

Houston Retail

Q2 2023

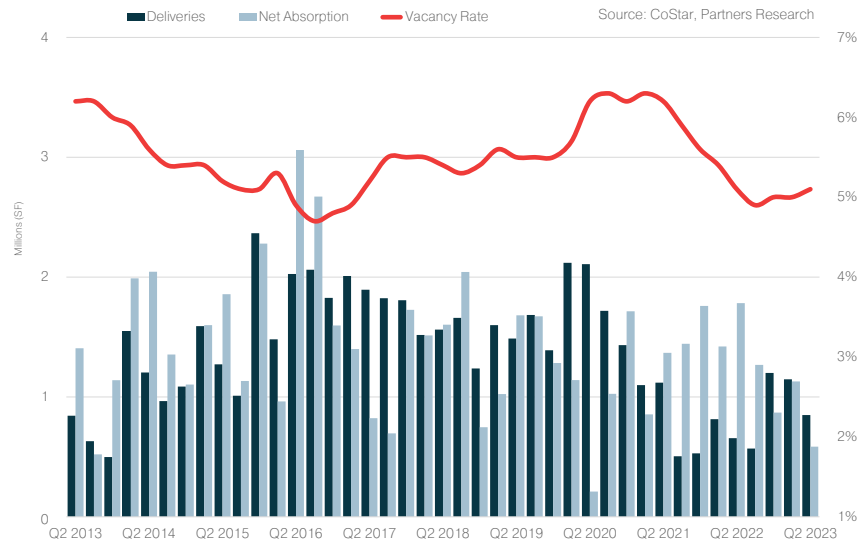
Executive Summary

Houston Retail records 14th straight year of positive absorption.

Q2 In Review

By the end of Q2 2023, the overall vacancy rate in the Houston retail market rose 10 basis points quarter-over-quarter, from 5.0% to 5.1%. Net absorption continued its streak—marking 14 straight years of positive absorption—at 585,550 sq. ft. in Q2 2023. Year-to-date, net absorption is at 1.7 million sq. ft. Year-to-date, deliveries total 1.9 million sq. ft.—12% were 0% leased upon delivery, which slightly increased the vacancy rate to 5.1%. Deliveries—849,337 sq. ft. in Q2 2023—decreased 26% from 1.1 million sq. ft. quarter-over-quarter and increased 29% from 656,254 sq. ft. year-over-year. The retail construction pipeline total for the quarter registered slightly above the prior three-year average (3.4 million sq. ft.) at 3.8 million sq. ft. in Q2 2023. Rent growth continued to trend upward, averaging 3% annual growth over the prior three years, currently standing at \$20.02 per sq. ft.

Supply & Demand



Houston Economic Update

Houston's unemployment rate increased to 4.4% in May 2023, ticking up from 4.0% in April 2023. The metro's jobless rate beat the state's and the nation's rates at 4.1% and 3.5%, respectively. Year-to-date, Houston has gained 33,496 jobs in the first five months of 2023, reflecting 2.5% annual growth. Service-providing industries experienced the most growth in May. Specifically, trade, transportation, and utilities (5,300 jobs, 0.8%), leisure and hospitality (4,600 jobs, 1.3%), and education and health services (3,000 jobs, 0.7%).

Key Market Indicators

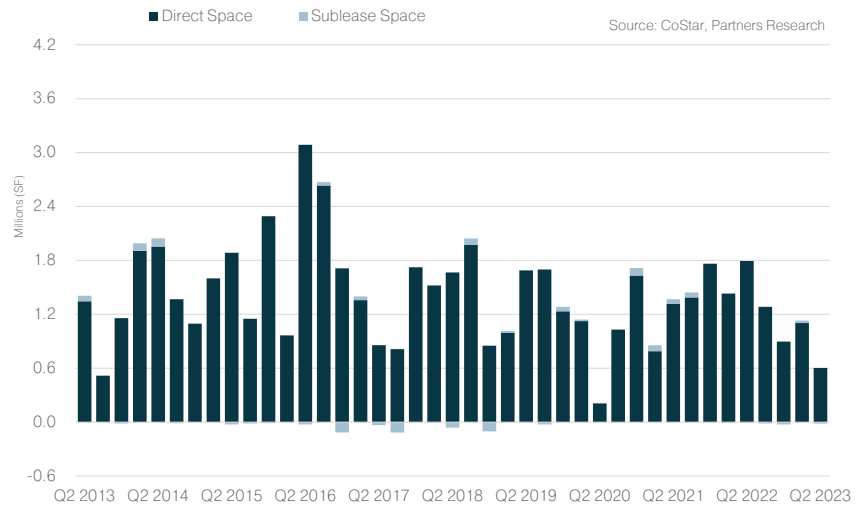
	CURRENT Q2 2023	PRIOR QUARTER Q1 2023		PRIOR YEAR Q2 2022	
Vacant Total	5.1%	5.0%	▲	5.1%	—
Net Absorption (SF)	585,550	1,129,634	▼	1,782,884	▼
Leasing Activity (SF)	1,553,860	2,000,977	▼	2,229,689	▼
Deliveries (SF)	849,337	1,147,500	▼	656,254	▲
Construction (SF)	3,864,764	4,403,727	▼	3,890,695	▼
Inventory (SF)	384,666,451	383,817,114	▲	380,898,834	▲
Avg Asking NNN Rent (\$)	\$20.02	\$19.67	▲	\$19.39	▲

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14 Straight Years of Positive Absorption

Net absorption—move-ins minus move-outs—for the quarter was at 585,550 sq. ft. as of the end of Q2 2023. This represented a decrease of 48% quarter-over-quarter, from 1.1 million sq. ft. in Q1 2023. Year-to-date, net absorption is at 1.7 million sq. ft. This marks 57 quarters—equal to over 14 straight years—that the Houston retail market recorded overall positive absorption.

Net Absorption

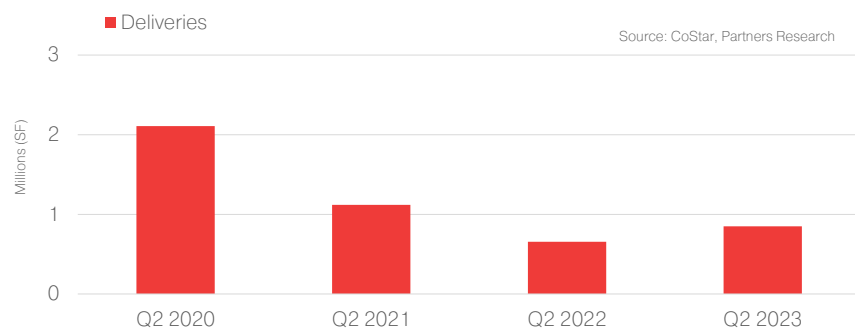


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Deliveries Increase 29% Year-Over-Year

In Q2 2023, deliveries totaled 849,337 sq. ft. in the Houston retail market. Quarter-over-quarter, deliveries decreased 26% from 1.1 million sq. ft. in Q1 2023. Year-over-year, deliveries increased 29% from 656,254 sq. ft. in Q2 2022. Since last year, some of the largest deliveries that hit the market have been supermarkets and department stores. For example, a 116,530-sq.-ft. grocery store (H-E-B) in Magnolia was delivered in November 2022. In addition, there is 3.8 million sq. ft. in the construction pipeline as of Q2 2023. Over the prior three years, construction averaged 3.4 million sq. ft. annually.

Deliveries

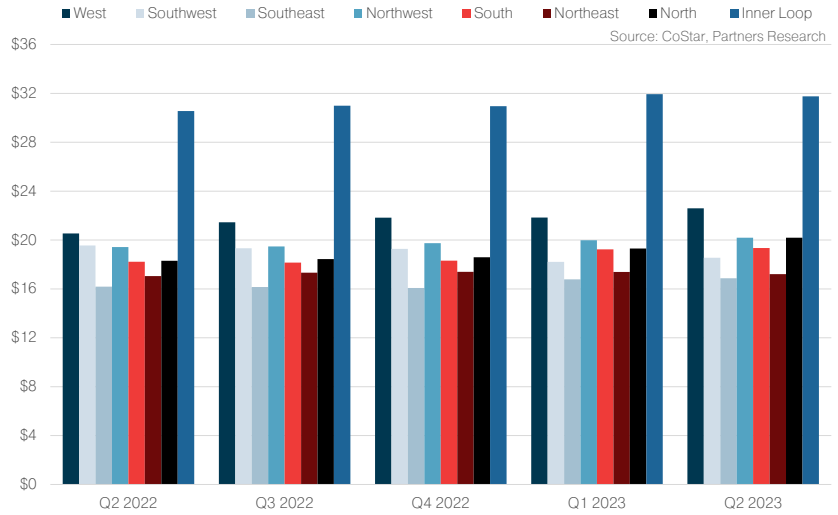


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Rent Growth Trends Upward

By the end of Q2 2023, the Houston retail overall triple-net average rates currently stand at \$20.02 per sq. ft., up slightly from the previous quarter and previous year at \$19.67 per sq. ft., and \$19.39 per sq. ft., respectively. Overall, rents continue to trend upward—averaging 3% annual growth for the prior three years. On the quarter, the Inner Loop submarket had the highest average rate at \$31.76 per sq. ft. On the other hand, the Southeast submarket had the lowest average rate at \$16.87 per sq. ft.

Overall Gross Asking Rent (\$/SF)



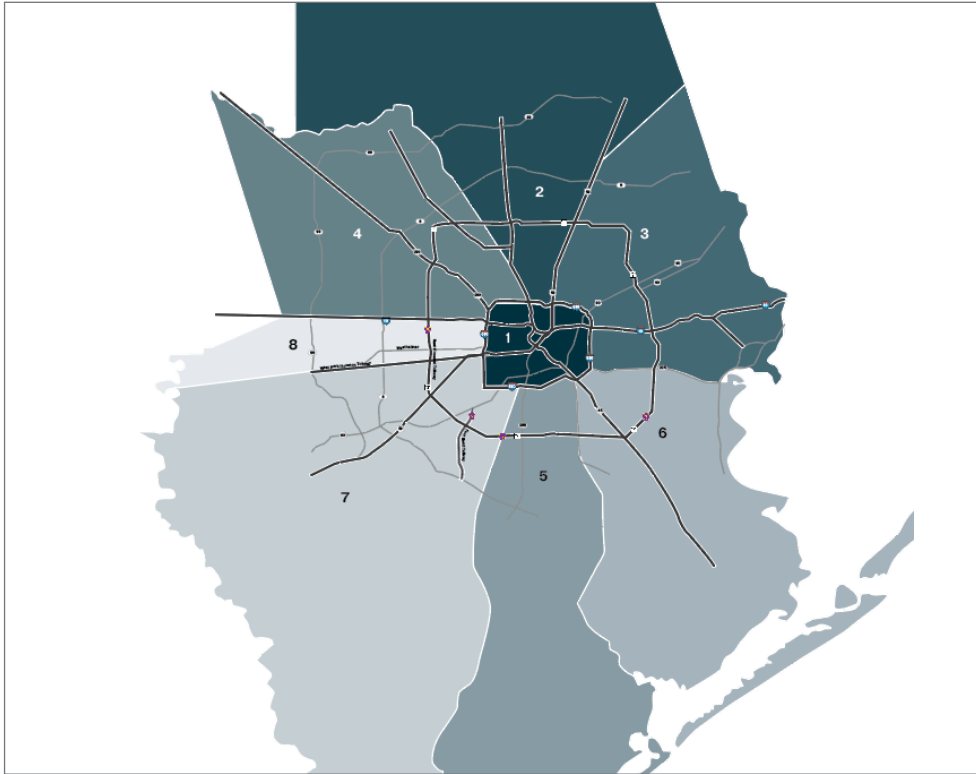
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Submarket Stats

Submarket Statistics	Net Rentable Area (SF)	Vacancy (%)	Q2 2023 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q2 2023 Leasing Activity (SF)	Q2 2023 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent NNN (\$/PSF)
Houston Total	384,666,451	5.1	585,550	1,715,184	1,553,860	849,337	1,996,837	3,864,764	20.02
Submarket Statistics	Net Rentable Area (SF)	Vacancy (%)	Q2 2023 Total Net Absorption (SF)	YTD Total Net Absorption (SF)	Q2 2023 Leasing Activity (SF)	Q3 2022 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent NNN (\$/PSF)
Inner Loop	31,339,765	4.1	3,631	90,888	152,785	0	102,101	486,150	31.76
North	75,010,594	5.8	26,672	87,892	338,604	305,703	560,032	950,916	20.19
Northeast	25,669,335	4.3	25,482	177,634	141,857	69,403	69,403	331,042	17.21
Northwest	70,346,808	6.1	265,444	522,248	268,334	217,777	493,883	539,147	20.19
South	16,208,591	3.5	-6,723	62,995	24,978	22,960	83,304	53,965	19.35
Southeast	57,011,752	5.3	-49,422	43,610	210,159	38,672	64,572	205,027	16.87
Southwest	63,147,804	4.7	263,417	518,673	154,364	165,822	493,247	963,658	18.55
West	45,931,802	4.3	57,049	211,244	262,779	29,000	130,295	334,859	22.60

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Houston Retail Submarkets



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

partners

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