RETAIL REAL ESTATE HOT IN HOUSTON

HOUSTON – Retail is hot in Houston. The occupancy rate is projected to hit an all-time high in 2014 and construction has re-ignited.

An influx of new residents and a housing boom has awakened shopping center developers in Houston as new stores, restaurants and mixed-use projects pop up near new rooftops.

A survey by Wulfe & Co. says 2.6 million square feet of new retail space will be coming online in Houston in 2014, an increase of 34 percent over 2013.

Of course, construction in 2014 will still be far below 2008, when over 6 million square feet was built. But retail development has been deep in the doldrums for severa years. Almost no new construction occurred in 2010 and 2011.

“Over 19,000 new multi-family residential projects are projected for 2014, which far exceeds annual production in any of the past several years as Houston continues to densify,” says Ed Wulfe of Wulfe & Co. “Many are mid-rise and high-rise projects within the urban core and all support and justify additional retail to supply the increasing need for goods and services of our larger and growing population in those markets.

Houston added 82,000 new jobs over the last 12 months and the city is projected to add 70,000 jobs in 2014.

“With Houston leading the state in job growth and the significant residential activity underway, Houston’s retail sector will achieve 93% occupancy, which is an all-time high level,” Wulfe said. “Vacant space is being quickly absorbed and along with minimal new construction the past few years rental rates are steadily increasing in all types and sizes of retail projects as we move from a tenant’s to a landlord’s market.”

Some retail properties have increased in value more than 20 percent in 2013, compared to 2013, said Matthew Deal, principal at Deal Sikes & Associates, a Houston-based valuation firm.

“The residential market has improved significantly in recent years and that has increased the demand for shopping center space to serve the growing population,” Deal said. “Construction of new retail space has been very modest over the last three or four years. This imbalance in supply and demand has been pushing up the values of existing retail-oriented real estate.”

Wulfe said the investment sale of retail properties has slowed with limitations on the numbers of available properties because the supply of product is rapidly diminishing and creating a seller’s market at low cap rates.

Ever increasing land and construction costs continue to challenge retail development, but with the more prevalent availability of financing and low interest rates to mitigate the higher costs, 2014 should experience pace setting activity to meet the demand for space.

Supermarkets will dominate new retail construction and represent almost 50% of 2014's growth with 28 new stores planned. HEB will open five, Kroger will open three and expand one, Whole Foods will complete four, Trader Joe's and Fresh Market will each add two, Fiesta and Sprouts will each open one and newcomer Aldi's will add ten of their 17,500 sf stores to our market.

According to the Shelby report, Walmart with its 83 stores has 25.5% of greater Houston's grocery market; Kroger with its 108 stores has 23.7% and HEB with its 79 stores has 22.7%.

Wulfe & Co.'s Annual Survey showed that in 2014, large discount stores will continue to expand with two new Walmart superstores planned; one new Costco and one new Sam's Club, all with large food components.

Significantly, almost all of the new shopping center space included in Wulfe's 2014 Survey is preleased with only 10-15% devoted to speculative space.

"With a metro Houston area population of 6.3 million today and projections for continued growth to 7 million by 2020, we have seen our multi-dimensional economy achieve one of the nation's lowest unemployment rates at 5.5%," Wulfe said. "Houston's well known and highly appealing lower costs of living warrants further acknowledgement as one of the strongest and leading growth markets in the United States and further supports continued expansion of its retail marketplace."

Wulfe said another restaurant retail real estate trend that is gaining momentum is the concentration of multiple food concepts clustered together in one development or area, such as is found in the recently developed WestAve, City Centre, Memorial Gateway and BLVD Place mixed-use complexes where they are integrated into the projects. Another example is Johnny Carrabba's three totally unique concepts on Kirby Drive and Hanover's University Village mid-rise apartment project with three completely different operations, Wulfe added.

The evolution of e-commerce continues to grow, but only amounts to about six percent of total retail sales. Online capability is often used to identify and select merchandise and for comparison shopping but in many cases the merchandise is actually purchased in the stores and complements the stores' sales and vitality. Today almost all sophisticated retailers have implemented their own online capabilities as part of their merchandising operation and capitalize on the inherent features and advantages of each, Wulfe said.

However, other retail experts highlight the cyber retail threat. A recent report by Greg Leisch, CEO of Delta Associates, a research affiliate of Transwestern said: Many stores are unable to compete with the growing amount of e-commerce sales, which are on the rise and expected to reach $434 billion by 2017.

During 2013, big names like Barnes & Noble, Sears and Best Buy reported closing retail stores due to an increase in e-commerce, Leisch said. Some of these retailers, such as Best Buy, Target and Walmart, are reducing floor plates in order to fit in high-demand urban areas. Retailers are finding the growing population of young shoppers in the urban core is a market worthy of tapping, and they are becoming more willing to change store structure in order to compete. Notably, Walmart created an urban format which opened in the District of Columbia in 2013. Big box stores are figuring out how to transform into an urban concept and still be successful, Leisch said.