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Positive Vibe Permeates Market

By Paul Gatling - 6/11/2012

No matter where he goes, Ramsay Ball is hearing the same refrain these days.

The chorus has been welcome, and largely positive.

"Everyone I talk to [about real estate] on the commercial end - the architects, title companies, lenders are all seeing an increase in their commercial activity," said Ball, a principal at Colliers International, working from the firm's Northwest Arkansas office in Bentonville. "Instead of staring at the phone, they're all busy."

There's more happening, Ball contends, than most people realize. Investors are making deals for dirt and other developments, and leasing activity is picking up, too.

Another tangible sign of the market's bounce-back is that CBRE Group Inc., the world's largest CRE firm and the only one included in the Fortune 500 rankings, has recently opened an affiliate office in Fayetteville.

"The activity has gone from zero to 40 miles an hour," Ball said. "That might be different than the 100 miles an hour we were doing in 2007, but it's certainly a breath of fresh air. There's wind in the sails."

Ball's assertion is agreed upon by a handful of other local professionals. If the first few months of 2012 are any indication, expect more CRE activity throughout the year.

"We've seen a huge pickup [in closings] in the first five months so far this year," said Matt Kendall, president and CEO of Waco Title Co. in Springdale. "What we've seen in our commercial growth has been [an increase of] about 35 percent over 2011 and 22 percent over 2010. It's been a huge pickup."

Roger Boskus, a partner at Miller Boskus Lack Architects in Fayetteville, said his firm is also seeing signs of positive momentum with regard to the number of CRE inquires, and even proposals.

"Last year, if we got a couple every quarter, that was a lot," he said. "Now it's like a couple every week. We're getting barraged with all kinds of things."

"And my real estate broker friends, it seems like we'd talk to each other once a week," he added. "Now we don't even talk because everybody is too busy to chit-chat."

Significant Sales

The significant improvement Ball speaks of isn't just lip service.

At the Northwest Arkansas office of Colliers International, year-to-date revenue from sales and leasing transactions is up 139 percent from the same period in 2011.

"You can see [the improvement] in the numbers," Ball said. "We see it in the number of leases, number of land transactions; every sector except for new [office or retail] development. But we think we're on the cusp of that."

A few of the significant sales handled by the Colliers International group this year include:

The sale of 24 condominium units in downtown Fayetteville's The Lofts at the Metro District building at 600 W. Meadow St. for \$2.7 million in January. The buyer was a local investor.

The sale of 18.81 acres at Rochier Heights in Fayetteville for \$1 million in May. The property will be used for a 180-unit student housing development known as The Vue. The buyer was an out-of-state development group.

Acquisition of 17.64 acres on Horsebarn Road behind the The Shops at the Forum development in Bentonville for \$1 million in May. Keypoint Church Inc. bought the property, with development plans calling for construction of a sanctuary and student facilities, which will become the church's permanent North Campus location in Bentonville.

The most significant transaction this year, though, was a blockbuster grab in Benton County that involved three CRE firms in the market - Sage Partners, Grub & Ellis-Solomon Partners and Colliers International.

Little Rock real estate developer Joe Whisenhunt paid Bank of America \$19 million in a cash acquisition for 375 acres of undeveloped property along the Interstate 540 corridor.

The three chunks of land - acreage in the Pinnacle Hills and Pleasant Crossing developments, as well as The Grove - were bought for an average cost of less than \$1.25 per SF.

BOA took ownership of the dirt as the result of foreclosure or forfeiture by groups that included local developers Gary Brandon, Charles Reaves, Bill Schwyhart and Robert Thornton.

The deal will undoubtedly initiate major change in the landscape of Northwest Arkansas, and Ball hailed the CRE transaction as the area's most significant since the bubble burst.

Kendall also noted two transactions by out-of-state investment groups during the last six months that resonate in the market.

Dallas-based real estate company Hayman Woods LLC acquired The Ranch at Pinnacle Point, a 392-unit, multifamily property on 24.54 acres near Village on the Creeks in Rogers. The deal was finalized in December with a \$21.1 million financing agreement between Hayman Woods and M&T Bank.

Just last month, The Vista Companies of Houston paid \$2.4 million for 14.79 acres in Fayetteville's Steele Crossing mixed-use development, the initial step in the construction of a 71-000-SF Academy Sports + Outdoors store, just south of the Malco Razorback Cinema on Steele Boulevard.

It is expected that the transaction will spur more development in north Fayetteville.

"Being an accountant, I'm usually a pessimist," Kendall joked. "But to see some of these types of deals popping a little bit brings back confidence in our market, I think. We just had so much stagnation the last four or five years, but it shows investor capital is still coming into this area."

New Construction

According to the latest Skyline Report, \$37.1 million in commercial building permits were issued in Northwest Arkansas from June to November last year.

That total was down 18.1 percent from \$45.3 million spent in the previous six months, from December 2010 to May 2011.

"In general, with office and speculative development, there is very little new construction," Ball said, noting the exceptions of activity in the student housing sector and the numerous projects taking place on the University of Arkansas campus. "Each of those student housing projects is about \$30 to \$35 million, with the land costs and everything. And you've got four of those going right now, so that's \$140 million worth of new construction."

Boskus, though, said the amount of medical office, retail, new restaurant and new professional space projects his firm is involved with has increased "probably 75 percent" in the past two years.

"There are real projects happening, and that is exciting," Boskus said.

Though guarded about most CRE projects in the firm's pipeline, Boskus did reveal that The Egg and I, a breakfast food restaurant chain based in Fort Collins, Colo., will open its second Arkansas location in a new retail center being planned near Pleasant Grove Road in Rogers.

Boskus said construction of the 18,000-SF building, which will house other tenants that are yet to be named, should start later this summer.

"That's probably as specific as I can be," Boskus said. "There's some other stuff that is on the verge of becoming public information."

Office Space

Researchers from the University of Arkansas' Center for Business and Economic Research produce the Skyline Report, an analysis of the residential, commercial and multifamily markets in Benton and Washington counties.

Portions of the report are made available every six months for the commercial and multifamily survey.

The latest report, released in April and covering June to November 2011, showed the vacancy rate for office space remained at 19.5 percent from the previous six months. The report showed 77,630 SF became occupied in the market, with a net positive absorption of 57,325 SF.

Ball noted an increase in several CRE sectors, but he predicted a particularly stronger demand for office space as the year continues, spurred by renewed growth in the vendor community through expansion of existing vendors and new vendors entering the market.

"We're seeing a lot of leasing activity and additional reports will be out very soon to reflect that," he said. "The vacancy rate marketwide in multifamily should be less than 5 percent, which is very healthy. The slack is coming out of the market."

The next Skyline Report is due out in October.

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