

MARKET REPORT

Retail
Houston Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

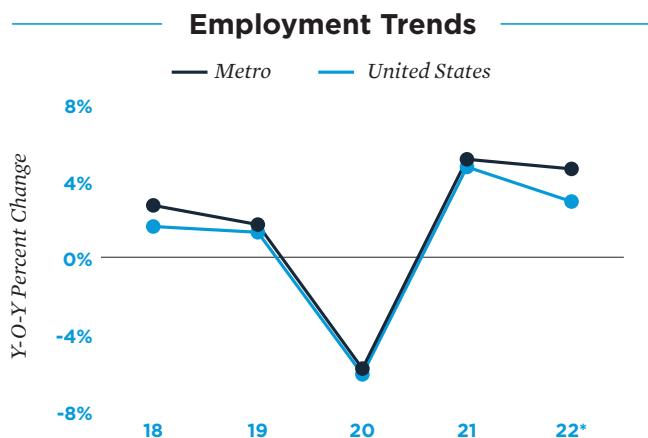
3Q/22

Downward Vacancy Streak Spanning Five Quarters to be Briefly Interrupted by Supply Escalation

Houston appears far removed from pandemic setbacks. Sector uncertainty that emerged at the onset of the pandemic has largely faded, as the market vacancy rate recovered all of 2020's losses by the midpoint of 2022. Starting in the second quarter of 2021, availability contracted in every period through June of this year, with net absorption exceeding 1 million square feet in all five quarters during that interval. Across those 15 months, net absorption totaled nearly 6.9 million square feet, the largest volume over an equivalent time series since 2016-2017. The rebound has been extensive, with 10 of Houston's 12 submarkets registering vacancy rates at midyear that were lower, or within 50 basis points of the year-end 2019 metric. One major outlier, however, is the central business district, which continues to face pronounced challenges as hybrid and remote work schedules limit weekday foot traffic. Availability in the CBD is still more than 500 basis points above the pre-pandemic level.

Second half supply wave may pose hurdles in select locations.

Entering August, developers were underway on almost 4 million square feet of retail space, more than half of which is expected to finalize by year-end. This will be the largest second half delivery total since the onset of the pandemic and represents a change of pace, after slow construction helped the market find its footing over the past two years. Second half completions will expand local inventory by more than 1 percent in North Houston and the CBD, submarkets where vacancy was above the marketwide average at midyear.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**145,000
JOBS**
will be created

EMPLOYMENT:

Houston's 119,000 job enhancement through the first seven months of this year ranks as the third largest in the nation. By the end of 2022, the worker count is projected to rise by 4.6 percent, with the tally surpassing the 2019 level by over 110,000 personnel.



**3,700,000
SQ. FT.**
will be completed

CONSTRUCTION:

Among the four major Texas markets, Houston's inventory is expected to grow at the fastest pace this year, at a 1.1 percent clip. About 2.5 million square feet of 2022 deliveries are coming online in the second half, presenting some supply pressure.



**20
BASIS POINT**
decrease in vacancy

VACANCY:

Vacancy at 5.7 percent halfway through 2022 marks the lowest quarterly recording since 2018. Increased supply in the second half will move the rate up slightly, however, matching the 2019 measure of 5.9 percent at year-end.

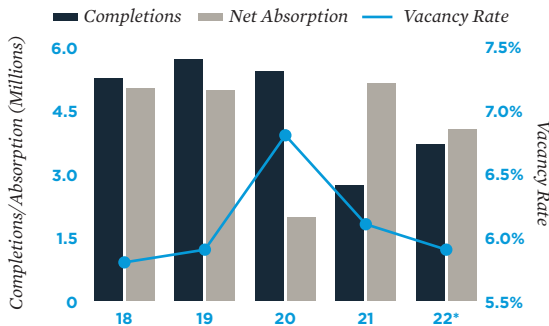


**2.3%
INCREASE**
in asking rent

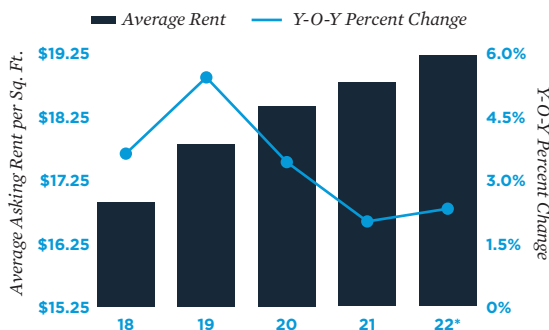
RENT:

Rental rate expansion in the metro is relatively consistent. Annual growth across the past 10 years has never fallen below 1 percent, or exceeded 6 percent. The 2022 gain will stay in that range, with the average asking rate reaching \$19.20 per square foot.

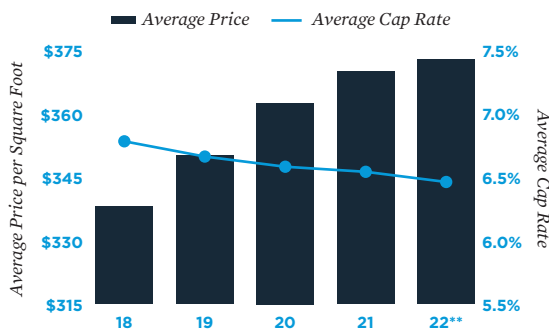
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

2,098,000 sq. ft. completed

- During the past four quarters ended in June, Northwest Houston added the largest volume of new retail space at 520,000 square feet, while the CBD's inventory expanded by the fastest pace at 7.6 percent.
- Single-tenant builds and strip centers comprise the bulk of the active pipeline. Most of the larger-scale projects are mixed-use or built-to-suit.



VACANCY

100 basis point decrease in vacancy Y-O-Y

- The multi- and single-tenant segments had identical 100-basis-point vacancy drops, with both rates now on par with their pre-pandemic figures.
- Of the three major retail submarkets that combine for about half of metro inventory — Northwest, Southeast and Southwest Houston — vacancy fell at least 100 basis points in all three.



RENT

1.9% increase in the average asking rent Y-O-Y

- Despite the parallel vacancy declines, single-tenant rents rose at a pace more than three times as fast as multi-tenant during the yearlong period.
- Among the nine submarkets with local inventories of at least 10 million square feet, retail asking rates climbed the fastest in Southeast and East Houston. These two areas also offer tenants the lowest rents on average.

Investment Highlights

- Single-tenant deal flow during the 12-month period ended in June was roughly on par with the prior year. However, a significant share of recent activity took place in the third and fourth quarters of last year. Transaction velocity in the first half of 2022 was down a considerable amount relative to the same span of 2021. Rising debt costs and the nature of longer-term leases during a period of amplified inflation are the culprits behind slower trading momentum so far this year.
- Despite fewer single-tenant transactions during the first half, the average sale price climbed 2 percent during the yearlong frame ended in June to \$523 per square foot. The mean cap rate dipped 10 basis points to 5.6 percent, which is the highest among major Texas markets on average. Restaurants and auto parts shops, which typically change hands with cap rates in the lower-5 to upper-6 percent band, are the most traded types.
- Multi-tenant deal flow improved significantly, with the number of transactions from July 2021 through June 2022 realigning with pre-pandemic levels. However, the average sale price was largely unchanged by the increased activity, measuring at \$262 per square foot. The average cap rate held in the low-7 percent band, among the highest in the region.

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