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# HOUSTON

## Houston Retail Market Continues to Perform in Face of Energy Industry Weakness

**HOUSTON** - Houston's retail market as of year-end 2015 maintained its healthy occupancy rate of just under 96 percent, largely due to a stable metro area economy, construction largely limited to space built for anchor stores and strong leasing in existing retail centers that continues to absorb market vacancies.

The retail market is benefitting from the continued strength of the Houston economy, which despite the loss of numerous energy-sector jobs, still reports an unemployment rate of only 4.9 percent as of November 2015, according to the Texas Workforce Commission. The rate is not much changed from 4.5 percent in January 2015, thanks to a metro area economy that has greatly diversified over the past three decades.

Due to the diverse job market, the oil price downturn that began in mid-2014 has had few negative effects on the retail market; however, the office market has been adversely affected due to its heavy concentration of energy firms, particularly in the Downtown and Energy Corridor submarkets.

The Weitzman Group and Cencor Realty Services review a Houston-area retail market inventory of approximately 152 million square feet in multi-tenant retail centers with 25,000 square feet or more.

For calendar year 2015, the Houston-area retail market added retail space in new and expanded projects totaling approximately 2,656,000 square feet. That represents an increase of nearly 1 million square feet over the 1.7 million square feet of new space that came online in 2014.

Even with the increase, the total remains relatively low for a huge retail market with high occupancy and notable retail demand.

**New projects in 2015 were dominated by grocery-anchored retail centers. These included:**

- **The Junction at Deer Park**, which opened its first phase – an 83,000-square-foot **H-E-B** grocery -

Key concepts backfill vacancies in 2015



at the northeast quadrant of Spencer Highway and East Boulevard in Deer Park. Future phases will add more than 400,000 square feet;

- **H-E-B Spring Creek Market**, a 96,000-square-foot grocery store located at 3540 Rayford Road in Spring, just south of The Woodlands;
- **H-E-B**, which opened a 91,000-square-foot store at San Felipe and Fountainview in the affluent Tanglewood community. In addition to the grocer, the center is designed with 30,000 feet of small-shop space as well as pad space;
- **Cypress Creek Plaza**, a retail center at the northeast corner of Fry Road and Tuckerton in Cypress, where anchor **H-E-B** opened a 100,000-square-foot store in September 2015. An additional 51,000 square feet is under way for a mid-2016 opening;
- **Joe V's Smart Shop**, a discount grocery concept from **H-E-B**, with a new-construction store totaling 57,000 square feet at Beltway 8 and Fuqua in Houston;
- **Yale Street Market**, an approximately 150,000-square-foot grocery-anchored center located at Yale Street and I-10, inside the Loop. The center is anchored by a 27,529-square-foot **Sprouts Farmers Market**, which opened in March. Other concepts include **LA Fitness**, **World Market** and others;
- **The Shops at Katy Reserve**, which opened its fully leased first phase of nearly 160,000 square feet at FM 1463 and Spring Creek Boulevard in Katy. The center is anchored by an approximately

123,000-square-foot **Kroger Marketplace**. Phase II delivery is set for mid-2016;

- **Whole Foods**, which opened a 46,532-square-foot store at 1407 South Voss Road for the relocation of its Woodway store;
- The 175,000-square-foot retail component of the mixed-use **Hughes Landing** development in The Woodlands. Anchor **Whole Foods** opened a 40,000-square-foot store in March, and other concepts in the retail space include **Truluck's**, **Del Frisco's Grille**, **California Pizza Kitchen**, **Local Pour**, **Starbucks**, **Pier 1 Imports**, **KB Kasuals** and others;
- A center at FM 518 and Cullen in Pearland anchored by a 28,000-square-foot **Sprouts Farmers Market**;
- **Trader Joe's**, which opened a 12,500-square-foot store in early 2015 in **LaCenterra at Cinco Ranch** in Katy;
- **Fry-529 Retail Center**, located at the southeast corner of North Fry Road and FM 529 in Cypress. The first phase of the center, with 115,000 square feet, features a 60,000-square-foot **Fiesta Mart** that opened in January;
- **Walmart**, which opened a 41,000-square-foot **Neighborhood Market** at 24919 Westheimer Parkway in Katy;
- **Walmart Neighborhood Market**, with a new 40,000-square-foot store that opened at 12631 Broadway Street in Pearland;

The H-E-B anchor in **The Junction at Deer Park** opened during the second half of 2015



- **Walmart Neighborhood Market**, with a new 41,000-square-foot store for the northeast corner of Barker Cypress Road and Longenbaugh Drive;
- **Chambers Town Center**, located at I-10 and Highway 146 in Baytown. The center, anchored by a **Walmart** that opened in 2014, has a new phase with tenants including **Showbiz Cinemas**, **Whataburger**, **Chick-fil-A** and others.

**Non-grocery-anchored retail for 2015 included:**

- The 285,000-square-foot open-air, lifestyle expansion of **Baybrook Mall**, which celebrated its grand opening in November; an additional 270,000 square feet of power retail will open as part of the mall's expansion in late 2016, according to the mall. The 2015 openings include a 42,000-square-foot **Star Cinema Grill** flagship, a 40,000-square-foot **Dave & Buster's**, more than 30 retailers and 10 new restaurants, including **Maggiano's**, **Perry's Steakhouse & Grille**, **Yard House** and **Kona Grill**. When the second phase is completed in 2016, the expansion brings the mall to a total of 1.7 million square feet;
- **The River Oaks District**, a high-end mixed-use project that held its grand opening this fall, unveiling a collection of luxury retailers and high-end restaurants, many new to the Houston market. The project, at 4444 Westheimer Road, is designed for approximately 250,000 square feet of retail space, along with other uses. Concepts include a 33,000-square-foot **Equinox** gym, the first in the

Houston area, as well as **iPic luxury cinema**, **Cartier**, **Dior**, **Hermès** and several other luxury purveyors. For the **River Oaks District**, existing buildings between two of the busiest streets in Houston were demolished to create a mega-complex with planned future phases;

- **The Market at Crenshaw**, a regional project located along Beltway 8 between Fairmont Parkway and Crenshaw Road in Pasadena. The first phase of the center incorporates approximately 169,000 square feet for a 55,000-square-foot **Burlington**, along with a number of smaller concepts. A second, 60,000-square-foot phase is in the works;
- **Nordstrom Rack**, with a 31,000-square-foot store at Baybrook Square at I-45 and West Bay Area Boulevard in Webster;
- **Costco**, with a 150,000-square-foot store in Pearland at the northwest corner of Highway 288 and CR 59;
- **Burlington**, with a 60,000-square-foot Houston store at 9751 South Post Oak Road in **Meyer Park** shopping center;
- **Academy**, with a 63,000-square-foot store in Missouri City and a 72,000-square-foot store in Cypress;
- **Gallery Furniture**, a 165,000-square-foot furniture store located in **The Market at Long Meadows Farm** on the Grand Parkway in Richmond. The store also features a restaurant and a bar, as well as other attractions;
- **The Shops at Boulder Creek**, located at Beltway 8 and Pearland Parkway, which is anchored by an

**Woodshore Marketplace**, a Kroger Marketplace-anchored center in Clute, is set for a 2016 opening.





approximately 42,000-square-foot **Studio Movie Grill**;

- **Costco**, with a 153,000-square-foot store at the northeast corner of Highway 242 and I-45 in The Woodlands;
- **Grand Crossing**, a center anchored by a **Costco** that opened in 2014, where small-shop space was added for tenants including **Mattress Firm**, **Sleep Number**, **T-Mobile** and others. **Grand Crossing** is located at I-10 and Grand Parkway in Katy.

The market is also seeing strong demand for space in existing centers.

#### Leasing highlights included:

- **H-E-B**, which demolished a long-vacant, 87,000-square-foot former **Kmart** for a new 62,000-square-foot grocery store at Highway 146 near Palmer Highway in Texas City;
- **Academy**, with a 63,000-square-foot store at 1461 Spring Cypress and I-45, which represents the redevelopment of a former **Kroger** location;
- **H&M**, which opened a 28,000-square-foot store in **Pearland Town Center** and a 20,000-square-foot store in **CityCentre**, a mixed-use development located near the intersection of I-10 and Beltway 8.

The market is also seeing an incredible level of restaurant activity, largely from small chains or regional players like **Texas de Brazil**, which opened in late 2015 in **First Colony Mall** in Sugar Land; **Mellow Mushroom**, at 28th and Shepherd in the Heights; **Cane Rosso** at 19th and Shepherd; **Fuzzy's Taco Shop** at Kuykendahl and Highway 290; and **PDQ** at I-10 and Spring Cypress.

#### Many of the new restaurants are concepts that are entering the Houston market. These include:

- **Roka Akor**, a high-end Japanese steak, sushi and seafood restaurant that will open in the **2929 Wesleyan** luxury residential tower in the River Oaks area in Houston in mid-2016;
- **Tacodeli**, a favorite out of Austin, which is entering the market in 2016;
- **Velvet Taco**, a small chain out of Dallas, which will open on Washington Avenue;
- **Slim Chickens**, which is under way with its first area location at Grand Parkway and I-10.

For 2016 or later, several retail projects are already in the works. These again are dominated by grocery-anchored retail, including:

- **Woodshore Marketplace**, a community retail center at the southwest corner of Oyster Creek Drive and Dixie Drive in Clute, with a 123,000-square-foot **Kroger Marketplace** anchor and an additional 16,450 square feet of shop space. The center is scheduled to open in 2016;
- **Yale Marketplace**, to be anchored by one of the country's first locations for **Whole Foods** new value-shopping concept, **365 by Whole Foods Market**; the grocery store is to open at I-610 and

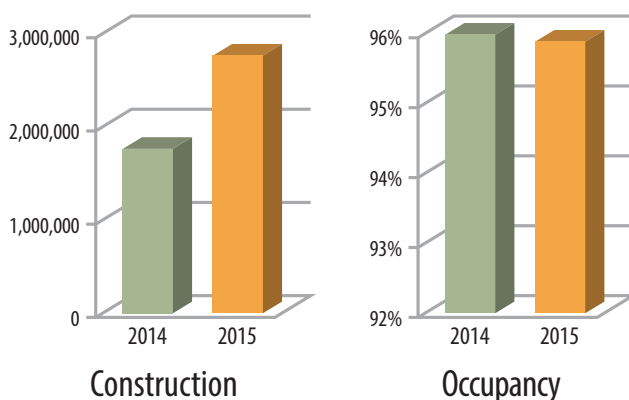


Roka Akor, a high-end restaurant, will open its first Houston location in the street-level retail space in luxury residential tower **2929 Wesleyan**.

- Yale near the close-in Heights area in late 2016;
- **Clear Lake Marketplace**, anchored by **H-E-B**, set to open in 2016 on Clear Lake City Boulevard at El Dorado Boulevard;
  - **Main Street Kingwood**, a center at West Lake Houston Parkway at Kingwood Drive, to be anchored by **H-E-B** grocery. The center also features a number of restaurants;
  - A **Walmart Supercenter**-anchored project at FM 1093 and FM 1463 in Katy. The **Walmart** is set to open in fall 2016;
  - A **Walmart Neighborhood Market**, with an early 2016 opening at FM 518 West and Landing Boulevard in League City. The **Walmart**, a smaller grocery concept from the retail giant, anchors **The Shoppes at Landing**, where a second phase will open by mid-year 2016 with 16,200 square feet;
  - **Trader Joe's**, which will open in **Royal Oaks**, a center anchored by **Kohl's**;
  - **H-E-B**, with a store set to open in the second half of 2016 at Tamina Road and FM 1488 in Magnolia;
  - **Magnolia Commons**, a mixed-use project planned for a 2017 opening at FM 1488 near FM 149. The retail will be anchored by **H-E-B**;
  - **Marketplace at Ninety-Six**, a community center anchored by **Kroger Marketplace** at the intersection of League City Parkway and Hobbs Road in League City. In addition to the 123,000-square-foot **Kroger**, the center will open

- in fall 2016 with an additional 25,900 square feet of space;
- **Miramesa Town Center**, a **Walmart**-anchored center at Fry and West in Northwest Houston. The center will also include a 45,000-square-foot **Star Cinema Grill**;
- A **Kroger Marketplace**-anchored community center, to total approximately 170,000 square feet, set to open in the first half of 2016 at Garth Road and Hunter Road in Baytown;
- **Star Cinema Grill**, with a 42,000-square-foot multi-screen cinema near the intersection of the Westpark Tollway and Grand Parkway in Katy;
- **Cabela's**, with a 72,000-square-foot store at I-45 and Big League Dreams Parkway. The location will be the first in the Houston area for outdoors superstore **Cabela's** and is set to open in the first half of 2016;
- **Stableside at Falcon Landing**, a center planned for a late 2016 or early 2017 opening at the northwest corner of Gaston Road and Falcon Landing Boulevard in Katy. The center will be anchored by a 102,473-square-foot **Kroger** and is designed for a cinema and shop space;
- A retail project with **Kroger** and **Sam's Club** at Grand Parkway and Boudreaux set to open in late 2016;
- **Fairfield Marketplace**, a community center with **Kroger Marketplace** and approximately 30,000 square feet of shop space in the master-planned Fairfield community in Cypress;
- **Valley Ranch Town Center**, a project designed for up to 1.8 million square feet of retail and entertainment space anchored by **Kroger Marketplace** located at U.S. 59 North at Grand Parkway in Porter (Montgomery County). The center's first phase is on track to open by early 2017;
- New **Kroger** stores set to open in 2017 at Grand Parkway and Morton, at Loop 336 and I-45 and at Grand Parkway and Holzworth.

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Other retail projects include power, mall and discount retail, as well as the market's first new **Target** store in years.

**These projects include:**

- The expansion and renovation of leading mall **The Galleria**, which is adding new retail space and a newly renovated 198,000-square-foot **Saks** store opening in 2016 adjacent to its existing store. The **Saks'** relocation creates 110,000 square feet that is being subdivided for restaurants and retail space. The expansion will include a small "jewel box" building;
- **The Shoppes at Parkwest**, a power center at the northeast corner of I-10 and Katy Ford Bend Road, near **Katy Mills Mall**. The first phase will feature **Bed Bath & Beyond**, **Buy Buy Baby** and others;
- **Grand Parkway Marketplace**, a power center designed to have 400,000 square feet, which is planned for the intersection of Spring Stuebner Road and Kuykendahl Road in The Woodlands area. The center is slated to open in late 2016 or early 2017 and will be anchored by the first new Houston-area **Target** store in years;
- Cinemas, including a **Cinemark** on Beltway 8, an **Alamo Drafthouse Cinema** in the **Imperial Market** mixed-use redevelopment in Sugar Land and a **Flix Brewhouse** at **The Crossing at Telfair**. The cinemas have opening dates of 2016 and 2017;
- A 150,000-square-foot **Costco**, set to open in the first half of 2016 at Townsen Boulevard and I-69/Highway 59 in Humble. The store is the warehouse-club retailer's eighth in the Houston area;
- **Mid-Main**, a mixed-use project in Midtown Houston, which will open in 2016 with approximately 29,000 square feet of retail, in addition to multi-family space;
- **CityPlace**, a north Houston mixed-use project on I-45 at Grand Parkway near the new ExxonMobil corporate campus. **CityPlace** is designed to have 400,000 square feet of retail upon completion;

- New **Dick's Sporting Goods** stores, set to open at locations including **Baybrook Mall**, **Deerbook Mall**, **First Colony Mall**, **The Woodlands Mall** and **Willowbrook Mall**. The stores are the chain's first in the Houston market;
- A new **H-E-B**-anchored center, planned to incorporate 285,000 square feet of retail space, slated for a 2018 opening at the northwest corner of IH-10 and Eagle Drive in Mont Belvieu.

In terms of rent, the Houston retail market is seeing average quoted rents remain steady and show slight increases over the levels they reached in 2014.

Demand for the Class A space, however, can result in small-shop rates in the best-located and newly constructed projects going as high \$50 to \$60 per square foot per year in select areas like Galleria, River Oaks and Midtown.

**For small-shop in-line space in well-located, anchored projects:**

- Class A rates ranged from \$30 to the high \$30s on a per-square-foot-per-year basis, with rates for quality space inside the Loop typically rising above \$40 per square foot or more.
- Class B small-shop-space average rates are posted from the low to the high \$20-per-square-foot-per-year range.
- Class C small-shop rates typically averaged in the \$15- to \$20-per-square-foot-per-year range.

These rates are average small-shop asking rates, and rates at specific centers can be notably higher or lower depending on location, anchors, type of tenant, specific-space sizes and demographics.

For 2016, the retail market will proceed with caution as it watches the energy sector performance, but we expect to see 2016 on a strong note.

# HOUSTON MALL MAP

