



Central Arkansas

Quarterly Report

21Q2

## Key Takeaways

- Little Rock market stabilizing
- Industrial vacancy rate drops to 8%
- Banks lead the way in new development

## Little Rock Market Stabilization Continues

### Industrial Leads the Way

The Little Rock metro market continued to not only stabilize, but thrive in certain industries (i.e., Industrial) during Q2 2021 as it weathered the ups and downs of the COVID-19 pandemic. Industrial continued to carry the day with declining vacancy rates and the demand for product, office began to stabilize somewhat, retail held steady even as users remained unsure, and banks led the way with new development.

The industrial market, which emerged as the breakout star of 2020, continued to shine with no hint of dimming anytime soon. Vacancy rates again declined in Q2 due to in- and out-of-state investor interest. Lease rates rose across all submarkets as users scrambled for easy interstate access.

Office vacancy rates are expected to remain stable throughout 2021 even with users still determining whether or not to keep large footprints as they continue to debate working from home vs. in-person. As a result, average lease rates held steady as well. Once the cost of building materials

## Historic Comparison: Vacancy

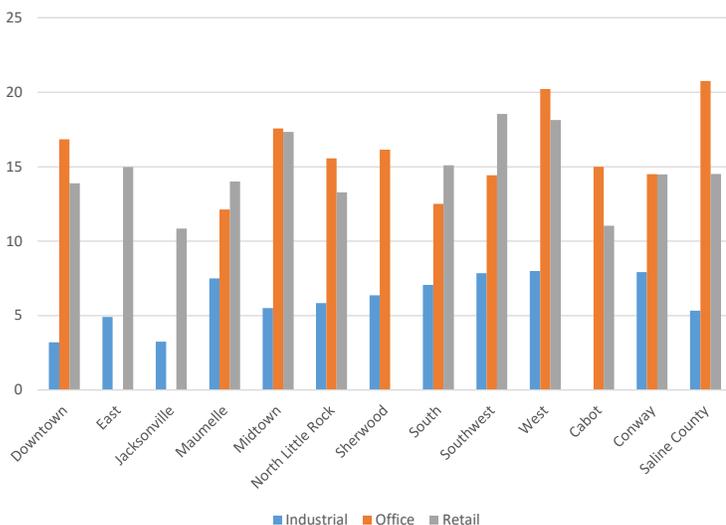
	20Q3	20Q4	21Q1	21Q2
<b>Office Vacancy</b>	20.3%	18.0%	15.2%	16.3%
<b>Industrial Vacancy</b>	12.5%	10.2%	10.2%	8.0%
<b>Retail Vacancy</b>	17.5%	16.9%	16.5%	17.75%

level out, we expect to see more movement in both the vacancy and lease rate numbers.

Retail continues to adapt their stores with increased speed and self-service options as well as continuing pick-up and to-go services. Notable new developments include Costco's first Arkansas store which opened in Little Rock July 21, Amazon's e-commerce center near the Port of Little Rock opening in the coming weeks and the emergence of Chase Banks into central Arkansas.

And speaking of financial institutions, banks are the headline in new development around the metro. Significant bank branches and headquarters have been under construction this quarter with most of the activity occurring in west Little Rock. The west submarket also leads the way in multifamily projects, single-family neighborhoods and senior activity. Look for more activity coming soon as new retail opens, neighborhoods expand and bank offices move toward the suburbs.

Average Lease Rates



## Office

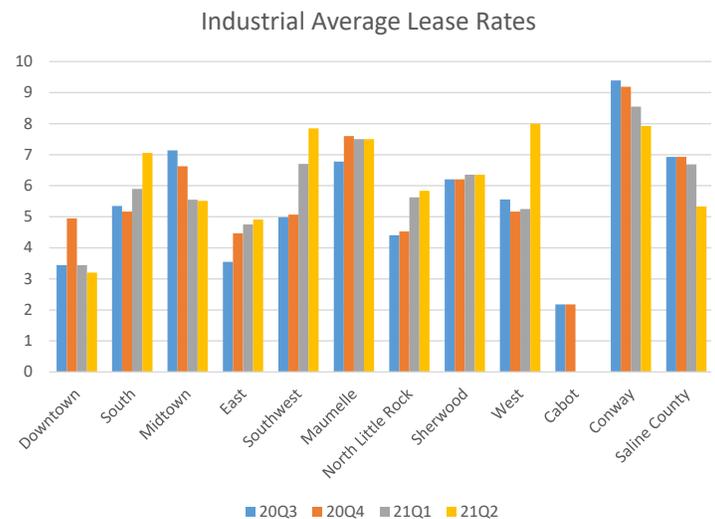
As expected, office vacancy rates in the metro Little Rock market increased slightly in Q2 from 15.2% to 16.3% as many office users have employees still working remotely and have decided to downsize their existing footprint. We anticipate office vacancy rates staying fairly flat for the remainder of the year as we continue to struggle with the unknowns around the COVID-19 pandemic. Some of the Class A properties in both west Little Rock and midtown have held firm on asking rates and, in some cases, have even raised rents. These properties are generally newer with more of a move-in-ready product. Tenant improvement/construction costs continue to make it difficult to secure new leases; however with the cost of lumber and steel starting to stabilize we are hopeful that this will change in the coming quarters. The downtown Little Rock market continues to have large blocks of space available as it has during the past several years. Higher tenant improvement costs and operating expenses due to age have also adversely impacted the downtown office occupancy.

In summary, the suburban office market has and is recovering from the COVID-19 impact. Rental rates are increasing and vacancy rates are decreasing. Such trends are projected to continue for the next 12 months, subject to COVID-19 conditions being controlled.

Larger downtown central business district (CBD) office buildings are impacted with 1) higher costs to maintain and remodel older buildings; 2) the lack of free parking; 3) impact of COVID-19 and the oversupply of existing vacant space. Lower rents with



higher maintenance/remodeling costs of downtown buildings will continue to adversely impact the downtown office market recovery for the next six to 12 months. We are optimistic the CBD office market will recover over the next 12 months as COVID-19 conditions improve and construction costs decline.



## Industrial

The industrial market continued to provide the bulk of the CRE industry's growth over the last quarter – and shows no signs of letting up. Spec builds are moving forward for larger bulk industrial facilities such as the 200,000-square-foot, tilt-wall Central Commerce Center (C3) being constructed along I-40 in North Little Rock near the Galloway Exit. Located just across the interstate from C3, Amazon continues construction of a 1-million-square-foot fulfillment center and nears completion of their 3.7-million-square-foot fulfillment center near the Port of Little Rock. Industrial vacancy rates continue to decline – from 10.2% in Q1 to 8% in Q2. The market has continued to see a shortage of options for groups looking in the bulk/distribution market, setting the aforementioned spec builds on a path to success once they are completed. We have continued to see asking prices and rental rates rise due to the shortage of supply. Stand-alone buildings with fenced-in yards, dock-door access and good clear height remain in high demand. With construction costs at an all-time high, it's difficult for smaller owner-occupants to justify new builds. We continue to see investors shift focus from retail and office to industrial opportunities.

## Retail

During the past quarter, the retail market vacancy rate has increased over 100 basis points in our MSA to 17.75%. Rental rates in Q2 dipped slightly in west Little Rock, increased in Conway, and remained relatively steady in the Saline County, Cabot and North Little Rock/Maumelle markets. These slight trends in rates and the higher market vacancy prove that consumers and retailers still do not have full confidence back. New retail strip developments, such as the ones along Chenal Parkway, are seeing more activity but are being shrewd about marketing their centers. Other retail developments such as quick service restaurants, car washes, and oil changes have increased locally. Landlords are maintaining tenants but still accepting shorter lease terms and fixed rates with the expectation that the next renewal will be different.

National retailers are still leaning towards stabilization vs. growth. As the country re-emerges from the pandemic, brick and mortar retailers are adapting to customer expectations such as streamlining in-store transactions via speed of service and self-service options that keep pace with the ease and safety of e-commerce.

On a larger scale, Amazon and the other primary big box players (Wal-Mart, Costco, Target) continue to gain momentum and thrive as they have successfully entered into e-commerce partnerships along with their standard brick and mortar shops. An article from the *Wall Street Journal* by Jinjoo Lee states, "The National Retail Federation now expects retail sales to grow up to 13.5% in 2021, a substantial revision from its prior forecast, delivered in February, of 6.5% growth. The pie has gotten bigger,

and 2020's retail winners will grab even more of it in the future."

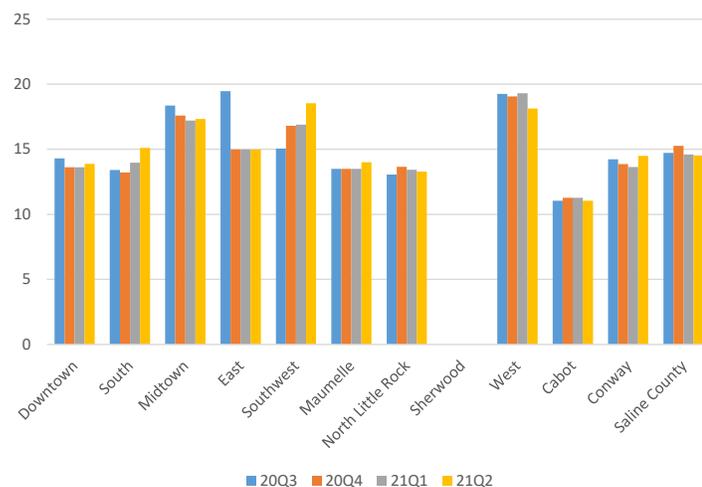
Retail investment sales are active but the deal flow is not quite there. We know there is a significant amount of capital and liquidity on the sideline as many investors pushed pause in 2020. As the vaccine rollout continues, the money shelved in 2020 is showing up, but good NNN retail product is limited which has created a seller's market and compressed cap rates significantly. The 1031 buyers, for example, are having a harder time securing replacement product nationwide due to the elevated competition. The proposed Biden tax plan is also something the CRE industry needs to keep a watch on as the top tax rate on capital gains will increase to 43.4% from 23.8%.

## New Development

The Little Rock MSA development market has been robust this quarter. Continued demand, low interest rates, and pent-up investor capital have continued to fuel development projects across Little Rock, the surrounding communities, and the state. A notable development trend has been the expansion of new financial institutions in the west Little Rock submarket. Bancorp South, Arkansas Federal Credit Union, Encore, First Community Bank, and Bank OZK have developed significant branches and headquarters during the past 18 months. This significant activity in west Little Rock will continue to spur demand for additional service-oriented businesses and should lead to more growth in this corridor (i.e. Costco). There are also large upscale multifamily projects and single family neighborhoods underway including The Fitzroy Promenade, The Blake, and Bear Den Estates. Due to the geographic constraints of the city, look for more expansion west as our city continues to grow.

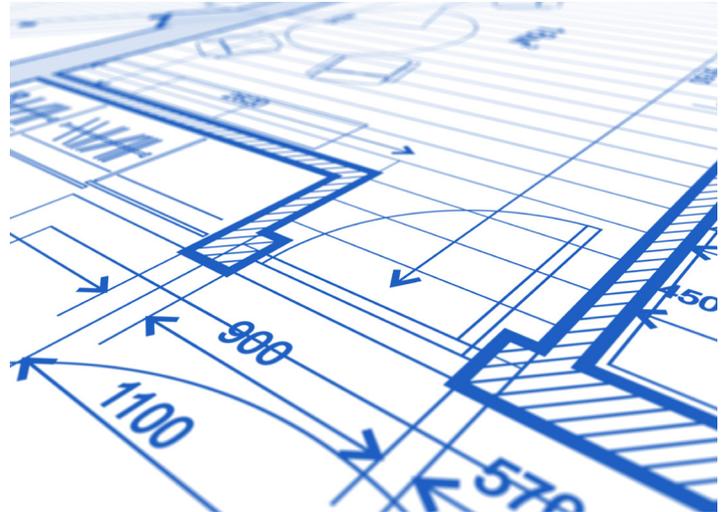
Developers continue to feel the effects of the supply chain strain including material delays, and labor shortages. During the past few months, many contractors had a difficult time finding laborers to staff projects. This in turn translates into longer building delivery dates and higher prices. Contractors, suppliers and developers are still hopeful that this bottleneck will self-correct and allow for more competitive prices and reliable material delivery. We've already seen this happen with lumber.

Retail Average Lease Rates



## New Development (cont.)

As we continue to transition out of COVID-19 protocols, city and municipal policies are having a significant impact (positive and negative) on development across the MSA. It's encouraging to see some cities embrace a more streamlined approach to development approvals by utilizing new technology. Some cities have also laid out very clear paths (online) for items like rezoning, final plats and large scale development approvals. For other municipalities, developers are experiencing significant delays due to fragmented departments and lengthy approval processes. Developers are also navigating increased regulations that can add significant costs to a project. More stringent requirements like impact fees, offsite improvements, increased material specifications, regional storm water facilities and numerous layers of third-party inspections have played a large factor in these increased costs.



## Recent Transactions



**Lease**

1 Information Way  
 Office | Midtown | 5,982 SF



**Lease**

The Victory Building  
 Office | Downtown | 3,074 SF



**Lease**

Kirkpatrick Plaza  
 Office | West | 2,121 SF



**Sale**

Mauldin Plaza  
 Retail | Conway | \$73.48/SF



**Sale**

9110 Lew Drive  
 Industrial | South | \$28.78/SF



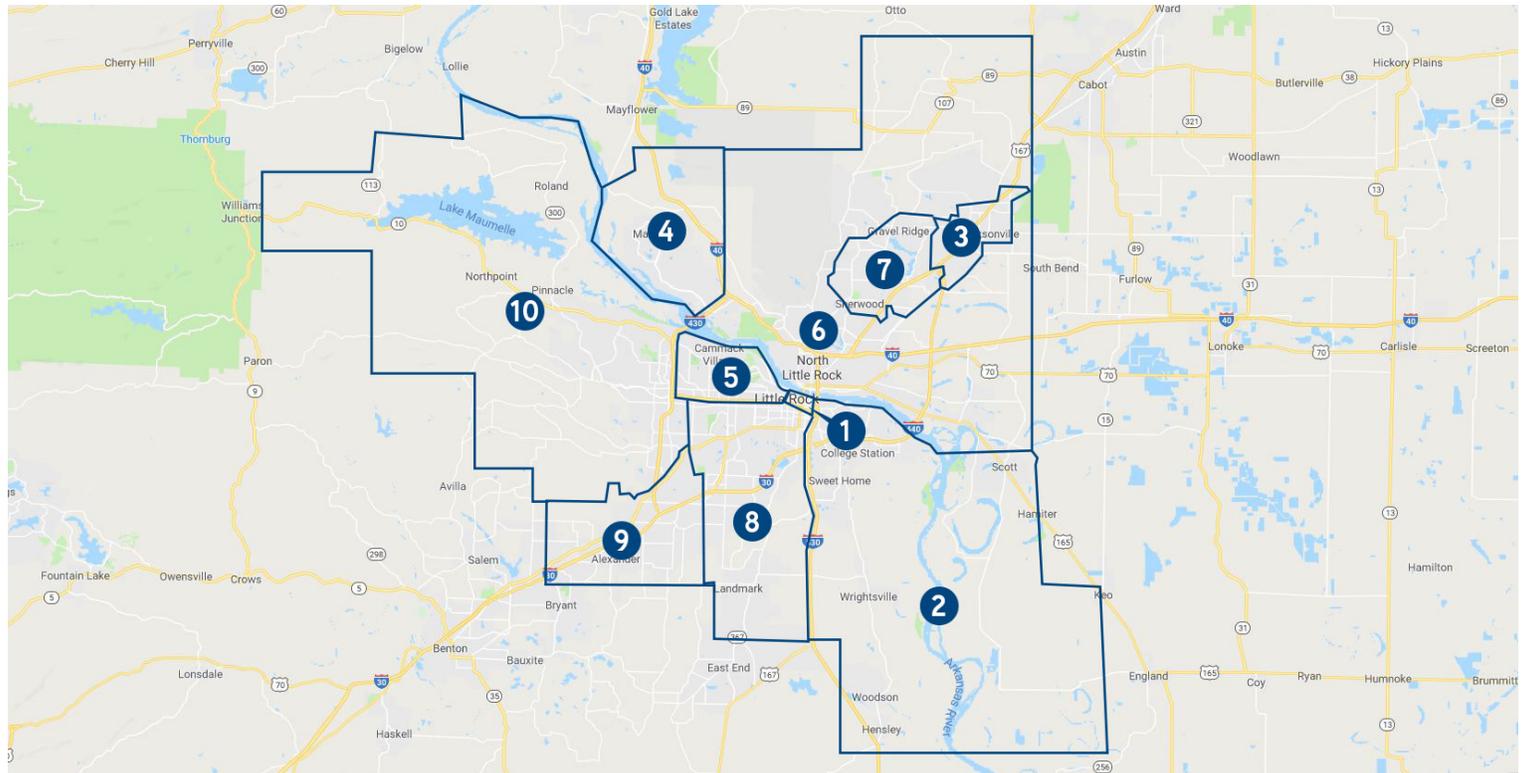
**Sale**

Extended Stay America  
 Hospitality | West | \$27.05/SF

Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
<b>Central Arkansas</b>					
<b>Downtown</b>					
Industrial	107,724 SF	30,000 SF	\$3.20/SF	-	8,000 SF
Office	180,481 SF	558,132 SF	\$16.84/SF	50,000 SF	58,483 SF
Retail	110,617 SF	70,823 SF	\$13.88/SF	-	1,425 SF
<b>TOTAL</b>	<b>398,822 SF</b>	<b>658,955 SF</b>	<b>\$16.15/SF</b>	<b>50,000 SF</b>	<b>67,908 SF</b>
<b>East</b>					
Industrial	91,300 SF	500,592 SF	\$4.91/SF	-	-
Office	47,088 SF	-	-	-	-
Retail	7,624 SF	7,924 SF	\$14.98/SF	-	-
<b>TOTAL</b>	<b>146,012 SF</b>	<b>508,516 SF</b>	<b>\$8.96/SF</b>	<b>-</b>	<b>-</b>
<b>Jacksonville</b>					
Industrial	265,594 SF	303,520 SF	\$3.25/SF	-	-
Office	22,524 SF	-	-	-	-
Retail	109,309 SF	100,629 SF	\$10.84/SF	32,925 SF	1,065 SF
<b>TOTAL</b>	<b>397,427 SF</b>	<b>404,149 SF</b>	<b>\$10.37/SF</b>	<b>32,925 SF</b>	<b>1,065 SF</b>
<b>Maumelle</b>					
Industrial	42,958 SF	166,682 SF	\$7.50/SF	-	-
Office	14,699 SF	9,297 SF	\$12.13/SF	7,076 SF	-
Retail	-	45,092 SF	\$14.00/SF	73,825 SF	-
<b>TOTAL</b>	<b>57,657 SF</b>	<b>221,071 SF</b>	<b>\$10.45/SF</b>	<b>80,901 SF</b>	<b>-</b>
<b>Midtown</b>					
Industrial	-	182,522 SF	\$5.51/SF	-	24,000 SF
Office	137,901 SF	380,070 SF	\$17.57/SF	180,852 SF	48,751 SF
Retail	76,635 SF	281,908 SF	\$17.33/SF	10,000 SF	8,333 SF
<b>TOTAL</b>	<b>214,536 SF</b>	<b>844,500 SF</b>	<b>\$15.97/SF</b>	<b>190,852 SF</b>	<b>81,084 SF</b>
<b>North Little Rock</b>					
Industrial	467,047 SF	472,550 SF	\$5.84/SF	289,006 SF	47,910 SF
Office	106,993 SF	125,225 SF	\$15.56/SF	39,512 SF	22,227 SF
Retail	18,490 SF	344,530 SF	\$13.28/SF	-	7,542 SF
<b>TOTAL</b>	<b>592,530 SF</b>	<b>942,305 SF</b>	<b>\$12.69/SF</b>	<b>328,518 SF</b>	<b>77,679 SF</b>
<b>Sherwood</b>					
Industrial	40,168 SF	25,050 SF	\$6.36/SF	-	-
Office	47,003 SF	5,790 SF	\$16.14/SF	5,112 SF	70,033 SF
Retail	10,326 SF	67,489 SF	-	-	-
<b>TOTAL</b>	<b>97,497 SF</b>	<b>98,329 SF</b>	<b>\$12.14/SF</b>	<b>5,112 SF</b>	<b>70,033 SF</b>
<b>South</b>					
Industrial	805,217 SF	446,974 SF	\$7.06/SF	88,409 SF	84,704 SF
Office	10,741 SF	109,256 SF	\$12.50/SF	2,954 SF	7,684 SF
Retail	113,938 SF	135,039 SF	\$15.10/SF	-	6,400 SF
<b>TOTAL</b>	<b>929,896 SF</b>	<b>691,269 SF</b>	<b>\$9.39/SF</b>	<b>91,363 SF</b>	<b>98,788 SF</b>
<b>Southwest</b>					
Industrial	107,412 SF	30,500 SF	\$7.85/SF	17,150 SF	22,732 SF
Office	2,774 SF	31,156 SF	\$14.42/SF	-	5,168 SF
Retail	26,728 SF	39,795 SF	\$18.54/SF	22,180 SF	1,200 SF
<b>TOTAL</b>	<b>136,914 SF</b>	<b>101,451 SF</b>	<b>\$14.85/SF</b>	<b>39,330 SF</b>	<b>29,100 SF</b>

Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
<b>Central Arkansas</b>					
<b>West</b>					
Industrial	3,550 SF	23,802 SF	\$10.70/SF	-	54,529 SF
Office	286,661 SF	591,962 SF	\$20.21/SF	8,608 SF	53,315 SF
Retail	51,911 SF	547,691 SF	\$18.14/SF	125,525 SF	40,513 SF
<b>TOTAL</b>	<b>342,122 SF</b>	<b>1,163,455 SF</b>	<b>\$19.29/SF</b>	<b>134,133 SF</b>	<b>148,357 SF</b>
<b>Cabot</b>					
Industrial	50,852 SF	-	-	5,548 SF	-
Office	2,942 SF	3,900 SF	\$15.00/SF	-	-
Retail	202,729 SF	21,842 SF	\$11.04/SF	9,026 SF	7,200 SF
<b>TOTAL</b>	<b>256,523 SF</b>	<b>25,742 SF</b>	<b>\$12.03/SF</b>	<b>14,574 SF</b>	<b>7,200 SF</b>
<b>Conway</b>					
Industrial	608,797 SF	454,886 SF	\$7.92/SF	77,286 SF	26,400 SF
Office	31,968 SF	130,072 SF	\$14.50/SF	32,810 SF	18,249 SF
Retail	105,201 SF	369,418 SF	\$14.49/SF	31,844 SF	29,790 SF
<b>TOTAL</b>	<b>745,966 SF</b>	<b>954,376 SF</b>	<b>\$13.34/SF</b>	<b>141,940 SF</b>	<b>74,439 SF</b>
<b>Saline County</b>					
Industrial	13,500 SF	70,000 SF	\$5.33/SF	-	112,920 SF
Office	-	31,299 SF	\$20.75/SF	3,183 SF	-
Retail	79,133 SF	49,949 SF	\$14.52/SF	7,220 SF	12,045 SF
<b>TOTAL</b>	<b>92,633 SF</b>	<b>151,248 SF</b>	<b>\$14.69/SF</b>	<b>10,403 SF</b>	<b>124,965 SF</b>

## 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



### 15401 Chenal Pkwy | West

Colin Gillis purchased the 417,045 SF multi-family property from Brandon Huffman for: **\$63,300,000 | \$151.78/SF**



### 4701 Northshore Dr | North Little Rock

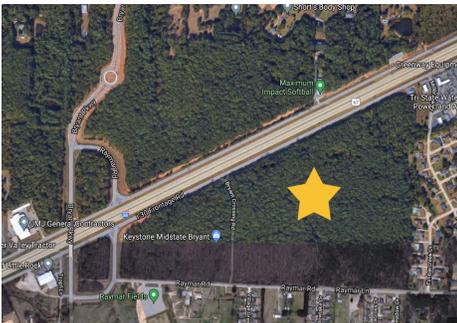
4701 Little Rock DST purchased the Garver Building, 39,512 SF office building from Old House Capital for: **\$13,200,000 | \$334.08/SF**



### 6310 Colonel Glenn Rd | Midtown

Colonel Glenn Realty Holdings LLC purchased the 186,172 SF multifamily property from Bradford Estates, LLC for: **\$9,200,000 | \$49.42/SF**

## Significant Lease Activity



### Bryant Pkwy @ I-30 | Saline County

Logan Outdoor Products, LLC leased 112,920 SF of industrial space.



### 5430 Landers Rd | Sherwood

Wipro Limited leased of 70,033 SF of office space.



### 7825 Fourche Rd | South

TAS Environmental Services, LP leased 17,500 SF of industrial space.

## Notable Construction

Property	Submarket	Property	Submarket
Arkansas Federal Credit Union Headquarters	West	Chase Bank	Midtown
Two-Tenant Retail in front of Target	NLR	The Blake on Rahling	West
NE corner of Chenal Valley Rd & Rahling Rd	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



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