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9.2% INCREASE IN RETAIL DEVELOPMENT PROJECTED

Wulfe & Co.'s 24th Annual Retail Survey projects 4.98 million square feet of new retail shopping center space will be built and opened in the greater Houston area in 2017. These additions to Houston's extensive retail real estate market constitute a 9.2% increase over the 4.5 million square feet completed in 2016. This impressive increase over the strong results of 2016 reflects Houston's continuously strengthened position in the retail real estate sector, according to Ed Wulfe, Chairman & CEO, of Wulfe & Co., a Houston-based retail real estate brokerage, development and property management firm.

The substantial development activity projected for 2017 for the greater Houston area is a result of the demand created by the single-family and multi-family housing booms of recent years; plans by existing retailers to protect market share; the impact of new retailers eager to open stores in the market; and population growth. Many of the new developments for the coming year are either already under construction, have fully executed leases with national retailers, are being self-developed by retailers, or include planned new projects of major development firms in response to the active retail real estate marketplace.

The majority of the new retail space will be either owned or leased by major retailers, including supermarkets, discount stores and power retailers. There will only be approximately ten percent of speculative small store space available for lease, which is another indicator of Houston's strength.

Supermarkets will continue to dominate new retail construction and represent 23% of 2017's projected growth with 21 new stores planned. Kroger will open six more of their 123,000 SF prototype stores. HEB will open three additional 100,000 SF markets and one Joe V's Smart Shop. Recent newcomer, ALDI, will add ten of their smaller 19,000 SF stores to the Houston market and Walmart will open one of their neighborhood supermarkets, added Bob Sellingsloh, President of Wulfe & Co.

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 92 stores and 26.4% share; Walmart has 102 stores and a 25.3% share; and Kroger, with its 112 stores, has a 23.6% share in the very competitive environment.

Wulfe & Co.'s 2017 Annual Survey reflects that in addition to the substantial amount of new supermarket space to be added, Walmart will be opening three and Target will open two of their super store concepts. Costco will open a new 150,000 SF store and At Home will open three of their 100,000 SF stores. Total Wine, who initially entered the Houston market late last year, will open six of their 25-35,000 SF stores. Also, for the first time in several years there will be three new home improvement centers, two by Lowe's and one by Home Depot. Most significantly, there will be seven new theaters; two new Lifetime Fitness locations, one new LA Fitness, and a new VillaSport Athletic Club and Spa. Pinstripe will open a 34,000 SF bowling/restaurant concept. Altogether, a total of 4.98 million SF will be built and opened in 2017. This is the highest level of retail growth since 2008, Wulfe stated.

Much of this activity serves suburban growth markets with many new major retail projects capitalizing on the Grand Parkway's proximity to new residential developments.

“Even with this aggressive expansion of new retail space commitments, overall retail occupancy in Houston will continue to strengthen and approach an all-time high rate in excess of an estimated 94%. Retail rental rates will increase slightly in response to the limited availability of shopping center space and higher land and development costs. 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, well tenanted retail developments, is intensive in spite of the higher rental rates,” Wulfe added.

In 2017 the retail real estate sector must address the rapidly evolving challenges relating to the convergence of retailers’ physical and digital environments as consumers broaden their shopping experiences to online markets. Today, almost all major retailers have augmented their physical store operation with online shopping as part of their merchandising strategy to offer customers a seamless physical and digital integrated shopping experience. According to First Data, online holiday sales rose 12% accounting for 21% of all holiday spending which is up 15% from last year.

Another ever growing challenge facing the shopping center industry today is the need to reconfigure and re-tenant the 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 the property, and adaptation of alternative uses can keep regional malls relevant throughout 2017 and into the future.

As reflected this year and the past few years, Houston’s recent financial and employment cutbacks in the energy markets have not noticeably affected Houston’s retail real estate sector, and Houston’s retail market has been able to continue its growth and vibrancy. Houston’s year over year population growth amounted to 40,000 new residents, second only to New York, according to the Census. Houston also has 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 return to growth in employment, estimated to be approximately 29,700 new jobs in 2017.

Another inherent part of the retail real estate growth is the unfolding of new national, regional, and local restaurant operations of all types and sizes. In the past few years, Houston has gained national and international recognition for its many outstanding new, innovative and creative food venues. The restaurant concepts and chefs have been featured in many national and international articles for their creativity and skill that they offer Houston patrons. From casual dining to upscale specialty dining, from fast food to gourmet cuisine, the restaurants generate traffic, create energy and bring entertainment to a project and play an ever-increasing role in the success and vitality of a retail property.

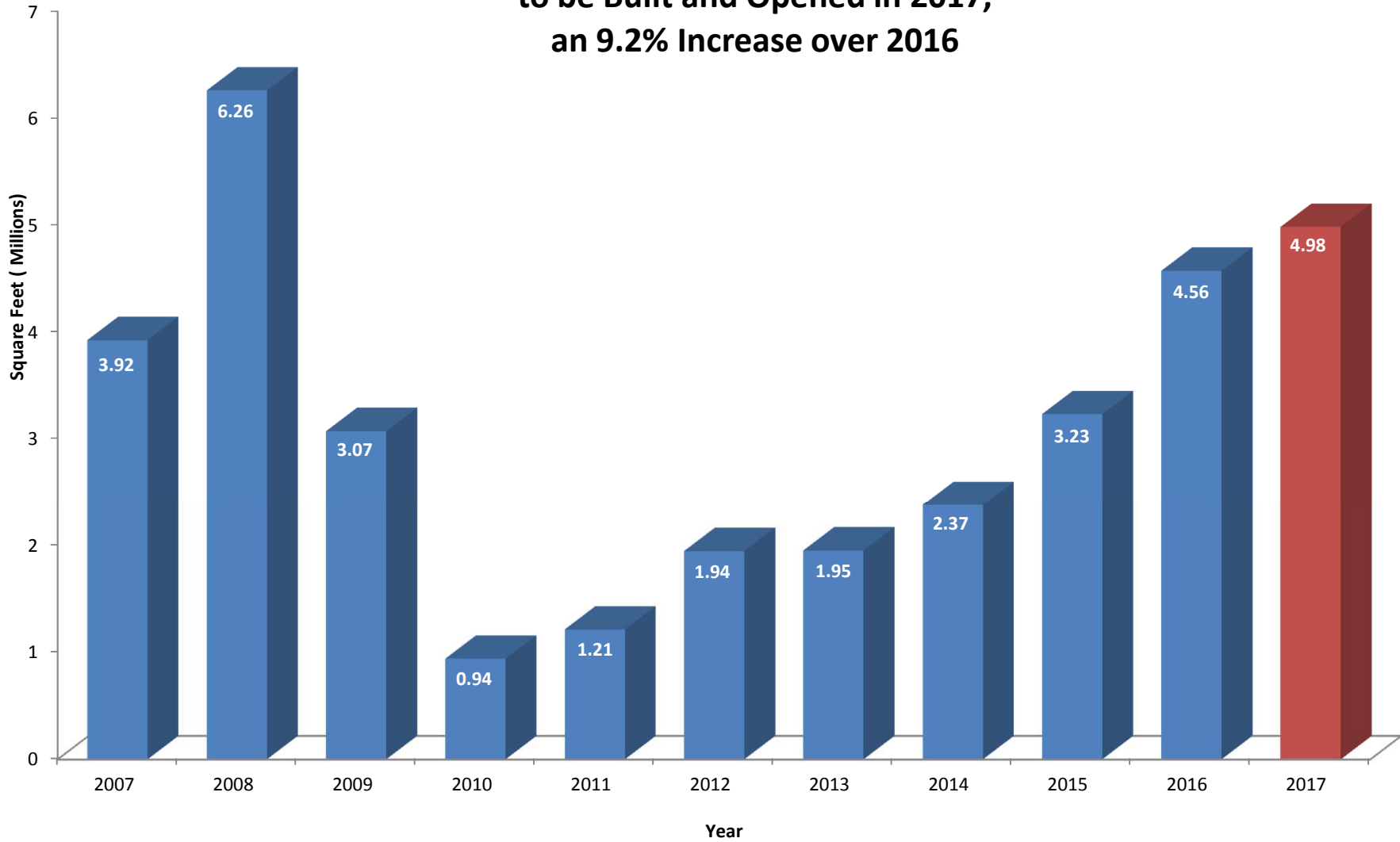
Another growing trend that is gaining momentum throughout the Houston area is the expansion of the healthcare industry to more convenient, accessible, and less expensive retail locations. The locations include suburban hospitals, urgent care centers, clinics, outpatient facilities and professional offices. The healthcare industry is making a concerted effort to deliver their services directly to the consumer with the benefits of a retail location with convenient, ample parking and easily accessible medical facilities and services.

“Although Houston’s overall development environment is projected to experience a slowdown in new office building and multifamily construction this year, the vacancies should not have a material effect on the continued growth and development in 2017 of retail properties and in the immediate future,” Wulfe added.

Wulfe & Co. is a commercial real estate firm specializing in the retail real estate marketplace, and has produced this annual retail survey of Houston’s retail market for twenty-four 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
4.98 Million Square Feet of Retail Space
to be Built and Opened in 2017,
an 9.2% Increase over 2016**



■ Wulfe & Co. 2017 Projection
9.2% increase over 2016





Greater Houston Retail Forecast By Category
4.98 Million Square Feet of Retail Space
to be Built and Opened in 2017

