



THE SKYLINE REPORT

for Benton and Washington Counties

**May 2005
Highlights**

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**Multifamily Real Estate Market Summary,
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Multifamily Real Estate Market Summary

This report contains highlights from the Multifamily 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

- Vacancy rates for multifamily properties in Northwest Arkansas declined from their fourth quarter level of 7.6 percent to 5.6 percent in the first quarter of 2005.
- Bentonville and Rogers had very low aggregate vacancy rates at 2.0 percent each.
- Bentonville, Rogers, and Siloam Springs each experienced a small increase in vacancy rates in the first quarter, while Fayetteville and Springdale saw declines in vacancy rates.
- The average price per month for a multifamily property unit in Northwest Arkansas increased from \$474 to \$479.
- On a price per square foot basis, multifamily units were least expensive on average in Siloam Springs and most expensive on average in Rogers.

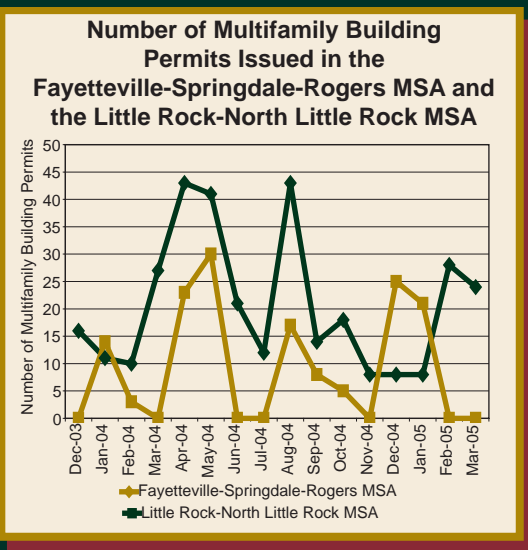
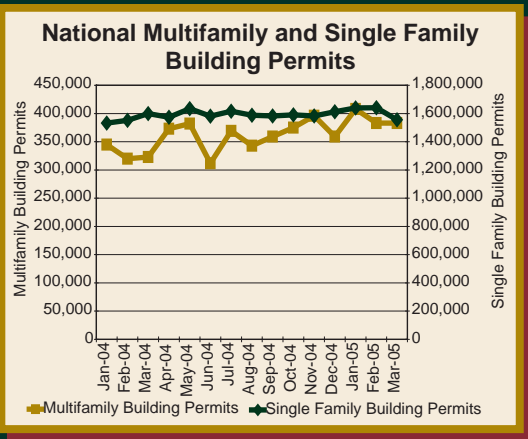
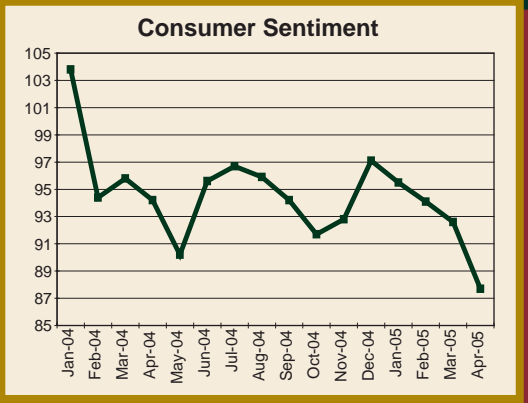
Economic Overview

To get a sense of the Northwest Arkansas multifamily housing market, it is useful to look at some key macroeconomic statistics. The University of Michigan produces the Consumer Sentiment Index. Since the beginning of 2005, there have been marked declines in this index. Most of the decline is directly attributable to the concurrent increasing gasoline prices. Consumers feel less wealthy as they pay more for their accustomed transportation and as the increase in the price of fuel works its way into the prices of all consumer goods and services. The most recent month's data show a large decline in consumer confidence from March 2005, and the level of the index is at its lowest point since late 2003. Consumer confidence acts as a signal about the likely trends in spending for consumers and is directly related to their perceptions of the real estate market. In as much as purchasing single family houses becomes more attractive relative to leasing, the multifamily housing market will be directly affected by this statistic.

The U.S. Census Bureau estimates the issuance of building permits. Since December of 2003, growth in the number of multifamily building permits issued has trended up very slightly, nationally. Although there has been month-to-month variation, the number of single family residential building permits has been flat since the end of 2003. This suggests that the current pace of new construction is sufficient to keep up with demand at all levels.

Turning to the two major metropolitan areas in Arkansas, the Fayetteville-Springdale-Rogers (FSR) MSA and the Little Rock-North Little Rock (LR) MSA, similar patterns on a smaller scale are apparent. The accompanying graphs show the number of multifamily building permits and total number of residential building permits issued in the two metro areas. Interestingly, despite its much smaller population, the FSR metro area had a greater number of building permits (both multifamily and total) than the LR metro area in 2004. Despite a great deal of seasonal variation, the trends of all of these series are barely positive. This implies that no significant changes in the pace of growth in the number of residential or multifamily building permits are expected.

On May 3, 2005 the Federal Reserve Board raised its target for the federal funds rate an additional 25 basis points to 3.0 percent, bringing the total increase from the recent lows to 200 basis points. As the accompanying graph shows, the spread between short term rates and conventional 30-year mortgage rates has declined more than 220 basis points since its most recent peak in May 2004. Because the ten-year treasury interest rate and the 30-year conventional mortgage rate have remained essentially constant since July 2004, buying a single family house remains relatively attractive compared to leasing comparable multifamily housing.



Finally, a graph showing employment trends in the FSR metro area is included. Employment in the region continues to grow at the same pace as its five-year trend, adding approximately 480 jobs a month to the region. Because employment growth is the single most important factor in determining demand for housing of all kinds, there must be an awareness of the possibility of structural changes in the labor market. The data show no evidence that the rate of job growth in Northwest Arkansas will abate in the near term. While the most recent data points fall below the five-year trend rate, the levels are seasonally appropriate.

Northwest Arkansas Average Unit Size and Price by Floor Plan Q1 2005

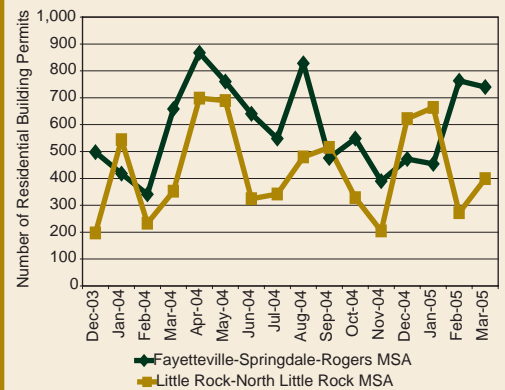
Floor Plan	Average Square Feet	Average Price per Month	Average Price per Square Foot
Studio	388	\$508.75	\$1.31
1 Bedroom	587	\$395.15	\$0.67
2 Bedroom	884	\$508.57	\$0.58
3 Bedroom	1,176	\$650.55	\$0.55
4 Bedroom	1,209	\$782.50	\$0.65
Northwest Arkansas	790	\$477.86	\$0.62

Northwest Arkansas Vacancy Rates by Floor Plan Q1 2005

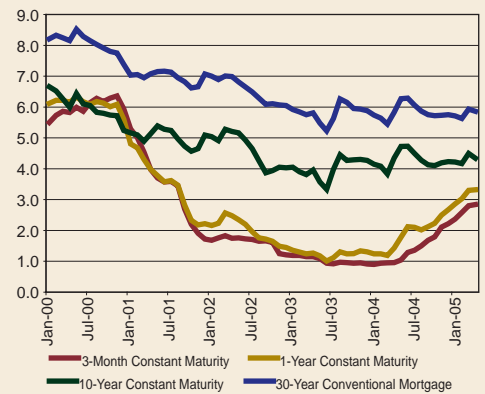
Market Area	1 Bedroom	2 Bedroom	3 Bedroom
Bentonville	1.9%	1.2%	10.4%
Fayetteville	8.1%	7.7%	5.9%
Rogers	10.6%	10.7%	13.0%
Rogers*	1.5%	2.6%	1.7%
Siloam Springs	8.3%	11.6%	0.0%
Springdale	2.0%	5.3%	4.8%
Northwest Arkansas	6.7%	7.2%	7.7%
Northwest Arkansas*	5.0%	6.1%	6.4%

*Excluding the Stone Manor complex which is under construction.

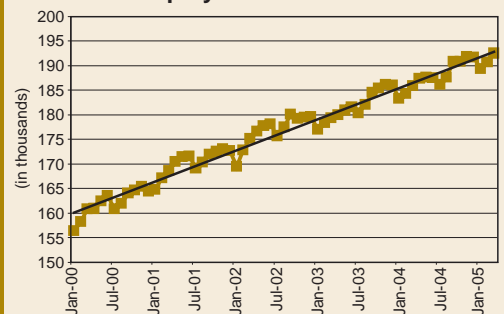
Number of All Residential Building Permits Issued in the Fayetteville-Springdale-Rogers MSA and the Little Rock-North Little Rock MSA



Selected Interest Rates



Fayetteville-Springdale-Rogers MSA Employment and Trend



Multifamily Residence Building Permits 2005

Date	Complex or Developer	Number of Permits	Total Value of Permits	City
1/11/2005	M.P. Construction of Springdale	2	\$635,652	Fayetteville
1/14/2005	Jenning Mills Apartments	2	\$871,164	Fayetteville
1/18/2005	North Corner Apartments	2	\$1,488,928	Fayetteville
1/19/2005	Lee Jackson	1	\$40,760	Fayetteville
2/9/2005	Glen at Polo Park	20	\$24,195,966	Bentonville
2/14/2005	Aaron Nickel Homes	1	\$446,729	Fayetteville
3/3/2005	Remington Place Apartments	16	\$12,280,288	Springdale
3/18/2005	Salem Road Townhomes	6	\$3,387,384	Fayetteville
3/18/2005	Hometown Developments	1	\$348,371	Fayetteville
3/29/2005	Bedford Apartments	1	\$475,536	Fayetteville
Total		52	\$44,170,778	

