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NWA construction sector rebound continues

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Construction is the livelihood for several thousand local residents who are happier to see the building pace accelerate from what was deemed a decent 2012 by most.

The region's four largest cities issued new construction permits valued at more than \$35.783 million in February. Roughly 86% – or \$30.885 million – of the total permit value was for new residential, which is single family or duplex construction.

A year ago, combined residential permits issued in Fayetteville, Springdale, Rogers and Bentonville totaled \$21.661 million. Housing starts accelerated 21% from a year ago with 124 projects compared to 103 in February 2012.

The values rose by \$9.2 million, or 29%, in the year-over-year period.

Brent Hanby, co-owner of Encore Flooring and Building Products in Springdale, relies heavily on the residential construction for his livelihood.

“I regularly survey title companies, movers and builders to try and gauge their assessment of the local market. Everyone I am talking with is busier these days, with the exception of a few restoration specialists who focus largely on insurance claim jobs from natural disasters. Business is not the crazy pace it was at the market peak but it's steady with modest improvements these days,” Hanby said.

Builders across the four cities stayed active with Rausch Coleman, ARC Walker Brothers and Riggins Brothers actively building in multiple subdivisions.

Hanby said several spec builders are reporting multiple offers while the homes are still under construction.

The overall new inventory is still quite low at between 200 and 300 homes in the two counties. Hanby remembers well the frantic pace in late 2006 which led to more than 2,000 finished, but occupied homes.

"I doubt lenders or builders will ever let that happen again, it's been a long recovery but we are encouraged by the growth our business has experienced in the past two years," Hanby said.

When he opened the building supply business in 2011, he hired 14 employees. Hanby said he added three more this month to give the firm a total of 34.

"Our outside and inside sales are growing as people in general feel better about investing in their homes, especially now that values are going up." he added.

Each of the four cities in this report show positive gains in residential permit values in February when compared to the prior-year period.

New Residential (February)

Bentonville: permits totaled \$10.792 million, up 17.38%

Rogers: permits totaled \$6.173 million, up 120.7%

Fayetteville: permits totaled \$8.324 million, up 77%

Springdale: permits totaled \$5.594 million, up 11.9%

COMMERCIAL RECAP

The new commercial construction pace remains soft, but is showing sparks of growth in Rogers thanks to the ongoing development by Hunt Ventures, a partnership between Johnelle Hunt and Tim Graham.

In western Rogers, commercial construction along Promenade Boulevard is active with three Hunt Venture projects under way at this time. Spokesman John George told *The City Wire*, that two new retail projects will add 12,500 square feet of space which will be home to Bliss Cupcakes and Dickie's Barbecue and two other businesses whose names will be released in the next week or so.

He said Party Place is occupying another building which will be roughly 10,000 square feet.

Across Interstate 540, and to the south of Hunt Towers, a 60,000 square foot office building is going up. George said two large Wal-Mart vendors have pre-leased space in the building, which leaves about 8,000 square feet for two other large tenants.

George said traffic at the Promenade Mall and Cabela's has been strong and Hunt Ventures will also add another retail/office building along Pauline Whitaker Parkway, which is near the Neighborhood Market in the Pinnacle area.

New commercial projects remain sparse among most of the four cities, with the exception of owner-occupied projects. In Bentonville there were no new commercial permits issued in February. A year ago, the city issued one permit (\$460,000) for a new McDonald's to be built along Airport Road.

New Commercial (February)

Rogers: permits totaled \$2.175 million, up 162%

Fayetteville: permits totaled \$2.364 million, up 93.59%

Springdale: permits totaled \$359,328, down 81%

Bentonville: permits totaled \$0, down 100%

SKYLINE NOTES

The Skyline Report for the second half of 2012 was released this week and gives a

comprehensive look at the commercial and multifamily markets in the two counties.

“Job growth and population growth are having similar effects on the commercial real estate market as on the multifamily market, said Kathy Deck, director for the Center for Business and Economic Research at the University of Arkansas.

“Vacancy rates in the last half of 2012 decreased in all submarkets of commercial real estate except for the warehouse submarket, which rose to 20.2% at the end of the fourth quarter of 2012 from the 19.9% reported at the end of the second quarter of 2012. That increase was due to an owner-occupied building that was put into the warehouse space market when the owner vacated it,” Deck added.

Every submarket of the Northwest Arkansas commercial real estate experienced positive net absorption of space. Only 136,425 square feet of new space was added to the market while 1,306,921 square feet of commercial space was absorbed, netting positive absorption of 1,170,496 square feet.

The largest gains in absorption came in the industrial submarket with 277,529 square feet and the office submarket with net positive absorption of 225,292 square feet. The warehouse and retail/warehouse submarkets had positive net absorption of 198,350 square feet and 121,292 square feet, respectively.

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The office/warehouse submarket had positive net absorption of 120,801 square feet, the office/retail submarket had 115,142 square feet and the retail submarket had 106,353 square feet.

“While I cannot understate the progress we are making in the commercial real estate market, we will continue to see more projects developed as ‘build-to-suit’ rather than speculative building,” Deck said. “And that is only prudent.”

All of the commercial submarkets had lower vacancy rates than in December 2011.

NWA Commercial Vacancy Rates (December 2012)

Retail: 11.4%, down from 13.1%

Office: 15.3%, down from 19.5%

Office Retail: 15.4% down from 18.8%

Office Warehouse: 16.9%, down from 21.3%

Warehouse: 20.2%, down from 21.2%

“Developers and builders are doing their homework and moving forward with well-reasoned projects that fill a particular need within our market,” said Kent Williamson, loan manager with Arvest Bank in Springdale. “Everyone, including the banking industry, is taking a thoughtful approach to projects that contribute to the further economic prosperity of Northwest Arkansas.”

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