

# MARKETBEAT RETAIL SNAPSHOT



## TEXAS

A Cushman & Wakefield Research Publication

Q4 2014



### ECONOMIC OVERVIEW

The U.S. economy is displaying healthy signs of recovery from recessionary lows. The job market is improving, layoffs are at record lows, job openings are at record highs, and consumer confidence is helping drive output as business

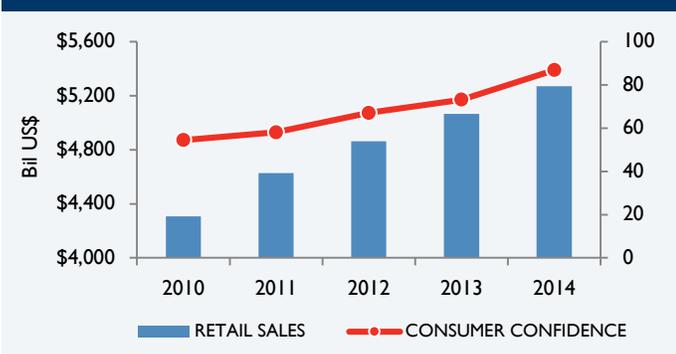
sentiment rises.

The U.S. unemployment rate declined to 6.2% in December 2014 (the lowest level since 2008), due largely to the 1.6 million jobs added during the second half of 2014. The average increase in employment over the year was 246,000 jobs per month, making it the strongest year for net growth since 1999.

Employment growth in Texas continued its phenomenal pace during 2014, as employers added an historic 460,500 jobs during the 12-month period ending in December. Industry sector growth was broad-based with a gain of 3.8%, or 88,100 jobs in trade, transportation and utilities alone. Key growth industry classifications included professional & business services, financial services, construction, and mining & logging; each of which grew more than 5.0% over the past twelve months.

Dallas-Fort Worth ("DFW") and Houston made the list of the Top Five U.S. metros for job growth in 2014 ranking #1 and #3, respectively. The DFW area grew 4.4% by adding 136,900 jobs during the past year and Houston grew 4.3% adding 120,600. The unemployment rates in DFW (4.0%) and Houston (4.1%) are lower than the state rate of 4.6%. Unemployment rates for the two metros are the lowest since 2008 due in part to corporate relocations and expansions, increased construction activity and a business-friendly climate.

### RETAIL SALES AND CONSUMER CONFIDENCE TRENDS



Source: Moody's Analytics

### ECONOMIC INDICATORS

| NATIONAL                 | 2012     | 2013     | 2014     |
|--------------------------|----------|----------|----------|
| GDP Growth               | 2.3%     | 2.2%     | 2.4%     |
| CPI Growth               | 2.1%     | 1.5%     | 1.7%     |
| Consumer Spending Growth | 1.8%     | 2.4%     | 2.5%     |
| Retail Sales Growth      | 5.1%     | 4.2%     | 4.1%     |
| TEXAS                    | 2012     | 2013     | 2014     |
| Household Income         | \$51,204 | \$52,004 | \$53,217 |
| Population Growth        | 1.6%     | 1.5%     | 1.7%     |
| Unemployment             | 6.5%     | 6.0%     | 4.6%*    |

Source: Moody's Analytics, Bureau of Labor Statistics

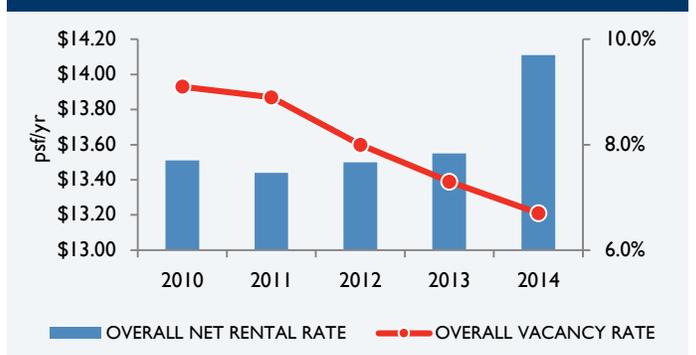
\* Preliminary

### KEY TRANSACTIONS

| PROPERTY           | MARKET  | SIZE           | SALES PRICE          | PRICE PSF    |
|--------------------|---------|----------------|----------------------|--------------|
| Baybrook Gateway   | Houston | 236,854        | \$43,100,000         | \$182        |
| Almeda Crossing    | Houston | 223,223        | \$33,700,000         | \$151        |
| Shops at Abilene   | Abilene | 179,122        | \$26,300,000         | \$147        |
| Westside Market    | Frisco  | 100,362        | \$24,000,000         | \$239        |
| Southloop Crossing | Lufkin  | 110,455        | \$18,300,000         | \$166        |
| <b>Totals</b>      |         | <b>850,000</b> | <b>\$145,400,000</b> | <b>\$171</b> |

Source: Cushman & Wakefield

### DFW OVERALL RENTAL VS. VACANCY RATES



Source: CoStar

## RETAIL MARKET OVERVIEW

Grocery-anchored and power centers in major metro areas continue to attract the majority of institutional investor interest, while the demand for single-tenant net leased properties remains healthy as well. The re-emergence of the consumer has had a positive effect across the retail landscape, but investors remain cautious of big box retailers in lower quality trade areas.

The less dominant grocers are struggling with tightening margins and heightened competition from discount retailers (Walmart and Target), specialty grocers (Trader Joe's, Sprouts, Whole Foods, etc.), and warehouse clubs (Costco and Sam's Club), as stronger operators such as Kroger and H-E-B continue to aggressively expand their presence in the state. H-E-B, which dominates the Austin and San Antonio markets with a 60% market share in each, is projected to open a number of traditional grocery locations in the DFW area over the next 18 to 24 months, joining Walmart, Kroger, Safeway (Tom Thumb), and Albertson's, among others, in one of the most competitive grocery markets in the country. With a market share in excess of 35% (excluding Sam's Club), Walmart remains the #1 grocer in the DFW area, with Kroger a distant second at 16%.

Traditional big box retailers continue to feel the impacts of increased online retail sales and remain focused on improved customer experience inside their stores. To better capture this customer, a number of major retailers have begun offering more aggressive price-matching policies to capture sales rather than losing them to Amazon.com and other "online-only" retailers. In addition, retailers expand their online presence further as consumers across the world continue to seek goods via the web. It is projected that a full 10% of U.S. retail sales will be made online, totaling over \$108 billion by 2017.

## RETAIL INVESTMENT

Investment activity is expected to continue to increase in 2015 as institutional owners seek to upgrade their portfolios and private/non-institutional buyers are able to achieve returns above historical norms due to the attainability of debt (particularly CMBS) at historically low

rates. While some potential economic headwinds remain, top-quality retail properties in major Texas markets are among the most attractive investment targets for institutional buyers today as they seek higher-yielding investments than those available in national core markets such as New York, Boston, Los Angeles, and San Francisco. The relative strength of the major Texas markets should continue to attract investment dollars to the state, particularly those institutional buyers intent upon deploying the cash reserves established over the past few years. Special servicers are still working through the backlog of properties they obtained as a result of the downturn, and are slowly bringing these properties to market. In general, the special servicer offerings are value-add or otherwise non-core assets, and are primarily targeted by private investors and REITs.

Grocery-anchored centers and power centers are expected to remain the most attractive investment targets as buyers are drawn to their relative stability and overall asset quality. Partial interests in top-tier regional malls (\$500 psf and higher inline sales), value-add opportunities in key markets, and single tenant net lease assets are also highly sought-after investment classes. While interest in B minus quality assets has improved dramatically over the past 24 months, investors are much more cautious and targeted in their pursuit of these assets. Investors are primarily focusing on the quality of the real estate and unleveraged yields above the potential yields from CMBS and other non-recourse debt at historically low rates.

## OUTLOOK

According to Moody's Analytics, Texas population growth is expected to increase steadily during 2015 and 2016. If oil prices remain at current low rates, expect to see pent-up demand for goods and services to drive personal consumption expenditures. Market fundamentals are improving and strong leasing activity has resulted in higher asking rents with lower vacancy. Look for leases to include longer terms, higher rents and more favorable terms for landlords as the market continues to tighten.

### MARKET HIGHLIGHTS

| SIGNIFICANT CONSTRUCTION COMPLETIONS    | SUBMARKET         | MAJOR TENANT(S)         | COMPLETION DATE | BUILDING SQUARE FEET |
|---|-------------------|-------------------------|-----------------|----------------------|
| Vintage Marketplace                     | Northwest Houston | Whole Foods             | Q3 2014         | 670,000              |
| The Center at Pearland Parkway          | Southeast Houston | H-E-B, T.J.Maxx, Ross   | Q2 2014         | 245,000              |
| Alliance Town Center Phase 2            | North Fort Worth  | Dick's Sporting Goods   | Q2 2014         | 140,000              |
| Winco Foods                             | Fort Worth        | WinCo Foods             | Q4 2014         | 82,600               |
| SIGNIFICANT PROJECTS UNDER CONSTRUCTION | SUBMARKET         | MAJOR TENANT(S)         | COMPLETION DATE | BUILDING SQUARE FEET |
| Clear Fork Phase I                      | Fort Worth        | Neiman Marcus           | Q1 2017         | 500,000              |
| CityLine                                | Richardson        | Whole Foods             | Q2 2016         | 300,000              |
| River Oaks District                     | Houston           | Dolce&Gabbana           | Q2 2015         | 252,000              |
| Nebraska Furniture Mart                 | The Colony        | Nebraska Furniture Mart | Q2 2015         | 1,900,000            |