,678	241,832	1.4%	410,150	2.4%	734,853	4.3%	\$17.12	91,250	217,404	369,560
Malls	2,056,601	0	0	0.0%	207,717	10.1%	370,188	18.0%	\$0.00	0	0	0
Power Centers	5,645,375	-15,752	-76,620	-1.4%	265,333	4.7%	299,205	5.3%	\$25.49	0	7,012	0
Shopping Centers	27,571,597	57,512	241,562	0.9%	2,150,585	7.8%	2,481,444	9.0%	\$14.77	24,000	85,693	28,000
Specialty Centers	236,384	9,950	16,400	6.9%	0	0.0%	0	0.0%	\$0.00	7,450	13,900	300,000
<b>Totals</b>	<b>52,599,551</b>	<b>153,388</b>	<b>423,174</b>	<b>0.8%</b>	<b>3,033,784</b>	<b>5.8%</b>	<b>3,885,689</b>	<b>7.4%</b>	<b>\$15.53</b>	<b>122,700</b>	<b>324,009</b>	<b>697,560</b>
<b>West</b>												
General Retail	12,495,309	70,615	213,557	1.7%	174,934	1.4%	287,392	2.3%	\$19.17	20,025	117,123	130,154
Malls	9,368,308	33,789	66,516	0.7%	84,315	0.9%	468,415	5.0%	\$19.03	0	0	0
Power Centers	1,326,360	20,800	40,094	3.0%	23,874	1.8%	22,548	1.7%	\$22.82	0	10,000	0
Shopping Centers	21,486,500	114,802	189,873	0.9%	1,461,082	6.8%	1,976,758	9.2%	\$17.69	0	57,500	213,990
Specialty Centers	93,826	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>44,770,303</b>	<b>240,006</b>	<b>510,040</b>	<b>1.1%</b>	<b>1,744,206</b>	<b>3.9%</b>	<b>2,755,114</b>	<b>6.2%</b>	<b>\$18.28</b>	<b>20,025</b>	<b>184,623</b>	<b>344,144</b>

*Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.*

*\*Asking rent averages encompass all retail facilities above 5,000 square feet and therefore these statistics may represent values lower than typical competitive retail locations.*

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## Retail bucks metro trends

### Houston tops nation in retail under construction

With more than 3.6 million square feet of space under construction this quarter, Houston leads the nation in retail development activity. Undeterred by low oil prices, the sector has sustained high levels of new construction despite the current drag on economic growth. Grocery-anchored centers remain a top headline as major stores such as HEB, Kroger and Wal-Mart compete for market share, while smaller, niche offerings like Trader Joes and Aldi continue to make inroads. This strong demand cycle for new retail space led to the highest quarter for deliveries since 2009, with over 1.4 million square feet of new inventory added at mid-year, for a year-to-date total of 2.5 million square feet.

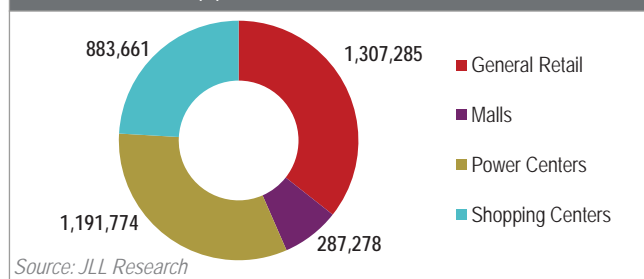
### Vertical retail explores new dimensions

As land costs soared in Houston's boom years, developers worked to reduce horizontal footprints in the aftermath, and several new concepts for vertical retail centers are now on the board. HEB is breaking ground on its first two-story location in Houston in 2017, just its second in the state of Texas, and Gulf Coast Commercial Group has cleared an industrial site in The Heights area with plans to construct a retail center with multi-level anchors. With a limited land sites in play, especially in the urban core, and general market tightness, retailers and developers will likely continue to explore new options in the evolving Houston market. In the second quarter, total vacancy tied its record low from 2015 at 5.2%, and total availability dropped thirty basis points quarter-over-quarter to 7.1 percent.

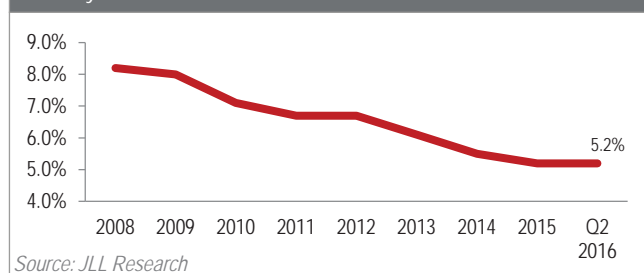
### Creative concepts redefining the restaurant landscape

The expansion of the Grand Parkway is opening new suburban corridors, and coupled with redevelopment of obsolete urban retail centers, has created opportunities for flourishing fast casual concepts to enter and expand across the metro. Restaurants like Mama Fu's, with 11 locations opening in 2016, and Slim Chickens, with plans for 10 locations over the next three years, are implementing broad expansion plans across Houston. Strong population growth and household formation should continue to drive this type of retail through 2016.

### Retail construction pipeline (s.f.)



### Vacancy trends down to record low



### Fast casual chains expanding across Houston



0.2%  
Houston

1.6%  
U.S.

▼ EMPLOYMENT

5.2%  
Houston

5.2%  
U.S.

◀▶ RETAIL VACANCY

5.7%  
Houston

-22.8%  
U.S.

▲ RETAIL SALES

2.5%  
Houston

1.3%  
U.S.

▲ RETAIL RENTS



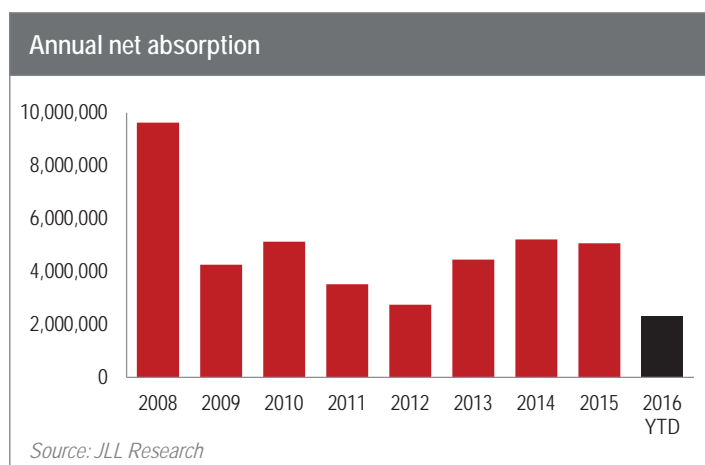
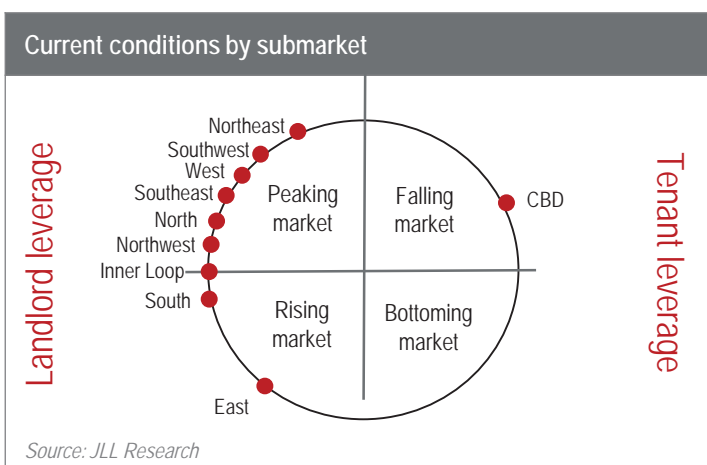
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<b>Overall trends by submarket</b>									
CBD	1,274,645	19,336	20,284	8.7%	11.2%	\$18.79	0	0	0
East	13,353,330	35,980	-22,068	7.2%	9.4%	\$12.12	0	20,432	107,807
Inner Loop	25,546,543	55,823	57,414	3.3%	4.3%	\$24.75	27,865	36,335	83,098
North	58,731,320	392,718	637,438	5.4%	7.6%	\$14.28	405,666	655,201	728,843
Northeast	13,163,866	259,971	280,778	3.5%	5.0%	\$14.95	195,000	195,000	545,995
Northwest	58,747,436	461,034	457,325	5.0%	7.0%	\$16.16	377,676	630,315	966,980
South	14,054,101	193,081	241,837	4.8%	6.1%	\$14.19	139,450	148,630	18,346
Southeast	51,831,047	231,415	77,335	6.5%	8.2%	\$13.57	205,933	485,966	602,462
Southwest	52,277,388	194,150	268,670	5.6%	7.2%	\$15.41	57,962	153,191	487,115
West	44,756,738	141,221	290,566	4.5%	6.9%	\$18.06	12,000	174,098	129,352

<b>Shopping centers by type</b>									
General Retail	122,453,201	519,482	907,979	2.3%	3.8%	\$15.30	403,203	920,431	1,307,285
Malls	29,272,720	43,332	-45,628	4.9%	8.0%	\$19.01	0	28,700	287,278
Power Centers	25,564,331	364,307	456,132	4.6%	5.4%	\$15.35	408,922	660,560	1,191,774
Shopping Centers	153,844,767	1,049,003	976,436	7.7%	9.9%	\$15.63	602,977	883,027	883,661
Specialty Centers	2,601,395	8,605	14,660	2.6%	3.7%	\$11.50	6,450	6,450	0
<b>Total</b>	<b>333,736,414</b>	<b>1,984,729</b>	<b>2,309,579</b>	<b>5.2%</b>	<b>7.1%</b>	<b>\$15.72</b>	<b>1,421,552</b>	<b>2,499,168</b>	<b>3,669,998</b>

Note: General retail includes all retail not in a shopping center. Malls are comprised of regional and super regional centers. Power centers consist of several freestanding anchors and a few small specialty tenants. Shopping centers are comprised of community, neighborhood and strip centers. Specialty centers are comprised of airport, outlet and theme/festival centers.

<b>Select retail lease transactions</b>					
Tenant	Size (s.f.)	Lease type	Market	Property	Address
Houston Methodist	25,000	New	Inner Loop		5505 West Loop South
HomeGoods	22,000	New	Northwest	Commons at Willowbrook	7690-7720 West FM 1960
Harbor Freight	16,067	New	Southwest	Southwest Plaza	8150 U.S. 59 South
Blue Lion Salon Studios	10,000	New	North	Birnam Woods Crossing	4057 Riley Fuzzell

<b>Select retail sale transactions</b>						
Property	Market	Size (s.f.)	Buyer	Seller	Price	Price per s.f.
Fairmont Central	Southeast	27,583	Hemalatha & Ashish Sinha	John O Harris Interests	\$4,200,000	\$150
Academy Sports & Outdoors	Inner Loop	52,548		Undisclosed	VEREIT	\$9,900,000
Mission Bend Shopping Center	Southwest	140,576	Hartman Management	Global Fund Investments	\$15,100,000	\$107
Yorktown Crossing	Northwest	17,225	U.S. Financial Corporate	Satya, Inc.	\$4,400,000	\$255



# Retail Statistics

Houston | Q2 2016



	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacant (s.f.)	Total vacancy (%)	Total available (s.f.)	Total availability (%)	Average direct asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>Market Totals</b>												
General Retail	122,453,201	519,482	907,979	0.7%	2,816,424	2.3%	4,653,222	3.8%	\$15.30	403,203	920,431	1,307,285
Malls	29,272,720	43,332	-45,628	-0.2%	1,434,363	4.9%	2,341,818	8.0%	\$19.01	0	28,700	287,278
Power Centers	25,564,331	364,307	456,132	1.8%	1,175,959	4.6%	1,380,474	5.4%	\$15.35	408,922	660,560	1,191,774
Shopping Centers	153,844,767	1,049,003	976,436	0.6%	11,846,047	7.7%	15,230,632	9.9%	\$15.63	602,977	883,027	883,661
Specialty Centers	2,601,395	8,605	14,660	0.6%	67,636	2.6%	96,252	3.7%	\$11.50	6,450	6,450	0
<b>Totals</b>	<b>333,736,414</b>	<b>1,984,729</b>	<b>2,309,579</b>	<b>0.7%</b>	<b>17,340,429</b>	<b>5.2%</b>	<b>23,702,397</b>	<b>7.1%</b>	<b>\$15.72</b>	<b>1,421,552</b>	<b>2,499,168</b>	<b>3,669,998</b>
<b>Submarkets</b>												
<b>CBD</b>												
General Retail	863,552	8,088	9,036	1.0%	34,542	4.0%	38,860	4.5%	\$16.81	0	0	0
Malls	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Shopping Centers	231,299	11,248	11,248	4.9%	63,376	27.4%	63,376	27.4%	\$20.00	0	0	0
Specialty Centers	179,794	0	0	0.0%	12,406	6.9%	40,813	22.7%	\$0.00	0	0	0
<b>Totals</b>	<b>1,274,645</b>	<b>19,336</b>	<b>20,284</b>	<b>1.6%</b>	<b>110,324</b>	<b>8.7%</b>	<b>143,049</b>	<b>11.2%</b>	<b>\$18.79</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>East</b>												
General Retail	6,327,298	13,525	8,549	0.1%	208,801	3.3%	253,092	4.0%	\$10.00	0	0	107,807
Malls	1,421,403	0	0	0.0%	321,237	22.6%	400,836	28.2%	\$12.50	0	0	0
Power Centers	557,512	8,612	8,612	1.5%	1,115	0.2%	1,115	0.2%	\$25.00	0	0	0
Shopping Centers	5,047,117	13,843	-39,229	-0.8%	429,005	8.5%	595,560	11.8%	\$13.22	0	20,432	0
Specialty Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,353,330</b>	<b>35,980</b>	<b>-22,068</b>	<b>-0.2%</b>	<b>960,158</b>	<b>7.2%</b>	<b>1,250,602</b>	<b>9.4%</b>	<b>\$12.12</b>	<b>0</b>	<b>20,432</b>	<b>107,807</b>
<b>Inner Loop</b>												
General Retail	13,080,877	-4,342	-7,603	-0.1%	353,184	2.7%	457,831	3.5%	\$22.85	0	8,470	41,345
Malls	686,989	3,000	3,000	0.4%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	1,361,003	-909	-909	-0.1%	17,693	1.3%	21,776	1.6%	\$0.00	0	0	0
Shopping Centers	10,243,820	58,074	62,926	0.6%	460,972	4.5%	614,629	6.0%	\$25.91	27,865	27,865	41,753
Specialty Centers	173,854	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>25,546,543</b>	<b>55,823</b>	<b>57,414</b>	<b>0.2%</b>	<b>831,849</b>	<b>3.3%</b>	<b>1,094,236</b>	<b>4.3%</b>	<b>\$24.75</b>	<b>27,865</b>	<b>36,335</b>	<b>83,098</b>
<b>North</b>												
General Retail	22,485,767	45,212	263,882	1.2%	584,630	2.6%	1,011,860	4.5%	\$16.35	179,433	402,457	240,900
Malls	5,748,425	5,708	5,708	0.1%	178,201	3.1%	264,428	4.6%	\$11.30	0	0	0
Power Centers	3,814,979	30,867	17,795	0.5%	255,604	6.7%	259,419	6.8%	\$13.95	0	0	312,943
Shopping Centers	26,055,373	316,045	355,167	1.4%	2,136,541	8.2%	2,944,257	11.3%	\$13.93	226,233	252,744	175,000
Specialty Centers	626,776	-5,114	-5,114	-0.8%	12,536	2.0%	11,282	1.8%	\$15.45	0	0	0
<b>Totals</b>	<b>58,731,320</b>	<b>392,718</b>	<b>637,438</b>	<b>1.1%</b>	<b>3,167,511</b>	<b>5.4%</b>	<b>4,491,245</b>	<b>7.6%</b>	<b>\$14.28</b>	<b>405,666</b>	<b>655,201</b>	<b>728,843</b>
<b>Northeast</b>												
General Retail	5,482,097	95,892	95,400	1.7%	60,303	1.1%	82,231	1.5%	\$11.55	72,000	72,000	9,100
Malls	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
Power Centers	1,025,704	123,000	123,000	12.0%	0	0.0%	11,283	1.1%	\$0.00	123,000	123,000	296,895
Shopping Centers	6,523,865	41,079	62,298	1.0%	404,480	6.2%	561,052	8.6%	\$15.32	0	0	240,000
Specialty Centers	132,200	0	80	0.1%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>13,163,866</b>	<b>259,971</b>	<b>280,778</b>	<b>2.1%</b>	<b>464,783</b>	<b>3.5%</b>	<b>654,567</b>	<b>5.0%</b>	<b>\$14.95</b>	<b>195,000</b>	<b>195,000</b>	<b>545,995</b>
<b>Northwest</b>												
General Retail	21,288,445	69,180	112,968	0.5%	298,038	1.4%	702,519	3.3%	\$15.45	37,020	149,502	214,563
Malls	4,369,199	14,756	65,144	1.5%	174,768	4.0%	310,213	7.1%	\$38.96	0	0	17,278
Power Centers	5,604,940	104,620	97,823	1.7%	330,691	5.9%	414,766	7.4%	\$14.77	178,227	178,227	581,936
Shopping Centers	26,844,943	273,616	182,528	0.7%	2,120,750	7.9%	2,657,649	9.9%	\$15.51	162,429	302,586	153,203
Specialty Centers	639,909	-1,138	-1,138	-0.2%	11,518	1.8%	21,117	3.3%	\$12.56	0	0	0
<b>Totals</b>	<b>58,747,436</b>	<b>461,034</b>	<b>457,325</b>	<b>0.8%</b>	<b>2,935,767</b>	<b>5.0%</b>	<b>4,106,264</b>	<b>7.0%</b>	<b>\$16.16</b>	<b>377,676</b>	<b>630,315</b>	<b>966,980</b>

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacant (s.f.)	Total vacancy (%)	Total available (s.f.)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly completions (s.f.)	YTD completions (s.f.)	Under construction (s.f.)
<b>South</b>												
General Retail	5,530,420	31,160	23,786	0.4%	66,365	1.2%	77,426	1.4%	\$11.98	0	9,180	18,346
Malls	1,302,068	-2,618	-7,534	-0.6%	79,426	6.1%	124,999	9.6%	\$23.69	0	0	0
Power Centers	1,448,946	0	-2,464	-0.2%	5,796	0.4%	5,796	0.4%	\$24.27	0	0	0
Shopping Centers	5,772,667	164,539	228,049	4.0%	519,540	9.0%	646,539	11.2%	\$14.03	139,450	139,450	0
Specialty Centers	0	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>14,054,101</b>	<b>193,081</b>	<b>241,837</b>	<b>1.7%</b>	<b>671,127</b>	<b>4.8%</b>	<b>854,759</b>	<b>6.1%</b>	<b>\$14.19</b>	<b>139,450</b>	<b>148,630</b>	<b>18,346</b>
<b>Southeast</b>												
General Retail	18,456,074	161,561	158,449	0.9%	664,419	3.6%	978,172	5.3%	\$11.64	96,250	112,770	176,220
Malls	4,325,232	9,759	-155,873	-3.6%	268,164	6.2%	350,344	8.1%	\$15.43	0	0	270,000
Power Centers	4,770,963	110,655	217,283	0.0%	324,425	6.8%	391,219	8.2%	\$15.09	100,683	342,321	0
Shopping Centers	23,752,676	-58,967	-156,906	-0.7%	2,090,235	8.8%	2,517,784	10.6%	\$14.28	9,000	30,875	156,242
Specialty Centers	526,102	8,407	14,382	0.0%	29,462	5.6%	21,570	4.1%	\$9.99	0	0	0
<b>Totals</b>	<b>51,831,047</b>	<b>231,415</b>	<b>77,335</b>	<b>0.1%</b>	<b>3,376,706</b>	<b>6.5%</b>	<b>4,259,089</b>	<b>8.2%</b>	<b>\$13.57</b>	<b>205,933</b>	<b>485,966</b>	<b>602,462</b>
<b>Southwest</b>												
General Retail	16,522,306	45,940	113,670	0.7%	346,968	2.1%	677,415	4.1%	\$15.36	18,500	88,154	443,910
Malls	2,056,601	0	0	0.0%	207,717	10.1%	355,792	17.3%	\$0.00	0	0	0
Power Centers	5,653,924	-26,281	-24,302	-0.4%	209,195	3.7%	243,119	4.3%	\$19.53	7,012	7,012	0
Shopping Centers	27,815,623	168,041	172,852	0.6%	2,141,803	7.7%	2,503,406	9.0%	\$15.28	26,000	51,575	43,205
Specialty Centers	228,934	6,450	6,450	2.8%	2,518	1.1%	2,518	1.1%	\$0.00	6,450	6,450	0
<b>Totals</b>	<b>52,277,388</b>	<b>194,150</b>	<b>268,670</b>	<b>0.5%</b>	<b>2,908,202</b>	<b>5.6%</b>	<b>3,782,250</b>	<b>7.2%</b>	<b>\$15.41</b>	<b>57,962</b>	<b>153,191</b>	<b>487,115</b>
<b>West</b>												
General Retail	12,416,365	53,266	129,842	1.0%	223,495	1.8%	335,242	2.7%	\$18.60	0	77,898	55,094
Malls	9,362,803	12,727	43,927	0.5%	196,619	2.1%	543,043	5.8%	\$19.03	0	28,700	0
Power Centers	1,326,360	13,743	19,294	1.5%	45,096	3.4%	33,159	2.5%	\$17.55	0	10,000	0
Shopping Centers	21,557,384	61,485	97,503	0.5%	1,552,132	7.2%	2,155,738	10.0%	\$17.63	12,000	57,500	74,258
Specialty Centers	93,826	0	0	0.0%	0	0.0%	0	0.0%	\$0.00	0	0	0
<b>Totals</b>	<b>44,756,738</b>	<b>141,221</b>	<b>290,566</b>	<b>0.6%</b>	<b>2,017,341</b>	<b>4.5%</b>	<b>3,067,182</b>	<b>6.9%</b>	<b>\$18.06</b>	<b>12,000</b>	<b>174,098</b>	<b>129,352</b>

*Note: **General retail** includes all retail not in a shopping center. **Malls** are comprised of regional and super regional centers. **Power centers** consist of several freestanding anchors and a few small specialty tenants. **Shopping centers** are comprised of community, neighborhood and strip centers. **Specialty centers** are comprised of airport, outlet and theme/festival centers.*

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