

Houston Retail, Q3 2018

Rents refuse to drop despite notable deliveries

Occupancy
94.2%

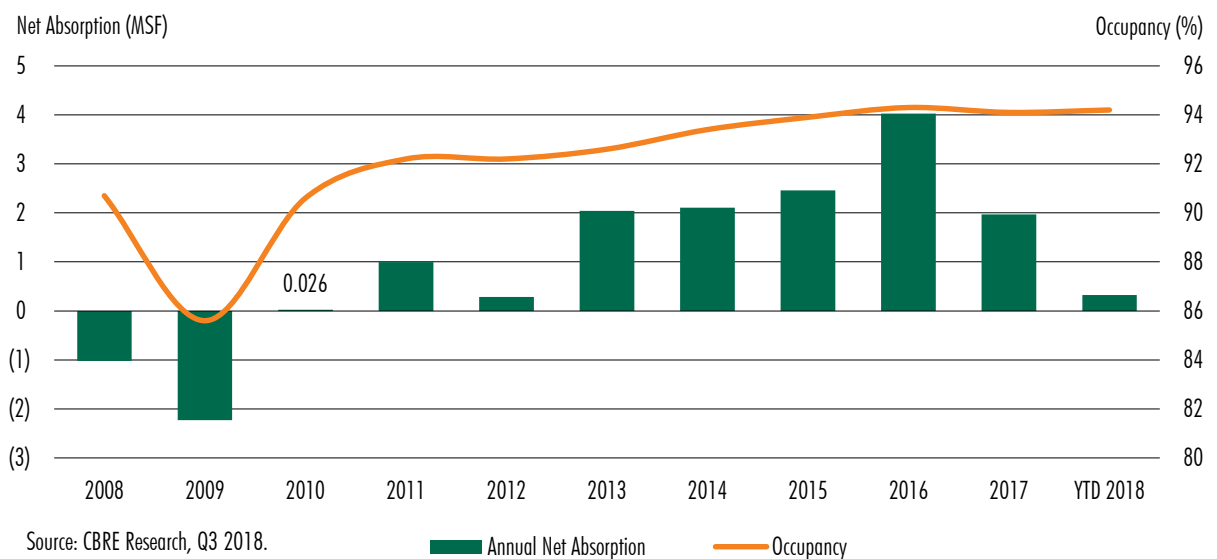
Under Construction
4,758,480 SF

Completions
736,407 SF

Net Absorption
314,624 SF

Figure 1: Net Absorption and Market Occupancy

*Arrows indicate trend from previous quarter.



AMIDST DELIVERIES, RENTS HOLD STEADY

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

SECOND MIXED-USE HUGHES LANDING PROJECT BREAKS GROUND

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

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

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

WHOLE FOODS MARKET 365 OPENS FIRST STORE IN HOUSTON

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

Figure 4: Historical Market Statistics

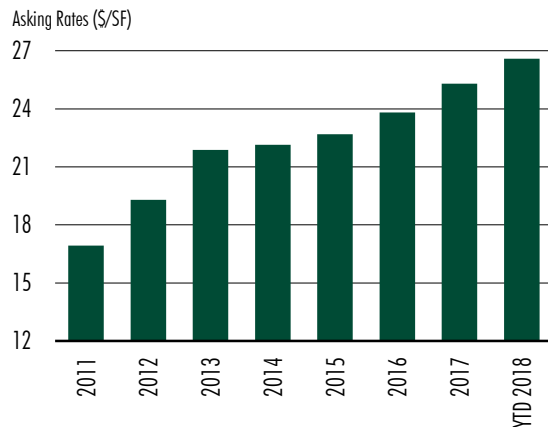
		2013	2014	2015	2016	2017	Q1 2018	Q2 2018	Q3 2018	YTD 2018
INNER LOOP	Absorption (Net, SF)	72,274	97,668	461,629	111,063	8,575	-80,175	-12,701	-55,181	-148,057
	Avg. Asking Rent (Annual, NNN, \$/SF)	35.50	36.75	32.00	35.50	38.00	37.00	37.00	37.00	37.00
	Delivered Construction (SF)	-	185,000	434,465	54,774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

Figure 4: Historical Market Statistics

		2013	2014	2015	2016	2017	Q1 2018	Q2 2018	Q3 2018	YTD 2018
FAR WEST	Absorption (Net, SF)	395,165	221,353	562,664	207,543	520,500	-23,057	48,054	76,259	112,566
	Avg. Asking Rent (Annual, NNN, \$/SF)	30.50	30.50	28.75	29.00	30.00	30.00	37.50	37.50	37.50
	Delivered Construction (SF)	916,552	-	388,456	394,094	561,117	108,285	92,665	-	200,950
	Rentable Building Area (RBA)	16,976,058	17,574,131	17,871,947	18,168,623	18,093,411	23,468,040	23,160,214	23,402,232	23,402,232
	Occupancy Rate (%)	92.9	92.7	94.2	95.0	93.8	93.4	93.5	93.5	93.5
NEAR SOUTHWEST	Absorption (Net, SF)	50,497	-42,632	121,835	128,670	-264,323	-23,246	67,126	10,705	54,585
	Avg. Asking Rent (Annual, NNN, \$/SF)	15.00	15.00	16.75	17.00	17.75	17.00	22.00	22.00	22.00
	Delivered Construction (SF)	-	-	177,514	15,000	-	16,146	-	16,000	32,146
	Rentable Building Area (RBA)	13,123,803	13,026,885	13,226,260	12,706,884	12,673,368	16,871,591	17,305,869	17,239,090	17,239,090
	Occupancy Rate (%)	91.2	88.4	91.5	92.1	91.5	92.8	93.6	93.0	93.0
FAR SOUTHWEST	Absorption (Net, SF)	174,496	241,414	126,984	319,119	215,556	-15,260	-36,580	145,189	93,349
	Avg. Asking Rent (Annual, NNN, \$/SF)	25.25	25.50	22.25	24.25	25.50	24.00	24.00	24.00	24.00
	Delivered Construction (SF)	169,432	215,304	204,175	172,636	153,000	103,750	212,559	110,251	235,260
	Rentable Building Area (RBA)	21,786,410	22,647,126	22,775,154	22,351,926	22,389,161	31,342,137	31,365,424	31,665,178	31,665,178
	Occupancy Rate (%)	92.6	93.8	93.7	94.2	94.2	94.1	94	94.3	94.3
SOUTH	Absorption (Net, SF)	186,724	98,437	-31,273	253,972	-38,569	80,086	-9,320	36,938	107,704
	Avg. Asking Rent (Annual, NNN, \$/SF)	20.00	20.50	18.25	22.00	24.00	25.00	25.00	25.00	25.00
	Delivered Construction (SF)	79,177	-	366,640	139,691	716,227	-	10,000	23,504	33,504
	Rentable Building Area (RBA)	8,664,849	8,557,351	8,482,716	8,375,933	8,438,346	12,248,144	12,251,327	12,238,965	12,238,965
	Occupancy Rate (%)	92.6	94.5	93.4	94.2	93.9	95.2	95	94.6	94.6
NEAR SOUTHEAST	Absorption (Net, SF)	292,866	71,167	30,537	101,811	-67,905	110,466	37,062	-47,657	99,871
	Avg. Asking Rent (Annual, NNN, \$/SF)	14.75	14.75	22.50	18.00	18.00	18.00	18.00	18.00	18.00
	Delivered Construction (SF)	9,082	-	-	-	-	-	-	-	-
	Rentable Building Area (RBA)	9,087,386	9,552,800	9,469,773	9,117,674	9,116,348	12,771,409	12,752,154	12,772,170	12,772,170
	Occupancy Rate (%)	90.3	93.3	91.6	92.2	93	91.7	92.2	92.2	92.2
FAR SOUTHEAST	Absorption (Net, SF)	179,833	2,093	687,635	742,662	90,614	29,361	-103,317	35,190	-38,766
	Avg. Asking Rent (Annual, NNN, \$/SF)	20.25	20.50	14.50	23.75	23.25	22.00	22.00	22.00	22.00
	Delivered Construction (SF)	184,400	450,443	613,475	905,003	137,350	123,728	39,739	36,906	200,373
	Rentable Building Area (RBA)	20,662,636	21,194,593	22,388,045	22,892,955	22,933,398	32,747,546	32,808,969	32,855,026	32,855,026
	Occupancy Rate (%)	92.7	93.7	93.6	92.4	94.6	95.1	94.2	94.9	94.9
HOUSTON TOTAL										
	Absorption (Net, SF)	2,038,283	2,109,691	2,455,860	4,025,876	1,971,478	48,991	-39,748	314,624	323,867
	Avg. Asking Rent (Annual, NNN, \$/SF)	21.87	22.15	22.69	23.81	25.30	25.55	26.59	26.59	26.59
	Delivered Construction (SF)	2,067,216	1,936,741	2,984,073	3,920,948	2,774,441	903,438	482,403	736,407	2,122,248
	Rentable Building Area (RBA)	209,527,469	212,119,443	214,772,448	212,820,650	214,276,229	299,533,015	299,621,137	301,653,227	301,653,227
	Occupancy Rate (%)	92.6	93.4	93.9	94.3	94.1	94.4	94.1	94.2	94.2

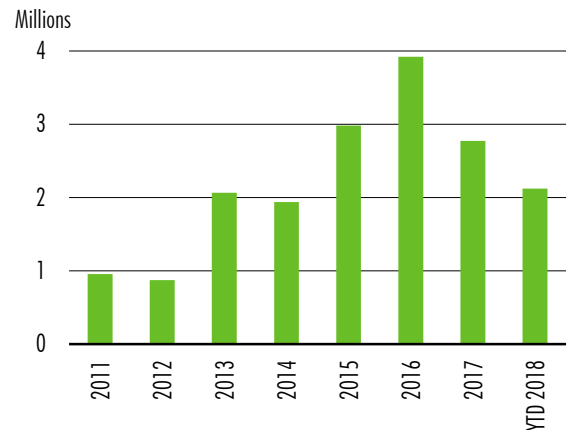
Source: CBRE Research, Q3 2018.

Figure 3: Asking Annual Rents, NNN Avg.



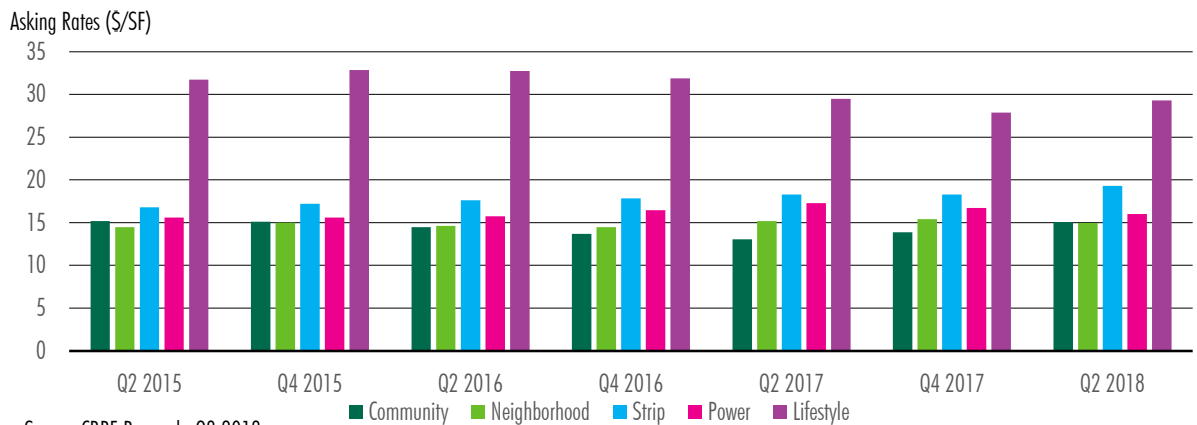
Source: CBRE Research, Q3 2018.

Figure 4: Deliveries



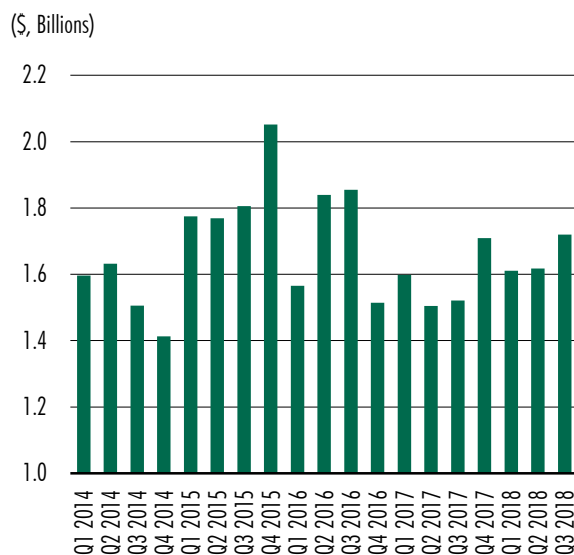
Source: CBRE Research, Q3 2018.

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



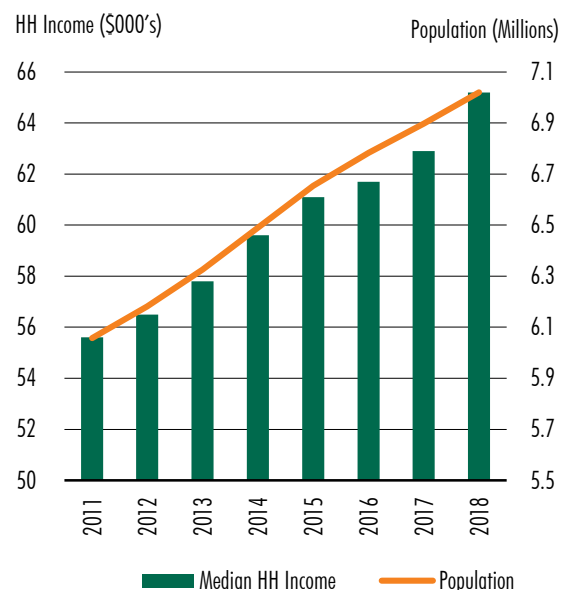
Source: CBRE Research, Q3 2018.

Figure 6: Retail Investment Sales Volume

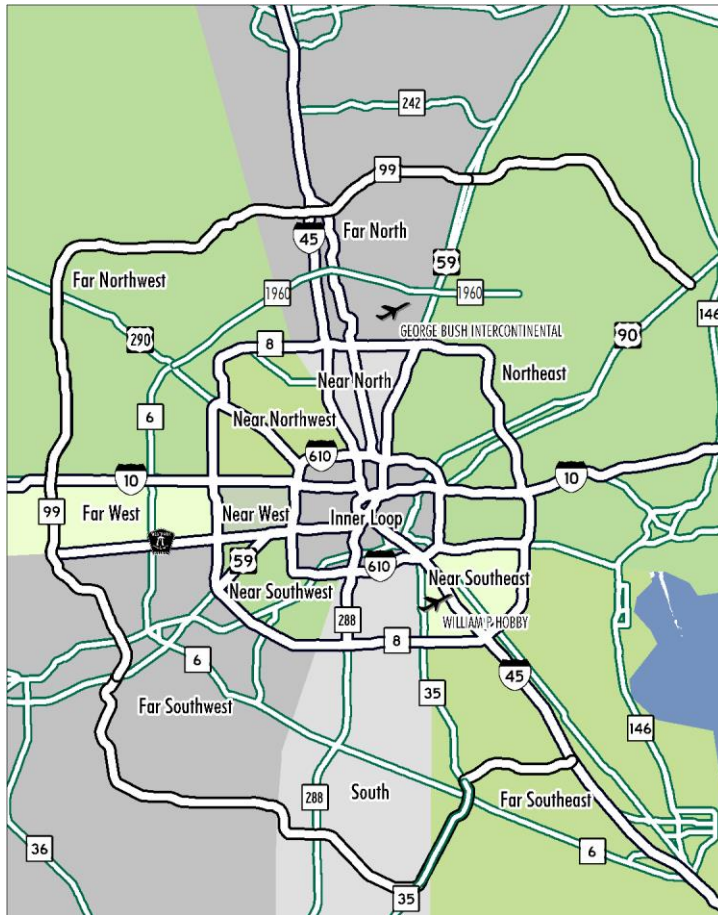


Source: Real Capital Analytics, Q3 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q3 2018.


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

Houston Retail, Q2 2018

Local rents climbing as U.S. retail e-commerce evolves



Occupancy
94.1%



Under Construction
3,736,299 SF



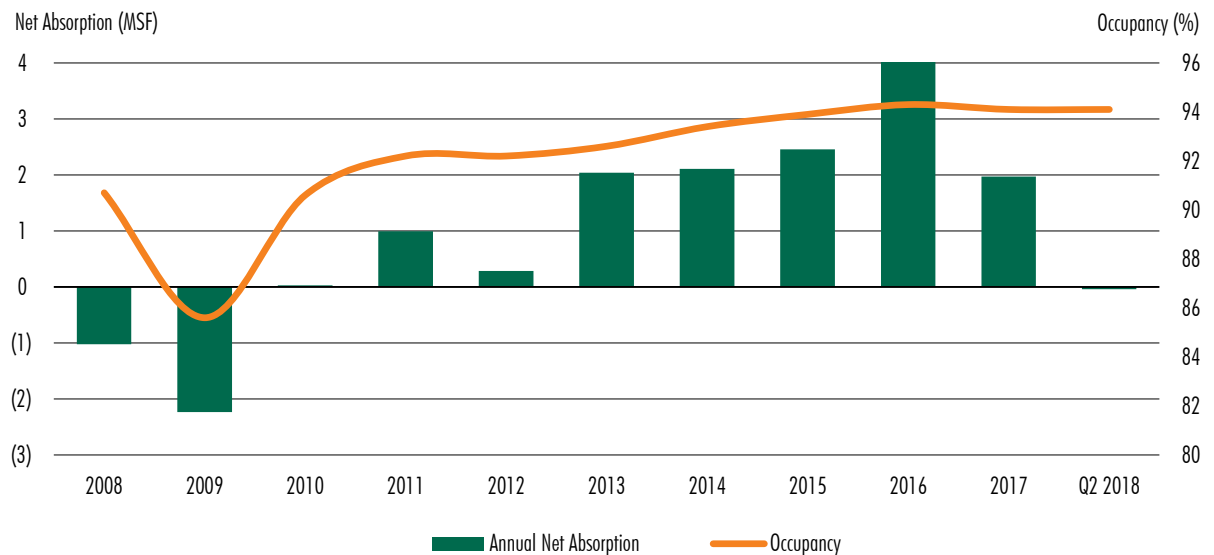
Completions
482,403 SF



Net Absorption
(39,748) SF

Figure 1: Net Absorption and Market Occupancy

*Arrows indicate trend from previous quarter.



Source: CBRE Research, Q2 2018.

RETAIL RENTS SEE WHOLESALE RISE

While high-profile bankruptcies of big-box retailers have monopolized industry headlines, the data for Houston's brick-and-mortar retail space tells a very different story. Rents are on the rise, occupancy levels stand at around 94 percent, and there are over 3.7 million sq. ft. under construction as developers rush to keep up with demand.

TOYS R US PUTS ITS TOYS AWAY

The giant toy store is closing all of its 735 Toys R Us and Babies R Us locations nationwide on Friday, including 65 locations in Texas, and affecting around 33,000 employees. The 18 Toys R Us and Babies R Us stores in Houston comprise nearly 675,000 sq. ft. of total space and span from a 3,200 sq. ft. express store in Texas City to a 65,522 sq. ft. shop in Katy. A little over half of these locations are leased, while the rest are owned by the retailer.

HOUSTON EMPLOYMENT GROWTH #4 IN U.S.

For the 12-months ending April 2018, Houston rose to fourth place for total jobs gained, just behind Dallas/Fort Worth, New York and Los Angeles. The Bayou City added more than 85,000 new payrolls during that time, at a growth rate of 2.8% annually. This is a far cry from the 0.6% rate a year ago, where less than 17,000 new jobs were added.

FIRST EL RANCHO SUPERMARKET OPENS ITS DOORS

Braving a myriad of grocery competitors, El Rancho is ardently wooing the region's nearly 2 million Hispanic consumers, which account for 42 percent of the overall Houston metro population and boast a combined spending power of over \$54 billion a year. This figure is expected to surpass \$80 billion by 2022.

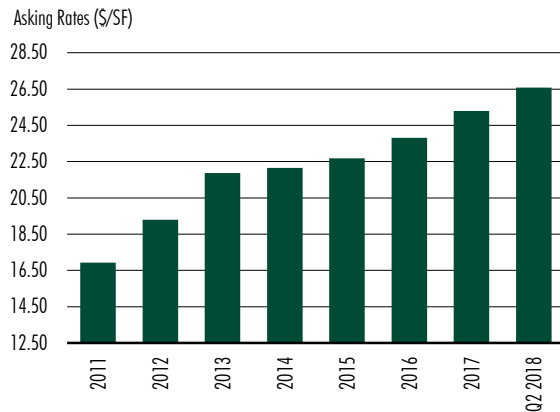
Figure 4: Historical Market Statistics

		2011	2012	2013	2014	2015	2016	2017	Q2 2018
INNER LOOP	Absorption (Net, SF)	(21,292)	75,133	72,274	97,668	461,629	111,063	8,575	(12,701)
	Avg. Asking Rent (Annual,NNN, \$/SF)	26.50	32.50	35.50	36.75	32.00	35.50	38.00	37.00
	Delivered Construction (SF)	-	169,470	-	185,000	434,465	54,774	72,541	112,410
	Occupancy Rate (%)	95.4	93.6	94.1	95.6	96.5	96.2	96.3	95.7
NORTHEAST	Absorption (Net, SF)	66,376	288,245	81,473	277,901	162,579	675,751	118,818	95,503
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.50	15.00	15.00	13.00	15.00	16.00	16.00
	Delivered Construction (SF)	81,686	31,000	174,954	320,651	100,000	1,215,083	108,230	123,700
	Occupancy Rate (%)	90.7	90.8	89.0	91.5	93.0	94.5	95.3	95.9
NEAR NORTH	Absorption (Net, SF)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	39,223	(6,491)
	Avg. Asking Rent (Annual,NNN, \$/SF)	14.00	14.25	18.00	18.25	14.00	14.00	14.00	14.50
	Delivered Construction (SF)	-	-	-	-	-	-	56,250	-
	Occupancy Rate (%)	96.3	96.2	96.5	96.7	95.9	96.4	96.5	96.1
FAR NORTH	Absorption (Net, SF)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	1,444,722	19,099
	Avg. Asking Rent (Annual,NNN, \$/SF)	20.00	23.50	25.25	26.50	24.00	24.00	24.00	25.00
	Delivered Construction (SF)	458,347	79,103	134,527	198,038	298,521	528,160	1,367,331	39,880
	Occupancy Rate (%)	90.3	91.0	91.5	93.1	93.5	93.9	92.2	92.0
NEAR NORTHWEST	Absorption (Net, SF)	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(88,352)	(23,409)
	Avg. Asking Rent (Annual,NNN, \$/SF)	12.75	14.00	15.00	15.00	21.25	26.00	25.00	25.00
	Delivered Construction (SF)	79,895	-	40,000	-	-	-	-	-
	Occupancy Rate (%)	95.0	95.1	94.6	95.2	95.2	96.1	95.3	96.5
FAR NORTHWEST	Absorption (Net, SF)	267,120	96,476	245,378	369,190	268,491	563,711	230,238	(60,882)
	Avg. Asking Rent (Annual,NNN, \$/SF)	20.00	22.50	25.25	25.25	33.75	32.75	32.00	31.00
	Delivered Construction (SF)	88,042	25,610	297,078	457,305	228,000	496,507	246,995	42,750
	Occupancy Rate (%)	92.1	92.7	93.0	93.0	94.0	94.0	94.2	92.9
NEAR WEST	Absorption (Net, SF)	52,845	(2,371)	119,801	114,165	111,794	72,158	(43,619)	(15,694)
	Avg. Asking Rent (Annual,NNN, \$/SF)	19.00	21.00	24.50	24.50	34.00	36.00	36.00	40.00
	Delivered Construction (SF)	-	55,000	133,274	110,000	172,827	-	-	-
	Occupancy Rate (%)	94.6	94.9	95.5	95.7	95.3	97.1	95.7	96.9
FAR WEST	Absorption (Net, SF)	116,437	86,860	395,165	221,353	562,664	207,543	520,500	48,054
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.25	24.00	30.50	30.50	28.75	29.00	30.00	37.50
	Delivered Construction (SF)	24,225	20,555	916,552	0	388,456	394,094	561,117	92,665
	Occupancy Rate (%)	92.3	93.0	92.9	92.7	94.2	95.0	93.8	93.5
NEAR SOUTHWEST	Absorption (Net, SF)	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(264,323)	67,126
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.00	13.50	15.00	15.00	16.75	17.00	17.75	22.00
	Delivered Construction (SF)	-	-	-	-	177,514	15,000	-	-
	Occupancy Rate (%)	90.8	90.2	91.2	88.4	91.5	92.1	91.5	93.6
FAR SOUTHWEST	Absorption (Net, SF)	297,614	(155,568)	174,496	241,414	126,984	319,119	21,556	(36,580)
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.75	21.25	25.25	25.50	22.25	24.25	25.50	24.00
	Delivered Construction (SF)	177,365	136,494	169,432	215,304	204,175	172,636	153,000	21,259
	Occupancy Rate (%)	91.8	92.4	92.6	93.8	93.7	94.2	94.2	94.0
SOUTH	Absorption (Net, SF)	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(38,569)	(9,320)
	Avg. Asking Rent (Annual,NNN, \$/SF)	17.00	18.75	20.00	20.50	18.25	22.00	24.00	25.00
	Delivered Construction (SF)	-	5,000	7,917	-	366,640	139,691	71,627	10,000
	Occupancy Rate (%)	90.8	90.8	92.6	94.5	93.4	94.2	93.9	95.0
NEAR SOUTHEAST	Absorption (Net, SF)	(74,189)	86,101	292,866	71,167	30,537	101,811	(67,905)	37,062
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.00	14.25	14.75	14.75	22.50	18.00	18.00	18.00
	Delivered Construction (SF)	20,146	-	9,082	-	-	-	-	-
	Occupancy Rate (%)	90.9	88.3	90.3	93.3	91.6	92.2	93.0	92.2
FAR SOUTHEAST	Absorption (Net, SF)	144,553	200,367	179,833	2,093	687,635	742,662	90,614	103,317
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.75	17.75	20.25	20.50	14.50	23.75	23.25	22.00
	Delivered Construction (SF)	25,000	350,000	184,400	450,443	613,475	905,003	137,350	39,739
	Occupancy Rate (%)	92.1	92.3	92.7	93.7	93.6	92.4	94.6	94.2

HOUSTON TOTAL

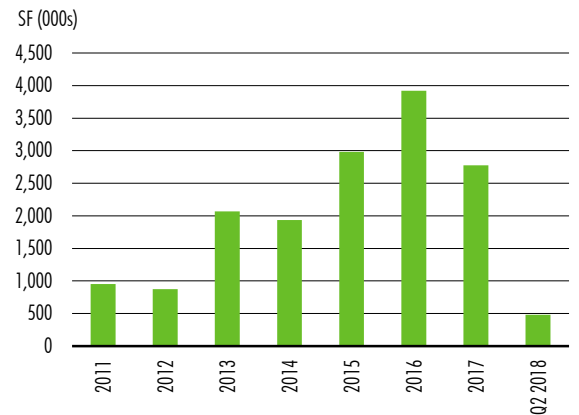
Absorption (Net, SF)	996,595	282,431	2,038,283	2,109,691	2,455,860	4,025,876	1,971,478	(39,748)
Avg. Asking Rent (Annual,NNN, \$/SF)	16.94	19.29	21.87	22.15	22.69	23.81	25.30	26.59
Delivered Construction (SF)	954,706	872,232	2,067,216	1,936,741	2,984,073	3,920,948	2,774,441	482,403
Occupancy Rate (%)	92.2	92.2	92.6	93.4	93.9	94.3	94.1	94.1

Figure 3: Asking Annual Rents, NNN Avg.



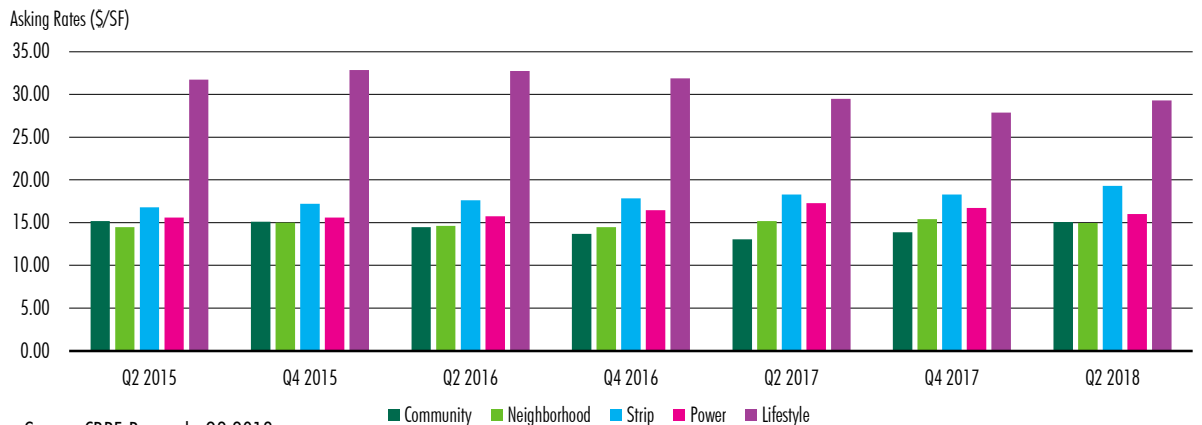
Source: CBRE Research, Q2 2018.

Figure 4: Deliveries



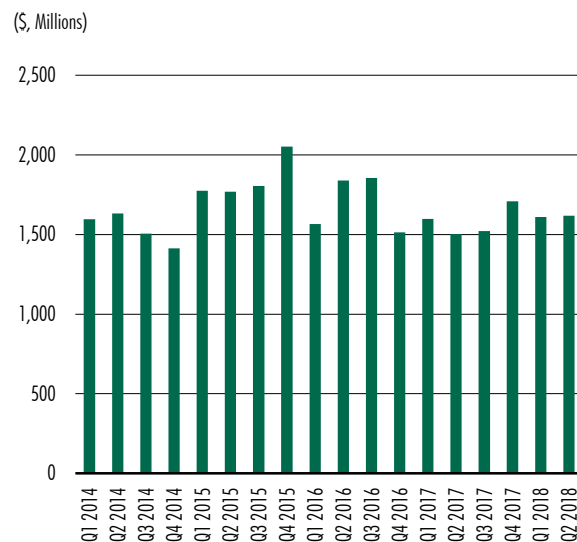
Source: CBRE Research, Q2 2018.

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



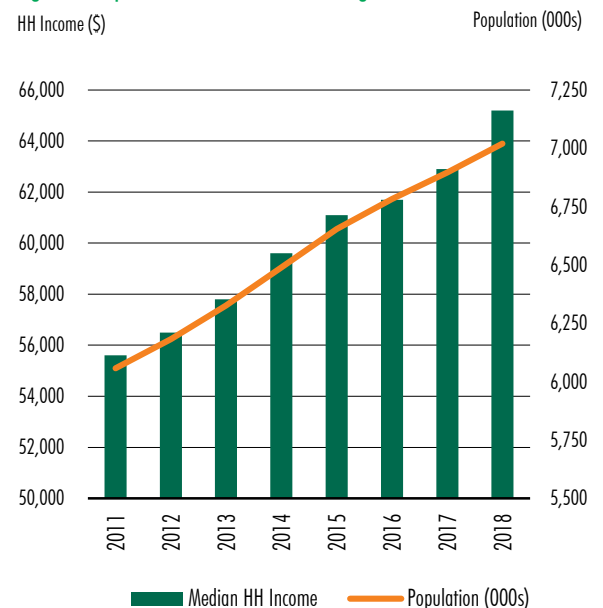
Source: CBRE Research, Q2 2018.

Figure 6: Retail Investment Sales Volume



Source: Real Capital Analytics, Q2 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q2 2018.


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**The Retail dataset includes properties 10,000-sq.-ft. and up.*

Houston Retail, Q1 2018

Local leasing strength amid nationwide closures

▲ Occupancy
94.4%

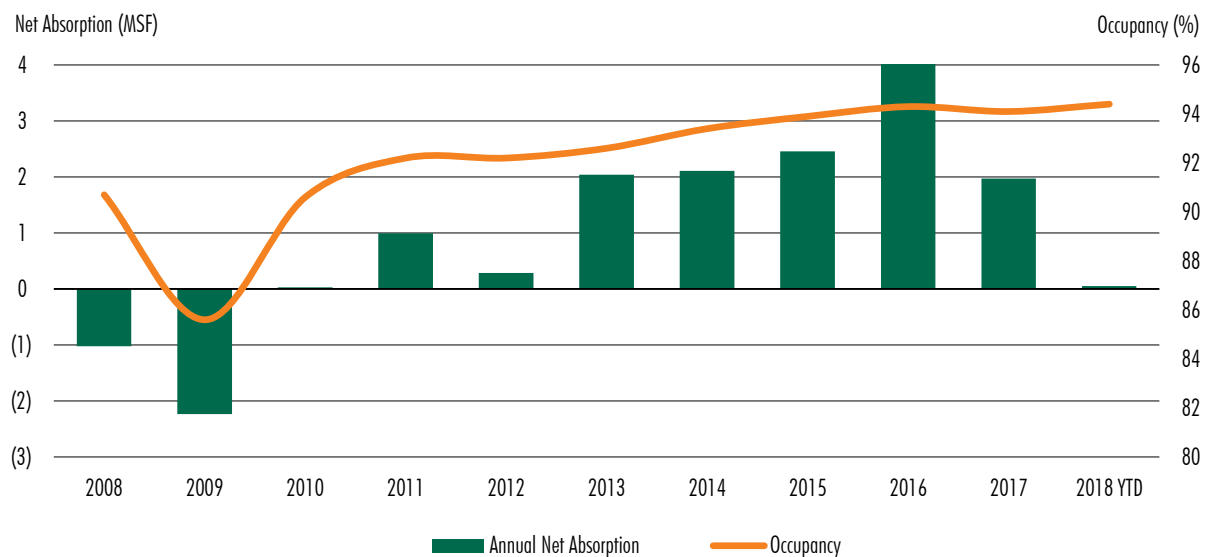
▲ Under Construction
3,359,182 SF

▲ Completions
903,438 SF

▼ Net Absorption
48,991 SF

Figure 1: Net Absorption and Market Occupancy

*Arrows indicate trend from previous quarter.



Source: CBRE Research, Q1 2018.

OCCUPANCY SUSTAINS CLIMB, UP 30 BPS TO 94.4% DURING LAST 90 DAYS

Within Houston's tightening retail market, strong net absorption and heavily pre-leased deliveries caused occupancy to register at 94.4%, above its 8 year average of 93.1%. However, as construction starts slow and completions require more time to come online, rates of occupancy and rents are expected to be temperate in the short-term.

GROCERY-ANCHORED RETAIL: A DARLING FOR INVESTORS?

Nearly 1 million sq. ft. of retail space was delivered during the first quarter, of which close to 400,000 sf were grocery-anchored centers such as Kroger and HEB. Hispanic food retailer Grupo Comercial Chedraui is acquiring Houston-based Fiesta Mart for \$300 million as it attempts to strengthen its relevance in the Spanish-speaking market in the U.S.

UNABATED POPULATION GROWTH 'FEEDS' NEED FOR RETAIL

Metro Houston added 94,417 residents in 2017, to reach a total population just shy of 6.9 million, according to the U.S. Census. Despite announcements of retail bankruptcies dominating headlines, demand remains healthy; from 2011 to 2017, Houston added approximately 2,700 people per week, supporting expanding retail, which explains why 40% of recent completions are grocery-anchored.

TOYS R US ANNOUNCES U.S. LIQUIDATION

In March, Toys R Us filed a motion seeking bankruptcy court approval to begin liquidation of its 735 U.S and Puerto Rico stores. The closures are expected to occur within the first nine months of 2018. In Houston, the retailer has 18 locations, totaling nearly 675,000 sq. ft. of space.

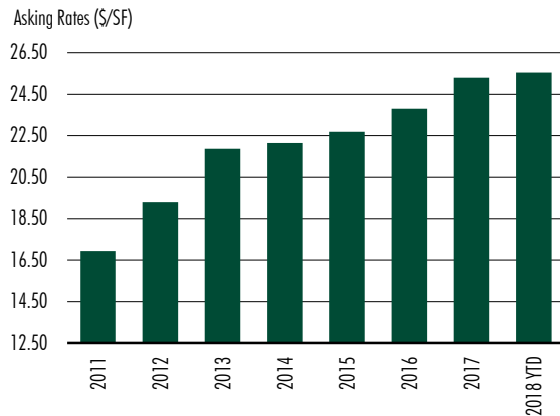
Figure 4: Historical Market Statistics

		2011	2012	2013	2014	2015	2016	2017	YTD 2018
INNER LOOP	Absorption (Net, SF)	(21,292)	75,133	72,274	97,668	461,629	111,063	8,575	(80,175)
	Avg. Asking Rent (Annual,NNN, \$/SF)	26.50	32.50	35.50	36.75	32.00	35.50	38.00	37.00
	Delivered Construction (SF)	-	169,470	-	185,000	434,465	54,774	72,541	12,410
	Occupancy Rate (%)	95.4	93.6	94.1	95.6	96.5	96.2	96.3	95.8
NORTHEAST	Absorption (Net, SF)	66,376	288,245	81,473	277,901	162,579	675,751	118,818	8,006
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.50	15.00	15.00	13.00	15.00	16.00	16.00
	Delivered Construction (SF)	81,686	31,000	174,954	320,651	100,000	1,215,083	108,230	105,166
	Occupancy Rate (%)	90.7	90.8	89.0	91.5	93.0	94.5	95.3	95.6
NEAR NORTH	Absorption (Net, SF)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	39,223	111,558
	Avg. Asking Rent (Annual,NNN, \$/SF)	14.00	14.25	18.00	18.25	14.00	14.00	14.00	14.50
	Delivered Construction (SF)	-	-	-	-	-	-	56,250	13,012
	Occupancy Rate (%)	96.3	96.2	96.5	96.7	95.9	96.4	96.5	96.2
FAR NORTH	Absorption (Net, SF)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	1,444,722	21,767
	Avg. Asking Rent (Annual,NNN, \$/SF)	20.00	23.50	25.25	26.50	24.00	24.00	24.00	25.00
	Delivered Construction (SF)	458,347	79,103	134,527	198,038	298,521	528,160	1,367,331	363,109
	Occupancy Rate (%)	90.3	91.0	91.5	93.1	93.5	93.9	92.2	92.8
NEAR NORTHWEST	Absorption (Net, SF)	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(88,352)	38,630
	Avg. Asking Rent (Annual,NNN, \$/SF)	12.75	14.00	15.00	15.00	21.25	26.00	25.00	25.00
	Delivered Construction (SF)	79,895	-	40,000	-	-	-	-	30,733
	Occupancy Rate (%)	95.0	95.1	94.6	95.2	95.2	96.1	95.3	96.2
FAR NORTHWEST	Absorption (Net, SF)	267,120	96,476	245,378	369,190	268,491	563,711	230,238	(235,809)
	Avg. Asking Rent (Annual,NNN, \$/SF)	20.00	22.50	25.25	25.25	33.75	32.75	32.00	31.00
	Delivered Construction (SF)	88,042	25,610	297,078	457,305	228,000	496,507	246,995	27,099
	Occupancy Rate (%)	92.1	92.7	93.0	93.0	94.0	94.0	94.2	93.5
NEAR WEST	Absorption (Net, SF)	52,845	(2,371)	119,801	114,165	111,794	72,158	(43,619)	26,664
	Avg. Asking Rent (Annual,NNN, \$/SF)	19.00	21.00	24.50	24.50	34.00	36.00	36.00	36.50
	Delivered Construction (SF)	-	55,000	133,274	110,000	172,827	-	-	-
	Occupancy Rate (%)	94.6	94.9	95.5	95.7	95.3	97.1	95.7	97.3
FAR WEST	Absorption (Net, SF)	116,437	86,860	395,165	221,353	562,664	207,543	520,500	(23,057)
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.25	24.00	30.50	30.50	28.75	29.00	30.00	30.00
	Delivered Construction (SF)	24,225	20,555	916,552	0	388,456	394,094	561,117	108,285
	Occupancy Rate (%)	92.3	93.0	92.9	92.7	94.2	95.0	93.8	93.4
NEAR SOUTHWEST	Absorption (Net, SF)	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(264,323)	(23,246)
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.00	13.50	15.00	15.00	16.75	17.00	17.75	17.00
	Delivered Construction (SF)	-	-	-	-	177,514	15,000	-	16,146
	Occupancy Rate (%)	90.8	90.2	91.2	88.4	91.5	92.1	91.5	92.8
FAR SOUTHWEST	Absorption (Net, SF)	297,614	(155,568)	174,496	241,414	126,984	319,119	21,556	(15,260)
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.75	21.25	25.25	25.50	22.25	24.25	25.50	24.00
	Delivered Construction (SF)	177,365	136,494	169,432	215,304	204,175	172,636	153,000	103,750
	Occupancy Rate (%)	91.8	92.4	92.6	93.8	93.7	94.2	94.2	94.1
SOUTH	Absorption (Net, SF)	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(38,569)	80,086
	Avg. Asking Rent (Annual,NNN, \$/SF)	17.00	18.75	20.00	20.50	18.25	22.00	24.00	25.00
	Delivered Construction (SF)	-	5,000	7,917	-	366,640	139,691	71,627	-
	Occupancy Rate (%)	90.8	90.8	92.6	94.5	93.4	94.2	93.9	95.2
NEAR SOUTHEAST	Absorption (Net, SF)	(74,189)	86,101	292,866	71,167	30,537	101,811	(67,905)	110,466
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.00	14.25	14.75	14.75	22.50	18.00	18.00	18.00
	Delivered Construction (SF)	20,146	-	9,082	-	-	-	-	-
	Occupancy Rate (%)	90.9	88.3	90.3	93.3	91.6	92.2	93.0	91.7
FAR SOUTHEAST	Absorption (Net, SF)	144,553	200,367	179,833	2,093	687,635	742,662	90,614	29,361
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.75	17.75	20.25	20.50	14.50	23.75	23.25	22.00
	Delivered Construction (SF)	25,000	350,000	184,400	450,443	613,475	905,003	137,350	123,728
	Occupancy Rate (%)	92.1	92.3	92.7	93.7	93.6	92.4	94.6	95.1

HOUSTON TOTAL

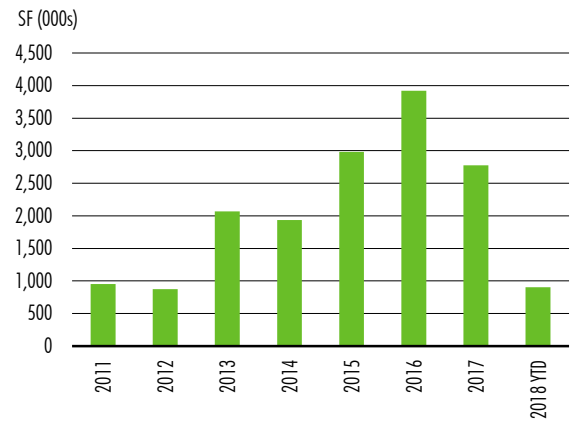
Absorption (Net, SF)	996,595	282,431	2,038,283	2,109,691	2,455,860	4,025,876	1,971,478	48,991
Avg. Asking Rent (Annual,NNN, \$/SF)	16.94	19.29	21.87	22.15	22.69	23.81	25.30	25.55
Delivered Construction (SF)	954,706	872,232	2,067,216	1,936,741	2,984,073	3,920,948	2,774,441	903,438
Occupancy Rate (%)	92.2	92.2	92.6	93.4	93.9	94.3	94.1	94.4

Figure 3: Asking Annual Rents, NNN Avg.



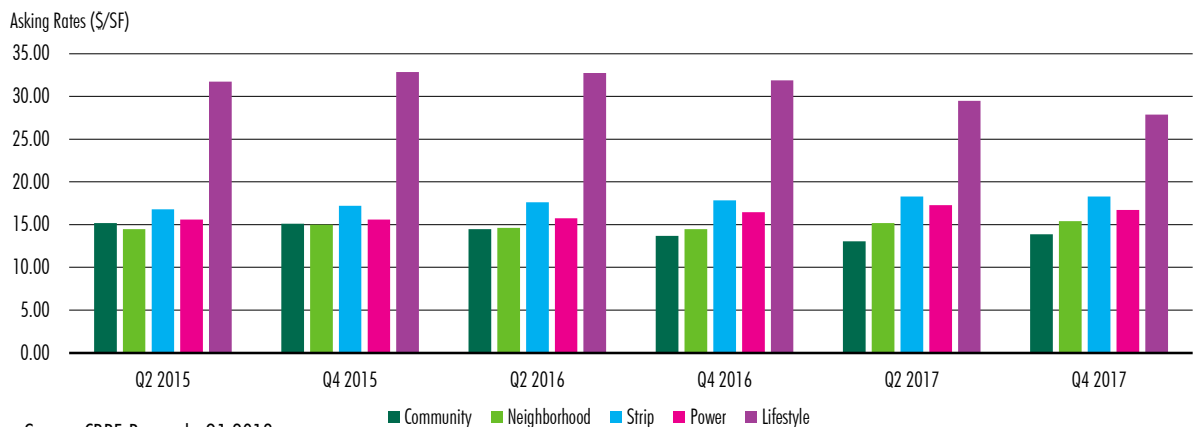
Source: CBRE Research, Q1 2018.

Figure 4: Deliveries



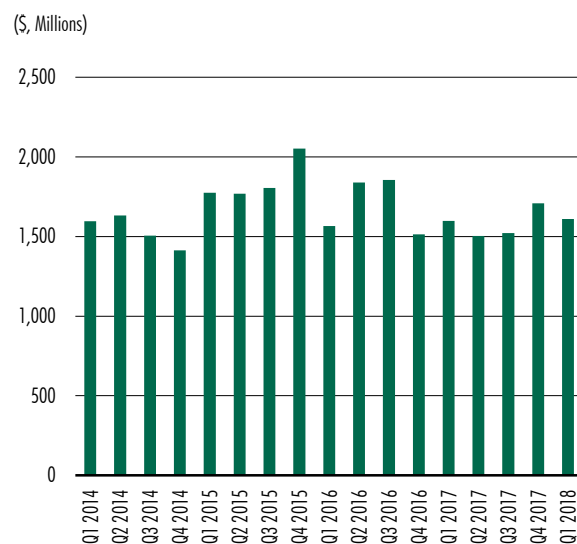
Source: CBRE Research, Q1 2018.

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



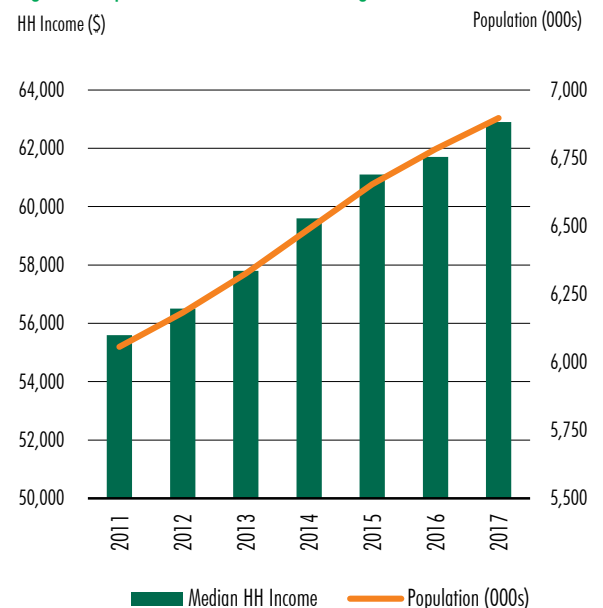
Source: CBRE Research, Q1 2018.

Figure 6: Retail Investment Sales Volume



Source: Real Capital Analytics, Q1 2018.

Figure 7: Population Growth and Purchasing Power



Source: Moody's Analytics, Q1 2018.


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

Houston Retail, Q4 2017

Tenant demand stabilizes at year-end following slow start



Occupancy
94.1%



Under Construction
1,513,756 SF



Completions
785,832 SF



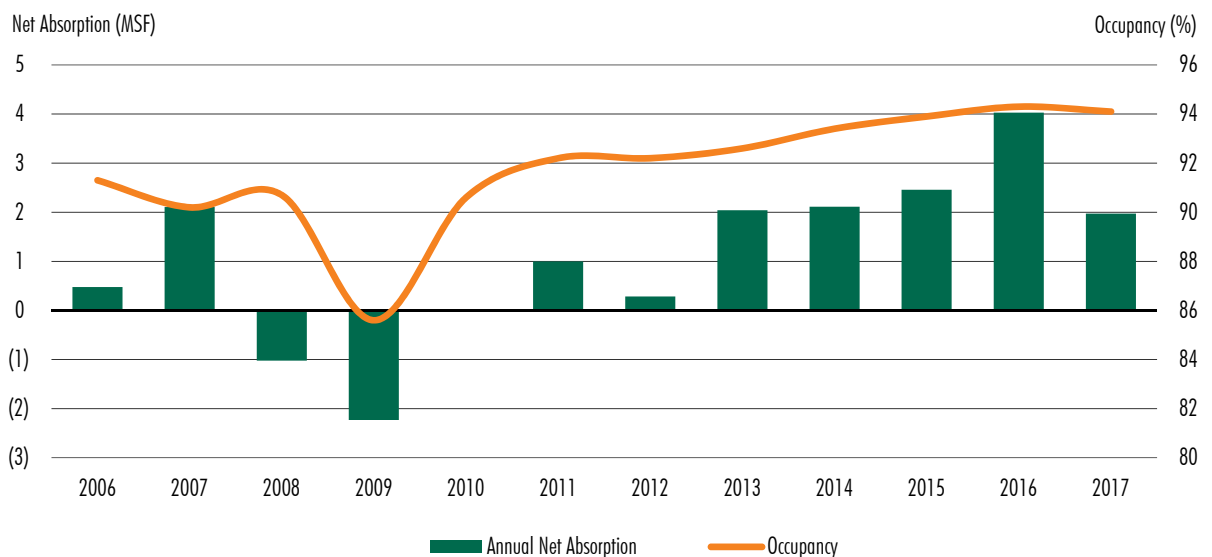
Net Absorption
851,750 SF



Wtd. Avg. Asking Rate
\$25.17 PSF

Figure 1: Net Absorption and Occupancy

*Arrows indicate trend from previous quarter.



Source: CBRE Research, Q4 2017.

2017 NET ABSORPTION ABOVE 10-YEAR AVERAGE

This year brought its challenges to the Houston retail market: an abundance of U.S. retail bankruptcies, Hurricane Harvey's impact on local restaurants, and a continued supply shortage of prime space. However, stable demand during the final 90 days resulted in the year's strongest quarter of net absorption and brought the annual total to almost 2 million sq. ft.—well above the 10-year average of 1.1 million sq. ft. Tightening availability propelled overall occupancy to 94.1% and Class A to 97.4%, slowed large expansions, and drove deal flow in small-shop and restaurant segments.

New construction activity continues to provide lift to net absorption totals, as 719,000 sq. ft. was occupied in projects delivered this quarter.

The development pipeline maintains a growing number of small, speculative strip centers currently underway, while the bulk of ongoing construction volume is in grocery-anchored centers. The pace of these expansions is expected to slow next year as supply in suburban communities begins to catch up with residentially-driven demand growth.

RETAIL SALES GAINS EXPECTED IN 2018

October sales tax revenues continue to show improving consumer and business spending across the Houston metro, likely due to hurricane recovery expenditures for furniture and home improvement needs. Additionally, Houston regional retail sales volumes are forecast to reach \$75.5 million in 2018, a 5.7% increase from 2017. Similar sales growth is projected over the next 5 years. Good indicators for the retail sector in the year ahead.

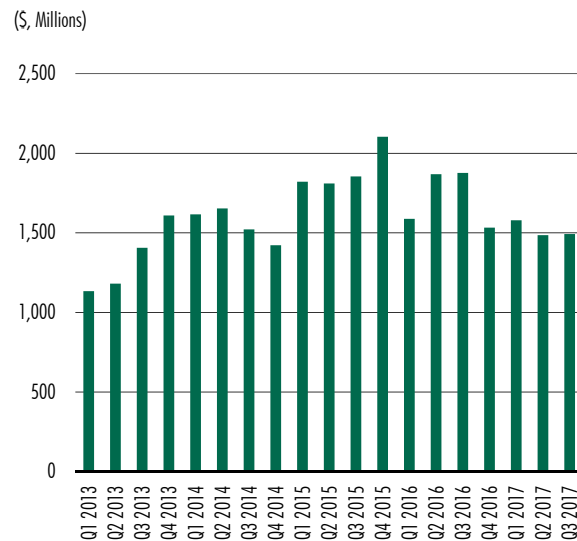
Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Delivered Construction (SF)	Q4 2017 Net Absorption (SF)
Inner Loop	321	15,534,434	3.7	38.00	147,000	0	(9,677)
Northeast	245	15,595,798	4.7	16.00	116,396	108,230	107,088
Near North	109	6,405,774	3.5	14.00	0	0	25,433
Far North	467	32,162,397	7.8	24.00	418,550	367,195	272,858
Near Northwest	185	10,641,313	4.7	25.00	20,000	0	22,631
Far Northwest	480	27,812,651	5.8	32.00	0	0	61,470
Near West	191	12,479,830	4.3	36.00	20,000	0	11,873
Far West	290	18,093,411	6.2	30.00	266,635	148,200	186,404
Near Southwest	222	12,673,368	8.5	17.75	70,000	0	43,565
Far Southwest	352	22,389,161	5.8	25.50	393,800	86,000	27,468
South	161	8,438,346	6.1	24.00	20,025	47,200	56,657
Near Southeast	137	9,116,348	7.0	18.00	0	0	541
Far Southeast	328	22,933,398	5.4	23.25	41,350	29,007	45,439
HOUSTON TOTAL	3,488	214,276,229	5.9	25.30	1,513,756	785,832	851,750

Source: CBRE Research, Q4 2017.

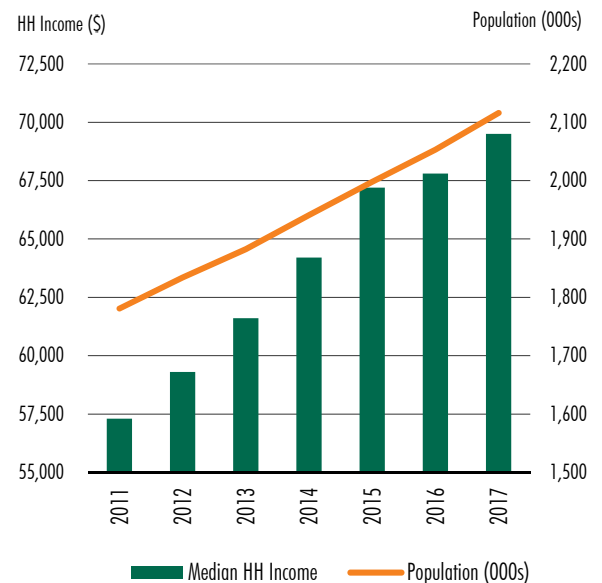
* Market total reflects weighted average asking rate

Figure 3: Retail Investment Sales Volume



Source: Real Capital Analytics, December 2017.

Figure 4: Population Growth and Purchasing Power



Source Moody's Analytics, November 2017.

Figure 4: Historical Market Statistics

		2010	2011	2012	2013	2014	2015	2016	2017
INNER LOOP	Absorption (Net, SF)	63,030	(21,292)	75,133	72,274	97,668	461,629	111,063	8,575
	Avg. Asking Rent (Annual,NNN, \$/SF)	26.00	26.50	32.50	35.50	36.75	32.00	35.50	38.00
	Delivered Construction (SF)	58,330	0	169,470	0	185,000	434,465	54,774	72,541
	Occupancy Rate (%)	95.5	95.4	93.6	94.1	95.6	96.5	96.2	96.3
NORTHEAST	Absorption (Net, SF)	(214,733)	66,376	288,245	81,473	277,901	162,579	675,751	118,818
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.25	13.50	15.00	15.00	13.00	15.00	16.00
	Delivered Construction (SF)	319,016	81,686	31,000	174,954	320,651	100,000	1,215,083	108,230
	Occupancy Rate (%)	90.8	90.7	90.8	89.0	91.5	93.0	94.5	95.3
NEAR NORTH	Absorption (Net, SF)	(54,507)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	39,223
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.75	14.00	14.25	18.00	18.25	14.00	14.00	14.00
	Delivered Construction (SF)	0	0	0	0	0	0	0	56,250
	Occupancy Rate (%)	98.0	96.3	96.2	96.5	96.7	95.9	96.4	96.5
FAR NORTH	Absorption (Net, SF)	(60,178)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	1,444,722
	Avg. Asking Rent (Annual,NNN, \$/SF)	19.50	20.00	23.50	25.25	26.50	24.00	24.00	24.00
	Delivered Construction (SF)	0	458,347	79,103	134,527	198,038	298,521	528,160	1,367,331
	Occupancy Rate (%)	90.3	90.3	91.0	91.5	93.1	93.5	93.9	92.2
NEAR NORTHWEST	Absorption (Net, SF)	131,426	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(88,352)
	Avg. Asking Rent (Annual,NNN, \$/SF)	12.25	12.75	14.00	15.00	15.00	21.25	26.00	25.00
	Delivered Construction (SF)	0	79,895	0	40,000	0	0	0	0
	Occupancy Rate (%)	93.8	95.0	95.1	94.6	95.2	95.2	96.1	95.3
FAR NORTHWEST	Absorption (Net, SF)	81,212	267,120	96,476	245,378	369,190	268,491	563,711	230,238
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.50	20.00	22.50	25.25	25.25	33.75	32.75	32.00
	Delivered Construction (SF)	144,379	88,042	25,610	297,078	457,305	228,000	496,507	246,995
	Occupancy Rate (%)	91.3	92.1	92.7	93.0	93.0	94.0	94.0	94.2
NEAR WEST	Absorption (Net, SF)	(158,063)	52,845	(2,371)	119,801	114,165	111,794	72,158	(43,619)
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.50	19.00	21.00	24.50	24.50	34.00	36.00	36.00
	Delivered Construction (SF)	47,584	0	55,000	133,274	110,000	172,827	0	0
	Occupancy Rate (%)	94.7	94.6	94.9	95.5	95.7	95.3	97.1	95.7
FAR WEST	Absorption (Net, SF)	96,129	116,437	86,860	395,165	221,353	562,664	207,543	520,500
	Avg. Asking Rent (Annual,NNN, \$/SF)	15.50	16.25	24.00	30.50	30.50	28.75	29.00	30.00
	Delivered Construction (SF)	137,289	24,225	20,555	916,552	0	388,456	394,094	561,117
	Occupancy Rate (%)	92.2	92.3	93.0	92.9	92.7	94.2	95.0	93.8
NEAR SOUTHWEST	Absorption (Net, SF)	101,066	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(264,323)
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.00	13.50	15.00	15.00	16.75	17.00	17.75
	Delivered Construction (SF)	40,000	0	0	0	0	177,514	15,000	0
	Occupancy Rate (%)	91.2	90.8	90.2	91.2	88.4	91.5	92.1	91.5
FAR SOUTHWEST	Absorption (Net, SF)	(143,393)	297,614	(155,568)	174,496	241,414	126,984	319,119	21,556
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.25	18.75	21.25	25.25	25.50	22.25	24.25	25.50
	Delivered Construction (SF)	0	177,365	136,494	169,432	215,304	204,175	172,636	153,000
	Occupancy Rate (%)	90.3	91.8	92.4	92.6	93.8	93.7	94.2	94.2
SOUTH	Absorption (Net, SF)	106,924	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(38,569)
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.50	17.00	18.75	20.00	20.50	18.25	22.00	24.00
	Delivered Construction (SF)	40,000	0	5,000	7,917	0	366,640	139,691	71,627
	Occupancy Rate (%)	90.3	90.8	90.8	92.6	94.5	93.4	94.2	93.9
NEAR SOUTHEAST	Absorption (Net, SF)	27,161	(74,189)	86,101	292,866	71,167	30,537	101,811	(67,905)
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.00	13.00	14.25	14.75	14.75	22.50	18.00	18.00
	Delivered Construction (SF)	0	20,146	0	9,082	0	0	0	0
	Occupancy Rate (%)	89.5	90.9	88.3	90.3	93.3	91.6	92.2	93.0
FAR SOUTHEAST	Absorption (Net, SF)	50,259	144,553	200,367	179,833	2,093	687,635	742,662	90,614
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.25	16.75	17.75	20.25	20.50	14.50	23.75	23.25
	Delivered Construction (SF)	36,000	25,000	350,000	184,400	450,443	613,475	905,003	137,350
	Occupancy Rate (%)	91.4	92.1	92.3	92.7	93.7	93.6	92.4	94.6
HOUSTON TOTAL									
	Absorption (Net, SF)	26,333	996,595	282,431	2,038,283	2,109,691	2,455,860	4,025,876	1,971,478
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.50	16.94	19.29	21.87	22.15	22.69	23.81	25.30
	Delivered Construction (SF)	822,598	954,706	872,232	2,067,216	1,936,741	2,984,073	3,920,948	2,774,441
	Occupancy Rate (%)	91.8	92.2	92.2	92.6	93.4	93.9	94.3	94.1

Source: CBRE Research, Q4 2017.



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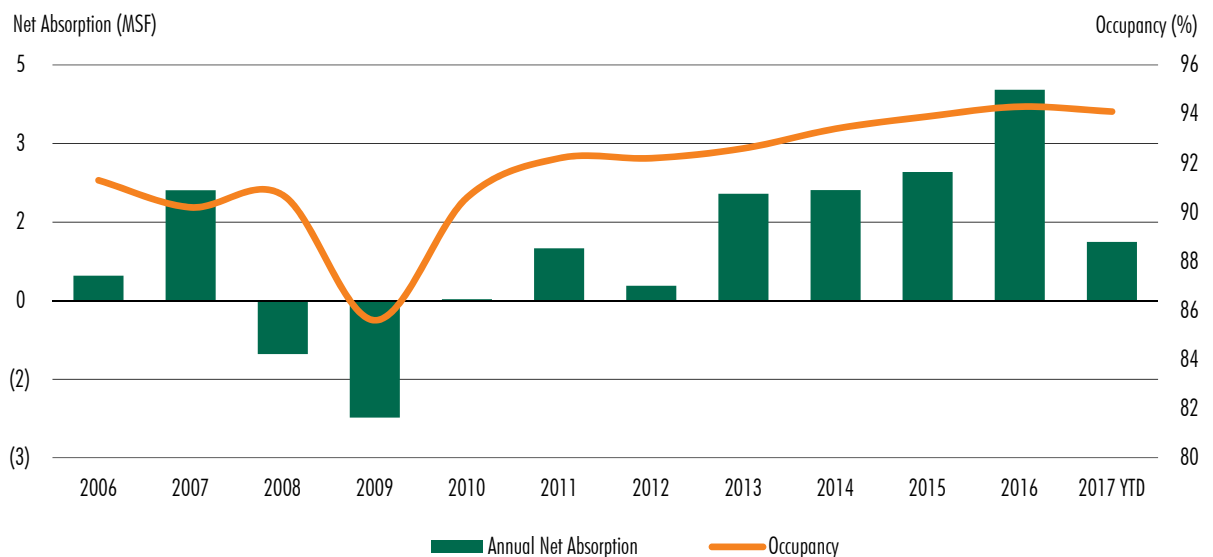
Houston Retail, Q3 2017

New construction captures bulk of tenant demand

▼ Occupancy **94.1%**
 ▲ Under Construction **1,539,973 SF**
 ▼ Completions **648,303 SF**
 ▼ Net Absorption **311,552 SF**
 ▲ Wtd. Avg. Asking Rate **\$25.17 PSF**

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Occupancy



Source: CBRE Research, Q3 2017.

FUNDAMENTALS STRONG HEADING INTO THE STORM

Hurricane Harvey struck the Houston region in August dropping an unprecedented 1.2 trillion gallons of rainwater. While the damage to retail product was minimal, effects will not be visible in Q3 2017 statistics but could influence Q4 2017 data. The largest hurdle for the Houston Retail market post-Harvey is the continuing lack of space. Heading into the storm availability was very tight—even with large-scale national retail closures/bankruptcies disrupting big-box and small shop demand. A dwindling pipeline, temporary requirements, increased demand from home improvement tenants, and sustained organic retail demand will keep this market in very tight conditions. In fact, CBRE Research

anticipates Class A occupancy will increase by approximately 35 basis points in Q4 2017.

LIMITED AVAILABILITY CONSTRICTS ABSORPTION

Leasing demand continues to decline—almost all of the 311,552 sq. ft. of new absorption was taken up by newly delivered centers, including the Grand Parkway Marketplace located in the Far North submarket. Year-to-date over 2 million sq. ft. was absorbed in new development—counterbalancing national closures and bankruptcies.

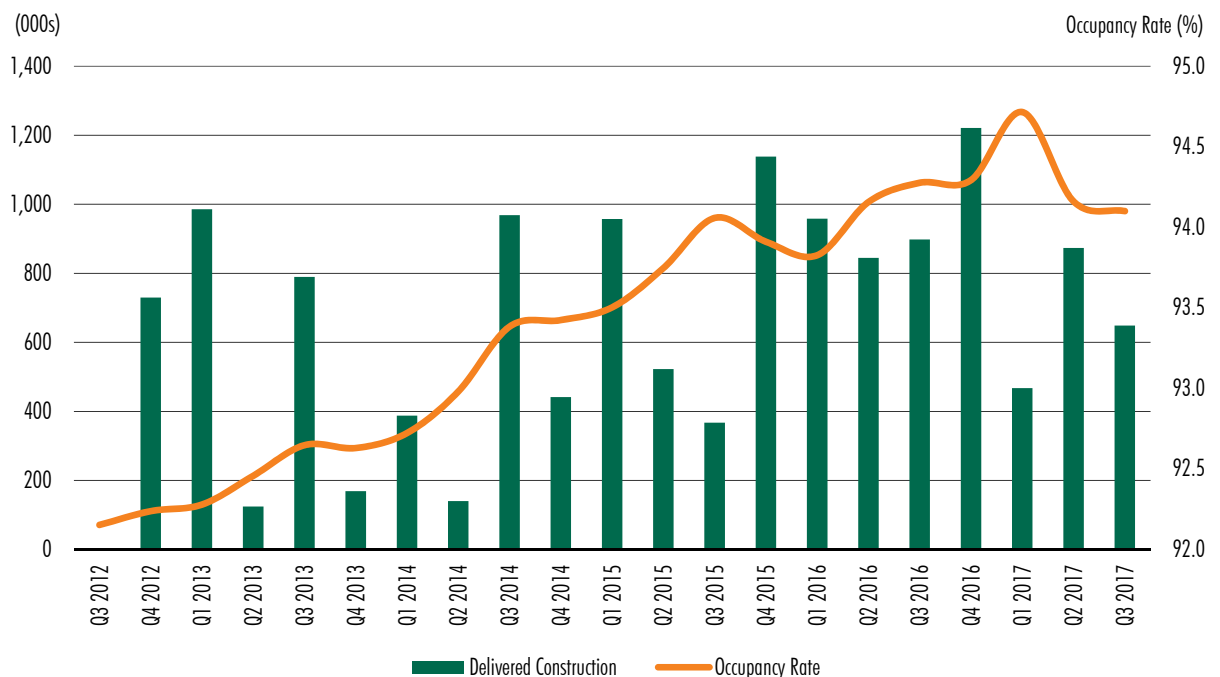
While absorption volume has slowed across the city, demand for space is still high as evidenced by tight occupancy rates at 94.1%, and rising Class A occupancy at 97.3%. Tightening availability is hindering large expansions, and thus deal flow is heaviest in small shop and restaurant segments.

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Delivered Construction (SF)	Q3 2017 Net Absorption (SF)
Inner Loop	322	15,646,919	3.8	37.25	147,000	0	(9,809)
Northeast	243	15,493,300	5.3	16.00	132,080	0	(16,251)
Near North	109	6,396,605	3.8	14.00	0	0	(13,627)
Far North	461	31,831,155	6.7	24.00	566,670	271,248	428,516
Near Northwest	185	10,644,491	4.4	25.50	0	0	(10,371)
Far Northwest	478	27,787,350	6.7	32.00	0	225,395	115,809
Near West	191	12,483,225	4.4	36.00	45,000	0	(3,913)
Far West	287	17,894,867	5.2	29.50	330,673	84,660	106,666
Near Southwest	223	12,767,563	9.2	17.25	70,000	0	(250,221)
Far Southwest	350	22,341,525	5.9	25.00	207,200	67,000	74,260
South	159	8,452,887	6.2	23.25	0	0	(20,443)
Near Southeast	136	9,093,153	7.6	18.00	0	0	(44,476)
Far Southeast	327	22,910,061	5.7	23.50	41,350	0	(44,588)
HOUSTON TOTAL	3,471	213,743,101	5.9	25.17	1,539,973	648,303	311,552

Source: CBRE Research, Q3 2017.

* Market total reflects weighted average asking rate

Figure 3: Historical Completions and Occupancy Rate


Source: CBRE Research, Q3 2017.

Figure 4: Historical Market Statistics

		2010	2011	2012	2013	2014	2015	2016	2017 YTD
INNER LOOP	Absorption (Net, SF)	63,030	(21,292)	75,133	72,274	97,668	461,629	111,063	18,252
	Avg. Asking Rent (Annual,NNN, \$/SF)	26.00	26.50	32.50	35.50	36.75	32.00	35.50	37.25
	Delivered Construction (SF)	58,330	0	169,470	0	185,000	434,465	54,774	72,541
	Occupancy Rate (%)	95.5	95.4	93.6	94.1	95.6	96.5	96.2	96.2
NORTHEAST	Absorption (Net, SF)	(214,733)	66,376	288,245	81,473	277,901	162,579	675,751	11,730
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.25	13.50	15.00	15.00	13.00	15.00	16.00
	Delivered Construction (SF)	319,016	81,686	31,000	174,954	320,651	100,000	1,215,083	0
	Occupancy Rate (%)	90.8	90.7	90.8	89.0	91.5	93.0	94.5	94.7
NEAR NORTH	Absorption (Net, SF)	(54,507)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	13,790
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.75	14.00	14.25	18.00	18.25	14.00	14.00	14.00
	Delivered Construction (SF)	0	0	0	0	0	0	0	56,250
	Occupancy Rate (%)	98.0	96.3	96.2	96.5	96.7	95.9	96.4	96.2
FAR NORTH	Absorption (Net, SF)	(60,178)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	1,171,864
	Avg. Asking Rent (Annual,NNN, \$/SF)	19.50	20.00	23.50	25.25	26.50	24.00	24.00	24.00
	Delivered Construction (SF)	0	458,347	79,103	134,527	198,038	298,521	528,160	1,000,136
	Occupancy Rate (%)	90.3	90.3	91.0	91.5	93.1	93.5	93.9	93.3
NEAR NORTHWEST	Absorption (Net, SF)	131,426	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(110,983)
	Avg. Asking Rent (Annual,NNN, \$/SF)	12.25	12.75	14.00	15.00	15.00	21.25	26.00	25.50
	Delivered Construction (SF)	0	79,895	0	40,000	0	0	0	0
	Occupancy Rate (%)	93.8	95.0	95.1	94.6	95.2	95.2	96.1	95.6
FAR NORTHWEST	Absorption (Net, SF)	81,212	267,120	96,476	245,378	369,190	268,491	563,711	168,768
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.50	20.00	22.50	25.25	25.25	33.75	32.75	32.00
	Delivered Construction (SF)	144,379	88,042	25,610	297,078	457,305	228,000	496,507	246,995
	Occupancy Rate (%)	91.3	92.1	92.7	93.0	93.0	94.0	94.0	93.3
NEAR WEST	Absorption (Net, SF)	(158,063)	52,845	(2,371)	119,801	114,165	111,794	72,158	(55,492)
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.50	19.00	21.00	24.50	24.50	34.00	36.00	36.00
	Delivered Construction (SF)	47,584	0	55,000	133,274	110,000	172,827	0	0
	Occupancy Rate (%)	94.7	94.6	94.9	95.5	95.7	95.3	97.1	95.6
FAR WEST	Absorption (Net, SF)	96,129	116,437	86,860	395,165	221,353	562,664	207,543	334,096
	Avg. Asking Rent (Annual,NNN, \$/SF)	15.50	16.25	24.00	30.50	30.50	28.75	29.00	29.50
	Delivered Construction (SF)	137,289	24,225	20,555	916,552	0	388,456	394,094	412,917
	Occupancy Rate (%)	92.2	92.3	93.0	92.9	92.7	94.2	95.0	94.8
NEAR SOUTHWEST	Absorption (Net, SF)	101,066	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(307,888)
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.00	13.50	15.00	15.00	16.75	17.00	17.25
	Delivered Construction (SF)	40,000	0	0	0	0	177,514	15,000	0
	Occupancy Rate (%)	91.2	90.8	90.2	91.2	88.4	91.5	92.1	90.8
FAR SOUTHWEST	Absorption (Net, SF)	(143,393)	297,614	(155,568)	174,496	241,414	126,984	319,119	(5,912)
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.25	18.75	21.25	25.25	25.50	22.25	24.25	25.00
	Delivered Construction (SF)	0	177,365	136,494	169,432	215,304	204,175	172,636	67,000
	Occupancy Rate (%)	90.3	91.8	92.4	92.6	93.8	93.7	94.2	94.1
SOUTH	Absorption (Net, SF)	106,924	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(95,226)
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.50	17.00	18.75	20.00	20.50	18.25	22.00	23.25
	Delivered Construction (SF)	40,000	0	5,000	7,917	0	366,640	139,691	24,427
	Occupancy Rate (%)	90.3	90.8	90.8	92.6	94.5	93.4	94.2	93.8
NEAR SOUTHEAST	Absorption (Net, SF)	27,161	(74,189)	86,101	292,866	71,167	30,537	101,811	(68,446)
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.00	13.00	14.25	14.75	14.75	22.50	18.00	18.00
	Delivered Construction (SF)	0	20,146	0	9,082	0	0	0	0
	Occupancy Rate (%)	89.5	90.9	88.3	90.3	93.3	91.6	92.2	92.4
FAR SOUTHEAST	Absorption (Net, SF)	50,259	144,553	200,367	179,833	2,093	687,635	742,662	45,175
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.25	16.75	17.75	20.25	20.50	14.50	23.75	23.50
	Delivered Construction (SF)	36,000	25,000	350,000	184,400	450,443	613,475	905,003	108,343
	Occupancy Rate (%)	91.4	92.1	92.3	92.7	93.7	93.6	92.4	94.3
HOUSTON TOTAL									
	Absorption (Net, SF)	26,333	996,595	282,431	2,038,283	2,109,691	2,455,860	4,025,876	1,119,728
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.50	16.94	19.29	21.87	22.15	22.69	23.81	25.17
	Delivered Construction (SF)	822,598	954,706	872,232	2,067,216	1,936,741	2,984,073	3,920,948	1,988,609
	Occupancy Rate (%)	91.8	92.2	92.2	92.6	93.4	93.9	94.3	94.1

Source: CBRE Research, Q3 2017.



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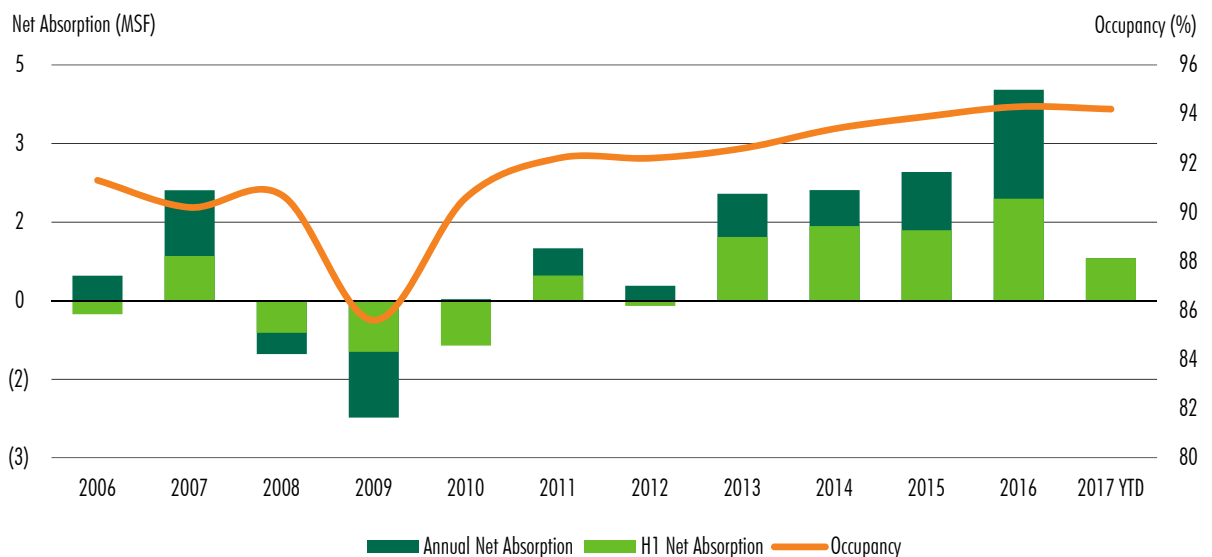
Houston Retail, Q2 2017

Tight market hampers available leasing activity

Occupancy
94.2%Under Construction
1,250,726 SFCompletions
873,180 SFNet Absorption
626,334 SFWtd. Avg. Asking Rate
\$25.09 PSF

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Occupancy



Source: CBRE Research, Q2 2017.

NO ROOM ON THE SHOW FLOOR: NET ABSORPTION SLOWS FROM RECORD PACE DUE TO DEARTH OF SPACE

Leasing activity is struggling to maintain the pace set in 2016 but not because tenant demand is suffering. A deficit of quality space impeded leasing causing Houston retailers to take down only 808,000 sq. ft. so far in 2017, which is still double the 10-year average, but nearly half of the space absorbed in H1 2016. New developments continue to absorb big box and junior box retailers: in Q2 2017 approximately 774,000 sq. ft. was occupied in new projects. As the development pipeline slows, Houston will see net absorption continue to taper.

FEWER LARGE PROJECTS IN DEVELOPMENT PIPELINE

As grocery expansions decline, the development pipeline will also slow as small, speculative strip

centers and mixed-use developments dominate the projects under construction. As a result, only 1.2 million sq. ft. of construction is currently underway, and only one third are grocery-anchored developments.

CONSUMER SPENDING SEES IMPROVEMENT

Houston MSA gross retail sales registered significant improvement in 2016, according to data released from the Texas Comptroller. Gross sales dropped 7.1% in 2015, yet increased by 7.0% last year, returning to 2014 highs. While retail sales data is on a delay, sales tax revenues reflect recent taxable sales and show improvement as well. The strongest gains in tax revenues are within Houston's suburban counties as population growth is strongest in the outlying areas.

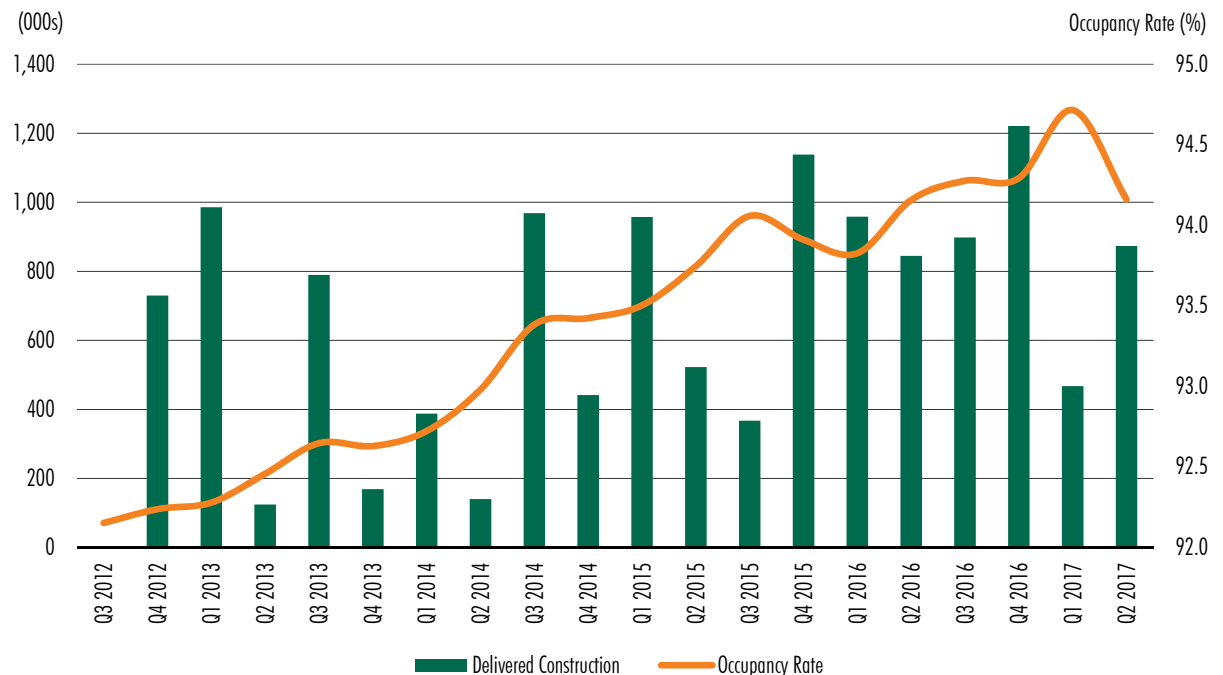
Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Delivered Construction (SF)	Q2 2017 Net Absorption (SF)
Inner Loop	321	15,642,253	3.7	37.00	147,000	42,942	(72)
Northeast	243	15,475,193	4.8	16.00	80,000	0	1,820
Near North	110	6,426,705	3.6	14.00	0	0	13,130
Far North	457	31,460,439	6.1	24.00	455,068	628,888	640,083
Near Northwest	185	10,639,906	4.0	25.50	0	0	(53,989)
Far Northwest	471	27,599,634	6.5	32.00	0	0	104,999
Near West	191	12,621,410	4.9	36.00	45,000	0	(66,471)
Far West	289	17,958,027	5.8	29.50	357,333	93,007	70,115
Near Southwest	223	12,694,541	7.1	17.25	70,000	0	(50,002)
Far Southwest	349	22,274,694	6.0	25.00	44,000	0	(112,528)
South	159	8,453,721	5.5	23.00	0	0	(47,792)
Near Southeast	137	9,141,153	7.6	18.00	0	0	(13,576)
Far Southeast	327	22,995,359	7.3	23.50	52,325	108,343	140,617
HOUSTON TOTAL	3,462	213,383,035	5.8	25.09*	1,250,726	873,180	626,334

Source: CBRE Research, Q2 2017.

* Market total reflects weighted average asking rate

Figure 3: Historical Completions and Occupancy Rate



Source: CBRE Research, Q2 2017.

Figure 4: Historical Market Statistics

		2010	2011	2012	2013	2014	2015	2016	2017 YTD
INNER LOOP	Absorption (Net, SF)	63,030	(21,292)	75,133	72,274	97,668	461,629	111,063	28,061
	Avg. Asking Rent (Annual,NNN, \$/SF)	26.00	26.50	32.50	35.50	36.75	32.00	35.50	37.00
	Delivered Construction (SF)	58,330	0	169,470	0	185,000	434,465	54,774	72,541
	Occupancy Rate (%)	95.5	95.4	93.6	94.1	95.6	96.5	96.2	96.3
NORTHEAST	Absorption (Net, SF)	(214,733)	66,376	288,245	81,473	277,901	162,579	675,751	27,981
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.25	13.50	15.00	15.00	13.00	15.00	16.00
	Delivered Construction (SF)	319,016	81,686	31,000	174,954	320,651	100,000	1,215,083	0
	Occupancy Rate (%)	90.8	90.7	90.8	89.0	91.5	93.0	94.5	95.2
NEAR NORTH	Absorption (Net, SF)	(54,507)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	27,417
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.75	14.00	14.25	18.00	18.25	14.00	14.00	14.00
	Delivered Construction (SF)	0	0	0	0	0	0	0	56,250
	Occupancy Rate (%)	98.0	96.3	96.2	96.5	96.7	95.9	96.4	96.4
FAR NORTH	Absorption (Net, SF)	(60,178)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	743,348
	Avg. Asking Rent (Annual,NNN, \$/SF)	19.50	20.00	23.50	25.25	26.50	24.00	24.00	24.00
	Delivered Construction (SF)	0	458,347	79,103	134,527	198,038	298,521	528,160	728,888
	Occupancy Rate (%)	90.3	90.3	91.0	91.5	93.1	93.5	93.9	93.9
NEAR NORTHWEST	Absorption (Net, SF)	131,426	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(100,612)
	Avg. Asking Rent (Annual,NNN, \$/SF)	12.25	12.75	14.00	15.00	15.00	21.25	26.00	25.50
	Delivered Construction (SF)	0	79,895	0	40,000	0	0	0	0
	Occupancy Rate (%)	93.8	95.0	95.1	94.6	95.2	95.2	96.1	96.0
FAR NORTHWEST	Absorption (Net, SF)	81,212	267,120	96,476	245,378	369,190	268,491	563,711	52,959
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.50	20.00	22.50	25.25	25.25	33.75	32.75	32.00
	Delivered Construction (SF)	144,379	88,042	25,610	297,078	457,305	228,000	496,507	21,600
	Occupancy Rate (%)	91.3	92.1	92.7	93.0	93.0	94.0	94.0	93.5
NEAR WEST	Absorption (Net, SF)	(158,063)	52,845	(2,371)	119,801	114,165	111,794	72,158	(51,579)
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.50	19.00	21.00	24.50	24.50	34.00	36.00	36.00
	Delivered Construction (SF)	47,584	0	55,000	133,274	110,000	172,827	0	0
	Occupancy Rate (%)	94.7	94.6	94.9	95.5	95.7	95.3	97.1	95.1
FAR WEST	Absorption (Net, SF)	96,129	116,437	86,860	395,165	221,353	562,664	207,543	227,430
	Avg. Asking Rent (Annual,NNN, \$/SF)	15.50	16.25	24.00	30.50	30.50	28.75	29.00	29.50
	Delivered Construction (SF)	137,289	24,225	20,555	916,552	0	388,456	394,094	328,257
	Occupancy Rate (%)	92.2	92.3	93.0	92.9	92.7	94.2	95.0	94.2
NEAR SOUTHWEST	Absorption (Net, SF)	101,066	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(57,667)
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.25	13.00	13.50	15.00	15.00	16.75	17.00	17.25
	Delivered Construction (SF)	40,000	0	0	0	0	177,514	15,000	0
	Occupancy Rate (%)	91.2	90.8	90.2	91.2	88.4	91.5	92.1	92.9
FAR SOUTHWEST	Absorption (Net, SF)	(143,393)	297,614	(155,568)	174,496	241,414	126,984	319,119	(80,172)
	Avg. Asking Rent (Annual,NNN, \$/SF)	18.25	18.75	21.25	25.25	25.50	22.25	24.25	25.00
	Delivered Construction (SF)	0	177,365	136,494	169,432	215,304	204,175	172,636	0
	Occupancy Rate (%)	90.3	91.8	92.4	92.6	93.8	93.7	94.2	94.0
SOUTH	Absorption (Net, SF)	106,924	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(74,783)
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.50	17.00	18.75	20.00	20.50	18.25	22.00	23.00
	Delivered Construction (SF)	40,000	0	5,000	7,917	0	366,640	139,691	24,427
	Occupancy Rate (%)	90.3	90.8	90.8	92.6	94.5	93.4	94.2	94.5
NEAR SOUTHEAST	Absorption (Net, SF)	27,161	(74,189)	86,101	292,866	71,167	30,537	101,811	(23,970)
	Avg. Asking Rent (Annual,NNN, \$/SF)	13.00	13.00	14.25	14.75	14.75	22.50	18.00	18.00
	Delivered Construction (SF)	0	20,146	0	9,082	0	0	0	0
	Occupancy Rate (%)	89.5	90.9	88.3	90.3	93.3	91.6	92.2	92.4
FAR SOUTHEAST	Absorption (Net, SF)	50,259	144,553	200,367	179,833	2,093	687,635	742,662	89,763
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.25	16.75	17.75	20.25	20.50	14.50	23.75	23.50
	Delivered Construction (SF)	36,000	25,000	350,000	184,400	450,443	613,475	905,003	108,343
	Occupancy Rate (%)	91.4	92.1	92.3	92.7	93.7	93.6	92.4	92.7
HOUSTON TOTAL									
	Absorption (Net, SF)	26,333	996,595	282,431	2,038,283	2,109,691	2,455,860	4,025,876	808,176
	Avg. Asking Rent (Annual,NNN, \$/SF)	16.50	16.94	19.29	21.87	22.15	22.69	23.81	25.09
	Delivered Construction (SF)	822,598	954,706	872,232	2,067,216	1,936,741	2,984,073	3,920,948	1,340,306
	Occupancy Rate (%)	91.8	92.2	92.2	92.6	93.4	93.9	94.3	94.2

Source: CBRE Research, Q2 2017.



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Houston Retail, Q1 2017

Local demand insulated from national retail bankruptcies



Occupancy
94.7%



Under Construction
1,605,810 SF



Completions
467,126 SF



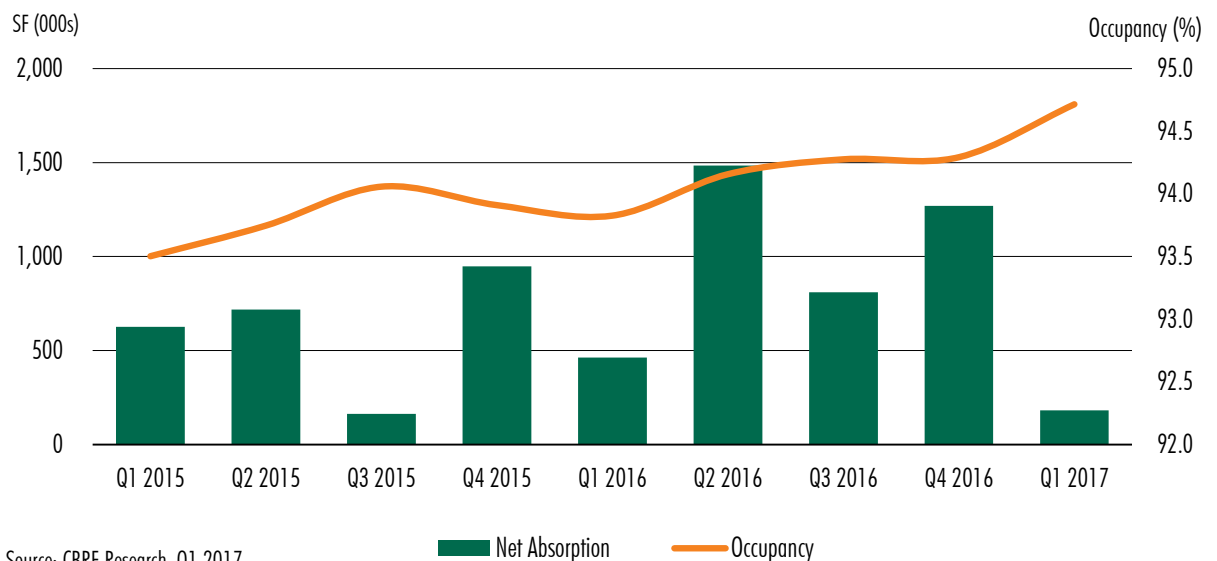
Net Absorption
181,842 SF



Wtd. Avg. Asking Rate
\$22.42 PSF

*Arrows indicate trend from previous quarter.

Figure 1: Net Absorption and Occupancy



STRENGTH IN THE MIDST OF NATIONAL CLOSURES

In the last year 1.3 million sq. ft. of big box space was returned to the market due to national retail closures such as Sports Authority, Fresh Market, Golfsmith, and Sears. However, fundamentals in the Houston retail market are as strong as they've ever been—occupancy is at 94.7%, rents are steadily increasing, and demand in 2016 reached a record high.

Houston absorbed 182,000 sq. ft. in Q1 2017, the softest gain in six quarters. Unlike supply-laden office and multifamily sectors, the retail pipeline remains disciplined, adding to future stability while at the same time constraining growth. New developments continue to absorb big box and junior box retailers—in Q1 2017 these deals

represented 363,000 sq. ft. This movement coupled with strong urban demand has led to climbing occupancy which increased by 40 basis points this quarter.

Despite announcements of retail bankruptcies dominating headlines and lower net absorption in Q1 2017, retail demand remains healthy and big box vacancies were quickly backfilled by Dick's Sporting Goods, Total Wine, and discount/off-price retailers. Future shadow risks include bankrupt Gander Mountain, as well as troubled Payless ShoeSource and Radio Shack, all of which will give back space this year. Locally, however, growing demographics continue to translate into retail demand; from 2010 to 2016, Houston added approximately 2,600 people per week supporting expanding retail.

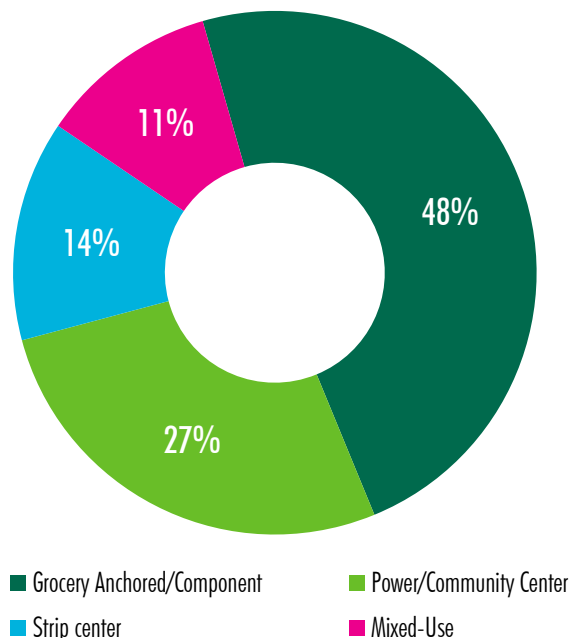
Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Delivered Construction (SF)	Q1 2017 Net Absorption (SF)
Inner Loop	320	15,665,570	3.4	36.25	147,000	29,599	28,133
Northeast	243	15,465,787	4.6	15.00	80,000	0	26,161
Near North	109	6,449,053	3.7	14.00	0	56,250	14,287
Far North	450	30,849,122	6.2	24.00	760,972	100,000	103,265
Near Northwest	185	10,592,514	4.1	25.75	0	0	(46,623)
Far Northwest	469	27,444,049	6.1	32.75	0	21,600	(52,040)
Near West	192	12,652,049	3.3	36.00	70,830	0	14,892
Far West	287	18,012,733	5.4	29.50	386,340	235,250	157,315
Near Southwest	223	12,685,338	6.7	17.00	0	0	(7,665)
Far Southwest	349	22,224,985	4.9	24.50	0	0	32,356
South	159	8,376,431	5.8	22.25	0	24,427	(26,991)
Near Southeast	137	9,135,584	6.3	18.00	160,668	0	(10,394)
Far Southeast	326	22,888,751	5.8	23.50	0	0	(50,854)
HOUSTON TOTAL	3,449	212,441,966	5.3	22.42*	1,605,810	467,126	181,842

Source: CBRE Research, Q1 2017.

* Market total reflects weighted average asking rate

Figure 3: Construction Activity by Property Type



- Grocery-anchored and retail centers with a grocery component continue to dominate the construction pipeline, representing 48% of projects currently under construction. Power centers and large community centers are gaining a larger share of construction activity.
- The 1.6 million sq. ft. of retail product under construction is significantly preleased at 85.2%.
- Construction activity is concentrated in the Far North and Far West submarkets.

Source: CBRE Research, Q1 2017.

Figure 4: Historical Market Statistics

		2010	2011	2012	2013	2014	2015	2016	2017 YTD
INNER LOOP	Absorption (Net, SF)	63,030	(21,292)	75,133	72,274	97,668	461,629	111,063	28,133
	Avg. Asking Rent (Annual, NNN, \$/SF)	26.00	26.50	32.50	35.50	36.75	32.00	35.50	36.25
	Delivered Construction (SF)	58,330	0	169,470	0	185,000	434,465	54,774	29,599
	Occupancy Rate (%)	95.5	95.4	93.6	94.1	95.6	96.5	96.2	96.6
NORTHEAST	Absorption (Net, SF)	(214,733)	66,376	288,245	81,473	277,901	162,579	675,751	26,161
	Avg. Asking Rent (Annual, NNN, \$/SF)	13.25	13.25	13.50	15.00	15.00	13.00	15.00	15.00
	Delivered Construction (SF)	319,016	81,686	31,000	174,954	320,651	100,000	1,215,083	0
	Occupancy Rate (%)	90.8	90.7	90.8	89.0	91.5	93.0	94.5	95.4
NEAR NORTH	Absorption (Net, SF)	(54,507)	(23,143)	(164,326)	60,082	(60,101)	(19,964)	31,641	14,287
	Avg. Asking Rent (Annual, NNN, \$/SF)	13.75	14.00	14.25	18.00	18.25	14.00	14.00	14.00
	Delivered Construction (SF)	0	0	0	0	0	0	0	56,250
	Occupancy Rate (%)	98.0	96.3	96.2	96.5	96.7	95.9	96.4	96.3
FAR NORTH	Absorption (Net, SF)	(60,178)	103,000	(97,182)	249,193	600,344	(2,560)	808,749	103,265
	Avg. Asking Rent (Annual, NNN, \$/SF)	19.50	20.00	23.50	25.25	26.50	24.00	24.00	24.00
	Delivered Construction (SF)	0	458,347	79,103	134,527	198,038	298,521	528,160	100,000
	Occupancy Rate (%)	90.3	90.3	91.0	91.5	93.1	93.5	93.9	93.8
NEAR NORTHWEST	Absorption (Net, SF)	131,426	84,388	17,602	(69,499)	118,692	(24,491)	9,026	(46,623)
	Avg. Asking Rent (Annual, NNN, \$/SF)	12.25	12.75	14.00	15.00	15.00	21.25	26.00	25.75
	Delivered Construction (SF)	0	79,895	0	40,000	0	0	0	0
	Occupancy Rate (%)	93.8	95.0	95.1	94.6	95.2	95.2	96.1	95.9
FAR NORTHWEST	Absorption (Net, SF)	81,212	267,120	96,476	245,378	369,190	268,491	563,711	(52,040)
	Avg. Asking Rent (Annual, NNN, \$/SF)	18.50	20.00	22.50	25.25	25.25	33.75	32.75	32.75
	Delivered Construction (SF)	144,379	88,042	25,610	297,078	457,305	228,000	496,507	21,600
	Occupancy Rate (%)	91.3	92.1	92.7	93.0	93.0	94.0	94.0	93.9
NEAR WEST	Absorption (Net, SF)	(158,063)	52,845	(2,371)	119,801	114,165	111,794	72,158	14,892
	Avg. Asking Rent (Annual, NNN, \$/SF)	18.50	19.00	21.00	24.50	24.50	34.00	36.00	36.00
	Delivered Construction (SF)	47,584	0	55,000	133,274	110,000	172,827	0	0
	Occupancy Rate (%)	94.7	94.6	94.9	95.5	95.7	95.3	97.1	96.7
FAR WEST	Absorption (Net, SF)	96,129	116,437	86,860	395,165	221,353	562,664	207,543	157,315
	Avg. Asking Rent (Annual, NNN, \$/SF)	15.50	16.25	24.00	30.50	30.50	28.75	29.00	29.50
	Delivered Construction (SF)	137,289	24,225	20,555	916,552	0	388,456	394,094	235,250
	Occupancy Rate (%)	92.2	92.3	93.0	92.9	92.7	94.2	95.0	94.6
NEAR SOUTHWEST	Absorption (Net, SF)	101,066	9,275	(147,823)	50,497	(42,632)	121,835	128,670	(7,665)
	Avg. Asking Rent (Annual, NNN, \$/SF)	13.25	13.00	13.50	15.00	15.00	16.75	17.00	17.00
	Delivered Construction (SF)	40,000	0	0	0	0	177,514	15,000	0
	Occupancy Rate (%)	91.2	90.8	90.2	91.2	88.4	91.5	92.1	93.3
FAR SOUTHWEST	Absorption (Net, SF)	(143,393)	297,614	(155,568)	174,496	241,414	126,984	319,119	32,356
	Avg. Asking Rent (Annual, NNN, \$/SF)	18.25	18.75	21.25	25.25	25.50	22.25	24.25	24.50
	Delivered Construction (SF)	0	177,365	136,494	169,432	215,304	204,175	172,636	0
	Occupancy Rate (%)	90.3	91.8	92.4	92.6	93.8	93.7	94.2	95.1
SOUTH	Absorption (Net, SF)	106,924	(26,389)	(1,083)	186,724	98,437	(31,273)	253,972	(26,991)
	Avg. Asking Rent (Annual, NNN, \$/SF)	16.50	17.00	18.75	20.00	20.50	18.25	22.00	22.25
	Delivered Construction (SF)	40,000	0	5,000	7,917	0	366,640	139,691	24,427
	Occupancy Rate (%)	90.3	90.8	90.8	92.6	94.5	93.4	94.2	94.2
NEAR SOUTHEAST	Absorption (Net, SF)	27,161	(74,189)	86,101	292,866	71,167	30,537	101,811	(10,394)
	Avg. Asking Rent (Annual, NNN, \$/SF)	13.00	13.00	14.25	14.75	14.75	22.50	18.00	18.00
	Delivered Construction (SF)	0	20,146	0	9,082	0	0	0	0
	Occupancy Rate (%)	89.5	90.9	88.3	90.3	93.3	91.6	92.2	93.7
FAR SOUTHEAST	Absorption (Net, SF)	50,259	144,553	200,367	179,833	2,093	687,635	742,662	(50,854)
	Avg. Asking Rent (Annual, NNN, \$/SF)	16.25	16.75	17.75	20.25	20.50	14.50	23.75	23.50
	Delivered Construction (SF)	36,000	25,000	350,000	184,400	450,443	613,475	905,003	0
	Occupancy Rate (%)	91.4	92.1	92.3	92.7	93.7	93.6	92.4	94.2
HOUSTON TOTAL									
	Absorption (Net, SF)	26,333	996,595	282,431	2,038,283	2,109,691	2,455,860	4,025,876	181,842
	Avg. Asking Rent (Annual, NNN, \$/SF)	16.50	16.94	19.29	21.87	22.15	22.69	23.81	22.42
	Delivered Construction (SF)	822,598	954,706	872,232	2,067,216	1,936,741	2,984,073	3,920,948	467,126
	Occupancy Rate (%)	91.8	92.2	92.2	92.6	93.4	93.9	94.3	94.7

Source: CBRE Research, Q1 2017.


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Houston Retail, Q4 2016

2016 demand claims record; annual net absorption climbs above 4 MSF

Vacancy
5.7%

Under Construction
1,637,246 SF

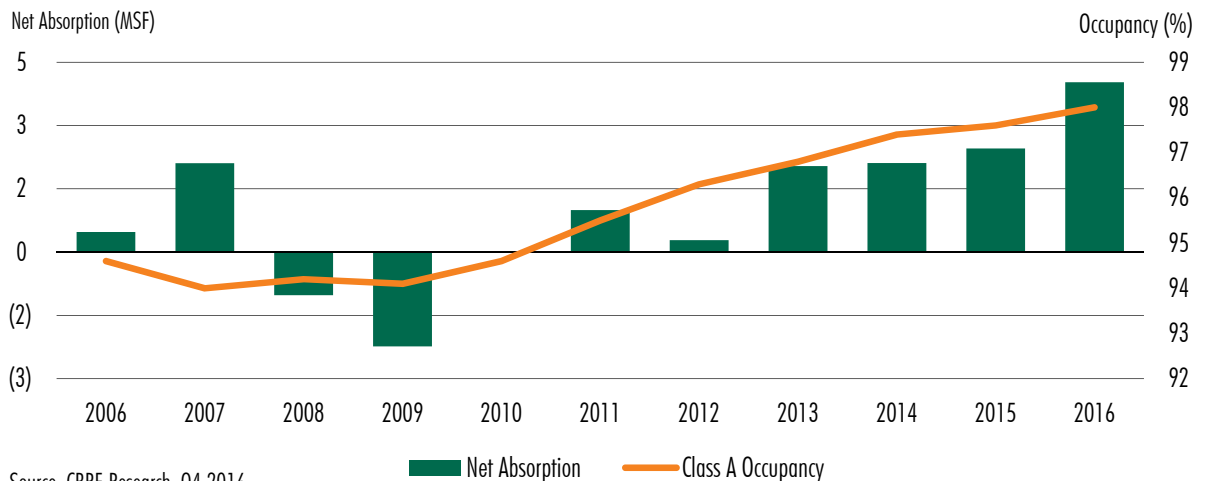
Completions
1,220,706 SF

Net Absorption
1,269,373 SF

Wtd. Avg. Asking Rate
\$23.81 PSF

*Arrows indicate change from previous quarter.

Figure 1: Historical Net Absorption and Class A Occupancy



DEMAND OUTPACES SUPPLY CYCLE LEADING TO TIGHT OCCUPANCY

The Houston retail market closed the year with the highest net absorption on record— reaching over 4 million sq. ft., over half of this year's demand was in new development projects. During the height of this leasing cycle (2013-2016), Houston absorbed 10.6 million sq. ft., during the same period the market delivered 9.2 million sq. ft. sustaining occupancies at a historic high of 94.3%.

Prime space, the target of most tenants currently in the market, is even more scarce at 98% occupied and tighter yet in urban trade areas. With urban availability at such a premium (200,000 sq. ft. currently available) developers are now forced to act on national retail development trends.

In 2017, Houston will see construction kick off more stacked power centers and the city's first two-story grocery store as land prices and availability combined with climbing construction costs play a larger role in changing the urban retail landscape.

FUNDAMENTALS ARE STRONG, BUT CONSUMER SPENDING SOFTENS

Retail sales could not hold off the softening economy for the entire year, seeing further declines of 4.7% in the recently released second quarter data. Strongest spending declines were recorded in home furnishings, general merchandise, and electronics/appliances, an indication of waning consumer confidence. The most recent sales tax data from October shows a

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q4 2016 Net Absorption (SF)	2016 Total Net Absorption (SF)
Inner Loop	320	15,665,570	598,683	3.8	35.50	136,599	20,664	111,063
Northeast	243	15,465,885	855,555	5.5	15.00	80,000	422,984	675,751
Near North	109	6,482,919	230,565	3.6	14.00	56,250	(6,240)	31,641
Far North	448	30,869,415	1,872,787	6.1	24.00	760,972	87,342	808,749
Near Northwest	185	10,592,514	414,379	3.9	26.00	0	(7,194)	9,026
Far Northwest	469	27,488,382	1,643,710	6.0	32.75	21,600	169,429	563,711
Near West	193	12,641,970	363,566	2.9	36.00	45,000	(11,653)	72,158
Far West	285	18,168,623	916,152	5.0	29.00	351,730	43,927	207,543
Near Southwest	223	12,706,884	1,008,247	7.9	17.00	0	56,540	128,670
Far Southwest	351	22,351,926	1,302,452	5.8	24.25	0	103,231	319,119
South	159	8,375,933	487,289	5.8	22.00	24,427	(14,027)	253,972
Near Southeast	137	9,117,674	709,686	7.8	18.00	0	57,164	101,811
Far Southeast	325	22,892,955	1,743,281	7.6	23.75	160,668	347,206	742,662
HOUSTON TOTAL	3,447	212,820,650	12,146,352	5.7	23.81*	1,637,246	1,269,373	4,025,876

Source: CBRE Research, Q4 2016.

* Market total reflects weighted average asking rate

continuing decline in retail and business spending in the Houston MSA, with collections down 2.3% from last year.

Given the significant lag in data, and the consensus among local economists that the worst of the downturn is behind Houston, the metro could see retail sales flatten out in the first half of 2017, a positive considering the layoffs experienced in high-paying jobs this year. These economic factors combined with the maturing retail cycle led to some large big box tenants and grocers to slow their planned rate of expansion in Houston.

RETAIL YEAR AHEAD—NEW IMAGE FOR HOUSTON TO FUEL MORE EXPANSIONS

The high levels of demand experienced throughout this year were due to pent up demand from five years of population growth. As net migrations taper, the retail market could see moderating demand and construction levels in 2017. The recent influx of new residents continues to shift Houston's

outward image, and with the upcoming Super Bowl LI, there is opportunity to capture the attention of national concepts, possibly spurring new retailers to enter the market.

Next year may see local grocery expansions slow, but several smaller concepts, like Lidl, will enter the market setting the stage for a “super-market” share battle. Chef-driven restaurant concepts and burger chain expansions will continue to be a significant trend for retail space. Landlords are expected to further adjust the tenant mix to satisfy consumer trends, thereby opening up more availabilities for restaurant and entertainment concepts.

While the pace of retail expansions are expected to moderate next year, the conservative construction cycle has positioned retail landlords competitively in the near term.

CONSOLIDATIONS, CLOSINGS, AND CONSTRUCTION AFFECT DEMAND

The market is still being affected by closing and consolidations most notably Golfsmith, Hastings and Office Depot/Max which are leaving behind over 100,000 sq. ft. in Q4 2016. While grocery anchors have dominated the large leases this year and make up a significant amount of net absorption, big box expansions are gaining traction and contributed 320,000 sq. ft. to the total. Newly delivered construction projects is the primary cause of the elevated net absorption levels and in Q4 2016 accounts for 1 million sq. ft. of the total net absorption.

The average occupancy stayed flat at 94.3% in Q4 2016 due to the aforementioned big box vacancies and vacant space in new deliveries. Occupancy will remain at this level into 2017 as strong leasing activity is expected to continue.

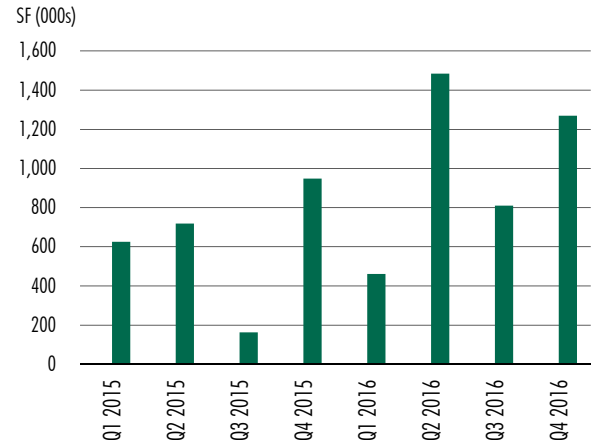
LIMITED AVAILABILITY FORCES URBAN RATES HIGHER

Overall Houston weighted asking rates increased to \$23.81 per sq. ft. seeing the highest gains in suburban markets with increasing construction activity. Class A rents in prime Inner Loop retail range between \$45-\$70 with \$15 NNNs; average urban prime rates are \$53.75 per sq. ft. Big-box spaces across Houston are asking between the upper \$20s and low \$30s.

SUBURBAN DEVELOPMENT DOMINATED 2016 PIPELINE

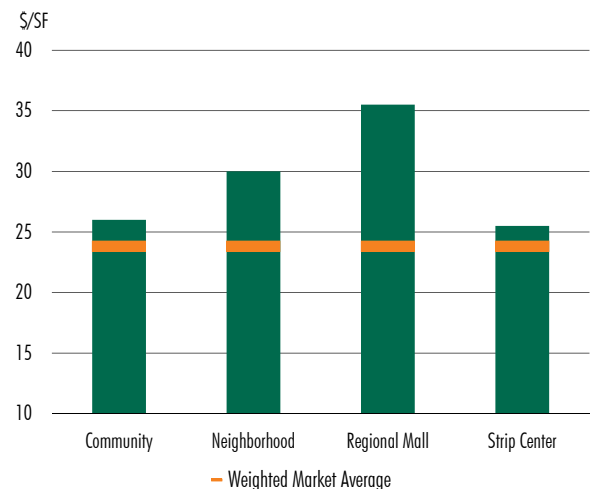
A flurry of development activity occurred across Houston in 2016, with announcements of new retail construction weekly. Retail developers are moving forward on more projects, but lending constraints and rising construction costs produced a conservative construction cycle. Suburban development is prevalent, especially in Far North, Far West, and Far Southeast submarkets. Citywide 1.6 million sq. ft. is under construction with 2.6 million sq. ft. anticipated to begin in 2017. The volume of completed projects increased in Q4 2016 as 1.2 million sq. ft. was delivered, bringing the annual total to 3.9 million sq. ft. completed.

Figure 3: Net Absorption, Last Eight Quarters



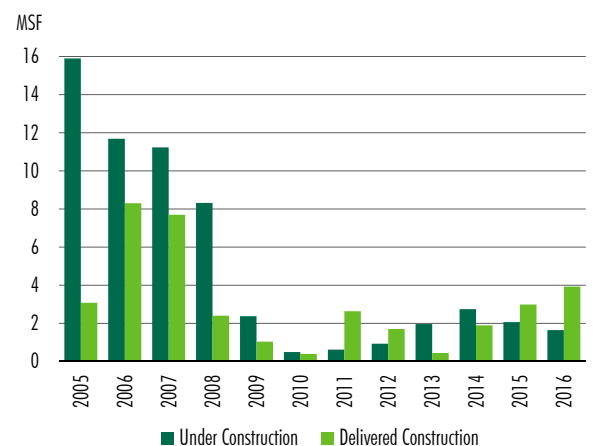
Source: CBRE Research, Q4 2016.

Figure 4: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q4 2016.

Figure 5: Construction



Source: CBRE Research, Q4 2016.

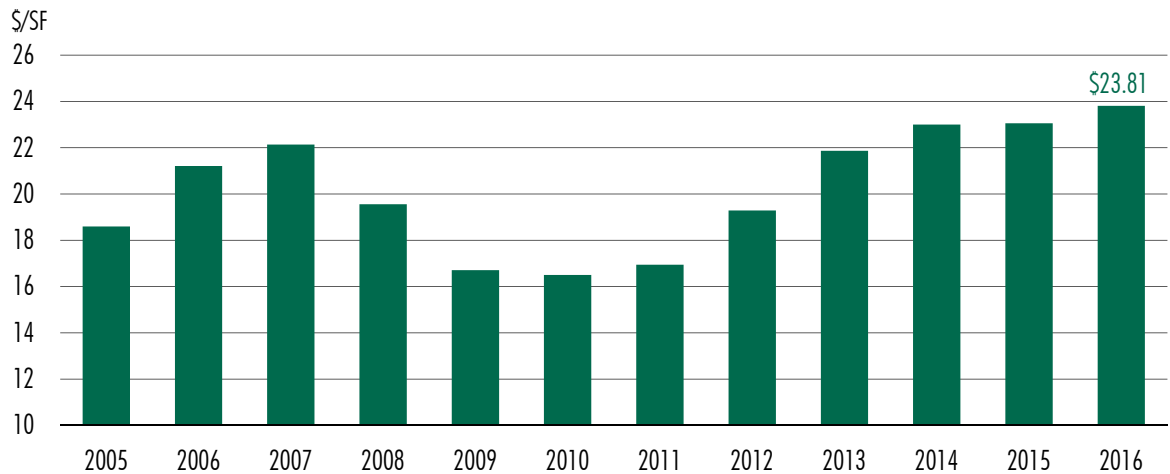
Houston Retail, Q4 2016

Figure 1: Market Statistics

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016 YTD
INNER LOOP										
Absorption (Net SF)	7,248	15,617	190,431	(848)	256,429	13,358	58,594	18,447	20,664	111,063
Asking Rent, NNN Avg. Annual	36.75	36.75	36.75	32.00	32.00	32.00	32.00	35.00	35.50	35.50
Delivered Construction (SF)	0	0	125,000	39,465	270,000	25,361	0	29,413	0	54,774
Vacancy Rate (%)	4.4	4.4	3.2	3.5	3.5	3.5	2.9	3.1	3.8	3.8
NORTHEAST										
Absorption (Net SF)	43,613	31,014	101,757	39,741	(9,933)	10,959	94,683	147,125	422,984	675,751
Asking Rent, NNN Avg. Annual	15.00	15.00	15.00	13.50	13.00	13.00	13.00	15.25	15.00	15.00
Delivered Construction (SF)	19,662	60,000	40,000	0	0	420,000	57,000	335,959	402,124	1,215,083
Vacancy Rate (%)	8.5	8.2	7.5	6.9	7.0	6.9	6.6	6.6	5.5	5.5
NEAR NORTH										
Absorption (Net SF)	(1,913)	(7,264)	29,330	(31,563)	(10,467)	(4,372)	35,563	6,690	(6,240)	31,641
Asking Rent, NNN Avg. Annual	18.25	18.25	18.25	14.00	14.00	13.75	13.50	14.00	14.00	14.00
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	3.3	3.5	3.4	3.3	4.1	4.8	4.2	3.6	3.6	3.6
FAR NORTH										
Absorption (Net SF)	151,645	(55,869)	60,348	(20,041)	13,002	120,382	386,624	214,401	87,342	808,749
Asking Rent, NNN Avg. Annual	26.50	27.00	27.00	24.00	24.00	22.50	23.00	23.00	24.00	24.00
Delivered Construction (SF)	153,000	298,521	0	0	0	0	309,007	181,653	37,500	528,160
Vacancy Rate (%)	6.9	6.8	6.4	6.5	6.5	6.5	6.4	6.1	6.1	6.1
NEAR NORTHWEST										
Absorption (Net SF)	(17,771)	(21,557)	14,932	(28,443)	10,577	6,250	20,110	(10,140)	(7,194)	9,026
Asking Rent, NNN Avg. Annual	15.00	15.00	20.00	22.75	21.25	21.25	25.00	25.00	26.00	26.00
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	4.8	4.7	4.8	4.8	4.8	4.5	4.4	3.8	3.9	3.9
FAR NORTHWEST										
Absorption (Net SF)	54,733	213,603	33,919	27,508	(6,539)	108,312	82,729	203,241	169,429	563,711
Asking Rent, NNN Avg. Annual	25.25	25.50	25.50	32.00	33.75	33.75	33.00	33.00	32.75	32.75
Delivered Construction (SF)	105,000	165,000	63,000	0	0	161,770	117,379	71,092	146,266	496,507
Vacancy Rate (%)	7.0	6.6	6.3	5.9	6.0	6.5	6.0	5.7	6.0	6.0
NEAR WEST										
Absorption (Net SF)	33,716	66,667	(15,396)	34,199	26,324	(5,400)	38,752	50,459	(11,653)	72,158
Asking Rent, NNN Avg. Annual	24.50	24.50	30.50	33.50	34.00	34.50	34.00	35.50	36.00	36.00
Delivered Construction (SF)	0	127,827	45,000	0	0	0	0	0	0	0
Vacancy Rate (%)	4.3	4.2	4.3	4.6	4.7	4.9	3.7	3.1	2.9	2.9
FAR WEST										
Absorption (Net SF)	94,659	280,488	77,106	104,219	100,851	(35,203)	114,961	83,858	43,927	207,543
Asking Rent, NNN Avg. Annual	30.50	30.50	30.50	28.25	28.75	28.75	29.00	28.00	29.00	29.00
Delivered Construction (SF)	0	98,839	24,500	0	265,117	27,500	0	130,778	235,816	394,094
Vacancy Rate (%)	7.3	7.1	6.8	5.8	5.8	5.5	5.4	4.8	5.0	5.0
NEAR SOUTHWEST										
Absorption (Net SF)	16,845	(390)	80,483	36,514	5,228	(2,073)	12,673	61,530	56,540	128,670
Asking Rent, NNN Avg. Annual	15.00	15.00	15.00	17.75	16.75	16.75	16.00	18.50	17.00	17.00
Delivered Construction (SF)	0	0	0	177,514	0	0	15,000	0	0	15,000
Vacancy Rate (%)	11.6	11.3	11.1	7.8	8.5	8.7	8.1	8.5	7.9	7.9
FAR SOUTHWEST										
Absorption (Net SF)	38,503	44,196	21,588	(17,732)	78,932	87,191	146,418	(17,721)	103,231	319,119
Asking Rent, NNN Avg. Annual	25.50	25.50	25.50	22.25	22.25	22.50	24.25	23.50	24.25	24.25
Delivered Construction (SF)	136,454	0	204,175	0	0	25,575	45,061	0	102,000	172,636
Vacancy Rate (%)	6.2	6.3	6.4	6.5	6.3	5.9	5.3	5.8	5.8	5.8
SOUTH										
Absorption (Net SF)	13,355	(5,034)	(20,510)	(39,580)	33,851	63,992	182,581	21,426	(14,027)	253,972
Asking Rent, NNN Avg. Annual	20.50	20.50	20.50	18.75	18.25	18.25	19.75	20.00	22.00	22.00
Delivered Construction (SF)	0	42,000	0	150,000	174,640	0	139,691	0	0	139,691
Vacancy Rate (%)	5.5	5.2	5.4	5.5	6.6	5.9	5.7	5.5	5.8	5.8
NEAR SOUTHEAST										
Absorption (Net SF)	(32,885)	(27,463)	33,062	29,255	(4,317)	21,379	27,253	(3,985)	57,164	101,811
Asking Rent, NNN Avg. Annual	14.75	14.75	20.00	22.50	22.50	22.50	22.50	18.00	18.00	18.00
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	6.7	7.3	7.2	6.8	8.4	8.4	8.0	8.2	7.8	7.8
FAR SOUTHEAST										
Absorption (Net SF)	(84,760)	91,424	111,309	30,250	454,652	77,020	283,205	35,231	347,206	742,662
Asking Rent, NNN Avg. Annual	20.50	20.50	20.50	13.75	14.50	14.25	15.00	22.50	23.75	23.75
Delivered Construction (SF)	27,000	165,000	20,475	-	428,000	297,683	161,375	148,945	297,000	905,003
Vacancy Rate (%)	6.3	6.5	6.6	6.8	6.4	7.3	7.7	7.8	7.6	7.6
HOUSTON TOTAL										
Absorption (Net SF)	316,988	625,432	718,359	163,479	948,590	461,795	1,484,146	810,562	1,269,373	4,025,876
Wtd. Asking Rent, NNN Avg. Annual	23.00	22.93	23.52	22.97	23.06	22.80	22.95	23.49	23.81	23.81
Delivered Construction (SF)	444,116	957,187	522,150	366,979	1,137,757	957,889	844,513	897,840	1,220,706	3,920,948
Vacancy Rate (%)	6.6	6.5	6.3	5.9	6.1	6.2	5.8	5.7	5.7	5.7

Source: CBRE Research, Q4 2016.

Figure 2: Historical Asking Rate, NNN Avg. Annual



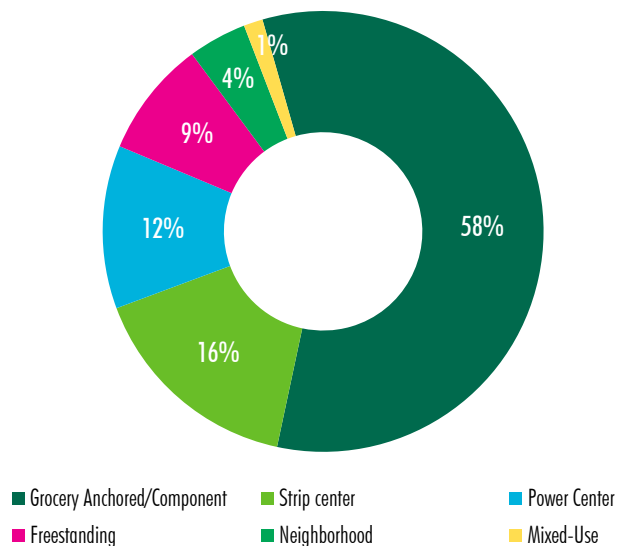
2014-2016 Weighted Asking Rate, NNN Avg, Annual
Source: CBRE Research, Q4 2016.

Figure 3: Notable Retail Deliveries

Name	Location	Size (SF)
Westlake Marketplace — Big Boxes	SEC W. Lake Houston & Beltway 8	297,024
Baybrook Mall — Power Center	NWC Baybrook Mall	270,000
Mainstreet Kingwood H-E-B	W Lake Houston Pkwy & Kingwood Dr	105,100
Richmond H-E-B	Grand Parkway & Harlem Rd	102,000

Source: CBRE Research, Q4 2016.

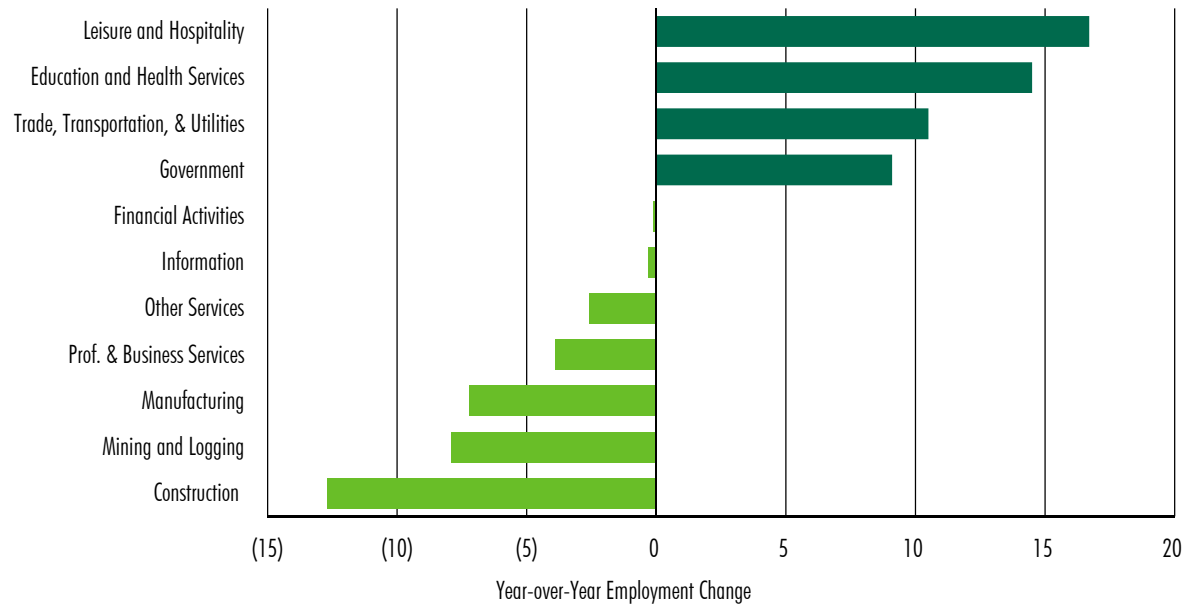
Figure 4: Construction Activity by Property Type



- Grocery-anchored and retail centers with a grocery component continue to dominate the construction pipeline representing 47% of projects currently under construction. Strip centers and freestanding retail are gaining a larger share of construction activity.
- Smaller grocery concepts, Aldi and Trader Joe's have been expanding. German grocer, Lidl, is anticipated to enter the Houston market in 2017 further saturating the grocery market.

Source: CBRE Research, Q4 2016.

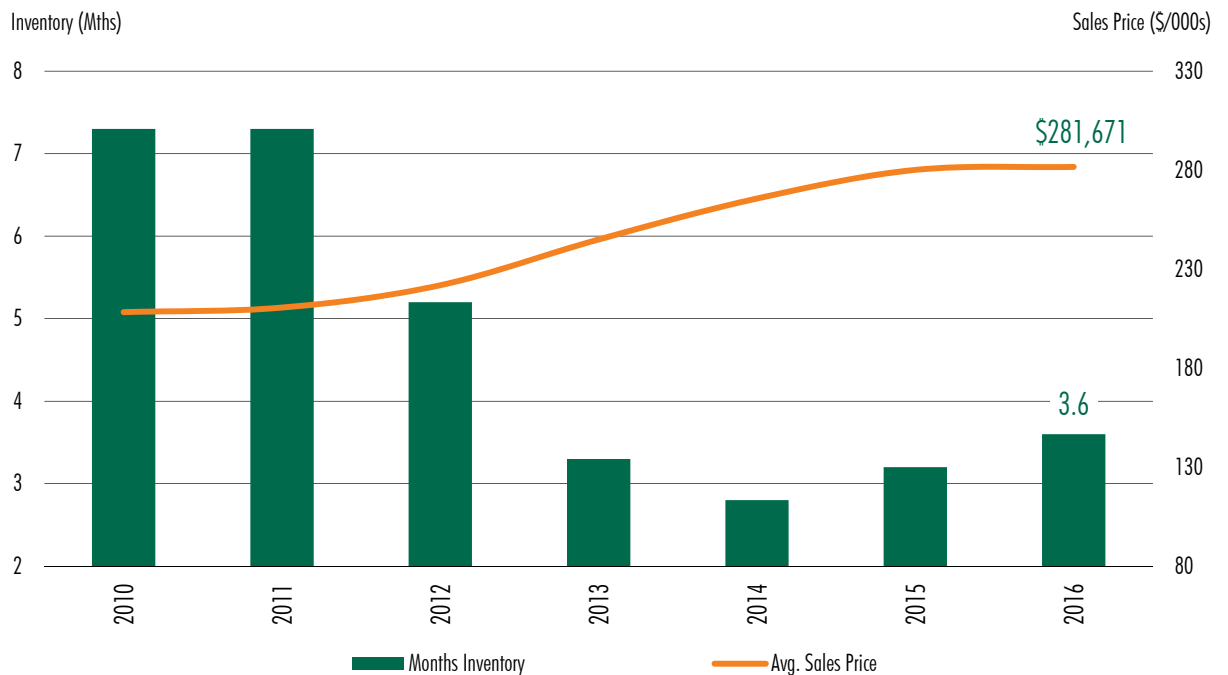
Figure 5: Houston Employment Trends by Sector



- Early 2017 employment forecasts reveal continued losses in the energy, construction and information sectors but the net job gains in 2017 could fall between 4,500 and 29,00 jobs, according to the Greater Houston Partnership and University of Houston's Institute for Regional Forecasting.

Source: Bureau of Labor Statistics, November 2016.

Figure 6: Average Single Family Sales Price and Inventory



- Year-to-date Houston home sales are up 2.7% with the strongest demand for homes priced between \$150,000 and \$500,000. Inventories in the single-family resale and new home market both continue to be below a balanced housing market.

Source: CBRE Research, Houston Association of Realtors, Q4 2016.


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Houston Retail, Q3 2016

Retailer demand accelerates while consumer taps the breaks



Vacancy
5.7%



Under Construction
2,604,770 SF



Completions
897,840 SF



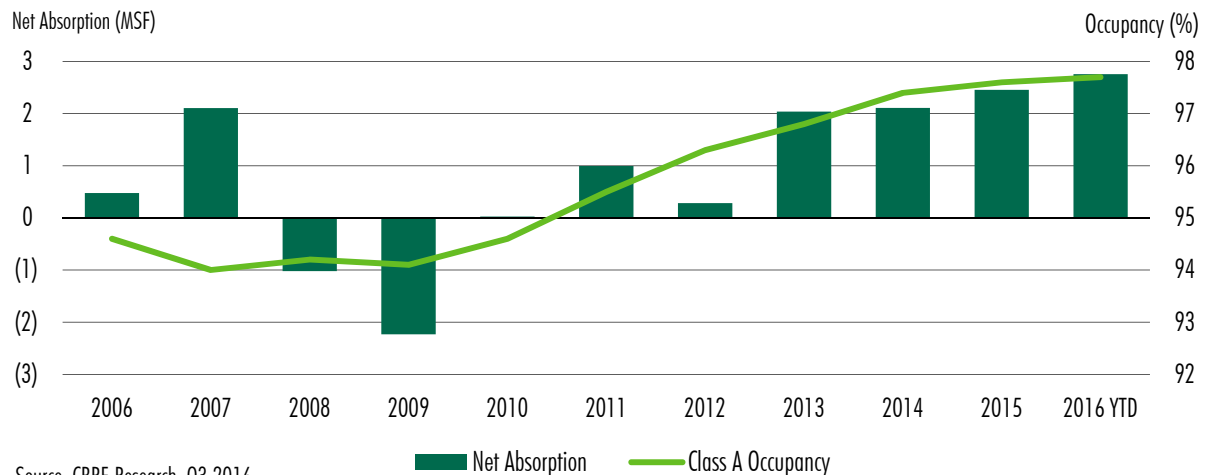
Net Absorption
810,562 SF



Wtd. Avg. Asking Rate
\$23.49 PSF

*Arrows indicate change from previous quarter.

Figure 1: Historical Net Absorption and Class A Occupancy



STRONGEST NET ABSORPTION LEVELS SINCE 2000

Houston retail has benefitted from five years of pent-up demand resulting in the most retail space absorbed since 2000. Retailers absorbed 810,000 sq. ft. in Q3 2016 bringing the annual net absorption total to 2.8 million sq. ft. The elevated demand has caused retail occupancy to creep higher despite an additional 2.7 million sq. ft. of product delivering in Q3 2016.

Yet, the rest of Houston's economy is slowing with employment in 2016 falling further behind normal growth levels. In the midst of rapid retail expansion and receding employment, Houston's consumer is displaying mixed-behavior at the checkout.

CONSUMERS PULL BACK ON BIG TICKET ITEMS BUT RETAIL SALES ARE STABLE

Retail sales data is on a significant lag—the most recent retail expenditures data for the Houston MSA is from Q4 2015, prior to a large portion of the oil and gas layoffs. To gain insight on the current consumer sentiment CBRE Research relies on three metrics (vehicle sales, single-family home sales, and sales tax data) to determine the current spending volume of the local consumer.

Auto sales saw a 13.8% decline in August from the peak in October 2015, according to data from InfoNation and the Greater Houston Partnership. While a dramatic decline, it cannot compare with the 39% drop off in vehicle sales in 2009 from the

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q3 2016 Net Absorption (SF)	2016 Total Net Absorption (SF)
Inner Loop	328	16,550,103	515,956	3.1	35.00	136,599	18,447	90,399
Northeast	238	15,059,056	996,792	6.6	15.25	537,024	147,125	252,767
Near North	109	6,401,619	232,225	3.6	14.00	0	6,690	37,881
Far North	457	31,213,370	1,901,010	6.1	23.00	583,500	214,401	721,407
Near Northwest	191	11,019,803	415,499	3.8	25.00	0	(10,140)	16,220
Far Northwest	469	27,786,919	1,593,633	5.7	33.00	123,266	203,241	394,282
Near West	203	13,372,179	412,013	3.1	35.50	45,000	50,459	83,811
Far West	285	18,282,344	874,222	4.8	28.00	646,713	83,858	163,616
Near Southwest	226	12,842,422	1,091,253	8.5	18.50	0	61,530	72,130
Far Southwest	353	22,414,881	1,296,372	5.8	23.50	102,000	(17,721)	215,888
South	160	8,594,051	471,425	5.5	20.00	0	21,426	267,999
Near Southeast	143	9,417,296	769,906	8.2	18.00	0	(3,985)	44,647
Far Southeast	326	22,637,156	1,770,415	7.8	22.50	430,668	35,231	395,456
HOUSTON TOTAL	3,488	215,591,199	12,340,721	5.7	23.49*	2,604,770	810,562	2,756,503

Source: CBRE Research, Q3 2016.

* Market total reflects weighted average asking rate

2007 peak. Yet, declining vehicle sales are a telling indicator of waning consumer confidence confirmed by Q1 2016 sales and use tax figures. These metrics indicate a decline in large expenditures like furniture and vehicles, historically the first category to reflect consumer spending changes.

With large purchases slowing, the single-family market was expected to have a slow summer sales season. However, in August Houston saw the most home sales ever for a single month. Additionally, it was the first time in a year higher-priced homes saw an increase in sales volumes. The healthy pace for the single-family home market indicates the buyer's willingness to make strategic large purchases.

Despite some industries seeing sustained growth, there has been a consistent 2% decline in Houston MSA sales tax revenues through the first half of the year. Moderating the impact of the

decline, however, is the fact that the decrease comes off of peak consumer and business spending in 2015—revenues are still 5% higher than 2014 levels, evidence of sustained long-term growth. So while business spending in oil and gas, manufacturing, and business services is down, retail sales in general merchandise and food & beverage are up 3.5% and 1.9% respectively. The categories registering the largest increases in sales align with the current tenant demand from grocery, restaurants, home improvement, and soft goods retailers.

The bottom line is while spending on large purchases is down, sales tax data reveals business spending is the main source of revenue declines and the average consumer has not stopped spending. Pent-up demand from population growth and a stable national economy will sustain the retail expansions in Houston, especially grocery and restaurant growth, across the metro.

BIG BOX VACANCIES CANNOT SLOW STRONGEST DEMAND IN OVER 15 YEARS

There was a substantial amount of big box vacancies in Q3 2016 resulting from the closures of Sports Authority, Fresh Market, and Hancock Fabrics totaling 320,000 sq. ft. However, grocery, fitness, and soft goods expansions made up for the losses and then some bringing Q3 2016 net absorption to 810,562 sq. ft. It is likely Houston will reach 3 million sq. ft. of net absorption by the end of 2016, making it the strongest year for retail expansion in over 15 years.

The trend of record high occupancy continues across Houston; the average occupancy increased to 94.3% in Q3 2016. Occupancy levels will remain at this level due to the heightened leasing activity. Houston has absorbed 2,756,503 sq. ft. while delivering 2,700,200 sq. ft. keeping space availabilities extremely tight.

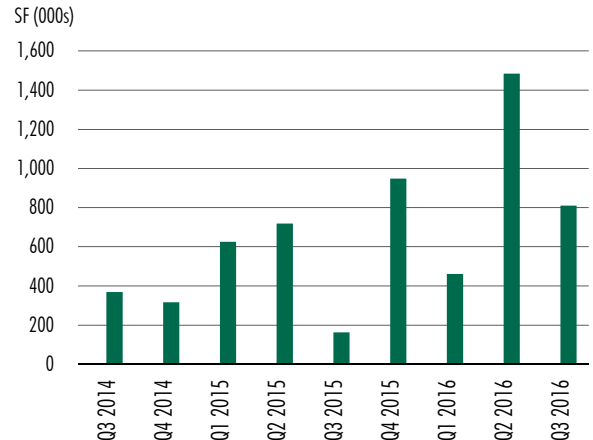
ASKING RATES CLIMB IN TIGHTENING MARKETS

Overall Houston weighted asking rates increased to \$23.49 per sq. ft. while landlords offer few leasing concessions. Class A rents in the prime Inner Loop retail fall between \$45-\$70 with \$15 NNNs. Big-box spaces across Houston are asking between the upper \$20s and low \$30s.

DEVELOPMENT PIPELINE SEES STRONG PRELEASING

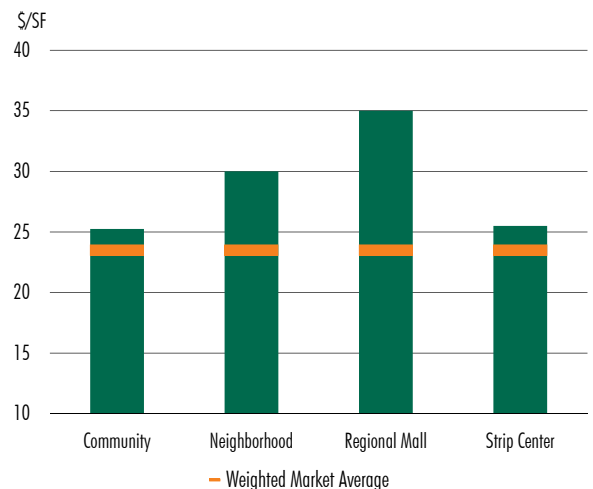
Retail developers are moving forward on more projects but lending constraints are producing a conservative construction cycle. Almost 900,000 sq. ft. delivered in Q3 2016 in the Northeast, Far Southeast, and Far West submarkets. Dominated by grocery users Kroger and H-E-B, the retail pipeline of 2.6 million sq. ft. is 91.6% preleased—on par with current occupancy levels in existing inventory. In the Northeast two large projects, Westlake Marketplace and Main Street Kingwood, make up the 537,000 sq. ft. underway while six small to medium-sized projects in Far West making it the most active construction submarket in Houston. Over 1.3 million sq. ft. is scheduled to deliver this year as well as 2.5 million sq. ft. of planned projects are expected to break ground in 2017.

Figure 3: Net Absorption, Last Eight Quarters



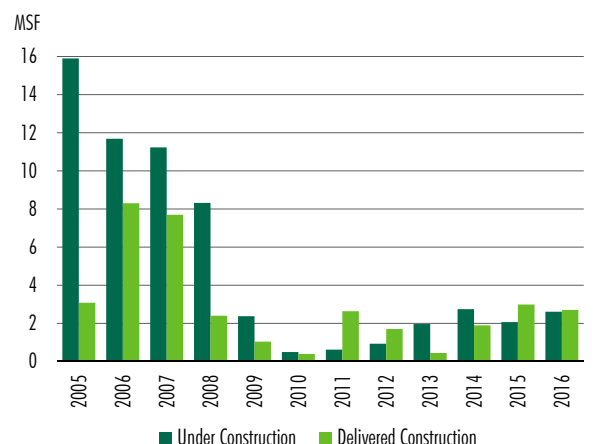
Source: CBRE Research, Q3 2016.

Figure 4: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q3 2016.

Figure 5: Construction



Source: CBRE Research, Q3 2016.

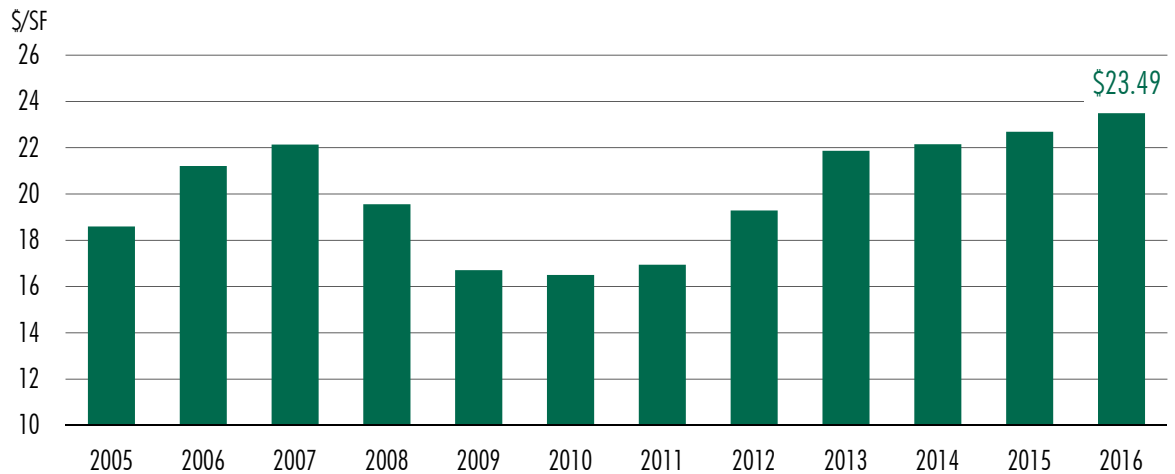
Houston Retail, Q3 2016

Figure 1: Market Statistics

	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	2016 YTD
INNER LOOP										
Absorption (Net SF)	2,218	7,248	15,617	190,431	(848)	256,429	13,358	58,594	18,447	90,399
Asking Rent, NNN Avg. Annual	36.50	36.75	36.75	36.75	32.00	32.00	32.00	32.00	35.00	35.00
Delivered Construction (SF)	0	0	0	125,000	39,465	270,000	25,361	0	29,413	54,774
Vacancy Rate (%)	4.8	4.4	4.4	3.2	3.5	3.5	3.5	2.9	3.1	3.1
NORTHEAST										
Absorption (Net SF)	117,271	43,613	31,014	101,757	39,741	(9,933)	10,959	94,683	147,125	252,767
Asking Rent, NNN Avg. Annual	15.00	15.00	15.00	15.00	13.50	13.00	13.00	13.00	15.25	15.25
Delivered Construction (SF)	285,989	19,662	60,000	40,000	0	0	420,000	57,000	335,959	812,959
Vacancy Rate (%)	8.9	8.5	8.2	7.5	6.9	7.0	6.9	6.6	6.6	6.6
NEAR NORTH										
Absorption (Net SF)	843	(1,913)	(7,264)	29,330	(31,563)	(10,467)	(4,372)	35,563	6,690	37,881
Asking Rent, NNN Avg. Annual	18.00	18.25	18.25	18.25	14.00	14.00	13.75	13.50	14.00	14.00
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	3.3	3.3	3.5	3.4	3.3	4.1	4.8	4.2	3.6	3.6
FAR NORTH										
Absorption (Net SF)	50,396	151,645	(55,869)	60,348	(20,041)	13,002	120,382	386,624	214,401	721,407
Asking Rent, NNN Avg. Annual	26.00	26.50	27.00	27.00	24.00	24.00	22.50	23.00	23.00	23.00
Delivered Construction (SF)	45,038	153,000	298,521	0	0	0	0	309,007	181,653	490,660
Vacancy Rate (%)	6.8	6.9	6.8	6.4	6.5	6.5	6.5	6.4	6.1	6.1
NEAR NORTHWEST										
Absorption (Net SF)	51,788	(17,771)	(21,557)	14,932	(28,443)	10,577	6,250	20,110	(10,140)	16,220
Asking Rent, NNN Avg. Annual	15.00	15.00	15.00	20.00	22.75	21.25	21.25	25.00	25.00	25.00
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	4.7	4.8	4.7	4.8	4.8	4.8	4.5	4.4	3.8	3.8
FAR NORTHWEST										
Absorption (Net SF)	(766)	54,733	213,603	33,919	27,508	(6,539)	108,312	82,729	203,241	394,282
Asking Rent, NNN Avg. Annual	25.25	25.25	25.50	25.50	32.00	33.75	33.75	33.00	33.00	33.00
Delivered Construction (SF)	228,876	105,000	165,000	63,000	0	0	161,770	117,379	71,092	350,241
Vacancy Rate (%)	6.8	7.0	6.6	6.3	5.9	6.0	6.5	6.0	5.7	5.7
NEAR WEST										
Absorption (Net SF)	(17,921)	33,716	66,667	(15,396)	34,199	26,324	(5,400)	38,752	50,459	83,811
Asking Rent, NNN Avg. Annual	24.50	24.50	24.50	30.50	33.50	34.00	34.50	34.00	35.50	35.50
Delivered Construction (SF)	110,000	0	127,827	45,000	0	0	0	0	0	0
Vacancy Rate (%)	3.7	4.3	4.2	4.3	4.6	4.7	4.9	3.7	3.1	3.1
FAR WEST										
Absorption (Net SF)	1,733	94,659	280,488	77,106	104,219	100,851	(35,203)	114,961	83,858	163,616
Asking Rent, NNN Avg. Annual	30.50	30.50	30.50	30.50	28.25	28.75	28.75	29.00	28.00	28.00
Delivered Construction (SF)	0	0	98,839	24,500	0	265,117	27,500	0	130,778	158,278
Vacancy Rate (%)	7.4	7.3	7.1	6.8	5.8	5.8	5.5	5.4	4.8	4.8
NEAR SOUTHWEST										
Absorption (Net SF)	18,957	16,845	(390)	80,483	36,514	5,228	(2,073)	12,673	61,530	72,130
Asking Rent, NNN Avg. Annual	15.00	15.00	15.00	15.00	17.75	16.75	16.75	16.00	18.50	18.50
Delivered Construction (SF)	0	0	0	0	177,514	0	0	15,000	0	15,000
Vacancy Rate (%)	11.6	11.6	11.3	11.1	7.8	8.5	8.7	8.1	8.5	8.5
FAR SOUTHWEST										
Absorption (Net SF)	110,632	38,503	44,196	21,588	(17,732)	78,932	87,191	146,418	(17,721)	215,888
Asking Rent, NNN Avg. Annual	25.50	25.50	25.50	25.50	22.25	22.25	22.50	24.25	23.50	23.50
Delivered Construction (SF)	14,850	136,454	0	204,175	0	0	25,575	45,061	0	70,636
Vacancy Rate (%)	6.7	6.2	6.3	6.4	6.5	6.3	5.9	5.3	5.8	5.8
SOUTH										
Absorption (Net SF)	16,893	13,355	(5,034)	(20,510)	(39,580)	33,851	63,992	182,581	21,426	267,999
Asking Rent, NNN Avg. Annual	20.25	20.50	20.50	20.50	18.75	18.25	18.25	19.75	20.00	20.00
Delivered Construction (SF)	0	0	42,000	0	150,000	174,640	0	139,691	0	139,691
Vacancy Rate (%)	5.3	5.5	5.2	5.4	5.5	6.6	5.9	5.7	5.5	5.5
NEAR SOUTHEAST										
Absorption (Net SF)	4,376	(32,885)	(27,463)	33,062	29,255	(4,317)	21,379	27,253	(3,985)	44,647
Asking Rent, NNN Avg. Annual	14.75	14.75	14.75	20.00	22.50	22.50	22.50	22.50	18.00	18.00
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	6.9	6.7	7.3	7.2	6.8	8.4	8.4	8.0	8.2	8.2
FAR SOUTHEAST										
Absorption (Net SF)	12,749	(84,760)	91,424	111,309	30,250	454,652	77,020	283,205	35,231	395,456
Asking Rent, NNN Avg. Annual	20.50	20.50	20.50	20.50	13.75	14.50	14.25	15.00	22.50	22.50
Delivered Construction (SF)	283,443	27,000	165,000	20,475	-	428,000	297,683	161,375	148,945	608,003
Vacancy Rate (%)	6.3	6.3	6.5	6.6	6.8	6.4	7.3	7.7	7.8	7.8
HOUSTON TOTAL										
Absorption (Net SF)	369,169	316,988	625,432	718,359	163,479	948,590	461,795	1,484,146	810,562	2,756,503
Asking Rent, NNN Avg. Annual	22.06	22.15	22.21	23.46	22.69	22.69	22.58	23.08	23.49	23.49
Delivered Construction (SF)	923,158	444,116	957,187	522,150	366,979	1,137,757	957,889	844,513	897,840	2,700,242
Vacancy Rate (%)	6.6	6.6	6.5	6.3	5.9	6.1	6.2	5.8	5.7	5.7

Source: CBRE Research, Q3 2016.

Figure 2: Historical Asking Rate, NNN Avg. Annual



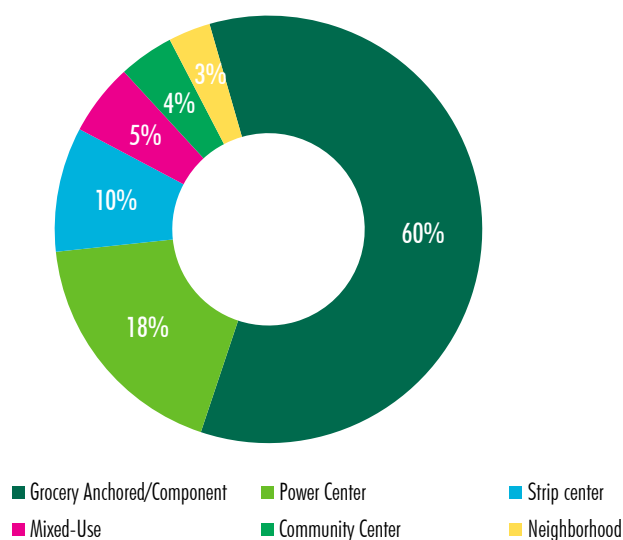
Source: CBRE Research, Q3 2016.

Figure 3: Notable Retail Deliveries

Name	Location	Size (SF)
Westlake Marketplace	SEC W. Lake Houston & Beltway 8	285,000
MarketPlace at Ninety-Six	League City Parkway & Hobbs Rd	148,945
The Shoppes at Parkwest Phase I	NEC I-10 & Katy Fort Bend Rd	121,278
Magnolia Commons H-E-B	Tamina Rd & FM 1488	100,000

Source: CBRE Research, Q3 2016.

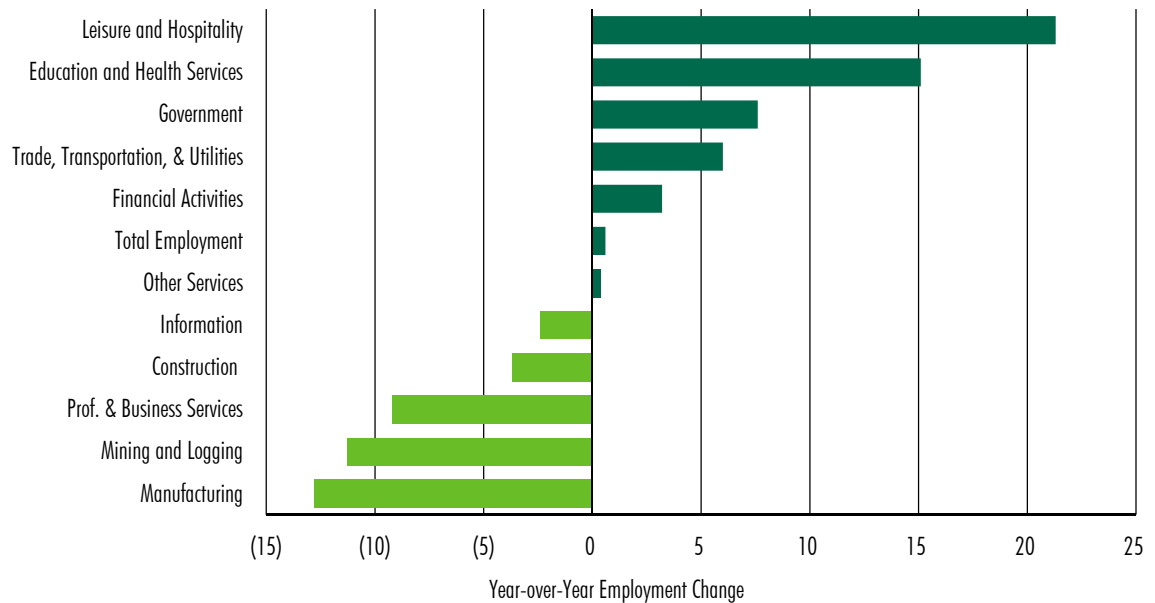
Figure 4: Construction Activity by Property Type



- Grocery-anchored and retail centers with a grocery component continue to dominate the construction pipeline representing 60% of projects under construction.
- H-E-B and Kroger are expanding rapidly throughout Houston and H-E-B has reportedly been land banking in potential growth areas. While smaller grocery concepts, Aldi, Trader Joe's and national neighborhood grocer chains have been expanding as well.
- Several large power centers are under construction, as well as a handful of planned power centers, which will be home to national big box retailers expanding in Houston.

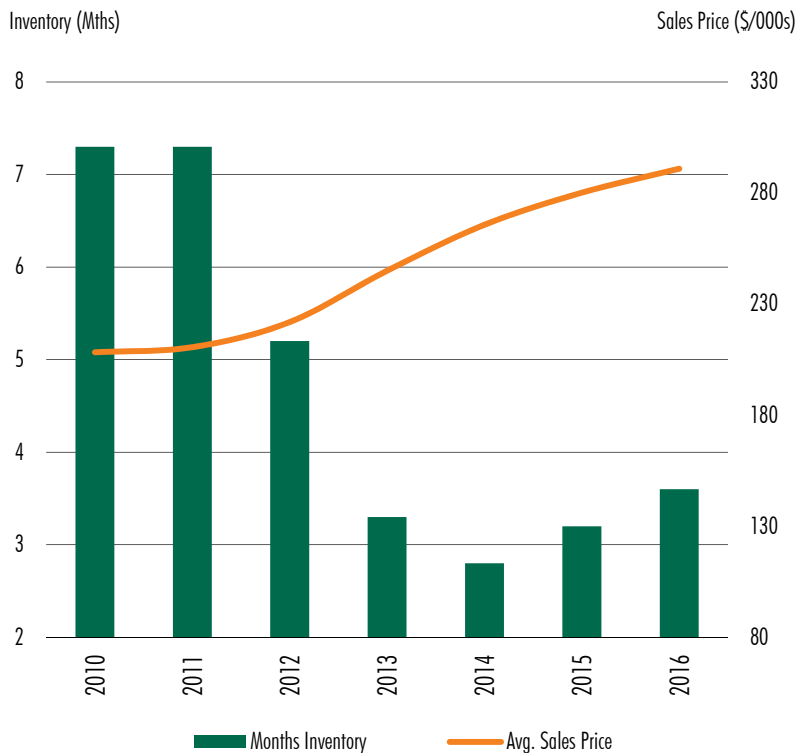
Source: CBRE Research, Q3 2016.

Figure 5: Houston Employment Trends by Sector



Source: Bureau of Labor Statistics, August 2016.

Figure 6: Average Single Family Sales Price and Inventory



- August registered the highest one-month sales volume of all time and single-family home sales are up 1.5% compared to last year.
- After a year of sluggish activity, high-priced homes over \$500,000 saw sales increase.
- The average home sales price continues to climb reaching a historic high for August at \$289,519.
- Inventory is on the rise, climbing to 4 months supply. Yet despite the increased supply is still lower than the U.S. average of 4.7 months.

Source: CBRE Research, Houston Association of Realtors, Q3 2016.



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Houston Retail, Q2 2016

Retail demand soars; strongest net absorption since 2007

▼ Vacancy
5.8%

▲ Under Construction
3,042,006 SF

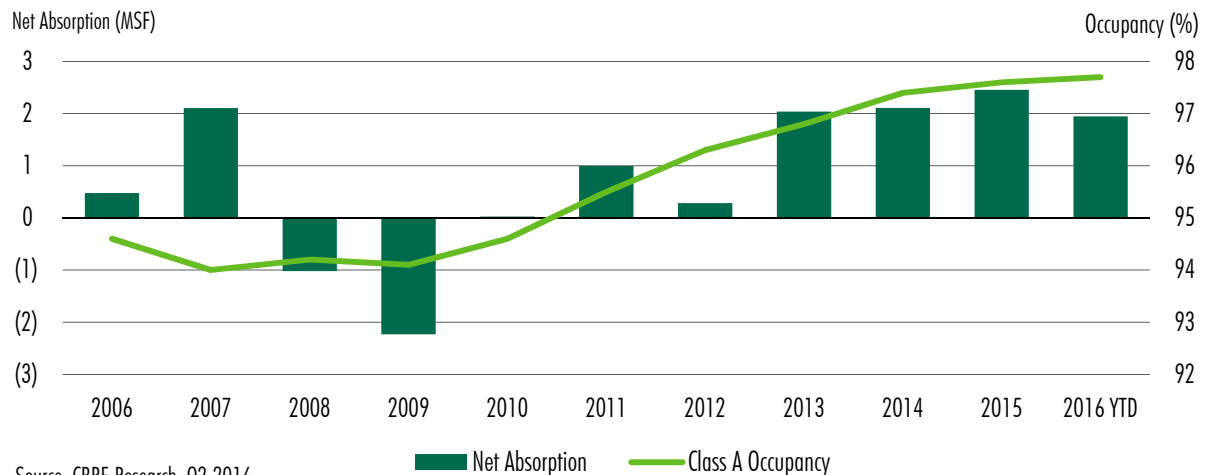
▼ Completions
844,513 SF

▲ Net Absorption
1,484,146 SF

▶ Wtd. Avg. Asking Rate
\$22.95 PSF

*Arrows indicate change from previous quarter.

Figure 1: Historical Net Absorption and Class A Occupancy



NEW INVENTORY LEADS TO STRONGEST NET ABSORPTION SINCE Q4 2007

Uncertainty in the Houston's economy has yet to derail retail demand. Houston's retail market experienced the strongest net absorption in a single quarter since the fourth quarter of 2007. Over 1.5 million sq. ft. was absorbed—more than the annual net absorption in 2010, 2011 and 2012 combined. Big name big box closures, including Sports Authority and The Fresh Market, were not enough to overshadow the significant gains from aggressively expanding grocers in active residential suburban areas. H-E-B and Kroger continue their efforts to capture market share in the far suburban areas and represent the majority of anchors in the development pipeline.

As a result, occupancy climbed to a new historical high of 94.2% in the overall market. Prime Class A space is even higher, spurring more new construction. As developers move forward with more speculative construction, demand must continue to grow in order to retain occupancy at above average rates.

GROCERY'S GOT IT IN THE BAG: DEVELOPMENT CYCLE IN FULL SWING

Though the office and multifamily pipelines are cooling, land sites slated for multifamily projects are now available for retail developers, giving rise to more mixed-use developments within the Inner Loop. Two large mixed-use projects are underway—Thor Equities' Kirby Collection and

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q2 2016 Net Absorption (SF)	2016 Total Net Absorption (SF)
Inner Loop	327	16,496,391	484,937	2.9	32.00	126,012	58,594	71,952
Northeast	237	14,887,266	976,358	6.6	13.00	575,959	94,683	105,642
Near North	109	6,401,619	269,089	4.2	13.50	0	35,563	31,191
Far North	455	31,106,964	1,978,915	6.4	23.00	446,210	386,624	507,006
Near Northwest	192	11,071,492	485,525	4.4	25.00	0	20,110	26,360
Far Northwest	469	27,844,115	1,675,108	6.0	33.00	579,358	82,729	191,041
Near West	199	13,170,443	489,574	3.7	34.00	45,000	38,752	33,352
Far West	284	18,244,758	994,234	5.4	29.00	613,799	114,961	79,758
Near Southwest	226	12,974,579	1,048,423	8.1	16.00	0	12,673	10,600
Far Southwest	353	22,600,438	1,203,544	5.3	24.25	102,000	146,418	233,609
South	160	8,661,201	495,032	5.7	19.75	0	182,581	246,573
Near Southeast	144	9,487,124	759,744	8.0	22.50	0	27,253	48,632
Far Southeast	325	22,749,400	1,742,994	7.7	15.00	553,668	283,205	360,225
HOUSTON TOTAL	3,480	215,695,790	12,603,477	5.8	22.95*	3,042,006	1,484,146	1,945,941

Source: CBRE Research, Q2 2016.

* Market total reflects weighted average asking rate

Landry's new headquarters, The Post Oak. While in the dense Inner Loop, small mixed-use developments are more prevalent such as the office-focused Memorial Green and residential-heavy Mid Main developments. As more grocery-anchored centers deliver, space for big box and junior box retailers is finally opening up throughout the market. Over three million sq. ft. of retail product is currently under construction, with the majority underway in the Far North, Far Northwest and Far West submarkets. While development activity has dramatically increased in the last year, the projects under construction only represent 1% of the total inventory. Additionally, these projects are majority preleased, at 85%.

TENANT TRENDS: FOOD, FITNESS AND ENTERTAINMENT

While grocery users dominate new construction—making up 38% of anchor space—tenant demand is also high among restaurateurs, fitness concepts,

and the growing retail entertainment sector. The Inner Loop, where local concepts are preferred, is seeing active restaurant growth from both fast casual concepts and high-end restaurants. Additionally, fitness centers such as Planet Fitness and Fitness Connection contributed 140,000 sq. ft. to Houston's overall net absorption total this quarter.

Nationally retail centers are moving toward a more varied tenant mix with a strong emphasis on entertainment. Following this national trend, apparel and soft goods retailers are including coffee bars and lounges in their stores. Similarly, the dine-in theater Studio Movie Grill and Texas-based Showbiz Cinemas are expanding in the suburban markets, delivering a much needed entertainment component to surrounding retail.

RETAIL TENANT DEMAND GAINS MOMENTUM

The retail leasing cycle is in full swing as leasing activity increased in the first half of the year due in part to a balancing supply market. Supply relief from newly delivered availabilities supported the two million sq. ft. of deals signed thus far in 2016. The densely populated Inner Loop and western suburban markets are seeing a large quantity of the leasing activity. Houston absorbed 1,484,000 sq. ft. in Q2 2016, the most in a single quarter since Q4 2007 when the retail market absorbed 3.8 million sq. ft. A large majority of net absorption was in newly constructed properties in the Far North and Far Southeast submarkets.

The trend of record high occupancy continues across Houston; the average occupancy increased to 94.2%, up from 93.8% in Q1 2016. The tightest submarket is the Inner Loop at 97.1% occupied. For perspective, the Class A Inner Loop market has less than 90,000 sq. ft. vacant out of a 5 million sq. ft. market.

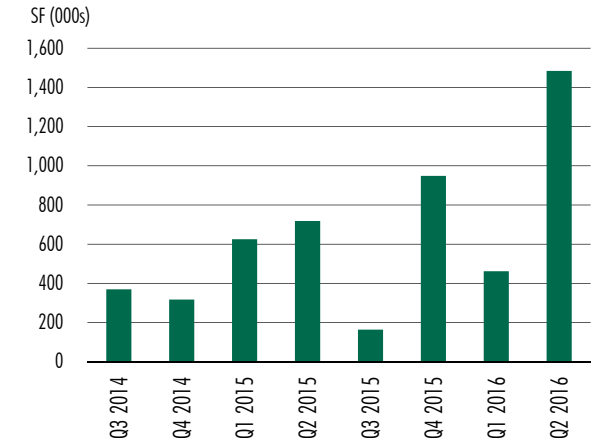
ASKING RATES CLIMB IN TIGHTENING MARKETS

Strong demand continues to push asking rates higher while landlords offer few leasing concessions. Yet, as new construction emerges in the suburban submarkets like the Far Northwest, rates will naturally increase. Big box spaces are asking between the upper \$20s and low \$30s.

POWER CENTERS EMERGE IN THE DEVELOPMENT PIPELINE

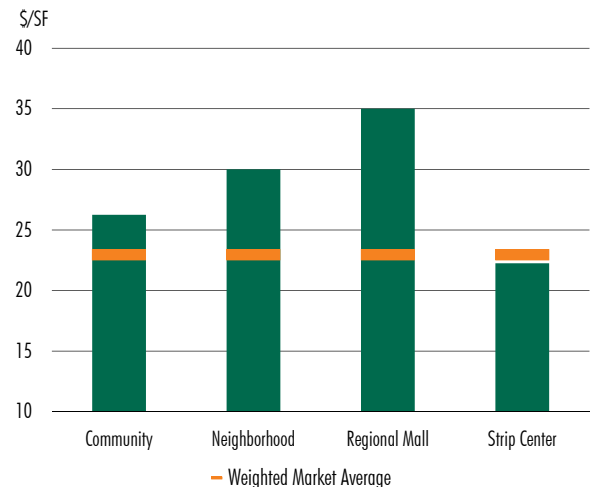
Grocery users, Kroger and H-E-B, continue to battle for market share anchoring one million sq. ft. of the projects currently underway. However, several large power centers are under construction, as well as a handful of planned power centers, which will be home to national big box retailers expanding in Houston. Small strip centers dominated Q2 2016 deliveries along with freestanding grocery, soft goods, and entertainment concepts. An additional 1.9 million sq. ft. of retail product is expected to deliver by the end of this year.

Figure 3: Net Absorption, Last Eight Quarters



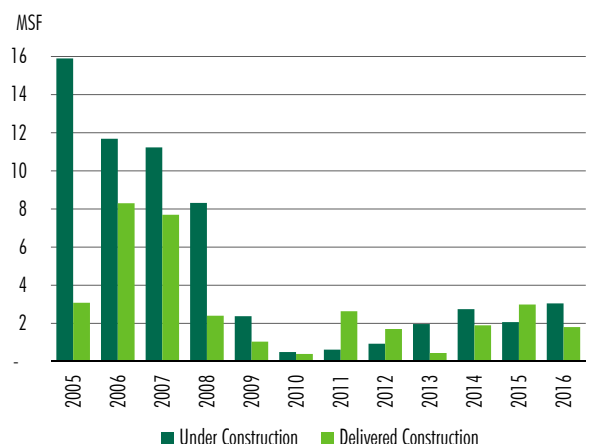
Source: CBRE Research, Q2 2016.

Figure 4: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q2 2016.

Figure 5: Construction



Source: CBRE Research, Q2 2016.

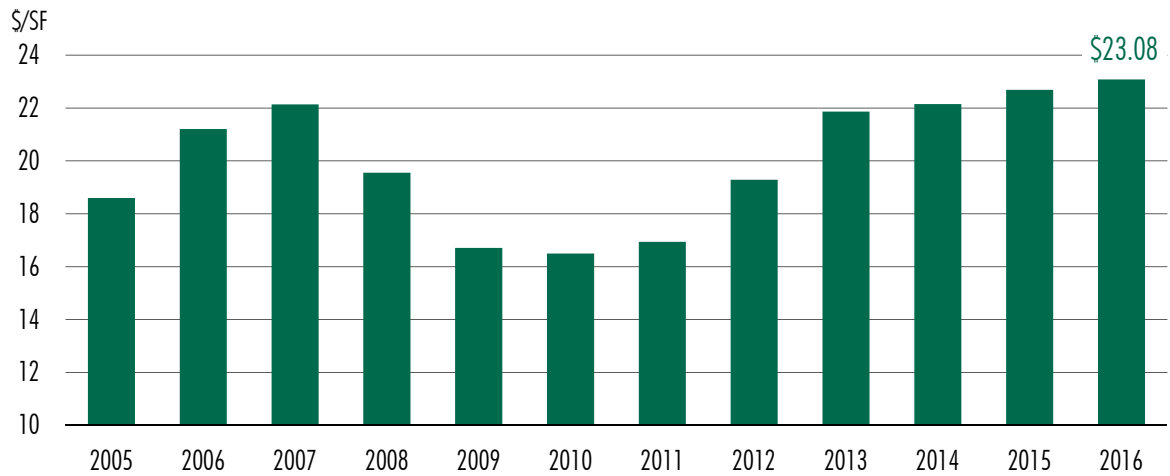
Houston Retail, Q2 2016

Figure 1: Market Statistics

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	2016
INNER LOOP										
Absorption (Net SF)	17,015	2,218	7,248	15,617	190,431	(848)	256,429	13,358	58,594	71,952
Asking Rent, NNN Avg. Annual	36.25	36.50	36.75	36.75	36.75	32.00	32.00	32.00	32.00	32.00
Delivered Construction (SF)	0	0	0	0	125,000	39,465	270,000	25,361	0	25,361
Vacancy Rate (%)	6.0	4.8	4.4	4.4	3.2	3.5	3.5	3.5	2.9	2.9
NORTHEAST										
Absorption (Net SF)	5,165	117,271	43,613	31,014	101,757	39,741	(9,933)	10,959	94,683	105,642
Asking Rent, NNN Avg. Annual	15.00	15.00	15.00	15.00	15.00	13.50	13.00	13.00	13.00	13.00
Delivered Construction (SF)	0	285,989	19,662	60,000	40,000	0	0	420,000	57,000	477,000
Vacancy Rate (%)	10.3	8.9	8.5	8.2	7.5	6.9	7.0	6.9	6.6	6.6
NEAR NORTH										
Absorption (Net SF)	(108,100)	843	(1,913)	(7,264)	29,330	(31,563)	(10,467)	(4,372)	35,563	31,191
Asking Rent, NNN Avg. Annual	18.00	18.00	18.25	18.25	18.25	14.00	14.00	13.75	13.50	13.50
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	3.2	3.3	3.3	3.5	3.4	3.3	4.1	4.8	4.2	4.2
FAR NORTH										
Absorption (Net SF)	244,934	50,396	151,645	(55,869)	60,348	(20,041)	13,002	120,382	386,624	507,006
Asking Rent, NNN Avg. Annual	25.75	26.00	26.50	27.00	27.00	24.00	24.00	22.50	23.00	23.00
Delivered Construction (SF)	0	45,038	153,000	298,521	0	0	0	0	309,007	309,007
Vacancy Rate (%)	7.9	6.8	6.9	6.8	6.4	6.5	6.5	6.5	6.4	6.5
NEAR NORTHWEST										
Absorption (Net SF)	42,850	51,788	(17,771)	(21,557)	14,932	(28,443)	10,577	6,250	20,110	26,360
Asking Rent, NNN Avg. Annual	15.00	15.00	15.00	15.00	20.00	22.75	21.25	21.25	25.00	25.00
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	4.9	4.7	4.8	4.7	4.8	4.8	4.8	4.5	4.4	4.4
FAR NORTHWEST										
Absorption (Net SF)	95,611	(766)	54,733	213,603	33,919	27,508	(6,539)	108,312	82,729	191,041
Asking Rent, NNN Avg. Annual	25.25	25.25	25.25	25.50	25.50	32.00	33.75	33.75	33.00	33.00
Delivered Construction (SF)	0	228,876	105,000	165,000	63,000	0	0	161,770	117,379	279,149
Vacancy Rate (%)	6.7	6.8	7.0	6.6	6.3	5.9	6.0	6.5	6.0	6.0
NEAR WEST										
Absorption (Net SF)	66,473	(17,921)	33,716	66,667	(15,396)	34,199	26,324	(5,400)	38,752	33,352
Asking Rent, NNN Avg. Annual	24.50	24.50	24.50	24.50	30.50	33.50	34.00	34.50	34.00	34.00
Delivered Construction (SF)	0	110,000	0	127,827	45,000	0	0	0	0	0
Vacancy Rate (%)	4.1	3.7	4.3	4.2	4.3	4.6	4.7	4.9	3.7	3.7
FAR WEST										
Absorption (Net SF)	90,600	1,733	94,659	280,488	77,106	104,219	100,851	(35,203)	114,961	79,758
Asking Rent, NNN Avg. Annual	30.50	30.50	30.50	30.50	30.50	28.25	28.75	28.75	29.00	29.00
Delivered Construction (SF)	0	0	0	98,839	24,500	0	265,117	27,500	0	27,500
Vacancy Rate (%)	7.3	7.4	7.3	7.1	6.8	5.8	5.8	5.5	5.4	5.4
NEAR SOUTHWEST										
Absorption (Net SF)	(8,962)	18,957	16,845	(390)	80,483	36,514	5,228	(2,073)	12,673	10,600
Asking Rent, NNN Avg. Annual	15.00	15.00	15.00	15.00	15.00	17.75	16.75	16.75	16.00	16.00
Delivered Construction (SF)	0	0	0	0	0	177,514	0	0	15,000	15,000
Vacancy Rate (%)	11.1	11.6	11.6	11.3	11.1	7.8	8.5	8.7	8.1	8.1
FAR SOUTHWEST										
Absorption (Net SF)	152,108	110,632	38,503	44,196	21,588	(17,732)	78,932	87,191	146,418	233,609
Asking Rent, NNN Avg. Annual	25.50	25.50	25.50	25.50	25.50	22.25	22.25	22.50	24.25	24.25
Delivered Construction (SF)	0	14,850	136,454	0	204,175	0	0	25,575	45,061	70,636
Vacancy Rate (%)	7.1	6.7	6.2	6.3	6.4	6.5	6.3	5.9	5.3	5.3
SOUTH										
Absorption (Net SF)	36,991	16,893	13,355	(5,034)	(20,510)	(39,580)	33,851	63,992	182,581	246,573
Asking Rent, NNN Avg. Annual	20.25	20.25	20.50	20.50	20.50	18.75	18.25	18.25	19.75	19.75
Delivered Construction (SF)	0	0	0	42,000	0	150,000	174,640	0	139,691	139,691
Vacancy Rate (%)	5.5	5.3	5.5	5.2	5.4	5.5	6.6	5.9	5.7	5.7
NEAR SOUTHEAST										
Absorption (Net SF)	96,500	4,376	(32,885)	(27,463)	33,062	29,255	(4,317)	21,379	27,253	48,632
Asking Rent, NNN Avg. Annual	14.75	14.75	14.75	14.75	20.00	22.50	22.50	22.50	22.50	22.50
Delivered Construction (SF)	0	0	0	0	0	0	0	0	0	0
Vacancy Rate (%)	7.1	6.9	6.7	7.3	7.2	6.8	8.4	8.4	8.0	8.0
FAR SOUTHEAST										
Absorption (Net SF)	30,540	12,749	(84,760)	91,424	111,309	30,250	454,652	77,020	283,205	360,225
Asking Rent, NNN Avg. Annual	20.50	20.50	20.50	20.50	20.50	13.75	14.50	14.25	15.00	15.00
Delivered Construction (SF)	140,000	283,443	27,000	165,000	20,475	-	428,000	297,683	161,375	459,058
Vacancy Rate (%)	6.4	6.3	6.3	6.5	6.6	6.8	6.4	7.3	7.7	7.7
HOUSTON TOTAL										
Absorption (Net SF)	761,725	369,169	316,988	625,432	718,359	163,479	948,590	461,795	1,484,146	1,945,941
Asking Rent, NNN Avg. Annual	22.02	22.06	22.15	22.21	23.46	22.69	22.69	22.58	23.08	23.08
Delivered Construction (SF)	140,000	923,158	444,116	957,187	522,150	366,979	1,137,757	957,889	844,513	1,802,402
Vacancy Rate (%)	7.0	6.6	6.6	6.5	6.3	5.9	6.1	6.2	5.8	5.8

Source: CBRE Research, Q2 2016.

Figure 2: Historical Asking Rate, NNN Avg. Annual



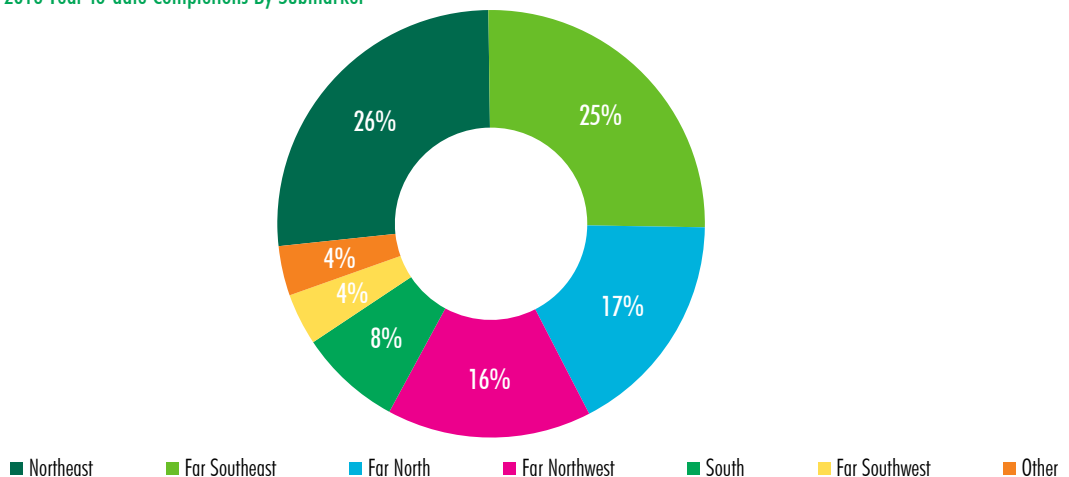
Source: CBRE Research, Q2 2016.

Figure 3: Notable Retail Deliveries

Name	Location	(SF)
Rayford Crossing	Riley Fuzzell Rd & Rayford Rd	189,543
Woodshore Marketplace	SEC Oyster Creek Dr & Dixie Dr	139,691
Cypress Creek Parkway	FM 1960 & TC Jester Blvd	119,464
Clear Lake Marketplace Inline	Clear Lake City Blvd & El Dorado	86,375
Copperfield Marketplace	FM 529 & Sommerall Dr	75,079
Studio Movie Grill Pearland	Sam Houston Tollway & Pearland Pkwy	75,000
Humble Showbiz Cinemas	Sam Houston Tollway & Canyon Lakes Dr	57,000

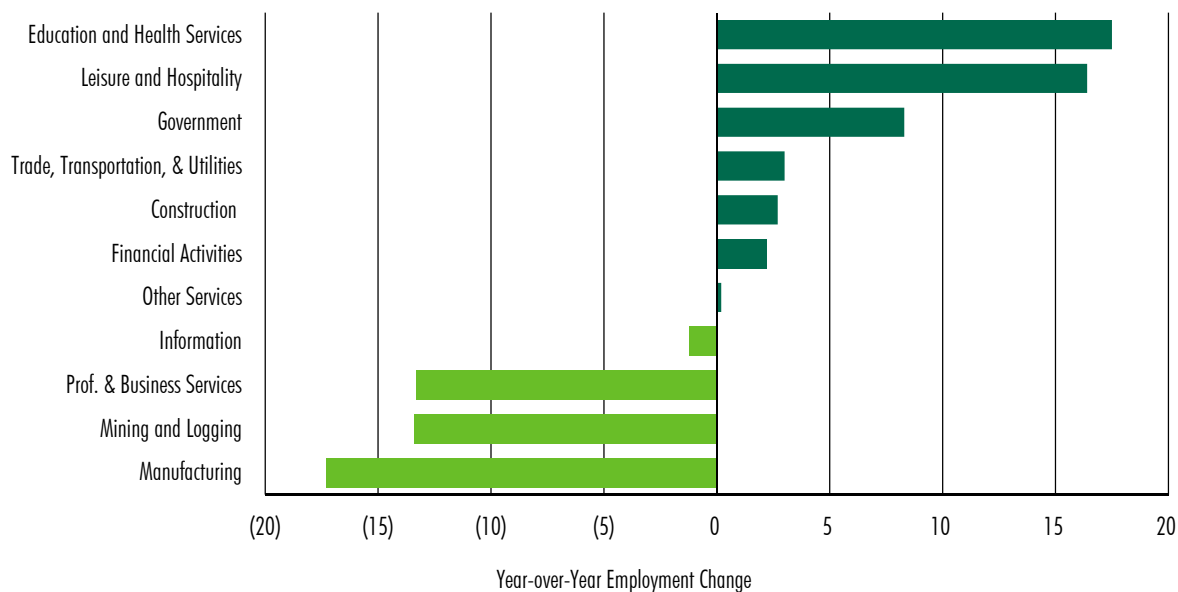
Source: CBRE Research, Q2 2016.

Figure 4: 2016 Year-to-date Completions By Submarket



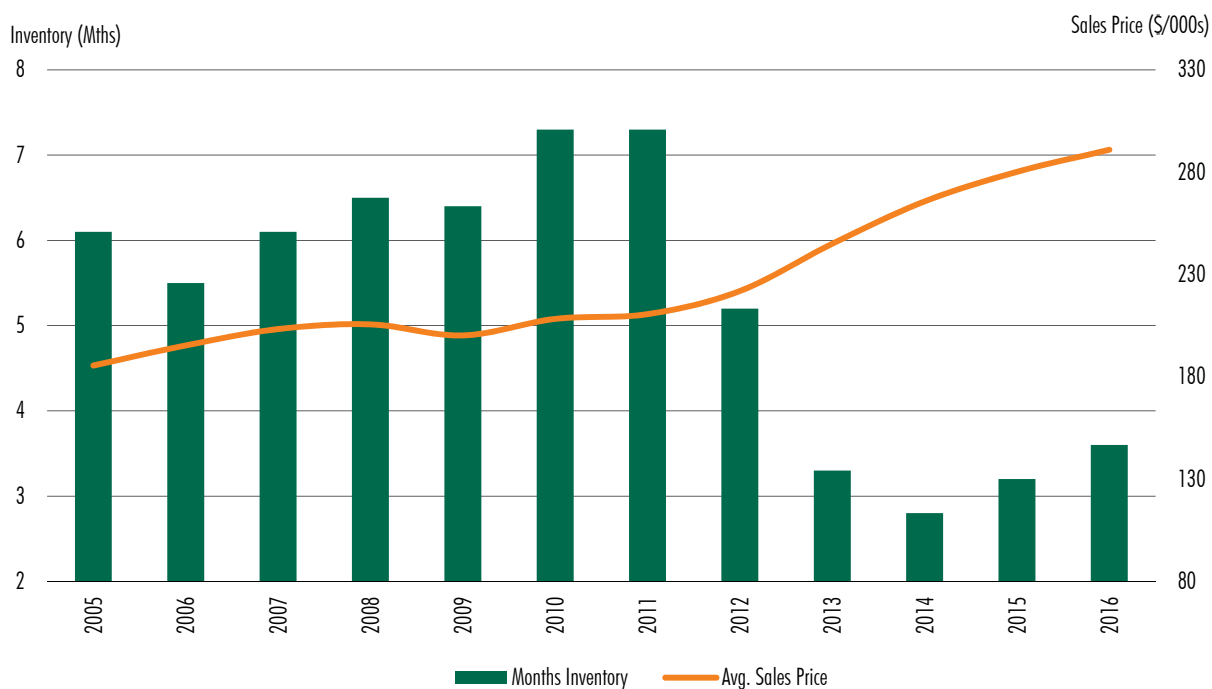
Source: CBRE Research, Q2 2016.

Figure 5: Houston Employment Trends by Sector

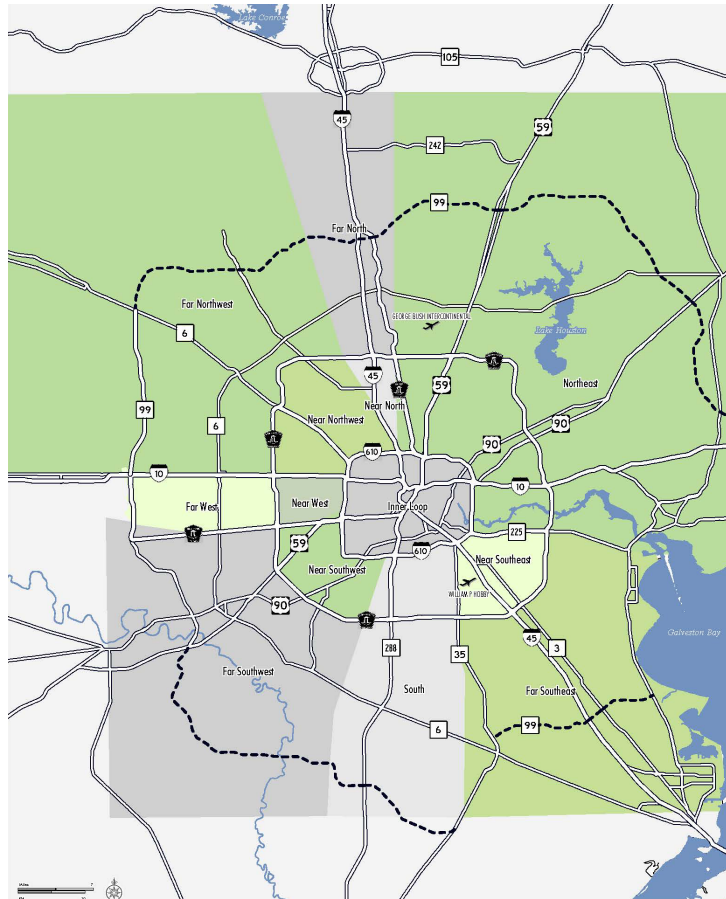


Source: Bureau of Labor Statistics, May 2016.

Figure 6: Average Single Family Sales Price and Inventory



Source: CBRE Research, Q2 2016.


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Houston Retail, Q1 2016

Going beyond grocery: variety sprouts in local retail pipeline

▲ Vacancy
6.2%

▲ Under Construction
2,190,479 SF

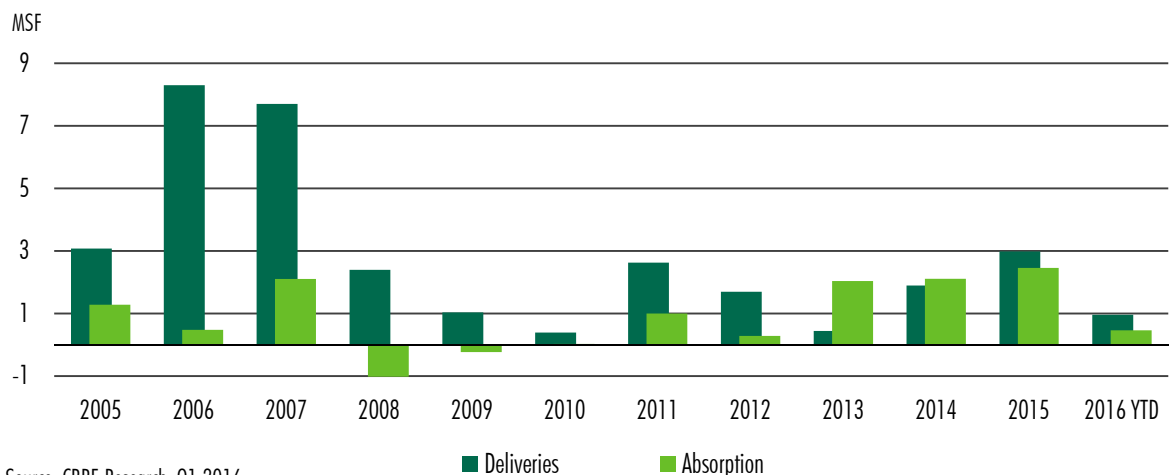
▼ Completions
957,889 SF

▼ Net Absorption
461,795 SF

▶ Wtd. Avg. Asking Rate
\$22.80 PSF

*Arrows indicate change from previous quarter.

Figure 1: Historical Construction and Demand



Source: CBRE Research, Q1 2016.

CONSTRUCTION GAINS MOMENTUM—NEIGHBORHOOD CENTERS, FREESTANDING RETAIL AND MIXED-USED MAKE UP LARGER SHARE OF DEVELOPMENT PIPELINE

After a slow start to the construction cycle, developments are finally moving forward. A full construction pipeline is needed as limited supply continues to constrain leasing. Class A space is 97.7% occupied and tenants looking for quality space will likely turn to new developments underway.

Construction continues to lag the pace set in the last construction cycle of 2006 and 2007 when 16 million sq. ft. delivered. Currently 2.2 million sq. ft. of retail space is under construction, of which 35% is grocery-anchored centers. Grocery has

dominated leasing and construction due the aggressive expansion plans of Kroger and H-E-B as well as national big box grocers and small specialty grocers like Trader Joe's, Sprouts and Aldi. Yet, grocery anchored developments are losing ground to neighborhood centers and freestanding retail project including Rooms-to-Go and Showbiz Cinemas.

Despite softening fundamentals in the office and multifamily sectors, more mixed-use developments are underway across the market. Thor's mixed-use project Kirby Collection will add 67,000 sq. ft. of retail and restaurant space to the Inner Loop. As well, Landry's high-rise The Post Oak and multifamily-dominant project, Mid Main are under construction. While these projects are not retail-heavy, a varied tenant makeup allows developers to hedge risk from high land and construction costs.

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q1 2016 Net Absorption (SF)
Inner Loop	325	16,354,778	571,796	3.5	32.00	126,012	13,358
Northeast	237	14,867,621	1,029,843	6.9	13.00	582,000	10,959
Near North	109	6,407,526	306,072	4.8	13.75	-	(4,372)
Far North	453	30,671,234	1,991,676	6.5	22.50	227,000	120,382
Near Northwest	192	11,076,021	492,998	4.5	21.50	-	6,250
Far Northwest	465	27,837,284	1,800,400	6.5	33.75	267,658	108,312
Near West	200	13,229,410	643,872	4.9	34.50	20,000	(5,400)
Far West	284	18,305,835	1,005,603	5.5	28.25	382,793	(35,203)
Near Southwest	226	13,060,925	1,138,539	8.7	16.75	-	(2,073)
Far Southwest	350	22,631,116	1,338,944	5.9	22.50	-	87,191
South	158	8,516,856	505,754	5.9	18.25	139,691	63,992
Near Southeast	144	9,487,049	794,994	8.4	22.50	-	21,379
Far Southeast	323	22,476,399	1,648,176	7.3	14.25	445,325	77,020
HOUSTON TOTAL	3,466	214,922,054	13,268,667	6.2	22.80*	2,190,479	461,795

Source: CBRE Research, Q1 2016.

* Market total reflects weighted average asking rate

NATIONAL RETAILERS STILL EYING HOUSTON

National headlines of a struggling Houston economy doesn't tell the full story, like how Houston added 540,000 residents in 5 years and retail development is just now gaining momentum. With such strong population growth, and a strong single-family market expanding due to increasing mobility, it is no surprise Houston still tops the list of national retailers. Expanding concepts aren't just limited to grocers, although they make up a large portion of demand, the following retailers are out in the market:

- **Entertainment**– Alamo Draft House, Flix BrewHouse, ShowBiz Cinemas
- **Fitness**– Fit Republic, YouFit, Fitness Connection
- **Big Box**– Academy, Burlington Coat Factory, Petsmart, F21, Lowes, H&M, TJ Maxx, Toys R Us

Demand for big box space was down over the last several years due to limited supply and the availabilities were second-generation spaces of large retailing chains closing nationwide. Yet, new neighborhood and power centers have opened up inventory for big box expansions and is one of the most active retail tenant types currently in the market, behind grocery and restaurants.

There is still some concern that slowing national retail activity coupled with a more conservative consumer could postpone a handful of expansions. Sales tax revenues have been on the decline for several quarters across the Houston metro and local economists warn that retail sales could see additional declines throughout the year. Yet, no observable decline in retail demand has been observed.

NEW RETAIL PRODUCT INFLUENCING TENANT LEASING DECISIONS

After a 36 months of growing retail demand stifled by limited supply, new construction is starting to deliver almost completely occupied; Q1 2016 competitions were 96.4% occupied upon delivery and the only available space in mostly small in-line spaces. Demand continues to outpace supply pushing occupancy up to 93.8% in Q1 2016 with Class A product higher yet at 97.7%.

Houston absorbed 461,000 sq. ft. in Q1 2016 with the strongest activity in the Far North and Far Northwest submarkets, 120,000 sq. ft. and 108,000 sq. ft. respectively. A large majority of absorption was in newly constructed properties; Party City and Tuesday Morning occupied at the Market at Crenshaw, Mercantil CommerceBank occupied 38,700 sq. ft. in a new freestanding location, as well as several freestanding grocer locations.

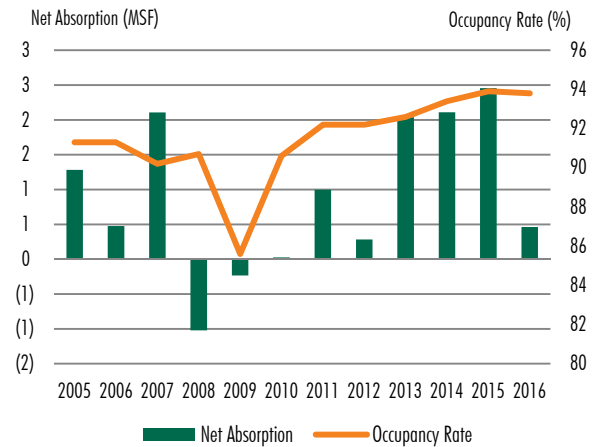
ASKING RATES SEE MODERATE FLUCTUATIONS

Landlords continue to achieve high rents while offering fewer leasing concessions. Tenants can expect sustained rents except properties within the Inner Loop and Galleria trade areas which have some of the highest asking rents in the city. Yet, as a swath of new construction emerges in the suburban submarkets like the Far Northwest, rates will naturally increase. Big box spaces are asking between the upper \$20s and low \$30s. The largest rate hikes in Q1 2016 were in the Near West and Far Southwest increasing \$0.50 and \$0.25 respectively.

NORTHEAST SEES MORE RETAIL DEVELOPMENT

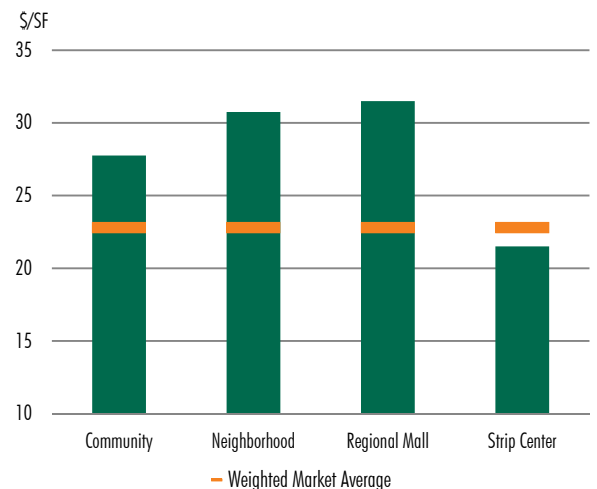
A flurry of development activity occurred across Houston thus far in 2016, with announcements of new retail construction weekly. Almost 960,000 sq. ft. delivered of which the majority was grocery anchored space for H-E-B, Kroger and Costco. Deliveries will continue to increase throughout the year with approximately 860,000 sq. ft. set to deliver in the second half of 2016. Currently the most construction is in the Northeast submarket in the Humble/Kingwood trade area.

Figure 3: Net Absorption and Occupancy Rate



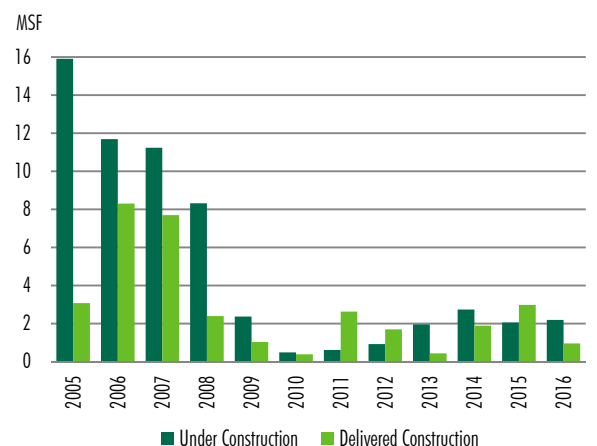
Source: CBRE Research, Q1 2016.

Figure 4: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q1 2016.

Figure 5: Construction



Source: CBRE Research, Q1 2016.

ECONOMIC CONDITIONS AMIDST LOW OIL

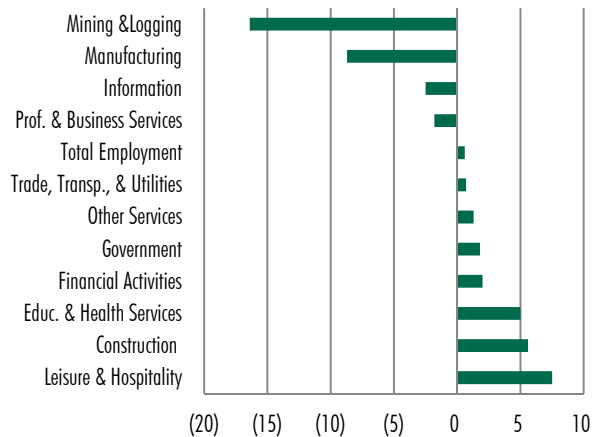
Depressed oil prices have taken a toll on the overall Houston economy, yet the outlook is tempered with signs of improvement in 12-24 months. The Texas Workforce Commission revised 2015 employment growth down to 15,200 jobs added reflecting steeper losses in the energy sector. However, forecasts for job growth in 2016 haven't changed and indicate a slow, yet still positive, year for job gains in 2016. Layoffs and a cautious Houston consumer are starting to appear, particularly in the areas where upstream energy sector employees reside.

Sales tax revenues in the City of Houston and The Woodlands are down slightly in Q1 2016. However, revenues are healthy and up dramatically in the areas dominated by the booming petrochemical sector which is fueling economic growth on Houston's east side.

RESIDENTIAL MARKET STILL ON RAILS

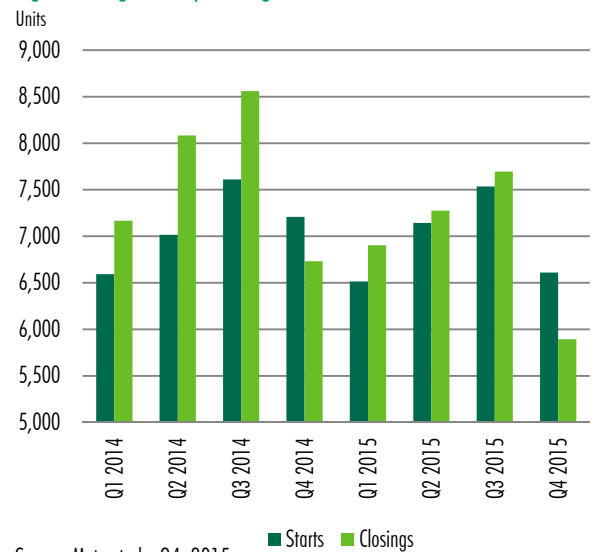
A softening economy could not derail the single family market which continued to see strong home sales in January and February particularly in mid-range priced homes, according to HAR.com. Activity in the new home market dropped off in Q4 2015 but is anticipated to flatten out in Q1 2016, says Metrostudy.

Figure 6: Houston Employment Trends



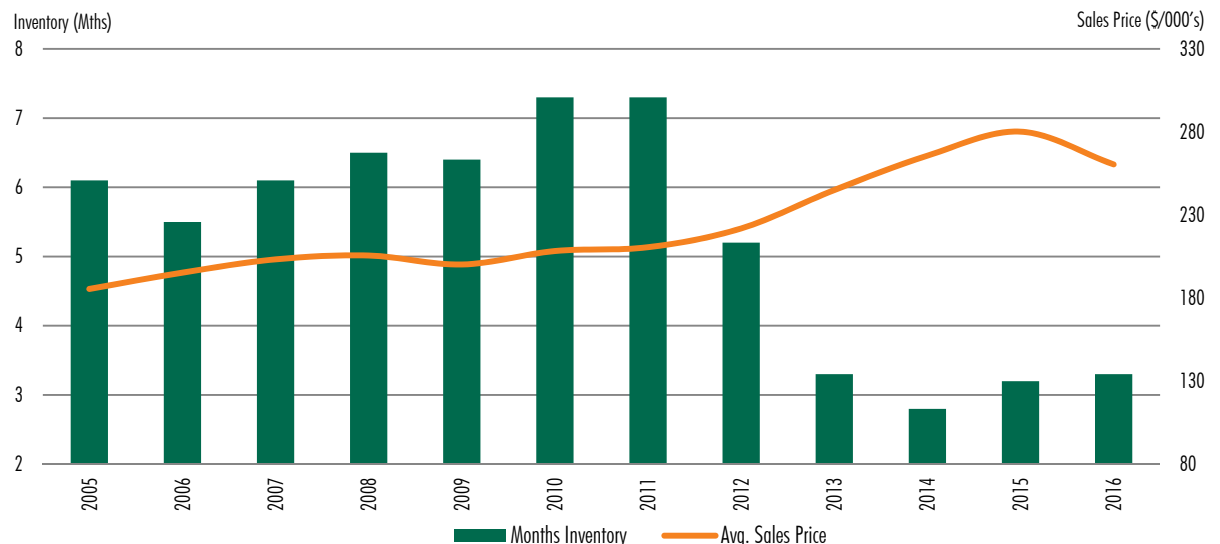
Source: Bureau of Labor Statistics, January 2016.

Figure 7: Single-Family Housing Demand

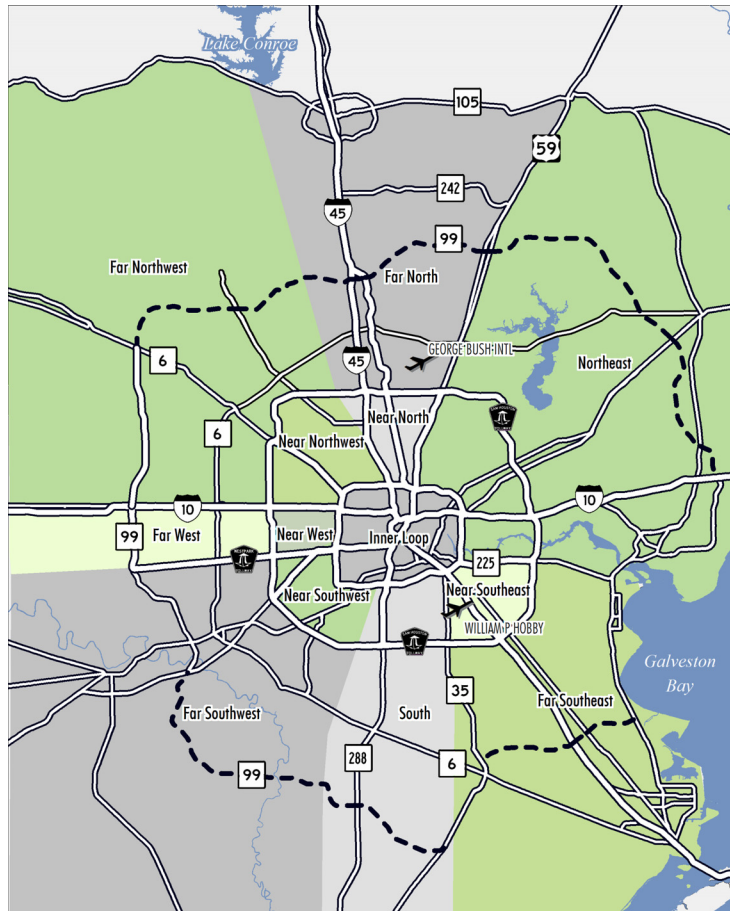


Source: Metrostudy, Q4 2015.

Figure 8: Average Single Family Sales Price and Inventory



Source: Houston Association of Realtors, March 2016.



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Houston Retail, Q4 2015

Supply and demand find balance; deliveries up 2/3rds and 90% leased upon delivery

▲ Vacancy
6.1%

▼ Under Construction
2,061,058 SF

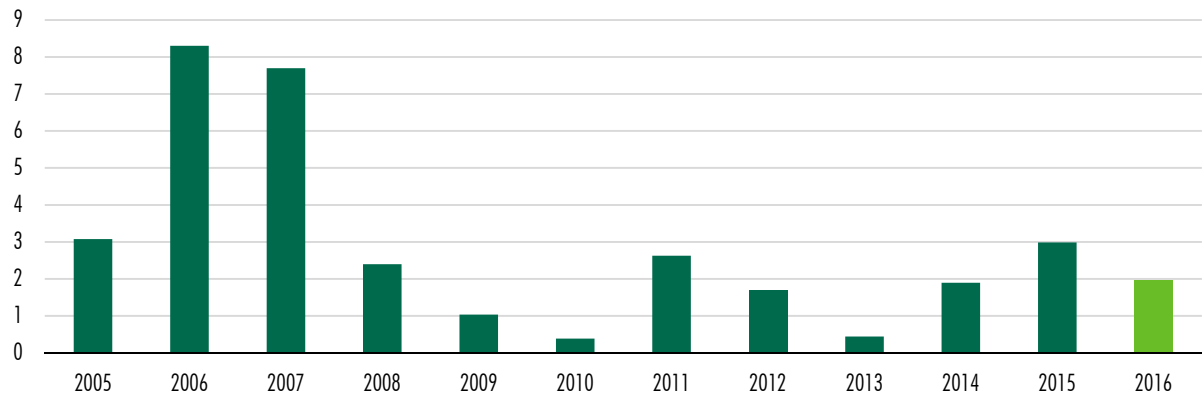
▲ Completions
1,137,757 SF

▲ Net Absorption
948,590 SF

▲ Wtd. Avg. Asking Rate
\$17.97 PSF

Figure 1: Historical Completions

Deliveries (MSF)



Source: CBRE Research, Q4 2015.

CONSUMERS MAINTAIN HEALTHY SPENDING HABITS THROUGHOUT 2015

Extra cash from savings at the pump was in play this holiday shopping season. Retail sales in Texas increased 35.6% from November to December, according to Retail Outlook Survey from The Federal Reserve Bank of Dallas.

However, the outlook for the next six months is not as strong. While retail respondents to said sales will be increasing capital expenditures and prices will remain flat. Restaurants are seeing an increase in sales but note food and costs are rising limiting future capital expenditures.

In the Houston MSA sales tax revenues have remained stable throughout the year increasing about 3.4% monthly.

The retail market is comfortable going into 2016 as it is insulated from some of the contraction within the energy industry.

Steady demand is a result of the strongest population growth in the nation even during previous recessionary periods. According to Moody's Analytics, the Houston metro area population is forecast to reach 10.9 million by 2045. All of which point to a strong and growing consumer base.

The strong demand from new consumers and expanding residential development will continue to drive retail employment growth as well. The Greater Houston Partnership forecasts retail will help bolster employment growth in 2016 adding 4,000 jobs. While the total employment forecast calls for 21,900 jobs to be added with the largest growth sectors being healthcare, construction and government.

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q4 2015 Net Absorption (SF)	2015 Total Net Absorption (SF)
Inner Loop	326	16,394,615	575,979	3.5	32.00	151,373	256,429	461,629
Northeast	236	14,797,186	1,043,034	7.0	13.00	435,000	(9,933)	162,579
Near North	109	6,434,099	262,940	4.1	14.00	0	(10,467)	(19,964)
Far North	448	30,567,503	1,993,860	6.5	24.00	27,000	13,002	(2,560)
Near Northwest	192	11,085,463	532,196	4.8	21.25	0	10,577	(24,491)
Far Northwest	464	27,998,959	1,666,636	6.0	33.75	279,300	(6,539)	268,491
Near West	201	13,280,728	622,512	4.7	34.00	20,000	26,324	111,794
Far West	280	17,871,947	1,034,852	5.8	28.75	177,500	100,851	562,664
Near Southwest	229	13,226,260	1,129,722	8.5	16.75	0	5,228	121,835
Far Southwest	352	22,775,154	1,429,032	6.3	22.25	25,575	78,932	126,984
South	155	8,482,716	562,851	6.6	18.25	139,691	33,851	(31,273)
Near Southeast	143	9,469,773	791,131	8.4	22.50	0	(4,317)	30,537
Far Southeast	321	22,388,045	1,434,899	6.4	14.50	805,619	454,652	687,635
HOUSTON TOTAL	3,456	214,772,448	13,079,644	6.1	17.97*	2,061,058	948,590	2,455,860

Source: CBRE Research, Q4 2015.

* Market total reflects weighted average asking rate

DEVELOPERS MIX IT UP: MORE MIXED-USE PROJECTS UNDERWAY

Evolving retail space will dominate the Houston retail market over the next two years. Developers, spurred by population growth and plateauing dirt prices, ramped up construction this year. Deliveries added almost 3 million sq. ft. of retail space in 2015 which is almost two thirds more than completions in 2014 and future growth is anticipated. Since 1980, the Houston retail market averaged about 37 million sq. ft. of new construction per decade. However, in the last five years only 9.6 million sq. ft. of new retail product has hit the market. Additionally, almost all that space was absorbed (thanks to grocery anchors Kroger and H-E-B); occupancy soared to record levels at 93.9% and 97.6% of prime Class A product.

Two large speculative projects broke ground in Q4 2015 including Thor's mixed-use project Kirby Collection which will add 67,000 sq. ft. of retail and restaurant space to the Inner Loop submarket. As

well, Landry's high-rise The Post Oak is under construction. Low oil could put a damper on future large developments or result in smaller strips and retail redevelopments. Going into next year suburban power centers and grocery anchored projects will dominate the retail pipeline.

RETAIL MARKET TO REMAIN STABLE IN 2016

While volatile oil prices hit the office market hard in 2015, resulting in an excess of sublease space, the retail market is the most secure sector in Houston. Although overall employment is slower than recent years, population growth will continue to produce consumer demand. Service providing tenants like restaurants and supermarkets are producing the bulk of the demand. Yet, as new retail centers deliver in suburban markets, Houston will see an increase in national retailer and big box activity.

ABSORPTION AND OCCUPANCY: 2015 SEES HIGHEST ABSORPTION IN A DECADE

Supply continues to be a challenge across the city resulting in suppressed transaction volume. Despite limited supply, Houston absorbed 2.5 million sq. ft. in 2015, the most in ten years. After a slower than average third quarter, the city recorded 948,590 sq. ft. of absorption which is the most of any quarter in the last decade. The majority of absorption was due to the Baybrook Mall lifestyle center expansion in the Far Southeast submarket and the newly constructed River Oaks District in the Inner Loop, which accounted for 526,000 sq. ft.

With occupancy holding at record high levels, and Class A product even higher at 97.6%, tenants will continue to have difficulty finding suitable existing space driving further develop and possible redevelopment.

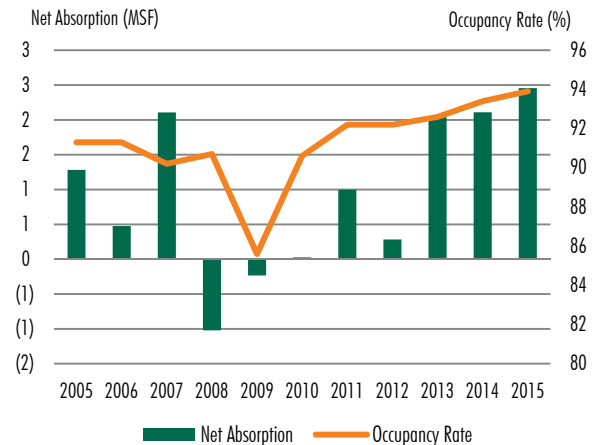
ASKING RATES

Landlords continue to achieve high rents while offering fewer leasing concessions. Tenants can expect sustained rents except properties within the Inner Loop submarket which can be some of the highest asking rates in the city. Big box spaces are asking between the upper \$20s and low \$30s. The largest rate hikes in Q4 2015 where in the Near West and Far Northwest increasing \$0.50 and \$1.75 respectively.

CONSTRUCTION

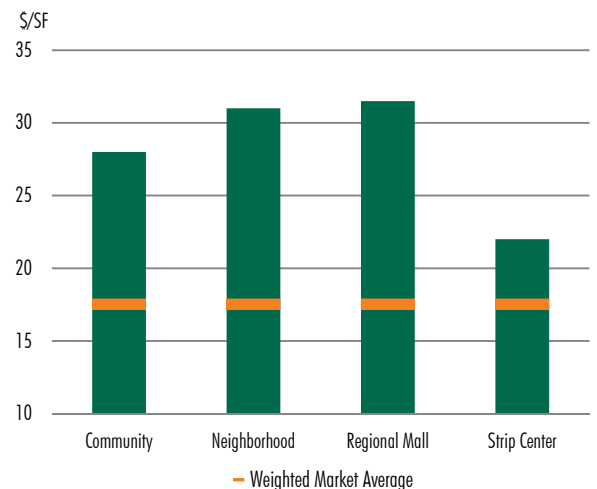
Across the city developers are moving forward on several large projects. While most of the suburban construction is grocery anchored centers, some large projects such as the Baybrook Mall power center, The Kirby Collection and The Post Oak are underway bringing the under construction total to over 2 million sq. ft. In 2016 the following submarkets will complete 1.9 million sq. ft. of retail projects; Far North, Far Northwest, Far West, Inner Loop, Northeast and South. Deliveries increased in Q4 2015 as well with 11 projects delivering 1.1 million sq. ft. in the Inner Loop, Far West, South and Far Southeast submarkets.

Figure 3: Net Absorption and Occupancy Rate



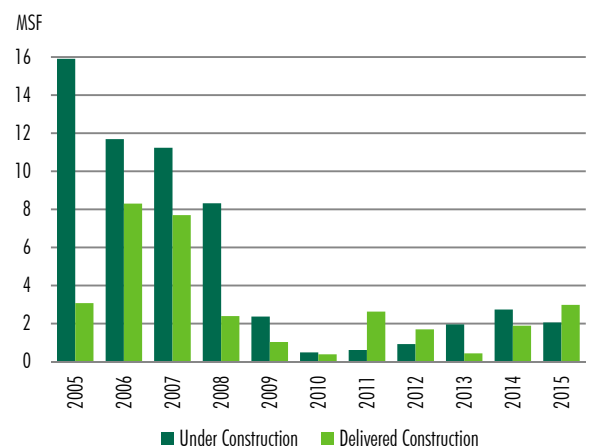
Source: CBRE Research, Q4 2015.

Figure 4: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q4 2015.

Figure 5: Construction



Source: CBRE Research, Q4 2015.

ECONOMIC CONDITIONS

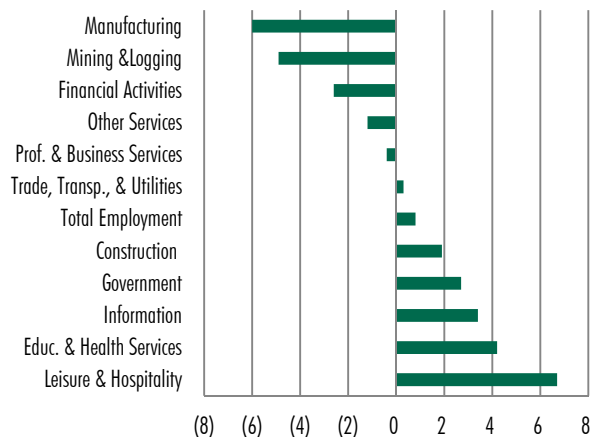
Houston is facing a significant slowdown and a difficult year ahead. Local economists are predicting job gains of only 20,000-28,000 in 2016. According to the Bureau of Labor Statistics, the Houston MSA gained 4,800 jobs gained in November due in part to an retail holiday hiring. The steepest increases year-over-year were in leisure & hospitality (6.7%), education & health services (4.2%), and information (3.4%).

Retail sales in Texas broke record highs again in October at 41.2 billion dollars. Locally, the city of Houston saw sales tax allocations increase by 3.4% in September with almost all the growth in the retail trade, restaurant, services and construction sectors.

RESIDENTIAL MARKET

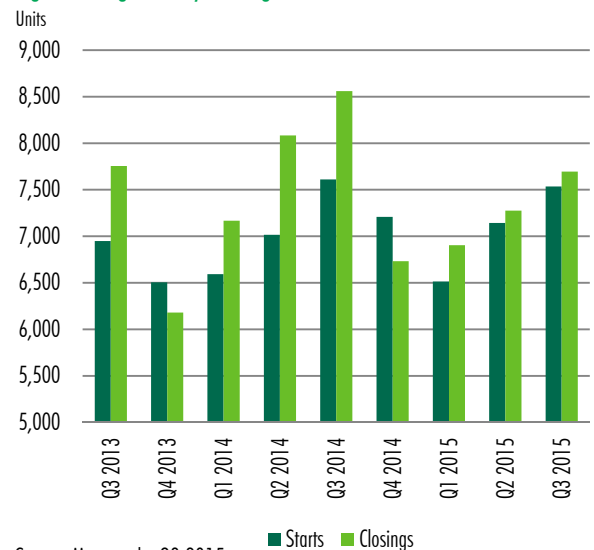
A softening economy the residential market is anticipated to cool significantly from the feverish pace of 2014 and early 2015. Home sales steadily declined during Q4 2015, nevertheless, 2015 saw the second highest single family home sales volumes. According to HAR, sales volumes declined 2.4% this year, with the strongest single family demand in the \$70,000 - \$149,000 price range . The average single-family home price is \$280,290, a 3.7% increase from 2014.

Figure 6: Houston Employment Trends



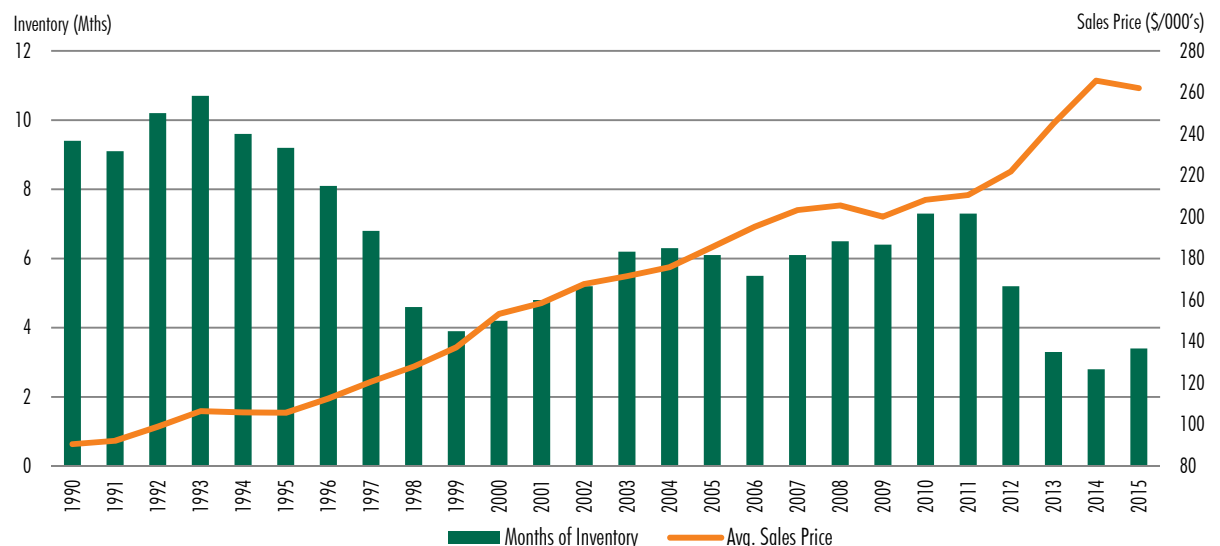
Source: Bureau of Labor Statistics, November 2015.

Figure 7: Single-Family Housing Demand

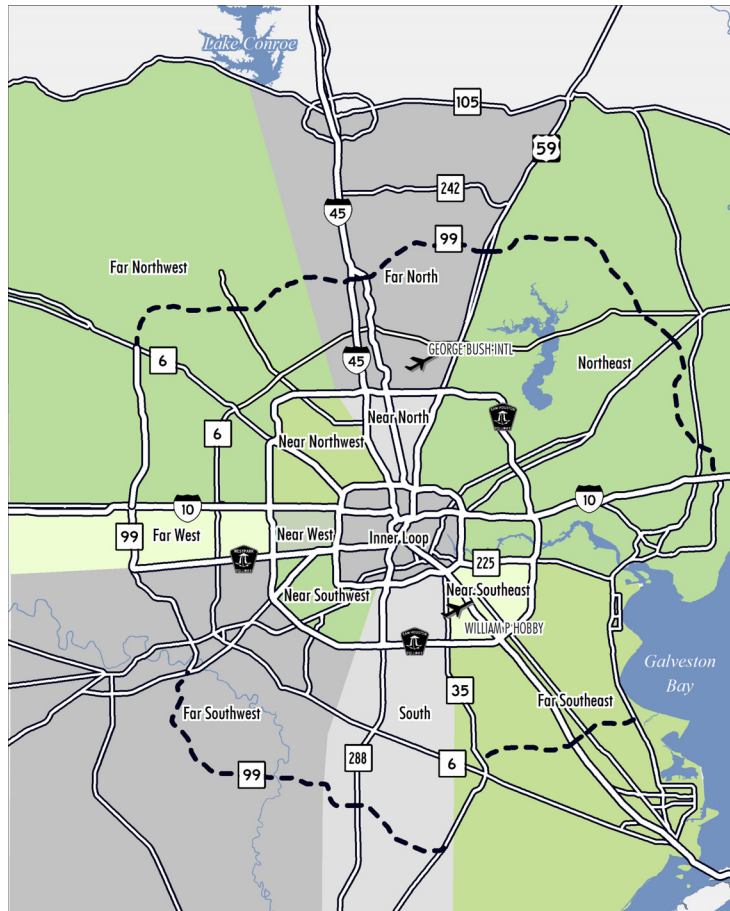


Source: Metrostudy, Q3 2015.

Figure 8: Average Single Family Sales Price and Inventory



Source: Houston Association of Realtors, December 2015.



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Houston Retail, Q3 2015

Occupancy surges 70 bps as population gains boost budding demand

▼ Vacancy
5.9%

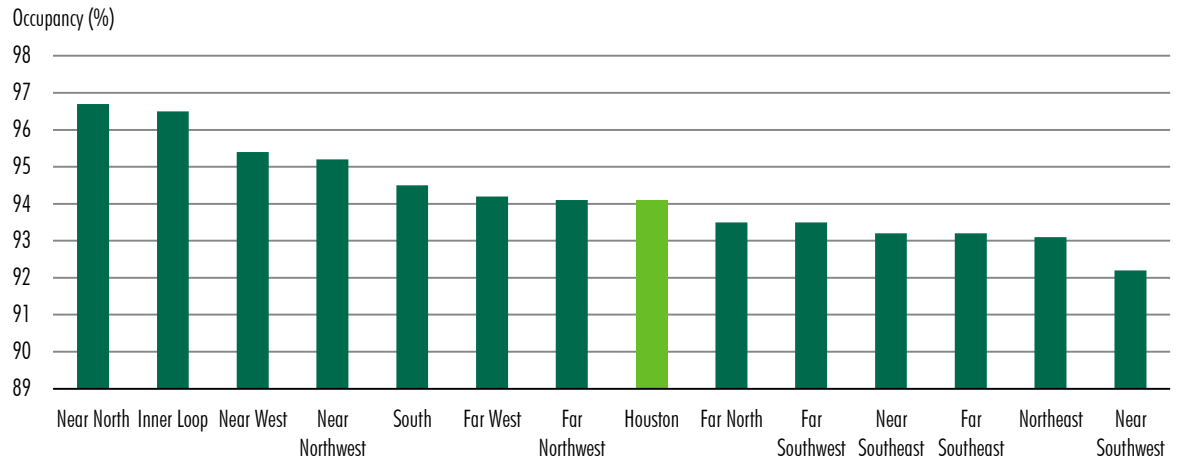
▲ Under Construction
2,439,747 SF

▼ Completions
366,979 SF

▼ Net Absorption
163,479 SF

▶ Wtd. Avg. Asking Rate
\$17.53 PSF

Figure 1: Occupancy by Submarket



Source: CBRE Research, Q3 2015.

DIFFICULTY FINDING RETAIL SPACE – IT'S CROWDED AT THE TOP

Pent up demand continues to produce strong demand across the city both in the far suburban areas and urban core. Occupancy increased 70 basis points (bps) from Q3 2014, and at 94.1% is the highest market-wide occupancy on record.

This includes all submarkets and center types, but when examining prime properties (High-Street and Class A) occupancy is even higher; across the city prime centers are 97.6% occupied.

With more national retailers entering the Houston market and a focus on luxury retailers in the Inner Loop and Galleria area, high quality space will remain hard to find.

Despite reports of Houston's economic slowdown, the retail market isn't fazed by the dropping oil prices. In fact, construction has increased, national retailers are bullish on the Bayou City, and five years of the strongest population gains in the nation is driving healthy retail growth.

The delayed retail construction cycle has created pent up demand for the retail market to satisfy the larger consumer base. Likewise, the residential market continues to be strong, including new home growth in the west and northwest submarkets and multifamily construction in the same areas. Suburban sprawl will fuel retail expansion, where as in dense urban areas retail centers will begin to evolve following national retailing trends.

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q3 2015 Net Absorption (SF)	2015 Total Net Absorption (SF)
Inner Loop	324	16,209,163	562,926	3.5	32.00	354,373	(848)	205,200
Northeast	235	14,755,953	1,017,009	6.9	13.50	285,000	39,741	172,512
Near North	109	6,434,099	214,397	3.3	14.00	-	(31,563)	(9,497)
Far North	445	30,535,062	1,979,319	6.5	24.00	-	(20,041)	(15,562)
Near Northwest	192	11,085,463	534,803	4.8	22.75	-	(28,443)	(35,068)
Far Northwest	463	27,910,288	1,656,811	5.9	32.00	153,000	27,508	275,030
Near West	200	13,249,487	614,893	4.6	33.50	-	34,199	85,470
Far West	276	17,678,644	1,021,035	5.8	28.25	372,535	104,219	461,813
Near Southwest	227	12,919,472	1,007,837	7.8	17.75	-	36,514	116,607
Far Southwest	350	22,655,030	1,471,053	6.5	22.25	25,575	(17,732)	48,052
South	154	8,523,981	466,630	5.5	18.75	314,331	(39,580)	(65,124)
Near Southeast	143	9,469,623	646,388	6.8	22.50	-	29,255	34,854
Far Southeast	317	21,993,342	1,488,743	6.8	13.75	934,933	30,250	232,983
HOUSTON TOTAL	3,435	213,419,607	12,681,844	5.9	17.53*	2,439,747	163,479	1,507,270

Source: CBRE Research, Q3 2015.

* Market total reflects weighted average asking rate

RESIDENTIAL MARKET GUIDES RETAIL CONSTRUCTION

Despite layoffs in the oil and gas industry and increasing home prices, Houston's housing market is healthy and seeing increasing new home construction and record high existing home sales volumes. Growth in the west and northwest, including master planned communities Aliana, Canyon Gate West, Cross Creek Ranch, is spurring retail construction growth. Additionally, areas that have not seen consistent retail construction growth are high on developer's lists. Particularly the Far Southeast submarket which currently has five centers under construction. Four new projects broke ground in Q3 2015 totaling 685,683 sq. ft., all of which were grocery projects throughout the city in Pearland, Katy, Clear Lake, and Humble.

E-COMMERCE AND DELIVERY SERVICES COMPLIMENTS RETAIL DEMAND

The Houston metro area population is forecast to reach 10.9 million by 2045, according to Moody's Analytics.

With this expanding consumer base, retail demand will continue to grow throughout the next 30 years and retailers are already looking at new ways to service this consumer driven market. Traditional grocery-anchored centers are still relevant in suburban markets. However in the increasingly dense trade areas within Beltway 8, multi-use centers are successful draws for consumers looking for a diverse tenant mix. Popular developments, CityCentre, BLVD Place and newly opened River Oaks District, continue to achieve healthy rents and growing interest from both local and national retailers.

Additionally, delivery services have grown in popularity this year with several merchants offering expanded grocery and e-commerce deliveries services. Same day grocery delivery service, Instacart, recently partnered with H-E-B and expanded service to Katy and Spring.

ABSORPTION AND OCCUPANCY

The retail market can expect lower than average absorption volumes until construction delivers additional available space, specifically in higher-end product. The Far West submarket, which includes Katy, saw the most absorption in Q3 2015 mostly small to medium sized tenants.

While transaction activity slowed, due to seasonal trends, occupancy increased again this quarter. As developments deliver in the first half of 2016, occupancy could flatten out. Although of the projects set to deliver in H1 2016, 81% of the space is pre-leased.

ASKING RATES

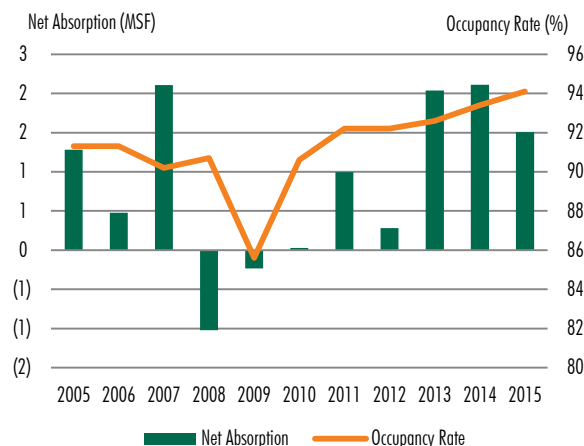
Limited availability and higher quality new product is putting positive pressure on rates. Landlords continue to achieve high rents while offering fewer leasing concessions. CBRE Research has improved our statistical analysis of retail asking rents. The drop in asking average asking rate from Q2 2015 to Q3 2015 represents change in reporting and does not reflect market conditions.

CONSTRUCTION

Development activity is gaining momentum with 2.4 million sq. ft. under construction. Kroger and H-E-B continue to battle for market share with aggressive expansions spanning the entire geographic area of this city. Kroger has four locations currently under construction in Humble, Cypress, Lake Jackson and Katy. H-E-B is working on two locations in Katy and Clear Lake; their new Lake Jackson location opened this quarter.

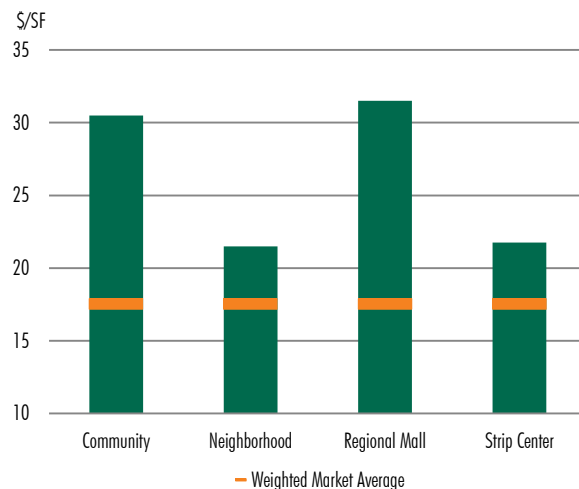
Houston delivered 366,979 sq. ft. of retail product this quarter down since last quarter. However, over 1 million sq. ft. of retail centers is anticipated to deliver in the first half of 2016. In the upcoming months there is another 2 million sq. ft. that will likely break ground.

Figure 3: Net Absorption and Occupancy Rate



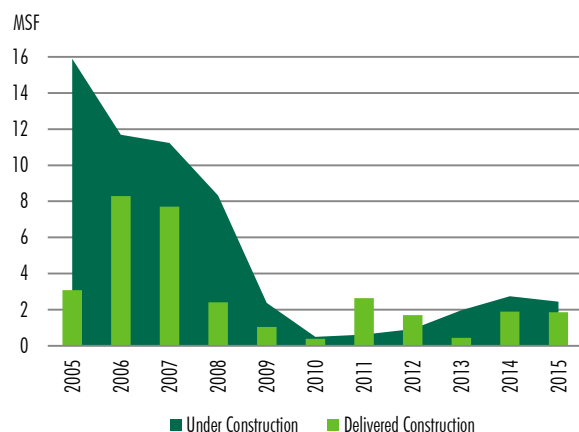
Source: CBRE Research, Q3 2015.

Figure 4: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q3 2015.

Figure 5: Construction



Source: CBRE Research, Q3 2015.

ECONOMIC CONDITIONS

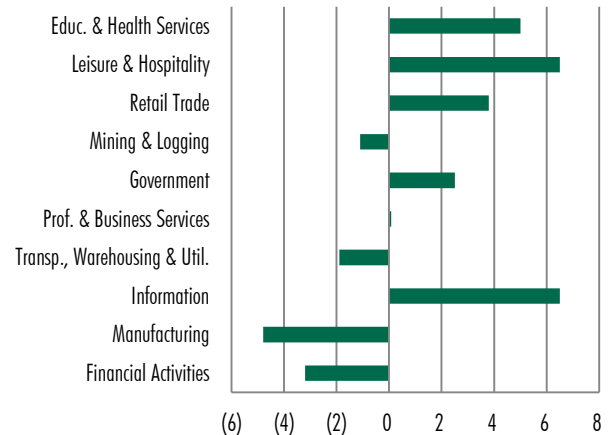
Amid announcements of layoffs within the energy industry, Houston added 6,400 jobs in the month of September, representing 36,200 jobs added in the last twelve months. Modest monthly gains in the energy industry are not enough to offset the impact from prior month's layoffs; the sector lost 4,000 jobs this year. Health Care and Leisure and Hospitality sectors continue to see healthy growth adding 11,400 and 3,000 jobs respectively since December 2014.

Retail sales in Texas broke record highs again in July to 41.4 billion dollars. Locally, the city of Houston saw sales tax allocations increase by 3.4% in September with almost all the growth in the retail trade, restaurant, services and construction sectors.

POPULATION GAINS GIVE WAY TO HEALTHY RESIDENTIAL MARKET

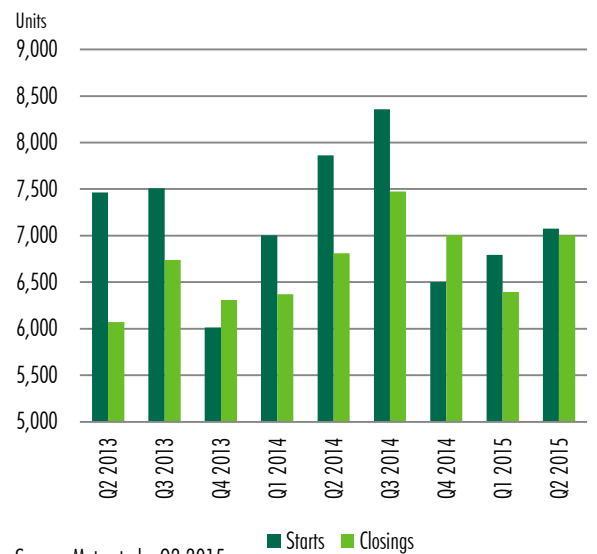
Houston added over 500,000 residents from 2010 through 2014, the most of any metro in the U.S. which has supported strong single-family housing sales throughout the year as well as the strongest multifamily construction volumes on record, despite decreasing employment. According to HAR, sales volumes climbed 3.5% from last September, with the majority of sales in homes prices between \$150,000 and \$500,000. The average single-family home price is \$270,901, a record September high.

Figure 6: Houston Employment Trends



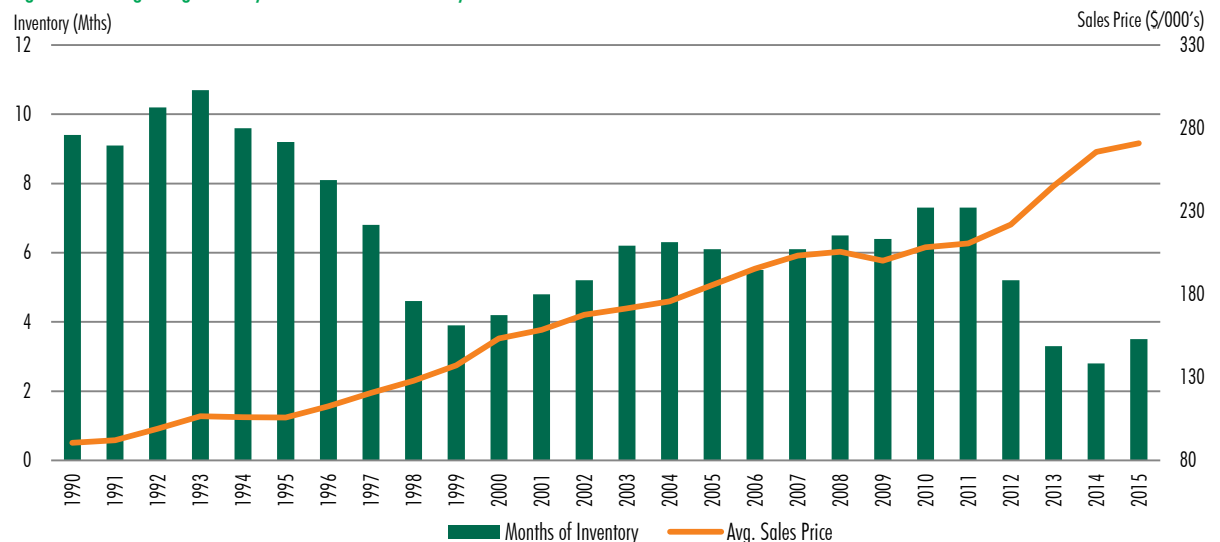
Source: Texas Workforce Commission, October 2015.

Figure 7: Single-Family Housing Demand

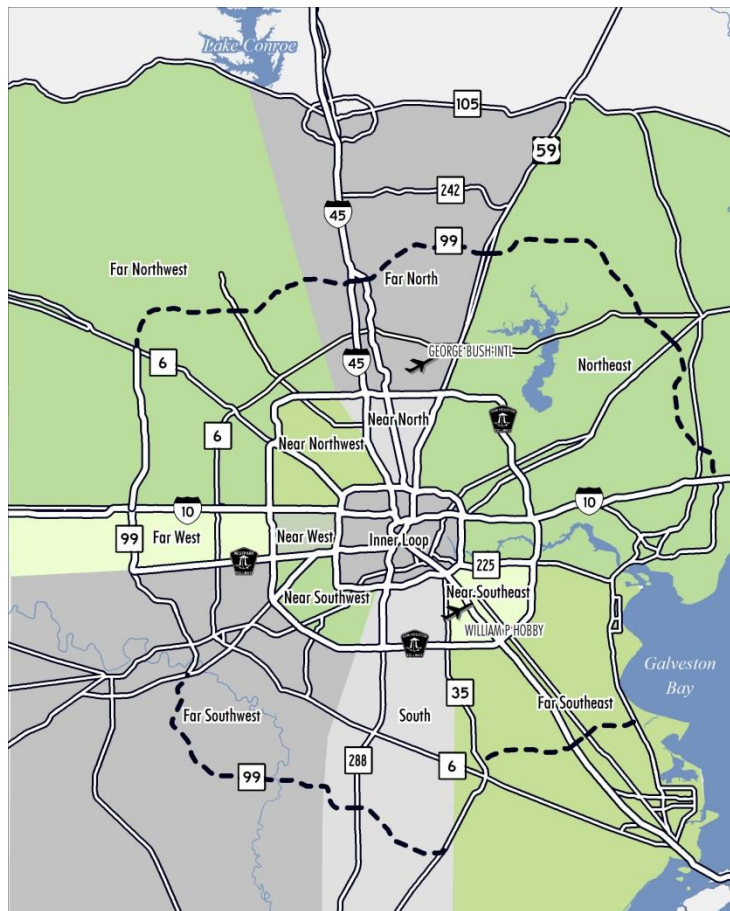


Source: Metrostudy, Q2 2015.

Figure 8: Average Single Family Sales Price and Inventory



Source: Houston Association of Realtors, September 2015.


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Houston Retail, Q2 2015

Development pipeline swells; proposed construction up by 1.6 million sq. ft. during Q2

Vacancy
6.3%

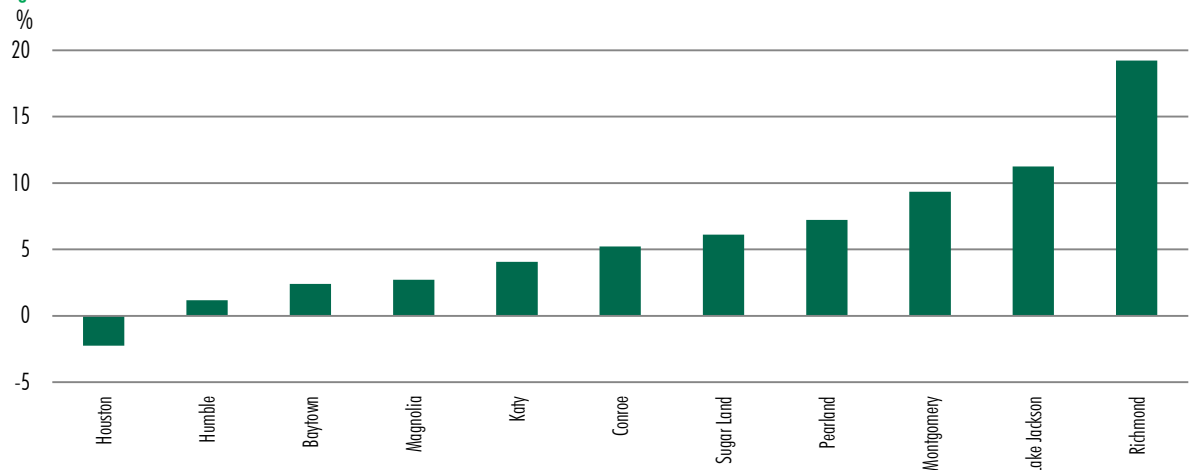
Under Construction
1,364,688 SF

Completions
522,150 SF

Net Absorption
718,359 SF

Avg. Asking Rate
\$23.46 PSF

Figure 1: Retail Sales Tax Revenue Growth



Source: Texas Comptroller, June 2015

SALES TAX REVENUES UP YEAR OVER YEAR

City of Houston sales tax revenues for 2015 year-to-date are up 5% from 2014. While the city saw a slight decrease from April 2014 revenues, suburban cities within the Houston MSA saw dramatic increases.

As revenues in Richmond climbed 19.2%, the highest of any city within the Houston metro, Paragon Outlets recently announced a new 300,000 sq. ft. outlet mall along Highway 59 just south of Richmond. South of Houston in Lake Jackson, where taxes increased by 11.6%, new grocery development is active with a new H-E-B and Kroger under construction.

Additionally, Pearland, Baytown, Conroe, Sugar Land, Humble, Katy, Montgomery and Magnolia all saw an increase in sales tax revenues. Accordingly, single family development and the majority of retail construction is centered in these suburban markets.

Bolstered by pent up demand from recent population growth, activity in the retail market is healthy and poised for a strong growth cycle.

In the second quarter over 1.6 million sq. ft. of proposed retail projects were announced, of which 560,000 sq. ft. is speculative. While grocery anchored centers will continue to be the focus of retail developers throughout the rest of this year, developers are beginning to focus on new retail destinations for the Houston area.

Developers publicized plans for three large retail projects this quarter; a 500,000 sq. ft. expansion at the San Jacinto Mall – its first since opening in the 1980s, the Paragon Outlets in Rosenberg, and PMRG's mixed-use project, Republic Square, located on the former Exxon Chemical site on Houston's west side in the Energy Corridor.

Figure 2: Market Snapshot

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rate, NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q2 2015 Net Absorption (SF)	2015 Total Net Absorption (SF)
Inner Loop	325	16,428,296	532,675	3.2	36.75	393,838	190,431	206,048
Northeast	235	14,804,943	1,105,173	7.5	15.00	-	101,757	132,771
Near North	109	6,434,099	221,415	3.4	18.25	-	29,330	22,066
Far North	446	30,849,271	1,986,839	6.4	27.00	-	60,348	4,479
Near Northwest	188	10,760,105	514,638	4.8	20.00	-	14,932	(6,625)
Far Northwest	459	27,700,368	1,738,285	6.3	25.50	30,000	33,919	247,522
Near West	200	13,240,987	565,279	4.3	30.50	-	(15,396)	51,271
Far West	278	17,823,731	1,212,420	6.8	30.50	169,446	77,106	357,594
Near Southwest	226	12,960,071	1,432,654	11.1	15.00	177,514	80,483	80,093
Far Southwest	349	22,671,489	1,459,114	6.4	25.50	-	21,588	65,784
South	151	8,336,005	453,300	5.4	20.50	314,640	(20,510)	(25,544)
Near Southeast	142	9,430,797	682,374	7.2	20.00	-	33,062	5,599
Far Southeast	317	22,130,390	1,450,998	6.6	20.50	279,250	111,309	202,733
HOUSTON TOTAL	3,425	213,570,552	13,355,164	6.3	23.46	1,364,688	718,359	1,343,791

Source: CBRE Research, Q2 2015.

Additionally, the mixed-use project and public park on the Midtown Superblock is underway, which will incorporate retail and restaurant space into the urban park.

While construction remains sluggish with only 1.3 million sq. ft. under construction, deliveries are in line with current demand. To-date this year, Houston has absorbed over 90% of the sq. ft. delivered to the market forcing occupancy up to a record high of 93.7%. Driven by low vacancy, rents continue to climb and landlord concessions are dwindling. Forecasted gains in consumer spending, coupled with recent sustained population growth, will both strengthen the outlook for Houston's retail market, especially for high-end development.

CONSUMER TRENDS

Strong retail sales tax revenues in the Houston metro point to healthy consumer spending. Unsurprisingly, the strongest demand is in restaurants and grocery tenants due to recent population growth. However, additional retail expansions are in the entertainment, luxury and fitness sectors.

Luxury urban development is thriving nationwide and Houston is no exception. For example, The Galleria, which hosts approximately 30 million visitors annually, is underway with a "luxury wing" adding high-end retailers to accompany the \$250 million renovation of Saks Fifth Avenue. The River Oaks District is also currently under construction and will add 270,000 sf of retail space to the market. Developed as a luxury mixed-use project, the property will command some of the highest rents in Houston.

ABSORPTION AND OCCUPANCY

Until construction deliveries can catch up with demand, specifically in higher-end product, occupancy will hover at historic highs. For example, overall occupancy at Houston climbed to 93.7% and prime retail space is over 97.6% and even higher in the Inner Loop and Near West submarkets.

New grocery-anchored deliveries backed the most to absorption totals, specifically, Walmart Neighborhood Market (80,000 sq. ft.), Sprouts (27,000 sq. ft.), and Whole Foods (45,000 sq. ft.).

ASKING RATES

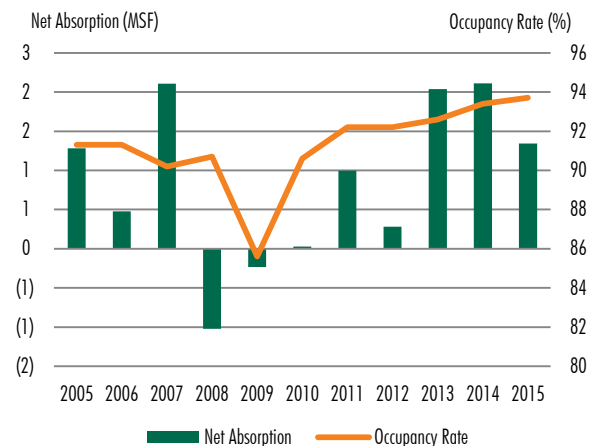
Limited availability and higher quality new product pushed asking rentals even higher, increasing to \$23.46 per sq. ft. in Q2 2015, from \$22.21 per sq. ft. in Q1 2015. Landlords continue to achieve high rents, especially on pad and endcap spaces, while offering fewer leasing concessions.

CONSTRUCTION

Although there is a healthy retail pipeline, only 1.3 million sq. ft. is under construction and only two projects totaling 54,640 sq. ft. broke ground this quarter, one of which is a freestanding Sprouts located in Pearland. Walmart continues their aggressive expansion of the Neighborhood Market concept delivering two locations this quarter in Cypress and Humble. The largest project to deliver was the Grand Parkway Gallery Furniture location, a 100,000 sq. ft. showroom with an atrium housing tropical birds and monkeys.

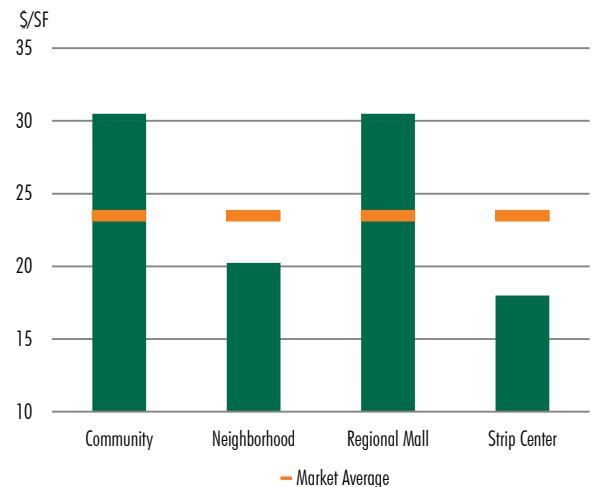
The big news this quarter was that Houston retail saw the largest increase in announced developments since the last big development cycle well over ten years ago. Over 8 million sq. ft. is proposed, 2.5 million sq. ft. of which is most likely to begin in the near future. Notable projects include: Coscto in Pearland (150,000 sq. ft.), Reed King announced Waterview Town Center in Richmond (250,000 sq. ft.), and Morgan Group's Pearl on Smith mixed-used development which will include a Whole Foods.

Figure 3: Net Absorption and Occupancy Rate



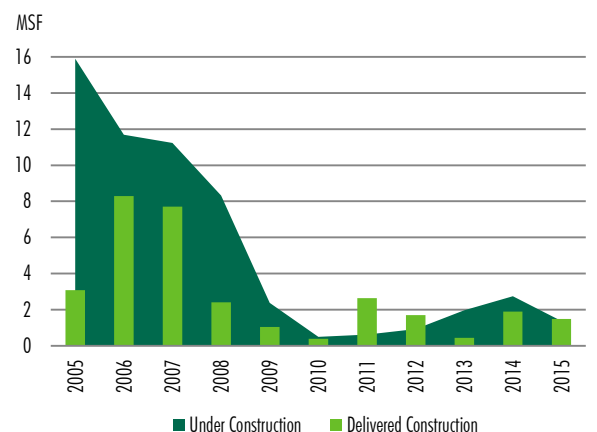
Source: CBRE Research, Q2 2015.

Figure 4: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q2 2015.

Figure 5: Construction



Source: CBRE Research, Q2 2015.

ECONOMIC CONDITIONS

Houston added 13,700 jobs in the month of May with the strongest advances in the Retail Trade, Educational and Health Services, and Leisure and Hospitality sectors. The last twelve months indicate positive job growth as well, equaling 62,300 jobs added. Although Houston employment continues to grow, albeit a slower pace, employment in 2015 decreased by 7,300 jobs.

Retail sales in Texas are at record highs, climbing 40 basis points (bps) in April to 41.8 billion dollars. Despite a slight decrease in spending at the beginning of the year, retail sales are trending upward as spending increases throughout the growing suburbs.

RESIDENTIAL MARKET

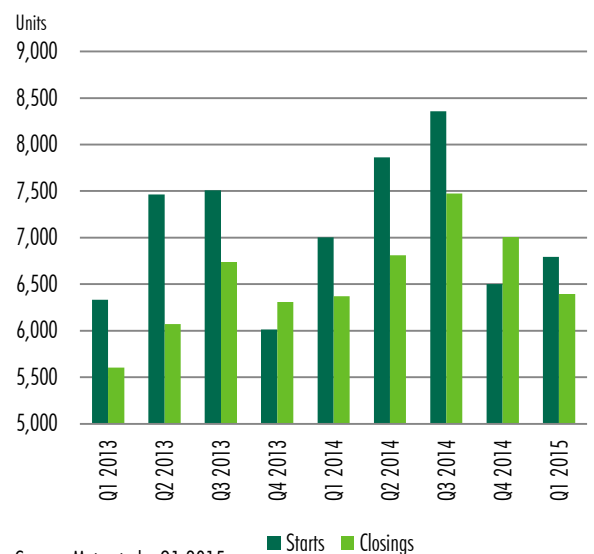
The single family market did not fully absorb the rapid population increase over the last five years. Inventories remain constrained with only three months supply. (Houston would need an additional three months supply of homes to have a balanced single family market.) However, the limited supply is fostering new home construction and driving retail growth in the outer rings of Houston. May home sales decreased slightly by 4.3% from May 2014, while average home prices edge even higher to \$292,040 in March.

Figure 6: Houston Employment Trends



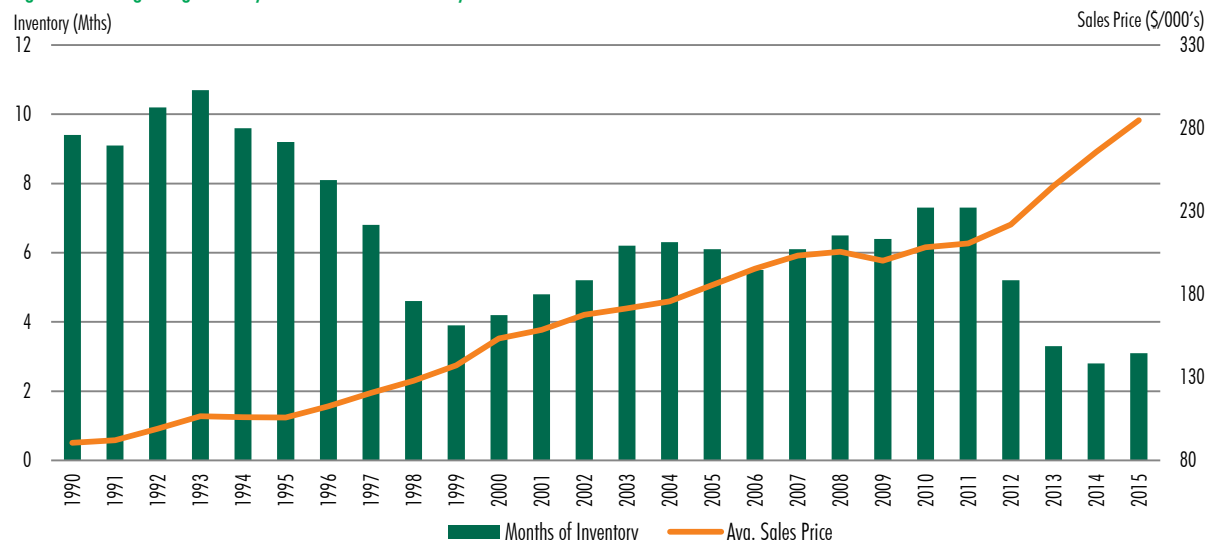
Source: Bureau of Labor Statistics, June 2015.

Figure 7: Single-Family Housing Demand

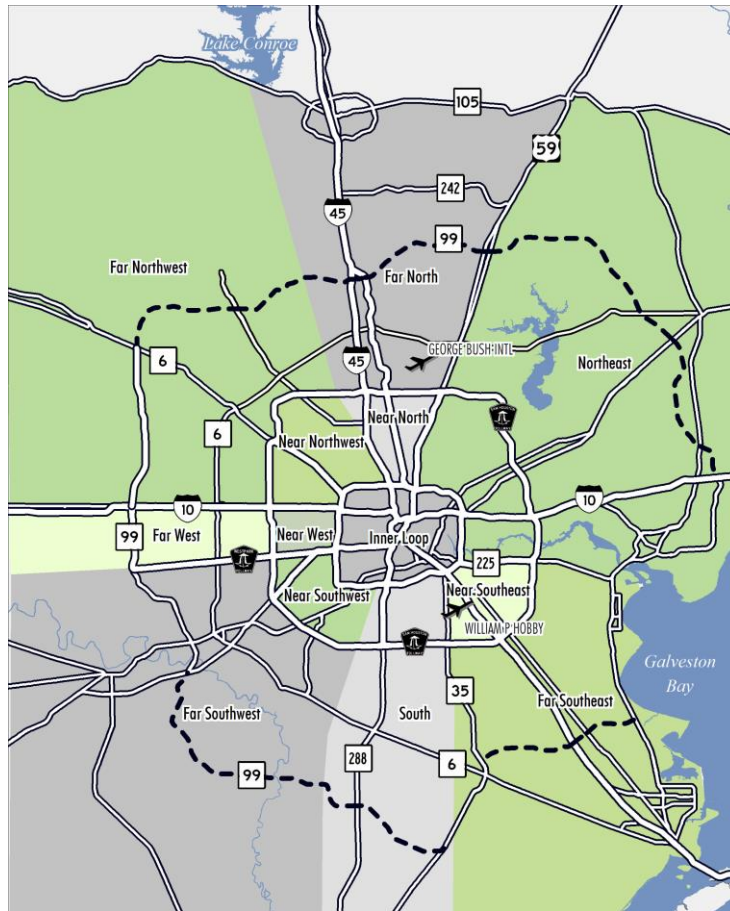


Source: Metrostudy, Q1 2015.

Figure 8: Average Single Family Sales Price and Inventory



Source: Houston Association of Realtors, June 2015.


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Houston Retail, Q1 2015

Retail waiting for construction to catch up with demand

 Vacancy
6.5%

 Under Construction
1,680,214 SF

 Completions
957, 187 SF

 Net Absorption
625,432 SF

 Avg. Asking Rate
22.21 \$/SF

HOUSTON IS FASTEST GROWING METRO IN THE NATION

Since 2010, Houston has grown by 9.1% or 541,104 residents, more than any other metro area in the nation. In the last year, Houston added 156,371 new residents, trailing only Austin which grew by 3% from 2013 to 2014. Last year there were 98,133 net migrations to the Houston metro. The Greater Houston Partnership estimates Houston's population to reach 6.6 million by the middle of 2015.

HOW SLOW IS RETAIL CONSTRUCTION?

Since 1980, the Houston retail market averaged about 37 million sq. ft. of new construction per decade. However, in the last five years only 5 million sq. ft. of new retail product has hit the market. The last decade to deliver less than 30 million sq. ft. was the 1970's, which only added 5.2 million sq. ft. But with office and multifamily construction slowing, more sites will become available for retail developers as land prices begin to decrease.

Pent up demand and constrained construction market drove occupancy to a new record high of 93.5% in Q1 2015.

Tight supply in prime high street space is limiting retailers current leasing decisions. Tenants, restaurants in particular, struggling to find available high end space are transitioning to smaller concepts following a growing national trend of fast casual concepts. Currently restaurants and grocers make up a large part of the expanding retailers in Houston. However, discount stores are the only tenant type looking for larger spaces.

While national retailers ramp up expansions due to improving economic conditions across the nation, leasing activity in Houston slowed about 20% in the last two quarters. Yet, absorption levels remain steady attributed mostly to grocery expansions and tenants occupying new construction. The overall retail market absorbed 625,432 sq. ft. in Q1 2015, with the Far West and Far Northwest submarkets being the most active.

Nationally consumers, now less encumbered by debt and benefiting from lower gasoline prices, are expected to bolster retail activity. According to the Energy Information Administration, lower oil prices will save consumers more than \$700 this year. Houston consumers are not immune to these benefits, despite predictions of a softening local economy. And there are more consumers in Houston than ever before due to dramatic population growth.

Construction Cycles	Deliveries (MSF)	Occupancy(%)
1980 - 1989	35.3	75.9
1993 - 1996	17.1	86.9
1999 - 2002	21.9	87.0
2006 - 2009	20.2	86.0
2012 - 2015	5.6	93.5

Figure 1: Market Stats

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rate NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q1 2015 Net Absorption (SF)
Inner Loop	275	16,082,219	714,931	4.4	36.75	489,239	15,617
Northeast	240	15,391,212	1,264,186	8.2	15.00	0	31,014
Near North	107	6,388,322	220,811	3.5	18.25	0	(7,264)
Far North	440	30,703,355	2,079,692	6.8	27.00	0	(55,869)
Near Northwest	186	10,979,066	521,189	4.7	15.00	0	(21,557)
Far Northwest	454	27,358,213	1,804,140	6.6	25.50	477,000	213,603
Near West	200	13,346,846	564,486	4.2	24.50	45,000	66,667
Far West	275	17,658,189	1,258,877	7.1	30.50	167,500	280,488
Near Southwest	226	13,068,878	1,478,180	11.3	15.00	184,000	(390)
Far Southwest	347	22,643,105	1,419,670	6.3	25.50	165,000	44,196
South	156	8,557,351	440,776	5.2	20.50	0	(5,034)
Near Southeast	141	9,442,800	692,369	7.3	14.75	0	(27,463)
Far Southeast	309	21,568,869	1,372,431	6.5	20.50	152,475	91,424
HOUSTON TOTAL	3,356	213,188,425	13,851,738	6.5	22.21	1,680,214	625,432

Source: CBRE Research, Q1 2015.

According to the Greater Houston Partnership, Houston's growth patterns have changed and the metro area will typically add 10,000 new residents every month, seeing variations due to economic conditions.

This construction cycle has been very different than the past despite a healthy amount of demand. Houston added 445,400 jobs in from 2010 through 2014, three times the jobs lost in the recession and making it the fastest growing economy in the nation. Additionally, census data shows Houston added 541,104 new residents from 2010 through 2014 further driving demand. And yet, retail construction remains constrained.

The last building cycle of 2006 through 2008 added 20.2 million sq. ft. to the market, five times the 5.6 million sq. ft. added in the last three years.

Although oil prices have hovered around the \$50 mark all year, the retail market is situated in a more stable position than in the mid-1980's. From 1980 to 1989, Houston built 35.3 million sq. ft. of poorly timed retail space, leaving the market 75.9% occupied. Conversely, occupancy has stayed above 90% since 2010 adding just 5 million sq. ft.

Driven by low vacancy, rents continue to climb and concessions dwindle. Predicted increases in consumer spending coupled with recent population growth will bolster the retail market while more high-end supply is needed.

ABSORPTION AND OCCUPANCY

Occupancy has steadily increased in the last three years reaching a record high again in Q1 2015. Occupancy increased to 93.5% in Q1 2015 from 93.4% in Q4 2014. Space, particularly in prime centers, will remain tight as long as construction stays constrained.

The Houston retail market absorbed 625,432 sq. ft. in Q1 2015, typical for the first quarter after a seasonal slowdown in transaction activity in the fourth quarter.

ASKING RATES

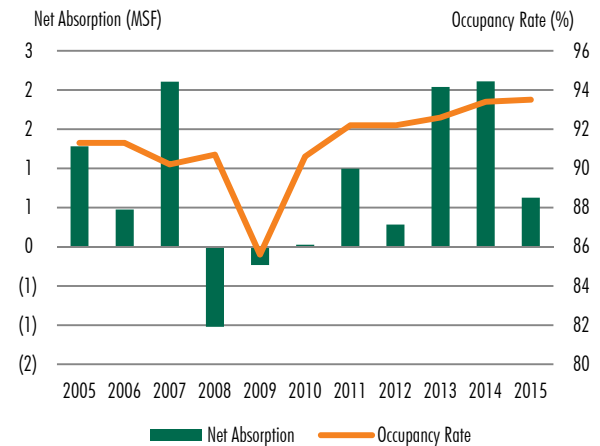
Houston's market average rental rate trends steadily upward, increasing to \$22.21 per sq. ft. in Q1 2015, from \$22.15 per sq. ft. in Q4 2014. Landlords continue to achieve high rents while offering little concessions. Additionally, national tenants looking for space in Houston are feeling sticker shock at rising rates, especially in prime trade areas. The largest rate hikes in Q1 2015 were in the Far North, and Far Northwest submarkets, increased by \$0.50 and \$0.25 respectively.

CONSTRUCTION

Deliveries increased this quarter, completing 957,187 sq. ft. of new retail properties, of which 97.3% was leased upon completion. This time last year, only 540,429 sq. ft. was delivered. An estimated 890,000 sq. ft. will deliver in the Q2 2015.

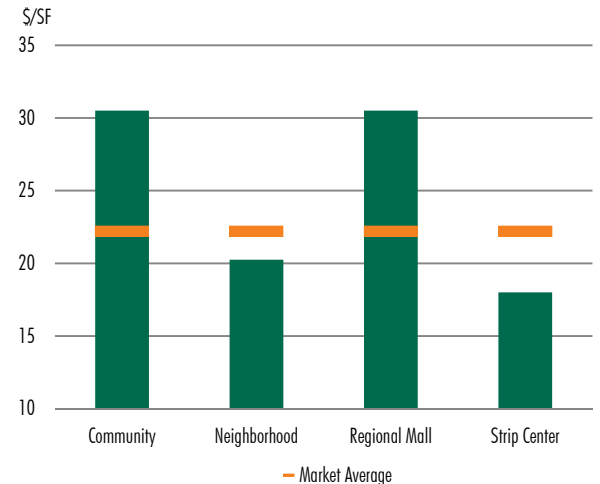
Currently 1.7 million sq. ft. is under construction a 38.7% decrease from Q4 2014 and a 14.8% decrease from 1Q 2014. Only three projects, 136,000 sq. ft., broke ground this quarter further highlighting the stalled construction market. The majority of retail properties under construction are smaller centers between 70,000 sq. ft. and 20,000 sq. ft. Construction activity, in the Inner Loop specifically, has been slow due to elevated land prices. The largest project underway in the Inner Loop is the River Oaks District, a luxury mixed-use development.

Figure 2: Net Absorption and Occupancy Rate



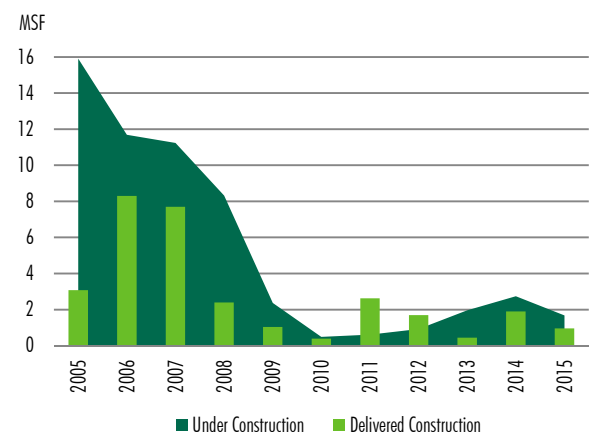
Source: CBRE Research, Q1 2015.

Figure 3: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q1 2015.

Figure 4: Construction



Source: CBRE Research, Q1 2015.

ECONOMIC CONDITIONS

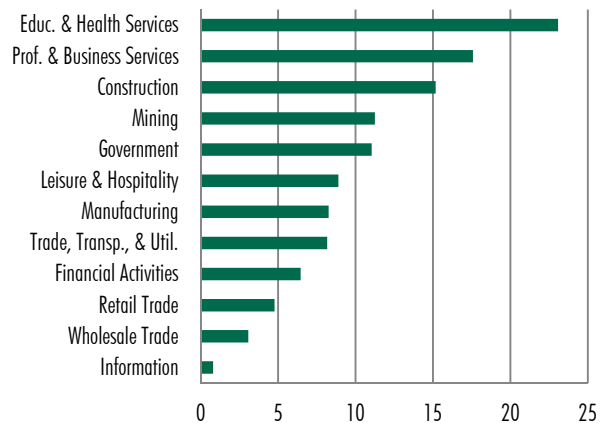
Revised employment numbers indicate the Houston area created 104,700 jobs in 2014, slightly lower than previously reported, but new data also shows stronger employment growth in 2012 and 2013. The construction, professional and business services, restaurants, health care, whole sale and retail sectors made up half of all the jobs created in 2014.

Effects of dropping oil prices on the local economy will likely be noticeable in employment numbers in late spring. Oil & gas companies have begun adjusting drilling practices and reducing capital expenditures until oil prices stabilize. The U.S. Energy Information Administration predicts the WTI will average \$52.15 a barrel in 2015 and \$70.00 in 2016.

RESIDENTIAL MARKET

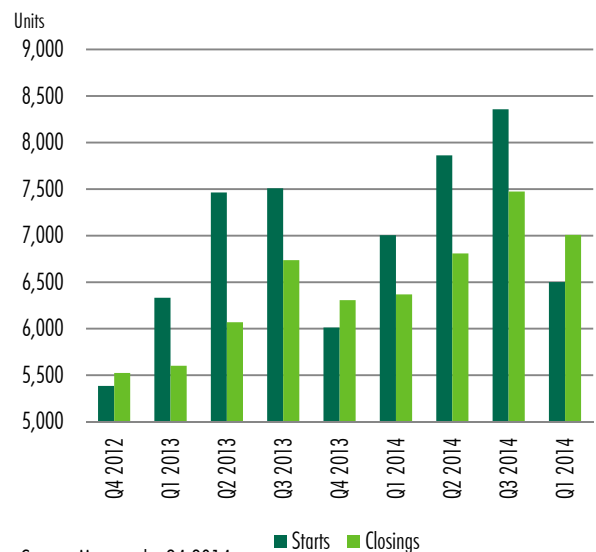
The single-family market is relatively stable, although home sales declined in the first part of the year, March home sales increased 3.8% from March 2014. Average home prices climbed to a seasonal record high \$267,837 in March. Housing inventory remains well below balanced levels at 2.8 months supply, as home buyers purchase homes faster than supply is increasing. Source: Houston Association of Realtors, March 2015.

Figure 5: Houston Employment Trends



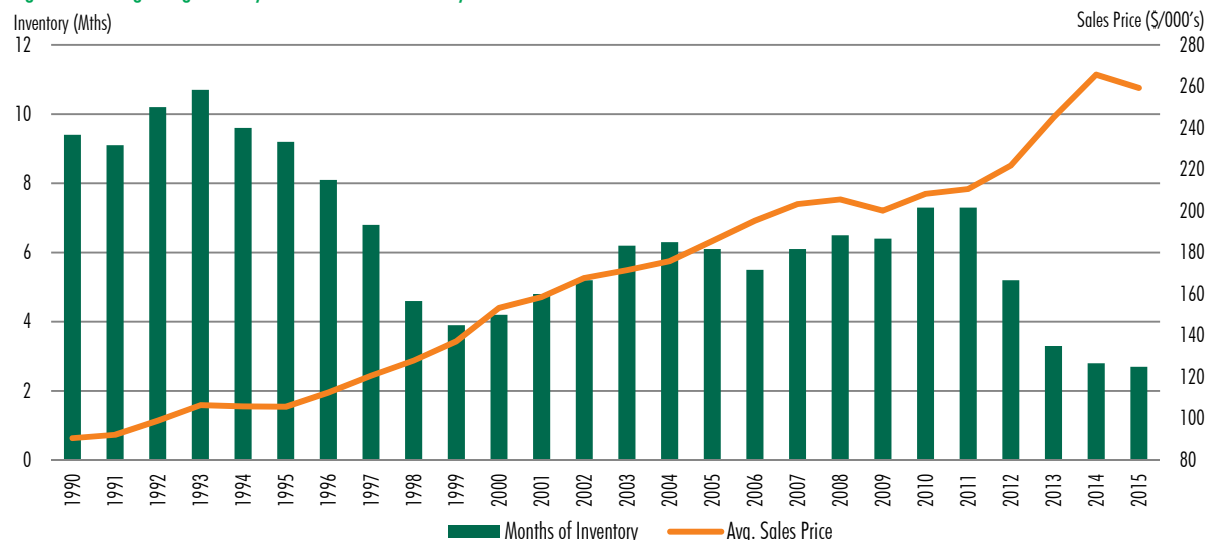
Source: U.S. Bureau of Labor Statistics, December 2014.

Figure 6: Single-Family Housing Demand

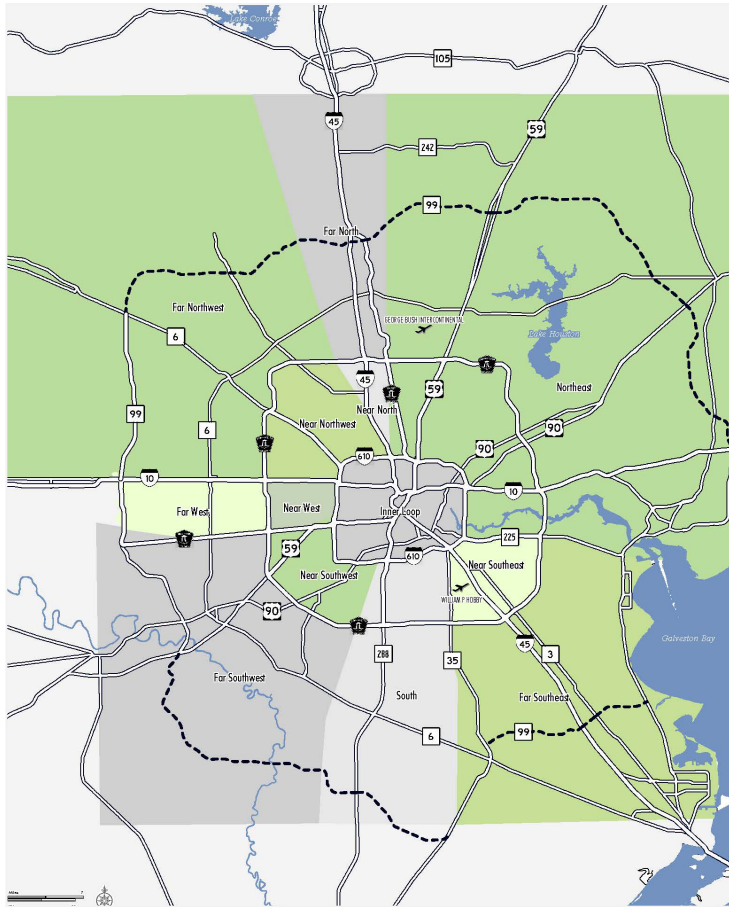


Source: Metrostudy, Q4 2014.

Figure 7: Average Single Family Sales Price and Inventory



Source: Houston Association of Realtors, March 2015.


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Houston Retail, Q4 2014

Demand fuels more growth in retail market

**Vacancy**
6.6%**Under Construction**
2,740,513 SF**Completions**
441,116 SF**Net Absorption**
316,988 SF**Avg. Asking Rate**
22.15 \$/SF**POSITIVE JOB GROWTH PREDICTED FOR 2015**

Job growth will moderate in 2015. According to the Greater Houston Partnership a healthy 62,900 jobs will likely be added in 2015. While this prediction is less than the recent rate of growth, the last four years were exceptional and unsustainable.

SINGLE-FAMILY HOME SALES TREND UPWARD

November single-family closings, a total of 5,092 sales, were up 1.8% from 2013 says Houston Area Realtors. If December sales keep the same pace, Houston home sales for 2014 will likely surpass sales from 2013.

CONSTRUCTION

Although deliveries slowed in the fourth quarter, the retail construction pipeline has 2.7 million sq. ft. set to deliver in 2015, of which almost 2 million sq. ft. will deliver in the first half of the year. As much of 2014 construction was dominated by grocery anchored centers, 2015 will see a continuing of this trend.

RESTAURANTS CONTINUE TO EXPAND

Houston restaurant scene continues to grow in response to an increasing population. Both local and national chain restaurants have plans to expand in Houston next year. The greatest concentration of new restaurants is expected in the Inner Loop areas. However, new concepts are anticipated in The Woodlands/Spring, Katy and Sugar Land.

POPULATION GROWTH AND HIGH DEMAND WILL DRIVE ACTIVITY IN 2015

Despite Houston facing dropping oil prices, the outlook for the Houston retail market is positive. With occupancy at the highest point on record, and population anticipated to increase by an additional 125,000 residents in 2015, demand will be sufficient to maintain solid growth fundamentals.

Oil prices dropped by more than \$50 in the last six months, from \$108/barrel in June. Although a large portion of Houston's economy remains tied to the energy industry, lower gas prices have benefitted consumers supporting additional retail consumption, a trend that will likely continue. The Federal Reserve Bank of Dallas reports Texas retailers are optimistic regarding retail sales activity in the coming months.

Undeterred, the Houston retail market closed the year with another strong quarter absorbing 316,988 sq. ft., bringing the 2014 net absorption total to 2.1 million sq. ft., the highest amount since 2003. Despite delivering 1.8 million sq. ft. of new construction this year, vacancy dropped to a record low of 6.6% due to dwindling available retail space. Among previous growth cycles Houston overall occupancy topped out at 89% in 2000.

Figure 1: Market Stats

Market	Number of Centers	Net Rentable Area (SF)	Total Vacant (SF)	Vacancy (%)	Asking Rent NNN Avg. Annual (\$/SF)	Under Construction (SF)	Q4 2014 Net Absorption (SF)	2014 Total Net Absorption (SF)
Inner Loop	272	15,893,200	695,941	4.4	36.75	477,826	7,248	97,668
Northeast	237	15,316,323	1,297,944	8.5	15.00	60,000	43,613	277,901
Near North	105	6,305,769	210,747	3.3	18.25	-	(1,913)	(60,101)
Far North	434	30,459,787	2,098,569	6.9	26.50	298,521	151,645	600,344
Near Northwest	186	10,979,066	524,228	4.8	15.00	-	(17,771)	118,692
Far Northwest	448	27,356,351	1,918,279	7.0	25.25	622,000	54,733	369,190
Near West	199	13,256,061	572,693	4.3	24.50	127,827	33,716	114,165
Far West	271	17,574,131	1,277,919	7.3	30.50	247,339	94,659	221,353
Near Southwest	225	13,026,885	1,509,819	1.2	15.00	184,000	16,845	(42,632)
Far Southwest	346	22,647,126	1,403,906	6.2	25.50	165,000	38,503	241,414
South	156	8,557,351	468,993	5.5	20.25	42,000	13,355	98,437
Near Southeast	142	9,552,800	644,808	6.7	14.75	-	(32,885)	71,167
Far Southeast	304	21,194,593	1,326,027	6.3	20.50	516,000	(84,760)	2,093
Market Total	3,325	212,119,443	13,949,873	6.6	22.15	2,740,513	316,988	2,109,691

Source: CBRE Research, Q4 2014.

Most notably, availabilities in prime centers and big box spaces are limited. Occupancy rates are well above 90% in centers located within key trade areas particularly in Cypress, the Galleria area, The Woodlands and Sugar Land due in part to an increase in both single-family and multifamily developments in those areas.

The housing market's record sales are a direct result of Houston's growing population. The U.S. Census Bureau estimates the Houston MSA added 137,692 residents from July of 2012 to July of 2013, more than any other U.S. metro area. Houston home sales are at a record high and limited housing supply furthers development in Houston suburbs, resulting in opportunities for retail growth. Single-family home sales totaled 5,092 units in November, according to the Houston Association of Realtors.

Retail construction in key trade areas has seen the largest growth. Currently these areas make up 66% of the under construction projects. Just under one third of the projects in key trade areas are grocery anchored centers, including the Woodlands Whole Foods and HEB at Kuykendahl and Creekside Forest, Kroger at Spring Green Road, Fiesta at FM 529 and Fry Road and Walmart which will be located at Westheimer Parkway and Falcon Landing.

With attention focused on oil prices, it is important to note that the retail market has the momentum of a robust 2014 to see out a healthy 2015. Underlying demand from scarce availability and an ever-growing population will be the main drivers going forward.

ABSORPTION AND OCCUPANCY

Overall net absorption for Q3 2014 totaled 316,169 sq. ft., down from 369,169 sq. ft. in Q3 2014. This marks the second quarter-over-quarter decrease in a row. However, year-to-date net absorption totals 2.1 million sq. ft., exceeding that of 2013. The Far North submarket absorbed the most sq. ft. this quarter and in 2014, due in part to new developments that delivered this year.

Pent up demand due to insufficient supply pushed occupancy rates upward in 2014. Occupancy increased slightly to 93.4% in Q4 2014 from 93.3% in Q3 2014. Quality available space is limited and with many prime centers 100% occupied construction will increase as a result.

ASKING RATES

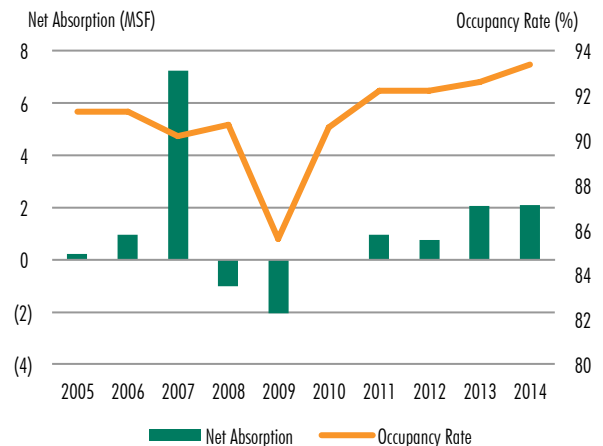
Houston's market average rental rate continues to trend upward, increasing to \$22.15 per sq. ft. from in Q4 2014, from \$22.06 per sq. ft. in 3Q 2014. While rates in most submarkets remained flat since last quarter, the largest increases were in the Inner Loop, Far North, and South submarkets. Rates in the Inner Loop and the Far North both increased by \$1.25 since Q4 2013.

CONSTRUCTION

Deliveries decreased slightly this quarter as the Houston market completed 444,116 sq. ft. of new projects compared with 923,158 sq. ft. in Q3 2014. Completed construction in 2014 declined from 2013; Houston overall delivered 1.9 million sq. ft. in 2014 down from 2.1 million sq. ft. in 2013.

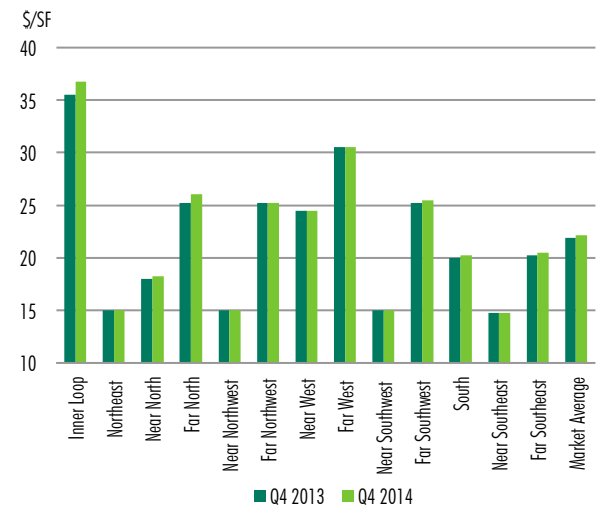
Currently 2.7 million sq. ft. is under construction of which 2 million sq. ft. is projected to deliver in the first half of 2015. The largest amount of construction underway is in the Inner Loop and Far Northwest submarkets. The increase of mixed-use developments and grocery anchored projects continues in Houston. Mixed-use projects under construction include River Oaks District, Hughes Landing in the Woodlands, La Centerra in Katy, and Creekside Park Village near Spring.

Figure 2: Net Absorption and Occupancy Rate



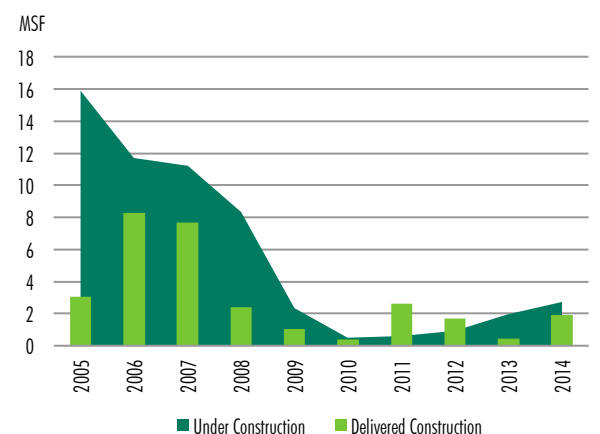
Source: CBRE Research, Q4 2014.

Figure 3: Asking Rate, NNN Avg. Annual



Source: CBRE Research, Q4 2014.

Figure 4: Construction



Source: CBRE Research, Q4 2014.

ECONOMIC CONDITIONS

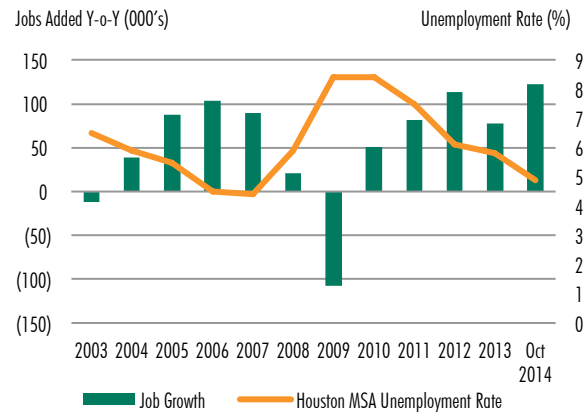
The Houston area added 122,900 jobs over the 12 months ending October 2014, representing a 4.4% increase in employment. Unemployment declined further to 4.9%, a decrease of 90 bps. The Greater Houston Partnership predicts Houston will gain 62,900 jobs in 2015. While employment growth will slow, employment losses are unlikely. Job losses could occur in exploration and production, oil field services, and oil field equipment manufacturing. However, modest job gains are expected throughout the retail sector.

RESIDENTIAL MARKET

Houston's residential real estate market will close out the year with strong sales volume and increasing prices.

Single-family home sales totaled 5,092 units in November, an increase of 1.8% from November 2013, according to the Houston Association of Realtors. The majority of the sales activity took place in higher priced homes in the \$250,000 to millions range. Housing inventory decreased to 2.7 months supply, down from 2.9 months in November 2013. While activity is currently healthy, dropping oil prices could impact home sales in 2015.

Figure 5: Unemployment Rate and Total Non-Agricultural Job Growth



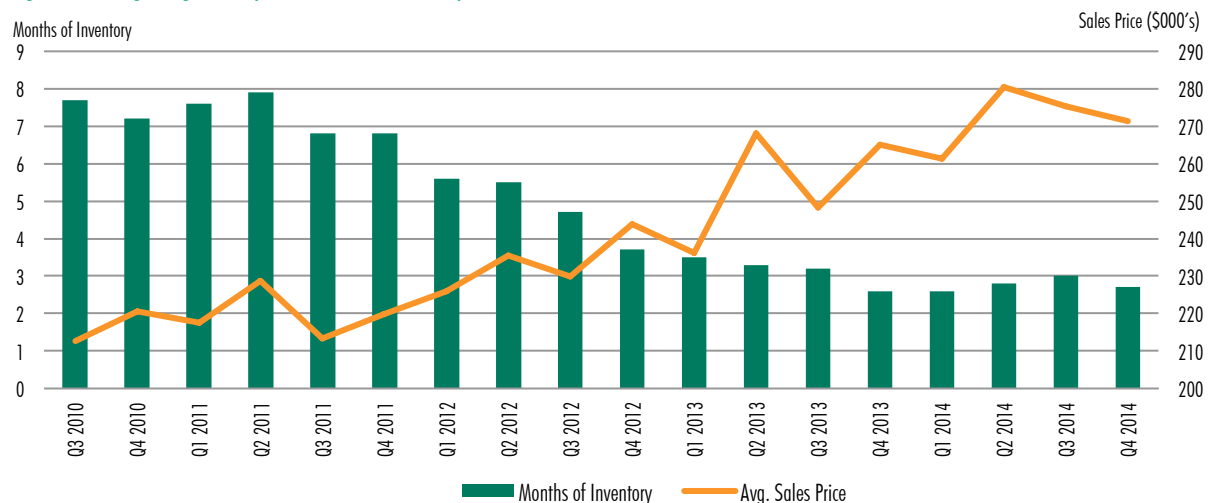
Source: U.S. Bureau of Labor Statistics, October 2014.

Figure 6: Top New Communities

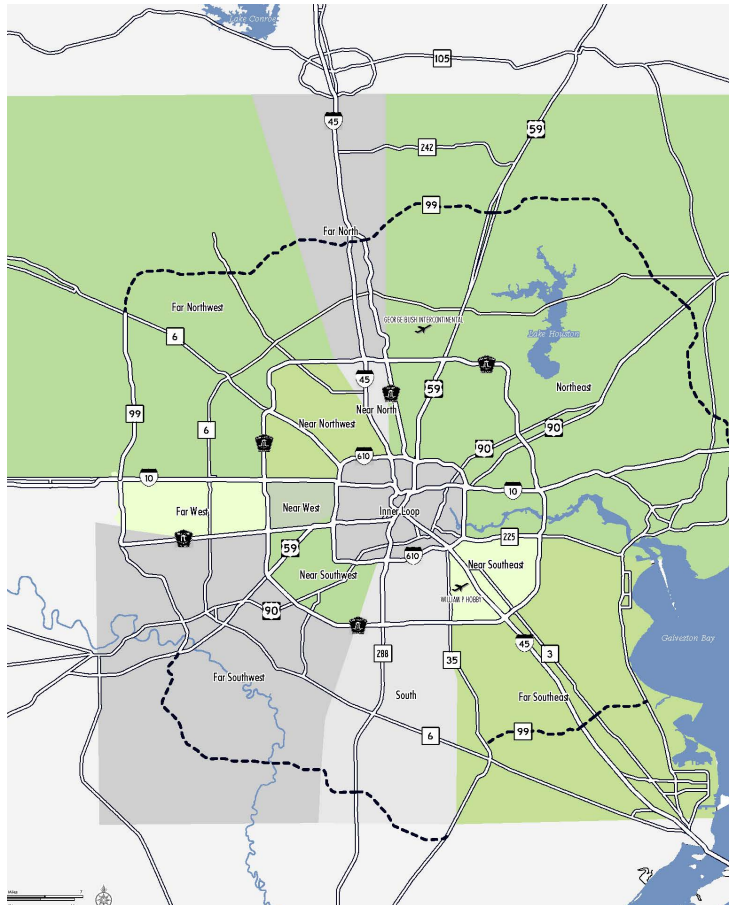
Rank	Community Name	Starts	Retail Submarket
1	Bridges on Lake Houston	45	Northeast
2	Mission Trace	44	Far Southwest
3	Cambridge Park Court	21	Inner Loop
4	Patterson Grove	17	Inner Loop
5	Bracher Estates	11	Near Northwest
6	Enclave at Spring Shadows	11	Near Northwest
7	Fairfield Village North	10	Far Northwest
8	Stonebrook Estates	10	Far Northwest
10	Trails of Katy	10	Far West

Source: Metrostudy, Q3 2014.

Figure 7: Average Single Family Sales Price and Inventory



Source: Houston Association of Realtors, November 2014.


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Houston Retail MarketView 3Q 2014

Q3 2014

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

LANDLORD'S MARKET: INCREASE IN DELIVERIES BRINGS LITTLE RELIEF AGAINST DWINDLING RETAIL VACANCY RATES IN HOUSTON.

Figure 1: Quick Stats

	Q3 2014	Q-o-Q	Y-o-Y
Vacancy Rate	6.6%	↓	↓
Under Construction	2,070,971 SF	↓	↑
Delivered Construction	968,196 SF	↑	↑
Net Absorption	369,169 SF	↓	↑
Annual Asking Rates	\$22.06 per SF	↑	↑
Unemployment Rate	5.0%	↓	↓

Source: CBRE Research, Q3 2014.

Grocery Development

Over 700,000 sq. ft. of new grocery-anchored retail space delivered in Q3 2014. HEB, Kroger, Sprouts, Walmart and Whole Foods opened new stores..

Construction

Construction permitting in Houston is at a record high. Permits for the 12 months ending in July 2014 totaled \$7.6 billion, up 31% from the previous year. Grocery-anchored centers continue to dominate retail construction in Houston.

Restaurant Concepts Expanding in the Inner Loop

Dozens of new restaurant concepts are flocking to the Inner loop in response to rapid residential construction in neighborhoods such as the Heights, Montrose, Midtown, Downtown and the Museum District.

Mixed-Use Trend

Mixed-use developments are becoming a more prevalent trend in Houston as demand for a work-live-play lifestyle grows.

Rental Rates

The dwindling supply of space has pushed rental rates upward, especially on prime pad and end cap spaces. Net retail rates in excess of \$40 per sq. ft. are not uncommon in new centers.

In Q3 2014, the Houston retail market was characterized by increasingly tight vacancy rates despite an influx of completed retail projects.

Available retail space is becoming increasingly difficult to find as the local economy continues to perform well and businesses expand. The average vacancy rate across the metro dropped 60 basis points (bps), to 6.4% in Q3 2014. This represents the largest quarter-over-quarter decline in vacancy in over 2 years for Houston. Occupancy rates are well above 90% in centers located within key trade areas in Cypress, The Woodlands, Galleria and Sugar Land. Many of these centers are 100% occupied and others have only a handful of small spaces available. Available big box spaces in prime centers are also few and far in between.

Q3 2014 net absorption was 369,169 sq. ft. in Q2 2014, down from 761,725 sq. ft. in the previous quarter. Notable move-ins in Q3 2014 included Floor & Decor Outlets' occupancy of a 64,000-sq.-ft. former Kroger in Sugar Land, over 42,000 sq. ft. for Bravo Ranch Supermarket in Pasadena, and Charlotte Russe's move-in to a 41,000-sq.-ft. space in Memorial City Mall.

Average rental rates continue to trend very slightly upward amid the scarcity of space in desirable retail centers. Rates in most submarkets remained relatively flat versus Q2 2014. Q3 2014 average retail asking rental rates across the metro averaged \$22.06 per sq. ft., up slightly from \$22.02 per sq. ft. in Q2 2014. Asking rates in well-located, established centers typically exceed \$20 per sq. ft., not including triple nets, while asking rates for first-

generation space in new, grocery-anchored centers range between \$30 and \$50 per sq. ft.

Nearly 1 million sq. ft. of new retail space hit the market as a number of new retail centers were completed this quarter. Whole Foods opened a new store in Champions in late June and is expected to open a location in the BLVD Place development in the Galleria area later this year. Kroger, Houston's leading grocer in terms market-share according to the Houston Business Journal, also opened two new stores this quarter, one located in Humble and the other in the Cypress' Towne Lake master planned community. A new Walmart, HEB, and several non-grocery centers also delivered in Q3 2014. This brings year-to-date retail completions to 1,450,587 sq. ft., which is slightly down from last year at this time when 1,898,416 sq. ft. delivered. Over 2 million sq. ft. of retail space remains under construction, nearly 800,000 sq. ft. of which is projected to deliver in Q4 2014. If this projection holds true, Houston could deliver more new retail space in 2014 than it has since 2009.

Amid growing rental rates, rising occupancy and a rising, yet historically light construction pipeline, conditions remain favorable for retail landlords and developers in Houston. The local economy is expected to remain strong as growth broadens and the energy sector expansion continues. Up to this point, grocery-anchored developments have been the main driver of retail development in Houston. As the retail real estate market continues to strengthen, the next question is when Houston will begin to see more expansion from traditional retailers and an increase in the development of large non-grocery anchored centers.

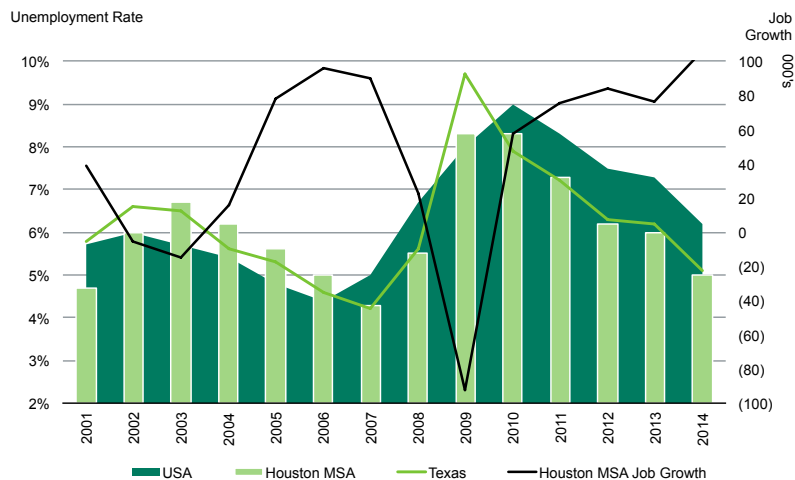
RETAIL THIRD QUARTER MARKET STATISTICS

Figure 2: Market Stats

Submarket	Number of Centers	Net Rentable Area Sq. Ft.	Direct Vacant Sq. Ft.	% Direct Vacant	Total Vacant Sq. Ft.	% Total Vacant	Average Asking Rate Annual, NNN Per Sq. Ft.	Qtr. Total Net Absorption Sq. Ft.	YTD Total Net Absorption Sq. Ft.
Inner Loop	261	14,346,463	685,967	4.8%	685,967	4.8%	\$36.50	2,218	90,420
Northeast	236	15,303,211	1,362,152	8.9%	1,362,152	8.9%	\$15.00	117,271	234,288
Near North	105	6,271,622	206,494	3.3%	206,494	3.3%	\$18.00	843	(58,188)
Far North	426	30,233,393	1,966,158	6.5%	2,050,656	6.8%	\$26.00	50,396	448,699
Near Northwest	179	10,543,747	490,425	4.7%	490,425	4.7%	\$15.00	51,788	136,463
Far Northwest	440	26,808,101	1,833,326	6.8%	1,833,326	6.8%	\$25.25	(766)	314,457
Near West	197	14,942,537	521,738	3.5%	555,527	3.7%	\$24.50	(17,921)	80,449
Far West	267	17,408,422	1,281,237	7.4%	1,284,737	7.4%	\$30.50	1,733	126,694
Near Southwest	223	13,009,771	1,505,465	11.6%	1,505,465	11.6%	\$15.00	18,957	(59,477)
Far Southwest	340	22,224,294	1,434,021	6.5%	1,495,101	6.7%	\$25.50	110,632	202,911
South	154	8,435,344	447,874	5.3%	447,874	5.3%	\$20.25	16,893	85,082
Near Southeast	141	9,515,670	655,509	6.9%	659,789	6.9%	\$14.75	4,376	104,052
Far Southeast	295	20,745,330	1,294,822	6.2%	1,303,434	6.3%	\$20.50	12,749	86,853
MARKET TOTAL	3,264	209,787,905	13,685,188	6.5%	13,880,947	6.6%	\$22.06	369,169	1,792,703

Source: CBRE Research, Q3 2014.

Figure 3: Unemployment Rate and Total Non-Agricultural Jobs



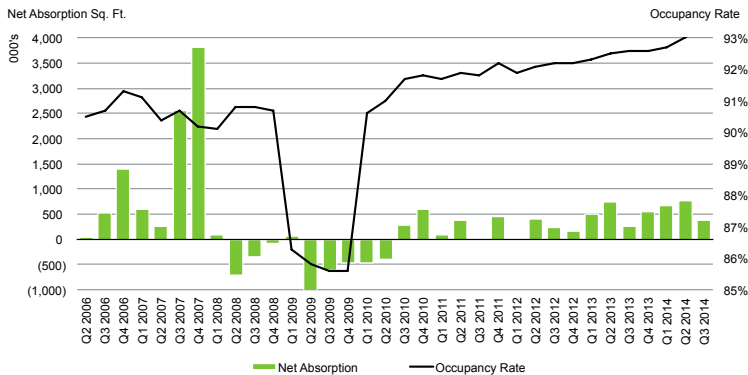
Source: Bureau of Labor Statistics, July 2014.

ECONOMIC CONDITIONS

The Houston-Sugar Land-Baytown Metro Area added 106,700 jobs in the 12 months ending July 2014, according to the Bureau of Labor Statistics. After slowing around the turn of the year, employment growth has accelerated throughout 2014. In the 12 months ending July 2014, employment grew at a 3.8% annual rate. While all sectors added jobs over the year, the leading sectors for job growth were professional/business services, education/health services, and leisure/hospitality. The unemployment rate held steady at 5.0% where it has remained since May of this year.

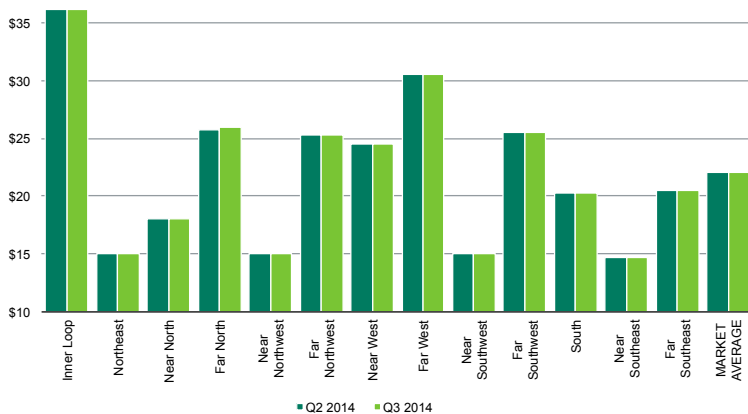
RETAIL THIRD QUARTER MARKET STATISTICS

Figure 4: Absorption and Occupancy



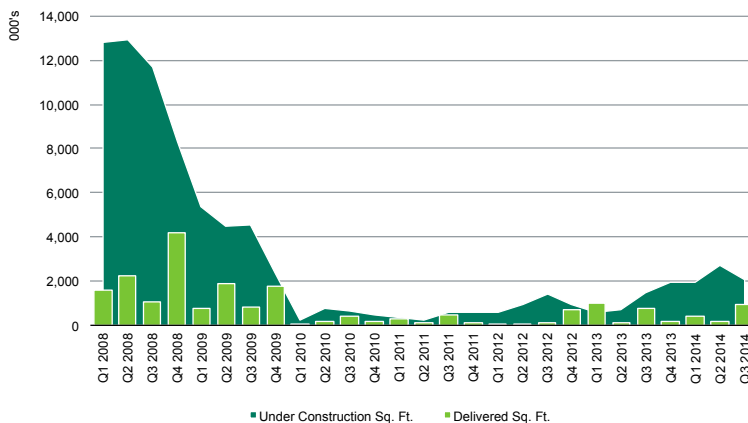
Source: CBRE Research, Q3 2014.

Figure 5: Gross Annual, Avg. Asking Rates per Sq. Ft.



Source: CBRE Research, Q3 2014.

Figure 6: Construction



Source: CBRE Research, Q3 2014.

ABSORPTION AND OCCUPANCY

Occupancy increased to 93.4% in Q2 2014 from 93.0% in Q2 2014. Low levels of new supply over the past few years coupled with strong demand have pushed occupancy rates upward. Quality available space is particularly scarce, especially in the most desirable locations as occupancy nears 100% in prime centers.

Overall net absorption for Q3 2014 totaled 369,169 sq. ft., down from 761,725 sq. ft. in Q2 2014. This marks the first quarter-over-quarter decrease since Q3 2013. 2014 year-to-date net absorption was 1.7 million sq. ft., which exceeds the pace of net absorption through this point in 2013.

ASKING RATES

Rents continued to trend slightly upward in response to strong demand and decreasing availability. Average asking lease rates for available retail properties increased slightly, to \$22.06 per sq. ft. in Q3 2014, from \$22.02 per sq. ft. in Q2 2014 and \$21.81 per sq. ft. a year ago. Asking rates for space in new retail centers usually ranges from \$32 to \$50 per sq. ft. with NNN around \$10 per sq. ft.

CONSTRUCTION

Grocery-anchored centers continued to account for a large portion of new retail construction projects. Over 700,000 sq. ft. of grocery-anchored retail space delivered in Q3 2014 and 12 grocery stores remain under construction with many more in the pipeline. Most of the grocery expansion is concentrated in Houston's far suburbs, such as Katy, Cypress and the Woodlands.

Mixed-use developments are becoming more prevalent in Houston as demand for a live-work-play lifestyle grows. Mixed-use projects in the pipeline include River Oaks District, a luxury development near the Houston Galleria that will include 270,000 sq. ft. of retail and restaurant space as well as apartments, offices and a theater. Other planned developments in the Inner loop include Studemont Street Junction by Capcor Partners located at I-10 and Studemont, The Kirby Collection by Thor Equities near Kirby and Richmond, and Regent Square by GID Group at West Dallas Street and Dunlavy. The suburbs are also home to several new mixed-use developments including Hughes Landing in the Woodlands, La Centerra in Katy, and Creekside Park Village near Spring.

RETAIL THIRD QUARTER

HOUSING STATISTICS

TOTAL ACTIVE LISTINGS	29,574	SINGLE-FAMILY HOMES SALES	7,505	SINGLE-FAMILY AVG. SALES PRICE	\$275,369	MONTHS OF INVENTORY	3.0
Y-O-Y CHANGE	-9.9%	Y-O-Y CHANGE	1.1%	Y-O-Y CHANGE	6.4%	Y-O-Y CHANGE	-9.4%

Houston's residential real estate market remains strong with gains in both unit sales and prices.

Single-family home sales totaled 7,505 units in August, an increase of 1.1% compared to August 2013, according to the latest monthly report prepared by the Houston Association of Realtors (HAR). August's sales transactions represent the third highest monthly unit sales for the year. Housing inventory held steady month-over-month at 3.0 months of supply, but is down from its August 2013 level. This is well below the national average of 5.5 months of inventory.

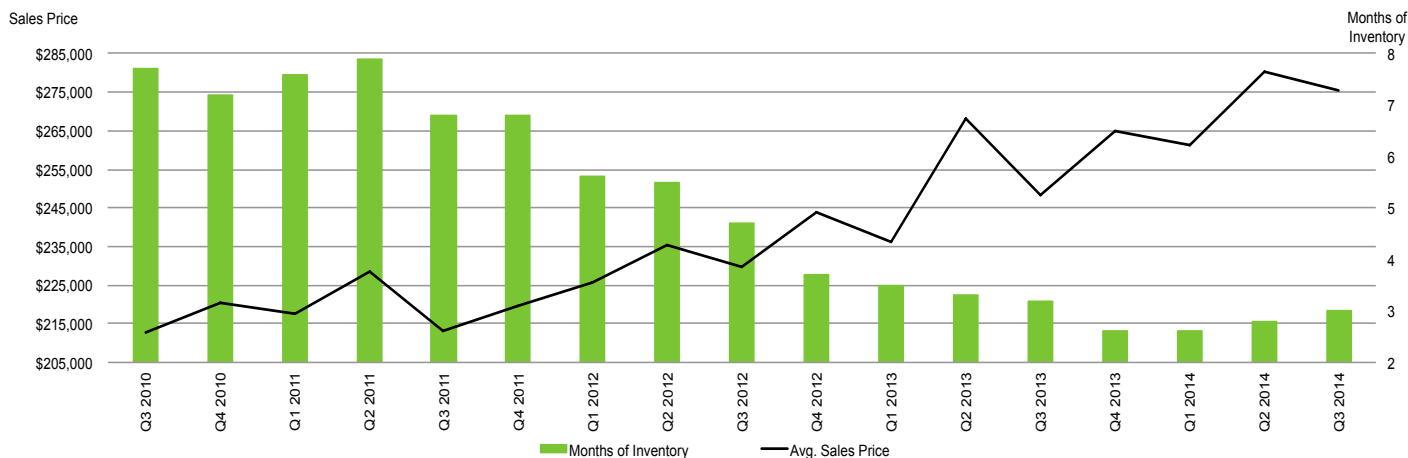
Historically low inventory levels and steady housing demand fueled by local job growth continues to drive prices higher. Prices were at record-high levels for August as the average price rose 6.4% year-over-year, to \$275,369.

Source: Houston Association of Realtors, Metrostudy, July 2014.

Historically low inventory levels and steady housing demand fueled by local job growth continues to drive prices higher. The average price of a single-family home jumped 9.6% year-over-year to \$280,346. The median price rose 6.4% to \$200,000. Both are record highs for Houston.

Source: Houston Association of Realtors, Metrostudy, July 2014.

Figure 7: Average Single-Family Sales Price and Inventory



Source: Houston Association of Realtors, July 2014.

Figure 8: Top Master Planned Communities

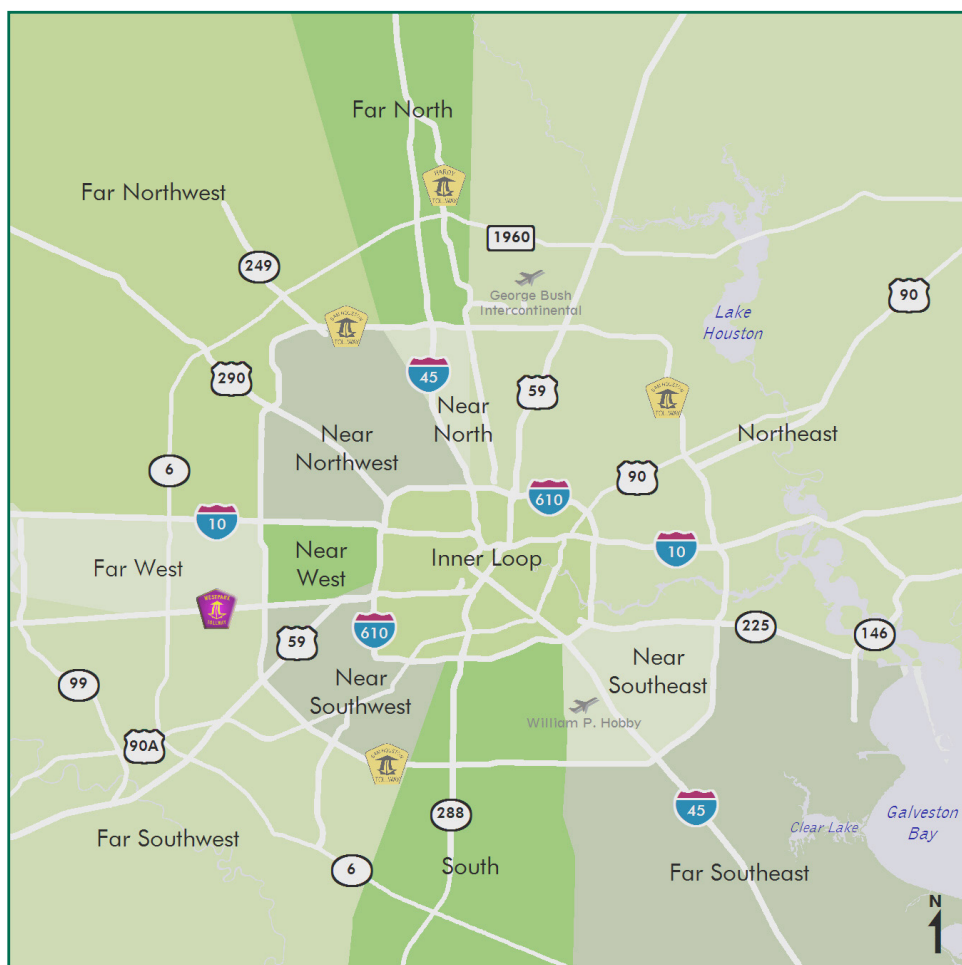
Rank	Community Name	Q2 Starts
1	Springwoods Village	37
2	Shadow Creek Lakes	19
3	Tavola	17
4	Heights Landing	12
5	Jacobs Reserve	12
6	Louetta Glen	11
7	Riverpoint Village	11
8	Woodforest Bonterra	10
9	Crockett City Views	9
10	Stillwater Park	9

Source: Metrostudy, Q2 2014.

Figure 9: New Home Activity Report

	Q2 Starts	Annual Starts	Annual Closings	VDL	Future Lots
Central	1,079	4,407	3,611	4,525	11,965
Far North	829	3,016	2,763	4,621	6,735
Northeast	724	2,871	2,695	4,258	13,692
Northwest	1,270	4,278	4,035	6,383	11,646
South	533	1,882	1,852	3,739	7,828
Southeast	318	1,052	887	2,247	2,065
Southwest	922	3,105	2,977	3,076	4,131
West-Northwest	888	3,170	3,125	2,744	9,730
West-Southwest	1,414	5,209	5,007	4,535	5,756
Total	7,977	28,990	26,952	36,128	73,548

Source: Metrostudy Houston Residential Survey, Q2 2014.



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Houston Retail MarketView 2Q 2014

Q2 2014

CBRE Global Research and Consulting



*Arrows indicate change from previous quarter.

WITH GROCERS LEADING THE CHARGE, HOUSTON RETAIL DEVELOPMENT IS INCREASING. RETAIL SPACE REMAINS SCARCE.

Figure 1: Quick Stats

	Q2 2014	Q-o-Q	Y-o-Y
Vacancy Rate	7.0%	↓	↓
Under Construction	2.7 million sq. ft.	↑	↑
Delivered Construction	140,000 sq. ft.	↓	↓
Net Absorption	761,725 sq. ft.	↑	↑
Annual Asking Rates	\$22.02 per sq. ft.	↑	↑
Unemployment Rate	5.1%	↓	↓

Source: CBRE Research, Q2 2014.

Grocery Development

One new grocery store opened in Q2 2014 and 14 more totaling roughly 2 million sq. ft. were under construction. Expanding grocers include Kroger, HEB, Walmart, and Whole Foods.

Malls

Several Houston-area malls have big changes in store, another sign that the retail market is gaining momentum. Baybrook Mall, The Galleria, and Memorial City Mall have announced plans to expand, renovate or add new tenants before the end of 2014.

Downtown

Development is picking up in the CBD - an area where retail has struggled historically in Houston. With several thousand residential units being built there, prospects for future retail development are improving.

Construction

Roughly 2.7 million sq. ft. of retail space is currently under construction. While grocery-anchored centers still account for the bulk of new projects, non-grocery retail development has increased in 2014.

Rental Rates

The dwindling supply of space has pushed rental rates upward, especially on prime pad and endcap spaces. Rental rates have been steadily increasing over the past few years.

In Q2 2014, modest gains in occupancy and lease rates along with increased construction signaled continued growth in Houston's retail market.

Net absorption was 761,725 sq. ft. in Q2 2014 for an increase of 99,916 sq. ft. from Q1 2014, when overall net absorption was 661,809 sq. ft. Net absorption increased for four consecutive quarters and increased quarter-over-quarter in six of the past seven quarters. The occupancy rate ticked up 30 basis points (bps) to 93.0% in Q2 2014.

Q2 2014 retail asking rental rates across the metro were estimated at \$22.02 per sq. ft., up slightly from \$21.94 per sq. ft. in Q1 2014. The lack of available space caused a shift towards a landlord-driven market, which is placing upward pressure on retail rental rates.

In Q2 2014, 140,000 sq. ft. of new retail space delivered, down from 387,429 sq. ft. in Q1 2014. At the end of the quarter, 2.7 million sq. ft. of retail space was under construction, up from 1.9 million sq. ft. in Q1 and 733,756 sq. ft. in Q2 2013. 2.6 million sq. ft. of this space is expected to deliver in 2014 and at least that much should deliver in 2015. Large retail projects expected to deliver in 2015 include River Oaks District, Hughes Landing, and the Baybrook Mall expansion. Among those breaking ground next year are

a new HEB in Cypress, a Walmart in Cinco Ranch and Kroger in Cinco Ranch.

Grocery expansion remained a strong driver of new construction, with roughly 2 million sq. ft. of grocery space across 14 stores under construction. Grocers from all segments of the market, ranging from Aldi to Whole Foods, are expanding. Most of this grocery expansion is being driven by housing and population growth in the Far West, Far Northwest and Far North submarkets of Houston. Meanwhile, construction continued on mixed-use developments in the Galleria area, The Woodlands and Cinco Ranch. Several big box users, including Gallery Furniture, also broke ground on new stores. On the horizon, Baybrook Mall will undergo a 500,000 sq. ft. expansion and the Galleria will complete a major renovation.

Strong local economic indicators encouraged national tenants to seek space in Houston. Leasing activity was strongest from Katy in the Far West submarket to The Woodlands in the Far North. Attracted by the affluent and densely populated master planned communities in these areas, retail tenants faced strong competition in leasing space. Most leasing is occurring in new space located in grocery-anchored centers and pad sites while good second-generation space is very scarce.

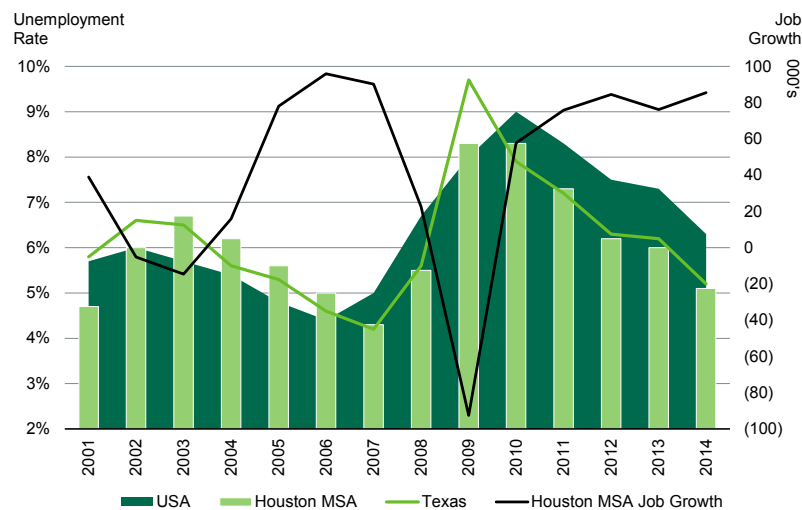
RETAIL SECOND QUARTER MARKET STATISTICS

Figure 2: Market Stats

Market	Number of Centers	Net Rentable Area Sq. Ft.	Direct Vacant Sq. Ft.	% Direct Vacant	Total Vacant Sq. Ft.	% Total Vacant	Average Asking Rate Annual, NNN Per Sq. Ft.	Qtr. Total Net Absorption Sq. Ft.	YTD Total Net Absorption Sq. Ft.
Inner Loop	259	14,208,290	853,647	6.0%	853,647	6.0%	\$36.25	17,015	88,202
Northeast	233	15,109,633	1,559,450	10.3%	1,559,450	10.3%	\$15.00	5,165	117,017
Near North	105	6,273,645	201,332	3.2%	201,332	3.2%	\$18.00	(108,100)	(59,031)
Far North	430	30,361,860	2,187,081	7.2%	2,403,561	7.9%	\$25.75	244,934	398,303
Near Northwest	181	10,743,154	523,251	4.9%	523,251	4.9%	\$15.00	42,850	84,675
Far Northwest	437	26,777,739	1,788,198	6.7%	1,788,198	6.7%	\$25.25	95,611	315,223
Near West	196	14,890,119	582,500	3.9%	616,289	4.1%	\$24.50	66,473	98,370
Far West	266	17,350,425	1,268,774	7.3%	1,272,274	7.3%	\$30.50	90,600	124,961
Near Southwest	223	13,046,462	1,454,587	11.1%	1,454,587	11.1%	\$15.00	(8,962)	(78,434)
Far Southwest	337	22,110,763	1,507,962	6.8%	1,569,042	7.1%	\$25.50	152,108	92,279
South	153	8,412,974	465,167	5.5%	465,167	5.5%	\$20.25	36,991	68,189
Near Southeast	141	9,413,997	666,317	7.1%	670,597	7.1%	\$14.75	96,500	99,676
Far Southeast	293	20,745,904	1,324,075	6.4%	1,324,075	6.4%	\$20.50	30,540	74,104
MARKET TOTAL	3,254	209,444,965	14,382,341	6.9%	14,701,470	7.0%	\$22.02	761,725	1,423,534

Source: CBRE Research, Q2 2014.

Figure 3: Unemployment Rate and Total Non-Agricultural Jobs



Source: Bureau of Labor Statistics, May 2014.

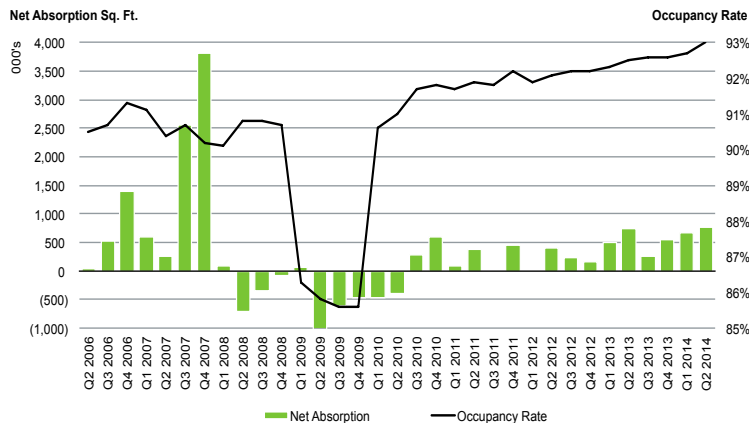
ECONOMIC CONDITIONS

The Houston-Sugar Land-Baytown Metro Area added 85,800 jobs in the 12 months ending April 2014, according to the Bureau of Labor Statistics. After trending down in Q4 2014, employment growth is picking up. In the 12 months ending April 2014, employment grew at a 3.0% annual rate. Leading job growth sectors include trade, transportation, and utilities, professional and business services, and leisure and hospitality. The unemployment rate fell to 5.1% in April, the lowest rate for Houston since May 2008.

Population and job growth are fueling the current construction boom and the residential real estate market remains hot. The City of Houston set an all-time record in April for construction permitting with a 12-month total of \$6.8 billion, which is a 28.2% increase from the prior 12-month period. Houston's record run of 34 consecutive months of year-over-year home sales increases came to an end in April as a very low 2.6 month inventory curbed sales.

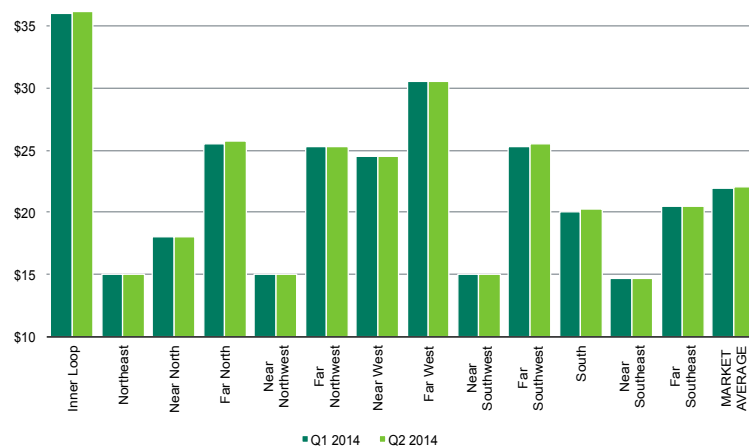
RETAIL SECOND QUARTER MARKET STATISTICS

Figure 4: Net Absorption and Occupancy Rate



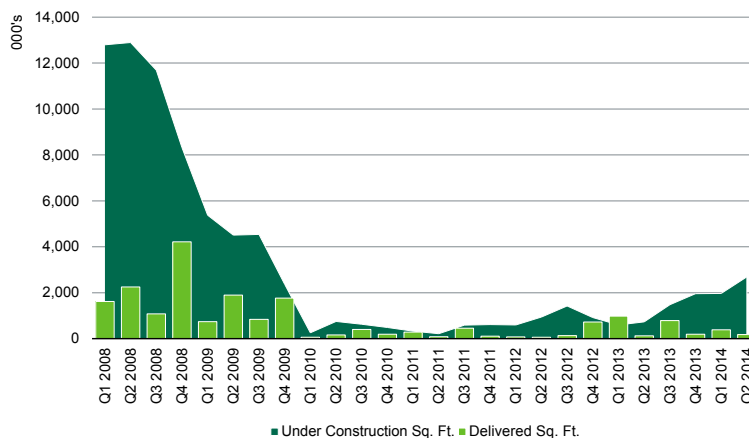
Source: CBRE Research, Q2 2014.

Figure 5: NNN Avg. Annual Asking Rates Per Sq. Ft.



Source: CBRE Research, Q2 2014.

Figure 6: Construction



Source: CBRE Research, Q2 2014.

ABSORPTION AND OCCUPANCY

Occupancy increased to 93.0% in Q2 2014 from 92.7% in Q1 2014. Low levels of new supply over the past few years coupled with strong demand have pushed occupancy rates upward. Good available space is very scarce, particularly in desirable locations where occupancy is nearing 100% in prime centers.

Overall net absorption for Q2 2014 was 761,725 sq. ft., up from 661,809 sq. ft. in Q1 2014. Thus, 2014 year-to-date net absorption was 1.4 million sq. ft., which was slightly up from 2013 year-to-date through Q2. Net absorption has increased for four consecutive quarters and increased quarter-over-quarter six out of the last seven quarters.

ASKING RATES

Rents continued their upward trend amid high occupancy rates and a landlord-driven market. Average asking lease rates for available retail properties increased slightly, to \$22.02 per sq. ft. in Q2 2014, from \$21.94 per sq. ft. in Q1 2014 and \$21.77 per sq. ft. a year ago. Asking rates for space in new retail centers usually ranges from \$32 to \$42 per sq. ft. with NNN around \$10.

CONSTRUCTION

In Q2 2014, 2.7 million sq. ft. of retail space was under construction, up significantly from the Q2 2013 mark of 733,756 sq. ft. The majority of new centers under construction include a grocery component. HEB, Kroger, Whole Foods, Walmart, Trader Joe's and Fiesta are among the grocers building new stores. Power center development is still scarce, but mixed-use developments are prevalent, especially in the Inner Loop.

Although retail construction has increased each of the past seven quarters, these increases have been slow and the development remains well below its pre-recession mark. From 2006 to 2009, an average of 7.2 million sq. ft. of new retail delivered each year. Average retail deliveries dropped to 1.2 million sq. ft. per year between 2010 and 2013. Nevertheless, development showed signs of life as 2.6 million sq. ft. of retail is expected to deliver in 2014 and at least that much should deliver in 2015.

RETAIL SECOND QUARTER

HOUSING STATISTICS



TOTAL ACTIVE LISTINGS
28,712



SINGLE-FAMILY HOMES SALES
7,145



SINGLE-FAMILY AVG. SALES PRICE
\$280,346



MONTHS OF INVENTORY
2.8

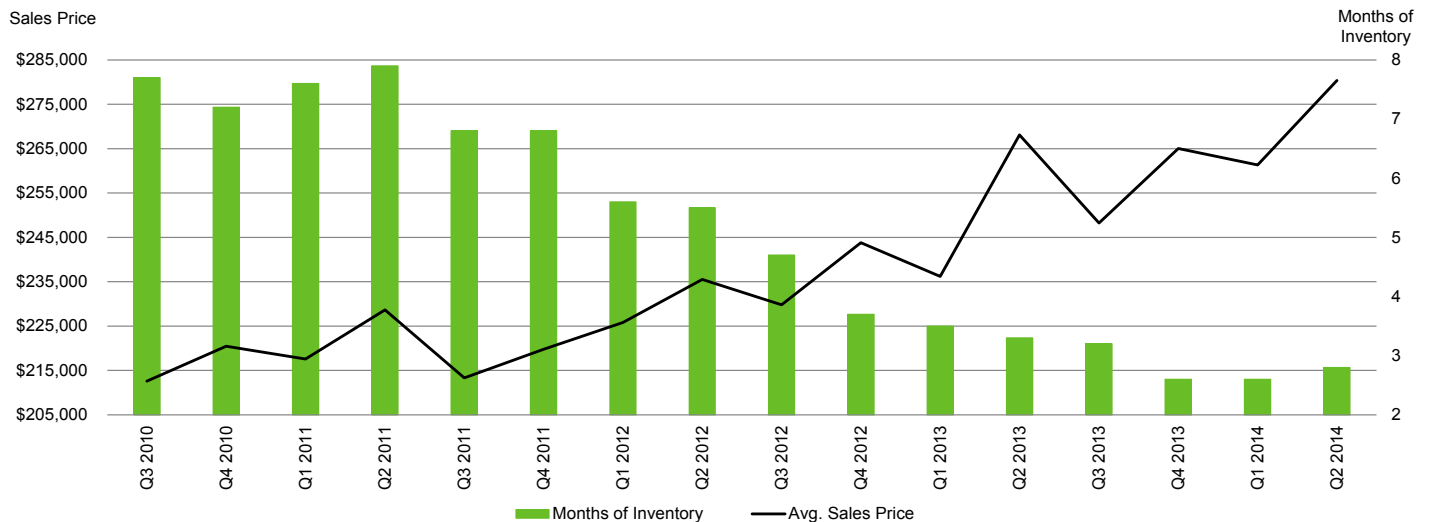
Houston's persistent lack of housing inventory resulted in the market's first home sales decline in three years in May. Thirty-four consecutive months of positive sales ended in April with flat year-over-year sales, but last month, sales volume fell for the first time since May 2011. However, sales activity for homes over \$500,000 outpaced last May and, coupled with low inventory levels, drove the average sales price to a new record high.

Single-family home sales totaled 7,145 units in May, a decline of 7.3% compared to May 2013, according to the latest monthly report prepared by the Houston Association of Realtors (HAR). The slower pace in sales allowed months inventory to edge up to a 2.8-months supply after holding even at 2.6 months from December through April. However, that is still lower than the 3.3-month supply of inventory in May 2013 and significantly below the national supply of 5.9 months of inventory.

Historically low inventory levels and steady housing demand fueled by local job growth continues to drive prices higher. The average price of a single-family home jumped 9.6% year-over-year to \$280,346. The median price rose 6.4% to \$200,000. Both are record highs for Houston.

Source: Houston Association of Realtors, Metrostudy, June 2014.

Figure 7: Average Single-Family Sales Price and Inventory



Source: Houston Association of Realtors, June 2014.

Figure 8: Top Master Planned Communities

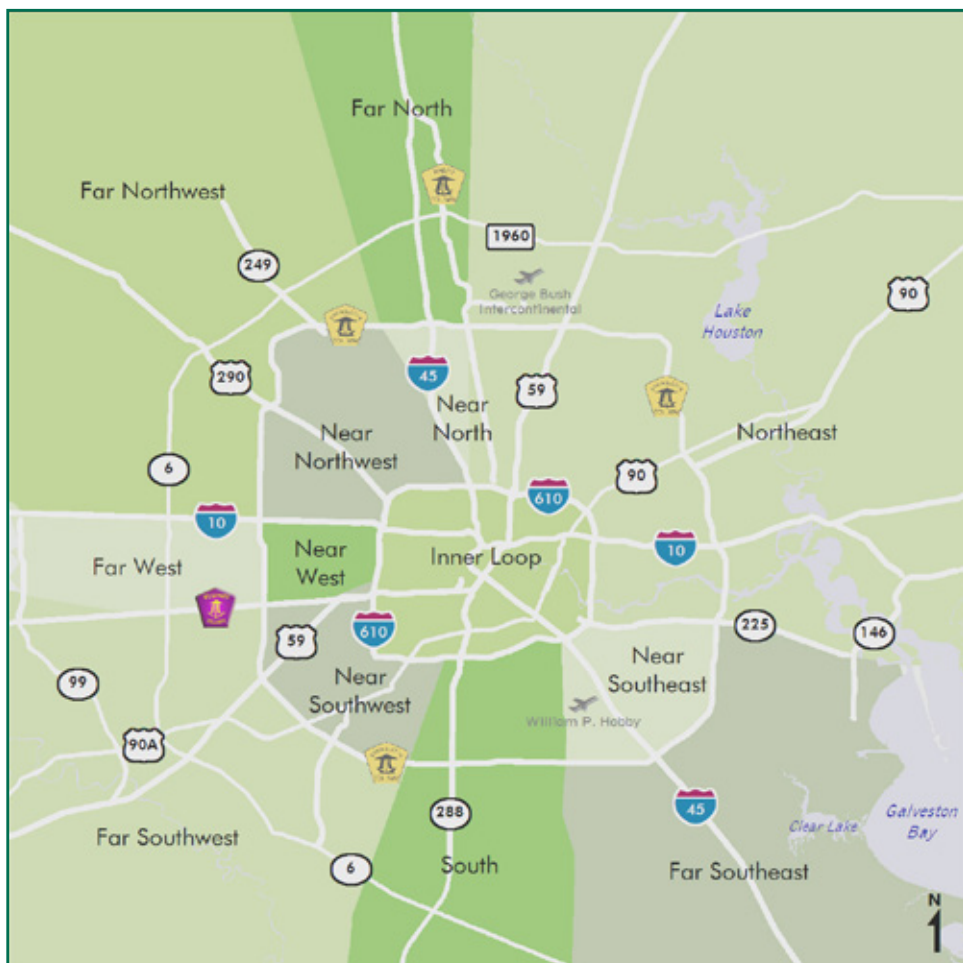
Rank	Community Name	Starts
1	Riverstone	756
2	Cinco Ranch	733
3	The Woodlands	641
4	Aliana	470
5	Cross Creek Ranch	465
6	Woodforest	441
7	Sienna Plantation	420
8	Canyon Gate West	388
9	Pine Mill Ranch	379
10	Firethorne	364

Source: Metrostudy, Q2 2014.

Figure 9: New Home Activity Report

	Q1 2014 Starts	Annual Starts	VDL	Annual Lot Deliv.	Future Lots
Central	1,214	4,478	3,495	4,408	11,837
Far North	700	2,955	2,737	4,593	6,634
Northeast	761	2,895	2,626	4,476	12,699
Northwest	1,023	4,150	4,061	6,529	12,608
South	432	1,921	1,792	3,694	7,626
Southeast	244	989	861	2,408	2,067
Southwest	708	2,980	2,907	3,435	4,206
West-Northwest	754	3,101	3,053	3,464	9,355
West-Southwest	1,309	5,244	4,728	4,717	5,961
Total	7,145	28,713	26,260	37,724	72,993

Source: Metrostudy Houston Residential Survey, Q1 2014.



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RETAIL FOURTH QUARTER 4Q 2013

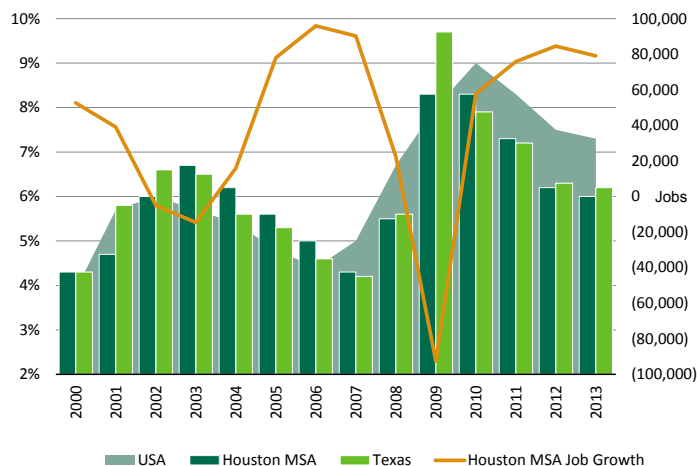
MARKETVIEW

Market Statistics

Market	Number of Centers	Net Rentable Area Sq. Ft.	Direct Vacant Sq. Ft.	% Direct Vacant	Total Vacant Sq. Ft.	% Total Vacant	Average Asking Rate Annual, NNN Per Sq. Ft.	Q4 Total Net Absorption Sq. Ft.	2013 Total Net Absorption Sq. Ft.
Inner Loop	259	15,084,918	859,416	5.7%	884,416	5.9%	\$35.50	16,274	72,274
Northeast	232	15,339,844	1,675,601	10.9%	1,684,266	11.0%	\$15.00	(23,372)	81,473
Near North	102	6,107,946	211,074	3.5%	214,994	3.5%	\$18.00	9,305	60,082
Far North	417	30,137,456	2,305,503	7.6%	2,550,443	8.5%	\$25.25	51,563	249,193
Near Northwest	181	10,717,133	578,704	5.4%	578,704	5.4%	\$15.00	26,089	(69,499)
Far Northwest	427	27,007,753	1,877,317	7.0%	1,877,317	7.0%	\$25.25	7,839	245,378
Near West	195	14,831,277	626,920	4.2%	660,709	4.5%	\$24.50	6,253	119,801
Far West	257	16,976,058	1,199,819	7.1%	1,199,819	7.1%	\$30.50	38,153	395,165
Near Southwest	223	13,123,803	1,156,093	8.8%	1,156,093	8.8%	\$15.00	17,362	50,497
Far Southwest	337	21,786,410	1,540,593	7.1%	1,603,172	7.4%	\$25.25	109,432	174,496
South	145	8,664,849	640,603	7.4%	641,603	7.4%	\$20.00	44,046	186,724
Near Southeast	130	9,087,386	874,018	9.6%	879,518	9.7%	\$14.75	145,326	292,866
Far Southeast	281	20,662,636	1,510,749	7.3%	1,512,399	7.3%	\$20.25	110,477	179,833
TOTAL	3,186	209,527,469	15,056,410	7.2%	15,443,453	7.4%	\$21.87	558,747	2,038,283

Source: CBRE Research, Q4 2013.

Unemployment Rate Total Non-Agricultural Job Growth



Source: Bureau of Labor Statistics, October 2013.

ECONOMIC CONDITIONS/DEMOGRAPHICS

2013 was one of the strongest years for Houston's economy. The Houston Metro Area added roughly 79,000 non-farm jobs between October 2012 and October 2013, representing a 2.9% year-over-year job growth rate. Houston was second behind Dallas/Fort Worth in year-over-year job growth during this period, with Dallas adding 97,000 jobs while growing at a 3.2% rate. Following two-plus years of robust job growth, the Houston economy is expected to settle into a pattern of more sustainable job growth. Economists predict that the city will add between 60,000 and 70,000 new jobs in 2014. Professional business services, energy and construction are expected to be the key contributors to job growth next year. Houston's unemployment rate for October 2013 was 6.0%, down from 6.3% last quarter as well as last October. The U.S. and Texas unemployment rates are 7.3% and 6.2%, respectively.