



THE SKYLINE REPORT

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August 2005
Highlights

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Commercial Real Estate Market Summary,
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Commercial Real Estate Market Summary for Benton and Washington Counties

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 Second Quarter of 2005

- The Northwest Arkansas office space market saw absorption rates dramatically increase in the second quarter with a total of 189,290 square feet of positive net absorption.
- The retail submarket was much more subdued with small positive net absorption in Fayetteville and Springdale and small negative net absorption in Rogers and Bentonville.
- The warehouse submarket experience positive net absorption of 70,464 square feet in the second quarter, due to positive absorption in Fayetteville and Rogers.
- From March to May 2005, there were \$67.2 million in commercial building permits issued in Bentonville, Fayetteville, Lowell, Rogers, Siloam Springs, and Springdale. This represents an increase of 89 percent over the same period last year.
- The total value of new commercial building permits in Bentonville declined precipitously for the second quarter in a row. The total value of new commercial building permits in Fayetteville and Rogers remained strong.
- Short-term interest rates continued their upward climb, while long-term interest rates declined slightly, causing a 205 basis point drop in the spread.
- Northwest Arkansas employment continued to increase at its five-year average rate of 490 jobs per month during the second quarter, implying no slowdown in demand for residential or commercial development.
- Developers in Northwest Arkansas regained an upbeat tone about the overall direction of the market as absorption rates improved from the previous quarter.

Economic Overview

The Macro Economy at a Glance

In the first quarter of 2005, the overall real growth rate in GDP was a healthy 3.8 percent. This is 0.2 percentage points higher than the average 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, as well. The U.S. Department of Commerce Bureau of Economic Analysis (BEA) reported that the major contributors to the increase in real GDP in the first quarter were personal consumption expenditures (PCE), exports, private inventory investment, residential fixed investment, and equipment and software. Imports, which are a subtraction in the calculation of GDP, increased.

Turning to more recent available data, in June, the national unemployment rate was a seasonally adjusted 5.0 percent, just below the 5.4 percent three-decade average rate. In June, the Conference Board's Consumer Confidence Index increased for the second straight month, ending at its highest level in over a year. Consumers' outlook for the next six months improved as well. The Conference Board reported that the number of participants anticipating business conditions to improve remained steady at 26.9 percent, but those expecting business conditions to worsen declined from 16.4 to 15.5 percent.

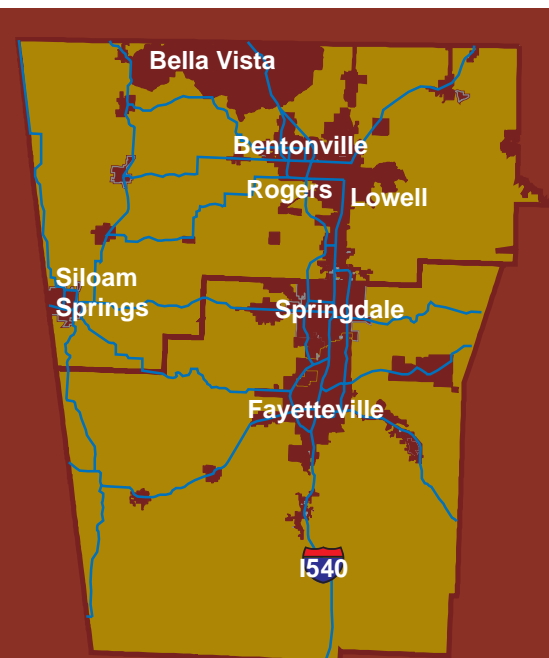
Taken together, these data imply that the national economy continues moving along in an unexceptional way. Additionally, inflation remains relatively muted. In 2004, prices increased by 3.3 percent. This compares with an increase of 1.9 percent for all of 2003. In the first five months of 2005, inflation has increased 1.5 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 7.8 percent in 2004, and in the first five months of 2005 advanced at a 3.5 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 second quarter of 2005. The Fed Funds target now stands at 3.25 percent, up 225 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 some 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 have actually fallen. The ten year constant maturity treasury bill had an interest rate of 4.15 percent in January 2004 and an interest rate of 4.00 percent in June 2005. The upward pressure on short-term rates combined with declining long-term interest rates implied a decrease in the spread between the two. The accompanying figure shows the spread between the Fed Funds Rate and



The Northwest Arkansas commercial market is divided into seven 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.

the ten year Treasury bill since January 2000. From May 2004 to June 2005, there was a 276 basis point decline in the spread. In June 2005, the spread continued its decline, ending at 96 basis points, leaving the spread at 187 basis points and at its lowest level since April 2001.

Regional Employment Trends

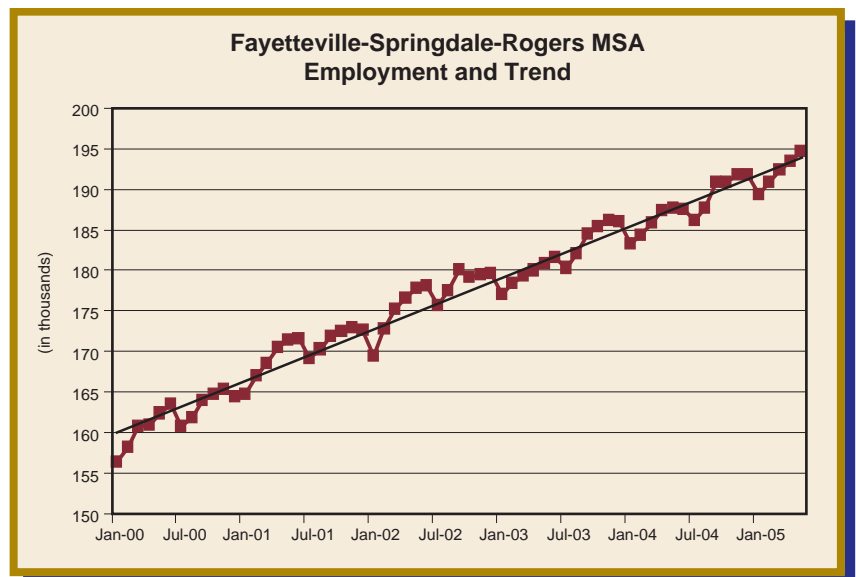
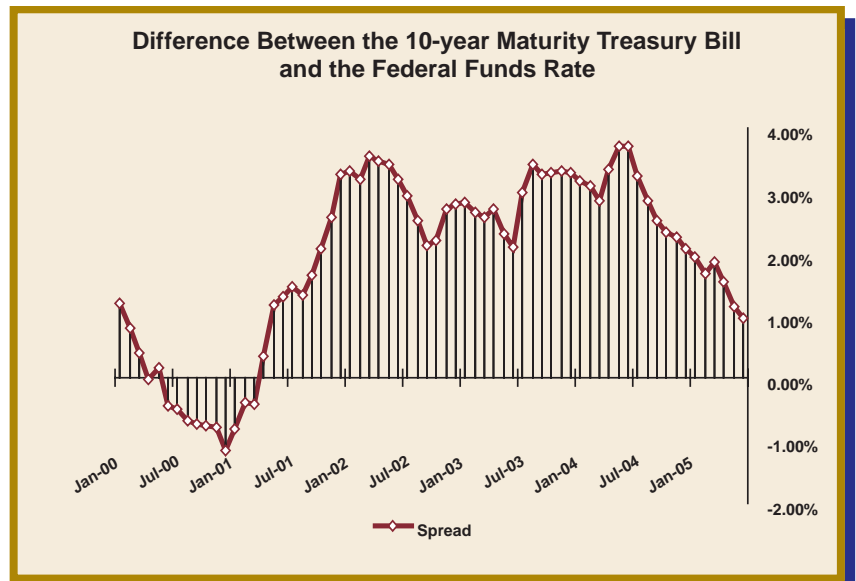
Local demand for real estate is uniquely associated with employment growth in the region. The Northwest Arkansas employment situation has been extremely conducive to both residential and commercial development in recent years. The most recent numbers available show that there is no reason to believe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

The accompanying figure shows that from March to May 2005, employment in the Fayetteville-Springdale-Rogers MSA increased at trend levels. Although January and February had employment increases that were below trend, the effects were likely seasonal in nature. Each year from 2000 through 2005 shows 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 recently 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, or about 490 jobs per month.

Other Regional Economic Indicators

Due to the change in the way local employment and unemployment numbers are estimated, the 2005 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. By May, the preliminary unemployment rate was down to 3.1 percent. The numbers from early 2005 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 May, the state and national unemployment rates were 5.0 percent. Under any measure, Northwest Arkansas continues to outperform the state and national economies.

Taxable sales in the MSA increased 18.1 percent from April 2004 to April 2005, while they increased only 11.2 percent for the entire state during the same period. Average weekly manufacturing earnings decline 0.8 percent, based on preliminary estimates, in the MSA from April 2004 to April 2005. Average weekly manufacturing earnings declined even more in the state as a whole during the same period at -3.1 percent.



Commercial Building Permit Data by City

March-May 2005

	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Value	\$3,061,870	\$15,491,806	\$1,590,789	\$30,534,466	\$1,059,000	\$15,468,833	\$67,206,764
Square Feet	\$32,822	\$138,405	--	--	\$29,699	--	--

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
Square Feet	25,866	183,189	--	--	7,845	--	--

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
Square Feet	156,026	22,853	--	--	4,748	--	--

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
Square Feet	211,258	35,500	--	--	25,446	--	--

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	--	--

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%
Q2 2005	17.2%	24.2%	15.2%	5.0%	12.1%	--	6.9%	17.8%

Medical Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q4 2004	--	57.0%	61.8%	--	0.0%	10.7%	14.3%	24.8%
Q1 2005	--	100.0%	0.3%	--	15.8%	--	14.7%	7.4%
Q2 2005	--	77.8%	2.1%	--	11.2%	4.1%	0.0%	17.6%

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%
Q2 2005	3.2%	40.5%	26.1%	16.7%	8.1%	10.6%	31.8%	26.8%

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%
Q2 2005	--	21.5%	0.0%	--	8.5%	71.4%	46.3%	41.1%

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%
Q2 2005	0.0%	16.9%	6.3%	0.0%	18.7%	0.9%	8.4%	8.7%

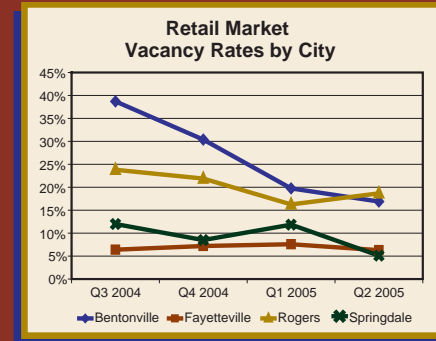
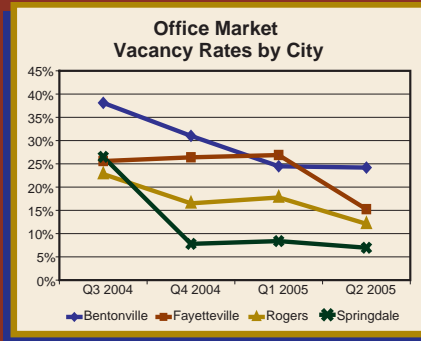
Retail/Warehouse

	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%
Q2 2005	--	--	66.3%	--	100.0%	0.0%	23.9%	33.0%

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%
Q2 2005	--	14.7%	1.5%	100.0%	35.6%	--	41.4%	15.5%

Vacancy Rate Trends



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
Q2 2005	0	26,725	87,823	-5,050	77,657	--	2,135	189,290

Medical Office

	Bella Vista	Bentonville	Fayetteville	Lowell	Rogers	Siloam Springs	Springdale	NW Arkansas
Q1 2005	--	-1,300	0	--	0	--	0	-1,300
Q2 2005	--	-42,200	-3,507	--	0	267	-4,832	-50,272

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
Q2 2005	2,616	-86,063	-33,293	0	0	0	-4,654	-121,394

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
Q2 2005	0	-16,500	-24,886	--	0	-11,320	-4,832	-57,538

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	-13,144	26,992	-55,824
Q1 2005	2,400	-18,030	12,694	0	8,309	0	-5,550	-177
Q2 2005	0	-3,167	6,427	0	-2,261	-1,225	2,100	1,874

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
Q2 2005	--	--	0	--	0	--	-2,140	-2,140

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
Q2 2005	--	0	47,600	-20,000	38,264	--	4,600	70,464

Average Lease Rate Trends by Type, Class, and City

