

HOUSTON RETAIL | Q1 2022

QUARTERLY MARKET REPORT

Houston Retail momentum fueled by pent-up pandemic demand.

APRIL 2022

EXECUTIVE SUMMARY

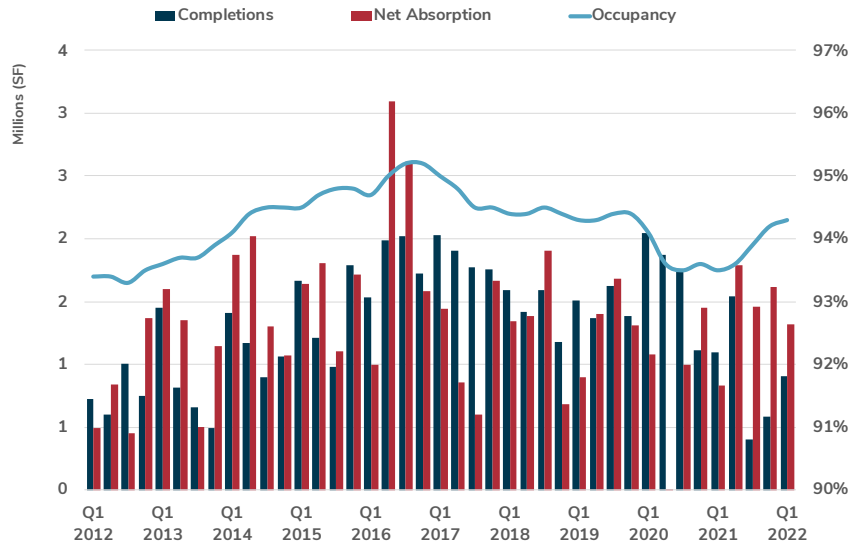
STRONG HOUSTON RETAIL PERFORMANCE CONTINUES

Last year's strong Houston retail sector momentum has continued into 2022, and key indicators such as leasing activity, net absorption, and rent continue to grow. Pent-up demand from the pandemic continues to strengthen retail leasing activity, which during Q1 2022 ranked the second-best quarter, coming in at 2.4 million sq. ft. just after Q2 2016 at 2.9 million sq. ft. Vacancies have tightened to 5.7%, levels not seen since right before the start of the pandemic in Q4 2019. Demand, represented as net absorption, has outpaced delivered supply for the past four quarters. With 908,000 sq. ft. delivered since the beginning of the year, 3.7 million sq. ft. under construction, and another 7.4 million sq. ft. planned through 2023, the demand for retail real estate may continue to outpace supply.

POSITIVE ECONOMIC OUTLOOK FOR HOUSTON

In spite of the pandemic, metro Houston's population grew in the 12 months ending July 1, 2021. The Greater Houston Partnership reported the region added just over 69,000 residents and reached a new milestone - topping 7.2 million residents, which exceeds that of 37 states and the District of Columbia. Houston created 45,500 jobs in February, according to data released by the Texas Workforce Commission. That ranks as the best February on record for job growth. Growth was particularly strong in restaurants and bars (+8,000 jobs) and administrative and support services (+7,500). According to the U.S. Energy Information Administration, the closing spot price for West Texas Intermediate crude oil averaged \$108.50 per barrel in March 2022, up from \$62.23 for the same month in 2021.

SUPPLY & DEMAND



KEY MARKET INDICATORS

| | CURRENT Q1 2022 | PRIOR QUARTER Q4 2021 | | PRIOR YEAR Q1 2021 | |
|--------------------------|-----------------|-----------------------|---|--------------------|---|
| Vacant Total (%) | 5.7 | 5.8 | ↓ | 6.5 | ↓ |
| Net Absorption (SF) | 1,322,217 | 1,617,007 | ↓ | 832,753 | ↑ |
| Leasing Activity (SF) | 2,400,425 | 2,148,300 | ↑ | 1,738,540 | ↑ |
| Deliveries (SF) | 908,399 | 586,821 | ↑ | 1,098,296 | ↓ |
| Construction (SF) | 3,719,499 | 4,285,787 | ↓ | 3,262,462 | ↑ |
| Inventory (SF) | 378,362,318 | 377,453,919 | ↑ | 374,924,877 | ↑ |
| Avg Asking NNN Rent (\$) | 19.19 | 19.09 | ↑ | 18.55 | ↑ |

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DEMAND CONTINUES TO OUTPACE SUPPLY IN 2022

The aggregate effect of the net occupancy increase was 1.3 million sq. ft. of absorption for the first quarter, lowering the vacancy rate to 5.7% while delivering 908,000 sq. ft. during the same time period. The Houston retail market demand (net absorption) outpaced supply for the fourth consecutive quarter as of Q1 2022.

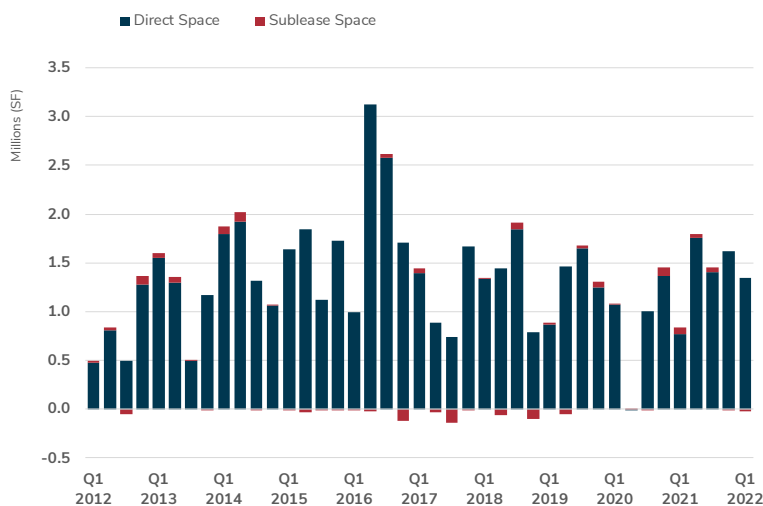
INVESTMENT SALES TRENDS

Real Capital Analytics data reports the cumulative monthly sales value for retail in the Greater Houston area at \$450 million as of March 31, 2022, up 118% compared to this time last year at \$206 million. The primary capital composition for buyers so far in 2022 was made up of 77% private and 23% REIT/listed investors. For sellers, the majority were 55% private and 22% REIT/listed investors. Among recent noteworthy transactions include the sale of Willowchase Shopping Center, a 231,126-sq.-ft. retail center in Houston. The center was at 97% occupancy at the time of sale with a tenant mix including Fiesta Mart, Jo-Ann Fabric & Craft, and Family Dollar.

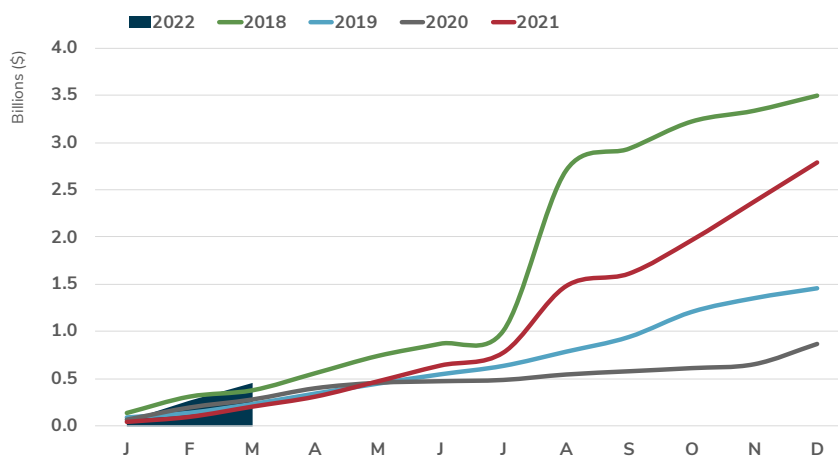
AVERAGE RETAIL NNN ASKING RENTS HIGHER

Positive trends in leasing and absorption have driven average retail asking rents higher. As a result, the Houston retail overall triple-net average rates are at \$19.19 per sq. ft., an increase of 3.5% from \$18.55 a year ago. The Inner Loop has the highest rent of all submarkets in the Houston metro at \$29.72 per sq. ft. with a vacancy rate of 4.6%, followed by the South submarket at \$19.80 per sq. ft. with a vacancy rate of 4.6%.

NET ABSORPTION

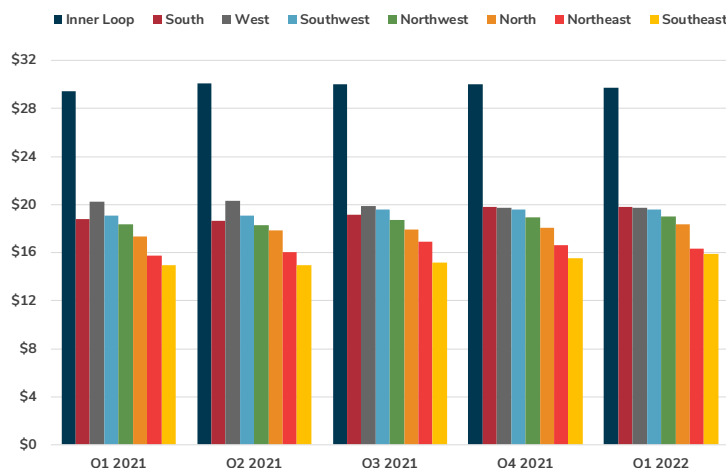


CUMULATIVE MONTHLY SALES VOLUME



Source: Real Capital Analytics

AVERAGE ASKING NNN RENT



STEADY LEASING ACTIVITY IN Q1

The volume of square footage signed during the first quarter, which is comprised of both new leases and renewals, was at 2.4 million sq. ft. The largest amount of square feet leased took place in the North submarket at 23%, followed by the North and West submarkets both at 15%. Significant transactions signed in the first quarter included a 58,095-sq.-ft. lease for Academy Sports + Outdoors in South Cross Center in the Inner Loop University submarket in January; a new 50,526-sq.-ft. lease for Vettrus Supply in Texas City in March; and a 40,000-sq.-ft. deal signed with Sheffield Liquidation in Crosby in the Lake Houston submarket In January.

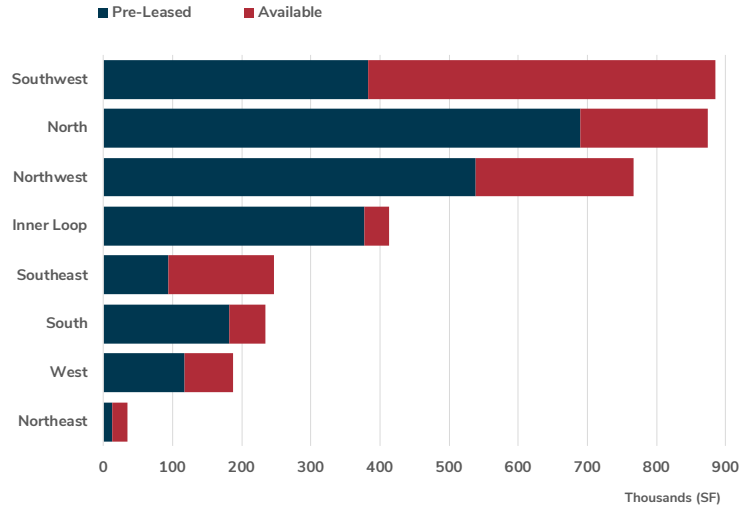
POST HOUSTON

In one of the most impressive adaptive reuse projects in the country, a development team led by Lovett Commercial and international architecture firm OMA transformed the 550,000-sq.-ft. concrete slab of the former Barbara Jordan Post Office into an expansive mixed-use project that includes a music venue, a food hall, an urban park and farm, a proposed hotel and office space. The 16-acre project, called Post Houston, opened in November near Downtown’s Theater District at 401 Franklin St. While Post Houston’s 120,000 sq. ft. of office space hasn’t been leased, the project’s 24,000-sq.-ft. coworking space by Common Desk—along with a much-hyped, 53,000-sq.-ft. food hall and a 90,000-sq.-ft. music venue—should ultimately attract office tenants.

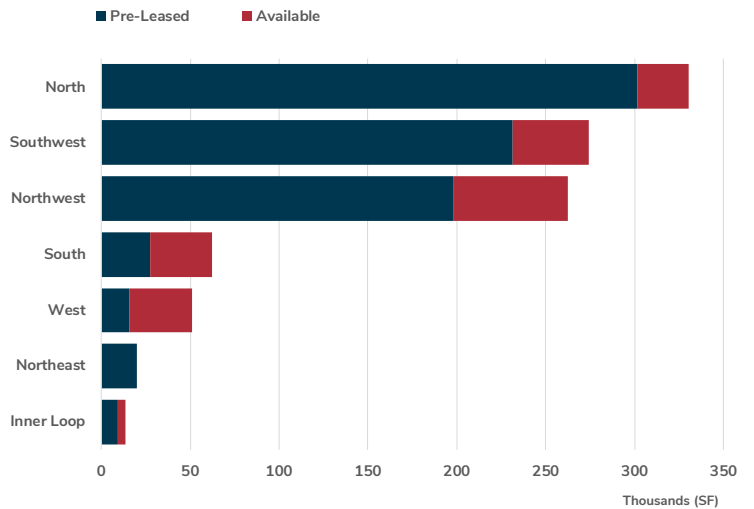
UNPRECEDENTED MARKET CONDITIONS IN HOUSTON HOUSING MARKET

Undeterred by rising mortgage interest rates and a record low supply of homes across Greater Houston, consumers kept the local real estate market in positive territory in March. According to the Houston Association of Realtors, single-family home sales increased 4.1% with 9,693 units sold compared to 9,309 in March of 2021. On a year-to-date basis, the market is running 10.8% ahead of last year’s record pace. The rental market is also strong as consumers that find themselves unable to purchase a home are instead opting to lease. After reaching record prices in February, buyers drove pricing to even higher levels in March. The average price of a single-family home rose 11.4% to \$410,923 while the median price jumped 15.5% to \$335,000. This marks the first time that pricing for a single-family home in Houston has surpassed \$400,000.

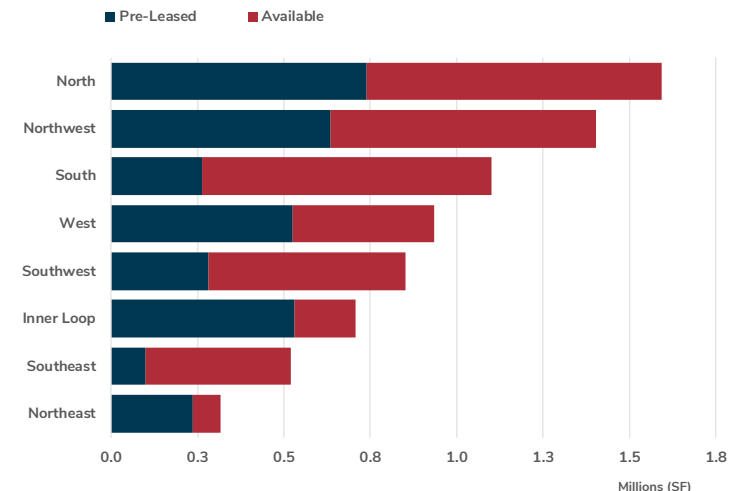
UNDER CONSTRUCTION



DELIVERIES YEAR-TO-DATE



PROPOSED CONSTRUCTION 2022-2023

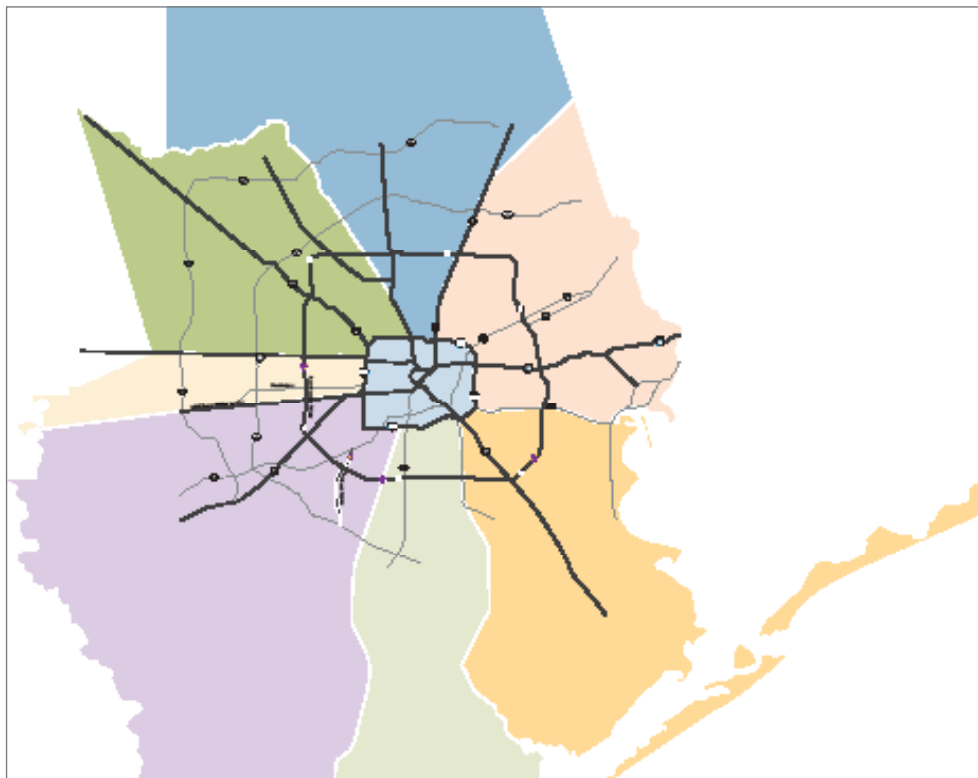


MARKET OVERVIEW

SUBMARKET STATS

| Submarket | Net Rentable Area (SF) | Vacancy (%) | Q1 2022 Total Net Absorption (SF) | YTD Total Net Absorption (SF) | Q1 2022 Leasing Activity (SF) | Q1 2022 Deliveries (SF) | YTD Deliveries (SF) | Under Construction (SF) | Total Avg Asking Rent NNN (\$/PSF) |
|---------------|------------------------|-------------|-----------------------------------|-------------------------------|-------------------------------|-------------------------|---------------------|-------------------------|------------------------------------|
| Houston Total | 374,248,748 | 5.9 | 1,529,636 | 5,287,835 | 1,982,137 | 510,030 | 3,449,415 | 3,672,124 | 19.13 |

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|------------|------------------------|-------------|-----------------------------------|-------------------------------|-------------------------------|-------------------------|---------------------|-------------------------|------------------------------------|
| Inner Loop | 31,077,197 | 4.8 | 116,521 | 577,312 | 158,388 | 98,972 | 492,993 | 455,833 | 30.14 |
| North | 71,202,951 | 6.3 | 34,566 | 385,471 | 513,137 | 22,003 | 562,655 | 895,949 | 18.10 |
| Northeast | 25,228,550 | 5.1 | 179,652 | 514,973 | 78,918 | 7,320 | 85,152 | 49,841 | 16.61 |
| Northwest | 68,666,092 | 7.5 | 311,583 | 1,863,423 | 326,830 | 148,680 | 1,554,343 | 587,584 | 18.86 |
| South | 15,626,369 | 4.2 | 153,746 | 260,442 | 51,668 | 39,040 | 101,218 | 253,827 | 19.84 |
| Southeast | 55,843,221 | 5.8 | 283,805 | 624,374 | 258,650 | 150,185 | 358,188 | 111,718 | 15.68 |
| Southwest | 61,355,758 | 5.5 | 244,665 | 692,648 | 371,903 | 30,450 | 182,047 | 1,101,999 | 19.66 |
| West | 45,248,610 | 5.5 | 205,098 | 369,192 | 222,643 | 13,380 | 112,819 | 215,373 | 19.73 |



HOUSTON RETAIL SUBMARKETS

- 1. Inner Loop
- 2. North
- 3. Northeast
- 4. Northwest
- 5. South
- 6. Southeast
- 7. Southwest
- 8. West

Information and data within this report were obtained from sources deemed to be reliable. No warranty or representation is made to guarantee its accuracy.

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LETA WAUSON
DIRECTOR OF RESEARCH
leta.wauson@naipartners.com
tel 713 275 9618

partners

HOUSTON
+ 713 629 0500
1360 Post Oak Blvd #1900
Houston, Texas 77056

WWW.NAIPARTNERS.COM