

## Houston Retail

**Demand for retail space remains high.**

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The impact of today's worldwide economic downturn and credit crunch is significant, but it is in no way the worst in history, especially for Houston. Houston was hit harder than other markets in the 1980s; in a way, this guaranteed that the city would be ahead of the rest of the nation in terms of avoiding a recession. Compared to the rest of the country, current demand for retail space in the area continues to be high, and the city has a relatively low vacancy rate of about 10 to 12 percent.

Houston's economy is still largely based on energy, but to a lesser extent than in years past. Houston's growing population and strong economy continues to fuel a reasonably healthy retail market. A relatively low unemployment rate and a low cost of living are driving forces of the resilient market. In 2008, as most of the country was experiencing downsizing, Houston had a net gain of approximately 57,000 jobs in the region.

Residents have continued to shop, but the habit of buying has changed — or it has at least slowed down a bit. Nonetheless, retailers consistently say Houston is one of the strongest performing markets in the country. In fact, sales tax revenue is up 4 percent versus last year.

These factors have helped Houston's retail market perform better than retail sectors in most other cities. Aside from retailers who have liquidated — Circuit City, Mervyns, Linens 'N Things — no major retailer has completely abandoned the market. However, the number of leases being signed has fallen about 50 percent. The junior anchor market has also softened, and landlords are making significantly more aggressive deals. Retailers like Best Buy and Ross Dress For Less are expanding, taking advantage of low rent prices.

When driving through Houston, all of the cranes and building equipment create the illusion that retailer activity is still thriving. Many of the developments in the area fall into one of two categories: projects started in mid-2007

that have not stabilized, such as the 500,000-square-foot CityCentre lifestyle center, and projects that were proposed but never started, like the 850,000-square-foot Boulevard Place and the 398,000-square-foot Grand Parkway Corner.

In light of the bad times, the positive real estate market in Houston is keeping many retailers alive. Although new construction is tailing off, Houston is not overbuilt like it was during the last major downturn in the '80s. As a result, Houston is somewhat insulated and the value of retail, in the long run, will increase.

— Jason Baker is an X Team International partner and is principal of Baker Katz in Houston.