THE SKYLINE REPORT

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August 2005 Highlights

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

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Residential Real Estate Market Summary for Benton and Washington Counties

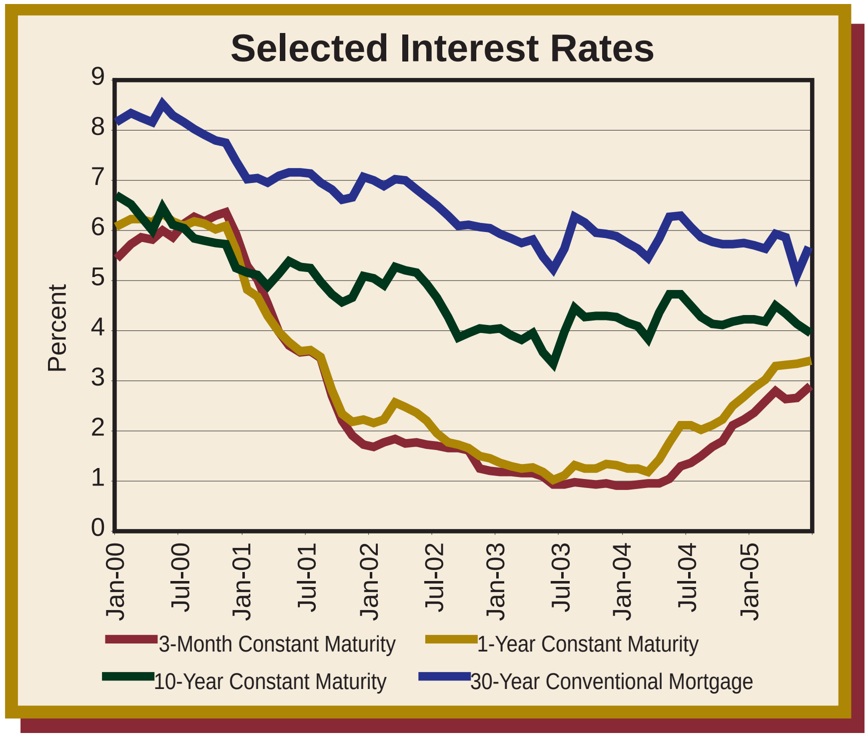
This report contains highlights from the Residential Skyline Report for Benton and Washington Counties. Researchers at the Center for Business and Economic Research in the Sam M. Walton College of Business at the University of Arkansas produce the Skyline Report to provide timely statistical analysis 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 Second Quarter of 2005

- Rogers accounted for 21 percent of the 1,454 Northwest Arkansas residential building permits issued from March through May 2005. Fayetteville, Bella Vista, Bentonville, and Springdale followed with 15, 14, 11, and 9 percents respectively.
- There were 13,546 lots in the 207 active subdivisions in Northwest Arkansas in the second quarter.
- From the first quarter to the second quarter of 2005, 823 houses in active subdivisions became occupied. This absorption rate is a decline from the 873 houses absorbed during the first quarter.
- Using an annual absorption rate implies that the supply of remaining lots in Northwest Arkansas active subdivisions is sufficient for 25.6 months.
- Bentonville and Fayetteville had the most complete, but unoccupied houses in active subdivisions with 241 and 186 in the second quarter. Centerton experienced a continued inventory decline while Rogers and Springdale had substantial inventory buildups.
- There are an additional 11,068 residential lots that have been at least preliminarily approved in Bentonville, Centerton, Rogers, and Siloam Springs. The Fayetteville and Springdale planning commissions have approved an additional 4,250 new residential lots.
- From February 16 to May 15, 2005, there were 1,889 existing houses sold in Benton and Washington Counties. This is a decline of 0.5 percent from the same quarter in 2004.
- In the second quarter in Benton and Washington Counties, the average sales price, in both absolute and per square foot terms, of existing houses increased from first quarter levels. However, the average duration on the market increased in both counties.

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 second quarter of 2005, United States GDP grew at an annualized rate of 3.4 percent. In the first quarter of 2005, GDP grew at 3.8 percent. The major contributors to the increase in real GDP in the second quarter were personal consumption expenditures (PCE), exports, equipment inventory, residential fixed investment, and government spending. The contribution of those components was partly offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the calculation of GDP, decreased. In order to sustain this steady economic growth, the Federal Reserve Board continued to raise short term interest rates from their historically low levels in 2003. On June 30, 2005, the Federal Reserve raised its target for the federal funds rate by 25 basis points to 3.25 percent. However, long term rates have failed to rise concurrently with short term rates. As the associated graph shows, since the middle of 2004, long term rates have trended down at the same time that short term rates have substantially risen.

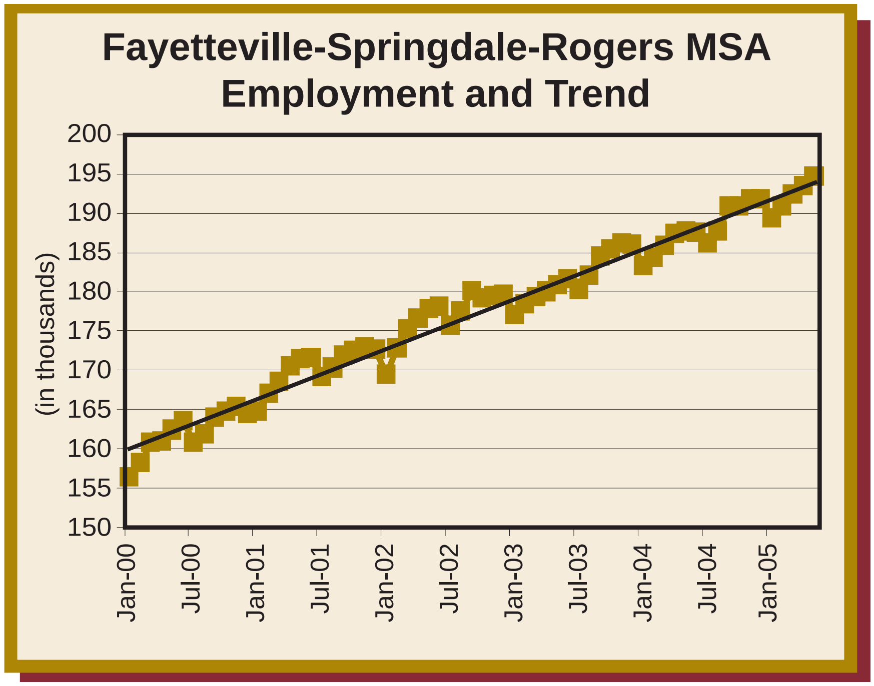
The U.S. Bureau of Labor Statistics (BLS) reports different price indexes. One measure of inflation comes from changes in the consumer price index. From December 2003 to December 2004, the overall consumer price level increased 3.3 percent, which is consistent with historical trend rates. From January through May 2005, the consumer price index grew at an annualized rate of 3.6 percent, a slightly higher rate than recent averages. 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 June 2005, the construction input price index increased at a 10.2 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 5.0 percent. This rate has trended down since its recent February 2005 peak of 5.4 percent. From December 2003 to December 2004, U.S. employment growth was 1.3 percent. In the first six months of 2005, U.S. employment grew at an annualized rate of 1.6 percent.

The U.S. Census Bureau reports on new residential construction. In June 2005, national building permits were at a seasonally adjusted annual rate of 2,111,000. This is 2.3 percent above the May rate of 2,062,000 and is 4.8 percent above the June 2004 number of 2,014,000. National housing starts in June were at a seasonally adjusted annual rate of 2,004,000, which was the same as the May 2005 number and 9.7 percent above June 2004 starts. The National Association of Realtors reports national existing home sales. The seasonally adjusted annual rate of existing single-family home sales in May 2005 was 7,130,000, a decrease of 0.7 percent from April 2005 and an increase of 3.5 percent from May 2004.

Regional Indicators

Regional Employment Trends

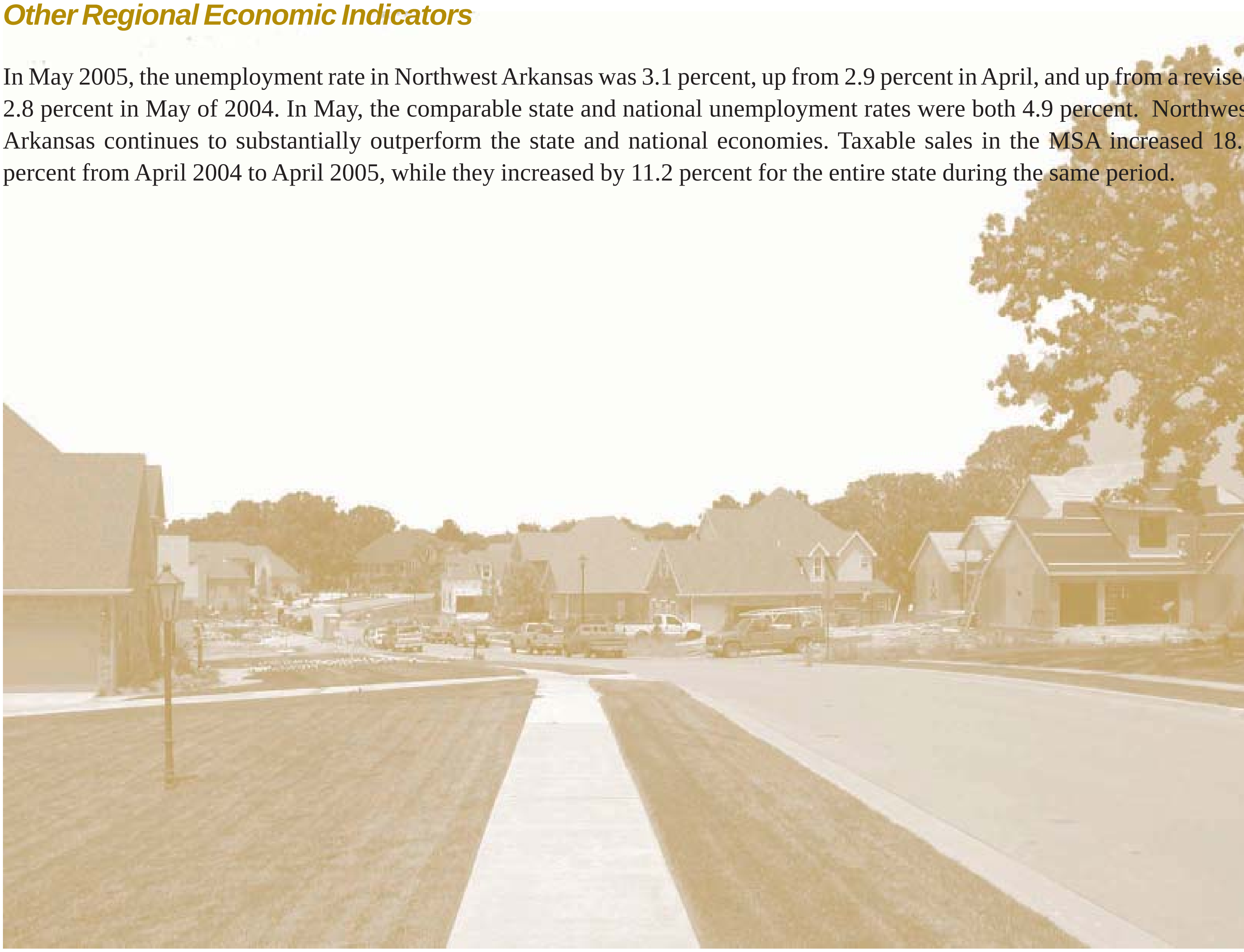


Just as national housing trends follow the direction of the macroeconomy, local demand for real estate is uniquely associated with employment growth in the region. The Northwest Arkansas employment situation has been extremely conducive to both residential and commercial development in recent years. The most recent numbers available show that there is no reason to believe that a significant slowdown is occurring.

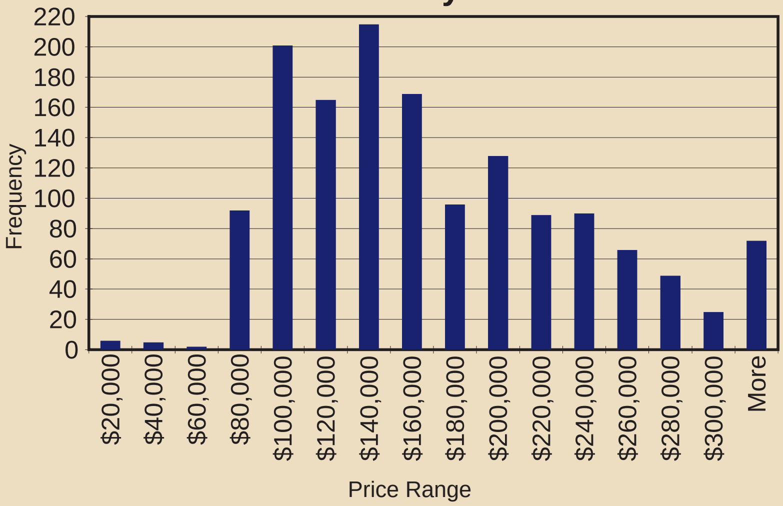
The accompanying figure shows that from January through May 2005, employment in the Fayetteville-Springdale-Rogers MSA increased at recent trend levels, when seasonal effects are considered. Since January of 2000, employment growth has averaged 0.3 percent per month. In the first five months of 2005, employment growth in the MSA averaged 0.3 percent as well. This rate is higher than the employment growth rate in the first five months of 2004 or 2003.

Other Regional Economic Indicators

In May 2005, the unemployment rate in Northwest Arkansas was 3.1 percent, up from 2.9 percent in April, and up from a revised 2.8 percent in May of 2004. In May, the comparable state and national unemployment rates were both 4.9 percent. Northwest Arkansas continues to substantially outperform the state and national economies. Taxable sales in the MSA increased 18.1 percent from April 2004 to April 2005, while they increased by 11.2 percent for the entire state during the same period.



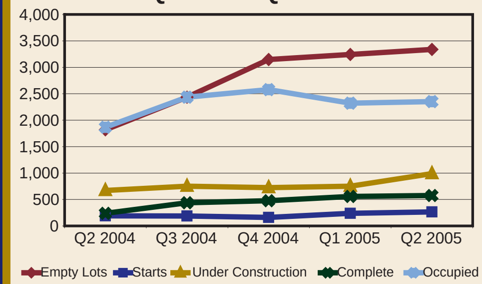
Benton and Washington Counties Distribution of Residential Building Permit Values March - May 2005



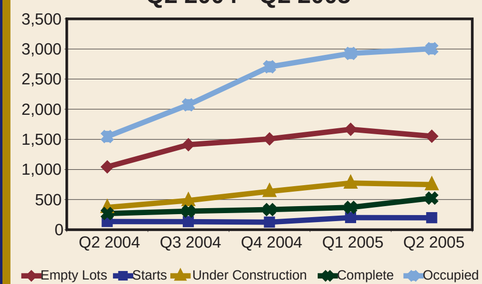
Benton and Washington Counties Number and Average Value of Residential Building Permits Q1 2005 and Q2 2005

City	Q2 2005 Number of Building Permits	Q1 2005 Number of Building Permits	Q2 2005 Average Value of Building Permits	Q1 2005 Average Value of Building Permits
Bella Vista	207	192	$159,009	$159,878
Bentonville	166	162	$198,056	$216,849
Bethel Heights	33	29	$122,940	$53,760
Cave Springs	11	15	$333,364	$366,333
Centerton	103	65	$89,799	$129,502
Decatur	0	11	–	$50,909
Elkins	36	31	$90,938	$92,039
Elm Springs	8	1	$165,098	$220,000
Farmington	6	13	$158,250	$96,615
Fayetteville	218	130	$207,918	$184,563
Goshen	3	7	$238,301	$325,315
Gravette	6	16	$75,500	$86,283
Greenland	23	5	$114,953	$102,000
Johnson	18	7	$503,622	$280,571
Lincoln	6	13	$126,913	$118,952
Little Flock	0	2	–	$155,000
Lowell	8	10	$325,510	$304,990
Pea Ridge	58	38	$99,894	$99,067
Prairie Grove	28	30	$100,429	$102,033
Rogers	309	176	$163,112	$173,601
Siloam Springs	76	81	$125,554	$137,744
Springdale	127	230	$228,534	$200,899
West Fork	4	4	$95,000	$115,000
Northwest Arkansas	1,454	1,268	$170,448	$170,680

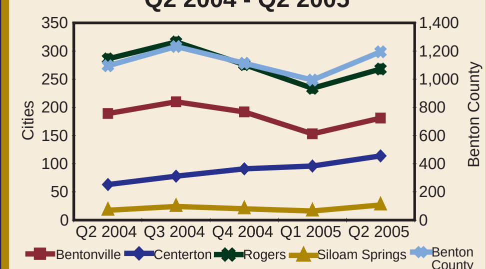
Benton County House Status in Active Subdivisions Q2 2004 - Q2 2005



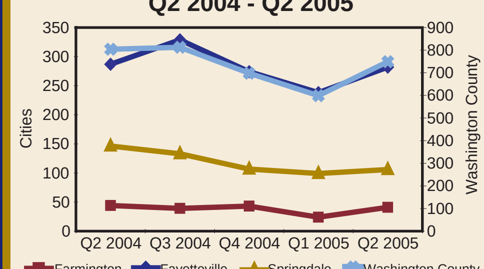
Washington County House Status in Active Subdivisions Q2 2004 - Q2 2005



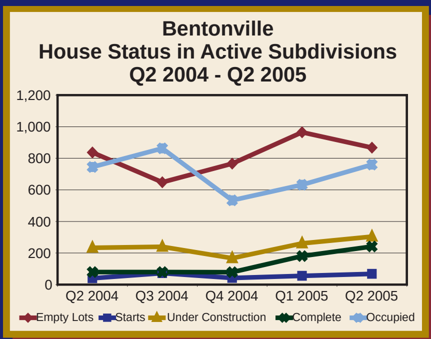
Benton County Number of Houses Sold Q2 2004 - Q2 2005

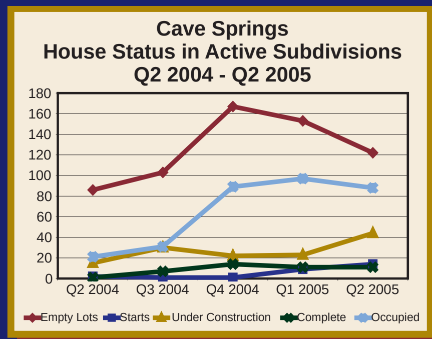


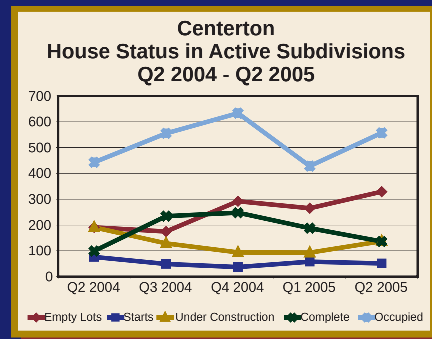
Washington County Number of Houses Sold Q2 2004 - Q2 2005

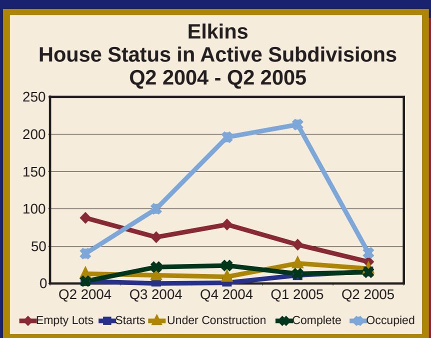


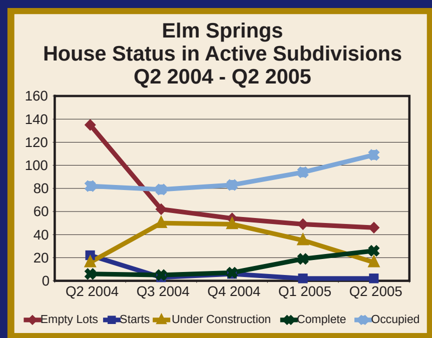
House Status Trends by City

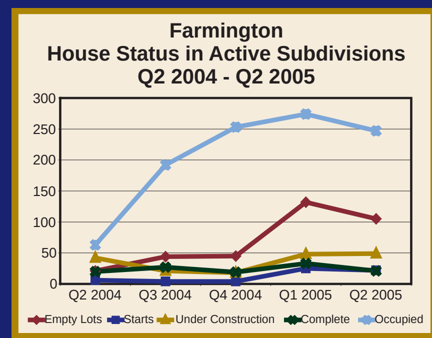


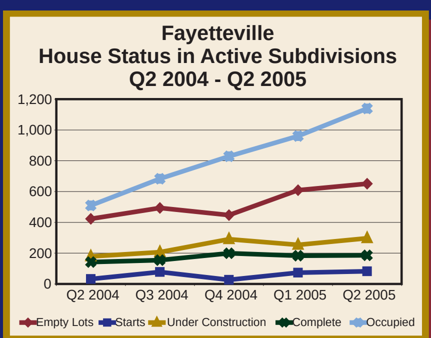


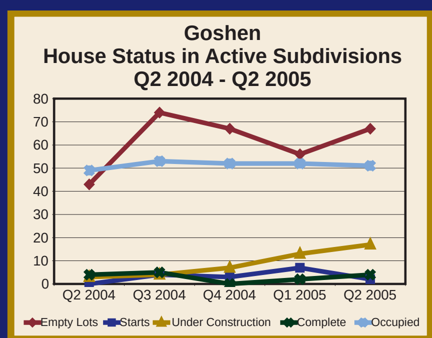


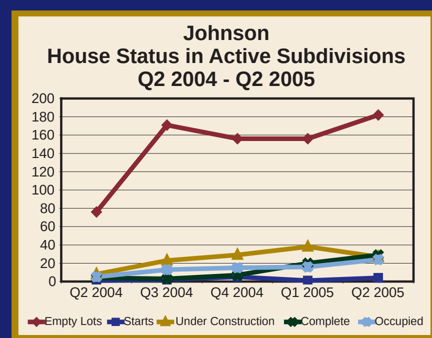


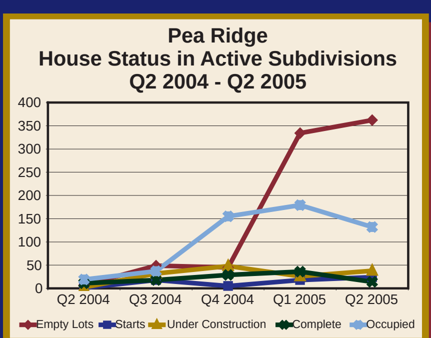


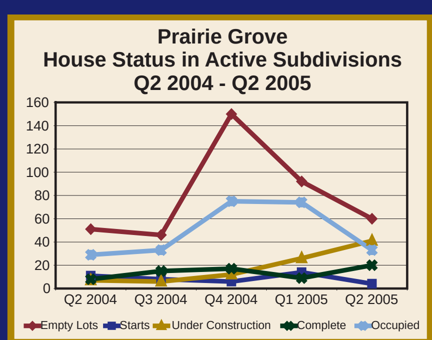


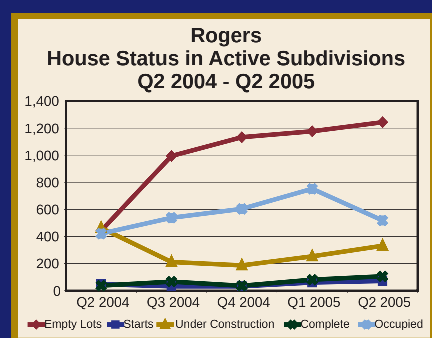


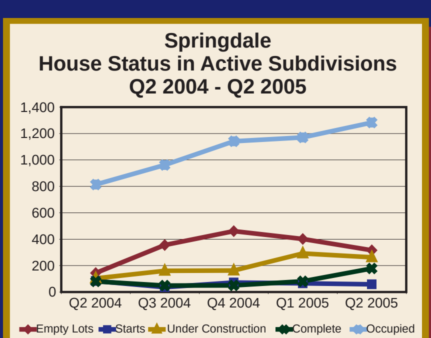


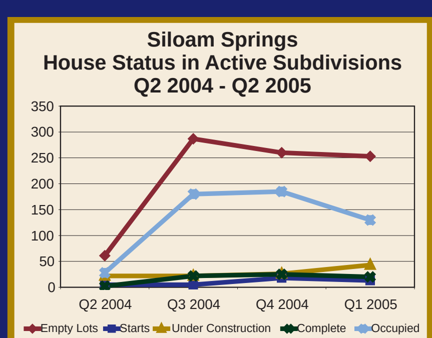




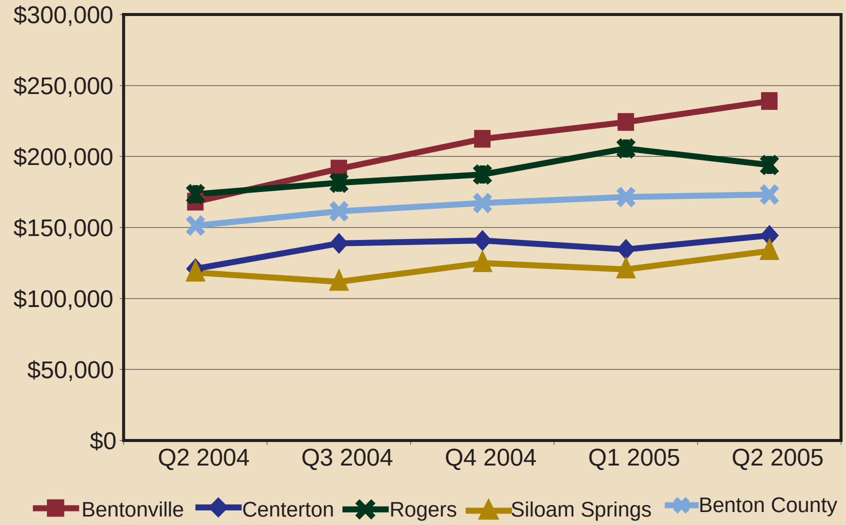




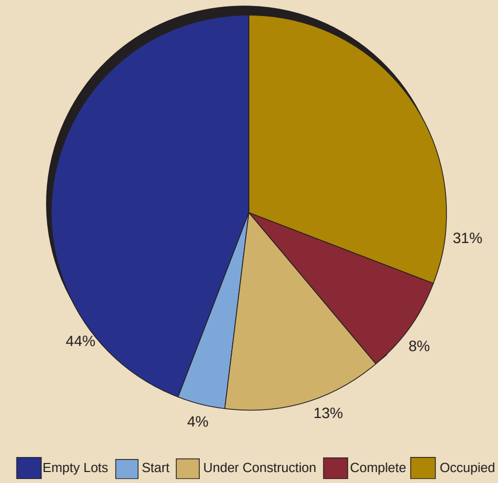




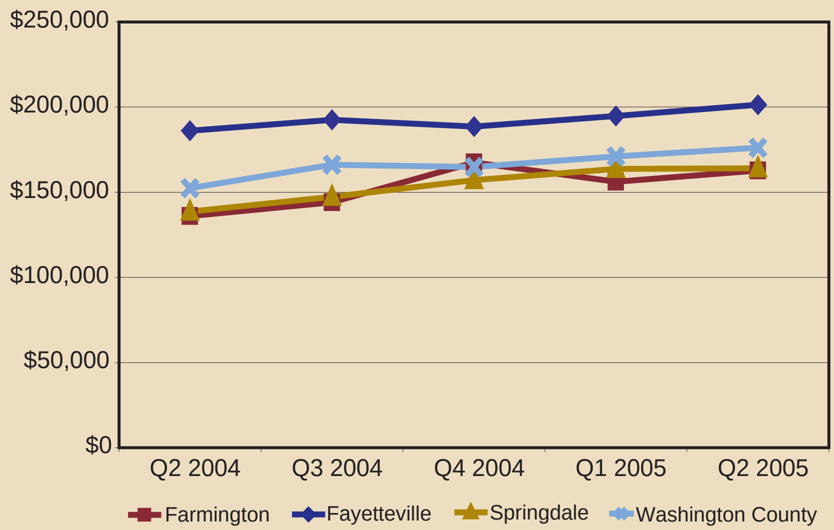
Benton County
Average Price of Houses Sold
Q2 2004 - Q2 2005



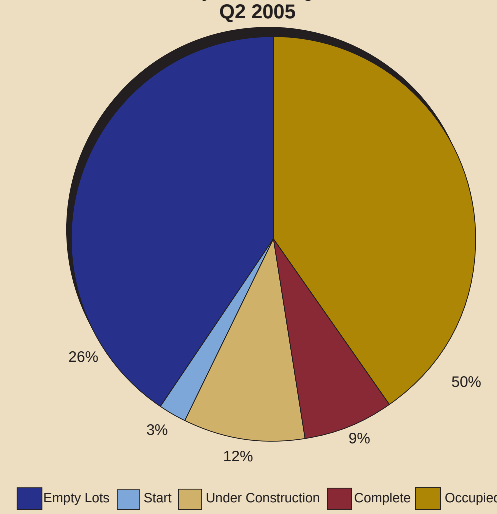
Benton County
Status of Houses in Active Subdivisions
by Percentage
Q2 2005



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



Washington County
Status of Houses in Active Subdivisions
by Percentage
Q2 2005



House Status in Active Subdivisions and Coming Lots from Major Cities Q2 2005

City	Empty Lots	Starts	Under Construction	Complete	Occupied	Absorbed Lots	Total Lots in Active Subdivisions	Approved Lots, Not Yet Active
Bentonville	867	68	304	241	760	113	2,240	3,767
Centerton	329	51	137	136	557	130	1,210	4,539
Fayetteville	651	82	297	186	1,139	185	2,355	1,523
Rogers	1,243	72	332	106	518	70	2,271	2,279
Siloam Springs	172	23	85	23	149	26	452	483
Springdale	318	58	263	178	1,283	119	2,098	2,727