

THE SKYLINE REPORT

for Benton and Washington Counties

**Commercial Real Estate
Market Summary
April 2005**



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Commercial Real Estate Market Summary

This report is the fourth edition of the Skyline Report for Benton and Washington Counties—Commercial Real Estate Market Analysis. Researchers at the Center for Business and Economic Research in the Sam M. Walton College of Business at the University of Arkansas produce the Skyline Report to provide timely statistical analysis of the Northwest Arkansas commercial real estate market. The information contained in the Skyline Report is critical for lenders, developers, contractors, and potential lessees. Because of the fast pace of growth in Northwest Arkansas, the commercial real estate market is fragmented with many local and national commercial real estate professionals competing to serve the needs of a burgeoning business community. Having current information and analysis provides a competitive advantage over those who make decisions without the benefit of hard data.

Highlights from the First Quarter of 2005

- In the first quarter of 2005, the Bentonville office and retail markets were flooded with the opening of new, unoccupied space.
- Fayetteville and Rogers experienced positive net absorption in their office markets, while Springdale had a small amount of negative absorption in the first quarter.
- The Fayetteville and Rogers retail submarkets showed strength in the first quarter with positive net absorption in all classes.
- There were negative net absorptions of warehouse, office/warehouse, and retail/warehouse space in Bentonville, Rogers, and Springdale in the first quarter.
- Building permits valued at over \$56.7 million were issued in Northwest Arkansas in the first quarter.
- For the first time, focus group participants were unanimous in declaring the office market in Bentonville overbuilt.
- Positive economic conditions prevailed in Northwest Arkansas in the first quarter, although nascent inflationary pressures and interest rate increases may bear down on the commercial real estate market in the coming quarters.

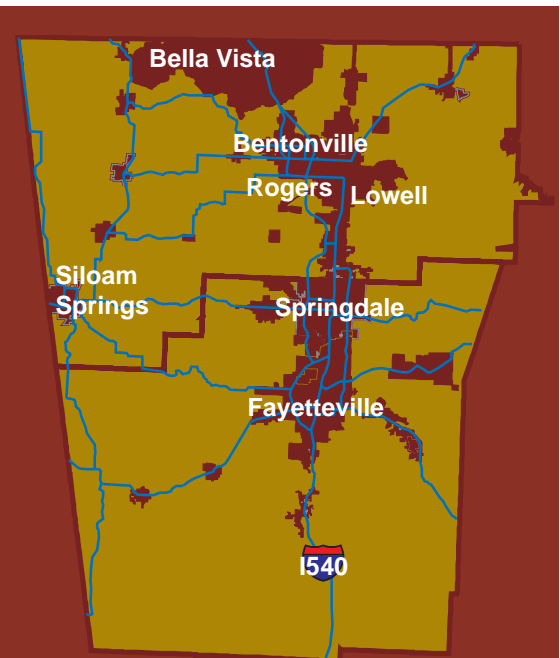
Report Structure

The Skyline Report presents an analysis of data from three primary sources. Information on the entire population of commercial property is gathered from the offices of the Benton and Washington County Assessors. These data sets are then filtered to exclude properties that are not part of the competitive leasing market. These excluded properties include owner-occupied buildings and other dedicated spaces. Additionally, commercial properties that do not meet certain minimum size criteria (detailed on page 33) are also filtered from the base of commercial properties considered. As a second source of data, building permit information is collected from the relevant divisions in Northwest Arkansas city governments. Finally, availability, lease rates, and other characteristics of competitive commercial properties are obtained from a panel of the largest commercial property owners and managers in Northwest Arkansas. Each of the three types of information that is collected gives a unique, but critical perspective of the local commercial property market. Without understanding what the universe of commercial properties looks like at the beginning of a period, the scale of available space for lease is meaningless. Likewise, the data that come from building permits paint a picture of what market additions are imminent. Only after setting the stage with these two perspectives do vacancy rates and market absorption numbers have real value.

In order to provide yet another level of perspective on the Northwest Arkansas commercial property market, the Skyline Report contains an overview of national and regional macroeconomic conditions. Ultimately, the real estate market is subject to the same fundamental forces that shape the rest of the economy, so having a broader view of current issues provides insights into potential challenges and opportunities for commercial property development.

To this end, the Skyline Report begins with an economic overview. First national output and employment issues are discussed and then there is a discussion of short-term and long-term interest rate prospects. Then, recent regional economic statistics, focusing on regional employment trends, are presented. After the economic overview, the results of some focus group discussions with commercial property developers and managers are summarized in order to supplement the hard data with anecdotal evidence from market participants about regional trends.

After the summary of local perceptions, the first quarter numbers for total commercial property square feet and building permit data are presented. Within the total square feet table, breakdowns of property type by city are contained. Also, the number of square feet of competitive commercial property for which the 87 panelists provide information is broken down by city and the percentage of coverage of the competitive market is calculated. A table containing publicly announced new commercial real estate projects is presented after the summary of building permit data. This table is meant to



The Northwest Arkansas commercial market is divided into six major categories of space:

1. Industrial—space that is appropriate for the manufacturing of goods
2. Office—space where professional business people work
3. Office/Retail—space that can be configured as either office or retail space or both
4. Office/Warehouse—space that can be configured as either office or warehouse space or both
5. Retail—space where goods and services can be offered and sold to the public
6. Retail/Warehouse—space where goods and services can be offered, sold, and stored.
7. Warehouse—space where goods can be stored until distributed

Further, analysts at the CBER have classified individual office, office/retail, and retail buildings into three categories: Class A, Class B, and Class C. A description of the methodology used to classify buildings is included at the end of this report. Class A space is the highest quality space available in the Northwest Arkansas market. Class B properties encompass a wide range of spaces, which have lease rates that cluster around the market average. Finally, Class C space describes properties that have sub-average lease rates and amenities.

provide an indication of the future direction of the Northwest Arkansas commercial property market. As many of these projects are still in the conceptual phase, hard data are incomplete and subject to change.

Following the table of announced commercial projects are two tables summarizing some results from the four quarters that the Skyline Report has been produced. The first table presents vacancy rates by submarket for each quarter. The second table presents net absorption by submarket for the third, fourth, and first quarters. These tables are the foundation for the performing trend analysis and eventually for separating the seasonal effects from real effects. The results in the tables are referred to throughout the remainder of the Skyline Report.

The next four sections present analyses of Northwest Arkansas submarkets by type of space. The office submarket is examined first, followed by the office/retail, retail, warehouse, office/warehouse, and retail/warehouse submarkets. Following these sections are commercial property summary statistics by city. There are sections for Bella Vista, Bentonville, Fayetteville, Lowell, Rogers, Siloam Springs, and Springdale.

Finally, a section on how to interpret the numbers contained in the report and a description of the commercial property classification system are offered.

By aggregating and analyzing data from a variety of sources, the Skyline Report is unique in its perspective on the Northwest Arkansas commercial property market. The information should be useful to anyone with an interest in the current workings and projected course of commercial real estate in Benton and Washington Counties.

Economic Overview

The Macro Economy at a Glance

For the year 2004, the overall growth rate in GDP was a healthy 4.4 percent. This is 0.8 percentage points higher than the average annual growth rate in GDP of 3.6 percent over the past 50 years. The growth rate in GDP in the fourth quarter of 2004 was 3.8 percent, down slightly from the third quarter GDP growth rate of 4.0 percent. The U.S. Department of Commerce Bureau of Economic Analysis (BEA) reported that the small deceleration in real GDP growth in the fourth quarter primarily reflected an acceleration in imports of goods and decelerations in personal consumption expenditures for durable goods and in exports of goods that were partly offset by an upturn in private inventory investment.

In March, the national unemployment rate was 5.2 percent, just below the 5.4 percent three-decade average rate. The Conference Board's Consumer Confidence Index peaked in January and declined in both February and March of 2005. Consumers' outlook for the next six months eased further in March. The Conference Board reported that those anticipating business conditions to improve increased to 19.2 percent from 17.9 percent, but those expecting business conditions to worsen increased to 8.2 percent from 7.8 percent.

Taken together, these data imply that the national economy continues moving along in an unexceptional way. Monetary policy makers are vigilant for inflationary pressures. In 2004, prices increased by 3.3 percent. This compares with an increase of 1.9 percent for all of 2003. In the first two months of 2005, inflation has increased 0.4 percent over the December 2004 level. Part of the impetus for the Federal Reserve's continued raising of short term interest rates is to contain potential inflationary pressures. Of particular interest is the consumer price index for energy, which increased 6.9 percent in 2003, and advanced at a rate of 16.5 percent in 2004. In the first two months of 2005, energy prices increased at 0.8 percent over the December 2004 level.

Short-term Interest Rate Risk

The Federal Reserve continued in its incremental raising of short-term interest rates in the first quarter of 2005. The federal funds target now stands at 2.75 percent, up 175 basis points from its historic low in 2003. Indications are that the Fed will continue to remove monetary stimulus from the economy in the face of inflationary pressures and continued steady growth of the macroeconomy. Monetary policy continues to be at odds with a highly stimulatory fiscal policy at the national level.

Long-term Interest Rate Risk

Even as short-term rates climbed in 2004 and early 2005, longer term rates held almost steady. The ten year constant maturity treasury bill had an interest rate of 4.15 percent in January 2004 and an interest rate of 4.5 percent in February 2005. The upward pressure on short-term rates combined with steady long-term interest rates implied a decline in the spread between the two. The accompanying figure shows the spread between the federal funds rate and the ten year treasury bill since January 2000. From May 2004 to February 2005, there was a 205 basis point decline in the spread. In March 2005, the spread had its first uptick since May of 2004, leaving the spread at 187 basis points.

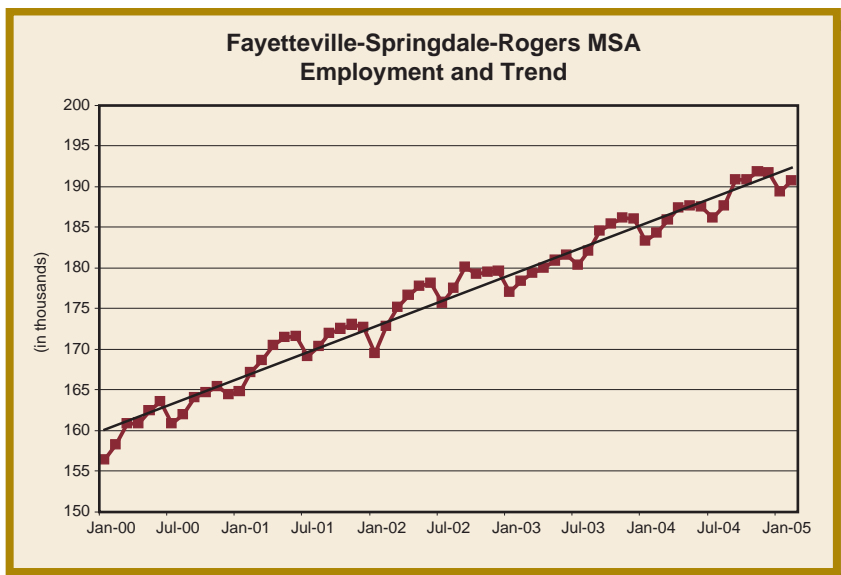
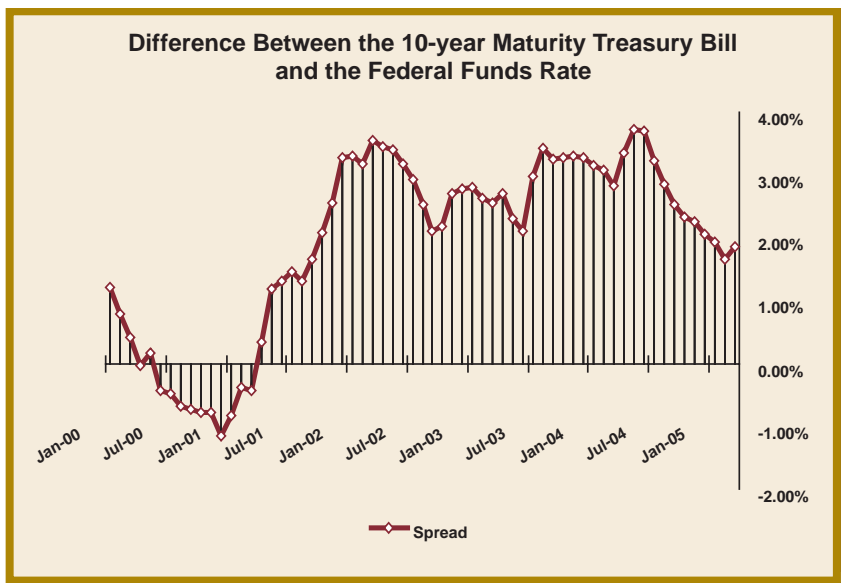
Regional Employment Trends

Local demand for real estate is uniquely associated with employment growth in the region. The Northwest Arkansas employment situation has been extremely conducive to both residential and commercial development in recent years. The most recent numbers available show that there is no reason to believe that a significant slowdown is occurring.

The accompanying figure shows that in December 2004, and January and February 2005, employment in the Fayetteville-Springdale-Rogers MSA increased in a manner consistent with recent history. Although January and February had employment increases that were below trend, the effects were likely seasonal in nature. Each year from 2000 through 2004 had similar dips in the first quarter of the year. When comparing these numbers with those in previous Skyline Reports, caution should be applied as the Bureau of Labor Statistics just rebenchmarked these data. Although the individual data points differ from those previously reported, the trend has not changed. Since January of 2000, employment growth has averaged 0.3 percent per month.

Other Regional Economic Indicators

Due to the change in the way local employment and unemployment numbers are estimated, the January and February local unemployment rates for Northwest Arkansas are not directly comparable to their predecessors. In December 2004, the unemployment rate in Northwest Arkansas was a revised 2.9 percent, up just slightly from the revised 2.7 percent rate in November. However, the January and February unemployment levels were reported as 3.7 and 3.9 percent respectively.



These numbers do not represent a dramatic increase in unemployment in Northwest Arkansas. Rather, until more data points are available that are created using the new estimation methodology, it would be unwise to draw conclusions about the overall direction of unemployment in Northwest Arkansas. In February, the state unemployment rate was 5.5 percent, while the national unemployment rate was 5.4 percent. Under any measure, Northwest Arkansas continues to outperform the state and national economies.

Taxable sales in the Fayetteville-Springdale-Rogers MSA increased 10.8 percent from 2003 to 2004, while they increased only 5.7 percent for the entire state during the same period. Average weekly manufacturing earnings grew 1.6 percent, based on preliminary estimates, in the MSA from January 2004 to January 2005. Average weekly manufacturing earnings growth was much more muted in the state as a whole during the same period at 0.9 percent.

Local Perceptions of the Northwest Arkansas Commercial Property Market

Each quarter, CBER staff members have conversations with a dozen or so commercial developers and/or property managers to get their ground-level insights on the current commercial real estate market in Benton and Washington counties. The themes of these conversations have been pretty consistent over the past year. Panelists have talked about the general state of the market, hot spots of activity, areas of softness, supply/demand imbalances and infrastructure issues. In previous quarters, the panelists have expressed views on these topics which have been all over the spectrum. However, in this quarter, there is a very strong consensus that there is an oversupply of office space in Bentonville. Though they had differing opinions of how long it might take to work off the excess inventory, all panelists agreed that supply now exceeds demand. The estimated number of months to achieve balance again ranged from six months to two years. Most agreed that the oversupply situation did not arise because of a slackening of demand. It was simply a case of over-acceleration in the pace of building activity.

Several panelists commented on market corrections, which they saw as forthcoming. Such corrections could take the form of any or all of the following:

- Foreclosures
- Dampening of lease rates
- Increased use of incentives
- More trading up by lessees
- Retirement of marginal properties

When respondents were asked to sum up their view of the current market in a word or two, the following responses were elicited: controlled chaos, overbuilt, sales hot but leasing is slow, scary, saturated and market correction. Interestingly, these words obscured an underlying sense of optimism which is still present. In general, they felt that there were still deals to be made, although it might require more work to identify them and to make them happen.

While a significant amount of new retail space has been announced, some of which is under construction, the panelists were still seeing a lot of interest in this area of the market. The Pinnacle Hills-Pleasant Grove area of Rogers continues to receive the most attention. Respondents use their own measures – for example, retail square footage per resident or population growth - to justify the need for additional retail developments. Yet, most panelists also tend to be skeptical about whether every announced project will actually happen or, if it is built, whether the scope and magnitude will be identical to that described in the announcement.

The Rainbow Curve area of Bentonville is taking on a different look as a couple of retail developments are nearing the occupancy stage. Additional projects have been announced or are under construction. Traffic congestion, which is already quite heavy, was cited as a potential barrier to the success of projects in this area.

The Fayetteville market is still viewed as being strong, although its growth is certainly different from the more explosive growth to the north. The Northwest Arkansas Mall and the neighboring Steele Crossing area are seeing a lot of activity. The Millsap area has experienced a reduction in the amount of vacant space, and new projects nearby have been announced. Other strong markets mentioned were the Lowell area and Springdale, although the latter may be seeing more action related to land acquisition. An interesting observation was made concerning the Pinnacle Hills to Lowell area. The activity is seen as not being driven by the vendor community, but rather by retail and by business and personal service providers.

Panelists were asked to list the positive factors they see as they look out over the horizon. These factors included:

- Continued growth in vendor demand for space
- Wal-Mart PR campaign
- JB Hunt growth
- Tyson Foods growth
- University of Arkansas growth
- Population growth

Conversely, the negative factors they see are:

- The office submarket is overbuilt
- Infrastructure issues (roads, water, sewer and telecommunications)
- Interest rates
- Land prices
- Lack of affordable single family housing
- Quick, easy buck opportunities are gone

In summary, these panelists seem to agree on the following:

- A significant oversupply in Bentonville office space.
- Retail activity is still strong.
- Infrastructure issues are still barriers to growth.
- Vendor activity is still pretty strong.
- Major retail projects will not come to fruition exactly as they were announced.

Local Commercial Property Inventory and Building Permit Data

The following table presents the total competitive commercial property inventory in Northwest Arkansas that meets minimum square footage requirements (a complete list of these criteria are included on page 33) as of March 2005. Also included are columns detailing the total square feet and percent coverage of the total inventory for which the Skyline Report commercial property owner and manager panel provided information. For the first quarter, the Skyline Report covers more than 61.5 percent of the total competitive commercial property population in Northwest Arkansas. Some cities have better coverage than others. For example, the Skyline Report panelists reported information on 89 percent of the competitive commercial properties in Bentonville, but only 39 percent of the competitive commercial properties in Springdale. Bella Vista, Rogers, Fayetteville, Lowell, and Siloam Springs have coverages of 87, 67, 63, 50, and 41 percents, respectively.

Total Square Feet and Coverage of Competitive Commercial Properties

	Industrial ¹	Office ¹	Retail ¹	Warehouse ¹	Total ¹	Panel Total Square Feet ²	Panel Coverage ²
Bella Vista	–	106,188	14,752	61,594	182,534	157,902	86.5%
Bentonville	167,056	2,430,934	493,397	599,389	3,690,776	3,272,123	88.7%
Fayetteville	466,135	2,377,601	2,696,631	810,345	6,350,712	3,971,781	62.5%
Lowell	148,819	254,156	74,891	42,500	520,366	211,294	40.6%
Rogers	652,011	1,573,857	1,418,493	468,180	4,112,541	2,757,752	67.1%
Siloam Springs	253,631	173,787	286,487	180,797	894,702	445,713	49.8%
Springdale	969,303	1,367,979	1,324,659	1,357,388	5,019,329	1,952,533	38.9%
Northwest Arkansas Total	2,656,955	8,284,502	6,309,310	3,520,193	20,770,960	12,769,098	61.5%

¹Source: Benton and Washington County offices of the Assessor. The total square feet represent the population of competitive commercial properties that meet the baseline criteria set out on page 33 of this report.

²Source: Panel of 87 large Northwest Arkansas commercial property owners and managers.

In addition, building permit data from the past three quarters are presented for six major cities in Northwest Arkansas. Building permit data are seasonal in nature and will show large fluctuations in square footage and value from quarter to quarter. Moreover, any particularly large project can skew the numbers immensely. Building permit data are also city-specific. Only Bentonville, Fayetteville, and Siloam Springs present square footage data, while only Bentonville and Fayetteville break out the different types of commercial property. A standardization of building permit applications in the region would provide much better data for comparison purposes.

From December 2004 to February 2005, there were \$56.7 million in commercial building permits in Bentonville, Fayetteville, Lowell, Rogers, Siloam Springs, and Springdale. This is substantially more than the prior quarter total of \$22.2 million, but less than the June 2004 to August 2004 total of \$60.7 million. Rogers accounted for almost half of the total value of building permits in the December to February period, with Fayetteville making up an additional third. Bentonville had a substantial drop in the value of building permits issued, with the first quarter total equaling only about half of the prior quarter's total.

The table of announcements of New Commercial Property is included as an indication of the future direction of the Northwest Arkansas commercial market. The list is not exhaustive, but represents an effort to gather data at a step before the official permitting process. The managers and owners of many of these properties have provided the CBER with information about these buildings, but until construction is complete, they do not appear in the aggregated total square footage and available square footage calculations. Some of the properties listed are actually under construction, while others are only in the concept phase.

Commercial Building Permit Data by City

December 2004-February 2005

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Value	\$8,753,636	\$18,560,094	\$390,000	\$26,172,000	\$254,700	\$2,614,524*	\$56,744,954
Growth Rate	-49.23%	574.70%	-3.20%	5249.52%	35.48%	122.51%	155.05%
Square Feet	25,866	183,189	--	--	7,845	--	--
Growth Rate	-83.42%	701.60%	--	--	65.23%	--	--

September-November 2004

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Value	\$17,242,269	\$2,750,867	\$402,891	\$489,240	\$188,000	\$1,174,999	\$22,248,266
Growth Rate	4.80%	-33.60%	-96.00%	-97.70%	-90.60%	-81.60%	-63.40%
Square Feet	156,026	22,853	--	--	4,748	--	--
Growth Rate	-26.10%	-35.60%	--	--	-81.30%	--	--

June-August 2004

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Value	\$16,446,488	\$4,145,124	\$10,035,248	\$21,734,534	\$1,993,393	\$6,390,478	\$60,745,265
Growth Rate	12.3%	-47.1%	4,827.0%	146.9%	15.8%	169.4%	70.7%
Square Feet	211,258	35,500	--	--	25,446	--	--
Growth Rate	-4.5%	-60.5%	--	--	-69.8%	--	--

March-May 2004

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Value	\$14,640,091	\$7,839,529	\$203,680	\$8,804,700	\$1,721,585	\$2,371,888	\$35,581,473
Square Feet	221,301	89,921	--	--	84,124	--	--

*Springdale data only include January and February building permits. December was not available at press time.

Announcements of New Commercial Projects

Property	City	Owner/Developer/ Property Manager	Use	Square Feet	Expected Completion Date
Beau Chene Crossing	Bentonville	Lindsey - McClard	Medical Office	40,500	Spring 2006
1301 SE 8th Street	Bentonville	Keating Enterprises	Office	50,000	Spring 2005
701-711 "J" Street	Bentonville	Keating Enterprises	Office	35,400	Fall 2005
Brightwood Business Park, Phase II	Bentonville	Charlton Development	Office	24,000	Fall 2005
Janus II	Bentonville	Keating Enterprises	Office	20,000	Spring 2005
Oak Trace, Phase V	Bentonville	Charlton Development	Office	10,360	Fall 2005
Rainbow Curve Office Building	Bentonville	Josh Kyles	Office	80,000	Spring 2005
Rainbow Curve Professional Center	Bentonville	Dixie Development	Office	37,300	Spring 2005
Regency Park Business Center	Bentonville	Rose Properties	Office	13,500	Spring 2005
Sara Lee Corp.	Bentonville	Sellers Properties	Office	30,000	November 2005
The Superior Building	Bentonville	Slone-Hanna Partnership	Office	396,000	Fall 2005
608 S.E. 3rd Street	Bentonville	Lillich & Bossler	Office	2,400	Spring 2005
1200 SE 14th	Bentonville	Rick Thomas	Office	24,000	Spring 2006
1007 SW "A" Street	Bentonville	MIDD Development	Office/Retail	14,500	Spring 2005
Bentonville Butcher & Deli	Bentonville	Mike Robinson/Dan Dykema	Office/Retail	12,184	May 2005
Colonnade II	Bentonville	Dixie Development	Office/Retail	19,000	2006
Fountain Plaza	Bentonville	Lane Real Estate	Office/Retail	50,000	Summer 2005
Metro Market	Bentonville	Lindsey & Associates	Retail	40,000	Spring 2005
Metro Market	Bentonville	Sellers Properties	Retail	40,000	April 2005
Rainbow Curve Retail Center	Bentonville	Dixie Development	Retail	38,000	Summer 2005
The Bentonville Colonnade	Bentonville	Dixie Development	Retail	38,000	February 2005
2800 SW 14th Street	Bentonville	Copper Ridge LLC	Retail	14,500	Fall 2005
300 SE F Street	Bentonville	Lillich & Bossler	Warehouse	19,200	Spring 2005
197 E. Main Street	Farmington	Collier Landholdings Inc	Retail	2,700	Spring 2005
Joyce Medical & Professional Ctr	Fayetteville	M & S Investments	Medical	15,400	Fall 2005
2538 E. Joyce	Fayetteville	M & S Development LLC	Medical	2,973	Summer 2005
Appleby Landing	Fayetteville	Dixie Development	Medical Office		2006
Joyce Boulevard	Fayetteville	Lindsey & Associates	Office	82,420	Summer 2006
E. Joyce	Fayetteville	M & S Development LLC	Office	20,000	Fall 2005
N. College & Spring Street	Fayetteville	Terminella and Associates	Office	20,000	October 2005
Southern View, Phase II	Fayetteville	Southern View Phase II LP	Office/Retail	42,000	Fall 2005
Steele Crossing Professional Center	Fayetteville	Steele Crossing Prof. Center	Office/Retail	17,490	Fall 2005
311 W Dickson Street	Fayetteville	Joe Fennel	Office/Retail	13,000	Summer 2005
Brandon Mall	Fayetteville	Gary Brandon	Retail	28,000	Fall 2005
Shopping Center	Fayetteville	Mathias	Retail	40,000	2006
The Depot Project	Fayetteville	Mansfield Property Mgmt	Retail		2006
5501 Willow Creek Drive	Johnson	Real Sources, Inc.	Medical	40,000	Early 2006
Tower One	Johnson	Orion Realty	Office/Retail	60,000	November 2005
2403 Main	Johnson	C & K Properties	Office/Retail	6,600	May 2005
2209 W. Main	Johnson	WWW Johnson South LLC	Office/Whse	85,000	Summer 2005
Creekside Medical Park	Rogers	Colliers Dickson Flake	Med. Off/Retail	600,000	Fall 2006
Southern Hills	Rogers	Dixie Development	Office	10,000	August 2005
Southern Hills Business Park	Rogers	Trends LLC	Office	12,000	Spring 2005
710 W. Roselawn	Rogers	H.B. Rentals	Office	59,000	Summer 2005
Pinnacle Suites	Rogers	The Pinnacle Group	Office/Retail	108,000	October 2005
The Shoppes at Pinnacle Hills	Rogers	Pinnacle Group	Office/Retail	105,000	Mid 2005
off Pleasant Grove	Rogers	Centre Pointe LLC	Office/Retail	420,000	2006
Pinnacle Promenade	Rogers	The Pinnacle Group	Retail	980,000	Mid 2006
Pleasant Crossing	Rogers	Charles Reaves, et al	Retail	1,000,000	December 2005
The Space Center	Rogers	Wi-Shar Moore	Retail	30,000	Fall 2005
Walnut & 37th	Rogers	Dixie Development	Retail	21,350	Summer 2005
I-540 & 48th Street	Springdale	USI-Arkansas Inc.	Office	10,000	January 2005
1695 Electric Avenue Avenue	Springdale	Latitude Electric Office LLC	Office/Retail	16,000	Spring 2006
Electric Avenue	Springdale	Basic Construction	Retail	16,000	Summer 2005
Medical Associates of NWA	Tontitown	Medical Associates of Northwest Arkansas	Medical	6,100	Summer 2005

Vacancy Rates by Submarket

Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	33.7%	39.3%	28.8%	100.0%	19.6%	100.0%	21.4%	31.7%
Q3 2004	19.6%	38.1%	25.6%	11.7%	22.8%	100.0%	26.5%	28.4%
Q4 2004	50.0%	31.0%	26.4%	3.6%	16.5%	48.4%	7.8%	24.5%
Q1 2005	17.2%	24.5%	26.9%	3.7%	17.8%	4.8%	8.4%	21.6%

Office/Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	4.5%	36.7%	8.8%	8.8%	100.0%	--	40.6%	26.5%
Q3 2004	3.1%	34.5%	9.1%	8.8%	17.3%	--	17.9%	19.7%
Q4 2004	8.3%	29.1%	10.9%	16.7%	17.3%	--	15.3%	16.8%
Q1 2005	9.5%	28.3%	9.3%	--	8.1%	10.6%	13.0%	13.9%

Office/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	--	100.0%	--	--	100.0%	--	34.0%	55.5%
Q3 2004	--	84.8%	0.0%	--	100.0%	36.3%	100.0%	94.8%
Q4 2004	--	100.0%	0.0%	--	0.0%	70.8%	50.0%	27.4%
Q1 2005	--	41.9%	91.3%	--	8.5%	70.8%	60.8%	46.0%

Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	--	69.7%	8.3%	--	19.5%	36.3%	9.5%	15.4%
Q3 2004	1.2%	38.7%	6.4%	0.0%	23.8%	--	12.0%	12.0%
Q4 2004	3.1%	30.4%	7.2%	0.0%	21.9%	100.0%	8.5%	11.8%
Q1 2005	0.0%	19.8%	7.6%	5.8%	16.3%	0.4%	11.9%	10.5%

Retail/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	--	--	66.3%	--	100.0%	--	10.5%	21.8%
Q4 2004	--	--	66.3%	--	100.0%	--	21.0%	31.8%
Q1 2005	--	--	66.3%	--	100.0%	100.0%	22.1%	29.4%

Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q2 2004	--	100.0%	6.7%	--	21.0%	43.1%	77.3%	24.7%
Q3 2004	--	80.3%	8.4%	100.0%	62.8%	0.0%	55.3%	52.1%
Q4 2004	--	56.3%	4.8%	47.4%	53.5%	0.0%	74.8%	33.5%
Q1 2005	--	64.8%	6.6%	47.4%	48.3%	0.0%	35.2%	30.5%

Net Absorption by Submarket

Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	-2,250	-17,740	22,299	0	-8,112	0	-21,571	-27,374
Q4 2004	0	1,530	-4,280	9,591	2,439	0	21,902	31,182
Q1 2005	0	-78,893	13,598	-200	11,512	0	-1,737	-55,720

Office/Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	0	5,000	1,000	0	0	--	-7,500	-1,500
Q4 2004	-5,643	5,544	-11,815	-3,200	4,380	--	3,611	-7,123
Q1 2005	-889	-2,350	-8,774	--	-4,380	0	6,369	-10,024

Office/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	--	0	0		0	--	-7,800	-7,800
Q4 2004	--	0	0		21,000	-38,000	-31,000	-48,000
Q1 2005	--	0	0		-21,000	0	-13,444	-34,444

Retail

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	4,900	-10,208	10,666	0	0	--	67,964	73,322
Q4 2004	0	1,527	-33,598	0	-11,505	-39,240	26,992	-55,824
Q1 2005	2,400	-18,030	12,694	0	8,309	0	-5,550	-177

Retail/Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	--	0	0		0	--	5,000	5,000
Q4 2004	--	--	0		0	--	-11,000	-11,000
Q1 2005	--	--	0		0	-23,680	-1,560	-25,240

Warehouse

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q3 2004	--	0	0	0	0		0	0
Q4 2004	--	34,643	0	400	43,000	0	2,575	80,618
Q1 2005	--	-43,750	0	0	5,000	0	5,690	-33,060



Office Lease Rates

Average Range by City

	Class A	Class B	Class C	Medical
Bentonville	\$18.11 - \$18.11	\$14.29 - \$14.85	--	\$12.85 - \$15.35
Fayetteville	\$17.69 - \$19.20	\$12.80 - \$13.98	\$9.02 - \$9.40	\$13.00 - \$13.00
Rogers	\$19.19 - \$20.19	\$12.09 - \$12.67	\$10.05 - \$10.25	\$13.00 - \$13.00
Springdale	\$10.40 - \$14.68	\$12.25 - \$12.55	\$6.42 - \$6.42	\$11.25 - \$11.25

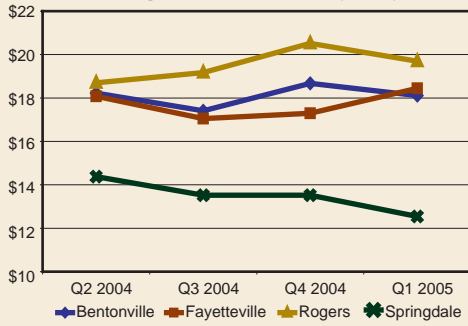
Office

In the first quarter of 2005, the office properties included in the CBER panel had a vacancy rate of 21.6 percent, down from 23.3 percent in the fourth quarter. Of the 4.5 million square feet of Northwest Arkansas properties examined, 967,756 square feet are currently available. From the fourth quarter of 2004 to the first quarter of 2005, 28,410 square feet of office space were absorbed, while an additional 84,130 square feet came online in the market.

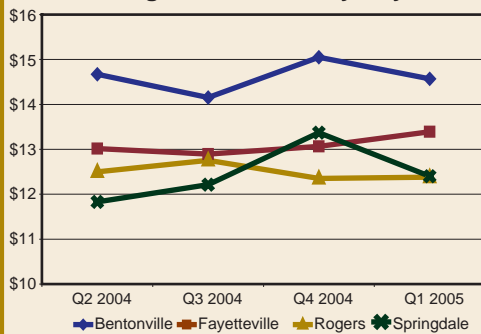
Of the 967,756 square feet of available office space in Northwest Arkansas, more than half is located in Bentonville and comprises Class A and Class B space. Bentonville Plaza accounts for about 45.4 percent of the unoccupied office space in Bentonville. However, new square feet are becoming available much faster than they are being occupied in Bentonville. In the first quarter, there were 5,237 square feet absorbed in the market, but 84,130 square feet became available. While Bentonville Plaza continues to play a role in the oversupply in the Bentonville market, now there is substantial square footage sitting vacant in the Class B market as well.

In the office market in Rogers, there was positive net absorption of 11,512 square feet in the first quarter of 2005. The Class A market had positive absorption of 11,713 square feet, while absorption in Class B and Class C office space nearly offset each other with negative absorption of 4,500

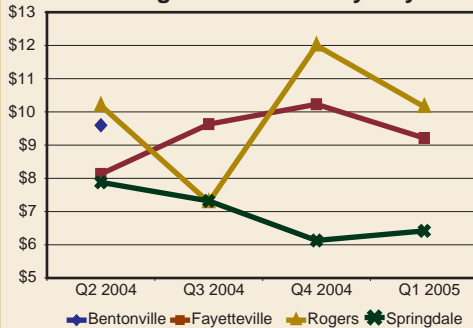
**Class A Office
Average Lease Rates by City**



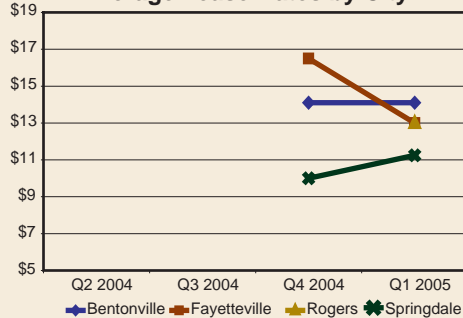
**Class B Office
Average Lease Rates by City**



**Class C Office
Average Lease Rates by City**



**Medical Office
Average Lease Rates by City**



square feet and positive absorption of 4,299 square feet, respectively. No absorption was reported in the medical office submarket. At the first quarter rate of absorption, Rogers has 5.1 months of inventory in the office market.

Fayetteville had 239,026 square feet of available office space in the first quarter of 2005. About 5 percent of the space is Class C, with the remainder fairly evenly split between Class A and Class B space. From the fourth to the first quarter, there was negative absorption of 15,821 square feet in the Class A market, positive absorption of 27,969 square feet in the Class B market, and positive absorption of 1,450 square feet in the Class C market. No absorption was reported in the medical office submarket.

Springdale experienced very little activity in the first quarter. A total 1,737 square feet Class B space reentered the market from December through February. There were only 26,538 square feet of available office space in the first quarter of 2005 in Springdale, implying an 8.4 percent vacancy rate.

Office lease rates continue to be highest, on average, for Class A office space in Rogers, averaging from \$19.19 to \$20.19 per square foot. Class A space in both Bentonville and Fayetteville can approach the lower end of this range, but Class A space in Springdale continues to be significantly less expensive per square foot. Class B office space is most expensive in Bentonville and least expensive on average in Rogers. In the first quarter, Rogers had the most expensive Class C office space. Medical office space is cheapest in Springdale, with Bentonville, Fayetteville and Rogers all having comparable prices in this submarket.

Office Space Characteristics by Class and City

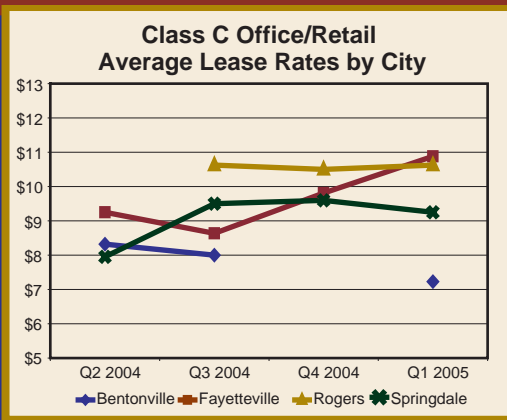
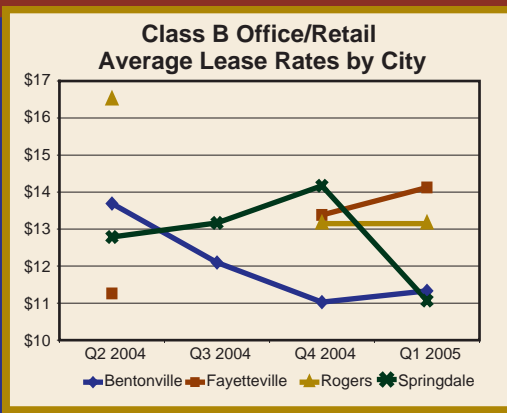
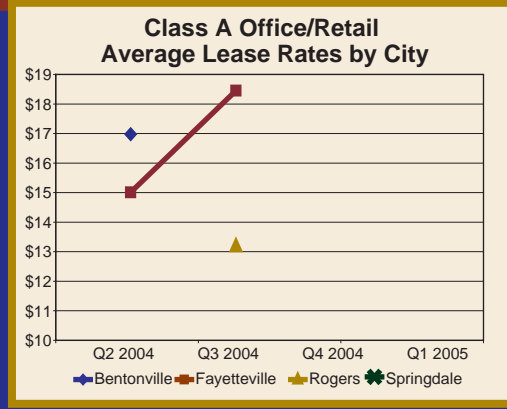
Class A Office							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	315,615	239,371	75.8%	-1,843	0	-1,843	--
Fayetteville	149,654	128,654	86.0%	-15,821	0	-15,821	--
Rogers	791,840	95,820	12.1%	11,713	0	11,713	2.7
Springdale	--	--	--	--	--	--	--
Class B Office							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	1,794,343	277,981	15.5%	8,380	84,130	-75,750	--
Fayetteville	619,785	97,527	15.7%	27,969	0	27,969	--
Rogers	103,016	36,377	35.3%	-4,500	0	-4,500	--
Springdale	133,122	26,633	20.0%	6,000	0	6,000	1.5
Class C Office							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	14,075	0	0.0%	0	0	0	--
Fayetteville	41,538	12,580	30.3%	1,450	0	1,450	2.9
Rogers	77,467	40,716	52.6%	4,299	0	4,299	3.2
Springdale	113,538	5,400	4.8%	369	0	369	4.9
Medical Office							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	3,021	3,021	100.0%	-1,300	0	-1,300	--
Fayetteville	77,683	265	0.3%	0	0	0	--
Rogers	13,588	2,150	15.8%	0	0	0	--
Springdale	360,374	219,044	60.8%	-13,444	0	-13,444	--

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents



Office/Retail Lease Rates



Average Range by City

	Class A	Class B	Class C
Bentonville	-	\$10.31 - \$12.35	\$6.54 - \$7.92
Fayetteville	-	\$13.50 - \$14.75	\$9.36 - \$12.40
Rogers	-	\$13.15 - \$13.15	\$8.00 - \$13.25
Springdale	-	\$10.89 - \$15.95	\$7.25 - \$11.25

Office/Retail

In the first quarter of 2005, the office/retail properties included in the CBER sample had a vacancy rate of 13.9 percent, down from 16.8 percent in the fourth quarter. Of the 1.2 million square feet of Northwest Arkansas properties examined, 164,582 square feet were available. From the fourth quarter of 2004 to the first quarter of 2005, 10,393 square feet of office/retail space became available, while no new square footage was added to the submarket.

Springdale had the only positive absorption of office/retail space in the first quarter at 6,369 square feet. Of this total, 6,000 square feet were in the Class B submarket, while 369 square feet were in the Class C submarket. The Rogers submarket gave back its gains from the previous quarter, while the Fayetteville market experienced negative net absorption of 8,774 square feet. Bentonville also experienced negative absorption in the office/retail submarket in the first quarter.

Bentonville continues to have the largest amount of available square feet in the Class B office/retail submarket with 70,948 square feet available. This translates to a vacancy rate of 36.3 percent. Fayetteville and Rogers, on the other hand, have very little Class B office/retail space available with only 16,374 and 14,400 square feet respectively.

Office/retail space lease rate changes were mixed in the first quarter. Average lease rates declined in Springdale, but had small increases in Fayetteville and Bentonville. Average lease rates experienced no real changes in the Rogers office/retail submarket during the first quarter.

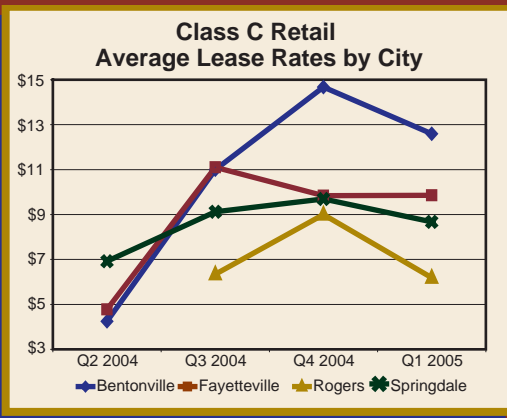
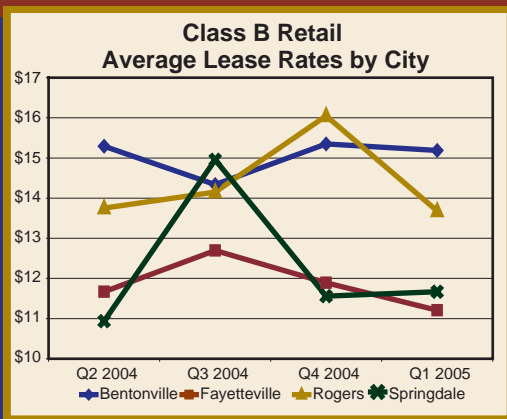
Office/Retail Space Characteristics by Class and City

Class B Office/Retail							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	195,281	70,948	36.3%	-2,350	0	-2,350	--
Fayetteville	271,902	16,374	6.0%	-8,774	0	-8,774	--
Rogers	58,000	14,400	24.8%	0	0	0	--
Springdale	133,122	26,633	20.0%	6,000	0	6,000	1.5

Class C Office/Retail							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	45,084	0	0.0%	0	0	0	--
Fayetteville	51,000	13,815	27.1%	0	0	0	--
Rogers	175,270	4,380	2.5%	-4,380	0	-4,380	--
Springdale	113,538	5,400	4.8%	369	0	369	4.9

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents



Retail Lease Rates

Average Range by City

	Class A	Class B	Class C
Bentonville	\$16.00 - \$16.50	\$14.97 - \$15.41	\$12.47 - \$12.72
Fayetteville	-	\$10.31 - \$12.11	\$9.33 - \$10.38
Rogers	\$18.63 - \$18.98	\$12.61 - \$14.75	\$6.19 - \$6.19
Springdale	-	\$10.67 - \$12.67	\$8.05 - \$9.30

Retail

In the first quarter of 2005, the retail properties included in the CBER panel had a vacancy rate of 10.5 percent, which was a decline of more than a percentage point from the fourth quarter. Of the 3.9 million square feet of Northwest Arkansas retail properties examined, 412,799 square feet are currently available. From the fourth quarter of 2004 to the first quarter of 2005, there was a positive absorption of 18,523 square feet of retail space, while an additional 18,700 square feet of retail space (all in Bentonville) came online in the market. This yielded a negative net absorption of 177 square feet in the first quarter in the retail submarket of Northwest Arkansas.

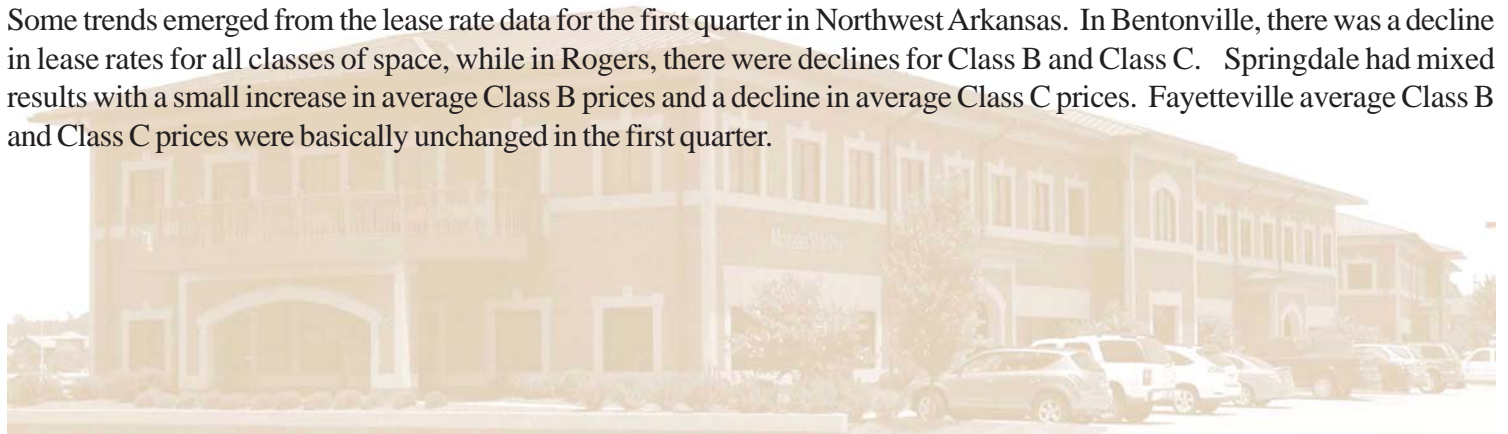
Bentonville had 69,753 square feet of total retail space available in the first quarter, resulting in a vacancy rate of 19.8 percent. This represented a decline from the rate of 30.4 percent in the fourth quarter of 2004. The decline in observed vacancy rates is due to the fact that many properties with very low vacancy rates were added to the Skyline Report sample in the first quarter. In fact, Bentonville had negative net absorption of just over 18,000 square feet of retail space, due to the addition of 18,700 square feet to the retail submarket. The positive absorption that took place in the Class A retail properties in Bentonville just offset the negative absorption that occurred in the Class B retail properties, while Class C retail properties had no absorption during the first quarter.

In the first quarter of 2005, Fayetteville had a vacancy rate of 7.6 percent, up from 7.2 percent in the fourth quarter, with 130,021 available square feet. There was reported positive absorption of 1,546 square feet in the Class A retail submarket and reported positive absorption of 11,148 square feet in the Class B retail submarket. There was zero absorption in the Class C retail submarket in Fayetteville. No new available square feet were reported during the first quarter in Fayetteville.

The Rogers market had 122,028 square feet of total retail space available in the first quarter with a vacancy rate of 16.3 percent. This rate was a decline from 21.9 percent in the fourth quarter. A total of 7,309 square feet was absorbed in the Class A submarket and a total of 1,000 was absorbed in the Class C submarket. No activity was reported in the Class B retail submarket in Rogers in the first quarter of 2005.

The retail submarket in Springdale experienced negative net absorption of space in the first quarter of 2005. A total of 6,300 square feet became available in the Class B submarket, while the Class C submarket had a small positive net absorption of 750 square feet. Springdale had only 86,897 available square feet with a vacancy rate of 11.9 percent in the first quarter of 2005.

Some trends emerged from the lease rate data for the first quarter in Northwest Arkansas. In Bentonville, there was a decline in lease rates for all classes of space, while in Rogers, there were declines for Class B and Class C. Springdale had mixed results with a small increase in average Class B prices and a decline in average Class C prices. Fayetteville average Class B and Class C prices were basically unchanged in the first quarter.

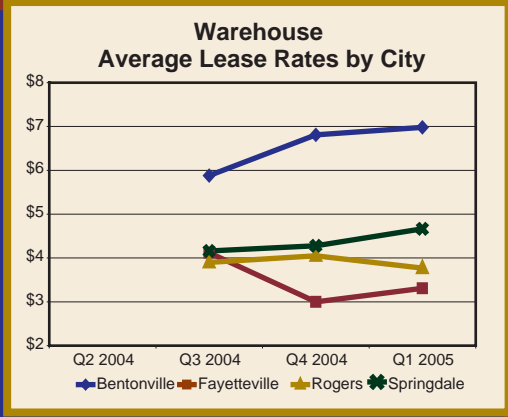


Retail Space Characteristics by Class and City

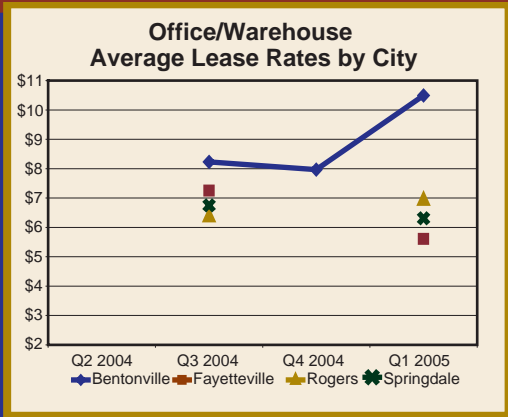
Class A Retail							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	58,168	8,700	15.0%	5,200	8,700	-3,500	--
Fayetteville	822,703	15,475	1.9%	1,546	0	1,546	3.3
Rogers	113,582	2,174	1.9%	7,309	0	7,309	0.1
Springdale	--	--	--	--	--	--	--
Class B Retail							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	238,332	48,753	20.5%	-4,530	10,000	-14,530	--
Fayetteville	781,215	84,611	10.8%	11,148	0	11,148	2.5
Rogers	451,304	112,770	25.0%	0	0	0	--
Springdale	623,411	35,447	5.7%	-6,300	0	-6,300	--
Class C Retail							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	56,650	12,300	21.7%	0	0	0	--
Fayetteville	110,514	29,935	27.1%	0	0	0	--
Rogers	185,773	7,084	3.8%	1,000	0	1,000	2.4
Springdale	109,713	51,450	46.9%	750	0	750	22.9

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents

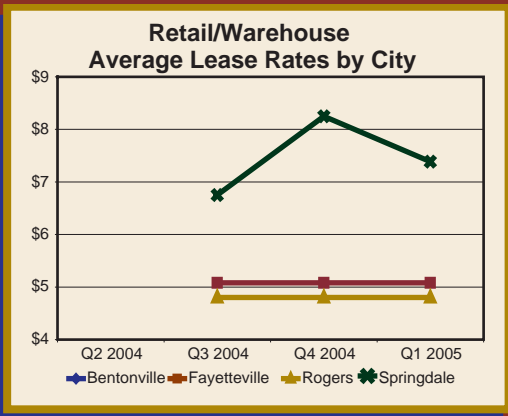


Other Lease Rates



Average Range by City

	Warehouse	Office/ Warehouse	Retail/ Warehouse
Bentonville	\$5.65 - \$8.31	\$9.51 - \$11.48	-
Fayetteville	\$3.31 - \$3.31	\$2.86 - \$8.36	\$5.08 - \$5.08
Rogers	\$3.77 - \$3.77	\$3.38 - \$10.50	\$4.80 - \$4.80
Springdale	\$4.25 - \$5.04	\$6.31 - \$6.31	\$4.00 - \$10.67



Warehouse

In the first quarter of 2005, the warehouse properties included in the CBER panel had a vacancy rate of 30.5 percent. This was a decline from the fourth quarter vacancy rate of 33.5 percent. Of the 1.8 million square feet of warehouse space examined, 563,101 square feet were available in the first quarter. There was negative net absorption of 33,060 square feet of warehouse space in the first quarter and no additional square feet of space came online in the market. The decline in vacancy rates was solely due to the addition of some completely full properties to the Skyline Report sample.

The bulk of available warehouse space is in Bentonville and Rogers, while Fayetteville and Springdale have significantly less available warehouse space. Positive absorption in Rogers and Springdale caused vacancy rates to decline from the fourth quarter to the first quarter in those submarkets. No activity was reported in Fayetteville.

Bentonville continued to have the most expensive average warehouse lease rates. On average, lease rates ticked up in Fayetteville and Springdale, while they declined slightly in Rogers.

Office/Warehouse

The CBER panelists reported on 839,652 square feet of office/warehouse space in the first quarter. This represents a 72.1 percent increase in the response rate for this category of space over the fourth quarter

Other Space Characteristics by Class and City

Warehouse							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	414,875	268,750	64.8%	-43,750	0	-43,750	--
Fayetteville	863,941	57,200	6.6%	0	0	0	--
Rogers	337,869	163,326	48.3%	5,000	0	5,000	10.9
Springdale	158,369	55,825	35.2%	5,690	0	5,690	3.3

Office/Warehouse							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	108,880	45,600	41.9%	0	0	0	--
Fayetteville	68,696	62,696	91.3%	0	0	0	--
Rogers	248,000	21,000	8.5%	-21,000	0	-21,000	--
Springdale	360,374	219,044	60.8%	-13,444	0	-13,444	--

Retail/Warehouse							
	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1,2}	Months of Inventory ^{1,2}
Bentonville	--	--	--	--	--	--	--
Fayetteville	8,900	5,900	66.3%	0	0	0	--
Rogers	12,000	12,000	100.0%	--	--	--	--
Springdale	121,004	26,756	22.1%	-1,560	0	-1,560	--

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents

total. The vacancy rate in the office/warehouse submarket increased to 46.0 percent in Northwest Arkansas, with 386,340 total square feet available in the first quarter. From the fourth quarter of 2004 to the first quarter of 2005, there was total negative absorption of 34,444 square feet of office/warehouse space while no new space came online.

The activity in the office/warehouse submarket in the first quarter was confined to Rogers and Springdale. The negative absorption in Rogers in the first quarter just offset the positive absorption in the fourth quarter, while the Springdale market continued to show negative absorption. The bulk of office/warehouse space was available in Springdale in the first quarter.

In the first quarter, the office/warehouse lease rates in Bentonville were significantly higher than those in any other city, and the average lease rate increased from the fourth quarter of 2004.

Retail/Warehouse

In the first quarter of 2005, the retail/warehouse properties included in the CBER panel had a vacancy rate of 29.4 percent. This was a decline from the fourth quarter retail/warehouse vacancy rate of 31.88 percent. Of the reported 165,584 square feet, 69,336 were available in the first quarter. While no additional retail/warehouse square footage came online in the first quarter, there was negative absorption of 25,240 square feet in the Northwest Arkansas market.

The bulk of the negative absorption occurred in Siloam Springs, with the rest in Springdale. No absorption was reported in Fayetteville or Rogers in the first quarter. In Bentonville, there was no reported retail/warehouse space. Average lease rates for retail/warehouse space remained constant in Fayetteville and Rogers and declined in the Springdale submarket in the first quarter.

Bella Vista

- Bella Vista had 182,534 square feet of competitive commercial space in the first quarter of 2005.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 157,902 square feet of commercial space in the first quarter of 2005. This represents 86.5 percent of the total competitive commercial space in Bella Vista and is an increase of 1.3 percent in the reporting rate from the fourth quarter of 2004.
- In the first quarter of 2005, Bella Vista experienced negative net absorption in the office/retail submarket, no activity in the office market and positive absorption in the retail market.
- Vacancy rates declined in the office and retail submarkets in Bella Vista from the fourth quarter to the first quarter of 2005 and increased in the office/retail submarket.
- Average office lease rates were unchanged for office and office/retail space in Bella Vista in the first quarter.



Bella Vista Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1, 2}	Months of Inventory ^{1, 2}
Industrial	--	--	--	--	--	--	--	--
Office	\$9.28	3,199	550	17.19%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Medical	--	--	--	--	--	--	--	--
Office/Retail	\$9.34	76,171	7,232	9.49%	-889	0	-889	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Office/Warehouse	--	--	--	--	--	--	--	--
Retail	--	78,532	0	0.00%	2,400	0	2,400	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Retail/Warehouse	--	--	--	--	--	--	--	--
Warehouse	--	--	--	--	--	--	--	--

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents

Bentonville

- Bentonville had 3,690,776 square feet of competitive commercial space in the first quarter of 2005.
- From December 2004 to February 2005, Bentonville issued building permits for 25,866 square feet of new commercial space, valued at a total of \$8,1753,636. This represents a substantial decrease in both square footage and value from the fourth quarter of 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 3,272,123 square feet of commercial space in the first quarter of 2005. This represents 88.7 percent of the total competitive commercial space in Bentonville and is an increase of 62.8 percent in the reporting rate from the fourth quarter of 2004. The majority of the additional properties included in the first quarter sample were completely occupied, meaning that vacancy rates will appear lower than in previous quarters due to sample differences, rather than reflecting absorption in the market.
- In the first quarter of 2005, Bentonville experienced negative net absorption in all commercial real estate submarkets. These numbers account for the addition of 84,130 square feet of office space and 18,700 square feet of retail space during the first quarter.
- Vacancy rates appeared to decline in the office, office/retail, retail, and warehouse submarkets in Bentonville from the fourth quarter of 2004 to the first quarter of 2005, due in large part to a substantial amount of completely occupied space being added to the sample.
- Average lease rates declined for office, office/retail, and retail space, while warehouse and retail/warehouse lease rates increased slightly in the first quarter.

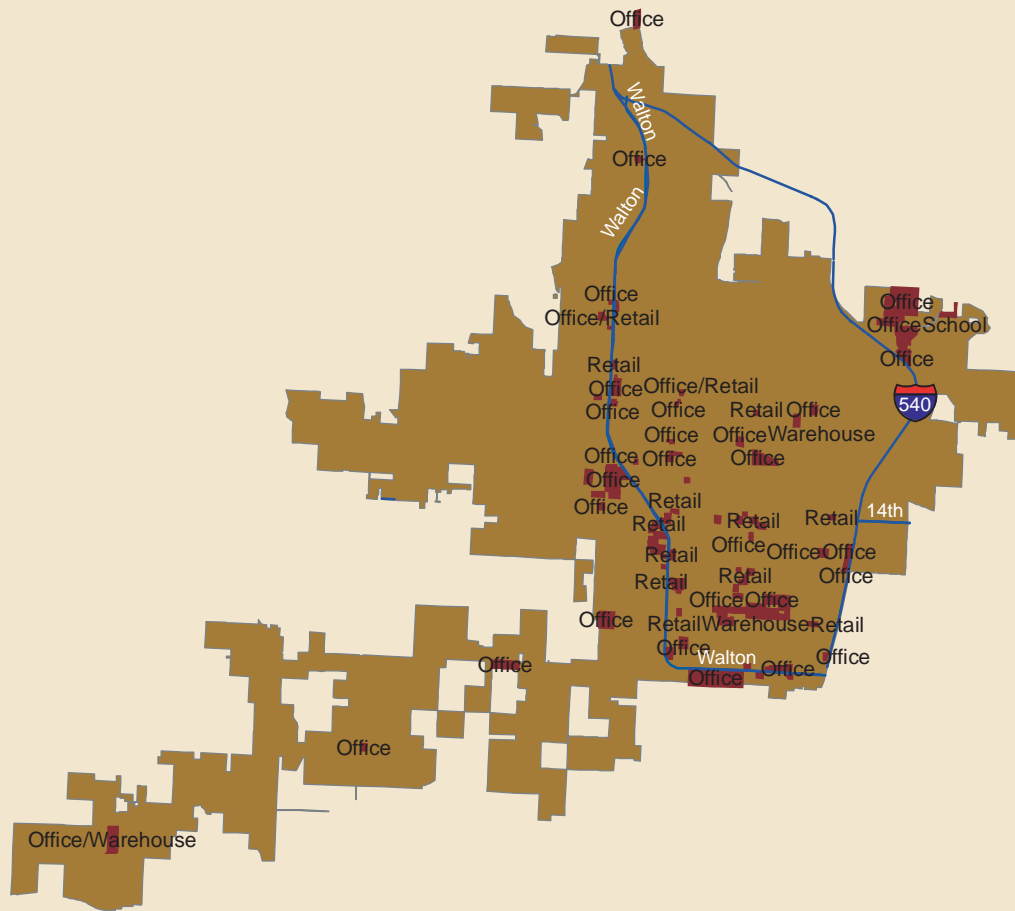
Bentonville Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1, 2}	Months of Inventory ^{1, 2}
Industrial	--	17,359	0	0.00%	0	0	0	--
Office	\$14.53 - \$15.12	2,127,054	520,373	24.46%	5,237	84,130	-78,893	--
Class A	\$18.11 - \$18.11	315,615	239,371	75.84%	-1,843	0	-1,843	--
Class B	\$14.29 - \$14.85	1,794,343	277,981	15.49%	8,380	84,130	-75,750	--
Class C	--	14,075	0	0.00%	0	0	0	--
Medical	\$12.85 - \$15.35	3,021	3,021	100.00%	-1,300	0	-1,300	--
Office/Retail	\$9.97 - \$11.95	250,805	70,948	28.29%	-2,350	0	-2,350	--
Class A	--	10,440	0	0.00%	0	0	0	--
Class B	\$10.31 - \$12.35	195,281	70,948	36.33%	-2,350	0	-2,350	--
Class C	\$6.54 - \$7.92	45,084	0	0.00%	0	0	0	--
Office/Warehouse	\$9.51 - \$11.48	108,880	45,600	41.88%	0	0	0	--
Retail	\$14.47 - \$14.87	353,150	69,753	19.75%	670	18,700	-18,030	--
Class A	\$16.00 - \$16.50	58,168	8,700	14.96%	5,200	8,700	-3,500	--
Class B	\$14.97 - \$15.41	238,332	48,753	20.46%	-4,530	10,000	-14,530	--
Class C	\$12.47 - \$12.72	56,650	12,300	21.71%	0	0	0	--
Retail/Warehouse	--	--	--	--	--	--	--	--
Warehouse	\$5.65 - \$8.31	414,875	268,750	64.78%	-43,750	0	-43,750	--

¹From all Q1 2005 respondents

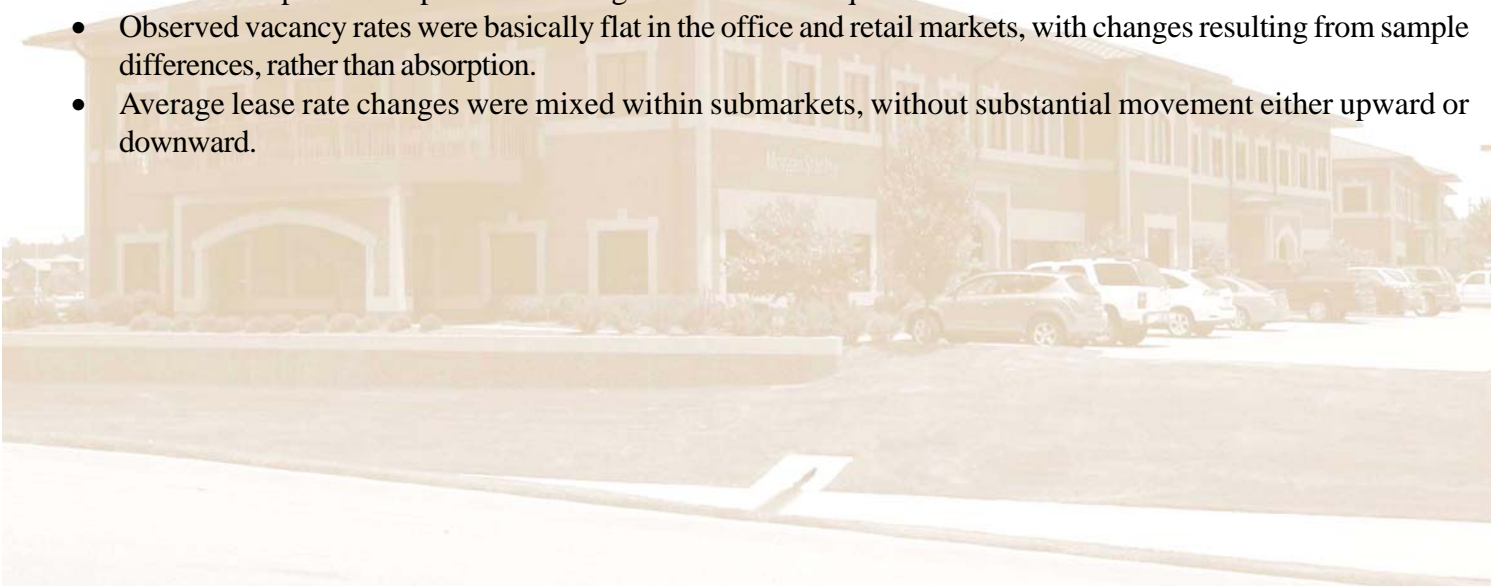
²From Q1 2005 respondents who were also Q4 2004 respondents

Bentonville Commercial Properties



Fayetteville

- Fayetteville had 6,350,712 square feet of competitive commercial space in the first quarter of 2005.
- From December 2004 to February 2005, Fayetteville issued building permits for 183,189 square feet of new commercial space, valued at a total of \$18,560,094. This represents a significant increase in value and square footage from the building permits issued from September to November 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 3,971,781 square feet of commercial space in the first quarter of 2005. This represents 62.5 percent of the total competitive commercial space in Fayetteville and is an increase of 9.2 percent in the reporting rate from the fourth quarter of 2004.
- In the first quarter of 2005, Fayetteville experienced overall positive net absorption in the office and retail submarkets. Class B office and retail space were the submarkets where the bulk of the positive absorption was found. There was no net absorption in the office/warehouse, retail/warehouse, or warehouse submarkets. No brand new commercial space was reported as coming online in the first quarter.
- Observed vacancy rates were basically flat in the office and retail markets, with changes resulting from sample differences, rather than absorption.
- Average lease rate changes were mixed within submarkets, without substantial movement either upward or downward.



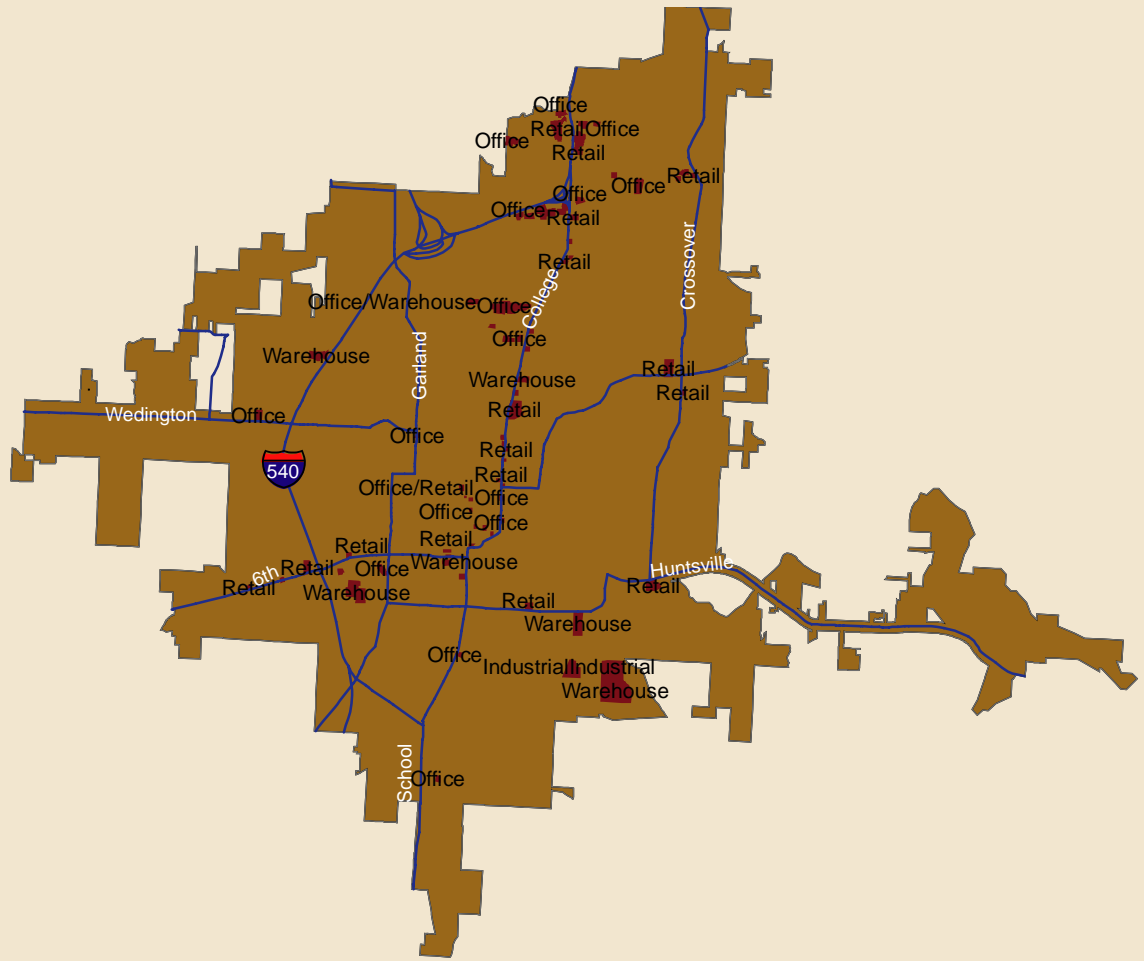
Fayetteville Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1, 2}	Months of Inventory ^{1, 2}
Industrial	--	215,360	0	0.00%	0	0	0	--
Office	\$12.52 - \$13.54	888,660	239,026	26.90%	13,598	0	13,598	5.9
Class A	\$17.69 - \$19.20	149,654	128,654	85.97%	-15,821	0	-15,821	--
Class B	\$12.80 - \$13.98	619,785	97,527	15.74%	27,969	0	27,969	--
Class C	\$9.02 - \$9.40	41,538	12,580	30.29%	1,450	0	1,450	2.9
Medical	\$13.00 - \$13.00	77,683	265	0.34%	0	0	0	--
Office/Retail	\$11.72 - \$13.74	322,902	30,189	9.35%	-8,774	0	-8,774	--
Class A	--	--	--	--	--	--	--	--
Class B	\$13.50 - \$14.75	271,902	16,374	6.02%	-8,774	0	-8,774	--
Class C	\$9.36 - \$12.40	51,000	13,815	27.09%	0	0	0	--
Office/Warehouse	\$2.86 - \$8.36	68,696	62,696	91.27%	0	0	0	--
Retail	\$9.91 - \$11.40	1,714,432	130,021	7.58%	12,694	0	12,694	3.4
Class A	--	822,703	15,475	1.88%	1,546	0	1,546	3.3
Class B	\$10.31 - \$12.11	781,215	84,611	10.83%	11,148	0	11,148	2.5
Class C	\$9.33 - \$10.38	110,514	29,935	27.09%	0	0	0	--
Retail/Warehouse	\$5.08 - \$5.08	8,900	5,900	66.29%	0	0	0	--
Warehouse	\$3.31 - \$3.31	863,941	57,200	6.62%	0	0	0	--

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents

Fayetteville Commercial Properties



Lowell

- Lowell had 520,366 square feet of competitive commercial space in the first quarter of 2005.
- From December 2004 to February 2005, Lowell issued building permits for new commercial space, valued at a total of \$390,000. This represents a small decline in value from the building permits issued from September to November 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 211,294 square feet of commercial space in the first quarter of 2005. This represents 40.6 percent of the total competitive commercial space in Lowell and is unchanged from the reporting rate in the fourth quarter of 2004.
- In the first quarter of 2005, Lowell experienced a small negative net absorption in the office submarket and no activity in other submarkets. There was no reported new commercial space in the first quarter of 2005 in Lowell.
- Vacancy rates remained unchanged in the Lowell submarkets.
- Average lease rates were unchanged in Lowell from the fourth quarter of 2004 to the first quarter of 2005.



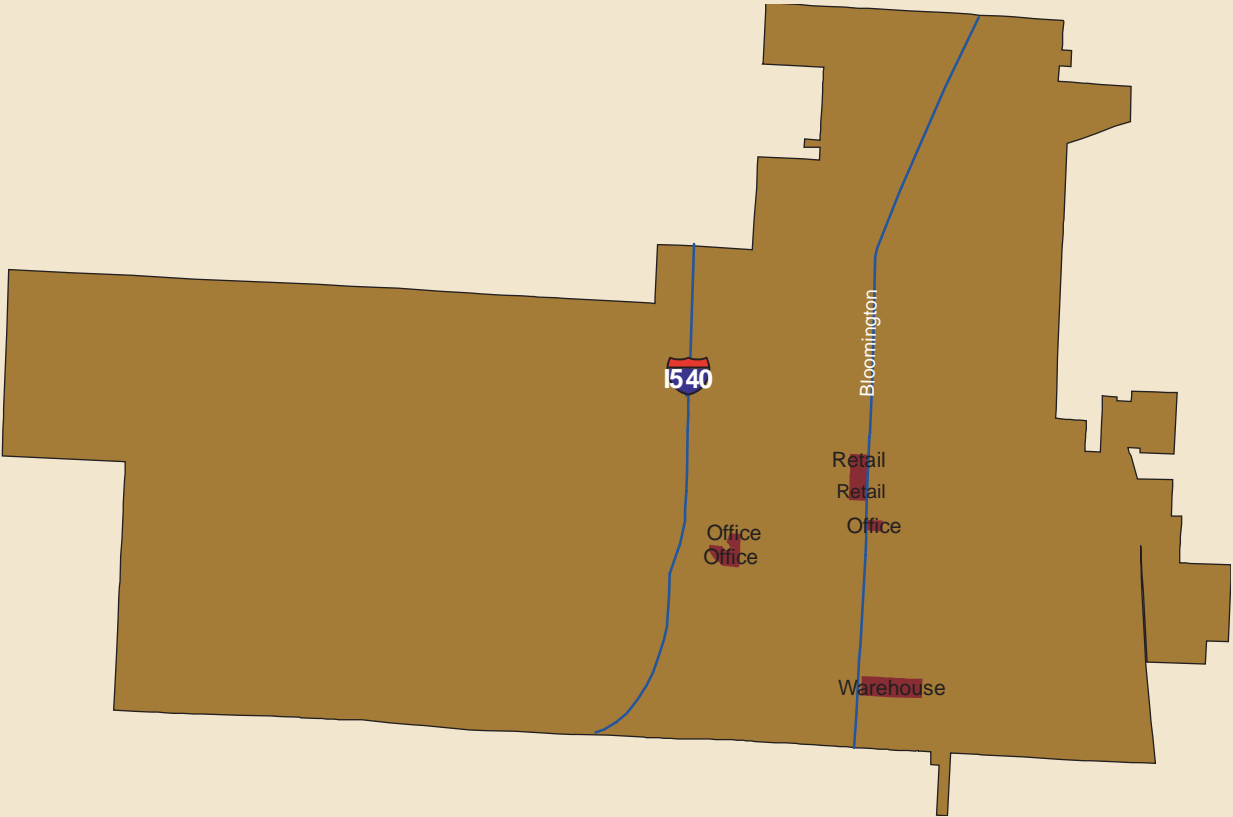
Lowell Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1, 2}	Months of Inventory ^{1, 2}
Industrial	--	--	--	--	--	--	--	--
Office	\$17.68 - \$17.68	118,079	4,406	3.73%	(200)	0	(200)	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Medical	--	--	--	--	--	--	--	--
Office/Retail	--	--	--	--	--	--	--	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Office/Warehouse	--	--	--	--	--	--	--	--
Retail	\$8.00 - \$12.00	55,215	3,200	5.80%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Retail/Warehouse	--	--	--	--	--	--	--	--
Warehouse	\$3.75 - \$3.75	38,000	18,000	47.37%	0	0	0	--

¹From all Q1 2005 respondents

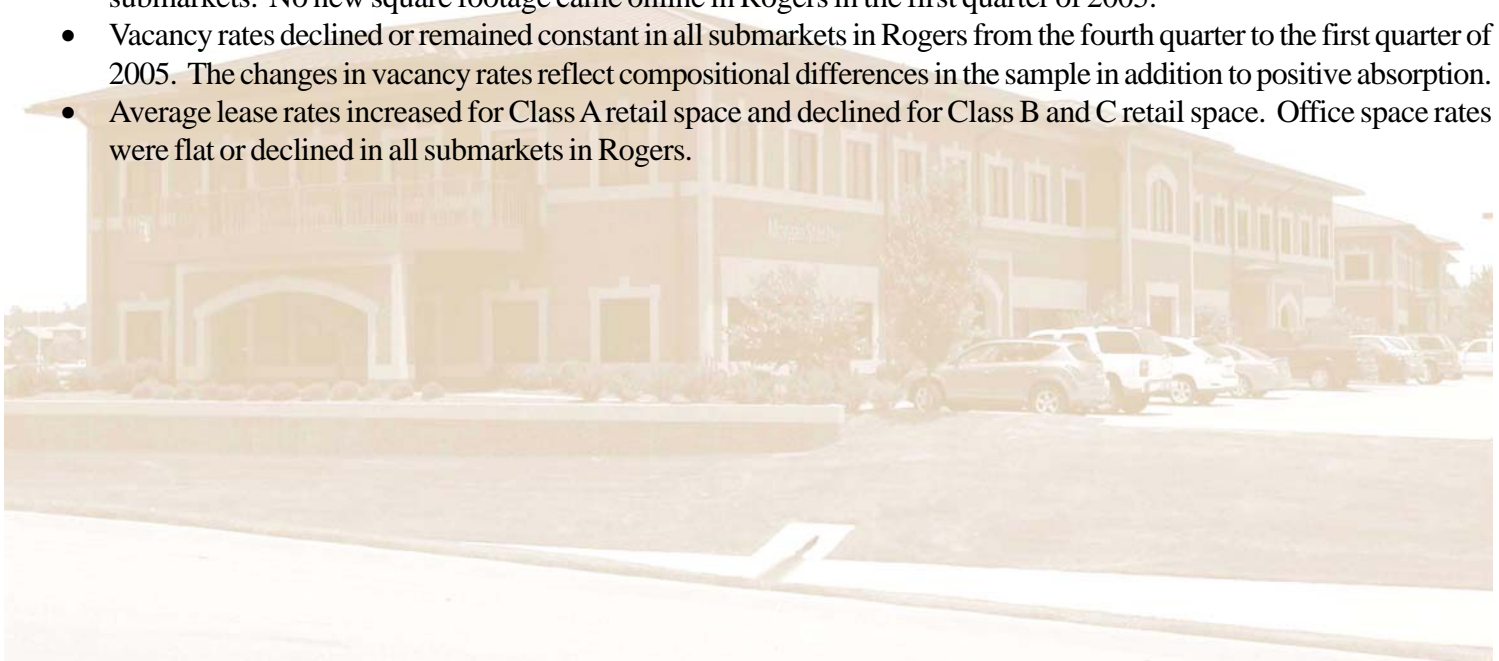
²From Q1 2005 respondents who were also Q4 2004 respondents

Lowell Commercial Properties



Rogers

- Rogers had 4,112,541 square feet of competitive commercial space in the first quarter of 2005.
- From December 2004 to February 2005, Rogers issued building permits for new commercial space valued at a total of \$26,172,000. This represents a substantial increase from the previous quarter and is on par with the June through August 2004 period.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 2,757,752 square feet of commercial space in the first quarter of 2005. This represents 67.1 percent of the total competitive commercial space in Rogers and is an increase of 20.3 percent in the reporting rate from the fourth quarter of 2004.
- In the first quarter of 2005, Rogers experienced positive net absorption in the office, retail, and warehouse submarkets, no net absorption in the retail/warehouse submarket, and negative net absorption in the office/retail and office/warehouse submarkets. No new square footage came online in Rogers in the first quarter of 2005.
- Vacancy rates declined or remained constant in all submarkets in Rogers from the fourth quarter to the first quarter of 2005. The changes in vacancy rates reflect compositional differences in the sample in addition to positive absorption.
- Average lease rates increased for Class A retail space and declined for Class B and C retail space. Office space rates were flat or declined in all submarkets in Rogers.



Rogers Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1, 2}	Months of Inventory ^{1, 2}
Industrial	--	190,043	0	0.00%	0	0	0	--
Office	\$15.93 - \$16.67	985,911	175,063	17.76%	11,512	0	11,512	5.1
Class A	\$19.19 - \$20.19	791,840	95,820	12.10%	11,713	0	11,713	2.7
Class B	\$12.09 - \$12.67	103,016	36,377	35.31%	-4,500	0	-4,500	--
Class C	\$10.05 - \$10.25	77,467	40,716	52.56%	4,299	0	4,299	3.2
Medical	\$13.00 - \$13.00	13,588	2,150	15.82%	0	0	0	--
Office/Retail	\$9.72 - \$13.22	233,270	18,780	8.05%	-4,380	0	-4,380	--
Class A	--	--	--	--	--	--	--	--
Class B	\$13.15 - \$13.15	58,000	14,400	24.83%	0	0	0	--
Class C	\$8.00 - \$13.25	175,270	4,380	2.50%	-4,380	0	-4,380	--
Office/Warehouse	\$3.38 - \$10.50	248,000	21,000	8.47%	-21,000	0	-21,000	--
Retail	\$12.51 - \$13.68	750,659	122,028	16.26%	8,309	0	8,309	4.9
Class A	\$18.63 - \$18.98	113,582	2,174	1.91%	7,309	0	7,309	0.1
Class B	\$12.61 - \$14.75	451,304	112,770	24.99%	0	0	0	--
Class C	\$6.19 - \$6.19	185,773	7,084	3.81%	1,000	0	1,000	2.4
Retail/Warehouse	\$4.80 - \$4.80	12,000	12,000	100.00%	0	0	0	--
Warehouse	\$3.77 - \$3.77	337,869	163,326	48.34%	5,000	0	5,000	10.9

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents

Siloam Springs

- Siloam Springs had 894,702 square feet of competitive commercial space in the first quarter of 2005.
- From December 2004 to February 2005, Siloam Springs issued building permits for 7,845 square feet of new commercial space, valued at a total of \$254,700. This represents a decline in value but an increase in square footage from the building permits issued from September to November 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 445,713 square feet of commercial space in the first quarter of 2005. This represents 49.8 percent of the total competitive commercial space in Siloam Springs and is an increase of 115.3 percent in the reporting rate from the fourth quarter of 2004.
- In the first quarter of 2005, Siloam Springs experienced negative net absorption in the retail /warehouse submarket and no activity in other submarkets. No new square footage became available during the first quarter of 2005 in Siloam Springs.
- Vacancy rates changes reflect sample compositional differences rather than changes in absorption.



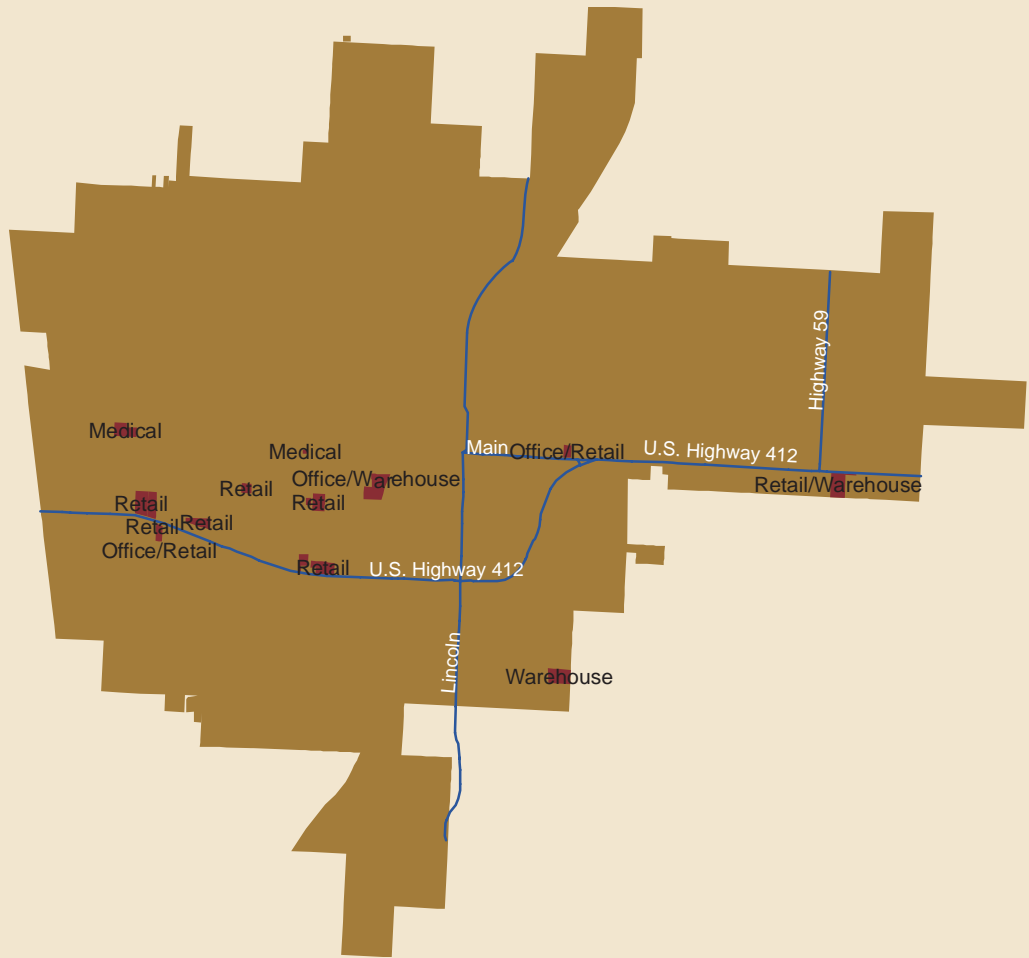
Siloam Springs Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1, 2}	Months of Inventory ^{1, 2}
Industrial	--	--	--	--	--	--	--	--
Office	\$11.50 - \$12.50	37,393	1,800	4.81%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Medical	--	--	--	--	--	--	--	--
Office/Retail	--	50,737	5,400	10.64%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	--	--	--	--	--	--	--	--
Class C	--	--	--	--	--	--	--	--
Office/Warehouse	\$2.76 - \$3.24	53,702	38,000	70.76%	0	0	0	--
Retail	--	245,201	900	0.37%	0	0	0	--
Class A	--	--	--	--	--	--	--	--
Class B	--	135,577	900	0.66%	0	0	0	--
Class C	--	109,624	0	0.00%	0	0	0	--
Retail/Warehouse	\$3.75 - \$3.75	23,680	23,680	100.00%	-23,680	0	-23,680	--
Warehouse	\$2.75 - \$2.75	35,000	0	0.00%	0	0	0	--

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents

Siloam Springs Commercial Properties



Springdale

- Springdale had 5,019,329 square feet of competitive commercial space in the first quarter of 2005.
- From January to February 2005, Springdale issued commercial building permits valued at a total of \$2,614,524. This represents an increase in value from the building permits issued from September to November 2004.
- CBER panelists reported vacancy statistics, lease rate ranges, and other characteristics for 1,952,533 square feet of commercial space in the first quarter of 2005. This represents 38.9 percent of the total competitive commercial space in Springdale and is an increase of 3.5 percent in the reporting rate from the fourth quarter of 2004.
- In the first quarter of 2005, Springdale experienced positive net absorption in the office/retail and warehouse submarkets and negative net absorption in the office, office/warehouse, retail, and retail/warehouse submarkets. No new space came online in Springdale in the first quarter.
- Vacancy rates followed absorption and declined in the office/retail and warehouse submarkets and increased in the other submarkets in the first quarter of 2005.
- Average lease rates were basically unchanged in all of the Springdale submarkets.



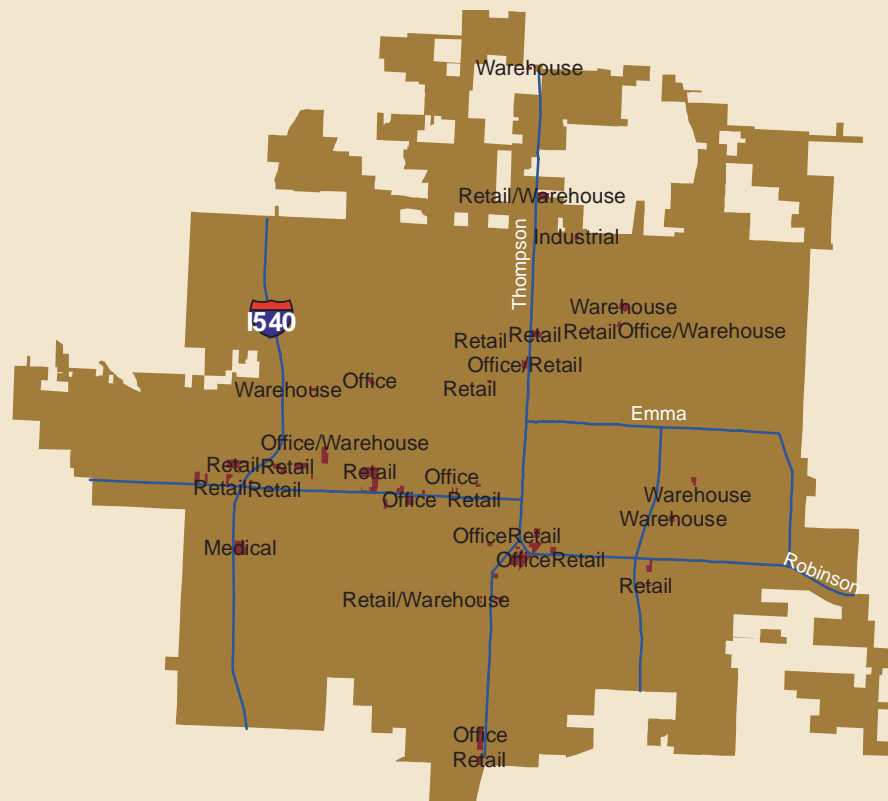
Springdale Commercial Real Estate Market Summary Statistics

	Average Lease Rate Range	Total Square Feet ¹	Available Square Feet ¹	Percent Available ¹	Absorption from Q4 to Q1 ²	New Available Square Feet ¹	Net Absorption ^{1, 2}	Months of Inventory ^{1, 2}
Industrial	–	129,830	0	0.00%	0	0	0	–
Office	\$10.89 - \$11.56	316,710	26,538	8.38%	-1,737	0	-1,737	–
Class A	\$10.40 - \$14.68	57,248	0	0.00%	0	0	0	–
Class B	\$12.25 - \$12.55	212,050	17,138	8.08%	-1,737	0	-1,737	–
Class C	\$6.42 - \$6.42	26,937	6,400	23.76%	0	0	0	–
Medical	\$11.25 - \$11.25	20,475	3,000	14.65%	0	0	0	–
Office/Retail	\$9.43 - \$14.07	246,660	32,033	12.99%	6,369	0	6,369	1.7
Class A	–	–	–	–	–	–	–	–
Class B	\$10.89 - \$15.95	133,122	26,633	20.01%	6,000	0	6,000	1.5
Class C	\$7.25 - \$11.25	113,538	5,400	4.76%	369	0	369	4.9
Office/Warehouse	\$6.31 - \$6.31	360,374	219,044	60.78%	-13,444	0	-13,444	–
Retail	\$9.62 - \$11.32	733,124	86,897	11.85%	-5,550	0	-5,550	–
Class A	–	–	–	–	–	–	–	–
Class B	\$10.67 - \$12.67	623,411	35,447	5.69%	-6,300	0	-6,300	–
Class C	\$8.05 - \$9.30	109,713	51,450	46.90%	750	0	750	22.9
Retail/Warehouse	\$4.00 - \$10.67	121,004	26,756	22.11%	-1,560	0	-1,560	–
Warehouse	\$4.25 - \$5.04	158,369	55,825	35.25%	5,690	0	5,690	3.3

¹From all Q1 2005 respondents

²From Q1 2005 respondents who were also Q4 2004 respondents

Springdale Commercial Properties



Interpreting the Numbers in the Skyline Report

The methodology that is used to produce the Skyline report has been designed to elicit the most useful, comprehensive, and up-to-date information available about the Northwest Arkansas commercial real estate market. Data come from three primary sources that complement one another. Each source, however, has limitations, and as such, results should be compared and interpreted carefully.

The first level of data that the Skyline report contains comes directly from the offices of the Washington and Benton County Assessors. The Benton County Assessor Office uses Apprentice Data Systems as the subcontractor to handle data requests. On a quarterly basis, CBER staff members acquire databases containing listings of all real estate parcels within each county. The information contained in these databases is sorted by type and by size. In order to determine the population of commercial properties of interest, properties that do not meet the following minimum criteria are eliminated from consideration:

- Banks: 20,000 square feet
- Department Stores: 20,000 square feet
- Discount Stores: 20,000 square feet
- Industrial Buildings: 20,000 square feet
- Markets: 20,000 square feet
- Commercial Office Buildings: 5,000 square feet
- Medical Office Buildings: 5,000 square feet
- Retail Buildings: 10,000 square feet
- Community Shopping Centers: 5,000 square feet
- Neighborhood Shopping Centers: 5,000 square feet
- Warehouses: 20,000 square feet

Next, properties are individually examined to determine if they are part of the competitive commercial property market. Owner-occupied and other dedicated spaces are eliminated from the base of properties that the Skyline Report examines.

The second source of data that helps comprise the Skyline Report is building permit reports from the cities of Northwest Arkansas. Each city has its own reporting requirements for building permits, which makes in-depth comparisons on a city-by-city basis impossible. Bentonville and Fayetteville have the most comprehensive building permits, which include information on the square footage of buildings and their uses in addition to the value of the permit and identifying characteristics of the property. The other cities in Northwest Arkansas only report the building address, contractor name, and value of the permit. In general, property owner or developer names are not included on building permits in Northwest Arkansas. Building permits also do not provide any sense of the estimated time of completion of a project or availability for leasing.

The third source of data for the Skyline report is a panel of large commercial property owners and managers. These individuals are responsible for the bulk of the competitive commercial properties in Northwest Arkansas. CBER researchers gather information on square footage available to the market, lease rates, and other property characteristics from the panelists. In the first quarter of 2005, 87 panelists provided data on 568 competitive properties across Benton and Washington Counties. Data are excluded for owner-occupied and dedicated spaces so that the total square feet, available square feet, and lease rates represent a sample only from properties that are currently or potentially available for lease. Vacancy rates are calculated from the sample of 568 properties and are assumed to be representative of the larger competitive commercial property market.

The panel participants vary somewhat from quarter to quarter as new contributors are added and as previous contributors fail to respond for new requests for information. Time trend analysis is dependent on having a consistent base of information so that apples-to-apples comparisons can be made. Absorption rates are only calculated for properties that are part of a matched sub-sample—that is, there must have been information received about a particular property in both recent quarters for the number to be included in the calculated property absorption rates. The one exception to this rule is for new properties that are completed and come online for leasing in the most recent quarter.

In order to supplement the information that is directly received from the panelists, CBER researchers also depend on business publications, public websites, and MLS data.

Classification

In order to compare similar spaces, CBER has developed a classification system for office, office/retail, and retail spaces. These classes rate the quality of each building in terms of the following criteria: age, quality of construction, location, and included amenities. Class A space represents the most prestigious buildings available in the Northwest Arkansas market. These spaces are new or newly renovated, made of the best quality materials, with brick, masonry, or glass exteriors. Class A buildings are located in highly accessible locations with easy access to major clients or customers.

Class B space includes buildings that compete for a wide range of uses, including much of the Wal-Mart vendor community. These spaces have average range rents. The buildings are attractive, but not necessarily brand new, and have a lower level of material quality than Class A buildings. Many amenities are not included in the base lease price of Class B buildings.

Class C space is adequate for users that require functional space for their businesses, but not above average locations, materials, or amenities. These buildings are often older and have lease rates that are below market averages.