Houston Retail

Q1 2025

Quarterly Market Report

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Houston Retail Market Remains Balanced with Healthy Leasing Activity and Stable Vacancy Rates Amid Shrinking Construction Deliveries

Executive Summary

Q1 2025 In Review

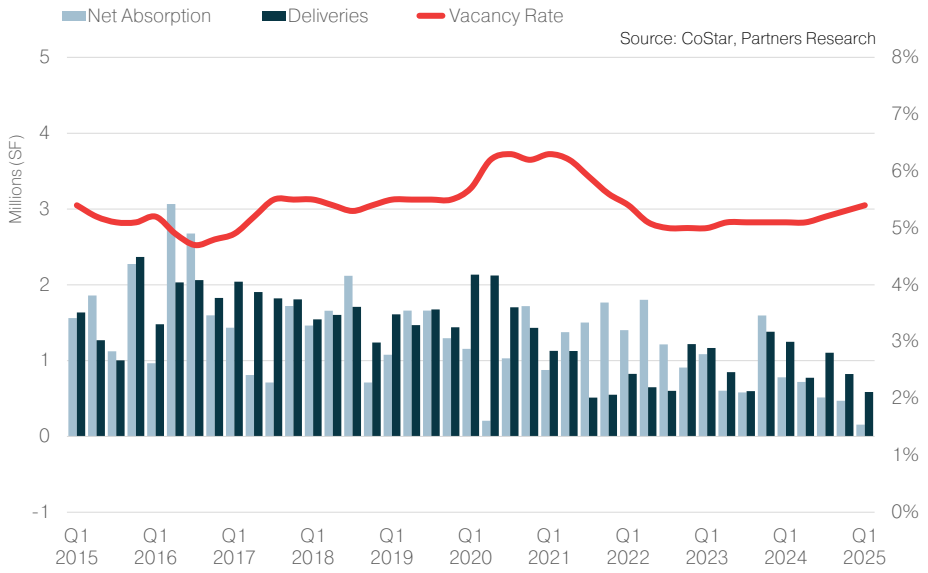
The Houston retail market remains balanced in early 2025, with the overall average vacancy rate at 5.3%, slightly below the five-year historical average. This stability is attributed to the balance between supply and demand, as net absorption for the quarter came in at 155,610 square feet—low compared to the previous quarter but contributing to an impressive 1.8 million square feet of positive net absorption annually. Leasing activity dropped 16.1% quarterly and 20.8% year-over-year; however, there were some notable lease signings by Beauty Empire, Jumping World, and Sprouts Farmers Market. Construction deliveries saw a slight 2.6% decline, with 586,813 square feet delivered in Q1, representing a 19% annual decrease. Meanwhile, average asking rents increased slightly from record highs to $20.78 per square foot but remained up 0.9% year over year.

Houston Economic Update

The Houston unemployment rate improved to 4.2% in December 2024, down from 4.6% in November 2024, a positive shift after ticking up earlier in the year. Houston's labor market ended 2024 with below-trend employment growth of 1.4% year over year, adding 47,177 jobs, a slowdown compared to earlier momentum in the year.

Job growth was uneven across sectors. Oil and gas employment remained a standout, growing 9.7% in 2024 (6,694 jobs), bolstered by increased Texas oil production in October and rising retail fuel prices into early 2025. Smaller sectors also showed resilience: financial activities grew 6.4% in the fourth quarter (2,838 jobs), and construction expanded 4.2% annualized (2,449 jobs). However, larger sectors struggled. Despite adding the most jobs annually(14,220), trade, transportation, and utilities grew at a modest rate of 0.5% (920 jobs) from September to December. Professional and business services contracted 0.4% annually, while education and health services saw a 0.2% annual decline, combined with a loss of 693 jobs in the fourth quarter

Supply & Demand



Key Market Indicators

	CURRENT Q1 2025	PRIOR QUARTER Q4 2024		PRIOR YEAR Q1 2024	
Vacancy (%)	5.4	5.3	▲	5.1	▲
Avaliability (%)	6.2	6.1	▲	5.8	▲
Net Absorption (SF)	155,610	470,014	▼	780,279	▼
Leasing Activity (SF)	1,774,093	2,113,580	▼	2,562,644	▼
Deliveries (SF)	586,813	824,062	▼	1,248,229	▼
Construction (SF)	3,747,345	3,848,229	▼	4,632,667	▼
Avg Asking NNN Rent ($)	20.87	20.74	▲	20.72	▲
Inventory (SF)	406,443,003	405,856,190	▲	403,151,747	▲

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Market Overview

Vacancy Rate Inches Up Near The 5-Year Historical Average

With construction deliveries down and demand for space flat, the total vacancy rate remained relatively stable for the quarter, increasing 10 basis points from 5.3% to 5.4%. Over recent quarters, supply and demand have been in lockstep with one another, with most of the net absorption going into new construction deliveries. With the construction pipeline trending downward, the total vacancy rate is expected to remain stable in the near term.

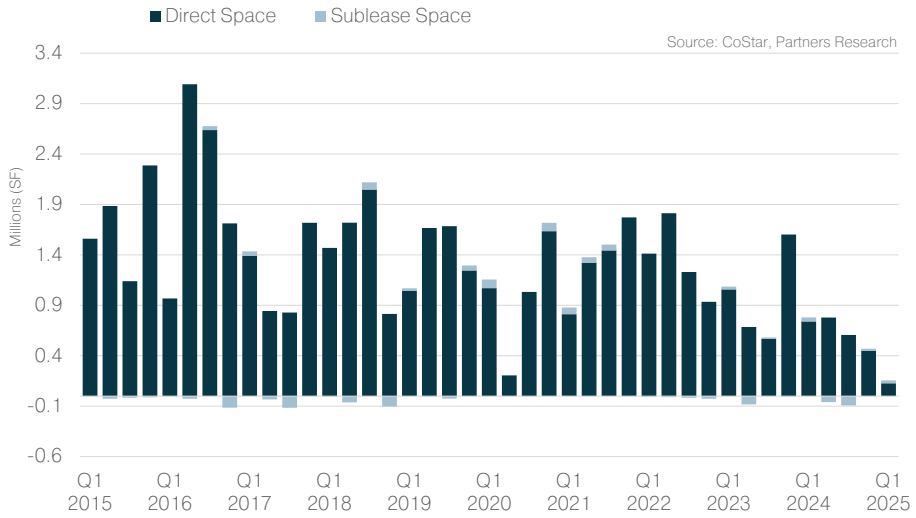
Demand Decreases Significantly Quarterly and Annually

Net absorption-move-ins minus move-outs—is at 155,610 sq. ft., down 66.9% from last quarter. Despite the decrease, annual net absorption was a healthy 1.8 million sq. ft. Net absorption has been consistently positive, not once dipping into negative territory over the past 10 years. Notable Early 2025 move-ins, dominated by grocery stores and fitness concepts, include several new H-E-B's moving into 128,000 sq. ft. in Bridgeland and 117,000 sq. ft. in Atascocita. Others include EOS Fitness (43,000 sq. ft. in Willowbrook Pavilion) and Elite Pickleball Club (40,000 sq. ft. at Bay Pointe Shopping Center).

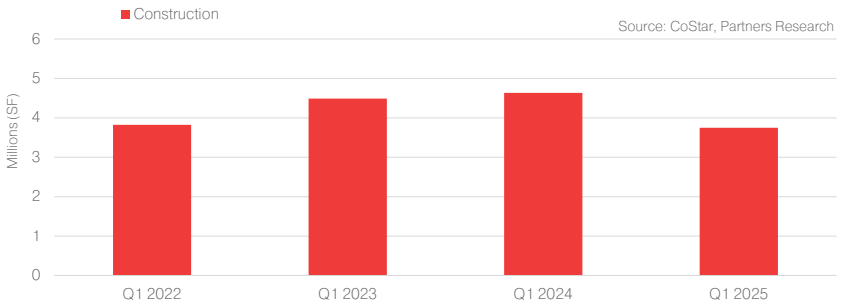
Leasing Activity Down

Leasing activity for Q1 2025 came in at 1.8 million sq. ft. This is a healthy number but was down 16.1% quarterly and 30.8% annually. Recently signed leases include Beauty Empire signing a 35,400 sq. ft. lease at 9520 Jones Rd. in Northwest Houston, Jumping World signing a 31,500 sq. ft. lease at Mount Houston Square, and Sprouts Farmer's Market signing a new lease for 25,000 sq. ft. in the newly renovated Main Street Kingwood.

Net Absorption



Construction | Year-Over-Year



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Market Overview

Deliveries and Construction Pipeline Decrease

Construction deliveries were down significantly for the quarter and the year, as new construction deliveries came in at 586,813 sq. ft. for Q4 2024. This is 29% below last quarter and 53% below deliveries in Q1 2024. The construction pipeline is at 3.7 million sq. ft., down 19% from the 4.6 million sq. ft. reported a year ago. Notable construction projects include The Manvel Town Center, a 748,800 sq. ft. retail center in the South Houston/Pearland area, the TMC Helix Park 138,000 sq. ft. retail component, and the 120,300 sq. ft. H-E-B anchored Jordan Crossing in Brookshire.

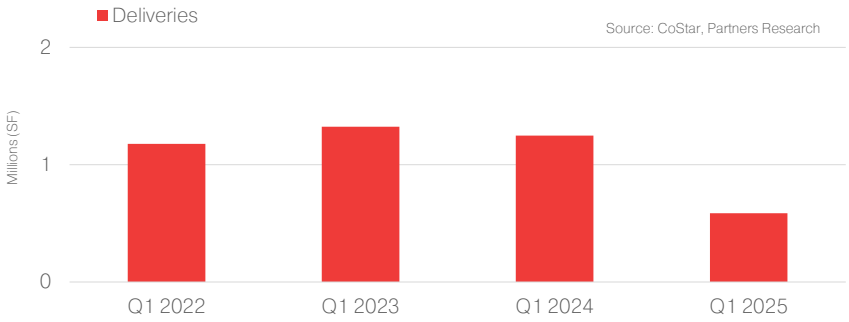
Investment Sales Trends

CoStar Capital Market Analytics reports the cumulative 12-month sales volume at $361 million in the Houston retail market. With 613 deals completed, the average transaction price currently stands at $228 per sq. ft., with an average cap rate of 6.9%. Notable sale transactions in early 2025 include the 75,313 sq. ft. Shoppes at Baytown, purchased by HG Capital Group for an undisclosed price. Also, Agree Realty Corporation purchased the 71,000 SF Academy Sports + Outdoors property in Fairfield Town Center.

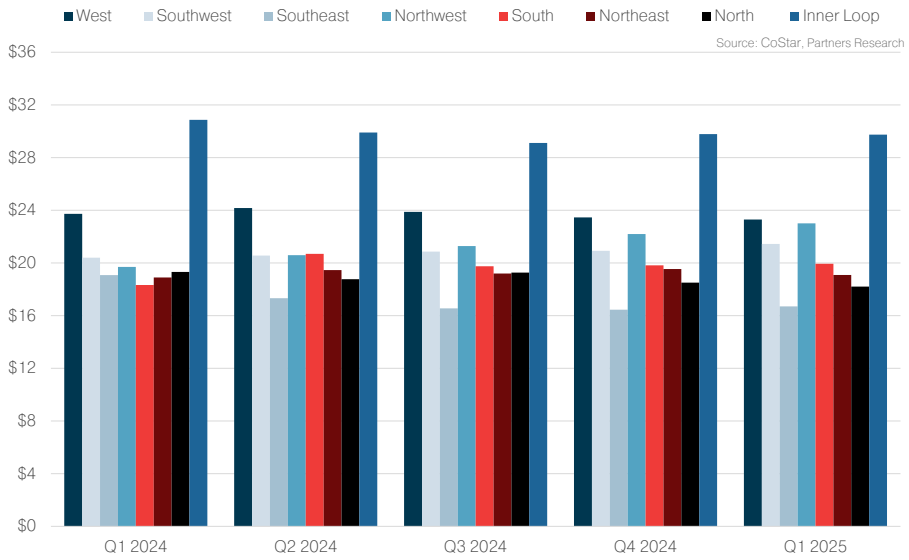
Rates Increase Slightly Over the Quarter and the Year

Low availability rates and rising retail sales have kept average asking rent in the Houston retail market near record highs—$20.87 per sq. ft. in Q1 2025. Year-over-year, the metro's average asking rent increased 0.7% from $20.72 per sq. ft. in Q1 2024. On a submarket level, the Inner Loop submarket continues to maintain the highest average rate at $29.74 per sq. ft. In contrast, the Southeast submarket had the lowest average rate at $16.70 per sq. ft. Asking rents are projected to remain on an upward trajectory, increasing about 1-2% annually over the next few years.

Deliveries



Overall Average Asking NNN Rents



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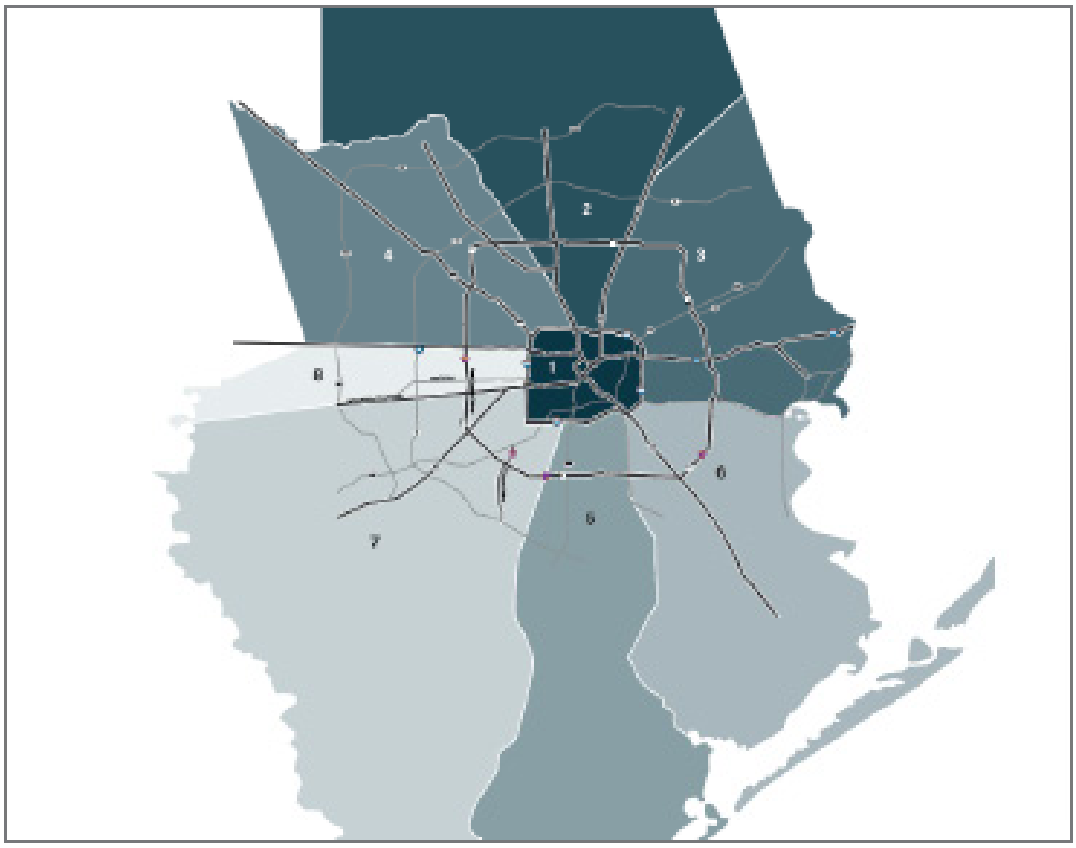
Market Overview
Submarket Stats

Submarket	Net Rentable Area	Q1 2025 Vacancy	Q4 2024 Vacancy	Q1 2025 Total Net Absorption	Q4 2024 Total Net Absorption	Q1 2025 Leasing Activity	Q1 2025 Deliveries	Under Construction	Total Avg Asking Rent NNN
	(SF)	(%)	(%)	(SF)	(SF)	(SF)	(SF)	(SF)	($/PSF)
Inner Loop	32,386,911	5.4	5.2	-45,392	-5,465	136,254	22,000	250,546	29.74
North	77,918,360	5.8	5.3	-253,364	220,200	314,199	150,072	428,017	18.20
Northeast	31,748,196	4.1	3.8	-44,151	49,276	166,303	68,100	353,655	19.09
Northwest	75,483,199	6.4	6.3	120,548	129,950	424,729	157,263	529,149	23.01
South	17,439,552	4.9	4.9	46,760	-14,825	65,313	39,920	933,852	19.94
Southeast	59,357,765	6.0	6.0	-1,642	-12,509	241,247	32,908	230,253	16.70
Southwest	64,901,425	4.6	5.0	331,779	197,633	267,138	58,049	560,745	21.44
West	47,207,595	4.6	4.5	1,072	-94,246	158,910	58,501	461,128	23.30
Houston Total	406,443,003	5.4	5.3	155,610	470,014	1,774,093	586,813	3,747,345	20.87

Market Overview

Houston Retail Submarkets



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

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Steve Triolet
SVP of Research and Market Forecasting
tel 214 223 4008

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

PARTNERSREALESTATE.COM