

# MARKET REPORT

Retail  
Houston Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

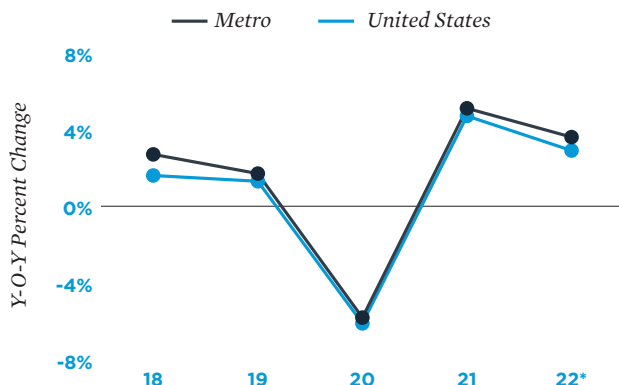
2Q/22

## Space City Retail Recovery Gains Traction as Builders Step Back

**Visitors and Houstonians spending more.** Like most metros, the retail sector in Houston was initially impeded by the pandemic and coinciding changes in consumer lifestyles and tourism. Now in 2022, those headwinds have largely retreated. Entering the second quarter, the market's retail trade job count is about 19,000 roles higher than the February 2020 equivalent, with hiring activity facilitated by robust consumer spending. During the 12-month period ended in March, retail sales in Houston soared by more than 18 percent, as the metro's population grew by 100,000 residents during that span. Alongside shopping by locals, more visitors are coming to the Space City and spending on goods and services. In March, the passenger count at George Bush Intercontinental Airport was up 45 percent year-over-year, according to the Houston Airport System.

**Construction slowdown shortens rebound timeline.** When vacancy peaked at 7.0 percent in September 2020, there was some uncertainty as to how long it would take for retailer demand to bounce back. Initial fears of a longer-term rebound have been neutralized by the impressive recovery that transpired in the recent quarters. Vacancy fell in every three-month period during the past year, now on par with the 2019 measure at 6.0 percent in March. The mild pace of construction is a contributing factor, as tenants have fewer new options to sort through. Across the past 18 months, only 4.1 million square feet finalized, compared to a 12-month average of 5.9 million square feet completed from 2015-2019.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook



**112,000  
JOBS**  
*will be created*

### EMPLOYMENT:

Hiring velocity has settled, with the 25,000 job addition from January through March 2022 trailing the quarterly average of 38,000 roles gained in 2021. Still, the projected 3.6 percent growth this year pushes the count 80,000 positions above the 2019 level.



**3,800,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

The volume of new space entering the market exceeds last year's total by 1.2 million square feet. Despite this, the 2022 influx is below the past decade annual average of 4.8 million square feet. Roughly two-thirds of the incoming supply is pre-leased.



**40  
BASIS POINT**  
*decrease in vacancy*

### VACANCY:

Houston posts a sub-6 percent vacancy rate at year-end for the first time since 2018, as net absorption exceeds deliveries by 1 million square feet. Nonetheless, availability at 5.8 percent holds Houston's spot as the highest rate among major Texas markets.

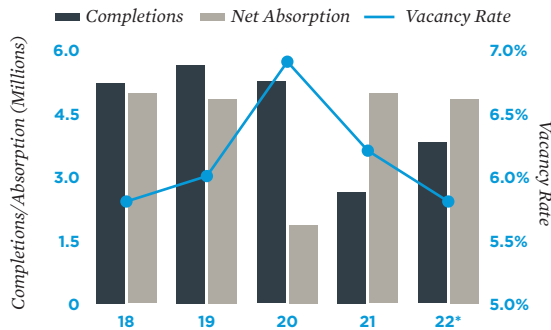


**3.0%  
INCREASE**  
*in asking rent*

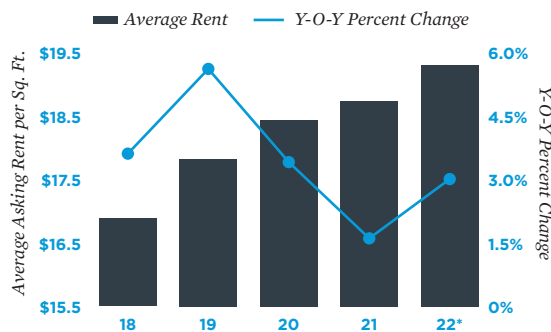
### RENT:

As available stock tapers to a three-year low, it creates some tenant competition, allowing the 2022 rent gain to beat last year's 1.6 percent rise. By moving up to \$19.30 per square foot, Houston's average asking rent increases for the 11th straight year.

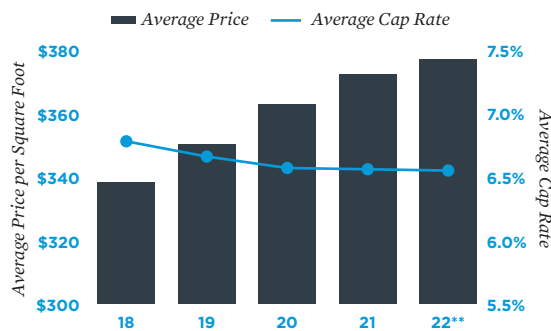
## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 1Q 2022 - 12-Month Period



### CONSTRUCTION

**2,256,000 sq. ft. completed**

- Northwest Houston was a hot spot for development during the past 12 months ended in March. The submarket added 810,000 square feet of inventory, over one-third of the space finalized metrowide during that frame.
- Areas with at least 100,000 square feet of available space scheduled to open in 2022 include Montgomery County, Katy and Far Southwest Houston.



### VACANCY

**90 basis point decrease in vacancy Y-O-Y**

- Multi-tenant vacancy is within 30 basis points of the 2019 rate at 6.7 percent in March. The 220-basis-point drop in Northwest Houston was the strongest, but the submarket maintains the highest rate at 9.0 percent.
- Single-tenant vacancy declined in every quarter during the past year, matching the 2019 rate of 5.7 percent this March.



### RENT

**2.0% increase in the average asking rent Y-O-Y**

- The retail segments moved in opposite directions. Average single-tenant asking rates climbed 3.3 percent annually to \$19.16 per square foot, while the multi-tenant mean dipped 0.7 percent to \$18.11 per square foot.
- Among submarkets with inventories greater than 10 million square feet, annual rent growth exceeded 6 percent in East and South Houston.

## Investment Highlights

- Multi-tenant sale prices have risen in every year going back to 2012, and the upward trajectory was sustained by a 2 percent rise over the four-quarter period ended in March, reaching \$263 per square foot on average. Despite this growth, shopping centers remain attractive, as average prices are at least 20 percent below Austin, Dallas-Fort Worth and San Antonio.
- Strip and neighborhood centers are the primary target for multi-tenant investors. Within the Inner Loop, buyers look horizontal of downtown, favoring the River Oaks and Greater East End locales. Outside of the Loop, Montgomery County suburbs like Conroe and Spring, as well as Space Center-adjacent communities such as Webster, attract investors.
- Single-tenant assets in Houston commanded an average sale price of \$530 per square foot during the 12-month period ended in the first quarter, rising by 4 percent — a faster climb than both Austin and Dallas-Fort Worth.
- Houston offers single-tenant buyers an array of opportunities, as well as the highest average cap rate in the state at 5.7 percent. Four different submarkets recorded at least 100 trades during the past year, headlined by the Southeast area, home to tourist destinations like Galveston Island.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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