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23% DECREASE IN RETAIL DEVELOPMENT PROJECTED

Wulfe & Co.’s 25th Annual Retail Survey projects 3.3 million square feet of new retail shopping center space will be built and opened in the greater Houston area in 2018. This represents a more typical year for Houston’s new retail real estate market projections compared to the very active 2016 and 2017 construction levels which averaged 4.4 million square feet each year, according to Ed Wulfe, Chairman & CEO, of Wulfe & Co., a Houston-based retail real estate brokerage, development and property management firm. “This year’s square footage projection is realistic and appropriate when considering that the square foot average over the previous ten years was 3.0 million per year”, Wulfe added.

Other factors contributed to the projected tapering off of new retail construction in 2018 including the impact of Hurricane Harvey which pushed completion of construction on several projects into 2019. Also during 2017, many major retail chain stores focused on improving the integration of their ecommerce business into their overall retail marketing efforts to improve both their online business and store sales, and they succeeded.

Many of the discount stores, supermarkets and general merchandise stores converted certain areas of existing store space into distribution center areas to most efficiently provide pick-up and delivery of merchandise ordered online.

In 2018, retailers, large and small, will continue to successfully integrate physical and digital operations as consumers broaden their shopping experiences to online markets. Today, almost all major retailers have augmented their physical store operation with online shopping as they strive to offer customers a seamless physical and digital shopping experience.

The retail development activity projected for 2018 for the greater Houston area offsets the aggressive expansion of retailers to serve the extensive suburban growth created by the single-family and multi-family housing booms of recent years particularly along the Grand Parkway. This growth will continue as recently projected by Metrostudy with their five percent increase of 28,500 new single-family home sales in 2018 and Apartment Data Service's prediction of 7 - 8,000 new multi-family units to open in 2018.

Many of the new retail developments for the coming year are either already under construction, have fully executed leases with national chain stores, or are being self-developed by retailers such as supermarkets who will either own or lease the properties with only an estimated 20% devoted to spec space.

HEB will dominate new retail construction and represent 16% of 2018's projected growth with six new stores planned. Kroger will open two of their 100,000 SF plus prototype stores. Recent newcomer, ALDI, will add ten of their smaller 19,000 SF stores to the Houston market and Sprouts will open one of their neighborhood supermarkets. In addition, H-Mart, a 54-store national chain of Asian supermarkets, will open their third Houston store containing approximately 50,000 SF in Katy.

According to supermarket market share figures from The Shelby Report's East Texas/La. Division, HEB is number one in the grocery market with its 91 stores and 26.6% share; Walmart has 101 stores and a 25.1% share; and Kroger, with its 112 stores, has a 22.5% share in the very competitive environment.

Costco will open one new 150,000 SF store, and there will be one new home improvement center by Lowes and one by Home Depot. Most significantly, there will be six new theaters and four new LA Fitness facilities. Pinstripe will open a 34,000 SF bowling/restaurant concept. Neither Walmart nor Target discount stores will open a store in 2018.

“Even with the new retail space, overall retail occupancy in Houston will continue strong and approach an all-time high rate of an estimated 95%. Retail rental rates will increase slightly in response to the limited availability of shopping center space, higher land and development costs and estimated increases in interest rates. With the area’s continued growth along with the expansion needs of both established and new-to-market retailers, the competition for available space in well located, retail developments, is intense in spite of the higher rental rates,” Wulfe stated.

Another ever growing challenge facing the shopping center industry today is the need to re-tenant and or recycle closed store space. A hard look must be taken at the future of marginal regional malls due to the loss of certain anchor department stores and the closing of a number of mall-focused national chain retailers. Innovation in tenant mix, reconfiguration of buildings and space, continuous refurbishing of properties, and adaptation of alternative uses is necessary to keep existing retail space relevant now and into the future.

Houston’s retail market has been able to continue its growth and vibrancy even with the slowdown in its energy sector reporting the sixth lowest cost of living among the nation’s twenty most populous metropolitan areas. “Our diversified economy is resilient and will be augmented by a continued growth in employment, with an estimated 45,000 to 70,000 new jobs to be created in 2018, assuming the price of oil remains relatively stable. Houston’s unemployment rate currently is low at 4.3%,” Wulfe stated.

As in the past few years, another inherent part of the retail real estate growth is the aggressive growth of new national, regional, and local restaurant operations of all types and sizes. Houston has gained national and international recognition for its many outstanding new, innovative and creative food venues. Houston restaurant concepts and chefs have been featured in many national and international articles for their creativity and skill in their new concepts today more than in the past. From casual dining to upscale specialty dining, the restaurants generate traffic, create energy and bring life to a project and play an ever-increasing role in its success and vitality.

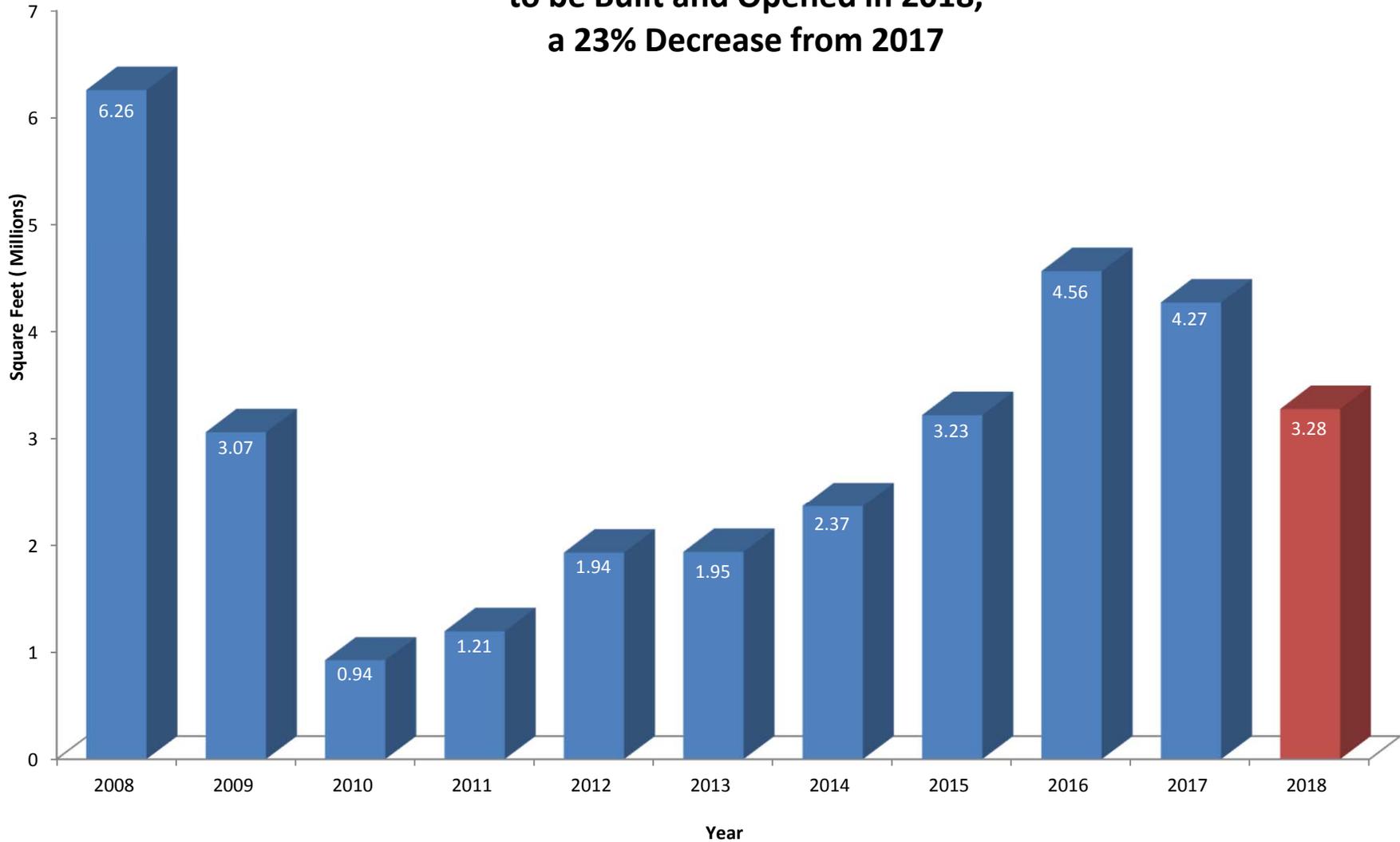
Another noticeable trend throughout the Houston area is the expansion of the healthcare industry to more convenient, accessible, and less expensive retail sites. The locations include

suburban hospitals, urgent care centers, clinics, outpatient facilities and professional offices. The healthcare industry is making a concerted effort to deliver their services directly to the consumer where they live or work to capitalize on the benefits of a retail location with its abundant and convenient parking and accessibility.

Wulfe & Co. is a commercial real estate firm specializing in the retail real estate marketplace, and has now produced this annual retail survey of Houston's retail market for twenty-five years. The firm is active in shopping center leasing, sales, development, property management, and consulting, and enjoys long-term relationships with local, regional, and national retailers, developers, owners, and financial institutions.



**Greater Houston Retail Forecast
3.3 Million Square Feet of Retail Space
to be Built and Opened in 2018,
a 23% Decrease from 2017**



 Wulfe & Co. 2018 Projection
-23% decrease from 2017

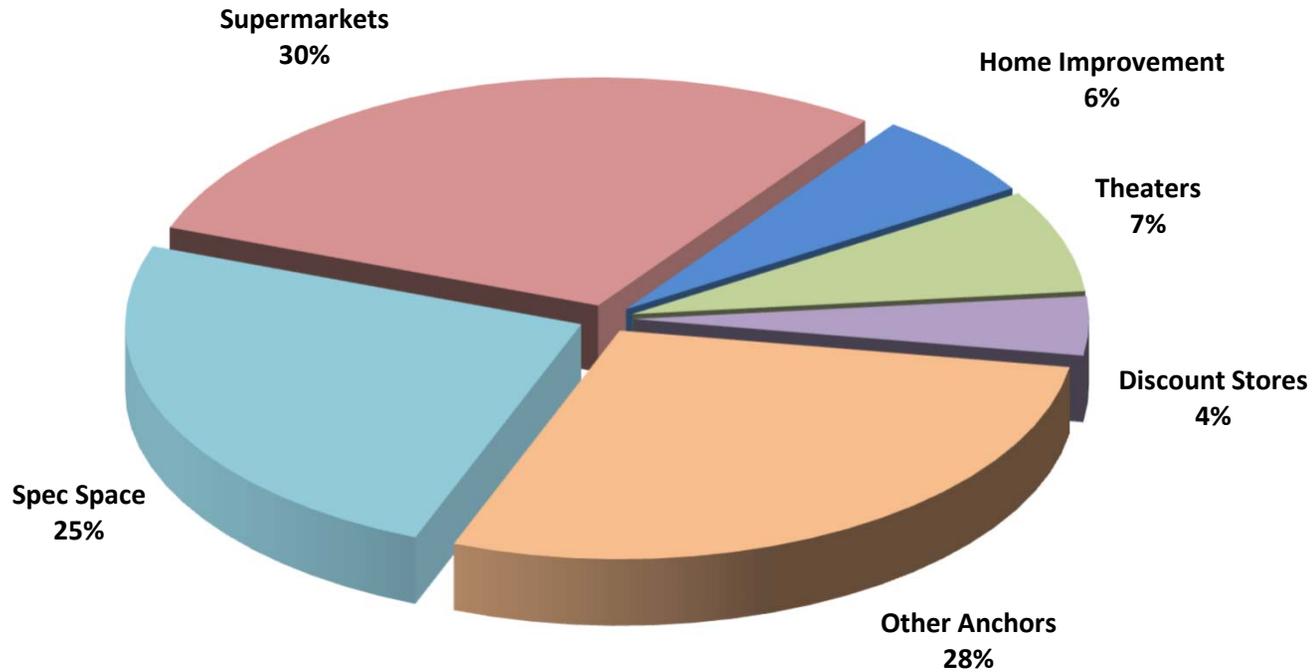
Prepared By:



Research Department



Greater Houston Retail Forecast By Category
3.3 Million Square Feet of Retail Space
to be Built and Opened in 2018



Prepared By:
WULFE & Co.

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