

HOUSTON RETAIL | Q2 2022

QUARTERLY MARKET REPORT

Fueled by population and job growth, Houston's retail market remains as hot as the weather.

JULY 2022

EXECUTIVE SUMMARY

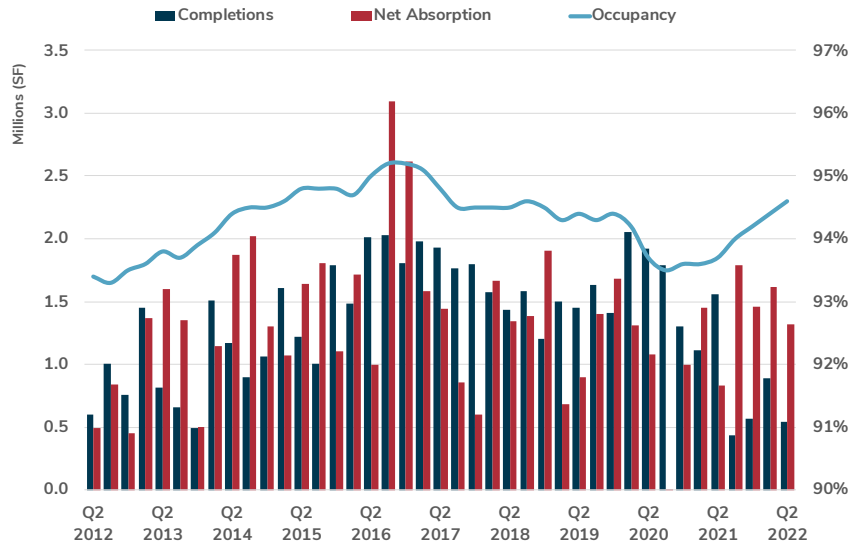
ROBUST HOUSTON RETAIL PERFORMANCE CONTINUES

The first half of 2022's strong Houston retail sector momentum has continued into the second half of 2022. Key indicators such as leasing activity, net absorption, and rent continue to thrive. Pent-up demand from the pandemic continues to boost retail leasing activity. Vacancies have tightened to 5.4%, levels not seen since Q3 2018. Demand, represented as net absorption, has outpaced delivered supply for the past four quarters. With 1.4 million sq. ft. delivered since the beginning of the year, 4.3 million sq. ft. under construction, and another 1.0 million sq. ft. planned through 2022, the demand for retail real estate may continue to outpace supply.

EMPLOYMENT OUTLOOK FOR HOUSTON LOOKS POSITIVE

Houston's total labor force has grown well beyond pre-pandemic levels. Despite the growth—which tends to push up the unemployment rate—4.6% of the area labor force was unemployed in March and April 2022, a pandemic low. In context, the statewide unemployment rate declined to 4.3% in April, and the national unemployment rate was 3.6%. The lower national unemployment rate is due in part to a slower recovery in labor force participation outside of Texas. With Houston employment hitting this milestone, it elevates the region to an exclusive status. Of the nation's twenty most populous metros, only seven have recovered all their pandemic job losses. Houston is one of the seven.

SUPPLY & DEMAND



KEY MARKET INDICATORS

	CURRENT Q2 2022	PRIOR QUARTER Q1 2022		PRIOR YEAR Q2 2021	
Vacant Total (%)	5.4	5.6	↓	6.3	↓
Net Absorption (SF)	1,550,952	1,308,273	↑	1,812,828	↓
Leasing Activity (SF)	1,992,569	2,703,007	↓	1,738,540	↑
Deliveries (SF)	540,412	892,899	↓	1,554,953	↓
Construction (SF)	4,333,362	4,603,575	↓	3,710,685	↑
Inventory (SF)	379,415,580	378,875,168	↑	376,976,864	↑
Avg Asking NNN Rent (\$)	19.42	19.19	↑	18.65	↑

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DEMAND CONTINUES TO OUTPACE SUPPLY IN Q2 2022

The aggregate effect of the net occupancy increase was 1.6 million sq. ft. of absorption for the second quarter, lowering the vacancy rate to 5.4%, down 20 basis points quarter over quarter and 90 basis points from 6.3% this time last year. Some significant move-in's this year have included 136,000 sq. ft. leased by Target at 22296 Market Place Drive in New Caney; 40,250 sq. ft. leased by Elite Fitness at 9615-9701 Spencer Highway in La Porte; 40,000 sq. ft. leased by Sheffield Liquidation at 14029-14039 FM 2100 in Crosby; and 30,979 sq. ft. occupied by Northern Tools at 10907-11035 East Freeway in the Woodforest Shopping Center in the Pasadena/Galena Park submarket.

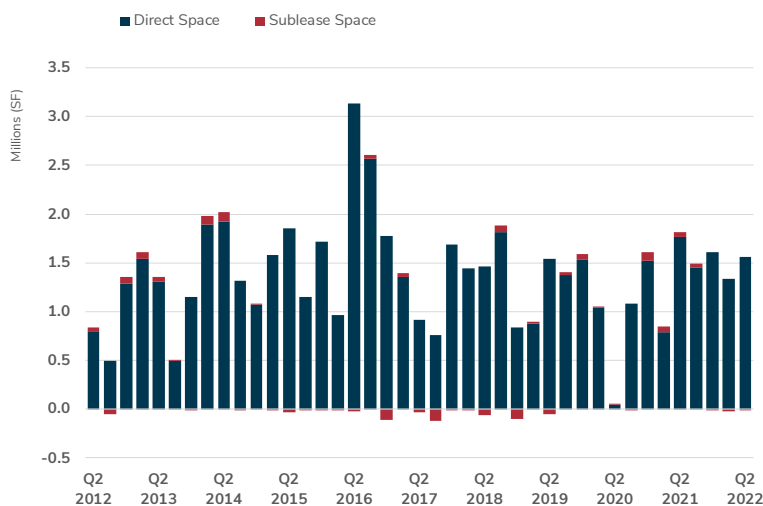
INVESTMENT SALES TRENDS

Real Capital Analytics data reports the quarterly sales value for Q2 2022 retail in the Greater Houston area at \$551.8 million as of June 30, 2022, up 27% compared to last year at \$436.3 million. The primary capital composition for buyers so far in 2022 was made up of 61% private investors, 23% REIT/listed, and 16% institutional investors. For sellers, the majority were 50% private investors, 31% institutional, and 15% REIT/listed investors. Among recent noteworthy transactions, locally based Wu Properties has purchased Market Square at Eldridge, a 262,556-sq. ft. retail center at 2660 Eldridge Pkwy. S., about four miles south of the Energy Corridor. The 32-acre property was 98% leased at the time of sale. According to the Harris County Central Appraisal District, it has an appraised value of more than \$44 million. Tenants include Burlington, Michael's, Party City, PetSmart, Dollar Tree, HomeGoods, Bath & Body Works, Ulta Beauty, Cato, Old Navy, and Office Depot. The strip center also has a Target store and a vacant Sam's Club, but they weren't included in the transaction.

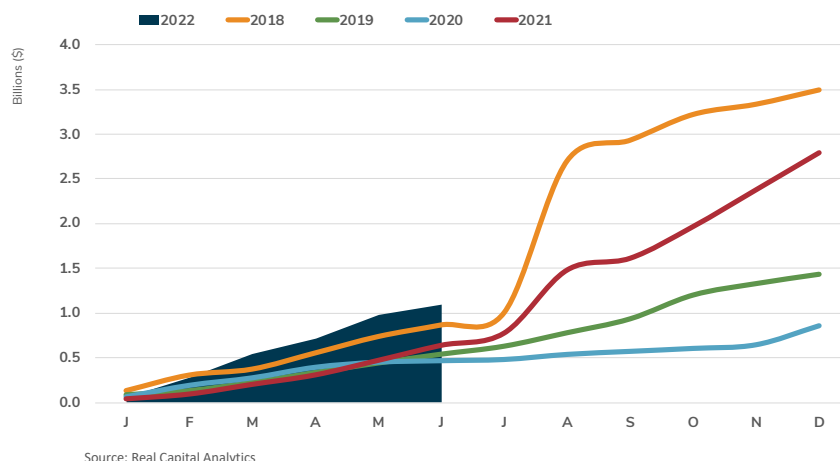
AVERAGE RETAIL NNN ASKING RENTS HIGHER

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 \$19.42 per sq. ft., an increase of 4.1% from \$18.65 a year ago. The Inner Loop has the highest rent of all submarkets in the Houston metro at \$30.01 per sq. ft. with a vacancy rate of 4.3%, followed by the West submarket at \$20.65 per sq. ft. with a vacancy rate of 4.9%. The asking rate is officially quoted for any given building and will differ from the 'bottom line' actual rental after negotiations, known as the effective rate.

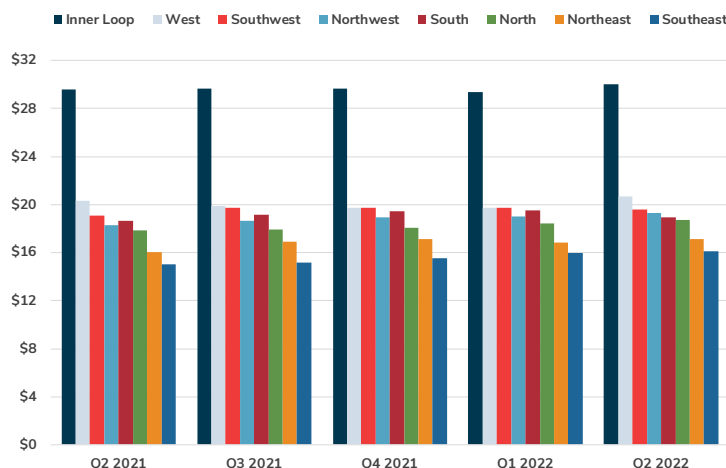
NET ABSORPTION



CUMULATIVE MONTHLY SALES VOLUME



AVERAGE ASKING NNN RENT



STEADY LEASING ACTIVITY IN Q2

The volume of square footage signed during the second quarter, which is comprised of both new leases and renewals, was at 2.0 million sq. ft. The largest amount of square feet leased took place in the Northwest submarket at 533,259 sq. ft. or 23% of total leasing activity, followed by the North submarket at 374,534 sq. ft. or 19%. Significant transactions signed in the second quarter included a 108,525-sq.-ft. renewal for Floor & Decor in the FM 1960/I-45 submarket in May; a new 58,421-sq.-ft. lease for Best Buy in Willowbrook Plaza in June; and a 52,990-sq.-ft. deal signed with Mega Furniture Galleries at 11001 Fuqua Street in the Near Southeast submarket in May.

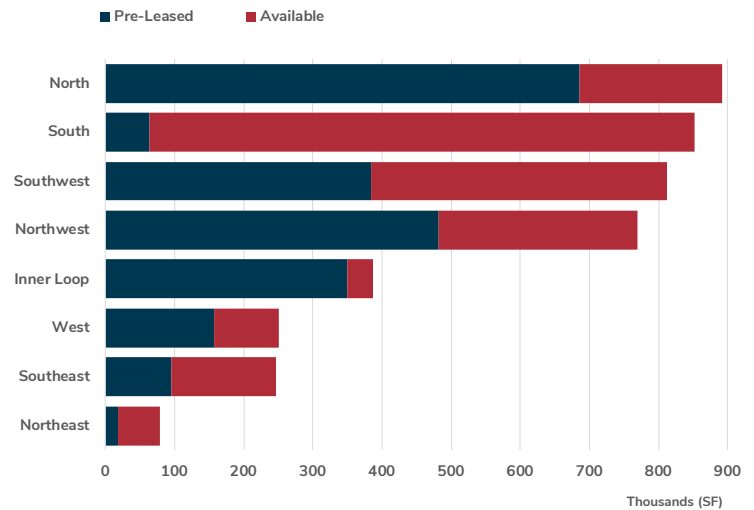
RELENTLESS RECORD-BREAKING AT PORT HOUSTON

Record-breaking activity continues at Port of Houston public terminals. Port Houston says business remains strong for container and general cargo terminals, with 21.6 million tons handled through May. In particular, the container activity continued at record levels for the year and was 20% higher through May, with the 335,866 TEU total representing the best month in Port Houston history. There are no signs of imports backing off, and exports – especially resins – are beginning to rebound. General cargo volumes through the multi-purpose facilities are also up 116% for the year, with nearly 3.3 million tons recorded.

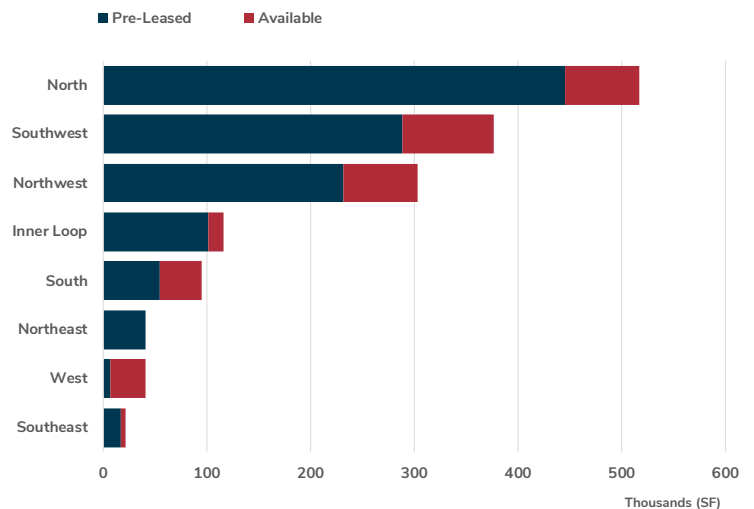
HOUSTON HOME SALES MODERATE IN JUNE

Houston’s sizzling housing market began a long-anticipated cooldown. Home sales experienced their first significant decline in 2022, reflecting a set of factors that had been developing for months: the combination of reduced inventory, record-high prices, and, more recently, rising interest rates on top of growing inflation. However, the sales slowdown and a steady supply of new listings helped boost inventory to a 2.0-months supply – the largest supply of homes since November 2020. According to the Houston Association of Realtors, single-family home sales fell 8.6%, marking the third consecutive monthly year-over-year decline with 9,728 units sold compared to 10,649 in June of 2021. However, the market is still running 1.7% ahead of 2021’s record-setting volume on a year-to-date basis.

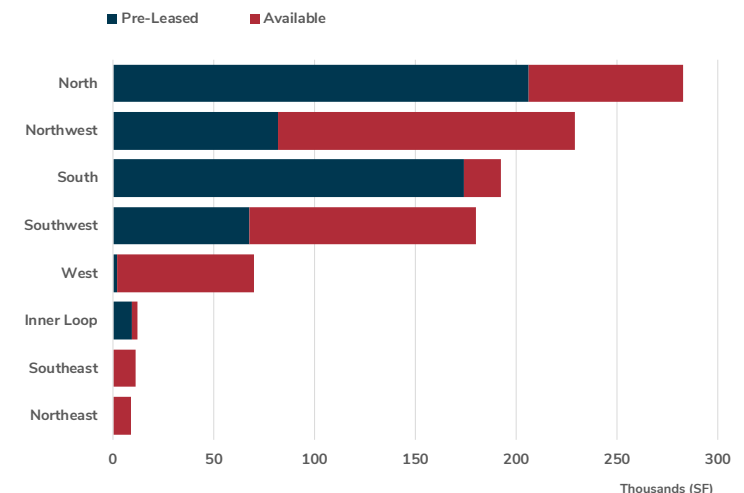
UNDER CONSTRUCTION



DELIVERIES YEAR-TO-DATE



PROPOSED CONSTRUCTION 2022-2023

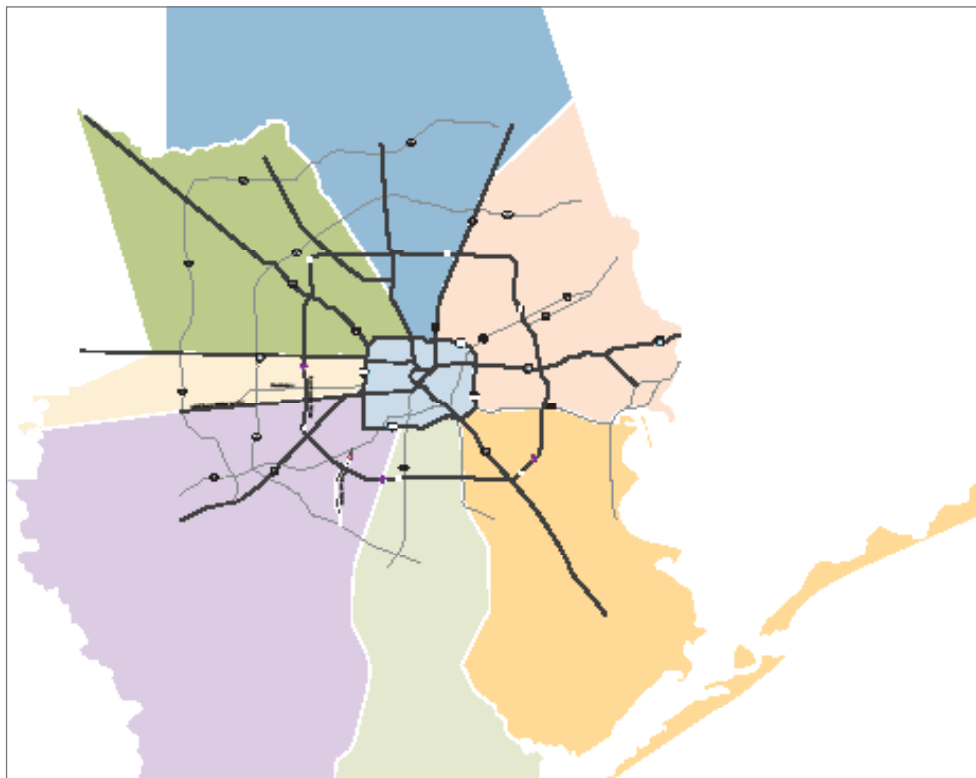


MARKET OVERVIEW

SUBMARKET STATS

Submarket	Net Rentable Area (SF)	Vacancy (%)	Q2 2022 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q2 2022 Leasing Activity (SF)	Q2 2022 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent NNN (\$/PSF)
Houston Total	379,412,425	5.4	1,550,952	2,859,225	1,992,569	540,412	1,433,311	4,333,362	19.42

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Inner Loop	31,061,928	4.3	133,099	292,664	117,257	32,208	100,987	401,786	30.01
North	73,138,650	5.5	148,536	695,650	374,534	175,488	486,240	921,741	18.72
Northeast	25,910,021	5.2	-65,199	-28,989	113,532	5,000	41,150	78,796	17.11
Northwest	70,160,560	6.5	278,559	698,873	533,259	94,916	280,683	768,468	19.29
South	15,847,271	4.2	89,901	81,568	47,281	42,542	95,235	852,095	18.91
Southeast	56,380,909	5.4	424,641	223,374	210,432	10,566	21,366	246,725	16.10
Southwest	61,774,012	5.0	344,135	570,154	301,965	171,692	367,298	812,697	19.61
West	45,139,074	4.9	197,280	325,931	294,309	8,000	40,352	251,054	20.65



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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