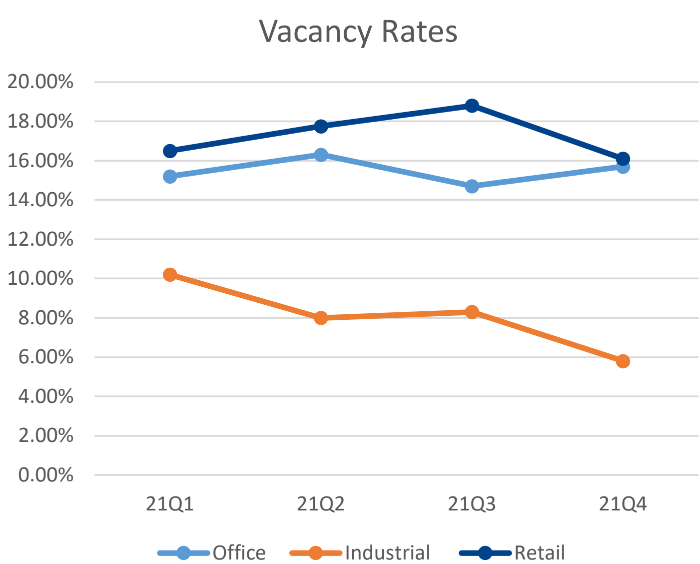
Key Takeaways

- Industrial vacancies at lowest rates
- Retail shows signs of stabilizing
- Office market strongest in west Little Rock and Riverdale neighborhoods

Q4 Ends on Positive Note for Most of LR Metro Commercial Market

Downtown Office Market Continues to Struggle

Q4 2021 brought mostly positive news to the Little Rock metro market. Industrial vacancy was at its lowest, starting at 10.2% in Q1 and strengthening each quarter to its Q4 ending at 5.8%. Retail began stabilizing by dropping to its lowest vacancy rate of the year. The office submarket increased in vacancy, but only by a half percentage since Q1 as downtown's office towers continued their struggle resulting in uncertainty in that submarket. But increased activity in west Little Rock and Riverdale – including new bank headquarters in each area – prove those neighborhoods remain in high demand for office space.



Historic Comparison: Vacancy

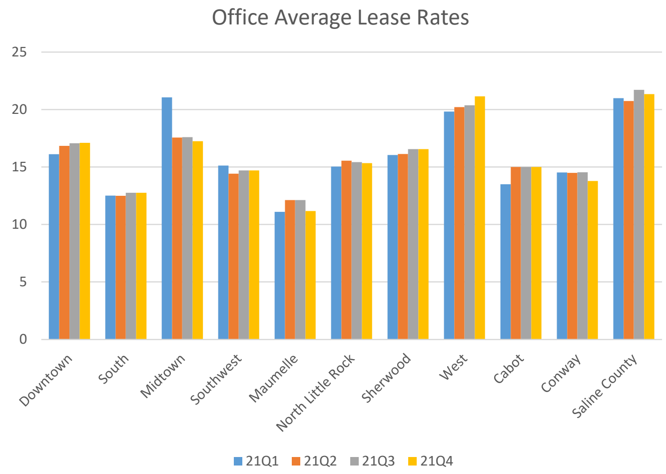
	21Q1	21Q2	21Q3	21Q4
Office Vacancy	15.2%	16.3%	14.7%	15.7%
Industrial Vacancy	10.2%	8.0%	8.3%	5.8%
Retail Vacancy	16.5%	17.75%	18.8%	16.1%

Developers continue to look at Arkansas. Since industrial space is scarce, users are either getting creative with smaller spaces or seeking out well-positioned land for new construction. This is the second year in a row that industrial activity has outpaced office activity.

Retail investment is in high demand. Investors are willing to take more risks and NNN retail isn't staying on the market long. Little Rock's secondary markets are growing fast as well. Saline County spaces are leasing up quickly. The Colliers team fully-leased an empty mixed-use building in Bryant in about 60 days. The vacancy rate dropped to 16.1% which is slightly lower than Q1 2021.

Office

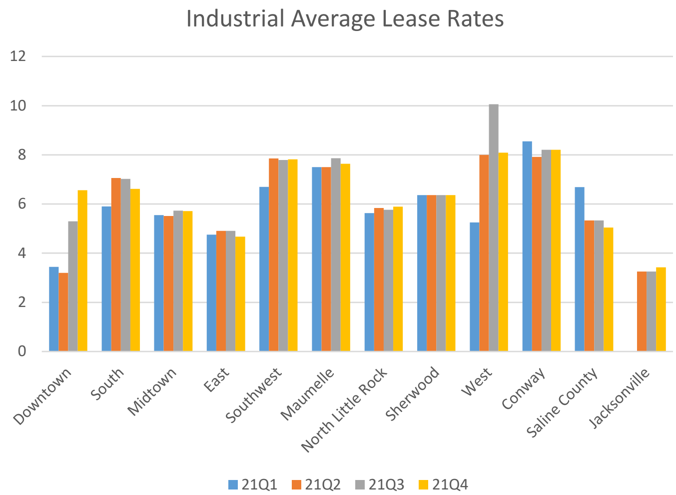
The Little Rock office market vacancy moved from 14.7% to 15.7% during the fourth quarter. This reflects slight increases in the suburban markets with more dramatic increases downtown. Two of the original downtown towers are struggling financially and the current ownerships are in the process of giving the properties back to the lenders. This uncertainty causes much tenant concern and will likely trigger additional vacancies. Downtown rental rates continue to decrease while suburban rates are holding relatively steady.



For the year, the overall office market vacancy only increased a modest one-half percentage point, which is well below national averages. With construction prices at all-time highs, it is unlikely we will see any new construction in 2022. The biggest question is the continued momentum of the "work-from-home" movement. Will this continue as we work our way out of the pandemic? Most indications are that it will, at least for the near future. There are strong indications that several significant office users in the market will continue to downsize their footprint over the next few years. That being said, it is likely vacancies will continue to creep upward with rents remaining static (or declining in some submarkets) in the short term.

Industrial

The industrial sector continues to tighten up and outperform all other commercial sectors in central Arkansas. The year began with vacancy rates just over 10% and ended under 6%. Increasing demand and lack of supply continues to bolster asking rates and decrease landlords' need to offer the tenant the concessions called for in previous years. While e-commerce continues to be a major contributor to the sector's surge, this quarter also showed more interest from smaller-scale users willing to get creative in re-purposing more expensive investment-level assets for their business' use, something still unprecedented and justified by new construction costs. For the bulk warehouse users that can handle the cost of new construction, unsolicited offers for well-positioned large acreage tracts are increasing and are competitive in the market. New speculative bulk distribution product continues to be anticipated in the pipeline as supply remains dry. In the meantime, landlords and owners looking to unload existing industrial product in the central Arkansas market continue to be in a good position to take advantage of the insufficient supply.



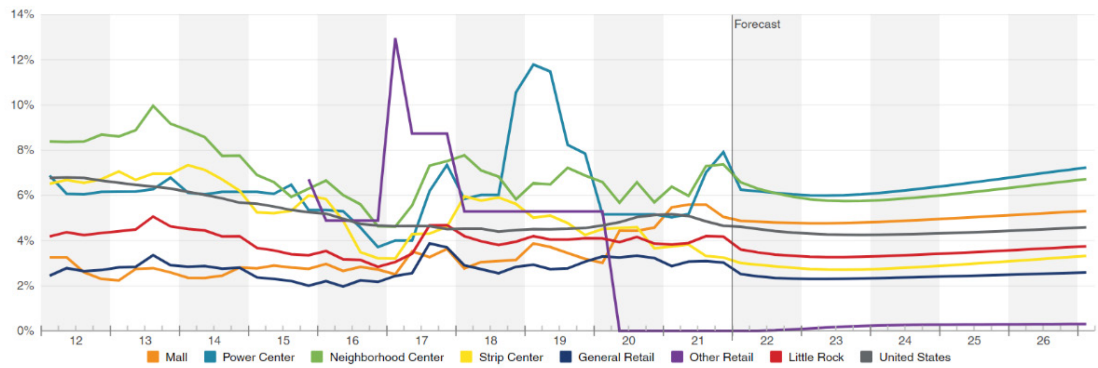
Retail

In spite of continued pressure on the industry from the pandemic, retail leasing and net absorption in the Little Rock market has held steady coming out of Q3. In fact, net absorption for the Little Rock market has remained strong over the past two calendar years, allowing vacancy rates to consistently remain below the U.S. average.

Retail (cont.)

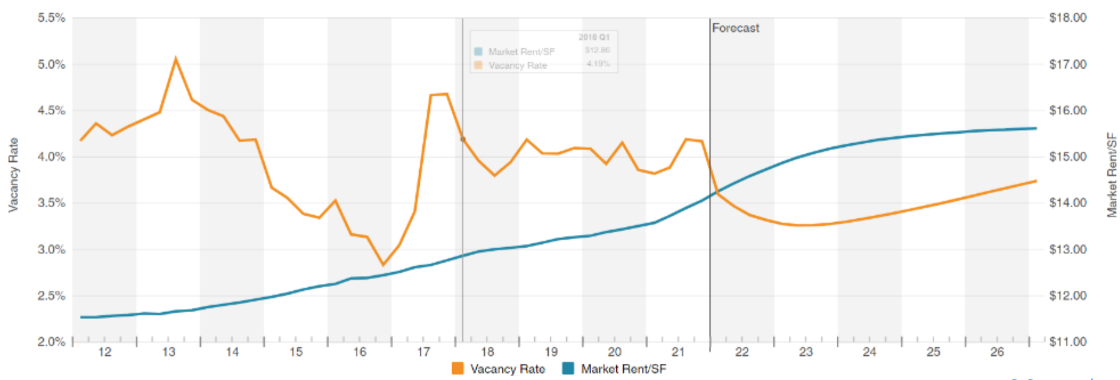
The pandemic continues to create unpredictability in the market, nationally as well as locally. However, considering where we have been the past 24 months in terms of vacancy and lease rate anomalies, we are starting to see some leveling out of lease rates and seem to be moving past the spikes in vacancy. The past two years have actually served to flush out some tenants teetering on vacancy, allowing property owners to re-position and re-price assets and take advantage of stronger lease rates and higher demand for space. As a result, we expect to see this trend of softening vacancy and leveling out of retail lease rates to continue well into 2022.

Vacancy Rate



CoStar graph

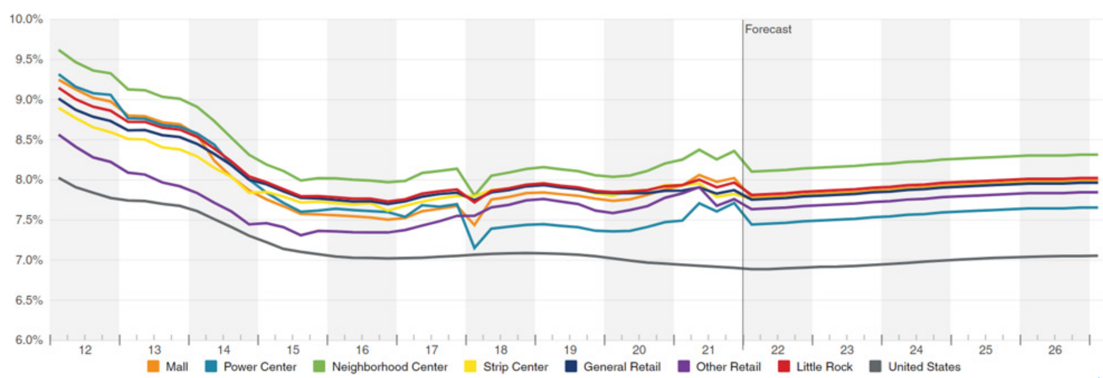
Vacancy & Market Rent Per SF



CoStar graph

Despite the disruption caused by the pandemic, retail property has been the strongest sector of the industry, in terms of sales, over the past two quarters and is expected to continue this trend through Q1 of 2022. Strong performance by the national tenant pool and the upward trend in lease rates, coupled with historically low interest rates, has fueled the surge in this sector, with investment sales in the Little Rock market coming in just under $300,000,000 for 2021.

Market Cap Rate



CoStar graph

As a result, cap rate compression has been steady over the past two quarters, with the steepest drop over Q4, particularly in sales of power centers and strip centers, driven by lower vacancy rates coupled with investors seeking credit-enhanced stability. We see the compression leveling out during the first quarter of 2022 with cap rate levels remaining somewhat steady through 2022.

New Development

The state of the construction industry continues to greatly impact the development sector. We are currently experiencing an unprecedented occurrence of material shortages, shipping delays, and inflated material costs along with a decrease in available labor. Both inflated pricing and supply shortages in materials have caused construction professionals to extend project completion time frames and/or seek out alternate materials that are readily available. A decrease in the labor pool has also created additional challenges for current construction projects as manpower is not available to complete projects in a timely fashion. Overall the COVID pandemic has made it very challenging to develop and build and it’s unlikely we will see the industry bounce back to pre-pandemic schedules and budgets in the very near future. As a result, the development industry has been forced to adapt to the current climate. Some adaptation options include: innovative designs and material choices to combat delivery delays and pricing increases; unconventional scheduling methods with general contractors to ensure material procurement; and adaptive reuse projects vs. new construction. Developers are also keeping a close eye on interest rate increases. The low rate environment over the last few years has enabled developers to continue to underwrite deals with adequate profit margins even with the increase in construction pricing. As rates start to increase and construction prices soar, this squeeze will start to impact the viability of new construction projects. The positive news is that demand for development is still robust. Our team is hopeful that material pricing and timing delays will level out in late 2022 and demand will remain strong.

Recent Transactions

Lease
5800 Lindsey Road
Industrial | East | 50,000 SF

Lease
Riverdale Center
Industrial | Midtown | 4,000 SF

Lease
Kirkpatrick Plaza
Office | West | 2,105 SF

Sale
3502 John F Kennedy Boulevard
Retail | NLR | $217.22/SF

Sale
200 River Market Ave #100
Medical | Downtown | $209.69/SF

Sale
2110 Harkrider Street
Retail | Conway | $195.88/SF

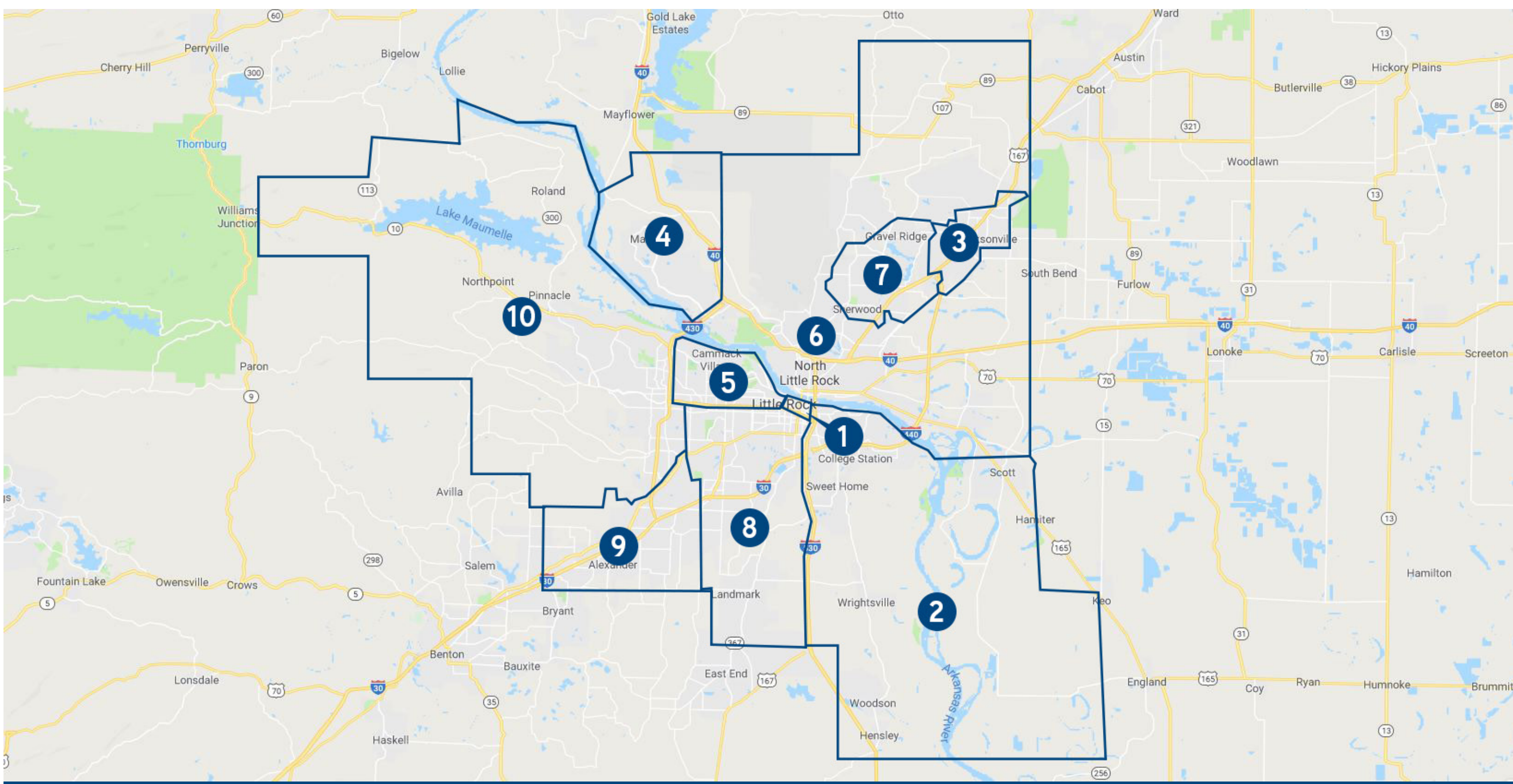
Little Rock | 21Q4 | Market Statistics

Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Central Arkansas					
Downtown					
Industrial	186,577	50,700	$6.56/SF	4,500 SF	-
Office	102,089	628,907	$17.09/SF	57,441 SF	18,960 SF
Retail	338,737	128,909	$15.24/SF	-	-
TOTAL	**627,403**	**808,516**	**$16.52/SF**	**61,941 SF**	**18,960 SF**
East					
Industrial	91,300	467,462	$4.67/SF	17,500 SF	76,325 SF
Office	47,088	-	-	-	-
Retail	54,406	7,924	$14.98/SF	400 SF	-
TOTAL	**192,794**	**475,386**	**$9.82/SF**	**17,900 SF**	**76,325 SF**
Jacksonville					
Industrial	274,594	316,838	$3.43/SF	368,318 SF	-
Office	25,988	-	-	-	-
Retail	235,764	116,783	$10.45/SF	9,919 SF	900 SF
TOTAL	**536,346**	**433,621**	**$9.71/SF**	**378,237 SF**	**900 SF**
Maumelle					
Industrial	7,000	121,000	$7.64/SF	35,958 SF	-
Office	11,701	7,667	$11.17/SF	-	4,130 SF
Retail	25,140	54,208	$12.93/SF	-	3,330 SF
TOTAL	**43,841**	**188,475**	**$10.29/SF**	**35,958 SF**	**7,460 SF**
Midtown					
Industrial	43,017	204,880	$5.71/SF	-	9,000 SF
Office	171,972	314,026	$17.30/SF	1,738 SF	26,965 SF
Retail	122,138	344,156	$16.61/SF	14,066 SF	20,150 SF
TOTAL	**337,127**	**876,082**	**$15.68/SF**	**15,804 SF**	**56,115 SF**
North Little Rock					
Industrial	604,117	464,030	$5.97/SF	81,727 SF	8,712 SF
Office	167,501	109,234	$15.34/SF	122,575 SF	5,592 SF
Retail	97,074	428,225	$12.90/SF	38,726 SF	-
TOTAL	**869,692**	**1,058,907**	**$12.03/SF**	**243,028 SF**	**14,304 SF**
Sherwood					
Industrial	21,600	25,050	$6.36/SF	-	-
Office	98,999	75,790	$16.56/SF	-	-
Retail	31,667	71,569	$13.00/SF	-	-
TOTAL	**152,266**	**172,409**	**$12.66/SF**	**-**	**-**
South					
Industrial	1,619,715	724,257	$6.62/SF	-	55,788 SF
Office	14,745	59,022	$12.77/SF	-	-
Retail	309,763	135,335	$14.58/SF	22,092 SF	9,012 SF
TOTAL	**1,944,223**	**880,896**	**$9.51/SF**	**22,092 SF**	**64,800 SF**
Southwest					
Industrial	-	46,571	$7.82/SF	38,000 SF	29,987 SF
Office	7,036	29,901	$14.70/SF	1,215 SF	-
Retail	55,685	32,271	$19.47/SF	39,605 SF	2,564 SF
TOTAL	**62,721**	**119,993**	**$14.21/SF**	**78,820 SF**	**32,551 SF**

Little Rock | 21Q4 | Market Statistics

Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Central Arkansas					
West					
Industrial	9,050	33,821	$8.09/SF	11,414 SF	3,000 SF
Office	259,344	672,585	$21.16/SF	33,288 SF	50,573 SF
Retail	82,549	614,122	$20.53/SF	7,783 SF	38,107 SF
TOTAL	**350,943**	**1,320,528**	**$20.67/SF**	**52,485 SF**	**91,680 SF**
Cabot					
Industrial	138,873	-	-	-	-
Office	4,142	3,900	$15.00/SF	8,400 SF	-
Retail	211,449	43,707	$12.37/SF	603 SF	7,807 SF
TOTAL	**354,464**	**47,607**	**$12.70**	**9,003 SF**	**7,807 SF**
Conway					
Industrial	1,857,539	81,082	$8.21/SF	911,915 SF	-
Office	66,475	97,724	$13.58/SF	-	4,934 SF
Retail	120,539	399,595	$14.56/SF	27,864 SF	1,991 SF
TOTAL	**2,044,553**	**578,401**	**$12.92/SF**	**939,779 SF**	**6,925 SF**
Saline County					
Industrial	38,432	130,000	$5.04/SF	8,750 SF	-
Office	1,544	17,791	$21.35/SF	1,632 SF	-
Retail	108,172	80,985	$14.46/SF	3,200 SF	72,840 SF
TOTAL	**148,148**	**228,776**	**$14.43/SF**	**13,582 SF**	**72,840 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

McKenzie Park Apartments | West

Center Park Equity Fund, LLC purchased the 159,600 SF apartment complex from Panther Branch, LLC for:

$34,752,000 | $217.74/SF

480 Exchange Avenue | Conway

Westrock Beverage Company, LLC purchased the 909,915 SF industrial building from Kimberly-Clark Corporation for:

$10,000,000 | $19.07/SF

1201 Murphy Drive | Maumelle

Vault Avenida Maumelle Indl, LLC purchased the 35,958 SF industrial property from Murphy Industrial, LLC for:

$5,300,000 | $147.39/SF

Significant Lease Activity

1224 E 28th Street| East

Riverside Marine leased 26,325 SF of industrial space.

1 Allied Drive | Midtown

Gainwell Technologies, LLC renewed their lease of 21,125 SF of office space.

Bowman Plaza II | South

Brandon House Cultural & Performing Arts leased 16,124 SF of flex space.

Notable Construction

Property	Submarket	Property	Submarket
Chase Bank	**Multiple Submarkets**	**The Blake on Rahling**	**West**
Arkansas Federal Credit Union	West	North Little Rock Justice Center	NLR
Fitzroy Riverdale LLC - Apartment Complex	**Midtown**		

Arkansas**

- **2** offices in Little Rock & Northwest Arkansas
- **114** professionals & staff
- **24** brokers
- Over **19.3** million square feet under management
- **596** lease & sale transactions
- Over **$553** million total sales
- Over **$163** million total leases

**Based on 2021 results

Colliers is in 65 countries*

- **US $4.0** billion in annual revenue
- **18,000+** professionals and staff
- **2** billion square feet under management
- **54,000** lease & sale transactions
- **$46** billion assets under management

*All statistics are for 2020, are in U.S. dollars and include affiliates

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Arkansas Business 2021

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