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Get ready for more retail this year Space to swell by 5 million feet, study says, despite housing slowdown

By **NANCY SARNOFF**
Houston Chronicle

If you didn't think Houston had enough banks, drug-stores and strip centers, not to worry. More are coming.

Retailers are expected to add more than 5 million square feet of new space to the Houston area this year, according to projections by Ed Wulfe, president of Wulfe & Co., a retail brokerage and development firm. That's a 24 percent increase over the 4.1 million square feet that opened last year.

"In view of this economy and marketplace, it pretty well reflects the vibrancy of Houston," Wulfe said, touting the area's increase in jobs relative to other parts of the country.

But a national housing slowdown that crept into the Houston area last year could have an impact on future retail growth.

Houston-area home building was down 24 percent last year and is expected to be off by about 11 percent this year, according to housing analyst Metrostudy.

Many of the stores scheduled to open in Houston in the coming months were already in the pipeline before the housing market began to weaken.

"Rooftops make retail, so

I think the lack of development in the outskirts of town is going to have an effect on retail development," said Carlos Bujosa, a real estate broker with McDade, Smith, Gould, Johnston, Mason + Co.

Some parts of town are already showing softness, with strip centers waiting for tenants, retail experts said.

Still, those weak spots won't affect Houston's overall retail health, said George Cushing, senior vice president of Grubb & Ellis in Houston.

"It's a footnote to the serious development taking place," he said. "I think the fundamentals of real estate are really in remarkably good shape."

Much of the new space to be developed this year will be in places like Conroe, Cypress, Katy, Pearland, League City, Sugar Land and Rosenberg.

At the end of 2007, multi-tenant retail occupancy was in the mid-80 percent range, according to O'Connor & Associates.

Much of the space will be developed, constructed and/or owned by the retailers themselves.

More than a quarter of it will house discount stores like Wal-Mart, Target and Costco, which combined are expected to open eight stores

and expand one this year, Wulfe said.

Health clubs, supermarkets, home improvement outlets and other retailers, including Ross, Marshall's and Best Buy, will make up about half of the space.

And the remainder will be so-called "spec space," or space that's not yet leased. Wulfe calls that amount prudent.

In the supermarket sector, Kroger and H-E-B will expand this year, but Wal-Mart has recently gained the largest share of the grocery market in Houston, Wulfe said.

Furniture retailer Rooms To Go will open four new stores this year, and Ashley's, which entered the market last year, will open its fourth location.

The biggest project to open this year will be Chelsea Properties' 430,000-square-foot Houston Premium Outlets on U.S. 290 in Cypress, Wulfe said.

The proliferation of banks will also continue.

Last year, 107 bank offices opened in the area and 71 are projected to open this year, said Wulfe, citing SNL Financial, a research firm.

Wulfe estimates that several hundred thousand square feet of small strip centers, banks and drug-stores will go up this year,

but he doesn't include them in his projections because they're hard to track.

Were it not for some eight mixed-use projects planned or under construction in the area, next year might not be as strong as 2008.

Wulfe is building one of those projects on Post Oak Boulevard.

The development, called BLVD Place, is under construction with a section of retail space to open by the end of this year. A Whole Foods — expected to open at the end of 2010 — will anchor the project, which also includes high-rise residential, office space and a hotel.

NEW CONSTRUCTION

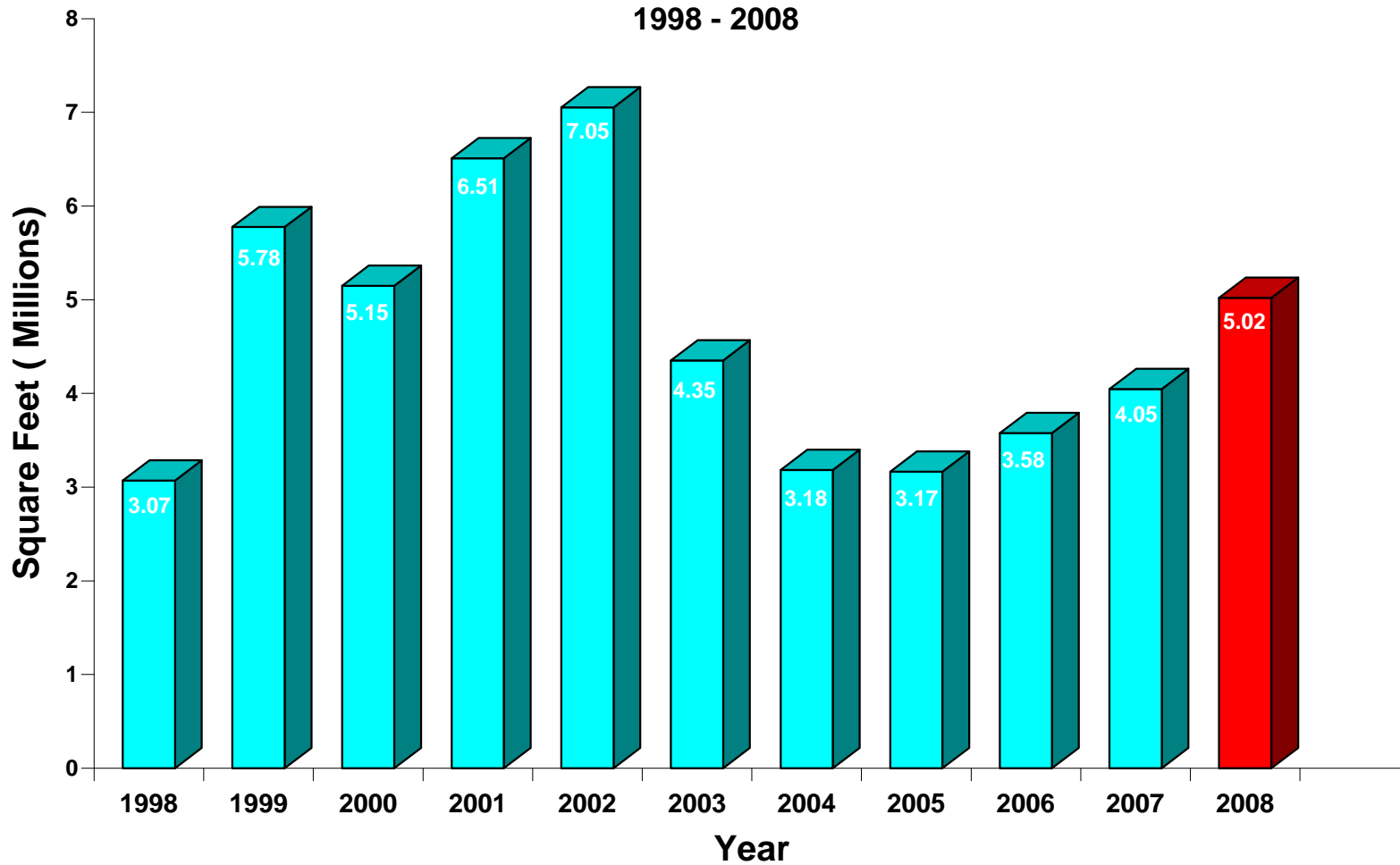
Wulfe & Co. expects to see more than 5 million square feet of retail space built and opened in the Houston area this year. How that space will be divided:

- **Speculative:** 28 percent
- **Discount stores:** 27 percent
- **Other anchors:** 22 percent
- **Supermarkets:** 9 percent
- **Health clubs:** 8 percent
- **Home improvement:** 6 percent

Source: Wulfe & Co.



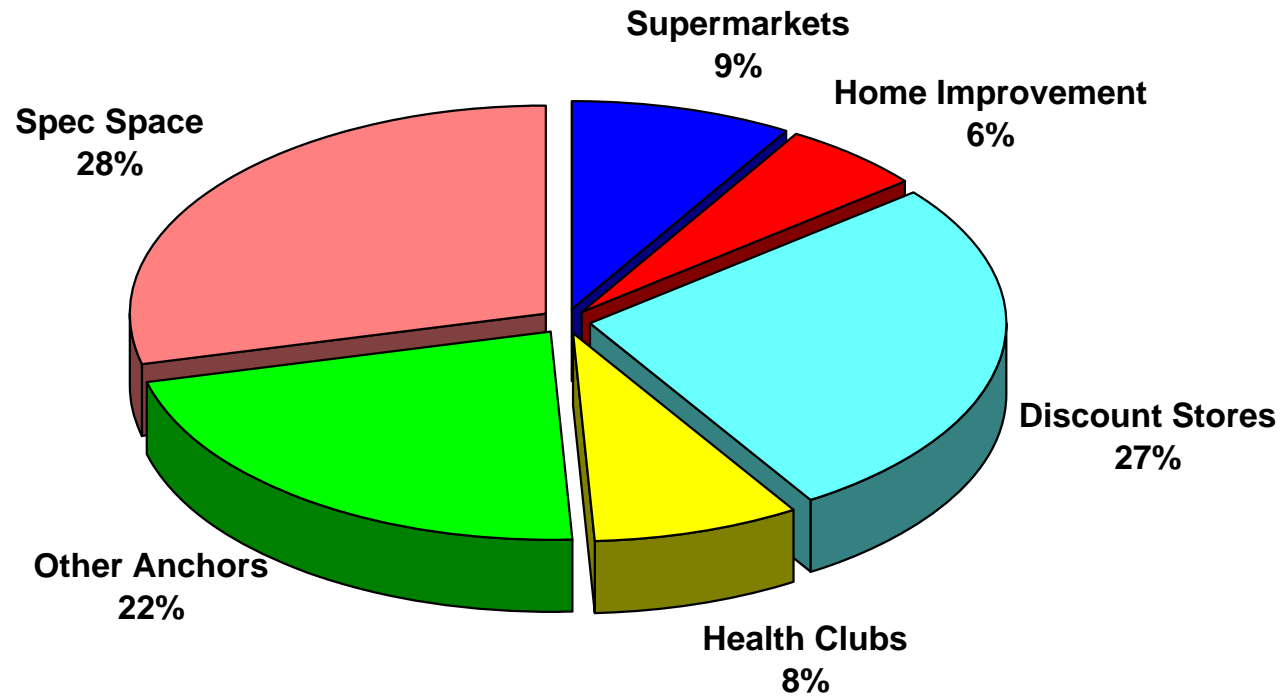
Greater Houston Retail Construction 1998 - 2008



 Wulfe & Co. 2008 Projections (24% increase over 2007)



**Greater Houston Retail Forecast
5.02 Million Square Feet of Retail Space
to be Built and Opened in 2008**



Prepared By:



Research Department