

INVESTMENT FORECAST

Retail
Houston

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Outer-Ring Suburbs Draw Major Commitments; Highest Multi-Tenant Returns in Texas Could Buttress Deal Flow

Net absorption to reach five-year high as expansionary trends attract tenants. Houston's expedited pace of in-migration, population gains and household formation are helping boost consumer spending across the metro. Retail sales in the market are projected to climb by 10 percent in 2022, outpacing the national rate of growth. These trends make the metro an attractive destination for retailers broadening their national footprint, while many local businesses are also expanding their presence. Over the next two years, Target will occupy two additional spaces, totaling 280,000 square feet in Katy and New Caney. Grocery chain H-E-B will also absorb 100,000 square feet in Manvel in 2022 as it enlarges operations throughout the state. Several other leasing commitments for spaces between 10,000 square feet and 40,000 square feet have been inked recently in fast-growing suburbs adjacent to the Outer Loop and state Highway 6. Stronger leasing activity will facilitate the net absorption of more than 5 million square feet in 2022, a threshold last met in 2017.

Single-tenant fervor escalates prices; high multi-tenant yields stimulate activity. Robust buyer demand for single-tenant assets, particularly those with strong credit tenants, necessity-based retailers and drive-thrus is spearheading trading velocity. Competition between out-of-state and local investors is applying upward pressure to sale prices, with the average single-tenant entry cost jumping 8 percent last year to \$535 per square foot. These types of assets change hands most often in the Southeast, North and Northwest submarkets, where cap rates fall in the mid-3 percent to mid-5 percent range. Multi-tenant sentiment is less enthusiastic, though investors are scouring the metro for stabilized centers amid impressive growth trends. Additionally, the average multi-tenant cap rate in Houston is 7.7 percent, at least 80 basis points above any other major Texas market, luring private buyers chasing higher yields. As multi-tenant vacancy realigns with the pre-pandemic level in 2022, many investors will ramp up their acquisition plans.

2022 Market Forecast

Employment

up 3.1%



Firms in Houston add 95,500 personnel in 2022, producing a headcount that exceeds the pre-pandemic peak by 0.3 percent.

Construction

4,000,000 sq. ft.



Metro stock rises by 1.1 percent as builders finalize roughly 800,000 square feet less than the trailing decade average. Entering this year, about half of the space was pre-leased.

Vacancy

down 40 bps



Augmenting the 30-basis-point decline registered in 2021, metro vacancy falls to 5.8 percent. This will be the sixth time in 10 years that availability dips on an annual basis.

Rent

up 3.2%



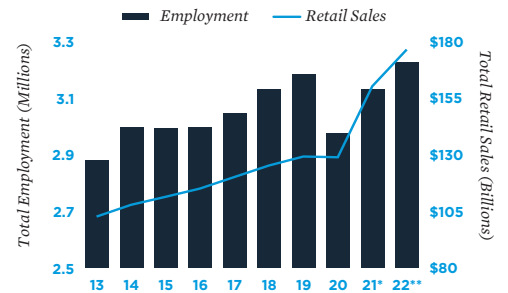
Yearly rent growth in Houston has been above 2 percent in every period since 2016, a trend that will persist into 2022. The average asking rent moves up to \$19.45 per square foot this year.

Investment

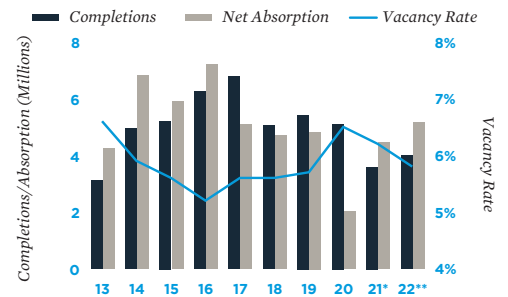


The outward extension of Houston has buyers widening their searches. Assets in suburbs like Richmond, Rosenberg, Tomball and Spring warrant attention as they attract new households.

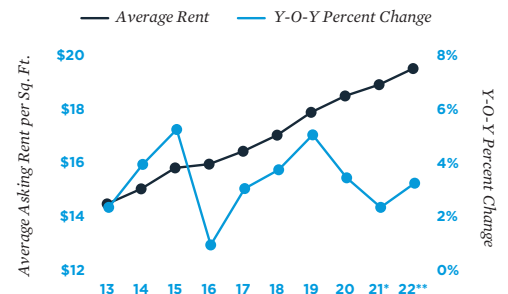
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.