



Central Arkansas
Quarterly Report
21Q1

Key Takeaways

- Industrial submarket still leads the way
- Vacancy rates decreasing or staying stable
- New development in Little Rock is strong
- Office market holding steady

Vaccines fueling stability, growth in central Arkansas commercial market

Vacancy rates decreased or stayed the same across the board from Q4 2020 to Q1 2021. Since Q1 2020, most average lease rates have increased in the industrial and office submarkets. However, half of the retail submarkets have seen decreased average lease rates.

Office vacancy rates have been on a downward trend the last two quarters. There have been fewer long-term lease renewals, but landlords have still been able to sign leases. Corporations seem to be retaining office space while employees begin to return to the office.

Industrial is still leading the pack as owners become more confident and as lease rates rise. Speculative buildings are breaking ground this quarter and Amazon's new facility at the Galloway exit in North Little Rock is well on it's way to completion. These buildings are adding more available space to a market that has been lacking and enabling owners to add to their portfolios.

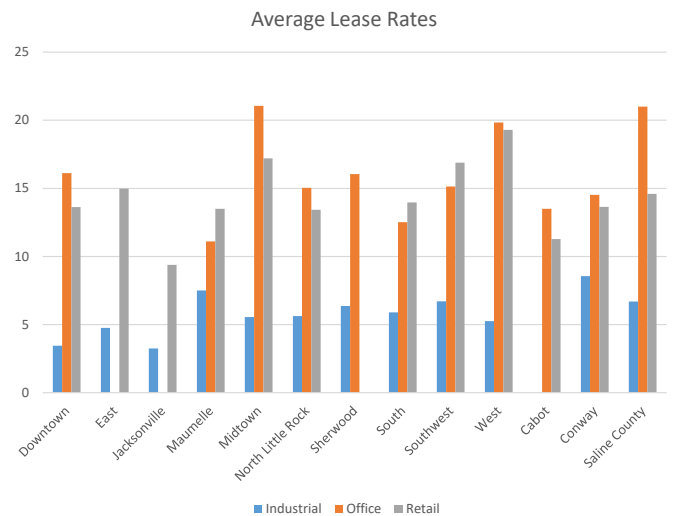
With more COVID vaccines, we're seeing more retailers re-opening and expanding their spaces. Lease rates have seen minimal changes or have decreased in most submarkets. Though many smaller businesses are staying the same, we're still seeing growth in national retail tenants.

2020 had the second highest multifamily sales volume in the last decade and we're seeing many new sales. There are plenty of new units under construction that will be available this year.

There has also been continual new overall development in Little Rock. The demand is strong for industrial, multifamily, banking, and senior living projects. But, material pricing has gone up and has caused either delays or developers to switch materials to meet deadlines. We're hoping the material prices level out before the end of the year.

Historic Comparison: Vacancy

	20Q3	20Q4	21Q1
Office Vacancy	20.3%	18.0%	15.2%
Industrial Vacancy	12.5%	10.2%	10.2%
Retail Vacancy	17.5%	16.9%	16.5%



Recent Transactions



Lease

Shackleford Business Center
 South | 3,000 SF



Lease

Riverwalk Plaza
 Midtown | 2,075 SF



Lease

9101 N Rodney Parham
 Midtown | 1,200 SF



Sale

5050 Northshore Ln
 NLR | \$77.69/SF



Sale

1405 Braden St
 Jacksonville | \$127.31/SF



Sale

15721 Chenal Pkwy
 West | \$493.53/SF

Office

Bucking national trends, the overall central Arkansas office vacancy rate decreased in 21Q1 to 15.2% with the average rental rate holding at \$15.13 per square foot. While the numbers are certainly steady in our market, we are noting fewer five-year+ lease renewals with shorter term renewals from one-to-three years becoming the average. This is all relatively good news after the mass office exodus last year as the pandemic pushed everyone into quarantine. It seems that corporations are retaining most of their real estate in our market. The shorter lease terms do suggest caution, however.

Downtown office vacancy rates are one of the highest in our market, coming in at 15.6% vacant with more than one million square feet of empty office space. The downtown market suffered a negative 88,600 square feet absorption in the first quarter. Average rental rates are up a bit, from \$15.96 per square foot in 20Q4 to \$16.12 per square foot in Q1 this year. In the notable transactions category, Priority 1 moved from their Regions Center headquarters to the Lyon Building across Capitol Ave., taking 20,600 square feet of space.

West Little Rock's office vacancy rate is slightly lower at 11% with 756,000 square feet available for a total inventory of 6.8 million square feet. There was a positive net absorption of 21,800 square feet during Q1 with the average rental rate holding steady from Q4 of 2020 to Q1 this year at \$19.83 per square foot. Despite the overall office gloom, there was no large office downsizing in the west Little Rock market during the first quarter and no erosion of rental rates which is great news for

that market. Class "A" properties continue to perform well, with Westlake office park enjoying a 93% occupancy rate. Notable leases in the area include 7,767 square feet at Westlake going to Jefferson Regional Medical Center.

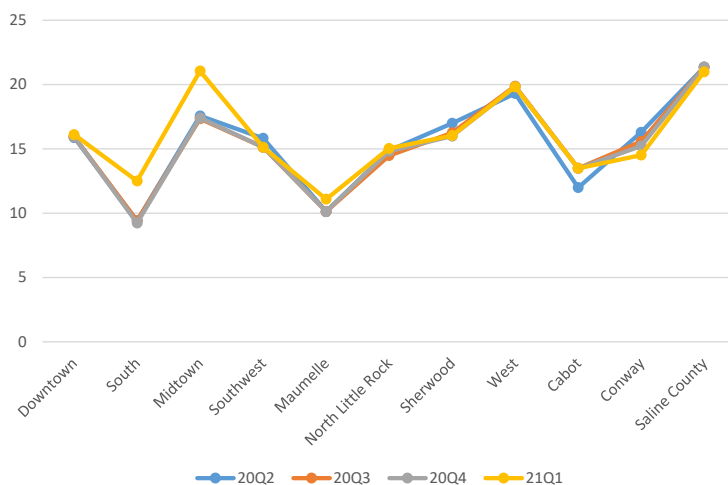
In other central Arkansas office submarkets, southwest Little Rock is enjoying the lowest vacancy rate of 4.2% while North Little Rock has the highest at 22.9%. The south Little Rock office market had the highest positive absorption rate for the first quarter with 62,600 square feet, and Saline County claims the highest office rental rate with \$21 per square foot, likely due to a large amount of medical space in that market. Maumelle currently has the lowest rental rates at \$11.10 per square foot.

Until the COVID/vaccine situation stabilizes, expect continued short-term lease renewals and some volatility in the overall Little Rock office market.

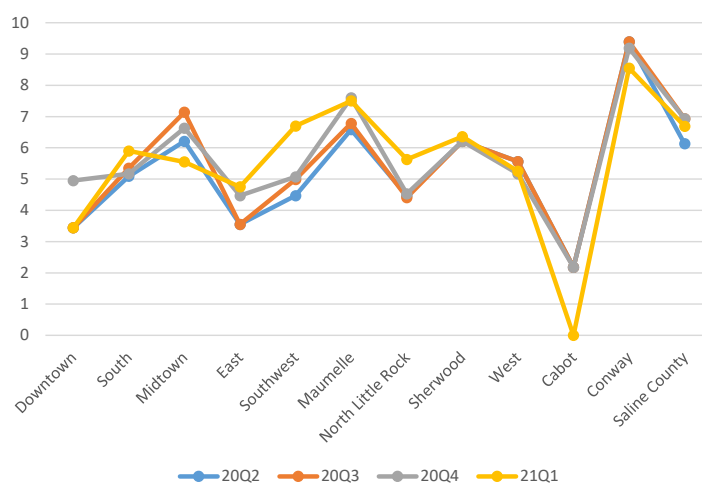
Industrial

Ownership confidence is growing by the month as industrial vacancy rates continue to decline. Users' need for multi-purpose space continues to surge as we move towards summer. The lack of available large block space provides landlords with confidence moving forward regarding rental rates. Now, with the election finished, market users have obtained slightly more sureness as opposed to skepticism. When comparing the different sectors of real estate, industrial and flex space are leading the pack in many regards. Investors are diligently seeking multi- and single-tenant industrial assets to bolster their

Office Average Lease Rates



Industrial Average Lease Rates



Industrial

portfolios. Consumers' growing dependence on e-commerce has further tightened the available space around the greater Little Rock MSA.

The speculative builds we wrote about last quarter are moving forward and breaking ground. This will provide the industrial market with much-needed available space. Local and out-of-state investors are continually competing for second generation assets to acquire. The leverage regarding rental rates and lease terms that tenants possessed over the past few years is shrinking. Landlords are still approaching negotiations with flexibility, however.

Takeaways:

- Rental rates slowly increasing
- Stronger lease term obligations
- Fewer available second generation spaces

Retail

COVID beginning in March of 2020 has brought unpredictability to the retail market. However, the industry has seen an encouraging change in the vacancy rate since the end of 2020. With vaccination numbers continuing to rise daily, the re-opening and expanding of retail has started to increase.

The sectors within the retail industry that are continuing to see low vacancy rates are medical/pharmacy, banking, grocery, and auto service. These sectors sustained progressive growth within the last few months.



However, lease rates in central Arkansas have seen minimal change. Given fewer COVID-19 restrictions in the coming months, retail tenants should expect to see more consumer demand. We believe that this will lead to a more gradual lease rate growth towards Q3 2021.

The midtown and west Little Rock submarkets, the submarkets with the highest lease rates in central Arkansas, have seen the most noticeable change in declining lease rates. Each have dropped \$2/SF since Q4 2020. The consumer confidence of widespread vaccination will create retail demand and the likelihood of increased lease rate in most submarkets.

While most stable national companies have halted growth since Q1 2020, there has been an increase in expansion of national retail tenants. We have seen a rising interest for these national groups to grow in multiple submarkets. These expansion indicators will be key factors for rising lease rates.

Multifamily

As we put 2020 in the rearview mirror and finally breathe a cautious sigh of relief with COVID-19 numbers declining, the multifamily market remains strong and vibrant, both from the local and national perspective.

With the exception of the industrial market, multifamily is the juggernaut of activity across the spectrum.

As work and school from home became the norm last year and layoffs were abundant, young adults were moving home with parents in droves; however, apartments were able to weather this shifting storm.

As we began 21Q1, the job market is still down but is improving, wages are on the rise, construction costs are exponentially increasing, materials for construction are delayed, interest rates remain historically low, supply of existing homes to purchase are low, home values are sharply increasing, and there is an anticipation of a dramatic rise of inflation.

Investment capital is looking for opportunities to find attractive yields, but those opportunities are increasingly harder to find – especially in gateway markets. Thus, investors from gateway markets are buying up apartments in secondary and tertiary markets, cap rates continue to decrease, and the average price

Multifamily

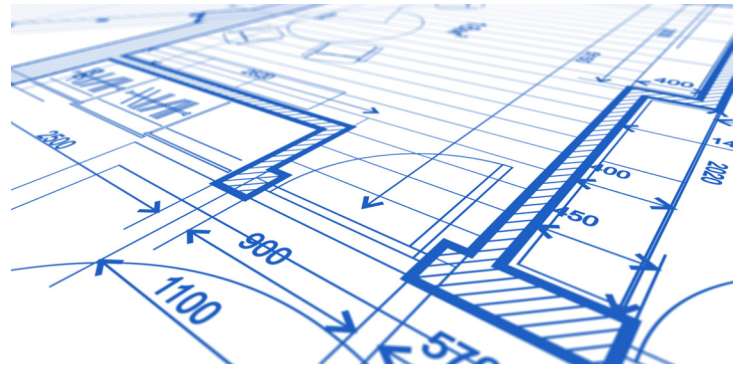
per unit is on the rise. CoStar reports that the greater Little Rock market experienced more than \$340 million in apartment sales volume in 2020 making it the second highest sales volume of the decade (only 2019 brought in more).

If you follow weekly transactions in *Arkansas Business*, you are hard-pressed to find a week that does not include a significant multifamily transaction – usually to the tune of multi-million dollars in value. And most of those buyers are from out of state.

“Client looking for multifamily opportunities to purchase, value-add preferred” is the steady message we hear. But there are not many opportunities on the market.

Rent growth and vacancy has remained steady despite an influx of new units that hit the market over the last 15 months. 2020 saw an increase in supply of more than 1,500 units, and the absorption was much better than anticipated as vacancy rates for 21Q1 are 7.0%, according to a CoStar report. Currently there are nearly 500 units under construction that will hit the market in 2021. Additional supply will create a squeeze on existing rental inventory. The new units coming online offer incredible amenities such as cabana pools with clubhouses, golf simulators, movie theaters, gaming hubs, poker rooms, fitness centers, etc. It’s about to become a lot more competitive for existing landlords to retain and/or recruit tenants. Older product will likely suffer some vacancy and have to get creative on their terms and incentives.

At the same time, we are at a threshold of rental rates. If you can find a house to buy, your monthly mortgage including taxes and insurance will probably be comparable or even lower than your monthly rental for a luxury apartment. Home ownership is not as valuable for Generation Z and Millennials as it was for previous generations. When interest rates start bumping up to keep pace with the inflation that is expected, it will likely cause the multifamily category to be the desired choice for the foreseeable future.



New Development

The Little Rock market continues to see new development projects underway across the MSA. Favorable lending environments coupled with continued demand have enabled developers in our market to continue to break ground and build new projects. The sectors that have been especially robust include multifamily, single family neighborhoods, industrial (new and adaptive reuse), banking/financial locations, and senior living. The market has also seen sustained activity in quick-serve restaurants, fueling stations and service-oriented retail (health/wellness, automotive, retail medical) development.

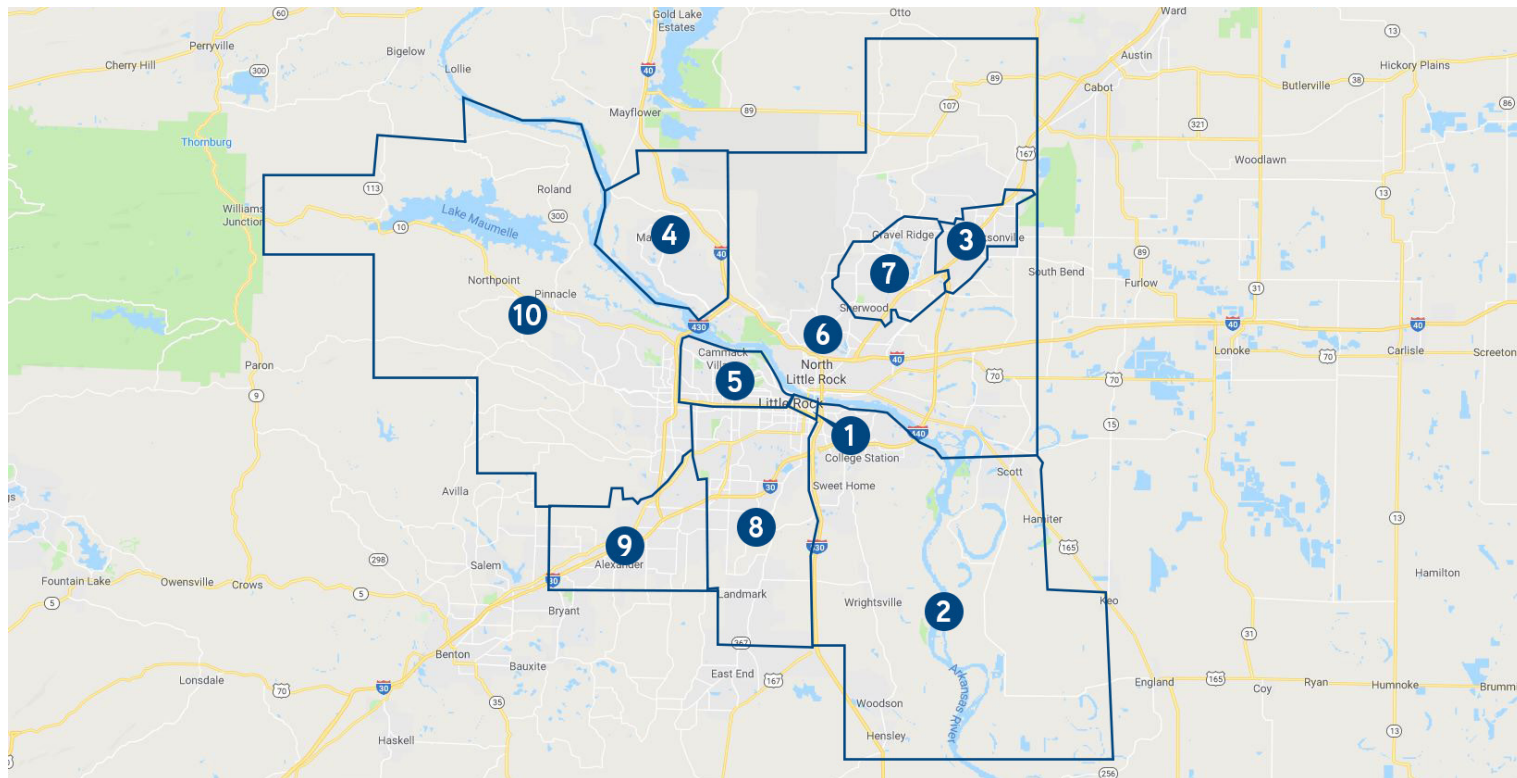
While demand for new development projects remains strong, the main headwind item that could negatively affect development projects for the remainder of the year is material pricing. Over the last two quarters, we’ve seen an unprecedented increase in steel, lumber and PVC pricing. This increase is a result of supply chain disruptions and high demand. This disruption has caused construction costs to rise on a monthly basis and has delayed projects due to material delivery timing. We’ve seen steel jump over 15% in the last month. Developers and contractors are having to issue purchase orders well in advance of project kick-offs in order to hit completion delivery targets. Our team has spoken to several developers who have switched building material types during design in order to hit targeted delivery dates. We are hopeful that this supply chain issue will level out by the end of the year.

Investors both locally and nationally continue to seek opportunities to purchase newly constructed development projects in our market. New projects with strong lease terms and guarantors are commanding a premium price. We’ve also seen demand in 1031 exchanges into new development projects. Our team looks forward to a healthy re-opening quarter with continued demand for new development projects.

Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Central Arkansas					
Downtown					
Industrial	112,324 SF	34,600 SF	\$3.44/SF	-	4,500 SF
Office	516,791 SF	956,115 SF	\$16.12/SF	22,074 SF	22,692 SF
Retail	257,223 SF	127,584 SF	\$13.62/SF	-	-
TOTAL	886,338 SF	1,118,299 SF	\$15.64/SF	22,074 SF	27,192 SF
East					
Industrial	156,839 SF	607,431 SF	\$4.75/SF	43,904 SF	50,000 SF
Office	47,088 SF	-	-	-	-
Retail	8,710 SF	7,924 SF	\$14.98/SF	-	-
TOTAL	212,637 SF	615,355 SF	\$8.68/SF	43,904 SF	50,000 SF
Jacksonville					
Industrial	265,594 SF	303,520 SF	\$3.25/SF	-	-
Office	-	-	-	-	-
Retail	125,645 SF	111,730 SF	\$9.38/SF	-	-
TOTAL	391,239 SF	415,250 SF	\$9.02/SF	-	-
Maumelle					
Industrial	42,958 SF	181,682 SF	\$7.50/SF	-	-
Office	14,699 SF	12,297 SF	\$11.10/SF	-	-
Retail	-	41,592 SF	\$13.50/SF	-	-
TOTAL	57,657 SF	235,571 SF	\$10.13/SF	-	-
Midtown					
Industrial	-	166,822 SF	\$5.55/SF	-	-
Office	169,010 SF	397,491 SF	\$21.06/SF	-	27,642 SF
Retail	215,174 SF	296,025 SF	\$17.20/SF	11,802 SF	-
TOTAL	384,184 SF	860,338 SF	\$18.47/SF	11,802 SF	27,642 SF
North Little Rock					
Industrial	647,876 SF	776,076 SF	\$5.63/SF	25,650 SF	-
Office	159,732 SF	175,414 SF	\$15.04/SF	-	-
Retail	61,783 SF	377,374 SF	\$13.42/SF	13,791 SF	-
TOTAL	869,391 SF	1,328,864 SF	\$12.20/SF	39,441 SF	-
Sherwood					
Industrial	40,168 SF	25,050 SF	\$6.36/SF	-	-
Office	8,256 SF	88,950 SF	\$16.04/SF	-	-
Retail	19,326 SF	67,489 SF	-	-	-
TOTAL	67,750 SF	181,489 SF	\$13.19/SF	-	-
South					
Industrial	670,352 SF	625,356 SF	\$5.90/SF	14,240 SF	72,033 SF
Office	618,236 SF	146,500 SF	\$12.51/SF	-	-
Retail	265,708 SF	289,149 SF	\$13.97/SF	1,500 SF	2,292 SF
TOTAL	1,554,296 SF	1,061,005 SF	\$9.11/SF	15,740 SF	74,325 SF
Southwest					
Industrial	159,325 SF	30,777 SF	\$6.70/SF	-	-
Office	2,774 SF	29,870 SF	\$15.13/SF	-	-
Retail	94,058 SF	109,514 SF	\$16.89/SF	-	-
TOTAL	256,157 SF	170,161 SF	\$14.37/SF	-	-

Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Central Arkansas					
West					
Industrial	3,550 SF	15,600 SF	\$5.25/SF	-	-
Office	345,841 SF	743,287 SF	\$19.83/SF	-	53,198 SF
Retail	62,607 SF	493,284 SF	\$19.30/SF	94,040 SF	1,669 SF
TOTAL	411,998 SF	1,252,171 SF	\$19.57/SF	94,040 SF	54,867 SF
Cabot					
Industrial	50,852 SF	-	-	-	37,969 SF
Office	8,742 SF	7,900 SF	\$13.50/SF	-	-
Retail	189,160 SF	28,579 SF	\$11.28/SF	-	-
TOTAL	248,754 SF	36,479 SF	\$12.02/SF	-	37,969 SF
Conway					
Industrial	613,797 SF	480,264 SF	\$8.55/SF	-	-
Office	31,968 SF	126,637 SF	\$14.52/SF	1,764 SF	-
Retail	118,851 SF	383,778 SF	\$13.64/SF	-	7,880 SF
TOTAL	764,616 SF	990,679 SF	\$12.75/SF	1,764 SF	7,880 SF
Saline County					
Industrial	21,500 SF	162,960 SF	\$6.69/SF	-	-
Office	13,050 SF	45,729 SF	\$21.00/SF	-	2,562 SF
Retail	163,084 SF	82,560 SF	\$14.59/SF	-	13,310 SF
TOTAL	197,634 SF	291,249 SF	\$14.94/SF	-	15,572 SF

Little Rock Submarkets



- 1. Downtown
- 2. East
- 3. Jacksonville
- 4. Maumelle
- 5. Midtown
- 6. North Little Rock
- 7. Sherwood
- 8. South
- 9. Southwest
- 10. West

Significant Sales Activity



11121 N Rodney Parham Rd | West
Market Place Shopping Center, LLC purchased the 91,737 SF shopping center from Market Place Partnership for **\$12,600,000 | \$137.35/SF**



1701 Westpark Dr | Midtown
Interurban Westpark, LLC purchased the 94,704 SF multifamily property from Westpark Meadows Limited Partnership for **\$10,400,000 | \$109.82/SF**



11300 Cantrell Rd | West
11300 CW Building, LLC purchased the Cantrell West building, 52,569 SF, from Cantrell West Properties, LLC & JPMS Properties, LLC for **\$10,350,000 | \$196.88/SF**

Significant Lease Activity



6001 Lindsey Rd | East
Loomis Armored US, LLC leased 50,000 SF of industrial space



17500 Chenal Pkwy | West
Ally Bank renewed their lease of 42,468 SF of office space



403 & 503 Commerce Park Dr | Cabot
Design Manufacturing Holding Co, Inc. leased 21,469 SF of industrial space

Notable Construction

Property	Submarket	Property	Submarket
The Village at Brodie Creek	West	Dairy Queen Retail Center	West
Amazon project - Galloway Exit	North Little Rock	Central Commerce Center - Galloway Exit	North Little Rock
The Goddard School of Little Rock	West	Bear Den Estates Subdivision	West
Chenal Valley Senior Living	West	Costco	West

Arkansas**

- **2** offices in Little Rock & Northwest Arkansas
- **115** professionals & staff
- **24** brokers
- Approx. **18.7** million square feet under management
- **543** lease & sale transactions
- Over **\$398** million total sales
- Over **\$201** million total leases

**Based on 2020 results

Colliers is in 68 countries*

- **US \$3.5** billion in annual revenue
- **18,000+** professionals and staff
- **2** billion square feet under management
- **70,000** lease & sale transactions
- **\$129** billion USD in total transaction value

*All statistics are for 2019, are in U.S. dollars and include affiliates



Copyright © 2021 Colliers

The information contained herein has been obtained from CoStar, Real Capital Analytics and other sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

Market Contacts:

Katy Raines

Director of Research
1 501 372 6161
1 501 850 0705
katy.raines@colliers.com

Amy Meins

Vice President,
Marketing and Communications
1 501 372 6161
1 501 850 0714
amy.meins@colliers.com

Contributors:

Brandon Rogers

Office Submarket

Nathan Monan

Industrial Submarket

Andrew Wiechern

Retail Submarket

Bill Pendergist

Multifamily Submarket

Bradford Gaines

New Development



1 Allied Drive, Suite 1500
Little Rock, AR 72202
+1 501 372 6161
colliers.com/arkansas

