



THE SKYLINE REPORT

for Benton and Washington Counties

**May 2005
Highlights**

Contents

Highlights	1
Economic Overview	2
Commercial Summary	4

**Commercial Real Estate Market Summary,
Prepared Exclusively under Contract
Agreement for ARVEST BANK**



**SAM M.
WALTON
COLLEGE of BUSINESS**

Center for Business and Economic Research

**Center for Business and Economic Research
Sam M. Walton College of Business
University of Arkansas
Fayetteville, AR 72701
Telephone: 479.575.4151
<http://www.uark.edu/>**

The information contained herein has been obtained from reasonably reliable sources. The Center for Business and Economic Research makes no guarantee, either expressed or implied, as to the accuracy of such information. All data contained herein is subject to errors, omissions and changes. Reproduction in whole or in part, without prior written consent is prohibited.

Commercial Real Estate Market Summary

This report contains highlights from the Commercial Skyline Report for Benton and Washington Counties. 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 real estate markets. The information contained in the Skyline Report is critical for lenders, developers, contractors, and potential lessees. As the population of Northwest Arkansas burgeons, it is imperative that real estate markets work efficiently in order to meet the demand of new and existing residents. The Skyline Report includes the information that is necessary to help market participants make good decisions.

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.

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.

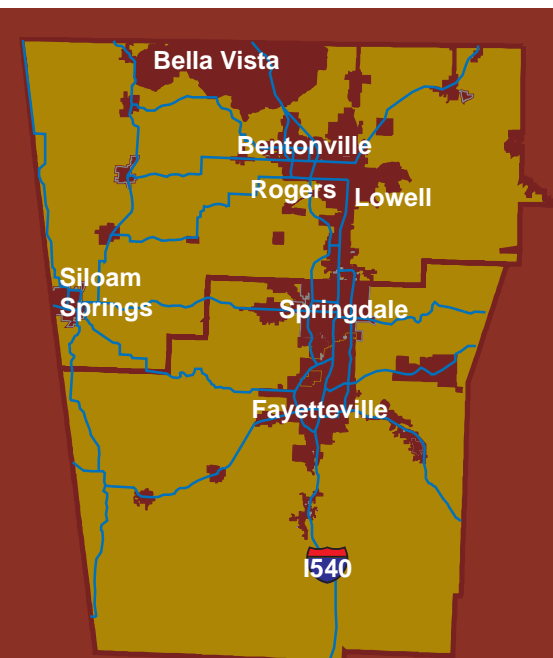
Taken together, these data imply that the national economy continues moving along in an unexceptional way. Monetary policy makers are vigilant for inflationary pressures. In 2004, prices increased by 3.3 percent. This compares with an increase of 1.9 percent for all of 2003. In the first two months of 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



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

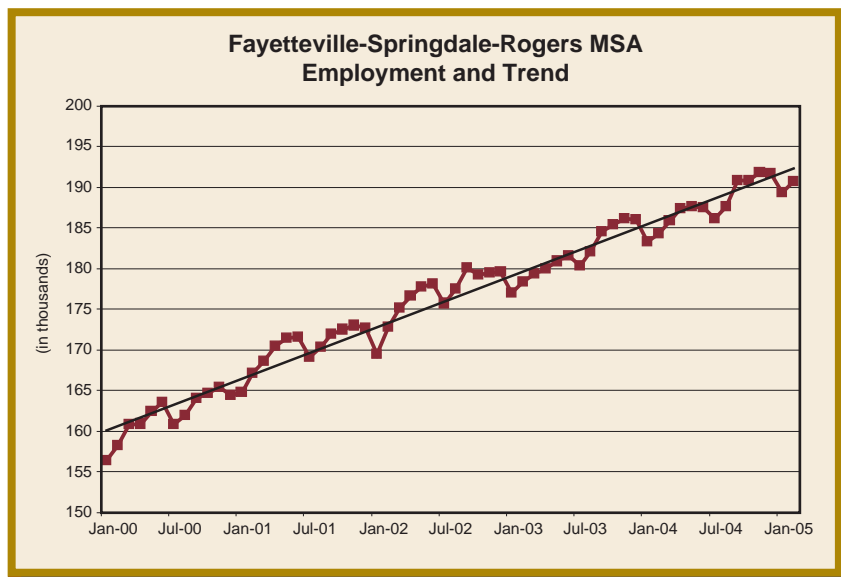
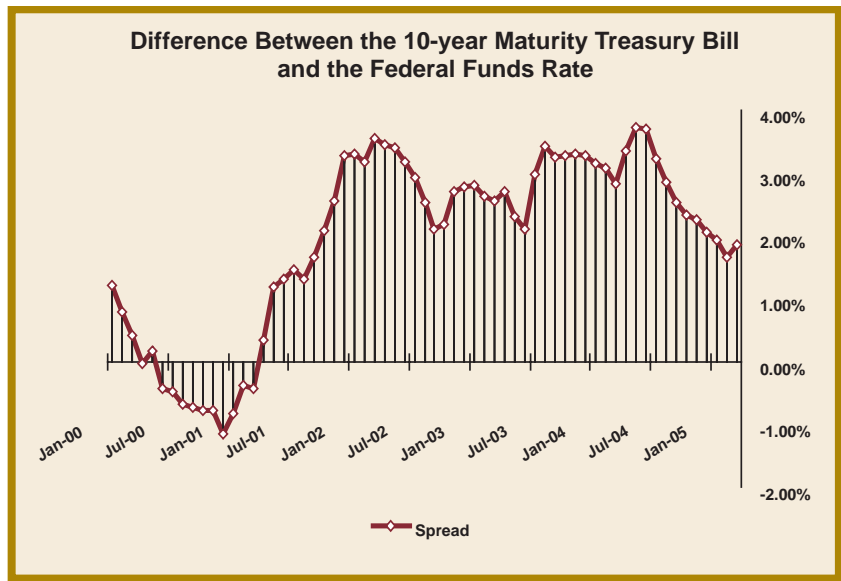
Further, analysts at the CBER have classified individual office, office/retail, and retail buildings into three categories: Class A, Class B, and Class C. A description of the methodology used to classify buildings is included at the end of this report. Class A space is the highest quality space available 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.

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.

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.

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