

RESEARCH & FORECAST REPORT



Houston's Retail Market Occupancy Continues to Strengthen

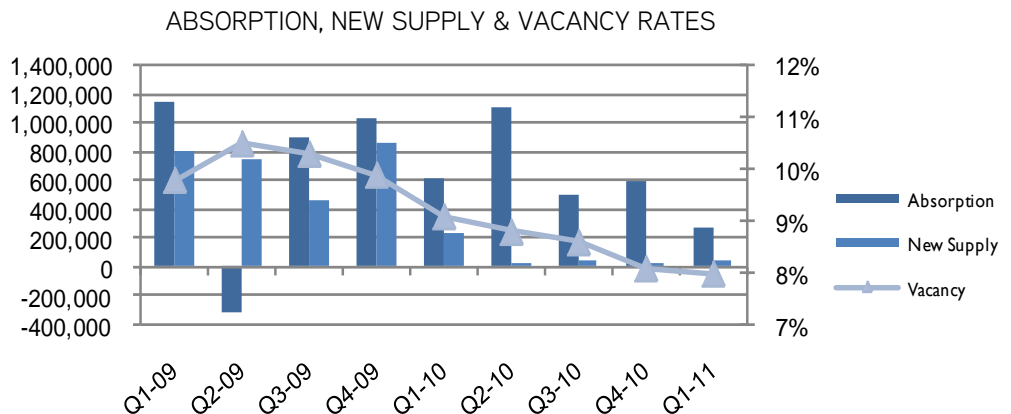
Houston's retail market continued to improve in the first quarter of 2011 with positive net absorption and lower vacancy rates. For the past seven quarters, Houston's retail market has posted positive net absorption. Retail vacancy rates for all product types stood at 8.0%, down from 9.1% at this time last year. Developers have curtailed development, delivering only 49,600 SF of new retail space in the first quarter – compared to 228,000 SF in the first quarter last year – and only added six projects to the construction pipeline. Overall, the local market is performing well under less than optimal economic conditions, namely sluggish job growth and low consumer spending levels.

Macro factors driving the absorption of retail space ultimately tie back to the job count. According to the Texas Labor Market Review, total nonagricultural employment in Texas rose by 22,700 jobs in February, or 0.2%. Six of the eleven major industries grew over the month, with Professional and Business Service jobs contributing to more than half of the job gains. At the local level, Houston's MSA had the largest monthly job increase, with 9,600 jobs added in February, followed by Dallas with 7,700 jobs added.

Houston's above-average population growth is expected to reach 9.5 million by 2035, led by strong growth in suburban Fort Bend and Montgomery counties. Houston's diverse population spanning all economic brackets continues to be a strong draw for retailers. Several new retailers leased spaced in the Houston market during the first quarter, with one of the more notable being Sundance Cinemas. Sundance Cinemas leased the former Angelika center space at Bayou Place in the theatre district of downtown Houston. Sundance began extensive refurbishment work on the eight-screen complex and plans to be open for business in November. The Houston venue will be the third of its kind and will have all reserved seating, filmmaker screenings, and exclusive events. Houston's strong long-term outlook is expected to continue attracting retailers seeking to expand market share in one of the fastest growing metropolitan areas in the U.S.

MARKET INDICATORS		
	1Q10	1Q11
CITYWIDE NET ABSORPTION (SF)		
	609k	268k ↓
CITYWIDE AVERAGE VACANCY		
	9.1%	8.0% ↓
CITYWIDE AVERAGE RENTAL RATE		
	\$15.10	\$14.83 ↓
QUARTERLY DELIVERIES (SF)		
	228k	49k ↓
UNDER CONSTRUCTION (SF)		
	137k	486k ↑

ECONOMIC INDICATORS		
	1/11	2/11
UNEMPLOYMENT		
HOUSTON	8.8%	8.4%
TEXAS	8.3%	8.2%
U.S.	9.0%	8.9%
JOB GROWTH ANNUAL CHANGE		
		2/11
HOUSTON	2.1%	9.6k
TEXAS	2.3%	22.7k
U.S.	1.8%	192k



YTD 2011 | TOP RETAIL LEASES

**Undisclosed Health Facility**

First Colony Marketplace
Feb-11 68,150 SF

Ashley Furniture*

Deerbrook Corner
Feb-11 52,360 SF

UTMB – Multispecialty Center

Victory Lakes Town Center
Mar-11 45,411 SF

Sundance Cinemas

Bayou Place
Mar-11 40,500 SF

dd's Discounts

North 45 Plaza
Feb-11 21,121 SF

*Renewal

Vacancy & Availability

Houston's retail vacancy rate fell to 8.0% in the first quarter, down from 9.1% at this time last year. By product type on a year-over-year basis, lifestyle centers posted the largest decrease of 390 basis points (bps) to 4.2% vacancy, followed by community and power centers which fell by 280 and 240 basis points to 8.7% and 4.8%, respectively. In contrast, outlet centers year-over-year vacancy rates rose by 750 bps.

Houston's retail vacancy has steadily decreased over the past seven consecutive quarters with the last five quarters remaining below 10%.

Limited new supply will continue to help the market remain stable over the coming twelve months. First quarter retail deliveries totaled only 49,600 SF, compared to the 228,447 SF of retail space added at this time last year.

Construction activity picked up between quarters with six additional retail projects added to the four that were already in the construction pipeline. The retail projects under construction total 480,608 SF and are 37.9% preleased. Details about the projects can be found in the table on page 4 of this report.

Absorption & Demand

Houston's retail market posted 267,981 SF of positive net absorption in the first quarter which is significantly less than the 593,490 SF of positive net absorption posted in the fourth quarter of 2010. On a year-over-year basis, absorption declined from the 609,223SF recorded in first quarter 2010.

By property type, single-tenant retail led the market in the first quarter with 132,258 SF in positive net absorption, followed by power centers with 113,945 SF. Community centers, strip centers, and lifestyle centers followed, posting positive net absorption of 67,463 SF, 65,634 SF, and 33,595 SF, respectively. Neighborhood centers had the largest loss reporting (88,696) SF of negative net absorption followed by malls with (56,518) SF of negative net absorption.

Some of the single tenants that moved into their space during the first quarter include Walgreens in the Jersey Village submarket, Black Diamond Café in the Northwest submarket, LoanStar Title Loans and Luis DeLa Torre, both located in the Inner Loop submarket.

Rental Rates

The citywide average quoted rental rate remained relatively unchanged, decreasing to \$14.83 from \$14.85 between quarters.

Lifestyle centers' average quoted rental rates had the largest gain between quarters increasing by 4.6% to \$32.98 per SF NNN (from \$31.52 per SF). Outlet centers' rental rates increased by 2.5% to \$13.33 per SF NNN (from \$13.01 per SF), followed by neighborhood centers and single tenant increasing by 1.5% and 1.0% to \$13.40 and \$11.41 per SF, respectively.

In contrast, power centers posted the largest quarterly decrease of 17.0% to \$17.69 per SF NNN (from \$19.03), followed by malls and community centers with a decrease of 1.4% and 0.9% to \$18.23 and 14.00 per SF NNN, respectively.



SilverLake Plaza
9607 Broadway, Pearland, TX
Far South Ret Submarket

RBA: 27,573SF
Built: 1984
Buyer: Avk Properties LLC
Seller: MetroBank NA
Sale Date: January 25, 2011
Sales Price: \$4.0M
Sales Price PSF: \$145.07



Aldine Mail Crossing
5415 Aldine Mail Rd, Houston, TX
Near Northeast Ret Submarket

RBA: 54,005 SF
Built: 1983
Buyer: Jc Swift Properties
Seller: Rockwell Debt-free Props
Sale Date: February 23, 2011
Sales Price: \$604.3k
Sales Price PSF: \$56.29

Sales Activity

Investment sales for Houston's retail properties picked up slightly in the first quarter, recording 10 more transactions than the previous quarter. There were 55 transactions in the first quarter with a total dollar volume of \$7.5M, averaging \$75 per SF with an average 7.4% capitalization rate.

The most significant transactions that closed during the first quarter are as follows: Avk Properties LLC acquired the 27,573 SF SilverLake Plaza located at 9607 Broadway in Pearland. The property sold for \$4.0M or \$145 per SF.

Jc Swift Properties purchased the 54,005 SF Aldine Mail Crossing located at 5415 Aldine Mail Road from Rockwell Debt-free Props for \$604.3K or \$55 per SF.

Wellhead Distributors International purchased a 54,768 SF vacant Walmart on State Highway 249 in Tomball from P S Misstex Ltd. for \$2.6M or \$47 per SF.

Leasing Activity

Houston's retail leasing activity slowed significantly in the first quarter, with 280 transactions totaling 880,617 SF compared to 390 transactions totaling 1,528,000 SF in the fourth quarter of last year. Overall, transactions under 20,000 SF comprised the largest group of retail leases, with the market recording only five leases over 20,000 SF in the first quarter.

Significant retail leases signed in the first quarter include: Ashley Furniture's renewal of 52,360 SF in Deerbrook Corner; University of Texas Medical Branch Multispecialty Center lease for 45,511 SF in Victory Lakes Town Center; Sundance Cinemas' 40,500 SF lease in Bayou Place; dd's Discounts' 21,121 SF lease in North 45 Plaza.

For additional retail lease transactions signed year-to-date, please see the select list on page two.

HOUSTON RETAIL MARKET SUMMARY

	Rentable Area	Direct Vacant SF	Direct Vacancy Rate	Sublet Vacant SF	Sublet Vacancy Rate	Total Vacant SF	Total Vacancy Rate	1Q11 Net Absorption	4Q10 Net Absorption	Weighted Avg. Rental Rate NNN
Strip Centers	30,973,765	3,085,879	10.0%	22,754	0.1%	3,108,633	10.0%	65,634	55,341	\$15.68
Neighborhood Centers	75,465,863	8,087,704	10.7%	121,234	0.2%	8,208,938	10.9%	(88,696)	466,934	\$13.40
Community Centers	39,886,235	3,406,444	8.5%	82,797	0.2%	3,489,241	8.7%	67,463	32,531	\$14.00
Power Centers	16,214,596	753,277	4.6%	28,549	0.2%	781,826	4.8%	113,945	49,592	\$17.69
Lifestyle Centers	2,587,807	107,462	4.2%	-	0.0%	107,462	4.2%	33,595	2,500	\$32.98
Outlet Centers	1,228,700	102,117	8.3%	-	0.0%	102,117	8.3%	(100)	5,100	\$13.33
Theme/Entertainment	1,885,586	246,387	13.1%	-	0.0%	246,387	13.1%	(1,600)	1,600	\$40.64
Single-Tenant	48,499,094	1,539,280	3.2%	34,554	0.1%	1,573,834	3.2%	134,258	(61,364)	\$11.41
Malls	30,044,524	2,005,688	6.7%	58,539	0.2%	2,064,227	6.9%	(56,518)	41,256	\$18.23
Greater Houston Retail	246,786,170	19,334,238	7.8%	348,427	0.1%	19,682,665	8.0%	267,981	593,490	\$14.83

480 Offices Worldwide



61 Countries on 6 Continents

191 AMERICAS
135 USA
39 CANADA
17 LATIN AMERICA

26 ASIA

95 EUROPE/MIDDLE EAST/AFRICA

168 AUSTRALIA/NEW ZEALAND

\$1.9 BILLION IN GLOBAL REVENUE

1.4 BILLION SQUARE FEET UNDER MANAGEMENT

15,000 PROFESSIONALS

COLLIERS INTERNATIONAL
1300 Post Oak Blvd, 2nd Floor
Houston, Texas 77056

Main: 713.222.2111
Fax: 713.830.2118
www.colliers.com

