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Retail Space Looks Poised for Rebound

By Serenah McKay - 6/27/2011

After nearly two years of floundering in a mucky economy, Northwest Arkansas' stalled retail rental market is finally gaining traction, area brokers say.

But the absorption of vacant space is coming from some surprising quarters, and is requiring both landlords and tenants to tap their creativity and make a few concessions.

In early 2009, total vacant retail space in Benton and Washington counties reached 1 million SF - a gloomy milestone few foresaw during the building frenzy a few years earlier. A commercial real estate survey reported a retail vacancy rate of 14.6 percent in the second quarter of 2009.

The market has languished near that level for nearly two years, even with construction at a virtual standstill. Yet brokers such as Clinton Bennett, a managing partner with Grubb & Ellis-Solomon Partners, say improvement has been slow but steady, and is gaining momentum.

"Since June 2009, we've seen a consistent absorption of space," Bennett said. "It hasn't happened as quickly as we'd like. But I think we're getting closer to an equilibrium where it's going to be a healthier real estate market."

Steve Lane, managing director with Colliers International's Bentonville office, described how the seemingly insatiable demand for retail space seen in 2007 morphed into a bloated market.

"The way we look at it, 2008 is when the wheels started to come off, and in 2009, we basically could have all gone fishing," he said.

Toward the end of that year, though, retailers started cautiously moving forward again with expansion plans.

"And so for the last half of last year and the first half of this year, we've been quite busy," Lane said.

Small Steps Forward

The University of Arkansas' Center for Business and Economic Research surveys the residential, commercial and multifamily real estate markets in Benton and Washington counties. Arvest Bank Group of Fayetteville commissions the survey, called the Skyline Report.

A portion of the report is released to the public - quarterly for the residential survey and every six months for the commercial and multifamily surveys.

The latest commercial Skyline Report, released March 1 and covering June-November 2010, showed 80,898 SF became occupied in the retail submarket, netting positive absorption of 63,299 SF.

The retail vacancy rate rose to 14.3 percent from 13.6 percent in the previous six months, an increase attributed to "the repurposing of former owner-occupied space," mainly the consolidation of Hank's Fine Furniture from two stores in Fayetteville and Bentonville into a new showroom in Rogers.

Available retail space grew from 994,454 SF to 1.07 million.

More recent data provided by Xceligent Inc., a commercial real estate research company based in Independence, Mo., shows the retail vacancy rate for the second quarter this year at 8.6 percent, down from 9.4 percent in the same quarter last year.

Xceligent's data shows Benton and Washington counties had a total of 6.56 million SF of retail rental space as of June 17.

Of that total, 711,114 SF is classified as available, and 663,376 SF of available space is currently vacant.

"Available" refers to space that's currently occupied, but has a timeline of when it can be vacated, such as immediately, in 30 days or in 60 days. "Vacant" means no tenant is occupying a space.

Bentonville has the highest retail vacancy rate, at 13.5 percent, followed by east Rogers at 12.5. West Rogers has the lowest, at 4.9 percent.

Fayetteville has the region's highest retail lease rates, averaging about \$20 per SF. Retail space in Rogers and

Bentonville leases for an average of \$18 per SF, and Springdale averages \$11 per SF.

Jeff Cooperstein, a researcher at the UA center, said lowering those vacancy rates will require job creation.

The main thing the area can do to create jobs, he said, is to support job training - "any kind of education that improves people's skill sets."

"As we keep supporting education, that makes us more attractive to businesses as well," he said.

What's Hot ... and Not

Northwest Arkansas' main retail corridors still garner the most interest from potential tenants, Lane said.

"People are looking to put their businesses - and their money - in safe bets," he said. "Everyone wants a home run sure thing."

Retailers and restaurants continue to show interest in the areas around Pinnacle Hills Promenade and Pleasant Crossing in Rogers and the Northwest Arkansas Mall in Fayetteville.

Brokers at Sage Partners in Fayetteville point to Ashley Furniture Homestore's planned opening, pending approval from the city of Rogers, in the 50,000-SF Sportsman's Warehouse building in Pleasant Crossing as a sign of that area's growth potential.

Also, the recent purchase of the 21,000-SF Circuit City building in Fayetteville, empty for more than two years, by an Atlanta investor group shows confidence in the region, said T.J. Lefler, vice president of Sage Partners.

One of the few new buildings is a retail space on Wedington Road in Fayetteville currently leased to Cross Church, Lefler said.

The new Neighborhood Market on Wedington has sparked development in that corridor, Bennett said.

"And I think that the downtown Bentonville area is an area to keep an eye on as Crystal Bridges gets closer to opening," he said.

The Crystal Bridges Museum of American Art, slated to open Nov. 11, is expected to draw 150,000 to 300,000 visitors in its first year.

In Rogers, a new four-building development north of the Promenade called Promenade Pointe Shopping Center is filling quickly.

"I think that we will continue to see significant retail demand for high-quality, well-positioned retail properties such as that one," Bennett said.

And Fayetteville's Dickson Street continues to attract new businesses and lease activity, said Alan Cole, Lane's colleague at Colliers.

On the other hand, some parts of Northwest Arkansas are having a harder time attracting new tenants. Bennett said these include some of the "more mature" areas along Highway 71B.

These "second-generation" retail centers don't seem to attract as much attention as newer construction, he said. Plus, they often need remodeling to suit new tenants, and the costs involved pose challenges when tenants and landlords are trying to work out a deal.

What's Ahead

Unlike the upscale restaurants and other high-end retailers that moved into Northwest Arkansas in the last decade, the businesses that are thriving and looking to expand offer goods and services for more budget-conscious customers.

These businesses include Goodwill Industries, Dollar General, Kum & Go and Wal-Mart Store Inc. with its new Wal-Mart Express format.

And while numerous restaurants have opened in the last few months, they are generally family oriented, lower-priced establishments, Lefler said.

Aiding the rising demand for retail space is what David Erstine, also with Sage Partners, calls a "meeting of the minds" between landlords and clients, or a willingness to make concessions.

Landlords have helped tenants stay in business during the recession by being flexible on terms and payment. Tenants have stepped up to the plate too, Erstine said, accepting slightly higher lease rates or longer terms.

Filling some of the older retail structures will take some creative repurposing, he said. Property that can be converted from retail space may be rented to a church or call center, or some other type of office user needing lots of parking space.

Brian Shaw, managing partner with Sage Partners, said he thinks the market will continue to improve, largely because there's very little new construction on the horizon. "The banks are still being very conservative, especially on any kind of speculative development," he said. "So as the economy recovers, retailers recover and start to expand, and the market will tighten."

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