

Houston Retail

Q3 2024

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Quarterly Market Report

Houston retail market: Strong demand, high rents, and moderate growth in new construction deliveries

Executive Summary

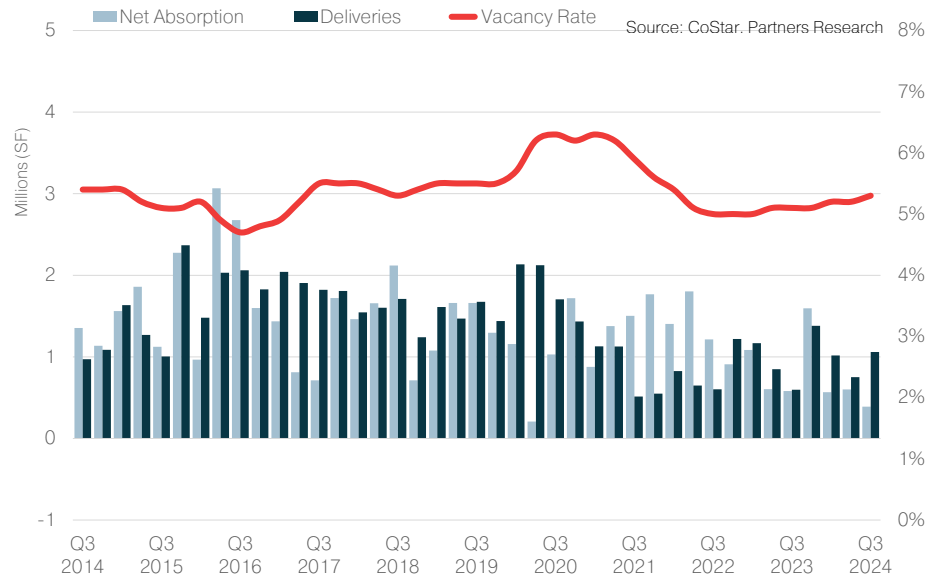
Q3 2024 In Review

The Houston retail market continues to perform well, maintaining vacancy and availability rates below the five-year historical average, despite over 1 million sq. ft. of new deliveries in Q3 2024. Demand remains solid, with net absorption at 389,336 sq. ft.; however, this reflects a slight decrease in leasing and absorption activity as compared to recent quarters. The construction pipeline has slowed, with 3.3 million sq. ft. underway, down 27% year-over-year, while notable developments like The Manvel Town Center and expansions by major retailers such as Costco and H-E-B showcase the region's ongoing growth. Asking rents hit a record-high \$20.87 per sq. ft. in Q3, continuing their steady upward trend due to limited availability and high demand.

Houston Economic Update

Houston's labor market rebounded in August, but the unemployment rate ticked up to 4.5%. Over the past three months, employment in Houston grew an annualized 1.3% or 11,174 jobs. After two weak months of payroll data in June and July, August growth was very strong. From July to August, employment grew 10.3% annualized. This is likely the result of a rebound in activity after Hurricane Beryl and deferred hiring. Job gains in the last three months were concentrated in trade, transportation and utilities, construction, and financial activities. Trade, transportation and utilities – the largest sector of Houston's labor market – grew an annualized 2.8% (up 4,886 jobs) from May to August. Construction had the strongest growth, expanding 11.1% (6,286 jobs) on an annualized basis over the same period. Growth in construction was broad based across subsectors but particularly strong among specialty trade contractors. Employment in financial activities grew an annualized 5.4% (2,440 jobs) from May to August. Leisure and hospitality was a drag on growth, contracting an annualized 2.5% (down 2,274 jobs).

Supply & Demand



Key Market Indicators

	CURRENT Q3 2024	PRIOR QUARTER Q2 2024		PRIOR YEAR Q3 2023	
Vacancy (%)	5.3%	5.2%	▲	5.1%	▲
Availability (%)	6.0%	5.9%	▲	5.8%	▲
Net Absorption (SF)	389,336	601,314	▼	816,844	▼
Leasing Activity (SF)	1,709,170	2,230,476	▲	2,236,383	▼
Deliveries (SF)	1,060,424	752,076	▲	998,998	▲
Construction (SF)	3,329,131	3,721,563	▼	4,553,361	▼
Avg Asking NNN Rent (\$)	\$20.87	\$20.80	▲	\$20.38	▲
Inventory (SF)	404,276,511	401,251,579	▲	400,065,979	▲

Over the past year, Houston's labor market is balanced and growing near trend. Employment grew 1.8% between August 2023 and August 2024. Mining and construction saw the strongest year-over-year growth. Anemic growth in professional and business services and a slight contraction in financial activities weighed on the metro area's overall performance.

Market Overview

Vacancy and Availability Rates Remain Below The 5-Year Historical Average

Due to over 1 million sq. ft. of new deliveries in the third quarter, the total vacancy and availability rates increased slightly to 5.3% and 6%, respectively. Still, both rates are low in comparison to the historical average for the market. Over recent quarters, supply and demand have been in lockstep with one another, with most of the net absorption going into new construction deliveries.

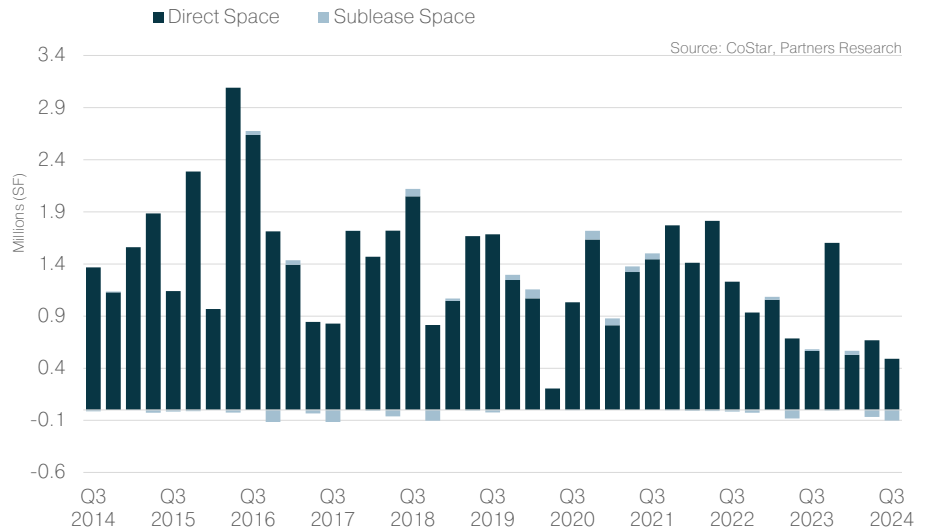
Demand Remains Strong, Though Trending Down Over Recent Quarters

Net absorption—move-ins minus move-outs—is at 389,336 sq. ft., down 35% from last quarter. Year to date, net absorption is at 1.6 million sq. ft. Net absorption has been consistently positive, not once dipping into negative territory over the past 10 years. Notable recent move-ins include Slick City taking 44,987 sq. ft. at Katy Mills Mall; Gulf Coast Distillers taking 40,894 sq. ft. in the historic Sawyers Yards area; and Club Studio taking 40,000 sq. ft. at Kings Crossing.

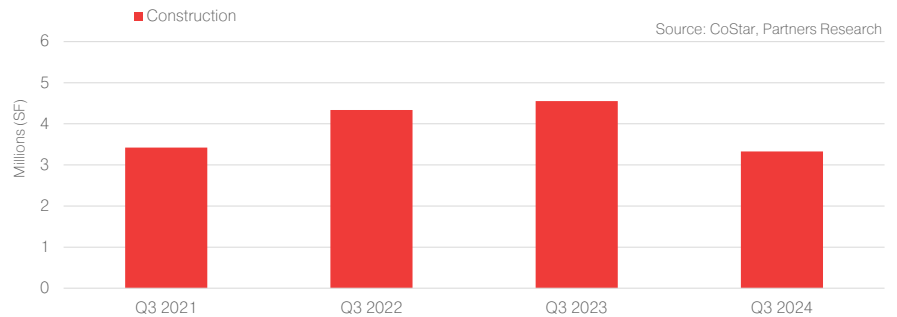
Leasing Activity Healthy but Trending Down 24% from Last Year

Leasing activity for the third quarter came in at 1.7 million sq. ft. This is a healthy number, but is down 24% from the same time last year. Recently signed leases include Joe V's Smart Shop signing a lease for 64,000 sq. ft. at West Road Plaza; Elite Pickleball Club signing a lease for 40,000 sq. ft. at Bay Pointe Shopping Center; and the Milan Institute signing a lease for 31,622 sq. ft. at Cypress Station Square. There has also been a notable uptick in gyms expanding in the market with EoS Fitness, Species Gym, Hellhound Gym, Planet Fitness and Crunch Fitness all recently signing new leases.

Net Absorption



Construction | Year-Over-Year



Market Overview

Construction Deliveries Top 1 million sq. ft., Pipeline Trending Downward

Construction deliveries were slightly higher than average at a little over 1 million sq. ft. for the quarter, this is up 6% over the past year. The construction pipeline is at 3.3 million sq. ft., down 27% from the 4.6 million sq. ft. from this time last year. Notable construction projects include The Manvel Town Center, a 748,800-sq.-ft. retail center in the South Houston/Pearland area. Also, Northwest Hyundai has a 324,093-sq.-ft. new car dealership underway in Jersey Village area of Houston. On the deliveries front, Cadillac Houston opened a new 159,558-sq.-ft. dealership in early 2024 and a new 154,648-sq.-ft. Costco was recently completed in Richmond. Also, Costco and H-E-B have been actively expanding in the market with recent deliveries and further locations underway.

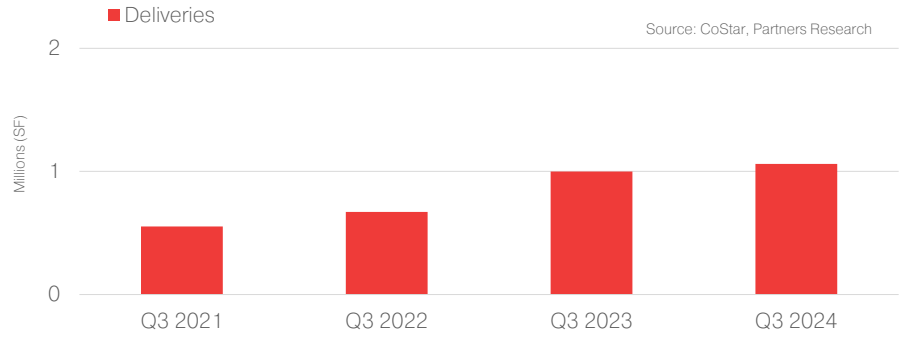
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume at \$574 million in the Houston retail market. With 561 deals completed, the average transaction price currently stands at \$246 per sq. ft. with an average cap rate of 7.1%. Notable recent sale transactions include Trigate Capital selling the 336,594-sq.-ft. First Colony Commons power center to the Dhanani Equity Group. Silvestri Investments sold Spring Valley Mall to Atlas Operating. The shopping center is 300,668 sq. ft. and was 66% leased at the time of the sale. Also, JMK5 Holdings sold Mainland Crossing Shopping Center to Investor Loan Source. The 120,669-sq.-ft. shopping center is anchored by Vettrus Supply and was 100% leased at the time of the sale.

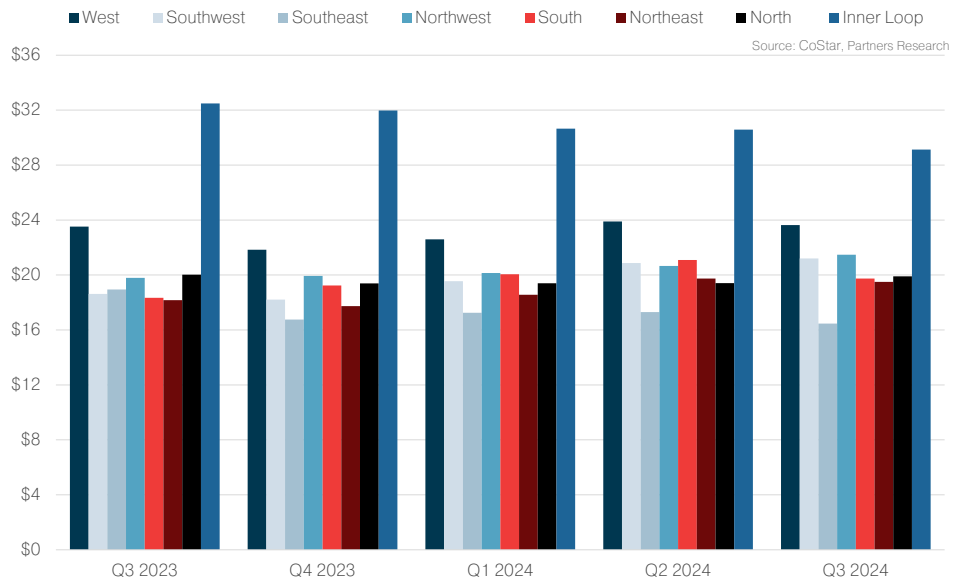
Record-High Asking Rents Increase Slightly

Low availability rates and rising retail sales drove the average asking rent in the Houston retail market to a record-high \$20.87 per sq. ft. in Q3 2024. Year-over-year, the metro's average asking rent increased 1% from \$20.38 per sq. ft. in Q3 2023. On a submarket level, the Inner Loop submarket continues to maintain the highest average rate at \$29.13 per sq. ft. On the other hand, the Southeast submarket had the lowest average rate at \$16.47 per sq. ft. Asking rents are projected to remain on an upward trajectory—increasing about 2-3% annually over the next few years. Shopping Center to Investor Loan Source. The 120,669-sq.-ft. shopping center is anchored by Vettrus Supply and was 100% leased at the time of the sale.

Deliveries



Overall Average Asking NNN Rents



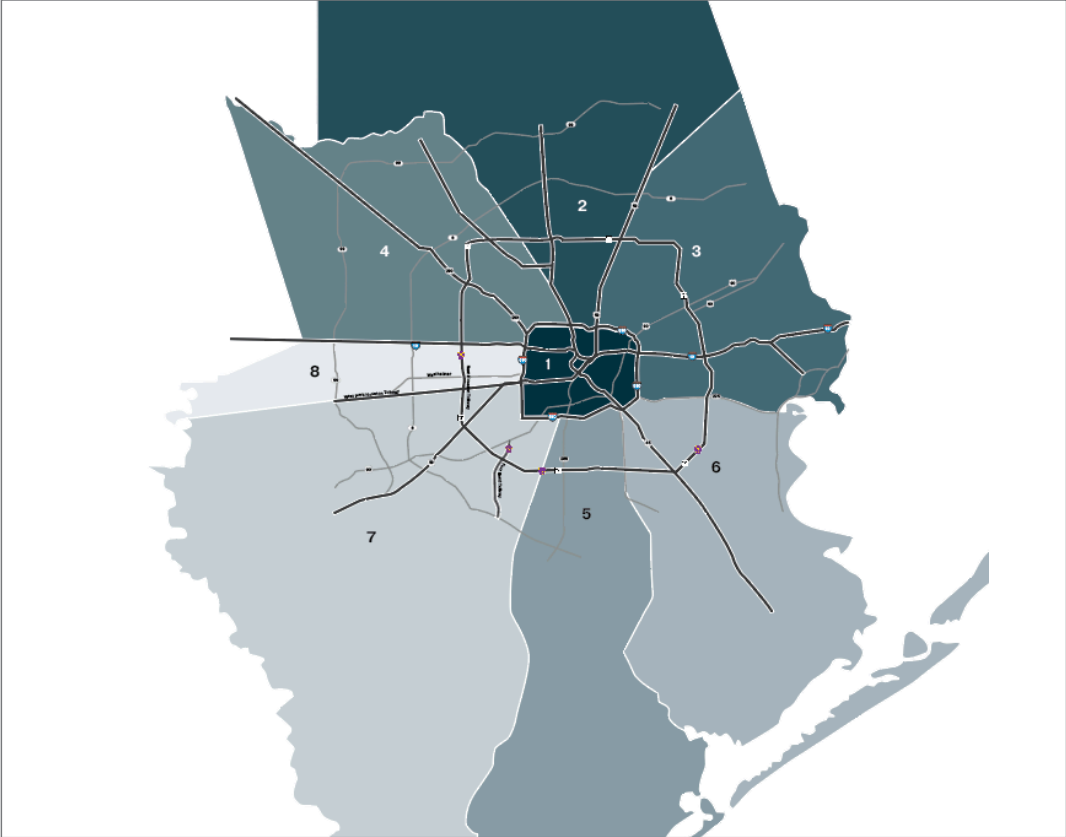
Market Overview

Submarket Stats

Submarket	Net Rentable Area (SF)	Vacancy (%)	Q3 2024 Net Absorption (SF)	YTD Net Absorption (SF)	Q3 2024 Leasing Activity (SF)	Q3 2024 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Total Avg Asking Rent NNN (\$/PSF)
Inner Loop	32,351,253	4.8	37,126	-14,962	115,408	13,948	70,216	361,043	29.13
North	77,945,541	5.6	89,848	336,223	265,803	166,195	441,359	560,014	19.90
Northeast	31,193,851	3.8	84,318	114,098	143,400	32,798	130,658	77,830	19.50
Northwest	74,587,618	6.2	302,840	756,930	283,333	624,000	1,046,445	556,446	21.48
South	17,457,475	4.8	-118,860	-215,152	47,385	9,922	48,386	960,786	19.74
Southeast	58,841,378	5.9	-200,410	-204,656	229,490	38,716	163,826	182,040	16.47
Southwest	64,536,143	5.1	131,328	526,849	355,942	114,053	602,831	491,650	21.20
West	47,363,252	4.4	63,146	258,185	268,409	60,792	325,402	139,322	23.63
Houston Total	404,276,511	5.3	389,336	1,557,515	1,709,170	1,060,424	2,829,123	3,329,131	20.87

Market Overview

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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