



Retail Market

HOUSTON | 1ST QUARTER | 2010



Accelerating success.



Retail Market

COLLIERS INTERNATIONAL | HOUSTON RETAIL MARKET | 1ST QUARTER 2010

MARKET INDICATORS

	IQ-09	IQ-10
QUARTERLY NET ABSORPTION		
	1,144,301 SF	609,223 SF
YEAR-TO-DATE NET ABSORPTION		
	1,144,301 SF	609,223
CITYWIDE AVERAGE QUOTED RENTAL RATE NNN		
	\$15.56/SF	\$15.10/SF
CITYWIDE AVERAGE RETAIL VACANCY		
	9.8%	9.1%
YEAR-TO-DATE DELIVERIES		
	800,677	228,447 SF
UNDER CONSTRUCTION		
	1,391,609	136,720 SF



Houston Retail Market Welcomes New Formats

Houston's retail market continued to demonstrate resiliency at the start of 2010 with positive net absorption and stronger occupancy in the first quarter. Four out of the past five quarters posted positive net absorption, and retail occupancy for all product types stood at 90.9%, up from 90.2% at this time last year. Developers maintained disciplined restraint delivering less than 230,00 SF of new retail space in the first quarter – compared to over 800,000 SF in the first quarter last year – and kept the construction pipeline nearly empty with less than 150,000 SF in retail projects under construction, compared to 1.4M SF underway one year ago. Overall, the local market is performing well under less than optimal economic conditions, namely sluggish job growth and low consumer spending levels.

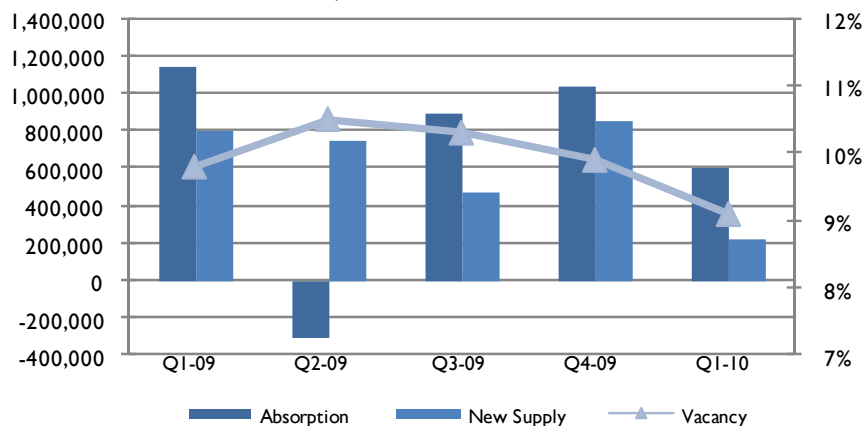
Houston is projected to reach positive job growth with 2,000 to 5,000 new jobs by year end, and although this falls far below recent periods of dynamic expansion – when job gains ranged from 75,000 to 100,000 – it nevertheless represents a positive trend, with stronger growth expected in 2011. Economists are forecasting Houston will emerge from the recession sooner than previously expected, with strong oil prices, a healthy housing sector, and increased global trade activity promoting stabilization to be followed by growth.

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, particularly grocers, who continue to choose the area as testing ground for new prototypes. In 2009, Kroger's introduced its newest upscale format Marketplace – featuring gourmet foods, an extensive wine selection, and food specialists on site – opening new stores in the two fastest-growing sections of Fort Bend county. Following its new concept Mercado, catering to the Houston's expanding Hispanic population, H.E.B. this year introduced Joe V's Smart Shop – targeting value-conscious shoppers – opening its first store in Willobrook. Houston's strong long-term outlook is expected to continue attracting retailers seeking to expand market share in one of the fastest growing metros in the U.S.

JOB GROWTH & UNEMPLOYMENT

	MAR. 09	MAR. 10
HOUSTON		
		-2.3% job growth 60,200 jobs lost
UNEMPLOYMENT	6.8%	8.5%
TEXAS		
		-1.5% job growth 160,000 jobs lost
UNEMPLOYMENT	7.0%	8.2%
U.S.		
		-1.7% job growth 2.2M jobs lost
UNEMPLOYMENT	9.0%	10.2%

ABSORPTION, NEW SUPPLY & VACANCY RATES



YTD 2010 TOP RETAIL LEASES



Joe V's Smart Shop 12035 Antoine Drive Retail Mar-10	54,690 SF
Academy Sports & Outdoors Pecan Park Plaza Mar-10	50,300 SF
Office Depot Cypress Pointe Mar-10	48,000 SF
All Harvest Trading Lion Square Feb-10	42,205 SF
Best Buy 19125 W. Lake Houston Parkway Mar-10	31,666 SF
Big Lots Montgomery Plaza Mar-10	31,502 SF
GoodWill 9606 Hillcroft Retail Center Jan-10	20,785 SF
Giant \$1 Mart 330 W. Little York Retail Center Jan-10	15,000 SF
Bright Start Academy 712 East Tidwell Road Feb-10	14,923 SF
Healthy Chinese Buffet 6125 Central City Blvd Retail Center Mar-10	11,340 SF
The Woodlands Children's Museum Panther Creek Village Square Mar-10	11,169 SF

Occupancy & Availability

Houston's retail occupancy increased to 90.9% in the first quarter, up from 90.2% at this time last year. By product type, neighborhood centers posted the largest increase of 180 basis points (bps) to 88.4% occupancy, followed by outlets and strip centers both higher by 140 basis points to 99.2% and 88.2%, respectively.

Community and power centers posted more moderate gains with occupancy at 88.5% (10 bps increase) and 92.8% (90 bps increase), respectively. retail property types recorded relatively minor fluctuations in occupancy from one year ago.

Four retail property types recorded occupancy decreases, with lifestyle centers posting the largest decline of 460 bps to 91.9% from 96.5% one year ago, followed by theme/entertainment centers with a 210 bps decrease to 86.6% occupancy from 88.7%, and malls with a 30 bps decrease to 93.1% occupancy.

Houston's retail occupancy has remained relatively stable over the past five consecutive quarters, with only two quarters – Q2 and Q3 2009 – dipping below the 90% mark. Following the nearly 100,000 jobs lost in 2009, Houston is expected to resume positive job growth by the end of 2010. Although job projections of 2,000 to 5,000 jobs are well below previous expansion periods, the retail market will benefit from a stronger local economy.

Limited new supply will also help the market stabilize over the coming twelve months. Year-to-date retail deliveries totaled 228,447 SF, compared to 800,677 SF of retail space added at this time last year. Four retail projects in the construction pipeline at the end of the first quarter totaled a combined 136,720 SF, compared to 1.4M SF of new retail space under construction in the first quarter last year, with developers not likely to begin any significant new projects until improved economic conditions return.

Absorption & Demand

Retail net absorption was positive in the first quarter with 609,223 SF, compared to 1.0 SF in the previous quarter. On a year-over-year basis, absorption declined from the 1.1M SF recorded in the first quarter 2009. It is notable that in the past five quarters, Houston's retail market recorded negative net absorption only once – in the second quarter 2009 with 306,786 SF – with positive gains peaking in the first quarter 2009.

By property type, grocery-anchored neighborhood centers led the market in the first quarter with 387,724 SF in positive net absorption, followed by strip center with 166,984 SF in gains. In contrast, only two retail categories recorded negative net absorption: single-tenant space took the largest loss with (37,751) SF, compared to the more moderate hit of (7,198) SF for lifestyle centers.

Rental Rates

Against the backdrop of low consumer spending and prolonged job market weakness, landlords once again lowered their quoted rental rates for all property types in the first quarter. The citywide average quoted rental rate of \$15.10 per SF NNN decreased 2.3% from \$15.45 in the previous quarter, and 3.0% from \$15.56 in the first quarter last year. In addition to lower rental rates, tenants in the market benefited from increased lease concessions, including free rent and generous tenant improvement packages.

On a year-over-year basis, community centers average quoted rental rates fell 3.8% to \$16.61 per SF NNN (from \$17.78), while neighborhood centers rental rates dropped 3.4% to \$12.91 per SF NNN (from \$13.36). In contrast, strip centers posted the lowest decrease of all retail product types with quoted rental rates at \$15.30 per SF NNN, representing a 0.9% decrease from \$15.44 per SF NNN at this time last year.



Former Macy's (Sharpstown Mall)*
7500 Bellaire Boulevard
Sharpstown Submarket

RBA: 370,000 SF
Built: 1971
Buyer: CCW, LLC.
Seller: Macy's Retail Holdings
Sale Date: January 2010



Deerbrook Marketplace
20408 U.S. Highway 59
Spring Submarket

RBA: 291,700 SF
Built: 1994
Buyer: Investcorp International
Seller: DRA Advisors
Sale Date: March 2010

*Colliers International Transaction

Sales Activity

Investment sales for Houston's retail properties remained sluggish at the start of 2010, with the limited availability of credit hampering activity. Transactions in the first quarter totaled 98 with a total dollar volume of \$51.4M, averaging \$128 per SF with an average 9.5% capitalization rate.

Among the more significant first quarter retail sales were the following transactions: CCW, L.L.C. acquired the 370,000-SF former Macy's department store, one of three major anchor tenants in Sharpstown Mall, located at 7500 Bellaire Boulevard. The transaction was handled by Colliers International in Houston.

RCG Ventures purchased four retail buildings in Spring, Texas, with a combined 166,895 SF - including the 149,000-SF Louetta Central - from Weiner Development Corporation in partnership with Schlosser Development for approximately \$17M or \$103.84 per SF. The pro forma capitalization rate was confirmed at 9.4%, with the actual cap rate at 10.21%.

Investcorp International acquired six retail buildings with a combined 348,542 SF - including the 292,000-SF Deerbrook Marketplace - and total land area of 23.5 acres from DRA Advisors for an undisclosed amount.

Leasing Activity

Houston's retail leasing activity reached 1.0 million SF in the first quarter, compared to 1.3 million SF in the first quarter of 2009. Overall, transactions under 20,000 SF comprised the largest group of retail leases, with the market recording only three leases over 50,000 SF year-to-date. Continuing a trend that began in 2009, discounters were among the most active tenants through March 2010, with consumers' preference for value still high given a continued weak job market.

Significant retail leases signed through the first quarter included: HEB's newest retail concept Joe V's Smart Shop's 54,690 SF lease at 12035 Antoine Drive (Willowbrook); Academy Sports and Outdoors' 50,300 SF lease at Pecan Park Plaza (League City); Office Depot's 48,000 SF lease at Cypress Pointe (Cypress); All Harvest Trading's 42,205 SF lease at Lion Square (Alief); Best Buy's 31,666 SF lease at Market at Lake Houston (Kingwood); and Big Lots' 31,502 SF lease at Montgomery Plaza (Conroe).

With the exception of the University of Texas Medical Branch's (UTMB) 165,000-SF lease renewal at Clear Lake Center, few significant lease renewals were signed in the first quarter. For additional retail lease transactions signed year-to-date, please see the select list on page three.

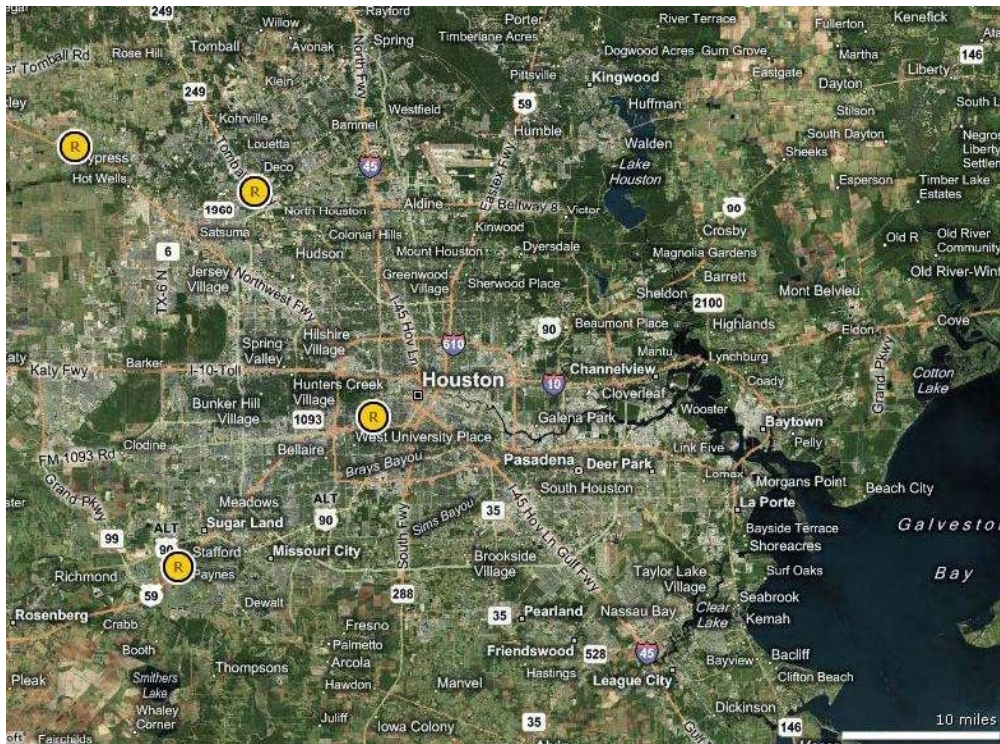
HOUSTON RETAIL MARKET SUMMARY

	Rentable Area	Direct Vacant SF	Direct Vacancy Rate	Sublet Vacant SF	Sublet Vacancy Rate	Total Vacant SF	Total Vacancy Rate	1st Qtr Net Absorption	Year-to-Date Net Absorption	Weighted Avg. Rental Rate NNN
Strip Centers	32,326,248	3,798,617	11.8%	27,128	0.1%	3,825,745	11.8%	166,984	166,984	\$15.37
Neighborhood Centers	62,321,385	7,048,803	11.3%	182,735	0.3%	7,231,538	11.6%	387,724	387,724	\$12.91
Community Centers	31,376,423	3,553,477	11.3%	40,345	0.1%	3,593,822	11.5%	53,863	53,863	\$16.61
Power Centers	18,029,634	1,190,218	6.6%	102,461	0.6%	1,292,679	7.2%	30,829	30,829	\$20.00
Lifestyle Centers	3,507,366	281,874	8.0%	2,840	0.1%	284,714	8.1%	(7,198)	(7,198)	\$23.21
Outlet Centers	1,511,703	12,300	0.8%	-	0.0%	12,300	0.8%	7,480	7,480	\$8.46
Theme/Entertainment	2,076,959	277,798	13.4%	-	0.0%	277,798	13.4%	7,055	7,055	\$41.07
Single-Tenant	49,459,489	2,095,178	4.2%	52,269	0.1%	2,147,447	4.3%	(38,351)	(38,351)	\$12.87
Malls	23,686,129	1,585,261	6.7%	58,367	0.2%	1,643,628	6.9%	837	837	\$14.10
Greater Houston Retail	224,295,336	19,843,526	8.8%	466,145	0.2%	20,309,671	9.1%	609,223	609,223	\$15.10

Retail Development Pipeline

HOUSTON RETAIL PROJECTS UNDER CONSTRUCTION

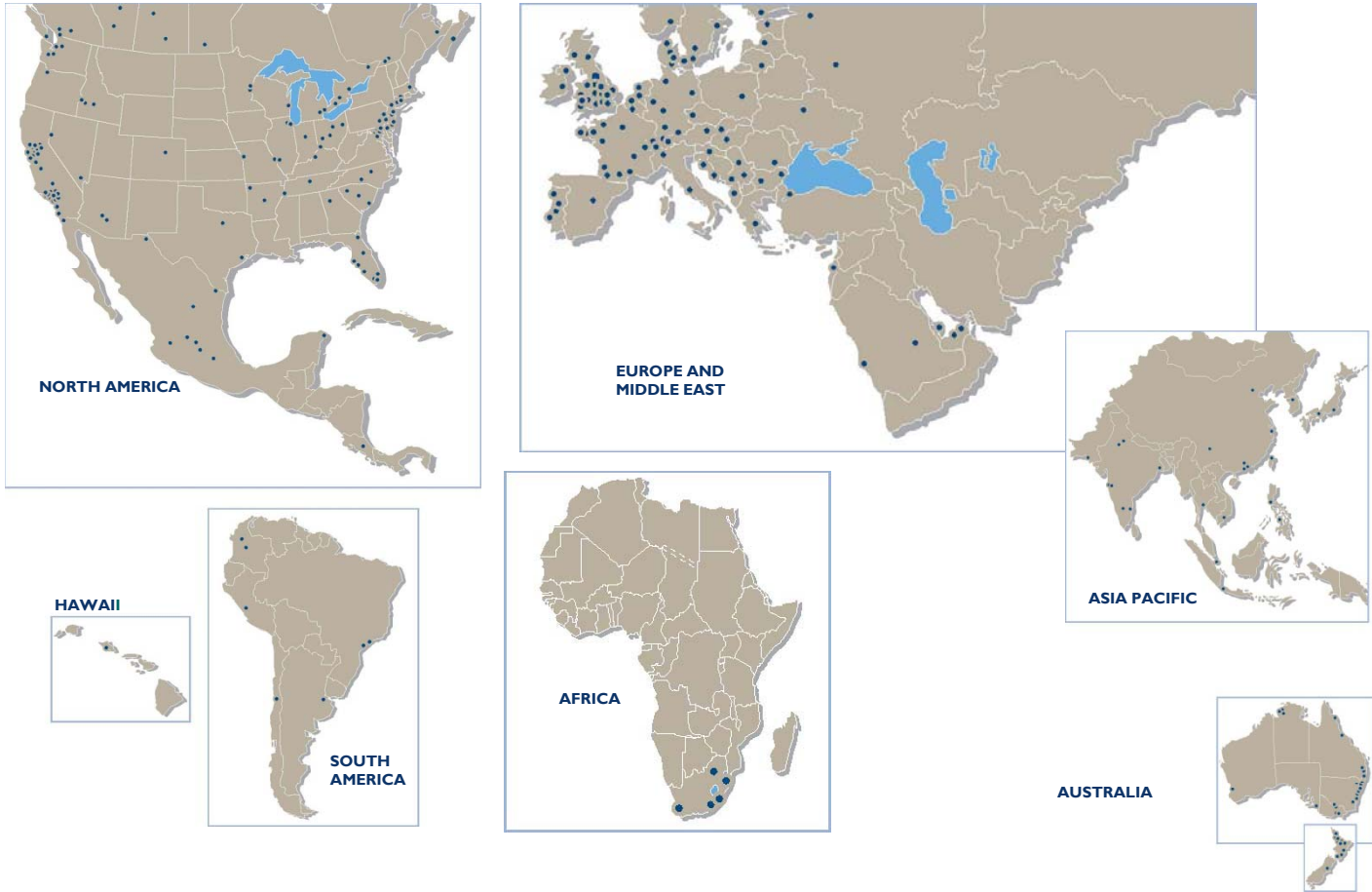
Submarket	Property Name	Address	RBA	% Leased	Developer	Estimated Delivery
Cypress	Fairway Point, Bldgs. A-E	15103 Mason Rd	80,000	0	Fairfield Village Community	Jul-10
River Oaks	West Ave, Bldg. C	2800 Kirby Dr	24,130	0	Urban Partners	May-10
Stafford	Mody Plaza	1611 Hwy 6	22,590	39.58	Comerica Bank	Sep-10
Jersey Village	12400 Gessner Retail	12400 N Gessner Rd	10,000	0	PC Property Management	Jun-10
Total retail under construction in projects listed above			136,720			
Grand total retail under construction			136,720			



HOUSTON YEAR-TO-DATE RETAIL DELIVERIES

Submarket	Property Name	Address	RBA	% Leased	Developer	Year Built
Willowbrook	Joe V's Smart Shop	12035 Antoine Dr	66,690	82.01	NewQuest (for HEB)	May-10
Memorial East	CityCentre, Bldg 13	12808 Queensbury Ln	47,584	61.29	Midway Companies	Jan-10
Baytown	Chase Plaza Center	7599 Garth Rd	30,000	0	Ed Rutledge Associates	Feb-10
Tomball	Ross (Tomball Marketplace)	14223 FM 2920 Rd	27,689	100	Weingarten Realty	Mar-10
Washington Boulevard	3939 Washington Retail	3939 Washington Ave	22,800	59.85	Apex Group	Mar-10
Kingwood	Kings Harbor Waterfront Village, Bldgs. 8 & 9	1660 W Lake Houston Pky	22,200	81.66	Midway Companies	Mar-10
Hobby	Cullen Commons II	12805 Cullen Blvd	20,000	50	Cullen Commons	Apr-10
Northline	Carmel Plaza	6906 Airline Dr	16,000	6.25	Chaleh Corporation	Mar-10
Stafford-Missouri City	Missouri City Corners	5425 Hwy 6 Blvd	14,004	100	Kohls Illinois Inc.	Jan-10
Pearland	7902 FM 518, Bldg. 1	7902 FM 518	8,400	0	Guru Om Sai	Feb-10
Westheimer	Droubis Bakery & Deli	12402 Westheimer Rd	7,200	100	Droubis Inc.	Jan-10
Kingwood	Green Oak Plaza	2500 Green Oak Dr	5,880	79.59	Ponderosa Ltd.	Mar-10
Total retail year-to-date deliveries listed above			288,447			
Grand total year-to-date retail deliveries			288,447			

294 Offices Worldwide



61 Countries on 6 Continents

133 AMERICAS
94 USA
22 CANADA
17 LATIN AMERICA

64 ASIA/PACIFIC
97 EUROPE/MIDDLE
EAST/AFRICA

\$1.6 BILLION IN GLOBAL
REVENUE

1.1 BILLION SQUARE FEET
UNDER MANAGEMENT

12,700 PROFESSIONALS

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