



Central Arkansas

Market Report

23Q4

Key Takeaways

- Tenants-market for office users
- Industrial experiences slight vacancy uptick
- Retail/restaurants lead the way in growth

Metro Little Rock Commercial Real Estate Ends 2023 on Mostly Positive Notes

Retail Growth Leads the Way, Office Could be Worse

The metro Little Rock office market continues to buck the dour national office trend of high vacancies, but still remains a market concern. The 2023 Q4 office vacancy rate of 11.3% is on par with the average for the entire year. It's slightly higher than Q3, but lower than the start of the year, which was 12.6%. Office lease rates held steady throughout Q4 even as office users are shrinking. Most potential tenants were touring smaller space at just 3,000- 4,000 square feet. Higher tenant improvement (TI) costs and moving expenses resulted in some tenants making the decision to remain where they are. However, some saw this as an opportunity to negotiate for other lease upgrades.

Historic Comparison: Vacancy

	23Q1	23Q2	23Q3	23Q4
Office Vacancy	12.6%	10.8%	10.9%	11.3%
Industrial Vacancy	3.2%	3.2%	3.4%	3.5%
Flex Vacancy	7.7%	7.4%	6.4%	7.9%
Retail Vacancy	8.8%	6.7%	5.4%	4.4%

Vacancy rates exclude sublease space

Industrial vacancy rates slowly rose throughout 2023 with 3.2% in Q1 and 3.5% at the end of the fourth quarter. The market also experienced an overall rise in flex space vacancy, which was 7.7% in Q1 and 7.9% at the end of the year. This is likely attributable to the fact that the industrial market is user-driven rather than speculative fill. Once spec builds are completed, they are sitting vacant longer, thus the higher overall vacancy rate. Lease renewals remained strong for small flex spaces in Q4. Industrial inventory is low for the 25,000-50,000 square foot range for sales, and 20,000-25,000 square feet for leases leaving many tenants in-market.

Retail vacancy experienced steady recovery throughout 2023 ending the year at 4.4% vacancy compared to 8.8% at the start of the year. While the market is still experiencing some national retail closures, local retail shops are mounting a comeback. Restaurants continue to shine within the retail sector. The amount of existing restaurant space available in the MSA is effectively "0." This prized space is not staying on the market long. In the fourth quarter alone, west Little Rock's Mellow Mushroom was backfilled with Walk-On's Bistreaux & Bar, Draft + Table opened in the former Creegan's space in Argenta, and downtown Little Rock's Soulfish was backfilled with Big Bad Breakfast. New restaurants are resorting to buying outparcels and building from scratch, such as Whataburger in Benton and North Little Rock, and 7Brew in North Little Rock.

Office

The central Arkansas office market, while statistically only showing a .4% increase in vacancy over the previous quarter, is starting to feel the definitive impacts of “give back” reductions with tenants returning impactful blocks of office space for either sublease, downsizing or simply not renewing leases at all. Colliers isn’t a subscriber to the overly hyped “commercial real estate doom loop” but conditions merit close attention.

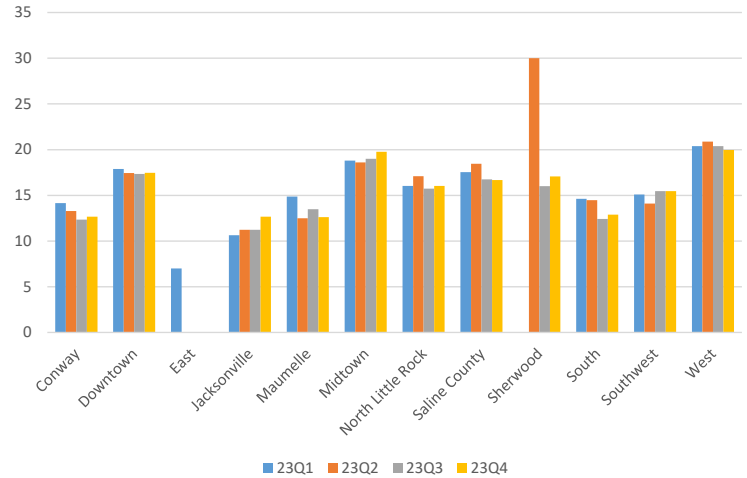
It’s a tenant’s market without question. Pressure on landlords to give aggressive tenant improvement packages and rent concessions while juggling continued high construction costs, as well as higher borrowing costs, will ensure challenging times for the foreseeable future for office owners. Conversely, savvy tenants may have a unique opportunity to take advantage of this market in “flight to quality” office classification lease upgrades or purchase opportunities.

The healthcare, financial and insurance sectors are consistently mentioned, making waves with large blocks of space either immediately, or soon to be available in the central business district of Little Rock, Riverdale and west Little Rock submarkets. Year-end 2023 saw -87,687 of negative absorption for downtown Little Rock and -143,881 in west Little Rock respectively.

Examples of the aforementioned sectors include Vestcom’s impending downsize at One Cantrell Center (2800 Cantrell Road) with more than 15,000 SF hitting the market. Also, Stone Bank’s 23Q3 purchase of the former Bank OZK at Chenal & W. Markham will see them fully vacate their 18,000 SF former home at Three Financial Centre.

Anticipated slower job growth, cost inflation and continuing shifts in the professional workplace will likely keep placing pressure on the office sector well into 2024. Owner occupants with significant cash positions and less reliance on financing may find some real opportunities to transition into new ownership as attractive office properties come available to market.

Office Average Lease Rates



Three Financial Center



One Cantrell Center

Industrial

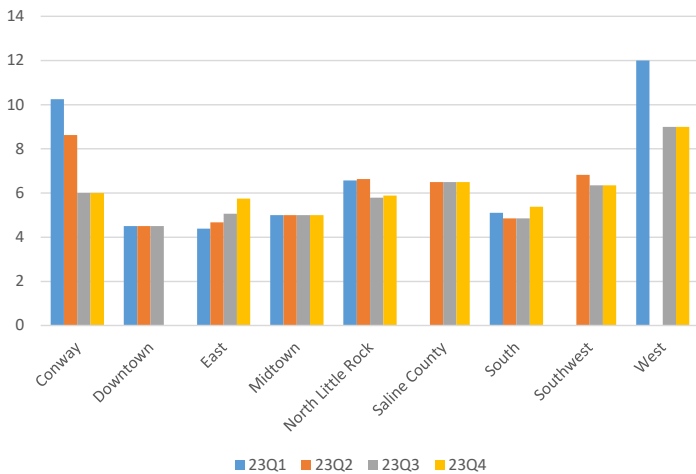
The industrial market closed out 2023 by continuing its trend in stability with only a slight dip in vacancy rates from 3.2% in Q1 to 3.5% in Q4. While new deliveries of large distribution centers kept national vacancy rates hovering much higher at just under 6%, the central Arkansas industrial market's lack of new construction contributed to vacancy rates well under the national average.

The more notable activity centered in the North Little Rock submarket this quarter, with investor, user and lease transactions alike providing a hearty diversity in transaction types. The speculative 200,000 SF industrial development Central Commerce Center, which kicked off in 2021, brought a long-term lease with Country Life Vitamins for more than 68,000 SF. An investor purchased the fully occupied 32,526 SF warehouse at 9900 Maumelle Blvd., and just down the road, a user completed the purchase of its new building at 10400 Maumelle Blvd. for \$2,500,000, an impressive number at \$165/SF. The stability comes with existing product making its way back on to the market, with a notably large block of contiguous bulk warehouse space becoming available in Q4 at just under 100,000 square feet on Gregory St.

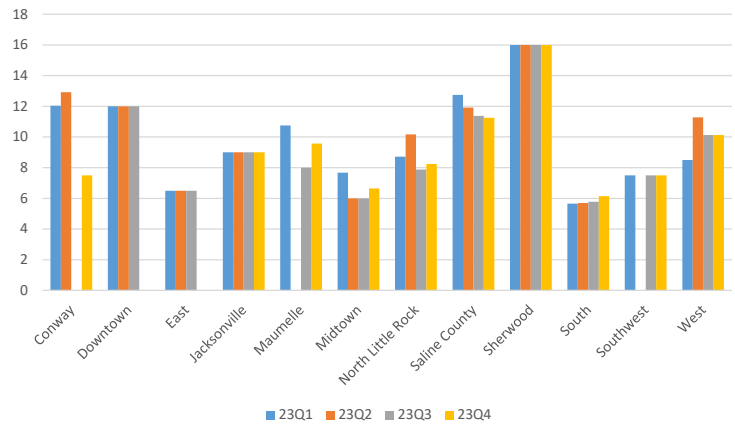
Rental rates continue to receive modest, but steady, upward pressure with the lack of inventory, and landlords are working to recoup their initial upfront expenditures for small but costly office build-outs, a burden tenants are consistently pushing to landlords to shoulder.



Industrial Average Lease Rates



Flex Average Lease Rates



Retail

Lease Rates:

Lease rates in most submarkets identified in this report show stability when compared to previous quarters, with a few exceptions. The Conway and midtown submarkets have continued to show price/SF improvement over previous quarters (\$17.46/SF and \$15.72/SF respectively), while west Little Rock and Maumelle submarkets have retreated, though not substantially (\$20.10/SF and \$13.44/SF respectively).

Vacancy:

Vacancy rates for our market have continued their march toward pre-Covid rates, improving from 5.4% to 4.4% for Q3 over Q4, keeping in mind central Arkansas retail vacancy was +/- 8.8% at the beginning of the year. For further perspective, the national retail vacancy rate currently sits at 4.1% overall, with restaurants leading the way at 3.1%. As with our local market, we've seen steady improvement in the national vacancy rate throughout 2023, and expect to see vacancy rates level off and hold steady through 2024.

Absorption:

As shown on the below graph west Little Rock, midtown and Conway led the way with leasing concentration/activity, demonstrating the highest levels of space absorption in our market.

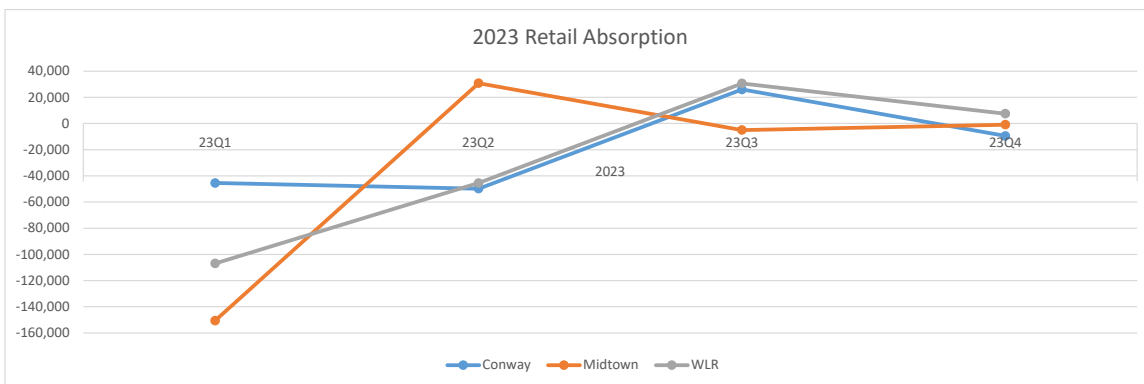
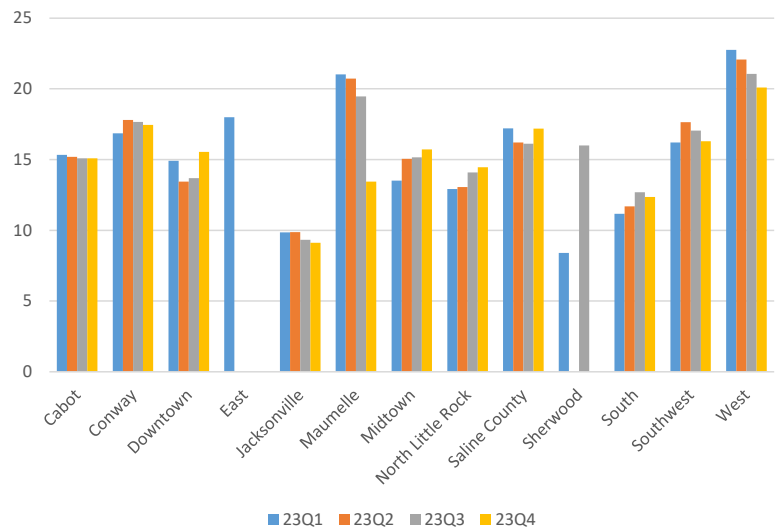
Outlook:

The central Arkansas retail market continues to show signs of healthy growth. Virtually all sectors of the retail landscape (durable goods, restaurants and entertainment) have shown steady growth over the past few quarters in 2023, and Q4 was no exception. Many see retail as synonymous with Class B and C malls, which haven't performed well for years. However, retail also includes neighborhood shopping centers (the "backbone" of brick and mortar retail) in densely populated urban and suburban areas.

While e-commerce continues to grow, it only makes up about 15% of all retail, so there's plenty of room for brick-and-mortar operators.

We expect to see this asset class continue its steady performance, with unchanging vacancy rates and moderately positive rent growth for neighborhood and community shopping centers.

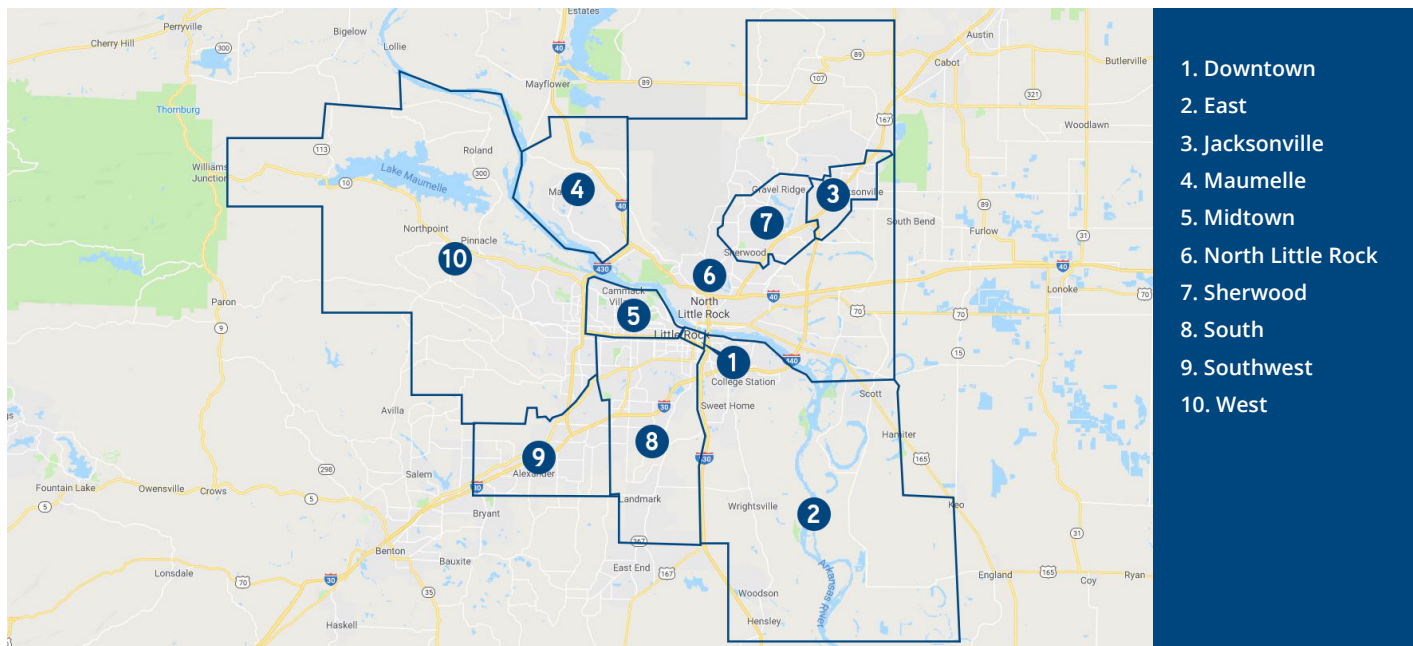
Retail Average Lease Rates



Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Central Arkansas					
Cabot					
Industrial	-	-	-	7,512 SF	-
Flex	-	-	-	-	-
Office	-	1,035 SF	\$9.85/SF	-	-
Retail	16,832 SF	114,509 SF	\$15.08/SF	7,393 SF	-
TOTAL	16,832 SF	115,544 SF	\$14.70/SF	14,905 SF	-
Conway					
Industrial	205,352 SF	209,602 SF	\$6.00/SF	-	-
Flex	-	3,200 SF	\$7.50/SF	-	-
Office	305,096 SF	195,234 SF	\$12.68/SF	9,102 SF	8,853 SF
Retail	74,644 SF	151,005 SF	\$17.46/SF	4,458 SF	-
TOTAL	585,092 SF	559,041 SF	\$15.43/SF	13,560 SF	8,853 SF
Downtown					
Industrial	-	11,000 SF	\$4.50/SF	-	-
Flex	47,906 SF	2,500 SF	\$12.00/SF	-	-
Office	531,759 SF	1,048,684 SF	\$17.46/SF	13,081 SF	34,971 SF
Retail	40,699 SF	35,381 SF	\$15.54/SF	25,865 SF	-
TOTAL	620,364 SF	1,097,565 SF	\$17.14/SF	38,946 SF	34,971 SF
East					
Industrial	-	188,374 SF	\$5.75/SF	4,590 SF	-
Flex	-	-	-	-	-
Office	3,992 SF	-	-	-	-
Retail	3,600 SF	-	-	1,727 SF	-
TOTAL	7,592 SF	188,374 SF	\$5.75/SF	6,317 SF	-
Jacksonville					
Industrial	49,875 SF	-	-	520,414 SF	-
Flex	8,424 SF	6,000 SF	\$9.00/SF	-	-
Office	47,188 SF	31,290 SF	\$12.67/SF	-	-
Retail	37,031 SF	142,003 SF	\$9.12/SF	14,138 SF	1,499 SF
TOTAL	142,518 SF	179,293 SF	\$9.70/SF	534,552 SF	1,499 SF
Maumelle					
Industrial	35,540 SF	3,000 SF	\$8.80/SF	-	-
Flex	-	10,860 SF	\$9.57/SF	32,526 SF	5,298 SF
Office	-	7,667 SF	\$12.63/SF	-	-
Retail	7,742 SF	12,485 SF	\$13.44/SF	3,422 SF	1,900 SF
TOTAL	43,282 SF	34,012 SF	\$11.88/SF	35,948 SF	7,198 SF
Midtown					
Industrial	6,272 SF	8,000 SF	\$5.00/SF	-	4,000 SF
Flex	-	84,240 SF	\$6.64/SF	-	3,000 SF
Office	127,679 SF	239,696 SF	\$19.77/SF	8,122 SF	15,927 SF
Retail	64,198 SF	229,960 SF	\$15.72/SF	18,026 SF	11,889 SF
TOTAL	198,149 SF	561,896 SF	\$18.52/SF	26,148 SF	34,816 SF
North Little Rock					
Industrial	252,364 SF	573,464 SF	\$5.88/SF	29,248 SF	94,871 SF
Flex	27,185 SF	57,267 SF	\$8.25/SF	-	-
Office	150,016 SF	124,424 SF	\$16.04/SF	37,748 SF	2,070 SF
Retail	81,291 SF	152,969 SF	\$14.45/SF	14,271 SF	2,600 SF
TOTAL	510,856 SF	908,124 SF	\$15.80/SF	81,267 SF	99,541 SF

Submarket/ Subtype	Total Sale Inventory SF	Total Lease Inventory SF	Average Lease Rate	Total Sold SF	Total Leased SF
Central Arkansas					
Saline County					
Industrial	13,900 SF	178,920 SF	\$6.50/SF	10,080 SF	-
Flex	-	10,500 SF	\$11.25/SF	-	3,000 SF
Office	5,027 SF	31,274 SF	\$16.69/SF	13,340 SF	-
Retail	105,102 SF	64,677 SF	\$17.18/SF	6,692 SF	9,620 SF
TOTAL	124,029 SF	185,371 SF	\$15.63/SF	30,112 SF	12,620 SF
Sherwood					
Industrial	-	-	-	-	-
Flex	3,000 SF	3,000 SF	\$16.00/SF	-	-
Office	74,705 SF	159,960 SF	\$17.07/SF	-	-
Retail	21,610 SF	-	-	9,430 SF	5,968 SF
TOTAL	99,315 SF	162,960 SF	\$16.94/SF	9,430 SF	5,968 SF
South					
Industrial	216,188 SF	464,052 SF	\$5.38/SF	175,739 SF	90,285 SF
Flex	-	134,078 SF	\$6.14/SF	12,160 SF	4,633 SF
Office	89,062 SF	112,661 SF	\$12.89/SF	23,413 SF	-
Retail	144,561 SF	112,345 SF	\$12.35/SF	32,758 SF	5,030 SF
TOTAL	449,811 SF	823,136 SF	\$9.59/SF	244,070 SF	99,948 SF
Southwest					
Industrial	11,976 SF	43,500 SF	\$6.35/SF	-	4,600 SF
Flex	-	10,000 SF	\$7.50/SF	-	-
Office	4,053 SF	7,358 SF	\$15.47/SF	1,352 SF	2,066 SF
Retail	52,028 SF	43,658 SF	\$16.30/SF	8,273 SF	-
TOTAL	68,057 SF	104,516 SF	\$13.80/SF	9,625 SF	6,666 SF
West					
Industrial	-	8,364 SF	\$9.00/SF	-	-
Flex	24,984 SF	71,519 SF	\$10.13/SF	-	-
Office	250,374 SF	455,969 SF	\$19.96/SF	47,013 SF	29,671 SF
Retail	181,551 SF	407,066 SF	\$20.10/SF	19,241 SF	9,954 SF
TOTAL	456,909 SF	942,918 SF	\$19.63/SF	66,254 SF	39,625 SF

Little Rock Submarkets



Significant Sales Activity



Oakwood Apartments | Jacksonville

MCG Oakwood, LLC purchased the 222,610 SF multifamily complex from Andmark Oakwood Apartments, LLC for:

\$14,000,000 | \$62.89/SF



4500 W 65th St | South

XPO Logistics purchased the 116,494 SF industrial building from YRC, Inc. for:

\$10,117,816 | \$86.85/SF



Clarity Pointe | West

Tab Bank purchased the 37,229 SF multi-family complex from Transportation Alliance Bank Inc. for:

\$5,900,000 | \$158.48/SF

Significant Lease Activity



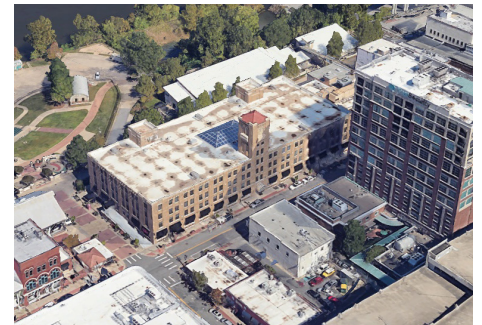
Central Commerce Center | North Little Rock

Country Life, LLC leased 68,040 SF of industrial space.



7821 Doyle Springs Rd | South

Midsouth Distributing USA, LLC leased 30,675 SF of industrial space.



Museum Center | Downtown

Access Health Services leased 22,241 SF of office space.

Notable Construction

Property	Submarket	Property	Submarket
Lowe's Distribution Warehouse	North Little Rock	Topgolf	West
Malys Entertainment	Conway	Whataburger	Saline County
Draft + Table	North Little Rock		

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



**Best
of Biz**
Arkansas Business 2022

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