



Central Arkansas

Market Report

22Q4

Key Takeaways

- Industrial sees the biggest leases
- Retail experiences biggest vacancy rate improvement
- Multifamily continues to top the sales charts

Office and Retail Vacancy Rates Show Improvement in Q4 2022

Industrial Continues to Shine

Throughout 2022, the central Arkansas commercial real estate market enjoyed a steady decline in vacancy rates throughout the office and industrial sectors. By contrast, industrial flex space and the retail sector experienced a few more ups and downs. Despite that, retail ended the year with the best overall improvement in vacancy rates.

The office market started the year with a 14.1% vacancy rate and ended it with a 13.2% vacancy rate. A handful of large sales in Q4 – including First Security Bank’s purchase of the 286,654-square-foot FIS campus – contributed to the decline. Top leases for Q4 were all mid-range in size and helped maintain the steady vacancy decline along with the slowdown in large vacates near the end of the year.

Industrial vacancy rate rose just 0.2% from Q3, but continued the overall downward trend from the beginning of the year. With vacancy rates at record lows and few options above 20,000 square feet available in the market, it comes as no surprise that proposed under-construction and industrial developments are poised to add more than 1.6 million square feet to the market.

A handful of smaller flex spaces that went to market in Q4 contributed to the higher vacancy rate. The flex vacancy rates did rise from 8.4% to 8.9% throughout 2022, but the properties currently on the market are not expected to be available long considering the lack of product currently available.

The retail market experienced many ups and downs throughout 2022, beginning with a 13.2% vacancy rate and ending on a high note in Q4 at 10.1%. Retail was affected by many factors including interest rates, consumer spending, e-commerce, etc. Despite some big-box retailers exploring a move or downsizing, other retailers renewed or expanded their spaces. Edward’s Food Giant leased a new space in North Little Rock’s Lakewood Village and Hobby Lobby renewed their large space in Little Rock’s Rock Creek Square. We expect the retail market to maintain this upward trajectory in 2023.

Historic Comparison: Vacancy

	22Q1	22Q2	22Q3	22Q4
Office Vacancy	14.1%	14.3%	13.4%	13.2%
Industrial Vacancy	3.9%	4.0%	3.4%	3.6%
Flex Vacancy	8.4%	8.4%	7.5%	8.9%
Retail Vacancy	13.2%	14.4%	13.7%	10.1%

Office

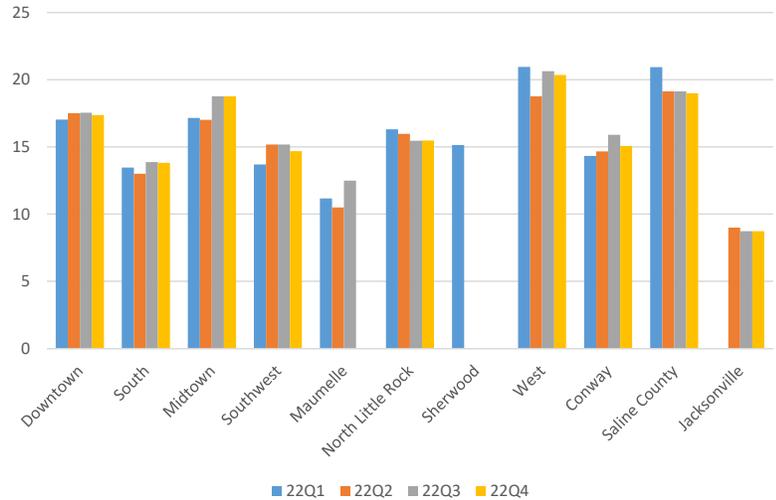
Despite lingering post-COVID trends, hawkish Federal Reserve interest rate hikes and typical year-end holiday slowdowns, the national office market only experienced a 30-basis point increase in vacancy over Q3 2022 with a national vacancy rate now standing at 15.7%. Locally, the central Arkansas office market experienced a vacancy rate of 13.2% quarter over quarter, a relatively flat positive absorption of .02%. The downtown and west Little Rock submarkets continue to lead all submarkets in both sales and leasing activity volume. Construction pricing remains inflated putting continued pressure on landlord and tenants alike in negotiations for new and renewing leases.

Trends for office downsizing and a continued push for shorter term renewals allowing corporate occupiers time to determine longer term staffing and associated spatial requirements remain.

Office rents in most central Arkansas submarkets saw very slight decreases this past quarter, but remained largely stable across all central Arkansas submarkets. The western submarket in particular continues to capitalize on owner-occupant's interest in cementing their presence in the suburban west Little Rock market. A prime example was the recent sale of the 286,654-SF former FIS campus at 4001 N. Rodney Parham Road to First Security Bank in a \$28 million transaction closing at year end. Additionally, several notable midtown medical/healthcare sales closed in Q4 totaling nearly \$6 million.

Cost of new office construction and anticipated near-term higher interest rates will continue to make existing office properties attractive options. Expect continued upward pressures on negotiated tenant improvement packages and annual rent escalations due to inflationary concerns while rents remain largely static.

Office Average Lease Rates



Former FIS campus at 4001 N. Rodney Parham Road purchased by First Security Bank.

Industrial

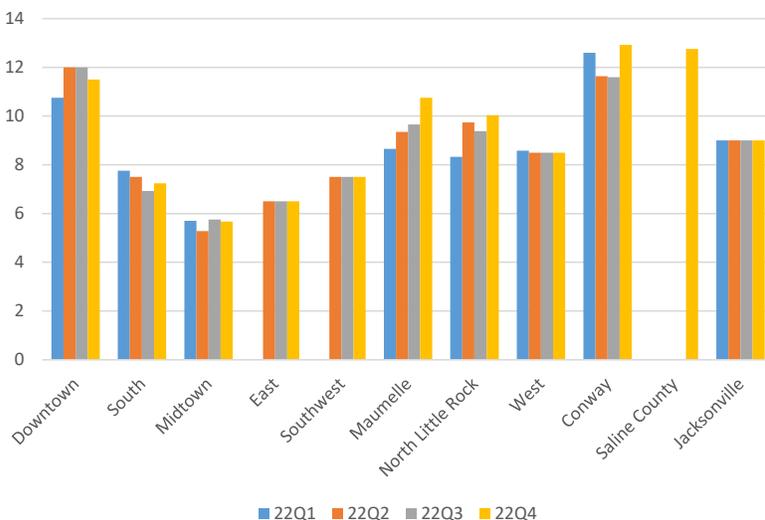
The industrial sector continued its robust lead in declining vacancy rates with Q4 falling only 20 basis points below the previous quarter's record-setting 3.4% vacancy. New leases brought longer term commitments and growing lease rates to submarkets across the board. More than 300,000 square feet of the absorption can be attributed to just two leases: AFCO Steel and the Federal Metal Company, located in the Little Rock Industrial Port and the North Little Rock submarket respectively. Other notable leasing activity occurred in smaller and similarly freestanding facilities, including a 23,000-square-foot lease at 6203 Patterson Road, and a 17,000-square-foot lease at 7001 I-30 South, both located within the southwest Little Rock submarket.

Within the capital markets, investors' perception of the sector's long-term strength was reinforced with a 182,000-square-foot multi-tenant industrial complex's purchase price at \$16,500,000, despite the Federal Reserve's rising interest rates. The pent-up demand for both stabilized and value-add industrial and flex investment opportunities continued, as many owners were unwilling to offset their perception of their asset's value to accommodate buyers' climbing interest rates. This continues to fuel new speculative industrial development projects, as well as non-speculative construction, as evidenced by Westrock's groundbreaking of a new 524,000-square-foot coffee roasting and ready-to-drink packaging facility in Conway.

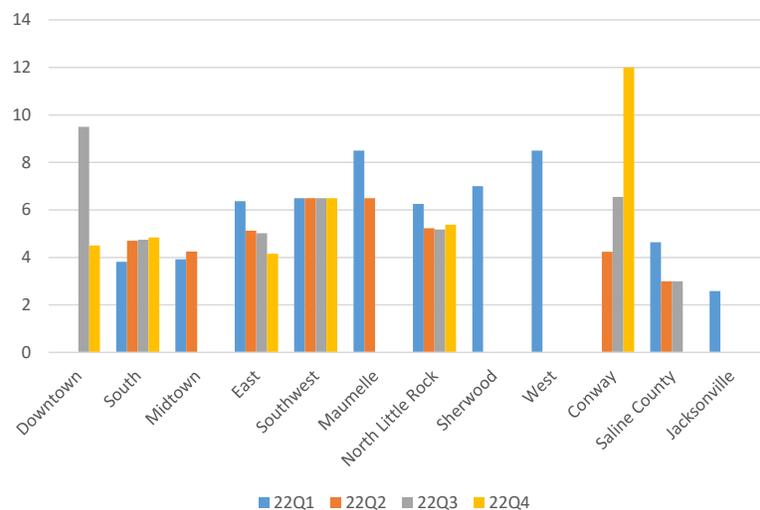


Former Kimberly-Clark factory in Conway. Westrock Coffee Company press photo.

Flex Average Lease Rates



Industrial Average Lease Rates



Retail

Central Arkansas' retail vacancy rates continued their steady improvement through the final quarter of 2022, ending the year with 10.1% vacancy rate as compared to 13.2% in Q1 2022. The national average is under 5%.

From a macro perspective, inflation clearly slowed consumer spending in the latter part of 2022, forcing some retailers to shutter operations in underperforming locations, along with some less-capitalized local retailers going dark. Additionally, e-commerce continues to gather post-pandemic steam as consumers grow more and more comfortable with obtaining their goods online, accounting for more than 20% of global retail, and growing. This trend will not reverse. As a result many national retailers are re-thinking their approach to brick and mortar, typically transitioning to smaller footprint stores.

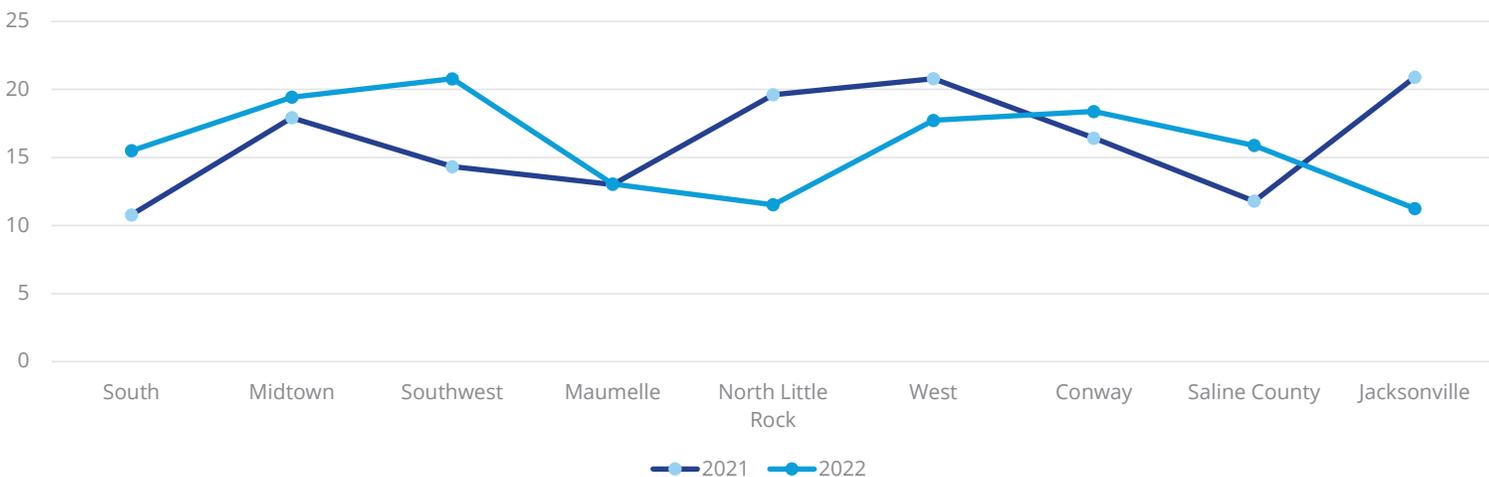
The retail outlook for 2023 is expected to improve. With inflation finally slowing and interest rates predicted to stabilize later this year, consumer spending power should continue to climb. Specifically, growth in brick-and-mortar stores will be driven mainly by smaller shops such as neighborhood centers. Consumers like to shop locally as these neighborhood stores offer convenience and personal interaction.

Absorption of central Arkansas retail space showed encouraging results in 2022, with 28% of lease space available for rent being leased, and 23% of space for sale being purchased, both positives for our market.



	YE 2021	YE 2022	% Absorption +/-
Available SF for Sale	1,793,083 SF	1,380,977 SF	23.0% +
Available SF for Lease	2,457,789 SF	1,766,963 SF	28.1% +

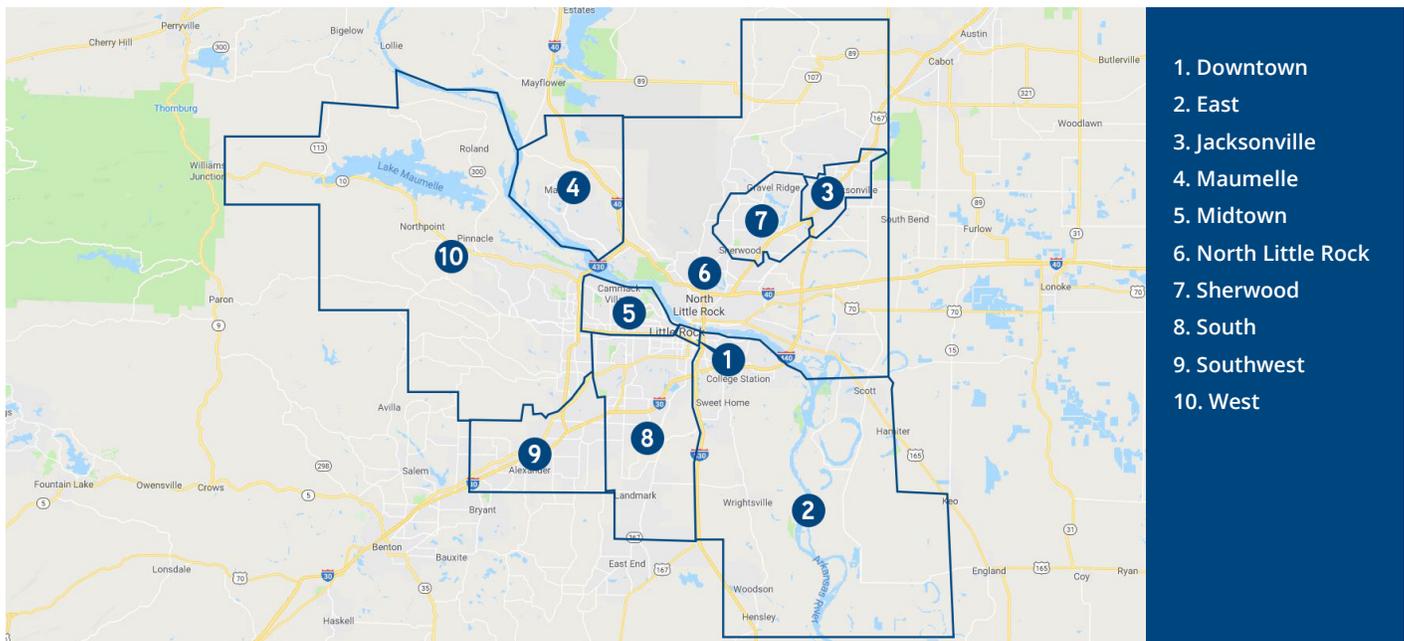
Retail Lease Rates



Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Central Arkansas					
Downtown					
Industrial	-	30,000 SF	\$4.50/SF	-	-
Flex	52,390 SF	6,984 SF	\$11.50/SF	4,691 SF	-
Office	308,360 SF	826,385 SF	\$17.37/SF	36,583 SF	4,707 SF
Retail	112,011 SF	132,827 SF	\$15.04/SF	76,534 SF	-
TOTAL	472,761 SF	996,196 SF	\$17.04/SF	117,808 SF	4,707 SF
East					
Industrial	50,000 SF	228,383 SF	\$4.16/SF	12,000 SF	-
Flex	-	16,750 SF	\$6.50/SF	-	-
Office	-	3,182 SF	\$7.00/SF	-	-
Retail	-	2,000 SF	\$18.00/SF	-	2,500 SF
TOTAL	50,000 SF	250,315 SF	\$6.06/SF	12,000 SF	2,500 SF
Jacksonville					
Industrial	71,095 SF	-	-	9,346 SF	-
Flex	8,424 SF	6,000 SF	\$9.00/SF	-	-
Office	19,916 SF	7,932 SF	\$8.74/SF	-	-
Retail	2,890 SF	142,139 SF	\$9.85/SF	5,300 SF	3,500 SF
TOTAL	102,325 SF	156,071 SF	\$9.56/SF	14,646 SF	3,500 SF
Maumelle					
Industrial	-	-	-	-	-
Flex	8,400 SF	4,560 SF	\$10.75/SF	-	3,000 SF
Office	10,380 SF	-	-	37,958 SF	-
Retail	25,803 SF	16,088 SF	\$21.03/SF	-	-
TOTAL	44,583 SF	20,648 SF	\$18.60/SF	37,958 SF	3,000 SF
Midtown					
Industrial	6,272 SF	-	-	-	-
Flex	-	50,030 SF	\$5.67/SF	4,500 SF	7,740 SF
Office	56,724 SF	222,006 SF	\$18.77/SF	119,867 SF	3,100 SF
Retail	24,442 SF	239,564 SF	\$12.59/SF	6,596 SF	10,848 SF
TOTAL	87,438 SF	511,600 SF	\$17.65/SF	130,963 SF	21,688 SF
North Little Rock					
Industrial	201,937 SF	446,709 SF	\$5.38/SF	26,384 SF	-
Flex	24,160 SF	73,550 SF	\$10.03/SF	49,828 SF	21,330 SF
Office	32,903 SF	67,567 SF	\$15.48/SF	31,699 SF	3,604 SF
Retail	411,050 SF	221,205 SF	\$13.32/SF	19,381 SF	-
TOTAL	670,050 SF	809,031 SF	\$12.15/SF	127,292 SF	24,934 SF
Sherwood					
	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Industrial	-	-	-	-	-
Flex	-	-	-	-	-
Office	72,565 SF	106,449 SF	-	-	-
Retail	3,326 SF	5,000 SF	\$8.40/SF	-	-
TOTAL	75,891 SF	111,449 SF	\$8.40/SF	-	-
South					
Industrial	425,052 SF	349,393 SF	\$4.84/SF	15,200 SF	59,654 SF
Flex	42,554 SF	141,822 SF	\$7.24/SF	52,008 SF	-
Office	40,828 SF	56,709 SF	\$13.83/SF	18,080 SF	-
Retail	132,889 SF	143,160 SF	\$11.54/SF	2,264 SF	-
TOTAL	641,323 SF	691,084 SF	\$9.61/SF	87,552 SF	59,654 SF

Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Central Arkansas					
Southwest					
Industrial	-	10,000 SF	\$6.50/SF	-	-
Flex	16,374 SF	24,530 SF	\$7.50/SF	-	5,000 SF
Office	-	10,984 SF	\$14.68/SF	-	-
Retail	375,125 SF	90,020 SF	\$17.75/SF	15,538 SF	15,746 SF
TOTAL	391,499 SF	135,534 SF	\$12.79/SF	15,538 SF	20,746 SF
West					
Industrial	-	-	-	-	12,107 SF
Flex	98,909 SF	59,668 SF	\$8.50/SF	175,304 SF	3,600 SF
Office	266,778 SF	502,508 SF	\$20.36/SF	56,247 SF	44,603 SF
Retail	205,839 SF	456,885 SF	\$23.51/SF	38,970 SF	103,832 SF
TOTAL	571,526 SF	1,019,061 SF	\$21.31/SF	270,521 SF	164,142 SF
Cabot					
Industrial	30,670 SF	-	-	-	-
Flex	-	-	-	-	-
Office	1,200 SF	-	-	-	-
Retail	17,648 SF	108,022 SF	\$14.20/SF	17,509 SF	-
TOTAL	49,518 SF	108,022 SF	\$14.20/SF	17,509 SF	-
Conway					
Industrial	18,073 SF	74,380 SF	\$12.00/SF	-	-
Flex	-	2,904 SF	\$12.92/SF	-	-
Office	35,901 SF	106,419 SF	\$15.08/SF	-	120 SF
Retail	44,773 SF	174,003 SF	-	3,589 SF	900 SF
TOTAL	98,747 SF	357,706 SF	\$15.88/SF	3,589 SF	1,020 SF
Saline County					
Industrial	3,900 SF	66,000 SF	-	46,120 SF	-
Flex	12,000 SF	17,500 SF	\$12.75/SF	-	-
Office	1,876 SF	17,452 SF	\$18.99/SF	-	-
Retail	25,181 SF	36,050 SF	\$16.83/SF	-	5,250 SF
TOTAL	42,957 SF	137,002 SF	\$17.03/SF	46,120 SF	5,250 SF

Little Rock Submarkets



Significant Sales Activity



Ridge at Chenal Valley | West

SMEF Holding Company, LLC purchased the 833,763 SF apartment complex from Chenal Valley Partners, LLC for:

\$69,000,000 | \$82.76/SF



Bowman Plaza I & II | West

MCC Self Storage, LLC purchased the 182,000 SF flex buildings from CG-Bowman Properties, LLC for:

\$16,500,000 | \$90.66/SF



Main Street Lofts | Downtown

EPH 41 Main, LLC purchased the 41,534 SF mixed-use building from Main Street Lofts South, LLC for:

\$6,900,000 | \$166.13/SF

Significant Lease Activity



6203 Patterson Rd | South

Insulation Distributors, Inc. leased 22,754 SF of industrial space.



7001 I-30 | South

Binford Supply, LLC leased 16,900 SF of industrial space.



Bowman Business Park | West

Red River Pharmacy of Little Rock, LLC leased 12,107 SF of industrial space.

Notable Construction

Property	Submarket	Property	Submarket
Westrock Distribution Center	Conway	Hampton Inn & Suites	East
Home2 Suites by Hilton	Midtown	Arkansas Pharmacists Association	Downtown

Arkansas**

- 2 offices in Little Rock & Northwest Arkansas
- 113 professionals & staff
- 22 brokers
- Over 20 million square feet under management
- 628 lease & sale transactions
- Over \$642 million total sales
- Over \$291 million total leases

**Based on 2022 results

Colliers is in 62 countries*

- US \$4.6 billion in annual revenue
- 18,000+ professionals and staff
- 2 billion square feet under management
- 53,000 lease & sale transactions
- \$92 billion assets under management

*All statistics are for year-end 2021, are in U.S. dollars and include affiliates



**Best
of Biz**
Arkansas Business 2022

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