

Retailers play catch-up

Developers plan major projects this year to keep up with area's population growth, according to annual real estate study

By Katherine Blunt

Retailers are on track to expand rapidly throughout the Houston area this year in an effort to keep up with population growth and cash in on a steadily improving economy.

Developers are expected to build and open nearly 5 million square feet of retail space in 2017, 9.2 percent more than last year, according to an annual study by commercial real estate firm Wulfe & Co. That's the highest amount in any year since the last recession.

Much of this year's projected expansion, led by grocers and big-box retailers, is slated for high-growth suburban areas. Wulfe & Co. expects nine new developments to open near the Grand Parkway.

"They're servicing all those new subdivisions," chairman and CEO Ed Wulfe said. "The growth of the market is such that retailers are just beginning to catch up."

The optimistic forecast comes amid other signs that Houston's retail economy is rebounding despite

tepid demand for luxury goods and big-ticket items such as new vehicles. Last year, the retail real estate market absorbed more than 4 million square feet, according to CBRE's local office, a record.

On top of that, a recent upswing in crude oil prices has sowed optimism that the oil industry has begun to stabilize after a two-year downturn, and employment growth in the area has ticked upward for months.

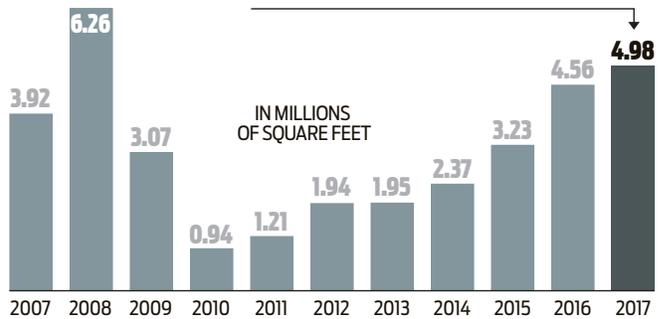
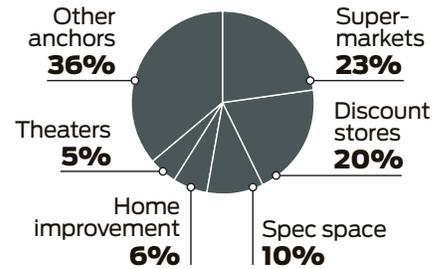
Patrick Jankowski, senior vice president of research and regional economist for the Greater Houston Partnership, said the projected retail expansion indicates confidence that the consumer spending outlook will continue to improve.

"Retailers wouldn't be allocating capital to Houston if they didn't think they were going to get a return on it," he said.

Grocery stores again are expected to expand rapidly this year and occupy nearly a quarter of the new retail space. Wulfe & Co. anticipates the sector will add 21 stores, including 10 Aldi locations, six Krogers, three H-E-Bs and one

2017 retail outlook

The Houston area is expected to add nearly 5 million square feet of retail space in 2017.



Source: Wulfe & Co.

Houston Chronicle

Wal-Mart neighborhood super-market.

Lidl, a German discount grocer, and 365, Whole Foods Market's value store, are also expected to enter the market this year.

Other retailers, including some of the nation's largest, are expected to occupy slightly more than half of the new space. Wal-Mart plans to open three super-stores, Target is expected to open two, and Costco is expected to open one.

Plano-based decor store At Home is likely to add three 100,000-square-foot locations. Total Wine & More, a market newcomer, has plans to open six stores, each larger than 25,000 square feet.

Jason Baker, a principal with real estate brokerage firm Baker Katz, said the expansion plans for retailers other than grocers indicates the market's resiliency, as well



Construction is underway for the Grand Parkway Marketplace I, at Spring Stuebner and the Grand Parkway.

as demand driven by population growth.

“If you’re in the retail real estate business, it’s a real encouraging number,” he said. “There’s a continued appetite for new stores in (Houston) despite the sluggish energy market.”

Home improvement stores are expected to expand for the first time in several years after a record number of Houston-area home sales in 2016. Lowe’s plans to add two stores, and Home Depot is expected to add one.

Entertainment and fitness centers, too, are spreading across the city. Seven theaters are expected to open, and four gyms are in the works.

Despite the improvements, many traditional retailers might wind up closing their doors in the face of rising online sales and shifting consumer preferences, trends that have for years eaten into mall and department store traffic.

Macy’s last week announced it is

closing three Houston-area stores as part of a plan to shrink its national footprint, and Sears is taking similar steps in other cities.

Smaller retailers have been similarly challenged. The Limited recently shut down all its stores, including five in the Houston area.

The closures of such stores, particularly larger ones like Macy’s, can have devastating effects on the malls they occupy. Some of the area’s lowest-performing malls, including Greenspoint and Northwest, have lost several major anchor tenants.

Wulfe said he expects many of these malls to be reconfigured or redeveloped in the coming years as retailers better integrate their e-commerce and brick-and-mortar operations and traditional department stores streamline their operations.

“They’re really going through major adjustments all across the country,” he said.