



Central Arkansas

# Market Report 23Q3

## Key Takeaways

- Retail showing signs of market recovery
- Industrial market stabilizes
- Small office sales remain popular

## Little Rock Commercial Market Continues to Stabilize Post-Pandemic Retail Shows Most Improvement in Q3

Q3 2023 showed many signs of stability and improvement for the Little Rock metro commercial real estate market. Vacancy rates held steady across all sectors this quarter with retail showing the most improvement. The North Little Rock submarket led the way with the most square feet sold coming in at 199,048 square feet, 118,590 of which were retail sales including the Rose City Shopping Center at 323 E Broadway (83,695 SF). The South submarket leased the most square feet with 47,930 spread out nearly equally among the retail, flex and industrial sectors.

Office vacancy rates rose slightly in Q3 from 10.8% last quarter to 10.9%. Smaller office sales are still proving more

popular while larger tenants remain scarce across all submarkets. Tenants are realizing that TI and construction costs are continuing to make the cost of moving too high so they are staying put a little longer. And with the office/work-from-home hybrid policies still not set in stone for most businesses, renewals remain short-term.

Retail has shown improvement with restaurants and entertainment facilities contributing to a vacancy rate drop from 6.7% in Q2 to 5.4% in Q3, a great pandemic recovery signal for our market. Second generation restaurant spaces aren't staying on the market long and there's not much inventory currently available. Tenant improvements are expensive, so finding a space with an existing kitchen in place is helping those buildings stay full. But landlords have also lowered rates slightly to help offset TI costs for spaces in "cold shell" condition.

Industrial has stabilized following its meteoric rise during and immediately following the pandemic. Vacancy rates for Q1 and Q2 remained at 3.2% and we've only seen a slight uptick to 3.4% in Q3. Flex vacancy rates are down slightly from 7.4% to 6.4% this quarter. The smaller industrial/flex spaces are still leasing steadily, but we are seeing a slow down on larger spaces. Industrial speculative development is paused as some new spec remains unused.

Notable construction projects for the quarter include the Arkansas Symphony Orchestra's 20,000-square-foot new facility in the East submarket which broke ground in August, the 1.2M-SF Dollar General warehouse/distribution facility near the Galloway Exit in North Little Rock to be completed in 2024, the transformation and unveiling this quarter of George's in the Heights (formerly Café Prego), and the planned \$35M restoration of the historic Boyle Building, also set for completion in 2024.

## Historic Comparison: Vacancy

	22Q4	23Q1	23Q2	23Q3
<b>Office Vacancy</b>	13.2%	12.6%	10.8%	10.9%
<b>Industrial Vacancy</b>	3.6%	3.2%	3.2%	3.4%
<b>Flex Vacancy</b>	8.9%	7.7%	7.4%	6.4%
<b>Retail Vacancy</b>	10.1%	8.8%	6.7%	5.4%

*Vacancy rates exclude sublease space*

## Office

The Little Rock metro office market vacancy and rental rates held steady for the third quarter with submarket vacancy rates sitting at 6.5% for west Little Rock and 5.9% for midtown. The downtown area continues to carry the most office vacancy at 13.6% – as has been the case since the start of the pandemic – with mostly smaller tenant activity noted in Q3. Larger tenant activity remains scarce not only downtown, but across all submarkets. While the overall office market continues to show improvement, it is also still suffering the effects of the office/work-from-home hybrid situation caused by the COVID pandemic.

Class “A” properties in Midtown and West Little Rock submarkets saw increased leasing activity in Q3 with the appearance of “flight to quality,” meaning that many tenants are opting for higher-end space than usual. Most lease renewals are still short term with termination options built in.

Tenant finishing and moving costs remain high and, thus, fewer tenants are moving. Many are attempting to “give back” a portion of un-needed space during the renewal process. We are also seeing smaller tenants with immediate occupancy needs.

In summary, Little Rock rental rates are remaining generally stable as vacancy rates continue to decrease and stabilize across all submarkets.

## Industrial

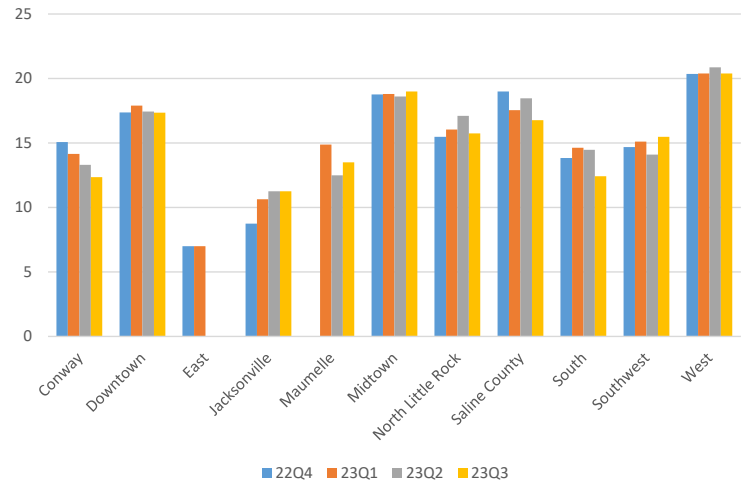
One word comes to mind when we are asked to summarize the Little Rock metro industrial market: stability. After it’s meteoric rise during and immediately following the pandemic, it seems to finally be stabilizing.

Industrial leasing in Q3 saw a slight negative absorption after being flat in Q2. The industry finished Q3 with the same vacancy rate (3.2%) as it did in Q2 of 2022. Activity in the 10-25-thousand-square-foot range remains steady while activity in the 50,000+ -square-foot range remains spotty. With inventory low, lease rates remained flat to slightly increasing. Generally, landlords continue their firm stance on rate and tenant improvement concessions, with the exception being in the bulk distribution space.

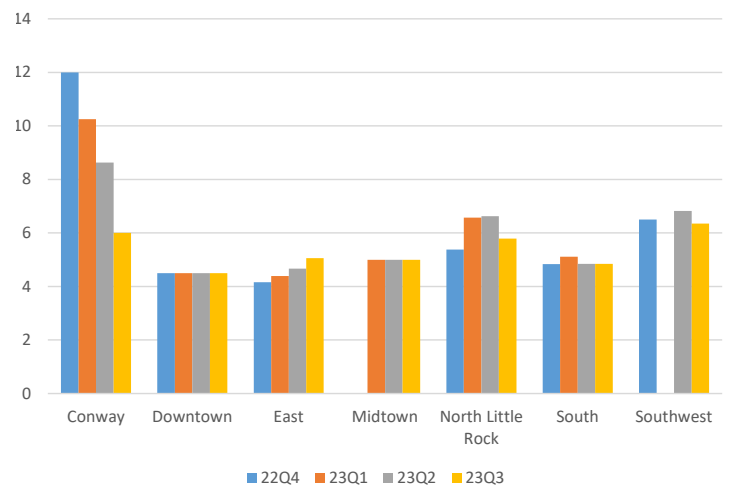
Industrial sales in Q3 saw values remain at all-time highs, even though volume is down slightly. This is proof that active lenders remain interested in quality industrial product.

New speculative development appears to be mostly on hold as of now. The interest rate environment and lack of deal velocity, especially in the bulk distribution space, continue to present challenges for potential new developments.

Office Average Lease Rates



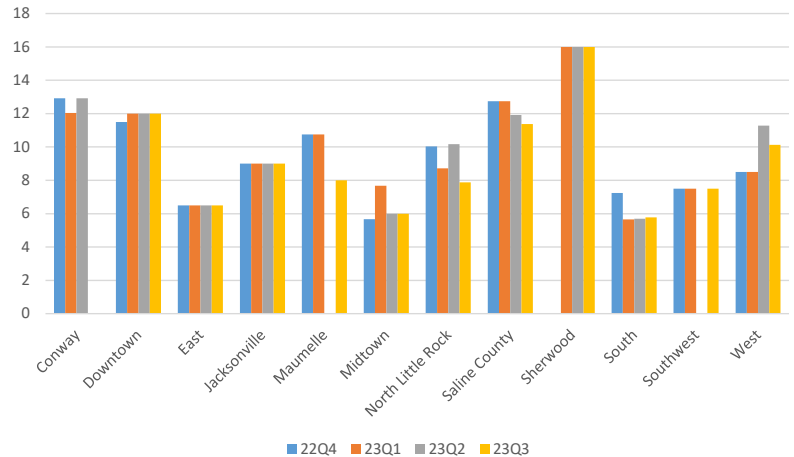
Industrial Average Lease Rates



## Industrial (cont.)

Going forward, the lack of additional new product combined with even marginal activity will continue to force upward pressure on lease rates. Investor demand in the industrial market continues despite the interest rate environment, and user-driven deals are expected to outpace investor deals in the upcoming quarters. All of these things should continue to keep central Arkansas' industrial market stable.

Flex Average Lease Rates



## Retail

The central Arkansas market continues to gain retail leasing momentum as our area welcomes new tenants and users to the market. Restaurants and entertainment facilities remain the primary catalysts for area development and space absorption.

### Highlights:

- Overall vacancy rates in central Arkansas showed a healthy decrease from a Q2 2023 rate of 6.7% to a Q3 2023 rate of 5.4%. In addition, the current vacancy rate for this quarter has been nearly cut in half from the Q4 2022 retail vacancy rate of 10.1%, which was related to the pandemic/post-pandemic retail hangover.
- Restaurants remain active with new stores confirmed for many popular groups, such as:
  - Five Guys** at Lewis Plaza at Lewis Ranch in Conway
  - Rock N Roll Sushi** at Lakewood Village in North Little Rock
  - Big Bad Breakfast** at 306 Main Street in downtown Little Rock
  - Riviera Maya** at Creek Plaza at Gateway Town Center
  - And **City Silo Table + Pantry** located in a Promenade at Chenal outparcel along Chenal Parkway
- Topgolf is also set to open in Q4 of this year at Village at Club View (formerly known as Village at Brodie Creek)
- Restaurant/drive-thru groups such as Chuy's, Olive Garden, Starbucks, Walk-Ons, Chipotle and other national food destinations continue to see expansion opportunities in our market



Lewis Plaza at Lewis Ranch, Conway



Big Bad Breakfast at 306 Main Street, Little Rock

## Retail (cont.)

### Overview:

“Encouraging” is the welcomed theme of this third quarter retail report with lease rates hovering at market levels and space absorption tracking at a strong pace. Central Arkansas is experiencing a healthy market with existing retailers expanding around the MSA and new users entering the area. As mentioned previously, the current 5.4% vacancy rate is a welcome signal of market recovery from the uncertain years of 2020 and 2021.

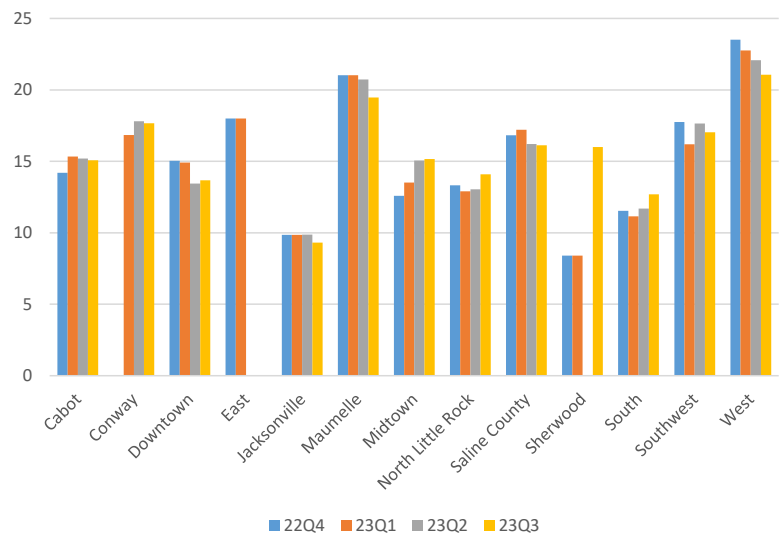
### Asking Rates:

Asking rates decreased slightly in Q3 with some landlords offering slightly lower lease rates for both first and second generation spaces. Construction pricing remains cumbersome for some that are looking to build-out retail suites from “cold shell” conditions. These slightly lower lease rates are expected to help incentivize tenants to execute longer term leases and are mostly accompanied by generous tenant improvement allowance packages to soften the start-up costs for retailers.

### What Comes Next?

As we look into the first few days of Q4, it is difficult to see clearly into the crystal ball of retail; however, we are entering the most profitable time for nearly all retailers. Q4 holiday hustle and bustle is expected to provide a needed shot in the arm to both national and local groups. However, with e-commerce’s shadow looming over some sectors, it is still uncertain how much of the market share brick and mortar will seize. The encouraging metric is that vacancy rates and the overall health of our retail market in central Arkansas are steady. The retail recovery is likely to continue as we ring in the new year.

Retail Average Lease Rates

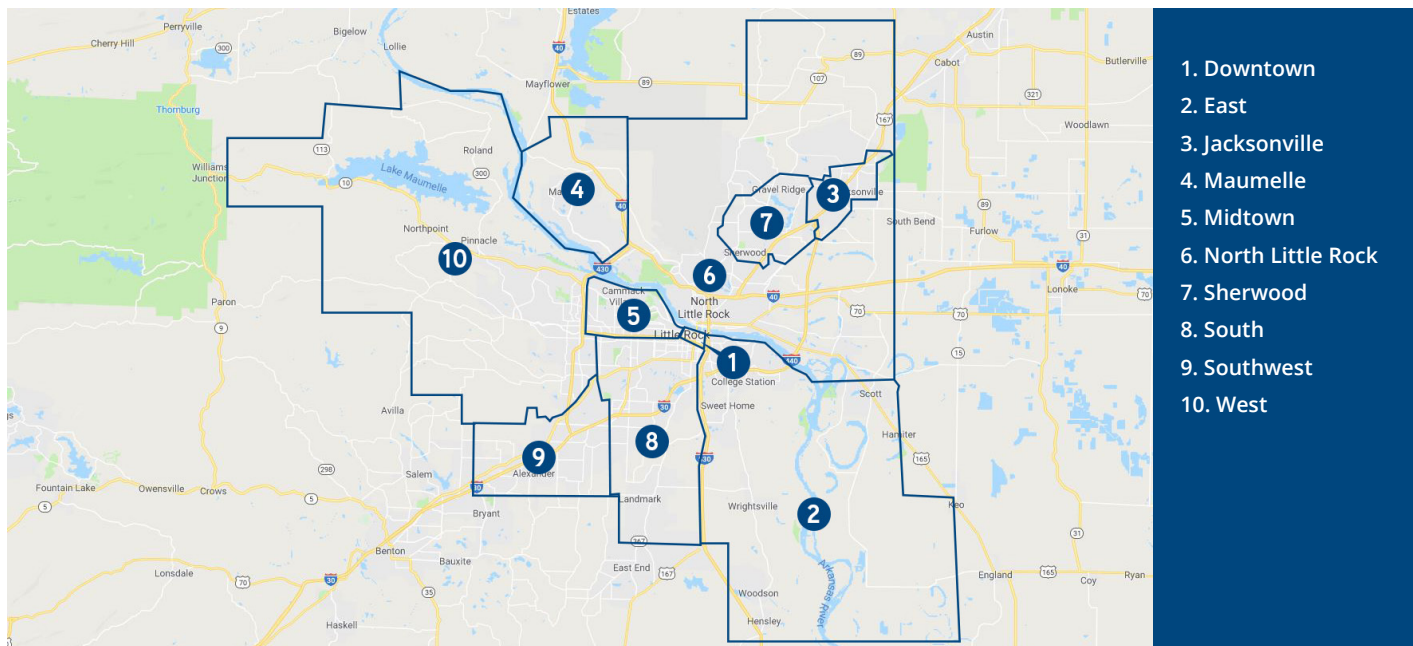


Topgolf at Village at Club View

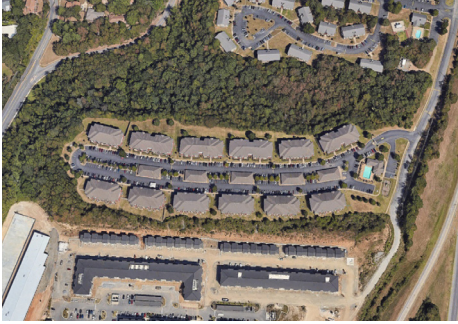
Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
<b>Central Arkansas</b>					
<b>Cabot</b>					
Industrial	-	3,200 SF	\$16.00/SF	-	-
Flex	-	-	-	-	-
Office	1,200 SF	-	-	-	-
Retail	9,074 SF	116,146 SF	\$15.08/SF	744 SF	-
<b>TOTAL</b>	<b>10,274 SF</b>	<b>119,346 SF</b>	<b>\$15.14/SF</b>	<b>744 SF</b>	<b>-</b>
<b>Conway</b>					
Industrial	205,352 SF	211,352 SF	\$6.00/SF	5,354 SF	-
Flex	-	-	-	6,000 SF	-
Office	317,981 SF	213,532 SF	\$12.36/SF	19,209 SF	-
Retail	40,155 SF	169,400 SF	\$17.67/SF	40,301 SF	8,980 SF
<b>TOTAL</b>	<b>563,488 SF</b>	<b>594,284 SF</b>	<b>\$15.31/SF</b>	<b>70,864 SF</b>	<b>8,980 SF</b>
<b>Downtown</b>					
Industrial	-	11,000 SF	\$4.50/SF	18,256 SF	-
Flex	47,906 SF	2,500 SF	\$12.00/SF	-	-
Office	272,642 SF	1,058,645 SF	\$17.35/SF	101,611 SF	11,494 SF
Retail	129,252 SF	125,089 SF	\$13.68/SF	-	-
<b>TOTAL</b>	<b>449,800 SF</b>	<b>1,197,234 SF</b>	<b>\$16.85/SF</b>	<b>119,867 SF</b>	<b>11,494 SF</b>
<b>East</b>					
Industrial	-	181,295 SF	\$5.06/SF	-	-
Flex	-	14,634 SF	\$6.50/SF	-	-
Office	3,992 SF	-	-	-	-
Retail	5,327 SF	-	-	-	-
<b>TOTAL</b>	<b>9,319 SF</b>	<b>195,929 SF</b>	<b>\$5.24/SF</b>	<b>-</b>	<b>-</b>
<b>Jacksonville</b>					
Industrial	49,875 SF	-	-	-	-
Flex	8,424 SF	6,000 SF	\$9.00/SF	-	-
Office	50,652 SF	33,229 SF	\$11.25/SF	-	-
Retail	6,831 SF	141,703 SF	\$9.32/SF	5,780 SF	-
<b>TOTAL</b>	<b>115,782 SF</b>	<b>180,932 SF</b>	<b>\$9.67/SF</b>	<b>5,780 SF</b>	<b>-</b>
<b>Maumelle</b>					
Industrial	35,540 SF	3,000 SF	\$8.80/SF	-	-
Flex	32,526 SF	3,000 SF	\$8.00/SF	-	-
Office	-	7,667 SF	\$13.50/SF	-	-
Retail	7,742 SF	11,685 SF	\$19.47/SF	10,168 SF	-
<b>TOTAL</b>	<b>75,808 SF</b>	<b>25,352 SF</b>	<b>\$11.34/SF</b>	<b>10,168 SF</b>	<b>-</b>
<b>Midtown</b>					
Industrial	6,272 SF	8,000 SF	\$5.00/SF	-	8,000 SF
Flex	-	46,530 SF	\$6.00/SF	-	-
Office	97,991 SF	209,958 SF	\$19.00/SF	1,560 SF	18,726 SF
Retail	70,256 SF	235,013 SF	\$15.16/SF	-	2,300 SF
<b>TOTAL</b>	<b>174,519 SF</b>	<b>499,501 SF</b>	<b>\$17.87/SF</b>	<b>1560 SF</b>	<b>29,026 SF</b>
<b>North Little Rock</b>					
Industrial	267,677 SF	480,594 SF	\$5.79/SF	69,458 SF	20,832 SF
Flex	27,185 SF	36,430 SF	\$7.88/SF	11,000 SF	-
Office	32,912 SF	112,713 SF	\$15.74/SF	-	704 SF
Retail	64,616 SF	135,501 SF	\$14.09/SF	118,590 SF	1,600 SF
<b>TOTAL</b>	<b>392,390 SF</b>	<b>765,238 SF</b>	<b>\$15.40/SF</b>	<b>199,048 SF</b>	<b>23,136 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	-	178,920 SF	\$6.50/SF	-	-
Flex	-	16,500 SF	\$11.38/SF	15,840 SF	-
Office	5,027 SF	30,829 SF	\$16.76/SF	4,757 SF	-
Retail	53,327 SF	60,226 SF	\$16.12/SF	4,473 SF	10,200 SF
<b>TOTAL</b>	<b>58,354 SF</b>	<b>286,475 SF</b>	<b>\$14.87/SF</b>	<b>25,070 SF</b>	<b>10,200 SF</b>
<b>Sherwood</b>					
Industrial	-	-	-	5,000 SF	-
Flex	3,000 SF	3,000 SF	\$16.00/SF	-	-
Office	74,705 SF	158,010 SF	\$19.75/SF	-	-
Retail	6,726 SF	2,950 SF	\$16.00/SF	3,150 SF	-
<b>TOTAL</b>	<b>84,431 SF</b>	<b>163,960 SF</b>	<b>\$16.94/SF</b>	<b>8,150 SF</b>	<b>-</b>
<b>South</b>					
Industrial	192,556 SF	511,306 SF	\$4.85/SF	71,500 SF	13,125 SF
Flex	-	134,219 SF	\$5.78/SF	-	18,084 SF
Office	89,062 SF	109,986 SF	\$12.42/SF	12,000 SF	-
Retail	160,102 SF	123,877 SF	\$12.69/SF	3,188 SF	16,721 SF
<b>TOTAL</b>	<b>441,720 SF</b>	<b>879,388 SF</b>	<b>\$9.42/SF</b>	<b>86,688 SF</b>	<b>47,930 SF</b>
<b>Southwest</b>					
Industrial	-	43,500 SF	\$6.35/SF	-	-
Flex	-	10,000 SF	\$7.50/SF	14,080 SF	-
Office	4,053 SF	7,358 SF	\$15.47/SF	-	3,852 SF
Retail	25,517 SF	17,127 SF	\$17.04/SF	19,220 SF	30,598 SF
<b>TOTAL</b>	<b>29,570 SF</b>	<b>77,985 SF</b>	<b>\$13.56/SF</b>	<b>33,300 SF</b>	<b>34,450 SF</b>
<b>West</b>					
Industrial	-	8,364 SF	\$9.00/SF	-	-
Flex	9,700 SF	49,385 SF	\$10.13/SF	8,800 SF	-
Office	245,525 SF	522,110 SF	\$20.38/SF	13,116 SF	35,515 SF
Retail	185,133 SF	422,346 SF	\$21.06/SF	29,511 SF	2,956 SF
<b>TOTAL</b>	<b>440,358 SF</b>	<b>1,002,205 SF</b>	<b>\$20.24/SF</b>	<b>51,427 SF</b>	<b>38,471 SF</b>

## Little Rock Submarkets



## Significant Sales Activity



### Foothills Apartments | North Little Rock

2401 Lakeview, LLC purchased the 441,089 SF multifamily complex from Foothills Acquisitions I, LLC for:

**\$68,000,000 | \$154/SF**



### The Boyle Building | Downtown

Boyle Development, LLC purchased the 90,997 SF office building from Chi Hotel Group, LLC for:

**\$5,350,000 | \$59/SF**



### Whataburger | West

Shiangling Wong and Frank Wong purchased the 3,746 SF restaurant from CypressLandingQSR3, LLC for:

**\$4,003,276 | \$1,069/SF**

## Significant Lease Activity



### Plant 2 West | North Little Rock

Sully's Cabinets and Constructions leased 20,832 SF of industrial space.



### Colonel Glenn Shopping Center | Southwest

Supreme Hair and Beauty, Inc. leased 18,065 SF of retail space.



### 27 Corporate Hill Dr | West

Little Rock Children's Clinic, P.A. leased 16,712 SF of medical space.

## Notable Construction

Property	Submarket	Property	Submarket
Arkansas Symphony Orchestra	East	George's Italian Restaurant	Midtown
Dollar General	North Little Rock	Boyle Building	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 66 countries around the world\*

- US \$4.5 billion in annual revenue
- 18,000+ professionals and staff
- 2 billion square feet under management
- 51,000 lease & sale transactions
- \$98 billion assets under management

\*All statistics are for year-end 2022, are in U.S. dollars and include affiliates



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