

Retail development boom tapering off

By Paul Takahashi

Houston retail construction is tapering off as the rising popularity of online shopping gives developers some pause.

An estimated 3.3 million square feet of new shopping centers are slated for completion across the Houston area this year, down 23 percent from last year, according to Wulfe & Co.'s annual retail survey. The Houston-based commercial real estate firm has conducted surveys of local retailers, developers and brokers for the past 25 years.

Wulfe's projection represents a marked decline from the construction frenzy of the past two years, when retailers built 11 major shopping centers along newly opened sections of the Grand Parkway. However, the forecast is still in line with Houston's historical average of 3 million square feet of new retail construction annually over the past decade.

As chairman and CEO Ed Wulfe put it, "3.3 million square feet is still significant."

Wulfe attributed some of the slowdown to Hurricane Harvey, which pushed the construction timeline on several retail projects into 2019. For example, Morgan's Pearl-branded apartment complex with a 40,000-square-foot Whole Foods Market on the ground floor



Stig Peterson, from right, grandson of Scott McClelland, HEB president of food and drug, plays with a shovel while his grandfather talks to Lisa Helfman, HEB director of real estate, and Armando Perez, senior vice president of HEB Houston, during a groundbreaking ceremony for a new HEB location in the Heights neighborhood.

was on track to open this year, but the construction project was pushed back to 2019 due to storm flooding.

Retailers and developers also are increasingly cautious about building new shopping centers with the continued rise of e-commerce, which has contributed to the shuttering of malls and big-box stores around the country.

Walmart and Target have no plans to open a Houston store in 2018, and just 20 percent of new retail projects under construction is speculative, Wulfe said. Many retail projects under construction are pre-leased or self-developed, he

added.

"Developers are showing some restraint," said Jason Baker of retail brokerage Baker Katz. "There's a lot of change happening in the retail sector right now that is causing lenders, retailers and developers to move forward more cautiously than in the past."

Some retailers are renovating to attract customers. In November, Target opened its first "next generation" store in Richmond, southwest of Houston, that has two sides: one for leisure shoppers looking for an experience, and the other for busy families looking for grab-and-go items.



Many retailers, such as Kroger, are converting a portion of existing stores into mini distribution centers to accommodate pickup and delivery of purchases made online.

“The consumer wants to shop in the easiest, fastest and most cost-effective way possible,” Wulfe said.

H-E-B is both adapting to e-commerce and building more brick-and-mortar stores.

The San Antonio-based grocer is offering its curbside pickup and home delivery service at about half of its 85 local stores, and plans to expand it to more locations.

However, H-E-B still sees a place for brick-and-mortar supermarkets, president Scott McClelland said, and plans to open six Houston-area stores in 2018 totalling nearly 550,000 square feet. The company is venturing into urban neighborhoods, such as the Heights and Bellaire, and those on the east side of town, such as Mont Belvieu.

McClelland said his company is accelerating openings to keep up with Houston’s growing population. An estimated 28,500 new single-family homes and 8,000 new apartment units are expected to be built in 2018, housing research firms Metrostudy and Apartment-Data.com report.

“People are continuing to build houses and the city is continuing to grow,” McClelland said. “We’re not going to sit pat with the number of stores we have.”

Other retailers are moving forward with new stores this year, according to Wulfe’s report.

German grocer Aldi will open 10 stores,

Kroger will open two stores and Korean supermarket chain H-Mart and organic grocer Sprouts Farmers Market each will open one store. So will Costco, Home Depot and Lowe’s. There will also be six new movie theaters and four new LA Fitness facilities.

“There is an abundance of retailers who want to expand their market share in Houston,” Wulfe said. “Houston is still one of the most competitive retail markets in the country.”

Although new retail construction is tapering off, there is plenty of work for developers looking to renovate and reopen vacant stores, Wulfe said. Major brands, such as Sam’s Club, Sears and Toys “R” Us, have recently announced hundreds of store closures as customers have migrated toward online shopping.

Most of the vacant space has been absorbed by new-to-Houston retailers such as Total Wine & More, Wulfe said. The average retail occupancy rate across Houston is a healthy 95 percent, he added.

But owners will have to think creatively to convert some of the vacant space into other uses, such as apartments and condos, co-working spaces, medical offices, fitness centers, storage units and

higher education, Wulfe said.

“Retailers today have to be adaptable and innovative to serve this market,” he said. “You can’t keep showing the same movie. You have to change.”

Coming in 2018

Retail construction is forecast to drop in the Houston area following two record years, but the 3.3 million square feet expected to be built and opened in 2018 would be in line with historical standards. These major retailers are among those opening stores here this year:

H-E-B: 6 stores totaling 550,000 square feet

Kroger: 2 stores averaging 100,000 square feet

Aldi: 10 stores averaging 19,000 square feet

Costco: 1 store, 150,000 square feet

H-Mart: 1 store, 50,000 square feet

Sprouts: 1 store, 35,000 square feet

Home Depot: 1 store, 130,000 square feet

Lowe’s: 1 store, 111,000 square feet

LA Fitness: 4 gyms, between 35,000 and 50,000 square feet each

Movie theaters: 2 Xscape Theaters, 1 Star Cinema Grill, 1 Cinemark Theatres, 1 AMC Theatres, and 1 Alamo Drafthouse Cinema

Pinstripe: Bowling and restaurant concept, 34,000 square feet

Source: Wulfe & Co. 25th Annual Retail Survey