

# Houston Retail | Q3 2022

## Quarterly Market Report

October 2022

Houston is experiencing a retail rebound, ranked second nationally in retail space absorption

### Executive Summary

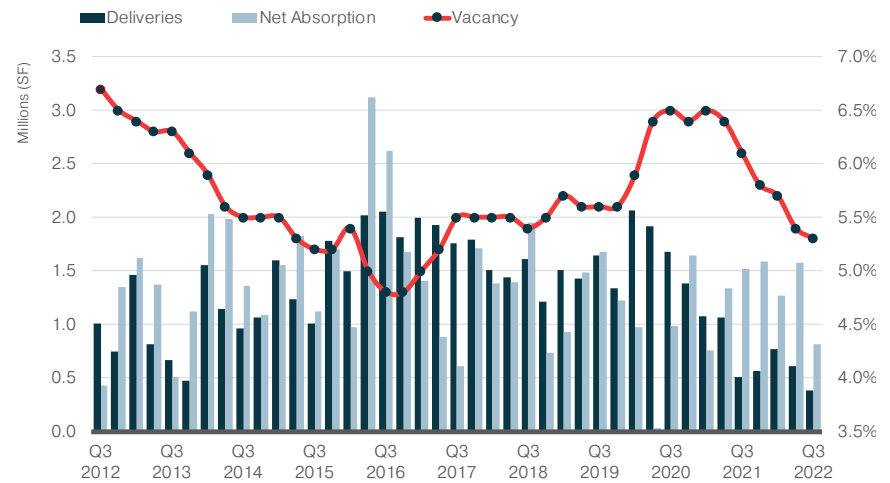
Developers continue to bet on Houston's desire for new retail

The post-pandemic recovery in Houston's retail market remains ongoing, and key indicators such as leasing activity, net absorption, and rent growth continue to head in the right direction. Over the past 12 months, Houston ranked number two out of all U.S. metros for most retail space absorbed, according to CoStar. Furthermore, net absorption is forecast to reach its highest level in six years in 2022. Vacancies have tightened to 5.3%, levels not seen since Q2 2017. Demand, represented as net absorption, has outpaced delivered supply for the past six quarters. With 1.8 million sq. ft. delivered since the beginning of the year, 4.6 million sq. ft. under construction, and another 100,000 sq. ft. planned through 2022, the demand for retail real estate may continue to outpace supply.

Houston's near-term outlook remains healthy

Recent data indicate that Houston continues to add jobs at a blistering pace in 2022. Houston employment expanded 6.0% from December 2021 to July 2022, or by 109,647 jobs. Construction grew at the fastest pace, adding 21,501 jobs over that period and surpassing its pre-pandemic level in July. While job growth is broad-based, there are signs the housing market is loosening. The growth rate of home values is stabilizing at a high level rather than accelerating, existing-home sales have declined, the apartment vacancy rate is up, and the number of single-family permits has softened. The data suggest Houston's near-term outlook remains healthy despite the recent weakening in real estate.

### Supply & Demand



Source: CoStar, Partners Research

### Key Market Indicators

	CURRENT Q3 2022	PRIOR QUARTER Q2 2022		PRIOR YEAR Q3 2021	
Vacancy Total (%)	5.3	5.4	↓	6.1	↓
Net Absorption (SF)	817,850	1,579,393	↓	1,515,097	↓
Leasing Activity (SF)	1,635,036	2,120,945	↓	2,394,989	↓
Deliveries (SF)	382,692	607,940	↓	505,787	↓
Construction (SF)	4,595,345	4,564,654	↑	4,488,454	↑
Inventory (SF)	377,511,216	377,128,524	↑	375,182,771	↑
Avg Asking NNN Rent (\$)	19.58	19.41	↑	18.95	↑

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## Market Overview

### Strong demand continues in Q3 2022

The aggregate effect of net occupancy was 818,000 sq. ft. of absorption for the third quarter, lowering the vacancy rate to 5.3%, down 10 basis points quarter over quarter and 80 basis points from 6.1% last year. The volume of square footage signed during the third quarter, comprised of new leases and renewals, was at 1.6 million sq. ft. The largest amount of square feet leased took place in the Northwest submarket at 384,000 sq. ft. or 23% of total leasing activity, followed by the Inner Loop submarket at 274,000 sq. ft. or 17%. Significant lease transactions this year have included a 108,525 sq. ft. lease renewed by Floor & Decor in the FM 1960/I-45 submarket; 58,421 sq. ft. leased by Best Buy in Willowbrook Plaza; 58,095 sq. ft. leased by Academy Sports + Outdoors in South Cross Center in the Inner Loop University submarket; and 52,990 sq. ft. occupied by Mega Furniture Galleries in Southview Square in the Near Southeast submarket.

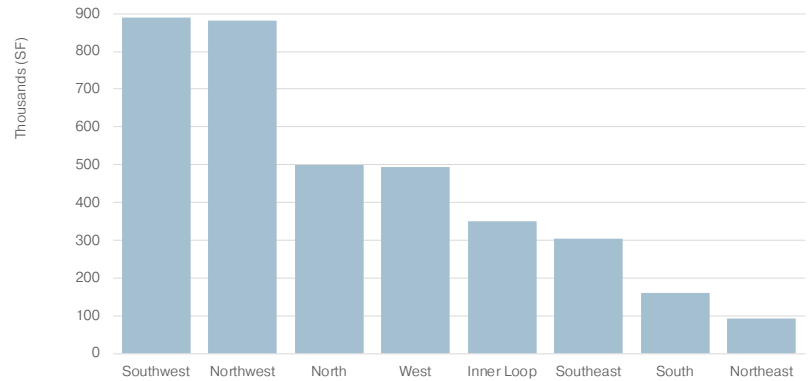
### Investment sales trends

The quarterly sales value for Q3 2022 retail in the Greater Houston area at \$432.9 million as of Q3 2022, down 56% compared to last year at \$973.1 million, according to Real Capital Analytics data reports. The primary capital composition for buyers so far in 2022 comprised 70% private investors, 17% REIT/listed, and 12% institutional investors. For sellers, the majority were 55% private investors, 26% institutional, and 11% REIT/listed investors. Among noteworthy transactions in 2022 include the sale of Champions Village Retail Power Center, situated on 31.5 acres in northwest Houston. Retailers at the 383,346 sq. ft. property include grocer Randalls—the largest anchor tenant, Barnes & Noble, T.J. Maxx, Tuesday Morning, Kirklands, Jenny Craig, Supercuts, Bath & Body Works, Body & Brain Yoga, and Berkeley Eye Center. Restaurant users include La Madeleine, Don Ramons Mexican Restaurant, Cassandra's Louisiana Kitchen, and MOD Pizza.

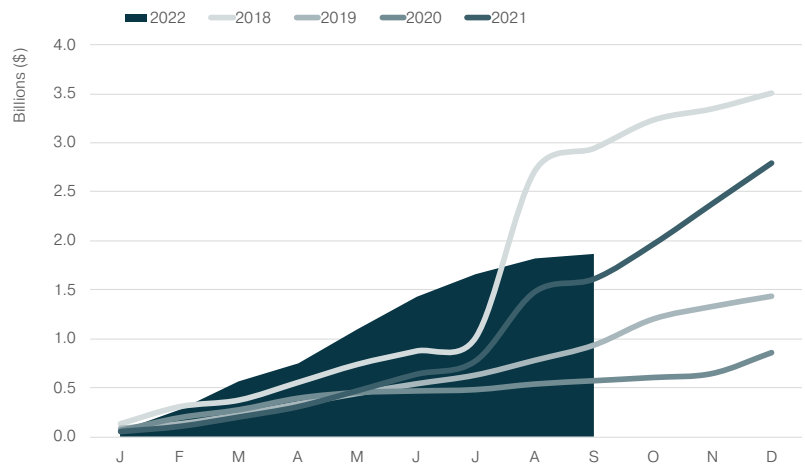
### Average retail NNN asking rents higher

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 \$19.58 per sq. ft., an increase of 3.3% from \$18.95 a year ago. The Inner Loop has the highest rent of all submarkets in the Houston metro at \$30.48 per sq. ft. with a vacancy rate of 4.2%, followed by the West submarket at \$21.46 per sq. ft. with a vacancy rate of 4.8%. 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 Year-To-Date

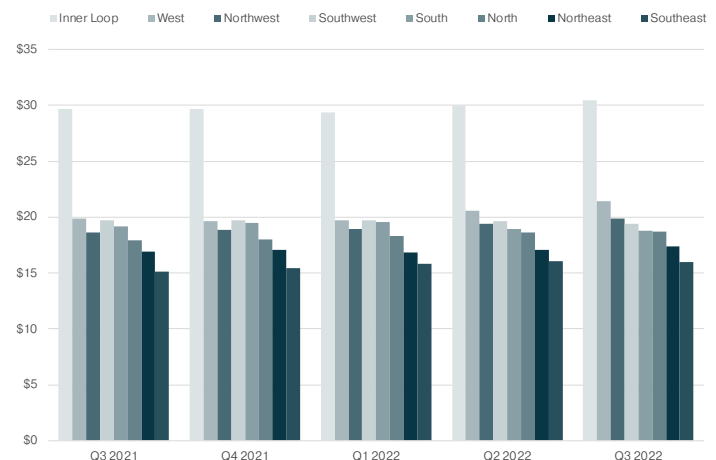


### Cumulative Monthly Sales Volume



Source: Real Capital Analytics

### Overall NNN Asking Rent (\$/PSF)



## Construction activity

Over the past 12 months, Houston ranked No. 2 in the nation for net deliveries, out of major markets, according to CoStar. Additionally, as of Q3 2022, Houston ranked first for retail square feet under construction, with some 4.6 million sq. ft. underway. While notable, it represents only about 1.2% of its existing inventory. One of Houston's largest projects currently under construction is phase 1 of Weitzman's Manvel Town Center. Upon build-out, the project will boast more than 1 million sq. ft. of retail, entertainment, hospitality, medical, and office space and will be one of the largest open-area retail-focused projects in the metro area. Another large construction project is phase 1 of the 200,000 sq. ft. Market at Willis in Montgomery County, bringing the first H-E-B to Willis.

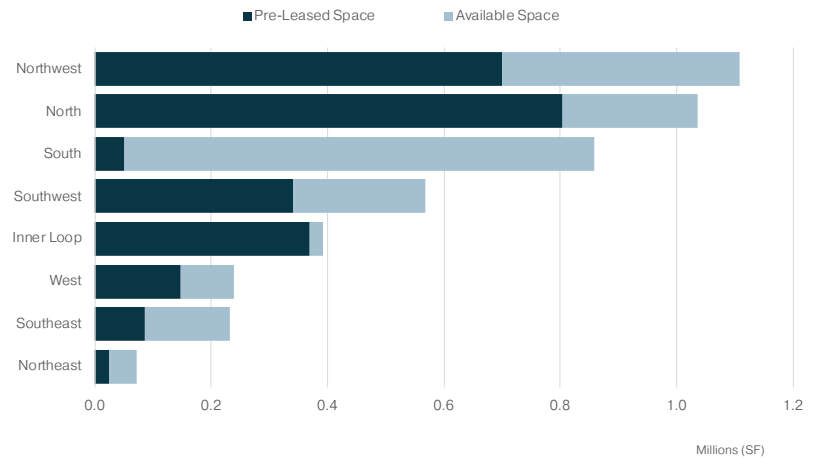
## Container volume continues to break records at Port Houston

The Houston Ship Channel is home to Port Houston's container facilities, which handle nearly 70% of all the U.S. Gulf Coast container traffic, and the nation's premier petrochemical complex. In addition, Texas continues to rank as the #1 state in the U.S. for exports, with steadily increasing energy and manufacturing cargoes and record-level container activity at Port Houston. The most recent statistics for total tonnage at Port Houston's facilities are up 24% through August. Steel imports have been particularly strong this year and are up 83% year to date through August. Auto import tonnage was up 50% for August but remained down 9% for the year compared to last year.

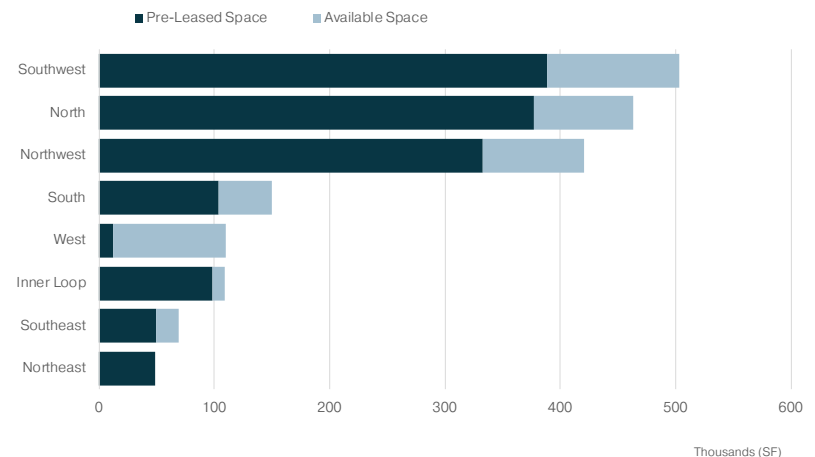
## New listings boost overall supply to highest level in two years

Single-family home sales fell 17%, with 7,664 units sold compared to 9,235 in September 2021, according to the Houston Association of Realtors September 2022 Market Update. The market trails 2021's record-setting volume by 5.1% on a year-to-date basis. The top sales volume performer was the \$500,000 to \$1 million housing segment, which rose 12.6%. The only other segment to remain in positive territory was \$1M and above housing, which increased 7.2%. Many would-be homebuyers continue to turn to rental housing options. In September, the Houston real estate market collectively continued transitioning to normal, pre-pandemic levels. Sales overall were off for a sixth consecutive month due largely to the persistent lack of inventory and inflationary headwinds, including rising interest rates. However, the inventory landscape is showing signs of improvement for consumers as an uptick in new listings helped boost overall supply to its highest level in two years.

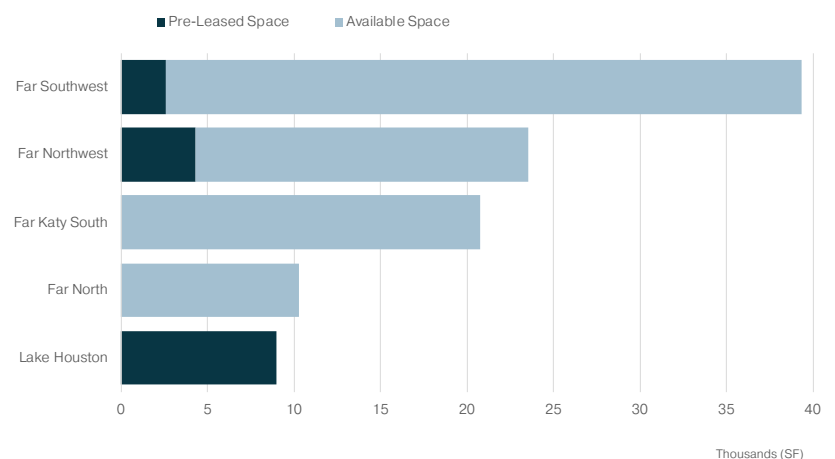
## Under Construction



## Deliveries Year-To-Date



## Proposed Construction 2022

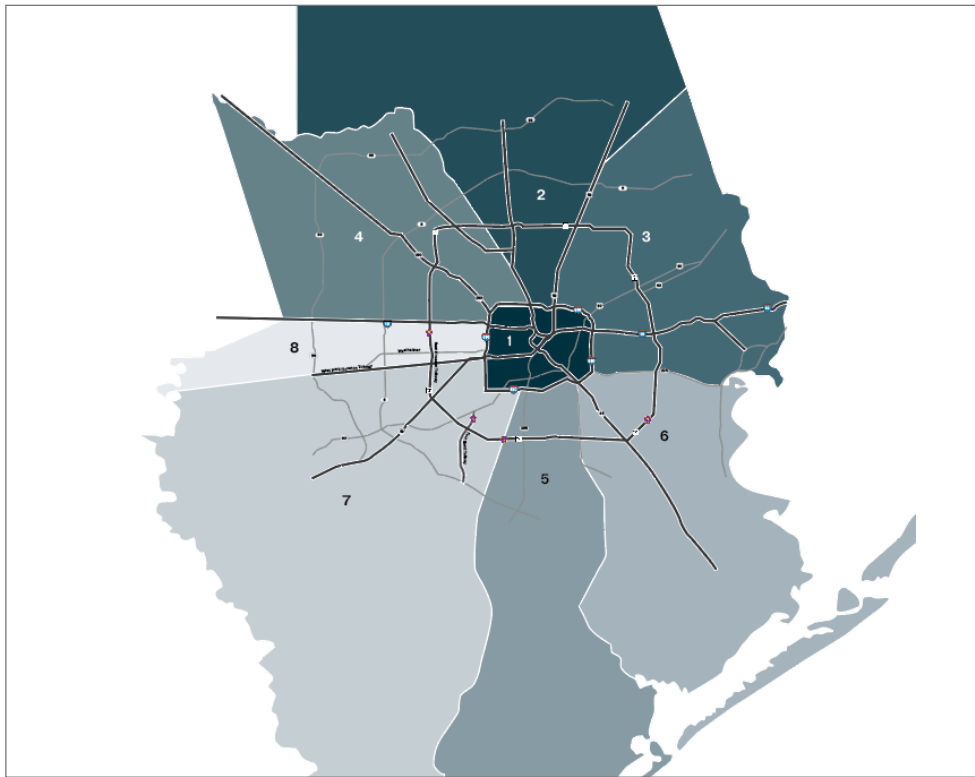


# Market Overview

## Submarket Stats

Submarket	Net Rentable Area (SF)	Vacancy (%)	Q3 2022 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q3 2022 Leasing Activity (SF)	Q3 2022 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent NNN (\$/PSF)
Houston Total	377,511,216	5.3	817,850	3,672,362	1,635,036	382,692	1,765,150	4,595,345	19.58

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Inner Loop	30,792,490	4.2	41,423	350,690	273,697	8,000	108,987	392,236	30.48
North	73,285,602	5.7	-69,902	499,775	261,155	54,072	411,349	1,088,254	18.68
Northeast	25,622,060	4.8	120,786	92,087	75,742	7,480	48,630	71,316	17.38
Northwest	68,885,958	6.5	183,795	882,926	383,649	104,868	399,681	1,128,931	19.90
South	15,894,523	4.1	37,562	160,378	35,199	0	150,283	847,815	18.76
Southeast	56,025,683	5.5	99,931	303,450	111,035	48,091	69,457	232,102	15.99
Southwest	61,856,531	4.7	280,917	889,823	250,294	125,612	493,842	568,703	19.41
West	45,148,369	4.8	123,338	493,233	244,265	34,569	82,921	265,988	21.46



- 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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