



Central Arkansas

Market Report

23Q1

## Key Takeaways

- Second-generation office space in demand
- Restaurants and entertainment leading retail
- Industrial vacancy drops further

## Little Rock Market Employs Creativity to Combat CRE Challenges

### Restaurants/entertainment facilitating retail comeback

The central Arkansas commercial real estate market began to find creative ways to combat tight industrial vacancies, hybrid schedules, and higher interest rates in Q1. With industrial space tighter than ever, tenants are beginning to look for more large space options. Office users are taking a harder look at second-generation buildings to save money, and retailers are mixing in lots of entertainment options to keep the industry afloat.

The office vacancy rate ticked down a bit from 13.2% at the end of 2022 to 12.6% in Q1 2023. Access Health Services signed the biggest lease with 22,000+ square feet on tap for their new North Little Rock space. The market saw a mix of both new and existing tenants making moves. Some existing tenants chose to downsize and relocate for the best fit rather than face the high construction costs that come with a new build. Some larger tenants are on the hunt for the owner/occupant properties that can provide the best value by way of letting the owner/occupant control their own tenant improvements. With landlords raising rates to cover the high cost of tenant improvements, it was no surprise that the market experienced a slight up-tick in average lease rates in Q1.

Industrial activity continued to lead the way in activity again in Q1 with vacancy rates tightening even more from 3.6% at the end of 2022 to 3.2% in Q1 this year. Many prospects are looking for 50,000 – 300,000 square feet and central Arkansas just doesn't have the supply to meet the demand on the lower end. Lease rates remained steady and competition remained high. Flex space could help fill in the gaps for smaller, single-tenant buildings, but new tenants will have to get creative with their space.

Retail is experiencing a lot of activity in the central Arkansas market with restaurants and entertainment options leading the charge. One notable sale included Park Plaza Mall, which is slated for rehab with its new owners. The Outlets of Little Rock was put on the market, as well, this quarter. The Main Event, an entertainment facility featuring bowling, virtual reality, laser tag and more, opened at Shackleford Crossing and Topgolf officially broke ground and construction is underway. High construction costs and lower lease rates should help the market remain stable. Many retailers are seeking space that's not immediately available, making backfilling big box spaces as they come on the market an attractive tactic. A handful of national tenants, such as Bed, Bath & Beyond, have filed bankruptcy and those spaces are attractive for the mid-size requirements that many tenants are looking for but can no longer afford to build. Despite the high costs of construction, our market saw interest in new development pick up once again, primarily with concepts that combine a mix of entertainment that don't already exist in central Arkansas.

## Historic Comparison: Vacancy

	22Q2	22Q3	22Q4	23Q1
<b>Office Vacancy</b>	14.3%	13.4%	13.2%	12.6%
<b>Industrial Vacancy</b>	4.0%	3.4%	3.6%	3.2%
<b>Flex Vacancy</b>	8.4%	7.5%	8.9%	7.7%
<b>Retail Vacancy</b>	14.4%	13.7%	10.1%	8.8%

## Office

National office tenants are continuing to experiment with the trendy hybrid schedule which typically results in a tenant request to reduce their square footage need at renewal time. On the flip side, we have also seen several tenants, such as logistics and engineering groups, become aggressive with their expansion needs.

Demand for office buyers who are owner/occupants remains high, specifically in the smaller size range of 5,000 – 15,000 SF. Unfortunately, there is minimal inventory available in this range for sale and high construction costs are making it difficult to build new.

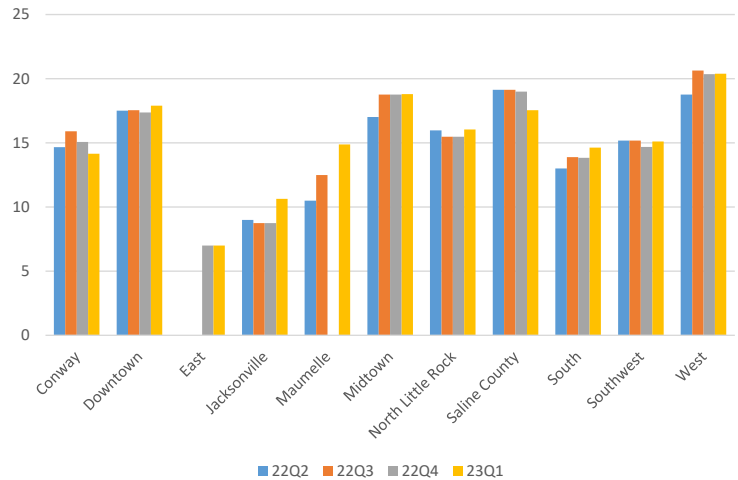
With many tenants coming up on their first renewal cycle since COVID, some are requesting shorter lease terms or pushing for termination options. Tenant improvement costs remain high and owners with move-in-ready space are capitalizing on the opportunity.

The office vacancy rate declined in Q1 from 13.2% to 12.6%, although this rate is slightly misleading due to a large amount of sublease space currently on the market. The central Arkansas market continues to show more blocks of space in the 20,000+ SF range than we have experienced in recent years. Based on these findings, we anticipate the vacancy rate to remain flat and maybe even inch slightly higher as the year proceeds.

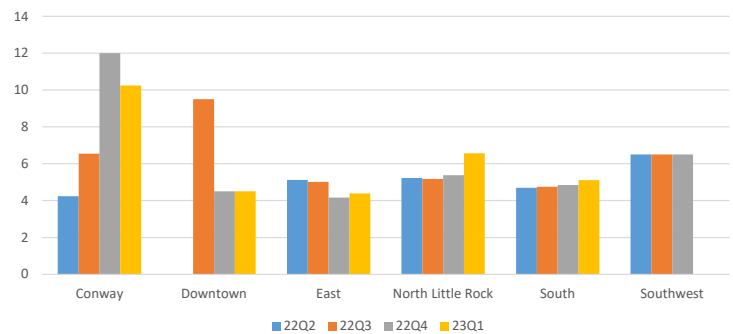
## Industrial

The industrial market strengthened throughout 2022 to its most stable position in decades with vacancy rates again falling to historic lows and nearing 3%. As we continue to see increased demand across the industrial landscape, rental rates are expected to continue to creep higher. This also will tighten the flex market as users are trying to keep their options open. With high construction prices holding steady, we are seeing strong competition for second-generation space. This has also given landlords the confidence to hold firm with renewal rates for existing tenants. As the Federal Reserve keeps interest rates high, more landlords will consider tenant improvement projects to retain their tenants. Demand for local investors, as well as capital markets, remains high as their confidence is affirmed. Examples of this include several Port of Little Rock transactions, including 6001 Lindsey Road, which was sold in February for \$8.5 million, and a recent 50,000-SF lease transaction at 5800 Lindsey Road, which was leased to a national credit tenant.

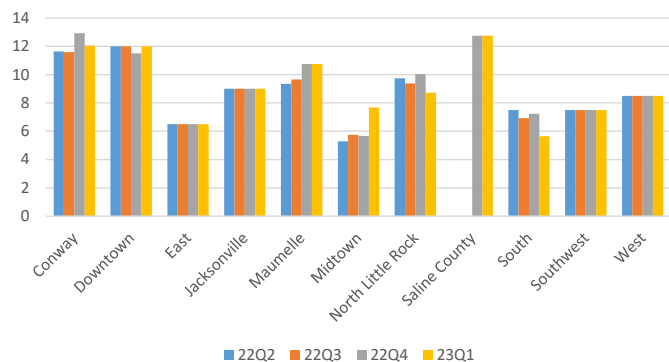
Office Average Lease Rates



Industrial Average Lease Rates



Flex Average Lease Rates



## Retail

The Q1 central Arkansas retail industry looked generally healthy and positive despite some macro challenges. Vacancy rates continued to improve, dipping to 8.8% vacancy as compared to a national average of 10.3%.

While high inflation, rising interest rates, and labor issues continue to affect consumer spending and retail operations, retailers remain active with space in short supply overall. Many retailers are seeking space that is simply not available in the market and high construction cost will be a prohibiting factor for new building competition, which should lead to a stable retail market.

The e-commerce trend continues to put pressure on brick-and-mortar retail, especially some of the large-box retailers. Bankruptcy filings by Bed Bath & Beyond, Party City, and Tuesday Morning may create more opportunities for other retailers to back-fill and establish a location in Central Arkansas.

Investment retail sales have seen a total shift in momentum lately as interest rates continue to rise and buyers who are looking for increased cap rates are met with sellers who are reluctant to adjust them. There is still high demand for 1031 exchange buyers to find quality replacement deals, and the ones who can buy with mostly cash and little debt are positioned to have an advantage over higher-leveraged buyers. The current lending market has also contributed to the challenge in acquiring investment property.

The majority of Q1's retail transactions were food- or entertainment-related leases or sales. The Main Event opened in Q1 occupying the former Gordman's Shackelford Crossing space. Topgolf construction is underway at the Village of Brodie Creek at Colonel Glenn and I-430, and there is a flurry of activity surrounding the remaining property at that site. 7-Brew coffees are also popping up at locations across central Arkansas.

Activity remains consistent at Gateway Town Center where Bass Pro Shops and the Outlets of Little Rock are located. Michaels opened this quarter backfilling Restoration Hardware at the outlets, and Waldo's Chicken & Beer is officially open in their new space near Chick-Fil-A where they backfilled the former David's Burgers location.

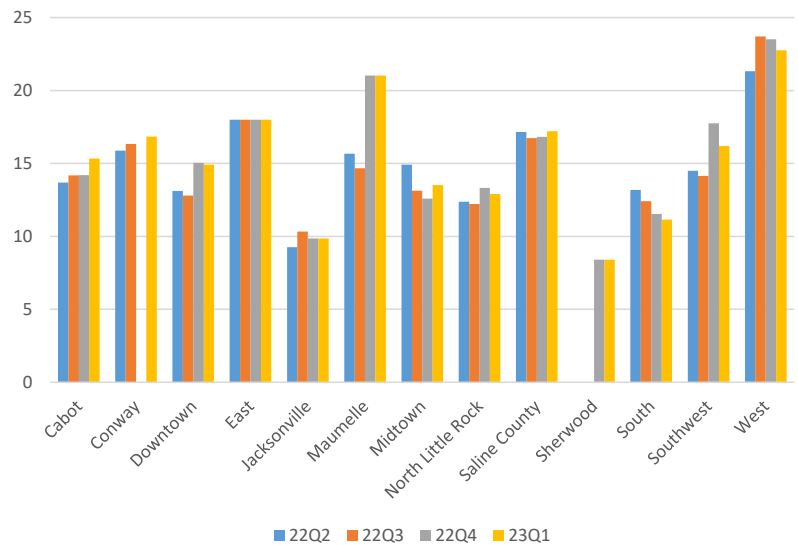
Two major announcements were made in Q1 and are poised to have significant impact for central Arkansas retail: Park Plaza is under new ownership, and The Middle, a mixed-use development near Cantrell and North Rodney Parham Road and the I-430 intersection, is now available. Park Plaza's new owners plan give the midtown mall the TLC that it has needed for quite some



time and return it to the desirable hub of shopping and dining that it used to be.

The Middle is Little Rock's premier in-fill mixed-use development poised to bring a confluence of walkable, bikeable, and drivable destinations. Positioned at one of the state's busiest intersections, The Middle is drawing lots of attention from different groups and should begin to take shape over the next year with some new restaurant, retail and entertainment concepts.

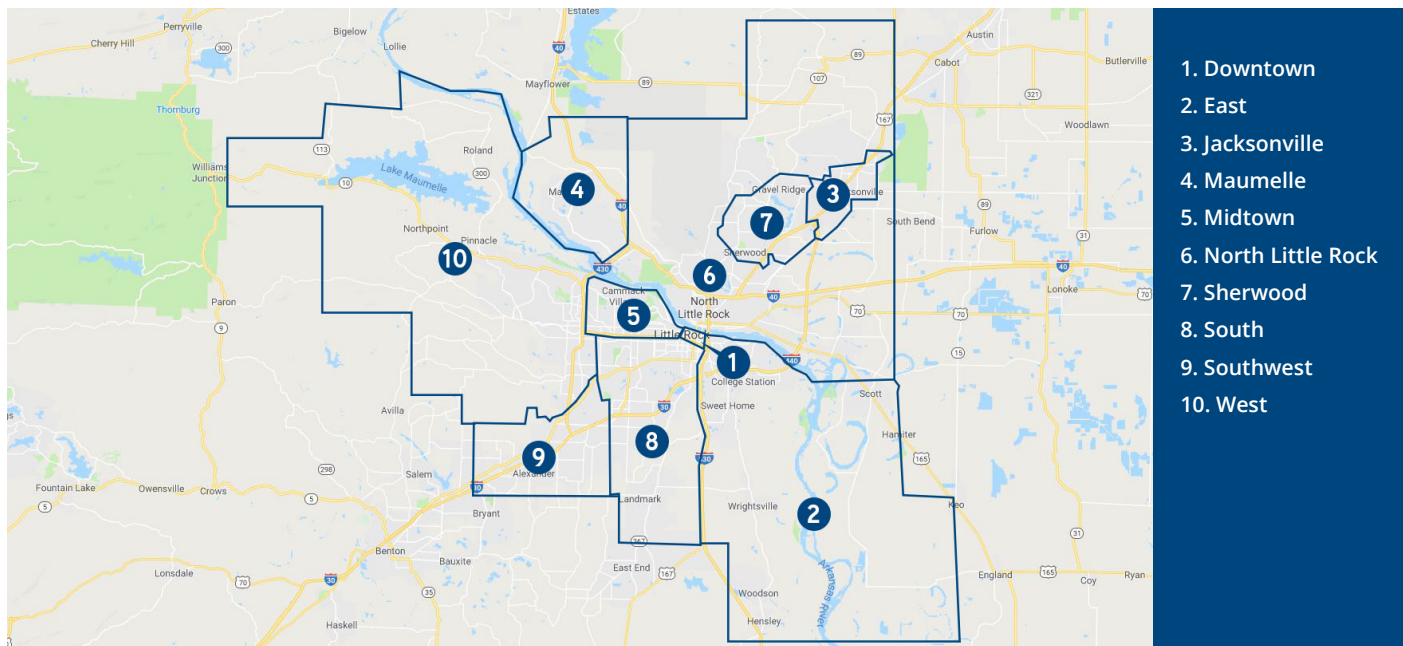
Retail Average Lease Rates



Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
<b>Central Arkansas</b>					
<b>Cabot</b>					
Industrial	21,410 SF	-	-	-	-
Flex	-	-	-	-	-
Office	1,200 SF	-	-	2,132 SF	-
Retail	36,114 SF	124,062 SF	\$15.33/SF	-	863 SF
<b>TOTAL</b>	<b>58,724 SF</b>	<b>124,062 SF</b>	<b>\$15.33/SF</b>	<b>2,132 SF</b>	<b>863 SF</b>
<b>Conway</b>					
Industrial	18,073 SF	60,540 SF	\$10.25/SF	44,880 SF	530,000 SF
Flex	8,000 SF	7,322 SF	\$12.04/SF	-	-
Office	55,284 SF	84,422 SF	\$14.16/SF	-	-
Retail	29,551 SF	202,724 SF	\$16.85/SF	24,412 SF	2,354 SF
<b>TOTAL</b>	<b>110,908 SF</b>	<b>355,008 SF</b>	<b>\$15.61/SF</b>	<b>59,292 SF</b>	<b>532,354 SF</b>
<b>Downtown</b>					
Industrial	-	30,000 SF	\$4.50/SF	-	-
Flex	47,906 SF	2,500 SF	\$12.00/SF	4,484 SF	-
Office	347,480 SF	1,047,548 SF	\$17.89/SF	2,249 SF	6,279 SF
Retail	116,391 SF	140,327 SF	\$14.91/SF	-	-
<b>TOTAL</b>	<b>511,777 SF</b>	<b>1,220,375 SF</b>	<b>\$17.52/SF</b>	<b>6,733 SF</b>	<b>6,279 SF</b>
<b>East</b>					
Industrial	50,000 SF	268,099 SF	\$4.39/SF	184,524 SF	-
Flex	-	14,634 SF	\$6.50/SF	-	-
Office	-	3,182 SF	\$7.00/SF	-	-
Retail	1,727 SF	2,000 SF	\$18.00/SF	-	-
<b>TOTAL</b>	<b>51,727 SF</b>	<b>1,254,250 SF</b>	<b>\$5.92/SF</b>	<b>184,524 SF</b>	-
<b>Jacksonville</b>					
Industrial	71,095 SF	-	-	-	-
Flex	8,424 SF	6,000 SF	\$9.00/SF	-	-
Office	53,004 SF	34,249 SF	\$10.64/SF	-	-
Retail	7,141 SF	142,139 SF	\$9.85/SF	2,720 SF	-
<b>TOTAL</b>	<b>139,664 SF</b>	<b>182,388 SF</b>	<b>\$9.99/SF</b>	<b>2,720 SF</b>	-
<b>Maumelle</b>					
Industrial	-	-	-	-	-
Flex	-	4,560 SF	\$10.75/SF	8,400 SF	-
Office	-	7,030 SF	\$14.88/SF	9,768 SF	3,350 SF
Retail	25,803 SF	23,288 SF	\$21.03/SF	510 SF	-
<b>TOTAL</b>	<b>25,803 SF</b>	<b>34,878 SF</b>	<b>\$18.86/SF</b>	<b>18,378 SF</b>	<b>3,350 SF</b>
<b>Midtown</b>					
Industrial	6,272 SF	8,000 SF	\$5.00/SF	-	-
Flex	-	52,055 SF	\$7.67/SF	-	-
Office	60,734 SF	247,711 SF	\$18.80/SF	8,875 SF	12,516 SF
Retail	38,642 SF	235,864 SF	\$13.52/SF	281,555 SF	12,986 SF
<b>TOTAL</b>	<b>105,648 SF</b>	<b>543,630 SF</b>	<b>\$17.66/SF</b>	<b>290,430 SF</b>	<b>25,502 SF</b>
<b>North Little Rock</b>					
Industrial	197,888 SF	353,293 SF	\$6.57/SF	173,934 SF	-
Flex	38,360 SF	95,080 SF	\$8.72/SF	-	3,000 SF
Office	18,888 SF	91,198 SF	\$16.04/SF	4,460 SF	29,500 SF
Retail	413,062 SF	235,041 SF	\$12.91/SF	9,406 SF	1,650 SF
<b>TOTAL</b>	<b>668,198 SF</b>	<b>774,612 SF</b>	<b>\$12.00/SF</b>	<b>187,800 SF</b>	<b>34,150 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>Saline County</b>					
Industrial	3,900 SF	66,000 SF	-	-	-
Flex	12,000 SF	17,500 SF	\$12.75/SF	-	-
Office	1,702 SF	18,959 SF	\$17.54/SF	1,876 SF	-
Retail	34,109 SF	33,420 SF	\$17.21/SF	5,250 SF	7,100 SF
<b>TOTAL</b>	<b>51,711 SF</b>	<b>135,879 SF</b>	<b>\$16.84/SF</b>	<b>7,126 SF</b>	<b>7,100 SF</b>
<b>Sherwood</b>					
Industrial	-	-	-	-	-
Flex	3,000 SF	3,000 SF	\$16.00/SF	-	-
Office	72,565 SF	79,973 SF	-	15,489 SF	-
Retail	3,326 SF	5,000 SF	\$8.40/SF	5,259 SF	-
<b>TOTAL</b>	<b>78,891 SF</b>	<b>87,973 SF</b>	<b>\$12.20/SF</b>	<b>20,748 SF</b>	-
<b>South</b>					
Industrial	365,460 SF	458,108 SF	\$5.11/SF	22,060 SF	3,600 SF
Flex	20,829 SF	150,052 SF	\$5.65/SF	-	9,640 SF
Office	52,892 SF	68,318 SF	\$14.63/SF	27,053 SF	2,993 SF
Retail	119,957 SF	131,803 SF	\$11.16/SF	16,262 SF	7,828 SF
<b>TOTAL</b>	<b>559,138 SF</b>	<b>808,281 SF</b>	<b>\$9.19/SF</b>	<b>65,375 SF</b>	<b>24,061 SF</b>
<b>Southwest</b>					
Industrial	-	72,720 SF	-	-	16,000 SF
Flex	16,374 SF	14,530 SF	\$7.50/SF	-	5,000 SF
Office	-	10,268 SF	\$15.10/SF	-	-
Retail	373,962 SF	18,424 SF	\$16.20/SF	2,606 SF	-
<b>TOTAL</b>	<b>390,336 SF</b>	<b>115,942 SF</b>	<b>\$14.39/SF</b>	<b>2,606 SF</b>	<b>21,000 SF</b>
<b>West</b>					
Industrial	-	3,000 SF	\$12.00/SF	-	3,600 SF
Flex	9,700 SF	59,568 SF	\$8.50/SF	89,209 SF	19,300 SF
Office	296,986 SF	505,666 SF	\$20.39/SF	42,056 SF	56,166 SF
Retail	199,751 SF	447,238 SF	\$22.76/SF	7,753 SF	45,143 SF
<b>TOTAL</b>	<b>506,437 SF</b>	<b>1,015,472 SF</b>	<b>\$20.95/SF</b>	<b>139,018 SF</b>	<b>124,209 SF</b>

Little Rock Submarkets



## Significant Sales Activity



### Landmark Apartments | West

Landmark Apartments Phase I Property Investor purchased the 254,040 SF apartment complex from Landmark Apartments, LLC for:

**\$40,250,000 | \$158/SF**



### The Versailles | North Little Rock

AR-Goldport, LLC purchased the 240,192 SF apartment complex from PCFB Little Rock, LLC for:

**\$39,000,000 | \$162/SF**



### Park Plaza Mall | Midtown

University Markham Holdings, LLC purchased the 261,507 SF mall from Rss Wfrbs2011 C3 AR PPM, LLC

**\$25,200,000 | \$96/SF**

## Significant Lease Activity



### Westrock Distribution | Conway

Westrock Beverage Company, LLC leased 530,000 SF of industrial space.



### Chenal Place | West

Metro Appliances & More leased 24,063 SF of retail space.



### US Bank Building | North Little Rock

Access Health Services leased 22,436 SF of office space.

## Notable Construction

Property	Submarket	Property	Submarket
Conway Social	Conway	Federal Metal Co	NLR
Southern Tail Brewing	East	Topgolf	Southwest

## 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

## 501 Colliers offices in 65 countries around the world\*

- **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 2022, are in U.S. dollars and include affiliates



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Arkansas Business 2022

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