



THE SKYLINE REPORT

for Benton and Washington Counties

**May 2005
Highlights**

Contents

Highlights	1
Economic Overview	2
Residential Summary	4

**Residential 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.

Residential Real Estate Market Summary

This report contains highlights from the Residential 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

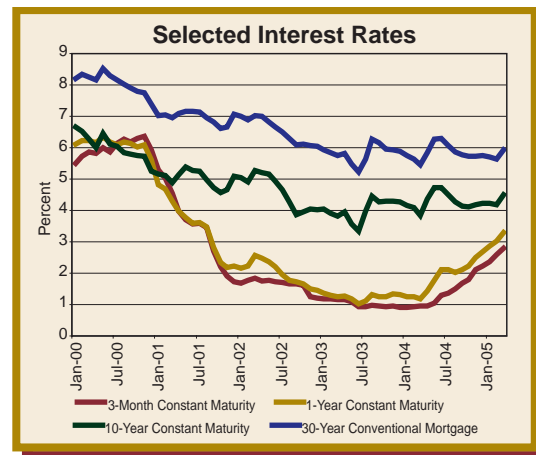
- In the first quarter of 2005, both the number and average value of residential building permits increased from their fourth quarter 2004 levels. Residential building permits totaling 1,268, with an average value of \$170,680, were issued.
- There were 197 active subdivisions with 13,127 lots in the first quarter of 2005. an additional 13,602 lots have preliminary or final approval. In the first quarter 873 new houses became occupied, up from 622 in the fourth quarter. The number of complete, but unoccupied houses also increased from 812 to 928.
- In the first quarter, sales of existing houses in Northwest Arkansas declined 12.0% from 1,811 to 1,593. Average sales prices increased, but average duration on the market also increased.

Economic Overview

National Indicators

The rate of activity in the Northwest Arkansas residential real estate market is dependant upon a whole host of factors, both those that are specific to the region and those that are of a national nature. The following discussion highlights some of the statistics that indicate the direction of the macroeconomy.

Gross domestic product (GDP) is the measure of national output. In the first quarter of 2005, United States GDP grew at an annualized rate of 3.1 percent. This was a decline from the revised fourth quarter rate of GDP growth of 3.8 percent. According to the U.S. Bureau of Economic Analysis, the deceleration in real GDP growth in the first quarter primarily reflected a deceleration in equipment and software, an acceleration in imports, and a deceleration in personal consumption expenditures that were partly offset by accelerations in private inventory investment and in exports. In order to sustain reasonable economic growth, the Federal Reserve Board continues to raise short term interest rates from their historically low levels in 2003. On March 22, 2005, the Federal Reserve raised its target for the federal funds rate by 25 basis points to 2.75 percent. As the associated graph shows, in March 2005, the 10-year constant maturity treasury and the conventional 30-year mortgage rates finally showed an uptick that matched the increase in short term rates. The increase in long term rates is probably a reflection of the recognized inflationary pressures that are bearing down on the national economy.



The U.S. Bureau of Labor Statistics (BLS) reports different price indexes. One measure of inflation comes from changes in the consumer price index. From December 2003 to December 2004, the overall consumer price level increased 3.4 percent, which is consistent with historical trend rates. However, from January through March 2005, the consumer price index grew at an annualized rate of 4.2 percent, a much higher rate than in recent history. Another price index that the BLS reports is a construction materials price index. From December 2003 to December 2004, the construction materials price index increased at a revised 9.0 percent. From January through March 2005, the construction input price index increased at a 14.4 percent annualized rate. Therefore, construction costs are increasing at a rate far greater than consumer prices and at a rate that is far above its historical trend levels. These costs will eventually show up in the price of new residential dwellings and may be a factor that inhibits continued growth in that market. The Federal Reserve will continue to raise interest rates in a steady way as inflationary pressures show themselves and growth remains strong.

The BLS also reports labor force statistics. At the national level in March 2005, the unemployment rate was a seasonally adjusted 5.2 percent. This rate was down from the February 2005 rate of 5.4 percent and was lower than the March 2004 rate of 5.7 percent. From December 2003 to December 2004, U.S. employment growth was 1.3 percent. In the first three months of 2005, U.S. employment is growing at an annualized rate of only 1.0 percent.

The U.S. Census Bureau reports on new residential construction. In March 2005, national building permits were at a seasonally adjusted annual rate of 2,025,000. This is 3.9 percent below the February rate of 2,107,000 and is 0.3 percent above the March 2004 number of 2,019,000. National housing starts were at a seasonally adjusted annual rate of 1,837,000, which was 17.6 percent below February 2005 starts and 8.2 percent below March 2004 starts. The National Association of Realtors reports

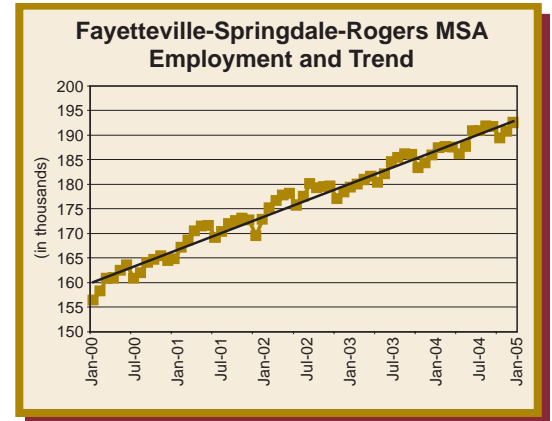
national existing home sales. The seasonally adjusted annual rate of existing single-family home sales in March 2005 was 6,890,000, an increase of 1.0 percent from February 2005 and an increase of 4.9 percent from March 2004. Taken together, these numbers present a warning that sales in the hot residential housing market may be peaking and retrenchment due to excess supply and steadily increasing interest rates may at last be occurring.

Regional Indicators

Regional Employment Trends

Just as national housing trends follow the direction of the macroeconomy, 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 from January through March 2005, employment in the Fayetteville-Springdale-Rogers MSA increased at recent trend levels, when seasonal effects are considered. Since January of 2000, employment growth has averaged 0.3 percent per month. In the first three months of 2005, employment growth in the MSA averaged 0.14 percent. This rate is higher than the employment growth rate in the first three months of 2004 or 2003.

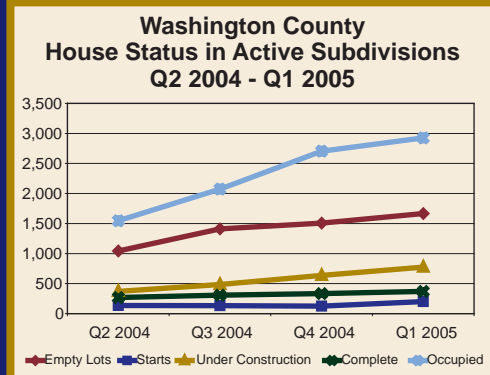
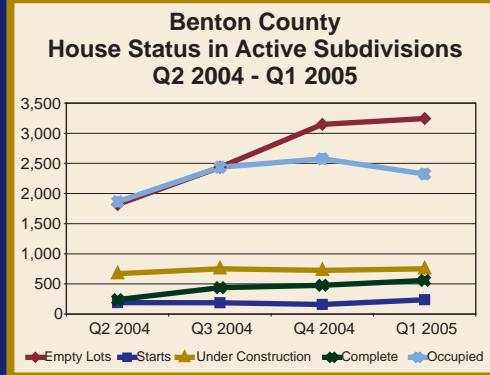
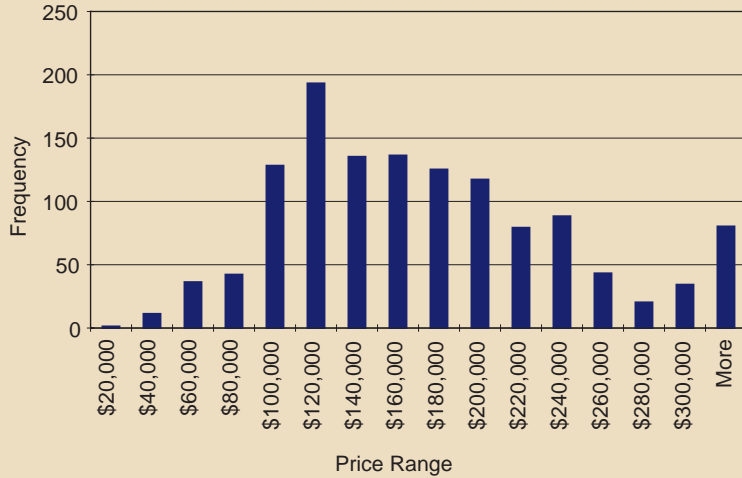


Other Regional Economic Indicators

In March 2005, the unemployment rate in Northwest Arkansas was 3.4 percent, down from 3.9 percent in February, and up from a revised 3.1 percent in March of 2004. These rates reflect the seasonality of the series and are likely to decline in the second quarter of the year. In March, the comparable state unemployment rate was 5.4 percent. Northwest Arkansas continues to substantially outperform the state and national economies.

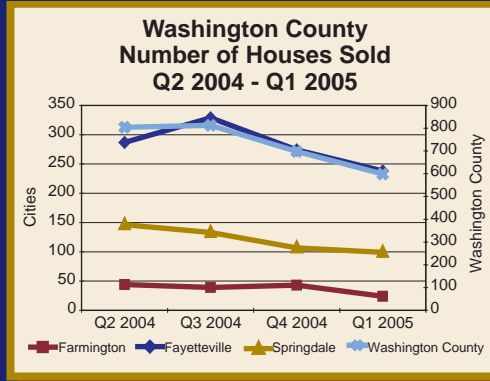
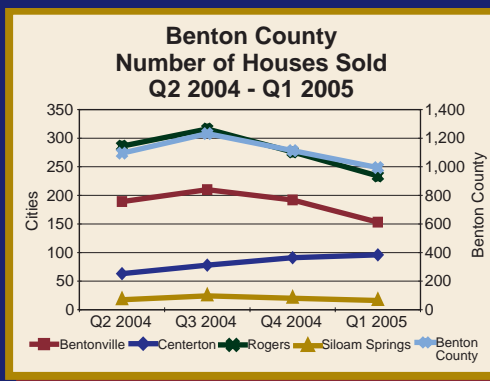
Taxable sales in the MSA increased 22.2 percent from February 2004 to February 2005, while they decreased by 4.0 percent for the entire state during the same period. Average weekly manufacturing earnings grew 1.0 percent, based on preliminary estimates, in the MSA from February 2004 to February 2005. Average weekly manufacturing earnings growth actually declined by 1.8 percent in the state as a whole during the same period.

Benton and Washington Counties Distribution of Residential Building Permit Values December 2004 - February 2005

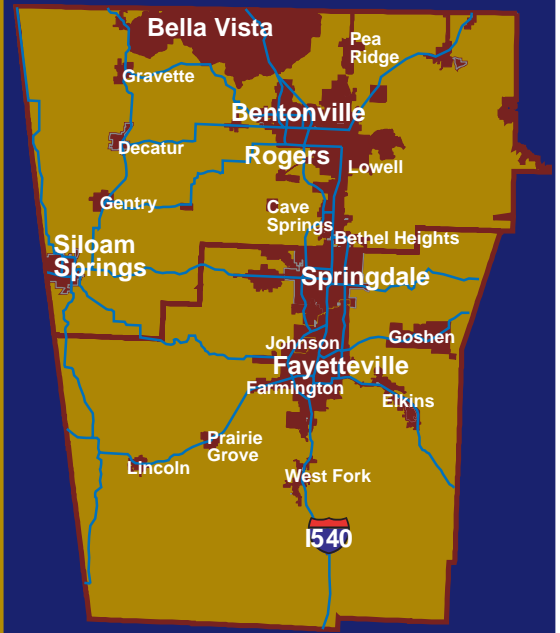
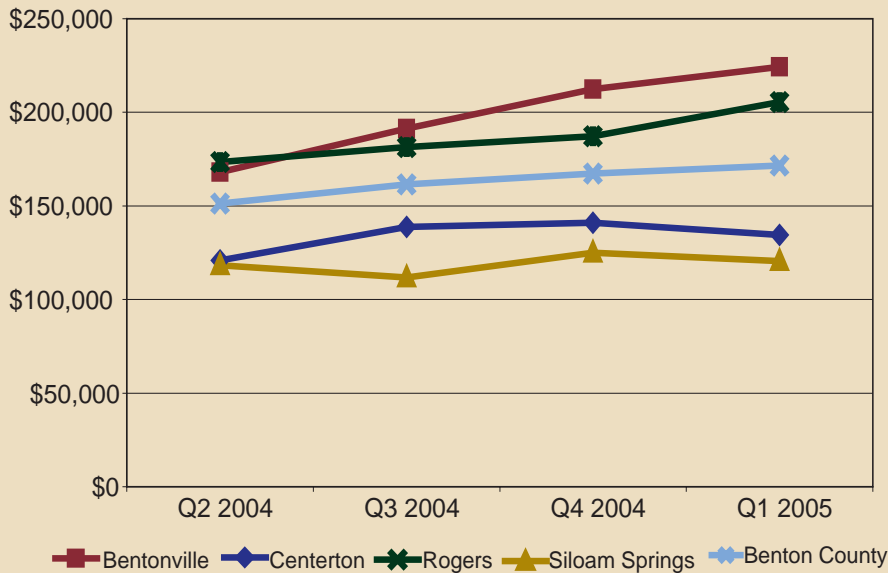


Benton and Washington Counties Number and Average Value of Residential Building Permits Q4 2004 and Q1 2005

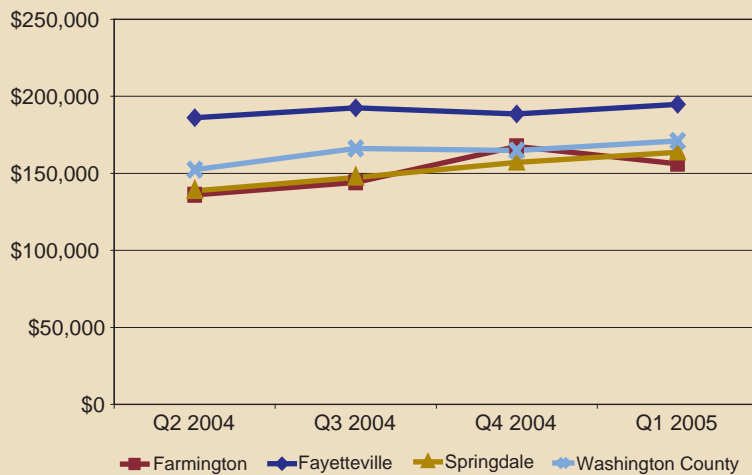
City	Q1 2005 Number of Building Permits	Q4 2004 Number of Building Permits	Q1 2005 Average Value of Building Permits	Q4 2004 Average Value of Building Permits
Bella Vista	192	118	\$159,878	\$145,231
Bentonville	162	157	\$216,849	\$185,431
Bethel Heights	29	31	\$53,760	\$86,352
Cave Springs	15	8	\$366,333	\$186,625
Centerton	65	68	\$129,502	\$100,999
Decatur	11	1	\$50,909	\$78,000
Elkins	31	18	\$92,039	\$88,036
Elm Springs	1	11	\$220,000	\$220,000
Farmington	13	10	\$96,615	\$90,300
Fayetteville	130	159	\$184,563	\$162,743
Gentry	-	-	-	-
Goshen	7	20	\$325,315	\$221,493
Gravette	16	7	\$86,283	\$67,873
Greenland	5	2	\$102,000	\$65,000
Johnson	7	16	\$280,571	\$272,807
Lincoln	13	1	\$118,952	\$130,000
Little Flock	2	4	\$155,000	\$211,250
Lowell	10	4	\$304,990	\$256,089
Pea Ridge	38	32	\$99,067	\$76,156
Prairie Grove	30	20	\$102,033	\$107,469
Rogers	176	140	\$173,601	\$202,516
Siloam Springs	81	45	\$137,744	\$117,358
Springdale	230	178	\$200,899	\$179,702
West Fork	4	1	\$115,000	\$96,000
Northwest Arkansas	1,268	1,051	\$170,680	\$161,408



Benton County Average Price of Houses Sold Q2 2004 - Q1 2005



Washington County Average Price of Houses Sold Q2 2004 - Q1 2005



House Status in Active Subdivisions and Coming Lots from Major Cities Q1 2005

City	Empty Lots	Under Construction Starts	Under Construction Complete	Occupied	Absorbed Lots	Total Lots in Active Subdivisions	Approved Lots, Not Yet Active
Bentonville	965	55	261	181	632	2,094	3,240
Centerton	265	58	93	188	428	1,032	3,742
Fayetteville	609	73	254	183	960	2,079	1,646
Rogers	1,177	61	254	81	752	2,325	2,136
Siloam Springs	253	13	43	20	130	459	301
Springdale	402	66	292	81	1,171	2,012	2,537